

	YoY Chg	12-Mo. Forecast
36.7% Vacancy Rate	▲	▼
-19.8K Net Absorption (sq.m)	▼	▲
BRL 89.53 Asking Rent (BRL/sq.m)	▼	▼

(CBD Class A)

ECONOMIC INDICATORS 2021

	YoY Chg	12-Mo. Forecast
-0.1% 2021Q2 GDP (QoQ)	▼	▲
13.7% Unemployment Rate (July/21)	▼	▼
10.25% CPI Inflation (12 months)	▲	▼

Source: LCA

ECONOMIC SCENARIO

During the third quarter of 2021, Brazil has made great progress in its COVID-19 vaccination rollout, significantly reducing the number of infections and deaths caused by the disease. The government mitigated the mobility restraining policies, owing to the increase in vaccination rollout which may lead to a better retail scenario. Although, according to August's Monthly Survey of Trade, this month's sales volume decreased 3.10% if compared to July's, and the Consumer Confidence Index (CCI) dropped 6.7% in September, reflecting the undermined consumer purchasing power due to inflation.

Unemployment remains elevated, even though recorded a slight decrease in the rate, which reached 13.70% in July. Amid the positive data, the underemployed workers (those working fewer hours than they aim to) reached an all-time high. The country's consumer price index (IPCA) increased 1.16% in September, and the variation in the last twelve months is around 10.25%, the highest level since 2016. The fuels prices are the main driver to the generalized prices increases of the CPI's basket of goods, for its pricing policy – Petrobras fuel is pegged to international commodities price.

DEMAND: Downturn Absorptions

Rio de Janeiro's class A CBD market closed out the third quarter of the year with negative net absorption of 19,767 sq.m. This was mainly due to a large exit in *Cidade Nova* by an engineering company, which has already leased a new space in the same region and should be occupied in the coming months. As a result, 2021Q3 had the highest vacancy rate of the year.

The third quarter of the year totaled 28,797 sq.m leased and, despite the large number of leases that the city is recording, some occupations continue to be postponed by tenants due to the social distancing measures imposed by the government. With the gradual return to offices, the vacancy rate is expected to drop again, even if it remains at high levels until there are signs of economic improvement.

PRICING: Asking Rents are Decreasing

Rio de Janeiro has seen consecutive drop in its average asking price due to the city's high vacancy rate and the flight-to-quality/flight-to-price movement since the first quarter of 2018. This situation is favorable to tenants, who acquire greater bargaining power in the asking price negotiation and can move to well-located regions and buildings in the city. The Class A CBD market closed out 2021Q3 with average asking rent of BRL 89.53 per sq.m/month, a drop of 2% (QoQ) and 4.80% (YoY). The decrease occurs mainly after departures in less expansive buildings besides price reduction by the owners. The rental prices have been unable to move upwards due to the high vacancy rate as much as the lack of new inventory in the region. Since January 2019, when Rio de Janeiro reached BRL 99.65 per sq.m/month, asking prices have not exceeded this value.

SPACE DEMAND / DELIVERIES – CBD A



ASKING RENT / VACANCY – CBD A



RIO DE JANEIRO

Office Q3 2021



Market Overview

Rio de Janeiro's Class A CBD market contains around 125,000 sq.m of leased space that is waiting to be occupied. The occupations continue to be postponed aiming to reduce the spread of COVID-19. Companies started to return to offices but adopting the hybrid model of work, which triggers the reduction of area in the corporative spaces. Therefore, at the end of 2021Q3, after a negative net absorption of 19,767 sq.m, the vacancy rate increased by 1.28 p.p. (QoQ) reaching 36.7% in September.

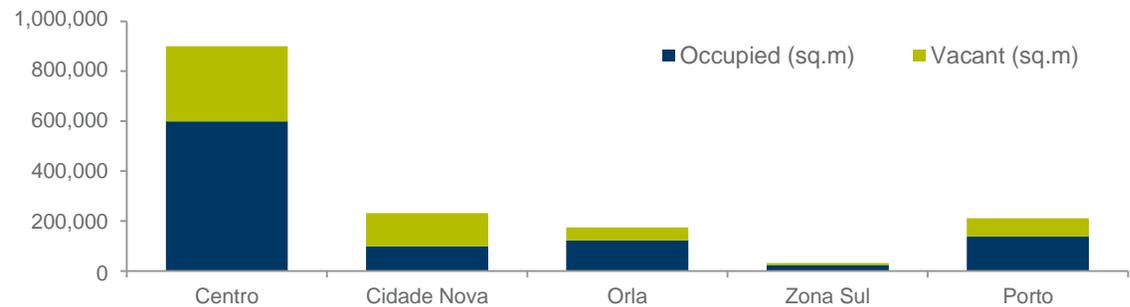
Despite *Centro* is one of the most attractive regions of the city and with the highest number of leases in the past months, tenants still have a wider range of options in a well-located region due to a large number of vacant spaces. With more than 17,000 sq.m leased area, *Centro* stood out in the quarter after 10,017 sq.m rented by a company in the educational sector. However, due to its large inventory, the vacancy rate remains at high levels, reaching 33.5% by the end of the third quarter (+0.60 p.p. QoQ).

Cidade Nova also had a large lease by an engineering company at the current quarter in a building that hasn't receive tenants since its delivery in 2015. On the other hand, the same company left a larger area in another building in the same region, which held an increase in the vacancy rated (+5.41 p.p. QoQ).

Pipeline

The office market in Rio de Janeiro is currently oversupplied. The new buildings, which were delivered till 2018, are gradually being absorbed. Additionally, the vacancy rate should be pressured only from the demand side, once there is a lack of new inventory for the coming years. Due to the high vacancy rate and the reduced rental price, the city is going through a flight-to-quality/flight-to-price moment.

SUBMARKET COMPARISON

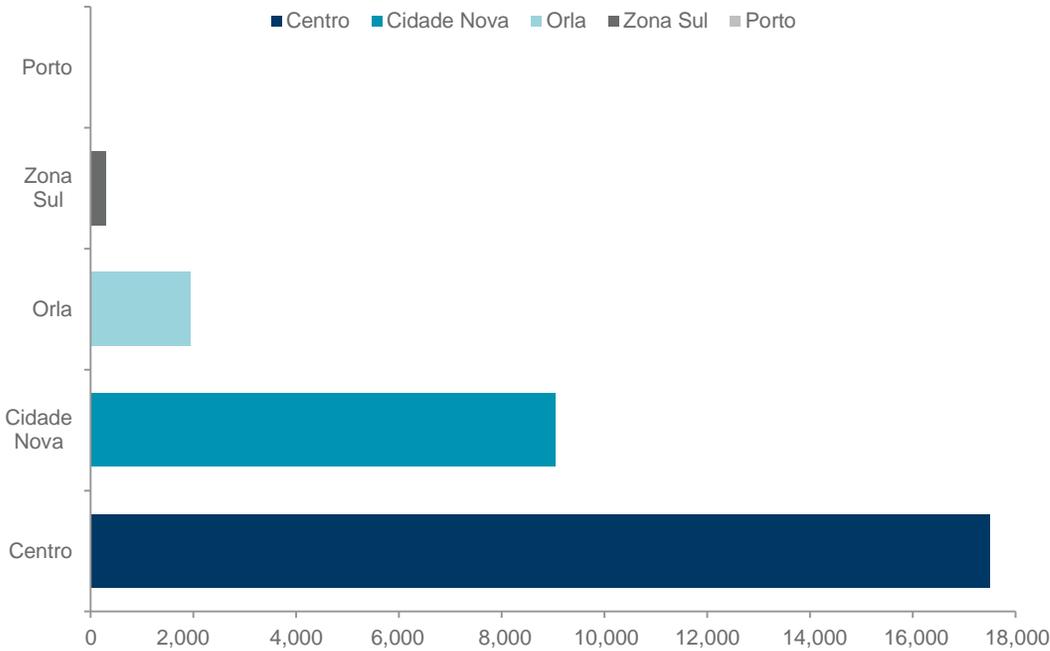


SUBMARKETS

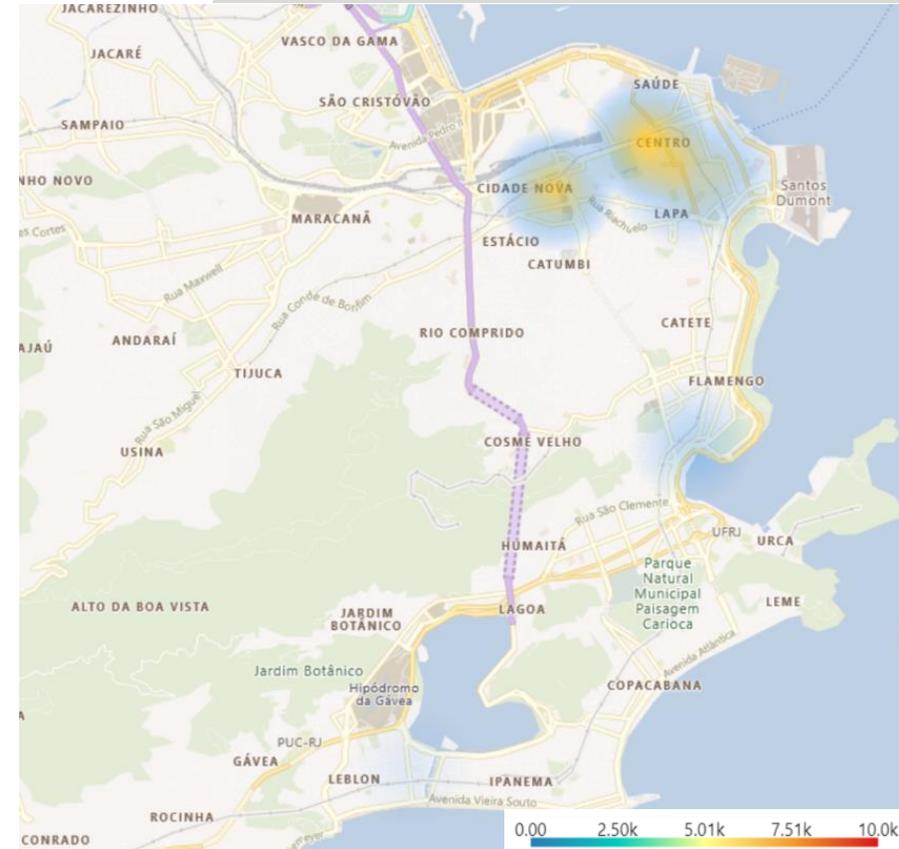


*The vacancy rate calculated and established by Cushman & Wakefield, which takes into account the effective occupation is at 36.7%. While the commercial vacancy rate considering tracked leases in Rio De Janeiro CBD class A closed out the third quarter at 29.0%.

Leasing Activity - 2021Q3



Heat Map - 2021Q3



During the third quarter of 2021, Rio de Janeiro totaled 28,797 sq.m in leases. *Centro* region had 17,502 sq.m leased, followed by *Cidade Nova* (9,052 sq.m), *Orla* (1,940 sq.m) and *Zona Sul* (303 sq.m). The most significant leases were by a company in the educational sector in *Centro* (10,017 sq.m) and the 9,052 sq.m by an engineering company in *Cidade Nova*.

Given the current moment of flight-to-quality/flight-to-price movements, and the return of companies to offices as vaccination advances, a reduction in the vacancy rate is expected in the coming months. For this quarter, however, there was an increase in the vacancy rate due to the negative net absorption.

The heat map records the number of leases that occurred during 2021Q3. *Centro* region registered leases at *Presidente Vargas*, *Cinelandia*, *Castelo* and *Microcentro* RJ regions. The most representative one was in *Presidente Vargas*, with 10,017 sq.m leased by a company in the educational sector. *Cidade Nova* region registered 9,052 sq.m, while *Zona Sul* registered 303 sq.m in *Leblon* and *Orla* registered 1,940 sq.m in *Botafogo*.

MARKET STATISTICS

SUBMARKET	NUMBER OF BUILDINGS	INVENTORY (SQ.M)	AVAILABLE AREA(SQ.M)	DIRECT VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION (SQ.M)	CURRENT QTR DIRECT GROSS ABSORPTION (SQ.M)	LEASING ACTIVITY (SQ.M)	UNDER CONSTRUCTION (SQ.M)	DIRECT AVG ASKING RENT (MONTH) (ALL CLASSES)*	DIRECT AVG ASKING RENT (MONTH) (CLASS A)*
Centro	36	900,690	301,817	33.5%	-5,428	1,614	17,502	-	BRL 64.34	BRL95.14
Cidade Nova	7	232,015	133,050	57.3%	-12,544	-	9,052	-	BRL 63.99	BRL 66.90
Orla	12	173,976	52,278	30.0%	-1,492	-	1,940	-	BRL 86.31	BRL 103.07
Zona Sul	5	30,745	7,684	25.0%	-303	-	303	-	BRL 135.12	BRL 201.80
Porto	8	211,256	74,290	35.2%	0	-	-	-	BRL 68.71	BRL 88.09
Barra da Tijuca	30	194,388	72,603	37.3%	501	794	1,588	-	BRL 50.64	BRL 72.98
TOTAL CBD AA+	68	1,548,683	569,118	36.7%	-19,767	1,614	28,797	-	BRL 67.17	BRL 89.53

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	AREA (sq.m)	TYPE
Vista Carioca 1111	Centro	Idomed	10,017	Lease
ECO Sapucaí	Cidade Nova	Technip	9,052	Lease
Torre Oscar Niemeyer – FGV	Orla	3R Petroleum	1,940	Lease
Ventura Corporate Towers – Torre Leste	Centro	N/A	1,740	Lease
Ventura Corporate Towers – Torre Oeste	Centro	N/A	1,740	Lease
Torre Almirante	Centro	Investsmart Agentes Autônomos De Investimento LTDA	1,237	Lease
Linneo de Paula Machado	Centro	Essilor	1,168	Lease
Linneo de Paula Machado	Centro	CTA - Tocantins & Pacheco Advogados	580	Lease
Visconde de Inhaúma Corporate	Centro	Scor	540	Lease
Passeio Corporate - B	Centro	N/A	480	Lease
Leblon Executive Towers	Zona Sul	Mubadala	303	Lease

*Renewals not included in leasing statistics

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