RESEARCH 3Q 2021

HIGH-END INDUSTRIAL/LOGISTICS MARKET - SÃO PAULO

Economic activity returns to pre-pandemic levels in the 3rd quarter

The global economy continues to recover, although some leading economies showed signs of slowing down in the third quarter due to the pandemic, and the inability of global supply to adjust to changing demand. This has resulted in stockouts in several global supply chains, driving up manufacturing and distribution costs, especially in the automotive and construction industries. Differences in economic activity across countries continues. In the US and Europe, the rapid roll-out of vaccination and the end of restrictive measures made it easier for jobs and the service industry to recover, driving economic activity. In China however, growth slowed due to a resurgence of the Corona virus, once again affecting urban mobility. Climate events have also impacted the economy of some regions. In China there has been a slow-down in the real estate industry, precipitated by the crisis experienced by Evergrande, that country's 2nd largest developer, and regulatory measures to avoid excess leverage and contain speculation. Year-over-year, although the health crisis remains, and despite the reduction in emergency aid, Brazilian economic performance once again exceeded expectations, with the GDP ending the quarter 1% higher than in 2020, totaling R$ 2.048 trillion, returning to the pre-pandemic levels. According to the Central Bank's most recent Inflation Report (September 2021), it expects the nation's GDP will grow 4.7% in 2021. Economic activity is resuming all over the world. This, plus higher prices for basic goods such as food, iron ore, crude oil and commodities, favoring farming, ranching, and extractive industries, should help reduce unemployment, which currently stands at 13.7%. All these are strong indicators of future growth. On the other hand, there remain significant threats for economic recovery. A worsening water crisis, especially if power must be rationed, worsening of the pandemic, which still requires close monitoring, and the fiscal risk, basically increased government accounts with no government strategy to contain growing debt. Consumer inflation, measured by the IPCA, increased 1.16% in September and 6.9% in the year, and could reach 8.3% by year-end. Copom adjusted the Selic to 6.25% p.y. at its September meeting, and it could go up to 7% or more by the end of the year to ensure the inflation target is met. The US$ ended the quarter at R$ 5,45 but the Central Bank expects this will drop to R$ 5,25 by the end of this year.

Summary of the Market for High-End Condominiums

	Overall	São Paulo	Rio de Janeiro	Projection*
Total Inventory (sq.m)	12.83 million	10.26 million	2.57 million	↑
Vacancy Rate	12.56%	10.91%	19.13%	↔
Net absorption in the quarter (sq.m)	425 th.	341 th.	85 th.	↑
Accumulated Net Absorption (sq.m)	672 th.	568 th.	104 th.	↑
Gross absorption in the quarter (sq.m)	531 th.	437 th.	95 th.	↑
Accumulated Gross Absorption (sq.m)	1,156 th.	964 th.	192 th.	↑
Average asking rent (R$/sq.m/month)	19,47	19,23	20,02	↔
New Inventory Delivered in the Quarter (sq.m)	210 th.	146 th.	64 th.	↑
Under construction (sq.m)	1.35 million	1.21 million	140 th.	↑

*SP and RJ in the next 3 months, based on past indicators recorded to date

The FGV IBRE Industry Confidence Index (ICI) dropped 0.6 points in September, to 106.4. This is the second consecutive drop after going up consistently for four months. Industry confidence was adversely affected by the bottlenecks caused by input shortages and, more recently, international logistics problems and the higher price of electricity. This, combined with uncertainties regarding the new Delta variant have led to slower industry recovery. Less optimistic outputs expect a 0.4 percentage point decline in the employment index as intent-to-hire drops. Installed Capacity Utilization went up 0.5 p.p. to 80.2%, the highest it has been since November 2014. According to the IBGE, manufacturing output in Brazil dropped 0.7% in August compared to July. This drop was primarily driven by four large categories: pharmaceuticals and pharmaceutical chemicals (9.3%), chemicals (6.4%), automotive vehicles (3.1), and crude oil derivatives and biofuels (2.6%). The fastest growing industries were beverages (7.6%), food (2.1%) and extractive industries (1.3%).

Since 2020, the market for high-end industrial and storage/logistics warehouses has been growing all over the country, driven by the growth of online sales. Expectations are promising, considering the increased volume of online sales and more consumers using this purchasing option.

3Q21 Highlights

- Inventory in São Paulo increased this quarter, and 146 thousand sq.m of new warehouse space were delivered, mostly in Cajamar and Guarulhos, both areas in high demand due to their proximity to the city and the ability to quickly deliver e-commerce goods;
- Declining vacancy rate despite new inventory. The vacancy rate at the end of the quarter was 10.9%, compared to 13.1% at the end of the second quarter.

NEWMARK

New leases for e-commerce players increased for the 2nd consecutive quarter

This quarter the number of new leases in high-end industrial/logistic condominiums reached 437 thousand sq.m, the highest it has been this year. Quarterly net absorption was also a record for the year, accumulating 568 thousand sq.m of year-to-date net absorption, above the historical average of 500 thousand sq.m per of net absorption per year. The largest number of new leases was in Cajamar, but new leases were up in 9 of the 14 regions surveyed, including those that are further from the city. Among those transactions where the tenant is known, e-commerce players account for 46% of new leases, followed by logistics, transportation and distribution (24%).

Vacant spaces dropped in almost all regions

Even with new deliveries this quarter, the vacancy rate dropped, ending at 10.9%, compared to 13.1% in 2Q21. The vacancy rate dropped in almost all regions, except for Embu, where there was a decreased in occupied warehouse space.

The largest quarterly drop was in the Piracicaba region, with a 7.6 p.p. drop in the vacancy rate, followed by São Paulo, Cajamar and Guarulhos (3.5 p.p. drop each). Guarulhos has one of the lowest vacancy rates, while São Paulo, ABCDM and Ribeirão Preto ended the quarter with zero vacancy.

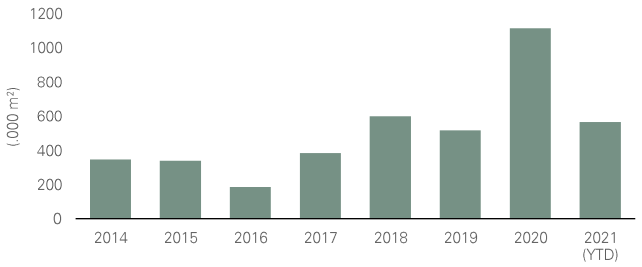
The average asking monthly lease was R$ 19,23/sq.m, 5% above the previous quarter. Average asking monthly rents in metropolitan São Paulo (within a 40 km radius from the city center) averaged R$ 22,40/sq.m, the higher rents being in Guarulhos, or R$ 32,00/sq.m/month.

SIGNIFICANT TRANSACTIONS IN THE QUARTER

Transaction Type	Tenant/Buyer	Condominium	Total area marketed (m²)
Lease	Mobly	Centro Logístico Especulativo Cajamar	70.238
Lease	Mercado Livre	Prologis Cajamar III	50.800
Lease	DHL	Condomínio Pinheirinho	27.551
Lease	B2W Digital	RBR Hortolândia II	26.775
Sale	FII VBI LOGÍSTICO	BR Properties	5.070
Sale	CSHG Logística - FII	GLP - Global Logistic Properties	59.875

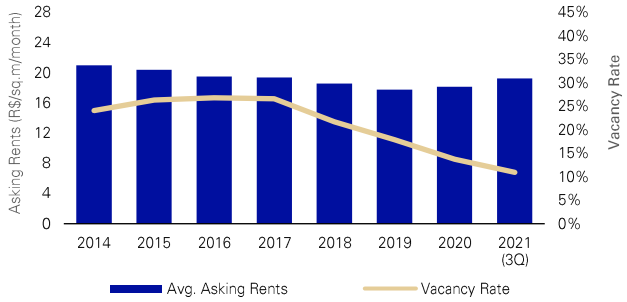
Demand History

NET ABSORPTION



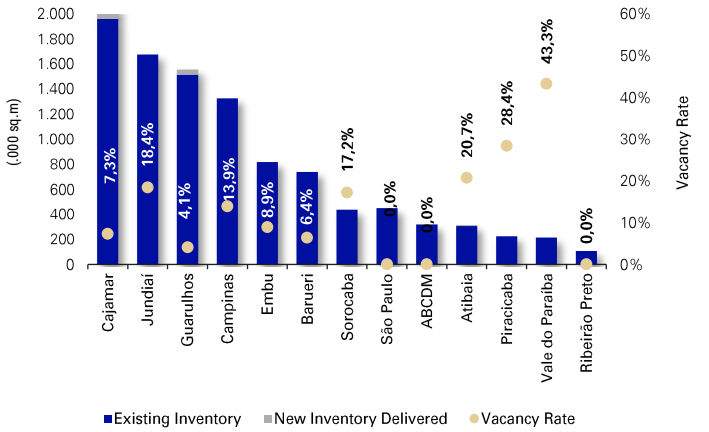
Historical Supply and Asking Rents

AVERAGE ASKING RENT VS. VACANCY

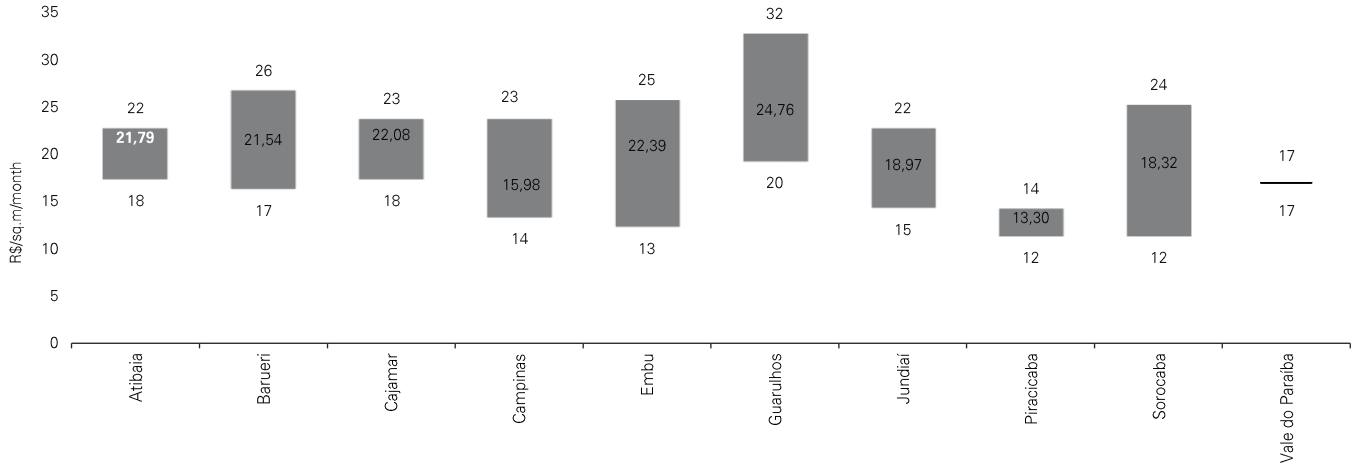


Existing Supply and New Offer by Region

TOTAL INVENTORY VS. NEW INVENTORY DELIVERED VS. VACANCY RATE



Minimum, Average and Maximum Asking Rent per Region



Main Class AAA, AA and A Developments under Construction

	Property	Region	Macro-region	Leasable area (sq. meters)	Expected Delivery
	GLP Guarulhos II	Guarulhos	Dutra	250.140	4Q2021
	GLP Mauá	ABCD	Anchieta/Imigrantes	81.470	4Q2021
	GLP Cajamar IV	Cajamar	Anhanguera / Bandeirantes	81.209	4Q2021
	Golgi Jundiaí (Pre-leased Total Express)	Jundiaí	Anhanguera / Bandeirantes	66.079	4Q2021
	Syslog São Paulo (Pre-leased Mercado Livre)	São Paulo	Anhanguera / Bandeirantes	79.776	4Q2021
	GLP Regis	Itapecerica da Serra	Dutra / Ayrton Senna	91.474	4Q2021

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MIDDLE EAST
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Arabia
United Arab Emirates

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