THE PROPERTY HANDBOOK

ALL YOU NEED
TO KNOW ABOUT
INVESTING IN PORTUGAL

THIRD EDITION
2018

CBRE VIEIRA DE ALMEIDA

INTRODUCTION

ANA MENDES GODINHO
Secretary of State of Tourism

Today Portugal is enjoying unique conditions and we are one of the most attractive destinations in the world for those looking to travel, live, invest or work abroad.
The world is taking a close look at us: hospitality, cuisine, wine, innovation, light, culture, climate and cities with "good vibes".
The international media never tires of "discovering" this Portugal that surprises visitors: either because of its political, social and economic stability or because of its ability to find alternative paths to an austerity that has proved to be ineffective, or because of what they have heard of other people's unforgettable experiences of the broad range of things on offer in Portugal.
What Portugal offers matches today's definition of luxury: authenticity, innovation and creativity.
Tourism has made a decisive contribution to this dynamism.
In 2017 the provisional figures point to new records, with over 20,6 million tourists, 57,5 million overnight stays and 15,200 million euros in revenue, representing an annual increase of 19.5%, the highest in absolute terms in the last two decades.

Tourism also plays a crucial role in creating jobs as a result of the tourist trade spreading across the year and the decrease in the VAT rate on catering services.
In fact, 2016 saw a reversal of the downward trend in employment recorded from 2011 to2015. The reduction of VAT in restaurant services also contributed to the numbers: creation of more than 57.000 jobs since the beginning of 2016.
We are perfectly aware of the importance of tourism to conveying Portugal's image, and we have use it to promote Portugal as a must-see destination not only somewhere to visit but also to work, live and invest.
Real estate is undoubtedly one of the investment anchors.
We have sought to attract foreign investment, particularly through international promotional campaigns as well as the digital channel "livinginportugal" which has had over a million visitors, at a monthly rate of around 29,000.
The property market is showing the green shoots of a recovery. In 2017 house sales were up 25%, and stood at 152,000.
Of these 25% were purchased by foreigners, especially Brazilian, French and British citizens, following the trends in tourist demand.
Portugal is increasingly seen as a safe place, either because of the political and economic stability or the tax edge established in 2009, or because of the climate, the cost of living, the cuisine, the ability to integrate people, safety, and the health and education systems.
We are a safe, sunny, hospitable and multicultural country that has ever better air links to various continents, all year round.
From 2016 till now Portugal secured over 150 new air routes to various key investor markets, namely the USA, China, Brazil, Canada, France, Italy and Scandinavia.
This has clear implications for foreign investment.

The last two years (from January 2016 to December 2017) were responsible for 48% of total residence permits for investors (ARI) were issued out of all such permits issued since they were created in 2012.
Portugal has earned a growing reputation that has also led to an increase in the number of international awards and prizes received. We have gone from 150 prizes in 2015 to 2115 in 2017. The international notoriety also continues to increase. In 2016 were published about 15.900 articles and in 2017 more than 27.000.
This year Portugal was voted the:

- 3rd safest country in the world
- No.1 destination worldwide for retired persons
- Europe's no.1 country in terms of expat quality of life
- Best European Destination
- Best Destination of the World
- The world's premier destination for young expats

The duty of ensuring these fine results continue rests in all our hands.
We will continue the work we have been doing, focusing on the critical factors for attracting investment:

- Political, economic and social stability
- Simplification
- Skilled human resources
- Availability of financial instruments
- Competitive air services
- Promoting Portugal as a place to visit, live, invest and work
- Market diversification

Working together, taking advantage of people's synergies, because we have common goals.
We are aware of the many challenges ahead, but we are confident that the path we are all following will lead to clear successes and place Portugal on investors' maps.

INVESTMENT MARKET

Investment Turnover *(2017)*

€2.2 *billion*

10 yr Average Investment Turnover *(2008-2017)*

€910 *million*

Prime Yield (Q4 2017)

Office (Gross) 4.50%

High Street (Gross) 4.50%

Shopping Centre (Net) 4.75%

Logistics (Gross) 6.50%

OFFICE OCCUPIERS MARKET

LISBON

Total Stock:

4.6 *million sq m*

10 yr Average Take-Up *(2008-2017)*

130,000 *sq m*

Gross Take-Up *(2017)*

167,000 *sq m*

Vacancy Rate *(Q4 2017)*

8.6%

CBD Prime Rent *(Q4 2017)*

€20 *sq m / month*

PORTO

10 yr Average Take-Up *(2008-2017)*

21,000 *sq m*

Gross Take-Up *(2017)*

30,000 *sq m*

CBD Prime Rent *(Q4 2017)*

€14 *sq m/ month*

RETAIL OCCUPIERS MARKET

RETAIL SCHEMES

Total Stock in Retail Schemes *(Q4 2017)*

3.7 *million sq m*

Total Stock in Shopping Centres *(Q4 2017)*

2.9 *million sq m*

Shopping Centre Prime Rent *(Q4 2017)*

€95 *sq m / month*

HIGH STREET

Lisbon High Street Prime Rent *(Q4 2017)*

€130 *sq m / month*

Porto High Street Prime Rent *(Q4 2017)*

€50 *sq m / month*

Lisbon Prime Locations

CHIADO

AV. LIBERDADE

RUA AUGUSTA

Porto Prime Locations

R. DE SANTA CATARINA

CLÉRIGOS

PROPERTY MARKET

AT A GLANCE

LOGISTICS
OCCUPIERS MARKET

LISBON

Total Stock
2.1
million sq m

10 yr Average Take-Up *(2008-2017)*
166,000
sq m

Gross Take-Up *(2017)*
210,000
sq m

Vacancy Rate *(Q4 2017)*
14%

Prime Rent *(Q4 2017)*
€3.50
sq m / month

PORTO

Total Stock
0.7
million sq m

10 yr Average Take-Up *(2008-2017)*
50,100
sq m

Gross Take-Up *(2017)*
133,000
sq m

Vacancy Rate *(Q4 2017)*
5%

Prime Rent *(Q4 2017)*
€3.50
sq m/ month

HOTEL
MARKET

Annual Average Growth (2007-2016)

Beds Supply
2.3%

Overnight Stays
3.4%

Overnight Stays (2017)
57
million

Occupancy Rate Per Room (2017)
66.7%

RESIDENTIAL
MARKET

Number of homes/ Number of households
1.4

Highest number of new houses concluded in a year
126,000 *(in 2002)*

New houses concluded *(2017)**
8,200

Highest number of Sales Contracts in a year
230,000 *(in 2000)*

Sales Contracts *(2017)**
152,000

Housing Price Change *(2016-2017)**
9%

Average Sales Price of New Homes

Lisbon
€4,350 *sq m*

Porto
€2,400 *sq m*

**CBRE estimate*

LEGAL

PROPERTY TITLE

Full ownership *(direito de propriedade)* is the most common and the strongest ownership title over real estate in Portugal. The full owner of a property is entitled, within the limits of the law, to exclusive rights of use, fruition and disposal of the property, such ownership being unlimited in time (full ownership would be equivalent to a "freehold" in common law systems and to the French concept of "droit de proprieté").

Under Portuguese Law other forms of property tenancy are allowed, such as horizontal property (condominium), surface rights *(direito de superficie)* and usufruct *(usufruto)*.

LEASE

The assignment of use of properties for commercial, industrial and office purposes is typically formalized by means of "standard lease agreements", subject to the Portuguese "Urban Lease Law".

The Urban Lease Law is quite flexible, especially for non-residential purposes, as the most relevant features of the lease may be freely stipulated by the parties (such as duration, renewal, termination, rent review scheme, maintenance, works, etc.).

The lease of retail units in shopping centres, retail parks and other similar commercial schemes, is normally carried out through "shopping centre contracts". These contracts are usually very detailed agreements that govern not only the use of the shop but also the ancillary services provided by the shopping centre administration to the shopkeepers and the respective service charges. Such contracts are not subject to the "Urban Lease Law" although they need to abide by the general rules applicable to contracts. These agreements tend to follow similar standards within the relevant segment in question.

REAL ESTATE TRANSACTIONS

The transfer of real estate assets in Portugal (asset deal), may be performed by means of (I) a public deed, or (II) a private document certified by a notary, a Land Registry Office or a lawyer. The transfer of title must be registered with the Land Registry Office within 30 days as from the date of the transaction.

Land Registry Offices are the entities in charge of keeping public records reflecting the description of properties and their current status, including ownership and encumbrances.

Alternatively, the transfer of real estate assets in Portugal may be performed indirectly, by means of the transfer of shares in the property holding company (share deal). The transfer of shares may be effected by means of a private agreement between the parties.
The acquisition of shares in public limited liability companies *(sociedade anónima)* must, in certain cases, be notified to the company (notably for the registration of the shares on behalf of the purchaser) and to public authorities (tax authorities and regulatory entities). The acquisition of a stake in a private limited liability company (*sociedade por quotas* - a company whose share capital is represented by *quotas*) must be registered with the Portuguese Companies Registry.

FINANCING

The financing of real estate projects in Portugal is typically secured against the relevant real estate assets and/or the shares of the property owning company and/or the property generated income.

A mortgage is the most common security provided. In case of breach of repayment obligations under a financing arrangement, a mortgage grants the creditor the right to be paid preferentially towards other non-secured creditors, from the proceeds of the sale of the mortgaged property (provided other creditors do not benefit from special privileges, which would be the case, for instance, of the tax authorities, in respect of property taxes).

Pledges of shares and receivables or credits (rents, deposits, indemnities, etc.) are also commonly included in real estate financing security packages.

PLANNING AND LICENSING

In Portugal, the building code of each Municipality is specified in the town and country planning instruments, notably, the general plan *(Plano Director Municipal)*, the master plans *(Planos de Urbanização)* and the detail plans *(Planos de Pormenor)*.

Prior to filing a licensing request, it is possible, although not mandatory, to file a previous information request ("PIP") in order to obtain further certitude regarding the feasibility of the intended project.

The applicable law currently foresees two types of administrative procedure entitling the execution of urbanistic operations (including: plotting and infra-structuring, construction of new buildings and modification of existing buildings):

(I) License: The License procedure is the standard procedure applicable whenever the law does not establish specifically that the operation in question may be exempted of such procedure or subject to the mere Previous Communication.

(II) Previous Communication (a mere prior communication to the Municipality before initiating the urbanistic operation): The law specifies the specific situations where a Previous Communication is admissible.

In Portugal, the use of any real estate asset is generally subject to Municipal Use Permit, which is the document attesting that a certain construction was built in accordance with the approved construction license and stating the respective authorized use. Except when exempted, the existence of the Municipal Use Permit is also mandatory to property transfer within asset deals.

RENOVATION REGIME

Legislative changes to the urban renovation regime enacted in 2012 allowed administrative licensing procedures related with urban renovation to be more simple and straightforward and allowed mechanisms for the termination of old lease agreements for the purposes of conducting renovation works in leased properties.

Recent legislative changes have introduced some limitations in what regards the application of this legal framework, particularly in relation to the protection of commercial establishments considered as having an historical interest by the relevant municipality, in which case the termination of leases for renovation works is subject to certain constraints.

The activity of urban renovation may benefit from certain relevant tax reliefs and incentives.

FOREIGN INVESTMENT

There are no limitations to foreign direct investment in real estate in Portugal.

Nevertheless, investors may need to comply with certain tax formalities, particularly in what regards obtaining a Portuguese taxpayer number, being that investors with tax residence in a non-EU country need to appoint a Portuguese tax representative (either individual or legal entity) mainly for the purposes of receiving notifications from the Portuguese tax authorities.

GOLDEN VISA

The Golden Visa program allows the granting of a temporary residence permit for third-country nationals that intend to invest in Portugal, notably through the acquisition of real estate assets with a minimum price value of €500,000 or through the purchase of real estate property for renovation in buildings older than 30 years or located in urban renovation areas, in which case the total investment value allowing to apply for the residence permit is lowered to €350,000.

Once the temporary permit is granted, investors may:
(I) freely travel within Schengen Area;
(II) apply for family reunification;
(III) live and work in Portugal;
(IV) obtain permanent residence (after 5 years subject to certain terms and conditions set out by the legislation in force); and
(V) obtain Portuguese citizenship (after 6 years subject to the terms and conditions set out by the legislation in force).

The Golden Visa investor must stay in Portugal for a period of, at least, 7 days during the first year, and 14 or more days, in the subsequent 2 year periods.

NON HABITUAL RESIDENTS TAX REGIME

The Non Habitual Residents Tax Regime applies to both EU and non-EU citizens.

The regime is applicable to individuals who have not been considered residents for tax purposes in the last five years and decide to transfer their tax residence to Portugal.

Individuals who are eligible to register voluntarily as a NHR may benefit for a 10-year period from the NHR Tax Regime, provided that in each of those 10 years they are considered residents for tax purposes.

A NHR will be exempt from personal income tax on certain types of qualifying income if this income is subject to tax in the country of source under an existing Double Tax Treaty that allows for this or, if no Tax Treaty exists, is subject to tax in another jurisdiction and is not considered as Portuguese source income under domestic rules.

It is applicable a flat Personal Income Tax (IRS) 20% tax rate on the listed high-added-value activities.

TAX AT A GLANCE

ASSET DEAL	ACQUISITION OF REAL ESTATE	PROPERTY TRANSFER TAX (IMT)	Property Transfer Tax is a municipal tax levied on the transfer of real estate located in the Portuguese territory. Property Transfer Tax is levied on the higher of (i) the declared acquisition value and (ii) the taxable value of the property. The applicable tax rates are as follows: a) Urban properties used exclusively as primary residence: 6% (maximum progressive rate, according with the taxable value of the property). b) Rural properties: 5%. c) Urban properties not intended for residential purposes: 6.5%. d) Properties purchased by entities resident in a blacklisted jurisdiction (as detailed on the Ministerial Order 150/2004, of 13 February, as amended): 10%.
		STAMP DUTY (IMPOSTO DO SELO)	Stamp Duty is levied on the acquisition of property, at a rate of 0.8%. Stamp Duty is levied on the higher of (i) the declared acquisition value and (ii) the taxable value of the property.
	PROPERTY HOLDING	MUNICIPAL PROPERTY TAX (IMI)	General regime rates (levied on the taxable value of the property): a) Urban properties: 0.3% to 0.45% (variable according to each municipality). b) Rural properties: 0.8%. c) Properties owned by entities resident in blacklisted jurisdictions: 7.5%.
	PROPERTY INCOME	CORPORATE INCOME TAX (IRC)	Resident company : All income is included in the taxable profits and subject to Corporate Income Tax. Currently the Corporate Income Tax rate is of 21%, accrued with municipal surcharge (up to 1.5%) and state surcharge (if applicable, up to 9%). Non-resident investor: Property income is subject to Corporate Income Tax at a rate of 25% levied on the amount of the lease income (limited ability to deduct costs incurred).
	SALE OF REAL ESTATE	CAPITAL GAINS - CORPORATE INCOME TAX (MAIS-VALIAS - IRC)	Resident company: Capital gains form part of the taxable profits and are subject to Corporate Income Tax according to the general rules. Foreign investor: Capital gains are subject to Corporate Income Tax at 25%.

TAX

AT A GLANCE

SHARE DEAL

ACQUISITION OF SHARES

PROPERTY TRANSFER TAX (IMT)

No taxation provided the target company is a public limited liability company *("sociedade anónima")*.
If the target is a private limited liability company *("sociedade por quotas")* or a privately placed closed-end real estate investment fund *("fundo de investimento imobiliário fechado de subscrição particular")* and the acquirer purchases at least 75% of the shares of the target company or of the units of the fund, Property Transfer Tax will be levied on the transaction (as if it was an asset).

ACTIVITY

PROFITS (IRC)

Corporate Income Tax rate: 21%

Municipal Surtax (levied on the taxable profits before the deduction of tax losses carried forward from previous years): 0% to 1.5%.

State Surtax (levied on the taxable profits before the deduction of tax losses carried forward from previous years):
- 3% from €1,500,000 to €7,500,000.
- 5% in what exceeds €7,500,000 to €35,000,000.
- 9% in what exceeds €35,000,000.

DIVIDENDS

There is a withholding tax exemption pursuant to the "participation exemption regime" provided certain conditions are complied with, namely if the shareholder holds at least 10% of the subsidiary for a minimum period of 1 year prior to the distribution.

Foreign shareholders that do not qualify for the "participation exemption" are subject to a withholding tax rate of 25%, except if they are eligible to claim double tax treaty benefits (with a possible reduction to a rate of between 5% to 15%).

SALE OF SHARES

CAPITAL GAINS (MAIS-VALIAS - IRC)

Capital gains realized by resident shareholders are included in the taxable profits of the shareholder, except if the "participation exemption" regime applies (please see above). Regarding non-resident shareholders, capital gains are subject to Corporate Income Tax at a rate of 25% except if an exemption applies pursuant to the Tax Benefits Code or a double tax treaty.

If more than 50% of the assets of the company consist of real estate assets, in principle, the above mentioned exemption does not apply and the capital gains are subject to Corporate Income Tax.

1. MACROECONOMIC PICTURE

MACROECONOMIC PICTURE

	2006 - 2015	2016	2017 (e)	2018 (f)	2019 (f)
GDP[1]	-0.1%	1.5%	2.7%	2.2%	1.6%
CONSUMPTION[1]	0.0%	2.3%	2.3%	1.9%	1.5%
UNEMPLOYMENT RATE	12.4%	11.1%	9.2%	8.2%	7.9%
CONSUMER PRICES[1]	1.3%	0.6%	1.4%	1.4%	1.8%

[1] Annual percentage change

Source: Oxford Economics, January 2018

The Portuguese economy has been recovering at a very healthy pace after a 3-year recession period, between 2011 and 2013, during which the country was under an Economic Adjustment Programme agreed with the European Commission, the European Bank and the International Monetary Fund ("troika"), having exited in May 2013.
Portugal began to show signs of economic recovery at the end of 2013 and has been experiencing an annual gross domestic product (GDP) growth since 2014. Increase in household consumption, exports (especially in tourism) and, recently, investment (namely in the construction sector), are the main drivers. Tourism has been increasing successively over the past 8 years, with the number of overnight stays rising 7% y-o-y in 2017. GDP is estimated to have grown 2.7% in 2017, according to Oxford Economics.
The labour market is likewise proceeding very positively. After reaching an all-time high of 17.4% in early 2013, the unemployment rate has since been decreasing, to around 9.2% in 2017.
Consumer Price Index (CPI) was below 1% between 2013 and 2016 (inclusively with deflation in 2014) but increased in the region of 1.4% in 2017.
Main confidence indicators have been improving since 2012 and in 2017 reached record highs levels.

After exceeding 16% in early 2012, and decreasing sharply from then onwards, the 10-year bond yield once again showed an upward trend in 2015 and 2016, rising above 4% at the beginning of 2017. However, the rate fell over the first six months of 2016, standing below 2% at the end of 2017. Simultaneously, and following a fiscal deficit of 2% of GDP in 2016, well below the 2.5% EU target, the European Commission, in May, recommend Portugal's exit from the Excessive Deficit Procedure. In addition, at the end of 2017 both Fitch and S&P raised Portugal's credit rating to investment grade.

THE PORTUGUESE ECONOMY HAS BEEN RECOVERING AT A VERY HEALTHY PACE

LISBOA ROSSIO

2. TERRITORIAL DIVISION AND DEMOGRAPHICS

Portugal is made up of the mainland and the archipelagos of Madeira and Azores located in the Atlantic Ocean. Portuguese territory comprises 9.2 million ha and is administratively divided into 18 districts and the two autonomous regions of Madeira and Azores, which together integrate 308 councils. The councils are subdivided into parishes ("freguesias"). In 2013, after an administrative restructure the number of parishes has decreased, to the current 3,092.

Statistically Portugal is divided in 7 different regions: North, Centre, Lisbon, Alentejo and Algarve, in the mainland, as well as Madeira Autonomous Region and Azores Autonomous Region. These are then subdivided in 30 sub-regions.

According to the last census carried out in 2011, Portugal had 10.5 million inhabitants reflecting a 1.4% demographic growth in that decade. However, 2016 estimate point now to only 10.3 million inhabitants, a decrease that results mainly from emigration and the sharp decline in birth rate.

The Greater Lisbon sub-region concentrates circa one fifth of the Portuguese population with 2.8 million inhabitants, while 1.7 million people live in the Greater Porto sub-region. The most populated councils are Lisbon, Sintra and Vila Nova de Gaia.

9.2
million ha

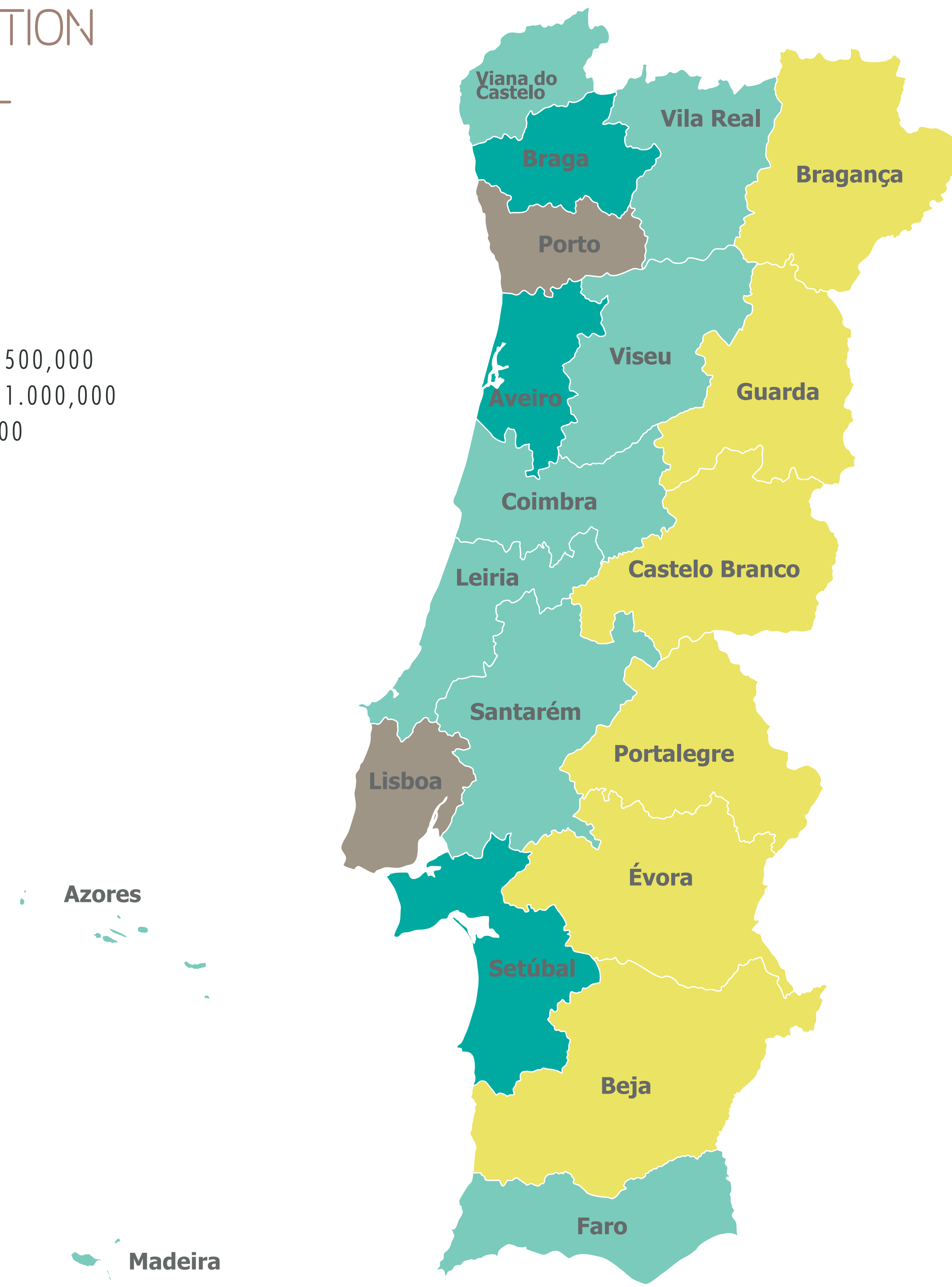
7
regions

18
districs

308
councils

POPULATION PER DISTRICT

- < 200,000
- 200,000 - 500,000
- 500,000 - 1.000,000
- > 1.000,000



Source: INE; CBRE

3. INVESTMENT MARKET OVERVIEW

The Real Estate Investment market has completely changed over the last decade, with regards to volume, type of investors, origin of the capital, and is currently at a new stage.

Up until 2002 institutional investment turnover in Portugal was low and limited to Portuguese funds and a reduced number of foreign investors. It was only after 2002, with the entry of the Euro, that the commercial property investment market became more dynamic with the arrival of several international players.

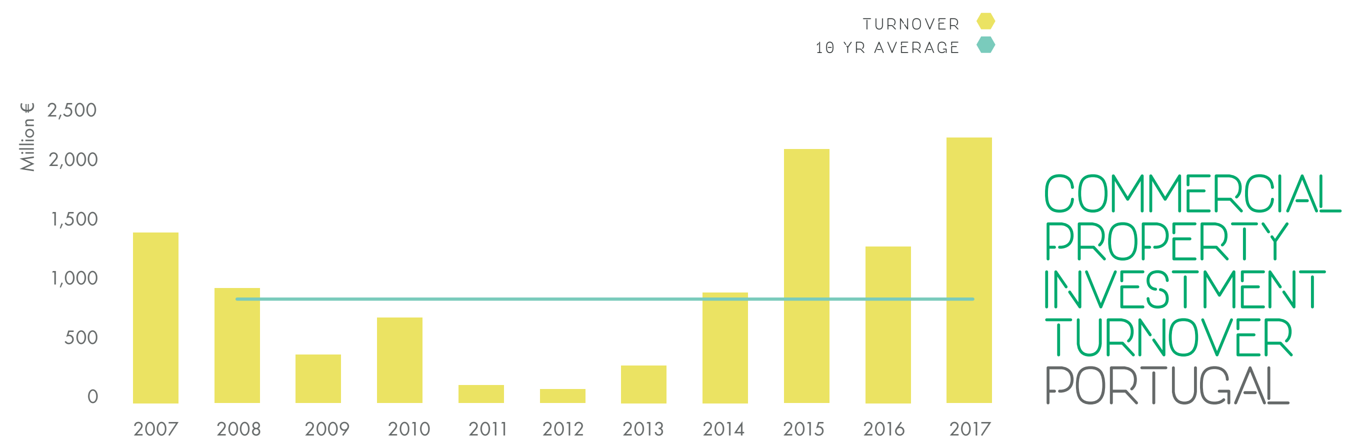
The strong growth at this stage was associated mainly to the renowned quality of Portuguese shopping centres that stimulated strong interest from foreign investors. Other factors that contributed to this growth were the reduction of IMT (property transfer tax) in 2004, from 10% to 6.5% making the acquisition of Portuguese assets more attractive, together with the change introduced in 2005, in the Property Investment Funds regulation, which meant that closed-ended funds were then able to leverage without restrictions.

2007 registered a historic record high in investment activity in Portugal, fuelled by the easy access to credit from which investors benefited during that period.

The world economic crisis that was felt since 2008, became even more critical in Portugal with the acknowledgement of the Portuguese public debt crisis in 2010. Surprisingly, property investment volumes still increased in 2010, but this was driven by a couple of shopping centre transactions that could almost be considered as internal re-organisation exercises.

In 2011 and 2012 the market suffered a severe contraction. It was only in the second half of 2013, with the risk of Portugal leaving the Eurozone set aside and the prospects for eventual economic growth, that the first signs of investment in the commercial property market appeared, with international players showing increasing interest. 2014 was the year of investment recovery in Portugal and in 2015 a new historic record high of €2.1 billion euros was achieved.

IN 2017 A NEW HISTORIC RECORD HIGH OF €2.2 BILLION WAS ACHIEVED



Source: CBRE Research

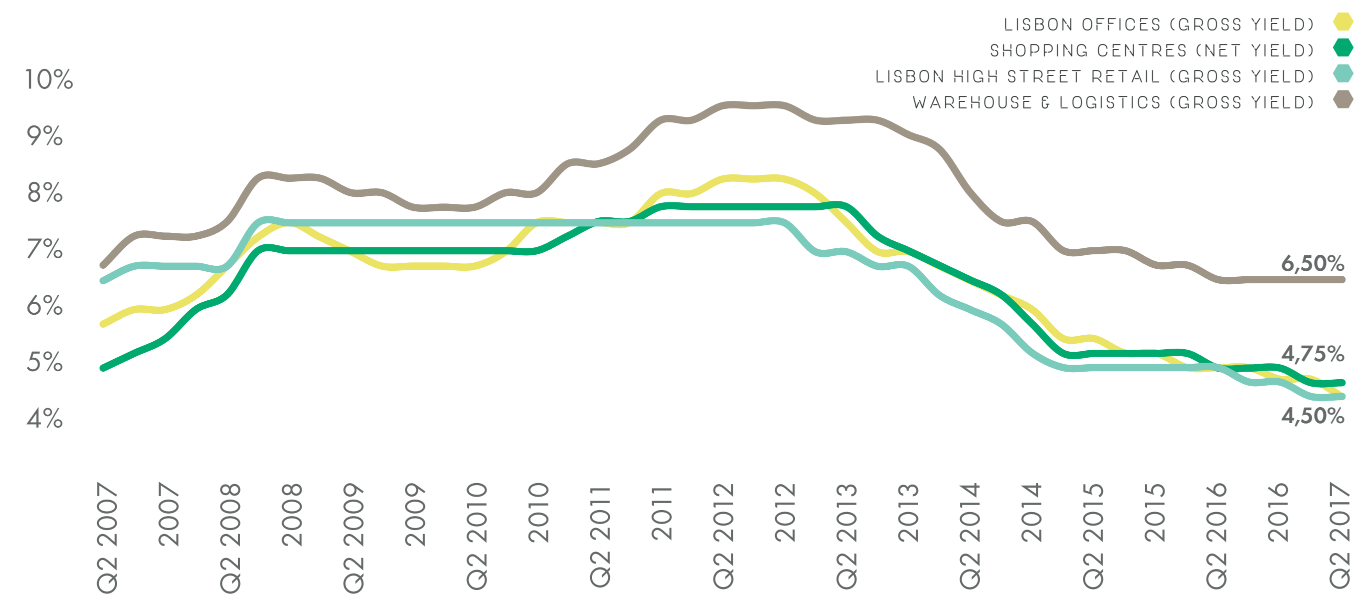
The 10-year average investment turnover (between 2008 and 2017) was €910 million (against €1 billion on the 2003 to 2007 previous peak). However, in 2017 investment once again surpassed the 2 billion Euros threshold achieving a new high of 2.2. The 2017 turnover was leveraged by the sale of two multinational companies with several assets in Portugal, Logicor and Empark, both purchased by international institutional investors, which represented 20% of the total investment volume.

In this 10-year period the retail sector recorded the highest share in investment volume, followed by offices, with 47% and 31% respectively of the total inflow. Portuguese shopping centres have attracted a considerable number of international investors, although in the last couple of years the investment in the office sector has exceeded that of retail. Despite representing a lower share in the total investment turnover over the past 10 years, with a quota of 12%, the logistics sector saw a very strong activity driven by the Logicor acquisitions. Furthermore, we have been observing over the last years an increasing interest in the hotel sector supported on the strong tourism growth and price increase.

The shape of investment origin and profile has changed significantly from the previous cycle of the market. While in 2007 more than a half of the acquisitions volume was driven by Portuguese investors (closed-end and open-end funds) and the United Kingdom was the more relevant foreign investment market; in 2015 capital inflow was dominated by the USA market. Investment origin has been much more diversified in 2016 and 2017 and new players are continuously entering the market. Nevertheless, while in 2015 and 2016 Portuguese investment has represented only 10% of total turnover, in 2017 this share has more than doubled to 22%.

Yields dropped consecutively since the beginning of the decade and up until 2007. The international financial crisis and, thereafter, the Portuguese public debt crisis, resulted in several increases in prime yields, which only began to compress in the second half of 2013. The prime yields are now lower than those of 2007 in all sectors, except in the retail park format: -25 basis points (b.p.) in prime shopping centres and logistics assets, -125 b.p. in the office sector and -200 b.p. in high street retail. This market was the most resilient to the crisis and has been showing strong dynamics driven by robust tourism growth and the renovation of several buildings in the city centre.

PRIME YIELD EVOLUTION IN PORTUGAL



Source: CBRE Research

In recent years, investment in real estate in Portugal has not been limited to commercial property. Since 2014 we have witnessed a strong trend towards the acquisition of buildings for redevelopment in the Lisbon and Porto historic centres, from institutional foreign investors traditionally more risk adverse. Effectively, in a context of high liquidity and very low interest rates, property development, particularly that of residential renovation, emerged as a high return investment, in a moment where the commercial risk is mitigated with an increased number of sales off-plan. An additional market trend has been the entry of small private investors in the residential sector, with the acquisition of units for lease, both in the short term rental market (tourism) or in the traditional residential market. In a general way, these small scale operations allow yields above 3.5%, providing an interesting upside when compared to the interest of traditional financial alternatives; the advantage of this type of investment is supported by an increasing rental growth.

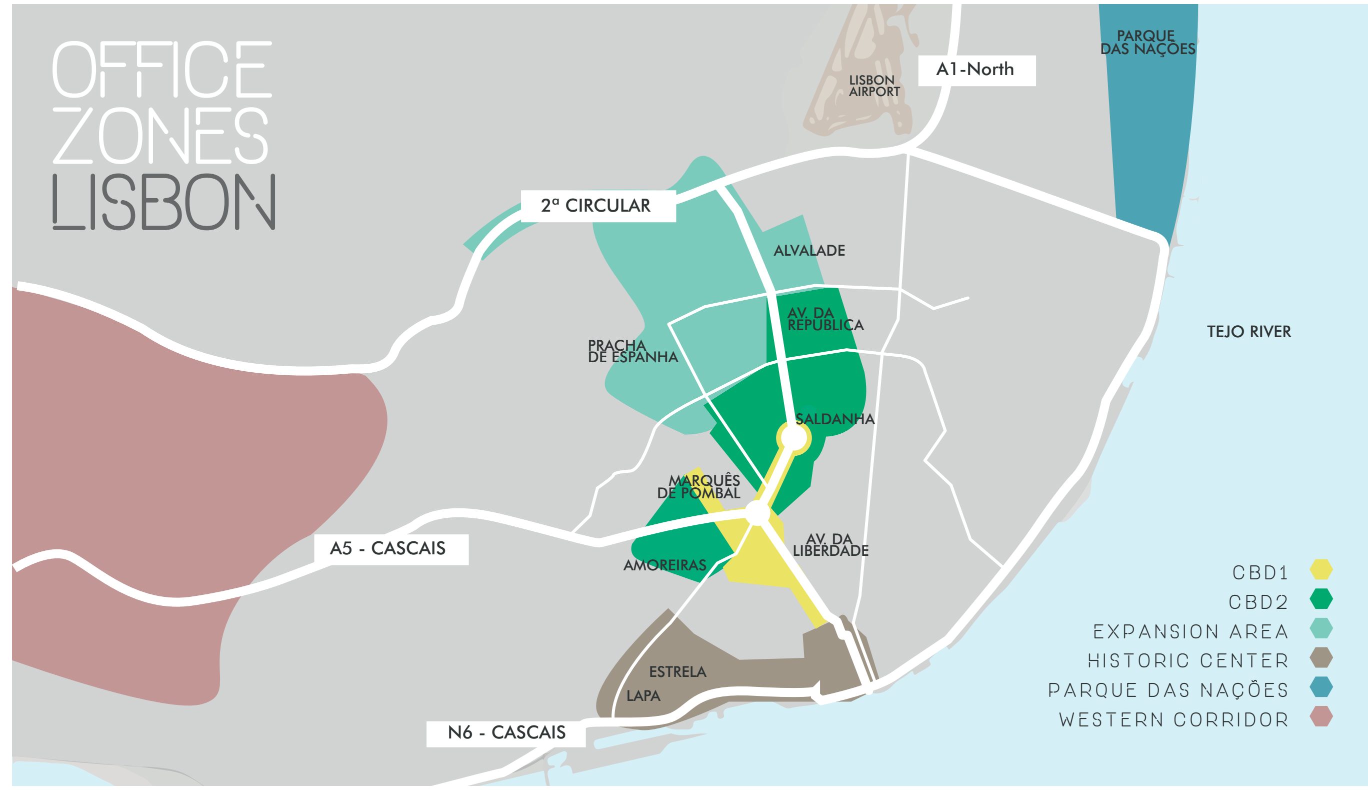
4. OCCUPIERS MARKET OVERVIEW

4.1 OFFICE MARKET

The office market in Portugal is mainly concentrated in Lisbon, although Porto has been showing strong dynamics over the last 3 years. We are observing an increasing activity from international companies on the relocation of their outsourcing services to Portugal, not only to Lisbon and Porto, but also to other cities in the country.

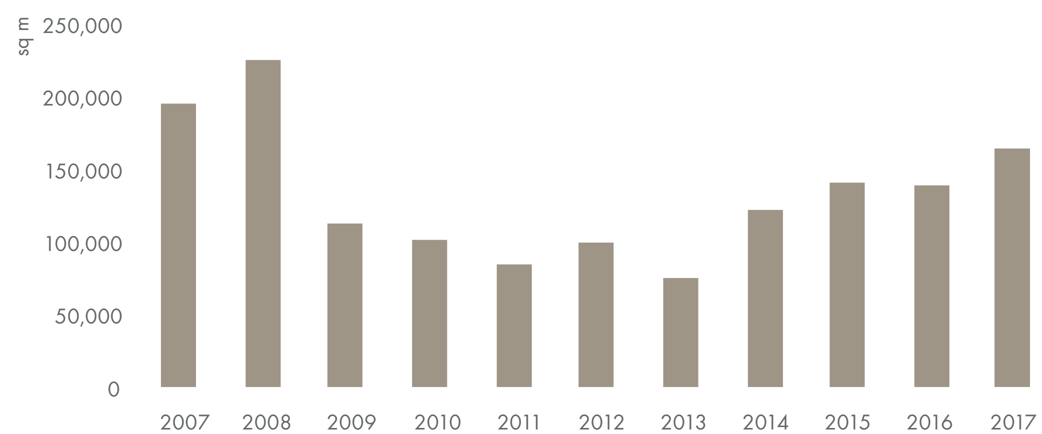
LISBON OFFICE MARKET

The Lisbon office stock is concentrated in 6 well-defined zones, the locations of which are indicated on the map. The main zones make up the CBD (Central Business District) and are located in the city centre, while the Western Corridor is the only zone located on the periphery of Lisbon. Any high quality office buildings situated in the city of Lisbon, but outside the defined zones, are integrated in a wider area called Other Zones.



Source: CBRE

The Lisbon office market recorded a strong occupation in the 2004-2008 pre-crisis period with an annual average of 180,000 sq m, which was followed by the weakest period in the history of this sector since there are records, 2009-2013, with annual average take-up around 100,000 sq m. Recovery began to be observed in 2014. However, despite the good figures recorded since then, take-up does not mirror the current market demand, which has been constrained by a scarcity in supply due to the lack of new projects. Over the last years, take-up has been lifted by the Business Process Outsourcing sector (BPO) with the establishment and expansion of foreign companies which have allocated to Portugal their shared services and contact centres, as well as an increasing growth from technology companies.
The 10-year annual average take-up (2008-2017) was approximately 130,000 sq m. Take-up in 2017 increased 16% year-on-year to 167,000 sq m, the highest value since 2008.

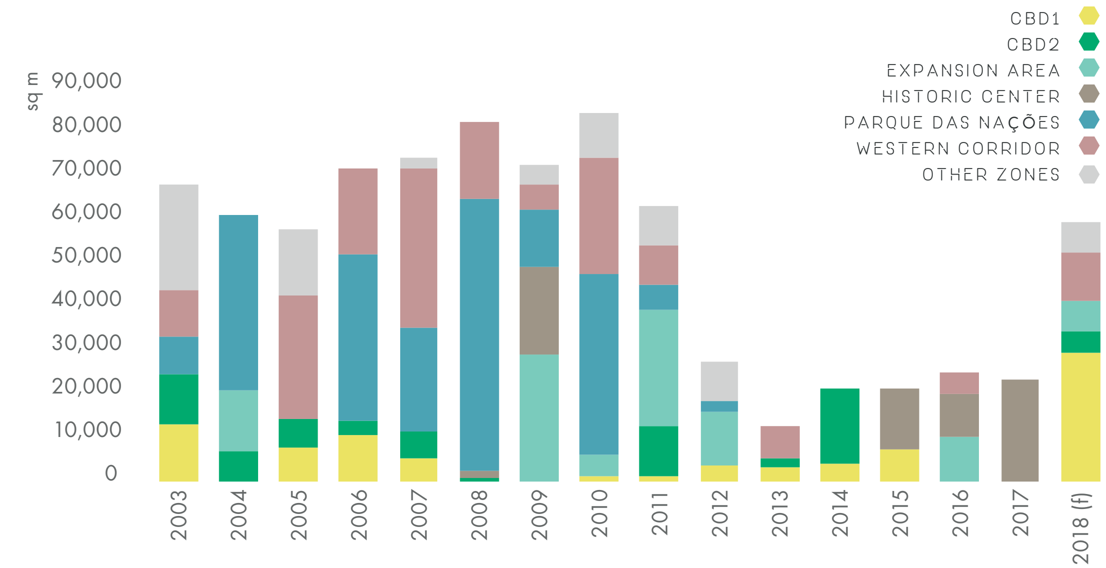


GROSS OFFICE TAKE-UP LISBON

Source: LPI; CBRE Research

The Lisbon office stock is currently in the region of 4.6 million sq m, with a relevant increase, of 632,000 sq m between 2003 and 2011, and an annual average of approximately 70,000 sq m. It was only from 2012 onwards, that the economic and financial crisis began to impact the development pipeline, with a significant slowdown in the completion of new office buildings. Notwithstanding the economic recovery, there have only been a small number of new office developments, the majority built-to-suit projects, as new construction is being targeted at the residential sector where better and quicker returns are obtained with the sale of most of the units off-plan. Therefore, considering that the majority of stock addition is pre-let, no new office spaces were available in the market in 2017 and only 21,000 sq m are foreseen for 2018. The construction of larger office developments that are currently under project or licensing is expected to be launched over 2018. Nevertheless, in view of the time required to construct a new building, the scarcity of quality product will remain a problem over the next couple of years.

OFFICE STOCK ADDITION LISBON



Source: LPI; CBRE Research

Parque das Nações, a zone which emerged at the end of the 90's, has seen a strong development in the first decade of this century, concentrating the highest area of new office space in the last 10 years, with 29% of the total new supply. However, recent developments as well as those currently under construction are concentrated in the Historic Centre and in CBD1. The Historic Centre, namely the riverfront axis, is the new trendy mix use residential, office and leisure area, gaining strong momentum with several projects under development and in pipeline, contributing to an integrated and sustainable urban environment. The reconversion of Mercado da Ribeira and the establishment of the EDP new headquarters in this zone brought a boost to the river front axis, and there has been an increasing demand from a wide range of occupiers including those that traditionally were located in the prime CBD, namely lawyers, as well as creative industries and technology companies.

The overall vacancy rate in Lisbon reached minimums of 7% in 2007 and early 2008, and maximums of around 13% in 2004, 2005 and again in 2013 and 2014. It was only at the end of 2014 that the vacancy rate initiated the decreasing trend that remains to date, standing, at the end of December 2017, at 8.6%. Nevertheless, the vacancy rate in Lisbon is leveraged by the high availability of spaces that remain in the Wester Corridor (with 20% of the area available) as in all other zones it is below 7.5%. Excluding this out-of-town zone, vacancy would be of 5.8%.

Parque das Nações recorded the highest decrease on the availability of office space, dropping from 27% in 2010 to a residual 2.8% in June 2017. CBD1 has the second lowest vacancy rate with 4.7%.

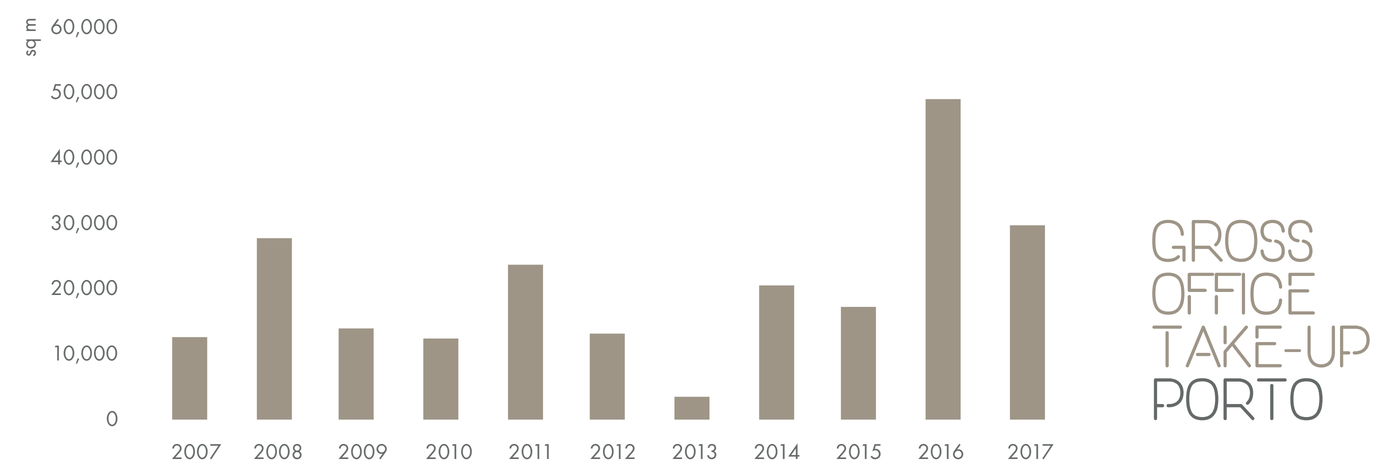
As a result of the economic deceleration, since 2008, drops in excess of 10% were registered in prime rental values in all zones, with the highest falls in Parque das Nações and Western Corridor, where the vacancy rates were higher, both zones declining by 26%. Rental upsurge first started in these two zones, and, considering the current lack of supply, has already extended to all the other zones in the city. By the end of 2017, year-on-year increases in the range of 6% to 17% were verified in every Lisbon office zones and the pressure is to rise even further. However, in relation to 2007, only the Historic Centre and the Western Corridor displayed higher prime rents.

THE SCARCITY OF OFFICE SPACES WILL REMAIN A PROBLEM OVER THE NEXT COUPLE OF YEARS

PORTO OFFICE MARKET

The office market in Porto includes not only the city of Porto but also the neighbouring municipalities of Vila Nova de Gaia, Matosinhos and Maia. In Porto city, the office stock is concentrated in the Boavista area, the main business centre of the city (CBD), as well as in Downtown and Ramalde (ZEP).
Over the last two years, the Porto office market has been showing a strong upsurge in demand from technology companies and attracting several international companies in the Business Process Outsourcing sector (shared services and contact centres), which have been contributing to the occupation of medium and large sized office spaces. Porto office market is experiencing a new phase since, in the past, demand was almost exclusively local and for small areas (100 sq m on

average). Effectively, from 2007 to 2015, the average annual take-up in Porto was 16,000 sq m having increased significantly in 2016 with office occupation exceeding 40,000 sq m.



Source: CBRE Research

Nevertheless, similar to Lisbon, due to the scarce development activity in this sector, the availability of office spaces that meet the demand requirements is low and, therefore, take-up in 2017 softened when compared to the previous year standing at 30,000 sq m.

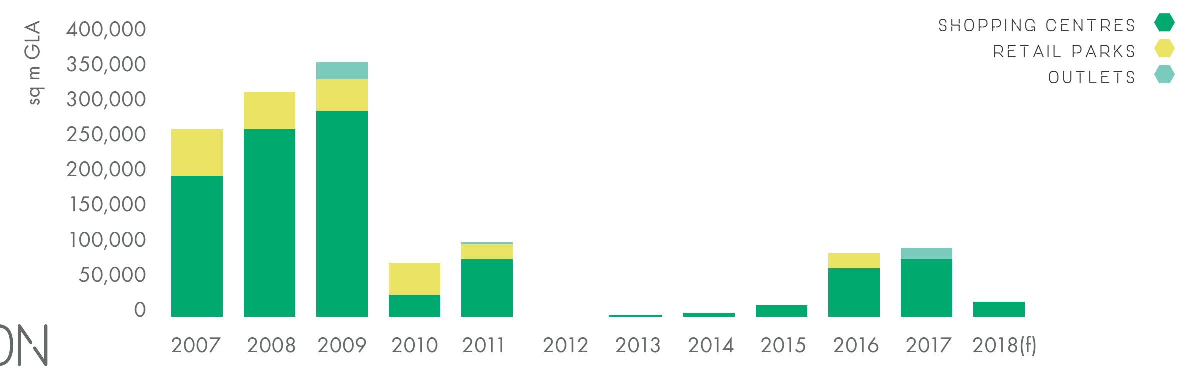
Effectively, no new office space came to the market in 2017, neither through greenfield projects nor building renovations. In 2018 two buildings should be completed adding 11,000 sq m to the office stock in the region.

Prime rent in Porto's main business area (Boavista) reached €18/ sq m/ month in 2007 but after plummeting to €12/ sq m / month, has been slowly increasing, reaching €14/ sq m / month at the end of 2017. In the other business areas of Porto, and in the bordering councils, the prime rents range between €10 and €12.5/ sq m / month.

4.2 RETAIL MARKET

Portugal retail offer is dominated by retail schemes, which account for over 3.5 million sq m gross lettable area (GLA), including shopping centres, retail parks, hypermarkets with retail galleries, outlets and other formats such as department stores.

RETAIL STOCK ADDITION



CBRE Research

Shopping centres are the main retail attraction in Portugal. In the first decade of the millennium, total shopping centre supply almost doubled, with the opening of 124 schemes. Supply of shopping centres currently stands at 2.7 million sq m. There is a wide offer of shopping centres spread all over the country and the sector is very consolidated and mature. The opening of new schemes is now sporadic. Therefore, landlord activity goes towards the repositioning, rebranding and innovation of existing schemes as well as the expansion of a few centres. Mar Shopping Algarve and Évora Plaza were the two only shopping centres opening to the public in 2017 and there are no other schemes of this format under construction. Colombo in Lisbon, and NorteShopping in Porto, are considered the best shopping centres in Portugal. Prime rents in the premium Portuguese shopping centres have already increased 12% and 25%, in Lisbon and Porto respectively, since the 2007 peak.

The retail park format expanded particularly during the period between 2004 and 2008. There are currently 40 schemes in Portugal, dispersed throughout the country, occupying a total area of 400 thousand sq m. This format suffered strongly during the crisis, not only as a result of the oversupply in some locations, but also due to the smaller pool of tenants that procure space in this retail format, leading to high vacancy rates and a downward pressure on rents.

2016 saw the start of recovery for a number of retail parks, with the return of the traditional occupiers of this format and the emergence of new tenants, driving a prime rental increase. Nevertheless, prime rent stood at €10/ sq m/ month in the last quarter of 2017 and is still below the 2007 value.

There are five outlet schemes in the country which account for 110,500 sq m GLA. The best outlet centres in Portugal are Freeport Fashion Outlet in Greater Lisbon, and Vila do Conde The Style Outlets in Greater Porto. A new scheme, Designer Outlet Algarve, opened at the end of 2017 in the south of Portugal, providing the first outlet destination in this region.

Rua Garrett (in Chiado), Avenida da Liberdade and Rua Augusta (downtown) in Lisbon, as well as Rua de Santa Catarina and Clérigos in Porto are the prime high street retail axis in Portugal. The increase in tourism flow, the change in the lease law (in 2012), together with several urban regeneration works, have been contributing towards a very dynamic high street retail market in Lisbon and Porto (even during the crisis period). Prime high street rents in Lisbon and Porto have already raised 63% and 67% respectively from 2007 and this trend is expected to continue.

PRIME RENTS PER RETAIL FORMAT

FORMAT	TYPICAL GLA (SQ M)	PRIME RENT (€/ SQ M/ MONTH)	Y-O-Y CHANGE (%)	CHANGE FROM 2007 PEAK (%)
Shopping Centre Lisbon	200	95	0%	12%
Shopping Centre Porto	200	75	15%	25%
Retail Park	1,000	10	8%	-17%
Outlet	200	25	11%	25%
High Street Retail Lisbon	100	130	30%	63%
High Street Retail Porto	100	45	29%	50%

Source: CBRE Research; December 2017

4.3 WAREHOUSE AND LOGISTICS MARKET

There is no structured urban plan for the logistics market in Portugal, despite several attempts from previous governments, namely the efforts to create a National Logistic Plan in 2006 based on private and public investments, which in general did not go forward.

The majority of logistics premises have been developed independently by private developers. However, several municipalities have established allotments for industrial and logistics parks, mainly targeted at the light industry and warehousing.

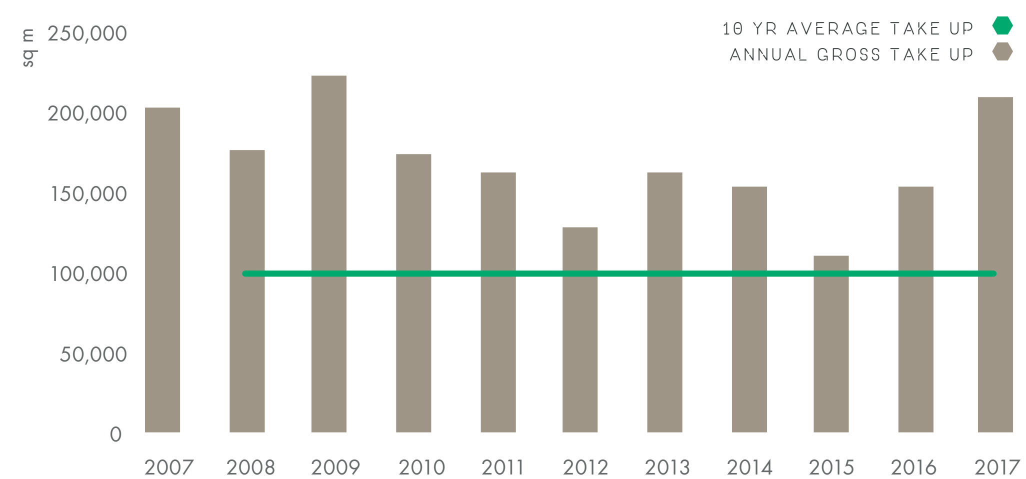
The logistics market has been mainly driven by major Portuguese large distribution retailers as well as transport companies, the latter undertaking a relevant share of logistics operation, as only a few number of worldwide logistics operators are present in the country and usually have a small footprint.

LISBON WAREHOUSE AND LOGISTICS MARKET

The Lisbon warehouse and logistics sector is distributed into 6 zones, as identified on the map.

The more central zones, namely Lisbon City (Zone 4), Sintra-Cascais (Zone 3) and Loures-Vialonga (Zone 2) are characterised by the supply of smaller sized warehouses and frequently of mixed-use spaces. The logistics stock is concentrated in the three remaining zones, namely Alverca - Azambuja (Zone 1, which includes two sub-zones), Montijo - Alcochete (Zone 5) and Palmela - Setúbal (Zone 6). Palmela-Setúbal zone emerged from the installation of the Volkswagen plant (Autoeuropa) at this location in the early 1990's. The prime logistics axis runs along road N3 between Vila Nova da Rainha and Azambuja (within sub-zone 1.B). These three logistics zones comprise a stock of 2 million sq m made of mainly stand-alone warehouses but also a few logistics parks.

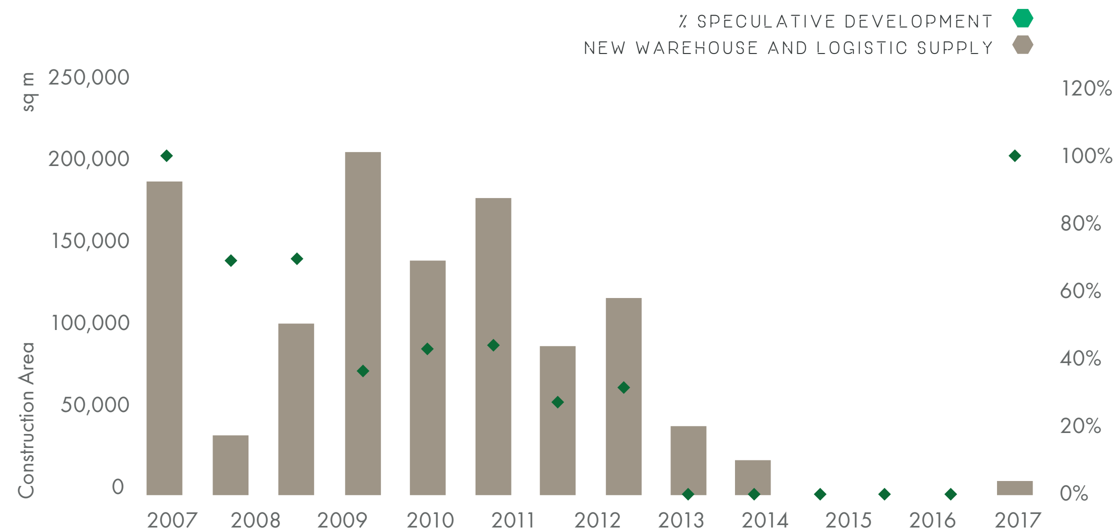
The annual average gross take-up level of warehouse and logistics over the last 10 years in Greater Lisbon was 166,000 sq m. Despite the economic and financial crisis, take up has remained relatively high due to some important deals in the food distribution and logistics sectors. Warehouse and logistics activity was dynamic over 2017 with take-up achieving 210,000 sq m.



WAREHOUSE AND LOGISTICS GROSS TAKE-UP LISBON

Source: CBRE Research

From 2004 to 2006 more than 70% of new warehouse and logistics areas were speculative construction. From then on, although there was some speculative development, the majority were built-to-suit schemes. This is the case of the logistics platforms of Logista at Montijo (40,000 sq m), FCC Logística (now ID Logistics) (75,000 sq m) and Sonae (107,000 sq m), both at Azambuja, as well as Decathlon in Setúbal (31,500 sq m), constructed in 2007, 2009, 2010/2011 and 2012 respectively, which contributed significantly towards the take-up levels recorded during those years. From 2012 onwards, the new supply of warehouse and logistics spaces was driven by built-to-suit schemes and only in 2017 a new speculative development in Alverca came to the market, which was fully let before the end of construction.



WAREHOUSE AND LOGISTICS STOCK ADDITION IN LISBON

As is the case in the office sector, take-up in Greater Lisbon has been constrained by the lack of new supply, which was confirmed with the quick occupation of the only development that was placed on the market in 2017. The very low level of development has been leading a gradual reduction in the availability of spaces. Vacancy rate in Greater Lisbon was 14% in the end of 2017 having decreased 5 percentage points y-o-y. The vacancy rate is currently lower, namely 5.5% in the Alverca-Azambuja zone (2% if we only consider the Prime Logistics Axis of Vila Nova da Rainha and Azambuja) but exceeds 20% in the zones to the South of the Tagus river.
The prime logistics rent in Greater Lisbon, in Carregado-Azambuja sub-zone, stabilized at €3.50/sq m/month during 2017, standing at the same level of 2007 peak.

PORTO WAREHOUSE AND LOGISTICS MARKET

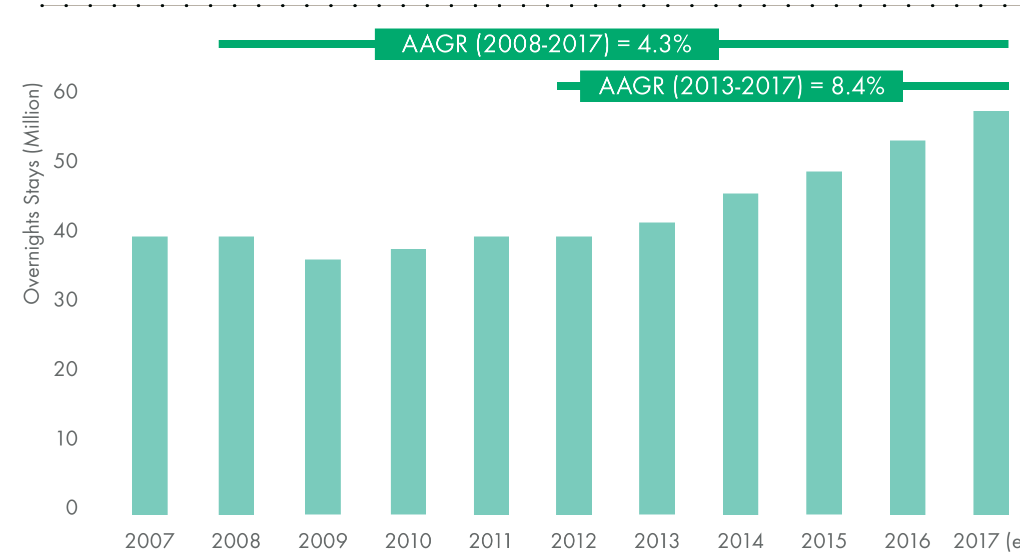
According to the location and transport infrastructures, CBRE has identified 5 logistic zones in Greater Porto – Matosinhos, Airport, Maia, Vila Nova de Gaia and Vila do Conde - and a sixth one named "Other Zones" that is an all-in as it aggregates the other logistics warehouses that are not included in the other defined zones.
Contrary to what is observed in Lisbon, in Porto there is a wider spread of logistics warehouses and within mixed use areas. There are no traditional logistics parks and the majority of the assets were built-to-suit.
In 2017, the total logistics stock in Greater Porto amounted to 670,000 sq m. Additions to the stock have been comprised exclusively by build-to-suit developments. In respect to future pipeline, we highlight Leixões Logistic Platform, close to the port in Matosinhos council, as this is the largest logistics park in Greater Porto with plots for development under a lease-hold structure.
The annual average gross take-up level of warehouse and logistics over the last 10 years in Greater Porto was 50,100 sq m. Take-up in 2017 has risen considerably totalling 133,000 sq m, more than 2.5 times that of 2016.

Build-to-suit developments represented 87% of occupation, including the major Portuguese food retailer Jerónimo Martins 79,000 sq m logistics platform in Alfena. As speculative development in Porto has been very reduced, the logistics vacancy rate stands at a low of 5%. The prime logistics rent in Greater Porto, in the Maia zone, remained stable throughout 2017 at €3.50/ sq m/month.

4.4 HOTEL MARKET

PORTUGUESE HOTEL MARKET

Well known for its beautiful beaches, sunny days, good quality golf resorts, excellent wine and cuisine and cultural heritage, Portugal is currently one of Europe's leading tourist destinations. Portugal's international recognition has increased significantly in recent years, with tourism performing as one of the key strategic sectors of the Portuguese economy.
Tourist accommodation supply in Portugal increased 2.2% annually, between 2007 and 2016, achieving 321 thousand beds.
In 2016 there were 1,238 hotel units in Portugal, with the 4 and 3-star hotels accounting for 34% and 30% of the market, respectively, while 5-star units represent 9%.
Demand has improved, at a faster pace than supply, with an average annual growth rate, of 3.4% in the 2007 /2016 decade, more expressive over the last 5 years with an annual growth of 7.8%, achieving in 2016 a record high of 54 million overnight stays. 2017 estimates show another impressive year-on-year variation of 7% in overnight stays, to a new all-time record of 57 million, confirming a continued dynamics in tourism. The higher rise in demand regarding accommodation supply has been balanced with the increasing offer provided in the short term rental market.



TOURISM ACCOMMODATION DEMAND PORTUGAL

Source: INE; 2017 CBRE estimate

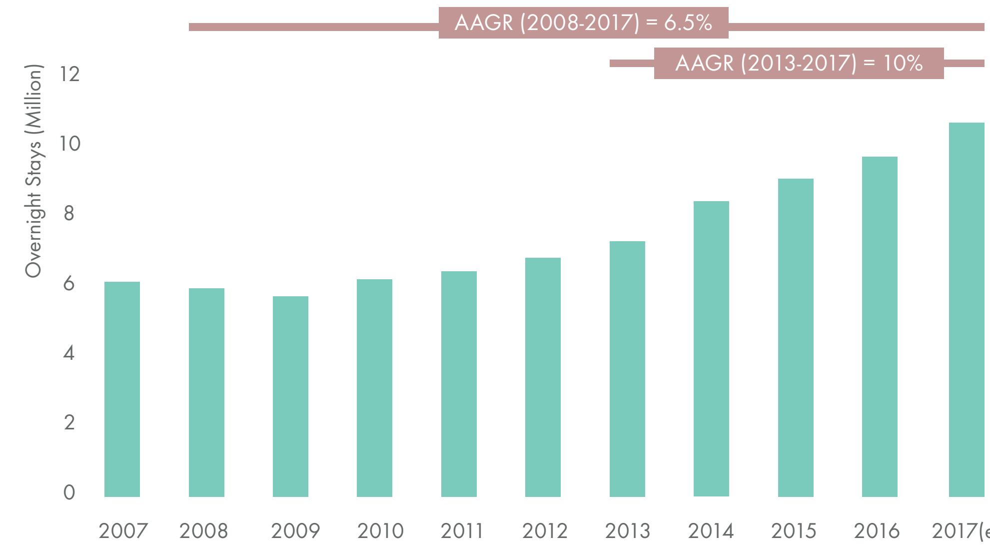
*AAGR = Annual Average Growth Rate

The international market had a relevant impact on the tourism sector in Portugal, with a 59% increase in overnight stays between 2008 and 2017, compared with 21% of the domestic demand. In 2017, the foreign market represented around 72% of overnight stays in Portugal.
Over the past five years, the British were the most relevant tourists with 24% of foreigner overnights, followed by the German, the Spanish and the French with quotas of 14%, 11% and 10% respectively, and the latter outstanding with an average annual growth of around 15% in that period.
The increase in tourism demand has been very positively reflected in hotel performance. During the economic crisis the occupancy rate per room observed a reduction, hitting the bottom and standing at 51% in 2012. This indicator has since shown a sustainable and robust recovery reaching 66.7% in 2017, plus 3 percentage points regarding 2016.

LISBON HOTEL MARKET

In the second decade of this century Lisbon has achieved a new tourism dynamics and is presently a popular city break destination with a reputation for being one of Europe's most vibrant, trendy capital cities with a good selection of new hotel units, hostels and quality restaurants. This reputation has led the city to be awarded several international tourism prizes such as Europe's Leading City Break Destination in 2013 and, more recently, in 2016, the World Travel Leading Cruise Destination, the Best Design City by Wallpaper as well as the World Travel Best Design and Business.
Tourism accommodation supply in the city of Lisbon has been growing steadily throughout recent years. From 2008 to 2017 the number of rooms recorded an average annual growth rate of around 4%, totalling around 21,000.
By the end of 2017, there were 200 hotel units in Lisbon city, of which almost half are 4-star (45%), with 5-star units representing 16% of the offer. Ten new hotels comprising around 850 rooms are due to open in 2018.
The presence of international hotel brands is not yet very high, although it is stronger in Lisbon than in other tourism locations in Portugal. Effectively, only 22% of hotel rooms in Lisbon are operated by an international hotel chain. These include Four Seasons, Intercontinental, Starwood, Hilton, Holiday Inn, Mélia, Sofitel, Tryp, Vincci, NH, Radisson and Marriott, amongst others, and a number of other high profile hotel brands are expected to enter the city.
Demand in touristic establishments, excluding local accommodation (short term rental units), has grown at a 6.5% average annual rate between 2008 and 2017, and 10% over the last 5 years, recording approximately 11 million overnight stays in 2017. This increase is mainly driven by international demand, which accounted for an average annual growth of 11% between 2013 and 2017, and currently represents 82% of the market. The main foreign markets in Lisbon in the last 5 years were the French, Spanish and Brazilian.

TOURISM ACCOMMODATION DEMAND LISBON

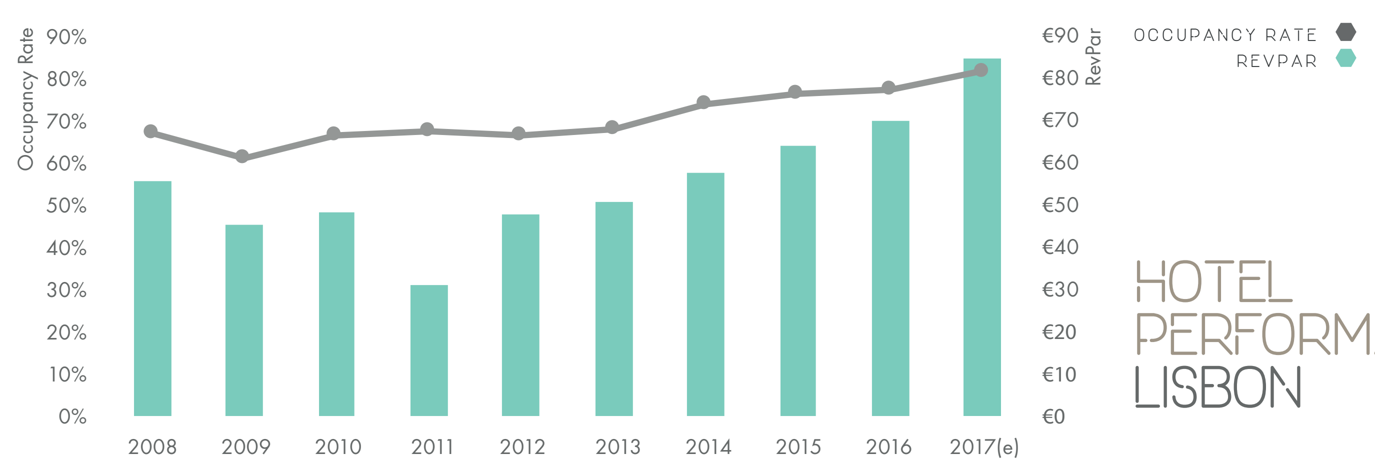


Source: ATL (Associação de Turismo de Lisboa); 2017 CBRE estimate

*AAGR = Annual Average Growth Rate

Occupancy levels in the hotel sector have been rising since 2014, achieving consecutive record highs every year. In 2017, the occupancy rate in Lisbon is estimated to have exceeded 80% recording a 4 percentage points year-on-year upsurge.

The good performance of the market is also reflected in the RevPar levels, where average values have been growing since 2012. CBRE estimates that in 2017, the RevPar in the Lisbon market has reached around €84, and €120 in 5-star units, displaying an increase of more than 20% year-on-year.



HOTEL PERFORMANCE LISBON

Source: ATL (Associação de Turismo de Lisboa); 2017 CBRE estimate

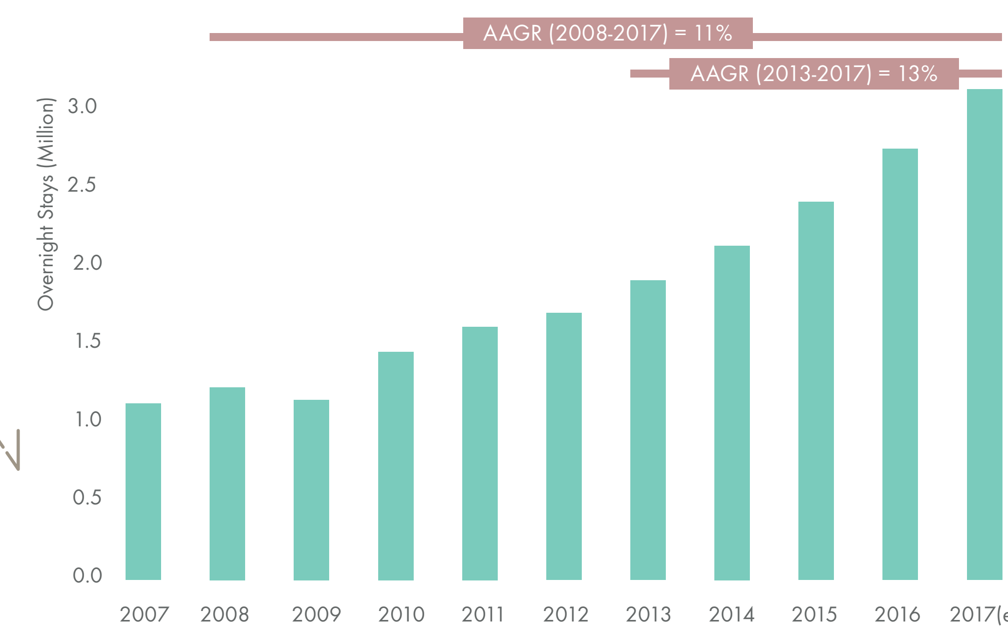
ALL YOU NEED TO KNOW ABOUT INVESTING IN PORTUGAL

PORTO HOTEL MARKET

The Porto tourism market has gained a boost in 2005 with the establishment of the Ryanair hub in the city airport and later, in 2015, with EasyJet. In 2012 Porto received, for the first time, the title of Best European Destinations, from European Consumers Choice, and again in 2014 and 2017. Other recent awards and recognitions won by the city include Best Tourist Destination and Best City Break, both by World Travel Awards.

Between 2008 and 2017, touristic accommodation supply in Porto (excluding short term rental units) increased 7% yearly, on average, totalling around 12,900 beds. At the end of 2017, Porto had 84 hotels, of which 30% are 4-star units and 12% 5-star. An additional 5 hotels are expected to open in the city in 2018.
Tourism demand in Porto has been growing at a very fast pace. Between 2008 and 2017 the number of overnight stays increased at an average annual rate of 11%, with an impressive average annual growth of 13% over the last 5 years. The overnight stays in Porto exceeded 3 million in 2017.

TOURISM ACCOMMODATION DEMAND PORTO



Source: INE; 2017 CBRE estimate

*AAGR = Annual Average Growth Rate

Foreign tourists represent 75% of the total overnight stays in Porto, with Spain, France and Brazil standing out as the main origin markets with quotas of 20%, 15% and 10% respectively.
With this tourism growth, occupancy in Porto has also been increasing, at a very interesting pace since 2013. The occupancy rate per bed in hotel units in Porto in 2016 was 60%, recording a 3 p.p. year-on-year upsurge and plus 15 p.p. from 2007.

ALL YOU NEED TO KNOW ABOUT INVESTING IN PORTUGAL

ALGARVE HOTEL MARKET

The Algarve is Portugal's premier sun and beach vacation destination, amongst both national and international visitors. It has pleasantly mild winters and abundant summers, and seemingly endless series of golden sand beaches. Moreover, the region serves as a worldwide benchmark golf destination, displaying over 40 golf courses, where over 1 million rounds are played annually.

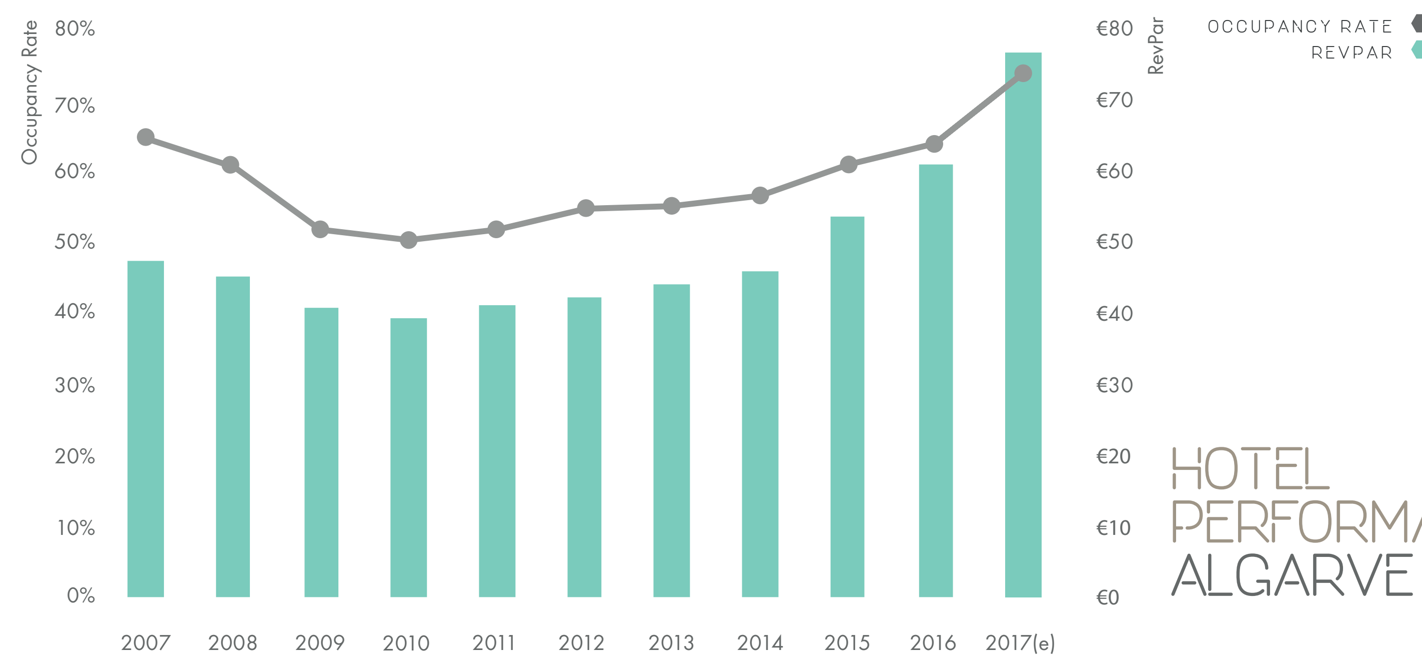
In 2016, the Algarve was voted World's Best Golf Destination by World Golf Awards as well as Best European Beach Destination and Best Touristic Region in 2016, both by World Travel Awards.

In 2016 the tourist accommodation was comprised by 113 thousand beds with an annual average growth of 2.4% in the last 10 years. There are 135 hotels units in the region, of which 39% are 4-star units and 18% 5-star.

Demand has been growing since 2010, currently showing historic record highs. Overnights in tourist accommodations increased at a 3% average annual growth rate between 2008 and 2017, and at a stronger pace of 6% over the last 5 years. In 2017, overnights in Algarve registered a y-o-y rise of 5%, reaching a new all-time high of around 18.5 million.

Foreign tourism accounts for 79% of the overnight stays, and is outstandingly led by the British, with a share of more than 40% in overnights, followed by the German and the Dutch.

The room occupancy rate in the Algarve hotels has been growing since 2011 and in 2016 increased 4.4 p.p. to 63.5% standing one percentage point below 2007. However, in 2017 a new high was achieved with an occupancy rate of around 70%. Likewise, RevPar has been increasing over the past 5 years at an annual average rate above 10% and in 2017 was around 30% above 2007.



HOTEL PERFORMANCE ALGARVE

Source: Tourism of Portugal; 2017 CBRE estimate

4.5 RESIDENTIAL MARKET

PORTUGUESE RESIDENTIAL MARKET

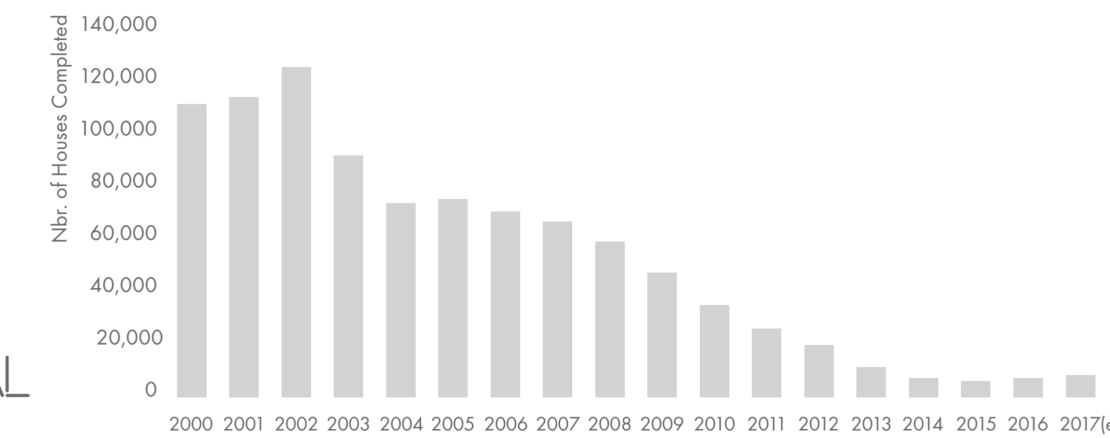
In late 1990s and early 2000s Portugal experienced a significant rise in housing stock. This growth was based on the sale of completed units in detriment to the rental market, resulting from the combination of two effects: on the one hand, the strong incentives towards homeownership through tax incentives, low interest rates and high loan to value ratios and, on the other hand, an old lease law unfavourable to landlords. With this in mind it is not surprising that Portugal has a high percentage of homeowners of 74.5%.

The total number of homes in Portugal at the time of the last census in 2011 was of 5.9 million, which is 16% higher than in 2001 and 1.4 times superior to the number of households

The number of new homes concluded per year in Portugal plummeted from 126,000 units in 2002 to less than 7,000 in 2015. Residential development reinitiated in 2014 with the renovation, mainly in the Lisbon and Porto city centres, of several buildings that were dilapidated and inhabitable, but statistically do not count as new homes. Nevertheless, new construction projects, of reduced size, are beginning to appear throughout the country. CBRE estimates that in 2017 more than 8,200 new houses were completed in Portugal, an increase of 13% over the previous year.

Legal and fiscal changes were introduced and had a very positive impact on the residential redevelopment market in Portugal. These include, namely, the Reform of the Urban Lease Law, initiated in 2006 but with relevant changes in 2012 and a new Urban Renovation Regime in 2012.

NEW HOUSES PORTUGAL

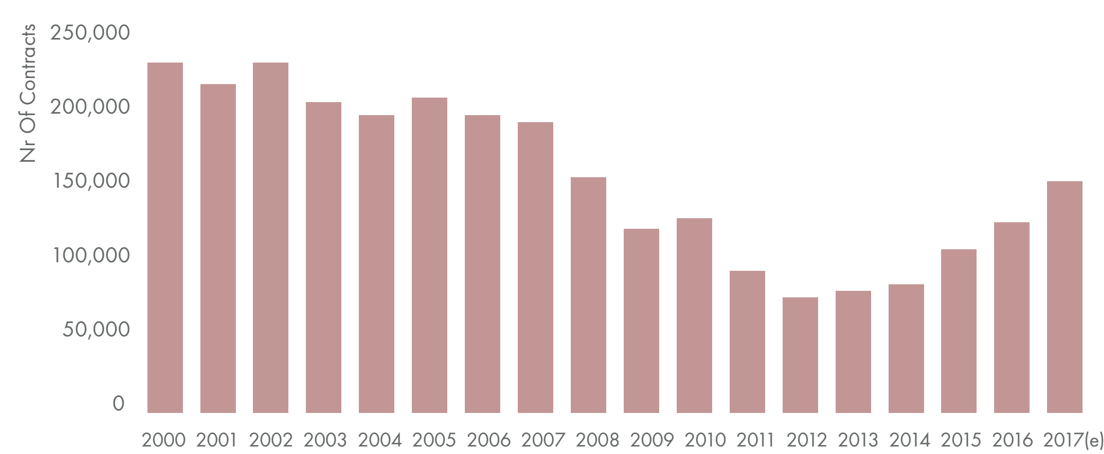


Source: Instituto Nacional de Estatística (INE); 2017 CBRE estimate

On the demand side, approximately 230,000 homes were sold annually in Portugal in the beginning of the century. This volume decreased significantly during the economic and financial crisis and it was only in 2013 that an upsurge began to be observed. The number of houses sold raised 18% in 2016 and this growth is expected to exceed 20% in 2017, elevating the number of sales to more than 150,000 units, the highest value in 10 years, but still below 2007 and prior years.

The revamping of the residential market demand was highly driven by the foreign investors, mainly as a result of two new laws: Non-Habitual Residents Tax Regime, introduced in 2009, and the Residence Permit for Investment Activity ("Golden Visa") in 2012. However, increasing confidence level, resulting from sustained economic growth and relevant reduction in unemployment, as well as more competitive mortgage conditions, are motivating the return of the domestic market.

Furthermore, there is also a relevant demand from private investors, who view the real estate market as a low risk alternative with an interesting return (comparing to the low bank interest rates), leveraged by the strong tourism growth.



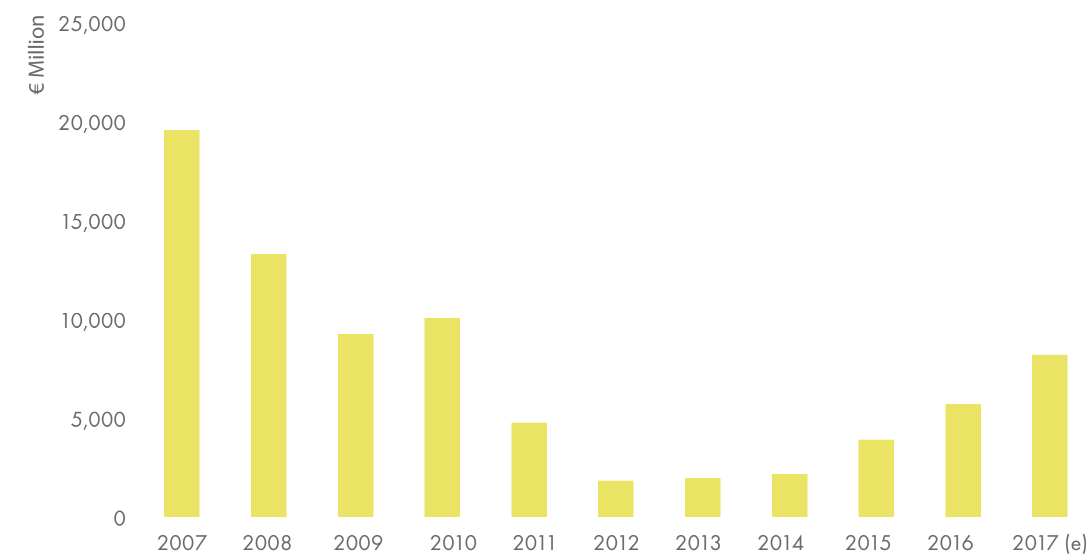
HOUSES SOLD PORTUGAL

Source:CBRE Research and INE

Housing prices fell continuously, from the third quarter of 2010 until the third quarter of 2013, with an accumulated drop of 13%. Since then prices have been rising, having already increased more than 25%.

The economic and financial crisis hardened the mortgage conditions, with the increase of financing costs, decrease of loan to value ratios and stricter risk analysis criteria. Despite the improvement of the bank mortgage conditions and the increase that has been observed specially over the last couple of years, in the amount of mortgage granted, the forecasted 2017 value is still less than a half of the 2007 record high figure. CBRE believes that this reduced amount of mortgage granted does not result from banking constrain, but from a reduction in the number of transactions that require financing. Effectively, a major share of residential purchases is comprised by foreigners or investors that are placing their savings in real estate and do not usually require credit.

NEW LOANS GRANTED



Source: CBRE Research and Bank of Portugal

While the number of houses sold plummeted during the years of crisis, the rental market increased. However, in touristic zones such as Lisbon and Porto, there is currently a lack of apartments to rent as several units were placed in the short term rental market, which has been driving an impressive growth in rental prices.

LISBON RESIDENTIAL MARKET

Lisbon city has 24 parishes. Lapa and Restelo are traditionally the wealthiest neighbourhoods in Lisbon city with an image of great prestige and "social status". Chiado and Príncipe Real have gained importance with their landscape views over the river and the city; and, more recently, the Avenida da Liberdade area where a few of the premium residential projects are currently being marketed.

In the 2011 Census, Lisbon city recorded a total of 324 thousand homes. Contrary to what was observed for the country in general, development activity in Lisbon city was weak in the first decade of the century, with a stock increase of only 2% from 2001.

The number of new houses concluded per year in Lisbon decreased, from an historical maximum of 2,900 in 2003 to only around 130 in 2015. However, as previously mentioned, in 2014 we witnessed the beginning of the recovery of the development sector, focused on renovation and refurbishment projects in the city centre. In 2017 interest began to be targeted at the acquisition of land plots outside of the historic city centre, for the development of greenfield projects.

On the demand side, Lisbon recorded an increase in the sale of homes early in the century (in line with the national tendency), which began decreasing from 2006 onwards. The number of transactions reduced from a maximum of approximately 16,000 in 2006 to less than 6,000 in 2012. However, as previously mentioned, an increase in the volume of sales is being observed since the end of 2013 and in 2017 values are expected to exceed those of 2006.

In 2017 the average asking price of homes in Lisbon was around €3,350/ sq m, increasing to €4,350/ sq for new houses. The historic zones of Liberdade, Príncipe Real and Chiado, record the highest average asking prices in Lisbon with €6,000/ sq m for new homes. Prices of high-end developments achieve up to €12,000/ sq m.

PORTO RESIDENTIAL MARKET

Porto city has 7 parishes. The parish of Aldoar, Foz and Nevogilde, close to the sea, comprises the wealthiest neighborhoods in Porto city while recent developments have been targeted at the historic centre.

Porto recorded a strong level of construction growth in the beginning of the century. According to the Census, there were 138 thousand homes in 2011, reflecting a relevant rise of 10% from 2001.

In 2015, only around 20 new homes were concluded in the city, an impressive decrease when compared to the maximum of 1,750 units achieved in 2002. Development in Porto reinitiated after Lisbon and also targeted the redevelopment of buildings. As was the case in Lisbon, in 2017 we began to witness the sale of plots for development.

Regarding home sales, there was a fall from around 7,000 in 2000 to 3,000 in 2012. Increase initiated in 2013 with high growths recorded since 2015. As a result, the number of homes sold in 2017 is expected to be very close to that recorded in 2000.

In early 2017 the average asking price of homes in Porto was around €2,000/ sq m, increasing to €2,400/sq for new houses. Aldoar and Foz neighbourhoods have the highest average prices with €3,150/ sq m, followed by the historic centre with €2,800/ sq m.

RESIDENTIAL TOURISM

Good quality and prestigious projects have been developed in Portugal in the past years, the majority anchored on golf courses. Three of the most established and recognized tourism regions are the Algarve, Lisbon Northern Coast and Lisbon Southern Coast.

MAIN RESIDENTIAL TOURISM ZONES

Source: CBRE

ALGARVE

In the Algarve, the so called Golden Triangle area is home to some of Europe's most well-known developments: Quinta do Lago, Vale do Lobo, and Vilamoura, the latter two still having great potential to expand.

After several years with no investment in the region, we are now observing a revival in tourism development with a few projects under construction, namely in Vilamoura, and large beach-front sites currently being marketed. The best real estate can achieve up to €10,000/sq m in new homes.

LISBON NORTHERN COAST

Not yet as consolidated as the Algarve, the Lisbon Northern Coast is positioning itself as a real estate destination near Lisbon with a number of golf courses anchoring the projects in this region. There are already a few resort developments on the market, namely: Praia d'El Rey, Campo Real, Bom Sucesso, Royal Óbidos and recently West Cliffs (by Praia d'El Rey), and there are other projects in the pipeline. West Cliffs was the only golf course inaugurated in Portugal in 2017 and has recently started to sell plots for development. With exception to Bom Sucesso and West Cliffs, all the other resorts have 5 star hotels, and some are managed by international chains such as Marriot and Dolce. It should be noted that there is a significant percentage of families living all year round in Lisbon Northern Coast resorts, namely in Praia d'El Rey and Campo Real.

LISBON SOUTHERN COAST

The Lisbon Southern Coast is located south of Sado River less than one hour from Lisbon. The area features an unspoiled dune-protected white sand beach that spans over an astonishing 60km from Tróia to Sines. Protected under the Natura 2000 Program, the region is one of the last strips of unspoilt coastline in Europe and certainly one of the continent's tourism destinations with highest potential for developments.

The zone has five major high quality projects: Troia Resort, Pestana Tróia Eco-Resort & Residences, Herdade da Comporta, Pinheirinho Golf & Beach Resort and Costa Terra, which are in different phases of development. Only the first two are in advanced state of development and have units to sell, reaching values between €4,000 and €5,000/sq m. Future pipeline includes a further 4,000 residential units located throughout the region.

5. PROPERTY TITLE

5.1 LEGAL

5.1.1 OWNERSHIP

"Full Ownership" (*Direito de Propriedade*) is the most common and the strongest form of ownership title over real estate in Portugal. The full owner of a property is entitled, within the limits of the law, to exclusive rights of use, fruition and disposal of the property, such ownership being unlimited in time (full ownership would be equivalent to a "freehold" in common law systems and to the French concept of "droit de proprieté").

A real estate property can be held individually or by more than one person or entity (co-owners), which is less common. Co-owners jointly exercise the rights deriving from the ownership title, and they participate proportionally (by reference to their quotas in the ownership) in the benefits and encumbrances of the property.

5.1.2 SURFACE RIGHT

"Surface Right" (*Direito de Superfície*) entitles the respective titleholders to build or maintain a construction, perpetually or temporarily, on or below a land owned by a third party. It is a right in rem (and not only a contractual arrangement) that can be transferred and may also be used as collateral.

In case the Surface Right is granted on a temporary basis, the construction built over the land shall revert to the land owner upon expiration of the Surface Right. In such case, unless otherwise agreed, the surface right holder is entitled to receive a compensation corresponding to the value added to the land as a result of the construction.

The parties may agree that the remuneration due for the surface right is payable through a single payment or through periodic payments.

5.1.3 CONDOMINIUM

The "Condominium Regime" (*Propriedade Horizontal*) allows the segregation of buildings (or groups of buildings that are functionally interconnected) into different and independent units, resulting in a condominium structure whereby each unit can be separately owned by a different individual or entity. The condominium regime confers to unit owners a full ownership right over one or more units and a co-ownership right over the common areas of the building (such as the lobbies, hallways and stairs). Both rights are indivisible as they cannot be transferred separately. A condominium is normally established by means of a notary deed and is registered with the Land Registry. A Condominium can only be set if the relevant units (*frações autónomas*) are independent and isolated from one another, and have separate exits to a common area of the building or directly to a public road.

Co-owners bear all costs emerging from the management, maintenance and works of the common areas by means of a contribution charged and collected by the condominium, determined on a proportional basis taking into account the weight of each unit in the building (each unit has a relative value expressed by a percentage or per mileage mandatorily determined in the condominium constitutional deed). Whenever commercial lease agreements are entered into regarding a condominium unit, condominium costs may be transferred to the tenants.

5.2 TAX

5.2.1 MUNICIPAL PROPERTY TAX (IMI)

Municipal Property Tax (known in Portugal as "IMI"), is a municipal tax which focuses on the ownership of a property located in Portuguese territory. Municipal Property Tax is due by the registered owner of the property as at December 31st, according with the Property Tax Value (known in Portugal as "VPT").

The Property Tax Value is determined according to a formula foreseen in the Property Transfer Tax Code which takes into consideration the nature and characteristics of each type of property. Property Transfer Tax is applicable according to the following tax rates:

- Urban Properties: 0,3% to 0,45% (variable according to each municipality);
- Rural Properties: 0,8%;
- Properties owned by entities resident in blacklisted jurisdictions (as detailed on the Ministerial Order 150/2004, of 13 February, as amended): 7,5%.

5.2.2 ADDITIONAL TO MUNICIPAL PROPERTY TAX (AIMI)

Pursuant to the State Budget Law for 2017, a new tax, the Additional to Municipal Property Tax (known in Portugal as "AIMI"), was enacted and is effective as from January 2017 onwards. The new tax replaces the Stamp Duty (known in Portugal as "Imposto de Selo"), previously applicable to properties with a Property Tax Value greater than €1 Million.

Additional to Municipal Property Tax is levied only on urban properties for residential purposes and plots for construction located in Portugal. Urban properties classified for "trade, industry, or services" or as "other types of property" are excluded from Additional to Municipal Property Tax.

The taxable amount corresponds to the sum of the Property Tax Value of the urban properties and construction plots held by each taxpayer reported on January 1st of each year.

DEDUCTIONS/EXEMPTIONS

- In the case of individuals and undivided estates, a deduction of €600,000 is applied to the taxable amount, prior to the application of the Additional to Municipal Property Tax;
- Married taxpayers or taxpayers under a civil union (*união de facto*) are entitled to a deduction of €1.2 Million on the sum of the Property Tax Value of the properties owned;
- The Property Tax Value of the properties that are exempt of, or not subject to, Municipal Property Tax in the previous year is excluded from the taxable amount subject to Additional to Municipal Property Tax.

APPLICABLE TAX RATES

- For corporations, the Additional to Municipal Property Tax rate is 0.4% of the taxable amount.
- For individuals the Additional to Municipal Property Tax rate is 0.7% of the taxable amount after the abovementioned deductions (€600,000 or €1,2 Million);
- For taxable amounts in excess of €1 million, the marginal rate is 1%;
- For properties owned by entities resident in a blacklisted jurisdiction (as detailed on the Ministerial Order 150/2004, of 13 February, as amended), the rate is 7.5%.

RECOVERY OR DEDUCTIBILITY FOR CORPORATE INCOME TAX PURPOSES

- The Additional to Municipal Property Tax may be deducted in the computation of the Corporate Income Tax (known in Portugal as "IRC"). Taxpayers may elect either to deduct the Additional to Municipal Property Tax as a general deductible expenditure or as a specific deduction against the Corporate Income Tax due. In the latter case, the deduction is limited to the portion of the Corporate Income Tax directly linked with income generated from properties used for leasing or accommodation activities and insofar as such properties are subject to Additional to Municipal Property Tax.

6. LEASE

6.1 LEGAL

Law no. 6/2006, of February 27, as amended from time to time ("Urban Lease Law"), is the main piece of legislation that sets forth the legal rules that currently govern leases in Portugal. The majority of such rules is included in the Portuguese Civil Code. A lease *("arrendamento")* corresponds to a private agreement pursuant to which one party (the landlord) undertakes to provide to the other (the tenant) the temporary use of a real estate property against the payment of a rent. Lease agreements must be executed in writing, and whenever their term is of 6 years or more they must be registered with the Land Registry.

In addition to the mandatory references (identification of the parties, description of the leased premises, rent, indication of the relevant municipal use permit, etc.), leases tipically include provisions related to term, renewal, early termination, rent review mechanisms, security (typically consisting of a deposit, a surety or a bank guarantee), maintenance, reinstatement, and works on the leased premises.

Unless agreed otherwise, tenants may not assign its contractual position to third parties nor sublet the leased premises without the prior consent of the landlord. On the other hand, landlords may sell the premises to third parties without prior consent of the tenants, (being the landlord's position automatically assigned to the acquirer) although tenants with leases in force for more than 3 years are granted with a pre-emption right in the sale of the property.

6.1.1 COMMERCIAL LEASE

The assignment of use of commercial properties in Portugal is normally formalized pursuant to lease arrangements. There are two main contractual types used in the Portuguese commercial real estate market.

- Standard Leases

The assignment of use of properties for commercial, industrial and office purposes is typically formalized by means of standard lease agreements, subject to the Portuguese Urban Lease Law.

The Urban Lease Law is quite flexible in relation to these types of leases (for non-residential purposes), as the most relevant features of the lease may be freely stipulated by the parties (such as duration, renewal, termination, rent review scheme, maintenance, works, etc.).

- Shopping Centre Contracts

The lease of retail units in shopping centres, retail parks and other similar commercial schemes (such as factory outlets), is normally carried out through “shopping centre contracts”. These contracts are usually very detailed agreements that govern not only the use of the shop but also the ancillary services provided by the shopping centre administration to the shopkeepers and the respective service charges.

Such contracts are not subject to the Urban Lease Law, although they need to abide by the general rules applicable to contracts. These agreements tend to follow similar standards within the relevant segment in question.

6.1.2 DURATION / TERMINATION

Both in standard leases and in shopping centre contracts, parties may freely agree on the main terms and conditions, including term (with a maximum initial duration of 30 years in the case of standard leases), renewal, break options, rent review mechanisms, works, maintenance and upkeep, reinstatement, etc.

The typical initial term for standard leases ranges between 5 to 10 years, although longer leases may occur (in some cases with break options). Leases entered into for an initial term equaling or exceeding 6 years must be registered with the Land Registry Office as a condition for being opposed against third parties.

With regard to shopping centre contracts, their initial term typically ranges between 5 and 6 years, with no automatic renewals. For anchor retailers the initial term tends to be longer, although typically some special early termination options tend to be negotiated (in some cases, indexed to the shopping centre’s occupancy rate).

Leases for logistic purposes are generally entered into for an initial period of 3 to 5 years, except in standard leases in case of "built-to-suit" transactions, whereby the initial term is normally longer.

Failure to comply with the rental payment by the tenant entitles the landlord to terminate the contract (both in standard leases and shopping centre contracts) by serving a notice to the tenant. In standard leases in case, following the termination of the contract, the tenant does not deliver the premises, the landlord will need to resort to an eviction procedure. Shopping centre contracts typically set out other more expedite eviction mechanisms.

6.1.3 RENTS

Parties may freely agree on the amount due as rent and on the rent review scheme. In the case of standard leases if the parties do not set out the rent review scheme, subsidiary rules will apply and the rent shall be updated every year by reference to the coefficient published yearly by the Portuguese National Institute of Statistics (which is based on the consumer price index – excluding housing).

In standard leases, the rent is usually a fixed amount. Conversely, most shopping centre contracts set forth a fixed and a variable rent, linked to the tenant's turnover. In shopping centre contracts it is also common that the shopping centre charges key-money, as an entry fee.

Although parties may agree on different periodicity, rent is usually payable on a monthly basis and, typically one month in advance.

Rent-free periods and stepped-up rents are also common.

6.1.4 COSTS AND SERVICE CHARGES

Both in respect of standard leases and shopping centre contracts, the parties may freely agree on the allocation of maintenance, repair and other costs, as well as determine which party shall liable for the execution of works in the premises.

It is standard market practice that the landlord, both in standard leases and in shopping centre contracts passes on to the tenant all costs for maintenance, repair, utilities and other services and that the landlord takes on the costs relating to building insurance, property taxes and structural works. Although not common (except in "built-to-suit" or "sale and leaseback" transactions), it is permitted under Portuguese Law to foresee "triple net" leases, whereby the tenant bears literally all the costs relating to the premises during the duration of the lease/contract.

In both cases service charges are normally determined by reference to the area of the premises in proportion to the overall area of the building.
Additionally, in shopping centre contracts, shopkeepers usually pay a "marketing charge", in order to contribute towards the cost of shopping centre marketing.

6.1.5 SHORT-TERM RENTAL (ALOJAMENTO LOCAL)

Pursuant to Decree-Law no. 128/2014, of 29 August, the owners of houses and apartments licensed for residential purposes are entitled to offer "Short-Term Rental" *("Alojamento Local")* and related services to tourists. This legal frame constitutes an alternative to the lease market and allows broader investment possibilities and opportunities for the residential market without the necessity of obtaining specific licenses for tourism facilities, as this legal framework is applicable to properties that do not need to meet the mandatory requirements for tourist facilities.

The operation of a house or apartment as "Short-Term Rental" *("Alojamento Local")* requires a registration with the National Tourism Registry, which may normally be done by means of an online communication, following which a survey by the Municipality may be conducted in order to verify the compliance with the applicable legal requisites.

6.2 TAX

6.2.1 VALUE ADDED TAX (VAT)

As a general rule, the leasing of real estate under standard leases is VAT exempt.

However, taxpayers (landlords) that lease properties to other VAT taxable persons under standard leases may waive the exemption (typically to recover VAT in construction or renovation), provided that the latter use those properties for activities that are subject to VAT and are also granted the right to deduct VAT. In that case, the rents are subject to VAT at the standard rate (currently 23%), and no Stamp Duty is payable.

In shopping centre leases, rents are subject to VAT at the standard rate of 23%. Hotel and accommodation services (such as short-term renting) are also subject to VAT at a reduced rate of 6%.

6.2.2 STAMP DUTY (IMPOSTO DE SELO)

Standard leases are subject to Stamp Duty (known in Portugal as "Imposto de Selo") at a rate of 10%. Stamp Duty applies upon registration of the lease agreement with the Tax Authorities and is levied on the amount of one monthly rent.

7. REAL ESTATE TRANSACTIONS

7.1 LEGAL

7.1.1 ASSET DEALS VS SHARE DEALS

- Asset Deals

The transfer of real estate assets in Portugal (asset deal), may be performed by means of (I) a public deed, or (II) a private document certified by a notary, a solicitor, a lawyer or a chamber of commerce and industry. The transfer of title must be registered with the Land Registry Office within 30 days as from the date of the transaction.

Land Registry Offices are the entities in charge of keeping public records reflecting the description of properties and their current status, including ownership and encumbrances. Land Registry is guided under the principle of the registry's priority.

Any foreign or non-resident investor is allowed to acquire a property, without any restrictions, although investors need to comply with certain tax formalities (including obtaining a Portuguese taxpayer number).

Prior to acquiring a real estate property, investors typically perform a due diligence review (both legal and technical).

The legal due diligence scope normally includes amongst other aspects, confirmation of title, verification of existing encumbrances, confirmation that there are no property taxes in debt, and confirmation of the existence of a valid municipal use permit (a valid use permit is a requirement for the use of the property and it is mandatory to allow the transfer of a real estate asset through an asset deal).

In asset deals, the parties usually enter into a promissory sale and purchase agreement that precedes the definitive agreement of conveyance of the property. Under the promissory sale and purchase agreement the parties undertake to acquire /sell a real estate property at a certain moment in the future, under certain agreed terms and conditions.

A promissory sale and purchase agreement may include conditions precedent that need to be fulfilled prior to the execution of the definitive sale and purchase agreement. Conditions precedent are usually foreseen when the property is affected by irregularities and /or licensing issues that must be settled by the seller in order to conclude the transaction.

Upon signature of the promissory sale and purchase agreement, the promissory purchaser usually pays to the promissory seller a down payment ranging between 10% and 25% of the purchase price.

Under Portuguese Law, unless otherwise agreed between the parties, a breach of the Promissory Sale and Purchase Agreement entails the following consequences:

- Vendor's breach: the promissory purchaser may claim twice the amount of the down payment;
- Purchaser's breach: the promissory vendor may keep the amount received as a down payment.

As an alternative to the above, in case of breach, the non-breaching party may, in certain circumstances, apply in court for the specific performance of the promissory purchase and sale agreement, with the purposes of obtaining a court decision that shall enforce the execution of the transaction.

After entering into a promissory sale and purchase agreement, the promissory purchaser is entitled to submit a provisional registration for the acquisition of the property. Under the principle of the registry's priority, such provisional registration may provide security towards subsequent liens and/or encumbrances that could possibly be registered against the property. Upon completion of the sale and purchase agreement, the provisional registration becomes definitive upon request filed by the purchaser.

- **Share Deals**

Alternatively to asset deals, the acquisition of real estate properties in Portugal may be performed indirectly, by means of the acquisition of shares in the property holding company (share deal). The transfer of shares may be effected by means of a private agreement between the parties.

There are no restrictions to the acquisition of an interest in Portuguese Companies by foreign or non-resident investors, although the investors may have to comply with certain tax formalities, including obtaining a Portuguese taxpayer number.

In case of a share deal, in addition to a due diligence review of the property, the purchaser typically also conducts a due diligence to the company encompassing the customary aspects involved in the acquisition of companies (corporate status, financing status, tax aspects, debts, employment agreements, etc.).

The acquisition of shares in public limited liability companies (*sociedades anónimas*) must, in certain cases, be notified to the company (notably for the registration of the shares on behalf of the purchaser) and to public authorities (tax authorities and regulatory entities). The acquisition of a stake in a private limited liability company (*sociedade por quotas*), must be registered with the Portuguese Companies Registry.

7.2 TAX

7.2.1 ASSET DEALS

- Property Transfer Tax ("IMT") and Stamp Duty (Imposto de Selo)

Property Transfer Tax is a municipal tax levied on the transfer of real estate located in the Portuguese territory. Property Transfer Tax is levied on the higher of (I) the declared acquisition value and (II) the Property Tax Value. The applicable tax rates are as follows:

- Urban property used exclusively as primary residence: 6% (maximum progressive rate, according with the Property Tax Value[1]);
- Rural property: 5%;
- Urban property not intended for residential purposes: 6.5%;
- Property purchased by entities resident in a blacklisted jurisdiction (as detailed on the Ministerial Order 150/2004, of 13 February, as amended): 10%.

In addition the acquisition of real estate is also subject to Stamp Duty at a rate of 0.8%. Stamp Duty is levied on the higher of (I) the declared acquisition value and (II) the Property Tax Value.

[1] In the case of urban property exclusively used as primary residence, the maximum rate of 6% applies to real estate with a VPT greater than €574,323.00. Regarding all other urban properties, the maximum rate of 6% applies to buildings with a value greater than € 550,836.00.

- Notary and registration fees

Notary and registration fees are payable by the purchaser upon the execution of the public deed of transfer and the respective registration with the Land Registry. The value of these fees is normally negligible.

- VAT

The transfer of property in Portugal is exempt of VAT. However, such exemption may be waived, provided that the purchaser uses the acquired real estate for activities subject to VAT and that give the right to deduct VAT.

If the transaction is subject to VAT, the standard rate (currently, 23%) will be applicable and levied on the purchase price. The VAT is self-assessed by the purchaser, meaning that it is assessed and deducted in the same periodical VAT return.

It is relevant to note that, if the property is later used for non-VAT taxable activities, the VAT initially deducted must be adjusted. This restriction binds the taxpayer for a 20-year period.

7.2.2 SHARE DEALS

- Property Transfer Tax ("IMT") and Stamp Duty (Imposto de Selo)

Acquisition of properties by means of share deals are, as a general rule, not subject to Property Transfer Tax nor to Stamp Duty. As way of exception Property Transfer Tax is triggered by the acquisition of more than 75% of the share capital of a private limited liability company *(sociedade por quotas)*, as well as of the units of a privately placed closed-end real estate investment fund *(fundo de investimento imobiliário fechado de subscrição particular)*, which own real estate located in Portugal.

- Notary or registration fees

No notary or registration fees are payable in a share deal, except in case of acquisition of an interest in a limited liability company *("sociedade por quotas")*, where registration with the Portuguese Companies Registry is required and, consequently, the payment of the respective registration fees is due. The value of these fees is negligible.

In light of the above, an indirect acquisition of real estate, through the acquisition of the share capital of a limited liability company by shares *("sociedade anónima")* owning such real estate property, is normally considered the most efficient way to invest in the Portuguese market. Nonetheless, a final decision on the transaction structure should be taken on a case-by-case basis.

8. FINANCING

8.1 LEGAL

Real estate investors typically finance their real estate projects through a mix of bank debt and own funds.

Third Party Financing is usually secured against property (through a mortgage) and/or the shares of the company owning the property and/or property generated income.

A mortgage is an in rem guarantee that grants the creditor, in the event of default of the secured obligation, the right to be paid, with preference over the borrower's non-secured creditors, from the proceeds of the sale of real estate properties (provided other creditors do not benefit from special privileges, which would be the case, for instance, of the tax authorities with regard to property taxes). Mortgages are the most common security provided in real estate acquisitions in Portugal.

Mortgages are created by means of a notarial deed executed before a notary, or in a private document signed before, and certified by, a lawyer, solicitor or chamber of commerce and industry. The notarial deed must set forth the maximum amount secured. The mortgage may also secure interests of up to three years and also a certain amount for recovery expenses.

Mortgages follow the changes affecting the asset thus, and without prejudice to the rights of third parties, a mortgage shall be automatically extended to all improvements and constructions carried out on the secured real estate property.

Mortgages must be registered with the Land Registry as a condition for being valid and enforceable. Typically mortgages are enforced by means of a judicial process in the course of which the property is sold and the creditor is paid with the proceeds of the sale. Alternatively, depending on the legal procedure, the creditor may in certain circumstances apply for the award of the asset as payment in kind.
Pledges over shares and pledges over receivables (rents, deposits, indemnities, etc.) are commonly used in Portugal.

8.2 TAX

- Stamp Duty (Imposto de Selo)

Generally, both loans and guarantees are subject to Stamp Duty, at a variable rate depending on the maturity of the loan and/or guarantee, as follows:

- Loans – 0.04% (monthly), 0.5% or 0.6% applicable on credit granted for less than one year, one year or more, or five years or more, respectively;
- Credit used in the form of a current account, bank overdraft or any other form in which the term of use is not determined or determinable, on the monthly average obtained by summing up the outstanding amounts, calculated on a daily basis, during the month divided by 30 – 0.04 %;
- Interest paid to financial institutions – 4%;
- Any fees or commissions paid for financial services – 4% (except for commissions for guarantees provided, applying a rate of 3%).

At the level of Stamp Duty, some exemptions are available:

- Shareholder loans – loans granted by the direct shareholder of the borrower for a minimum term of 1 year may benefit from a Stamp Duty exemption, (I) provided that the shareholder directly holds a minimum participation in the capital of the borrower of 10% and (II) provided that this holding is kept for a minimum period of one year prior to the execution of the shareholder loan. If the borrower was incorporated by the lender, the one year holding period may be complied with after the granting of the loan;
- Short-term (up to one year) loans granted to cover treasury needs by a holding company to its subsidiary or vice-versa or by a parent company to its subsidiary (where a minimum 10% stake is held uninterruptedly for at least one year);
- Guarantees that are ancillary to the financing transaction (granting of loans) are exempt from Stamp Duty, provided that the guarantee is granted simultaneously with the secured loan, even if in a different instrument or title.

- Withholding Tax

A withholding tax of 25% applies on interest paid by a Portuguese entity to a non-resident lender (other than a non-resident financial institution). The withholding tax may be reduced or fully eliminated pursuant to a double tax treaty, provided certain conditions are complied with.

In addition, no withholding tax is applicable under the Interest and Royalties Directive, if the lender is able to claim the benefits of the directive. The withholding tax exemption applies provided that the lender has a direct holding of at least 25% of the share capital or voting rights of the borrower for at least two consecutive years, or vice-versa. The withholding tax exemption also applies if both the borrower and the lender are directly held by a common shareholder holding at least 25% of the share capital or voting rights of each company, for a minimum period of two consecutive years.

LIMITS ON THE DEDUCTIBILITY OF NET FINANCING EXPENSES

Portugal does not have thin capitalization rules. However, the Corporate Income Tax Code foresees an interest barrier rule, which sets the limits for the deductibility of net financing expenses. In 2018, the net financing expenses are deductible up to the greater of the following limits:

- €1 Million or
- 30% of EBITDA (Earnings before Interest, Taxes, Depreciations and Amortizations, with some tax adjustments).

LISBOA PARQUE DAS NACOES

9. PLANNING AND LICENSING

9.1 PLANNING

In Portugal, the building code of each Municipality is specified in the town and country planning instruments, notably, the general plan (*Plano Director Municipal*), the master plans (*Planos de Urbanização*) and the (more detailed) detail plans (*Planos de Pormenor*).

The development of a real estate property may entail several types of urbanistic operations, which must always abide by the applicable town and country planning instruments, including but not limited to (I) plotting *("loteamento")*, (II) infrastructure works *("obras de urbanização")* and (III) construction works (*"obras de construção")*, each of these operations requiring the respective administrative approval (being that plotting and infrastructure works are normally encompassed within the same procedure).

9.2 LICENSING

The administrative approval of the urbanistic operations referred above, may follow several approval procedures as detailed below.

9.2.1 PIP

Prior to filing a licensing request, it is possible, although not mandatory, to file a previous information request ("PIP") in order to obtain further certitude regarding the feasibility of the intended project.

A PIP consists of a request addressed to the competent Municipality, asking for the same to pronounce on the possibility of executing a certain project under the applicable town and country planning instruments.
When a Municipality issues a favourable decision, the PIP becomes binding to the Municipality, to the extent that, if a licensing abiding by the exact same terms under which the PIP was approved is filed within one year counted as of the approval of the PIP, the Municipality is bound to approve it. The Municipality may also extend the PIP for an additional period of one year, upon request.

According to the law, the conclusion of a PIP procedure should take 40 to 50 days (including the consultation of External Entities). However, in practical terms and according to our experience, said conclusion may take 3 to 6 months (or more, depending on the complexity of the project and depending on the Municipality in question). In any case, deadlines may vary from Municipality to Municipality and, therefore, confirmation of each Municipalities practise is recommended.

9.2.2 CONSTRUCTION LICENSE AND PREVIOUS COMMUNICATION

The applicable law currently foresees two types of administrative procedure entitling the execution of urbanistic operations (including: plotting and infra-structuring, construction of new buildings and modification of existing buildings):

- License:

The License procedure is the standard procedure applicable whenever the law does not establish specifically that the operation in question may be exempted of such procedure or subject to the mere Previous Communication.

According to the law the conclusion of a licensing procedure should take about 3 months (including the consultation of external entities) to be concluded. However, in practical terms and according to our experience, said conclusion may take 12 to 24 months (or more depending on the complexity of the project and depending on the Municipality in question). In any case, deadlines may vary from Municipality to Municipality and, therefore, confirmation of each Municipalities practise is recommended.

- Previous Communication (which consists of a mere prior communication to the Municipality before initiating the urbanistic operation):

The specific situations where a Previous Communication is admissible by law, are situations in respect of which the degree of control by the Municipality may be lower.

Notably, the Previous Communication is allowed in situations where the parameters and requisites applicable to the urbanistic operation were previously established and approved by the Municipality with a high degree of detail (e.g. infrastructing or construction in areas covered by a plotting approval or by a detail plan, works in consolidated urban areas compliant with the Municipal plans and that do not exceed certain limits, or works complying with the exact terms of a PIP that has been approved).

The Previous Communication is filed with declarations signed by the architects and technicians responsible for the technical projects attesting that the urbanistic operation fully complies with the applicable rules, such declaration implying personal liability from the signatories.

Although the Previous Communication is foreseen in law as a mere communication upon which the developer may almost immediately start the works, the practise is often different because upon submitting the Previous Communication, Municipalities may require additional information to validate the admissibility of the Previous Communication or review the projects and make enquiries, which in practise may imply additional delay, rather than being immediate. Therefore, confirmation of each Municipalities practise is recommended.

9.2.3 MUNICIPAL USE PERMIT

In Portugal, the use of any real estate asset is generally subject to obtaining a Municipal Use Permit, which is the document attesting that a certain construction was built in accordance with the approved construction license and stating the respective authorized use.

The existence of an appropriate valid Municipal Use Permit in respect of each property is also a requirement for the execution of any agreements implying the transfer of any such properties (asset deal).

The need for Municipal Use Permit is exempted for constructions built before Decree-Law no. 38 382, dated of 7 August, 1951, came into force in the respective Municipality.

THE MUNICIPAL USE PERMIT ATTESTS THAT A CERTAIN CONSTRUCTION WAS BUILT IN ACCORDANCE WITH THE APPROVED CONSTRUCTION LICENSE AND STATES THE RESPECTIVE AUTHORIZED USE

10. RENOVATION REGIME

10.1 LEGAL

10.1.1 URBAN RENOVATION REGIME

Aiming to simplify and stimulate urban renovation, Law no. 32/2012, dated of August 14, has changed the legal frame applicable to urban renovation, notably (a) allowing more flexibility in the procedures for the creation of urban renovation areas; (b) creating simplified procedures for the approval of urban renovation projects and (c) creating the concept of "individual urban renovation projects", applicable to projects that may be located outside of urban renovation areas for construction built more than 30 years ago.

This simplification of procedures provided a significant contribution to urban renovation, which became more reliant on the initiative of private developers and less dependent on the initiative of the municipalities and other public entities.

Within the creation and simplification of procedures for the approval of urban renovation projects, a simplified licensing procedure, based on a swift Previous Communication (*comunicação prévia*) may be appointed as one of the most decisive changes enacted by the referred law.

This simplified procedure may be applicable, on the one hand, to projects located in urban renovation areas in accordance with approved urban renovation detail plans and, on the other hand, to the new concept of "individual urban renovation projects".

10.1.2 WORKS ON LEASED PROPERTIES

Under the same legislative initiative, the Portuguese Government also enacted Law no. 30/2012, dated August 14, 2012, amending the legal framework for the execution of works in leased properties, focused on simplifying the execution of construction works by landlords on leased buildings, based on simpler and easier requirements for the termination of old lease agreements.

This regime was recently subject to new amendments, approved by Law no. 43/2017, dated of June 14, which introduced some additional requisites that limit substantially the possibilities whereby landlords may terminate old lease agreements for conducting renovation works.

10.2 TAX

10.2.1 TAX INCENTIVES

The Portuguese tax system has a wide range of benefits applicable to urban renovation, as follows:

- In terms of VAT, the urban renovation construction contracts are subject to a reduced rate of 6%[2].
- The renovation of immovable property directly contracted with the National Fund for Urban Renovation ("Fundo Nacional de Reabilitação do Edificado") by its management company is also subject to the reduced rate of 6%[3].
- In terms of Municipal Property Tax there are two applicable exemptions[4]:
    - Exemption for buildings or units (in buildings) built more than 30 years ago;
    - Exemption for buildings or units (in buildings) located in urban renovation areas.

[2] The application of a reduced VAT rate is subject to certain conditions that need to be ascertained on a case-by-case basis. It is required that the construction contract qualifies as an urban renovation contract ("empreitada de reabilitação urbana").

[3] The information provided in respect of the State Budget for 2018 takes into account the current wording of the draft proposal that is under discussion in the Portuguese parliament.

[4] The Municipal Property Tax exemptions are alternative, i.e. only one of the two exemptions may apply.

- For the application of this type of exemptions, the following cumulative requirements must be met: (i) the buildings or units are subject to renovation according to the concept of "renovation of buildings" provided for in the Urban Renovation Legal Regime (*"Regime Jurídico da Reabilitação Urbana"*); and (ii) as a consequence of this intervention, the conservation status goes up two levels in relation to the conservation status before the renovation, with a minimum level of "good" (certified by the Municipality) and complies with applicable energy efficiency and thermal quality requirements.

  - The above exemptions are valid for a period of three years; counting from the year the renovation works were completed, which may be renewed upon request, for an additional five years period (only in the case of properties used for personal and permanent residence or residential long term lease).

- At the Property Transfer Tax level there are also exemptions for urban renovation, in the same periods referred to Municipal Property Tax:

  - Exemption for the purchase of property to be renovated, provided that the purchaser starts the renovation work within three years from its purchase;
  - Exemption applicable to the first acquisition of the property after the conclusion of the renovation works, provided the acquirer is an individual that will use the property for personal and permanent residence, when located in an urban renovation area.

- For the application of these exemptions, the cumulative requirements concerning Municipal Property Tax must also be verified.

11. FOREIGN INVESTMENT

DIRECT INVESTMENT

Portuguese government has enacted several legal and political programs in order to attract foreign investment and, as formerly referred there are no restrictions to foreign direct investment in real estate in Portugal.

Holding title over real estate properties should not directly imply the existence of a permanent establishment in Portugal for tax purposes. Nevertheless, investors must fulfill a few formalities, including, but not limited to, obtaining a Portuguese taxpayer number and investors with tax residence in a non-EU country must appoint a Portuguese legal representative (either individual or legal entity) to act on behalf of the investor before the Portuguese tax authorities.

- Lease Income

Income derived by foreign investors from the leasing of properties located in Portugal is subject to Corporate Income Tax (known in Portugal as "IRC"), at a rate of 25%, except if the investor has a permanent establishment located in Portugal to which the rental income is attributable. The Corporate Income Tax may need to be withheld by the tenant provided the latter is a corporate entity or an individual subject to organized accounting rules.

For the computation of the taxable income, foreign investors have a very limited ability to deduct costs incurred. Maintenance costs, Municipal Property Tax and Stamp Duty are generally deductible, but there is no deductibility of financial expenditure, nor depreciation charges.

- Capital Gains

Capital gains realized by a foreign investor on the sale of properties located in Portugal are subject to Corporate Income Tax at a rate of 25%.

For Corporate Income Tax purposes, taxable capital gains correspond to the difference between the sale price and the acquisition cost. The acquisition cost is updated pursuant to the specific rates foreseen in the tax legislation. Moreover, certain costs incurred by the property owner may also be added to the acquisition cost, such as the costs incurred with construction works performed on the previous five years and the costs necessary for the acquisition and/or sale of the property.

According to the State Budget for 2018, capital gains shall be liable to taxation in Portugal, whenever they result from the transfer of share capital or similar rights in any entity (non-resident in Portuguese territory), when at any time during the 365 days preceding the alienation, the securities derived more than 50 per cent of their value directly or indirectly from immovable property located in the Portuguese territory.

At this level, capital gains will not be liable to taxation when related to agricultural, industrial and commercial activity, except for the sale and purchase of immovable property.

INVESTMENT THROUGH A PORTUGUESE COMPANY

Foreign investors also structure their investments in Portuguese real estate by acquiring a Portuguese company (e.g. a special purpose vehicle, or "SPV") that owns the target real estate asset(s), or by incorporating an SPV (to acquire the target real estate asset(s)).

In addition to the different transactional tax costs of the alternatives of acquiring the asset directly (asset deal) or through an indirect acquisition (share deal), as outlined above, the tax treatment applicable to a Portuguese resident entity owning real estate should be noted, as follows:

- Lease Income

Lease income generated by a Portuguese company forms part of the taxable profits and is subject to Corporate Income Tax at a rate of 21%.

In addition to the Corporate Income Tax, there is also a municipal surtax ranging between 0% and 1.5% on the annual taxable profit (applicable before tax loss deduction).

Moreover, for taxable profits exceeding certain values, there is still a state surcharge:

- 3% for taxable profits exceeding €1,500,000 and up to €7,500,000;
- 5% for taxable profits exceeding €7,500,000 up to €35,000,000;
- 9% for taxable profits exceeding €35,000,000, according to the recent amendment promoted by the State Budget for 2018 (previously the applicable rate was 7%).

All expenses relating to the lease activity – i.e. not only maintenance and repair expenses and Municipal Property Tax, but also depreciation charges plus financial costs – are generally tax deductible with certain limitations (please refer to "real estate financing" section).

Portuguese permanent establishments and companies are entitled to certain tax credits, and to carry forward tax losses (currently through a period of 5 years, but limited to 70% of the annual taxable profits for losses originated).

According to the State Budget for 2018, it is expressly foreseen that there cannot be any kind of deductions to the total amount of autonomous taxation, even if those deductions are foreseen in special legislation. Autonomous taxation applies at different rates on certain expenses incurred by entities subject to Corporate Income Tax. It is self-assessed in addition to Corporate Income Tax (even if no Corporate Income Tax is due), at variable rates.

- Capital Gains

Capital gains realized upon the sale of property by a Portuguese resident company are subject to Corporate Income Tax at a rate of 21% (plus the aforementioned surtaxes, where applicable).

Upon the sale of the Portuguese SPV, capital gains realized by the non-resident investor (shareholder) are subject to income tax (Personal Income Tax or Corporate Income Tax depending on the investor being a natural or legal person). Such capital gains will be subject to Corporate Income Tax at a rate of 25% (or to Personal Income Tax at a rate of 28%). The taxation of the capital gains may be eliminated pursuant to a domestic exemption foreseen in the Tax Benefits Code or pursuant to a double tax treaty, subject to certain conditions and formalities. However, provided that more than 50% of the Portuguese SPV's assets are real estate properties located in Portugal, the domestic exemption and the majority of the double tax treaties executed by Portugal foresee that the capital gains remain taxable in Portugal.

- Dividends

Dividends distributed by a Portuguese SPV to the respective shareholder(s) are generally subject to income tax. Nonetheless, pursuant to the "participation exemption" regime, a Corporate Income Tax exemption is granted provided certain requirements are complied with. The main requirements are the following:

a) The recipient of the dividend distributions holds at least 10% of the share capital or voting rights over the Portuguese SPV;

b) The said shareholding was held for at least 1 year prior to the dividend distribution;

c) The shareholder is a company resident in Portugal, in another EU or EEA member state, or a third country with a double tax treaty in force with Portugal and is subject to Corporate Income Tax at a rate higher than 60% of the Portuguese Corporate Income Tax rate (i.e. 12.6%).

12. GOLDEN VISA

TEMPORARY RESIDENCE PERMIT

The Golden Visa Program corresponds to a special legal regime that allows third-country nationals that intend to invest in Portugal to apply for a temporary residence permit ("Temporary Residence Permit for Investment" or "ARI"). In case the investment performed by third-country nationals fulfills the minimum requirements set forth under applicable law and the temporary permit is granted, investors may:

(I) freely travel within Schengen Area;
(II) apply for family reunification;
(III) live and work in Portugal;
(IV) obtain permanent residence (after 5 years and in the terms and conditions set out by the legislation in force); and
(V) acquire Portuguese citizenship (after 6 years and in the terms and conditions set out by the legislation in force).

Any third-country nationals can apply for Golden Visa, provided they are holders of a valid Schengen Visa (or being exempt from it) or legalize their permanence in Portugal within 90 days as of their first entry into national territory.
The Golden Visa's application shall be subject to the analysis and approval of the Regional Directorate and Regional Delegations of the Immigration and Borders Service ("SEF") in Portugal.

The minimum quantitative requirement is deemed fulfilled if one of the following conditions is met:

(I) capital transfer with a value equal to or above 1 million Euros;
(II) the creation of at least 10 jobs;
(III) the purchase of real estate property for a value equal or above 500 thousand Euros;
(IV) the purchase of real estate property regarding buildings older than 30 years or located in urban renovation areas, destined to renovation, for a total value equal to or above 350 thousand Euros;
(V) capital transfer with a value equal to or above 350 thousand Euros for investing in research activities conducted by public or private scientific research institutions involved in the national scientific or technologic system;
(VI) capital transfer with a value equal to or above 250 thousand Euros for investing in artistic output or supporting the arts, for reconstruction or renovation of the national heritage;
(VII) capital transfer with a value equal to or above 500 thousand Euros, for purchasing shares in investment funds or in venture capital geared to capitalize small and medium companies; or
(VIII) capital transfer of the amount of 350 thousand Euros, or higher, for constitution of a commercial society with head office in the national territory, combined with the creation of five permanent working jobs, or for the reinforcement of the share capital of a commercial society with head office in national territory, already existing, with the creation or keeping of working jobs, with a minimum of five permanent jobs, and for a minimum period of three years.

The real estate property acquired for Golden Visa purposes can be leased for commercial, agricultural or tourism purposes and can be acquired in co-ownership. The acquisition can be made directly by an individual or by a company based in Portugal or in another EU country with a permanent establishment in Portugal (as long as the investor shows evidence attesting he is the unique shareholder of the company). It is also possible to apply for the Golden Visa before the acquisition deed, if the applicant has entered into a promissory sale and purchase agreement and delivered to the promissory seller a deposit equal or higher than the minimum quantitative requirement as down payment.

The Golden Visa investor must stay in Portugal for a period of, at least, 7 days during the first year, and 14 or more days, in the subsequent 2 year periods.
The application for the Golden Visa implies the payment of an initial fee of 520.40 Euros and a permit issuance fee of 5,202.60 Euros. Later on, a renewal fee of 2,601.30 Euros will also be due per renewal.
The Golden Visa is valid for 1 year and renewable for 2 year periods.

PERMANENT RESIDENCE PERMIT

In order to apply for a permanent residence permit, applicants must hold a temporary residence permit in Portugal (including Golden Visa) for at least 5 years.

The granting of the permanent residence permit is subject to certain requirements, notably the applicant shall: (I) have not been convicted in Portugal during the last 5 years for a crime punishable with deprivation of liberty exceeding 1 year, (II) have financial resources to live in Portugal, (III) have a place to live in Portugal and (IV) show evidence of basic Portuguese language commands (to be proven through a written test).

PORTUGUESE CITIZENSHIP

In order to apply for Portuguese citizenship applicants must legally live in Portugal for at least 6 years.

The granting of Portuguese citizenship is subject to certain requirements, notably the applicant shall (I) be of legal age under the Portuguese law (parents may also apply for the citizenship of their children in certain conditions), (II) have not been convicted in Portugal for a crime punishable with deprivation of liberty exceeding 3 years, (III) show evidence of sufficient knowledge of Portuguese language (to be proven through a written test) and (IV) have a link with Portugal and with the Portuguese culture (to be ascertained by the immigration authorities on a case by case basis).

13. NON HABITUAL RESIDENTS TAX REGIME

The Non-habitual Tax Residents Regime ("NHR") foresees a very favourable tax regime applicable to individuals transferring their tax residence to Portugal. The NHR is one of the most competitive European regimes and is granted for a period of 10 years.

ELIGIBILITY CRITERIA

A non-habitual tax resident is an individual that:
- Was not a resident taxpayer for Personal Income Tax purposes in the 5 years prior to the application of the regime; and
- Becomes a resident taxpayer for Portuguese Personal Income Tax Code ("PIT Code")

To qualify as a tax resident under Portuguese domestic rules, an individual is required to:
- Spend more than 183 days in Portuguese territory (on a 12 months period); or
- Own a dwelling that qualifies as a habitual residence in Portuguese territory (regardless of the number of days effectively spent in Portugal).

BENEFITS

The benefits provided in the NHR range from a full exemption on certain types of income and a reduced flat tax rate of 20% to other types of income.

- Foreign-source income:
  - Passive income derived outside Portugal (e.g. dividends, interest, pensions and rental income) are fully exempt in Portugal and this exemption applies irrespective of the taxation applicable at source (i.e. it is possible to achieve double non-taxation); and
  - Active income (e.g. income from employment and self-employment) derived in connection with "high value added activities" may also be fully exempt provided specific conditions are met. The activities qualified as "high value added" are identified in a statutory shortlist and include software developers, academics, researchers, tax advisors, senior company personnel and, in certain cases, board members such as CEOs and CFOs.

- Portuguese-source income, in particular active income derived in Portugal in connection with "high value added activities" will be subject to a flat rate of 20% (instead of the general progressive tax rates).

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