Portugal Logistics Market

savills

MAY 2024

Introduction

The year 2023 posed significant challenges for the global real estate market. Since 2022, more uncertain economic conditions and geopolitical tensions brought by the Middle East and Eastern Europe prompted logistics companies to deeply rethink their strategies and hindering industry growth.

With a logistics stock of approximately 3.3 million square meters in the Greater Lisbon market, the demand for quality products is becoming increasingly competitive, with occupiers placing requirements and specificities related to their ESG & Sustainability policies at the top of their priorities.

In a market highly geared towards high demand and still very scarce supply, the logistics occupational market faces a huge challenge in responding (in an effective time frame) to increasingly significant and more international demand,

As we step into 2024, optimism emerges. While more sustained inflation and interest rates are expected, the latter half of 2024 could foster a more favourable environment for both occupiers and investors.

Anticipating the year ahead, 2024 is set to witness demand catalysed by the continued growth of eCommerce operators and a continuing shift towards AI and Automation within warehouses.

The logistics sector is going through unprecedented dynamics. With the transition of supply chain management models from a “just in time” approach to a more resilient “just in case” philosophy, the demand for logistics space is constantly growing.

The present report, Savills Logistics Market Overview, aims to provide valuable insights into the landscape influencing the growth and expansion of logistics sector, offering a comprehensive and value-add perspective for all the industry stakeholders.

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Key Highlights

Since the pandemic, the national logistics market has witnessed a significant increase in its dynamics driven by several factors ultimately aiming to achieve optimized and efficient supply chains. The competition for quality products has become increasingly fierce, highly motivated by more demanding requirements from tenants and stakeholders, mostly linked to non-negotiable efficiency and sustainability goals;

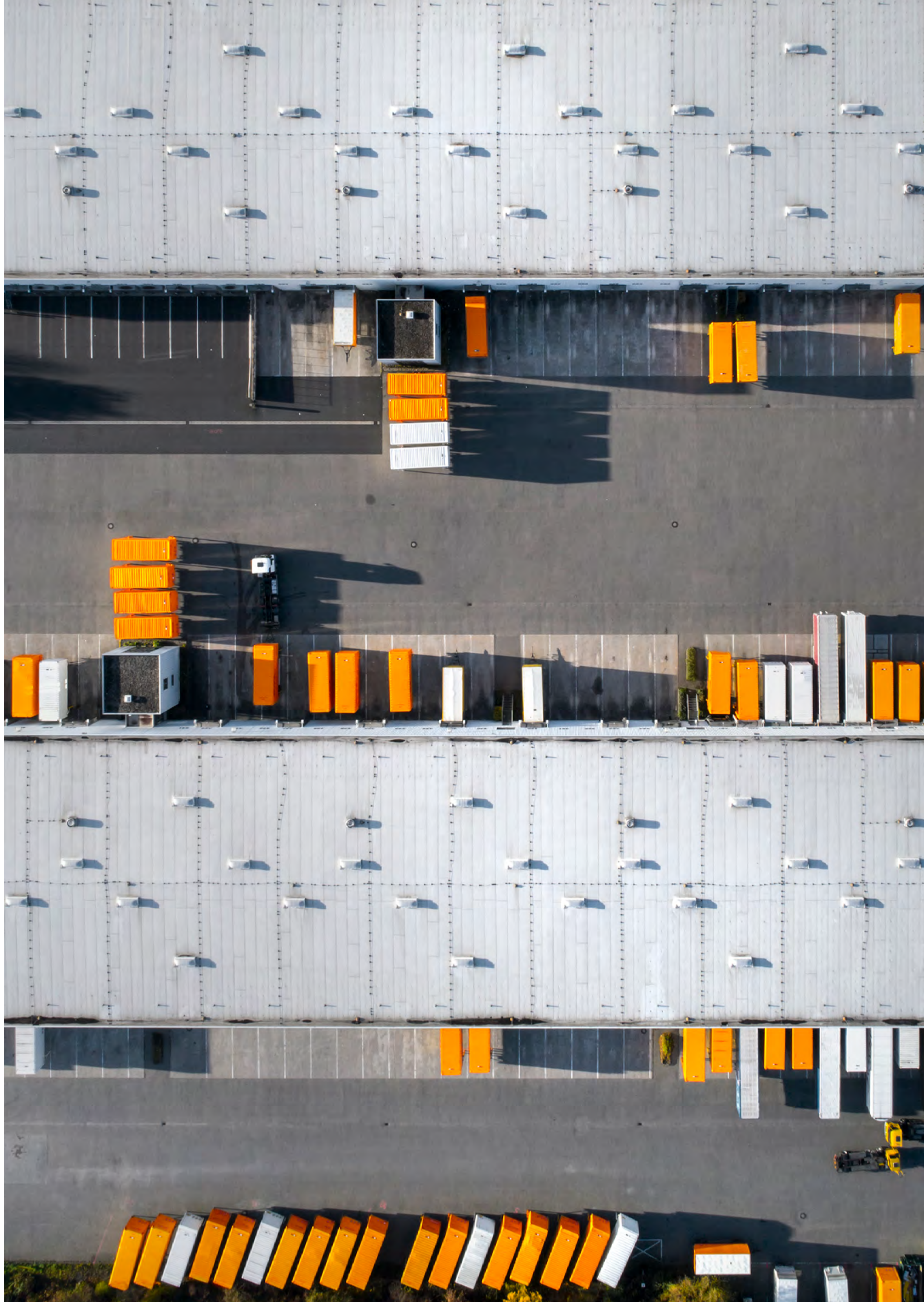
With an estimated demand of approximately 800,000 sq m in Portugal, the market falls short in meeting this demand. Considering both the available supply and the projected pipeline for the next two years, the result is a shortfall estimated at 320,000 sq m;

The extremely low vacancy rates in both Greater Lisbon and Greater Porto are also accompanied by a very limited number of logistics warehouses that hold sustainability certifications in both markets. These are two very enlightening indicators of the existing response gap, both in terms of the necessary space for the growth, expansion, and competitiveness of the Portuguese logistics market, and in terms of quality as well;

The attraction of top-tier tenants and core buyers can only be guaranteed by a strong commitment to adapting logistic stock to the current demands.

In addition to the market's growing demand for buildings that are more efficient, sustainable, and compliant with Sustainability standards, they will need to outperform the worst-rated buildings by 16% starting in 2030 and by 23% starting in 2033;

This will result in a gradual phasing out of non-residential buildings with the lowest performance. Additionally, buildings that do not adhere to emission reduction plans outlined by the EU CRREM will find themselves excluded from both leasing and investment opportunities in the foreseeable future.



Portugal
The Next Big Thing

"What´s next and can Portugal be the next big thing in the european logistics landscape?"

The pandemic, the macro-economic context of the last two years, and the more recent geopolitical tensions have led to a profound reconsideration of supply chains. The demand for quality facilities has become imperative considering this rethinking of supply chains, to which is now added the mandatory compliance with Sustainability requirements.

Faced with a shortage of quality stock in the Portuguese logistics market, challenges are set at a time when demand dynamics remain hot and require quick response times. The change in stock organization models, coupled with the introduction of new technological innovation tools, puts the sector in an unprecedented transitional phase.

Portugal benefits from strong and solid market fundamentals, which position it prominently as a destination for logistics operations relocation, namely a strategic location, stable political and social climate, security, quality of infrastructure, quality and specialization of labor force, energy costs, and competitiveness in renewable energy production.

At the top of the agenda are now also Sustainability goals, which, from the perspective of occupants and investors, must be addressed, moving to the top of the list of diligences conducted.

Faced with the obligation to meet these goals, the requirements have become more stringent and non-negotiable. Considering this, the quality of Portuguese logistics stock does not shine, neither in terms of available spaces nor in terms of assets with sustainability certifications.

According to the present study, 45% of the stock in Greater Lisbon falls into category B, of which only 4% have sustainability certifications. And this poses a significant challenge for Portugal in updating its logistics stock.

Beginning in 2023, newly constructed buildings must achieve zero emissions. The directive proposal defines these structures as those boasting exceptionally high energy efficiency, with all remaining energy requirements met exclusively through renewable sources, and no on-site carbon emissions from fossil fuels.

Regarding existing buildings, in addition to the growing market demand for more efficient, sustainable, and Sustainability-compliant structures, they will be required to improve performance by 16% compared to the least efficient buildings by 2030, and by 23% from 2033 onward.

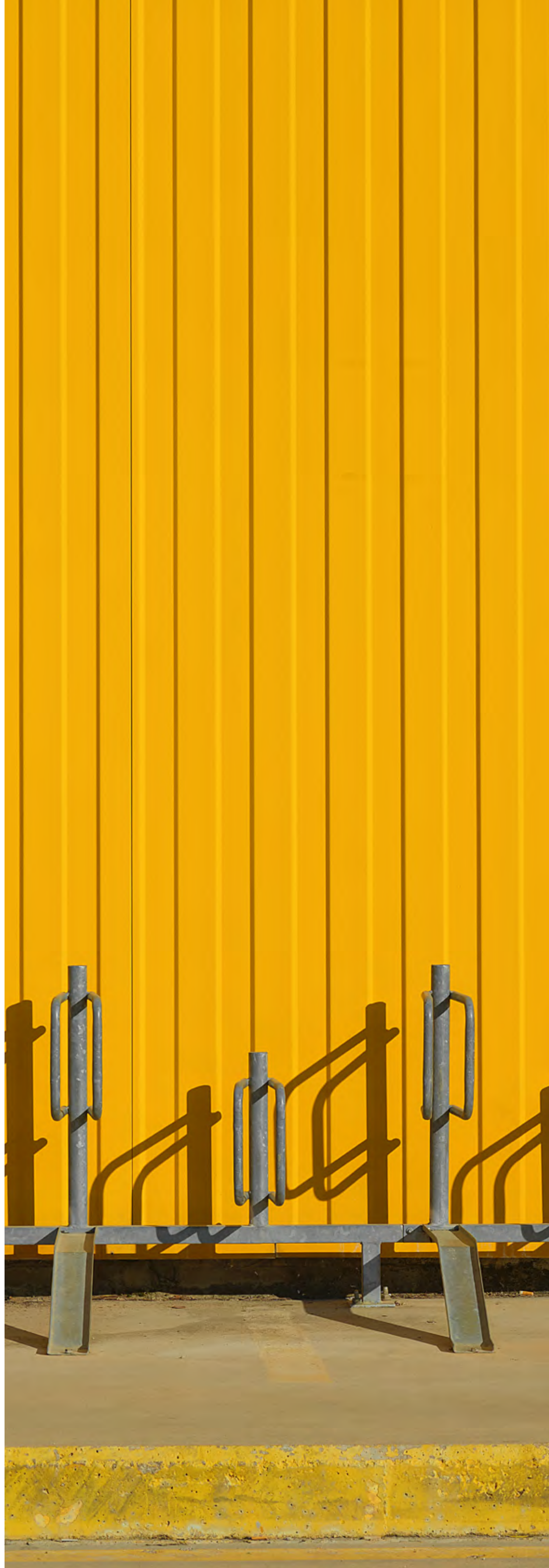
The outdated logistics stock is evident in the mismatch between demand dynamics, take-up volume, and investment amounts. In 2023, the industrial & logistics sector recorded €80 million in real estate investment, after hitting a record volume of €500 million in 2022.

The investment market shows a clear counter-cyclical pattern compared to the industrial and logistics occupancy market. Despite the growing dynamics observed in the occupancy market over the past five years, the investment market has yet to catch up.

Since 2019, across the entire country, over 2 million square meters have been occupied, primarily comprising distribution and logistics facilities.

Evidence of investor attraction is the increasing square footage in the pipeline. By 2026, nearly 800,000 square meters of projects are planned across the country with approximately 43% of projects already in pre-let stages.

The volume of pipeline entering the market in recent years is evidence of the scarcity of viable supply for occupation according to current standards, and it duly recognizes the opportunity for development that Portugal offers, acknowledged by investors and developers alike.



Economic Outlook

> A reduction in private consumption, a slowdown in international trade and foreign investment volumes were at the heart of Portugal's economic slowdown in 2023.

Despite this, the economy displayed resilience concluding the year with a 2.3% year-on-year growth.

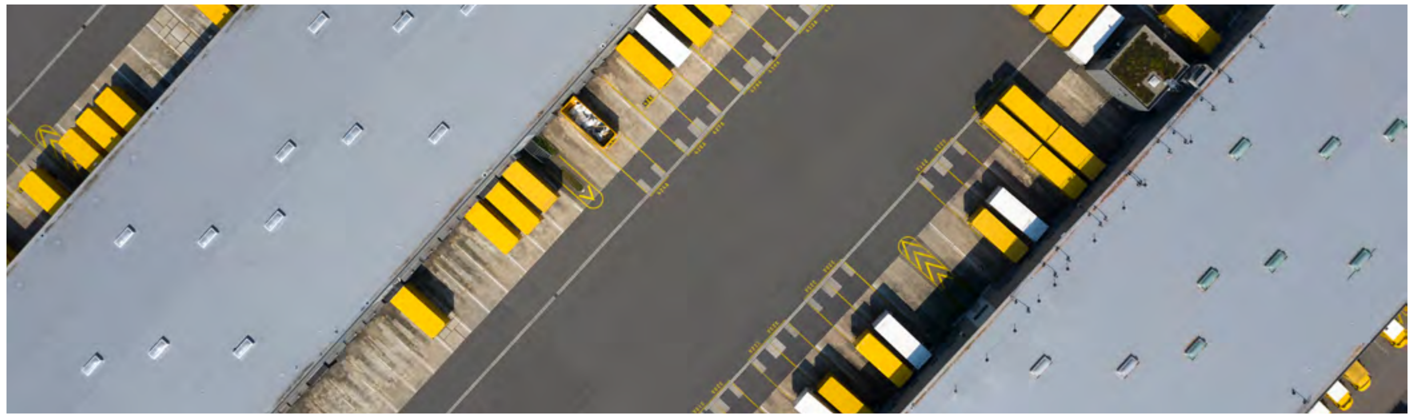
The economic downturn in the final stretch of the year, although it meant a slowdown from the 6.8 per cent recorded in 2022, showed a slight recovery in economic sentiment and solid growth in the employment component.

Forecasts for 2024 point to a slow start, still justified by the weak dynamics of the main trading partners. This momentum is expected to recover in the second half of the year, as interest rates begin their expected downward path.

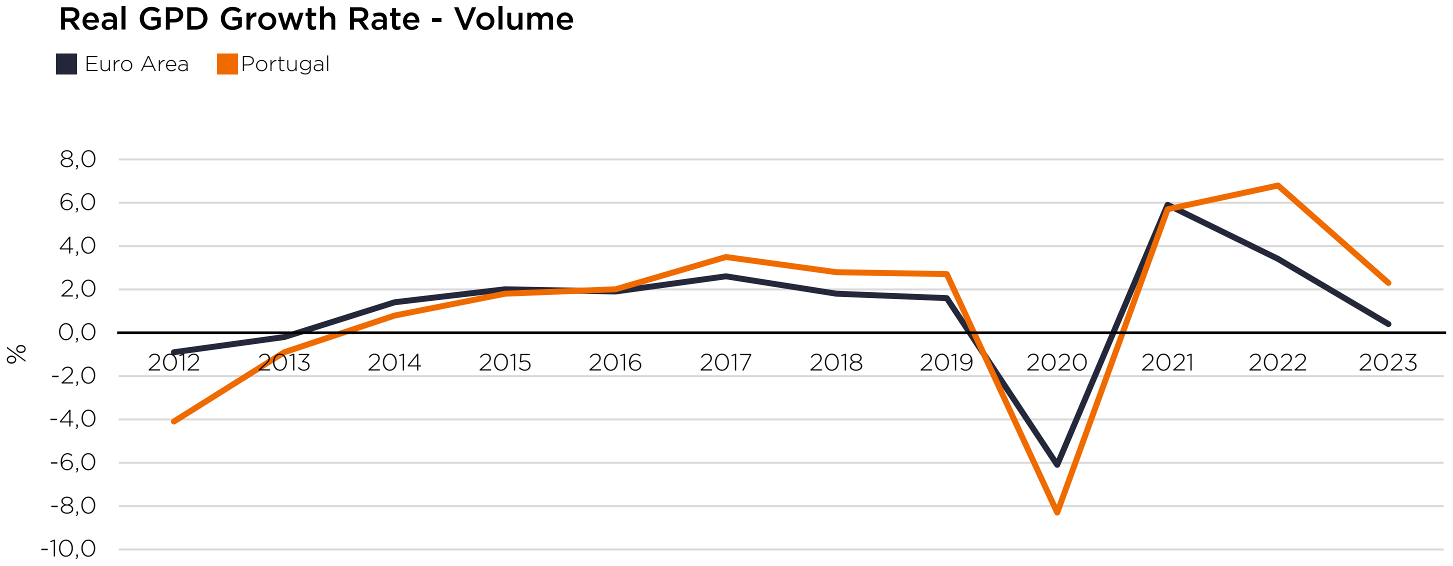
GDP growth is expected to stand at 1.2% in 2024 and 1.8% in 2025. The increase in employment and wages should benefit private consumption. However, higher household expenditure on mortgage interest payments could lead to higher savings levels and more cautious purchasing decisions.

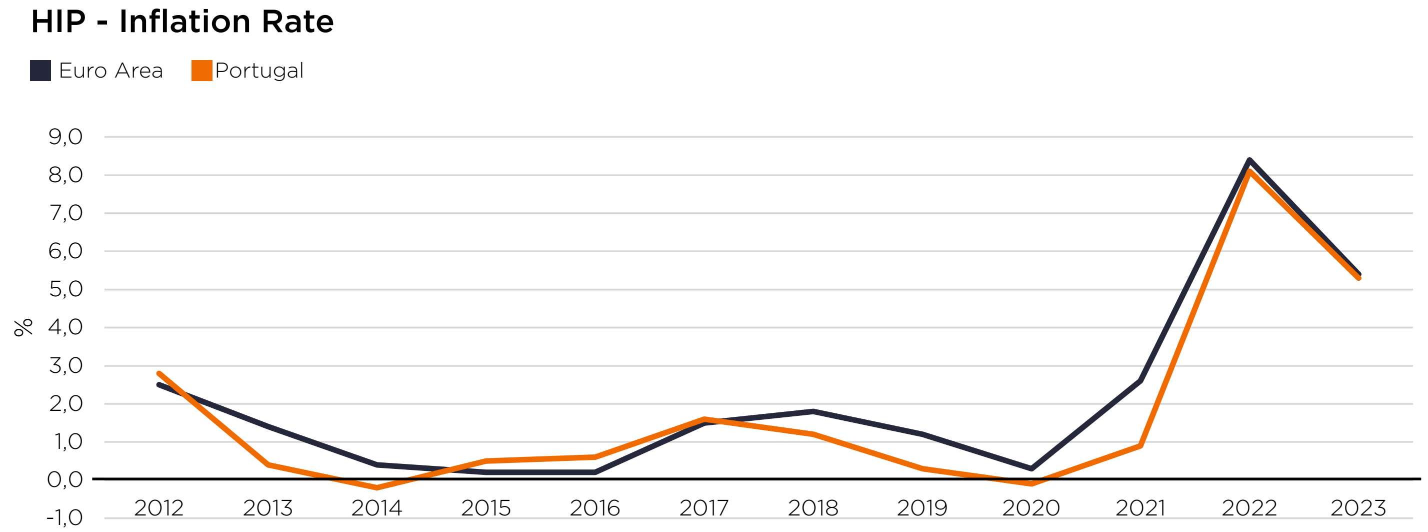
Moreover, there is optimist surrounding the impact that the Recovery and Resilience Plan (RRP) will have on the anticipated influx of EU funds, which should help counterbalance any potential negative effects of higher interest rates on investment.

Exports are predicted to outpace imports, driven by the strong performance of the tourism sector. This upward trend in exports is expected to contribute to overall economic growth.



PORTUGAL LOGISTICS MARKET





Source: Eurostat

> Industrial production prices saw an average annual drop of 2.2 per cent in 2023, compared to 20.5 per cent in 2022.

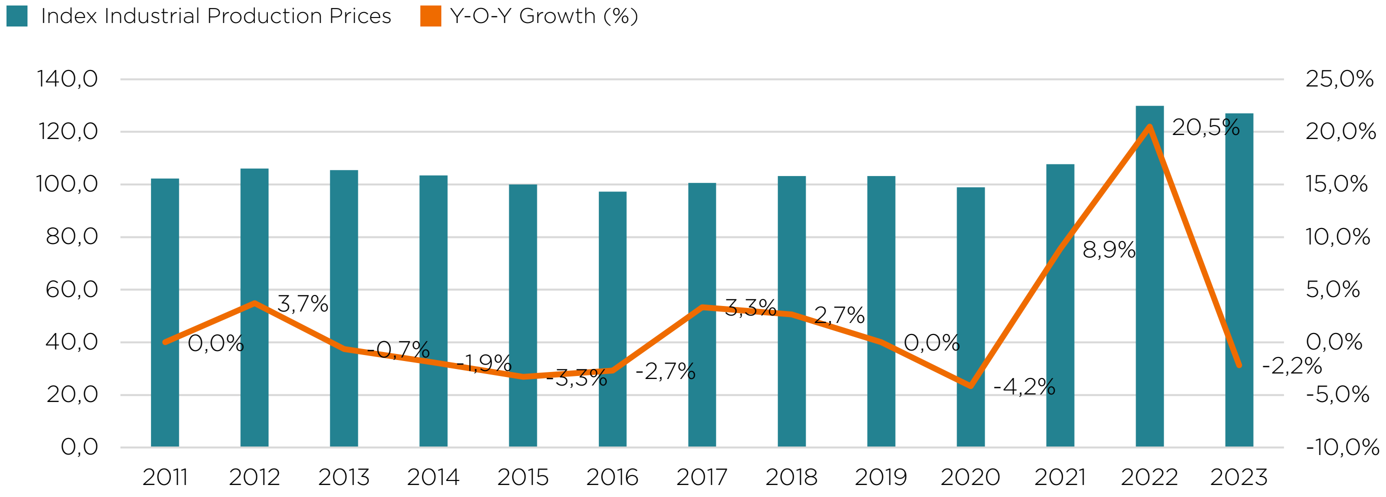
The domestic and foreign markets showed a fall of 3.5 per cent and growth of 0.3 per cent respectively in 2023, compared to rises of 20.5 % and 20.4 % in 2022.

Excluding the energy component, the average annual change in the industrial production price index was 2.4 % in 2023, compared to a rise of 14.5 % in 2022.

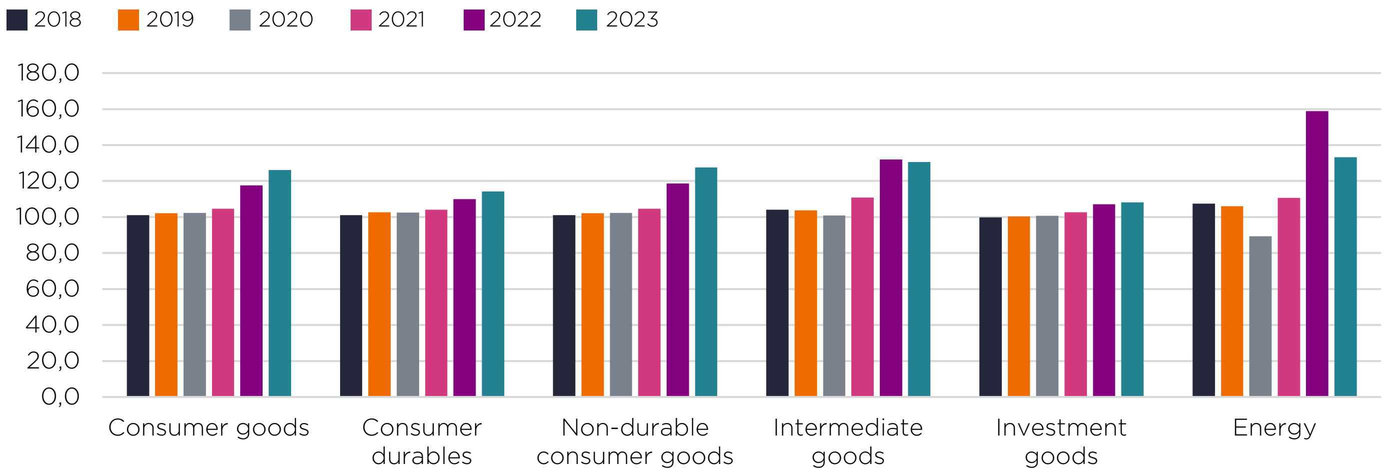
Industrial production prices fell by 4.4 per cent in December 2023 compared to the same period last year, making it the ninth month in a row that industrial production prices have fallen.

The energy sector, with a contribution of -2.9 percentage points, associated with a rate of change of -12.9% (-4.5 p.p. and -18.9% in November), was decisive for this outcome.

Index Industrial Production Prices



Index Price Industrial Production by Category



Source: INE

The first results for 2023 point to decreases of 1.0 per cent and 4.1 per cent in exports and imports, respectively.

In total for 2023, compared to the year 2022, the most significant decreases were in exports of Industrial supplies (-6.1%; -1.621 billion euros) and Fuels and lubricants (-22.8%; -1.483 billion euros).

On the other hand, there were increases of 7.3% in Transport equipment (+923 million euros) and 6.9% in Machinery and other capital goods (+754 million euros).
In 2023, exports to Spain fell (-2.7%; -554 million euros) and, on the other hand, transactions to France increased (+4.4%; +422 million euros).

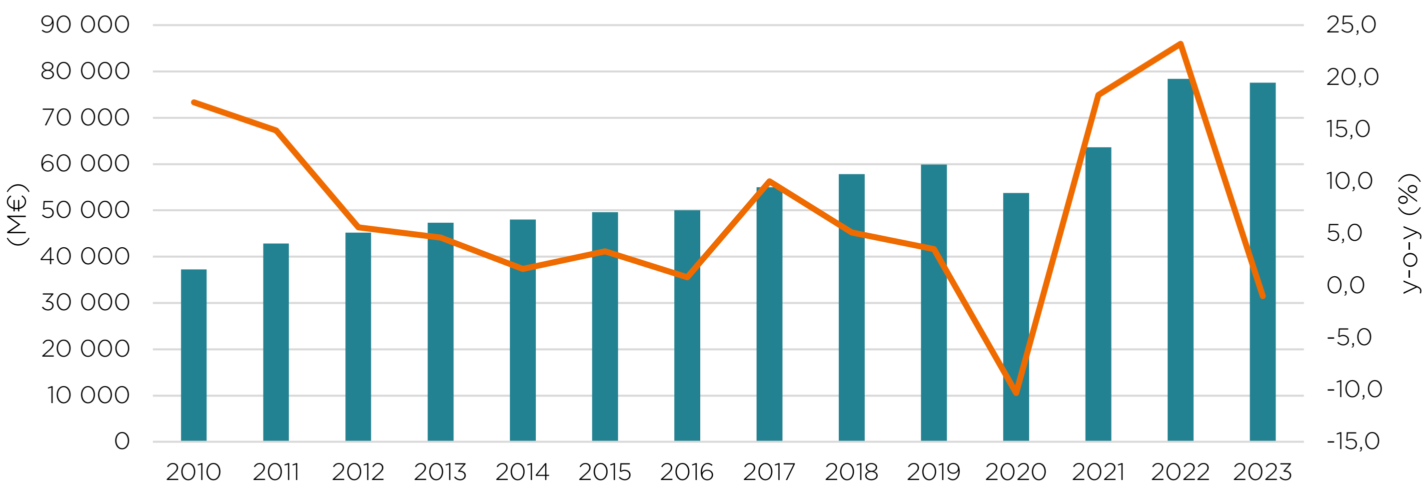
As for imports, there was a 35.6% decrease in transactions with the United States (-1 248 million euros).

Exporting companies expect a nominal increase of 2.9 per cent in their exports of goods by 2024. Companies' outlook for their exports of goods in 2024 may also reflect, to a high degree, uncertainty about developments in the international context.

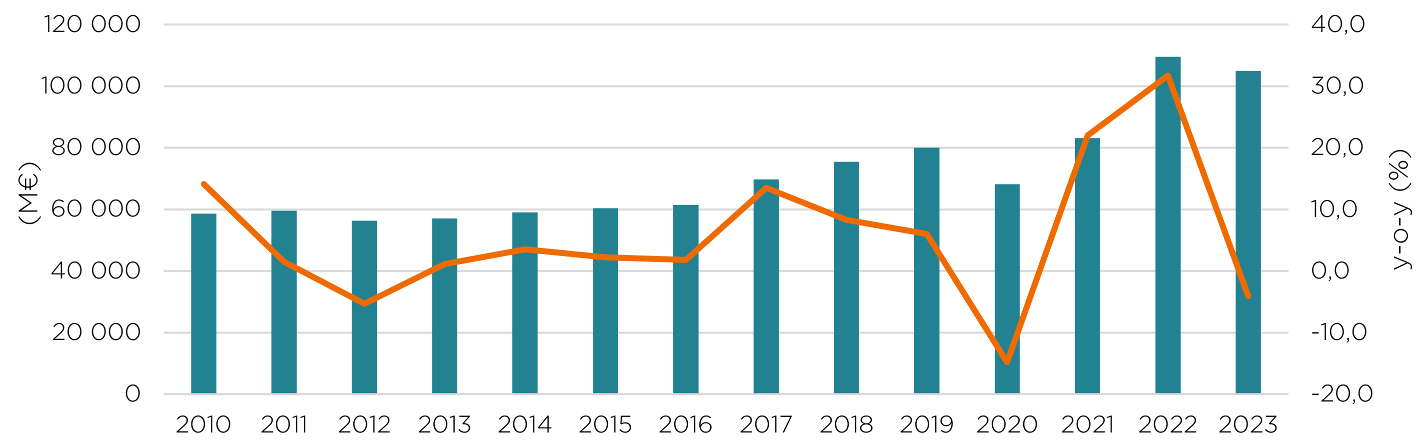
Companies' expectations for the evolution of their exports of goods in 2024 differ between the various sectors of activity. On the one hand, increases are expected as a result of price rises or the implementation of new production lines.

Conversely, there are prospects of a reduction in export activity due to the anticipated contraction in demand, planned stoppages or discontinuation of production lines in response to market conditions, disruptions in global value chains and increases in the costs of production factors.

International Trade | Portugal - Exportations



International Trade | Portugal - Importations



Source: INE

> "In a year of strong economic uncertainty, the labor market in Portugal grew by 2%, with around 97,000 jobs created, a slowdown compared to the 106,000 jobs created in 2022."

The year 2023 ended with an unemployment rate of 6,5%, which compares with 6,0% at the end of 2022, which represented 4,978.5 thousand employed people, 97.1 thousand more than in 2022, equivalent to a rise of 2%.

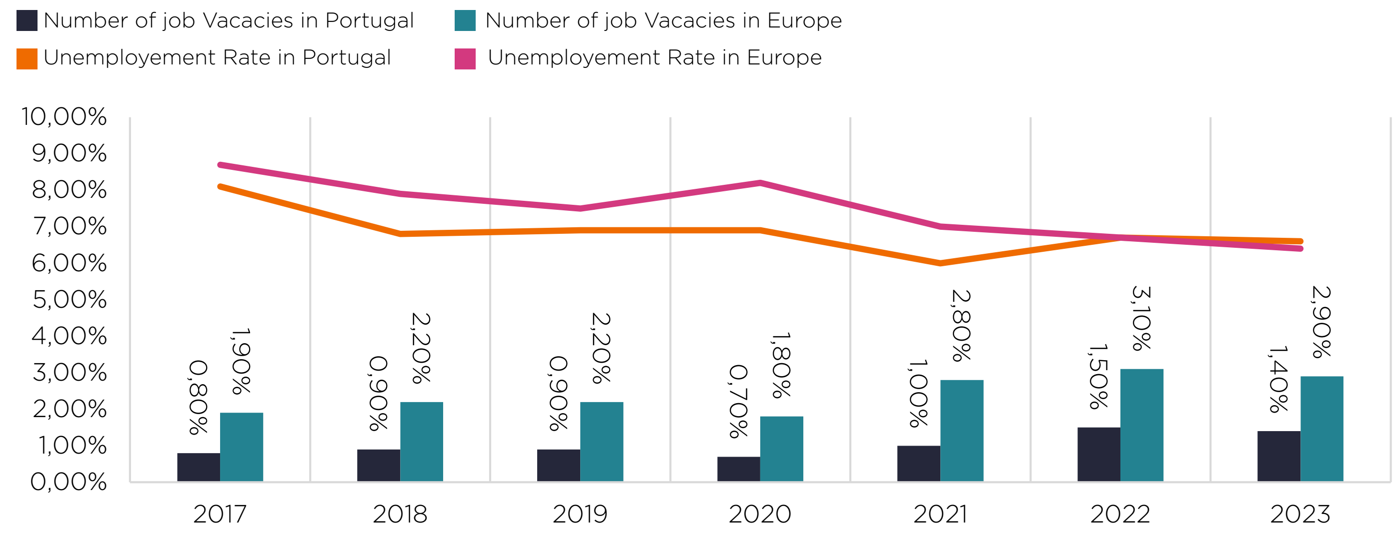
According to a market study realized by Michael page, in 2023, there was an increase in the demand for Logistics and Supply Chain profiles, particularly in industrial, retail, and construction sectors, with a job market experiencing an increasing scarcity of professionals.

Presently, workers in transportation and storage constitute approximately 3.85% of the total workforce in Portugal, a figure anticipated to rise.

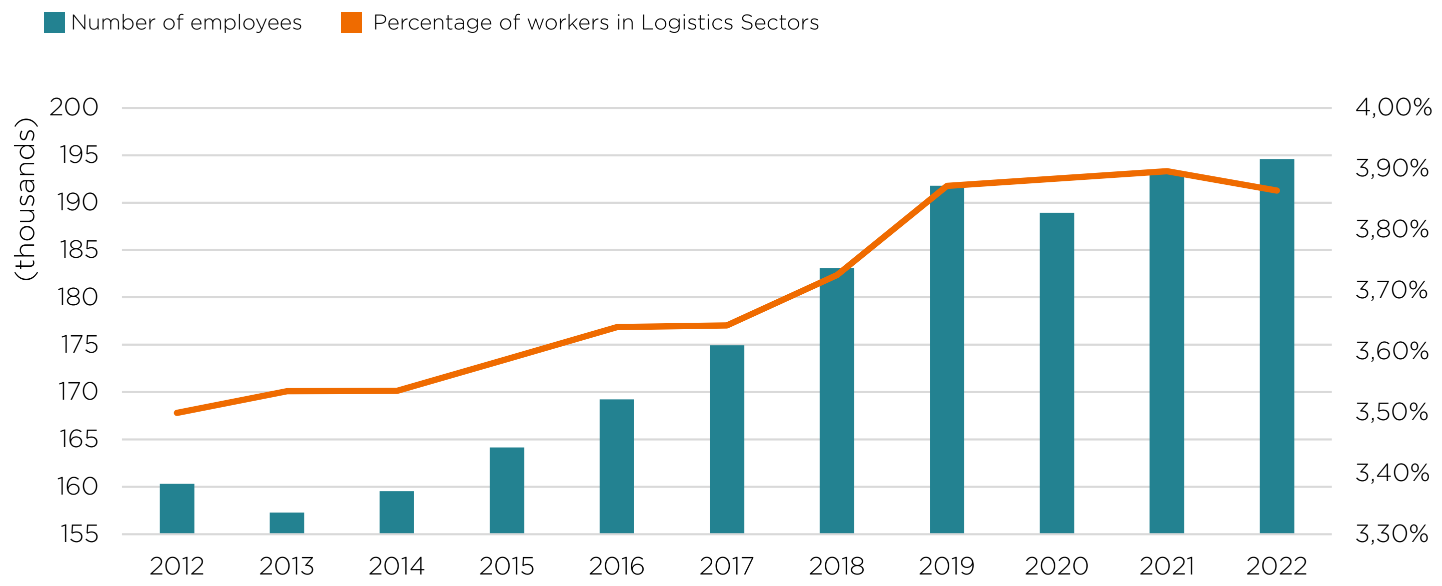
As foreign companies increasingly invest in logistics centers within the country, there will be a surge in demand for employees. However, a potential concern lies in ensuring a commensurate supply of qualified workers to meet the burgeoning demands of this rapidly expanding industry.

PORTUGAL LOGISTICS MARKET

Job Vacancies and Unemployment Rate in Europe and Portugal



Evolution of the total number of workers in the logistics sector



Source: Banco de Portugal

> "Expectations point to moderate inflation in 2024, with gradual declines throughout the year."

The mitigation of the impact of past shocks, which has put pressure on prices, coupled with tighter financial conditions, will help bring down inflation.

If inflation continues to trend downward and the European economy cools more than anticipated, the European Central Bank may move to cut interest rates more swiftly.

However, the caution of the European Central Bank still paints an uncertain picture regarding the reduction of interest rates.

The major financial institutions are also unanimous regarding the pace of descent, which is expected to be slow and gradual, with no abrupt decline in interest rates anticipated.

Euro

Gradual economic growth recovery expected for 2024, with anticipation of an increase in real disposable income resulting from the decline in inflation rates and wage growth. Export growth is expected to catch up with the increasingly strong external demand.

It is projected that inflation will continue to moderate due to the ongoing slowdown of accumulated pressures and the impact of increased monetary policy restrictiveness, although the pace of this moderation will be more modest than that observed in 2023.

The average annual real GDP growth is expected to:

Reach in 2024

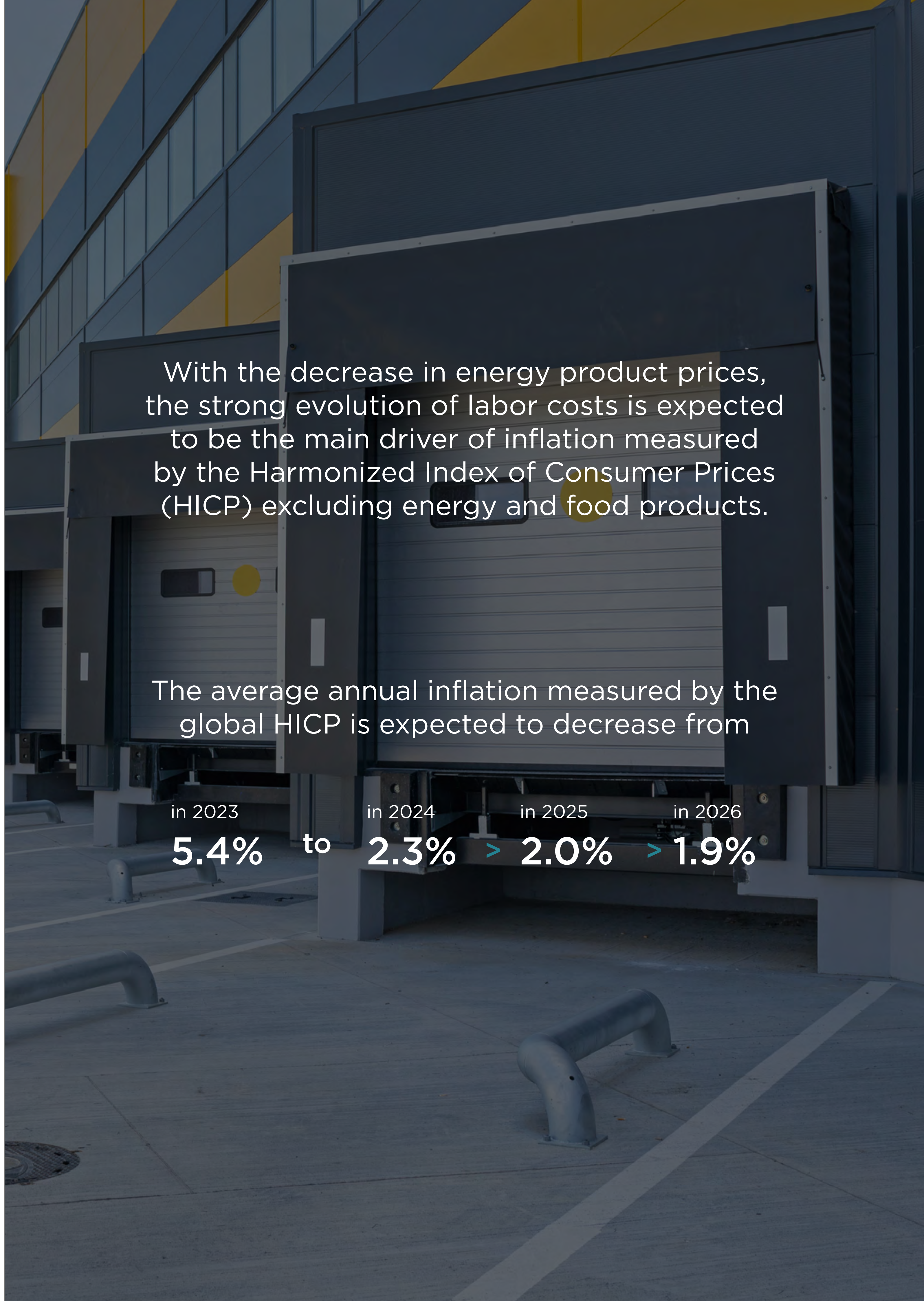
0.6%

Increase in 2025

1.5%

Further rising in 2026

1.6%



With the decrease in energy product prices, the strong evolution of labor costs is expected to be the main driver of inflation measured by the Harmonized Index of Consumer Prices (HICP) excluding energy and food products.

The average annual inflation measured by the global HICP is expected to decrease from

in 2023 **5.4%** to in 2024 **2.3%** > in 2025 **2.0%** > in 2026 **1.9%**

Forecast 2024

> Forecast reviews came with more optimism for Portugal

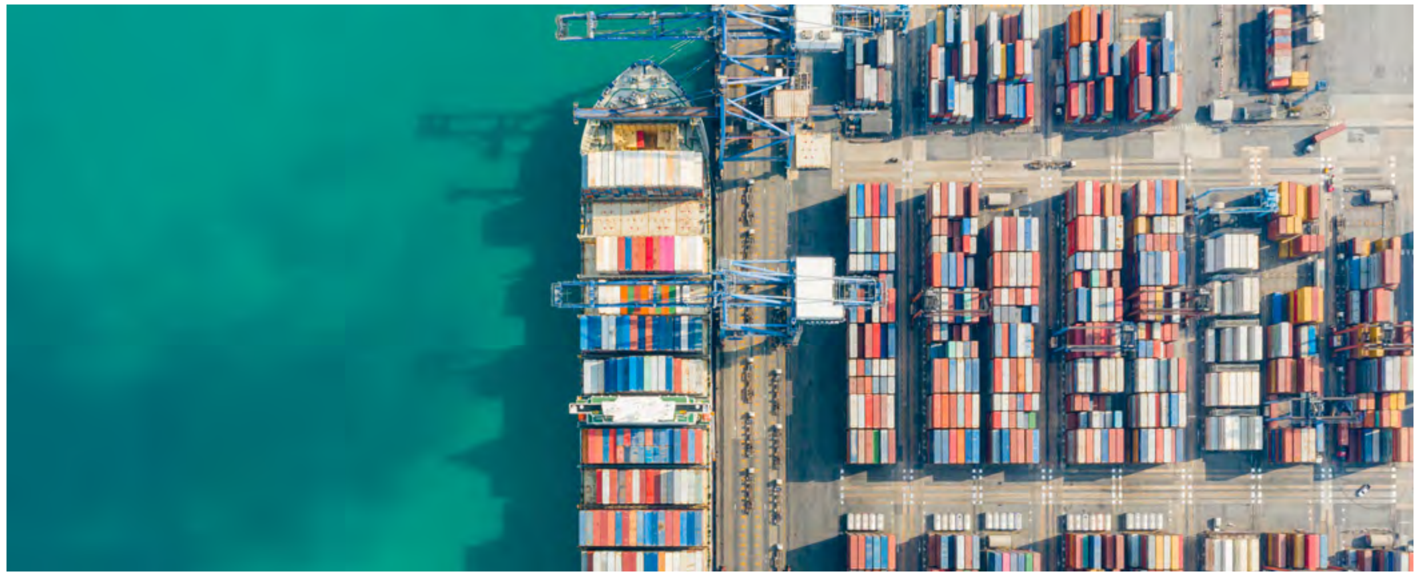
The principal financial institutions have revised their projections for the Portuguese economy upward, attributing this adjustment to enhanced investment activity and the commencement of disbursements from the Recovery and Resilience Funds.

The OECD has upgraded its economic outlook, forecasting a GDP growth rate of 1.6% for 2024. This upward trajectory is anticipated to be supported by increased public investment, tax relief measures, and augmented social benefits, all of which are poised to bolster economic momentum within Portugal.

Likewise, the IMF has expressed heightened optimism in its latest economic forecast for Portugal, primarily influenced by the broader economic resurgence across the eurozone. GDP growth is anticipated to reach 1.7% in 2024 and 2.0% in the subsequent year.

The recovery within the eurozone hinges on amplified household consumption and the alleviation of energy price shocks, coupled with tangible progress in deflating inflation rates. Furthermore, the Bank of Portugal has adjusted its projections upward, citing export expansion—especially within the tourism sector—and the infusion of funds from the Recovery and Resilience mechanism as key drivers of Portugal's economic trajectory in 2024.

For the year 2024, the Bank of Portugal's forecast is marginally more optimistic compared to others, with an anticipated GDP expansion of 2.0%. Looking ahead to 2025, the forecast stands at 2.3%, surpassing the average growth rate projected for the eurozone.



PORTUGAL LOGISTICS MARKET

STRENGTHS

Recovery and Resilience Funds
The deployment of these funds is anticipated to infuse significant capital into the economy, bolstering infrastructure development, fostering innovation, and promoting sustainable growth.

Tourism
Portugal's tourism sector continues to be a major strength, attracting millions of visitors annually. In 2023, Portugal surpassed 30 million guests and 77 million overnight stays, exceeding pre-pandemic figures.

Skilled Workforce
Portugal prides itself on having a highly educated and skilled workforce, especially in fields like technology, engineering, and renewable energy, which stimulate innovation and productivity.

OPPORTUNITIES

Foreign Investment
Sustained initiatives to allure foreign investment, particularly in burgeoning industries and technology sectors, have the potential to ignite job generation, infrastructural advancement, and economic growth.

Digitalization
Rapid advancement of digital transformation initiatives can amplify productivity, efficiency, and competitiveness across diverse sectors, cultivating innovation and fostering economic diversification.

Green Transition
Investment in renewable energy, sustainable infrastructure, and green technologies presents opportunities to drive economic growth while addressing environmental challenges.

International Trade
Diversifying export destinations can reduce reliance on traditional trading partners and mitigate risks associated with market volatility.

Nearshoring

"Nearshoring entails relocating business operations to a nearby country, representing a close relocation approach. It emerges as a response to offshoring, where businesses seek suppliers in distant locations to reduce costs."

Nearshoring and onshoring strategies are gaining prominence as companies strategically navigate changes in the supply chain landscape.

If in the past the watchword was to minimize costs and allocate production where it was cheapest, maintaining the minimum stock quantity to ensure just-in-time flow of goods, all of this seems to have changed. The pandemic, geopolitical tensions, the growing importance of sustainability, and the constant change in consumer profiles have acted as game changers.

In the aftermath of all these events, companies have confronted new challenges, particularly in the efficiency of their supply chains, despite the historical benefits of offshoring for effective role distribution in the value chain.

Investors in financial markets are increasingly seeking companies with strong sustainability criteria, thereby pressuring manufacturers to enhance their Sustainability performance and prompting them to reconsider their supply chains.

One consequence is the increase in production closer to consumption areas, known as nearshoring, as opposed to the offshoring model followed in recent years, where labor costs are lower, but Sustainability criteria are still very low.

PORTUGAL LOGISTICS MARKET

"But how does Portugal position itself in the ranking of the most attractive destinations for Nearshoring?"

Savills Research has developed the Nearshoring Index, which assesses the elements impacting companies aiming to relocate production closer to consumers.

These factors include:

- Resilience (risk absence and proximity to future consumers);
- Economics (labor costs);
- Business environment (ease of operations and trade infrastructure quality);
- ESG (environmental and labor protection).

The rapid and ongoing popularity of nearshoring in Europe further positions Portugal as a favourable choice for companies seeking to enhance efficiency and competitiveness in their logistic operations.

The country's strategic advantages, including proximity to ports, well-established transportation networks, and convenient access to suppliers and customers, distinguish it among other European nations.

Top 10 Nearshoring Index Rank

NEARSHORING | INDEX RANK	OFFSHORING INDEX RANK	COUNTRY
1	6	Check Republic
2	7	Portugal
3	36	Áustria
4	2	Taiwan
5	37	United Kingdom
6	38	Japan
7	41	Canada
8	43	Finland
9	12	Poland
10	50	Sweden

Source: Savills "Impacts"

Portugal: Going strong!

LOCATION, LOCATION, LOCATION

Portugal enjoys short air distances of approximately two hours from major European capitals and is also the closest country to the USA, with direct connections to several American cities.

ECONOMIC CLIMATE

Known for its political stability, social peace and safety – Portugal is in the top 7 safest countries in the world, and while not the cheapest destination, Portugal offers a good balance between cost and quality.

SHIPPING ROUTE AND LOCATION

While Eastern European countries continue to be a good destination to trade with Asian countries, the southwestern European country offers a huge advantage in terms of products imports and exports, with easy access to Northen Africa, the American continent, and the rest of Europe, making it especially attractive for industrial and logistics operations.

In addition, the country counts on several major ports, two of them located in the main cities of the country, Lisbon, and Porto.
The country has well-developed logistics networks, and its ports, such as the Port of Lisbon and Port of Sines, are equipped with modern facilities.
Portugal is also connected to major European highways and has a strong rail network, enhancing connectivity for industrial and logistics operations.

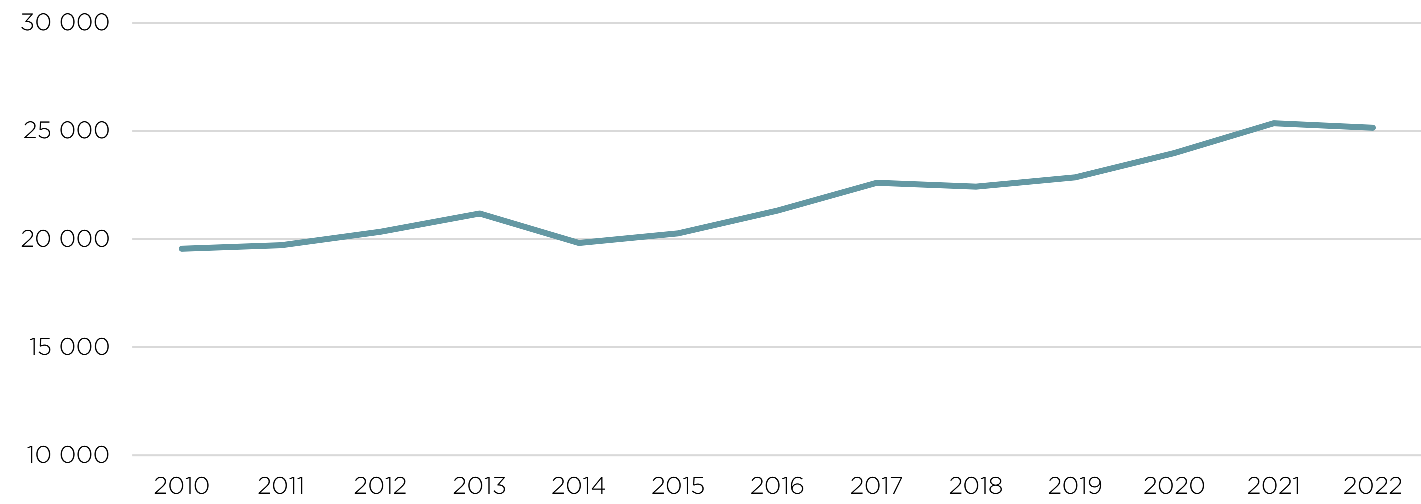
VERY WELL POSITIONED IN TERMS OF INFRASTRUCTURE QUALITY

QUALITY AND AVAILABILITY OF LABOR FORCE

Portugal has made significant strides in cultivating a highly skilled labour force, particularly evident in the increasing number of graduates from STEM programs, with 20% of graduates coming from these fields. Eurostat data confirms Portugal as having the second highest rate of Engineering, manufacturing and construction graduates in the EU.

PORTUGAL RANKS AS THE EIGHTH COUNTRY IN THE WORLD FOR ENGLISH PROFICIENCY

Number of STEM Graduates per year



Source: PORDATA

A leader in Renewables Energy

In the year of 2010 **80%** of energy in Portugal was imported, mainly due to high dependence of very limited quantities of fossil energy sources. Over the decade, Portugal focused heavily on developing strategies to increase its renewable energy production, which helped the country lower its energy dependence to below 65% in the year of 2022.

Global Leadership in Renewable Energy:
Portugal maintains its position as a global leader in renewable energy production, ranking 7th in Europe for the highest share of renewable sources used to produce energy.

As of May 2023, Portugal reached a milestone with renewable energy accounting for 61% of the country's electricity, a significant increase from the 49% registered in 2022 (Reuters, 2024).
Aligned with the European Union's goal to double its renewable energy sources by 2030, Portugal has set targets in its national energy and climate plan for 2030, aiming for at least 80% of electricity production to come from renewables, furthering the decarbonization of the energy sector, with additional strategies set to achieve carbon neutrality by 2050, signalling its commitment to sustainable energy transition and environmental stewardship

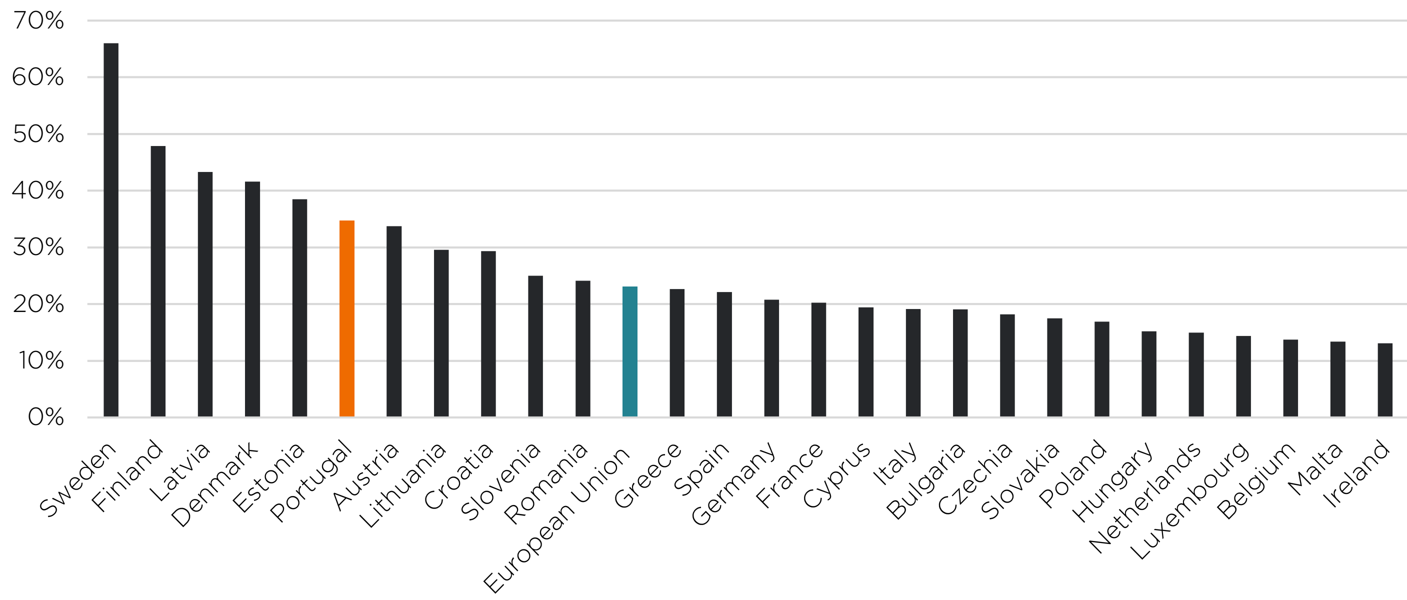
Energy Costs

Examining energy prices for non-household consumers, Portugal stands out within the Europe Union's 10th most competitive rates per kWh, with a decrease of 19% in comparison to 2022.

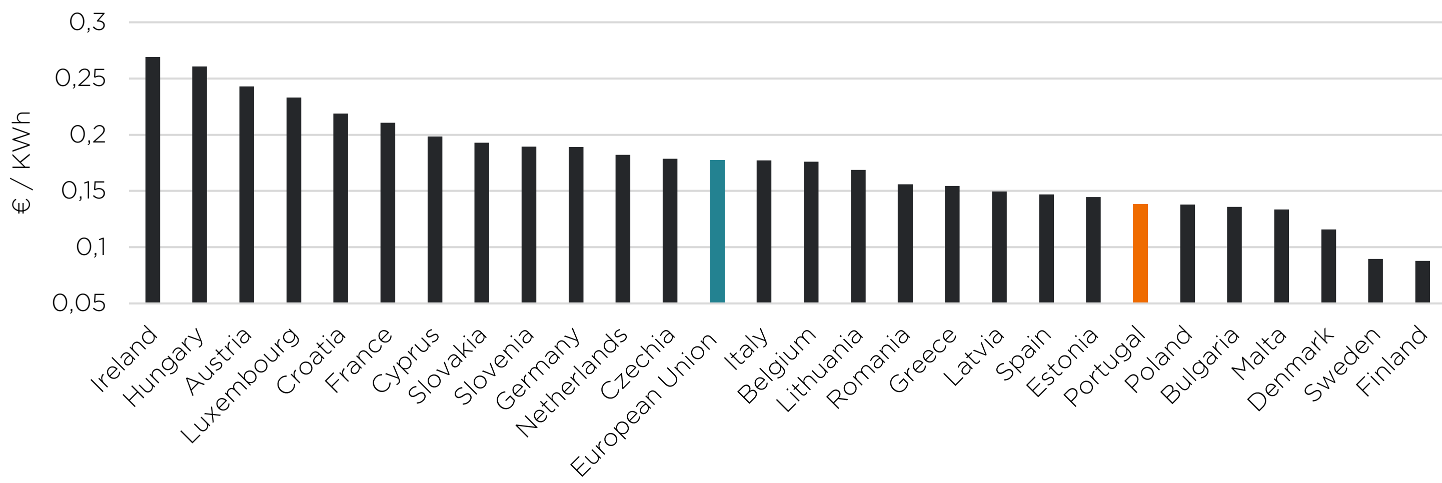
This achievement is mainly due to the focus on renewables energy, empowering key players like EDP to reduce energy costs through less volatile sources. This not only underscores Portugal's unwavering commitment to sustainability but also reshapes the energy pricing landscape, offering a significant advantage for logistic buildings looking for cost-effective operations.

PORTUGAL LOGISTICS MARKET

Share of energy from renewable sources



Energy price for non-household consumers | Year 2023



Source: Eurostat

E-Commerce

Your order was delivered ON-TIME!

THE BIG DRIVER

In some global industries, alignment with e-commerce distribution was already well-established, as exemplified by giants like Amazon and Alibaba. These companies, accustomed to the demands of online customers, navigated the challenges seamlessly. However, with the onset of COVID-19 lockdowns, numerous physical businesses faced closures, compelling a swift shift towards online integration.

Companies that have been leveraging data-driven technologies to identify buyer trends and employ effective e-commerce strategies emerged as leaders, experiencing robust growth during the pandemic.

The surge in e-commerce has profoundly reshaped the general perspective on warehouses, leading to a substantial rise in logistics companies.

It' acknowledged that the success of e-commerce hinges on various factors, prominently including swift goods delivery and efficient supply chains.

After all, who wouldn't appreciate having a parcel delivered the next day?

To meet this expectation, logistics companies are compelled to pursue continuous improvement and make substantial investments in new technologies and efficient infrastructures. These strategic investments are specifically directed at addressing the escalating consumer demand for convenience and efficiency in online shopping.

PORTUGAL LOGISTICS MARKET

According to the study "Economia Digital em Portugal" conducted by the Associação da Economia Digital (ACEPI), out of the four most important factors to take into consideration for online buyers, three of them are related to logistics:

· Free delivery;
· Parcel tracking;
· Time it takes for delivery;
· Detailed description of the products;
· A clear process of return and refund.

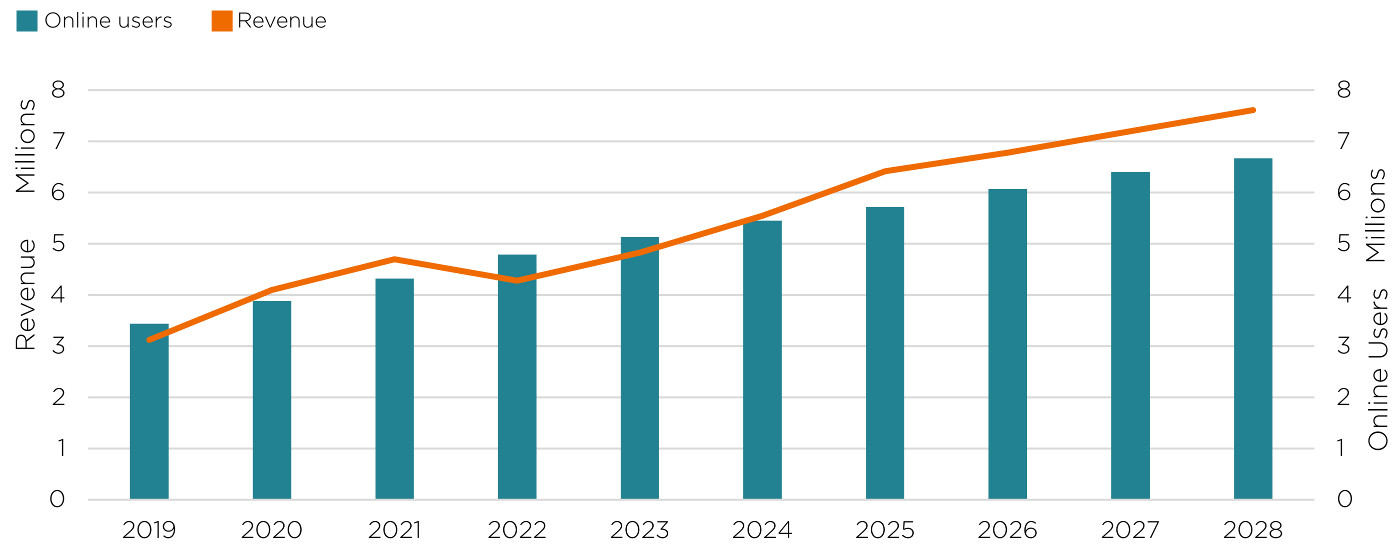
This study further underscores the critical link between the success of an online store and the efficiency of logistics companies.

It is crucial to understand that a negative customer experience, such as delayed deliveries or damaged parcels, can significantly impact the customer's perception of the store and may deter customers from making future purchases with the company.

The number of online users is consistently on the rise, contributing to a significant increase in revenue from online consumption. While there was a temporary break in the revenue rising trend due to inflation and general shopping costs, it is anticipated to normalize moving forward.

This presents lucrative opportunities for the logistics sector. Now, more than ever, their services will be crucial in providing reliable and efficient solutions, aiming to enhance customer engagement.

Number of online users in Portugal



Looking towards 2024 and beyond, it's evident that the logistics sector will be profoundly impacted by the continuous growth of e-commerce.

These evolving demands have sparked a significant impact on the industry, compelling industrial companies to reassess their supply chain operations, triggering practical actions, such as manufacturing in closer countries, leveraging AI to enhance warehouse and management processes, and embracing robotics and automation services.

Source: (Statista, 2023)

European Logistics Outlook

TAKE-UP

In 2023, the European logistics market recorded a total take-up volume of 28.8 million square meters, representing a decrease of 24% compared to 2022.

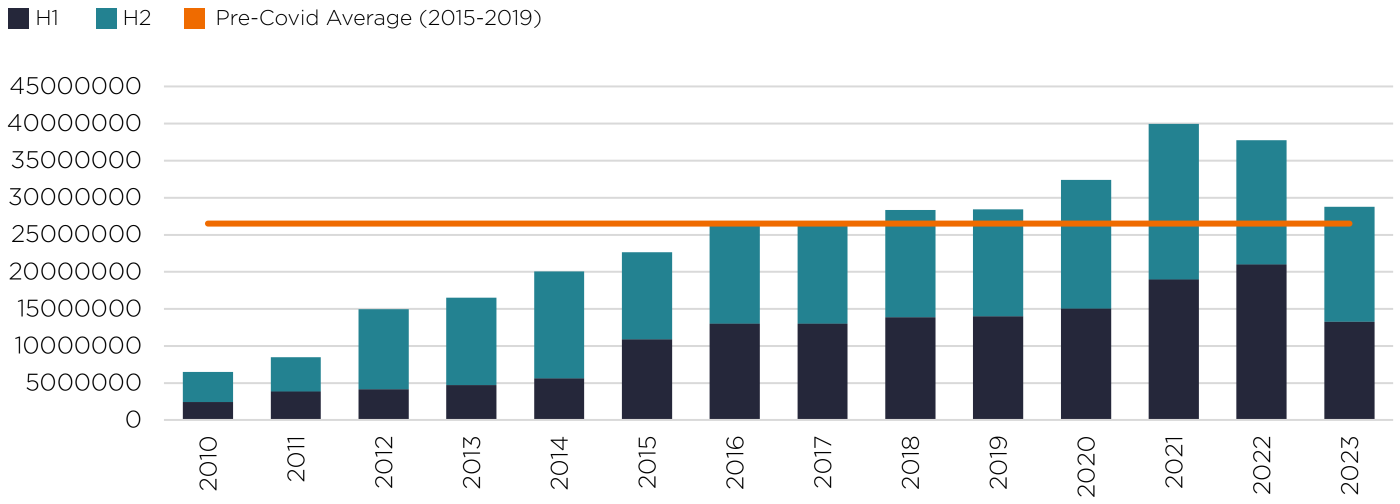
The achieved result represents an increase of 9% compared to the 5-year pre-pandemic average, reflecting a market shift and greater dynamism compared to the last decade.

The fourth quarter was the most active, closing with a total take-up of 8.1 million square meters of leased space and establishing itself as the strongest quarter of the year. Starting from the last 3 quarters of the year, demand seems to have shown signs of stabilization, beginning its upward trajectory. Evidence of this was the 17% increase in take-up in the second half of the year compared to the first half.

In terms of annual performance, Romania (+595%), Portugal (+196%), Italy (+75%), and Belgium (+42%) experienced the most significant outperformance compared to their pre-pandemic averages. Conversely, the Netherlands (-22%), Germany (-12%), and the UK (-7%) exhibited the most substantial underperformance.

Belgium (+9%) and Dublin (5%) were the sole markets to witness annual growth in take-up, with Belgium reaching record levels of take-up in 2023. Conversely, the Czech Republic (-38%), the UK (-38%), and Germany (-29%) experienced the sharpest annual declines in take-up.

Despite a cooler maket, take-up is stronger than before the pandemic



Source: Savills Research

WHO ARE THE MOST ACTIVE OCCUPIER´S?

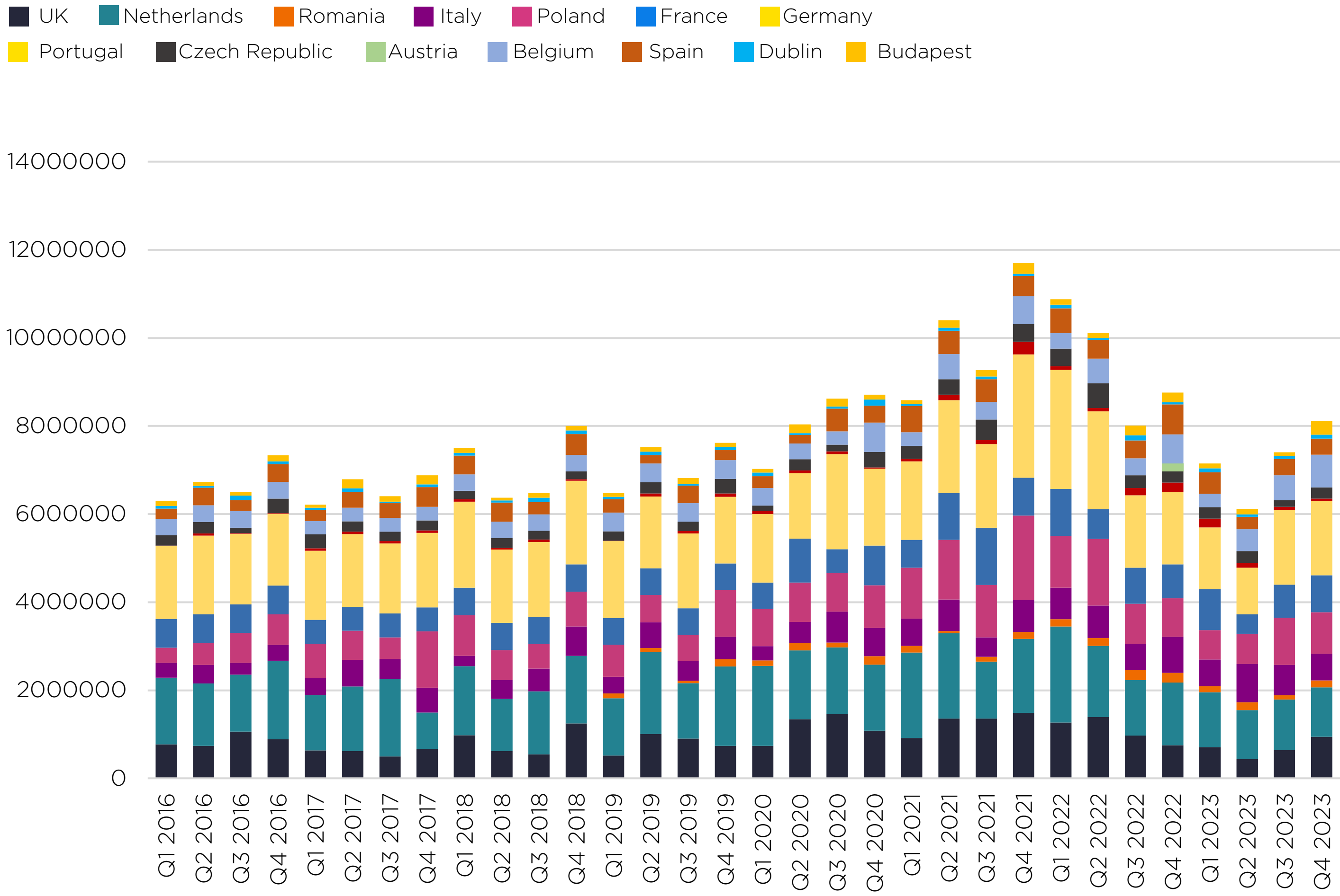
Supermarket Tenants
Typically operate in 10-to-15-year cycles;

3 PLs
Active in multiple markets but absent in other markets, where they have excesso space;

Manufacturing
Despite the decline in the sector across most European markets, the United Kingdom has recorded significant activity by manufacturing occupiers;

eCommerce
uptick in eCommerce activity in the final quarter of 2023, with Amazon taking space in the UK, accounting for 24% of Q4 take-up, and a Chinese eCommerce operator leased 265,000 sq m in Poland's largest-ever deal in the same quarter.

Quarterly European take-up records a second consecutive improvement



Source: Savills Research

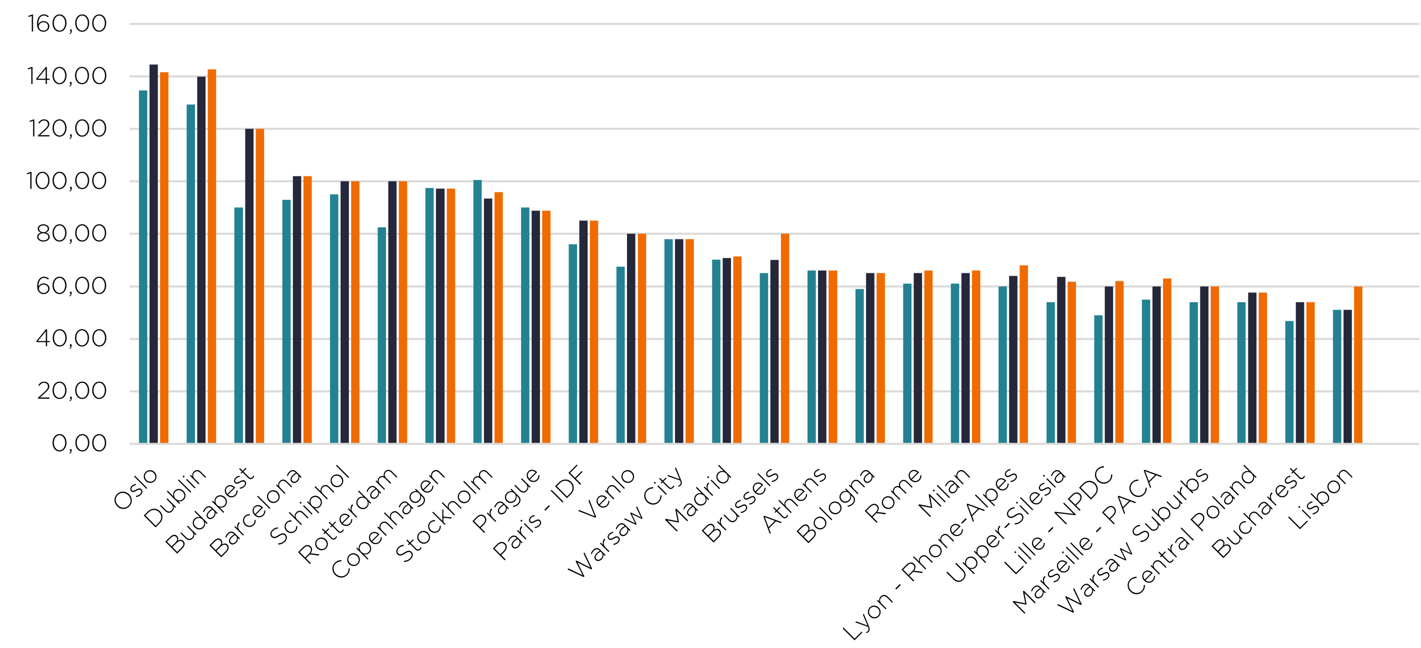
PRIME RENTAL GROWTH

As vacancy has increased throughout the year the growth of prime rents has started to slow. According to Savills Index of European Prime Rents, rents grew by 11% year-on-year, which is 1 ppt faster than in 2022, but the majority of this growth comes from the start of the year with a quarterly increase of just 1.5% in the final quarter of the year.

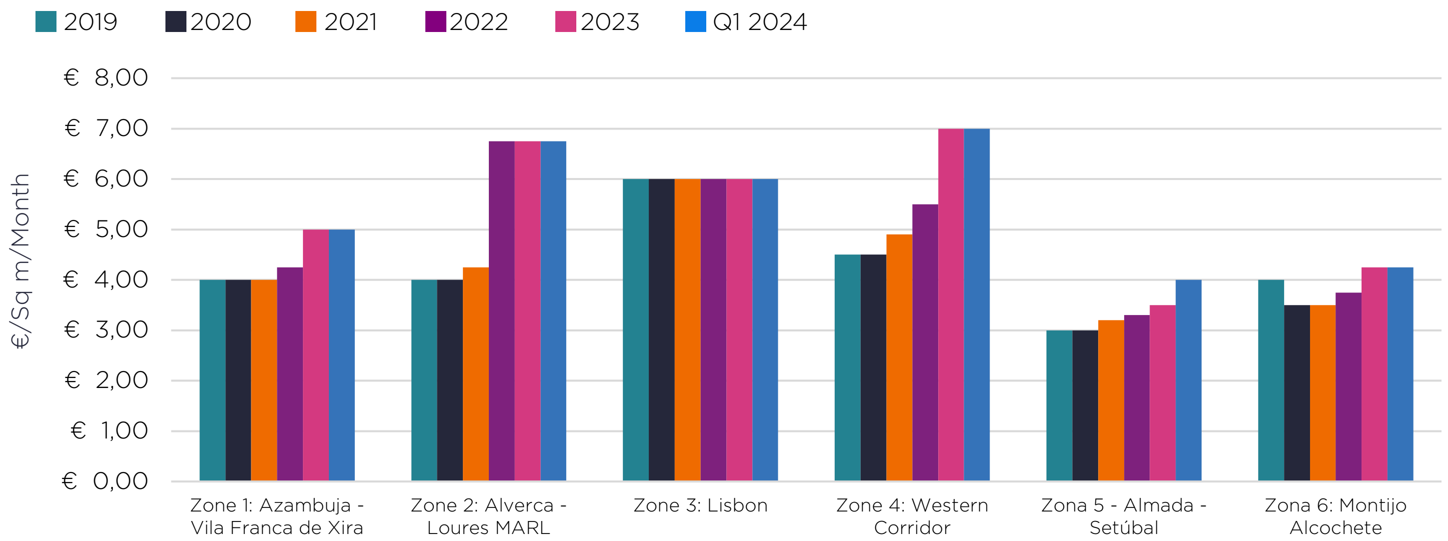
In total, eleven markets saw positive rental growth in Q4 2023. Notably, these include markets like Madrid and London, which have seen above-average increases in vacancy rates. The strongest rental growth this year was in Budapest (33.3%), Lille (26.5%) and Brussels (23.1%).

In Lisbon market, the disparity between supply and demand, along with an emphasis on enhancing quality standards tied to Sustainability criteria, has driven rents upwards. By the conclusion of 2023, there was a noticeable overall rise in rents compared to 2022.

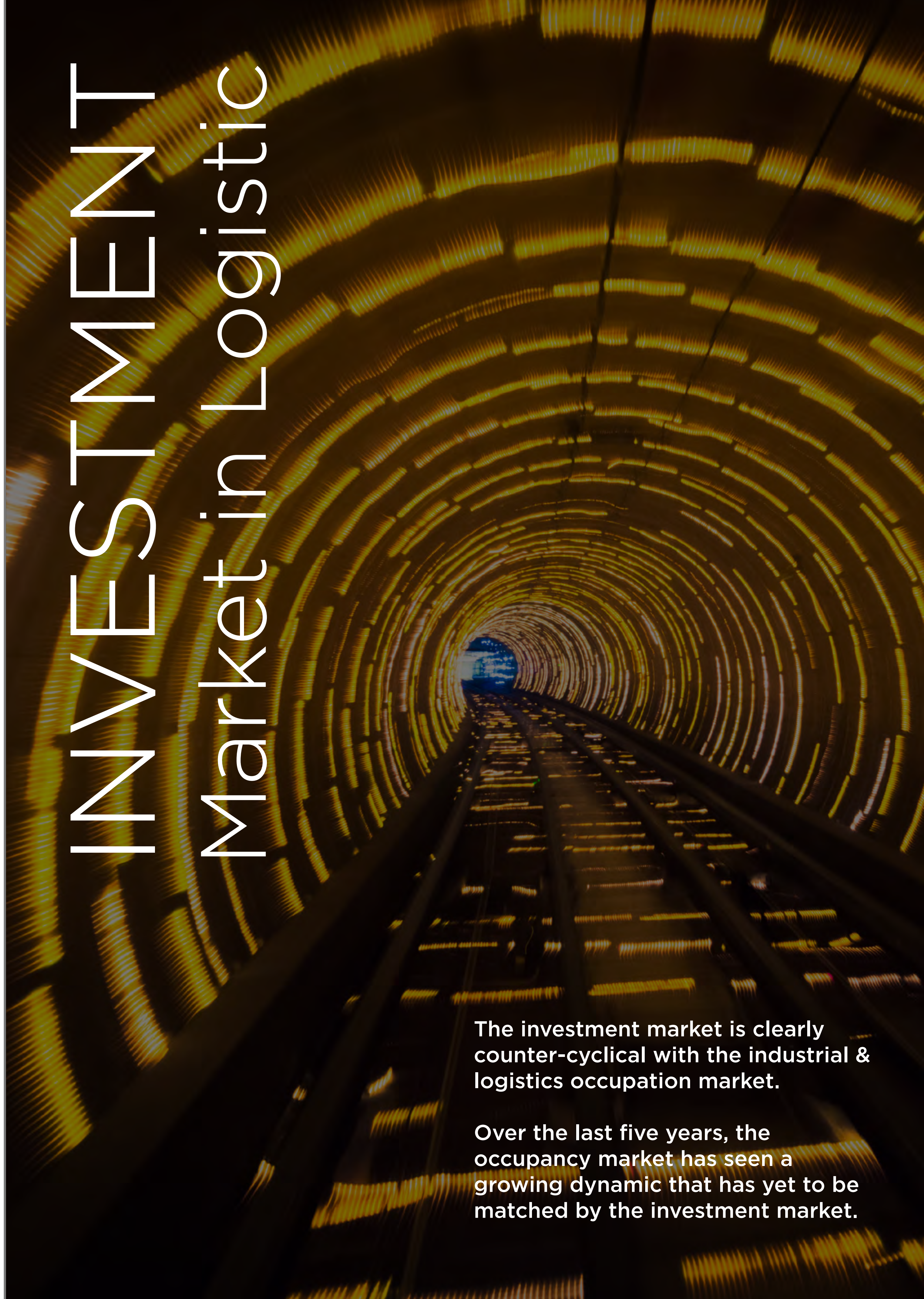
Pockets of rental growth are continuing across Europe



Prime Rents by Market Zone Greater Lisbon



Source: Savills Research | Note: Excludes London



INVESTMENT Market in Logistic

The investment market is clearly counter-cyclical with the industrial & logistics occupation market.

Over the last five years, the occupancy market has seen a growing dynamic that has yet to be matched by the investment market.

In Portugal

> The investment market is clearly counter-cyclical with the industrial & logistics occupation market. Over the last five years, the occupancy market has seen a growing dynamic that has yet to be matched by the investment market.

At the end of 2023, the Portuguese real estate investment market totalled 1.6 billion euros, a contraction of 52% compared to 2022. The high levels of inflation, which forced a significant increase in interest rates, generated a feeling of greater caution among investors, who are increasingly risk-averse.

Heavily influenced by the risks associated with an uncertain economic climate, the decision-making processes tended to be lengthened, particularly affecting those with larger investment tickets or involving secondary assets with higher associated risk.

In 2023, except for the retail and hospitality sectors, all other asset classes witnessed year-on-year decreases in their investment volumes.

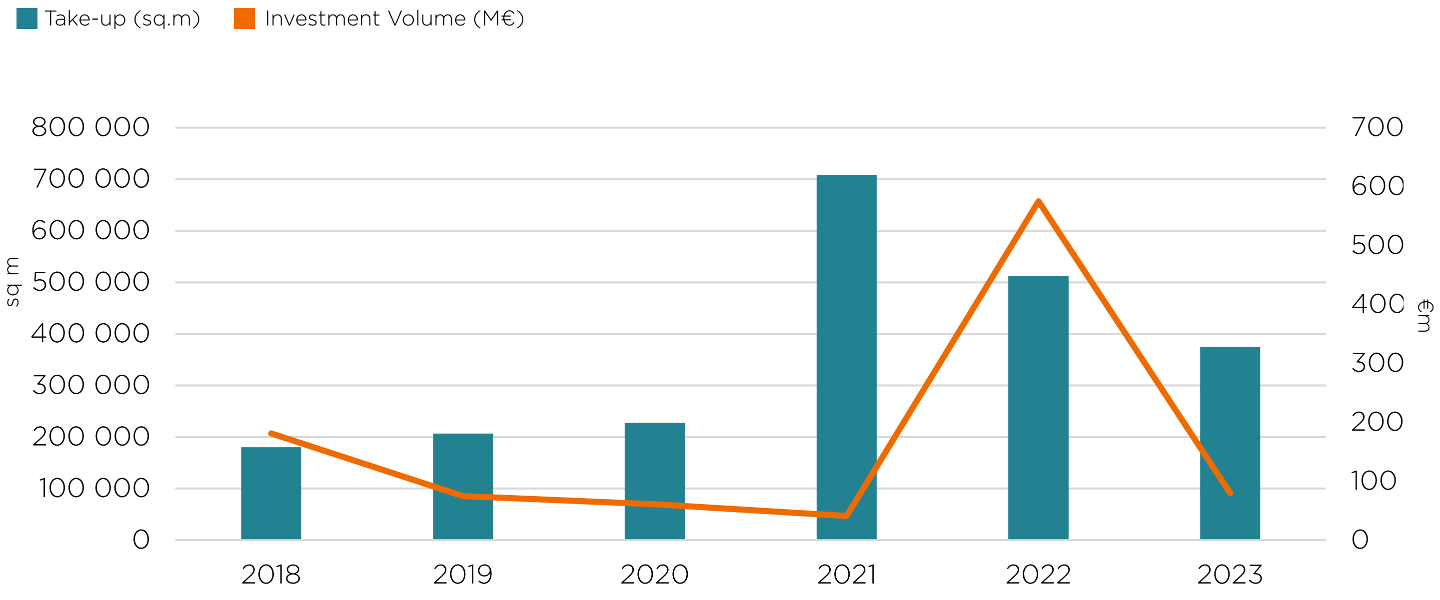
The industrial & logistics segment totalled 80 million euros, one of the most significant decreases, after registering more than 500 million euros in investment volume in 2022, justified by the sale of two major portfolios adding up to more than 300 million euros.

The investment market is clearly counter-cyclical with the industrial & logistics occupation market. Over the last five years, the occupancy market has seen a growing dynamic that has yet to be matched by the investment market.

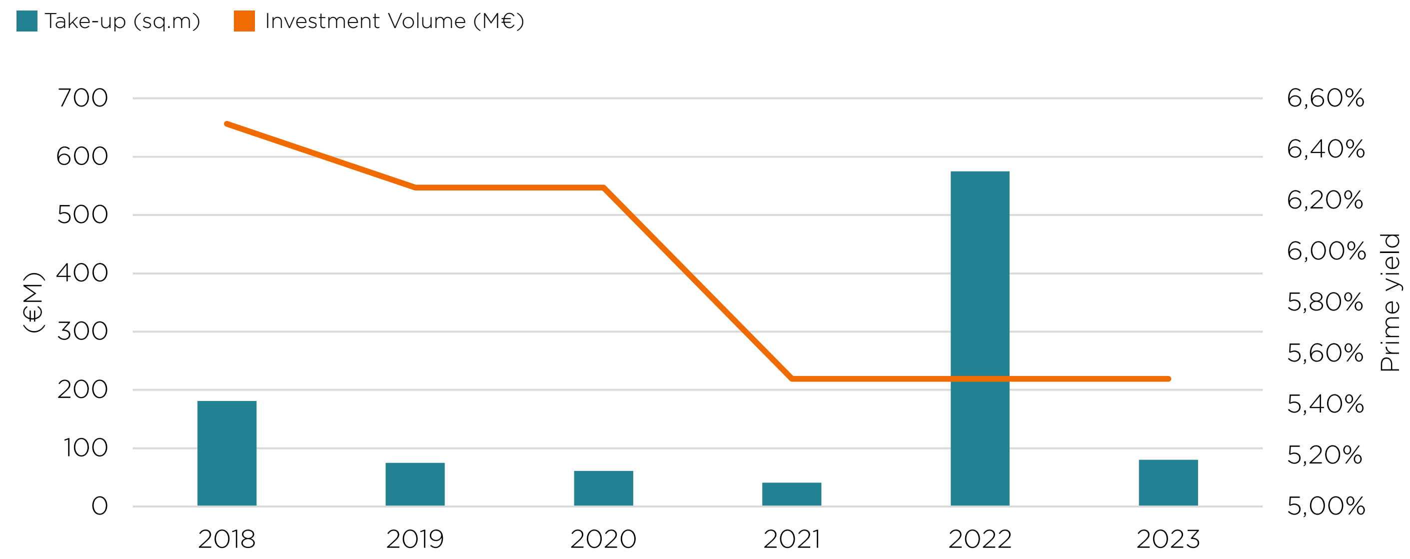
The year 2020 was a turning point for this segment, which over the decades has failed to prove attractive in the eyes of investors and developers. Competition with other segments with higher returns ended up dictating its state of stagnation.

> In Portugal, core buyers are the class of investors to consider, whose requirements are fully aligned with the parameters of a grade A asset, reinforcing the trend of appreciation for prime products and the widening gap between these types of assets and sub-prime assets.

Annual Industrial & Logistics Take-up vs Annual Investment Volume



Evolution of Annual Investment Volume vs Prime Yield



Source: Savills Research

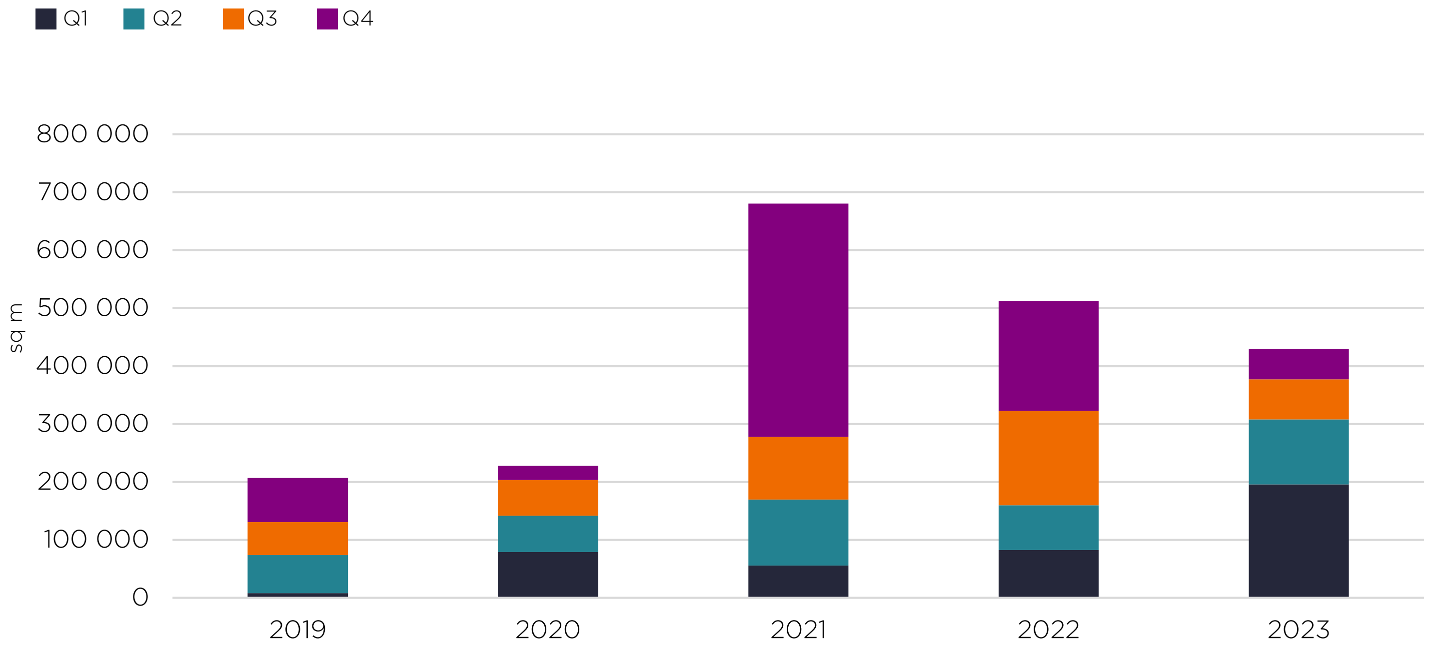
With the necessary redefinition of supply chains, operators' attention turned to adapting their facilities and equipment to a new reality that required them to meet new targets, such as faster delivery times that required new storage strategies, often resulting in the need to occupy more space.

Take-up volumes have seen a very significant upward trend increasing the interest of developers and investors in this segment. From forgotten and obsolete, the industrial & logistics segment gradually became one of the most sought-after segments by investors who recognize its development potential.

Since 2019, throughout the national territory, more than 2 million sq m have been occupied, which largely include facilities for distribution and logistics operations. However, the scarcity of quality supply, now properly aligned with Sustainability criteria and policies, acts as a brake on a more sustained and solid affirmation of this segment in the investment market.

Proof of investor attraction can be found in the growing number of sq m in the pipeline.
By the year 2026, pipeline amounts to around 840,000 sq m of projects spread across the Greater Lisbon market, central region and North and Porto, with around 61% of projects already in pre-let.

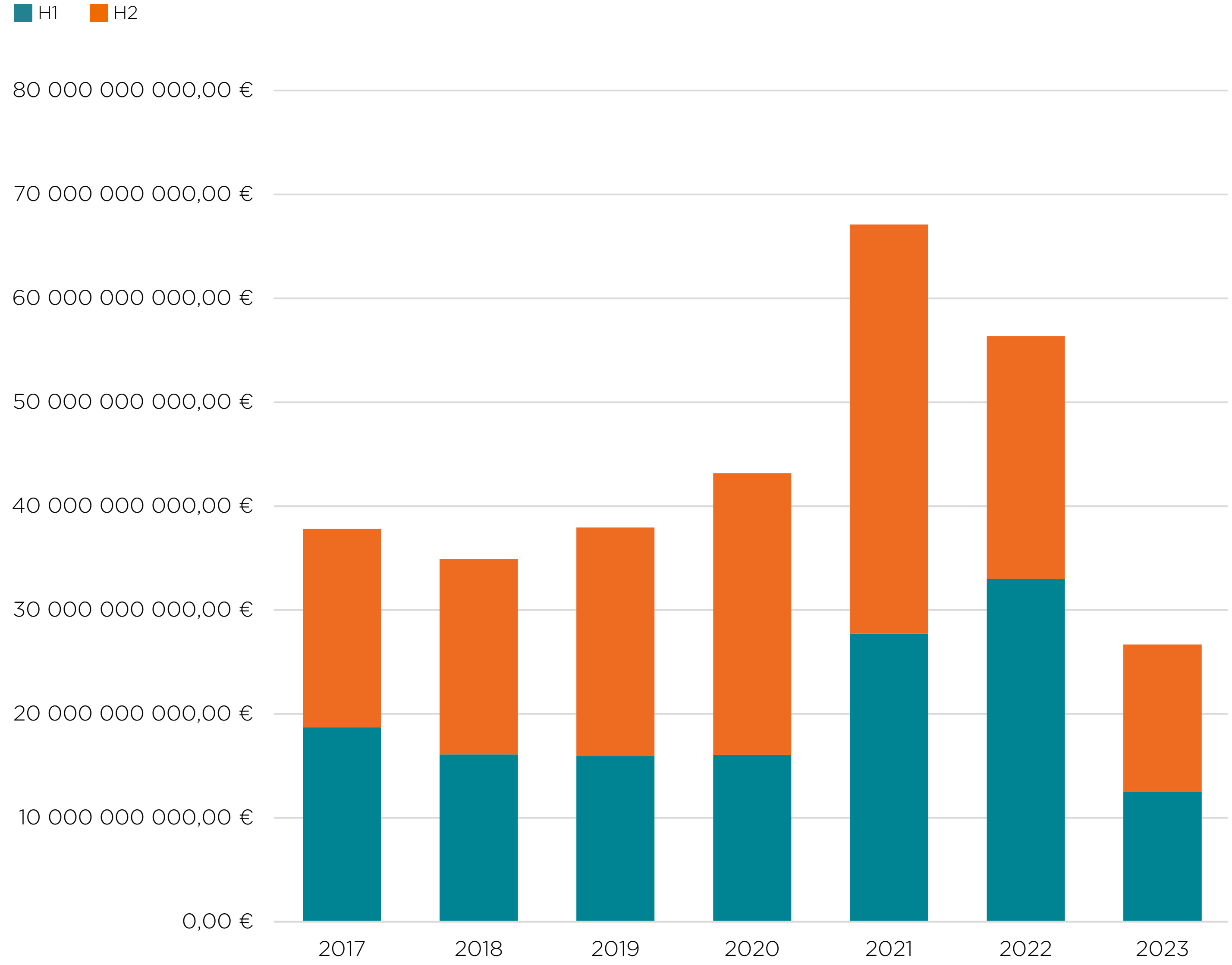
Portugal | Annual Industrial & Logistics Take-up



Source: Savills Research

PORTUGAL LOGISTICS MARKET

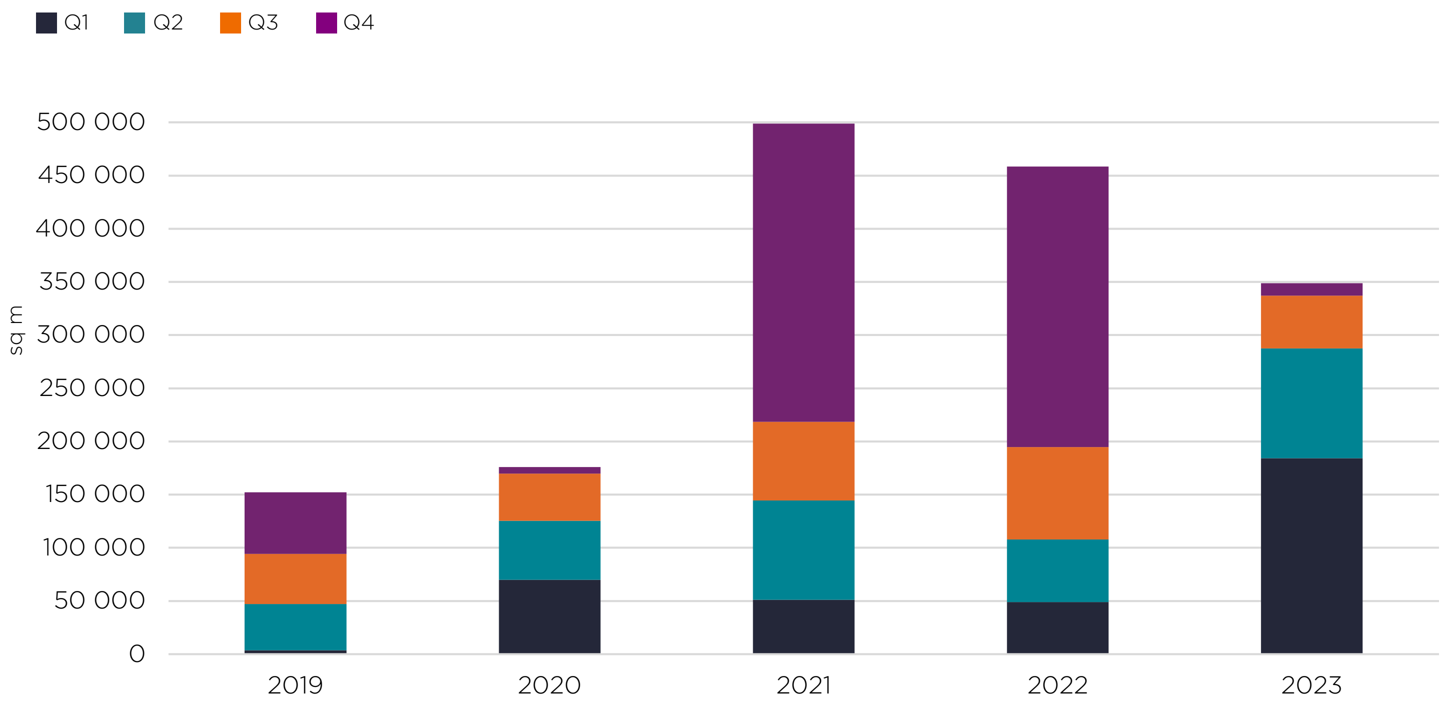
Investment is down sharply on its pre-pandemic but is trended upwards in H2



Source: Savills Research

Portugal Logistic Market

Evolution of logistics take-up | Portugal



Over the past three years, the national logistics market has experienced an expressive increase in its take-up figures, especially in the Greater Lisbon region. This upsurge can be attributed to the pandemic context, which spurred an increase in e-commerce consumption leading to a greater focus from operators to implement more efficient logistical operations, with a strong focus on enhancing the consumer experience.

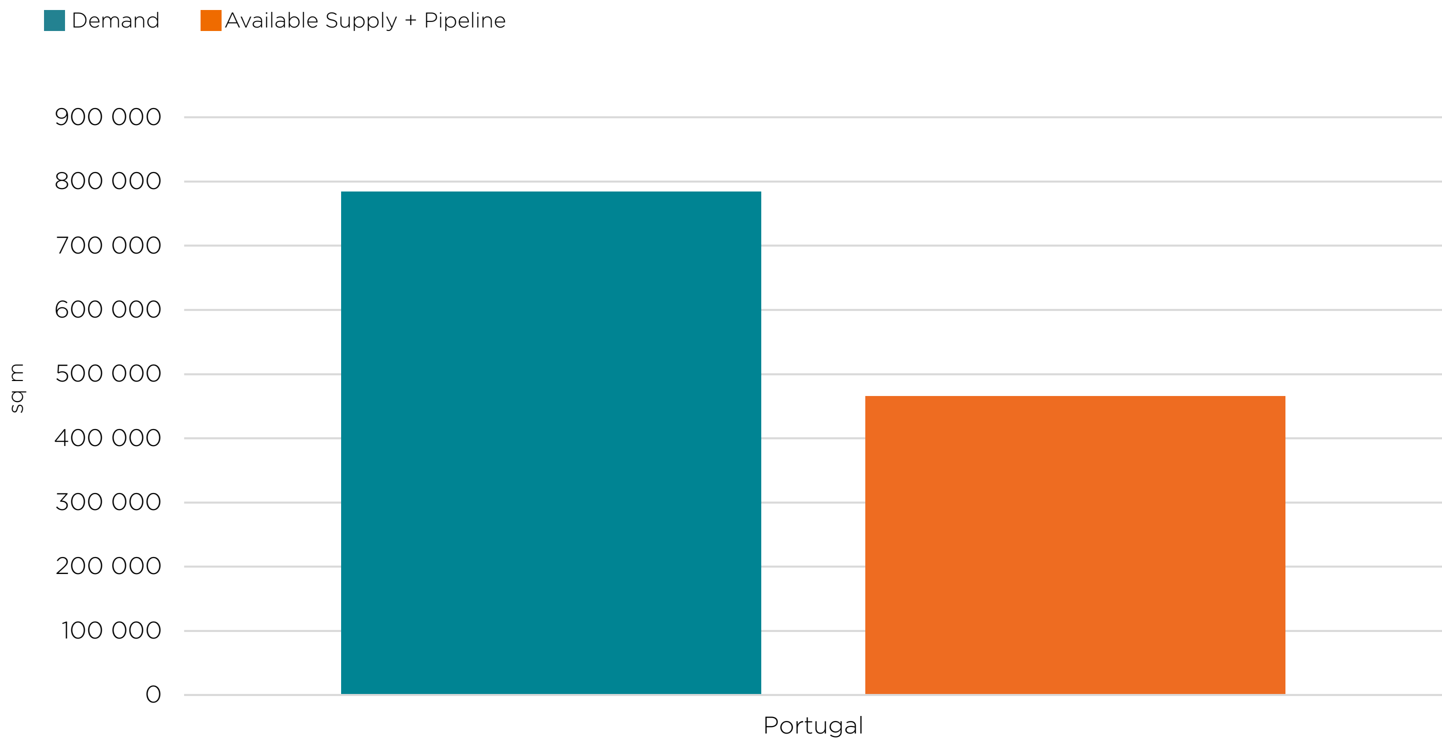
From a real estate perspective, the effectiveness of these operations will be influenced by factors such as the location of the buildings, as well as their infrastructure and overall conditions. In 2023, after experiencing two years of historically high take-up volumes, the logistics sector witnessed a decline, with **take-up figures dropping by 24%.** Throughout the year, a total of approximately **471,000 sqm** were occupied, with **350,000 sqm allocated to logistics operations.**

Despite a steady growth during the first half of the year, the pace of take-up slowed down in the latter part of 2023.

Source: Savills Research

PORTUGAL LOGISTICS MARKET

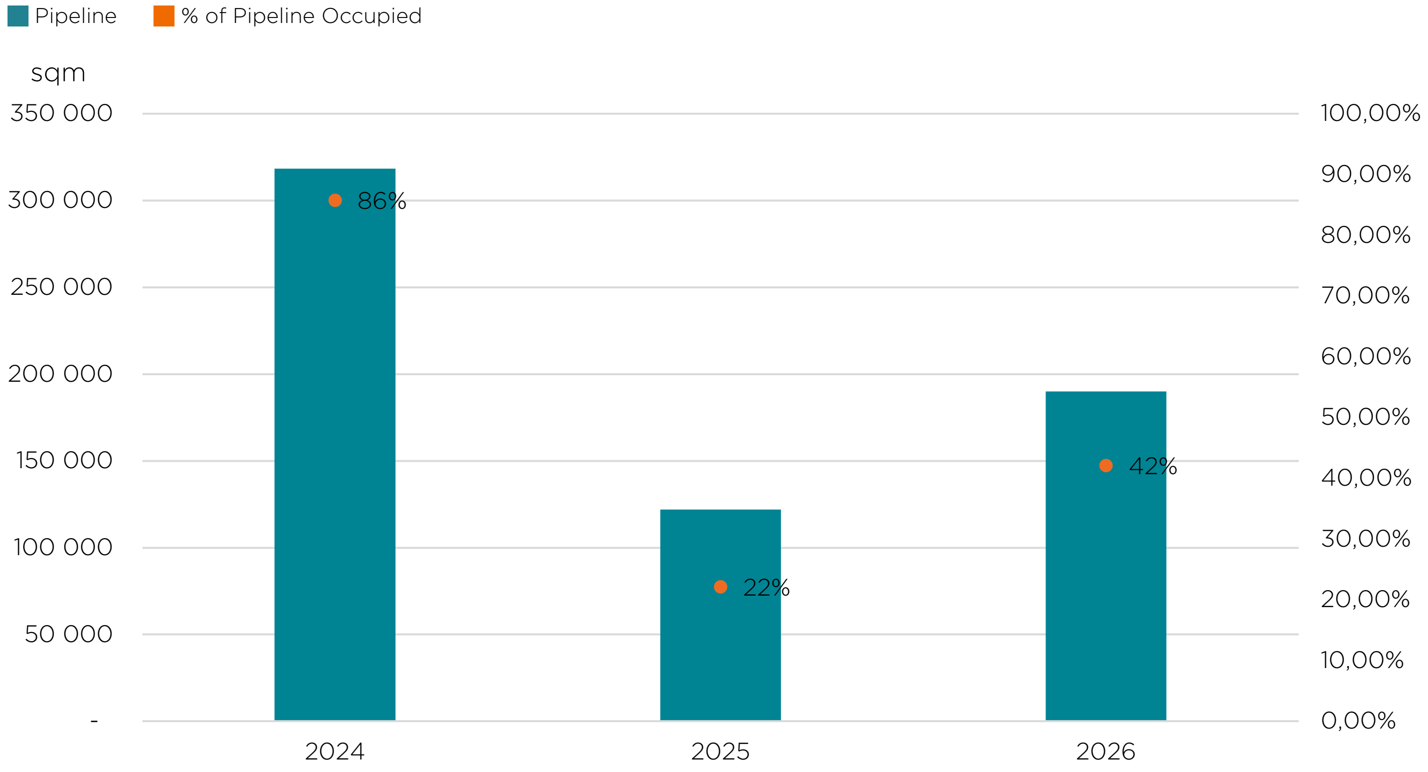
Demand vs Availability Supply and Pipeline | Logistics Market - Portugal



> "Based on the 3 year take-up rate, the total available supply is projected to be fully occupied in ~1 year"

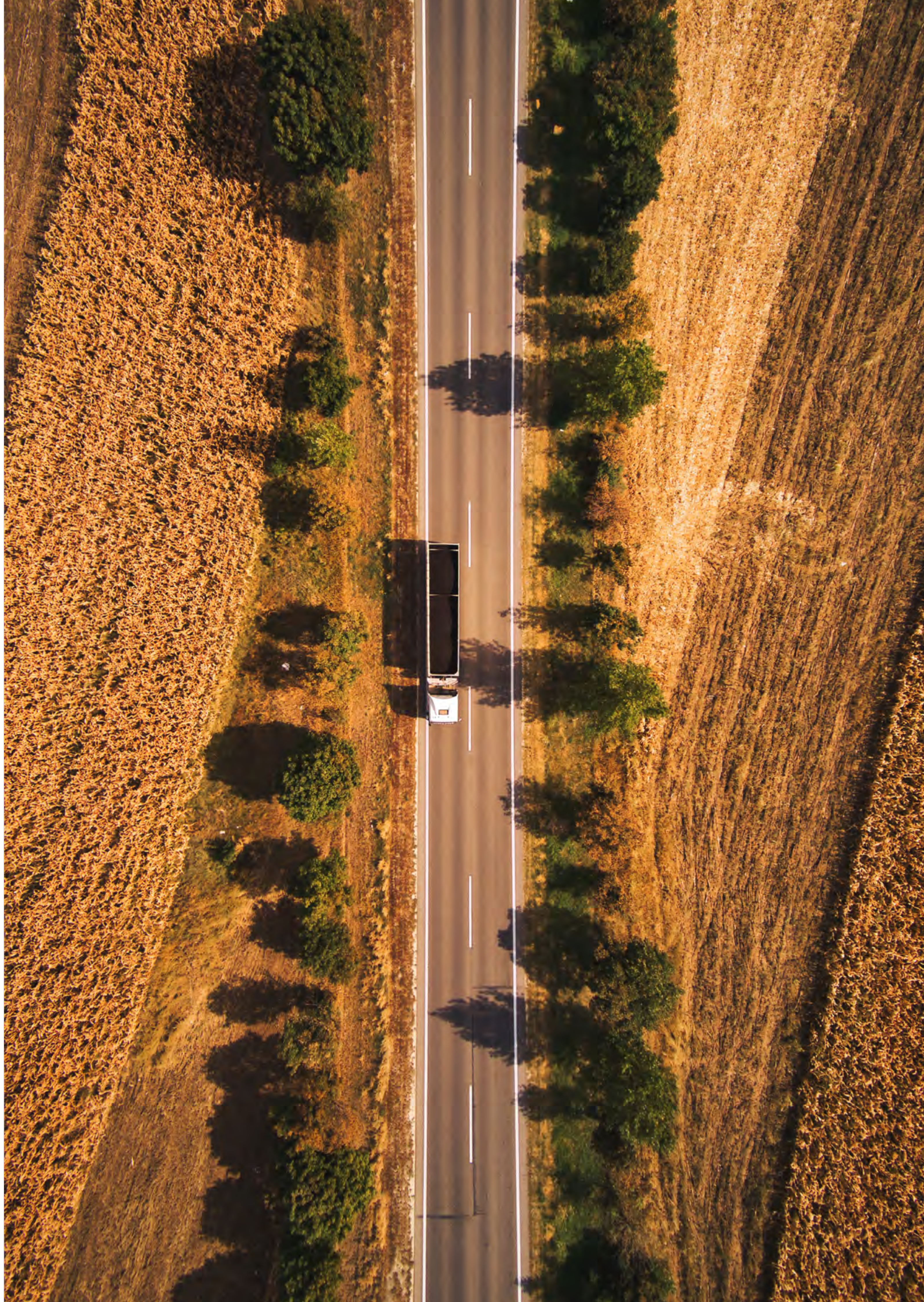
Source: Savills Research

Total Pipeline Vs Pre-let/Owner Occupier Pipeline | Greater Lisbon



> "Will the available pipeline be suficient to suppress demand? The answer is clear with demand levels exceeding supply in most market areas"

Source: Savills Research



Logistics Market Greater Lisbon

In the Logistics market of Greater Lisbon, 2023 concluded with a total **take-up of 191,873 sq m, showing a significant decrease of 41%** compared to 2022. Sixteen transactions were completed and were primarily attributed to 3PL/Logistics/ Distribution companies.

During the first quarter of 2023, **take-up figures soared by 176%** compared to the same period in 2022, mirroring similar figures observed in the last quarter of 2022.

Additionally, a trend noticed in 2020 and 2021 was the substantial take-up volumes registered in Q4, with the last quarter of 2021 accounting for **61% of the total take-up that year and Q4 2022 representing 53%.**

The **Azambuja and Vila Franca de Xira axis has reaffirmed its position as the primary contributor to take-up figures, representing 57%** of the total take-up in 2023.

This region has showcased remarkable activity in pipeline development, demand generation, and take-up volume, **maintaining an extremely low vacancy rate of only 0.55%.** Similarly, the axis of Almada and Setúbal has emerged as the second most active area, with a total **take-up volume of 184,174 sqm in 2023.**

Moreover, only 2.69% of current stock in Greater Lisbon is available.

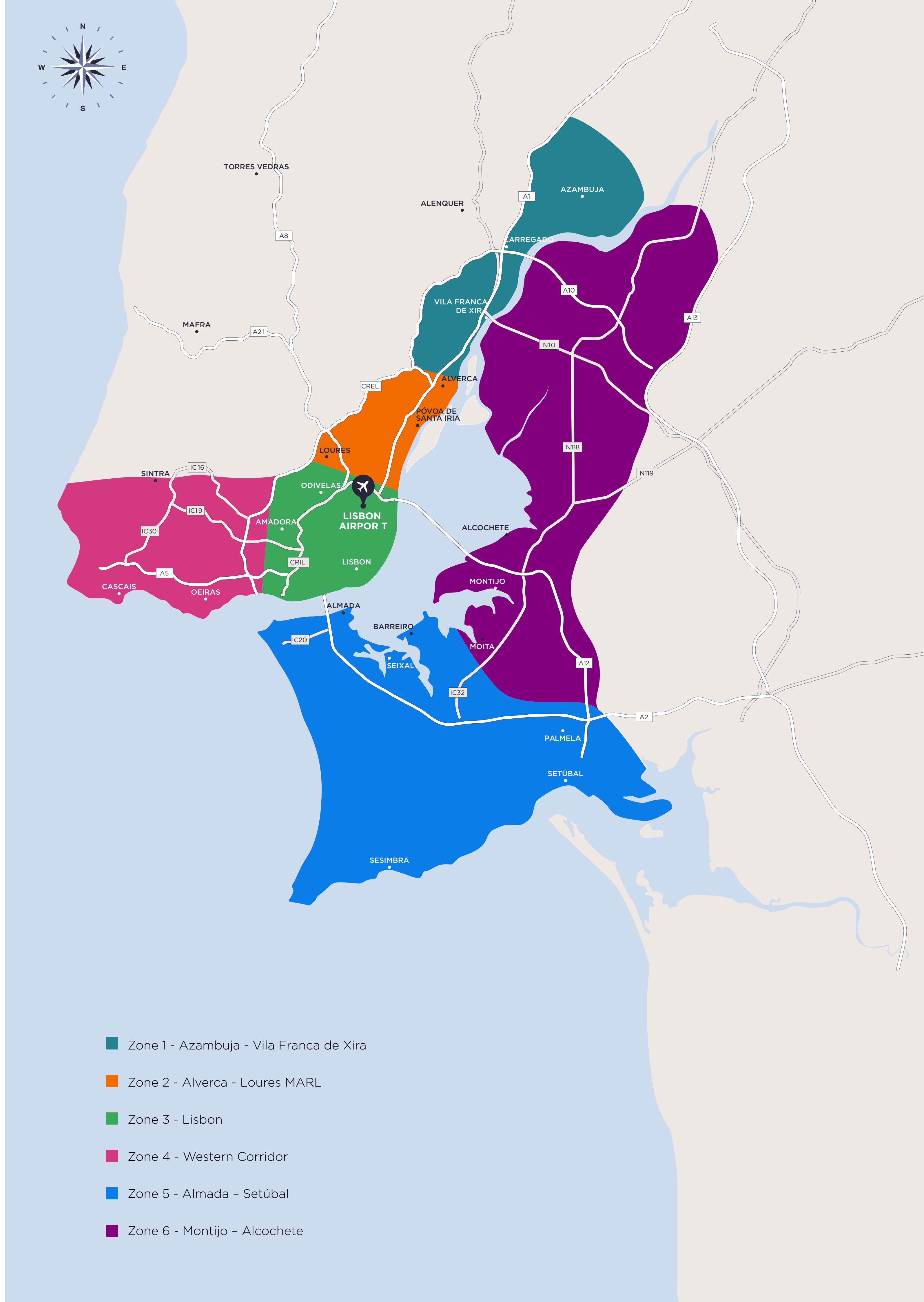
Due to the slow influx of new logistics buildings, **the city has faced a shortage of available stock to meet occupiers' demands.**

The current supply represents only a fraction of the pipeline expected for 2024 and 2026 or comprises low-quality existing stock.

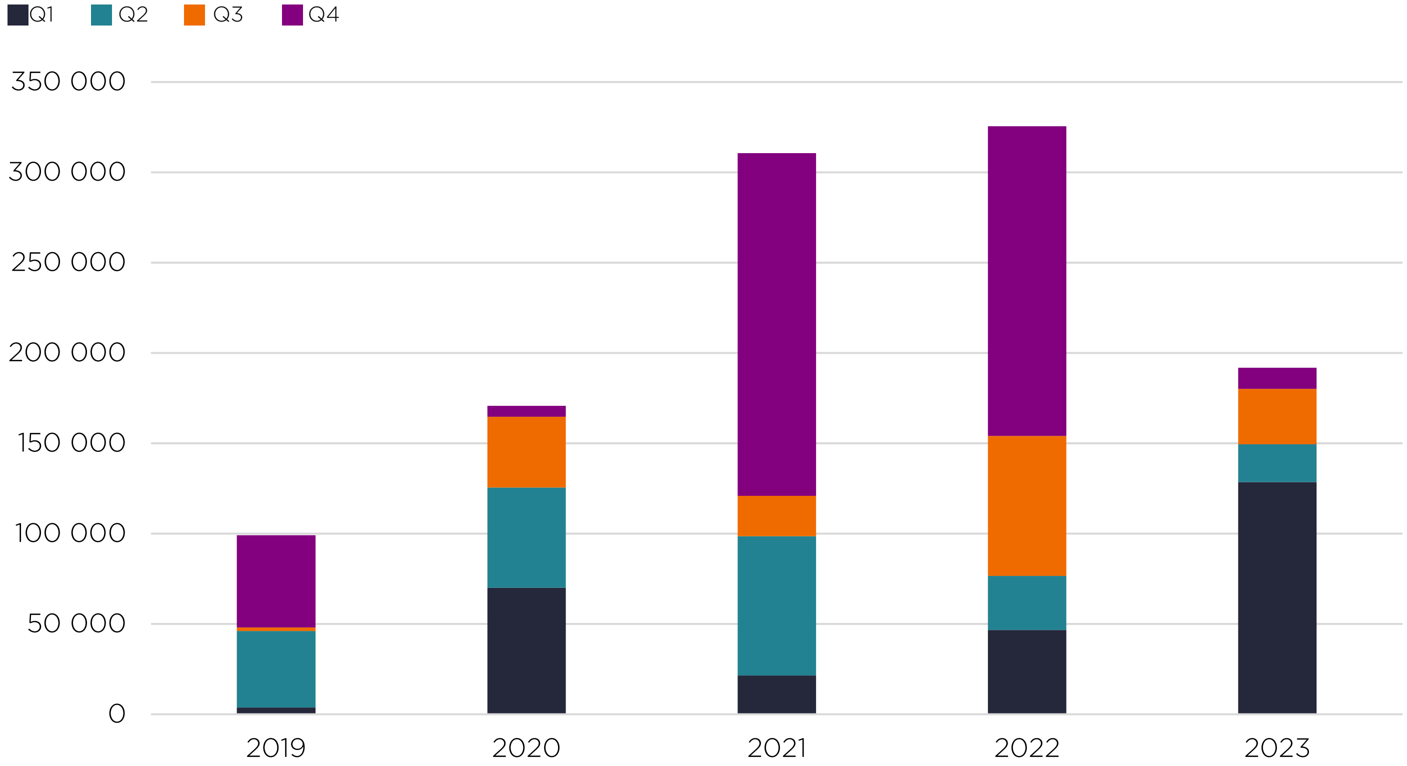
Notably, while **90% of the pipeline projected for completion in 2024 has pre-let contracts.**

> "With a logistics stock of approximately 3.2 million sq m in the Greater Lisbon market, the demand for a quality product is becoming increasingly competitive, with tenants setting their Sustainability policies at the top of their priorities."

62% of the vacant spaces in Greater Lisbon do not meet the current criteria for new demand, with this usually corresponding to sustainable and efficient infrastructures both in-building and around it.

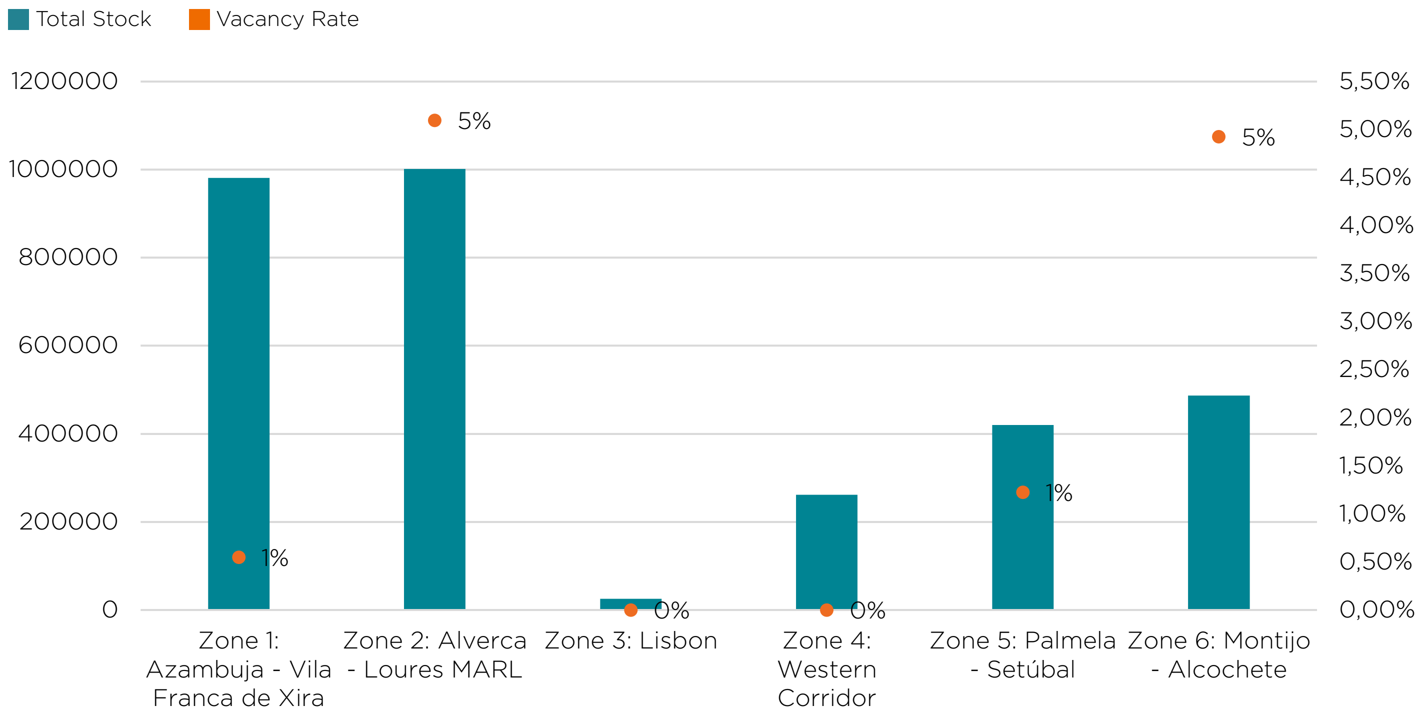


Evolution of logistics take-up | Greater Lisbon



The total stock of Greater Lisbon is around **3,200,000 sq m,** with a total vacancy rate of **2,69%.** Vacancy rate for areas with high demand are especially low, with **Zone 1**: Azambuja – Vila franca de Xira **having only 0,55%** and **Zone 5**: Palmela – Setúbal **having only 1,23%.** Only **5% of all the buildings** in Greater Lisbon hold a Sustainability Certificate**.**

Total Stock Vs Vacancy Rate Greater Lisbon



PORTUGAL LOGISTICS MARKET

It is a prevailing trend that demand consistently exceeds available supply in the Greater Lisbon area.

Over the next two years, over 630,000 sq m of pipeline is projected in the Greater Lisbon area.

It is worth noting that **60% of the total pipeline expected to be completed** between 2024 and 2026 is **already with pre-let or owner occupier contracts.**

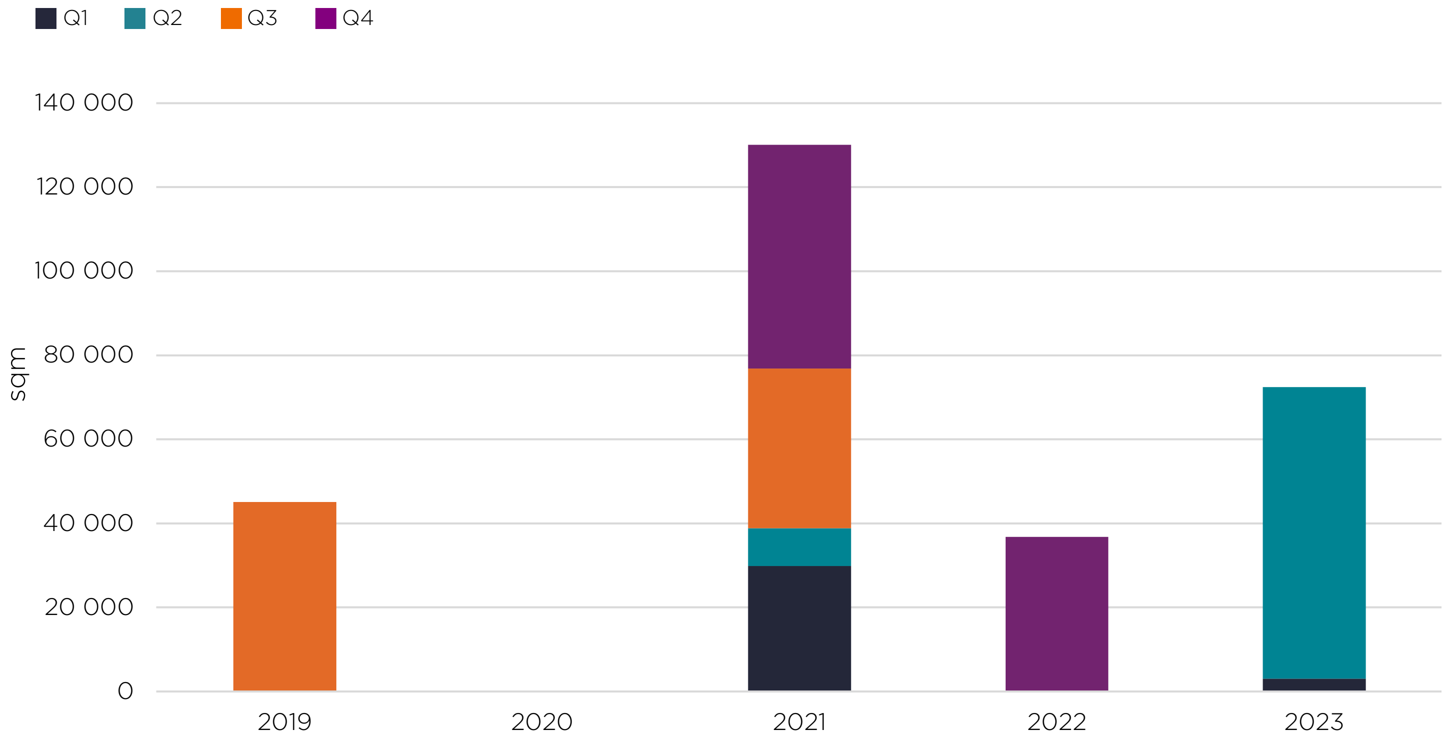
86% of projects for 2024 are also pre-occupied while 34% of projects for 2025 and 2026 being with pre-let or owner occupier contracts.

Logistics Market Greater Porto

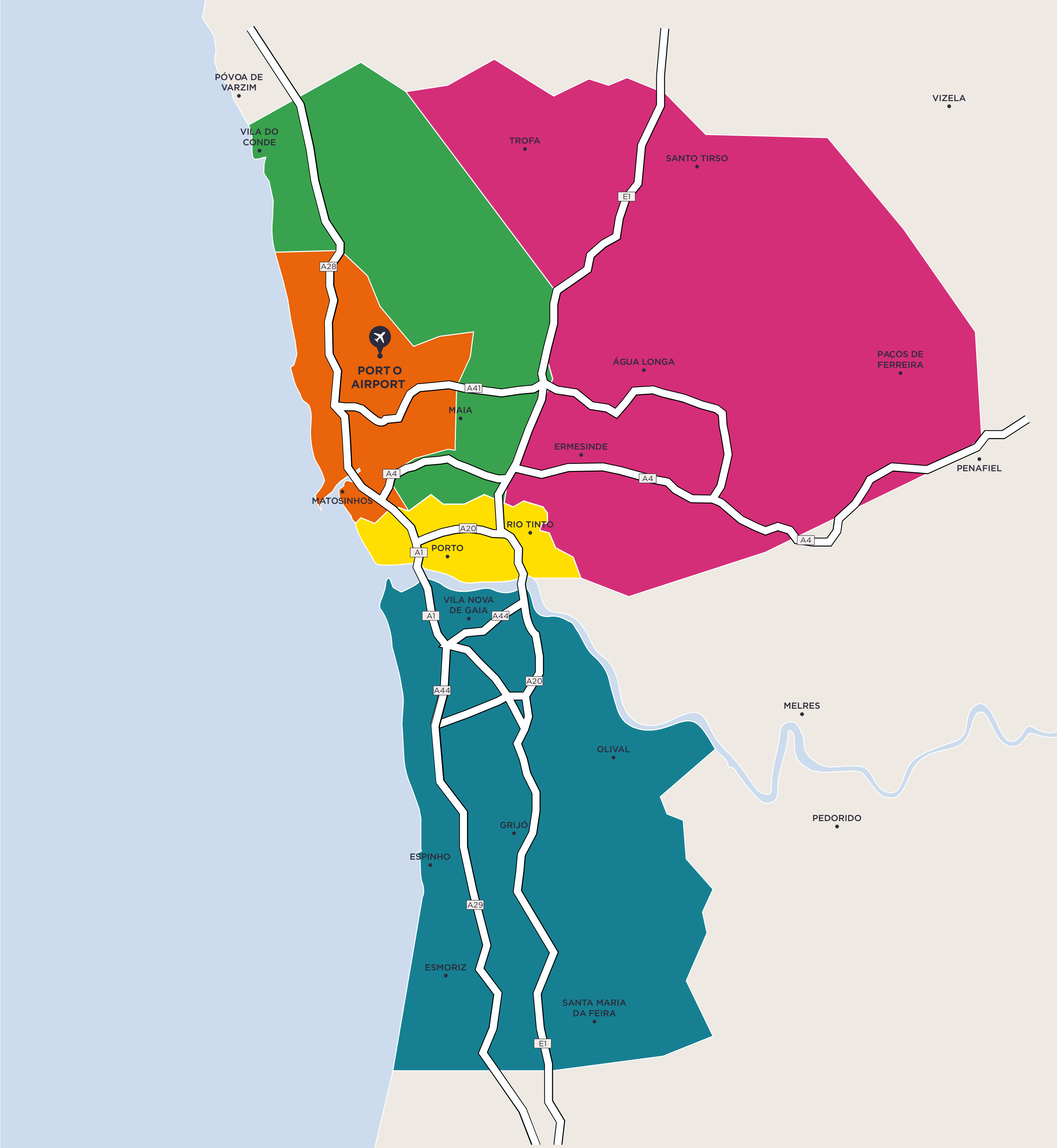
The logistics market in Greater Porto recorded a total take-up of 72,000 sq.m in 2023, showing a growth in figures of 65,5%. The large majority of take-up volumes were registered in the second quarter with four deals amounting to around 70,000 sq m. Five transactions were completed and were primarily attributed to 3PL/Logistics/Distribution companies with an emerging share attributed to Retailer/Wholesaler companies. Olicargo, Garland, and Real Estate Manaldi where the main players behind these large deals.

Zone 5: East Porto: Trofa -Santo Tirso- Valongo- Paredes- Gondomar and Famalicão is the most active, assuming 81% of the total deals being made in Greater Porto. The total take-up for this region was 59,000 sqm.

Take-Up over 5 Years Greater Porto



Source: Savills Research



- Zone 1 - North Porto: Maia – Matosinhos – Vila do Conde
- Zone 2 - Porto de Leixões – Airport
- Zone 3 - South Porto
- Zone 4 - Porto City
- Zone 5 - East Porto: Trofa – Santo Tirso – Valongo – Paredes – Gondomar – Famalicão

The total stock in Porto is around **1,200,000 sqm** with a total vacancy rate of **4,48%.** Only **2% of all the buildings** in Greater Porto hold a Sustainability Certificate

Zone 5: Porto East currently holds the largest share of stock in greater Porto with a **vacancy rate of 6%**.

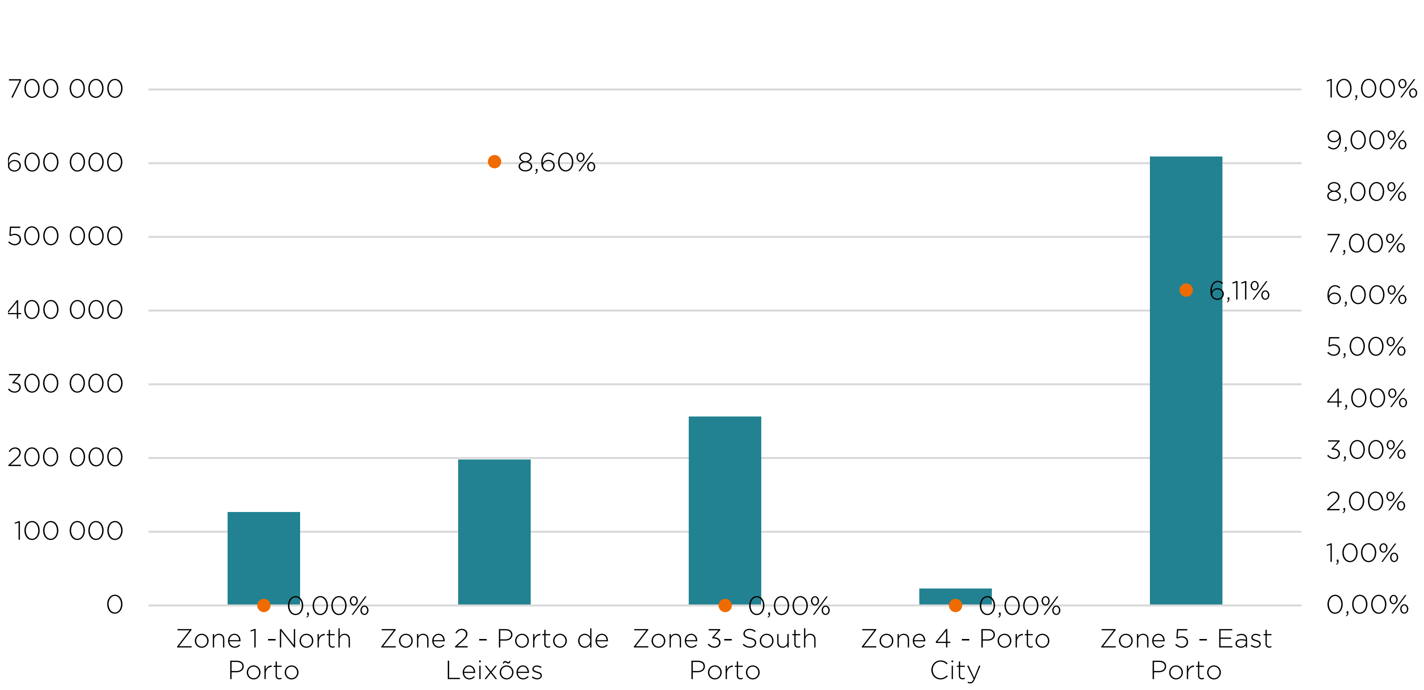
This zone also hold the total pipeline in greater Porto with the total volume adding up to a total of 115,000 sq m divided among two projects.

35% of this pipeline is already pre-leased, show-casing the level of dynamism and demand in this market.

4,75€

Average Rent in Porto

Total Stock Vs Vacancy Rate | Greater Porto



Source: Savills Research

Logistics Market PIPELINE

Pipeline

The total pipeline across Lisbon and Porto amounts to approx. 750,000 sq m, with Lisbon claiming 85% share of this total;

In Greater Lisbon , 60% of the pipeline expected to be completed between 2024-2026 already has pre-let contracts in place, with 86% of the projects expected to be completed in 2024 already boasting pre-let contracts;

Key projects in the pipeline for Greater Lisbon Lisbon, set to be completed in 2024, include Montepino in Castanheira do Ribatejo, comprising 108,000 sq m already fully occupied, and Plataforma Logística Lidl Loures, with 54,000 sq m, an owner-occupied project by Lidl;

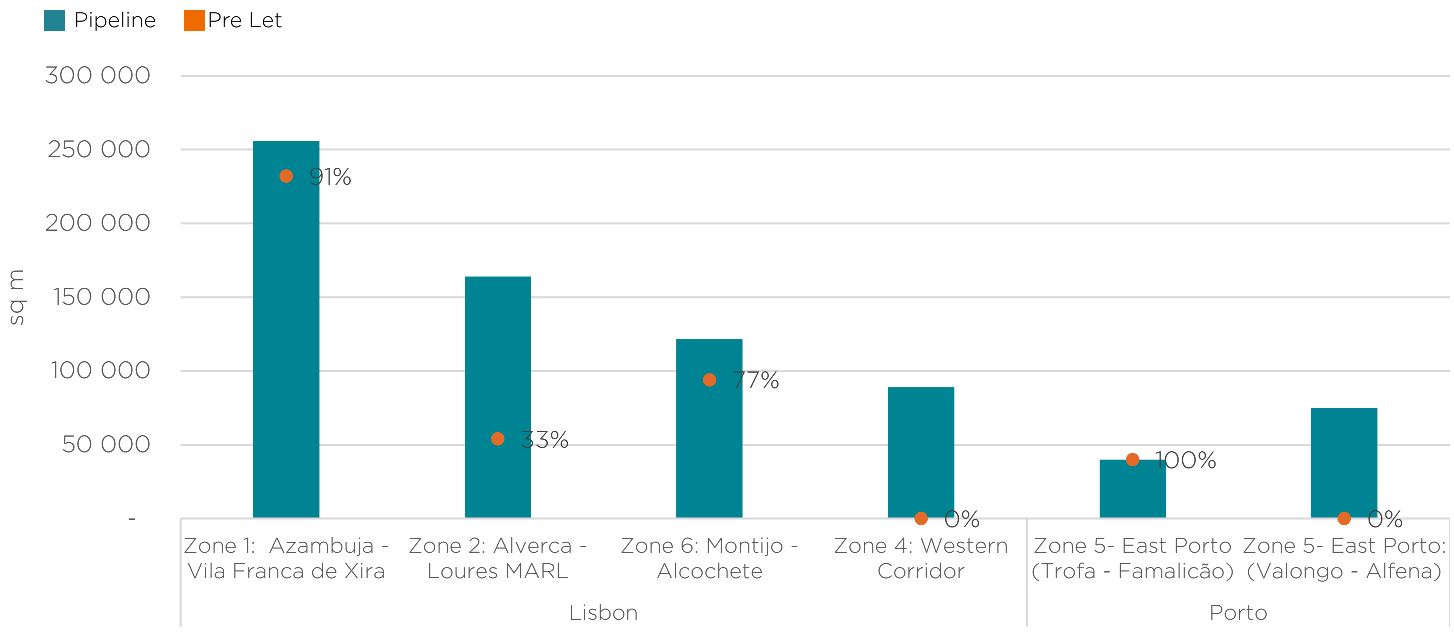
In the Greater Porto, there are only two projects expected to be completed in 2024, with 35% of them being already secured by pre-let contracts;

The projects include a 40,000 sqm owner-occupier building by Aldi and the Panatoni Park Valongo, comprising 75,000 sq m;

Noteworthy is the development and occupation dominance of retailer/wholesaler companies, with Lidl, Aldi, and Leroy Merlin collectively securing around 53% of all pre-let contracts;

Panatoni emerges as a key developer, with around 70,000 sqm expected to be completed in 2024 in Porto and further 120,000 sq m expected to be completed between 2024 and 2026 in the Greater Lisbon region.

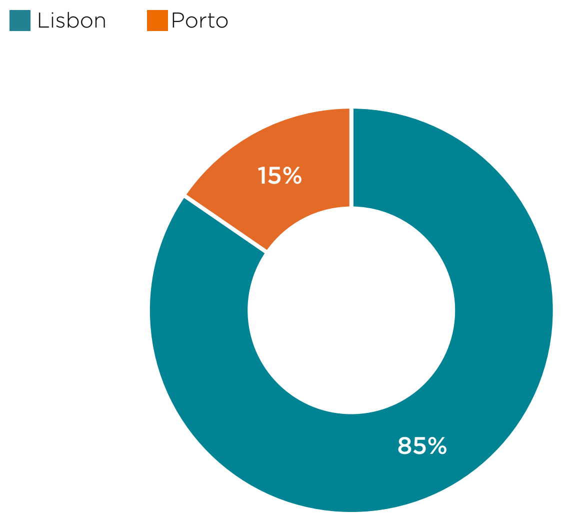
Distribution of Pipeline VS Pre-let | Greater Lisbon and Greater Porto | 2024-2026



Source: Savills Research

PORTUGAL LOGISTICS MARKET

Pipeline Distribution 2024-2026



Lisbon VS Porto

LISBON	PORTO
Focal point for logistics activity in Portugal	Focal point for industrial activity in Portugal
Logistic companies prioritize main operations	Logistic companies often establish secondary operations
All types of logistic companies, from international to local	Local logistics firms and diversifying logistic operators
Highly competitive, with demand significantly outweighing available pipeline and vacant spaces	New projects suiting active demand
Fast growing logistics activity	Porto experiences a growing logistics activity
Lower vacancy rate, with vacant buildings not meeting the demands of occupiers	Low vacancy rate, with vacant buildings not meeting the demands of occupiers
Pipeline distributed by four market zones	Pipeline concentrate in Zone 5
Demand distributed by five zones	Demand concentrated in Zone 5
High activity in all the zones besides Lisbon Center	Activity mainly concentrated in Zone 5

Source: Savills Research

ESG, SUSTAINABILITY & GREEN INITIATIVES

From an investor point of view, more than ever, it is more sensible to look at sustainability criteria when investing in an industrial building, not just because of an ethical and ecological point of view but also from an economic one.

> "The challenge is set, and solutions exist! No winding paths or myths, but sustainable and achievable paths."

In the European Union, buildings account for over one-third of greenhouse gas emissions in this group of territories. Therefore, reducing these emissions—whether through greater energy efficiency or reduced energy consumption—is crucial for achieving climate neutrality by 2050.

The EUROPEAN PARLIAMENT AND COUNCIL DIRECTIVE on the energy performance of buildings, now approved, provides criteria for taking this step quickly and sustainably, but it will require fundamental interventions in the performance of existing buildings and the construction of buildings with more stringent and genuine sustainability criteria.

Non-residential real estate segments will be most affected by this measure, requiring special attention from investors and building owners in the logistics and industrial areas.

Starting from 2023, new buildings will have to be zero-emission. According to the directive proposal, these are defined as buildings with very high energy performance, with the remaining energy needs fully covered by renewable energy sources and no carbon emissions from fossil fuels on-site.

As for existing buildings, besides the market increasingly seeking more efficient, sustainable, and ESG-compliant buildings, they will have to achieve performance 16% better than the worst-rated buildings starting from 2030 and 23% better from 2033 onwards.

This will lead to a gradual elimination of non-residential buildings with the worst performance. Also, buildings not complying with emission reduction plans defined by the EU CRREM will be out of the leasing and investment market in the coming years.

In this regard, BREEAM In Use and LEED O&M certifications are tools that can facilitate achieving these objectives since their criteria align with these goals, with BIU already aligned with European Taxonomy.

Moreover, the focus on renewables will become mandatory starting from 2028 for buildings over 2,000 sq m, aiming for all buildings to have or use renewable energy by 2031. Investments in alternative mobility infrastructure, such as more electric charging points and more bicycle parking, will become mandatory.

Finally, we must not forget that commercial and service buildings with heating, cooling, or combined heating and ventilation systems with a total nominal power equal to or greater than 290 kW must install Building Automation and Control Systems (BACS) by December 31, 2025, according to Decree-Law no. 101-D/2020.

“This directive will now be adapted to each country. But one thing is certain. A building with low energy certification will face significant difficulty, or even none, in obtaining financial support from banks.”

Nuno Fideles
Associate Director | Head of Sustainability • ESG & Sustainability

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