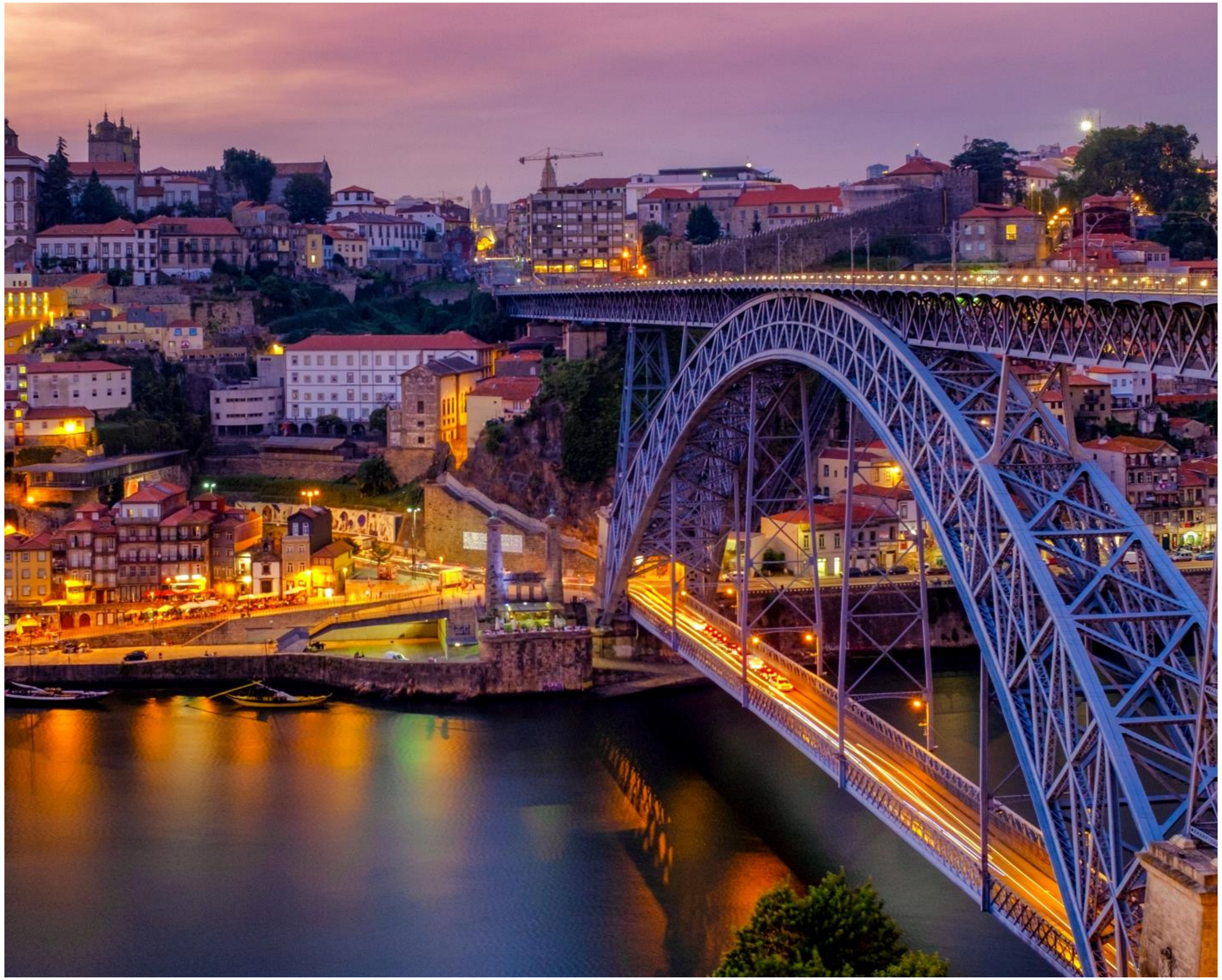
Intelligent Investment

2024 Portugal Real Estate Market Outlook

REPORT

CBRE RESEARCH
JANUARY 2024

Contents



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01

Macroeconomics

Although better prospects are in place for 2024, the economy will still be weak, with delayed impact of high interest rates. Also, the geopolitics and inflation are still considered risks. However, a more positive growth momentum is expected over the second half of the year.

Key Takeaways

01

SLOWDOWN IN ECONOMIC GROWTH

Weaker economic growth is likely to make 2024 a challenging year for real estate markets. However, 2025 will see an improve on economic growth.

02

INFLATION IS DECLINING

The decline in inflation – core inflation is expected to drop to 2.3% in 2024 – alongside with the execution of EU's RRF will boost growth.

03

UNEMPLOYMENT RISES

Although unemployment is expected to grow, the latest forecasts show a less concerning panorama of the employment market in Portugal.

04

PUBLIC DEBT WILL DECLINE

In 2024, gross government debt will stay below 100% of GDP. Also, the budget deficit is reaching near 0%.

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Growth expected to slowdown through this year, improving over next year

ECONOMIC GROWTH WILL PICK UP IN 2025

In 2023, Portugal had a sustained economic growth when comparing with the Euro Area average, specially at the end of the year, with forecasts stating that it will be the 6th country in the Euro Area with the highest GDP growth, staying above the average of Eurozone. However, comparing with the previous year, 2023 had a sluggish growth through most of last year – in 2022, Portugal's GDP growth was the 3rd highest in the Eurozone. For 2024, GDP is expected to decrease its growing trajectory, with a 1.2% growth forecasted, which will be ranked 18th between the Eurozone countries.

Unemployment stayed at the same level as the Eurozone in 2023 – currently standing at 6.6%. However, it is expected to be above the average in the Euro Area over the upcoming years – in 2024, it is forecasted to be at 6.8%, while the Euro average will stay at 6.7%. Although the latest forecasts turn to be more positive than the expected, this still implies a slight decay of the employment market which will negatively affect the private consumption.

PUBLIC DEBT WILL DECREASE WHILE THE DEFICIT REACHES NEARLY ZERO AFTER A FEW YEARS OF POSITIVE BALANCE

In 2023, government debt is expected to be lower than 103%, which is below the estimations done at the beginning of the year. For 2024, it is expected that government debt represents 99.5% of GDP. It is forecasted that Portugal leaves the group of the most indebted countries in the European Union only in 2025, when reaching the 98.9% milestone.

After a few years of surplus, the Government Balance is expected to decrease to near zero due to economic growth slowdown.

Figure 1: GDP and Unemployment
GDP CAGR (%) & Unemployment rate (%)

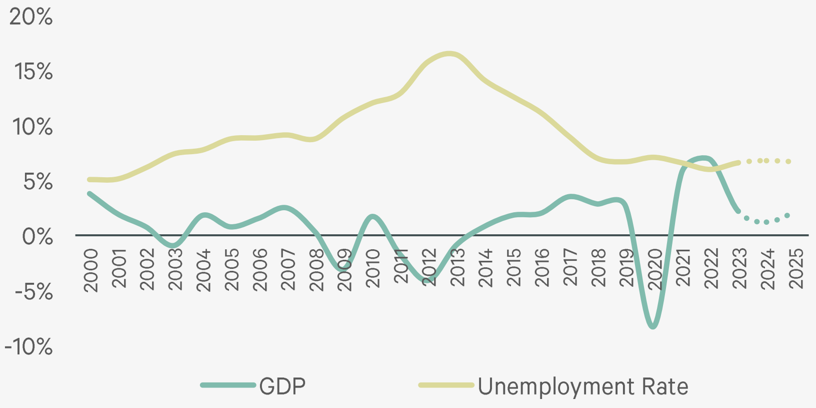
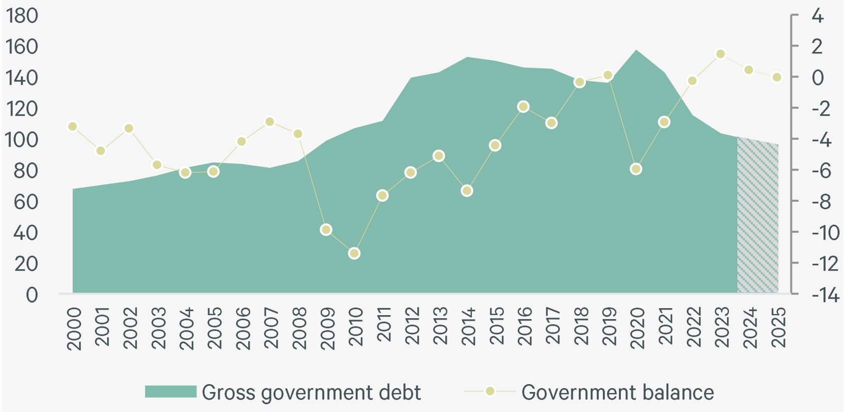


Figure 2: Gross government debt and Government balance
share (%) of GDP



Source: CBRE Research via Banco de Portugal (BdP) and Oxford Economics

Although weaker growth is expected in 2024, Portugal might pick up momentum at the second half of the year.

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Inflation pressures will ease, boosting consumption in 2024

INFLATION IS DECLINING

After achieving its peak at the end of 2022, inflation eased its pressures over 2023 and will continue to do so in 2024. Inflation is declining, falling sharply over the more recent months. Energy prices and high base effects in food inflation supported recent declines. Core inflation, contrary to what was expected, also showed a lower momentum. Over the next few months, inflation is forecasted to be volatile. The VAT exemption on food products ended on January 4th, which meant increases of 10%, and inflation is expected to drop to 2.3% in 2024 (from 5.3% in 2023).

Interest rates also stopped rising, with ECB holding interest rates stable over the year – refinancing operations at 4.50%, marginal lending facility at 4.75% and deposit facility at 4.50%.

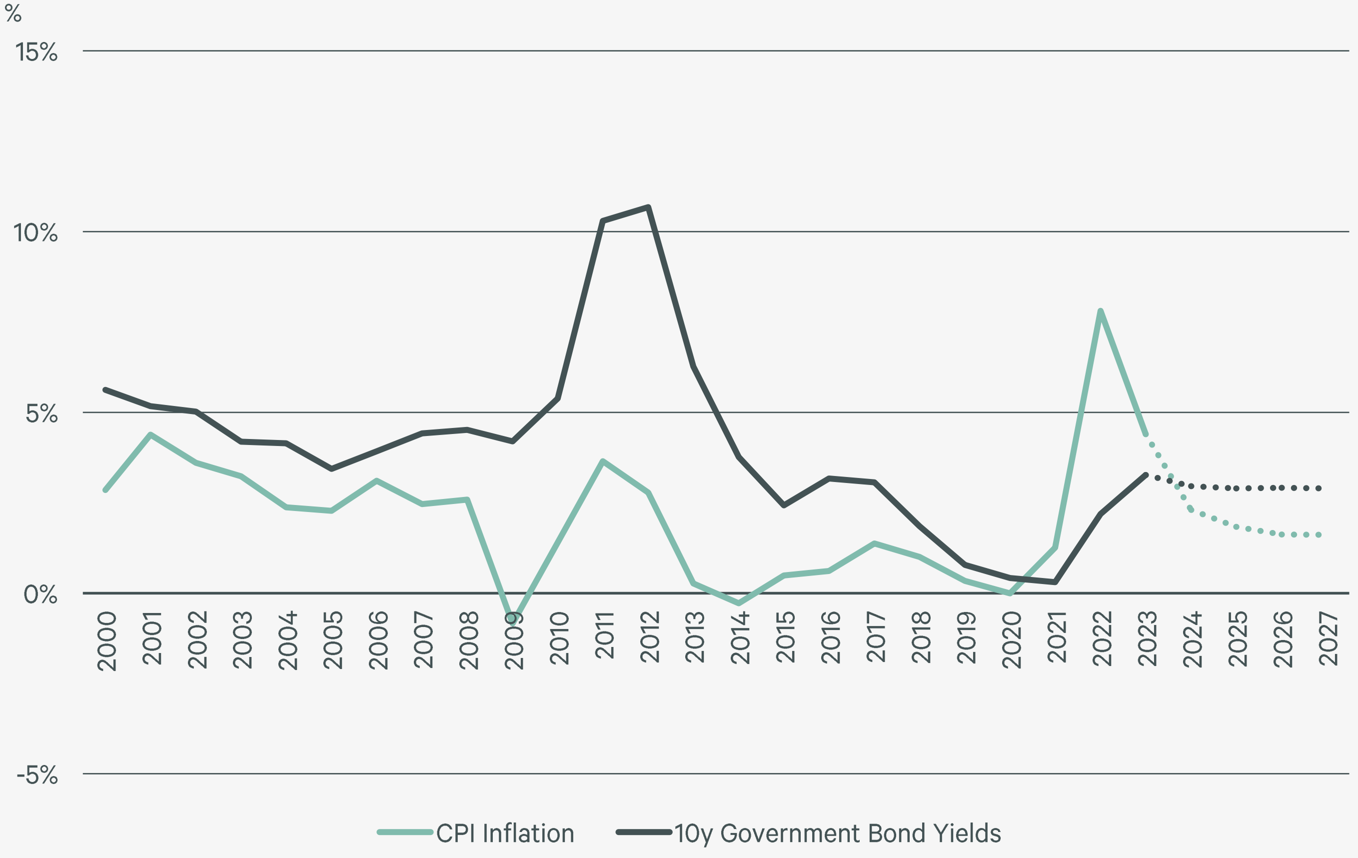
EU'S RRF EXECUTION WILL BOOST GROWTH

Throughout 2024, real disposable income is expected to improve. Growth will be boosted by the step-up in the execution of the EU's Recovery Resilience Facility (RRF). Improving real disposable incomes amid solid wage growth and easing inflation will support consumer spending, while investment is set to benefit from a step-up in payments linked to the EU's RRF.

MAIN RISKS TO THE OUTLOOK

– Gloomy global outlook that will also affect Portugal
– Political turmoil leveraged by the upcoming elections in March 2024

Figure 3: CPI Inflation and 10-Year Government Bond Yields, Portugal



Source: CBRE Research

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02

Investment

2024 will see an increase on the investment volume in real estate, mainly boosted by moderate yield compression and the increase of motivated seller due to credit events and asset valuation corrections.

Key Takeaways

01
INVESTMENT WILL PICK UP IN 2024

2024 will see a rebound on the investment volume, however in some sectors and locations some negative repricing is still expected.

02
YIELDS ARE EXPECTED TO COMPRESS

Although interest rates are not expected to show a significant shift, we foresee a moderate yield compression in some sectors that may boost investment volume.

03
HOTEL AND RETAIL: THE STAR CHOICES

Hotel and Retail are expected to continue to rank favourite among investors rankings, but alternative and living are gaining considerable momentum.

04
DEBT GAP & VALUATIONS WILL BOOST VENDOR'S APPETITE

The assets' valuation correction and debt gap will increase the number of motivated sellers.

05
INTEREST RATES WILL COMMAND INVESTMENT VOLUME

The evolution of interest rates will largely influence the speed of the recovery of investment volume and the number of transactions.

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“

In 2024, Retail and Hotel will continue to be the star sectors due to its solid and outstanding performance. Alternative sectors and living are increasingly in the agenda of the investors active in the Portuguese market.

”

Nuno Nunes
Senior Director
Capital Markets, CBRE Portugal

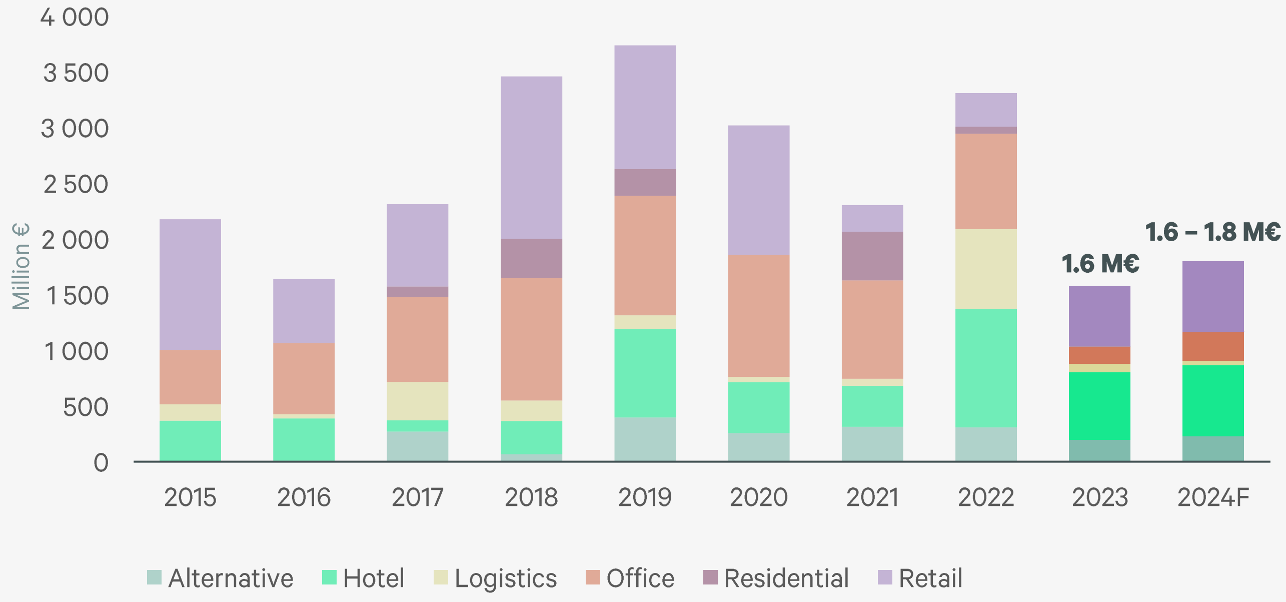
In 2023, there was a significant decline globally in real estate investment volumes, motivated mainly by sharp rise of interest rate and concerns of economic downturn in several of the largest world economies. In this context yields expanded, and overall uncertainty made investors adopt a more conservative investment policy over the year.

Portugal, did not escaped from this trend, totalling in 2023 €1.6 billion (which represented a c. 50% decrease in comparison with the previous year).

In 2024, with the expected stabilization of monetary policies and the reinforced optimism of the investor community, we expect to see an increase in investment volume of circa 15% compared to 2023, with activity gaining pace in the second half of the year.

At a European level, most of the repricing is expected to have already occurred. In 2024 repricing may still take place in some specific asset types and locations but positive price corrections may start to take place for the best prime assets.

Figure 4: Investment in Portugal
by asset category and forecast (€ million)



Source: CBRE Research

€1.6 B

Investment volume in commercial properties in 2023 reached €1.6 billion

-50%

Investment volume decreased sharply over the previous year

100+

Pipeline deals, that already represent a potential y-o-y growth of 15%

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Yield compression is due to moderatly do its comeback

Interest rates reached its peak in 2023, with ECB forecasting a stabilization over the year. However, the higher interest rates may continue to affect property yields as a consequence of market adjustment. Nevertheless, we foresee some moderate yield compression over this year, which is going to positively boost the confidence in the Portuguese real estate market.

SECTOR OUTLOOK

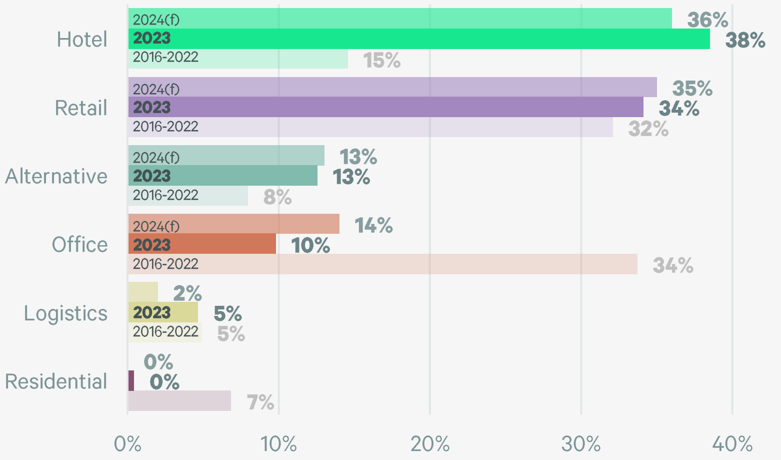
Offices have lost the leading seat in the Portuguese investment market. Between 2016 and 2022, offices represented 30% of investment, in 2023 this sector represented 10%, but is expect to recover in 2024.

In 2023, Retail and Hotel together represented around 70% of the total investment volume. While the Hotel sector already contributed largely for 2022 investment volume, it was Retail that saw the biggest share increase. In the Hotel sector, the transaction of 6 hotels was the largest deal last year. The most transacted category in Hotels was Luxury – with a 45% quota – followed by the Upscale segment – with a 27% quota.

In the Retail sector, the highlights went to the supermarket portfolio that included the sale of 50 supermarkets over Portugal as well as the sale of 5 retail parks. The most transacted category naturally was Supermarkets – with a 42% quota – followed by Shopping Centres and Retail Parks – with a 23% and 21% quota, respectively.

In 2024, Retail and Hotel are expected to remain the star sectors, due to its outstanding performance over the last years and the relatively high returns they offer investors.

Figure 5: Weight by asset category in Portugal's investment
2024 (f) vs. 2023 and 2016-2022 average



Source: CBRE Research

Figure 6: Yield Evolution
by product (bp)

Source: CBRE Research

In the Hotel sector, opportunities are mainly concentrated in Algarve, but Lisbon is still going to account with 15% of the pipeline transactions.

In the Retail sector, Shopping Centres, Supermarkets and retail parks are the most sought-after categories, representing the large majority of the pipeline transactions, with investors taking advantage of the rotation of assets which is being driven by the end of investment cycles in some cases and the need for liquidity of some investors.

Even though we do not expect that the uncertainty around the office sector will fully dissipate in 2024, we expect that the sector will regain momentum.

The Alternatives sector is likely to grow significantly, mostly in the Student Housing and Healthcare segments.

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International buyers accounted for 70% of the transacted volume, with UK buyers representing 35% of the transacted volume, followed by purchasers from the USA (with a 16% quota). CBRE predicts that the same trend is maintained over 2024.

Over 2023, investment in Portugal was predominantly done by Investment Funds – with a 55% quota of the investment volume – followed by Institutional Funds. In 2024 we expect familly offices and large private investors to gain relevance.

KEY TRENDS IN THE INVESTMENT MARKET:

- Hotel and Retail will capture most of the inflow capital, being the star choices of investors.
- Debt gap and asset valuations corrections will increase the number of motivated sellers.
- Interest rates will determine the recovery speed in the transactions' number and investment volume.

International buyers accounted for 70% of the transacted volume. Investment funds were the most active players over 2023.

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03

Offices

Leasing volumes will slowly pick up in 2024, although a first quarter is expected. Rents are expected to stabilize, however slight rent increase may occur.

Key Takeaways

01 TAKE-UP RECOVERY IN 2024
Occupancy volume will recover by increasing 25% in 2024, reaching more than 200,000 sq m nationally, due to a potential strong first quarter.

02 RENTS TO REMAIN STABLE
Rents are expected to be stable over 2024, however CBRE does not put aside the possibility of minor growths over the year.

03 THE DEAL BREAKER: ESG
Public transports are the main driver for occupiers for the location selection while ESG performance is commanding the choice of buildings.

04 PLUG & PLAY
Companies increasingly value flexibility, reason why CBRE forecasts a growth of Flex spaces and a potential adjustment in the Cat A delivery status.

05 QUALITY OVER COST
Tenants are more willing to pay higher rents if these translate into an increase in quality and in more finished products, with lower CAPEX costs.

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Occupancy will recover over 2024

After a very weak start in 2023, the second half of the year saw an increase in office occupancy. Despite this, take-up nationally accounted for c. 163,000 sq m – a decrease of 50% compared to the previous year. Lisbon totalled 113,000 sq m – which represents a 60% drop – and Porto totalled 50,000 sq m – a 15% fall compared to 2022. However, it is important to highlight that 2022 was an historical year in office occupancy.

For 2024, CBRE foresees the strongest first quarter ever, namely in Lisbon. We believe that, at the end of the year, office leasing volumes nationally will grow by around 25% compared to 2023, totalling more than 200,000 sq m – 150,000 sq m in Lisbon and 55,000 sq m in Porto.

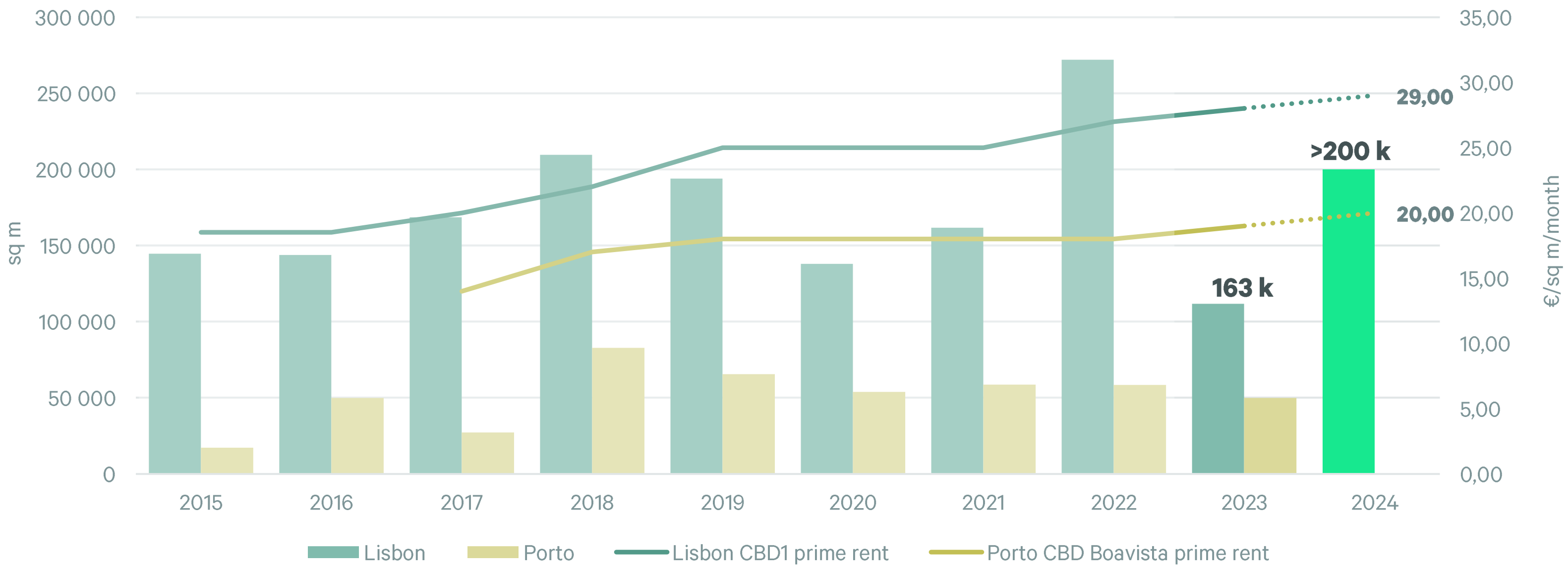
RENTS MAY STABILIZE

Over the recent years, we have been observing an upsurge on rents. In 2023 we saw a 4% increase in Lisbon CBD1 prime rent and a 6% increase in Porto CBD Boavista prime rent, currently standing at 28.00€/sq m/month and 19.00€/sq m/month, respectively. Rental growth has been sustained by an increase in quality of new or refurbished product, that is creating a new standard for demand criteria.

For 2024, CBRE foresees rents to sustain value and stabilize. However, minor rental growths may be observed - a 5% increase both in Lisbon and Porto. CBRE also anticipates that Grade A office spaces will observe some degree of rental growth. The flexibility required by main occupiers may bring the Grade A product closer to a 'plug-and-play' product.

Figure 7: Take up in Lisbon and Porto and Prime rents

sq m (right), €/sqm/month (left)



Source: CBRE Research

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> “In 2024, demand will remain healthy, with ESG, flexibility and quality commanding occupiers’ decision making.”

André Almada
Senior Director
A&T Offices, CBRE Portugal

Demand drivers

For 2024, we expect demand to remain healthy. According to CBRE’s 2023 European Office Occupier Sentiment Survey, most companies are aspiring for an equal mix of office and remote-based work. In fact, absorption of hybrid solutions sustained the importance of a high-quality office. The demand requirements are changing, and we believe three key main trends will be observed in 2024.

ESG IS HERE TO STAY

Demand is totally focused on excellency products. The real deal breaker is Sustainability. Both owners and tenants are looking for buildings that include high levels of ESG performance. In fact, 75% of the pipeline for the next 2 years (2024 and 2025) already has a sustainability certification or is in the process to obtain one. Currently, a building that does not have a sustainability certificate is a no-go.

The social part of ESG is currently focused on the experiences and wellbeing offered to occupiers. Buildings with shared rooms for meetings or multi-use spaces are highly valued by occupiers.

FLEX SPACE DEMAND IS INCREASING

Over the last years, there has been a significant growth of flex operator's take-up in Portugal. In Portugal, the scarcity of quality product leveraged the growth of flex spaces. These are more agile than regular office spaces in accommodating the tenant’s requirements, usually with high-quality offerings. Also, they are mainly responsible for responding to the urgent need of space of newcomers and companies’ expansion strategies (not only in size but also in capabilities).

In 2023, the major flex operators were responsible for more than 5,000 new workstations (4,500 in Lisbon and 500 in Porto).

GRADE A AND THE DECREASE ON CAPEX

The lack of qualitative space that responds to the current demand requirements is a reality. Although pipeline is mainly composed by Grade A products, most of the existing stock is not aligned with a Grade A product – our estimation points to up to 10% of the stock.

Companies are increasingly valuing product in a further finished way. The occupier’s flexibility may be found in ended products, that translates into a lower initial investment by occupiers and higher rents to owners. Companies are more willing to pay OPEX costs rather than CAPEX, not only because of the monetary value but also because tenants are realising that doing construction works drives them from their core business and translates into more work and time wasting.

75%
office pipeline has already a sustainability certification

5,000
workstations occupied in 2023 in flex spaces

10%
office stock up to 10% is Grade A, which translates into a scarcity of qualitative product

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04

Logistics

Logistics take-up decreased in 2023 due to lack of supply. For 2024, both projects' completions and take-up will ramp up, to 2022 levels. Rents will experience further growths.

Key Takeaways

01 OCCUPANCY WILL RECOVER IN 2024

Leasing volumes will enlarge by 20% over 2024 motivated by the increase of new supply.

02 NEW SUPPLY WILL BOOST

While 2023 saw very few completed projects, in 2024 new supply will pick up. CBRE expects speculative offer to grow to c. 300,000 sq m.

03 THE KEY FOR SUCCESS: SUSTAINABILITY

Industrial and Logistics assets are increasingly being certified, showing the concern of both promotors, investors and occupiers.

04 DECENTRALISATION IS THE NEW TREND

Demand will not be so focused on Lisbon and Porto, expanding for more secondary locations.

05 THE OPPORTUNITY: INDUSTRIAL

Industrial demand has been rising consequently to the outbreak of COVID pandemic and the armed conflict in Eastern Europe.

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Lower occupancy was led by the lack qualitative supply

After record years in 2021 and 2022 for logistics occupancy, 2023 registered a slowdown of c. 20%, totalling 316,000 sq m. This was motivated by the sharp drop of new supply. In fact, over 2023, only 25,500 sq m of logistics spaces were completed, compared to 290,000 sqm in 2022 and 265,000 sq m in 2021, which represents average falls of 90%. Moreover, the completed projects are already fully occupied, which is an indicator of the healthy demand in Portugal's logistics market.

Nevertheless, for 2024, several projects are expected to be completed – around 660,000 sq m are already under construction, of which c. 50% are speculative projects. New projects such as Benavente Logistics Park, Panattoni in Valongo, Logico In Santo Tirso and the new VGP project in Montijo will add significant stock to the market over 2023.

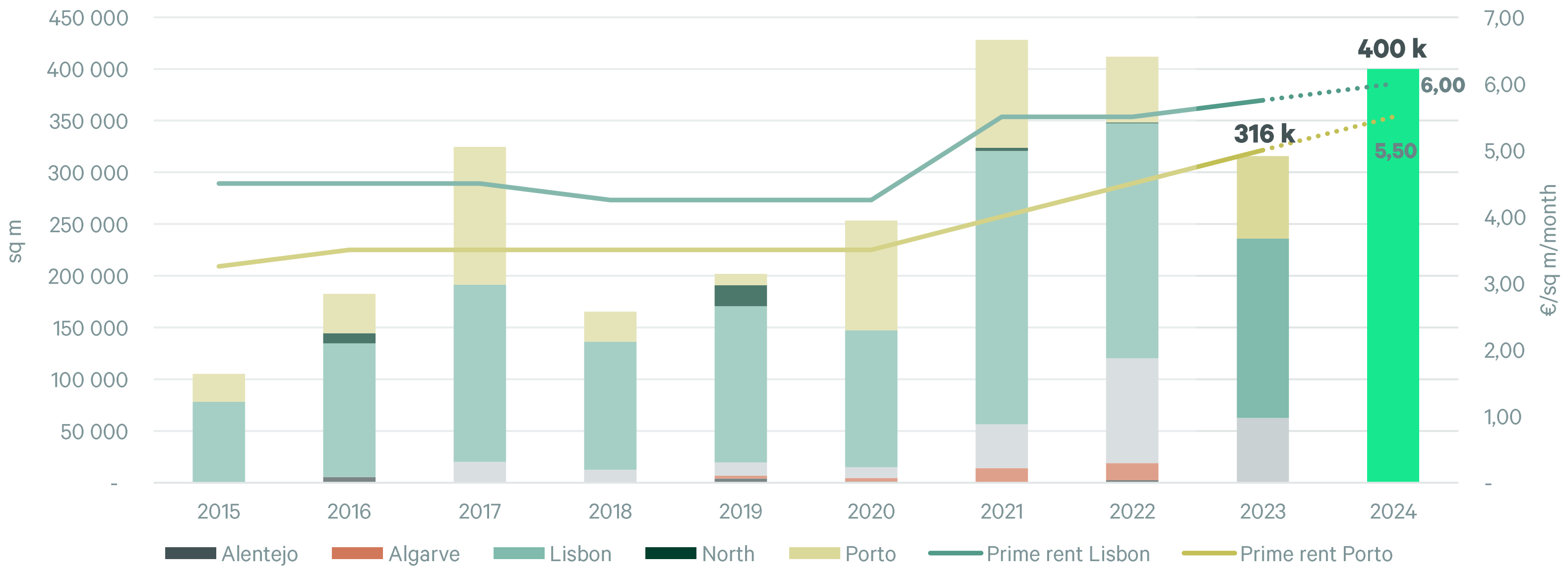
FURTHER RENTAL GROWTH IS EXPECTED

Over the recent years, we have been observing an upsurge on logistics' rents in nearly all zones. Over the last 10 years, prime rents grew by around 40% in Lisbon and by 50% in Porto. In 2023, Lisbon saw a 5% increase on prime rent, currently standing at €5.75/sq m/month, while Porto saw a 10% growth, standing at €5.00/sq m/month.

2024 is expected to experience further rental growth, of around 5% in Lisbon and 10% in Porto, mainly boosted by new completions. These will have a flight-to-quality in the existing stock – for the existing stock to be a compelling proposition, property owners and promotors will feel the need to invest in their assets, to be comparable to the new stock coming into to the market.

Figure 8: Take up in Portugal, Lisbon and Porto and Prime rents

thousand sq m (right), €/sqm/month (left)



Source: CBRE Research

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> In 2024, demand for alternative areas will continue. Portugal has a healthy demand for the industrial sector. Although long licensing times are pushing away opportunities.

Nuno Torcato
Director
A&T Industrial and Logistics, CBRE Portugal

Key drivers of the market

2024 will observe an increase in take-up, motivated by the increase of new supply. However, other trends are here to stay and will make themselves known over 2024.

SUSTAINABILITY: KEY FOR SUCCESS

Both property owners, investors and promotors need to closely look to sustainability adoption of their assets. The performance of ESG criteria is a topic on everyone's agenda. Green financing and the promotors willingness to be greener are pushing ESG implementation in their assets. Occupiers are increasingly valuing sustainability, mostly because they have started to realise the benefits it brings to their daily operations.

DEMAND IS GOING TO DECENTRALISE

If at the last decade, demand was mainly focused on central areas of Lisbon and Porto, in 2024 we will observe demand to be less centralized, augmenting the logistics coverage in Portugal.

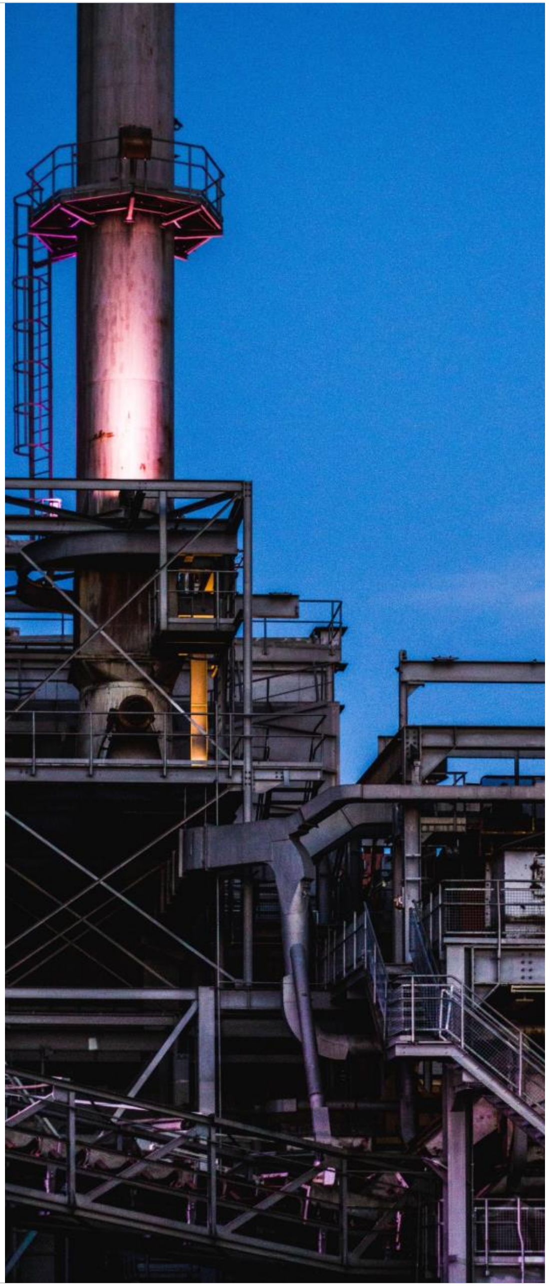
In fact, CBRE already registers development opportunities in more secondary areas. The search for spaces for last-mile logistics will also increase, as a consequence of the increase of e-commerce's penetration rate. This will result in a more specialized sector, with capacity to better respond to companies and final customers' needs.

INDUSTRIAL: A GROWING SECTOR

The COVID pandemic alongside the outbreak of the armed conflict in Eastern Europe led companies to rethink the location of their industrial assets. Portugal poses as a very compelling proposition, for their strategical location as the door for Europe and for the world. Portugal offers low manpower costs, which compete with current industrial locations in Eastern Europe.

CBRE is already observing the market looking for Industrial solutions in Portugal. This demand does not need central locations but does need big areas and good transportation network connections (road, rail and sea).

However, the constraints in licensing – with long waiting times – and unclear legislations are restricting Portugal from taking advantage of the wave of re-shoring and near-shoring of companies. Nevertheless, CBRE foresees the Industrial sector as the key opportunity to watch in 2024.



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05

Retail

Shopping centres and retail parks registered an outstanding performance over 2023. Although retail sales are expected to decelerate, good performance levels of the sector are expected to continue in 2024.

Key Takeaways

01 2023: A RECORD YEAR IN SHOPPING CENTRES' SALES
Shopping centres registered a 11% in sales, while visits grew by 10%.

02 RETAIL SALES WILL POSSIBLY SLOWDOWN
Although retail sales are forecasted to slowdown, 2024 will see in Portugal a smaller decrease compared to Eurozone in 2023. Recovery is expected in 2025.

03 E-COMMERCE WILL BOOST OMNICHANNEL
The growing penetration of e-commerce will push even more stores to offer omnichannel experiences to its customers.

04 RETAIL PARKS WILL BE STAR CHOICES
The outstanding performance of retail parks will boost further developments in 2024.

05 HIGH STREET RETAIL WILL REMAIN HEALTHY
F&B and Homeware were the star sectors of stores opening in 2023. Demand remains healthy for 2024.

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Shopping centres showed an outstanding performance in 2023

RETAIL SALES WILL POSSIBLY SLOWDOWN IN 2024

Over 2023, retail sales globally saw a decrease, alongside with consumer confidence. Although, during this year that was not verified in Portugal. In fact, in 2023, retail sales grew by 1.8% compared to 2022, while the Eurozone fell by 1.7%, an even bigger drop than in 2020. The consumer confidence index showed a growing trajectory over the first half of the year. In the second half of the year the index decreased (excluding during December).

Retail sales already proved to be resilient in the face of recent economic headwinds. For 2024, retail sales are expected to slow down by 0.6%, already recovering in 2025. The deceleration of inflation will certainty help consumption, which will be positive for retail.

SHOPPING CENTRES SHOWED AN OUTSTANDING PERFORMANCE

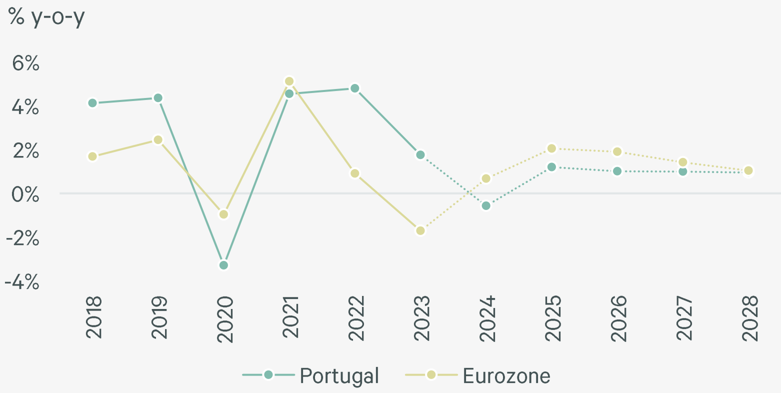
While at the beginning of 2023, comparisons with 2019 still were a reality, in 2023 those dropped completely. 2023's performance was above 2022 and even above 2019, which was one of the best years in shopping centres' sales.

Shopping centres' sales grew by 11% while visits increased by 10% – compared to 2022 – showing the sector's resilience.

DISCOUNTERS ARE HERE TO STAY

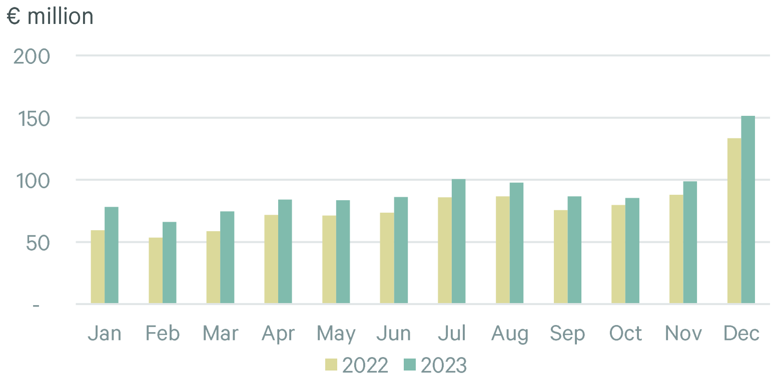
The demand by discount stores has been gaining momentum over the last years. In 2023, discount stores were a significant part of shopping centres and retail parks' take-up. In 2024, CBRE expects this trend to be maintained.

Figure 9: Retail sales index evolution



Source: CBRE Research via Oxford Economics

Figure 10: Shopping centres' sales 2022-2023



Source: CBRE Research

E-COMMERCE GROWTH & CLICK-TO-BRICKS

The pandemic led to an accelerated upsurge of the e-commerce, to which Portugal did not escape. However, after the re-opening of stores, e-commerce penetration moderated.

In 2025, Euromonitor estimates that Portugal will have a 10.4% penetration rate, while the Europe's average will stay at 14%.

The upsurge in e-commerce will be a leverage of hybrid strategies for stores. Occupiers are likely to continue to focus on creating a strong omnichannel experience, combining online and brick-and-mortar experience and increasing customer engagement.

Some stores that started as online stores are pursuing a physical presence. CBRE is watching the growth of clicks-to-bricks, aiming to provide customers an exclusive experience instore. We believe this trend will continue in 2024.

RETAIL PARKS ARE EXPANDING

Most retail parks are located outside the bigger urban centres. This has been an opportunity for its development. Over 2023, 3 retail parks were completed, as well as one expansion. For 2024, CBRE expects that 3 new retail parks are completed, with 2 other expansions being planned for the year.

CBRE expects Retail Parks to continue to be an active asset class, not only for the potential growth in terms of space, but also by excellent performance they have been demonstrating, catching both investors and promotors' attention.

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The high street retail (HSR), on the most relevant areas, registered 159 new openings in 2023 – 93 in Lisbon (a 26% drop compared to 2022) and 66 in Porto (an increase of 22%).

Food & Beverage (F&B) continues to be the star sector in Lisbon, growing by 35% compared to 2022. Porto registered the largest growth in Homeware stores – 20% growth compared to 2022.

The HSR maintained a strong market dynamics and will continue to do so in 2024. According to new projects that are coming to market in 2024 and 2025, CBRE expects 2024 to be a very interesting year for HSR occupancy. We also expect international brands to enter the Portuguese market.

Another trend that will make a statement in 2024 is store dimension. CBRE expects stores of some categories, as fashion, to increase its size, to incorporate new features such as automatic checkouts, delivery points and larger dressing rooms, all to improve the costumer experience. On another side, some activities, namely electronics, are reducing the surface for less need of space to promote their products.

In 2023, a total of 159 high street stores opened in Lisbon and Porto, at the main axis. Take-up was mainly motivated by F&B.

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06

Hotel

The tourism and hotel sector are poised to achieve a similar level to 2023 in 2024. After outsized growth of 20% in 2023, profits are expected to perform slightly above in 2024.

Key Takeaways

01 RECORS BREAKED IN 2023

2023 poses as a record year in overnight stays and profits in the tourism sector.

02 RevPAR FIRES UP

RevPAR grew significantly in 2023 mainly boosted by an increase in prices.

03 2024 OUTLOOKS AS A STRONG YEAR

New openings will occur in 2024, while performance levels are expected to slightly improve over 2024.

04 LUXURY IS EMERGING

Several luxury international brands are looking for Portugal as a very compelling proposition.

05 LOCAL ACCOMMODATION AND THE HOTEL BOOST

The constraints in Local Accommodation licensing will likely impact positively the hotel operations in 2024.

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Portugal's attraction remained solid in 2023

TOURISM BREAKS RECORDS IN 2023

In 2023, the tourism sector had an outstanding performance in 2023. Until November, overnight stays totalled 73 million stays in Portugal, a 11% growth compared to the homologous period in 2022. Even comparing 2023 with 2019 (which was the previous record year), 2023 already surpassed it.

While the domestic travellers still dominate the market, international travellers grew by c. 20% compared to 2022. The growth of travellers from USA and Canada are worthy to highlight. The USA are already the third largest traveller in the North, while in Lisbon they place at first, almost doubling the number of visits from the second and third places – Spain and France.

PROFITS GREW SIGNIFICANTLY

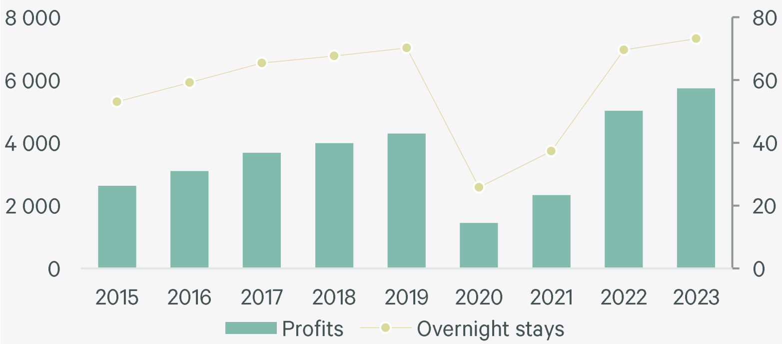
It was not only overnight stays that broke a record in 2023.

Profits are already 20% above 2022 and 40% above 2019 – the previous record year in tourism. Up until November, tourism accommodations registered €5,700 million.

It is 5-star hotels that register the highest increase – a growth of nearly 50% compared to 2019.

Figure 11: Overnight stays and total profits (2013-2023 YTD)

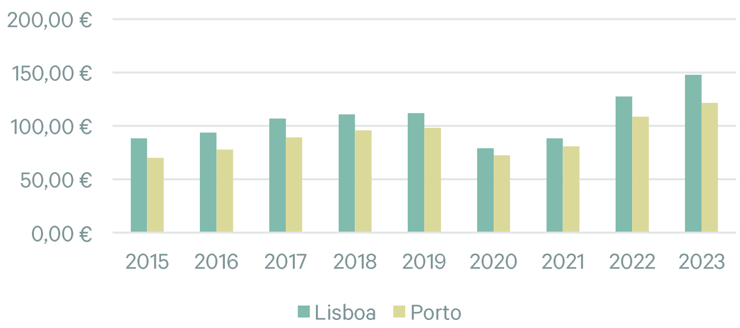
thousand overnight stays (right), total profits, € (left)



Source: CBRE Research via Travel BI

Figure 12: Average daily rate, Lisbon and Porto

€



Source: CBRE Research via Travel BI

PRICES ARE BOOSTING RevPAR

Revenue per available room (RevPAR) multiplies price per occupancy. In 2023, RevPAR grew significantly, continuing the trajectory that has been observed over the last years.

The upsurge in prices (ADR – average daily rates) were the key responsible for this trend in 2023. In fact, Lisbon, Azores and Madeira showed the largest changes – data until October 2023 shows average variations of 15% to 18% compared to 2022.

3-star hotels had the largest increase over 2023, against what was expected.

POSITIVE OUTLOOK FOR 2024

CBRE expects a strong 2024, with several new openings planned for the year. Performance levels will remain at the same level as 2023, with occupancy standing stable while ADR grows above the inflation rate.

CBRE is seeing operators and investors willing to continue to invest in southern Europe, where Portugal is a star choice.

Portugal poses as a very interesting sector either for leisure or corporate/MICE segment. Our geopolitical framework still is a strength of our sector, compared to other countries.

Although some slowdown in the tourism market may occur, CBRE expects that 2023 figures to maintain in 2024.

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SUPPLY INCREASE IS EXPECTED

Between 2024 and 2026, supply increases are expected. Lisbon's supply will grow by 15% – around 40 new units are planned in a total room number of 5,000 – Porto will grow by 16% – 32 new units, with 4,000 rooms – while the Algarve will grow by 10%.

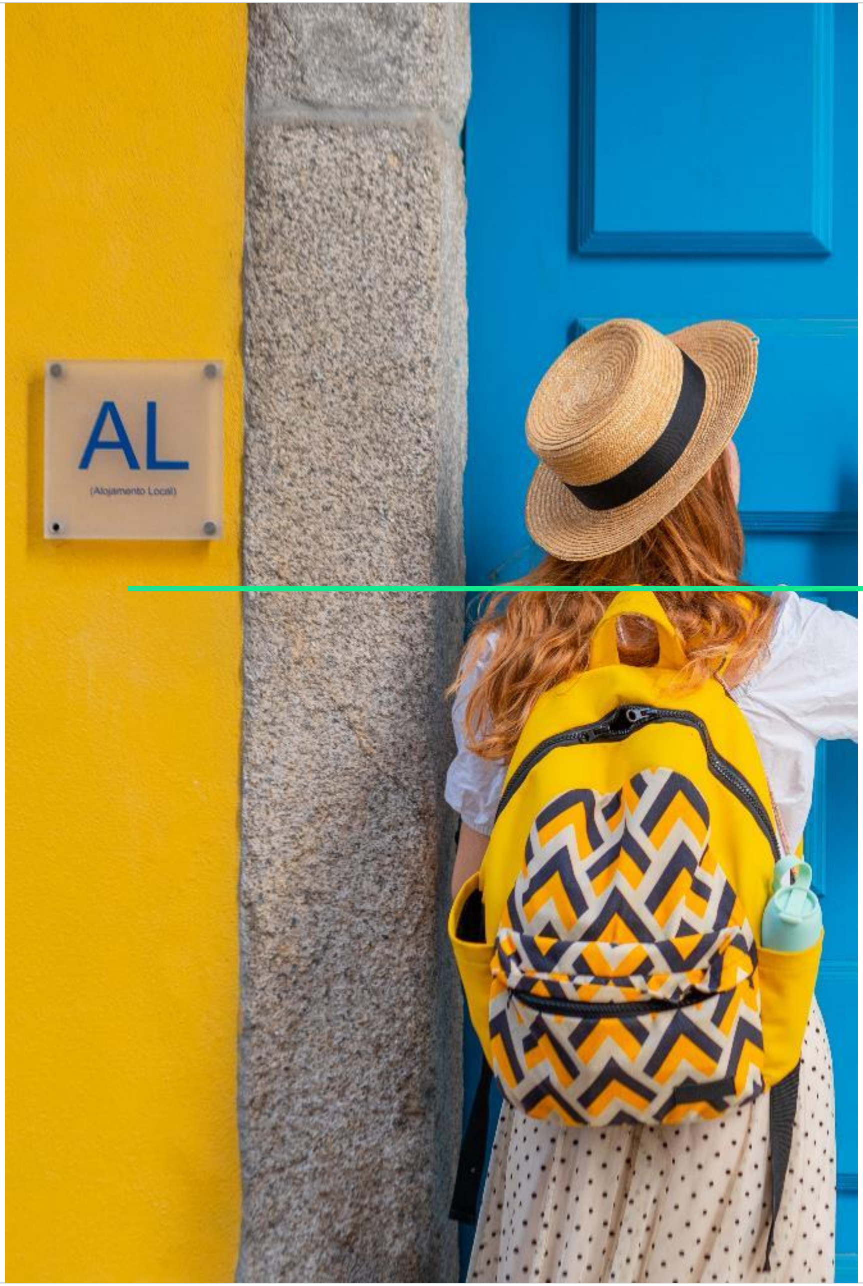
The supply qualification will be a key trend, mainly in Lisbon. In fact, 2/3 of the new openings for Lisbon will be of international brands, being increasingly aligned with the Algarve, where international brands represent 90% new openings.

LUXURY: AN EMERGING SECTOR

The luxury segment is increasingly looking for Portugal. Several well-known brands are already searching for locations in Portugal.

LOCAL HOUSING AND THE OPPORTUNITY FOR HOTELS

The "Pacote Mais Habitação" will likely become a driver for hotel' stays, as a result of constraining licenses for local accommodation. The impact of these measures is still unknown. However, according to a NOVA School of Business & Economics Study for ALEP (Alojamento Local em Portugal), if local accommodation ended in its whole (which will not happen), estimations point to the need of 1,000 new hotels. While CBRE does not believe in this scenario, we strongly believe this will improve hotel operations.



New openings and strong investment will be key drivers of the growth and supply qualification.

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07

Living

The living sector is currently facing undersupply, which is pushing up both rents and acquisition prices.

Key Takeaways

01 **URBAN GROWTH IS EXPECTED**
Urban population is forecasted to grow although average household size is decreasing.

02 **OLDER POPULATION IS INCREASING**
Up until 2050, population with over 65 years will increase by 30%.

03 **CONSTRUCTION COSTS ARE IN AN UPSURGE TRAJECTORY**
Construction costs are growing, which is contributing to the scarcity of new supply. Shortage of housing will likely be exacerbated over the next years.

04 **UNDERSUPPLY IS PUSHING UP PRICES**
Both acquisition and rental prices are upsurging, which is aggravating the families' affordability.

05 **RENTING: A POSSIBLE WAY?**
Although Portugal's housing stock is mostly owned, renting grew by 12% over the last decade and is expected to develop over the next few years.

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Scarcity of supply is exacerbating pressure on affordability

URBAN POPULATION GROWTH IS DRIVING DEMAND FOR HOUSING

Over the last decade, urban population in Portugal grew by 4%. Up until 2028, total households will grow by another 1%. However, demographic trends such as the aging of population – Portugal will see an increase of 30% on population with more than 65 years until 2050 – and the decrease of the household size – average household size will decrease up to 10% until 2050 – will continue to shape housing demand.

The number of households' growth will be particularly strong in Lisbon, where the weak development will continue to exacerbate pressures on affordability, not only on rents but also on acquisition prices.

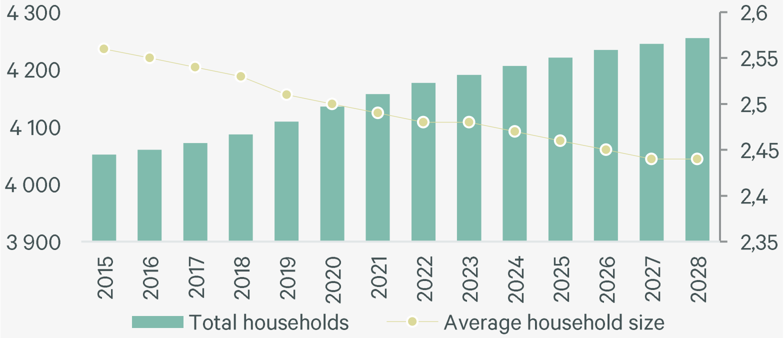
CONSTRUCTION COSTS INCREASE IS EASING, ALTHOUGH NEW CONSTRUCTION IS STILL SCARCE

After sharply increasing between 2022, 2023 saw slight decreases on the construction cost index. The increase was mainly observed in materials, as a consequence of the outbreak of the armed conflict in Ukraine.

Also, the rise construction costs is perpetuating the lack of supply that has been felt since the pre-Global Financial Crisis. In fact, the number of new dwellings is 80% below the pre-crisis period and 55% below the crisis period. This is not foreseen to improve over 2024, as licensing times and lack of specialized manpower, alongside with expensive materials are constraining housing development.

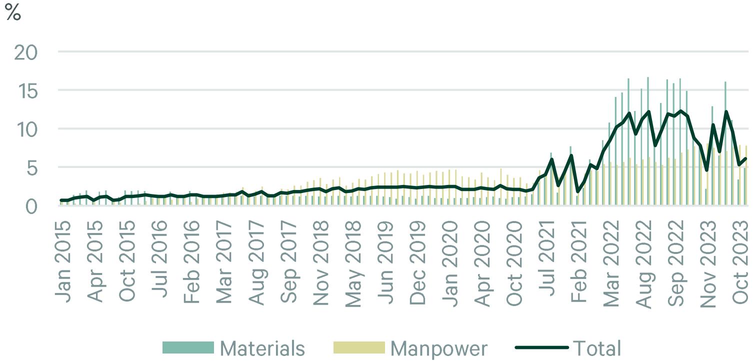
Figure 13: Total households and average household size

thousand household (right), household size (left)



Source: CBRE Research via Oxford Economics

Figure 14: Construction cost index



Source: CBRE Research via INE

UNDERSUPPLY IS PUSHING UP PRICES

In 2023, Portugal was the 13th country with the highest house price index in the Eurozone, above the average in the Euro area. In 2024, the housing price index is expected to stay above the Eurozone average. Also, the average mortgage rate in the Eurozone is at its highest level since 2009 and is expected to stay elevated in 2024.

RENTING VALUES ARE BECOMING AN AFFORDABILITY BURDEN

Most of Portugal's dwellings are owned. However, since 2011 renting houses grew by 12%, currently standing at 22% of the housing stock. This is mainly motivated by the upsurge in acquisition prices, but also by macrotrends that are shaping housing demand. In fact, people increasingly look for flexibility, that is offered by renting.

Rents in both Lisbon Metropolitan Area and Porto Metropolitan area were at its peak in 2023, standing at €18/sq m/month and €15/sq m/month, which, respectively, represents a 145% and 170% increase over the last decade.

BTR AND PRS: AN INVESTMENT OPPORTUNITY

BTR (Build to rent) and PRS (Private rented sector) are emerging sectors all over Europe. In Portugal, we see appetite for this sector, although some constraints are in place – the lack of supply is the largest, followed by unclear legislation. Nevertheless, CBRE forecasts that this is a great opportunity to tackle the undersupply of the renting housing stock.

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08

Alternatives

Several segments included in the alternatives sector are expected to register greater traction levels in 2024. CBRE highlights Student Housing, Self-storage, Senior Care and Healthcare segments to be the markets to watch out in 2024.

Key Takeaways

01

STUDENT HOUSING IS SHARPLY INCREASING ITS DEMAND

Both local and international students have grown in an average of 4% annually over the last 3 years.

02

LAND PRICES AND LICENSING DELAYS ARE CONSTRAINING PBSA SUPPLY

Lisbon will experience a small increase in supply in 2024 but Portugal as a whole still has one of the lowest provision rates in Europe – 2.1% - below the European average (13%).

03

SELF-STORAGE DEMAND IS EXPECTED TO GROW

Demographic changes and decrease in the size of houses will push for self-storage demand and the use of such units will become a bigger trend in the short run. Good performance indicators pose self-storage as an opportunity to look up in 2024.

04

ELDERLY POPULATION WILL CONTINUE TO GROW SIGNIFICANTLY UNTIL 2050

Current shortage of senior care and continued care units will intensify in the future as elderly population grows. With pressure over staff and other operational costs, prices will continue to increase.

05

HEALTHCARE AT ITS BREAKING POINT

With NHS breaking out, healthcare units will be fundamental in the upcoming years. Although investment slow down over 2023, CBRE expects it to recover in 2024.

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Portugal poses as an opportunity for PBSA, as it is highly undersupplied

LOCAL AND INTERNATIONAL STUDENTS ARE GROWING DEMAND

Over the last 3 years, the total number of student had a CAGR of 4%, while international students grew by 6% annually. Students privilege safety, new buildings and a sense of community, reasons why PBSA (Purpose Built Student Accommodation) is mostly preferred over renting a room in the regular PRS market.

STUDENT HOUSING IS HIGHLY UNDERSUPPLIED

The existing stock is not nearly sufficient to absorb demand. Portugal currently has c. 9,500 PBSA beds, with a pipeline of 4,200 beds for the next two years. Current provision rate (the proportion of beds per student) currently stands at 2.1%, compared to a European average of 13% (according to CBRE's latest study). Also, most beds (85%) are concentrated in Lisbon and Porto, reflecting the investors preference in the sector.

STRONG PERFORMANCES POSITION PBSA AS AN INTERESTING INVESTMENT

Data shows that PBSA in Portugal has a very fast rump up period, with operators achieving 97% average annual occupation within 12 to 16 months. Also, prices have been constantly increasing, depending largely on location and offered amenities. Currently, net operating income margins stand between 70% and 80%.

4%

CAGR total students over the last 3 years, while international students grew by 6% annually

2.1%

provision rate in Portugal against a European average of 13%

€737 M

investment volume in PBSA over the last 6 years

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Portugal is one of the most undersupplied markets in Europe

DEMAND WILL BE DRIVEN BY DEMOGRAPHIC CHANGES AND THE DECREASE IN SIZE OF RESIDENTIAL UNITS

Over the last years, residential units, globally, have been decreasing its average size, which will lead to the necessity of storage spaces. Self-storage is already responding to these needs in other European cities, mostly over the northern European countries, where awareness levels are higher.

Portugal is currently undersupplied compared to other European countries. However, CBRE is observing a rapid expansion with the opening of several units of different sizes and formats. We estimate that around 8,000 sq m were added in 2023, corresponding to an increase of 16% of the former lettable area.

GOOD PERFORMANCE OF THE SECTOR IS AN OPPORTUNITY

Operators in Portugal achieve an average revenue of €18.50/sq m/month, with occupancy rates standing at 60% on average, mostly due to new openings still on “fill-up” stage. There has been a positive rental growth, and CBRE expects that both occupancy and rental levels shall continue to increase. There were no relevant deals yet, although high investment appetite from key players is observed.

In Europe, self-storage deals totalled €996 million in 2023. Average European net rental rate stands at €24/sq m/month, with occupancy standing at 78.5%. The sector attractiveness is also leveraged on lower starting investment volumes.

+8,000

sq m added in 2023 in Portugal

€18.50

average monthly revenue per sq m in 2023

+60%

occupancy rate, which rapidly increases after units’ opening

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By 2050, Portugal will have the largest elderly proportion in Europe

LACK OF SUPPLY FOR ELDERLY CARE WILL BE CRITICAL OVER THE NEXT YEARS

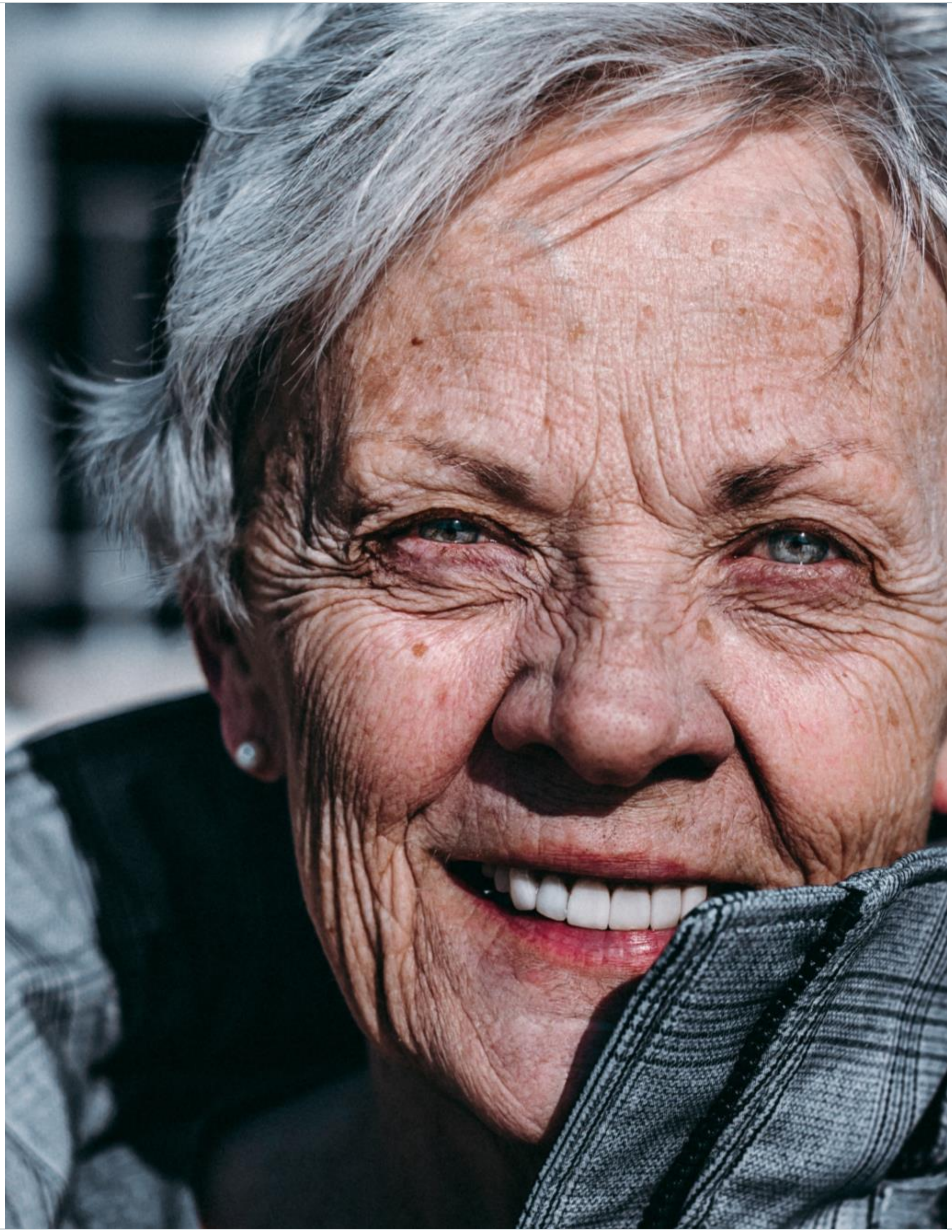
Portugal, has faced an extremely low investment in infrastructures for the elderly. Current stock is already working at full capacity (occupancy rates above 95% in both senior care and continued care units - UCCI). CBRE estimates that until 2050, there will be a shortage of 55,000 beds in senior care homes. The RRF non-reimbursable financing for new beds in UCCI will support operators with up to €200M for the increase in the number of new beds. Although the investment will address part of the beds' shortage, official estimates indicate a need of 7,500 beds until 2025.

HEALTHCARE IS AT ITS BREAKING POINT

The pressure over the National Health System (NHS) has been aggravating over the last years. According to the Portuguese Insurance Agency, there are nearly 3.6 million people in Portugal with a health insurance – 200 thousand more than in 2022 – mainly boosted by the NHS access difficulties – long waiting times for consultations, surgeries and treatments. This movement is boosting the opening of new private Hospitals and Clinics from the Top 5 operators.

INVESTMENT WILL LIKELY RAMP UP IN 2024

Over 2023, there were no relevant transactions in the Senior Care and Healthcare segments, as well as in other European countries. However, CBRE expects investment to ramp up in 2024, expecting a total investment volume that can reach €200M for both sectors.



1.5

working-age person per each elderly person by 2050

+95%

occupancy rate in continued care units (UCCI) and senior care homes

€200 M

RRF non-reimbursable financing for new beds in UCCI

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09

Sustainability

Net zero policies are pushing in Europe, and falling to adopt these measures will soon mean a business liability. Occupiers, investors and property owners should seek closer alignment in ESG goals to improve asset’s value, while retaining talent.

Key Takeaways

01

SUSTAINABILITY: A KEY PATH TO VALUE ASSETS

Although a lot have been done over the recent years, CBRE believes that the key path to improve the asset value is sustainability.

02

ESG CERTIFICATION IMPROVES OCCUPANCY AND RENTS

ESG certification is proven to give a 7% rental premium on offices, as well as being a factor do decrease vacancy rates.

03

SOCIAL COMPONENT EXPECTS FURTHER GROWTHS

Buildings that include social components will be higher valued by occupiers and investors.

04

DATA MATTERS

The possibility to collect and manage data will be key in providing insights to investors and property owners on the measures that were implemented.

05

REGULATION WILL HELP SUSTAINABILITY

Tighter regulation will help assets into be better prepared to face the current environmental challenges, while improving their value.

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Sustainability awareness will drive market preferences

ALTHOUGH SUSTAINABILITY IS ON THE AGENDA, THERE IS STILL A LONG WAY TO GO

It is undeniable that sustainability, and climate concerns specifically, are on both owners and tenants' agenda. However, CBRE believes that there still is a long way to go when we talk about certifications. In fact, only 7% of the national office stock has a sustainability certification (BREAM, LEED or WELL), compared to 22% as European's average – according to CBRE's recent study "Is Sustainability in Real Estate Worth It?". According to the same study, buildings with sustainability certification earn a 7% rental premium over their non-certified peers as well as being a significant factor in lowering vacancy rate.

THE 'S' ON ESG IS EXPECTED TO GAIN VALUE OVER THE COMING YEARS

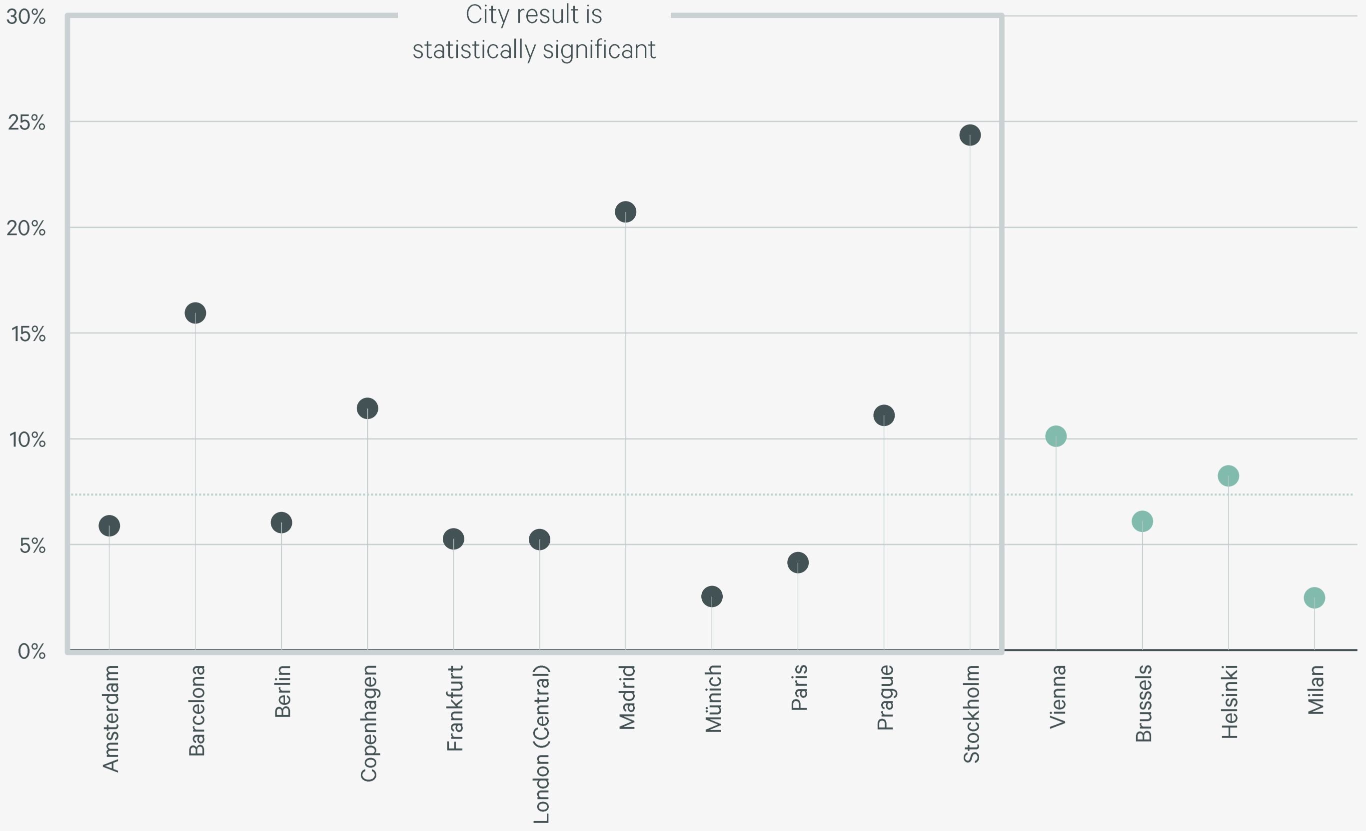
Net-zero commitments, alongside with structural changes in occupier fundamentals are tackling the environmental concerns of both owners, investors and occupiers in all real estate sectors. However, sustainability focus on much more than environment and we are already seeing demand for the social part of ESG.

In fact, CBRE believes that the social component will be largely focused on talent retention strategies, by providing building users with wellbeing and comfort features. Moreover, it is also increasingly including user experience – a concern that has been gaining momentum over the last years.

CBRE believes that buildings that do not provide social measures to be rapidly obsolete, devaluating the assets, so property owners should watch out for this in 2024.

Figure 15: Rental premium for certified offices

%, selected European cities



Source: CBRE Research Average rental premium (7%)

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ACCESS TO QUALITY DATA IS FUNDAMENTAL

Data collection and analysis will enhance stakeholder' visibility of the costs and benefits of sustainability initiatives, leading to better informed decisions.

The data management is super relevant to demonstrate a return on investment and increased profitability linked to sustainability initiatives, supporting investors' and property owners' efforts to protect the value of their assets. Technology will increasingly gain importance, giving early adopters a competitive advantage.

REGULATION: A LEVERAGE FOR ESG

Regulation is increasingly tackling ESG as a fundamental measure in assets. By 2030, the European Commission expects solar energy to be the largest energy source in the EU. Incentives and strategies for financing renewable energies are expected to increase in European markets.

Also, the concern over carbon consumption is real. High carbon consumption levels, not only affects the planet, but also devalues assets.

Regulation will push property owners to be better prepared for the challenges concerning the environment and social causes.

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In 2024, we will continue to be part of the evolution of our cities.

Thank you.

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