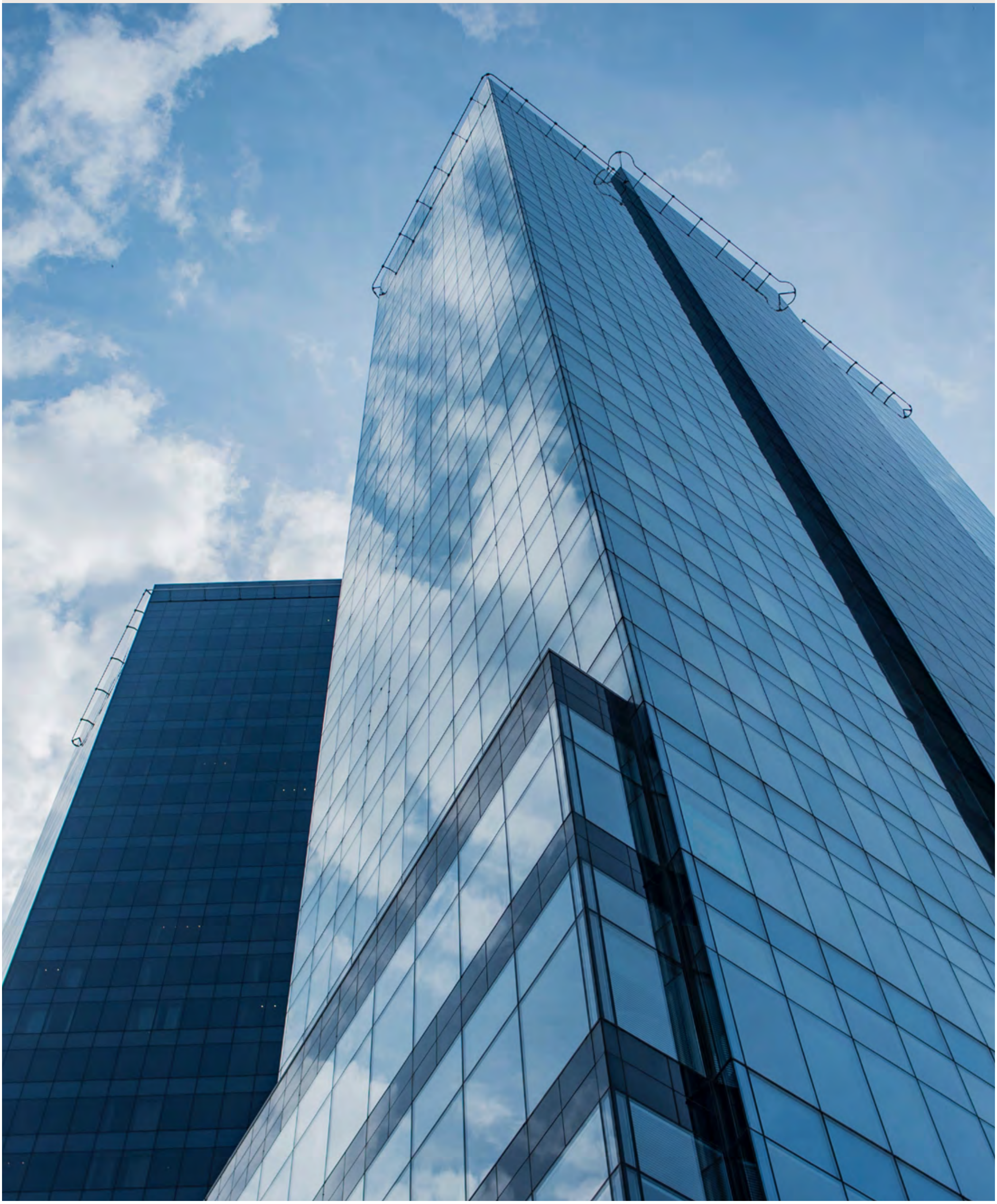
SPOTLIGHT
Savills Research

Portugal

Real Estate Market Overview

H1 - 2023



Savills Commercial Research
We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

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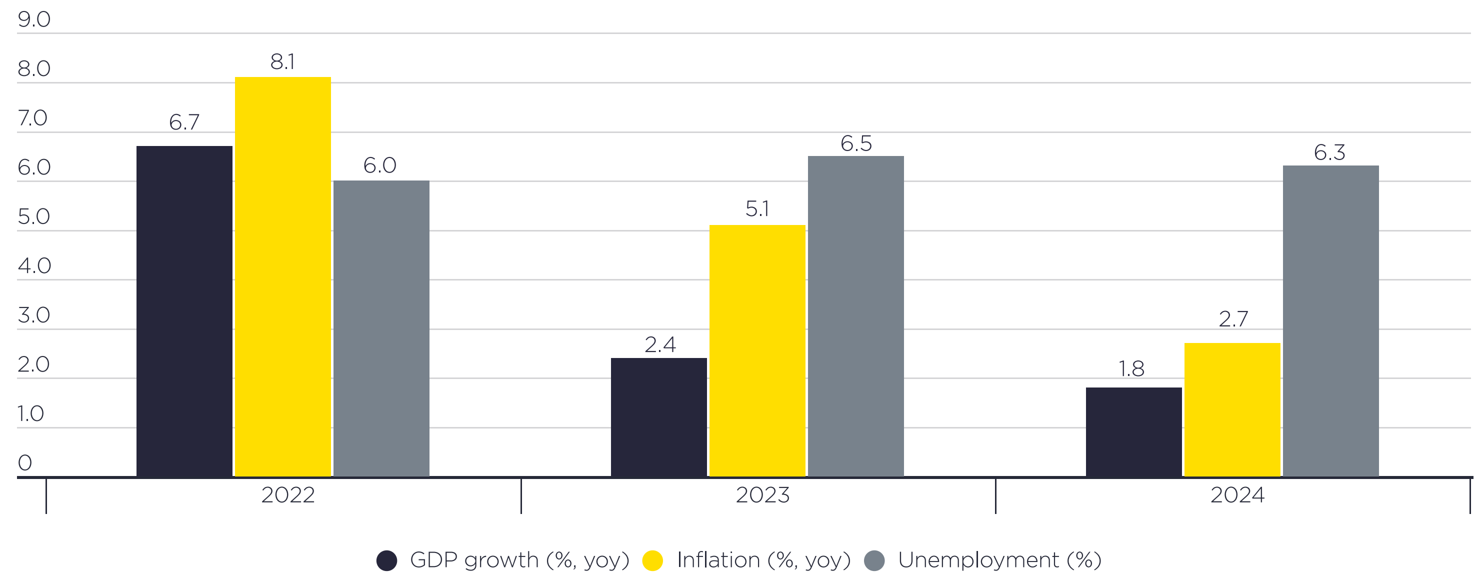
01. Economy

Following a robust first quarter, the closing forecast for the second quarter suggests a potential slowdown in activity, accompanied by a slight contraction. However, major economic and financial institutions maintain an optimistic outlook.

The European Commission anticipates a brighter second half of the year, characterized by a gradual recovery in real household disposable income and private consumption. Additionally, there are expectations of improved investment growth in the upcoming months. This positive trajectory can be attributed to declining global commodity prices and a rebound in global supply chains.

Moreover, there is optimism surrounding the anticipated influx of EU funds, which should help counterbalance any potential negative effects of higher interest rates on investment. Exports are predicted to outpace imports, driven by the strong performance of the tourism sector. This upward trend in exports is expected to contribute to overall economic growth.

Portugal Economic Forecast



Source: European Comission Spring 2023

Inflation is projected to remain under control throughout the forecast period.

Inflation is projected to remain under control throughout the forecast period. The moderation in inflation will primarily be influenced by the energy price index, followed by food and non-industrial goods. Furthermore, in 2023, the moderation in food prices will receive additional support from the suspension of VAT rates on essential food products.

This temporary suspension, effective from 18th April until the end of October, aims to alleviate financial burdens on consumers.

According to projections, the unemployment rate is predicted to be 6.5% in 2023 and 6.3% in 2024. This forecast considers moderate growth in employment and real wages, which aim to offset the decrease in workers' purchasing power that occurred in 2022.

02.
Investment Market

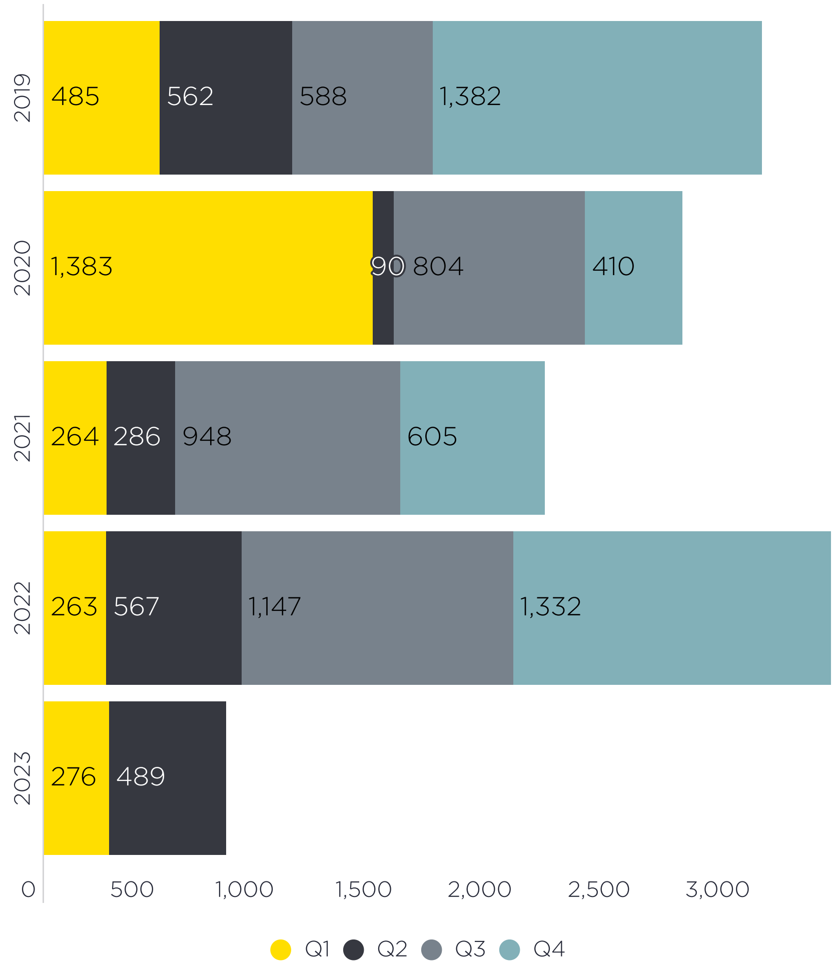
The Portuguese commercial real estate investment market experienced a slight decline in the first half of the year, with a total investment volume of €765 million, representing an 8% decrease compared to the same period in 2022.

The basis for this anticipated slowdown in the market, as projected in the advanced forecasts at the end of 2022, can be attributed to the current macroeconomic conditions, which remain highly uncertain. One of the key factors contributing to this uncertainty is the persistent rise in interest rates causing an uptick in financing costs. As a result, the decision-making process for investments has become more prolonged, leading also to a gap between the return expectations of sellers and buyers.

After a first quarter of strong slowdown, in the 2nd quarter, there was an increase of 77% in the total volume of investment compared to the 1st quarter of the year. Still, is worth mentioning that a single transaction was responsible for this result - the sale of the Dom Pedro Hotels portfolio to the British asset manager Arrow Global.

Despite the downturn in the market and a more challenging economic climate, the investment real estate market remained resilient. A total of 37 transactions were closed, mirroring the number of deals done closed during the same period in 2022, with the average investment ticket staying consistent at €21 million for both periods compared.

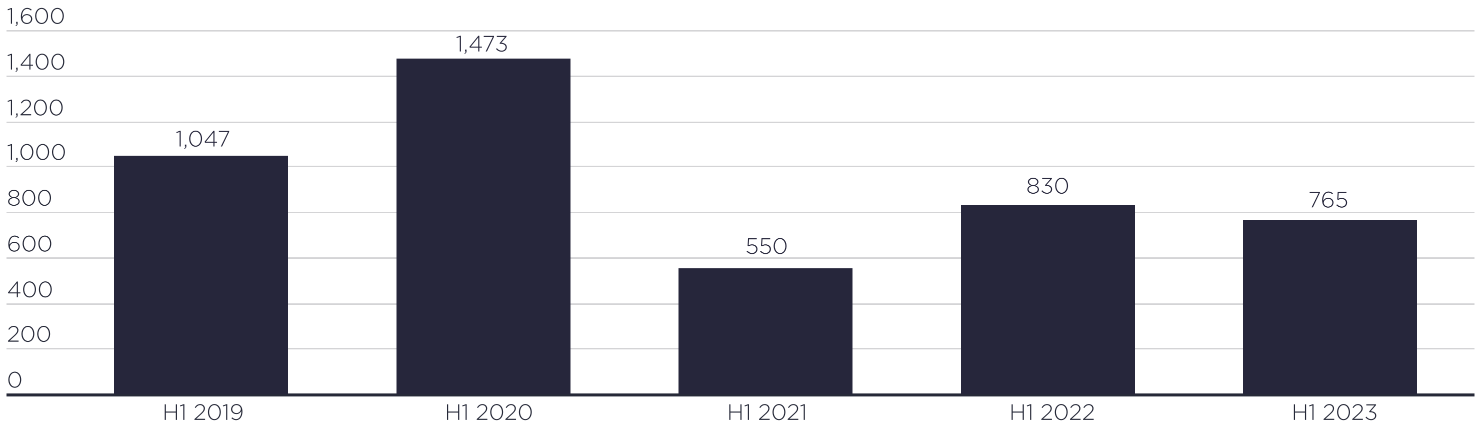
Evolution of Real Estate Volume (€ Million)



Source: Savills Research

The hospitality segment contributed significantly to the overall investment volume in H1 2023. With a total of EUR 273 million, this segment accounted for a weightage of 39% in the total Investment volume marking an increase of 23% when compared to the same period in 2022. A total of five transactions were successfully closed. Among these transactions, was the Hotel Dom Pedro portfolio, which encompasses six hotels and five golf courses.

Half-year Total Real Estate Investment Volume (€ Million)

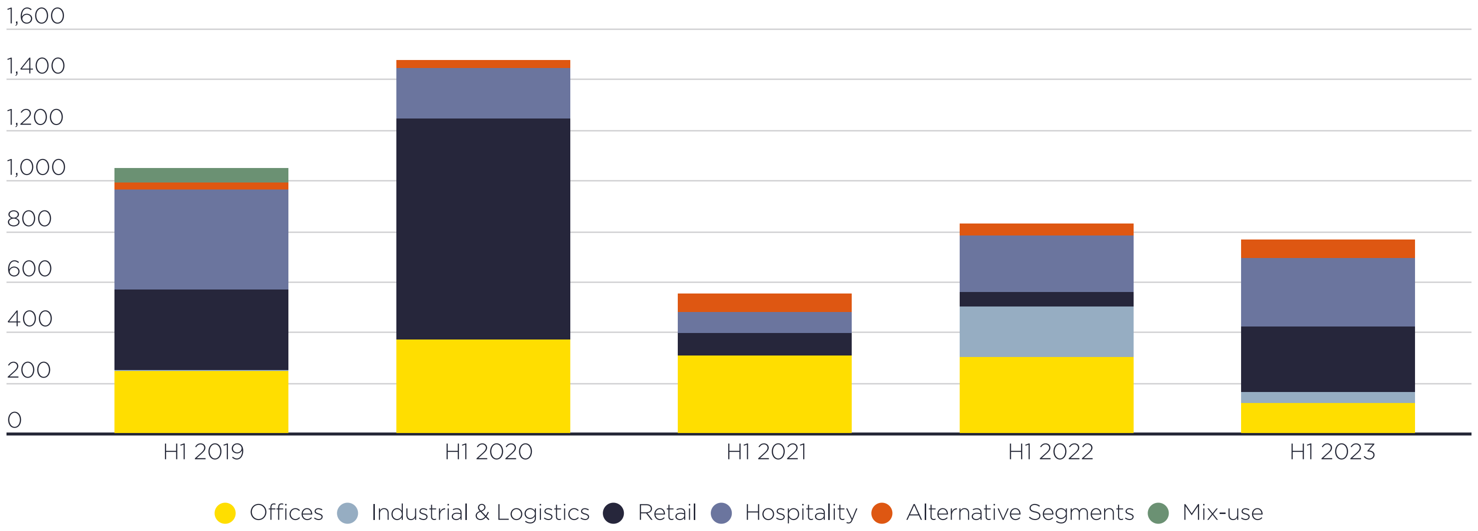


Source: Savills Research

The retail sector holds the second position, representing approximately 38% weight and a total investment amount of around 263 million. There has been a significant surge in the overall investment volume, exceeding 300%, when compared to the same period in 2022. This notable increase can be attributed largely to the sale of the Amália Portfolio, which comprises 49 supermarkets and was sold for a total value of €150 million to LCN Capital Partners.

The retail market has demonstrated remarkable resilience, attracting the interest of domestic and cross-border investors, particularly those seeking to acquire food distribution units. Also, over the initial half-year period, IN Guarda Retail Park and Shopping Cidade do Porto were successfully purchased by two national entities for a slightly higher value than EUR 40 million.

Total Real Estate Investment Volume by Sector (€ Million)



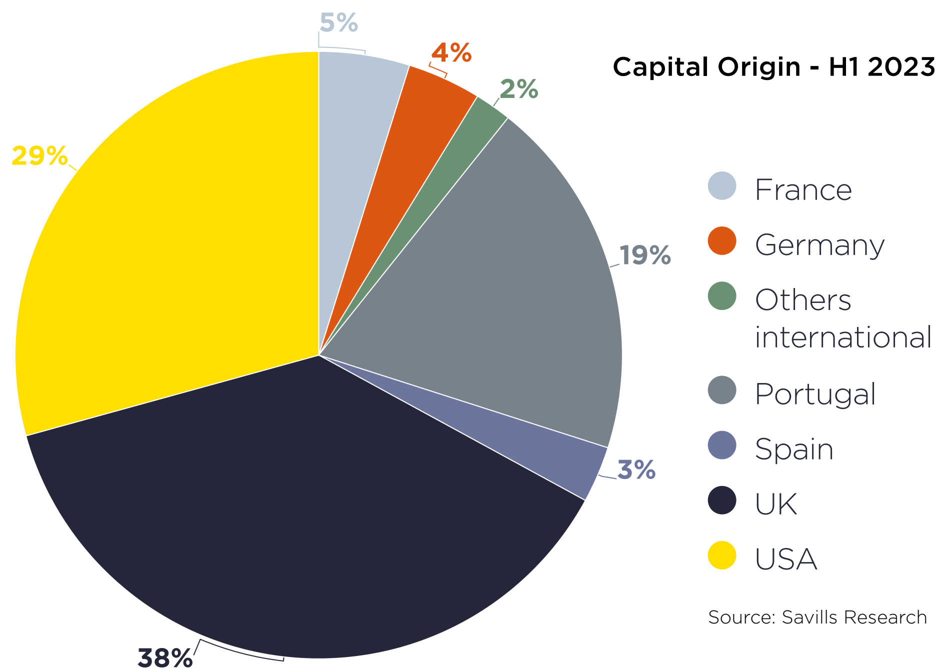
Source: Savills Research

The office market has experienced a gradual decrease in investment volumes, primarily due to the scarcity of high-quality assets that align with the preferences of core investors. By the end of the first half, the office sector witnessed a total investment volume amounting to EUR 120 million, representing a decrease of 60% compared to the same period in 2022.

In total, 10 transactions were closed, carried out by investors with a value-add and core plus profile, which were divided between the purchase of fractions or floors of office buildings and the purchase of three office buildings in the city centre of Lisbon.

In the first half of 2023, the Portugal real estate investment market continued to attract significant interest from international capital, with 81% of the total capital invested originating from across borders. British and North American investors played a pivotal role by investing over 500 million euros in hospitality, retail, and industrial & logistics segments. 78% of the total amount invested by these nationalities corresponds to the purchase of two portfolios.

Capital Origin - H1 2023

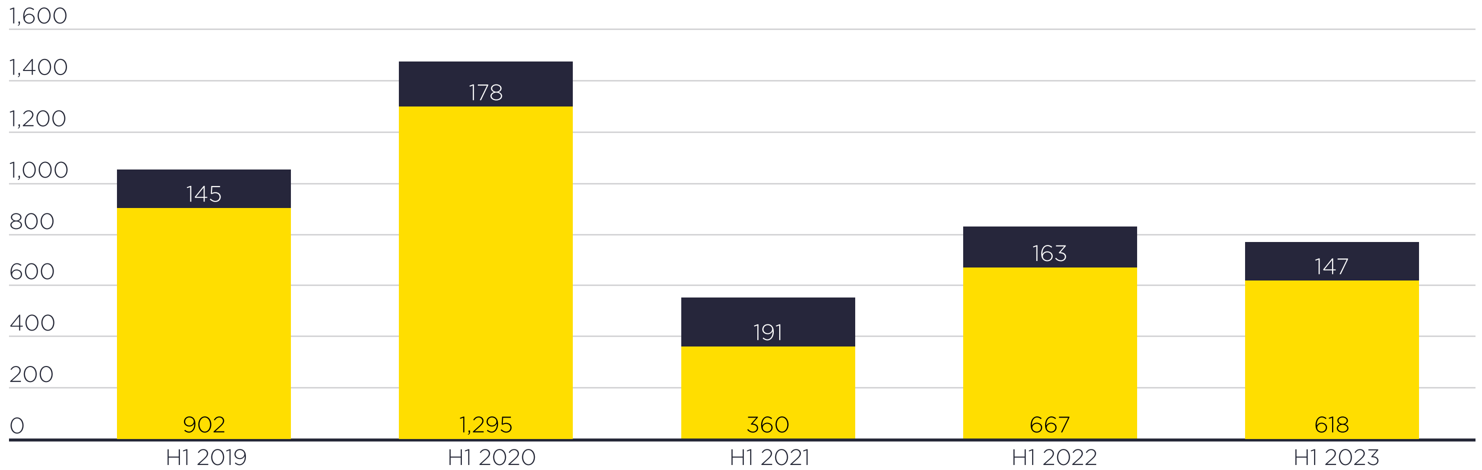


Source: Savills Research

The traditional European players, including France, Germany, and Spain, have contributed to the market with a relatively modest sum of EUR 90 million, accounting for only 12% of the total investment volume. National investors accounted for 19% of the investment volume, placing their bets heavily on the retail and office sectors.

During the first half of 2023, real estate asset management funds, accounted for 45% of the total investment volume followed by private equity funds representing 20% of the total investment volume, summing up to EUR 156 million. Private investors have also been active showing a strong interest in the high street retail sector.

Cross-Border vs Domestic Real Estate Investment Volume (€ Million)

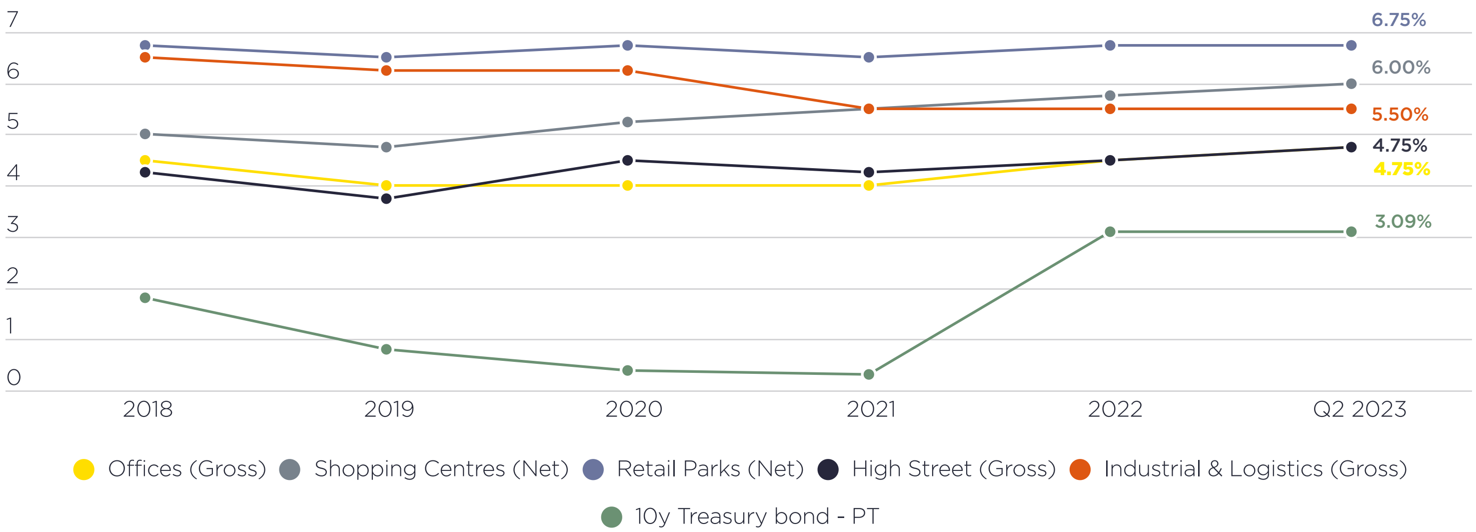


Source: Savills Research

The year 2023 is proving to be more challenging to the investment real estate market due to the rapidly rising debt costs since 2022, leading to upward pressure on prime yields. Over the first 6 months of the year, the office segment registered a 0.25 basis point increase in yields, reaching 4.75%. Similarly, shopping centers and high street assets also saw a 0.25 basis point increase, with yields reaching 6.00% and 4.75% respectively.

Looking ahead, the market fundamentals that have shaped the first half of the year are expected to persist until the end of the year. The prevailing interest rate environment will continue to exert significant pressure on investors' return expectations, making it more challenging to achieve desired capital gains. As a result, decision-making processes within the real estate sector may be delayed as investors carefully analyze and assess the potential risks and returns. Office and industrial and logistics assets continue to generate interest, but a lack of core product limits deal closings in these markets. There remains a growing interest in value-add and development assets, the latter very much geared towards the development of residential and some hospitality projects.

Prime Yields (%)



Source: Savills Research

03. Lisbon Office Market

In the 1st half of 2023 the Lisbon office market recorded a total take-up of approximately 87,000 sq m observing a sharp decrease of 77% compared to the 1st half of 2022.

Total Market Stock
4 450 307 sq m
(+1% Q1 2023)

Deals Done
73
(-30% H1 2022)

H1 2023 Take-up
38, 321 sq m
(-77% H1 2021)

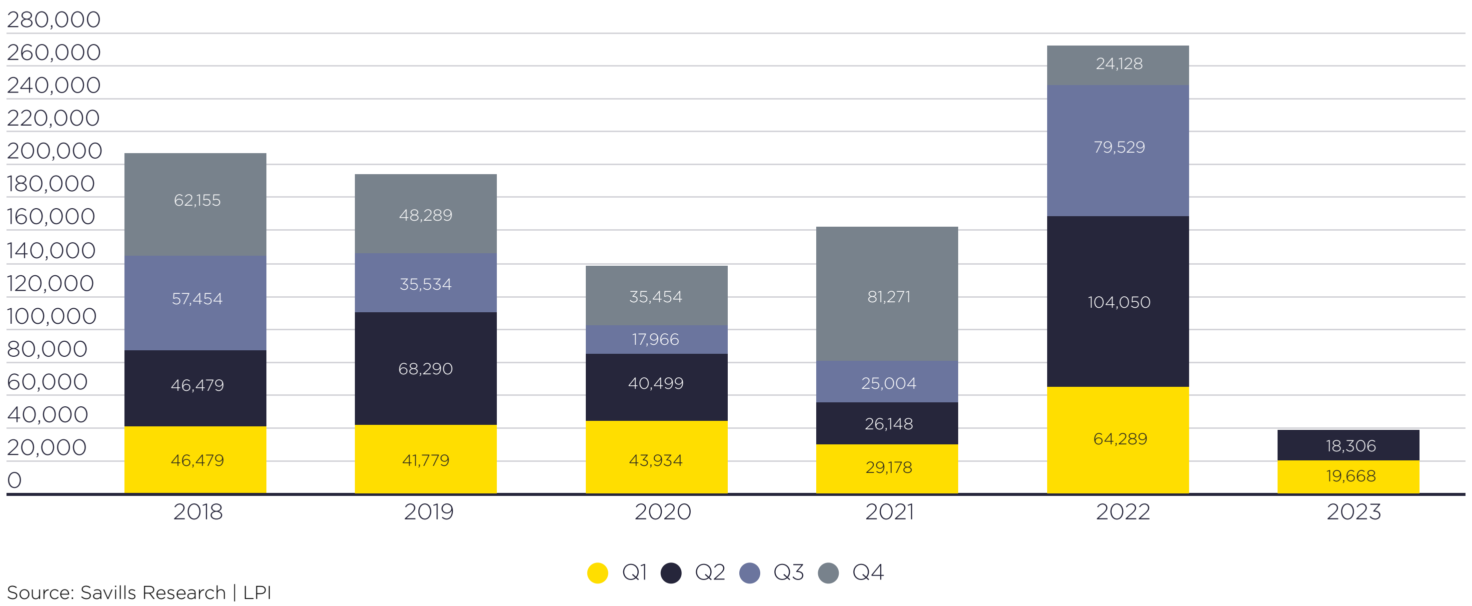
Best Performing Zone
Parque das Nações
10, 333 sq m

Vacancy Rate
10,15%
(Change QoQ: 0.95 b.p.)

Prime Rent
27€
per sq m / month
+3,8% YoY

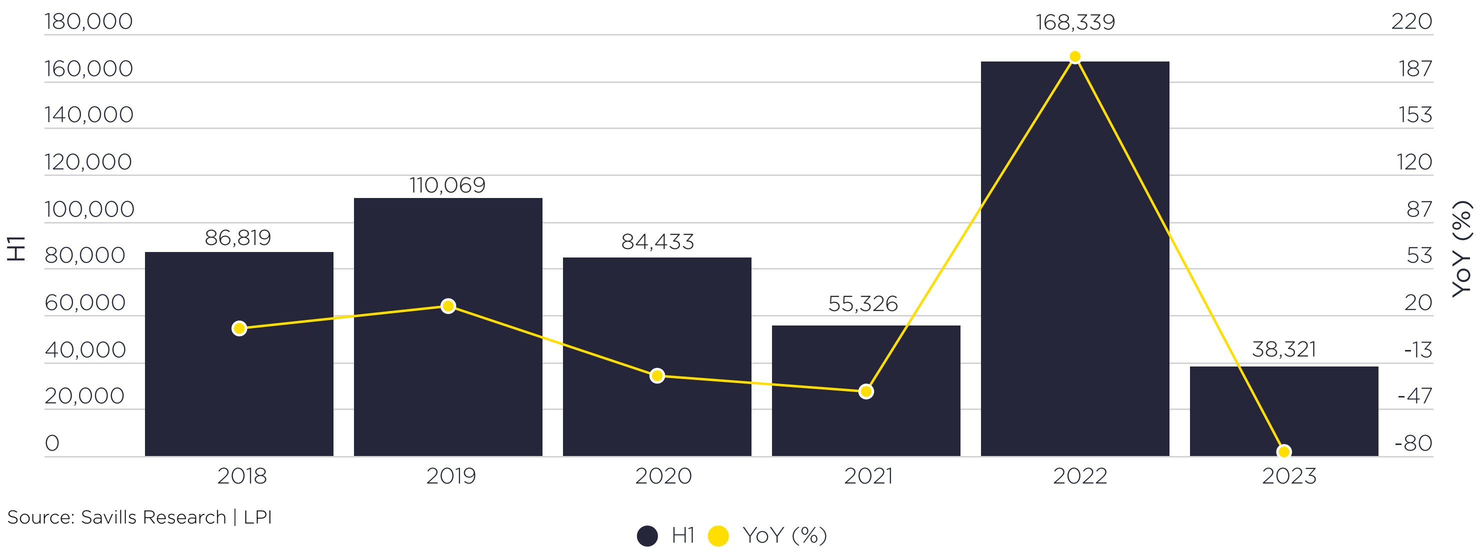
When we compare the results achieved in the first half of 2023 with the figures observed in 2022, the decline is quite steep. This steeper decline was due to a very strong 2022 that reached a historic take-up volume, highly driven by the closure of large and unprecedented pre-let and owner-occupier transactions in the Lisbon office market, further accentuating the market downturn.

Total Take-up by Quarter



Source: Savills Research | LPI

Half-year | Total Take-up

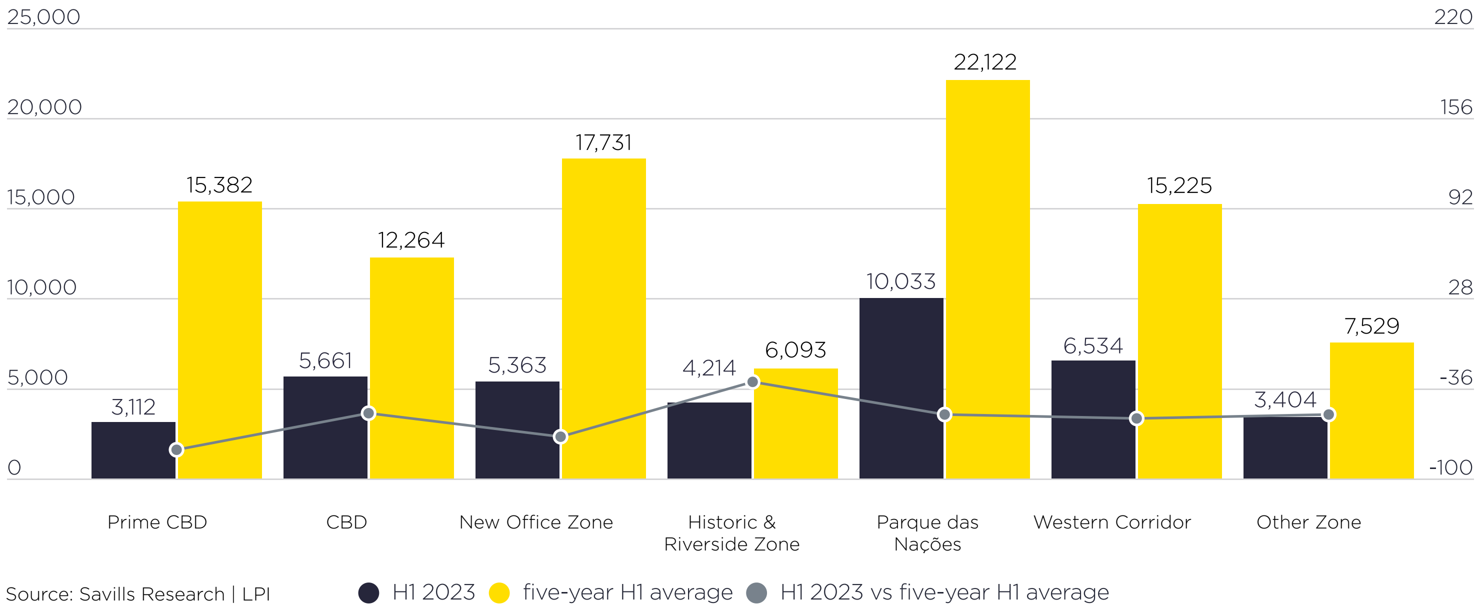


Source: Savills Research | LPI

In the 1st half of the year, 73 deals were closed, a decrease of 30% compared to the same period in 2022. This drop-in activity is also based on a more cautious strategy on the part of tenants, in the face of an economic scenario of greater uncertainty motivated by rising interest rates.

In addition to a more cautious demand that puts longer timings in the decision-making processes, the market continues to register an insufficient volume of new speculative projects, limiting the choice of tenants.

Evolution of take-up by Office Market Zone



Source: Savills Research | LPI

At a time when ESG& sustainability criteria are an integral and inseparable part of all businesses, the demand for best-in-class buildings is becoming more limited. An increasing international demand with high occupancy standards.

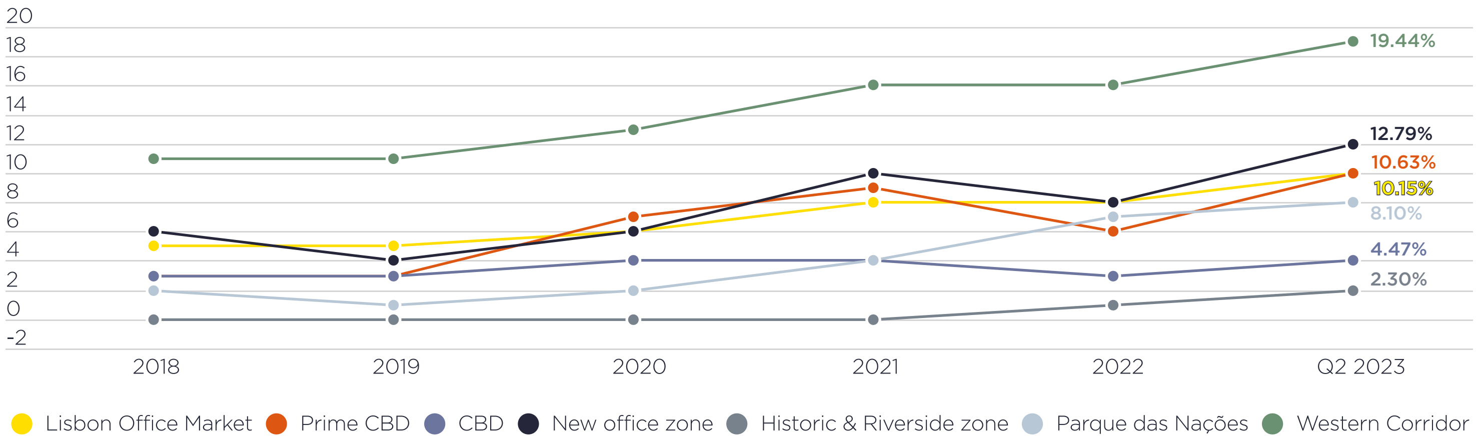
The projects that will be completed by the end of 2023 are 100% for owner-occupation. For 2024, also 50% of the new stock that will enter the market is also earmarked for owner-occupier operations.

The top of the largest deals in the 1st half of 2023 is led by a closed transaction (confidential) in the Lumnia Building, which is part of the EXEO project in Parque das Nações, with a total of 4,602 sq m. The Parque das Nações Zone (Zone 5) accounted for a total take-up at the end of the 1st half of 2023 of 10,333 sq m, exerting a weight of 27% in the total market take-up.

The TMT & Utilities sector remains the major driver of demand, accounting for 34% of deals done in the first half of the year.

In the second quarter of 2023, the vacancy rate in the Lisbon market stood at 10.15%, an increase of 0.95 b.p. compared to the first quarter of 2023 and 1.22 b.p. compared to the same period of 2022. Prime rent closed at €27/sq m/month at the end of Q2 2023, showcasing its resilience in the face of challenging market conditions. The sustained potential of prime rent is driven by the scarcity of quality office spaces available and the strong demand from companies, especially larger ones, that prioritize ESG and sustainability guidelines. In addition, the new high-quality projects underway for the next 2 years will put further upward pressure on prime rents.

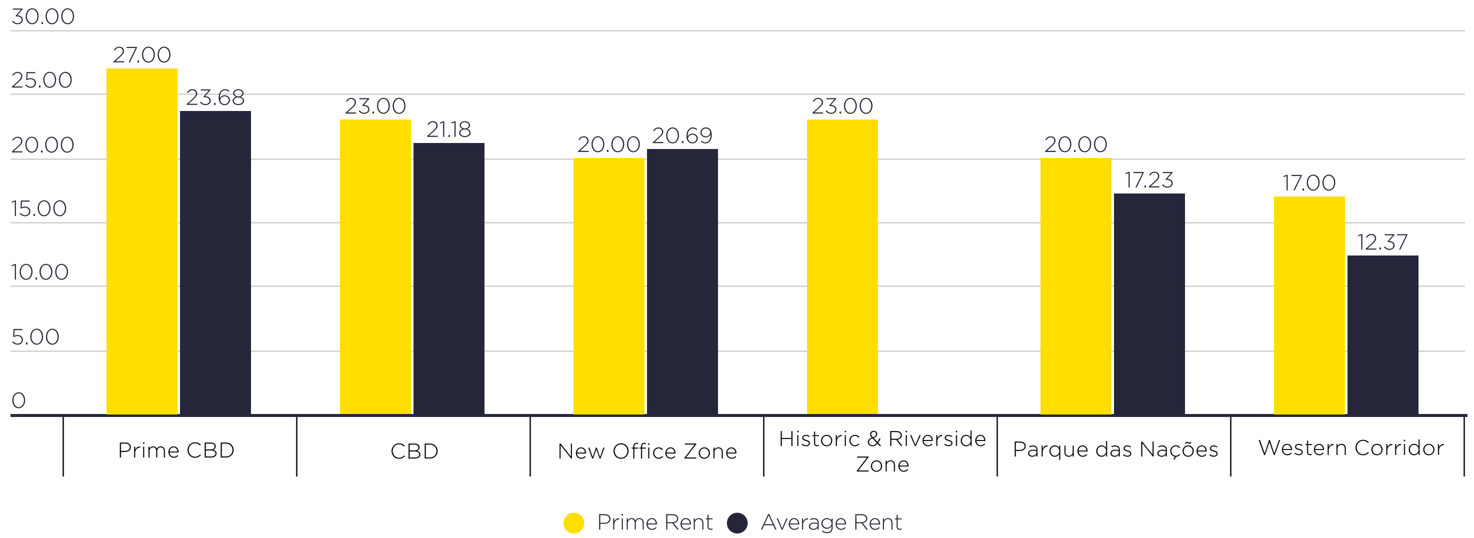
Evolution of Vacancy Rate (%) by Office Market Zone



Source: Savills Research | LPI

OVERVIEW H1 2023

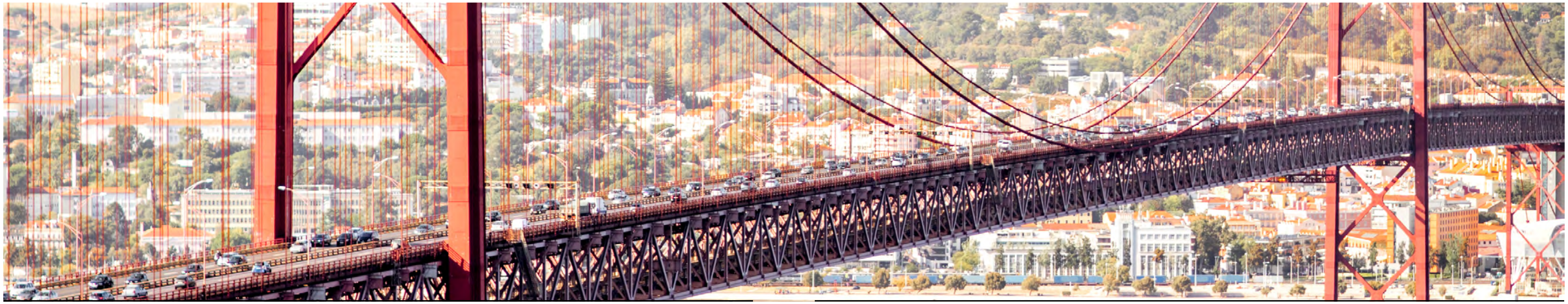
Office Market Rents by Zone
(€/sq m/month)



Source: Savills Research | LPI

Top Deals H1 2023

Market Zone	Building	GLA (sq m)	Tenant	Business Sector	Demand Reason
5	EXEO-Lumnia	4,602	Confidential	TMTs & Utilities	Relocation
4	LEAP Docas	2,840	Code for All	TMTs & Utilities	Relocation
3	Colombo Torre Oriente	2,085	Hipoges	Construction & Real Estate	Relocation
5	AGEAS	1,405	Confidential	Consultants & Lawyers	Area Expansion
3	Pórtico	1,269	Embaixada Brasil	State, Europe & Associations	Relocation
7	Via Roma	1,092	Selectral	Other Services	Relocation



Buildings Completed

H1 2023

Edu Hub
4,000 sq m
Zone 7

Pier III
3,434 sq m
Zone 4

Claranet
4,000 sq m
Zone 7

K Tower
13,875 sq m
Zone 5

By the end of 2023, three projects are expected to be completed totaling 55,000 sqm 100% for owner-occupation. Between 2024 and 2025 approximately 200,000 sqm of new space is planned, with a further 60,000 sqm already earmarked for owner-occupation.

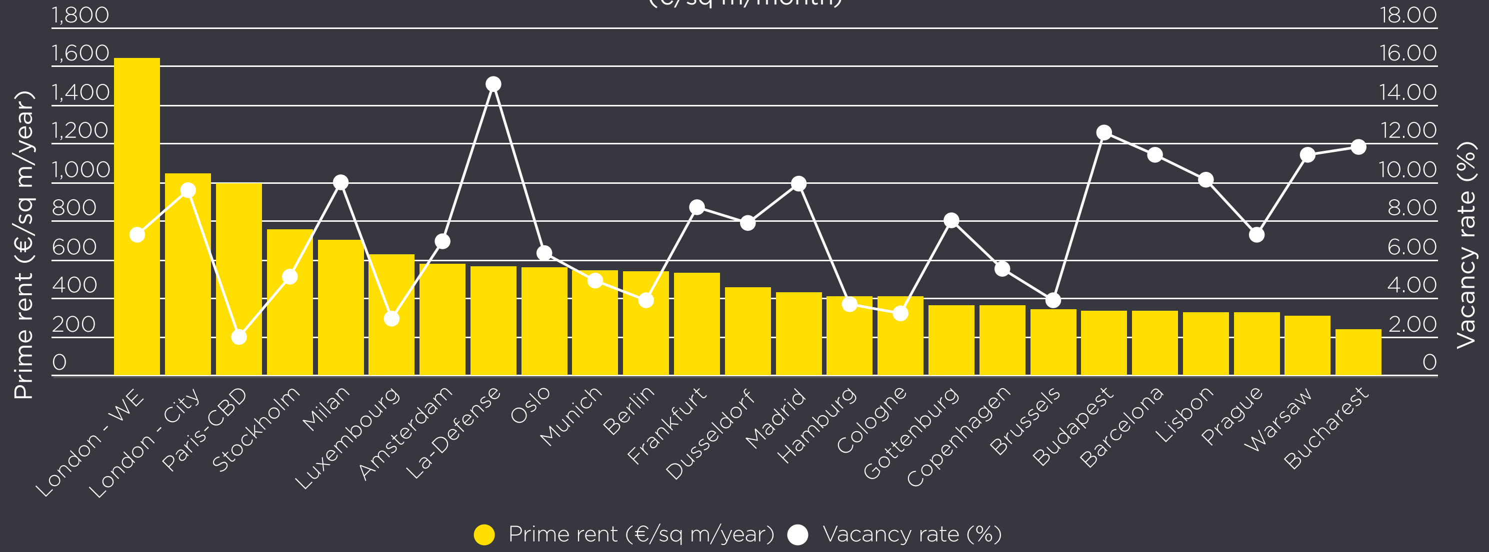
It should be noted that the Entrecampos Project is scheduled for completion in 2026, bringing around 98,000 sq m of new office space to the market and marking the new centrality of Lisbon.

Completion	Pipeline	Pre-let | Owner Occupier
H1 2023	2023-2025	2023: 100% 2024: 50%
> 25,000 sq m	**> 240,000 sq m**	

Main Projects

Market Zone	Building	GLA	Tenant
7	Oriente Green Campus	40,000	Q1 2024
3	Colombo 3rd Tower	31,450	Q2 2024
3	Campo Novo	8,695	Q1 2025
5	WellBE	26,288	Q1 2025

Office Market Rents by Zone
(€/sq m/month)

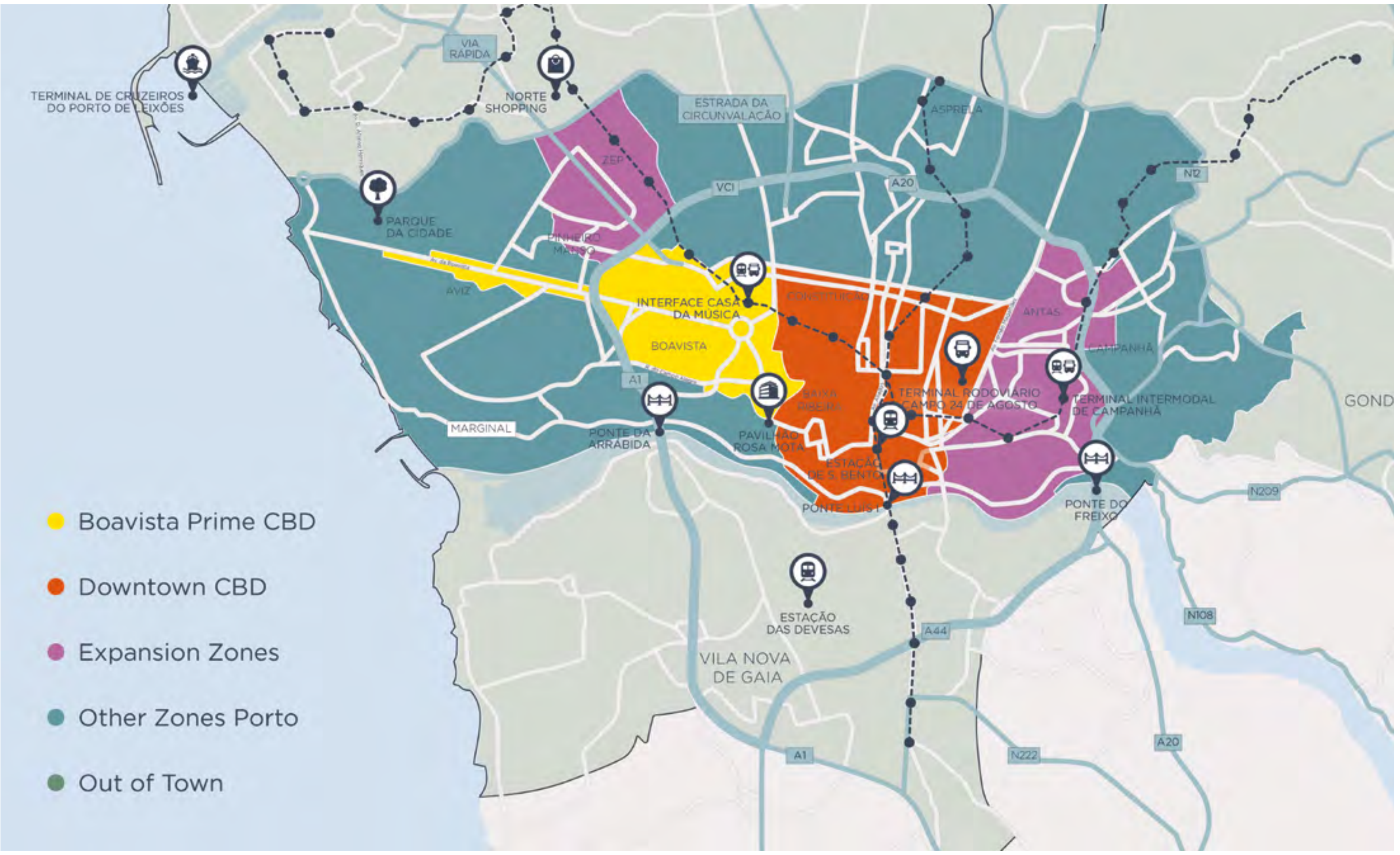


Source: Savills Research

04.

Porto Office Market

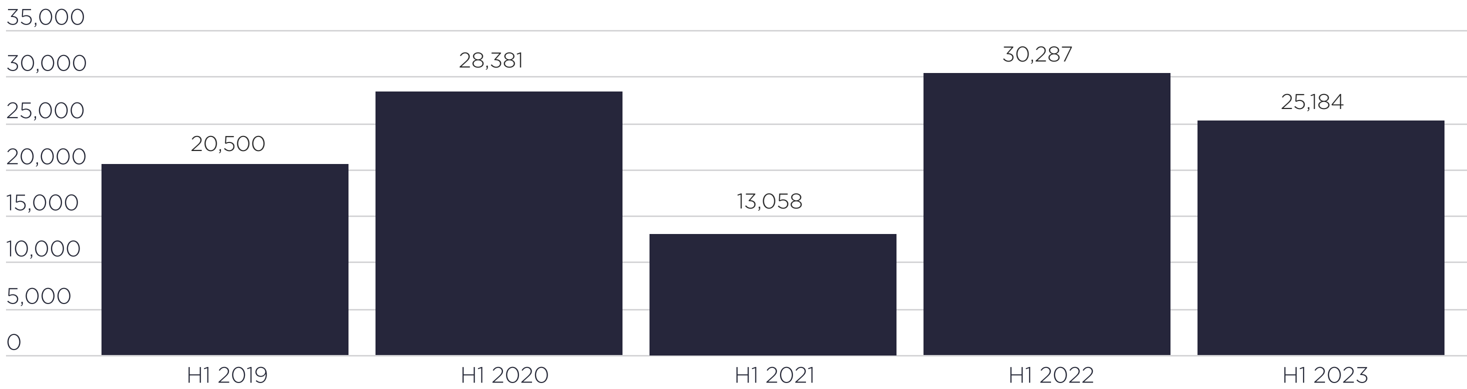
In the first half of 2023, the Porto office market totaled 25,184 sq m of take-up. Although the take-up volume was 17% lower than in the same period last year, it was 9% higher than the average take-up volume of the last four years.



This result was achieved by closing 32 transactions, including seven transactions of more than 1,000 sq m.

These operations brought the average take-up area for the 1st half of 2023 to 787 sq m. The Out of Town Zone recorded the best performance with a total take-up volume of 9,361 sq m, followed by the Expansion Zone with 8,058 sq m.

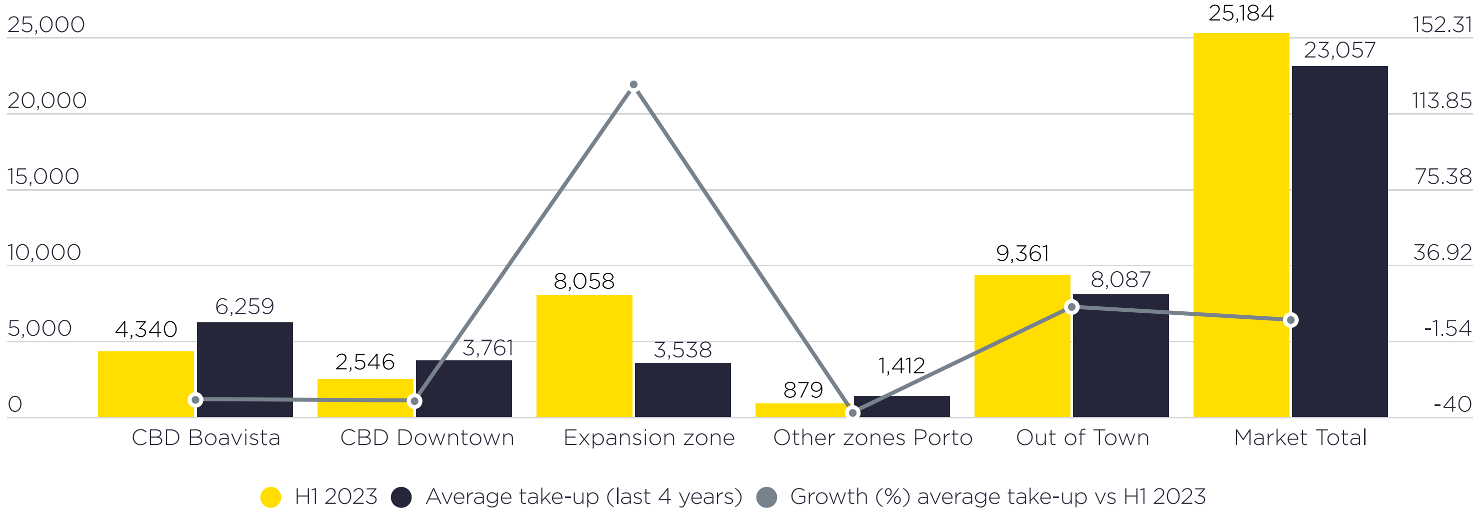
Half-year Total Take-up Volume



Source: Savills Research | PPI

OVERVIEW H1 2023

Total Take-up by Office Market Zone (€/sq m)



Source: Savills Research | PPI

The largest percentage increase in take-up volume was observed in the Expansion Zone with an increase of more than 500% compared to the same period in 2022, justified by having registered the largest operation of the semester, above 5,000 sq m.

Top Deals H1 2023

Market Zone	Building	Area	Tenant	Business Sector	Demand Reason
Expansion Zones	Icon Offices	5,651	Confidential	Consultants & Lawyers	Relocation
Out of Town	Centro Empresarial Leonesa	4,300	Confidential	TMTs & Utilities	Relocation
Out of Town	República 705	1,510	Chave Nova	Construction & Real Estate	Relocation

Source: Savills Research | PPI

The TMT's & Utilities and Consultants & Lawyers sectors were the most dynamic contributing 54% of the total absorption volume.
At the end of the first six months of the year, a period marked by careful analyses and considered decisions, it should be noted that Porto's office market continues to demonstrate remarkable stability.

The development of new office projects has contributed to attracting a diverse range of companies from different sectors and nationalities.

This trend is particularly noticeable in the areas surrounding Porto, such as Matosinhos, where many of these new projects are located. All these factors combine to make Porto an increasingly attractive destination for companies looking to establish a presence in a dynamic and forward-thinking market.

Completions
>25,000 sq m
H1 2023

Pipeline
59,000 sq m
2023-2024

Main Projects (Spec. Development)			
Market Zone	Building	GLA (sq m)	Completions
Expansion Zones	Icon Offices	13,373	Q3 2023
Expansion Zones	Matadouro	11,900	Q4 2024
Out of Town	Tecmaia - Plot 4	6,900	Q4 2024

Source: Savills Research | PPI

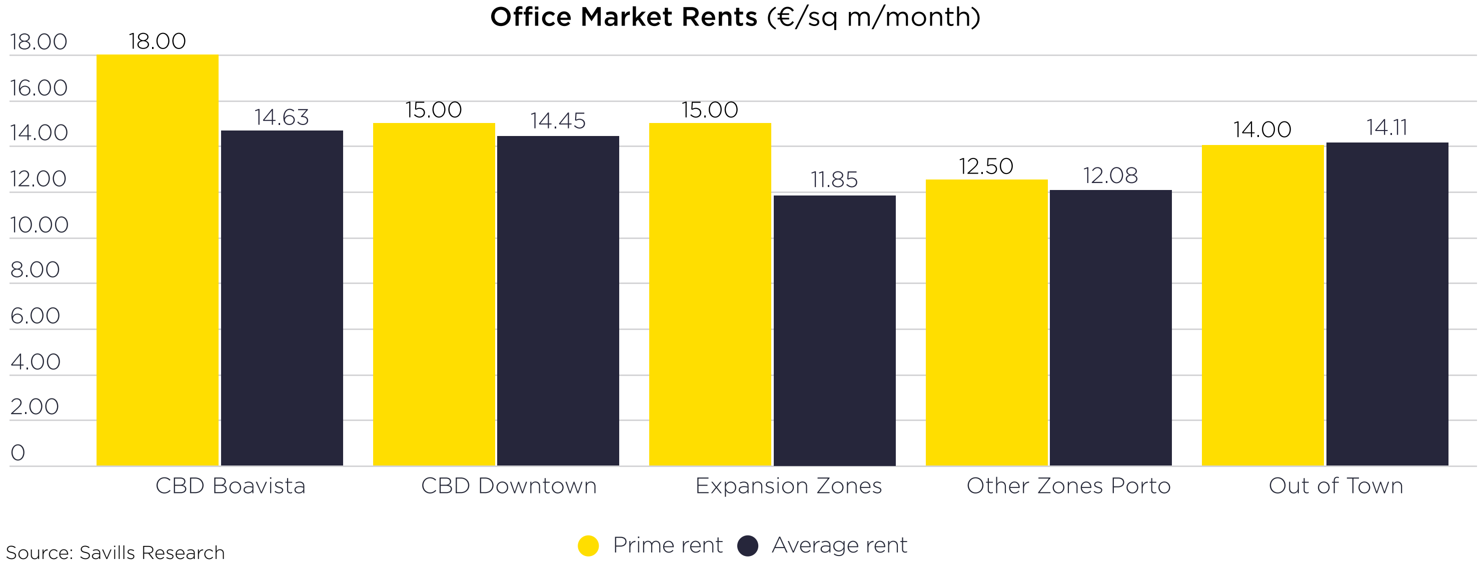
By the end of 2023, approximately 35,700 sq m of new office space is expected to be completed with the Out of Town Zone receiving around 19,000 sq m. In the first half of 2023, five projects totaling just over 25,000 sq m were completed.

Buildings Completed

Alegria 819: CBD Downtown	Cofina II: Expansion Zones	D. M2: CBD Boavista	Metysis Phase 1: Out of Town	Matosinhos Sul: Out of Town
1,597 sq m	**3,300** sq m	**13,088** sq m	**3,500** sq m	**4,070** sq m

Prime rents remained stable at €18/sq m/month during the first 6 months, with expectations of an increase by the end of the year supported by the new projects under development.

Office Market Rents (€/sq m/month)



Source: Savills Research

05. Retail

Retail sales in Portugal grew 3.1%, year-on-year, in May of 2023, representing an upsurge of 0.06% compared to April 2023 (2.5%). There was the biggest annual gain in the last four months. Food Products recorded an increase of 2.8%, while Non-Food Products rose by 3.2%.

Retail Trade Turnover Index

Source: INE

OVERVIEW H1 2023

The consumer confidence index has been recording a consecutive increase since December 2022, up to June 2023 (-26.8), reaching the highest level in 15 months (March 2022, with 33,9%). It reached a record high of -10.30% in September of 2021 and a record low of -37.70% in November of 2022.

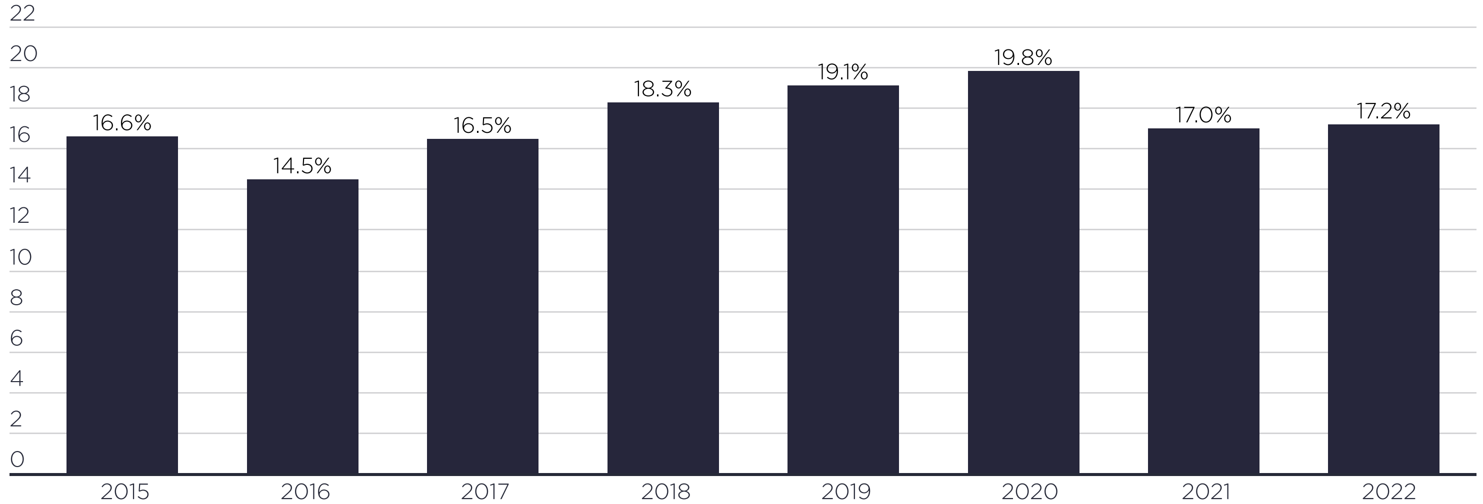
Consumer Confidence Indicator

Source: Savills Research

Revenue in the e-commerce market is forecasted to get to €4.72bn by the end of 2023 and expected to have an annual growth rate of roughly 11,8%, reaching a volume of €7,36bn by 2027. In addition, by 2027, the number of e-commerce users is expected to amount 5.82 million in the country. Currently, Portugal ranks 49th as the largest e-commerce market in the world. Fashion is the most profitable sector, responsible for almost one third of the Portuguese revenue, followed by Electronics & Media, Food & Personal Care, Toys, Hobby & DIY and Furniture & Appliances.

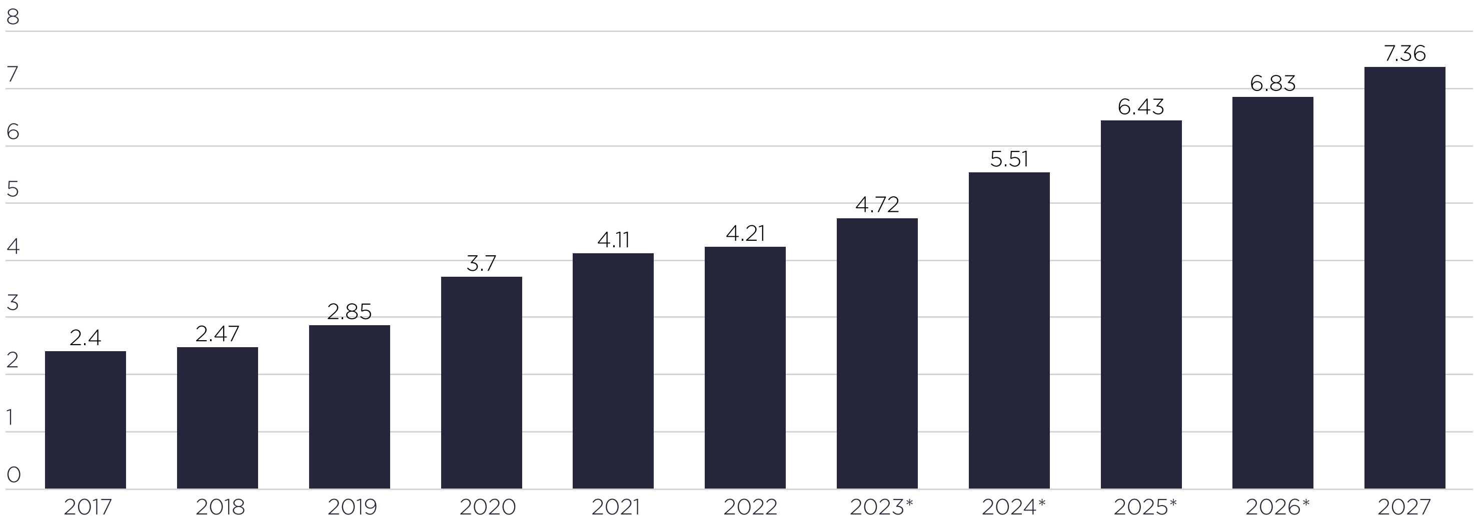
Due to the lockdowns during the first year of the pandemic, 2020 is the year, so far, with the highest share of e-commerce sales against overall retail sales, representing 19,8% of enterprises' turnover.

Share of e-commerce in Overall Retail Sales in Portugal



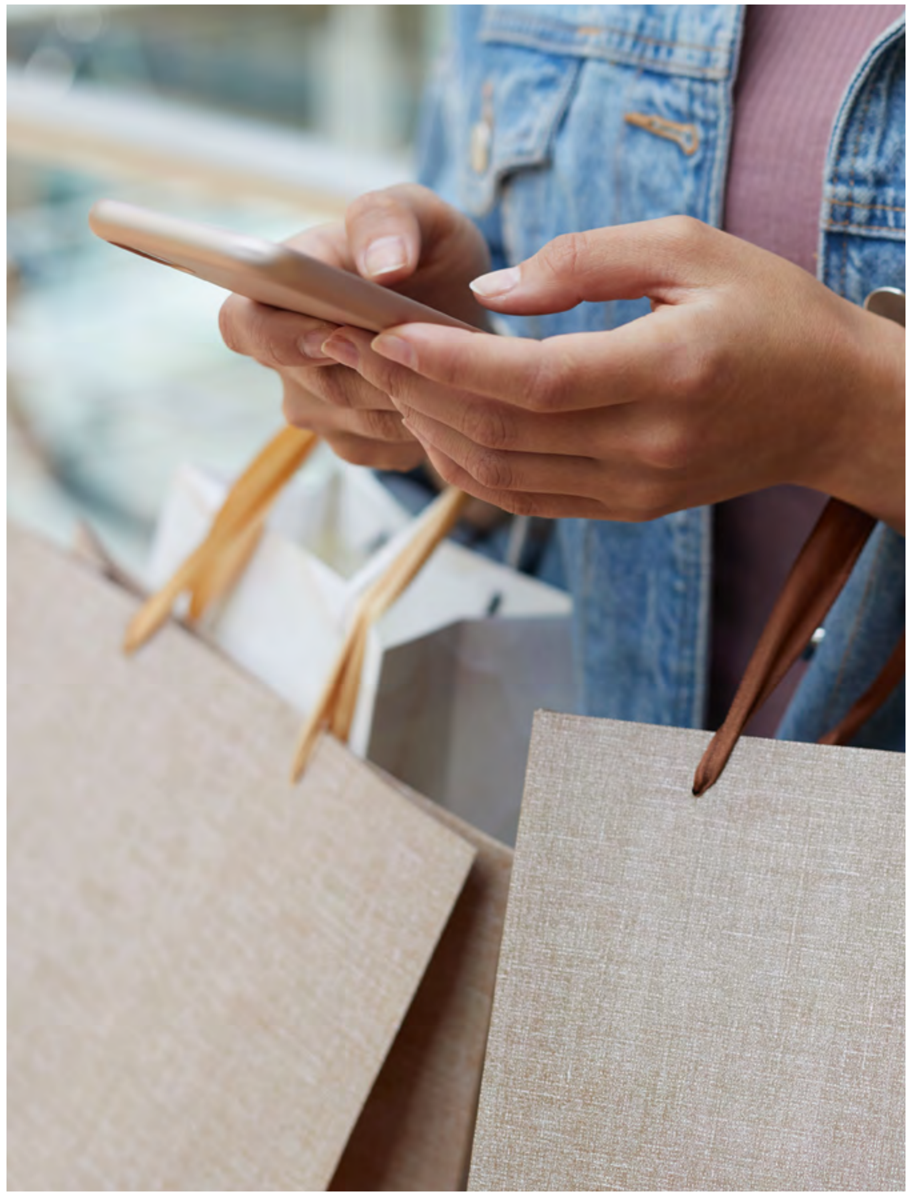
Source: Statista

E-commerce Revenue by Product Category (B€)



Source: Statista

*Forecast

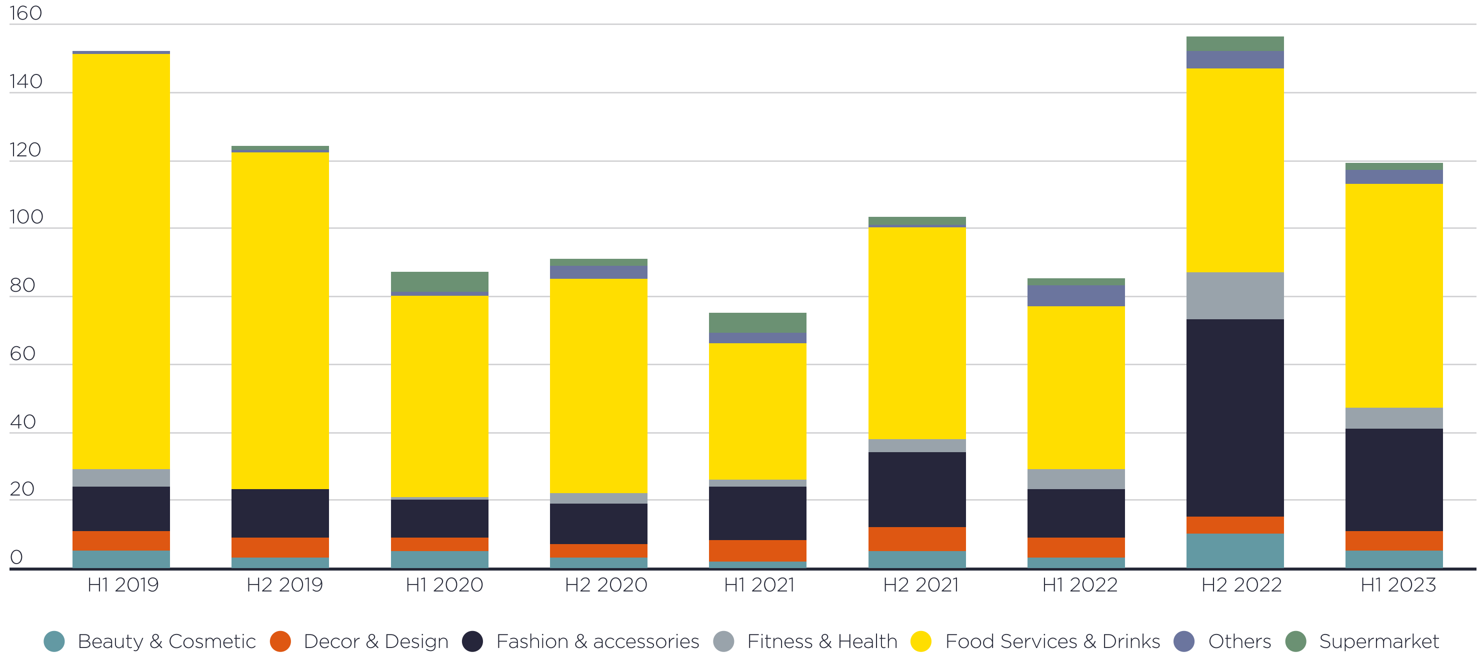


According to an inquiry carried out by Savills Portugal Research accounted that there were 119 new stores openings in the first half of the year, with the vast majority (56%) belonging to the Food Services & Drinks sector, followed by Fashion & Accessories (25%).

Moreover, in terms of location, as expected, the historical centre (Misericórdia, Santa Maria Maior and Santo António) amounts to the highest number of openings in the Portuguese capital, being responsible for roughly 37% of the new retail stores this past semester.

Though this quarter has performed better than H1 2029, a period responsible for 71 openings, it still has not surpassed pre pandemic levels, which amounted to 154 new stores openings.

Lisbon High Street Openings



Source: Savills Research

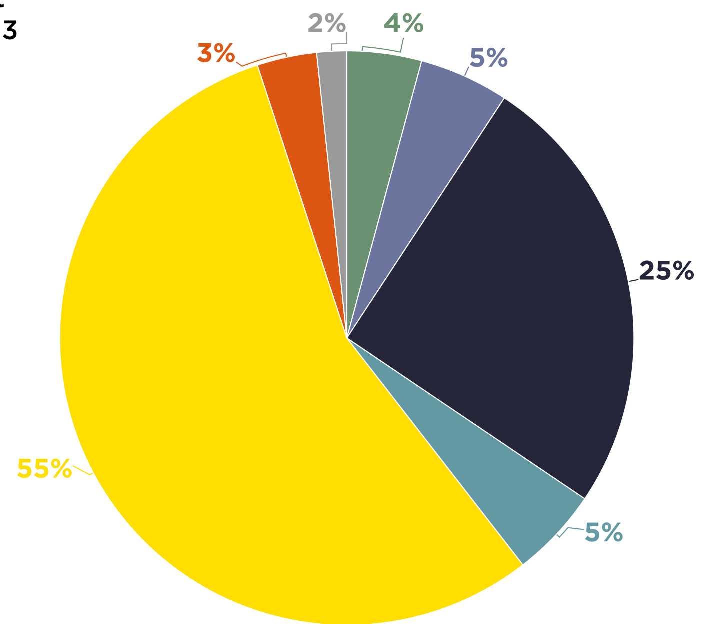
The Retail market remains resilient, with F&B and food distribution sectors continuing to lead demand. Even during these challenging times, the retail industry is showing its adaptability and ability to capitalize on emerging trends in consumer behavior.

The tourism sector has created opportunities for F&B businesses to thrive due to the influx of tourists visiting Portugal.

The absorption period for assets located outside consolidated high-street areas has lengthened, indicating that occupiers are putting more pressure on landlords to negotiate rental values.

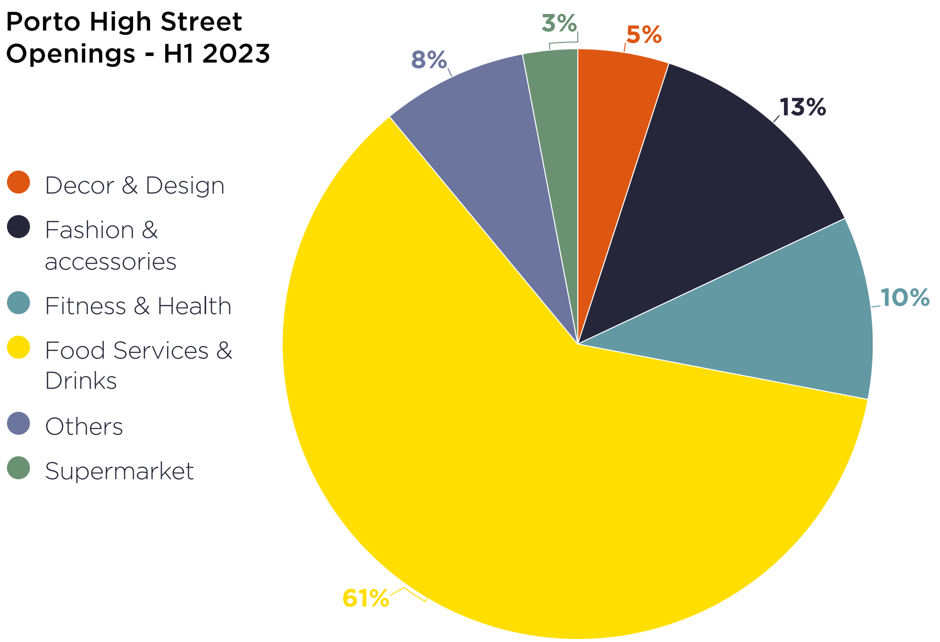
Lisbon High Street Openings - H1 2023

Beauty & Cosmetic
Decor & Design
Fashion & accessories
Fitness & Health
Food Services & Drinks
Others
Supermarket

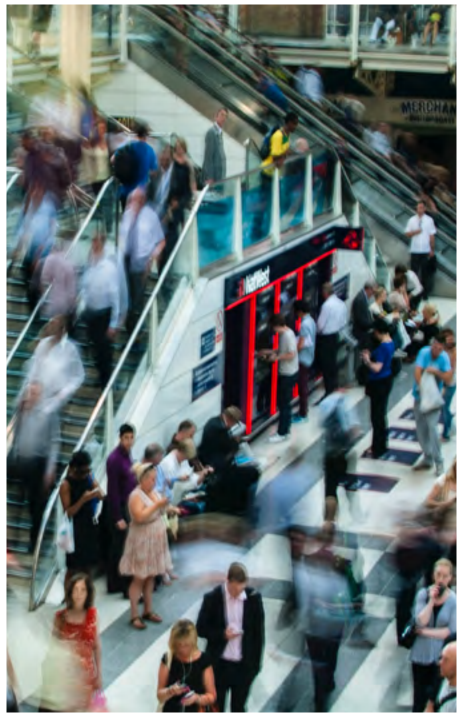


Source: Savills Research

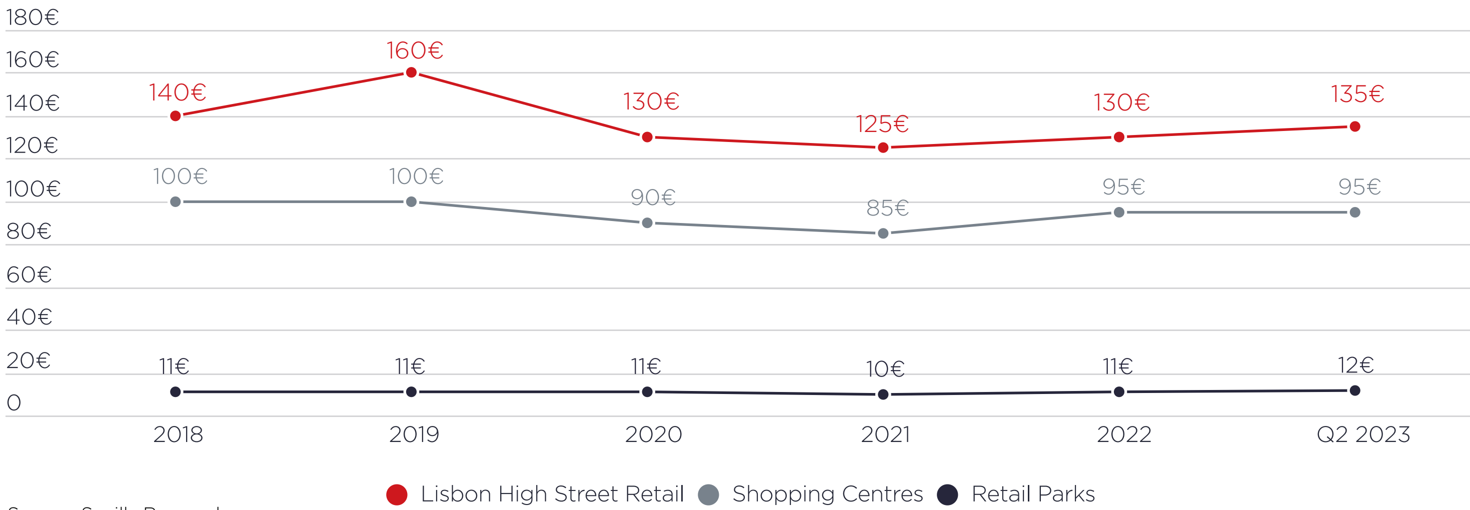
Porto High Street Openings - H1 2023



Source: Savills Research



Prime Rents
(€/sq m/month)



Source: Savills Research

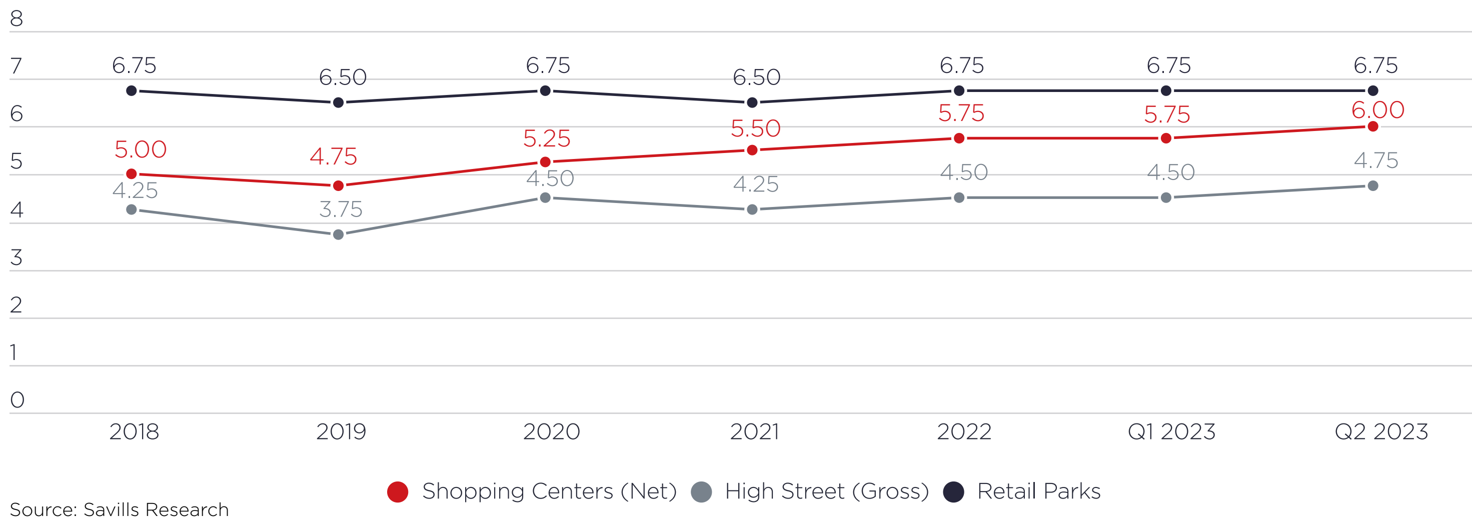
On the other hand, quality products located in high footfall zones continue to be quickly absorbed and remain sought after by consumers. The demand for proximity food retail has witnessed a consolidation, as customers increasingly value convenience and accessibility.

In addition to this, the entry of new international low-cost concepts has brought forth a wide range of options in the fashion and home sectors, making them highly sought after by consumers.

The market dynamics indicate that there are several important international brands that are showing keen interest in entering the national market.

OVERVIEW H1 2023

Prime Yields (%)



Source: Savills Research

Trends

Click & Collect

This trend has rapidly been growing and many retail stores in Portugal have joined it, especially the fast fashion and supermarkets niche.

Pop-up Stores

In order to attract more customers, retailers have been exploring different methods to draw attention and engage to the public. Pop-up stores tend to offer a more interactive concept between buyers and sellers.

Personalised Services

Loyalty programs have become popular amongst Food Services & Drinks and Fashion & Accessories retailers, in order to better the overall customer experience and retain buyers.

Local Retailers

Artisanal, handmade, and one-of-a-kind types of stores have gained ground in Portugal. The boost in the tourism industry has had a big impact on this trend too, since travellers are willing to support smaller businesses that offer goods with more of a sense of cultural authenticity.

Sustainability

Buyers have been showing especial interest in resourceable, ethically, and sustainable products, having become more aware of their environmental impact. Nowadays, consumers are more likely to choose brands that align with their values and actively take steps towards becoming more eco-friendly.

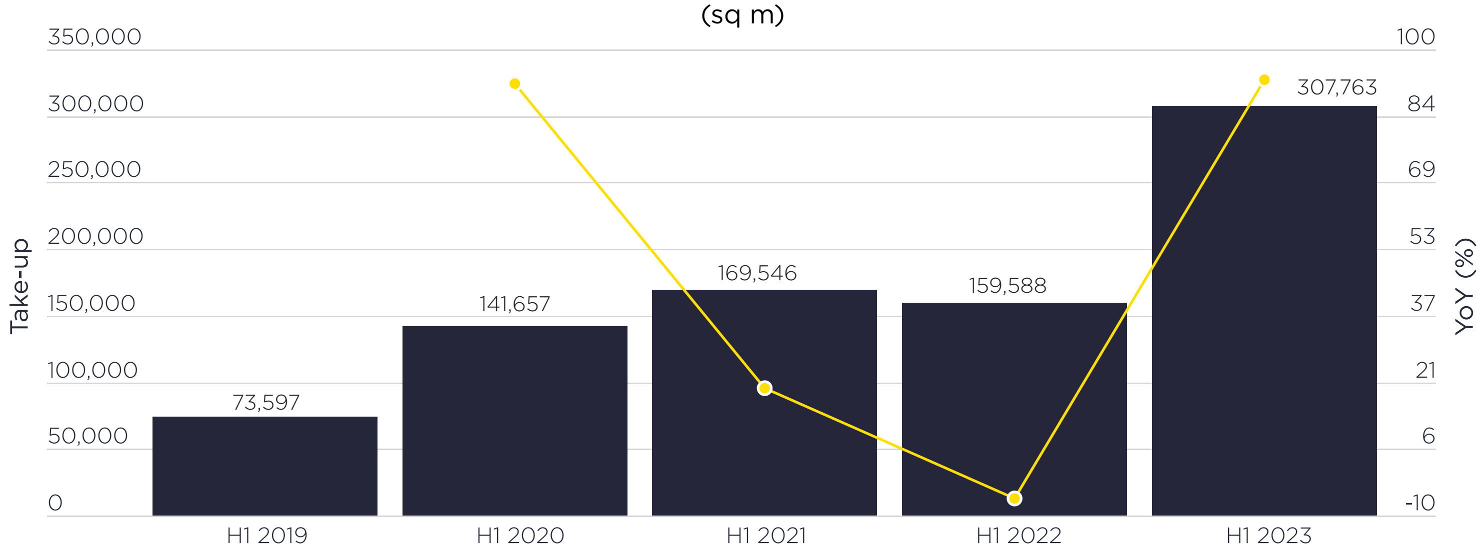
E-commerce and Mobile Shopping

Nowadays, more and more retailers invest in online shopping platforms. E-commerce has transformed the way buyers purchase goods and Portugal is no exception. The convenience of e-commerce and quick and reliable delivery services are definitely contributing factors to this trend. In addition, the majority of online shoppers choose mobiles to make purchases, thus the reason retailers have been heavily investing in apps and optimising their websites, offering customers the best possible experience when shopping from a mobile device.

06.
Industrial & Logistics

In the first half of 2023, Portugal's industrial and logistics market experienced remarkable growth, with a total take-up volume of approximately 308,000 sq m. This represents a 93% increase compared to the same period in 2022.
The significant expansion in the market showcases the resilience of the sector, which has witnessed a renewed dynamism since the onset of the pandemic. As companies navigate the evolving landscape, they are realizing the importance of rethinking their distribution chains to meet the demands of increasingly competitive and more demanding consumers driven companies to invest in enhancing the quality and efficiency of their operations.
The distribution and logistics sector drove 84% of total take-up. This sector remains the most dynamic in the market, responsible for the largest volume of square meters absorbed. It's clear that expansion operations in this sector are contributing significantly to the growth of the market. As companies strive to meet the ever-evolving needs of their customers, they are constantly seeking opportunities to expand their operations.

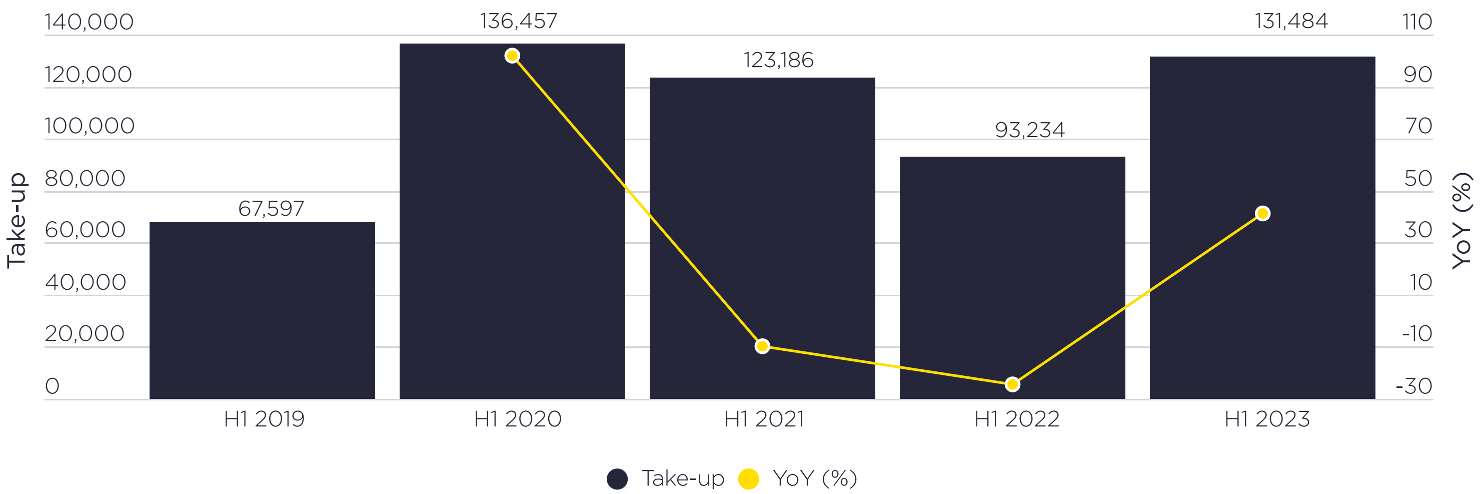
Half-year Portugal - Take-up
(sq m)



Source: Savills Research | IPI

The industrial and logistics market in the Greater Lisbon region registered a total take-up of 131,000 sq m. The performance of the first quarter played a decisive role in achieving these results. During the first quarter of 2023, the take-up volume reached approximately 106,000 sq m, showcasing a promising start to the year. However, the market witnessed a drastic decline in the second quarter, with a 76% decrease compared to the first quarter. The overall balance for H1 2023 remains positive. The Greater Lisbon region has experienced a growth of 41% compared to the same period in 2022.

Half-year | Greater Lisbon - Take-up (sq m)

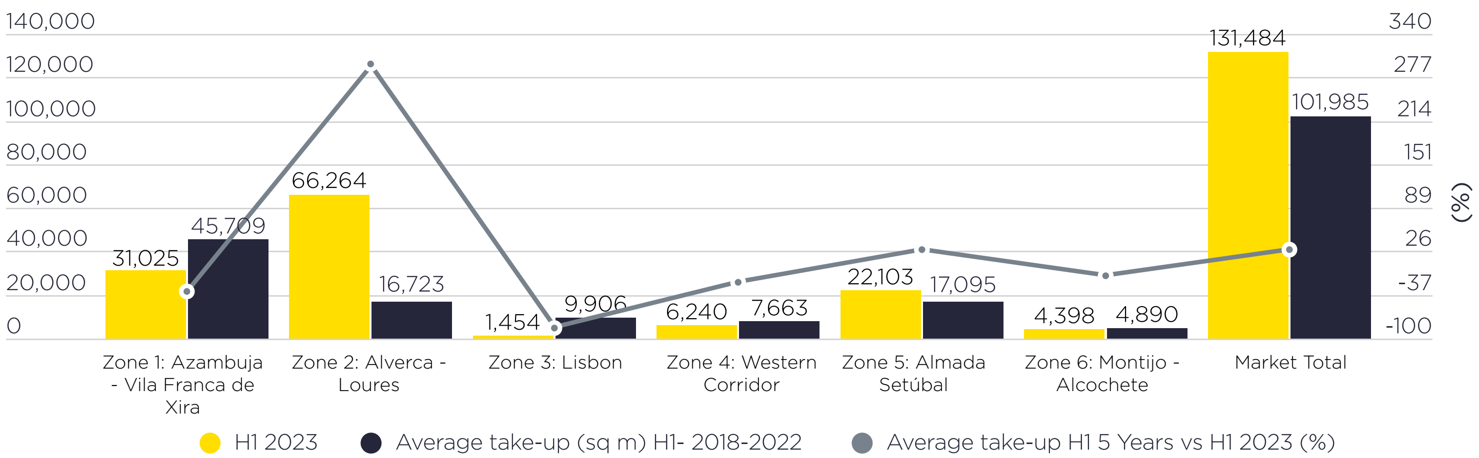


Source: Savills Research | IPI

The Alverca-Loures (Zone 2) and Azambuja - Vila Franca de Xira (Zone 1) logistics axes have emerged as the leading players in H1 2023, with 66,264 sq m and 31,025 sq m take-up volume respectively. In deep contrast to the growth observed in the Alverca-Loures and Azambuja - Vila Franca de Xira logistics axes, all the other market zones experienced a decrease in take-up during H1 2023.

The largest operation was carried out by LIDL by occupying 54,000 sq m of its Built-to-Suit project in Loures, underlining the expansion processes that this important distribution operator has in Portugal. The renowned logistics distribution operator Luís Simões also occupied Building Azambuja 3 for a total of 20,347 sq m and Coca-Cola closed a 10,000 sq m operation in Azeitão, in an area expansion process.

Half-year | Greater Lisbon - Take-up (sq m)



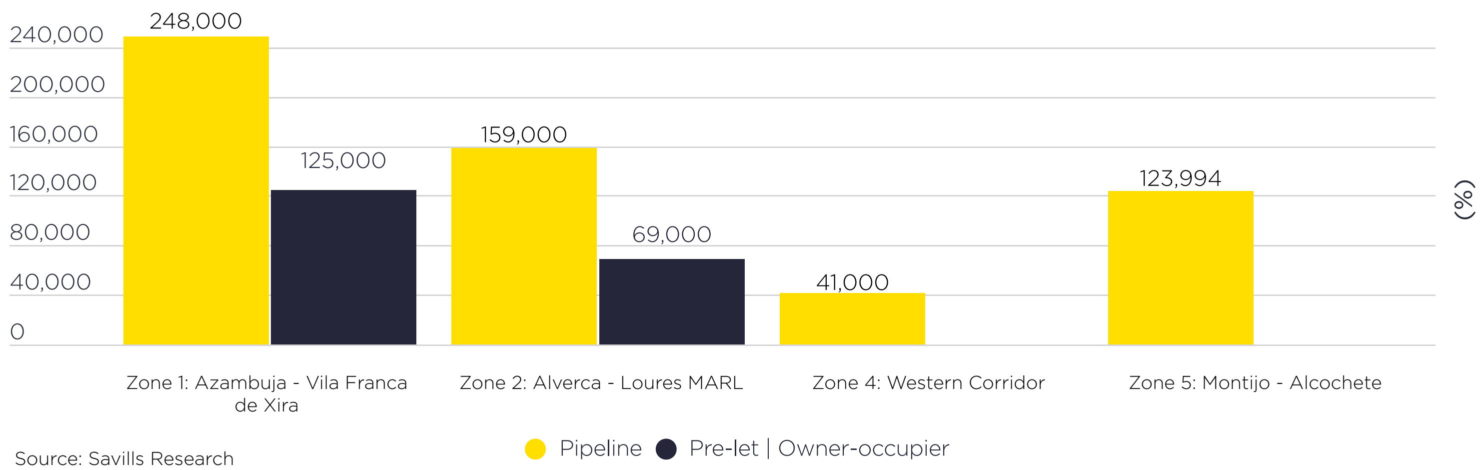
Source: Savills Research | IPI

A steady increase in demand for logistics spaces is prompting developers to leverage this opportunity by completing more than 500,000 sq m over the next two years.

Developments worth highlighting include the Benavente Logistics Park, offering 90,000 sq m of prime logistics space, Montepino Castanheira do Ribatejo with 100,000 sq m 100% pre-let to Leroy Merlin and VGP Sintra, which will provide 24,000 sq m of modern logistics facilities. Additionally, in 2025 we can expect the completion of Green Logistic Park II and Panattoni Park Loures both schemes with 90,000 sq m each.

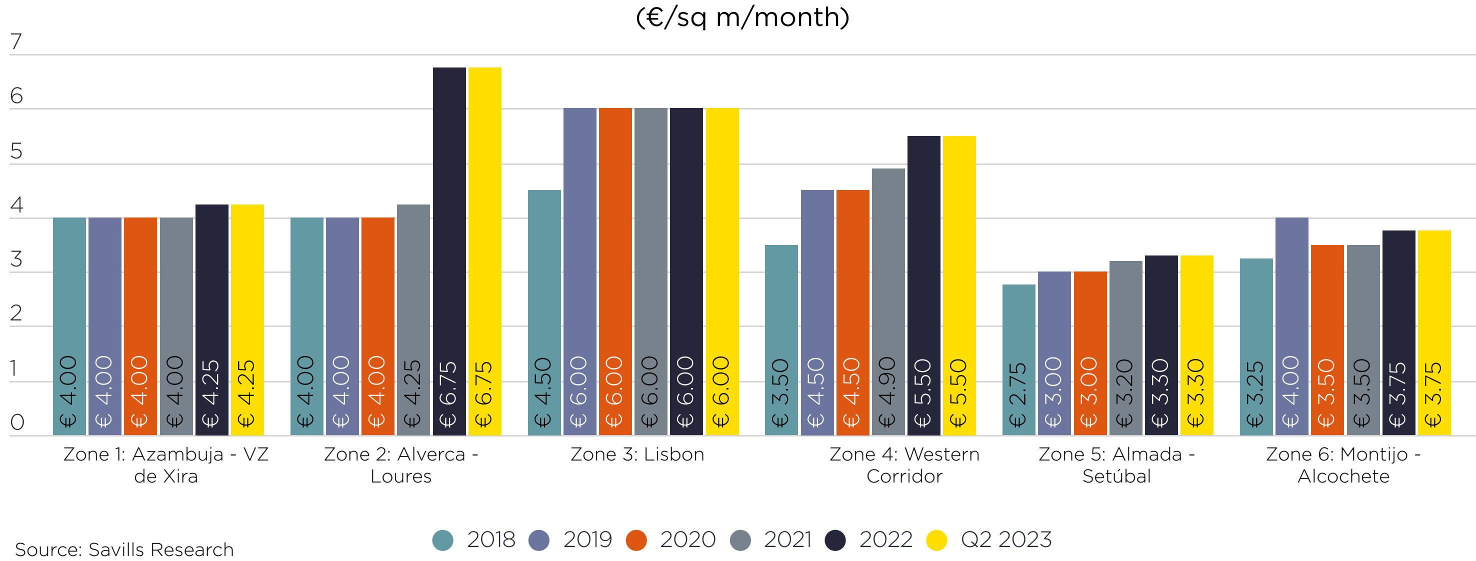
Despite the challenging economic climate, rents managed to maintain their steady course, with the prime rent standing firm at 4.25€/sq m/month.

This stability can be attributed to the imbalance between supply and demand, which heavily favors landlords. The scarcity of available properties, coupled with high demand, gives owners the leverage they need to maintain rental prices. This supply-demand gap has not only contributed to the stability of rents but has also fueled an increase in projects that offer higher quality standards, attracting tenants willing to pay a premium for these enhanced features.



Source: Savills Research

Prime Rents by Market Zone Greater Lisbon
(€/sq m/month)

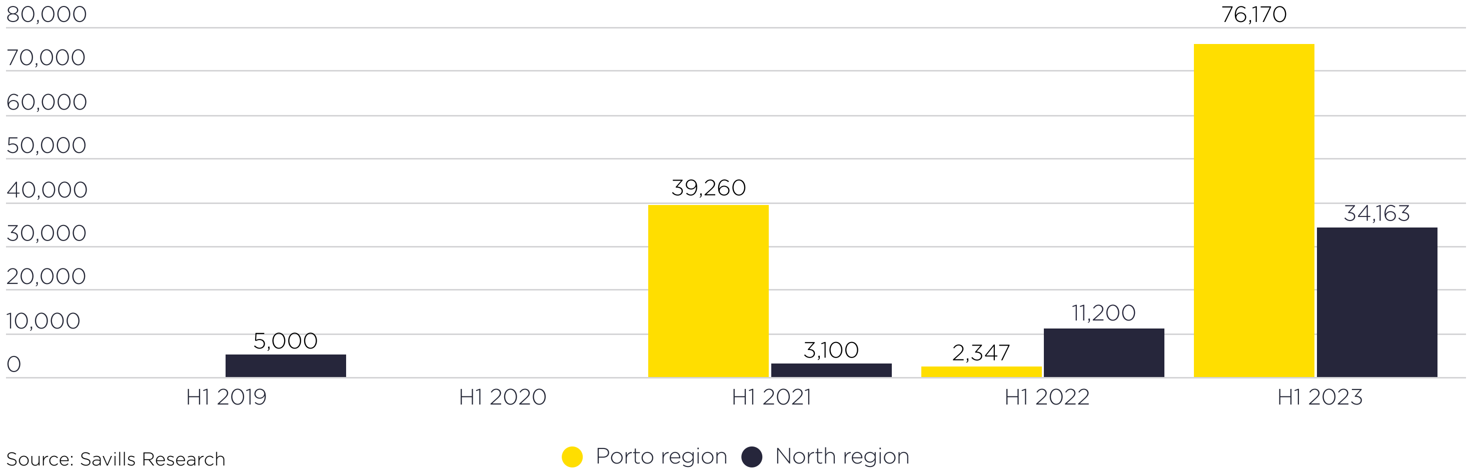


Source: Savills Research

In the first half of the year, the market in Porto & Norte has already shown very promising results, with a total take-up volume of 110,000 sq m. In the coming years of 2023 and 2024, the industrial and logistics market in the Greater Porto region displays an expected pipeline of approx. 130,000 sq m specifically concentrated in Trofa - Famalicão, Valongo, and Maia market areas.

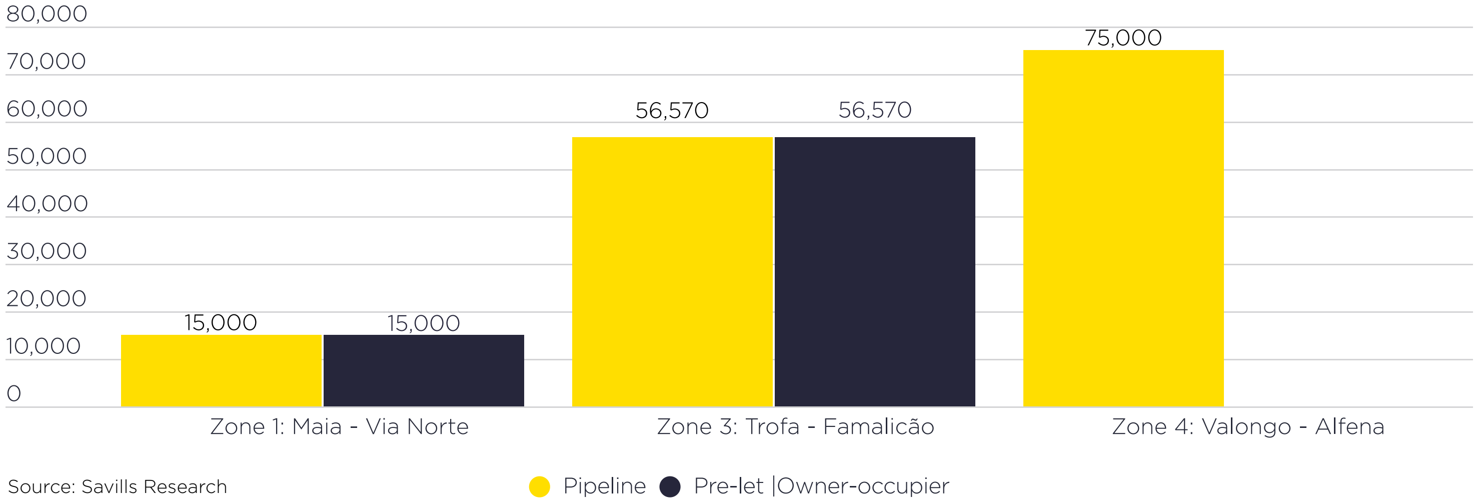
It is worth noting that more than 40% of this new stock is already pre-let, further emphasizing the strong market demand and the confidence of businesses in the region. One of the prominent projects contributing to the market growth is the Panattoni Park Valongo, adding 75,000 sq m of new and modern stock. Additionally, Aldi is also investing in a new platform in Santo Tirso, with 40,000 sq m, further contributing to the expansion of the industrial and logistics market in the region. During the second quarter, Garland's built-to-suit project in Valadares, located on the Vila Nova de Gaia logistics axis, with 38,000 sq m, was completed.

Half-year Take-up | Porto & North Region (sq m)



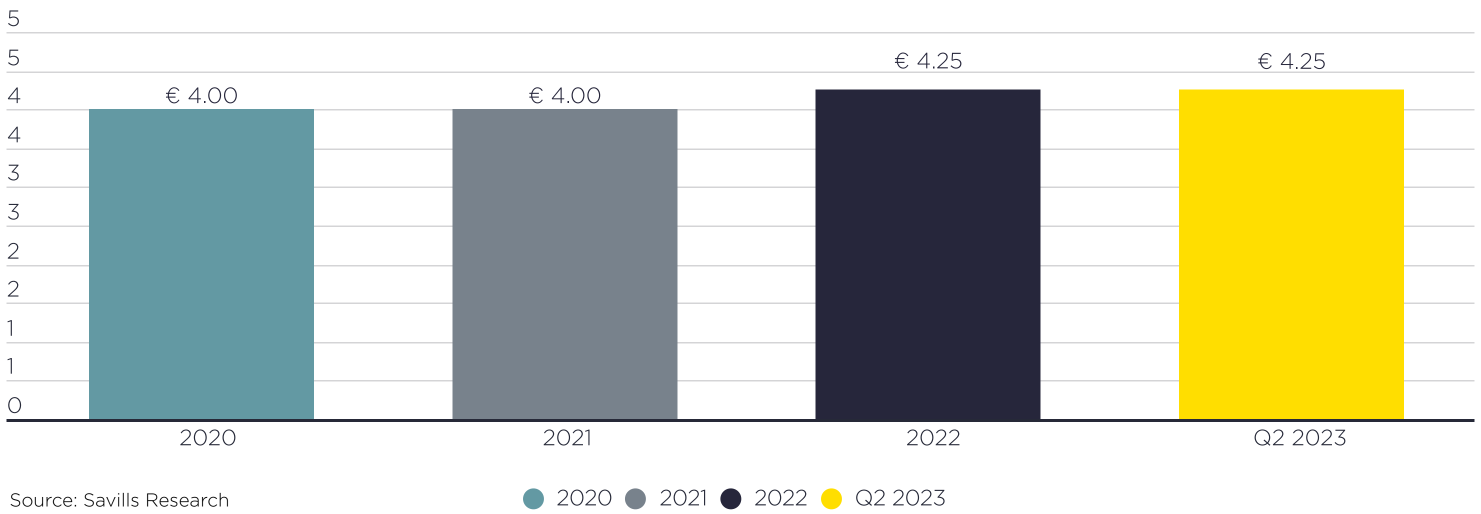
Source: Savills Research

Pipeline 2023-2025 | Porto Region (sq m)



Source: Savills Research

Evolution of Prime Rent | Porto Market (€/sq m/month)

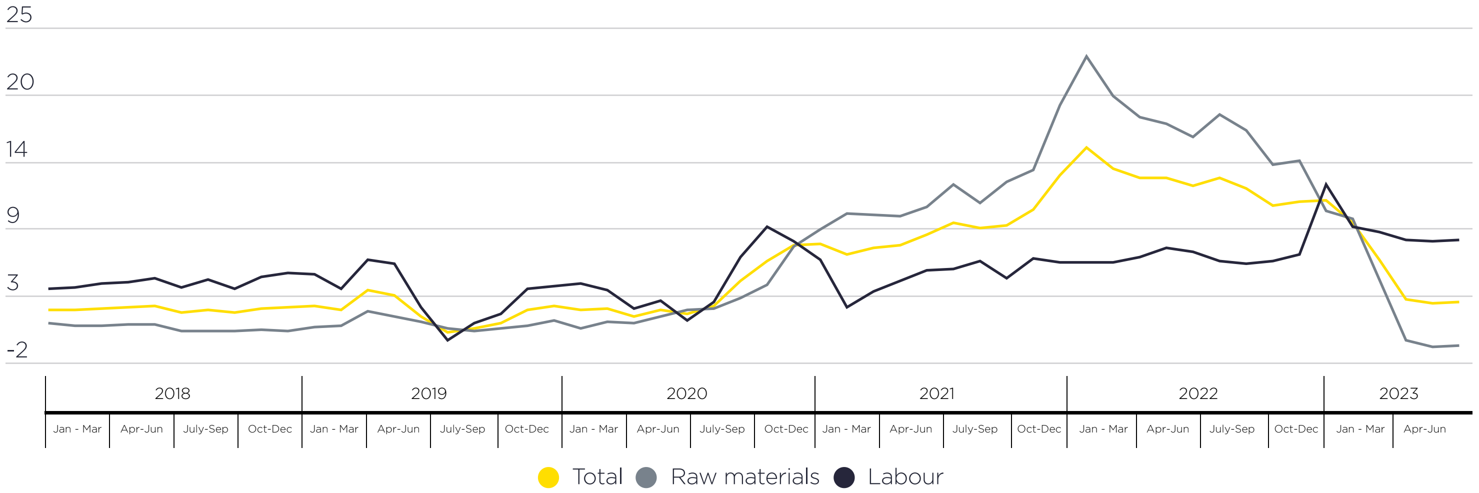


Source: Savills Research

07. Residential

After an unstable 2022, especially in regards of construction costs, these numbers have finally started to demonstrate some steadiness. The price of raw materials decreased by -0,7% by the end of May 2023, the lowest it has been in years. Among other materials that most influenced this price decline, steel and its derivates showed a decrease of around 30%. Since January, the cost of labour has slowly been falling, going from 12,3% to 7,7% in May 2023.
The overall construction costs regarding new housing grew by 2,8% on a year-on-year basis.

Construction Costs - New Housing (YoY%)



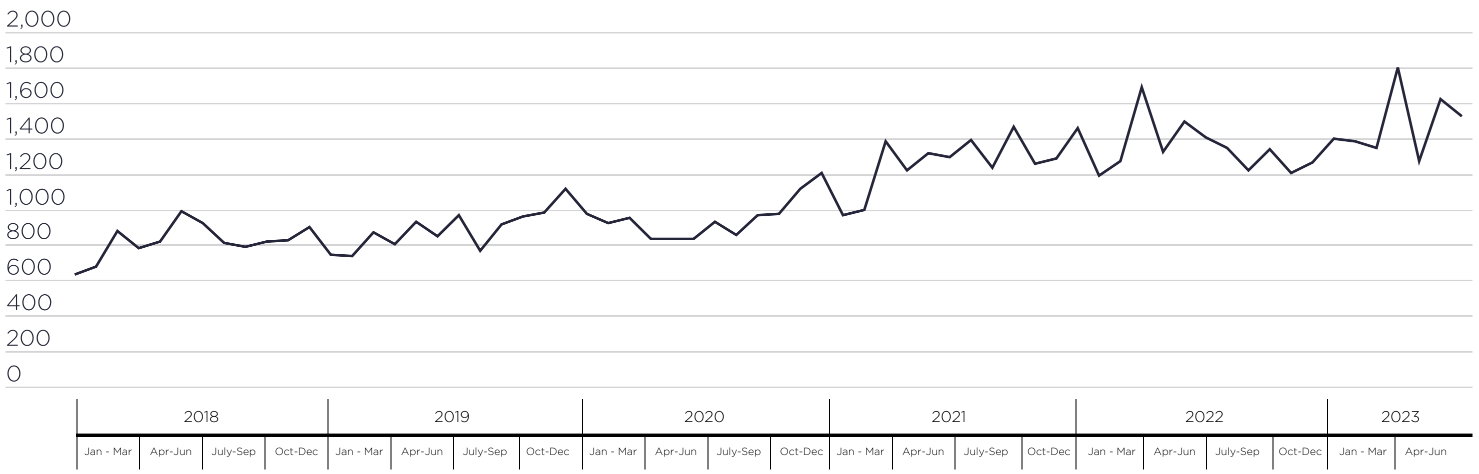
Source: INE

Loans

In June, banks granted individuals €1.524 billion to individuals for housing, representing a decrease of €101 million in comparison to May (€1.625 billion).

From Jan to June, banks loaned more than 8.9 billion for house purchase, reflecting an increase of 7% and 82% in comparison to the same period in 2022 and 2019, respectively.

Loans Granted to Individuals for House Purchase (M€)



Source: Bank of Portugal

OVERVIEW H1 2023

Interest Rates

The average interest rate of loans for house purchase rose from 4.16 % in May to 4.25 % in June, having reached its peak since February 2012. The European Central bank has stated interest rates will remain high throughout the next months in order to curb inflation in the medium term.

This ongoing rise in interest rates can impact the real estate market in several different ways. From its very core, such as investment and development, to the tip of the iceberg, like to swifts in demand and affordability, the true effect of interest rate increases vary according to a number of reasons, namely the overall economic conditions, regional environment, and the magnitude of the rate upsurges. Here is how the industry can be affected:

Investment

Higher borrowing costs can shrink the profitability of developments, leading to a potential swift in market values.

New Construction

As it can lead to higher costs for developers and builders, developments that require loans will have a higher final asking price. This scenario might slow down new construction activity.

Asking Prices

A sharper increase in prices could lead to a downturn in house sales, putting downward pressure on market values.

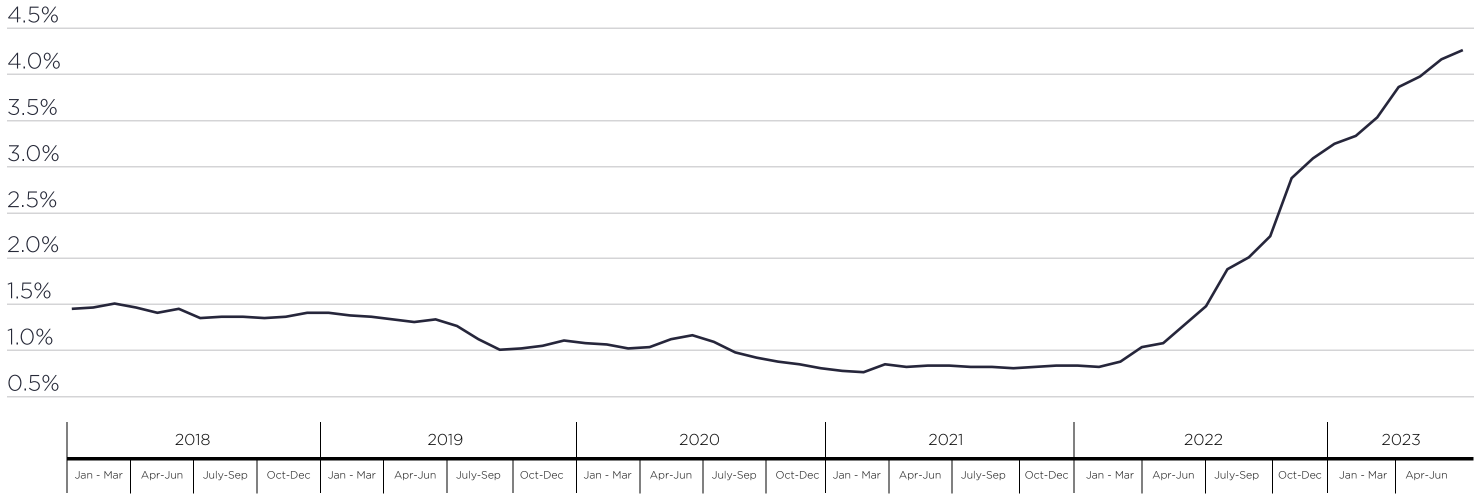
Mortgage Rates

As interest rates rise, consequently, mortgage rates follow the trend. Buyers might face a hardship fitting the extras costs into their budgets. In addition, banks tend to have stricter financial rules, making it more challenging for a potential buyer to qualify for a loan.

Demand

Consumer confidence and the overall economic cycle have a massive influence on housing demand. The real estate market can be highly impacted by the imbalance of the rise in interest rates and economic growth.
Rental Market: A potential reduction in house sales, due housing unaffordability, can lead to an increase in demand for rental properties, consequently causing prices to rise.

Interest Rate - House Purchase (%)



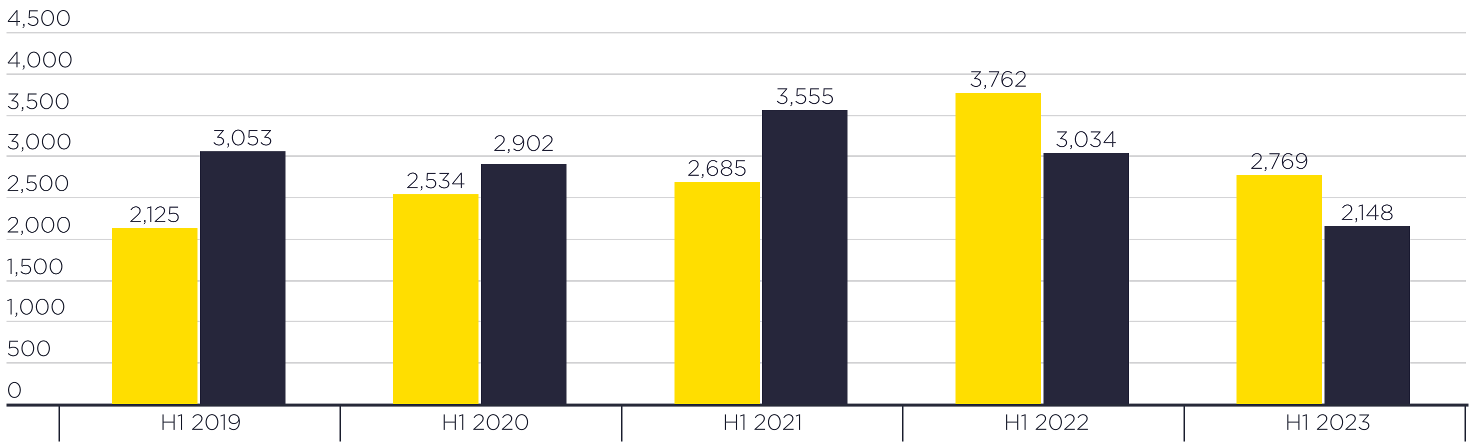
Source: Bank of Portugal

Licensed Units

By the end of May 2023, 1,271 homes were licensed in Greater Porto, which represents a decrease of 26% in comparison to H1 2022. Greater Lisbon, on the other hand, also presented a downturn of roughly 29% against the period in 2022. However, it is important to notice that the figures shown below, relatively from 2018 to 2022, represent results from full quarters. So far, only data from April and May have been released.

When looking individually at Greater Porto and Greater Lisbon's market, more specifically at the types of residences that were licensed during H1 2023, it is possible to observe that developers have been focusing on different niches. Paranhos, for example, a student hub in Porto city, has been receiving numerous projects aimed at first-time buyers and students. In contrast, some the cities with the highest number of licensed homes in Greater Lisbon, such as Sintra, Cascais, Oeiras and Setúbal, concentrate, mostly, on residential properties geared towards families.

New Housing Developments - Licensed Units



Source: INE

Greater Porto Greater Lisbon

Licensed Units H1 2023 - Number of Bedrooms

Greater Porto Greater Lisbon

Source: INE

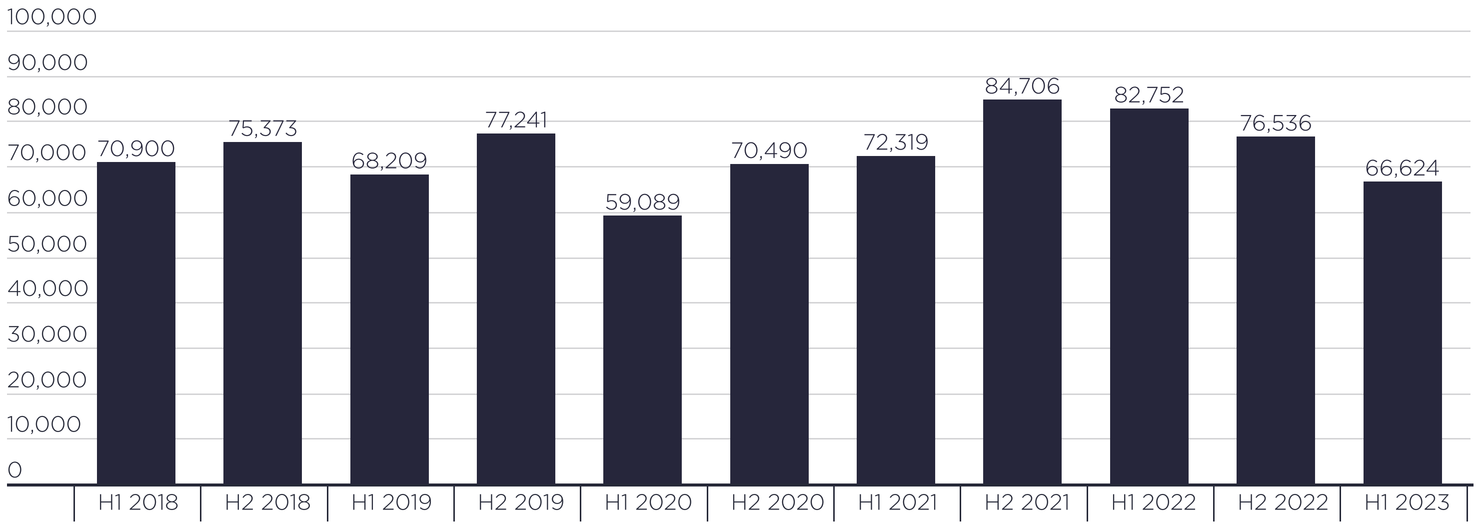
Houses Sales

The number of house sales decreased by 19% during H1 2023 compared to H1 2022 going from 82,752 residential properties sold in Portugal mainland, to 66,624 closed deals so far. This was also the semester with the shortest number of transactions since H1 2020 (59,089), which was when the pandemic first hit.

These numbers come as no surprise since the market is still under a period of more cautious, weighed measures by potential buyers. Additionally, constant increases in interest rates, tighter bank financing rules, housing affordability and demographic changes have been decision making factors.

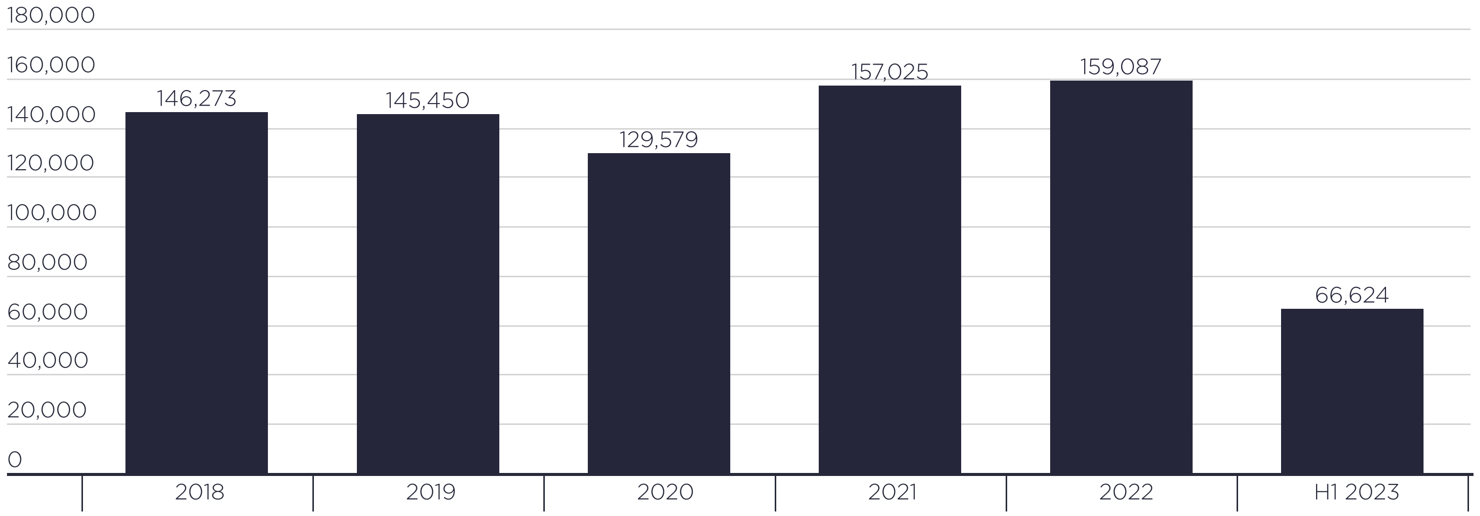
However, the upper and upper-prime markets have been both performing well and showing steady growth.

Houses Sold in Portugal Mainland



Source: Savills Research Analysing SIR

Houses Sold in Portugal Mainland

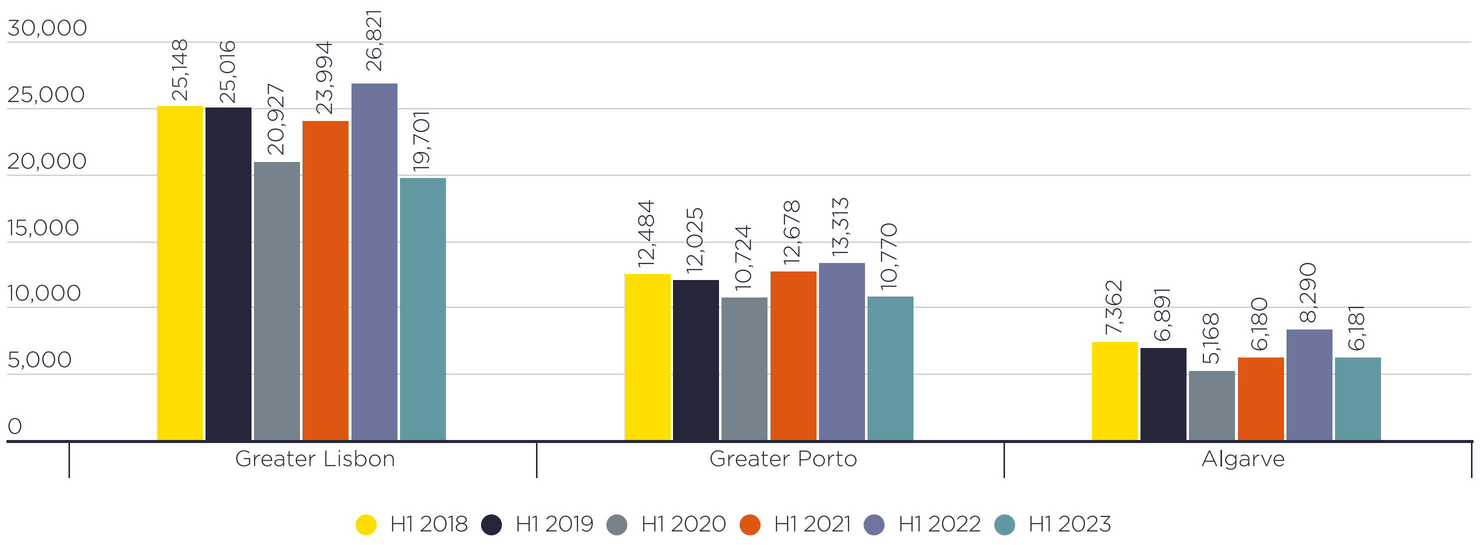


Source: Savills Research Analysing SIR

In Greater Lisbon and Greater Porto, for example, there was a drop of approximately 32% and 19%, respectively, when looking at 2022 and 2023's figures. Algarve, on the other hand, displayed a downturn of 25%, considering the same years.

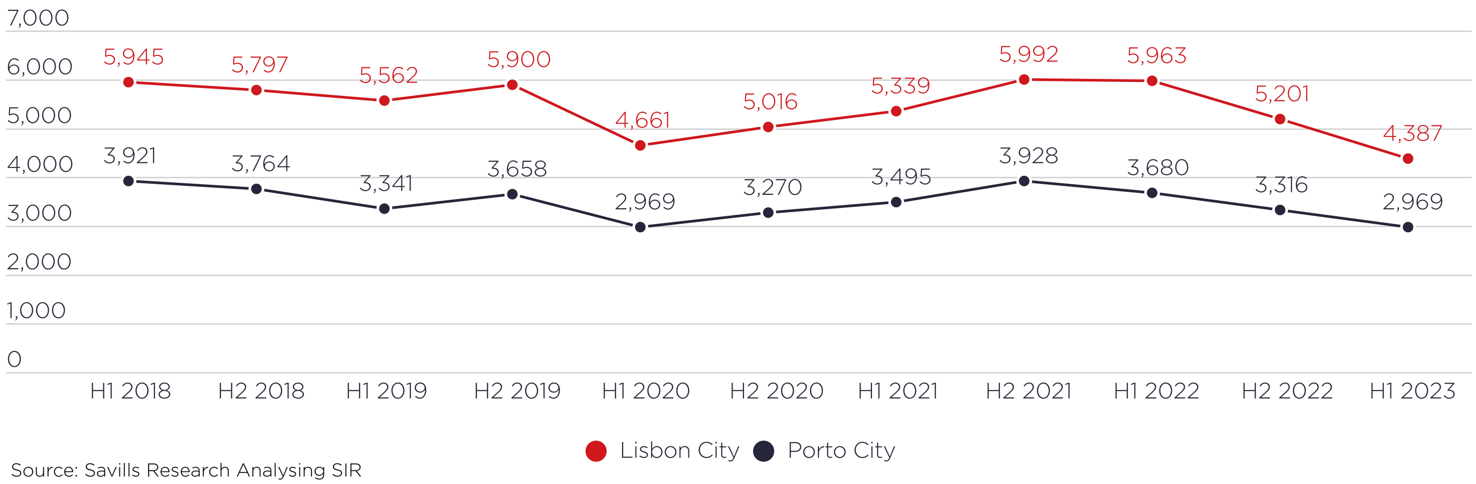
The main Portuguese cities, Lisbon and Porto also closed the semester with lower results compared to the previous ones in 2022. By the end of H1 2023, the Portuguese capital was responsible for 4,387 dwellings sold, a difference of 27% against H1 2022 (5,963). Porto, on the other hand, amounted 2,969 deals and close the first half of the year with a downturn of 19% considering the same period (H1 2022 – 3,680).

Houses Sold



Source: Savills Research Analysing SIR

Houses Sold



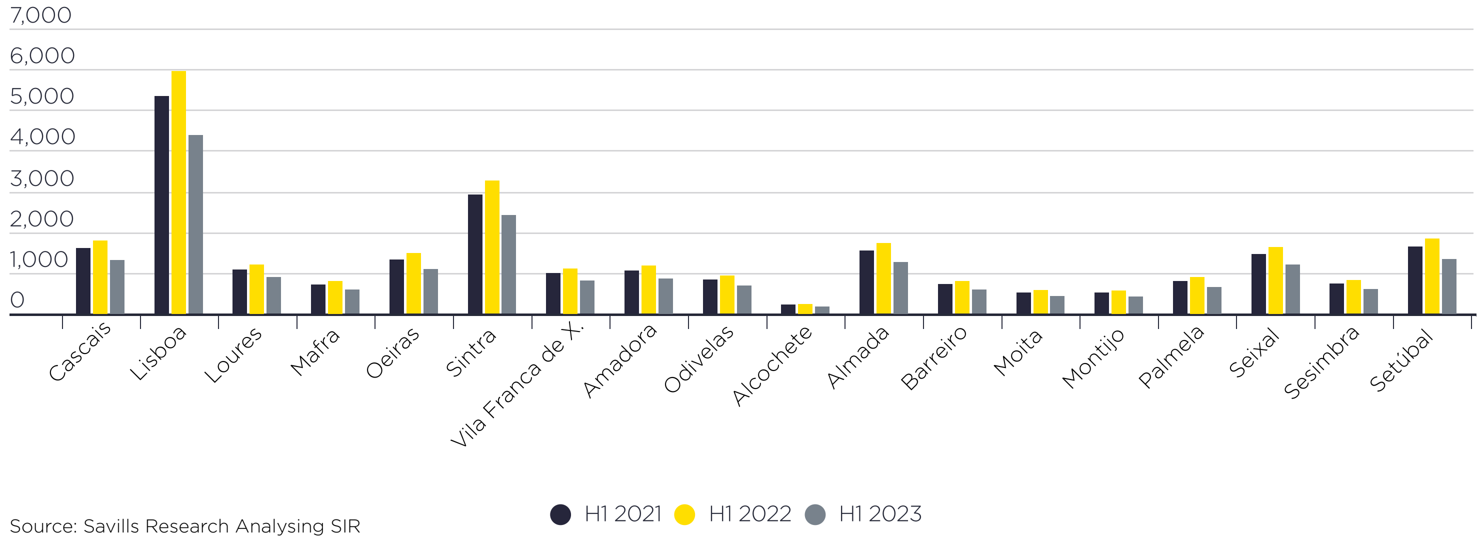
Source: Savills Research Analysing SIR

OVERVIEW H1 2023

When individually looking at all the closed deals within the cities that comprise Greater Lisbon, Lisbon City, as expected, is the one responsible for the biggest share of transactions, with 4,387 dwellings sold, representing 22% of the total, followed by Sintra and Cascais, with 2,416 (12%) and 1,317 (7%) deals, respectively.

Though the Portuguese capital was responsible for the most transactions in the region, the was a decrease of approximately 27% comparing H1 2023 to H1 2022 figures. Overall, all the cities in Greater Lisbon have witnessed downturns in contrast to the first half of 2022.

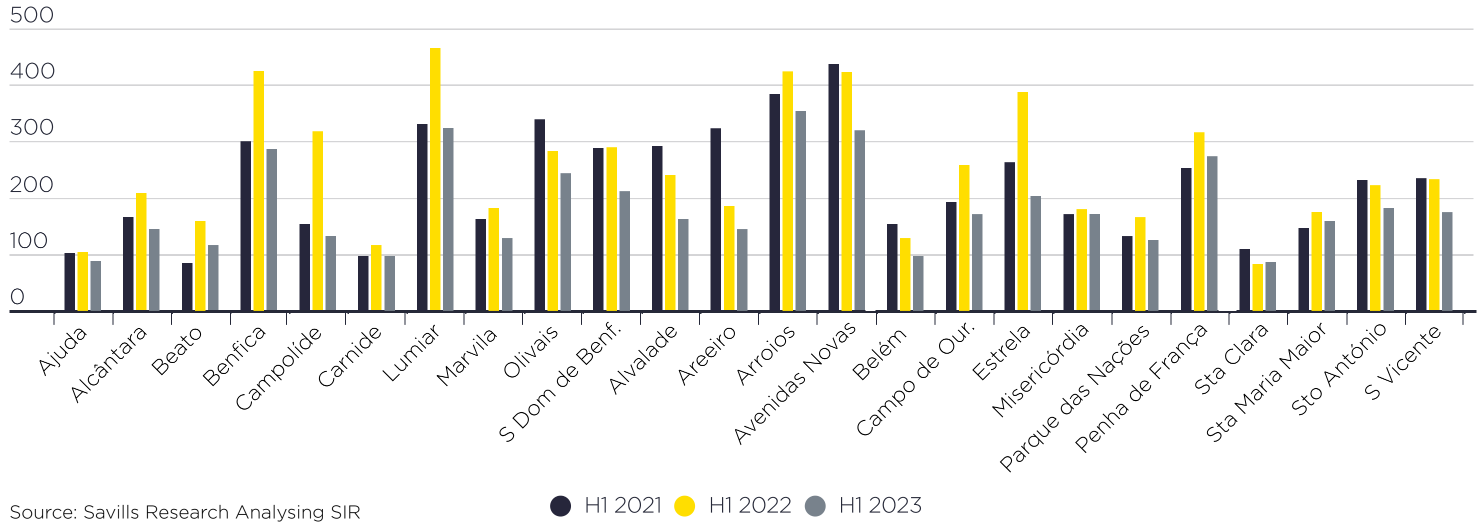
Houses Sold - Greater Lisbon by City



Source: Savills Research Analysing SIR

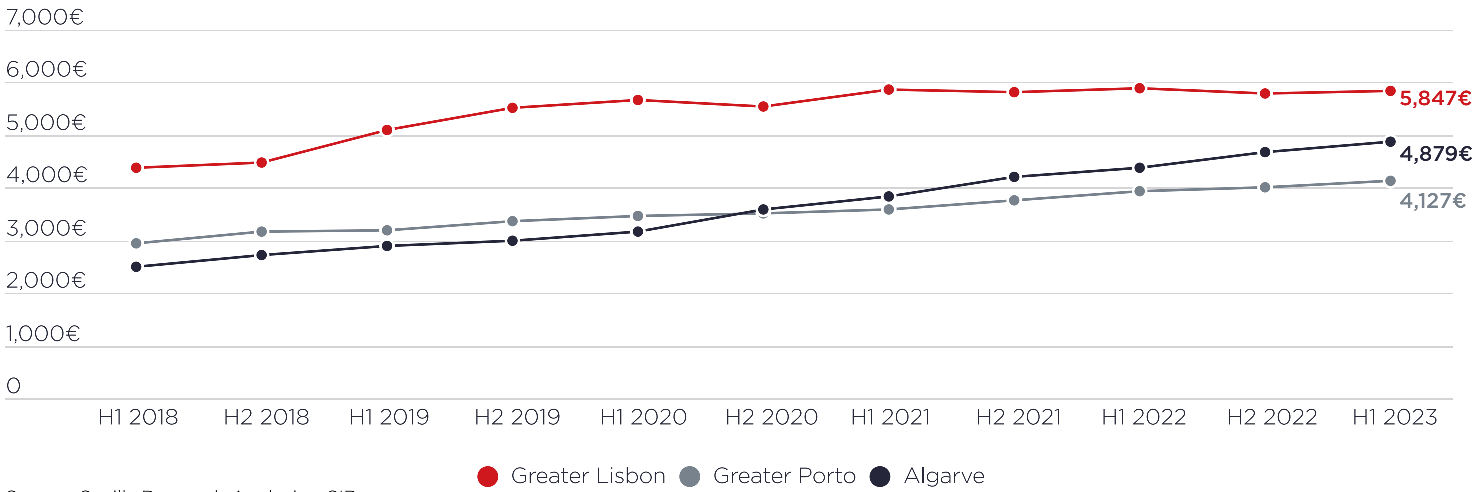
Amongst all the suburbs in Lisbon, Arroios is the one that amounts the largest number of transactions in the city, with 354 closed deals during the first half of 2023, followed by Lumiar (324), an area has been receiving ongoing residential invest and can still largely be explored. The zone has become the new address of several new, high-quality developments in the Portuguese capital. Avenidas Novas, one of the most popular neighbourhoods in Lisbon for foreigners, follows as the suburb with the 3rd highest number of transactions in the city (319).

Houses Sold by Parish - Lisbon City



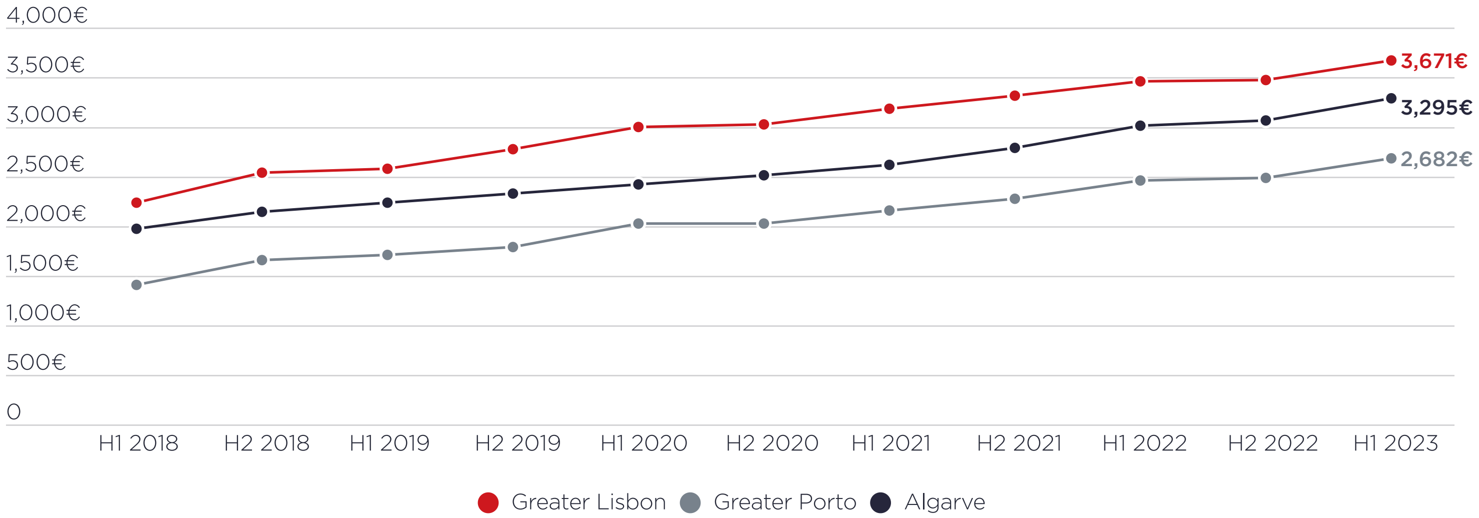
Source: Savills Research Analysing SIR

Evolution Asking Prices - New Supply (€/sq m)



Source: Savills Research Analysing SIR

Evolution Asking Prices - Used Supply (€/sq m)



Source: Savills Research Analysing SIR

Average asking prices of new properties in Greater Lisbon, Greater Porto and the Algarve reached 5,847€/sq. m., 4,127 €/sq. m. and 4,879 €/sq. m., respectively by the end of the first half of 2023. The steepest increase is witnessed in the Algarve, where the asking price has more than doubled since H1 2019.

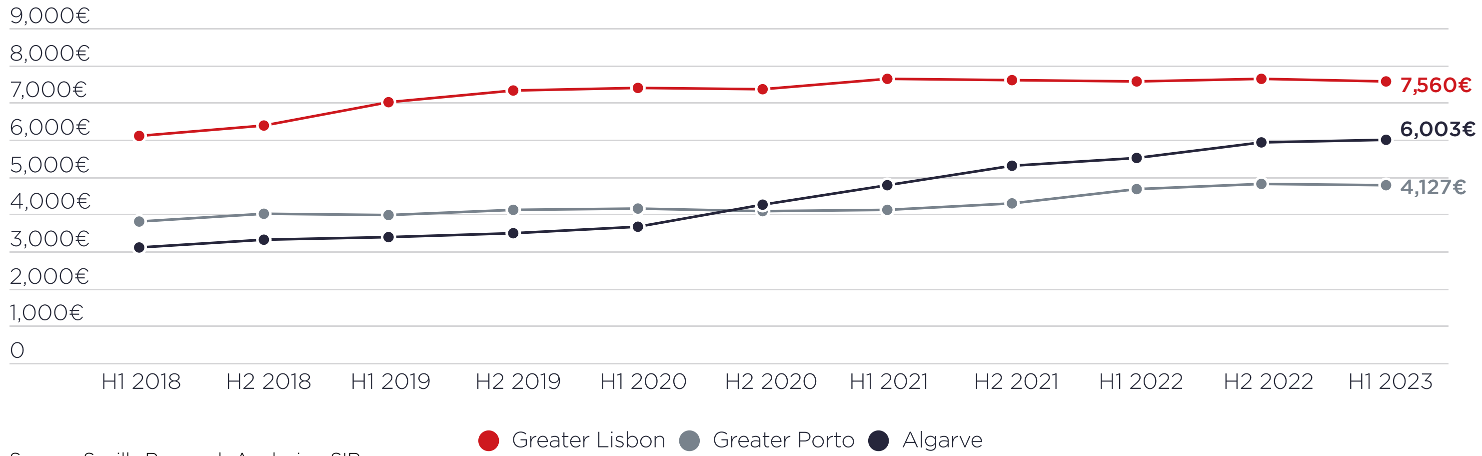
On the other hand, when it comes to used properties, the evolution of average asking prices are even sharper. Since H1 2019, prices in Greater Lisbon, Greater Porto and the Algarve increased by 43%, 57% and 48%, respectively.

OVERVIEW H1 2023

When it comes to the high-end market, in terms of new built developments, the Algarve has once again showed the steepest price increase since H1 2019, with an upsurge of 78%, going from an asking price of 3,378€/sq m, to 6,003€/sq m in H1 2023. Following, there is Greater Porto, with a 20% rise and Greater Lisbon, with 8%.

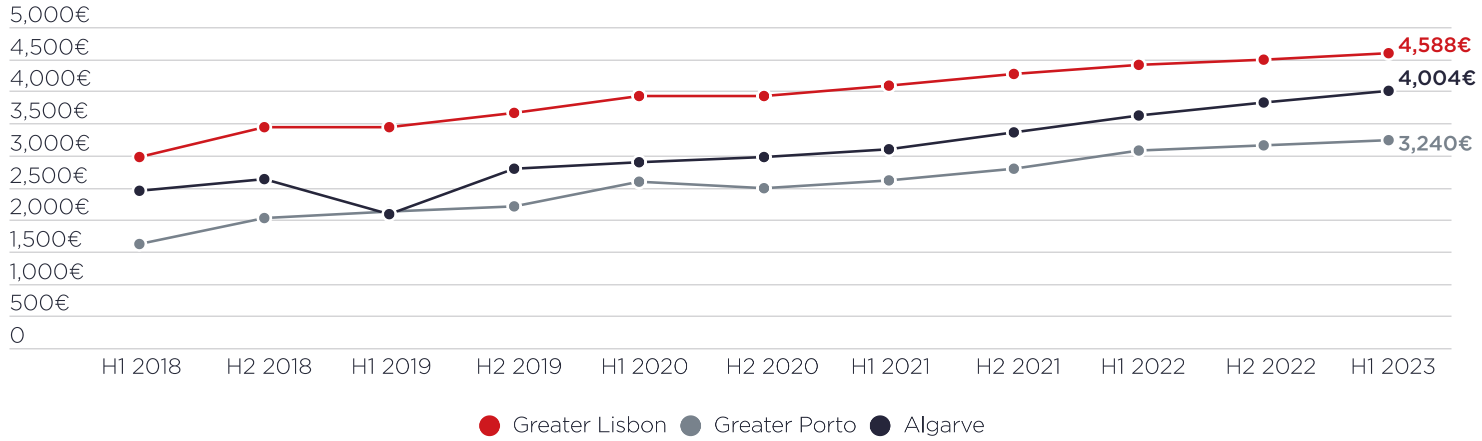
Regarding average asking prices of used properties in the high-end market, Greater Porto, Greater Lisbon, and the Algarve witnessed growths of 53%, 33% and 92% since the first half of 2019.

Evolution Asking Prices - High End New Supply (€/sq m)



Source: Savills Research Analysing SIR

Evolution Asking Prices - High End Used Supply (€/sq m)

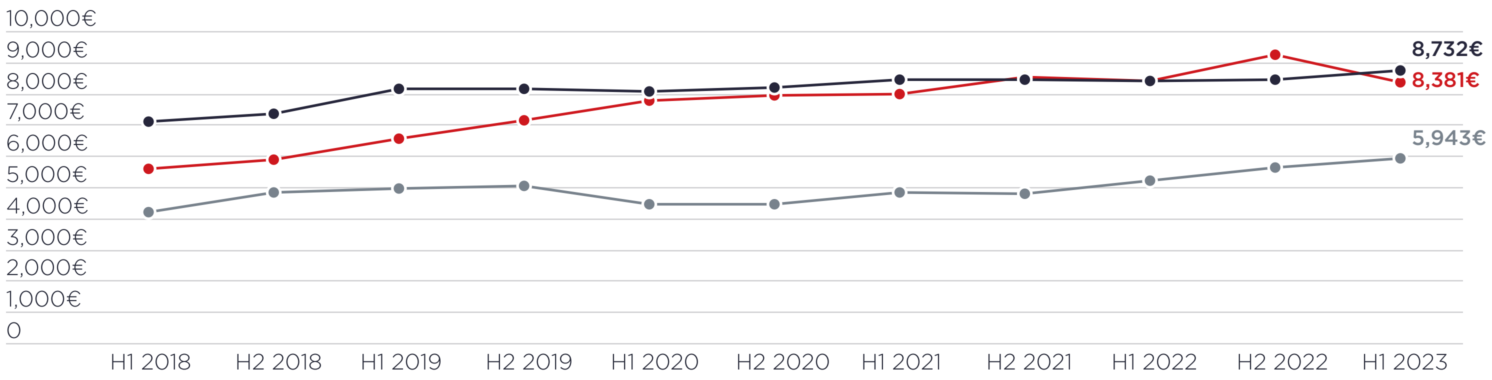


Source: Savills Research Analysing SIR

Besides the current asking price of new properties in Cascais (high-end market), that witnessed a slight drop of 9% since H2 2022, both Lisbon city and Oerias registered price increases of 4% and 15% in contrast to H1 2022.

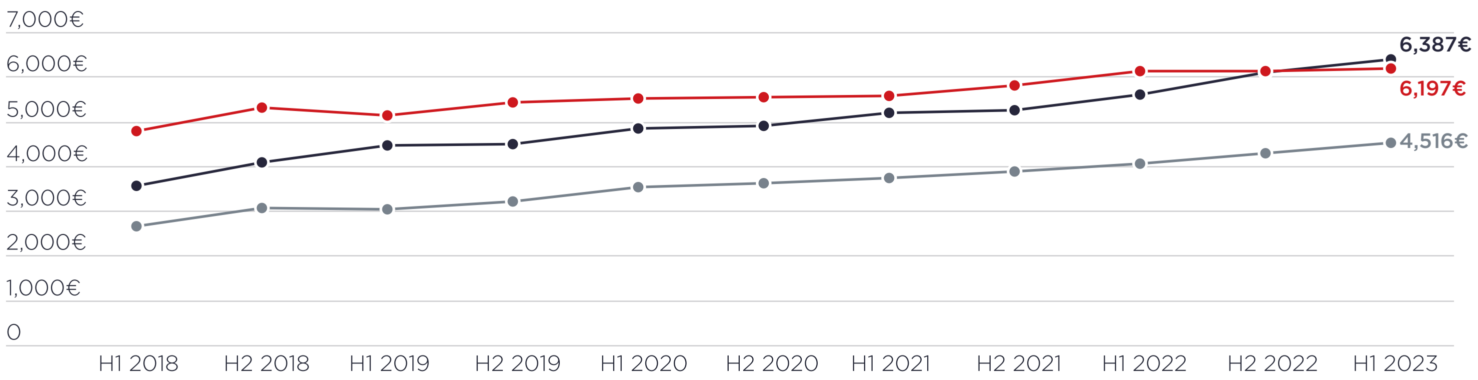
In terms of used supply (high-end market), Cascais, Lisbon and Oeiras closed the first half of the year with average asking prices of 6,387€/sq m, 6,197€/sq m and 4,516€/sq m, reflecting upturns of 14%, 1% and 11%, respectively, against H1 2022 figures.

Evolution Asking Prices - High End New Supply (€/sq m)



Source: Savills Research Analysing SIR   Cascais Lisbon Oeiras

Evolution Asking Prices - High End Used Supply (€/sq m)



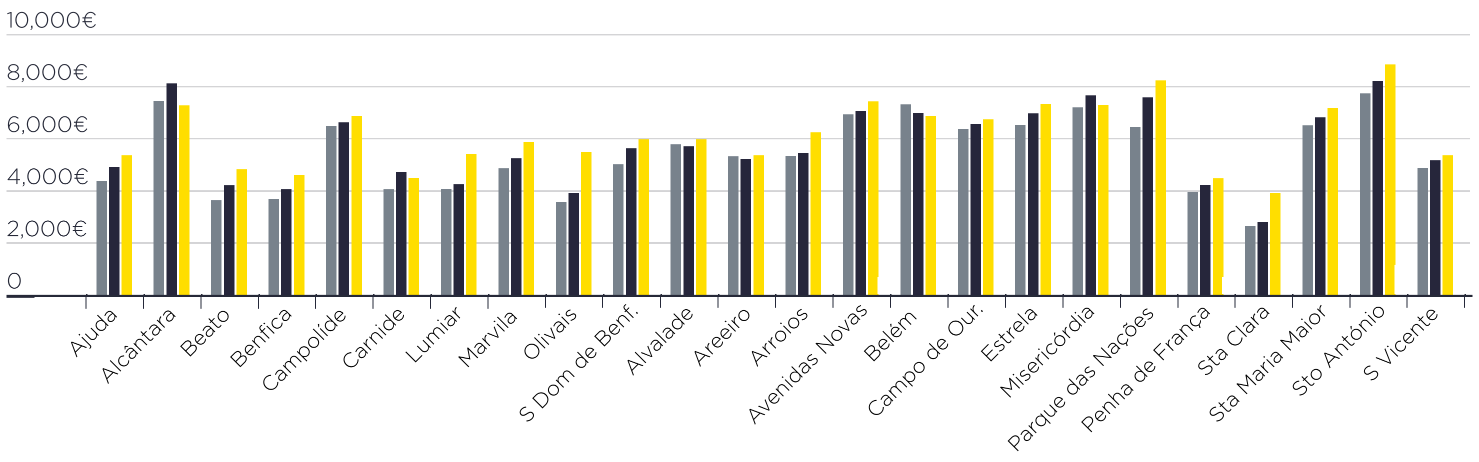
Source: Savills Research Analysing SIR   Cascais Lisbon Oeiras

Parque das Nações and Santo António rank as the priciest suburbs in Lisbon, reaching, by the end of the H1 2023, average asking prices of 8 207 €/sq m and 8 820€/sq m, representing increases of approximately 28% and 14%, respectively, in comparison to H1 2022.

Belém, Misericórdia, Alcântara e Carnide are the only parishes that presented decreases in their asking prices of approximately 2%, 5%, 11% and 5%, respectively, in comparison to H1 2022.

On the other hand, Lumiar, Olivais, Arroios and Santa Clara are the ones that showed the steepest prices increases against H1 2022, with upsurges of roughly 28%, 40%, 14% and 40%, respectively, against the same period last year.

Evolution Asking Prices - High End Used Supply (€/sq m)

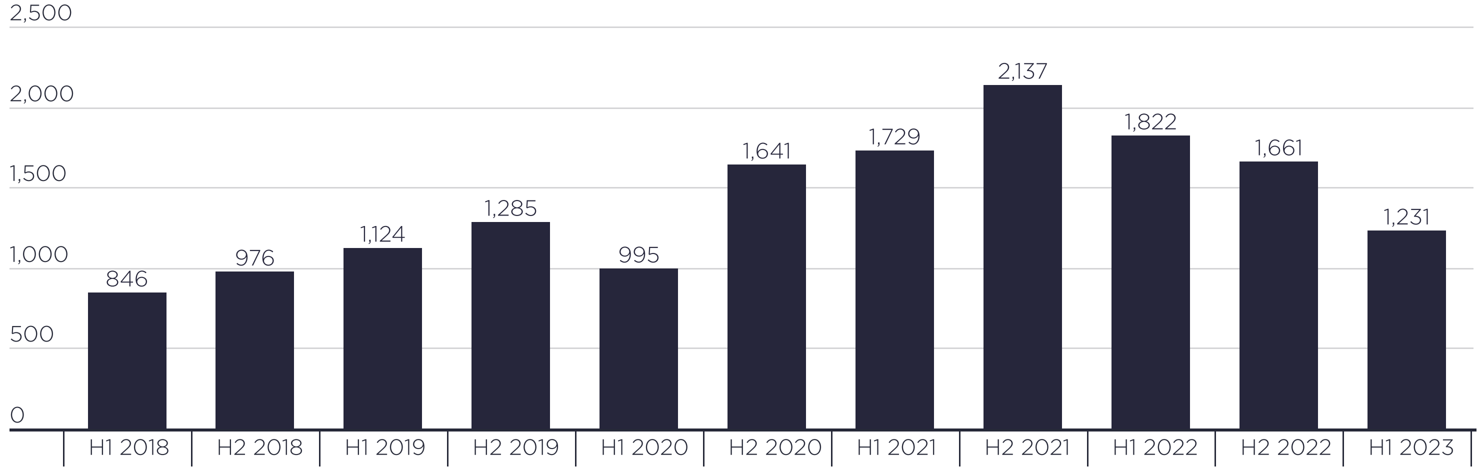


Source: Savills Research Analysing SIR   H1 2021 H1 2022 H1 2023

By the end of the first half of 2023, there were 1,231 executed contracts Lisbon. However, this number has been decreasing since H1 2022, which can be easily attributed to the steep increases in prices in the rental market throughout the last months. Just from H2 2021 to H1 2023, the Portuguese capital witnessed a downturn of 42%. Comparatively to the H1 2022, there was a decline of over 32%.

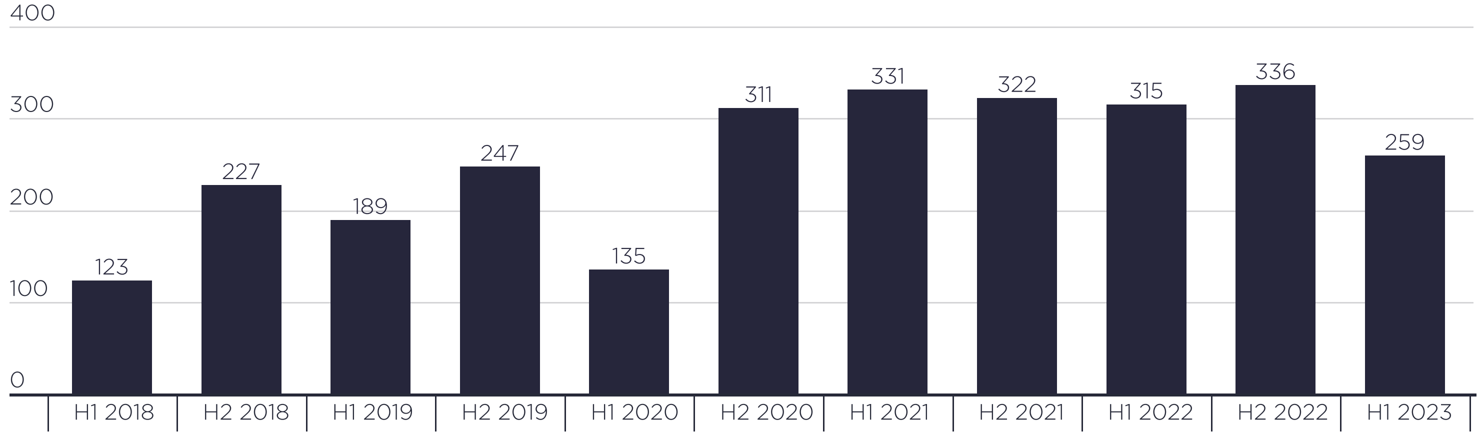
Porto, on the other hand, has presented figures more aligned with past semesters. The city amounted to 259 executed contracts during the first half of the year. This still represents a decline of 23% and 18%, relatively to H2 and H1 2022, respectively, in comparison to current figures.

Rental Market - Executed Contrats in Lisbon



Source: Savills Research Analysing SIR

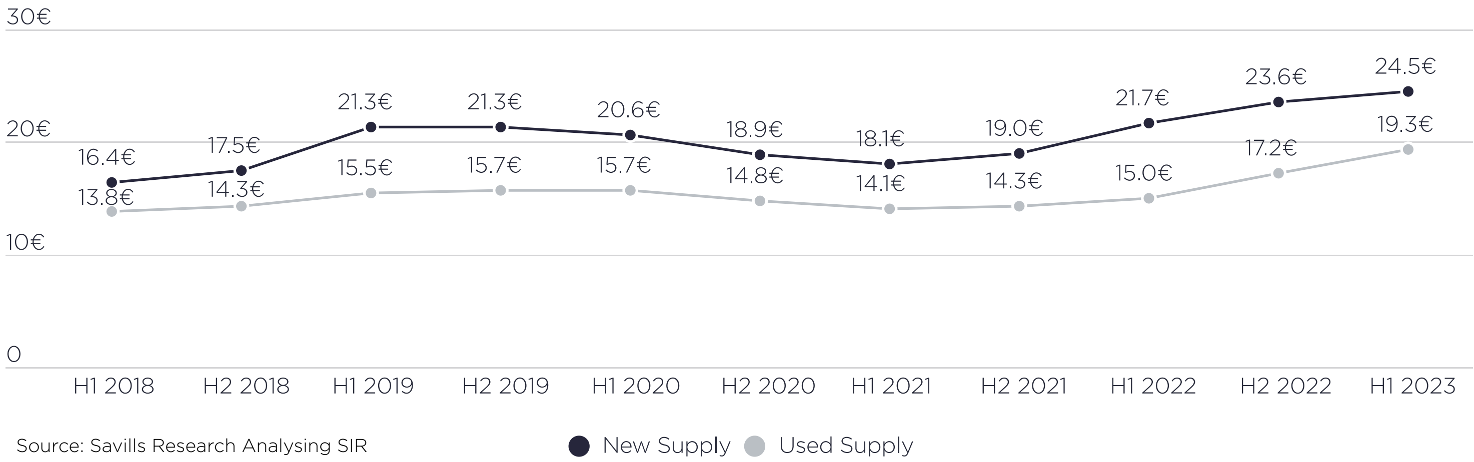
Rental Market - Executed Contrats in Porto



Source: Savills Research Analysing SIR

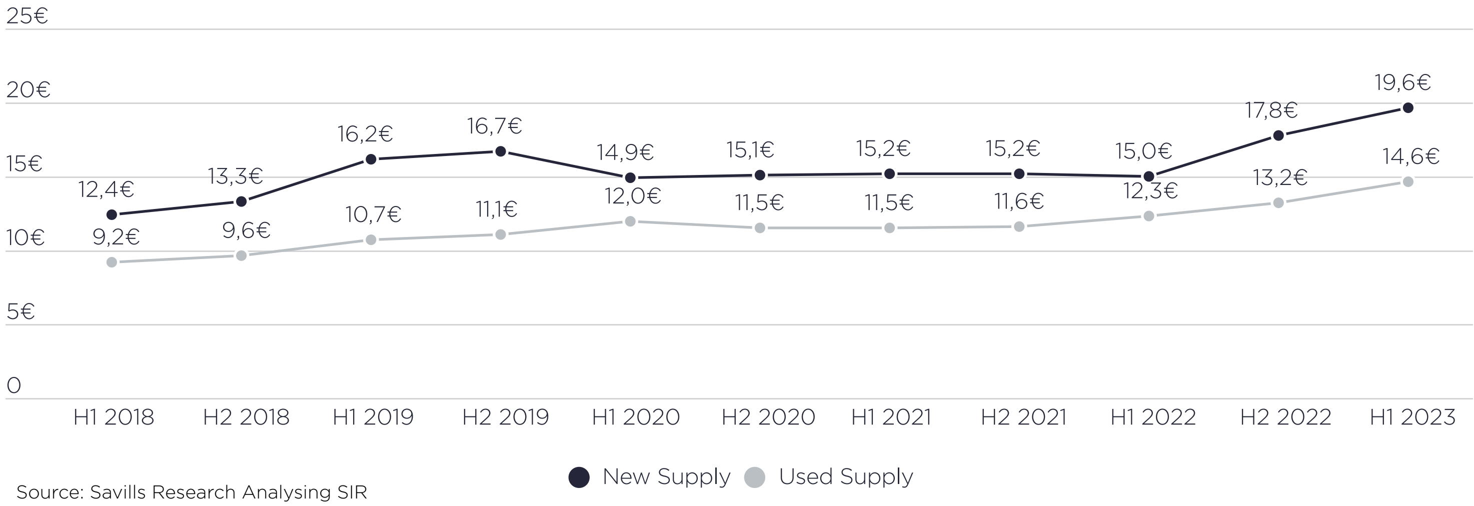
Both Lisbon and Porto have been facing overall increases in their rental prices. The Portuguese capital presented rises upsurges of roughly 13% and 28% for new and used supply, respectively. In contrast, Porto city has showed a sharper rise asking prices of new properties (31%), while used properties increased in their market value by almost 19%.

Average Rental Asking Prices in Lisbon - New Supply and Used Supply (€/sq m)



Source: Savills Research Analysing SIR

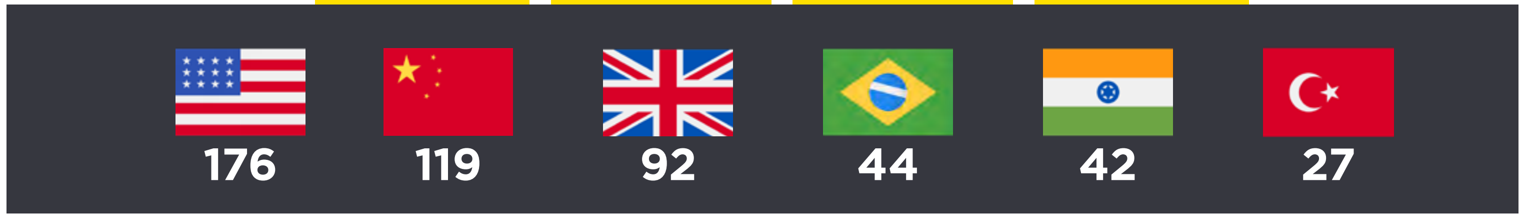
Average Rental Asking Prices in Porto - New and Used Supply (€/sq m)



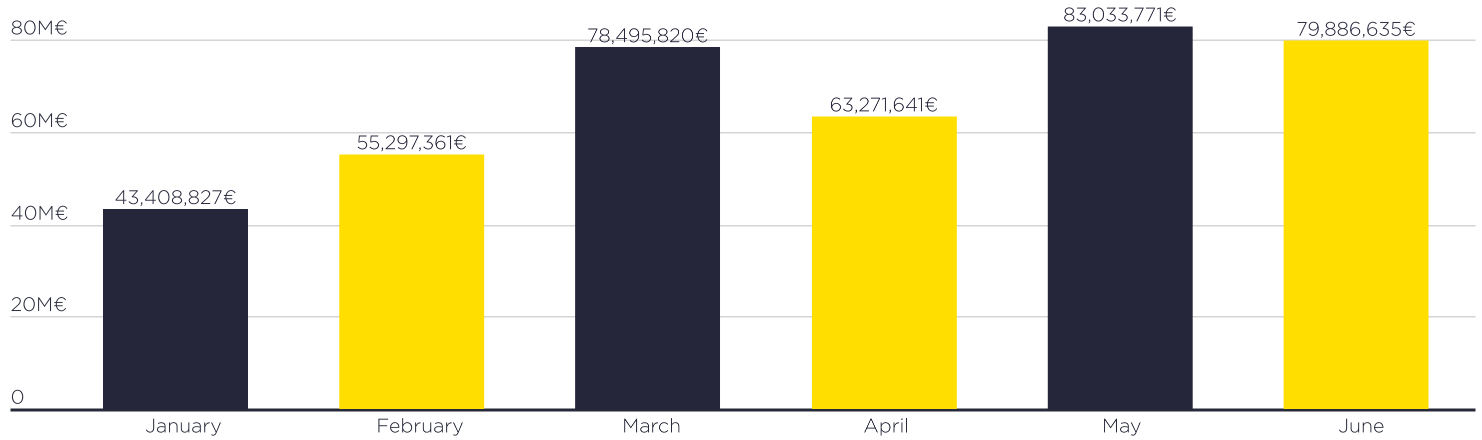
Source: Savills Research Analysing SIR

Golden Visa Overview - 2023 (Up to June)

861 Residences permits granted	**588** ARI by Real Estate Property Purchasing	ARI Total Investment: **296 061 770 €**	Total Investment: **403 394 057€**

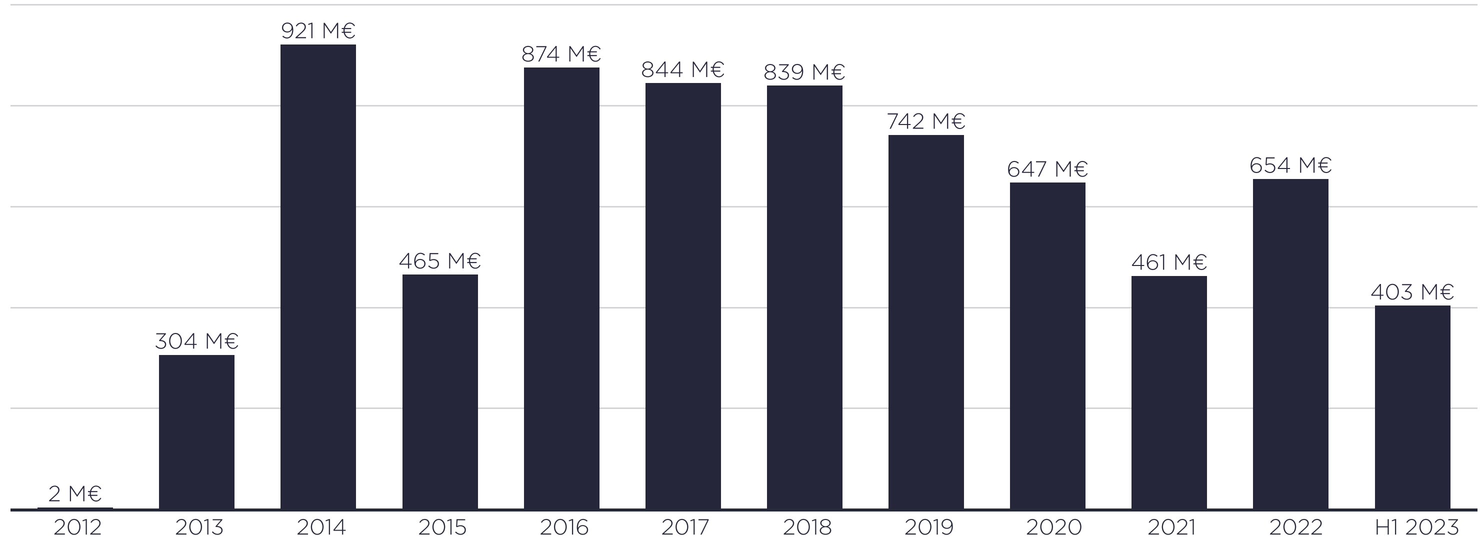


Amount Invested Per Month in 2023 (M€)



Source: SEF

Amount Invested Per Year (M€)



Source: SEF

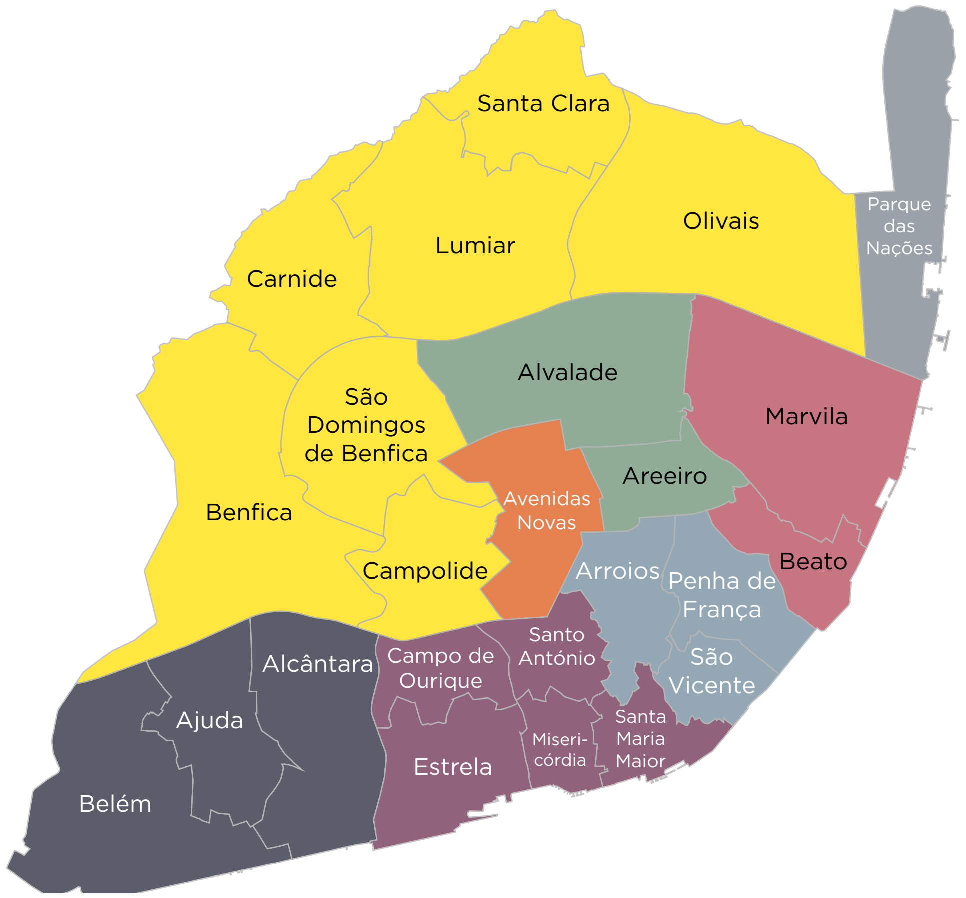
In February 2023, the Portuguese government announced the "More Housing" program, as a measure intended to relieve the current housing scenario in the country. Though the program was approved by the Portuguese Parliament, it is important to remember that the measure still has to be approved by President of the Republic. Only then we will have a verdict.

From banning new tourism accommodation licenses, to ending the Golden Visa program, the Portuguese Government has announced a series of actions designed to tackle the current housing situation in the country:

- Commercial properties can be used for housing – there will be no need to change from a commercial asset type of license to a residential one
- The end of Gold Visas – Visas that have been already applied will not be affected. However, their renewal processes might undergo through changes (only to be approved if the residence in question is aimed at its owners' own use/ it's their fixed address or if the property is to be leased under a long-term contract).
- New contracts under price ceilings – ceiling on new lease agreements, corresponding to the inflation rates of previous years (applicable to houses that have been in the market within the last 5 years)
- Streamline municipal licensing - architectural projects will be granted licenses with only a term of responsibility signed by the architect responsible for the job
- Individuals who sell houses to the state are exempt capital gains tax
- The Portuguese Government will no longer grant new local accommodation licenses, except for rural properties located in the countryside. In addition, those that have been already granted will be subject to a reassessment in 2030 and then every 5 years
- Offer of fixed housing credit
- The government will be responsible for a part of the increase in the loans, due to the rise of interest rates, up to 200 thousand euros
- Tax reduction concerning long term rental contracts of residential properties from 28% to 25%
- The government will rent residences directly from homeowners in order to sublet these properties to individuals

Pipeline Under Construction 2023 - 2026

Even though Lisbon has been witnessing its sharpest market value increases ever, the sum of properties that have already been commercialised is still quite high against the number of homes currently under construction. At present, 71,4% of all residential properties in pipeline have already been sold, meaning that only 28,6% are still available.



EAST RIVERSIDE
€5.000 / €8.500
>300 Units

UPPER CENTRAL ZONE
€6.000 / €7.000
>100 Units

PARQUE DAS NAÇÕES
€6.800 / €11.500
>200 Units

UPTOWN RING
€3.000 / €5.000
>1,500 Units

PRIME ZONE
€7.000 / €13.500
>900 Units

CENTRAL ZONE
€6.500 / €11.000
>700 Units

WEST RIVERSIDE
€5.500 / €8.500
>300 Units

HISTORIC HILLSIDE ZONE
€6.000 / €9.000
>200 Units

Trends

Construction Costs
The price of raw materials has already started to stabilize, though, the cost of labour remains to have a bigger impact on final construction costs, due to a generalised labour shortage.

Interest Rates
According the European Central Bank, interest rates will continue to rise, and by now, have reached its peak since 2008.

Resort Properties & Branded Residences
The Portuguese coast, particularly in the Algarve, a popular destination for residential investment, is likely to see an increase in terms of buyers, especially from foreigners, looking into acquiring retirement homes, holiday properties and rental income prospects.

Urban Rehabilitation
Lisbon and Porto, specifically, will remain to receive expressive investment that goes towards the rehabilitation of older building, primarily in their historic city centres. The larger portion of those developments aim at the upper-middle and upper-class market.

Public Housing
In order to contain the housing issue, some Portuguese cities have already announced they will be investing into affordable housing throughout the next years.

Asking Prices
Prices will continue to slightly rise, though, at a slower pace.

ESG & Sustainability
As demand has grown for eco-friendly residences, developers have started to heavily invest in energy-efficient, greener developments and buyers are willing to pay for the extra costs that comes with it.

Short-terms Rentals
These types of properties, that tend to offer numerous amenities and a fixed priced, with all bills included, will continue to draw students and digital nomads, especially in the bigger cities.

08. Tourism

The tourism market has been made a comeback with full force in Portugal so far, with a forecast of record-breaking year, according to the World Travel & Tourism Council (WTTC). The industry is set to (and it already has) exceed pre pandemic numbers.

By the end of the first semester of 2023, Portugal had already welcomed 59 new lodgings, 80% of which were located amongst the Alentejo, Greater Lisbon, Greater Porto, and the Northern Region zones. This new set of openings are responsible for more than 2.800 rooms spread out across the country.

Regional tourism has seen an exponential increase since the pandemic. While Lisbon, Porto and the Algarve have always been the most important tourist hubs in the country, the outskirts, such as the Douro Valley, Alentejo and Sintra, known to be regions popular for their cultural and historical significance, have now been slowly turning into staple destinations for those looking into more unconventional offerings,

The Alentejo, a region well-known and adored by Portuguese nationals, has seen a substantial growth in terms of international tourism, having already broken records when it comes to both overnight stays and the number of guests, in comparison to pre pandemic period. Moreover, the area has been receiving expressive invest towards the hospitality industry in the last years.

According to Savills Portugal Research, more than 70 new hotels are expected to open their doors during this second half of the year, offering travellers more than 5.000 rooms.

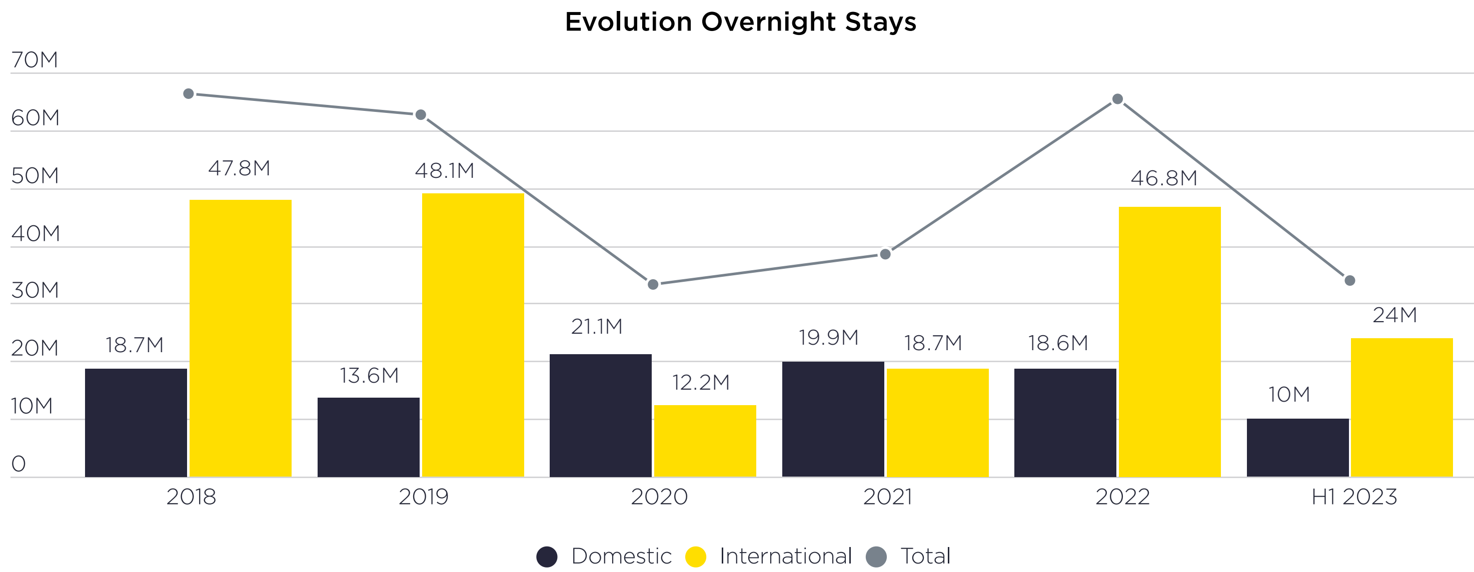
When it comes to tourism, Portugal is not only on the road to recovery, but also break new records. According to INE, rural tourism and guesthouses are very much responsible for such extraordinary numbers.
Up to June 2023, there was over 34 million overnight stays in Portugal, representing a growth of roughly 11% and a record-breaking in the accumulated number of stays during the first half of the year against the same period in 2019 (30.8 M). Foreigners account for 71% of the amounted stays so far, while domestic tourism reflects the other 29%.

During the first quarter of the year, Portugal received a total of 13.6M guests. When it comes to the evolution of the tourists in the country, there was an increase of 10% in the accumulated number of travellers when comparing H1 2023 and H1 2019' figures (12.2 M).

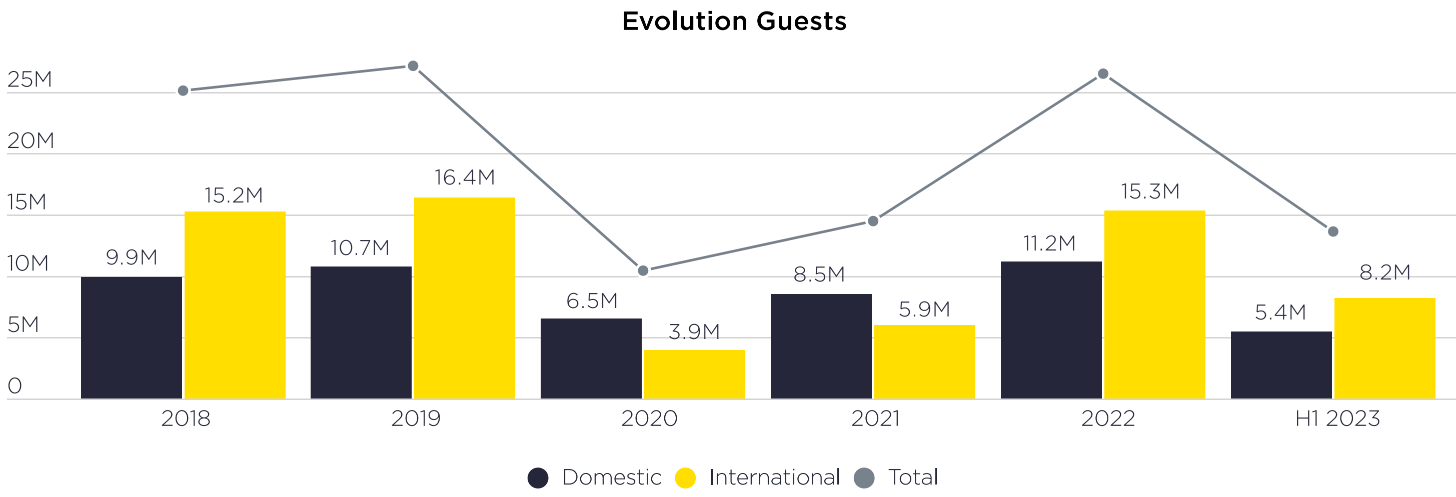
June was the month of the highest number of overnight stays and guests so far, having reached roughly 7.5 M and 2.9 M, respectively.

Confirmed Openings | H1 2023

HOTEL	REGION	CITY	ROOMS	CATEGORY
Tivoli Alvor	Algarve	Alvor	491	5*
Crowne Plaza Caparica	Setúbal	Almada	227	4*
Hilton Garden Inn Évora	Alentejo	Évora	130	4*
Flag Oeiras	Lisbon	Oeiras	61	2*
Barceló Funchal Oldtown	Madeira	Funchal	1115	*
Vermelho Christian Louboutin	Alentejo	Melides	13	5*
Vila Galé Nep Kids	Alentejo	Beja	80	4*
Renaissance Porto Lapa	Porto	Porto	163	4*
Vila Galé Collection Alter Real – Resort Equestre	Alentejo	Elvas	77	4*
The Rebello	Porto	Porto	106	5*
Onyria Marinha Boutique Hotel	Lisbon	Cascais	84	5*
Pestana Pousada Alfama	Lisbon	Lisbon	43	4*
Eurostars Lisboa Baixa	Lisbon	Lisbon	57	4*
Dos Reis The Beautique Hotel	Lisbon	Lisbon	54	4*
Dona Aninhas	Northern Region	Viana do Castelo	64	4*
Hotel NH Sintra Centro	Lisbon	Sintra	77	4*
Hotel Jaguar – Oporto Marquês	Porto	Porto	66	4*
Sines Sea View Business & Leisure Hotel	Alentejo	Sines	120	4*



Source: INE I TRAVE BI



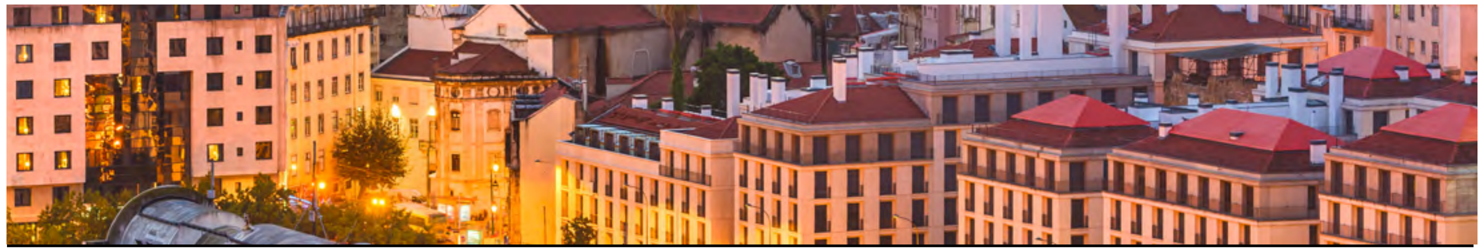
Source: INE I TRAVE BI

When it comes to tourism, Portugal is not only on the road to recovery, but also break new records. According to INE, rural tourism and guesthouses are very much responsible for such extraordinary numbers.

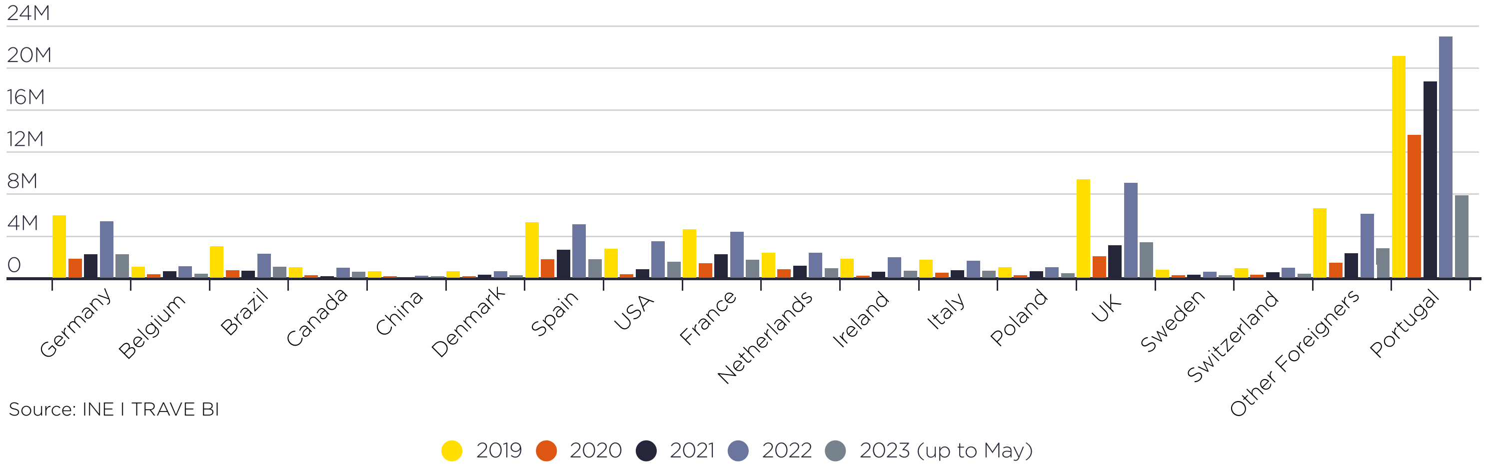
From January to May 2023, the country accounted for nearly 26.5 M overnight stays. Just May alone was responsible for more than 7.1 M stays. International travellers embodied 70.5% of the total number, while domestic tourism takes the other 29.5%.

British, German, and Spanish citizens make up the top 3 of overnight stays so far (considering the international market). Respectively, these countries embodied 3.4 M, 2.2 M, and 1.7 M stays in the country.
Considering figures from the first 5 months of the year, around 6.4 M guests come from international tourism, against 4.3 M from domestic travellers, representing, roughly 59.7% and 40.3% of the total amount, respectively, accounting for 10.7 M tourists.

So far, the number of guests during the first semester of the 2023 (up to May), has already surpassed 2019' s results (9.5 M), considering the same months. British, Spanish, and French citizens make up the guests' top 3, with 740,00, 730,00, 600,000 visitors, respectively.



Overnight Stays by Market



Source: INE I TRAVE BI

Trends

Luxury Tourism

There has been an exponential growth in terms of luxury resorts and hotels, offering travellers spa treatments, golf courses and personalized services.

Wine Tourism

Alentejo and Douro Valley leading destinations, known for their wine tours. Portugal's wine tourism industry is on the rise, and have, by now, become internationally renowned.

Wellness & Health Tourism

Yoga retreats and meditation centres have gained international recognition and become quite popular around the country. The Portuguese islands, particularly, have been a hub of wellness and health haves.

Cultural & Historical Tourism

Portugal's rich cultural background continues to draw travellers to the country's main historical sites and old towns. Portugal's historical influence has been drawing more and more history enthusiasts.

Outdoors Tourism

This trend is definitely here to stay. There is no denying that Portugal's diverse landscapes are one of the main reasons the country has become hugely popular throughout the last decade. From hot springs, to coastal, to mountains, the range of offers for outdoor activities is limitless. Surfing, kayaking, and hiking are among the most popular.

Sustainable Tourism

Portugal has committed to take steps towards becoming more eco-friendly and has an incredible range of well-protect areas that blend history, culture, and nature. The demand for sustainable lodging grows (exponentially), so does the offer.

Cruise Ships

Due to its privileged location, Portugal has been popular as a cruise destination, with its major ports being located in Lisbon, Porto, and Madeira. The industry that has been massively affected by the pandemic is starting to make its recovery. The sector is even expected to break a new record regarding the number of passengers, surpassing pre pandemic numbers.