

PORTUGAL Office Market Snapshot

Second Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Shortages of supply associated with increasing demand are likely to continue to fuel rental growth.	▼
Prime Yields:	Office prime yield at an all-time low (4.5%) can still decrease slightly by the end of the year.	▲
Supply:	More than 200,000 sq. m of new office space anticipated until 2021.	▶
Demand:	Demand will continue to trend in line with current levels.	▼

Prime Office rents – June 2018

LOCATION	€	€	US\$	GROWTH %	
	SQ. M MTH	SQ. M YR	SQ. FT YR	1YR	5YR CAGR
Lisbon (Zone 1)	21.00	252	27.4	7.7	2.6
Lisbon (Zone 2)	17.00	204	22.2	3.0	0.6
Lisbon (Zone 5)	18.00	216	23.5	5.9	3.7
Lisbon (Zone 6)	14.00	168	18.3	7.7	4.0

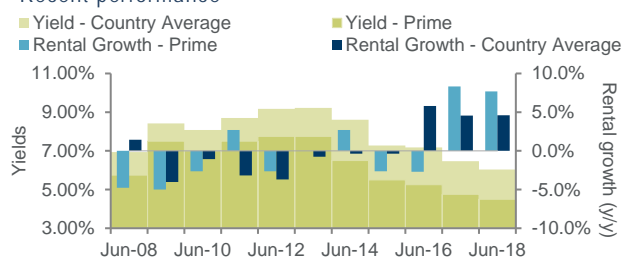
Prime Office yields – June 2018

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Lisbon (Zone 1)	4.50	4.50	4.75	7.75	4.50
Lisbon (Zone 2)	5.50	5.50	5.50	8.50	5.50
Lisbon (Zone 5)	5.25	5.25	5.50	8.50	5.25
Lisbon (Zone 6)	6.50	6.50	7.00	10.25	6.50

NOTES:
Lisbon Zone 1: Avenida da Liberdade (Prime CBD)
Lisbon Zone 2: Avenidas Novas (CBD)
Lisbon Zone 5: Parque das Nações
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 Q2 2018 kept the upwards trajectory from previous quarters. Oxford Economics revised downwards its GDP growth forecast to 2.1% for the end of the year. Unemployment rate continues its downwards revision, 7.1% in May against 9.0% in the same period of 2017. Oxford Economics' forecast for unemployment rate in 2018 was reduced to 7.4%.

Occupier focus

After a strong performance in 2017 (167,500 sq. m occupied and 16% growth), the office occupational market continues in a positive trend in 2018. A total of 105 occupancy deals were registered until June, involving circa 83,000 sq. m and representing 6% year-on-year growth.

From January to June 51% of the leased area was due to companies expanding or to new companies establishing in the city. Zone 3 (New office areas) had the highest share of take up in the first half of the year, with 23% of the area. Zones 6 (Western corridor) and 1 (Prime CBD) followed in terms of transacted area, respectively with 18% and 17% of take up. Company services was the most dynamic sector, responsible for 40% of the transacted area, followed by TMT's with 21%.

Vacancy rate kept its downward trend, standing at 7.2%. The Western Corridor (Zone 6) continues to show the highest vacancy rate at 14.9%, followed by the New Office Zones (Zone 3), at 8.3%.

Investment focus

Following a record year in 2017, with €736 million transacted, office investment activity in 2018 remains very active. In the first half of 2018 10 deals were closed in a total of €524 million. Lagoas Park, a 112,500 sq. m. office park located in Zone 6 (western corridor) sold to Kildare partners, was the largest deal of the year. Note mentioning is AGEAS's plot of land purchase in Parque das Nações for the construction of its 17,400 sq. m. new headquarters in Lisbon.

Outlook

The office market will continue to outperform in 2018, driven by increased levels of confidence and employment growth. The lack of quality space is however affecting activity and large occupiers are increasingly looking to agree pre-lets – a situation not seen since many years. New office supply is falling as competition from residential and hospitality use make office development the less attractive proposition. All of this will lead to an acceleration in rental growth which started in 2016.

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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)
Zone 1 (Prime CBD)	573,527	32,053	5.6%	6,432	14,173	20,000
Zone 2 (CBD)	1,104,037	73,453	6.7%	5,236	13,682	5,624
Zone 3 (New Office Areas)	529,953	44,222	8.3%	8,064	18,753	9,885
Zone 4 (Secondary Office Locations)	443,159	4,051	0.9%	4,275	4,275	0
Zone 5 (Parque das Nações)	360,414	5,627	1.6%	8,296	12,512	0
Zone 6 (Western Corridor)	907,419	135,178	14.9%	7,305	15,005	0
Zone 7 (Non-Consolidated Areas)	740,780	42,820	5.8%	2,914	4,462	4,563
Lisbon (Overall)	4,659,517	337,404	7.2%	42,522	82,862	40,072

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ. M)	TRANSACTION TYPE
Infante Dom Henrique, 342	Zone 5	Teleperformance	8 000	Lease
Lisbon Art Center & Studios	Zone 4	Lisbon Art Center & Studios	4 000	Lease
Beato, 1904	Zone 7	No Office Work	2 001	Lease
Camilo Castelo Branco, 44	Zone 1	Feedzai	1 757	Lease
Espaço Amoreiras	Zone 3	Hipoges	1 638	Lease

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Lagoas Park	Zone 6	Teixeira Duarte / Kildare Partner	n.a.	375
Zen Tower	Zone 5	Oaktree / Merlin Properties	5.50-6.00%	33.3
Expo Finanças	Zone 5	Selecta / Confidential	5.50-6.25%	28-31
Duque de Palmela, 11	Zone 1	Dospuntos / Confidential	4.50-5.50%	17-18

Source: Cushman & Wakefield

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