MARKET IN MINUTES

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PORTUGAL – H1 2021

MARKET OVERVIEW

15 MONTHS OF THE COVID-19 PANDEMIC

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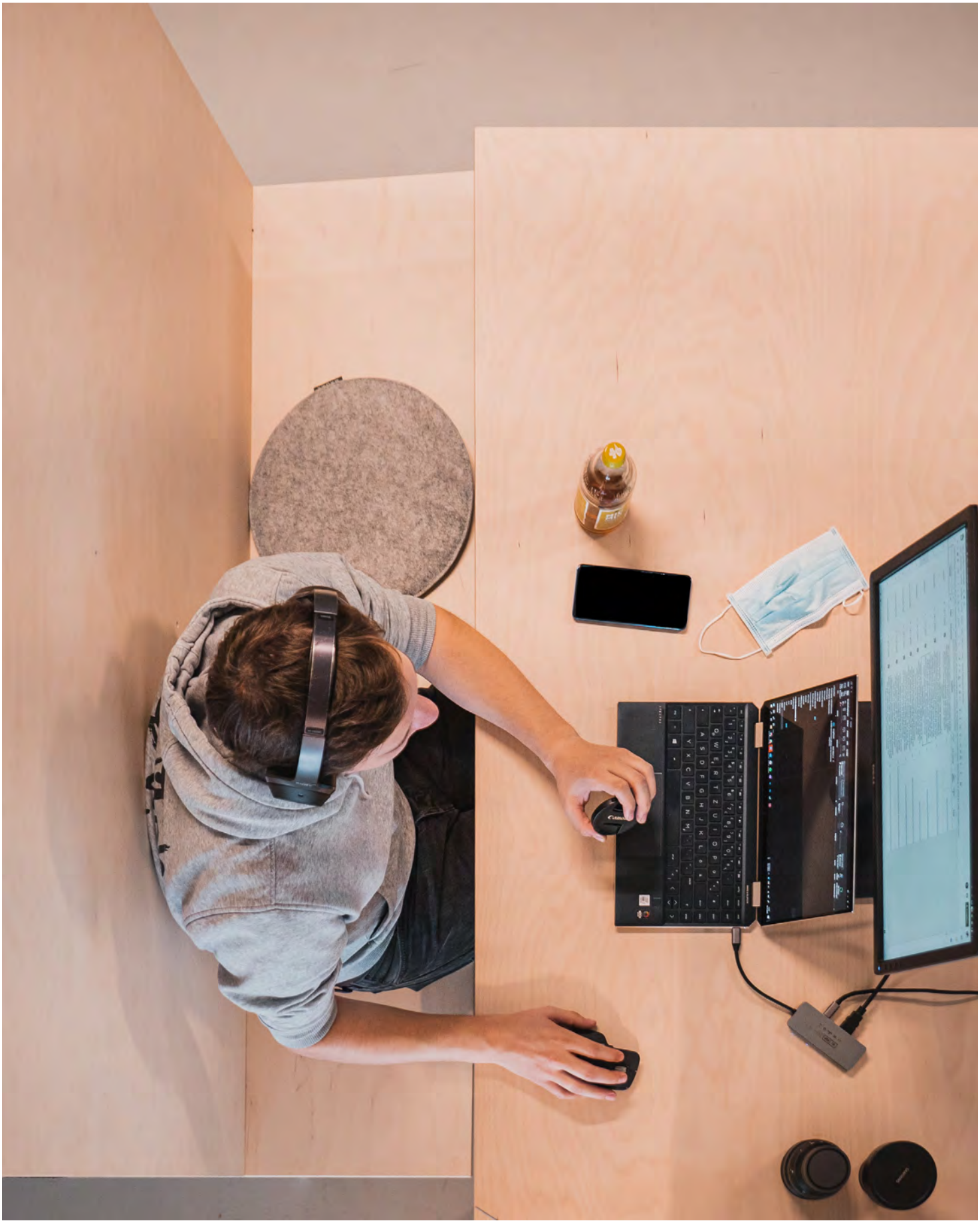

MARKET IN MINUTES

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ECONOMY

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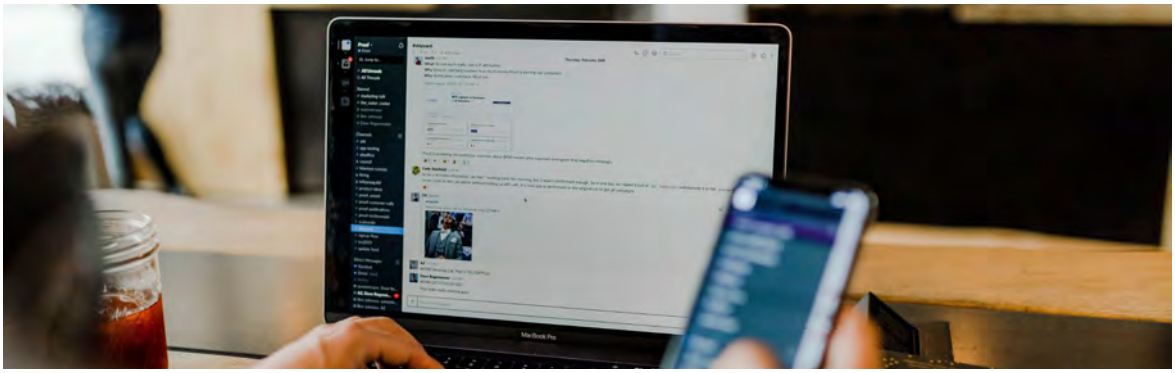


The year 2021 began in the middle of the second lockdown period, thereby setting the pace of economic recovery for the first three months of the year. The new wave of the Covid-19 pandemic had a significant impact in economic terms, with GDP registering an annual variation of -5.3%. There was also a 0.2 p.p. reduction in the unemployment rate in the 1st quarter of 2021, down to 7.1%.

The new confinement measures implemented in early January 2021 also led to business losses, which were particularly severe in the services and tourism sectors, with private consumption reaching 6-month minimums. On the other hand, the balance of trade performed in a more positive manner, where exports of goods and services rose by 6.2% and imports dropped by 5.3% compared to the previous year.

A period of economic recovery was foreseen for the 2nd quarter of 2021, mainly based on the lifting of the measures implemented by the Portuguese State to contain the wave of the pandemic.

Mobility rates approached pre-pandemic levels and the reopening of non-essential services, in-person teaching and catering outlets resulted in an increase in GVA in these sectors.

The Portuguese economy grew by 15.5% year-on-year in this period, largely due to the very low base of the 2nd quarter of 2020.

In a comparative analysis with the previous quarter, growth stood at 4.9%.

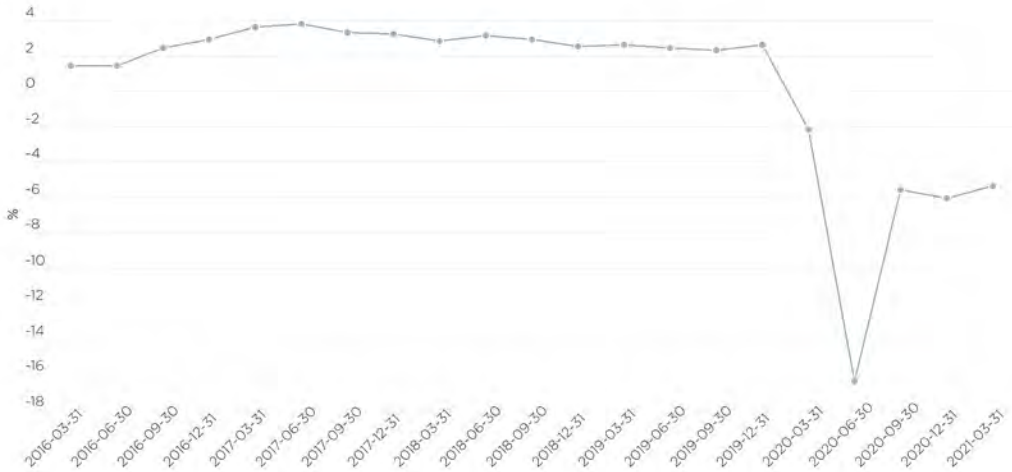
Domestic demand exerted a greater influence on the recovery of the economy, through an increase in private consumption during the lockdown period, together with a more positive contribution of net external demand, with a considerable increase in the exports of goods.

The unemployment rate has been dropping on a consistent basis since it peaked between August and September 2020 at around 8%. The unemployment rate stood at 6.9% in late June 2021.

With regard to inflation, there was an increase of approximately 0.7% in the 1st quarter of 2021 compared to the last quarter of 2020.
The significant increase in the price of oil has helped stabilise the rate of inflation rate, and has also led to a sharp increase in the price of energy-related goods.

In June 2021, the inflation rate was 0.7% down compared to May and around 0.4% up compared to the same period in 2020.

EVOLUTION OF GDP (%)



Source: Banco de Portugal

Forecasts 2021

Real GDP and Components
(variation %)

GDP:
3.9%

Inflation:
0.8%

Unemployment Rate:
7.2%

Private Consumption:
3.3%

Imports:
13.2%

Exports:
14.5%

MARKET IN MINUTES

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PORTUGAL – H1 2021

INVESTMENT

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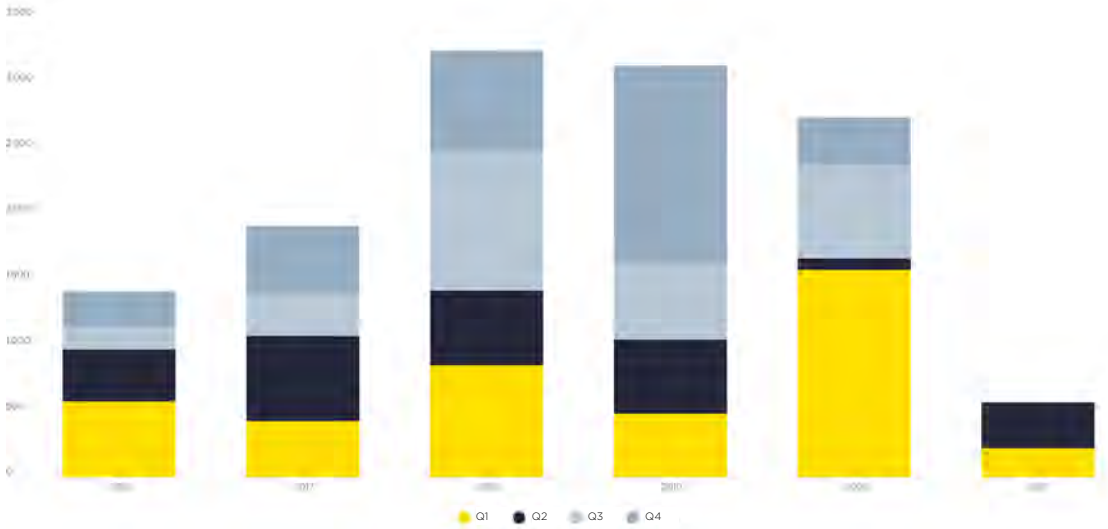
TOTAL VOLUME OF REAL ESTATE INVESTMENT (MILLION EUROS)



Source: Savills Research

The results registered in the first six months of 2021 should be analysed in the light of a country that began the year in full mandatory lockdown, which once again thwarted the resumption of activity.

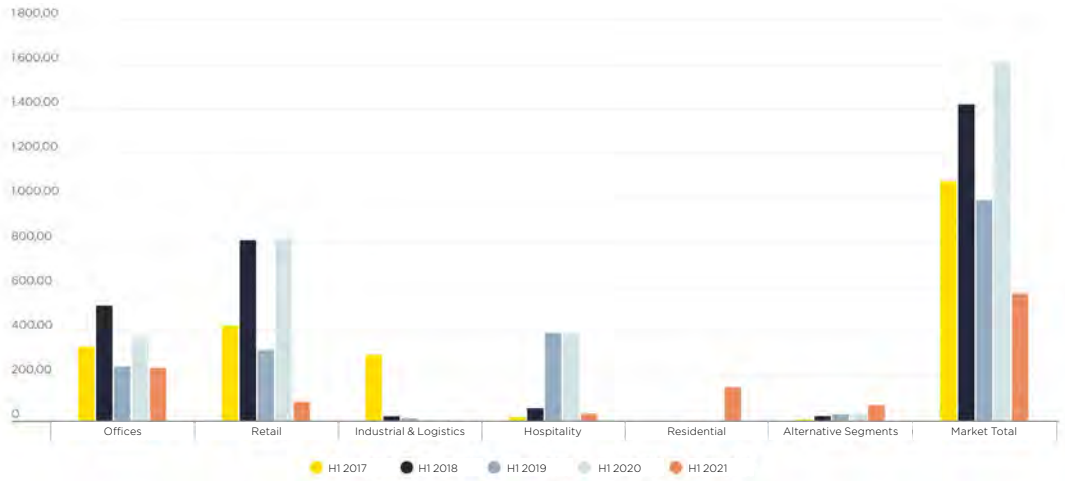
At the end of the 1st six months of 2021, the real estate investment market in Portugal registered a total amount of 569 million euros, which represents a drop of 66% compared to the same period in the year 2020. A total of 26 investment transactions were conducted, the exact same number registered in the first six months of 2020.

However, it is of paramount importance to analyse the behaviour of the investment market in this six-month period by segment, and to observe the positive evolution of the amounts invested as the country moves forward with the plan to lift the restrictions in a successful and timely manner.

The national real estate investment market totalled 348 million euros at the end of the 2nd quarter of 2021, which amounts to an increase of 57% compared to the 1st quarter of 2021.

With regard to the distribution of real estate investment by sector, the office market continued to be the main focus of investors with 41% of the total volume of transactions in the 1st six months of 2021, a considerable part of which involved assets in prime locations in the cities of Lisbon and Porto. The retail market, on the other hand, continues to suffer from the side effects of the pandemic crisis and the results make it clear that investors are showing greater caution in this segment. In the 1st six months of 2021, the retail market amassed around 85 million euros of total investment volume, substantially lower than the average of 500 million euros registered for the first six-month period over the last five years.

TOTAL VOLUME OF REAL ESTATE INVESTMENT BY SEGMENT (MILLION EUROS)



Source: Savills Research

H1 2021:
€ 569 million
-66%
(var. H1 2020)

Q2 2021:
€ 348 million
+57%
(var. Q1 2021)

International Investment
83%

TOP DEALS

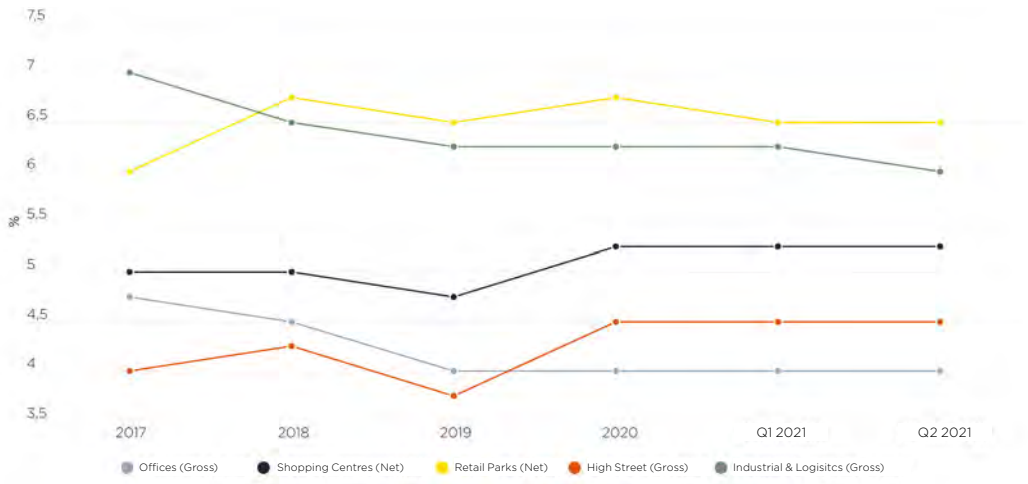
ZIP Project
PRS Portfolio
€ 150 million
Seller: Confidential
Buyer: Confidential

Navigator Portfolio
Offices
€ 120 million
Seller: Rivercrown Fund
Buyer: South Altaya

WPP Building
Offices
€ 50 million
Seller: Ardana | Edge Group
Buyer: Tishman Speyer

D. Manuel II Building
Offices
Value Confidential
Seller: Nipa Capital
Buyer: Incus Capital

EVOLUTION OF PRIME YIELDS BY SEGMENT (%)



Source: Savills Research

The Shopping Centre transactions market is giving way to the sale of high street retail stores and to an active demand with a focus on food units, a trend that is in line with the current scenario in other European countries.

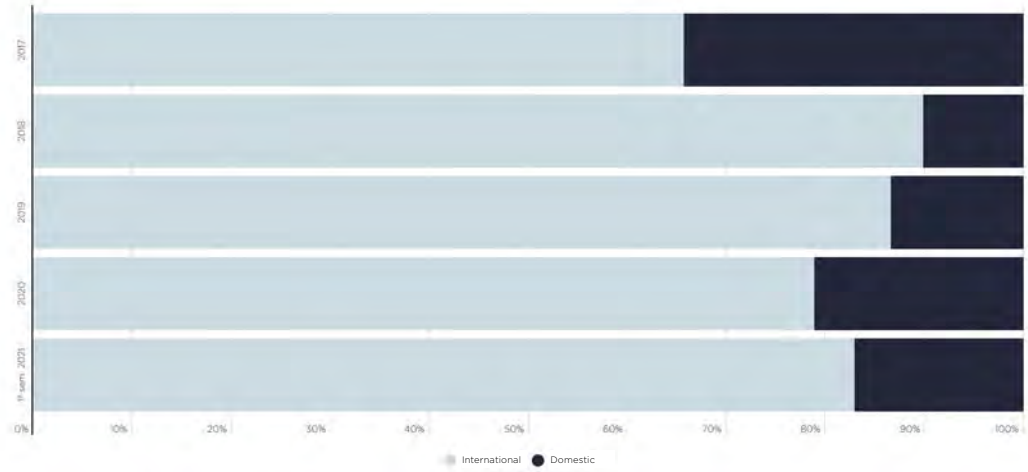
Of particular note is the growing trend of increased investor interest in the residential segment (PRS) and alternative segments, which amounted to 190 million euros in investment in the first six months of 2021. In the case of the alternative segments, which accounted for 21% of the aforementioned total of 190 million euros, it should be pointed out that part of this amount involves forward-funding operations in the student housing and senior living segments.

International investors have continued to be active in the Portuguese investment market and account for more than 80% of concluded transactions, with a strong presence of European investors from France, Spain and the UK.

Likewise, the market share of Portuguese investors has continued to rise in the form of investment management funds and private investors investing in the acquisition of offices and retail assets, in particular street trade, with investment tickets of slightly over 10 million euros.

The second half of 2021 should see the conclusion of a number of transactions that will significantly increase the total volume of investment for 2021. As the different countries involved in investment in Portugal lift their respective restrictions and travel gets back to normal, decision-making processes should also become faster.

INTERNATIONAL INVESTMENT VS DOMESTIC INVESTMENT (%)



Source: Savills Research

TRENDS H2 2021

Demand for prime assets will remain fiercely competitive due to a greater scarcity of products, along with an equally specific demand for development products.

Portugal has a number of major portfolios in the pipeline, and will remain firmly on the radar of international investors with an eye on the office, hospitality and alternative segments.

The industrial and logistics segment, in spite of the dynamic activity seen in the occupational market, will continue to see the growth of its volume of investment hampered by the continuing scarcity of quality assets.

Savills Portugal foresees a volume of investment that could reach 2.8 billion euros by the end of 2021, but which is highly dependent on the conclusion of a key transaction in order to achieve this result. A more conservative forecast for 2021, and one that allows for slip-ups, would be 1.8 billion euros, whereby levels of activity in the domestic real estate investment market are expected to recover at a faster and more solid rate in 2022.

An excellent indicator of the recovery of the rate of activity in the second six months of the year was the fine start to the 3rd quarter of 2021, which accounted for almost 300 million euros at the end of the month of July, with the hospitality sector well on the way to becoming one of the key segments in 2021.

MARKET IN MINUTES

Savills Research

PORTUGAL – H1 2021

OFFICES

LISBON MARKET

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The Lisbon office market registered a total take-up volume of around 55,500 sq.m in the first six months of 2021, a drop of 34% compared to the same period in 2020 and a drop of 50% compared to the volume achieved in the first six months of 2019, prior to the pandemic.

These results are consistent with a scenario of recovery in which many companies are still subject to a work-from-home system and which, consequently, will put off decisions with regard to moving or expanding to new facilities. Moreover, the take-up volume is in line with the rate of the pandemic, and the figures for the last two months have already surpassed those registered in the year 2020, albeit only slightly.

According to the balance sheet for the 1st six months of 2021, Zone 5 (Parque das Nações) registered the highest take-up volume, with approximately 21,000 sq.m (an increase of 53% compared to the 1st six months of 2020). This was the result of 10 successful transactions, with the TMT & Utilities sector accounting for 64% of the total volume of take-up, clearly confirming the attractiveness of this area of the market in the eyes of companies linked to the IT and technology sector.

Zones 1 (Prime CBD) and 6 (Western Corridor) saw their take-up volumes fall by 67% compared to the same period in 2020. Zone 1 (Prime CBD), the most prestigious area in the Lisbon office market, registered a total of 9 transactions, 29% of which involved premises with areas of between 300 sq.m and 800 sq.m.

The 7 transactions successfully concluded in Zone 6 (Western Corridor) in the 1st six months of 2021 amounted to a total of 4,680 sq.m of occupied office space.

MAP OF THE LISBON OFFICE MARKET

It should be pointed out that 60% of the total take-up volume in this zone entailed the occupancy of 2,800 sq.m in Taguspark by Novo Banco, reflecting the dynamic levels of current demand that have also been seen in the financial sector.

54 transactions were conducted in the 1st six months of 2021, a 5% drop in relation to the number registered in the same period in 2020, with the CBD Zone leading the way with 18 closed deals. With regard to the analysis of occupation by area interval, areas between 1,501 sq.m and 3,000 sq.m accounted for the biggest volume of take-up, with an approximate total of 17,500 sq.m, a positive variation of 53% compared to the 1st six months of 2020.

KEY MARKET DATA

Total Stock
4,260,854 sq.m

Total available area
321,083 sq.m

Total take-up volume
55,326 sq.m

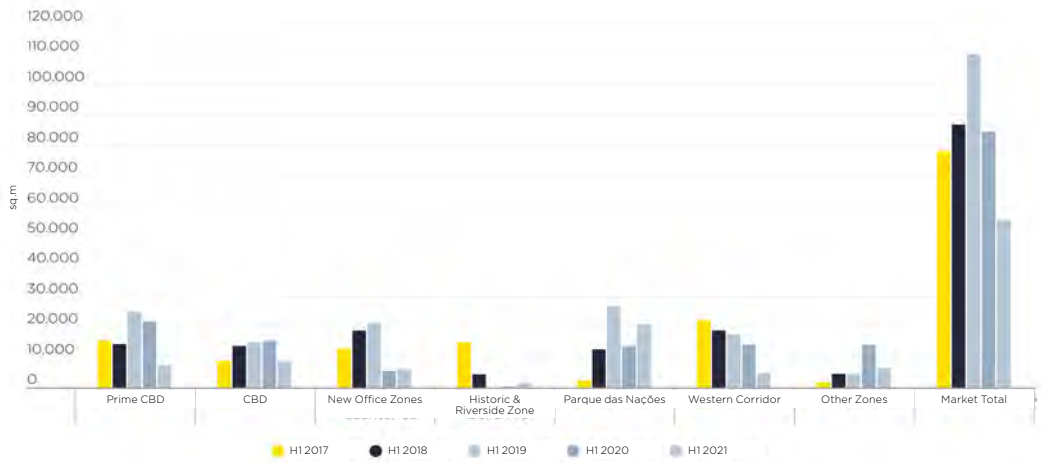
Vacancy Rate
7.54%

Prime Rent
25/sq.m/month

New Supply
3,700 sq.m

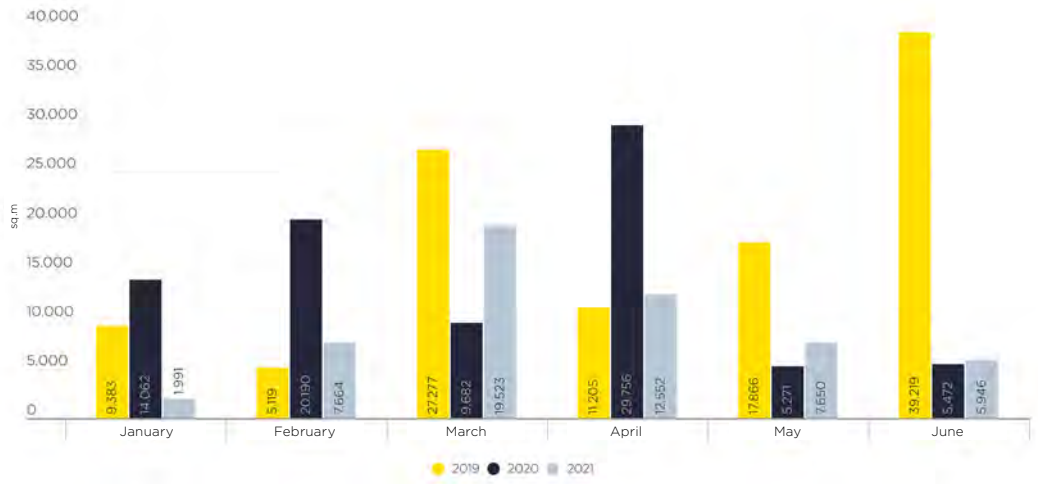
Pipeline
2021 - 2023
195,937 sq.m

EVOLUTION OF SIX-MONTHLY TAKE-UP VOLUME BY MARKET ZONE



Source: Savills Research | LPI

EVOLUTION OF SIX-MONTHLY TAKE-UP VOLUME BY MARKET ZONE



Source: Savills Research | LPI

A quarterly comparison of the results achieved in the 2nd quarter of 2021 showed a 35% decrease over the same period in 2020, and a 62% drop relative to the same period in 2019.

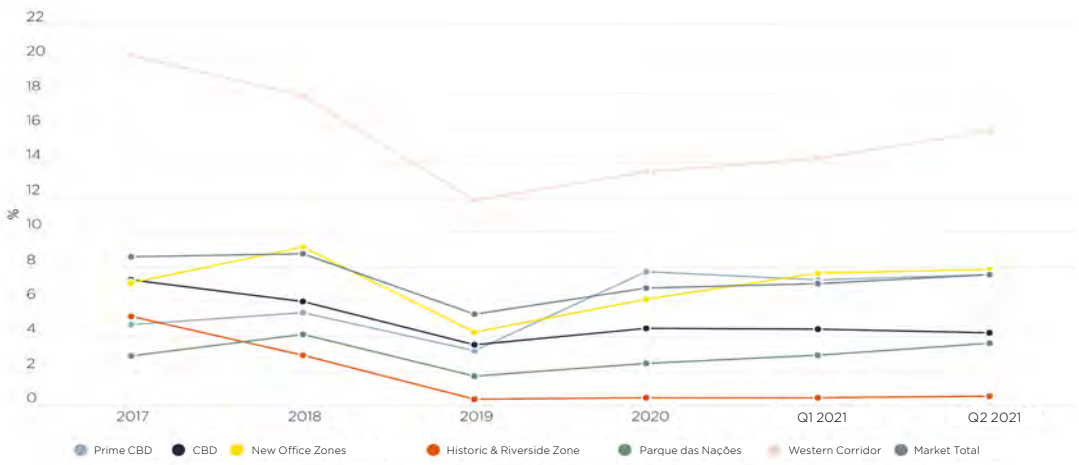
Almost every market zone registered a fall in occupancy values in the 2nd quarter of 2021. The most significant slumps were seen in Zone 7 (Other Zones) with 100%, Zone 1 (Prime CBD) with 75% and Zone 6 (Western Corridor) with a drop of 52%.

Zone 2 (CBD) performed positively, with a 9% increase compared to the 2nd quarter of 2020. Zone 3 (New Office Zones) and Zone 5 (Parque das Nações) ended the 2nd quarter with a total take-up volume of around 11,000 sq.m, compared to the 1,754 sq.m registered in the same period in 2020.

A total of 7 transactions were concluded in the 2nd quarter of 2021, an increase of 12.5% compared to the same period in 2020, with Zone 1 (Prime CBD) and Zone 2 (CBD) accounting for a joint 59% of the aforementioned closed deals in the 2nd quarter of 2021.

An analysis of the areas involved illustrated that while there was a significant drop of 63% in the occupation of offices with an area greater than 5,000 sq.m, there was, on the other hand, a 156% increase in the take-up volume in areas ranging from 1,501 sq.m to 3,000 sq.m, in addition to positive increases in offices with areas of up to 300 sq.m (+19%) and between 301 sq.m and 800 sq.m (+23%).

EVOLUTION OF THE VACANCY RATE BY MARKET ZONE



Source: Savills Research | LPI

TOP DEALS

Critical Techworks
Parque das Nações
K Tower
9,936 sq.m

Confidential
Parque das Nações
EXEO - Lumnia
4,645 sq.m

Whitestar
Other zones
Edifício Almirante
Gago Coutinho 30
4,111 sq.m

Novo Banco
Western Corridor
Taguspark - Lote 5
2,806 sq.m

Unicre
New Office Zones
Green Park
2,743 sq.m

BPI
Prime CBD
Edifício Monumental
2,635 sq.m

Armatis Portugal
Other zones
Cidade de Goa, 22
2,300 sq.m

Damco Logistics
Portugal
New Office Zones
Torre Oriente - Colombo
2,085 sq.m

The TMT & Utilities sector was the main driver of the results achieved in the 2nd quarter of 2021, having taken up almost 15,500 sq.m, which accounts for 59% of the total take-up volume.

The TMT & Utilities sector and the financial sector have been the main driving forces in the Lisbon office market. Whether it is due to companies moving office or expanding their activity, these two sectors have registered increasing levels of expressive and dynamic demand, with an emphasis on the factors of quality, modernity and innovation.

These areas of activity, due to their operational nature and degree of internationalisation, pose new occupancy challenges to the market, which are necessary for the continuous and successful modernisation of the Lisbon office market.

An analysis of the periods between the months of January and June in the last two years provides a clear indication that the market has reacted in line with the implementation of the confinement measures and the respective phases for lifting these restrictions, demonstrating that the path to full recovery to pre-pandemic levels has gained a more sustainable pace, as the vaccination plan advances and companies and employees are keen to return to their workplace.

The market performed extremely well in March, in which 8 transactions were closed with an average area of slightly over 2,000 sq.m, and, although the month of April suffered a drop of 58%, the months of May and June began to register increases compared to the same months in 2020, suggesting the beginning of a more stable and sustained rate of gradual recovery.

Zone 6 (Western Corridor), the area with the highest volume of stock in the market, has the highest availability rate in the market with 15.81%, followed by Zone 3 (New Office Zone) with 7.87% and Zone 1 (Prime CBD).

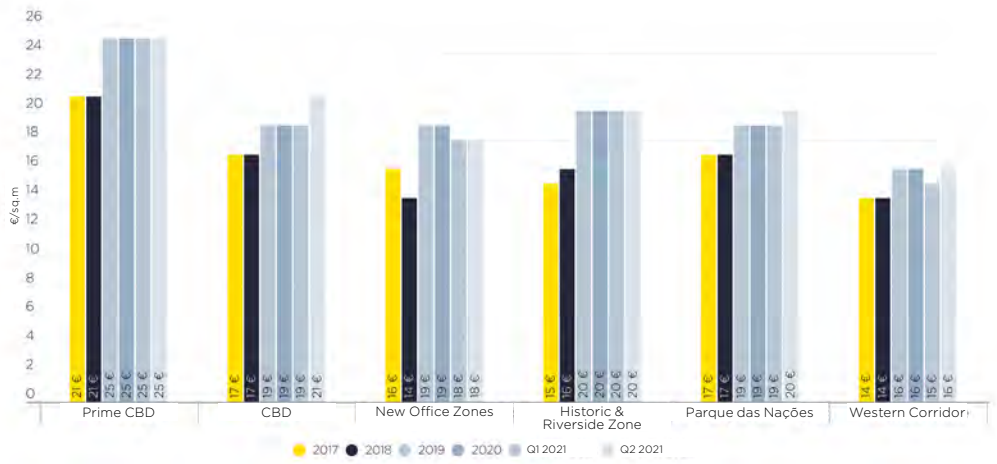
The slight increase in the vacancy rate in the 1st six months of this year is still below the 9% mark, the value from which the market begins to exert greater pressure for a reduction in rents.

Prime rent remains stable at € 25/sq.m/month, supported by the continuing disequilibrium between supply and demand. Despite the pandemic scenario having caused a significant reduction in the volume of take-up in the Lisbon office market, the strong basic markets have managed to guarantee the stability of rental values in all the different market zones. In Zone 1 (Prime CBD) the pressure on increases in rent is imminent due to the lack of supply and the particularly attractive nature of this central district of Lisbon to investors.

New completed properties in the 1st half of 2021 amounted to 3,600 sq.m, corresponding to the placing on the market of Edificio PHC in the Western Corridor, which will be occupied exclusively by the technology company PHC.

Eleven projects are expected to be completed by the end of 2021, with a total area of around 120,000 sq.m, 46% of which is already in the pre-leasing phase.

EVOLUTION OF PRIME RENT BY MARKET ZONE



Source: Savills Research | LPI

PIPELINE CONSTRUCTION PHASE

AGEAS Head Offices
Zone 5
Parque das Nações
17,400 sq.m
Owner-occupier
3Q 2021

World Trade Center
Zone 6
Western Corridor
25,000 sq.m
3Q 2021

EXEO - Lumnia
Zone 5
Parque das Nações
30,000 sq.m
4Q 2021

Beato Creative Hub
Zone 7
Other Zones
11,000 sq.m

EDP 2
Zone 4
Historic & Riverside Zone
11,400 sq.m
Owner-occupier

EXEO - AURA
Zone 5
Parque das Nações
16,511 sq.m
2Q 2022

KTower
Zone 5
Parque das Nações
15,000 sq.m
66% pre-let
3Q 2022

Torre 3 - Colombo
Zone 3
New Office Zones
34,000 sq.m
1Q 2023

MARKET IN MINUTES

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PORTUGAL – H1 2021

OFFICES

PORTO MARKET

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The total take-up volume in the Porto office market for the first six months of 2021 was 13,508 sq.m, representing a drop of 54% compared to the same period in 2020 and a drop of 36% compared to the same period in 2019.

A total of 24 transactions were registered, exactly the same as the number registered in the 1st half of 2020, with an average area of 398 sq.m.

With the exception of the CBD Downtown, which saw an increase in take-up of around 135% in the first half of 2021, all the other market zones registered a reduction in occupancy of between 31% and 94%, compared to the year-on-year figure for 2020.

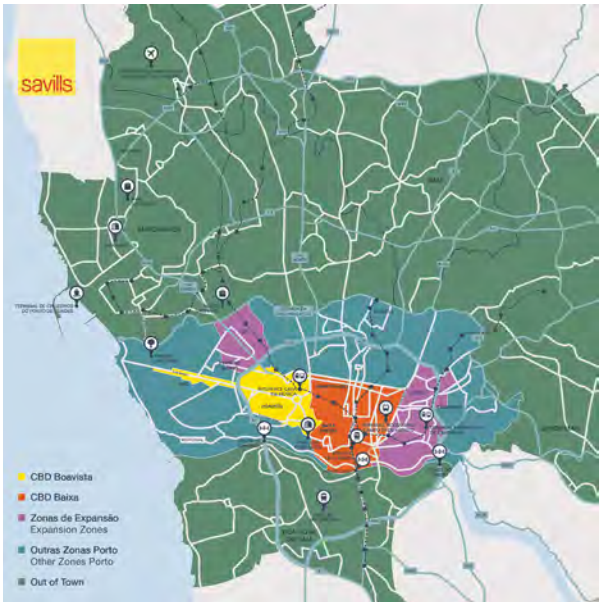
There was only one transaction over 3,000 sq.m in the total for the 1st half of 2021, whereby premises with an area of up to 300 sq.m were predominant in the list of transactions, with a total of 16 closed deals and a share of more than 50% of the total number of concluded transactions.

An analysis by area interval reveals that the market demand focused on smaller areas throughout the 1st six months of 2021, to the detriment of bigger areas, which performed far better in the 1st six months of 2020, more specifically in the first three months of the year, prior to the outbreak of the pandemic.

The Porto office market registered a visible reduction in demand and the postponement of decisions on moving and expanding facilities. Nevertheless, the take-up values registered from early 2021 until the end of June 2021 demonstrate a highly consistent month by month evolution, albeit at levels below those seen in the same period in 2020, but that are progressing and reacting positively to the recovery of the market.

The financial and TMT & Utilities sectors, and similar to that observed in the Lisbon office market, were the most active sectors in the Porto office market throughout the 1st half of 2021, with 12 transactions closed and a total of 6,600 sq.m.

MAP OF THE PORTO OFFICE MARKET



With regard to the reason for the demand in the Porto market, businesses moving their facilities and the opening of new companies accounted for 88% of the take-up volume registered in the 1st half of 2021.

Regardless of the results achieved, it should be pointed out that offices will continue to play a key role in the reinforcement of a company's values and culture. With around 100,000 sq.m of new office space forecast for the next two years and the vaccination programme at full speed, the next few months promise to pave the way for a year 2022 closer to pre-pandemic values. The return of employees and the recovery from the effects of the pandemic, together with levels of demand that are expected to remain active, also support the stability of the rental values in force.

TOP DEALS

Metsis
Out of Town
Edifício Metsis Campus
3,500 sq.m

José A. S. de Oliveira - Construction
Out of Town
Edifício Progresso 471
1,231 sq.m

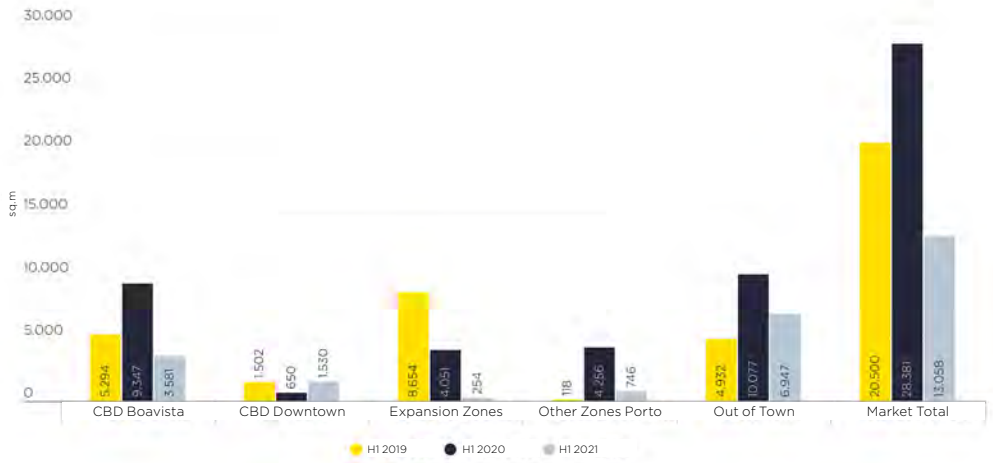
Confidential
CBD Boavista
Edifício Monsenhor 44
950 sq.m

Confidential
Out of Town
Edifício Porto Broadway Office
900 sq.m

Confidential
CBD Boavista
Edifício Porto Office Park
863 sq.m

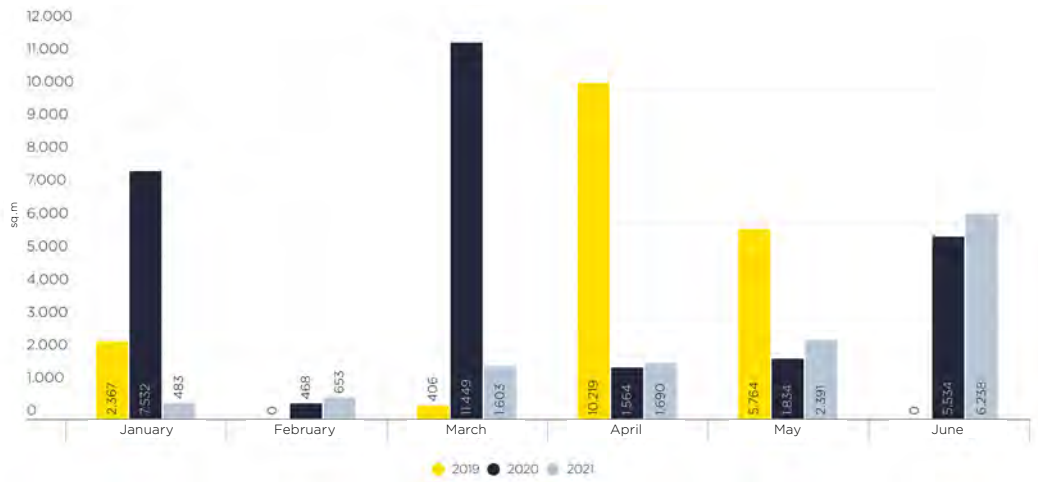
Edreams
CBD Baixa
Edifício Trindade Domus
845 sq.m

EVOLUTION OF TAKE-UP VOLUME BY MARKET ZONE



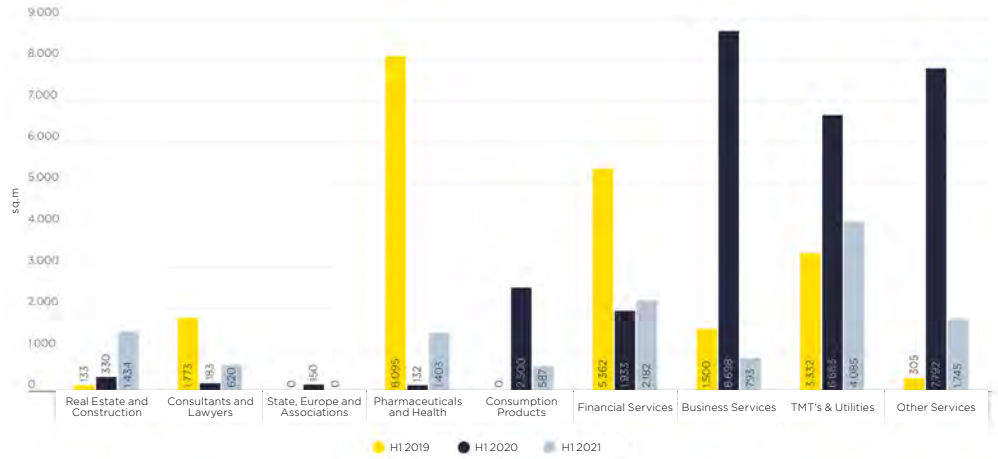
Source: Savills Research | PPI

EVOLUTION OF MONTHLY TAKE-UP VOLUME BY MARKET ZONE



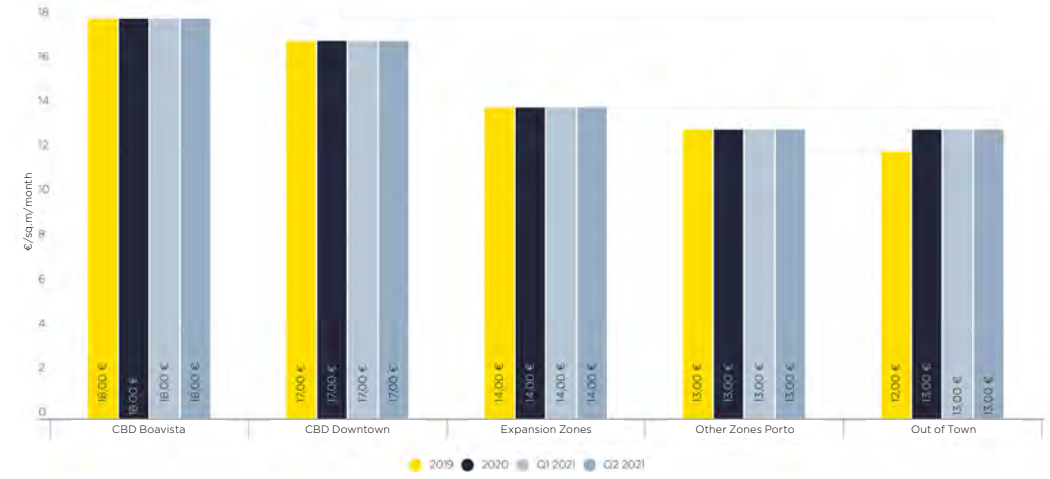
Source: Savills Research | PPI

EVOLUTION OF TAKE-UP VOLUME BY BUSINESS SECTOR



Source: Savills Research | PPI

EVOLUTION OF PRIME RENT BY MARKET ZONE



Source: Savills Research | PPI

PIPELINE 2021

Porto Business Plaza
Expansion Zones
12,005 sq.m
41% pre-let

Candal Park
Out of Town
12,000 sq.m

Edifício AGEAS
Expansion Zones
7,800 sq.m
100% pre-let

PIPELINE 2022

D. Manuel II
Boavista CBD
11,890 sq.m
66% pre-let

Icon Offices
Expansion Zones
9,244 sq.m

Lionesa Shopping Centre - Edifício N2
Out of Town
6,898 sq.m
71% pre-let

Joana d´Arc
Expansion Zones
4,500 sq.m

PORTUGAL – H1 2021

MARKET IN MINUTES

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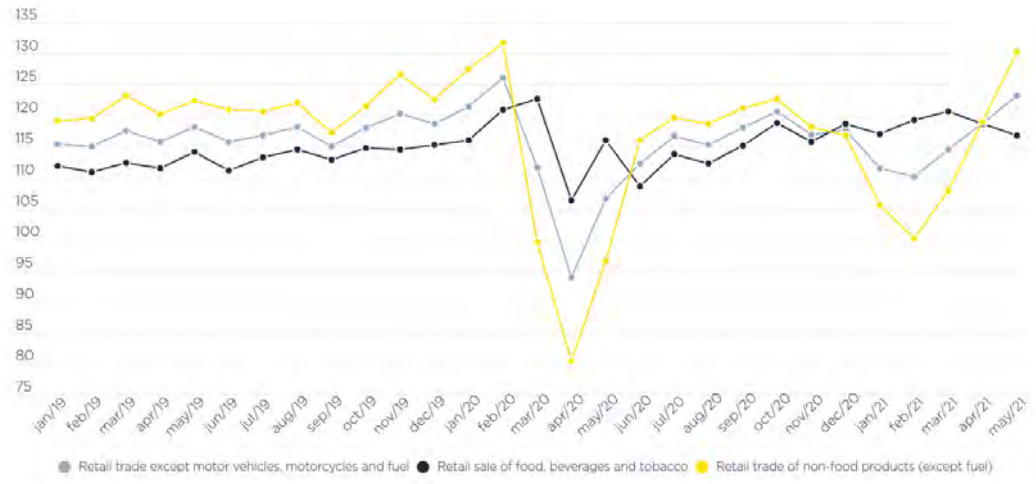
VOLUME OF RETAIL TRADE INDEX



Source: INE

Retail sales recorded a significant decline of over 15% in the month of February. However, as Portugal began easing the confinement measures in the second quarter of 2021, the market showed positive signs of a reaction. According to the INE (National Institute of Statistics), retail sales in Portugal in the 2nd quarter of 2021 increased compared to the same period in 2020 and 2019.

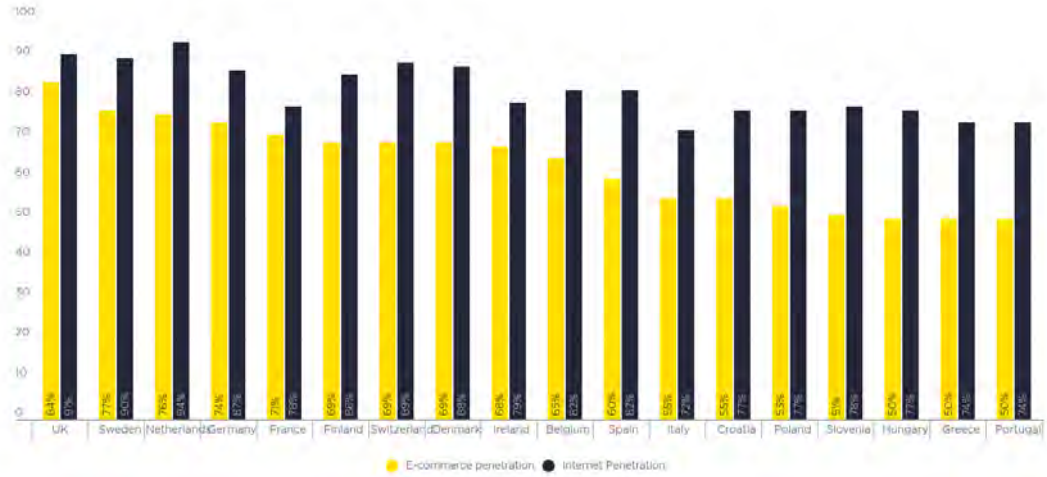
Retail sales increased by 16.8% between the months of April and June compared to the same period in 2020 and by 8.1% compared to the 1st quarter of 2021. J2.2%.

In a comparative analysis with the 2nd quarter of 2019, prior to the pandemic, the increase stood at 2.2%. It should be pointed out that these results are considerably influenced by the pandemic months of 2020, on which the comparison is focused.

PANDEMIC SLOWS DOWN THE OPENING OF NEW STORES

The time and capacity restrictions imposed on commercial establishments in the 1st half of 2021 continued to exert a negative effect on retail activity. However, in times of recovery from the pandemic crisis, street trading has been extremely resilient and the market has been launching new products and brands, geared in particular to the catering and fashion sectors. 60 new stores were opened in the city of Lisbon in the first six months of 2021, over 50% of which were associated with the restaurants sector and 17% with the fashion & accessories sector. Compared to the same period in 2020, there was a 24% decrease in the number of new stores opened, and an even more accentuated fall, 61%, compared to the same period in 2019.

E-COMMERCE PENETRATION RATE – YEAR 2020



Source: Statista Digital Market Outlook 2020

The availability of stores in the historic centre of Lisbon prior to the pandemic was practically non-existent, and the waiting list of potential clients was growing on a daily basis. The closure of stores in this area of the city due to the pandemic or the adoption of new sales strategies has given rise to new opportunities for brands wishing to join the domestic market and those wishing to relocate or expand their business.

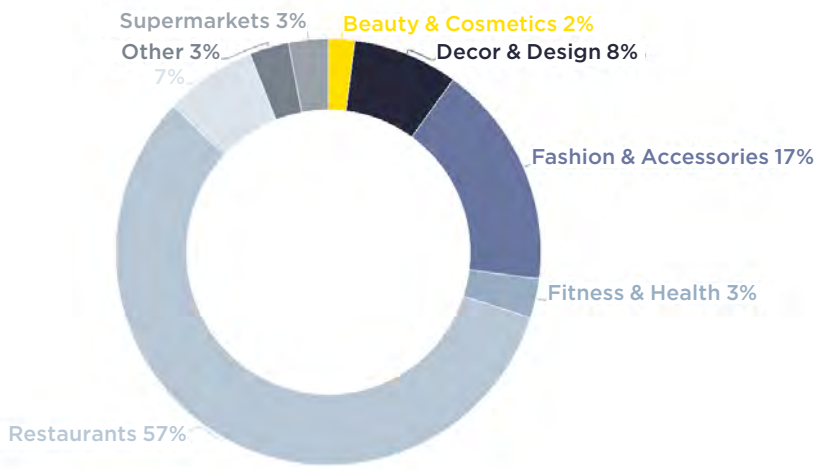
The success of online commerce represents has provided some brands with a way out of being involved with physical stores and an opportunity to reformulate their sales strategy with a focus on the digital channel. This trend has been seen in a number of retail chains linked to the beauty and fashion sector and Portugal is sure to follow suit.

In the aftermath of a year of pandemic and ongoing uncertainty, the retail market will undoubtedly be the sector that will learn the most lessons from the Covid-19 pandemic. The slogan "nothing will ever be the same" has never been so relevant and there is an urgent need for the digitisation of the retail sector, in addition to an enhanced consumer experience and the redesign of the layout of physical premises.

SHOPPING CENTRES RETURN TO ACTIVITY

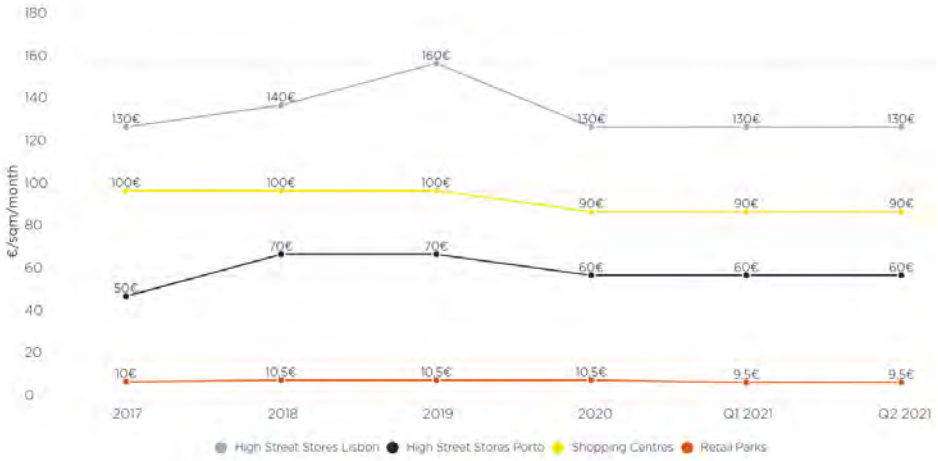
A study drawn up by REDUNIQ Insight revealed that in the 1st month of most of the stores in shopping centres having reopened, revenue from credit card purchases was above that registered in the same period of 2019. Shopping centre tenants have been enjoying a 50% discount on fixed rent since early 2021, calculated in accordance with loss of income, a measure that was discontinued at the end of June 2021. Rental values

NEW HIGH STREET RETAIL OPENED BY SECTOR OF ACTIVITY 1ST SIX MONTHS OF 2021 – CITY OF LISBON



Source: Savills Research

EVOLUTION OF PRIME RENT BY RETAIL FORMAT



Source: Savills Research

EVOLUTION OF PRIME YIELD BY RETAIL FORMAT

Source: Savills Research

remained stable in all commercial formats in the first half of 2021, however this was largely due to greater flexibility in terms of negotiation.

FOOD DISTRIBUTION UNITS BECOME MORE ATTRACTIVE TO INVESTORS

The retail food sector has become particularly attractive in the eyes of investors, who see it as a highly resilient area based on key factors such as long-term profitability and low levels of risk, in addition to the fact it has been one of the best-performing sectors during the pandemic.

The retail sector amassed € 85 million in total investment volume in the first six months of the year, having registered two sale transactions involving food distribution units. Blackbrook Capital acquired two supermarkets for € 17 million and BPI acquired Makro's first store in Portugal, for € 40 million in a sale and leaseback transaction.

The rate at which the retail sector recovers will be fundamental in understanding whether prime rents are going to rise or fall in the coming months.

PORTUGAL – H1 2021

MARKET IN MINUTES

Savills Research

INDUSTRIAL & LOGISTICS

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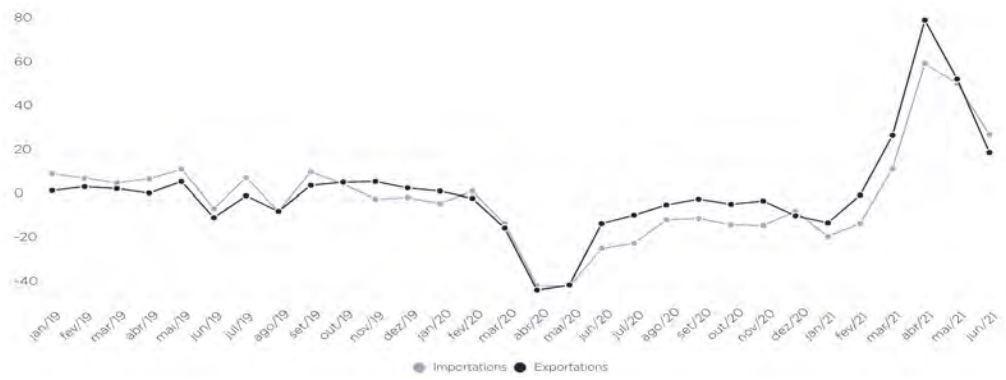
EVOLUTION OF IMPORTS AND EXPORTS YEAR-ON-YEAR RATE OF VARIATION (%)



Source: INE

Exports rose by 2.9% and imports dropped by 5.4% at the end of the 1st six months of 2021 and compared to the same period in 2019 (+ 24.2% and 16.6% compared to the 1st half of 2020).

The most noteworthy items were the increases registered in industrial supplies, machinery and other capital goods and the downturn in the area of transport material.

The industrial & logistics real estate sector registered a total take-up volume of around 145,000 sq.m in the first six months of the year, representing a residual increase of 2.3% compared to the same period in 2020, but a highly significant increase compared to the pre-pandemic periods of 2019 and 2018, with an increase of 96% and 62% respectively.

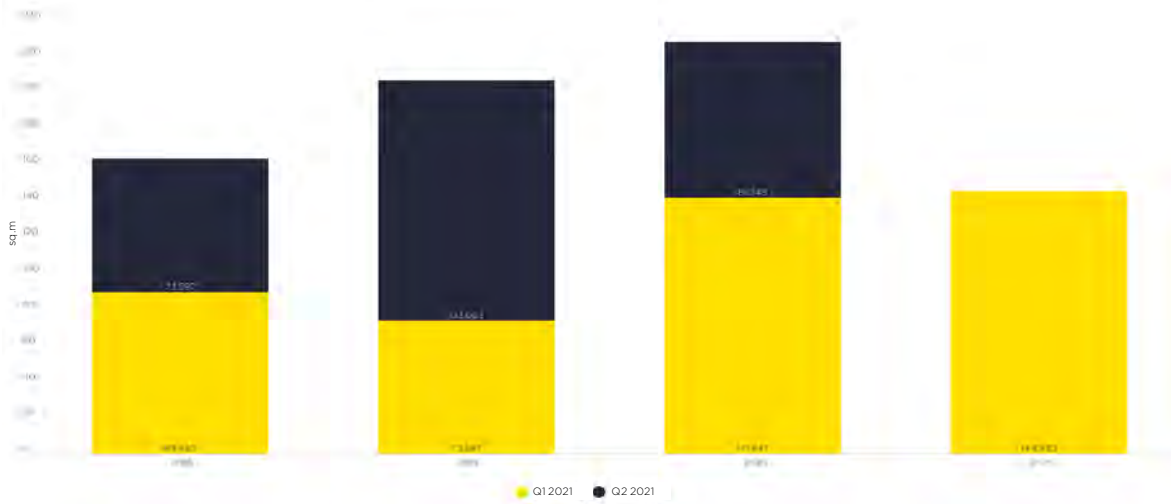
The 2nd quarter of 2021 registered a historic take-up volume of 90,276 sq.m, easily exceeding the values registered in the same period in 2020 and 2019, by 44% and 38% respectively.

24 transactions were concluded in the first six months of the year, with the Northern and Porto Region (41,324 sq.m) and the Alverca - Azambuja area in the Greater Lisbon market (33,647 sq.m) accounting for the highest take-up volumes.

The market registered a total of 11 transactions involving premises of over 5,000 sq.m in the Logistics and Retail sectors, which accounted for 79% of the total volume of transactions.

DIY and food distribution brands are investing increasingly in new warehouses due to the continuous growth of home delivery management operations arising from new patterns of consumer behaviour caused by the pandemic.

EVOLUTION OF TAKE-UP VOLUME



Source: Savills Research

PROFILE OF DEMAND

According to an internal analysis conducted by Savills Portugal, 48% of market demand involves the logistics sector, followed by the retail sector with 18% and the industrial sector with 15%. The increase in demand will boost the number of new projects expected to enter the market in the coming years. Nevertheless, the challenges facing current demand are expected to continue, with the expected future supply still incapable of meeting the levels of demand. There is still a demand for large-scale facilities with energy efficiency needs and the capacity to install new technologies.

However, given the scarce supply, the domestic market continues to be dominated by transactions involving self-occupancy, where the investment in the construction of new facilities or expansion projects is carried out by the operators themselves.

TOP DEALS

VGP Park Santa Maria da Feira
Rádio Popular
28,777 sq.m

Armazém Industrial Vale Tripeiro - Benavente
Fusion Fuel
14,333 sq.m

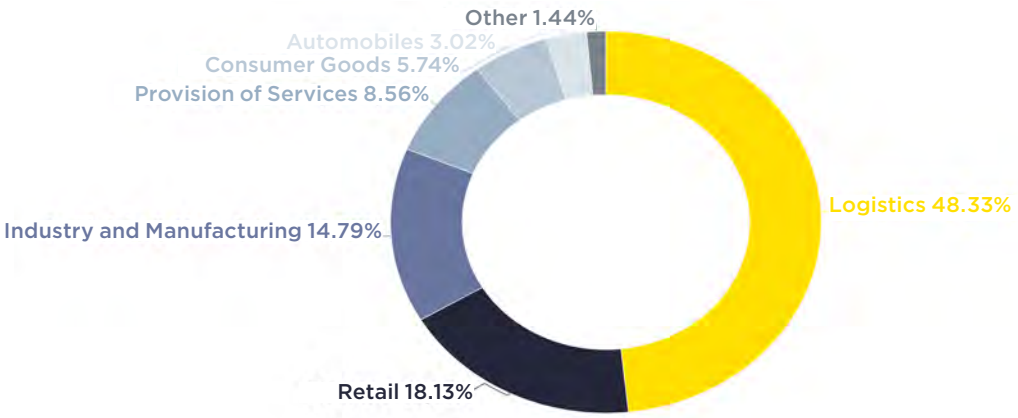
Famões Logistics Platform
Confidential
12,000 sq.m

PLLN
Olucargo
9,473 sq.m

PLLN
Rangel
9,473 sq.m

LPR Platform
LPR - Santo Tirso
9,000 sq.m

DEMAND BY SECTOR OF ACTIVITY



Source: Savills Research

The expected trend of increasing rental values has remained on hold in recent years, largely due to the scenario of a lack of qualified supply capable of effectively meeting the current profile of demand and respective occupancy standards.

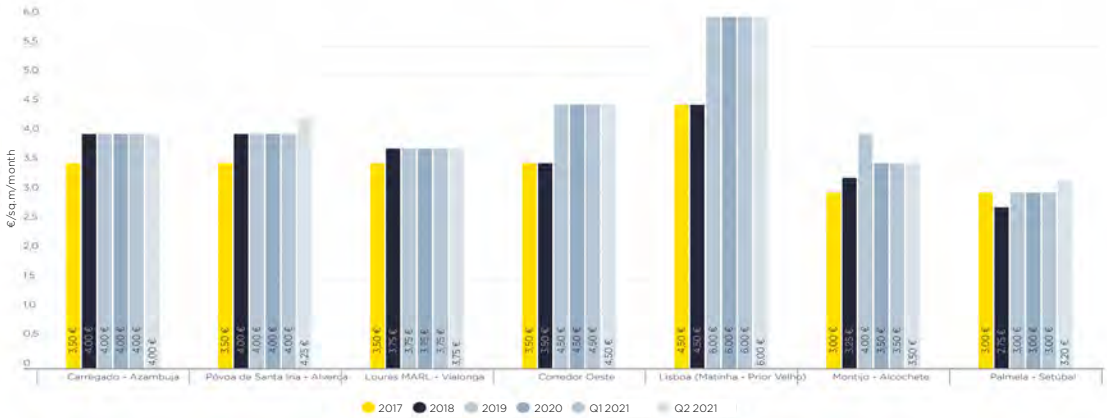
However, the gradual but very consistent increase in demand reflected in the increase in take-up volume is causing the prices in force to rise, which should accelerate as the industrial sector receives new units. While market rental values remained stable in all areas of logistics in 2020, in 2021 the market has begun to show signs of rent increasing, which has already occurred in the districts of Povoa Sta Iria-Alverca and Palmela-Setubal, where the value of prime rents increased in the 2nd quarter of 2021.

Nevertheless, the rental values in force do not reflect the current market scenario, driven by the increase in e-commerce and the repositioning of the distribution chain, showing a margin for growth, particularly in the regions in which new projects are expected to be implemented.

More than 300,000 sq.m of new units are expected in the industrial & logistics market over the next two years. The 1st phase (45,000 sq.m) of the Merlin Properties project, Lisboa Park, located in Castanheira do Ribatejo, was completed in the 1st six months of 2021, which, once completed, will be the biggest Logistics Park in Portugal with a total of 225,000 sq.m.

The 102,000 sq.m Azambuja Green Park is due to open in 2022, located in one of the best logistics hubs in the domestic market and, in 2023, Qantara Capital will be entrusted with the development of the future Grandola Logistics Park, which will add around 63,000 sq.m to Portugal´s industrial & logistics stock.

EVOLUTION OF PRIME RENT BY MARKET ZONE



Source: Savills Research

TRENDS

- Demand dominated by warehousing logistics to support the growth of 3PLs;
- Growing demand for proximity logistics solutions and cross-docking formats;
- Increasing demand for Industrial Units pursuant to the Nearshoring phenomenon;
- Prime zones are still preferred by 3PLs and retailers, however, as a result of the need for consumer proximity operations and greater levels of distribution, demand for prime areas is becoming decentralised and is moving to zones closer to the consumer;
- Levels of demand are expected to remain high and will be reinforced with the conclusion of new projects that will increase the market take-up area;
- Supply will continue to be insufficient, exerting pressure on an increase in the value of rent, which is expected to occur in several areas in due course.

MARKET IN MINUTES

Savills Research

PORTUGAL – H1 2021

RESIDENTIAL

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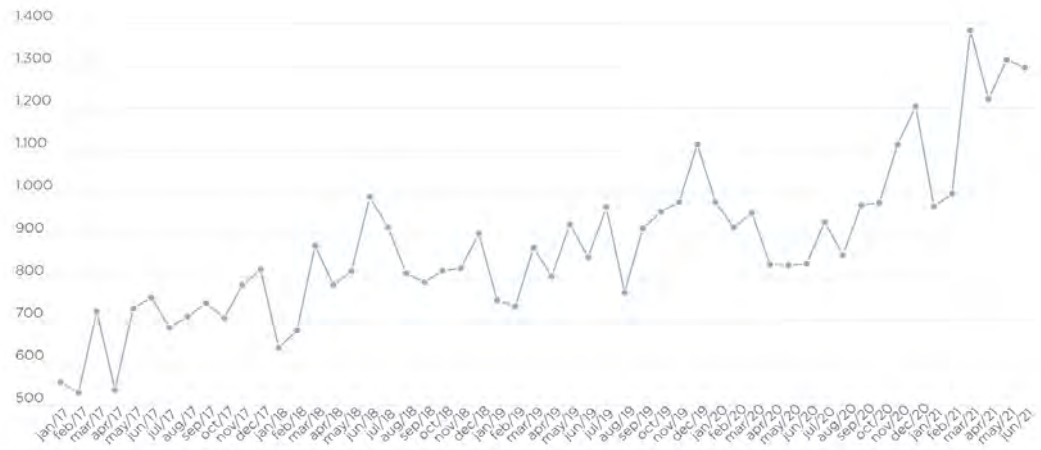
EVOLUTION OF THE VOLUME OF CREDIT GRANTED TO HOUSING (€ MILLION)



Source: Banco de Portugal

Six months into 2021 and well on the way to recovering from the pandemic, the residential market is performing well, underlining the considerable resilience of this real estate sector. The Covid-19 pandemic has not had a negative influence on applications for housing loans in Portugal.

The confidence of consumers, the historically low level of interest rates and the highly competitive spreads used by the various banking entities continue to boost the demand for credit. According to data published by Banco de Portugal, the country´s banks granted a total of 7.178 billion euros for the acquisition of housing in the first half of 2021, compared to the 5.342 billion euros registered in the same period in 2020 and the 4.926 billion euros granted in the 1st half of 2019, prior to the pandemic.

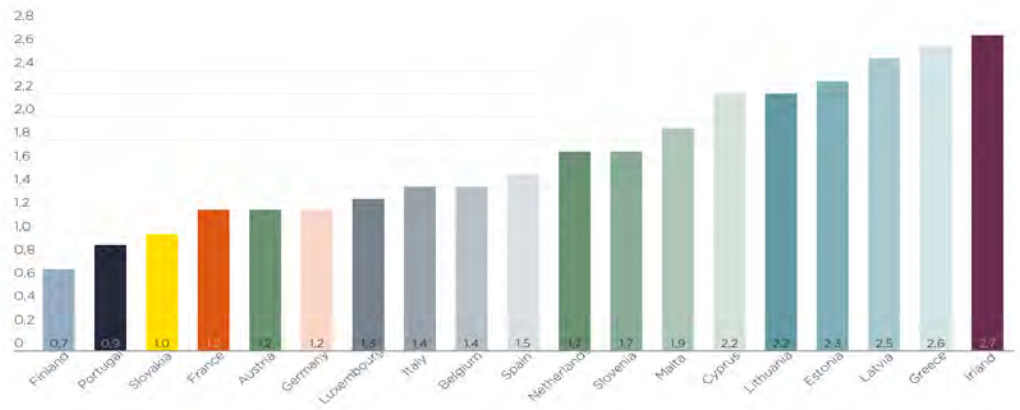
It should be pointed out that Portugal has the second lowest interest rates in Europe, with Euribor rates at record low levels.

However, the resilience of the residential sector entails additional factors that go beyond maintaining the terms and conditions for access to credit. The effects of the pandemic have resulted in changes in buyers' preferences and their desire to buy a home, move house or buy a second home.

The mandatory lockdown measures and restricted movement have led to a whole new way of living and being in one's own home. Demand for premises that provide flexibility and can be easily adapted to the idea of distance working has soared, while we are witnessing an increase in the demand for outdoor spaces and dwellings located in environments featuring green areas.

The Savills Portugal Residential team confirms that we are witnessing a new trend marked by the choice of houses over apartments, even though this choice means giving up the central nature of major urban centres.

AVERAGE INTEREST ON MORTGAGE LOANS IN THE EURO ZONE (APRIL - %)



Source: Banco Central Europeu

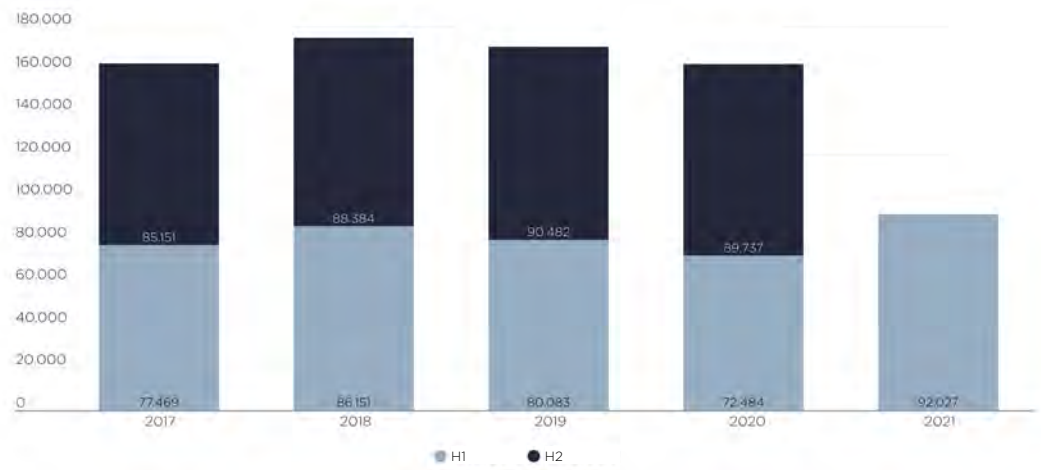
92,000 homes were sold in Portugal in the 1st six months of 2021, representing an increase of 26% compared to the same period in 2020 and an increase of 15% compared to the 1st six months of 2019. A comparative analysis of the first six-month period for the last five years revealed that the market in the 1st six months of 2021 registered the highest value of housing sales (new and second-hand).

Due to the lockdown measures implemented in the 1st quarter of 2021, which restricted travel and in-person visits to properties, the market registered a drop of 13.6% compared to the last quarter of 2020, but the take-up rate recovered rapidly in the 2nd quarter of 2021 with an increase of 21.7% compared to the previous three months.

Around 33,000 homes were sold in the Greater Lisbon Area in the 1st half of 2021, 7,300 of which were in the district of Lisbon, a result that represents a highly positive increase of 21% compared to same period in 2020 and a more modest increase of 8% compared to the same period in 2019.

Within the district of Lisbon, the parish with the highest volume of sales was Avenidas Novas, with increases of 23.6% and 29.4% compared to the same periods in 2020 and 2019.

EVOLUTION OF THE NUMBER OF HOUSES SOLD IN PORTUGAL



Source: Savills Research analyzes SIR

A comparative analysis with the 1st six months of 2019, prior to the pandemic, revealed a very significant increase in the number of sales in the parishes of Alcantara (+ 161%), Campolide (+ 120%), Areeiro (+ 74%) and Marvila (+ 64%), while the parishes of Santo Antonio (- 36.4%) and Parque das Nações (- 26.8%) underwent a downward trend.

With regard to the evolution of sale prices, the 1st quarter of 2021 was marked by an average rise in housing prices of around 2% at national level compared to the last quarter of 2020. The variation in price in the cities of Lisbon and Porto was relatively insignificant, with increases of 3.2% and 0.96% respectively. The recovery in prices was more expressive in the 2nd quarter, with prices/sq.m rising by around 6% at national level compared to the 1st quarter of 2021.

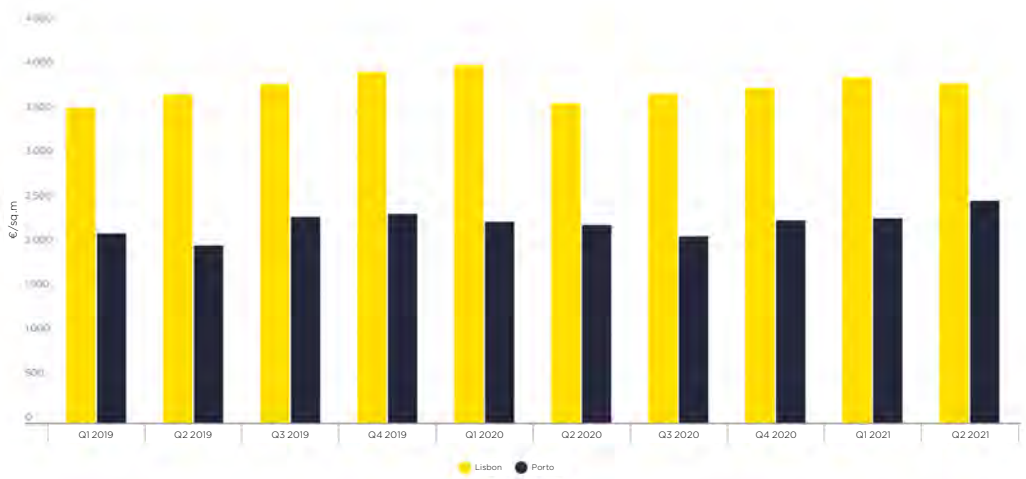
It should be pointed out that the market suffered setbacks that caused the rate at which prices increase to slow down last year when compared to pre-pandemic times, with year-on-year variations in housing prices not exceeding + 1.0% .

The average sale price in the municipality of Lisbon was € 3,833/sq.m in the 2nd quarter of 2021, a drop of 1.74% compared to the three previous months and which should be viewed within the scope of the economy re-emerging from the period of mandatory confinement. The year-on-year variations for 2020 and 2019 show increases in the average sale price/sq.m of around 6.21% and 3.34% respectively.

With regard to the parishes comprising the district of Lisbon, a comparison of the average sale price/sq.m conducted between the 1st and 2nd quarters of 2021 reveals that the parishes of Santo Antonio (+ 12.1%) and Avenidas Novas (+ 10.7%) registered the highest quarterly increases, which in the case of Avenidas Novas has already surpassed (+ 23.5%) the average sale price/sq.m registered in the 2nd quarter of 2019, prior to the pandemic.

At the end of the 1st six months of 2021, 17 of the 24 parishes comprising the district of Lisbon registered increases in the average sale price in force compared to the 2nd quarter of 2019.

EVOLUTION OF AVERAGE SALE PRICE / SQ.M



Source: Savills Research analyzes SIR

GOLDEN VISAS

Golden visas have undergone new changes aimed at encouraging investment in Portugal and demonstrating the attractiveness of the domestic market. In addition to extending the deadline to 2021, as of January 2022 new changes will restrict the applicability of these visas, when Golden visas will no longer apply to the purchase of property for residential purposes in cities such as Lisbon and Porto.

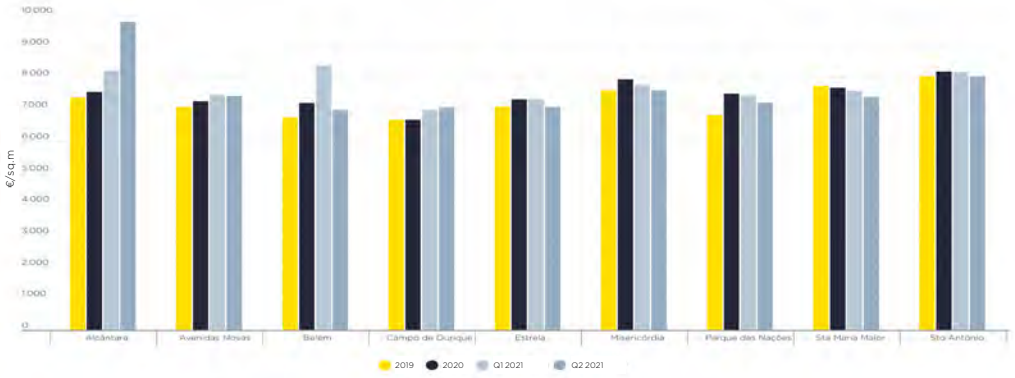
The new changes are intended to help promote investment in the interior of the country to benefit the coastal regions.

These restrictions on investment in real estate will "only" apply to properties intended for housing, meaning that foreign investors can continue to invest throughout the country, including in Lisbon and Porto and on the coast, in properties designed for purposes other than housing (commerce, services, others), even after 01 January 2022. The planned changes do not affect the possibility of renewing ARIs (investment visa) or granting / renewing residence permits for Family Reunification.

Investment registered through Golden Visas increased by 2.9% in the 1st six months of 2021 compared to the same period last year, to a total of 383 million euros, the vast majority of which involved the acquisition of real estate.

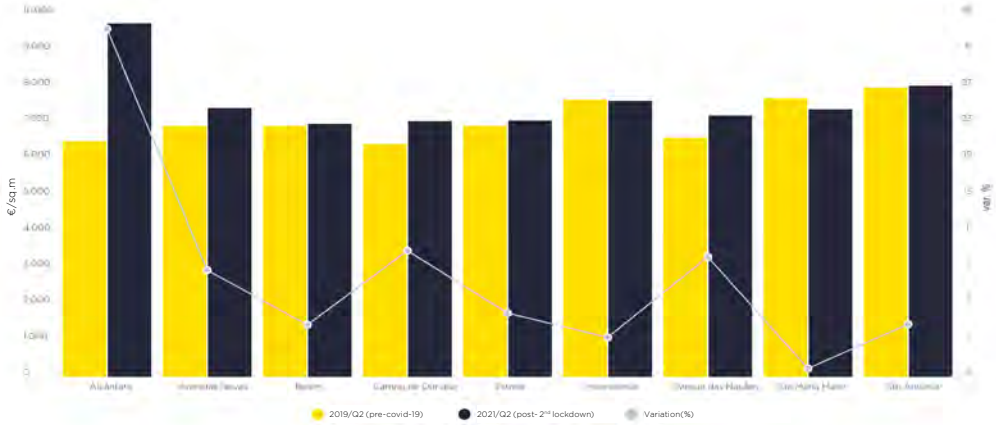
The amount of investment has surpassed 5.357 million euros since the programme was launched in October 2012.

HIGH-END MARKET EVOLUTION OF ASKING PRICES



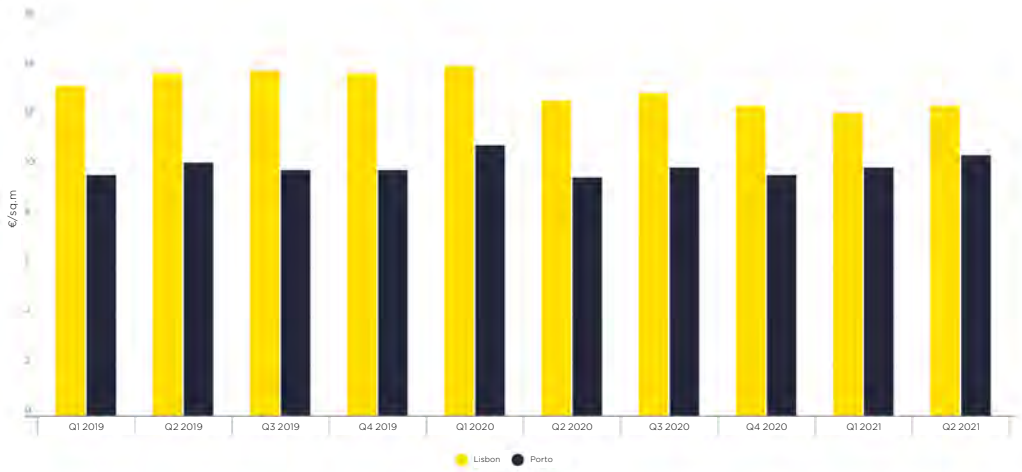
Source: Savills Research analyzes SIR

HIGH-END MARKET EVOLUTION OF ASKING PRICES



Source: Savills Research analyzes SIR

EVOLUTION OF AVERAGE RENTAL PRICE / M²



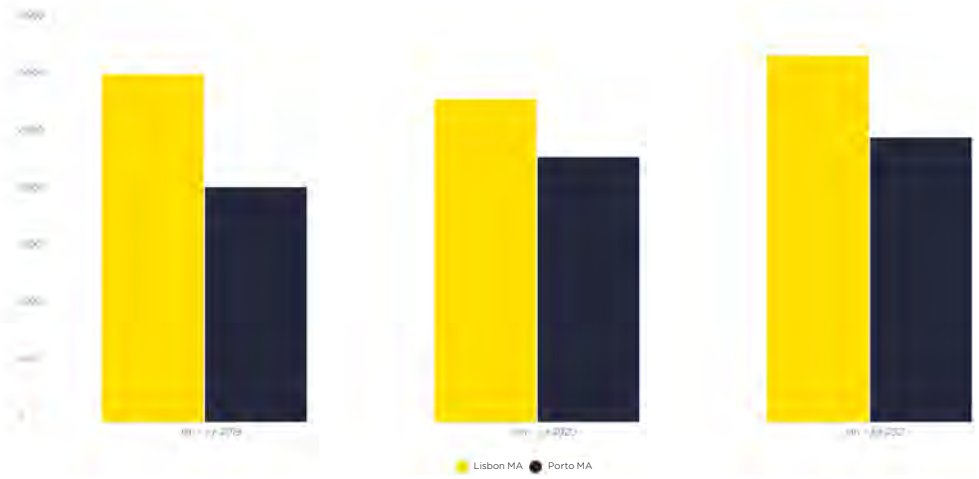
Source: Savills Research analyzes SIR

PRIME MARKET REMAINS RESILIENT

There has been a gradual increase in the demand for prime real estate due to the pandemic having been brought under control and the opening of some markets, a trend that will continue with the acceleration of the vaccination programme and give rise to good results in the final quarter of 2021, when the return of international travel will increase the number of buyers of prime real estate.

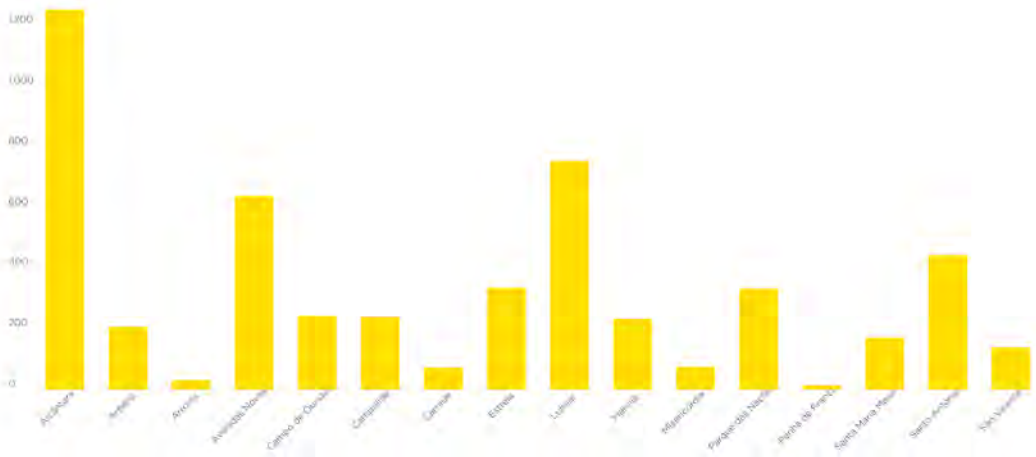
The prime market, largely concentrated in the 9 parishes under analysis, has shown consistent resilience in maintaining average asking prices/sq.m. A comparative analysis conducted between the 2nd quarter of 2019 (pre-pandemic) and the 2nd quarter of 2021 (post-confinement) revealed that only the parishes of Santa Maria Maior (-4%) and Misericordia (-0.6%) registered a slight drop in the average asking price/sq.m, justified by the slower rate of price increases and the slowdown in the take-up time in the pandemic period due to the bans on international travel that prevented international buyers from making decisions on the purchase of housing in the prime Lisbon market. Prices remained stable in the remaining prime market parishes, with increases noted in the parishes of Alcantara, Avenidas Novas, Campo de Ourique and Parque das Nações.

NUMBER OF LICENSED UNITS IN NEW FAMILY HOUSING BUILDINGS



Source: INE

NUMBER OF UNITS UNDER CONSTRUCTION BY PARISH – DISTRICT OF LISBON



Source: Savills Research

The cost of raw materials has been rising on a constant basis as a result of the high demand in the first 4 months of 2021 which, according to the "Statistical Housing Synthesis" published by the Association of Civil Construction and Public Works Industrialists, increased by around 11.5% compared to the same period last year. Corroborating this increase, the same period in 2021 saw a 20.6% increase in licences issued by City Councils for the construction or rehabilitation of residential buildings, reflecting the growing optimism with regard to the residential market.

3,201 units were licensed in new family housing buildings in the Greater Lisbon Area in the 1st six months of 2021, a figure that represents an increase of 5.3% compared to the same period in 2019 and an increase of 13.4% over the same period in the year 2020, demonstrating that activity has resumed at a more vigorous pace after the 2nd lockdown period.

MAIN PROJECTS 2022-2023

Hera Residences
Lumiar
284 units

Rivart
Alcântara
218 units

Infinity Tower
Campolide
195 units

Prata Riverside Village
Marvila
172 units

Villas do Carmo
Avenidas Novas
155 units

Valrio
Parque das Nações
157 units

PORTUGAL – H1 2021

MARKET IN MINUTES

Savills Research

TOURISM

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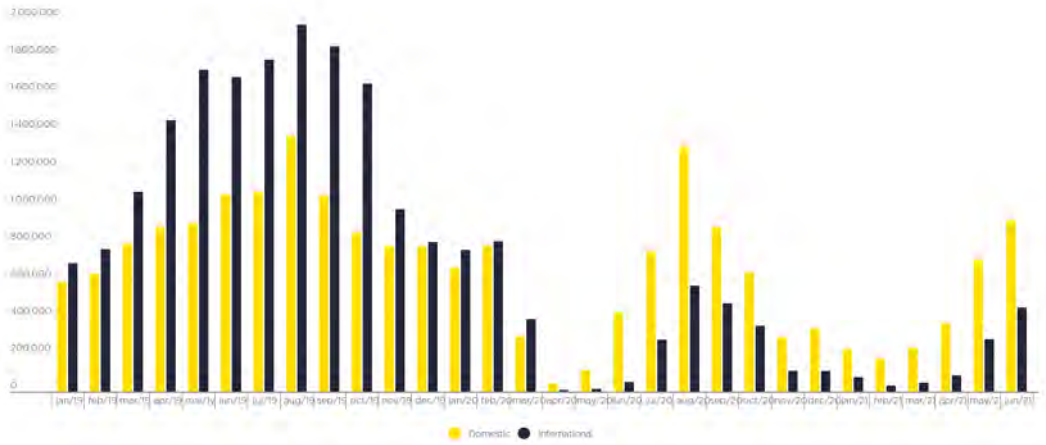
EVOLUTION OF THE NUMBER OF GUESTS



Source: Savills Research | Travel BI

The beginning of the year in Portugal saw troubled times, and the country was subjected to the worst wave of the pandemic between January and March. As such, new restrictions were implemented, more specifically in relation to free movement and mandatory curfews, with a general lockdown as a last resort in combatting the new major wave of the pandemic.

Portugal registered a slump of around 80% in export revenue in the 1st quarter of 2021 compared to the same period in 2020, at a time when there were no confirmed cases of COVID-19 in Portugal.

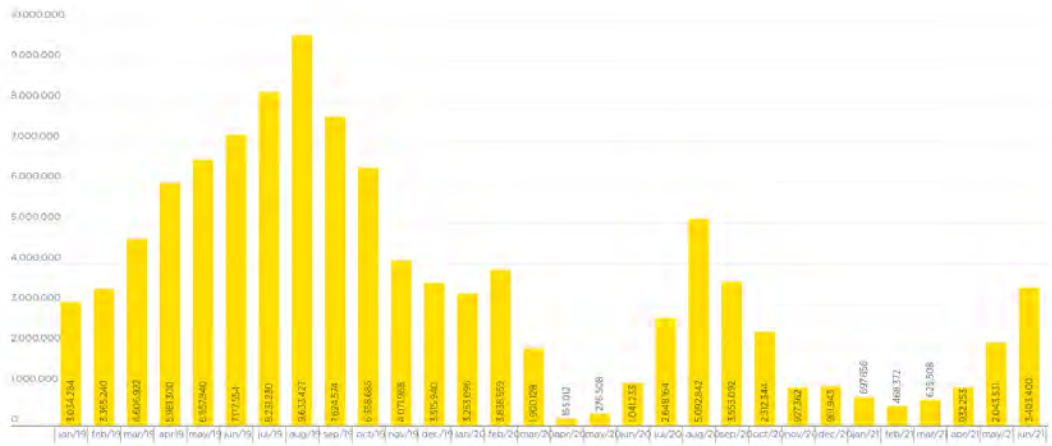
Despite the data for the 1st quarter of 2020 and the 1st quarter of 2021 not being comparable, the impact of this crisis on the tourism sector was clear to see a year after the outbreak of the pandemic. Once again, the drop in terms of guests and overnight stays is steep, and plummeted to around -78% in the first three months of 2021 compared to the same period in the previous year.

However, the year 2021 has seen a massive increase in the speed of the vaccination programme, and this will help ease the restrictive measures in the 2nd six months of 2021.

Key countries for domestic tourism such as the United Kingdom and Spain, where the vaccination rollout is at an advanced stage, are beginning to lift their restrictions at the local level, which is seen with great optimism by the Portuguese Board of Tourism.

One of the signs that points to a recovery in tourism in Portugal in the 2nd quarter of 2021 is the roughly 78.5% increase in revenue between March and April, and 169% between April and May, values that would have been around 28% to 30% prior to the pandemic.

EVOLUTION OF THE NUMBER OF OVERNIGHT STAYS



Source: Savills Research | Travel BI

28 hotel units opened in Portugal in the first half of 2021, adding more than 2,100 rooms to the current supply.

Nine new hotels with a total of around 650 rooms were opened in the Lisbon market, while the Northern and Porto Region gained 7 new hotels and 700 rooms. However, it was the Algarve Region that registered the most noteworthy addition in this period, with the opening of the Marriott Group´s Four Points by Sheraton Lagos Hotel, a 4-star facility featuring 231 rooms.

NEW OPENINGS IN LISBON

Hotel Santa Apolónia
5* | 125 rooms

Lumen Lisboa Hotel
4* | 121 rooms

Lisboa Chiado Hotel
5* | 45 rooms

Hotel Neya
4* | 79 rooms

São Vicente Alfama Hotel
4* | 22 rooms

NEW OPENINGS IN PORTO

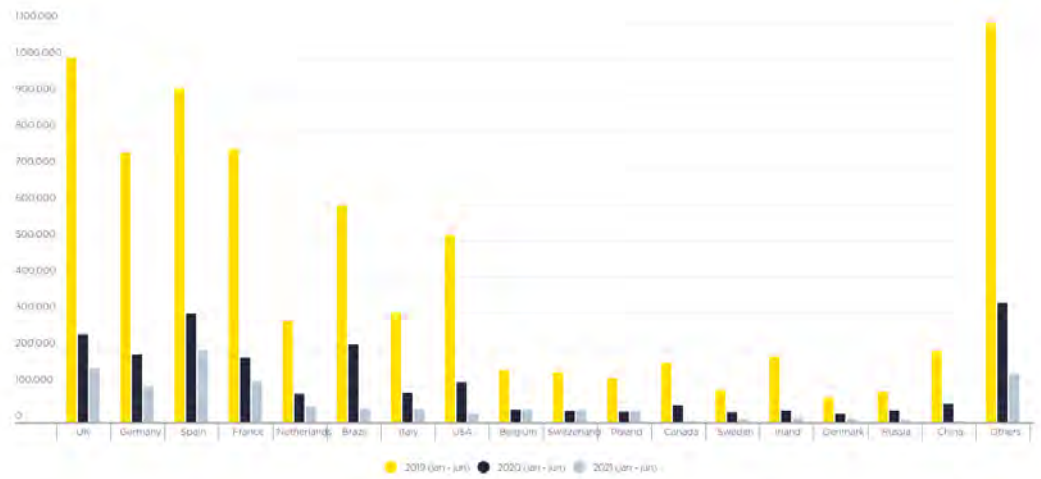
Eurostars Aliados
5* | 149 rooms

The Lodge
5* | 119 rooms

Gravity
4* | 70 rooms

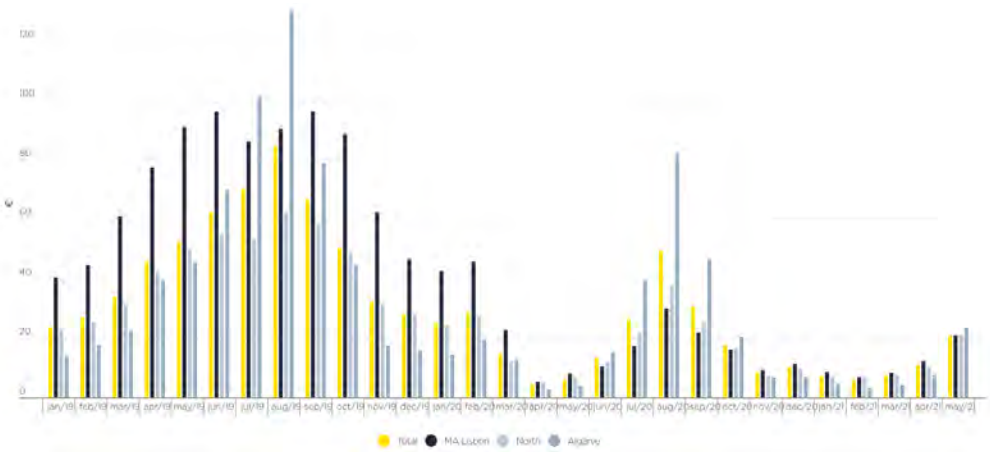
Casa da Companhia
5* | 40 rooms

NUMBER OF GUESTS BY NATIONALITY



Source: Savills Research | Travel BI

EVOLUTION OF AVERAGE REVENUE PER AVAILABLE ROOM (REVPAR) IN TOURIST ACCOMMODATION ESTABLISHMENTS



Source: Savills Research | Travel BI

The variation in RevPAR was -44.0% between January and May 2021. This indicator registered a 46.5% drop in hotels, a 37.1% drop in local accommodation and a 21.2% increase in rural tourism and housing in this period. Average revenue per occupied room (ADR) for all tourist accommodation establishments as a whole amounted to 77.6 euros in May, a value that compares with May 2019, when ADR registered 87.8 euros. These encouraging signs are also visible in the positive variation in the total number of overnight stays and guests, where the arrival of the 2nd quarter gave rise to significant progress compared to the 1st quarter in Portugal. We witnessed an increase of around 250% in the number of guests staying at tourism accommodation establishments between March and May 2021.

The full recovery to pre-pandemic levels is expected to be gradual, in line with the pace of the vaccination roll-out, however the tourism sector has seen a major change in the paradigm, with so-called "Business Tourism" suffering the greatest impact due to the implementation of distance working and the consequent support of technological tools, compared to the growth of so-called "Normal Tourism", which, as a result of people having saved more, is expected to occur at a faster rate.

The outlook for the 2nd six months of 2021 is already quite optimistic, with the possibility of the country obtaining herd immunity in August. The solid increase in reserves for the last four months of 2021 leads us to believe that the sector will recover and end 2021 on a positive note.

The Portuguese state, through the entity Turismo de Portugal (Portuguese Board of Tourism), has drawn up a plan called "Reactivating Tourism, Creating the Future", the main goal of which is to promote the recovery of the country´s tourism sector, with the support of the Recovery and Resilience Plan and the Portugal 2030 Strategy. This strategy of this plan focuses on 4 basic courses of action - supporting companies, fostering safety, generating business and creating the future, all geared to ensuring revenue from tourism exceeds € 27 billion in 2027.

Source: Savills Research | Travel BI

After a year of living under a shroud of restrictions and constant changes to the limitations of our day-to-day lives, domestic tourism has gained a new lease of life, with a considerable increase in the demand for domestic destinations.

In addition to a greater demand for domestic tourism, another trend that is beginning to take shape is the idea of flexible work within the scope of tourism, which, together with remote work, has provided people with opportunity of working anywhere in the world, combining work and tourism.

The Covid-19 pandemic has created a new universe of supply in the form of a mix of corporate and leisure, resulting in better balanced facilities capable of meeting all their customers´ needs, achieved in multiple ways such as an increase in the size of rooms, parts of communal areas transformed into co-working areas and a major commitment to connectivity and digitalisation.

This new reality will lead to the emergence of new trends with regard to accommodation, based on more hybrid models, which will force operators to rethink current facilities and their respective business models.

Around 38 hotel units are expected to open by the end of 2021, featuring more than 4,000 rooms. As for the year 2022, 16 hotels with 1,815 available rooms are currently in the construction and refurbishment phases.

REOPENING PROCESS FACING A NUMBER OF CHALLENGES

As far as many operators are concerned, the process of reopening their hotel establishments will give rise to a series of challenges and obstacles, which could prove to be complicated. Moreover, this panorama applies to the whole world.

Opening with lower levels of demand could prove detrimental to cash flow, and at a time when levels of uncertainty are still high, last-minute cancellations could make long-term planning a difficult task, in addition to the fact the full reopening of the sector could result in a price war. Hence, among the many effects of the pandemic, rethinking, simplifying and optimising business models has become mandatory for all operators.

Simpler and more streamlined models will enable the sector to reopen with a higher rate of profitability, despite occupancy rates being lower when compared to the pre-Covid period and limited to the initial state of recovery.

It is true to say that personnel costs have decreased considerably in the last year and this poses another challenge to the sector. Rehiring skilled labour may turn out to be a more time-consuming process than in the past.

Indeed, government measures designed to promote the tourism sector have played a very important role. Moratoriums, cuts in VAT and financial agreements have been of enormous assistance in combatting the insolvency of the European hotel sector. And Portugal has been no exception, with the provision of financial support packages and a simplified lay-off programme that ensured less dramatic conflicts in the labour market.

However, this did not prevent many hotels from having to lay off staff, possibly due to the closure of certain lines of service removed from operating models, and they may have to place future recruitment processes on hold until results that provide a solid and sustained basis on which to hire new members of staff have been achieved.

Due to the negative impact of the pandemic in Portugal, sale & leaseback transactions may be used as a capitalisation instrument, and we may witness private owners undergoing unavoidable cash flow difficulties and being forced to sell their assets.

The hotel real estate investment sector will continue to attract the interest of institutional investors with a core investment profile and long-term strategies, and there is also room for more opportunistic profiles.

Portugal will continue to be the destination of international chains and will hold down its place as a tourist destination for holidays and business. In 2021, the market awaits new expansions by major international hotel groups such as the Marriott Group, with the Moxy and Four Seasons by Sheraton brands. The Hilton group will also mark its presence with the development of the Tapestry Collection brand´s first hotel and the Accor Group is investing in its brand with a project aimed at the Millennials market, Mama Shelter.

Savills Team

Please contact the persons listed below for further information:

Patrícia Melo e Liz
Chief Executive Officer
patrícia.liz@savills.pt

Paulo Silva
Head of Country Portugal
paulo.silva@savills.pt

Ana Redondo
Agency | Office Director
ana.redondo@savills.pt

Joana Rodrigues
Architecture Director
joana.rodrigues@savills.pt

Luís Vieira
Agency | Retail Director
luis.vieira@savills.pt

Paula Sequeira
Consultancy Director
paula.sequeira@savills.pt

Pedro Figueiras
Agency | Industrial - Logisitcs Director
pedro.figueiras@savills.pt

Ricardo Garcia
Residential Director
ricardo.garcia@savills.pt

Alexandra Gomes
Head of Research
alexandra.gomes@savills.pt

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