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The Economy

Despite uncertainty caused by the elections, the economic shock by the truckers' strike in May and the trade war between the two largest economies in the world, Brazil preserved its growth and economic recovery in 2018. These setbacks during the year has resulted in intense volatility in the economic and political scenarios, which reflected in poor economic performance.

For the beginning of 2018, GDP projection pointed to roughly 3% which was however 1.1%. This difference between the projection in early 2018 and actual growth has as one of the chief reasons the truckers' strike, which stopped the country for 10 days, and greatly affected growth, in addition of course to the trade war between the US and China, which resulted in a surtax on steel and aluminum. Yet despite the negative impacts, Brazil's GDP growth was 0.05 percentage points compared to 2017.

In early 2018 the expectation for the CPI rate was at 3.8% for the year-end, but ended at 3.75%. Despite the projection's fallback the CPI rose 0.71 percentage points, compared to 2017 over the previous year, as a reflection of rising consumer activity due to the economic pick-up in 2018. Hence, the year's index almost approached the inflation goal by the Central Bank, 4.5% with either way 1.5% tolerance since 2017.

Economic Indicator	2017	2018	Forecast 12 Months
GDP	1.06%	1.11%	↑
Inflation	2.95%	3.75%	↑
Unemployment	12.74%	12.27%	↓

Real Estate Indicators	2017	2018	Forecast 12 Months
Vacancy	24.3%	22.5%	-
Net Absorption (,000)	142	104	↑
New Inventory (,000)	235	116	↑
Average Asking Rent	R\$51.92	R\$49.84	↑

Furthermore, projected unemployment in Brazil was fixed at 12.02%, representing a sudden fall of rate, yet after the economic sector

lost momentum due to the instabilities of the year, it ended at 12.27%.

Even higher than the expected rate early that year, this represents a sharp drop of 0.47 percentage points, compared to last year.

Furthermore, the exchange rate had a great fluctuation, starting the year at R\$3.13 and reaching the highest level of R\$4.19 in September since the "Plano Real".

A stronger economic recovery was expected for 2018, yet an advance was prevented by the economic and political internal and external scenario.

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Market Overview

The year of 2018 represented recovery for most municipalities, the high-standard real estate market returned to grow in line with to economic development of the country. As was expected, new buildings deliveries were resumed and the market in general showed a positive net absorption, there were more occupations than vacancies. The vacancy rate of corporate A and A+ markets including CBD regions in São Paulo and Rio de Janeiro, finished the year in 27.6% - a decrease of 1.5 percentage points.

Average asking rent presented a decrease of 5.6% compared to the previous year, reaching R\$91.80. This rent decrease occurred due to high vacancy rates, which pushed rent down. Thus, a positive real estate scenario remains for the next year of 2019.

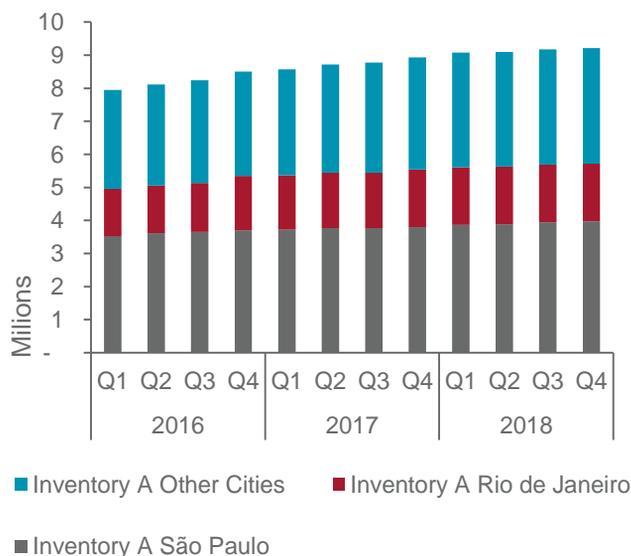


Even with signs of recovery, the market shows slight reduction in its asking prices.



The 2018 net absorption rate was 326.9K sqm, a reduction of 3.5% compared to 2017. Although net absorption was lower than the 2017, it still represents an expressive value considering the 9.04M sqm of Brazilian inventory. In this way, 2018 net absorption represents 3.6% of entire national inventory.

Class A and A+ Inventory - Brazil



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Brasília

Brasilia real estate market did not have a great year. The vacancy rate presented a slight increase, even with a low delivery rate.

In late 2017, city vacancy was 15.51% and soon in the first quarter of 2018 there was an increase of 2.3 percentage points, due to a new 39.5 Ksqm delivery. This was the only new delivery during 2018, yet Brasilia's vacancy rate kept increasing until the end of the year at 18.39%. With an increase of vacant areas, there was a negative net absorption of 8.4 Ksqm.



Brasilia shows a constant drop in prices and increase in vacancy since the beginning of the crisis in 2015



Otherwise, with increasing vacancy, the average asking rent also suffered. In late 2017, the asking rent was R\$56.10 and it dropped to R\$53.72 at the end of 2018, a decrease of 4.2%.

Brasilia's market keeps suffering with a constant vacancy increase and drop in prices since 2015, due to Brazil's economic crisis and constant anti-corruption operations focused on the country's capital.

Recife Asking Rent x Vacancy - Class A



Recife

The real estate market presented a vacancy rate drop even after the highest delivery of new inventory in its background of activities.

Compared to 2017, the rate drop was of 1 percentage point, which resulted in 17.7% of vacancy at the end of 2018. The drop was not higher by virtue of to new building deliveries, which totaled 21 Ksqm, after two years without new deliveries.

Net absorption, was one of the largest for the city, totaling 19.7 Ksqm absorbed. Finally, the average asking rent for 2018 increased 4.1% compared to 2017, finishing the year at R\$52.90.

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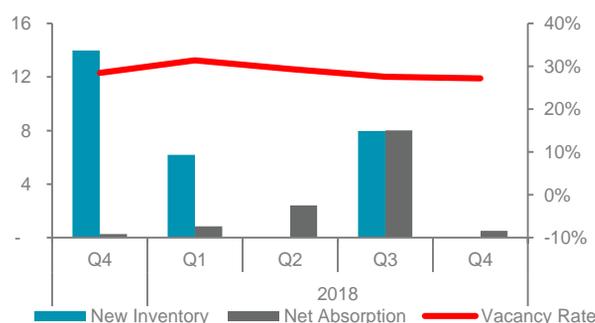

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Curitiba New Inventory x Net Absorption x Vacancy Rate - Class A



Florianópolis New Inventory x Net Absorption x Vacancy Rate - Class A



Curitiba

Curitiba's real estate market presented strong recovery signals in 2018 after a 4 percentage points decrease in vacancy rates on an annual comparison.

During 2018 there was only one new delivery of roughly 5 Ksqm, which happened in the first quarter and in this same period there was a positive net absorption of 12.7 Ksqm. With this scenario the property market finished the year of 2018 with a vacancy rate of 22.3% and a positive net absorption of 27 Ksqm.

Despite the decrease in the vacancy rate, the average asking rent had a retreated by 2.36%. At the end of 2017 the average asking rent was R\$46.50 per sqm, and in 2018 it rose to R\$ 45.40 per sqm.

Florianópolis

The Florianópolis vacancy rate saw a sudden rise in 2017 owing to new deliveries, and in 2018 although there were deliveries of 14 Ksqm there was a decline of the vacancy rate.

The first quarter of 2018 presented a 31.4% vacancy rate, the highest in the past years. However, during the year the market showed drop in the rate, finishing the year at 27.1%. Although the market suffered with the high vacancy rate, there was a positive net absorption of 11.8 Ksqm.

Florianópolis was highly impacted due to new deliveries, which in the last three years totaled 63.5 Ksqm and made inventory go from 77.560 sqm in 2016 to reach 128.9K sqm. The average asking rent per sqm reacted to the high vacancy scenario and retreated to 8.64% as compared to 2017, finishing 2018 at R\$50.44.

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Porto Alegre

Porto Alegre presented a vacancy rate retreat of 7.7 percentage points in the Class A, market, which represents the greatest among cities analyzed, and also the highest net absorption in the same period.

In late 2017 the vacancy rate was of 34.9% and fell to 27.2% at the end of 2018, due to a positive net absorption of 39.9 Ksqm, with 17Kqsm of new deliveries over the same period.

However, the average asking rent ended 2018 at R\$53.14 per sqm, much lower than last year when it was R\$59.54 – a reduction of 10.7%.

Campinas

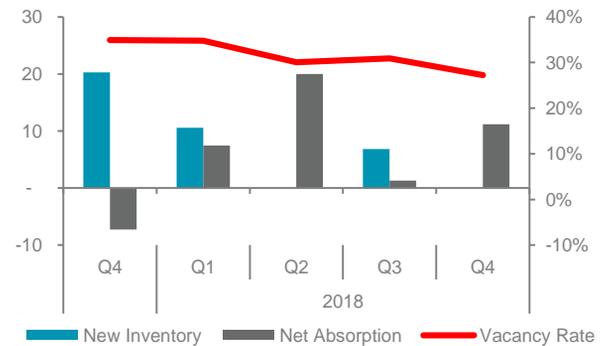
The Campinas Class A corporate sector presented a recovery, in terms of vacancy rate, achieving in 2018 the lowest one in 4 years and presented the highest asking rent in the same period.

The city finished 2018, with a vacancy rate of 22.8%, which represents a decrease of 4.8 percentage points, compared to 2017. A large part of this recovery is due to the absence of new deliveries during the year, jointly with a positive net absorption of 12.1 Ksqm.

Despite the favorable scenario presented in 2018, the rates still remain far from healthy levels for the region.

Regarding the region's average asking rent, it ended the year at R\$46.30, which represents a decrease of 7% in prices, this fact is explained by considerable vacant areas.

Porto Alegre New Inventory x Net Absorption x Vacancy Rate - Class A



Campinas New Inventory x Net Absorption x Vacancy Rate - Class A



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Salvador

The corporate Class A real estate market had a vacancy increase in 2018, after three drops in consecutive years.

The first impact came in the first quarter of 2018, presenting a negative net absorption of 6 Ksqm. The second impact came in the last quarter of the same year, as there were new deliveries totaling 18.870 sqm of new inventories, resulting in a 21.7% vacancy rate at the year-end, an increase of 3.2 percentage points compared to 2017. However, the market finished the year with a slightly improved perspective, presenting a 2.4 Ksqm positive net absorption.

The Salvador corporate market had an increase of average asking rent, finishing 2018 at R\$ 46.80, a 3% increase compared to the end of 2017.

Conclusion

As seen in the panorama of all the previously analyzed cities, the Brazilian high standard market represents a positive scenario as a whole, based on the vacancy rate increase of only two cities, and only one municipality had a negative net absorption. Hence, markets will be highlighted by their worst and best performances.

Porto Alegre presented the greatest reduction in the vacancy rate during 2018, a drop of 7.7 percentage points. But Salvador presented the highest increase among them, a rise of 3.2 percentage points.

In terms of gross absorption, the total occupied area in a period, the most highlighted cities were Porto Alegre and Brasília. On the one hand there was a gross absorption of 51.746 sqm in Porto Alegre, which represents an increase of 64.2% compared to 2017, and on the other hand there was Brasília with a gross absorption of 41.216 sqm, a decline of 47.1% compared to 2017.

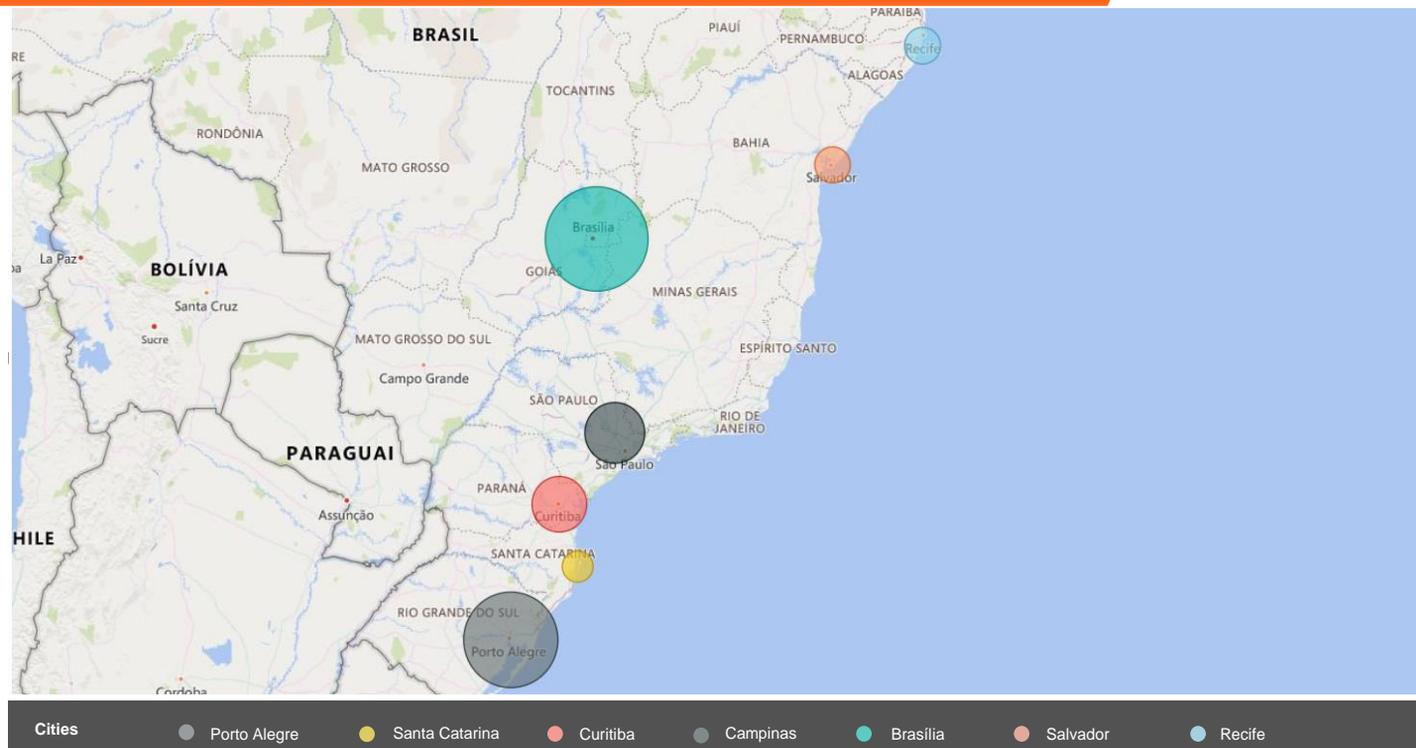
As for net absorption, which is the relationship between occupations and market returns, the highlights were the cities of Porto Alegre and Brasília. Again, Porto Alegre had a positive highlight with a net absorption of 39.9 Ksqm, which represents 9.4% of the city's entire high-standard inventory. As a negative highlight there was Brasília, which had a negative net absorption of -8.3 Ksqm.

Finally, the average asking rent per sqm presented large fluctuations in the cities of Recife and Porto Alegre. This time, Porto Alegre had a reduction of 10.3% in average asking price, compared to 2017. Also, the highest average asking rent increase happened in Recife, with a rise of 4.1% in 2018.



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Bubble Map



Gross Absorption Volume

The above map presents the net absorption volume of Class A undertakings in each city for 2018. As seen, all the municipalities suffered absorptions, highlighting Curitiba and Porto Alegre, with 44,600 sqm and 50,450 sqm respectively.

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City	Nº OF BUILDINGS CLASS A	INVENTORY (,000 sq.m)	AVAILABLE AREA (,000 (000 sq.m)	VACANCY RATE	NET ABSORPTION (m²)	UNDER CONSTRUCTION (m²)	ASKING RENT (R\$/sq.m/ month)
Brasília	121	1,452,079	267,025	18.4%	(-8,349)	-	R\$53.72
Campinas	62	253,560	57,736	22.8%	12,179	-	R\$46.30
Curitiba	58	588,538	131,369	22.3%	27,131	-	R\$45.43
Florianópolis	18	128,912	34,992	27.1%	11,801	-	R\$50.44
Porto Alegre	42	424,435	115,562	27.2%	39,900	-	R\$53.14
Recife	20	244,346	43,281	17.7%	19,671	-	R\$52.92
Salvador	31	405,834	88,195	21.7%	2,296	-	R\$46.84
Total	352	3,497,703	738,161	22.5%	104,626	-	R\$49.83

5 largest transactions 2018

BUILDING	SQ.M	TENANT / BUYER	TRANSACTION TYPE	City
Cleto Meirelles	19,000	DPU – Defensoria Pública da União	Lease	Brasília
Evian	5,012	Ministério do Trabalho e Emprego	Lease	Campinas
GNO	4,200	Casa de Saúde de Campinas	Purchase/Sale	Campinas
Mix Park Sul - B	3,600	Diagnose	Lease	Brasília
L Hermitage Comendador Araújo	3018	Formento Paraná	Lease	Curitiba

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REGIONS

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- Salvador
- Brasília
- Campinas
- Curitiba
- Florianópolis
- Porto Alegre

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