

Lisbon Office Market Overview

Research & Market Analysis Report

3rd
Quarter
2008

(data on 2Q 2008)

Outlook 2Q2008

First half of 2008 registered high levels of gross take-up (103.000 sq m) which can be considered consistent with figures observed in recent years, namely in 2007 record year.

Due to both severe delays in transaction agreements and unusual major lettings on behalf of public or semi public entities YE2008 is expected to even present occasional high levels (or even record levels) of gross take-up.

Nevertheless, market seems to be in a transition period and major effects of both financial turmoil and forecasted economic slowdown are yet to be fully felt in the coming semesters.

Postponement of investment decisions is likely to occur affecting gross office take-up in the coming trimesters, as a result of both international and local economic context. Strong enhancement of previous trends of relocation, resizing and renegotiation will be the major drivers of both private and public demand.

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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GDP Growth:

2003: - 0.7%
2004: 1.3%
2005: 0.5%
2006: 1.3%
2007: 1.8%
2008F: 0.6%
2009F: 0.1% (-)

The Economy

Recent financial turbulence forced several revisions of previous economical forecasts. Recent IMF projections point now to a strong slowdown with GDP growing only 0.1% in 2009.

Major drivers are now expected to be public investment and consumption along with exports as private investment and consumption are expected to contract. However all of these variables are under strong pressure as a result of both international context and public deficit / EU stability pact restraints (maximum of 3% of GDP).

Major concern will be unemployment as it is forecasted to increase slightly although still within euro zone average parameters. Higher rates of unemployment are observed in north and centre regions.

Some small tax reductions along with the launching of new public investment projects are likely in 2009 in order to push for investment and confidence in the pre-electoral period as elections are set for next year.

YE Public Deficit (%GDP)

2005: - 6%
2006: - 3.9%
2007: - 2.6%
2008F: - 2.2%
2009F: -2.2% (+)

Inflation:

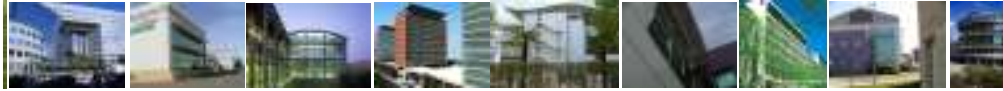
2007: 2.5%
2008F: 2.9% (+)
2009F: 2.5% (+)

Investment:

2007: 3.1%
2008F: 1.7%
2009F: 1.5% (-)

Unemployment:

Avg 2007: 8.0%
Avg 2008F: 7.6%
Avg 2009F: 7.6% – 8.3%



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Take-Up and Demand

Lisbon office market registered a gross take-up of approximately 103,000 sq m in IS 2008 (according to LPI) of which 78% were lettings. In 2007 108,000 sq m were accounted in similar period. Forecasts for YE point to another record year of gross take-up, despite the short net take-up.

On a now more “slow” and more volatile market - as characterized by players - substitution demand is still dominant and those trends should remain in the near future. Relative weight of used space transactions represented 62% of total transactions, a similar value to the one observed during previous year.

Lettings represented only 78% of the gross take-up as sales were occasionally high in volume of area transacted.

Other differences from previous year similar period were the increase in the average area transacted and the bigger weight on lettings by public and semi public entities.

Globally the market can be considered as stable in terms of gross take-up but with extra volatility and less confidence due to economical context. Postponement of investment decisions may lead to lower private demand on coming months with special emphasis in 2009.

Rental Level

Prime rents can be considered as globally stable in early half of 2008 but players are anticipating the new economical context and some fine tunings can be observed. On the other hand average rents observed different patterns in different zones: Increase in zones 1 and 4 and stability in remaining areas.

Despite the decrease in vacancy rates conditions are met for a medium term pressure on average rents especially 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.

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.

Gross Take-Up sq m:

2003: 140,000

2004: 165,000

2005: 149,000

2006: 161,000

2007: 201,000*

2008F: 180-220K *

“Slowness of deals characterize the market although significant levels of take-up were reached”

“The public and semi public entities will play a decisive role in overall 2008 take-up”

“Postponement of investment decisions can affect global 2009 gross demand / take-up and that trend is being already taken in consideration by players”

Prime Rents:

“Globally stable although readjusting to new economical context may imply some slight downward fine tuning.”

Average Rents:

Different patterns: Growth in zones 1 and 4 and stability in remaining zones



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Supply

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

No more than 30.000 sq m of new supply were completed and put on the market in 1S2008 and only in zones 4, 5, and 6. This year will be marked by the completion and occupancy start of 65.000 sq m of the pre-let Office Parque Expo scheme and by the 15.000 sq m of the Maritime Agency Scheme, but new areas put on the market will be residual.

For 2009 forecasts point to new supply of about 80,000 sq m with special focus on 29.000 sq m Colombo tower (zone 3), expansion of Arquiparque and Alfraparque (zone 6) and some schemes on former expo 98 (zone 5).

Vacancy Rates

As a result of lower supply being put on the market vacancy rates observed moderate decrease in 1S 2008 with exception of zone 6 which observed an increase in registered available space.

Players expect a continuation of slowly falling vacancy rates on the very short term but in the medium term economic conditions may reverse the situation. On zone 3 (North Lisbon) early 2009 new "Torres do Colombo" office space totalizing 29.000 sq m will definitely affect the market in the area although already partially pre-let.

Prime Yields

The recent turmoil and lack of liquidity in the financial markets has strongly 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. Secondary locations/buildings may observe a potential upward pressure in gross yields.

Transaction between funds/investors is likely to occur in coming semesters and short term evolution of yields is strongly linked with the international financial and economic performance and overall confidence. 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. 115K
Mostly pre-let
2009F: 80 K

Vacancy Rates:

2003: 7.3%
2004: 12.9%
2005: 13.3%
2006: 11.5%
2007: 8.4% (+)
2008F: 7%-8%

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:** 33,500 sq m (approx 5.7%)

Gross Take-Up (Rounded Figures):

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

Semesters	sq m
IS 2005	4,200
IS 2006	13,300
IS 2007	16,300
IS 2008	16,000

Estimated New Supply 2008/2009 : 0 sq m

Rental Level (€ / sq m / month) : Prime € 21,00 ; Average: 17.50

Zone I showed a relative good performance in terms of gross take-up in IS 2008.

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

Average rents rose slightly in IS 2008 but prime rents are suffering downward pressure and being fine tuned

Zone 2 – Prime Office Location

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



Portfolio: 1,050,000 sq m **Vacancy:** 47,500 sq m (approx 4,6%)

Gross Take-Up (Rounded Figures):

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

Semesters	sq m
IS 2005	8,000
IS 2006	15,500
IS 2007	8,300
IS 2008	13,400

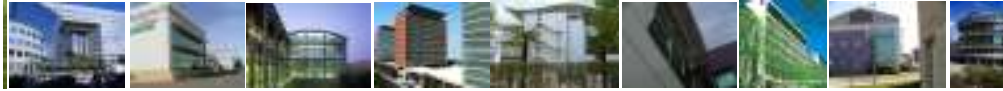
Estimated New Supply: 2008/2009 : 9,000 sq m

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

Take-up levels show relative better performance in this zone in IS2008

Low vacancy rates allowed to sustain average rents in first semester 2008

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: 405,000 sq m **Vacancy:** 17,500 sq m (approx 4,4%)

Gross Take-Up (Rounded Figures):

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

Semesters	sq m
IS 2005	9,600
IS 2006	6,900
IS 2007	21,800
IS 2008	21,100

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

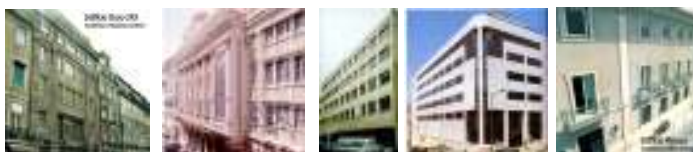
Rental Level (€ / sq m / month) : Prime € 18,00 ; Average: 13,50

Zone 3 showed relatively high level of activity in first half of 2008.

Very low vacancy rates are observed but soon coming Torres do Colombo office above shopping centre although partially pre-let 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:** 14,300 sq m (approx 3.3%)

Gross Take-Up (Rounded Figures):

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

Semesters	sq m
IS 2005	2,000
IS 2006	400
IS 2007	2,500
IS 2008	11,000

Estimated New Supply: 2008/2009: 20.000 sq m (all already pre-let)

Rental Level (€ / sq m / month) : Prime € 15,00-16.00+; Average: 12,50

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.

Supply figures have to be analyzed with caution due to zone characteristics

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Zone 5 – Parque das Nações

Parque das Nações, former Expo 98 area.



Portfolio: 232,000 sq m **Vacancy:** 36,700 sq m (approx 15.8%)

Gross Take-Up (Rounded Figures):

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

Semesters	sq m
IS 2005	800
IS 2006	10,100
IS 2007	22,300
IS 2008	16,700

Estimated New Supply 2008/2009 : 80,000 sq m (65.000 sq m pre-let Norfin Scheme)

Rental Level (€ / sq m / month) : Prime € 18,00 ; Average: 15,50

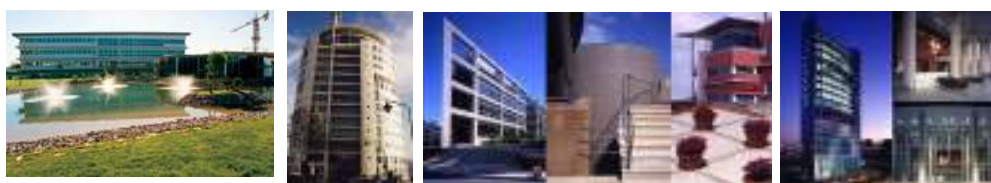
Zone 5 is a small zone and although within Lisbon city is considered alternative to more centre locations. Each new scheme or transaction has major impact on statistics

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.

New schemes are in pipeline for 2008/2009

Zone 6 – Western Corridor

A5 motorway, Miraflares and Carnaxide



Portfolio: 840,000 sq m

Vacancy: 151,000 sq m (approx 17.9%)

Gross Take-Up (Rounded Figures):

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

Semesters	sq m
IS 2005	19,300
IS 2006	32,100
IS 2007	33,100
IS 2008	24,400

Estimated New Supply: 2008/2009 : 19, 000 sq m; New projects may arise.

Rental Level (€ / sq m / month) : Prime € 16,00 ; Average: 12,20

With more than 840 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.

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

Rental levels remain 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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