RESEARCH 2Q 2021

MARKET FOR HIGH-END OFFICES - SÃO PAULO

# Economic recovery surprises in the 2nd quarter

Economic recovery is still uneven between countries, and the scenario continues to depend on controlling the Covid-19 pandemic, which may include measures to limit mobility and policies to mitigate its economic impact. More advanced economies expanded tax stimuli, and programs to help people keep their jobs remain in place. These countries accelerated the pace of Covid vaccines and are removing the restrictions on mobility, leading to a better outlook for economic growth in 2021. However, some of these countries are grappling with higher inflation, causing uncertainty regarding the next step in their monetary policy. This is particularly true for the US.

In Brazil, contrary to the expectations of economic analysts, the GDP went up 1.2% in the first quarter of the year, returning to the level it was in late 2019. Despite a worsening pandemic and a reduction in emergency aid, the country's economic performance was better than expected. The nation's GDP was R$ 2.048 trillion, 1% higher than in the same period of 2020, the first increase after four consecutive drops. Among the factors that explain this improved economic performance are manufacturing output, trade and services, which were far less negative in March and April, and increased demand for commodities worldwide, furthering Brazilian exports. Also important is the fact that both businesses and consumers are now better adjusted to life with restrictions. Key sectors experienced growth, in particular ranching and farming (5.7%), manufacturing industry (0.7%) and services (0.4%). As a result, the Ministry of the Economy's official estimate is that the GDP will increase 3.5% this year, while on average, market projections place this number at 3.96%. However, there are many elements that could reduce the pace of recovery. These include uncertainties regarding how fast vaccines will be rolled out, the vulnerability of the service industry, which is the largest component of the GDP, to the pandemic, the 14.8 million unemployed Brazilians, a record number, the risk of inflation caused by runaway increases in beef and energy prices, the weakness of public accounts and political uncertainties. At its most recent meeting in June, Copom adjusted the Selic rate from 3.5% to 4.25%, and expects it to raise it to 7% by year end. The US$ ended the quarter at R$ 5,00 but the Central Bank expects this will go up to R$ 5,94 by the end of this year.

## Market Summary (all regions*)

| | Current quarter | Previous quarter (1Q21) | One year ago (2Q20) | Projections** |
|---|---|---|---|---|
| Total Inventory (sq.m) | 5.08 Mn | 5.00 Mn | 4.76 Mn | ↑ |
| Vacancy Rate | 25.1% | 22.9% | 16.4% | ↑ |
| Net absorption in the quarter (sq.m) | -46 thous. | -43 thous. | -24 thous. | ↑ |
| Gross absorption in the quarter (sq.m) | 71 thous. | 43 thous. | 35 thous. | ↔ |
| Average asking rent (R$/sq.m/month) | 88,67 | 81,80 | 74,86 | ↔ |
| New Inventory Delivered (sq.m) | 79 thous. | 83 thous. | 55 | ↔ |
| Under construction (sq.m) | 156 thous. | 255 thous. | 262 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

## 2nd Quarter Highlights

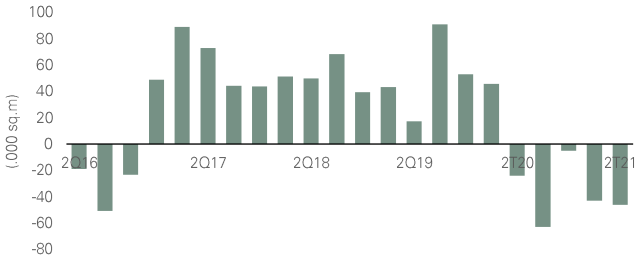
- New leases in high-end buildings in SP reached 70.8 thousand sq.m in the 2nd quarter, the highest since the last quarter of 2019.
- However, tenants continue to return spaces resulting a negative net absorption of 46 thousand sq.m.
- Also, an important volume of new inventory was delivered this quarter - 79.6 thousand sq.m most of it in 4 buildings located in Central Business Districts. The combination of returned offices and new inventory that has yet to be occupied pushed the vacancy rate to up from 22.9% to 25.1%.
- Asking rents went up due to the high-quality of new inventory and higher vacancies in the more expensive buildings that formerly were fully occupied. This combination increased the amount of offices space offered at higher prices. The average asking monthly rent in São Paulo (including Alphaville) this quarter was R$ 88,67/sq.m. In CDB districts, the average asking monthly rent ended the quarter at R$ 100,53/sq.m.

## Changes in occupancy patterns was maintained

As expected, tenants continue to return spaces and once again net absorption was negative this quarter. The year-to-date volume stands at -89 thousand sq.m. Returns surpassed new occupancies in almost all survey regions, and this should continue over the short to medium term, however as vaccinations progress in São Paulo, building occupancy will tend to resume. The largest amount of returned office space this quarter was in the service industry, which includes technology, financial services and aviation, followed by manufacturing industry. Leases have returned to pre-pandemic levels and gross absorption was 71 thousand sq.m, above the historical quarterly average of 58 thousand sq.m between 2007 and 2020.

## Demand History

NET ABSORPTION



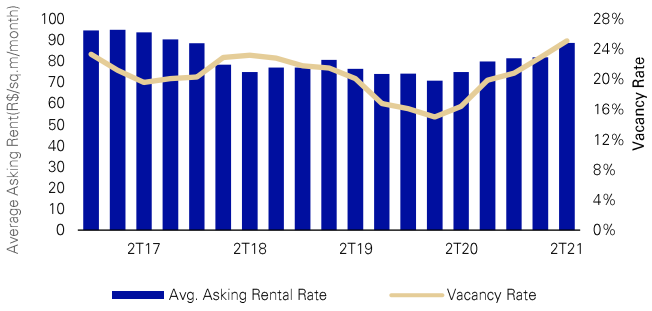

## The vacancy rate continues to rise

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.

## Historical Offer and Asking Rents

AVERAGE ASKING RENT VS. VACANCY

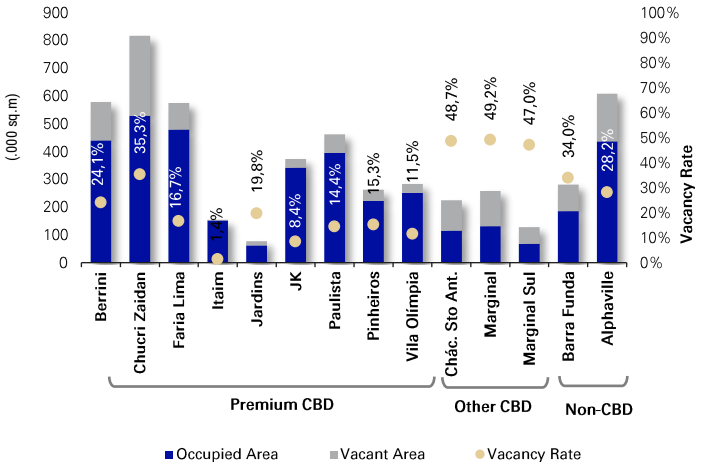



## While there is more vacant office space in all regions, supply is lowest in Premium CBDs

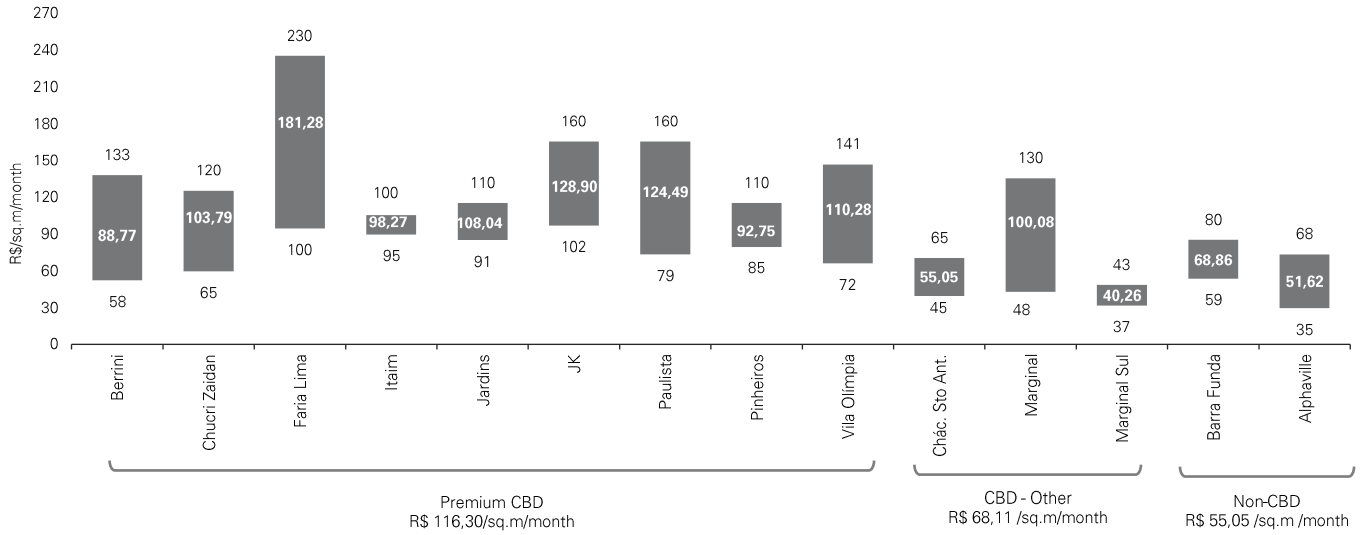
Except for Chucri Zaidan, the fastest growing region in the past 10 years, and Berrini, the vacancy rate in the other Premium regions is below average and within a balanced market range. The largest quarterly percent increase in vacancy was in the Marginal region due to the return spaces at Pinheiros One, besides Faria Lima due to the new inventory delivered. The most significant drop, from 20.3% to 15,3%, was in Pinheiros, where much of the vacated space was quickly occupied again over the course of 2020.

## Occupancy and Vacant Space per Region

OCCUPIED VS. VACANT AREA VS. VACANCY RATE



## Minimum, Average and Maximum Asking Rent per Region




Average asking rent **R$ 88,67/sq.m/month**

## Significant Transactions in the Quarter

| Tenant | Industry | Property | Region | Type Transaction | Total leased area (sq.m) |
|---|---|---|---|---|---|
| Via Varejo | Retail | Eldorado Business Tower | Pinheiros | Lease | 8.356,73 |
| Copagaz | Services – Gas Suplly | Rochaverá Corporate Tower Torre C (Crystal Tower) | Chucri Zaidan | Lease | 3.782,20 |
| THB | Services – Insurance | WTorre Nações Unidas – I | Pinheiros | Lease | 2.137,43 |
| Grupo Cimed | Manufactory – Pharmaceutical | Pátio Malzoni - Bloco A | Faria Lima | Lease | 1.161,34 |

| Buyer | Property | Region | Type Transaction | Total Area (sq.m) | Unitary Value (R$/sq.m) |
|---|---|---|---|---|---|
| CORE METROPOLIS FUNDO INV. | Souza Aranha | Chácara Santo Antônio | Sale | 4.078,62 | 13.950 |
| PÁTRIA EDIFÍCIOS CORPORATIVOS - FII | Roberto Marinho Square | Chucri Zaidan | Sale | 1.307,68 | 16.000 |
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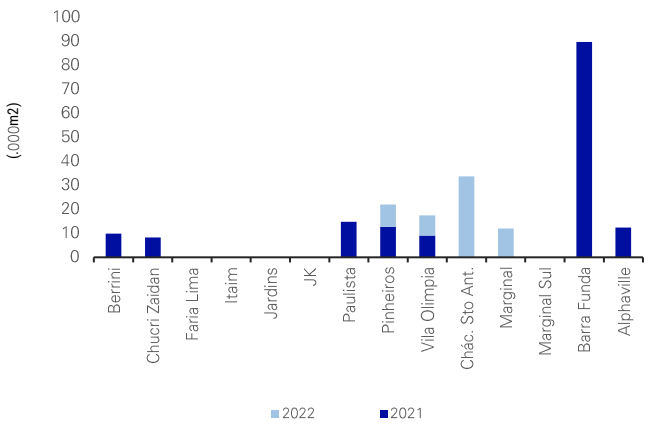
| PÁTRIA EDIFÍCIOS CORPORATIVOS - FII | Cetenco Plaza - Norte | Paulista | Sale | 1.152,12 | 15.016 |
| Evoris Participações | Cidade Jardim Corporate Tower - Park Tower | Marginal | Sale | 732,24 | 12.000 |
| FUNDO DE INVESTIMENTO IMOBILIÁRIO - VBI PRIME PROPERTIES | Complexo JK - Bloco B | JK | Sale | 6.126,00 | 30.150 |

## New Inventory Forecasted

Expected new deliveries of over 156 thousand sq.m in addition to the 162 thousand already delivered will bring this number well above the historical annual average of 250 thousand in the period between 2007 and 2020. Most of this will be in Barra Funda, which can increase the supply in this region, that is already significant due to the large amount of offer in existing buildings. New inventory should drop in 2022, when only 63 thousand sq.m should be delivered, most of it in Chácara Santo Antônio.

NEW DELIVERIES EXPECTED




## Main Class AAA, AA and A buildings under construction - Forecast for 2021

| | Property | Submarket | Macro-region | Leasable Area | Expected Delivery |
|---|---|---|---|---|---|
| | Bacaetava Plaza | Chucri Zaidan | Premium CBD | 7,483 | 3Q2021 |
| | Torre Alameda Santos | Paulista | Premium CBD | 8,395 | 3Q2021 |
| | Dynamic Faria Lima | Pinheiros | Premium CBD | 5,647 | 3Q2021 |
| | Bravo Paulista (*retrofit*) | Paulista | Premium CBD | 6,312 | 3Q2021 |
| | Brasília Offices Square | Barra Funda | Non-CBD | 48,600 | 3Q2021 |
| | LED Corporate | Barra Funda | Non-CBD | 32,124 | 3Q2021 |
| | White 2880 | Pinheiros | Premium CBD | 6,977 | 4Q2021 |

# Sao Paulo High-End Office Market –Statistics

| Macro-regions | Total Inventory (sq.m) | Vacancy Rate | New Inventory | | | ABSORPTION | | | | Average Monthly Asking Rents (R$/sq.m) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Delivered 2Q (sq.m) | Year-to-date Delivered (sq.m) | Expected 2021** (sq.m) | . Net 2Q (sq.m) | Year-to-date Net (sq.m) | Gross 2Q (sq.m) | Year-to-date Gross (sq.m) | |
| Premium CBD* | 3.583.569 | 19.9% | 59.346 | 142.544 | 54.309 | -14.875 | -28.467 | 52.953 | 100.802 | 116.30 |
| Other CBD | 610.111 | 48.5% | 20.329 | 20.329 | 0 | -26.613 | -55.409 | 6.786 | 8.414 | 68.11 |
| **Total CBD** | 4.193.680 | 24.04% | 79.675 | 162.873 | 54.309 | -41.488 | -83.876 | 59.739 | 109.216 | 100.53 |
| **Non-CBD** | 888.587 | 30.0% | - | - | 101.779 | -4.546 | -5.135 | 11.094 | 24.210 | 55.05 |
| **Total (CBD + Non CBD)** | **5.082.266** | **25.09%** | **79.675** | **162.873** | **156.089** | **-46.034** | **-89.012** | **70.833** | **133.426** | **88.67** |

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

**new inventory under construction for delivery in 2021

## Office Submarkets

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

**Main Surveyed Regions**

- Premium CBD*
- Other CBD*
- Non-CBD*

**CBD – Central Business District*

*For further information:*

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

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

contato@ngkf.com.br

ngkf.com.br

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