

# PORTUGAL Office Market Snapshot

Third Quarter | 2018



## MARKET INDICATORS

### Market Outlook

Prime Rents:	Low levels of supply together with increasing demand will continue to boost rental growth.	▼
Prime Yields:	Office prime yield at an all-time low (4.25%) can still decrease slightly by the end of the year.	▲
Supply:	300,000 sq. m of new office space anticipated until 2021, although more than 40% already pre-let.	▼
Demand:	Positive economic background sustains demand growth.	▼

### Prime Office rents – September 2018

LOCATION	€	€	US\$	GROWTH %	
	SQ. M MTH	SQ. M YR	SQ. FT YR	1YR	5YR CAGR
Lisbon (Zone 1)	21.00	252	27.3	7.7	2.6
Lisbon (Zone 2)	17.50	210	22.8	6.1	1.8
Lisbon (Zone 5)	18.00	216	23.4	5.9	3.7
Lisbon (Zone 6)	14.50	174	18.9	11.5	5.7

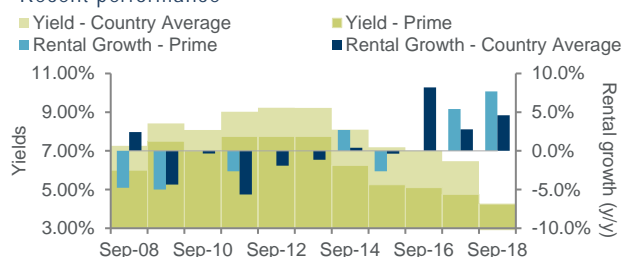
### Prime Office yields – September 2018

LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Lisbon (Zone 1)	4.25	4.50	4.75	7.75	4.25
Lisbon (Zone 2)	5.00	5.50	5.50	8.50	5.00
Lisbon (Zone 5)	5.00	5.25	5.50	8.50	5.00
Lisbon (Zone 6)	6.00	6.50	7.00	10.25	6.00

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

Portugal is experiencing another strong year for the economy in 2018, with GDP growth estimated by Oxford Economics at 2.1%. Domestic demand is the main driver for growth, with private consumption expected to rise 2.3% in 2018. Portuguese exports continue to be among the best performers in Europe, with a forecast of 5.3% growth; and investment, after a record year in 2017, is also pushing the economy, expected to rise by 4.8%. Unemployment rate continues its downward trend, and should stand at 7.2% by year end, against 9% registered in 2017.

## Occupier focus

After a strong performance in 2017 the office occupational market continues in a positive trend in 2018, driven by increased levels of confidence and employment growth. In 2018 a total of 157 occupancy deals were closed until September, involving 133,300 sq. m and representing 18% year-on-year growth.

Zone 6 (Western corridor) had the highest share of take up with 30% of the area. Zone 1 (Prime central business district) and 3 (New office areas) followed in terms of transacted area, with 18% and 16% of take up respectively.

TMT's was the most dynamic sector, responsible for 29% of the transacted area, followed closely by company services with 28%.

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.

Vacancy rate kept its downward trend, standing at 7%. The Western Corridor (Zone 6) has the highest vacancy rate at 14.1%, followed by the New Office Zones (Zone 3), at 7.1%.

## Investment focus

Following a record year in 2017, with €736 million transacted, office investment activity remains very active and should break a new record in 2018. From January to September 16 deals were closed in a total of circa €620 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.

## Outlook

The office market will continue to outperform in 2018, driven by increased levels of confidence and employment growth. Although competition from residential and hospitality use make office development a less attractive proposition, new development is starting to show signs of recovery, yet a large part of supply is already pre-let.

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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)	574,071	36,655	6.4%	9,372	23.657	20.000
Zone 2 (CBD)	1,104,037	70,555	6.4%	3,441	17.123	5.624
Zone 3 (New Office Areas)	529,953	37,474	7.1%	2,393	21.146	9.885
Zone 4 (Secondary Office Locations)	443,159	4,940	1.1%	197	4.472	n.a.
Zone 5 (Parque das Nações)	362,642	6,686	1.8%	1,670	14.247	n.a.
Zone 6 (Western Corridor)	907,419	127,724	14.1%	21,323	40.108	n.a.
Zone 7 (Non-Consolidated Areas)	740,780	42,188	5.7%	8,059	12.521	4,563
<b>Lisbon (Overall)</b>	<b>4,662,061</b>	<b>326,221</b>	<b>7.0%</b>	<b>46,455</b>	<b>133,274</b>	<b>40,072</b>

Source: Cushman & Wakefield; LPI

## Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ. M)	TRANSACTION TYPE
Torre Zenith	Zone 6	Mapfre	3 150	Lease
Barata Salgueiro 33	Zone 1	Willis Towers Watson	2 785	Lease
João Saraiva, 7	Zone 7	Observador	2 280	Lease
Barata Salgueiro 33	Zone 1	Bison	1 632	Lease
Camilo Castelo Branco 44	Zone 1	ITNow	1 388	Lease

Source: Cushman & Wakefield; LPI

## Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Mapfre Building	Zone 1	Mapfre / AM Alpha	n.a.	n.a.
Office 123	Zone 1	North Star / Riva AM	n.a.	12.5

Source: Cushman & Wakefield,

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