



Rio de Janeiro Office 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 Office Space

	Current Quarter	Previous Quarter	Same period in 2022	12-month projection
Total Inventory (sq.m)	2.28 Mn	2.28 Mn	2.28 Mn	↔
Vacancy Rate	32.7%	34.3%	34.5%	↓
Net absorption in the quarter (sq.m)	31 thous.	-2 thous.	13 thous.	↑
Gross absorption in the quarter (sq.m)	51 thous.	21 thous.	20 thous.	↑
Average asking rent (R\$/sq.m/month)	75.45	75.89	75.23	↔
New Inventory Under Construction (sq.m)	30 thous.	30 thous.	19 thous.	↔

Market for class AAA, AA and A office space in all RJ regions: CBD + Non-CBD (Barra da Tijuca)
*construction has started but there is no date for delivery

Current Conditions

- 3Q23 was the best for high-end office space in Rio de Janeiro. Although tenants continue to return spaces, for the first time this year it did not exceed new transactions, resulting in a net increase in occupied spaces;
- The vacancy rate dropped to 32.7%.
- The average asking monthly rent was R\$ 75,45/sqm, almost unchanged compared to the previous year and quarter.

Demand for the Rio market reacts in the quarter

Total net absorption was 30.7 thousand sqm, the largest since 3Q2018. However, because of the slow-down in the first quarter, this indicator stands at 18 thousand sqm, unchanged since last year. Gross absorption also was higher, ending the quarter at 51 thousand sqm. It is fair to say that 3Q23 the best quarter for high-end office space in Rio de Janeiro. Occupied space increased in all districts except in the Flamengo/Gloria and Zona Sul submarkets, where there was a small reduction in occupancy of -675 sqm and -600 sqm, respectively.

The majority of the new tenants this quarter were in the financial/investment and oil & gas industries, and the government. The largest net absorptions were in Porto Maravilha, Centro, and Barra da Tijuca: 8 thousand sqm, 7 thousand sqm, and 6 thousand sqm respectively.

Drop in vacant spaces

Although tenants continue to return spaces, for the first time this year they did not exceed new transactions, resulting in a net increase in occupied spaces; Thus, the vacancy rate dropped from 34.3% to 32.7%, the lowest it has been since 2016.

The average asking monthly rent in Rio de Janeiro was R\$ 75,45/sqm, almost unchanged compared to the previous quarter (R\$75,89/m²). In the main office districts (CBD), the average was R\$ 77,10/sqm.

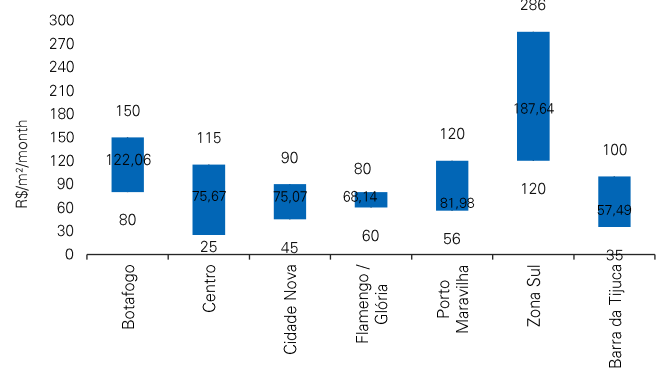
The highest asking rents remain to be in Zona Sul (R\$ 187,54/sqm/month), Botafogo (R\$122/sqm/month), and Porto Maravilha (R\$ 81,98 sqm/month).

Expectation for 2023

Returns are getting back to usual standards, and occupied office space should increase. However, market indicators must improve more consistently if there is to be visible improvement in the market for high-end offices.

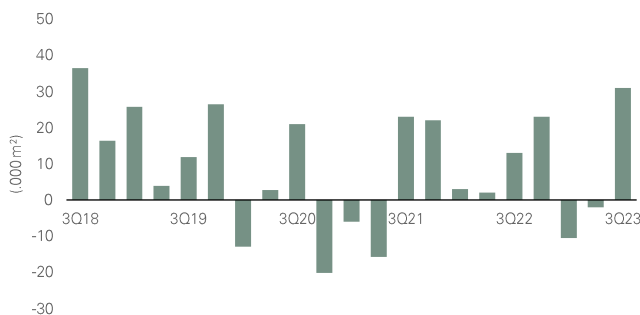
Demand in Rio de Janeiro is highly dependent on government and oil & gas, which worsens the uncertainty regarding any recovery in the demand for high-end offices in that city. Added to this, uncertainties surrounding the economy impact company decisions and the market for offices.

Minimum, average and maximum asking rent



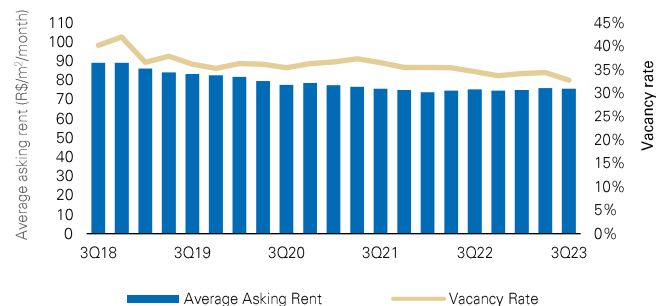
Historical Demand

NET ABSORPTION



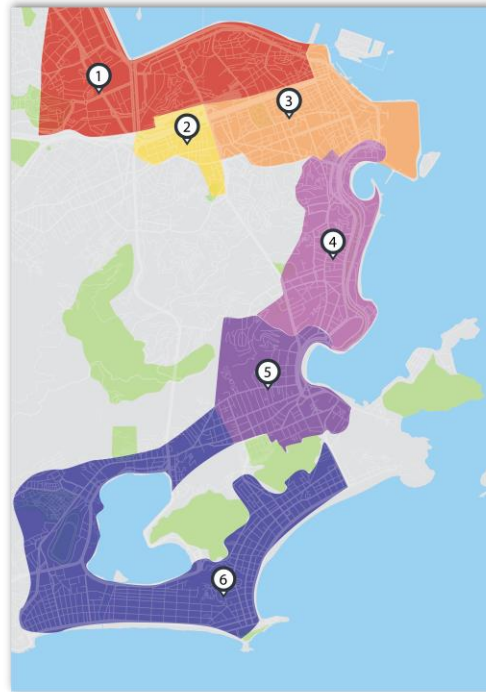
Historical Supply and Asking Rents

AVERAGE ASKING RENTS AND VACANCY



Submarkets Map

- ① Porto Maravilha ●
- ② Cidade Nova ●
- ③ Centro ●
- ④ Flamengo/Glória ●
- ⑤ Botafogo ●
- ⑥ Zona Sul ●
- ⑦ Barra ●



Surveyed Regions

- CBD
- Non-CBD*

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