PORTUGAL

Office Market Snapshot

Third Quarter | 2017

CUSHMAN & WAKEFIELD

MARKET INDICATORS

Market Outlook

Prime Rents:	Shortages of supply associated with increasing demand are likely to continue to fuel rent hikes.
Prime Yields:	The new all-time low of 4.75% achieved previous this year is unlikely to change in the next quarters.
Supply:	New and refurbishments projects coming to the market are in general occupied. Space restrictions are still a threat to market growth
Demand:	Demand will continue to trend in line with current levels. Although potential demand continues highly dynamic, lack of quality supply will not allow massive growth in take up.

Prime Office rents – September 2017

LOCATION	€ SQ.M MTH	€ SQ.M YR	US$ SQ.FT YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Lisbon (Zone 1)	19.50	234	25.8	5.4	1.1
Lisbon (Zone 2)	16.50	198	21.8	0.0	0.0
Lisbon (Zone 5)	17.00	204	22.5	3.0	1.9
Lisbon (Zone 6)	13.00	156	17.2	0.0	2.5

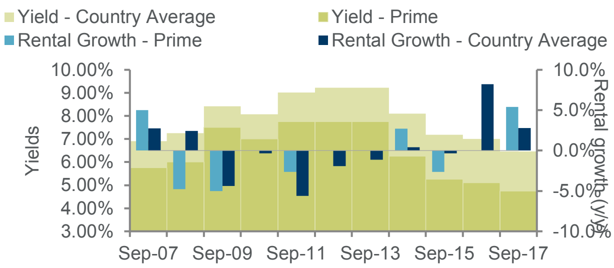
Prime Office yields – September 2017

LOCATION (FIGURES ARE GROSS, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	10 YEAR LOW
Lisbon (Zone 1)	4.75	4.75	5.10	7.75	4.75
Lisbon (Zone 2)	5.50	5.50	6.25	8.50	5.50
Lisbon (Zone 5)	5.50	5.50	6.00	8.50	5.50
Lisbon (Zone 6)	7.00	7.00	7.50	10.25	6.25

NOTES:
Lisbon Zone 1: Avenida da Liberdade (Prime CBD)
Lisbon Zone 2: Avenidas Novas (CBD)
Lisbon Zone 5: Parque das Nacoes
Lisbon Zone 6: Western Corridor (Decentralised)

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Economic activity across Q3 2017 kept the upwards trajectory from previous quarters. Bank of Portugal preserves its GDP growth forecast at 2.5% for the end of the year. Unemployment rate continues its downwards revision, 8.8% in August against 10.7% in the same period of 2016. Oxford Economics' forecast for unemployment rate in 2017 was reduced to 9.2%.

Occupier focus

Greater Lisbon's market for office space has witnessed a very dynamic third quarter of 2017, in which more than 35,000 sq.m were transacted, 87% more than a year before. The technology sector took the lion's share with 38% of the occupied area, followed by company services with 19% of demand. So far in 2017, the annual take-up for office space posted a 16% year-on-year growth, standing at around 115 thousand sq.m.

Vacancy rate remained at 8.8% in Q3 2017 mostly due to the shortage of quality space suitable for large occupiers. The highest rates of 15.7% and 13.3% were posted in the Western Corridor (Zone 6) and the New Office Zones (Zone 3), respectively.

The decrease in the available area has encouraged an upturn in development activity. There are circa 93,000 sq.m of new office space in pipeline until 2019. 63,000 sq.m are currently under construction, 68% of which comprising pre-let agreements. Almost 35,000 sq.m expected to be complete in 2017.

Investment focus

Office Sector accounted for 59% of the capital invested in Portugal during the last 3 months. Signs of a solid performance on the occupier side associated with positive prospects for the economy are keeping investors motivated in the Portuguese market. This quarter witnessed 7 investment deals accounting for €233 million. By year-end, a new all-time high might be recorded due to a large number of deals in progress.

Outlook

Demand for office space is likely to continue in the quarters to come, albeit constrained by a shortage of quality space. New construction and refurbishment is happening in Lisbon and Porto as landlords look to capitalize on the positive rental growth trends. However, the higher achievable values on residential and hotel sector impulses some developers to change the use of their projects instead.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Lisbon (Prime CBD)	564,649	37,174	6.6%	15,837	31,235	28,878
Lisbon (CBD)	1,104,037	91,357	8.3%	5,347	14,681	4,531
Lisbon (New Office Areas)	529,953	70,581	13.3%	4,658	16,924	6,886
Lisbon (Secondary Office Locations)	415,863	7,555	1.8%	0	14,855	22,296
Lisbon (Parque das Nações)	354,642	12,028	3.4%	4,383	6,692	0
Lisbon (Western Corridor)	907,419	142,427	15.7%	4,871	27,056	0
Lisbon (Non-Consolidated Areas)	740,780	43,177	5.8%	294	2,028	0
Lisbon (Overall)	**4,617,343**	**404,298**	**8.8%**	**35,390**	**113,471**	**62,591**

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Edifício Nau	Lisbon (Parque das Nações)	Tekever	2,240	Sale
Liberdade, 249	Lisbon (Prime CBD)	COSEC	1,360	Lease
5 de Outubro, 125	Lisbon (CBD)	Premium Minds	1,125	Lease
Heron Castilho	Lisbon (Prime CBD)	Mediabrands	861	Lease
Malhoa 27	Zone 3 (New Office Areas)	Arvato	628	Lease

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Marquês de Pombal Building	Lisbon (Prime CBD)	Novo Banco / Merlin Properties	6.5%	60.3
50 Office	Lisbon (CBD)	Trilito / Private Investor		9.5
Republica 26	Lisbon (CBD)	Imofundos / Family Office	5.8%	9.5
Chiado Terrace	Zone 4 (Secondary Office Locations)	CGD / Family Office		7.5

Source: Cushman & Wakefield, Real Capital Analytics

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