

PORTUGAL Office Market Snapshot

Fourth 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%) and should remain stable in the following quarters.	▶
Supply:	250,000 sq. m of new office space anticipated for the next three years	▶
Demand:	Positive economic background sustains demand growth.	▼

Prime Office rents – December 2018

LOCATION	€		US\$	GROWTH %	
	SQ. M MTH	SQ. M YR	SQ. FT YR	1YR	5YR CAGR
Lisbon (Zone 1)	21.00	252	26.7	5.0	2.6
Lisbon (Zone 2)	17.50	210	22.2	2.9	1.8
Lisbon (Zone 5)	18.00	216	22.9	2.9	3.7
Lisbon (Zone 6)	14.50	174	18.4	3.6	5.7

Prime Office yields – December 2018

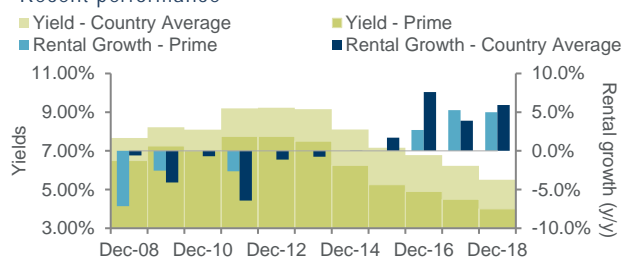
LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Lisbon (Zone 1)	4.00	4.25	4.50	7.75	4.00
Lisbon (Zone 2)	4.75	5.00	5.50	8.50	4.75
Lisbon (Zone 5)	5.00	5.00	5.25	8.50	5.00
Lisbon (Zone 6)	6.00	6.00	7.00	10.25	6.00

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 maintains a positive economic cycle with GDP growth estimated by Oxford Economics at 2.1% in 2018. Domestic demand was the main driver for growth, with private consumption rise estimated at 2.2% in 2018. Exports are also growing at a good pace, with a forecast of 4.1% growth; and investment, after a record year in 2017, is also pushing the economy, expected to rise by 4.3%. Unemployment rate is reducing towards the structural rate and should stand at 7.1% by 2018 year end.

Occupier focus

After a strong performance in 2017 the office occupational market continued in a positive trend in 2018 reflected in the 21% growth year-on-year. In 2018 a total of 224 occupancy deals were closed, involving 202,000 sq.m, driven by increased levels of confidence and employment growth.

Zone 6 (Western corridor) had the highest share of take up with 27.6% of the area. Zone 1 (Prime central business district) and 3 (New office areas) followed in terms of transacted area, with 18.8% and 16.5% of take up respectively.

TMT's was the most dynamic sector, responsible for 34% 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 6.6%. The Western Corridor (Zone 6) had the highest vacancy rate at 13.9%, followed by the New Office Zones (Zone 3), at 6.5%.

Investment focus

In the year of 2018 investment activity recorded an historic volume closing almost at €3 billion. Office investment represented 35% up to €1 billion transacted. A total of 28 office deals were closed, reflecting an average deal of more than €32 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

Office demand will continue its growing trend in 2019, supported by a strong economy, a decreasing unemployment rate and a positive trend in foreign investment. New development projects with completion expected for the next three years are estimated at 250,000 sq.m, a figure that will contribute to sustain market's dynamic.

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LOCATION	BUILT STOCK (SQ. M)	AVAILABILITY (SQ. M)	VACANCY RATE (%)	TAKE-UP QUARTER (SQ. M)	TAKE-UP YTD (SQ. M)	UNDER CONSTRUCTION (SQ. M)
Zone 1 (Prime CBD)	574,071	32,794	5.7%	9,726	33,383	20,000
Zone 2 (CBD)	1,105,085	58,126	5.3%	14,572	31,695	4,576
Zone 3 (New Office Areas)	539,838	34,848	6.5%	9,029	37,954	n.a.
Zone 4 (Secondary Office Locations)	443,159	4,500	1.0%	2,963	7,435	n.a.
Zone 5 (Parque das Nações)	362,642	7,683	2.1%	1,502	15,749	14,777
Zone 6 (Western Corridor)	907,419	125,678	13.9%	13,359	55,839	6,525
Zone 7 (Non-Consolidated Areas)	745,343	43,640	5.9%	6,561	19,931	n.a.
Lisbon (Overall)	4,677,557	307,268	6.6%	57,712	201,986	45,878

Source: Cushman & Wakefield; LPI

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ. M)	TRANSACTION TYPE
Santa Bárbara Building	Zone 7	Lisbon Art Center & Studios	4,500	Lease
Pinta Building	Zone 2	Critical Software	4,100	Lease
Marconi Building	Zone 3	Teleperformance	3,300	Lease
Entrecampos 28	Zone 2	SKY	3,200	Lease
Espaço Sete Rios	Zone 3	Intelcia	3,000	Lease

Source: Cushman & Wakefield; LPI

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Portfolio Ibra	Several locations	JP Morgan / Varde Partners	7.00 - 7.50%	€130-140 M
Torres de Lisboa	Zone 3	ECS / SG Trust Asia – Minus IBB Fund	6.00 - 6.30%	€100-110 M
Green Park Building	Zone 3	CGD / Incus Capital	n.a.	€25 M
Malhoa 22	Zone 3	Oitante / Pryconsa	n.a.	€24 M

Source: Cushman & Wakefield

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