

MARKET BULLETIN

4TH QTR 2016 • SÃO PAULO | RIO DE JANEIRO | OTHER CITIES

OFFICES

SÃO PAULO

RIO DE JANEIRO



VACANCY
RATES



AVERAGE
ASKING PRICES



VACANCY
RATES



AVERAGE
ASKING PRICES

INDUSTRIAL

STATE OF SÃO PAULO

STATE OF RIO DE JANEIRO



VACANCY
RATES



AVERAGE
ASKING PRICES



VACANCY
RATES



AVERAGE
ASKING PRICES

MARKET BULLETIN IS A QUARTERLY PUBLICATION PROVIDING THE KEY MARKET INDICATORS FOR THE CORPORATE REAL ESTATE (OFFICE AND INDUSTRIAL) MARKETS OF SÃO PAULO AND RIO DE JANEIRO.

TAKE A LOOK AT THE COMIC STRIP OVERLEAF

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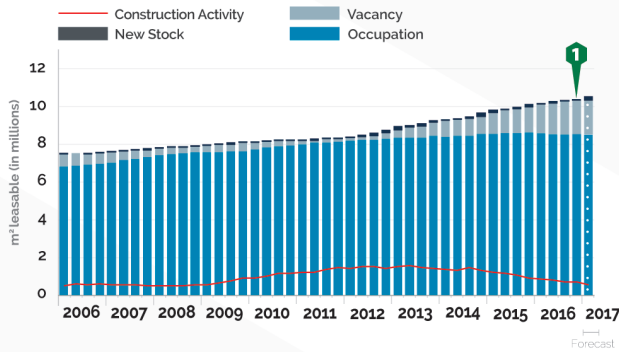
OFFICES



Corporate Universe (Class A and Others)

SÃO PAULO

NOW STOCK/VACANCY/OCCUPATION

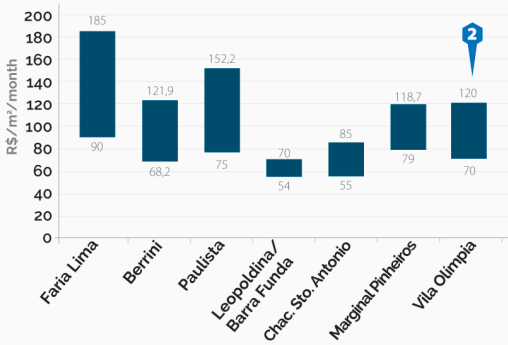


The construction activity by year-end 2016 reached the lowest level over the past 8 years (729 thousand m²) in the city of São Paulo, 20% below the recorded level at year-end 2015, which confirms the slowdown in the delivery of new developments of corporate office buildings in the state capital.

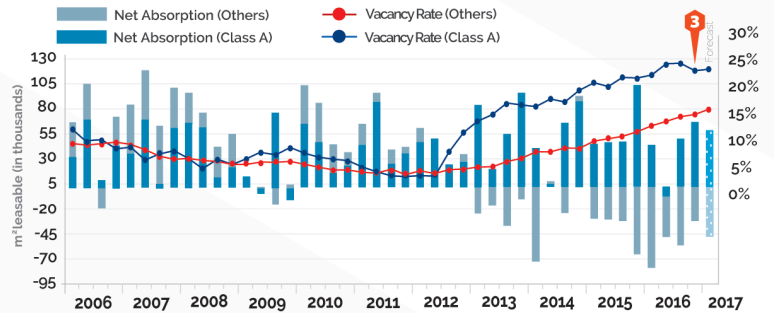
- 1** In 2016, there was a significant drop in the volume of the New Stock of delivered corporate office space in relation to 2015. A total of 240 thousand m² was delivered in 2016, representing a decline of 49% in relation to the New Stock delivered in 2015 (460 thousand m²).
- 2** The asking rental prices in corporate office buildings continued to decline in 4th QTR 2016. To exemplify this, we can take a look at the corporate universe of Class A buildings. If we compare the average asking rental price of 2016 to those of 2015, a noticeable decrease is perceived, from R\$ 98.83/m² at year-end 2015 down to R\$ 93.10/m² at year-end 2016, a drop of 5,8% in the nominal asking price. In real terms this represents a decrease of 12.11% when adjusted to inflation, considering the 2016 IGP-M/FGV index variation.
- 3** Net absorption of Class A corporate office space was positive for the second consecutive quarter. In 4th QTR 2016 alone, there was an increase in the occupation by approximately 65 thousand m², in comparison to the occupation of the previous quarter. The accumulated amount reached 150 thousand square meters of net positive absorption in Class A developments in 2016. In contrast, the net absorption in the universe of older buildings, classified as Others, was negative yet again, accumulating a total negative net absorption of 220 thousand m² in 2016. This confirms the flight-to-quality trend, which we believe will continue significantly throughout 2017.

RANGE OF LEASE ASKING PRICES/REGION

CORPORATE (CLASS A)



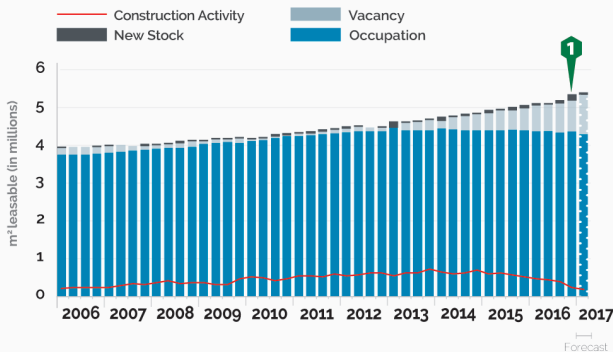
NET ABSORPTION AND VACANCY RATE



Corporate Universe (Class A and Others)

RIO DE JANEIRO

NEW STOCK/VACANCY/OCCUPATION

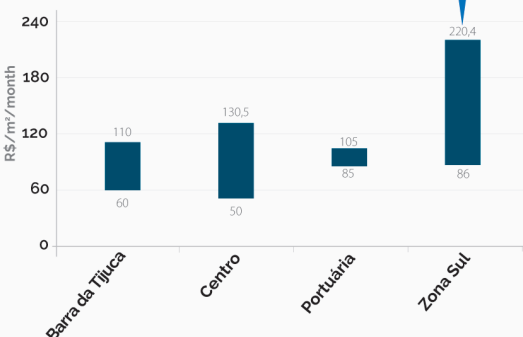


The corporate real estate office market in the city of Rio de Janeiro is undergoing a particularly critical period. In addition to the economic crisis affecting the entire country, the large-scale world events held over the recent years in the city of Rio, generated significant speculation in promoting real estate growth. The end result is that several corporate buildings were delivered without the corresponding demand to match the market expectations, which has led the vacancy rate of Corporate Class A buildings to leap from 5% in 2012 to 40% by the year-end 2016.

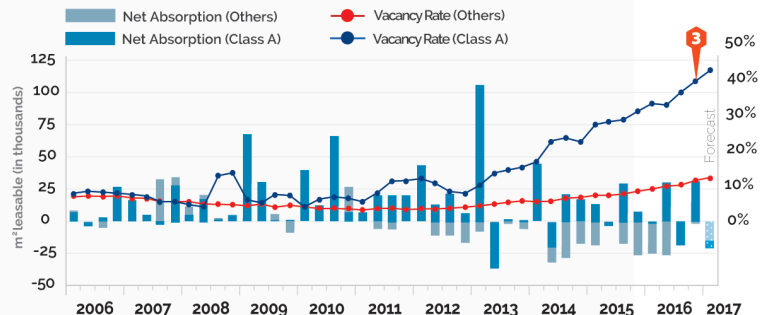
- 1** The City of Rio de Janeiro has had a considerable increase in the total Class A stock in the 4th QTR 2016, with the delivery of 150 thousand m². This New Inventory is concentrated in only two regions: the Centro (Downtown) and Port districts. In the Centro, the highlight is the new Passeio Corporate complex, with a total of 72 thousand m². In the Port region, the Novocais do Porto and the Porto Atlântico Business Square buildings are the noticeable highlights, in the continued modernization of the Porto Maravilha region.
- 2** The asking rental prices of corporate office buildings in Rio de Janeiro also continued to decline in 2016. As an example, we can highlight the Class A corporate universe for the entire city. Comparing the average monthly asking rental prices for 2016 and 2015, our data shows a decrease of R\$ 110.21 / m² in 2015 down to R\$ 101.48 / m² in 2016, a drop of 7,92% in the nominal asking rental price, which in real terms represents a decrease of 14,09%, considering the variation of the 2016 IGP-M / FGV inflationary index.
- 3** Unlike previous quarters, the net absorption registered in the city in the 4th QTR 2016 was positive, thanks to the delivery and occupation of Odebrecht's new headquarters in Porto Maravilha and also to Infoglobo's offices in the Centro district. However, the expectation for the forthcoming quarters should be quite different, due to the forecast that Petrobras and its related companies will return additional office space. Similarly, this is expected to occur with the other companies in the Oil & Gas industry. This trend, coupled with the large volume of new delivered spaces, is expected to pressure the corporate Class A vacancy rate to continue at 40% during 2017.

RANGE OF LEASE ASKING PRICES/REGION

CORPORATE (CLASS A)



NET ABSORPTION AND VACANCY RATE



*The methodology for classification adopted by Ocupantes for office buildings is as follows - Office buildings with office units under 100 m².

Corporate: buildings with office units greater than or equal to 100m². Class A: buildings with high technical standards. For the purpose of this bulletin, only buildings classified as Corporate were considered

INDUSTRIAL



CONSTRUCTION ACTIVITY
832.143 m²



NEW STOCK
263.504 m²

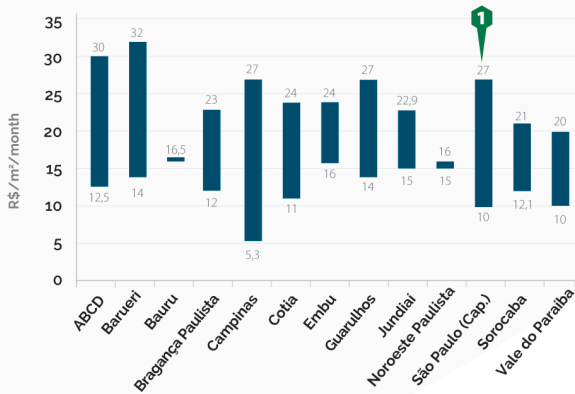


VACANCY RATE
27,46%



AVERAGE ASKING PRICES

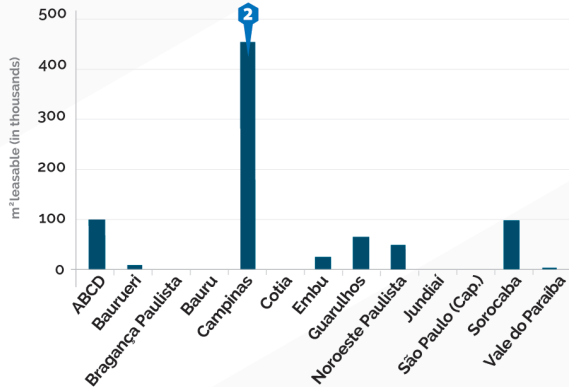
RANGE OF LEASE ASKING PRICES/REGION



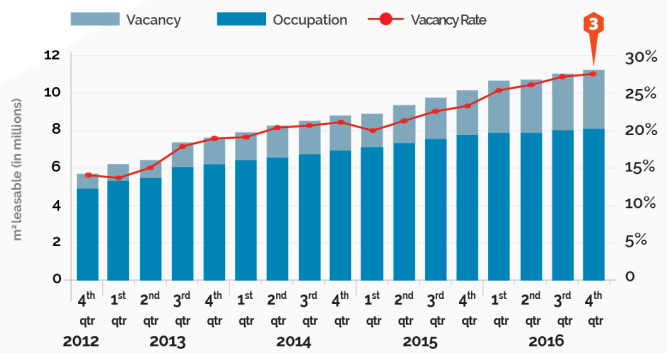
The vacancy rate in the industrial market in the state of São Paulo at year-end 2016 reached 27,4%, the highest rate in the last four years, reflecting the decline in retail sales in 2016 caused by the recession in the Brazilian economy. Naturally, as a result of the drop in sales, there is less need for large spaces required for receiving large volumes of goods, leading therefore, to an increase in the vacancy of logistical warehouses.

- 1 The average asking rental prices in gated logistical parks throughout São Paulo continues to fall. If we compare the asking rental prices at year-end 2016 with the beginning of 2016, the nominal average asking rent fell by 3,30%, which in real terms represents a drop of 9,78%, when considered the inflationary variation measured by IGP-M/FGV index for this period. To gain access to relevant and recent transactions, including closing rents and grace periods contact Ocupantes.
- 2 The volume of the New Stock for the 4th QTR 2016 for the entire state of São Paulo reached 263,000 m², distributed in the regions of Guarulhos (94,179 m²), Jundiaí (76,129 m²) and Sorocaba (93,194 m²). With this volume of deliveries, the Construction Activity closed 2016 with 832 thousand m² under construction, which represents a figure 36% lower than at year-end 2015. The region of Campinas is the main highlight, concentrating 448 thousand m² under construction, equivalent to 53% of the total Construction Activity of the state of São Paulo.
- 3 The Vacancy Rate in the last quarter of 2016 was 27,4% in the state of São Paulo, closing the year with more than 3 million m² of vacant space. The primary reason for this constant increase in the vacancy rate has been the large-scale return of occupied space in logistical gated parks, caused by the decrease in consumption, coupled with the significant delivery of new space throughout the year across the state. The expectation is that in 2017, as increased stability is achieved in the Brazilian economy, occupation should increase considerably and possibly reverse the upward trend in the vacancy rate.

CONSTRUCTION ACTIVITY



VACANCY, OCCUPATION AND VACANCY RATE



CONSTRUCTION ACTIVITY
324.952 m²



NEW STOCK
56.130 m²

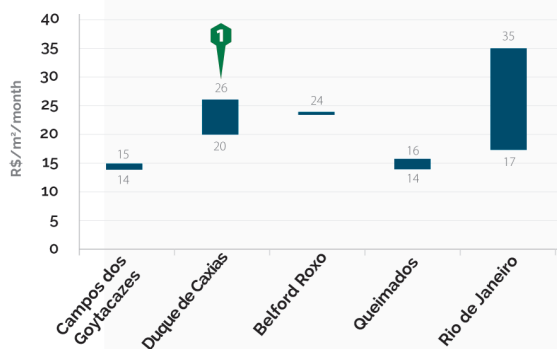


VACANCY RATE
21,80%



AVERAGE ASKING PRICES

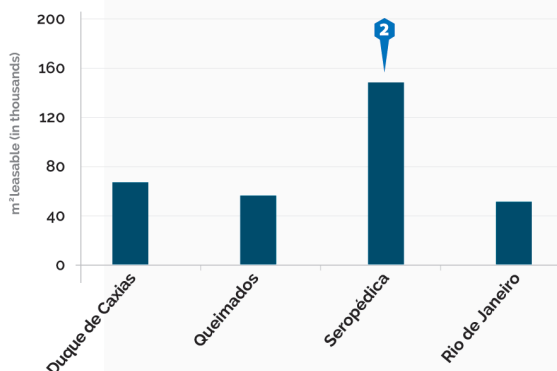
RANGE OF LEASE ASKING PRICES/REGION



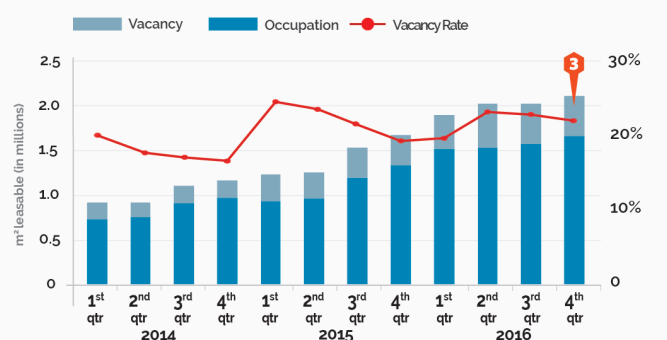
Unlike the state of São Paulo, there was a drop in the vacancy rate in the state of Rio de Janeiro, for the second consecutive quarter, closing the year-end 2016 at 21,8%. This can be explained by the fact that the added volume resulting from the delivery of new inventory throughout 2016, was much lower than the deliveries that occurred in the state of São Paulo.

- 1 The average asking rental prices for gated logistical parks for the entire state of Rio de Janeiro remained practically stable in 2016. When we compare the asking rental price for year-end 2016 with those for beginning of 2016, the average nominal asking prices have remained the same (R\$ 23,22/m²). However, when the inflationary variation measured by the IGP-M/FGV index for the period is considered, in real terms the decrease in asking rental prices reached 6,71%. For additional information on this segment, please contact Ocupantes.
- 2 Compared to the 3rd QTR 2016, the construction activity in the state of Rio de Janeiro decreased by 30,000 m² in 4th QTR 2016. Currently, only 324,000 m² are under construction in the state, although an additional 4 million m² are in project phase. This outlines the growth potential for the coming years in the state. Regarding the construction activity, the region of Seropédica is the current highlight, as it concentrates 150 thousand m² under construction in early 2017, almost half of all the construction activity in the state.
- 3 When we compare the vacancy rate at the year-end 2015 with the rate at the year-end 2016, there is an increase from 19,38% to 21,80%. However, if we take a look at data for the second half of 2016, we can notice a significant fall in the vacancy rate in the 3rd and 4th quarters of the year. This does show that there is a downward trend in the vacancy rate, although the vacancy still remains at a very high level.

CONSTRUCTION ACTIVITY



VACANCY, OCCUPATION AND VACANCY RATE



Past trends should not be taken as indicative of future results.

Ocupantes shall not be held liable for decisions taken based on the information contained herein.

OCCUPATIONAL HAZARDS

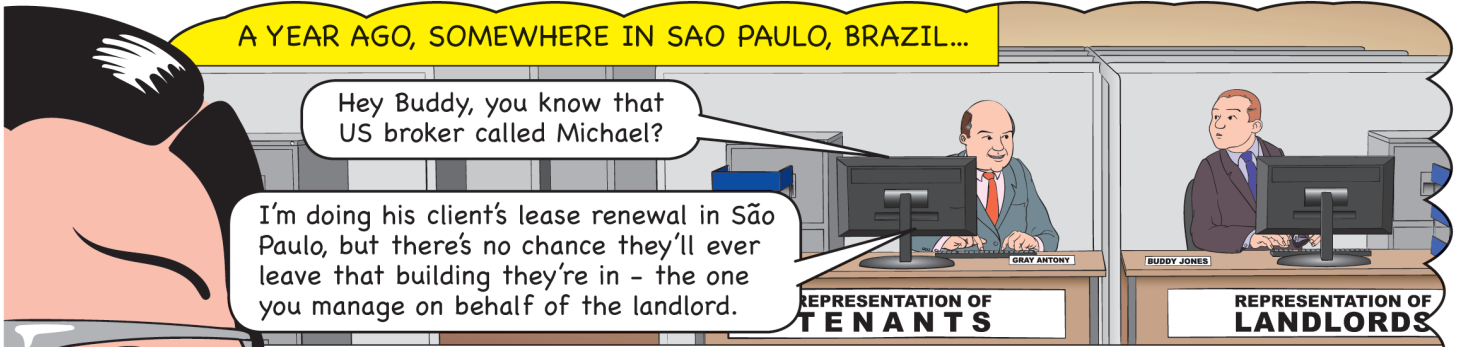
SOMEWHERE IN THE USA, MICHAEL, A SUCCESSFUL CORPORATE REAL ESTATE BROKER, IS WONDERING HOW TO HANDLE HIS CLIENT'S LEASE RENEWAL IN BRAZIL...



Who can I engage in Brazil to take care of my client's upcoming lease renewal?

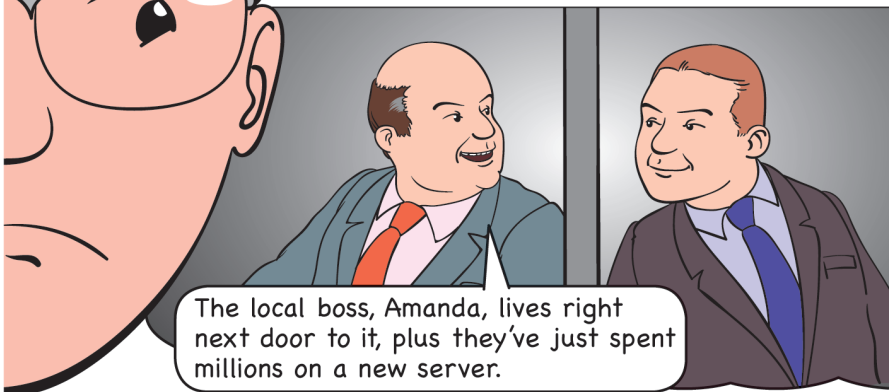
Last year I used a broker called Gray from a dual representation brokerage firm*, but I don't think I got the best deal for my client...

A YEAR AGO, SOMEWHERE IN SAO PAULO, BRAZIL...

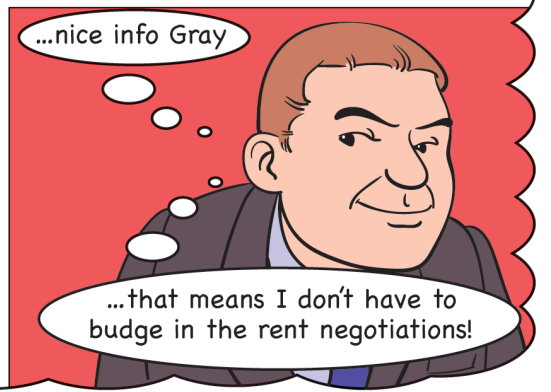


Hey Buddy, you know that US broker called Michael?

I'm doing his client's lease renewal in São Paulo, but there's no chance they'll ever leave that building they're in - the one you manage on behalf of the landlord.

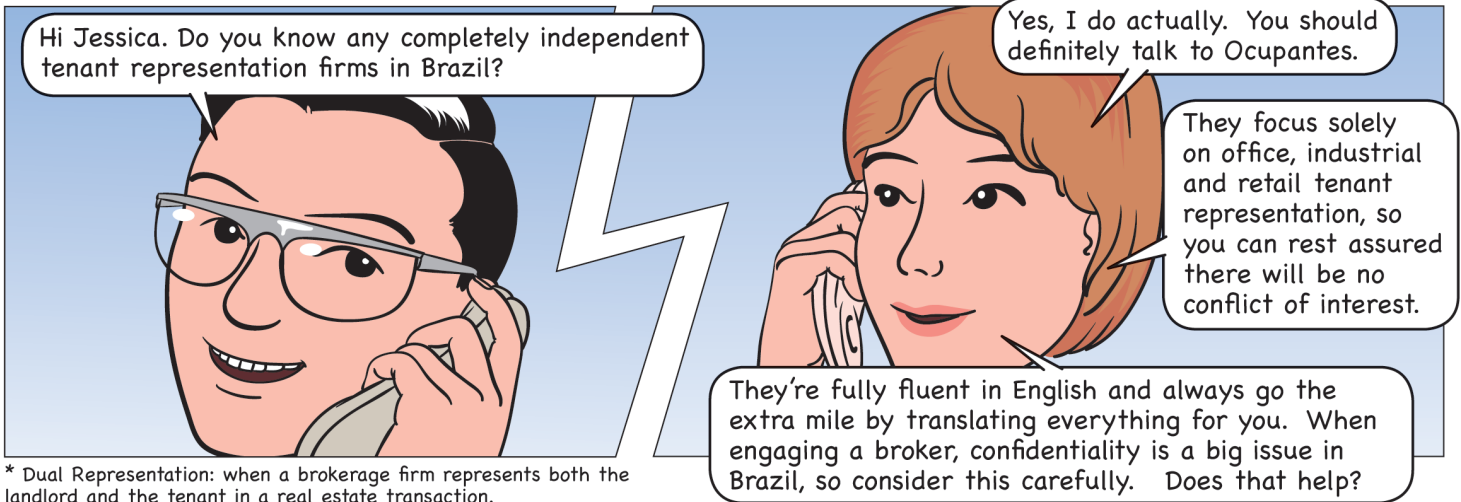


The local boss, Amanda, lives right next door to it, plus they've just spent millions on a new server.



...nice info Gray

...that means I don't have to budge in the rent negotiations!



Hi Jessica. Do you know any completely independent tenant representation firms in Brazil?

Yes, I do actually. You should definitely talk to Ocupantes.

They focus solely on office, industrial and retail tenant representation, so you can rest assured there will be no conflict of interest.

They're fully fluent in English and always go the extra mile by translating everything for you. When engaging a broker, confidentiality is a big issue in Brazil, so consider this carefully. Does that help?

* Dual Representation: when a brokerage firm represents both the landlord and the tenant in a real estate transaction.

SERVICES

If you require accurate information on the region where your offices or warehouses are located, whether your aim is to review your current rent or undertake a comparative analysis of the other available options in the market, please contact us. Ocupantes has the experience and the comprehensive market data available to assist your company in reaching the best decision.

LOCATION ANALYSIS	RELOCATION, LEASE CONTRACT RENEWALS, RENT REVIEWS AND TERMINATIONS	INDUSTRIAL SERVICES	ACQUISITIONS AND EXPANSIONS	SALE & LEASEBACK	MANAGEMENT OF OPPORTUNITIES AND CRITICAL DATES	VALUATIONS AND DISPOSITIONS	PROJECT MANAGEMENT (THROUGH OCUPANTES PROJECT MANAGEMENT)
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