2018 met and exceeded all forecasts that had been outlined earlier in the year. The dynamism of activity was transversal to all real estate sectors, demonstrating unequivocally the attractiveness of Portugal as a target market for a diverse range of players.

The investment market was the great star in 2018 and returned to a record historical investment volume, surpassing three billion euros, closing the year with a very significant growth of 77% compared to last year.

Retail and office portfolio transactions were the main drivers of this strong result, with the main players being investors from France, the United States, Spain and the United Kingdom. Other prominent stars were the office sector. With 206,000 sqm occupied, in the Lisbon office market demand levels continued to rise, with the main indicators of performance in growth. The increase in average area to 900 sqm is indicative of the entry of large companies in Lisbon and the various expansion processes, which in the light of the positive economic situation have been resumed in the last two years.

The Oporto market has also increased its attractiveness to international investors and developers. With tremendous development potential, new high-quality residential projects, hotels, office buildings and a strong focus on student housing come from partnerships of international investors.

Targets of a notorious transformation through urban rehabilitation and opening up to the international investment markets, the cities of Lisbon and Oporto have gathered a set of factors very favorable to the establishment of companies and of foreign investment.

Destinations of choice for a growing number of tourists year after year, of retail operators who spread new concepts and new brands almost daily, are now also an example of cities that have adapted to new forms of life, new consumer profiles and new generations.

From the focus on city mobility to the expansion of real estate concepts to new market areas, from improving infrastructure to increasing government initiatives aimed at attracting more foreign investment, Portugal continues to position itself in the European ranking of countries offering very competitive investment opportunities.

In 2019, business and consumer confidence levels are expected to remain positive, but it will be a year with some challenges ahead where we can expect an inevitable decline in activity in some sectors of the real estate market due to the scarcity of product supply.

Nonetheless, 2019 will continue to record high levels of demand especially for projects promoting new tourism concepts, for the residential housing market, as well as alternative segments such as Student Residences, Senior Living, Co-Living and Coworking to raise interest of a diverse range of international investors.

Note also for the approval at the start of 2019, of the decree-law regulating the entry of SIGI (Portuguese REIT – Real Estate Investment Trust) in Portugal, which intends to be an important instrument in the raising and application of capital.

2019 will be a year of strategic thinking and opportunity management in order to foster all the opportunities that our market offers, while continuing to attract sustainable foreign capital.
Economy in Europe
European Economic Context

The projections for 2019, released by the main financial organizations point to a set of risks:

- Less favorable international context
- Increased protectionist policy enforcement
- Financial scenario with more restrictive conditions
- Possible worsening geopolitical tensions
- Generalized uncertainty in the global economy and politics

Although 2019 is also a slowdown in the European economic context, the Portuguese economy is expected to continue its growth trajectory, albeit at a less accelerated pace.

G2
The private consumption component experienced slowdowns throughout the year as the rate of inflation increased and produced effects of reducing households' purchasing power. However, strong job growth allows maintaining confidence levels on a positive ground and sustaining private consumption.

G1
Once verified a growth of 2.5% in 2017, forecasts predict that Germany will close 2018 with a growth of 1.6% and 1.9% for 2019, confirming a pronounced slowdown in its economic development.

G3
The unemployment rate continues its downward trajectory, and is close to pre-crisis figures.
For the Portuguese economy, the most recent forecasts published by the Bank of Portugal point to a maintaining growth, at a slower but steady pace, with the main highlight being the maintenance of solid growth in tourism exports in the coming years. During the year 2018, the national economy remained stable and in a positive climate, given some international risks. The favorable conditions of the financial markets, the dynamism of the labor market and the confidence levels of the economic agents were maintained.

Particularly noteworthy is the reduction of the unemployment rate to an expected 7% and with more pronounced reduction forecasts for the next three years, which could put the unemployment rate in 2021 around 5.5%.
Monetary and Financial Indicators 2016 - Dez 2018

- Loans to individuals and non-financial corporations
- Interest rates on bank loans - individuals, housing, new operations

Source: Bank of Portugal
For the second consecutive year, the Lisbon Office Market hit a new record. At the end of 2018, 206,428 sq.m. of office space was occupied, an increase of 24% compared to the previous year and a total recovery compared to the historical figures observed in 2007 and 2008.

The recovery of the occupational market, starting in 2014, translates into a high level of demand, in which the great occupants are beginning to have a very important weight and also contribute to the prestige of Lisbon in the international context.

In 2018, companies such as Teleperformance and Google were among the entities responsible for the largest operations registered in the Lisbon office market. In the case of Teleperformance, it continued to absorb more surface for the installation of its offices in Lisbon and Google that elected Lagoas Park in zone 6 (Western Corridor) for the installation of a Operations Center for Europe, Middle East and Africa.

The continuous evolution of Lisbon as a tourist destination along with the numerous factors of attractiveness and competitiveness offered comparatively to other European capitals has been fundamental to increase the perception of Lisbon as an ideal destination for the implantation of the headquarters of large international occupiers as well as elected city to start the opening of new companies. Also, the current more stable and favorable economic environment has benefited from the resumption of the expansion plans of many companies, which are now taking advantage of the time to change facilities or expand within the same building and to bet on improving their facilities and working conditions. This was the case of Coriant Portugal that carried out the biggest operation of the year through the occupation of 8,487 sq.m. in the Office Park Carnaxide.

"We chose to install our offices in Saldanha because the city center reflects the differentiating, dynamic and agile way in which we want to be in the Portuguese market. The fact that we are surrounded by disruptive startups stimulates our creative and innovative approach." — Marie Bonte, Biocodex

### Take-up (sq.m) 2005 - 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Take-up (sq.m)</th>
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<tbody>
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<td>2005</td>
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<td>2018</td>
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### GDP vs. Take-up 2005 - 2018

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (in billions of €)</th>
<th>Take-up (sq.m)</th>
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<td>2005</td>
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<tr>
<td>2018</td>
<td>206,428</td>
<td>206,428</td>
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Source: Savills Research
For 2019, the main emphasis will be on the renegotiation of spaces and pre-lease transactions as the main trends to be observed, in a year that is expected to be marked by an unavoidable fall in take-up.

The lack of a new supply and the urgent need to change space has motivated the emergence of two trends: on the one hand, companies end up opting for more obsolete installations, betting on light interventions that better fit the space to their occupation requirements. On the other hand, some building owners are betting on the repositioning and modernization of their buildings to receive new tenants.

Between 2019 and 2021, 175,000 sq.m. of new office space is planned for a total of 11 confirmed projects, with zone 5 (Parque das Nações) receiving 36% of the new offer.

Parque das Nações was the zone chosen for the implementation of one of the most innovative and emblematic future projects of the market, the EXEO Office Campus project that integrates the phased construction of three buildings in a total of 69,900 sq.m. of office spaces and that will contribute to fill the lack of a new quality supply in the Lisbon office market.

Another major project with a completion date for 2019 is the FPM 41 Office Tower, located in zone 1 (Prime CBD) at Aé. Fontes Pereira de Melo 41 with a total of 18,538 sq.m. and will be fully occupied by the consulting firm KPMG and by PLMJ.

In the year 2018, Zone 6 (Western Corridor) stood out from the remaining market zones with a total take-up of 56,185 sq.m., followed by Zone 1 (Prime CBD) and Zone 2 (CBD) with 33,943 sq.m. and 32,490 sq.m. respectively. The shortage of spaces with larger areas in the most central areas of the Lisbon office market, as well as the technical quality of some buildings has more frequently directed large occupants to zone 6 (Western Corridor).

In the year 2018, 28% of operations in this market area were directed to areas above 1,000 sq.m., followed by spaces above 500 sq.m. with a weight of 15.5%. Alongside zone 6 (Western Corridor), zone 7 (Other zones) also saw a remarkable recovery in its take-up, with a total of 22,672 sq.m. of occupied spaces.

Although the location is one of the factors that exerts more weight in decision-making, the current shortage of spaces forces companies to move between zones and to locate their activity where there are office spaces with potential to implement their activity, and for a large percentage this may mean having to make interventions to adapt the spaces to their technical and layout needs.
The Lisbon office market continues to be dominated by the occupation of offices with areas up to 300 sq.m. (38%) and areas between 301 - 800 sq.m. (31%).

The vacancy rate remained under pressure throughout 2018, a trend that will continue until the entry of the new pipeline projects. The Lisbon office market ended the year with an vacancy rate of between 7.5% and 8%.

The lack of new supply has put under more pressure some market areas, where the availability of office space is practically zero, being the case of zone 5 (Parque das Nações) and Zone 4 (Secondary Zone).

The revolution of work spaces is already more than a trend, it is a reality that is part of the Lisbon office market.

In 2018, Coworking spaces and Office Centers absorbed a total of 19,363 sq.m. and were occupied by companies such as Regus, Golden Hub and LaCS.

Like other European cities such as Dublin, Madrid, Barcelona and Bucharest, where the coworking spaces account for a market share of less than 15%, the city of Lisbon presents a very considerable growth potential. With a market share of 9.3%, with a very dynamic occupational market and a vacancy rate under pressure, it is an attractive target for investment and promotion of this kind of concept of workspaces.

The international elevation from Lisbon to the attractive destination city for Startups opening and the holding of renowned events related to the technological sector has strongly encouraged the investment in spaces of coworking and helped to spread and implant in the daily life of the companies new forms of work and synergies creative and technological.
Rents continued to rise during the year 2018, with prime rent reaching 21 € / sq.m. / month. Compared to other European cities, the Lisbon office market offers the most competitive rental values, demonstrating growth margin for the coming years. The entry of new projects of high quality in the next two to three years will raise prime rents that could reach 25 € / sq.m. / month.

The beginning of 2019 confirmed the forecasts for the end of 2018. In the end of the first quarter of 2019, the office market in Lisbon recorded a take-up of 41,779 sq.m. In comparison with the same period of 2018, this result shows a slight decrease of 3.6%. By 2019, renegotiation processes will be one of the major trends emerging in response to the lack of market supply and an urgent need to fill market demand.

In 2018, the Oporto office market registered more than 40 operations in an approximate volume of 80,000 sq.m. The high demand by multinational companies and large occupiers has been responsible for the increase in take-up, which are expected to increase over 2019.

The several projects for the rehabilitation and re-qualification of old buildings have played a fundamental role in increasing the available supply of offices in Oporto. To these rehabilitation processes, there is also a set of factors that give the city an increasingly degree of attractiveness, namely:
- Qualified talent, particularly directed to the Technological Area;
- Entrepreneurial city, which counts with the presence of several startups and incubators;
- Strategic geographical location with direct connection to all European capitals;
- Tourism market in growth, with a weight of 18% in the total of the Country;
- Great potential of requalification of existing buildings for new projects directed to several real estate sectors.

Regarding future projects, 10 new projects are expected in the coming years, representing an addition of more than 150,000 sq.m. of office space, contributing to the market’s responsiveness to demand that is expected to continue to increase.

This is the case of Porto Office Park (POP) Building, with 31,000 sq.m., that is scheduled for the end of 2019; Porto Business Plaza Building - Campo 24 de Agosto, which will add 15,500 sq.m. of new supply and the Post Office Palace in Aliados with 16,800 sq.m., whose conclusion is also expected in 2019.
Matosinhos area accounted 34% of the total volume of GLA occupied in the Oporto office market, with the occupation of Edifício Urbo by BNP Paribas totaling 15,000 sq.m. contributing significantly to this result. With close to 26,000 sq.m. transacted in 2018, this was the zone chosen for the installation of new companies in Oporto, such as SODEXO, COFCO International or COCUS Portugal.

The axis of Maia was the stage of the expansion of PROZIS, which occupied 14,500 sq.m. in the Business Center of Maia and which gave to this market zone a 20% weight in the total take-up of 2018.

The Boavista zone, with 17 transactions in 2018, continues to be a destination for many occupiers, particularly dedicated to the service business and TMT’s & Utilities activity. This zone received one of the largest transactions of the year, through the occupation of 8,500 sq.m. in the Boavista Office Center by Farfetch.

Distribution of take-up by market zone

- Matosinhos: 34%
- Maia: 20%
- Downtown: 2%
- ZEP: 17%
- Other Zones: 11%
- Gaia: 3%
- Farfetch: 2%

Source: Savills Research
The rents in Oporto office market have registered increases, based on high demand and also justified by the improvement in the quality of new projects promoted and which have attracted a greater number of occupiers, many of them international. For 2019, it is expected that the market will continue to see an increase in rental figures, albeit lighter and explained by the entry of new and modern projects, which will raise the bar of the market.

### Market Values

<table>
<thead>
<tr>
<th>Market Zones</th>
<th>Rents</th>
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<tbody>
<tr>
<td>CBD</td>
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<tr>
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<td>Gaia</td>
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<tr>
<td>ZEP</td>
<td>€12.00</td>
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<tr>
<td>Maia</td>
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<td>Matosinhos</td>
<td>€13.00</td>
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<tr>
<td>Oriental</td>
<td>€12.50</td>
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Source: Savills Research
Retail 2018
Trends 2019

In 2018, the Retail Trade Index increased 3.9%, 0.2% less than 2017. Note that since 2013, the volume of sales of the retail trade market in Portugal has increased 73%, reflecting the recovery of consumer confidence. The retail market was once again marked by the dynamism of high street, which has seen a solid and growing trend, attracting new retailers daily and promoting the opening of new concepts that have greatly contributed to the transformation of the main urban centers.

Lisbon and Oporto have been examples of cities, where the growth of the high street retail has been notorious. The strong tourist flow that increases year after year in both cities has fueled market demand and the entry of new domestic and international retailers, showing no signs of slowing down. By changing consumer habits, the important influence of new generations of consumers, the introduction of new innovations and technologies, the high street retail has undergone a dramatic change and plays a fundamental role in the rhythm of the main Portuguese cities.

There is a growing appetite for innovative concepts that have differentiation advantages in a highly competitive growth market. Concepts like the LX Factory that mix fashion, gastronomy, culture, art and nightlife gain ground and competitive advantage over other more conventional models.

The increase in supply in the heart of major cities fuels the curiosity and appetite of tourists, for the opportunity to stroll through tight streets surrounded by traditional buildings full of culture and history.

In 2018, Savills collected a sample of 231 new high street stores in Lisbon. About 75% of the new openings are target for the food & beverage sector. All other activities showed a residual weight, with the fashion sector accounting for 9% of new openings. Amongst the brands that opened new stores in 2018 we highlight My Auchan, Portuguese Bakery, Selfish, Canning Shop, Zé Avillez’s Cantina, CrossFit Move on, Jamia’s Italian, H3, Santini, Berenice, Ground Burger, Go Natural, Casa Lisboa, Local, FitnessPark, Chaos, OKAH, H3 Express, OMEGA, Electric Tiger, VANS, Minipreço and Wells.

The refurbishment and renovation of many buildings in Lisbon has brought, to day light, new high street retail spaces. Still, for a demand that has been increasing, the current supply remains scarce, in particular in the heart of the city and the prime axes.

The increase in traditional commerce and convenience, motivated by the new habits of consumption and the rhythm of life of the consumers, has allowed the resurgence of the more traditional “Neighborhood retail concept”, creating in this way new axes and commercial poles that serve the local populations.

Sector of Food & Beverage dominates high street stores openings

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Prime Axis

Lisbon

The zones of the Chiado and Historical Center remain like the prime axes of the high street retail of Lisbon. Wanted mainly by leading brands in the fashion sector, they now also offer a mixed range of bars and restaurants, art galleries combined with frequent events that promote and attract more consumers to the city center. Aimed at the mass-market consumers and benefiting from a high tourist flow, it has gained ground to the prestigious Av. Da Liberdade, currently practicing higher prime income figures.

In 2018, the Prime zone of Chiado registered a prime rent in the order of 140 € / sq.m. / month and the Baixa area of Lisbon stood at 130 € / sq.m. / month, and these figures are expected to increase in the year 2019, driven by demand pressure and lack of supply. Cais do Sodré and the entire renewed riverside area also continue to mark their commercial profile and become more and more established as consolidated retail zones, offering innovative concepts, strongly focused on the restoration sector and the presence of some more alternative fashion brands.

At Av. Da Liberdade, where the prime rent is at 90 € / sq.m. / month, the demand for retailers of prestigious fashion brands, directed to the luxury segment, prevails. In 2018, Av. Liberdade received the first OMEGA store in Lisbon, the new Massimo Dutti Concept Store and the French brand Maje and Sandro.

Oporto

In 2018 several new stores opened in Oporto like Eleven Lab Concept, Brazilian, Bae, Hagen Dazs and Gossy.

As in the case of Lisbon, Oporto has registered a high demand that is also very much in favor of food and fashion sectors, driven by the increase in tourism in the city and by a more dynamic activity to promote new real estate projects that bring more inhabitants and workers to the city center.

Rua de Santa Carina, Avenida da Boavista, Clérigos are part of the most emblematic shopping streets in the city of Porto, where some famous brands are implemented. To these streets, new commercial axes such as the Flores / Mouzinho are now joined.
Shopping centers: Time to make a difference

The Shopping Centers market, after the openings that were planned for 2017, did not register new entries in 2018.

Having reached a high degree of maturity, the Shopping Centers market in Portugal is currently dominated by new positioning strategies and innovative bets on the concepts offered to the public.

In this sense, the expansions of Oeiras Parque, Colombo Shopping Center, Norte Shopping, Glicinias and Dolce Vita Tejo are planned.

For 2019 is scheduled to open LIS Shopping in April, a retail park located in Leiria with a gross leasable area of 7,700 sq.m. Also the region of Madeira will receive the Savoy Palace Commercial Gallery, part of the Savoy Palace hotel project.

Distribution of shopping center stock by region

With increased competition and the range of commercial offerings, coupled with the demand of consumers themselves, offering unique shopping experiences is no longer an option and has become imperative to guarantee the success of the shopping center.

If food courts are usually the first target zones of the modernization and expansion processes, rethinking a new positioning is now far beyond that. It also extends the offer to services that complement the “experience” of moving to the consumer’s shopping center, such as health clinics, dental clinics, gyms and other leisure spaces.

Distribution of shopping center stock by region
E-Commerce:
Although it is below the European average, e-commerce in Portugal has been growing gradually year after year. For many retailers, the digital world has opened up as a new opportunity to win more consumers, raise awareness of their brands across borders, and more innovatively communicate their marketing efforts.

In Portugal, e-commerce has a huge margin of growth and is nowadays a sales channel complementary to the store experience. The new consumer profile that privileges a complete knowledge of the product in a fast and creative way, has led more retailers to adopt new strategies of modernization and improvement of the store experience.

Proportion of persons aged 16-74 who used e-commerce

Source: INE

Proportion of persons aged 16-74 who used e-commerce for products or services ordered

Source: INE

Industrial & Logistics
Industrial & Logistics 2018

Trends 2019

In 2018, the real estate market directed to the segment of industry and logistics maintained a low dynamic activity level, with the promotion of new projects practically non-existent. The observed take-up amounted to a total of 180,300 sq.m, which represents a decrease of 17% compared to the same period of 2017.

The slowdown in exports and domestic demand is one of the contributory factors for this decline, coupled with a lack of new supply and a degree of uncertainty regarding political and economic developments in the external context.

The take-up volume recorded in 2018 was achieved through the occupation of used warehouses and expansion of existing facilities with a large percentage of the investments to be made by the occupants themselves. Alverca - Azambuja axis recorded the highest take-up volume with approximately 70,000 sq.m, followed by Palmela - Setúbal (28,000 sq.m) and Loures - Vialonga (23,682 sq.m) axes.

In 2018, a total investment of €140 million was registered in the industrial & logistic sector, with the sale of the Sonae Castanheira’s Logistics operations center in Braga and Dachser inaugurated its logistics operations center in Coimbra in order to meet the growth forecast for the coming years.

With no new openings and no new projects, the national industrial real estate industry faces several challenges, at a time when the market requires rapid response capacity.

With the exception of the development of around 40,000 sq.m. of speculative supply promoted by Merlin and integrated in the Lisbon North Logistics Platform located in Castanheira do Ribatejo, no new promotions are foreseen accentuating the industry’s lack of attractiveness compared to other real estate segments. However, despite the industrial & logistic sector observing lower occupancy and promotion levels, the current commercial strategies of logistics operators should have a positive impact on the dynamism of real estate activity in this segment.

The focus on improving the purchasing and delivery experience, the gradual growth of e-commerce and the consequent need to modernize distribution chains and increase operational capacity have led many operators to look for new facilities or to adjust the existing ones to the new operational and stock requirements. The expansion of e-commerce as a new sales channel is now seen as an opportunity to encourage promotion in the industrial & logistic sector.

The reformulation of the distribution cycle, due to the increase in the weight of e-commerce, is based on variables such as speed, efficiency and convenience that should produce effects in the search for facilities with smaller dimensions, very close to the urban centers and that are provided with good road access, transport network and easy access to labor.

For 2019 a rise in rents is expected in a very scarce supply and 100% based on used warehouses. The lack of supply will also lead to the renegotiation of contracts with rent revisions, which in the more central axes, close to urban centers that offer a greater concentration and proximity to other complementary services, could mean a slight increase in income values.

Kick - Off 2019

At the beginning of 2019, the market continues to show a positive feeling of confidence on the part of operators, encouraging the resumption of acquisition and investment in this real estate segment.

Several operators began construction of new warehouses and new logistics centers in 2019, reaffirming the need for the market to receive new projects.

Lidl Portugal already started with the construction of the new warehouse in Santo Tirso with 48,000 sq.m. Also Rangel and Marb S.A. opened the new 6,500 sq.m. industrial logistics operations center in Braga and Dachser inaugurated its logistics operations center in Coimbra in order to meet the growth forecast for the coming years.

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Investment

- Sacavém – Alverca
- Carregado – Azambuja
- Loures – Vialonga
- Montijo – Alcochete
- Palmela – Setúbal
- Alfragide – Camaxide
- Sintra – Cascais – Oeiras
2018 confirmed the attractiveness of Portugal in the real estate investment market. For the second consecutive year and setting a new historical record, Portugal has confirmed itself as a destination of choice for the investment strategies of international players from various parts of the globe, with high levels of liquidity and directed to prime assets.

In 2018, 3.2 billion euros of real estate investment were recorded, representing a significant increase of 7% compared to the volume of investment registered in 2017.

This expressive rise is a reflection of the positive progression of a set of factors that have contributed to the excellent performance of the national real estate market. The sustainable growth of the national economy, accompanied by political and social stability, the dynamism of the business community in particular in the cities of Lisbon and Oporto, the excellent performance of the labor market, the gradual increase in rents and the contribution of the tourism sector to the national economy, have been the underlying factors that sustain the demand for investment in Portugal.

In addition to the aforementioned factors and from a European perspective, the market continues to experience historically low interest rates, accompanied by capital market volatility and high levels of liquidity.

The market continues to experience historically low interest rates, accompanied by capital market volatility and high levels of liquidity.

In 2019 and despite a decrease in the volume of real estate investment due to the shortage of prime products, the domestic market will continue to mark its position on the radar of international investors, with the city of Lisbon to be compared with cities such as Madrid and Barcelona.

Lisbon has become an example of a market that has managed to stand out among investors looking for cities with growing inflows of young students and tourism, now opening up their range of investment possibilities to other alternative segments, such as student residences.

In 2018, portfolios and assets were released to the market in the retail and office sectors, with these two sectors accounting for 75% of the total investment. In the retail sector, 1.4 billion euros were registered, for which contributed the sale of Sintra Retail Park, Forum Sintra and Forum Montijo to the Auchan Group for 407 M€, the sale of Almada Forum for 407 M€ to Merlin Properties and sale of Dolce Vita Tejo to AXA Investment Managers for 330 M€.

In the office sector was closed the sale of Lagoa Park to the British fund Kilroe Partners in the historical value of 375 M€, 2018 was also a year of greater diversification of investor interest in other markets. The development sector continued its growth trajectory in 2018, with several major operations to be closed successfully. An example of this was the closure of the sale of the land of the former Feira Popular in Entrecampos for a total amount of 273.9 M€ to Fidelidade Property, the sale by BPI of the former buildings belonging to the Pension Fund of Banco BPI, Norfin for 68.5 M€ and the sale of the emblematic block of Porto Pastry to the Spanish investors of Mahid Capital for 78 M€.
Geographical diversification remains in 2018

International investors accounted for 90% of total investment in Portugal. In 2018, French investors (760 M€), followed closely by US investors (743 M€) and Spanish investors (645 M€) dominated the investment table. Over the past five years, the national investment market has witnessed a reversal of the weight of national investment versus cross-border investment, with international investment being increasingly dominant and domestic investors (mostly real estate investment funds and family offices) to not be able to compete in this race.

In 2018, this tendency is very noticeable, with the focus of the national players, in particular of the banking entities, more focused on the resolution of bad credit. Taking advantage of the positive economic climate and the excellent momentum of the real estate investment market, NPC’s operations have intensified in the last two years.

Throughout 2018 yields were registering declines in the segments of offices, high street and industrial & logistics between 25 and 50 basis points.

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Prime Yields Evolution

<table>
<thead>
<tr>
<th>Year</th>
<th>Offices (Gross)</th>
<th>High street (Gross)</th>
<th>Shopping Centers (Net)</th>
<th>Industrial &amp; Logistics (Gross)</th>
<th>Retail Parks (Net)</th>
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<tr>
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<td>12.00</td>
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<tr>
<td>2019</td>
<td>0.00</td>
<td></td>
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</tr>
</tbody>
</table>

Source: Savills Research

Prime Yields European CBD Offices

<table>
<thead>
<tr>
<th>City</th>
<th>Prime Yields</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paris</td>
<td>3.00%</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>3.25%</td>
</tr>
<tr>
<td>Madrid</td>
<td>3.50%</td>
</tr>
<tr>
<td>Warsaw</td>
<td>3.75%</td>
</tr>
<tr>
<td>Stockholm</td>
<td>4.00%</td>
</tr>
<tr>
<td>Milan</td>
<td>4.00%</td>
</tr>
<tr>
<td>Brussels</td>
<td>4.00%</td>
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<tr>
<td>Oslo</td>
<td>4.00%</td>
</tr>
<tr>
<td>Berlin</td>
<td>4.00%</td>
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<tr>
<td>Luxembourg</td>
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<td>Brussels</td>
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<td>Warsaw</td>
<td>7.00%</td>
</tr>
<tr>
<td>Athens</td>
<td>7.00%</td>
</tr>
</tbody>
</table>

Source: Savills Research
Challenges 2019:

- Trade tension between the US and China that could affect the growth of the world economy;
- BREXIT;
- Political succession of Germany;
- Standardization of monetary policy of the European Central Bank;
- Result of the European elections.

In 2019, the market should register a total amount of investment between 2,000 - 2,500 billion euros;
The domestic investment market will continue to attract international investors who have adopted strategies to diversify their portfolio and are now betting on smaller markets and offering a range of attractive opportunities, with good prospects of return on investment;
Greater caution regarding the potential political and financial risks of the international market;
The approval of the SIGI (Portuguese REITS - Real Estate Investment Trusts) decree-law corresponding to SOCIMI in Spain, could bring about a greater dynamism of the market and the greater diversification of investors, attracting more foreign capital, especially directed to the housing rental sectors, urban rehabilitation and offices;
The acquisition of land for promotional purposes will continue to assert itself as a strong sector of investment capture. The development of projects dedicated to alternative uses, such as Student Residences, will be one of the main trends in 2019 in the real estate investment market, along with the promotion of office buildings in response to the high dynamics of the occupational market;
The NPL market will continue to liberate asset portfolios for the market and capture an important share of international investment.

Kick-off 2019

At the beginning of 2019, the real estate investment market has already closed some important transactions, namely in the office and mixed-use segments.
This was the case of the sale of the Fernão Magalhães’s Tower and Arts building, both located in Parque das Nações, to Merlin Properties by Credit Suisse for a total amount of 112 M€.
The British fund M7 Real Estate has also invested in the acquisition of 16 assets in the Lisbon, Oporto and Center regions for logistics assets, offices and office parks and retail parks, for a total investment of 55.7 M€.

The closing of the first quarter of 2019 is expected to show a sharp fall of close to 50% compared to the same period of 2018, when the Dolce Vita Tejo Shopping Center and the Sintra Retail Park, Sintra Forum and Montijo Forum were integrated in the Rio Tejo portfolio.
Notwithstanding the slowdown and the shortage of prime product experienced by very satisfactory demand, the market continues to offer good investment opportunities.
The retail and office sectors continue to capture the interest of several international investors and lead the ranking of transactions.
Residential

In 2018, the residential market in Portugal continued to observe a very positive growth behavior. According to information released by INE, in the year 2018, 178,691 dwellings were sold, of which 85.2% were for used dwellings. Compared to the same period last year, this result shows an increase of 16.6%.

In total, the domestic residential market accounted for 24.1 billion euros of transactions in 2018 (+ 24.4%).

The regions of the Lisbon Metropolitan Area and North region accounted for 64.6% of total transactions in 2018.

For these numbers, urban rehabilitation plays a very significant role, as well as the purchase for placing on the tourist rental market, which have undoubtedly been the two most dynamic factors in the residential market.

However, the purchase and sale of homes for own use and directed to national buyers remains at modest levels and which translate a mismatch of current supply to the demand profile. The scarcity of new construction thought to be of root for Portuguese middle-income families is one of the main challenges facing the residential development market.

Throughout 2018, a total of 22,062 buildings were licensed in Portugal, of which 5,164 of these buildings are for urban rehabilitation, 16,898 buildings for new buildings and of which 11,375 were for family housing (65.1%).

The North region had a total of 8,860 buildings, of which 23.5% were directed to urban rehabilitation and 76% to new buildings, with family housing with a weight of 75.4%.

In 2018

178,691
HOUSES SOLD

22,062
BUILDINGS LICENSED
IN PORTUGAL
(+18.5%)

15,000
BUILDINGS COMPLETED
IN PORTUGAL
(+16.1%)

1,729
BUILDINGS COMPLETED IN THE LISBON METROPOLITAN AREA

1,148
BUILDINGS COMPLETED FOR FAMILY HOUSING

1,276
LICENSED BUILDINGS FOR FAMILY HOUSING

5,990
LICENSED BUILDINGS IN THE LISBON METROPOLITAN AREA

7,893
BUILDINGS LICENSED FOR FAMILY HOUSING

3,421
BUILDINGS LICENSED IN THE LISBON METROPOLITAN AREA

Completed Buildings: Lisbon Metropolitan Area

<table>
<thead>
<tr>
<th>Year</th>
<th># of Buildings</th>
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<tr>
<td>2004</td>
<td>3,900</td>
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<tr>
<td>2005</td>
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<td>1,266</td>
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<tr>
<td>2017</td>
<td>1,321</td>
</tr>
<tr>
<td>2018</td>
<td>1,729</td>
</tr>
</tbody>
</table>

Source: INE

In 2018

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Urban Rehabilitation

Area of Lisbon

The URA of Lisbon registered in 2018 a total of 5.92 billion euros, which represented 13,150 transactions.

The parish of Santo António, which is part of the prime area of Lisbon (Avenida da Liberdade axis), registered the highest average sale/sq.m in 2018, standing at 5,076 € and representing a 13% increase over 2017.

Also the parishes of Misericórdia and Santa Maria Maior observed average values of sale/sq.m superior to 4,000€/sq.m.

It should also be noted that other areas of the city considered more secondary have been witnessing a very significant price increase.

The parish of Ajuda showed a 42.2% increase compared to 2017 and the parish of Beato, considered the new emerging zone of Lisbon, saw a 41.7% increase in its average sale value/sq.m.

Area of Oporto

In 2018 and according to the data released in the SIR - RU Portal, 844 houses were sold at an average price of 2,336€/sq.m in the Oporto market.

In general, all areas recorded increases in their average sale value/sq.m, except for the area of Cortiça (-9.28%) and Massarelos (-5.00%).

The Bomfim and Baixa areas saw very steep increases in their average sales figures, in the order of 77% and 45% respectively.
In 2019, the residential market should begin a path of greater stabilization and consolidation of prices, more directed to the segment of residential homes used.

The promotion of projects targeted to the prime segment will continue to increase, and a visible price adjustment is not yet expected and will have effects on the dynamics of the residential market.

The introduction of new forms and housing regimes that reflect new lifestyles, begin to bring to light models of housing based on concepts of shared economy and co-habitation.

If in some European countries concepts are already in a phase of perfect gearing and fully integrated in the residential market, in Portugal the first steps are now taking place and international investors are beginning to appear with an interest in betting on the Portuguese market for the implementation of Co-Living.

The residential market is one of the most permeable segments of the volatility of socioeconomic factors, the changes in habits and generations that inevitably bring with them profound changes of thought.

The revival of the rental market is an example of this change, but also of the current financial inability of Portuguese households to be able to buy houses at the current market prices. The lease scheme will continue in 2019 to be one of the options for a very significant percentage of the resident population in Portugal.

The announced Accessible Rents Program promoted by the Portuguese Government, as well as with a very residual weight, the initiative of international promoters put on the market some fractions of their projects affected by the affordable rents scheme, pave the way for the return of the younger population to the center of the cities and in this way contribute to the continuous dynamism and revitalization of the urban centers.

It is also increasingly evident the concern of international promoters and investors in knowing the profile of the national consumer and the national reality. Concern that is expressed in the desire to develop projects aimed at the middle class.
Development 2018

The development sector is changing the urban centers of the main cities of the country, in Lisbon the effects of this investment segment have given a new life to the oldest and most degraded areas, promising to boost secondary zones.

The development transactions were between €5,000 / sq.m and €6,000 / sq.m in the two most emblematic transactions that took place in the historic center of Lisbon, Pastelaria Suíça (already in an advanced state of degradation) and the BPI block, which, together, add up to an investment of more than 155 million euros.

The combined effect of several factors, such as the large size of the land and buildings targeted for intervention, the location of the buildings and the good accessibilities, the interest that Lisbon continues to generate among investors and the need to increase the current supply of the most varied segments, to these assets / projects a versatility that becomes synonymous with a fast flow in the market.

The origin of the capital continues in its great majority to be coming from outside the country, standing out:
- Fidelidade (China)
- Vic Properties (Austria)
- Mabel Capital (Spain)
- Anchorage Capital Group (USA)
- Grupo SANA (Portugal)
- Paris INN (France)

2019 also showed positive signs in the development business during the first quarter. The purchase of CGD’s old block on Rua do Ouço in Lisbon’s downtown by Grupo SANA was one of the transactions that prove the maturity of this market and the attractiveness that will continue to deserve.

The projects planned for the city of Lisbon promise to modernize and create new centralities for the Portuguese capital.

The projects planned for the city of Lisbon promise to modernize and create new centralities for the Portuguese capital. They are in total more than 220,000 sq.m that will be developed for almost all the market segments (logistic / industrial is the exception). Of note is the integrated Entrecampos operation, which will add more than 200,000 sq.m for housing (700 fires for affordable rental and 279 for free market), commerce, offices and social facilities, creating a new centrality in the modern city of Lisbon with green spaces, more ecological and energy efficient, being the largest operation in the city since the rehabilitation of the eastern zone (Parque das Nações).

In all of the planned projects, there are more than 2,000 new housing fires, still insufficient to fill existing demand, and mostly directed to a medium-high and high range.

Other secondary zones of the city of Lisbon, such as Praça de Espanha / Sete Rios, Alcântara, Belém / Ajuda and the riverside axis between Santa Apolónia and Oriente, will absorb the remaining 320,000 sq.m, with special emphasis on the development of Beato Creative Hub, currently with 30,000 sq.m and with an expansion project up to 100,000 sq.m, and the construction of 600 new dwellings in the Braço de Prata, in an area of 244,000 sq.m.

Kick-Off 2019

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The future use of these projects should remain in line with the projects of the last years, with the destination of the assets being predominantly taken to the residential and hotel segments.
Tourism 2018

Since 2014 Portugal has been gaining more and more prominence in the international tourist market. If the country was already recognized and rewarded for its beaches, cultural heritage and gastronomy, the dynamization of the sector promoted by the various national entities and the entry of new hotel operators, also brought a new breath to the national economy.

The weight of the tourism sector in the national economy is proof of the fundamental role of wealth generation, with tourism revenues accounting for 8.8% of GDP.

In the balance of 2018, this sector once again demonstrated the solidity that characterizes it and the interest it generates with foreign tourists who continue to represent the largest share of tourists who choose Portugal as a holiday destination. The recognition of Portugal as a quality tourist destination has been well known and every year prizes of international renown are collected, as was the case of the prize awarded by the World Travel Awards for Best Tourist Destination in the World in 2017 and 2018.

Not only the main and most traditional tourist destinations in Portugal (Lisbon, Oporto and the Algarve region) have been strongly promoted by the internationalization of the “Portugal” brand, but also other less traveled destinations, start to offer a quality and qualified hotel offer, mainly directed to the tourism of niche, oriented to new concepts (well-being, health, tourism winemaker).

The metropolitan area of Lisbon was the region with the largest share of tourists’ preference, with 29.78% of total hotel guests, followed by the North and Algarve regions with 20.56% and 20.02% respectively. The Autonomous Region of Madeira accounted for 6.56% of the total overnight stays of the year, followed by Alentejo and the Autonomous Region of the Azores with 4.96% and 2.90% respectively.

**Guests by Type of Accommodation 2018**

- **61.10%** Hotels
- **15%** Others tourist accommodation
- **11.50%** Apart-hotels
- **7.30%** Tourist resorts
- **13%** Touristic apartments
- **13%** Hostels

**Revenue by Region 2018**

- North: €4,334,900
- Center: €3,186,200
- Lisbon: €6,269,500
- Alentejo: €1,044,500
- Algarve: €4,213,500
- Azores: €609,900
- Madeira: €1,380,500

**Guests by region 2018**

- North: 4,334,900
- Center: 3,186,200
- Lisbon: 6,269,500
- Alentejo: 1,044,500
- Algarve: 4,213,500
- Azores: 609,900
- Madeira: 1,380,500

**RevPar**

- €48.6

**Tourism Revenues**

- €16,614 M

**Occupancy rate bed**

- 52.1%

**Room occupancy rate**

- 65.1%
The hotel category absorbed 61% of overnight stays in 2018 (half of which are in 4-star hotels, 22% in 3-star hotels and 19% in 5-star hotels). 71% of the guests were foreigners, which registered a residual increase of 0.1% over the year 2017. Of note was the behavior of domestic guests, which increased by 5.8% over the same period in a market that continues to be dominated by foreign tourists. The cities of Lisbon and Oporto also continue to affirm themselves as Business Travel destinations, stage of congresses and other events of international dimension. An example of this is the Websummit Event that is going to stay in Lisbon for the next 10 years.

The Websummit event, which annually brings to Lisbon more than 60 thousand people, represents a strong national investment in the expansion of infrastructures, considered as a requirement for the maintenance of the city as a destination for the event.

The metropolitan area of Lisbon had 6.3 million guests and 14.5 million overnight stays, a slight increase of almost 2% and 1.1%, respectively, compared to 2017. The Portuguese capital follows the national trend with 73% of guests to be foreigners. To record the increasing weight of Brazilian tourists in the Lisbon and national market, being the nationality that along with the Spanish and French, leads the market of the Portuguese capital and grows in strength in the rest of the country.

Lisbon has been witnessing the opening of new hotel units over the last few years by various national and international hotel chains. The rebranding operations, not only in the city of Lisbon but also in the rest of the country, have marked the new openings with the absorption of small national groups and international renaming, thus giving credence to the national market and giving signs that the international groups have Portugal as a destination to take into account.
Oporto

**Demand**
The North of the country registered a total of 4.3 million guests in 2018, 4.6% more than in 2017. In Oporto, we saw a greater balance in the number of domestic guests vis-à-vis foreign guests (50.2% and 49.8% respectively), with the number of foreign guests growing by 5.5% compared to 2017.

**Offer**
About 90% of the retirement offer are hotels, in Lisbon. In Oporto the hotel offer has been growing gradually, having contributed to obtain several internationally renowned prizes. In 2018, Oporto opened up 10 hotel units. Pipeline opened a further 25 hotels in 2019 by the hand of hotel chains such as Hoti Hotels, Turin, Pestana Hotel Group, Vila Galé and PortoBay Hotels & Resorts.

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Algarve

**Demand**
With 4.2 million guests, which represents a continuous growth of 5% since 2016, it is not yet the region with the largest number of guests in the country, it is nevertheless the one with the highest number of overnight stays, a total of 18.8 million, of which 77% come from outside the country.

**Offer**
Algarve has a greater diversity of types of accommodation compared to the cities of Lisbon and Oporto: 66% are hotels, 23% are apartments or tourist villages, and 10% are aparthotels, having been gradually increasing consonant with the rest of the country of the number of hotel units.

In 2018, the Algarve received new hotel units such as Jupiter Albufeira Hotel (400 rooms), Jupiter Marina Hotel Portimão (150 rooms) and the refurbished The Prime Energize Hotel in Monte Gordo with 105 rooms.
Kick-Off 2019

2019 will be a year in which the high demand for Portugal as a tourist destination will continue. It is expected that the dynamization of areas considered as non-prime destinations, such as the interior of the country, will continue to contribute strongly to the local economy and to the increase of tourism in the regions concerned.

Portugal will continue to establish itself as a destination of choice for specific niches. The bet on increasingly exclusive segments will be one of the most explored areas throughout the year, in order to create a territory whose experiences offered complement and contribute to the country’s continued drive in the main international tourism routes.

On the other hand, it is also worth noting the continued interest of international hotel brands in the domestic market, a living proof of the prestige and trust that international players place in our country, with very probable new acquisitions of hotel assets for rebranding or adaptation of assets previously allocated to other segments.

The pipeline of new openings in 2019 for the whole country, adds to the opening of 109 new hotel units, with Lisbon and Oporto accounting for 56% of the new offer.

In the first quarter of 2019, seven new hotel units opened and also three openings regarding rebranding projects. This was the case of the former Hotel Guadiana in the Algarve, now called the Grand House Hotel (5*), the Eve Senses Hotel in Faro and the Carvi Beach Hotel Algarve.

In new projects, opened the Monchique Resort & SPA (196 rooms) in the Algarve region and in Oporto we highlight the inauguration Vila Galé Douro Vineyards (47 rooms).
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 the UK property market.

Paulo Silva
Head of Country Portugal
paulo.silva@savills.pt

Cristina Cristóvão
Director Agency Retail
cristina.cristovao@savills.pt

Patrícia Melo e Liz
Chief Executive Officer
patricia.liz@savills.pt

Joana Rodrigues
Director Architecture
joana.rodrigues@savills.pt

Alexandra Portugal Gomes
Market Research
alexandra.gomes@savills.pt

Paul Sequeira
Director Consultancy
paula.sequeira@savills.pt

Rodrigo Canas
Director Agency
rodrigo.canas@savills.pt