Research and Forecast Report | Lisbon | Porto

OFFICE & INVESTMENT MARKET
2016

Colliers INTERNATIONAL

Accelerating success.

December boosts Lisbon's office market mitigating drop in the second half

Summary

Lisbon

- Although not increasing yoy, prime rents have stayed high and above the 20 euros threshold. Average rents have increased in virtually all the zones of Lisbon's office market, surpassing 15% in Zones 3 and 4.
- New offices are scarce and the lack of adequate modern supply continues to restrain the local office market performance. The total office space under active construction hints that this gap will be addressed shortly.
- Lisbon offices' total take up has stayed close to 2015 figures, reaching 143.000 m²; however with fewer deals, which reflects the increase in the average office area deal.
- Average office dealt areas increased from close to 550 m², in 2015, to more than 700 m², in 2016, and even surpassing the 1.000 m² threshold in Zones 3 and 4.

Porto

- Porto's CBD (Boavista) has continued to perform well, with a decreasing occupancy and prime rents increasing close to 5%.
- Total take-up is low, mainly, reflecting the lack of modern adequate supply, which remains unable to match the ever increasing demand.

Investment

- Portugal's property investment, in 2016, was 1,3 billion euros, having decreased almost 25%. However office investment more than doubled, staying above the 500 million euros threshold.
- Office investment remains heavily concentrated in Lisbon, with Porto drawing increasing interest, but still unable to compete with Lisbon's office market.

YEAR-ON-YEAR INDICATORS

LISBON INDICATORS	
Absorption	►
Vacancy	▼
Construction	▲
Rents	►

STATISTICS	
Vacancy Rate	10,21%
Take-Up	143.000 m²
Availability (CBD)	211.000 m²
New Construction	35.000 m²
Under Construction	55.000 m²
Rents	
Prime	20,80 eur/m²
Average	14,83 eur/m²

Lisbon

Rents, Occupancy and Yields

- Average headline rents in Zone 1 decreased 6% since last year, mainly because of the lackluster second semester performance. Prime rents increased in, almost, all the zones of Lisbon's office market, with periphery prime rents staying at 14 euros/m².
- Occupancy rate has continued to decrease, prolonging a trend started in 2013. Lisbon's occupancy rate decreased 1.,18 pp from 2015 to 2016.
- Lisbon yields have stayed flat during 2016, hinting that no further compressions in returns are to be expected. However, an increase in international investment correlated with the introduction to the market of new modern supply may change this outlook and drive yields downwards, which maybe more visible towards the end of 2017.

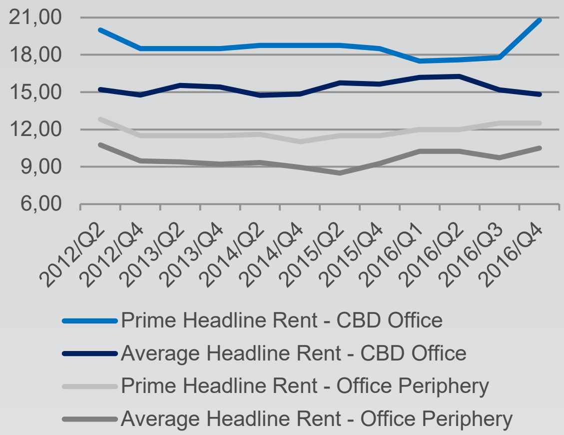
Stock

- Lisbon offices stock has been growing at a very low rate and clearly below potential demand. Office completions in 2015 and 2016 remained below 60.000 m², quite distant from the 115.000 m² completed, solely in 2012.
- The lack of suitable supply seems to have been spotted by developers, with more than 55.000 m² under active construction.
- New offices account for less than 10% of total take-up (20% in 2015) and one deal - Edifício SantanderTotta - represents 75% of total new take-up.

Take-Up and Deals

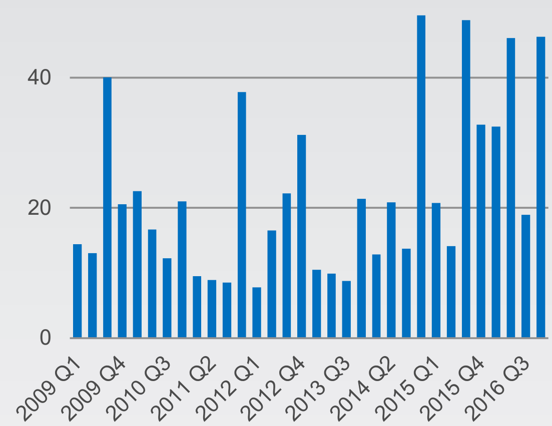
- Almost all Lisbon office zones decreased their number of deals and, with the exception of Zone 2 and 3, all decreased their take up, although marginally for Zone 1.
- Zone 3 accounted for more than 30% of overall take-up, increasing more than 300%, with a total take-up above 40.000 m², mainly due to some deals, like Edifício SantanderTotta, Torres de Lisboa and Torre Ocidente.
- In the first half of 2016, total take-up increased by more than 50% and 160.000 m² seemed easy to achieve. However, deals slowed down in the second half of the year and only the completion of the SantanderTotta and Torre Ocidente deals reversed the downward trend.
- TMT's, Corporate Services and Financial Services remain prevalent in Lisbon's take-up, accounting for 73% of total take-up, upwards from 66% in 2015.
- Although new companies expanding to Lisbon have decreased from 2015 to 2016, companies expanding their office area increased their take-up by 15.000 m².

Prime and Average Rents



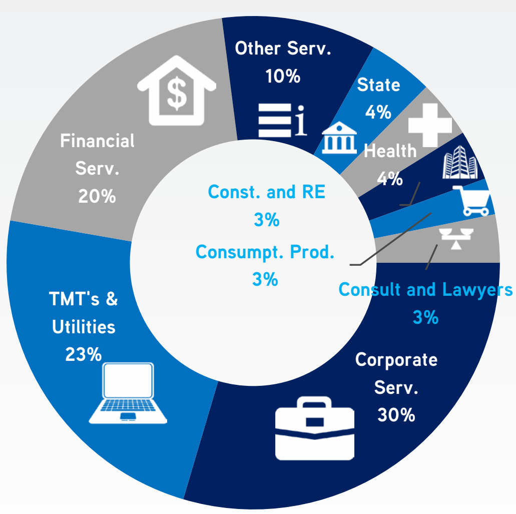
Source: Colliers International, LPI

Take-Up



Source: Colliers International, LPI

Deals by Business Sector (2016)



Source: Colliers International, LPI

Porto

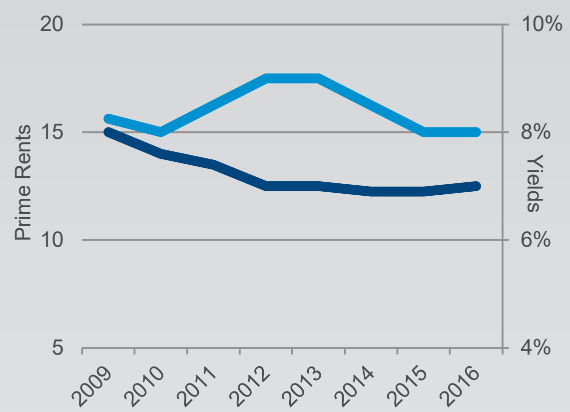
- Porto's CBD prime rents have continued to increase, with the best and most modern buildings close to 100% occupancy rate. Porto's prime rents have reached 12,50 euros/m², still distant from all time highs, however inducements, including rent-free periods, have been sharply reduced or, in some buildings, erased.
- The demand growth combined with a relatively stable stock of supply, has also been commanding international interest and driving yields downwards.
- Porto's office stock has not been increasing in a relevant way. New offices comprise, predominantly, small buildings, and, interestingly, Porto's supply has been following new trends in office occupation, such as co-working solutions.
- The on-going downtown regeneration has continued, with developers opting for tourism related buildings instead of offices, thus remaining reluctant to develop modern office buildings.
- Overall, Porto's office market continues to attract interest, including multinational companies, but supply remains unable to accommodate the excess demand. Total office take-up diminished, yoy, mostly because interest was seldom converted into deals.

"Porto's office supply has not been able to accommodate demand"

Investment

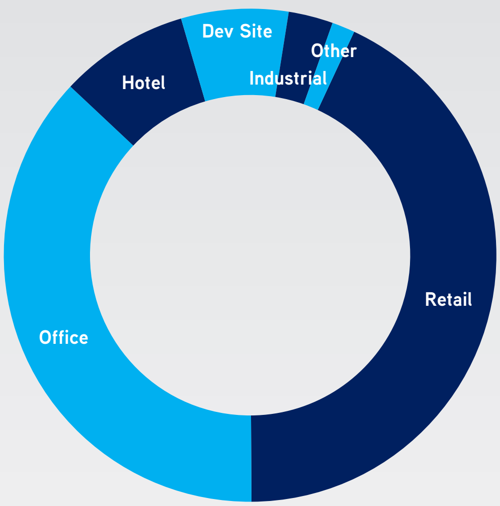
- It was always going to be difficult to maintain 2015's total property investment, hence the 25% reduction ended being deemed as predictable considering the overall unrest in the international markets, given the Brexit and Trump's win.
- Although retail has remained the predominant investment segment, office investment has doubled, accounting for more than one third of total property investment.
- In truth, the increase was due to one major deal: Campus da Justiça (sold by CGD to SG), which accounted for, almost, half of total office investment.
- The average price of each deal increased, with the total area dealt surpassing 250.000 m² and the average price staying above 1.500 euros/m².
- Zone 5 was clearly prevalent, with Campus da Justiça accounting for virtually all of the investment transactions in that area.
- Excluding that deal, Zones 1, 2, 3 and 4 had a similar weight in the areas dealt in investment transactions, in 2016. Regarding 2015, Zonas 1, 2 and 3 maintained their overall importance, with Zone 4 taking over the 2015 deals completed in Zones 5 and 7.

Prime Rents and Yields (Porto)



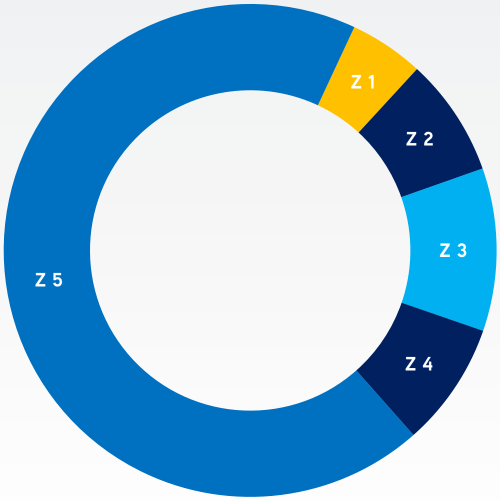
Source: Colliers International

Investment Deals by Segment (Portugal)



Source: Colliers International, RCA

Investment Deals by Zone (Lisbon)



Source: Colliers International, RCA

554 offices in
66 countries on
6 continents

$2.5
billion in
annual revenue

2.0
billion square feet
under management

16,000
professionals
and staff

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