



RESEARCH 4Q 2020

## THE MARKET FOR HIGH-END OFFICE SPACE IN RIO DE JANEIRO

# Economic Outlook in 2020

In late 2019, the economic outlook was one of moderate optimism. The social security reform had been approved, public accounts were moving in the right direction, and inflation, although above the target, remained under control. So much so that the basic interest rate was at a record low. While disappointing, the GDP did increase between 2017 and 2019 and unemployment gradually let up, ending 2019 at 11%, the lowest it had been in four years. Meanwhile, the number of stock market investors reached a record high. When COVID-19 hit the country, Brazil was forced to implement social isolation rules to contain the virus. This worsened the economic situation. Schools, stores and companies shut down, which drove down tax revenue, increased unemployment, worsened the exchange rate and led to a May inflation rate that was the highest it had been in 22 years. All indications were that the nation's economy in 2020 would be severely impaired and was expected to shrink by a record 9.6%. Soon after, manufacturing industry and trade benefitted from emergency government assistance and tax incentives, as well as Federal job programs. This is particularly true for online sales, with new entrants and revenues increasing month by month, as, with no B&M stores open, consumers were essentially forced to go online. In the third quarter the GDP dropped 7.7% compared to the previous quarter, but by December expectations were not as bleak, and a 4.4% reduction was expected for the year. Uncertainty for 2021 is even higher than normal. The Central Bank expects the GDP to grow 3.8%, so long as the necessary reforms and adjustments continue to be made, all of which are essential for the sustainable recovery of Brazil's economy. COVID-19 vaccinations during the course of 2021 are also likely to reduce uncertainty and drive demand in areas hurt by social isolation, in particular services. *Focus*, the BCB Bulletin, expects inflation to be 4.2% in 2020 and 3.3% in 2021. The same source indicates that the Selic rate will remain at 2.00% a year through August, and then gradually increase to 3.00% by year end. The US Dollar, which reached a record high of R\$ 5,94, ended 2020 at R\$ 5,20 and should drop to R\$ 5,00 by the end of this year.

### Market Summary (all regions\*)

	Current quarter	Previous quarter	One year ago (4Q19)	Projections**
Total Inventory (sq.m)	2.31 Mn	2.31 Mn	2.31 Mn	↔
Vacancy Rate	36.2%	35.3%	36.1%	↔
Net absorption in the quarter (sq.m)	-20 thous.	21 thous.	26 thous.	↔
Quarterly gross absorption (sq.m)	11.6 thous.	36.5 thous.	47.5 thous.	↔
Average asking rent (R\$/sq.m/month)	78.52	77.44	82.60	↔
New Inventory Delivered (sq.m)	0	0	0	↔
Under construction (sq.m)	19 thous.	19 thous.	39 thous.	↓

\* Class AAA, AA and A in all RJ districts: CBD + Non-CBD (Barra da Tijuca)  
\*\*all regions, next 3 months, based on past indicators recorded to date  
\*\*\*construction has started but there is no date for delivery

### 4th Quarter Highlights

- Unlike the third quarter, which was the best quarter in 2020 for the Rio de Janeiro market, the fourth quarter performance was not at all promising. A significant number of offices were returned, resulting in net absorption of negative 20 thousand sq.m, driving the vacancy rate to 36.2%.
- If we remove offices leased but not yet occupied, especially in Porto Maravilha, this drops to 34.9%.
- The average asking monthly rent in Rio de Janeiro remained stable at R\$ 78.52/sq.m. The average also dropped in the central business districts (CBDs), to R\$ 80.83/sq.m.

## The end of 2020 was unfavorable for the corporate office market in Rio de Janeiro

Unlike the 3<sup>rd</sup> quarter, which was the year's best in RJ, a significant number of offices were vacated, resulting in net absorption of -20 thousand sq.m. The year-to-date went from 10.8 thousand sq.m at the 3Q20 to -9 thousand sq.m at the end of 4Q20. Net absorption was negative in all districts except for Flamengo/Glória and Porto Maravilha. Returns surpassed new occupancies in all other regions. Total gross absorption in the quarter was 11 thousand sq.m, well below that of previous quarters. The year-to-date volume transacted in the year was 88.6 thousand sq.m, indicating a slow pace of the leasing activity.

## The vacancy rate stops dropping

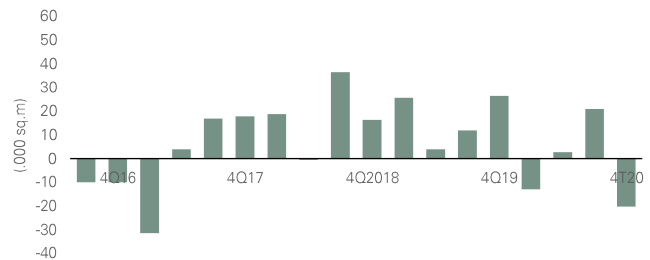
After three consecutive months of falling vacancy rates, it went back up in the fourth quarter, ending at 35.3% in all survey districts. The average monthly rent across all districts was R\$ 78.52/sq.m this quarter, or essentially stable, and 5% below the same period in 2019. Asking rents in CBDs (Central Business Districts) averaged R\$ 80.83/sq.m.

## Offering of offices spaces remained high

The vacant office space in Rio de Janeiro is significant, except for buildings in Zona Sul and Botafogo. However, these districts had the highest quarterly increase of vacancy rate due to the offices returned. The largest drop in vacancy was in Porto Maravilha, from 45.4% to 44.6%. The vacancy rate in Porto Maravilha should continue to drop as the transactions completed during 2020 has been realized and the companies move in.

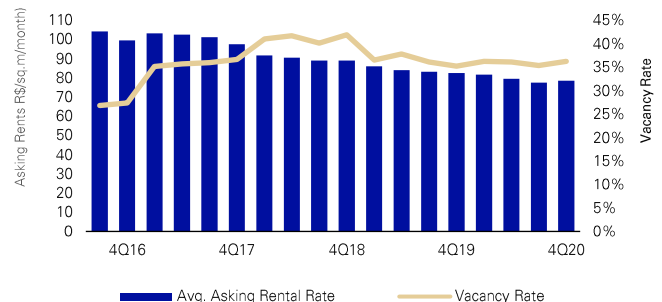
## Demand History

### NET ABSORPTION



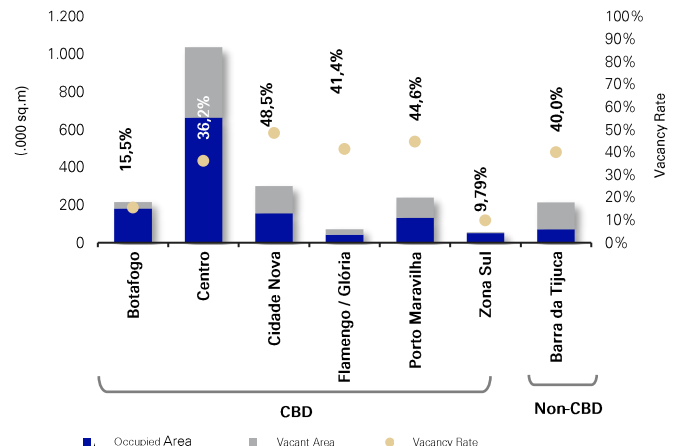
## Historical Offer and Asking Rents

### AVERAGE ASKING RENT VS. VACANCY

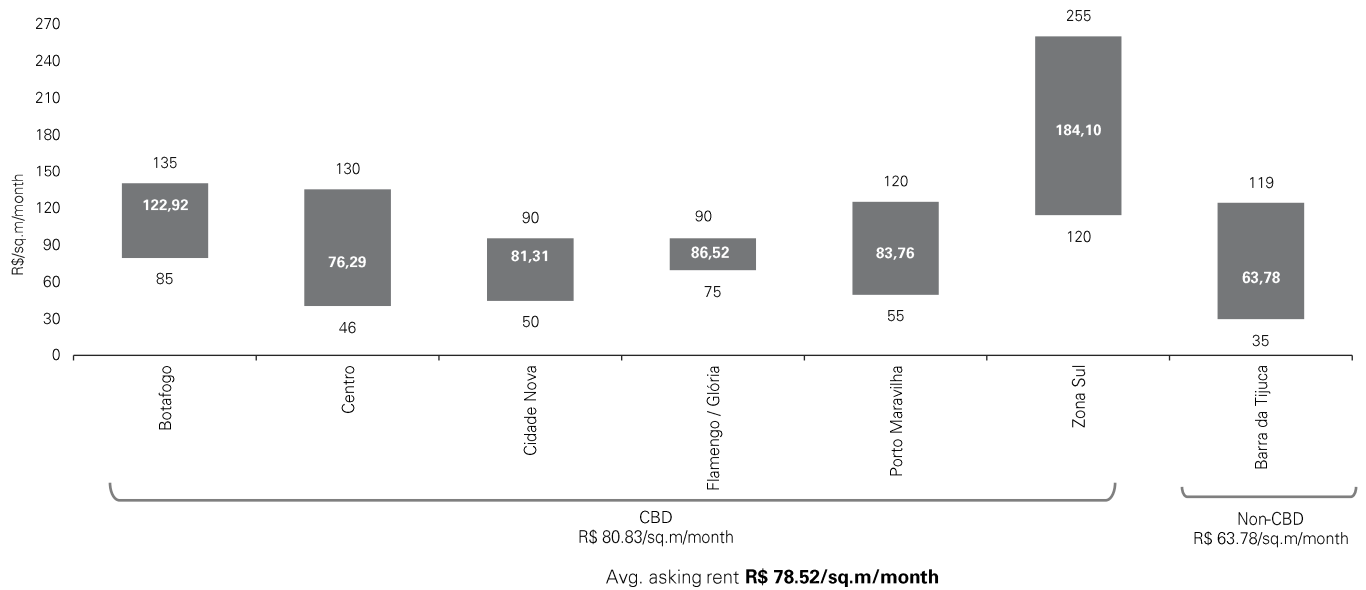


## Occupancy and Vacant Office Space per Region

### OCCUPIED VS. VACANT AREA VS. VACANCY RATE



## Minimum, Average and Maximum Asking Rent per Region



## Significant Transactions in the Quarter

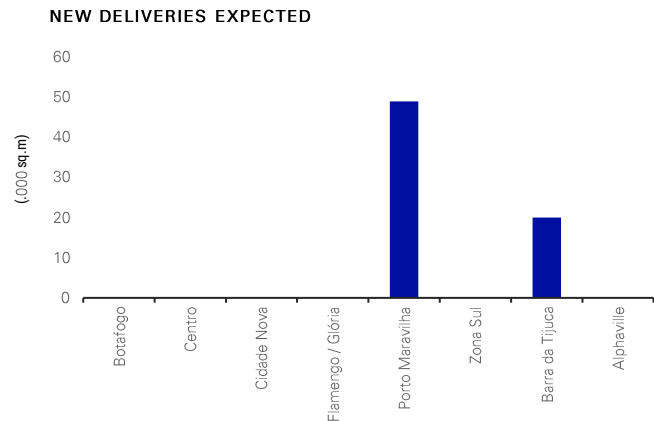
Tenant	Industry	Building	Region	Type of Transaction	Total leased area (sq.m)	Occupancy Status
Grupo Soma	Retail	Pasteur 154	Centro	Lease	4,555	Tenant Moving In
Sotreq	Machinery and Equipment	Vivo Barra	Barra da Tijuca	Lease	3,478	Tenant Moving In
State Grid	Power	SGCC Rio Tower	Centro	Lease	494	Tenant Moving In
Pasa	Health Insurance	Centro Empresarial Cidade Nova	Cidade Nova	Lease	695	Tenant Moving In

Buyer	Building	Region	Type Transaction	Total area (sq.m)	Unitary Value (R\$/sq.m)
ASSIM Saúde	Torre Vargas 914	Centro	Sale	5,983	7.019,89




## New Deliveries Expected\*

The largest number of buildings under construction is in Porto Maravilha, and half of this is the new headquarters of the Brazilian Central Bank. A total of 69 thousand sq.m are currently under construction, but the delivery schedule is uncertain, work is going slowly and, in some cases, has stopped altogether. There are 300 thousand sq.m of new office space still under project phase, with no set date to start construction.



\*construction has started but there is no date for delivery

## Main Class AAA, AA and A Buildings Under Construction

	Property	Region	Macro-region	Leasable Area	Expected Delivery
	Livramento 189 Corporate (retrofit)	Porto Maravilha	CBD	18,940	TBD
	New Central Bank headquarters	Porto Maravilha	CBD	30,149	TBD
	The City Business - Torre Manhattan	Barra da Tijuca	Non-CBD	20,297	TBD

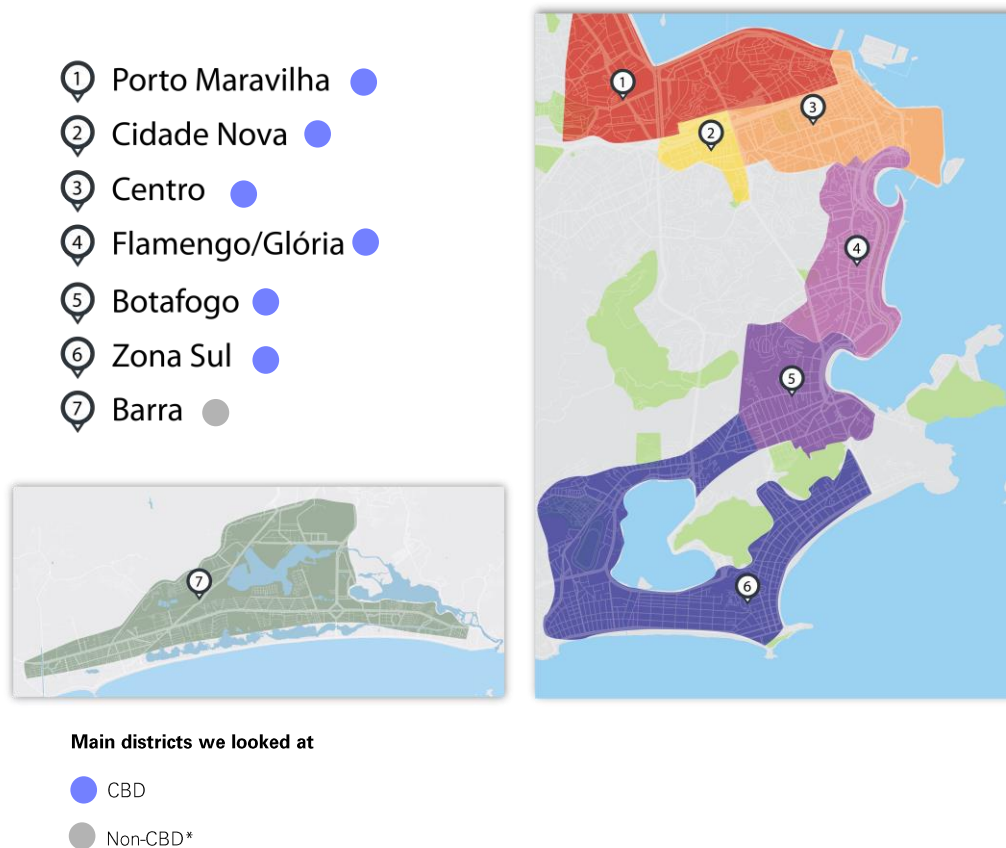
## Rio de Janeiro Class A Office – Market Statistics

Macro-regions	Total Inventory (m²)	Vacancy rate	New Inventory			Absorption				Average asking lease (R\$/m²/month)
			Delivered 4Q20 (sq.m)	Delivered 2020	Expected 2021** (sq.m)	Net 4Q (sq.m)	Net 2020 (sq.m)	Gross 4Q (sq.m)	Gross 2020 (sq.m)	
Total CBD	1.918.758	36.3%	-	-	18.940	-18.607	-9.021	9.007	76.280	80,83
Non-CBD	393.118	36,1%	-	-	0	-1.588	-358	2.639	12.417	63,78
<b>Total (CBD + Non CBD)</b>	<b>2.311.875</b>	<b>36.24%</b>	-	-	<b>18.940</b>	<b>-20.195</b>	<b>-9.379</b>	<b>11.646</b>	<b>88.697</b>	<b>78,52</b>

\*CBD: central business district, class AAA, AA and A

\*\*new inventory under construction with no set delivery date

## Office Submarkets



---

## RESEARCH 4Q 2020

### *For further information:*

#### **Newmark Brasil**

Av. Dr. Cardoso de Melo, 1460 – 7º andar  
Vila Olímpia, São Paulo  
04548-005  
t. 5511-2737-3130

Rua Lauro Muller, 116, cj. 3201  
Botafogo, Rio de Janeiro  
22290-160  
t. 55.21.3283-9001

contato@ngkf.com.br

[nmrk.com](http://nmrk.com)

#### **NORTH AMERICA**

Canada  
United States

#### **LATIN AMERICA**

Argentina  
Brazil  
Chile  
Colombia  
Costa Rica  
Dominican Republic  
Mexico  
Peru  
Puerto Rico

#### **Europe**

Austria  
Belgium  
Czech Republic  
France  
Germany  
Ireland  
Italy  
Netherlands  
Poland  
Portugal  
Rumania  
Russia  
Spain  
Switzerland  
Ukraine  
UK

#### **ASIA PACIFIC**

Australia  
Cambodia  
China  
Hong Kong  
India  
Indonesia  
Japan  
Malaysia  
New Zealand  
Singapore  
South Korea  
Taiwan  
Thailand

#### **AFRICA**

Africa  
Botswana  
Kenya  
Malawi  
Nigeria  
South Africa  
Tanzania  
Uganda  
Zambia  
Zimbabwe

#### **MIDDLE EAST**

Saudi Arabia  
Arabia  
United Arab Emirates

This report was prepared by Newmark Brazil Market Research and Intelligence professionals based on reliable data obtained from property owners and lessees, managers, legal representatives and other industry players. This data was reviewed and used based on NKF methodology and is for information purposes only. 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 [ngkf.com/research](http://ngkf.com/research). All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.