

MARKET

36

HIGHLIGHTS 2023 / 2024

Real Estate Market in Portugal

Investment Market

At a glance

PRIME YIELDS

Yields outward movement throughout the year, reaching

+125 bps
higher than historic lows for some segments

	Prime Shopping Centers		6.15% 2023	5.75% vs 2022
	Industrial & Logistics		5.75% 2023	5.25% vs 2022
	Food Retail		5.65% 2023	5.50% vs 2022
	Offices		5.25% 2023	4.50% vs 2022
	High Street Retail		4.75% 2023	4.50% vs 2022

NATURAL CONTRACTION

of the market following the rise in interest rates

VOLUME DROP

in line with other European markets

2023

ESTIMATED TURNOVER

€1.7B
-50%
y-o-y

INTERNATIONAL INVESTMENT

70%
of Total Turnover
vs >80% previous years

THE DECREASE IN INTERNATIONAL CAPITAL
inflows has resulted in a rise in domestic capital



ARROW GROUP

PARTNERS GROUP

LCN CAPITAL PARTNERS

are among **THE KEY PLAYERS IN 2023**
due to their involvement in significant transactions of hotel and retail portfolios

2023 CAPITAL FOCUS

CHANGES
in the preferences/priorities of investors

SHIFT
in the top three asset allocations

Hotel

37%

Very robust operational fundamentals following the recovery of tourism and private consumption

Retail

35%

Dynamic sector both for food and non-food retail with great operational indicators

Alternatives

14%

PBSA and special purpose facilities such as educational and leisure units among the outperforming alternative assets

MINOR APPETITE, LOWER LIQUIDITY, AND BID/ASK SPREAD

limiting investment turnover in **OFFICE ASSETS**

INVESTMENT MARKET OUTLOOK

Market recovery expected in the second half of 2024 mainly due to the relief in interest rates

2024 investment turnover to be aligned with 2023

Return of institutional capital that were kept on hold

Although there is still a significant bid/ask spread, there is an increasing appetite for shopping center assets

Elections in several countries, including Portugal, may create additional instability and uncertainty

Yield stabilization is expected to become more pronounced towards the end of the year

Continued demand for ESG compliance and EU Taxonomy as main criteria for investment



Hotels Market

At a glance

c. € **610M**
INVESTMENT
VOLUME IN HOTELS

with the largest transaction
representing 40% of the total
turnover (-48% vs 2022)



MARKET TRANSITION

from
**SINGLE ASSET ACQUISITIONS
TO PORTFOLIO ONES**
reinforcing the maturity
of the market

THE MAIN PLAYER
in the hospitality
sector in 2023 with the
acquisition of major
D. Pedro Hotels and
other assets in the
Algarve

NEW HISTORICAL RECORDS

reached in performance
indicators. ADR is higher
than 2019 and 2022's,
with favourable
impacts on
RevPAR's growth

HOTELS PRIME YIELDS

LISBON **5.40%** — **5.90%**
Avenida da Liberdade & Downtown

PORTO **6.25%** — **6.75%**

ALGARVE **6.75%** — **7.00%**

Expansion of yields
mainly caused by
overall market
economic conditions

2023

28.2M **73.1M**
GUESTS **OVERNIGHTS**

+13% & **+10%** **+11%** & **+10%**
y-o-y (Nov 2022) | vs Nov 2019 y-o-y (Nov 2022) | vs Nov 2019

€5.70B **€4.41B**
TOTAL INCOME **LODGING INCOME**

+20% & **+40%** **+22%** & **+43%**
y-o-y (Nov 2022) | vs Nov 2019 y-o-y (Nov 2022) | vs Nov 2019

	LISBON	PORTO
Occupancy Rate	▲ 74.3% vs (2019) 78.1%	▲ 70.5% vs (2019) 76.7%
ADR	▲ €168.5 vs (2019) €127.5	▲ €134.9 vs (2019) €120.3
RevPar	▲ €125.2 vs (2019) €96	▲ €95.1 vs (2019) €92.3

SOURCE: STR (Nov)

INTERNATIONAL DEMAND

~ **60%**
OF THE GUESTS

**HIGHER THAN
2019 LEVEL**

68 NEW OPENINGS
7,500 NEW BEDS
OF WHICH **30%**

are

5* STAR HOTELS

HOTELS MARKET OUTLOOK

Expectation of further ADR
increases over 2024 and an
alignment of occupancy
with 2019 levels

Interest from both
domestic and international
institutional investors to be
continued in 2024

Scarcity of eligible supply for
investment remains (good locations,
prime tenants, interesting yields or
with repositioning potential)

End of golden visas
unlikely to adversely
affect hotel
investment levels

Focus on the luxury
segment for the
development of new hotel
units in Lisbon and Porto

Residential Market

At a glance



during mainly the first half of 2023 which has led to an ebb in the number and volume of residential sales

Nevertheless, figures point out to stabilization over the second half

Despite stricter mortgage conditions

VOLUME OF NEW HOUSING LOANS

have grown c. **23%** y-o-y (BdP Nov 2023)

Mainly due to a more dynamic second half of the year

But

THE NUMBER OF NEW HOUSING VALUATIONS for credit purposes

has decreased by **-17%** y-o-y (BdP Nov 2023)

RESIDENTIAL MARKET ADJUSTMENT due to a more challenging macro economic context



2023 SALES VOLUME
€27,000M - 28,000M
ESTIMATED

vs **€32,000M** 2022 c. **-12%** y-o-y

DWELLINGS SOLD
137,000
ESTIMATED

vs **168,000** 2022 c. **-20%** y-o-y

RESILIENT INTERNATIONAL DEMAND

despite the end of the Golden Visa and the announcement of the end of the NHR tax regime

INTERNATIONAL SALES REPRESENT

c. **8%** vs 6% 2022

NUMBER OF SALES

13% vs 11% 2022
SALES VOLUME

(JLL estimates based on INE)

IMBALANCE BETWEEN



sustaining prices although **ADJUSTMENTS HAVE BEEN RECORDED** throughout the year

AVERAGE SALES PRICE

LISBON **€4,600/sqm**

PORTO **€3,000/sqm**

SOURCE: CI/SIR

RESIDENTIAL MARKET OUTLOOK

Enduring supply shortage as the increase in licensing remains limited and large-scale projects fall short in meeting the demand

Opportunity for both new construction and asset retrofitting and diversification of target to answer to the full demand spectrum

Continuing price resilience due to persistent supply/demand imbalance, despite a slowing growth rate

The peaking of interest rates is expected to prompt and thus, unlocking residential sales which may increase over 2024

Development Market

At a glance

ADVERSE CONTEXT FOR DEVELOPMENT

with the rise in interest rates, increasing financial costs, the unpredictability of exit strategies in commercial assets and a wait and see behaviour from some players

Despite the challenging context

THERE HAVE BEEN SEVERAL TRANSACTIONS TOTALLING

+200,000 sqm OF GROSS CONSTRUCTION AREA

of which more than

85%

are for residential development

NUMBER OF HOUSING COMPLETIONS IS THE HIGHEST OVER THE LAST 10 YEARS

but still behind the previous cycle

Enduring structural supply scarcity across all property sectors and high-volume demand from end users turns the spotlight into the development sector

2023

HOUSE COMPLETIONS

16,150

(INE, up to Q3 2023)

VS **43,000**

(previous cycle up to Q3 of each year)

LICENSED UNITS

+5%

y-o-y

VS **50,000**

(units/year pre-financial crisis)

2023 IS THE BEST YEAR SINCE 2013

although behind the values recorded in the pre-financial crisis

THE LIVING SECTOR, HOTELS & LOGISTICS ASSETS

garner the highest level of interest

LONG-TERM COMMITMENT OF INTERNATIONAL CAPITAL for great mixed-use projects with a development framework between 5 to 10 years

THE INCREASE IN CONSTRUCTION COSTS HAS SLOWED DOWN **1.5%** y-o-y Oct 2023

due to a decrease in material expenses

but there has been a simultaneous rise in labor costs over the year



DEVELOPMENT MARKET OUTLOOK

Enduring challenging context which may continue to add pressure on land values

Appetite from developers and investors as market fundamentals remain robust

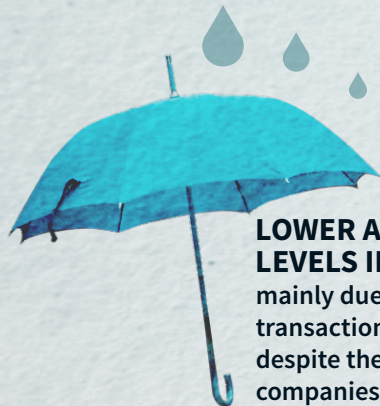
Expectations on Urban Simplex and its capacity to be a gamechanger in the licensing procedures and bureaucracy of urban projects

Expected launch of the first large scale BtR projects in Portugal in Lisbon and Porto

Growing attractiveness of some secondary cities with stronger dynamics and fundamentals

Office Market

At a glance



LOWER ABSORPTION LEVELS IN LISBON

mainly due to the lack of big transaction over the year despite the interest of several companies in upgrading and relocating their office premises

HIGH QUALITY ASSETS IN PRIME LOCATIONS ARE OUTPERFORMING THE MARKET

as occupiers seek upgraded space

TAKE-UP RECORDED ONE OF THE LOWEST LEVELS IN 2023 IN LISBON

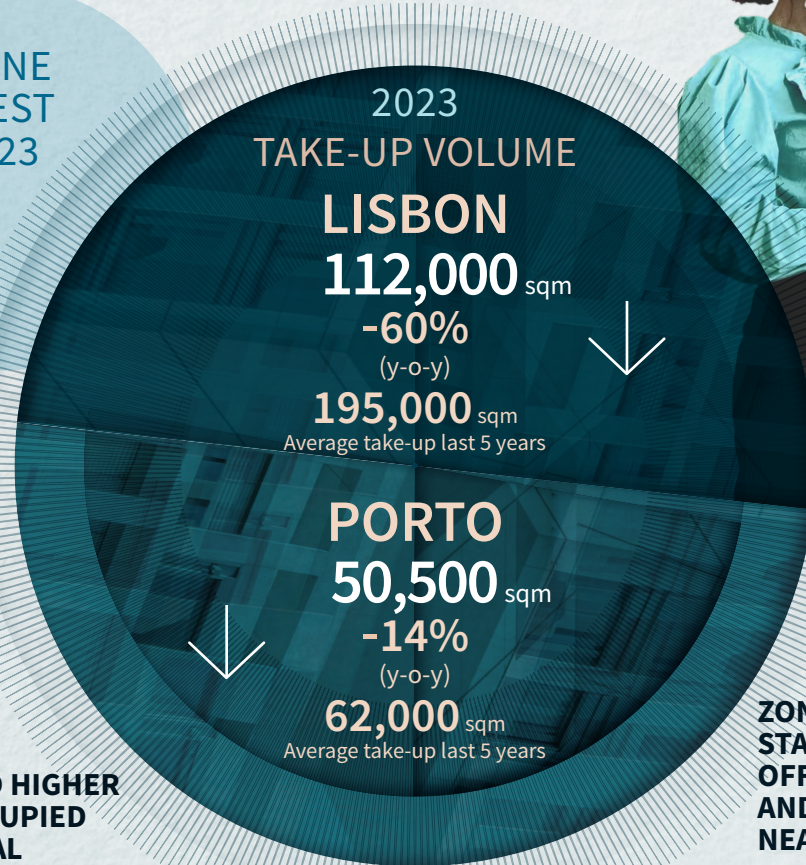
while in Porto the absorption has been comparable to previous years



PORTO

EXPERIENCED HIGHER AVERAGE OCCUPIED AREA PER DEAL

compared to last year, with the largest occupation reaching almost 8,000sqm in Zone 1 CBD-Boavista



ZONES WITH STATE-OF-THE-ART OFFICE SPACES AND OUTSTANDING NEARBY AMENITIES

experience the fastest rent upgrades

PRIME OFFICE RENTS ARE TRENDING UPWARDS

with an additional 1€ adjustment made in the CBD zones of both cities

PRIME RENT

LISBON €28/sqm

PORTO €19/sqm

INCREASING VACANCY RATE THROUGHOUT THE YEAR

largely driven by the disoccupation of obsolete buildings

LISBON VACANCY RATE

10.3% vs Q3 2023

8.6% 2022

OFFICE MARKET OUTLOOK

ESG commitment, evolving work practices, and talent attraction and retention are key drivers for companies to reassess their premises and invigorate market dynamics

Occupancy levels in 2024 are expected to be aligned with the average of the last 5 years showing a recovery from 2023 mainly due to the increase in the average area of the transactions

Prime rents will continue to exhibit an overall upward trend, as the supply meeting the demand requirements enters the market at a slow pace

There are nearly 330,000 sqm of new offices in the pipeline for 2024 and 2025, but of these, more than 40% are either pre-leased or being developed for owner-occupation

Retail Market

At a glance

ON THE DEMAND SIDE

Despite a challenging macroeconomic environment

PRIVATE CONSUMPTION
+7%
y-o-y BdP Nov 2023)

PRIVATE CONSUMPTION CREDIT
+8%
y-o-y BdP Nov 2023)

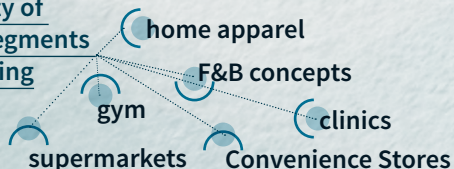
CONTINUE TO INCREASE

whilst savings record a downward pressure

RETAILERS ARE FOCUSED ON SECURING QUALITY RETAIL SPACE

and are demanding on the location and layout of the premises

Diversity of retail segments expanding such as



ENDURING REBOUND OF THE RETAIL SECTOR

anchored on the tourism boom and the revitalization of high street retail and the revamp of dominant shopping centers

PRIME SHOPPING CENTERS OUTPERFORMING

in the aftermath of the pandemic

Although footfall is still lagging, there is a notable increase in the conversion of visits into actual sales which impacts the overall performance positively

RENT LEVELS EXPERIENCING AN UPWARD TREND

due to imbalance between supply and demand across all retail segments

2023

SALES VOLUME
+10%
y-o-y
(and above 2019 levels)

FOOTFALL
6 - 9%
-3% vs 2019

OCCUPANCY RATE
90-100%
+8% vs 2019

Increasing luxury retailers demand
mainly in Lisbon

Discount retailers growth
(food and non food)
in urban locations

Concept stores becoming a trend
to boost sales through a new and personal experience

Debut and expansion of retailers in the low-cost segment such as
**NORMAL • KIK • PEPCO
TEDI • TIGER • ALE HOP**
opening several retail units

	Prime Shopping Centers	▲	€130/sqm +8% y-o-y
	High Street Retail		
	Lisbon Chiado	▲	€140/sqm +8% y-o-y
	Porto Santa Catarina	▲	€75/sqm +7% y-o-y
	Food Retail Stand Alone	▲	€13/sqm +8% y-o-y
	Retail Parks / Warehousing	▲	€12/sqm +9% y-o-y

RETAIL MARKET OUTLOOK

Market performance dependent on the consumption behaviour over the year with some headwinds regarding private consumption

Leasing activity is predicted to continue and grow although retailers are more demanding on the location and layout of the premises

Maintenance of prime shopping centers performance and return of appetite for this asset class

Repositioning potential for underperformance retail assets

Enduring rental growth across retail segments as market fundamentals remain robust

Industrial & Logistics Market

At a glance

CONSOLIDATION OF THE MARKET MATURITY

due to the end of construction and operation of several key projects developed by international developers which highly contribute to the quality and standard of premium assets in Portugal

In addition to logistics and transportation operators, demand is also represented by new industries such as

RENEWABLE ENERGIES
AUTOMOTIVE
PHARMACEUTICALS
BATTERIES

DEMAND

The capacity of Portuguese seaports, skilled workforce, and the country's geopolitical positioning help explain this demand

2023 TAKE-UP VOLUME

441,000 sqm

PRELIMINARY

-25% y-o-y

OCCUPANCY LEVELS COMPROMISED DUE TO LACK OF AVAILABLE AND SUITABLE STOCK

SCARCITY OF SUPPLY HAS PROMPTED OPERATORS TO CHOOSE PRODUCTS IN LESS CONVENTIONAL LOCATIONS and, consequently, leading to an appreciation of the available stock

RENTS SUSTAIN AN UPWARD TRAJECTORY

reaching €4.75/sqm both in the prime axis of Lisbon (Alverca-Azambuja) and in Porto (Maia)

DEMAND LEVEL FOR QUALITY PRODUCTS HAS REMAINED HIGH

with the majority seeking areas between 3,000 & 5,000sqm

Despite Lisbon Metropolitan Area representing a large part of the activity there is also demand in other areas of the country such as

Porto Metropolitan Area
Viana do Castelo
Mealhada (Aveiro)
Pousos (Leiria)
Algoz (Algarve)

PRE LET DYNAMICS REINFORCED THROUGHOUT 2023

which translates a robust volume of demand and tenancy availability to pay a premium on market rent

INDUSTRIAL & LOGISTICS MARKET OUTLOOK

2024 holds promising prospects for the sector with significant logistics projects in the pipeline set to enter the market by late 2024 or early 2025

Natural expansion and development of secondary zones due to the saturation of consolidated areas creating new centralities

ESG policies standing out a core feature in the development and the occupation of new projects

The completion of Panattoni Park in Valongo, the first speculative project in Portugal with 75,000 sqm by the world's largest logistics developer, is expected for 2024 and is a clear sign of demand robustness

Low vacancy rate coupled with robust demand is leading to further rent increases both in consolidated and under consolidation zones

First steps on vertical logistics due to scarcity of land and the automation of the operations

Alternatives Market

At a glance

PRIVATE RENTED SCHEMES

INCREASING MORTGAGE EXPENSES HAVE REDUCED THE ATTRACTIVENESS OF OWNING A HOME while fueling the popularity of renting

However, **HARD DEVELOPMENT CONTEXT** (licensing, financial, construction and operational costs) continue to limit investors and developers' interest

First BtR projects and awareness from Municipalities on the rise to **TACKLE THE HOUSING ACCESSIBILITY CRISIS**

PURPOSE BUILT STUDENT ACCOMMODATION

PBSA REMAINS HIGHLY CONSOLIDATED and continues to exhibit great appeal for investors, with exceptional performance in terms of occupancy rates

THE BEST SEGMENT IN TERMS OF TRANSACTIONAL VOLUME in the alternative assets

Lisbon and Porto stand out as the cities where the most PBSA units are being transacted

2023 STRONG OPERATIONAL INDICATORS

across the several alternative assets but investment opportunities constrained by the lack of supply

HEALTHCARE

RELATIVELY CALM TRANSACTIONAL YEAR for healthcare premises such as hospitals and clinics

INVESTORS HAVE REDIRECTED THEIR FOCUS towards core markets such as Central Europe

Nevertheless, Portugal's healthcare sector has shown **STRONG OPERATIONAL FUNDAMENTALS**

SENIOR LIVING

GREAT OPERATIONAL INDICATORS for senior living establishments due to the aging population
However

FURTHER PROJECTS EXPANSION FOR INVESTORS AND PROMOTORS LIMITED due to development and financing costs, high taxes and low margins

DATA CENTERS

Attractiveness of Portugal as a data center location due to the **POSITIVE GEOGRAPHICAL & INFRASTRUCTURE CONTEXT**

Positive context for the development of data centers with **MUNICIPALITIES EAGER TO ATTRACT THIS ASSET CLASS**

LAND AND ENERGY AVAILABILITY at a competitive cost

Demand anchored on operators which translates the **LACK OF MARKET MATURITY**

ALTERNATIVES MARKET OUTLOOK

Challenging year due to macro environment context and scarcity of available investment product limiting market activity

Investors and developers will continue to show varying levels of interest towards the different alternative assets

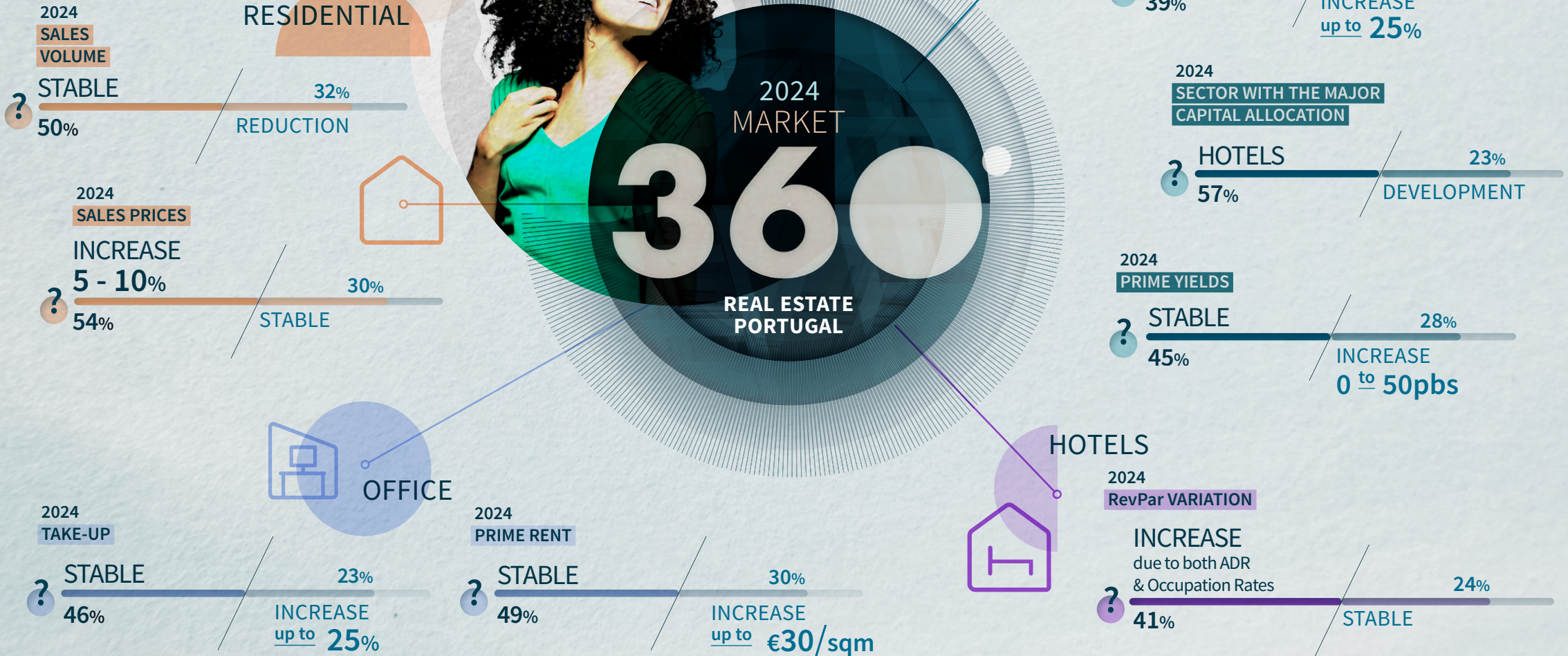
The exceptional operational performance, driven by robust demand from end users, will continue

The long-term projection for stable rental growth is expected to persist

Growing awareness of the data center asset class and active search from operators to be increased in 2024

2024

What is our Client's Vision?



SOURCE: SURVEY TO 99 CLIENTS AND PARTNERS. JANUARY 2024



MARKET 360°

RESEARCH REPORT 2023 / 2024

Real Estate Market in Portugal

Investment

Gonçalo Santos

HEAD OF CAPITAL MARKETS
goncalo.santos@jll.com

André Vaz

**HEAD OF LIVING
& ALTERNATIVE INVESTMENT**
andre.vaz@jll.com

Gonçalo Ponces

**HEAD OF DEVELOPMENT
& NATURAL CAPITAL**
goncalo.ponces@jll.com

João Sacadura

HEAD OF OFFICE INVESTMENT
joao.sacadura@jll.com

Karina Simões

HEAD OF HOTEL ADVISORY
karina.simoese@jll.com

Marlene Tavares

**HEAD OF RETAIL
& LOGISTICS INVESTMENT**
marlene.tavares@jll.com

Salvador Leite de Castro

HEAD OF PRIVATE WEALTH
salvador.leitecastro@jll.com

Residential

Patricia Barão

HEAD OF RESIDENTIAL
patricia.barao@jll.com

Pedro Barreto

RESIDENTIAL PROJECTS DIRECTOR
pedro.barreto@jll.com

Telmo Azevedo

RESIDENTIAL PROJECTS DIRECTOR
telmo.azevedo@jll.com

Valuation Advisory

Marta Lourenço

**HEAD OF SOLUTIONS SE CLUSTER
AND VALUE AND RISK ADVISORY PT**
marta.lourenco@jll.com

Inês Almeida

**HEAD OF PORTFOLIO SOLUTIONS
RETAIL & DEVELOPMENT**
ines.almeida@jll.com

Hugo Simões

HEAD OF CRE AND LIVING ASSETS
hugo.simoese@jll.com

Leasing Markets Advisory

Mariana Rosa

HEAD OF LEASING MARKETS ADVISORY
mariana.rosa@jll.com

Sofia Tavares

HEAD OF OFFICE LEASING
sofia.tavares@jll.com

Cristina Almeida

**MARKETS & CAPITAL MARKETS
PORTO DIRECTOR**
cristina.almeida@jll.com

Work Dynamics

Maria Empis

HEAD OF WORK DYNAMICS
maria.empis@jll.com

Caetano de Bragança

HEAD OF WORKPLACE CONSULTING
caetano.debraganca@jll.com

Maria Sacadura Botte

**HEAD OF PROJECT & DEVELOPMENT SERVICES
AND SUSTAINABILITY**
maria.sacadurabotte@jll.com

Joana Fonseca

**HEAD OF STRATEGIC CONSULTANCY
& RESEARCH**
joana.fonseca@jll.com

MARKET 360º

RESEARCH REPORT 2023 / 2024

Real Estate Market in Portugal

Author

—— *Joana Fonseca*

HEAD OF STRATEGIC

CONSULTANCY & RESEARCH

joana.fonseca@jll.com

—— *Gonçalo Valente*

HEAD OF BUSINESS DEVELOPMENT

goncalo.valente@jll.com

—— *Marta Silva Carvalho*

HEAD OF MARKETING & COMMUNICATIONS

marta.carvalho@jll.com



OFFICES

LISBON

Edifício Heron Castilho
Rua Braancamp 40 8º
1250-050 Lisboa

+351 213 583 222

portugal@jll.com

PORTO

Rua Mouzinho
da Silveira 324
4050-418 Porto

+351 225 431 090

porto@jll.com

RESIDENTIAL STORES

LISBON

Rua Castilho 39
1250-068 Lisboa

+351 213 121 520

jllresidentialpt@jll.com

OEIRAS

Rua Marquês
de Pombal 5A
2770-158 Paço de Arcos

+351 210 200 966

oeiras@jll.com

ALGARVE

Quinta Shopping - Store 36
Quinta do Lago
8135-024 Loulé

+351 800 180 674

COMPORTA

Rua do Secador 5
7580 - 648 Comporta

+351 211 323 940

comporta@jll.com

PORTO

Rua Mouzinho
da Silveira 324
4050-418 Porto

+351 225 431 090

porto@jll.com

CASCAIS

Avenida Valbom 11
2750 - 508 Cascais

+351 219 105 600

cascais@jll.com

Av. da Marina 3
Marina Plaza - Store 14/15
8125-401 Vilamoura

+351 289 098 829

algarve@jll.com

MADEIRA - FUNCHAL

Edifício Quinta Avenida
Avenida do Infante 66
9000-015 Funchal

+ 351 291 093 501

madeira@jll.com

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