

MARKETBEAT

São Paulo

Office Q3 2017



SÃO PAULO OFFICE

Economic Indicators

	Q316	Q317	12-Month Forecast
GDP	-0.8%	0.2%	▲
Inflation Rate	8.5%	2.5%	▲
Unemployment	11.7%	12.6%	▼

Real Estate Indicators

	Q316	3Q17	12-Month Forecast
Vacancy	28.4%	24.3%	▲
Net Absorption (.000)	2.8	67.7	▼
Under Construction (.000)	41.9	-	▼
Avg. Asking Rent	R\$95.7	R\$98.0	▲

Economy

Brazil's economy is showing signs of a possible upturn, and data suggests that a recovery is on the way. The increase in family consumption on the demand side, and the improvement in business activity, has led to GDP growth expectations for the end of the year. The once invulnerable inflation rate continues to cool down with a projected increase of 2.54%; a rate well below the target established by the Central Bank (4.25%). This drop will allow Copom to cut interest rates further, and to close the year out at 7%.

This trend is expected to continue for the next few years. Despite political instabilities in the economy, we expect a GDP growth rate close to 3% through 2020 that will be equally split across all economic sectors.

With the regards to the foreign market, the US FED is still showing signs that the normalization of its monetary policy will continue, and they will likely increase interest rates. This may cause the dollar value to oscillate strongly against its real value, but the conversion trend should remain between R\$3.20 – R\$3.30 for every US \$1.

Market Overview

2017Q3 was marked by large occupancy rates in São Paulo's CBD Class AA+ market. Preleases have been taking place since the beginning of the year, but the lack of any new deliveries has brought the vacancy rate down by 2.3 p.p. to its current rate of 24.3%.

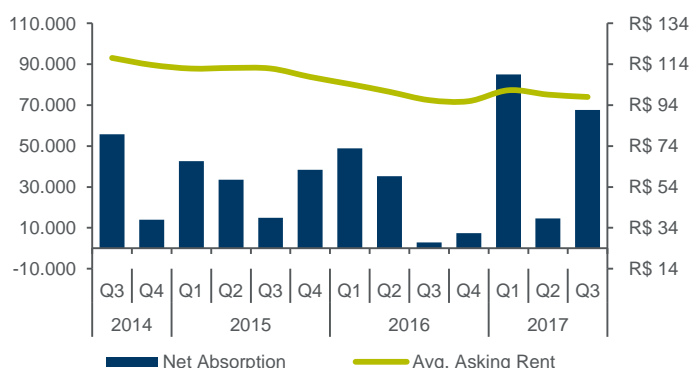
Net absorption totaled 67,700 sqm in 2017Q3, thus continuing the positive absorption trend that began in 2014. Helping move this trend along is the continued improvement of São Paulo's office market in conjunction with a drop in the asking rent price.

Occupancy

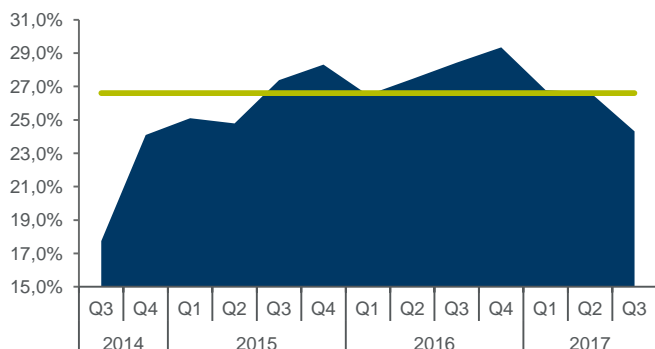
The CBD Class AA+ regions that experienced high net absorption during the third quarter of 2017 were: Paulista, Chucru Zaidan and Pinheiros with 22,800 sqm, 19,200 sqm, and 16,800 sqm, respectively.

On the opposite end of the spectrum, the regions that presented the lowest net absorption values in the third quarter of 2017 were: Chácara Santo Antonio, with -9,200 sqm and Marginal Pinheiros, with -4,700 sqm.

Net Absorption/Ask Price – CBD Class AA+ Average



Vacancy – CBD Class AA+



Pipeline

2017Q3 experienced no new deliveries of CBD Class AA+ space, however, 131.000 sqm is expected to be delivered by the end of the year. The reason behind such a large addition of space to the market is the result of projects and construction being put on hold while investors waited for the economy to recover. Despite the large volume of new inventory scheduled to be delivered by the end of this year, we in fact believe that the number of new deliveries will eventually be lower than the expected.

It's expected new deliveries in two major markets, Chácara Santo Antonio representing 67% and Chucri Zaidan 33% until the end of this year. Both of these regions will experience increased vacancy rates until the market absorbs these new deliveries.

THE NET ABSORPTION IN SÃO PAULO OF CBD CLASS AA+ WAS 67.700 SQM IN 2017Q3

Average Asking Rent

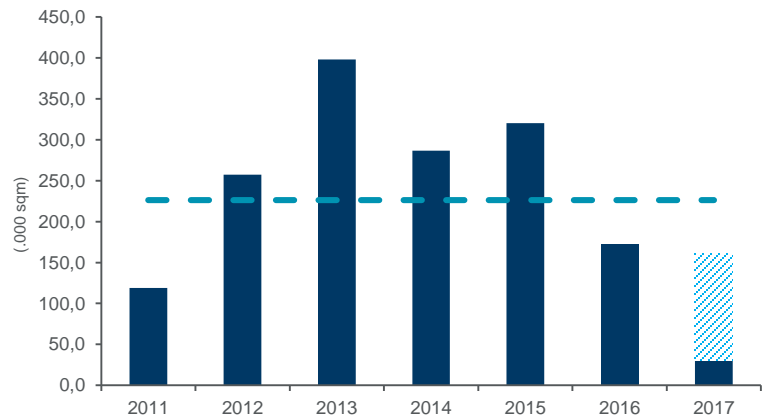
The average asking rent for upscale office space in 2017 has experienced a downward trend. This is, in large part, due to tenants' strong bargaining power over contracts, in addition to the more favorable prices granted by owners. In 2017Q3, CBD Class AA+ developments reached R\$98.00/sqm, a drop of 1.1%, or by R\$1.20, when compared to the previous quarter.

The region that presented the sharpest drop in asking rent price, in a quarterly comparison, was Berrini (4.8% or R\$ 4.80/sqm), which fell to R\$94.40/sqm. In comparison, the region that presented the highest quarter-over-quarter increase in asking rent price was Pinheiros with a 3.2% jump (or R\$2.40/sqm), to R\$77.5/sqm.

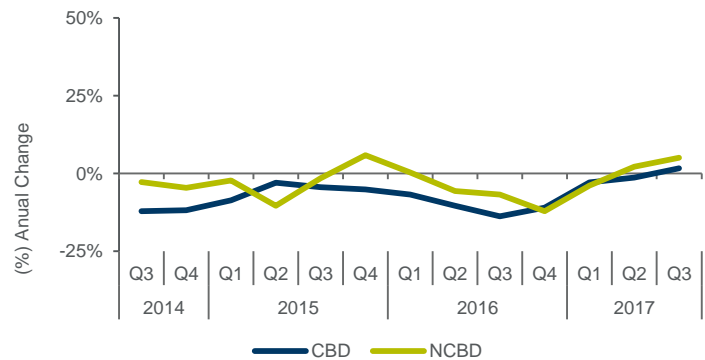
Forecast

São Paulo will remain a more tenant favorable market in the short term, however, in the long run, Brazil should experience an economic recovery, which will be followed by increased asking rent prices. New upscale developments will not be delivered until well into late 2017 and early 2018, and they will directly affect São Paulo vacancy rates in the CBD Class AA+ market.

New Inventory – CBD Class AA+



Asking Rent – Class AA+



Outlook

The following points summarize São Paulo's near-term outlook:

- The Brazilian economy will close out 2017 with interest rate drops, and below target inflation rates.
- The delivery of about 131.000 sqm of new Class AA+ developments in São Paulo is expected to take place through the end of 2017.
- Net absorption totaled 67.700 sqm in 2017Q3, and kept a positive pace for Class AA+.

MARKETBEAT

São Paulo

Office Q3 2017



SUBMARKET	BUILDINGS	INVENTORY (,000 sqm)	AVAILABLE AREA (,000 sqm)	VACANCY RATE	NET ABSORPTION (Q3)	NET ABSORPTION (YTD)	UNDER CONSTRUCTION*	ASKING RENT (ALL CLASSES)	ASKING RENT (CLASS AA+)
Paulista	15	246	35	14.2%	22,878	21,708	-	R\$ 81.32	R\$ 95.64
Pinheiros	18	265	35	13.0%	16,848	27,240	-	R\$ 64.30	R\$ 77.52
Faria Lima	25	433	83	19.3%	4,632	15,396	60,300	R\$ 110.15	R\$ 136.88
Itaim	4	73	1	2.0%	12,258	13,386	-	R\$ 69.59	R\$ 120.00
Vila Olimpia	15	204	38	18.7%	2,028	11,014	18,000	R\$ 80.35	R\$ 108.36
Berrini	10	294	95	32.3%	1,973	-2,492	-	R\$ 80.02	R\$ 94.44
Chac. Sto. Antonio	16	150	26	17.2%	-9,270	-3,614	87,873	R\$ 55.00	R\$ 63.08
Marginal Pinheiros	20	172	69	40.4%	-4,760	-6,686	24,000	R\$ 56.62	R\$ 62.24
Chucri Zaidan	24	616	183	29.7%	19,218	82,343	43,495	R\$ 85.47	R\$ 98.21
JK	12	336	87	25.5%	4,493	10,823	-	R\$ 113.72	R\$ 132.31
Santo Amaro	8	113	53	46.9%	-2,601	-1,836	-	R\$ 48.42	R\$ 58.31
TOTAL CLASS AA+ CBD									
Class AA+	167	2,902	706	24,3%	67,697	167,281	233,668		R\$ 98.00

*We consider buildings in "under construction" to Q3 2020

Main Transactions Q3 2017

BUILDING	SQM	TENANT	TRANSACTION TYPE	SUBMARKET
Jacarandá	10,065	99 Táxi	Lease	Berrini
São Paulo Coporate Towers - Torre Sul	7,498	Uber	Lease	JK
São Paulo Coporate Towers - Torre Sul	7,393	BNP Paribas	Lease	JK
São Paulo Coporate Towers - Torre Norte	4,496	Reckitt Benckiser	Lease	JK
Continental Square Faria Lima	4,029	Heineken	Lease	Vila Olímpia

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RIO DE JANEIRO OFFICE

Economic Indicators

	3Q16	3Q17	12-Month Forecast
GDP	-0.8%	0.2%	▲
Inflation Rate	8.5%	2.5%	▲
Unemployment	11.7%	12.6%	▼

Real Estate Indicators

	3Q16	3Q17	12-Month Forecast
Vacancy	31.7%	38.9%	▼
Net Absorption (,000)	9,6	7,4	▲
Under Construction (,000)	52.6	-	▼
Avg. Asking Rent	R\$ 116.1	R\$ 109.9	▲

Economy

Brazil's economy is showing signs of a possible upturn, and data suggests that a recovery is on the way. The increase in family consumption on the demand side, and the improvement in business activity, has led to GDP growth expectations for the end of the year. The once invulnerable inflation rate continues to cool down with a projected increase of 2.54%; a rate well below the target established by the Central Bank (4.25%). This drop will allow Copom to cut interest rates further, and to close the year out at 7%.

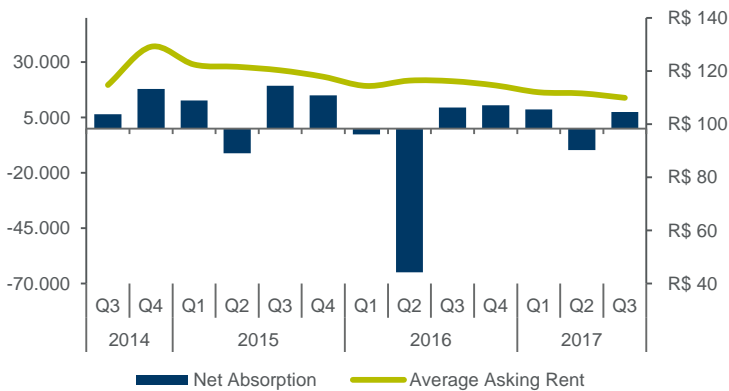
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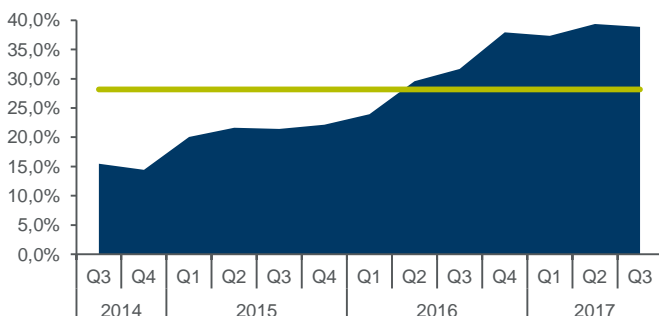
Market Overview

Following a quarter of negative absorption, the CBD Class AA+ market in Rio de Janeiro finished the third quarter off with positive occupancy. Assisting with this development was the fact that there were no new deliveries to the market, which helped push vacancy rates down. With this said, the positive absorption momentum is not an indication of a real estate market in recovery, but rather it is a result of the unfavorable economic situation the city faces. Greater market momentum is expected during fourth quarter, which includes to the delivery of Aqwa Corporate in Porto.

Net Absorption/Average Asking Rent – CBD Class AA+



Vacancy – CBD Class AA+



Occupancy

So far, the highest 2017 CBD Class AA+ occupancy rate developments occurred in the Porto region, with the entry of a cosmetics company that moved into their new headquarters this quarter. The Centro, Cidade Nova, and Orla regions, brought down the absorption rate with a high number of move-outs from small developments. The positive liquid absorption in the third quarter of 2017 presented a slight drop in vacancy rates in the city, pushing it down by 0.5 p.p., and reaching 38.9%.

Pipeline

There were no new CBD Class AA+ inventory increases for Rio de Janeiro in 2017Q3. The expected launch of Aqwa Corporate in Porto, with the addition of 68,000 sqm to the city's inventory, will increase the vacancy rate and push it past 40% for upscale developments.

Lingering economic uncertainties the city of Rio de Janeiro have brought all under-construction projects to a halt, and have delayed the addition of any new inventory.

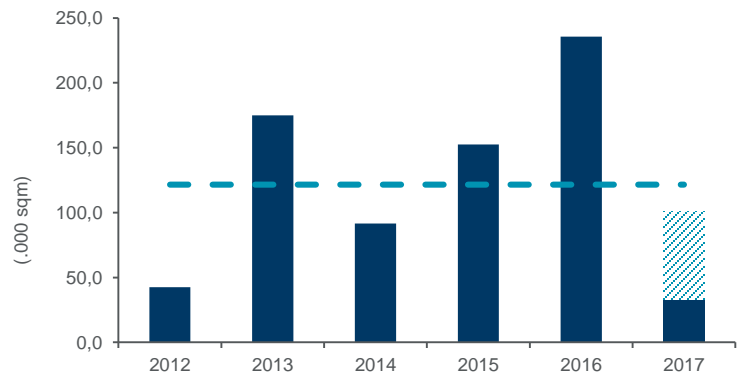
THE NET ABSORPTION VALUE OF CBD CLASS AA+ REGIONS IN RIO DE JANEIRO WENT UP BY 7.400 SQM

Average Asking Rent

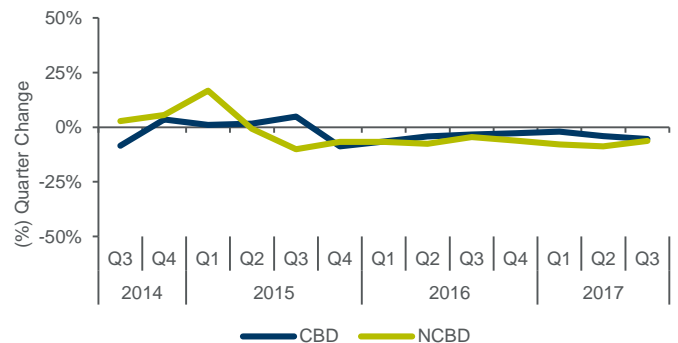
The average asking rent price of CBD Class AA+ developments continued to decline into 2017Q3. The unstable market pressured prices down by 1.5% over last quarter, and reduced them by 5.3% in relation to the same period in 2016. They asking rent now stands at R\$109.9 per sqm.

The sharpest drop in prices occurred in Cidade Nova, with a decrease of 8.1%, falling from R\$102.40 to R\$94.10 over the quarters, while the Orla region presented the highest variation in relation to 2016 with a 21.9% jump and a value of R\$125.70 per sqm. The asking rent recovery remains far off, with no improvement expected to occur in either the short or medium terms.

New Inventory – CBD Class AA+



Asking Rent – Class AA+



Outlook

The following points summarize Rio de Janeiro's near-term outlook:

- The vacancy rate for CDB Class AA+ developments in Rio de Janeiro remained flat at 38.9%.
- The launch of Aqwa Corporate in the Porto region, and the 68.000 sqm added to the city's inventory, could raise the vacancy rate in Rio to 41.53% late this year, and subsequently knock prices down even further.

MARKETBEAT

Rio de Janeiro

Office Q3 2017



SUBMARKET	BUILDINGS	INVENTORY (.000)	AVAILABLE AREA (.000)	VACANCY RATE	NET ABSORPTION (Q3)	NET ABSORPTION (YTD)	UNDER CONSTRUCTION*	ASKING RENT (ALL CLASSES)	ASKING RENT (CLASS AA+)
Centro	35	895	290	32,4%	-4.069,72	-2.212,58	-	R\$ 89,17	R\$ 118,49
Cidade Nova	7	240	107	44,7%	-1.102,00	-2	-	R\$ 90,95	R\$ 94,08
Orla	13	181	56	30,9%	-1.228,71	-9.553,28	-	R\$ 108,43	R\$ 125,68
Zona Sul	5	24	9	37,4%	210,00	580	-	R\$ 143,55	R\$ 148,12
Porto	9	156	119	76,3%	13.596,87	17.516,49	98.149	R\$ 76,85	R\$ 88,33
Barra da Tijuca	36	213	77	36,2%	-3.328,50	-7.068,77	29.387	R\$ 62,63	R\$ 88,45
TOTAL CLASS AA+ CBD									
Classe AA+	69	1496	581	38,9%	7.406	6.328	98.149	R\$	109,89

*We consider buildings in "under construction" to Q3 2020

Main Transactions 3Q 2017

BUILDING	SQM	TENANT	TRANSACTION TYPE	SUBMARKET
Torre Oscar Niemeyer - FGV	14.550	Vale do Rio Doce	Lease	Orla
Torre Castelo	5.208	AGU - Advocacia Geral da União	Lease	Centro
City Tower	2.217	Casa & Video	Lease	Centro
Passeio Corporate - Setor 2	2.097	Regus	Lease	Centro
Bolsa de Valores - Rio de Janeiro	1.156	Regus	Lease	Centro

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