



# São Paulo Office Market

## The nation's economy is resilient, despite a volatile environment

3Q22 remained difficult and volatile for the main economies, with widespread slow-downs. The continued war in the Ukraine and its impact on commodity prices, in particular natural gas and food in Europe, and China's continued enforcement of policies to contain Covid-19 evidence the possibility of a global slow-down in the coming months. Following two years of robust growth, the US economy slowed down in the first two quarters of the year. Although aggregate consumer spending has been growing in line with pre-pandemic trends, there remains a mismatch between goods and services, still a reflection of the pandemic. Annual inflation remains high (8.2%) but stable, at least through September of this year. The center of the inflation range went up to 6.7% due to higher costs of housing and healthcare. Given high inflation, the Federal Reserve should continue to increase interest rates, at least through the rest of the year, as it attempts to contain prices. Internally, the country's GDP grew 1.2% in 2Q22 compared to the previous quarter, in the seasonally adjusted series. This is the fourth consecutive positive result. In the y-o-y comparison the GDP grew 3.2%, and year-to-date the GDP is up 2.5%, to R\$ 2.4 trillion. Industrial activity grew 2.2%, driven by electricity and gas, water, sewage, waste management, construction, extraction, and manufacturing industries. Services grew 1.3%, driven by services held-back by the pandemic such as restaurants and hotels, transportation, information, communication, agriculture and cattle-raising, which increased 0.5%. The projections for this year are for a 3% increase in GDP, however the last six months of the year should be slower due to the uncertainties associated with the elections. In 22 states unemployment dropped this quarter compared to 2Q22. These indicators reflect the nationwide reduction in unemployment, which went from 11.1% to 9.3% in June, and then to 8.9% in August. Inflation, as measured by the IPCA or broad consumer price index, dropped for the 14th consecutive week, from 5.88% to 5.74%. Inflation in 2023 is expected to be 5%. The Selic rate is 13.75%, and remained unchanged in the September meeting, following a sequence of increases. The Selic rate in 2023 is expected to be 11.25%. The US Dollar exchange is expected to be R\$ 5,20 by year end.

### Market Summary for High-End Offices

	Current quarter	Previous quarter	Same period in 2021	12-month projection
Total Inventory (sq.m)	5.19 Mn	5.18 Mn	5.14 Mn	↑
Vacancy Rate	23.26%	23.77%	25.63%	↑
Net absorption in the quarter (sq.m)	28 th.	16 th.	6 th.	↑
Gross absorption in the quarter (sq.m)	74 th.	73 th.	117 th.	↑
Average asking rent (R\$/sq.m/month)	88.27	87.77	87.81	↔
New Inventory Under Construction (sq.m)	203 thousand	207 thousand	98 mil	↓

\* Class AAA, AA and A in all SP districts: CBD + Non CBD (Barra Funda and Alphaville)

### Current Conditions

- Demand of high-end corporate office spaces in the third quarter of the year was up in São Paulo, with total net absorption of 28 thousand sq.m. The amount of occupied spaces increased due to a slow-down in returned offices.
- New deliveries were limited to one building in Pinheiros. The pace of new deliveries is below historical levels, which should help contain the vacant supply thorough the rest of the year, especially if demand remains at least, its current level.
- The vacancy rate continues to drop, ending the quarter at 23.26%.
- Average asking rental rents for all regions in SP increased slightly to R\$ 88,27/sq.m a month.

### Demand is up across most regions

The third quarter saw an upturn in occupied office space, which had dropped in the previous quarter. A significant slow-down in returned offices resulted in an increase in net absorption from 16 thousand to 28 thousand sq.m. Gross absorption, on the other hand, remained relatively unchanged, ending the quarter at 74 thousand sq.m.

In the y-o-y comparison, net absorption is almost five times what it was in 3Q21, the first time it was positive in 6 consecutive quarters. Net absorption this year stands at 92 thousand sq.m, the best it has been since 2019. Most new leases this quarter were signed by tenants in the service industry, in particular the financial/investment, consulting, technology and logistics. Manufacturing industry also had a significant share of the quarter’s absorption, in particular energy generation and food & beverages. The volume of occupied office space went up in most regions of the city, except for Paulista and Marginal Sul.

### Sharp decline in new deliveries

The pace of new inventory delivered was sharply down again for the 3<sup>rd</sup> consecutive quarter, well below historical levels. The year-to-date new inventory this year is below 15 thousand sq.m, the lowest it has been since 2006, when only 9.5 thousand sq.m were delivered in the first three quarters. This year, over 203 thousand sq.m should be delivered, below new deliveries in 2021 (243 thousand sq.m), and the historical average of 250 thousand sq.m/year (2007-2021).

Construction continues to slow down, which could help drive down the vacancy even more in the coming months, assuming demand remains at least, at the same level.

### Stable vacancy rates and asking rents

The vacancy rate is considered moderate, but dropping, ending the quarter at 23.26% compared to 23.77% in the previous quarter. Vacant office space in the city’s CBDs went from 21.6% to 21%. In non-CBDs the vacancy rate went up from 33.83% to 33.50%.

The average asking rent across all regions in São Paulo has not changed much, ending at R\$ 88,27/sq.m compared to R\$ 87,77/ sq.m in the previous quarter. In the same period of 2021, the average asking rent was R\$ 87,81.

The highest asking rent in the city is in the Faria Lima region, at R\$ 180,90/ sq.m/month, followed by JK at R\$ 158,82/ sq.m, and Itaim at R\$ 135,16/ sq.m.

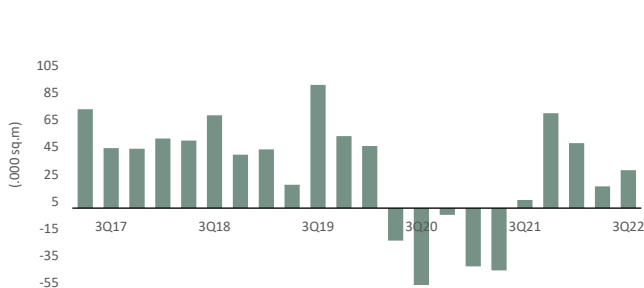
### Expectation for 2022

Despite significant remodeling and returns in 2021, lease activity in 2022 has been quite active, suggesting that the volume of occupied high-end office space should resume substantial growth.

Returns this quarter were the lowest they have been in 2 years, as leases gained traction and owners regained confidence, bolstered by a return of economic activity. All these factors contribute to an expectation of more consistent market recovery, although some slow-down cannot be ruled out; given the current global economy and the highly uncertain situation in Brazil due to the directions that the new government will take, which could affect business decisions and the nation’s economy.

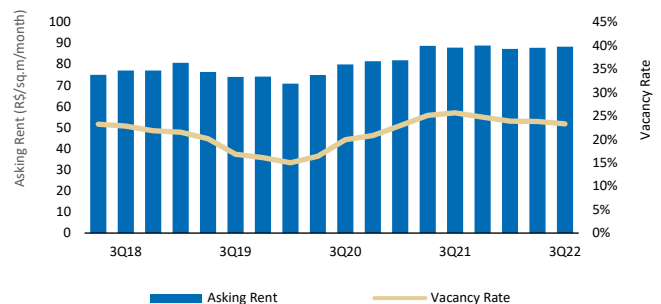
## Demand History

NET ABSORPTION

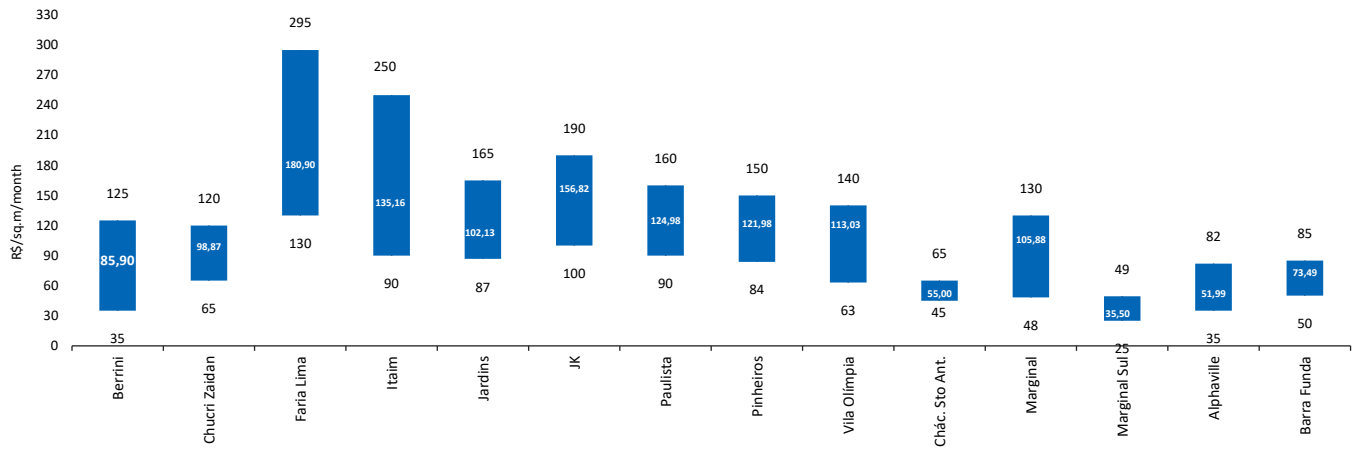


## Historical Offer and Asking Rents

ASKING RENT AND VACANCY RATE



### Minimum, Average and Maximum Asking Rent per Region



### Significant Transactions in the Quarter

Transaction Type	Property	Region	Tenant/Buyer	Owner/Seller	Total Area (sq.m)
Lease	Parque da Cidade Corporate – Torre Jequitibá	Chucr Zaidan	BRF	Previ	6,726
Lease	Sky Corporate	Vila Olímpia	Google	PÁTRIA EDIFÍCIOS CORPORATIVOS - FII	2,690
Lease	Edifício Morumbi	Chucr Zaidan	Lojas Avenida	RB CAPITAL OFFICE	2,496
Lease	Pinheiros Corporate	Pinheiros	CorpServices Group	Barzel Properties	2,763
Lease	Berrini One	Berrini	Atlas Renewable	CSHG Real Estate - FII	1,278
Lease	Berrini One	Berrini	J&T Express Brazil	CSHG Real Estate - FII	1,068
Lease	Parque Cultural Paulista	Paulista	Asus Brasil	Boa Esperança Comercial	508
Sale	Parque da Cidade Corporate – Sucupira Tower	Chucr Zaidan	Rio Bravo Investimentos	Brookfield	29,068
Sale	Bravo! Paulista	Paulista	FDO INV. RIO BRAVO RENDA CORP.	Etoile Desenvolvimento Imobiliário	359

### YTD New Inventory Delivered

1Q



OF - Oscar Freire Office  
Pinheiros, CBD Premium  
4,632 sq.m

2Q







JFL Reboças  
Pinheiros, CBD Premium  
3,133 sq.m

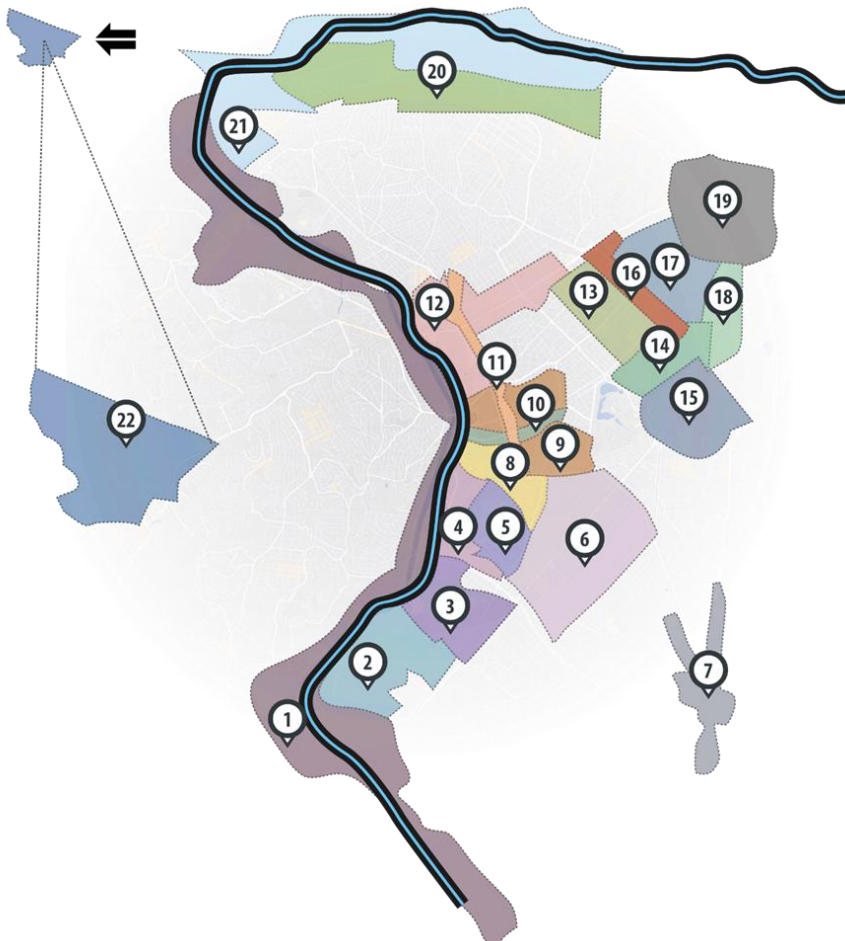
3Q



White 2880  
Pinheiros, CBD Premium  
6.977 sq.m

Sample of Class AAA, AA and A Under Construction

	Property	Region	Macro-region	Leasable area (sq.m)	Expected Delivery
	Brasília Offices Square	Barra Funda	Non-CBD	48,600	4Q2022
	O Parque	Chucui Zaidan	Premium CBD	20,345	4Q2022
	Passeio Paulista	Paulista	Premium CBD	45,889	4Q2022
	SP Corporate	Berrini	Premium CBD	9,792	4Q2022



Submarkets Map

- 1 Marginal P.
- 2 Chác. Sto Ant.
- 3 Chucui Zaidan
- 4 Berrini
- 5 Brooklin
- 6 Moema
- 7 Jabaquara
- 8 Vila Olímpia
- 9 Itaim
- 10 JK
- 11 Faria Lima
- 12 Pinheiros
- 13 Jardins
- 14 Paraíso
- 15 Vila Mariana
- 16 Paulista
- 17 Bela Vista
- 18 Liberdade
- 19 Centro
- 20 Barra Funda
- 21 Marginal Tietê
- 22 Alphaville

Surveyed Regions

- CBD\* Premium
- CBD\* Demais
- Non-CBD\*

\*CBD – Central Business District

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