São Paulo Industrial and Logistics 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 Condominiums

	Current Quarter	Previous Quarter	Same period in 2022	12-month projection
Total Inventory (sq.m)	13.7 Mn	13.3 Mn	12.8 Mn	↑
Vacancy Rate	10.7%	10%	13,7%	↑
Net absorption in the quarter (sq.m)	258 th.	307 th.	255 th.	=
Gross absorption in the quarter (sq.m)	394 th.	492 th.	402 th.	=
Average asking rent (R$/sq.m/month)	26,15	24,72	22,91	=
New Inventory Under Construction (sq.m)	1.1 Mn	861 th.	2 MN	↓

Manufacturing activity slowed in December, with declining output and employment. With the exception of mineral extraction and oil & gas, manufacturing industry has not grown at all. Consumer goods were the best performing, in particular semi-durable and non-durable consumer goods. Stagnant manufacturing output makes it harder for investments in the area to resume. However, the National Federation of Industries (CNI) status report of December reflects optimism for the first half of 2024. Nevertheless, the market for high-end industrial and logistics warehouses remained strong in 2023, and all market indicators are positive. Just as in previous years, especially wince 2020, market indicators show strong demand and onstruction activity in all country.

Current Conditions

— This quarter saw a record volume of new inventory delivered, but even so, the vacancy rate increased by less than 1 p.p., reflecting heated activity in Sao Paulo market.

— In terms of demand, year-to-date numbers show 1.79 million sqm gross absorption, and 1.2 million sqm net absorption, almost unchanged since 2022.

— The average asking monthly rent continues to go up, ending the quarter the quarter at R$ 26,15/sqm.

NEWMARK

Another year of increasing demand

The indicators for industrial warehouse parks show that 2023 was another year of heavy demand and significant construction. Even if gross and net absorption dropped slightly in th last quarter, the numbers for the year were sable compared to 2022.

Of the transactions in the quarter involving known parties, most involved service players, specifically shipping, storage, and logistics, followed by trade, in particular retail and e-commerce. Most net absorptions in the quarter were in the area of Cajamar, São Paulo, and the area known as the ABCDM.

The market continues to grow, although new construction has slowed somewhat

The inventory of high-end industrial and logistics warehouses increased by 913 thousand sqm and last quarter was the largest volume of new deliveries. However, as expected, new deliveries slowed this year. The volume of new inventory delivered in 2023 was 44% lower than in 2022. A total of 1.18 million sqm of new deliveries are expected in 2024, well below the average of the last 2 years (1,4 MM sqm/year).

Falling vacancy rates

4Q23 saw the largest volume of new inventory delivered, thus driving up the vacancy rate somewhat -10.72% compared to 10% in 3Q23. Nevertheless, compared to the same period last year, vacant warehouse space dropped from 13.72%.

The regions that have the lowest vacancy rates are Ribeirão Preto (1.4%), Vale (3.6%), and Sorocaba (4%). The highest demand is in areas located within 40 km of downtown Sao Paulo, thus most of the new developments were delivered in this area, driving up the vacancy rate. This is the case for Cajamar, ABCDM, Barueri, and Sao Paulo itself. Nevertheless, the vacancy rate remains low, ending the quarter at 10.9%, 5.5%, and 6.2% respectively. The vacancy rate in São Paulo proper remained almost unchanged, going from 13.8% to 14.6%.

The average monthly asking rental rates in São Paulo is going up, and was R$ 26,15/m², about 6% 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, and closed the quarter at R$ 27,51 m²/month. The highest rents are in the city of São Paulo, Guarulhos, and the ABCDM region.

Expectation for 2023

Through 2023 the market for industrial and logistics warehouses was a growing market, with declining supply and increased demand.

2024 looks promising, and the market is expected to continue growing. However, it is approaching maturity, as seen in the slow-down in new deliveries and stable demand in the past 12 months.
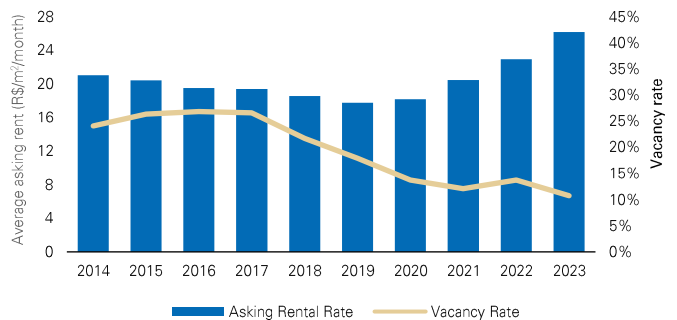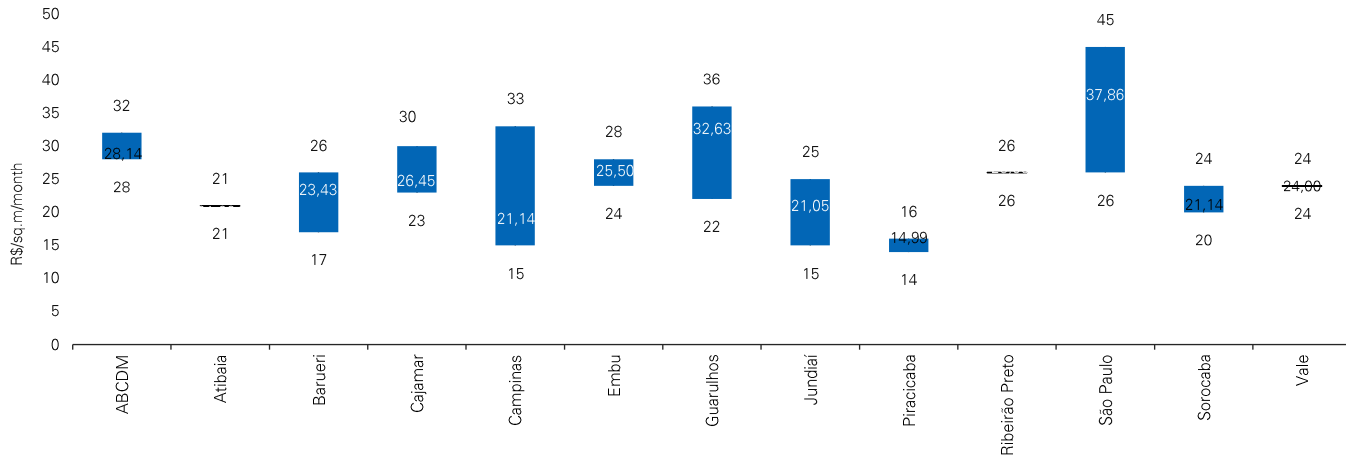
Historical Demand

NET ABSORPTION
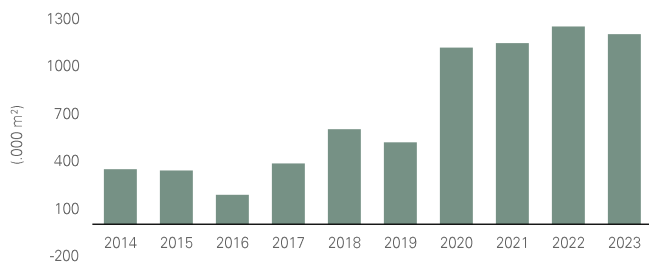
Historical Supply and Asking Rents

AVERAGE ASKING RENTS AND VACANCY

Minimum, Average and Maximum Asking Rent by Region

Significant Transactions in the Quarter

Type of Transaction	Property	City	Tenant/Buyer	Owner/Seller	Total area leased/sold (sqm)
Lease	Prologis Raposo 39	Cotia	Grupo VIP	Prologis	80,579
Lease	DVR Business Park - Caçapava	Caçapava	Embraer	DVR Participações	38,962
Lease	Centro Logístico Castelo 57	Mairinque	Modular Data Centers	AN Empreendimentos Imobiliarios	16,599
Lease	Prologis Cajamar I	Cajamar	OXXO BRAZIL (GROUP Nos)	Prologis	14,695
Lease	GLP Imigrantes	S. Bernardo do Campo	Cargolift	GLP	14,501
Lease	BTLG Cabreúva	Cabreúva	CSI Cargo	BTG PACTUAL LOGISTICA FII	9,147
Lease	Parque Logístico Guarulhos	Guarulhos	D0 Logistic	Brookfield	5,093
Lease	Master Business Park	Jundiaí	DUX - Nutrition Lab	Fulwood	4,314

Examples of Class AAA, AA and A Developments Under Construction

	Property	City	Axis	Leasable area (sqm)	Expected Delivery
	SBC Log	S. Bernardo do Campo	Anchieta/Imigrantes	190,127	2024
	Golgi Cajamar	Cajamar	Anhanguera/Bandeirantes	93,436	2024
	CL Guarulhos 2	Guarulhos	Dutra	61,560	2024
	Guarulhos Business Park	Guarulhos	Dutra	53,322	2024

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