

Rio de Janeiro Office Market Report

Post-pandemic economic activity amidst uncertainty

Even though the Brazilian economy surpassed the expectations of many economists, 2021 was another turbulent year. After a crisis-fraught 2020, it had been expected that 2021 would be a year of timid growth and slow recovery, as everything indicated that the pandemic would last for several months, hampering the return to business.

In 2021, the economy recovered, and government accounts improved; it is expected that the GDP will experience growth, and the service industry shows that recovery is underway. However, unemployment remains high, despite small improvement, and close to 14 million (12,6%) Brazilians remain unemployed. Furthermore, inflation and the USD exchange are rising, the stock exchange is dropping, and an institutional crisis reveals the fragility of the current economic scenario. The perception of significant risk and the uncertainties have kept foreign investors and growth at bay. According to the most recent Central Bank report on inflation, published in December 2021, consumer inflation remains high due to higher prices for fuel, a higher USD exchange rate, and the energy crisis, 2021 inflation will be over 10% for the first time since 2015, well above the target of 3,75%. As a result, the Central Bank increased the basic annual interest rate (Selic) to 9,25%, the highest it has been in four years. The rate in 2022 is projected to be 11.75%, dropping to 11.25% by year end. In light of this, the Central Bank reviewed its GDP growth expectations from 4,7% to 4,4% in 2021, and from 2,1% to 1,0% in 2022. The USD had been expected to remain fairly steady during the year, dropping to around R\$ 5,00 by year end. However, given the level of instability it quickly became clear that this would not happen. The US Dollar exchange rate reached a high of R\$ 5,80 but dropped to R\$ 5,56 by the close of the period,

Inflation should drop a bit in 2022 due to reduced demand, the very high interest rates, and weak economic activity. However, as 2022 is an election year, it will likely be one more difficult period for the nation's economy.

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (sq.m)	2.31 M	2.31 M	2.31 M	↔
Vacancy Rate	35.4%	36.7%	36.5%	↓
Quarterly Net Absorption (sq.m)	23 thous.	22 thous.	-20 thous.	↑
Quarterly Gross Absorption (sq.m)	34 thous.	65 thous.	36 thous.	↑
Average asking rent (R\$/sq.m/month)	74.80	75.48	78.52	↔
New Inventory Under Construction (sq.m)	19 thous.	19 thous.	19 thous.	↔

Class AAA, AA and A in all RJ districts: CBD + Non CBD (Barra da Tijuca)
*construction has started but there is no date for delivery

Current Conditions

- Returns were not very significant in 4Q21, and lease activity remained high, leading to positive net absorption: 22 thousand sq.m for the second consecutive quarter;
- The vacancy rate at the end of 4Q21 was 35.4%, slightly below the previous period;
- Net absorption was positive in all RJ regions last quarter, with the exception of Cidade Nova, where occupied premises have been dropping for 3 consecutive quarters;
- The average asking rent in Rio de Janeiro dropped to R\$ 74.80/sq.m/month.
- The average asking rent also dropped in the central business districts (CBDs), from R\$ 79,20 in 3Q21 to R\$ 77,03/sq.m/moth in 4Q21.

After a slow year, 2021 ended with an increased in occupancy

Fewer returned premises and active demand resulted in a positive net absorption for the second quarter in a row, ending 4Q21 at 22 thousand sq.m. Net absorption for the year was 25 thousand sq.m, quite close to the annual average of 29 thousand sq.m.

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New transactions were especially significant in Barra da Tijuca, Centro and Botafogo. Gross absorption in the quarter was 34 thousand m², resulting in 141 thousand sq.m for the year-to-date, above the historical average of 125 thousand sq.m/year.

Declining vacancy and asking rents

Increased activity in Rio de Janeiro caused the vacancy rate to drop from 36.5% to 35.4% in all survey regions. The vacancy rate remained stable or dropped during the quarter, except for in Cidade Nova. Nevertheless, supply remains high, especially in Centro.

The average asking rent in Rio de Janeiro continues to drop, this quarter from R\$ 75,48/sq.m to R\$ 74,80/sq.m/month. The average asking rent also dropped in the central business districts (CBDs), from R\$ 79,20 in 3Q21 to R\$ 77,03/sq.m/month in 4Q21.

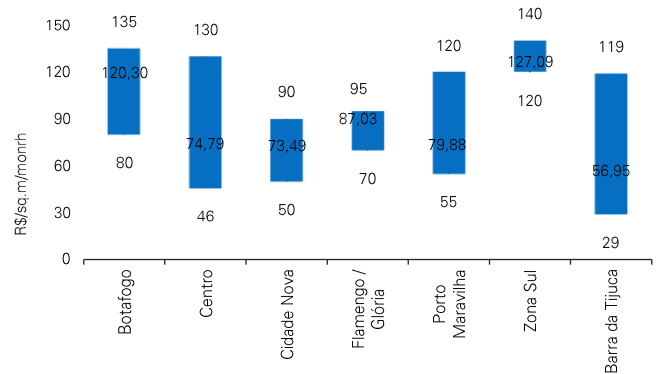
Monthly rents are higher in Zona Sul (R\$ 127/ sq.m/month), Botafogo (R\$119,63/sq.m/month) and Flamengo (R\$87,03 sq.m/month).

2022 Office Market Outlook

Although Rio de Janeiro has not been as impacted by the surge in office revamps that resulted in returns, all indications are that the worst is over. However, supply remains quite significant and has been for long time. This puts pressure on asking rents, which have been dropping since 2017.

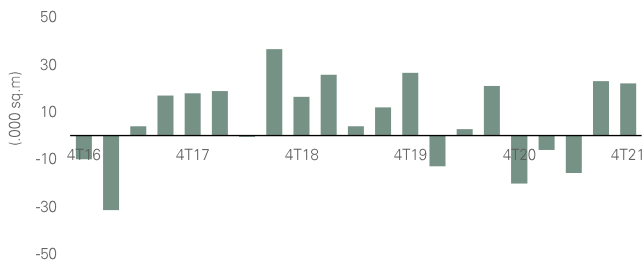
Several buildings under construction have no set delivery date. Thus, new inventory forecasted is not expected to worsen over-supply. Increasing lease activity and owner confidence based on this recovery all contribute to an expectation of more consistent recovery of the 2022 office market, despite the uncertainties associated with the pandemic and presidential elections.

Minimum, Average and Maximum Asking Rent per Region



Demand History

NET ABSORPTION



Historical Offer and Asking Rents

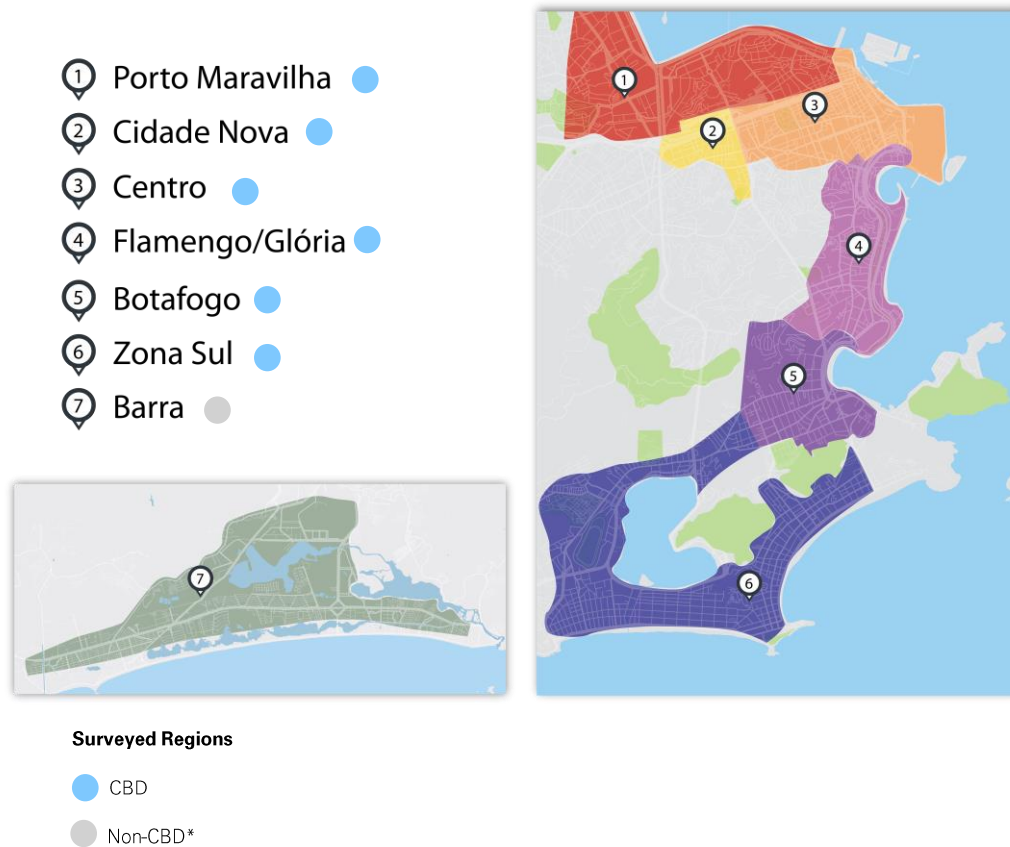
ASKING RENT AND VACANCY RATE



Significant Transactions in the Quarter

Transaction Type	Property	Submarkt	Tenant/Buyer	Owner/Seller	Total Area (sq.m)
Lease	Lavradio 162	Centro	Governo do Estado do Rio de Janeiro	Petros	7.076
Lease	Vivo Barra	Barra da Tijuca	Universidade Unigranrio	FUNDO DE INVESTIMENTO IMOB FII REC	9.441
Lease	Centro Empresarial Mourisco	Botafogo	Eneva	Previ	1.771
Lease	Linneo de Paula Machado	Centro	Águas do Rio	Fernando Bastos	1.285

Submarkets Map



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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/research.

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