



São Paulo Office Market

Economic growth at risk in Brazil and worldwide

The economic recovery has slowed down all around the world in recent months, in part due to new outbreaks of Covid-19 in China, and in part due to the conflict between Russia and the Ukraine, both of which have significantly impacted economic activity and global inflation. Higher rates of inflation in the world's main economies have led central banks to withdraw the monetary stimuli of recent years, created in part to address the crisis brought on by the pandemic. As a result, economies around the world have had to tighten their belts, which will slow down economic growth in the coming quarters. As a rule, emerging economies remain more vulnerable to global economic fluctuations. Brazil experienced unexpected growth in the first quarter of the year, and all indications are that this will also be the case in the 2nd quarter. As a result, the most recent Central Bank inflation report, published on June 30, now expects the GDP may grow 1.7% this year, an improvement over the 0.5% expected early in the year. Almost all manufacturing sectors performed well in April. Ipea forecasts call for a 1.2% increase in manufacturing industry, 0.6% in trade, and 0.3% in services in May compared to April. GDP growth in the second quarter was reinforced by new stimuli for household spending - extraordinary withdrawals of the FGTS, and early payment of the 13th salary to INSS retirees. Furthermore, farming, cattle, and extractive industries are expected to improve after poorer performances early in the year. According to the Continuous Household Survey (PNAD), the job market continued to recover in the first half of the year, with a drop in unemployment and corresponding increase in employment. Unemployment in April dropped to 9.3%, the lowest it has been since October 2015. On the other hand, inflation remains high and once again above expectations. Food and fuel went up quite a bit, and services and manufactured goods also went up. Inflation is now expected to reach 8.50%, quite a bit higher than the 5% target. The forecast for 2023 is 4.70%. The basic interest rate was raised by another percentage point at the May Copom meeting, to 12.75% a year. It is likely the basic interest rate will go up to 13.25% by year end. The IPCA is expected to go up to 6.86%, and the IGPM to 10.88%. The US Dollar exchange is expected to be R\$ 5,25 by year end.

Market Summary for High-End Offices

	Current quarter	Previous quarter	Same period in 2021	12-month projection
Total Inventory (sq.m)	5.18 Mn	5.17 Mn	5.09 Mn	↑
Vacancy Rate	23.77%	23.84%	25.09%	↑
Net absorption in the quarter (sq.m)	16 thous.	48 thous.	-46 thous.	↑
Gross absorption in the quarter (sq.m)	73 thousand	128 thousand	71 thousand	↑
Average asking rent (R\$/sq.m/month)	87.77	87.21	88.67	↔
New Inventory Under Construction (sq.m)	207 thous.	210 thous.	156 thous.	↓

* Class AAA, AA and A in all SP districts: CBD + Non CBD (Barra Funda and Alphaville)

Current Conditions

- Transactions slowed down in the 2nd quarter of the year, with a drop in gross and net absorption. Nevertheless, occupied space increased 16 thousand sq.m, despite continued returns.
- New inventory was well below recent quarters, with a single 3 thousand sq.m building in Pinheiros. The fact that so little new office space was delivered helped hold back the increase in vacancy.
- The vacancy rate remained stable, going from 23.84% to 23.77%.
- Average asking rents for all regions in SP remained practically unchanged at R\$ 87,77/sq.m a month.

Demand has slowed, but dispersed across all regions

New leases decreased in the second quarter compared to the previous, and both gross and net absorptions were lower. However, even though return office space continues to be returned, and the number of new transactions dropped, occupied space increased 16 thousand sq.m in the quarter.

In the year-over-year comparison new leases remained stable, but returned office space dropped, generating positive net absorption.

Most of new leases in 2Q22 involved financial/insurance, technology, and healthcare tenants, located into offices in Faria Lima, Chucru Zaidan, and Berrini, which also registered the largest net absorption.

Net absorption was positive in most regions, except for Paulista and Alphaville, where returns exceeded new leases.

New inventory at a new level

Only 7.7 thousand sq.m of new office space was delivered, a significant drop in new inventory in the first half of this year. In 1H21 this number was 263 thousand sq.m; and the lowest record was 42 thousand sq.m, in 1H2019.

New inventory this year should be 207 thousand sq.m of leasable area, below the historical average of 250 thousand sq.m (2007 - 2021). If all new developments are delivered on schedule, there may be a little increase in supply late in 2022. Construction activity has also slowed down, which may help keep supply down over the next few years.

Stable vacancy rates and asking rents

The vacancy rate remained almost unchanged, going from 23.84% to 23.77%. The vacancy rate in the Central Business Districts dropped from 22% to 21.6%. In non-CBDs the vacancy rate went up from 32.39% to 33.83%.

Average asking rents also did not change much, going from R\$ 82.21 to R\$ 87.77/sq.m per month. In the same period of 2021, the average asking rent was R\$ 88.57 /sq.m per month.

The most expensive region is still Faria Lima, where asking monthly rents are R\$ 180.13/sq.m. Then come JK and Itaim, with average asking rents of R\$ 150.94/sq.m and R\$ 126.17/sq.m a month, respectively.

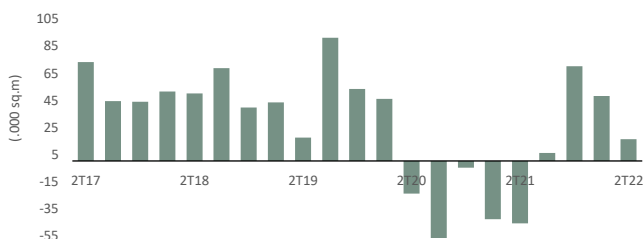
2022 market outlook

Although occupancy losses are still under course, recovery of the lease activity and positive demand indicators in the past 4 quarters suggest a promising scenario, especially compared to the same period in 2021, when the market was in a serious downturn.

Confidence has increased quarter by quarter, as returns slow down and the key parameters suggest a more consistent recovery of the market for high-end office space. However, the speed at which this will happen is strongly tied to the internal political and economic scenario, which is very unstable, especially as this is an election year, which may be an important factor in consolidating the turn of the market cycle.

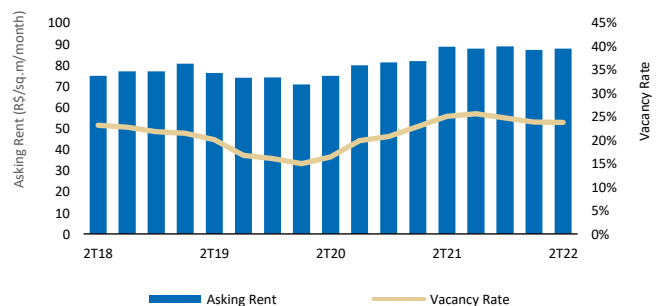
Demand History

NET ABSORPTION

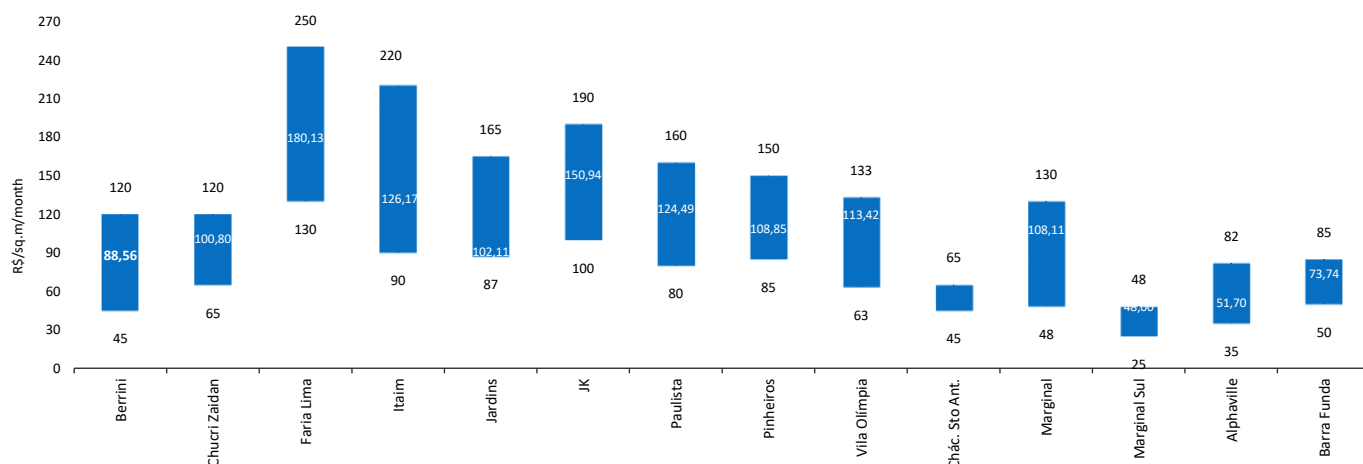


Historical Offer and Asking Rents

ASKING RENT AND VACANCY RATE



Minimum, Average and Maximum Asking Rent per Region



Significant Transactions in the Quarter

Transaction Type	Property	Region	Tenant/Buyer	Owner/Seller	Total Area (sq.m)
Lease	Faria Lima Plaza	Faria Lima	Shopee	XP Properties FII	3,953
Lease	Eldorado Business Tower	Pinheiros	Banco Fibra	Rebouças Ouro Branco	3,109
Lease	Paulista Star	Jardins	BeFly Turismo	CSHG	2,865
Lease	Vila Olímpia Corporate Torre A	Vila Olímpia	Nutrien Soluções	Maxcorp	2,016
Lease	Parque da Cidade Corporate – Torre Jequitibá	Chucrí Zaidan	NTT Dimension Data	Previ	1,681
Sale	Parque da Cidade Corporate - Torre B1	Chucrí Zaidan	Brookfield	BR Properties	45,678
Sale	Parque da Cidade Corporate - Torre B2	Chucrí Zaidan	Brookfield	BR Properties	44,673
Sale	Panamérica Green Park - Building C , 2, 3, 5, 6 7	Marginal Sul	Brookfield	BR Properties	31,312
Sale	Complexo JK - Bloco B	JK	Brookfield	BR Properties	23,971
Sale	Torre Nações Unidas	Berrini	Brookfield	BR Properties	21,977
Sale	Centenário	Berrini	Brookfield	BR Properties	16,495
Sale	Parque da Cidade Corporate - Torre B3	Chucrí Zaidan	Brookfield	BR Properties	11,514
Sale	Parque da Cidade Corporate - Torre B3	Chucrí Zaidan	Brookfield	BR Properties	529
Sale	Infinity Tower	Itaim	Lúcio Engenharia, Omar Maksoud Engenharia Amy Engenharia	Leopoldo Green Empreend.	21,645

YTD New Inventory Delivered

1Q







OF - Oscar Freire Office
Pinheiros, CBD Premium
4,632 sq.m

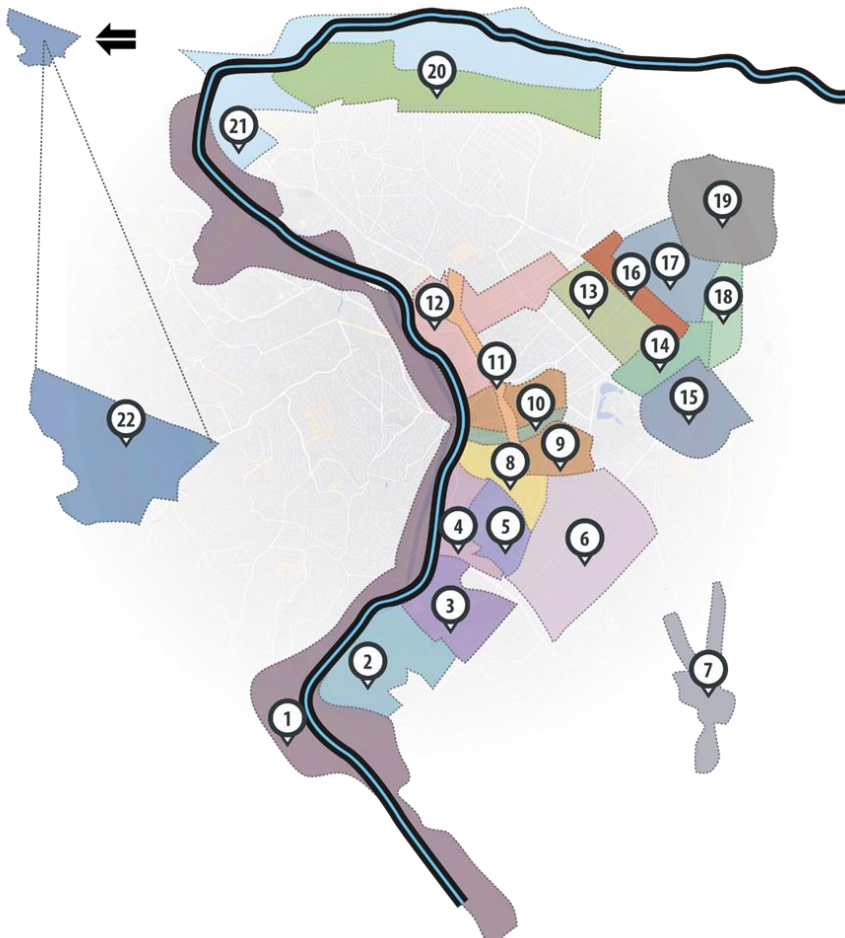
2Q



JFL Rebouças
Pinheiros, CBD Premium
3,133 sq.m

Sample of Class AAA, AA and A Developments under Construction

	Property	Region	Macro-region	Leasable area (sq.m)	Expected Delivery
	Brasilia Offices Square	Barra Funda	Non-CBD	48,600	3Q2022
	Ohio	Barra Funda	Non-CBD	8,777	4Q2022
	White 2880	Pinheiros	Premium CBD	6,977	4Q2022
	SP Corporate	Berrini	Premium CBD	9,792	4Q2022



Submarkets Map

- 1 Marginal P. ●
- 2 Chác. Sto Ant. ●
- 3 Chucrri 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 ●

Surveyed Regions

- CBD* Premium
- CBD* Demais
- Non-CBD*

*CBD – Central Business District

For more information:

Newmark Brasil

Av. Dr. Cardoso de Melo, 1460 – 7th floor
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

ngfk.com.br

Newmark has implemented a proprietary database and our tracking methodology has been revised. 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 nrmk.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 and 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.