



Portuguese Real Estate Advisors

Lisbon Office Market Outlook

3rd
Quarter
2009

(data on 3Q 2009)

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Outlook Third Quarter 2009

With a slight improvement in economic performance, with GDP already growing on the third quarter, some improvement has been felt on the office market environment. Nevertheless, office space continues to be relatively poor.

With renegotiation of existing lease agreements being on players' agenda previous relocation driver diminished its importance further enhancing a relatively "slow" office market.

As to investment market transactions continued to be very scarce as very risk adverse demand didn't meet sellers' asking prices for most of properties potentially saleable as perceived gross yields remain relatively high.

Forecasts for YE 2009 point to a moderate demand of office space although significantly lower than previous year and some investment transactions are likely to occur, as traditionally observed, close to year end.

The Economy

Recent financial turbulence and uncertain economic performance of countries in euro area forced several consecutive revisions of previous economical forecasts. Recent Bank of Portugal projections point now to a more slightly optimistic scenario with GDP figures of -2.7% in 2009 and +0.3% in 2010 (previously -5% and -2/-1% were admitted by analysts)

Major concerns are now the rising unemployment (more pronounced in the northern more industrialized region), the public deficit, and public debt. Shortage of liquidity mostly amongst the small and medium sized companies is still felt and also slightly negative inflation is foreseen although with no real risk of generalized deflation.

Another major issue is the severe increase in real spreads over Euribor interest rates for both public and private entities financing, although the fast and pronounced decline of Euribor reference interest rate in last months softened the impact of climbing spreads for both families and companies.

Major drivers are now expected to be exports as euro area performance improves and some retake of private investment and consumption are expected along with selected public investments.

However all of these variables are under strong pressure as a result of international context, public deficit and public debt. No major tax changes are expected but some increase in selected tax rates may occur in 2010.

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GDP Growth:

2006: 1.3%
2007: 1.8%
2008E: 0.0%
2009F: - 2.7%
2010F: 0.3%

YE Public Deficit (%GDP)

2005: - 6%
2006: - 3.9%
2007: - 2.6%
2008E: - 2.9%
2009F: - 8%

Inflation:

2007: 2.4%
2008E: 2.8%
2009F: - 0.9%
2010F: 1.3%

Investment:

2007: 3.2%
2008: - 1.3%
2009F: - 13.1%
2010F: -3.8%

Unemployment:

Avg 2007: 8.0%
Avg 2008: 7.6%
Avg 2009F: 9.4%
Avg 2010F: 9.5%-10%

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Take-Up and Demand

Lisbon office market registered a gross take-up of only approximately 87,000 sq m on the first three quarters of 2009 with 50,000 sq m on the third quarter (according to LPI) almost entirely lettings as sales represented less than 14% of total area transacted. In 2008 almost 209,000 sq m were accounted in the first three quarters which enhances the poor performance of 2009. Gross take-up levels are likely to fall in 2009 and net take-up will surely be poor.

On a now more “slow” and more volatile market - as characterized by players – renegotiation of lease agreements and substitution (relocation/downsizing) demand is strongly dominant and those trends should remain in the near future. Relative weight of used space transactions will surely remain high but in first three quarters reached only 45% of total area transacted.

Globally the market can be considered as relatively slow although relatively stable in terms of nominal (asking price) rents and overall trends, but with extra volatility due to economical context.

Some rebound may occur close to year end but recovery is expected to be slow and progressive throughout 2010, if as expected economic environment improves.

Rental Level

Average rents are still slightly declining as shortage of demand is being felt by players. Furthermore, prime rents have observed a significant decline but seem now more stable. Analysis by zone is nevertheless imperative as fluctuations in market are being differently felt in different zones.

Another trend is the growing importance of major incentives as rent free periods or space fit outs financial contributions, allowing some stability on rental level. Rental updates are set for 0% by decree-law during 2010 as a result of negative inflation observed in 2009.

Despite the relative decrease in new supply and slowness of forecasted pipeline conditions are met for a medium term pressure on average rents. That pressure will surely be enhanced on secondary locations/buildings. Being so, an increasing discrepancy between prime rents and minimum values observed will be further enhanced as a result of increasing market segmentation.

Gross Take-Up sq m:

2003: 140,000
2004: 165,000
2005: 149,000
2006: 161,000
2007: 201,000
2008: 233,000
2009: 120K-180K

“Slowness of deals and volatility characterize the market”

“Substitution demand via downsizing and operating cost cutting are on players agenda”

Prime Rents:

“Some slight downward fine tuning.”

Average Rents:

“Globally slightly falling although analysis by zone is imperative”

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Supply

60.000 sq m of new built were put on the market in 2009 which can be considered relatively low figures, although significant when compared to low demand figures.

Development of new schemes is now much slower than in the past and developers act with extra caution. Pre-letting and custom-tailored projects are major bets for players.

For the next 2 to 3 years, available data shows 150K to 170K sq m of stock pipeline, with 90 to 100K sq m on the short term (one year). Nevertheless, major delays in completions are also feasible. Most active zones in terms of new supply will be zones 5 - Parque das Nações and 6 - Western Corridor with a pipeline of about 50K sq m each on the next two years.

Vacancy Rates

As a result of some new supply being put on the market vacancy rates observed moderate increase in third quarter 2009 with exception of zone 1.

Players expect a short rise in vacancy rates as a result of poor demand although slowness of new supply (delays in completion) may soften the impact of poor take-up.

Prime Yields

Investment market strongly felt the shortage of liquidity and the new (more restrict) criteria in bank financing causing a major slowdown in investment transactions. Furthermore, investors further enhance the focus on low risk prime location products mismatching the (perceived) available supply.

Strong scarcity of transactions and also lack of available data in the first semester disable an accurate estimative on prime (gross) yields. Available data accounts as a fact that prime gross yields rose from previous peak of 5.75% to 6.5% in second half of 2008. Besides those facts players and analysts now believe that theoretically prime gross yields can be placed between 7.25% and 7.5% or even slightly above. Nevertheless only future (real) transactions can validate (or not) those figures. For the time being demand is globally not meeting the supply asking prices in global terms and only 2 or 3 transactions were accounted. Moreover, risk premiums over prime yields currently observed on more central locations as Madrid, Barcelona or even London and Paris have to be put into the equation. As traditionally, some transactions can occur close to YE 2009.

New Supply sq m:

2003: 68,000

2004: 40,000

2005: 54,000

2006: 88,000

2007: 74,000

2008: 82.000

2009F: 60-80K

Vacancy Rates:

2003: 7.3%

2004: 12.9%

2005: 13,3%

2006: 11.5%

2007: 8.4% (+)

2008: 7.05% (+)

2009: 9%-10%

Prime Gross Yields

Estimative:

2000: 7.5%

2004: 7.25%

2005: 6.25%

2006: 6%

2007: 5.75%

2008 (YE): 6.5%

2009: not available

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Zone I – Prime CBD – Central Business District

Av. da Liberdade, Marquês do Pombal and Av. Fontes Pereira de Melo



Portfolio: 573,000 sq m **Vacancy:** approx 6.5%

Gross Take-Up (Rounded Figures):

YE	sq m
2004	22,200
2005	8,500
2006	31,300
2007	30,100
2008	23,000

Quarters	sq m
3Q 2006	1.600
3Q 2007	8.800
3Q 2008	5.000
3Q 2009	7.700

Estimated New Supply 2010/2011: 0 sq m

Rental Level (€ / sq m / month): Prime € 20,00 ; Average: 16,00 to 17,00

Zone I showed a moderately good performance in terms of gross take-up in 3Q 2009.

Available supply breakdown shows prominence of used space (+/- 70%).

Rents are under pressure on zone I despite the relatively low vacancy rates

Zone 2 – Prime Office Location

Amoreiras, Castilho, Av. da Republica, Av. 5 de Outubro, and Campo Grande



Portfolio: 1,040,000 sq m **Vacancy:** approx 5.5%

Gross Take-Up (Rounded Figures):

YE	sq m
2004	21,100
2005	33,200
2006	34,200
2007	23,600
2008	18,000

Quarters	sq m
3Q 2006	5.200
3Q 2007	4.100
3Q 2008	2.700
3Q 2009	3.600

Estimated New Supply: 2010/2011: 12,000 sq m

Rental Level (€ / sq m / month): Prime € 17,00 ; Average: 13.5 to 14,00

Take-up levels show moderate performance in this zone in third quarter 2009

Low vacancy rates allowed to relatively sustain average rents despite the slow demand

New projects are scarce and global area in pipeline might be considered low



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Zone 3 – Inner Circle

Praça de Espanha, Av. José Malhoa, Av. Columbano Bordalo Pinheiro, 2ª Circular



Portfolio: 435,000 sq m **Vacancy:** approx 8,4%

Gross Take-Up (Rounded Figures):

YE	sq m
2004	13,000
2005	16,100
2006	19,700
2007	41,600
2008	29,000

Quarters	sq m
3Q 2006	1.500
3Q 2007	6.200
3Q 2008	1.200
3Q 2009	17.500

Estimated New Supply 2010/2011: 35,000 sq m (mostly 2nd. Torre do Colombo).

Rental Level (€ / sq m / month) : Prime € 14,00 ; Average: 13,00-13,50

Zone 3 showed relatively high level of activity in 3Q 2009 when compared to other zones. That is mostly due to Torre do Colombo's good commercial performance.

Zone 4 – Historical Areas

Baixa, Chiado, Av. Almirante Reis and surrounding areas



Portfolio: 461,000 sq m **Vacancy:** approx 6%

Gross Take-Up (Rounded Figures):

YE	sq m
2004	11,800
2005	3,900
2006	1,900
2007	7,800
2008	13,000

Quarters	sq m
3Q 2006	300
3Q 2007	800
3Q 2008	900
3Q 2009	11.000

Estimated New Supply: 2009/2010: 5.000 sq m

Rental Level (€ / sq m / month) : Prime € 14,00-16,00; Average: 11,00 to 13,00

The historical zone has some particular characteristics within the greater Lisbon office market. It is composed by a mix of old, refurbished and even adapted residential buildings

Take-up figures are artificially and occasionally pushed up this quarter by European security agency and other European and governmental entities' lettings.

Figures have to be analyzed with caution

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Zone 5 – Parque das Nações

Parque das Nações, former Expo 98 area.



Portfolio: 307,000 sq m **Vacancy:** approx 15.8%

Gross Take-Up (Rounded Figures):

YE	sq m	Quarters	sq m
2004	29,000		
2005	5,000		
2006	15,800	3Q 2006	500
2007	28,800	3Q 2007	1.700
2008	85.000 (occasional)	3Q 2008	67.000
		3Q 2009	0

Estimated New Supply 2010/2011 : 50,000 sq m (of which a part may be postponed)

Rental Level (€ / sq m / month) : Prime € 16,50 ; Average: 14,00 to 15,00

Zone 5 is a small zone and although within Lisbon city is considered alternative to more centre locations. Each new scheme or transaction has major impact on statistics

No take-up in 3Q 2009 with rents under pressure. Competitions of Torre do Colombo more competitive pricing may be one reason for that.

Many new schemes are in pipeline for 2010/2011

Zone 6 – Western Corridor

A5 motorway, Miraflares and Carnaxide



Portfolio: 858,000 sq m **Vacancy:** approx 16.2%

Gross Take-Up (Rounded Figures):

YE	sq m	Quarters	sq m
2004	40.900		
2005	46,600		
2006	52,000	3Q 2006	5.600
2007	65,600	3Q 2007	14.500
2008	62,000	3Q 2008	27.500
		3Q 2009	9.500

Estimated New Supply: 2010/2011 : 50,000 sq m (of which a part may be postponed)

Rental Level (€ / sq m / month) : Prime € 14,00 ; Average: 11,00 to 12.00

With more than 850 K sq m zone 6 is now the second largest area in Lisbon Market.

It has confirmed a consistent level of activity with approximately 50 K – 60 K sq m being taken in the last three years.

3Q 2009 showed lower performance than in previous years in terms of gross take-up

Rental levels remain stable at around € 11.00 to 12 / month although under pressure



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Appendix I – ZONE DEFINITION



Data Source: PREA, LPI provisional data for 2009; INE, BdP, GEP/MEI,

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