

Lisbon





Residential construction in Lisbon surged between 2014 and 2016

Lisbon is a city that has risen fast on the global stage. An emerging tech centre and a tourist hotspot, this Western European capital is now established as a dynamic cultural and business hub. For residents, Lisbon offers a high-quality of life with an appealing climate and a low cost of living, compared to other major cities. Like many prime residential markets around the world, the Covid-19 pandemic slowed activity in the first half of 2020 and price falls were recorded. However, a broadening international demand base, supported in part by the country's Golden Visa Scheme, will fuel the recovery. Longer term, Lisbon's ascension on the global stage, coupled with the value its prime markets offer, should drive future outperformance.



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A growing market

Solid economic performance, growing demand and market reform has driven the market in Lisbon

Market performance

Lisbon's residential market experienced a period of exceptional growth between 2014 and 2019. A strong economy, rising tourist industry and policies to attract foreign investors spurred new development activity and supported price rises.

Residential construction in Lisbon surged between 2014 and 2016 as a result, largely focused around renovation projects in the city's historic centre. With fewer buildings now available for renovation, construction activity has since slowed, and has slowed further as a result of the pandemic, but continues to outpace the national market.

In the year to May 2020, new build construction in Lisbon was 8% above the same period the year prior, compared to 6% for Portugal. New build activity could present an opportunity to developers going forward. With fewer renovation opportunities there is also a growing need for new housing targeted at the middle class.

Covid-19 and the prime residential markets

Like many prime residential markets around the world, Lisbon has felt the impact of Covid-19, particularly as international interest remains a significant driver of the prime market. In the first half of 2020, prime prices in Lisbon fell by 4.3%.



This is different to Lisbon's experience during the Global Financial Crisis (GFC), when house prices experienced a large and sustained fall, (down 21% from peak to trough, according to INE). Following the GFC Portugal implemented structural economic reforms, residential markets have been opened up, and a Golden Visa scheme introduced, attracting significant inward investment. This puts the residential market on a much stronger footing and Lisbon is forecast to outperform many of its peers as activity picks up once again (see Residential Market prospects).

Lisbon's appeal

Lisbon is Portugal's business and economic hub, accounting for over a third of national GDP, according to Oxford Economics. The city has a fast growing technology and start-up scene,

with over \$105m raised in venture capital for 2019-2020, a substantial figure, considering \$134m was raised in total in the ten years prior. A number of international companies have a presence in Lisbon and the city also hosts the annual Web Summit, the world's largest technology event (albeit to be held online for 2020).

The city is also an appealing place to live. A Western European capital rich with culture, Lisbon also offers residents a low cost of living and high quality of life. A compact-sized capital with short commuting distances and a sunny climate (the average year round temperature is 17°C) makes it attractive to those looking to locate for study, work and living alike. This is particularly important as people reassess their work / life balance in the wake of the pandemic.



Prime values, at €8,400 psm, are 80% below those of Hong Kong

Lisbon: global city

Despite strong growth over the past ten years, residential property in the Portuguese capital still represents good value

A Global context

With a 98% increase in prime prices between 2010 and 2020 Lisbon has outperformed a number of cities globally over the past ten years. This is well above many other European cities and second only to Berlin which grew by 127% over the same period. Both Berlin and Lisbon have benefited from fast growing interest from both domestic and international buyers while values have risen from a low base.

Prime residential property in Lisbon appears good value on a global stage. Values, at €8,400 psm, are 80% below those of Hong Kong (the most expensive city in the world for prime residential property), they stand 65% below New York's prime prices, and are around half those of London.

Lisbon's prime districts

Centrally located Santo António is the city's highest valued district, where prime property averages

€11,200 psm as of Q2 2020. It is home to some of Lisbon's most famous landmarks including Marquis of Pombal Square and Restauradores Square, as well as Avenida Da Liberdade, Lisbon's main boulevard and home of high-end retail.

Misericórdia, where prime values average €11,000 psm as of Q2 2020, follows. Misericórdia is home to the cosmopolitan area of Bairro Alto. Parque das Nações is Lisbon's third highest valued district for prime property as of Q2 2020, with an average prime price of €10,600 psm. This is the city's most modern area, transformed for Expo 1998, this district is home to modern office and residential buildings.

Golden Visa and Non-Habitual Residents

The Golden Visa scheme, initiated in 2012, has been hugely successful. As of June 2020, 8,389 golden visa residence permits have been issued

for real estate acquisitions, and just under €4.9 billion has been invested in Portugal's real estate market, the majority into Lisbon.

A minimum investment in real estate of €500,000 grants the non-EU buyer a visa and, in the longer term, a route to an EU passport. Foreigners need only be resident in Portugal for seven days in the first year of residency. Of the 8,389 permits issued since 2012, Chinese investors have accounted for the majority (55%).

The Chinese share of total permits has fallen over time, accounting for just 25% of permits issued in the first half of 2020, compared to 83% of permits issued in the first few years of the programme (Oct 2012-Jan 2015). This is in line with a fall in outbound investment from the country as a result of increased capital controls from China, as well as a broadening demand base as the scheme has developed. Lisbon has also benefited from demand for residential property from EU citizens attracted by the Non Habitual Resident (NHR) scheme, particularly from the French.

Portugal's NHR scheme offers tax incentives to EU nationals who have not been a tax resident in Portugal for the last five years. NHRs are exempt from personal income tax on income from non-Portuguese sources such as pensions, rental income, capital income and capital gains, for 10 years. (As of April 2020, the tax rate on the overseas pensions of NHRs increased from 0% to 10%.)

Average prime property price per square metre (June 2020)

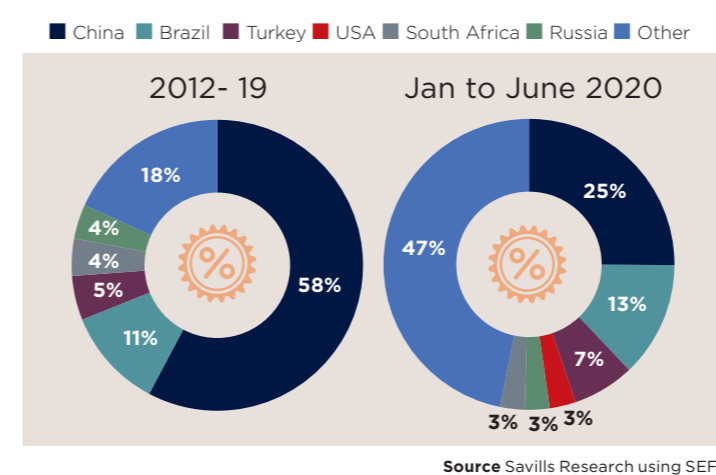


Source Savills Research

Note: We define prime as the top 5% of the market in terms of value

Prior to the pandemic, the government had proposed that from 2021 the acquisition of any property in Lisbon or Porto metropolitan areas to be excluded from the Golden Visa scheme. These plans have now been put on hold to aid the market in a challenging economic environment. While granting a reprieve, this suggests that longer term the scheme's future as a market driver in the city is uncertain.

Golden visa scheme investors



Residential market prospects

The Portuguese capital's prime market offers value on the global stage, and the city looks set to outperform other European cities in the near term

Economic prospects

The global macro-environment is very different to that of six months ago. Lisbon's economy is no exception, although it is forecast to hold up slightly better than some of its European peers. Lisbon's GDP is expected to contract by some 9% in 2020, this is less than the likes of Barcelona (-10%) and Paris (-11%), but more than London (-8%) and Berlin (-5%).

The recovery in visitor numbers, a critical part of the economy, is likely to be slow, weighing on the recovery. Lisbon has benefited greatly from a tourism surge in recent years, with over 18.4m overnight visitor stays in 2019, an increase of 5% from 2018 and a 133% increase from ten years ago (compared to a 4% and 64% increase respectively in Barcelona, for example).

The rental market

In 2012 the government introduced rental market reforms, allowing for greater flexibility in lease terms and facilitating a rise in short-let providers. This led to rapid growth in the short-let market, hand in hand with Lisbon's tourism boom.

In 2018, the government suspended all new licences for short-term rentals in certain areas of the city popular among tourists.

With opportunities for new entrants in the short-let market limited, demand impacted by the pandemic, and a shortage of long-term rentals, there is opportunity to serve the traditional rental market, particularly targeted at professionals living in the city.






From growth to maturity

Lisbon is emerging from a period of sustained growth as the city played catch up to its Western European peers. Set against a challenging macro-economic environment, we expect to see a more moderate rate of price growth in the near term, but still high by global standards (see Market Outlook table).

Lisbon's prime residential market is forecast to be one of the strongest performers out of the 28 cities in Savills World Cities Prime Residential Index for both the remainder of 2020 and the next five years.

Portugal's Golden Visa and NHR schemes are likely to keep international interest and investment in the market high, at least in the short to medium term, which will help the recovery from the impact of the pandemic. In the long-term, Lisbon continues to mature on a global stage while offering value in both a European and global context.

World Cities Prime Residential Market Outlook (next five years)

Outlook	City
	Amsterdam Berlin Lisbon Miami Paris San Francisco
	Barcelona Beijing Geneva Guangzhou Hangzhou Kuala Lumpur London Los Angeles Madrid Moscow Shanghai Shenzhen Singapore Sydney Tokyo
	Cape Town Mumbai New York Seoul
	Bangkok Dubai
	Hong Kong

Source Savills Research



Savills World Research

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

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