OFFICE

MARKETBEAT

Rio de Janeiro

CUSHMAN & WAKEFIELD

Office Q3 2019

Economy

Despite the approval of the pension reform by the lower house in August and the Senate first round on October 1, the confidence of an economic expansion in 2019 is no longer true. With a bleak international scenario, marked by the slowdown in global economies compounded by the US-China trade war.

During the first semester the Brazilian GDP grew by 0.7% compared to the same period in 2018. Given the adverse international scenario, the expectation for a stronger economic growth was deteriorated. Even with the approval of the pension reform, which until now is pointed out as the biggest obstacle in the economy, the domestic scenario is below what was expected at the beginning of the year, projections point to a 0.96% GDP growth in 2019, lower than 2018.

Aiming to stimulate people back to consuming, the monetary policy committee (Copom) decreased the interest rate (Selic) to 5.5% a year. Some financial institutions were pushing the "Copom" to increase the stimulus because the low economic growth. At the beginning of the year the inflation rate (IPCA) was projected to have an increase of 4.18% in 2019, but the resumption of consumption didn't perform as expected and the most updated projections point out a 3.43% increase in 2019, even farther from the Central Bank´s 2019 target, which is 4.25%.

Unemployment didn't decline as expected, closing 2018 at 12.27% with a projection of 11.92% in 2019. Despite falling, the unemployment rate remains high.

Economic Indicators	2018	2019(F)	2020(F)
Gross Domestic Product	1.11%	0.96%	↑
Inflation Rate	3.75%	3.29%	↑
Unemployment	12.26%	11.92%	↓

(Source: LCA)

Real Estate Indicators	3Q18	3Q19	2019(F)
Vacancy	40.39%	36.18%	↓
Net Absorption (,000)	-13	55	↑
New Deliveries (,000)	0.0	0.0	-
Avg. Asking Rent (R$)	104.7	95.48	↑

In September the Consumer's Confidence Index closed at 89.7 points, when it completed its sixth consecutive month below the neutral level of 100 points.

Household consumption growth, which accounts for more than 60% of the GDP demand, should also fall short from what was initially projected, even with the interest rate (Selic) at its all-time low and a falling unemployment rate, the growth should be 1.43% in 2019.

The exchange rate showed a 6.8% devaluation of the Real against the US dollar until August 2019. Other currencies such as the Argentine Peso, the Turkish Lira and the Yuan also had major devaluations against the US currency, due to the uncertain international environment, which causes capital to migrate from emerging economies to more consolidated ones.

OFFICE

MARKETBEAT

Rio de Janeiro

Office Q3 2019

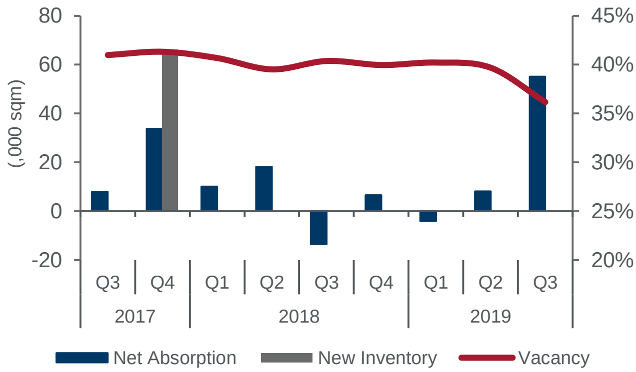
Market Overview

In Rio de Janeiro, the corporate market is showing positive signs of improvement in the CBD region for classes A and A+. The net absorption in the third quarter showed a expressive growth compared to the previous quarter. However, the market still suffers from high vacancy rates in the CBD region as tenants continue their “flight to quality” movement. As the recession continues, the city still has an oversupply and is anxiously awaiting the first signs of an economic recovery. However, the “flight to quality” movement implies that Classes A and A+ buildings offer a more attractive rental value, discounts and allowances than Class B buildings, making them more competitive.

> *The net absorption in the third quarter showed a representative growth compared to the previous quarter.*

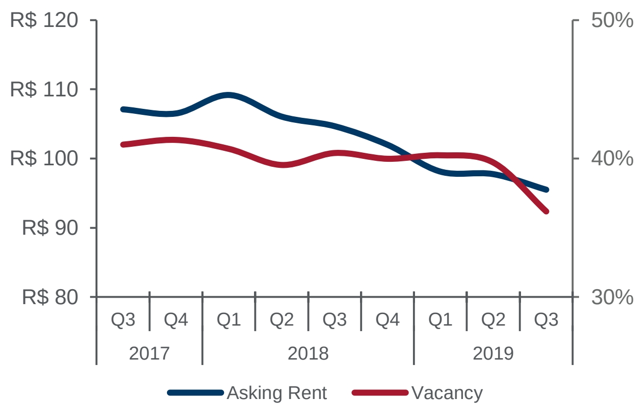
Net Absorption x New Inventory x Vacancy – CBD Class A and A+

Source: Cushman & Wakefield



Asking Rent x Vacancy – Class A and A+

Source: Cushman & Wakefield



**The vacancy rate calculated and established by Cushman & Wakefield, which takes into account the effective occupation is 36.18%, While the commercial vacancy rate considering tracked leases in Rio de Janeiro CBD classes A and A+ closed the quarter at 31.72%.*

Office Q3 2019

Occupancy

The net absorption this quarter was positive, totaling 55 thousand square meters (k sq.m) in A and A+ market for the CBD, resulting in a 3.52% drop in the vacancy to 36.18% over the previous quarter.

The Porto region recorded the highest net absorption in its history with 48.5k sq.m,, mostly concentrated in the Port Corporate building, where Bradesco took 35k sq.m. Additionally, the Orla region had a positive value, 6.4k sq.m. Centro, on the other hand, did not show good results.

Average Asking Rents

The average asking price in Rio de Janeiro has fallen since the first quarter of 2018, mainly due to the high vacancy rate in the city. Therefore, this adverse scenario continues favoring the tenant side, which still having power of negotiation, options to choose better location and worth buildings.

The average asking rent in Rio de Janeiro decreased 2.36% in the third quarter compared to the previous one, reaching at R$ 95.48. The country's economic instability and the high vacancy rate in the city tend to push prices down in the medium term, unless the economy show signs of recovery.

Pipeline

Recent, Rio de Janeiro has shown an increase of “flight to quality” demand for corporate spaces, while it wasn’t optimistic during the interval of 2014 and July, 2019 - when the vacancy has grown from 8.57% to 42.77%. This can be explained by the unfavorable economic scenario and the deacceleration of oil & gas growth. Moreover, due to the current low demand, many projects have been postponed or canceled.

With that being said, there are no plans to deliver A and A + new developments for the year end of 2019 and 2020 in Rio de Janeiro.

Barra da Tijuca (NCBD)

The classes A and A+ market in Barra da Tijuca’s region is in line with the indexes obtained in the CBD’s submarkets of Rio de Janeiro, but with less expressive results, once economic conditions tend to impact the entire city.

The second quarter of 2019 ended with a vacancy rate of 31.77%, while in the end of the third quarter, this rate decreased by 0.28 p.p., reaching at 31.49%. This fact can be explained by the positive absorption of 505 sq.m in the region. However, despite an improvement in this ratio, no new inventory was presented for this quarter.

The average asking price showed a slightly increased: 0.29% over the previous quarter, reaching at R$90.20 against R$89.90 in the second quarter.

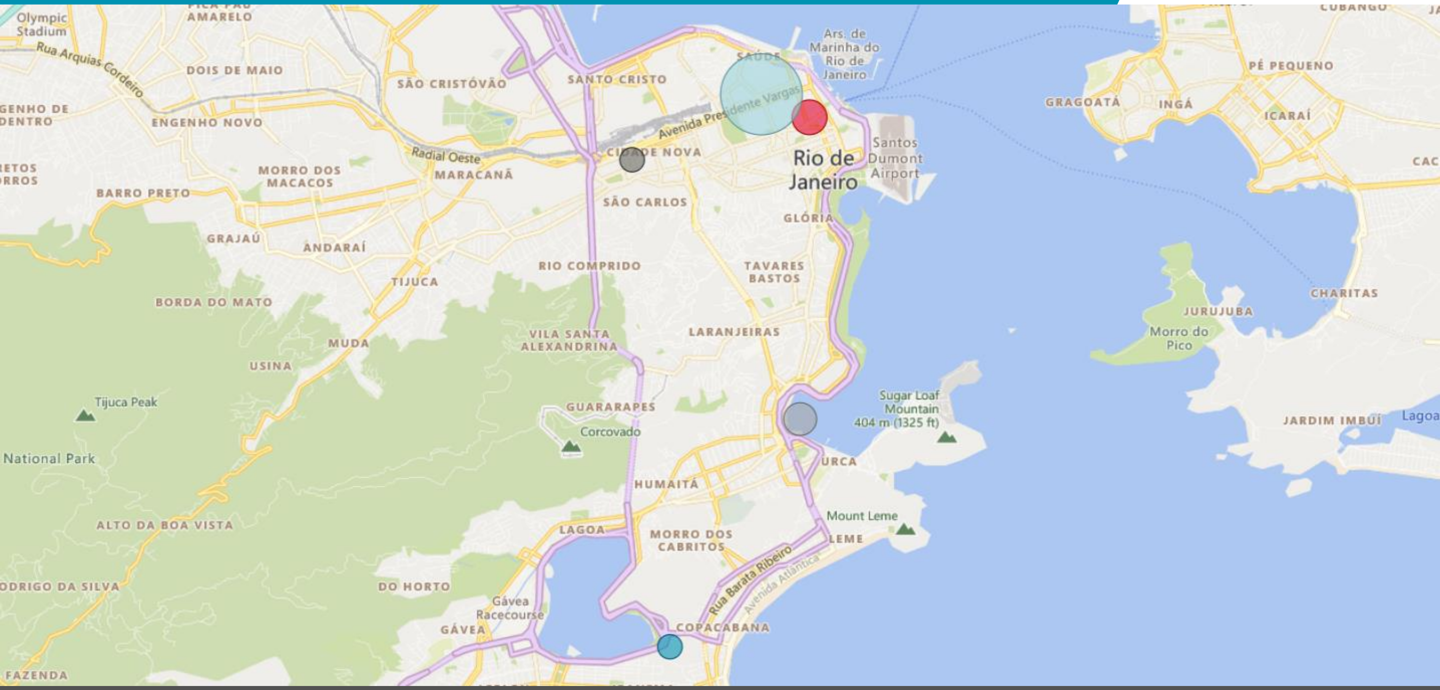
OFFICE

MARKETBEAT

Rio de Janeiro

Office Q3 2019

Bubble Map



Major Market Centro Cidade Nova Orla Porto Zona Sul

Volume of Gross Absorption

The map above shows the volume of gross absorption in each major market in the CBD region classes A and A+ in Rio de Janeiro. The total gross absorption for this quarter were 64.6k sq.m, coming from Center region, with 8.9k sq.m; Orla region with 7.1k sq.m and Porto region with 48.5k sq.m.

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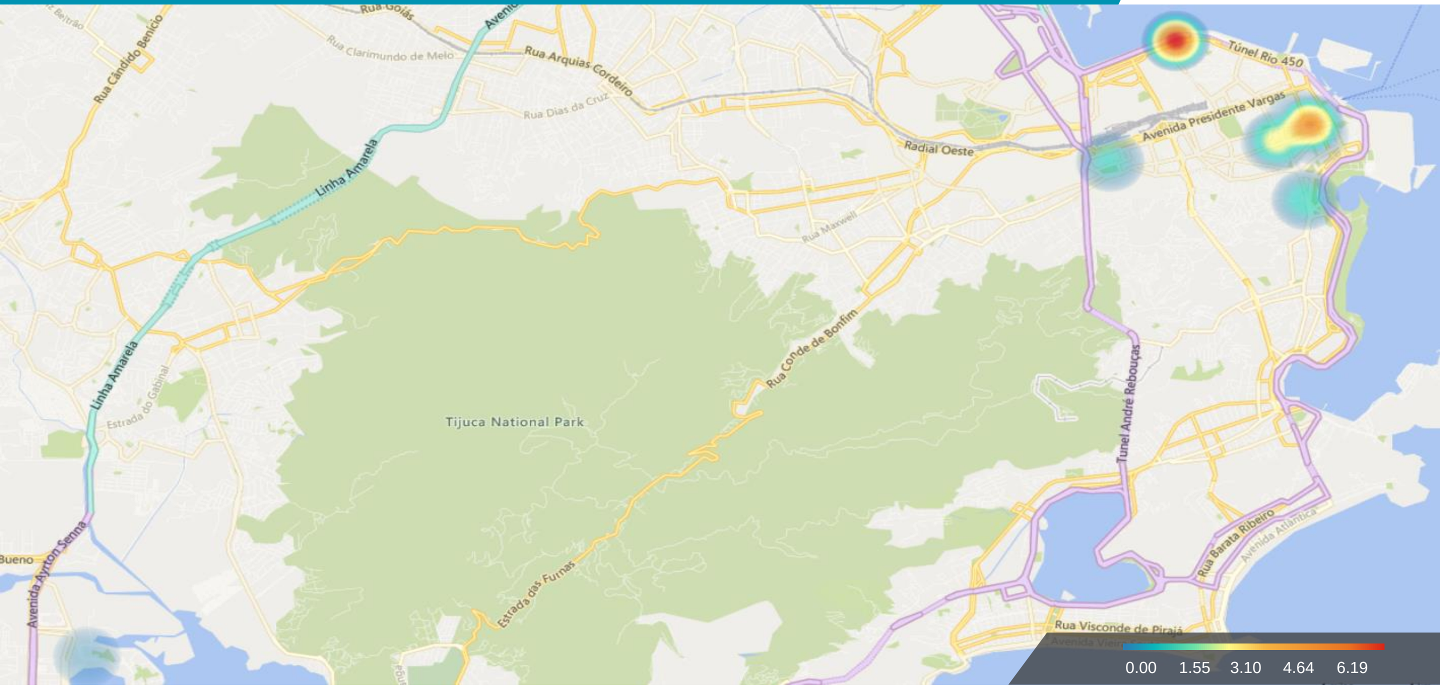
MARKETBEAT

Rio de Janeiro

Office Q3 2019

Heat Map



Transactions

In Rio de Janeiro, the corporate market is showing positive signs of improvement in the CBD classes A and A+ regions in aspects of occupancy and a decrease in the vacancy rate. The regions that showed most representative results were Porto, with a 15k sq.m leases, with Enel being the most responsible for it, at Aqwa Corporate, followed by Centro with more than 5k sq.m. Orla and Cidade Nova contributed together with more than 4k sq.m.

Office Q3 2019

SUBMARKET	NUMBER OF BUILDINGS	INVENTORY (,000 sq.m)	AVAILABLE AREA (,000 sq.m)	VACANCY RATE	NET ABSORPTION (Q3)	NET ABSORPTION (ANNUAL)	UNDER CONTRUCTION*	ASKING RENT (ALL CLASSES)	ASKING RENT (CLASS AA+)
Centro	37	921.3	290.5	31.5%	93.3	5,648.0	-	72.0	104.0
Cidade Nova	7	239.9	121.7	50.7%	-	(12,000.0)	-	69.3	70.0
Orla	13	181.3	39.9	22.0%	6,406.0	8,719.0	-	94.6	103.6
Zona Sul	4	19.6	3.2	16.5%	-	2,473.1	-	153.3	240.2
Porto	8	201.0	110.3	54.9%	4,.597.6	46,278.3	-	81.5	95.6
TOTAL CLASS A and A+ CBD									
CBD	69	1,563.1	565.5	36.2%	55,096.9	51,118.4	-	75.8	95.5
TOTAL CLASS A and A+ NCBD									
Barra da Tijuca	30	181,852.0	57,269.1	31.5%	505.0	(89.0)	-	52.8	90.2

*We consider "Under Construction" buildings with delivery scheduled until 3Q 2022

BUILDING	AREA (sq.m)	TENANT / BUYER	TRANSACTION TYPE	SUBMARKET
Aqwa Corporate	14,000	ENEL	Lease	Porto
Ventura Corporate Towers - Torre Leste	5,607	Souza Cruz	Lease	Centro
Glória 122	2,569	Sinaf Seguros	Lease	Orla
Centro Administrativo Cidade Nova	1,849	Technip Brazil	Lease	Cidade Nova
Vista Guanabara	1,811	Bahia Holding	Lease	Porto

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MARKETBEAT

Rio de Janeiro

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Office Q3 2019

REGIONS

CBD

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

Non-CBD

- Barra da Tijuca

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About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.