MARKETBEAT
São Paulo

CUSHMAN & WAKEFIELD

Office 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	24.2%	21.4%	⬇
Net Absorption (,000)	49.4	5	⬆
New Deliveries (,000)	18	0	⬆
Avg. Asking Rent (R$)	92.04	88.51	⬆

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

The market began to recover in second quarter of 2019 with a slight decrease in the vacancy rate, and the class A and A+ CBD market, closing out the quarter at 21.4%, or the lowest value since 2014. Prices also registered a marginal variance, showing a slight decrease of R$0.13, dropping to R$88.51 month/sq.m, however, class A+ properties came were up by 1.8% .

Even with a positive gross absorption of 67.7k sq.m (30% more than the previous quarter), net absorption results were tepid, closing the quarter out with +5k sq.m. This is due, in part, to Nestlé's exit from the Nestlé Building, a property where the company was the single user.

There were no new deliveries this quarter, however, by the end of the year, 38.4k sq.m of class A properties are expected to be delivered.
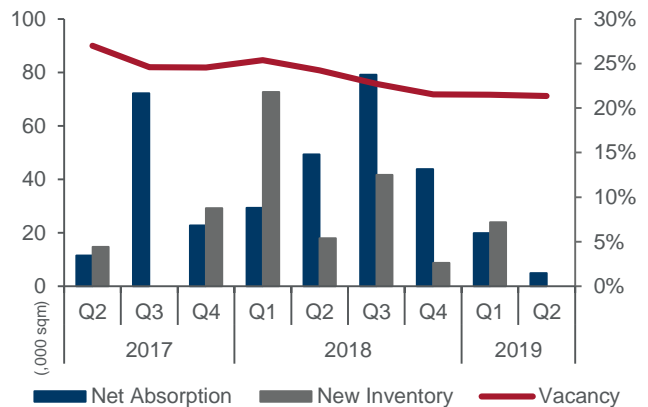
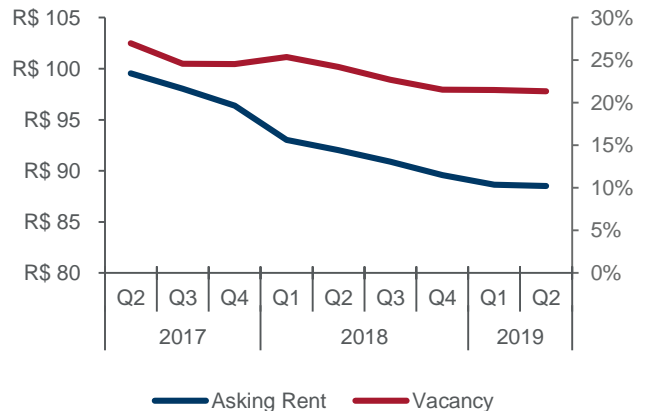> ❝ ... closing out the quarter at 21.4%, or the lowest value of vacancy rate since 2014. ❞

Net Absorption x New Inventory x Vacancy – CBD Class A and A+
Source: Cushman & Wakefield

Legend: ■ Net Absorption ■ New Inventory — Vacancy

Asking Rent/Vacancy – Class A and A+
Source: Cushman & Wakefield

Legend: — Asking Rent — Vacancy

*The vacancy rate calculated and established by Cushman & Wakefield, which takes into account the effective occupation is at 21.4%, While the commercial vacancy rate considering tracked leases in São Paulo CBD classes A and A+ closed the quarter at 17.6%.

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Pipeline

There will be less Class A and A+ deliveries in 2019. As of second quarter there were none, however, 38.4k sq.m are scheduled to be delivered in the region of Paulista, Faria Lima and Berrini by the end of the year.

On a similar note, a large volume of large tenant lease-ups are expected by the end of the year, such as Prevent Senior in Marginal Pinheiros, Rede D'or in Vila Olímpia, Bradesco in JK and Serasa Experian in Chucri Zaidan. Such occupations should pressure the vacancy rate, leading to a considerable drop in the indicator.

Average Asking Rents

The quarter registered a slight decrease in the average asking rent for CBD A and A+, going from R$88.64 to R$88.51. The class A properties reduced the prices back in 3.2% and there was an increase of 1.8% for class A+ in comparison to last quarter.

Some prime regions, with very little space, continue to register an increase in asking rents; Paulista registered an increase of 0.9% and Itaim recorded a 4.2% increase. On the other hand, regions with a high vacancy rate registered a decrease in the ask rent, negatively impacting the overall outcome of the city: Marginal Pinheiros (-3.8%), Chácara Santo Antônio (-5.7%) and Santo Amaro (- 3.6%).
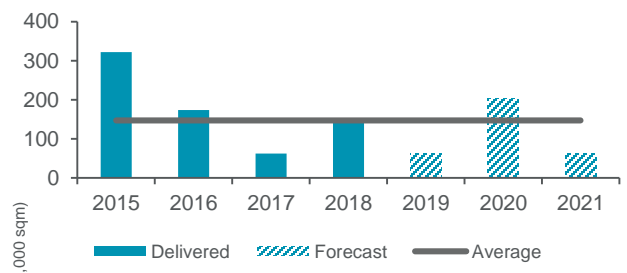
Occupancy

The quarter registered a net absorption of +5k sq.m for CBD Class A and A+ spaces, much lower than first quarter. This was, in large part, due to the high volume of companies vacating space, such as the Nestlé's departure of 31.8k sq.m in Chucri Zaidan, and the Editora Abril exit of 9k sq.m in Marginal Pinheiros.

With this volume of net absorption, the vacancy rate was pushed down and reached its lowest value since 2014, at 21.4%. This result was mainly concentrated in more distant areas, between the CBD regions, such as Chácara Santo Antônio, which registered a vacancy rate drop of 9.1p.p. and Santo Amaro, which decreased by 8p.p..

Alongside these regions, some prime areas were also responsible for reducing the vacancy rate. Faria Lima registered the second largest variation, - 16.6%, reaching 13.7%, and the JK region recorded a reduction of 7.9%, reaching 6.6%, second lowest vacancy rate in São Paulo, only behind Itaim, with 4%.
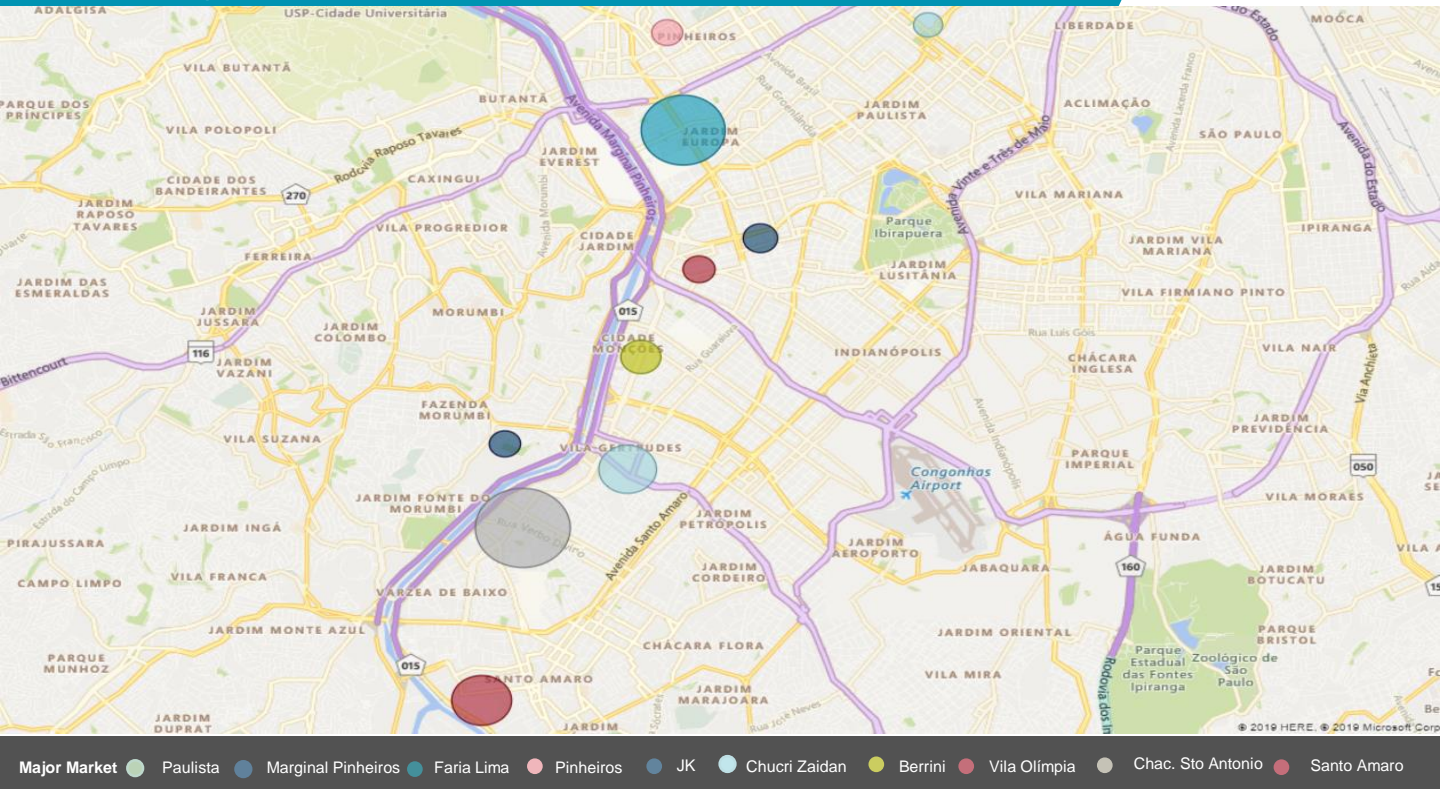
New Inventory – CBD Class A and A+
Source: Cushman & Wakefield

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Bubble Map

Major Market ● Paulista ● Marginal Pinheiros ● Faria Lima ● Pinheiros ● JK ● Chucri Zaidan ● Berrini ● Vila Olímpia ● Chac. Sto Antonio ● Santo Amaro

Volume of Gross Absorption

The map above shows the volume of gross absorption of the CBD regions classes A and A+ in São Paulo, in the second quarter of 2019. The regions with the highest volume of absorption were Chácara Santo Antônio and Faria Lima, with 21.5k sq.m and 18k sq.m, respectively. On the other hand, the regions with the lowest volume of gross absorption were Paulista (0.2k sq.m) and Pinheiros (0.8k sq.m).

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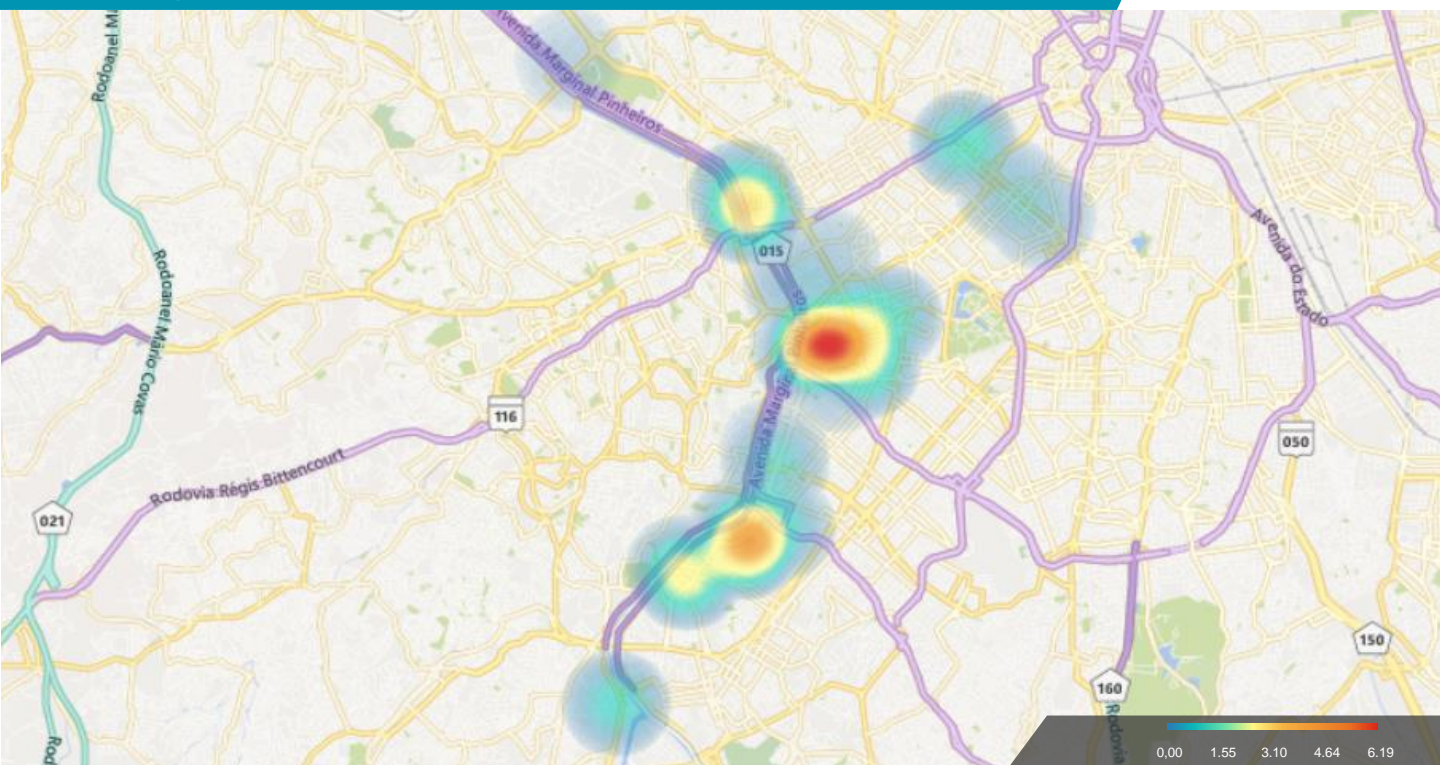
Heat Map

Transactions

The heat map is based on the number of transactions made during the second quarter of 2019. The regions highlighted in red represent the most active regions, and it's possible to see that JK, Faria Lima, Chucri Zaidan and Chácara Santo Antônio were the main spots throughout the quarter.

Office Q2 2019

SUBMARKET	NUMBER OF BUILDINGS	INVENTORY (.000 sq.m)	AVAILABLE AREA (.000 sq.m)	VACANCY RATE	NET ABSORPTION (Q2)	NET ABSORPTION (ANNUAL)	UNDER CONSTRUCTION*	ASKING RENT (ALL CLASSES)	ASKING RENT (CLASS AA+)
Paulista	16	273.6	34.4	12.6%	(3,350.1)	(10,955.6)	25,025	79.6	111.6
Pinheiros	18	273.3	28.6	10.5%	586.0	7,930.5	-	66.2	88.4
Faria Lima	26	468.9	64.2	13.7%	12,787.3	11,848.0	104,850	114.7	137.0
Itaim	4	72.6	2.9	4.0%	(451.0)	(451.0)	-	65.4	156.4
Vila Olimpia	15	223.2	35.8	16.0%	(3,179.1)	(2,675.8)	8,000	79.5	114.7
Berrini	10	298.6	54.6	18.3%	3,730.0	4,236.8	16,495	76.4	89.2
Chac. Sto. Antonio	18	235.8	102.9	43.6%	21,497.3	19,760.7	-	58.7	65.0
Marginal Pinheiros	20	225.0	92.4	41.1%	(8,273.1)	(7,466.2)	36,777	58.5	69.3
Chucri Zaidan	24	670.3	177.5	26.5%	(29,359.0)	(18,876.4)	120,453	85.3	94.5
JK	12	340.2	22.6	6.6%	1,944.0	12,482.5	-	106.3	121.8
Santo Amaro	8	113.3	66.4	58.6%	9,067.3	9,067.3	-	44.9	50.6
TOTAL CLASSE A and A+ CBD									
CBD	171	3,194.7	682.2	21.4%	4,999.4	24,900.7	311,600	73.5	88.5

* We consider "Under Construction" buildings with delivery scheduled until 2Q 2022

Main Transactions Q2 2019

BUILDING	AREA (sq.m)	TENANT / BUYER	TRANSACTION TYPE	SUBMARKET
Edifício Park Tower	22,370	Prevent Senior	Lease	Jardins*
Birmann 10	11,286	CCP – Cyrela Commercial Porperties	Sale	Chác. Sto. Antônio
Parque da Cidade Corporate - Torre Sucupira	10,948	Serasa Experian	Lease	Chucri Zaidan
RochaVerá Corporate Towers - Crystal Tower	6,818	CTEEP	Lease	Chucri Zaidan
Brazilian Financial Center	2,940	CNN Brasil	Lease	Paulista

* NCBD

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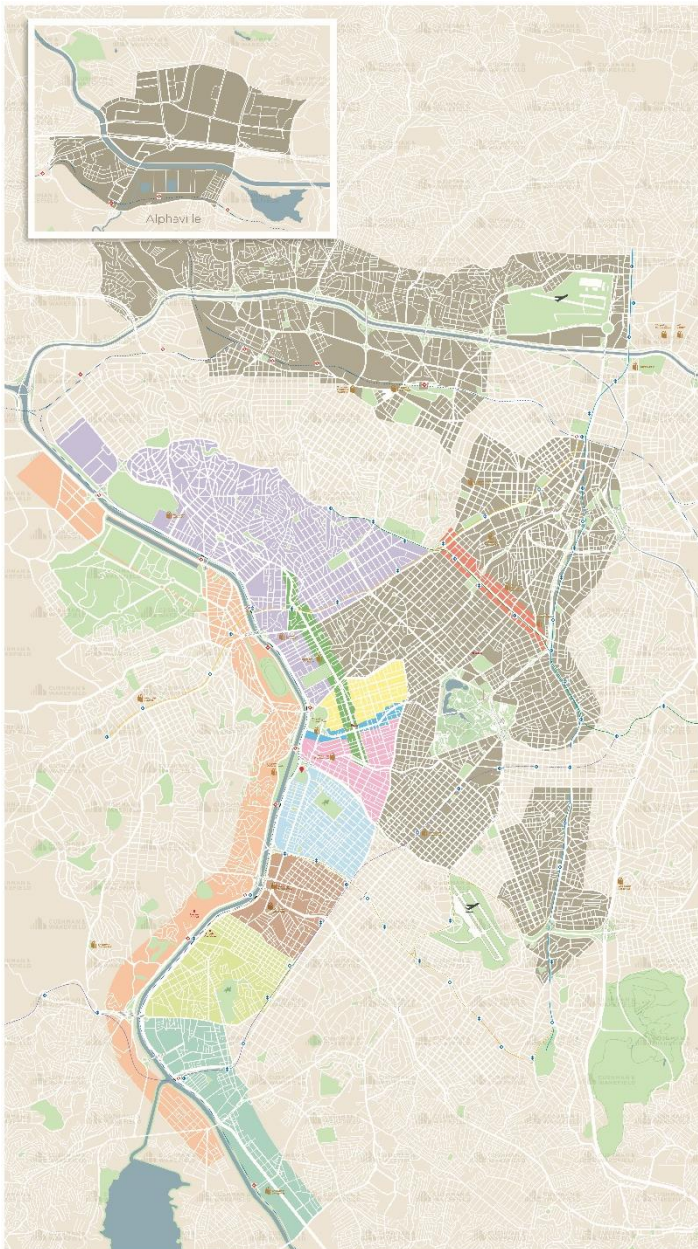
REGIONS

CBD

● Marginal Pinheiros	● Itaim Bibi	● Chucri Zaidan
● Pinheiros	● JK	● Chác. Sto Antônio
● Paulista	● Vila Olímpia	● Santo Amaro
● Faria Lima	● Berrini	

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