AMCHAM Brasil

*Por um melhor ambiente de negócios*

# How to

## choose your office in Brazil

CBRE

CB RICHARD ELLIS

**The "How to..." series is produced by the American Chamber of Commerce – São Paulo with the support of member companies to help international investors evaluate and enter the Brazilian Market**

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# São Paulo office market

*Greater São Paulo and its main arteries*

Through this century greater São Paulo has experienced growth that has few parallels around the world. From a population of just a quarter of a million in 1900, it grew to two million in 1950 and today is approaching more than 20 million.

São Paulo became Brazil's premier industrial center well before the Second World War, but until the second half of the century it was still eclipsed by Rio de Janeiro, the old federal capital and historically the principal business center. With the 1960 transfer of the federal government to its new home in Brasilia and the growth of São Paulo's manufacturing capacity, there was a steady shift of major international and Brazilian companies to São Paulo. The city now dominates the domestic and South American economies.

There are a number of reasons for São Paulo's growth. The original stimulus came from coffee, which generated capital for early industrialization.
Waves of immigration from Europe and Asia provided injections of plentiful labor. Compared to Rio de Janeiro, São Paulo offers industry a more suitable climate and more available land.

The vast majority of multinationals operating in Brazil maintain their headquarters in greater São Paulo, or failing that, in the state. Most of those not headquartered in São Paulo are located elsewhere for specific reasons.

The oil and mining industries, for example, are clustered in Rio de Janeiro to be near the existing and formerly state-owned companies that dominate these sectors. Some international hotel chains and airlines are located in Rio to take advantage of the tourist market there. Most other manufacturing and services companies, however, set up their head offices in the São Paulo metropolitan area even when factories are located elsewhere. Among the advantages of locating company headquarters in São Paulo are:

- the substantial availability of top-class, international quality office space;

- the best telecommunications infrastructure in the country; São Paulo and Rio continue to hold the communications edge, although nationwide fiber-optics routes and modern telecommunication infrastructure are bringing many other cities up to a competitive level;

- direct daily flights to numerous cities in the United States, Europe, Africa and Asia;

- the nation's largest labor force and most sophisticated financial market;

- reasonable living standards and quality of life, including a choice of schools offering American curriculum, and

- proximity to South America's largest markets.

# Space costs

E-Tower building

Relative values fluctuate over time, but historically the rental cost of prime office space in São Paulo has tended to vary just below the average for major cities around the world.

Office rental prices dropped significantly in 1993/1994 as a side effect of government macro-economic policies. When President Fernando Henrique Cardoso took office in January of 1995, the market had already bottomed out and values started increasing at a fairly steady 15% to 20% per annum in U.S. dollar terms.

By the end of 1998, rental costs for substantial spaces in first-class, well located buildings was sometimes higher than for the equivalent type of space in downtown New York, reaching more than US$55.74 per square foot (US$600/m2) per year when taxes and services charges are included.

Since the devaluation of 1999, which amounted to approximately 80% against the U.S. dollar in three years, São Paulo rents once again became much more affordable in hard currency terms because asking prices are listed in Brazilian reais and increased only slightly.

In the period of 2001 to 2005, available supply increased approximately 100%, bringing with it a reduction in lease prices currently typically in the range of US$ 12 to US$ 39 / sq. ft. / year, depending on location and quality of the building, excluding property tax and service charges.

# Some other costs may be higher

For open plan office installations, general fitting out costs (basically for cabling, furniture, civil works, adaptation, distribution systems  air conditioning and sprinklers, carpet, etc.) tend to be currently in the range of US$ 32  US$ 61 / sq. ft.

Fiber optic cabling has already been installed in most regions of greater São Paulo, particularly the most active commercial real estate districts.

Companies with substantial telecommunications needs may increasingly choose from alternative services. Trunking is also available. Additionally, some large office buildings offer call center services with a maintenance fee per extension or call.

# Comparative Costs

Unless otherwise indicated, data reflects prime office space in the main commercial district. The term “CBD” means Commercial Business District and “Sub” indicates suburban for specific U.S. markets. The following table indicates total occupation cost (gross rents) in U.S. dollars, per square foot, as reported in Global Market Rents, August 2005.

| City | US$/square foot/year |
|---|---|
| Buenos Aires | 24.15 |
| Budapest | 42.61 |
| Chicago (CBD) | 24.06 |
| Chicago (Sub) | 21.04 |
| London | 178.67 |
| Los Angeles (CBD) | 19.29 |
| Los Angeles (Sub) | 25.45 |
| Melbourne | 26.08 |
| Mexico City | 36.38 |
| New York (Downtown) | 31.06 |
| New York (Midtown) | 53.68 |
| Rio de Janeiro | 29.34 |
| São Paulo | 28.50 |
| Singapore | 33.71 |
| Tokyo (Inner center) | 131.10 |

# Set up

Once head office has taken the decision to establish a presence in Brazil [,] and chosen São Paulo as its likely location, the first step is usually to send one or a few senior executives to lay the groundwork.

When an incoming company is forming a joint venture or some other form of working alliance with a local company, it will frequently be able to use the partner's premises. If such an arrangement is not possible, or is deemed inconvenient, the incoming company will probably start off by seeking temporary office space. São Paulo has a number of companies offering fully-equipped hourly, daily or weekly space in excellent locations.

Some of these companies are international franchises. Such arrangements normally include bilingual secretarial services, fax and message facilities and meeting rooms.

As a second step, many companies look for an independent temporary office while they prepare to start operations. The city has a vast stock of good-quality small commercial spaces. While these are frequently offered for longer rental periods than may be desired for a temporary start-up operation, it will normally be possible to find something suitable. Many incoming companies in this situation find temporary, ad-hoc space with other foreign-owned or foreign-connected companies.

# Using a consultant

Once a company has arrived in Brazil, it will normally form a basic secretarial and administrative nucleus and establish contacts with lawyers, accountants, advertising agencies and so on, as well as talk with potential suppliers, clients, etc. At this stage, the company will also start to seek professional advice to plan, compare, negotiate, deliver and manage the appropriate office space.

The company's first decision must be between acquisition or rental. Companies moving into Brazil tend to opt for a rental option immediately. Depending on the prevailing market conditions, space requirements and other factors, however, purchase might be worth considering.

Experience indicates that professional location advice represents a savings rather than an expense. The constantly accumulating cost of an inefficient location or substandard space quickly outweighs the cost of the initial professional advisory fee. This is particularly true when the company seeking accommodation is less familiar with the local market, and therefore, more prone to error. An inadequate initial location and/or negotiation process can impact the efficiency of the start-up investment.Contractual arrangements for the purchase or rental of office space are similar in many ways to their equivalents in Europe or North America. **But there are also a number of important differences that are standard in Brazil.**

There is no equivalent to the English concept of “freehold.” If a plot of land and its associated construction(s) are purchased by a single owner, and not in a condominium type of sale, then the purchaser receives absolute and perpetual title to that area of ground. The only exception is with respect to the subsoil and mineral rights, which constitutionally belong to the State.

The owner is responsible for paying property taxes. Brazil's normal form of multiple ownership, as for example in most office and apartment blocks, is based on the concept of condominiums.

When purchase **is** related to part of a condominium structure, for example [,] one or more floors of an office development or a single suite within a single floor, the purchaser contracts to buy a specified fraction. The buyer receives perpetual deed to that fraction, plus perpetual right to use of the designated area, i.e. the floors or units being purchased. Proportional voting rights in the administration of the condominium are also granted to the buyer.

Condominium purchase is the legal equivalent of outright purchase. An owner within a condominium normally has full rights to sell without recourse to the administration of the condominium. In some cases, the Articles of Condominium may place restrictions on use. For example, manufacturing and catering activities may be prohibited within an office building. Professional advice is advisable when contemplating any such purchase.

Prices are always negotiated in Brazilian *reais* rather than US dollars. The devaluation in early 1999 brought about **a** peculiar situation. The sharp 80% devaluation impacted rents and acquisition values in US-dollar terms. However, the tight market continued to press lease rates upwards at a rate of 15% to 20% per annum until 2001, while acquisition prices remained stable due to the lack of buyers / investors in the market, thereby generating excellent investment opportunities. After this period, there was a delivery record of new buildings with office spaces, which was not **responded by** demand as a consequence of major international **crises** and the September 11 incident. This caused prices to remain stable**,** ceasing the previous price increase**s. Subsequently prices started falling** in the following years.

Property dispositions are typically financed by the owner because of the high interest rates charged by financial institutions (19,5% per annum). Cash down payments usually are of 100% of the value. Rents may also be subject to an annual inflation adjustment, according to a recognized standard index, such as the IGP-M/FGV **(General Market Price Index)**. Charges and taxes paid by the buyer in a property acquisition include a property transfer tax (ITBI), a property registration fee and a title deed fee which are equivalent to 2% of the sales value.

# Office Rental

Rental contracts are normally for three to five years, with shorter terms offering renewal clauses. By law, rents must be contracted and quoted in Brazilian reais rather than, say, U.S. dollars. Rents are payable monthly, in reais.

Normally, rents are automatically adjusted on an annual basis to account for inflation. Different recognized inflation indexes may be used, but the IGP-M rate is commonly used. During the times of hyperinflation, rents were adjusted monthly. Nowadays, with single-digit accumulated inflation [,] of around 3.4% (08/2004 08/2005) annually, legislation prohibits anything more frequent than annual adjustments. The law offers landlords and tenants a three-yearly review back to market values.

Negotiable items can commonly include an initial rent-free period of a few months to offset decoration or renovation, and reimbursement for major improvements made by the tenant to the property's structure. Tenants must normally provide some form of rental guarantee. The most common is the "*fiança*," a legally-enforceable guarantee by a bank, company or individual that rent will be paid. A bank guarantee can cost up to 8% of the annual rental price. A private individual who acts as a guarantor must own property in the same city and offer this as a surety.

Property consulting fees range from 8,5% to 15% of the first year's rent, depending on the type of service, size of transaction and location. Legal fees are charged hourly. Official registration of lease contracts is essential if one wishes to secure occupation rights against third-party acquisition. This is a one-time payment, which varies according to the lease contract value.

Tenants are normally responsible for all running repairs, property taxes, condominium fees, cleaning and utility bills. Landlords are responsible for essential maintenance and repairs to the structure.

Foreign-owned companies face the same basic legal provisions as their Brazilian-owned counterparts. Special conditions may apply to properties purchased by foreigners near the coast or **borders**, in rural areas or some specific areas designated as national security areas. Companies considering bringing in capital for purchase are advised to seek professional advice.

As a premier office market in South America, São Paulo offers occupiers accommodations on par with first-class quality space in other major world centers but care in making a final decision is advisable. Class "A" office space can be characterized as having the following:

- **central** air conditioning;
- **large** floor plates;
- **corporate** image quality, and
- **latest** technical specifications capable of meeting the basic requirements of multinational companies.

All first-class office space has central air conditioning and no building without such installation can be regarded as adequate given São Paulo's average annual temperature of 75.2° F (22.5° C), with frequent summer spells over 95° F (35° C).

Most modern properties have two-pipe fan-coil systems operating on a floor-by floor basis. Brazilian electricity **supply** provides for overnight low-peak usage, prompting many developers to incorporate ice accumulators in new buildings.

Greater São Paulo is standardized on a 110-volt supply, while 220 volts is the standard in some other parts of the country. Most domestically produced office equipment is dual standard.

Grid reliability is better in São Paulo than in many other parts of Brazil, but power shortages are not unknown and most large buildings have emergency generators for emergency lighting and elevators. Companies with substantial data processing installations are advised to investigate the back-up power supply of a potential location.

If essential, as in the case of call centers, exclusive back-up power generators can usually be installed at the tenant's expense.

Most recent good-standard office blocks feature raised floors with at least 10 centimeters of clearance. Suspended ceilings are the norm and follow a 1.25 m x 1.25 m module. They normally incorporate light fixtures and air conditioning ducts.

and support services for a modern office location. Some areas have a distinct operational advantage over other regions of the city. First-time companies to Brazil should seek professional advice in order to avoid potentially costly mistakes.

The city relies on four main modes of public transportation: buses and minivans, local trains, a relatively small subway system and private vehicles. Executives and professional-level employees tend to avoid public transport because it is overcrowded. Companies should consider parking availability for senior and "middle ranking" employees.

The bus system covers most of the city, but the speed of urban development means that some newer areas tend to have inadequate transport. Some major companies provide private buses, which carry employees from central **pick-up** points in residential neighborhoods.

The city has a substantial urban helicopter fleet, including various taxi services, and an increasing number of senior executives use them to bypass traffic congestion. Most larger new office buildings include a rooftop helipad.

Electricity, water and piped wastewater facilities are available throughout São Paulo. Tap water is treated but most offices provide mineral water for drinking. Natural gas is expanding but currently pipes to only a few neighborhoods.

By 2001, the government and private operators had completed the first phase of privatization of the Brazilian telecommunications system and the objectives of creating regulated competition and universal telephone service were achieved. Concessions have been granted **to** private companies, providing national and international telephone services. In addition, a number of companies offers private telecom services such as trunking, internal networks, paging and data transfer.

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Central São Paulo has a crime rate similar to most major world cities. In recent years, concern has risen regarding the preponderance of kidnappings. Foreign executives and their families are advised to take the same security precautions they would in any big city. In addition, safety specialists and firms are available for guidance. Brazil has no real tradition of political, ethnic or religious violence, but because of wide socio-economic gaps in the population crime is ever present.

## São Paulo Office Market is decentralized


*Prime regions in Sao Paulo*

Where as the downtown region of São Paulo, called the Old City Center, was once the hub of the office market, over the last two decades the city's office market has gradually moved southwards towards the Marginal, Jardins and Paulista Regions (see map below). As a result, a very strong decentralized office market has been created over the years, with solid investments from the country's main long-term investors (pension funds).

There are four main office areas in São Paulo, housing the vast majority of modern office accommodation in the city. Three of them (Paulista, Jardins and Marginal) are the overwhelmingly dominant markets in terms of transaction volumes; more than 90% of office market transactions are concentrated in these regions. Within these areas, high rise buildings of contemporary construction can be found. High-end occupiers are sensitive to building life systems, communication and data standards. However, out of the total office stock of 105,717,000 square feet (9.825.000 m²) of usable area in São Paulo, only 13% can be considered as being Class A or above standard.

## Key region:
## Avenida Paulista

Historically, Paulista Avenue was synonymous with office prestige and has always been known as the golden mile of banking with several Brazilian and foreign banks located along Avenida Paulista. The region's development began in the mid-1950s, when it became clear that the city center could no longer accommodate the growth of the banking and business sectors.

Through the rapid pace of development in the 1970s, which consumed 70% of the available land, the Paulista region was almost wholly developed by the mid-1980s.

The region consists mainly of high rise constructions of mixed quality and of **medium-sized** floor plates. The area benefits from an underground subway service running beneath Avenida Paulista, but suffers from heavy traffic congestion. The region has suffered from a combination of soaring rental prices and inappropriate specifications for modern use**,** causing many occupiers to migrate southwards towards **the** Jardins and Marginal regions in search of greater real estate value and prestige. As a result, little new stock is available and the vacancy rate stands at around 12%.

**Global 500 companies in the Paulista Region**

ABN Amro Bank - Real, Safra Bank, Citibank and many other international financial institutions, as well as the principal state-owned energy company CESP and the São Paulo State Federation of Industries (FIESP).
state-owned energy company CESP and the São Paulo State Federation of Industries (FIESP).

## Key region:
## Jardins

By 1970, the city was again beginning to expand further with new developments, concentrating on the newly opened Avenida Brigadeiro Faria Lima, which today is the main avenue in the Jardins. The Faria Lima Avenue area is characterized by a mix of buildings, some of which are composed of small office suites and low technical specifications and others with large floor plates and high technical specifications.

More than 90% of the projects on Faria Lima were developed in the short period from 1968 to 1980, and some are now out-dated. However, as a direct result of the Faria Lima Urban Operation and the construction of the Brigadeiro Faria Lima Avenue extension, the region has started once again to show significant growth potential, and has caught the eye of large developers.

Currently, we see the existence of several new developments in the region and this has brought a substantial improvement in quality of stock, given the majority of the new buildings are either class “A” or “AAA”. These properties are intended to be headquarters of multinational institutions and this should turn this region into the new economic and financial hub of the city.

The area benefits from a pleasant, green area between the Faria Lima and the avenues that cut through Paulista, encompassing the city's most prestigious residential neighborhoods. It also offers excellent access and public transport (except for underground / subway services).

*High rise in the Jardins*


*Buildings of Marginal Pinheiros*

**Global 500 companies in the Jardins Region**

Microsoft, BNP Paribas, Credicard, ING Bank, J.P. Morgan, HSBC, Morgan Stanley, Merrill Lynch, Visa, Cs First Boston Representações, Sab Trading, Banco Fibra, Telefonica, General Electric, etc.

## Key region: The Marginal Pinheiros region

The Marginal region has the largest number of high quality buildings being delivered every year, which is part of the reason for its high absorption rate. The rapid expansion of this decentralized area was facilitated by the constant extension of the Marginal beltway**s** and the marked preference of major occupiers for high quality space at more affordable rental prices. Indeed, this region currently houses approximately 80% of all multinational headquarters in the city of São Paulo.

Due to the lack of buildings with superior technical specifications in the city of São Paulo, the Marginal region has over the last few years shown great attraction for **office** demand and has been responsible for the **bulk** of the stock that has been absorbed.

The area is served by major **expressways**, which were developed in the 1960s and stretch along the **banks, or** ´margins`**,** of the Tietê and Pinheiros rivers, providing the names **for** the Marginal Tietê and Marginal Pinheiros **beltways and the whole area.** However, because this region covers a very large **stretch** along the Pinheiros River and **because** development began **only** in the 1980s, the service infrastructure in some parts is relatively poor by comparison to other regions**.**

**Global 500 companies in the Marginal Pinheiros Region**

Alcoa, Deloitte Touche Tohmatsu, American Express, AOL, Carrefour, Compaq, Deutsche Bank, Dow, Duke Energy, Intel, Atos Origin, Johnson & Johnson, Lucent, Microsoft, Nestle, Pfizer, Bayer, Santander Bank and others.

Greater São Paulo offers such overwhelming advantages for prime office space that most companies do not consider moving out, and those that run evaluation studies usually end up deciding against it. The natural drawbacks of all major cities, particularly pollution and traffic congestion, are outweighed by the much greater and more sophisticated labor market, the easy access to world class services and leisure, the proximity to clients, and so on. There has been a trend for companies to keep administrative and marketing functions in the metropolitan region and relocate manufacturing facilities. Modern telecommunications facilitate this option.

The supply of services  including some financial services such as leasing  is taxable at the municipal level. The levy is expressed as a percentage gross billing, with no allowable deductions.

Rates vary from as high as 5% in the São Paulo municipal district (roughly half of the metropolitan region) to as low as 2% in some neighboring municipalities. This has stimulated some service companies to relocate to cheaper outlying areas.

Companies that move out of greater São Paulo normally stay within 30 to 60 minutes outside of the city along good-quality state highways. Options include:

**Campinas:**
This is the largest city in the State of São Paulo outside of the São Paulo metropolitan region. It is situated 60 miles from the capital.

Famed for its universities and high technology industry, this city is also attracting auto-industry companies.

**Jundiai:**
Situated between São Paulo and Campinas, this city of 340,000 people has a diversified, modern and dynamic economy, attracting manufacturers and distributors.

**São José dos Campos:**
This city of roughly 590,000 people is attracting aerospace and military equipment manufacturers as well as auto-parts makers.

**Barueri:**
Situated close to the **privately-developed** Alphaville residential **and** commercial complex, this city of 200,000 is attracting logistics and distribution centers.

**Santos:**
This coastal city houses Brazil's largest seaport and is a traditional option for shipping, import/ export companies and related services.

**ABCD:**
This prosperous region of 1.8 million inhabitants comprises four municipalities (Santo André, São Bernardo do Campo, São Caetano and Diadema) and is famed as the Brazilian Detroit. It is home to Ford, General Motors **and** Volkswagen, plus numerous parts makers. Currently, the region is attracting high technology, commercial and service development companies, such as call and collection centers.

# About our sponsor

CB Richard Ellis is the world´s leading real state services company. Headquarter in Los Angeles the company serves real state owners, investors and occupiers through nearly 257 offices in 47 countries. CB Richard Ellis had 2001 revenues of $1,7 billion.

CB Richard Ellis, through its offices in São Paulo and Rio de Janeiro, has more than 20 year of experience in the Brazilian market. It offers the following services:

- **Investment** - Sale for Institucional Investors; Portfolio analisys and general Advice; Investment strategy definition; Acquisition for Investors; Sale of participation and Economic-Financial feasibility studies in Shopping Centers.

- **Letting** - Project Development Advisory Services, Preparation of Commercialization Strategy, Leasing Services, Lease Renewal and Rent Review.

- **Agency** - Demobilization of portfolios/ disposition of properties of all kinds; retail services (commercialization and acquisition of shopping centers and street stores); Sale to occupiers; Commercialization strategy consultancy; Nationwide sales coordination.

- **Industrial Services** - Sale; Acquisition; Rental; Consultancy for owners and developers; Consultancy in the development and commercialization of Business Parks; Representation of industries, logistical in the acquisition, lease of facilities and land sites.

- **Corporate Services** - Single point of contact to manage and meet the needs of owners, occupiers and investors in every stage of the Real Estate Cycle.

- **Occupier Services** - Relocation and feasibility study; Acquisition, Rental for Occupiers; Rental contracts Renewal, Renegotiation rent review.

- **Valuation & General Advice** - Valuation for sale, lease, acquisition, warranties and insurance purposes, Due Diligences of offices, industries, retail, shopping centers, hotels and others; Preliminary Real State analysis.

- **Development** - Development study; Selection of Sites and Acquisition; Definition of better use and vocation; Design Brief and Master Plans; Space planning study.

- **Management Services** - Property management; Facilities management; Project and construction management.

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