



São Paulo Industrial and Logistics Market

The Economy is still growing, but slowing towards the end of the year

Economic performance this quarter remained positive, with 0.9% growth in 2Q23. Government policies regarding income and new social programs enabled an increase in household income, which drove up the demand for services. Solid job market indicators resulted in an increase in the number of people employed and the wage mass. This also helped reduce debt levels by bringing down inflation and the terms used to renegotiate debt among low-income families.

Also important was the share of Brazilian soy and crude oil in international markets. Farm/Ranch Output benefitted from unfavorable weather in Argentina and the US. Brazil continues to take advantage of a favorable scenario to hold onto and even expand its international leadership in commodities. Corn, sugarcane, cotton, beef, and poultry output also increased.

The Brazilian Central Bank expects the GDP will grow 2.9%, up from the previous estimate of 2.0%, while the estimate for 2024 remains 1.8%.

However, some elements give rise to uncertainty regarding this country's economic performance, and the pace may slow down towards the end of the year and through 2024. Manufacturing industry is still in a slump, with a 1.3% decrease in output in 1Q23, reinforcing that, with few exceptions it is finding it difficult to determine avenues for growth.

Regarding inflation, according to the Focus report, the IPCA for 2023 and 2024 should be around 4.9% and 3.9% respectively. The basic interest rate was reduced by half a percentage point at the most recent Copom meeting (the 257th), to 12.75% a year. It is likely the basic interest rate will go drop to 11.75% by year end 9.0% by the end of 2024. The exchange rate at the end of 2023 should be R\$ 4,90/US\$.

Summary of the Market for High-End Condominiums

	Current Quarter	Previous Quarter	Same period in 2022	12-month projection
Total Inventory (sq.m)	13.3 Mn	13.0 Mn	12.3 Mn	↑
Vacancy Rate	10%	10.2%	12.6%	↑
Net absorption in the quarter (sq.m)	307 thous.	276 thous.	428 thous.	↑
Gross absorption in the quarter (sq.m)	492 thous.	366 thous.	505 thous.	↑
Average asking rent (R\$/sq.m/month)	24,72	23,95	21,77	↑
New Inventory Under Construction (sq.m)	861 thous.	1.39 Mn	804 thous.	↓

According to the 3Q23 publication by the Brazilian Federation of Industries (CNI), manufacturing GDP went up 1.7% in the first half of the year compared to 1H22.

Performance varied by industry. Extractive activities increased 8.2% to the highest level since 2018, while the GDP for manufacturing industry dropped 1.3% and is 1.7% below 2Q22. Construction is having a harder time sustaining the cycle of growth that started in 2022, and the GDP increased only a modest 0.9% in 1H23.

The market for high-end industrial and logistics warehouses remained strong in the third quarter, and all market indicators are positive.

Current Conditions

- This quarter saw a record volume of new deliveries, but even so, the vacancy rate dropped to 10%, reflecting strong activity in this market in Sao Paulo.
- Demand indicators were stronger than in the previous quarter, but slightly below the same period in 2022. Nevertheless, the numbers are promising, with net absorption for the year totaling 944 thousand sqm, and gross absorption 1.4 million sqm.
- The average asking monthly rent continues to go up, ending the quarter the quarter at R\$ 24,72/sqm.

Demand continues to grow

Demand indicators were stronger than in the previous quarter, but slightly below the same period in 2022. Gross absorption totaled 492 thousand sqm, compared to 366 thousand sqm in 2Q23. Net absorption was 307 thousand sqm, compared to 276 thousand sqm in the second quarter. Nevertheless, the numbers are promising, with net absorption for the year totaling 944 thousand sqm and gross absorption 1.4 million sqm.

Of the transactions in the quarter involving known parties, 58% involved e-commerce players, followed by logistics and transportation. The largest net absorptions were in Guarulhos, Embu, and Cajamar submarkets.

Significant volume of new developments in the quarter

The inventory of high-end industrial and logistics warehouses increased by 382 thousand sqm, making it the quarter with the largest volume of new deliveries. However, year-to-date new deliveries are 35% below the same period last year.

Along this year, 523 thousand sqm have been delivered, which is 55% below the same period last year, suggesting that construction activity is slowing down in Sao Paulo. Another 861 thousand sqm should be delivered by year end, which would bring the total or 2023 up to 1.4 million sqm, slightly below the 1.6 million delivered in 2022.

Falling vacancy rates

Despite new deliveries and an increase in returned spaces from 90.5 thousand to 185 thousand sqm, the vacancy rate in the quarter dropped slightly to 10% (vs. 10.2% in 2Q23).

The vacancy rate within a 40 km radius of the city of SP it is even smaller, 8.9%, compared to 11.9% in the interior of the state.

The regions that currently have the lowest vacancy rates are Ribeirão Preto (1.5%), ABCDM (3.5%), and Barueri (4%). The largest drops in vacancy were in Barueri, ABCDM, and Embu.

The average monthly asking rent in São Paulo is going up, and was R\$ 24.72/sqm, about 3% above the previous quarter, and 14% higher than in the same period of 2022.

Asking rents are even higher in metropolitan São Paulo, defined as a 40 km radius from the center - R\$ 26.22 sqm/month. The highest rents are in the city of São Paulo, Guarulhos, and the ABCDM region.

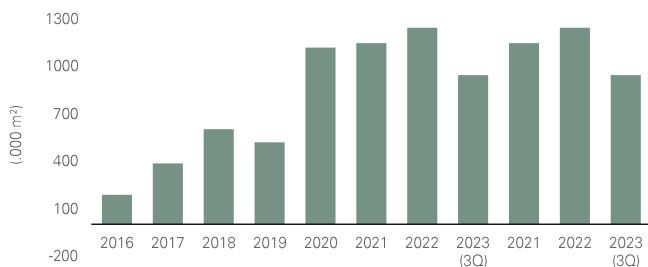
Expectation for 2023

The market in 2023 is as active as it has been since the start of the pandemic, however it is showing signs of levelling off, in particular when we look at new constructions.

Demand may slow down in the last quarter of the year and beyond.

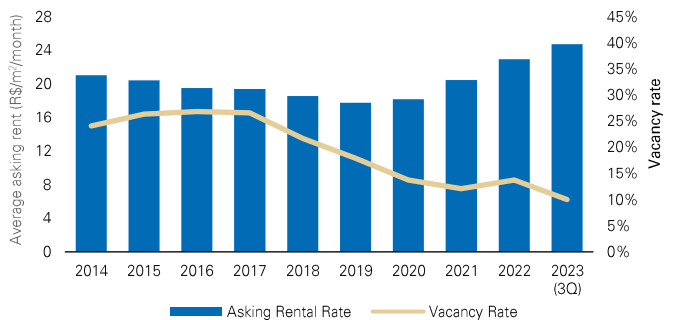
Historical Demand

NET ABSORPTION

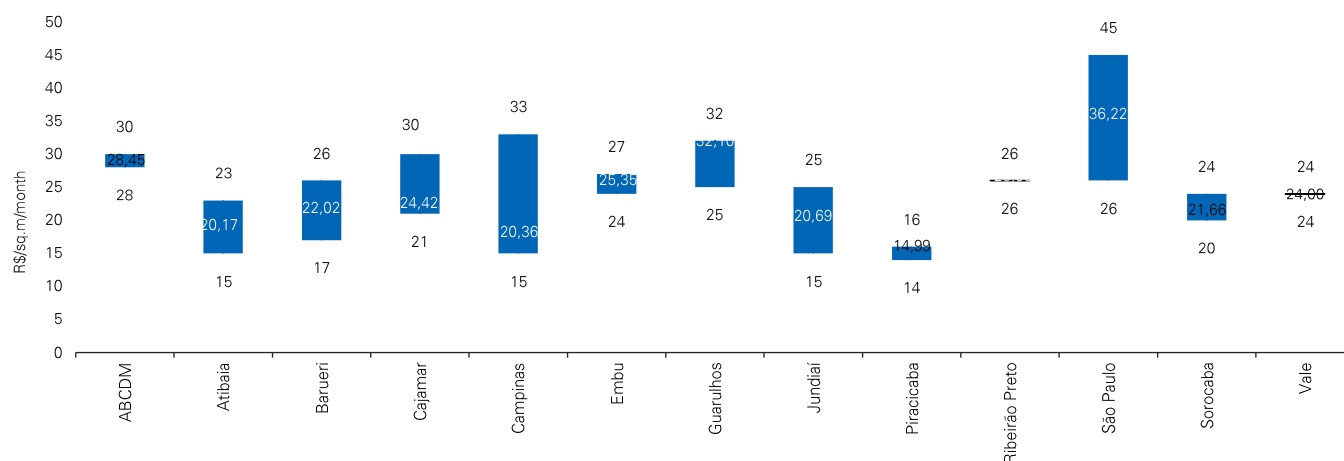


Historical Supply and Asking Rents

AVERAGE ASKING RENTS AND VACANCY







Minimum, Average and Maximum Asking Rent by Region



Significant Transactions in the Quarter

Type of Transaction	Property	Region	Tenant/Buyer	Owner/Seller	Total area leased/sold (sqm)
Lease	HGLG Itupev,	Jundiaí	Postall Log	CSHG LOGÍSTICA FII	29,981
Lease	RBR Hortolândia II	Campinas	Bravo Logística	RBR LOG - FII	26,720
Lease	XP Log WT Cajamar	Cajamar	Grupo VIP	XP LOG FII	15,049
Lease	ESAP Park Logístico	Campinas	Camilo Transportes	Galpão 01	8,413
Lease	HGLG Louveira	Jundiaí	Seli Transporte e Logística	CSHG LOGÍSTICA FII	2,037
Sale	CLE - Centro Logístico Embu	Embu	CSHG LOGÍSTICA FII	GTIS BRAZIL LOGISTICS FII	66,521
Sale	LOG Guarulhos Gaiolli	Guarulhos	LOG Inter FII	Log Commercial Properties	9,566

Sample of Class AAA, AA and A Developments Under Construction

	Property	City	Axis	Leasable area (m ²)	Expected Delivery
	Syslog Cajamar	Cajamar	Anhanguera/Bandeirantes	187,995	2023
	Golgi Cajamar	Cajamar	Anhanguera/Bandeirantes	93,436	2023
	Prologis Raposo 39	Cotia	Raposo	80,579	2023
	CL Guarulhos 2	Guarulhos	Dutra	61,560	2023

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