



São Paulo 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 well 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 slower 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.

Market Summary for High-End Offices

	Current quarter	Previous quarter	Same period in 2022	12-month projection
Total Inventory (sq.m)	5.41 Mn	5.40 Mn	5.26 Mn	↑
Vacancy Rate	23.3%	24.1%	23.8%	=
Net absorption in the quarter (sq.m)	73 th.	36 th.	27 th.	↑
Gross absorption in the quarter (sq.m)	137 th.	100 th.	54 th.	↑
Average asking rent (R\$/sq.m/month)	95,02	93,95	88,64	↑
New Inventory Under Construction (sq.m)	207 th.	235 th.	252 th.	↓

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

Current Conditions

- Following the pace of recent quarters, the activity for high-end office space in São Paulo was heated in 2023.
- Net absorption in the quarter was 73 thousand sq.m, almost twice the previous quarter, amounting to 142 thousand sq.m in the year. Gross absorption in the quarter was 137 thousand sq.m, or 452 thousand sq.m in the year;
- The vacancy rate dropped from 24.1% to 23.3%, but y-o-y there was almost no change;
- Asking monthly rental rates went up, averaging R\$ 95.02/sqm across all regions in our survey.

Demand showed consistent recovery throughout 2023

In recent quarters the market for high-end office in São Paulo was quite strong. Demand indicators exceeded expectations and were the largest in the year. Net absorption last quarter almost doubled compared to the previous quarter, ending at 73 thousand sqm (142 thousand sqm in the year). Gross absorption in the quarter was 137 thousand sqm, and 452 thousand sqm in the year. These are record numbers since we started measuring in 2007 and reflect a consistent recovery in demand. Occupied office space went up in all surveyed regions except for Alphaville, where net absorption was negative 3.7 thousand sqm, and Marginal Sul, where it was negative 5.6 thousand sqm. Most transactions in the quarter with known parties involved players in the service industry, especially technology, finance/investments, and consulting firms. These were followed by manufacturing industry, in particular automation, machinery and equipment and the pharmaceutical industry.

Declining construction activity

New inventory in the quarter amounted to 28.6 thousand sqm, the largest volume of the year. However, the total delivered in 2023 was 145 thousand sqm, well below the record numbers of the historical series analyzed (237 thousand sqm in 2007-2022 period). Only 70% of the expected new inventory for 2023 was delivered, with the balance postponed to 2024. Expected new deliveries in 2024 are also below the historical record, and should not be over 200 thousand sqm. The slow-down in construction and new inventory should keep supply down, especially if demand continues at the same level as 2023.

Declining supply and higher asking rents

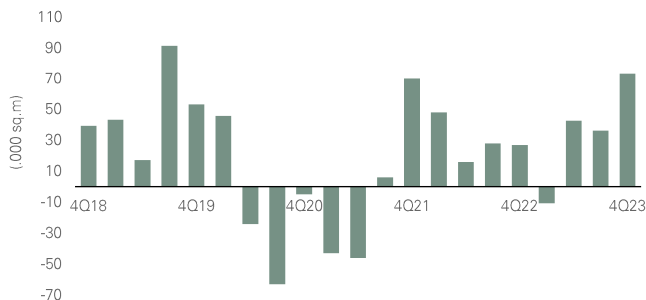
The combination of recovered demand and fewer new developments pushed down the vacancy rate to 23.3% (compared to 24% in 3Q23). The annual vacancy rate remained stable, despite new deliveries. Average asking rents went up in 3Q23, ending at R\$ 95,02/sqm/month vs. R\$ 93,95 in the third quarter. Year-over-year they went up 7%. The highest asking rents were in Itaim (R\$ 233,62/sqm), followed by Faria Lima (R\$ 220,37/sqm), and Vila Olímpia (R\$ 75,42/sqm).

Expectation for 2024

The market for high-end offices was stable in 2023, with a gradual increase in demand, ultimately driving down the vacancy rate. Owner confidence is on the rise, given that the rental market continues on a roll, with year-to-date net absorption of 452 thousand sqm, a record for the 2007 - 2022 period. Net absorption, which is a better measure of demand, reached 142 thousand sqm, above the historical average of 120 thousand sqm per year. In light of the results reaped in 2023, 2024 also looks promising, with increasing demand and stable or even falling vacancy rates should absorption climb over current levels. However, one must not overlook the challenges of global economic uncertainty and a slow-down in Brazil which could impact company growth and investment plans, and in turn would slow down the real estate market.

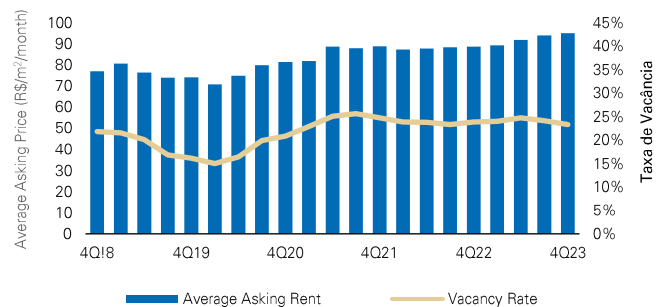
Demand History

NET ABSORPTION

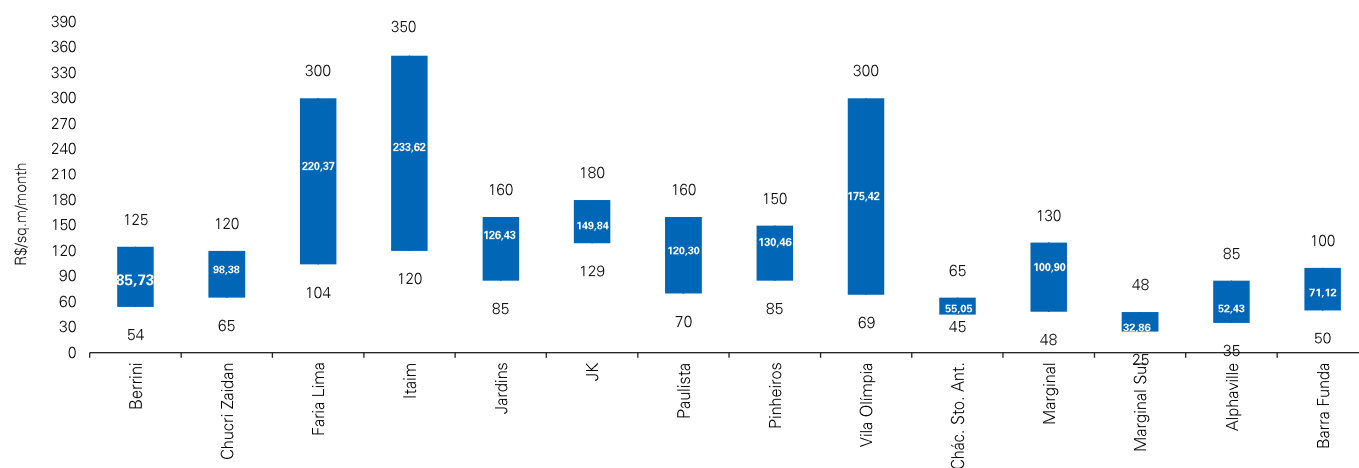


Historical Offer and Asking Rents

ASKING RENT AND VACANCY RATE







Minimum, Average and Maximum Asking Rent per Region

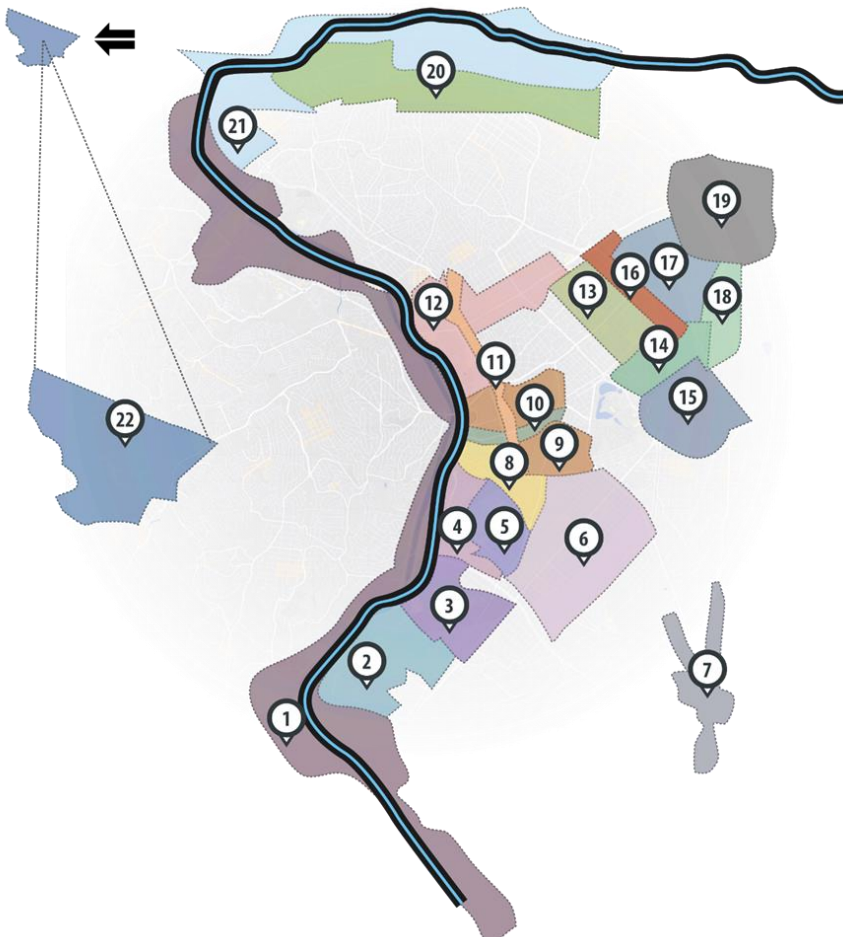


Significant Transactions in the Quarter

Type of Transaction	Property	Region	Tenant	Owner	Total area leased/sold (m2)
Lease	Infinity Tower	Itaim	Bytedance	Marte Engenharia	8,753
Lease	Parque da Cidade Corporate - Torre B2	Chucuri Zaidan	Accenture	Brookfield	6,647
Lease	RiverView	Chucuri Zaidan	Caixa Vida e Previdencia	Hines	4,472
Lease	CYK - Comendador Yerchanik Kissajikian	Paulista	Oxitenio Indústria e Comercio	AK Realty	3,044
Lease	Península Offices	Itaim	Votorantim	CSHG JHSF PRIME OFFICES FDO INV. IMOB.	2,730
Lease	Faria Lima Plaza	Faria Lima	Uber	CORPORATE OFFICE PROPERTIES FII	2,041
Sale	The One - Faria Lima	Vila Olímpia	FUND INVIMOB THE ONE	VBI PRIME PROPERTIES - FII	6,015
Sale	OF - Oscar Freire Office	Jardins	Tishman Speyer	CORPORATE OFFICE PROPERTIES FII	4,745

Sample of Developments under Construction

	Property	Region	Macro-region	Leasable area (m ²)	Expected Delivery
	OMNI	JK	Premium CBD	7,414	4Q23
	Oscar dos Santos Emboaba	Pinheiros	Premium CBD	10,347	1Q23
	HY Pinheiros	Pinheiros	Premium CBD	11,795	4Q23
	Estaiada Corporate	Marginal	Other CBD:	13,757	4Q23



Submarkets Map

- 1 Marginal P.
- 2 Chác. Sto Ant.
- 3 Chucri 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

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