

PORTUGAL

PRIME RESIDENTIAL 2024



FOREWORD

Much has been written about Portugal – Lisbon and Porto alone can serve as case studies of how cities can reinvent themselves by transforming and modernising neighbourhoods. All while maintaining their historic character, and the Algarve long remains a top choice for second homes among international buyers.

Emerging from the pandemic, international interest in Portugal’s residential markets has been healthy, supported by solid market fundamentals. More recently, the Portuguese residential market has been put to the test due to a challenging global macroeconomic environment, higher interest rates and tighter credit markets. Prospects are positive, however, as diverse submarkets, a broad demand base and a continued shortage of prime supply will sustain the markets in the year ahead.

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Popular Portugal

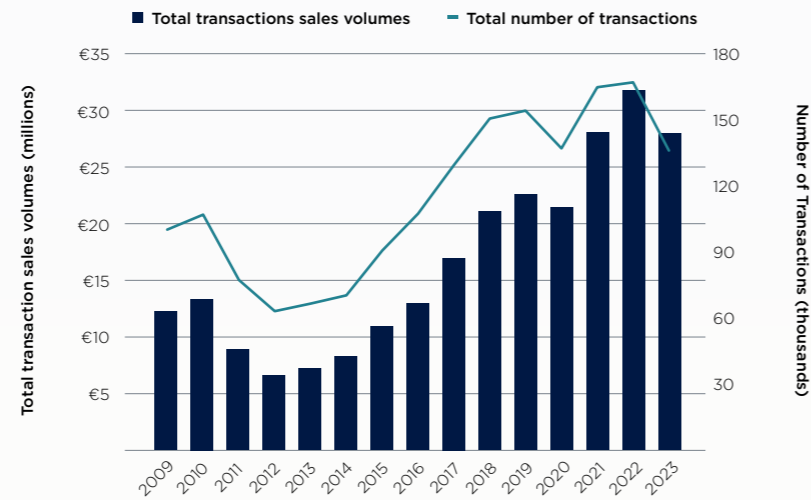
Portugal’s international reputation and popularity has continued to grow over the last decade and has positioned the country among the top international destinations for second homes. In the south of the country, tourists and buyers from the United Kingdom, Spain, Germany, and France continue to flock to the sunny shores. Urban centres such as Lisbon and Porto have also gained prominence as some of the most sought-after European cities for tourism and business.

This popularity has been aided by recent economic strength. In 2023, Portugal’s economy expanded by 2.3%, outperforming the eurozone by 1.6% last year. In addition, recent employment statistics have remained robust and inflation has begun slowing, increasing consumer confidence.

Despite greater global macroeconomic uncertainty and inflationary pressures, the Portuguese economy remains resilient and stable.

While the pandemic did slow sales during the two-year period, the residential market has experienced a resurgence. In 2022, sales numbers fully recovered to pre-pandemic levels and reached a total of 167,900 properties. However, a new slowdown hit the residential market in 2023 due to the rise in inflation and interest rates across the global economy. Over the course of the year, a total of 136,499 properties were sold in Portugal, a decline of 19%. With inflation expected to continue to fall this year, the slowdown in sales is expected to not last through 2024.

NUMBER OF TRANSACTIONS VS. TRANSACTION SALES VOLUMES

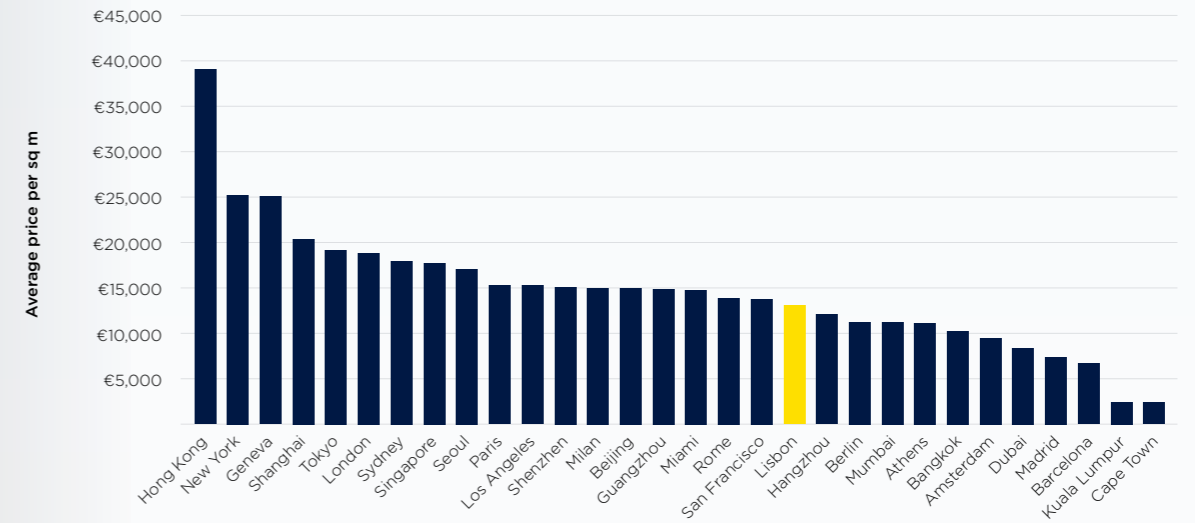


Source: Savills Research using INE

The prime residential market has seen consistently high levels of demand from international buyers. The urban centres of Lisbon and Porto exemplify this, with records broken in both the number of tourists and residential property sales in 2023. Mortgages for international buyers have risen from 8% of total loans granted in 2021 to 13.5% in 2023. However, a combination of labour shortages and prolonged licensing, rising construction costs, and processes for new properties have limited construction, which along with the increased demand, have caused significant price increases.

Portugal’s continued prime residential resilience is shared with its other southern European markets, whose prime property markets outperformed their northern European counterparts in 2023. Despite the price rises seen over the previous years, Lisbon remains, comparatively, more affordable than other cities tracked in the Savills World Cities Prime Residential Index.

PRIME RESIDENTIAL PRICES PER SQUARE METRE IN WORLD CITIES



Source: Savills Research

As with other global markets, prime rents across Portugal have outpaced capital value growth. Despite the greater yearly cost increases, renting remains an affordable alternative to purchasing, especially in the prime section of the market. According to the 2021 census, 70% of households residing in Portugal own their primary residence, of which 38% have a housing loan. For those who do rent, the supply of properties on the rental market has not kept pace with demand, leading to a rise in the price of houses for rent throughout Portugal.

Savills Research expects average prime residential capital value growth of 0.6% across major global cities this year, lower than the 2.2% growth seen in 2023. In addition to the major cities of Porto and Lisbon, there remains a strong continued interest in prime coastal residential which will help drive growth in 2024. Portuguese markets are set to exceed the global forecast, with Lisbon forecast to see capital value growth of 0%-1.9%, especially if economic indicators remain healthy.

Digital nomads, real estate

Digital nomads represent a new segment of the modern workforce, one which does not require any particular physical location to work from. Portugal has successfully positioned itself as a key destination for this new group of innovators and business people through a variety of tax and visa incentive schemes. These digital and executive nomads often seek short and medium-term rentals, typically in proximity to amenities such as coworking spaces and cafes.

Their effect on the market is especially felt in Lisbon, a city with a burgeoning tech scene, where people gather around the core of an established city to collaborate. This trend has had a notable impact on both capital values and rents, as prime residential property is being utilised as an investment for short and medium-term rentals to accommodate this population.

The short-term rental market is often blamed for wider housing cost increases. Even pandemic-induced supply increases due to reduced global demand did not significantly slow rental growth, which continued apace as a result of some owners taking long-term rent properties off the market and converting them to short-term ones.

To tackle this, a housing law has been proposed named *Mais Habitação*. First presented in early 2023, this legislation package includes several new measures related to short-term rentals, including new fees and a requirement for operating licenses. However, there is additional legislation that has been proposed which would likely benefit the short-term rentals market.



Lisbon

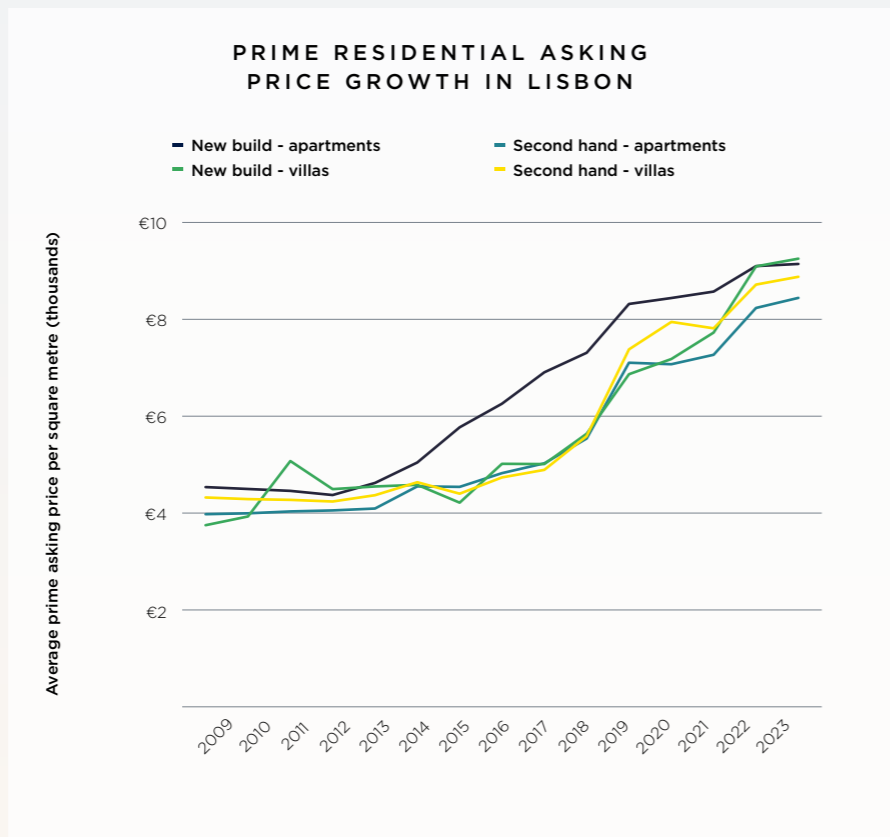
The capital and largest city of Portugal remains a key international market for prime residential buyers. From a world-class historic city centre to world class cultural landmarks and premier dining culture, there are many reasons for buyers to be interested in Lisbon. A rebound in tourists and a revitalisation of the residential areas across the city has made Lisbon a top destination. Costs for all types of prime residential property grew in 2023, with Lisbon resale apartments leading capital value growth of 2.6%. This is in contrast to new development apartments in the city, which have seen more muted capital value growth of 0.5%. Both new and resale villa units, meanwhile, saw capital value growth of 2.0% for the year.

Rents have followed a similar trend to capital values, but with greater variation. Over the pandemic, rents for new build property fell by 10.6% and 5% in 2020 and 2021, respectively. These values rebounded in 2022 with a 29.2% increase as markets reopened.

All types of prime residential products across the city have seen continued price growth since the global financial crisis over a decade ago. The non-habitual residence scheme to which was replaced earlier in 2024 by a new, more limited incentive programme to has historically supported growth in Lisbon. The announced end of these tax benefits coincides with a slight cooling of international demand for homes for sale at the end of 2023. However, despite these reduced incentives, foreigners still account for over 22% of the total demand for prime residential to both buy and rent property in Portugal.

Currently, average rental values for one-bedroom apartments in the city centre are €1,723 per month for new units and €1,323 per month for older ones. Rents have now far exceeded pre-pandemic levels, a testament to the consistent demand from international renters.

Between 2015 and 2019 there was an average increase in capital values of around 15% per annum, which pushed the average price per square metre above €5,000. This trend continued in 2023, with prices reaching €6,620 per square metre.



Source: Savills Research using SIR



Cascais & Comporta

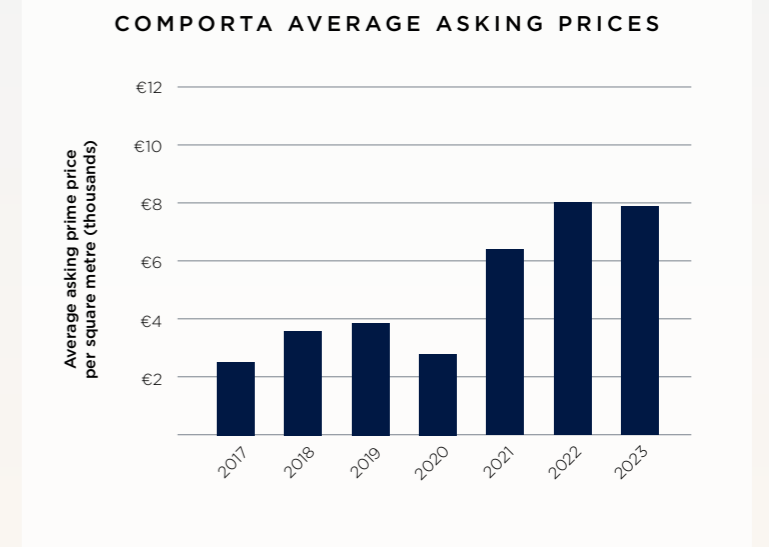
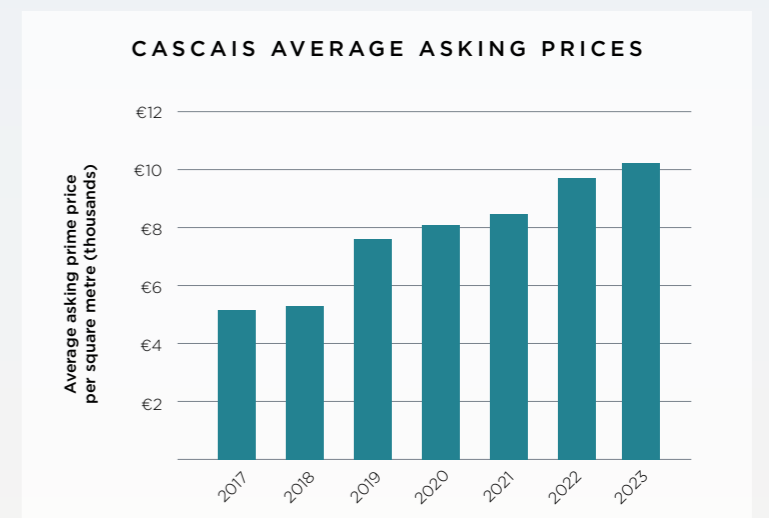
Aside from internationally known areas such as Lisbon and the Algarve, there are other enclaves in Portugal that have seen increased global appeal in recent years.

The exclusive coastal community of Cascais, located to the west of Lisbon, remains a premier location for prime property in Portugal. A favoured destination throughout history, attracting royals to wealthy business people and international buyers today, the city has maintained an enduring appeal. Additionally, due to the growth of international tourism, Cascais has positioned itself as a destination for top international events. These events enhance Cascais's prestige and have been crucial for attracting international prime residential buyers.

Cascais ranks among the most expensive of the Portuguese markets we examined by value. This trend does not appear to be reversing soon, with an average annual growth of 7.5% across all classes of prime residential real estate. Growth reached a peak in 2019, when new build house capital values grew by 41.3% for the year. This price growth can be explained by the rapid increase in new high-quality supply that year which amounted to a 97% increase over 2018. In 2023, the number of houses sold grew by an average of 27%, despite adverse global macroeconomic conditions.

An alternative to the lifestyle of the Algarve, Comporta is located on the western coast and has quickly become a top fashionable location for those looking for nature and exclusivity. Sometimes called Portugal's best-kept secret for its serene beaches and more relaxed lifestyle, luxury residential projects are adding to the market, attracting a much more international clientele to the area.

In 2023, apartments saw a 9% growth in prices for the year while villas saw a much more modest rise of 2.2%. This followed a very strong 2022 in which villas saw capital value increases of 22.7%, a result of pent-up demand following pandemic-related lockdowns. With renewed attention in the wake of the pandemic, increasing supply will help temper rapid capital value growth.



Source: Savills Research



Porto

The second-largest city in Portugal has remained relatively under the radar for international buyers and thus retains a comparatively higher level of affordability. Not to be underestimated, Porto supports a robust prime residential market despite its smaller size relative to Lisbon.

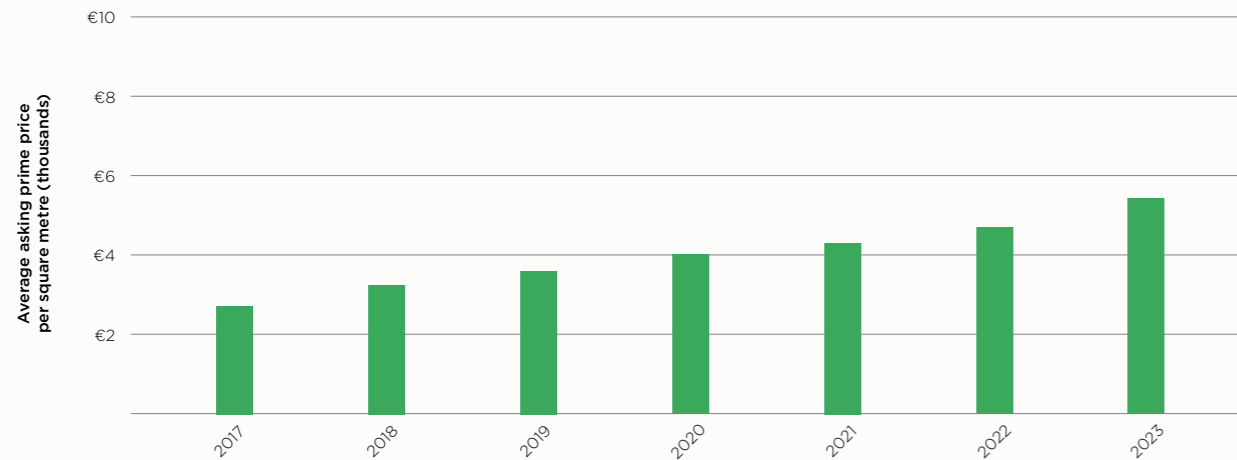
Costs for all types of prime property have been steadily rising, with the largest annual increases occurring slightly earlier than the rest of Portugal. While most Portuguese markets saw the largest growth in 2019, Porto saw the highest capital value and rental growth between 2016 and 2018, at an average growth per annum of 20.2% over that period.

Compared to the national average growth in 2023 of 5.3% for prime residential capital values, the Porto market has continued to outpace the rest of our monitored markets, recording growth of 15.6%. A deeper look into the market reveals a profile of supply mostly geared towards higher-income families, similar to Lisbon. Only 30% of the current supply has average asking prices that range from €169,000 to €250,000. The remaining 70% of stock exceeds half a million euros per unit.

While Porto does remain a predominantly domestic market, approximately 40% of new buyers are international. Buyers from North America, Brazil, and Israel make up the largest international buyer segments. There are also increasing numbers of young families moving to Porto, attracted by the quality of life in the city. The high calibre of international schooling is also a key factor for new residents to the city. Rental prices in the city have seen an even sharper rise, with an average 24.8% annual growth in 2023. The average rental values for one-bedroom apartments in the city centre are €1,159 per month for new units and €978 per month for older ones.

Although Porto saw a decrease in the number of sales last year, capital values and rents have continued to rise, signalling that Porto remains an attractive option for second-home purchasers. It has additional appeal to more cost-conscious international buyers who do not want to compromise on a modern European city location.

PORTO AVERAGE PRIME VILLA ASKING PRICES BY YEAR



Source: Savills Research



Algarve

The sunny southern coast of Portugal remains a top destination for second homes and international expats looking for the coastal lifestyle. As with many second home destinations globally, the end of lockdowns saw an immense surge in interest in the area, which has resulted in an annual growth in sales of 25% year-to-date in the first quarter of 2024. Combined with increased interest from younger families and more buyers purchasing for year-round use, the Algarve can be a tough market for buyers with limited supply and high prices. While demand continues to outstrip supply, especially at the prime level, there have been some deliveries of new stock to help the market.

Ongoing demand for space in prime second home destinations is readily apparent in the Algarve, where average capital values have nearly doubled (+92%) in the five years since 2019. In the past year, average prices for prime properties across the Algarve have risen by over 30%.

There is significant variation in the pricing in different locations across the region. For the most well-known areas such as Quinta do Lago and Vale do Lobo, average prices per square metre can exceed €14,000, among the highest in Portugal.

Other developments average €6,500 per square metre, still €2,000 higher than the average price per square metre for the Algarve as a whole.

Increasing connectivity to the region through new direct flights from Europe and the US has contributed to a wider range of nationalities being interested in the region. Coupled with a strong dollar, there is also increased American interest in the Algarve. UK buyers are still the dominant international buyer group in the region, however, with over three-quarters of all international buyers holding British passports. Young families are also increasingly relocating to the area, attracted by the healthy lifestyle, sporting and golf facilities, cost of living, quality of properties available and growing international and growing international schooling options in the area.

While there was much initial concern in the market about the restrictions in the golden visa and Non-Habitual Residency schemes, much of this has proven to be unfounded. There remain numerous alternative visa and investment programmes which offer similar solutions to international buyers which may be even more appropriate to their needs. These schemes may affect international demand in city markets, but in the coastal residential locations they frequently were not the main motivation for buyers.

ALGARVE PRIME AVERAGE SALES PRICES



Source: Savills Research using Savills Quinta Properties

OUTLOOK

Portugal remains a premier lifestyle, culture, and weather destination within the sunshine belt of Southern Europe.



Healthy economy in face of global macro-economic uncertainty

Global macroeconomic uncertainty, especially around interest rates, continues to affect the market. However Portugal has shown recent resilience to economic shocks, while access to bank credit for mortgages has eased.



Trophy assets

Portugal offers a variety of prime properties, from beachfront living to high street city life; all markets are well served and attract a diverse demand base.



Global appeal of Portugal on the rise

Portugal continues to offer value by global standards, in spite of strong price growth in recent years. Prime market prospects are largely unhindered by the end of the golden visa programme.



Price prospects

Slower but continued price growth is expected in 2024, supported by the supply and demand imbalance in the market.

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