SPOTLIGHT
Savills Research

Spring Market Study 2019

Trends 2020

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At the time of launching this report, the spread of the Covid-19 virus was taking place throughout the European continent. The forecasts advanced in this report do not take into account the possible impact of Covid-19 on investment activity in the real estate sector.

However, it is important to note that it is expected that there will be a drop in the activity due to the European economic environment, and considering the investment strategies that may be put on hold.

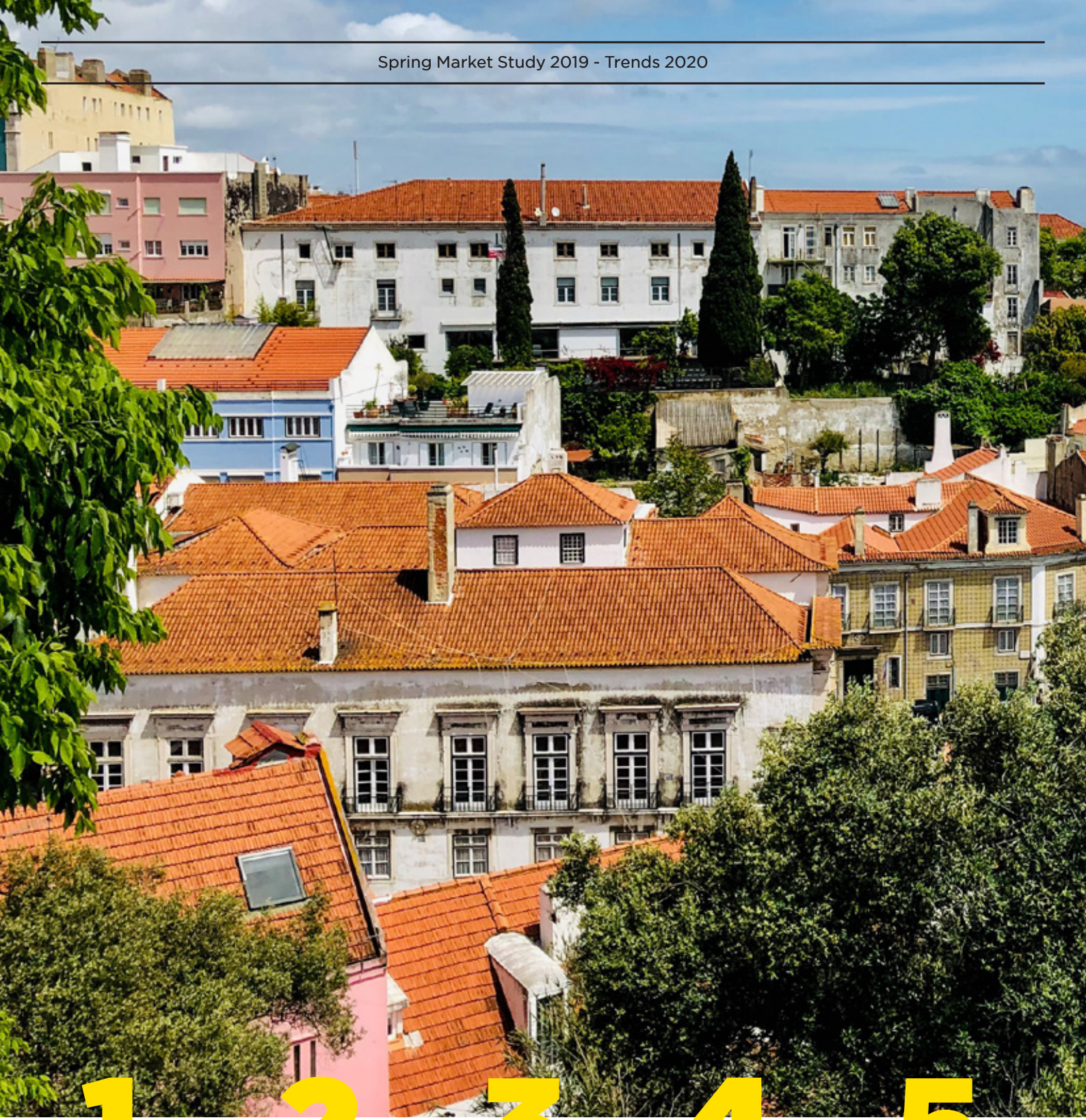
2019 continued the trajectory of growth, maturity and competitiveness in the Portuguese real estate market. This growth was accompanied by the Savills Portugal team, which has been itself an active part of the dynamism of the real estate market, operating throughout the market's life cycle.

The Spring Market Report assumes itself year after year as a Savills brand, which takes an objective and grounded look at the annual performance of all real estate segments, with a sustained vision both in observing the evolution of the segments, but also in the future perspectives that will mark the years to come.´

2020 will be a challenging year in terms of meeting all the demand that encompasses traditional real estate segments, as well as creating space for the development of alternative segments on a scale, in order to bring the Portuguese market alongside other international markets, where investment portfolios are very varied and synonymous of attraction for global players.

Savills Portugal, through its multidisciplinary team, with recognized know-how and high professionalism, will remain active in the search for answers to offer our customers efficient solutions, believing that side by side we can achieve success in all projects.

Patrícia de Melo e Liz
Chief Executive Officer
Savills Portugal



1.

ECONOMY

2020

2019 was another successful year of economic consolidation, which can be seen in the continued economic growth, although at a slower pace than in recent years.

Despite the national economy, and comparing to other European counterparts, being quite resilient to the international uncertainty scenario, it will witness a slowdown in the GDP growth in the coming years.

This slowdown results from a lower contribution from the exports given a lower growth in world trade and the external demand oriented towards the Portuguese economy.

A positive note for the efforts made by the largest national banking entities in strengthening their balance sheets and reducing their NPL (Non-Performing Loans) portfolios.

The challenges in reducing regulatory barriers in key sectors remain crucial to attracting productive investment.

GDP (change rate %)	Private consumption (growth rate)	Unemployment (rate)
1.9% **(2019)**	2.1% **(2019)**	6.5% **(2019)**
1.8% **(2020)**	2.2% **(2020)**	6.4% **(2020)**
1.7% **(2021)**	1.7% **(2021)**	6.3% **(2021)**

Savills Research analysing OECD Economic Outlook

EUROPEAN ECONOMY IN 2020

The European economy may enter 2020 in a less favourable context for the 7th consecutive year of growth, with a higher degree of uncertainty.

Although a pace of expansion is expected for the next two years, it will be marked by a less dynamic growth and a more modest inflation rate.

The continued trade tensions between the USA and China, together with the high levels of political uncertainty, have had an effect on the investment market, in the manufacturing industry and in international trade.

In 2020, the evolution of the European economy will be more subject to the robustness of the sectors most oriented towards the internal market.

Also the continued geopolitical uncertainty due to the BREXIT factor is one of the factors that will contribute to a more modest growth in the Eurozone, and it may have effects on trade and tourism.

KEY POINTS

- High degree of uncertainty;
- Less favourable external context;
- Strong dynamics of the labour market;
- Continued decrease in unemployment rate.

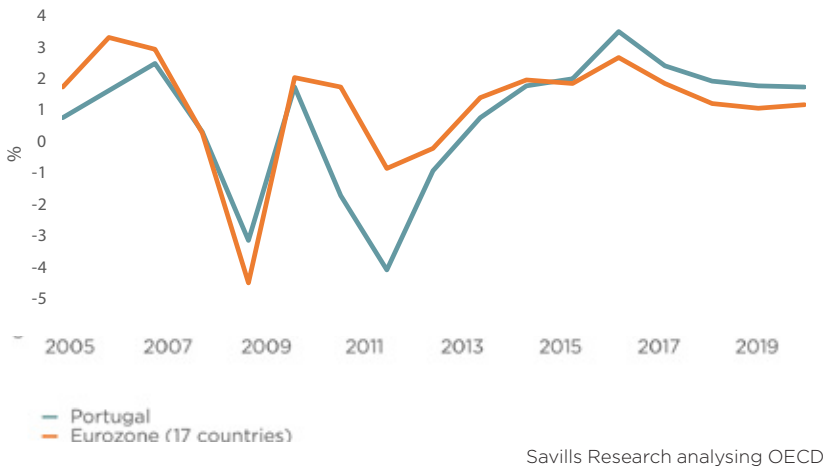
THE PORTUGUESE ECONOMY IN 2020

2020 will witness a slowdown in the growth pace of the national economy with domestic demand playing a more important role in driving the economy.

The increasing uncertainty regarding a less favourable external context is a reality, but in spite of this and according to OECD forecasts, confidence indicators for services, consumers and construction have stabilized, revealing some resistance to negative external developments.

Although the low inflation rate and ease of access to credit remain a reality, household consumption will start stabilizing due to a slowdown in employment and a stabilization of the wage rate.

GDP EVOLUTION

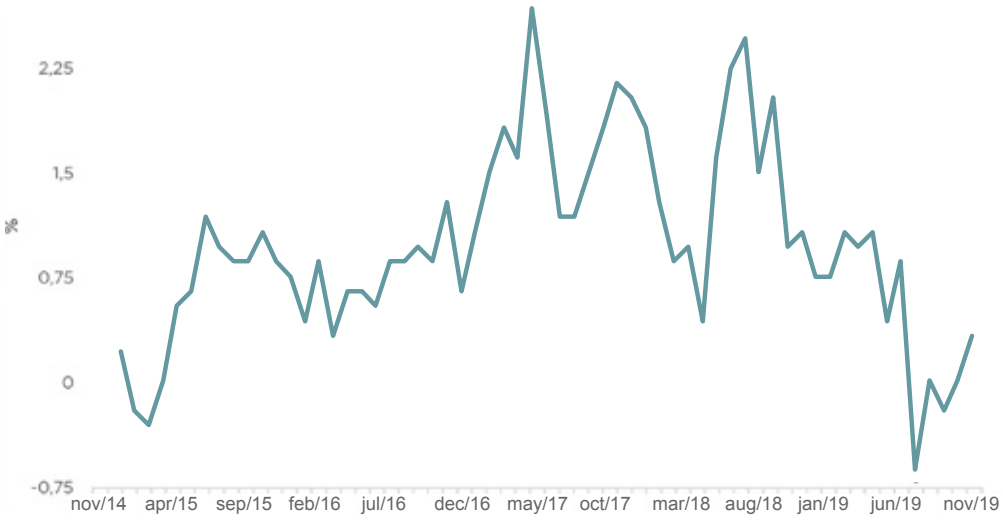


Savills Research analysing OECD

KEY POINTS

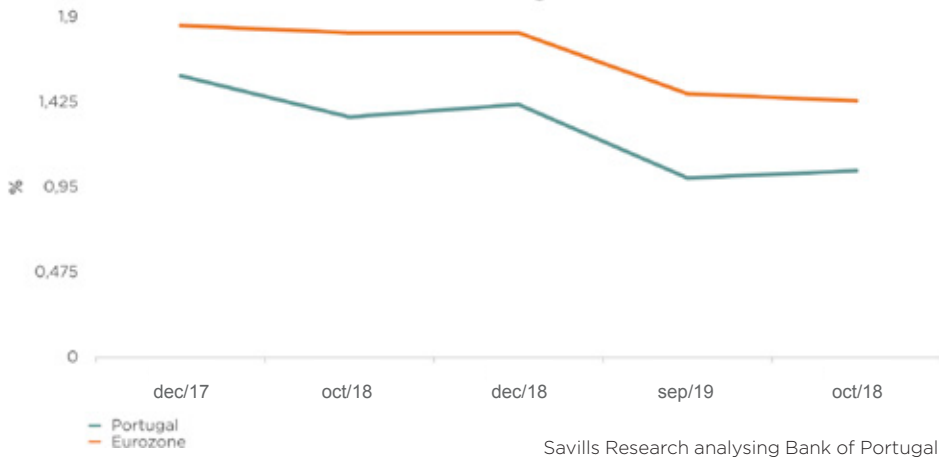
- Slowdown in national economic in 2020
- Internal consuption will be the major driving force of the economy
- Moderate increase in the inflation rate in coming years
- Resistance to the negative external developments
- Slowdown in household spending
- Moderation of the employment growth
- Unemployment rate bellow 7%

INFLATION RATE EVOLUTION



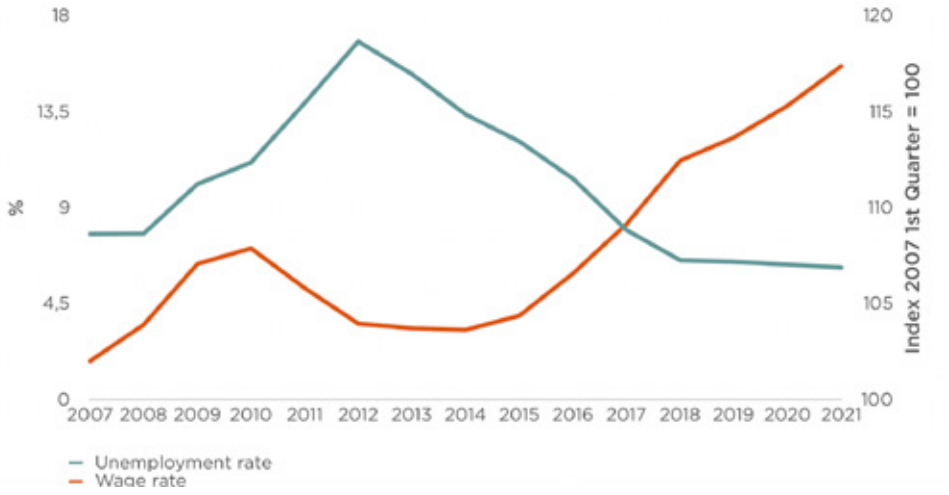
Savills Research analysing Bank of Portugal

LOANS TO HOUSEHOLDS (HOUSING) ANNUALYSED AGREED RATE



Savills Research analysing Bank of Portugal

LABOUR MARKET CONDITIONS



Savills Research analysing OECD

2.

INVESTMENT

2020

ALTERNATIVE SEGMENTS HERALD NEW TRENDS IN MARKET FOR PROPERTY INVESTMENT

Last year brought more excellent results for Portugal's property investment market. In 2019 we once more had more than 3 billion euros in total investment, in a demonstration of extraordinary resilience.

For 2020 we foresee a year of continuity, even if a slight drop in activity is to be expected that could bring the volume of total investment back below the 3-billion-euro mark.

Despite this expected slowdown, Portugal will remain in the sights of foreign investors.

The combination of factors favouring investment should remain in place, with interest rates remaining at very low levels and the high capital liquidity that has led foreign investors to select our market as a destination for investment.

Nevertheless, it should be noted that there is a strong possibility that restrictions will be approved on 'golden visas' that exclude Lisbon and Porto, which could have negative effects on Portugal's hard-won image as a safe place to invest.

International demand is extremely sensitive to fiscal changes and alterations to investment programmes, so this is without a doubt a factor to be taken into account in the scenario foreseen for 2020.

But with Portugal's property investment market continuing to be characterised by a shortage of assets and with the adoption of buy-to-hold strategies, what opportunities could the market have in store in 2020? And what changes will arise from these new opportunities?

Generational lifestyle changes that are being seen across international markets, driven by technological developments and the prioritising of "experiences" as opposed to the possession of material goods, have led to the emergence and growth of so-called alternative segments, from residences for students or seniors to coworking spaces and new coliving concepts.

These are times of opportunity in these segments, but investors must act fast and know how to take the maximum advantage from a market situation that is still favourable. The combination of these different demand segments, in a small market such as Portugal's with little elasticity on the supply side and a slow production cycle, will have a consequent impact on the structure of costs in segments that are still in an initial phase and very delicate.

In 2020 the analysis of projects directed at these categories of products will surely continue on its current course of growth and attract new investors.

Paulo Silva
Head of Country
Savills Portugal

WHAT WILL 2020 BRING? AND WHAT CHALLENGES WILL THE MARKET FACE?

- Interest rates will remain at historical low levels;
- Liquidity levels will remain high;
- Some uncertainty in the European economic and political scenario;
- Portugal will continue to benefit from the geographical diversification strategies of international investors and from risk profile expansion;
- Shortage of assets in prime locations;
- Yields compression;
- Achieve the balance between the investor profile, the asset availability and the expected return;
- The demand for value-add assets will continue;
- Income growth as a result of high demand and lack of adequate supply.

2019 WAS ONE MORE YEAR OF VERY POSITIVE RESULTS

2019 was one more year with very positive results in the domestic investment market. The scarcity of quality assets yields at historic lows and high capital flows are the major factors that characterize a market that continues to be very dynamic and resilient given some degree of uncertainty in the European economic and political scenario.

In total, there were 3.2 billion euros of real estate commercial investment volume, and this is a proof that Portugal remains at the top and preferences of an increasingly wide range of international investors.

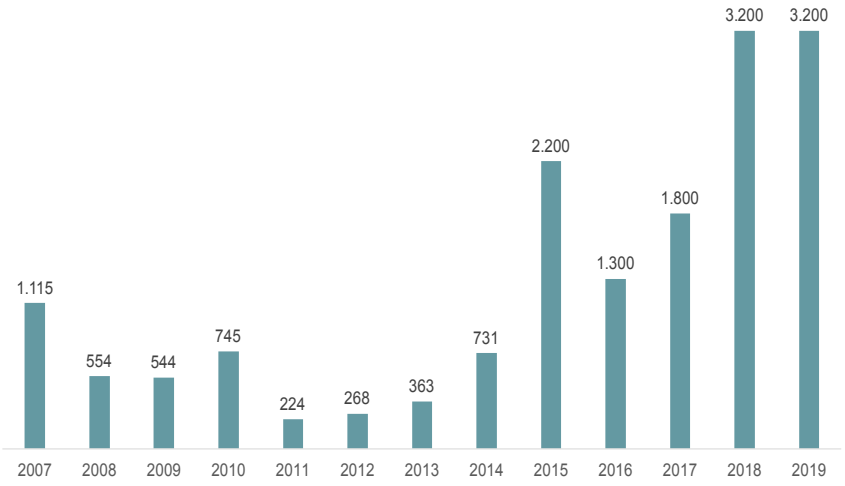
The office and retail sectors continued to lead investors' preferences in 2019, accounting for the largest market shares, with an emphasis on the hotel segment, which saw its investment volume increase by more than 150% when compared to 2018. The sale of the Minor Hotels portfolio to Invesco for 313 million euros contributed to this result.

The good performance of the hotel segment results in the establishment of new hotels and a continuous bet on the requalification and modernization of the existing hotel units, which is a crucial factor for the generation of differentiating concepts and the quality of the tourist offer.

The office segment reached a total amount of transactions of about 1,000 million euros, and the main transactions were the sale of Torre Fontes Pereira de Melo 41 located in the prime office area of Lisbon to DEKA, the sale of the Fidelidade's Arya portfolio to the American fund Cerberus and the sale of the Art´s Business Centre and Torre Fernão Magalhães buildings to Merlin Properties.

The office sector continues to lead the investors' preferences, but alternative segments start to gain ground

REAL ESTATE COMMERCIAL INVESTMENT VOLUME (€ MILLION)



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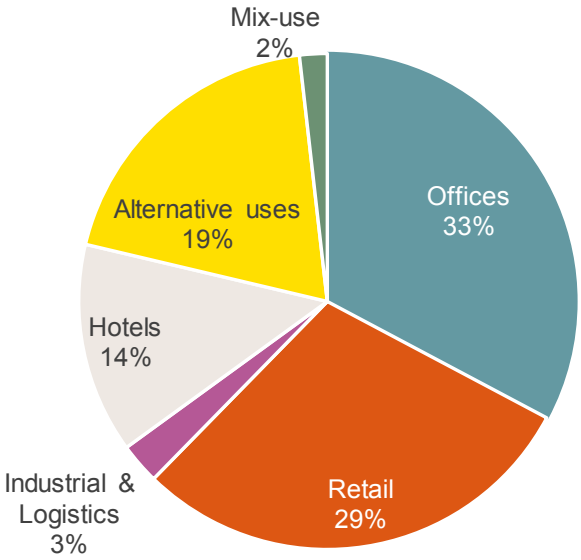
INVESTMENT VOLUME BY SECTOR



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TOP TRANSACTIONS 2019

Minor Hotels Portfolio
Seller: MINT
Buyer: Invesco
Investment Amount: 313 M€

Harbert Corporation Portfolio (Loures Shopping, 8ª avenida shopping centre and RioSul Shopping Centre)
Seller: Sonae Sierra
Buyer: Harbert Management Corporation
Investment Amount: 185 M€

Algarve Shopping & Albufeira Retail Park Portfolio
Seller: Iberia Coop
Buyer: FREY
Investment Amount: 179 M€

U.Hub Portfolio
Seller: U.Hub
Buyer: Xior
Investment Amount: 130 M€

LeiriaShopping
Seller: Sierra Portugal Fund
Buyer: DWS
Investment Amount: 128 M€

Arya Portfolio
Seller: Fidelidade
Buyer: Cerberus
Investment Amount: 125 M€

Tower Fontes Pereira de Melo 41
Seller: ECS
Buyer: DEKA
Investment Amount: 125 M€

Undoubtedly, the great news seen in 2019 was the consolidation of the alternative segments, which amounted to more than 500 million euros totally directed to student-housing projects. The sale of the U.Hub portfolio to XIOR, which includes two assets in operations and four projects, for 130 million in a forward-funding operation is proof that the alternative segments entered the race.

The increasingly noticeable scarcity of traditional quality assets is leading to the market opening to this type of assets, which are now being transferred from the alternative category to the mainstream category, attracting the attention of investors with a profile more willing to risk.

In the retail segment, there was a total investment volume of more than 900 million euros, with a decrease of 36% when compared to 2018. In 2019, we continued to see transactions of shopping centres portfolios located in secondary cities, as well as Retail Park sales operations, which accounted for an approximate amount of 300 million euros.

87% of the total investment in 2019 was made by international investors

Cross-border investment continues to account for the majority of the total investment in the Portuguese market, and year after year we can see the widening of the nationalities' spectrum (USA, China, Israel, Netherlands, United Kingdom, France, Germany, Spain, among others) .

In 2019, national investors saw their market share increase, accounting for 13% of the total volume of transactions, which corresponded to approximately 450 million euros.Family offices and insurance companies were the main national players, with the purchase of assets strongly directed to the retail and office segments.

2020 in the European market

- "Buy to Hold" strategies will limit the available stock levels;
- Yield stabilization in the office segment, yield increase in the retail segment and compression at the industrial & logistics segment level;
- Germany, the UK, France, The Netherlands, Spain, the Nordic countries will be on the rise;
- European investors will continue to lead, but also the USA will gain ground and the Asian market in deceleration;
- Greater geographical diversification of the demand;
- Increased investment strategies in the residential sectors and alternative segments (Student Housing, CoLiving and Senior Living).

In 2019, the market reached historically low yield levels in all market segments. In 2020, we should witness a stabilization of the office segment yields at 4% and a compression in the alternative segments that now receive greater attention from the investors who seek to diversify their portfolio and achieve greater return.

In 2020, the attractive factors of the domestic market will keep their relevance to the international market based on the good performance of market fundamentals and the increasing interest in the diversification of portfolios and a greater degree of openness to risk. The application of strategies to strengthen real estate investment in Portugal will continue to leverage the continuous scenario of low interest rates and government bonds at negative levels.

For 2020, Savills expects the Portuguese investment market to remain quite active and solid, with an expected investment volume of about 2.5 billion euros, based on portfolio transactions but also on forward-purchase and forward-funding encouraged by the pressure from the scarcity of supply of prime assets and high performance in the occupational market.

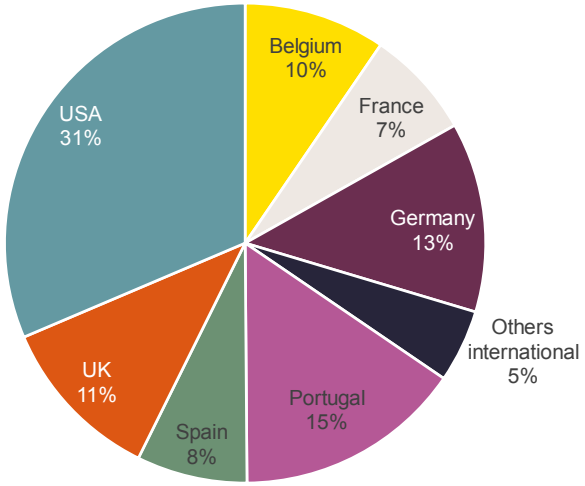
We will also witness an increasing demand for mix-use concepts that enable the adaptability of projects to urban changes and living concepts.

The impact of the approval of the Investment and Real Estate Companies regime will not yet be noticeable in 2020, and it is still quite premature to be able to foresee the impact of the Investment and Real Estate Companies on the real estate investment market. Notwithstanding, its establishment is a very important step towards a greater real estate market openness to foreign and national investment, providing, at the same time, required transparency and being an opportunity to increase the sector's competitiveness.

With a different tax structure and obligations from the Listed Real Estate Investment Companies, the Investment and Real Estate Companies will be able to take on a very important role in boosting the built-to-rent market, which stands out as one of the major trends in project development in the next few years.

At this moment, Bankinter and Sonae Sierra have already registered the first Investment and Real Estate Company in Portugal called Ores Portugal, which together with Ores will manage a property portfolio with a value of more than 500 million euros.

% INVESTMENT PER CAPITAL ORIGIN



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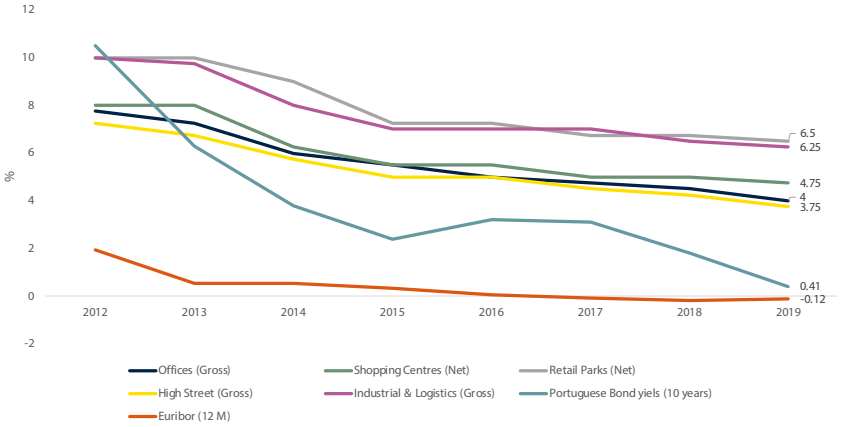
YIELDS EVOLUTION



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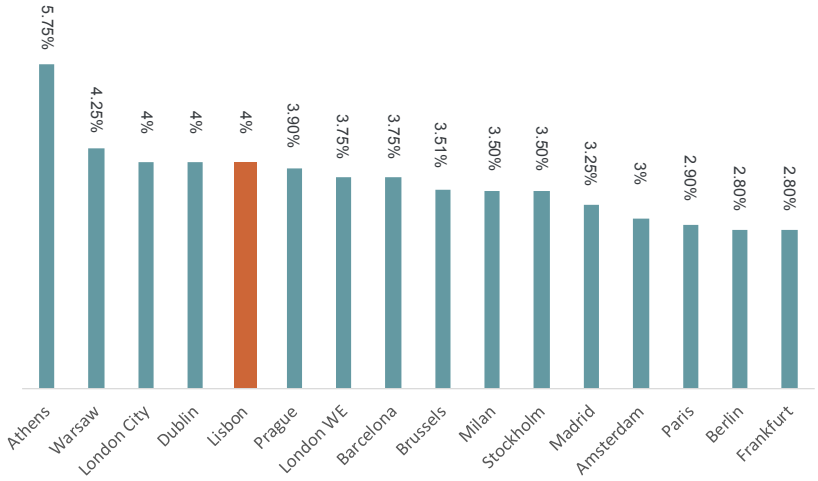
PRIME YIELDS 2019 - EUROPEAN OFFICE MARKET



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3.

OFFICES

2020

FLEXIBLE SPACES, TENANT EXPERIENCE AND RETENTION OF TALENT RANK TOP IN THE NEW MINDSET OF OFFICE SPACE OCCUPATION

New forms of organisation of work and office space experience are emerging as ever more important factors in taking property decisions.

This importance stems from the obligation for companies to invest in their policies of attracting and retaining talent, with the end objective of increasing their level of productivity in a market characterised ever more by its global and competitive nature.

While a few years ago the main concern was with reducing costs, companies are now focussing their attentions and efforts on the productivity factor. As we have become aware of this new dynamic, we are seeing developers and investors taking greater care to implement from the start of their projects measures that promote a more efficient occupation of the space, as well as greater satisfaction on the part of occupiers.

It is also worth stressing the increased attention being given to issues of sustainability and technology. The new projects that come to market will already have new sustainability and technology aspects that until today remain scarce in the Portuguese market.

We will see projects with LEED Gold or BREEAM sustainability ratings, as well as occupiers concerned for the wellbeing of their staff who seek certifications such as WELL.

Other technologies will also start to be implemented such as the use of the IoT or AI (Artificial Intelligence) in the occupation, utilisation and optimisation of space.

The future of the occupation of office space, in which technology fosters optimisation, management efficiency and a higher level of excellence offered to the tenant, has already arrived!

Rodrigo Canas
Offices Director
Savills Portugal

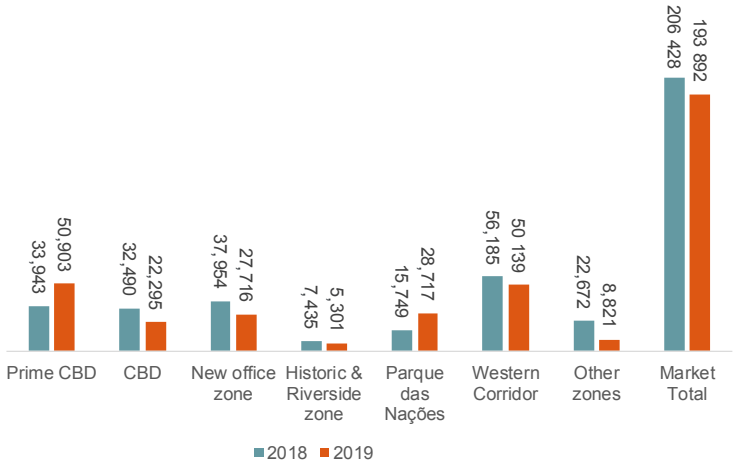
PRE-LEASE OPERATIONS BOOST TAKE-UP VOLUME IN 2019

The year 2019 saw a 6% decrease in take-up volume compared with 2018, for a total of 193,892 sq.m. of occupied space. While the market fell short of the 200,000 sq.m. mark, this was an excellent result given the 5.25% vacancy rate, with some market zones recording figures close to zero.

The Prime CBD zone (50, 903 sq.m.) and the Western Corridor zone (50,139 sq.m.) were those that recorded the largest take-up volumes. However, one must take into account that in the case of the Prime CBD zone a major contribution to this volume came from the pre-lease operation of the Tower Fontes Pereira de Melo 41, which is to be occupied by consulting group KPMG and law firm PLMJ, over a total area of 16,900 sq.m.

The Iberian law firm Cuatrecasas was the protagonist in one of the year's largest operations, in the form of the pre-lease of 7,675 sq.m located on Avenida Fontes Pereira de Melo 6, the former Liberty Seguros building.

TAKE-UP BY MARKET ZONE (SQ.M.)



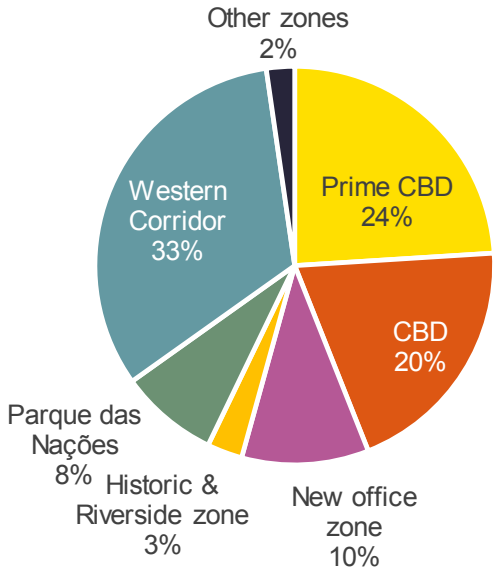
Savills Research analysing LPI

As for the Western Corridor zone, the year 2019 saw a 10.7% decrease from 2018 levels; nevertheless the take-up volume was the second highest in the Lisbon office market.

In total 57 operations were recorded, of which 21% involved areas of more than 1,000 sq.m.

The Parque das Nações zone also saw a significant rise in take-up volume in the year, at a total 28,717 sq.m., which represents a 82% increase on 2018. This result was thanks in large part to the project sale and subsequent occupation of the building of insurer AGEAS, which will comprise a total of 17,400 sq.m.

NUMBER OF DEALS BY MARKET ZONE



Savills Research analysing LPI

MAIN TRANSACTIONS IN 2019

AGEAS

Financial Services
Parque das Nações
AGEAS building
17,400 sq.m
Project sale

KPMG

Consultants & Lawyers
Prime CBD
Tower Fontes Pereira de Melo 41
9,950 sq.m
Pre-lease

Cuatrecasas

Consultants & Lawyers
Prime CBD
Avenida Fontes Pereira de Melo 6
7.675 sq.m.
Pre-lease

PLMJ

Consultants & Lawyers
Prime CBD
Tower Fontes Pereira de Melo 41
6,950 sq.m.
Pre-lease

High street retail attracting interest from new brands

With 64% of operations recorded in 2019 motivated by relocations, 2020 is set to be a year in which the response to occupation requests will be based on the renegotiation of existing spaces or on a strategic decision to opt for a pre-rental contract, especially where this concerns the occupation of large areas, which are sought by big foreign occupiers.

The years 2021 and 2022 alone will see the entry into the market of heavyweight projects with a GLA of over 150,000 sqm., of which around 26% are already in a pre-lease or negotiation phase.

Pre-lease and renegotiation contracts will continue to be strategies adopted to deal with the shortage of supply in 2020

MAIN PROJECTS IN DEVELOPMENT

HUB Criativo do Beato

Zone 7
35,000 sq.m.
(11,000 sq.m. of coworking space)
Date for conclusion: Q4 2020

Monumental

Prime CBD
18,000 sq.m.
Date for conclusion: Q2 2021

K Tower

Parque das Nações
15,000 sq.m.
Date for conclusion: Q2 2021

Exeo (Phase 1)

Parque das Nações
30,000 sq.m.
Date for conclusion: 2022

Colombo third tower

New office building
34,000 sq.m.
Date for conclusion: Q4 2022

CONSULTANTS & LAWYERS AND TMTS & UTILITIES WERE THE SEGMENTS THAT LED IN TERMS OF OCCUPATION OF OFFICES IN 2019

In 2019 the Consultants & Lawyers segment accounted for 21% of total volume transacted with 77% of occupations involving spaces with more than 5,000 sq.m. and located in the Prime CBD zone.

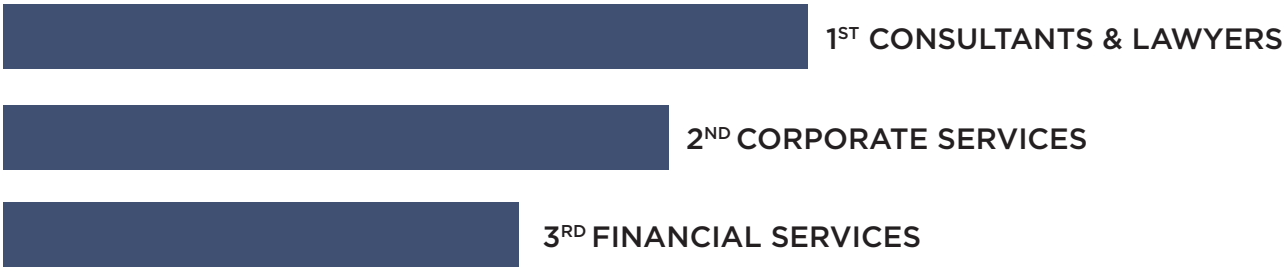
In this segment, 91% of the demand recorded related to change of buildings, with this very concentrated in the Prime CBD zone.

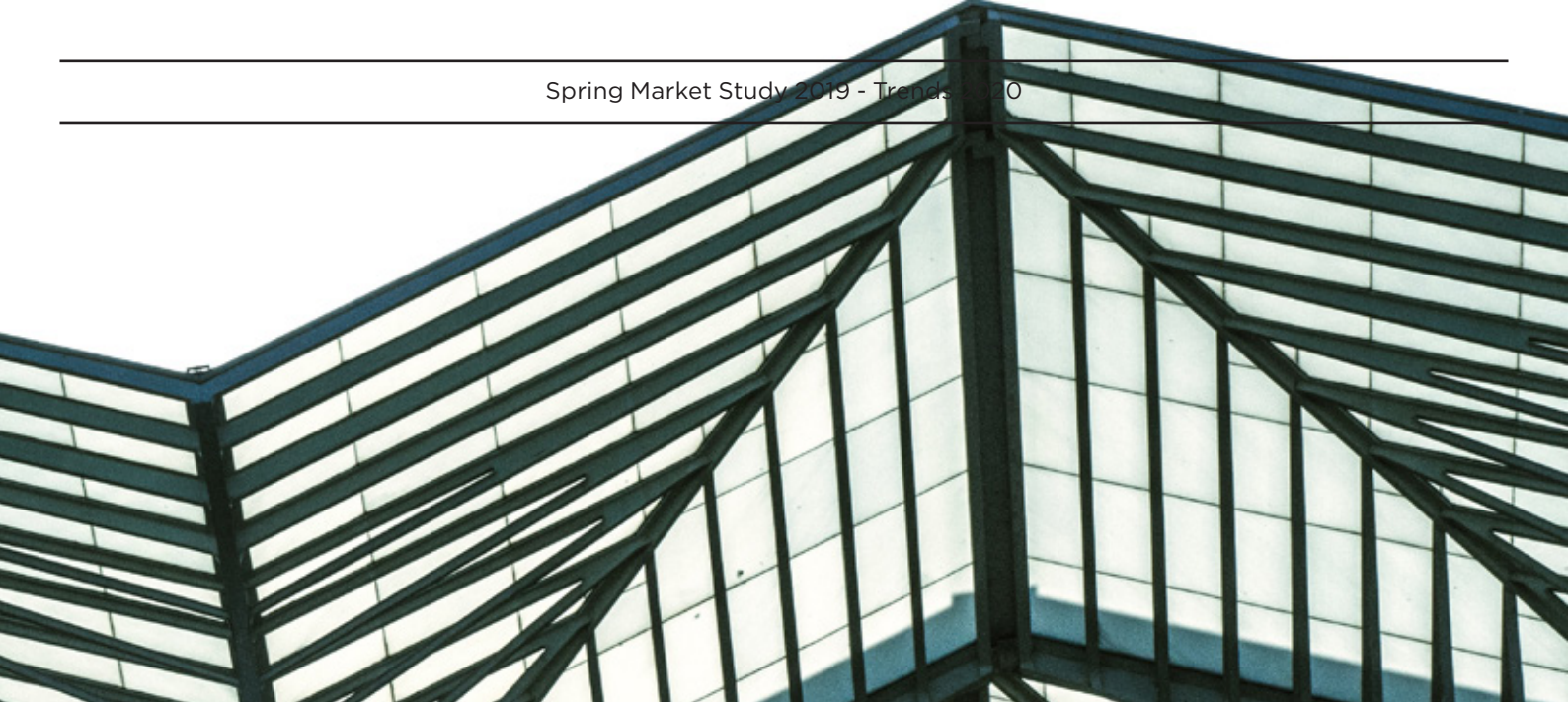
The TMTs & Utilities segment had a similar share, with around 20% of total volume of GLA recorded em 2019. Here 64% of operations recorded areas of occupation of more than 1,500 sq.m.and 48% of occupation volume recorded was in the Western Corridor zone.

The segment was also boosted by the pre-lease operations of tech companies MiniClip and PHC, with occupation foreseen for 2021.

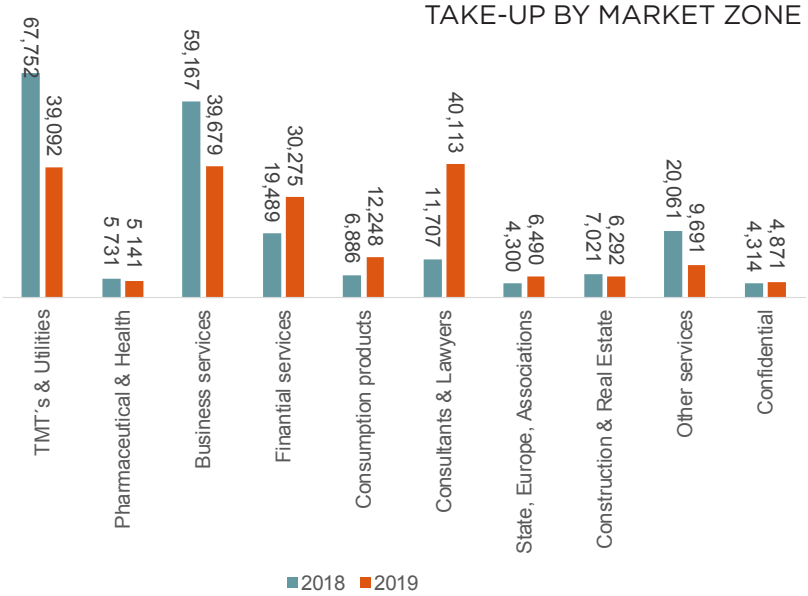
This segment also saw the entry of new companies into the market, with average areas of occupation in the order of 400 sq.m.

MOST ACTIVE SEGMENTS IN 2019





TAKE-UP BY MARKET ZONE (SQ.M.)



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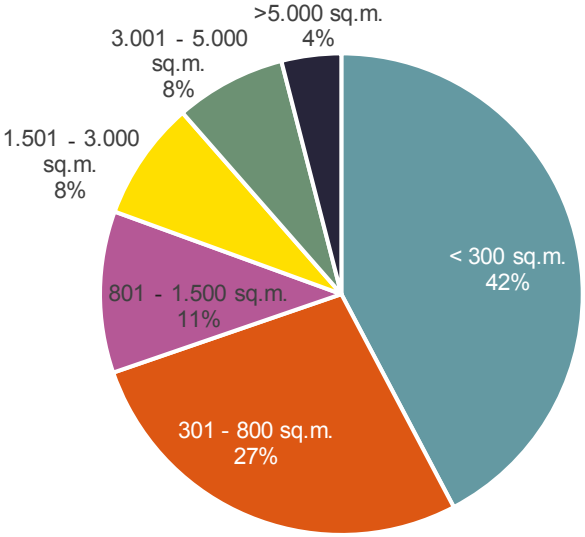
% DEALS DONE BY INTERVAL AREA



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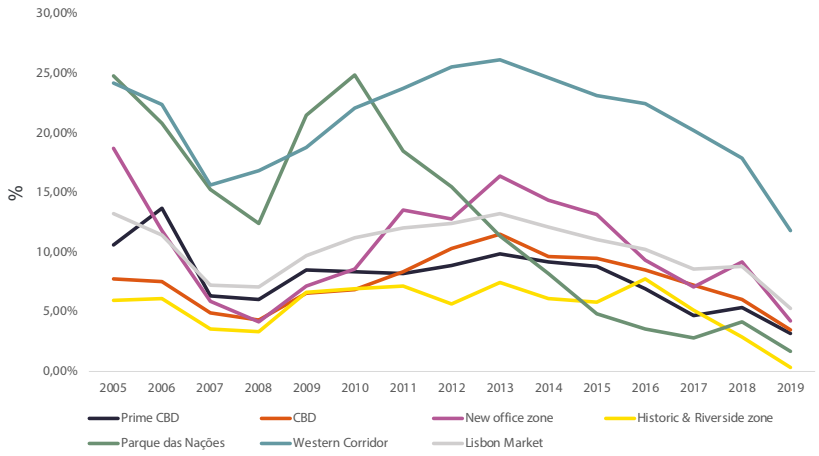
VACANCY RATE TO REMAIN UNDER PRESSURE IN 2020

VACANCY RATE (%)



Savills Research analysing LPI

The vacancy rate in the Lisbon office market currently stands at 5.25% and will remain under pressure throughout 2020. The most critical zones will be the Historic & Riverside zone, which already has an vacancy rate close to zero (0.33%), and the Parque das Nações zone (1.69%).

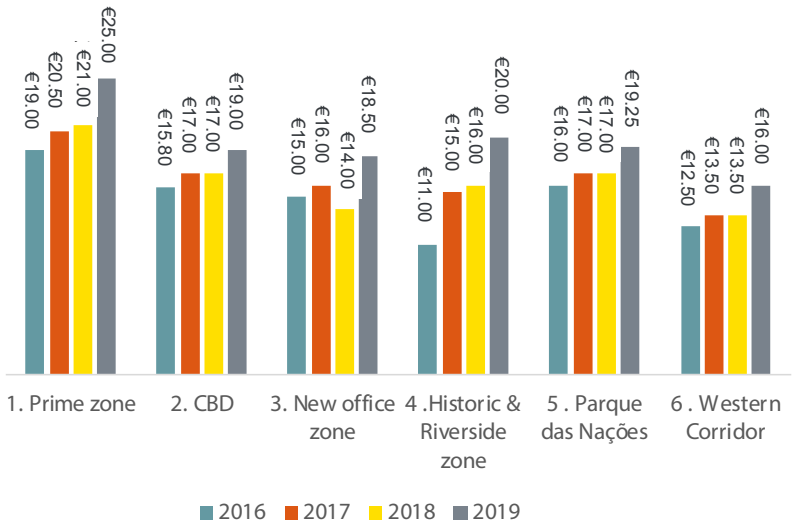
With current demand very active and running above 150,000 sq.m., there is an urgent need for new projects to enter the market and the time to market is short. Only around 42,000 sq.m. of new space is expected to be concluded in 2020.

The largest project will be the Hub Criativo do Beato, which comprises 35,000 sq.m. of spaces divided up into various uses. From coworking to coliving, it is set to be one of the most disruptive projects that the city of Lisbon has to offer.

The German company Factory, which manages one of Germany's largest campuses for startups and tech companies, will be overseeing 11,000 sq.m. dedicated to coworking spaces to be occupied by leading international companies such as Mercedes-Benz, which is to establish its digital innovation hub there.

IN 2020 PRIME RENTS WILL CONTINUE THEIR UPWARD CLIMB

PRIME RENTS MARKET ZONE (€/SQ.M/MONTH) 2016 - 2019



Savills Research analysing LPI

In 2019 prime rents ended the year at €25/sq.m/month, with an increase of 9% seen for 2020. This upward pressure on rents is driven by the scarcity of new and available supply, with this even more evident in market zones with vacancy rates that are already close to zero. This is the case in the Historic & Riverside zone, where rents ended the year at €20/sq.m/month, having risen 25% on the level of prime rents at the end of 2018.

FLEXIBLE SPACES ...
WHERE COWORKING HAPPENS!

In the city of Lisbon there are more than 90 coworking spaces in operation. From the initial idea more than a decade ago of offering the possibility of hiring a simple work desk with access to printers, meeting rooms and vending machines, tenants now have access to a large number of services that improve the experience of working in a flexible space, with much higher levels of quality.

As well as meeting rooms, the new formula offers other, more sophisticated features to keep pace with the new generations who are demanding ever more from the experience of a work space. From the introduction of phone booths and lounge zones to making use of terraces that are turned into the famous rooftop spaces that are so appealing to relax on during a work break, anything can happen in this kind of flexible space.

In Portugal this trend will continue to grow in a sustained fashion, as it is an appealing model for international companies that as yet have no presence in the country, want to test their business, and need a flexible rental contract without high capex costs.

It can be expected that landlords with sufficient scale will also start incorporating flexible models into their buildings.

In the year 2019 almost 9,000 sq.m. of flexible office space was occupied by companies such as Golden Hub, Heden and West Tech Ventures. In 2020, we shall see the opening of new spaces such as the Spaces brand, with a location in the heart of the city, in the Prime CBD zone.

4.

RETAIL

2020

2019, A SURPRISING YEAR WITH A PARTICULAR DYNAMISM IN THE HIGH STREET RETAIL MARKET

Another very active year for the retail sector, particularly in Lisbon. The tourism indicators that continue to reach record values and that keep demand at high levels have been key to a healthy and extremely appealing market.

The consumption trends of the new generations and the new lifestyles of the population are now forcing operators to pay increased attention, in constant processes of assessment and adjustment of strategic guidelines for brand positioning and expansion.

The new consumers increasingly value the concept of "Experience" associated with the act of buying, valuing creative brands that bring novelty to the market while making their customers feel part of a community.

From fashion to well-being, health, and healthy food concepts, also including brands that are focused on organic and sustainable products, the entire retail universe is undergoing a revolution and is systematically recreating itself.

As international retail chains tend to adopt a homogeneous image, there is currently a growing and indispensable concern in adjusting to the surroundings and to the individual communities, thus generating a feeling of belonging in consumers and the whole surroundings where they are present.

These are very demanding times, which move quickly, forcing operators to keep up with constant novelty and changes in the technological world, but more importantly to understand the consumers' minds.

Cristina Cristóvão
Retail Director
Savills Portugal

HIGH STREET WILL CONTINUE TO BOOST THE RETAIL MARKET

- Keeping the high street dynamics driven by the growth in the tourism sector;
- Keeping the interest of international operators in entering or expanding their activity in the Portuguese market;
- The urban regeneration activity will continue to boost the entry of new offer;
- The prime market values in the high-street segment will continue their upward trend, accompanying high demand and availability rates under pressure;
- There will be no room for significant rent increases in shopping centres. The potential increases will be very slight and will arise from the renewal and expansion processes of some shopping centres;
- E-commerce will continue to conquer its market share and force brands to analyse their sales strategies, but it will still be far from reaching the development potential already achieved by other European countries.

Urban regeneration continues to be an important driver of high street commerce, bringing life to new commercial spaces throughout Lisbon.

From an action that started in the heart of the city, focused on the historic centre, commercial spaces dedicated to the most varied activities are now multiplying in more secondary streets, turning Lisbon into a diversified, attractive and 100% cosmopolitan retail destination.

In 2019, high street commerce was once again the star of the retail market in Lisbon, with the opening of about 280 shops, 80% of which belonging to the restaurant sector.

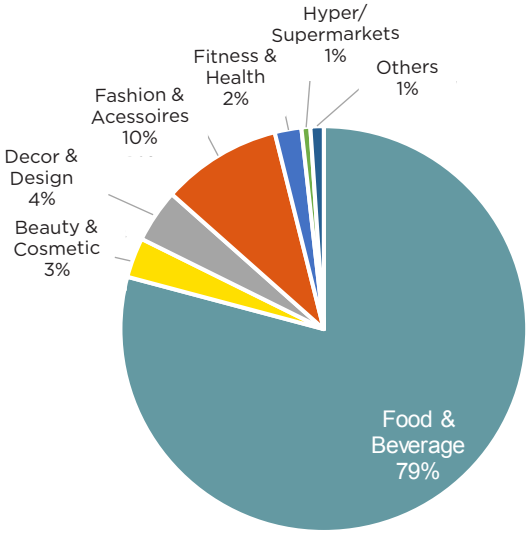
Chiado, Baixa and Av. da Liberdade continue to be the most desirable areas for a wide range of national and international operators that wish to associate their brand with a prestigious location.

Boggi Milano, Overcube and JNcQUOI are some of those brands that opened their shops along the Lisbon historic and prime axis in 2019.

With today's lack of available supply, brands have also started looking at other city axes, more secondary ones, but with a very interesting potential. Príncipe Real, Campo de Ourique, Cais do Sodré, Avenidas Novas are natural, consolidated commercial expansion areas offering a commercial mix that is essentially based on restaurant concepts combined with other concepts, such as fashion and decoration. This combination proves to be frequently disruptive and eclectic while preserving the historical nature of the city in its genesis and instilling identity and modernity.

From the most alternative concepts along the Cais do Sodré –Santos axis to the luxury of Av. da Liberdade, Lisbon offers an international atmosphere, streets populated with tourists from all over the world, alternative concepts that merge with high-end brands, Boutique Hotels that bring charm to the city façades and rooftops renewed in an exemplary manner that are the cherry on the cake.

NEW OPENINGS PER TYPE OF ACTIVITY



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THE NEIGHBOURHOODS ARE BACK ... AND THEY ARE TRENDY!

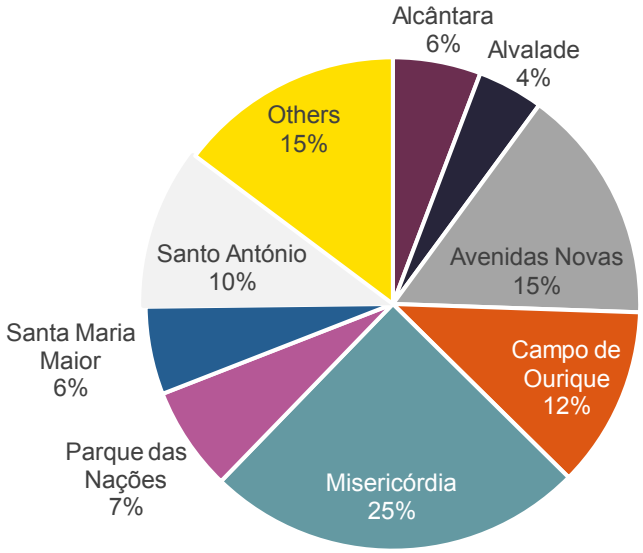
The growth of "neighbourhood shops" has been one of the most consistent trends in the retail market in recent years.

The scarce supply in the city centre and in the so-called prime axes now makes operators look at other more secondary locations, mostly located in a more expressive residential cluster and which constitutes a critical mass for the opening of commercial concepts that meet this population's consumption needs.

The parishes of Alvalade, Campo de Ourique and Arroios are good examples of residential areas that received shops closely associated with the proximity and convenience concepts in a gradual manner.There are already several food brands involved in the opening of smaller shops, totally dedicated to everyday shopping, which can meet the customers' needs quickly, efficiently and conveniently.

In 2019, Go Natural, Fauna & Flora, 100 Segredos, Portugália, Charlie, Italian Republic and Sublime opened shops in the mentioned parishes.

NEW OPENINGS PER PARISH



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RISING DEMAND WILL KEEP THE UPWARD TREND OF RENTS

EVOLUTION OF PRIME RENTS PER COMMERCIAL FORMAT (€/SQ.M./MONTH)

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In terms of high street commerce, the evolution of rents along the Chiado, Baixa and Av. da Liberdade axis will remain high.

Chiado ended 2019 with a rent of € 160/sq.m/month, with a 12% increase expected during 2020.

The demand in this prime zone will remain very dynamic and strongly driven by the high tourist flows that also extend to the Baixa zone, with an expected increase of about 25%, reaching € 100/sq.m/month.

With the purchase of the historic Pastelaria Suiça block by Jackyl, Rossio is expected to regain the title of excellence as the city's main square and bring back to life more commercial offer and the deserved rebirth of this historic area of the city.

Av. Liberdade should keep its prime rent value steady at € 100/sq.m/month.

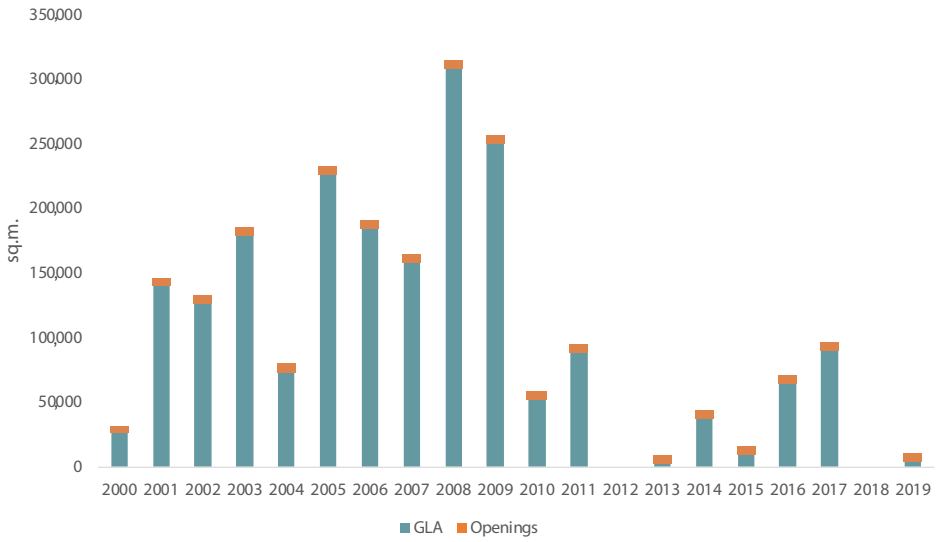
SHOPPING CENTRES: TIMES CHANGE... THE CONSUMERS ARE IN CHARGE!

Much has been said about the concept of "Experience" applied to the retail market. From the consumer who used to go to a shopping centre with the simple goal of buying products, nowadays, the buying process proves to be much more complex and closely connected to the experience that the brand offers its customers in the shop.

In Portugal, shopping centres have been the commercial format that has most felt the change in consumer profiles, strongly influenced by the introduction of new technologies, the proliferation of social media, influencers, marketing campaigns, and promotional videos that result in an increasingly diversified and complex advertising range.

Having reached its maturity level, the market is moving towards the renewal of existing commercial spaces in a natural manner. This is the case of NorteShopping, which is focused on the expansion and modernization of the centre in order to offer the consumer a new "food hall" with a differentiated restaurant offer making the gastronomic experience available.

GLA INAUGURATED & NUMBER OF OPENINGS SHOPPING CENTRES



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In 2019, the former Dolce Vita Tejo Shopping Centre was renamed UBBO, the result of the total renewal of the shopping centre originating an entirely innovative concept and that defines UBBO as a shopping resort, offering entertainment areas, such as a water park, climbing walls, new playgrounds, rest areas, terraces, among many other attractions that have the objective of extending the client's visit to the centre.

In 2021, we can expect the expansion of the famous Centro Comercial Colombo, which will comprise more than 10,500 sq.m and new shops, a luxury food hall, a sports area and an area dedicated to high-end fashion brands.

Opening in 2019

Montijo Retail Park
18,000 sq.m

Renovations 2019

Saldanha Residence
Alameda Shop & Stop

Shopping Centres undergoing expansion works

Norte Shopping
Centro Comercial Colombo
Vila do Conde Fashion Outlet
Glicínias Plaza

Opening scheduled for 2020

Lisboa Retail Park
Alta de Lisboa
30,000 sq.m

E-COMMERCE IN PORTUGAL... CONSOLIDATED REALITY OR FUTURE TREND?

Although much is said about the growth of e-commerce and the overall preference of consumers for the online channel, in Portugal there is still a long way to go. Compared to other European countries, Portugal is far from the European average and still has enormous potential for progress in this commercial channel.

In accordance with a study carried out by ACEPI in 2019, Portugal is expected to reach an internet penetration rate of 91% and 66% of internet users will make purchases online by 2025.

In some European countries, the online channel is having an impact on physical shops whereas in Portugal this trend is still far from being a reality that negatively impacts the physical format and that puts its success at risk.

E-commerce is the choice for purchasing specific products (e.g.: travel) or promotional seasons (e.g.: Black Friday; sales season) and works as a complement to the physical shop, often working as a channel that helps with sales in the shop later.

5.

INDUSTRIAL & LOGISTICS

2020

SUPPLY CHAIN CHANGES AND INTRODUCTION OF NEW TECHNOLOGIES LEAD WAY IN I&L SECTOR

Consumption patterns are changing, with consumers demanding greater variety, more customisation, more speed and ultra-convenience. It will not be long before consumer goods retailers are reaching this level of service; indeed the time it takes to bring the product to the consumer is ever more of a differentiating factor in purchase decisions, and it is expected that in future this will be the indicator of consumer satisfaction.

Although Portugal still has a relatively low penetration by e-commerce, compared with other European countries and the US, high growth rates will soon see its share of total retail sales becoming significant, with direct repercussions on the industrial & logistics sector.

In industry, the spread of automation technologies and additive manufacturing, the advent of the IoT and the use of predictive analytics makes it possible to respond to these changing consumer patterns through a strategy of synchronised retailing, in which all stages of the supply chain are aligned and communicating, right up until the consumer.

Locations closer to consumption centres will make it possible to obtain efficiencies: less transport, less inventory and less time to market. In view of this scenario, it is not surprising that we are seeing growing interest in properties for the establishment of productive units in greater proximity to the markets for which consumer items are destined.

The logistics business will inevitably be affected by these changes and consequent challenges of managing to guarantee the speed demanded and handle the increased complexity involved, shorter lead times, more SKUs and reverse logistics.

Disruptive factors are entering a process of massification, so that we can expect higher rates of adoption of robotics or totally automated solutions, making viable those locations closer to urban centres that were previously impossible to use because of the levels of rent practised.

All these factors will bring new dynamics to the property market. There will be a need of product of a very high quality prepared to meet the specifications that these new technologies will require, many of which will need to be on a scale sufficient to make possible a return on the investment in these technologies. On the other hand, in terms of managing to respond to the consumer's desire for ultra-convenience, the need for a small-scale logistics product to serve urban zones will also increase.

We believe that the coming years will be exciting ones, with the market experiencing more dynamic times arising from the changes that are expected in distribution networks and which will mean that commercial property for industry & logistics will be obliged to adapt to the transformations underway.

In 2019 there was total take-up volume of 207,000 sq.m., representing an increase of 14.5% on the amount recorded in 2018. This rise goes to show the gradual recovery of the industrial & logistics commercial property sector.

The big driver of the increase in demand has been based on an increase in consumption that has taken place as part of the current positive phase of the economic cycle in Portugal.

"In parallel with this increase in consumption there has been an increase in logistics operations being undertaken in warehouses that are working beyond their operating capacity. Operators are required to rethink their strategies of occupation and expansion".

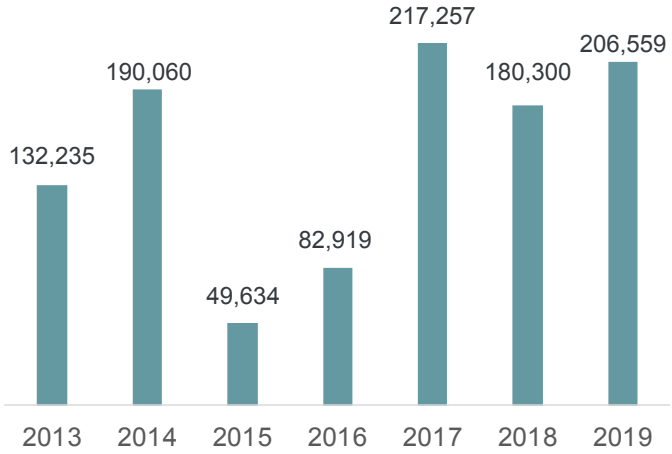
The change in logistics processes and in distribution chains, which to a great degree arise from the introduction in e-commerce, has forced a rethink of the whole logistics chain with direct effects on the way industrial & logistics commercial property is viewed from the perspective of the occupier.

In recent years this sector has been marked by stagnation in its property activity, with a very scarce supply of quality produce, while demand has been meeting its occupation needs through investment in built-to-suit projects undertaken by logistics operators themselves.

"In parallel with this increase in consumption there has been an increase in logistics operations being undertaken in warehouses that are working beyond their operating capacity. Operators are required to rethink their strategies of occupation and expansion".

While e-commerce is still taking its first steps in Portugal and has not yet reached the market shares achieved in other European markets, the industrial & logistics market is now starting to feel its effects, putting increased pressure on landlords and developers to bring product to market that meets standard requirements, which can be adapted to the introduction of technical specifications and the adoption of new technologies, and which ultimately can make it possible to obtain the efficiency gains that are so sought after and important.

TAKE-UP (SQ.M)



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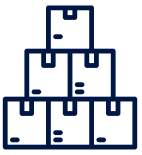
LAST MILE

Improvement in client experience;

Optimisation of delivery times;

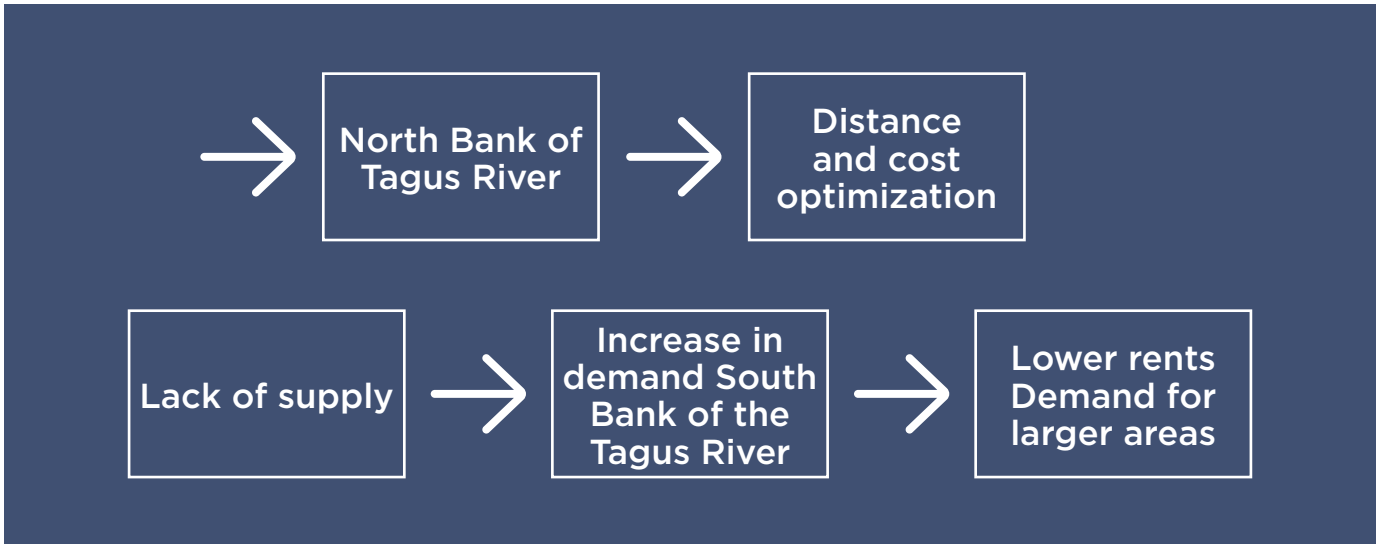
Delivery networks closer to urban centres;

Introduction of new technologies;



Efficient management of stocks

DEMAND



Although current demand makes it an urgent necessity for product to come onto the market that has specifications capable of maximising the efficiency levels of logistics operations – needs that apply to demand in all market zones – obsolete supply continues to dominate.

This supply is also very dispersed and requires intervention on the part of operators.there is also a shortage of product with areas greater than 10,000 sq.m, which is fundamental to ensure the attractiveness of Portugal's industrial & logistics market.

In this situation of market supply, Merlin Properties is developing the largest logistics centre in the Iberian Peninsula, with 225,000 sq.m., at Castanheira do Ribatejo. The Lisbon North Logistics Platform is to be developed in phases, with construction having already started on 45,000 sq.m. that is to be concluded in 2021.

In Santa Maria da Feira, VGP has also already begun construction on its first Industrial & Logistics Park, with 30,000 sq.m. , which aims to house logistics and warehousing services as well as commercial activities and light industry.

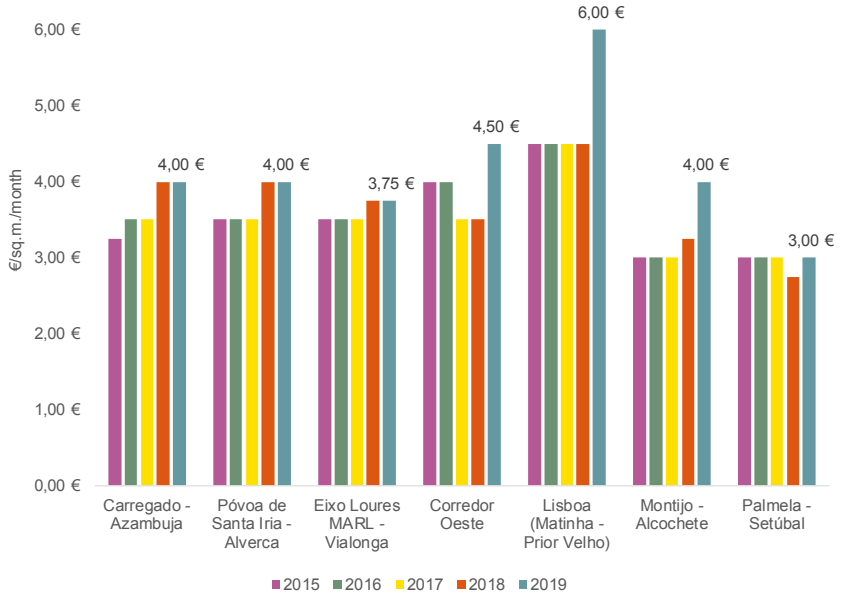
Even though there are great expectations on the part of big developers and investors as to how the market will react to the introduction onto the market of projects of a speculative nature, the market is seeing an upswing in this kind of projects, which are very much aimed at e-commerce companies and which also offer Portuguese and foreign operators the possibility of turnkey projects.

LAST YEAR MARKED AN ACROSS-THE-BOARD INCREASE IN RENTS IN THE I&L MARKET

The year 2019 saw an increase in rents that extended to all market zones, due to the shortage of supply that has characterised the market. This upward pressure on rents was most clearly seen on the north bank of the River Tagus, between Azambuja and Sintra, but there was also a notable increase along the Alverca-Loures axis.

"In parallel with this increase in consumption there has been an increase in logistics operations being undertaken in warehouses that are working beyond their operating capacity. Operators are required to rethink their strategies of occupation and expansion".

PRIME RENTS EVOLUTION BY MARKET ZONE



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Now, at the start of 2020, it is expected that growth in demand will be maintained, with the outlook of operators indicating an evident need for an increase in area and the introduction of specifications relating to built-to-suit projects.

We will see a greater investment in the urban distribution chain with a view to the last-mile delivery stage and micrologistics that will lead inevitably to the recovery of former industrial premises near to major urban centres to respond to the demand for small-scale warehouses.

Ecological cost of daily distribution

Green logistics practices;

More sustainable logistics processes;

Demand for refrigerated warehouses;

Greater use of railway lines.

6.

RESIDENTIAL

2020

2020: A YEAR OF CONSOLIDATION IN THE RESIDENTIAL MARKET

The year 2019 was characterised by the stability typical of a mature market, and the year 2020 is set to see continued consolidation of prices and demand in the residential market.

Those who experienced the last few golden years, which saw a steep rise in prices in Portugal's main urban centres, in particular in Lisbon, have often considered the hypothesis that this might represent the emergence of a property bubble. However, the market has proved that the appreciation of the residential market has taken place in a sustained fashion, becoming ever more solid in recent years and generating a great deal of interest at home and abroad.

While until now we have seen a period in which there has been low elasticity in asking prices against closing prices, and selling was easy, 2020 will see the page turn on these factors. Once more, much greater professionalism and responsibility will be needed, as clients become ever more demanding.

On the one hand, Portuguese nationals continue to represent the largest slice of housing purchases in Lisbon; on the other, given that prices here are still very attractive compared to other markets internationally, demand from abroad is certain to continue upwards throughout 2020.

In recent years we have also seen an increase in the dynamism of the market for long-term rentals – something felt particularly in recent months in large part because of the restrictions imposed on short-term rentals.

Susana Faria
Residential Manager
Savills Portugal

Overview of 2019

- Total purchases in Portugal: €25 billion (estimate);
- >23,000 homes licensed in Portugal (+17%);
- General increase in closing prices per sq.m: 12% in Lisbon Metropolitan Area;
- Average absorption period: 5 months.

Trends 2020

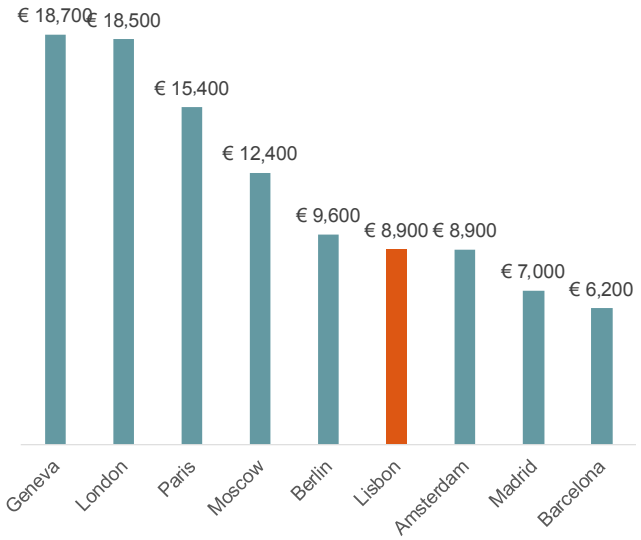
- Growth of housing stock in municipalities surrounding the city of Lisbon;
- Reduction in weight of prices per sq.m.in the municipality of Lisbon in relation to whole metropolitan area;
- Urban rehabilitation will remain the main engine of development in the centre of Lisbon, with a slight increase in new building;
- Increase in demand from developers for spaces for development in the build-to-rent/ multifamily and coliving segments;
- >7,500 new homes in the next 2 to 3 years.

LISBON

The city of Lisbon has been successful in capturing ever more prestige and international credibility. Compared with the old Lisbon, rundown and incapable of attracting residents into its historic centre, the Portuguese capital is nowadays a vibrant city able to combine the best of modernity with tradition, giving it unique characteristics that are generating interest in the far corners of the world.

The liberalisation of the rental market, the opening of short-term rental properties and the support for urban rehabilitation have all breathed new life into the city, reflected in record levels of investment and the consequent appreciation of prices per sq.m.– which today rival those in cities such as Berlin, Madrid and Barcelona, in particular where the prime segment is concerned.

PRIME PRICES (ASKING) PER SQ.M IN 2019



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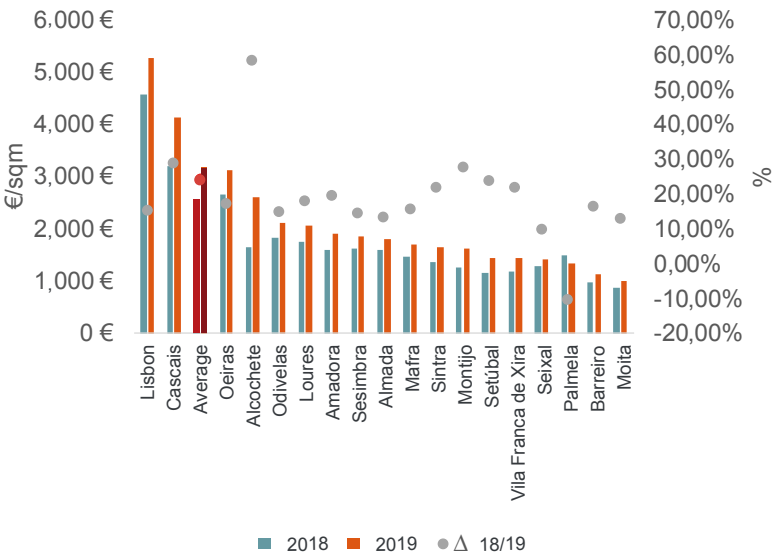
ASKING PRICES (AVERAGE) IN THE LMA



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In 2019 the Lisbon Metropolitan Area (LMA) was once more the Portuguese region with the biggest increase in licensed new homes from 2018 – a result of the dynamism that the city of Lisbon in particular has been gaining in all property segments.

The emergence of the city as a technological hub, with a focus on projects relating to the digital and creative economy, innovation centres such as the Hub Criativo do Beato, its success in attracting multinationals in a wide range of sectors, the growing number of foreign students and the tourism boom are examples of the factors that have buoyed the city of Lisbon and been reflected in the residential market.

Lisbon will throughout 2020 see the appearance of major developments all around the city, with a greater balance between housing originating in urban rehabilitation (above all in the historic centre) and new builds. With this will come the strengthening of new residential clusters, such as the Alto do Lumiar and Braço de Prata zones.

The huge appetite for housing projects is now a reality that extends to the municipalities surrounding the city of Lisbon for two main reasons: the increase in prices per sq.m.in the centre of Lisbon and the need to expand the housing stock of the city of Lisbon, with secondary towns offering the opportunity to develop these projects at prices that are more affordable for the middle class.

LARGEST NEW BUILD PROJECTS IN PIPELINE IN LISBON

Project / Developer	Location	Housing units*	Observations
SOLYD	Lumiar	490	Alto do Lumiar
BRAÇO DE PRATA	Marvila	360	
GRUPO SIL	Alcântara	270	
KRONOS	Parque das Nações	219	80 with launch in 2020

*Estimated figure

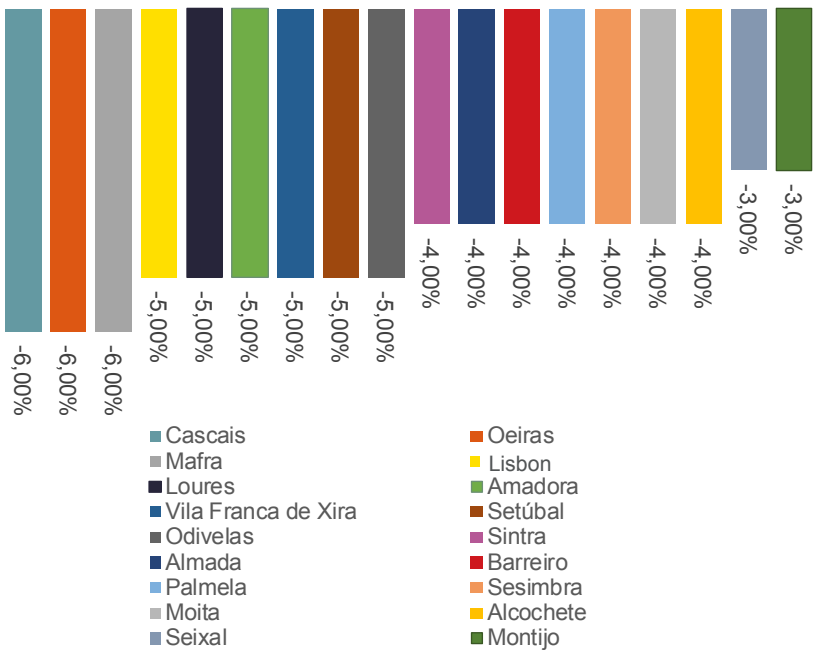
PRICES IN LMA EVER MORE INFLUENCED BY SECONDARY TOWNS

All municipalities in the LMA in 2019 saw asking prices increase on the levels of 2018, particularly those on the south bank of the River Tagus, where as well as projects aimed at the middle class, projects for the upper-middle class are also starting to appear.

The year 2020 is taking shape as one in which theLMA's secondary municipalities will increase their weight, in particular those south of the Tagus, as new infrastructure is built that enables them to appreciate in value – in particular the new Lisbon airport and supporting infrastructure, located in the municipality of Montijo.

On average in the LMA closing prices fell 5% from the amounts initially asked. This indicator makes evident the low price elasticity supported by high levels of demand but also by the increasing spread of the phenomenon on off-plan sales, which are traditionally more affordable than those once the property is completed.

DISCOUNT RATE IN THE LMA IN 2019



Savills Research analysing SIR

PRICES IN LMA EVER MORE INFLUENCED BY SECONDARY CITIES

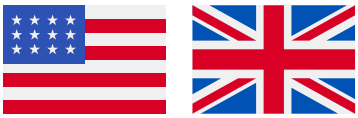
Data available from the first half of 2019 point to foreign buyers accounting for 34% of sales within Lisbon's Urban Rehabilitation Area (ARU), representing an increase of 9 percentage points from the same period in 2018, so proving the city of Lisbon's growing capacity of attraction.

Main foreign buyers

France 21%

China 14%

Brazil 8%



USA 5%

UK 5%

The nationalities that are buying properties in Lisbon without a golden visa in view are exercising a strong influence on average prices, and while there is a preference among those seeking golden visas to buy a single property, there have been a growing number of investors opting to acquire a portfolio of assets that together reach the required threshold and make possible a greater return on investment.

Savills thus foresees that the dominance of foreign buyers will be maintained for properties worth more than €6,000/sq.m.and that the Portuguese market will absorb principally properties with prices between €2,000/sq.m.and €4,000 €/sqm. We shall certainly see in 2020 a reduction in the weight of buyers from outside the European Union, who should be substituted by European nationals.

The main impact of the measure to abolish golden visas for purchases in the Lisbon and Porto metropolitan areas will be on Portugal's image among foreign investors who are also investing in other property segments, since it could generate a feeling of uncertainty in relation to decisions to invest in the country, due to the constant legal changes to programmes aimed at attracting investment.

RENTAL MARKET, BUILD-TO-RENT/MULTIFAMILY AND COLIVING

The rental market remains relatively insignificant in the city of Lisbon, in particular in the more central parishes, with a very limited supply above all aimed at foreigners and the upper class.

With the restrictions on licences for short-term rentals in most of the Lisbon ARU and higher rate of taxation on such rentals, we shall certainly see an increase in the allocation of housing units to the long-term rental market, above all smaller-type homes located in the centre of the city, at levels in line with market prices, but nevertheless insufficient to meet demand.

Given this shortfall in residential supply, the build-to-rent/multifamily segment is increasingly being looked into by various developers.

The development of this segment is set to be along the lines of a split between Portuguese and foreign entities; it is certain that (in this phase above all of market analysis) there is interest on the part of major international groups in developing this concept in Lisbon. The most difficult stage in this process will be the appearance of the first large-scale projects, which are to serve as an example and pave the way to investment in this segment – something that should happen over the next five years.

A part of this response, above all aimed at youngsters up to 30, with a need for flexible contracts and more affordable prices, will be an investment in coliving projects, a segment that is as yet very small in the Lisbon market, but which will gain in scale with the arrival of foreign operators that are looking ever more at the Portuguese capital. Those spaces in existence by 2019 were mostly on a small scale, but projects will become larger in the medium term, as demand – still predominately from expatriates – becomes ever more active.

7.

DEVELOPMENT

2020

THE YEAR 2020 PROMISES TO SEE THE CONTINUED DEVELOPMENT OF RESIDENTIAL PROJECTS AND INVESTMENT IN NEW SEGMENTS

The residential sector will continue to lead and attract new investment, although a stabilisation of actual selling prices is to be expected.

With a strong possibility that restrictions on 'Golden Visas' in Lisbon and Porto will be approved, we may well see constraints and a brake on the development of some projects aimed at the luxury segment. Figures already released by the Foreigners and Borders Service (SEF) for January 2020 show a 47% drop on the same month of 2019 in the total volume of investment for Golden Visa purposes.

Even so, the residential segment will continue to prosper in view of still overheated demand and which is now taking a new form as a result of the shortage of adequate supply for the country's middle class, which lacks housing suited to its purchasing profile.

It is important to note that some constraints remain, affecting the arrival of projects onto the market. The costs of new construction, with VAT at 23%, as well as a shortage of qualified manpower, will continue to represent an additional challenge to developers, who will thus see an impact on the financial costs of their projects. The bureaucracy and risks inherent in the licensing processes will also remain in place, typified by the sluggishness of the relevant authorities in issuing the necessary permits, constraining pure developers to press ahead with new projects.

Such new projects have also extended to other segments. One of the major trends seen in the market in recent years is the conversion of old office buildings for residential use, in particular in city centre zones that are already well established and provided with a complete network of services and excellent transport infrastructure.

Nevertheless, the activity of developing office projects built from scratch is now seeing a revival, in response to an extreme shortage of supply in most zones in the Lisbon office market. The result will be an increase in the number of projects in the pipeline in the next two to three years.

The logistics sector will also have a major impact on demand for new space. The entry into the market of new, highly specialised developers will mean that logistics space will very gradually see an upgrade in the quality of supply with a view to optimising operations, driven by the growing market share and weight of e-commerce.

But the big boost for the market now comes in the new trends in occupation and the experience of spaces and from the housing needs of groups at opposite ends of the population spectrum. As well as the specific profile of the new generations of occupiers and consumers, which is prompting the market to develop coliving and student housing projects, we are also seeing a growing concern with meeting the needs of the older generation, through increasing interest in the development of projects in the senior living segment.

DEVELOPMENT

The property development sector has had a very important role in property investment in Portugal. In recent years the aquisition of plots of land, as well as projects for residential, hotel or mixed-use development, have dominated among transactions seen in this sector.

The stock of residential property has, without a doubt, been the segment most affected by the major boost given by high levels of demand, the revision of the Law on Rental, and the creation of incentives and tax breaks for foreign investment. These have fostered countless processes of urban rehabilitation, which together with high rates of return for investors have made viable a number of ambitious residential property developments.

The largest projects in recent years have in fact been new builds, which have served to meet a part of market demand that mostly relates to residential projects for better-off families or for the luxury residential segment.

Nevertheless, in view of continued very high demand, which has not been met by supply adequate for its needs, the market is starting to show interest in the development of projects aimed at middle-class families, located in satellite areas around the city of Lisbon.

In 2019, one highlight was the start of the Prata Riverside Village project, with around 2,700 homes planned, on a plot acquired for €140 million, also the Encosta da Tapada project in Alcântara, which foresees the construction of 550 homes.

Once more, demand has had a dominant role in the growth of this segment, which together with the saturation of historic centres and the shortage of available spaces in them has prompted an increase in the attention given to spaces available in more secondary locations, as shown by the transactions involving plots in Olivais and on the Estrada de Benfica, each for sums nearing €38 million.

It is worth noting that the appetite for property products in city centres remains very strong (as in the case of the €60 million transaction involving the block formerly occupied by Caixa Geral de Depósitos in Lisbon's Rua do Ouro, for hotel and residential use). However, the scarcity of supply means that transactions of this kind are ever more rare and those that do take place in future will mostly be focussed on change of use from offices to luxury residential.

8.

ALTERNATIVE SEGMENTS

2020

STUDENT RESIDENCES

The student residence segment in Portugal is one of those that have attracted most attention from local and foreign investors and operators. There are already many projects in the pipeline for the cities of Lisbon and Porto, while we are also starting to see interest in other Portuguese cities that offer growth potential and the prospect of an increasingly international student body, such as Braga, Aveiro, Guimarães and Coimbra.

In the next two years in Lisbon alone around 3,000 new beds are foreseen, as part of private-sector projects that aim to fill the gap as demand grows exponentially.

Among the biggest projects is a student residence being developed by The Student Hotel with 435 studios, next to the new campus of the Nova School of Business and Economics in Carcavelos, near Lisbon.

In the Santa Apolónia area, Smart Studios is developing a Coliving project that will bring to market 114 apartments aimed at students, freelancers and young professionals who will be able to benefit from the proximity of the new Hub Criativo do Beato.

Milestone is also investing on a large scale in Carcavelos and is to offer 200 studios at the Nova School of Business and Economics campus. Meanwhile, Temprano Capital Partners, in partnership with Round Hill Capital, is also to bring to market a project with 390 beds for students and 250 apartments in the city centre.

The University of Lisbon (in a public initiative) also planns an additional 1,300 beds by 2022.

In the Porto market, Savills Portugal last year completed transactions involving more than 75,000 sq.m. in construction capacity, the vast bulk of which is destined for student residences.

COLIVING

As is already happening across Europe, the concept of coliving is set to become a market reality in the cities of Lisbon and Porto as an alternative to traditional rental, in line with recent trends in the occupation of spaces and sharing of experiences.

In contrast to the student housing segment, coliving is aimed at a broader spectrum of the population: people who want their own private space while at the same time setting store by social networking and the exchange of experiences. Students, young professionals and expatriate workers constitute the central target for this property segment.

Lisbon already has some coliving projects in operation. These include samesame, in the Baixa (downtown), which claims to be the city's first creative coliving space. Nomad House Lisbon also offers a coliving space alongside a space set aside for coworking.

The second half of 2020 is to see the opening of Residências Coliving Santa Apolónia, a project developed and run by SmartStudios that will bring 114 apartments onto the market.

SENIOR HOUSING

In Portugal there is growing interest on the part of various investors and international operators in this market, which has major development potential. Though still in an embryonic phase in the Portuguese market and with a limited range of operators, it will benefit from the country's demographic trends. According to data released as part of a study by Euromonitor International in 2019, Portugal is among the five countries in the world with the fastest-ageing population, with a significant increase in the number of over-65s by 2030.

Also in the segment's favour is Portugal's good reputation in the market as a very attractive tourist destination, drawing visitors from across the world who end up seeing Portugal as an excellent place to spend their retirement. This is, without a doubt, the market niche directed at the smallest slice of the population, but one that evidences high rates of occupation.

9.

TOURISM & HOSPITALITY

2020

ANUAL REPORT 2019

MAIN INDICATORS TOURISM AND HOSPITALITY 2019

	Portugal	Lisbon Metropolitan Area
GUESTS (million)	27	8
OVERNIGHT STAYS (million)	70	18
OVERALL REVENUES (million)	4,300	1,400
BED OCCUPANCY RATE	52,4%	60,4%
ROOM OCCUPANCY RATE	65,6%	76,2%
HOTELS RevPAR	€55.40	€81.80
NEW OPENINGS (units)	66	7

Savills Research analysing Travel BI

Share of Tourism in Exports	Share of Tourism in Services Exports	Share of Tourism in Total Employement
19.7%	53.3%	9%

TRENDS IN 2020

- Increase in number of visitors, in particular USA nationals;
- Increased role of corporate events in driving hotel revenues;
- Creation of hotel projects with design and features that are more appealing to Millennials, who set great store by technology and leisure spaces;

PIPELINE 2020

TOTAL: 72 hotels (> 5,520 rooms)

- Lisbon Metropolitan Area (AML): 24 hotels (> 2,000 rooms)
- North: 19 hotels (> 1,600 rooms)
- Center: 9 hotels (> 420 rooms)
- Alentejo: 7 hotels (> 400 rooms)
- Madeira: 6 hotels (> 540 rooms)
- Algarve: 5 hotels (> 400 rooms)
- Azores: 2 hotels (> 160 rooms)

LISBON, A DISTINCT TOURISM BRAND IN PORTUGAL

Portugal's tourism market continued to expand throughout 2019, with a new record for foreign tourists welcomed in the country (around 16 million). As well as the principal factors that have made Portugal a popular destination, such as its climate, safety and the unique experiences on offer from north to south, the need is now being felt to adapt to the demands of a generation whose tastes are ever changing and technologically oriented, with direct consequences for the hotel concepts that will enter the market during 2020.

For the third consecutive year, Portugal was named Best European Tourist Destination, as well as winning 13 other prizes, including the city of Lisbon being named Best City Break Destination in the World.

TOP 3 MAIN NEW OPENINGS IN THE CITY OF LISBON IN 2019

	rooms	stars
TURIM BOULEVARD	100	★★★★★
THE ONE PALÁCIO DA ANUNCIADA	83	★★★★★
MASA HOTEL 5 DE OUTUBRO	73	★★★★★

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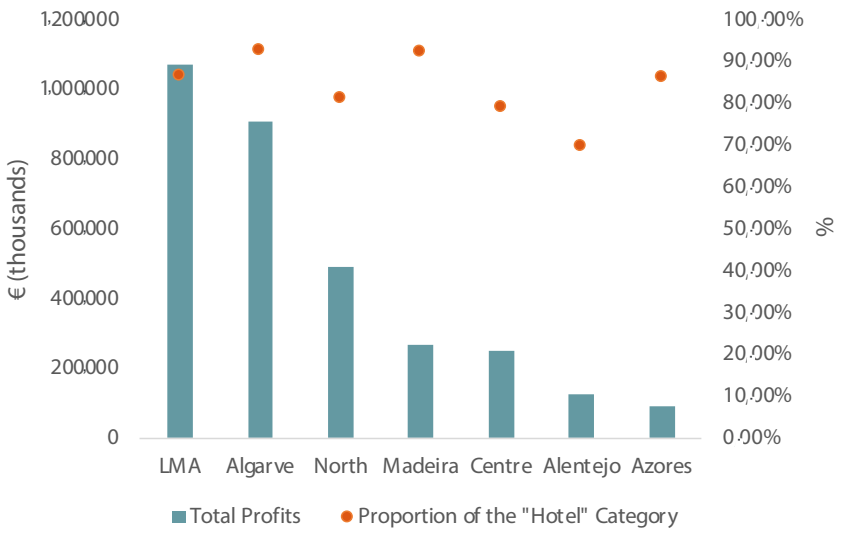
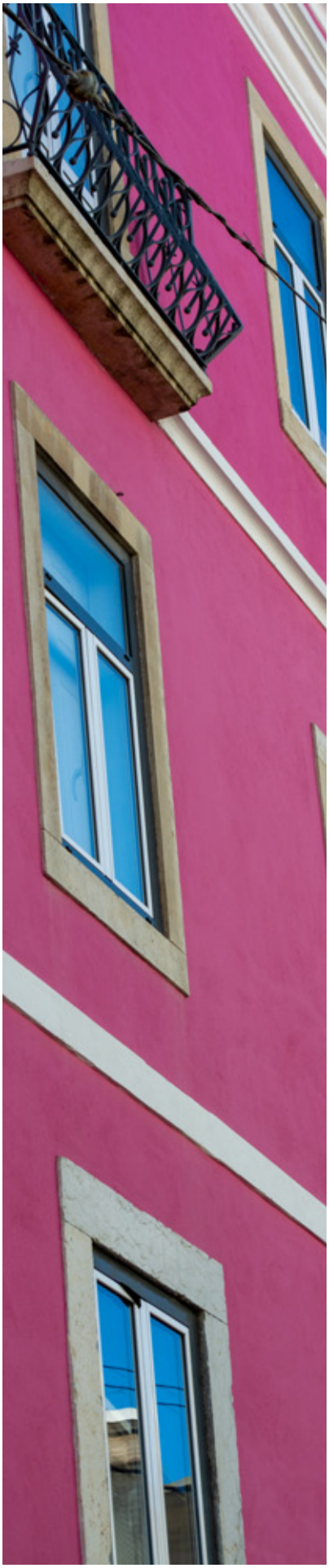
The Lisbon Metropolitan Area (LMA) ended up being the region of the country that took in the largest slice of tourism revenues, at 32% of the national figure, as well as 30% of all tourists. As for the type of accommodation chosen, it turns out that 87% stayed in hotels, which in view of the boom in phenomena such as short-term rentals for tourism proves the continued preference of visitors to the city for the traditional hotel format.

PROPORTION OF THE CATEGORY "HOTEL" IN THE TOTAL ACCOMMODATION PROFITS IN 2019



Savills Research analysing National Statistics Institute



The year 2019 saw six new hotels opened in the municipality of Lisbon, three of them 5-star, one 4-star and three 3-star, all in the city centre. Together they add a total of 370 rooms – a relatively low figure when compared with the outlook for 2020:

- 19 openings
- >1,500 new rooms

MAIN NEW OPENINGS IN THE CITY OF LISBON (PIPELINE)

	rooms	stars
EUROSTARS PARQUE DAS NAÇÕES	168	★★★★★
MY WAY AEROPORTO	123	★★★
STAY HOTEL AEROPORTO	94	★★★
PESTANA VINTAGE LISBON	90	★★★★
THE IVENS	87	★★★★★

Savills Research

Lisbon is also expecting the arrival of the Moxy Oriente hotel, with around 220 rooms, a concept aimed at Millennials, with contemporary, laidback design and the goal of offering guests an experience in which technology and leisure spaces form an integral part.

The areas around Lisbon's international airport and the Parque das Nações will see the launch of the biggest new projects in the city of Lisbon, as hotel units with fewer than 100 rooms are restricted mainly to the city's historic centre, resulting from rehabilitation projects.

One proof of the vitality of Lisbon's hotel segment is the ever greater interest shown by leading Portuguese and foreign brands in expanding in the city, either as part of rebranding processes (which are less predominant than in previous years) or in openings from scratch, a trend that will be maintained beyond 2020 with a total of 48 new hotels foreseen between 2020 and 2025 in the LMA. The leading groups developing these plans are the following:

Six large hotel units with more than 100 rooms are in the pipeline for the whole LMA, with Sintra and Alcochete among municipalities to host these larger-scale projects, in a sign of the solid growth in tourism in Lisbon's satellite towns and of how these have succeeded in capturing the attention of tourists by offering concepts that complement rather than competing with those in Lisbon.

EVER MORE NATIONALITIES ARE VISITING THE PORTUGUESE CAPITAL, WITH US NATIONALS THE RISING STARS

Over 2019 Spanish, US and Brazilian nationals each represented around 10% of visitors to Lisbon. While the first and last have long featured on the list of main groups of foreign tourists (thanks to geographic and linguistic proximity), the surprise was that US nationals were now in second place, with the number of tourists from the US in the Portuguese capital last year leaping by 20%.

This marked increase was largely due to the Stopover programme of TAP (Air Portugal), which allows travellers from various US cities to stop off for up to five nights in Portugal. As well as this programme, a growing number of routes from the US, tourism promotion campaigns and traditional word of mouth have also helped.

TOP 5 FOREIGN NATIONALITIES IN LMA IN 2019

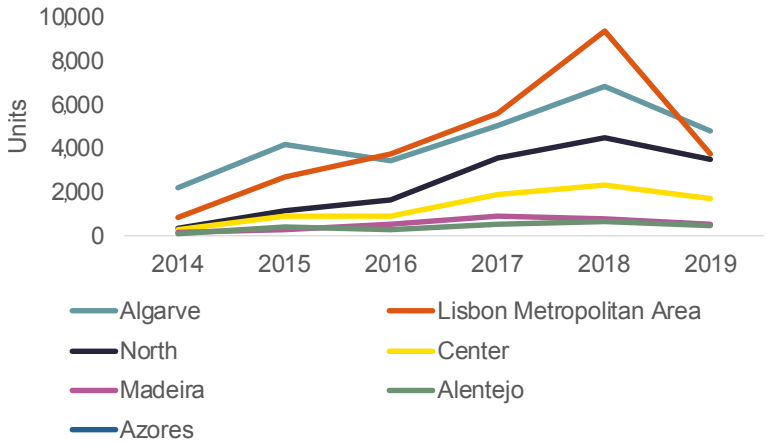
GUESTS (milion)

Spain	USA	Brazil	France	Germany
0.64	0.62	0.60	0.58	0.44

Savills Research analysing Travel BI

LMA NO LONGER LEADING IN NEW OPENINGS OF SHORT-TERM RENTALS

NEW LOCAL ACCOMMODATION UNITS



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Restrictions imposed on visas in most of the Lisbon ARU (Urban Rehabilitation Area) and higher taxation rates had a direct impact on the number of licences conceded over 2019, with the LMA no longer the region of Portugal with the largest number of new licences issued, as it had been since 2016.

In 2019 a total of 3,513 new AL (short-term rental) licences were issued on top of 2018, leaving the LMA as a whole with more than 26,000 units, representing more than 62,000 rooms and 105,000 beds.

Although there has been a sharp slowdown from the volume of new licences issued up until 2018, short-term rental has established itself ever more as an alternative to hotels in the Portuguese capital, above all for Millennials. Even with the restrictions on new licences and the current higher tax rates, the truth is that no significant reduction in the number of AL units in Lisbon is seen, given the upward trend in prices practised, which offset the tax increase.

It is still possible to obtain licences to open new AL units in the Lisbon ARU in cases of the total rehabilitation of buildings for the purpose of tourist accommodation, meaning that above all medium-sized and large developers are able to invest in this segment.


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10.

PORTO

2020

SUPPLY CHAIN CHANGES AND INTRODUCTION OF NEW TECHNOLOGIES LEAD WAY IN I&L SECTOR

Less than a decade ago the city of Porto began a far-reaching process of urban rehabilitation that has shone a new light on a very rich built heritage, bringing fame and visibility abroad.

While Portugal's second city had already emerged as a European tourist destination deserving of international prizes and recognition, it is now showing a new dynamism that is extending to other segments of the property market and which has put the city onto the radar of various Portuguese and international players.

From the development of projects in the office sector to the revival of local retail, from a focus on residential projects to the growing interest and investment in student residences, it is all happening in the city of Porto, which has seen a strong increase in demand and is putting itself on the map as a destination that, year on year, has been drawing ever more investment.

Porto's success in winning a number of international tourism prizes (such as Best European Destination in 2012, 2014 and 2017), as well as the investment in technological modernisation that saw it become the third fastest-growing tech hub in Europe in 2018, have contributed to its emerging as a viable option for multinationals to set up shop, above all in the form of shared services centres.

In recent years Porto has welcomed a number of international technological centres, shared services centres and call centres opened by big foreign companies that are now starting to expand in the city.

There is, for example, the case of Natixis, which has had a presence in Portugal since late 2016 and which is now to expand its services in Portugal to the areas of finance and banking activities, having selected Porto to implement its new business solutions in an innovation space.

PORTO ATTRACTS A HIGHER PERCENTAGE OF EUROPEAN PROPERTY INVESTMENT

In the last five year the city of Porto has recorded around €500 million in property investment, mostly absorbed by the retail and office segments, which accounted for more than 60% of the total volume of property in the period 2015-2019.

In 2019, transactions worth almost €200 million were concluded, of which more than 60% was cross-border European investment. Since 2017 the market has been seeing greater demand on the part of foreign investors who, as has already happened in the capital market, are now also extending their demand to alternative segments, such as student residences.

That segment has seen a growing increase in activity on the part of European operators, with 2019 having seen several forward funding transactions taking place. One case was the sale by Promiris to XIOR of a plot in the Bonfim Campanhã area and the sale of the U.Hub portfolio, also to XIOR, which included two projects located in the area of Asprela and Boavista.

In the office segment, 2019 once more confirmed the interest that it has been generated among foreign investors, with offices emerging as the best-performing investment segment. Over the year transactions involving four properties totalled more than €150 million: the sales of the Torre Burgo, the Building Minerva, the Building D. Manuel II and the Building Urbo.

The retail segment, whose performance was less dynamic, saw the sale of a portfolio of on-street stores on the Avenida dos Aliados, acquired by Tander Inversiones for around €16 million.

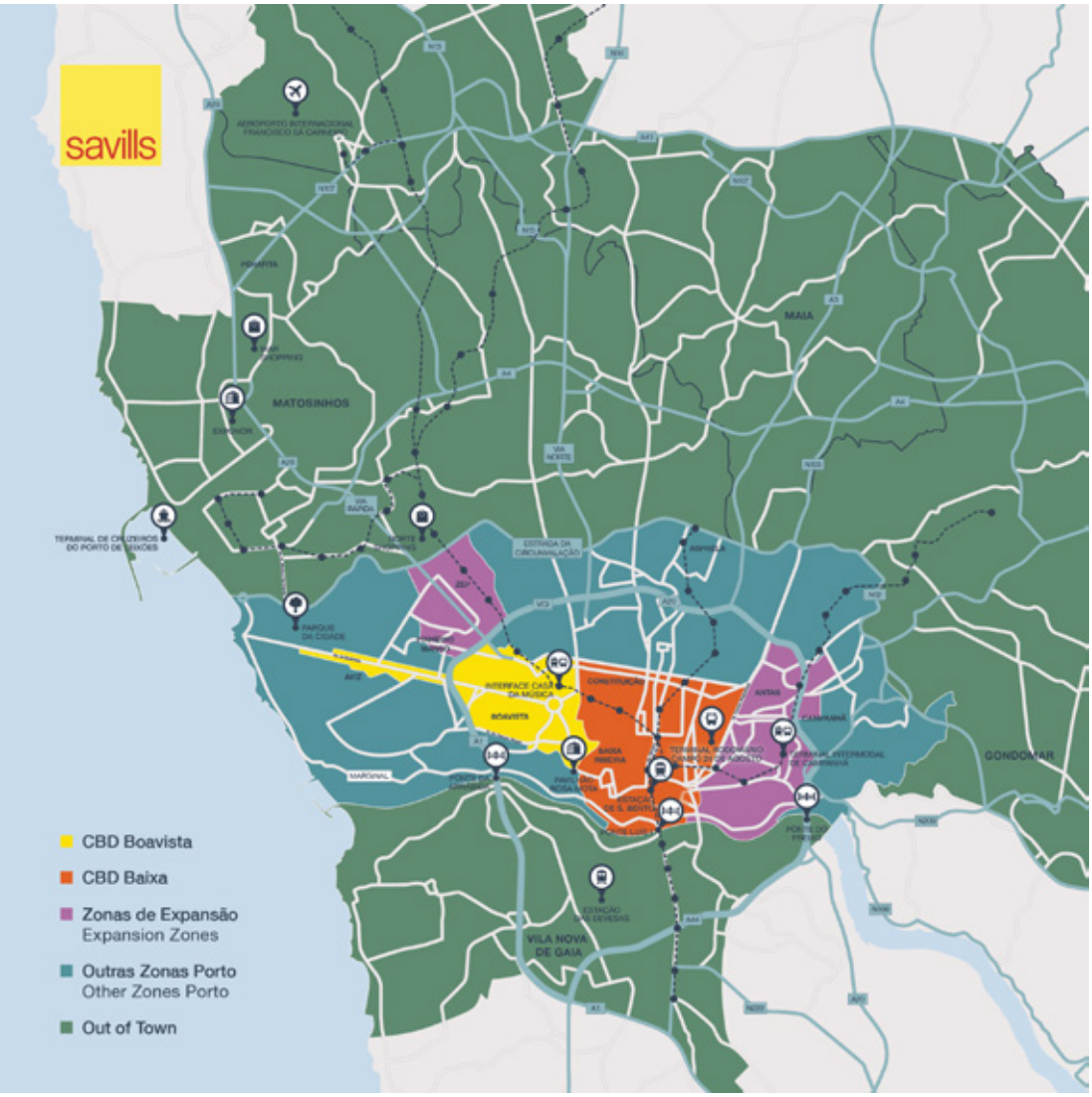
OFFICES TO SEE CONTINUED HIGH DEMAND IN 2020

In 2019 Porto's office market recorded take-up volume of approximately 65,000 sq.m., representing a decrease of around 11% compared to 2018.

The Out of Town zone, which takes in the municipalities of Maia, Matosinhos and Vila Nova de Gaia, recorded the largest take-up volume in the Porto office market, at 21,529 sq.m., followed by the Expansion Zone made up of the Eastern Zone and the Porto Business Zone, with 18,066 sq.m. of occupied space.

Despite the 11% reduction in take-up volume in 2019 it should be stressed that some market zones exceeded by very significant percentages their performance in 2018, including the Downtown CBD zone (+40%) and the Expansion Zone, which in 2018 had only managed occupation of 1,440 sq.m. while in 2019 the figure reached 18,066 sq.m

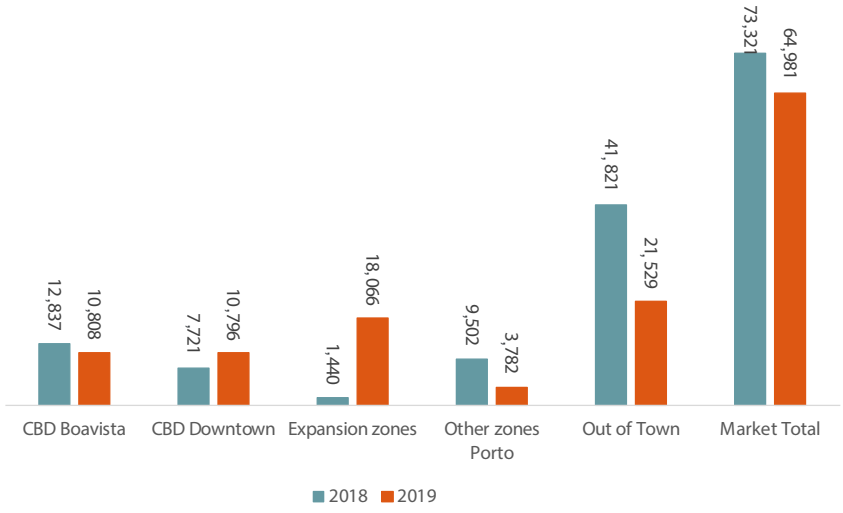
The Expansion Zone in 2019 recorded three operations involving more than 1,000 sq.m., with insurer AGEAS responsible for the biggest deal with the occupation of the whole of a building with 7,800 sq.m.



The TMT & Utilities sector and the financial sector were the areas of activity that performed best in 2019, together accounting for more than 60% of total take-up volume in the year, so confirming the attractiveness of the city of Porto as a base for tech and financial service companies.

One example is automobile multinational BMW, which in a joint venture with Portugal's Critical Software is to move its premises to the Palácio dos Correios building (former central post office), where it wants to hire a further 500 staff.

TAKE-UP BY MARKET ZONE (SQ.M.)



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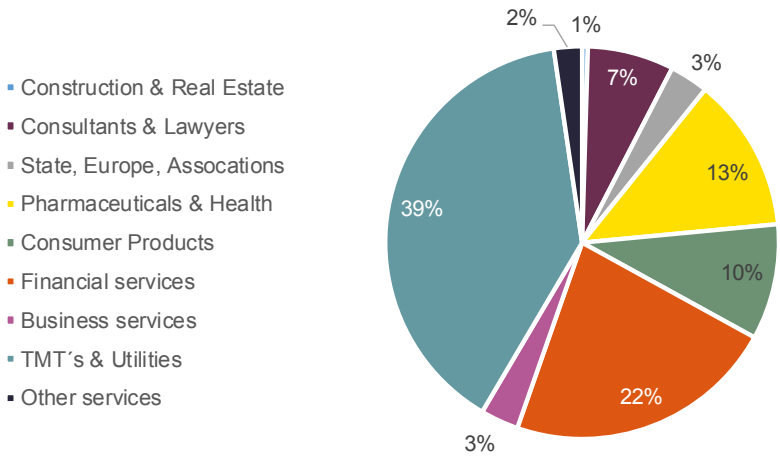
TAKE-UP DISTRIBUTION BY BUSINESS SECTOR



Savills Research analysing PPI

In 2019 the Urbo Business Center building, with 16,100 sq.m. occupied by BNP Paribas, and the Sonae Business Center, with 7,000 sq.m. , were both concluded.

By the end of 2020 a total of 89,000 sq.m. of new office space is expected to be concluded, including the Porto Office Park (POP) building, with 31,000 sq.m., the Porto Business Plaza building, with 15,500 sq.m., and the Candal Park project, with 12,000 sq.m.

Over a longer time period, of 2021-2025, a total pipeline of office projects in the order of 84,000 sq.m. is foreseen for the Porto market. The largest in prospect, involving an area of 50,000 sq.m., is the planned expansion of the Lionesa Business Centre.

Largest operations in the TMT & Utilities sector

Occupier: SonaeBIT
Building: Sonae Business Center
Market zone: Out of Town
GLA: 7,000 sqm.

Occupier: Critical TechWorks
Building: Palácio dos Correios
Market zone: CBD Baixa
GLA: 5.500 sq.m.

Occupier: SITEL
Building: Heroísmo 285
Market zone: Expansion Zone
GLA: 3,600 sq.m.

PRIME RENTS TO REMAIN STABLE IN 2020

The Porto office market should not see a significant rise in prime rental values in any of the market zones in 2020, with prevailing rents remaining stable.

Over the last two years, with the coming on stream of new supply and new occupiers, there has been a gradual correction to rents, which are thus below the values practised in the Lisbon market.

The largest increases have been seen in the CBD Boavista zone, seen as the prime zone of the Porto office market, and the Downtown CBD zone.

Prime rents are currently at €18/sq.m/month for the CBD Boavista zone, and should remain at this level throughout 2020.

PRIME RENTS BY MARKET ZONE

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HIGH STREET RETAIL ATTRACTING INTEREST FROM NEW BRANDS

Starbucks, Banak Importa, Sportino, Jak Shoes, KFC, Guilty, K.O.B, The Good Burger, Vogue Café and RAW are just some of the many brands that in 2019 introduced their on-street concepts in the city of Porto.

As has been seen in recent years, on-street retail has been growing at a steady rate, buoyed by urban rehabilitation projects that are bringing a very attractive offer onto the market and by the increase in tourist numbers. Several streets have already seen major growth in their retail offer.

Porto's Baixa (downtown – including the Rua de Santa Catarina) and Clérigos, which are more dominated by the hospitality sector, are among other retail zones in the city with a presence of both Portuguese and foreign operators. There have been various initiatives undertaken by the city council to boost high street retail in this part of the city, which has seen an increase in the number of new openings and also the renewal of concepts on the part of established retailers.

PRIME RENTS: €55/SQ.M./MONTH

The **Rua de Santa Catarina** maintains its place as the most important retail zone of the city of Porto. It has a range of retail activities, from restaurants to fashion, with brands aimed at the mass market. Thanks to the growing influx of tourists, the Rua de Santa Catarina has generated interest from foreign investors, foreign retail operators and hotel projects

PRIME RENTS:
€80/SQ.M./MONTH

The **Avenida dos Aliados**, located in the centre of the city of Porto, is on its way to becoming the Porto market's latest prime zone, thanks to the major appreciation that the historic centre has undergone. Some luxury residential projects have already taken shape here, with residential prices already exceeding the levels seen in the Foz area.

In 2019 Tander Inversiones spent almost €16 million on the purchase of four stores, three of them rented to the upmarket brands Tod´s, Burberry and Boutique dos Relógios Plus.

The presence of these stores and the interest of foreign investors in this city street have paved the way for the transformation of Avenida dos Aliados into a zone for luxury retail and housing.

PRIME RENTS:
€55/SQ.M./MONTH

IN THE RESIDENTIAL MARKET THE DYNAMISM OF THE HISTORIC CENTRE IS SPREADING TO THE REST OF THE CITY OF PORTO.

The increase in incentives for urban rehabilitation as well as the revision of the law on rentals are the two factors that have contributed most to the appreciation of Porto's heritage and its residential stock.

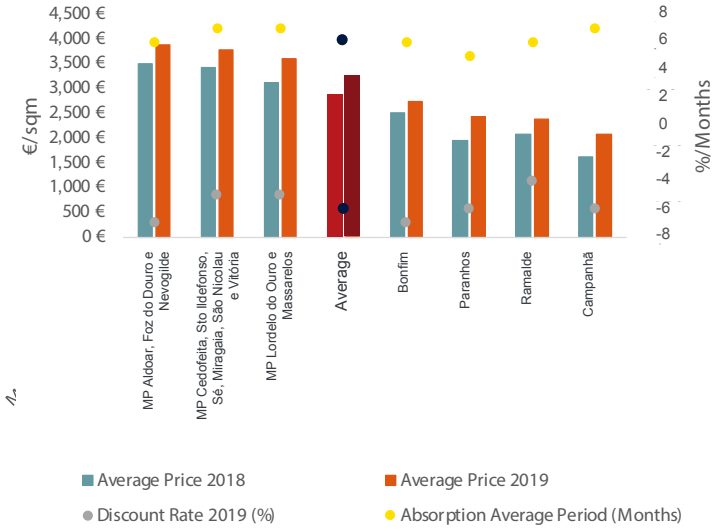
In the period from January to September 2019, the number of new housing units completed in Portugal's north region was up 6% on the same period of 2018, with a total of 3,700 new homes by the end of the third quarter.

With prices per sq.m., both for purchase and rental, significantly lower than those practised in Lisbon (by 40% and 24% respectively), the forecast for 2020 is that the year will see an improvement in most statistics relating to the housing stock, in a sign of the dynamism felt in the region in the medium term the market in Porto will receive around 5,800 new units, with the largest projects in the pipeline located outside the historic centre, in the Paranhos and Campanhã areas.

Most investment in the residential segment in Porto will continue to come from Portuguese players, for example with the development in 2020 of projects such as Bonjardim (110 apartments) in the historic centre, V Porto (98 apartments) in Massarelos, and 176 units in he serviced apartments segment as part of the ICON project, in the parish of Ramalde.

RATE OF PRICE GROWTH TO BE MAINTAINED DESPITE GOLDEN VISA RESTRICTIONS

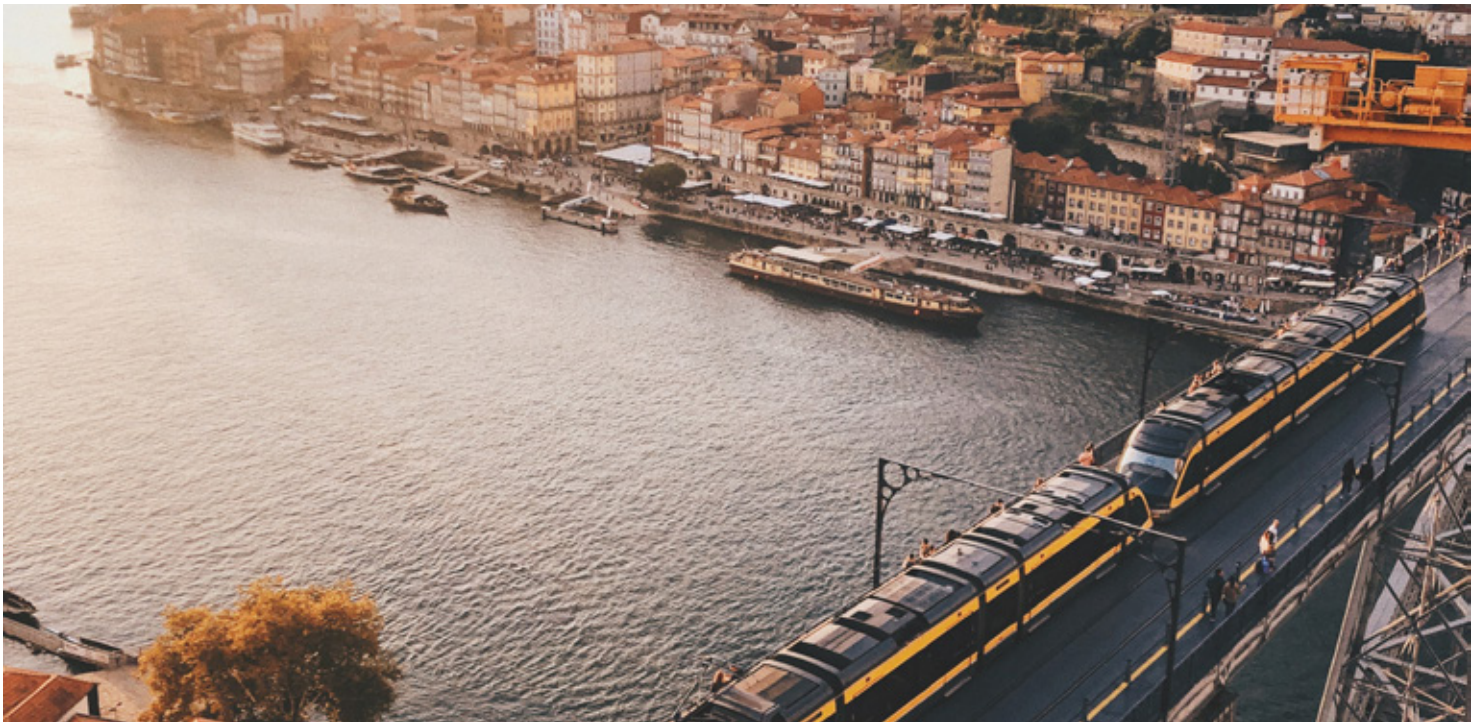
PRICES PER SQ.M, DISCOUNT RATE AND AVERAGE ABSORTION PERIOD IN PORTO CITY BY PARISH



Savills Research analysing SIR

According to official data (for 2012-2017), just 1% of property acquisitions in the Porto Metropolitan Area were made with a view to obtaining Golden Visas.

On the other hand, and more significantly, the new containment areas for short-term rentals will have a considerable impact on prices in the historic centre: no drop in prices is foreseen but growth will be more gradual compared with previous years, although the scale of increases in prices per sq.m. in the parishes outside the centre will make it possible to offset this deceleration.



COLIVING AND MULTIFAMILY PROJECTS ARE STARTING TO EMERGE IN PORTO

Alternative segments such as Coliving and Multifamily (build-to-rent), with distinct target markets, are starting to arouse interest. While the supply in the city of Porto is still lacking, the drive to bring this kind of products to the market goes same way to falling into line with new housing trends and also to meeting the shortage of housing for younger people.

As with the Lisbon market, with the arrival of foreign students, young professionals and freelancers, as well as the demand for housing from the Portuguese middle class, the city of Porto also constitutes a market with potential for the development of this kind of concepts.

In the pipeline for the city of Porto for now is the B-Hive Living project, with a total of 40 beds.

STUDENT RESIDENCES ARE EVER MORE OF A TARGET SEGMENT

In the academic year 2018/2019, the municipality of Porto received 60,562 students, of which 9,101 came from abroad, the great majority from Brazil, Spain, Italy and France.

With a total of 1,500 beds provided by universities and more than 1,800 housing units rented out by individuals through the Uniplaces platform, the supply of beds available falls well short of the housing needs of students based in Porto.

The scarcity in the supply of student housing has prompted the entry of foreign operators such as Livensa Living and Milestone, which in 2019 opened projects at the Asprela university campus with a total of 800 beds.

With the supply very concentrated at the Asprela campus and in the city centre, the city of Porto in all has around 1,100 beds provided by private operators; over 4,000 more are seen coming down the pipeline of private investment in the coming years.

PORTO, A SURPRISING DESTINATION THAT IS WINNING OVER EVERY MORE TOURISTS

The city of Porto, along with the whole north of Portugal, has managed to differentiate itself from other quality tourist destinations in Portugal, by placing on the market distinct products that reflect policies to incentivise sustainable growth in tourism in the municipality of Porto.

The stress on regional experiences, such as the cuisine of the Trás-os-Montes historical province, religious festivals in the Minho, the Upper Douro Wine Region and Porto's historic centre, reflects great maturity in the capacity to attract tourists from a large range of countries. The pattern is set to continue throughout 2020, in a region where there is a fairly even split between Portuguese and foreign tourists.

This diversity in 2019 helped win the north region four prizes at the World Travel Awards, for Leading Lifestyle Resort, Leading Adventure Tourist Attraction and Leading Tourism Development Project – proof of its commitment to growth based on sustainable best practice.

PORTO & NORTH REGION TOURISM AND HOSPITALITY KPIS 2019

PORTO & NORTH REGION - 2019

GUESTS (milion)	
OVERNIGHT STAYS (milion)	11
OVERALL REVENUES (milion)	638
BED OCCUPANCY RATE	52.5%
ROOM OCCUPANCY RATE	65%
HOTELS RevPAR	€50.70
NEW OPENINGS (units)	27

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TOP 5 FOREIGN NATIONALITIES IN NORTH REGION IN 2019

GUESTS (milion)

Spain	France	Brazil	USA	Germany
0.67	0.35	0.31	0.23	0.22

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TOP 3 MAIN NEW OPENINGS IN CITY OF PORTO IN 2019

	rooms	stars
HOTEL ACTA THE AVENUE	96	★★★★
HOTEL CATALONIA	86	★★★★
VILA FOZ HOTEL & SPA	68	★★★★★

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The municipality of Porto saw nine new hotels open in the city in 2019 – two of them 5-star, six 4-star and one 3-star – for a total of more than 550 new rooms available.

The strong demand for hotel space in the city of Porto, in large part as a result of the growing number of international events that the city is hosting – and with a fresh spurt expected from the effect of the renovation of the Super Bock Arena – will in 2020 drive an increase in room and bed occupancy rates.

The current supply of beds in the city of Porto is estimated at around 12,000 – a number that is insufficient to meet demand, above all in the summer, with the result that the projects in the pipeline for 2020 are of extreme importance for the growth of the city's tourism market.

Most of the brands that are setting up shop in Porto are Portuguese, all medium and large hotel groups; among leading players are the Pestana Group, Altis and Torel Boutiques, with foreign brands including Hotusa, Hilton Hotels & Resorts, and Catalonia Hotels & Resorts.

CITY OF PORTO FOLLOWS NATIONAL TREND OF DROP IN NEW OPENINGS OF SHORT-TERM RENTALS

As in other regions of Portugal, which all saw a drop in the number of new AL licences in 2019 compared with 2018, the municipality of Porto recorded a 35% drop in this indicator. There were a total of 2,028 new openings in 2019, for a current stock of around 13,000 rooms and 25,000 beds.

As well as the increasing maturity of the market, with the consequent stabilisation in the number of openings, the creation of containment zones for new AL licensing also contributed to the decrease in the city of Porto.

These containment zones cover above all the historic centre and Bonfim – the areas that had seen the largest number of AL licences in recent years, reflecting strong demand for them.

It can be expected that in 2020 the number of new AL licences will drop further from the 2019 level, with new openings foreseen for zones such as Campanhã not offsetting this.

Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of Portugal's property market.

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