CUSHMAN & WAKEFIELD

MARKETBEAT
PORTUGAL

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INDEX

ECONOMY

Moody's estimates a GDP growth of 6.2% for Portugal in 2022, the highest growth predicted in the European Union. This will be predominantly driven by exports (+14.7%) and fuelled further by a revival in the tourism sector. A recovery in private consumption remains on a par with 2021 (+4.5%), with a rise of 5.0% projected for this year. Investment activity increased (+3.2%), although with a slower trend when compared to the increase seen in 2021 (+7.9%).

ECONOMIC INDICATORS 2022

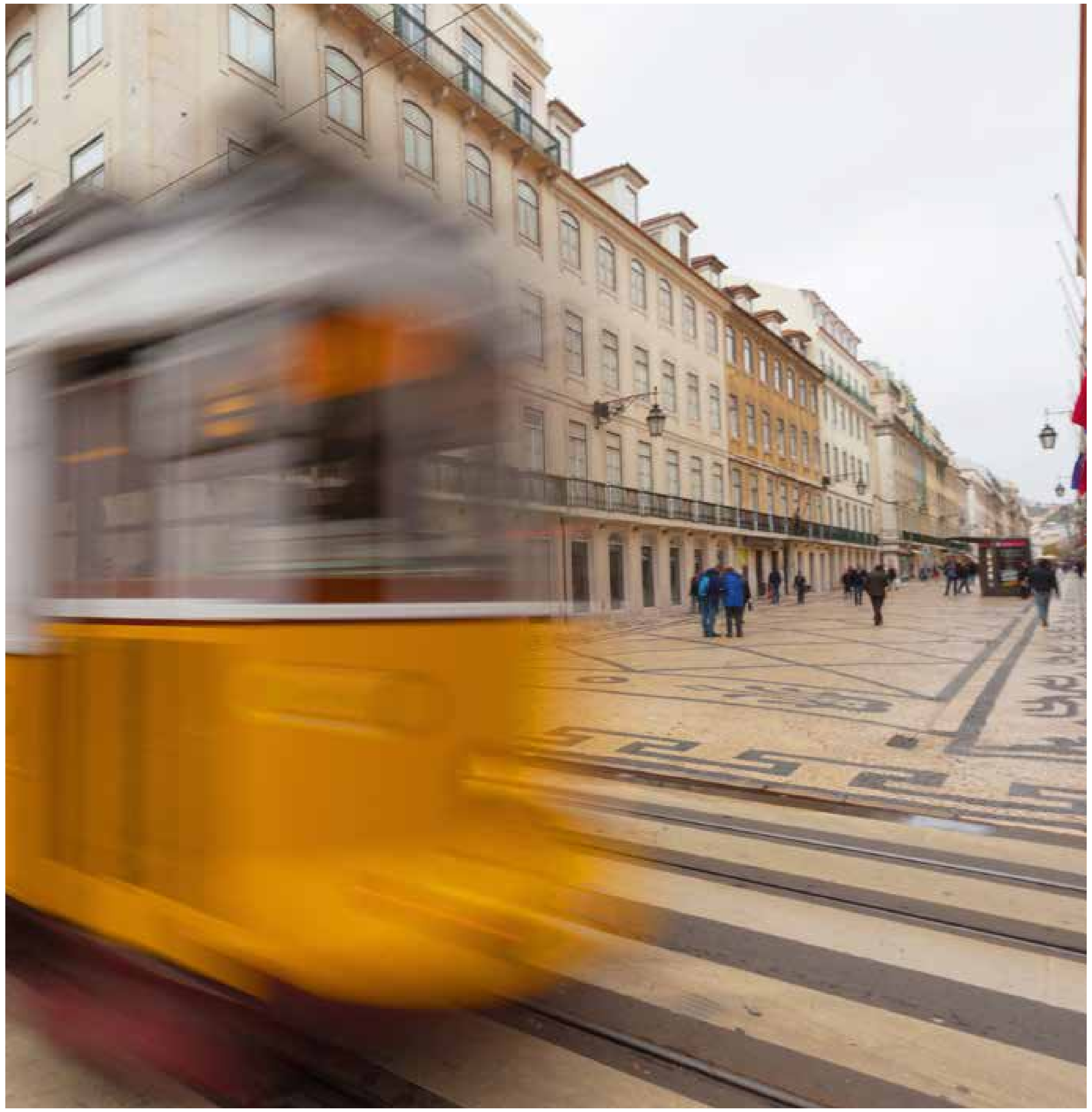
GDP 6.2%	**INVESTMENT** 3.2%	**INFLATION** 7.8%
PRIVATE CONSUMPTION 5.0%	**EXPORTS** 14.7%	**UNEMPLOYMENT RATE** 5.8%

Source: Moody's (September 2022)

ECONOMIC INDICATORS 2022

In line with the global outlook, inflation will be pushed to 7.8% in 2022, evident in rising prices across the board. Nevertheless, in spite of this upward trend, Portugal is still one of the countries in the Eurozone with the lowest inflation rate.

The labour market remains resilient, with Moody's forecasting an unemployment rate of 5.8% in 2022, a decrease of 0.8 percentage points (p.p) when compared to 2021 and also to 2019.



ECONOMIC FORECASTS 2023 / 2024

GPD
+1.2% / +2.4%

INVESTMENT
-0.3% / +3.8%

INFLATION
+4.5% / +1.2%

PRIVATE CONSUMPTION
+0.5% / +1.5%

EXPORTS
+2.3% / +2.0%

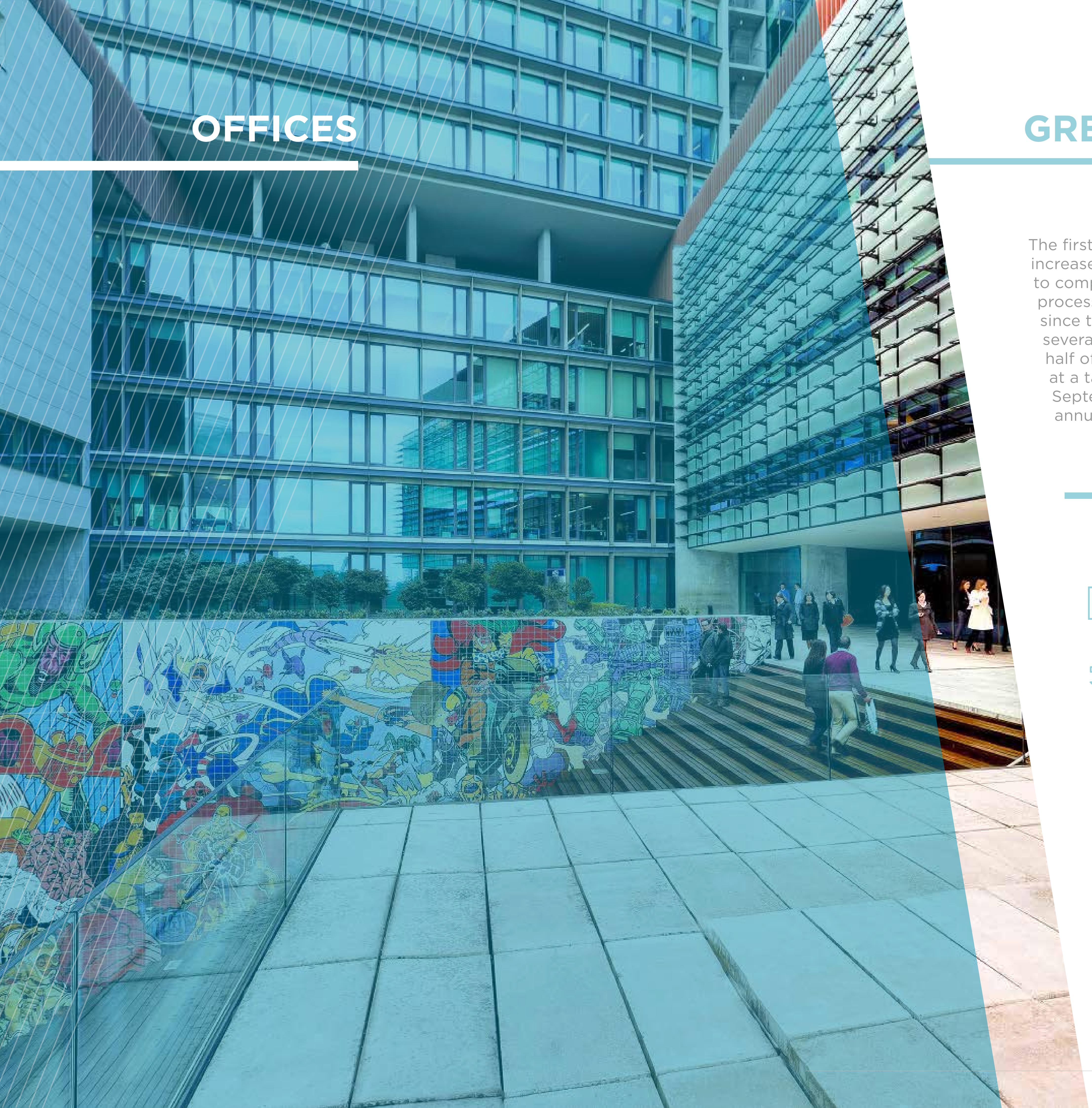
UNEMPLOYMENT RATE
5.8% / 5.7%

Source: Moody's (September 2022)

Against the backdrop of international conflict resulting from the war in Ukraine, which began in February this year, and its consequences, such as supply chains problems and a general rise in prices, short-term global economic forecasts are shrouded by great uncertainty and strongly determined by the course of the war. The latest published forecasts have revised downwards the indicators previously outlined for 2023.

As regards Portugal, following the most recent estimates by Moody's of a 6.2% increase in GDP this year, a slowdown to 1.2% is likely in 2023, as a result of lower growth in private consumption and a fall in investment (-0.3%), in addition to a decrease in exports. Despite the unpredictable nature of the current status quo, following the latest published forecasts, the most likely scenario is one of a moderate worldwide recession. Inflation rates are expected to abate to 4.5% in 2023 and 1.2% in 2024.

The labour market is likely to remain stable, with the unemployment rate predicted to stabilise at 5.8% in 2023, with a slight drop to 5.7% in 2024.



OFFICES

GREATER LISBON

The first half of 2022 was defined by a noticeable increase in activity, benefitting from a sense of pressure to complete deals pending in the decision-making process, particularly those that had been postponed since the beginning of the pandemic. Furthermore, several large one-off deals accounted for more than half of the volume of take-up in Greater Lisbon, which, at a take-up of 247,900 sq.m between January and September 2022, had already surpassed the 2021 annual value, reaching an all-time high.

247,900 sq.m (+209%)
TAKE-UP

1,530 sq.m (+75%)
AVERAGE DEAL SIZE

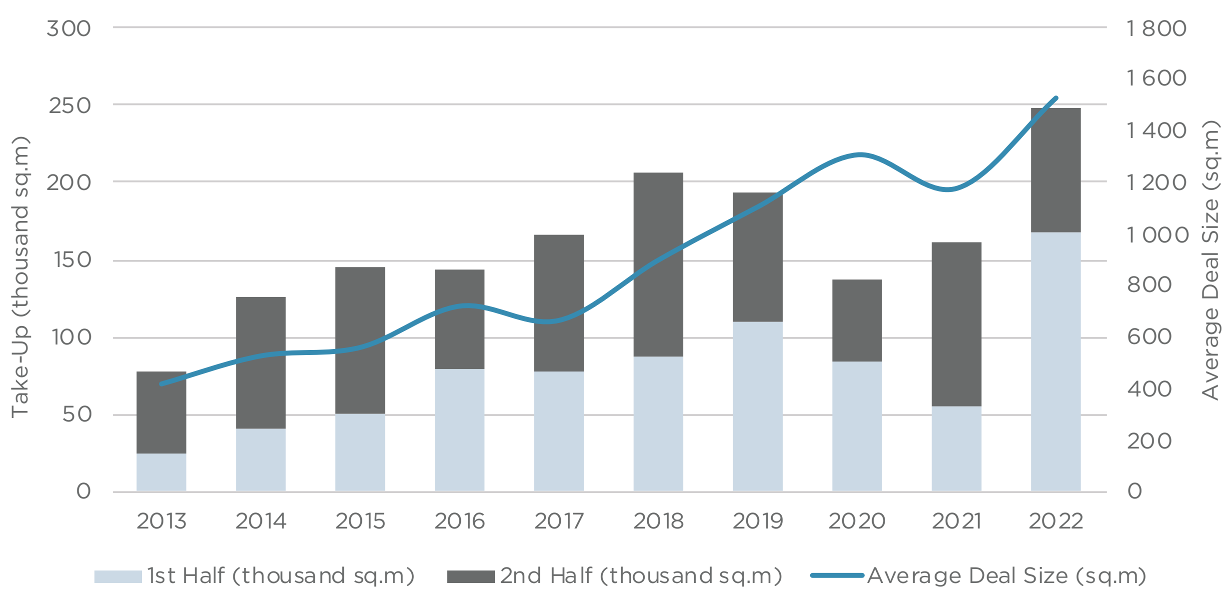
6.9% (+1 P.P.)
VACANCY RATE

66,700 sq.m
NEW COMPLETIONS

235,400 sq.m
UNDER CONSTRUCTION

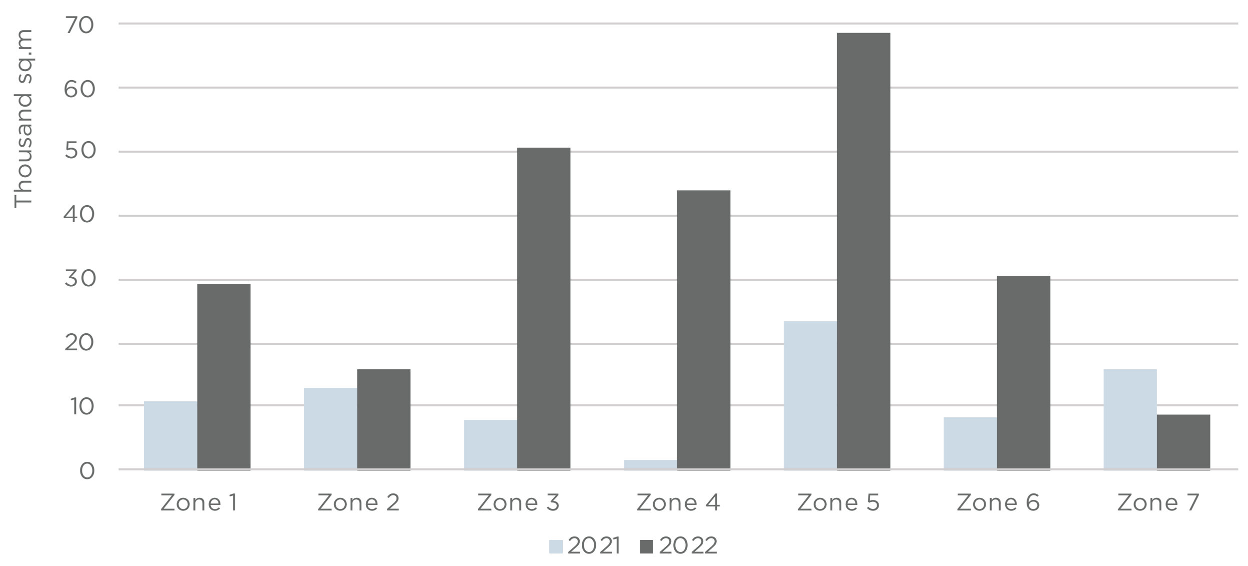
Source: Cushman & Wakefield; LPI

TAKE-UP BY SEMESTER AND AVERAGE DEAL SIZE



Source: Cushman & Wakefield; LPI

TAKE-UP BY ZONE



Source: Cushman & Wakefield; LPI

The largest deals recorded in the first half of the year regard to the future occupation of new corporate headquarters, notably Fidelidade new 28,000 sq.m HQ in Av. Álvaro Pais, and BNP Paribas's purchase of the Echo and Aura buildings of the Exeo Office Campus totalling 38,250 sq.m. Also noteworthy is the occupation of almost 18,000 sq.m of one of the blocks of the ALLO project under construction in Alcântara by a still confidential occupant. Additionally, the 11,400 sq.m extension of the EDP headquarters on Av. 24 de Julho is under construction; and Novo Banco is currently planning its relocation to Taguspark, where it is developing an additional 8,230 sq.m building for its future campus. Overall, the total volume of leased area was mainly concentrated in Parque das Nações (zone 5) and the new office areas (zone 3), representing 28% and 20%, respectively. The financial services sector was responsible for 36% of the total take-up.

MAIN TRANSACTIONS

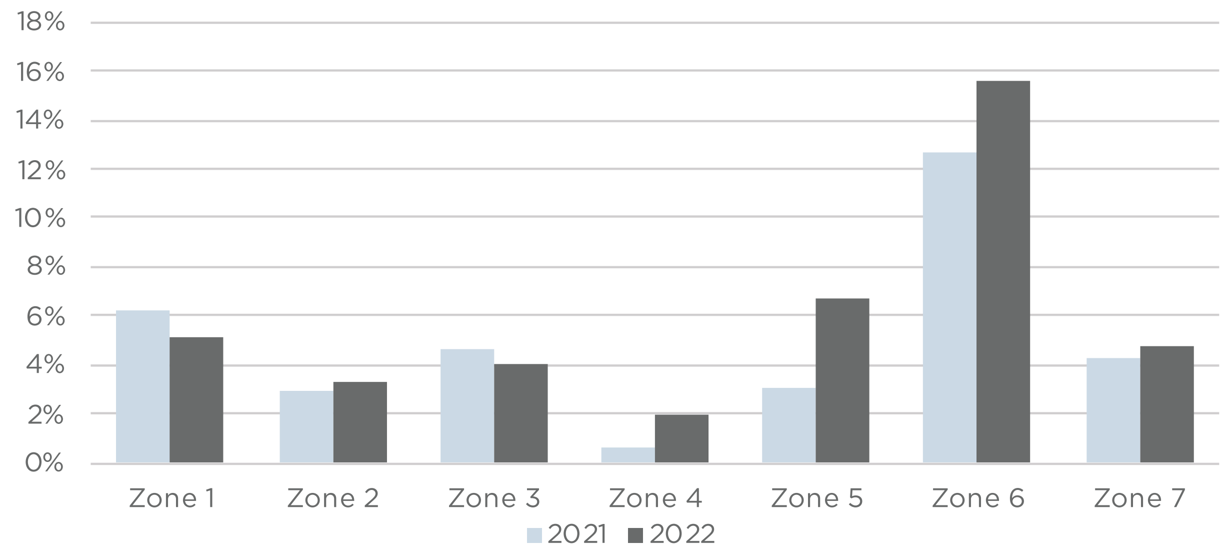
OCCUPIER	PROJECT	ZONE	AREA (sq.m)
Fidelidade	Fidelidade Headquarters – Av. Álvaro Pais	3	28,000
BNP Paribas	Exeo Office Campus - Echo	5	21,470
Confidential	Alcântara Lisbon Offices (ALLO) – Block 2	4	17,750
BNP Paribas	Exeo Office Campus - Aura	5	16,780
EDP	EDP 2 (expansion)	4	11,400
Confidential	Vodafone	5	9,860
Novo Banco	Taguspark - Novo Banco (expansion)	6	8,230
Ernst & Young	Alcântara Lisbon Offices (ALLO) – Block 1	4	7,840
WeWork	Alexandre Herculano, 50	1	5,810
Confidential	Alcântara Lisbon Offices (ALLO) – Block 1	4	5,570

Source: Cushman & Wakefield; LPI

Despite increased take-up, the vacancy rate has risen again, by 1 percentage point (p.p.), to 6.9%. This is in part due to vacancy in those buildings with future occupation guaranteed but where there are significant vacant areas remaining and therefore a partial decrease of this indicator is expected as construction of the respective projects is concluded. Other current vacancy may become structural as a result of reduced occupier interest in lower-quality buildings.

Demand for new, high-quality spaces corresponding to the current occupier's criteria is corroborated by the future supply for the next three years, which continues to increase, and currently stands at 496,700 sq.m, with 235,400 sq.m under construction, of which around 73% is already pre-leased (either through pre-lease or for owner-occupation).

VACANCY RATE BY ZONE



Source: Cushman & Wakefield

NEW COMPLETIONS

PROJECT	ZONE	CONSTRUCTION TYPE	DEVELOPER	AREA (sq.m)
Exeo Office Campus - Lumnia	5	New	Avenue	27,600
World Trade Center Lisbon	6	New	FVC	25,100
Beloura Business Campus	6	Refurbishment	The Edge Group / Fundo Ardma FCR	8,100
Duque de Palmela, 11	1	Refurbishment	Santalucía	4,400
Alegria One	1	Refurbishment	Eastbanc	1,500

Source: Cushman & Wakefield

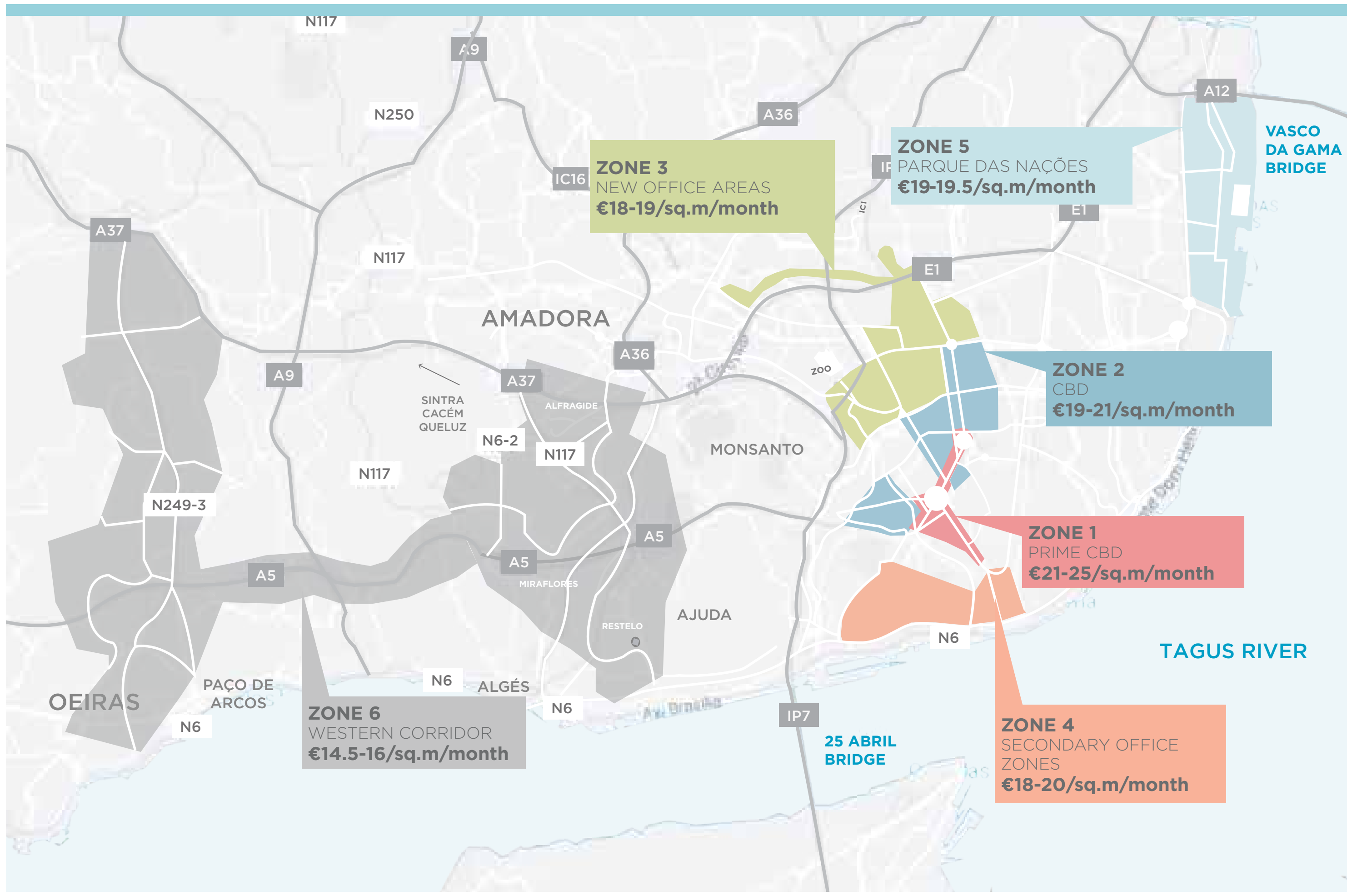
Higher demand, boosted by a shortage of quality supply and the completion of several new buildings, contributed to a rise in headline rental values in 2022. As such, prime rents in the Prime Central Business District (CBD, zone 1) reached €25/sq.m/month, with the Secondary office areas (zone 4) presenting the sharpest increase, of around 14%, to €20/sq.m/month.

MAIN PROJECTS UNDER CONSTRUCTION

PROJECT	ZONE	CONSTRUCTION TYPE	DEVELOPER	EXPECTED COMPLETION DATE	AREA (sq.m)
Alcântara Lisbon Offices (ALLO)	4	New	Bedrock Capital Partners	2022	34,400
Exeo Office Campus – Echo & Aura	5	New	Avenue	2023	38,300
Paços do Concelho	6	New	Oeiras City Hall	2023	30,500
K Tower	5	New	Krestlis	2023	13,700
EDP 2 Headquarters (expansion)	4	New	EDP	2023	11,400
Taguspark – Novo Banco (expansion)	6	New	Taguspark	2023	8,200
Fidelidade Headquarters – Av. Álvaro Pais	2	New	Fidelidade	2024	38,400

Source: Cushman & Wakefield

GREATER LISBON - AVERAGE AND PRIME RENTS



Source: Cushman & Wakefield

OFFICES

GREATER PORTO

Like the capital, the office sector in Greater Porto also saw a marked increase in take-up (+34%) between January and September 2022, when compared to the same period last year, of 45,200 sq.m. CBD Downtown (zone 2) and Matosinhos (zone 6) were the most sought-after areas, attracting about 67% of the total volume; with TMT's & Utilities dominating with more than half of the leased area. The largest deals recorded to date were the main contributors, namely Saltpay's lease of a total of 4,740 sq.m at Porto Business Plaza and the lease of 4,500 sq.m for coworking concept Spaces (IWG) at Joana D'Arc.

45,200 sq.m (+34%)
TAKE-UP

890 sq.m (+3%)
AVERAGE DEAL SIZE

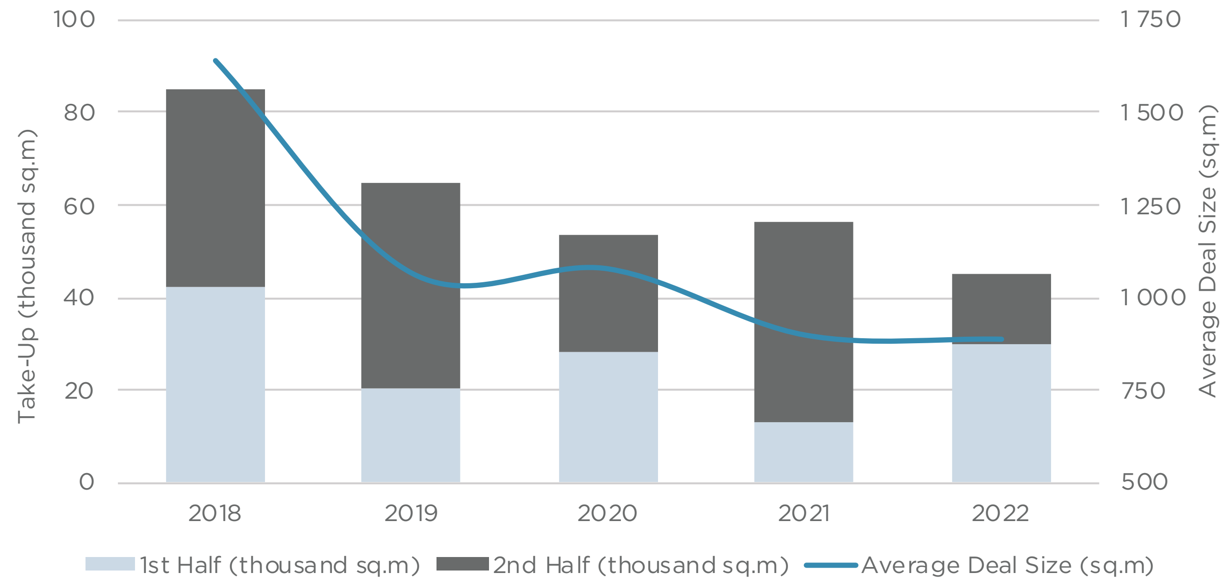
9.0% (+0.1 P.P.)
VACANCY RATE

39,400 sq.m
NEW COMPLETIONS

98,900 sq.m
UNDER CONSTRUCTION

Source: Cushman & Wakefield; PPI

TAKE-UP BY SEMESTER AND AVERAGE DEAL SIZE



Source: Cushman & Wakefield; PPI

MAIN TRANSACTIONS

OCCUPIER	PROJECT	ZONE	AREA (sq.m)
Saltpay	Porto Business Plaza - Phase 1	2	4,740
Spaces (IWG)	Joana D'Arc	6	4,500
Kantar	Matosinhos Sul	2	4,060
Fintru	Catarina 1232	2	2,820
Confidential	Braamcamp 119	2	1,920

Source: Cushman & Wakefield; PPI

The vacancy rate rose by only 0.1 p.p. to 9.0%, partly driven by the completion of five buildings with a total of 39,400 sq.m, of which 38% remain to be leased. By 2024, the completion of 126,100 sq.m is projected, of which 98,900 sq.m are under construction (with only 32% of this area already pre-leased).

Also in Porto, greater occupier activity and the quality of new buildings led to an increase in headline rents in most areas compared to 2021, although prime rental values in CBD Boavista (zone 1) remained stable at €18/sq.m/month.

NEW COMPLETIONS

PROJECT	ZONE	CONSTRUCTION TYPE	DEVELOPER	AREA (sq.m)
Porto Business Plaza - Phase 1	2	Refurbishment	Capitólio	15,300
Buildings X and W – Candal Park	8	Refurbishment	Candal Park	10,000
ICON Offices – Building 1	3	New	Civilria	7,800
Santa Catarina Offices	2	Refurbishment	Geo Investimentos	4,600
Porto Broadway Office – Building 2	6	Refurbishment	Familly Office	1,700

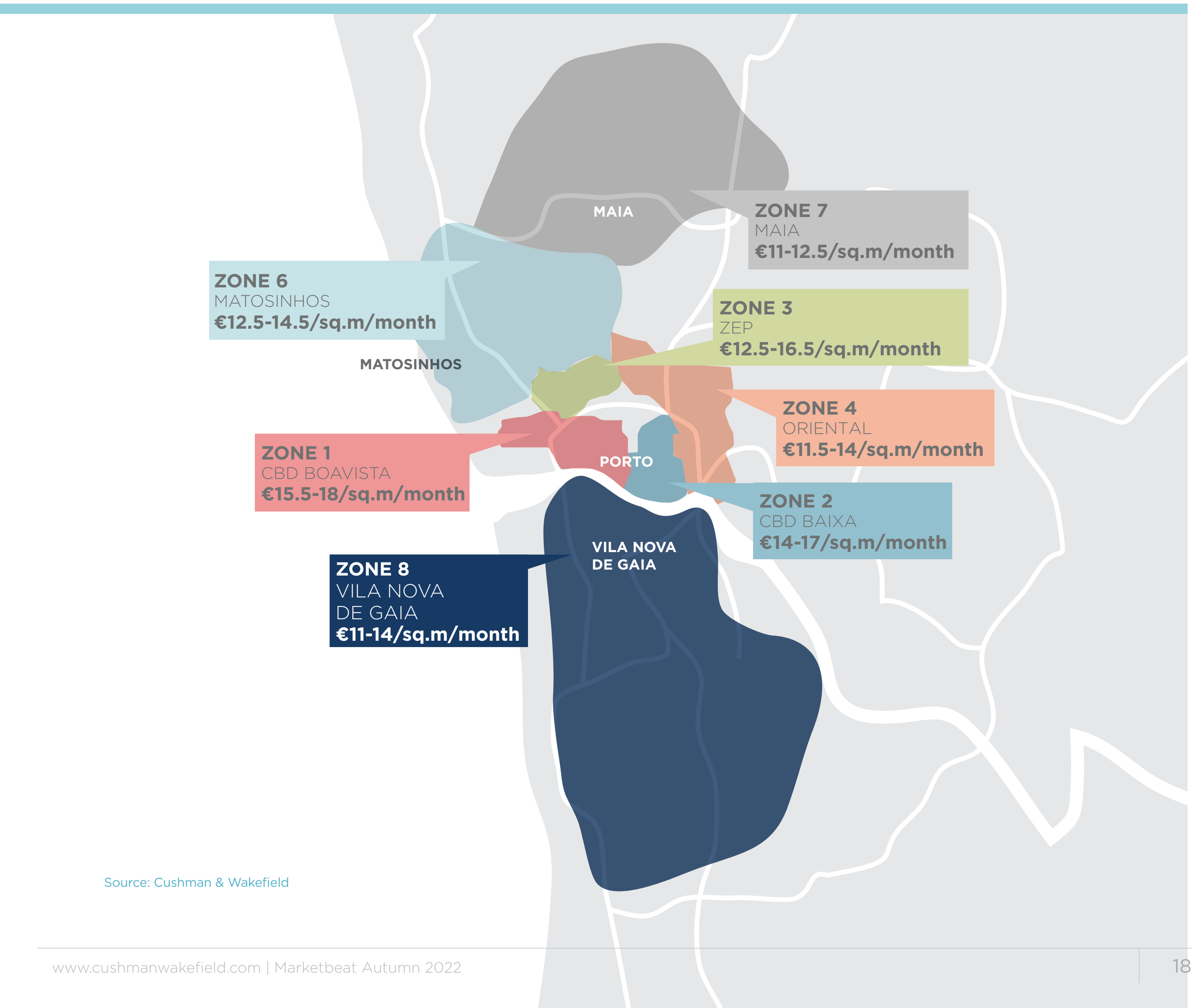
Source: Cushman & Wakefield

MAIN PROJECTS UNDER CONSTRUCTION

PROJECT	ZONE	CONSTRUCTION TYPE	DEVELOPER	EXPECTED COMPLETION DATE	AREA (sq.m)
ICON Offices - Building 2	3	New	Civilria	2022	13,400
Lionesa Business Hub - Building N2	6	New	Lionesa Group	2022	7,700
Noto Office Center	6	Refurbishment	IDS Group	2022	7,000
D. Manuel II	1	Refurbishment	Incus Capital	2023	11,500
Prime ZEP	3	New	GFH	2025	18,800

Source: Cushman & Wakefield

GREATER PORTO - AVERAGE AND PRIME RENTS



Source: Cushman & Wakefield

OUTLOOK

In Greater Lisbon, high volumes of demand recorded between January and September resulted in a new record take-up. Nonetheless, such a significant number of large deals is not expected to reoccur in the short term, and take-up is expected to stabilize to pre-pandemic levels in 2023. In Greater Porto the market will show more activity in 2022, leading to a new year-on-year increase, but it is expected to be followed by some stability in the short term.

Most companies have now adopted a hybrid working routine, employees are reconsidering the need for a daily commute to the office, and employers are trying to optimise the office space and make it more appealing. Increased demand has also arisen in response to improving the quality and sustainability criteria of the buildings, with some landlords adapting their projects accordingly.

This will also contribute to the rise in construction costs, coupled with a potential increase in the rental prices of new developments and the postponement of some projects planned in the medium term.

The impact from the conflict in Eastern Europe has been reduced, and on the positive side there are shared services and business process outsourcing providers who consider leasing space in Portugal rather than in that geographical region. Thus, the appeal of the Portuguese market among companies in the TMT's & Utilities sector has continued, with Porto, like Lisbon, increasingly competing with other European cities.

Carlos Oliveira
Partner | Head of Offices

RETAIL

Recovery from the pandemic has contributed to retail sales at the beginning of the year exceeding those of 2019, with a total year-on-year growth up to August of 8.6%, according to National Statistics Institute (INE). Despite the potential negative effect of the general increase in prices, non-food-related products were mainly responsible for this upward shift, with an increase of 18.7%, offsetting the 0.6% drop seen in food-related products.

RETAIL SALES INDEX[1]

127
(+8.6%)
TOTAL

117
(-0.6%)
FOOD RETAIL

139
(+18.7%)
NON-FOOD RETAIL

RETAIL SCHEMES

27,500 sq.m
NEW COMPLETIONS

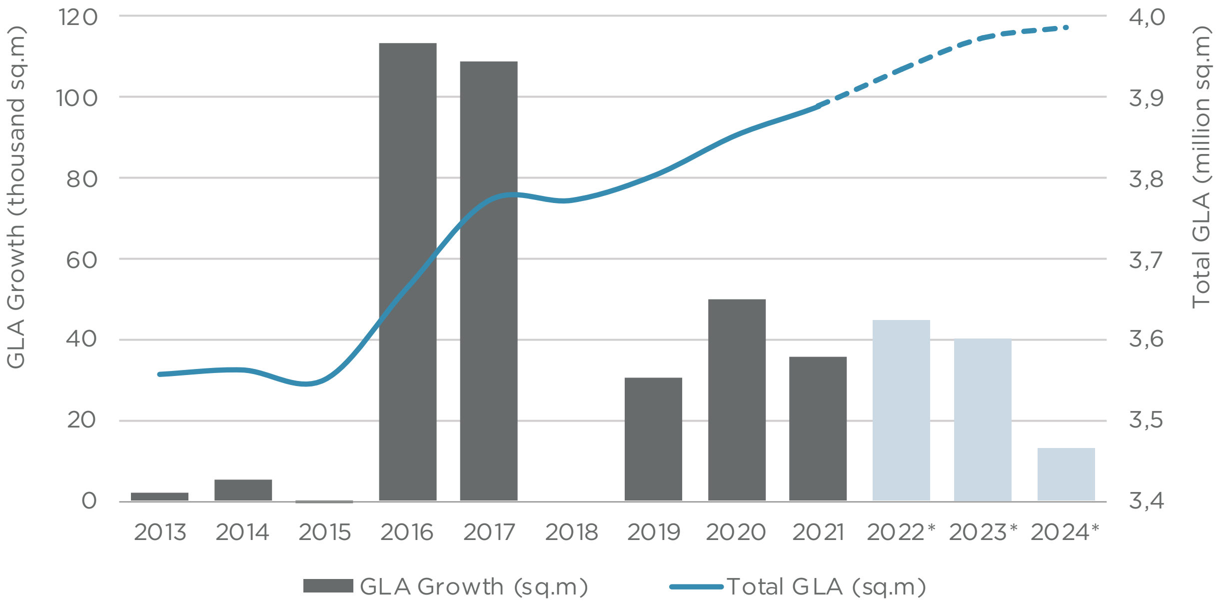
70,200 sq.m
PIPELINE[2]

(1) Index with base base 2015 = 100; accumulated values until August.
(2) Until 2024.

In retail development, the increased activity in the retail park segment continues, fuelled by retailers demand, including new brands, which prefer this format to enter the Portuguese market. By contrast, recovery in the shopping centre segment is not homogeneous, with a continued focus on repositioning of existing centres and/or implementation of new concepts, but the less resilient centres may undergo a change of use in the future.

During the first half of 2022, two retail parks were opened, namely the Sudoeste Retail Park (Silves) and the retail area of the Alagoa Office & Retail Center (Oeiras), with a total of 27,500 sq.m of GLA. By 2024, the completion of a further 70,200 sq.m of GLA is projected, of which more than 70% correspond to retail parks.

SUPPLY OF RETAIL SCHEMES



Source: Cushman & Wakefield
*Forecast

In the first half of 2022, in accordance with Cushman & Wakefield[3]'s proprietary transactions database, retail take-up showed a 10% decrease compared to the same period last year, with a total of 210 new openings, with an estimated area of 81,400 sq.m. The predominance of high street retail prevailed, with 64% of total new openings, followed by shopping centres with 21%. Large units remain popular among retailers, namely retail parks and stand-alone units, which together accounted for around 13%. The Food and Beverage (F&B) sector remained dominant, representing 45% of new openings, followed by the food sector with 20%, totalling 40 new stores. The "others" sector, which includes furniture, decoration and DIY, recorded a year-on-year increase of more than 50% in the first half of the year.

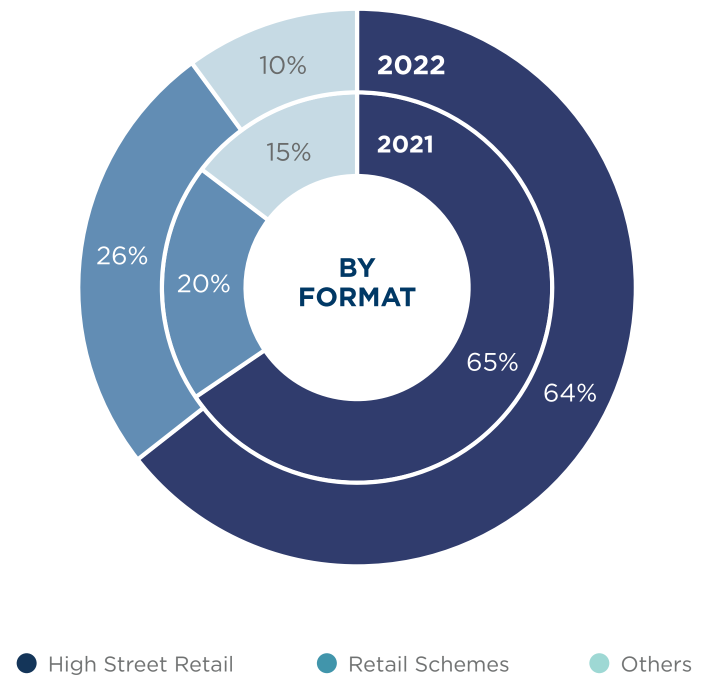
[3] A propriety database, held and permanently updated by Cushman and Wakefield, of retail leases occurring in shopping centres and the main high streets of Portugal, based on public sources and targeted fieldwork.

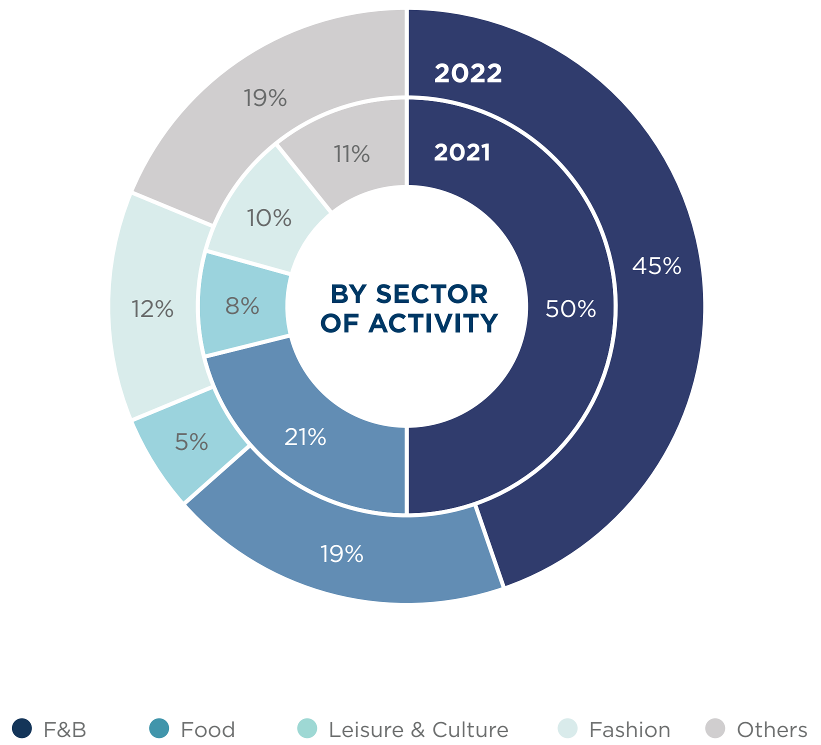
210 (-10%)
NEW OPENINGS

64%
HIGH STREET RETAIL

45%
F&B

TAKE-UP (# OF NEW OPENINGS)





Source: Cushman & Wakefield

LISBON

The city of Lisbon boasted 38% of new openings in the country, the vast majority of which were in the high street. Like the previous year, the F&B sector was the most active, accounting for 65% of new openings, with Avenidas Novas and Cais do Sodré/Santos proving to be the most sought-after. There was a rise in convenience retail, with retailers focusing on greater convenience and proximity to consumers, as evidenced by the number of openings in the food sector, namely the My Auchan supermarket near Saldanha and Continente Bom Dia in Rua de São Bento.

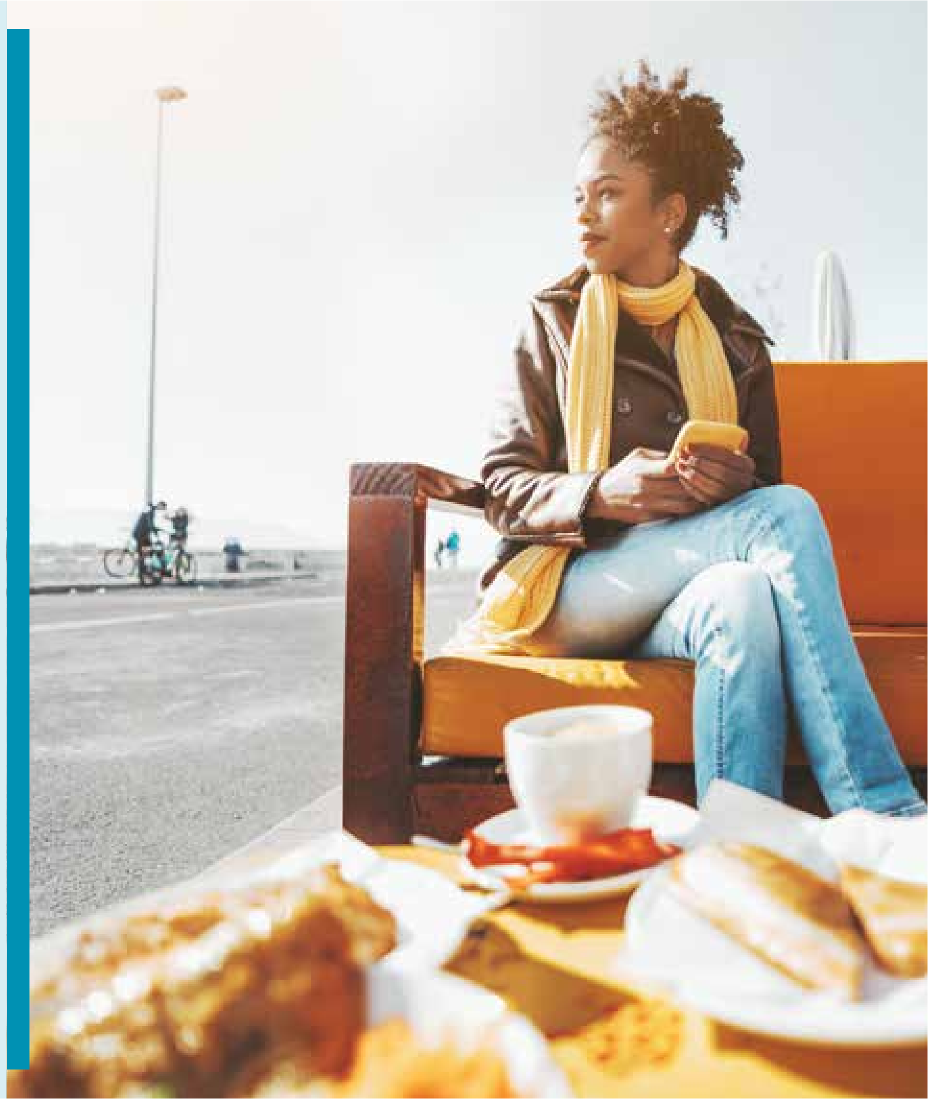
In the first half of the year, the shopping centre format saw ten new openings in the city of Lisbon, most of them in Centro Colombo, which includes new premium brands such as La Brasserie de L'Entrecôte that opened its second restaurant in a shopping centre, and the brand Okaidi-obaibi, for its first store in Portugal.

The biggest deal corresponded to the opening of the 1,600 sq.m Bricomarché in Avenidas Novas, followed by the Kinda Home store, which occupied around 1,000 sq.m in the Amoreiras area.

80 (-13%)
NEW OPENINGS

87%
HIGH STREET RETAIL

65%
F&B



Source: Cushman & Wakefield

PORTO

46 (+92%)
NEW OPENINGS

93%
HIGH STREET RETAIL

54%
F&B

Source: Cushman & Wakefield

The city of Porto recorded the second-highest number of openings in Portugal, with 46 stores, almost double the same period last year. High street retail continues to be the most sought-after, accounting for 93% of store openings. Baixa proved to be the most dynamic area, adding almost 30% of the new supply, with Rua de Santa Catarina being the most active, hosting among others the first Honest Greens restaurant in the city. There has been a focus on refurbishment in this area, with the notable example of the Mercado do Bolhão which reopened in September and the Bonjardim project that will give new life to Rua Sá da Bandeira.

In the first half of the year, the F&B sector was the most active, with 25 new openings. However, the largest volume of area opened was in the furniture and decoration sector, with the opening of the Casa Peixoto and Wewood stores totalling 8,400 sq.m. Food retailer EasyDay opened its first two neighbourhood grocery stores in the city and plans to open more by the end of the year.

PRIME RENTS

Heightened interest in some of the main high street retail areas in Lisbon and Porto, coupled with a shortage of supply in these locations, contributed to the increase by €2.5/sq.m/month in prime gross rents in downtown Lisbon and Porto, as well as on Av. Liberdade in Lisbon. In shopping centres, prime rents remained stable at €102.5/sq.m/month, while incentives granted in the pandemic period gradually being reversed; in retail parks, driven by the increased interest in this format, there was a slight increase to €11.5/sq.m/month.

FORMAT	LOCATION	PRIME RENTS (€/sq.m/month)
High Street Retail	**Lisbon** - Chiado	€122.5
	Lisbon - Downtown	€115.0
	Lisbon - Av. Liberdade	€95.0
	Porto - Downtown	€75.0
	Porto - Av. Aliados	€53.5
	Porto - Clérigos	€42.5
Shopping Centres	**Portugal**	€102.5
Retail Parks	**Portugal**	€11.5

Source: Cushman & Wakefield

OUTLOOK

During the first half of the year, the retail sector showed signs of recovery, fuelled in particular by the return of expansion plans on the part of both local and international retailers. The retail landscape, a constantly changing sector, still holds encouraging prospects as evidenced by the intentions of several international brands to open in Portugal, such as Pepco, Zeeman, Max Stock and Action, among others.

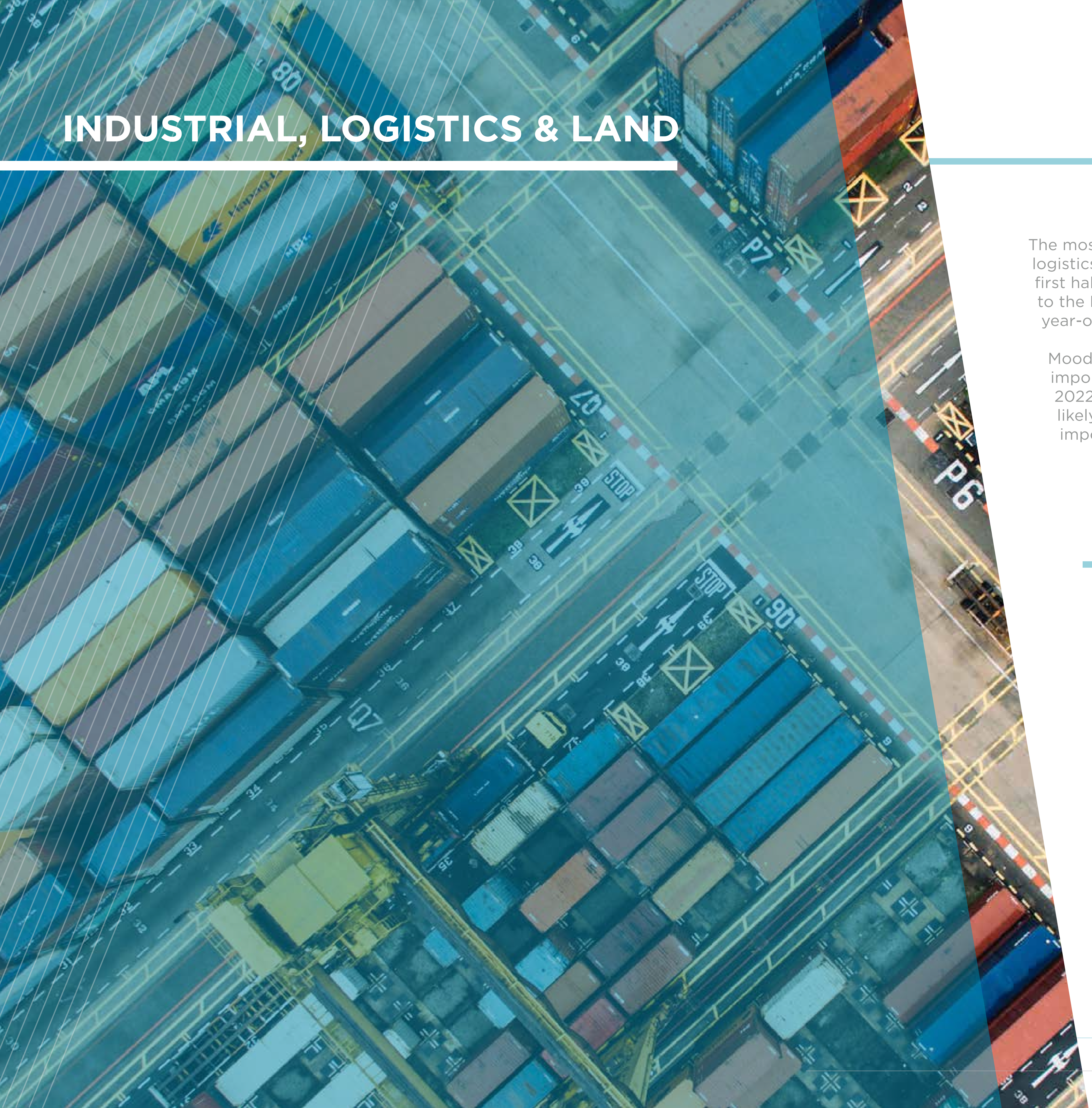
Changes in shopping habits have made online the preferred means of connecting with consumers. Retailers are successfully implementing this transformation of the consumer industry, encouraging constant interaction with customers through both online and offline channels, exploring digital products and experiences such as the metaverse or retailverse in which companies and consumers can meet at any time, regardless of their location. As a result, new touch points are created in virtual reality environments and immersive digital experiences.

On the other hand, heightened consumer concern for the environment is undeniable, leading retailers to reassess their strategies to be more environmentally conscious and strike a balance between economic growth and sustainability, notably by focusing on the circular economy.

Exciting times lie ahead, with new technologies paving the way for a more immersive online experience, consumer behaviour driving product and business model innovation, and the world's largest brands putting aside competitive pressures to give serious consideration to the most challenging problems facing society and the planet.

Sandra Campos
Partner | Head of Retail

INDUSTRIAL, LOGISTICS & LAND



The most recent statistical data of the industrial and logistics market indicated a year-on-year increase for the first half of 2022. Until August this year, and according to the INE, the export and import of goods[4] recorded a year-on-year increase of 21.6% and 25.7%, respectively.

Moody's Analytics estimates an increase in exports and imports of 14.7% and 9.4%, respectively, by the end of 2022. A slowdown is expected in 2023, with Portugal likely to see a rise of 2.3% in exports and 0.1% in imports.

+21.6%
EXPORTS

+25.7%
IMPORTS

205,200 sq.m
(-26%)
TAKE-UP

7,600 sq.m
(+9%)
AVERAGE DEAL SIZE

Source: INE; Cushman & Wakefield; Pool consultores

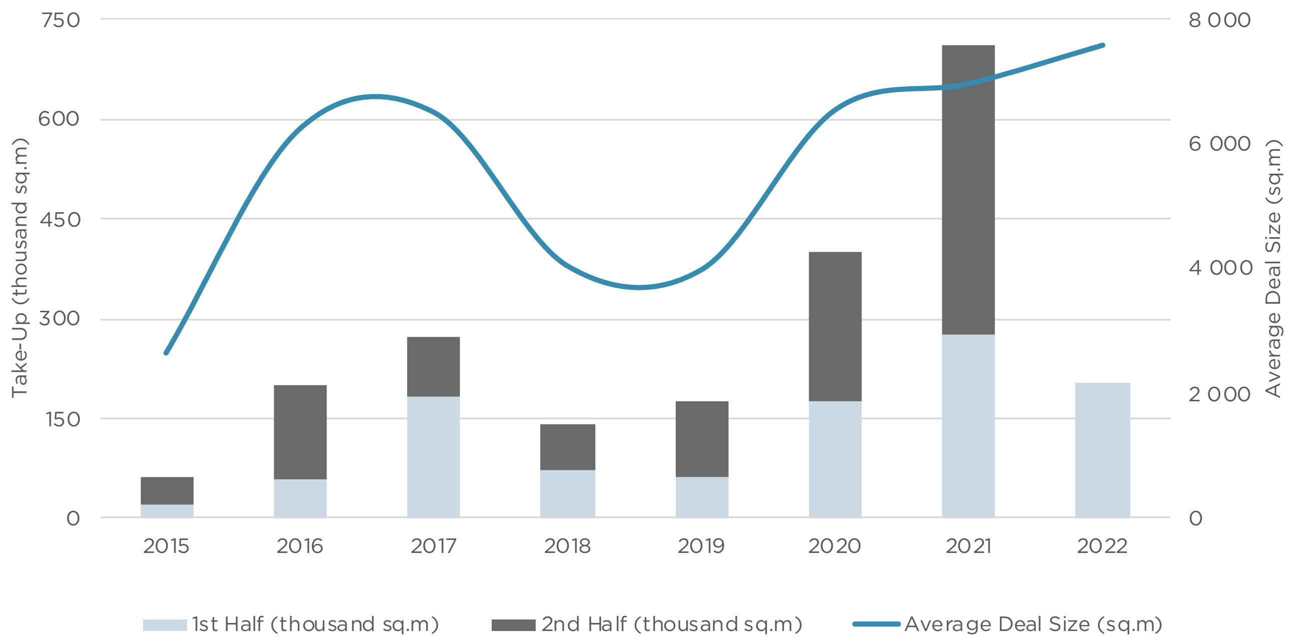
[4] Excluding fuel and lubricants.

The Industrial Production Index[5] stood at 99.7 between January and August, reflecting an increase of 2.5% relative to 2021, and the confidence of operators[6], which had gradually been approaching positive values from the second half of 2021, saw a drop after May, with an average of -2.4 up to September.

The occupational market saw a year-on-year drop of 26% between January and June 2022, although it remained above the volume of the first half of 2020, with a total take-up of 205,200 sq.m. With close to 30 deals, the average size, influenced by some large-scale transactions, increased to 7,600 sq.m. Among these, some prominent examples are Newcold's purchase of the 40,000 sq.m former Elos property in Palmela, the start of WEG's extension of its 22,700 sq.m factory in Santo Tirso and Garland's lease of 16,100 sq.m in the Leiria Logistics Platform.

Similar to the previous year, in the first half of 2022 only 31% of the take-up corresponded to build-to-suit projects, showing increased leasing and sales activity. Lisbon and Porto continue to dominate demand, at 55% and 18% of total take-up, respectively. Almada – Setúbal (zone 2), with 44,100 sq.m, commanded roughly 40% of Lisbon's take-up; and approximately 60% (22,700 sq.m) of the take-up in Greater Porto ocurred in Valongo – Alfenta (zone 3).

TAKE-UP BY SEMESTER AND AVERAGE DEAL SIZE



Source: Cushman & Wakefield; IPI (Industrial Prime Index)

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

MAIN TRANSACTIONS

TENANT	PROJECT	REGION	ZONE	AREA (sq.m)
NewCold	Former Elos Palmela	Greater Lisbon	2	40,000
WEG	WEG – Santo Tirso Factory	Greater Porto	4	22,700
Garland	Leiria Logistics Platform	Centro	-	16,100
Logic	Vialonga	Greater Lisbon	3	15,500
Mercadona	Póvoa do Varzim Logistics Platform	Greater Porto	2	12,000
UPS	Leiria Logistics Platform	Center	-	11,400
Luís Simões	Palmela 6 Logistics Platform	Greater Lisbon	1	10,900
Confidential	Prior Velho	Greater Lisbon	6	10,500
Sjaak Van Schie Portugal	Quinta das Cepas – Pegões	Greater Lisbon	4	8,600
Domus Capital Group	Domus Beverage Industry - Ílhavo	Center	-	7,000

Source: Cushman & Wakefield; IPI

Given the sector's high levels of activity, investment in quality supply saw an increase through the refurbishment of existing properties or the development of new projects. The latter, for owner-occupation, include ALDI's logistics platform in Moita (50,000 sq.m) and Dachser's transport and distribution centre in Castanheira do Ribatejo (7,400 sq.m) that were completed in the first half of the year, as well as Garland's logistics centre in Gaia (38,000 sq.m), concluded in the third quarter. In addition, Stelia Aerospace's assembly unit in Santo Tirso was opened, of 20,000 sq.m when fully completed.

Among the most noteworthy speculative projects are those of VGP in Loures, Sintra and Montijo covering a total of 62,000 sq.m, with work on the first one just recently started. The Rainha Green Logistics Park in Azambuja is also undergoing construction, with the first building recently delivered to Sonae MC. In addition to the aforementioned development of a logistics unit in Greater Lisbon, Panattoni also announced, in the first half of this year, the development of the 75,000 sq.m. Panattoni Porto Park in Greater Porto.

NEW COMPLETIONS

PROJECT	REGION	ZONE	DEVELOPER	AREA (sq.m)
Moita Logistics Platform	Greater Lisbon	4	ALDI Nord Group	50,000
Gaia Logistics Centre	Greater Porto	5	Garland	38,000
Santo Tirso Assembly Unit	Greater Porto	4	Stelia Aerospace	20,000
Póvoa de Varzim Logistics Platform (expansion)	Greater Porto	2	Mercadona	12,000
Transport and Distribution Centre	Greater Lisbon	1	Dachser	7,400

Source: Cushman & Wakefield

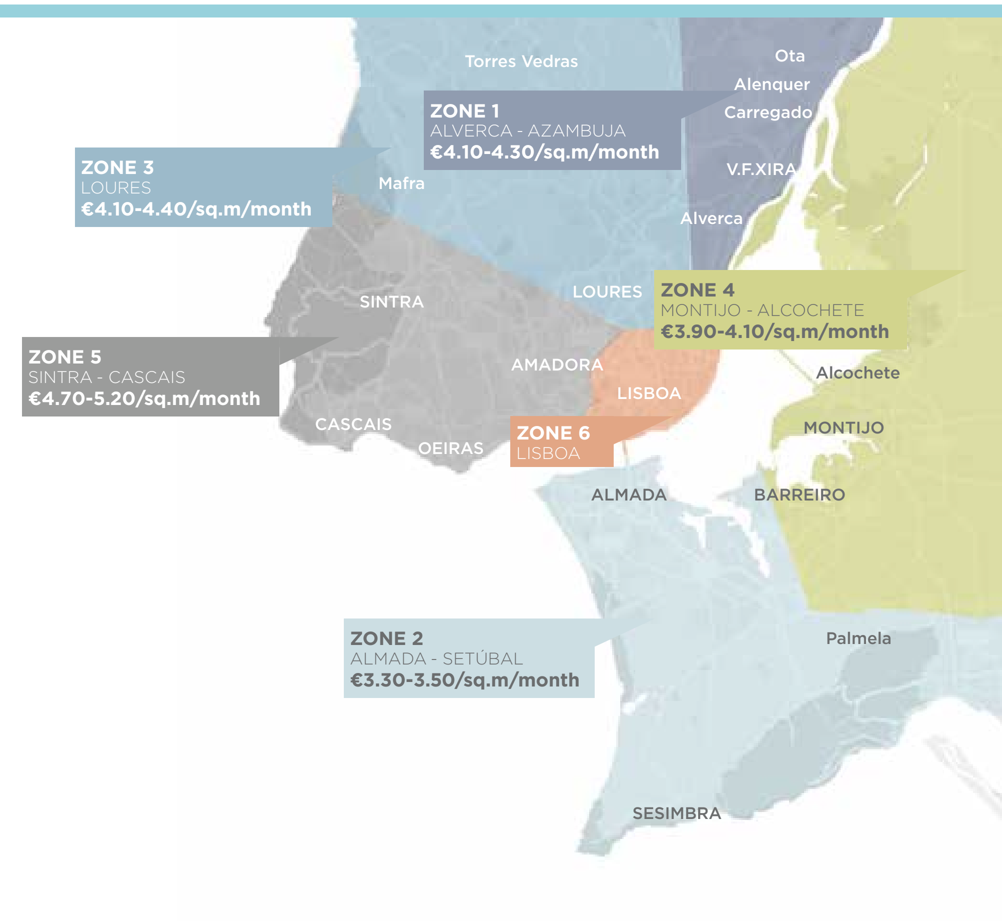
MAIN PROJECTS UNDER CONSTRUCTION

PROJECT	REGION	ZONE	DEVELOPER	EXPECTED COMPLETION DATE	AREA (sq.m)
Rainha Green Logistics Park	Greater Lisbon	1	Aquila Capital	2022	115,000
Santo Tirso Factory	North	-	WEG	2024	22,700
Lanheses Business Park	North	-	BorgWarner	2022	17,000
VGP Park Loures	Greater Lisbon	1	VGP	2022	15,500
Maia Production Unit	Greater Porto	1	Saint-Gobain	2022	8,900

Source: Cushman & Wakefield

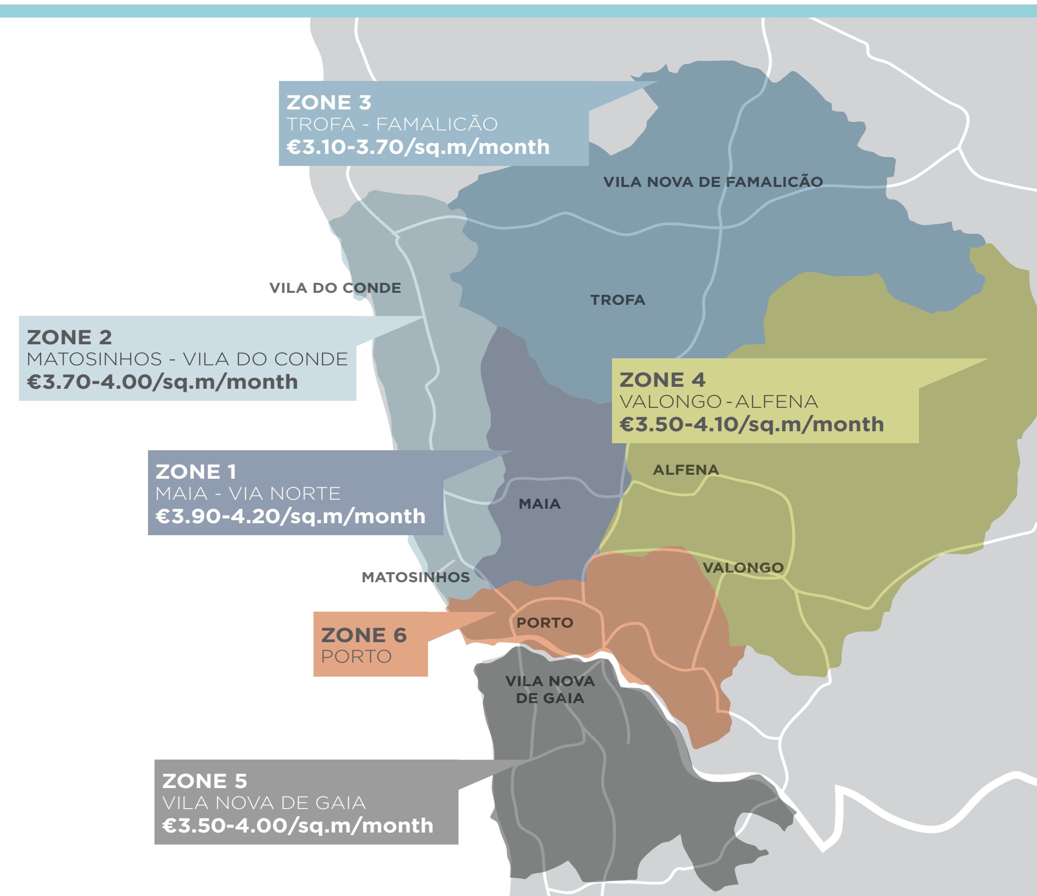
In this context, prime logistics market rents have increased in most areas, reaching €4.3/sq.m/month in Lisbon's zone 1 (Alverca – Azambuja) and with a slight rise to €4.2/sq.m/month in Porto (Maia – Via Norte). The most considerable increase was recorded in Lisbon's zone 5 (Sintra – Cascais) and Porto (Vila Nova de Gaia), with rents reaching €5.2/sq.m/month and €4.0/sq.m/month, respectively. In terms of urban logistics, rents have remained stable in the first half of the year, at €6.0-7.0/sq.m/month in Lisbon and €5.0-6.0/sq.m/month in Porto.

GREATER LISBON – AVERAGE AND PRIME RENTS



URBAN LOGISTICS
(LAST MILE)
€6-7/sq.m/Month
LISBON

GREATER PORTO – AVERAGE AND PRIME RENTS



URBAN LOGISTICS
(LAST MILE)
€5-6/sq.m/Month
PORTO

Source: Cushman & Wakefield

OUTLOOK

Despite some uncertainty given the economic context, the industrial and logistics sector remains very active. Demand for different types of spaces within the segment continue, both for large-scale (big boxes) and urban logistics (last mile). The main tenants are logistics operators, who are increasingly attracting new clients to Portugal, demanding the latest generation quality space.

Very noteworthy is the great number of new build-to-suit projects of retailers such as Aldi, Mercadona and Lidl that build for owner-occupancy. Global firms within the sector also consider Portugal to be a strategic destination for the development of their new production units. Green energy, a good connection to ports, as well as a high degree of safety and quality of life are some of the selling points attracting these companies.

Still a long way from the numbers of Nordic countries and Central Europe, the growth of e-commerce in Portugal has forced companies to look for new warehouses, which are automated and closer to the big cities, in order to respond to consumer demands to deliver products in the shortest possible time. The number of online shoppers in Portugal keeps rising and, according to the Europe E-commerce Report 2022, 67% of internet users have shopped for online goods or services.

Due to the lack of quality logistics spaces, speculative projects are being absorbed by the market at the start of construction. The entry of new developers of a global scale into Portugal served to revitalise a sector unfamiliar with high-quality logistics assets. This competition brings increased professionalism to the sector, as well as different dynamics in the occupation and management.

Together with locational and efficiency criteria, sustainability metrics are also starting to shape demand. Potential occupiers require buildings with more efficient roofs, equipped with solar panels; as well as areas to charge electric vehicles, treat rainwater and energy-efficient LED lighting.

Despite the current environment, rental values in the logistics market continue to show resilience, and an upwards revision is expected, with a slight increase in nearly all zones across Lisbon and Porto.

Sérgio Nunes
Associate | Head of Industrial, Logistics & Land

HOSPITALITY

During the first seven months of the year, Portugal reaped the benefits of a major revival in the tourism sector, with all indicators following an upward trend when compared to the previous year. This rebound was evident in the number of visitors across the country, boasting a year-on-year growth of 183%, reaching 11.4 million, and overnight stays totalling 30.6 million, reflecting an increase of 208%. These indicators are beginning to approach pre-pandemic levels, despite a 5% drop in the first half of 2022 compared with the same period in 2019, both in the number of visitors and overnight stays.

TOURISM INDICATORS[7]

11.4 MILLION
(+183% vs 2021; -5% vs 2019)
TOURISTS

30.6 MILLION
(+208% vs 2021; -5% vs 2019)
OVERNIGHT STAYS

€2,242 MILLION
(+252% vs 2021; +9% vs 2019)
TOTAL REVENUES

€54.9
(+143% vs 2021; +6% vs 2019)
REVPAR

56.6%
(+35 P.P. vs 2021; -6 P.P. vs 2019)
OCCUPANCY RATE

[7] Accumulated values between January and July.

Source: INE; Turismo de Portugal

Portugal regained its popularity among foreign visitors, whose demand growth was responsible for nearly 60% of overnight stays[8], achieving levels almost five times higher than those seen in the same period of the previous year. Considerable increases in overnight stays were recorded countrywide compared to 2021, although they were still mostly below the 2019 numbers. The Lisbon Metropolitan Area proved to be the favourite region, revealing the highest growth in overnight stays, when compared to the same period last year, albeit still 8% below the number of overnight stays in 2019. The only positive trend (+6%) occurred in the Northern region, when comparing the period from January to July 2022 with 2019.

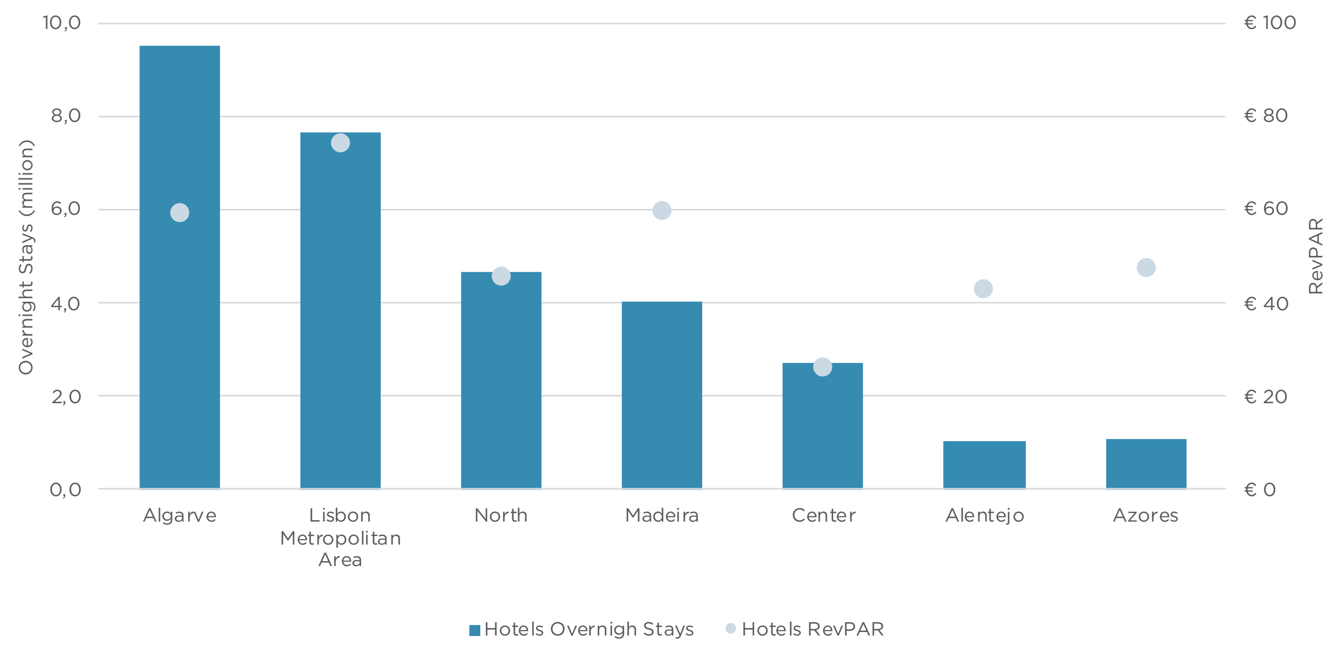
As a result of increased demand, hotel operating indicators rose significantly in terms of total revenue, more than tripling when compared to the previous year and 9% above the same period in 2019. Lisbon saw the highest year-on-year growth, remaining on a par with the value recorded in 2019. In terms of market prices, RevPAR (Revenue per Available Room) rose to €54.9, representing a growth of 6% compared to 2019; and the country-wide occupancy rate stood at 56.6%, reflecting a year-on-year increase of 35 p.p., nonetheless, still 6 p.p. below 2019.

The Short-Term Rental segment was responsible for 5.2 million overnight stays and 2.2 million guests, a decrease of 7% and 12%, respectively, compared to 2019. Total revenue within this segment grew 8% compared to 2019, reaching a total of €222 million, with RevPAR growing 17% reaching a total of €33.2.

Since the start of the year, close to 35 hotels were opened in Portugal, representing 2,080 keys, of which 42% are in the 4-star category. Lisbon and Porto benefitted the most from this new supply, with 15 new hotels (1,020 keys). Worthy of note are the openings of prestigious hotels such as the W Algarve (5 stars), Pestana Douro Riverside (5 stars), Hyatt Regency Lisbon (5 stars) and The Editory Riverside Santa Apolónia Hotel (4 stars).

[8] In hotels and other types of accommodation.

OVERNIGHT STAYS AND REVPAR BY REGION[9]



NEW SUPPLY

+35 HOTELS
OPENED IN 2022

+2,080
NEW KEYS

In terms of future supply, 115 new hotel projects, which are in the design and/or construction phase, totalling 10,000 rooms, are planned to open during the next three years, with most of this concentrated in 4-star and 5-star category hotels in the metropolitan areas of Lisbon and Porto.

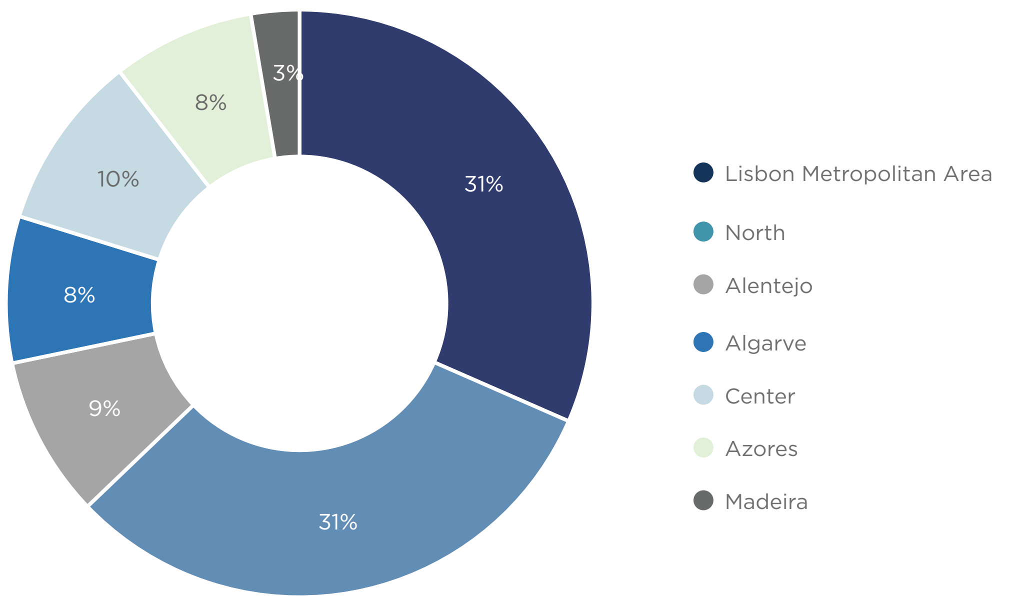
[9] Accumulated values between January and July.

MAIN OPENINGS

HOTEL	OPERATOR	CITY	CATEGORY	KEYS
W Algarve	W Hotels Worldwide	Albufeira	5 stars	220
Pestana Douro Riverside Hotel & Conference Center	Pestana Group	Gondomar	5 stars	170
Hyatt Regency Lisbon	Hyatt	Lisbon	5 stars	140
The Editory Riverside Santa Apolónia Hotel	The Editory Collection Hotels	Lisbon	4 stars	130
Four Points by Sheraton Matosinhos	Marriott Group	Matosinhos	4 stars	110
B&B Hotel Famalicão	B&B Hotels	Vila Nova de Famalicão	3 stars	100
Sé Catedral Hotel Porto - Tapestry Collection by Hilton	Hilton Hotels & Resorts	Porto	4 stars	80
OCA Vitória Village	OCA Hotels	Porto	4 stars	70
The Editory Boulevard Aliados Porto Hotel	The Editory Collection Hotels	Porto	4 stars	70
OCA Flores Hotel Boutique	OCA Hotels	Porto	4 stars	70

Source: Cushman & Wakefield

PIPELINE[10] BY REGION



Source: Cushman & Wakefield

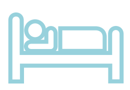
[10] Until 2024.

LISBON

Lisbon continued to welcome the majority of tourists that travelled by air to Portugal during the first seven months of the year. Around 15 million passengers arrived at Humberto Delgado Airport between January and July, nearly 15% less than in the same period in 2019. The city's cruise tourism welcomed 206 thousand passengers between January and July this year. In 2021, cruise activity only resumed in the second half, with the first ship docking in July.

During the period under analysis, the capital recorded 7.1 million overnight stays in tourist accommodation (including hotels and short-term rentals), more than five times higher than the same period last year, with a more apparent recovery from March onwards, with numbers surpassing those of 2019 across various indicators. Nevertheless, the total number of overnight stays between January and July 2022 stood 11% lower than the equivalent period of 2019. Operation indicators increased, with the occupancy rate climbing to 79.8% and RevPar rising to €111.4.

TOURISM INDICATORS



7.1 MILLION (+453% vs 2021; -11% vs 2019)

OVERNIGHTS[11]

79.8% (+51 P.P. vs 2019)

OCCUPANCY RATE[12]

€111.4 (+381% vs 2021; +17% vs 2019)

REVPAR[13]

Source: INE

Eight new hotels were opened, with a total of 570 keys, mostly in the 4- and 5-star category. By the end of 2024, 20 more hotels with 2,020 beds are planned, primarily 5- and 4-star hotels, representing 43% and 31% of the annual supply, respectively. Looking towards the future, major new openings expected include the Radisson RED Lisbon Olaias (4 stars, 290 rooms) and the Meliá Lisboa (5 stars, 240 rooms).

[11] In touristic establishments.
[12] In hotel establishments.
[13] In hotel establishments.

PORTO

Francisco Sá Carneiro airport was the second busiest airport between January and July of 2022, with a total of 6.8 million passengers, a drop of 8% compared to the same period in 2019. Like Lisbon, Porto resumed cruise tourism during the second semester of 2021, with about 43 thousand passengers from January to July this year.

According to the INE, in Porto, overnight stays in tourist accommodation (including hotels and short-term rentals) achieved levels about five times higher than in the same period last year, reaching nearly 2.5 million, almost in line with 2019. RevPAR averaged €88.6 per night and the occupancy rate stood at 76.3%.

During the first seven months of 2022, seven new hotels opened in Porto, six of which were 4-star hotels, totalling 410 new rooms, among which Sé Catedral Hotel Porto with 80 rooms and The Editory Boulevard Aliados Porto Hotel with 70 rooms. Over the next three years, eight more units with 830 keys are expected to open, 60% of which will be 4-star rating hotels; and include Marriot International's The Renaissance Park Hotel (4 stars, 170 rooms) and Oporto Story Hotel (5 stars, 120 rooms).

TOURISM INDICATORS

2.5 MILLION
(+415% vs 2021; -1% vs 2019)
OVERNIGHTS[14]

76.3%
(+46 P.P. vs 2021; -4 P.P. vs 2019)
OCCUPANCY RATE[15]

€88.6
(+278% vs 2021; +3% vs 2019)
REVPAR[16]

Source: INE

(14) In touristic establishments.
(15) In hotel establishments.
(16) In hotel establishments.

OUTLOOK

Following nine months of operation, we can state with confidence that 2022 marked the recovery of tourism activity and far exceeded the highest expectations. This positive trend confirmed that the fundamentals of tourism were not affected by the pandemic and reduced activity was due to circumstances.

The outlook for tourism in 2023 is expected to be slightly more moderate, not only due to the comparative basis of solid results of 2022, but primarily because of the uncertainty the effects of inflation and increases in the cost of money on the purchasing power of tourists and their availability to continue to consume tourism at both the same pace and cost as before.

Across the board, players in the tourism sector (service providers and investors) will remain alert to behavioural and, eventually, structural changes within the sector, making sure they are better prepared to respond and avert possible recessive scenarios.

The increase in the cost of capital will, however, provide alternative financing options, which is likely to lead to favourable conditions for the emergence of Sale & Lease-Backs/Management Backs and M&A activity.

Gonçalo Garcia
Associate | Head of Hospitality

RESIDENTIAL

According to data from the Residential Information System (SIR)/Confidencial Imobiliário, in the first half of 2022, sales of apartments in the cities of Lisbon and Porto recorded a significant growth compared to the previous year, continuing the recovery trend already seen in 2021. Between January and June, there was a year-on-year growth both in the number of apartments sold as in the average sales price, except for the new construction projects in Lisbon where there was a slight decrease in the latter.

In terms of the mortgage sector, according to the Bank of Portugal, between January and July €9.7 billion was granted in new mortgages, an increase of 13% compared to 2021.

Despite changes to the rules of the so-called Golden Visas since the beginning of 2022, the amount of investment recorded in visas granted for the purchase of real estate between January and July in Portugal was 12% higher than the same period last year, at €323 million.

SALE OF APARTMENTS[17]

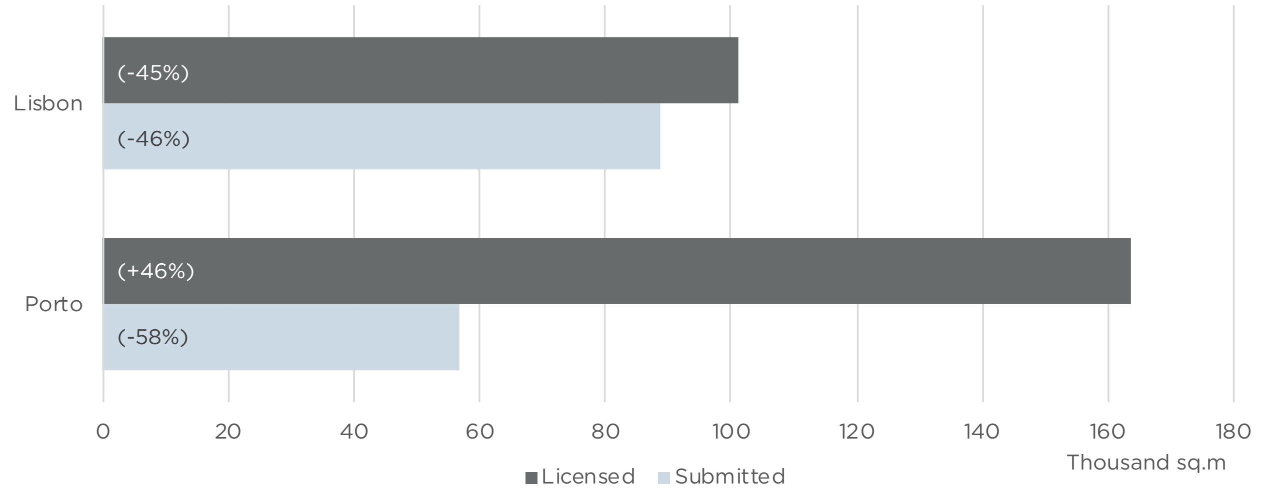
	LISBON	PORTO
Nº UNIT SOLD	NEW **1,190 (+38%)** TOTAL **5,700 (+11%)**	NEW **1,370 (+55%)** TOTAL **3,180 (+6%)**
AVERAGE PRICE	NEW **€5,990/sq.m (-2%)** TOTAL **€4,280/sq.m (+9%)**	NEW **€4,140/sq.m (+17%)** TOTAL **€3,170/sq.m (+24%)**
AVERAGE DISCOUNT AND ADJUSTMENT RATE	NEW **-2%** TOTAL **-7%**	NEW **-4%** TOTAL **-6%**
AVERAGE ABSORPTION TIME	NEW **12 MONTHS** TOTAL **6 MONTHS**	NEW **12 MONTHS** TOTAL **8 MONTHS**

Source: SIR Ci

In terms of future supply, Lisbon town council's infamously long approval process has been pointed out by various developers as the greatest impediment to continued investment in this sector, as opposed to Porto, where planning applications are processed more quickly. On the other hand, the development of new projects in the suburbs has seen less activity, essentially due to soaring construction costs, since these markets tend to be more geared towards the middle class, with a lower sales values and smaller margins. In the current economic context of high inflation and rising interest rates, building for the mid-end housing market segment inevitably presents greater risk.

[17] New and used.

RESIDENTIAL PROJECTS LICENSING[18]



Source: Pipeline Imobiliário Ci

[18] Percentage values correspond to the variation between January to June 2022 compared to the same period in 2021.

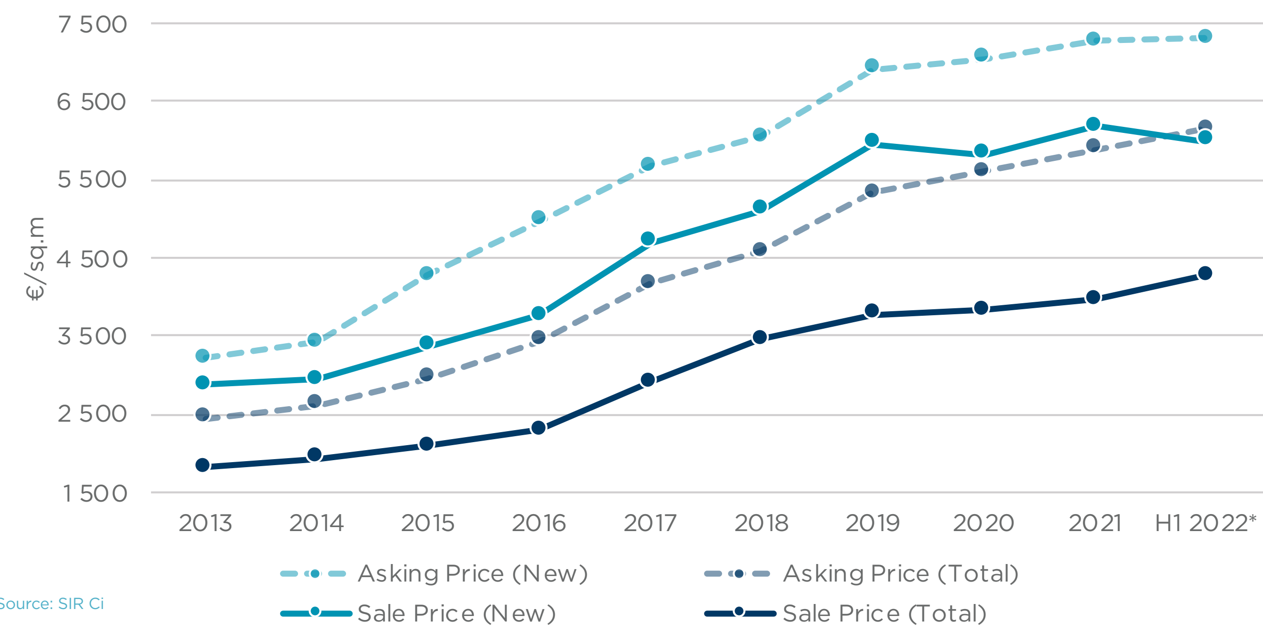
LISBON

According to the SIR/Confidencial Imobiliário, the total average sales price in Lisbon up to June 2022 stood at €5,990/sq.m for new apartments (-2%) and €4,280/sq.m for both new and used apartments (+9%). Among the latter, the Traditional Zone (with the largest y.o.y increase of +25%) and the Historical Centre remain the most expensive at €5,530/sq.m. and €5,380/sq.m., respectively. The Parque das Nações area recorded the second-highest increase (+23%), with an average sales price of €5,190 sq.m.

The average discount and adjustment[19] rate dropped slightly across all apartments (new and used), reaching 7.6%. For new apartments, the value stands at 2.3%. The average take-up time decreased marginally in both categories and stood at six months for all apartments and twelve months for new apartments.

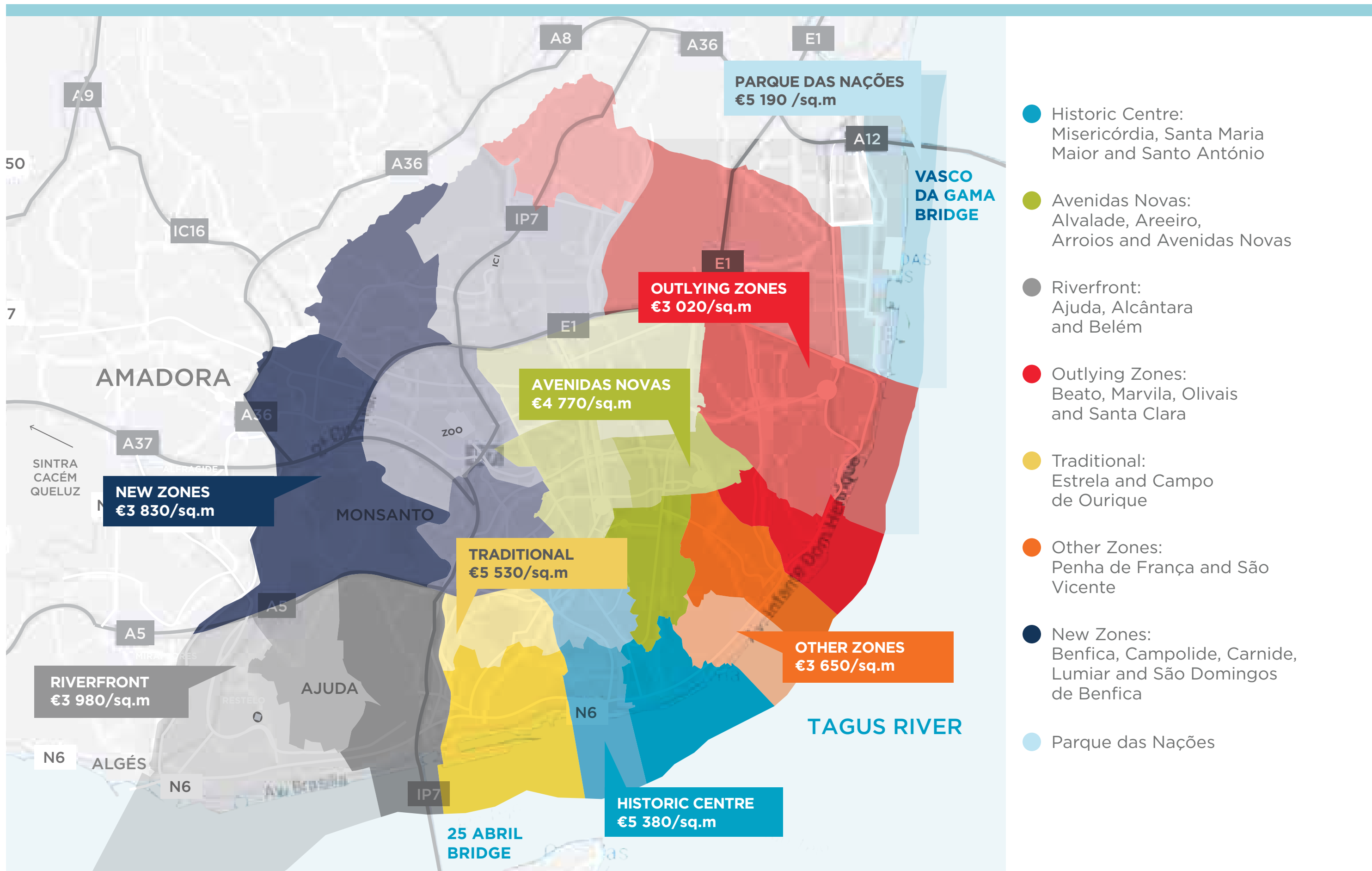
In terms of future supply, the capital recorded a sizable decline in the licensing of residential projects, of around 45% in licensed projects and 46% in projects submitted, reflecting not only the slowness of the city council in approving projects, but also an alteration in development activity in view of the current context of uncertainty.

PRICE OF APARTMENTS



Source: SIR Ci

SALES PRICE OF APARTMENTS[20]



Source: SIR Ci; Cushman & Wakefield

(19) The difference between the final sales price and the initial price offered for the property.
(20) New and used

PORTO

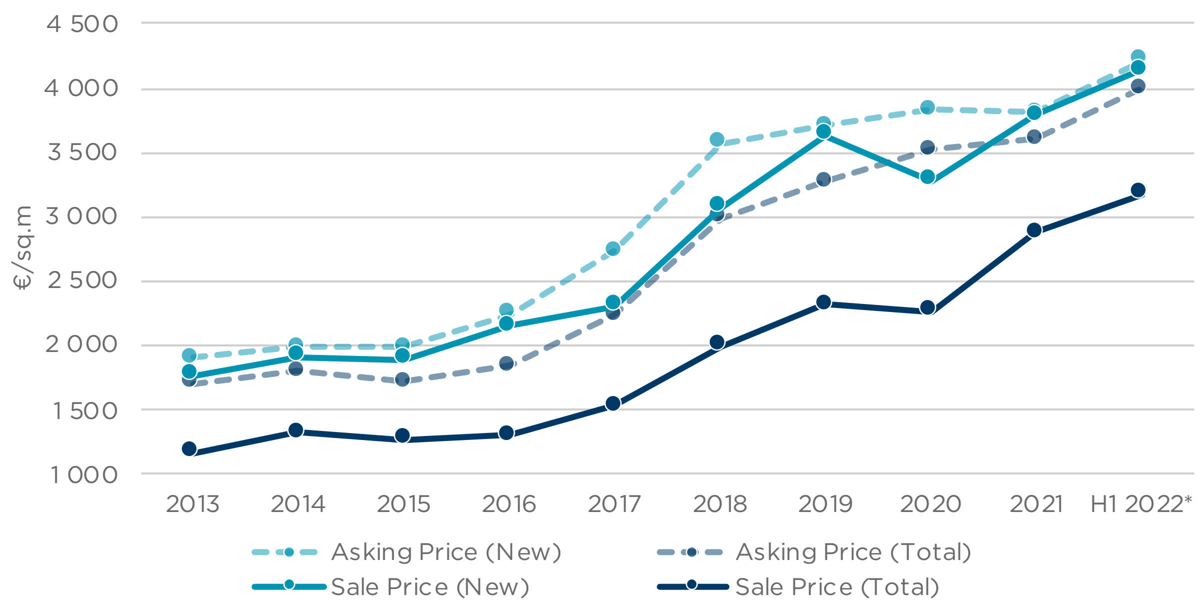
In Porto, the sales price of apartments saw a sharper increase than in Lisbon, namely 17% in new apartments, to €4,140/sq.m, and 24% overall, to €3,180/sq.m. The Foz and Riverfront zones commanded the highest prices at €3,650/sq.m and €3,520/sq.m, respectively, for new and used apartments.

The Historic Centre boasted the most significant increase (+44%), reaching a sales price of €3,960/sq.m, followed by Antas with a 16% increase, to €2,640/sq.m.

The average discount and adjustment rates saw a shift downwards, standing at 3.6% for new apartments and 6% for all apartments. The average take-up time remained stable for new apartments (twelve months) and fell by one month across all apartment categories, standing at eight months.

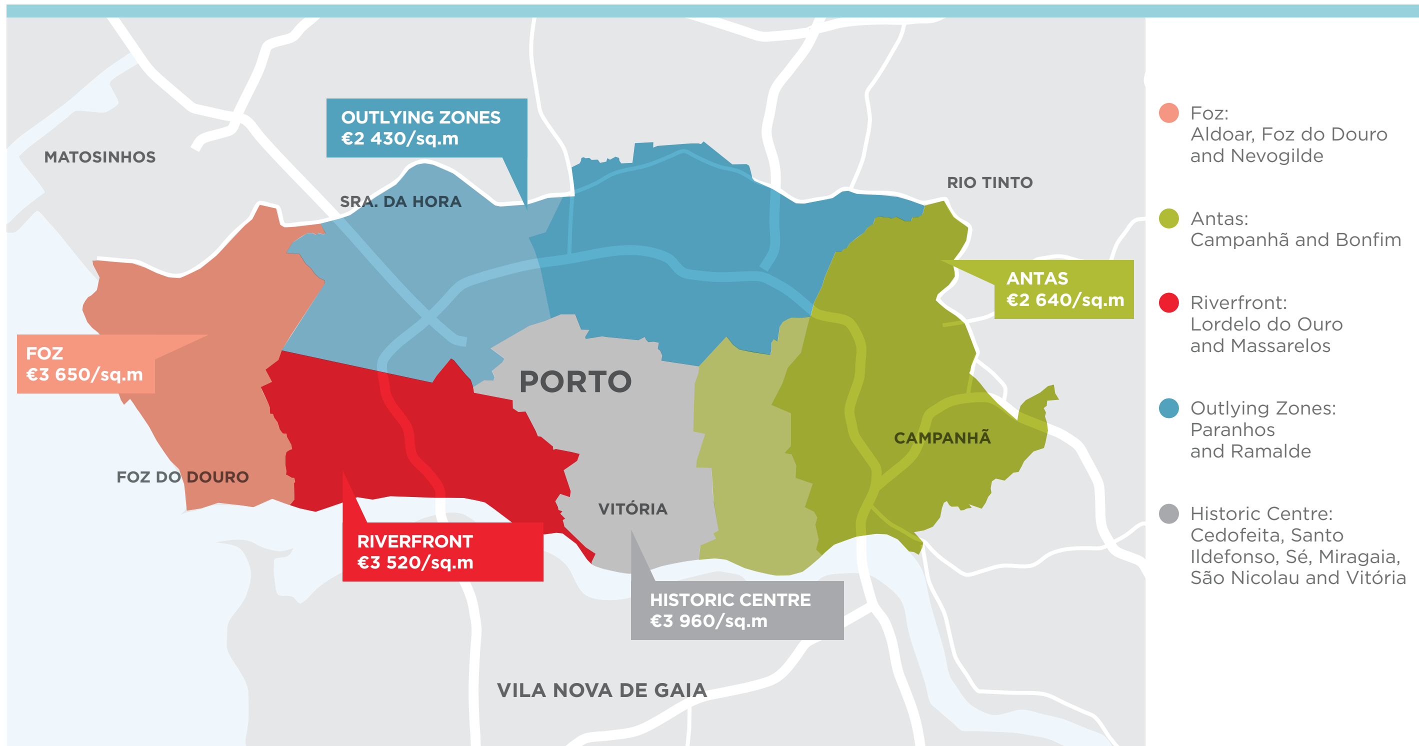
In terms of future supply, Porto saw an increase of 46% in licensed projects and a drop of 58% in projects submitted.

PRICE OF APARTMENTS



Source: SIR Ci

SALES PRICE OF APARTMENTS[20]



Source: SIR Ci; Cushman & Wakefield

[20] New and used

LEASE OF APARTMENTS

	LISBON	PORTO
NR. LEASE UNITS	NEW 120 (+19%) TOTAL 1,740 (+2%)	NEW 50 (+23%) TOTAL 290 (-5%)
AVERAGE MONTHLY CONTRACTED RENT	NEW €20.5/sq.m (+33%) TOTAL €14.7/sq.m (+19%)	NEW €14.4/sq.m (+16%) TOTAL €12.1/sq.m (+21%)
AVERAGE DISCOUNT AND ADJUSTMENT RATE	NEW -3% TOTAL -4%	NEW -3% TOTAL -3%
AVERAGE ABSORPTION TIME	NEW 2 MONTHS TOTAL 3 MONTHS	NEW 6 MONTHS TOTAL 3 MONTHS

Source: SIR Ci

Many families are turning towards the traditional rental market given the shortage of supply in urban centres, particularly for the middle class, requiring less initial investment and greater flexibility, resulting in enhanced attractiveness of the private rented sector (PRS).

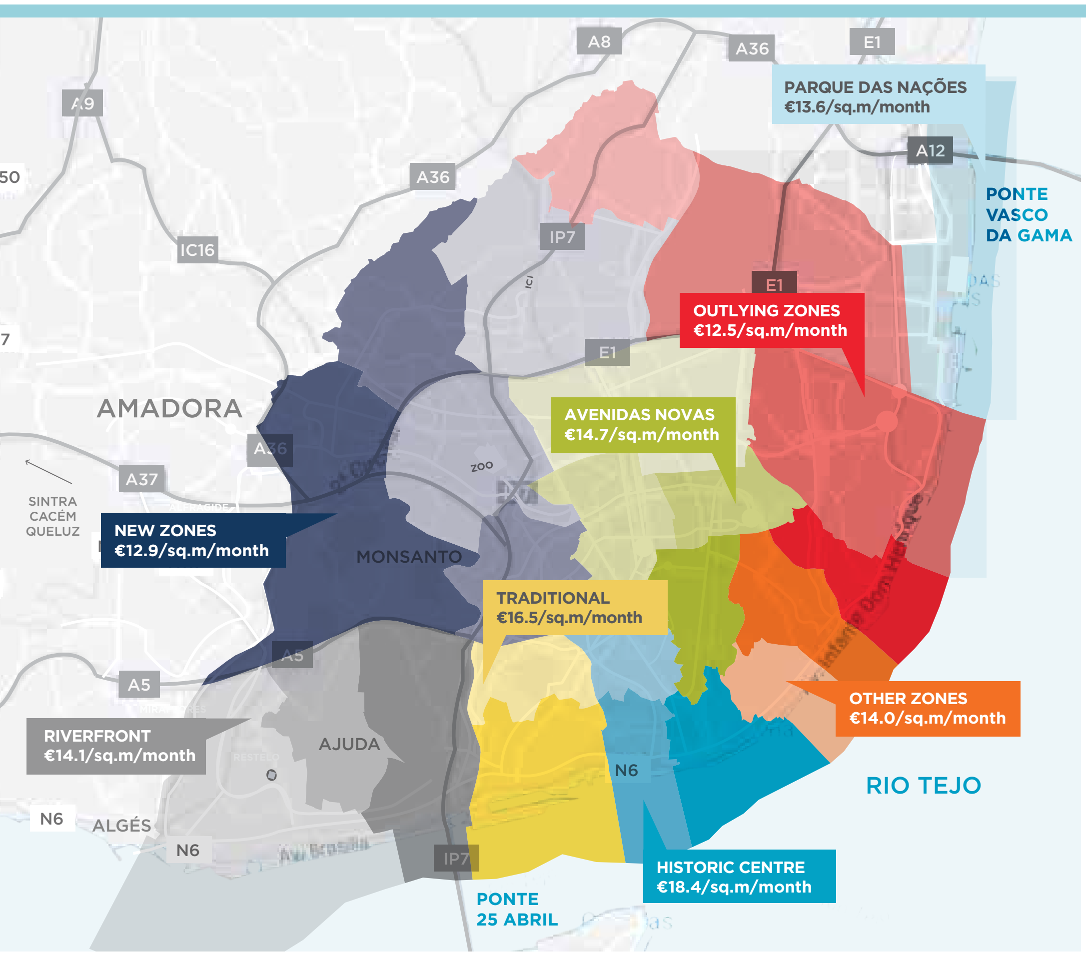
This trend is evident not only by an increase in demand but also by a growth in supply, particularly driven by the conversion of short-stay accommodation into traditional rentals. In terms of take-up, there was an increase in the number of new apartments leased both in Lisbon and Porto, and an increase in the average prices.

Rental prices in the city of Lisbon, in the first half of the year, recorded marked increases across all areas. According to SIR/Confidencial Imobiliário, the average rent reached €20.5/sq.m/month in new properties (+33%) and €14.7/sq.m/month across all properties (+19%). The increase in the latter was strongly influenced by the upwards adjustment in the Historic Centre, where average rent saw a year-on-year growth of 32%, reaching €20.5/sq.m/month.

In Porto, the rental segment picked up compared to the previous year. The average rent in new properties rose to €14.4/sq.m/month and overall to €12.1/sq.m/month. In line with the sales market, Foz commanded the highest rents.

Discount and adjustment rates were generally below the sales market in both Lisbon and Porto, standing at -4% and -3%, respectively. Take-up time remained stable in the capital city (three months), falling in Porto by one month for apartments overall.

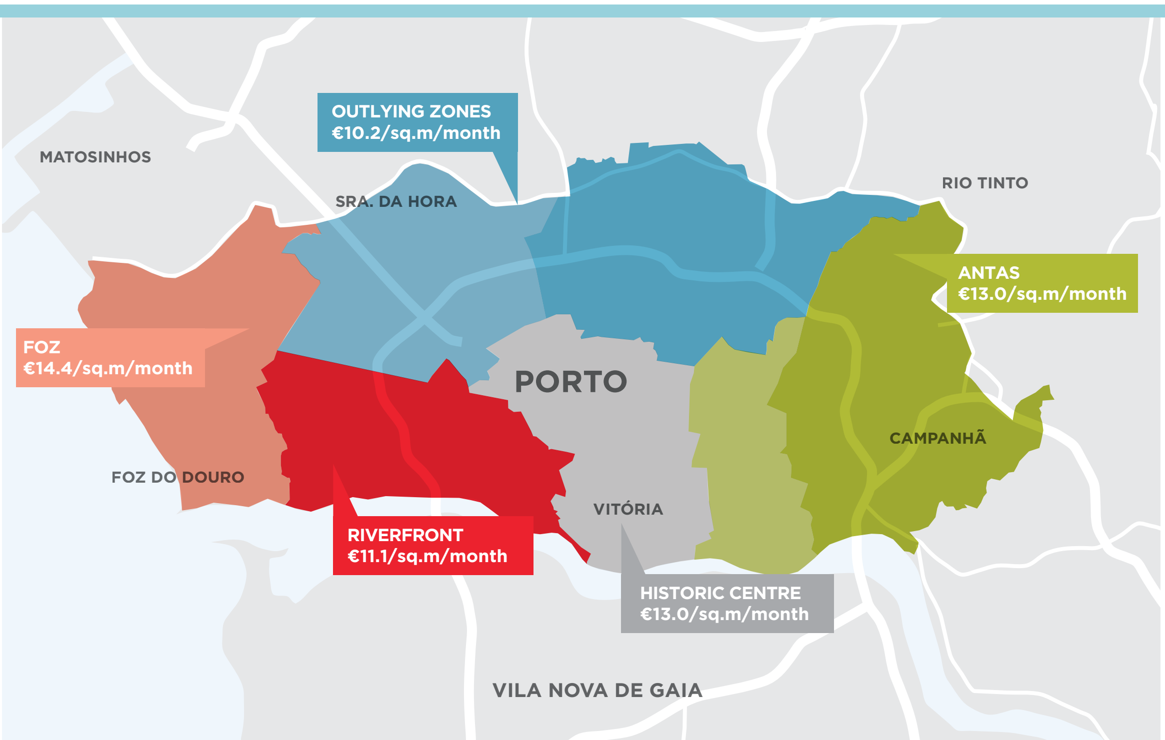
RENTAL PRICE OF APARTMENTS[21] LISBON



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

Source: SIR Ci; Cushman & Wakefield

RENTAL PRICE OF APARTMENTS[21] PORTO



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

Source: SIR Ci; Cushman & Wakefield

OUTLOOK

In the coming months, the residential sales market is likely to be marked by two distinct trends: the continued supply of new developments targeted at the upper-middle and upper classes and the increasing difficulty in developing product for the mid-end and lower mid-end housing segment due to inflation and more stringent finance terms. Thus, disparities in the market are expected to increase, exacerbating the general lack of housing supply.

Additionally, the market for the upper-middle and upper classes is expected to be further boosted by heightened demand from non-European buyers such as from the United States - a pattern that has been trending since the beginning of the year.

PRS segments will continue to grow, driven by a continuous increase in demand and by the growing difficulty for the middle classes to buy real estate. The shortage of supply and the absence of a specific built-to-rent product for this segment will inevitably have an impact on rents, pushing them upwards.

Ana Gomes
Partner | Head of
Development & Living

[21] New and used

DEVELOPMENT & URBAN REGENERATION

Less activity was seen in the urban development and regeneration[22] sector in the first half of the year when compared with the same period of the previous year. Cushman & Wakefield identified[23] a total transaction volume of €310 million between January and August, spread over 35 deals. These included the purchase by AXA IM - Real Assets of the Colombo Tower 3 project for between €40 and €45 million; and CGD's sale to Lundin Mining Corporation of the former Obriverca site (Marvila) of around 106,400 sq.m, for €38 million.

Data from SIR/Confidencial Imobiliário[24] show that there was an increase in the number of buildings sold in the Urban Rehabilitation Areas (ARUs) in the cities of Lisbon and Porto when compared to the same period last year. Deal sizes were also higher than in the same period last year in Lisbon, but decreased in Porto. In general, there was an increase in the number of projects licensed and a decrease in the projects submitted for licensing.

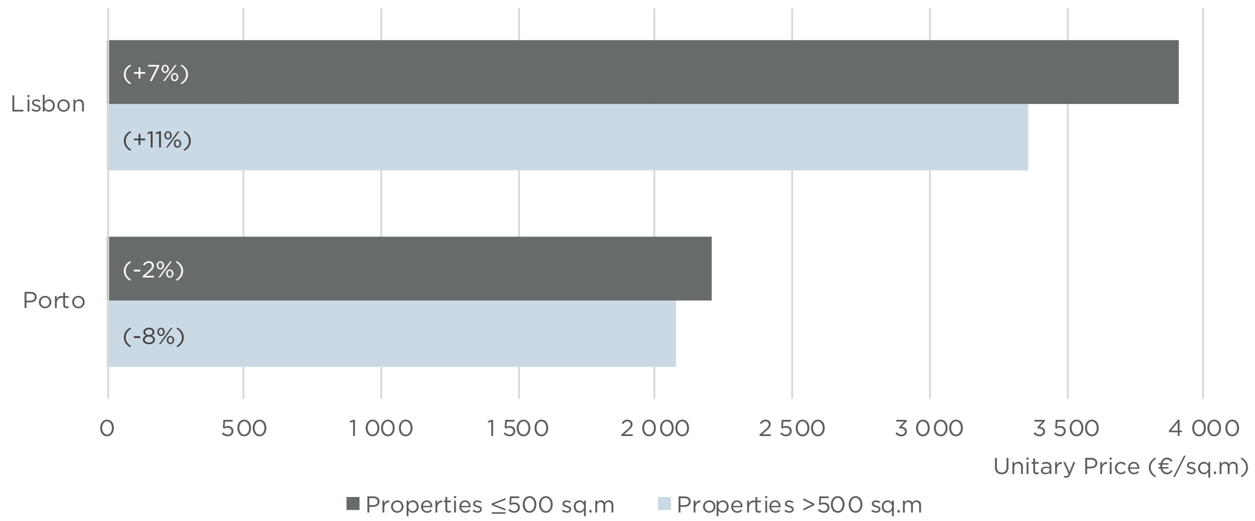
(22) Purchase of buildings for refurbishment or land for development.
(23) Based on internal and public sources.
(24) The data obtained result from the processing of detailed transaction terms as communicated by vendors to the local authorities, in the context of the legal right of first refusal that these institutions enjoy in the respective ARU.

MAIN URBAN DEVELOPMENT AND REGENERATION DEALS

TYPE	ASSET	CITY	AREA (sq.m)	VENDOR	PURCHASER	VALUE (m€)	VALUE (€/sq.m)
Land	Colombo – Tower 3	Lisbon	35,000	Sonae Sierra/ CBRE GI	AXA IM – Real Assets	€40-45 M	€1,210
Land	Former Obriverca plots	Lisbon	106,420	CGD	Lundin Mining Corporation	€38 M	€360
Land	Vila Nova de Gaia plot	Vila Nova de Gaia	60,910	n.a.	Empril Group	€25-30 M	€450
Land	Quinta da Granja	Lisbon	40,000	Private Owner	n.a.	€25 M	€630
Land	Alta de Lisboa – Malha 20.3	Lisbon	48,580	SGAL	Nexity	€22-27 M	€510

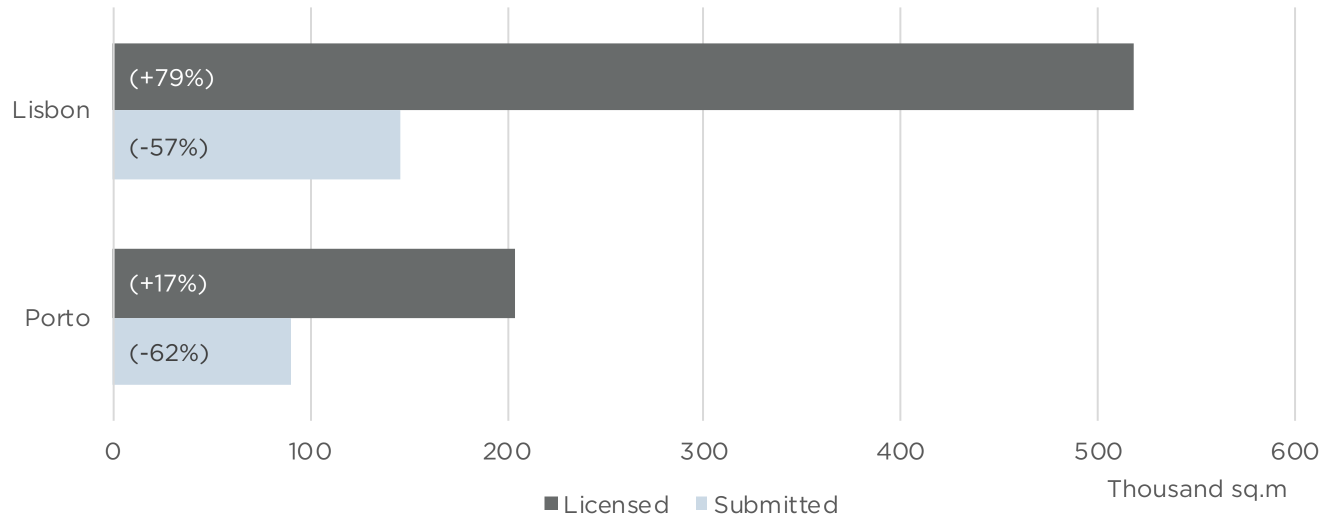
Source: Cushman & Wakefield

SALES PRICE IN URBAN REHABILITATION AREAS[25]



Source: SIR RU Ci

REAL ESTATE PROJECTS LICENSING[26]



Source: Pipeline Imobiliário Ci

(25) Variation between the 12 months to June 2022 vs. the prior 12 months' period.

(26) Percentages correspond to the variation between January to June 2022 (licensed projects and projects under licensing) compared to the same period in 2021.

LISBON

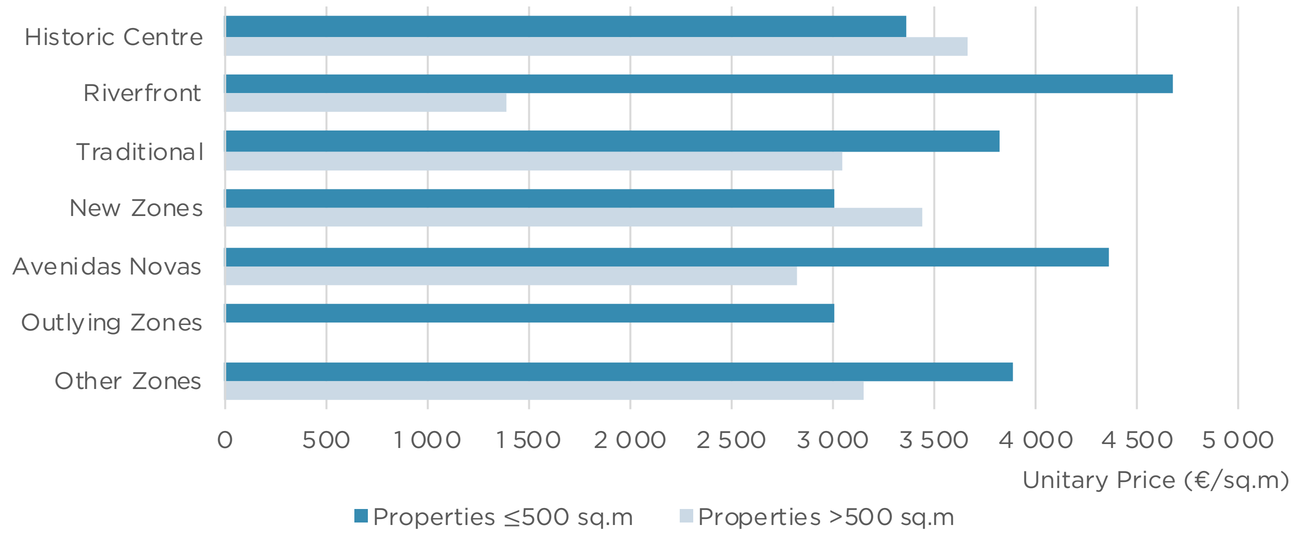
The average sale prices of properties in Lisbon's ARU increased both for properties of up to 500 sq.m (+7%) and for properties over 500 sq.m (+11%), to €3,910/sq.m and €3,360/sq.m, respectively.

The most expensive smaller properties were situated in the Riverside zone and larger properties in the New Zones area, with prices standing at €4,680/sq.m and €3,440/sq.m, respectively.

In terms of future supply, the first half of 2022 saw a sharp upward shift, close to 80%, compared to the previous year, with 519 thousand sq.m licensed by June. In contrast, the number of projects submitted for licensing fell in comparison to the same period last year, with 146 thousand sq.m by June.

Construction costs continued to rise, with average costs in Lisbon ranging from €1,400/sq.m to over €1,800/sq.m for new construction and from €1,600/sq.m to over €1,950/sq.m for refurbishment projects.

SALES PRICE IN URBAN REHABILITATION AREAS BY ZONE



Source: SIR RU Ci

CONSTRUCTION COSTS BY SEGMENT

	NEW CONSTRUCTION	REFURBISHMENT
AVERAGE	€1,400/sq.m	€1,600/sq.m
HIGH	€1,600/sq.m	€1,750/sq.m
LUXURY	> €1,800/sq.m	> €1,950/sq.m

Source: Cushman & Wakefield

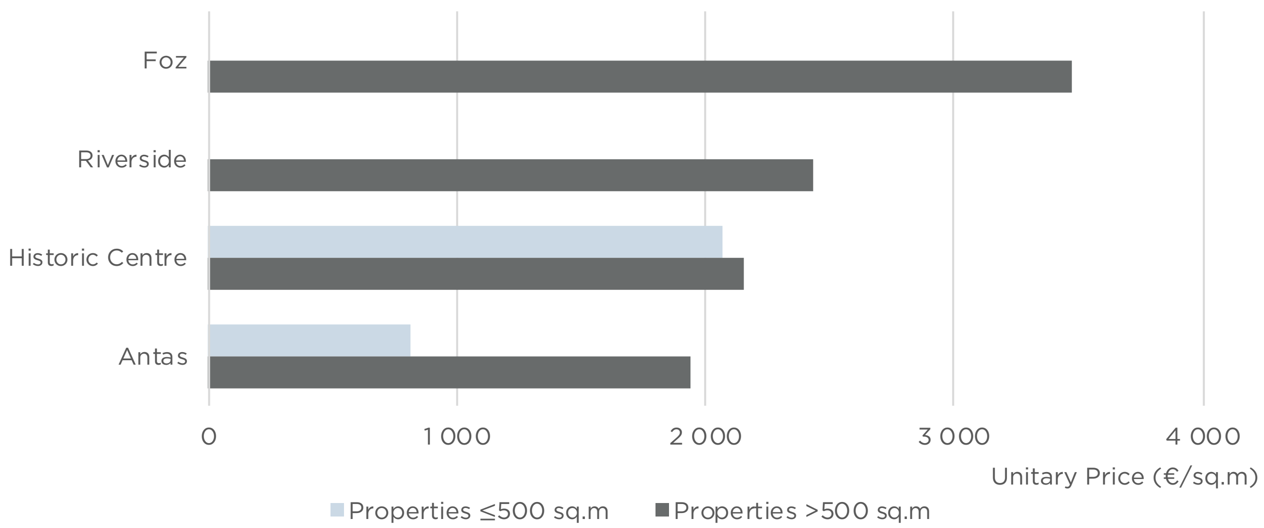
PORTO

The average sale prices of properties in Porto's ARU fell, namely -2% in buildings of up to 500 sq.m, at €2,070/sq.m and -8% among assets larger than 500 sq.m, converging in absolute values to €2,200/sq.m. The highest prices for smaller properties were observed in Foz and the Riverside zone, standing at €3,470/sq.m and €2,430/sq.m, respectively.

A total of 204 thousand sq.m were licensed by June 2022, representing a 17% increase compared to the previous year. Projects submitted for licensing in the first half of the year saw a year-on-year drop of 62%, amounting to 91 thousand sq.m. The residential sector remains dominant in the development and regeneration segment, representing 80% of the licensed area and 63% of the unlicensed area. Tourism projects accounted for 8% of both the total licensed area and the total number of projects submitted for licensing.

Also in Porto, construction costs continued their upward trend, ranging from €1,300/sq.m to over €1,750/sq.m for refurbishment projects.

SALES PRICE IN URBAN REHABILITATION AREAS BY ZONE



Source: SIR RU Ci

CONSTRUCTION COSTS BY SEGMENT

	NEW CONSTRUCTION	REFURBISHMENT
AVERAGE	€1,300/sq.m	€1,350/sq.m
HIGH	€1,500/sq.m	€1,550/sq.m
LUXURY	> €1,700/sq.m	> €1,750/sq.m

Source: Cushman & Wakefield

OUTLOOK

In the short term, the (re)development market will continue to be characterized by spiralling construction costs and extended delays in the licensing of projects, notably in the city of Lisbon.

In general, developers are more focused on built-to-rent projects, mainly for the upper-middle class. However, and despite the licensing hurdles, the most active developers in the market are not neglecting the opportunity of regeneration projects for the upper segment in locations that have caught the attention of international buyers, most notably Americans.

Looking ahead, the rising scarcity of new supply for the middle and lower-middle classes may have implications for price increases in the second-hand market, primarily in the suburbs around Portugal's two main cities.

Ana Gomes
Partner | Head
of *Development & Living*

INVESTMENT

The recovery of investment activity in commercial, income-producing[27] real estate seen in 2021 continued in the first half of 2022, with a total investment volume of €615 million, approximately 6% higher than the same period last year. Some of the largest deals, which were initially foreseen for the second quarter of the year, were only concluded in the third quarter, hence reaching a total transaction volume of €1,656 million between January and September. This reflects a year-on-year increase of 27%. With 39 deals recorded this year, compared with 41 deals seen in the same period of 2021, the average deal size rose to €42 million.

Like previous years, large-scale deals continued to carry significant weight, with the four largest transactions representing 45% of the total. Foreign capital dominates, representing 74% of the volume invested in commercial real estate. Nonetheless, domestic capital still followed a positive trend, reaching €430 million during the period under review.

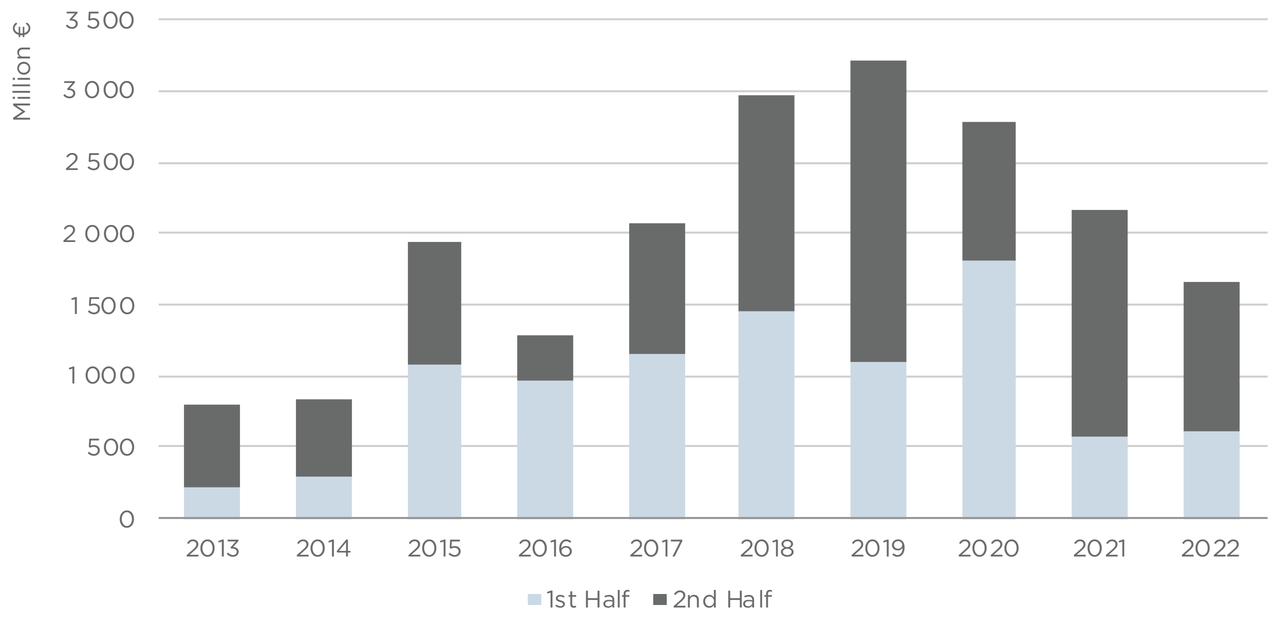
€1,656 MILLION (+27%)
TOTAL VOLUME

74%
FOREIGN INVESTMENT

37%
OFFICES

(27) Institutional investment in completed and income-producing real estate properties.

INVESTMENT[28] BY SEMESTER



Source: Cushman & Wakefield

The office market continues to be most sought-after, attracting 37% of the total invested, at €607 million. The largest deals were Sonae Sierra and Bankinter's purchase of the Atrium Saldanha building from the Fibeira Group for €205 million, Castel Group's acquisition of a portfolio of three office buildings situated in Lisbon from Explorer for between €110 and €112 million, and Merlin Properties' purchase of the former Novo Banco's headquarters on *Avenida da Liberdade* for €112 million.

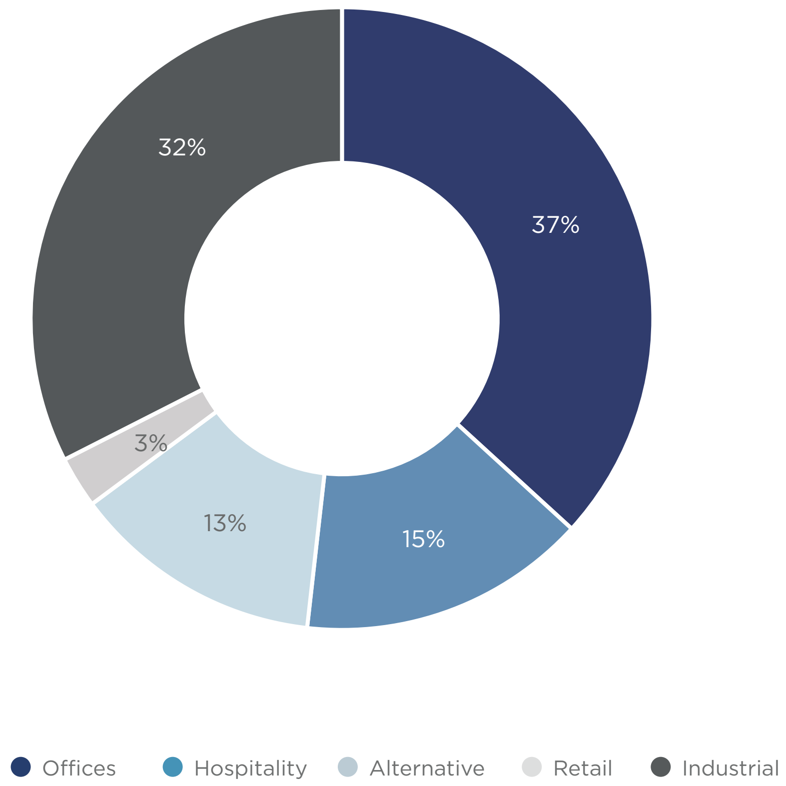
The industrial and logistics market followed suit and finally picked up pace after a sluggish performance during previous years with an investment of €536 million. Deals worthy of note include Blackstone's purchase of the Connect portfolio from Novo Banco for €208 million and of a portfolio of 15 logistics properties from M7 Real Estate for €125 million. Thanks to Azora's purchase of Pestana Blue Alvor Hotel from Pestana Group for between €75 and 85 million and Novo Banco's purchase of the Aqualuz Troia (Mar & Rio) and The Editory By The Sea portfolio of hotels from Sonae Capital for €34 million, the hotel sector represented 15% of the total volume invested.

Other sectors have proven to be more and more popular with institutional investors and attracted 13% of the total volume invested, largely thanks to a portfolio of Smart Studios student residences sold to Round Hill Capital for €200 million.

Countering this trend, shopping centres were less appealing and this in turn lead to the retail sector contributing only 3% of the total volume transacted.

[28] Unit value by measure indicated in column "Area (sq.m)" – €/units, €/beds or €/keys.

INVESTMENT[28] BY SECTOR



Source: Cushman & Wakefield

MAIN INVESTMENT DEALS

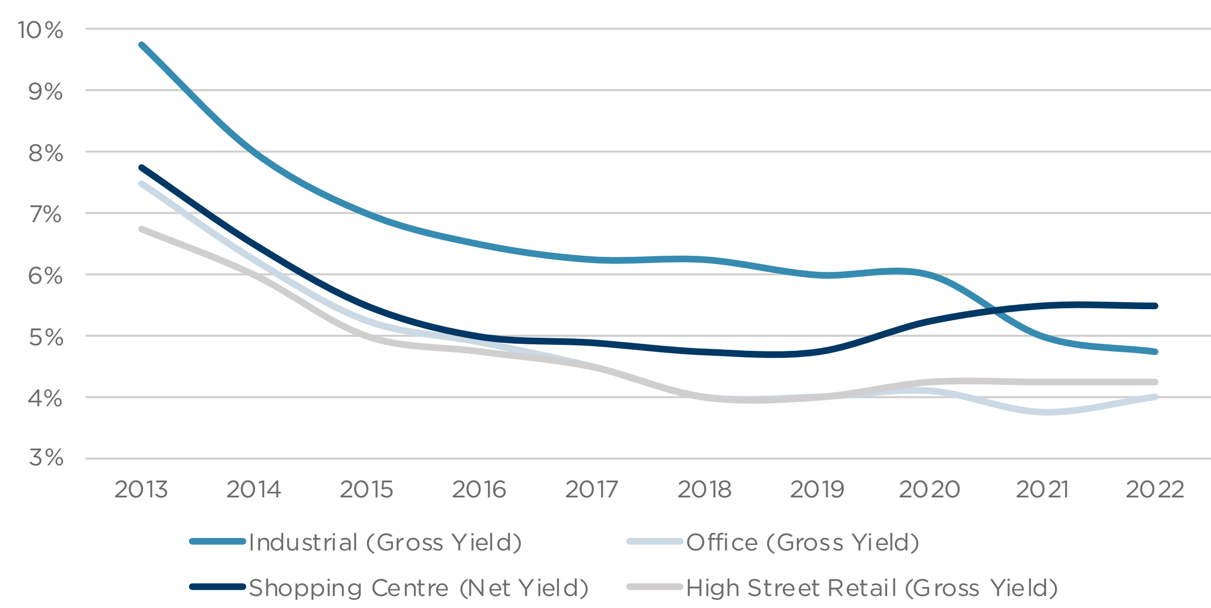
SECTOR	ASSET	CITY	AREA (sq.m)	VENDOR	PURCHASER	PRICE (m€)	VALUE (€/sq.m)	YIELD (%)
Industrial	Connect Portfolio	Several	325,000	Novo Banco	Blackstone	€208	€640	n.a.
Mixed Use	Atrium Saldanha	Lisbon	31,220	Fibeira Group	Sonae Sierra / Bankinter	€205	€6,570	n.a.
Alternative	Project Move – Smart Studios	Several	2,190 beds	Smart Studios	Round Hill Capital	€200	€91,410[29]	n.a.
Industrial	Blackstone Logistics Portfolio	Several	182,000	M7 Real Estate	Blackstone	€125	€690	n.a.
Offices	Explorer Portfolio	Several	21,000	Explorer Investments	Castel Group	€110-120	€5,480	4.0-4.45%
Offices	Liberdade, 195	Lisbon	15,230	Novo Banco	Merlin Properties	€112	€7,370	n.a.
Industrial	Azambuja Green Logistics Park	Azambuja	115,000	Aquila Development	Southern European Logistics Fund	€100	€870	n.a.
Hospitality	Pestana Blue Alvor Hotel	Portimão	490 keys	Pestana Group	Azora	€75-85	€162,930[29]	n.a.
Offices	Tranquilidade Headquarters	Lisbon	7,470	Lace (Real Added Value)	AFFIA	€65-70	€9,030	n.a.
Offices	Former Banco Popular Headquarters	Lisbon	11,660	Santaner Asset Management	Incus Capital	€50-55	€4,500	n.a.

Source: Cushman & Wakefield

In the current context, investors' increased appetite for core assets and in prime locations is reflected in the performance of prime yields. In the first half of the year, prime yields stabilised at 3.75% in offices and contracted 50 b.p. in industrial and logistics (to 4.50%); in the retail sector, high street retail stood at 4.25% and shopping centres at 5.5%.

Following the contraction of prime yields in some sectors in the first half of 2022, the third quarter witnessed a change in trajectory. In the third quarter, prime yields increased by 25 b.p. in offices and industrial and logistics to 4.00% and 4.75%, respectively. In retail, both high street retail and shopping centres remained the same, with an upward movement of 25 b.p. forecast in the last quarter of the year, in line with the remaining sectors.

PRIME YIELDS



Source: Cushman & Wakefield

[29] Unit value by measure indicated in column "Area (sq.m)" – €/units, €/beds or €/keys.

OUTLOOK

Predictions under current circumstances have become increasingly difficult, with so many constantly changing variables. Nonetheless, it is already apparent that the increasingly gloomy picture painted by economic forecasts, the continuation of inflated construction costs and a considerable rise in interest rates (in part already evident, but still not fully crystalized) will have a negative impact on the valuation of real estate assets. Yield arbitrage between real estate and the so-called risk-free assets is inevitable and is leading to yield expansion. While it is true that real assets act as a hedge against inflation to a certain extent, and some occupational sectors may see rental increases, so this movement will not be proportional – but is already underway.

As this movement has not yet stabilized, most investors are adopting a “wait & see” approach, as they hope to better understand what the “new normal” price level will be, before systematically making purchases again. While in more mature markets this price adjustment is usually, more rapid, in the less flexible markets of Southern Europe this adjustment will be slower and may lead to a longer period marked by a shortage of deals, while price expectations of sellers and buyers are not aligned. Once this balance has been struck, we expect to see significant renewed interest in the Portuguese market, supported by the attractive returns it offers in comparison to other geographies and enhanced further by the high levels of liquidity of the largest investors. Assets in prime locations, with solid contracts and strong covenants, will be most sought-after. A gradual strengthening of occupational markets (provided it is not overly impacted by a possible recession) will once again lead to deals being secured in less established assets.

Furthermore, Environmental, Social and Governance (ESG) criteria have progressively become a focal point for investors. Although previously largely linked to core investment funds, these criteria are now much more widespread. In the past, ESG criteria were understood as a pre value-add, however, nowadays, they are often mandatory requirements, leading to some opportunities being excluded by major investors, with a detrimental effect on price.

Against a backdrop of high levels of uncertainty and some difficulty adjusting to new price levels, a slowdown in investment activity in income-producing real estate in the fourth quarter of 2022 is likely. Current estimates are for a total transactional volume of the order of €3.4 million, a historic high and reflecting an increase of 58% compared to 2021. These estimates include €250 million in deals that are currently pending (but that may be finalised before the end of the year), while the remaining volume represents live business deals already at various stages of negotiation (including €90 million already transacted), to which off-market transactions, which are increasingly more prevalent, should be added.

In the outlook for the year-end, despite the expected sale of the ECS-managed hotel portfolio influencing the relevance of the hospitality sector, with close to 30%, the office sector should reclaim its dominant position, commanding a third of the trading volume, with retail picking up, adding around 15% of investment, although highly concentrated in food retail formats.

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