

Portugal
Real Estate

Market

360°

Porto

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"Porto is the city of the moment!"

It is not a trend, nor a transient momentum. The city is definitely on the national and international map as an attractive option to visit, live, work or shop. The refurbishment that started in the Historic Center, and spread to more and more zones, gave a fantastic boost to Porto and contributed to its growing projection as a territory worth knowing. Growing tourism has triggered a new life associated with the city, attracting more retail, more hotels and more accommodation, that brought along new talents, companies and inhabitants, who enjoy the city and appreciate its quality of life. And the real estate market has been able to fulfill this new and surprising demand, producing an enormous dynamism in recent years. Today it presents a solid offer in all sectors,

whether referring to retail, housing, offices, investment or hotel and tourism. New, modern and very appealing projects are arising all over the city - just come over to confirm this movement - with the great advantage of still having room for new investments with prices still very competitive regarding Lisbon and other European cities. This real estate equation is difficult to match and will continue to interest investors, no doubt! In short, there is still much to be done in this city where the real estate market already keeps track of Lisbon's encouraging growing trend. There are many opportunities in Porto, a cosmopolitan city that never gave in its authenticity! And to figure out where they are, we have launched this new initiative. A 360° view exclusively about Porto, unique as the city deserves.



Pedro Lancastré
Portugal Managing Director

Highlights

The city of Porto has witnessed similar trends to those seen in Lisbon. Tourism has placed the city on the map attracting not only foreigners, but also Portuguese, who look upon the city as a place to live and work.

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The favourable economic and political climate in Portugal was crucial to attract all types of investors. The Northern Region registered a total investment of €577M since 2015, with more than half (€300M) occurring in 2017.

.....

Porto is increasingly sought after by large multinational companies willing to set up their technology centres and shared services offices in Portugal, who choose this city given the competitive pricing and high quality of life.

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Porto renders a complete and solid offer of commercial developments, revealing a significantly mature market. The Porto Metropolitan Area has approximately 730,000 sq m distributed across 27 developments.

74,185 sq m

Office Take-Up in the 3rd quarter of 2018.

€70 sq m

Monthly rent charged in the most prime retail zone, Santa Catarina.

€130M

Invested in commercial real estate in the northern region during the first 9 months of the year.

59%

Domestic customers accounted for 62% of home sales.



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01. Office



Mariana Rosa
Head of Office Agency &
Corporate Solutions

There are currently about 170,000 sq m projected, among which the expansion of the Lionesa Business Centre (50,000 sq m) and POP buildings (30,000 sq m) stand out.



TOP 3 Deals

Q1 - Q3 2018

BNP PARIBAS

Urbo
Avenida Dr. Manuel Teixeira Ruela

Area: 14,976 sq m

Zone: 6

PROZIS

Business Center da Maia
Rua Engº Frederico Ulrich, 2579

Area: 14,500 sq m

Zone: 5

GLOBAL MEDIA GROUP

Edifício Quatro Rote
Rua Latino Coelho, 47-85

Area: 5,700 sq m

Zone: 3

Source: JLL

The Porto office market is going through a decisive development moment. The city is increasingly sought after by large multinational companies willing to set up their technology centres and shared services offices in Portugal, who choose Porto given its competitive pricing in the European context, but also the high quality of life that the city offers and the qualification of local human resources.

The French investment bank Natixis recently set up a centre of expertise in information technologies in Porto that will, by the end of 2018, account for around 500 jobs. BNP Paribas, also of French origin, will soon open more than 15,000 sq m aimed at more than a thousand workers. Both of the above are examples of the start of a new market cycle in the city, of which is expected to continue in a balanced and sustainable manner.

The Porto Region is historically characterized by its industrial nature; when compared with the Lisbon Region, the weight of the industrial sector in the Porto Metropolitan Area (31%) is almost double that of the great capital metropolis (17%). This has been reflected in the office market occupational structure, which predominantly features an owner occupier. Tenancies concluded until then were mostly carried out by small representations of companies already

present in Lisbon and local small-sized service companies, resulting in very small average areas.

In response to the historic demand, the stock of offices is diverse, dividing itself among fractions inserted in residential or mixed-use buildings and exclusively office buildings. The Burgo Building, located in Avenida da Boavista, in the Prime CBD, was founded in 2001 and remains the major market benchmark. Another feature of the stock of this region is its geographical dispersion.

Apart from the city of Porto, which focuses 4 zones, the offer extends to the Vila Nova de Gaia, Matosinhos and Maia districts.

The crisis greatly affected all sectors and regions, and Porto was no exception; almost 10 years have gone by without the development of a new office building, thus the current offer is still, in its majority, of poor quality. The inadequacy of the current quality of office supply given the requirements of the new occupants is unequivocal. However, as mentioned, the situation is changing; Porto is on the radar of major global companies so the city's responsiveness and office supply is crucial for the sustainability of this new demand.

The Urbo Business Center (16,150 sq m), which is scheduled for year-end 2018, is the first office project to emerge, followed by Boavista Office Center (8,500 sq m). But the pipeline is gaining volume. There are currently about 170,000 sq m projected, among which the expansion of the Lionesa Business Centre (50,000 sq m) and POP buildings (30,000 sq m) stand out.

The new constructions will raise the level of the Porto product, allowing for modern spaces designed to cater to the new trends: work spaces designed for "people", where collaborative work and flexibility are encouraged.

This whole dynamic from both the supply and demand perspective is already reflected in the take-up. During the first 9 months of the year, Porto registered a total take-up of over 74,000 sq m distributed amongst 39 transactions.

Analysing the take up, the most active zones were Matosinhos (33%) and Maia (23%). The Matosinhos volume is due mainly to the occupation of both the Urbo and the Lionesa Business Centres. In Maia the momentum originates from Prozis' full occupancy of the Maia Business Centre, the former being a retail and sports nutrition company, whose intention is to focus its research center in this zone.

The entry of new companies and the expansion of the existing ones accounted for 56% of the total occupancy during the period under analysis, which reveals a booming corporate structure. In addition, change of offices reveals the buoyancy of companies who take the opportunity to renewing and improving their facilities.

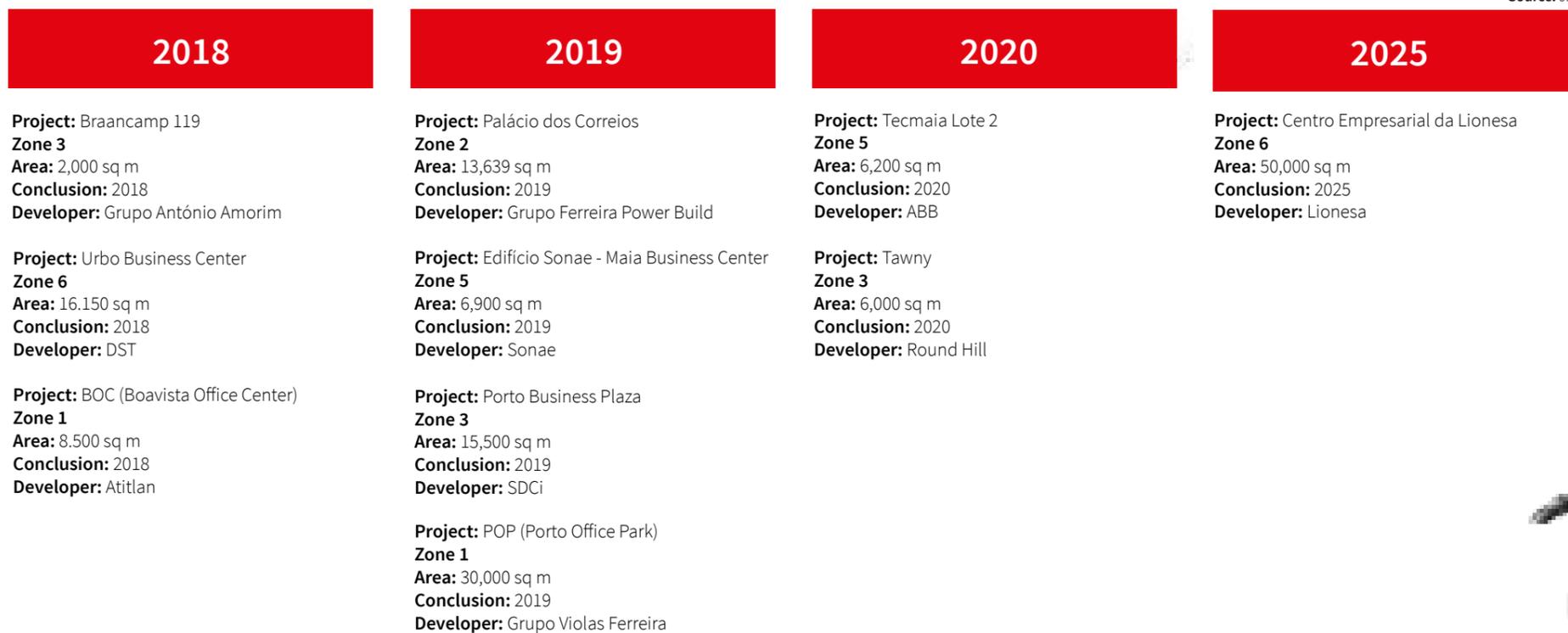
Technology companies were in fact the most active with more than 47% of the total take up, confirming the wager for this type of business in the region.

Vestas, a Danish company in the Energy sector, opted for the Lionesa Business Centre, a hugely successful project located in Matosinhos, which stemmed from the use of an old textile factory.

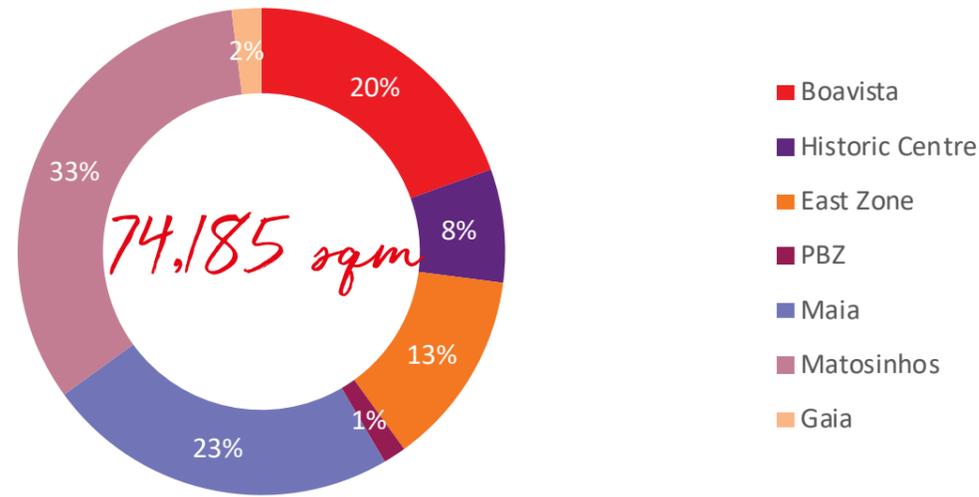
Klockner Pentaplast and Sodexo are further recent examples of commitment to the city, turning it into a dynamic and technological site and revealing the qualified talent that it boasts. Training resources in technology is indeed one of the focuses of the Northern region, thus we believe that the presently initiated trend of setting up technology centres will endure for many years to come.

The city is increasingly sought after by large multinational companies willing to set up their technology centres and shared services offices in Portugal, who choose Porto given its competitive pricing in the European context, but also the high quality of life that the city offers and the qualification of local human resources.

PIPELINE

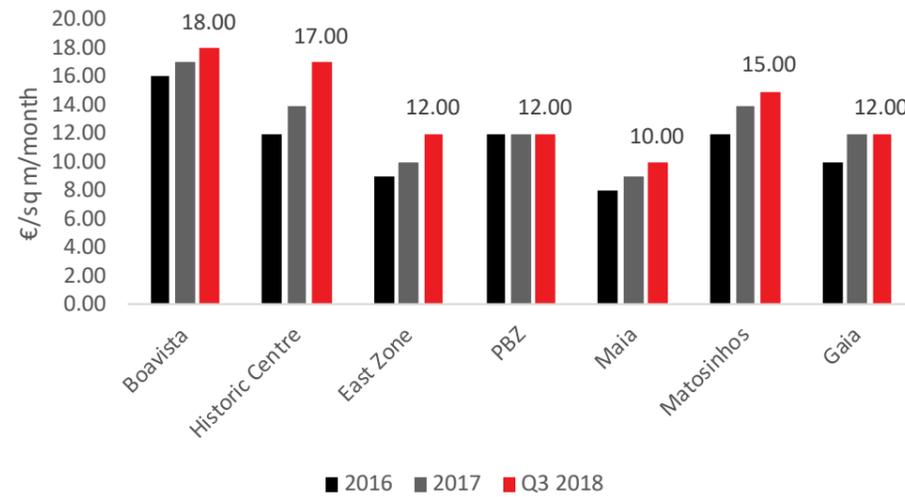


Take Up by zones Q1 - Q3 2018



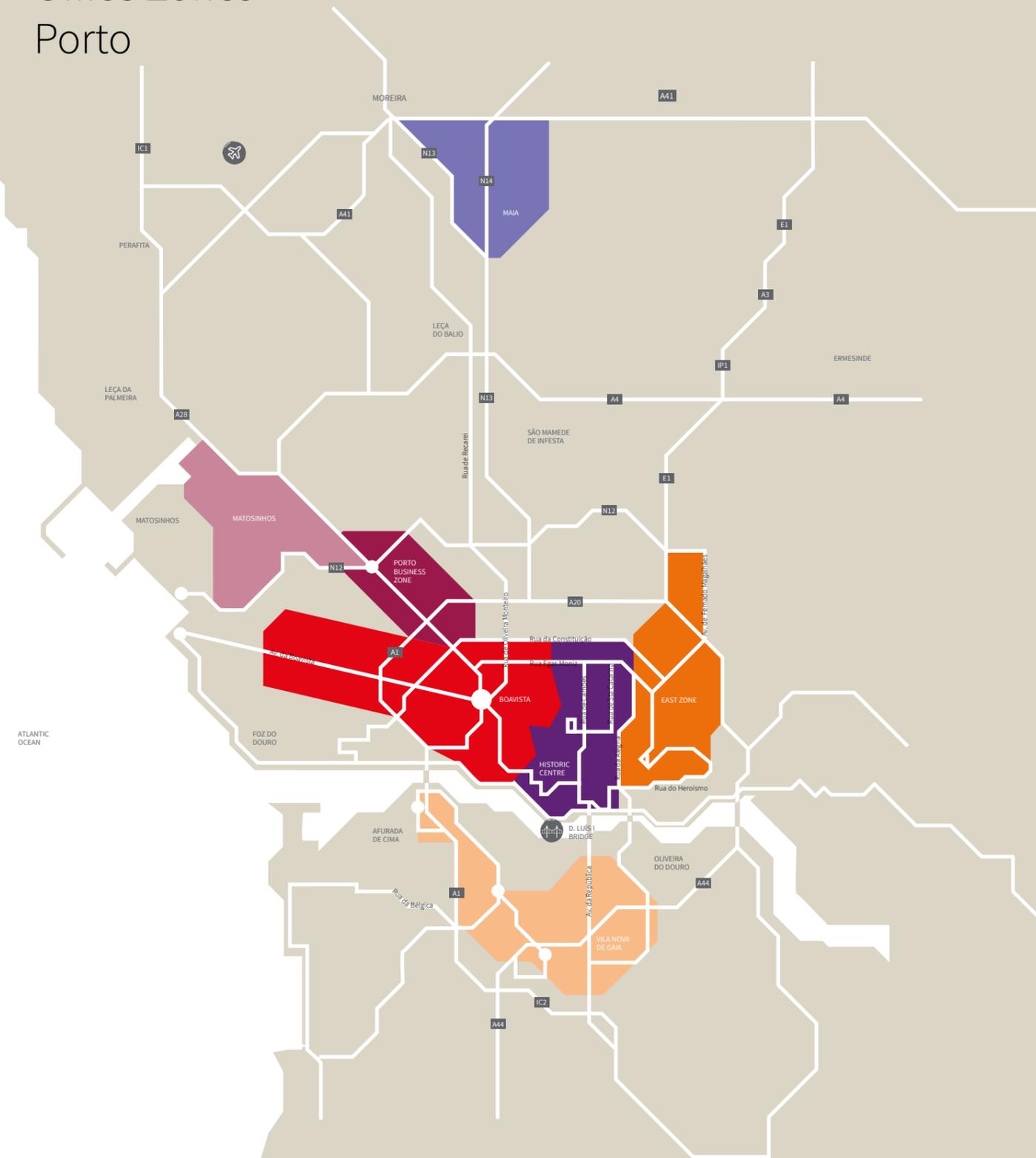
Source: JLL

Prime Rents Evolution



Source: JLL

Office Zones Porto



- Zone 1 - Boavista
- Zone 2 - Historic Centre
- Zone 3 - East Zone
- Zone 4 - Porto Business Zone
- Zone 5 - Maia
- Zone 6 - Matosinhos
- Zone 7 - Gaia

Commercial Developments



Stock

730,000 sq m
27 Developments



Pipeline
2018-2019

21,000 sq m
NorteShopping expansion

02. Retail



Patricia Araújo
Head of Retail

Porto is evolving whilst maintaining its originality, with a growing number of new concepts that cater to new consumer demands.

The city of Porto has witnessed similar trends to those seen in Lisbon. Tourism has placed the city on the map attracting not only foreigners, but also Portuguese, who look upon the city as a place to both live and work, leveraging on the attention of both national and international retailers.

Similarly to Lisbon, Porto offers a solid and complete array of commercial developments, evidence of an already mature market. In the Porto Metropolitan Area there are almost 730,000 sq m spread over 27 developments, among which the larger centres Mar Shopping of Inter Ikea Group and the Sonae Sierra managed NorteShopping stand out. The maturity of the market and the structural

change that the market is going through due to the strong e-commerce growth, have an impact on the pipeline of new developments, thus the only estimated expansion is the one of NorteShopping.

E-commerce is an undeniable reality and physical stores are in the process of adapting. Renovations can be witnessed in shopping centres to accommodate experience and leisure focused areas. The Mar Shopping Matosinhos, for instance, displays this trend, with the recent renewal of its food court and enhanced leisure offer with the opening of Legoland.

There is more movement, more supply, more locals and more tourists on the street.

Porto is evolving whilst maintaining its originality, with a growing number of new concepts that cater to new consumer demands.

JLL identified 4 consolidated or recent retail zones, but which display significant growth.



The Santa Catarina zone, whose main axis is Rua de Santa Catarina, is the most consolidated area concentrating the main national and international brands aimed at the mass-market segment. The start of the renovation work in the Bolhão Market is also having a positive impact on the zone, increasing the retail dynamics in the surrounding environment.

The Clérigos zone is characterized by a significant tourist flow, which has contributed to an increased quality in street retail. Here, the combination of traditional and more modern retail is unique; the centennial Lello Bookshop coexists with brands like Flying Tiger or Ray Ban. In parallel it is also one of the city's main nightlife destinations, thus the demand for restaurants has been quite significant.

The Flores / Mouzinho da Silveira axis is the natural link between the Ribeira and the city's Downtown and has thus shown remarkable demand, especially in terms of restaurants. Restaurants

that originated in Lisbon like Cantinho do Avillez or Tapisco, target this area as their address in the North's main city.

The revival of the Avenida dos Aliados is directly linked to the development of new projects, mainly in the hospitality and residential sector, which are giving rise to some commercial spaces on the ground floor. This avenue, which we believe will come to position itself in the premium segment, should attract an increasing premium retail demand.

The old Aviz zone, in Avenida da Boavista, which projected itself as a destination for premium brands, has experienced a loss in momentum. Other zones are, on the other hand, expanding. Foz now extends to Matosinhos Sul, gaining notoriety and consolidation in the residential sector due to its high population density and the increase in tourism resulting from the opening of the Cruise Terminal.

Interest in the city of Porto and

its increasingly modern offer has increased rents in emerging zones and consolidated those in the traditional ones.

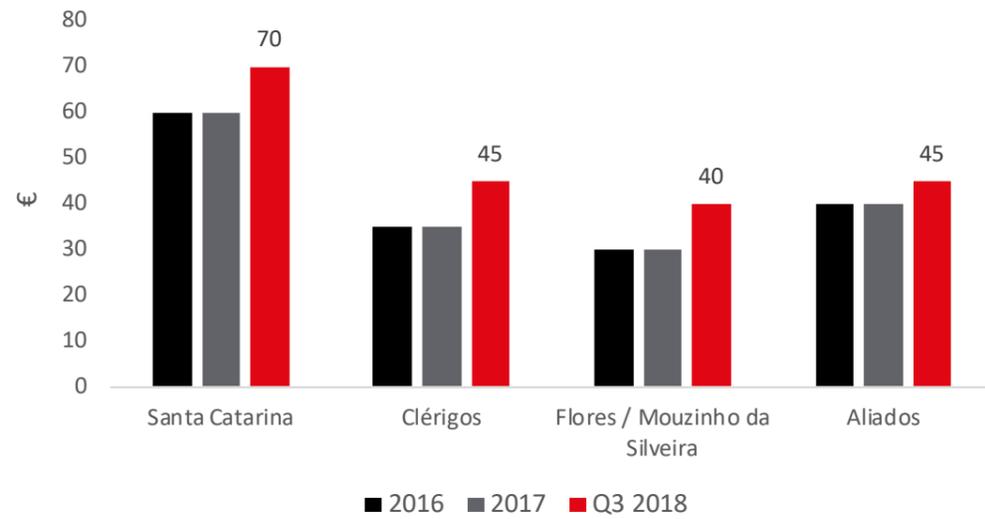
In Rua de Santa Catarina rental incomes have doubled since 2012, with prime rent reaching € 70 sq m/month. In the remaining zones, the Clérigos and Aliados have a prime rent in the order of € 45 sq m/month, and the Flores / Mouzinho da Silveira zone of € 40 sq m/month.

Demand Behaviour



Source: JLL

Prime Rents



Source: JLL

Highlight Openings

Street Commerce

Santa Catarina

Perfumes & Cia
Sketchers
Salsa

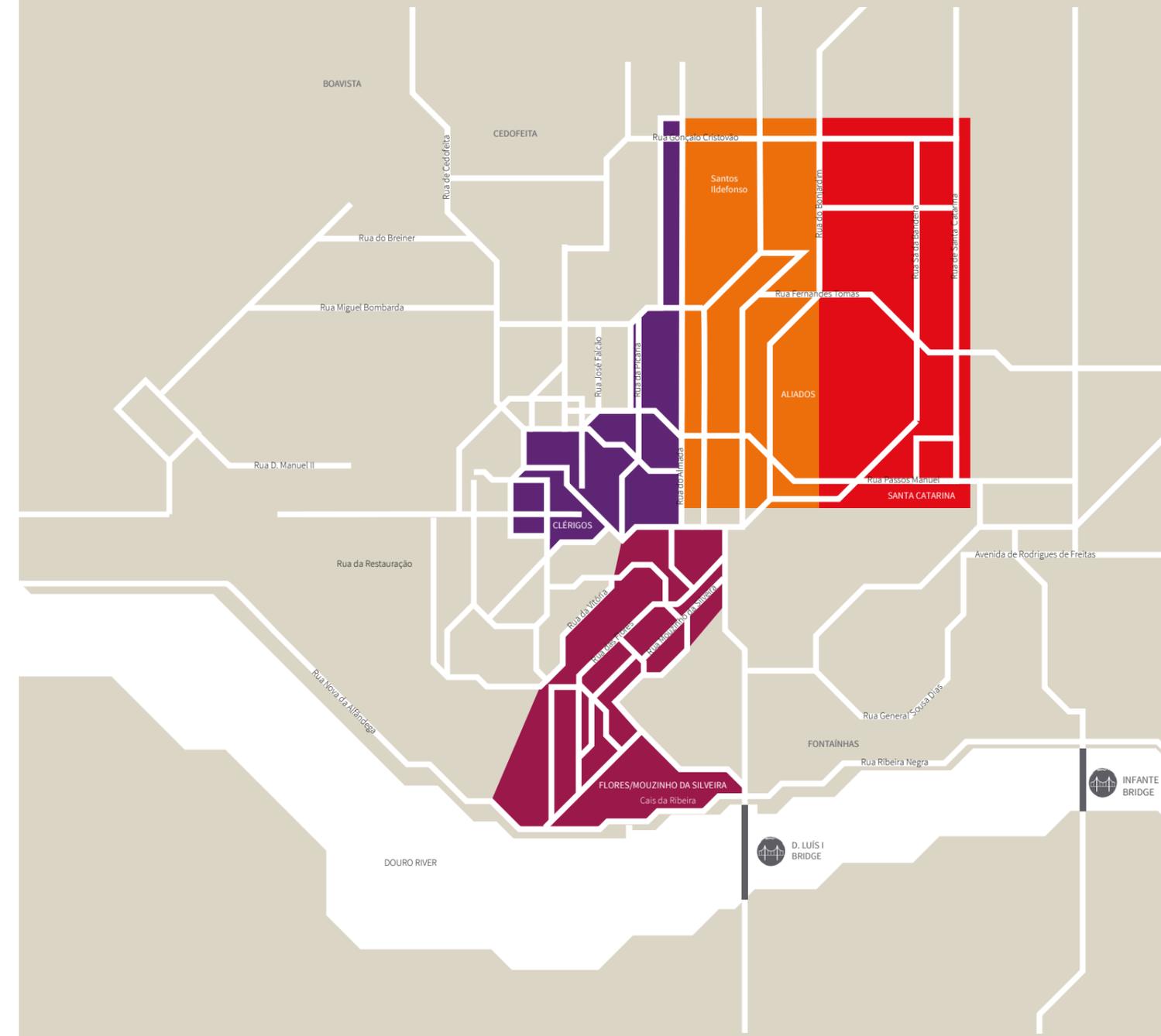
Clérigos

Ray Ban
Mini Bar
Boa-Bao

Flores/Mouzinho da Silveira

Starbucks
Tapisco
Pizzaria Luzzo
Häagen Dazs

Street Retail Prime Zones Porto



- Zone 1 - Santa Catarina
- Zone 2 - Clérigos
- Zone 3 - Flores / Mouzinho da Silveira
- Zone 4 - Aliados

03. Investment



Fernando Ferreira
Head of Capital Markets

During the first nine months of 2018 approximately € 130M were invested, among which the largest ever transaction in Portugal in the hospitality sector.

Porto is proving itself as a new destination not only for tourism but also for investment. Over the last few years a lot of recovery work has been undertaken in several neighbourhoods, rendering Porto a desirable city to live, visit, work and invest.

The favourable economic and political climate in Portugal has proved crucial to attract all types of investors. As Lisbon becomes increasingly "overcrowded", investors begin to look to Porto as an alternative, with good opportunities for value add and opportunistic investors.

An analysis of the volume traded since 2014 concludes that around 900 million euros were invested in commercial real estate in the Northern region, corresponding to 11% of the total invested nationwide.

Similarly to the rest of the country,

the retail sector has, in recent years, represented the dominant weight (79%) given the transactions of several commercial developments, due not only to the large ticket size which this type of asset naturally comprises, but also to the asset allocation strategies of large international management companies that are investing in the portuguese market.

This region, on the other hand, brings together a significant part of the dominant commercial developments, whose operational performances are attractive to these investors. In addition to the large commercial developments transactions as exemplified by the Vila do Conde Fashion Outlet (€ 130M) and the portfolio comprising the Guimarães and the Maia Shopping (€ 80m), several retail portfolios were traded which included assets located in the region.

During the first nine months of 2018 approximately € 130M were invested, among which the largest ever transaction in Portugal in the hospitality sector stands out with the purchase of the Cardosas Intercontinental Hotel Palace, at a value above € 500k per room.

In the Office sector, interest is beginning to grow. Currently, several start-ups and both national and international companies have selected Porto to settle, expand or place part of their services, boosting the occupational market and consequently the respective rental income.

The visible demand consolidation and expected pipeline of new office product able to meet the current quality and requirements demand, anticipates an increase in investment activity in the

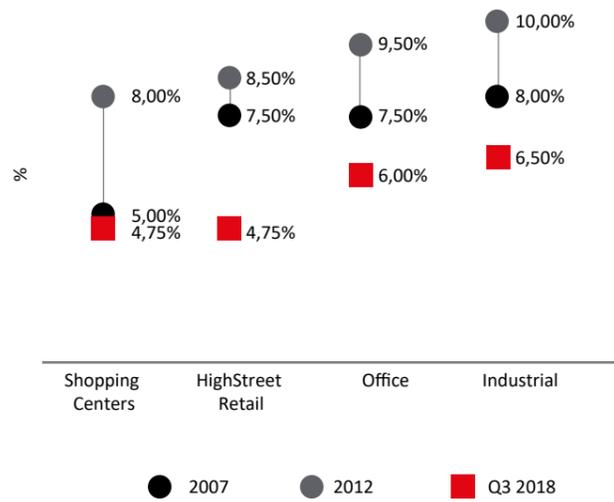
sector for the coming years, mainly by core and value add investors.

Where the rate of return on assets is concerned, as second largest city in the country, Porto naturally registers higher yields than those applied in Lisbon. In the office market the prime yield is currently at 6%, positioning itself 150 basis points above the prime yield in the capital city; in street retail prime yield has established itself at the 5% level, which represents a less significant differential between the two cities (75 b.p.).

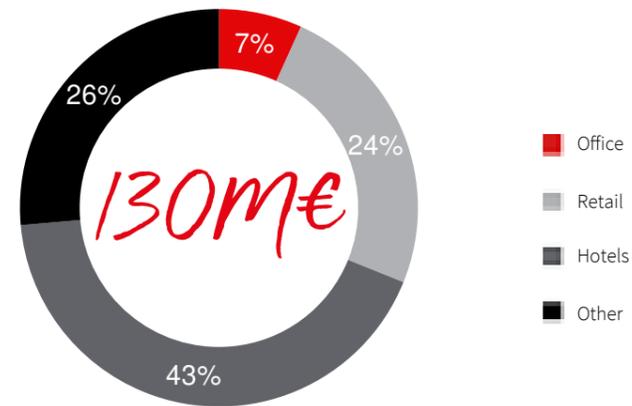
The commercial developments market is analysed on a national level, given that the impact of the asset performance on the yield is very relevant and not always dependent on its location. The Porto region includes one of the five prime national shopping centres, whose yield is positioned at 4.75%.



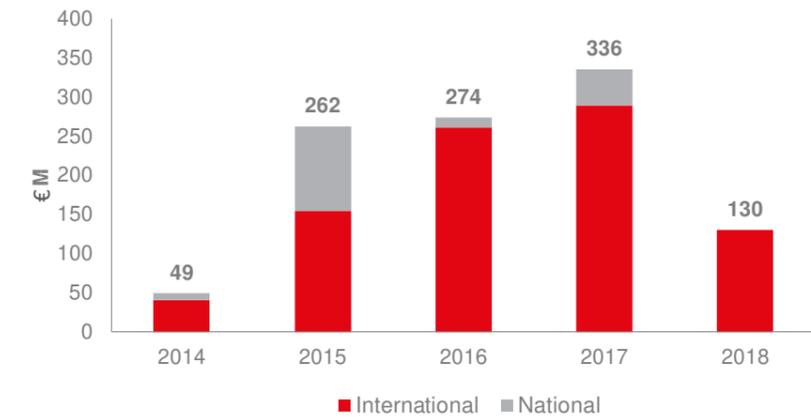
Prime Yields Evolution



Investment Volume by Sector Q1 - Q3 2018



Investment Volume Evolution - North Region



Source: JLL

TOP 3 Deals

Q1 - Q3 2018

Boa Vista Prime

Buyer: BPI
Value: € 7.5M
Area: N.D.
Sector: Office

Hotel Intercontinental

Buyer: Confidencial
Value: € 55M
Rooms: 100
Sector: Hotels

Aveiro Center

Buyer: Savills Investment
Value: € 25M
Area: N.D.
Sector: Retail

Source: JLL



04. Residential



Patricia Barão
Head of Residential

Alongside Foz, the city's historical centre is where major luxury developments are concentrated, as exemplified by the Aliados 107 Building or the Infante Building.

Porto's residential market, together with the dynamics occurring in the country, has shown remarkable buoyancy claiming itself as a significant nationwide market, responsible for 17% of the total sales volume.

According to the National Statistics Institute (INE) data, around 14,800 houses were sold in the Porto Metropolitan Area during the first half of 2018, representing an increase of 17% over the same period of the previous year. INE also registered that between the third quarter of 2017 and the third quarter of 2018, the average value of houses sold in this region increased by 8%, currently standing at € 1,175 /sq m.

Despite the significant inflow of foreign buyers which characterizes this new market cycle, the domestic buyer has dominated sales volume. Of the sales from JLL, domestic customers were responsible for 62% of the sold volume during the first six months of the year.

Where international investor purchases are concerned, Brazilians clearly prevail. So, as to get a clearer picture of the Porto market, JLL has identified 12 zones that are defined on the map.

The Foz zone remains the city's prime zone, primarily sought after by Porto's upper class. Here, prime values of a maximum € 3,500 / sq m in the previous market peak (2007), have now escalated to € 7,000 / sq m in certain projects.

The Downtown and Historical Centre zones have registered remarkable growth, looked upon as trendy zones, very cosmopolitan and the most international.

It should be noted that, ten years ago this was a zone in decline, characterized by very degraded buildings and an extremely low occupation rate.

Alongside Foz, the city's historical centre is where major luxury developments are concentrated, as exemplified by the Aliados 107 Building or the Infante Building, having therefore values of both zones are similar. In parallel, similarly to Lisbon, the strong growth in tourism has boosted demand for apartments intended for Local Accommodation.

All zones have however revealed a very positive dynamic. The Asprela zone, where the main university centre and regional hospital are located, has shown a lot of demand and consequently aroused the interest of several promoters.

Round Hill, an international real estate investment company, is due to develop one of the major projects of the city here that envisages a mix of uses, including apartments and a student residence.

Demand remains intense; we continue to sense a strong demand, both foreign



41% International

and national, thus new projects are mostly sold in the planning phase. Despite the sharp rise in Porto's housing prices in recent years, we still believe that there is room for upward corrections, albeit at a less accelerated pace than in the recent past.

TOP 5 International Buyers

- 1st - Brazil (35%) 🇧🇷
- 2nd - South Africa (20%) 🇿🇦
- 3rd - France (16%) 🇫🇷
- 4th - Israel (12%) 🇮🇱
- 5th - United Kingdom (7%) 🇬🇧

Source: JLL



05. Urban Development



Gonçalo Santos
Head of Urban
Development

Despite the current observance of several refurbished buildings, which results in a more beautiful city whilst bringing a new consolidation, there are still many opportunities in real estate development in Porto.

The absolute frenzy surrounding the Portuguese capital has very much inflated the purchase prices of the assets meant for real estate development, which has led developers to seek diversification in alternative locations.

Porto, whose tourism has grown even more noticeably than in Lisbon, thus becomes the hottest city of the moment! Despite the current observance of several refurbished buildings, which results in a more beautiful city whilst bringing a new consolidation, there are still many opportunities in real estate development in Porto.

These opportunities arise both from refurbishment of existing buildings and new construction, due to various urban voids that still characterize the city. Since 2014 the number of buildings licensed for construction has evolved in a positive manner; during 2018 (up to July) the INE registered 1,537 licensed buildings in the Porto Metropolitan Area, which corresponds to an increase of 15% over the same period of 2017.

According to the SIR-RU, an entity that collects and analyses transaction information of buildings located in

the Urban Recovery Area of Porto city centre, communicated to the Porto Municipality under the right of first refusal, the purchase price has increased considerably. In the 131 transactions of buildings recorded in the last 12 months, the average value amounted to € 1,900 / sq m, compared to the average € 1,200 / sq m verified in the last twelve months.

The developments under construction and in the pipeline play a part across almost all sectors, often combining mixed uses in the same project. The future Bonjardim Block located next to the Rivoli Theater, the Amial project, sponsored by Round Hill or the Matadouro project, located in the city's eastern zone confirm the trend of mixed uses spaces and of expansion into less central and consolidated Porto zones.

Although Porto is witnessing significant progress in its residential, hospitality and office developments, the market still offers strong capabilities for growth and opportunity.

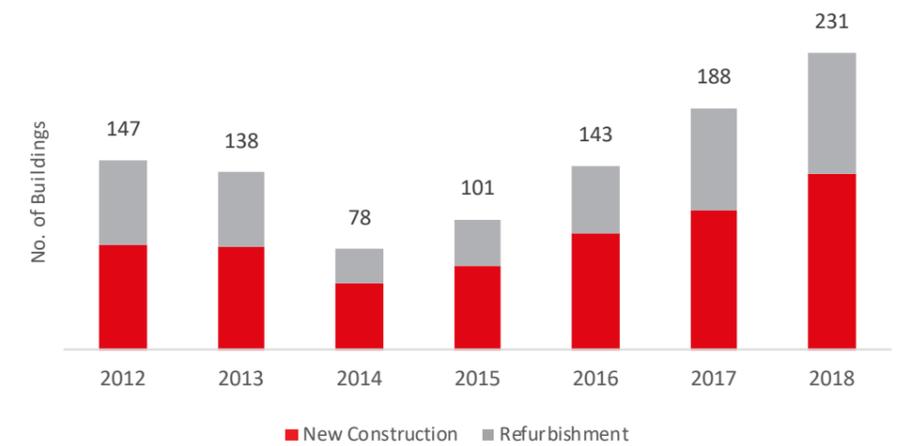
More than 170,000 sq m are in the pipeline for office use, which include the Urbo buildings in Matosinhos and the POP building in Boavista.

In the purely residential segment, real estate development is more prominent in the city centre, with a strong impact in the Downtown / Historical Centre and Foz. The projects in pipeline, such as the Bonjardim Block, Ouro Residence or the Montevideu Six Villas will bring luxury apartments and villas to the market, thus an outlook that prime values should remain high.

The hospitality sector is equally undergoing strong progress. In Avenida dos Aliados we are aware of the development of three hotels, the Monumental Palace and the Eurostars Aliados, both 5 star and the 4-star Pestana Porto Goldsmith.

In the retail sector only street trade has been leveraged by the building refurbishments given the previously mentioned ground floors that give way to new stores, which in the busiest streets end up having significant demand.

Porto Licensed Buildings



Source: JLL

TOP 3 TRANSACTIONS Q1-Q3 2018



EFANOR Project

Area: 105,000 sq m
Value: € 30M
Mixed Uses
Buyer: Grandavenue72



Palácio dos Correios

Area: 14,000 sq m
Value: € 22-24M
Offices
Buyer: Grupo Ferreira Holdings



Tawny Project

Area: 56,000 sq m
Value: N.D.
Mixed Uses
Buyer: Roundhill

Source: JLL

06. Hotels



Karina Simões
Head of Hotels & Hospitality

Porto is among the European cities with the most promising RevPAR results, supporting the outlook which points to a continued performance improvement in the medium term.

Porto has witnessed an extremely positive tourism-related activity, attracting both domestic and foreign visitors from different countries across the world, who come mainly to experience the frequently mentioned authenticity of the ‘unbeaten city’ (as Porto is commonly referred to).

In the Northern region, the tourism market is quite buoyant and has shown unique progress, which in the first half was reflected in the growth of 10% and 6.2% of the RevPar and the number of overnight stays, respectively. 2.8 million passengers landed between January and June in the Sá Carneiro Airport, representing an annual growth of 11.6%.

The passenger flow in the Leixões Cruise Terminal on the other hand reflected an annual growth of 37.9%, peaking at more than 56 thousand passengers in the first half of the year. Porto is among the

European cities with the most promising RevPAR results, supporting the outlook which points to a continued performance improvement in the medium term.

Matching with the potential growth and city development thus increasing its attractiveness as a business and leisure destination. There are several investment projects for new hotels in the city. Since the beginning of the year, at least 3 new hotels opened in Porto, representing an increase of 380 new beds in the city. Worth of mentioning is the opening of the Selina Porto, targeting millennial tourism, and the Pestana Collection A Brasileira inspired by the coffee culture theme.

Moreover, two further units are expected to open by the end of the year, namely the Monumental Palace comprising 76 rooms on Aliados, and an innovative hotel with a concept of compact rooms in the Rua

do Ateneu Comercial. A close relationship with Vila Nova de Gaia will benefit the city with the increase in hospitality supply dedicated to the MICE segment, namely a 200 room hotel affiliated to the cultural and congress centre just 1.5 km away from Porto’s historical centre.

International investor interest in Porto has registered an increase in recent years. Two very important five-star hotel investment transactions took place, whose value per room was over 500 thousand euros, an amount never witnessed before in Portugal.

There were several aspects that contributed to the success of these transactions, which amounted to a total value of over 90 million euros, namely the location and unique features of the assets, the historical and projected performance, the growth potential of

the tourism market in Porto and the fact that both sales were completed through structured processes. Hotel transactions in the city are expected to continue in the coming years, both in repositioning and development opportunities, a momentum that shall only be limited by the available product and its potential use.

KEY OPENINGS

Q1 - Q3 2018

Selina Porto

Hotel / Hostel
190 Beds
50 Bedrooms

Hotel Pestana Collection A Brasileira

Hotel

90 Rooms

Porto Royal Bridges

Hotel

70 Rooms

Source: Lisbon Tourism Observatory Indicators and Porto Indicators STR ; JLL





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