RESEARCH Q4 2023

Rio de Janeiro Office Market

The GDP up, inflation is on target, and the economy grew in 2023

Global growth did not achieve its potential due to crises in major developed nations. The challenges in the real estate market in China and continued conflicts in Europe and the Middle East, further complicate a situation of tighter credit due to inflation and high interest rates. All of these make the global economic scenario uncertain. Nevertheless the job market is good, and household consumption remains high, with moderate levels of international trade and manufacturing output. Within the country, the latest Central Bank Inflation Report (December, 2023) shows a slight decrease in economic activity late in the year, but reviewed its GDP growth expectations upwards from 2.9% to 3.0% for the year. This is the result of better performance in agriculture and livestock, which should grow 15.5% in the year, as wll as services, the largest single component of the GDP, which should grow 2.5%, mostly in the financial intermediation and related services sub-segment, and real estate and rent activities. Manufacturing industry should experience a decline due to the poor performance of extractive industries, especially iron ore, other minerals and ores, and construction. On the demand side, household consumption went up and unemployment dropped 7.6%. The trade balance should be better than expected, with a surplus of close to R$ 96 billion in late December, 65.5% above what had been expected for the year.

In 2024, the GDP should go up 1.6%, a sloweer rate due mostly to expected slow-downs in agriculture & livestock, and in manufacturing industry. The IBGE 12M IPCA in November 2023 was 4.68%, the first time in 2 years it has been below the target (4.75%). The COPOM has been reducing the basic interest rate (SELIC), which dropped to 12.25% by the end of 2023, and then 11.25% early this year. The Brazilian Central Bank expectation for the Selic rate is to drop to 9.0% by the end of this year, and 8.5% in 2025. The US Dollar exchange rate dropped from R$ 5,22/USD to R$ 4,94 by the end of 2023. The forecast is that it will reach R$ 5,00/USD in 2024.

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	32.6%	32.7%	33.7%	↓
Net absorption in the quarter (sq.m)	976	31 th.	23 th.	←→
Gross absorption in the quarter (sq.m)	15.7 th.	51 th.	33 th.	↑
Average asking rent (R$/sq.m/month)	73,87	75,45	74,47	←→
New Inventory Under Construction (sq.m)	75 th.	75 th.	30 th.	←→

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

- The last three months of the year saw very little activity in high-end office leases in Rio de Janeiro;
- Demand parameters dropped in the last quarter and the year. Net absorption in the fourth quarter was only 976 sqm (gross absorption was 15.7 thousand m²).
- The vacancy rate remained almost unchanged at 32.6%.
- The average asking monthly rent in Rio de Janeiro dropped to R$ 73,87/sqm.

NEWMARK

Decline in occupied spaces in the last quarter of 2023

There was a drop in the number of leases for high-end office space in Rio de Janeiro this quarter. Returns continue at about the same pace as in previous quarters, which contributed to very low net absorption (976 sqm), and a stable vacancy rate. The slow-down in the first half of the year and poor demand contributed to low occupancy rates, resulting in net absorption in 2023 of 19 thousand sqm, the lowest since 2021. Unlike the third quarter, when the amount of occupied space went up across all regions, in the 4th quarter most regions saw a decline in occupied space, especially in Porto Maravilha, where a large healthcare player reduced its office footprint. Barra da Tijuca and Centro were exceptions, and in these areas occupied space increased 7.6 thousand and 1.6 thousand sqm, respectively. Most of the new tenants this quarter were in manufacturing industry or government.

Stable supply when compared to the previous quarter, with a slight y-o-y drop

Although returned spaces are below new leases, they continue at a steady space, contributing to the stable vacancy rate. The vacancy rate for the year was 32.6%, the lowest it has been since 2016.

The average asking monthly rent in Rio de Janeiro dropped from R$ 76,45 to R$ 73,87/sqm. The average is a bit higher in the central business districts (CBD), or R$ 77,10/sqm.

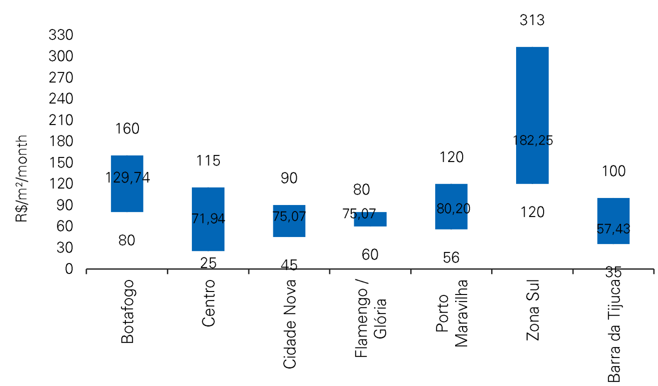
The highest asking rents continue to be in Zona Sul, Botafogo, and Porto Maravilha.

Expectations for 2024

Given the outcome in 2023, we believe lese activity in Rio de Janeiro will remain slow in 2024, which has been the case in recent years.

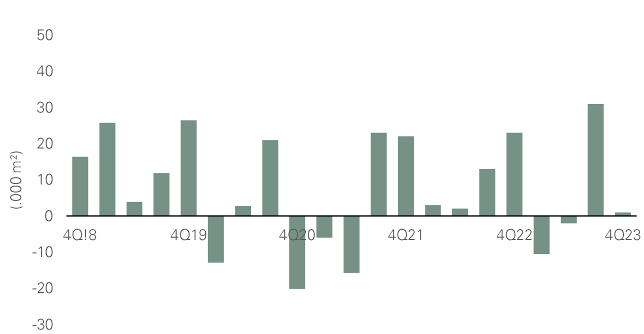
Demand in Rio de Janeiro is highly dependent on government and oil & gas, which heightens the uncertainty regarding any recovery in the demand for high-end offices in that city. Added to this, uncertainties surrounding the economy impact company decisions and the market for offices.

Minimum, average and maximum asking rent



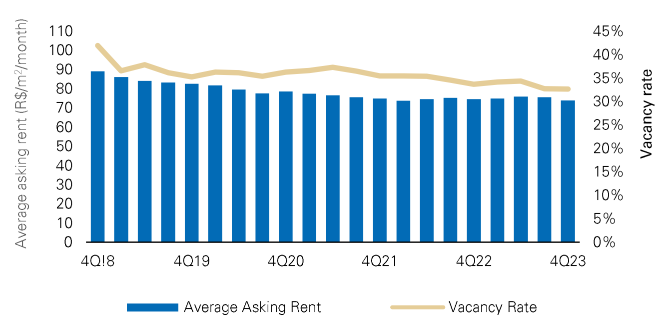
Historical Demand

NET ABSORPTION



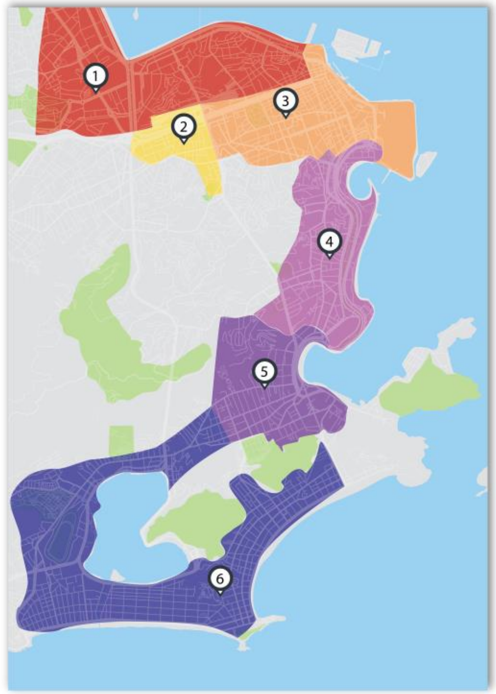
Historical Supply and Asking Rents

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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