

**MARKET FOR HIGH-END OFFICES - SÃO PAULO****A year of pandemic and the impacts on economy**

Progress in Covid-19 vaccination programs and new tax stimuli in some developed nations suggest the world may experience more robust economic recovery. A study of numerous databases reveals that monetary stimuli will likely last for awhile, given the slow-down in the world economy. For Brazil however, recovery seems increasingly distant. The GDP shrank 4.1% in 2020, the worst annual result since 1996 (IBGE), exceeding the previous record of -3.5% in 2015. Worsening of the pandemic in late 2020 and the slow pace of vaccination in this country reinforce the people's pessimism regarding the continuity of renewed structural reforms, and the necessary adjustments in government accounts, all essential for sustainable recovery of the Brazilian economy. Emergency economic aid, which last year injected over R\$ 300 million in the Brazilian economy, ended amidst record unemployment (16.3%), a significant drop in household income and severe reduction in business, especially in the service industry, because of new isolation measures put in place to contain the second wave of Covid-19. On the other hand, a more dynamic global economy could benefit Brazilian exports and its balance of trade, especially if commodity prices go up. The recovery of the Chinese and other core economies of the world, such as the US, following the injection of trillions of dollars, could play a decisive role in improving Brazil's exports. It remains to be seen if this will be enough to offset a rather grim domestic scenario. The Brazilian Central Bank's projection for the GDP this year, and it is still a very uncertain one, has already been downgraded from 3.8% to 3.6%. Consumer inflation was higher than expected in February, especially due to higher commodity prices, both internationally and in local currency. In fact, currency fluctuations had a particular impact on fuel prices. According to the Focus survey, inflation this year should be between 3.5 and 4.6%. In response to this, during its last 1Q21 meeting, Copom felt it prudent to adjust the Selic rate by 0.75 pp to 2.75% and has signaled a new increase to 3.5% in May, with further increases as the year progresses. The US\$ ended the quarter at R\$ 5,45 but the Central Bank expects this will drop to R\$ 5,40 by year end.

Market Summary (all regions*)

	Current quarter	Previous quarter (4Q20)	One year ago (1Q20)	Projections**
Total Inventory (sq.m)	4.97 Mn	4.89 Mn	4.67 Mn	↑
Vacancy Rate	22.9%	20.8%	15.0%	↓
Net absorption in the quarter (sq.m)	-43 thousand	-5 thousand	46 thousand	↑
Gross absorption in the quarter (sq.m)	62.5 thousand	56 thousand	67 thousand	↔
Average asking rent (R\$/sq.m/month)	81,80	81,34	70,75	↔
New Inventory Delivered (sq.m)	83 thousand	51 thousand	0	↑
Under construction (sq.m)	255 thousand	325 thousand	312 thousand	↓

* Class AAA, AA and A in all SP districts: CBD + Non CBD (Barra Funda and Alphaville)
 **all regions, next 3 months, based on past indicators recorded to date

1st Quarter Highlights

- This year, as was the case throughout 2020, a significant amount of high-end office space in São Paulo was vacated by tenants; occupied offices dropped once again this quarter. Returns surpassed new occupancies in most of the submarkets in our survey, resulting on a negative net absorption of 43 thousand sq.m at 1Q2021.
- In addition, 83 thousand sq.m in new deliveries have yet to be occupied, contributing to a further increase in the vacancy rate, which was 22.9% across all regions monitored (CBD and non-CBD). The vacancy rate in CBD regions stands at 21.4%, 18.0% in premium CBDs.
- Despite all this, leasing activity remained heated and gross absorption this quarter ended at 62.5 thousand sq.m. However, this was not enough to turn around a negative balance resulting from returned office space.
- The average asking monthly rent considering São Paulo and Alphaville this quarter was R\$ 81.80/sq.m² In CBD regions the average asking monthly rent ended the quarter at R\$ 91.83/sq.m.

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Returns continue in the first quarter of the year

Returns, which dropped in the last quarter of 2020, climbed back up and resulted in net absorption of negative 43 thousand sq.m. Returns exceeded new occupancies in most of the submarkets in our survey, evidence of a strategy to optimize office space in the past 3 months. Given that many tenants have already announced their intent to return office space, this trend should continue for the rest of the year. The largest number of returns came from tenants in the financial industry this quarter, followed by services and manufacturing. However, leasing activity is still heated, with gross absorption of 62.5 thousand sq.m this quarter, higher than in 4Q20 (56 thousand sq.m), and higher than the historical quarterly average of 58 thousand sq.m (2007 to 2020).

The vacancy rate continues to rise

The combination of returned offices and new inventory delivered and not occupied, drove up the vacancy rate to 22.9% (compared to 20.8% in 4Q20). The end-of-quarter vacancy in CBDs was 21.4%, compared to 19.1% in 4Q20. The vacancy rate in premium CBDs – Paulista, Jardins, Pinheiros, Faria Lima, Itaim, JK, Berrini, Chucri Zaidan and Vila Olímpia – went from 15.6% to 18.0%.

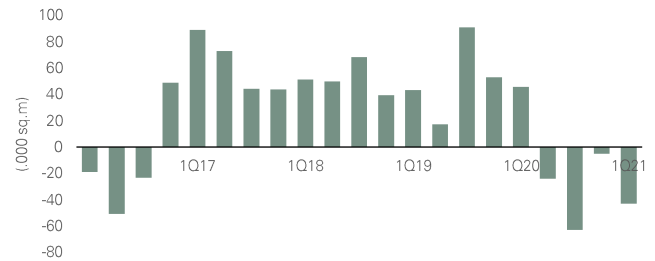
The average asking monthly lease remained almost unchanged compared to the previous quarter – R\$ 81.80/sq.m in all regions in our survey. The average rent in CBDs was R\$ 91.83/sq.m. If we look only at properties in premium CBDs – as they house the most modern and valued buildings – the average asking rent jumps to R\$ 109.33/sq.m.

Vacant office space in Premium CBDs remains below average

Despite increasing vacancy rates in most of the surveyed submarkets, premium CBDs (except for Chucri Zaidan and Berrini) have vacancy rates below the average consistent with a balanced market. The largest quarterly increase in the vacancy rate this quarter was in Chucri Zaidan, due to new deliveries and significant returns, and in Barra Funda because of vacated offices. The most significant drops were in Faria Lima and Itaim.

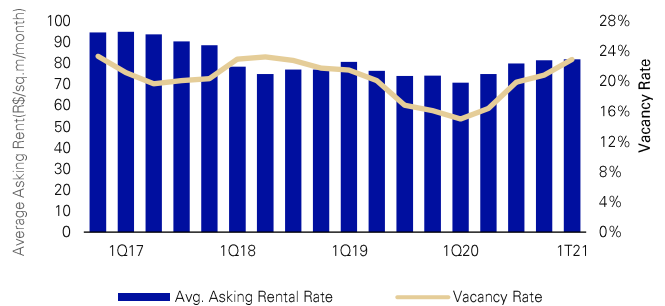
Demand History

NET ABSORPTION



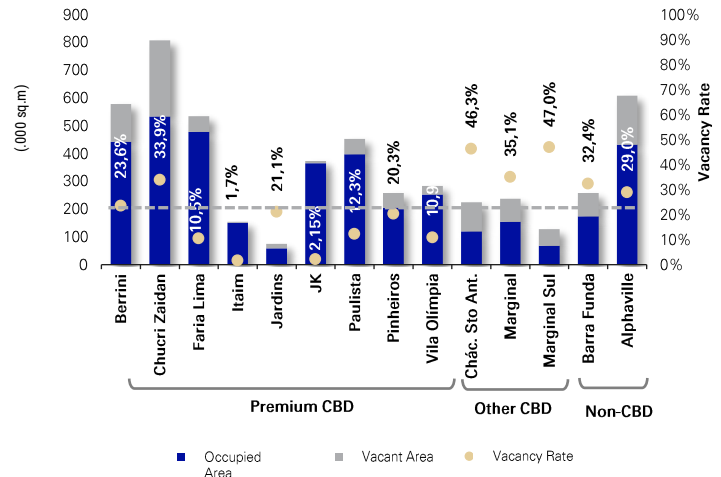
Historical Offer and Asking Rents

AVERAGE ASKING RENT VS. VACANCY

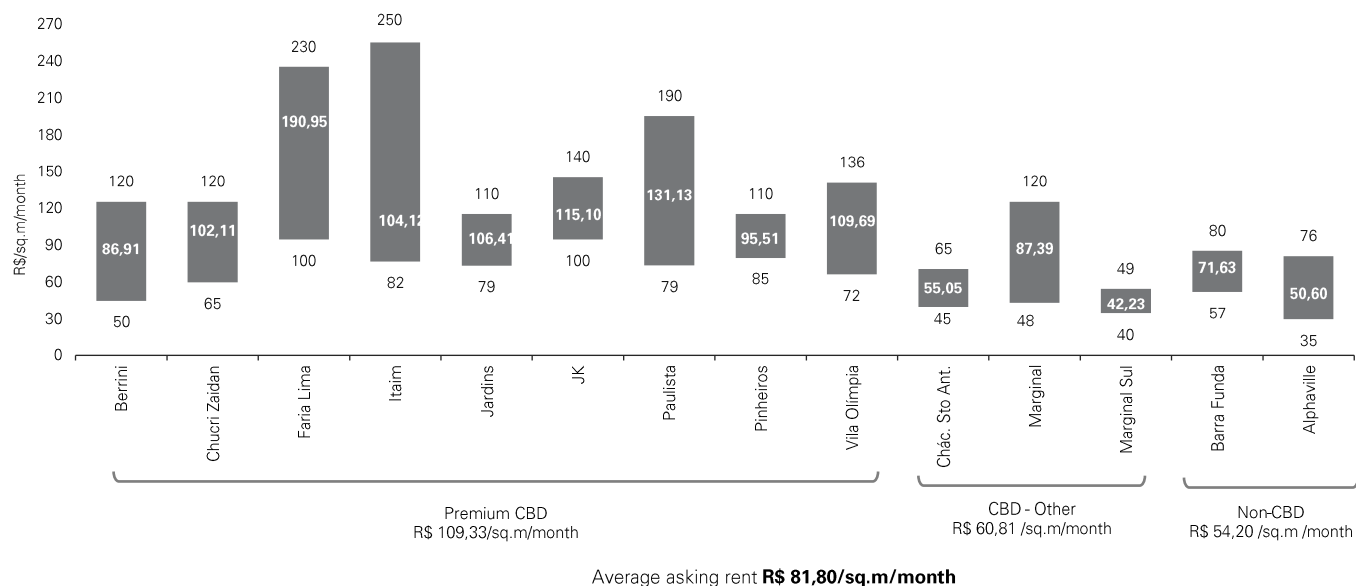


Occupancy and Vacant Space per Region

OCCUPIED VS. VACANT AREA VS. VACANCY RATE



Minimum, Average and Maximum Asking Rent per Region



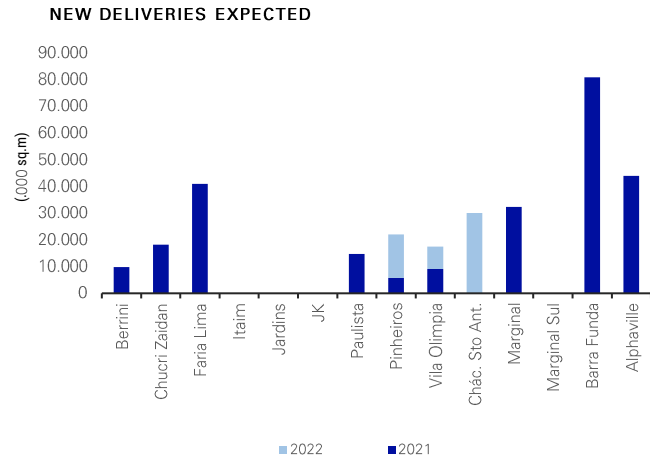
Significant Transactions in the Quarter

Tenant	Industry	Building	Region	Type Transaction	Total leased area (sq.m)
Roche Brasil	Pharma	17007 Nações – Torre Sigma	Chácara Santo Antônio	Lease	13.168,71
Hotmart	Technology	Thera Corporate	Berrini	Lease	1.066,58
Essity do Brasil	Healthcare Equipment	17007 Nações - Torre Alpha	Chácara Santo Antônio	Lease	1.009,20
Grupo Elfa	Pharma	New Century	Itaim	Lease	998,86
Cordeiro & Lima Advogados	Legal Services	Millennium Office Park - Bloco A	Vila Olímpia	Lease	882,00








Buyer	Building	Region	Type Transaction	Total area marketed (m²)	Unit Value (R\$/m²)
JS REAL ESTATE MULTIGESTÃO - FII	Rochaverá Corporate Towers - Torre A (Ebony)	Chucr Zaidan	Sale	11.351,26	22.141,00
JS REAL ESTATE MULTIGESTÃO - FII	Rochaverá Corporate Towers - Torre B (Marble)	Chucr Zaidan	Sale	11.346,43	22.141,00
BTG Pactual	Rochaverá Corporate Towers - Torre A (Ebony)	Chucr Zaidan	Sale	11.351,26	22.104,93
BTG Pactual	Rochaverá Corporate Towers - Torre B (Marble)	Chucr Zaidan	Sale	11.346,43	22.104,93
Kinea Renda Imobiliária - FII	Rochaverá Corporate Towers - Torre A (Ebony)	Chucr Zaidan	Sale	5.675,63	22.140,49
Kinea Renda Imobiliária - FII	Rochaverá Corporate Towers - Torre B (Marble)	Chucr Zaidan	Sale	5.673,22	22.140,49
CSHG Real Estate - FII	Berrini One	Berrini	Sale	2.136,78	16.942,17
Erbe Incorporadora 019 S.A	17007 – Torre Alpha	Chácara Santo Antônio	Sale	742,34	12.096,83
Fundação Salvador Arena	17007 – Torre Alpha	Chácara Santo Antônio	Sale	828,90	10.833,59

New Inventory Forecasted

In 2021 more 255 thousand sq.m in new inventory should be delivered in high-end buildings across the main monitored submarkets of São Paulo. This will result in some 338 thousand sq.m of new inventory, well above the record 250 thousand sq.m between 2007 and 2020. Most of this will be in Barra Funda and Alphaville, which will increase the offer in this region, which is quite significant currently due to buildings already standing. New inventory should drop quite a bit in 2022, when about 60 thousand sq.m will be delivered, most of it in Chácara Santo Antônio.



Main Class AAA, AA and A Buildings Under Construction - Forecast for 2021

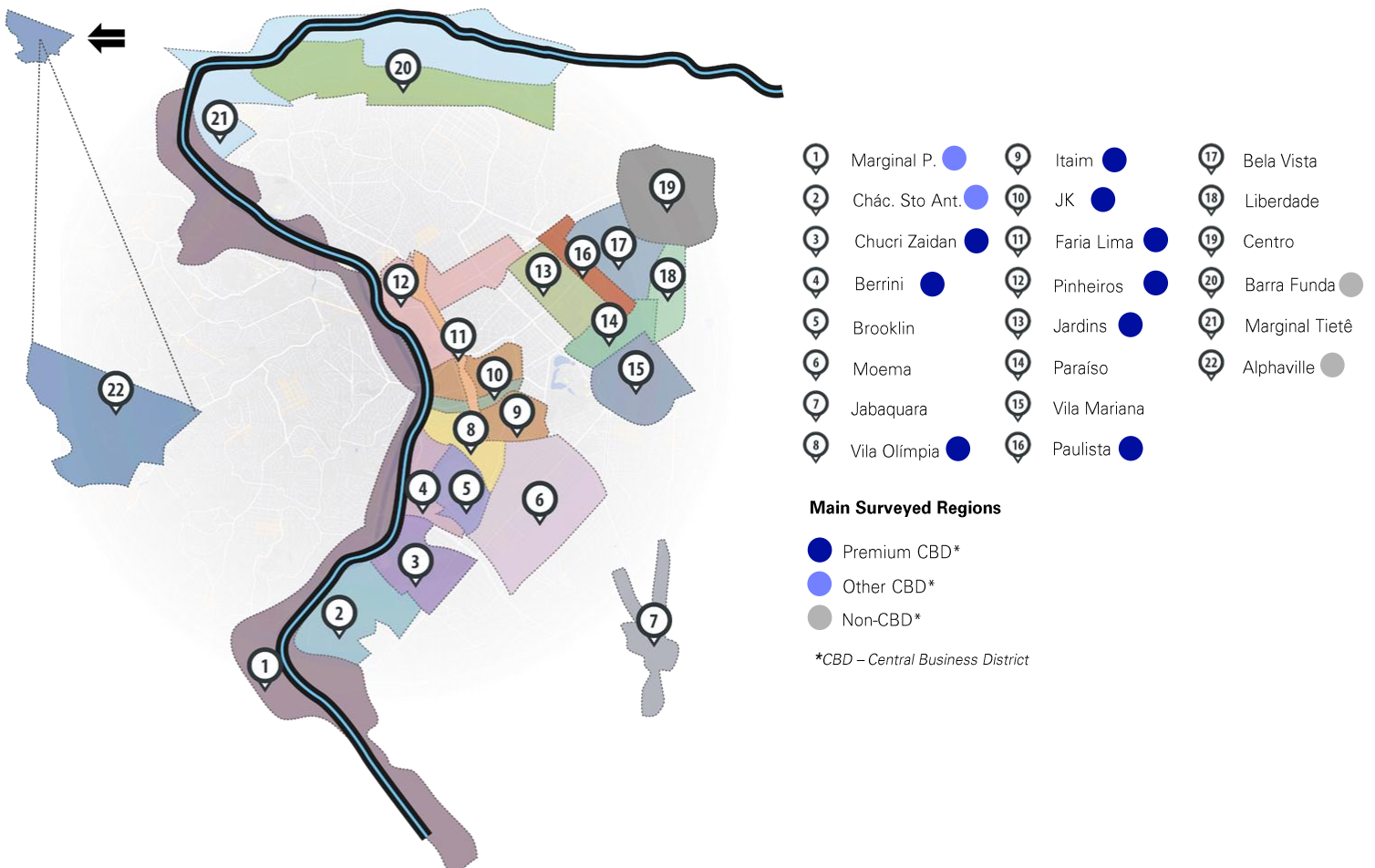
Property	Region	Macro-region	Leasable Area	Expected Delivery
 Faria Lima Plaza	Faria Lima	Premium CBD	40.937	2Q2021
 Bacaetava Plaza	Chucrí Zaidan	Premium CBD	7.483	2Q2021
 Icon Berrini	Chucrí Zaidan	Premium CBD	9.900	2Q2021
 Torre Alameda Santos	Paulista	Premium CBD	8.395	2Q2021
 Dynamic Faria Lima	Pinheiros	Premium CBD	5.647	2Q2021
 RiverOne	Marginal	Premium CBD	20.329	2Q2021
 Brasília Offices Square	Barra Funda	Non-CBD	48.600	2Q2021

Sao Paulo High-End Office Market –Statistics

Macro-regions	Total Inventory (sq.m)	Vacancy Rate	New Inventory:		ABSORPTION		Average asking rent (R\$/sq.m/month)
			Delivered 1Q (sq.m)	Forecasted 2021** (sq.m)	Net 1Q (sq.m)	Gross 1Q (sq.m)	
Premium CBD*	3.516.718	18.0%	83.198	98.170	-13.593	47.848	109,33
Other CBD	589.365	41.9%	-	32.233	-28.796	1.628	60,81
Total CBD	4.106.083	21.4%	83.198	130.403	-42.389	49.477	91,83
Non-CBD	865.575	30.0%	-	124.553	-589	13.116	54,07
Total (CBD + Non CBD)	4.971.658	22.9%	83.198	254.955	-42.978	62.593	81,80

*CBD: central business district, class AAA, AA and A
 **new inventory under construction for delivery in 2021

Office Submarkets



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