MARKETBEAT

Rio de Janeiro

Office Q2 2019

Economy

The first quarter of 2019 was a period of economic stagnation, with a -0.2% decline in GDP compared to the previous quarter. With this, the country is near to a technical recession. In the first quarter of the year, the government experienced a kind of euphoria which, over time, proved unable to gather momentum and to kickstart the economy. This continued into the second quarter, however, other government officials, not tied to the executive power, managed to set a track to the agenda in order to move forward with the social security reform.

This tepid activity in second quarter rippled into 2019 GDP projections. At the end of 2018, the Central Bank projected a growth rate of 2.4%, but in March the expected annual growth rate was changed to 2%. June showed a new cut, where they forecast a growth of 0.8% for 2019.

Inflation, calculated by IBGE (IPCA), is still in control, with a rise of 0.57% in April and 0.13% in May. The projection of the Central Bank for the end of 2019 is 3.82%, close to the 4.25% target, which could swing 1.5 points up or down. In turn, the IGP-M, calculated by the FGV, which is another price index, widely used to adjust real estate lease contracts presented a cumulative rate of 4.38% in June. Until the end of the second quarter, the accumulated index of the INCC (National Construction Cost Index) was 1.88%.

The Consumer Confidence Index calculated by FGV, which intends to capture consumer predictions about the economic situation,

Economic Indicators	2018	2019(F)	2020(F)
Gross Domestic Product	1.11%	0.8%	↑
Inflation Rate	3.75%	3.82%	-
Unemployment	12.26%	11.89%	↓

(Source: LCA ; Central Bank)

Real Estate Indicators	2Q18	2Q19	2019(F)
Vacancy	39.53%	39.79%	↓
Net Absorption (,000)	18	7	↑
New Deliveries (,000)	0.0	0.0	-
Avg. Asking Rent (R$)	106.1	97.69	↑

despite closing the second quarter with 2.5 points below the first, showed an improvement when it hit 88.5 points in June. Meanwhile EMBI + Brazil had an average of 253 points during the second quarter, while in the first quarter, the average was 246 points. The dollar closed at $ 3.85 in May, a decrease of 1.5% compared to the end of March.

Despite not having the possibility of a current economic uptick, social security reform has relied on legislative efforts to get it approved as soon as possible counting on that to unlock economy. The Central Bank has opted for the stability of the Selic rate at 6.5%, announced through the COPOM registry that it has room to make monetary policy more expansionary, although it depends on some factors, including the social security reform.

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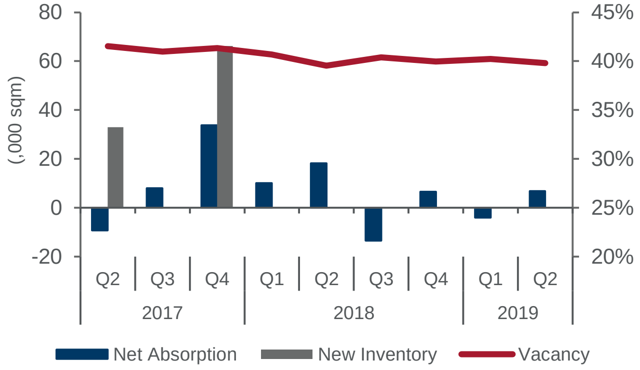
Market Overview

Rio de Janeiro's corporative market is showing positive signs of improvement in the A and A + classes. The market has had high vacancy rates in the CBD regions, however, it continues the flight to quality/flight to price trend. Despite the city's economic momentum, there are no signs of a rapid recovery. However, the Porto region added new tenants and expecting a huge drop in vacancy rate for next quarter.

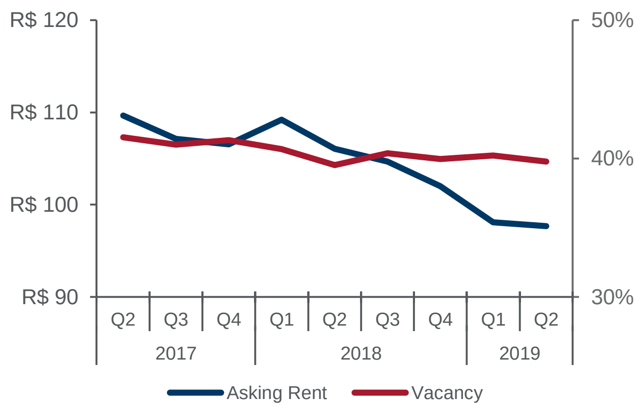
At the end of the first quarter of 2019, the vacancy rate was 40.23%. When compared to second quarter's rate, there was a decrease of 0.44 p.p., which closed out the quarter at 39.79%. Although this gives the illusion of market improvement, no new inventory was presented for this quarter yet.

> *The recovery in Rio has been slower than expected, and the vacancy rate should remain at high levels in short terms.*

Net Absorption x New Inventory x Vacancy – CBD Class A and A+
Source: Cushman & Wakefield



Asking Rent x Vacancy – Class A and A+
Source: Cushman & Wakefield



**The vacancy rate calculated and established by Cushman & Wakefield, which takes into account the effective occupation is 40.23%, While the commercial vacancy rate considering tracked leases in Rio de Janeiro CBD classes A and A+ closed the quarter at 35.14%.*

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Occupancy

This quarter net absorption was positive, decreasing the market vacancy rate. For class A and A+ CBD markets, net absorption totaled 6.8k sq.m. This was largely due to the following amount of lease ups in the Centro region which showed an occupancy of 4k sq.m and the Porto region where the occupancy totaled 6.4k sq.m, - this was also the largest amount of absorption. The Orla region lost -3.6k sq.m. in occupancy, and there wasn't any movement in this quarter at Cidade Nova and Zona Sul regions.

The positive absorption retracted the vacancy rate in 1.09% compared to the previous quarter, which closed out at 39.79%.

Average Asking Rents

Since the first quarter of 2018, the average asking rent has been declining in Rio de Janeiro. This behavior can be explained by the high vacancy percentage in the city. In order to combat this index, landlords adopted a measure of price reduction and contributing to a grace period, encouraging new tenants to move in.

The average asking rent fell 0.42%, if compared to the previous period, reaching R$ 97.69 at the end of the second quarter of 2019. The high vacancy combined with the economic instability should continue to push prices down. Market recovery is only expected in the long term.

Pipeline

With an unfavorable economic scenario, Rio de Janeiro shows a lack of demand for corporate spaces. The elevated number of new buildings in recent years has caused a vacancy increase; with the current low demand, many projects have been postponed or canceled.

Consequently, there are no Class A and A+ projects expected to be delivered in Rio de Janeiro in 2019.

Barra da Tijuca (NCBD)

Barra da Tijuca's class A and A+ markets follows the rates presented by Rio de Janeiro's CBD region. This is due to the economic conditions that affects the entire city, proven by vacancy rates and lack of new inventory.

At the end of the second quarter 2019, the vacancy rate was 31.77%, a decrease of 0.57p.p. compared to the previous quarter. This reduction can be explained by the positive net absorption of 1.0k sq.m. Despite the index improvement, no new inventory was presented this quarter.

The average asking price went through a reduction, making the market more attractive to tenants. At the end of the first quarter of 2019, values were around R$ 90.60. As for the second quarter, following a reduction of 0.77%, the value was at R$ 89.90.

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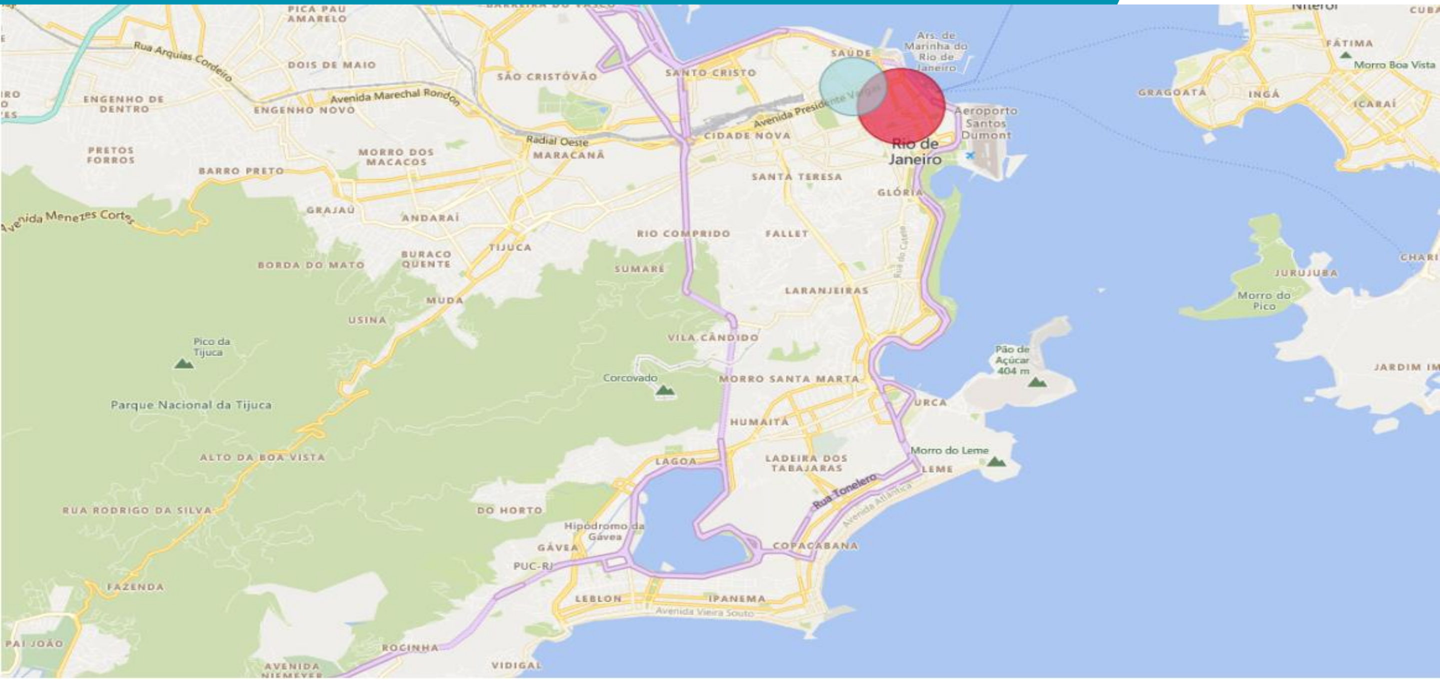
Bubble Map



Major Market Porto Centro

Volume of Gross Absorption

The map above shows the volume of gross absorption in each Major Market of the CBD Classes A and A + region of Rio de Janeiro. The regions that presented gross absorption were Porto, with 6.4k sq.m absorbed and Centro with a gross absorption of 9.6k sq.m.

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Rio de Janeiro

CUSHMAN & WAKEFIELD

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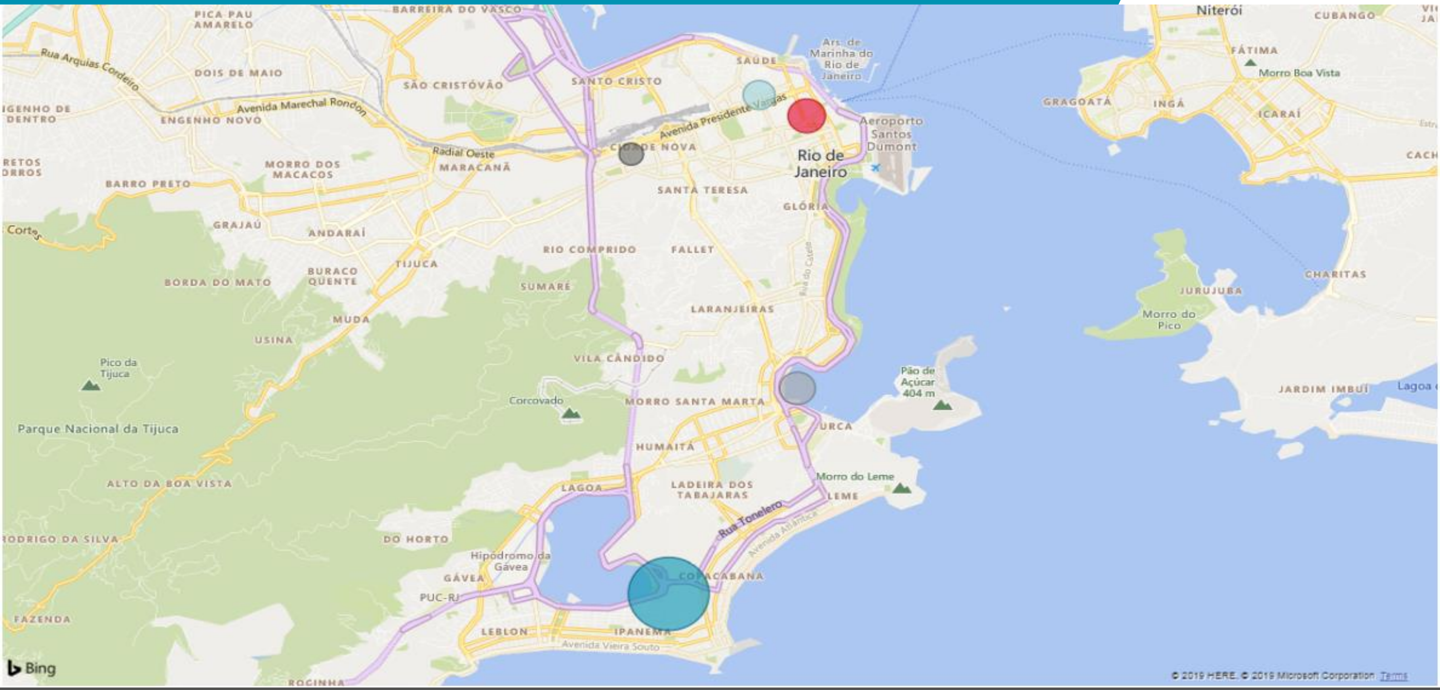
Asking Rent



Major Market Orla Centro Porto Zona Sul Cidade Nova

Average Asking Rent

The map above shows the average asking price for each major Class A and A+ CBD region in Rio de Janeiro. The regions that presented change of values were Centro and Orla. The Centro region presented a drop of 1.12%, reaching R$ 109.07 / sq.m; while the Orla region showed an increase of 1.47%, reaching R$ 104.7 / sq.m.

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Rio de Janeiro

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SUBMARKET	NUMBER OF BUILDINGS	INVENTORY (.000 sq.m)	AVAILABLE AREA (.000 sq.m)	VACANCY RATE	NET ABSORPTION (Q2)	NET ABSORPTION (ANNUAL)	UNDER CONTRUCTION*	ASKING RENT (ALL CLASSES)	ASKING RENT (CLASS AA+)
Centro	37	921.3	292.0	31.7%	4,086.1	9,640.8	-	74.1	109.7
Cidade Nova	7	239.9	121.7	50.7%	-	(12,000.0)	-	69.3	70.0
Orla	13	181.3	46.3	25.5%	(3,686.0)	(1,373.0)	-	97.6	104.7
Zona Sul	4	19.6	3.2	16.5%	-	2,473.0	-	153.3	240.2
Porto	8	201.0	158.8	79.0%	6,461.2	4,141.8	-	83.2	93.3
TOTAL CLASS A and A+ CBD									
Classe AA+	69	1,563.1	622.0	39.8%	6,861.3	2,882.7	-	77.7	97.7
TOTAL CLASS A and A+ NCBD									
Barra da Tijuca	30	181,852.0	57,774.0	31.8%	1,040.2	446	-	52.8	89.9

*We consider "Under Construction" buildings with delivery scheduled until 2Q 2022

BUILDING	AREA (sq.m)	TENANT / BUYER	TRANSACTION TYPE	SUBMARKET
Ventura Corporate Towers - Torre Oeste	1,730	Daniel Advogados	Lease	Cinelândia
Península Corporate	1,270	Hotel Urbano	Lease	Barra da Tijuca
Centro Empresarial Botafogo	834	Ecopetroil	Lease	Orla
Linneo de Paula Machado	630	Lafarge Brasil	Lease	Centro
Torre Presidente JDK Leste/Oeste	40,076	GTIS Partners	Sale	Centro

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Rio de Janeiro

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REGIONS

CBD
- Porto
- Cidade Nova
- Centro
- Orla
- Zona Sul

Non-CBD
- Barra da Tijuca

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