



RESEARCH 4Q 2020

MARKET FOR HIGH-END OFFICE SPACE - SÃO PAULO

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)	Forecast**
Total Inventory (m²)	4.89 Mn	4.83 Mn	4.71 Mn	↑
Vacancy Rate	20.8%	19.9%	16.8%	↑
Net absorption in the quarter (sq.m)	-5 thous.	-63 thous.	90.9 thous.	↔
Quarterly gross absorption (sq.m)	56 thous.	68 thous.	172 thous.	↔
Average asking rent (R\$/sq.m/month)	81.34	79.90	74.00	↔
New Inventory Delivered (sq.m)	211 thous.	104 thous.	25 thous.	↑
Under construction (sq.m)	325 thous.	92 thous.	372 thous.	↓

* 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

4th Quarter Highlights

- Many companies ended up anticipating a strategy of optimizing their offices, which could be the beginning of a phase of changing in office space occupations. The market for high-end office space in São Paulo ended 2020 with a reduction in occupied space. Although in a smaller volume than in the previous quarter, returns surpassed new occupations in 9 of the 14 districts in our survey this quarter. This led to a net absorption in 4Q20 of -5 thousand sq.m.
- Nevertheless, demand remained active, and the quarter ended with gross absorption of 56 thousand sq.m, and 226 thousand sq.m on a year-to-date basis. However, this was not enough to overcome returns, so net absorption in the year in -46 thousand sq.m.
- The average asking rental rates in São Paulo and Alphaville was R\$ 81.34/sq.m/month. The average rent for office space in the CBDs regions is R\$ 90.63/sq.m/month, essentially unchanged compared to previous quarter. This is due to new deliveries and an increase of vacancy in the higher-end offices in more expensive buildings, increasing their share of the weighted average.
- The large volume of new inventory and negative net absorption combined to drive up the 4Q20 vacancy rate from 19.9% to 20.8% in all regions we monitor (CBD and non-CBD). The vacant office space in CBD regions stands at 19.1%, and 15.6% in premium CBDs.

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2020 and the reduction in occupied space

Net absorption at the end of the quarter was negative, although better than in previous quarters. As a result, year-to-date net absorption was also negative. Right now, we have 46 thousand fewer square meters of occupied office space than we did at the end of 2019. This strategy of office optimization by many companies, may be the beginning of a phase of changing in office space occupations.

Returns surpassed new occupations in 8 of the 14 districts in our survey. This led to a net absorption in 4Q20 of -5 thousand sq.m. However, gross absorption remained active, in the quarter was 56 thousand sq.m and in the year 226 thousand sq.m, almost within the historical average of 232 thousand sq.m/year between 2007 and 2020. This shows that the market is not stagnant.

Vacancy rates went upwards during the year

Just as in the previous quarter, the vacancy rate in all districts went up - from 19.9% to 20.8%. This reflects not only returns but also new inventory delivered and not yet occupied. The end-of-quarter vacancy in CBDs was 19.1%, compared to 17.4% in 3Q20. The vacancy rate in premium CBDs - Paulista, Jardins, Pinheiros, Faria Lima, Itaim, JK, Berrini, Chucuri Zaidan and Vila Olímpia - went from 13.5% to 15.6%.

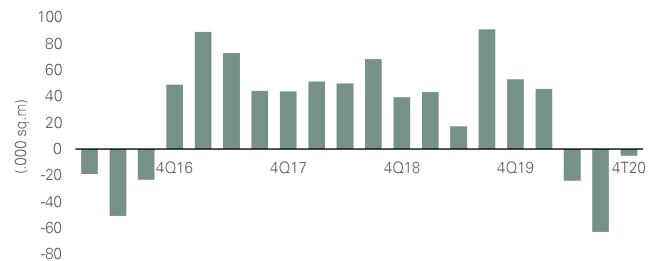
The average asking rent in all São Paulo districts in the survey was R\$ 81.34/sq.m/month this quarter, a quarterly increase of 1.8% due to new inventory and more space available in high-end buildings, driving up their share of the weighted average. The average rent in CBDs was R\$ 90.63/sq.m. If we look only at properties in Premium CBDs - more modern, higher value - the average asking rent jumps to R\$ 110.28/ sq.m/month.

Offer in premium CBDs remains low

Except for Chucuri Zaidan and Berrini, all other Premium CBDs have below-average vacancy rates that would be considered adequate for a balanced market. Pinheiros and Chucuri Zaidan experienced the highest quarterly increase in vacancy, primarily due to offices vacated in 4 major buildings. The largest drop in vacancy came in Alphaville, as tenants moved into a recently delivered built-to-suit building, as well as into other class AAA buildings.

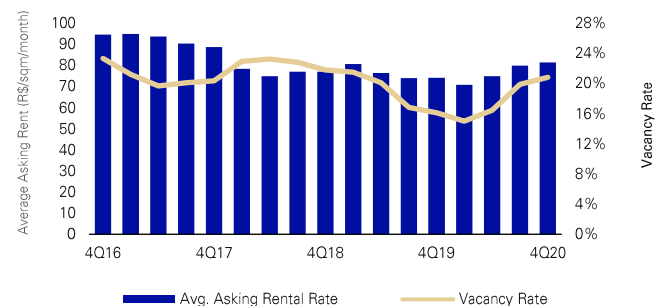
Demand History

NET ABSORPTION



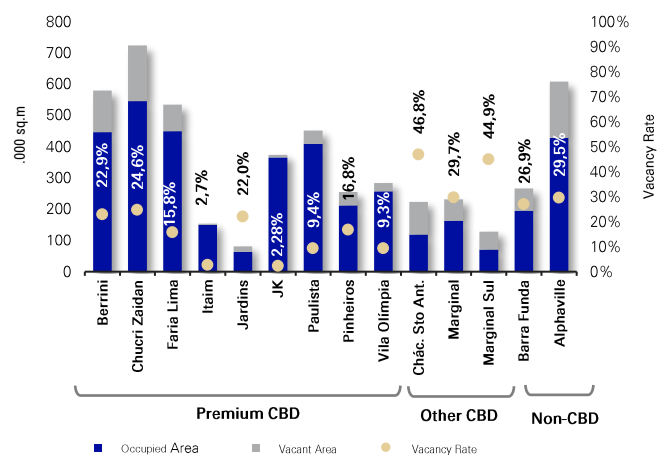
Historical Offer and Asking Rents

AVERAGE ASKING RENT VS. VACANCY

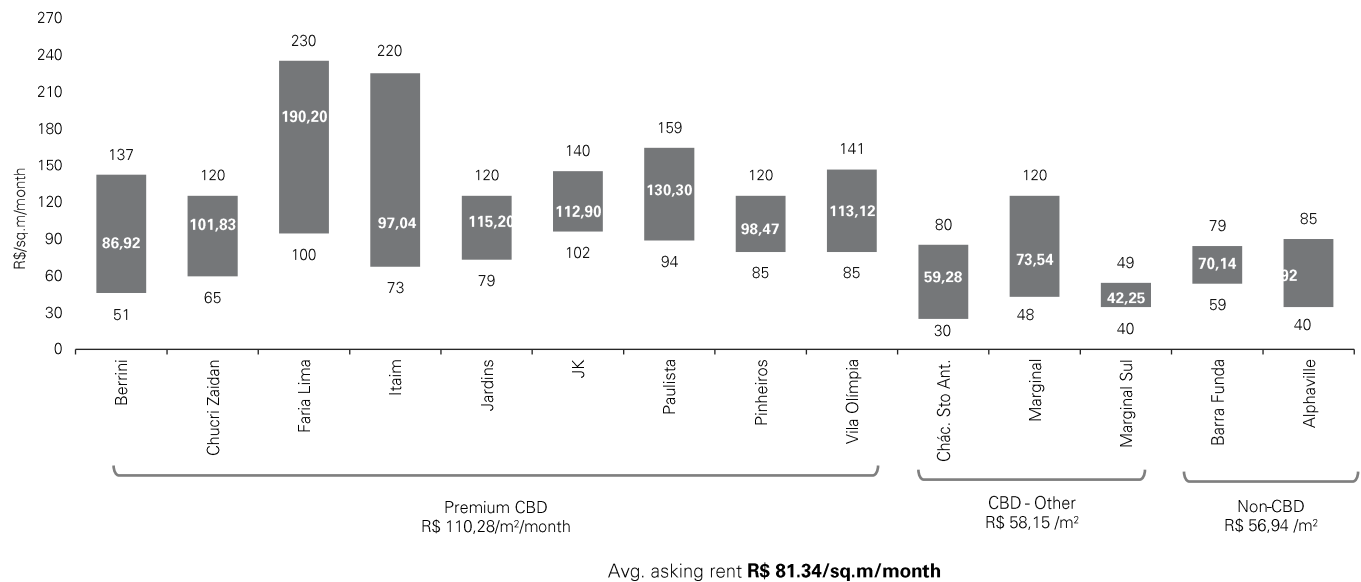


Occupancy and Vacant Space per Region

OCCUPIED AREA VS. VACANT AREA VS. VACANCY RATE



Minimum, Average and Maximum Asking Rent per Region



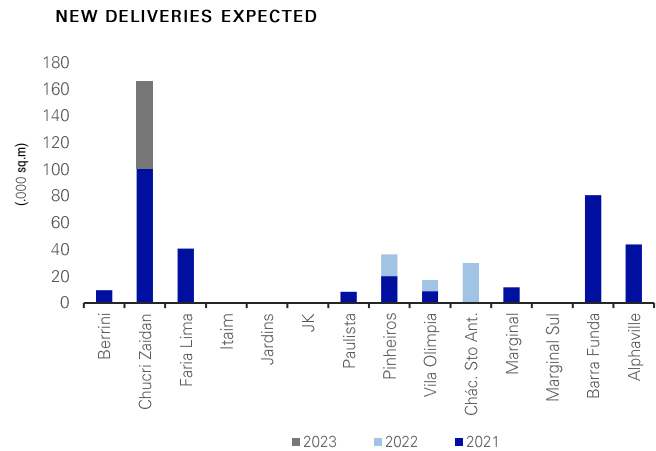
Significant Transactions in the Quarter

Tenant	Industry	Building	Region	Type of Transaction	Total leased area (sq.m)	Occupancy Status
Enel Brasil	Power	Parque da Cidade – Torre Aroeira	Chucrí Zaidan	Lease	14,174	Fit out works
Red Hat Brasil	Technology	Birmann 32	Faria Lima	Lease	3,086	Fit out works
Ri Happy	Retail	Thera Corporate	Berrini	Lease	2,130	Fit out works
Hypera Pharma	Pharma	Cidade Jardim Corporate Tower – Continental Tower	Marginal	Lease	1,853	Tenant Moving In
Nordex Energy	Equipment Industry	Atrium VI	Vila Olímpia	Lease	1,660	Tenant Moving In
Trisul	Construction Industry	Cetenco Plaza – Torre Norte	Paulista	Lease	1,152	Tenant Moving In
Postal Services	Government	17007 – Torre Alpha	Chácara Santo Antônio	Lease	1,035	Fit out works







Buyer	Building	Region	Type of Transaction	Total area (sq.m)	Unitary Value (R\$/sq.m)
FUNDO DE INVEST. IMOBILIÁRIO BTG Pactual	EZ Towers	Chucrí Zaidan	Sale	47,001.51	21.198,00
SANTANDER RENDA DE ALUGUÉIS FUNDO DE INVEST. IMOB. FII	WTorre Morumbi Ala B	Chucrí Zaidan	Sale	33,951.20	21.698,09
AUTONOMY ED CORPORATIVOS FUNDO DE INVEST IMOB FII	Rochavérá Corporate Towers - Torre D	Chucrí Zaidan	Sale	14,648	22.950,30
CCP – Cyrela Commercial Properties	FLFC - Faria Lima Financial Center	Faria Lima	Sale	2,219.3	34.740,68
BLUEMACAW OFFICE FUND II	CENU - Torre Oeste	Berrini	Sale	1,268.7	11.365,92

New Inventory Forecasted 2020 to 2022

Last quarter, the amount of new office space delivered (51 thousand sq.m) was below the expected 92 thousand sq.m and the year-to-date was close to the historical average since 2007 (250 thousand sq.m). Delays in buildings that would initially have been delivered in 2020 has led to an increase in new deliveries expected in 2021. A total of 325 thousand sq.m of new high-end office space will be delivered in São Paulo. This will further impact areas where there is already a large amount of vacant office space, such as Alphaville, Chucui Zaidan and Barra Funda.



Main Class AAA, AA and A Buildings Under Construction - Forecasted for 1st Quarter 2021

	Property	Region	Macro-region	Leasable Area	Expected Delivery
	Fonsecas Tower	Vila Olímpia	Premium CBD	9.000	TBD* *construction is complete, waiting for occupancy permit
	Bacatava Plaza	Chucui Zaidan	Premium CBD	7.483	1Q2021
	Icon Berrini	Chucui Zaidan	Premium CBD	9.900	1Q2021
	Torre Alameda Santos	Paulista	Premium CBD	8.395	1Q2021
	Parque da Cidade – Torres B1, B2 e B3	Chucui Zaidan	Premium CBD	83.198	1Q2021
	Edifício Toronto	Alphaville	Non-CBD	12.279	1Q2021

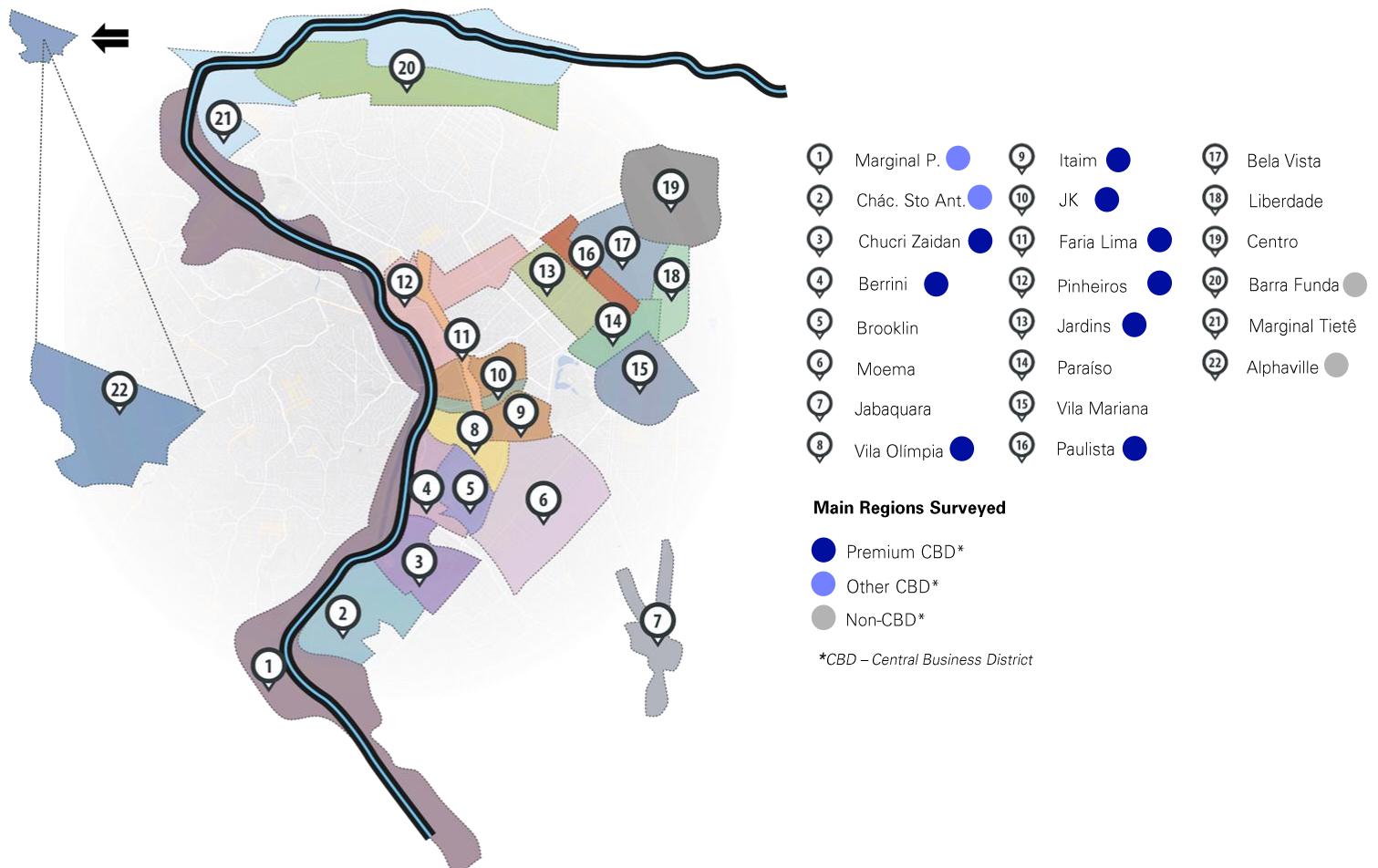
Sao Paulo Class A Office – Market Statistics

Macro-regions	Total Inventory (sq.m)	Vacancy Rate	New Inventory			Absorption				Average asking rent (R\$/sq.m/month)
			Delivered 4Q20 (sq.m)	Delivered 2020	Forecasted 2021** (sq.m)	. Net 4q (sq.m)	Net 2020 (sq.m)	Gross 4Q (sq.m)	Gross 2020 (sq.m)	
Premium CBD*	3,434,820	15.6%	45,678	184,519	168,668	-34,841	-87,311	13,450	123,547	110,28
Other CBD	582,541	39.6%	-	-	32,233	2,811	31,563	8,454	52,041	58,15
Total CBD	4,017,361	19.1%	45,678	184,519	200,901	-32,030	-55,748	21,904	175,588	90,63
Non-CBD	874,175	28.7%	5,943	26,943	124,553	26,889	9,377	34,212	50,496	56,94
Total (CBD + Non CBD)	4,891,536	20.8%	51,621	211,462	325,454	-5,141	-46,370	56,116	226,084	81,34

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

**new inventory under construction to be delivered in 2021

Office Submarkets



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Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

MIDDLE EAST

Saudi Arabia
Arabia
United Arab Emirates

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