
3Q2024

Rio de Janeiro Offices Market Report



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Market Information

Economy

- The external environment is challenging, with uncertainties regarding economic slowdown in the U.S. and the Fed's stance. Global central banks are striving to align inflation with their targets amid pressures in the labor market, requiring caution from emerging countries;
- In Brazil, economic and employment indicators have exceeded expectations, leading to a revision of the GDP growth projection for 2024, which rose from 2.3% to 3.2%. Despite this, slower growth is anticipated in the second half of 2024, with a forecast of 2% for 2025;
- Inflation, measured by the IPCA, was maintained at 4.37% for 2024, with estimates of 3.97% for 2025 and 3.6% and 3.5% for 2026 and 2027, respectively. To contain heated demand, the Selic rate was increased from 10.5% to 10.75%, with expectations that it will end 2024 at 11.75% and decrease to 10.75% in 2025. The dollar was also adjusted, from R\$ 5.35 to R\$ 5.40 by the end of 2024, and from R\$ 5.30 to R\$ 5.35 in 2025.

Transactions

- Leasing activity picked up this quarter, with good gross and net absorption, which ended the quarter at 73 and 48 thousand m² respectively.
- These were the best numbers in a single quarter in the past 5 years. It's important to mention that 68% of this net absorption regards the City Government moving into buildings design to house the press during the 2016 Olympics, which had been vacant ever since.
- Nevertheless, demand has been positive across a range of industries, and occupied space increased across the city. The most significant increases were in Barra da Tijuca, Cidade Nova, and Botafogo.

Market Indicators

- This was a promising quarter for high-end office space in Rio de Janeiro, with positive demand indicators.
- Gross and net absorption were the highest in the year, and far above those of 2023.
- The vacancy rate continues to drop, ending the quarter at 29.4%.
- The average asking rent remained almost unchanged at R\$ R\$73,58 /m² (vs. R\$ 73,81/m² in the previous quarter).

Outlook

- More dynamic demand this quarter may signal a better 2024 for high-end offices in Rio de Janeiro. Year-to-date net absorption is 75 thousand m², better than the entire previous year and the best indicator since 2019.
- Unless there is a slowdown in demand we expect the vacancy rate will drop, as no new deliveries are expected over the medium and long terms.
- However, strong supply, a dependence on only a handful of industries for demand, and the country's political and economic instability continue causing uncertainty and hampering a more robust recovery.

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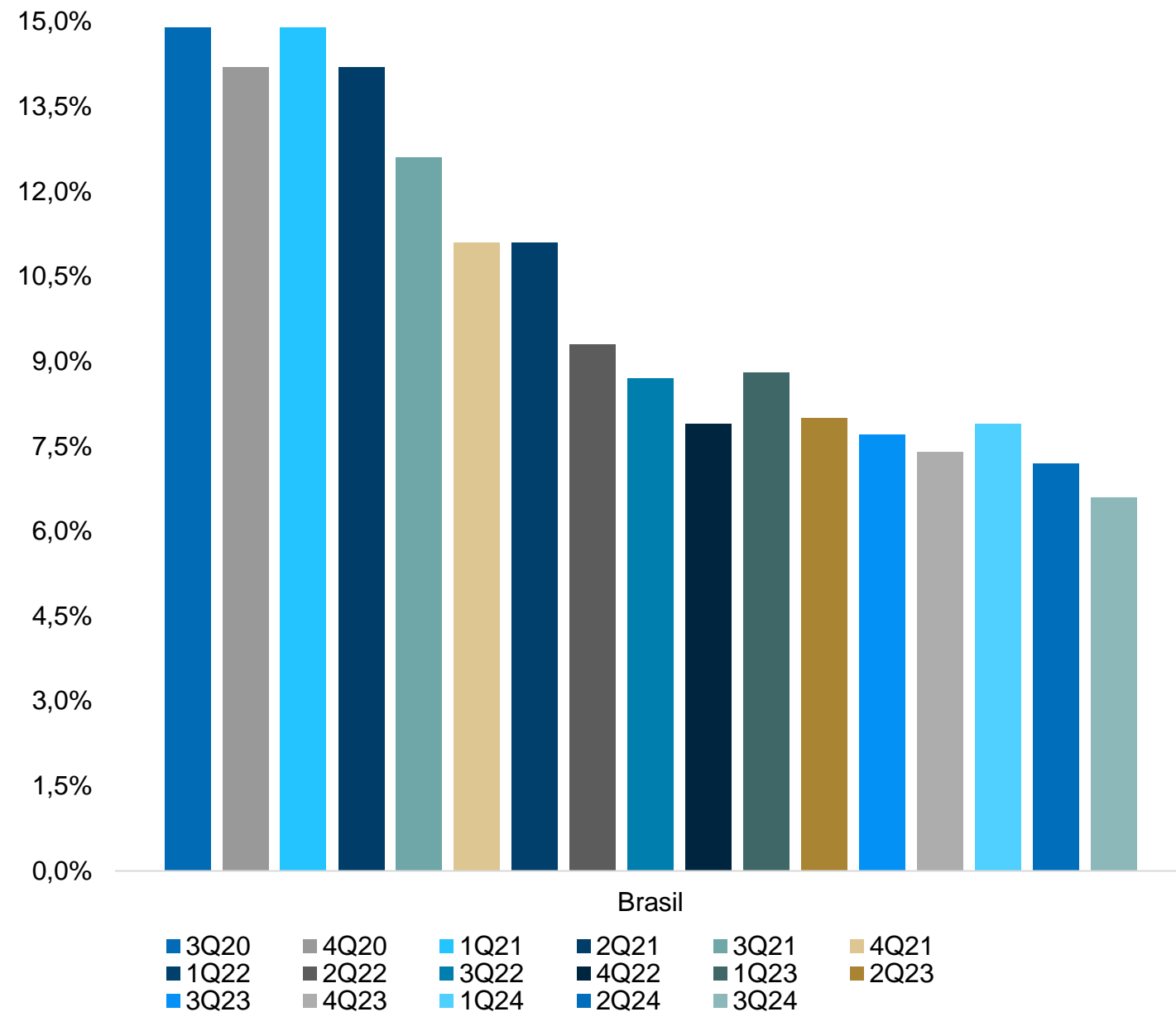
Economy



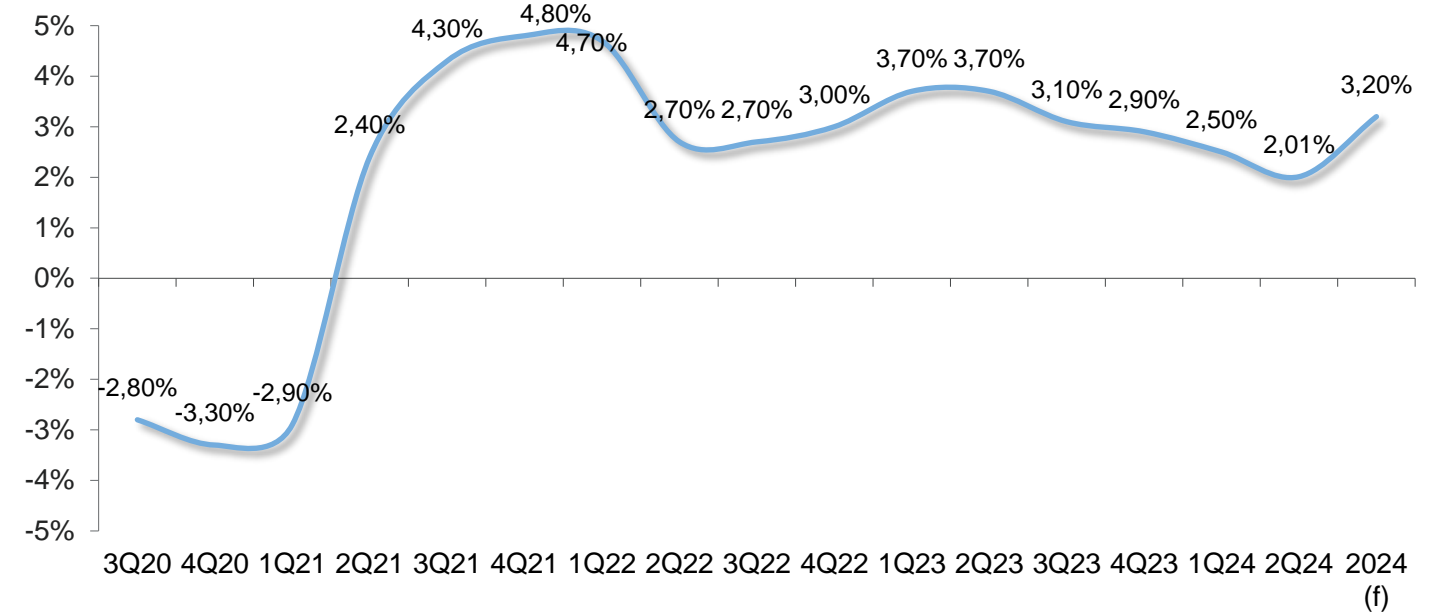
Economy

Although it still faces fluctuations, the unemployment rate is declining, and GDP has exceeded expectations. However, inflation is moving away from the Central Bank's target (3.5%), increasing uncertainty about the dynamism of economic activity for both this year and the next. To contain heated demand, the Copom raised the Selic rate from 10.5% to 10.75%; analysts expect another increase, with the Selic projected to end 2024 at 11.75% per year.

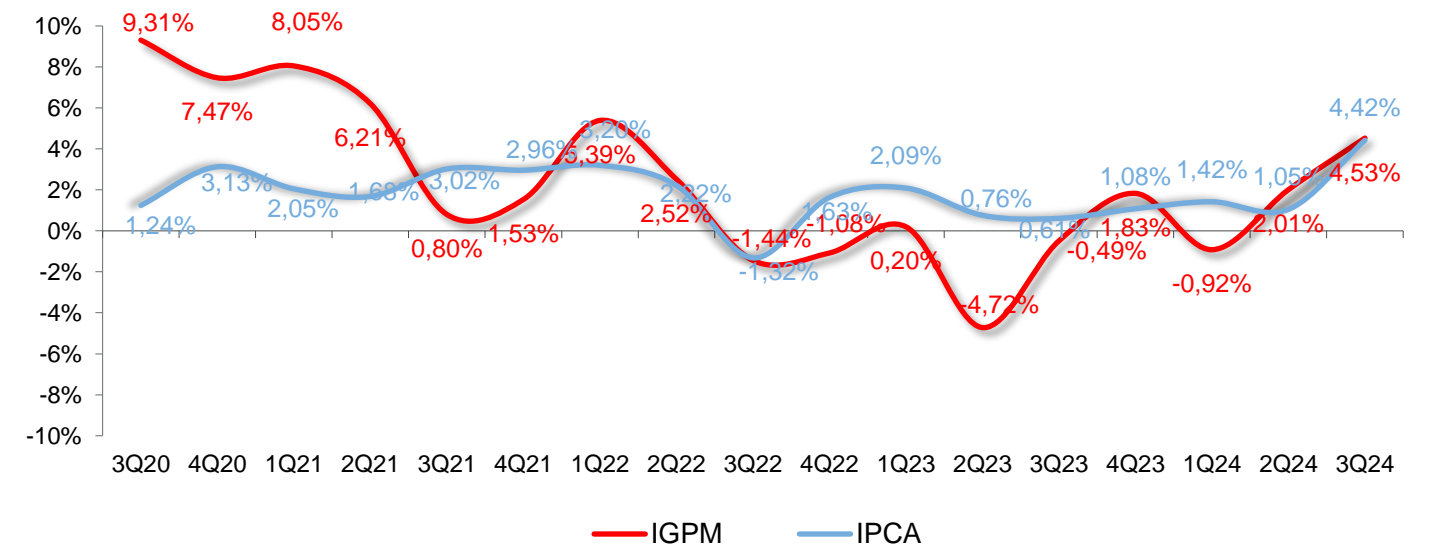
Unemployment rate



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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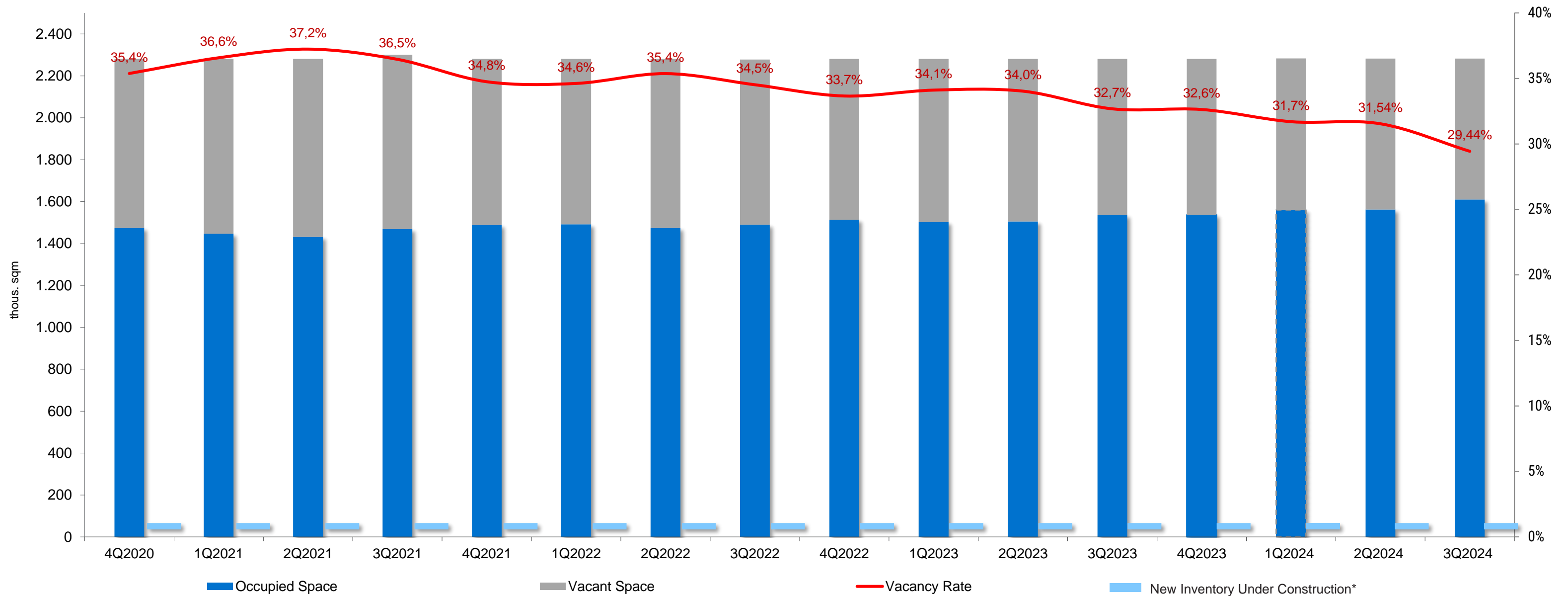
Market Indicators



Modest but continuous decline in the vacancy rate

Although moderately, the volume of vacant area continues to decrease. The vacancy rate is still falling and ended the quarter at 29.4%, the lowest rate since the end of 2016

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



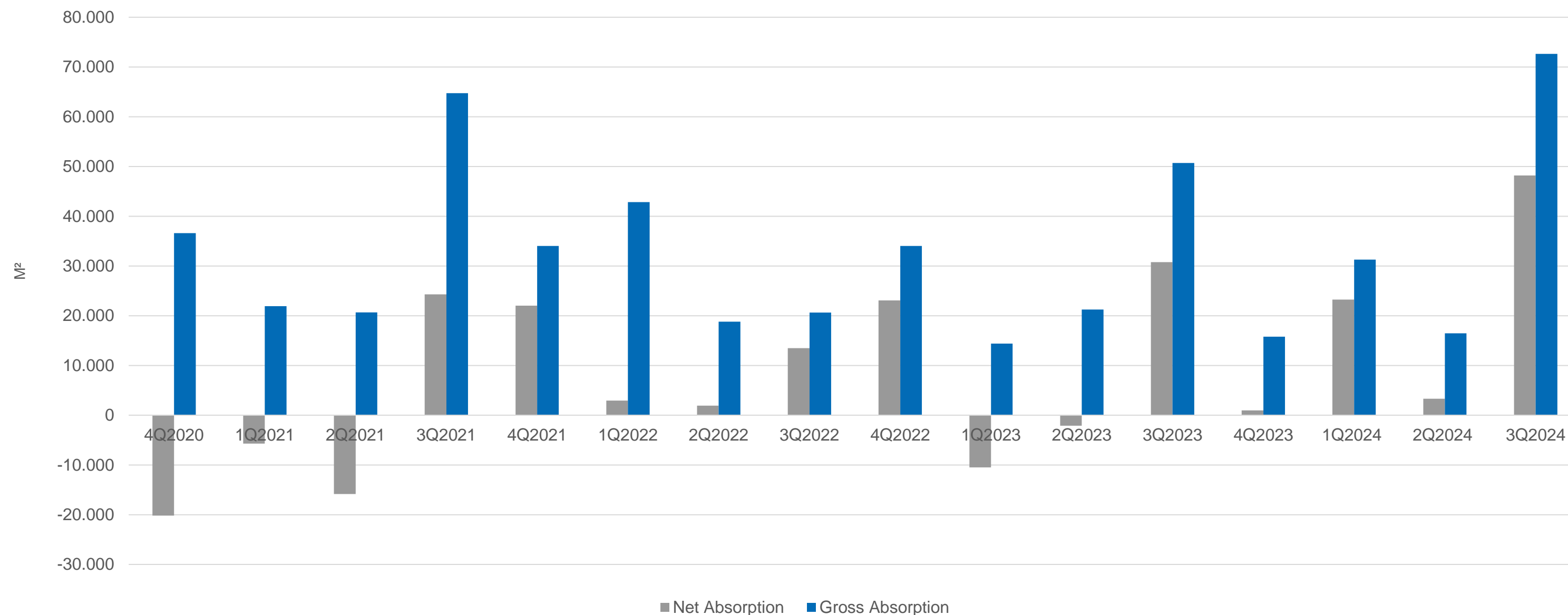
Source: Newmark Brasil – Market Research

*works have started, but no estimated date for conclusion

Resumption of leasing activity generates positive results this quarter

leasing activity strengthened, reflecting in positive numbers for gross and net absorption, the best indicators in a single quarter in the last 5 years

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

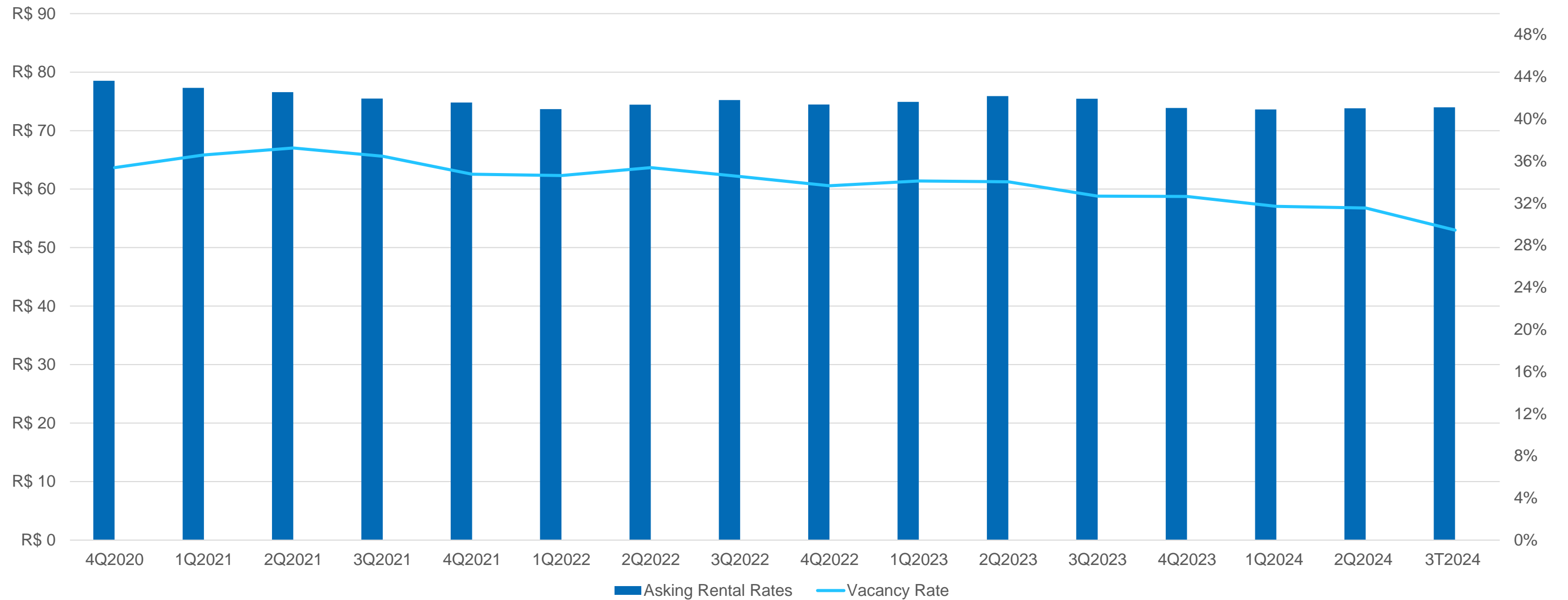


Source: Newmark Brasil – Market Research

Impact of high supply on price trends

Despite the reduction in vacancy, the volume of supply remains high, which impacts prices that have shown a downward trend over various periods

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

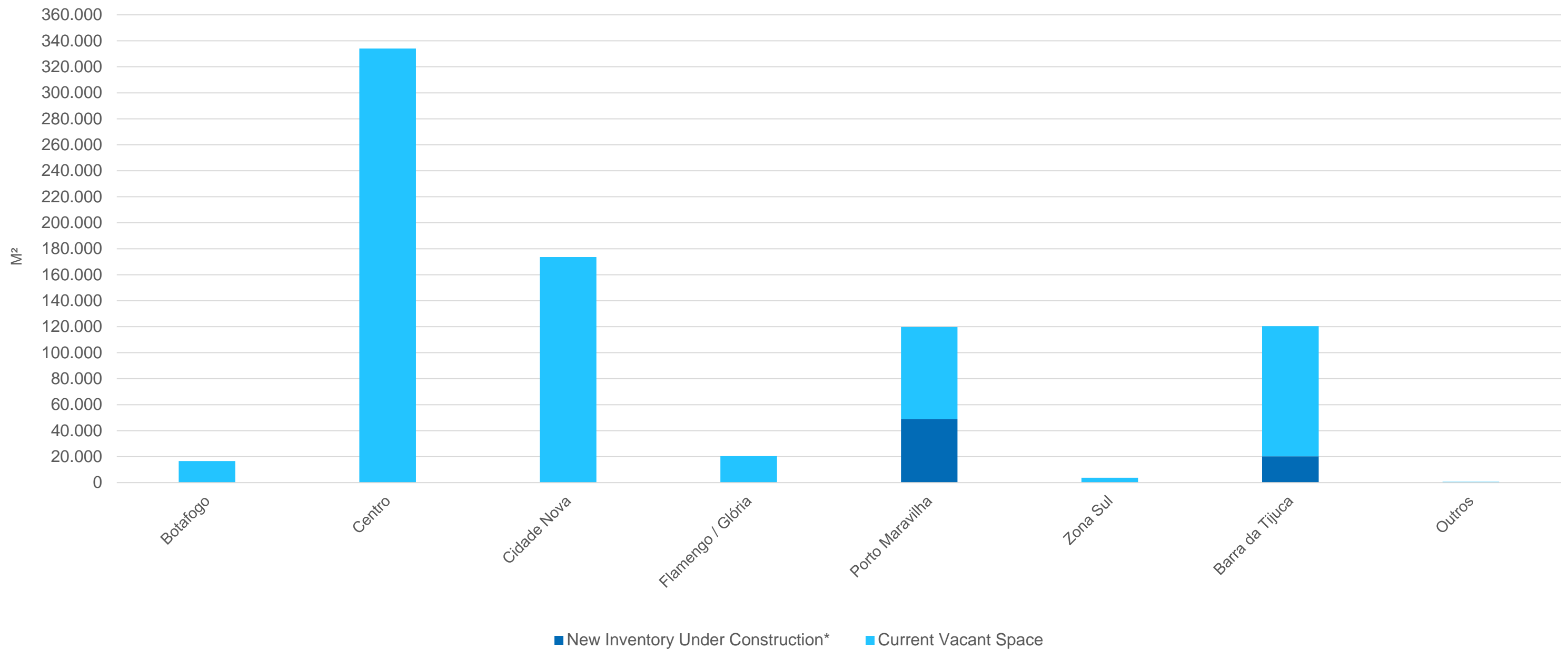


Source: Newmark Brasil – Market Research

Stagnation in construction activity

The regions of Porto Maravilha and Barra da Tijuca are those with buildings under construction, but with no forecasted date for conclusion; the low construction activity in Rio de Janeiro has been positive, amid the large volume of vacant space in the city

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

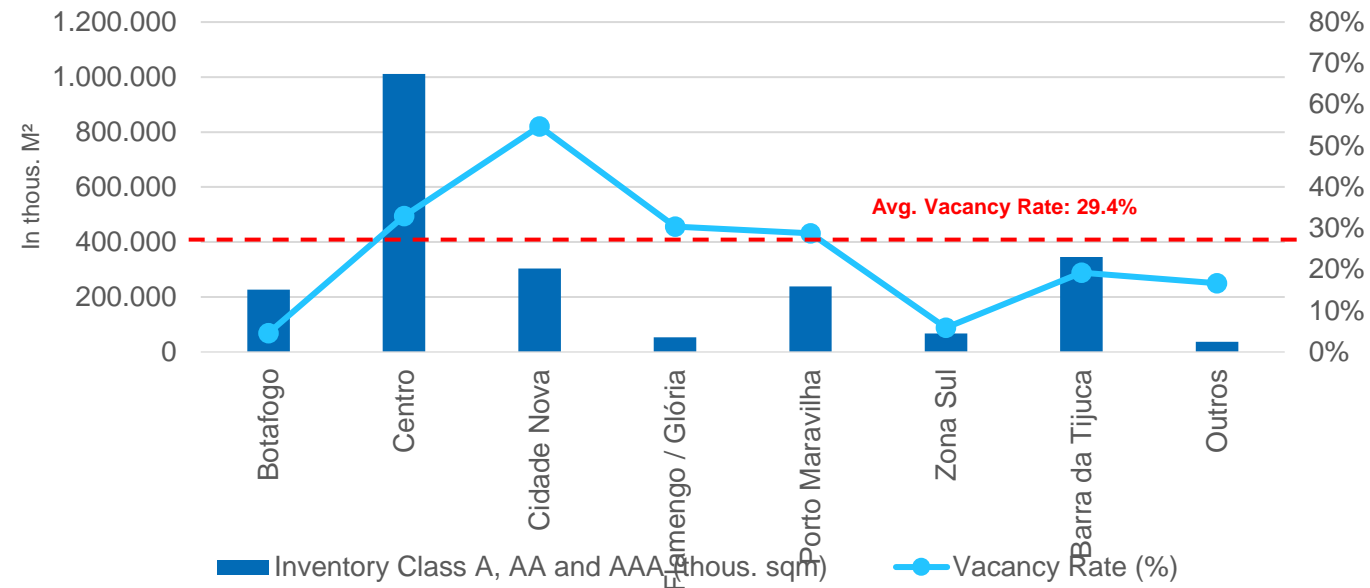


Source: Newmark Brasil – Market Research

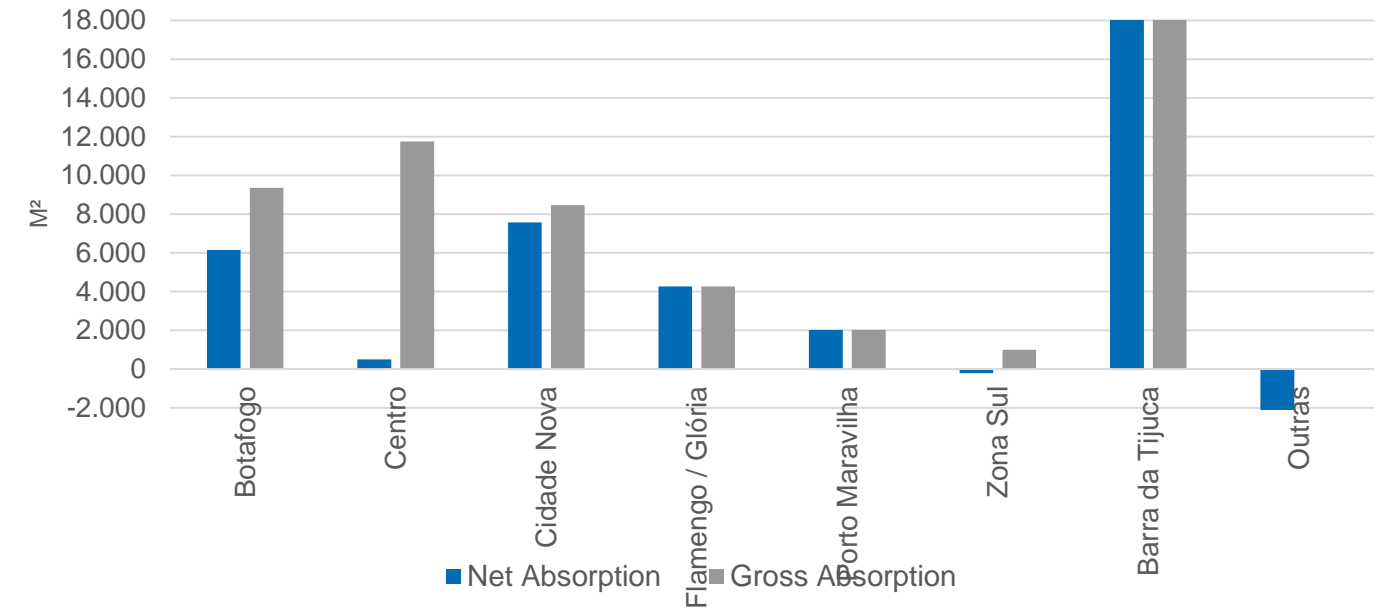
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Comparables per Submarket

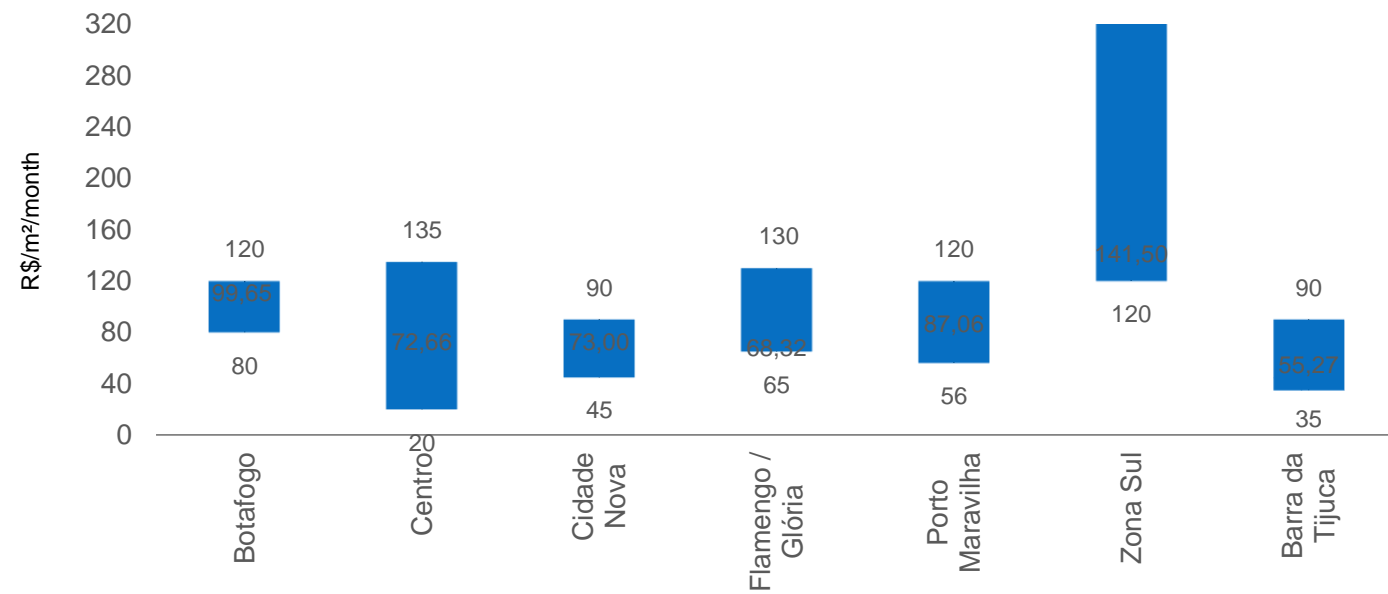
Inventory vs. Vacancy Rate – Class A, AA and AAA



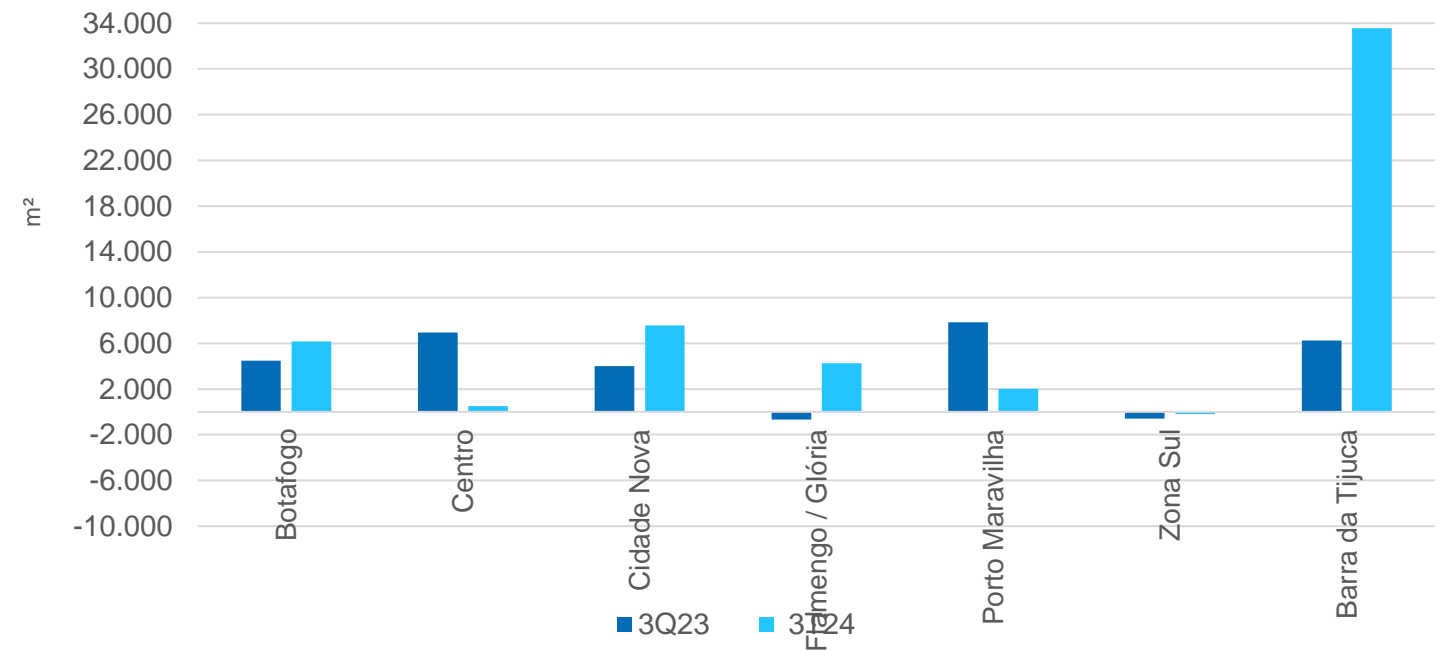
Gross and Net Absorption per Submarket – Class A, AA and AAA



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



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





For more information,
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