
1Q2024

São Paulo Offices Market Report



NEWMARK

Market Information

Economy

- In 2023, the GDP grew 2.9%, ending the year at R\$ 10.9 trillion. However, results for the first quarter of the year reveal a slower economy, with a GDP growth projection of only 1.9% in 2024.
- The labor market is dynamic and active, with unemployment dropping to 7,8%, and increasing wages. Household spending is slowly recovering, thus driving up the use of services and purchases of non-durable goods, in particular food.
- According to the National Federation of Industry (CNI), most manufacturing industry indicators improved compared to December, 2023. Although actual turnover and installed capacity utilization remained stable, the total number of manufacturing hours worked increased. The job market is also on the rise, along with salaries and average manufacturing worker productivity.

Transactions

- Occupied office space went up in most survey regions except for Marginal Sul, Pinheiros, and Alphaville, where returns outpaced leases, leading to negative net absorptions. The highest net absorption in the quarter were in the Chucrí Zaidan, Berrini, Paulista and Faria Lima districts.
- A total of 135 thousand m² were leased in the first quarter, almost the same as in 4Q23 – best quarter since 2019 – imbuing the market with confidence in a more consistent recovery.
- Of the transactions in the quarter involving known parties, most involved service players, particularly financial services/investments and insurance, followed by healthcare and technology.

Market Indicators

- The market for high-end office space in São Paulo remained active at the start of this year.
- Gross Absorption changed very little, totaling 135 thousand m², although returned spaces were back up, resulting in a drop in quarterly net absorption; nevertheless, results for the quarter were well above those in 1Q23, when there was a more significant decline of 10.7 thousand m² of net absorption.
- The annual vacancy rate remained stable at 23%, despite new deliveries totaling 18.5 thousand².
- Asking monthly rents went up, averaging R\$ 96,34/m² across all regions in our survey.

Outlook

- The market for high-end office space in São Paulo remains dynamic, as it was in the second half of 2023, bringing optimism regarding the rest of the year.
- We believe that demand will grow in 2024, and that the vacancy rate will remain stable, despite the expected new deliveries. We are not eliminating the possibility of a slight drop in vacant office space, especially if absorptions continue to go up.
- Entretanto, apesar dos bons resultados que economia tem apresentado, o nível de incerteza da sustentação deste crescimento e também do cenário político do país ainda é elevado, o que nos leva a ponderar o risco destes fatores afetarem os planos de crescimento e investimento nas empresas em médio e longo prazos, impactando as negociações no mercado imobiliário.

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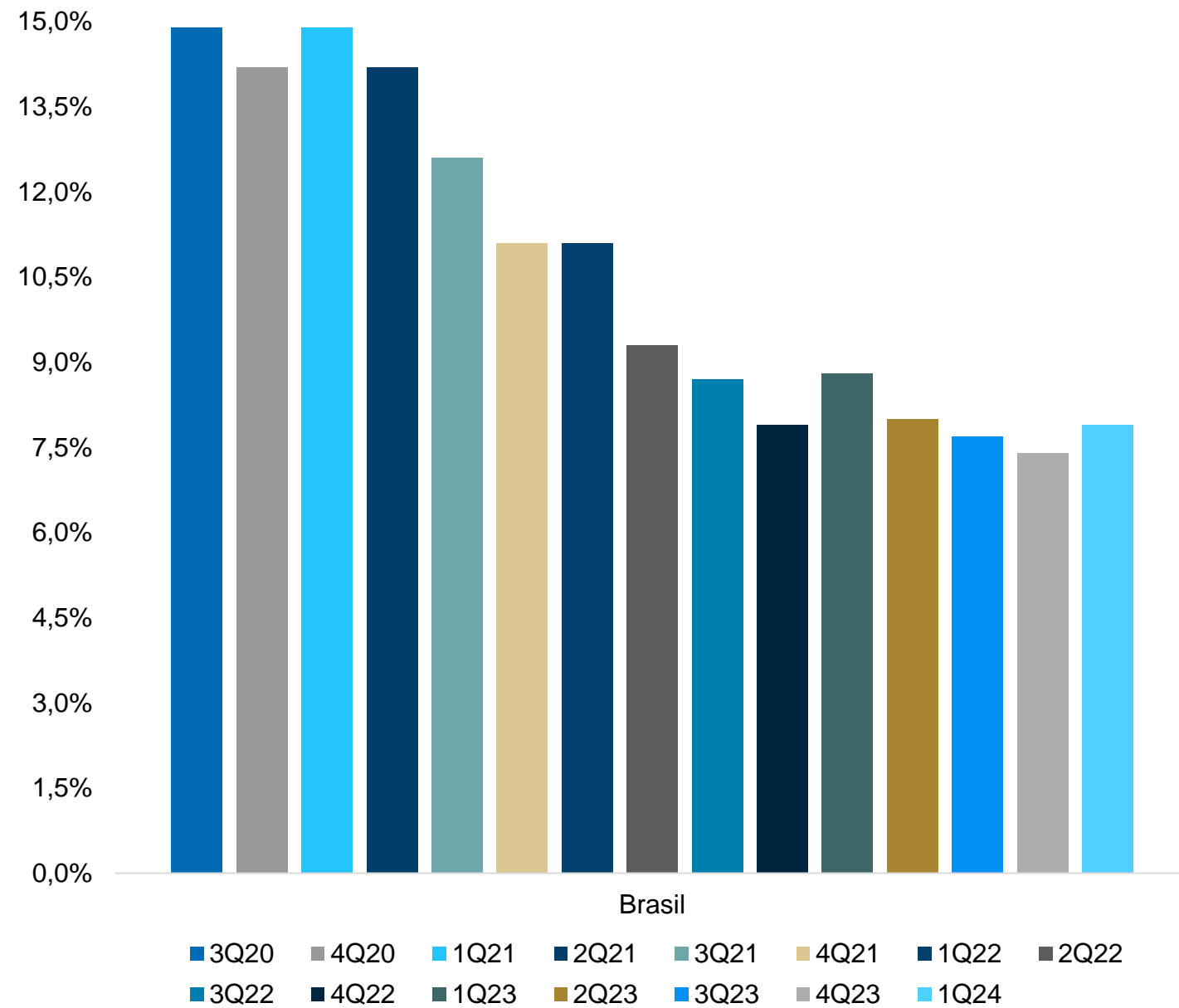
Economy



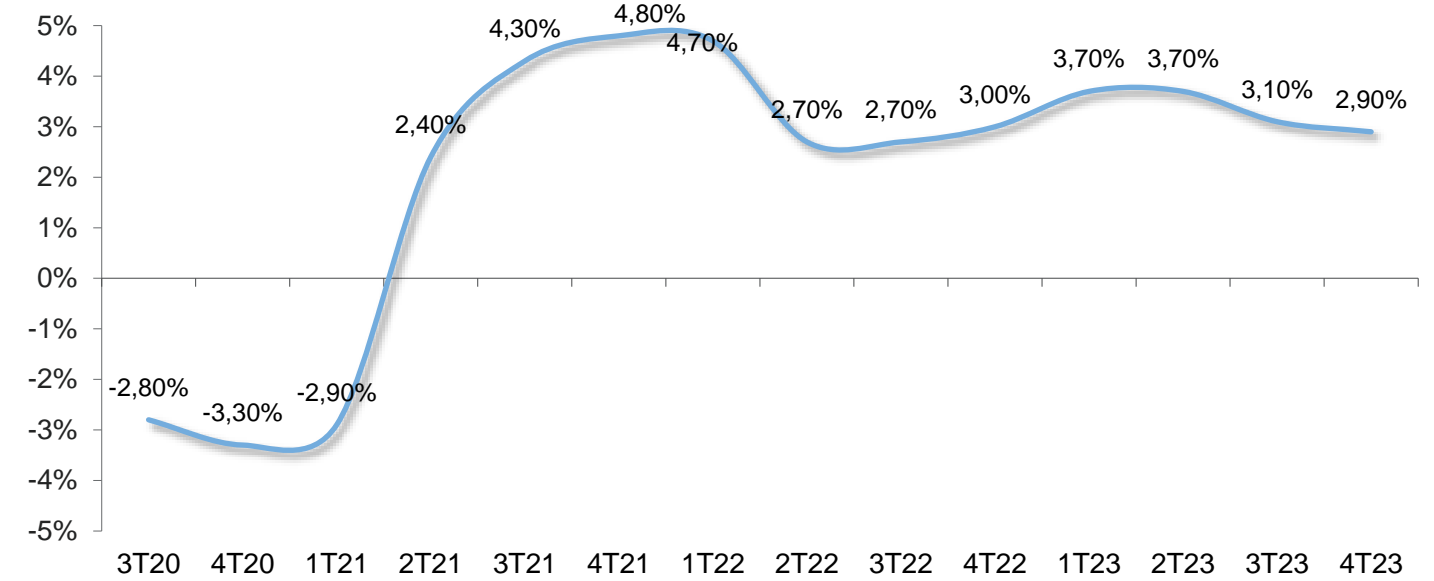
Economy

Despite still experiencing fluctuations, the level of unemployment has been falling, GDP has grown and inflation rates are approaching the Central Bank's target, but the level of uncertainty regarding economic expansion for this year and the next is high, mainly due to the high interest rate, drop in dynamism and low investment in the industrial sector and difficult recovery of the population's purchasing power.

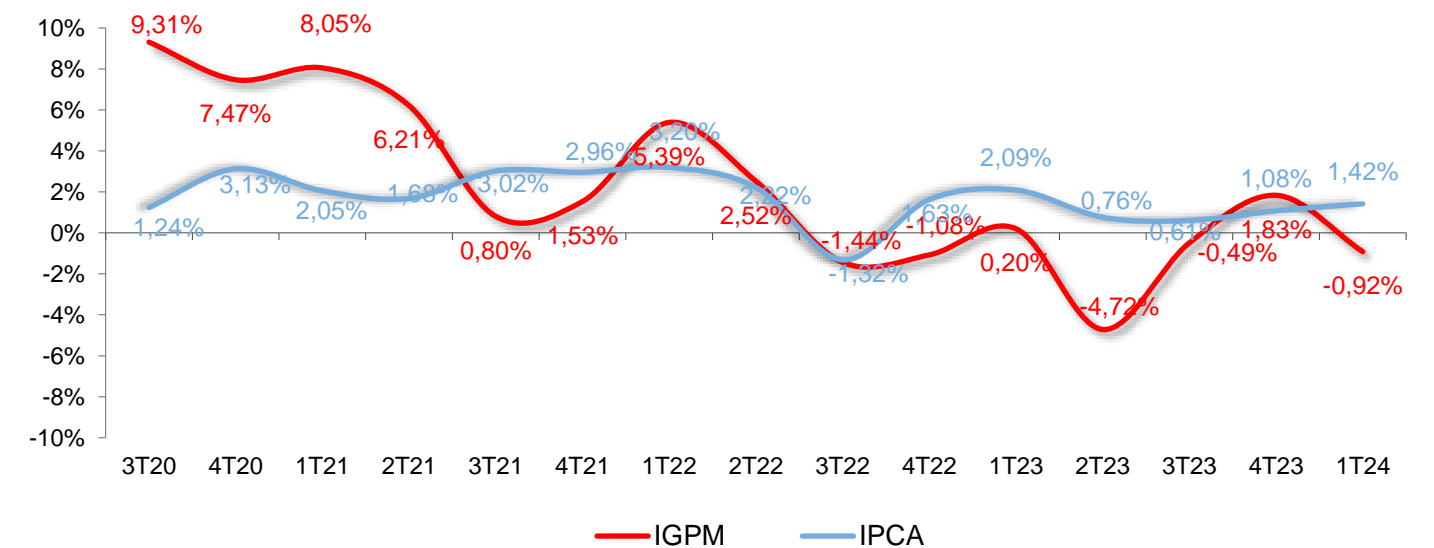
Unemployment rate



GDP –at market prices – Accumulated e in 4 quarters (%)



IPCA (quarter) x IGPM (quarter) Variation (Inflation rate)



Source: IBGE, Banco Central do Brasil, FGV

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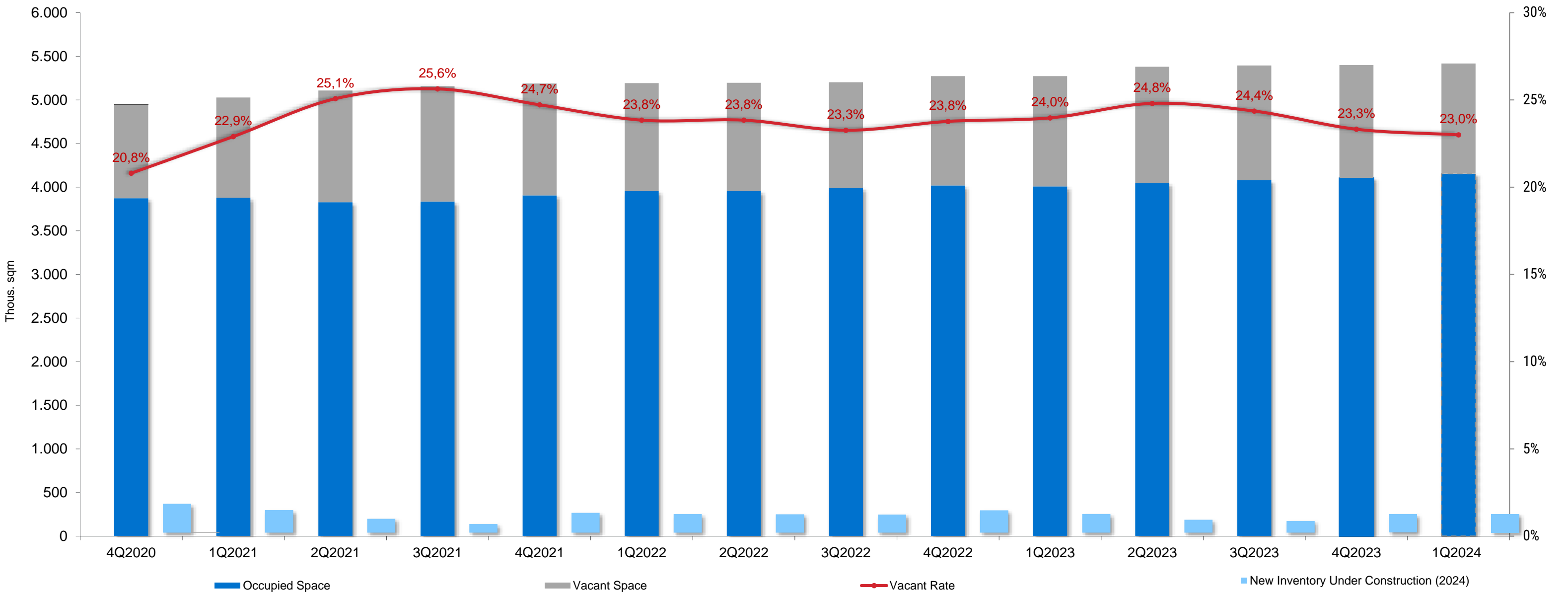
Market Indicators



Reduction in inventory growth and falling vacancy rates

The increase in the high-end inventory offices in São Paulo has been slower, in the last year it grew by 169 thousand sqm, below the historical average of 232 thousand sqm from 2007 to 2023. The trend of reduction in construction activity could be positive for the market, avoiding an increase in vacant supply, especially if absorption remains at or exceeds current levels.

Occupied and Vacant Space, Under Construction vs. Vacancy Rate – Class A, AA and AAA

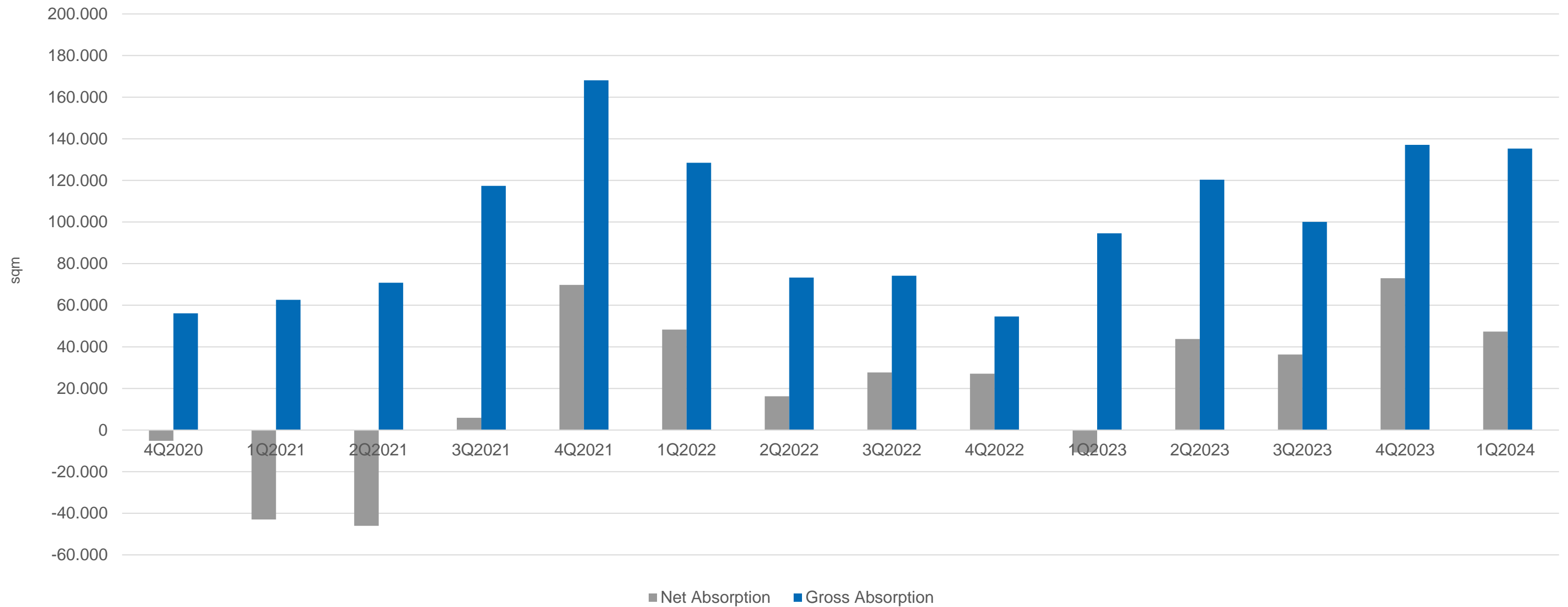


Source: Newmark Brasil – Market Research

Leasing activity grows compared to last year

Demand has been stronger throughout the year, however, fluctuations in the volume of office returns led to a drop in the net absorption compared to the previous quarter.

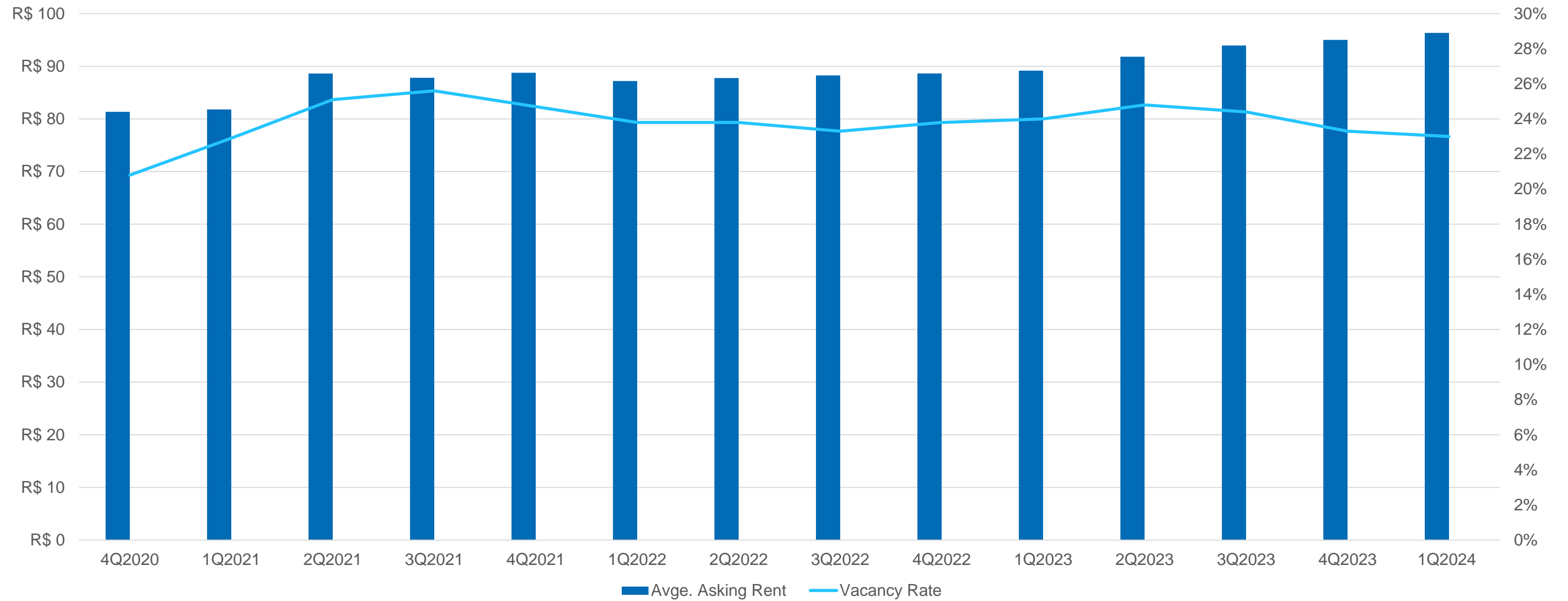
Gross and Net Absorption (sqm) – Class A, AA and AAA



Average asking rent on the rise

The recovery in demand and the new quality inventory being delivered has resulted in a gradual increase in the asking rents.

Average Asking Rent and Vacancy Rate – Class A, AA and AAA

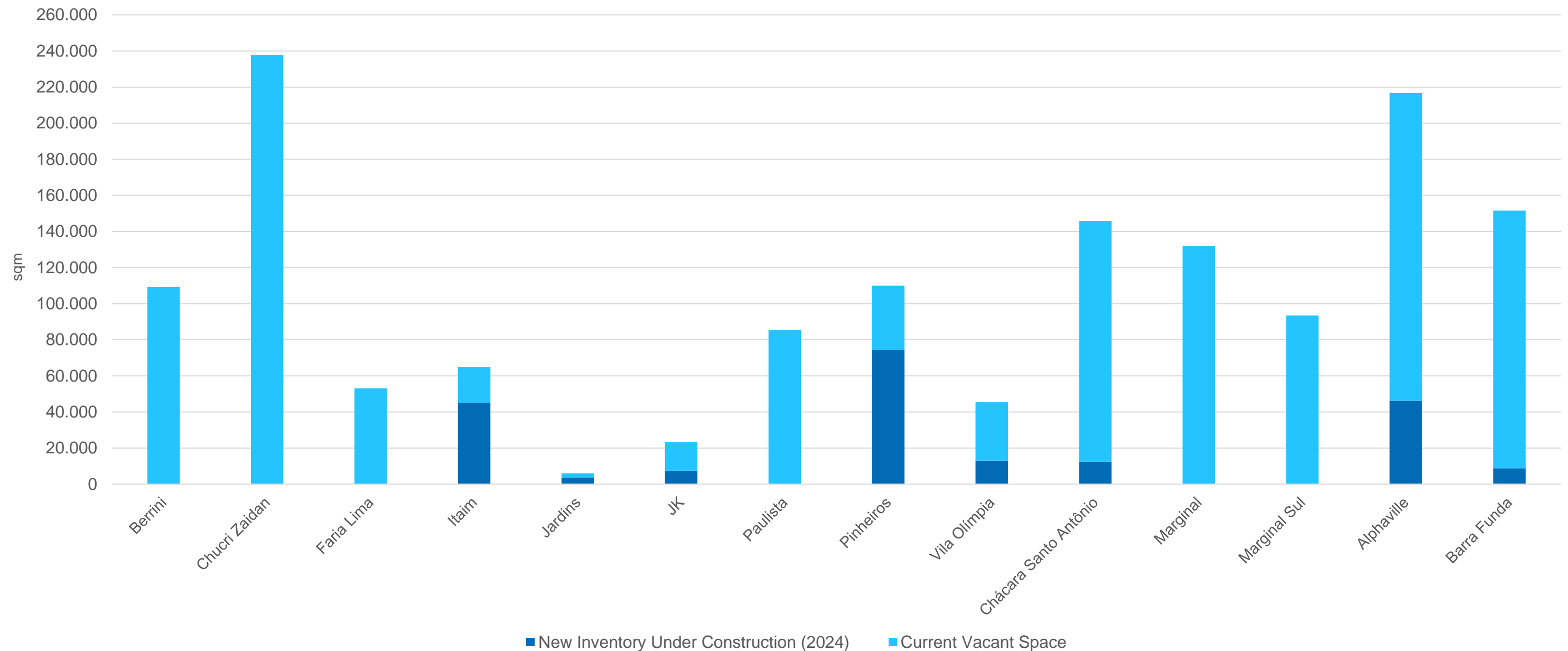


Source: Newmark Brasil – Market Research

Although smaller, the new inventory forecasted is large, but concentrated in a few regions

The forecasted new inventory is predominantly in secondary submarkets that currently have a large volume of vacant space, leading to an increase in oversupply. The main regions of the office market should not suffer from the risk of increased supply, with the exception of Pinheiros.

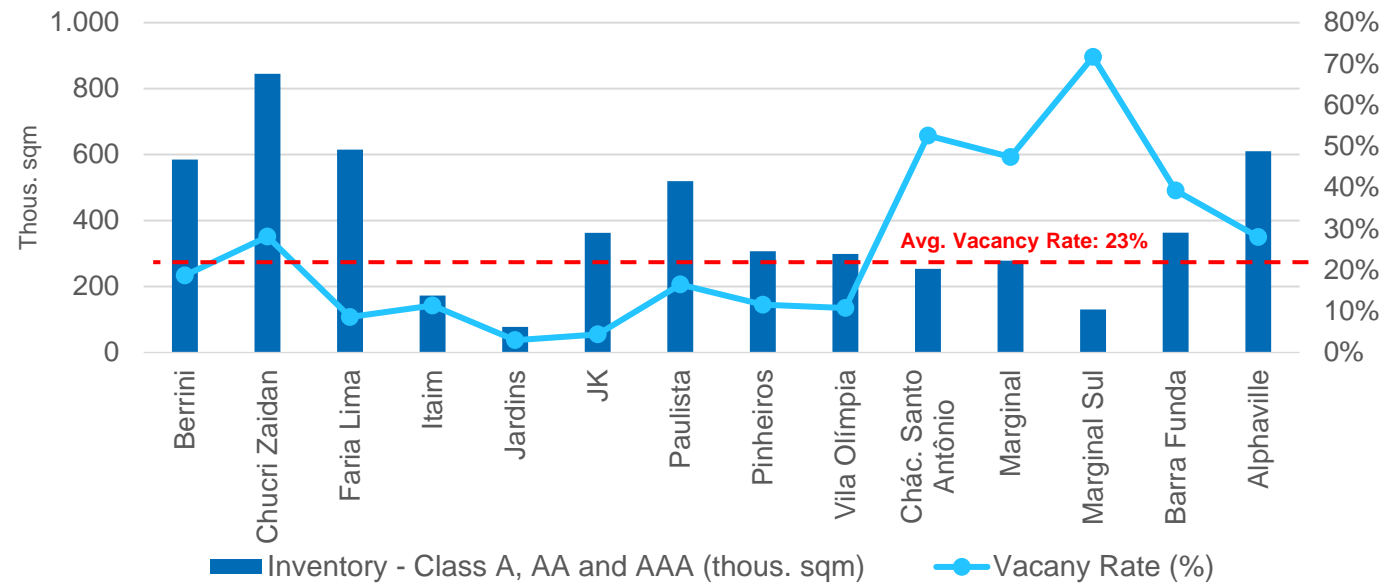
Current Vacant Space vs. New Inventory Under Construction per Submarket (sqm) – Class A, AA and AAA forecasted to 2024



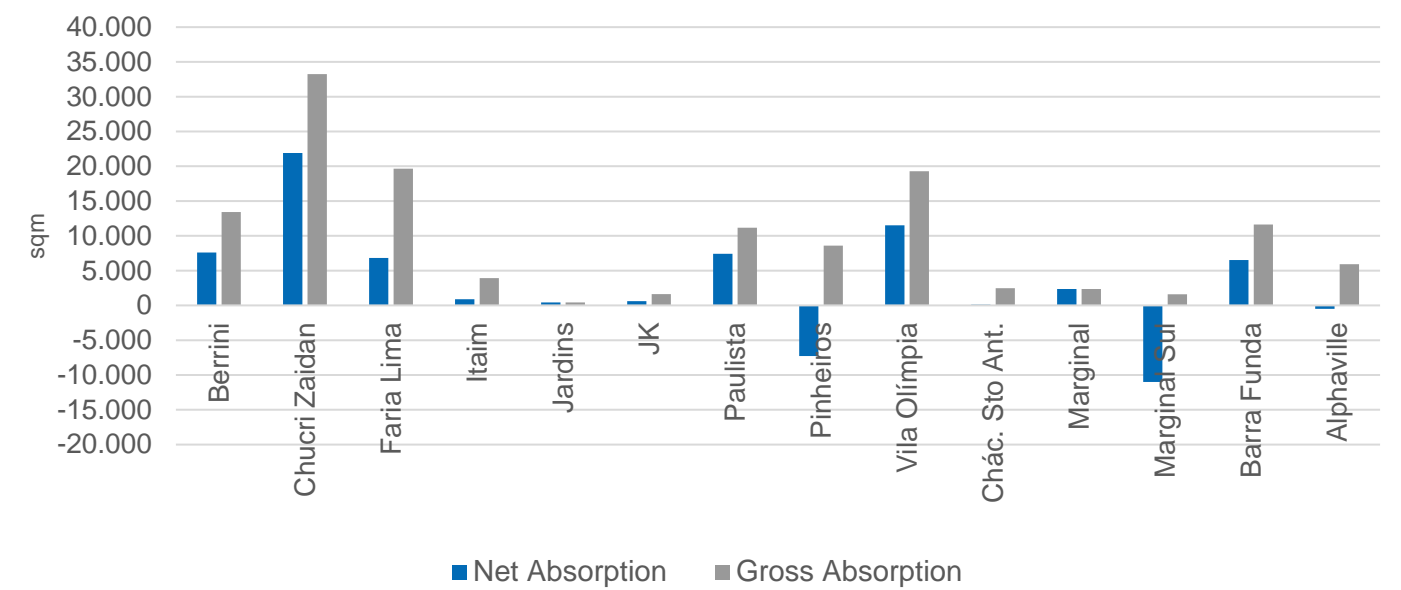
Source: Newmark Brasil – Market Research

Comparables per Submarket

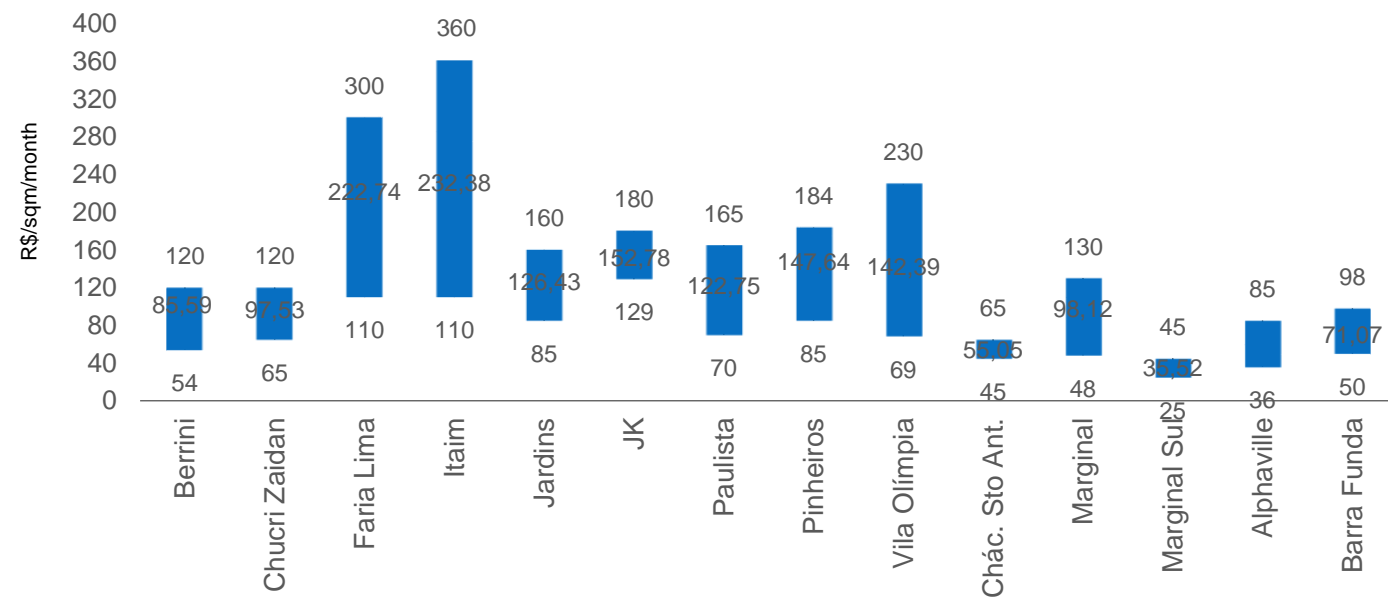
Inventory vs. Vacancy Rate – Class A, AA and AAA



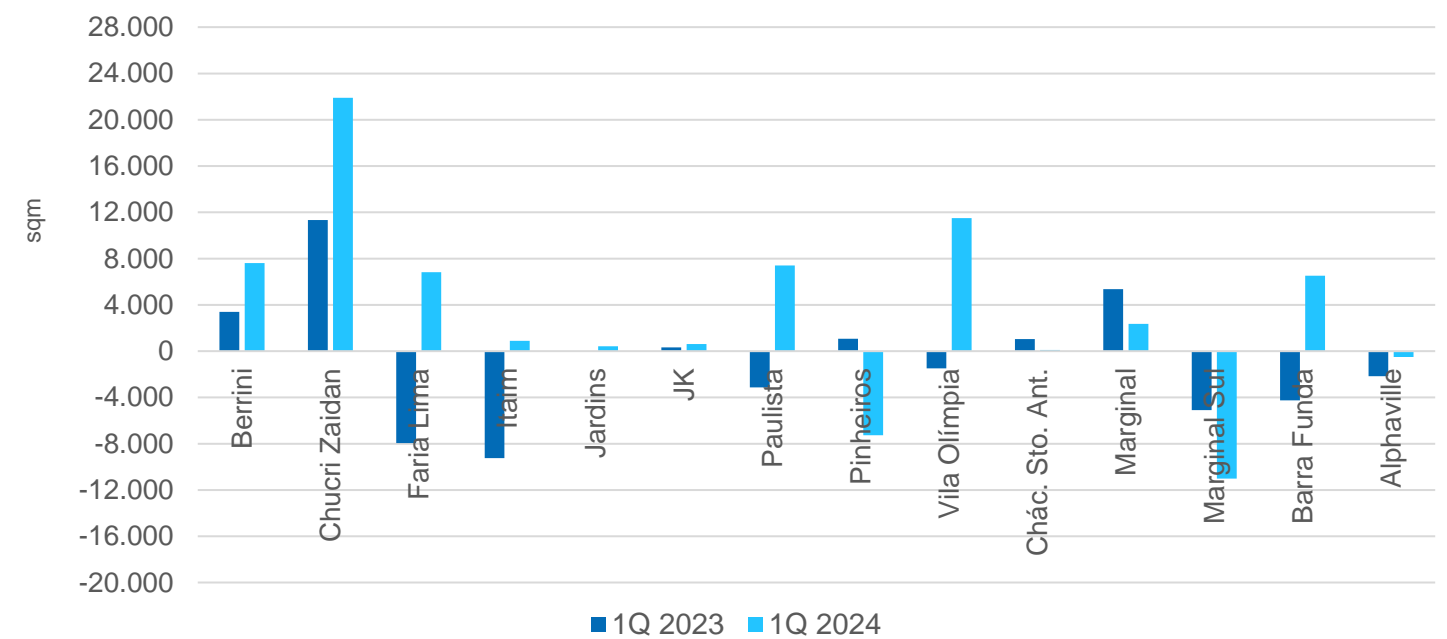
Gross and Net Absorption per Submarket – Class A, AA and AAA



Minimum, Average and Maximum Asking Rent – Classe A, AA e AAA



Net Absorption – Annual Variation – Class A, AA and AAA



Source: Newmark Brasil – Market Research



For more information,
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