

Industrial Q2 2019

Economy

The first quarter of 2019 was a period of economic stagnation, with a -0.2% decline in GDP compared to the previous quarter. With this, the country is near to a technical recession. In the first quarter of the year, the government experienced a kind of euphoria which, over time, proved unable to gather momentum and to kickstart the economy. This continued into the second quarter, however, other government officials, not tied to the executive power, managed to set a track to the agenda in order to move forward with the social security reform.

This tepid activity in second quarter rippled into 2019 GDP projections. At the end of 2018, the Central Bank projected a growth rate of 2.4%, but in March the expected annual growth rate was changed to 2%. June showed a new cut, where they forecast a growth of 0.8% for 2019.

Inflation, calculated by IBGE (IPCA), is still in control, with a rise of 0.57% in April and 0.13% in May. The projection of the Central Bank for the end of 2019 is 3.82%, close to the 4.25% target, which could swing 1.5 points up or down. In turn, the IGP-M, calculated by the FGV, which is another price index, widely used to adjust real estate lease contracts presented a cumulative rate of 4.38% in June. Until the end of the second quarter, the accumulated index of the INCC (National Construction Cost Index) was 1.88%.

The Consumer Confidence Index calculated by FGV, which intends to capture consumer predictions about the economic situation,

Economic Indicators	2018	2019(F)	2020(F)
Gross Domestic Product	1.11%	0.8%	↑
Inflation Rate	3.75%	3.82%	-
Unemployment	12.26%	11.89%	↓

(Source: LCA ; Central Bank)

Real Estate Indicators	2Q18	2Q19	2019(F)
Vacancy	23.9%	19.5%	↓
Net Absorption (,000)	112.6	234.8	↑
New Deliveries (,000)	158.5	190.9	↑
Avg. Asking Rent (R\$)	19.46	19.31	↑

despite closing the second quarter with 2.5 points below the first, showed an improvement when it hit 88.5 points in June. Meanwhile EMBI + Brazil had an average of 253 points during the second quarter, while in the first quarter, the average was 246 points. The dollar closed at \$ 3.85 in May, a decrease of 1.5% compared to the end of March.

Despite not having the possibility of a current economic uptick, social security reform has relied on legislative efforts to get it approved as soon as possible counting on that to unlock economy. The Central Bank has opted for the stability of the Selic rate at 6.5%, announced through the COPOM registry that it has room to make monetary policy more expansionary, although it depends on some factors, including the social security reform.

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Market Overview

If the first quarter of 2019 had already demonstrated good recovery pace for the Brazilian logistics market, the second one got even better. An expressive amount of new inventory was delivered and even so, the vacancy rate kept dropping due to the absorptions of the period.

Regions such as the North and the South, which registered negative net absorptions in the last quarter, presented positive ones in the second quarter. The fact generated great value for the country, as these add up to the large and constant transactions from the Southeast region.

The perspective of vacancy rate and absorptions accumulation is promising, and it should follow this pace until the end of the year. However, the asking rent moves slowly towards balance, as owners and investors await for political and economic decisions from the Government that could substantially influence Brazil's Real Estate market.

Brazil

The second quarter of 2019 was an important period for the Brazilian Class A and A+ logistics market. There were approximately 191k sq.m delivered, a value not seen since the last quarter of 2016. The new deliveries represent a supply increase due to a rising demand of high-quality developments, mainly represented by big retailers and e-commerce companies.

Such tenants are looking for even larger spaces for their expansions, which occupations deeply affected the vacancy rate of the market, finishing in 19.5% at the end of second quarter.

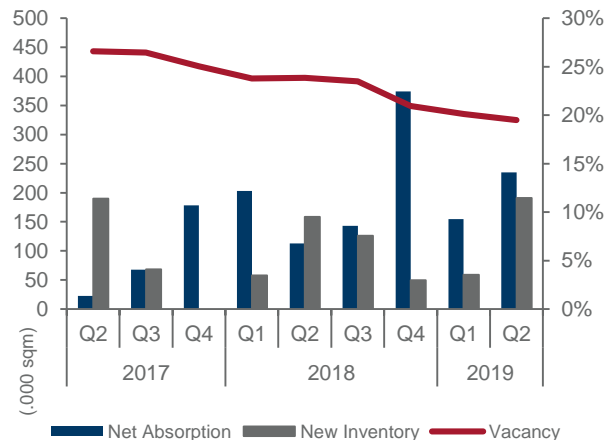
Followed by the strong absorption pace of the last quarter, the second quarter absorbed about 350k sq.m, which resulted in 235k sq.m of net absorption. The increase of 52% in net absorption is mainly due to the Southeast and North region, with 219k sq.m and 18k sq.m respectively. The Northeast presented the only negative net absorption: -9.2k sq.m.

The asking rent dropped 0.1%, reaching R\$19.31 month/sq.m. The decrease happened in the Northeast, North and South regions, due registered departures in the first and high-quality developments occupations with higher prices in the other two. Meanwhile, the Southeast region presented asking rent increase of 0.2%.

Aside from construction projects that will be delivered this year, there are numerous plots of land, which were purchased over the past few years, that are ready for tenants to start building. Expectations for this area is high as the country's recovery accelerates.

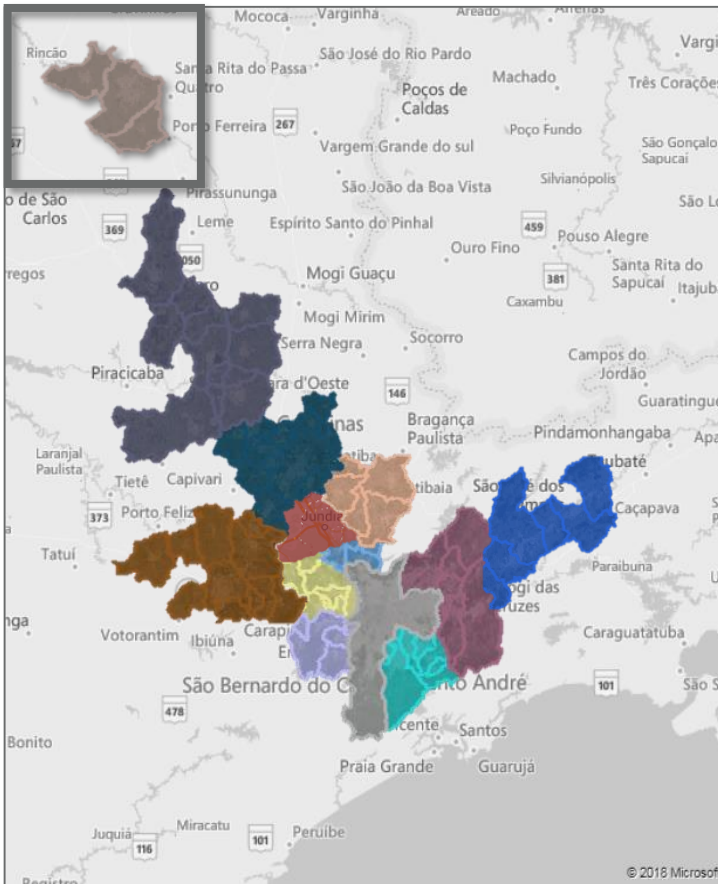
Net Absorption/New Inventory/Vacancy

Source: Cushman & Wakefield



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São Paulo



New Inventory

The state concentrated 186k sq.m of new deliveries in the second quarter of 2019

São Paulo is keeping up with the national recovery, and is responsible for the positive activity in the second quarter of 2019. The city concentrated 186k sq.m of new deliveries, representing more than 97.5% of the new Class A and A+ inventory in Brazil. The major of it were pre-leased deliveries in BTS contracts of logistics condos.

Dropping constantly since the third quarter of 2018, the vacancy rate hit 19.0%, the lowest rate in more than 5 years of historic series. Sorocaba, Guarulhos and Cajamar represented the largest drop rate markets, with retractions of 2.9 p.p., 2.5 p.p. and 2.1 p.p., respectively.

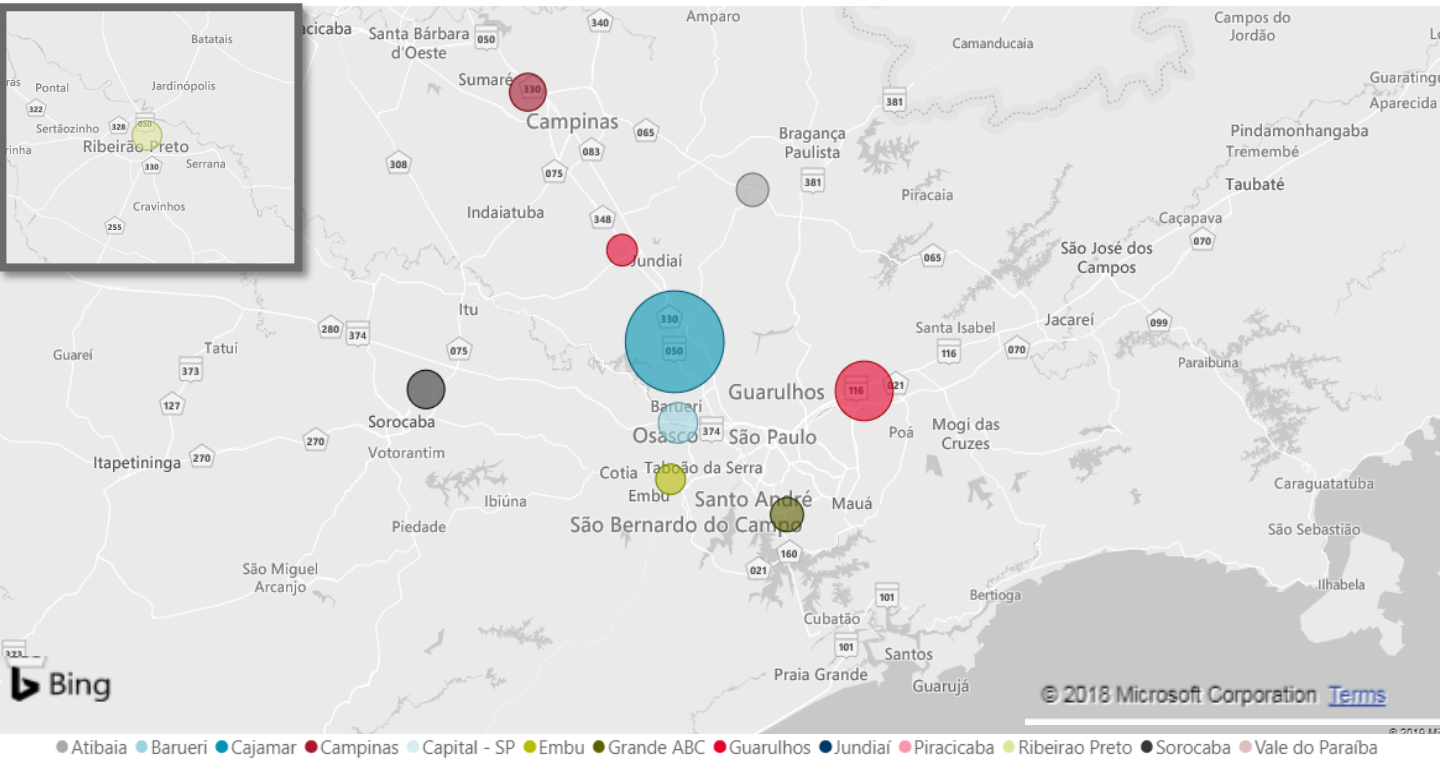
The asking rent is still rising slowly and presented an increase of 0.1% when compared to the first quarter, hitting at R\$18.91 month/sq.m. As we move away from the Rodoanel axis, prices are going down and become malleable for discounts and negotiation with landlords.

SUBTITLE

- Capital - SP
- Barueri
- Campinas
- Ribeirão Preto
- Guarulhos
- Cajamar
- Atibaia
- Grande ABC
- Jundiaí
- Vale do Paraíba
- Embu
- Sorocaba
- Piracicaba

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Market Bubble



Net Absorption

As a result, net absorption reached positive levels not seen since 2016, presenting 201k sq.m in the second quarter. The first half of 2019 already absorbed 61.0% of that which was seen in 2018. The incisive recovery of São Paulo was concentrated in Cajamar and Guarulhos, as we can see on the bubble map above.

This great number of net absorption registered this quarter is due mostly by new inventory that was delivered already occupied by big companies.

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Rio de Janeiro



SUBTITLE

- Avenida Brasil
- Pavuna
- Duque de Caxias
- Belford Roxo / Nova Iguaçu
- Campos
- Santa Cruz / Campo Grande
- Vale do Paraíba Fluminense
- Queimados / Seropédica
- Niterói

Average Asking Price

The average asking price rose again and represented an increase of 0.3% in this second quarter of 2019

The Class A and A+ Rio de Janeiro logistics markets presented a slight improvement in the first semester of 2019. The vacancy rate decreased by 0.9 p.p., reaching 25.3% at the end of the second quarter, however, the drop does not represent a promising moment, as absorption has been low and there have been no new deliveries this year.

Seeking greater stabilization, return of development rents and considering the vacancy rate drop, the owners rose again the asking rents in the second quarter of the year, reaching R\$20.96 month/sq.m and representing an increase of 0.3%. However, Duque de Caxias was the only region to have an increase of asking rent and it had an impact on the overall Rio de Janeiro market.

Over the next half, the vacancy rate will increase due to upcoming deliveries. Investors are turning their attention to Rio de Janeiro, as the region continues to recover and investments start to pay off in the near future.

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Metropolitan Region Absorption



Net Absorption

The region recorded a positive net absorption of 17k sq.m, which represented a 35% drop when compared to last quarter. The only major market transactions were: Duque de Caxias with 18.5k sq.m and Vale do Paraíba Fluminense with -1.5k sq.m, indicate by the arrow on the bubble map above.

In fact, the space demand is still concentrated in just a few major markets. The lack of state security has been a serious problem that influences on this demand.

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BRAZIL - INDUSTRIAL PARK – A and A+

REGION	INVENTORY (.000 sq.m)	VACANCY RATE	LEASING ACTIVITY (.000 sq.m)	NEW INVENTORY (.000 sq.m)	NET ABSORPTION (.000 sq.m)	ASKING RENT (R\$/sq.m/month)		
						MIN	AVG	MAX
Amazonas	307,5	49.6%	3,7	-	-	R\$22.00	R\$22.00	R\$22.00
Bahia	48,4	-	1,4	-	1,4	R\$16.00	R\$19.94	R\$25.00
Paraná	642,2	12.7%	-	4,7	-2,9	R\$9.00	R\$15.56	R\$20.00
Pernambuco	757,0	11.7%	2,6	-	-3,8	R\$15.00	R\$17.84	R\$18.50
Rio Grande do Sul	148,7	6.9%	9,8	-	9,8	R\$16.50	R\$17.17	R\$18.00
Minas Gerais	659,6	14.3%	3,6	-	0,6	R\$16.00	R\$19.62	R\$23.00
Ceará	113,4	21.8%	-	-	-6,8	R\$14.00	R\$15.33	R\$16.00
Pará	54,0	28.2%	18,2	-	18,2	R\$23.00	R\$23.00	R\$23.00
Santa Catarina	105,4	16.1%	-	-	-	R\$10.00	R\$14.75	R\$19.50
Other Regions	2836,2	17.1%	39,3	4,7	16,4	R\$9.00	R\$18.36	R\$25.00
Campinas	1318,4	18.6%	11,7	-	7,5	R\$12.00	R\$17.67	R\$30.00
Jundiaí	1507,0	18.7%	21,9	-	-3,8	R\$15.00	R\$19.48	R\$38.00
Cajamar	1317,5	10.1%	128,6	111,0	124,3	R\$16.00	R\$21.28	R\$24.90
Guarulhos	1231,7	15.0%	52,7	20,0	47,5	R\$18.00	R\$22.00	R\$27.00
Barueri	814,0	23.1%	21,3	-	12,6	R\$18.00	R\$21.87	R\$25.00
Embu	740,3	16.1%	10,8	-	-5,5	R\$16.00	R\$20.87	R\$25.00
Capital - SP	107,1	0.0%	-	-	-	R\$23.00	R\$26.33	R\$28.00
Atibaia	347,9	22.5%	3,0	-	-0,6	R\$16.00	R\$19.75	R\$21.00
Vale do Paraíba	252,3	43.6%	-	-	-	R\$14.50	R\$14.75	R\$15.00
Sorocaba	301,1	41.4%	9,0	-	9,0	R\$12.00	R\$16.97	R\$23.81
Grande ABC	393,1	24.0%	12,2	55,1	0,8	R\$21.50	R\$23.44	R\$25.00
Ribeirão Preto	138,7	5.8%	12,2	-	9,6	R\$15.60	R\$16.25	R\$18.00
Piracicaba	143,3	48.1%	-	-	-	R\$13.00	R\$16.14	R\$20.00
São Paulo	8612,4	19.0%	283,4	186,1	201,4	R\$12.00	R\$19.75	R\$38.00
Duque de Caxias	812,4	37.3%	26,6	-	18,5	R\$18.50	R\$23.53	R\$28.00
Pavuna	308,5	13.9%	-	-	-	R\$20.50	R\$25.50	R\$30.00
Queimados / Seropédica	219,1	60.4%	-	-	-	R\$15.00	R\$18.40	R\$22.00
Santa Cruz / Campo Grande	327,3	0.5%	-	-	-	R\$17.00	R\$19.20	R\$23.00
Belford Roxo / Nova Iguaçu	-	-	-	-	-	-	-	-
Vale do Paraíba Fluminense	211,4	4.5%	-	-	-1,5	R\$13.00	R\$16.00	R\$18.00
Campos	24,5	-	-	-	-	R\$15.00	R\$15.00	R\$15.00
Avenida Brasil	34,6	5.0%	0,6	-	0,0	R\$38.00	R\$38.00	R\$38.00
Rio de Janeiro	1937,9	25.3%	27,2	-	17,0	R\$13.00	R\$19.92	R\$38.00
Brazil	13386,5	19.5%	349,8	190,9	234,8	R\$9.00	R\$19.92	R\$38.00

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Main Transactions 2019Q2

BUILDING	SQ.M	TENANT/BUYER	TYPE OF TRANSACTION	SUBMARKET
Condomínio Logístico Guarulhos	20,000	Zaraplast	Lease	Guarulhos
Alianza Park	16,652	Magazine Luiza	Lease	Pará
Parque Logístico Cabreúva	14,093	Miniso	Lease	Jundiaí
GLP – Guarulhos	11,011	Magazine Luiza	Lease	Guarulhos
Goodman Caxias	4,140	Makro	Lease	Duque de Caxias

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