RESEARCH **4Q19**

Newmark Knight Frank

RIO DE JANEIRO
INDUSTRIAL/LOGISTIC MARKET

2019 ECONOMIC RETROSPECTIVE AND ITS RECORDS

2019 was marked by record economic indicators – both positive and negative. The Ibovespa reached a record-breaking 117 thousand points, the US Dollar an all time high of R$ 4,26 and the Selic rate dropped to 4.5% annually, a record low. The Pension Reform, which should have taken place in the first half of the year, was not signed until November, and the savings generated were about R$ 800 billion. Current expectations are now focusing on other priority reforms such as tax, administration and labor reforms.

The labor market showed little reaction in 2019, with the most recent IBGE data (October) showing unemployment rate at 11.6%, or 12.4 million unemployed. However, formal employment showed recovery with the creation of 948,344 more jobs in 2019, 10.5% above 2018.

The economic recovery never acquired the speed expected for 2019, and growth forecasts were reviewed and cut a few times – 2.5% in the year's first Focus bulletin, and finally to 1.12% in the December estimation. The most recent number published by the IBGE on the 3rd quarter report, showed 1% accumulated GDP growth for the year. The Central Bank's expectation for 2020 is that the GDP will go up 2.25%. The US Dollar, which peaked at R$ 4.26 in November, dropped to R$ 4.03 by the end of the year. In 2020 it should remain at around R$ 4,10. The international scenario has also experienced troubles, with an overall economic turndown and uncertainties regarding China-US trade negotiations.

Despite modest indicators, several positive signs have driven up investor and business confidence in general, especially for those in the real estate industry.

Average inflation, as measured by the IPCA, remained at 4.31%, close to the middle of the target for the year (4.25%), and is expected to drop to 3.40% in 2020. Low inflation pressured the Copom to lower the basic interest rate, which dropped to the all-time low of 4.5%. All indications are that this trend will remain in 2020. This is an important consumer spending driver, making funds more available. However, for most investors a lower Selic means fewer returns on their fixed yield investments. This scenario led to more diversified investments, with investors looking for variable yield and other assets. This drove the Bovespa index to record levels. The number of individual investors in securities funds reached an all-time high of more than 500 thousand, twice the number early in the year and an annual increase of 35.98% of the Ifix, an index that measures the average performance of real-estate investment. Lower interest rates and the expectation of more consistent economic growth dropped Brazil's country risk to 96 points, the lowest it has been since 2010. There is a perception that the recession is past, and people are more optimistic and expecting a year where most industries will experience growth.

SUMMARY 4Q2019
CLASS A, AA AND AAA CONDOMINIUMS

Indicators	Overall*	São Paulo	Rio de Janeiro
Total Inventory (thousand sq.m)	10,445	8,468	1,977
Vacancy Rate (%)	19.7%	17.9%	27.5%
Net Absorption (thousand sq.m)	223	167	56
Gross Absorption (thousand sq.m)	320	241	79
Average Asking Rent (R$/sq.m/month)	R$ 18,40	R$ 17,70	R$ 20,00
New Inventory Delivered (sq.m)	58	58	0

**Includes main regions of SP and RJ*

FOURTH QUARTER HIGHLIGHTS

Although slow, industry in Brazil shows signs of recovery, and the indicators are encouraging, making the nation more attractive for investment. While data from the December Survey by the Federation of Industries showed a drop in manufacturing activity, this is to be expected. The reason for this is the end of the holiday orders, which were quite significant as the holiday season now includes not only Christmas, but also Black Friday in November. This data is encouraging, as the slow-down in manufacturing and employment were below what they had been in previous years. The Index that measures manufacturing progress (UCI – Utilização da Capacidade Instalada) was 43.8 points at the end of December, the smallest drop since 2011 (45.3). Capacity utilization in 2019 was 67%, 3 percentage points below November, but 2 percentage points above 2018. Retail sales indicators, in particular online sales, increased quite a bit in Brazil, and this impacts the segment of logistics properties. According to the 40th Webshoppers published by Nielsen, consumer goods sales amounted to R$ 53.2 billion, three times what they were in 2011. The need to be increasingly close to consumers and quickly deliver goods has stimulated the demand for properties located close to the state capital.

NET ABSORPTION

Quarterly and annual net absorption have exceeded expectations, achieving the best numbers ever since we started this analysis.

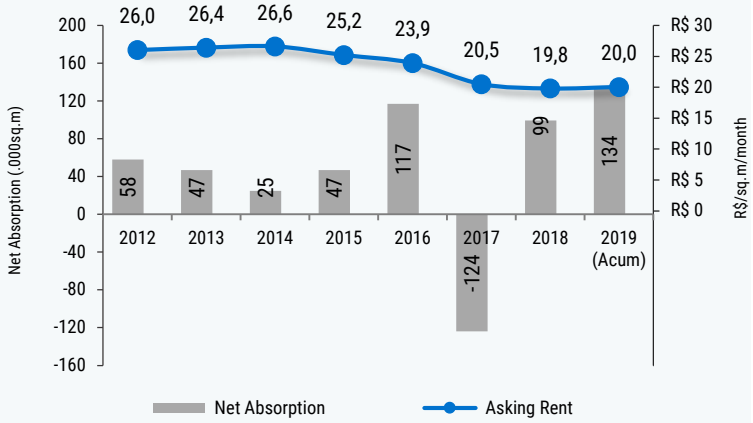
VACANCY RATE

The vacancy rate in the two main markets - São Paulo and Rio de Janeiro, dropped 1.6 percentage points in the quarter to 19.7%. Although supply remains high in Rio de Janeiro, it dropped 2.8 percentage points in the quarter to 27.5%.

NET ABSORPTOIN AND PRICES

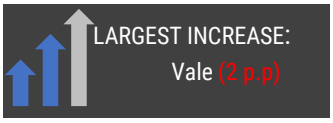
Demand in 4Q19 was better than earlier in the year, with net absorption in the quarter being 56 thousand m². Year to data volume in 2019 exceeded 2016 and is now the highest ever. Average asking monthly rents ended the quarter at R$ 20/sq.m, essentially unchanged compared to 3Q19, and 1% higher than the average asking rent one year ago.

NET ABSORPTION VS. AVERAGE ASKING LEASE (R$)

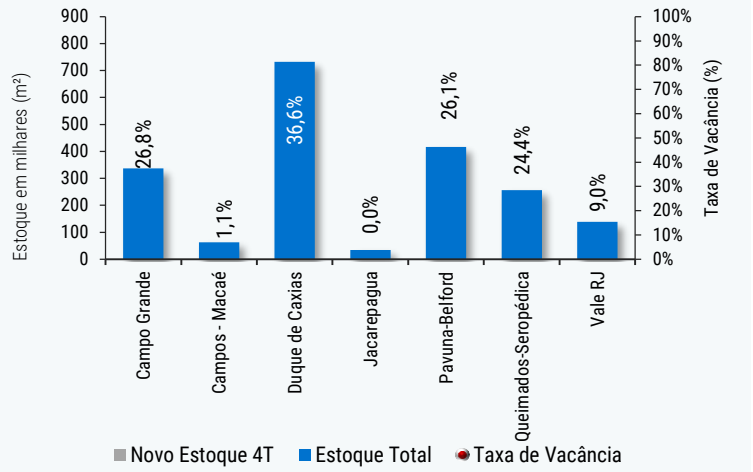


VACANCY RATE

No new inventory was delivered this quarter, and the vacancy rate for industrial/logistics properties in Rio de Janeiro dropped 2.8 percentage points compared to the previous quarter, to 27.5%. One year ago the vacancy rate was 30.9%.



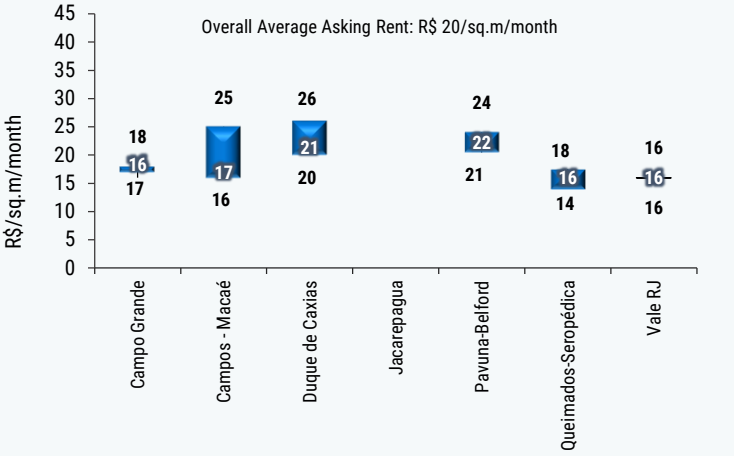
TOTAL INVENTORY VS. NEW INVENTORY DELIVERED VS. VACANCY RATE



MAIN TRANSACTIONS

Tenant	Property	Leased area (sq.m)
Braskem	Reduc I	50,000
Mix Pet Distribuidora	Golgi Duque de Caxias	4,000
ID Logistics	GLP Duque de Caxias	10,300

AVERAGE ASKING PRICE BY REGION



DEVELOPMENTS UNDER CONSTRUCTION – RIO DE JANEIRO

	Property	Region	Highway Axis	Total Leasable Area (sq.m)	Expected Delivery
	TRX Santa Cruz (G1)	Campo Grande	Av. Brasil	28.700	1T/2020
	Prologis Dutra RJ	S. J. do Meriti	Dutra	29.800	2T/2020
	VBI Log - Seropédica	Queimados-Seropédica	Dutra	36.000	Conforme demanda
	Aq3 Log Queimados	Queimados-Seropédica	Dutra	35.300	Conforme demanda
	Cargo Center Dutra V	Queimados-Seropédica	Dutra	73.300	Conforme demanda

NEWMARK KNIGHT FRANK OFFICES IN BRAZIL AND LATIN AMERICA

BRAZIL

São Paulo
Av. Dr. Cardoso de Melo, 1460 – 7º andar
Vila Olímpia, São Paulo
04548-005
+ 55.11.2737.3130

Rio de Janeiro
Rua Lauro Muller, 116, cj. 3201
Botafogo, Rio de Janeiro
22290-160
+ 55.21.3283-9001

MARINA CURY
CEO
marina.cury@ngkf.com.br

MANFREDO COSTA NETO
Director
manfredo.costa@ngkf.com.br

PATRICK N. SAMUEL
Industrial
patrick.samuel@ngkf.com.br

JOANA SILVA
Valuation & Consulting
joana.silva@ngkf.com.br

This report was prepared by Newmark Knight Frank Brasil Market Research and Intelligence professionals based on reliable data obtained from property owners and lessees, managers, legal representatives and other industry players. This data was reviewed and used based on NKF methodology and is for information purposes only. As data is refined and expanded, it is subject to alteration. Newmark Knight Frank research reports are available at www.ngkf.com/research, and on our LinkedIn page at linkedin.com/company/newmark-knightfrank-brasil. All of the information contained herein comes from reliable sources. However, all information must be independently verified by any party intending to use it. The interested party must seek its own sources and complement any information it may use to make any decision. Newmark Knight Frank Brasil is not liable for improper use of the information provided. The information is confidential and may only be disclosed to third parties upon written consent of Newmark Knight Frank Brasil.