

## Portuguese Economy

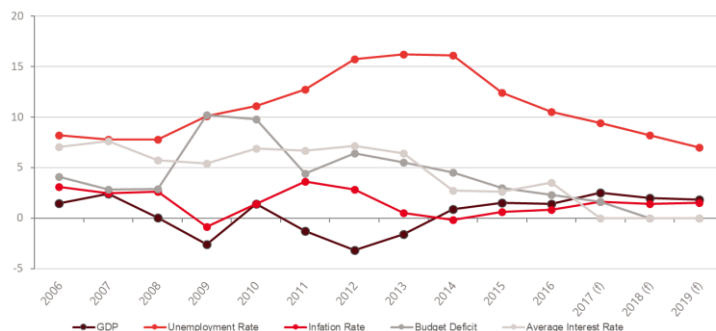
The Portuguese economy is still showing a good recovery during the first half of 2017, with tourism services (Exports) being an important catalyst. The export of goods is also revealing a positive trend and a more diversified geographic distribution. The private investment is showing a strong recovery. In 2018-2019 this growth is projected to continue, particularly on the private/industrial component.

To maintain the path, Portugal must fundamentally need to strengthen its banking system and maintain a fiscal consolidation policy by reducing public debt and increasing productivity.

According to the latest estimates published by the National Statistics Institute, GDP growth in 1<sup>st</sup> semester was 2,9% and the unemployment rate lowered to 9,1%.

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## Investment Market

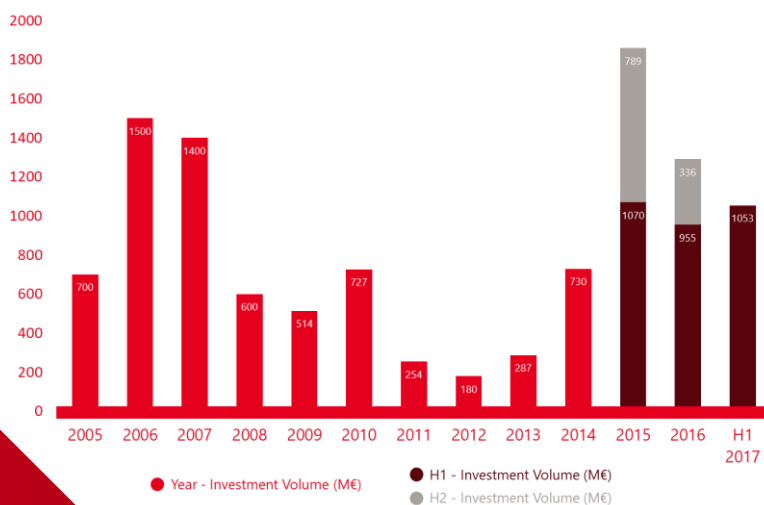
The political and economic stability, the asset's quality, the potential rent grow and the yields that are still higher than other European countries continue to attract a diverse range of international investors, of several geographies.

Given the increasing competition, the lack of core assets and the demand of higher yields, during 2017 the market is reflecting a change in the main investment strategies, directing them towards to secondary opportunities, that includes core+ and value-add profiles.

On the 1<sup>st</sup> semester of 2017 the investment achieved €1.053 Billion, slightly above 2016 and in line with the values of 2015, the highest in the Portuguese Investment Market.

There are several large deals being negotiated on the second semester, which could reach €1.500 Billion, resulting in a new record year.

Historically low interest rates and the attractiveness of the Portuguese real estate industry (presenting a gap of 15-20% between actual and potential rents) are variables that will continue to boost the market in the coming years.



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October 2017

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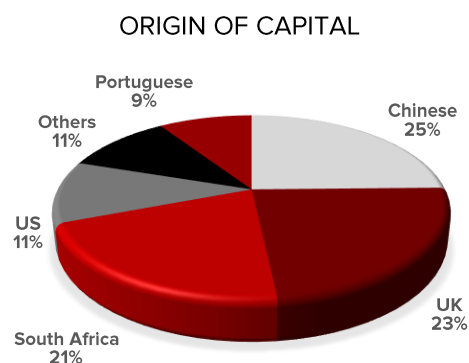
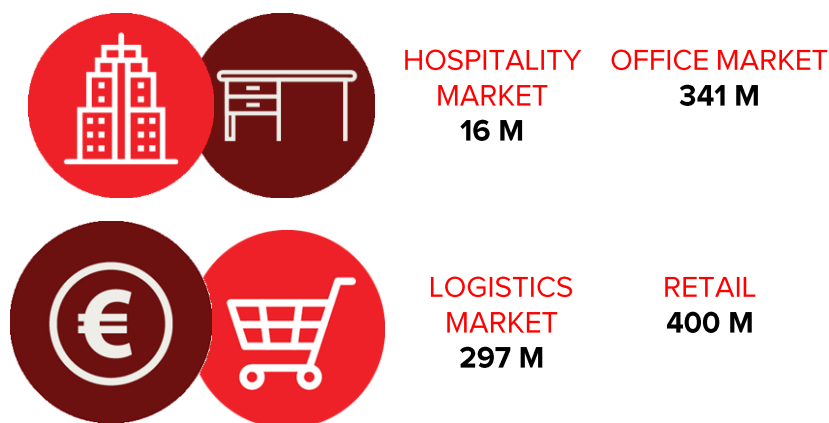
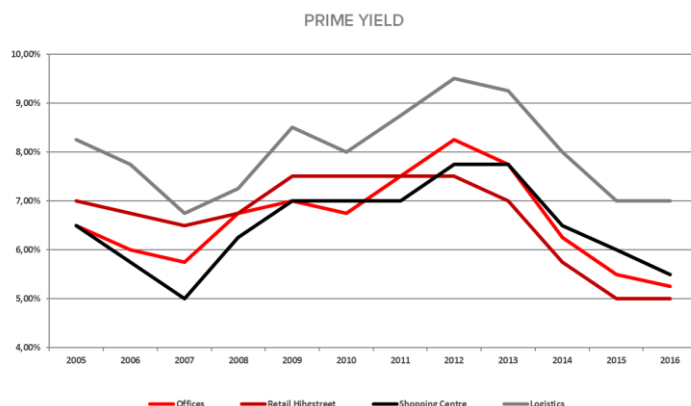


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## Investment Yields

Prime yields witnessed a compression of the yield on office space (5,0%), high street retail (4,75%), yield stabilisation on shopping centres (5,5%) and logistics (7,0%). The current values are at or close to all-time lows in most segments.

Outside the sphere of the commercial real estate market, but also attracting international investors who aim to diversify their portfolios, the urban rehabilitation market is also very dynamic. This situation is greatly influenced by the tourism boom verified in the last 3 years, namely in the short-rental residential sector.



Foreign investment continues to play a decisive role representing 91% in the 1<sup>st</sup> semester of 2017. There are several nationalities, with the Chinese taking the lead due to the acquisition of LOGICOR portfolio from Blackstone. South African investors also have been active in the Retail sector, UK keeps its usual share in the market, and US and the French dropped their influence this period.

It is expected that the core+/value-add assets see their share growth in the following semesters. The opportunistic investors are turning their attention to the NPL (Non-Performing Loan) market, that could experience an increase given the selling pressure from the Portuguese Banking institutions. This could be confirmed by the recent transaction of Apollo, that bought a Portuguese Bank NPL portfolio valued in 1.5 Billion euros.

## Top Transactions

Industry	Building	Location	Area (Sqm)	Seller	Buyer	Nationality	Value (M€)
Logistic	Portfólio Logicor	Azambuja, Palmela, Montijo	534000	Blackstone	China Investment Corp.	Chinese	260
Retail	Forum Coimbra	Coimbra	35400	CBRE Global Investores	Joint-ventury Resilient/Greenbay	South Africa	170-180
Retail	Vila do Conde - The style Outlets	Vila do Conde	43500	Neinver	Via Outlets	UK	120-140
Office	Entrepósito Building	Lisbon	48000	Grupo Entrepósito	Signal Capital	UK	65,5
Office	Office Portfolio	-	32000	Novo Banco	Finangest / HIG	US	50
Office	Ex- BNU Building - Av. Berna	Lisbon	25500	Fundo Pensões da CGD	Fundo de Pensões da Segurança Social	Portuguese	50
Office	Portfólio Tranquilidade	Lisbon & Oporto	-	Tranquilidade - Appolo	Confidencial	US	40-50
Retail	Forum Viseu	Viseu	18705	CBRE Global Investores	Joint-ventury Resilient/Greenbay	South Africa	40-50
Logistic	Ecopark Azambuja II	Lisbon	51400	ECS	Deutsche AM	Germany	35-37
Office	Central Office - Parque das Nações	Lisbon	10310	Promosete	Merlin Property	Spanish	29

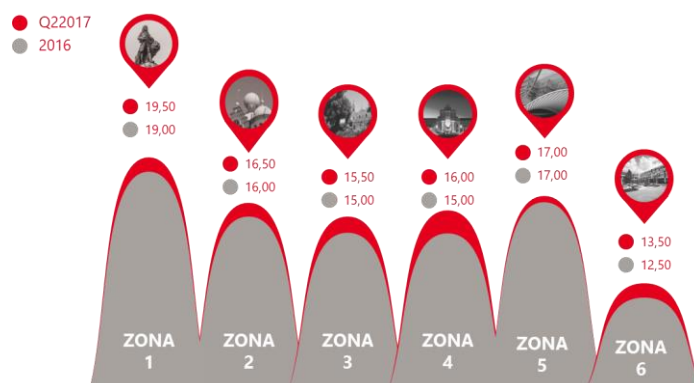
The Prime rents in the Office Market maintain the upward tendency from last year.

The improvement verified in the macro-economic environment originates a higher demand on the office expansion and the opening of new companies in Lisbon. This in conjunction with a deficit of high quality office space in the Lisbon market, and the lack of development in the last years, is putting pressure on the rents in all zones.

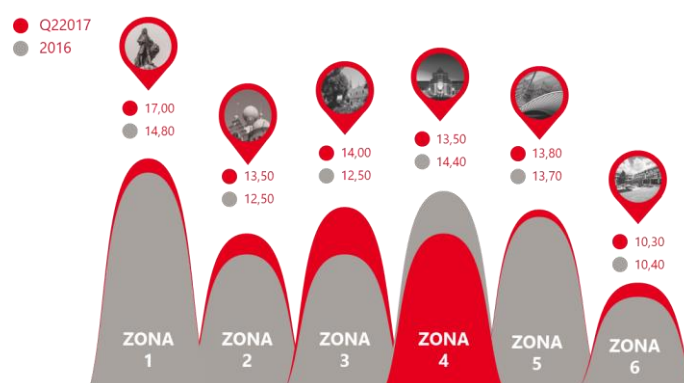
The increase in prime rents has been accompanied by a similar growth in the average values on the recorded deals, strengthening the idea that Lisbon's market for office space continues to suffer from undersupply of quality spaces for immediate occupancy.

The slight decrease of the average rent in zone 4 is explained by the reduced offer of quality office spaces in this zone.

### Prime Rent per zone



### Average Rent per zone



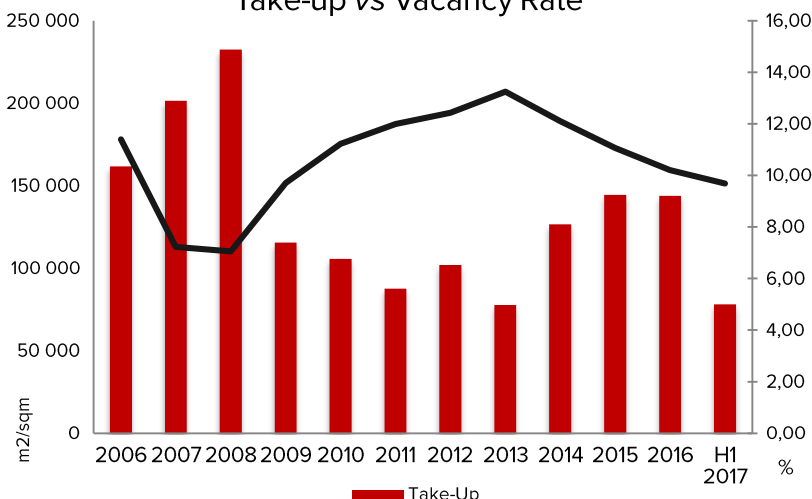
## Take up vs Vacancy Rate

The take up of the first semester achieved 78,081 sqm, in line with last year that witnessed an occupancy rate of 79,506 sqm.

The combined effect of the pre-let new developments and a take-up level in line with 2015 and 2016 brought the vacancy rate down to 9,68 %. Nevertheless, should be considered that a significant part of this vacancy is composed by old buildings with low quality standards that do not match the demand requirements.

With a reduced development pipeline, it is expected that the vacancy rate continues to drop and the rents to increase.

### Take-up vs Vacancy Rate



## PROPERTY MARKET AT A GLANCE

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### Office Market

Total Stock (2017): 4.6 million sq m  
Take-up (June 2017): 78,081 sq m  
Average Take-up (10 yrs): 137.330 sq m  
CBD Prime Rent (2017): €19.50 /sq m/month  
Lisbon Vacancy Rate (Q2 2017): 9,68%

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### Retail Market

Total Stock in Retail Schemes (2017): 3.65 million sq m  
Total Stock in Shopping Centres (2017): 2,6 million sq m  
Prime High Street Retail Locations: Av. Liberdade and Chiado  
Shopping Centre Prime Rent (2017): €95.00 / sq m / month  
High Street Prime Rent (2016): €110 /sq m /month

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### Warehouse and Logistics Market

Average Take-up (7yrs): 120.415 sq m  
Prime rent Logistics (2017): €3.50 / sq m/ month

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### Investment Market

Annual Investment Deals (H1 2017): €1.053 million  
Highest annual Investment Deals (2015): €1.858 million  
Lowest Annual Investment Deals (2012): €180 million  
Office Prime Yield (H1 2017): 5.00%  
High Street Prime Yield (H1 2017): 4.75%  
Shopping Centre Prime Yield (H1 2017): 5.50%  
Industrial and Logistics Prime Yield (H1 2017): 7,00%

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**JORGE BOTA** MRICS

Managing Partner  
+351 962070824  
jorge.bota@bprime.pt

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**CARLOS DOMINGOS**

Investment  
+351 937990097  
carlos.domingos@bprime.pt

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Av. da Liberdade, 180 E – 3º Dto  
1250-146 Lisboa  
bprime@bprime.pt  
**+351 211 570 000**