MARKET UPDATE

JULY 2020

ECONOMIC OVERVIEW

The profound impact of the COVID-19 pandemic - namely on exports (-15.5%), particularly on the services component (-36.3%) due to the decrease in tourism; and in private consumption (-7.4%), given the drop in non-food retail - lead to a contraction of the economy in 2020, estimated by Oxford Economics at 8.6%. According to this same entity, investment will register a less significant drop, of 6.0%, thanks in part to the resilience of the construction sector, which maintained its activity throughout the crisis.

The Government's Supplementary Budget, which includes an increase of € 4.3 billion in expenses for 2020, and the European Recovery Fund, which provides a non-refundable €15.3 billion[1], are expected to support the economic recovery, with GDP forecast to grow by 6.0% in 2021 and by 4.1% in 2022 according to Oxford Economics.

THE IMPACT OF THE CURRENT PANDEMIC CAUSES A STRONG CONTRACTION (-8.6%) OF THE ECONOMY IN 2020

RISING PUBLIC SPENDING AND EUROPEAN FUNDS ARE EXPECTED TO SUPPORT THE SHORT-TERM ECONOMIC RECOVERY

ECONOMIC FORECASTS 2020 / 2021

GDP	INFLATION	UNEMPLOYMENT RATE
-8.6% / 6.0%	-0.0% / 0.5%	7.6% / 7.6%

EXPORTS	PRIVATE CONSUMPTION	INVESTMENT
-15.5% / 12.2%	-7.4% / 6.1%	-6.0% / 6.1%

[1] Eligble projects must be approved by 2023 and executed by 2026

OFFICES

The overall suspension of decision-making processes generated by the current situation had a greater impact on the office market throughout the second quarter. In the Greater Lisbon area, the volume of occupation in the first half of the year registered a year-on-year drop of 23%, which was still mitigated by the conclusion of some large transactions that started in the pre-COVID-19 period. With 84,400 sq.m transacted, over 57 transactions, a new historical record of average leased area was registered, reaching 1,480 sq.m. Prime CBD (Zone 1) concentrated 26% of the total take-up, where the largest deal of the semester was registered, the pre-lease of 16,400 sq.m at Edifício Monumental by BPI. The second largest deal was the freehold acquisition by Cofidis of its future headquarters, the 10,400 sq.m Natura Towers, in Zone 7. The vacancy rate increased slightly to 4.2%, in part due to the completion of the refurbishment works to the 5,750 sq.m Eurolex building on Avenida da Liberdade (Zone 1).

In the Greater Porto area, the completion of transactions that were already at an advanced stage of negotiation in the first quarter contributed to a half-yearly take-up of 28,400 sq.m, a 38% growth compared to 2019. With 24 transactions, the average leased area increased to 1,180 sq.m, the most notable being the lease by Concentrix of 5,900 sq.m in the recently concluded Porto Office Park (POP), located in Boavista (Zone 1), and where the highest volume of take-up was registered (33%).

In terms of pipeline, currently at 237,000 sq.m in Lisbon and 70,800 sq.m in Porto for the next three years, this now faces a greater risk of downward correction, particularly due to the potential postponement or even cancellation of some of the planned projects.

With year-end expectations pointing to a drop in occupancy volumes, the readiness of owners to grant additional incentives has increased, particularly through rent free periods. In this context, rental values have remained stable, with prime headline rents in Zone 1 at € 23.0/sq.m/month in Lisbon and €18/sq.m/month in Porto, a trend that may continue given the preference to maintaining gross income and the current shortage of quality supply.

TAKE-UP - A TALE OF TWO CITIES: 23% DROP IN GREATER LISBON AND 38% INCREASE IN GREATER PORTO

TAKE-UP

84,400 SQ.M
GREATER LISBON

28,400 SQ.M
GREATER PORTO

TRANSACTIONS

57
GREATER LISBON

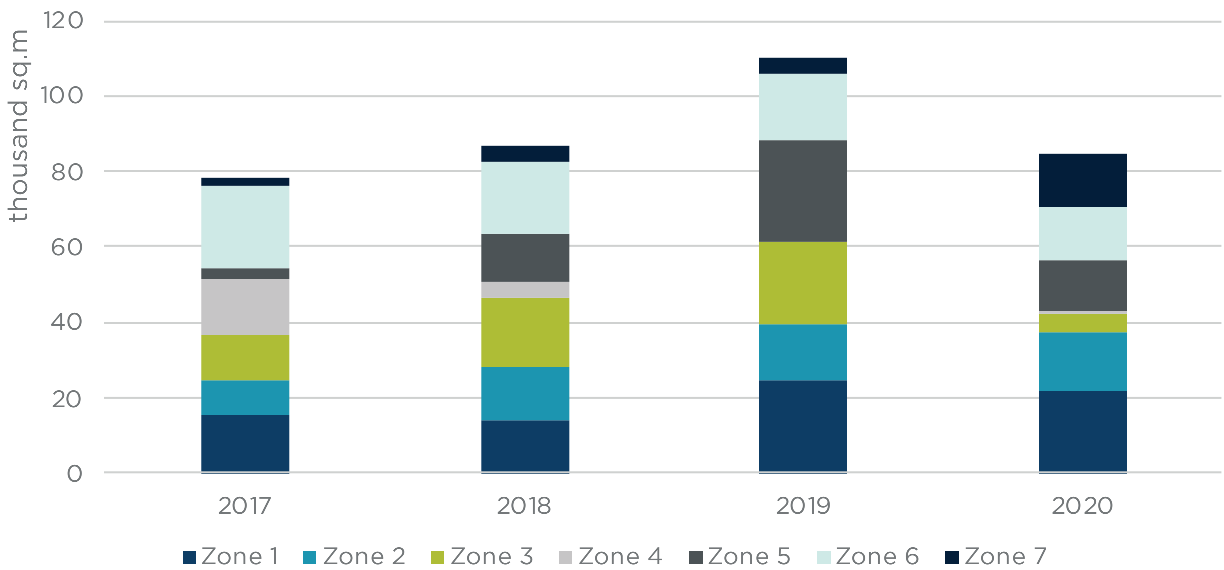
24
GREATER PORTO

AVERAGE DEAL SIZE

1,480 SQ.M
GREATER LISBON

1,180 SQ.M
GREATER PORTO

TAKE-UP IN THE GREATER LISBON AREA – 1ST HALF



RETAIL

THE 150 DEALS REGISTERED IN THE FIRST SEMESTER REFLECT A SIGNIFICANT DROP OF 64% COMPARED TO 2019

The volume of retail sales published by National Statistical Institute of Portugal (INE) shows the effects of the pandemic COVID-19 with a 4.5% year-on-year drop in the first five months of the year. This was due to a sharp reduction in April (-19.4%) and May (-12.0%), which was more significant in the non-food retail, with an accumulated decrease of 12.6%, still offset by a 3.6% increase in food.

In terms of take-up, Cushman & Wakefield registered around 150 transactions were by during the first semester, a significant drop of 64% compared to 2019, which was particularly felt during the second quarter, with only 40 openings (-82%). Between January and June, high street retail represented 69% of take-up in terms of number of deals, followed by retail schemes with 18% of new openings. Driven by the growth that tourism was experiencing, the Food & Beverage (F&B) sector was the most active, with 62% of new openings, followed by Others and Leisure & Culture, each with 10%.

Based on the flexibility shown by some landlords to grant benefits to their tenants, namely rent free periods and/or capital contributions, meanwhile complemented with the Government-decreed rent moratorium, the headline rents values remained stable, with the prime high street rent at €130/sq.m/month in Lisbon (Chiado) and €75/sq.m/month in Porto (Baixa); and €105/sq.m/month in shopping centres. In addition, an exceptional regime came into force at the end of July, waiving the payment of fixed rents in shopping centres until the end of the year, with tenants only liable for paying turnover rent and service charges, although details on how it will be implemented are still pending.

HIGHT STREET RETAIL OPENINGS

69%

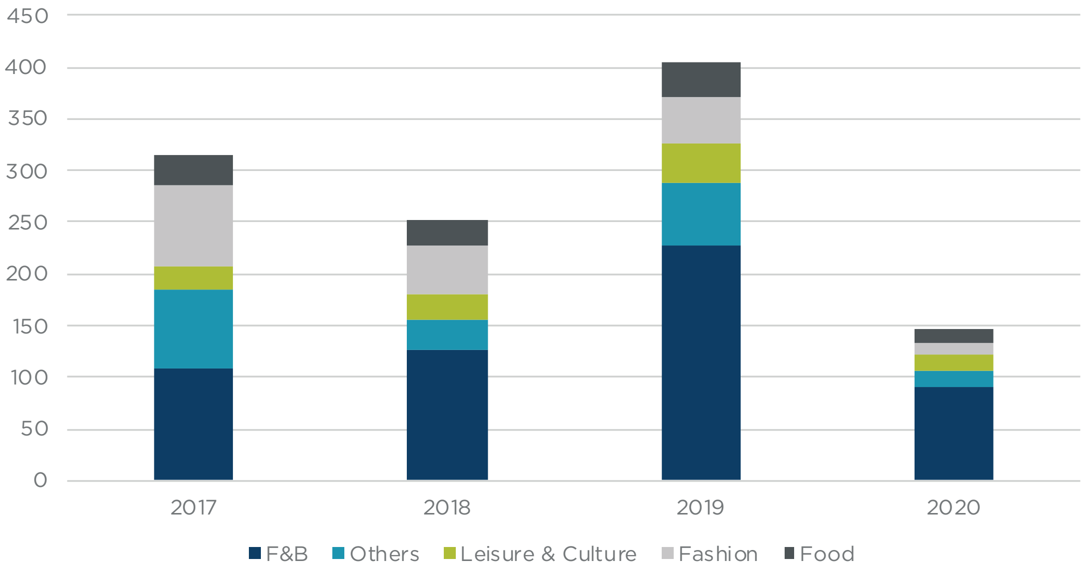
FOOD & BEVERAGE OPENINGS

62%

OPENINGS

150

RETAIL OPENINGS
1ST HALF



INDUSTRIAL & LOGISTICS

The current pandemic has slowed the trade activity of the Portuguese economy and, according to INE, between January and May, exports and imports of goods registered a year-on-year decline of 18.3% and 19.1%, respectively. However, Oxford Economics' forecasts point to a mitigation of this retraction in the remaining months of the year, with 2020 reaching negative growths of 5.8% in exports and 8.0% in imports.

As for take-up in the Industrial & Logistics sector, the first semester showed a slight reduction, with 64,400 sq.m transacted, 9% below the same period of the previous year. With 13 deal, the average deal size was 5,000 sq.m, with the contribution of some significant-sized transactions - the owner occupation by Hotelar of the 22,000 sq.m of the renovated Rio Vizela Spinning and Fabrics Factory (Santo Tirso) and by Hovione's new 11,400 sq.m building in Loures.

With the increase in online shopping, the demand for adequate spaces increased, particularly for logistics spaces in the metropolitan areas of Lisbon and Porto and last mile distribution platforms in their respective urban centres.

In terms of future projects, the current scarcity in the supply of quality spaces should be filled with the construction of new projects, such as the Lisboa Norte logistics platform (Castanheira do Ribatejo) developed by Merlin Properties, with a total area of 225,000 sq.m and with the first warehouse (45,000 sq.m) currently under construction.

In this context, prime rental values remained stable, with Zone 1 of Lisbon (Alverca-Azambuja) at €4.00/sq.m/month and Porto (Maia-Via Norte) at €3.85/sq.m/month.

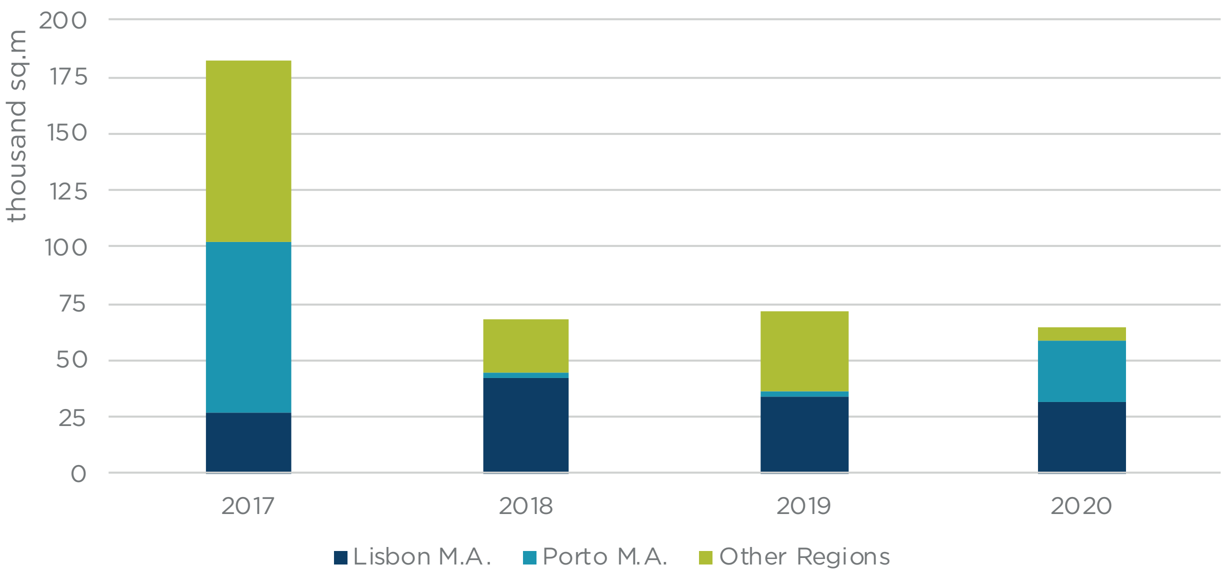
SECTOR'S RESILIENCE SHOWN BY THE SLIGHT DROP (9%) IN DEMAND DURING THE FIRST HALF, TO 64,400 SQ.M

64,400 SQ.M
TAKE-UP

13
TRANSACTIONS

5,000 SQ.M
AVERAGE DEAL SIZE

INDUSTRIAL AND LOGISTICS TAKE-UP - 1ST HALF



INVESTMENT

Despite the negative impact of the current situation on the real estate investment activity, the first half of 2020 registered a new historical high - between January and June, €1,670 million of commercial real estate were transacted (a 50% year-on-year growth compared to 2019) distributed over 27 deals. The sale of 50% of the Sierra Prime joint venture by Sonae Sierra and APG to Allianz Real Estate and Elo, for around €800 million[2] in Q1 played a vital part in these results, which compensated for the 88% drop recorded in the second quarter compared to the previous year, to a mere €87.5 million.

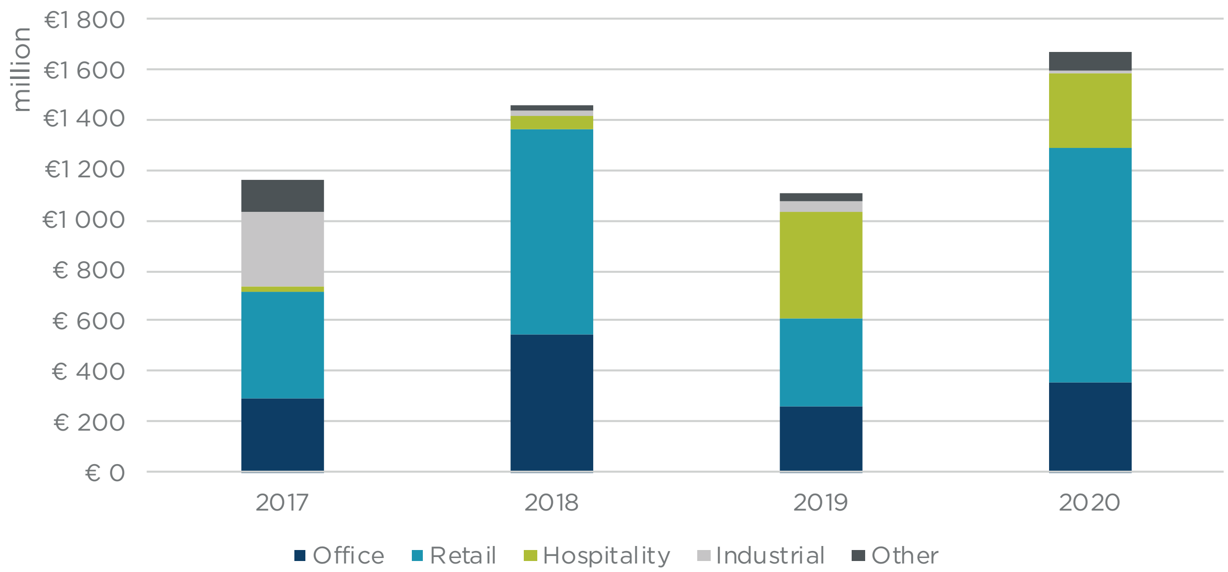
The percentage of foreign investment year-to-date decreased to 71%, practically reflecting a trebling of local capital compared to the same period of 2019, to €491 million. The retail sector attracted 56% of the capital invested, followed by offices and hotels, with 21% and 18% respectively. In offices, the highlight was the sale of the PREOF portfolio by Finsolutia to Cerberus for ca. €150-170 million and the recent acquisition (for own occupation) of Natura Towers by Cofidis for €46 million.

The foreseeable drop in real estate operating income (particularly in the most affected sectors of activity) and the greater risk aversion by banks in financing real estate transactions contributed to the slowdown in investment activity. With investors looking to gradually resume negotiations, particularly in logistics and offices and in the core and core+ segments, estimates for total investment volume for this year are in the region of €2,500 million, which would represent a year-on-year drop of 20%.

In this context, prime yields corrected upwards, to 4.10% in offices, 4.25% in high street retail, 5.00% in shopping centres and 6.10% in industrial, reflecting an increase between the 10 and 25 basis points compared to the previous quarter.

DESPITE THE 88% DROP IN THE SECOND QUARTER, THE FIRST SEMESTER REGISTERED A NEW HISTORIC HIGH OF €1,670 MILLION, THANKS TO THE SALE OF 50% OF THE SIERRA PRIME JOINT VENTURE

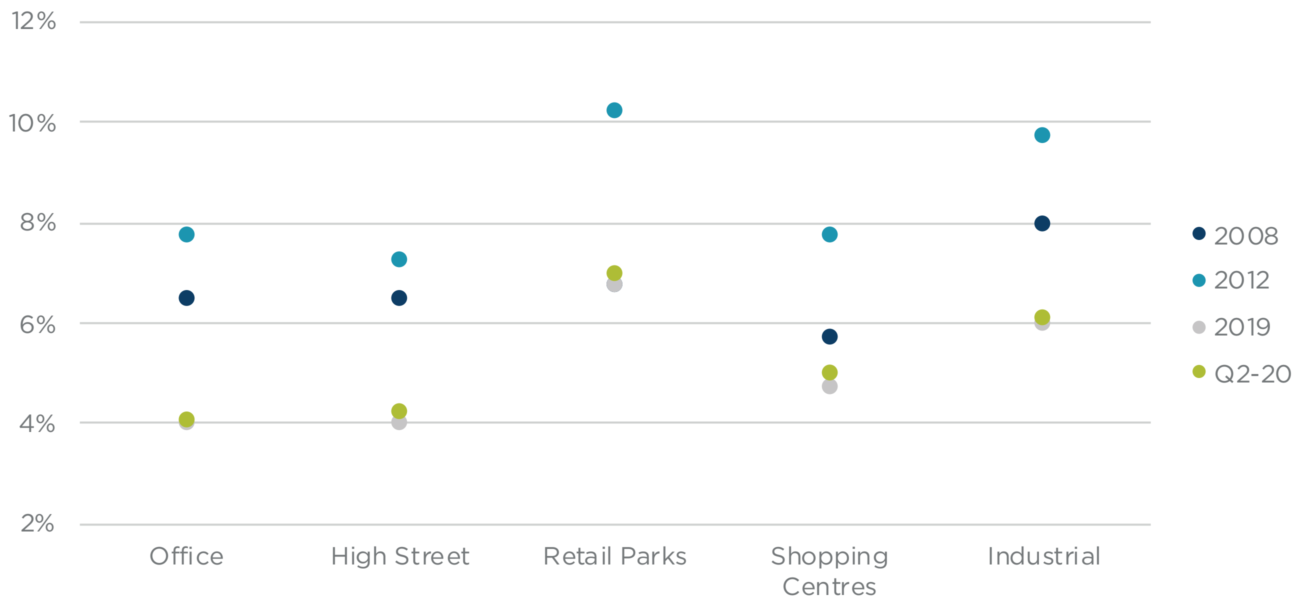
INVESTMENT BY SECTOR
1ST HALF



[2] Value of the 4 assets in Portugal, among a total of 6 shopping centres

INVESTMENT

PRIME YIELDS



INVESTMENT VOLUME

€1,670 MILLION

FOREIGN INVESTMENT

71%

RETAIL INVESTMENT

56%