OFFICE

MARKETBEAT

Rio de Janeiro

CUSHMAN & WAKEFIELD

Office Q4 2018

Economy

Despite the uncertainties caused by the election, an economic shock by truckers' strike in May, and the trade war between the two biggest economies, Brazil continue to growth and kept the economic resumption in 2018. The economic setbacks during the year brought an intense volatility to the Brazilian economic and political scenario, which ended the year below the projection from the beginning.

The GDP forecast was 3% in January, but it was revised along the year, reaching December at 1.39%. The main reason for this gap between the forecast from the beginning of the year, and the projection at the end of the year was the truckers' strike, which put a halt to all activities in the country for 10 days. In addition to that, the trade war between USA and China caused a surcharge in the steel and aluminum. Despite these negative impacts, the Brazilian GDP expected to growth at 0.33 percentage points

The IPCA (Inflation index) projected in the beginning of the year pointed out to a increase of 3.8% (YoY), but this value decrease to 3.6% in the last revision. Despite forecast's drop, the IPCA had an increase of 0.71 p.p. in comparison to the previous year, which is a reflex of the increase of the consumption caused by the economic recovery in 2018. The projection indicates the inflation should remain within the target established by the Central Bank, which is 4.5%, but can vary between 3% and 6%.

Economic Indicators	2017	2018 (F)	12-Month Forecast
Gross Domestic Product	1.06%	1.39%	↑
Inflation Rate	2.95%	3.74%	↑
Unemployment	12.74%	12.21%	↓

(Source: IBGE and LCA)

Real Estate Indicators	4Q17	4Q18	12-Month Forecast
Vacancy	41.4%	40.2%	↓
Net Absorption (,000)	33.3	3.8	↑
New Deliveries (,000)	66.2	0.0	-
Avg. Asking Rent (R$)	107.01	102.50	-

The unemployment rate was forecasted at 12.0%, however, due to all the instability seen in the country so far, the projection for the end of the year had a slightly increase, and should reach 12.2%, though still better than the rate seen in 2017 (12.7%).

The exchange rate had a high volatility and oscillated from R$3.13 in the beginning of the year to R$4.19 in September – the highest value since the creation of "Plano Real". The instability was mainly due to the Brazilian election that generated a high-risk environment and the fact that FED had increased the interest rate.

Finally, the market expected a stronger growth in 2018, however, the truckers' strike and the election process backlashed the economy.

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Market Overview

The political and economic crisis in Rio de Janeiro still has not shown signs of being over, and its impact can still be seen in the city's Classes A and A+ CBD Office Markets which are still experiencing high vacancy rates.

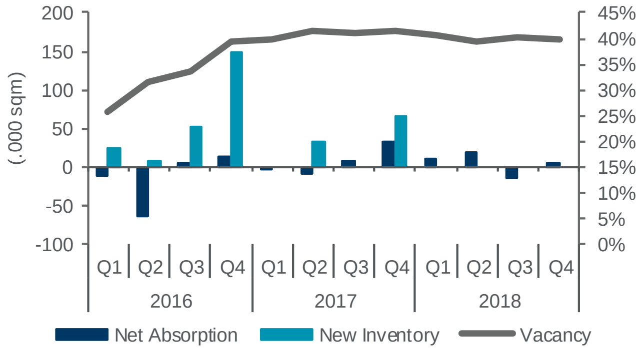
The city's vacancy rate closed out 2018 at 40.2%, a decrease of 1.31 p.p. (YoY), but despite this decrease, the rate continues to hover above of what is considered "healthy" – below 15%. Even with a positive net absorption of 20.5Ksqm, the market is still struggling. The departure of Petrobras, accounting for 22Ksqm leaving the Ventura Corporate, had a significant impact in the market.

In this environment, tenants are receiving bigger discounts in their negotiations due to the excess of available space. The recovery in Rio de Janeiro has been slower than expected, and the vacancy rate should remain at high levels.

> *The recovery in Rio has been slower than expected, and the vacancy rate should remain at high levels.*

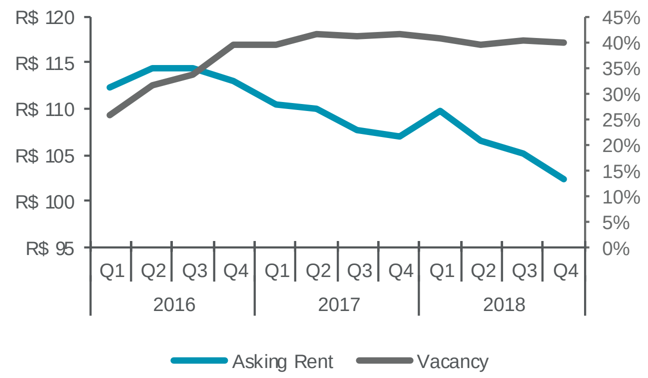
Net Absorption x New Inventory x Vacancy – CBD Class AA+

Source: Cushman & Wakefield



Asking Rent x Vacancy – Class AA+

Source: Cushman & Wakefield



**The vacancy rate calculated and established by Cushman & Wakefield, which takes into account the effective occupation is 40,2%, While the commercial vacancy rate considering tracked leases in Rio de Janeiro CBD classes A and A+ closed the quarter at 34,2%.*

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Occupancy

In 2018, Rio de Janeiro's CBD Class A and A+ Office Market registered a net absorption of 20.5Ksqm, a decrease of 29% in comparison to the previous year. It is important to point out that the vacancy rate in the period decreased because there were no new deliveries in the city, and despite being lower than the previous year, net absorption was positive.

The positive highlight in 2018 were: the absorption of 6Ksqm, due to a lease up at the Torre Vargas by Assim Saúde, also at the Torre Oscar Niemeyer with 19Ksqm by Vale. The negative highlight was Centro region with a net absorption of -14Ksqm.

Average Asking Rents

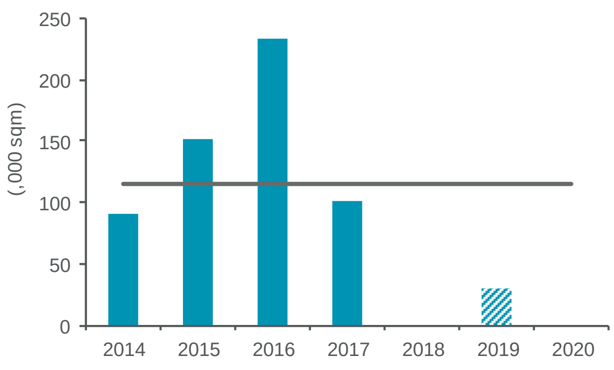
The average asking rent for Class A and A+ buildings in Rio de Janeiro registered its fourth consecutive drop in 2018, ending the year at R$102.47/sqm, a decrease of 4.3% (YoY), a decrease of 18.8% when compared to the value seen during the start of the crisis in 2014. On the other hand, the Porto and Zona Sul regions registered increases in their average asking rents of 6.7% and 28.5%, respectively. In the Zona Sul region, the increase was mainly due to the vacancy rate drop, which reached its lowest level since 2016. Nonetheless, larger decreases occured in Orla and Cidade Nova with 14.8% and 7.8% decreases, respectively.

Pipeline

The economic and political scenario in Rio de Janeiro caused many tenants to reduce their occupied space throughout the last few years, and as an aggravating cause, the delivery of many new developments in the same period of the crisis caused an increase of available space in the market. In 2018 there were no new registered deliveries, and there is only one expected for 2019. As such, Rio de Janeiro should continue to reduce its vacancy rate if the city finds both economic and political stability. Taking all that into account, the recovery of the real estate market in the city should be slow and steady.

New Inventory – CBD Class AA+

Source: Cushman & Wakefield



OFFICE

MARKETBEAT

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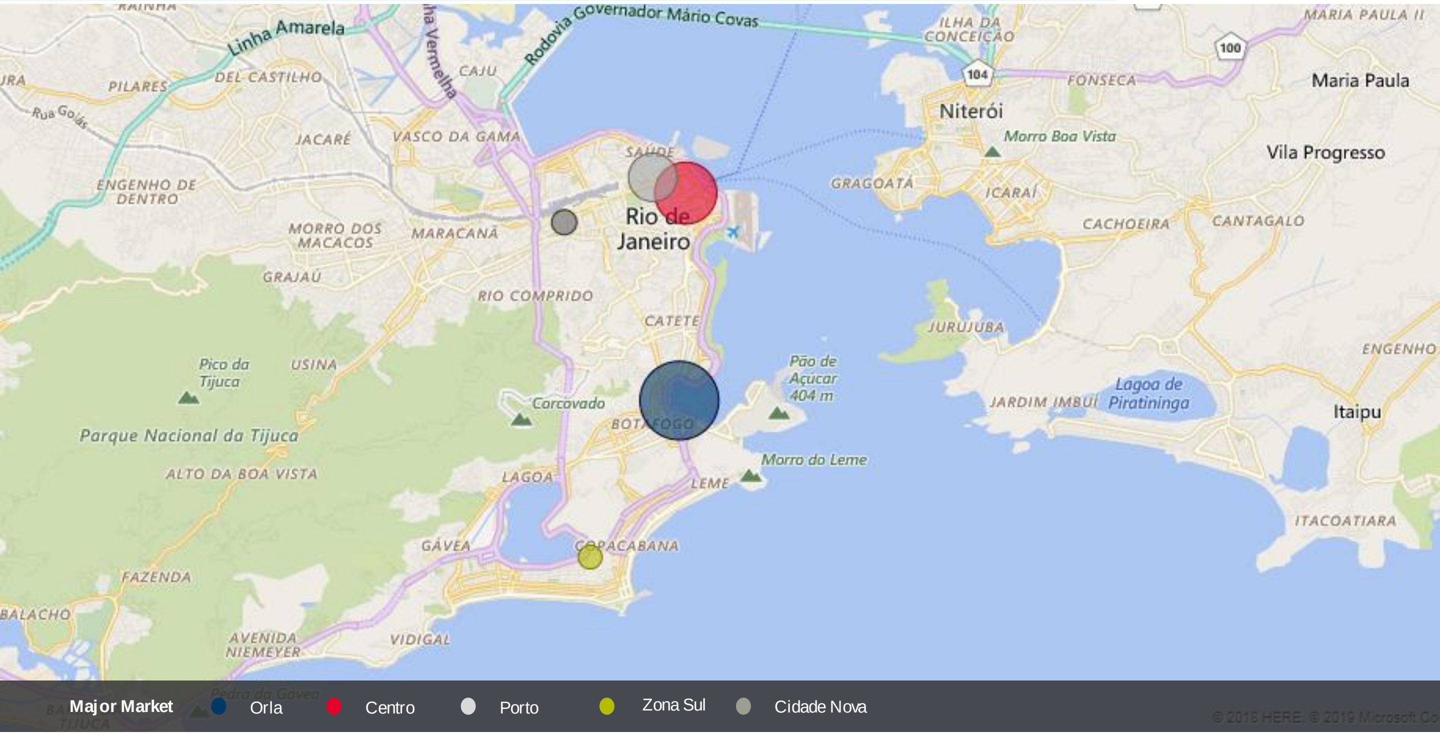
Bubble Map



Volume of Absorptions

The map above shows the volume of net absorption in each major market in the CBDs regions classes A and A+ in Rio de Janeiro. Centro in red, was the only region with negative results in 2018 (-14Ksqm). On the other hand, Orla was the main highlight, with 19Ksqm absorbed. Even with positive results in most of the regions, Rio's real estate market is still struggling, and should recover slowly.

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MARKETBEAT

Rio de Janeiro

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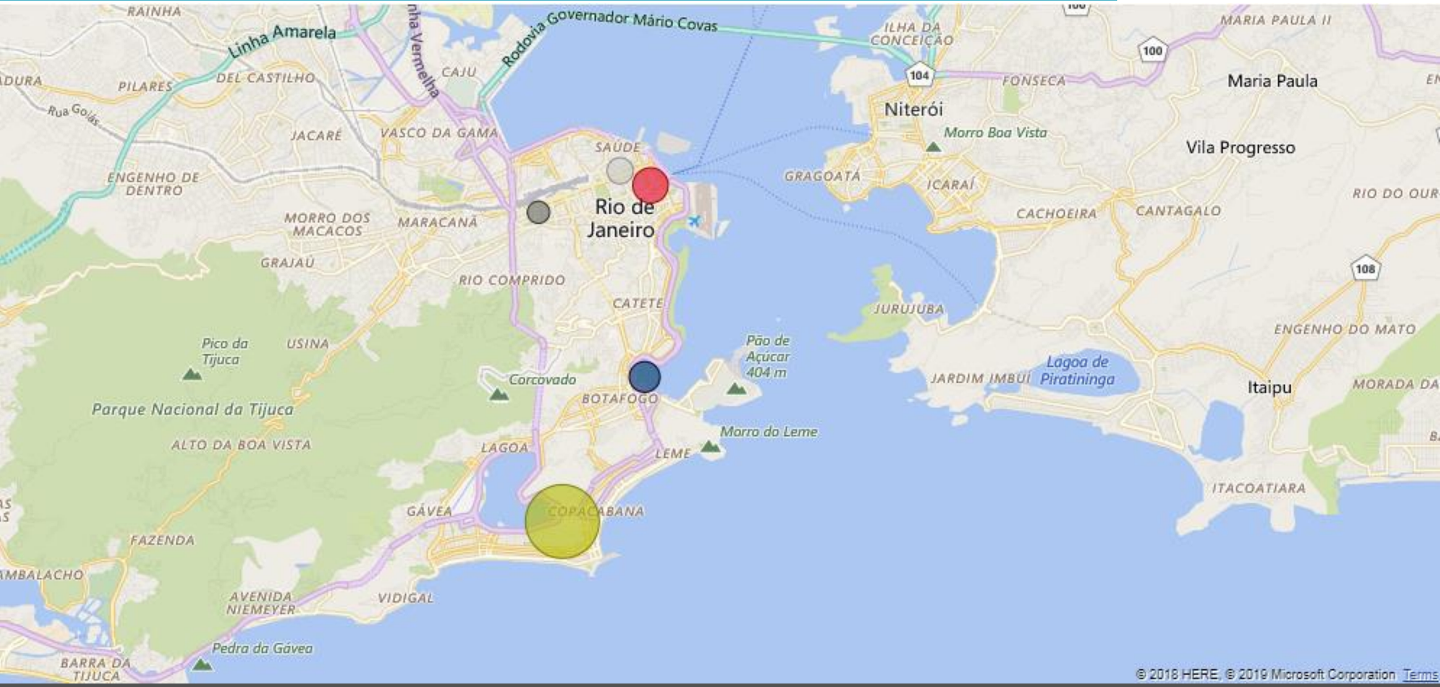
Office Q4 2018

Asking Rent



Major Market Orla Centro Porto Zona Sul Cidade Nova

Average Asking Rent

The map above shows the average asking rent by each major market for the CBD classes and and A+ in Rio de Janeiro. Most of the regions had no major changes in their asking rent, with the exception of Zona Sul, which normally already have higher prices than the other regions, but saw a strong increase in the average price, going from R$147.8/sqm in 2017 to R$190.0/sqm in 2018.

Office Q4 2018

SUBMARKET	NUMBER OF BUILDINGS	INVENTORY (.000 sqm)	AVAILABLE AREA (.000 sqm)	VACANCY RATE	NET ABSORPTION (Q4)	NET ABSORPTION (ANNUAL)	UNDER CONTRUCTION*	ASKING RENT (ALL CLASSES)	ASKING RENT (CLASS AA+)
Centro	35	894.0	286.8	32.1%	(5,549.7)	(13,016.7)	-	76.9	112.5
Cidade Nova	7	239.9	109.7	45.7%	-	2,953.0	-	83.4	85.7
Orla	13	180.9	44.8	24.8%	(907.4)	19,012.7	-	96.7	102.4
Zona Sul	5	23.8	6.4	26.9%	5,271.0	2,570.9	-	147.8	186.7
Porto	10	222.4	175.2	78.8%	7,402.5	11,510.0	30,149	87.2	93.6
TOTAL CLASS AA+ CBD									
Classe AA+	70	1,560.9	622.9	39.9%	6,216.5	23,029.9	30,149	82.5	102.3
TOTAL CLASS AA+ NCBD									
Barra da Tijuca	37	226,327.0	75,026.1	33.1%	1,839.0	1,839.0	-	52.1	86.9

*We consider "Under Construction" buildings with delivery scheduled until 4Q 2021

Main Transactions Q4 2018

BUILDING	SQM	TENANT	TRANSACTION TYPE	SUBMARKET
Vista Guanabara	14.315	Amil	Lease	Porto
Humaitá Corporate	2.473	Casa de Súde São Jose	Lease	Zona Sul
Aqwa	3.467	Licks Attorneys	Lease	Porto

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MARKETBEAT

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Office Q4 2018

REGIONS

CBD

- Porto
- Cidade Nova
- Centro
- Orla
- Zona Sul

Non-CBD

- Barra da Tijuca

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About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. Our 45,000 employees in more than 70 countries help investors and occupiers optimize the value of their real estate by combining our global perspective and deep local knowledge with an impressive platform of real estate solutions. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $6 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.