



Real Estate Consultants

Outlook

Portuguese Economic
& Office Market

Q1 2020



Key
Figures



WELCOME

This report is framed within the context of the recent events regarding the covid-19. Although this pandemic is a global health crisis – an exogenous shock to the economy – it has gradually become an economic crisis.

This briefing aims to give an overview of the first quarter of 2020, economy and investment wise. All the information has been updated until the 25th of May, however, data from Q1 still does not reflect the real impact of the coronavirus (SARS-COV-2).

Outlook

Key Figures

- At the end of the first quarter of 2020, GDP had a q-o-q decrease of -3,9% and a y-o-y change of -2,4%;
- Projections point to another contraction during the second quarter;
- The Portuguese public debt increased by +2,2% and had a y-o-y change of -2,5%;
- The lockdown had an obvious impact on the Portuguese economy, but the true depth is still uncertain;
- The office market saw decisions being postponed;
- Take-up in Q1 2020 grew +5% y-o-y and 39% (between January and April of this year);
- We may see an approx. market equilibrium, where the supply will feed the demand, rather than the demand largely exceeding the supply (as it was prior to covid-19);
- Demand is leaning on expectations for a lower review of values;
- Prime rent had a negative change of -4%;
- However, rental values registered during Q1 '20 only reflect the outcome of deals prior to the lockdown;
- At the moment, businesses are adjusting their office setups in order to match the company's needs.

GDP GROWTH Q1 2020

-3,9%

PUBLIC DEBT (%GDP) Q1 2020

120,3%

LISBON'S OFFICE TAKE-UP JAN-APR '20

73 690
sq.m

PRIME RENT Q1 2020

24€
/sqm/month

Source: INE & Bank of Portugal



ECONOMY

In light of the covid-19 outbreak, the Portuguese economy, as do all countries at the moment, are facing a period of high uncertainty which leads to difficult forecasts.

The IMF projected a global economy growth to fall to -3% in 2020.

According to the Bank of Portugal, the first guidelines for this years' GDP growth are aiming at -3,7% (for a base scenario) and -5,7% (for an adverse scenario), however, these values may change depending on current status of the upcoming months. The same applies for the unemployment rate, where it still stands at 6,7%, until further notice.

Comparison with the previous financial crisis is inevitable, however, the present crisis is an exogenous shock to the economy and exposes other issues besides the financial system.

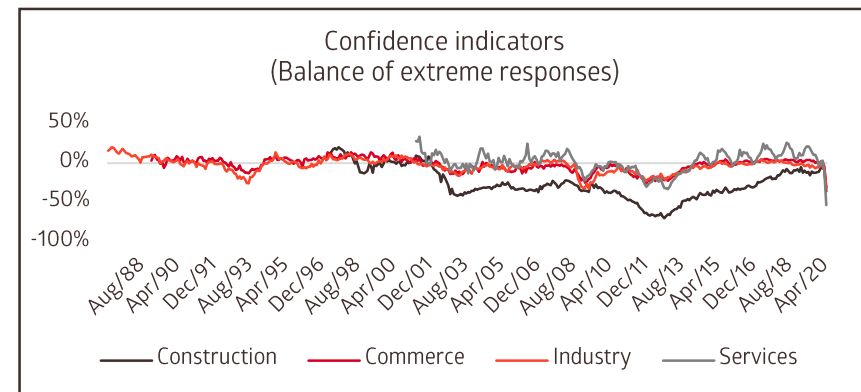
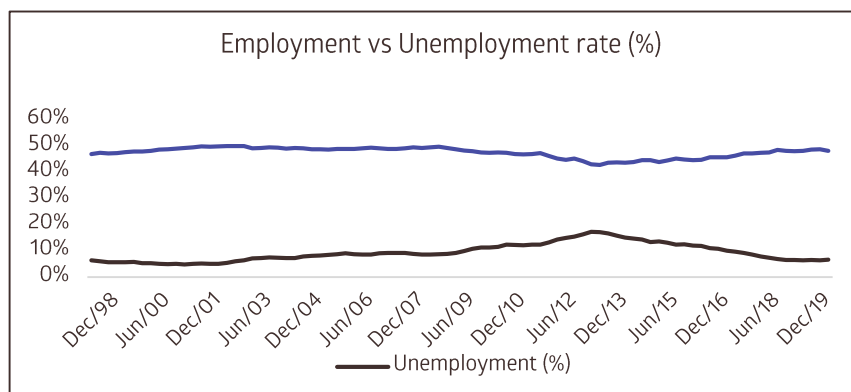
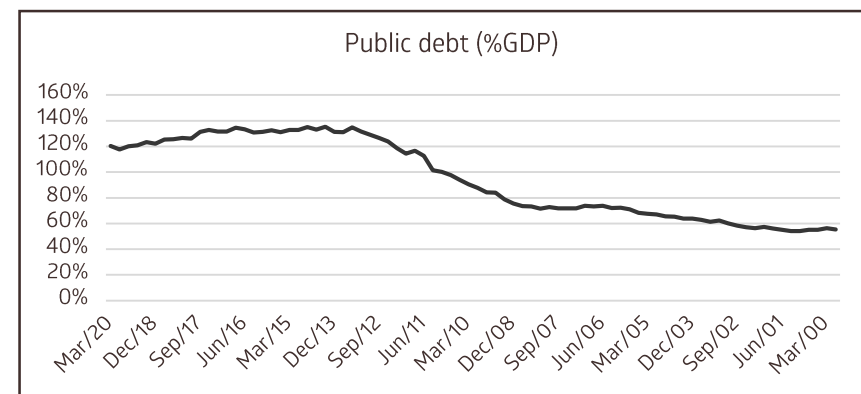
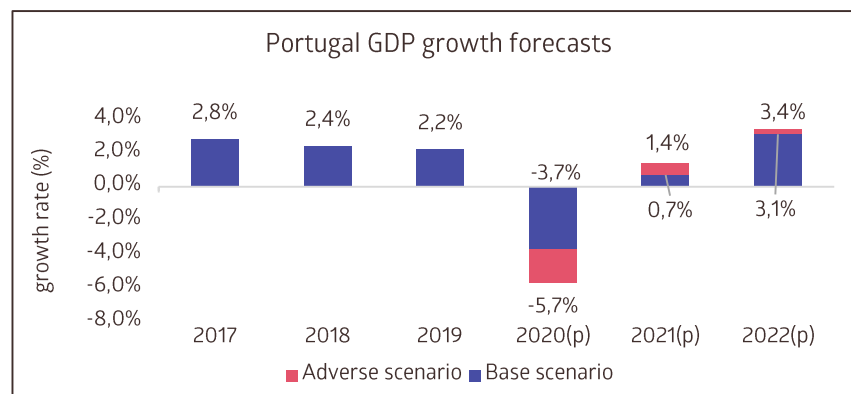
The lack of cash inflows during these last months have indeed triggered many companies to adapt and cut costs, therefore the government and banks have applied especial measures regarding forbearance and other fiscal measures in order to reduce the risk of default. These measures may restraint long-term issues, but the outcome still relies on the spread of the virus.





ECONOMY

DATA REPORT



Source: INE & Bank of Portugal



OFFICE MARKET

Expected evolution



Take-up

Take-up registered during the covid-19 outbreak (March-April) was the outcome of deals prior to the outbreak, therefore during the next quarter we expected a slight decrease in take-up.



Rents

For the second quarter we expect a small adjustment in prime rents due to the current market situation and ongoing lease re-negotiations may result in further reductions. All zones have contracted in terms of prime rents, with exception to Zone 2 (standing at 19€/sqm/month); the largest quarterly changes were at Zone 6 (-6,7%) and at Zone 4 (-5,3%).



Vacancy

Used office spaces are expected to enter the market, namely at the prime office areas, therefore we forecast a slight increase throughout the next few months.



Yields

Prime yields at prime office assets are expected to remain stable at 4,25%. Investment in the office market was solid during the first quarter, but delays in negotiations for the second quarter are highly likely



Strong
increase



Moderate
increase



Stable



Moderate
decrease



Strong
decrease



OFFICE MARKET

The Lisbon's take-up during Q1 2020 amounted to 44.671 sq.m, of 7% higher when compared to the same period of the previous year, and until April a total of 73.690 sq.m, a y-o-y increase of 39%. Two large placements occurred in this last month of April (BPI bank, with 16.441 sq.m and Cofidis with another 10.406 sq.m) and up until now, 30% of the deals were placements higher than 2.000 sq.m.

Regarding the outcome for the following quarters there is still a feeling of uncertainty. However, the Clients still show interest in the market although, during the lockdown, restrictions have delayed a few deals.

The fact that Portugal has been dealing with the epidemic in such way that it has limited the spread of the virus and succeeded until now, associated with the qualified labor and low operational costs, may spark some interest in other foreign companies.

As for the rental values, we expect a slight adjustment due to the current market situation and less ongoing negotiations. Nevertheless, activity is likely to pick up as restrictions are already being lifted gradually. We also expect more incentives from the property owners, such as grace periods, contributions towards a tenant fit-out, relocation costs, future rent increases, among others.

Global vacancy has risen from 5,3% to 5,5% during this first quarter, due to recent changes in the stock: 2 assets have been temporarily removed from the market and 6 new buildings have also entered, while another 3 assets (Galerias Ritz, Malhoa 11 and HUB Creativo do Beato) are due to finish by the end of the year.

Investment in the office market has marked activity during this first quarter to the extent that it may also delay a few negotiations for this second quarter.





OFFICE MARKET

TOP 10 TRANSACTIONS | JAN-APR 2020

Date	Zone	Building	Area (sq. m)	Tenant	Business Sector
Apr/20	1	Monumental	16441	BPI	Financial Services
Apr/20	7	Natura Tower Norte e Natura Tower Norte	10406	COFIDIS	Financial Services
Jan/20	5	Novo Banco - Oriente 343	6164	Randstad	Corporate Services
Feb/20	6	Proletariado, 1	5279	INFOSISTEMA	TMT's & Utilities
Feb/20	2	Defensores de Chaves, 4	4576	IdeaiHub	Corporate Services
Feb/20	5	Explorer	3738	Majorel	Corporate Services
Jan/20	3	Green Park	3638	BNP Paribas	Financial Services
Mar/20	2	Sousa Martins, 10	3218	Agap2	Corporate Services
Jan/20	6	Alagoa Office & Retail Center - E3	2892	Santander Consumer	Financial Services
Apr/20	2	República, 87	2695	Axians	TMT's & Utilities

Source: WORX / LPI



OFFICE MARKET

Total (pipeline)

237 109 sq. m

PIPELINE

Zone	Asset	Due date	Available area (sq. m)
1	Castilho, 213	Q1 – 2020	1 869
2	Defensores de Chaves, 4	Q1 – 2020	4 576
6	Quinta da Alagoa E2	Q1 – 2020	3 633
6	Quinta da Alagoa E3	Q1 – 2020	2 892
1	Galerias Ritz	Q2 – 2020	2 300
1	Castilho, 50	Q2 – 2020	6 211
3	Malhoa 11	Q3 – 2020	6 300
7	HUB Criativo do Beato	Q4 – 2020	11 000
6	Quinta da Alagoa E4	Q1 – 2021	2 850
1	Monumental	Q2 – 2021	16 900
5	K Tower	Q2 – 2021	15 000
5	AGEAS	Q3 – 2021	17 400
6	Edifício PHC	Q3 – 2021	3 700
6	World Trade Center	Q3 – 2021	25 000
5	EXEO - Lumnia	Q4 – 2021	30 000
6	Edifício Miniclip	Q4- 2021	3 700
4	EDP 2	Q1 – 2022	11 400
4	Nova Alcântara	Q4 – 2022	38 378
3	Colombo - Torre 3	Q1 – 2023	34 000

Developments and office deliveries are getting back on track, albeit works have always been proceeding in a partial activity stage. However, some of these buildings may be delivered with a slight delay due to constraints caused by the pandemic.

During Q1 2020, 19.181 sq.m have been delivered, while 19.600 sq.m remain in pipeline until the end of the year.

Source: WORX / LPI

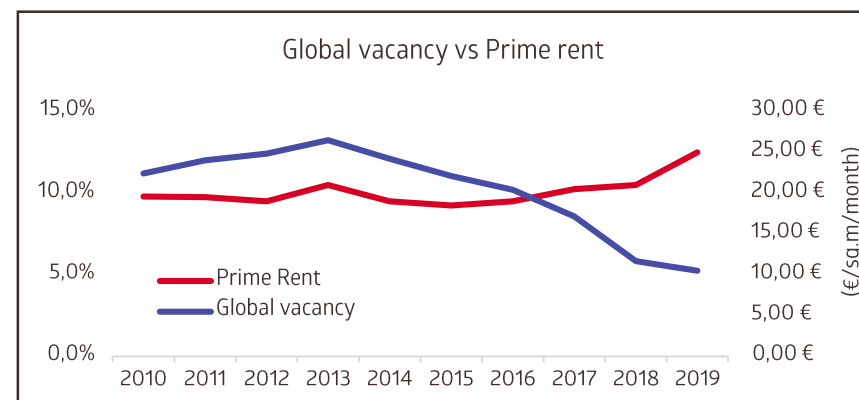
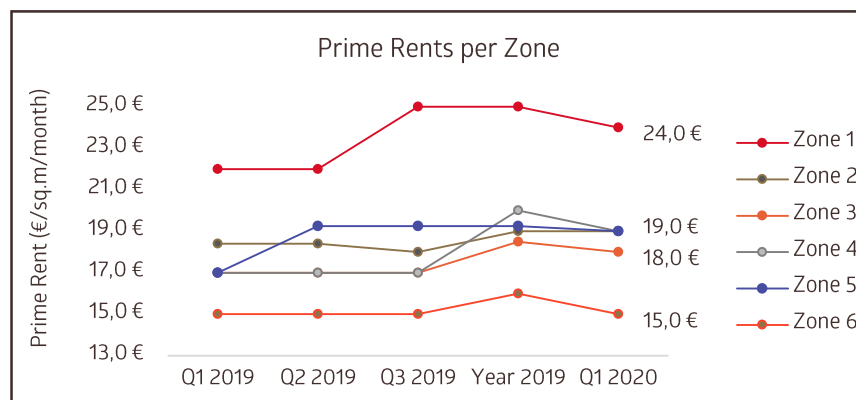
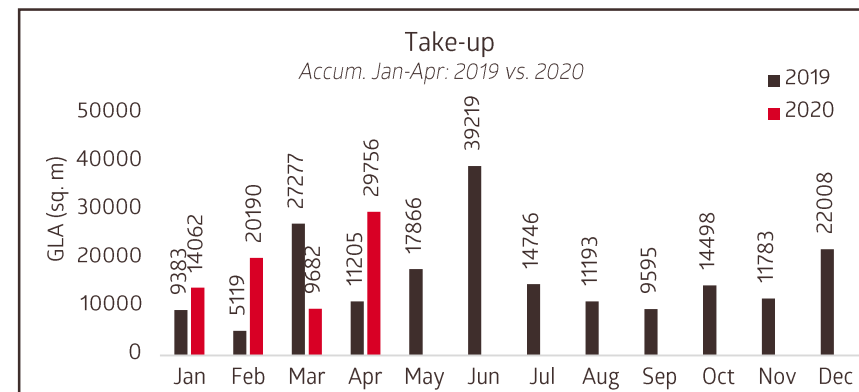
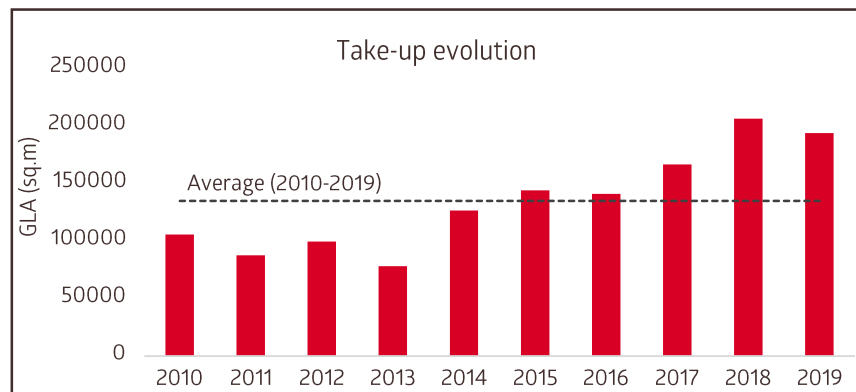


OFFICE MARKET

Total (pipeline)

237 109 sq. m

DATA REPORT



Source: WORX / LPI



Outlook



OPINION MAKERS

The office market has been the subject of several news lately. Questions arise with regard to the use of office spaces since the moment we have started working from home.

During the lockdown clients have preferred to adopt a wait-and-see attitude, so we may in fact have a decline in take-up during the next few months, comparing to last year. Besides, some companies are also rethinking their office spaces as to whether they really need all their employees at the office at once, while also considering the social distancing guidelines – impacting office occupancy. This may trigger the interest in different sites besides the prime office area, with cost associated issues in mind, however some companies will in fact delay these decisions in order to assess the impact.

Prior to the outbreak we had an increasing amount of demand compared to the available offer in the market, while now we expect a period of adjustment and perhaps an equal match between the demand and the current offer.

Alongside the high quality of buildings, Portugal also has a low cost of living, safe environment and a qualified labour force, making it highly attractive for companies as well as an excellent investment on the long run.

Portugal is firmly set to remain on the radar of international companies.

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