

# Lisbon Office Market Overview

Research & Market Analysis Report

Ist  
Quarter  
2008

(data on YE 2007)

## Outlook 2007

Market apparently grew in 2007 in terms of gross take-up with some impact on (diminishing) vacancy rates but no apparent impact on (steady/still slowly declining) average rents.

Substitution demand continues to be dominant.

Prime yields have now stabilized in low levels and further room for compression is short due to current level of interest rates along with global uncertainty in the global financial market.

## Summary:

Outlook .....	1
The Economy .....	1
Office Market .....	2
Zone 1 .....	4
Zone 2 .....	4
Zone 3 .....	5
Zone 4 .....	5
Zone 5 .....	6
Zone 6 .....	6

## The Economy

GDP has grown 1.8% in 2007 which is the best performance since 2000, and for the first time in decades the public deficit is now below 3% of GDP being apparently controlled.

Nevertheless, Portuguese GDP growth is still below Euro zone average. Moreover, some analysts claim further cuts in public expenditure are still needed although not likely to happen in 2008/2009.

Forecasts point to a continuation of moderate GDP growth within the range of 1.5% to 2% although strongly dependant on EU performance (and particularly Spain) in the present context of strong slowdown of both USA and Europe's economy.

Major drivers are now expected to be moderate growth of consumption (private and public), moderate growth of investment (private and public) and consolidation of previous strong growth in exports.

Unemployment has passed Euro zone average and stands now in the region of 7.5%-8% and is considered a major concern in the political and economic agenda. Higher unemployment rates are observed in north and centre regions.

VAT normal rate will decrease 1% to 20% starting in 2S 2008. Further minor tax reductions along with launching of new public investment projects are likely in 2009 in order to consolidate investment and confidence in the pre-electoral period as elections are set for next year.

## GDP Growth:

2003: - 0.7%
2004: 1.3%
2005: 0.5%
2006: 1.3%
2007: 1.8%
2008F: 1.5%-2% (-)

## YE Public Deficit as %of GDP:

2005: - 6%
2006: - 3.9%
2007: - 2.6%
2008F: - 2.2%

## Inflation:

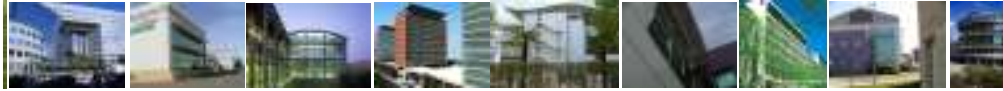
2006: 3.0%
2007: 2.3%
2008F: 2.4% (+)

## Investment:

2006: - 1.8%
2007: 2.6%
2008F: 3.3%

## Unemployment:

YE2005: 7.7%
YE2006: 8.2%
YE2007: 7.8%
2008F: 7.5%-8%



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## The Office Market

### Take-Up and Demand

Lisbon office market registered a gross take-up of approximately 201,000 sq m in 2007 according to LPI. In 2006 161,000 sq m were accounted.

The growth in accounted demand is explained by two main drivers: Substantial increase in gross demand but also enlargement of the sources of information feeding the database.

Substitution demand is still dominating and the trend should remain in the near future. Moreover, absorption of used space accounted for more than 62% of gross take-up in 2007 further expanding the previous trend.

Lettings represented 80% of the gross take-up maintaining the structural characteristic of dominance of lease market over sales market.

Globally the market can be considered as stable with forecasts pointing to an overall take-up for YE 2008 close to the one observed in 2007 (i.e. within the range of 170 K to 210 K sq m). Overall, most of demand is looking for quality, adjusted, flexible space with moderate rental levels enabling firms to improve efficiency in a time of economical structural change.

### Rental Level

Prime rents have been stable during all of 2007 following the trend observed in previous years. Despite the stability in prime rents and decrease of vacancy rates, average rents suffered a small decrease (except in zones 3 and 6) maintaining the previous slight downward pressure.

Being so, an increasing differentiation/discrepancy between prime rents and minimum values observed is being felt. That trend should prevail in the near future.

Some further slight pressure on rental levels will remain in the near future (with major incentives also being offered) although in some zones and schemes already a shortage of quality (adjusted/efficient) space is now observed, and the reverse situation can be felt in occasional situations.

### Gross Take-Up sq m:

2003: 140,000

2004: 165,000

2005: 149,000

2006: 161,000

2007: 201,000\*

“Substitution demand and transactions of used space should continue to be dominant although demand for new space is now more noticeable”

“Quality and flexibility are becoming increasingly important and major competition / differentiation drivers”

**Prime Rents:**  
Stable

**Average Rents:**  
Steady with some zones being slightly pressured.

Analysis by zone is imperative



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## The Office Market (continued)

### Supply

Development of new schemes is now lower than in the past and developers act with further caution. Pre-letting and custom-tailored projects are on developers' agenda. We account for about 74.000 sq m of new supply completed and put on the market in 2007 with 20,000 sq m already pre-let.

For 2008 forecasts point to new supply of about 100,000 to 130,000 sq m with 2 major schemes totalizing 80.000 sq m, and with 25,000 sq m already pre-let.

The Norfin Scheme "Office Park Expo" totalizing 65.000 sq m in zone 6 (Parque das Nações) is the bigger scheme entering the market close to YE 2008. It's impact on rents and vacancies is still uncertain as contradictory news over it's pre-letting situation still emerge.

### Vacancy Rates

As a result of lower supply being put on the market vacancy rates observed moderate and progressive decrease during 2007.

LPI estimates that global vacancy rate in YE 2007 was 7.5%, the lowest figure in recent years. Although no definitive data is available we estimate that global vacancy rate is within the range of 10 to 12%. In this issue analysis by zone is imperative.

For 2008 vacancy rates should remain stable or suffer a slight increase depending on new supply.

### Prime Yields

Prime (gross) yields have suffered severe compression in recent years and seem to have reached a peak around 5.75% in CBD. Outside CBD prime gross yields are significantly higher.

The latest turbulence in the financial markets has affected the investment market. Nevertheless the shortage of low risk products will continue to push for high transaction prices in grade A products. Transactions between investment funds are also likely in order to rebalance/restructure portfolios.

Globally, overall compression trend still subsists but evolution of prime gross yields is also dependant on the (uncertain) evolution of interest rates.

### New Supply sq m:

2003: 68,000

2004: 40,000

2005: 54,000

2006: 88,000

2007: 74,000

2008F: 100K-130K

### Vacancy Rates:

2003: 7.3%

2004: 12.9%

2005: 13.3%

2006: 11.5%

2007: 7.5% (+)

2008F: 9%-12%

### Prime Gross Yields Estimative:

2000: 7.5%

2004: 7.25%

2005: 6.25%

2006: 6%

2007: 5.75%



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### Zone I – Prime CBD – Central Business District

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



**Portfolio:** 575,000 sq m

**Vacancy:** 36,000 sq m (approx 6,3%)

**Gross Take-Up** (Rounded Figures):

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

**Estimated New Supply 2008 :** 0 sq m

**Rental Level (€ / sq m / month) :** Prime € 21,00 ; Average: 16,00

Zone I continued to be one of the most actives during 2007.

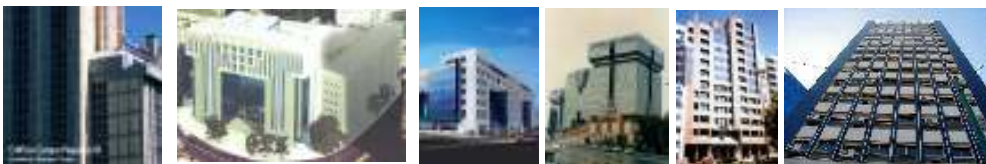
Available supply breakdown shows prominence of used space (+/- 70%).

Moreover, in this zone new supply continues to be relatively scarce.

Average rents can slowly rise in the long term.

### Zone 2 – Prime Office Location

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



**Portfolio:** 1,050,000 sq m

**Vacancy:** 51,500 sq m (approx 4,9%)

**Gross Take-Up** (Rounded Figures):

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

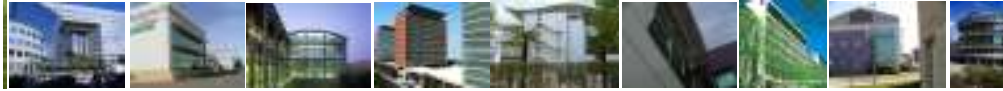
**Estimated New Supply: 2008 :** 9,000 sq m

**Rental Level (€ / sq m / month) :** Prime € 18,50 ; Average: 14,50

Take-up levels show relatively low performance in this zone

This is a result of both large dimension of zone and poor demand although vacancy rates continue to be relatively low.

In this zone further pressure (although slight) on average rents may be expected in the short term due to poor relative demand.



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### Zone 3 – Inner Circle

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



**Portfolio:** 405,000 sq m

**Vacancy:** 23,900 sq m (approx 5,9%)

**Gross Take-Up** (Rounded Figures):

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

**Estimated New Supply 2008/2009 :** 29,000 sq m (Torres do Colombo)

**Rental Level (€ / sq m / month) :** Prime € 18,00 ; Average: 14,50

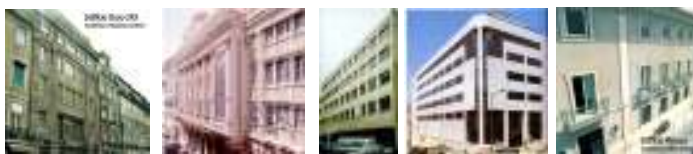
Zone 3 showed a significant boost in activity (new demand).

As a result vacancy rates dropped significantly but rental levels maintained stable.

New Torres do Colombo office above shopping centre will cause significant impact on supply (and possibly on rents) on 2008/2009.

### Zone 4 – Historical Areas

*Baixa, Chiado, Av. Almirante Reis and surrounding areas*



**Portfolio:** 445,000 sq m

**Vacancy:** 16,000 sq m (approx 3.6%)

**Gross Take-Up** (Rounded Figures):

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

**Estimated New Supply: 2008:** 21.500 sq m (all already pre-let)

**Rental Level (€ / sq m / month) :** Prime € 15,00 ; Average: 12,00

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

This area presents a reduced level of activity.

Prices in this area are consequently affected mainly by the evolution of other competing areas in Lisbon.

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### Zone 5 – Parque das Nações

Parque das Nações, former Expo 98 area.



**Portfolio:** 232,000 sq m

**Vacancy:** 35,500 sq m (approx 15,2%)

**Gross Take-Up** (Rounded Figures):

YE	sq m
2004	29,000
2005	5,000
2006	15,800
2007	28,800

**Estimated New Supply 2008 :** 2008: 74.000 sq m (65.000 for Norfin Scheme)

**Rental Level (€ / sq m / month) :** Prime € 18,00 ; Average: 15.80

Zone 5 is a small zone and although within Lisbon city is considered alternative to more centre locations

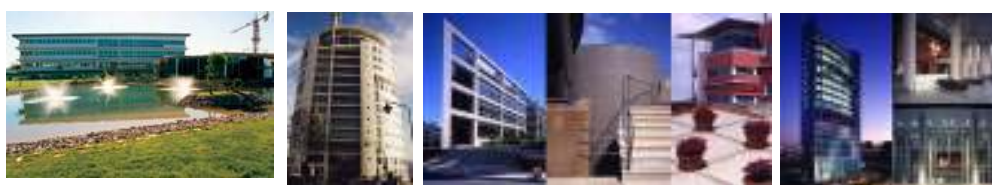
Each new scheme or transaction has major impact on statistics

Average rents have been under pressure in recent years.

The Norfin scheme (65.000 sq m for 2008 - pre-let uncertainty) is determinant on zone market and rental levels.

### Zone 6 – Western Corridor

A5 motorway, Miraflares and Carnaxide



**Portfolio:** 802,000 sq m

**Vacancy:** 131,000 sq m (approx 15.6%)

**Gross Take-Up** (Rounded Figures):

YE	sq m
2004	40.900
2005	46,600
2006	52,000
2007	65,600

**Estimated New Supply: 2008 :** 2,500 sq m; **2009/2010:** 25.000 sq m; New projects may arise.

**Rental Level (€ / sq m / month) :** Prime € 16,00 ; Average: 11,80

With more than 800 K sq m zone 6 is now the second largest area in Lisbon Market.

It has confirmed a consistent level of activity with approximately 45 K – 60 K sq m being taken in the last three years.

Rental levels are now stable at around € 12 / month.

The level of new supply will determine the evolution of rental levels and vacancy rates.



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## Appendix I – ZONE DEFINITION



Data Source: PREA, LPI; INE, BP, GEP/MEI,

Published by PREA's Research & Market Analysis Department on 07.04..2008