

# BRAZIL

*Cushman & Wakefield*  
*Global Cities Retail Guide*



***Brazil is the world's fifth largest country in terms of population (208m inhabitants) and the ninth largest world's economy in terms of GDP (USD 1,793 Bn). It has shown robust consumption growth, following the stabilization of the economy, with more than 60m people ascending to the upper classes and 19m people rising from poverty levels in the past 10 years.***

Brazil boasts several traits that have made it a top target for international brands: a burgeoning middle class, a high consumption rate, and large urban populations in major capitals like Sao Paulo and Rio de Janeiro. Rising incomes are fuelling demand on less saturated second and third-tier markets. Retailers present in mature cities are changing focus and developing new strategies.

There are additional 17 cities with over 1million inhabitants. Additional characteristics retailers find appealing about the population is its relative youth; more than half of the country is under the age of 30 and its fascination for the international brands and concepts. In contrast to other BRIC nations, the cultural and socio consumption levels are similar to those of the average European and American consumers.

In addition, real estate laws typically favour tenants, there are few restrictions for international companies entering the market.



## BRAZIL OVERVIEW

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## ECONOMIC OVERVIEW

### ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2017F	2018F	2019F	2020F	2021F
GDP growth	1.1	2.5	3.3	3.2	2.7
Consumer spending (Vol - %)	1.0	2.8	3.3	3.4	2.9
Industrial production	2.5	3.9	3.5	3.0	2.6
Investment	-2.6	3.0	5.4	4.9	4.4
Unemployment rate (%)	12.8	12.4	11.1	9.4	8.1
Inflation	3.5	4.1	4.2	4.0	4.0
Real/ € (average)	3.6	4.0	4.2	4.4	4.5
Real/ US\$ (average)	3.2	3.3	3.5	3.6	3.7
Interest rates Short term (%)	10.1	6.8	7.7	8.0	8.0
Interest rates 10-year (%)	10.2	9.6	9.0	8.9	8.8

### ECONOMIC BREAKDOWN

Population	211.4 million (2017F)
GDP (nominal)	US\$ 2.06 trillion (2017F)
Public Sector Balance	-8.6% of GDP (2017F)
Public Sector Debt	75.6% of GDP (2017F)
Head Of State/President	Mr. Michel Temer
President Chamber of Deputies	Mr. Rodrigo Maia
Election Date	7 October 2018

NOTE: \*annual % growth rate unless otherwise indicated. Figures are based on local currency and real terms. E estimate F forecast.

CITY	POPULATION
São Paulo	12,106,920
Rio de Janeiro	6,520,266
Salvador	2,953,986
Brasília	3,039,444
Fortaleza	2,627,482
Belo Horizonte	2,523,794
Manaus	2,130,264
Curitiba	1,908,359



## BRAZIL LARGEST CITIES

# BRAZIL

## RETAIL OVERVIEW

### MAJOR DOMESTIC FOOD RETAILERS

Grupo Pão de Açúcar, Makro, Atacadao, CIA Záfari, Sonda Supermercados

### MAJOR INTERNATIONAL FOOD RETAILERS

Walmart, Carrefour, Casino group

### MAJOR DOMESTIC NON-FOOD RETAILERS

Restoque Group, Riachuelo, Centauro, Renner, Track & Field, Etna, Lojas Americanas, Ponto Frio, Saraiva, Magazine Luiza, Marisa, Renner, Riachuelo, Casas Bahia, Natura, Fototica, O Boticario, Siberian

### INTERNATIONAL RETAILERS IN Brazil

Zara, Sephora, Decathlon, C&A, Carrefour, GAP, Forever 21

### FOOD AND BEVERAGE OPERATORS

McDonald's, Burger King, Starbucks, Hooters, Pizza Hut, Subway, Outback, Applebee's, Baked Potato, Viena, Vivenda do Camarão, America, Bon Grille, Casa do Pão de Queijo, Wendy's

### TYPICAL HOURS

#### MONDAY – SATURDAY

10:00 - 22:00 (later for cinemas and restaurants)

#### SUNDAY & HOLIDAYS

14:00 - 20:00 (later for cinemas and restaurants)

### NEW ENTRANTS TO MARKET

Wendy's	Sephora	Kiehl's	Apple
Kiko Milano	Ralph Lauren	Michael Kors	The Body Shop



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## RETAIL SCENE

***The shopping center industry in Brazil is the strongest in the retail sector mainly due to the country's culture and lifestyle. Hot weather (air conditioning is key in a tropical country) and the lack of security of street retail make shopping centers the preferred format. Shoppers are also drawn to the entertainment options and conveniences of shopping centers. Brazilian consumers are very fashion and price conscious but also focused on brand loyalty.***

The competitive landscape has grown and competition has become more aggressive between the various players in Brazilian retailing. This is explained by the development of multichannel strategies, which see retailers present in various sales channels, from the traditional brick-and-mortar stores to internet retailing and even direct selling.

Brazil is the world's 11th largest shopping mall market based on the number of malls in operation. The country's 571 shopping center sites represent 15,5 million sqm of GLA. However, with 9.2 sq.m per every 100 people, the opportunity for further growth is apparent when compared to more mature retail markets. The U.S., for example, has more than 224 sq.m of shopping mall space per 100 people.

For the first time in the industry history, the percentage of malls opened outside the capital is greater than the shopping malls in the capital. Some 41% of malls are concentrated in municipalities that have up to 500,000 inhabitants, which confirms the internalization of industry trend.

Some 70% of GLA and 86% of malls are located in the Southeast and South regions.

Street retail serves the middle class and the lower consumer tiers in the majority of the Brazilian cities. Sao Paulo and Rio de Janeiro are the only cities with upscale street retail featuring luxury brands.

With 23 new projects now in operation and an average of 463 million monthly visits, in 2017 the Brazilian shopping center market registered a growth rate of 6.2% in sales compared to the previous year, reaching a total of R \$ 167,7 billion. The sector's expectation for 2018, however, is 0.5% growth.

Total existing stock of shopping center space in Brazil totalled over 14.9 million sqm GLA as at 1 July 2016.





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## SHOPPING CENTRES

### TOP TEN SHOPPING CENTRES BY SIZE

NAME	CITY	SIZE (GLA SQM)	YEAR OPENED
Leste Aricanduva	São Paulo	247,025	1991
Interlagos	São Paulo	145,000	1988
Novo Shopping	Ribeirão Preto	126,489	1999
Parque Dom Pedro Shopping	Campinas	121,000	2002
Riomar Recife	Recife	101,000	2012
União de Osasco	Osasco	97,000	2009
Iguatemi Esplanada	Sorocaba	93,976	1992
RioMar Fortaleza	Fortaleza	93,000	2014
Nova América	Rio de Janeiro	82,706	1995
Salvador Shopping	Salvador	82,500	2007

# BRAZIL

## KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE	
ITEM	COMMENT
Lease Terms	Usual lease terms are 36 to 60 months. With a 60 month term, the tenant has renewal rights as provided by Real Estate Law. In some cases (atypical leases such as supermarkets and built to suit projects), lease agreement can reach periods of 10 to 20 years. The conditions depend directly on negotiations with the landlord. For typical leases for areas located within malls, the lease period is 5 years. As for commercial locations in streets (including high streets), the landlords try to negotiate lease terms of less than 5 years, which do not give renewal rights to tenants. In most of these cases, in order to renew the lease, tenants would have to provide key money payments. Therefore, the recommendation is to have a lease term of 5 years.
Rental Payment	Rental payments are made monthly, usually at the beginning of the month (until the 5th day of each month). The amount paid refers to the previous month that the tenant used the property (rent is due after and not up front). All tenants provide lease guarantees. The standard is a Bank Guarantee (Letter of Credit) equivalent to 12 months rent, plus usual expenses. Other types of guarantee are Insurance Guarantee, Bank Deposit equivalent to three months of rents (unusual) and Grantor. In new leases, it is standard to obtain a free rent period that covers base rent but not expenses or tenant allowances. The total free period varies according to the total leasable area but usually is negotiated from 1 to 4 months in the beginning of the lease. A rent free period is not considered in renewals.
Rent Review	All Leases should be annually readjusted by an inflation index (the standard for most leases is IGP-M/FGV). Brazil has several inflation indexes that are issued monthly by institutions related to the government. The governmental target is to have the inflation between 4.50% - 6.50% per annum (although in 2012 this inflation index was 5.84% and in 2013 it was 5.9%). The Brazilian Real Estate Law provides that either party can review the rent rate every 36 months after the last agreement between the parties in order to adjust the rental rates to reflect market conditions of that time.
Service Charges, Repairs and Insurance	In shopping centers (malls) there are charges and fees for the start up of a store and for its operations. These include minimum rent, percentage rent, promotion fund, CAM, CDU/Key Money (assignment of right of use), 13th rental rate (in December), plus operational expenses related to the leased space/store (electricity, AC, etc.). As a standard procedure, the developer will calculate the breakeven point, considering the minimum rent and the percentage rate. For the average rate that is obtained, tenants will pay the minimum rental rate if the value is below the average, and will pay the percentage rate if the amount is above the average value (breakeven point). The Condominium charge usually includes services such as security, cleaning, gardening, internal maintenance and water (common use). CAM also includes insurance for the common area, while insurance for the leasable area (leased store) shall be the tenant's responsibility. For properties located on the street, the values that are usually charged are related to rental rates (according to the market conditions of the region), key money, and CAM in cases where the property is part of a retail complex. The insurance and operational expenses are also the tenant's responsibility. The Landlord is usually responsible for the structural items of the property and maintenance related to improvements classified as necessary (infrastructure systems). However, usual and regular maintenance and improvements, which don't affect the structure of the property, are the tenants' responsibility. Part of the improvements related to operational items of the property can be negotiated between the parties (substitution of the air conditioning system).

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## KEY FEATURES OF LEASE STRUCTURE

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ITEM	COMMENT
Property Taxes and other costs	In shopping centers (malls) there are charges and fees for the start up of a store and for its operations. These include minimum rent, percentage rent, promotion fund, CAM, CDU/Key Money (assignment of right of use), 13th rental rate (in December), plus operational expenses related to the leased space/store (electricity, AC, etc.). As a standard procedure, the developer will calculate the breakeven point, considering the minimum rent and the percentage rate. For the average rate that is obtained, tenants will pay the minimum rental rate if the value is below the average, and will pay the percentage rate if the amount is above the average value (breakeven point). The Condominium charge usually includes services such as security, cleaning, gardening, internal maintenance and water (common use). CAM also includes insurance for the common area, while insurance for the leasable area (leased store) shall be the tenant's responsibility. For properties located on the street, the values that are usually charged are related to rental rates (according to the market conditions of the region), key money, and CAM in cases where the property is part of a retail complex. The insurance and operational expenses are also the tenant's responsibility. The Landlord is usually responsible for the structural items of the property and maintenance related to improvements classified as necessary (infrastructure systems). However, usual and regular maintenance and improvements, which don't affect the structure of the property, are the tenants' responsibility. Part of the improvements related to operational items of the property can be negotiated between the parties (substitution of the air conditioning system).
Disposal of a Lease	Lease Agreements in Brazil can consider sublease conditions, assignment, and early termination possibilities. These conditions should be agreed upon by the parties in the lease agreement and are also regulated by Real Estate Law. In case of subleasing/assignment, the current tenant stays as the responsible party for the lease. Early termination is a right provided for tenants. The penalty and prior notice is usually negotiated between the parties, but as general conditions of the market, the prior notice varies between 30 to 120 days and the penalty varies between 3 to 6 months rent. The penalty amount is proportional and should be calculated considering the ratio between the entire term of the lease and the remaining term of the lease. Usual disposal conditions are defined by the parties in the lease agreement. The standard conditions are usually contemplated in an initial inspection report that is produced by the beginning of the lease. As a standard, the properties shall be delivered considering open space conditions, meaning that the general improvements shall be removed.
Valuation Methods	The technical valuation is normally developed in accordance with the Practice Statements contained in the NBR 14,653-1/2001 and 14,653-2/2011 standards, published by the Brazilian Technical Standards Association (ABNT - Associação Brasileira de Normas Técnicas). The valuation is prepared by appraisers according to the requirements set out in the NBR 14,653-1/2001 and 14,653-2/2011 standards, acting in the capacity of external appraisers. In general negotiations, the market value of a property is considered by analyzing the current market conditions in the region for the analyzed property and for similar properties located in the region. The rental rates are usually compared on a square meter basis. The leasable area can be defined according to each landlords' desire: private area, usable area, common area, BOMA area, etc.
Legislation	In Brazil, the Real Estate Law provides the regulation of the standard lease agreements between landlords and tenants. The build to suit process is considered an atypical lease agreement and is related to the civil law. For lease periods of five (5) years, tenants can have an automatic right of renewal. However, the tenant has to issue a renewal suit within 12 to 6 months prior to the end of the lease agreement in order to guarantee this right. Registration of lease agreements at the Real Estate Notary is recommended always, mainly to protect the tenant lease characteristics in case the property is sold to a third party during the term of the lease. This registration formalizes the existence of the ongoing lease, and its terms/ conditions will be respected after the sale. It is also recommended that the property's documentation be analyzed by the tenant's counsel/legal dept. in order to confirm that it is regularized and meets all local codes in order for tenants to perform their activities.

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