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Q1 2015

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MARKETBEAT
ECONOMIC SNAPSHOT

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EXPORT-DRIVEN GROWTH

The Portuguese economy continues to recover, with GDP growth ticking up to 0.5% q/q. Exports were the main driver of growth at the end of last year while consumer spending and fixed investment faltered following a healthy expansion in Q2 and Q3. Government expenditure has been the largest drag on growth, however, as it declined in q/q terms in every quarter of 2014. Recent indicators point to an improvement in the consumer sector and ongoing growth in exports.

A MUTED OUTLOOK FOR CONSUMER SPENDING

The outlook for private consumption improved somehow, with unemployment falling in January after edging up in Q4 2014 and inflation remaining subdued. Indeed, consumer prices recorded 13 months of declines, before turning marginally positive in March. This has spurred positive wage growth and a rebound in retail sales and resulted in consumer confidence climbing to the level last seen in 2002. Nevertheless, there is still a considerable hangover from the crisis and the consumer sector is expected to fade due to high private indebtedness and fiscal tightening.

REBOUND IN EXPORTS

Rising demand from the eurozone boosted export volumes in recent months, with the strength of the economic recovery in Spain particularly good news as this country receives over 20% of Portugal's merchandise exports. In addition, tourism is expected to continue to boom, supported by the weak euro. Financing conditions, although likely to stay tight, should improve thanks to the ECB's ambitious asset purchases. Current forecasts indicate that Portugal's exports will increase by 6.8% in 2015 and 4.3% in 2016. High corporate indebtedness will continue to constrain growth in business investment and thus also exports.

OUTLOOK

2015 is expected to be the second year of positive GDP growth in Portugal. The recovery will be driven by exports, which will be boosted by a rise in demand from the eurozone, especially the neighbouring Spain, as well a weaker euro, with the latter fuelling exports to non-eurozone locations. The consumer sector is expected to lose its shine this year due to persistently high unemployment and significant indebtedness, despite the relief to households' budgets from lower energy prices. Fixed investment will be held back by high corporate debt but will be gradually lifted by robust exports. Sluggish growth in the Eurozone and Greece's exit from the Eurozone are the main potential risks to growth.

MARKET OUTLOOK

GDP:	Positive but below-trend growth in 2015 and 2016.	◥
Inflation:	Subdued but positive in 2015.	▶
Interest rate:	On hold. Quantitative easing by the ECB to continue.	▶
Employment:	Stable, possible improvements toward the end of the year.	▶

ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2012	2013	2014E	2015F	2016F
GDP growth	-3.3	-1.4	0.9	1.6	1.8
Consumer spending	-5.5	-1.5	2.1	1.3	1.0
Industrial production	-6.1	0.4	1.0	1.6	2.6
Investment	-16.6	-6.7	2.2	2.6	3.0
Unemployment rate (%)	15.5	16.2	13.9	13.3	12.1
Inflation	2.8	0.3	-0.3	0.2	0.9
US$/€ (average)	1.28	1.33	1.33	1.06	1.00
US$/€ (end-period)	1.32	1.38	1.21	1.00	1.00
Interest rates: 3-month (%)	0.6	0.2	0.2	0.0	0.0
Interest rates 10-year (%)	10.7	6.3	3.8	2.1	2.0

NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast
Source: Oxford Economics Ltd. and Consensus Economics Inc

ECONOMIC & POLITICAL BREAKDOWN

Population	10.4 million (2014)
GDP	US$ 230.0 billion (2014)
Public sector balance	-4.5% of GDP (2014)
Public sector debt	130.2% of GDP (2014)
Current account balance	0.6% of GDP (2014)
Parliament	Social-Democratic Party and Socialist Party coalition
President	Aníbal Cavaco Silva
Prime Minister	Pedro Passos Coelho
Election dates	October 2015 (Legislative) January 2016 (Presidential)

ECONOMIC ACTIVITY

Source: Cushman & Wakefield

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MARKETBEAT
OFFICE SNAPSHOT

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OVERVIEW
Alongside gradual economic recovery, the Portuguese office market witnessed an improvement in occupier demand in Q1 2015, with take-up volumes exceeding those in Q1 14. As vacancy rates continue to adjust and high-quality space becomes increasingly limited, developments previously put on hold may be revived, although these will be subject to an adequate pre-lease agreement being in put in place before construction can commence.

OCCUPIER FOCUS
By the end of March, leasing activity increased 70% y/y to 29,360 sq.m over 68 deals, bolstered by some major deals including Worten's occupation of 4,085 sq.m in the Suécia building (zone 6). Although the Portuguese economy is expected to see a gradual recovery, the unstable evolution of unemployment rate might have a negative impact on demand later in year. However, this should be partly countered by a growing occupier trend to consolidate in a single location as well as interest in taking advantage of market to upgrade in terms of quality.

Vacancy decreased slightly in Q1 on the back of strengthening demand and limited speculative development. The possibility of a growing shortage of prime space in a more dynamic market has resulted in some delayed developments possibly breaking ground, although developers' main concern is whether negotiated net rents for these projects will support their feasibility.

INVESTMENT FOCUS
The office investment market saw a very strong start to the year, with volumes climbing to €43.4 million in Q1, compared to just €7.2 million in the same period last year. Office space continues to be on the most sought after asset class in Portugal by investors looking for higher returns. "Golden Visas" and the new urban development & lease regulations on urban renovation projects continue to attract investment in the city centre, and signs of a more solid performance in the occupier market has caught the interest of value add investors.

OUTLOOK
The Portuguese office market is anticipated to see further recovery in 2015, with take-up levels expected to stabilise around 120,000 sq.m by the end of the year. However, the evolution of the market is still largely dependent upon the outcome of several major occupier deals which may be negatively impacted by the lack of high-quality space available. Investment activity should continue to intensify throughout the year, although this will be largely subject to the performance of the occupier market.

MARKET OUTLOOK

Prime Rents:	Rents are stable but net rents should increase due to downward adjustment of incentives.	▶
Prime Yields:	Yields have started to compress as competition amongst investors intensifies.	◢
Supply:	Supply has stabilized due to limited development activity.	▶
Demand:	Shows signs of improvement but subject to a number of larger deals in the pipeline.	◥

PRIME OFFICE RENTS – MARCH 2015

MARKET (SUBMARKET)	€ SQ.M/MTH	€ SQ.M/YR	US$ SQ.FT/YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Lisbon (Zone 1)	18.50	222	22.2	-2.6	0.0
Lisbon (Zone 2)	16.00	192	19.2	0.0	-1.2
Lisbon (Zone 5)	15.00	180	18.0	0.0	-1.9
Lisbon (Zone 6)	11.00	132	13.2	0.0	-3.3

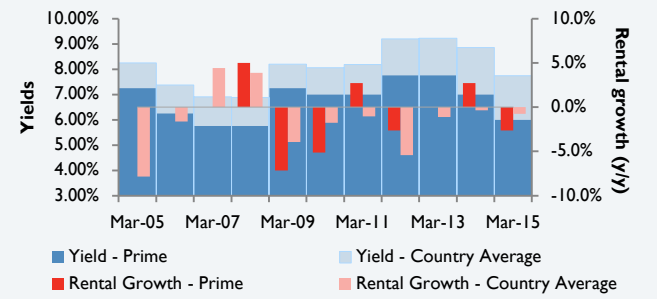
PRIME OFFICE YIELDS – MARCH 2015

MARKET (SUBMARKET) (FIGURES ARE GROSS, %)	CURRENT QUARTER	LAST QUARTER	LAST YEAR	HIGH	10 YEAR LOW
Lisbon (Zone 1)	6.00	6.25	7.00	7.75	5.75
Lisbon (Zone 2)	7.00	7.25	8.25	8.50	6.00
Lisbon (Zone 5)	6.75	7.25	8.00	8.50	6.00
Lisbon (Zone 6)	8.50	9.00	10.00	10.25	6.25

NOTES:
Lisbon Zone 1: Avenida da Liberdade (Prime CBD)
Lisbon Zone 2: Avenidas Novas (CBD)
Lisbon Zone 5: Parque das Nacoes
Lisbon Zone 6: Western Corridor (Decentralised)

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

RECENT PERFORMANCE



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MARKETBEAT
RETAIL SNAPSHOT

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OVERVIEW
The economic recovery is expected to strengthen further in 2015, with growth of 1.3% expected. The main drivers of growth are consumers and business investment, which both continued to steadily improve in Q1. Retail sales were up 2.2% year-on-year in January.

OCCUPIER FOCUS
The retail occupational market is benefitting from the improving economic outlook, with sustained demand being seen from a growing range of local and overseas retailers. Prime high streets continue to see the highest demand and top performers include Lisbon's Avenida da Liberdade and Baixa/Chiado and the Clérigos area in Porto. Supply remains tight in these locations, which continues to exert upward pressure on rents. Regionally dominant shopping centres are also seeing steady demand, especially from new brands entering the market. There has also been increased activity from international retail groups that are expanding through the implementation of new concepts.

On the supply side, developers remain primarily focused on adding value to existing schemes through active asset management and on reconfiguring space to meet the size and configuration demands and to be able to accommodate new brands. There are no major schemes in the development pipeline for 2015, although with confidence picking up, some developers are now more willing to consider restarting previously suspended projects.

INVESTMENT FOCUS
The investment market continued its upward trajectory in Q1, with €206 mn transacted, one of the strongest first quarter performances on record. There is high demand from private and institutional investors for high street units in core locations in Lisbon, with investors again buoyed by renovation projects in the city centre, after years of neglect. As confidence improves, demand is broadening to shopping centres, retail parks, factory outlets and supermarkets/hypermarkets. Prime yields hardened across all retail segments in Q1 and are under pressure to fall further, sustained by sales growth and improvements in consumer confidence.

OUTLOOK
As the economy improves, the positive momentum in prime occupational and investment markets is expected to continue in 2015, with Lisbon and Porto expected to outperform. The new lease laws will start having an effect from 2016, with vacant spaces entering the market as a result of the transition of old agreements to the "NRAU" (New Urban Rent regulations).

MARKET OUTLOOK

Prime Rents:	Rental growth expected in prime high streets and regionally dominant shopping centres.	▼
Prime Yields:	Downward pressure on yields to continue amid growing international demand.	▲
Supply:	Low shopping centre pipeline but urban renovations ongoing in high streets.	▶
Demand:	Occupier and investor demand expected to strengthen further in 2015.	▼

PRIME RETAIL RENTS – MARCH 2015

HIGH STREET SHOPS	€ SQ.M/MTH	€ SQ.M/YR	US$ SQ.FT/YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Lisbon (Chiado)	95.00	1,140	114	5.6	3.5
Lisbon (Avenida Liberdade)	85.00	1,020	102	6.3	3.2
RETAIL PARKS	**€ SQ.M/MTH**	**€ SQ.M/YR**	**US$ SQ.FT/YR**	**GROWTH % 1YR**	**GROWTH % 5YR CAGR**
Portugal	8.50	102	10.2	0.0	-3.2
SHOPPING CENTRES	**€ SQ.M/MTH**	**€ SQ.M/YR**	**US$ SQ.FT/YR**	**GROWTH % 1YR**	**GROWTH % SQ.M/MTH**
Portugal	72.50	870	86.8	3.6	-2.6

PRIME RETAIL YIELDS – MARCH 2015

HIGH STREET SHOPS (FIGURES ARE GROSS, %)	CURRENT QUARTER	LAST QUARTER	LAST YEAR	HIGH	10 YEAR LOW
Lisbon (Chiado)	5.75	6.00	6.50	7.00	5.75
Lisbon (Avenida Liberdade)	5.75	6.00	6.50	7.25	5.75
RETAIL PARKS (FIGURES ARE GROSS, %)	**CURRENT QUARTER**	**LAST QUARTER**	**LAST YEAR**	**HIGH**	**10 YEAR LOW**
Portugal	8.00	8.50	10.25	10.50	5.75
SHOPPING CENTRES (FIGURES ARE GROSS, %)	**CURRENT QUARTER**	**LAST QUARTER**	**LAST YEAR**	**HIGH**	**10 YEAR LOW**
Portugal	6.00	6.50	7.50	7.75	5.00

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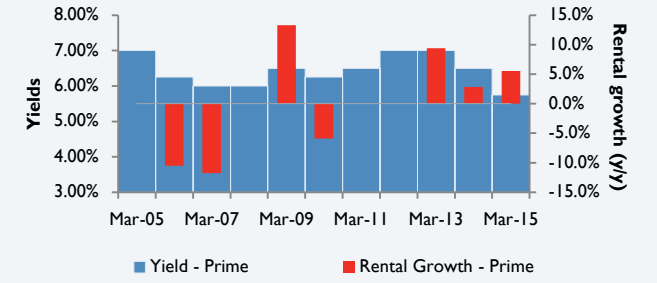
RECENT PERFORMANCE



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MARKETBEAT
INDUSTRIAL SNAPSHOT

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OVERVIEW

Business sentiment continued to improve in the Portuguese industrial market in Q1 on the back of increasing foreign demand for exports. Demand is anticipated to strengthen gradually as occupiers seek to benefit from generous incentive packages, although quality supply will become increasingly limited as pipeline development is at a standstill.

OCCUPIER FOCUS

Economic recovery and higher landlord flexibility translated into slightly higher leasing activity in Q1, with tenants seeking to take advantage of incentive packages. Logistics and warehousing space continue to be the most sought after and some companies are starting to seek larger areas where they can consolidate their operations within a single location. There is also a growing trend for owner occupiers to purchase used or outdated properties for refurbishment due to lower prices.

Development remains at a standstill in Portugal with few developers active in the market. Speculative schemes have been thwarted due to high supply in some zones and difficulty to secure funding for new projects, owing to high borrowing costs and uncertainty over the prospects of achieving maintainable income flows given the low rental values. Furthermore, rental levels continue to fall behind construction costs, making new developments unviable.

INVESTMENT FOCUS

Investment volumes hit 16.7 million in Q1 due to one large deal by Blackstone who purchased Alverca Park in Lisbon. The general recovery of the property sector has propelled interest from international investors, with ongoing interest in logistics parks with lease lengths from 3 to 5 years as well as sale and leaseback deals on 10-year plus horizons. Prime yields continued to move inwards in key markets, falling by as much as 50bps in Lisbon and 75 bps in Oporto. Transactional activity is anticipated to pick up throughout the year (as long as suitable product is available) with many investors eager to take advantage of favourable pricing conditions.

OUTLOOK

The outlook for the Portuguese industrial market is generally optimistic, with occupier demand expected to strengthen, albeit gradually, as tenants look to benefit from greater landlord flexibility. Supply of high-quality, modern platforms will continue to dwindle as financing conditions surrounding development remain challenging. This should, however, provide a boost to rental levels in popular markets and push pricing upward.

MARKET OUTLOOK

Prime Rents:	Prime rents hold firm but may see upward movement as supply of quality stock falls.	▶
Prime Yields:	Yields begin to compress as investor interest deepens.	◢
Supply:	Supply of quality stock will continue to diminish due to restricted development.	◢
Demand:	Demand on the rise as tenants take advantage of subdued market conditions.	▶

PRIME INDUSTRIAL RENTS – MARCH 2015

LOGISTICS LOCATIONS	€ SQ.M/MTH	€ SQ.M/YR	US$ SQ.FT/YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Lisbon	3.50	42.0	4.19	-12.5	-2.6
Porto	4.00	48.0	4.79	0.0	2.7

PRIME INDUSTRIAL YIELDS – MARCH 2015

LOGISTICS LOCATIONS (FIGURES ARE GROSS, %)	CURRENT QUARTER	LAST QUARTER	LAST YEAR	HIGH	10 YEAR LOW
Lisbon	7.50	8.00	9.25	9.75	7.00
Porto	8.00	8.75	10.00	10.25	7.25

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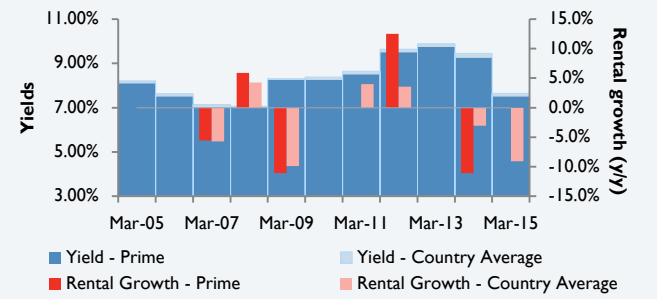

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- analysis of future development activity and existing supply/competition
- market research and demand analysis by retail/industry sector
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