CUSHMAN & WAKEFIELD

MARKETBEAT
PORTUGAL

AUTUMN 2020

A Cushman & Wakefield publication

INDEX

ECONOMY

Economic activity in Portugal suffered a significant impact in 2020 resulting from the period of mandatory confinement due to the outbreak of COVID-19, especially in the second quarter, with a contraction in GDP estimated at 16.3%. Exports, especially services, due to the importance of tourism, and private consumption, given the drop in non-food retail, are the most affected, with decreases of 21.6% and 8.0%, respectively. By contrast, the continued activity in the construction sector reduced the impact on investment, with an estimated drop of only 5.0%.

According to Oxford Economics, these indicators contribute to a contraction of the economy in 2020 of 8.9%, higher than the Eurozone with an expected decline of 7.9%. The inflation rate is likely to remain at low levels, with a slight decrease of 0.2% in 2020, controlled by the European Central Bank so as not to exacerbate the effects of the crisis.

At the same time, the deterioration of the labour market, given the difficulty companies have experienced in accessing financial support to address the reduction or temporary suspension of their activity and the discontinuation of the simplified lay-off scheme for employees, is likely to increase the unemployment rate to 7.2% in 2020.

ECONOMIC INDICATORS 2020

GDP
-8.9%

INVESTMENT
-5.0%

INFLATION
-0.2%

PRIVATE CONSUMPTION
-8.0%

EXPORTS
-21.6%

UNEMPLOYMENT RATE
7.2%

Source: Oxford Economics

SOVEREIGN DEBT RATING

After a period of positive recovery for the Portuguese economy, even achieving a budget surplus in 2019, the effects of coronavirus and the strain on households and companies may increase the debt ratio and threaten the resilience of the banking sector, namely in terms of non-performing loans and reserves.

The global recession will inevitably weaken the country's fiscal and financial situation, which is increasingly dependent on external demand, and as a result the rating agencies have maintained or revised downwards the Portuguese debt outlook to stable.

MOODY'S	STANDARD & POOR'S	FITCH	DBRS
BAA3 → POSITIVE	BBB → STABLE	BBB → STABLE	BBB+ → STABLE

ECONOMIC FORECASTS 2021/2022

Estimates from Oxford Economics for next year reflect a strong recovery in exports, with an increase of 20.5%, as well as private consumption and investment, with a growth of 6.7% and 6.8%, respectively. In this context, GDP is expected to record an annual growth of 6.4% in 2021. Looking further ahead, in 2022, the main drivers of the economy are likely to be investment and exports, with increments of around 12.2% and 7.6%, contributing to an estimated 5.5% increase in GDP.

This outlook for the years ahead will also be supported by the Supplementary Budget, which includes an increase of €4.3 billion to boost spending for 2020, and by the European Recovery Fund, which is expected to provide support of €15.3 billion for Portugal in non-refundable[1] funds.

GDP 6.4% / 5.5%	**INVESTMENT** 6.7% / 12.2%	**INFLATION** 0.6% / 2.0%
PRIVATE CONSUMPTION 6.8% / 4.3%	**EXPORTS** 20.5% / 7.6%	**UNEMPLOYMENT RATE** 8.0% / 6.7%

Source: Oxford Economics

(1) Projects that are expected to be approved by 2023 and executed by 2026.

OFFICES

GREATER LISBON

Activity in the office market was affected by the general suspension of decision-making processes, albeit mitigated by the completion of leases that were already in an advanced stage of negotiation, some of which of a very significant size.

Take-up in Greater Lisbon, between January and August, totalled 97,800 sq.m of office space, reflecting a 28% drop compared to the same period last year, when the market reached the historical high of 136,000 sq.m. With more than 60 deals, the average leased area was 1,550 sq.m, the highest value on record. With the gradual recovery of activity, expectations for the end of the year indicate a 20-25% decrease in occupancy rates compared to 2019, i.e. a total take-up of around 150,000 sq.m.

At the same time, there is an active debate concerning the impact of the remote working in the sector, which hitherto was not very widespread in Portugal. An extension of the workplace to several physical spaces is now expected, with an increase in hotdesking and common areas in the workplace, which will vary in accordance with the occupants' sector of activity. Thus, and given the reduction of latent demand in view of the current economic environment, we foresee a slowdown in absorption levels.

97,800 SQM
TAKE-UP

1,550 SQM
AVERAGE DEAL SIZE

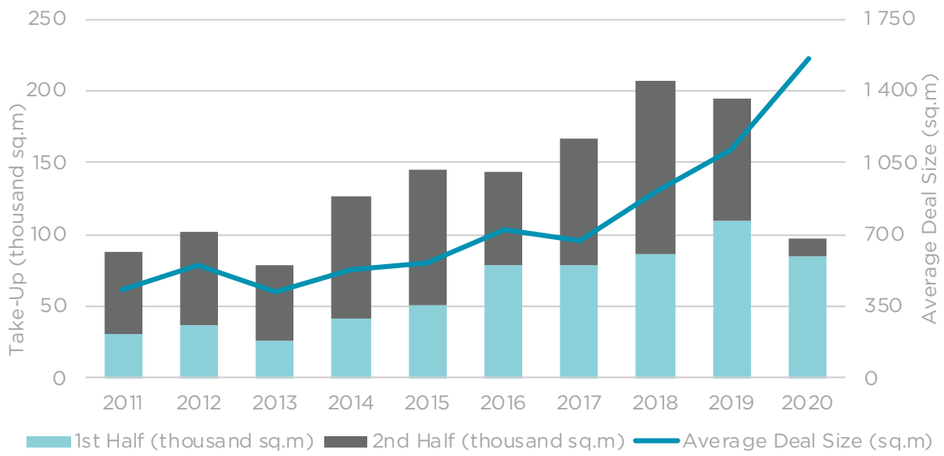
18,300 SQM
NEW COMPLETIONS

4.2%
VACANCY RATE

229,300 SQM
UNDER CONSTRUCTION

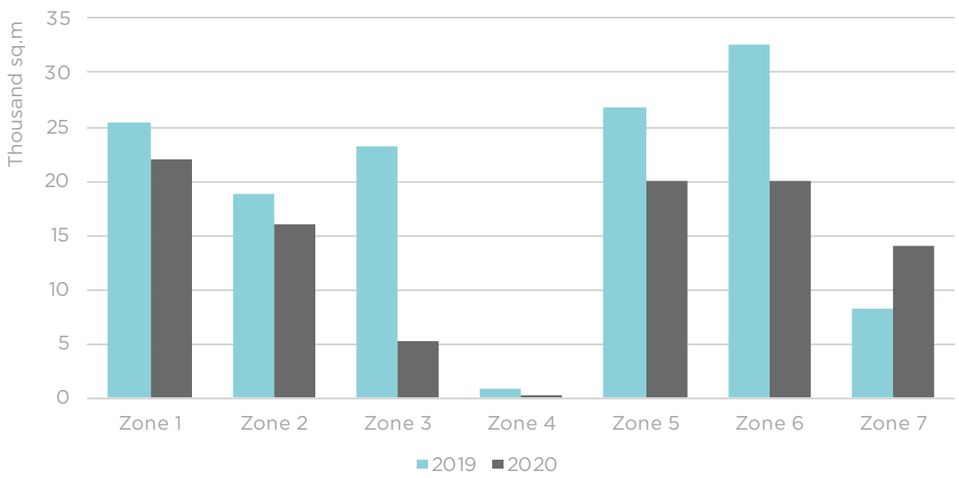
Source: Cushman & Wakefield; LPI

TAKE-UP BY SEMESTER AND AVERAGE DEAL SIZE



Source: Cushman & Wakefield; LPI

TAKE-UP BY ZONE[2]



Source: Cushman & Wakefield; LPI

Prime CBD (zone 1), with the pre-lease of 16,440 sq.m in the Monumental Building by Banco BPI, and the Western Corridor (zone 6), with the lease of 3 buildings, including the new 6,160 sq.m headquarters of Auchan , saw the largest volume of take-up, each accounting for more than 20% of the leased area in Greater Lisbon. Other Zones (zone 7) was the only zone to register an increase in demand thanks to the second-largest deal in the market this year - the purchase of the 10,400 sq.m Natura Towers by Cofidis for its future headquarters.

MAIN LEASE DEALS

TENANT	BUILDING	ZONE	AREA (SQM)
BPI	Monumental	1	16,440
Cofidis	Natura Towers	7	10,410
Webhelp	Mediterrâneo, 1	5	6,210
Randstad	Oriente, 343	5	6,160
Auchan	Auchan	6	6,160
Infosistema	Proletariado, 1	6	5,280
IdeiaHub	Defensores de Chaves, 4	2	4,580
Majorel	Explorer	5	3,740
BNP Paribas	Green Park	3	3,640
AGAP2	Sousa Martins, 10	2	3,220

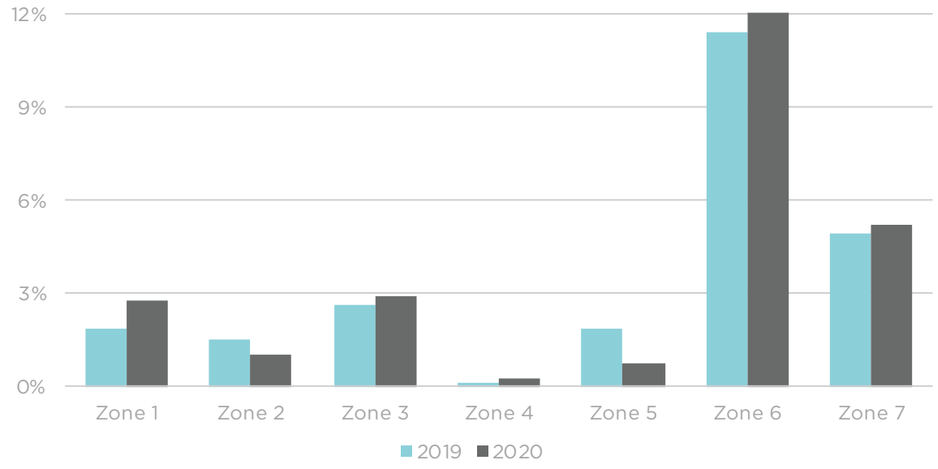
Source: Cushman & Wakefield; LPI

The shortage of quality supply and the granting of temporary incentives to tenants contributed to a slight increase in the vacancy rate to 4.2%. This was also influenced by the completion of new projects, with a total of 18,300 sq.m, half of which still have not been leased, such as the recently refurbished, 5,800 sq.m Eurolex building (Zone 1).

The amount of future supply is now likely to be adjusted downwards, particularly due to the potential postponement of some projects in the pipeline. Currently, 286,400 sq.m of new projects are expected to come into the market in the next three years, of which 229,300 sq.m are already under construction and are mostly speculative developments. With 35,100 sq.m, the third Torres Colombo tower in the New Office Zones (zone 3) is the largest building planned for the coming years. In Parque das Nações (zone 5), three projects under development will bring another 61,800 sq.m to the market.

[2] Between January and August.

VACANCY RATE BY ZONE



Fonte: Cushman & Wakefield

NEW COMPLETIONS

BUILDING	ZONE	DEVELOPER	AREA (SQM)
Auchan Headquarters	6	Auchan	6,000
Eurolex Buildings	1	Pontegadea	5,800
Alagoa Office & Retail Center - Buildings E2 e E3	6	PV County	6,500

Source: Cushman & Wakefield

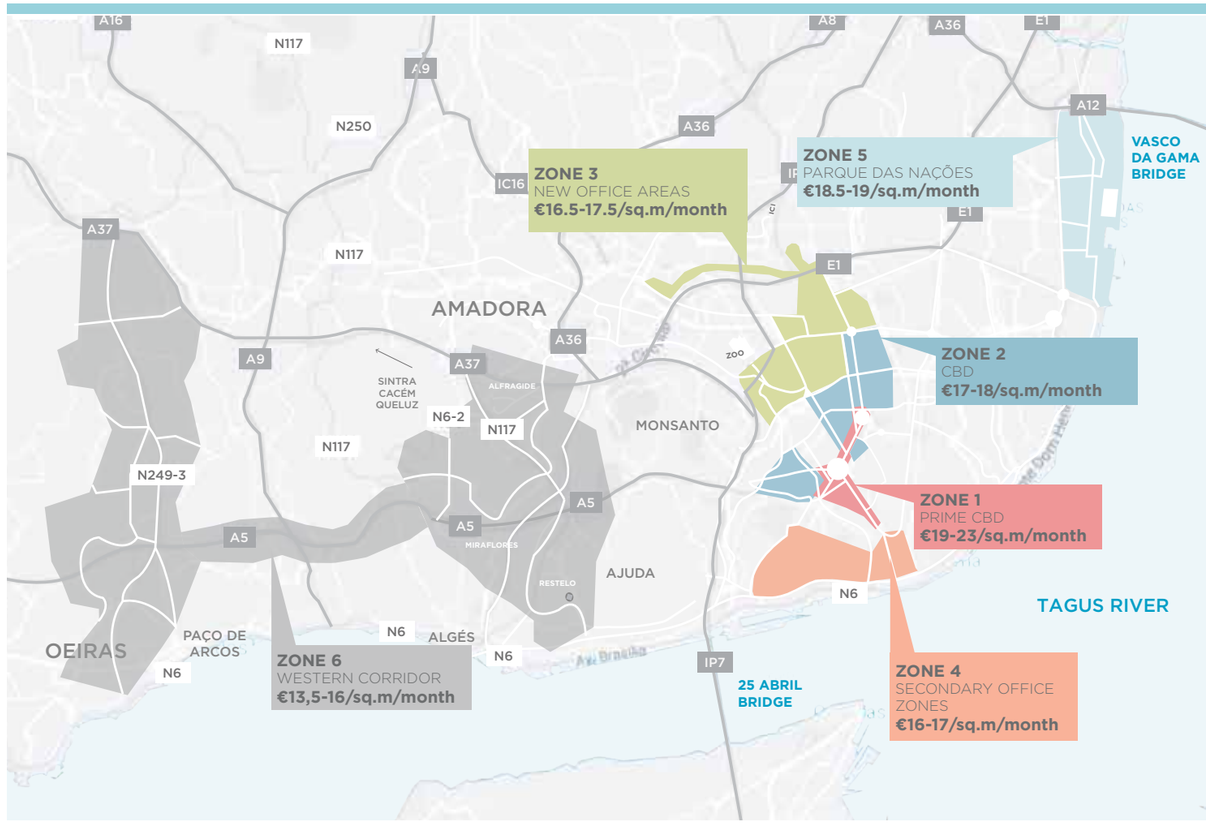
In the face of lower demand, landlords have been more inclined to provide additional incentives, particularly rent-free periods. Against this background, headline rental values have remained stable, with prime rent in Prime CBD (zone 1) standing at €23.0/sq.m/month. This trend is likely to continue until the end of the year, given landlords' preference to maintain gross rent, but granting increased incentives, and the current shortage of quality supply.

MAIN DEVELOPMENTS UNDER CONSTRUCTION

BUILDING	ZONE	CONSTRUCTION TYPE	DEVELOPER	EXPECTED COMPLETION DATE	AREA (SQM)
Hub Creativo do Beato	7	Refurbishment	CML / Startup Lisboa	2020	11,000
Miguel Bombarda 4	2	Refurbishment	Avignon	2020	7,200
Exeo Office Campus - Lumnia	5	New	Avenue	2021	29,700
World Trade Center Lisbon	6	New	Foz Vintage	2021	25,000
Monumental Building	1	Refurbishment	Merlin	2021	19,000
Ageas Headquarters	5	New	Elegant Office	2021	17,400
Nova Alcântara	4	New	Bedrock	2022	34,400
K- Tower	5	New	Krestlis	2022	14,800
Torres Colombo - Tower 3	3	New	Sonae / CBRE GI	2023	35,100

Source: Cushman & Wakefield

GREATER LISBON - AVERAGE AND PRIME RENTS



GREATER PORTO

Increased office leasing activity in Porto contributed to a rise in take-up between January and August by 40%, to 30,600 sq.m. With around 30 transactions, the average leased area stood at 1,100 sq.m.

Porto - Boavista (zone 1) commanded more than a third of the take-up, as well as the largest deal of the year, with Concentrix taking 5,900 sq.m in the recently completed Porto Office Park (POP). With two other leases, this development saw a total amount of take-up of 10,000 sq.m. The second largest deal in the market this year took place in Porto - Oriental (zone 3), with Sitel occupying 3,600 sq.m on Heroísmo 285.

30,600 SQM
TAKE-UP

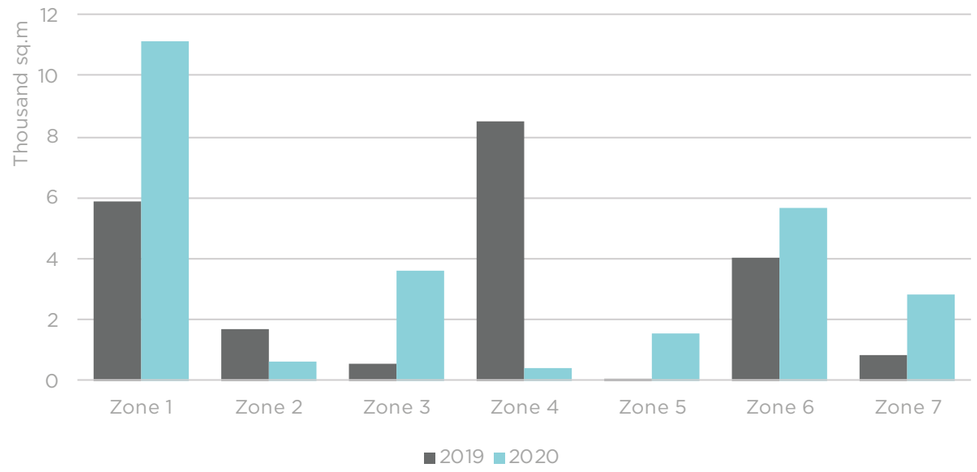
1,100 SQM
AVERAGE DEAL SIZE

51,000 SQM
NEW COMPLETIONS

41,200 SQM
UNDER CONSTRUCTION

Source: Cushman & Wakefield; PPI

TAKE-UP BY ZONE[3]



Source: Cushman & Wakefield; PPI

Responding to the demand for quality office space, the Greater Porto market has benefitted from the emergence of new projects. In 2020, four buildings with a total of 51,000 sq.m were completed, 80% of which pre-leased. Future supply for the next three years foresees the completion of 71,700 sq.m, of which 41,200 sq.m are under construction. **Notable examples are the 15,500 sq.m Porto Business Plaza by SDC Investimentos and Civilria's ICON Offices, of which the 7,800 sq.m building 2 will become Ageas' future headquarters in Porto.**

(3) Between January and August.

NEW COMPLETIONS

BUILDING	ZONE	DEVELOPER	AREA (SQM)
Porto Office Park	1	Grupo Violas	28,700
Palácio dos Correios	2	GFH	13,600
Heroísmo 285	2	Geo Investimentos	6,200
Mercadona Headquarters	7	Mercadona	2,500

Source: Cushman & Wakefield

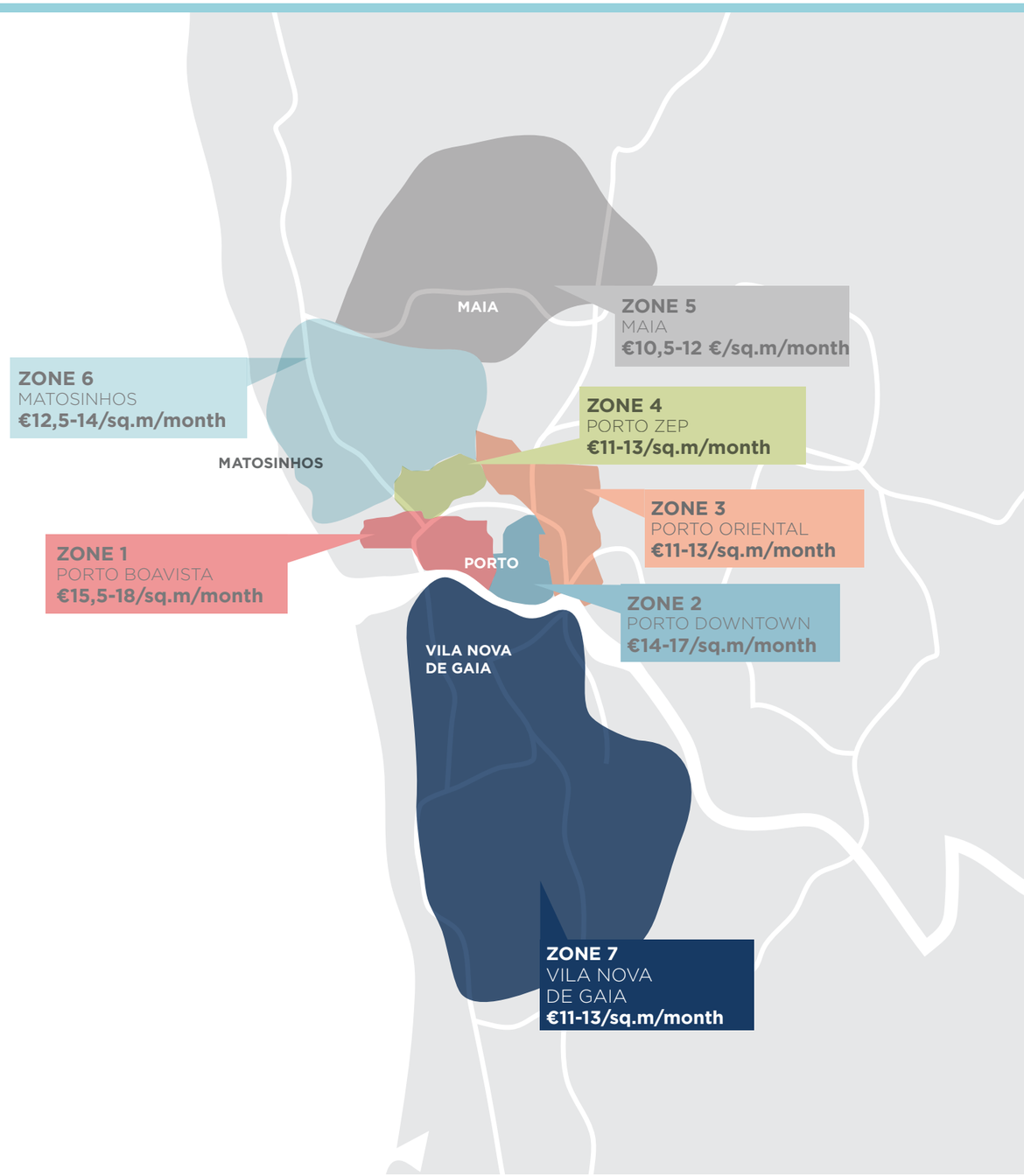
MAIN DEVELOPMENTS UNDER CONSTRUCTION

BUILDING	ZONE	DEVELOPER	EXPECTED COMPLETION DATE	AREA (SQM)
Nelson Quintas Project	4	Grupo Nelson Quintas	2020	3,300
Metropolis	6	The Edge Group	2020	3,200
Porto Business Plaza	3	SDC Investimentos	2021	15,500
ICON Offices 2	4	Civilria	2021	7,800
Latino Coelho 142	3	NIPA Capital	2021	3,900
ICON Offices 1	4	Civilria	2022	7,500

Source: Cushman & Wakefield

Porto's prime rents remained stable compared to 2019, with prime values in Porto - Boavista (zone 1) standing at €18/sq.m/month.

GREATER PORTO - AVERAGE AND PRIME RENTS



RETAIL

Retail sales published by the National Statistics Institute (INE) show the strong effect of the COVID-19 pandemic, recording a year-on-year drop of 3.9% between January and July. A sharp reduction between April (-19.4%) and May (-12.0%) contributed to the decline, which was exacerbated by a total fall of 10.0% in non-food retail, only in part compensated by the 2.3% growth in food retail.

In an increased effort to attract consumers, most retailers have invested in a more personalised omnichannel offer, with greater focus on e-commerce. This trend was accelerated by the confinement period and subsequent restrictions on retail, which had particularly adverse effects on tourism-dependent retail. Shopping centres were also affected by this situation, especially in the Metropolitan Area of Lisbon, where restrictions on opening times applied for longer. According to the Portuguese Association of Shopping Centres (APCC), during July, retail centres in this region recorded a year-on-year drop of 40% in sales and 47% in visitor numbers, compared with a reduction of 25% and 30% respectively in the rest of the country.

RETAIL SALES INDEX

-3.9%
TOTAL

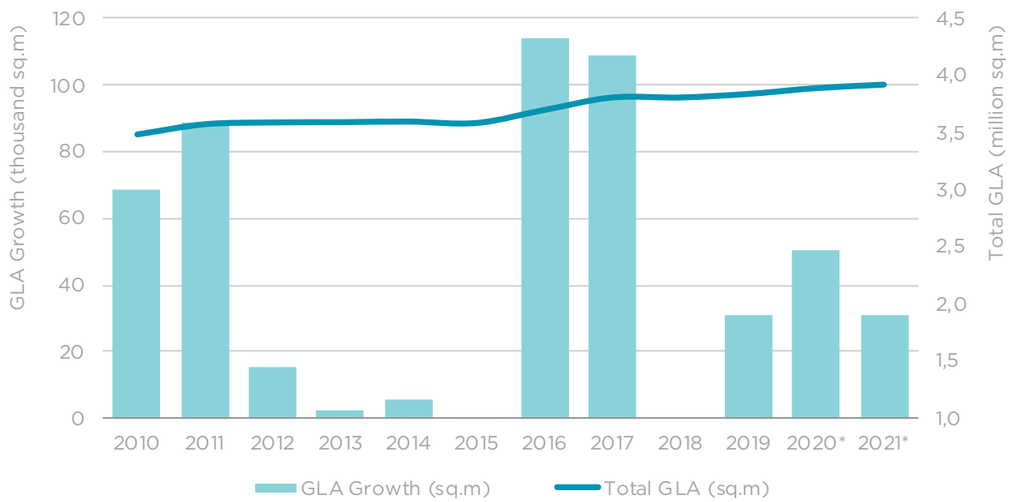
+2.3%
FOOD RETAIL

-10.0%
NON-FOOD RETAIL

Source: INE

SUPPLY OF RETAIL SCHEMES

The future supply of retail space in Portugal, estimated at 54,200 sq.m by 2023, reflects essentially an increased focus on the retail parks format combined with the modernisation of existing centres. **In 2020, Lisboa Retail Park opened to the public representing half of the projected volume of new supply. In terms of new supply of shopping centres, this is mainly limited to the current expansion of NorteShopping and Glicínias Plaza, and that of Centro Colombo foreseen for 2023.**



Source: Cushman & Wakefield

Between January and September, Cushman & Wakefield[4] registered only 300 new openings with a total area of 92,100 sq.m, representing a significant decline, of around 50%, compared to the previous year. **Even so, and reflecting the trend of the last few years, high street retail stood out, representing 73% of the number of deals, followed by shopping centres with 14%. The Food & Beverage (F&B) sector remained dominant, with 63% of new leases, followed by the Food sector with 13%.** Reflecting the increase in the spending on food, retailers in this sector were the most active this year. In the format of convenience stores, Coviran opened 8 supermarkets in the country, and Aldi and Mercadona continued their expansion, with 6 and 4 new openings, respectively.

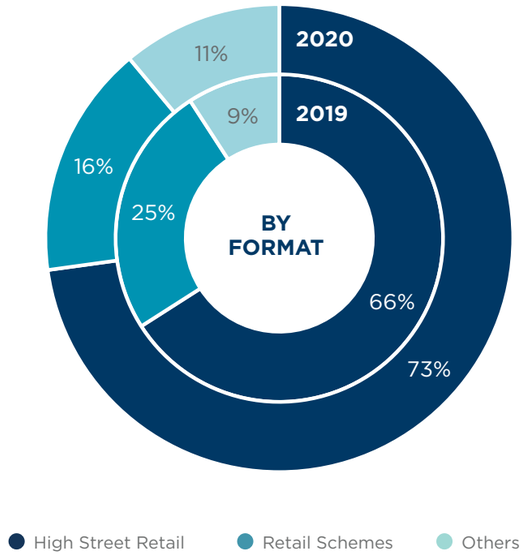
[4] A propriety database, held and permanently updated by Cushman and Wakefield of retail leases occurring in shopping centres and the main high streets of Portugal, based on public sources and targeted field work.

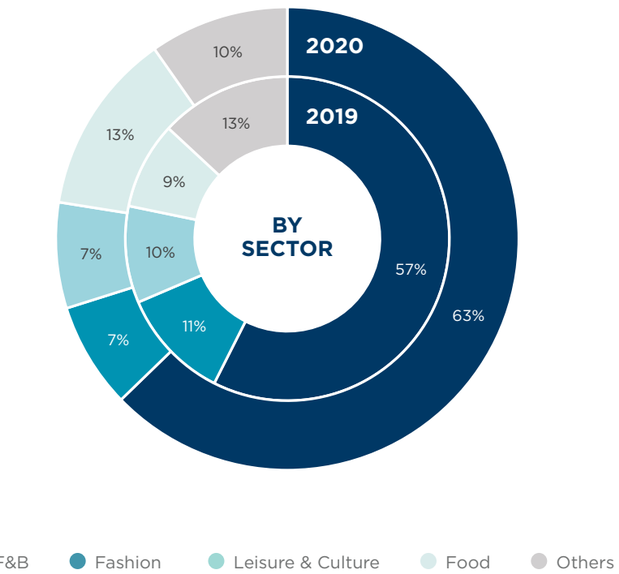
300
NEW OPENINGS

73%
HIGH STREET RETAIL

63%
F&B

TAKE-UP (NR. OF NEW OPENINGS[5]





Source: Cushman & Wakefield

[5] Between January and Setember.

LISBON

Half of the new shop openings in Portugal took place in the city of Lisbon, predominantly in the high street retail sector. A number of new international brand opened on Avenida da Liberdade, reinforcing its positioning in the luxury/premium sector - Dolce & Gabbana opened its flagship store in May, and more recently DSquared2, Golden Goose and Ba&sh entered the Portuguese market.

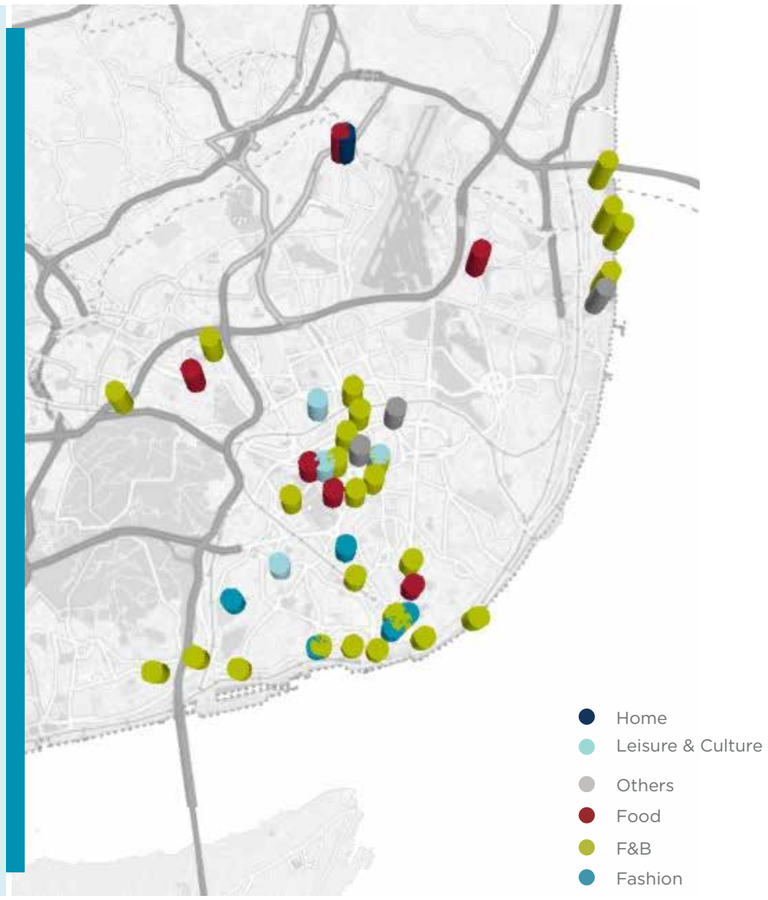
The emergence of supply outside the traditional locations in the city centre continued especially in the Avenidas Novas, with 20 openings.

Also among the most active retailers, Continente Bom Dia and Conforama opened in Lisboa Retail Park, with 5,500 sq.m and 6,000 sq.m, respectively, confirming the dynamics of the food and home decor sectors.

140
NEW OPENINGS

92%
HIGH STREET RETAIL

74%
F&B



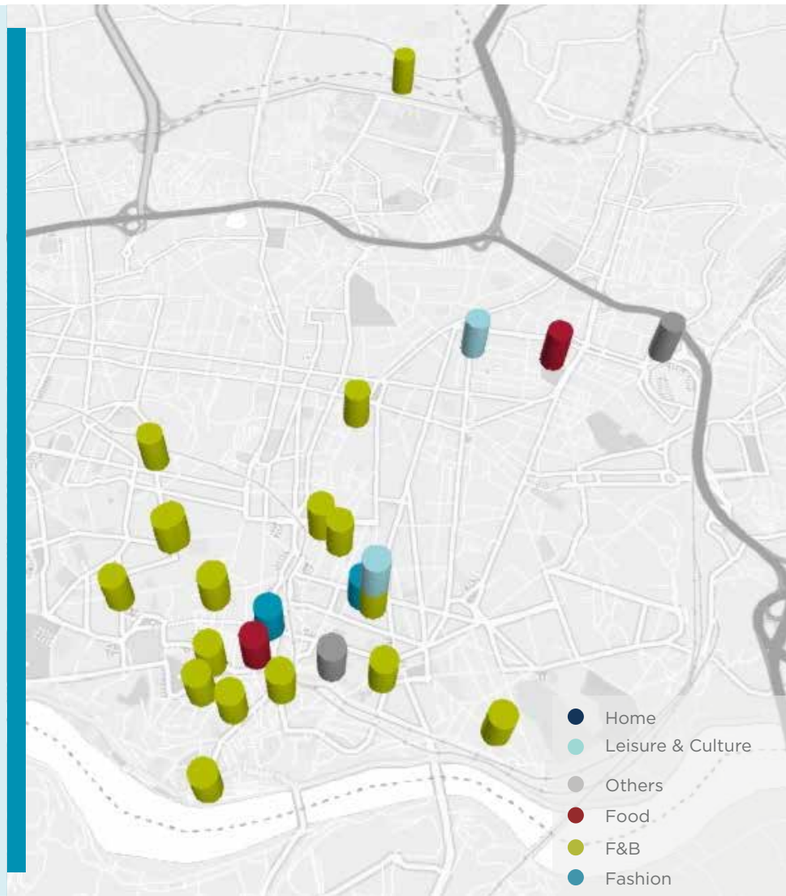
PORTO

The city of Porto recorded the second largest number of openings in Portugal, albeit with only 30 new stores. High street retail has maintained its appeal of recent years, commanding 86% of transactions. Baixa remains the most sought-after with 28% of the new supply. However, local and international operators, as well as investors are increasingly drawn to the attractive areas of Foz do Douro and Boavista.
The largest opening in the city took place in February, in a sector that was booming and is currently extremely affected by the health crisis: the Fitness Up gymnasium in Antas, with 2,000 sq.m.

30
NEW OPENINGS

86%
HIGH STREET RETAIL

69%
F&B



PRIME RENTS

Regarding market values, the sector has been strongly impacted by exceptional measures namely: moratorium on rent payments that, after being further extended, allowed retailers forced to close their stores to defer rent due up to September to be paid in instalments over 2021 and 2022; and the suspension of the payment of fixed rents in shopping centres until the year-end, with tenants only required to pay turnover rent and common charges.

Even so, some landlords have been able to agree repayment plans directly with their tenants, and for new contracts, provide incentives, namely rent-free periods and/or fit-out contributions. As a result, headline rents have remained stable, with prime rent in the high street standing at €130/sq.m/month in Lisbon (Chiado) and €75 sq.m/month in Porto (Baixa).

In retail schemes, prime reference values in shopping centres remained at €105/sq.m/month, with retail parks registering a slight upward adjustment of 5% at the beginning of the year, to €11/sq.m/month.

FORMAT	LOCATION	PRIME RENTS (€/SQM/MONTH)
High Street Retail	**Lisbon** Chiado	€130.0
	Lisbon Baixa	€120.0
	Lisbon Av. Liberdade	€95.0
	Porto Baixa	€75.0
	Porto Av. Aliados	€55.0
	Porto Clérigos	€45.0
Shopping Centres	**Portugal**	€105.0
Retail Parks	**Portugal**	€11.0

INDUSTRIAL & LOGISTICS

In the Industrial sector, the impact of the pandemic was also evident in its main economic indicators, with the most recent statistical data pointing nonetheless towards the beginning of a recovery. According to INE, in the year to June, the export and import of goods reflected a year-on-year decline of 17.1% and 19.7%, respectively. This downturn is expected to ease by the end of 2020, with forecasts by Oxford Economics predicting a 5.8% slowdown in exports and 8.0% in imports; less pessimistic than the estimates for the European Union (-9.3% and -9.2%, respectively), and particularly for the Eurozone (-10.6% and -11.8%). A recovery is expected in 2021, with Portugal showing a 3.1% and 8.7% increase in exports and imports, respectively.

Manufacturing industry indicators fell steeply from March onwards, but have been recovering over the last two months - between January and July, the Industrial Production Index[6] stood at 88.9, a drop of 13.9 compared to the same period last year, with end-of-year forecasts by Oxford Economics indicating a 9.8% downturn, in line with the European Union (-9.7%). Operators' confidence[7] reached its lowest historical value in June 2020 (-31.7) showing an upwards trend until August.

-5.8%
EXPORTS

94,800 M²
TAKE-UP

-8.0%
IMPORTS

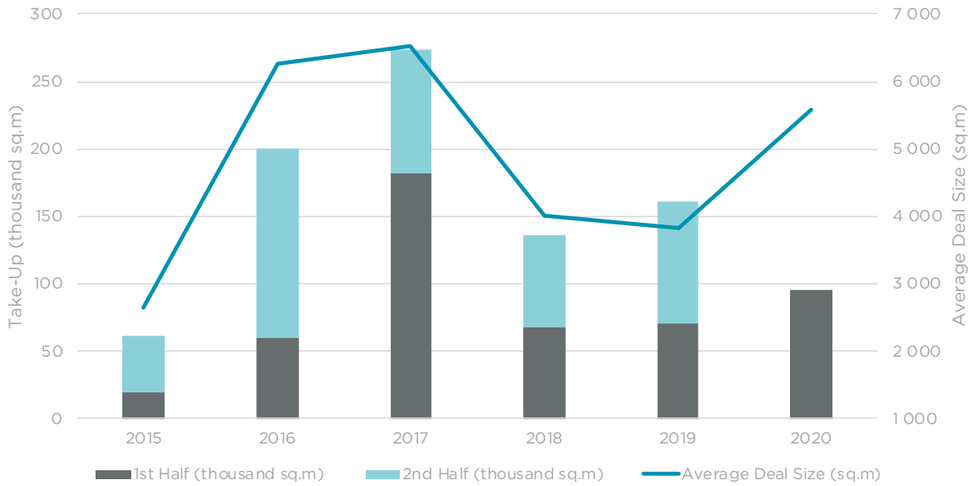
Source: Oxford Economics; Cushman & Wakefield; Pool consultores

(6) Data is adjusted to accommodate calendar and seasonal effects, at constant prices based on 2015.
(7) Data is adjusted to accommodate seasonality using 3-month moving averages.

Activity in the occupational market reflected the sector's increased resilience, with the first half of 2020 recording a pick-up in demand, with 94,800 sq.m of leased area, 33% more than in the same period last year. With close to 20 deals, the average leased area increased to 5,600 sq.m, to which a number of relevant-sized transactions contributed, including Hotelar's owner occupation of the 22,000 sq.m renovated Rio Vizela Spinning and Fabric Factory (Santo Tirso) and Hovione's occupancy of its new building in Loures with 11,400 sq.m.

The growth in e-commerce resulted in increasing demand for suitable logistics space, particularly in the metropolitan areas of Lisbon and Porto and last mile distribution platforms in the urban centres of these cities, which is even attracting new players to the market. Additionally, and following the trend in other countries, the supply of self-storage units is also growing.

TAKE-UP BY SEMESTER AND AVERAGE DEAL SIZE



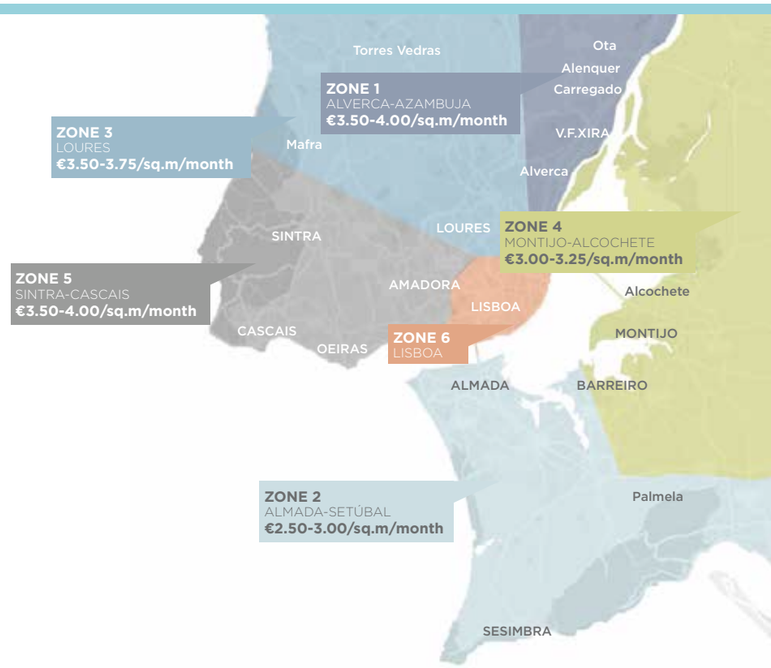
Source: Cushman & Wakefield; Pool consultores

Regarding future projects, the food distribution segment will continue to be active, exemplified by the opening of Lidl's new 48,000 sq.m warehouse in Santo Tirso Industrial Park, and the future 80,000 sq.m of ALDI logistics platform in Alhos Vedros (Moita). The current scarcity of quality supply will be addressed through the arrival of new speculative projects, such as Merlin Properties' Lisbon North Logistics Platform in Castanheira do Ribatejo, with a total area of 225,000 sq.m with the first 45,000 sq.m warehouse under construction for completion by 2021; as well as the 115,000 sq.m logistics project of Aquila Capital in Azambuja, Thanks to the good infrastructure links to Spain, areas such as Benavente and Montijo are also beginning to attract large occupiers.

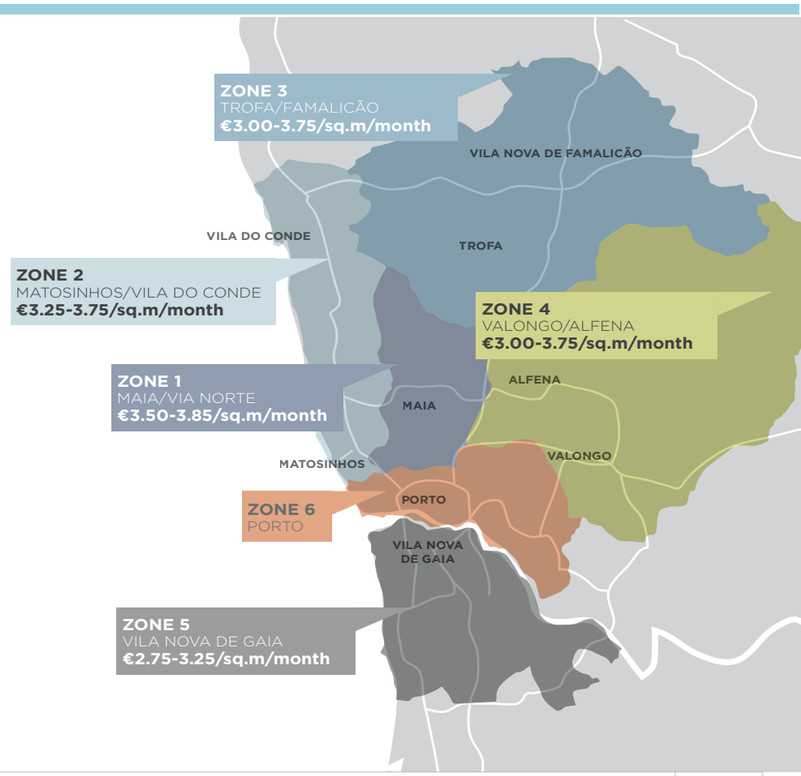
The industrial sector is also attracting major investors. These include the pharmaceutical company Hovione, which purchased a 40-hectare plot of land in Seixal to expand its activity; Generis Pharmaceutical, which will develop an 8.8-hectare plot of land in Rio Maior, where initially a drug packaging unit will be developed; and the manufacturer of Stelia Aerospace (Airbus group) structures, which is planning to install a 72,000 sq.m unit in Santo Tirso. Belgian developer VGP also plans to build the first industrial and logistical park in the country, VGP Park Santa Maria da Feira, with a total of 30,500 sq.m suitable for logistics, storage, retail, and light industry.

Within this context, prime rents for logistics supply remained stable, with Lisbon's Zone 1 (Alverca-Azambuja) standing at €4.00/sq.m/month and at €3.85/sq.m/month in Porto (Maia - Via Norte).

GREATER LISBON - AVERAGE AND PRIME RENTS



GREATER PORTO – AVERAGE AND PRIME RENTS



HOSPITALITY

The travel restrictions have severely affected the hospitality sector and exacerbated the negative impact of COVID-19 in the sector. Between January and July, the number of guests at hotels stood at 4.2 million and their overnight stays at 10.5 million, representing a drop of 65% and 68%, respectively. A large number of hotels closed voluntarily with tourist accommodation fully closed, or not registering any guests, reaching 81% in April, gradually reducing to 28% in July.

TOURISM INDICATORS[8]

4.2 M
(-65%)
TOURISTS

10.5 M
(-68%)
OVERNIGHT STAYS

€22.3
(-57%)
REVPAR

€596 M
(-71%)
TOTAL REVENUES

24,8%
(-38P.P.)
OCCUPANCY RATE

Source: INE; Turismo de Portugal

[8] Accumulated values between January and July.

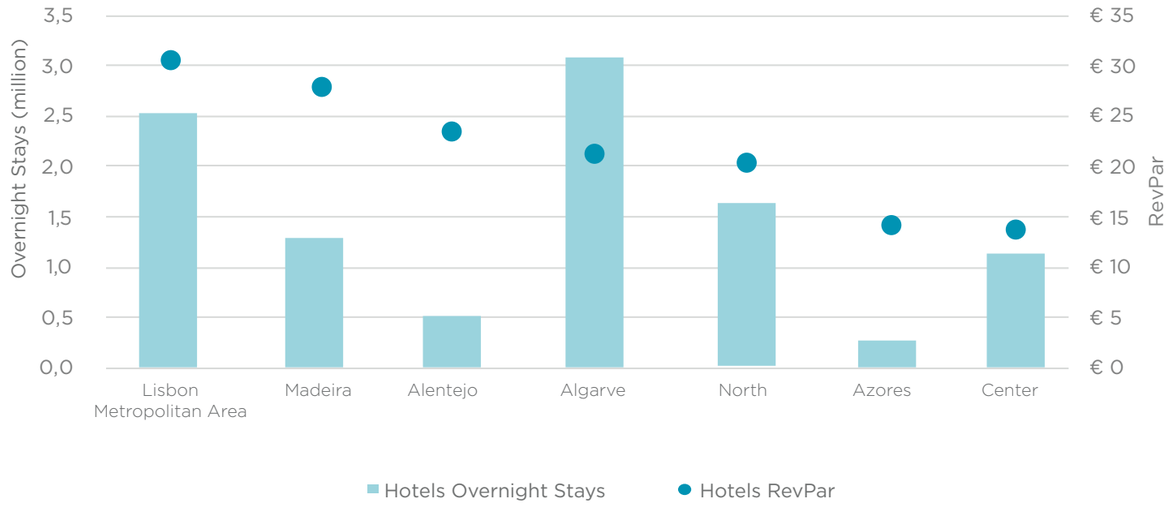
The greatest impact occurred in the Azores, with a decrease of 73% in guests and 75% in overnight stays, as a result of the heavy reliance on German and American tourists. The Algarve, which is highly dependent on tourism from the United Kingdom (which, with the exception of a short period in August, excluded Portugal from the air travel corridor that was implemented in July), saw a 70% drop in guests and 71% in overnight stays.

The hotel operations also registered a significant slowdown, around 71% in terms of total revenue and 57% in the Revenue per Available Room (RevPAR) until July 2020. The occupancy rate per room stood at 24.8%, reflecting a decrease of 38 percentage points (p.p.) compared to the previous year. The impact was more evident in the Lisbon Metropolitan Area, where a drop in the occupancy rate of 47 p.p. led to a reduction in RevPAR to €30.4.

Short Stay Accommodation showed a slightly less severe decline, around 60% in guests and 62% in overnight stays. In terms of operating results, total revenues decreased by 66% and RevPAR by 54%. Although visitors' preference for more isolated accommodation may have contributed to a higher resilience, there was also a considerable reduction in the properties on offer in this segment, which, in addition to the successive legal and tax restrictions, faces an uncertain future.

In terms of supply in the hotel sector, until September, 18 new hotels were opened in Portugal with around 1,390 rooms, the majority (41% of the rooms) corresponding to 4-star hotels. Among these are the Eurostars Aliados in Porto, the B&B Hotel Lisbon Airport in Loures and the Neya Porto Hotel in Porto. Additionally, several hotels that closed voluntarily took the opportunity to carry out renovation works during the lockdown period, in order to add value to their offer.

OVERNIGHT STAYS AND REVPAR BY REGION[9]



Source: INE; Turismo de Portugal

With respect to future projects, several situations have emerged: hotels that are almost complete, but strategically decided to postpone their opening; projects that were already underway and stuck to their planned opening dates; and some hotels still in the design or licensing phase with investment plans being reviewed.

Thus, despite estimates for new hotel in Portugal totalling 221 new projects and 18,150 rooms by the end of 2023, there is a high probability of a downwards revision, as the effects of the current pandemic are reflected in investment decisions.

[9] Accumulated values between January and July.

NEW OPENINGS

+18 HOTELS
OPENED IN 2020

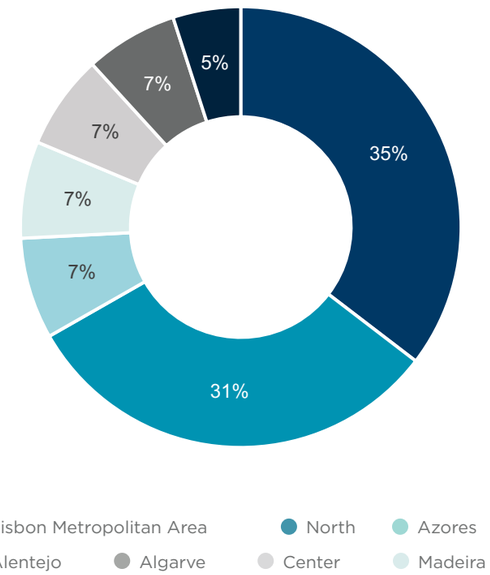
+1,390
NEW KEYS

MAIN OPENINGS 2020

HOTEL	OPERATOR	LOCATION	CATEGORY	KEYS
Eurostars Aliados	Eurostars Hotels	Porto	5 stars	300
B&B Hotel Lisbon Airport	B&B Hotels	Loures	3 stars	190
Neya Porto Hotel	Neya Hotels	Porto	4 stars	120
Holiday Inn Express Saldanha	InterContinental Hotels Group	Lisbon	3 stars	110
Holiday Inn Express Porto	InterContinental Hotels Group	Porto	3 stars	110
Vila Galé Serra da Estrela	Vila Galé	Manteigas	4 stars	90
Ibis Porto Centro Mercado do Bolhão	Accor	Porto	4 stars	90
BessaHotel Porto Baixa	Bessa Hotels	Porto	4 stars	80
Vila Galé Collection Alter Real	Vila Galé	Alter do Chão	4 stars	80
Stay Hotel Lisboa Chiado	Stay Hotels	Lisbon	4 stars	40

Source: Cushman & Wakefield

PIPELINE[10] BY REGION



Source: Cushman & Wakefield

[10] Next 3 years.
[11] Hotel establishments in the Lisbon Region; accumulated values between January and June.

LISBON

Continuing the trend of growing popularity, the city of Lisbon continued to receive the majority of tourists in 2020, arriving in Portugal by air. Even so, the decline in activity was very pronounced: with barely over 3 million passengers arriving at Humberto Delgado Airport between January and July, reflecting a decrease of 66% compared to 2019. Cruise ship tourism recorded an even more significant drop, with only 50 thousand passengers arriving in Lisbon by ship until July, a drop of around 81%, heightened by the arrival restrictions imposed at seaports and by tourists' perception of the increased risk of this particular segment of the tourist industry.

Only 6 hotel openings were seen in the country's capital this year, totalling 270 new rooms, the largest being the Holiday Inn Express Saldanha on Avenida João Crisóstomo with 105 rooms.

Additionally, a total of 47 new hotels with 4,480 rooms are expected by 2023, some of which may be postponed. These hotels are expected to be mostly 5-star hotels (37% of the advertised offer), as is the case of the 240 rooms Meliá Lisboa on Avenida Fontes Pereira de Melo with construction already underway; and the Hyatt Regency Lisbon in Belém with nearly 200 rooms, also under construction.

Given the difficulty of obtaining data, the Studies and Statistics Office of Turismo de Lisboa presents data less frequently and only for the Lisbon Region. This data shows a total RevPAR up to June this year of €34.6 per night and an occupancy rate of 40.1%, above the national average and the metropolitan area.

TOURISM INDICATORS[11]

40.1% (-34P.P.)
OCCUPANCY RATE

€34.6 (-57%)
REVPAR

Source: Studies and Statistics Office of Turismo de Lisboa

The purchase of hotels by operators reflects the attractiveness that the sector was registering, reaching €90 million to date, in line with last year's levels.

Among the main transactions are the purchase of the 5-star hotel The Lake Resort in Vilamoura by HI Partner and DER Touristik's purchase of the 3-unit Galo Hotel Resort in Madeira.

PORTO

Porto's performance was on a par to that of Lisbon, and between January and June, Francisco Sá Carneiro airport registered the arrival of 1.3 million passengers, reflecting a decrease of 64% compared to the same period in the previous year. Regarding cruise tourism, the reduction in the number of passengers was more pronounced, at 87% for only 6 thousand passengers.

7 new hotel openings were seen in the city of Porto throughout 2020, mostly 5-star (43%) and 4-star (40%) hotels. Among these, some prominent examples are the 5-star, 300 rooms Eurostars Aliados; and the 4-star Neya Porto Hotel with 120 rooms.

The estimated future supply for the city totals 21 new hotels with 2,250 rooms by 2023, yet the probability of completing all projects within this time frame is currently very low. Among the planned openings, the hotel with a congress centre promoted by IME on Rua do Heroísmo with 300 rooms stands out; in addition to The Student Hotel, which presents a mixed concept of long and short-term options in the city centre, offering a total of 300 rooms.

Until June 2020, the city presented an average RevPAR of €25.6 per night, after it decreased from €39.9 in January to only €6.6 in June, and an occupancy rate of 27.5%.

TOURISM INDICATORS[12]

27.5%
OCCUPANCY RATE

€25.6 (-65%)
REVPAR

Source: INE; Turismo de Portugal

[12] Hotel establishments in the city of Porto; accumulated values between January and June.

RESIDENTIAL

In the residential market, the impact of the pandemic accelerated the price adjustment which was already occurring since the end of last year, particularly at the top end of the market. The way Portugal initially faced the coronavirus outbreak reinforced the country's appeal - with Portugal leading this year's International Living's Annual Global Retirement Index and Forbes magazine considering the Algarve region the best place in the world to live and retire post-COVID-19 – maintaining the interest of international buyers, with deals taking place despite the considerable travel limitations. Finally, moratorium on credit agreements and mortgages implemented in April, and subsequently extended (until March 2021 and September 2020, respectively), have also contributed to stability in the sector.

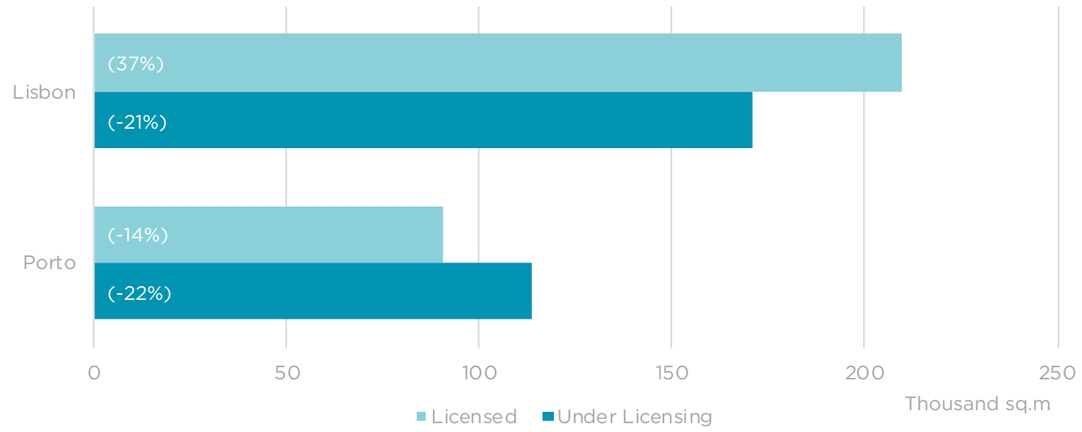
According to data from the Bank of Portugal, after a significant growth of 21% in the first quarter, the volume of new mortgages slowed down, with €6,273 million recorded between January and July, 6% above the same period of 2019.

SALE OF NEW APARTMENTS[13]

	LISBON	PORTO
AVERAGE PRICE	€6,010/SQM	€3,550/SQM
AVERAGE DISCOUNT RATE[11]	-2%	-3%
AVERAGE ABSORPTION TIME	8 MONTHS	7 MONTHS

Source: SIR Ci

RESIDENTIAL PROJECTS LICENSING[14]



(13) Annual accumulated values for the 2nd quarter of 2020.
(14) Percentage values correspond to the variation between January and May 2020 (licensed projects) and January and June 2020 (projects under licensing) compared with the same period in 2019.

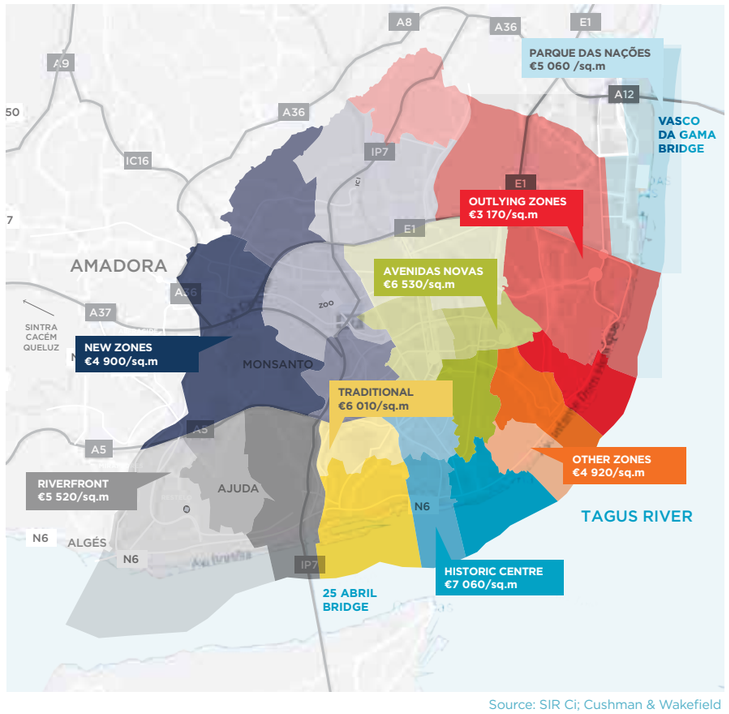
LISBON

According to information from Confidencial Imobiliário's Residential Information System (SIR), which monitors the annual accumulated value up to the second quarter of 2020, the sale prices of new apartments in Lisbon saw a year-on-year growth of 7%, standing at €6,010/sq.m. The Historic Centre remains the most expensive area, at €7,060/sq.m, followed by Avenidas Novas and the Traditional areas, commanding €6,530/sq.m and €6,010/sq.m, respectively. The most significant increase of 21% occurred in New Zones, reaching €4,900/sq.m, in contrast to the Ribeirinha (Riverfront) area, where there was a slight drop of 1% to €5,520/sq.m.

On the contrary, the average discount[15] in the last 12 months has remained stable at -2%, with the average time to sell indicating a shorter delay, by 2 months, to 8 months. In the case of the prices of new apartments for sale, the 3% adjustment to €6,710/sq.m reflects a reduction of the gap compared with closing prices (€6,010/sq.m), to 12%.

Regarding future supply, the licensing of residential projects in Lisbon followed a disparate trend, with projects obtaining planning permission between January and May increasing 37% compared to the same period of the previous year, due to the 67% increase in the average area per project to 1,790 sq.m; while projects submitted for licensing decreased by 21% between January and June, to 170,550 sq.m.

LISBON – SALE PRICES OF NEW APARTMENTS[16]



Source: SIR Ci; Cushman & Wakefield

- Historic Centre: Misericórdia, Santa Maria Maior e Santo António
- Avenidas Novas: Alvalade, Areeiro, Arroios e Avenidas Novas
- Riverfront: Ajuda, Alcântara e Belém
- Outlying Zones[17]: Beato, Marvila, Olivais e Santa Clara
- Traditional: Estrela e Campo de Ourique
- Other Zones: Penha de França e São Vicente
- New Zones: Benfica, Campolide, Carnide, Lumiar e São Domingois de Benfica
- Parque das Nações

(15) The difference between the final sales price and the last price offered for the building (i.e., as a result of the negotiation between the seller and the buyer).
(16) Annual accumulated values for the 2nd quarter of 2020.
(17) Latest data available: Annual accumulated value for the 3rd quarter of 2019.
(18) Annual accumulated values for the 2nd quarter of 2020.

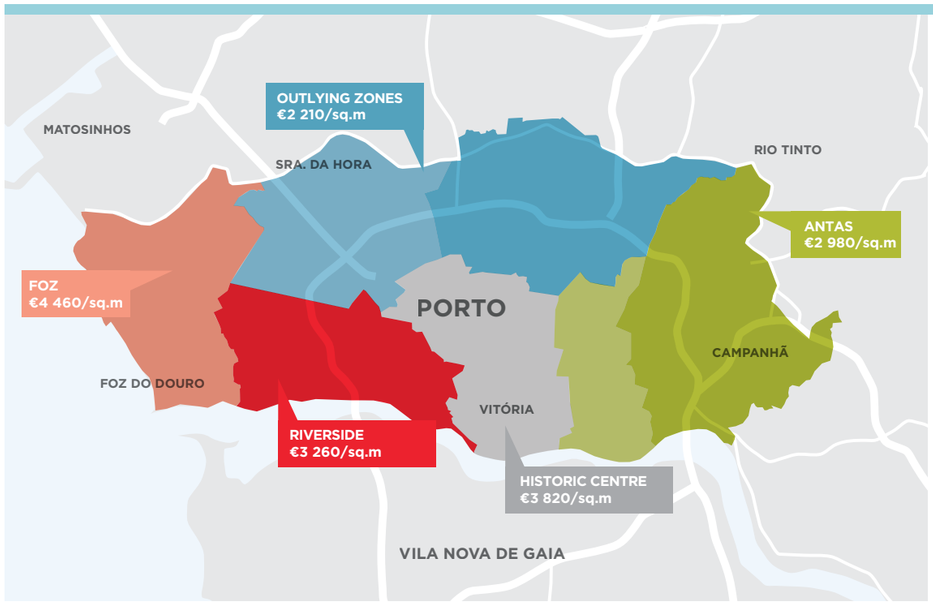
PORTO

In Porto, sales prices for new flats saw a higher increase than that seen in Lisbon, of 10% to €3,550/sq.m. The highest prices were again observed in the Foz area, reaching €4,460/sq.m, followed by the Historic Centre, where the highest growth was seen, of 15% to €3,820/sq.m. After a 26% drop, the Peripheral Zones have the lowest average price (€2,210/sq.m).

The average discount rate declined by 1 percentage point to -3% and the average time to sell decreased to 7 months. Asking prices increased by 8% to €3,870/sq.m, closing the gap to sales prices (€3,550/sq.m), thus reducing the differential between both indicators to 9%.

In terms of future supply, the licensing of residential projects in Porto has slowed down, with licensed projects reducing by 14%, despite the 44% increase in the average area per project to 840 sq.m. In contrast, projects submitted dropped 22% to 113,710 sq.m.

PORTO – SALE PRICES OF NEW APARTMENTS[18]



- Foz: Aldoar, Foz do Douro e Nevogilde
- Antas: Campanhã e Bonfim
- Riverfront: Lordelo do Ouro e Massarelos
- Outlying Zones: Paranhos e Ramalde
- Historic Centre: Cedofeita, Santo Ildefonso, Sé, Miragaia, São Nicolau e Vitória

Source: Cushman & Wakefield; SIR Ci

LEASE OF NEW APARTMENTS[19]

	LISBON	PORTO
AVERAGE CONTRACTED RENT	€17.6/SQM	€14.6/SQM
AVERAGE DISCOUNT RATE	-5%	-5%
AVERAGE ABSORPTION TIME	4 MONTHS	6 MONTHS

Source: SIR Ci

Over the past few months, the private rented sector (PRS) has gained particular relevance, not only from the point of view of the end user, but also as an investment product. The various legislative changes that aim to boost this segment have contributed to this, as well as local government initiatives such as those of Lisbon City Council, which recently launched the Renda Segura ("Safe Rent") Programme (whereby the city leases residential accommodation from private landlords to then sub-let as affordable rentals) in addition to the limitations introduced last year to the licensing of short stay accommodation. In this regard, the impact of the pandemic on occupation levels has also been dramatic, with a large number of units being redirected towards long-term leasing.

Although the occupation of second hand properties is still predominant, the volume of new buildings for sale increased up until the second quarter of 2020 in the two main cities of the country, with an impact on the average rents. According to SIR/Confidencial Imobiliário, the average rent adjusted by 4% to €17.6/sq.m/month in Lisbon and increased by 11% to €14.6 in Porto. In this segment, the discounts are slightly above those used in the sale (-5% in both cities); however, it should be noted that the average absorption time is lower, 4 months in Lisbon and 6 months in Porto, indicating higher demand compared to the existing supply.

[19] Annual accumulated values for the 2nd quarter of 2020.

URBAN DEVELOPMENT

Reflecting the market slowdown, the urban development and regeneration sector[20] recorded a year-on-year fall of 68% between January and August, with a total investment volume of €220 million spread over some 20 deals. In the development sector, the sale by Novo Banco of Herdade dos Pinheirinhos in Melides (Grândola) for €80 million to Vic Properties, which plans to invest €450 million in the relaunch of the project, is worth mentioning. The largest deal in an urban location was the €40 million sale by OptylonKrea of the Convento Corpus Christi in downtown Lisbon to Leonardo Royal Hotels' (Fattal Hotel Group) for conversion into a 4-star hotel.

According to data from SIR / Confidencial Imobiliário[21], the current situation has contributed to a softening in the year-on-year growth of property sales in the so-called Urban Rehabilitation Areas (URAs) of the country's two main cities, to a near double-digit increase in Lisbon and stability in Porto. Additionally, although the licensing of real estate projects in these cities depicted an uneven behaviour, there was an overall drop in the number of projects. This trend resulted not only from an increase in the planned area for social equipment and offices, but most notably for residential, to which developers' increased focus on the development of projects for the middle class is playing a role.

(20) Purchase of buildings for regeneration or land for development purposes.
(21) The data obtained results from the processing of transaction announcements carried out by the owners to the local authorities, in the context of the legal right of preference these institutions benefit from in their respective URAs.

MAIN URBAN DEVELOPMENT AND REGENERATION DEALS

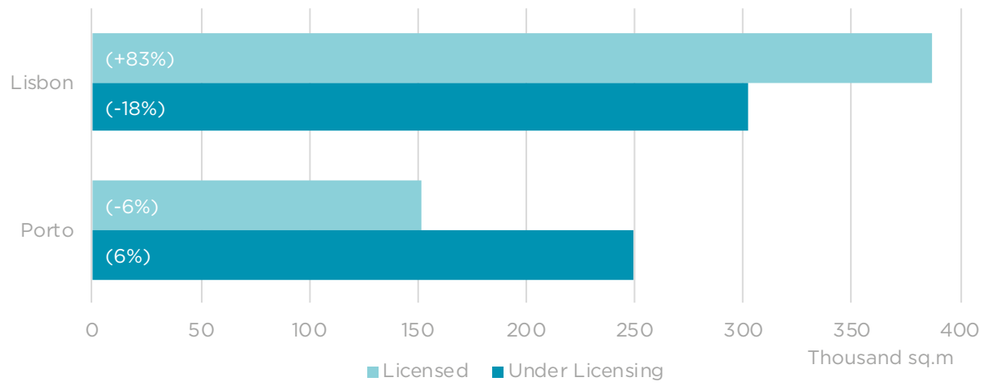
TYPE	ASSET	LOCATION	AREA (THOUSAND SQ.M)	VENDOR	PURCHASER	VALUE (M€)	VALUE (€/SQ.M)
Land	Herdade dos Pinheirinhos	Grândola	2,000,000	Novo Banco	VIC Properties	€80 M	€ 40
Building	Convento Corpus Christi	Lisbon	7,500	OptylonKrea	Leonardo Royal Hotels	€40 M	€ 5,333
Building	Praça Duque de Saldanha 32	Lisbon	6,300	Vision Real Estate Solutions	Belfinvest	€21 M	€ 3,365
Land	Lote no Espargal	Oeiras	21,000	Câmara Municipal de Oeiras	Confidencial	€14 M	€ 667
Building	Quinta do Lazareto	Almada	21,000	Sonangol	Reformosa	€13 M	€ 619

Source: Cushman & Wakefield

PROPERTIES SALE IN URBAN REHABILITATION AREAS[22]

Source: SIR RU Ci

REAL ESTATE PROJECTS LICENSING[23]



Source: Pipeline Imobiliário Ci

(22) Percentage values correspond to the variation between January and June 2020 compared with the same period in 2019.
(23) Percentage values correspond to the variation between January and May 2020 (licensed projects) and January and June 2020 (projects under licensing) compared with the same period in 2019.

LISBON

In Lisbon, the average transaction prices of properties in the URAs saw a higher annual increase of 13% for properties of up to 500 sq.m reaching €3,520/sq.m, compared to properties with more than 500 sq.m, which grew by 8%, to €3,150/sq.m. The highest prices in both types of assets occurred in the Historical Centre, commanding €4,350/sq.m for the smallest buildings and €3,840/sq.m for the largest buildings. The highest year-on-year growth of 28% in the first type of properties occurred in the Traditional Zone, reaching €3,570/sq.m, while in the case of the latter, it took place in Avenidas Novas, with a 17% increase, standing at €2,870/sq.m.

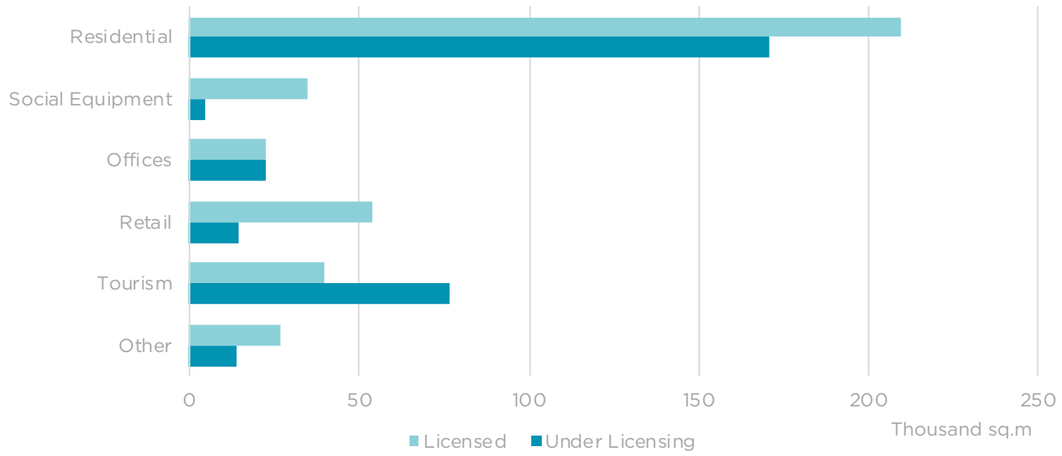
In terms of planning permission, even with a 17% fall in the number of projects, between January and May, a total of 387,000 sq.m was licensed, a growth of 83% compared to the previous year, doubling the average area per project to 2,730 sq.m. By contrast, the construction area foreseen in the projects in the licensing phase up to June reflected a year-on-year drop of 18%, to 302,000 sq.m. The residential segment continues to dominate the development and regeneration activity in the city of Lisbon and was responsible for 54% of the licensed area and 56% of the area submitted. Reflecting the sector's attractiveness over the past few years, tourism recorded significant growth in the period under review, adding 25% of the construction area under licensing.

Construction costs remained largely unchanged, with average prices in Lisbon ranging between €1,100/sq.m to more than €1,500/sq.m for new construction, increasing to between €1,300/sq.m and from €1,800/sq.m for regeneration projects.

PROPERTIES SALE IN URBAN REHABILITATION AREAS BY ZONE[24]

Source: SIR RU Ci

PROJECTS LICENSING BY SECTOR[25]



Source: Pipeline Imobiliário Ci

CONSTRUCTION COSTS BY SEGMENT

	NEW CONSTRUCTION	REFURBISHMENT
AVERAGE	€1,100/SQM	€1,300/SQM
HIGH	€1,250/SQM	€1,500/SQM
LUXURY	> €1,500/SQM	> €1,800/SQM

Source: Cushman & Wakefield

(24) Annual accumulated values for the 2nd quarter of 2020.
(25) Values between January and May 2020 (licensed projects) and January and June 2020 (projects under licensing).

PORTO

In the city of Porto, the average prices of buildings in URAs have remained stable, standing at €1,960/sq.m for buildings up to 500 sq.m and €2,060/sq.m for properties larger than 500 sq.m. Foz boasted the highest prices in both categories, at similar levels, namely €3,040/sq.m for smaller buildings and €3,050/sq.m for properties over 500 sq.m.

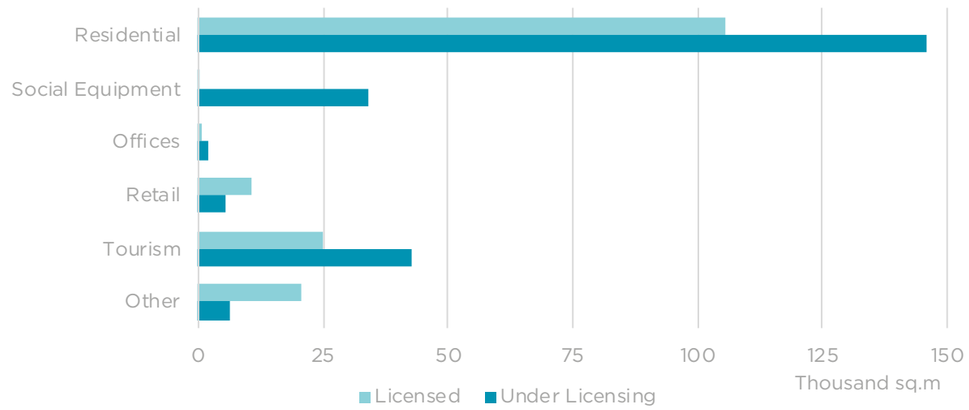
In terms of planning activity in Porto, during the period under review, there was an annual decrease of 6% in the volume of licensed area, to 152,000 sq.m, which combined with a 41% reduction in the number of projects, resulted in a 60% increase of the average area per project to 1,220 sq.m. On the contrary, projects submitted grew by 6% to 249,000 sq.m. Like in Lisbon, the residential sector is the most dynamic, representing 59% of the licensed construction area and 46% of the area under licensing. Use for tourism purposes is also relevant, with 28% of the area under licensing.

In Porto, an overall increase in construction costs was seen compared to 2019, ranging between €900/sq.m to more than €1.350/sq.m for new construction, and between €1.100/sq.m and from €1.650/sq.m for regeneration projects.

SALE OF PROPERTIES IN URBAN REHABILITATION AREAS BY ZONE[26]

Source: SIR RU Ci

PROJECTS LICENSING BY SECTOR[27]



Source: Pipeline Imobiliário Ci

CONSTRUCTION COSTS BY SEGMENT

	NEW CONSTRUCTION	REFURBISHMENT
AVERAGE	€900/SQM	€1,100/SQM
HIGH	€1,100/SQM	€1,350/SQM
LUXURY	> €1,350/SQM	> €1,650/SQM

Source: Cushman & Wakefield

(26) Annual accumulated values for the 2nd quarter of 2020.
(27) Values between January and May 2020 (licensed projects) and January and June 2020 (projects under licensing).

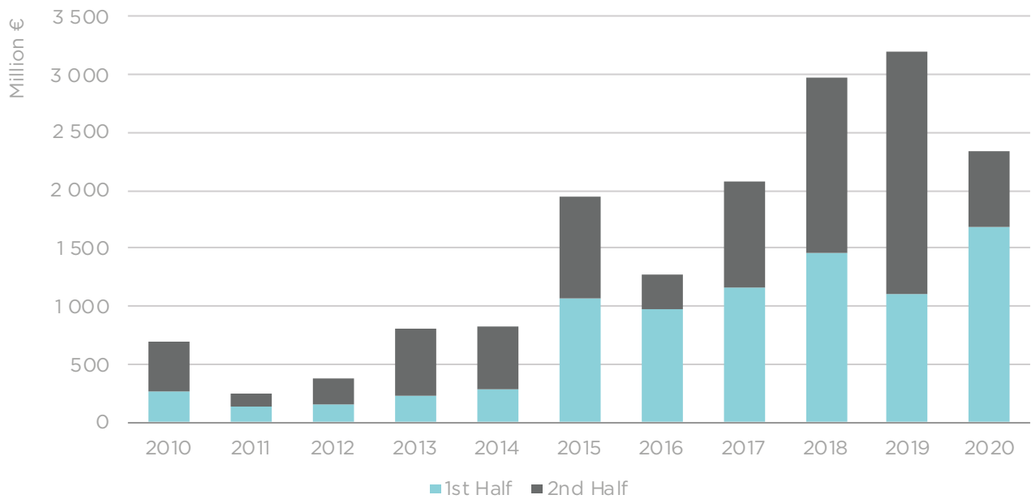
INVESTMENT

Despite the negative impact of the current situation on investment in income-producing real estate[28], between January and September of this year a new historical high transaction volume of €2,330 million was reached, an increase of 36% compared to the same period last year. This result was largely influenced by some large-scale deals in the first quarter, which contributed to a new record in the average amount per transaction, doubling from the previous year and now standing at €67 million.

The expected drop in net operating income (particularly in the most affected sectors of activity) and the increased risk aversion by banks to finance real estate transactions contributed to the slowdown in investment activity in the second quarter of the year, which showed an annual drop of 80%, with no more than €141 million transacted. However, this has been gradually recovering over the third quarter, with a focus on logistics and offices and on the core and core + segments. At the moment, estimates for total investment volume for the year-end stand at €2,700 million, a year-on-year drop of 15%, nevertheless the third historical high ever recorded in Portugal.

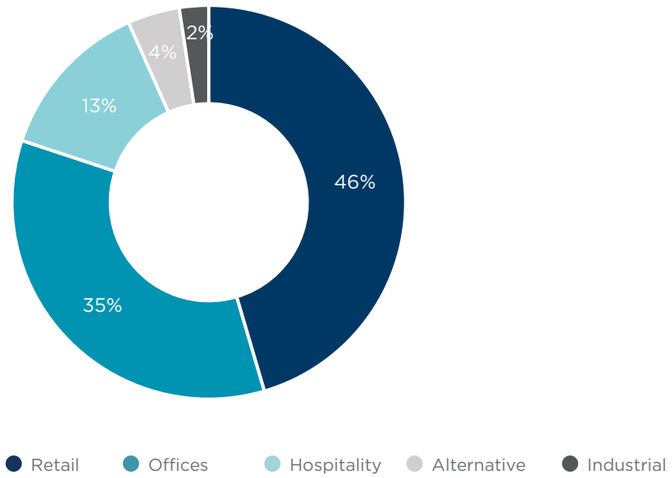
[28] Institutional investment in completed and income generating real estate properties.

COMMERCIAL INVESTMENT[15] BY ORIGIN



Source: Cushman & Wakefield

COMMERCIAL INVESTMENT[30] BY SECTOR



Source: Cushman & Wakefield

Domestic capital doubled the amount invested (€485 million) in the period under review, but foreign investors continued to dominate the real estate investment scene in Portugal and accounted for 80% of the total amount invested until the third quarter.

The largest deal ever to be recorded in Portugal was the purchase of 50% of Sierra Prime's joint venture by Allianz Real Estate and Elo from Sonae Sierra and APG, for around €800 million[29]; which contributed to the retail sector being most in demand, attracting 46% of the total amount invested, or €1,058 million. The office sector followed suit, with 35% of the total amount (around €810 million), with highlights being the sale of out-of-town business park Lagoas Park by Kildare Partners, after only two years of ownership, to Henderson Park Capital Partners for €421 million, and Finsolutia's sale of the PREOF portfolio to Cerberus for an estimated amount of €150-170 million. The hotel sector attracted 13% of the invested capital, around €310 million.

(29) The value of 4 assets in Portugal, out of a total of 6 shopping centres.
(30) Institutional investment in completed and income generating real estate properties.

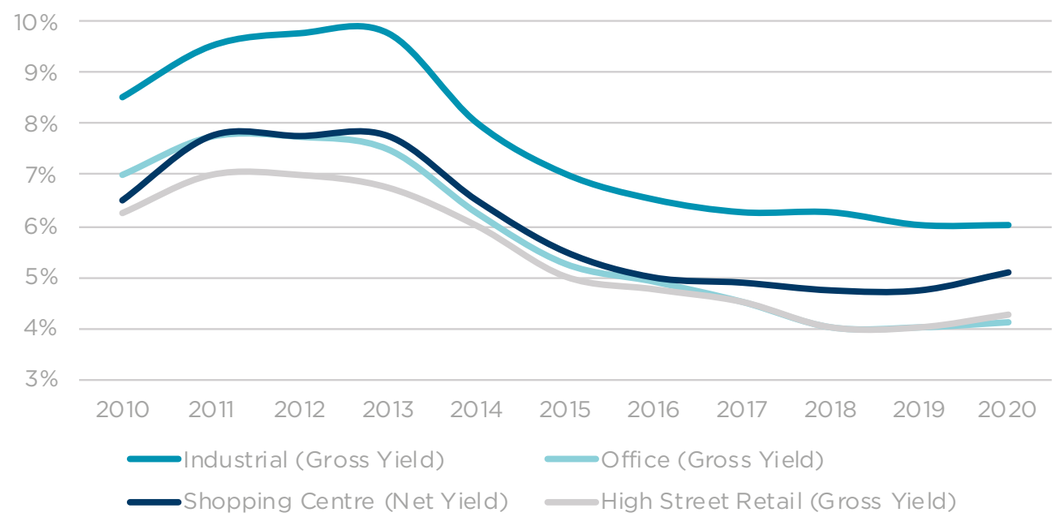
Prime yields adjusted slightly upwards from 2019 levels, namely to 4.10% for offices, 4.25% for high street retail and 5.10% for shopping centres, reflecting an increase of between 10 and 35% basis points. Given the increase in its appeal, the only exception was the logistics sector and, following a slight increase in the second quarter, the prime yield is currently at the same level as the beginning of the year, at 6.00%.

MAIN INVESTMENT DEALS

SECTOR	ASSET	LOCATION	AREA (SQ.M)	VENDOR	PURCHASER	PRICE (M€)	PRICE (€/SQ.M)	YIELD (%)
Retail	Sierra Prime Portfolio	Several	151,020	Sonae Sierra & APG	Allianz Real Estate & Elo	€800 M	€3,980	n.a.
Offices	Lagoas Park	Oeiras	112,500	Kildare Partners	Henderson Park Capital Partners	€421 M	€3,742	6.0%
Hospitality	Hotéis Real Portfolio	Several	1,384 keys	Bernardino Gomes Group	Palm Invest & Private Investor	€290-310 M	€216,760[31]	n.a.
Offices	PREOF Portfolio	Several	52,000	Finsolutia	Cerberus	€150-170 M	€3,270	n.a.
Retail	Leroy Merlin Portfolio	Several	33,000	Adeo	Batipart & Covea	€60-70 M	€1,970	n.a.
Offices	Natura Towers	Lisbon	11,000	MSF	Cofidis	€47 M	€4,230	n.a.
Mixed Use	Trindade Domus	Porto	15,630	Private Investor	Finangeste & Patron	€41 M	€2,590	n.a.
Retail	Forum Viseu	Viseu	15,765	Lighthouse	Square Asset Management	€40 M	€2,540	7.0-8.0%
Mixed Use	Campo Pequeno	Lisbon	7,000	SRUCP	Everything is New	€37 M	€5,290	n.a.
Retail	Sphere II Portfolio	Several	18,875	Sonae RP	ORES Portugal	€34 M	€1,800	n.a.

Source: Cushman & Wakefield
[31] €/key

PRIME YIELDS



Source: Cushman & Wakefield

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