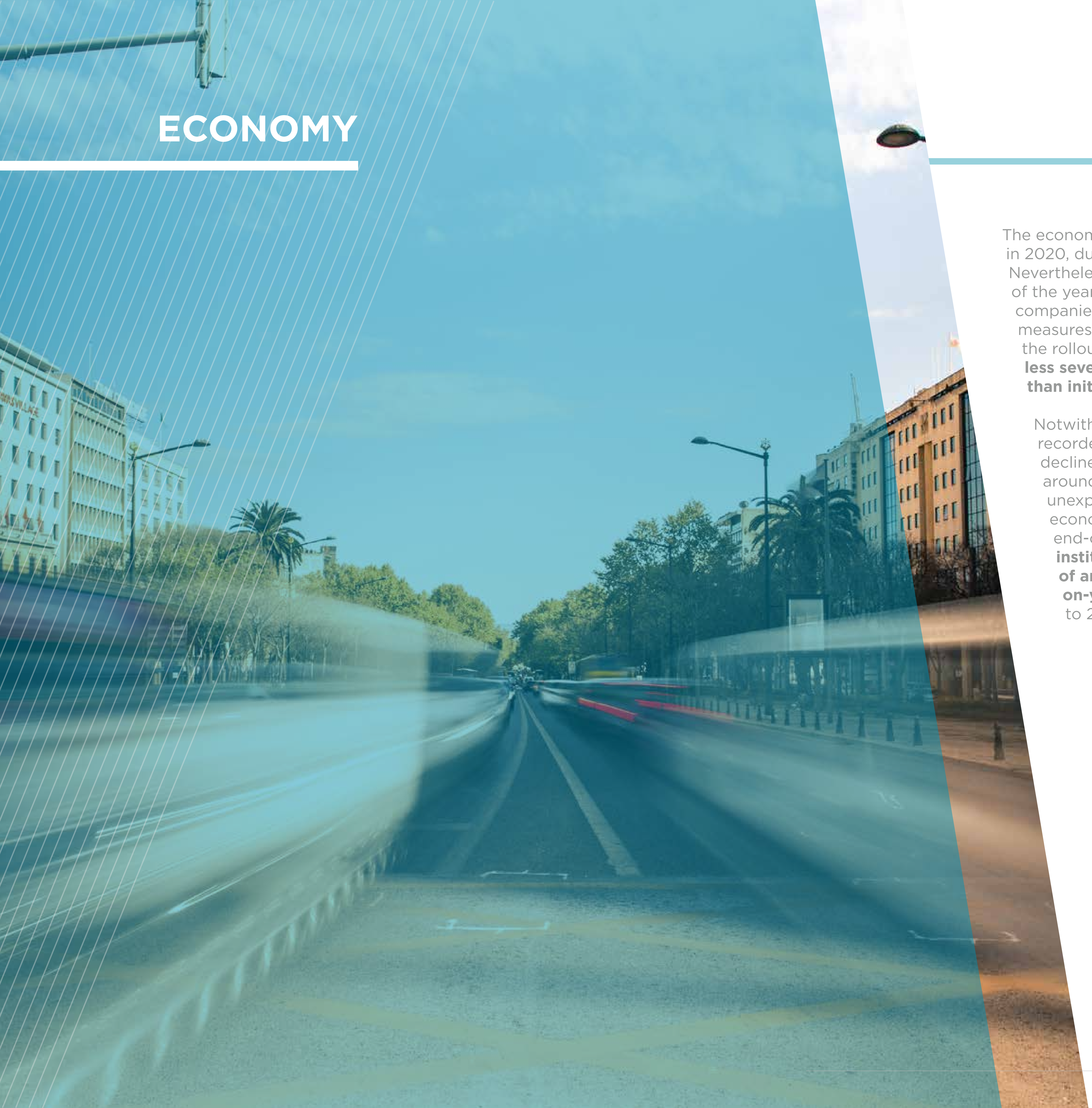
MARKETBEAT
PORTUGAL

SPRING 2021

A Cushman & Wakefield publication

INDEX



ECONOMY

The economic situation in Portugal reversed sharply in 2020, due to the COVID-19 global pandemic. Nevertheless, and despite a very challenging first half of the year, the rapid and effective adjustment by companies and the population to the confinement measures, coupled with a degree of optimism following the rollout of an early vaccination programme, **led to a less severe economic contraction at the end of 2020, than initially predicted.**

Notwithstanding, almost all the world's economies recorded negative growth: the Eurozone saw a decline of 6.8% in its GDP and the US a drop of around 3.0%; China was the exception with an unexpected expansion of over 2.0%. The Portuguese economy performed better than expected based on end-of-year forecasts - **with several international institutions predicting in October a decline in GDP of around 9.0%, and in the end 2020 saw a year-on-year contraction of 7.6%,** representing a return to 2008 levels.

ECONOMIC INDICATORS 2020

GDP
-7.6%

INVESTMENT
-4.9%

INFLATION
0.0%

PRIVATE CONSUMPTION
-5.9%

EXPORTS
-18.6%

UNEMPLOYMENT RATE
6.8%

Source: Moody's Analytics

ECONOMIC INDICATORS 2020

The downturn of the Portuguese economy is explained by the significant reduction in exports, imports and private consumption. The virtually nil activity in the tourism sector for most of the year explains, to a large extent, the 18.6% drop in exports. **After a slight surplus in 2019, Portugal recorded a budget deficit of 7.3% of GDP in 2020, still below the EU average and much below the country's highest historic deficit of around 12.0%, in 2010.** The labour market also performed better than expected, with the unemployment rate remaining at 6.8%.

ECONOMIC FORECATS 2021 / 2022

Moody's outlook suggests a return to growth of 5.0% and 3.8% in 2021 and 2022, respectively. The economic variables expected to recover the most this year are investment, exports and imports. In 2021, there will be an inevitable rise in unemployment, as a result of the end of simplified lay-off measures and the expected bankruptcies, and may reach 7.4% by the year-end.

Despite expectations of recovery in 2021, the economy will face many challenges. **The need for additional financing will contribute to a considerable increase in Portuguese public debt,** which, in line with the European Union's forecasts for 2020, will reach a historic all-time high of 133.7%, the third highest in the EU, which shows an average debt to GDP ratio of 94%. Nonetheless, in 2020, Portugal continued to reduce the cost of external debt, with interest on public debt equivalent to 2.9% of GDP, compared to the European average of 1.6%.

Financing from the private sector could also pose a challenge to the economy. According to the European Banking Authority (EBA), Portugal is the third country in the European Union with the most exposure to credit moratoriums; with a similar pattern emerging regarding the proportion of non-performing loans.

GDP
5.0% / 3.8%

INVESTMENT
10.6% / 17.0%

INFLATION
1.1% / 1.1%

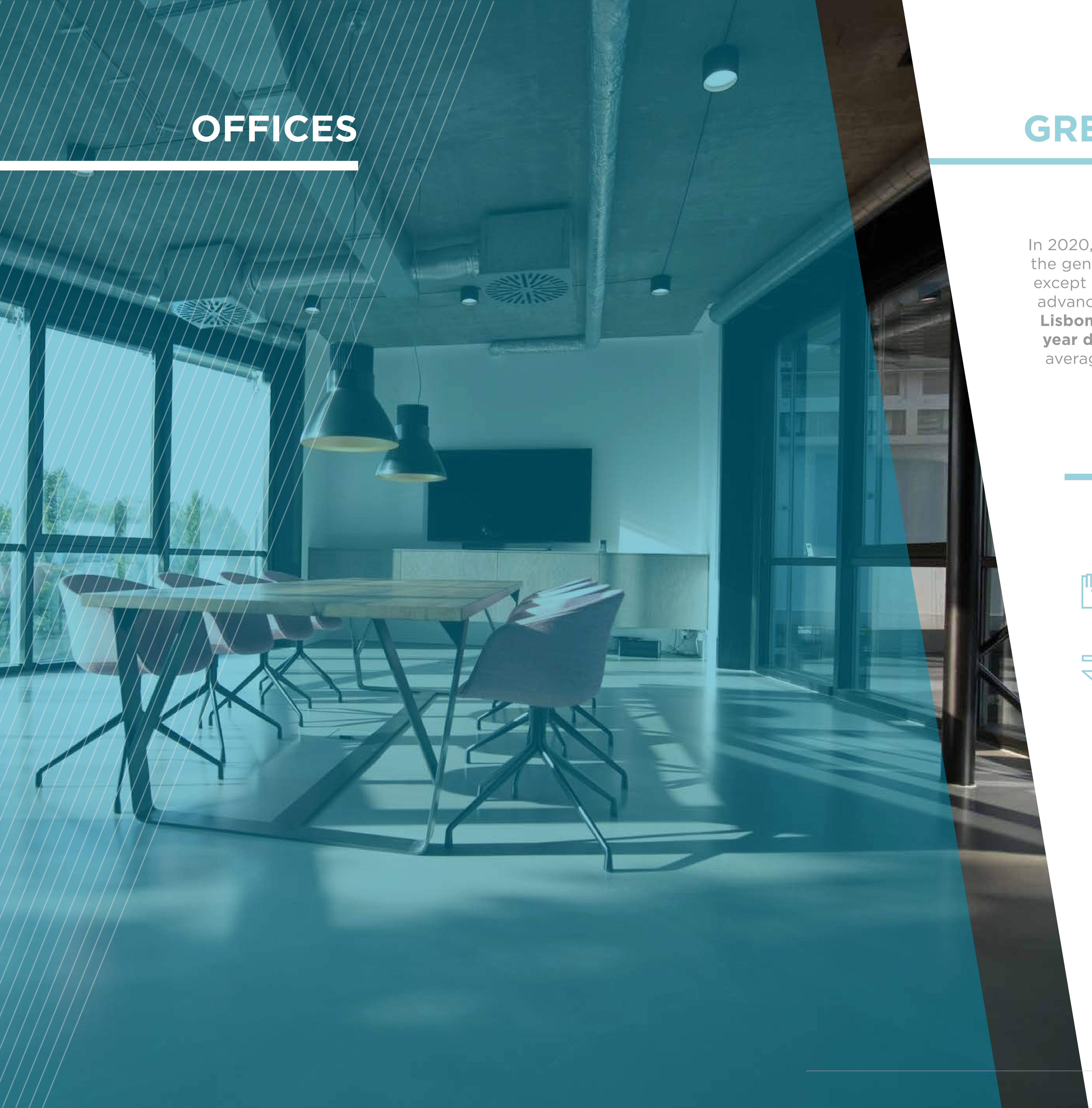
PRIVATE CONSUMPTION
3.6% / 1.0%

EXPORTS
6.9% / 0.7%

UNEMPLOYMENT RATE
7.4% / 6.2%

Source: Moody's Analytics

OFFICES



GREATER LISBON

In 2020, activity in the office market was affected by the general suspension of decision-making processes, except for the completion of leases already at an advanced stage of negotiation. **Take-up in Greater Lisbon reached 137,900 sq.m, reflecting a year-on-year decline of 30%.** With a total of 105 deals, the average leased area was 1,310 sq.m.

137,900 SQ.M (-29%)
TAKE-UP

1,310 SQ.M (+19%)
AVERAGE DEAL SIZE

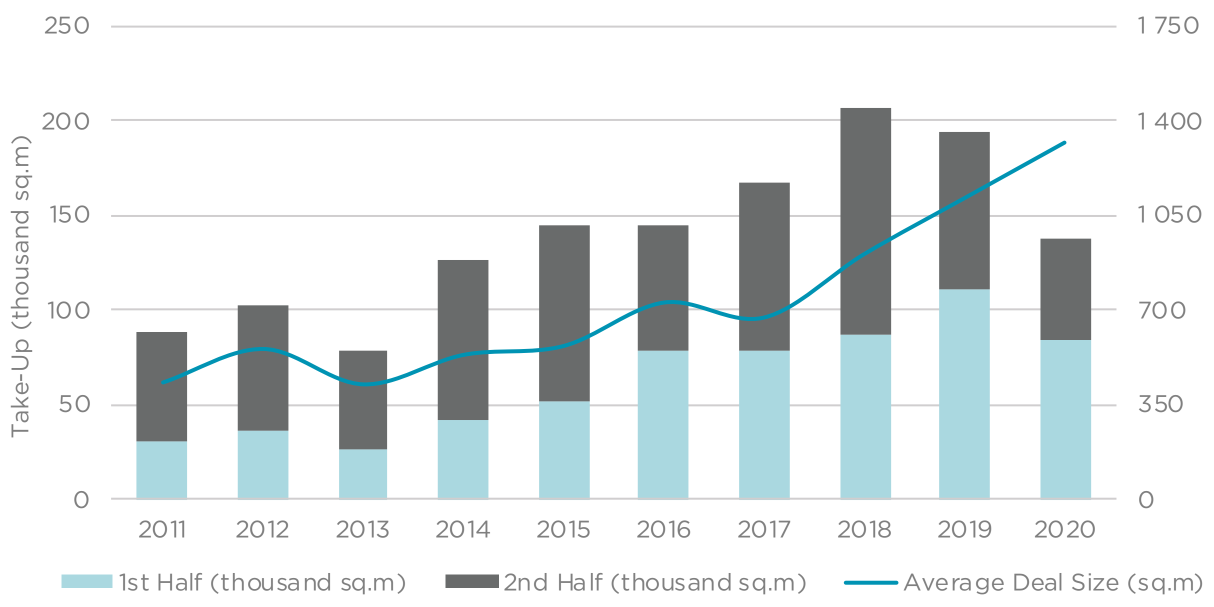
4.9% (+80 P.P.)
VACANCY RATE

34,400 SQ.M
NEW COMPLETIONS

168,200 SQ.M
UNDER CONSTRUCTION

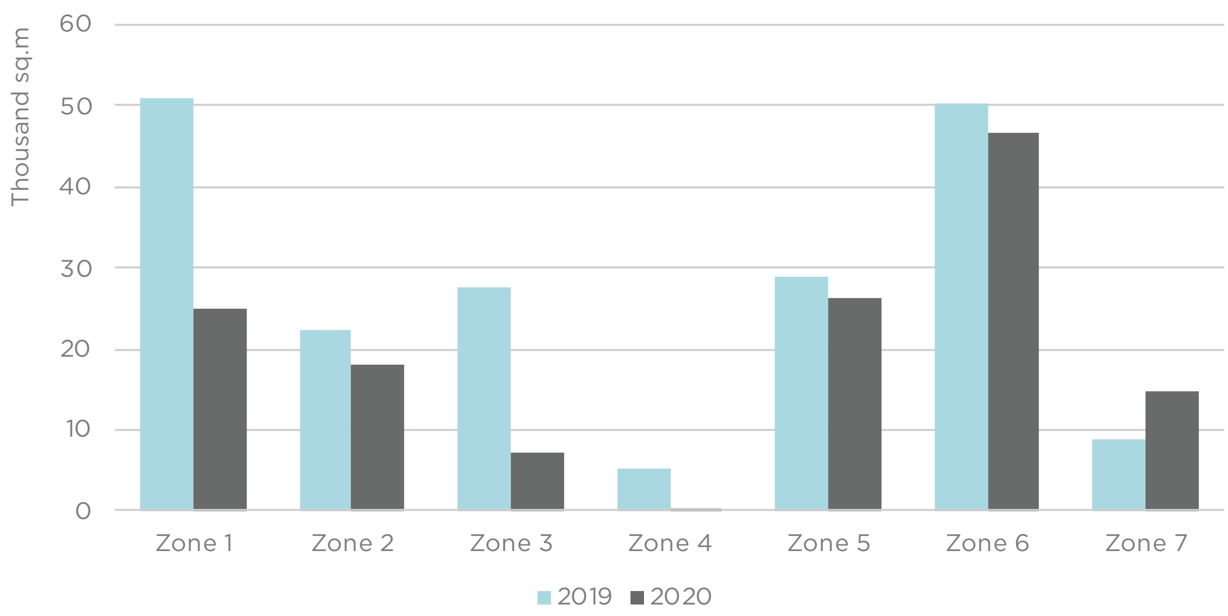
Source: Cushman & Wakefield; LPI

TAKE-UP BY SEMESTER AND AVERAGE DEAL SIZE



Source: Cushman & Wakefield; LPI

TAKE-UP BY ZONE



Source: Cushman & Wakefield; LPI

Amongst the largest deals feature BPI's **pre-lease of 16,440 sq.m in the Monumental Building in Prime CBD (zone 1) and the lease, by an IT company, of 11,400 sq.m in three buildings in Quinta da Fonte in the Western Corridor (zone 6)**, the area which absorbed the highest share of take-up (34%). Zone 7 (Other Zones) was the only area to record an increase in take-up, thanks to the purchase of the 10,400 sq.m Natura Towers by Cofidis for its future headquarters. In this context, the Financial Services sector and the historically predominant TMT's & Utilities sector were each responsible for around 30% of office take-up.

MAIN LEASE DEALS

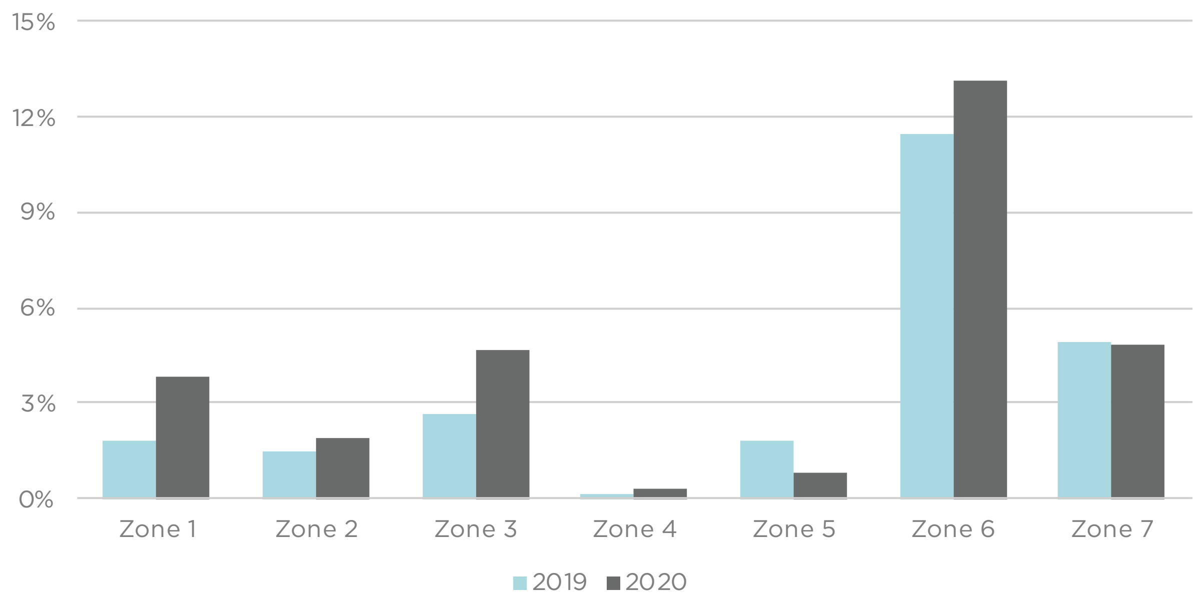
TENANT	BUILDING	ZONE	AREA (sq.m)
BPI	Monumental	1	16 440
Confidential	Quinta da Fonte - Q46, Q51 and Q36	6	11 390
Cofidis	Natura Towers	7	10 410
Confidential	Consiglieri Pedroso, 69	6	6 600
Webhelp	Mediterrâneo, 1	5	6 210
Randstad	Oriente 343	5	6 160
Auchan	Auchan Headquarters	6	6 000
Infosistema	Proletariado, 1	6	5 280
IDEA Spaces	Defensores de Chaves, 4	2	4 580
Majorel	Explorer	5	3 740

Source: Cushman & Wakefield; LPI

Lower demand, along with the completion of 34,400 sq.m of new space (of which only 26% were pre-leased), contributed to an increase in the vacancy rate to 4.9%, which in 2019 stood at a historic low.

Future supply currently faces a greater risk of downward adjustment, particularly due to the potential postponement of some of the pipeline projects. **Currently, 384,700 sq.m of new projects are expected to come into the market over the next three years, although only 168,200 sq.m are under construction (of which 44% already has pre-letting agreements in place or will be for own occupation).** With 34,400 sq.m, the Nova Alcântara project in the Historic areas (zone 4) is the largest project currently under construction, followed by the 29,700 sq.m Lumnia building, the first of the Exeo Office Campus project in Parque das Nações (zone 5).

VACANCY RATE BY ZONE



Source: Cushman & Wakefield

NEW COMPLETIONS

BUILDING	ZONE	DEVELOPER	AREA (sq.m)
Miguel Bombarda 4	2	Avignon	7 500
Malhoa 11	3	Splendimension	6 300
Auchan Headquarters	6	Auchan	6 000
Eurolex	1	Pontegadea	5 800
Alagoa Office & Retail Center - Buildings E2 and E3	6	PV County	6 500
Ritz Galeries	1	Sodim / Ritz	2 300

Source: Cushman & Wakefield

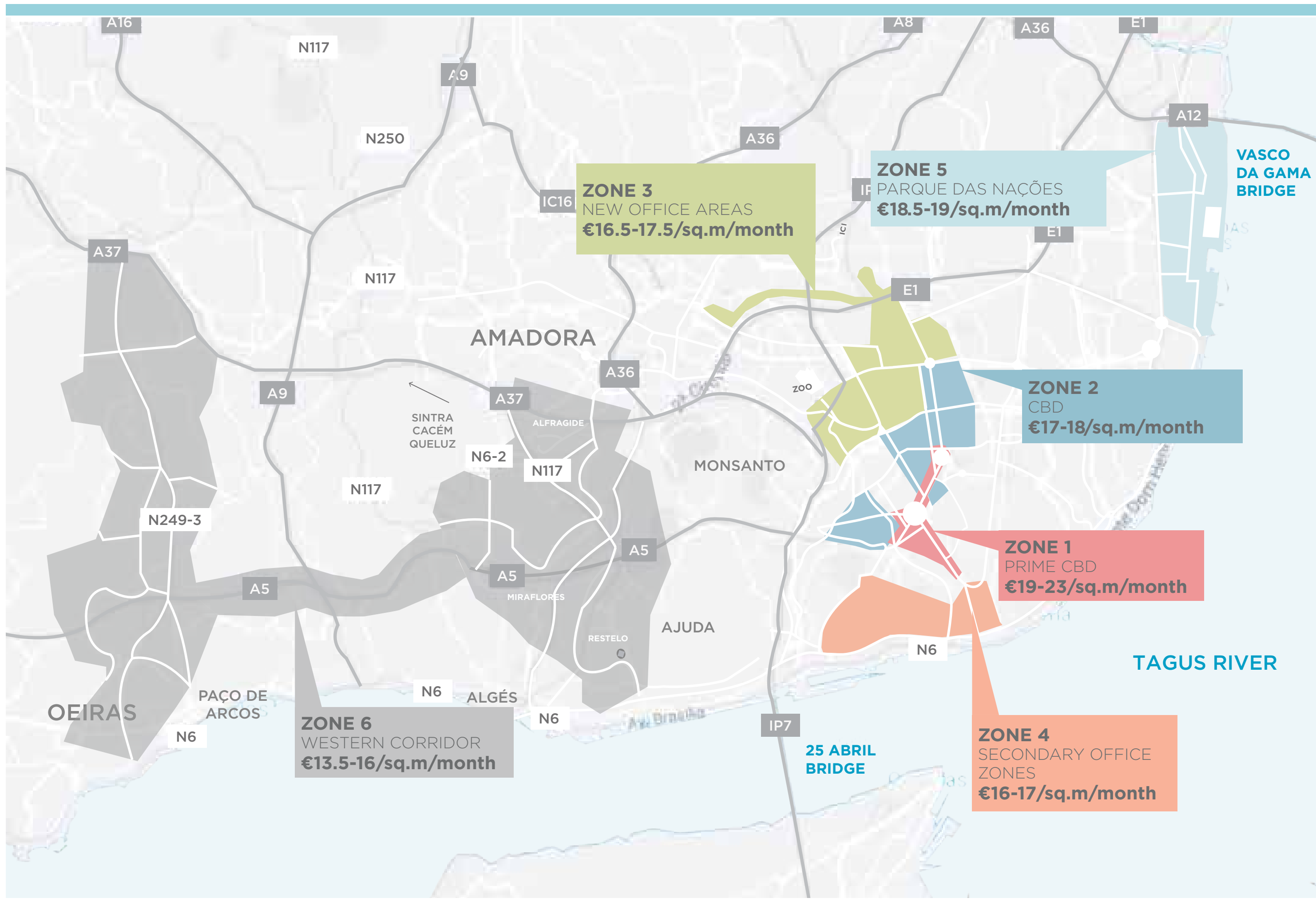
As a result of the decline in demand, landlords have been more inclined to provide additional tenant incentives, particularly through rent-free periods, thereby maintaining headline rental values, which is further supported by the scarcity of quality supply. In this context, prime rents remained at €23.0/sq.m/month in Prime CBD (zone 1).

MAIN DEVELOPMENTS UNDER CONSTRUCTION

BUILDING	ZONE	CONSTRUCTION TYPE	DEVELOPER	EXPECTED COMPLETION DATE	AREA (sq.m)
Exeo Office Campus - Lumnia	5	New	Avenue	2021	29 700
Monumental	1	Refurbishment	Merlin Properties	2021	19 000
Ageas Headquarters	5	New	Elegant Office	2021	17 400
Hub Criativo do Beato	7	Refurbishment	CML / Startup Lisboa	2021	11 000
Nova Alcântara	4	New	Bedrock Capital Partners	2022	34 400
World Trade Center Lisboa	6	New	Foz Vintage	2022	25 000
EDP Headquarters (expansion)	4	New	EDP	2022	11 400

Source: Cushman & Wakefield

GREATER LISBON – AVERAGE AND PRIME RENTS



Source: Cushman & Wakefield

OFFICES

GREATER PORTO

The positive momentum seen in Greater Porto's office sector contributed to a **less pronounced drop in demand, when compared to Lisbon, of -17%, with take-up reaching 53,900 sq.m.** With a total of 50 deals, the average leased area stabilised at 1,080 sq.m.

The main areas of the city of Porto were the most sought-after and featured the largest take-up volume as well as the most prominent deals of the year: Boavista (zone 1) represented a quarter of the demand, as well as the largest transaction - Concentrix's lease of 5,890 sq.m in Porto Office Park (POP); followed by Baixa (zone 2) with 18% of demand where Natixis and a telecoms company leased a total of 8,830 sq.m in the Porto Business Plaza development.

53,900 SQ.M (-17%)
TAKE-UP

1,080 SQ.M (+1%)
AVERAGE DEAL SIZE

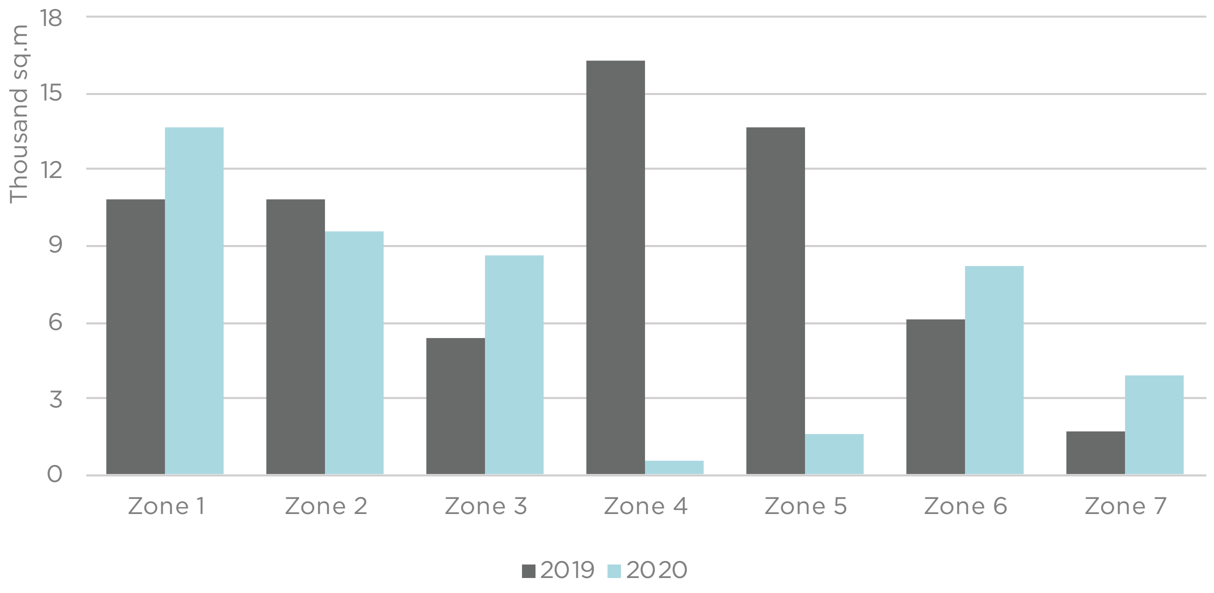
8.0% (+70 P.P.)
VACANCY RATE

58,800 SQ.M
NEW COMPLETIONS

47,600 SQ.M
UNDER CONSTRUCTION

Source: Cushman & Wakefield; PPI

TAKE-UP BY ZONE



Source: Cushman & Wakefield; PPI

MAIN LEASE DEALS

TENANT	BUILDING	ZONE	AREA (sq.m)
Concentrix	Porto Office Park (POP)	1	5 890
Natixis	Porto Business Plaza	2	4 420
Confidential	Porto Business Plaza	2	4 410
Founders Founders	Founders Founders Campanhã	3	4 000
Sitel	Heroísmo, 285	3	3 600

Source: Cushman & Wakefield; PPI

Throughout 2020, six buildings with a total of 58,800 sq.m were completed, of which only 30% are available, demonstrating the shortage of quality office space. This should be compensated by the future supply, which for the next three years totals 76,500 sq.m, of which 47,600 sq.m are under construction (and 60% already pre-leased). Among the buildings under construction, are Porto Business Plaza by SDC Investimentos, totalling 15,500 sq.m; and Civilria's ICON Offices with 15,300 sq.m in two buildings, one of which, with 7,800 sq.m, will become Ageas' future headquarters in Porto.

In Porto, as in Lisbon, stronger incentives helped to maintain gross rent, when compared to 2019, with the prime rent in Porto - Boavista (zone 1) standing at €18/sq.m/month.

NEW COMPLETIONS

BUILDING	ZONE	DEVELOPER	AREA (sq.m)
Porto Office Park	1	Violas Group	28 700
Palácio dos Correios	2	GFH	13 600
Heroísmo 285	2	Geo Investimentos	6 200
Business Park Maia	5	Talent Mood	4 500
Nelson Quintas Project	4	Nelson Quintas Group	3 300
Mercadona Headquarters	7	Mercadona	2 500

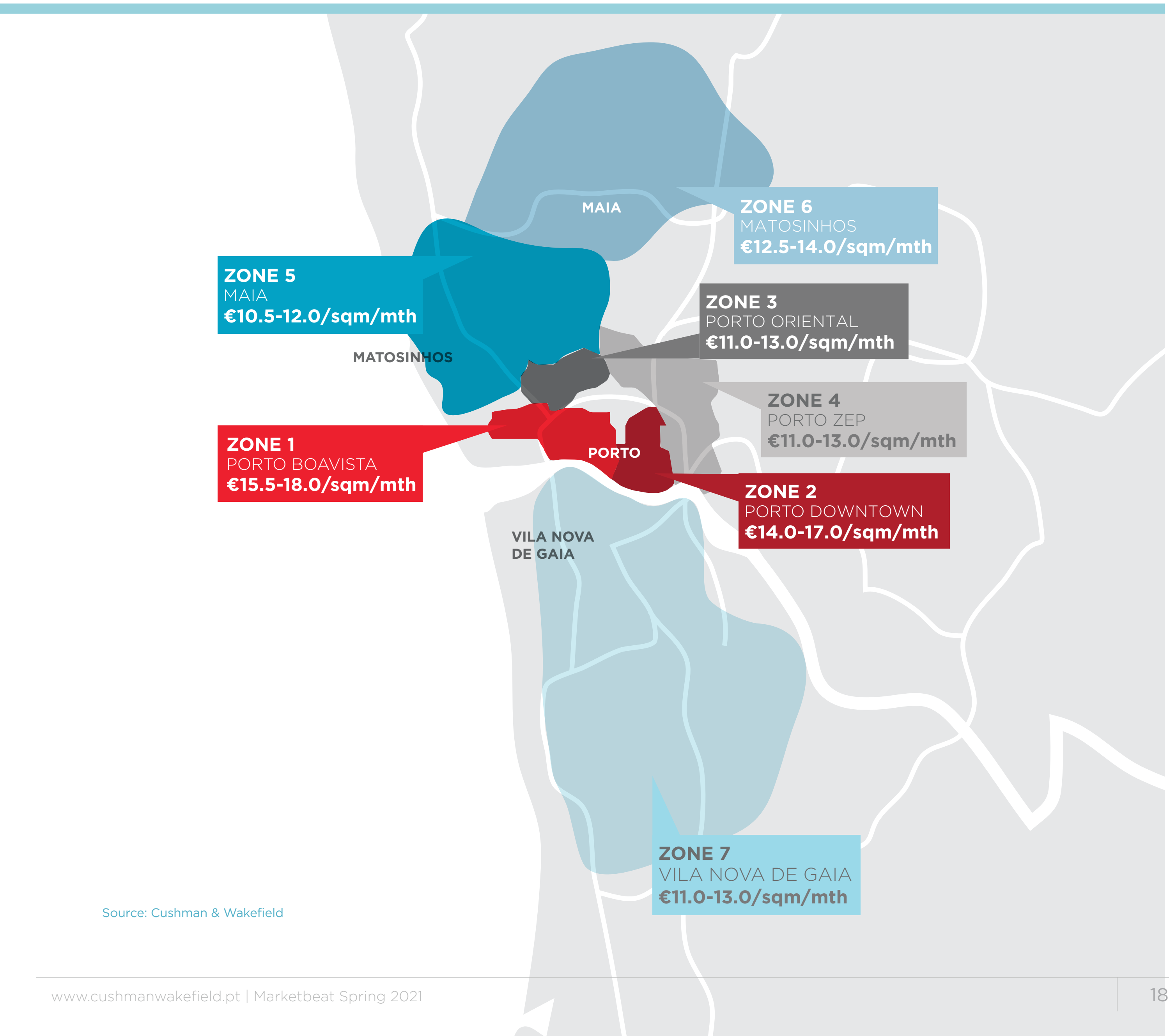
Source: Cushman & Wakefield

MAIN DEVELOPMENTS UNDER CONSTRUCTION

BUILDING	ZONE	CONSTRUCTION TYPE	DEVELOPER	EXPECTED COMPLETION DATE	AREA (sq.m)
Porto Business Plaza	3	Refurbishment	SDC Investimentos	2021	15 500
ICON Offices	4	Refurbishment	Civilria	2021/2022	15 300
Rua Delfim Ferreira	4	Refurbishment	Carlos Sottomayor	2021	8 100

Source: Cushman & Wakefield

GREATER PORTO - AVERAGE AND PRIME RENTS



Source: Cushman & Wakefield

OUTLOOK

The current economic crisis, and the consequent reduction of corporate activity, will continue to depress underlying demand for offices throughout 2021. It is estimated that the take-up volume in both cities will be similar to those in 2020, **with a rebound expected from 2022 onwards, as economic recovery stabilises.**

A cautious approach to demand also results from the prevailing uncertainty about the real impact of the working from home paradigm. **The implementation of a hybrid model seems most likely, leading to the extension of the workplace to various physical spaces**, varying according to the occupier's specific sector of activity. An increase in hotdesking and common areas in the workplace is expected, with a focus on the well-being of employees and on maintaining/building a corporate culture. In this context, thanks to its flexible model, the concept of coworking could potentially see renewed interest, from start-ups to more traditional occupiers which invest in offering a diverse range of workspaces to their employees.

Developers' cautious attitude towards speculative development, coupled with the scarcity of quality supply and low vacancy rates, should bode well for the offices currently under construction, a large part of which already has pre-leases in place.

Under these circumstances and given landlords' preference to maintain headline rents, but grant more generous tenant incentives, prime rents are expected to show some resilience, although average rent in areas with higher vacancy may see a downward adjustment.

RETAIL

The retail sector was heavily affected by the trading restrictions applied throughout 2020, resulting in a year-on-year drop of 2.4% in sales as published by the National Institute of Statistics (INE). Similar to previous periods of economic crisis, and despite the increased resilience of the food retail sector (+1.8%), the drop in non-food retail (-6.6%) contributed to the overall decline. According to the Portuguese Association of Shopping Centres (APCC), this industry, where even stricter opening rules were enforced, saw a year-on-year drop in sales of 34%.

RETAIL SALES INDEX[1]

114
(-2.4%)
TOTAL

115
(+1.8%)
FOOD RETAIL

113
(-6.6%)
NON-FOOD RETAIL

RETAIL SCHEMES

50,700 SQ.M
NEW COMPLETIONS

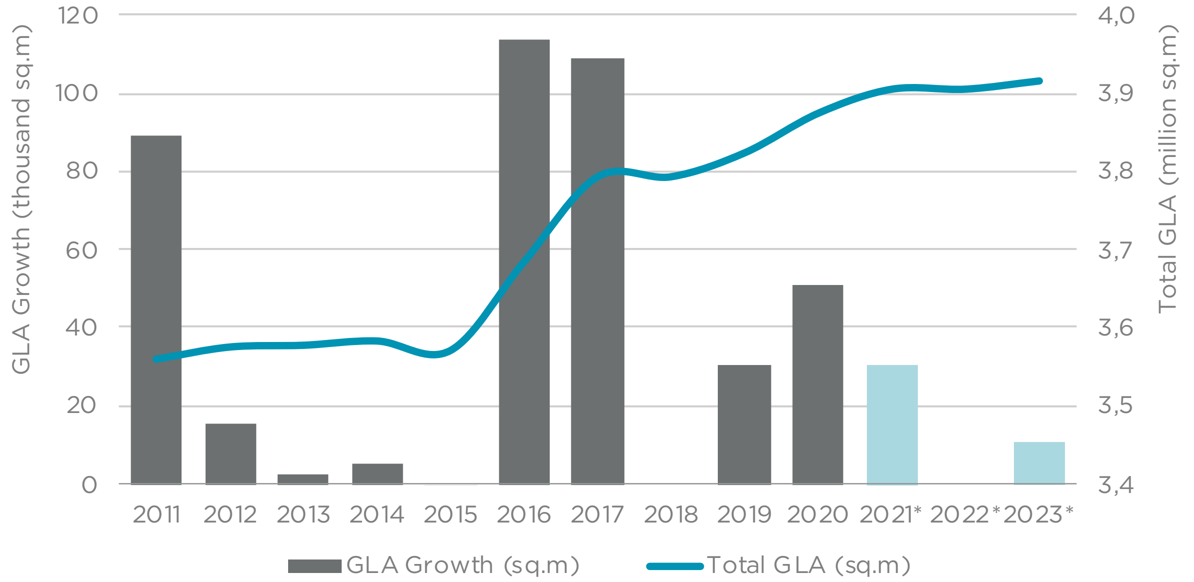
41,200 SQ.M
PIPELINE[2]

(1) Base index 2015 = 100.
(2) Next 3 years.

SUPPLY OF RETAIL SCHEMES

To improve sales and convey confidence to consumers, retailers were forced to adjust their operations, **investing in a more personalised omnichannel offer, with much greater focus on e-commerce.** According to estimates[3] from the Digital Economy Association (ACEPI), e-commerce recorded an increase of 21% in sales directly to the end consumer[4] in 2020, totalling €7,400 million.

In 2020, 50,700 sq.m of Gross Lettable Area (GLA) were added to the existing supply, including the opening of Lisboa Park and the completion of the renovation and expansion of NorteShopping (including Galleria, the new luxury retail area). The future supply of 41,200 sq.m reflects an increased focus on the retail park format, responsible for 41% of this area, combined with the modernisation of existing centres, specifically, the ongoing expansion of Glicínias Plaza and that of Centro Colombo foreseen for 2023.



Source: Cushman & Wakefield
*Forecast

In 2020, retail take-up recorded by Cushman and Wakefield's[5] proprietary database, merely registered 470 new openings, a significant decline of 45% when compared to the previous year, with a combined area of 166,500 sq.m. Nevertheless, and reflecting the trend of the last few years, high street retail stood out, representing 63% of the leases, followed by shopping centres with 21%. The Food & Beverage (F&B) sector remained dominant, with 53% of new leases, followed by the food sector with 14%. **In line with increased household spending on food, retailers in this sector were the most active this year**, most notably Mercadona whose expansion plan resulted in 10 new openings, doubling the number of stores in Portugal. This food operator plans to open 9 additional units in the north of the country in 2021.

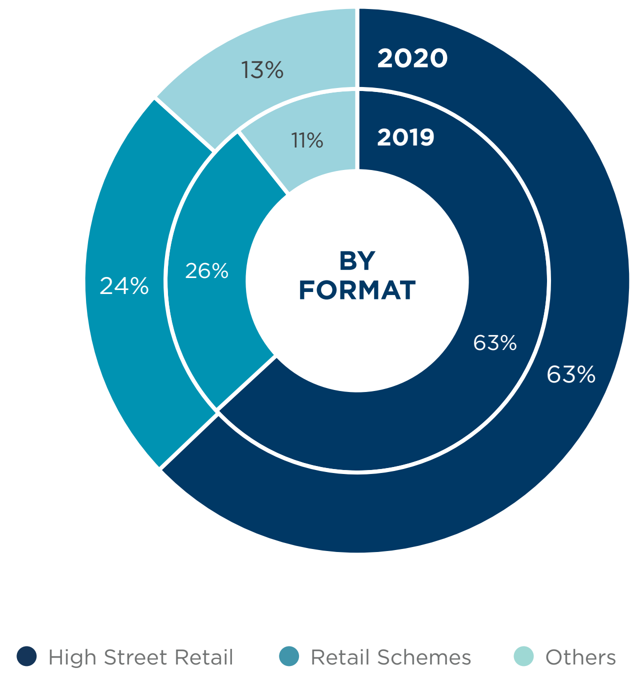
(3) "A study entitled, "The Digital Economy and Society in Portugal", developed in partnership with the International Data Corporation (IDC).
(4) Business to Consumer (B2C).
(5) A propriety database, held and permanently updated by Cushman and Wakefield of retail leases occurring in shopping centres and the main high streets of Portugal, based on public sources and targeted field work.

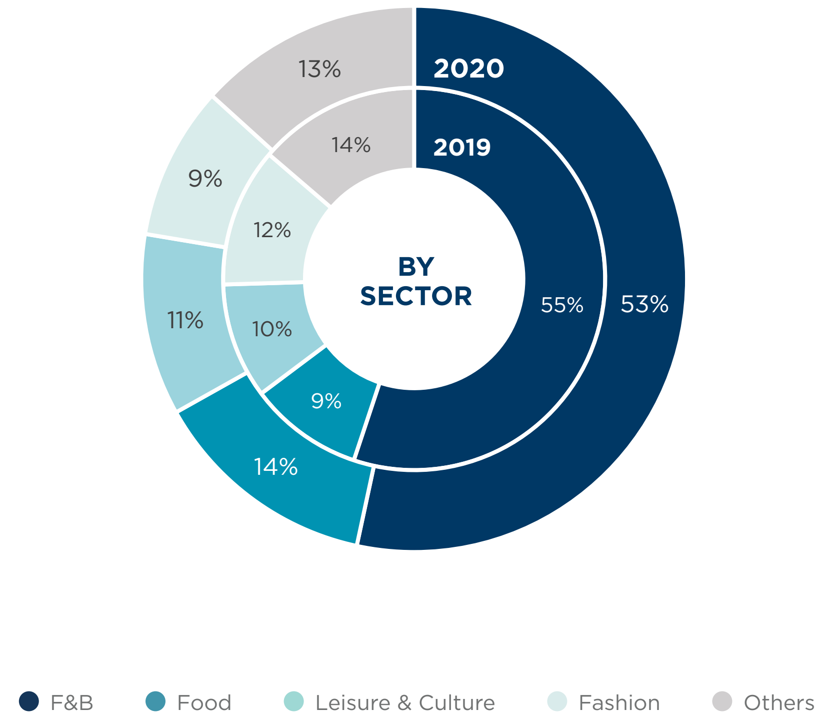
470 (-45%)
NEW OPENINGS

63%
HIGH STREET RETAIL

53%
F&B

TAKE-UP (NR. OF NEW OPENINGS)





Source: Cushman & Wakefield

LISBON

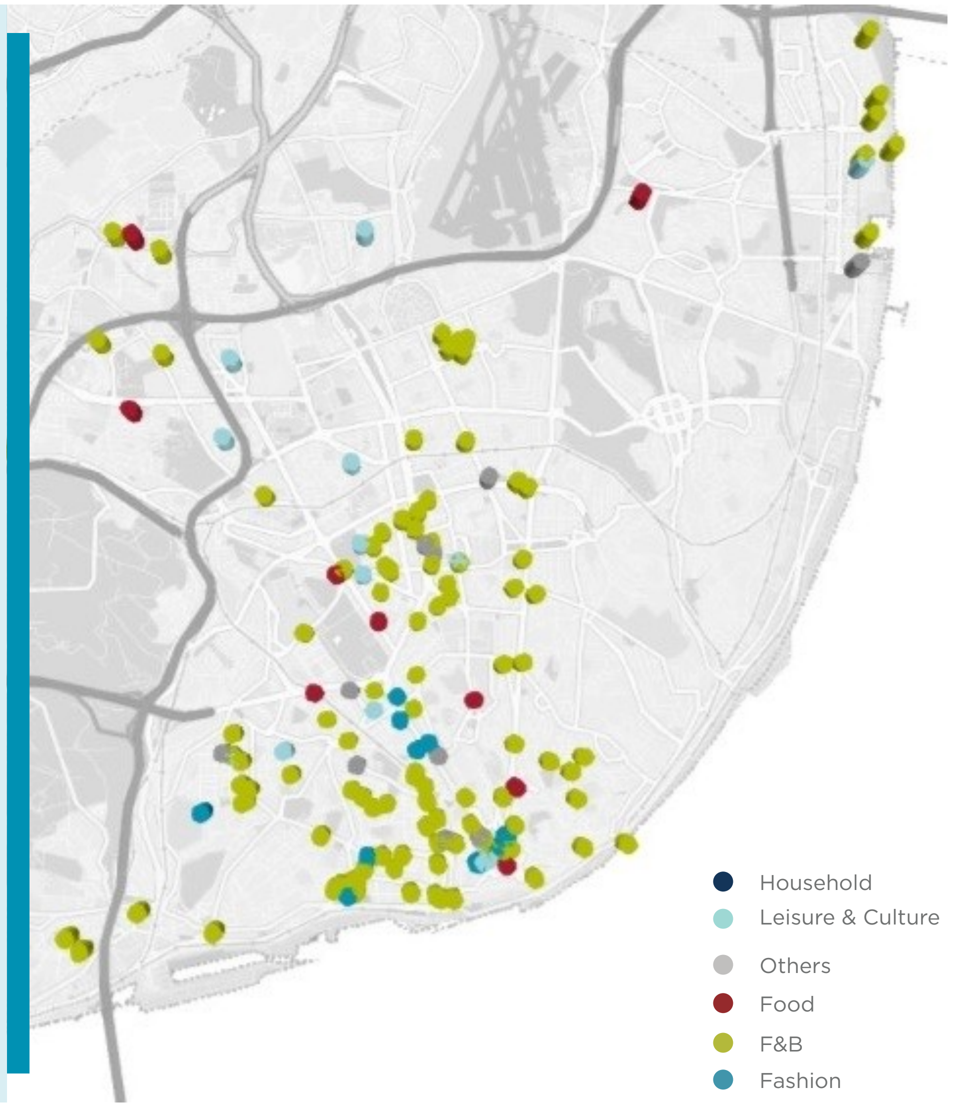
43% of the new shop openings in Portugal took place in the city of Lisbon, predominantly in the high street. Highly dependent on tourism, this segment has been particularly affected by the crisis and experienced an increase in the vacancy rate in zones such as Baixa (Downtown), from 10% in 2019 to 12% by the end of 2020.

Despite this context, Avenida da Liberdade saw some interest of renowned international brands, as evidenced by the opening of their first store in Portugal by Dolce & Gabbana and DSquared2, as well as the relocation along the Avenida of Rosa Clará and Loewe. Additionally, Avenidas Novas continued to command the most activity, with around 30 new openings, including a Continente Bom Dia store, the largest new opening in the city.

200 **(-46%)**
NEW OPENINGS

90%
HIGH STREET RETAIL

73%
F&B



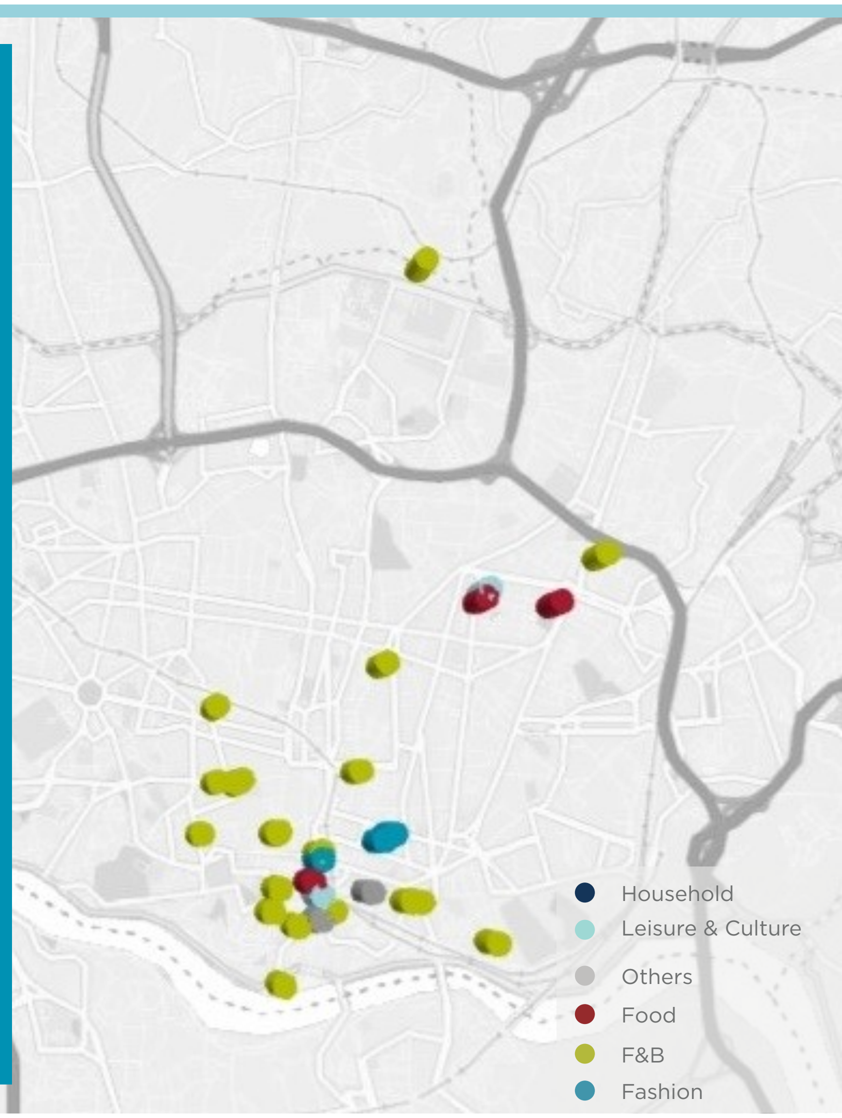
Source: Cushman & Wakefield

PORTO

40 **(-63%)**
NEW OPENINGS

88%
HIGH STREET RETAIL

60%
F&B



Source: Cushman & Wakefield

The city of Porto recorded the second largest number of openings in Portugal, albeit with only little over 40 new stores, again mostly on the high street. Baixa remains the most sought-after with 27% of the new supply, with Avenida dos Aliados welcoming the first units in the north of the country by Burberry and restaurant Yakuza.

Additionally, Foz do Douro, an area that has become increasingly popular among operators, also saw some new openings such as the concept store The Feeting Room, and Habitat, the new restaurant concept by the Reitoria group.

PRIME RENTS

The retail sector has been strongly impacted by the exceptional measures that were in place during 2020, namely, the suspension of fixed rent payments in shopping centres until December, recently clarified as being retroactive to mid-March 2020; and the moratorium on rental payments allowing retailers who were forced to close their stores, to postpone rent due up to September, to be repaid in a maximum of 24 monthly instalments by December 2022.

Furthermore, **some landlords have been able to negotiate repayment plans directly with their tenants**, reaching agreements on the reduction of rent, and, in the case of new contracts, providing incentives, namely rent-free periods or deferred rent payments.

Within this context, prime rents showed some resilience, with a slight downwards correction, with gross headline rent in the high street standing at €125/sq.m/month in Lisbon (Chiado) and €72.5 sq.m/month in Porto (Baixa) at the end of the year; and €102.5/sq.m/month in shopping centres. Retail parks were the exception, with an increase of 5% at the beginning of the year, to €11/sq.m/month.

FORMAT	LOCATION	PRIME RENTS (€/sq.m/month)
High Street Retail	**Lisbon** Chiado	€125.0
	Lisbon Baixa	€115.0
	Lisbon Av. Liberdade	€92.5
	Porto Baixa	€72.5
	Porto Av. Aliados	€52.5
	Porto Clérigos	€42.5
Shopping Centres	**Portugal**	€102.5
Retail Parks	**Portugal**	€11.0

Source: Cushman & Wakefield

OUTLOOK

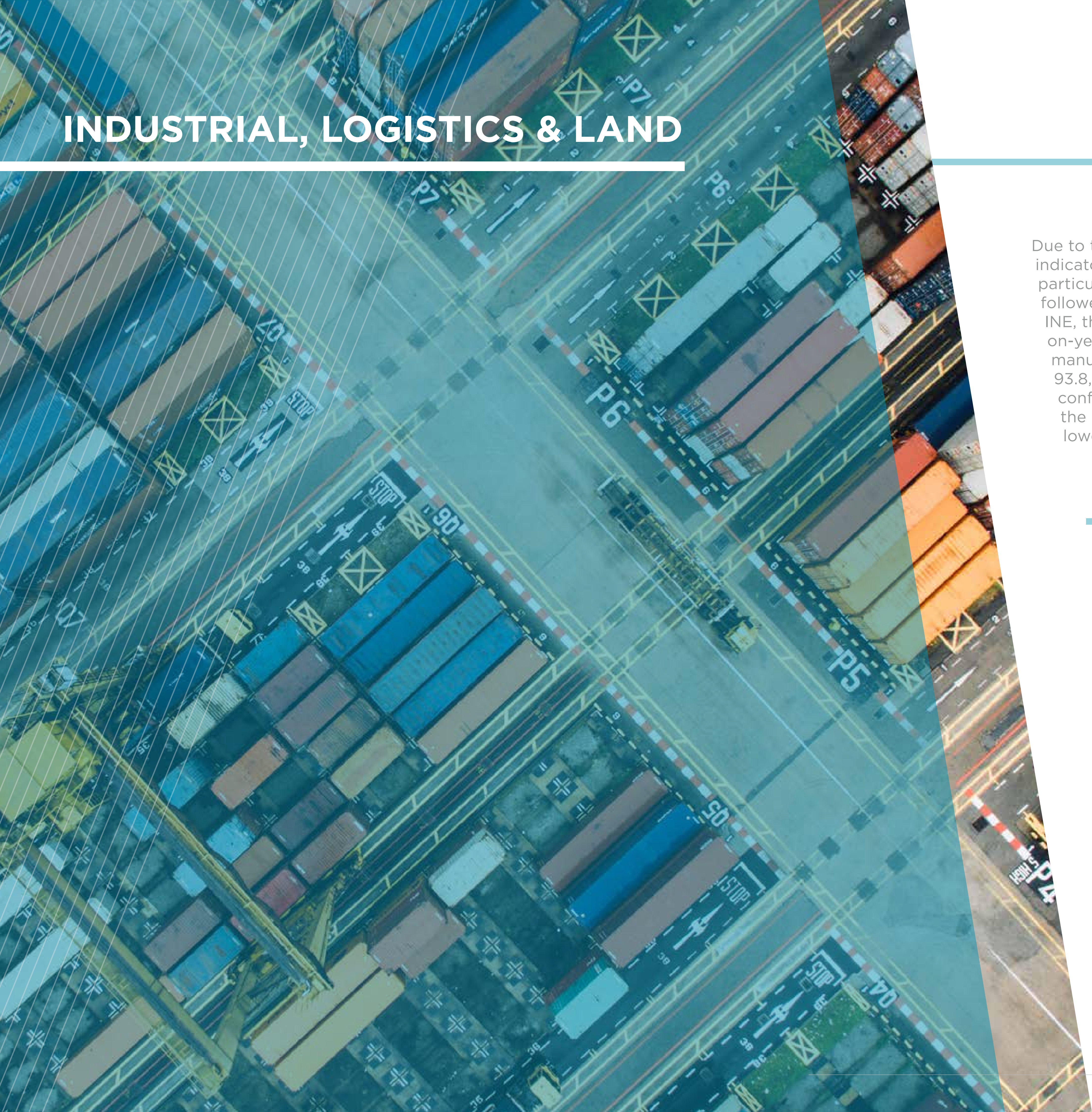
Expectations for the retail sector are affected by the uncertainty regarding the real long-term effect of the accelerated growth of e-commerce on the sales in physical stores, as well as the considerable financial effort currently required of retailers, many of whom are likely to remain in need of support for an extended period of time, notwithstanding the support mechanisms already implemented in 2021.

The sector is expected to see an asymmetric recovery among its various segments and sectors, with the less relevant shopping centres facing greater difficulties, to the point where smaller and more peripheral spaces may require a change in use in the future. Furthermore, comparison shopping retailers such as fashion, may experience a slower recovery, with some chains already announcing their intention to close specific stores, as a means of optimising their portfolios.

Hence, the vacancy rate in the high street is expected to continue its slight upward trend, despite the foreseeable gradual increase in demand, particularly in the centre of Lisbon, where the slow licensing procedures have added to the delayed opening of several stores. Rents are expected to remain under downward pressure, with landlords more willing to concede tenant incentives.

However, on the one hand, there is a feeling of confidence in the future, based on a return to a degree of normality and the generalised desire of consumers to resume their spending habits, which are also expected to demonstrate a preference for local and convenience retail. On the other hand, **the return to offices and the subsequent recovery of the tourism sector will play a fundamental role in increasing consumption.**

INDUSTRIAL, LOGISTICS & LAND



Due to the prevailing pandemic environment, the main indicators of the industrial and logistics market were particularly affected during the first half of 2020, followed by a recovery in the second half. According to INE, the export and import of goods[6] recorded a year-on-year drop of 8.9% and 12.6%, respectively. In terms of manufacturing, the Industrial Production Index[7] stood at 93.8, a decline of 8.4% compared to 2019; Operators'[8] confidence did not follow the recovery trend during the second semester and the year closed at its second lowest value of the last decade (-15.8).

-8.9%
EXPORTS

-12.6%
IMPORTS

335,300 SQ.M (+108%)
TAKE-UP

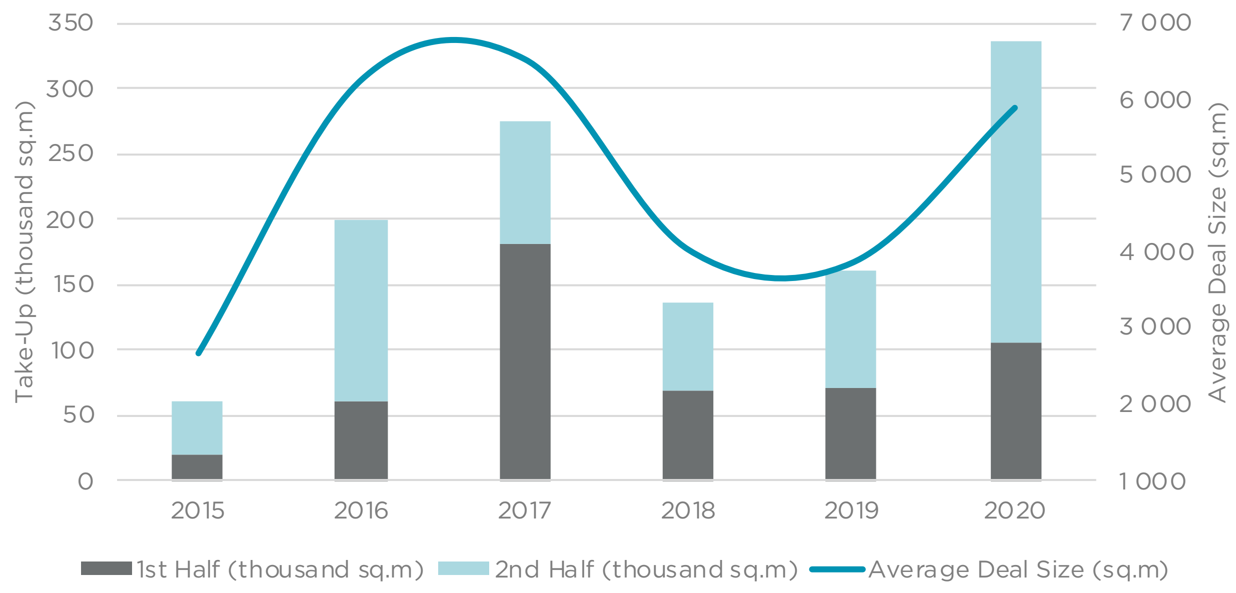
Source: Cushman & Wakefield; Consultants' pool

(6) Excluding fuel and lubricants.
(7) Data is adjusted to accommodate calendar and seasonal effects, at constant prices based on 2015.
(8) Data is adjusted to accommodate seasonality using 3-month moving averages.

Activity in the occupational market however registered a positive performance throughout the year. E-commerce, which according to estimates by ACEPI/IDC saw an increase in total sales[9] of 11.0% to €110,600 million, contributed to increasing demand for adequate logistics facilities. **In this context, during 2020, a total of 335,300 sq.m was transacted, more than double that of the previous year.**

With close to 60 deals, the average leased area increased to 5,900 sq.m, influenced by the completion of several projects for owner occupation, which absorbed over 60% of the total take-up volume. Among these notable examples are two food retailers, namely, Lidl's new logistics warehouse in Santo Tirso's Industrial park spanning 48,000 sq.m and Sonae MC's expansion of its facilities in Azambuja with an additional 29,000 sq.m.

TAKE-UP BY SEMESTER AND AVERAGE DEAL SIZE



Source: Cushman & Wakefield; Consultants' pool

[9] Business to Consumer (B2C) and Business to Business (B2B).

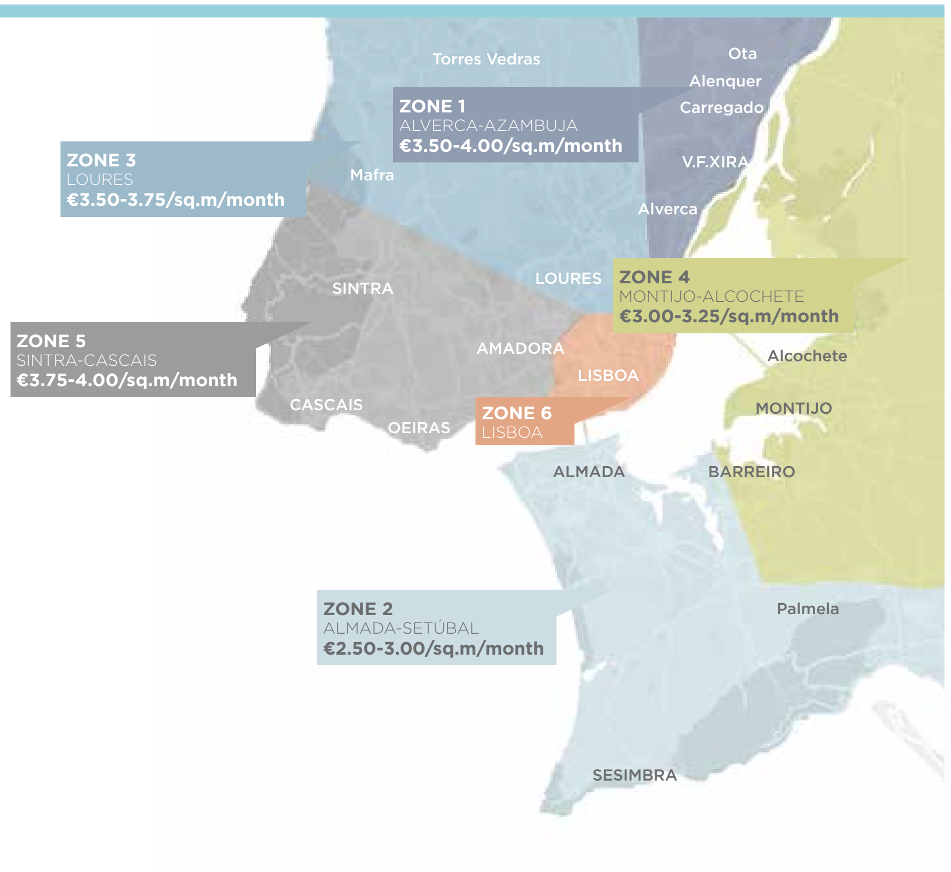
The renewed dynamism of the sector, along with a shortage of quality supply, has sparked the renovation of existing projects to adapt to the needs of current demand, in addition to the development of new projects. Amongst the latter, food retail will remain active, as evidenced by ALDI's future 50,000 sq.m logistics platform, currently under construction in Alhos Vedros (Moita), for completion by 2022. In the logistics and transport sector, Torrestir plans to invest €35 million in the construction of a new logistics terminal in Vilaça (Braga) totalling 27,000 sq.m.

The increase in latent demand also continues to drive speculative development, with the recent completion of Merlin Properties first 45, 000 sq.m warehouse in its Northern Lisbon Logistics Platform. This project, which has attracted the interest of several operators, is located in Castanheira do Ribatejo (Vila Franca de Xira) and will eventually total 225,000 sq.m. Belgian developer VGP secured Radio Popular's occupancy of 30,000 sq.m in VGP Park Santa Maria da Feira and intends to develop VGP Park Sintra with 13,000 sq.m, with these projects expected to be completed in 2021 and 2022, respectively. Finally, Aquilla Capital, through Green Logistics, is developing a new logistics park spanning 115,000 sq.m in Azambuja and also has a second project planned in the Greater Porto area.

In manufacturing, the first major development of the so-called Arco Ribeirinho Sul (Lisbon South Bay) project will be completed in 2021, with the start on site of pharmaceutical company Hovione's new factory, on a 40-hectare plot in Seixal. In Central Portugal, the livestock group Lusiaves is planning to install a 12-hectare industrial unit next to Guia's Industrial zone (Pombal), and in Santo Tirso, Stelia Aerospace (Airbus Group), manufacturer of aerostructures and airplane seats, is building a 72,000 sq.m unit.

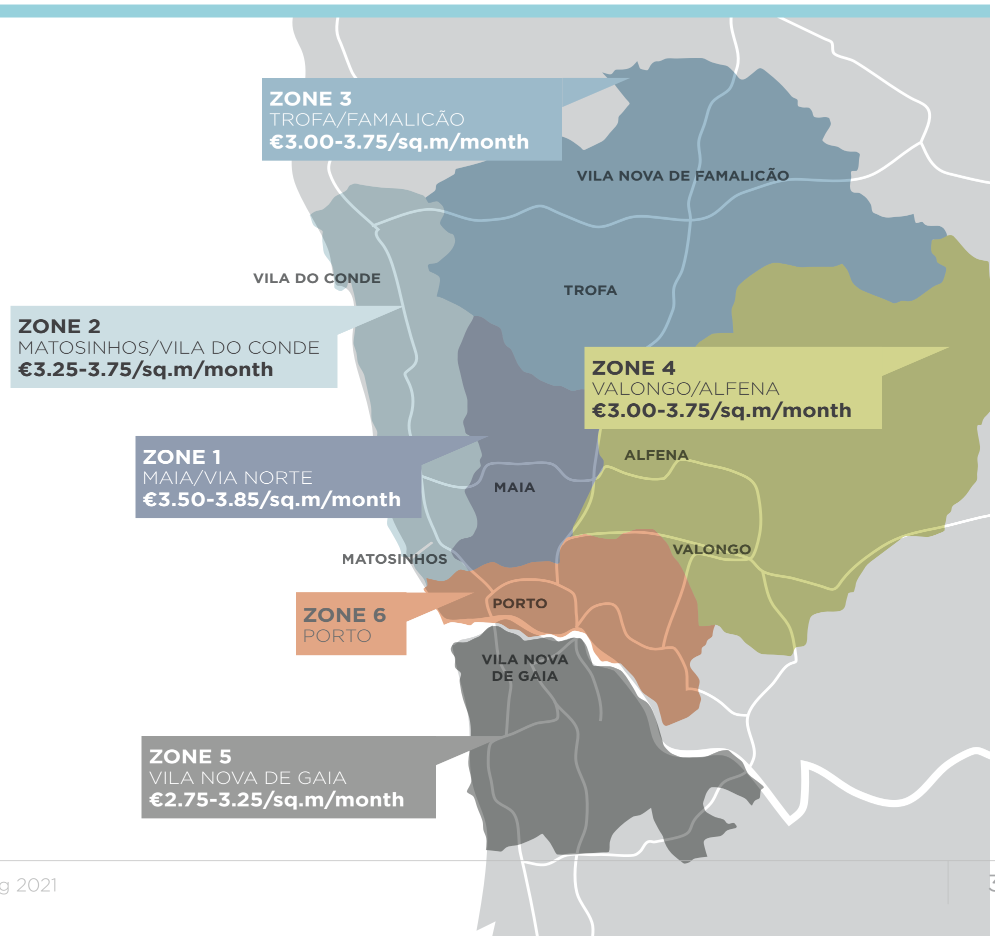
In the current circumstances, prime rents for logistics supply have remained stable, with Zone 1 rents standing at €4.00/sq.m/month in Lisbon (Alverca - Azambuja) and at €3.85/sq.m/month in Porto (Maia - Via Norte).

GREATER LISBON – AVERAGE AND PRIME RENTS



URBAN LOGISTICS
(LAST MILE)
€6-7/SQ.M/MONTH
LISBON

GREATER PORTO – AVERAGE AND PRIME RENTS



URBAN LOGISTICS
(LAST MILE)
€5-6/SQ.M/MONTH
PORTO

Source: Cushman & Wakefield

OUTLOOK

The impact of the current momentum of e-commerce's in Portugal will continue to foster latent demand, particularly for logistics spaces in Lisbon and Porto's metropolitan areas as well as last mile distribution platforms closer to the urban centres of these cities. Additionally, in line with the trend in other countries, the supply of self-storage units will continue to increase.

In this context, **we will continue to see speculative development as well as new market players,** exemplified by US developer Panattoni, who intends to invest €190 million in 16 projects across the Iberian Peninsula by 2023, including two new logistics hubs in the Lisbon region. Prime rent should reflect this heightened activity and record a gradual increase over the coming years.

As a result, and also considering the high investor demand, we expect the sector to become increasingly less owner-occupied, and hence increasing the **competitiveness and attraction of the Portuguese logistics market.**

HOSPITALITY

Severely hit by the crisis, the hospitality sector strived hard to reinvent itself, adapting its different services to current circumstances **but despite these efforts, overnight stays in hotels decreased by 65% in 2020, to 20.6 million, corresponding to a little over 8 million guests.**

8.0 MILLION
(-63%)
TOURISTS

20.6 MILLION
(-65%)
OVERNIGHT STAYS

€1,235 MILLION
(-67%)
TOTAL REVENUES

€24.5
(-56%)
REVPAR

25.6%
(-40 P.P.)
OCCUPANCY RATE

Source: INE; Turismo de Portugal

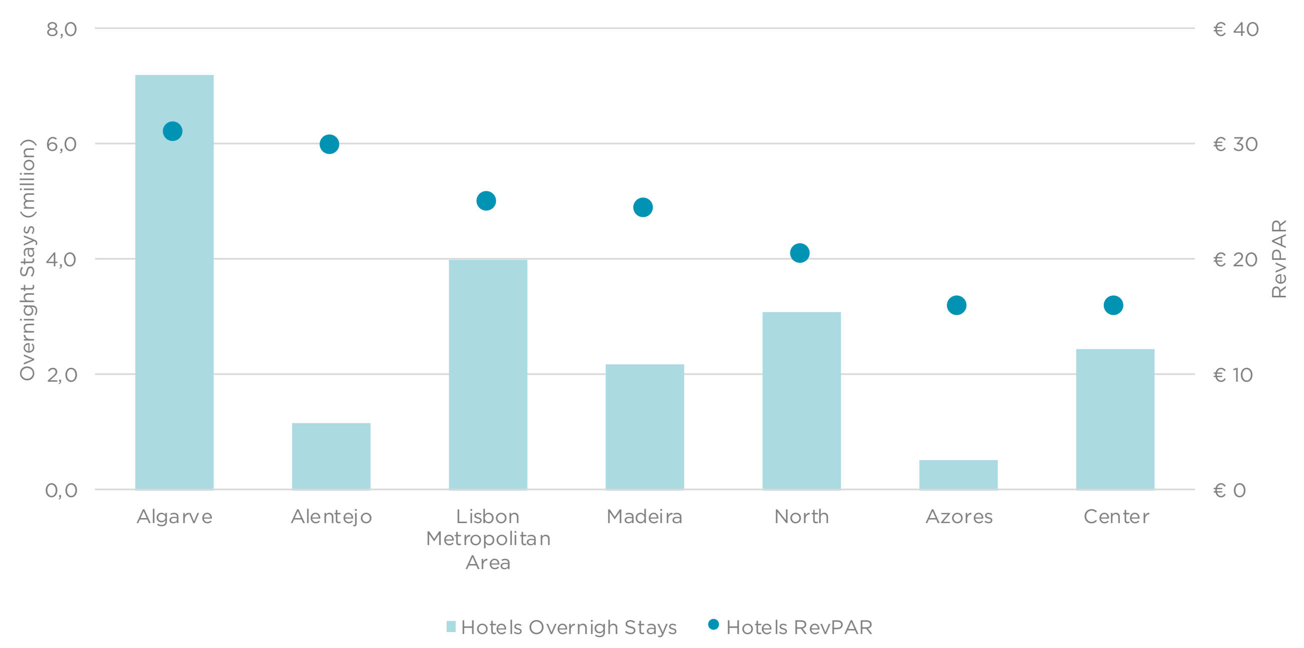
The current pandemic also significantly changed the profile of the demand. On the one hand, it became more anchored in domestic demand, which accounted for 53% of overnight stays in 2020, in comparison to the previous year's 30%. On the other hand, it expanded beyond the traditional tourist destinations, which were already becoming more popular in recent years, notably the Central Portugal and the Alentejo regions, which saw the lowest decrease in overnight stays, of 42% and 56%, respectively.

Operationally, hotels also recorded a considerable slowdown, of 67% in terms of total revenues and of 56% in Revenue per Available Room (RevPAR). The occupancy rate per room stood at 25.6%, reflecting a decrease of 39.5 percentage points compared to 2019. **Some operational recovery was visible in the summer months, with a 53.6% occupancy rate in August.**

Short Stay Accommodation was also widely impacted, leading in many cases to the repositioning of this product for traditional, long-term rentals, supported by tax incentives. Yet, preference for more isolated locations may have contributed to a higher resilience in demand, with a decline of around 60% in overnight stays. In terms of operating results, a contraction similar to those of hotels was experienced, with a 62% decrease in total revenues and 52% in RevPAR.

Supply in the hotel sector increased, with 46 new hotels and around new 2,400 rooms, the majority of which (36%) in 4-star hotels. Among these, the Four Points by Sheraton Sesimbra (4-star), the B&B Hotel Lisboa Aeroporto (3-star) and the Neya Porto Hotel (4-star) are the most noteworthy.

OVERNIGHT STAYS AND REVPAR BY REGION



Source: INE; Turismo de Portugal

In terms of future projects, many operators opted to strategically postpone for a brief period the completion of hotels under construction, waiting for demand to normalise. Additionally, some hotels still in the design or licensing phase are likely to have their investment plans reviewed, which is likely to result in a downwards revision of new hotels planned until the end of 2023, which decreased slightly, to 207 projects with 17,000 new rooms. This future supply will mainly occur in the two metropolitan areas, namely, Lisbon (4,000 rooms), Porto (2,200 rooms), Vila Nova de Gaia (1,150 rooms) and Cascais (1,050 rooms).

NEW OPENINGS

+46 HOTELS
OPENED IN 2020

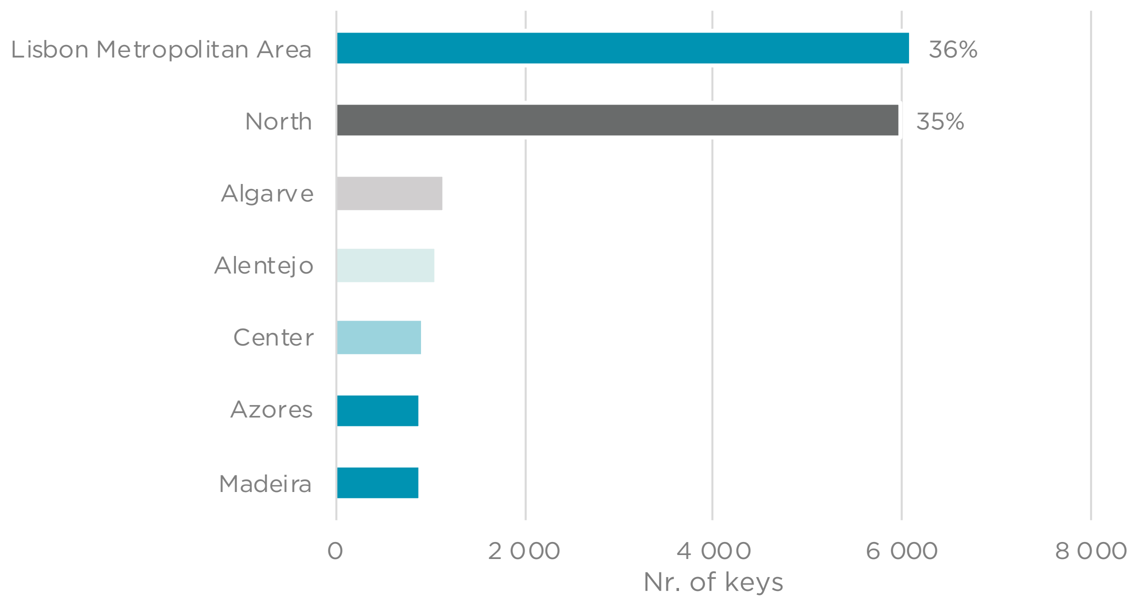
+2,400
NEW KEYS

MAIN OPENINGS 2020

HOTEL	OPERATOR	CITY	CATEGORY	KEYS
Four Points by Sheraton Sesimbra	Marriott Group	Sesimbra	4 stars	210
B&B Hotel Lisbon Airport	B&B Hotels	Loures	3 stars	190
Neya Porto Hotel	Neya Hotels	Porto	4 stars	120
The Lodge Wine & Business Hotel	DouroAzul	Vila Nova de Gaia	5 stars	120
Moov Oeiras	Endutex Hotels	Oeiras	2 stars	120
Holiday Inn Express Saldanha	InterContinental Hotels Group	Lisbon	3 stars	110
Holiday Inn Express Porto	InterContinental Hotels Group	Porto	3 stars	110
Vila Galé Serra da Estrela	Vila Galé	Manteigas	4 stars	90
Ibis Porto Centro Mercado do Bolhão	Accor Hotels	Porto	4 stars	90
Stay Hotel Lisbon Airport	Stay Hotels	Lisbon	3 stars	80

Source: Cushman & Wakefield

PIPELINE[10] BY REGION



Source: Cushman & Wakefield

(10) Next 3 years.

LISBON

More than half of the 8.8 million tourists who arrived in Portugal in 2020 by air, did so through Lisbon's Humberto Delgado Airport which registered a 71% decline of arrivals compared to the previous year. Similarly, the restrictions imposed at the seaports strongly limited cruise tourism, which saw a year-on-year fall of 91%, with the arrival by ship of just 50 thousand passengers in Lisbon.

According to the INE, 3.5 million of overnight stays were in the capital (including hotels and short stay accommodation), of which 74% were by non-residents. Data from the Studies and Statistics Office of Turismo de Lisboa shows an occupancy rate of 29.1% and a RevPAR of €25.5 for hotels in the Lisbon region.

Lisbon saw 10 new hotel openings with a total of 610 new rooms, mostly in the 3-star category, such as the Holiday Inn Express Saldanha with 105 rooms and two new openings near the airport – B&B Hotel Lisboa Aeroporto and Stay Hotel Lisboa Aeroporto with 80 rooms.

TOURISM INDICATORS

3.5 MILLION (-75%)
OVERNIGHT STAYS[11]

29.1% (-62 P.P.)
OCCUPANCY RATE[12]

€25.5 (-70%)
REVPAR[13]

Source: INE; Observatório de Lisboa

An additional 43 new hotels with 4,060 rooms are expected to be added to the current supply by 2023, namely in the 5- and 4-star categories, which represent 35% and 29% of the known future supply, respectively. Among these, the Radisson RED Lisbon Olaias (4-star, 290 rooms), the Meliá Lisboa (5-star, 240 rooms) and the Moxy Lisbon Oriente (3-star, 220 rooms)[14] are worth highlighting.

(11) Touristic establishments in the city of Lisbon.
(12) Hotel establishments in the Lisbon region.
(13) Hotel establishments in the Lisbon region.
(14) Although completed in 2020, its opening was postponed to 2021 given the current market conditions.

PORTO

Porto's Francisco Sá Carneiro Airport recorded the arrival of 2.2 million passengers, a year-on-year decrease of 66%. As for cruise tourism, there was a sharper decline, with a 93% reduction to just 6 thousand passengers.

According to INE, Porto was the fourth city with the highest number of overnight stays, around 1.3 million, in tourist accommodation (including hotels and short stay accommodation), among which 72% were non-residents. The RevPAR in the city stood at an average of €20.9 per night, with 5-star hotels reaching €26.5, and an occupancy rate of 24.8%.

Porto saw the opening of 10 new hotels throughout 2020, totalling 630 new rooms, mostly 4-star hotels (58% of the new supply). Among these, some prominent examples are the Neya Porto Hotel (4-star, 120 rooms) and the Holiday Inn Express (3-star, 105 rooms).

It is estimated that future supply for the city will increase with 20 new hotels and 2,200 rooms by 2023, with 4-star and 5-star hotels amounting to 37% of the reported supply. Amongst the planned openings, the hotel with a congress centre promoted by IME in Rua do Heroismo with 300 rooms, and The Student Hotel, a mixed concept of short and long-term stays in the D.João I quarter, with a total of 300 rooms, are worthy of note.

TOURISM INDICATORS

1.3 MILLION
(-72%)

OVERNIGHT STAYS[15]

24.8%

OCCUPANCY RATE[16]

€20.9
(-72%)

REVPAR[17]

Source: INE; Turismo de Portugal

(15) Touristic establishments in the city of Porto.
(16) Hotel establishments in the Porto region.
(17) Hotel establishments in the Porto region.

OUTLOOK

It is expected that hotels will continue to adapt by diversifying its revenue sources through services such as workspaces and coworking, allowing its visitors to work from wherever they travel, as well as providing health and other services related to well-being, which have become increasingly important. Additionally, a gradual albeit asymmetric recovery is predicted, with a more sustained recovery in leisure tourism when compared to the MICE (Meetings, Incentives, Conferences & Exhibitions) segment, as the corporate world re-assesses the costs associated with this as a result of due to the increased use of digital tools for meetings and events.

The fundamental aspects of tourism have not changed, and Portugal remains an appealing international destination, not only as a sun and beach experience, but also as a country that offers a wealth of cultural and gastronomical attractions.

However, regardless of the simplified lay-off and credit mechanisms set up, operators with a more fragile capital structure suffered a significant impact during the pandemic; more than 30% of hotels do not know if they will reopen in 2021 or if at all, according to the Portuguese Hotel Association (AHP).

Looking ahead to the summer of 2021, expectations are for improved occupancy rates compared to last year. **Given that hotel occupancy rates reflect the economic cycle and increased confidence, the inclusion of the much talked about vaccination passports in travel policy should contribute positively to the relaunching of the tourist industry.** However, demand is still likely to only reach 50-60% of that recorded in 2019.

RESIDENTIAL

Throughout 2020, **the impact of the pandemic accelerated the price adjustment in the residential market, which had already begun at the end of the previous year, particularly in relation to projects sold above the market price.** This, in turn, culminated in an overall adjustment of the average sales price of apartments, across the sector, in Lisbon and Porto, according to Confidencial Imobiliário's Residential Information System (SIR). This adjustment has been mitigated by the public moratoriums (Government) on mortgages and residential rentals implemented in April 2020, most of which in force until September and June 2021, respectively; and the private moratoriums (banks) that ended in March 2021.

Nonetheless, interest in the sector remained, which, considering international travel restrictions, evidenced an increase in domestic demand. In fact, according to data from the Bank of Portugal, the slowdown in the rise in mortgages recorded in 2019 reversed last year, registering a 7% increase, to €11,389 million.

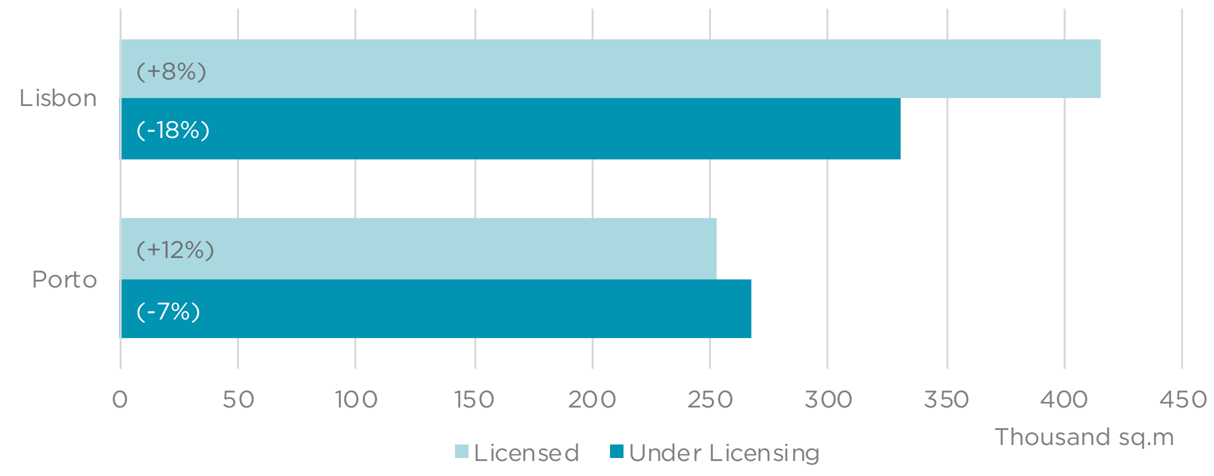
In terms of type of demand, there was increased interest in larger housing, with outdoor areas and located in the periphery of urban centres. In terms of new developments, there is a preference for projects already under construction, which currently experience only slight delays in completion dates. **Nevertheless, this more conservative buyer's attitude does not appear to be affecting financial stability of house builders, who have also developed greater resilience after the previous financial crisis.**

SALE OF APARTMENTS[18]

	LISBON	PORTO
AVERAGE PRICE	NEW €5,780/sq.m (-3%) TOTAL €3,670/sq.m (-3%)	NEW €3,080/sq.m (-15%) TOTAL €2,180/sq.m (-6%)
AVERAGE DISCOUNT AND ADJUSTMENT RATE	NEW -3% TOTAL -8%	NEW -7% TOTAL -8%
AVERAGE ABSORPTION TIME	NEW 10 MONTHS TOTAL 6 MONTHS	NEW 9 MONTHS TOTAL 6 MONTHS

Source: SIR Ci

RESIDENTIAL PROJECTS LICENSING[19]



Source: Pipeline Imobiliário Ci

[18] New and used.
[19] Percentage values correspond to the variation between 2020 and 2019.

LISBON

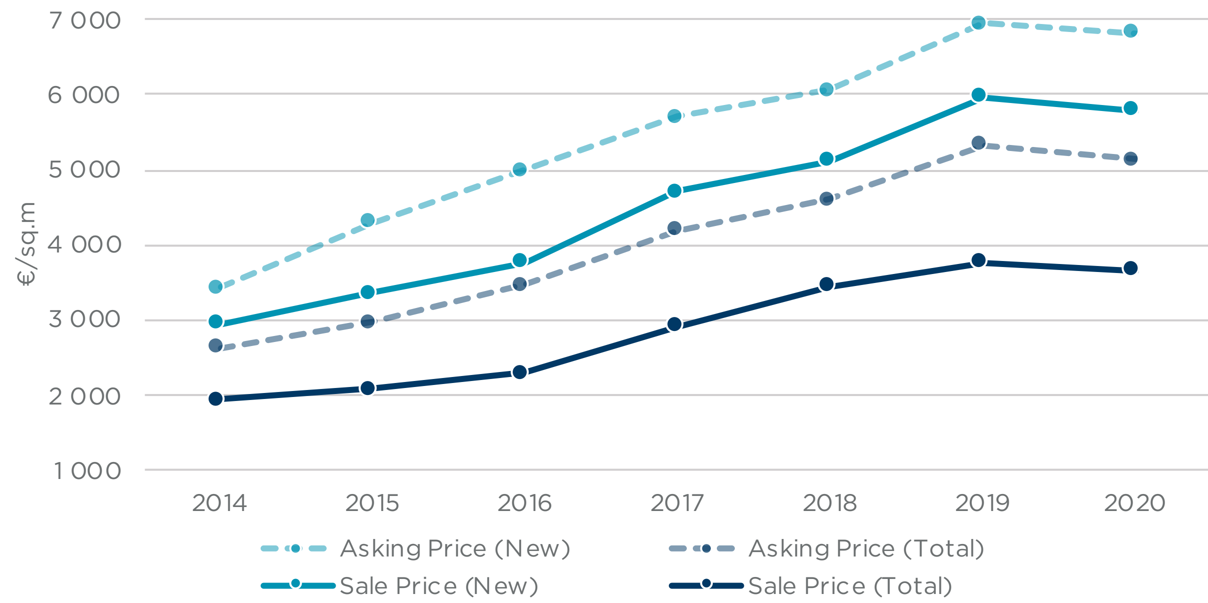
The sales prices of apartments in Lisbon saw a year-on-year decrease of 3% in 2020, both in new properties and overall (i.e., new and used), to €5,780/sq.m and €3,670/sq.m, respectively. Among the latter, the Historic Centre remains the most expensive, at €5,000/sq.m, although this was the area with the largest contraction (-9%); in contrast to the Peripheral zones, which maintained the lowest average value in the market, at €2,590/sq.m, despite experiencing the highest increase (+7%).

Additionally, and analysing the overall sector, the average discount and adjustment[20] rates increased to 8%, maintaining the average time to sell of 6 months. New properties, where sales start at the planning stage, these indicators, which stabilised in 2020, show discounts and price adjustments of 3% and an average time to sell of 10 months.

The gap between the average asking price and the average sales price across all apartments remained at high levels, at around 40%, despite the adjustment of the total supply to €5,140/sq.m (-4%). Among new apartments, this gap is smaller, despite a slight increase to 18%, with the average asking price of €6,830/sq.m.

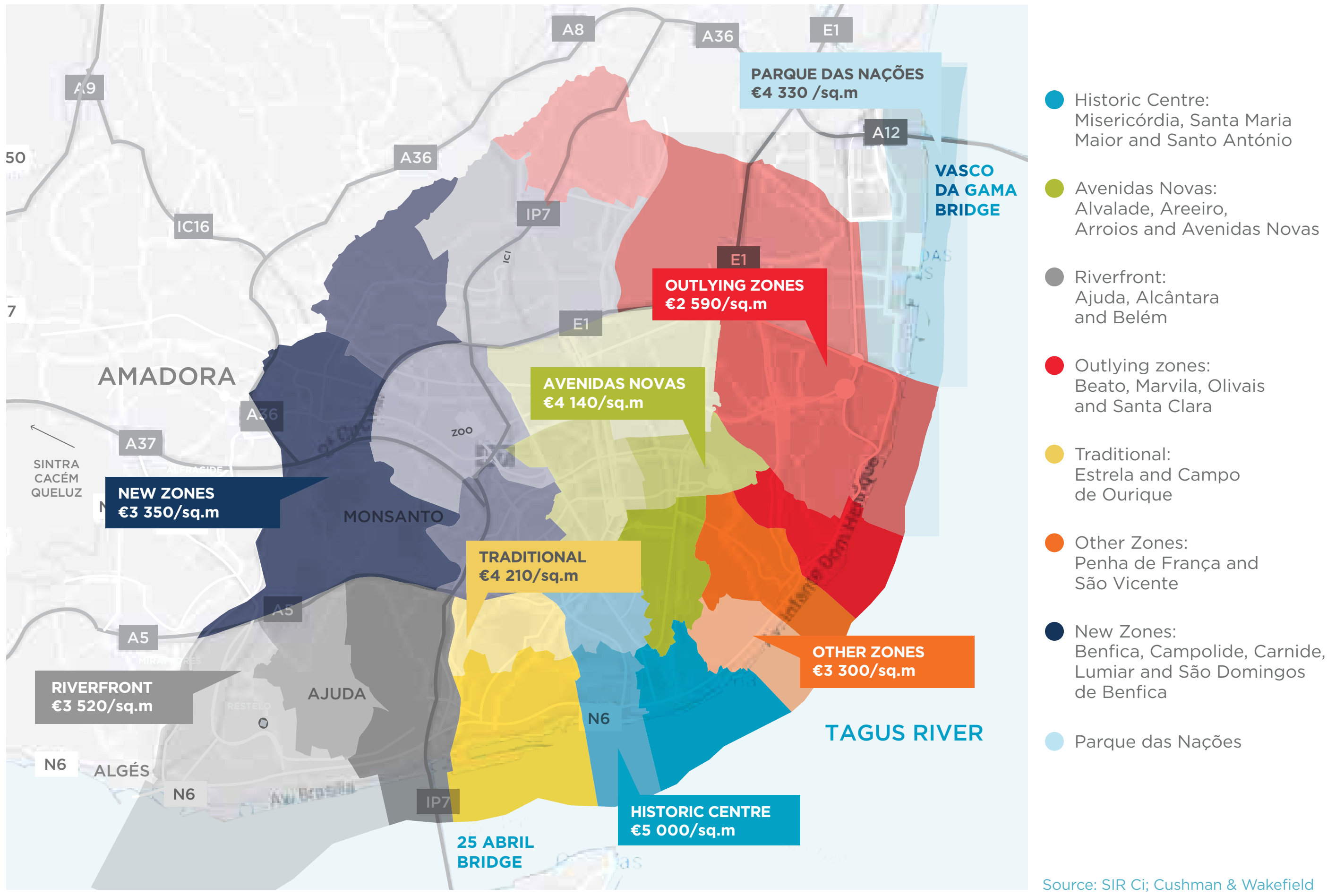
In terms of future supply, the licensing of residential projects followed a disparate trend, with licensed projects observing an 8% year-on-year growth, while projects submitted for licensing decreased by 18% to 330,170 sq.m.

PRICE OF APARTMENTS



Source: SIR Ci

SALES PRICE OF APARTAMENTS[21]



Source: SIR Ci; Cushman & Wakefield

[20] The difference between the final sales price and the initial price offered for the property.
[21] New and Used.

PORTO

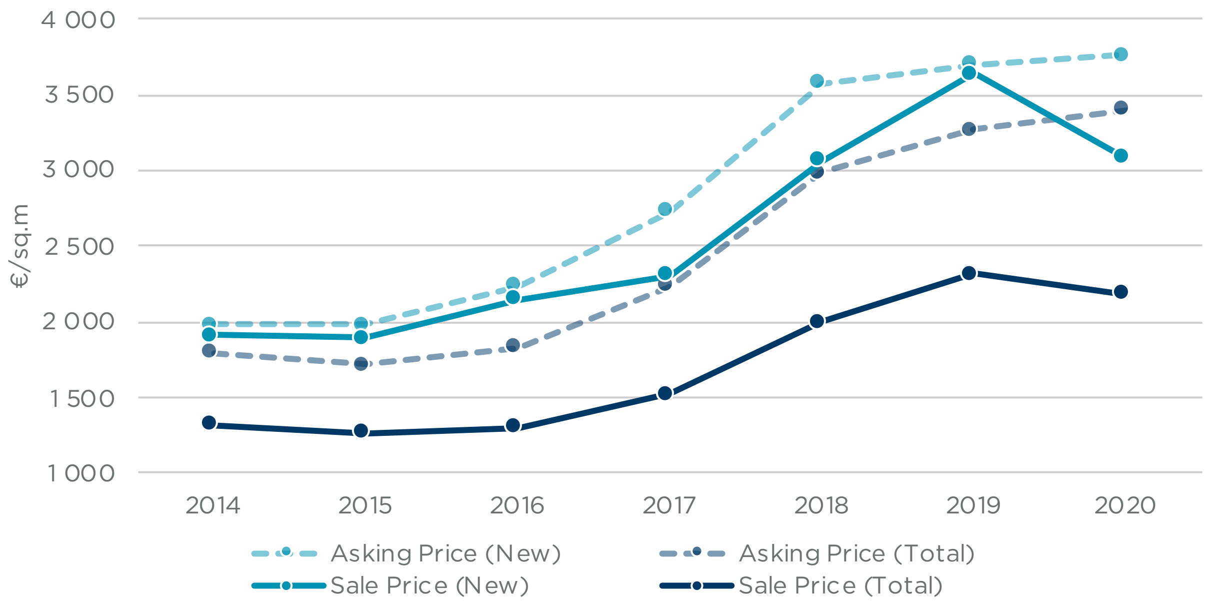
In Porto, sales prices of apartments saw a more pronounced adjustment than that seen in Lisbon, namely 15% in new properties and 6% overall, to €3,080/sq.m and €2,180/sq.m, respectively. In the latter category, the highest prices were observed in the Foz area, commanding €2,910/sq.m; followed by Ribeirinha (Riverfront) area, with the highest growth (+11%), to €2,650/sq.m, and the Historic Centre which, by contrast, observed the most significant drop (-12%), to €2,550/sq.m.

The average discount and adjustment rates also contracted more than in Lisbon, around 2 percentage points, to 8% overall and 7% in new houses. On the contrary, the average time to sell remained stable, at 6 and 9 months, respectively.

The gap between average asking prices and sales prices widened, reaching a remarkable 56%, as a result of the countercyclical evolution in asking prices, which increased to €3,400/sq.m (+4%). New apartments also saw a considerable increase in this gap, to 22%, with the average asking price, by the end of the year, standing at €3,760/sq.m.

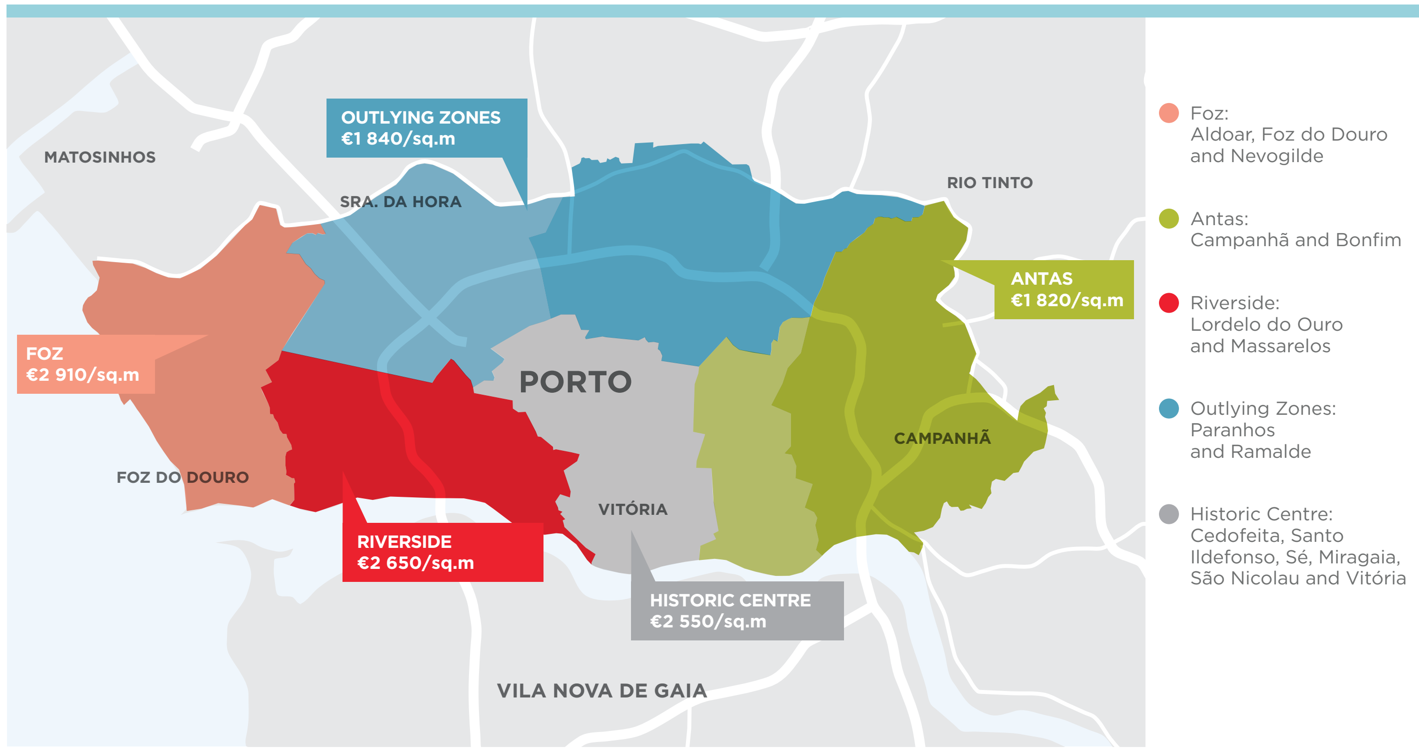
In terms of future supply, the licensing of residential projects in Porto also followed saw an increase (of 12%) in licensed projects and a decrease (of 7%) in projects submitted for licensing, with the latter totalling 266,790 sq.m.

PRICE OF APARTMENTS



Source: SIR Ci

SALES PRICE OF APARTAMENTS[20]



Fonte: SIR Ci; Cushman & Wakefield

LEASE OF APARTAMENTS

	LISBON	PORTO
AVERAGE MONTHLY CONTRACTED RENT	NEW **€16.5/sq.m (-10%)** TOTAL **€13.1/sq.m (-4%)**	NEW **€12.6/sq.m (-10%)** TOTAL **€10.2/sq.m (+2%)**
AVERAGE DISCOUNT AND ADJUSTMENT RATE	NEW **-9%** TOTAL **-10%**	NEW **-8%** TOTAL **-8%**
AVERAGE ABSORPTION TIME	NEW **4 MONTHS** TOTAL **3 MONTHS**	NEW **3 MONTHS** TOTAL **3 MONTHS**

Source: SIR Ci

The private rented sector (PRS) benefitted from renewed interest in 2020, as it was seen as a viable response to the scarcity of housing supply in urban centres, particularly amongst the middle class. Driven by several legislative changes and local council initiatives, the rental market also benefited from the conversion of some short stay accommodation into long-term lease accommodation, owing to a fall in occupancy levels, which in the previous year had already been affected by the limitations introduced to its licensing.

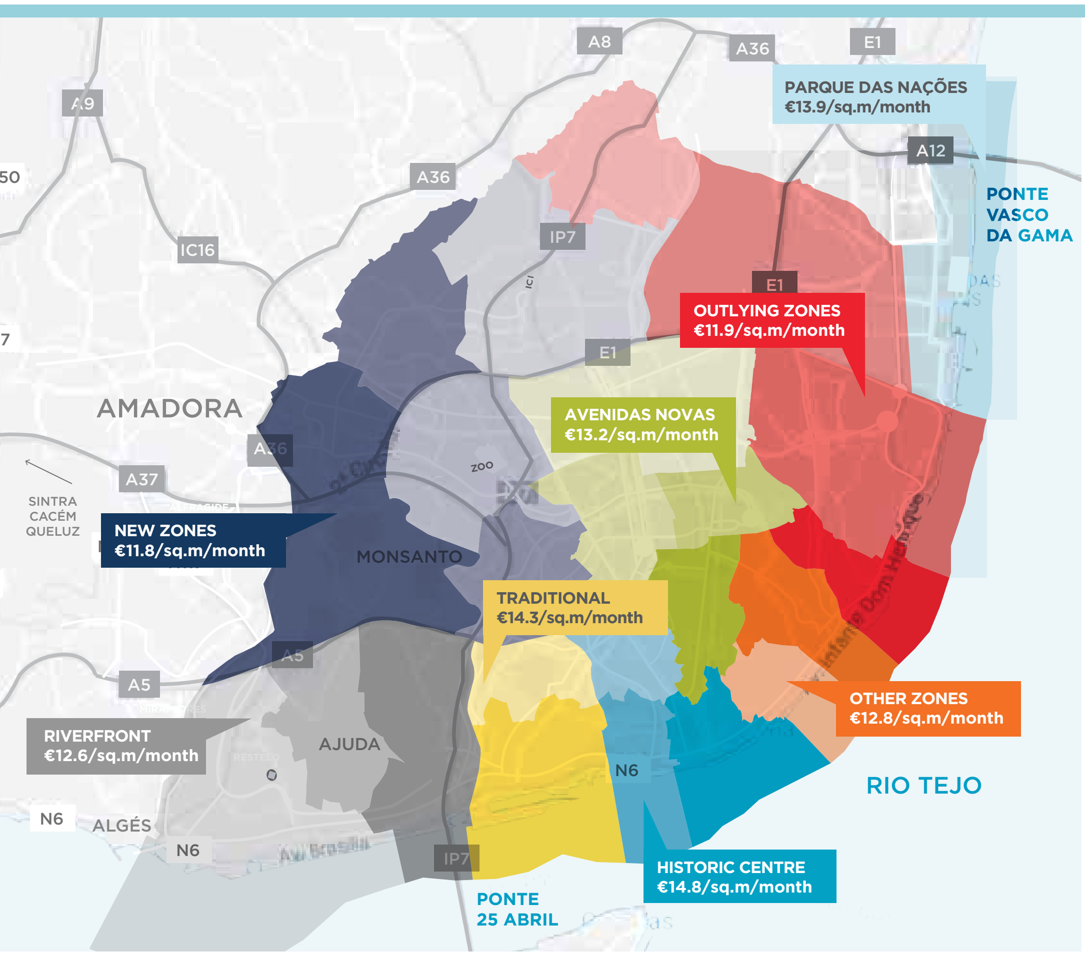
Consequently, and given the scarcity of built-to-rent (BTR) products, many developers have been positioning themselves to develop this type of supply, which as an investment product saw a sharp growth worldwide in 2020. it is estimated that by 2024, over 8,000 houses of this type will enter the market, especially in less central locations in cities or suburban areas with good access to Lisbon and Porto, although most are still in the licensing phase and some belong to local council initiatives.

In terms of market prices, according to SIR/Confidencial Imobiliário, average rent contracted to €13.1/sq.m/month in Lisbon, with a double-digit adjustment in relation to new properties, reaching €16.5/sq.m/month. Like the built-to-sell (BTS) market, the highest overall rents were in the Historic Centre. Concerning the properties on offer, despite their volume increasing by 20%, the rental price only decreased by 5%, to €16.5/sq.m/month, with the gap to closing prices remaining at 13%.

Once again, Porto countered the general trend, with a slight increase in the average rent, to €10.2/sq.m/ month, however, on a par with Lisbon, there was an adjustment concerning new properties to €12.6/sq.m/month. In this segment, the highest prices were also recorded in the Historic Centre. The asking price saw an increase of 5%, to €11.8/sq.m/month, consequently widening the differential to the average rent to 16%.

Regarding this sector, the discount and adjustment rates were steeper in both categories, with more than 40 percentage points overall, to -10% in Lisbon and -8% in Porto. This increased price adjustment may explain the shorter average time to rent, which remained stable compared to 2019.

RENTAL PRICE OF APARTAMENTS[22]



- Historic Centre: Misericórdia, Santa Maria Maior and Santo António
- Avenidas Novas: Alvalade, Areeiro, Arroios and Avenidas Novas
- Riverfront: Ajuda, Alcântara and Belém
- Outlying Zones: Beato, Marvila, Olivais and Santa Clara
- Traditional: Estrela and Campo de Ourique
- Other Zones: Penha de França and São Vicente
- New Zones: Benfica, Campolide, Carnide, Lumiar and São Domingos de Benfica
- Parque das Nações

Source: SIR Ci; Cushman & Wakefield

RENTAL PRICE OF APARTAMENTS[22]

- Foz: Aldoar, Foz do Douro and Nevogilde
- Antas: Campanhã and Bonfim
- Riverside: Lordelo do Ouro and Massarelos
- Outlying Zones: Paranhos and Ramalde
- Historic Centre: Cedofeita, Santo Ildefonso, Sé, Miragaia, São Nicolau and Vitória

Source: SIR Ci; Cushman & Wakefield

OUTLOOK

The outlook for this sector is for a moderate slowdown in average values, as a result of: (i) the expected end of the moratoriums; (ii) potential worsening of non-performing loans – it should be noted that Portugal currently has the third highest incidence in the European Union according to the European Banking Authority (EBA); **and (iii) a gradual increase in projects aimed at the middle class in the periphery of urban centres.** Even so, it is likely that this adjustment will be mitigated thanks to its appeal as an investment when compared to other capital investment alternatives, and also when compared to values in other European cities.

Given the current shortage of housing supply for middle-class and lower-middle class families and the lack of occupational flexibility, **the residential rental sector will continue to grow, with many of the planned BTR projects starting construction between this year and the next.** Under these circumstances, the type of product entering the market will reflect new occupational tendencies, which were already evolving pre-pandemic, such as shared common areas as seen in co-living projects, a sub-segment that is likely to also continue to grow in Portugal.

(22) New and used.

URBAN DEVELOPMENT

The urban development and regeneration sector[23] recorded a slowdown in 2020, reflecting the negative impact of the current situation on the market. According to information gathered by Cushman & Wakefield[24], total investment volume saw a year-on-year decline of 53% in 2020, to €520 million, spread over more than 40 deals. The sale of the residential project The Keys in Quinta do Lago (Almancil) for €95 million by the administrators of Birchview Imobiliária to SPX International Asset Management and the purchase by Vic Properties of Herdade dos Pinheirinhos, a mixed-use project, in Melindes (Grândola) from Novo Banco for €80 million, stand out amongst the largest deals.

According to data from SIR/Confidencial Imobiliário[25], there was a general reduction in the number of properties sold in the Urban Rehabilitation Areas (ARUs), although with different impacts on prices in the two main national cities. Licensing of real estate projects painted a similar picture, resulting in an overall increase in the average area per project, which, given the predominance of the residential sector, reflects the increasing focus on the development of projects for the middle class.

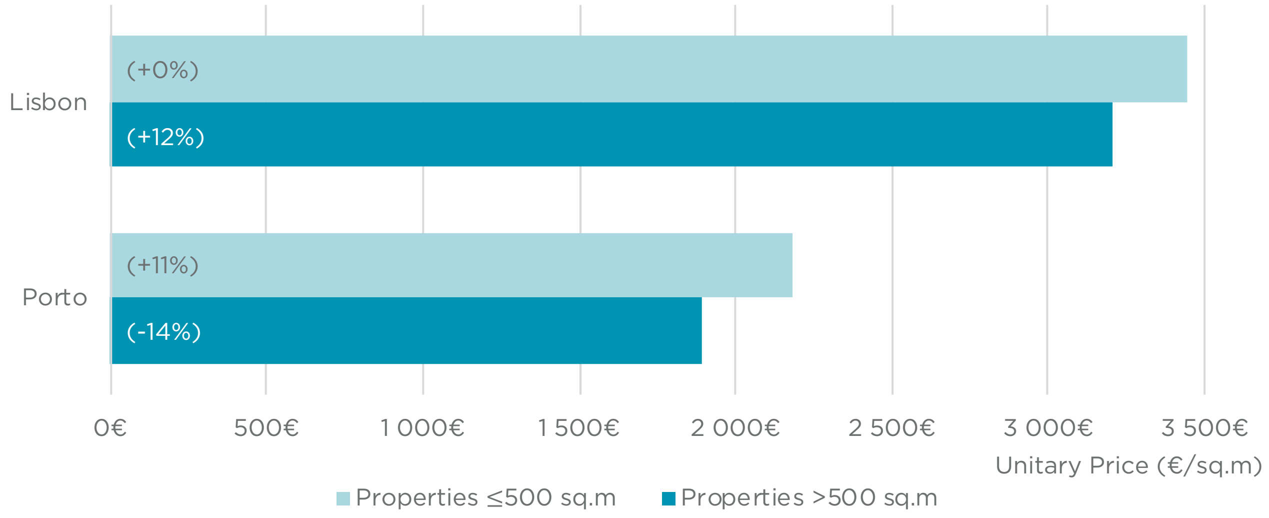
(23) Purchase of buildings for regeneration or land for development purposes.
(24) Based on internal or public sources.
(25) The data obtained results from the processing of transaction announcements carried out by the owners to the local authorities, in the context of the legal right of preference these institutions benefit from in their respective URAs.

MAIN URBAN DEVELOPMENT AND REGENERATION DEALS

TYPE	ASSET	LOCATION	AREA (thousand sq.m)	VENDOR	PURCHASER	VALUE (M€)	VALUE (€/sq.m)
Land*	The Keys	Loulé	45	Birchview Imobiliária insolvent estate	SRESPX Investimentos	€95 M	€ 2 120
Land	Herdade dos Pinheirinhos	Grândola	2 000	Novo Banco	Vic Properties	€80 M	€ 40
Building	Convento Corpus Christi	Lisbon	7,5	OptylonKrea	Leonardo Royal Hotels	€40 M	€ 5 330
Land*	Multiusos Oriente	Loures	37	Interfundos	Norfin (Orion)	€35-40 M	€ 1 010
Land*	República 5	Lisbon	12	Sonangol	Signal	€28-30 M	€ 2 330

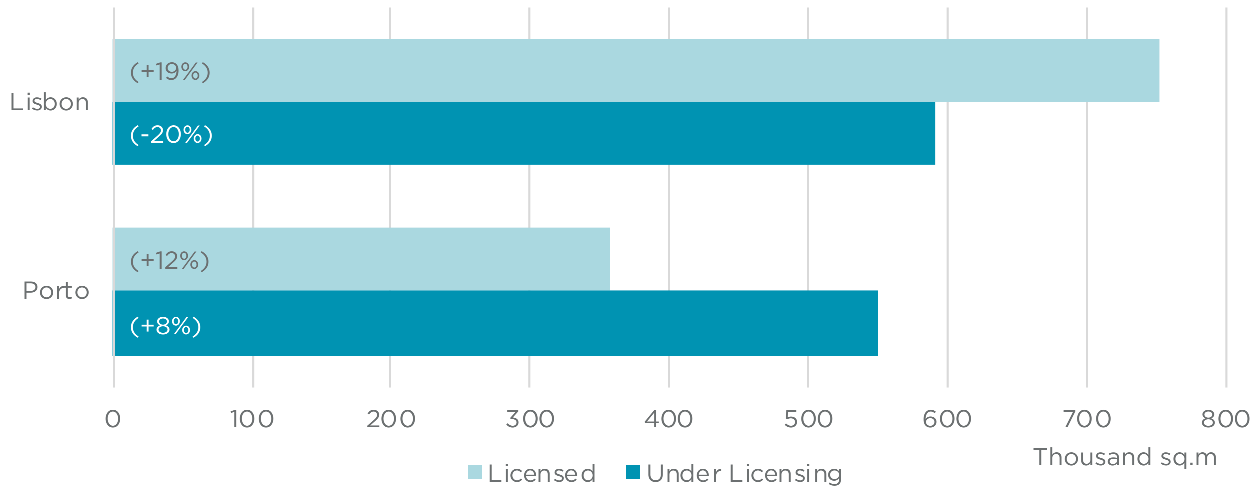
Source: Cushman & Wakefield
* Partially developed

PROPERTIES SALE IN URBAN REHABILITATION AREAS[26]



Source: SIR RU Ci

REAL ESTATE PROJECTS LICENSING[27]



Source: Pipeline Imobiliário Ci

[26] Percentage values correspond to the variation between 2020 and 2019.

[27] Percentage values correspond to the variation between 2020 and 2019.

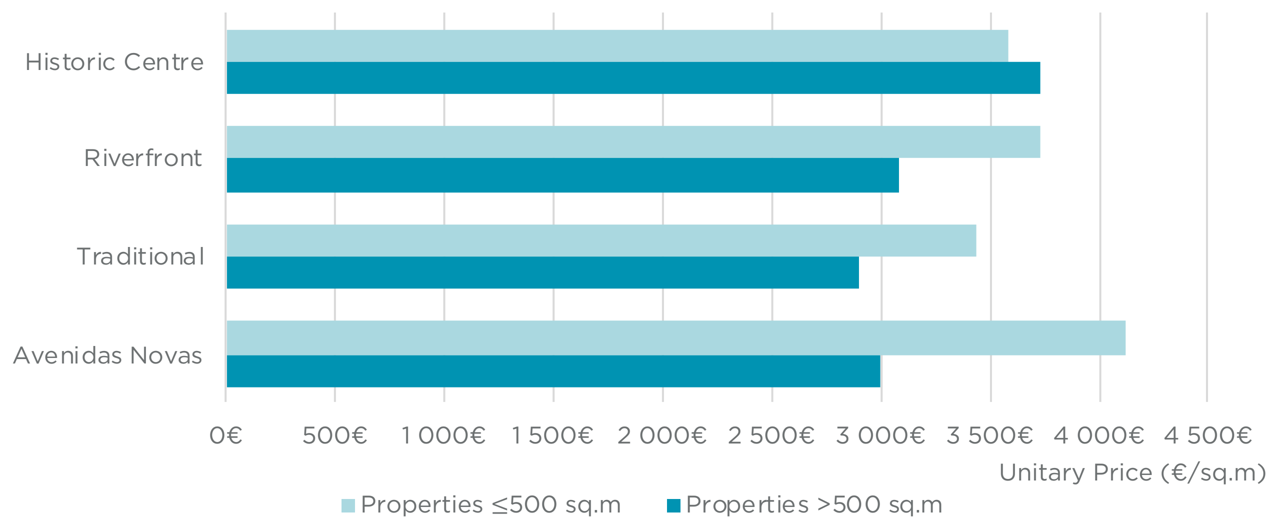
LISBON

In Lisbon, the average transaction price of properties in the ARUs of up to 500 sq.m was stable, and saw steady growth, slightly above 10%, in properties of more than 500 sq.m, closing 2020 at €3,450/sq.m and €3,200/sq.m, respectively. It is worth highlighting Avenidas Novas, **amongst the smaller properties, with an average price of €4,120/sq.m, while the Historic Centre remained dominant within the largest buildings, with an increase of 9%, standing at €3,730/sq.m.**

In terms of planning permission, a total of 752,000 sq.m were licensed in 2020, an increase of close to 20% when compared to the previous year; and by contrast, the construction area of projects still in the licensing phase decreased by the same percentage, to 592,000 sq.m. In both cases, these values represented an increase in the average area per project, to 2,200 sq.m and 1,230 sq.m, respectively. The residential sector continued to represent most of the development and regeneration activity in the city of Lisbon and was responsible for more than 55% in both categories.

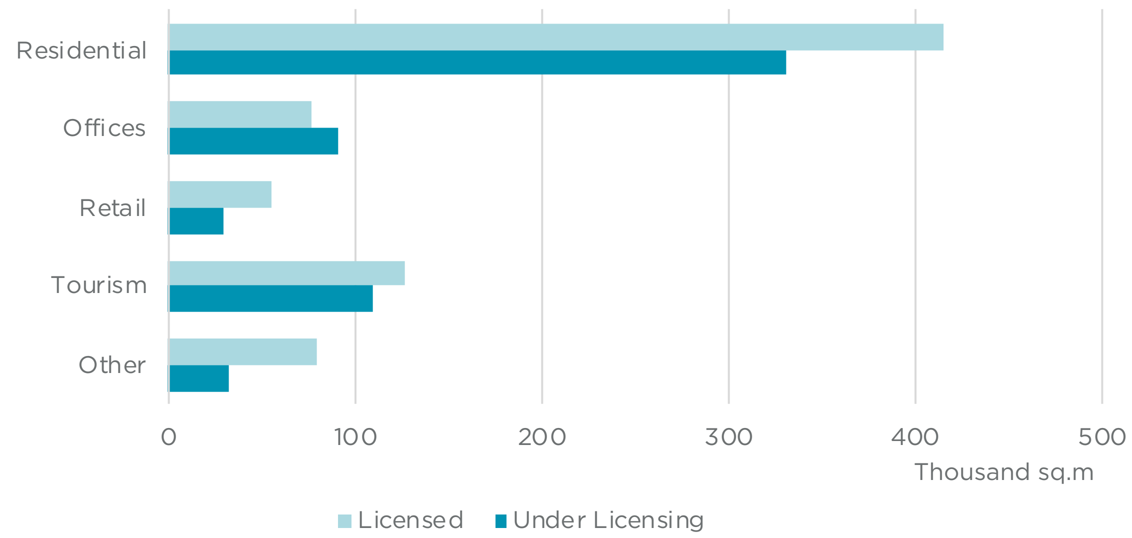
Due to the heightened shortage of labour, the increased cost of structural materials in new construction, and the new regulatory requirements for regeneration projects, there was an overall rise in construction costs at the end of the year, with average costs for new construction in Lisbon varying between €1,150/sq.m and in excess of € 1,500/sq.m. For regeneration projects, costs ranged between €1,350/sq.m and €1,800/sq.m, depending on the intended target segment.

PROPERTIES SALE IN URBAN REHABILITATION AREAS BY ZONE



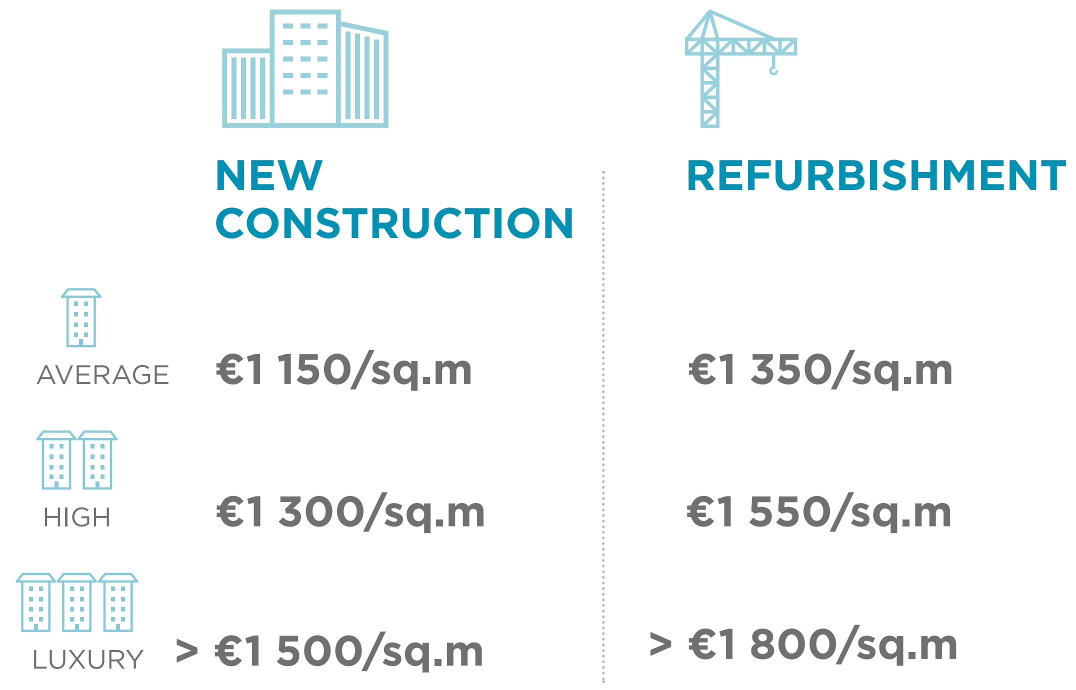
Source: SIR RU Ci

PROJECTS LICENSING BY SECTOR



Source: Pipeline Imobiliário Ci

CONSTRUCTION COSTS BY SEGMENT



Source: Cushman & Wakefield

PORTO

In the city of Porto, the average price of buildings in ARUs followed the opposite trend, namely, an 11% increase for buildings up to 500 sq.m, reaching €2,180/sq.m; and a 14% contraction for properties larger than 500 sq.m, to €1,890/sq.m. **Foz commanded the highest prices in both types of assets, with €3,070/sq.m for smaller properties and €3,440/sq.m for larger buildings.**

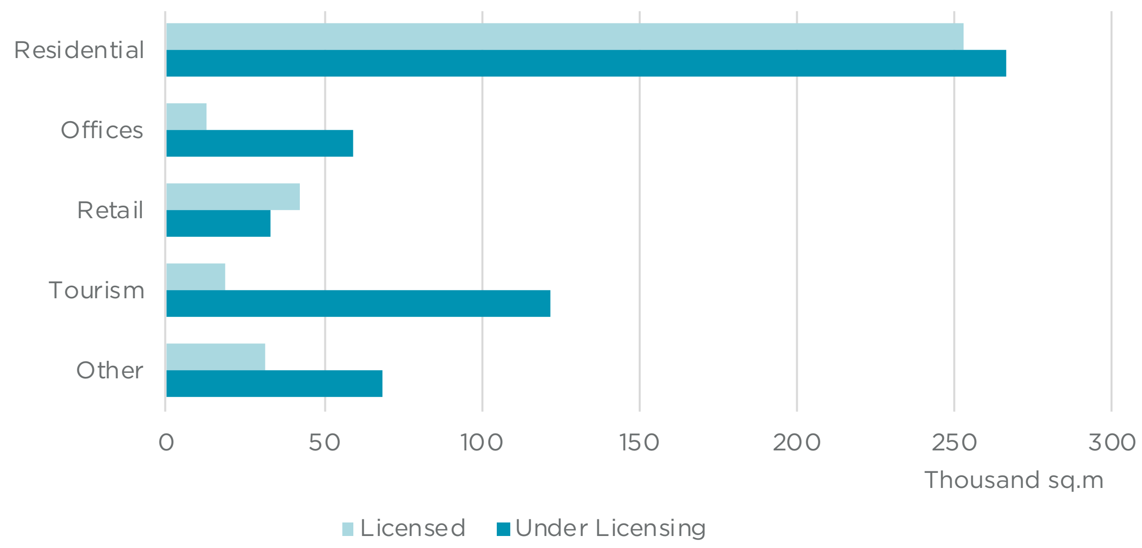
Regarding planning activity in Porto, 2020 saw increases of 12% in the volume of licensed area and 8% in the projects submitted for licensing, to 358,000 sq.m and 549,000 sq.m, respectively; contributing to an increase in the average area per project to over 900 sq.m in both categories. Like in Lisbon, the residential sector remained the most dynamic, representing 71% of the licensed construction area and 49% of the area submitted for licensing.

Construction costs also increased in Porto in 2020, ranging between €950/sq.m and in excess of €1,350/sq.m for new construction, and between €1,150/sq.m and from €1,650/sq.m for regeneration projects.

PROPERTIES SALE IN URBAN REHABILITATION AREAS BY ZONE

Source: SIR RU Ci

PROJECTS LICENSING BY SECTOR



Source: Pipeline Imobiliário Ci

CONSTRUCTION COSTS BY SEGMENT

	NEW CONSTRUCTION	REFURBISHMENT
AVERAGE	€950/sq.m	€1 150/sq.m
HIGH	€1 150/sq.m	€1 400/sq.m
LUXURY	> €1 350/sq.m	> €1 650/sq.m

Source: SIR RU Ci

OUTLOOK

The market is expected to maintain the trend of recent years, with a reduction in transaction volume of regeneration projects, as a result of the continuous increase in construction costs and risks associated with the licensing process. By contrast, we expect an increase in build-to-rent development activity, particularly in the large-scale residential segment aimed at the Portuguese middle class, where supply remains scarce in view of existing demand.

Given the current environment, with increased interest in build-to-rent projects, many of the projects in the less central locations and on the periphery of the cities of Lisbon and Porto, initially aimed at the built-to-sell market, are likely to be partially refocused towards the rental segment.

In addition, and anticipating the economic recovery, we foresee continued investment in less traditional segments, but with higher growth potential, such as student housing and senior residences.

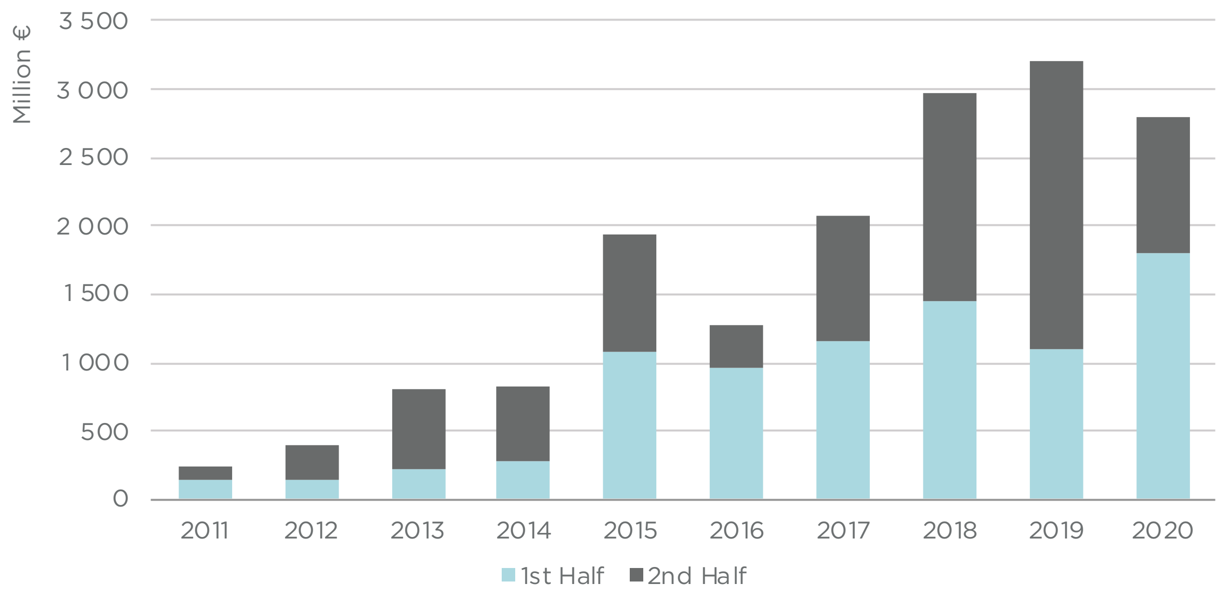
INVESTMENT

Despite the slight decline in investment activity in income-producing real estate[28], the €2,790 million transacted in 2020 represents the third highest transaction volume ever, in a year-on-year decline of only 13%, which was less severe than in other European markets. Following a trend seen in other parts of the world, a few large deals contributed decisively to this result, with the top 3 accounting for more than half the total volume invested. **In this context, the average amount per transaction reached a new record, of €47 million.**

Foreign capital continued to dominate market activity, representing 77% of the amount invested in real estate in 2020. **The vast majority originated in Europe, notably German (€555 million) and UK (€516 million) investors. Domestic capital maintained a positive trajectory, increasing the volume invested by 26% to €640 million (to an extent taking advantage of the increased restrictions on travel for international investors).**

[28] Institutional investment in completed and income generating real estate properties.

COMMERCIAL INVESTMENT[29] BY ORIGIN



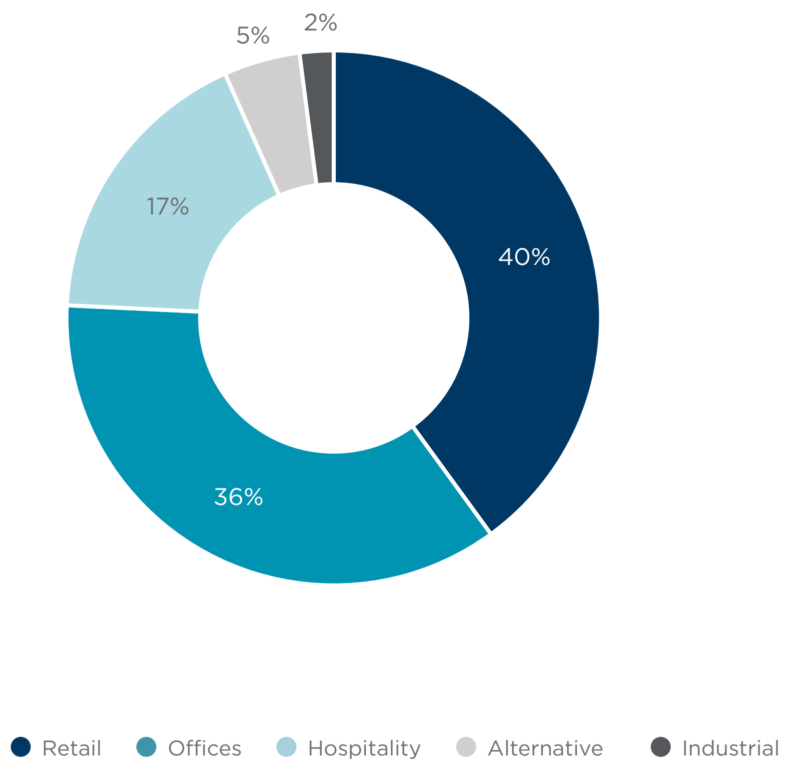
Source: Cushman & Wakefield

Influenced by the largest deal on record – the purchase of 50% of the Sierra Prime joint venture by Allianz Real Estate and Elo from Sonae Sierra and APG, for around €800 million[30] – the retail sector was the most sought-after, attracting 40% of the total amount invested (approximately €1,120 million). Offices followed suit, with 36% of the total volume (close to €1,000 million). The main deals in this sector are the sale of Lagoas Park by Henderson Park Capital Partners from Kildare Partners for €421 million (the only transaction in the top 3 to take place during the pandemic) and the purchase of the PREOF portfolio by Cerberus from Finsolutia for an estimated amount of €150-170 million. The hotel sector represented 18% of the capital invested (with a total of €490 million), largely due to the purchase of the Real Hotels portfolio by Palm Invest.

By contrast, logistics and the private rented sector (PRS), the asset classes currently on the radar of international investors, were not significant in the Portuguese market. In the industrial & logistics sector, given the prevalence of construction projects for own occupation and the consequent shortage of product available for sale, the total volume invested was below €60 million. As for the private rented sector, which in Europe was the second most invested asset class, no portfolio deals by institutional investors occurred.

[29] Institutional investment in completed and income generating real estate properties.
[30] Value of the 4 assets in Portugal, out of a total of 6 shopping centres.

COMERCIAL INVESTMENT[29] BY SECTOR



Source: Cushman & Wakefield

MAIN INVESTMENT DEALS

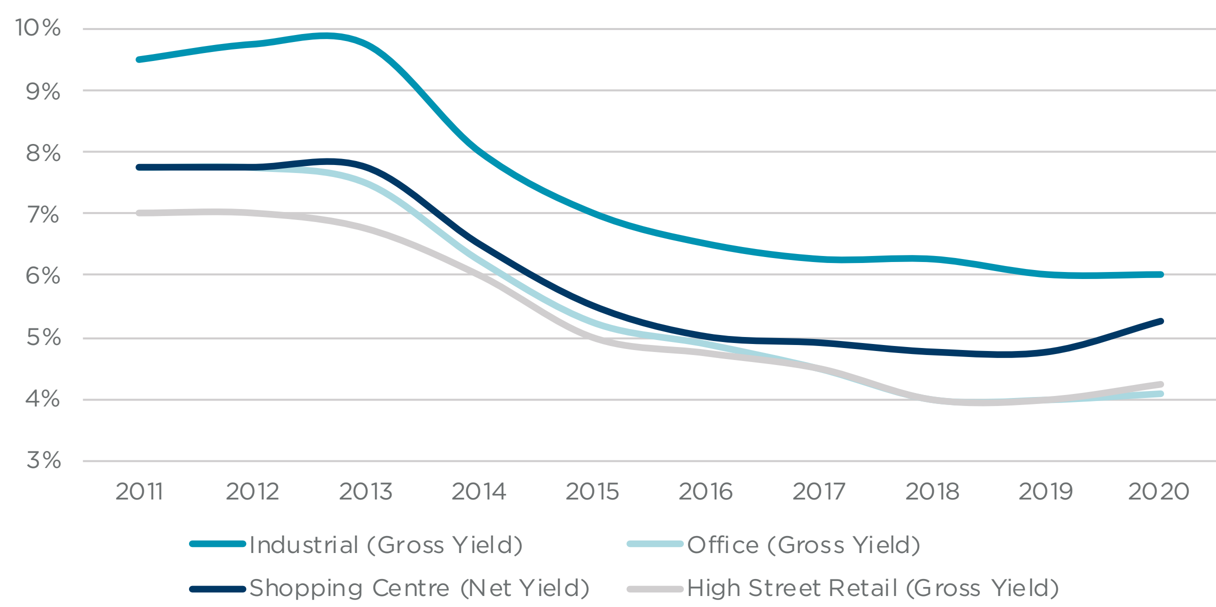
SECTOR	ASSET	LOCATION	AREA (sq.m)	VENDOR	PURCHASER	PRICE (M€)	VALUE (€/sq.m)	YIELD (%)
Retail	Sierra Prime Portfolio	Several	151 020	Sonae Sierra & APG	Allianz Real Estate & Elo	€800 M	€3 980	n.a.
Offices	Lagoas Park	Oeiras	112 500	Kildare Partners	Henderson Park Capital Partners	€421 M	€3 740	6.0%
Hospitality	Hotéis Real Portfolio	Several	1 380 keys	Bernardino Gomes Group	Palm Invest & Private Investor	€290-310 M	€216 760[29]	n.a.
Offices	Preof Portfolio	Several	52 000	Finsolutia	Cerberus	€150-170 M	€3 270	n.a.
Offices	Beatles Portfolio	Several	20 970	Cerberus	AM Alpha	€77-85 M	€3 860	n.a.
Retail	Leroy Merlin Portfolio	Several	32 940	Adeo	Batipart & Covea	€60-70 M	€1 970	n.a.
Hospitality	Hotéis Galo Portfolio	Santa Cruz (Madeira)	230 keys	Roland Bachmeier	DER Touristik	€65-70 M	€292 200[34]	n.a.
Hospitality	The Lake Resort	Loulé	190 keys	Oxy Capital	HI Partners	€50-55 M	€273 440[34]	n.a.
Offices	Natura Towers	Lisbon	11 000	MSF	Cofidis	€47 M	€4 230	n.a.
Offices	Castilho 50	Lisbon	6 260	Finangeste	Zurich	€41 M	€6 550	4.0%-4.5%
Mixed Use	Trindade Domus	Porto	20 080	Private	Finangeste & Patron	€41 M	€2 590	n.a.

Source: Cushman & Wakefield

In the current context, yields adjusted slightly upwards in 2020, particularly in the asset classes which were operationally most impacted by the pandemic. Prime yields at year-end stand at 4.10% in the office sector, 5.25% in the shopping centres sector and 4.25% in the high street retail sector, reflecting increases between 10 and 50 basis points compared to 2019. The only exception was the industrial and logistics sector, which remained stable at 6.00%, given the limited quality of assets for sale.

[29] €/key

PRIME YIELDS



Source: Cushman & Wakefield

OUTLOOK

Institutional investment activity is expected to continue to benefit from high levels of liquidity in the market, contributing to a gradual recovery throughout 2021, albeit with differences amongst the various sectors. Given the current context of uncertainty, **there will continue to be a preference for safe assets (i.e., with long-term lease agreements, good covenants and in attractive locations) and for transactions which do not need bank financing.**

Given the scarcity of supply of assets in the logistics and PRS segments, pressure from investors will continue to trigger development, and it is expected that there will be increased interest in forward funding or forward purchase of build-to-rent products. In the office sector, and especially given the scarcity of new supply already under construction, investor interest will remain high, although with a greater focus on core and core+ products.

On the contrary, a slower recovery is expected in the retail sector, and asymmetrically across its various sub-sectors – with food retail showing the greatest resilience, as opposed to shopping centres in more peripheral locations. In the hotel sector, some distressed deals may occur, as well as some owner-operator hotel groups placing units for sale (possibly through sale & leaseback agreements), given their need for liquidity. In this sector, a potential disruptor will be the current sale process of assets managed by ECS, which includes (among others) a portfolio of around 20 hotels, for an amount in excess of €1,000 million.

In this uncertain climate, with a current pipeline of transactions totalling no more than €1,350 million, we expect the year-end volume to be much higher. On the one hand, off-market deals, which are less visible, are increasingly prevalent. On the other, increased success with the rollout of the vaccination programme and the subsequent recovery of the economy and occupancy markets should resuscitate several deals currently on hold, with possible completion by 2022, totalling an estimated €1,900 million.

With the current spread between prime real estate yields and public debt yields (by definition considered as risk-free assets) at 20-year historic highs, the outlook is for a gradual recovery of the former, with some sectors already compressing in the first quarter of 2021 – in certain cases back to pre-pandemic levels, such as in the office sector (4.00%), and in others reaching historic lows, namely, in the industrial & logistics sector (5.75%). For the retail and hotel sectors, the adjustment may only occur in 2022.

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