PORTUGAL REAL ESTATE

Investment Guide

2024

Welcome to the first edition of the Real Estate Investment Guide, an investment guide produced in collaboration between Savills and DLA Piper.

On the international radar, Portugal has been gaining a prime position among international investors who recognize in our country solid and strong market fundamentals, which have already been widely praised.

Over the past two years, as a result of an inflationary economic framework posing challenges to investors, Portugal It has successfully tested its resilience. The decreases observed in investment amounts are fully aligned with those seen in other European markets.

In traditional segments, hospitality and retail have been the most coveted due to the extraordinary recovery of their KPIs.

But now, alongside these segments, alternative segments are emerging, supported by a very favorable socio-demographic context for exponential growth in investment in Portugal, particularly in Senior Living and student residences, with increasingly more capital being allocated.

Paulo Silva
Head of Country

For 2024, forecasts point to a gradual recovery amid the prospect of interest rate reductions in the second half of the year. Although these are times when political and economic uncertainty still dominates the headlines, Portugal continues to defend its fundamentals, continuously reaffirming itself as one of the best destinations to live, work, and invest in.

In this Guide, we aimed to gather all relevant legal information from the investor's perspective and providing a comprehensive overview of the Portuguese real estate market in 2023.

We consider it our duty to convey the best market knowledge, thus helping investors make the best-informed and strategically decisions.

In this Guide, we outline the key points of the Portuguese legal framework relevant to the real estate sector. The presentation is broad and does not delve into the specifics of individual transaction structures.

In recent years Portuguese law has demonstrated a robust stability, which is crucial for investor decision-making. Despite challenges posed by political options, market operators have maintained a strong and reliable footing.

The real estate market in Portugal exhibits a dynamic, sustaining residential, office, retail and tourism sectors, while also expanding into new areas such as industry, logistics, student accommodation, built-to-suit leasing, and photovoltaics.

The legal framework has maintained a great capabilities for adaptation to accommodate the high interest of investors in the Portuguese market, especially in transactions, financing, construction, rehabilitation, development and asset management.

Recent legal reforms, particularly in residential sector, have simplified licensing procedures, thereby reducing both time and costs associated with property works.

Luís Filipe Carvalho
Partner
Head of Real Estate

Addressing the housing deficit is a top priority driven by political consensus, impacting construction, leasing, real estate finance, and public-private partnerships.

The growing sophistication of investors and the increasing volume of transactions will continue to pose significant challenges to the legal environment in terms of attracting and retaining market players.

The Portuguese market has evolved significantly within this legal framework.

The strong slogan *"Portugal Makes Sense"* will continue to underpin and drive this dynamic in the near future.

Being one of the world's leading multi-sector property advisors, we have seen our efforts receive recognition from several renowned entities and some of the most demanding certifications.

Thanks to our 160-year history and in-depth know-how, we are now one of the world's leading property consultancies. We have an international network of more than 40,000 professionals, spread across more than 700 offices in Europe, Asia Pacific, Africa, America and the Middle East.

Our recognised global and local market expertise in services such as transactions, consultancy, real estate asset management and architecture, allows us to offer, in a personalised way, excellent assistance tailored to the needs of each client.

We have been in Portugal since January 2018, through the acquisition of Aguirre Newman, then leader of the Iberian market; ever since, our experience has been marked by success, from historic deals to the exponential growth of our team, through the completion of pioneering projects.

In 2021, we were responsible for completing the remodelling process of what would come to be considered a sustainability case study in the country - the MB4 Office Building.

We were also the first company in Portugal with professionals accredited as BREEAM AP and WELL AP.

Already in 2023, we starred in what was one of the great real estate operations of the year: the acquisition of Predibisa, a proven leader in Residential and Commercial Real Estate mediation services, present in the Porto market for over 30 years.

And this is just the beginning of our story. We are sure that, together with you, we will continue to build a sustained and successful path.

DLA Piper is a global law firm with lawyers located in more than 40 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific, positioning us to help clients with their legal needs around the world.

OUR VALUES

We are committed to excellence in how we represent our clients, develop our people, and serve our communities.

Bold
We are fearless and inquisitive, challenging ourselves to think big and find creative new solutions.

Exceptional
We are strategic and driven, exceeding standards and expectations.

Supportive
We are compassionate and inclusive, valuing diversity and acting thoughtfully.

Collaborative
We are proactive, passionate team players, investing in our relationships.

SUSTAINABILITY PROTECTING TOMORROW FOR EVERYONE

In today's world, ESG issues are of critical importance to business. We're helping our clients transition to, and thrive in, a more sustainable future. We ask tough questions about purpose and transparency, and find the answers together. We're also looking for opportunities to integrate sustainability into our governance, decision-making and operations. We ensure our people have the right resources and support they need to perform and deliver at their best for our clients.

MAKING BUSINESS BETTER

We believe great businesses can make a better world. Forward-thinking, innovative organizations can find the answers to today's most difficult questions. That's why, every day, we help them succeed.
Our bold and dynamic culture means we think big and act decisively. Because relationships are at the heart of everything we do for our clients and communities.

Let's make business better. Together.

CONTENTS

PORTUGAL INVESTMENT GUIDE

WHY PORTUGAL

Europe's Leading City Destination
2023
World Travel Awards

World's Best Golf Destination and Europe's Best Golf Destination
2023
World Golf Awards

World´s Best MICE Destination in Europe
2023
World MICE Awards

Best Place for Digital Nomads to Live
2023
By Digital Nomads

Geographic
Location

HR high
Tecnological Skills

Great
Weather

Direct connection to the main
European Capitals

Easy
Mobility

Quality of higher
Education System

Qualified
Talent

International
Business Environment

Competitive
Wage Costs

Time
Zone

Complete transport network in
Main Cities

Cultural & gastronomic
Heritage

Security

REAL ESTATE MARKET OVERVIEW

ECONOMY

OFFICES

RETAIL

INDUSTRIAL & LOGISTIC

RESIDENTIAL

TOURISM

National GDP should grow 1.2% in 2024 and 1.8% in 2025, after closing 2023 with 2.3%. Portugal's economic performance reflected the weakness of external demand, the effects of an inflationary context and a tighter monetary policy.

Optimism surrounding the anticipated influx of EU funds should help to 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 and therefore, contribute to overall economic growth.

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;

Services prices are also expected to slowly contribute to disinflation as employment growth and increase of salaries is expected to offset the decrease in workers' purchasing power that occurred in 2023.

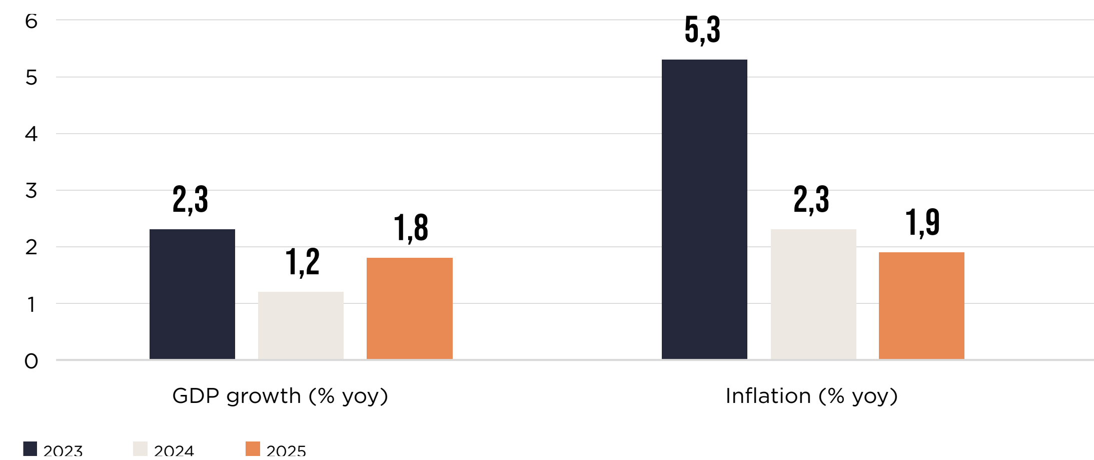
Although wages have risen substantially, the pace of consumption growth is expected to stay modest due to a slowdown in employment growth and persistently high consumer prices and debt servicing expenses.

Tax reductions, along with boosts in social benefits and public sector wages, will offer some assistance to household incomes. However, these measures may also contribute to stabilizing the decline in inflation.

Forecasts for the coming years are conditioned by the uncertainty of new geopolitical tensions. However, the resilience factors in the labour market, the stimulus from European funds and the competitiveness of some key sectors must be considered

FORECAST 2024

INDICATORS - FORECAST



Source: Eurostat | Bank of Portugal

1.2% GDP GROWTH RATE

2.3% INFLATION RATE

7.1% UNEMPLOYMENT RATE

WHAT TO EXPECT IN 2024

OFFICES

- Sustained level of dynamic demand, with multinational companies continuing to consider Lisbon or Porto as potential destinations for business expansion;
- The 'Flight to Quality' trend is projected to intensify, with fierce competition for prime locations and spaces;
- Increased demand for flexible spaces that offer more flexible business models, reduced fixed costs, while also providing collaborative and creative environments;
- Policies focusing on ESG & Sustainability are expected to consolidate further, maintaining a continuous emphasis on aspects of well-being and talent attraction;
- We foresee a rise in prime rent, highlighting the increasing gap between prime and secondary products.

TOURISM

- Sustaining the excellent performance of the KPIs, which broke records in 2023;
- Investment in the repositioning of existing hotel units to fully exploit their growth potential and attraction;
- Sustaining solid operational results that continued to attract investors and esteemed hotel groups to the domestic market;
- Exploration of niche concepts that provide distinctive experiences, as well as more hybrid concepts that blend work and leisure, appealing to longer stays and a broader audience;
- In 2024, almost 70 new hotels will be opening doors, bringing a tourist offer of more than 6,500 new rooms throughout the country.

INVESTMENT

- More diversified investment strategies, with a focus on sectors demonstrating potential for growth despite market fluctuations;
- Risk diversification strategy, focused on living sectors as well as continued investor interest in hospitality and retail segments due to the resilience and strong performance of these sectors;
- Investment in offices and logistics supported by strong occupational market fundamentals;
- In 2023, the demand for higher returns from investors, led to a general upward trend in all segments between 25 – 50 basis points. In the first half of 2024, we may still witness upward adjustments, potentially followed by stabilization in the second half of the year.

RESIDENTIAL

- Recovery of demand dynamics;
- Ease in access to bank credit, with the projected decrease in interest rates in June 2024;
- Trajectory of price increases at a slower pace;
- Recovery of promoters' confidence in response to demand dynamics;
- Continued interest of international buyers, which remains unshaken by the end of the Golden Visa program or the governmental instability that marked the end of the year 2023;
- Imbalance between supply and demand persists, maintaining the challenge of constructing new residential properties at more affordable prices.

RETAIL

- Maintaining investment in expansion processes, renovation and/or repositioning of existing commercial equipment;
- Prevalence of omnichannel strategies;
- Use of Artificial Intelligence to improve the shopping experience and increase competition between retailers;
- Shopping centres will increasingly become social spaces offering various uses, such as coworking spaces;
- General concern of the sector and its agents to reduce energy consumption and greenhouse gas emissions;
- Establishing agendas to serve the community and promote sustainable lifestyles.

INDUSTRIAL & LOGISTICS

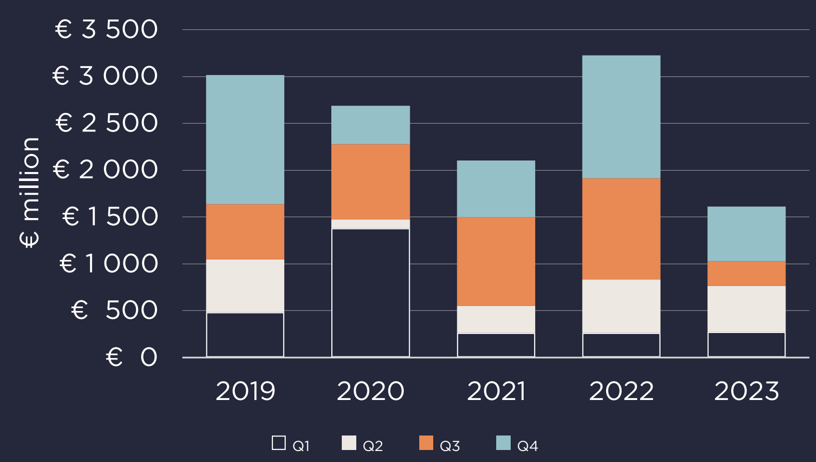
- Recovery in take-up volume, driven by the completion of new projects;
- Entry of new speculative GLA, in response to the significant imbalance between quality supply and the consistent increase in demand.
- International conflicts may give more strength to nearshoring and reshoring trends;
- Prime assets with sustainability certifications will be a valuable target.
- For 2024, rents will continue to rise, driven by the completion of new projects.

INVESTMENT 2023

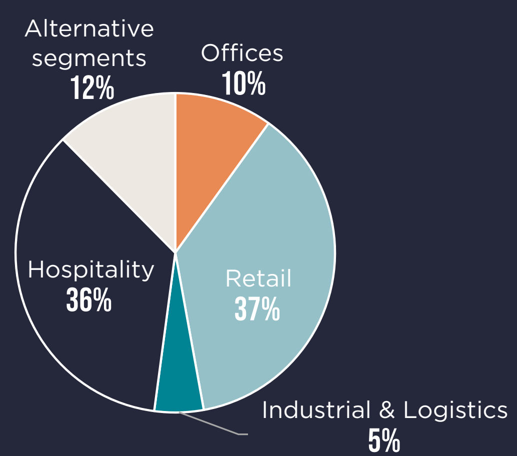
1.6 B€

(-52% Y-O-Y)

TOTAL REAL ESTATE INVESTMENT VOLUME BY QUARTER



DISTRIBUTION OF TOTAL REAL ESTATE INVESTMENT VOLUME BY SECTOR IN 2023



Source: Savills Research

OFFICES

Despite the sharp year-on-year decrease of 77%, the fundamentals of the office occupational market remain firm, with the Lisbon and Porto office markets attracting high interest from tenants and investors. With tenants embarking on the "Flight to Quality" journey, based on ESG & Sustainability policies, rental values in prime locations and top-quality projects have gained room to grow.

RETAIL

with a total investment volume 42% higher than that seen in 2022, it held its place as the most resilient segment in 2023. Investors' interest was directed towards Retail Parks, stand-alones, food distribution units and high street retail.

HOSPITALITY

The Hospitality market significantly contributed to the total volume achieved in 2023, adding up to a total of 571 million euros achieved in 2023. While this represents a fall of 53% compared to 2022, the continued interest and commitment of investors in this segment was undoubtedly decisive in helping to mitigate the decline in investment activity in 2023.

INDUSTRIAL & LOGISTICS

With a total investment volume of 80 million euros in 2023, the logistics market is counter-cyclical relative to the dynamic performance of the occupational market. With much of the logistics stock obsolete in the face of current high standards and occupancy criteria, the investment market awaits the completion of prime projects that can boost investment volumes.

ALTERNATIVES

The so-called alternative segments continue to attract investor interest. 62% of the total investment volume was directed towards PBSA, establishing itself as one of the rising investment segments in Portugal, as projects consolidate in main academic cities, attracting the attention of renowned operators seeking to expand their operational models to Portugal.

High levels of inflation	**Decision-making processes lengthened**
Increased debt costs	**Wait-and-see strategies**
High sensitivity to price gaps	**Risk-averse investors increasingly await price corrections**

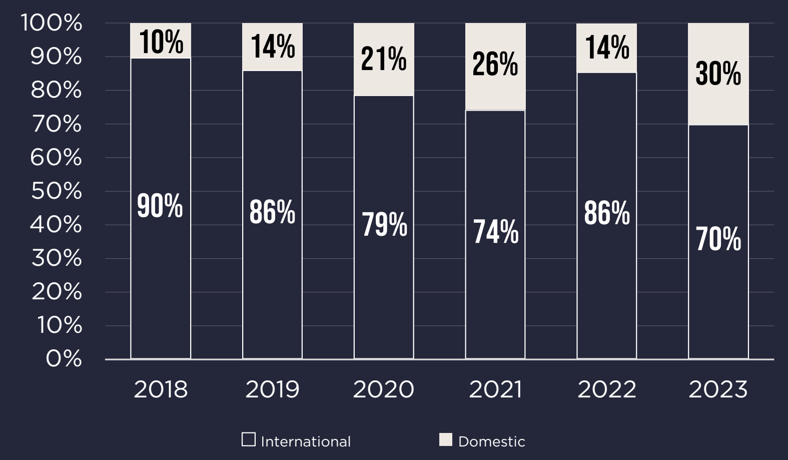
CAPITAL ORIGIN 2023

DOMESTIC CAPITAL
Average investment volume of €11 million. National Investors

PROFILE
Investment funds, Family offices, and Private investors

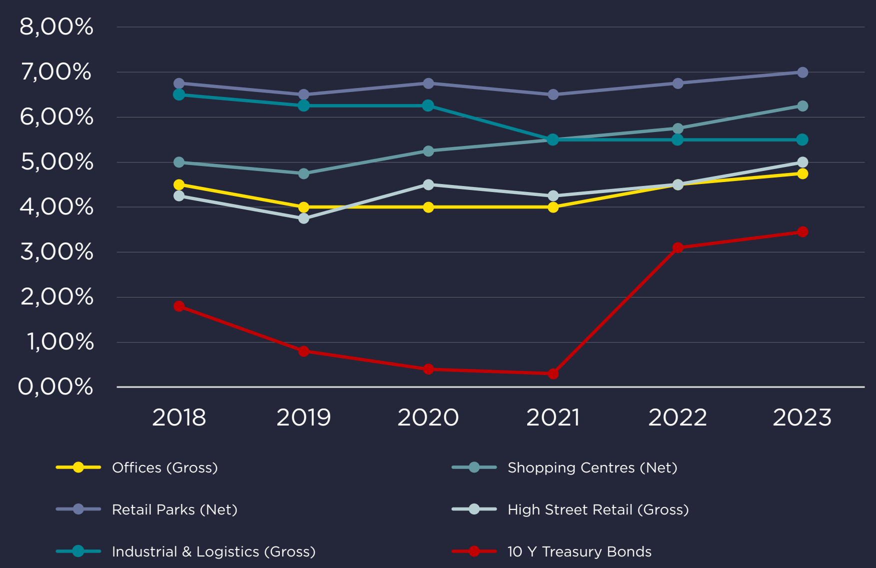
TARGET SECTORS
Retail, Hospitality, Office

CROSS BORDER VS DOMESTIC CAPITAL



With a market share of 70%, the estimated total value of cross-border capital investment reached €1.1 billion. These investments primarily originated from the United Kingdom and the United States and were directed towards sectors such as hospitality, retail, healthcare, and student housing.

PRIME YIELDS VS 10Y TREASURY BONDS - PT



Source: Savills Research

PBSA RIDING THE WAVE

In the sum of the cities of Lisbon and Porto, there are only 3,800 beds, in supply provided by university residences, serving only 2% of the total number of students enrolled in higher education.

- The scarce supply of accommodation for students is one of the major challenges for the Portuguese government, universities, families, and students.
- A very scarce quality supply with professionalized management services corresponds to a demand that has been increasing at a steady pace from year to year.
- Over the past five years, this emerging alternative asset class has attracted a total investment volume of approximately 721 million euros. Xior, Brookfield, Catella, Round Hill Capital, AGEAS Portugal, Stoneshield and Milestone are key players that have already invested in this segment in Portugal.
- With their focus on stable income and long-term appreciation, these investors are actively seeking out assets that fit their investment criteria.
- This trend is expected to continue as Portugal's economy continues to grow and attract more international investment.

TOTAL INVESTMENT **LAST 5 YEARS**

721 M€

4% CAGR TOTAL STUDENTS | LAST 3 YEARS

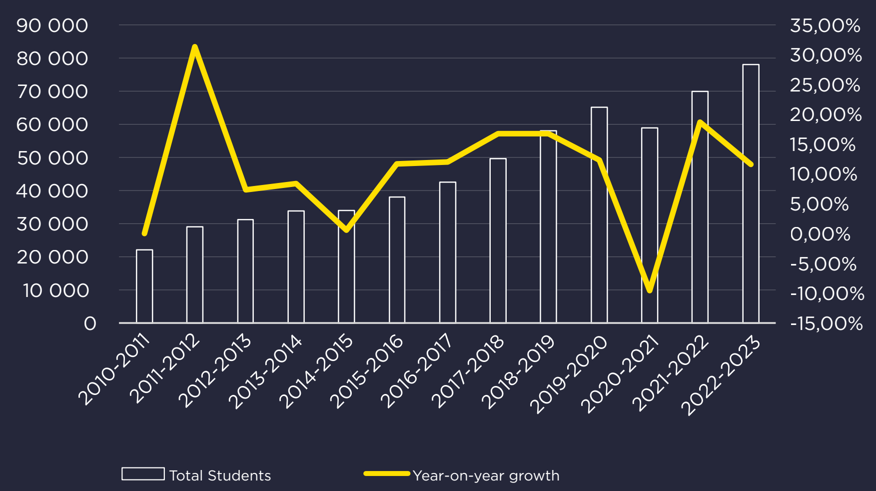
Current Provision Rate (%) **Public and Private Supply**

Lisbon: **5%**
Porto: **8%**
Coimbra: **6%**
Aveiro: **11%**
Braga: **4%**
Covilhã: **15%**

In total, 77 investment transactions were completed in 2023. Domestic investors carried out 56% of the total number of transactions, with an average investment volume of €11 million.

Real estate investment funds, family offices, and private investors allocated capital to the acquisition of assets in the retail, hospitality, and office segments.

INTERNATIONAL STUDENTS GROWTH BY ACADEMIC YEAR



Source: Savills Research

With a market share of 70%, the estimated total value of cross-border capital investment reached €1.1 billion.

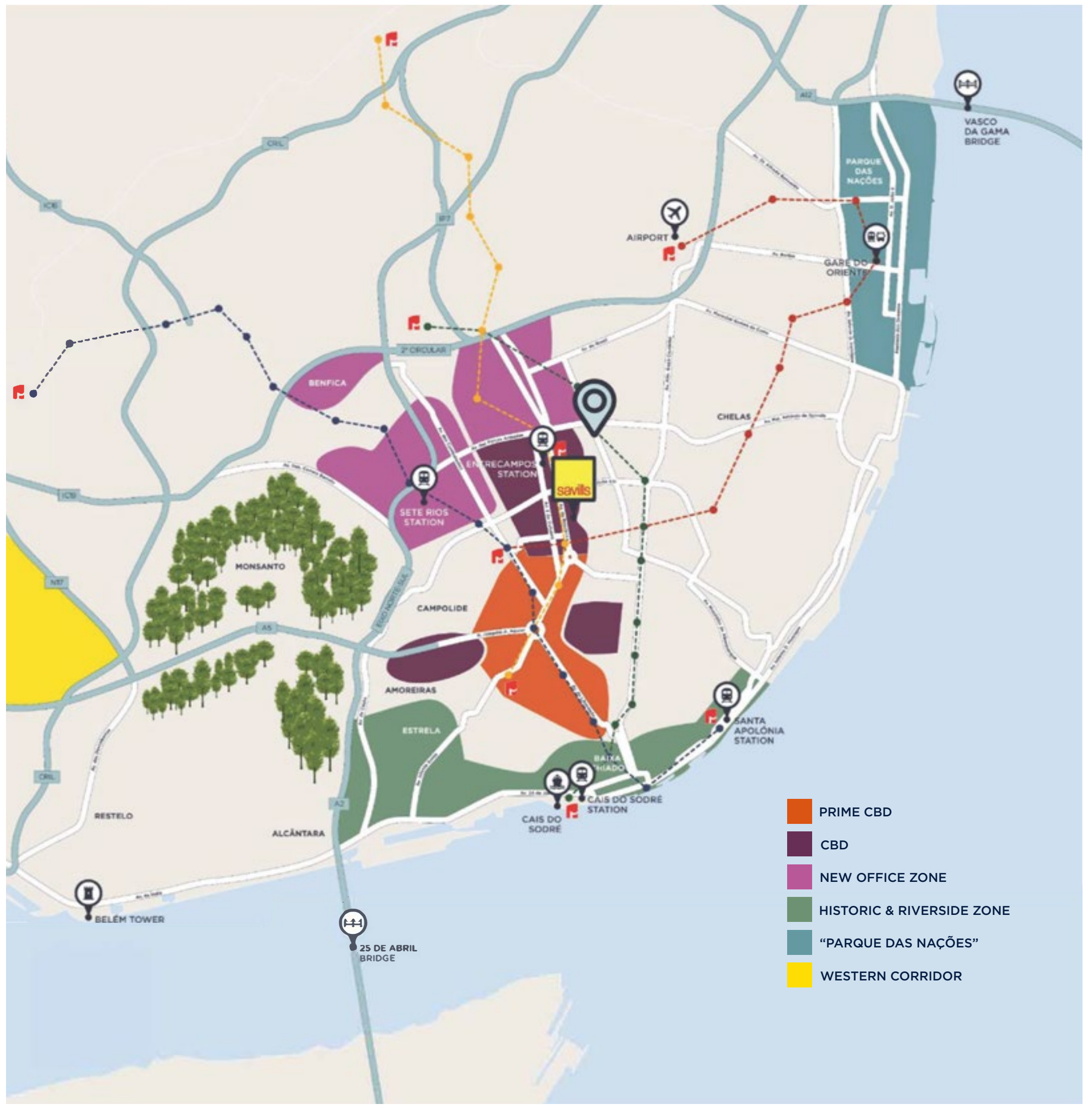
These investments primarily originated from the United Kingdom and the United States and were directed towards sectors such as hospitality, retail, healthcare, and student housing.
The latter two segments benefited from the robust market fundamentals offered by the domestic market offers for their expansion.

There are **23 operators present in Portugal**, providing approximately 9,600 beds to the student population.

REAL ESTATE MARKET OVERVIEW

LISBON OFFICE MARKET

MAIN KPI'S | YEAR 2023



TOTAL MARKET STOCK
4 440 775 sq m

VACANCY RATE
9,33%

DEALS DONE
152
(-24% y-o-y)

TOTAL TAKE-UP
112,474 sq m
(-59% y-o-y)

PRIME RENT
28€
(sq m/month)

HIGHEST TAKE-UP
Zone 3
26,129 sq m
(-51% y-o-y)

LISBON OFFICE MARKET 2023

TOTAL TAKE-UP 2023:

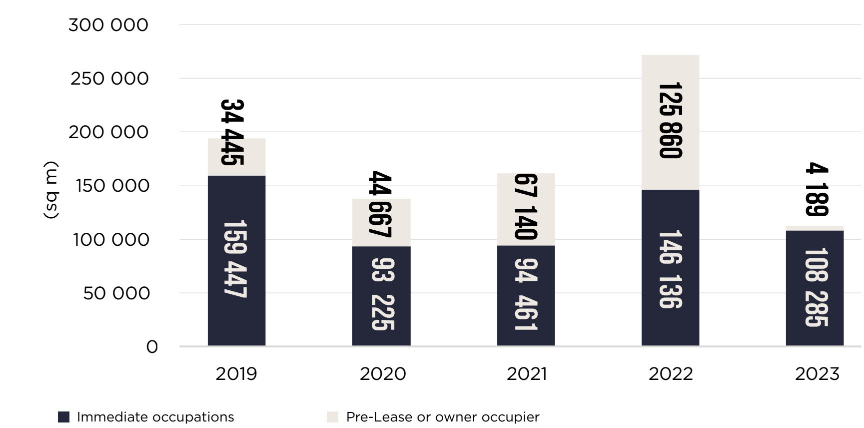
112,474 sq m (-59% y-o-y), heavily impacted by a close comparison with the historical figures of 2022, a year where large-scale pre-leasing operations were registered.

TMT´S & UTILITIES: 24% OF TOTAL-UP IN 2023

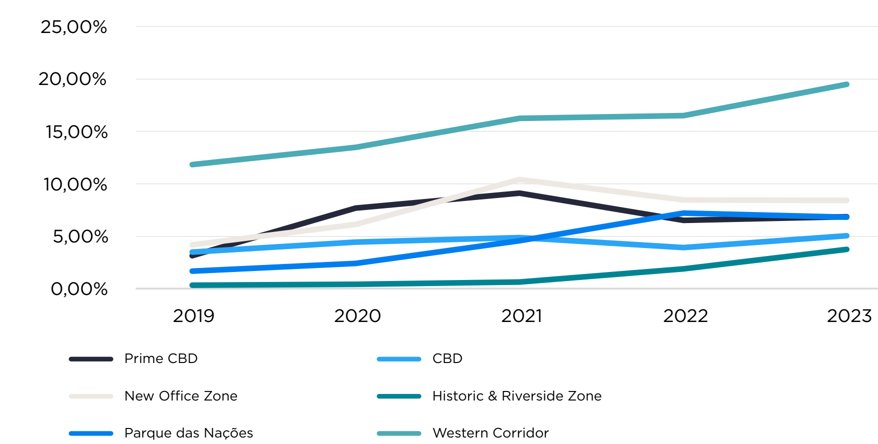
Demand: strongly led by multinational corporations choosing Portugal as their expansion destination, attracted not only by more competitive salary costs, but more than ever by the lifestyle that cities like Lisbon offer to their residents.

Vacancy rate: 2023 concluded with a vacancy rate of 9.33%, an increase from the 8.25% recorded at the end of 2022. This growth is a direct result of the 'flight to quality' trend, with businesses seeking out prime location offices that meet ESG & Sustainability criteria.

LISBON TOTAL TAKE-UP BY YEAR

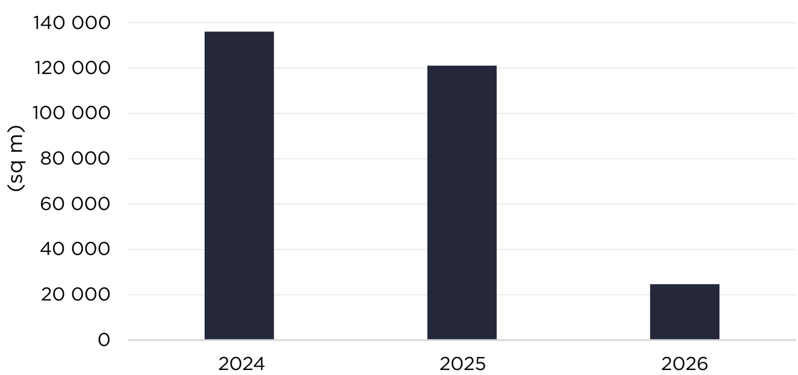


LISBON EVOLUTION OF VACANCY RATE BY MARKET ZONE

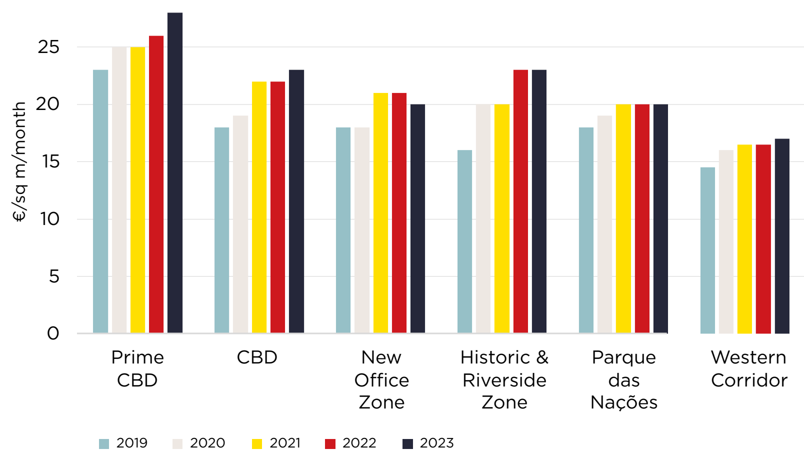


Source: Savills Research | LPI

LISBON PIPELINE 2024-2026



LISBON EVOLUTION OF PRIME RENT



Source: Savills Research | LPI

PRIME RENT IS ON AN UPWARD TRAJECTORY

Prime rent reached €28/sq m/month, a rise of 8% compared to 2022, evidence of the robustness of all market fundamentals which, even in an extremely challenging year, remained attractive and highly competitive.

COMPLETIONS

In 2023, 42,093 sq m of spaces were completed. Five buildings were completed with both Aura (EXEO project) and K Tower buildings, located in Parque das Nações accounting for 73% of the new GLA.

PIPELINE

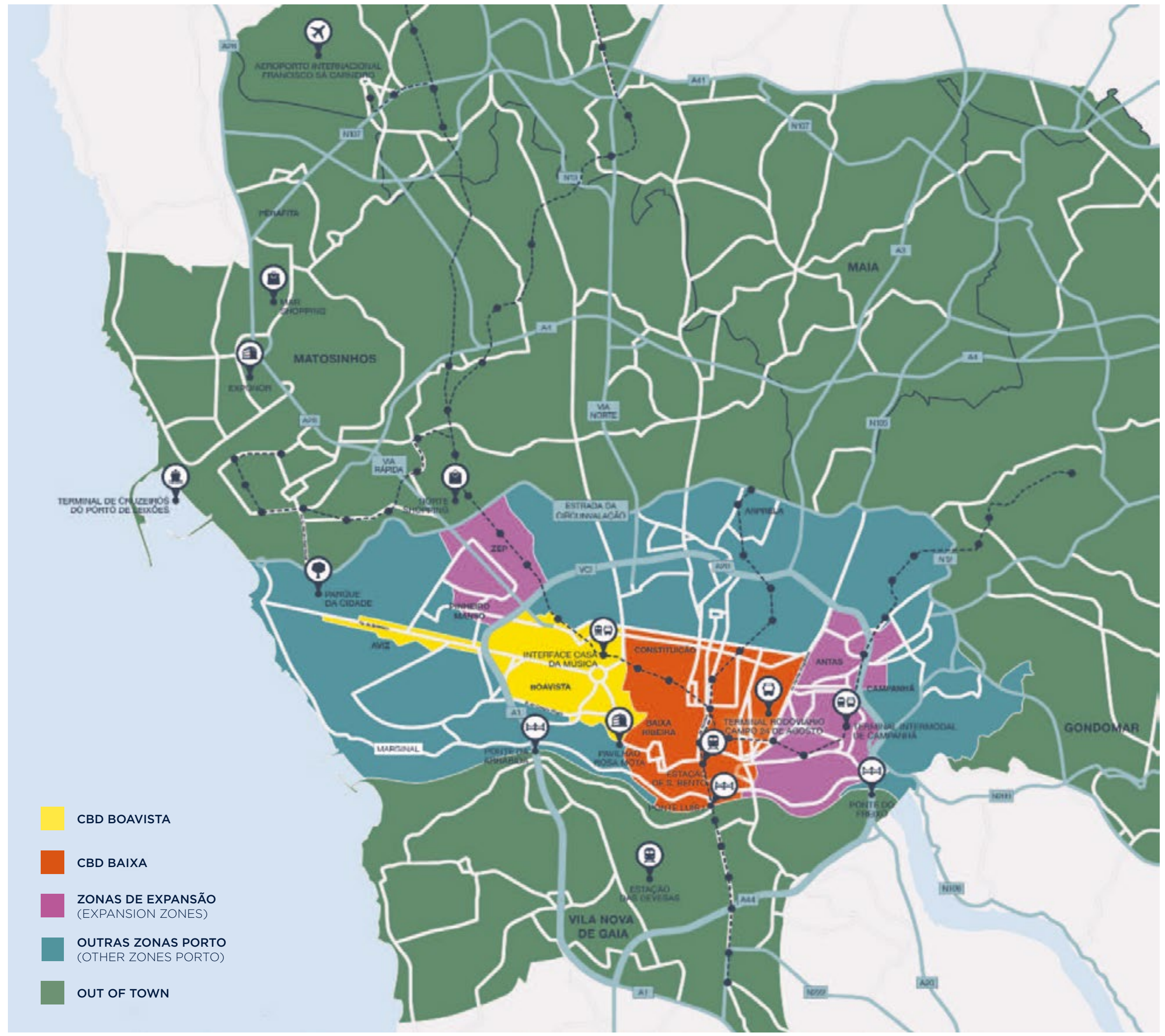
In the next two years, over 280,000 sq m of new spaces will be completed in Lisbon's office market with 45% allocated to owner occupation.

The biggest projects, Oriente Green Campus with 40,000 sq m and the Echo Building (EXEO project) with 21,474 sq m and 100% intended for own occupation, are a testament to the commitment to the Lisbon market and the fundamentals that underpin this market, grounded in a demand that remains robust and increasingly demanding in terms of occupation criteria.

PORTO OFFICE MARKET

MAIN KPI'S | YEAR 2023

DEALS DONE	TOTAL TAKE-UP	HIGHEST TAKE-UP	PRIME RENT	PIPELINE
64 (-15% y-o-y)	50,048 sq m (-14% y-o-y)	CBD Boavista 15,774 sq m (+56% y-o-y)	18€ (sq m/month)	30% Owner-occupier or pre-leased



PORTO OFFICE MARKET

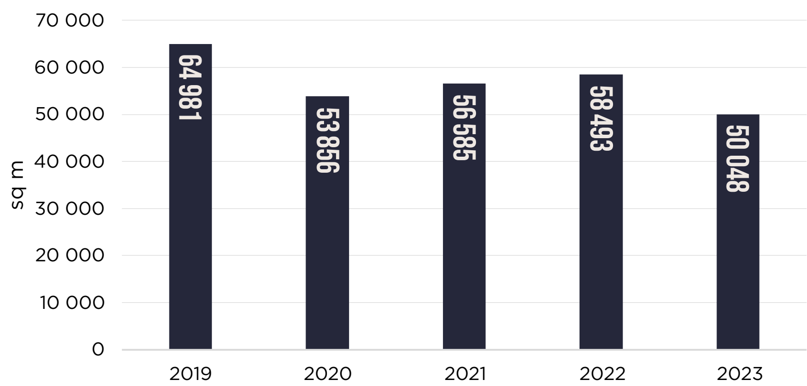
TOTAL TAKE-UP 2023

Porto's market registered 50,048 sq m of total take-up, observing a year-on-year decrease of 14%. Tenants demonstrated increased caution leading to a deceleration in their decision-making processes regarding office expansion or relocation.

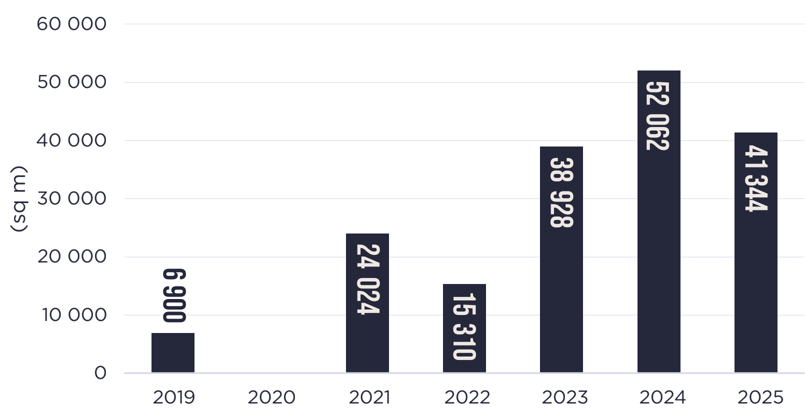
TMT´S & UTILITIES: 30% OF TOTAL-TAKE IN 2023

Demand: Highly concentrated in companies dedicated to the TMTs & utilities sector, reinforcing Portugal's office market image as a destination for multinational companies, with Porto competing with other European capitals. With a growing stock of high-quality buildings, Porto increasingly hosts larger-scale operations.

PORTO TOTAL TAKE-UP BY YEAR



PORTO CONCLUDED AND FUTURE PIPELINE



Source: Savills Research | PPI

PRIME RENT

Prime rent closed at €18/sq m/month. New projects in the pipeline, characterized by their high degree of demand in terms of certification, comfort and sustainability, also offering size and attractive locations, will surely gather a strong attractiveness boosting a rise in prime rent, with some of the new projects already reflecting an asking rent of €20/sq m/month.

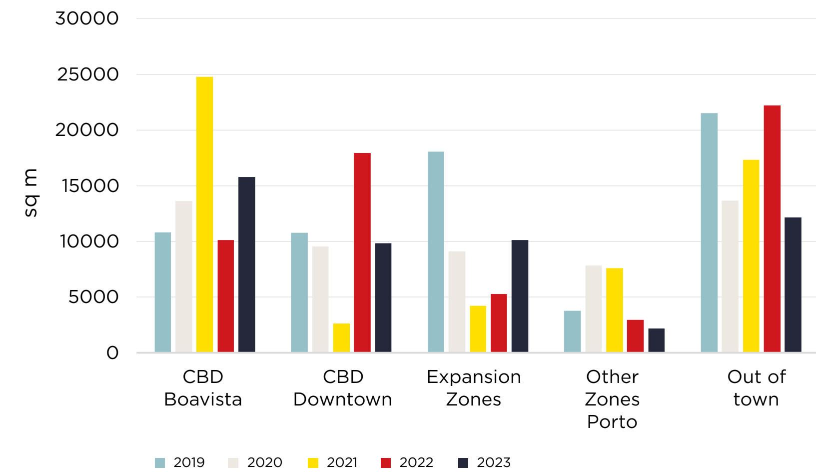
COMPLETIONS

In 2023, six projects were completed, adding approximately 39,000 sq m to the stock. The D.M2 building in the CBD Boavista Zone and ICON Offices in the Expansion Zone contributed most significantly to new GLA.

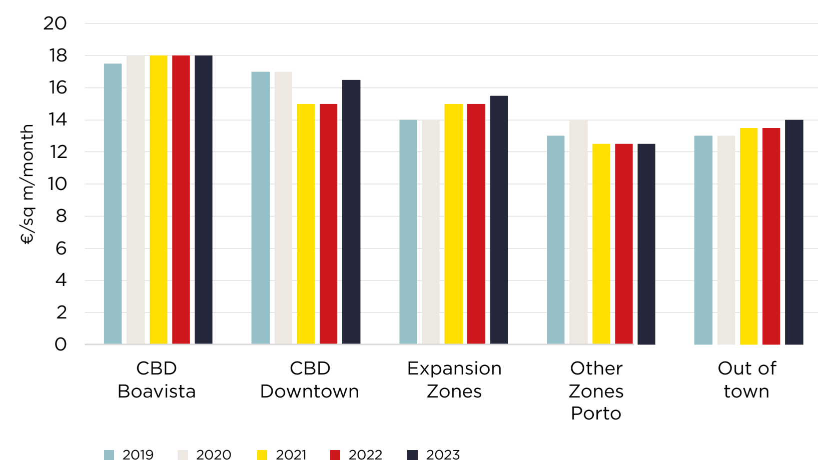
PIPELINE

30% of total pipeline is intended to owner occupier or pre-leased. The pipeline for 2024 amount to a total of 52,062 sq m, of which 41% are already pre-leased or directed towards own occupation.,

PORTO DISTRIBUTION OF ANNUAL TAKE-UP BY MARKET ZONE



PORTO EVOLUTION OF PRIME RENT



Source: Savills Research | PPI

REAL ESTATE MARKET OVERVIEW

RETAIL MARKET IN 2023

With all the macroeconomic condition negatively pressuring private consumption, sales volumes decreased in 2023, with households less willing to spend;

Over the course of 2023, the turnover index in trade contracted by 0.8%, after experiencing a growth of 4.7% in 2022;

While tourism served as a catalyst for the retail sector, particularly in urban centres, Portuguese families have started saving more again, with available income increasing faster than consumption;

The contraction of private consumption ultimately influenced the opening strategies of brands, which in same cases opted for a 'wait and see' strategy in the face of economic uncertainty;

But despite a more challenging environment, some retail sectors continued with their expansion plans and thrived;

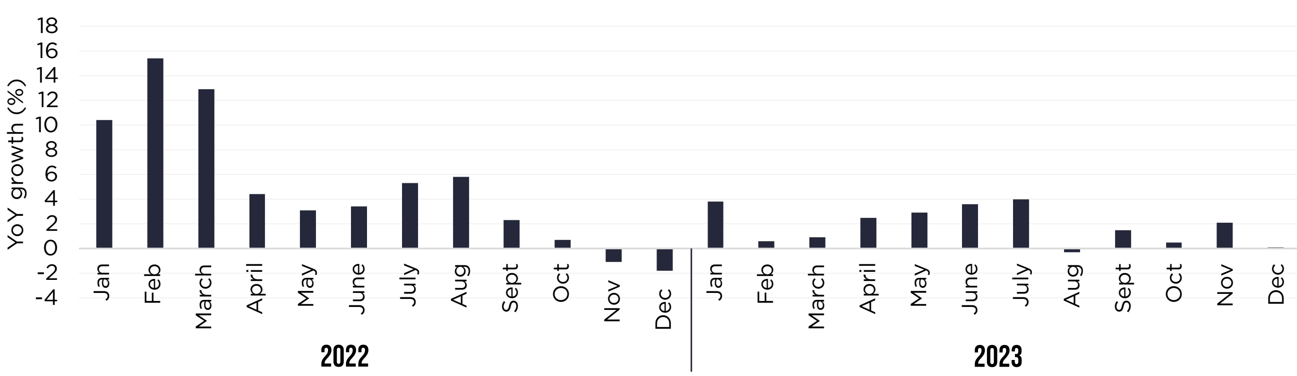
Need for proximity retail has been strengthening, with consumers increasingly valuing ease, convenience, and accessibility;

Shopping centres are regaining their footfall and turnover volumes. Either targeting area expansion, renovation or requalification, shopping centres in Portugal continue to bet on modernizing their facilities and enriching the experience they offer to buyers;

Renewed interest from brands, developers, and investors in the Retail Parks format with new projects coming to the market;

Developers and brands are focusing their efforts on offering unique experiences and tailored services to encourage loyal buyers, while also attracting the interest of new brands.

RETAIL TRADE TURNOVER INDEX

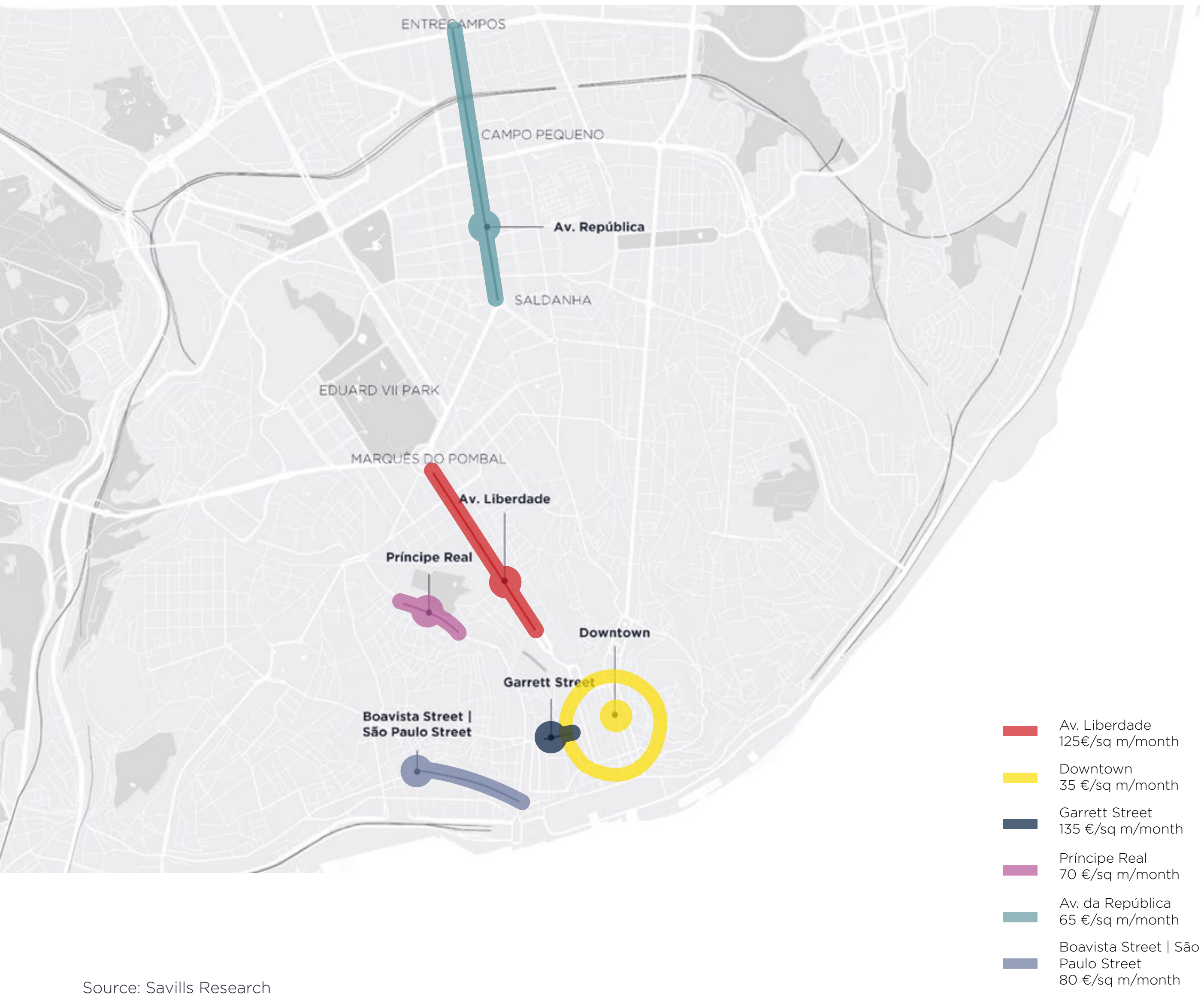


Source: INE

F&B, food retail units, and low-cost non-food retail concepts saw growth and proved to be the most resilient sectors in 2023.

HIGH STREET RETAIL LISBON CITY

PRIME RENTS | 2023

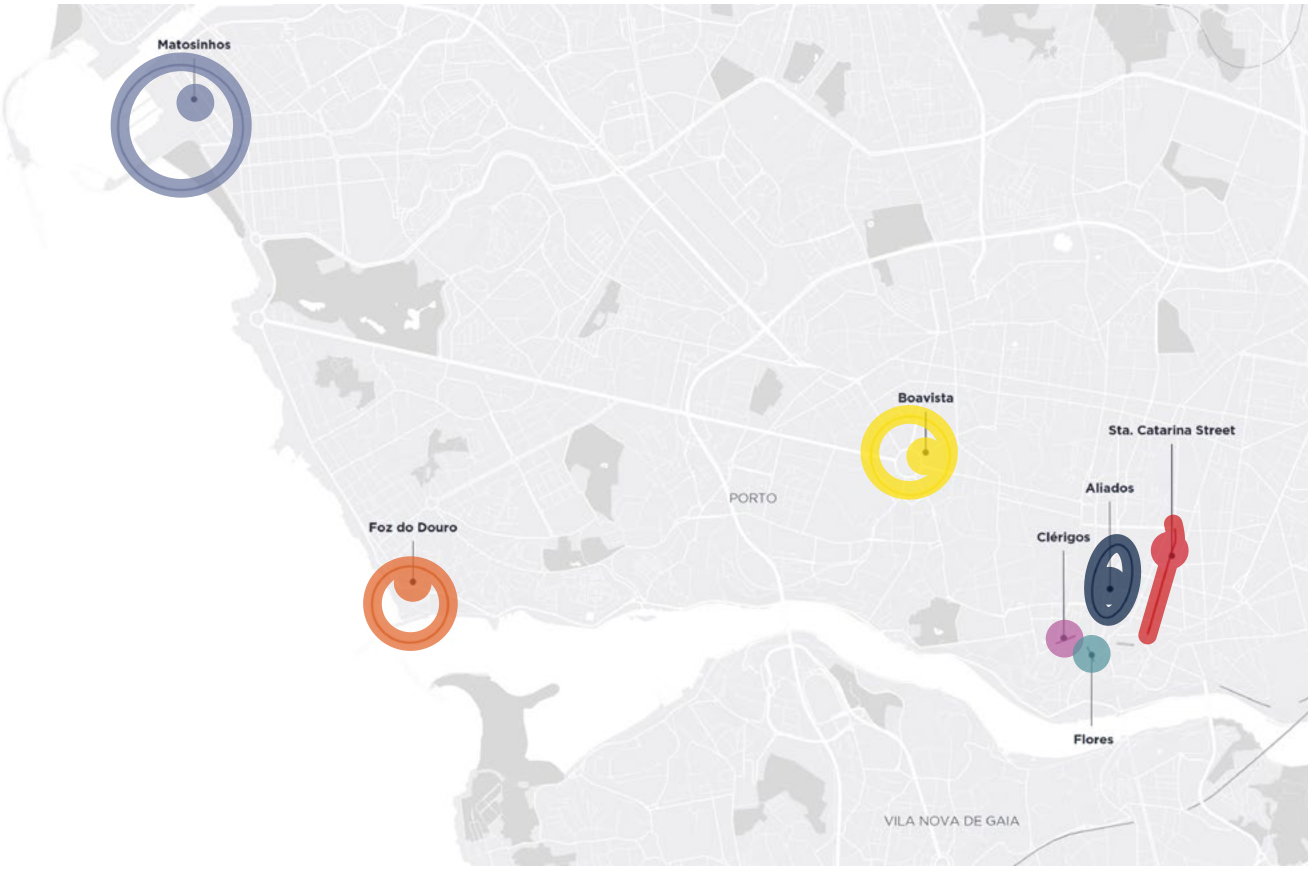


Source: Savills Research

In 2023 alone, in the city of Lisbon, Savills accounted for the opening of 321 new high street stores, 56% of which were targeted towards the restaurant sector and 24% dedicated to the Fashion & Accessories sector. Gleba, Honest Greens, Nude Project, Normal, IKEA, Manteigaria are just a few of the brands with new stores in Lisbon.

HIGH STREET RETAIL PORTO CITY

PRIME RENTS | 2023



- Santa Catarina Street - 80€/sq m/month
- Boavista - 25€/sq m/month
- Aliados - 50 €/sq m/month
- Clérigos - 40 €/sq m/month
- Flores - 70 €/sq m/month
- Matosinhos - 15 €/sq m/month
- Foz do Douro - 20 €/sq m/month

Source: Savills Research

The city of Porto was also very active and counted 83 new high street retail shops, with the catering sector accounting for 59 per cent of the total new supply. With well-known brands such as Zegna, Normal, Fnac, Pepco and Flying Tiger present in Porto city, interest has also begun to emerge from low-cost brands in this location in 2023.

REAL ESTATE MARKET OVERVIEW

ECONOMY

OFFICES

RETAIL

INDUSTRIAL & LOGISTIC

RESIDENTIAL

TOURISM

INDUSTRIAL & LOGISTICS MARKET | 2023

PORTUGAL TOTAL TAKE-UP:

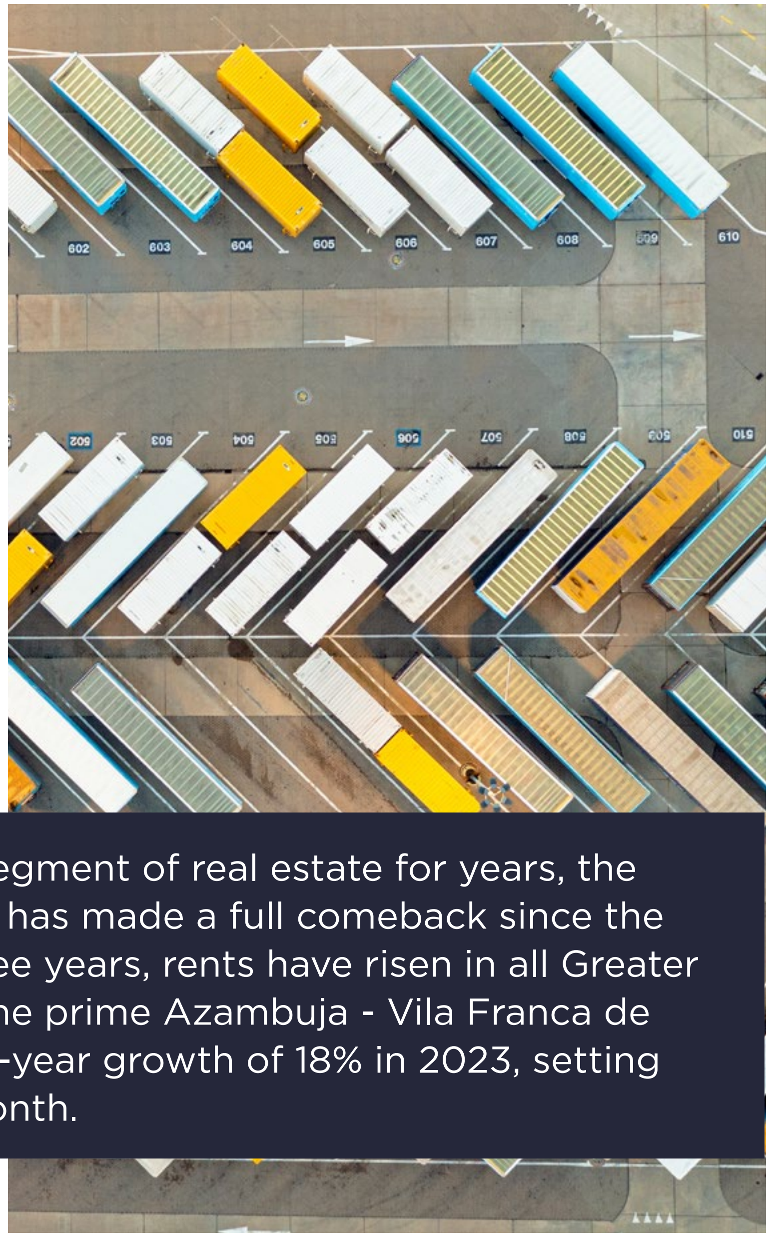
430,000 sq m (-16% y-o-y): 300,000 sq m dedicated to logistics operations.

With high demand and limited supply, the logistics market faces a significant challenge in responding efficiently to an increasingly expressive and international demand, driven by the rise in e-commerce operations and the implementation of expansion and reorganization strategies;

GREATER LISBON:

70% of the GLA occupied in 2023 was in logistics spaces, of which 85% were spaces above 5,000 sq m, occupied by distribution and logistics operators.

The Alverca-Loures and Azambuja - Vila Franca de Xira axes were the preferred areas, accounting for 56% of the total GLA occupied in 2023;

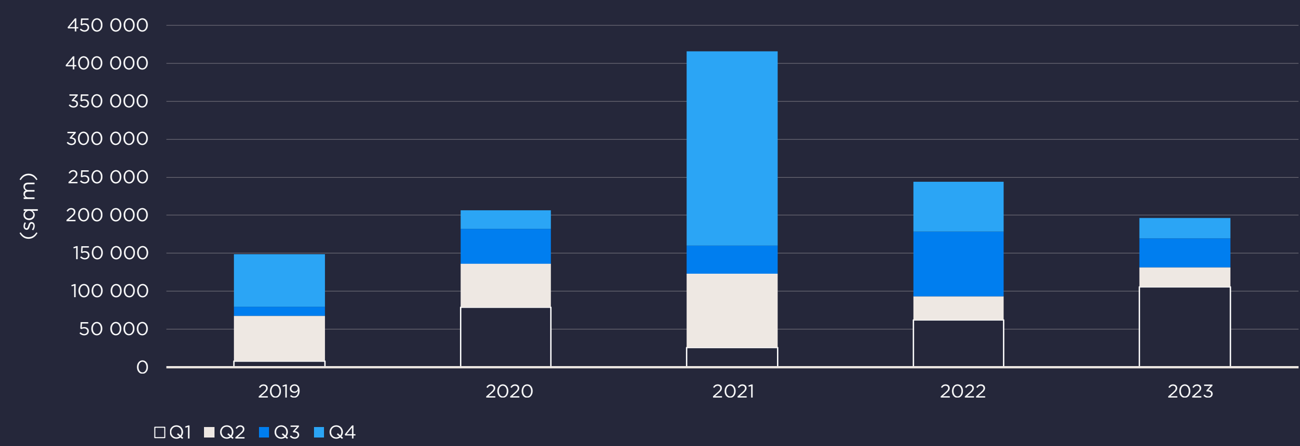


Considered the least sexy segment of real estate for years, the industrial & logistics market has made a full comeback since the pandemic. Over the last three years, rents have risen in all Greater Lisbon's logistics centres. The prime Azambuja - Vila Franca de Xira axis has seen a year-on-year growth of 18% in 2023, setting the rent at €5,000/sq m/month.

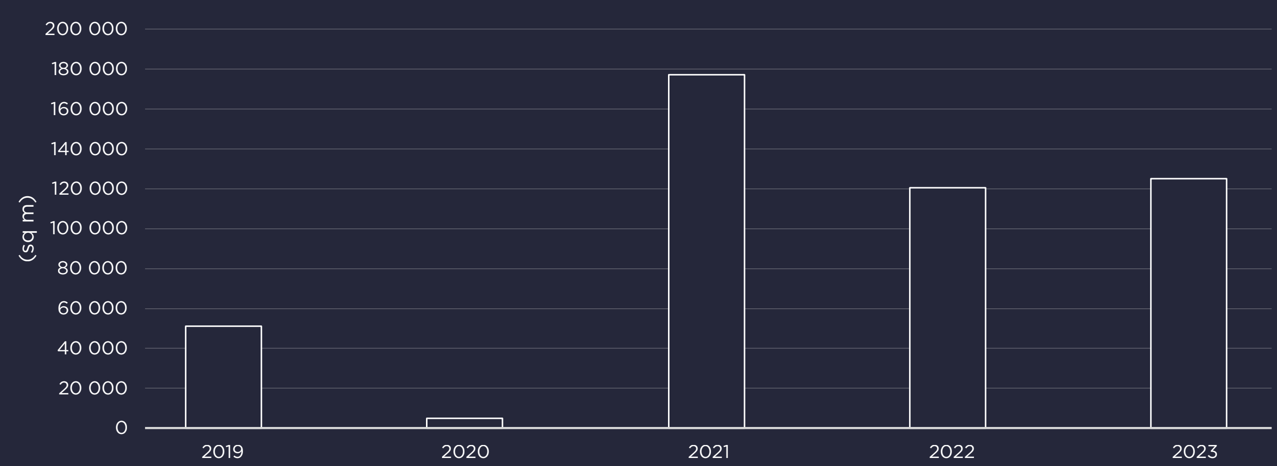
In the Northern region and Porto, the total take-up volume reached 125,111 sq m, representing a y-o-y 4% increase. The logistics segment accounted for 65% of the total closed operations volume;

Prime rents closed at 4.65€/sq m/month, remaining stable compared to the previous year.

EVOLUTION OF TOTAL TAKE-UP IN GREATER LISBON



EVOLUTION OF TAKE-UP IN PORTO | NORTH REGION



Source: Savills Research | IPI

DEMAND DRIVERS

LOGISTICS SECTOR

76%

INDUSTRIAL SECTOR & OTHERS

24%

LOGISTICS AT THE FOREFRONT

With a logistical stock of approximately 3.3 million sq m in the Greater Lisbon market, The logistics sector is witnessing an unprecedented dynamism.

The transition of supply chain management models from a ‘just in time’ approach to a more resilient ‘just in case’ strategy, puts the demand for logistic space on an upward trajectory;

This “just in case” stock management strategy requires more space and strategically located storage facilities to ensure a flawless supply chain, thereby promoting a transformation in the Portuguese logistics real estate sector.

New projects entering the market are expected to be occupied almost immediately, driven by the rapid growth of the logistics operators’ sector in Portugal and their clients;

The new constructions not only will boast superior specifications, but they also pose significant considerations in the context of ESG;

In response to the needs of last-mile delivery, the market is currently developing over 100,000 sq m across various projects in urban areas of Greater Lisbon, ensuring the speed demanded by consumers and guaranteeing cost-effective distribution for this type of operations;

Also, large box logistic zones are responding to the movement of stock increase through natural expansion. The construction of new logistics parks allows occupants to offer the cost efficiency of warehousing operations. In Greater Lisbon and Greater Porto, there are approximately 230,000 sq m under construction with already leased or reserved areas in the various projects.

GREATER LISBON

FUTURE SUPPLY

45%

VILA FRANCA DE XIRA

NORTH REGION & PORTO

FUTURE SUPPLY

65%

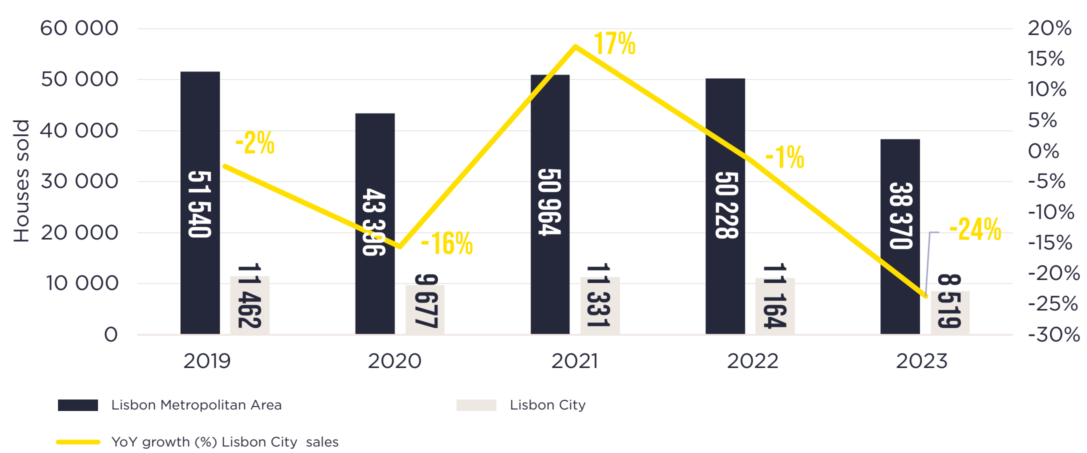
VALONGO | ALFENA

REAL ESTATE MARKET OVERVIEW

RESIDENTIAL MARKET 2023

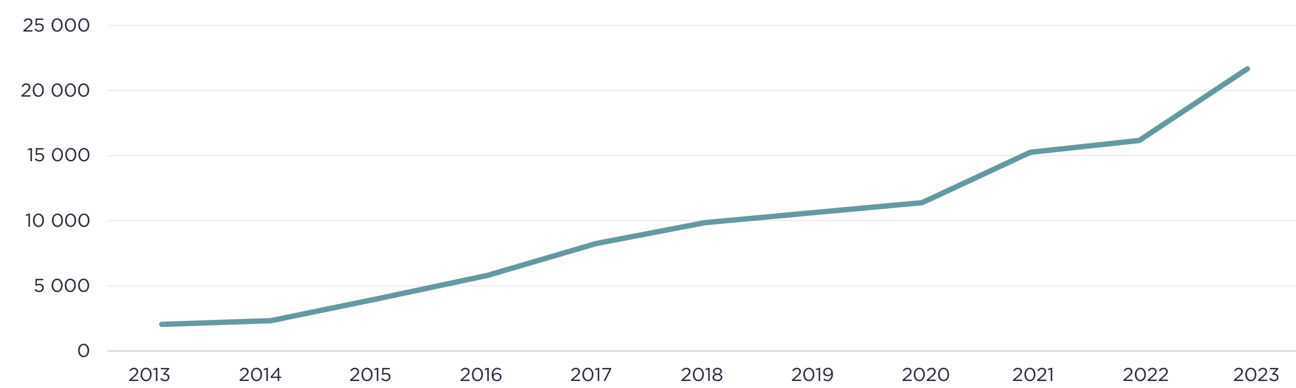
2023 was a record-breaking year in terms of amounts of new loans granted to individuals for house purchase, having reached a total a 21.6B€, which reflected a 34% y-o-y

Evolution of houses sold in portugal in the last 10 years



Source: Savills Research | SIR

Volume of new bank loans for house purchase (M€)



Source: Bank of Portugal

September alone accounted for over **2 billion euros in loans**, the highest amount ever recorded;
Throughout 2023, there was a considerable rise in new business loans for house purchase with mixed interest rate, having gone from reflecting only 16% of the granted loans in December 2022, to 71% in December 2023, followed by variable and fixed rates, with 24.3% and 4.7%, respectively.

RESIDENTIAL MARKET 2023

Portugal mainland and its main districts, namely Greater Lisbon, Greater Porto and the Algarve have all witnessed decreases of roughly 17%, 24% and 16% and 25% in their house sales throughout 2023.

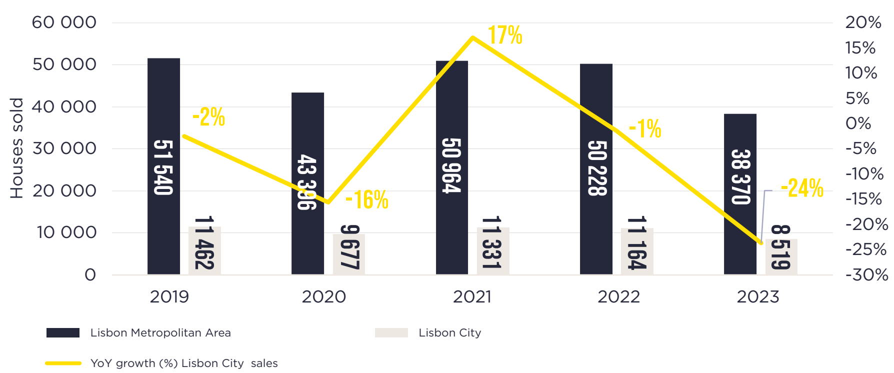
The Portuguese capital presented harsher results, with a y-o-y downturn of 24%, while Porto figures displayed a reduction of 16%.

The more cautious scenario we witnessed last year, economically speaking, has also had an impact on the number of licensed homes in Greater Lisbon, reflecting a 33.6% drop against the previous year.

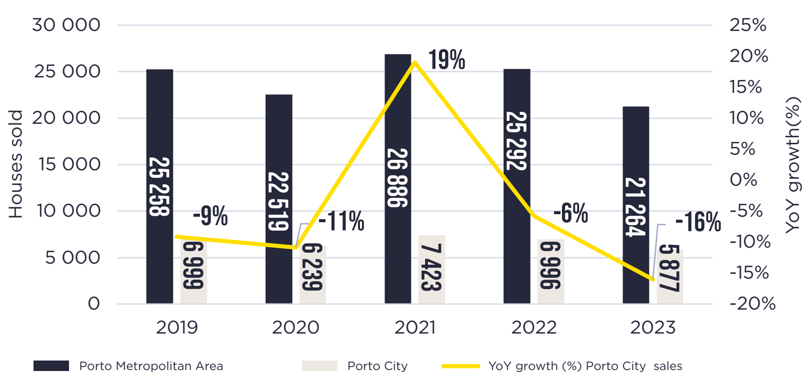
Greater Porto, on the other hand, ended 2023 with positive results, with a 14% increase in comparison to 2022.

Unfortunately, the scarcity in new construction is not foreseen to show relevant improvements throughout 2024 due to the ongoing lack of labour and the long and bureaucratic licensing processes, which ends up pressuring both prices in the rental and sales markets.

Evolution of houses sold in LMA and Lisbon city



Evolution of houses sold in PMA and Porto city



Source: Savills Research analysing | SIR

SALE MARKET PRICES

Lisbon presented y-o-y increases approximately 12% and 4% against the prices registered in 2019 and 2022, respectively in terms of the average asking prices. When it comes to the high-end market, there were more subtle rises, with the 25% and 5% most expensive homes average asking prices reflecting growths of 3% and 1% in comparison to 2022;

Porto city showed sharper y-o-y rises. Comparing the asking prices reached by the end of 2023 vs 2022, it is possible to observe increases of 9.5%, 6% and 6.3%, in terms of average asking prices, the 25% and 5% most expensive new supply available in the market.

LEASE MARKET PRICES

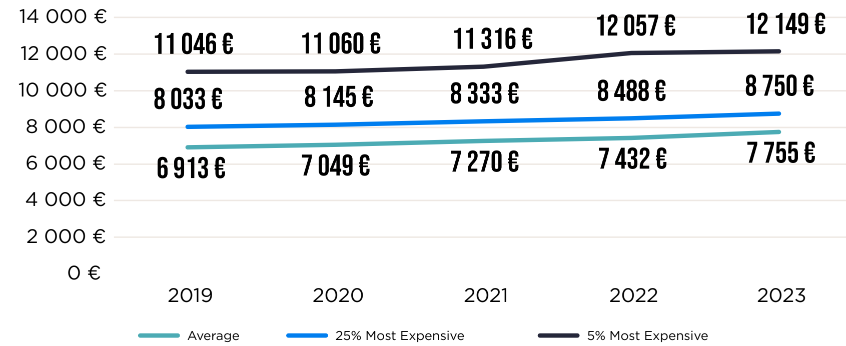
According to the latest data from Eurostat, in 2022, only 22% of the population in Portugal lived in rented properties, while the EU average stood at 31%. This trend has grown throughout the years as homeownership declines across the EU and Portugal is no exception;

There are several factors that can be considered when analysing the ongoing price increases Portugal has witnessed, such as supply and demand dynamics, speculation, urbanization, lifestyle preferences, government policies, economic growth, amongst others;

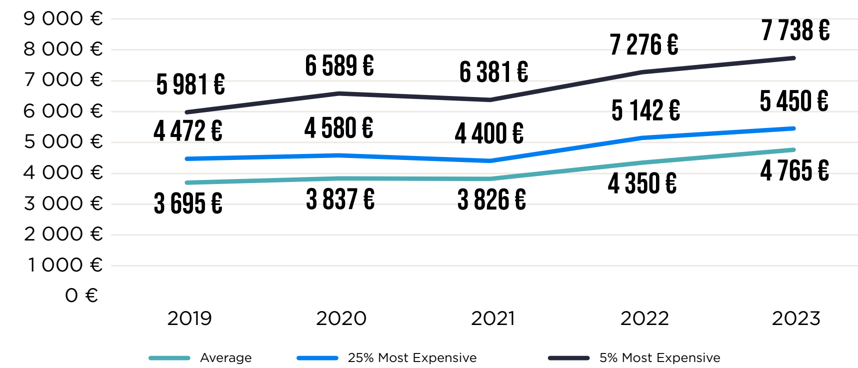
When it comes to the rental market, both Lisbon and Porto have also experienced increases in prices and decreases in the number of executed contracts. Since housing has become increasingly more expensive, also pressuring the rental market, this outcome was already expected.

By the end of 2023, average rental prices reached their peak in Lisbon and Porto, closing the year with a market value of 19.9€/sq m and 16.3 €/sq m, consecutively, representing increases of 22.8% and 25.4%, respectively.

Evolution of Asking Prices
New Supply in Lisbon (€/sqm)



Evolution of Asking Prices
New Supply in Porto (€/sq m)



Source: Savills Research analysing | SIR

REAL ESTATE MARKET OVERVIEW

ECONOMY

OFFICES

RETAIL

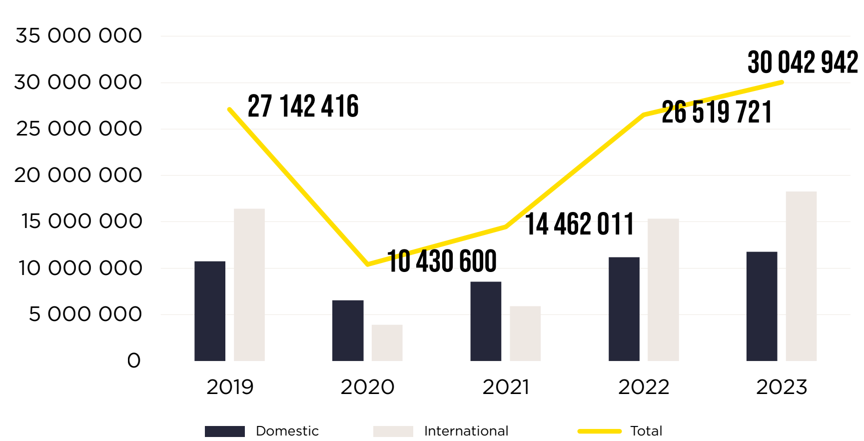
INDUSTRIAL & LOGISTIC

RESIDENTIAL

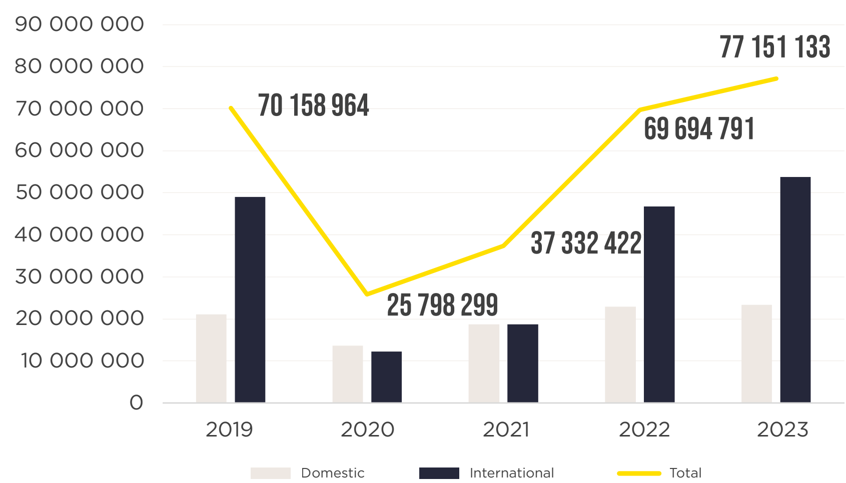
TOURISM

TOURISM MARKET 2023

Guest Evolution



Overnight Stays Evolution



Source: Savills Research analysing Travel BI

30%

DOMESTIC

70%

INTERNATIONAL

Full recovery compared to pre-pandemic figures; Overnight stays came to a total of 77,2 million, white the number of guests reached 30 million people, reflecting y-o-y growths of approximately 11% and 13%, respectively.

PORTUGAL MARKET OVERVIEW

MAIN OPENINGS | 2023

Promoter	Hotel	Category	Rooms
Tivoli Hotels & Resorts	Tivoli Alvor	5*	491
DHM	Crowne Plaza Caparica	4*	227
Mercan	Renaissance Porto Lapa	4*	163

MAIN PROJECTS IN PIPELINE | 2024

Promoter	Hotel	Category	Rooms
Oksmi Hotels	Dreams Maderia Resort Spa & Marina	5*	366
TSH	The Social Hub	4*	305
Ferreira Group (GFH)	Editory by The Sea Lagos	5*	276

TOP 3 NATIONALITIES

GUESTS

Spain
2.4 M

United Kingdom
2.4 M

United States
2 M

OVERNIGHT STAYS

United Kingdom
9.9 M

Germany
6.1 M

Spain
5.5 M

GUESTS
30 M
+13%

OVERNIGHT STAYS
77.2 M
+11%

REVENUE
6 B€
+20%

RevPAR
64.8€
+15%

LISBON METROPOLITAN AREA MARKET OVERVIEW

MAIN OPENINGS | 2022-2023

Promoter	Hotel	Category	Rooms
United Investments Portugal	Hyatt Regency Lisboa	5*	204
Sonae Capital Hotelaria	The Editory Riverside Hotel	5*	126
PHC Hotels	Convent Square Hotel Vignette Collection	5*	121

MAIN PROJECTS IN PIPELINE | 2024

Promoter	Hotel	Category	Rooms
Mercan Properties | Mariott	Moxy Alfragide	3*	218
Hoti Hotels	ME Lisbon	5*	213

TOP 3 NATIONALITIES

GUESTS

United States
1.1 M

Spain
600 K

Brazil
600 K

OVERNIGHT STAYS

Spain
2.4 M

United Kingdom
1.5 M

United States
1.4 M

GUESTS
8.8 M
+15%

OVERNIGHT STAYS
20.3 M
+13%

REVENUE
1.9 B€
+24%

RevPAR
95.3€
+19%

ALGARVE MARKET OVERVIEW

MAIN OPENINGS | 2022-2023

Promoter	Hotel	Category	Rooms
3HB Hotels & Resorts	3HB Guarana	4*	500
Pestana Hotel Group	Tivoli Alvor Algarve Resort	5*	491
Mercan	Extreme WOW	5*	217

MAIN PROJECTS IN PIPELINE | 2024

Promoter	Hotel	Category	Rooms
Viceroy Hotels & Resorts	Viceroy at Ombria Resort Algarve	5*	276
Mercan Properties | Hilton	Lagos Marina Hotel - Curio Collection	5*	180
Group Ferreira Holding	Editory by The Sea Lagos	5*	276

TOP 3 NATIONALITIES

GUESTS

United Kingdon
1.2 M

Germany
400 K

Spain
300 K

OVERNIGHT STAYS

UnitedKingdon
5.8 M

Germany
1.8 M

Ireland
1.6 M

GUESTS
5.1 M
+8%

OVERNIGHT STAYS
20.4 M
+6%

REVENUE
1.6 B€
+12%

RevPAR
70.5€
+10%

NORTH REGION MARKET OVERVIEW

MAIN OPENINGS | 2022-2023

Promoter	Hotel	Category	Rooms
Mercan	Renaissance Porto Lapa	4*	163
Neya Hotels	Neya Porto Hotel	4*	124
Group Bomporto	The Rebello	5*	106

MAIN PROJECTS IN PIPELINE | 2024

Promoter	Hotel	Category	Rooms
TSH	The Social Hub	4*	305
Hoti Hotels	Meliá Famalicão	4*	120

TOP 3 NATIONALITIES

GUESTS

Spain
800 K

France
400 K

United States
400 K

OVERNIGHT STAYS

Spain
1.6 M

France
1 M

United States
900 K

GUESTS
7 M
+15%

OVERNIGHT STAYS
13.3 M
+15%

REVENUE
1 B€
+24%

RevPAR
53.9€
+17%

THE LEGAL PERSPECTIVE OWNERSHIP

FULL OWNERSHIP OR FREEHOLD

The full and exclusive right of possessing, use and disposing of real estate property.
Buildings (or a set o f buildings functionally linked to each other) can be in horizontal ownership, with independent units (for housing or non-housing purposes). Each independent unit is an autonomous property.
Co-ownership of real estate is permitted under Portuguese law.
The Portuguese law does not provide for the so-called "fiduciary ownership", only admitting it in the Madeira Free Trade Zone, where is legally admitted the incorporation of trusts for the purposes of the activities to be pursued.

USUFRUCT

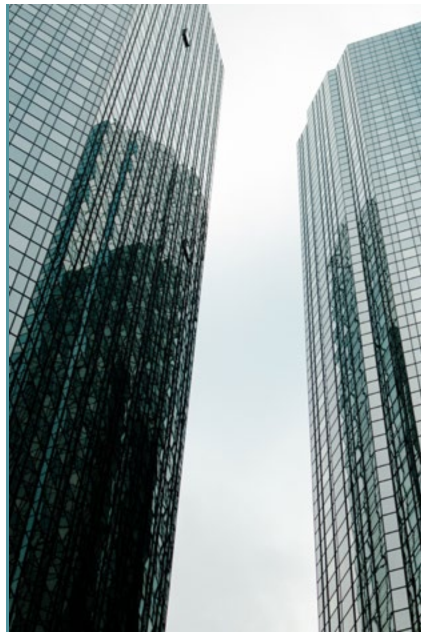
The right to use and enjoy a third party's property for a certain period of time, which cannot extend after the death of the beneficiary or be granted for periods longer than 30 years if the beneficiary is a legal person.
The beneficiary can use the property in the same way as if he was the owner and collect natural, industrial or civil profits, provided the original economic function of the property is maintained.

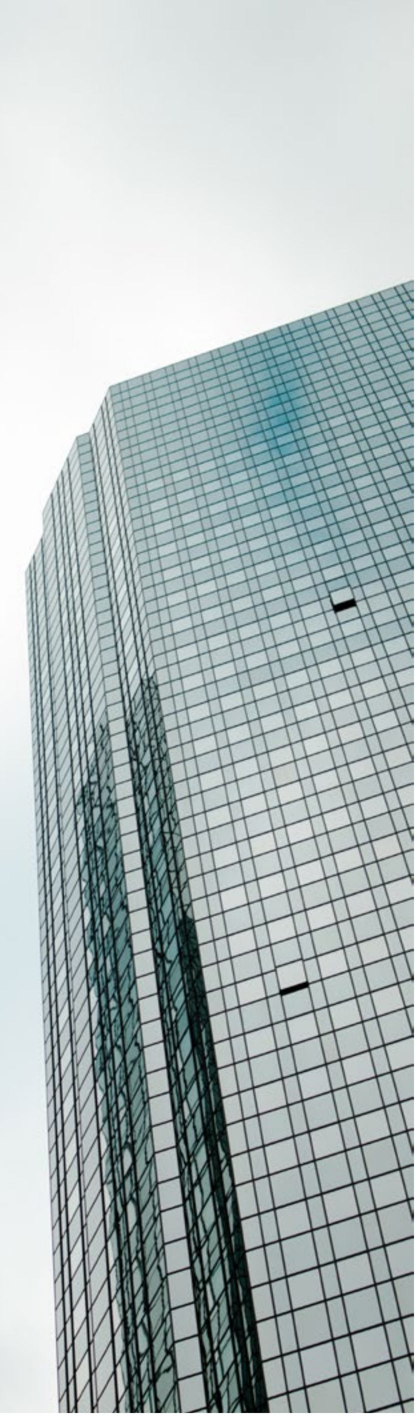
RIGHT OF USE

The right to use a third party's property to meet one's own specific needs or the needs of one's family.

SURFACE RIGHT

It is the right to construct and maintain the right to a building, using and enjoying the building on land that remains the property of a third party.
Surface rights can be created for a certain period of time or can be perpetual. With the termination of the surface right the owner of the land becomes the owner of the building incorporated in the land.





ASSET DEALS

In an Asset Deal the purchaser acquires the ownership of the property through a sale and purchase agreement ("SPA") executed through a public deed or through a private document authenticated before a Notary, a lawyer, solicitor or land registrar.

Usually, the process begins with the execution of a promissory sale and purchase agreement ("PSPA") that precedes the effective transfer of the property (with the SPA) and defines certain obligations and, if necessary, the fulfilment until the SPA of certain requirements or conditions precedent.

At the time of signing the PSPA, it is common for the promissory purchaser to pay the promissory seller an amount as a advance payment. Portuguese law establishes that if the promissory purchaser defaults, the promissory seller is entitled to make the amount received as an advance payment its own.
If the promissory seller defaults, the law states that the promissory purchaser is entitled to receive the amount of the advance payment paid in double. Alternatively, Portuguese law provides that the non-defaulting party may apply to the Court for specific enforcement of the PSPA, so that the Court orders the defaulting party to comply with the PSPA and the SPA is executed.
Following the signature of the PSPA it is usual to perform the provisional register of the acquisition of property with the Land Registry Office which will become definitive upon the signature of the SPA.

The SPA must be registered with the Land Registry Office and the Tax Authority.

Registration of the purchase is to publicize the legal status of the property and is constitutive of the existence of the right and its ownership.The regime in force obliges to register and the lack of registration may imply the lack of protection of the purchaser against third parties.

The Land Registry is based on the principle of priority of registration whereby the first recorded in rem right prevails over other recorded in rem rights even if the latter have been created prior to such registration date.

Before executing the PSPA it is recommended that due diligence be performed to verify the legal, registration, urban planning, licensing, environmental and tax situation of the property.

The due diligence is usually carried out by the purchaser in order to obtain information regarding ownership, charges, encumbrances, tax, authorizations, licensing, agreements and other contingencies and/or liabilities concerning the property. Part of the relevant information about the property's status can be accessed by the buyer from public authorities, such as the Land Registry Office, the Tax Authority and Municipalities.

Documentation that is not public (e.g. agreements with third parties) must be delivered by the promissory seller and in the PSPA the promissory seller provides the promissory purchaser with a set of representations and warranties ("R&W"). The non-compliance with R&W may be grounds for non-compliance with the PSPA.

In the sale of properties under new construction the seller (by himself or through the contractor) is responsible for repairing any defects that occur within 10 years (for structure), 5 years (for construction) and 3 years (for equipment).

STRUCTURING A REAL ESTATE TRANSACTION COMMONLY REQUIRES SEVERAL STEPS, INCLUDING:

- Due Diligence;
- Promissory Sale and Purchase Agreement (with or without registration);
- Payment of taxes due prior to the SPA, such as stamp duty and Real Estate Transfer Tax (IMT);
- Public deed or authenticated private document (SPA);
- Purchase registration.

The generic documents required by law for the transfer of ownership are the following: (i) the land registry certificate ("certidão predial"), (ii) the tax certificate ("caderneta predial"), (iii) the use permit ("licença de utilização") or the building permit ("licença de contrução"), (iv) the energy certificate and (v) the proof of registration of the ultimate beneficial owner with the Portuguese Ministry of Justice for corporate entities.

SHARE DEALS

In a share deal the purchaser indirectly acquires the ownership of real estate assets through the acquisition of the shares of the corporate vehicle ("SPV") that owns them.
The acquisition of shares in an SPV is made through the execution of a private sale and purchase agreement ("SPA").
The purchase may start with the conclusion of a share sale and purchase agreement ("PSPA") that precedes the SPA and defines certain obligations and, if necessary, compliance with certain requirements or precedent conditions until the SPA.
Prior to the PSPA or the SPA the Purchaser is advised to perform a due diligence to the SPV and to the real estate assets to verify the legal, corporate, commercial, tax, financial, employment, registration, urban planning, licensing and environmental status.

CORPORATE VEHICLES

(SPECIAL PURPOSE VEHICLE – SPV)

IIn Portugal the corporate vehicles used to hold real estate assets are the Sociedade por Quotas (SQ), the Sociedade Anónima (SA) and the Sociedades de Investimento Imobiliário (SIIMO).

The SIIMO is an incorporated form of collective investment structure, subject to the legal framework applicable to real estate investment funds. This type of corporate structure may assume the form of a SICAVI, a company limited by shares with variable share capital, or a SICAFI, a company limited by shares with fixed share capital.

Both types of companies are specially designed for ownership and management of real estate assets, being managed like real estate funds with the incorporation subject to the regulation by the Portuguese Securities Market Commission (CMVM).

The initial share capital required for a selfmanaged SIIMO, whether it is a SICAVI or a SICAFI, as a rule, is EUR 300,000.

An Sociedade por Quotas ("SQ") is a private limited liability company. The share capital is represented by Quotas. A Quota is not represented by a material document and subject to registration on behalf of its owner with the Commercial Registry Office, thus allowing public and unrestricted access to the owner's details. The Quotas have a minimum value of EUR 1,00.

It is possible to incorporate an SQ with a single shareholder, in which case it will be designated as Sociedade Unipessoal por Quotas (SUQ).

A Sociedade Anónima ("SA") is a limited liability company with shares either listed or unlisted. The minimum number of shareholders in general is five.

However, there can be SAs whose number of shareholders equal to:

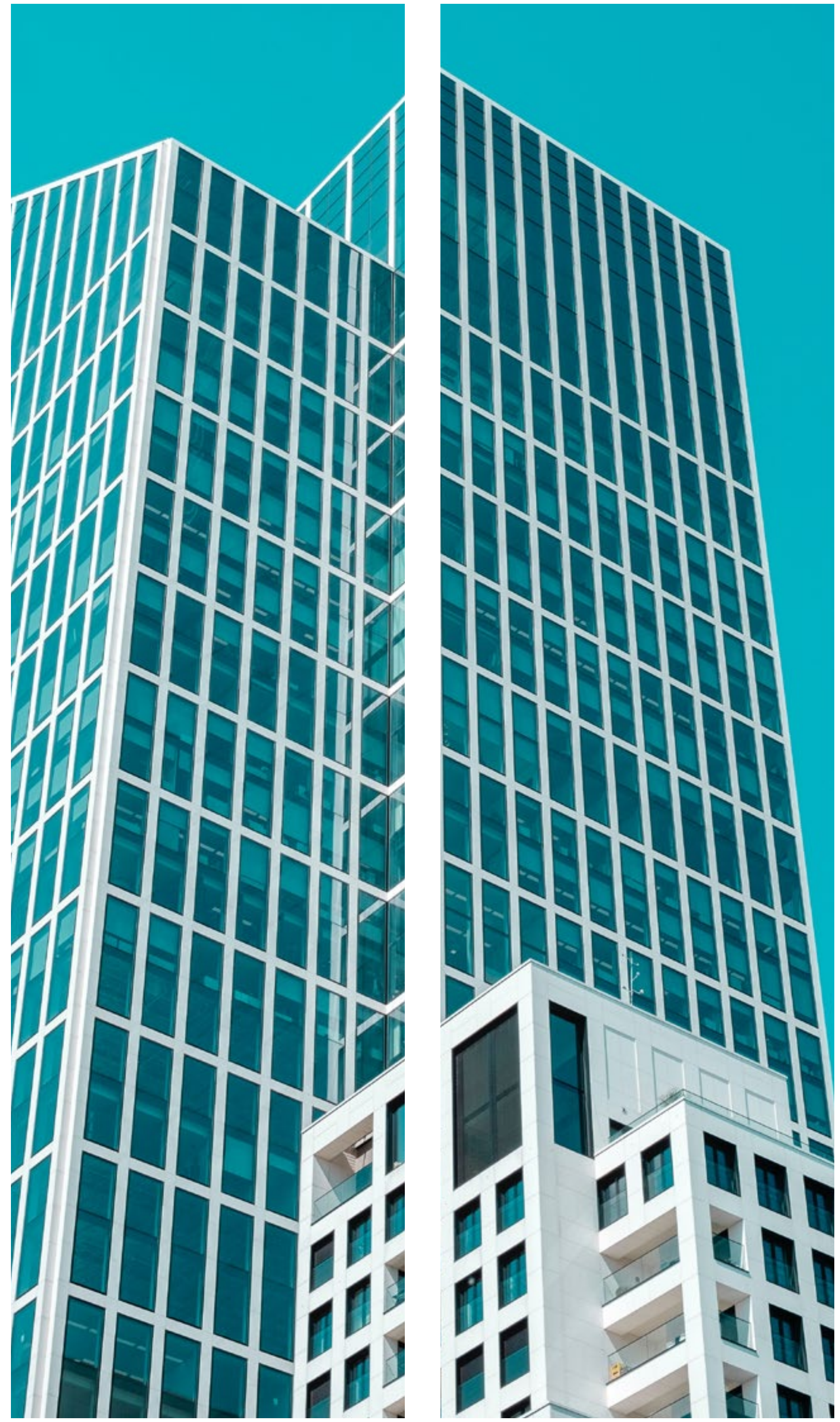
(a) one in case the company is incorporated by a sole shareholder company; or

(b) two where the State holds the majority of the share capital, either directly or indirectly through publicly owned companies.

The minimum share capital of SA is EUR 50,000 and it is necessary a certified public accountant.

The timescale for incorporation SQ or SA is between two to three weeks. This may be reduced by paying priority charges.

There is also a simplified one-day incorporation procedure for companies that adopt standard bylaws and preapproved corporate names, registered through a one-stop-shop procedure.



LEASES

There are two types of lease agreements:

Residential & Non-residential

These leases are regulated by the same the **Civil Law Code** & the **Urban Lease Law**

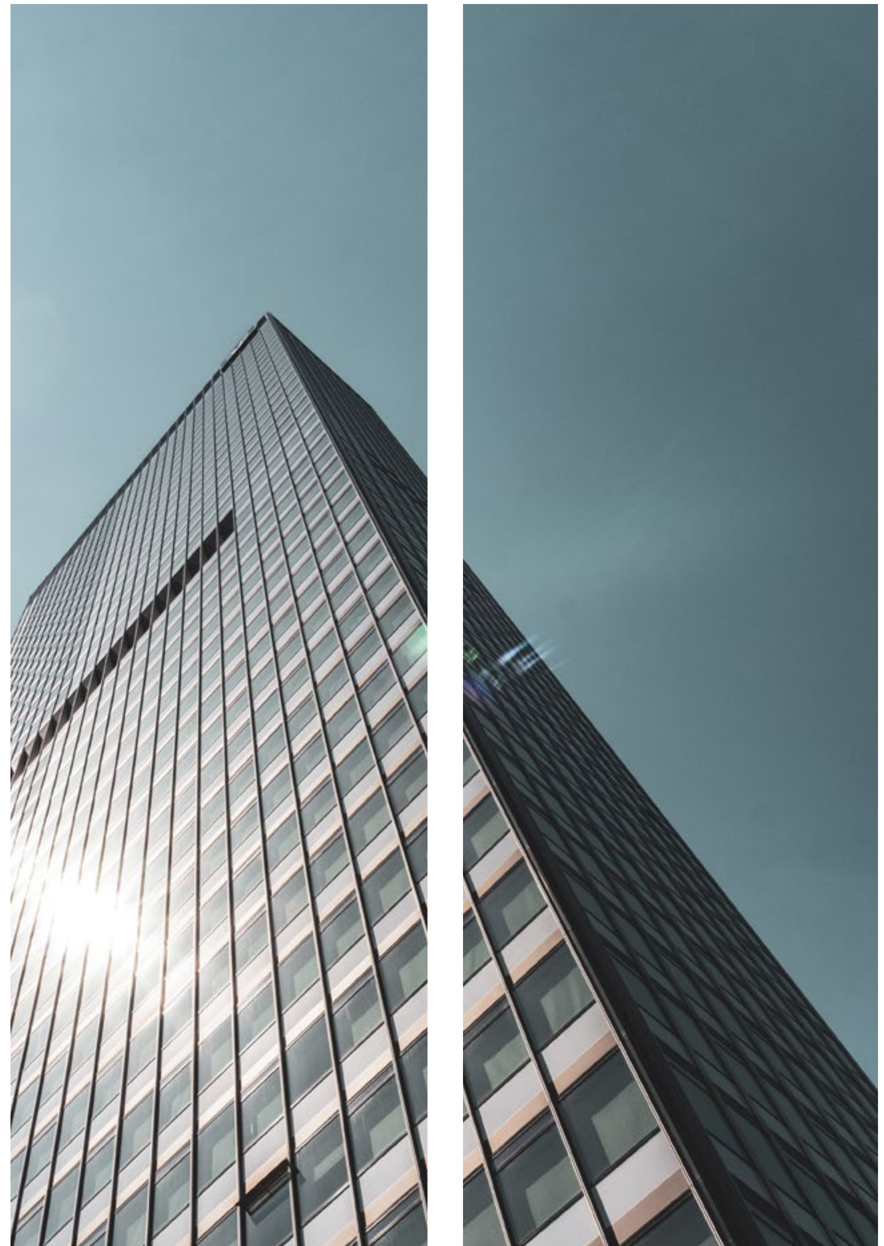
FORM

The urban lease agreement must be in writing and can only apply to premises whose suitability for the purpose of the agreement is attested by the competent authorities, namely through a use permit.

RENT

The rent for residential leases can be freely determined except in cases where the tenant subleases the property or part of the property. In this case, the amount cannot be greater than 20% more than the property rent unless there is prior authorization from the landlord. Until 2029 the rule is in force that properties that have been leased in the last five years are subject to a rent cap (+ 20%) for new lease agreement with new or the current tenant.

The general rule for updating rent is annually, by applying the legal annual coefficient that is approved by the Government in October of each year (in line with the August inflation index) to be applied in the following year. However, the parties can avoid this annual update and/ or can define other ways of updating the rent, at any time, by a certain amount or indexed to any other factor.



The parties can also agree on a rent grace period to, as it happens, compensate the tenant for the period of moving in or for work carried out by the tenant in the premises.

MAINTENANCE, REPAIR, AND REPLACEMENT AT THE TERMINATION

Unless otherwise agreed by the parties, the landlord is responsible for carrying out ordinary and extraordinary maintenance and repair works in the premises.

The tenant may only carry out the works when the lease agreement allows it, or when there is a written consent from the landlord unless the works are urgent which case the tenant may carry out the works and has the right to be paid for the costs.

The tenant may (and is under an obligation to) carry out small repairs in the premises so that it remains adequate for its purpose. If the tenant carries out improvement works on the premises, they will be entitled to compensation for the works ("required improvement works").

The tenant is not entitled to receive any compensation due to:

Small works to assure the comfort and the quality of the premises;

Works to repair the deterioration caused by the tenant due to the careless or abnormal use of the premises; and Works which were not authorized by the landlord and which considerably modify the external structure or the internal division of the premises.

The tenant is responsible for the payment of charges and expenses regarding the supply of goods or services related to the premises (for example, water, electricity, gas, telephone, data, internet). The tenant is only responsible for other expenses if it is expressly agreed between the parties.

The landlord is responsible for the payment of the sanitation rate, insurance fees, tax on real estate and the stamp duty of the agreement.

The landlord is responsible for the maintenance and repair of the common parts of the building in which the premises is located.

The landlord is responsible for the repair of the premises.

However, the parties may establish in the lease agreement that the tenant shall be responsible for these expenses and costs.

In practice, it is usual for the landlord to bear the additional expenses of an extraordinary nature (including for the fixed asset structures) and for the tenant to bear the ordinary repair costs (with the maintenance) of the premises.

If the landlord is in arrears, the tenant may carry out works of an urgent nature, being reimbursed by the landlord later on.

Upon the termination of the lease agreement without the tenant handing over the premises the landlord may start lawsuit for the eviction or for the recovery of possession of the premises by the Special Procedure for Eviction (Procedimento Especial de Despejo). This special procedure is intended to be simpler and faster than a normal lawsuit. It is started and may conclude out of court, in the National Lease Bureau (Balcão Nacional do Arrendamento), where the petition for eviction is presented.

SALE OF LEASE PROPERTY

In case of sale of the property by the landlord, the new owner will automatically succeed to the landlord's contractual position, maintaining the lease in force and under the same terms between the tenant and the new owner, with no need to formalize the assignment of the contractual position.

RESIDENTIAL LEASES

In residential leases, the parties are required to adopt one of two models of lease agreements: (i) for a fixed-term or (ii) for an indefinite term.

In a fixed-term agreement it may be agreed that after the first renewal the lease will have an indefinite term.

TERM AND TERMINATION

In fixed-term agreements, the term cannot be less than 1 year nor longer than 30 years.

The minimum limit of 1 year does not apply to agreements for non-permanent housing or for special and transitory purposes, namely, for professional, educational or touristic reasons.

Unless otherwise stated, a fixed-term agreement is automatically renewed upon the term and for successive periods of equal term or three years if shorter.

Either party may oppose the automatic renewal of the lease agreement. However, the opposition to renewal and early termination rights under fixed-term residential leases are determined by law.

The landlord can only terminate the lease agreement after three years of initial term and, after that period, at the end of the term of any of the renewals. The landlord may terminate earlier for a breach of agreement by the tenant such as non-payment of rent. The landlord is prevented from freely terminating the lease agreement before its term.

After the expiry of one-third of the initial term of the lease agreement, or of its renewal, the tenant may terminate the lease at any time by giving notice to the landlord at least 120 days prior to the intended end of the lease if the lease term is equal to or greater than one year, or 60 days prior to the intended end of the lease if the lease term is shorter than one year.

In indefinite term lease agreements, the lease is terminated by notice by one of the parties, there being no right to oppose to renewal.

After 6 months of the lease, the tenant may terminate the lease, regardless of any justification, by giving notice to the landlord at least 120 days prior to the end of the lease if the lease has an effective term of one year or more on the date of the notice or 60 days prior to the end of the lease if the lease has an effective term of up to one year on the date of the notice.

The landlord may terminate the lease agreement of indefinite term only in the cases provided for by law.

In both models, the landlord may terminate the agreement by notice in writing to the tenant if the reason for the agreement termination is a default in the payment of the rent for more than three months, a default in paying charges or expenses, or the fact that the tenant is opposed to the execution of works ordered to be carried out by a public entity.

The landlord may also terminate the agreement by the same means if the reasons for the termination is a delay in the payment of the rent, for more than eight days, on more than four occasions, whether consecutive or not, within a period of 12 months.

In all other cases of the tenant defaults the landlord will have to start a lawsuit for the termination of the agreement.

A residential lease needs to be registered if its term is greater than six years. It costs EUR 250 to register a lease at the Land Registry Office.

For tax purposes, a residential lease should also be registered before the Tax Authority.

RENT CAP IN NEW RESIDENTIAL LEASES

The initial rent in future residential lease agreements in which there were lease agreement(s) in force in the 5 (five) years prior to the entry into force of Law no. 56/2023, of October 6, cannot exceed the value of the last rent charged on the same property in a previous lease agreement, with a coefficient of 1.02 applied. This means that the initial rent on new lease agreements cannot exceed 2% of the previous rent. To this limit, the annual rent update coefficients that have not been applied by the landlord may be added, if applicable, as long as no more than 3 years have passed since the date on which it would initially have been possible to apply them. For the year 2023, the coefficient of 1.0543 is considered.

In the case of properties that have extensive remodelling or renovation works (duly certified by the City Council), the initial rent may be increased by the amount of expenses incurred by the landlord, up to an annual limit of 15%.

This limitation on the future value of rent applies to lease agreements in which the value of rent exceeds the values within the general limits of the price of rent by type provided for in the Lease Support Program (PAA).

This limitation (cap) came into force on October 7, 2023 and is valid until December 31, 2029.

FORCED LEASE

The law now provides that the properties described below may be subject to forced lease by municipalities: (i) independent units for residential use and (ii) parts of urban buildings that can be used autonomously for residential use, located outside the territories of the interior (Portaria 208/2017) and the Autonomous Regions, classified as vacant for more than 2 years (DL 159/2006).

To implement this measure, there is a new communication duty for telecommunications, gas distribution and water and electricity supply companies, which will be obliged to send to municipalities, by October 1st of each year, an updated list of the absence of contracts of supply or consumption or low consumption, for each urban building or independent unit.

The Municipality with territorial jurisdiction sends to the owner (i) notification of the duty of conservation, regulating the execution of the necessary works in case of non-compliance with the notification, or (ii) notification of the duty to use the independent unit and, if so desired, the presentation of a lease proposal. In this case (ii), the property may be subject to forced lease if the owner refuses the proposal or, if the owner does not respond within 90 days and the property remains vacant, the municipality (or the IHRU, if the municipality does not wish) may proceed with the forced lease of the property.

The rent cannot exceed the general rental price limits by type by 30% depending on the municipality where the property is located (Decree-Law no. 68 /2019).

HOUSES FOR LEASE AT AFFORDABLE PRICES

A support system for the development of affordable.

THE BENEFICIARIES OF THIS SUPPORT ARE:

a) Residential and construction cooperatives, which meet the necessary legal requirements for granting financing (DL 145/97, of 11.06);

b) Commercial companies whose activity is construction, in a consortium or other form of association with commercial companies whose corporate purpose includes lease for residential and property management, which meet the legal requirements necessary for granting financing, or companies in whose share capital they participate, as well as entities dedicated to real estate development and investment;

c) IHM - Investimentos Habitacionais da Madeira, EPERAM, and the Regional Housing Division of the Azores, alone or in partnership with the entities mentioned above;

d) Municipalities and parish councils, alone or in partnership with the entities mentioned above;

e) Charitable institutions, private institutions of social solidarity and legal entities of public utility or recognized public interest.

A line of financing promoted by Banco Português de Fomento, S.A., with mutual guarantee and interest subsidies, is available for projects in the affordable housing area, namely for construction or rehabilitation, including the acquisition of the property for the purpose, and subsequent lease, with a total value of EUR 250,000,000.

Properties built with this financing are subject to the affordable housing lease regime for a period of 25 years and are subject to the parameters and values in force for residential at controlled costs, particularly with regard to the development cost per square meter.

With regard to the transfer of public land and buildings, the Government may transfer public properties that it identifies for this purpose under a surface right for a maximum period of 90 years, renewable by agreement between the parties, with a view to development, provision and management of affordable housing lease.

The surface right is transferable, as long as all inherent rights and duties are safeguarded, namely the duty to allocate housing for the development of affordable leases.

The houses developed within the scope of this support are allocated to affordable lease for a minimum period of (i) 90 years, renewable, in the case of transfer of surface rights and (ii) 25 years in other cases.

After the lease term have elapsed and in the event of sale, the municipalities and IHRU, I.P., have the pre-emption right in the purchase of their respective houses, setting the purchase price in accordance with the law applicable to the development of housing at controlled costs, reported to the date of completion of the project and updated by the monetary correction factor.

The support provided for the development of affordable leases is applicable, with the necessary adaptations, to student housing.

TAX INCENTIVES

With the entry into force of Law No. 56/2023, on October 7, 2023, which approves measures under the "More Housing" program, tax incentive measures were approved under the Lease Support program.
The cost of rent insurance will become deductible from gross property income for personal income tax ("IRS") purposes.

Income from housing leases will now be taxed at the autonomous IRS rate of 25%, replacing the previous rate of 28%.

There will also be an additional reduction in IRS rates applicable to property income, depending on the term of permanent residential leases, as follows:

a) For lease agreements with a term equal to or greater than 5 years and less than 10 years, a 10% reduction is applied to the respective autonomous rate, with a 2% reduction being applied for each renewal of the same term, with reductions relating to the agreement renewal subject to the 10% limit;

b) For lease agreements with a term equal to or greater than 10 years or more and less than 20 years, a 15% reduction applies to the respective autonomous rate;

c) For lease agreements with a term equal to or greater than 20 years or more, a 20% reduction in the respective autonomous rate applies.

Lease agreements that benefit from the additional IRS reduction referred to in the previous three points are subject to an additional reduction of 5% in the respective autonomous rate whenever the rent is at least 5% lower than the rent in the previous lease agreement for the same property.

THE RIGHT TO REDUCED RATES ENDS WHEN:

(i) Lease agreements end before the initial term or is renewed, for reasons attributable to the landlord or, in the case of the real right of permanent residence, by agreement between the parties;

(ii) In the residential lease agreements signed after January 1, 2024, the monthly rent exceeds the general rental price limits by type by 50%, depending on the municipality in which the property is located.

BUILDING LAND AND URBAN BUILDINGS DESTINED FOR THE LEASE SUPPORT PROGRAM

Acquisitions of land for the construction of residential properties are exempt from Property Transfer Tax ("IMT"), as long as they cumulatively meet the following requirements:

a) At least 700/1000 of the buildings in horizontal ownership, or all of the buildings in total ownership or independent units, are allocated to the Lease Support Program, regardless of the developer, as long as they are certified by the IHRU or by the competent entities of the Autonomous Regions;

b) The procedure for prior control of construction works on residential properties was initiated with the competent authority within two years after acquisition.

THE URBAN BUILDINGS OR INDEPENDENT UNITS REHABILITATED OR BUILT FOR USE UNDER THE LEASE SUPPORT PROGRAM WILL BENEFIT FROM:

(i) Exemption from IMT;

(ii) Exemption from ownership tax ("IMI") for 3 years from the year of acquisition, which can be renewed for another 5 years.

IMI AND IMT EXEMPTIONS ARE CANCELLED IF:

a) The property receives a different use (compared to that on which the benefit was based) within 5 years after the transfer, or within 10 years if the benefit is renewed;

b) The property has not been the subject of a lease agreement signed within the scope of the Lease Support Program within 6 months from the date of acquisition.

TAX INCENTIVES FOR REAL ESTATE INVESTMENT FUNDS AND REAL ESTATE INVESTMENT COMPANIES

Real estate investment funds and real estate investment companies whose assets are made up of at least 75% of affordable housing lease properties benefit from the following incentives:

a) Capital gains resulting from the sale of participation units in these funds are subject to a tax rate of 10% when the holders are non-resident entities or are IRS taxpayer's resident in Portuguese territory and who obtain income outside the scope of an activity commercial, industrial or agricultural and do not opt for totalization;

b) Exemption from IRS and IRC, during the term of lease agreements, for property income obtained within the scope of municipal programs that offer affordable housing lease and student accommodation.

STAMP DUTY EXEMPTION

The following lease agreements are exempt from stamp duty:

(i) Residential lease agreements within the scope of the Lease Support Program;

(ii) Residential lease agreements concluded within the scope of public housing programs developed by the entities responsible for housing in the autonomous regions.

NON-RESIDENTIAL LEASES

The lease for non-residential purposes includes the lease for offices, for industrial, for logistics, for commercial facilities or for any other legally admitted use. In non-residential leases the parties can freely stipulate in the agreement the rules relating to term, termination and opposition to renewal.

TERM AND TERMINATION

The length of a non-residential lease is decided by agreement between the parties, with a maximum limit of 30 years (subject to a right to terminate on notice) and a minimum of 1 year.

Should the term be omitted, the agreement shall be deemed to be in force for a term of 5 years, renewable for the same period and the notice period for termination by the tenant shall be deemed to be one year. However, regardless of the period agreed by the parties for the initial term, the landlord can only oppose the renewal of the lease at the end of the first 5 years.

The landlord can only terminate the agreement before the end of the term if the tenant defaults.

The law defines some of the causes that may entitle the landlord to proceed with the termination of the agreement. Besides these causes the parties may state others that might be considered as the tenant's default. This rule applies to residential or non-residential leases.

A non-residential lease needs to be registered if its term is greater than six years

TRANSFER, SUBLEASE, WET-LEASE AND SHOPPING CENTERS

The transfers of lease agreement to a third party require the landlord's consent.

Non-residential leases may be transferred by conveyance without the landlord's consent, notification to the landlord being sufficient, although the landlord has a pre-emption right.

A transfer of an establishment (a temporary and costly transfer of the use of the property together with the operation of a commercial or industrial establishment) does not require the landlord's authorization, but the landlord should be informed within one month.

The tenant cannot sublease the property, totally or partially, without the landlord's authorization in writing, which is a condition of the sublease. Should this authorization not exist, the landlord may terminate the lease agreement based on the tenant's default.

If the consent to transfer the lease or to sublease is not required, the parties normally limit the scope within which it is possible to assign the rights, for example to companies of the same group.

The Portuguese real estate market has two other contractual models of use of non-residential spaces, for (i) the use of offices or other special units; (ii) the use of stores in shopping centers. In both models, the use of spaces is accompanied by a series of services that are provided by the owner, such as building management, security, cleaning services, reception, communications, space promotion, among others. Due to their specificities, these contractual models do not apply to the provisions of the law that are applicable to lease agreements.

PLANNING & LICENSING

Strategic planning / zoning in Portugal is governed mainly by a planning policy, framed by Decree Law No. 80/215, of 14 May 2015 (Regime Jurídico dos Instrumentos de Gestão Territorial), as amended. This law generally maintains the existing planning policy that was implemented through national, sectorial, special, regional and local development and urban plans.

All plans are binding for the public entities, while the special plans and the municipal plans are also binding for individuals.

The relevant urban plan will prescribe whether a landowner may construct a new building or refurbish an existing building, which urban parameters and conditions are applicable in the construction, alteration, extension and demolition, and also the uses permitted.

The design and appearance of a new building may be governed by public law if a detailed plan or an urbanization plan has been approved for the area.

Even so, usually the design and appearance of a new building is not completely controlled by public law.

The method of construction is governed by building regulations such as the General Regulations of Urban Buildings dated from 1951 (Regulamento Geral das Edificações Urbanas).

The municipal plans for land planning define the permitted use according to the area of activity (housing, commerce and services, industry, agriculture, etc) and sometimes the permitted changes in use. The Simplex Urban law, of January 2024, allows individuals to change the use of any property from non-residential to residential, without the need for prior public authorization.

Special plans (referring to protected areas, coastline, public reservoirs, estuaries and archaeological parks) define unauthorized, conditional and preferred uses.

The main relevant administrative authorities are the Municipalities (local authorities). The Municipalities draw up and approve the municipal plans for land planning and these are usually the competent authorities to conduct control procedures for any urban operation.

Major construction works may be subject to a licensing procedure (in which case the control is more demanding and time-consuming) or to a prior notice procedure (in which case the control is lighter and faster). These procedures begin with a request from the interested party, which is sent together with the project and the descriptive document, among other supporting documents.

Some works are regarded as having little urban significance and are not subject to any prior control procedure (for example, maintenance works). The Simplex Urban law considerably expanded the works to be carried out inside buildings (structural or non-structural) which are now exempt from any type of licensing.

Depending on the location of the land there may be an obligation to consult one or several administrative entities who may issue binding opinions within the licencing and prior notice procedures.

Courts do not directly intervene in administrative procedures.

The deadline for execution of the works is established in the licence itself. The deadline may also be extended by the Municipality. If the works are not concluded within the deadline in the licence, or within the deadline resulting from the extension, the licence is deemed to have expired.

A use permit does not have a deadline / expiry date.

If urban standards are infringed, the Municipality has the power to impose an embargo, correction works, demolition and termination of use. If such orders are not complied with, they may be enforced by the Municipality at the offender's expense.

The Municipality may also impose fines for the infringements.

TAX FRAMEWORK

Investments in real estate can be performed individually or structured through vehicles such as commercial companies, real estate investment funds, property investment companies.

Transfer tax and stamp duty

The following transfer taxes and duties may apply to the purchase of real estate, depending on the structure of the deal.

Asset deals:
Real Estate Transfer Tax (IMT) | VAT (IVA) | Stamp duty (Imposto do Selo)

Share deals:
Municipal Property Transfer Tax (IMT)

Asset deals

Real Estate Transfer Tax (IMT) will be calculated on the price of the transaction or on the VPT (value of the real estate assessed by the Tax Authority), whichever is higher.

IMT is calculated using the following formula:
(Taxable value x Rate) – Threshold deduction = IMT to be paid.

IMT IS CHARGED AT THE FOLLOWING RATES:

Flat rate of
6.5%
on the sale or transfer of any urban property not exclusively of a residential nature.

Flat rate of
5%
for rural properties.

Progressive rates for the sale and transfer of urban buildings or apartments exclusively for residential purposes that are intended to be the purchaser 's permanent residence, ranging from

0% TO 7.5%

as mentioned on the side:

Taxable value (EUR)	Rate	Threshold deduction (EUR)
Up to 101 917	0%	0
Above 101,917 to 139,412	2%	2,038.34
Above 139,412 to 190,086	5%	6,220.70
Above 190,086 to 316,772	7%	10,022.42
Above 316,772 to 633,453	8%	13,190.14
Above 633,453 to 1,102,920	6%	0
Above 1,102,920	7.5%	0

Progressive rates for the sale and transfer of urban buildings or apartments exclusively for residential purposes and/or intended for letting purposes, but not intended as the purchaser 's permanent residence, ranging from

1% TO 6%

as mentioned on the side:

Taxable value (EUR)	Rate	Threshold deduction (EUR)
Up to 101 917	1%	0
Above 101,917 to 139,412	2%	1,019.17
Above 139,412 to 190,086	5%	5,201.53
Above 190,086 to 316,772	7%	90,03.25
Above 316,772 to 633,453	8%	12,170.97
Above 633,453 to 1,102,920	6%	0
Above 1,102,920	7.5%	0

To discourage the purchase of real estate in Portugal through offshore companies, IMT is levied at a rate of 10% if the purchaser is a company established in a country, territory or region with a preferential tax regime.

Further, as of 1 January 2021, the same punitive tax rate applies, when the acquirer is an entity dominated or controlled, direct or indirectly by a company established in a country, territory or region subject to a preferential tax regime. In these cases, no exemptions are made available.

Since 2016 the acquisition of real estate by open-end or privately placed closed-end Real Estate Investment Funds or Retirement Savings Funds are no longer exempt from IMT (until 31 December 2018 it was still possible to challenge the 2016 repeal of the exemption with respect to Real Estate Investment Funds; this interpretation has been followed in numerous arbitration decisions).

However, the property transactions may be exempt from IMT or may benefit from tax reliefs in the following cases, among others:

•Property acquisition for resale

•Acquisition of urban property for urban regeneration purposes

•Restructuring operations or cooperation arrangements

•Acquisition of property classified as of national/public/municipal interest

•Exemption or reduction of the IMT tax rates, regarding the acquisition of property that constitutes eligible investment under the Investment Promotion Tax Regime (RFAI)

SHARE DEALS

In the case of a share deal, as of January 1, 2021, IMT applies to the purchase of an equity position both in a private limited liability company (Lda.) and in a corporation (S.A.) which holds real estate assets located in Portugal if the following requirements are cumulatively met:

1. The assets of the company whose shares are transferred derive, directly or indirectly, more than 50% of their value from immovable assets located in Portugal;

2. Such real estate assets are not directly allocated to an activity of an agricultural, industrial or commercial nature, or are directly allocated to an activity of purchase and sale of real estate property; and

3. As result of the acquisition (or other corporate events) one of the shareholders retains at least 75% of the share capital of the target entity (or the number of shareholders is reduced to two persons married or in a non-marital partnership).

Until December 31, 2020, IMT could only apply with respect to private limited liability companies, but this tax applied in all cases resulting in a transfer of at least 75% of the share capital of the company. If the purchase of shares involves a privately placed closed-end Real Estate Investment Funds, the transaction is subject to IMT if after the acquisition the acquirer holds 75% or more of the units in the fund.

In both cases – asset deals and share deals —the purchaser is responsible for the assessment and payment of IMT, as well as VAT (reverse charge mechanism), if applicable. IMT must be paid before the deed and the notary is obliged to confirm its payment.

Stamp duty, where applicable, is paid by the purchaser (who normally also pays the notary's fees). The purchaser must present the payment proof at the moment of the transfer signature. The tax is paid through a document issued by the tax authority.

VALUE ADDED TAX

As a rule, the transfer of property and shares in Portugal is exempt from VAT.

Nonetheless, in the case of a transfer of property, the seller may waive the exemption if certain conditions have been met and they have complied with various formalities.

If the exemption is waived, VAT can be recovered in accordance with specific dispositions set out in the Portuguese VAT Code.

TAX ON OWNERSHIP

IMI is a municipal property tax, payable by the owner or occupier of the property (excluding tenants), on the VPT (value of the real estate assessed by the tax authority) of urban and rural properties. IMI is payable on the VPT of each property at rates which range between 0.3% and 0.8%, depending on the municipality and on the type of property.

Urban properties solely for the residential use of the purchaser, as his primary domicile, may benefit from a temporary exemption from IMI for up to three years, if the property's value is less than EUR 125,000. To benefit from this exemption, the income of the purchaser's household cannot exceed EUR 153,300.

IMI exemptions are also possible in the case of projects of economic importance, or buildings classified as of national, public or municipal interest.

These transactions may also be exempt from IMI or may benefit from tax reliefs in the following cases, among others:

Urban property subject of urban regeneration may benefit from IMI exemption during a period of three years, renewable for a period of five years, counted from the date of the completion of the restoration works.

In some cases, municipalities may determine a reduction of up to 25% of the IMI rate, applicable to urban property with energy efficiency.

Rural property composed by forest areas covered by forest intervention zone or acquired for forestry exploitation under a forest management plan.

Under the Investment Promotion Tax Regime (RFAI), companies may benefit from exemption or relief of IMI for a certain period (up to 10 years), provided that some conditions are met.

IMI is borne by the owners of property and it is collected by the municipalities according to the valuation of the property determined by the tax authorities.

The Portuguese State Budget for 2017 introduced the Additional to the IMI (AIMI). The AIMI is levied on the sum of the VPT's of all dwellings owned or in relation to which the taxpayer has the right of use or the surface right.

TAXATION OF INCOME

Rents and the profit from sales of property (that can be treated as profit or capital gain) are the types of income that can be expected from ownership of real estate. Rents from urban, rural or mixed properties are classified as taxable income for the purposes of Portuguese corporate income tax (IRC). If the investor is private, rents will be treated as taxable income for Personal Income Tax (IRS) purposes.

Whether generated through a resident corporate entity, a permanent establishment in Portugal or without a permanent establishment, rents from real estate located in Portugal are always subject to income tax.

HOWEVER, THERE ARE SOME PECULIARITIES:

INDIRECT INVESTMENT THROUGH A CORPORATE ENTITY

The income of resident corporate taxpayers is subject to IRC at the general rate of 21% (on the Portuguese mainland). A reduced rate of 17% may be applicable to the first EUR 50,000 of taxable income (if the company is recognized as a small or medium-sized company, or as a small mid cap). To be recognized as small or medium-sized, the company must have fewer than 250 employees and its annual turnover must not exceed EUR 50 million or its annual balance sheet total must not exceed EUR43 million. To be recognized as a small mid cap, the company must have less than 500 employees.

The income of resident corporate taxpayers is also subject to a municipal surcharge of up to 1.5%, which is levied by many Portuguese municipalities, and a state surcharge of 3% applies to income varying between EUR1.5 million and EUR7.5 million. For income between EUR7.5 million and EUR35million the surcharge rises to 5%. Above EUR35 million the surcharge rises to 9%. The municipal surcharge and the state surcharge are applied on the income determined prior to deduction of losses.

Taxable income for IRC purposes is calculated on the basis of the net accounting profit as adjusted for tax purposes.

A corporate entity is entitled to deduct costs related to maintenance and repairs, as well as general costs and municipal property tax (IMI), and other specific costs such as those incurred in connection with the construction or acquisition of the property and depreciation (excluding land).

DIRECT INVESTMENT THROUGH A PERMANENT ESTABLISHMENT

Income attributable to a permanent establishment (PE) in Portugal is liable to IRC in the same way as a Portuguese-resident company at the rates mentioned above for resident corporations.

DIRECT INVESTMENT WITHOUT A PERMANENT ESTABLISHMENT

If the investor does not have a permanent establishment in Portugal, Income Tax (IRC or IRS) is only payable on income generated in Portugal.

Income derived from rents, is subject to Corporate Income Tax, at a rate of 25% for non-residents.
As to the Personal Income Tax, the rate is of 28%. Just to non-housing leases. To housing leases, a 25% rate or lower (if some requirements are met) is applied.
The costs incurred by the taxpayer to obtain the rental income are tax deductible, except with respect to the following costs: financial costs, depreciation, furniture, fixtures, equipment and décor items, and the AIMI. A withholding tax of 25% may apply to non-resident individuals or corporations, if the lessee is an entity or individual required to prepare and to maintain audited accounts in Portugal, as is typically the case with a commercial lease.

Foreign investors must file an annual tax return with The Portuguese Tax Authority.

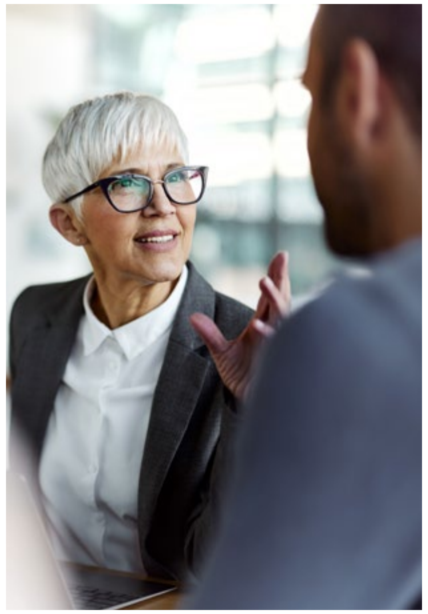
Decree-Law No. 7/2015 of January 13, 2015, which came into force on July 1, 2015, introduced a new tax regime for undertakings for collective investment (UCI), applicable to following entities:

Securities Investment Funds (SIFs)

Real Estate Investment Funds (REIFs)

Securities Investment Companies (SICs)

Real Estate Investment Companies (REICs)



Following a major trend in the taxation of investment vehicles in Europe, this law adopts the “exit taxation method”, whereby the taxation of income is, in most cases, applied to the investors rather than the fund.

The recently adopted SIGIs (a special type of real estate investment company, subject to a significantly relaxed regulatory framework) are also subject to the income tax regime applicable to UCIs (the SIGIs’ regime entered into force on February 1, 2019). The tax comments made below with reference to REIFs/REICs should also be read as applying to SIGIs.

In respect of income derived from REIFs/REICs, Non-resident Investors without a local PE will be subject to a withholding tax in Portugal at a rate of 10%.

Income derived from units in real estate investment funds and from shares in real estate investment companies are classified as income deriving from property for the purpose of this regime.

The fiscal regime governing REIFs can be summarized as follows:

TAXATION OF REIFS/REICS

1. REIFs/REICs will be subject to IRC at a single general tax rate currently set at 21%, with only the net income subject to taxation. However, income qualifying as investment income, rental income and capital gains is generally not subject to IRC.

2. REIFs/REICs tax losses generated as of 2023 may generally be carried forward.
3. REIFs/REICs are exempt from the municipal surcharge (derrama municipal) and state surcharge (derrama estadual).

4. Mergers, demergers or subscriptions in kind between UCIs may benefit from the IRC code’s tax neutrality regime, allowing for more efficient restructuring operations or the transfer of assets between investment vehicles.
5. REIF/REICs income may not be subject to withholding tax..

6. REIFs/REICs will be subject to certain obligations set out in the IRC code, namely to maintain proper accounting systems and tax documentation procedures

7. Stamp Duty will apply to the fund’s global net asset value, and is due on a quarterly basis. The tax rate is 0.0125% for real estate funds.

TAXATION OF INVESTORS

Non-resident investors who receive income distributed by real estate investment funds or by real estate investment companies, are subject to withholding tax at the rate of 10%.

RESIDENT INVESTORS

INDIVIDUALS
Are subject to IRS at a withholding tax rate of 28%. This is generally a final withholding tax, which settles the investor's tax obligation, provided that the income in question is obtained outside the scope of a commercial, industrial, or agricultural activity, unless the investor chooses to aggregate his or her income, in which case the general progressive tax rates (from 14.5% to 48%, plus solidarity surcharges) apply;

CORPORATE INVESTORS

Are subject to IRC at a provisional withholding tax rate of 25% (unless the relevant beneficiaries benefit from an exemption from IRC which excludes investment income, in which case the withholding is treated as a final tax).

NON-RESIDENT INVESTORS WHO

Do not present proof of non-residence in Portugal;

Are established in a country, territory or region whose tax regime is deemed to be clearly more beneficial than Portugal's;

The income is paid or made available through accounts under the name of one or more undisclosed holders (except if the beneficial owner is identified); or are entities directly or indirectly held to an extent greater than 25% by Portuguese residents (with certain exceptions),
Are subject to withholding tax at definitive rates of 25%, 28% or 35% – being the rates prescribed for the regime applicable to resident investors.

Certain reductions in the rates of Municipal Property Tax (IMI) may also apply.

TAXATION OF DISTRIBUTIONS

Income generated by investment can be transferred on the following terms:

DIRECT INVESTMENT THROUGH A PERMANENT ESTABLISHMENT

Once the profits have been taxed in Portugal, income can be transferred to foreign investors without any further taxation. This is because a transfer between a Portuguese PE and its head office is considered to be an internal transfer within the same corporate entity.

DIRECT INVESTMENT WITHOUT A PERMANENT ESTABLISHMENT

Any tax paid by the investor in Portugal usually receives a tax credit in its country of residence, under most double-taxation agreements (DTA) entered into between Portugal and other states.

INDIRECT INVESTMENT THROUGH A CORPORATE ENTITY

In Portugal, tax may have to be withheld on the distribution of dividends to shareholders. Tax withheld (if mandatory) may be provisional for residents and definitive for non-residents. This depends on the investor's status as follows:

Portuguese-resident corporate shareholders

PROVISIONAL WITHHOLDING TAX

Distributions of dividends to Portuguese-resident corporate shareholders may be made without withholding tax if the participation exemption regime applies, and such equity was held by the shareholder in the year preceding the distribution. If the shareholder has its registered office in Portugal (ie is a Portuguese corporate entity) or if its management is located on Portuguese territory then it is deemed to be tax resident.

In all other cases a 25% withholding tax applies and the amount received as dividends may also be taken into account in determining the taxable profits for the accounting period of the Portuguese-resident corporate shareholder.

DEFINITIVE TAXATION

Distributions of dividends to Portuguese-resident corporate shareholders are exempt from IRC if certain conditions are met, notably:

1. the taxpayer holds shares representing at least 10% of the share capital or voting rights of the entity distributing the dividends;

2. the relevant holding is maintained uninterruptedly during at least one year;

3. the taxpayer does not fall within the tax transparency regime;

4. the entity distributing the dividends is subject to and not exempt from IRC or any identical tax at a rate not lower than 60% of the Portuguese tax (for 2022 this will be 12.6%); and

5. the entity distributing profits is not resident in a country, territory or region with a preferential tax regime.

If the conditions are not met, the amount received as dividends is also taken into account in determining the taxable profits for the accounting period of the Portuguese-resident corporate shareholder.

The income of resident taxpayers is subject to IRC at the general rate of 21% (on the Portuguese mainland). A reduced rate of 17% may be applicable to the first EUR 50,000 of taxable income (if the company is recognized as a small or medium-sized company. To be recognized as small or medium-sized, the company must have fewer than 250 employees and its annual turnover must not exceed EUR 50 million or its annual balance sheet total must not exceed EUR43 million). To be recognized as a small mid cap, the company must have less than 500 employees.

The income of resident corporate taxpayers is also subject to a municipal surcharge of up to 1.5%, which is levied by many Portuguese municipalities, and a state surcharge of 3% applies to income varying between EUR1.5 million and EUR7.5 million. For income between EUR7.5 million and EUR35 million the surcharge rises to 5%. Above EUR35 million the surcharge rises to 9%. Taxable income for IRC purposes is calculated on the basis of the net accounting profit as adjusted for tax purposes.

Corporate shareholders not established in Portugal (definitive withholding tax)

Profits distributed by a legal entity which is tax resident in Portugal (provided the entity is subject to and not exempt from taxation and is not a tax transparent entity), are exempt from IRC if the shareholder is resident:

1. in a Member State of the European Union;

2. in an EEA country which has agreed to administrative cooperation;

3. in a State with whom a DTA has been entered into.

Besides the requirements regarding the tax residency of the shareholder further conditions need to be met; notably:

1. the taxpayer must hold shares representing at least 10% of the share capital or voting rights of the entity distributing the dividends before the dividends are made available;

2. the referred holding must be maintained uninterruptedly during the year preceding the distribution;

3. the entity distributing the dividends must not fall within the tax transparency regime;

4. the shareholder must be subject to and not exempt from a corporate income tax mentioned in the EU Parent Subsidiary Directive, or to a corporate income tax similar to IRC, at a rate not lower than 60% of the Portuguese tax (for 2022 this will be 12.6%).

Additionally, profits distributed to a company deemed to be tax resident in Switzerland are exempt from IRC in the terms set out in article 15 of the EU-Switzerland Agreement if:

the company to which the profits are distributed holds at least 25% of the share capital of the company distributing the dividends (direct holding), for at least two years;

in the terms set out in the DTAs entered into by Portugal and Switzerland with third countries, the company is not deemed to be tax resident in that third country; and

both companies are subject and not exempt from Corporate Income Tax and both companies are limited liability companies.

If the above mentioned requirements are not met, 25% of any dividend paid must be withheld by the Portuguese corporate vehicle except where a DTA is deemed applicable.

If the above mentioned requirements are not met, 25% of any dividend paid must be withheld by the Portuguese corporate vehicle except where a DTA is deemed applicable.

Most of the DTAs entered into by Portugal, following the OECD Model Treaty, establish that the applicable Portuguese withholding tax rate on dividend or profit distributions cannot exceed 15% or 10%, depending on the percentage of the participation in the corporate vehicle.

Dividends paid to shareholders established in a country, territory or region whose tax regime is deemed to be clearly more favourable will be subject to withholding tax at a rate of 35%.

Dividends deposited in accounts of fiduciary entities, which act on behalf of undisclosed third parties, will be subject to withholding tax at a rate of 35%.

The income generated from real estate ownership is only subject to taxes. No other cost or charges are payable.

If the income generated from real estate ownership is transferred to shareholders or partners, this income is only subject to taxes. No other cost or charges are payable.

TAXATION OF DISTRIBUTIONS

Whether generated through a resident corporate vehicle, a permanent establishment (PE) of a non-resident entity or a non-resident entity without a PE, income from the sale of real estate may be subject to tax as follows:

REAL ESTATE ASSETS HELD BY A FOREIGN INVESTOR THROUGH A CORPORATE VEHICLE

Sale of real estate by the corporate vehicle

A corporate vehicle established under Portuguese law is subject to IRC at 21% plus surcharges up to 9 % on any capital gains arising from the sale of real estate. Municipal surcharges of up to 1.5% may also apply.

A reduced 17% tax rate applies on the first EUR50,000 of taxable income, with respect to small or medium-sized entities and to small mid cap (see definitions above).

In the case of a Portuguese corporate vehicle, capital gains can be offset against other capital costs or losses. Only 50% of the capital gains need to be included in taxable income for IRC purposes if the sale proceeds from certain real estate assets are reinvested in the purchase of certain qualified assets.

Sale of shares in a corporate vehicle

Portuguese taxation on the capital gains of non-residents arising from the disposal of shares in a Portuguese-based property company applies as follows:

25%

for corporate entities.

28%

for individuals.

(although only half of the capital gain will be taken into consideration for tax proposes if the company whose shares will be sold is recognized as a micro or small company, subject to certain additional requirements. To be recognized as such, the company must have less than 50 employees and its annual turnover or annual balance sheet total must not exceed EUR10 million).

Certain domestic exemptions from Portuguese capital gains tax on the sale of shares by non-Portuguese-resident individuals or entities are available. However, these do not apply to the disposal of shares in Portuguese-resident companies where more than 50% of the company's assets consist of immovable property located in Portugal, or of shares in holding companies in which an affiliated or controlled company holds more than 50% of its assets in immovable property located in Portugal. Indirect transfer of shares may also be subject to capital gains tax in Portugal.

REAL ESTATE ASSETS HELD BY FOREIGN INVESTORS THROUGH A PE IN PORTUGAL

A PE is taxed on capital gains or business profits arising from the disposal of real estate in the same way as a Portuguese corporate vehicle.

Capital gains can be offset against other capital costs or losses. Only 50% of the capital gains need to be included in taxable income for IRC purposes if the sale proceeds from certain real estate assets are reinvested in the purchase of certain qualified assets.

REAL ESTATE ASSETS HELD BY FOREIGN INVESTORS DIRECTLY WITHOUT A PERMANENT ESTABLISHMENT IN PORTUGAL

Capital gains or business profits from the sale of real estate are subject to IRC at a flat rate of 25% or IRS, at progressive rates - applied over 50% of the gain derived.

In Portugal, the transfer of real estate property, if executed by public deed, requires the payment of notary's fees. As a rule, the purchaser is responsible for these fees.

CHANGES IN TAX RULES / LAW 56/2023, OCTOBER 6

Purchase for resale

Properties that have been purchased by purchase-for-resale companies now benefit from IMT exemption for a period of 1 (one) year, instead of the previous period of 3 (three) years.

This IMT exemption expires (IMT payment plus compensatory interest becomes due) in the following situations:
The property has been given a different use (a different use is considered to be the completion of building or improvement works, or other changes that may lead to a variation in its taxable value);

There has been no resale within 1 year;

There has been a new transfer for resale.

This change applies to the acquisition of any type of property for resale, not limited to properties intended for residential.

Municipal Property Tax ("IMI") Exemption from IMI - Land for residential construction

Exempt from IMI are residential building plots and residential buildings for which the prior control procedure for construction work has been initiated with the competent authority and for which the final decision on the procedure has not yet been made.

If the building is used for something other than residential purposes, the tax will be due from the moment of acquisition.

Exemption from IMI - Permanent housing

An additional period of 2 years is granted (subject to a decision by the municipality) to the current IMI exemption applicable for 3 years to buildings intended for permanent housing, provided that:
- The total gross income of the household does not exceed EUR 153,300 in the previous year;

- The property is used as a home within 6 months;
- The property's asset value does not exceed EUR 125,000.

Urban Rehabilitation

6%

Value Added Tax (VAT) is now also applicable:

Construction or rehabilitation of properties for affordable housing, controlled costs or accessible rent, regardless of the developer and provided that 700/1000 of the buildings in horizontal ownership are used for one of these purposes (duly certified by the IHRU or by the competent entities of the autonomous regions); Rehabilitation of buildings and the construction or rehabilitation of public utilization facilities located in urban rehabilitation areas.

REVOCATION OF TAX BENEFITS FOR PROPERTY INVESTMENT FUNDS

The following tax benefits, applicable to real estate investment funds set up between 1 January 2008 and 31 December 2013, in which at least

75%

of their assets are real estate subject to rehabilitation actions carried out in urban rehabilitation areas, are revoked:

IRC exemption on income earned;

The 10% withholding tax rate for personal income tax or corporate income tax applicable to income from units in these funds;

The 10% rate on capital gains realised from the sale of investment units.

REAL ESTATE FINANCE

When structuring a financing for the acquisition or development of a property investors/sponsors are typically required to create security in favour of lenders to secure their debt.

There are different types of security and quasi-security, tailored in accordance with the specific risks of each project, including without limitation: pledge (penhor), mortgage (hipoteca) or any other in rem security (garantia real) contemplated in Portuguese law, financial collateral or security (garantia financeira), commercial pledge (penhor mercantil) and assignment as security (cessão de créditos com escopo de garantia).

In real estate finance, within the assets which are most commonly secured (and on the top of the list) is the real estate asset (ie, the property) and the most effective way of taking security over real estate is by mortgage (hipoteca).

The mortgage shall be executed by way of notarial deed (escritura de hipoteca) before a Portuguese notary or consulate and the final legally binding version of the notarial deed must be in Portuguese.

The mortgage will only be created once registered at the Land Registry (Registo Predial), with the priority of the security being determined by the time the request for registration was lodged.

Although for most types of assets security can be enforced either in- court or out-court (ie, by way of out-of-court sale), security over real estate assets can only be enforced in court (ie, by way of court enforcement proceedings).

The most common types of assets over which security can be taken in real estate finance in Portugal include:

- real estate;
- shares and equity stakes;
- bank accounts; and
- receivables.

Trusts, as a property right held by one party for the use of another, are not recognized under Portuguese law. However, there are other methods which can establish a difference between legal ownership and beneficial ownership, including fiduciary agreements (with inherent limitations).

Likewise, Portuguese law does not recognise the concept of a floating charge. However, in certain cases it is possible to include in a mortgage on the real estate asset not only fixtures but also chattels, notably by way of factory mortgage (hipoteca de fábrica).

Additionally, Portuguese law does not recognise the concept of a debenture or blanket security agreement covering all or a significant part of the assets of an entity. As a result, an individual security interest must be created in respect of each specific asset over which security is to be taken.

The rights over which the guarantee can be created cover, for example, the following:

- ownership;
- surface rights;
- right of usufruct;
- right of use and residential;
- concessions of public domain;
- right of possession;
- earnings generated by immovable assets;
- equity interests.

Foreign lenders are not subject to any kind of restrictions or legal barriers concerning the taking of security over real estate property located in Portugal but registration of the mortgage on their name requires that they hold a registration number assigned by the Portuguese tax authorities in order to hold the security as a right in rem, enforceable against any third parties.

In Portugal, a company is not allowed to finance another company or to provide a guarantee or its assets, such as real estate, as security, unless it has a direct or indirect interest in the transactions or in cases where the debtor is part of the same group of companies. Under Portuguese law, there is no objective corporate benefit test which means it is up to the directors of the guarantor company to decide on a case-by-case basis.
The law also provides for the prohibition of financial assistance, which means that, with very few exceptions, a company cannot grant loans or create any type of security over its assets to or in favour of third parties to finance or pay for the subscription or acquisition of shares in its share capital. All transactions that breach the financial assistance prohibition are null and void and Portuguese law does not set out any procedure to circumvent the financial assistance prohibition such as a whitewash procedure.

As a general rule, there are no restrictions to payments made to foreign lenders under security documents or under loan agreements.

ENFORCEMENT

As a first step, and depending on the relevant contractual arrangements, the lender must undertake a court procedure to enforce the security on the basis of the borrower's default. Thus, in order to avoid judicial procedures, lenders often try to sell the real estate to a third party with the agreement of the borrowers, under satisfaction agreements.

Another possibility is the Special Procedure for Recuperation (PER), which involves a judicial liquidator appointed by a court who must propose the plan, the scope, the conditions and the duration of the proposed restructuring, which must then be approved by the creditors and by the insolvency court.
Additionally, if the debtor is subject to a PER, the approved plan binds all creditors even if they did not enter the negotiations. Consequently, lenders, even when holding a secured credit, may be subject to the debtors' restructuring plan which, if approved by the creditors and by the insolvency court, prevents the immediate enforcement of any security (unless the security was granted by a third-party and not by the borrower itself).

Security can only be enforced if the debtor fails to perform its obligations under the approved plan.

In an insolvency scenario, the registration of real securities ('garantias reais') such as mortgages granted in benefit of the State, municipalities or social security entities may be cancelled if the registration occurred less than two months prior to the commencement of insolvency proceedings. Other mortgages can also be cancelled if the registration is not accomplished on the date of the relevant insolvency ruling.

It should be noted that the registration of mortgages with the relevant Land Registry Office is essential for the recognition of the security's existence and effectiveness.

In cases of insolvency, the creditors with privileged credits such as salaries (in case of the insolvent's employees, taxes and social security contributions) and also debts towards the Treasury and the State benefit from first ranking.

Furthermore, it should be noted that if a lender finances the debtor's restructuring process within the PER proceeding, its credits arising from such "new money" do benefit from a first ranking regarding other third parties' credits, although still ranking after the privileged credits of employees, Treasury and Social Security.

Mortgages are next to be repaid. If there is more than one registered mortgage over the same property, the first one will be paid first and the remaining mortgages will be paid according to their respective dates of registration.

RESIDENCE PERMIT FOR INVESTMENT ACTIVITY ("GOLDEN VISA")

With the entry into force of Law 56/2023, of October 6, which regulates the new measures of the "Mais Habitação" package, it is no longer possible to apply for a residence permit for investment activities through the following types of investment:

Capital transfers amounting to 1.5 million euros or more;

Acquisition of real estate worth 500 thousand euros or more;

Acquisition of real estate whose construction has been completed for at least 30 years or located in an urban rehabilitation area and carrying out rehabilitation works on the real estate acquired, for an amount equal to or greater than 350 thousand euros.

The right to renew residence permits for investment activities, family reunification, as well as applications for permanent residence permits, in processes initiated before the entry into force of the aforementioned Law, is safeguarded.

However, such renewals and concessions will now be analysed under the Residence Permit Regime for Entrepreneurial Imigrants, and their holders must comply with the minimum period of stay of seven days, consecutive or interpolated, in the first year and fourteen days, consecutive or interpolated, in subsequent two-year periods.

THE PROGRAMME WILL REMAIN ACTIVE FOR THE FOLLOWING CASES:

Creation of at least 10 jobs;
Transfer of capital in the amount of EUR 500,00 or more, which is applied to research activities carried out by public or private scientific research institutions integrated into the national scientific and technological system;

Transfer of capital totalling EUR 250,00 or more, which is invested or supported in artistic production, recovery or maintenance of national cultural heritage, through central and peripheral direct administration services, public institutes, public business sector entities, public foundations, private foundations with public utility status, inter-municipal entities, local business sector entities, municipal associative entities and public cultural associations, which pursue attributions in the area of artistic production, recovery or maintenance of national cultural heritage through central and peripheral direct administration services, public institutes, public business sector entities, public foundations, private foundations with public utility status, inter-municipal entities, local business sector entities, municipal associative entities and public cultural associations, which pursue attributions in the area of artistic production, recovery or maintenance of national cultural heritage;

Transfer of capital in an amount equal to or greater than EUR 500,00, intended for the acquisition of shares in non-real estate collective investment undertakings, which are constituted under Portuguese law, whose maturity, at the time of the investment, is at least five years, and at least 60% of the value of the investments is realised in commercial companies based in national territory;

Transfer of capital in an amount equal to or greater than EUR 500,00, intended for the incorporation of a commercialcompany with its registered office in Portugal, combined with the creation of 5 permanent jobs, or to increase the share capital of a commercial company with its registered office in Portugal, already incorporated with the creation of at least 5 permanent jobs or the maintenance of at least 10 jobs, with a minimum of 5 permanent jobs and for a minimum period of 3 years.

LOCAL LODGING

SUSPENSION OF NEW LICENSES:

With the entry into force of Law 56/2023 of 6 October, the issuance of new local lodging registrations in the form of flats and lodging establishments integrated into an autonomous units of a building is suspended throughout the national territory, with the exception of inland territories (identified in the annex to Portaria no. 208/2017 of 13 July, or in the case of properties integrated into the Revive Natureza Fund) and the Autonomous Regions.

Municipalities expressly define, in their respective Municipal Housing Charters, the appropriate balance of housing supply and student accommodation in their territory, which will allow the suspension of the allocation of new local lodging registrations to end.

REVIEW OF EXISTING LICENSES:

Local lodging registrations already issued on the date of entry into force of Law 56/2023, of 6 October, will be reviewed during 2030. These registrations are renewable for 5 years from their first review. With the exception of local lodging establishments that constitute a real guarantee for loan contracts signed by 16 February 2023, which have not yet been fully paid by 31 December 2029, which will have their first review after the full repayment initially contracted.

EXPIRY OF ACTIVE REGISTRATIONS:

Within 2 months of the date of entry into force of Law 56/2023, of 6 October, holders of local lodging registrations are obliged to prove, by submitting a tax return, that they are maintaining their operating activity, communicating the effectiveness of their exercise on the RNAL platform - National Registry of Local Accommodation, through the Single Electronic Counter. Holders who have not provided proof that they are maintaining their operating activity within the specified period will have their registrations cancelled.

This regime does not apply to the operation of local accommodation units in own and permanent housing, provided that this operation does not exceed 120 days per year.

EXTRAORDINARY CONTRIBUTION ON LOCAL LODGING ESTABLISHMENTS:

With the entry into force of this law, an extraordinary contribution was created on flats and lodging establishments integrated in an autonomous unit of a building in local accommodation (CEAL).

The owners of local lodging establishments and the owners of properties that are not the owners of the property in which the local accommodation operation takes place are obliged to pay this extraordinary contribution.

CAEL is charged on the allocation of residential property to local accommodation on 31 December of each calendar year, and the applicable rate is 15%.
Properties located in inland areas and the Autonomous Regions and properties located in parishes that (i) are covered by a Municipal Housing Charter in force that shows an adequate balance in the supply of housing and student accommodation in the municipality, (ii) are part of municipalities in which a housing shortage has not been declared (iii) do not have any part of their territory defined as an urban pressure zone, are excluded from paying this contribution.

Exempt from paying CAEL are residential properties that do not constitute autonomous units, parts or divisions that can be used independently, and local accommodation units in own and permanent housing, provided that the operation does not exceed 120 days per year.

NON-TRANSFERABILITY OF REGISTRATION

The registration number of a local lodging establishment is personal and non-transferable, even if it is owned by a collective person.

This non-transferability is extended to all local lodging establishments, which used to apply only to local lodging establishments in the "villa" and "flat" types and which are located in containment zones.

CONDOMINIUM AUTHORISATION

In the event that the local lodging establishment is registered in an autonomous unit of a building intended for habitation and constituted in horizontal property, this registration will now be subject to a prior and unanimous decision by the condominium to use the fraction for the local accommodation activity.
The minutes of the condominium meeting authorising the installation of the local lodging establishment must therefore be presented at the time of the prior presentation.

In the event that a local lodging activity is carried out in an autonomous unit, the condominium owners' meeting can oppose the exercise of such activity, by resolution of at least two thirds of the building's permillage.
In this situation, the cancellation of the registration takes effect 60 days after the condominium's resolution is sent to the Mayor of the respective City Hall.

This only applies to registrations made after the entry into force of Law 56/2023 of 6th October.

THE NEW TAX INCENTIVE FOR SCIENTIFIC RESEARCH AND INNOVATION AND THE TRANSITORY RULES ON THE NHR

The Portuguese State Budget for 2024 repealled the NHR regime. In accordance, in 2024 that regime can only be applicable in limited situations:

01 **To taxpayers that already qualify as NHR as of the entry into force of the State Budget (i.e. as of January 1, 2024);**

02 **To taxpayers that, as of December 31, 2023, comply with the requirements to qualify as tax resident in Portugal, as prescribed under the applicable domestic provisions;**

03 **To taxpayers who only become Portuguese tax residents by December 31, 2024, provided that they comply with one of the following requirements:**

- Having an employment contract or a promissory employment contract, secondment agreement or promissory secondment agreement executed until December 31, 2023, according to which the employment activity must be performed in the Portuguese territory;
- Having a lease agreement or other type of agreement which grants the use or the possession of real estate in the Portuguese territory, executed by October 10, 2023;
- Having a reservation agreement or promissory contract for the acquisition of an ownership right in respect of real estate in the Portuguese territory, executed by October 10, 2023;
- Enrolment or registration of children in a Portuguese domiciled educational institution, concluded by October 10, 2023;
- Having a residence visa or residence permit valid until December 31, 2023;
- Having an application procedure, initiated by December 31, 2023, with the competent authorities, for the granting of a residence visa or of a residence permit in accordance with the applicable immigration laws, namely by requesting an appointment or making an appointment to apply for a residence visa or residence permit, or by submitting an application for a residence visa or residence permit.
- To the close family members ("agregado familiar"), which includes spouses, of taxpayers who comply with one of the aforementioned paragraphs.

Notwithstanding, it was approved a new Tax Incentive for Scientific Research and Innovation that should be applicable from 2024 onwards that is generally more advantageous than the current NHR regime regarding passive income. However, the eligibility criteria are more restrictive / stringent than the current NHR regime (e.g. only applicable in limited cases but may be relevant to employees and board members of startup entities, of entities benefiting from tax incentives in Portugal, etc.).

THE PORTUGUESE NON-HABITUAL RESIDENT TAX REGIME

WHAT IS IT?

Portugal has a special tax regime for new residents which offers them attractive tax opportunities at the individual level.

Foreign tax residents wishing to become resident in Portugal may benefit from exemption or reduction of taxation on their income for a 10-year period.

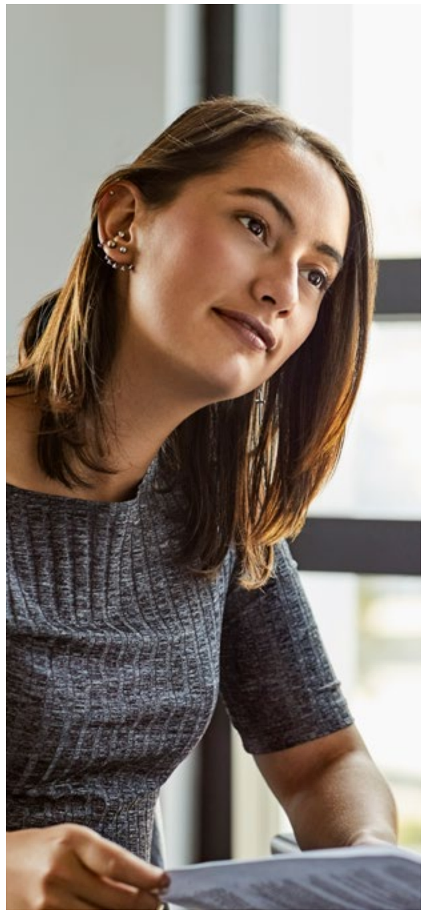
REQUIREMENTS

To qualify as a NHR, an individual must:

- Be a tax resident under Portuguese domestic legislation;
- Not have been a Portuguese tax resident in the five years prior to taking up residence in Portugal;
- Submit a request to register as a NHR in the Tax Authorities' website (until March 31stof the year subsequent to becoming a resident in Portugal)

Portuguese tax residency, regarding Portuguese Personal Income Tax purposes, may be acquired via two different ways, such as:

- Remaining in national territory more than 183 days, consecutive or not, in any period of 12 months beginning or ending in the year in question;
- Having stayed less time, to have a dwelling in national territory at any time during the referred period, under conditions that suggest that the individual **intends to maintain and occupy it as an habitual residence.**



TAX REGIME APPLICABLE IN PORTUGAL TO PASSIVE INCOME FROM FOREIGN SOURCE

INTEREST:

Possibility of exemption (provided that this income is liable to taxation in the source country under the DTA entered into between PT and the source country). Interest originated in tax havens, which do not have DTA with PT, are taxed at a 35% rate.

DIVIDENDS:

Possibility of exemption (provided that this income is liable to taxation in the source country under the DTA entered into between PT and the source country). Dividends originated in tax havens, which do not have DTAs with PT, are taxed at a 35% rate.

CAPITAL GAINS ON MOVABLE PROPERTY:

Taxed at a 28% rate (possibility of exemption provided that this income is liable to taxation in the source country under the DTA entered into between PT and the source country). taxed at a 35% rate.

CAPITAL GAINS ON IMMOVABLE PROPERTY:

Possibility of exemption (provided that this income is liable to taxation in the source country under the DTA entered into between PT and the source country).

ROYALTIES:

Possibility of exemption (provided that this income is liable to taxation in the source country under the DTA entered into between PT and the source country). Royalties (qualifying as investment income) originated in tax havens, which do not have a DTA with PT, are taxed at a 35% rate.

REAL ESTATE INCOME:

Possibility of exemption (provided that this income is liable to taxation in the source country under the DTA entered into between PT and the source country). Rental income from tax havens, which do not have a DTA with PT, are taxed at a 28% rate.

PENSIONS:

Possibility of exemption applies to NHR beneficiaries prior to 2020, provided that this income is not considered as obtained in Portugal. For NHR beneficiaries from 2020 onwards, taxed at a 10% rate. A transitional regime was approved, where individuals who were NHR beneficiaries prior to 1stof April (date of entry into force of the Portuguese State Budget Law for 2020), or who become resident in Portugal until the mentioned date and apply for the NHR regime within the prescribed deadlines, may choose which regime to apply (exemption or 10% rate).

TAX REGIME APPLICABLE IN PORTUGAL TO ACTIVE INCOME FROM FOREIGN SOURCE

INCOME FROM SELF-EMPLOYMENT:

Possibility of exemption if this income is earned in relation with activities of high added value*, e.g. engineers, doctors, general managers and executive managers of companies, and if it is liable to taxation in the source country under the DTA entered into between PT and this country.

INCOME FROM EMPLOYMENT:

Possibility of exemption only if this income is effectively taxed in the source State under the DTA entered into between PT and the source state, where applicable. If there is no DTA, possibility of exemption if effectively taxed in the source state and if not considered as Portuguese-sourced.

TAX REGIME APPLICABLE IN PORTUGAL TO ASSIVE INCOME FROM PORTUGUESE SOURCE

INTEREST:

Taxed at a 28% rate;

DIVIDENDS:

Taxed at a 28% rate;

CAPITAL GAINS ON A MOVABLE PROPERTY:

The balance between the capital gains and losses is taxed at a 28% rate;

CAPITAL GAINS ON A IMMOVABLE PROPERTY:

Taxed at progressive rates, on 50% of its value;

ROYALTIES:

Taxed at a 28% rate;

REAL ESTATE INCOME:

Taxed at a 28% Rate (certain reductions may apply);

PENSIONS:

Taxed at progressive rates

TAX REGIME APPLICABLE IN PORTUGAL TO ACTIVE INCOME FROM PORTUGUESE SOURCE

INCOME FROM SELF-EMPLOYMENT AND INCOME FROM EMPLOYMENT:

Taxed at a rate of 20% if it is earned in activities of high added value*, e.g. engineers, doctors, college teachers, farmers, general managers and executive managers of companies.

SUSTAINABILITY AS A DIVING FORCE

IN THE ECONOMY

Sustainability is a driving force for innovation in the economy, offering countless opportunities for the transition to a greener economy. In this new reality, companies want to be game changers and to embrace a transition for environmentally friendly models.

For this purpose, incentives and financing mechanisms of the different processes of innovation, investigation, and communication were developed.

PROGRAMMES AND STRATEGIES

PROGRAMME	AIM	DESCRIPTION
ENVIRONMENTAL FUND	The renewal of buildings within the PRR framework	To reduce by 30% the consume of primary energy in the intervened buildings and a decrease by 20% of water consumption. It has a financial aid that sums up to 70 million euros.
COMPETE 2020, SEUR PO AND REGIONAL PO	Different financing lines that can be used in the framework of a green economy	Financing for the development of initiatives that improve the efficiency of water use; to change the patterns of production and consumption; to create green brands; to implement certifications; to improve the energetic efficiency of multiples processes; and to opt on renewable energy.
ENERGETIC EFFICIENCY FUND (EEF)	Strategy that allows for the financing of programmes integrated in the National Action Plan for Energetic Efficiency (NAPEE)	To support technological projects in the areas of transportation, residential and services, industry and public sectors and support to transversal actions that foment energetic efficiency

PROGRAMMES AND STRATEGIES

PROGRAMME	AIM	DESCRIPTION
INNOVATION SUPPORT FUND	To support innovation and technological development projects.	To stimulate investment strategies in energetic efficiency, stimulating partnerships between Portuguese companies and the national scientific and technological system
LONG-TERM STRATEGY OF BUILDINGS' RENEWAL (LTSBR)	Intervention in the different surroundings of the buildings and in financing programmes with private and public investment	Based on four cornerstones: the improvement of comfort and the fight against energetic poverty; the increase of energetic efficiency; total decarbonisation and the gradual increase of comfort. It will mobilise roughly 144 thousand of millions of euros until 2050
EFFICIENT HOUSE PROGRAMME 2020	Improvement of the environmental development of buildings in the residential stock	Optimisation of the environmental performance of private housing buildings when it comes to energetic and water efficiency and in the management of urban waste.
IFRRU PROGRAMME 2020	Investments in urban rehabilitation and energetic efficiency	To support investment in urban rehabilitation and energetic efficiency in the whole national territory, always when the rehabilitated buildings are located in an area marked by the municipality
CITY MISSION	To reach carbonic neutrality until 2030	Porto, Guimarães and Lisbon are amidst the 100 selected cities to integrate the «100 Climate-neutral and Smart Cities by 2030». The three municipalities will have access to 360 million euros to attain carbonic neutrality until 2030. This project was developed by the European Commission.

BENEFITS

PROGRAMME	DESCRIPTION
BENEFITS RELATED TO THE IMI	The municipalities can fix a reduction up to 25% of the rate of the municipal tax over buildings (IMI), when the urban buildings are efficiently energetic
BENEFITS RELATED TO THE IMT	Urban buildings or autonomous fractions with more than 30 years or located in urban rehabilitation areas benefit from an IMT exemption as long as they comply with certain conditions

GREEN LEASES

According to the "Annual Sustainability Report 2019" done by Savills Investment Management, 73% of institutional investors see green leases clauses being universally implement between tenants and real estate investment managers by July 2029, with an average consensus pinpoint September 2026.

With the year of 2030 coming closer, the deadline for all market agents to draw a game plan is tightening, running a serious risk of not fulfilling the goals agreed on the Paris agreement, if passive strategies proceed to be applied, "waiting to see what others do".

It is important to highlight that in most European countries there still is not a legislative framework with clear and objective rules that ought to be fulfilled. In Portugal, the current legislation simply obliges the existence of energetic certificates, the monitoring and reporting of the air quality.

However, as ESG strategies come forward in the real-estate sector, through the environmental impact buildings have, the construction of efficient buildings or the investment in the modernisation of buildings in an obsolete state, the introduction of the so-called green clauses gains strength, so that it can be ensured the fulfilling of these legal dispositions, even if at first they might be light, they lead to efficient management, that allows for a significative reduction of carbon and that works as an essential instrument for a synergy between the ESG agendas, both of owners and occupants.

Moreover, if we consider the significance and the weight of the S in 'ESG' referring to the impact buildings have on life and well-being of all citizens.

BENEFITS

IMPACTS

The reduction of **carbon emissions**

The establishment of measures and equipment that allow for better **energetic efficiency**

The management and the reduction of **residues**

The use of sustainable **materials**

Incentives to the use of 'green' and shared **transports**

A strong sense of sharing and growing transparency between **owners and tenants**

CHALLENGES

The **insufficient formation** of management teams for the fulfilment and compliance of the green lease clauses

Additionally **finance charges**

Difficulty in the enactment, reading and processing of important data for the **optimisation of resources**

Sustainable acts and measures seen as **time consuming** and with **costs**

VALUE-ADD

Better quality tenants

The increase of value of the asset

The **management of the asset** according to esg goals and institutional investors and tenants

The **improvement of the image and reputation** of the promoters

Improvement of the environment and work conditions

Meeting taxonomy targets

PICK ONE COLOUR GREEN OR BROWN?

THIS IS A CERTAINTY: **IT'S JUST A MATTER OF TIME**

Fact-check: about **75% of the buildings** within the European Union are **not energetically efficient**

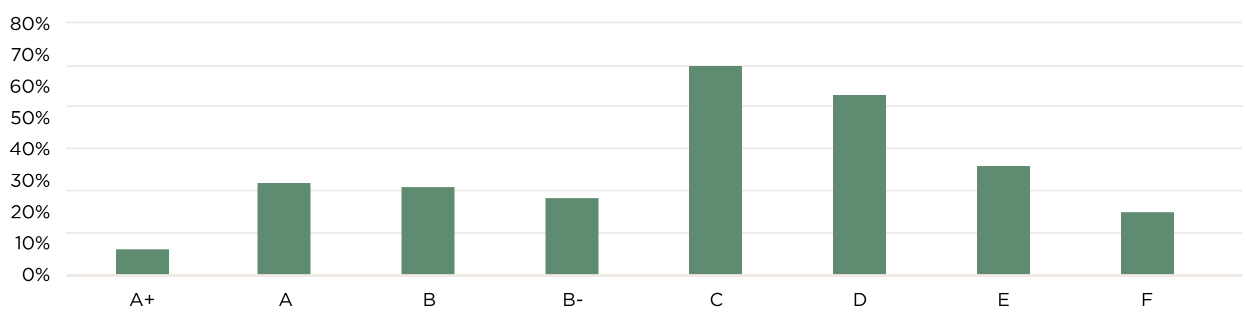
Buildings that do not reply efficiently to the high environmental standards will be seen as obsolete assets, possibly being risk assets in investment portfolios.

If some years ago the whole environmental agenda seemed a far away and optional reality, a leaning of a few visionary companies, today this narrative could not be farther away from the truth. The quite straight-forward choice on its genesis can lead to significantly different paths. Green buildings define as proprieties that fulfil strict sustainability criteria in different operational variants, for instance, high incomes in energetic efficiency. Opposed to 'Brown Buildings' that stand for the significant percentage of built stock that presents considerable energetic loss, due to the higher operational costs both for owners and occupants.

Even if the reasons why 'going green is the only way' are clear and advantageous, these still make many hesitancies when it comes to the benefits and income obtained by the enactment of optimisations and sustainability measures, thus creating resistance on the owners' behalf, who do not recognise yet its contribution and relation to financial gain.

In Portugal, according to data made available by the ADENE in the Energetic Certification Building System, out of a total of 1.697.014 buildings (housing and services) certified between the years 2014 and 2022 only 3,1% obtained an energetic certification A+ rating and 10,9% an A rating. More than 40% of buildings with energetic certification issued betweens 2014-2022 have an energetic of C or D rating and 20% with the energetic E or F rating.

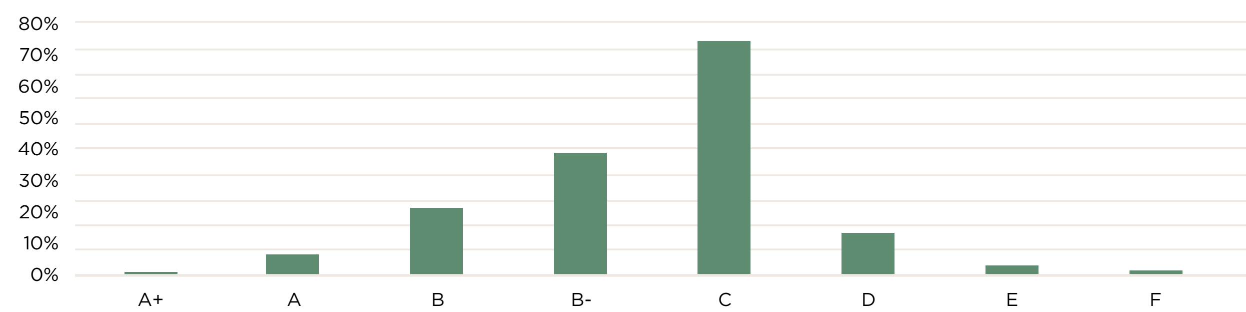
RESIDENTIAL AND SERVICES BUILDINGS
CERTIFICATES ISSUED BY ENERGY CLASS (2014 - 2022)



Source: ADENE

The scenery worsens if we consider the energetic certification data of services buildings. Out of the 195.743 certificates issued between the years of 2014 and 2022, only 0,4% had an energetic A+ rating and 4,3% A rating. 46,4% present an energetic C rating and 24,1% belongs to the B- category.

SERVICES BUILDINGS
CERTIFICATES ISSUED BY ENERGY CLASS (2014 - 2022)



According to the 2050 RNC, Portuguese Economy's Carbon Neutrality Long Term Strategy in 2050, the buildings of both services and household will e significant in the decarbonisation through an electrification almost complete of energy consumption, sustained by a better energetic efficiency attained by the effort of building's insulation through the use of solar thermal energy and heat pumps.

Meet the Team

Paulo Silva
Head of Country
paulo.silva@savills.pt
+351 21 313 90 00
Lisbon

Luís Filipe Carvalho
Partner and Head of Real Estate
luis.carvalho@pt.dlapiper.com
+351 21 358 36 20
Lisbon

SAVILLS RESEARCH

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors.

Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, UK, Europe, Asia Pacific, Africa, India and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.