

# Lisbon Office Market Overview

Research & Market Analysis Report

2nd  
Quarter  
2008

(data on 1Q 2008)

## Outlook 1Q2008

As expected after the accounted record levels of gross take-up in 2007 first quarter shows moderate levels of gross take-up (34.000 sq m) although consistent with the average figures observed in the last three years.

Postponement of investment decisions is likely to occur affecting gross office take-up in the coming months, as a result of both international and local economic context. As traditionally, last quarter of the year may show higher levels of take-up. Substitution demand should continue to be dominant.

Prime yields have risen slightly as a result of both the increase of interest rates and turbulence on financial markets. Nevertheless, scarcity of low risk products will continue to push for low levels of prime yields.

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## The Economy

Very recent indicators point to a poorer economic performance than initially expected for 2008 and 2009, as a result of fast slowdown of EU economy and in particularly Spain.

Bank of Portugal now forecasts a very moderate growth of 1.2% in 2008 which will likely continue during 2009 (1.3%). If growing inflation subsists, along with increasing interest rates, private consumption and investment are likely to be further affected and new revisions of GDP growth should not be disregarded.

Major drivers are still expected to be moderate growth of consumption, moderate growth of investment and consolidation of previous strong growth in exports but these variables are under pressure as a result of international context.

Unemployment is still slightly higher than Euro zone average and still stands in the region of 7.6% (1Q2008). Higher rates are observed in north and centre regions. Unemployment continues to be a priority in the political agenda.

VAT normal rate decreased 1% to 20% in 2S 2008. No further tax reductions are likely during 2008. 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: 1.2% (-)

## YE Public Deficit as % of GDP:

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

## Inflation:

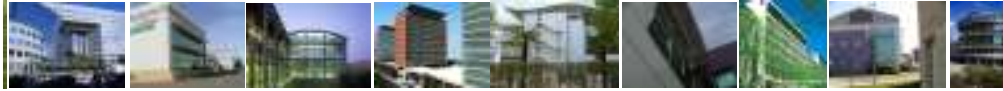
2006: 3.0%
2007: 2.3%
2008F: 3.0% (+)

## Investment:

2006: - 1.8%
2007: 2.6%
2008F: 1.0%

## 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 34,000 sq m in 1Q 2008 (according to LPI). In 2007 44,000 sq m were accounted in similar period. Provisional figures show a similar trend for 2Q 2008.

Substitution demand is still dominant and that trend should remain in the near future. Nevertheless, relative weight of used space transactions diminished and accounted only for 47% in 1Q 2008 when compared with 62% of gross take-up in 2007.

Lettings represented 94% of the gross take-up as sales were only occasional. Dominance of lease market is a structural characteristic of the Lisbon office market.

Globally the market can be considered as slowing down with forecasts pointing to an overall take-up for YE 2008 lower than the record one observed in 2007 (i.e. within the range of 140 K to 180 K sq m) as a result of postponement of investment decisions.

Overall, most of potential demand is looking for quality, adjusted, flexible space with moderate rental levels enabling firms to improve efficiency in a time of both economical structural change and financial pressure.

### Rental Level

Prime rents were stable during all of 2007 and the first quarter of 2008 followed the previous trend. Despite the stability in prime rents average rents observed different patterns in different zones: Increase in zones 1 and 2, stability in zones 5 and 6 and decrease in zone 3 as a result of different patterns in availability of space.

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

Some slight pressure on rental levels can occur (with major incentives also being offered), as a result of financial turbulence and economic slowdown.

Nevertheless, low vacancy rates and shortage of adjusted space to new specific demand in CBD can lead to upward pressure in zones 1 and 2.

**Gross Take-Up sq m:**  
2003: 140,000  
2004: 165,000  
2005: 149,000  
2006: 161,000  
2007: 201,000\*  
2008F: 140,000-180,000

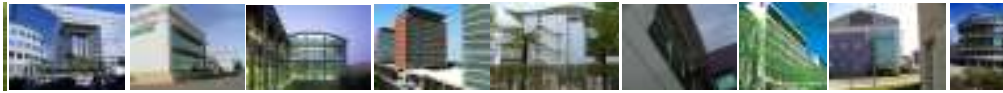
“Substitution demand and transactions of used space should continue to be dominant although demand for new space is growing in relative weight”

“Postponement of investment decisions can affect global 2008 gross demand / take-up”

**Prime Rents:**  
Stable

**Average Rents:**  
Different patterns:  
Growth in CBD,  
decrease in zone 3 and  
stability in emerging  
zones 5 and 6.

Analysis by zone is imperative



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### 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.

74.000 sq m of new supply were completed and put on the market in 2007. In early 2008 moving of companies forced some used space into the market mostly in zone 6. For 2008 forecasts point to new supply of about 100,000 sq m but with 2 major schemes totalizing 80.000 sq m totally pre-let.

Potential new supply seems now relatively restrained allowing some relieve on previous pressure on rents (mainly in zone 5) and even to put some upward pressure on zones 1 and 2 although conditioned by the economic performance in the coming months.

### Vacancy Rates

As a result of lower supply being put on the market vacancy rates observed moderate decrease in 1Q 2008 with exceptions of zones 5 and 6 which observed an increase in available space.

For the coming months that trend should remain implying lower space available in centre Lisbon than in emerging zones 5 (Parque das Nações) and 6 (Western Corridor). On zone 3 (North Lisbon) early 2009 new "Torres do Colombo" office space totalizing 29.000 sq m is already affecting the market in the area.

### Prime Yields

The latest turbulence in the financial markets has affected the investment market. That factor along with the increase in interest rates has stopped previous downward pressure in prime yields correcting its previous peak of 5.75% to about 6% in CBD. Outside CBD prime gross yields are significantly higher.

Short term evolution of yields is strongly linked with the international financial and economic performance in the coming months.

However, in the medium/long term, the shortage of low risk products will continue to push for high transaction prices in grade A products.

### New Supply sq m:

2003: 68,000

2004: 40,000

2005: 54,000

2006: 88,000

2007: 74,000

2008F: approx. 100K

Mostly pre-let

### Vacancy Rates:

2003: 7.3%

2004: 12.9%

2005: 13.3%

2006: 11.5%

2007: 7.5% (+)

2008F: 7%-9%

### Prime Gross Yields

#### Estimative:

2000: 7.5%

2004: 7.25%

2005: 6.25%

2006: 6%

2007: 5.75%

2008: 6% (+)



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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:** 33,000 sq m (approx 5.8%)

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

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

Quarters	sq m
1Q 2005	1.600
1Q 2006	10.600
1Q 2007	13.000
1Q 2008	6.500

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

**Rental Level (€ / sq m / month) :** Prime € 21,00 ; Average: 17.00

Zone I showed a general slowdown in take-up in early 2008.

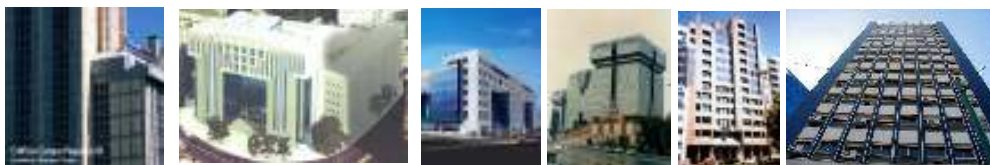
Available supply breakdown shows prominence of used space (+/- 70%).

In this zone new supply continues to be relatively scarce.

Average rents rose slightly in 1Q 2008 and Vacancy Rates dropped to 5.8%.

### Zone 2 – Prime Office Location

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



**Portfolio:** 1,050,000 sq m    **Vacancy:** 45,500 sq m (approx 4,4%)

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

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

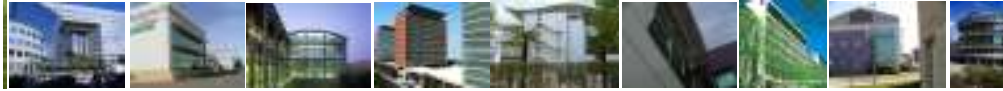
Quarters	sq m
1Q 2005	2.200
1Q 2006	5.100
1Q 2007	2.800
1Q 2008	8.000

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

**Rental Level (€ / sq m / month) :** Prime € 18,50 ; Average: 15,50

Take-up levels show better performance in this zone in 1Q2008

Low vacancy rates have resulted in a slight increase in average rents observed in first quarter 2008 but further increases may not be sustainable.



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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 5,8%)

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

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

Quarters	sq m
IQ 2005	3.000
IQ 2006	3.000
IQ 2007	1.100
IQ 2008	900

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

**Rental Level (€ / sq m / month) :** Prime € 18,00 ; Average: 13.00

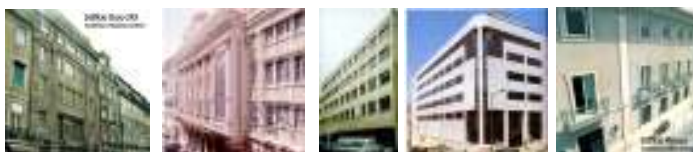
Zone 3 showed low level of activity in early 2008.

Rents under pressure.

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

### Zone 4 – Historical Areas

Baixa, Chiado, Av. Almirante Reis and surrounding areas



**Portfolio:** 445,000 sq m    **Vacancy:** 18,000 sq m (approx 4.1%)

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

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

Quarters	sq m
IQ 2005	1.400
IQ 2006	200
IQ 2007	900
IQ 2008	700

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

**Rental Level (€ / sq m / month) :** Prime € 15,00-16.00+; 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

Both new building for EU maritime security agency and recent refurbishments in prime buildings have artificially pulled up prime rents.

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### Zone 5 – Parque das Nações

Parque das Nações, former Expo 98 area.



**Portfolio:** 232,000 sq m    **Vacancy:** 42,500 sq m (approx 18.2%)

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

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

Quarters	sq m
I Q 2005	100
I Q 2006	500
I Q 2007	3.200
I Q 2008	6.700

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

**Rental Level (€ / sq m / month) :** Prime € 18,00 ; Average: 15.50

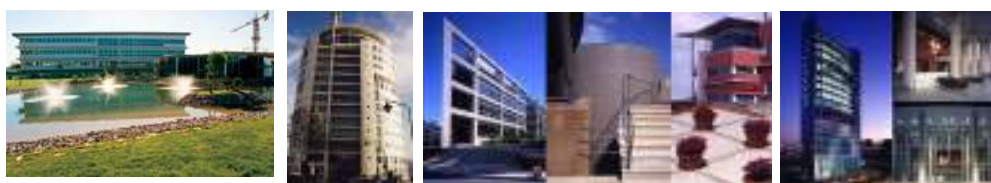
Zone 5 is a small zone and although within Lisbon city is considered alternative to more centre locations

Each new scheme or transaction has major impact on statistics

The Norfin scheme (65.000 sq m for 2008) was pre-let by Ministry of Justice causing big impact on zone market sustaining rental levels.

### Zone 6 – Western Corridor

A5 motorway, Miraflares and Carnaxide



**Portfolio:** 802,000 sq m

**Vacancy:** 145,000 sq m (approx 17.2%)

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

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

Quarters	sq m
I Q 2005	4.000
I Q 2006	17.500
I Q 2007	20.000
I Q 2008	10.700

**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: 12,20

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.

I Q 2008 showed poor performance (compared with similar periods in previous years) in take-up along with an increase in available stock.

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



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### Appendix I – ZONE DEFINITION



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

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