Portuguese Real Estate Advisors

Lisbon Office Market Outlook

4th
Quarter
2010

(data on 3Q 2010)

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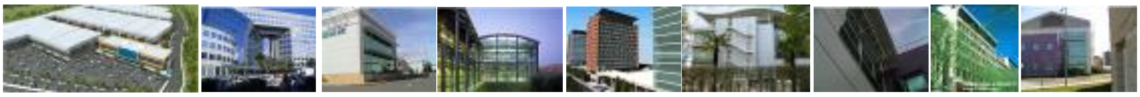

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Research & Market Analysis Report

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Outlook Fourth Quarter 2010

Despite the modest increase in economic performance (with GDP growth forecast reaching 1.3%) office market demand was poor during 2010 as a result of negative economic environment heavily influenced by the financial turmoil (sovereign debt interest rates rise) and stability pact fiscal measures announcement.

In fact scarcity of transactions is now significantly influencing the property market with most of players postponing investment decisions. According to recent forecasts office space gross take-up will not reach 100,000 sq m during this year, being one of the poorest levels in this decade.

With renegotiation of existing lease agreements being on players' agenda previous relocation driver diminished its importance further enhancing a relatively "slow" office market, with significant impact on average rents and even on prime rents in most of office zones.

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. Difficulty in financing investment operations is now the major issue, along with risk perception.

With poor economic performance forecasted for coming years global investment and confidence are now major factors for a potential retake of office space demand.

Current government determined a new and reinforced stability plan for 2011 and late 2010 with major cuts in public expenditure and major increase in consumption tax (VAT) along with significant increase in private income tax and social security.

Following the financial bailout in Ireland and despite the insistent rumours government and European authorities continue to deny any need of financial assistance by the European Financial Stability Fund.

Summary:

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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 moderate scenario with GDP figures of +1.3% in 2010 and -1.3% in 2011.

Current government determined a new and reinforced stability plan for 2011 and late 2010 with major cuts in public expenditure and major increase in consumption tax (VAT) along with significant increase in private income tax and social security. Following the financial bailout in Ireland and despite the insistent rumours government and European authorities continue to deny any need of financial assistance by the European Financial Stability Fund.

Major concerns are now the public deficit, and public debt along with rising unemployment currently very close to 11% (more pronounced in the northern more industrialized region). Inflation is likely to rise although still not a major concern, and both private and public consumption are expected to fall.

Shortage of liquidity mostly amongst the small and medium sized companies is still felt.

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.

Investment is likely to fall significantly and major driver is now expected to be exports as euro area performance improves and some retake of EU (selected countries) private investment and consumption are expected.

However all of these variables are under strong pressure as a result of international context, public deficit and public debt. Major tax increases will be felt in 2011 (VAT, IRS - Private income tax, and social security tax) although IRC – Corporate income tax and property tax will stay relatively unchanged with only some minor adjustments.

GDP Growth:
2006: 1.3%
2007: 1.8%
2008: 0.0%
2009E: - 2.7%
2010F: 1.3%
2011F: -1.3%

YE Public Deficit (%GDP)
2005: - 6%
2006: - 3.9%
2007: - 2.6%
2008: - 2.9%
2009F: - 7.3%
2010F: - 4.6%

Inflation:
2007: 2.4%
2008: 2.8%
2009: - 0.9%
2010F: 1.4%
2011F: 2.7%

Investment:
2007: 3.2%
2008: - 1.3%
2009: - 13.1%
2010F: -5.0%
2011F: -6.8%

Unemployment:
Avg 2007: 8.0%
Avg 2008: 7.6%
Avg 2009: 9.4%
Avg 2010F: 10.5%
Avg 2011F: 11%

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Take-Up and Demand

Lisbon office market registered a gross take-up of only approximately 72,000 sq m on the first three quarters of 2010 with forecasts pointing to figures in slight excess of 100,000 sq m on YE 2010. Being so, a major fall in take-up levels is expected for 2010 and retake of confidence and demand is still uncertain in the short term.

Transactions were almost entirely lettings as sales represented less than 5% of total area transacted. 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 and in the first three quarters reached about 70% total area transacted.

Globally the market can be considered as very slow although relatively stable in overall trends, but with extra volatility due to economical context and further pressure on continuously slowly declining asking price average rents.

Some rebound may occur close to year end but recovery is expected to be slow and progressive throughout 2011/2012, if as expected economic environment improves.

Gross Take-Up in Sq m (rounded figures)

	2006	2007	2008	2009	3Q 2010
Zone 1	31500	30.000	23.000	16.500	12.000
Zone 2	34000	23.500	18.000	12.000	9.000
Zone 3	19500	41.500	29.000	27.000	4.500
Zone 5	16000	29.000	85.000	5.000	17.000
Zone 6	52000	65.500	62.000	27.500	23.000
Others	8.500	12.000	15.500	27.500	6.500
Total	161500	201.500	232.500	115.500	72.000

Source: LPI (rounded figures)

Gross Take-Up sq m:
2003: 140,000
2004: 165,000
2005: 149,000
2006: 161,000
2007: 201,000
2008: 233,000
2009: 116,000
2010F: 110,000

"Slowness of deals and volatility characterize the market"

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

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Rental levels

Pressure in rental levels is observed as shortage of demand is being felt by players. In fact average rents are still slightly declining. Furthermore, prime rents have observed a significant decline and further pressure can be felt.

Analysis by zone is necessary 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 0.3% by decree-law during 2011 as a result of low inflation inflation observed in 2010.

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 further enhancing increasing market segmentation.

Average Rents estimative (rounded figures) Eur/Sq m/month

	2006	2007	2008	2009	3Q 2010
Zone 1	16.5	16	18	17	16
Zone 2	15.5	14.5	14.5	14	13
Zone 3	14.5	14.5	14	14-15	13.5
Zone 5	16.5	15.5	15.5-16	14-15	14-15
Zone 6	12	12	12	11.5-12	11-11.5

Source: LPI (rounded figures)

Prime rents now stand at around Eur 18.5/19 / Sq m/ month on CBD and at around Eur 13 to 13.5 / Sq m/ month on Western Corridor for prime buildings.

Prime rents have been suffering a slow process of fine tuning due to pressure on average rents as a result of poor demand.

Prime Rents CBD Estimative Eur/Sq m/Month
2006: 20.2
2007: 20.5
2008: 20
2009: 19.5
20103Q: 18.5-19

Prime Rents:
"Some slight downward fine tuning."

Average Rents:
"Globally slightly falling and analysis by zone is imperative"

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Supply

More 77.000 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. Furthermore, almost 67,000 sq m of new built office space was completed in 1S 2010 further enhancing relatively excess of supply in the market. Nevertheless, development of new schemes is now much slower than in the past and developers act with extra caution betting on pre-letting and custom-tailored projects.

For the next 2 to 3 years, available data shows almost 100K sq m of stock pipeline, with 80K sq m on the short term (one year). Nevertheless, major delays in completions are also feasible. Most actives zones in terms of new supply will be zones 5 - Parque das Nações , 3 – Inner Circle and 6 - Western Corridor with a considerable amount of stock in pipeline for the next one to two years.

New Supply sq m:
2003: 68,000
2004: 40,000
2005: 54,000
2006: 88,000
2007: 74,000
2008: 82.000
2009: 77.000
2010F: 82.000

Vacancy Rates

As a result of some new supply being put on the market vacancy rates observed significant (although moderate) increase in 2009 and 2010 with global rate slightly over 11.5% and major rates are observed in expanding zones of Parque das Nações (25.5%) and Western Corridor (22%), although zone 1 – CBD stays below 10% (8.5%).

Vacancy rates are likely to continue to rise slowly as a result of poor demand although slowness of new supply (delays in completion) may soften the impact of poor take-up.

Vacancy Rates (global) :
2003: 7.3%
2004: 12.9%
2005: 13,3%
2006: 11.5%
2007: 8.4% (+)
2008: 7.05% (+)
2009: 9.7% (+)
2010F: 11.5% (+)

Investment

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.

Available data show that prime gross yields rose from previous peak of 5.75% in 2007 to current level of around 7% (estimative) in late 2010 after peaking in 2009. Nevertheless, for the time being, demand is strongly risk averse looking only for prime central locations. The result is that globally demand is not meeting the supply asking prices. 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.

Prime Gross Yields Estimative:
2004: 7.25%
2005: 6.25%
2006: 6%
2007: 5.75%
2008 (YE): 6.5%
2009: 7.0%/7.5%
2010E: 6.75%-7%

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Appendix 1 – ZONE DEFINITION

Data Source: PREA based on LPI; INE, BdP, and GEP/MEI for Economics

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