3Q2024

São Paulo Offices Market Report

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 remained strong, with a gross absorption of 167,000 m² in the quarter, the highest in 7 years. For 2024, total absorption has already reached 424,000 m², nearly matching the total for 2023 (452,000 m²);

– Net absorption is also high, totaling 220,500 m², 55% above last year's total.

– Most regions saw an increase in occupied space, except for Alphaville, Jardins, and Itaim, which experienced higher returns than new leases, resulting in negative net absorptions. The Chucri Zaidan area recorded the highest net absorption for the quarter, with 29,500 m², followed by Barra Funda (13,000 m²) and Paulista (12,000 m²).

– Transactions were dominated by service sector companies, particularly in technology and finance, but the manufacturing and retail sectors also played a significant role.

Market Indicators

– The high-end office market in São Paulo continues to show positive performance, with signs of a solid recovery;

– Leasing activity was the highest since 2021, with a quarterly gross absorption of 167,000 m². Despite the stability in net absorption this quarter, the figure remains high;

– Even with 47,000 m² of new inventory delivered, the vacancy rate dropped to 20.9%, the lowest percentage in the last 14 quarters;

– There was an increase in the average asking rent, closing at R$ 106.6/m²/month across all surveyed regions in São Paulo – the highest average since 2015.

Outlook

– 2024 indicators show a consistent recovery in the real estate market, with a net absorption of 220,500 m², nearly double the historical average of 120,000 m². This indicator is expected to approach the 250,000 m² recorded in 2017, which was the best result in the historical series;

– The vacancy rate has reached its lowest level in 14 quarters, and rental prices are rising, reinforcing owners' confidence in the sector's recovery. Despite a significant volume of new buildings scheduled, the vacancy rate is expected to change little, with a possible decrease depending on new inventory and absorption rates;

– However, uncertainties in the political and economic scenario may affect companies' growth and investment plans, impacting transactions in the corporate real estate market.

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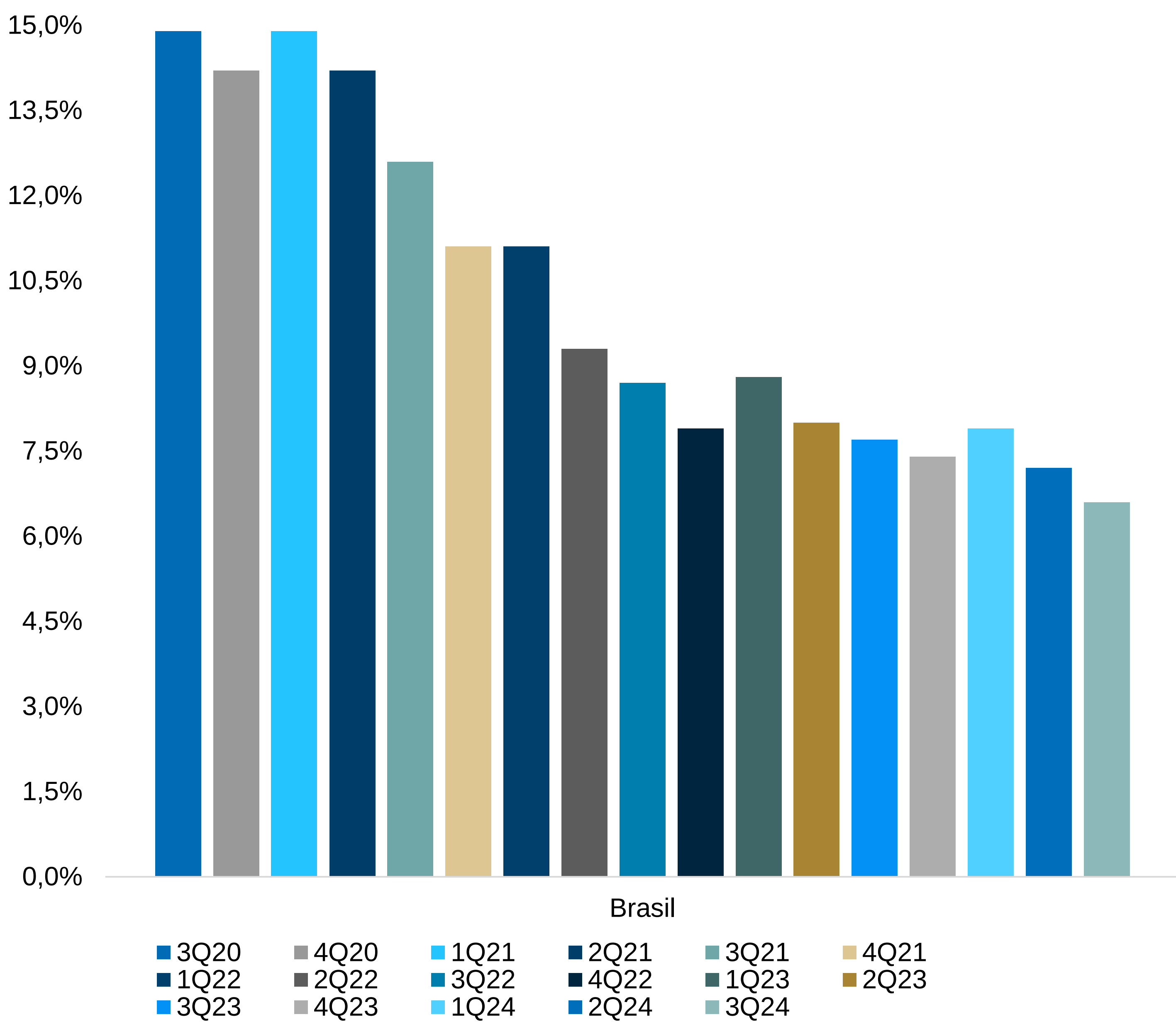
Economy

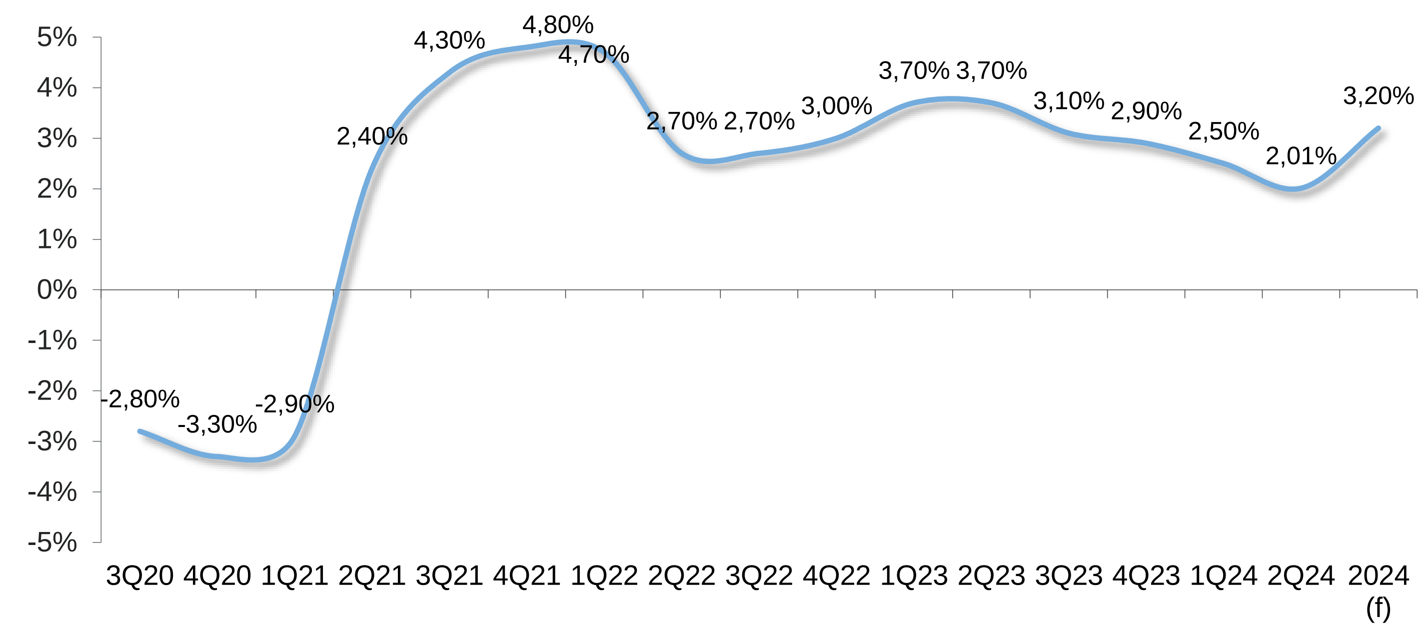
Economy

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.

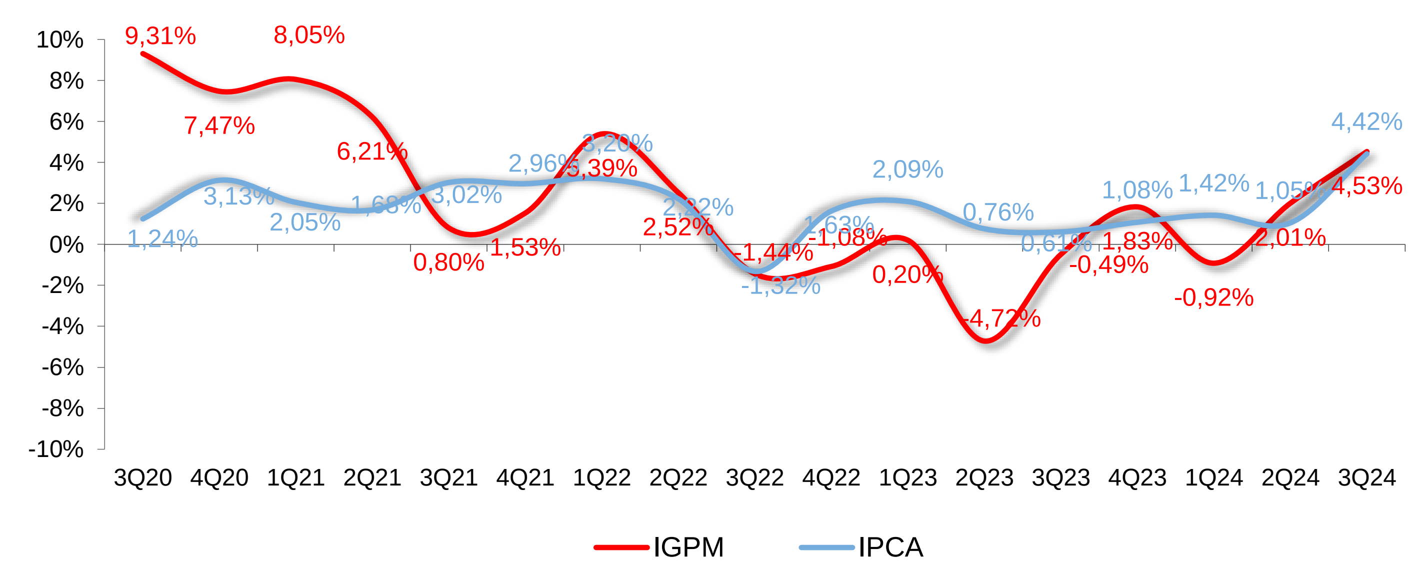
Unemployment rate



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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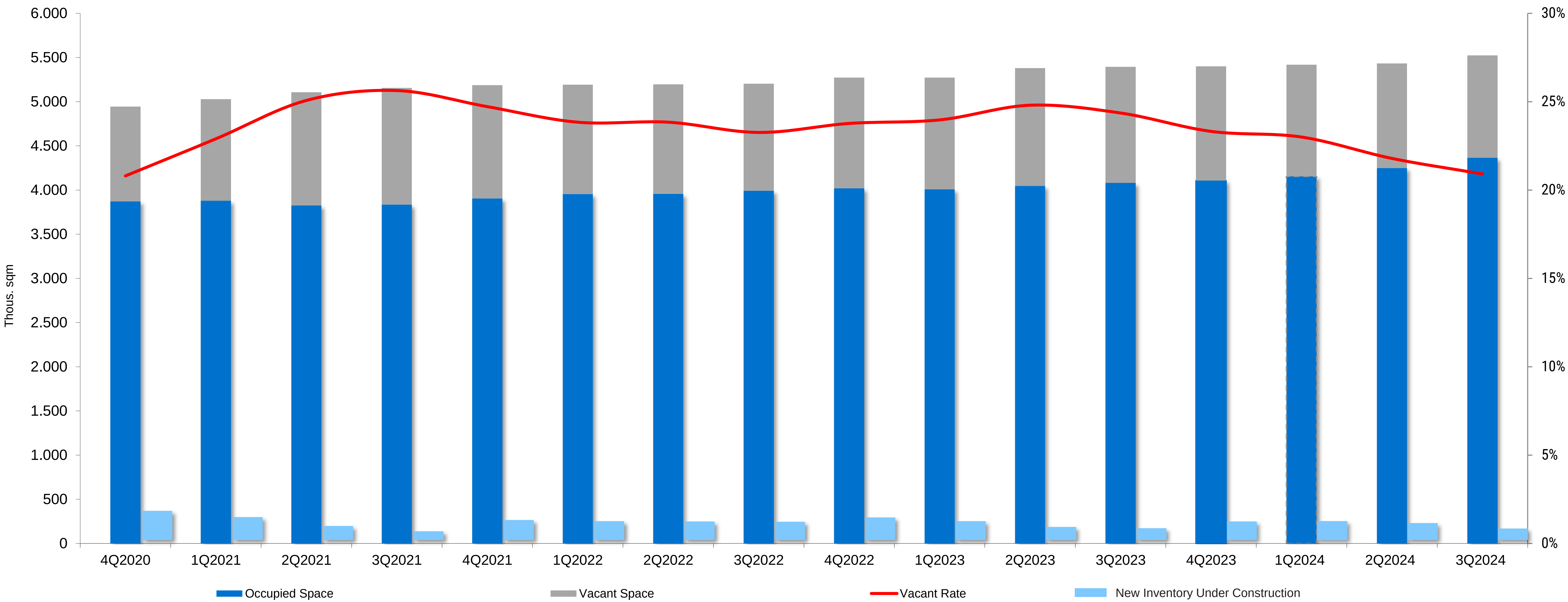
Market Indicators

Slight annual decline in new inventory delivered

The delivery of new inventory has been losing momentum, growing by 145,000 m² in 2023, a volume below the historical average of 232,000 m² from 2007 to 2023. The year-to-date new inventory this year stands at 105,500 m², 13% lower than the registered on the same period last year. Despite the entry of new buildings, the vacancy rate again fell from 21.8% to 20.9%, reflecting the strengthening demand

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

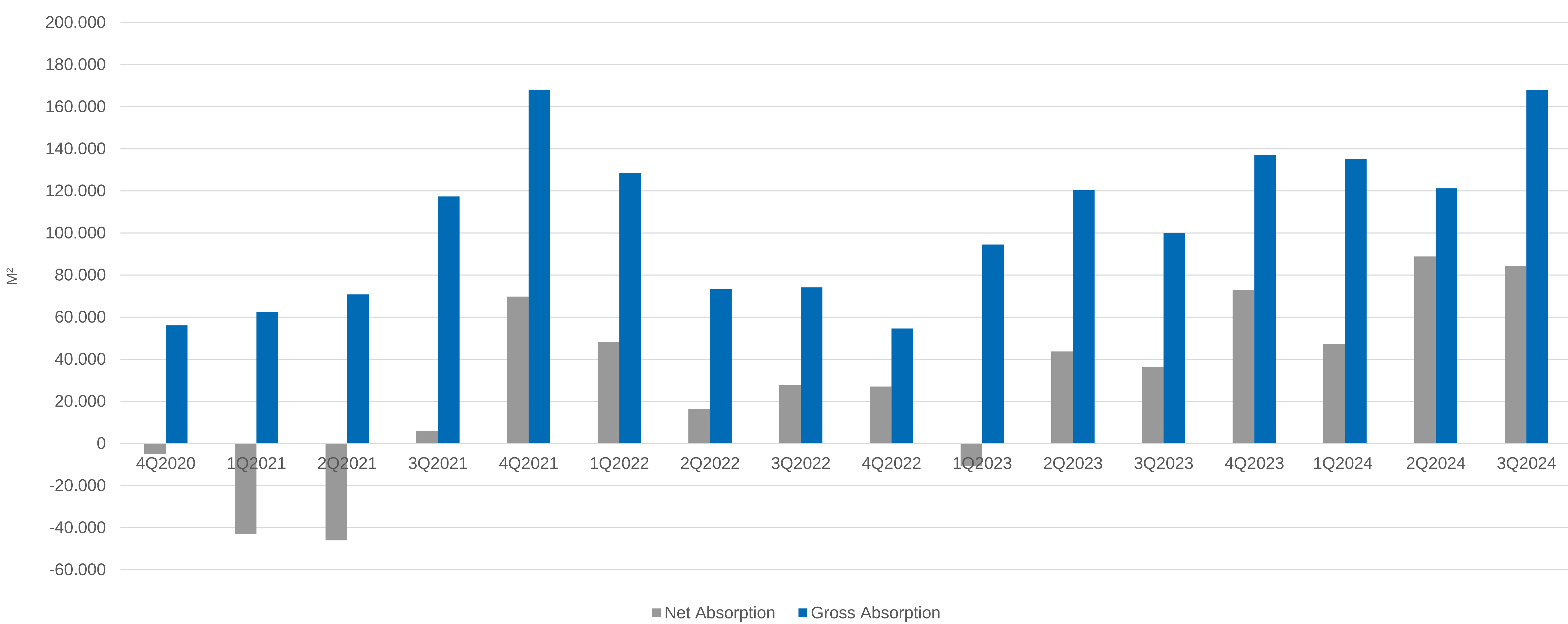


Source: Newmark Brasil – Market Research

Gross and net absorption exceed 2023 indicators

Leasing activity remained strong, with a gross absorption of 167,000 m² in the quarter, accumulating to 424,000 m², nearly the same total recorded for all of 2023 (452,000 m²). Net absorption remains high, totaling 220,500 m² for the year, 55% greater than the total for all of 2023 and almost double the historical average of 120,000 m² (2007 to 2023)

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

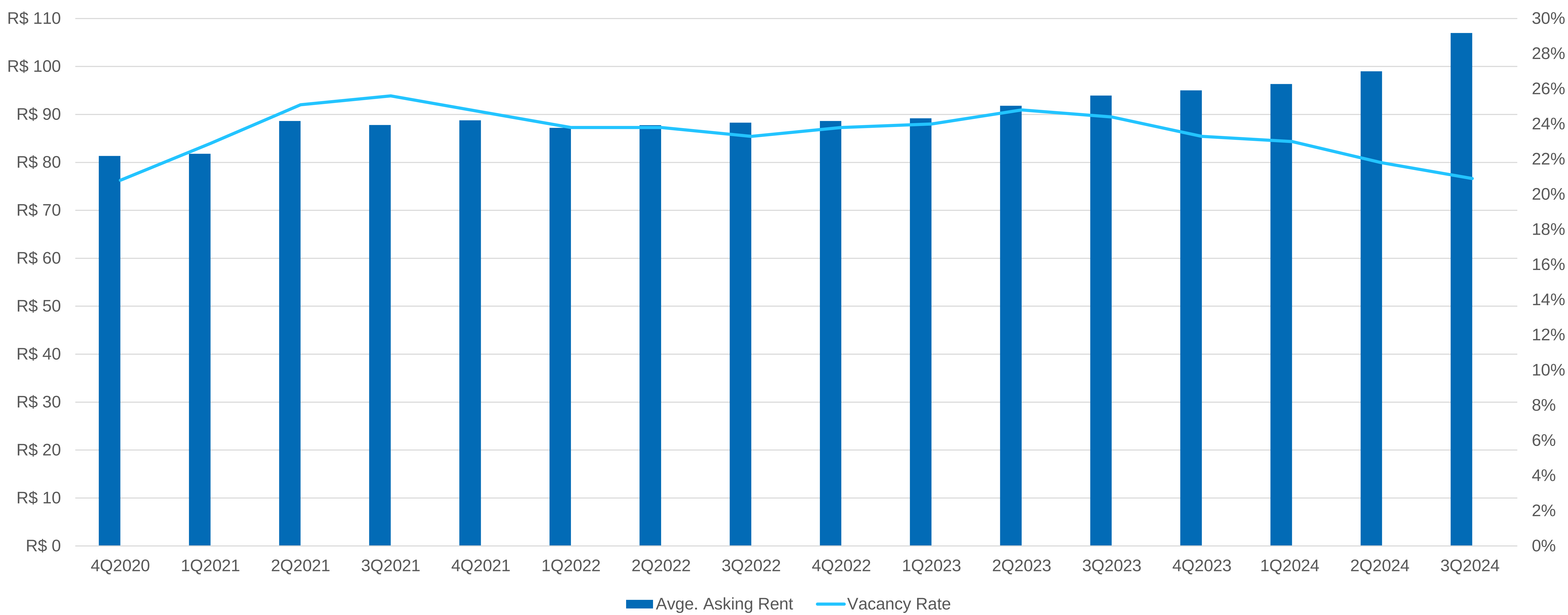


Source: Newmark Brasil – Market Research

Increase in rental prices: new buildings drive up rents

In light of the intensified demand and the volume of high-quality new inventory delivered to the market at elevated prices, the average asking rent saw a significant increase, closing the third quarter at R$106.6/m²/month, 7.6% higher than the previous quarter and 13.5% above the same period in 2023

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

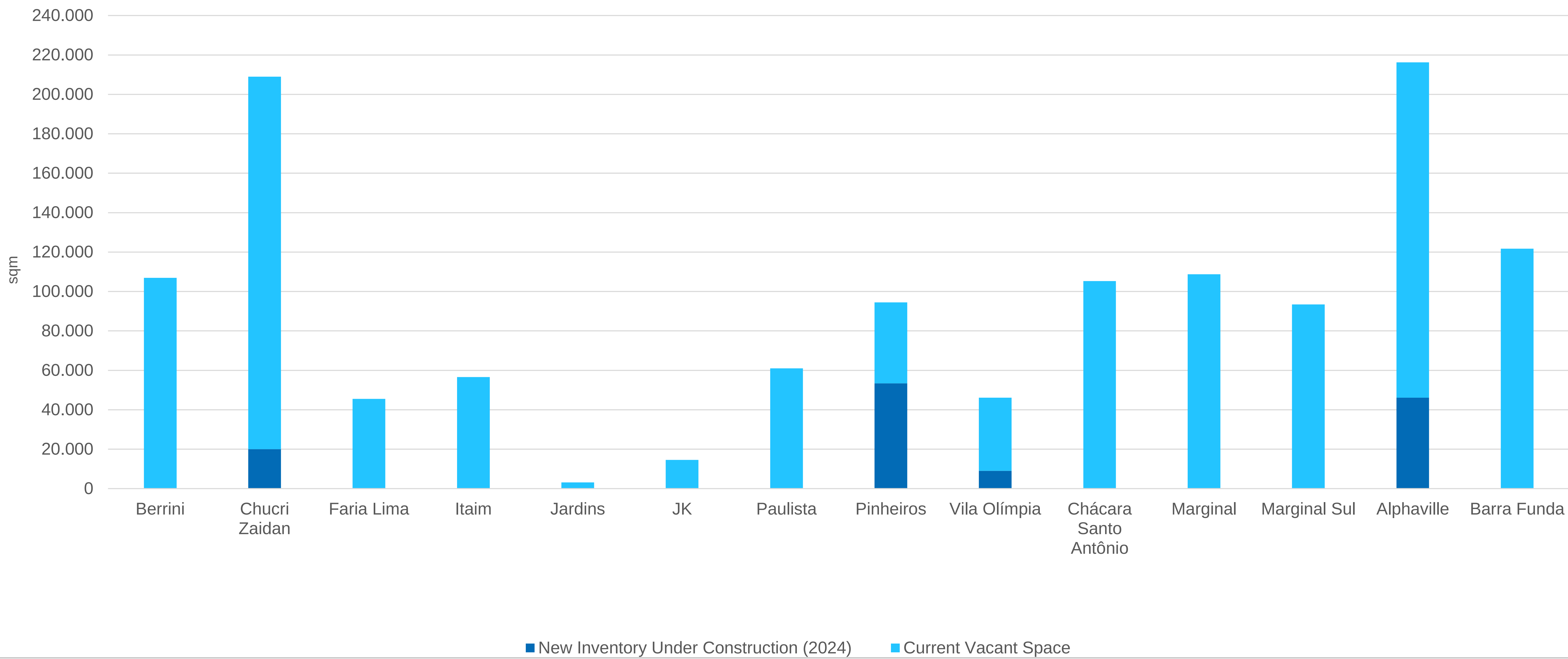


Source: Newmark Brasil – Market Research

The new inventory under construction does not pose a risk of oversupply in most of the market

Most regions with high-end corporate buildings are not expected to face a risk of oversupply due to new inventory under construction, except for Alphaville and Chucri Zaidan, which currently has a large volume of vacant space. This will result in an increase in supply in the regions

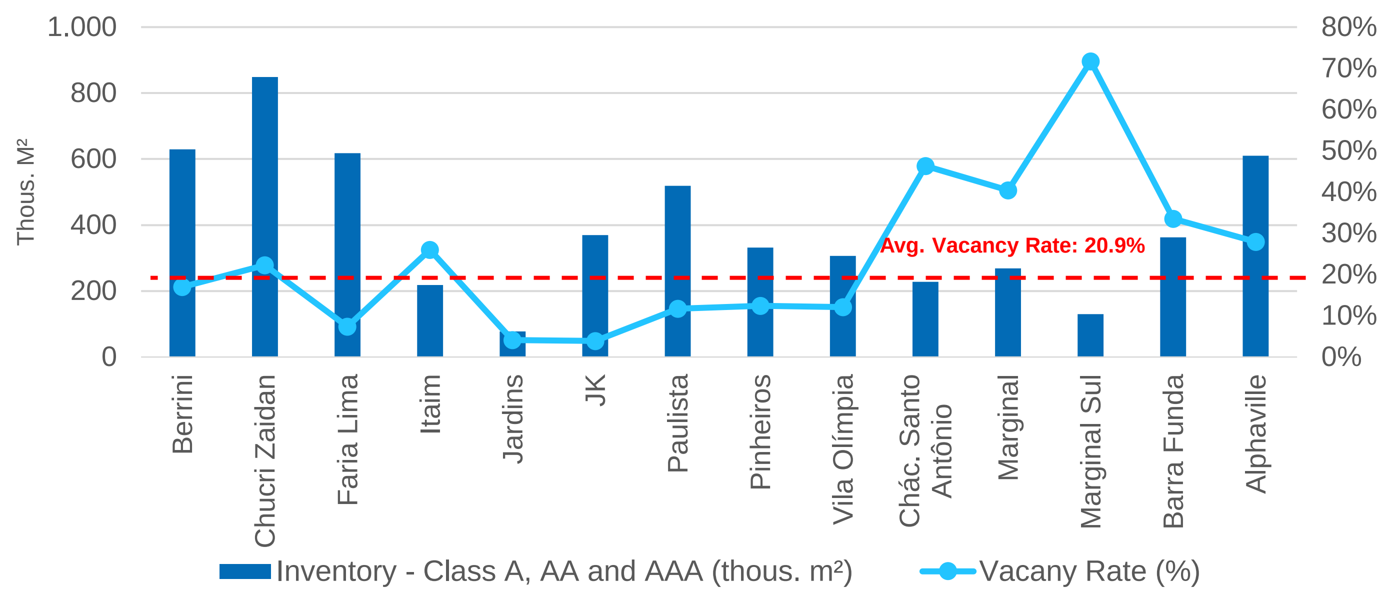
Current Vacant Space vs. New Inventory Under Construction per Submarket (m²) – Class A, AA and AAA forecasted to 2024



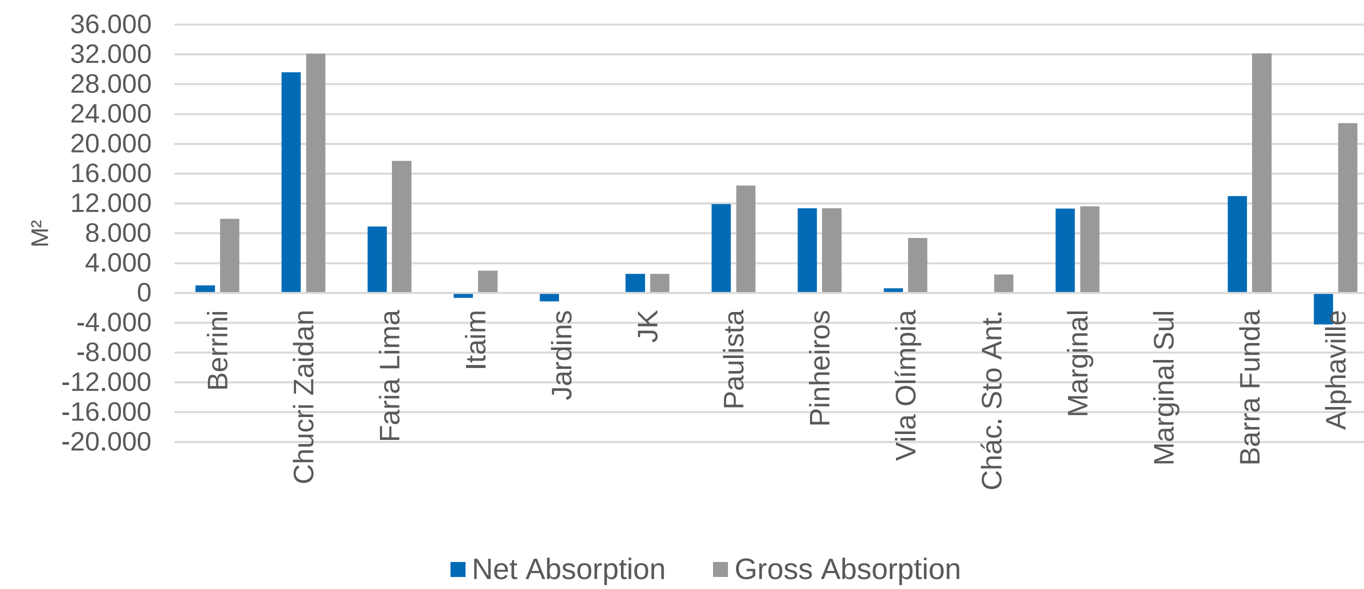
Source: Newmark Brasil – Market Research

Comparables per Submarket

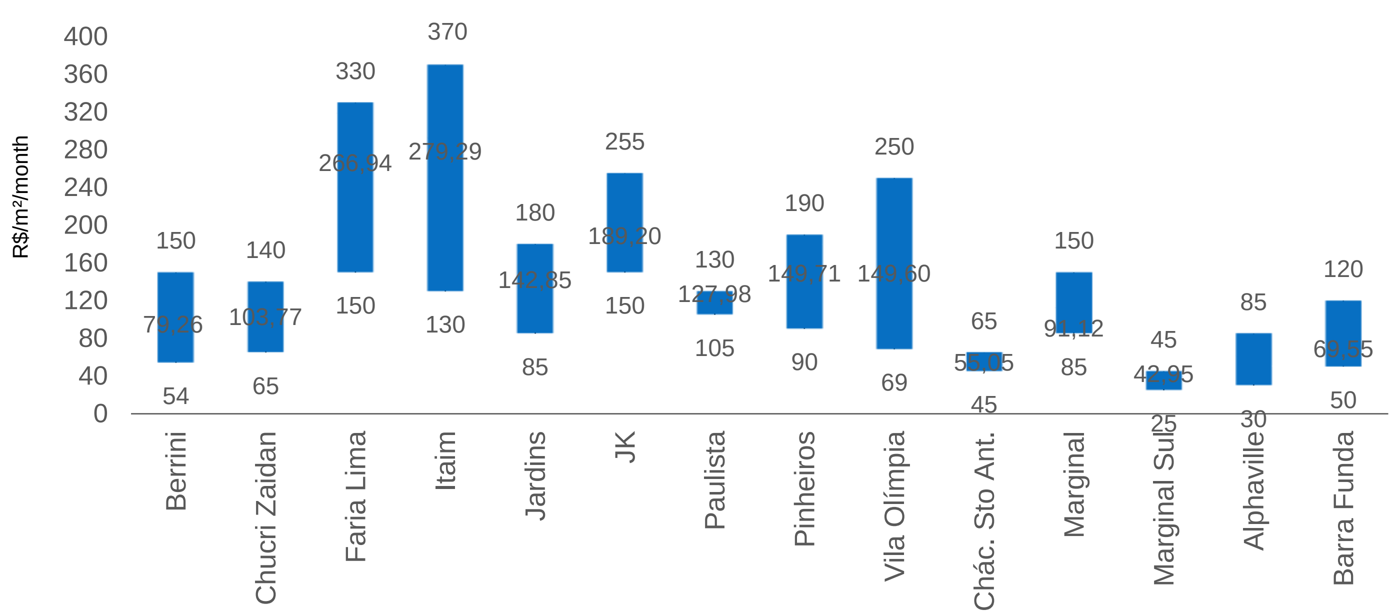
Inventory vs. Vacancy Rate – Class A, AA and AAA



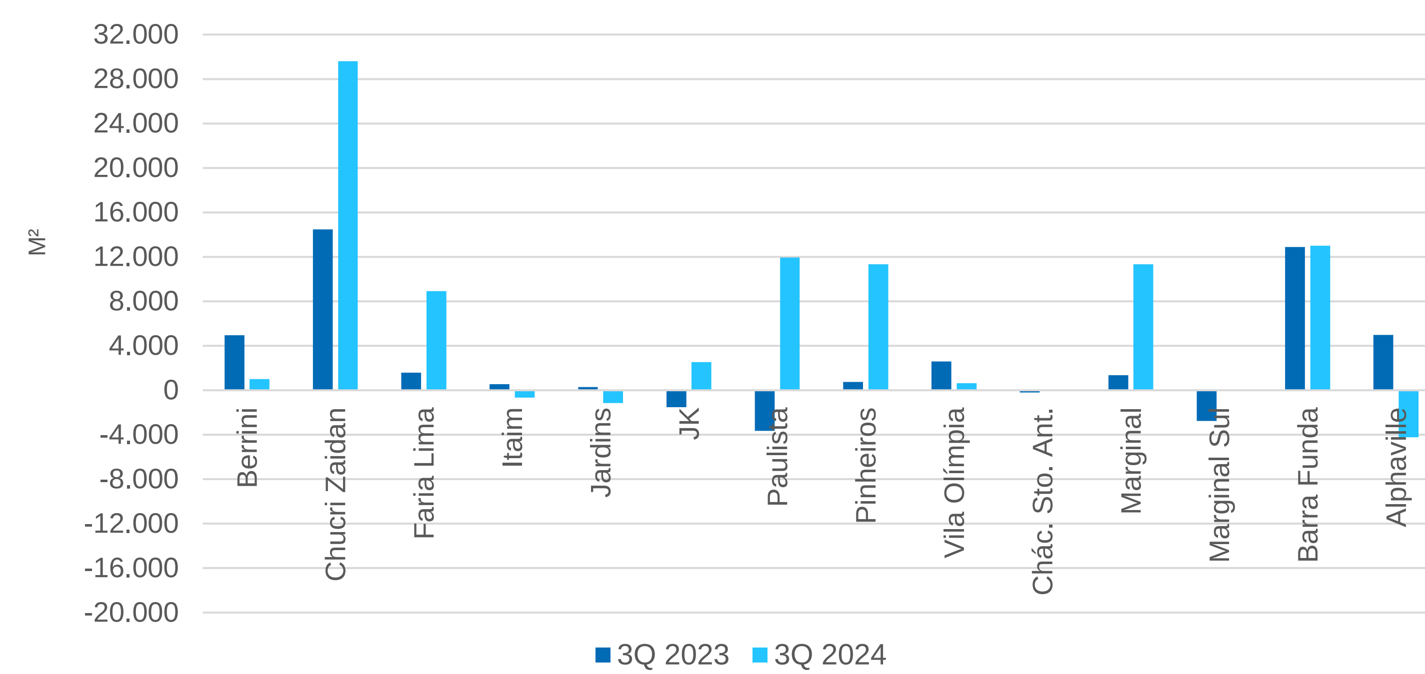
Gross and Net Absorption per Submarket – Class A, AA and AAA



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



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



Source: Newmark Brasil – Market Research

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