

MARKETBEAT

São Paulo

Office Q3 2017



SÃO PAULO OFFICE

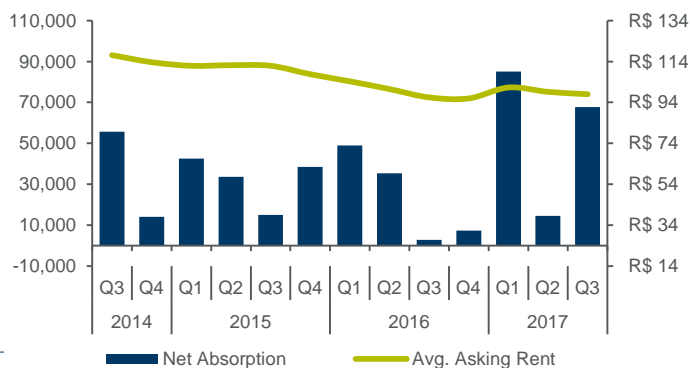
Economic Indicators

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

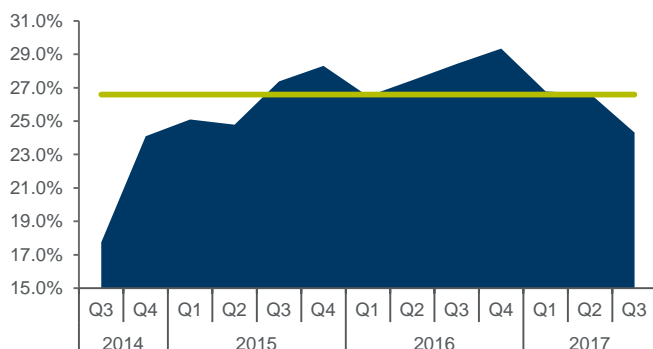
Real Estate Indicators

| | 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 | ▲ |

Net Absorption/Ask Price – CBD Class AA+ Average



Vacancy – CBD Class AA+



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.

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

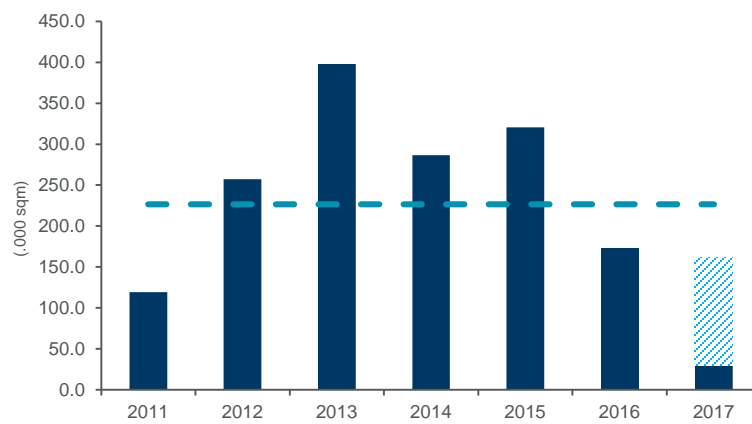
The average asking rent for upscale office space in 2017 has experienced a downward trend. This is, in large part, due to tenants' strong bargaining power over contracts, in addition to the more favorable prices granted by owners. In 2017Q3, CBD Class AA+ developments reached R\$98.00/sqm, a drop of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

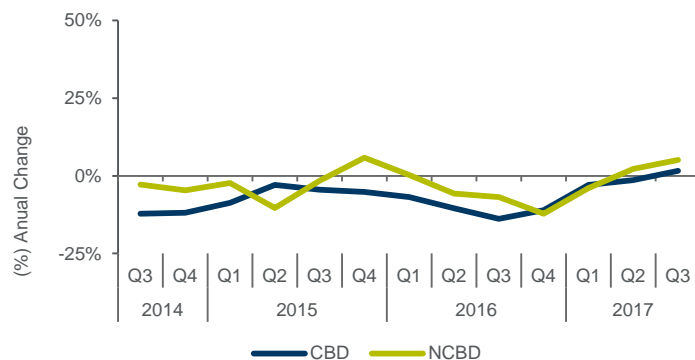
Forecast

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+.

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| 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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