
2Q2024

São Paulo Offices Market Report



NEWMARK

Market Information

Economy

- Brazilian economy grew 0.8% in the first quarter of the year compared to the previous quarter, above expectations and causing a review in projected GDP growth for the year from 1.9% to 2.3%. The supply side experienced strong growth in agriculture and cattle (11.3%), and 1.4% increase in services. While industry overall dropped 0.1%,
- Inflation, measured by the IPCA (broad consumer price index), dropped from 4.5% in February to 3.9% in May. However, the decline was smaller than projected, due to the more intense increase in food prices. Inflation in 2005 is now expected to be 4%.
- The interest rate, currently at 10.50% annually, is not expected to drop due to pessimism regarding government actions, which have led to a worsening perception of adherence to the fiscal and cost saving policies. The US Dollar, which rose above R\$ 5,70 due to strong instability in early July, should close at R\$ 5,20 by year end.

Transactions

- Occupied office space went up in most survey regions except for Vila Olímpia e Faria Lima, where returns outpaced leases, leading to negative net absorptions in the amount of 1.4 and 1.0 thousand m², respectively.
- Chucri Zaidan, Berrini, Paulista and Pinheiros experienced the highest increase in occupied office space in the quarter.
- Of the transactions in the quarter involving known parties, most involved service players, particularly financial services/investments, technology, and marketing & advertising. However, players in other industries such as automotive OEMs, pulp & paper also played an important role.

Market Indicators

- Leasing activity in the market for high-end offices in São Paulo remained intense in the 2nd quarter.
- Despite a slight drop in the quarter, gross absorption remained essentially unchanged compared to the previous year, while net absorption increased significantly.
- Despite 40 thousand m² in new deliveries, double the previous quarter, the vacancy rate dropped to 21.8%, the lowest rate of the previous 13 quarters.
- Asking monthly rents went up, closing the quarter at R\$ 99,08/m² across all regions in our survey, 2.8% higher than the previous quarter and 5% compared to the same period in 2023.

Outlook

- Numbers at 1st half of this year are promising. The increase in occupied spaces – year-to-date net absorption of 136 thousand m² – is almost the same as the entire year (142 thousand m²).
- This quarter came in with the lowest vacancy rate of the last 13 quarters, and asking rental rates continue to climb. This combination has raised owner confidence in a consistent recovery of this segment.
- Despite significant new deliveries expected during the year, the vacancy rate is not expected to fluctuate much.
- However, we must consider that the political and economic uncertainty is still high, and may affect company growth and investment plans, which in turn would impact the corporate real estate industry.

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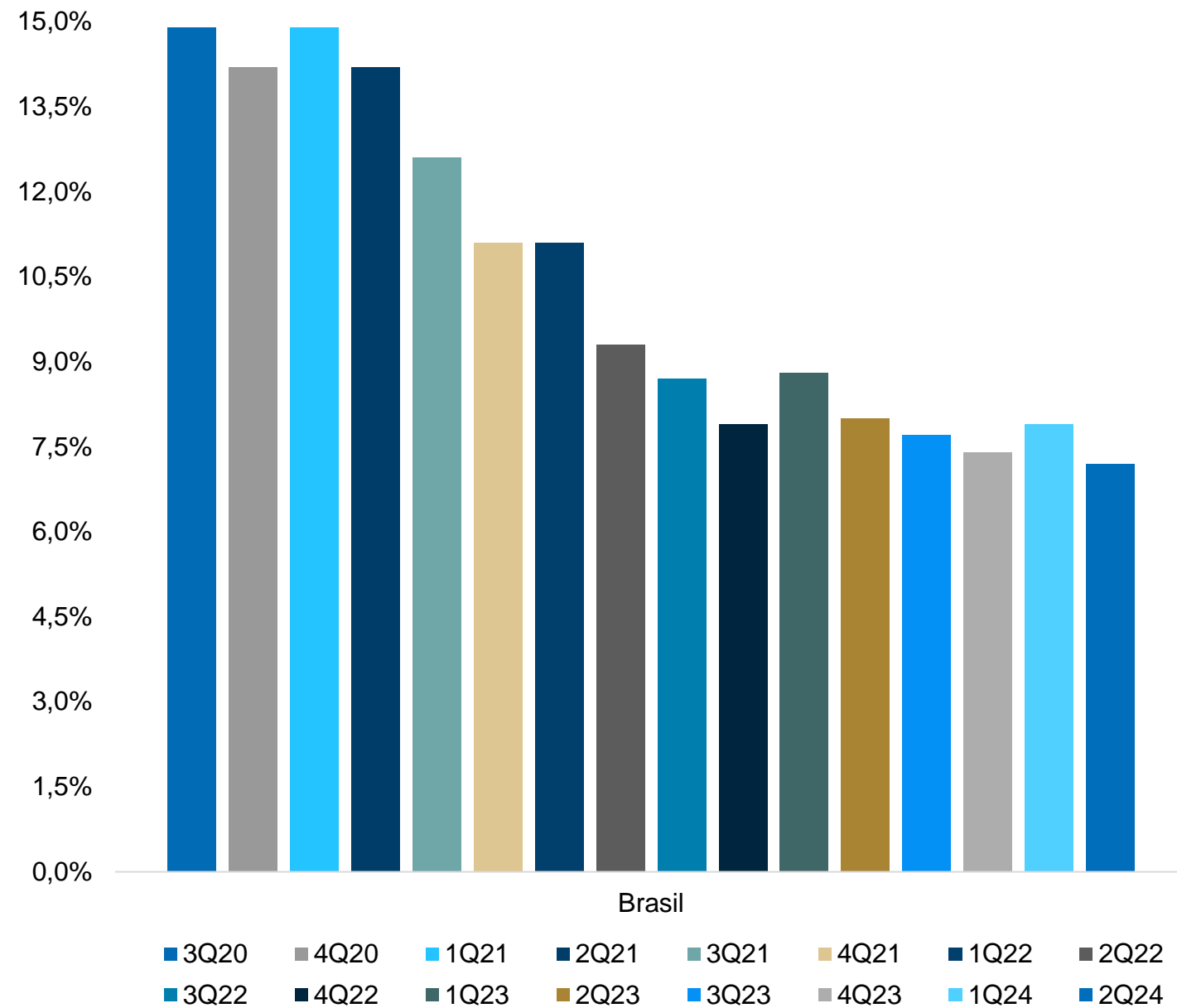
Economy



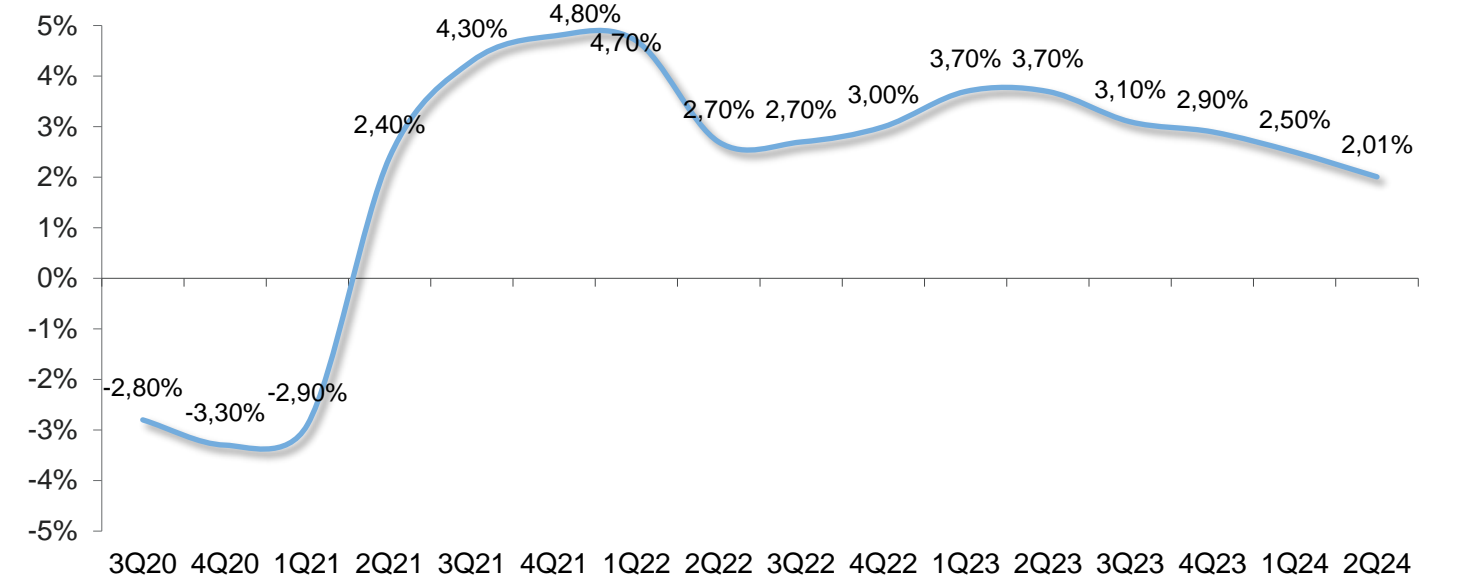
Economy

Despite still experiencing fluctuations, the level of unemployment has been falling, GDP has grown beyond expectations, but inflation is moving away from the Central Bank's target (3.5%), which has increased the level of uncertainty in relation to the dynamism of the economic activity for this year and beyond. A break in the cycle of interest rate drop at 10.5% could impact the speed of transactions in the sector.

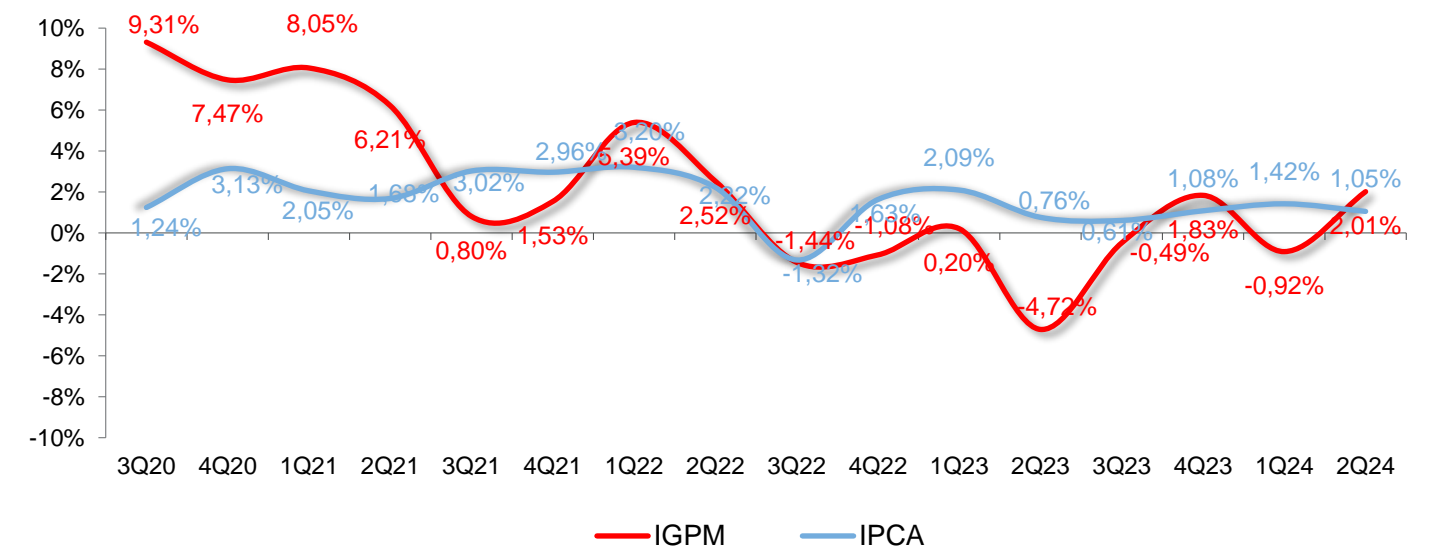
Unemployment rate



GDP –at market prices – Accumulated e in 4 quarters (%)



IPCA (quarter) x IGPM (quarter) Variation (Inflation rate)



Source: IBGE, Banco Central do Brasil, FGV

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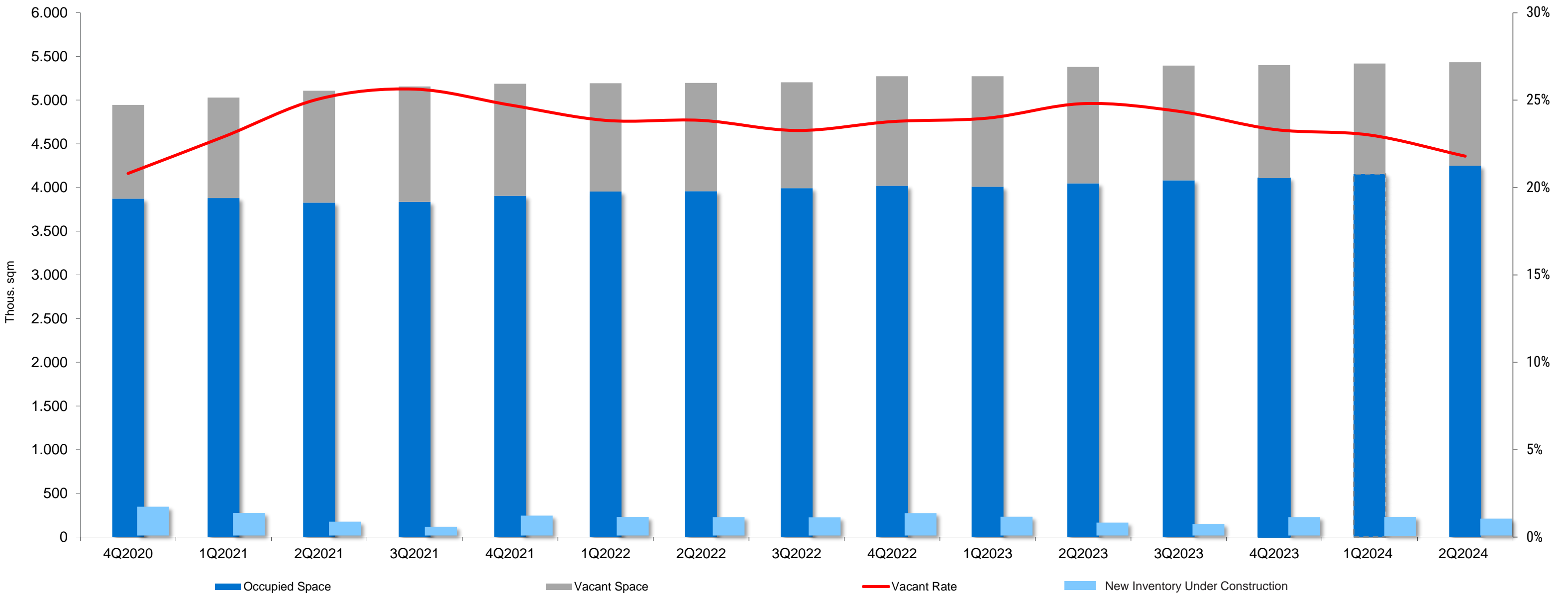
Market Indicators



Reduction in inventory growth and falling vacancy rates

The increase in the high-end inventory offices in São Paulo has been slower, in 2023 grew by 145 thousand m², below the historical average of 232 thousand m² from 2007 to 2023. The trend of reduction in construction activity could be positive, contributing to the reduction of vacant supply in certain regions, especially if absorption remains at or exceeds current levels.

Occupied and Vacant Space, Under Construction vs. Vacancy Rate – Class A, AA and AAA

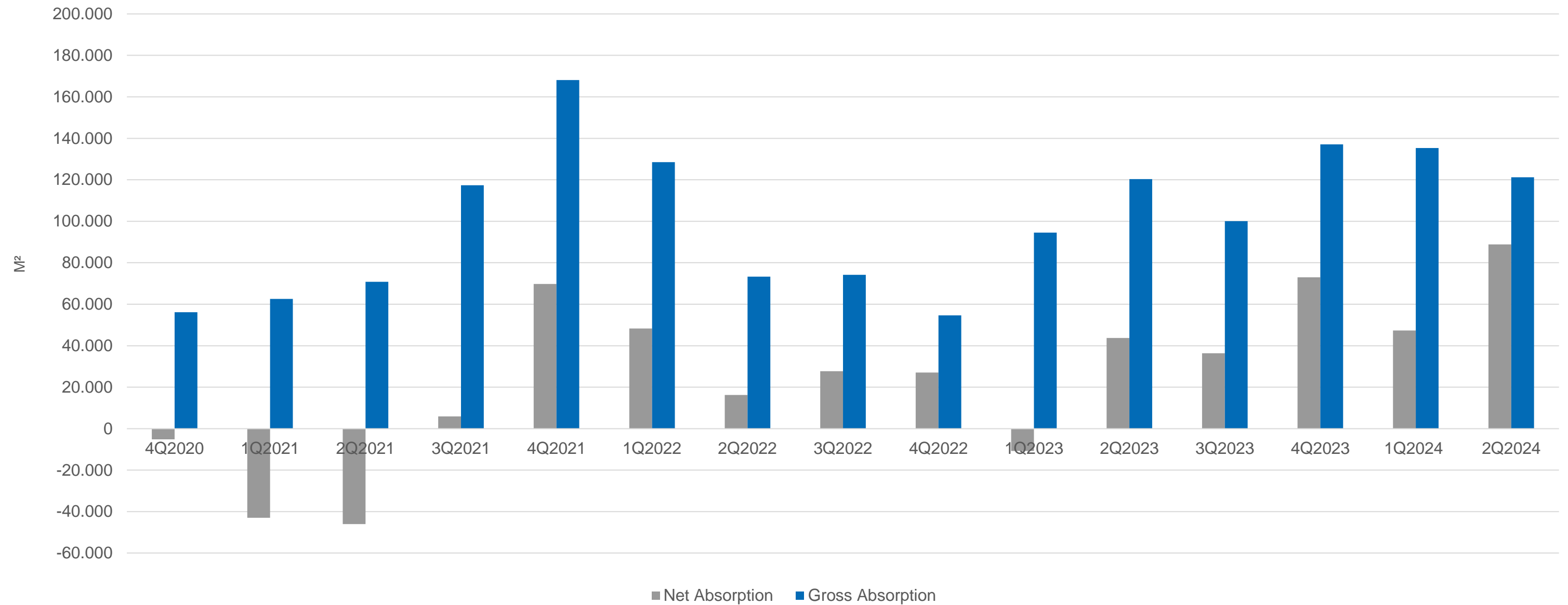


Source: Newmark Brasil – Market Research

Leasing activity continues to grow

Despite a small quarterly drop, gross absorption remained practically at the same level as in the 2nd quarter of 2023 and net absorption rose substantially, which indicating a reduction in the volume of returned spaces

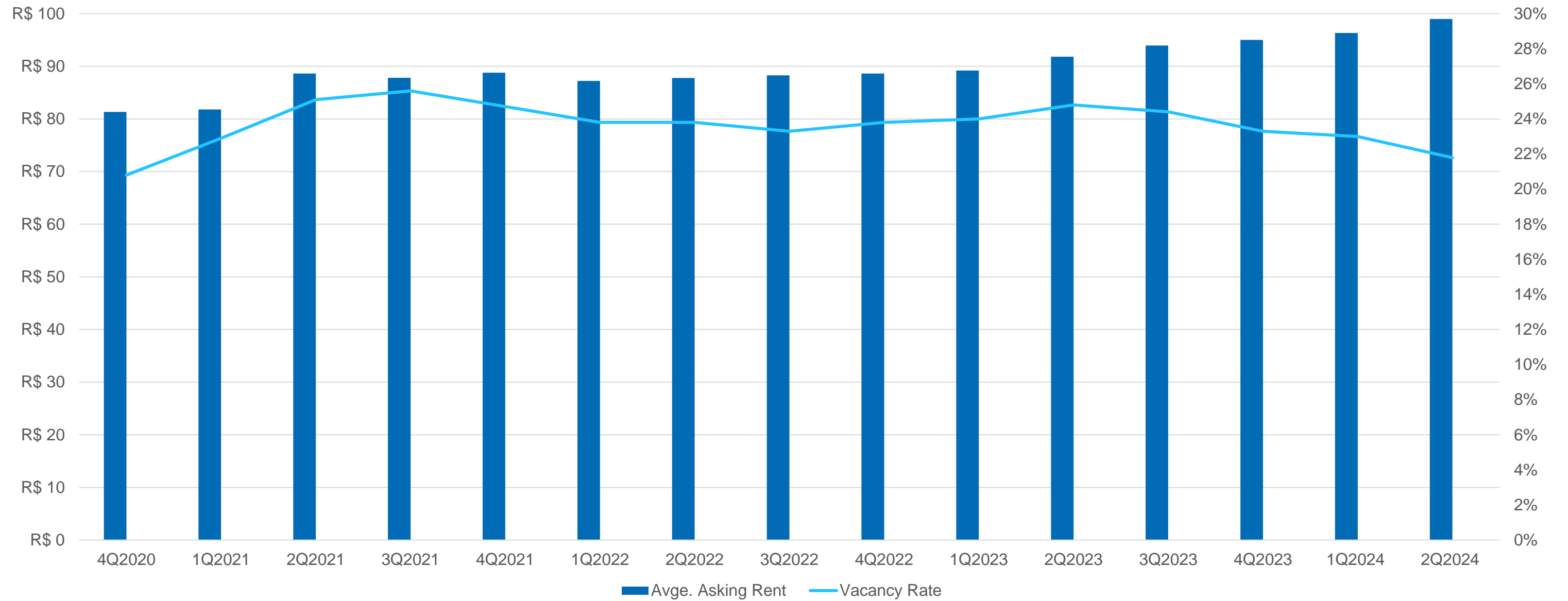
Gross and Net Absorption (m²) – Class A, AA and AAA



Rising of average rental asking rents

Is a result of the recovery in demand and the new quality inventory being delivered, the average rental asking rental rates continues to gradually increase

Average Asking Rent and Vacancy Rate – Class A, AA and AAA

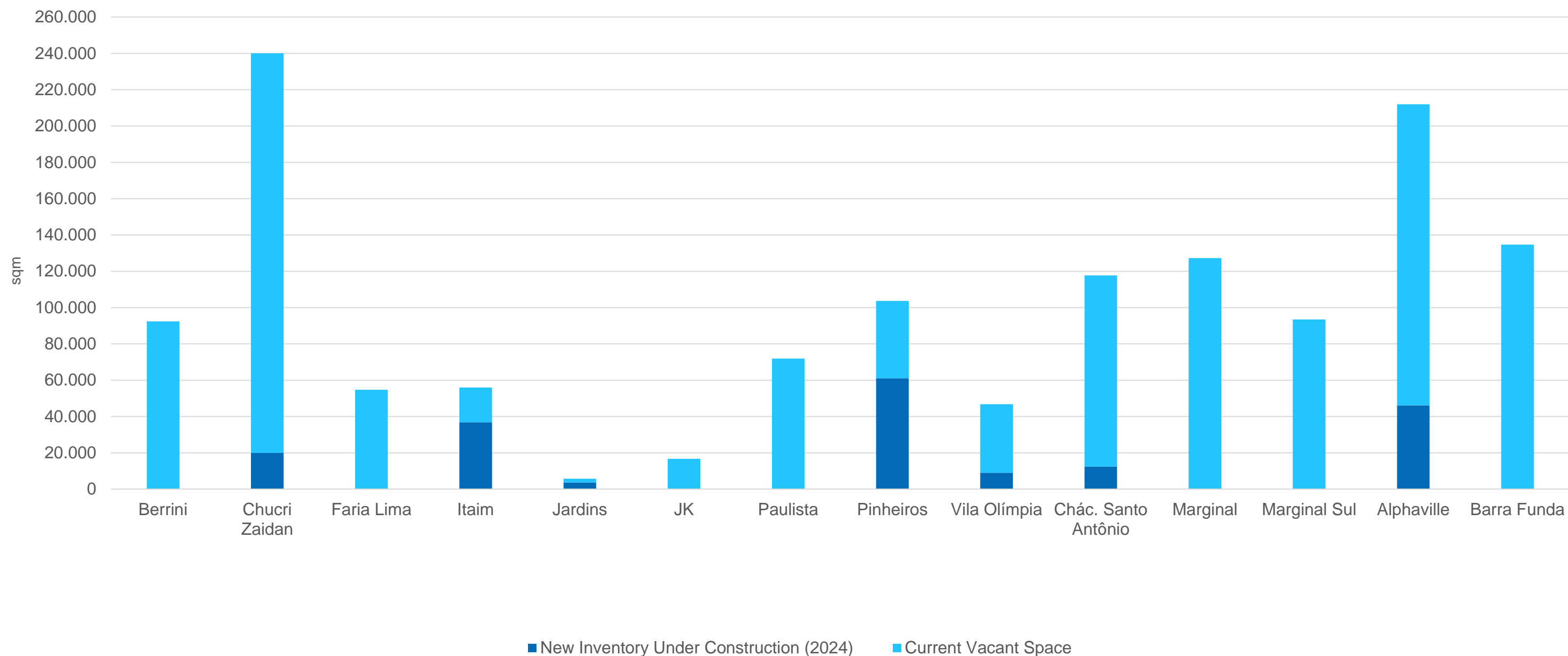


Source: Newmark Brasil – Market Research

The new inventory forecasted is still high, but concentrated and should not be a risk in most regions

The largest volume of new inventory forecasted is in Alphaville, which currently has a large amount of vacant space, leading to an increase in supply. The other regions should not be at risk of an increase in supply with the expected new developments.

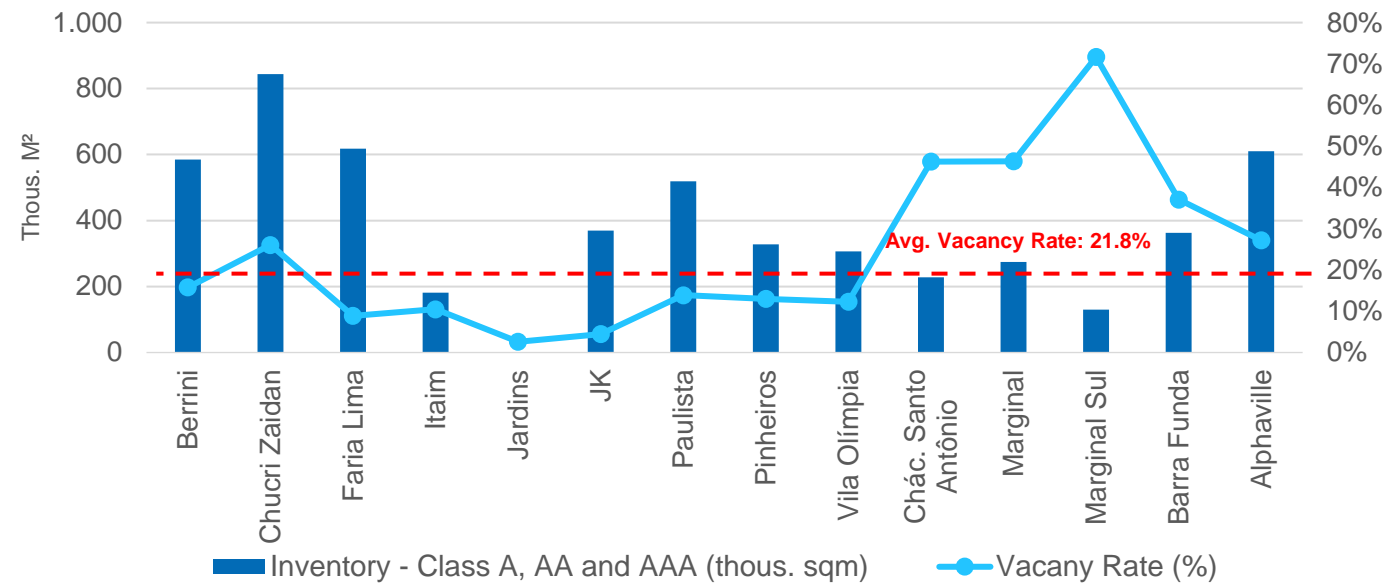
Current Vacant Space vs. New Inventory Under Construction per Submarket (m²) – Class A, AA and AAA forecasted to 2024



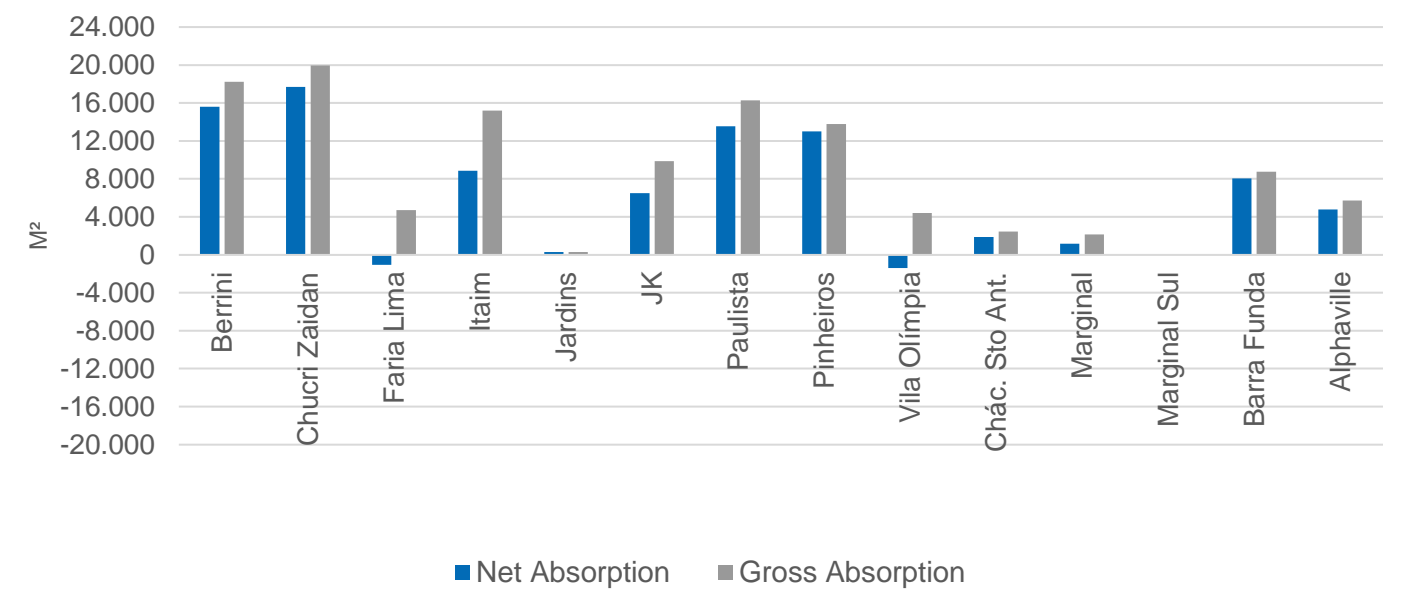
Source: Newmark Brasil – Market Research

Comparables per Submarket

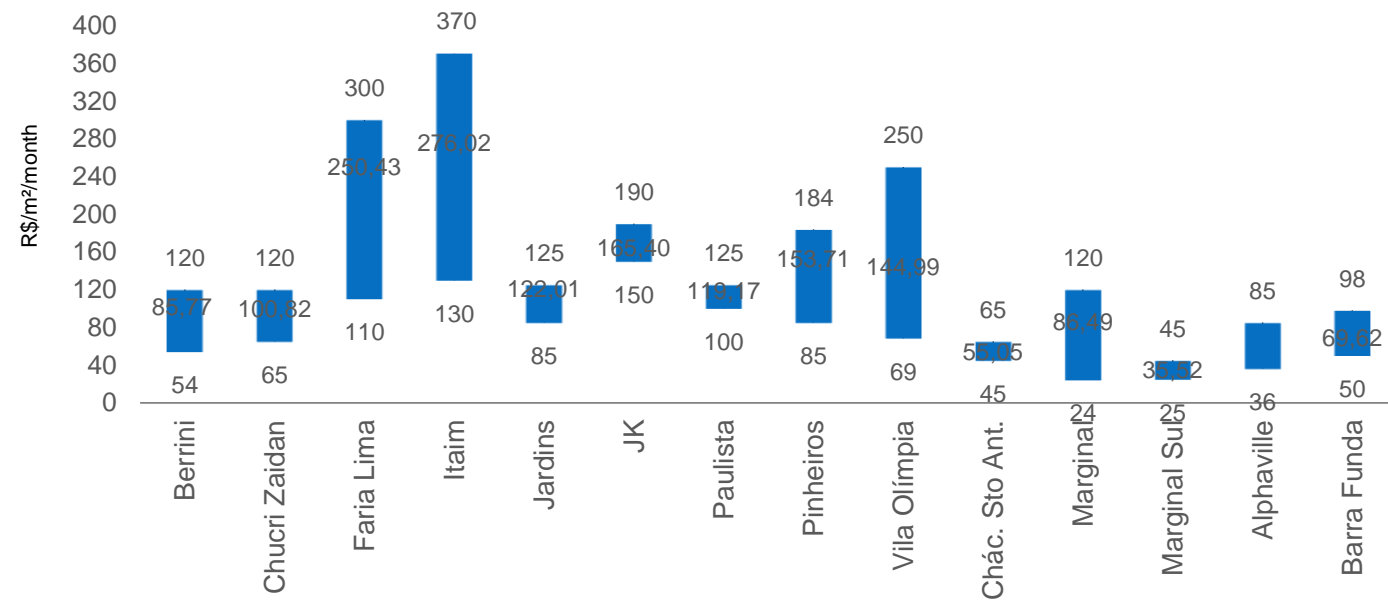
Inventory vs. Vacancy Rate – Class A, AA and AAA



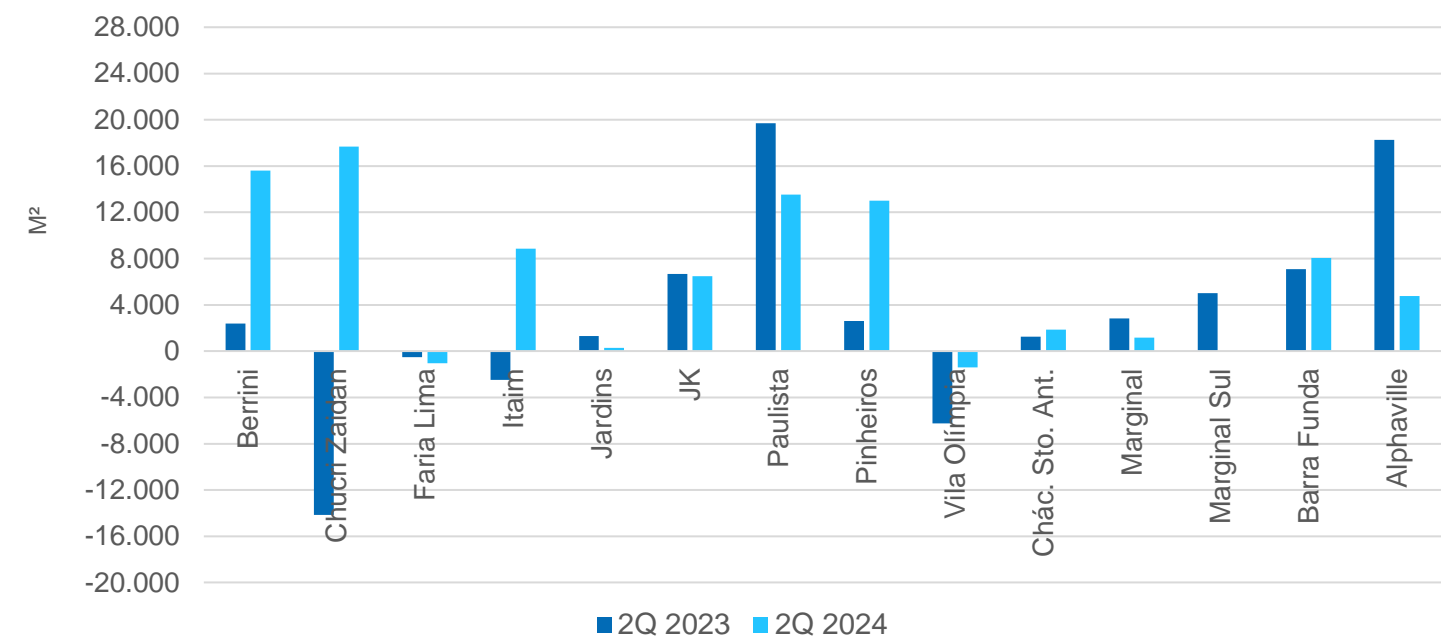
Gross and Net Absorption per Submarket – Class A, AA and AAA



Minimum, Average and Maximum Asking Rent – Classe A, AA e AAA



Net Absorption – Annual Variation – Class A, AA and AAA





For more information,
please reach out your business contact at Newmark Brasil.

For more information:

Mariana Hanania

Head of Market Research

Brazil

mariana.hanania@nmrkbrasil.com.br

NEWMARK BRASIL

Av. Dr. Cardoso de Melo, 1460, Cj. 71

Cep. 04548-005

São Paulo, SP, Brasil

t 5511-2737-3130

nmrkbrasil.com.br

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