

Offices – Lisbon and Porto

September 2011

Lisbon Market Indicators

	H1 2011 vs. H2 2010	H1 2011 vs. H1 2010	2011(p) vs. 2010
New Stock	↑	↓	↓
Availability	↑	↑	↑
Gross Take-up	↓	↓	↓
Prime Rents	↓	↓	↓
Prime Yields	↑	↑	↑

Porto Market Indicators

	S1 2011 vs. S2 2010	S1 2011 vs. S1 2010	2011(p) vs. 2010
New Stock	↓	↑	↓
Availability	↔	↔	↑
Gross Take-up	↑	↑	↑
Prime Rents	↔	↓	↔
Prime Yields	↑	↑	↑

Market Trends

- The restrictions inherent to access to bank loans have made it more difficult for new real estate projects to be approved, and this will consequently result in a gradual decrease in property development in 2012 and 2013.
- The demand verified in the 1st semester of the year, anticipates the lowest take-up levels of the past years.
- Prime rents are expected to remain stable until the end of the year.

SUMMARY 1ST HALF 2011

The crisis of the Portuguese sovereign debt has had a very significant impact on the country's economy and, consequently, on the property market, with an aggravation of the situation during the first semester of the year.

With regards to **supply** there has been a strong deceleration in the development of new projects. The completion of 7 new developments in Lisbon is foreseen for 2011, totalling 54,800 sq m of office area and for next year a total of 40,250 sq m is forecasted, 36% of which with guaranteed occupation. These indicators are significantly inferior to the average of the past 5 years, with supply of new business space in Lisbon standing at 77,000 sq m.

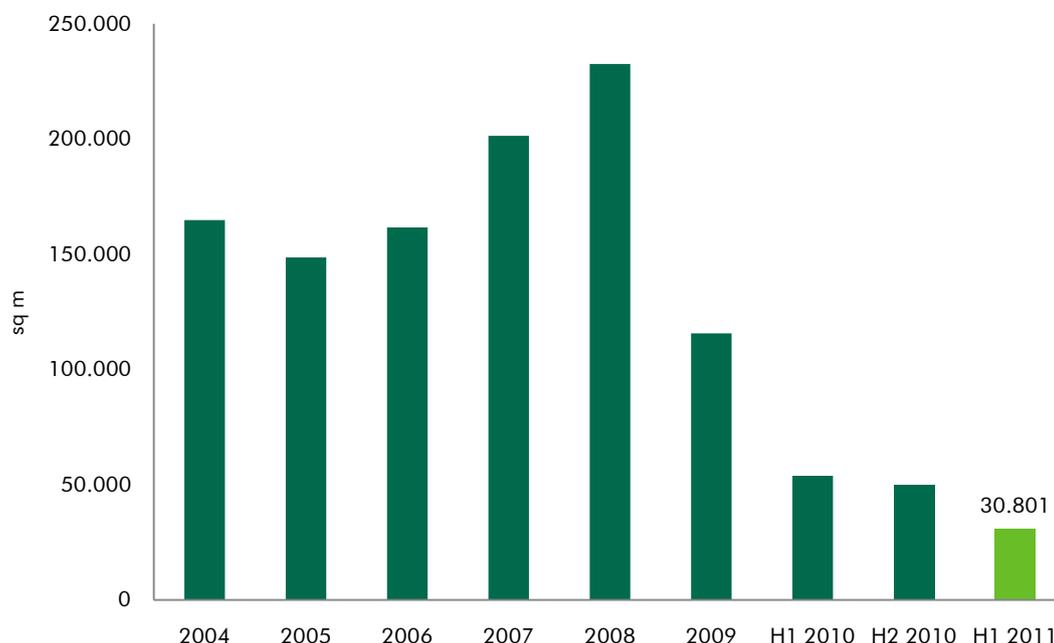
The **demand** of office areas in Lisbon registered a notable decrease of 46% in comparison to the same period in 2010. Despite the fact that the number of transactions is higher, there is no evidence of take-up of large areas.

Porto has registered an increase in supply and demand levels, resulting from the completion and occupation of the EDP building.

Regarding **prime rent** values in the office market, these reflect a drop in Lisbon, namely in CBD1, Historic Centre and in the Expansion Areas.

During the first half of 2011, the **investment** market in Portugal equally registered the lowest levels of the last decade. The office sector was one of the most penalised, with a residual investment turnover and an abrupt increase in prime yields in all office zones in Lisbon and Porto.

Office Gross Take-Up Evolution



Source: CB Richard Ellis / LPI

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ECONOMIC AND POLITICAL CONTEXT

Confronted with an increasing public deficit and lacking majority parliamentary approval for the new austerity measures proposed, Prime Minister José Sócrates, announced his resignation in March, and a few weeks later Portugal requested financial support from the EU and the IMF. The bailout plan negotiated was of 78 billion Euros, of which 12 billion euros are destined to support the solvency of the banks.

The June legislative elections resulted in a centre-right coalition, with a strong majority in parliament, and the election of Pedro Passos Coelho as Prime Minister.

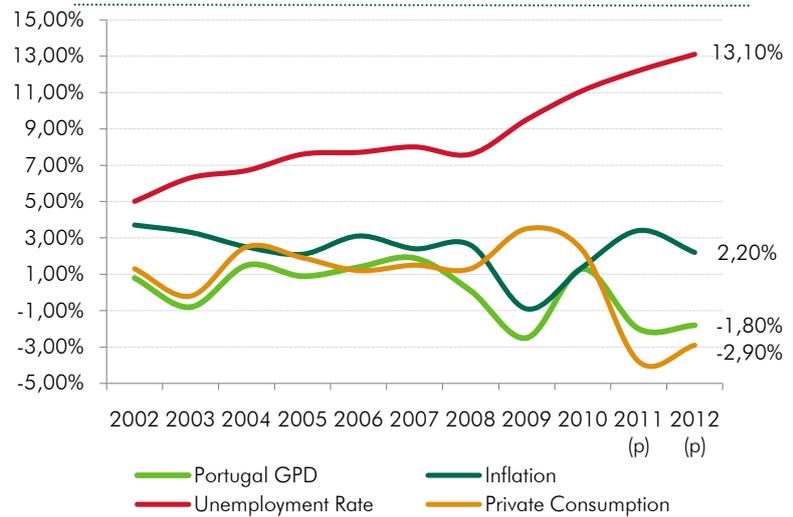
The conditions of the financial program negotiated between the EU/IMF/ECB and the three principal parties with parliamentary seats (Memorandum of Understanding), as well as the recent program announced by the new Government, foresee several measures with emphasis on the structural and fiscal reform of the country, with the purpose of balancing public accounts, increasing competitiveness and assisting the recovery of banking institutions.

The austerity measures negotiated contemplate, amongst others, more flexibility in the employment market, several privatisations and an increment in personal income tax. Further to the measures imposed by the Memorandum of Understanding, the Government has announced extraordinary measures, such as, for example, the creation of a tax equivalent to 50% of the Christmas bonus.

These measures aim to reduce public budget deficit from 9.1% in 2010 to 5.9% until the end of this year, and to, 4.5% in 2012 and 3% in 2013. According to the valuation carried out in mid-August by the EU and the FMI, Portugal is on its way to completing the target for the deficit foreseen for 2011.

GDP dropped 0.9% in the second quarter of the year in comparison to this same period in 2010, but with no variation in relation to the first three months of the year. This shows a better performance than expected and which reflects an increase in exportations. Estimates point towards a 2% contraction for the year end.

Economic Key Market Indicators



Source: Bank of Portugal; IMF; CB Richard Ellis Analysis

Portuguese Economic Forecasts

	2011	2012	2013	2014
GDP	-2.0%	-1.7%	1.0%	1.7%
Private Consumption	-4.1%	-3.1%	0.5%	1.3%
Public Consumption	-6.1%	-2.6%	-0.6%	0.4%
Inflation	3.8%	1.0%	1.5%	1.9%

Source: Oxford Economics, June 2011

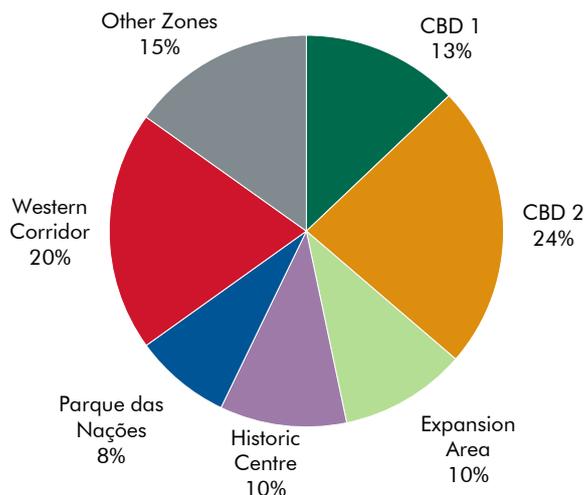
Tax Rates for Companies

Tax	Rate
IRC (Corporate Tax)	25%
Derrama (Municipal Income Tax)	0% - 10% of collected IRC
VAT*	23% (since January 2011)
IMT (Property Transfer Tax)	6.5% of sales price (paid by purchaser)
IMI (Annual Municipal Tax)	0.2% - 0.4% of revalued fiscal value of real estate
Stamp Duty (in sales transactions)	0.8% of sales price (paid by purchaser)
Stamp Duty (in lease transactions)	10% of 1 st rental value (paid by landlord)

Source: CB Richard Ellis

*The sale or letting of immovable property is exempt, although this exemption can be waived.

Office Stock Distribution per Zones H1 2011 – Lisbon



Source: CB Richard Ellis / LPI

LISBON

SUPPLY/ STOCK

The Lisbon Office Market is concentrated in 6 well defined zones, which location is illustrated in the map on the last page of this report. The principal areas, comprising the CBD (Central Business District), are situated in the city centre, while the Western Corridor is the only zone situated in the periphery of Lisbon. The prime office buildings located in the city of Lisbon, but positioned outside the zones defined or in the surrounding of western corridor, are all included in an area denominated Other Zones.

At the end of the first quarter of 2011 the Lisbon office market supply reached approximately 4,484,637 sq m. The highest quota of the current stock is concentrated in CBD 1 and CBD 2, with approximately 1,630,000 sq m. However, over the past 5 years, Parque das Nações and the Western Corridor have witnessed the highest increase in stock, while in CBD 1 and CBD 2 increment in stock was almost non-existent.

During the 1st semester of 2011, around 38,300 sq m of new office space were placed on the market, reflecting an increase of 32% in new area when compared to the previous semester, but a decrease of 43% in relation to the same period in 2010.

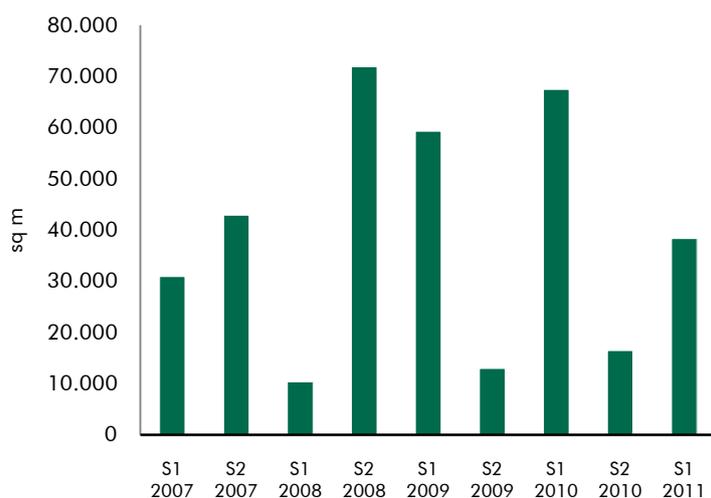
Approximately 95% of the total office projects completed were of speculative nature, with only one pre-defined occupier.

AVAILABILITY

At the end of the first 6 months, the office area available on the Lisbon market ascended to circa 532,000 sq m, representing an increase in the region of 6.8%, in relation to the total area registered at the end of 2010. This results mainly from the speculative construction of new buildings registered in the 1st semester of the current year, together with a reduced level of demand.

Following a more detailed analyses of the office market zones, we conclude that the Western Corridor continues to be the area with the highest available stock, with a total supply in excess of 207,000 sq m, indicating a 5% increment when compared to the total available stock registered at the end of 2010.

Office Additional Stock Half-yearly Evolution – Lisbon



Source: CB Richard Ellis / LPI

Main Office Stock Completed H1 2011 – Lisbon

Zone	Building	Type*	Area (sq m)
CBD 2	República 25	R	6,000
Expansion Area	Torre Ocidente	N	26,300
Parque das Nações	Mythos	N	6,000
TOTAL			38,300

* R – Refurbishment; N – New
Source: CB Richard Ellis/ LPI

The Expansion Area revealed this same trend with a rise in availability, having registered around 65,000 sq m of supply. This represents an increase of over 72% in relation to the end of 2010. We point out that the completion of Torre Ocidente during the 1st semester of 2011, contributes strongly towards the increase of available area in this zone.

According to the Lisbon Prime Index (LPI), at the end of the 1st semester of this year, the vacancy rate of the Lisbon office market stood at 11.86%, representing an increase of 66 b.p. in comparison to the rate registered at the end of 2010. The market zone that contributed more significantly towards the boost in vacancy rate was the Expansion Area, with an increment of 5,32 percentage points in relation to the end of last year.

DEVELOPMENT

An additional 4 new office developments are foreseen for the end of 2011, totalling 16,500 sq m, of which 64% are available for lease.

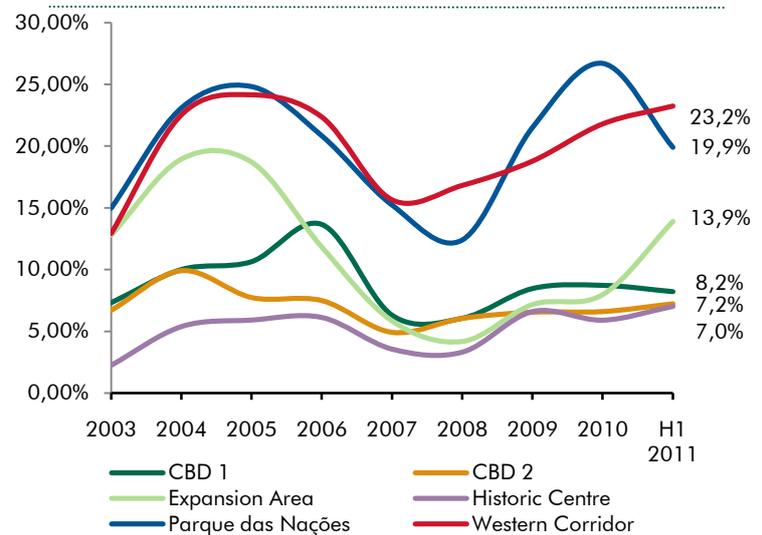
Of the total supply foreseen for the 2nd semester of 2011, 2 speculative buildings in the Western Corridor are to be noted, as these will further influence the high availability rate evidenced in this zone.

Furthermore, we point out the refurbishment of Liberdade 67 building at CBD 1, that will bring some dynamics to the supply in this area which is in general considerably scarce.

In global terms, the conclusion of circa 54,800 sq m of office area is estimated for 2011, reflecting a 35% reduction in relation to 2010 and will stand significantly below the annual average of the past 5 years, which was of 77,000 sq m.

The restrictions in obtaining bank financing have led to difficulties in the development of real estate projects. This will result in a significant decrease in property development in 2012 and 2013. For next year, a more 5 new office schemes are projected, with around 48,250 sq m, that include 2 building of Metropolis scheme, which construction was initiated only after occupation, by a single tenant, was guaranteed.

Vacancy Rates per Zones



Source: CB Richard Ellis / LPI

Duarte Pacheco 7 – CBD 2



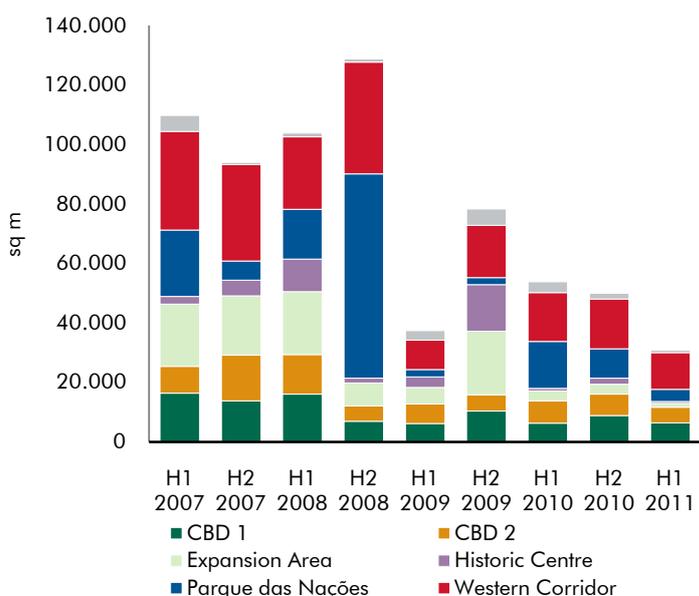
Source: CB Richard Ellis

Forecast of Office Completions – H2 2011 and 2012

Building	Type*	Zone	Area (sq m)	Conclusion
Liberdade 67	R	CBD 1	1,055	H2 2011
The Tower	N	Western Corridor	6,450	H2 2011
Porto Salvo	N	Western Corridor	3,000	H2 2011
Headquarters Cofina	N	Other Zones	6,000	H2 2011
Liberdade 225	R	CBD 1	6,000	2012
Barbosa do Bocage 117	R	CBD 2	2,000	2012
Duarte Pacheco 7	N	CBD 2	16,750	2012
Metropolis A & B	N	Expansion Area	14,500	2012
Restelo Business Center	N	Other Zones	9,000	2012

* R – Refurbishment; N – New
Source: CB Richard Ellis/ LPI

Gross Take-Up per Zones - Lisbon



Source: CB Richard Ellis / LPI

DEMAND

In the 1st semester of 2011, gross take-up in the office market was in the region of 30,800 sq m, representing a 45% decrease when compared to the same period in 2010 and 38% in relation to the previous semester. However, take-up during this period results from 115 transactions, greater in number than the 107 registered in the first half of 2010.

The occupation recorded in this 1st semester of the year evidences the worst performance of the last years, considerably below the average 82,000 sq m verified in the past 5 years. This contraction mirrors the economic crises that Portugal is undergoing, and which has conditioned the strategic decisions of companies in real estate terms.

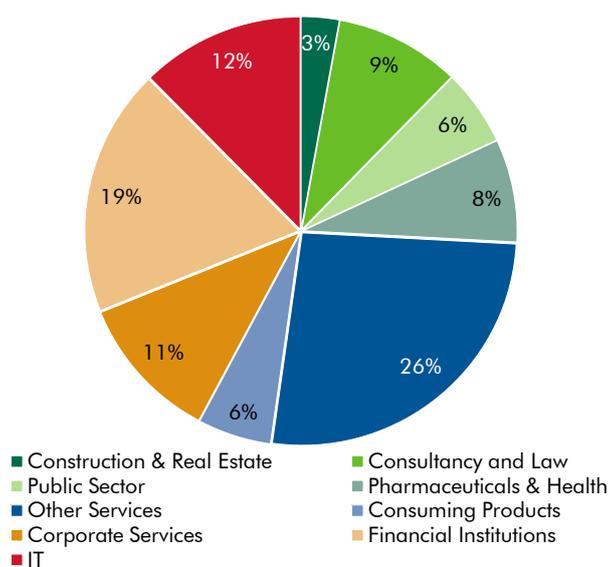
Analysing each zone we conclude that the Western Corridor, CBD1 and CBD2 were the most sought out locations in the 1st semester of 2011. In the Western Corridor 12,350 sq m were placed (40% of total take-up) distributed throughout more than 20 lease transactions. In CBD 1 and CBD 2 around 11,700 sq m were leased. As was the case in the previous years, the areas with the highest level of demand continue to be the CBD zones, due to the prestige and central location of these areas, and the zones on the periphery of the city, as a result of the more competitive prices.

We refer that, as in prior years, during the period under analysis, many more transactions were recorded in used buildings (circa 90%) than in new buildings.

With regards to take-up per sector of activity, the Finance sector was responsible for 19% of the area occupied. The New Technology sector is to be noted, with a take-up of 3,750 sq m, of which more than 40% were situated in the Western Corridor. The Corporate Services Sector was equally dynamic during this 1st semester, recording 3,360 sq m of area placed on the market, being the Western Corridor also a preferable location, with 72% of the take-up situated in this zone.

In the 2nd semester of 2011, no significant transaction that will strongly influence the gross take-up of offices is foreseen. Consequently, it is expected that in 2011 the annual take-up will record the lowest level of the last years. Effectively, the current economic-financial situation interferes with the expansion plans of companies, as these prefer to adopt a posture of cost control and rationalisation of the areas occupied.

Gross Take-Up Distribution per Activity Sectors - H1 2011



Source: CB Richard Ellis / LPI

Major Lease Evidences - H1 2011 - Lisbon Region

Building	Zone	Occupier	Type*	Area (sq m)
Taguspark Inovação I	Western Corridor	Administrative Services Universidade Aberta	L	3,193
Milupa	Western Corridor	Até ao Fim do Mundo	S	1,466
Edifício Espace	Parque das Nações	Intrum Justitia	L	1,133
Edifício Castil	CBD 1	Montepio	L	1,000
Centrum	CBD 2	Grupo Português de Recuperação de Dano	L	997
Edifício Bloom	Expansion Area	F&C	L	933

Source: CB Richard Ellis / LPI

* Tipo: Lease(L), Sale(S), Owner Occupier (O)

PRIME RENTS

The crises in the Portuguese sovereign debt has had a very significant impact on the economy of the country, and consequently on the real estate market. In this scenario, the drop in rental values during the 1st semester of the year was inevitable.

In addition to the drop in rents, more flexibility has been demonstrated by the landlord entities to offer incentives in a negotiation, such as, for example, longer rent free periods and participation in tenant fit-out costs.

In CBD1 and in Historic Centre the prime rent value decreased 50 cents relatively to the end of 2010; while in the Expansion Area, the decrease was more accentuated and of 1 Euro. By analysing the last 3 years, we have verified that the zones more affected by the crises were CBD and the Expansion Areas, with percentage decreases of 10% and 9% respectively.

At the end of 2011 prime rents should remain stable, despite the fact that an increasing gap between rental prime and secondary values is foreseen.

CAPITAL MARKETS

The Portuguese economic panorama aggravated by the sovereign debt crises and the political instability has driven the major international investors out of the country and strongly affected the liquidity and access to financing by local investors. In this scenario, during the first half of 2011, the capital markets sector in Portugal registered one of the lowest levels of the last decade. The office sector was the most penalised, with a residual investment in the region of 5 million Euros and with superior increases in prime yields when compared to other market sectors.

In actual fact, following a period of a decrease in prime yields in 2009 and beginning of 2010, and the stability of these same rates in 2010, during the first semester of this year, we have witnessed an abrupt raise in prime yields in all corporate zones in Lisboa and Porto, with increases between 50 and 100 b.p., and of 75 b.p. in CBD1. As a result of the prime yields remaining stable throughout 2010, the annual oscillations reported at the end of the 1st semester of 2011 were identical to the semester variations.

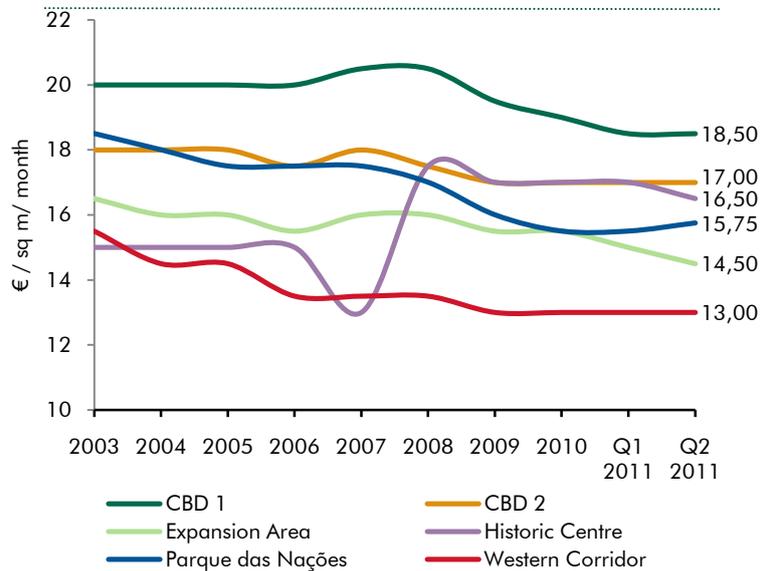
An increase in investment turnover is forecasted for the second semester, namely of international origin, as a result of several prime assets having been placed on the sales market. However, the investors are liable to be predominately opportunistic and value added.

Prime Rents and Average Rents in Lisbon – Q2 2011



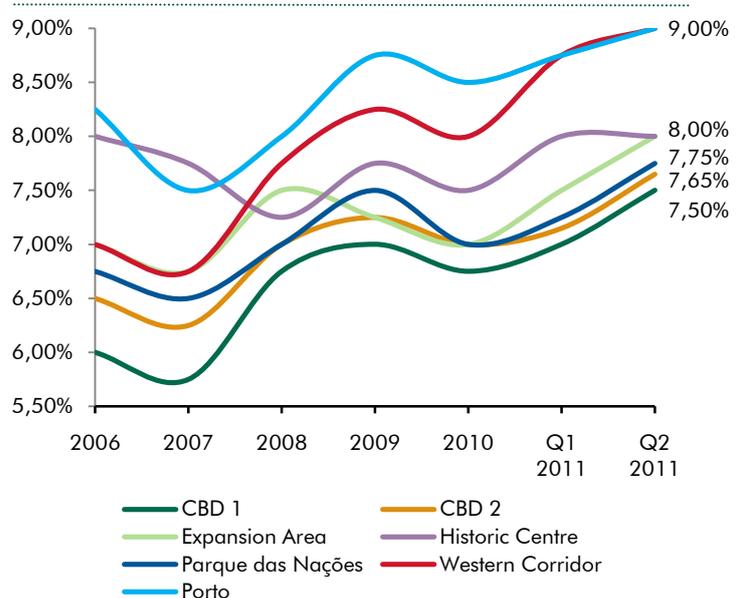
Source: CB Richard Ellis

Prime Rent Evolution



Source: CB Richard Ellis

Prime Yield Evolution



Source: CB Richard Ellis

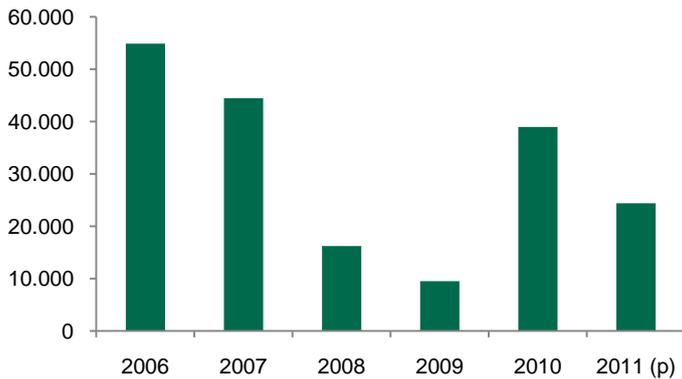


Offices Completions 2011- Porto

Building	Zone	Developer	Area (sq m)	Conclusion
EDP Building 1	1	Adicaais	7,200	H1 2011
EDP Building 2	1	Adicaais	6,190	H1 2011
IPAM Building	ZEP	Finivalor	4,600	H2 2011
Oporto Bessa Leite II	1	HN	6,340	H2 2011
TOTAL			24,330	

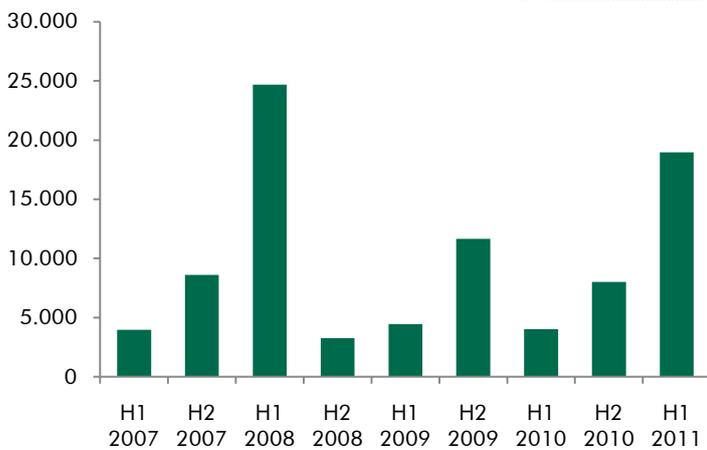
Source: CB Richard Ellis

Annual Evolution of Additional Office Stock - Porto



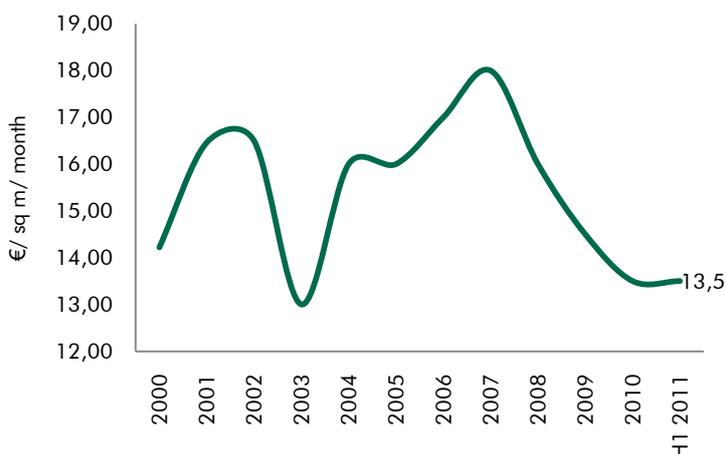
Source: CB Richard Ellis

Office Gross Take-up by Semester - Porto



Source: CB Richard Ellis

Prime Rent Evolution - H1 2011 - Porto



Source: CB Richard Ellis

PORTO

The Porto office market is concentrated within four business zones, which location is illustrated on the map on the last page. All of the buildings not located within the stipulated areas are integrated in a generic zone, namely Zone 5. Boavista (Zone 1) is the prime office zone in the North of the country.

SUPPLY

The Greater Porto office stock at the end of the first semester of 2011 ascended to 868,000 sq m, with the conclusion of two buildings, totalling 3,400 sq m, and that were entirely occupied by EDP.

For the end of 2011 the completion of another two buildings is foreseen, Oporto Bessa Leite II of speculative construction and a second building which will be partially leased to IPAM. With the construction of these buildings, new supply in 2011 ascends to 24,400 sq m, less 37% than the same indicator registered the year before.

No other new office buildings are expected to be completed in 2012, thus confirming the strong trend in the deceleration of development verified in all property sectors throughout the country.

DEMAND

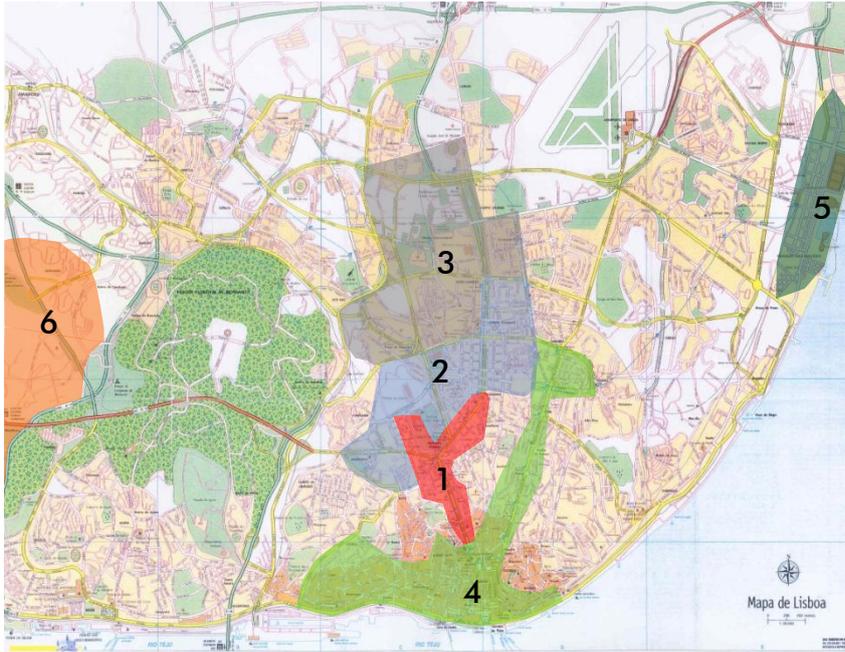
In terms of demand, the Porto office market reflected in the first semester of this year a take-up of approximately 19,000 sq m. This is one of the highest semester values of the past 5 years, resulting from the occupation of the EDP buildings that represent 70% of the take-up during this period.

The number of transactions effectively reported during the first semester of the year (totalling 12), was significantly inferior to previous semesters, with an average of 20.

PRIME RENTS

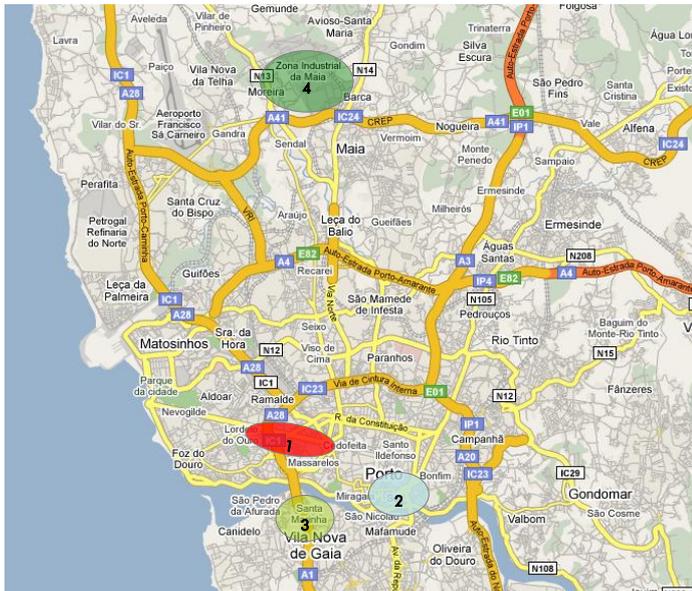
Porto prime office rents have remained stable since the end of 2010, standing at 13.5 €/sq m/month. However, the difference between the prime rental values and that of second hand products is continuously increasing, with many leases being closed at values below 10 €/sq m/month.

Lisbon map



- Zone 1: CBD – Av. da Liberdade, Saldanha
- Zone 2: CBD – Av. da República, Amoreiras
- Zone 3: Praça de Espanha, 2ª Circular
- Zone 4: Historic Centre, Av. Almirante Reis
- Zone 5: Parque das Nações
- Zone 6: Western Corridor

Porto Map



- Zone 1: Boavista
- Zone 2: Baixa
- Zone 3: Vila Nova de Gaia
- Zone 4: Maia

For additional information, please contact:

RESEARCH & CONSULTANCY

Cristina Arouca
e: cristina.arouca@cbre.com

Maria Empis
e: maria.empis@cbre.com

OFFICE AGENCY

André Almada (Lisbon)
e: andre.almada@cbre.com

Graca Ribeiro da Cunha (Porto)
e: graca.cunha@cbre.com

CAPITAL MARKETS

Francisco Horta e Costa
e: francisco.hortacosta@cbre.com

CB Richard Ellis, Lda

Ed. Amoreiras Square
Rua Carlos Alberto da Mota Pinto
17 – 10º A
1070-313, Lisboa
Tel: +351 21 311 44 00
Fax: +351 21 311 44 01

Rua José Gomes Ferreira, 117
4150 – 442, Porto
Tel: + 351 22 616 72 40
Fax: + 351 22 616 72 49

www.cbre.pt

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