

REAL ESTATE

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PORTUGAL

FILIPA ARANTES PEDROSO

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Q COULD YOU OUTLINE SOME OF THE MAJOR TRENDS IN THE REAL ESTATE SPACE IN PORTUGAL OVER THE LAST 12-18 MONTHS?

PEDROSO: 2016 was another excellent year for the Portuguese real estate market, with a volume of transactions in excess of the levels recorded in 2015 and similar to the volume of transactions seen in the pre-crisis days. As in 2015, the main investors were foreign funds and family offices from the US, France, the UK and Spain. The main transactions in the retail area were Sonae, which sold portfolios of supermarkets and Algarve Shopping which sold office buildings to various foreign investors. The demand for quality offices is becoming higher than the available offer. The rehabilitation of the real estate industry has been, and will continue to be, very active, notably in the historical centre of Lisbon and Oporto. The evolution and consolidation of the market in 2017 will likely continue and the volume of transactions recorded may be higher than in 2016; however, it depends on various external and internal risks.

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Q WHAT PARTICULAR RISKS AND CHALLENGES ARE REAL ESTATE PLAYERS FACING IN TODAY'S MARKET? HOW ARE THESE FACTORS IMPACTING STRATEGIES?

PEDROSO: The main risks are related to the Portuguese economy, which depends on external factors, such as the ratings of credit agencies, most notably DBSR, and the acquisition of debt by BCE, but also in internal factors such as fiscal stability. Political uncertainty around the world is also a risk which must be taken into account. Investors want certainty, and the changes to the national tax rules have threatened to undermine the strength of the recovery we have seen up to now. The pressure exerted by the extreme left and communists, on whom the government is dependent, may lead to changes that are not favourable to investors. Therefore, investors are being more cautious in their investments. Real estate development in Lisbon is a challenge, notably in big areas of land yet to be developed, such as the land where the Lisbon diversion park was installed, as well as plots of land



in Amoreiras and in the Alcântara area. Banks are still very cautious in terms of granting loans to real estate development.

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Q WHAT FACTORS ARE DRIVING REAL ESTATE M&A AND INVESTMENT IN TODAY'S MARKET? ARE THERE ANY SEGMENTS OR REGIONS THAT SEEM TO BE OFFERING A WEALTH OF OPPORTUNITIES?

PEDROSO: Considerable liquidity, low interest rates, uncertainty in the financial markets and lack of available product in other European countries and the US seems to be the reason for increased investment in Portuguese real estate. The yields are still attractive, compared to other European countries – 4.9 percent for offices, 5 percent for shopping centres, 4.75 percent for retail and 6.5 percent for industrial. The safety and quality of life that Portugal offers is also an important factor. To date, the majority of investments have been in Lisbon and Oporto. The rehabilitation of old buildings in the historic areas of Lisbon and Oporto has grown and banks are more open to funding these investments rather than big developments.

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Q IN BROAD TERMS, HOW WOULD YOU DESCRIBE CURRENT VALUATIONS FOR REAL ESTATE ASSETS IN PORTUGAL? IS THERE A GAP BETWEEN BUYER AND SELLER PRICE EXPECTATIONS IN THE CURRENT MARKET?

PEDROSO: Prices are going up in Lisbon, so investors are moving to Oporto, which has much lower prices. However, the increase in investment has shown that there is not a big gap between buyer and seller price expectations in Portugal.

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Q MANAGING RISK AND IDENTIFYING VALUE ARE FUNDAMENTAL PARTS OF THE ACQUISITION AND INVESTMENT PROCESS. IN YOUR EXPERIENCE, IS ENOUGH DUE DILIGENCE BEING CONDUCTED IN TODAY'S REAL ESTATE DEALS?

PEDROSO: Foreign investors, which are the main investors in real estate in Portugal, usually require exhaustive due diligence processes, which encompasses a number of different areas, including both legal and technical procedures. Due diligence carried out by domestic investors is not as exhaustive. An exhaustive due diligence process, and the inclusion of the right representations and warranties in the purchase and sale agreement, is key to protect investors.

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Q WHAT KINDS OF TRANSACTION STRUCTURES AND INVESTMENT VEHICLES ARE REAL ESTATE PLAYERS USING TO EXECUTE DEALS AND OPTIMISE THEIR LONG-TERM RETURNS?

PEDROSO: The vehicles mainly used by investors are commercial companies – special purpose vehicles. Other vehicles, such as real estate funds, are in much smaller demand due to their poor performance in the past. The change to the tax regime of the real estate funds, which is now similar to legislation in other European countries, where taxes are paid with the sale of the participation funds, is slowly changing this situation. Unfortunately, Portugal has not yet implemented the legislation ruling REITs, which was prepared by the previous government in similar terms to the legislation implemented in Spain concerning the *Socimi*. We are not expecting such legislation to be implemented this year as the respective authorisation was not included in this year's budget.

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Q WHAT ISSUES AND DEVELOPMENTS DO YOU BELIEVE WILL SHAPE THE REAL ESTATE MARKET IN PORTUGAL OVER THE

PEDROSO: The commercial market will continue to grow as the demand for offices and retail remains very high. Shopping centres are adapting to the new reality and are creating more restaurants and leisure areas. The rehabilitation and repurposing of old buildings for residential use continues to be popular, however due to a lack of available quality office space this trend may change in certain areas. The residential



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MONTHS AND YEARS AHEAD? market will continue to grow thanks to the good quality of life available in Portugal, as well as the golden visa programme, the non-habitual residence programme and the enormous increase in tourism, much of which is focused on the Lisbon area. Lisbon is now a well-known city with a lot of demand. Buildings for student accommodation will continue to grow as more foreign students are coming to Portugal due to the Erasmus programme and the good rates that are being given to the Portuguese universities. Banks need to sell their portfolios and this will also have a positive impact in the real estate market.

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