



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)
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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)
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Vacancy	22.7%	20.7%	↓
Net Absorption (,000)	79.2	28.8	↑
New Deliveries (,000)	41.7	8.6	↑
Avg. Asking Rent (R\$)	90.9	90.4	↑

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.



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Market Overview

There was positive momentum in the third quarter of 2019 with the recovery of São Paulo's CBD class A and A+ office market.

The vacancy rate had its second drop in a row, a reduction of 0.7 p.p., reaching at 20.7%. This result is largely due to the positive net absorption of 28.8 thousand square meter (k sq.m), mainly concentrated in the regions of JK, Chucrí Zaidan and Faria Lima. Moreover, the JK region stood out with the best performance this quarter, with a 58.6% vacancy drop (QoQ), reaching a vacancy rate of 2.8% - the region's lowest rate.

Furthermore, São Paulo's CBD class A and A+ asking rent also had sharp results, increasing by R\$1.90 and closing out the quarter at R\$90.41, the highest value so far this year.

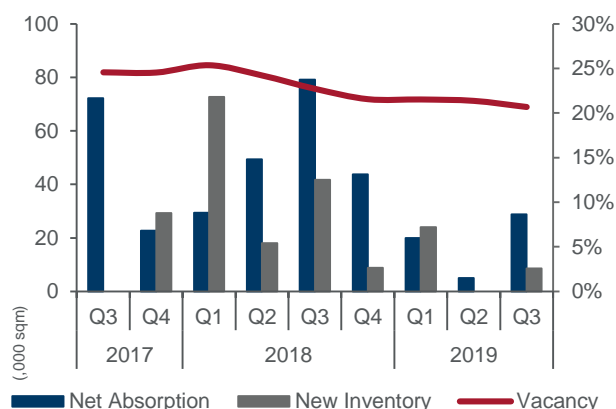


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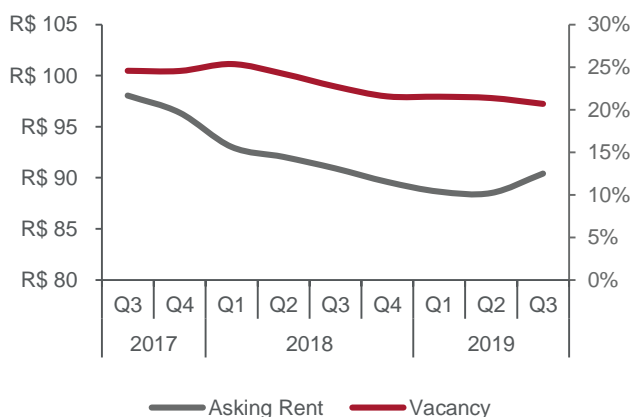
Net Absorption x New Inventory x Vacancy – CBD Class A and A+

Source: Cushman & Wakefield



Asking Rent/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 at 20.7%. While the commercial vacancy rate considering tracked leases in São Paulo CBD classes A and A+ closed the quarter at 14.7%.



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Pipeline

The Paulista region delivered the only class A new inventory in the third quarter, with the 8.6k sq.m - Safra Paulista building. This delivery impacted the region by raising the asking rent and the vacancy rate.

In the fourth quarter, two Class A buildings are expected to be delivered. The Seculum II at Faria Lima avenue, which already has 7.3k sq.m pre-leased (total of 13.3k sq.m under-construction) and Centenarinho in Berrini's region, totaling 16.5k sq.m totally pre-leased to WeWork, however, it has been sublet to a very fast-growing financial company.

Average Asking Rents

There was a strong R\$1.90 increase in the asking rent for the CBD Class A and A + region this quarter, which pushed the rate to R\$90.41, the highest value since October, 2018.

This increase was underpinned by prime regions, such as the Paulista region, which presented an increase of R\$7.15 in asking rent, reaching at R\$118.73. This was due to the Safra Paulista building, broke ground with 100% vacancy, putting upward pressure on prices for the region.

Additionally, another prominent region was Faria Lima, one of the first regions to respond the country's economic recovery, despite having one of the highest asking rents in the country. The region registered the largest asking rent increase (R\$9.90), reaching R\$146.88, or the highest value since the first quarter of 2017.

Occupancy

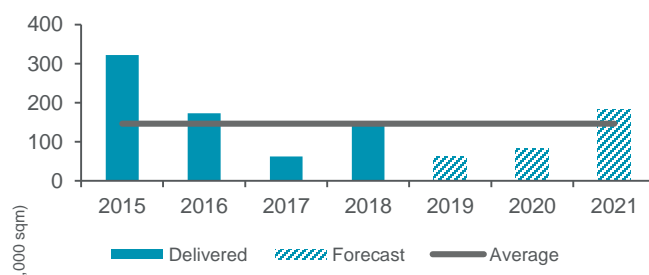
Third quarter net absorption was the most impressive this year at +28.8k sq.m for the CDB class A and A+ regions. This high volume pushed down the vacancy rate to 3.2% from 20.7%.

This absorption was mainly concentrated in the JK region, which had a positive net absorption of 13.2k sq.m, as a result of Microsoft's occupation in São Paulo Corporate Towers and Amazon in Wtorre JK. Moreover, Chucri Zaidan recorded a significant net absorption of +9.1k sq.m, partly due to the absorption of Alpargatas in Wtorre Morumbi, causing a decrease of 1.4 p.p. in the region's vacancy rate, and closing out at 25.1%.

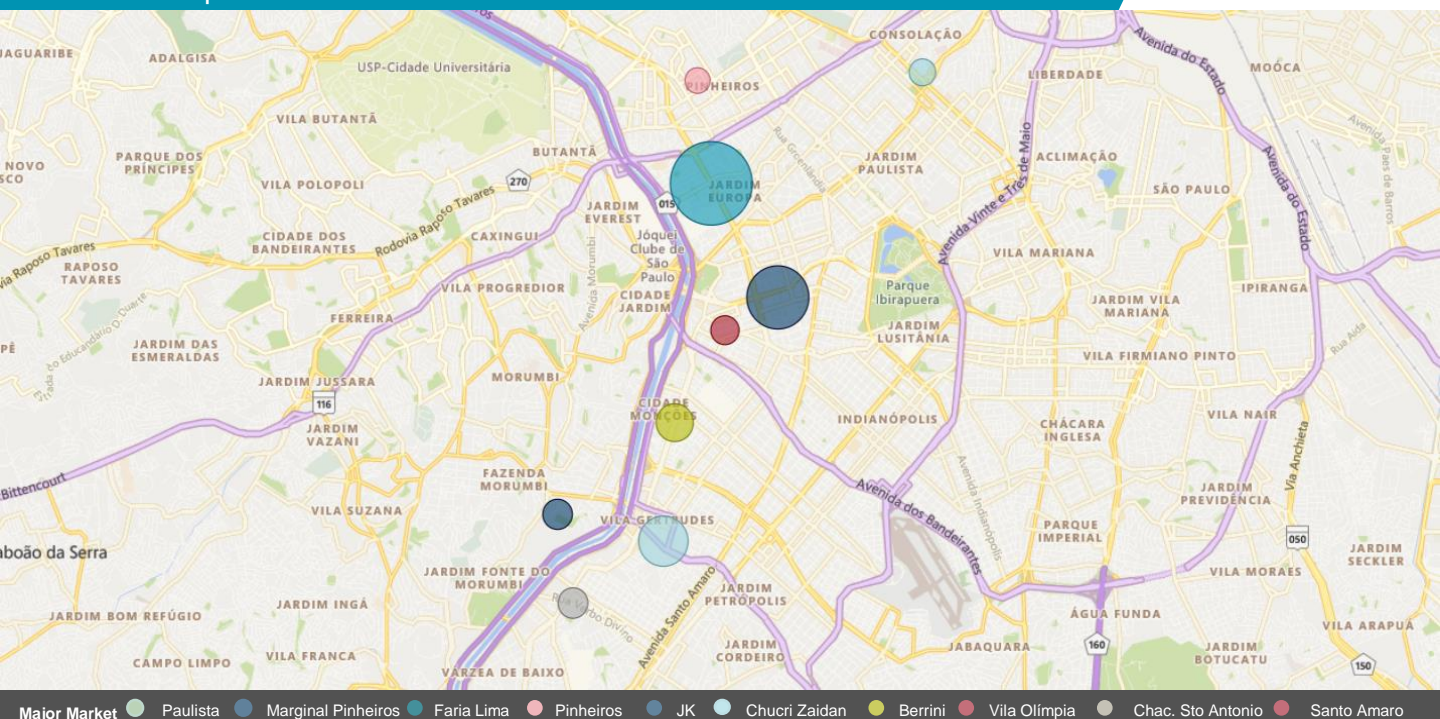
Therefore, another region that boosted the overall market results was Faria Lima, with 4.1k sq.m of net absorption. As a result of Bradesco BBI becoming fully occupied, the vacancy rate fell by 6.4% (QoQ), dropping to 12.8%, the lowest value in the region since the third quarter of 2012. On the other hand, Paulista was the only prime region that recorded an increase in the vacancy rate, as a result of new inventory with 100% vacancy, which pushed the rate up by 2.6 p.p., going from 12.6% to 15.1%.

New Inventory – CBD Class A and A+

Source: Cushman & Wakefield



Bubble Map

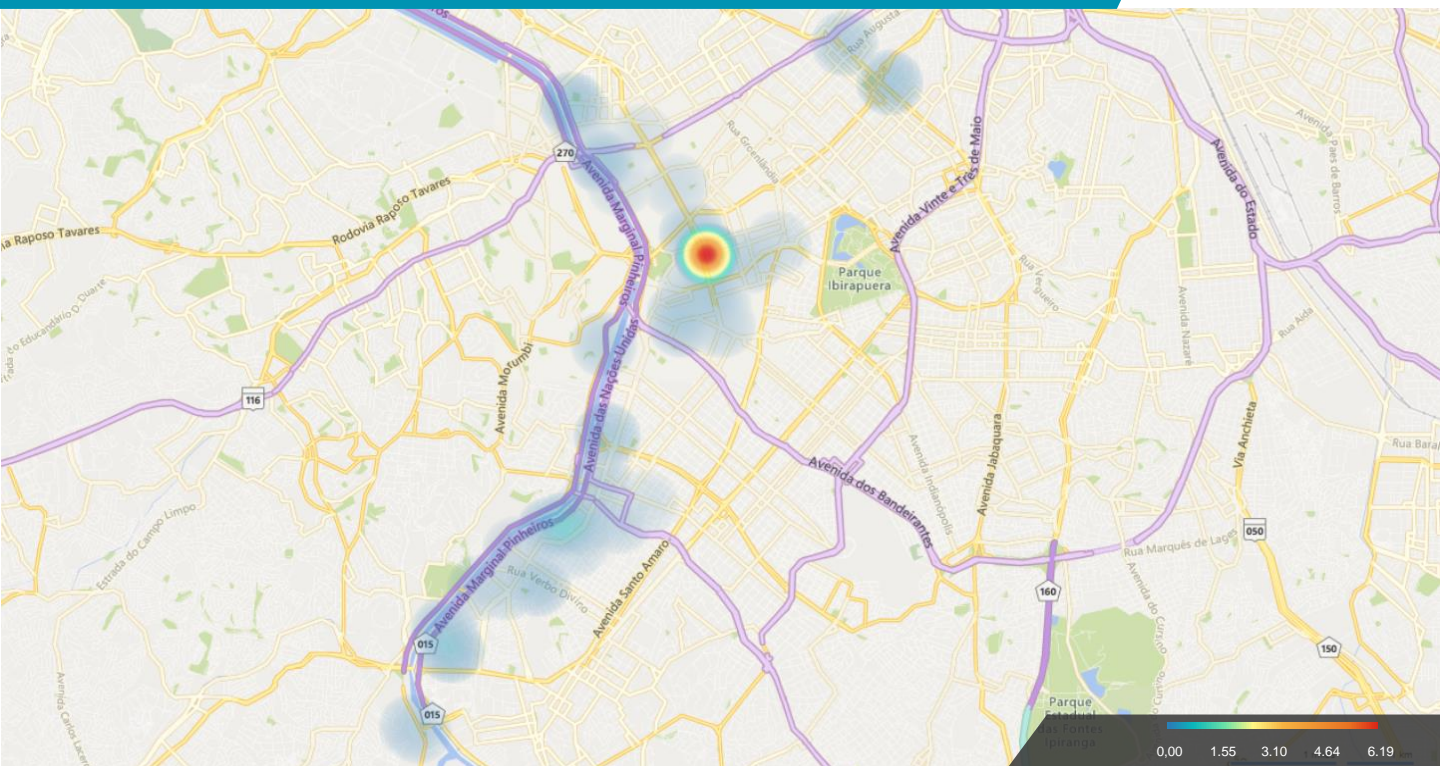


On the other hand, the regions with the lowest gross absorption volume were Paulista (0.6k sq.m) and Pinheiros (0.2k sq.m).



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Heat Map



Transactions

The heat map is based on the number of transactions made during the third quarter of 2019. The highlighted areas in red represent the most active regions, with Faria Lima having the highest transaction volume in the quarter, followed by Chucuri Zaidan and Chácara Santo Antônio

MARKETBEAT

São Paulo


CUSHMAN & WAKEFIELD

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 CONSTRUCTION*	ASKING RENT (ALL CLASSES)	ASKING RENT (CLASS AA+)
Paulista	16	282.2	42.7	15.1%	212.9	(10,742.8)	16,514	81.9	118.7
Pinheiros	18	273.3	28.6	10.5%	12.0	7,942.5	-	67.0	90.9
Faria Lima	26	468.9	60.1	12.8%	4,106.5	15,954.5	104,850	121.7	146.9
Itaim	4	72.6	2.9	4.0%	-	(451.0)	-	66.5	156.4
Vila Olimpia	15	223.2	35.8	16.0%	(9.0)	(2,684.8)	8,000	80.3	113.4
Berrini	10	298.6	53.3	17.9%	1,214.0	5,450.8	16,495	75.4	89.7
Chac. Sto. Antonio	18	235.8	103.8	44.0%	(917.0)	18,843.7	-	60.4	67.5
Marginal Pinheiros	20	225.0	90.6	40.2%	1,852.0	(5,614.2)	36,777	58.6	69.8
Chucrí Zaidan	24	670.3	168.4	25.1%	9,125.0	(9,751.4)	120,453	84.0	94.8
JK	12	340.2	9.4	2.8%	13,242.2	25,724.6	-	100.2	121.1
Santo Amaro	8	113.3	66.4	58.6%	-	9,067.3	-	45.0	52.6
TOTAL CLASS A and A+ CBD									

CBD	171	3,203.3	661.9	20.7%	28,838.6	53,739.3	303,089	74.1	90.4
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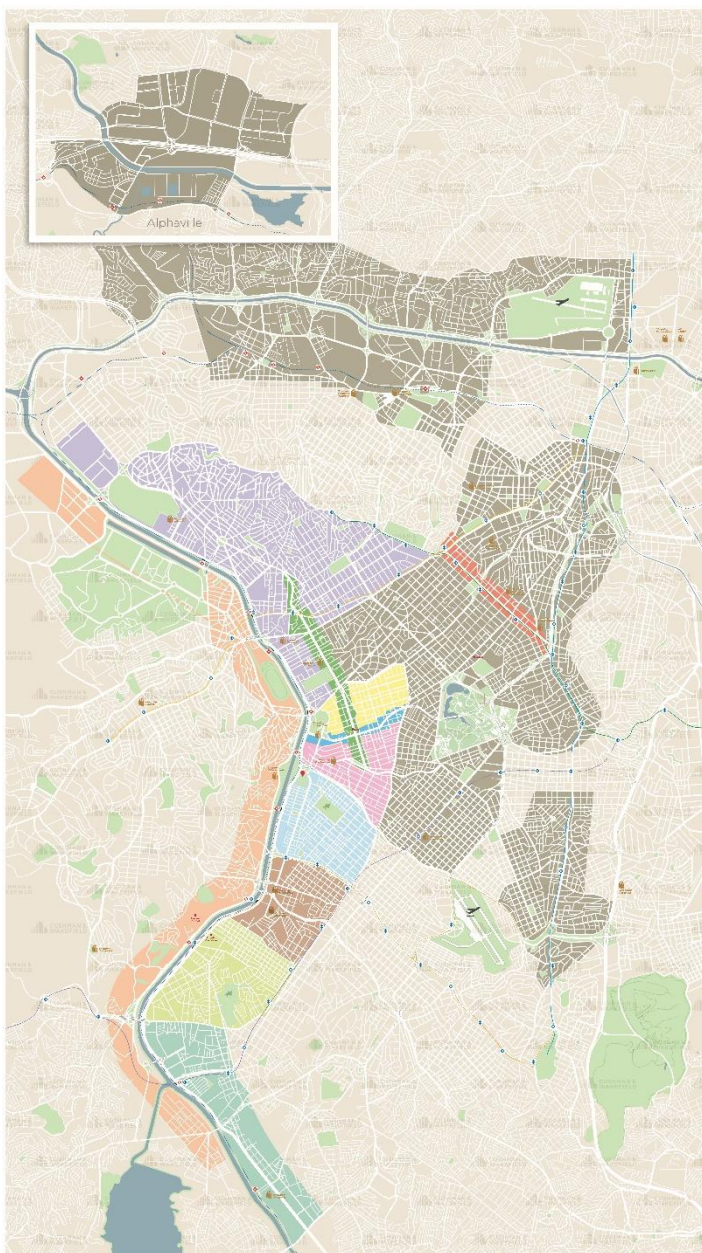
* We consider "Under Construction" buildings with delivery scheduled until 3Q 2023

Main Transactions Q3 2019

BUILDING	AREA (sq.m)	TENANT / BUYER	TRANSACTION TYPE	SUBMARKET
Chucrí Zaidan	21,000	CSHG Real Estate	Sale	Chucrí Zaidan
Birmann 21	7,500	Sem Parar	Lease	Pinheiros
Brazilian Financial Center	6,858	Itaú Unibanco	Lease	Paulista
17007 Nações - Sigma	6,639	Syngenta	Lease	Chac. Sto. Antônio
Parque da Cidade - Jequitibá	5,044	Takeda	Lease	Chucrí Zaidan



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REGIONS

CBD

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

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