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2Q2024

# Rio de Janeiro Offices Market Report



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# 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

- Lease activity dropped in the quarter.
- Occupied space increased only slightly in Centro, Barra da Tijuca, Botafogo, and Porto. In Cidade Nova, Flamengo/Glória, and Zona Sul returns outpaced new leases, resulting in a decrease in occupied spaces.
- Of the transactions in the quarter involving known parties, most involved service organizations, specifically finance and energy.

## Market Indicators

- Lease activity in high-end office space in Rio de Janeiro has stagnated again. Gross absorption of 16.5 thousand m<sup>2</sup>, 47% below the previous quarter. Returns crept back up in the quarter and this, plus sluggish demand, resulted in almost no growth in occupied office space - 3 thousand m<sup>2</sup>.
- The vacancy rate remained almost unchanged at 31.5%, gross absorption dropped, and a larger volume of premises is being returned by tenants.
- The average asking rent remained almost unchanged at R\$ R\$73.81 /m<sup>2</sup> per month (R\$ 73,62 /m<sup>2</sup>/month).

## Outlook

- Prior to the sluggish demand of this quarter, quarterly indicators for high-end office space in Rio de Janeiro had suggested a more active year. Year-to-date net absorption exceeds the total for 2023 and, unless demand drops even more sharply, should return to 2022 levels, which was the first post-pandemic year with more substantial growth.
- While slow, demand has led to a gradual drop in vacancy, and leases to oil and gas players as led to a gradual drop in the vacancy rate.
- Strong supply, a dependence on only a handful of industries for demand, and the country's political and economic instability are critical for resumed growth.

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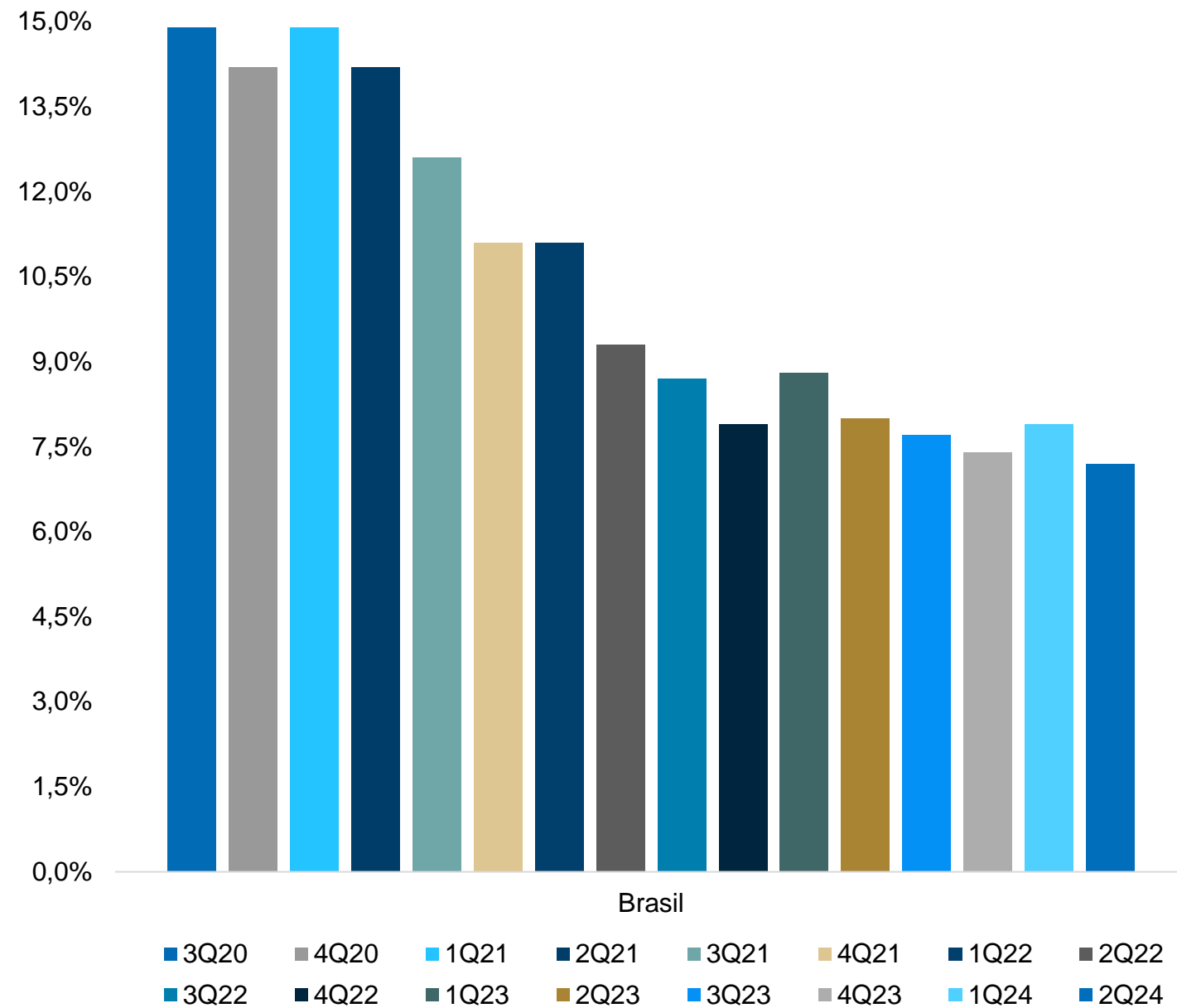
# Economy



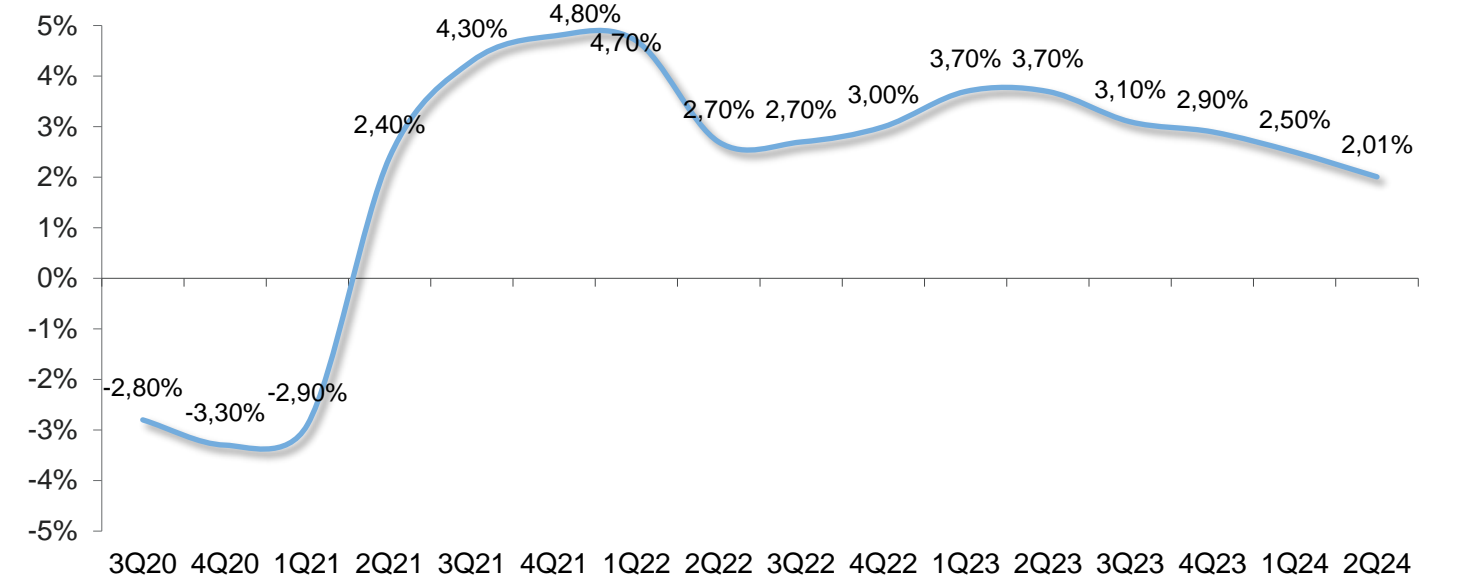
# Economy

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.

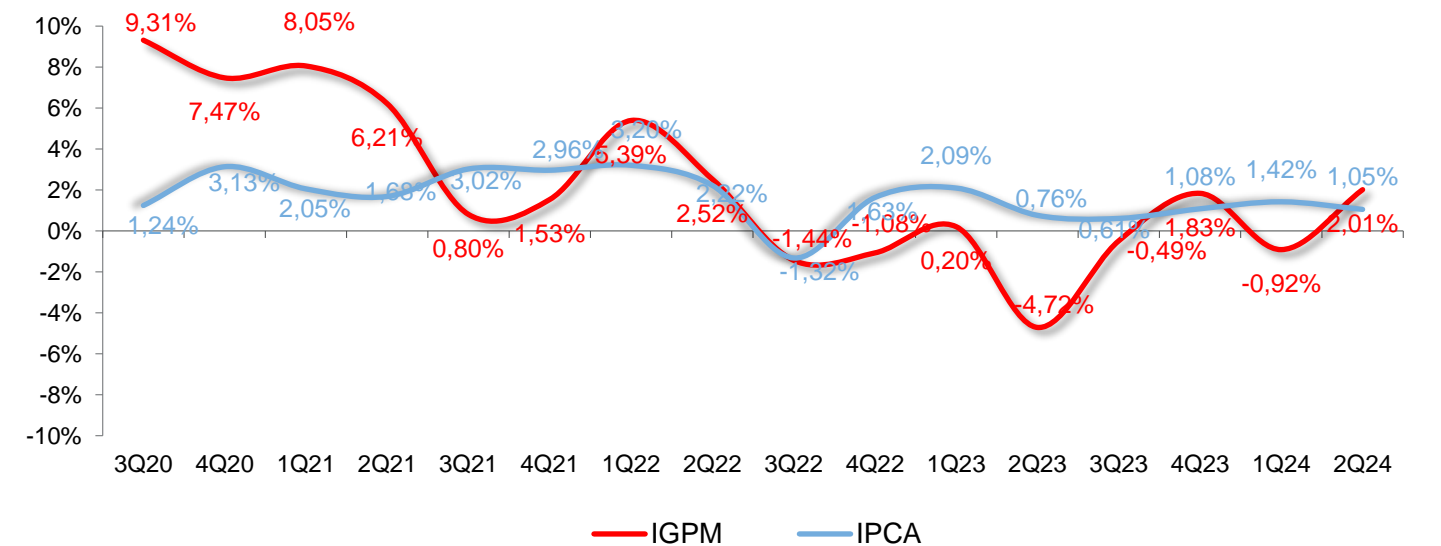
Unemployment rate



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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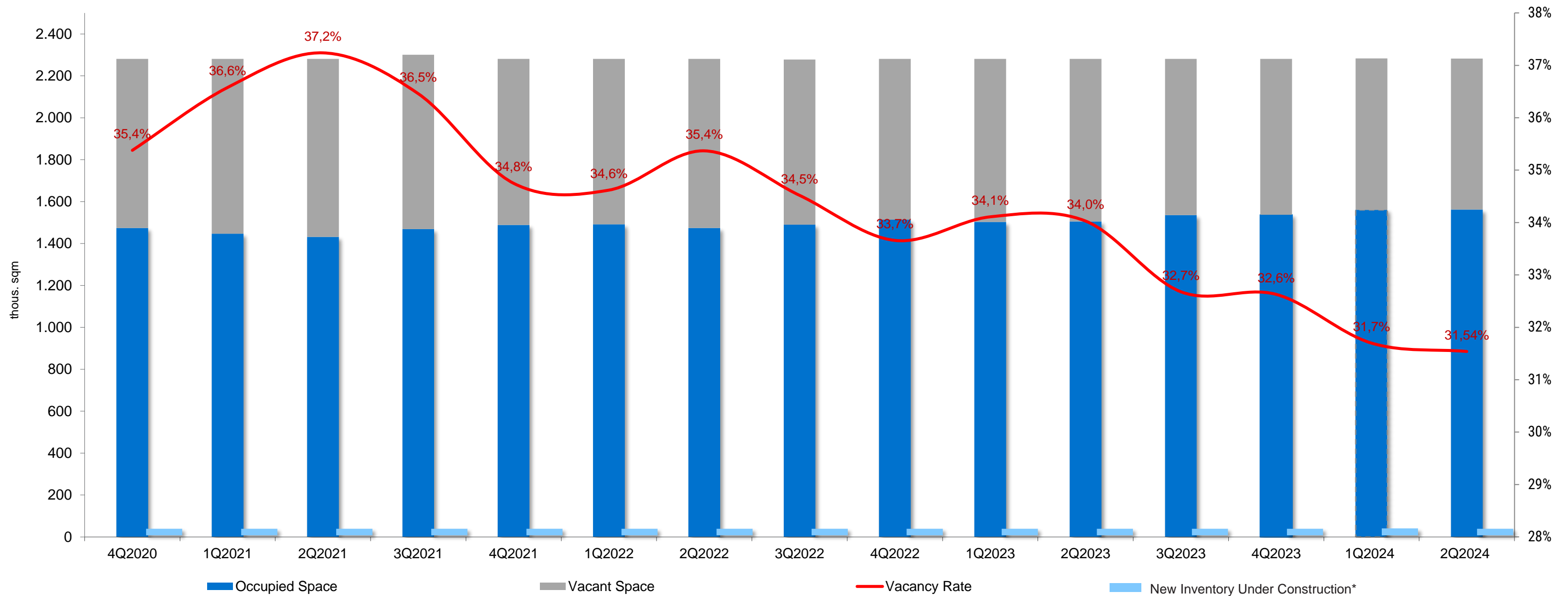
# Market Indicators



# The volume of vacant space keeps on a downward trend

Although minor, the movement is of drop in the volume of vacancy supply, but offer is still high

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



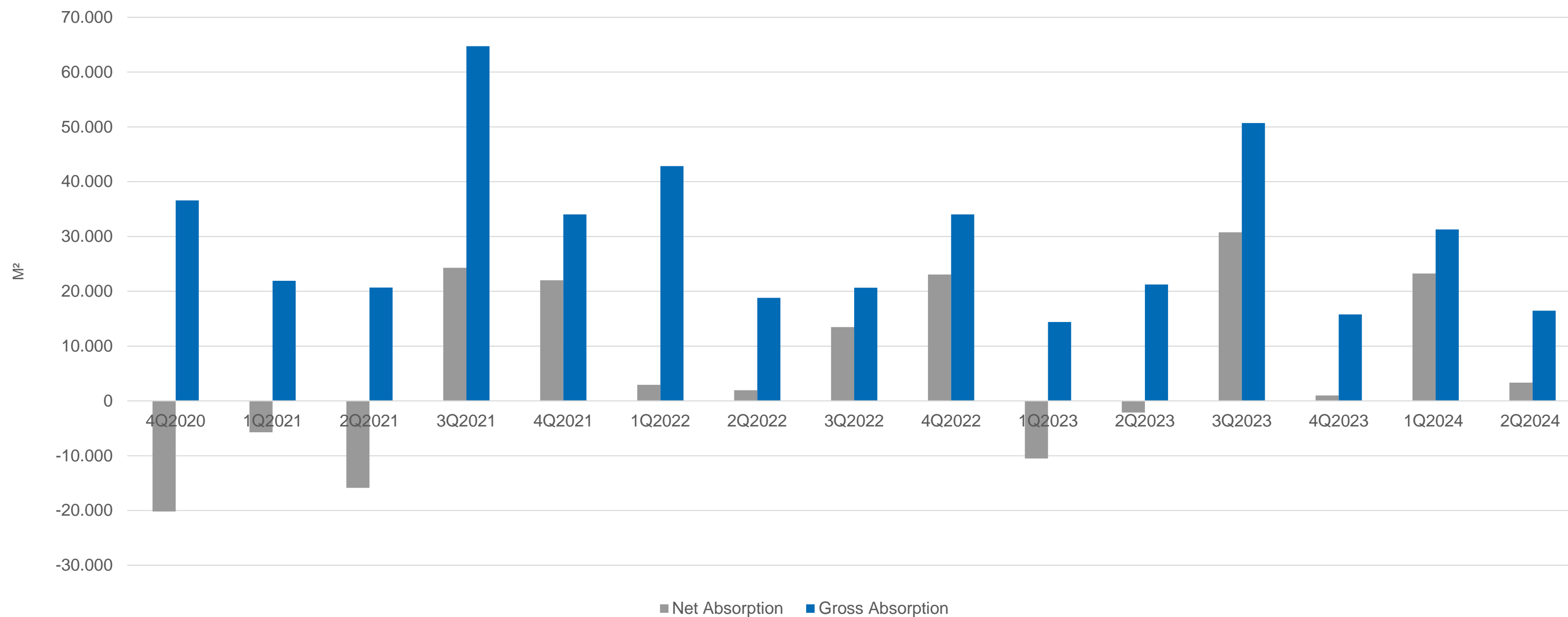
Source: Newmark Brasil – Market Research

\*works have started, but no estimated date for conclusion

# Leasing activity lost steam and returns increased

There was a drop in gross absorption and an increase in office space returns, resulting in a drop in net absorption

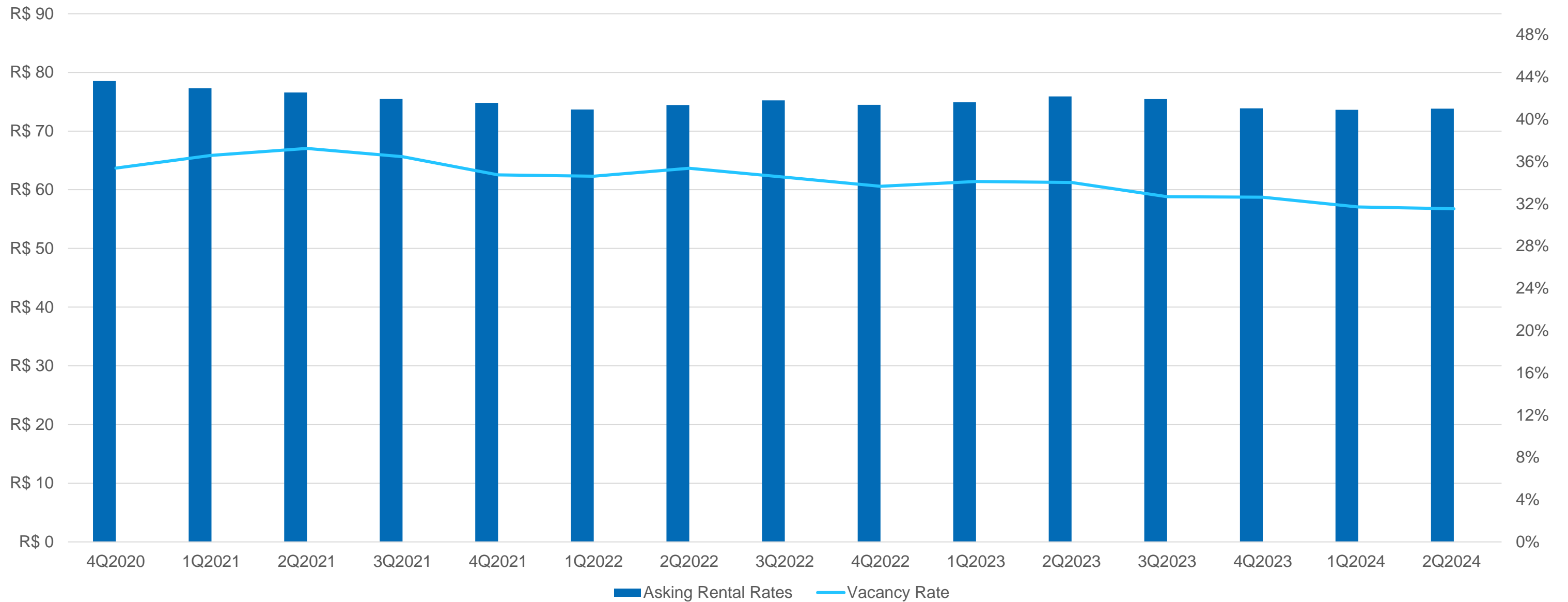
## Gross and Net Absorption (sqm) – Class A, AA and AAA



Source: Newmark Brasil – Market Research

# Average asking rental remains practically stable this quarter

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



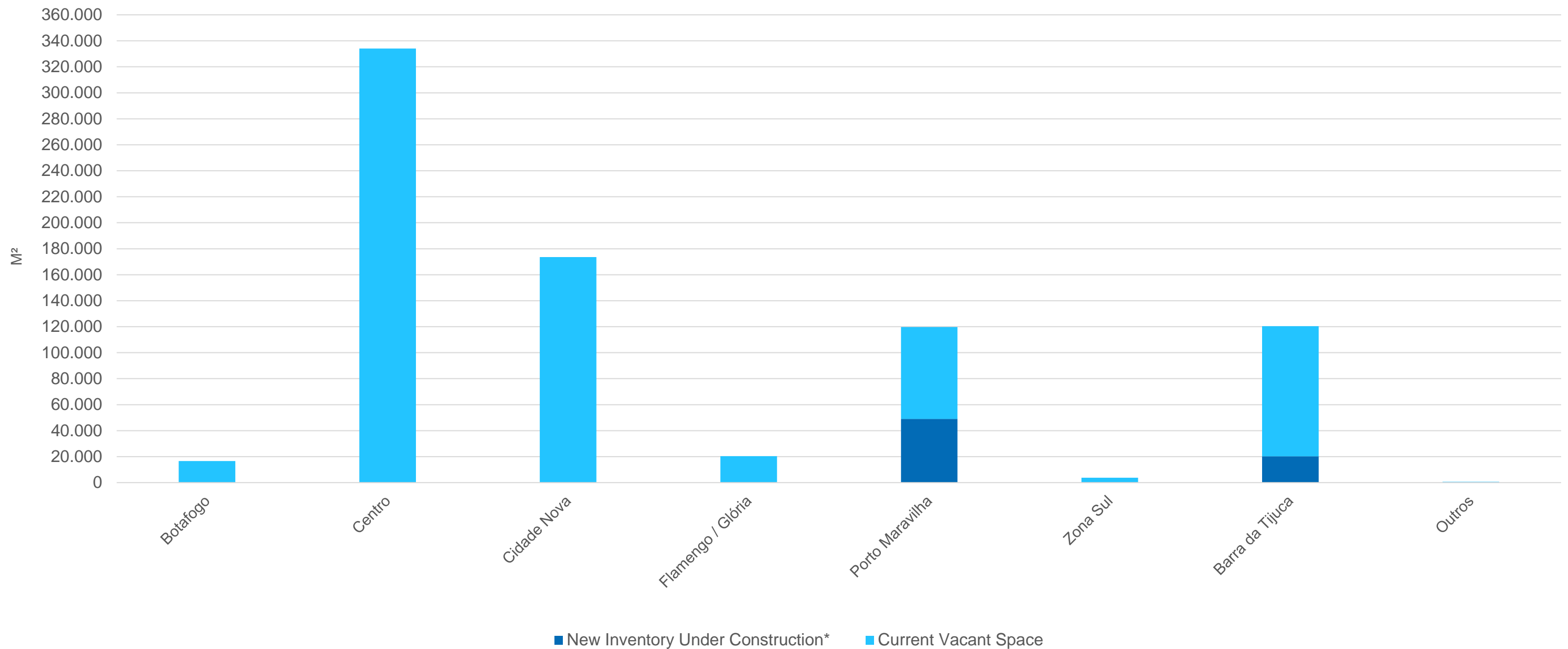
Source: Newmark Brasil – Market Research



# 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

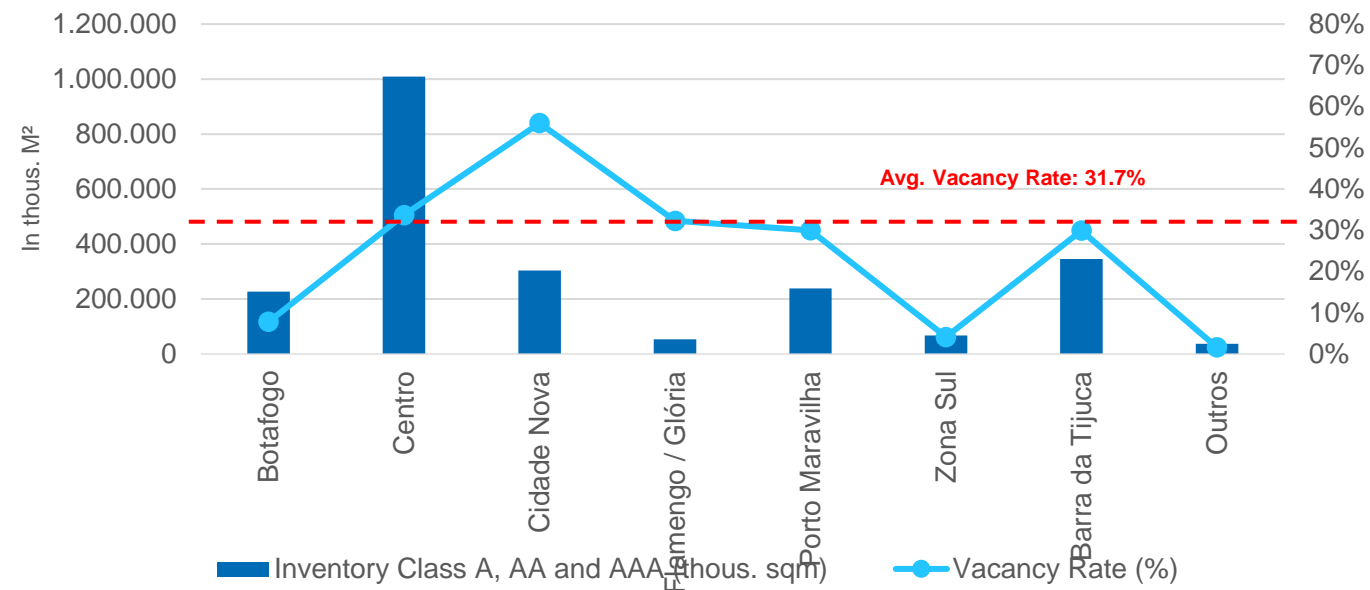


Source: Newmark Brasil – Market Research

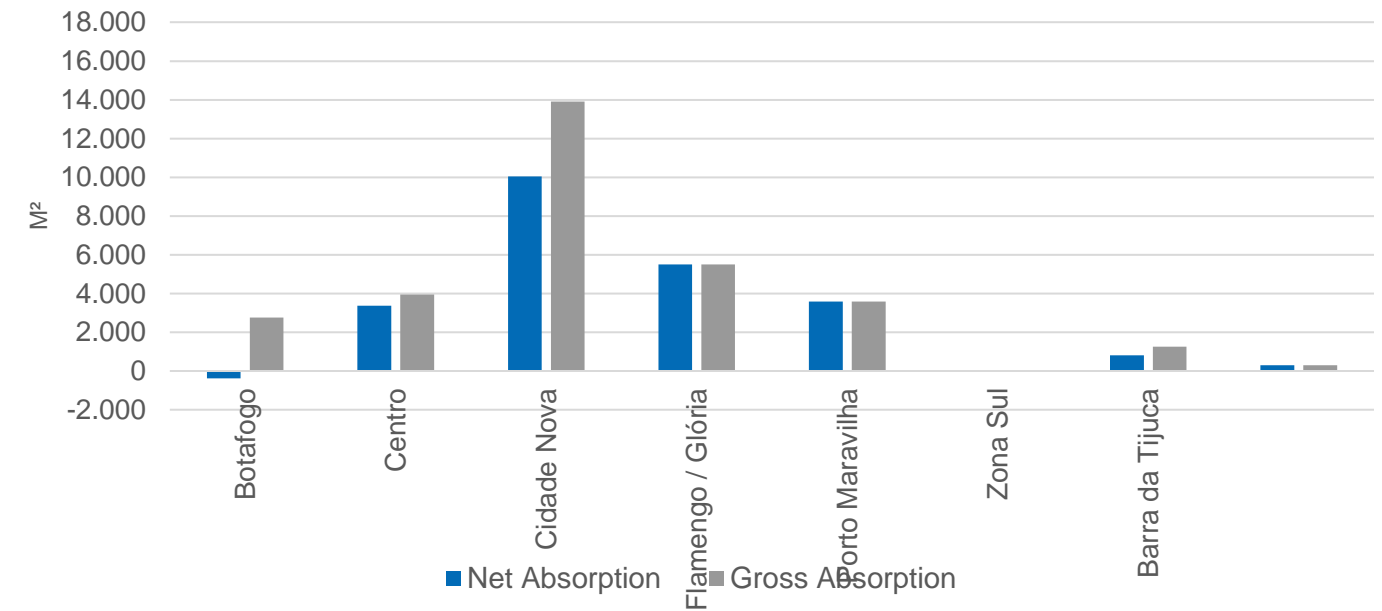
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# Comparables per Submarket

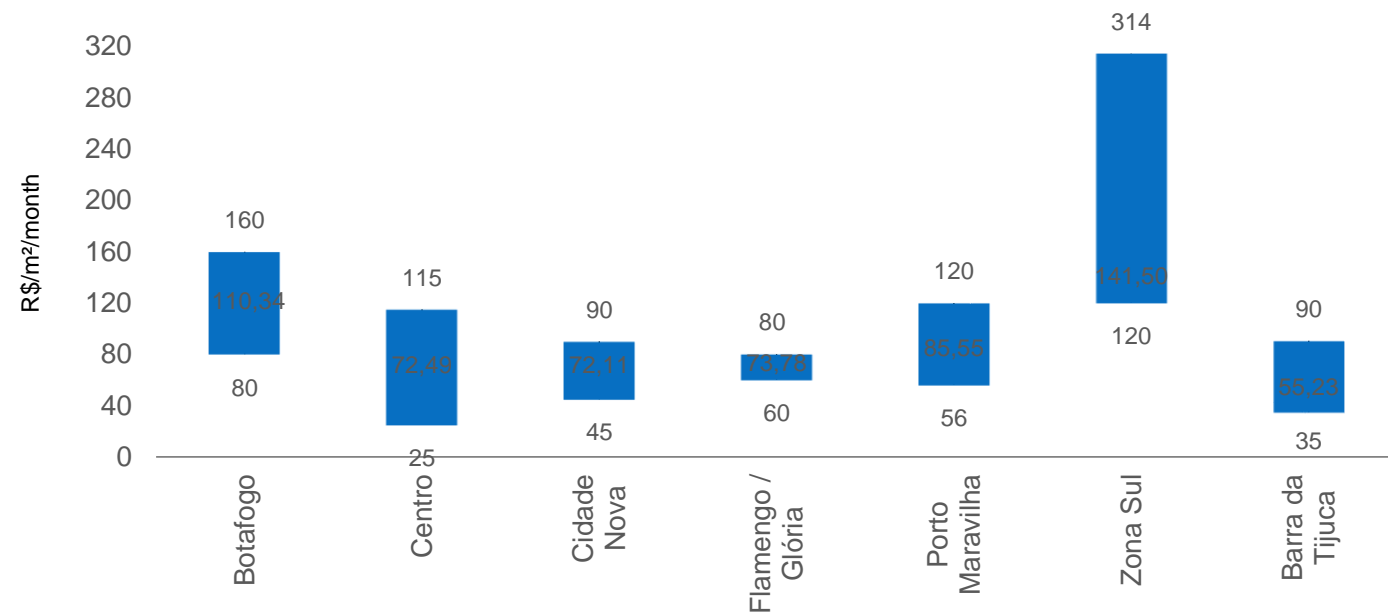
## Inventory vs. Vacancy Rate – Class A, AA and AAA



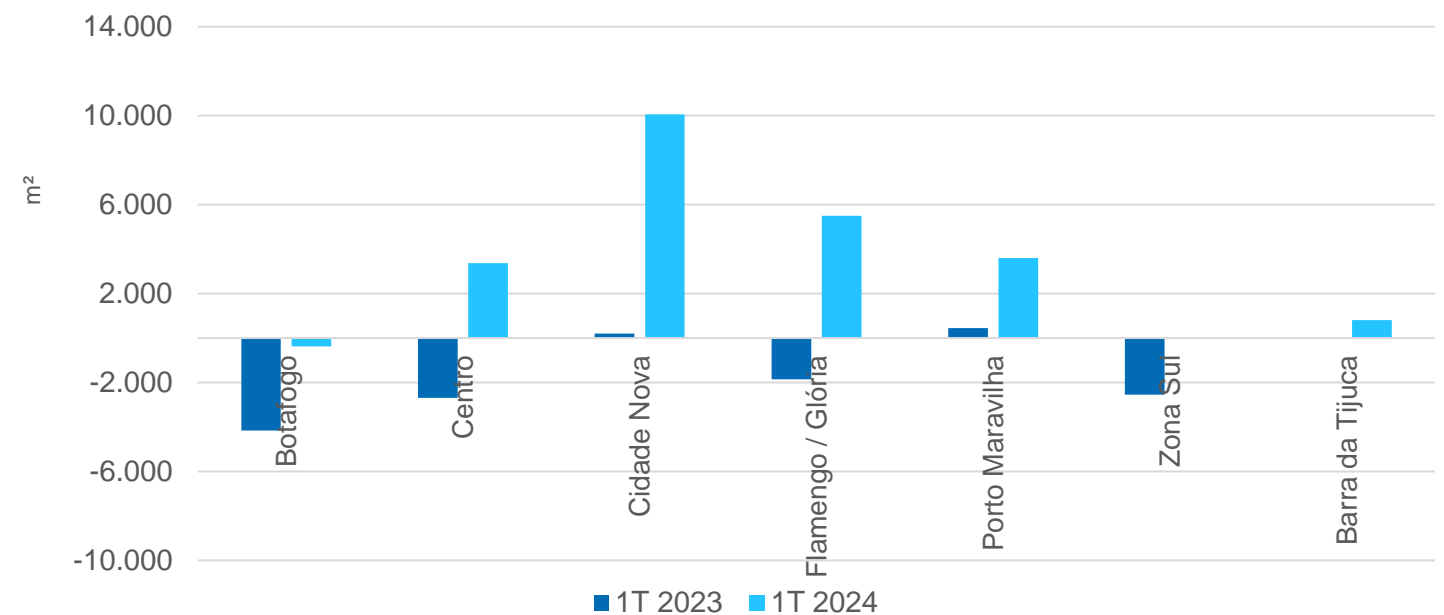
## Gross and Net Absorption per Submarket – Class A, AA and AAA



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



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





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

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