

	YoY Chg	12-Mo. Forecast
<b>33.4%</b> Vacancy Rate	▼	▼
<b>9.8 K</b> Net Absorption (sq.m)	▲	▲
<b>BRL 93.82</b> Asking Rent (BRL/sq.m)	▼	▼

(CBD Class A)

**ECONOMIC INDICATORS 2020**

	YoY Chg	12-Mo. Forecast
<b>-1.5%</b> Brazil Q1 GDP (QoQ)	▼	▲
<b>13.2%</b> Unemployment Rate (May/20)	▲	▲
<b>1.88%</b> CPI Inflation (12 months)	▼	▲

Source: Tesouro Direto

**ECONOMIC SCENARIO**

Regional economic indicators fell sharply during the second quarter. The labor market increased by 0.7 percentage points between April and May, the consumer confidence index registered its worst historical performance in April – (59.3) but recovered 20% in June. In turn, prices accumulated during the year registered a deflation of 0.16% and the forecast for second-quarter GDP is a drop of approximately 10% compared to the first quarter of the year.

As noted, the COVID-19 pandemic struck Brazil in March 2020, late in the quarter, but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the Brazilian economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).”

**DEMAND: Turnover After Weak First Quarter**

Rio de Janeiro’s class A CBD market ended the second quarter of the year with a net absorption of 9.8 thousand sq.m (k sq.m), compared to negative 2.5 k sq.m in the first quarter. This resulted after recent occupations by companies that had leased space before COVID-19. The absorption rate was concentrated mainly in the Orla (4.9 k sq.m) and Centro (4.8 k sq.m) regions. Still, the class A CBD market registered an increase of 16.8% of the net absorption (YoY). Despite a few departures in the current quarter, mostly by oil companies, important occupations such as Allianz Seguros with about 8,000 sq.m in the Centro region and Sinaf with 3,200 sq.m in Orla were responsible for the positive result.

**PRICING: Asking Rents are Decreasing**

The average asking rent for Rio de Janeiro’s class A CBD market has dropped since the first quarter of 2018, as can be seen at the graph below. This drop is primarily due to the city’s high vacancy rate. Because of this, Rio de Janeiro has a tenant favorable market - where they have bargaining power and the chance to choose better regions and buildings in the city. Still, in the class A CBD market, there was a drop of 0.90% (QoQ) in its asking rent, reaching BRL 93.82/sq.m/month at the second quarter of the year. In a YoY comparison, rents decreased 3.49%. Since 2005, the highest asking rent was BRL 225.01/sq.m in 2011Q3, Zona Sul being the main behind that figure. Besides city’s high vacancy rate, the country’s economic instability will tend to bring prices down in the medium term, until signs of recovery in the market are registered.

**SPACE DEMAND / DELIVERIES – CBD A**



**OVERALL VACANCY & ASKING RENT – CBD A**





## Market Overview

The Rio de Janeiro CBD class A market is showing signs of recovery with a drop at vacancy rate since 2016Q2, reaching 33.39% for second quarter 2020. Net absorption totaled almost 10,000 sq.m, mainly due to activity in Orla and Centro. In addition, there were around 80,000 sq.m that were pre-leased and that are going to be occupied in medium and long term, which will even further reduce availability in the city.

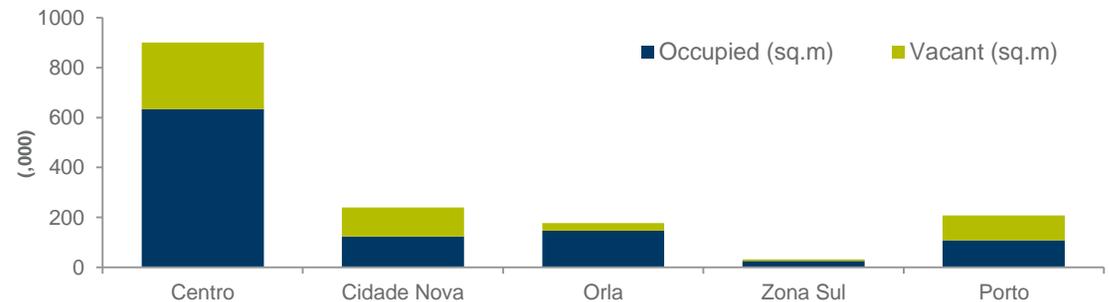
Centro is one of the most attractive regions of the city due to its central location and accessibility, so the demand for corporate space there tends to be greater. However, once it has a larger inventory, the vacancy rate is still high, reaching almost at 30%. Zona Sul and Orla have smaller inventories and leads the regions with the lowest vacancy rates. With regards to Porto, and its recent revitalization, the region has started to attract more corporate tenants and may attract new corporate office buildings soon.

On the other hand, due to the high occupancy of oil and gas companies in the city, one of the highlights of the quarter was the reduction of space once occupied by big players of the sector, which departed from significant areas in class A buildings. However, bank and insurance companies, as well as legal companies, leased the largest amount of space in the current quarter, one of the positive highlights of the period.

## Pipeline

Rio de Janeiro has not had new deliveries since 2018. Due to the harsh economic environment the country has been going through, many projects had to stop construction. Banco Central's project, at Porto region, is still stalled and it is not expected to continue in the next years. Aside from this, Barra da Tijuca also has a few new construction projects that have been interrupted and that will not continue in the short term.

## SUBMARKET COMPARISON

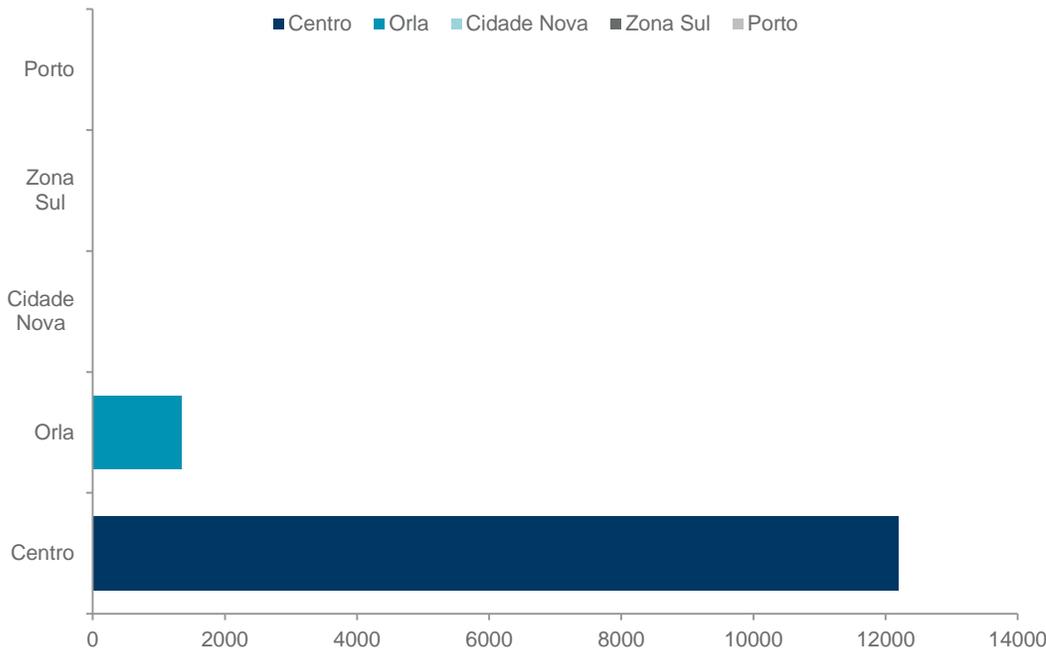


## SUBMARKETS



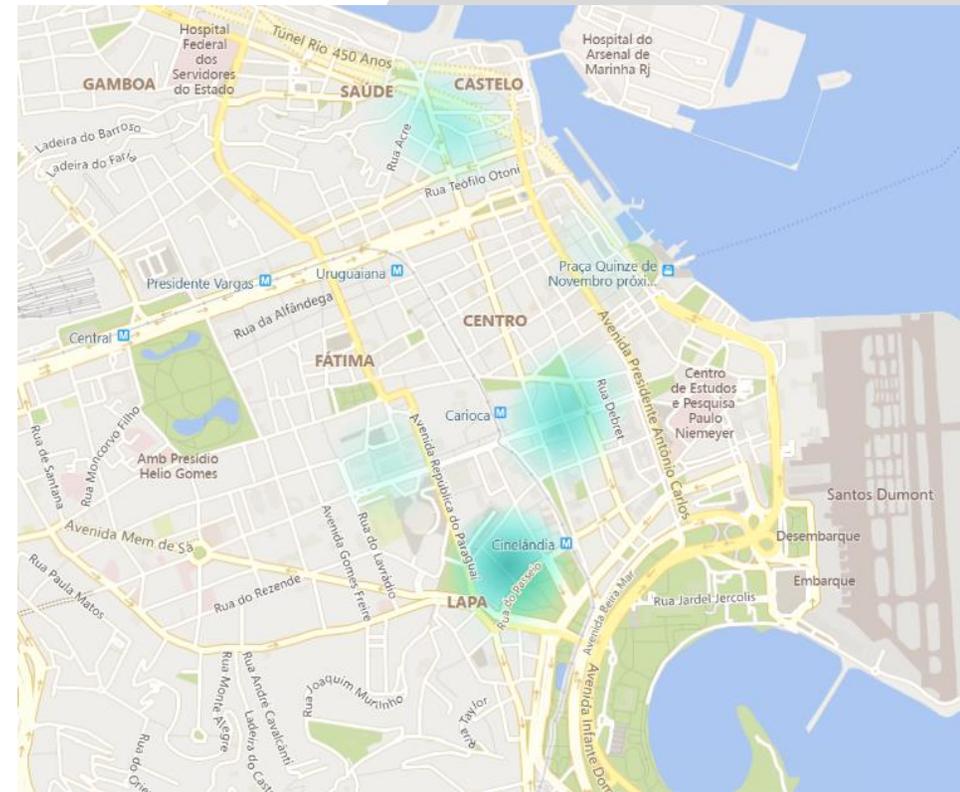
\*The vacancy rate calculated and established by Cushman & Wakefield, which takes into account the effective occupation is at 33.39%, While the commercial vacancy rate considering tracked leases in Rio De Janeiro CBD classes A and A+ closed out the year at 27.99%.

## Leasing Activity - 2020Q2



Centro is still one of the regions with the highest number of leases in the city. Orla followed closely, and together both regions registered 13,500 sq.m in lease transactions. Despite the current economic situation, leasing for 2020Q2 was positive even though not as active as it was in previous quarters. On the other hand, regions such as Cidade Nova, Zona Sul and Porto did not register new leases.

## Heat Map - 2020Q2



The heat map is based on the number of transactions throughout 2020Q2. The Centro region is highlighted due to leases in buildings such as Torre Almirante, Vista Mauá, Linneo de Paula Machado, among others, which should push the vacancy rate down in a short term.

## MARKET STATISTICS

SUBMARKET	NUMBER OF BUILDINGS	INVENTORY (SQ.M)	AVAIL AREA(SQ.M)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SQ.M)	CURRENT QTR OVERALL GROSS ABSORPTION (SQ.M)	LEASING ACTIVITY (SQ.M)	UNDER CNSTR (SQ.M)	OVERALL AVG ASKING RENT (MONTH) (ALL CLASSES)*	OVERALL AVG ASKING RENT (MONTH) (CLASS A)*
Centro	36	900,273	266,039	29.55%	4,769	11,894	12,194	-	BRL 69.1	BRL 99.3
Cidade Nova	7	239,817	116,808	48.71%	-	-	-	-	BRL 69.3	BRL 70.0
Orla	12	177,567	30,914	17.4%	4,926	4,926	1,342	-	BRL 92.4	BRL103.8
Zona Sul	5	31,506	6,122	19.43%	167	539	-	-	BRL 148.2	BRL198.4
Porto	8	207,770	99,904	48.08%	-	-	-	-	BRL 80.7	BRL 97.7
<b>TOTAL CBD A</b>	<b>68</b>	<b>1,556,934</b>	<b>519,786</b>	<b>33.39%</b>	<b>9,862</b>	<b>17,359</b>	<b>13,536</b>	<b>-</b>	<b>BRL 73.4</b>	<b>BRL 93.8</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	AREA (sq.m)	TYPE
Torre Almirante	Centro	Marsh Corretora de Seguros	1,781	Lease
Vista Mauá	Centro	Stocche Forbes	1,392	Lease
Linneo de Paula Machado	Centro	Wood Mackenzie	464	Lease
Porto Brasilis	Centro	Inspira Rede de Educadores	921	Lease
Linneo de Paula Machado	Centro	E-xyon	1,183	Lease
Ventura Corporate Towers - Torre Oeste	Centro	EDF Norte Fluminense	1,261	Lease
Flamengo Tower Empresarial - Torre 1	Orla	ECAD	671	Lease
BVEP Nigri Plaza	Centro	Blue Trade Invest	750	Lease

\*Renewals not included in leasing statistics

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