CISION

ID: 74073576

VIDAIMOBILIÁRIA

01-02-2018 | Iberian Property Summit

Meio: Imprensa
País: Portugal
Period.: Trimestral
Âmbito: Economia, Negócios e.

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LISBON REAL ESTATE IN THE BEST PHASE EVER

Lisbon is undeniably the major driver of the Portuguese property market, with the sector growing on every front and experiencing what is probably its best phase ever.

TRENDS & OUTLOOK 2018

- Lisbon is increasingly popular among large international corporations, namely technological service companies, while national firms are also resuming their expansion strategies. We also note the major trend of co-working companies looking for spaces in the city, with operators such as Regus and SecondHome planning to expand to Lisbon;
- Over upcoming years, the riverfront axis should continue to consolidate as the new expansion zone for the city's office market, driven by building regeneration and the conversion of warehouses into cutting edge offices, for example, the new headquarters of law firms VdA and Abreu Advogados;
- The lack of supply of new, quality buildings remains a critical issue that is beginning to limit the levels of activity and satisfaction of demand. Of approximately 218.600 m² of new GLA forecast until 2021, only 16% is already under construction and 40% will be owner occupied. 40.600 m² are under construction and due to be completed this year, 50% of which is already pre-let. In 2019, an additional 30.000 m² should be concluded;
- Demand is expected to remain extremely dynamic, therefore the major challenge in 2018 will be to find spaces that meet the current requirements of these occupants, and there is a pressing need for new office development;
- At the same time, we should continue to witness a decrease in the vacancy rate and a rise in prime rents, which may increase around 5% in the CBD in 2018.

OFFICES

Companies take up the most space since 2008

2017 was one of the most dynamic years for the office market in the Portuguese capital, and lack of supply is the principal obstacle to greater growth in take-up.

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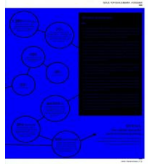

1.380 €/m²/ year
Chiado is the most expensive high street location in Portugal and 33rd in the world

70%
increase in high street prime rent in Lisbon since 2012, rising from 75€/m²/ month currently to more than 130€/m²

250
transactions, with an average area of 667 m²

16%
y-o-y growth

53%
net take-up

40.000 m²
area taken up in Lisbon (until September 2017), with high street retail registering a demand of 27.000 m²

304 openings
Greater Lisbon Area concentrated 43% of the approximately 705 new openings calculated in the country

100 €/m²/month
shopping centre rents which, like retail parks (10€/m²/month), also observed increases in the baseline figures

TRENDS & OUTLOOK 2018

- Growth of supply in the shopping centre format is concentrated on projects to expand and remodel existing centres, with 18.000 m² of GLA in the pipeline until 2019 in Lisbon, namely in Centro Colombo (10.000 m²) and Oeiras Park (18.000 m²);
- The increase in the number of tourists will continue to drive demand for spaces on the principal axes in the centre of Lisbon, namely Baixa, Chiado, Avenida da Liberdade and the Cais do Sodré zone. The decrease in available offer in prime locations will continue to benefit secondary areas, since national and international operators want to take advantage of the high tourism flow taking place in the city;
- The Baixa zone, which is increasingly in demand for high street retail, will continue to expand towards Alfama, an axis due to become the pedestrian route between the city's historic centre and the new Cruise Terminal.
- High street rents should continue to rise at a rate between 5% and 10% per year on Lisbon's principal axes, reflecting a growing market. We recall that in the 2nd semester of 2017, the prime rent on Avenida da Liberdade was around 1.140 €/m²/year and in Baixa it was 960 €/m²/year;
- Demand among retailers operating on Lisbon's primary high street retail arteries is expected to keep evolving considerably, like in the past year where, taking advantage of the slowdown observed in the premium segment, mass market operators took the opportunity to launch and test new store concepts in some locations with greater footfall.

RETAIL

The market reinvents itself and keeps growing

In both high street retail and shopping centres, the retail market had a very positive performance in 2017, maintaining the growth trajectory.

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INDUSTRIAL & LOGISTICS

A target for international investors

The industrial market was also extremely dynamic in 2017, with approximately 295.000 m² taken up mostly in the Greater Lisbon and Greater Porto areas, representing an exponential growth of 212% compared with 2016:

TRENDS & OUTLOOK 2018

- Due to a much lower level of investment in the logistics segment over recent years, today demand surpasses supply nationwide;
- There is a lack of quality spaces in Lisbon, therefore the scarce available offer will limit take-up over the next 12 months, with a decrease expected in comparison with the levels traded in 2017;
- We may witness the launch of new construction projects of built to suit logistics platforms and support structures for e-commerce. Confirmation of Amazon entering the Portuguese market through investment in a sizeable logistics platform, is expected to raise interest among other international operators in the national market;
- The lack of available quality warehouses may provoke a slight increase in the rent of secondary products in 2018. However, after an increase of around 8% in rents in 2017, prime product is not expected to vary in Lisbon in 2018. Nonetheless, higher values may be negotiated for warehouses built to suit the occupant.

8%
increase in prime rents in Lisbon

295.000 m²
take-up in Lisbon and Porto, 212% more than in 2016

3.5 €/m²/ month
rents for the best assets in the Greater Lisbon Area

285.000 €
record value/room traded

400.000 m²
allocated to local lodging

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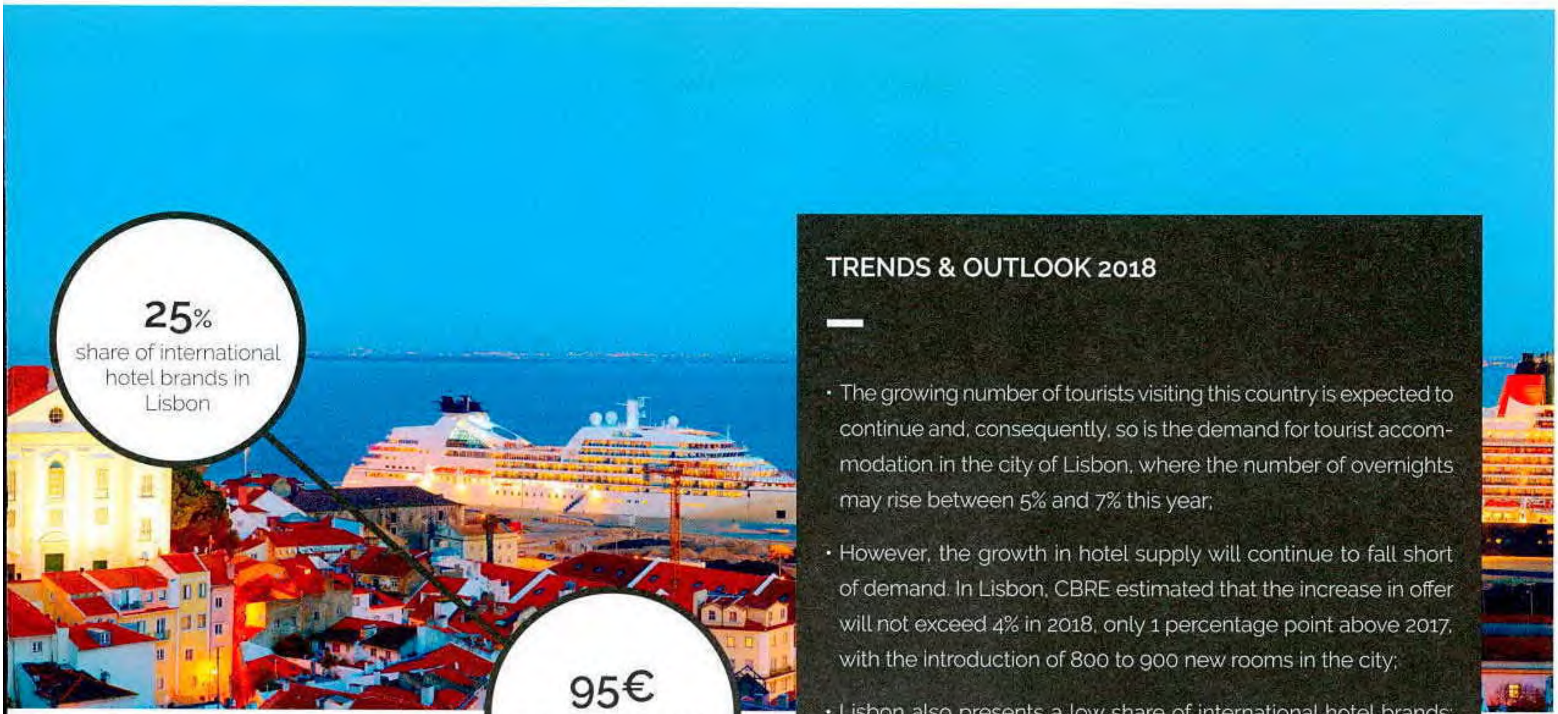

25%
share of international hotel brands in Lisbon

95€
average room price, with a RevPar of 55€ (December 2017)

12
new hotels opened in the capital in 2017

25
new openings in the pipeline until 2019

55€
RevPar in December 2017

10%
growth expected in the average room price

TRENDS & OUTLOOK 2018

- The growing number of tourists visiting this country is expected to continue and, consequently, so is the demand for tourist accommodation in the city of Lisbon, where the number of overnights may rise between 5% and 7% this year;
- However, the growth in hotel supply will continue to fall short of demand. In Lisbon, CBRE estimated that the increase in offer will not exceed 4% in 2018, only 1 percentage point above 2017, with the introduction of 800 to 900 new rooms in the city;
- Lisbon also presents a low share of international hotel brands: approximately 25%. Nonetheless, significant interest is evident from international chains, particularly Spanish, to operate and invest in Lisbon's hotel sector. Following the entry of Iberostar in the city in 2017, construction is due to begin in 2018 of Moxy by Marriott in Parque das Nações and Hotel Meliá Lisbon;
- The growth tendency of the take-up rate and average room price of hotel units is expected to maintain over the next twelve months, at a rate of 10% in Lisbon. Lisbon closed 2017 with an average room price of 95€ and a RevPar of 55€ (December), leading the prices in the national hotel sector;
- With the entry into force of legislative amendments that introduce more penalising measures for Local Lodging, the opening of new units is expected to decrease, with this kind of supply growing at a slow rate of 3% to 5% each year. It is estimated that there are currently 400.000 m² allocated to Local Lodging in Lisbon, approximately one third of the city's total supply;
- Greater focus on new hotel concepts, namely by incorporating iconic elements from the city's culture.

HOTELS

High expectations year after year

Lisbon maintains its position in the international panorama as a leading tourist destination. 2017 registered the best performance ever, and this is expected to continue throughout this year.

SOURCES: JLL, C&W, CBRE, Savills Aguirre Newman

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Investment in Lisbon: the market consensus for 2018

Whether regarding prices, investment volume or the performance of occupier markets, how do experts expect real estate investment in Lisbon to evolve over the next twelve months? Find the answers in this market consensus

Paulo Sarmento
CUSHMAN & WAKEFIELD
Partner & Capital Markets Director

Fernando Ferreira
JLL
Head of Capital Markets

	Paulo Sarmento, Cushman & Wakefield	Fernando Ferreira, JLL
1 Will market prices in Lisbon rise again in 2018?	There is unprecedented demand from investors. Not many alternative markets with comparable risk / return profiles. Development has been at an all-time low. The stock of available properties is quite limited. These market forces will continue to drive prices slightly upwards, unless interest rates rise.	Appetite from investors together with lack of quality of product is likely to see yield compression through 2018 among most of the sectors in Portugal.
2 Will occupier markets be more dynamic?	All occupational markets are on ascending trajectories, with the more significant growth in offices (partially due to the importance of shared services and business processes outsourcing centres), high street retail and hotels (both due to the significant growth of tourism).	Both occupiers on retail and office are looking to increase their foot-print in Portugal with the most recent announcement from Google confirming that trend for Portugal.
3 Who will be the main players buying RE in Lisbon in 2018?	A combination of international and domestic investors, covering a very wide spectrum of risk / return profiles - maybe less pure opportunistic players and more conservative investors looking for stabilized returns and willing to pay higher prices. Some innovative players looking for niche assets.	Socimi's, Property Funds, Portuguese Open Ended Funds, Private Equity's and Family Offices.

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Nuno Nunes
CBRE
Capital Markets, Senior Director

There is still a strong upward trend in RE prices in Lisbon. The prices are being pushed up both by an ever growing interest from foreign investor which were joined in 2017 by some fast recovering Portuguese Institutional Investors, compressing the yields further into new record levels, and rapidly increasing rents, namely in the office and high street sectors. In some submarkets within these two sectors we may see compressions of 50 bps on yields and rental increases above 10%.

The occupancy figures evolution has been significantly curtailed by shortage of space. There is an evident lack of large office spaces to lease. Just in Lisbon there are currently more than 150.000 sq m of demand which is not finding space to meet its needs. This is particularly relevant when we consider that the total take-up in 2017 was 166.000sq m. This in-balance will take to correct with the first large speculative projects set to start in the second semester of the year and not being ready to be delivered before 2020. The total take-up in 2018 should be in line or slightly higher than 2017.

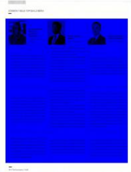
January and February 2018 have been one of the most dynamic months in historical terms setting high hopes for the rest of the year. It has been two exceptional months not only in terms of investment volumes but also in terms of new players in the market. Two of the largest operations in this period were made by investors that had not invested in Lisbon in the last decade. Considering the profile of the operations in the market both Core and Value Add investors should play a very relevant role. In terms of nationalities, European Investment namely French and British should account for a significant part of the investment. Portuguese institutional investors should keep on gaining market share

Tim Seconde
RPE
Head of Capital Markets

There is still strong demand from institutional and international core capital in Portugal in both the retail and office sectors. This will mean that retail yields for the larger and more prime shopping centres as well as other well-located retail schemes will continue to harden over the course of 2018. More secondary product is being targeted by value add players who can improve or expand existing schemes. Prime office yields are already at a record low and this trend is unlikely to change this year as there are multiple pools of core (and in some cases "*ultra-core*") capital seeking limited investment grade product. We are now seeing more interesting opportunities in the non-core sector as seen in the second half of last year.

For the moment, Portugal's already positive and improving macro-economic indicators are underpinning growth and driving sales in the retail sector. Investors are keeping a close eye on trends such as internet retailing however. Lisbon in particular is enjoying a strong office occupational market as demand from international tenants continues. Quality space in Lisbon is limited which is also squeezing rents upwards. Average letting transaction sizes are increasing and we are likely to see a number of large scale and high profile office lettings over the coming 12 to 18 months.

Retail continues to be almost exclusively dominated by international buyers from multiple geographies including shopping centre specialists. The office sector is being targeted by both international and Portuguese money. This year we will see further major residential re-development deals being completed by large-scale international investors.



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Head of Valuation

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Yes, greatly due to yield compression, as well as the high levels of international liquidity available for investment and the fact that Portugal offers a set of characteristics (economic, political & natural) that place it on the investor '*radar*'. However, there is not enough product to satisfy this demand, which places pressure on the closing prices of transactions.	The large volume of liquidity in international markets keeps demand levels high among commercial real estate investors. Considering the lack of assets that meet investor expectations, investors are showing a greater willingness to take on new risks, making prices continue to rise. On the development side, the sustained increase in residential sale prices to end buyers has generated a willingness among developers to pay higher prices for land for construction or buildings for regeneration.	Office rents have been rising steadily in the past 3 years, as a result of an increase in demand and virtual stagnation in the supply of new spaces. On the other hand, yields continue to contract, therefore prices in Lisbon are expected to keep rising in 2018.
Yes. A tendency that has been evident for some time, namely in the office segment. Although the growing demand for office spaces, especially by Shared Services companies, is not met on the supply side (the office stock in Lisbon increased little more than 10% in the last decade). Another segment that is currently very solid is hotels, strongly driven by the growth in tourism.	Recovery of the Portuguese economy has driven the expansion and attraction of new companies to the national market, immediately bringing about a rise in take-up and demand for new offices. This trend, combined with the lack of new office project development in recent years, has led to a rise in prime rents. Real estate production requires 2/3 years, which enables us to foresee that, although some projects are already under development, these won't reach the market immediately, thereby originating a price increase.	The current demand will continue to put pressure on Lisbon and Porto's markets, both in terms of rents and vacancy rate. In the last 3 years, for example, the prime rent in Lisbon increased more than 10%, while the vacancy rate dropped more than 20%. Many zones present vacancy rates below 5%. The principal economic indicators present favourable conditions for business development in Portugal at the moment, therefore a good momentum is expected in the office market.
International players, like in previous years. Furthermore, the current liquidity in the market has been helping diversify the risk profile of some investors, namely Asset Management firms, which seek Core / Core Plus as well as Value Added / Opportunistic investment opportunities.	Currently, the origins of capital have been diverse. For this year, we expect a gradual increase in investors from South Africa and China. However, the traditional market players will still be Dutch, British and Spanish investment funds.	The international expansion of our market has placed Portugal in the path of numerous investors who compare rents and yields in Lisbon with those in other European cities. As in 2017, international investors will continue to be the most representative.