



São Paulo Office Market

The Economy is still growing, but slowing towards the end of the year

Economic performance this quarter remained positive, with 0.9% growth in 2Q23. Government policies regarding income and new social programs enabled an increase in household income, which drove up the demand for services. Solid job market indicators resulted in an increase in the number of people employed and the wage mass. This also helped reduce debt levels by bringing down inflation and the terms used to renegotiate debt among low-income families.

Also important was the share of Brazilian soy and crude oil in international markets. Farm/Ranch Output benefitted from unfavorable weather in Argentina and the US. Brazil continues to take advantage of a favorable scenario to hold onto and even expand its international leadership in commodities. Corn, sugarcane, cotton, beef, and poultry output also increased.

The Brazilian Central Bank expects the GDP will grow 2.9%, up from the previous estimate of 2.0%, while the estimate for 2024 remains 1.8%.

However, some elements give rise to uncertainty regarding this country's economic performance, and the pace may slow down towards the end of the year and through 2024. Manufacturing industry is still in a slump, with a 1.3% decrease in output in 1Q23, reinforcing that, with few exceptions it is finding it difficult to determine avenues for growth.

Regarding inflation, according to the Focus report, the IPCA for 2023 and 2024 should be around 4.9% and 3.9% respectively. The basic interest rate was reduced by half a percentage point at the most recent Copom meeting (the 257th), to 12.75% a year. It is likely the basic interest rate will go drop to 11.75% by year end 9.0% by the end of 2024. The exchange rate at the end of 2023 should be R\$ 4,90/US\$.

Market Summary for High-End Offices

| | Current quarter | Previous quarter | Same period in 2022 | 12-month projection |
|---|-----------------|------------------|---------------------|---------------------|
| Total Inventory (sq.m) | 5.40 Mn | 5.40 Mn | 5.19 Mn | ↑ |
| Vacancy Rate | 24.1% | 24.7% | 23.3% | ↑ |
| Net absorption in the quarter (sq.m) | 36 thous. | 43.7 thous. | 28 thous. | ↑ |
| Gross absorption in the quarter (sq.m) | 100 thous. | 120 thous. | 74 thous. | ↑ |
| Average asking rent (R\$/sq.m/month) | 93.95 | 91.82 | 88.27 | ↑ |
| New Inventory Under Construction (sq.m) | 131 thous. | 153 thous. | 203 thous. | ↓ |

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

Current Conditions

- Demand indicators, while slightly down compared to the previous quarter, remain positive and are better than they were one year ago;
- Net absorption was 69 thousand sqm, and gross absorption, 315 thousand sqm;
- The vacancy rate dropped 24.7% to 24.1% in the third quarter, but is 0.8 p.p. higher than it was one year ago due to new deliveries.
- Asking monthly rents went up, averaging R\$ 93,95/sqm across all surveyed regions.

Demand indicators are positive this quarter

The market for high-end offices in São Paulo remained very active in the third quarter. Although slightly lower than last quarter, demand indicators were positive, exceeding those of 3Q22. Net absorption was 36 thousand m² in the quarter and 69 thousand m² y-o-y, confirming an increase in occupied offices. Gross absorption in the quarter was 100 thousand m², and 315 thousand m² in the year. Occupancy rates were up in almost all areas, while dropping slightly in Paulista, Marginal Sul, and JK by 3.6 thousand, 2.7 thousand, and 1.5 thousand m² respectively. Most new leases this quarter were signed by tenants in the service industry, in particular the financial/investment industry, healthcare and consulting, followed by pharmaceuticals and trade.

Decrease in new inventory delivered

New deliveries dropped to 8,614 sqm in a single building in Pinheiros. Next quarter 131 thousand sqm of new office space should be delivered, which will drip up the year-end vacancy rate.

Stable supply and higher asking rents

Returns slowed to 63 thousand sqm compared to 76 thousand in 2Q23. Combined with intense leasing activity, the vacancy rate dropped to 24.0% compared to 24.7% in the second quarter.

After a long period of stable rents, asking rents went up in the After a long period of stability in the asking rental rates, there was appreciation in the quarter, averaging R\$ 93,95/m², compared to R\$ 91,77 in the previous quarter.

Year-over-year it went up 6%, reflecting an increase in the supply of offices in higher-end buildings, as well as increases in the asking rents on some existing buildings. The highest asking monthly rents were in Itaim (R\$ 229,78/sqm), followed by Faria Lima (R\$ 216,62/sqm) and Vila Olímpia (R\$183,59/sqm).

Expectation for 2023

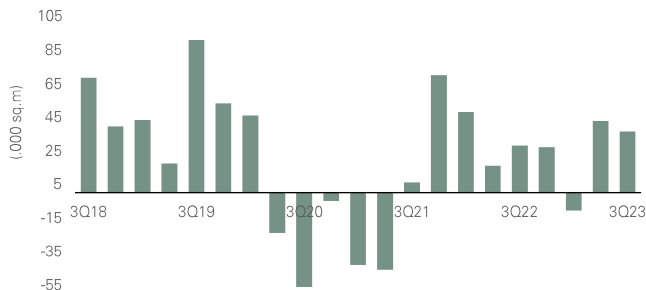
2023 can be a promising year with consistent recovery of the market for high-end offices. Landlords remain confident, especially regarding well-located buildings.

Demand indicators are positive, the occupancy rate is up across most regions, and year-to-date gross absorption is 315 thousand sqm, beyond the historical average of 250 thousand sqm per year between 2007 and 2022.

However, tenants continue to review its space requirements and returns continue. This, plus the large amount of new office space should drive up the supply. Furthermore, we cannot ignore a possible slow-down in leasing activity due to an uncertain global economy and a likely slow-down in Brazil by year end, impacting decisions on real estate market.

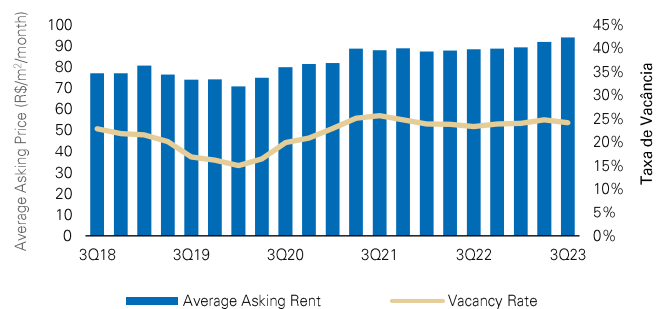
Demand History

NET ABSORPTION

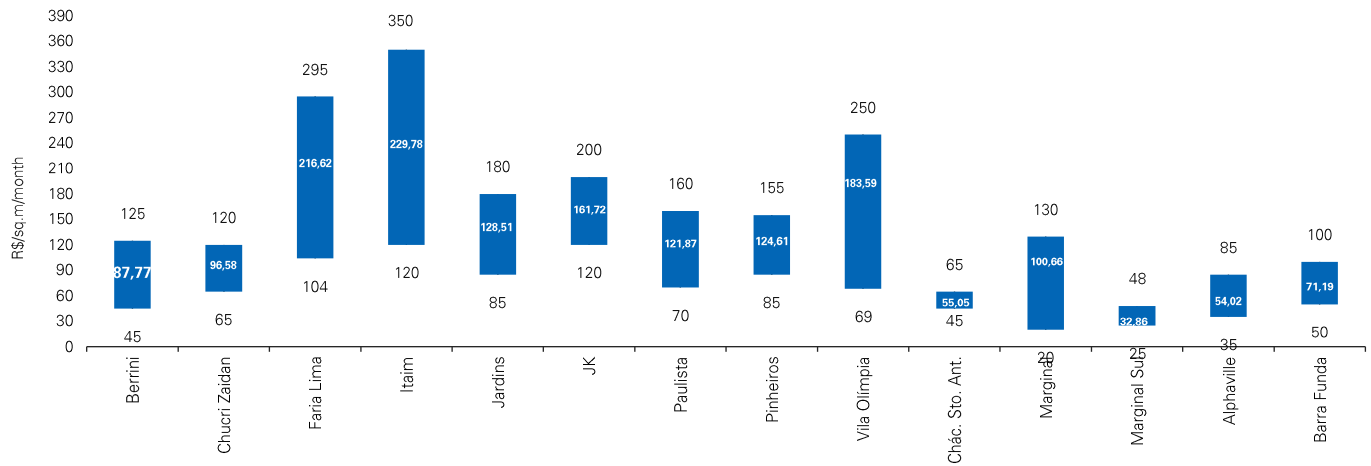


Historical Offer and Asking Rents

ASKING RENT AND VACANCY RATE







Minimum, Average and Maximum Asking Rent per Region



Significant Transactions in the Quarter

| Type of Transaction | Property | Submarket | Tenant | Owner | Total area leased/sold (sqm) |
|---------------------|----------------------------------|-----------------------|-------------------------------------|-------------------------------------|------------------------------|
| Lease | RiverView | Chucui Zaidan | Mosaic Fertilizantes | Hines | 2,343 |
| Lease | 17007 Nações – Torre Sigma | CHÁCARA SANTO ANTÔNIO | Orgânico CoWorking | Brookfield | 2,169 |
| Lease | WTorre Nações Unidas - I | Pinheiros | Grupo Wish, | Previ | 2,137 |
| Lease | Vila Olímpia Corporate - Torre B | Vila Olímpia | Medpace Brazil | PÁTRIA EDIFÍCIOS CORPORATIVOS - FII | 1,130 |
| Sale | Vila Olímpia Corporate - Torre B | Vila Olímpia | PÁTRIA EDIFÍCIOS CORPORATIVOS - FII | FUND.INV, IMOB. VBI- FII | 2,262 |
| Sale | The One - Faria Lima | Vila Olímpia | PÁTRIA EDIFÍCIOS CORPORATIVOS - FII | FUND.INV, IMOB. VBI- FII | 1,826 |

Examples of Class AAA, AA and A Developments Under Construction

| | Property | Region | Macro-region | Leasable area (sqm) | Expected Delivery |
|--|----------------|------------|--------------|---------------------|-------------------|
|  | OMNI | JK | Premium CBD | 7,414 | 4Q23 |
|  | Union | Itaim | Premium CBD | 10,083 | 4Q23 |
|  | HY Pinheiros | Pinheiros | Premium CBD | 11,795 | 4Q23 |
|  | Corporativo FL | Faria Lima | Premium CBD | 13,498 | 4Q23 |



Submarkets Map

- 1 Marginal P.
- 2 Chác. Sto Ant.
- 3 Chucri 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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