

Spotlight **Prime Lisbon Residential Market**

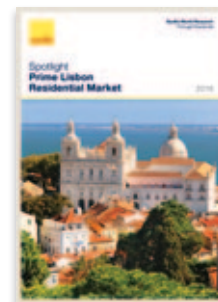
2016



Notes about the publication

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Spotlight Prime Lisbon Residential Market



A Western European capital offering value, Lisbon is attracting a diverse international buyer base

Lisbon is a prime example of a European heritage city poised to recover strongly as a variety of occupiers and investors seek economic recovery and growth.

This plays alongside a compelling lifestyle story which is likely to attract human capital in the digital age.

The city has the particular advantage of looking good value by comparison with other western capitals. Low real estate prices make it particularly attractive to investors from countries where property investment is a relatively recent phenomenon and where values are relatively low.

Investors from recently emerged and emerging countries, including Portuguese-speaking countries in South America and Africa are already taking advantage of these favourable conditions and making purchases. Lisbon stands out as one of very few locations outside the Americas which has attracted Brazilian buyers and hints at the possible development of an 'Atlantic rim' market.

Lisbon appears to have the opportunity to join the group of global elite, premier cities which enjoy international inward investment in real estate markets offering safe haven, stability and security with high-quality product and lifestyle. If it does so, further capital and rental value uplift would appear likely. ■

▼ The famous Rua Augusta Arch



“Lisbon looks very good value compared with other western capitals”

EXECUTIVE SUMMARY



Lisbon has seen a surge in residential investment and development activity in the last two years, driven by improving economic conditions and incentives for foreign investors.

See pages 04/05



Lisbon's residential property offers value by international standards. Mainstream values stand at €1,200psm, and prime values at €5,000psm, a third and a tenth the price of European competitors.

See pages 08/09



The prime markets draw demand from a diverse international base. Lisbon is one of the few international markets outside the Americas to see buying activity by Brazilians.

See pages 08/09



Rental yields, at 4%, are low by international standards, but there exists a growing market for short-term lettings.

See page 10



With a high quality of life and low cost of living, Lisbon is well positioned to benefit from a global small-city renaissance. It is already an international tourist centre and a growing hub for start-ups.

See page 10

LISBON AT A GLANCE

Lisbon is a fast-rising city on the global stage. This European capital is Portugal's business and cultural hub and largest tourist destination. For residents, Lisbon offers city living in a compact urban environment and relaxed Mediterranean lifestyle. A distinctive city of hills, Portuguese cuisine, nightlife and Atlantic beaches are all on offer.

The city is emerging from economic difficulties in a nation which underwent an EU and IMF bailout in 2011. Reform of Portugal's residential tenancy laws, coupled with inward investor incentives, has spurred wide scale regeneration of the built environment, helping Lisbon to foster economic recovery faster than other parts of the country.

Some €1.56bn has been injected into Portugal's residential markets since the golden visa programme was

launched in 2012, the bulk of this has gone into Lisbon. New apartments are being constructed and historic buildings are being redeveloped to meet modern-day occupier demands.

Economic performance

Portugal is now emerging from recession. Austerity measures, imposed as part of the country's €78bn 2011 bailout by the EU and IMF, coupled with improvement in the macro economic context, have paved the way to renewed economic growth. The national economy grew by 1.5% in 2015, and is forecast to grow by a further 1.4% in 2016, just below the Eurozone average of 1.6%. Unemployment now stands at 12%, down from a high of almost 18% in January 2013.



€1.56BN

New residential investment into Portugal via the Golden Visa scheme since 2012

“Lisbon is Portugal's wealthiest city. GDP per capita stands at €22,500, 36% above the national average”

As part of its bailout package, Portugal was required to implement structural reforms to improve long-term growth, productivity and competitiveness while reducing its deficit. Portuguese companies have increasingly focused efforts to grow their business abroad. This has fuelled exports, which are up 29.3% since 2010. New incentives for inward investment into Portugal's residential markets were developed, helping to revive the residential sector (see p6).

One effect of the financial crisis was to foster greater entrepreneurship, and Lisbon has emerged as a centre for tech companies and start-ups. Affordable property and a high quality of life, together with a pool of young talent from the city's universities, support a burgeoning tech scene. The Web Summit conference will relocate to Lisbon from Dublin in 2016, while the London co-working space provider 'Second Home' is expanding into the city.

Portugal also offers certain competitive advantages that are helping to fuel its recovery. The World Economic Forum ranked Portugal 36th (of 144 countries) in its 2015-16 Global Competitiveness Report, scoring highly for quality of infrastructure. The country ranked 23rd (of 189 countries) in the World Bank's 'Doing Business' rankings, in which Portugal scored particularly high for ease of trading across borders.

Lisbon is Portugal's wealthiest city. GDP per capita stands at €22,500, 36% above the national average. Average household disposable incomes are 15% higher than the Portuguese average.

Tourism

Lisbon is Portugal's largest tourist market, accounting for 30% of all the country's overnight visitors. The city welcomed 5.2 million overnight guests in 2015, an increase of 47.3% since 2006. Passengers at Lisbon airport reached 19.7million in 2016, an annual increase of 11.6% and a doubling of passenger numbers since 2006 (Figure 1). The city is Europe's fourth fastest growing international tourist market by growth in overnight visitors after Istanbul, Hamburg and Copenhagen.

FIGURE 1
Lisbon tourism: growth in air passengers and overnight visitors



Source: Statistics Portugal



552,700

The population of Lisbon, rising to 2.8 million when including the wider metro area



1200BC

Lisbon is the second oldest European capital after Athens



9.08° W

Lisbon is mainland Europe's westernmost capital



16C

Lisbon benefits from among the mildest winters of any European metropolis

▼ A distinctive city of hills



The catalysts for Lisbon's regeneration

Together with an improving economic context, a number of policies have been instrumental in fuelling investment into Lisbon's residential markets, kick-starting the city's wider regeneration:

1. Market Reform

Historically Portugal's leasing market was protectionist, pro-tenant and gave little incentive for landlords to enter the market. As a result, Portugal's home ownership rate is high, with an owner occupation rate of 75%.

In 2012, the government introduced reforms to the leasing market, leading to greater flexibility in lease terms and, making the investment market more appealing to investors. This quickly attracted the attention of new developers and institutional investors. These included US developer EastBanc and Stone Capital, a developer and asset manager, for example. Stone Capital has undertaken more than 20 regeneration projects across the historic city centre.

Improved market conditions have also fuelled big ticket commercial investment volumes. In total, \$1.96 billion (€1.71bn) was invested into Lisbon's commercial markets in 2015, of which \$1bn (€0.87bn) came from the United States. Investors from the UK, Spain, Singapore, Switzerland and Germany, among others, have also been active in the last four years.

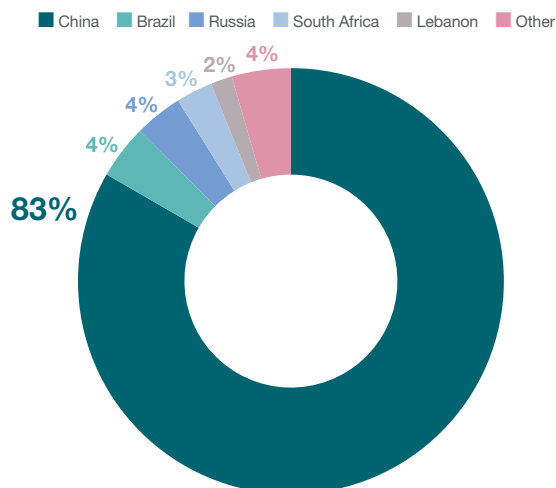
2. Golden Visas

Portugal launched one of the world's most successful golden visa schemes in 2012. A minimum investment in real estate of €500,000 grants the non-EU buyer a visa and, in the longer term, a route to an EU passport. Foreigners need only be resident in Portugal for seven days in the first year of residency.

By January 2015, the scheme had brought €1.56bn of new investment into Portugal's residential markets – the bulk into Lisbon. Some 2,697 golden visa residence permits have been issued for real estate acquisitions, of which Chinese have accounted for 83%. Those from Brazil, Russia, South Africa and

FIGURE 2

Golden residence permit programme investors (2012-2015)



Source: SEF

Lebanon are the next largest national groups (Figure 2).

The majority of golden visa buyers purchase for investment, but with a longer term view to make Portugal a permanent home. The scheme's success has been attributed to its flexibility, reputation and residence in a safe and secure mainland European country.

3. Non Habitual Resident

Lisbon is also benefiting from investment from EU citizens, attracted by Portugal's 'Non Habitual Resident' (NHR) scheme, offering tax incentives to those who have not been a tax resident in Portugal for the last five years.

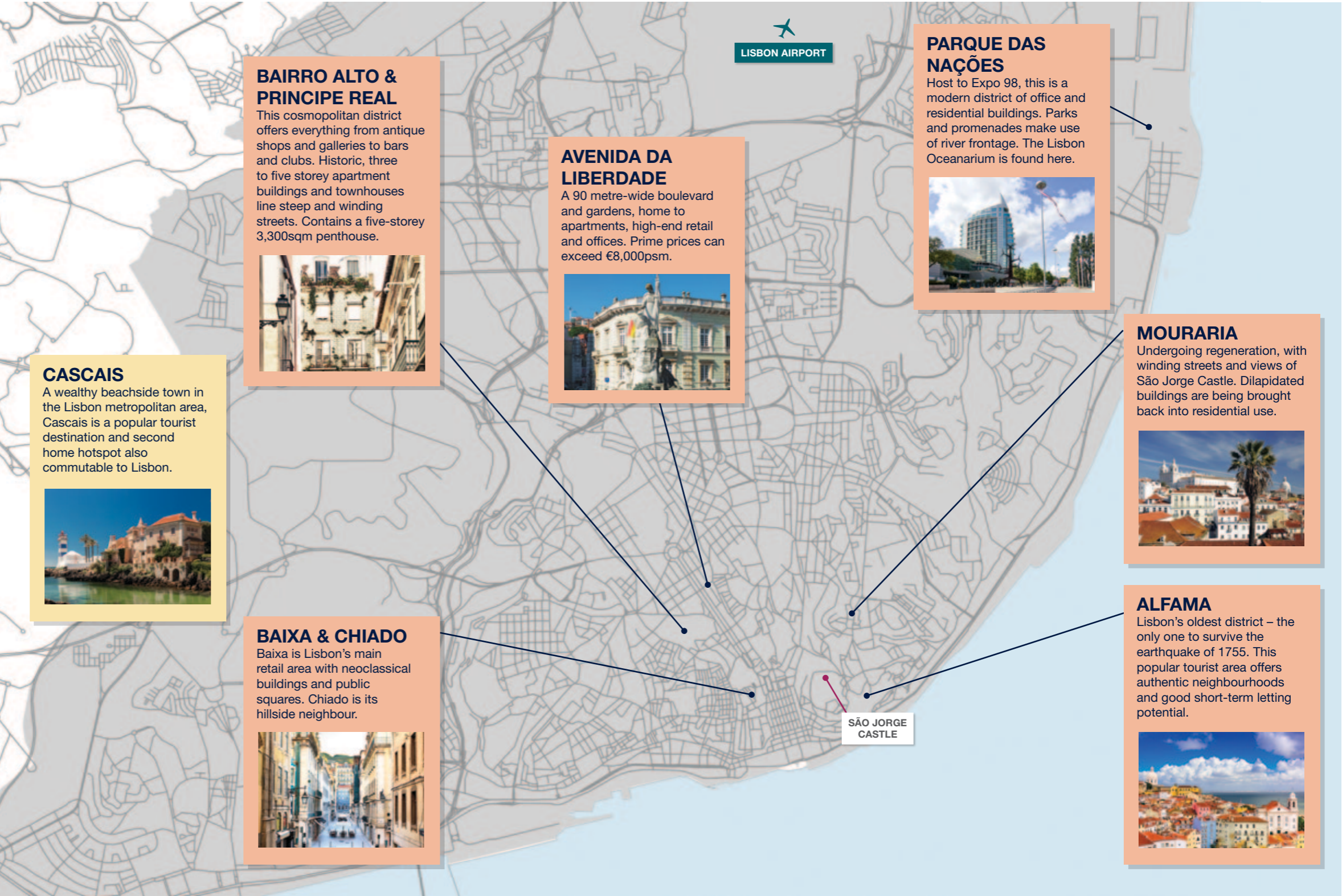
NHR are exempt from personal income tax on income from a non-Portuguese source such as pensions, rental income, capital income and capital gains for ten years (provided that income is subject to taxation in accordance to the Double Tax Treaty), for ten years. For those working in Portugal, NHR status offers a flat rate 20% personal income tax on those in high value-added scientific, artistic or technical jobs.

The scheme has been credited with further diversifying the demand base for residential property in Lisbon. NHR status has been especially popular with the French who, by comparison, face high taxation at home. ■



FIGURE 3
Lisbon's residential markets

Much of Lisbon's historic city core dates from after the 1755 earthquake, redeveloped in the neoclassical style. The oldest properties are found in the narrow streets and small squares of the Alfama district. Historic buildings across the city centre are being regenerated to modern standards. Parque das Nações is Lisbon's new waterfront district and home to modern prime apartments.



Source: Savills World Research

RESIDENTIAL MARKETS

For a capital city of a Western European nation, Lisbon's prime real estate offers value on a global stage. It also provides its residents a quality of life superior to that of many larger cities. Figure 4 compares mainstream residential prices per square metre in Lisbon, against our measure of quality of life (cost of living, crime, pollution, and weather) across ten global centres.

Lisbon's mainstream residential prices, at €1,280psm are two thirds that of Madrid (€2,100), a third of Berlin's (€3,400) and a tenth of London's (€11,400). Prime prices, at €5,000psm, compare favourably

too (Figure 5). Lisbon also offers the highest quality of life of the ten cities benchmarked here, based on its low cost of living, low crime and pollution and pleasant climate.

Property is good value by global standards, but rents are low too, given the limited spending power of locals and higher supply provided by investors. From an investor perspective this is reflected in gross yields at around 4%, modest by international standards outside the major world cities. Future investment performance will therefore depend on economic growth and increased local earnings.

Market performance

The Portuguese residential market has entered a period of recovery. Prices grew by 3.8% in the year

to February 2016, 6.6% above their lowest levels of 2013. More properties are trading. Transactions increased 27.4% on an annual basis to stand at 107,300 by Q4 2015.

Lisbon's residential market has outperformed the national average. Prices across the whole of Lisbon increased by 4.4% in the year to February 2016, and stand 11.9% above their 2013 low.

These INE statistics show modest price growth in the whole market, but the performance in some of Lisbon's prime markets has been stronger. New product of increasingly superior quality, aligned to international standards, has contributed to higher price uplift in some submarkets. As a consequence, prime prices in Lisbon have grown by around 30% over the 2013-16 period.

The emerging nature of Lisbon's prime markets means prices vary significantly on a building by building basis. Even on Avenida da Liberdade, Lisbon's best address, only the best buildings command prices in excess of €5,000psm, with individual properties achieving more than €8,000psm.

Purchaser profile

Lisbon's prime markets benefit from a diverse international demand base. The Chinese, who have accounted for 83% of golden visa purchasers over the last five years, favour new build properties. Russians, South Africans, the French and other northern Europeans purchase more broadly and are attracted to the city's historic core.

Brazilians are an important buying group, drawn to Lisbon by the Portuguese language and city lifestyle. They are particularly active in regeneration projects, buying into 'authentic' Lisbon. Lisbon is one of the few markets outside the Americas that sees buying activity from Brazilians in any volume, and longer-term, represents a huge prospective growth market from this populous emerging nation.

Domestic purchasers are returning to the market, assisted by low mortgage rates (averaging 2.1% at March 2016) and a greater propensity for banks to lend.

FIGURE 4 Residential prices and quality of life rankings

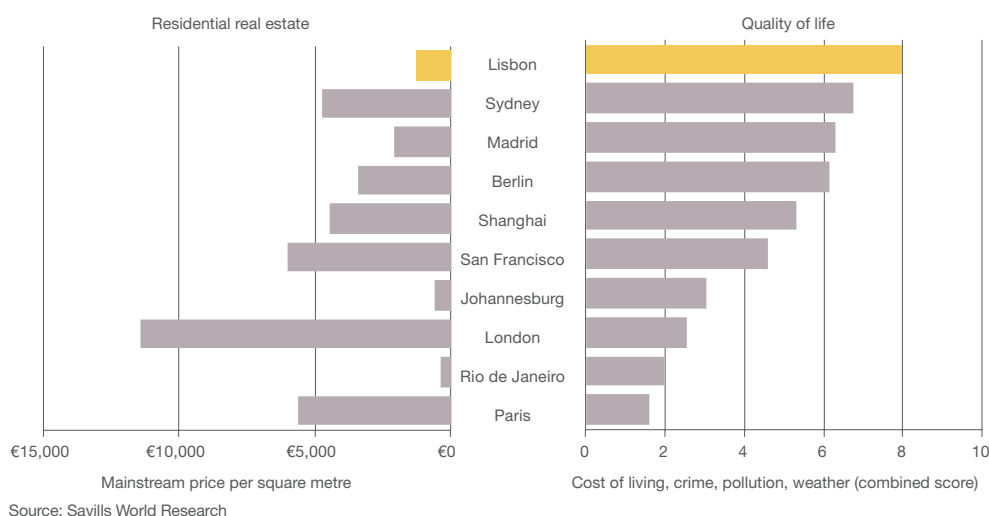
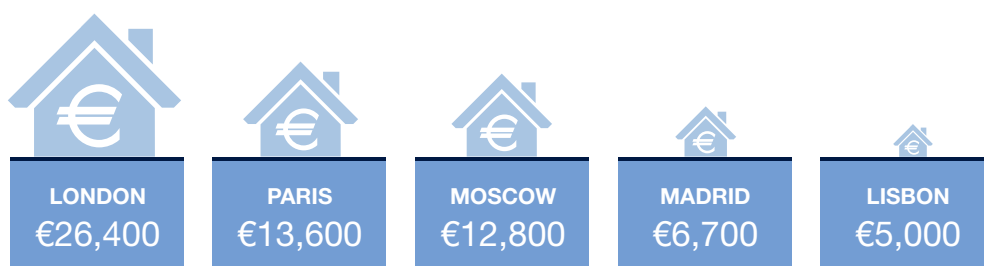


FIGURE 5 Prime prices per square metre

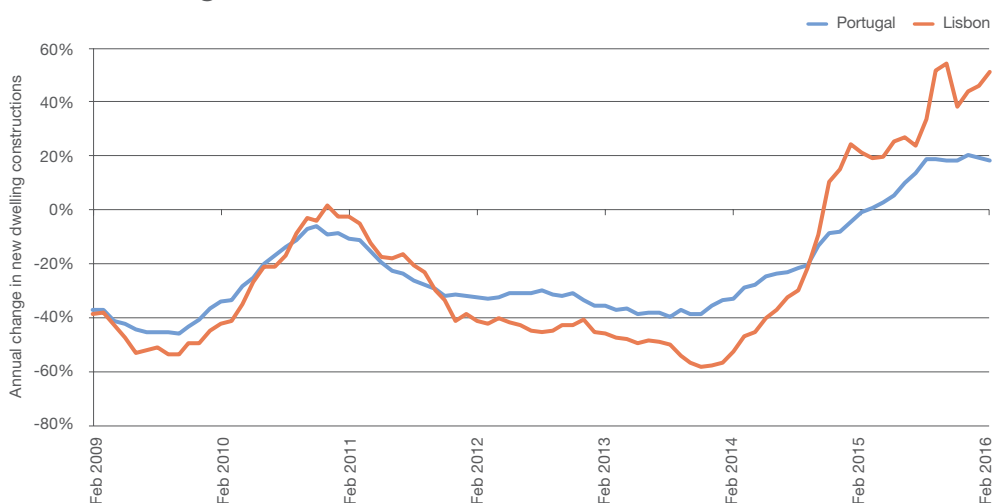


New development

Lisbon's current renaissance is one of urban living and the rediscovery of its historic centre. This is in contrast to Lisbon's last surge of development in the late 1990s, characterised by new apartment buildings in peripheral districts, notably Parque das Nações (see page 7).

New buying activity has spurred new development. New dwelling construction in Lisbon has grown rapidly since 2013 (see Figure 6), up 51% in the year to February 2016, a faster rate to Portugal as a whole. Although increasing, housing delivery remains well below pre-crisis levels; 1,296 dwellings were constructed in the year to February 2016, 91% less than in 2007 when 13,905 were delivered. ➔

FIGURE 6
Annual change in new residential construction

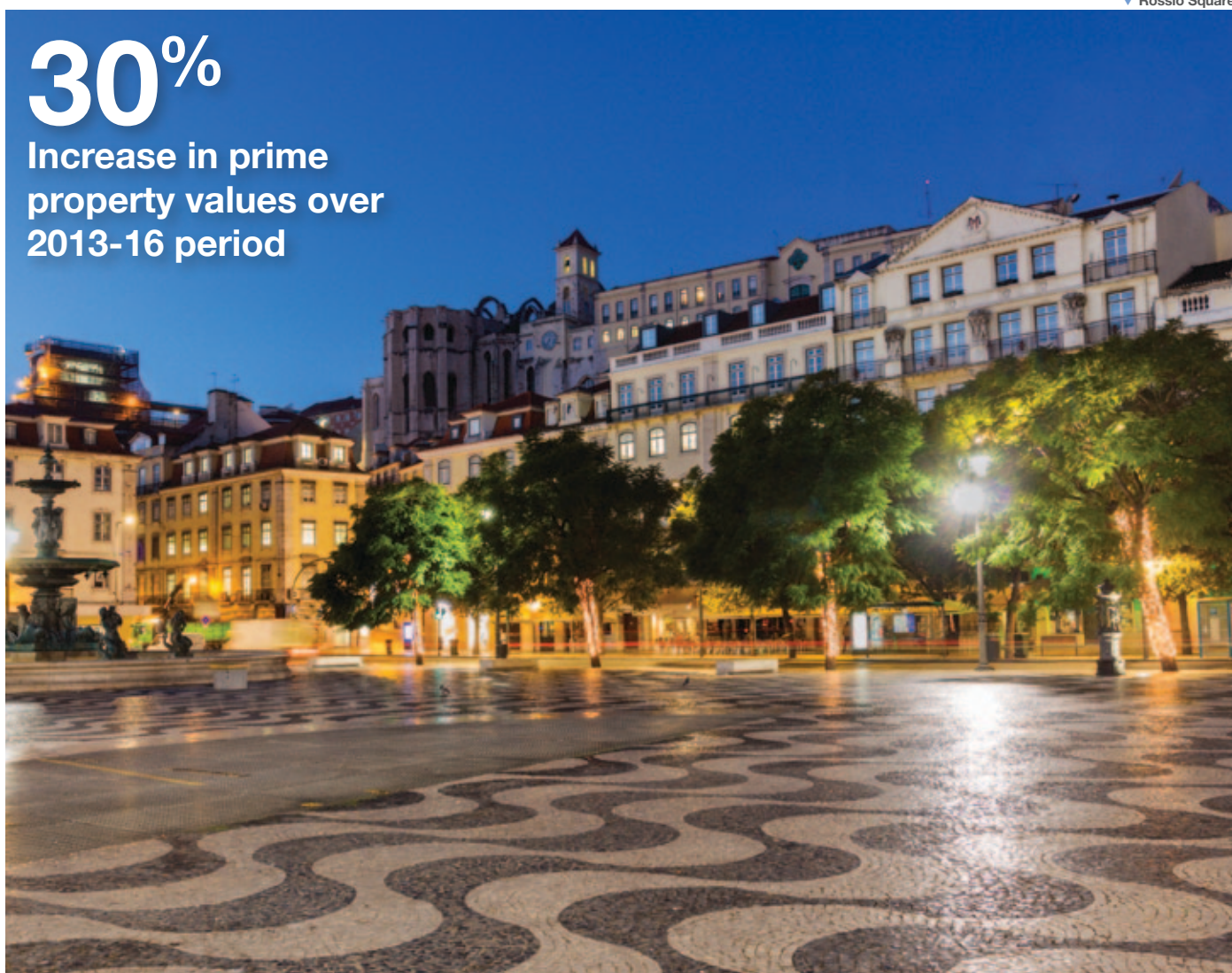


Source: Statistics Portugal

▼ Rossio Square

30%

Increase in prime property values over 2013-16 period



→ Sales of prime new developments are now occurring off plan as inventory has been diminished. Lisbon's stock of historic buildings is gradually being renovated. Such is the demand for residential projects, conversions for residential use are outcompeting those for office use.

Rental markets

The reform of Portugal's tenancy laws have made residential investment for income a more appealing proposition. There exists good underlying demand for rental property but with a weak (albeit

recovering) domestic economy, spending power among locals is limited. Yields for quality, long-term rentals stand at around 4%.

Given Lisbon's rapid growth as a tourist destination some investors instead target holiday rentals. Achievable yields are higher and owners have the flexibility to occupy the property themselves for part of the year. Modernised apartments in older districts such as Alfama and Miradouro are popular with holidaymakers seeking an authentic Lisbon experience. ■

▼ Lisbon offers a high quality of life



“The reform of Portugal's tenancy laws have made residential investment for income a more appealing proposition”

OUTLOOK

■ **Value:** Lisbon is a Western European capital city that offers value for money. The price differential with competing cities suggests scope for future price growth.

■ **Sector performance:** Portugal's economic recovery is tentative, but Lisbon is outperforming as an international tourist centre and emerging 'tech city'.

■ **Growth markets:** Lisbon attracts investment from Latin America, notably Brazil, in small but growing volumes. If Lisbon finds itself a springboard into Europe from this group and investment grows to levels seen in Miami, the longer term impact on Lisbon could be transformative.

■ **Rise of the small city:** Lisbon is well positioned to benefit from the global small-city renaissance. Compared to the big urban centres, it offers shorter commutes, a lower cost of living and a high quality of life.

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