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Trade & Investment Agency

APPII

JLL Achieve Ambitions

MORAIS LEITÃO
GALVÃO TELES, SOARES DA SILVA
& ASSOCIADOS

REAL ESTATE INVESTORS ROADMAP PORTUGAL

2020 Investment Guide

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PORTUGAL IS READY AND OPEN FOR MORE BUSINESS

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Portugal is an excellent country to invest, do business and live in. Our highly skilled talent, world-class infrastructure, business-friendly environment and easy access to markets are among several factors that contributed to a continuous and steady flow of investments into different economic sectors in these past few years. Our geographical position, as a nearshore location in Europe, political stability and low operational risk are highly valued by investors as they trust a country that is open to foreign investment from all over the world.

In due recognition of the economic importance of real estate activities and Portugal's attractiveness to inward investment in this area, this Investment Guide is a relevant work tool for investors, as it illustrates well the easiness of doing business in a low risk country that prides itself on the way it welcomes visitors and investors!

aicep Portugal Global, as the Portuguese Government Investment Promotion Agency, is available to support investors interested in finding out more about Portugal and its unique competitive advantages.

Luís Castro Henriques
Chairman & CEO of AICEP

THE REAL ESTATE SECTOR AS THE BASIS FOR THE COUNTRY'S ECONOMIC RECOVERY

Before the arrival of the COVID-19 pandemic, the Portuguese real estate market was experiencing times of dynamism and vivacity, perhaps on an unprecedented scale. The health crisis we are living through and the consequent economic crisis threaten to interrupt this growth. However, many of the factors that made Portugal, and Lisbon in particular, so attractive, especially to foreign investment, have not disappeared.

Political, economic and social stability, socio-demographic factors, geographical location and affordable prices continue to make Portugal a unique investment destination in Europe. The crisis generated by the pandemic will be global and its effects unpredictable. But the inherent characteristics of our country will allow it to continue to be a destination of choice for people or for companies that wish to host their businesses here.

There is one element in this whole equation that will be fundamental to minimise the impacts of the crisis and the resulting instability: confidence. It is crucial to maintain the confidence of the population and not succumb to fear. From the very beginning, Portugal has been pointed out as one of the main examples in the management of the health crisis. Now, in a first phase of deconfinement, the numbers are a little worse. But we are still a long way from the peak that some European countries have unfortunately reached over the last few months. And we can say with a high degree of certainty that the health situation in Portugal will not get out of hand.

In other words, if we add health security to political and social stability, low interest rates at affordable prices compared with the main European cities, unique climatic conditions and the fact that Portugal is repeatedly considered one of the safest countries in the world, there is nothing that can turn away those who intended to invest in Portugal or who may want to do so in the future.

Portugal and its major cities - namely Lisbon and Porto - are changing. They are increasingly modern, disruptive, or, as they say these days, trending. They are increasingly the ideal place for technological startups to settle.

Attracting foreign investment in the real estate market, positioning Portugal as a hub for retirees and executives, for example through a reform of the system of residence permits per investment, stimulating this fundamental sector, should be one of the cornerstones of the whole strategy. All the conditions are in place to achieve these objectives. Just take advantage of them.

Bruno Bobone
Presidente da Câmara de Comércio e Indústria Portuguesa

AN INCREASED NEED TO ATTRACT INVESTMENT

This is again the focus used by the business sector and the Portuguese Government itself for the recovery of the activity and for the revival of the Portuguese economy after the COVID-19 Pandemic.

The return to growth and the economy's recovery represent today the greatest challenge for countries around the world. Portugal is not an exception and this is the time to look into the future, to anticipate solutions and to chart the paths to follow. Without a question or doubt, under these circumstances the public and also the private investment will assume once again an essential role.

On the one hand, international real estate investors as well as foreign citizens living in Portugal, attracted by foreign investment programs such as the Golden Visa and the RNH – Regime for Non-habitual Tax Residents, have been able to help attract foreign investment to Portugal worth more than EUR 25 billion from 2014 to 2019. On the other hand, the real estate market and the national real estate investment sector have already demonstrated that they are able to recover and even be one of the first sectors to re-emerge after a crisis, managing to attract wealth and capital to our country while generating a contagion effect to the other sectors of activity, starting in tourism and then including trade, industry and construction, until the total recovery of the economy.

For all these reasons, we believe that Portuguese real estate investment sector will once again be one of the "starters" of the national economy. We count on everyone and especially on investors, who are very much welcome in Portugal!

WELCOME NOTE

Recently, Portugal was distinguished as an irrefutable destination status for investment, both at the European and world stage, emphasizing a cosmopolitan, competitive, innovative and creative country that has consistently gained external recognition as a destination to live, work or visit, attracting investors in all these aspects.

But suddenly a global pandemic reached Portugal, as well as other nations around the globe, and quickly spread throughout the country. A few weeks later, people were forced into social isolation which led to the shutdown of schools, restaurants and shops and of many institutions and companies. Families and business rapidly lost their income, creating massive impacts on the economy.

The extent and duration of these impacts will determine the speed of the economic recovery together with the impact on real estate assets. However, specifically in real estate, there are no obvious signs of devaluation in the immediate term and, in a long-term perspective, the effects of this situation may even allow for a stronger market in the international context, even if in the short term there was an activity slow down both on transactions and demand.

In the long run, there are already tangible changes in terms of innovation and adaptation within the sector (an increasingly digitalization in broker and licensing processes) and ongoing structural changes, which will further enhance Portugal's position as one of the preferred destinations for living and working.

Investors see in Portugal favorable sociodemographic factors, as well as political, social and economic stability, in addition to more stable returns. Until the appearance of this new pandemic, “security” only referred to the geopolitical framework and the country already benefited from a very positive image in this context.

At a time of transformation with the rise of new methods and processes, JLL and Morais Leitão thus partner up to launch the second edition of this Real Estate Investors Roadmap in Portugal, to provide the best possible updated information on market practices and legal and tax issues, aiming to facilitate the investor approach to our market, especially during this pandemic period.

This Roadmap aims to provide investors with a legal and tax framework on investment structures and type of investment vehicles, as well as leases, planning and licensing, and financing. Following the important recent changes in the real estate legal framework, we believe that this is an excellent moment to provide the real estate players with an updated analysis of the current status of the real estate market in Portugal. We trust that this Roadmap proves helpful for all potential investors willing to invest in real estate in Portugal and to understand the COVID-19 impacts in all real estate sectors.

ROADMAP

REAL ESTATE INVESTORS ROADMAP PORTUGAL

2020 Investment Guide

BUY A HOUSE

Identify the Property

- Asset concluded
- Asset off-plan

Reservation

- Payment of a reservation deposit and signing of a reservation document
- Compliance – anti-money laundering check

Promissory Sale and Purchase Agreement (PSPA)

- This agreement identifies, notably, the property to be transferred, who are the purchaser and the seller, the exact price and payment terms, representations & warranties, remedies in case of default and date of execution of the final transfer deed

Payments

- Asset concluded: 15% to 25% down payment minus reservation deposit

Off-plan Asset

- 20% down payment minus the reservation deposit
- 20% to 30% additional down payment during the construction period, made in different phases

Final Deed

- Signed in front of a notary or a lawyer
- Transfer of ownership enforceable against third parties upon registration of the acquisition in the land registry office
- Payment of the remaining purchase price

OWNING COSTS

ANNUAL COSTS

Property insurance
Household equipment insurance

MUNICIPAL TAX ON PROPERTY (IMI)

0.3% to 0.45% of the property tax value (VPT)

ADDITIONAL IMI (AIMI)

Applicable to properties for residential purposes, at a rate of 0.7% of the VPT *(i)* it is applicable to the taxable value a deduction of € 600,000; *(ii)* a marginal tax rate of 1% is applicable to the taxable amount higher than € 1,000,000 and equal or lower than € 2,000,000; and *(iii)* a marginal tax rate of 1.5% is applicable to the taxable amount exceeding € 2,000,000.

CONDOMINIUM COSTS

Typically € 0.5 / sqm to € 4 /sqm

TRANSACTION COSTS

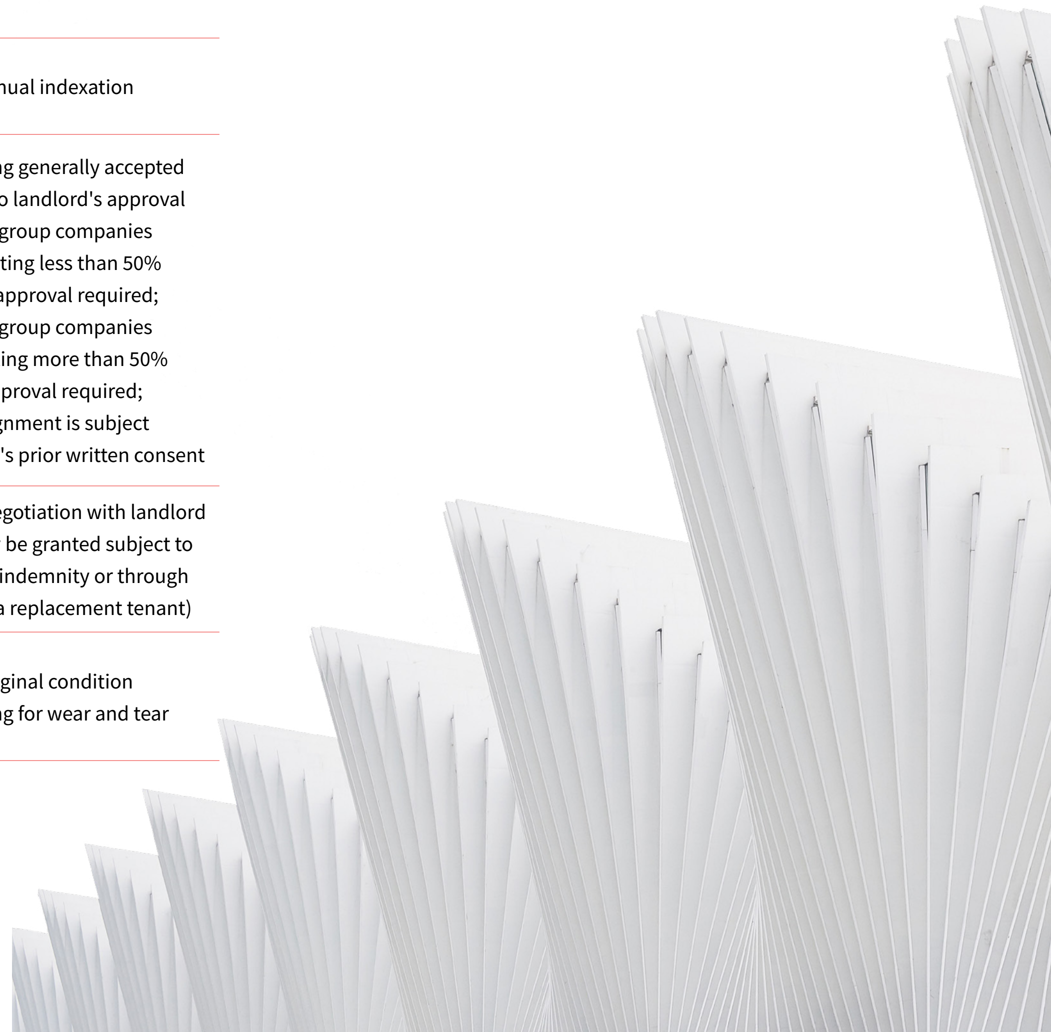
COSTS	% PURCHASE PRICE
Legal Fees	Not related with the purchase price
Notary	Depends on the complexity and purchase price
Registration Fees	€ 250 (or € 500 in case of acquisition financed and secured by a mortgage)
Real Estate Transfer Tax (IMT)	0% to 7.5% depending on the type of property and the acquisition price and property tax value of the same
Stamp Duty (IS)	0.8%

LEASING

	OFFICE	RETAIL SHOPPING CENTRES	RETAIL HIGH STREET RETAIL	RESIDENTIAL
Type of contract	Lease Agreement or Services Agreement	Use of Shop Agreement	Lease Agreement or Services Agreement	Lease Agreement
Lettable Area	GLA	GLA	GLA	GPA
Lease length	5 years (minimum 1 year by law; maximum 30 years by law)	6 years; Anchors: 10 to 15 years	5 to 10 years	There's no standard lease length (minimum 1 year by law; maximum 30 years by law)
Contract Renewals	Equal contractual term or 5 years in case of term inferior to 5 years	–	–	Equal contractual term or 3 years in case of term inferior to 3 years
Rent structure	Fixed rent + Parking + Service charges + VAT	Fixed rent + Turnover rent + VAT	Fixed Rent + VAT	Monthly rents excluding utilities
Guarantees	Bank guarantee: • 6 months of rents + service charges; or • up-front payment of 6 months of rents	Bank guarantee: • 6 months of rents + service charges	Bank guarantee: • 6 months of rents + service charges	Deposit of 3 months
Service charges paid by the tenant (security, maintenance and cleaning of common areas)	€ 1.5 to € 4/ sqm/month	€ 10 to € 16/sqm Anchors: € 4 to € 8/ sqm/ month. Restaurants usually pay more € 2/sqm/month	€ 1 to € 2 /sqm/ month	€ 0.5 to € 4 paid by the tenant (security, if exists, maintenance and cleaning of common areas)
Incentives	Rent free period: • 0.5 to 1 month per contract year; • Fit-out contribution in some cases for big tenants	Rent free period: 3 months; Fit-out contribution for anchors; Discounts on the first 3 years: 25%, 1st year; 15%, 2nd year; 5%, 3rd year	Rent free period for fit-out: 3 months; Discounts on the first 3 years: 25%, 1st year; 15%, 2nd year; 5%, 3rd year	–
Hand-over Conditions	Core & Shell, with basic installation of technical floor and ceiling and air conditioning. Without data cabling	Core & Shell	Core & Shell	Equiped or not With furniture or not
Key Money	–	Prime shopping centres: • up to 6 months of rents	Only in prime zones	–

	RENTAL PAYMENTS
Rent Payment and Frequency	€/sqm/month, due monthly in advance
Rent Deposit	Bank guarantees are usually provided: • equivalent to 6 months' rent
Tenant Liability	None, following the end of the lease The tenant is responsible for reinstating the premises with the exception of wear and tear
Repairs	Tenant responsible for internal repairs Landlord responsible for external/ structural repairs (unless parties agree otherwise)
Insurance	Tenant: contents insurance Landlord: building insurance
Basis of rent increases or rent review	Consumer price index
Frequency of rent increases or rent review	Annual indexation
Tenant subleasing & assignment rights	Subletting generally accepted subject to landlord's approval • For group companies subletting less than 50% – no approval required; • For group companies subletting more than 50% – approval required; Assignment is subject to landlord's prior written consent
Tenant early termination rights	Through negotiation with landlord (may only be granted subject to financial indemnity or through securing a replacement tenant)
Tenant's building reinstatement responsibilities at lease end	Original condition allowing for wear and tear

	SHOPPING CENTRES
Pure Mall Income	Temporary kiosks, muppies & other publicity; Antenna and other income
Effort Rate	Differs a lot depending on the sector and brands, but can be considered as an average – 12%
Recoverable Costs	Operational Costs – service charges: utilities, security, cleaning, gardening, maintenance and infrastructure management costs
Non-recoverable costs	Property costs: managemnet costs, taxes and insurances
Comments	GLA excludes areas in mezzanines Stores with +5.000 sqm need commercial licensing



INVESTMENT

PRE-CONTRACT

Preparation of Marketing Material
and Data Room Vendor's Due Diligence

+

Approach to Investors

+

Non-Binding Offers

CONTRACT EXCHANGE

Short List

+

Meeting with Bidders to Negotiate Final Proposals

+

Reception Final Proposals

PRE-CLOSING

Due Diligence and PSPA Negotiation and Signing
Fulfillment of any conditions precedent to closing
and agreed between the relevant Parties

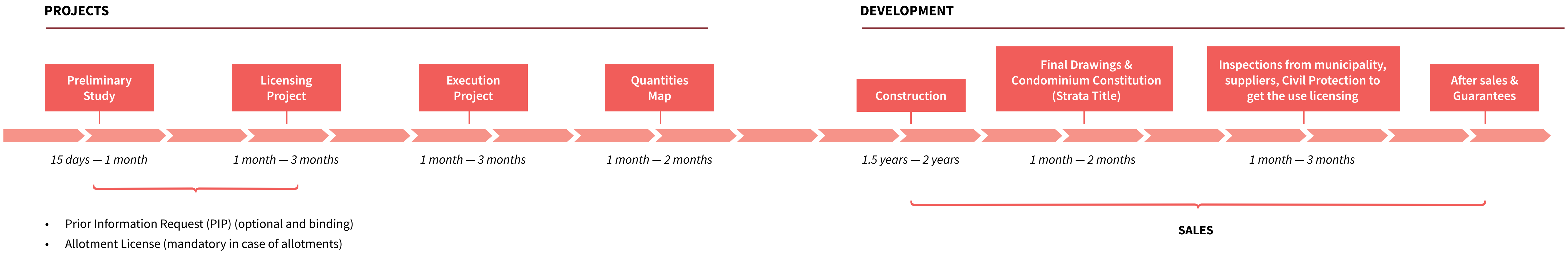
CLOSING

Definitive Sale
and Purchase Agreement (SPA)

INVESTMENT

TRANSACTION STEPS	ASSET DEAL SELLER	ASSET DEAL PURCHASER	SHARE DEAL SELLER	SHARE DEAL PURCHASER
1. Pre-Contract	• Prepare relevant data package (financial, legal and technical) and contract draft • Negotiate contract draft	• Searches to the property's documentation • Enquiries • Investigate title • Surveys • Prepare due diligence (DD) report • Negotiate contract draft	• Prepare DD data pack • Prepare DD responses • Negotiate contract draft	• DD enquiries • Prepare DD report • Negotiate contract draft
2. Contract Exchange	—	• Pay down payment	—	• Pay down payment
3. Pre-Closing	• Manage property to purchaser	• Pre-closing searches • Finalize financing structure • Stamp Duty payment • Property Transfer Tax payment	• Restrictions on conduct of business until completion	• Pre-closing searches • Finalize financing structure
4. Closing	• Discharge mortgage (if applicable)	• Property transferred • Assumption of responsibility	—	• Shares/units – Transfered • Assumption of responsibility
5. Post-Closing	—	• Registration fees	—	• Appointment of new directors, change of registered office and registration of the same with the Commercial Registry Office • Registration fees

DEVELOPMENT



- Prior Information Request (PIP) (optional and binding)
- Allotment License (mandatory in case of allotments)
- Construction License or Prior Communication *(comunicação prévia)*
- Use Permit (mandatory)

DEVELOPMENT

CONSTRUCTION COSTS

€/ SQM	NORTH	PORTO	LISBON	SOUTH
Residential				
High-end	1400	1400	1500	1600
Midscale	1100	1100	1200	1300
Low-end	1000	1000	1100	1200
Retail	700	700	750	800
Office	900	900	1000	1050
Industrial	500	500	550	600
Underground	400	400	450	500

FIT-OUT & FURNITURE

	RETAIL FIT-OUT	OFFICE FIT-OUT	OFFICE FURNITURE
Low Quality	€ 450 to € 650/sqm	€ 400 to € 450/sqm	€ 700/pax
Average Quality	€ 650 to € 850/sqm	€ 600 to € 650/sqm	€ 1200/pax
High Quality	€ 850 to € 1,750/sqm	€ 800 to € 850/sqm	€ 2200/pax

SOFT COSTS

Soft costs	% of total construction costs
Professional Fees	3% to 4%
Project Management	2% to 3%
Technical Supervision	2.50%
Municipal Taxes	Varies according to each municipality

GUARANTEES
2 years for equipment – corresponds to the legal applicable period
5 years for general construction works (including finishings) – corresponds to the legal applicable period
10 years for the building structure – if contractually agreed by the Parties

REAL ESTATE MARKET

REAL ESTATE INVESTORS ROADMAP PORTUGAL

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CÂMARA DE COMÉRCIO
APPII
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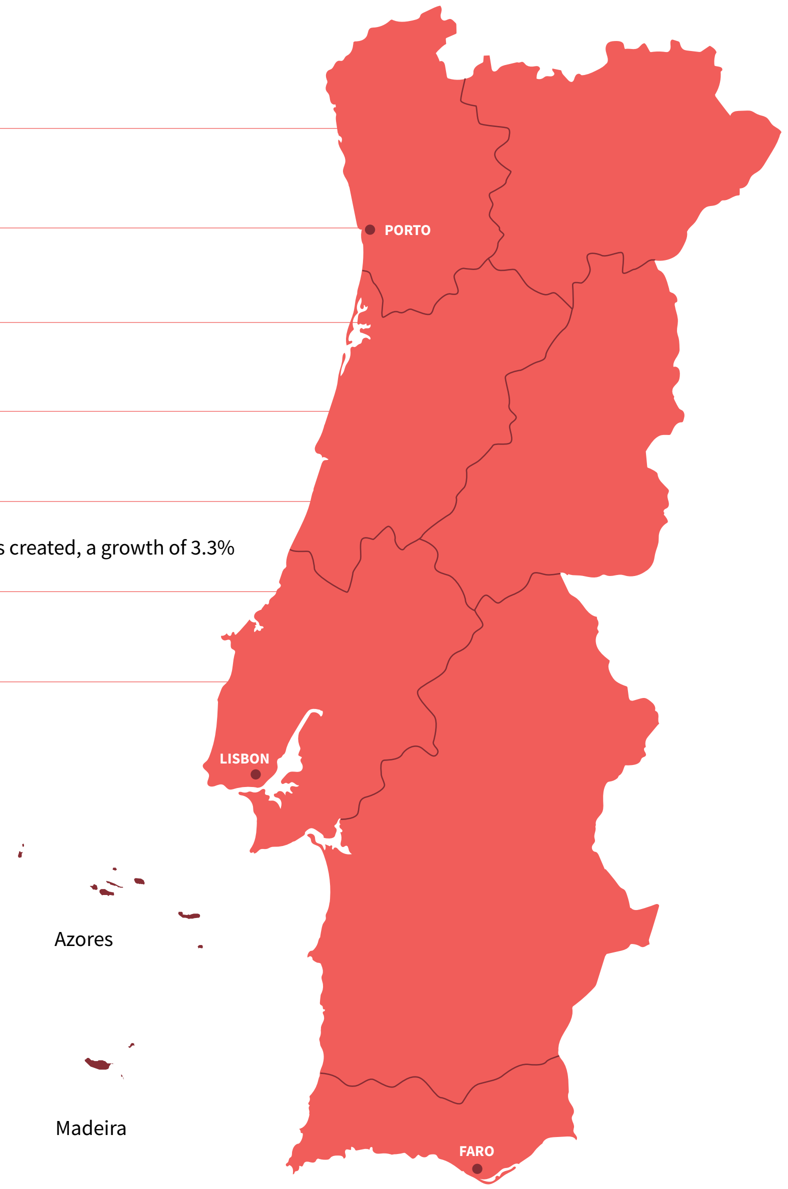
PORTUGAL KEY FACTS

PORTUGAL ID

Total Population	10,3M
Lisbon Metropolitan Area Population	2,8M
Porto Metropolitan Area Population	1,7M
Coast Line	6,3M
Active Population	5,2M
Employed Population	4,8M; +151,000 jobs created, a growth of 3.3%
Area	92,000 Km²

Source: INE 2017



7 regions
18 districts + 2 autonomous regions
308 municipalities
3,092 parishes

Portugal is a member of several global and european organizations, communities, treaties, as well as one of the most globalized and peaceful nations in the world.

OFFICIAL LANGUAGE
Portuguese, 5th most spoken language in the world (spoken in 8 countries)

CLIMATE
276 sunny days per year, country with one of the mildest climates in the world
Source: INE

LOCATION
Iberian Peninsula, southwest of Europe, border with Spain and the Atlantic Ocean

BIG MAC INDEX
6th cheapest country in Europe

17th Country with best quality of life in the world in 2018
Source: US News Quality of Life Ranking 2019 worldwide

3rd Most Peaceful country in the world
Source: Global Peace Index, 2019

1st Best Country in Europe for the expats to live in
Source: Expat Insider

34th Portugal's position in the ranking of global competitiveness
Source: Banco de Portugal, Doing Business 2018,
World Bank (15th in Europe), the best country in trading across borders

POLITICAL ADMINISTRATION

The Republic of Portugal is a Parliamentary democracy, based on the respect and the effective guarantees for fundamental rights and freedoms and the separation and interdependence of powers.

LEGISLATIVE POWER

PRESIDENT OF THE REPUBLIC (HEAD OF STATE)	PARLIAMENT (ASSEMBLY OF THE REPUBLIC)
Elected by direct universal suffrage for a 5-year term *(max. 2 terms)*	Represented by 230 members which are elected by popular vote to serve a 4-year term

EXECUTIVE POWER

GOVERNMENT (PRIME-MINISTER, MINISTERS AND SECRETARIES OF STATE)
Elected by popular vote to serve a 4-year term

JUDICIAL POWER

CONSTITUTIONAL COURT, COURT OF AUDITORS
SUPREME COURT (JUDICIAL, ADMINISTRATIVE AND FISCAL COURTS),
MARITIME COURTS, COURTS OF ARBITRATION AND JUSTICES OF THE PEACE

11th Largest exclusive economic zone in the world

53 Countries with a Portuguese historical presence

10th Countries with a Portuguese historical presence

10th Best democracy in the world

Source: Liberal democracies index (180 countries)

INFRASTRUCTURES

HIGHWAYS
3,100 kms

RAILWAYS
2,600 kms

Source: Infraestruturas de Portugal 2020

AVIATION
No. of airports – 10 *(ANA)*
No. of aerodrome – 39 *(NAV)*
Cargo handled – 187,000 tons

MARITIME
No. of maritime harbors – 14
Cargo handled - 91M tons

Source: ANA Aeroporto, NAV Portugal and APP

In Portugal all citizens have the right and free acess to the public institutions and education. Similar to the private health services, the public health services have great infrastructures and highly qualified professionals.

The quality of educational institutions and the diversity of international schools present a wide choice in which residents can trust. Portuguese universities have had an excellent international performance, attracting students and teachers from all over the world due to the improvement in the quality of teaching.

1st Nova IMS: best masters degree in the world in information management

Source: EDUniversal

12th Best health system in the world

Source: WHO

MACRO ECONOMIC FACTS

	PORTUGAL	EURO ZONE
GDP	€ 212bn + 2.20%	€ 13,918bn + 1.20%
GDP per capita	€ 23,275k	€ 30,204k
Unemployment Rate	6.5%	7.6%
Inflation	0.3%	1.2%
Private Consumption	2.3%	1.3%
Exports	3.7%	2.5%
Minimum Wage	€ 600 *(14 months)*	

Source: INE, Travel Bi

TOURISM

27M No. of tourists

29,3M No. of passengers in the airports

1,4M No. of passengers in ports

34th Portugal's position in the ranking of global competitiveness

9th Country with less organized crime
14th Country with less bureaucracy
17th Country with the latest technology available
21st Infrastructure quality. Portuguese roads are in 8th place in the ranking of the 141 countries
21st Country with the longest life expectancy
27th Quality of the Education System: quality of future workforce
28th Country with most transparency in institutions.

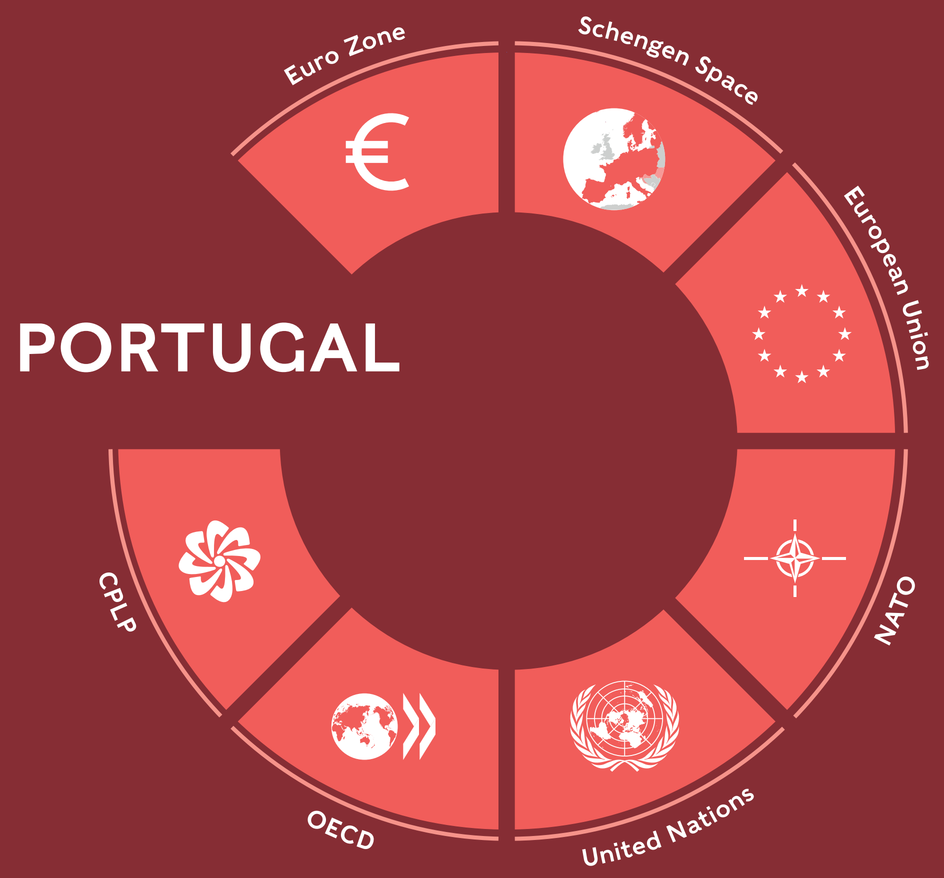
Source: The Global Competitiveness Report 2019

+7.2% Tourists growth *vs.* 2018	*+8.1%* Tourism growth revenue vs. 2018
1st Portugal Best Travel Destination in Europe 2019	*1st* Portugal Europe's Leading Adventure Tourism Destination in 2019

Source: Travel Bi, World Travel Awards

25th

JLL Global
Real Estate Transparency
Ranking - 100 markets



OVERVIEW

Despite the current market uncertainty, the fundamentals are still present in our country. Portugal holds countless competitive advantages when compared to most European countries, specially when competing in price. From the investors perspective, for whom the liquidity levels are high, Portugal is seen as offering favorable sociodemographic factors, for its political, social and economic stability.

Portugal continues to be a credible destination, with improved reputation resulting in more confidence among investors.

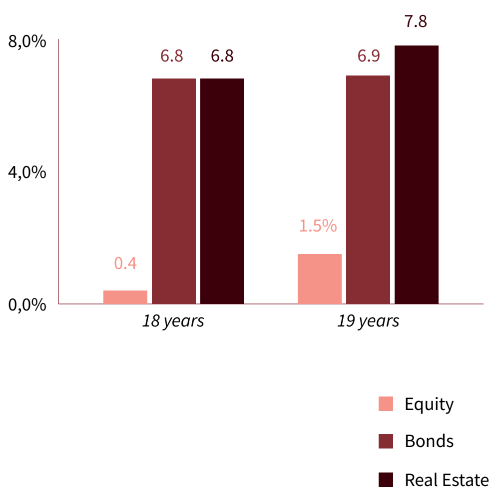
The return on **investment** is on average more stable in Portugal, even when the country was one of the most affected during the financial crisis returns were less volatile than many of its peers, even though it took longer to obtain better returns.

The real estate market overcame investment asset classes such as equities and bonds, over the last 20 years. There are several advantages that real estate investment can result in:

- It generates higher returns in light of the low associated risks;
- It represents lower variance in returns than the other investment asset classes;
- Its performance is more stable and verified at 20 years.

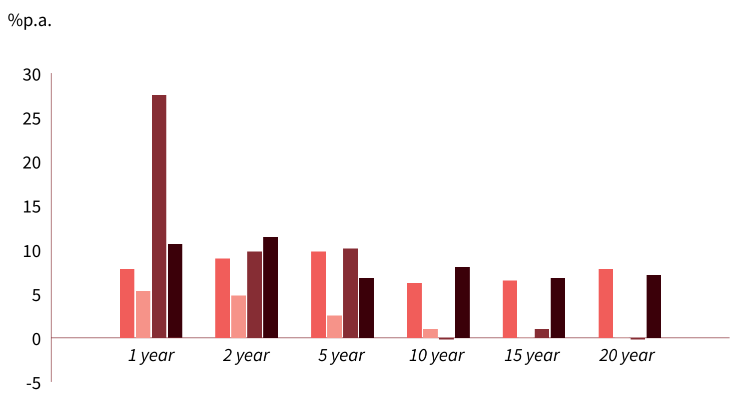
Despite the severe financial crisis, Portugal has seen steady real estate returns, comparing with other european countries.

Long-term performance of different assets



Total returns per asset

Standing investment returns per asset class in EUR



Last 20 years	Total Return	Standard Deviation	Risk Adjusted Return
Direct Real Estate	7.8	4.6	1.7
Equities	-0.2	21.5	0.4
Bonds	7.1	17.9	0.0

In the beginning of the decade, Portugal went through one of the most challenging periods of its current history, with a foreign financial intervention under a conjuncture of unprecedented and widespread international crisis. The country, nonetheless, emerged from the crisis as a renewed destination, with interest from new tourists, new businesses and new residents.

The **office** market was characterized by historically high performances in the last years, with record high takeups (despite the lack of office space). The market reflected once again the strong demand from multinational companies seeking the strong market fundamentals of the Portuguese market — qualified resources alongside competitive operational costs, infrastructure quality, technological developments, and high quality of life.

Despite recent prime rent increases, the market is still considerably cheaper than the main markets in Europe, as well as with considerable higher returns, and hence having a competitive advantage over competing destinations.

Boosted by private consumption increases, **retail** sector has had strong performance indicators, both in High Street Retail (HSR) and Shopping Centres (SC). The main shopping streets of Lisbon and Porto had renewed interest in the past decade, whereby brands no longer refrain from being on the main axes of these cities, while SC remained on a constant updating process and very attractive, continuing to lead the Portuguese consumer choice when it comes to purchase. Prospects for the future are still good, with new streets and neighborhoods to be explored and with new brands appearing, fostering a permanent element of surprise and capturing the interest of both Portuguese and tourists visiting our country.

The **residential** market was one of the main drivers of the Portuguese recovery, with worldwide interest in living solutions in Portugal, as proven by the nearly 50 nationalities buying a home in our country.

Market momentum has not stopped and is now coming also from domestic customers, who are actively looking for new houses to buy and to rent, satisfying a pent-up demand that accumulated during the financial crises.

The arrival of new supply will allow the market to gain scale and diversification. Recent years were marked by the volume of investment of plot transactions, outside of the prime centre, mixed-use projects from scratch, targeted for Portuguese families. The next years are expected to focused on plots development, with the increasing diversification of supply, which will enhance investment attractiveness and profitability of operations.

Lisbon became a very popular destination, especially among European travellers. Awareness for the city rose and the **tourism** sector increased its competitiveness, being then able to compete with the main touristic destinations. The city has won several tourism awards in recent years, being considered a Leading Tourism Destinations in 2017, 2018 and 2019, in addition to several other prestigious tourism awards.

Real Estate Investors are still showing interest in our market — traditional players are in a wait and see position but ready to move as soon as the market picks up; other opportunistic investors are showing up.

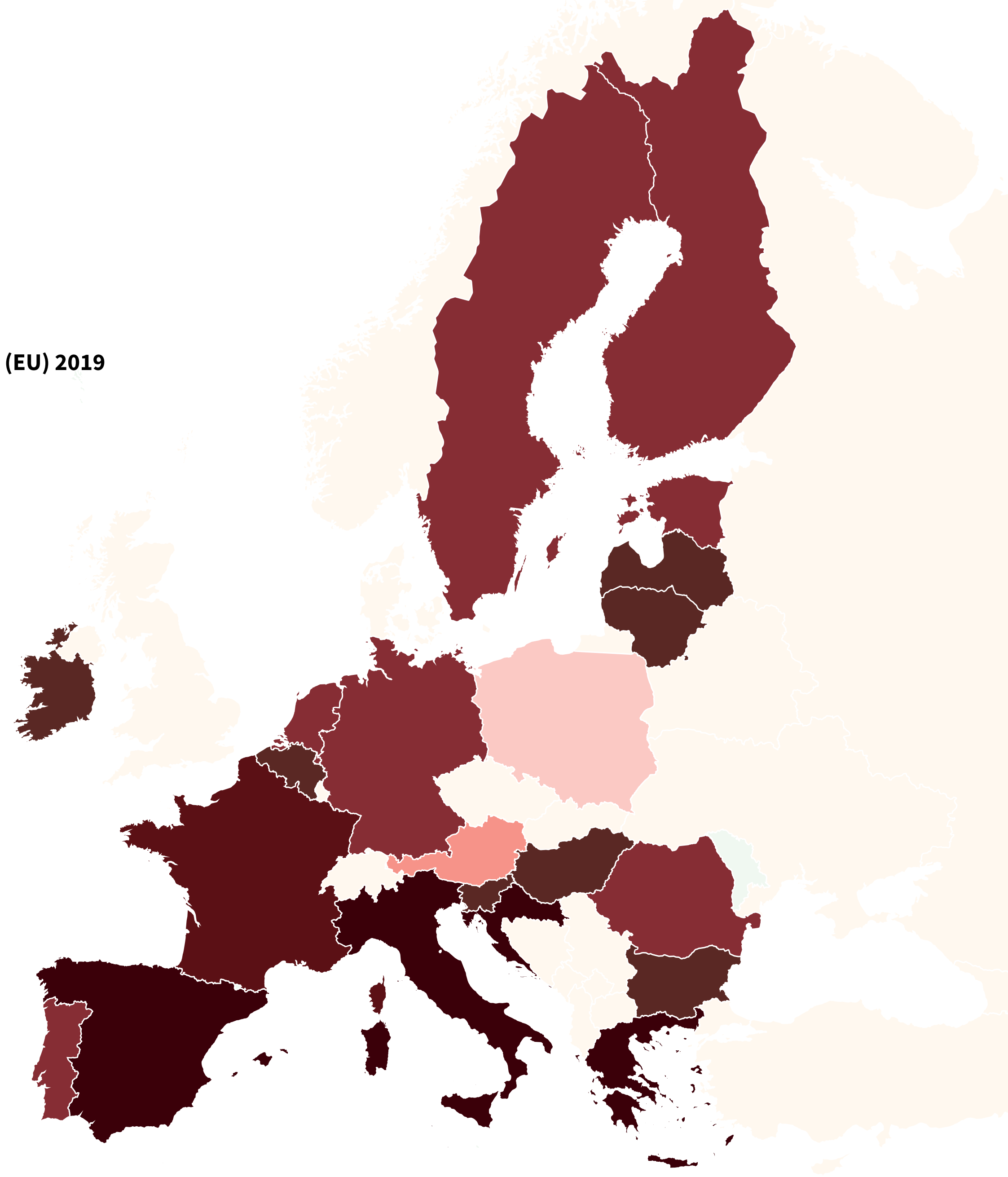
Forecasted outlooks are positive for Portugal. Both the European Commission and Oxford Economics predict a rebound for 2021, despite some longer effects in some sectors.

FMI, OCDE, European Comission and BdP all forecast a recovery between 5% and 6% for 2021, anchored around domestic demand and investment.

Economic Forecast Map (EU) 2019

% GDP Growth

- < -4
- ≤ -5
- ≤ -6
- ≤ -7
- ≤ -8
- ≤ -9



Growth for 2021 anchored around domestic demand and investment.

% GDP Growth 2021

Between 5% and 6%

Highlight that *(i)* the economic overall risk is in line with the advanced economics (despite slightly higher) and *(ii)* market demand risk below advanced economies average, indicating that once the pandemic is dealt with, Portugal will be once again a dynamic market.

REAL ESTATE IN NUMBERS

Construction Costs

	OFFICE (LISBON)	OFFICE (PORTO)	SHOPPING CENTRES	RETAIL PARKS	HIGH STREET RETAIL (LISBON)	HIGH STREET RETAIL (PORTO)	INDUSTRIAL & LOGISTICS
Yields % Q2 2020	4%	6%	5.25%	6.5%	4.15%	6%	6%
Rents (€/sqm) Q2 2020	25	18	115	11	130	65	3.50

Hotels Kpi's

	OCCUPANCY RATE	ADR	REYPAR
Porto 2019 ytd (Q3) STR	76.72%	120.29 €	92.29 €
Lisbon 2019 ytd (Q3) STR	78.08%	127.50 €	99.55 €

Stock Q1 2020

OFFICE	RETAIL		RESIDENTIAL (UNITS)	HOSPITALITY (BEDS)
Lisbon (sqm)	Shopping Centres (sqm)	Retail Parks (sqm)		
4 266 888	2 965 024	481 244	5 954 548	423 152

Shopping Centres Q1 2020

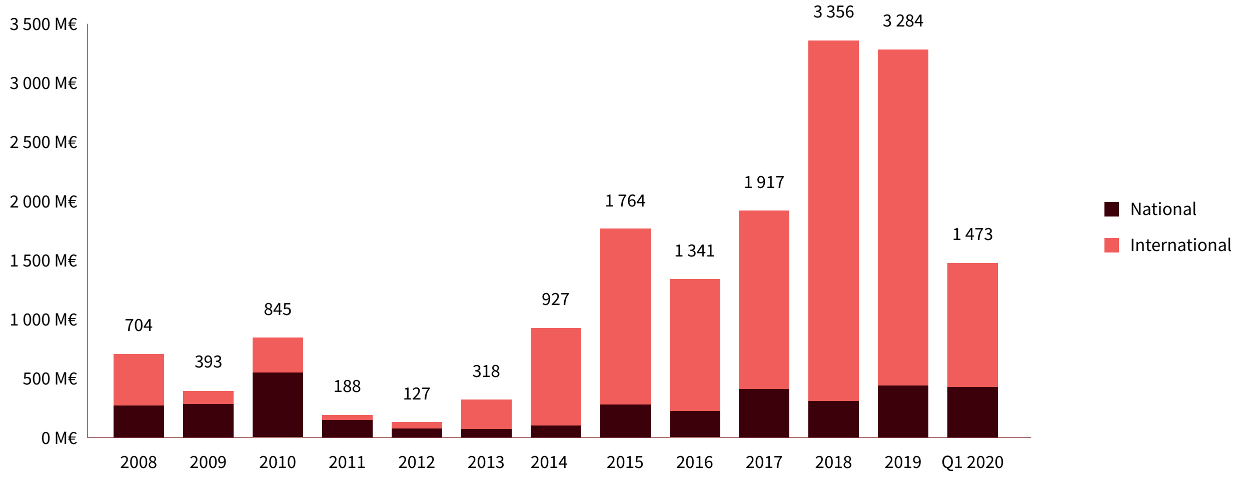
	VERY SMALL	SMALL	MEDIUM	LARGE	VERY LARGE	RETAIL PARK	TOTAL	VOLUME INVESTED 2016-2020Q1
No. of Shopping Centres in Portugal	11	54	27	19	5	37	153	€ 2.634bn
Average Size	500 to 4,999	5,000 to 19,999	20,000 to 39,999	40,000 to 79,999	> 80,000	4,000 to 35,000		28 transactions

Hospitality 2019

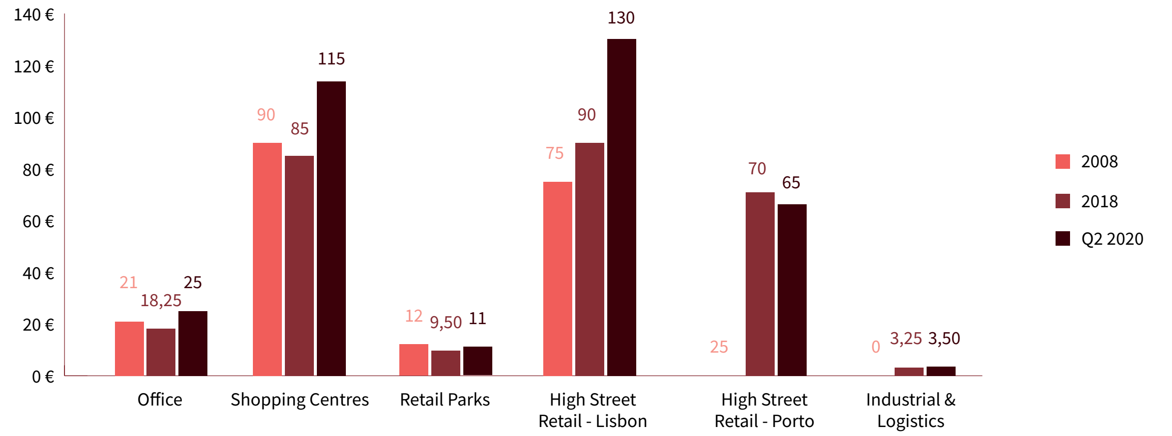
TYPE OF ACCOMMODATION	NO. OF GUESTS	NO. OF OVERNIGHTS	REVPAR (€)
Hotels	21,548.5 M	57,909.9 M	55.4
Local Lodge	4,498.2 M	10,009.9 M	30.3

INVESTMENT

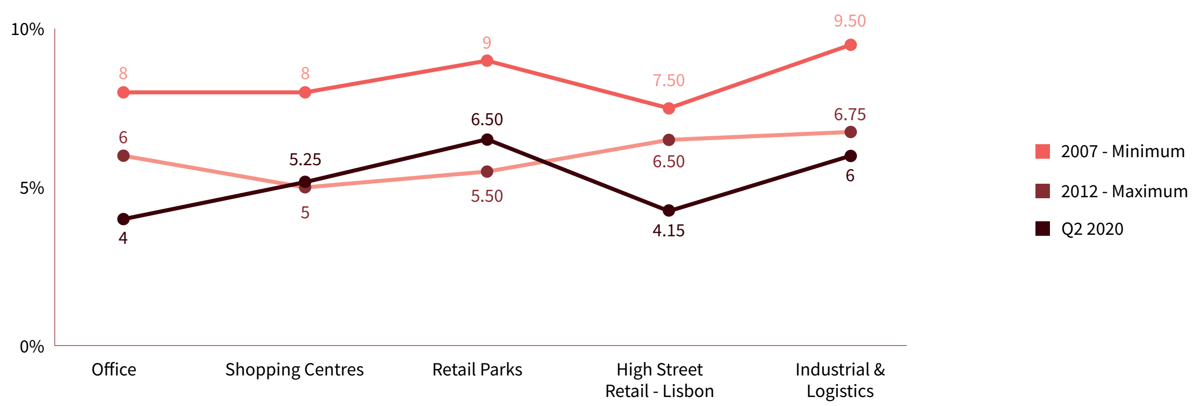
INVESTMENT VOLUME EVOLUTION



RENTS EVOLUTION

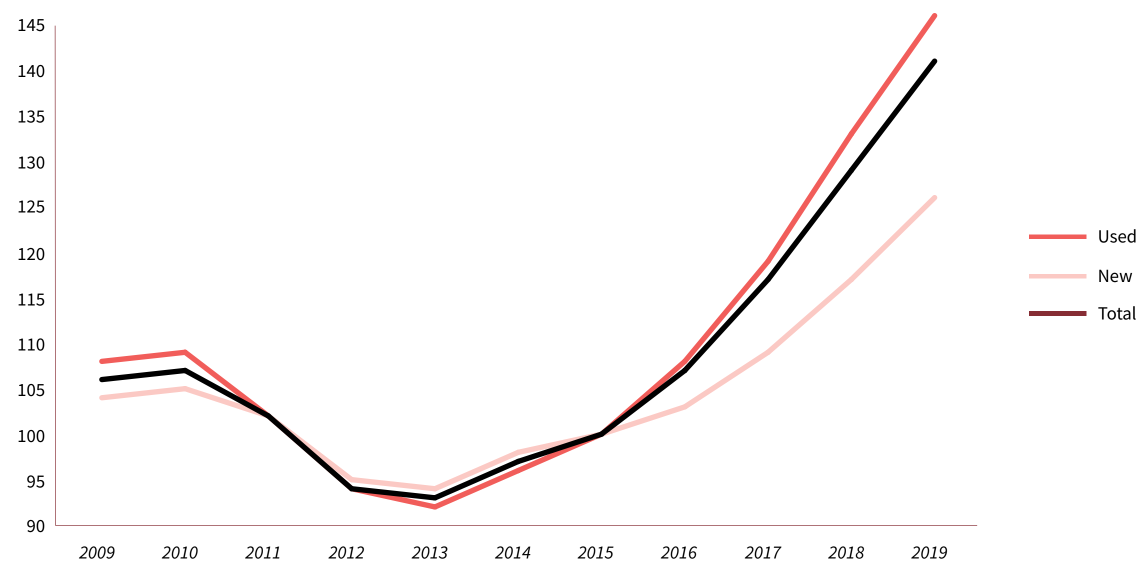


PRIME YIELDS EVOLUTION



RESIDENTIAL

HOUSING PRICE INDEX



LISBON PRIME VALUES

Lisbon is still more affordable than other European capitals

€ 33/sqm
London

€ 20/sqm
Paris

€ 12/sqm
Berlin

€ 12/sqm
Madrid

€ 10,500/sqm
Lisbon

Source: Financial Times

OWNERSHIP AND TRANSFER OF PROPERTY

The concept of ownership (*propriedade*) in Portugal encompasses not only the full ownership (*plena propriedade*) but also other *in rem* rights (*v.g.*, *in rem* security and acquisition rights like the surface rights and usufruct rights). The full ownership concept is similar to the French concept of *droit de proprieté* and to the common law concept of “freehold” and consists of the complete and exclusive right to possess, enjoy and dispose of a property, with no time limitation.

Fiduciary ownership is not provided under Portuguese law. It is only accepted in the Madeira Free Zone, through a trust, for the purpose of activities therein pursued.

The co-ownership is allowed under the Portuguese law. In this case, each co-owner is the holder of an ideal share over the property and is allowed to sell such share to third parties and the remaining co-owners are entitled to a pre-emption right in any such sale. The co-ownership legal regime entails specific rules regarding the property management of the relevant property.

The transfer of ownership takes place as a result of a contract:

(i) a public deed executed before a notary, or
(ii) a certified private document, in which case it may be executed before a lawyer or a paralegal officer.

In addition, certain documents are required by law, namely the land registry certificate (*certidão predial*), the tax certificate (*caderneta predial*), the use permit (*licença de utilização*) of the property or the building permit (*licença de construção*) as applicable, the energy certificate, the proof of payment or exemption of Property Transfer Tax (IMT) and Stamp Duty. Recently, proof of registration of the ultimate beneficial owner with the Portuguese Ministry of Justice is also required by law for corporate entities, and evidence of the bank transfer or of the bank cheque used for the payment of the price.

LAND REGISTRY

Registration is essential to prove title over property. The responsibility of the land registry rests with the Portuguese State through the Land Registry Offices that keep public records of each property’s legal status, including ownership and encumbrances. The Land Registry is based on the principle of priority of registration whereby the first recorded *in rem* right prevails over other recorded *in rem* rights even if the latter have been created prior to such registration date.

The registration of facts establishing the constitution, recognition, acquisition or changes of in rem rights over a property is mandatory by law.

Lack of record of such facts in the land registry entails lack of protection of the relevant property purchaser vis-a-vis third parties (*erga omnes* effects) and also the impossibility to transfer such property.

Required documents for transfer of a property

Land registry certificate (*certidão predial*) Tax certificate (*caderneta predial*)	Proof of registration of the ultimate beneficial owner with the Portuguese Ministry of justice (as applicable)	Use permit or building permit (as applicable)
Energy certificate	Proof of payment of the applicable property transfer taxes	Residential technical file (if applicable)

INVESTMENT STRUCTURE

Any property may be acquired directly (asset deal) or indirectly, through the purchase of equity interests of the entity owner of the property (share deal).

ASSET DEAL

As a rule, the acquisition process starts with *(i)* a letter of intent establishing an exclusivity period allowing the investors to have their advisors verifying the legal, urban planning, licensing, environmental, technical and tax status of the property (due diligence) and/or *(ii)* a promissory sale and purchase agreement that precedes the effective transfer of the property and which sets out certain obligations and/or the fulfilment of a set of conditions precedent to the envisaged transaction.

Upon signing of a promissory agreement, it is standard market practice that the promissory purchaser pays to the promissory seller a down payment that varies between 15% to 25% of the purchase price. By law, as general rule, in case of default by the promissory purchaser, the promissory seller is entitled to keep the down payment received; in case of default of the promissory seller, the promissory purchaser is entitled to receive twice the amount paid as down payment. Alternatively, specific performance of the promissory agreement may be sought by the non-defaulting party. Upon execution of the promissory purchase contract it is also customary to provisionally register the acquisition of the property with the Land Registry Office which will become definitive upon the effective acquisition of the property. Pursuant to the principle of priority of registry above mentioned, this provisional registry provides security to the promissory purchaser against potential subsequent liens and encumbrances that may be created concerning the property.

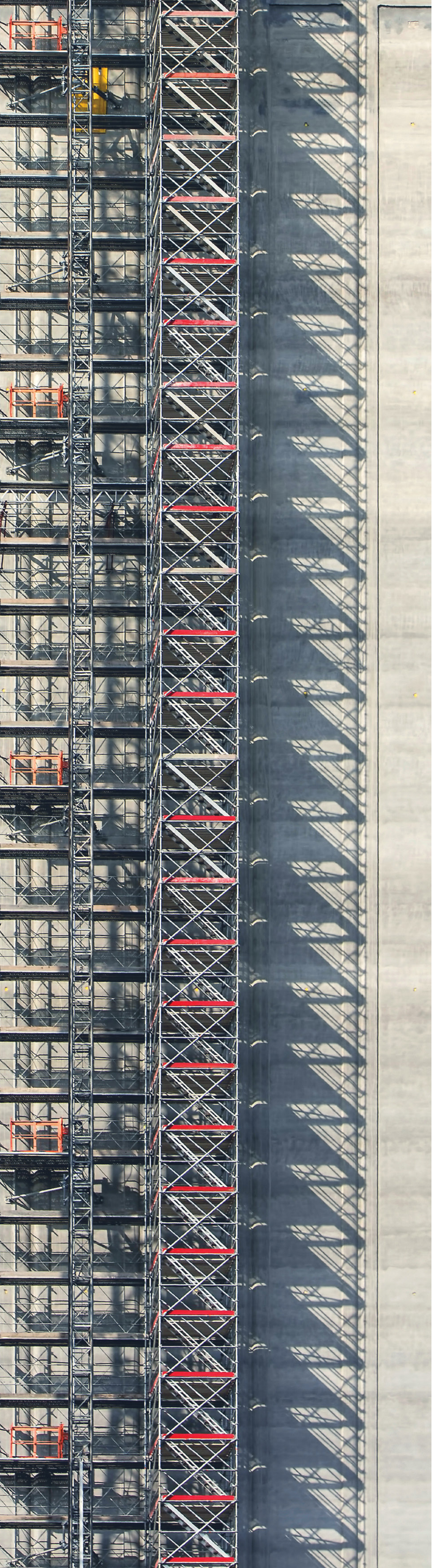
By law, unless parties agree to sell the property on an “as is” basis or agree to specific guarantees, in case of transfer of brand new property or property that was subject to renovation and/or refurbishment works, the seller is liable for any defects of the property and the seller has recourse to the constructor for a legal 5 year guarantee period.

SHARE DEAL

The main vehicles used to acquire properties are commercial limited liability companies, either joint stock companies (*sociedades anónimas* – “S.A.”) or private limited companies by “*quotas*” (*sociedade por quotas* — “Lda.”), and undertakings for collective investment of contractual nature (real estate investment funds) or collective undertakings under corporate form (*i.e.*, real estate investment companies).

In share deals the due diligence exercise conducted by the investor must also cover the relevant vehicle owner of the property, notably its financial, tax, corporate and legal and labour status.

The acquisition of equity interests of the vehicle is made by means of a private purchase agreement and, save for limited liability companies by “quotas” (the transfer of quotas is subject to registration with the Commercial Registry), is not subject to any specific requirement.



a) Corporate Vehicles (Special Purpose Vehicle – SPV)

It is market practice to incorporate special purpose vehicles (SPV) for direct or indirect real estate investments. As mentioned, the most used limited liability companies in this context are joint stock companies ("S.A.") or limited liability companies by "quotas" ("Lda.").

Joint stock companies (S.A.)

- Five shareholders or single shareholder
- Minimum capital of € 50,000

Joint stock companies (S.A.) may have five shareholders, natural or legal persons, or a single shareholder, as long as it is a commercial company. The minimum capital is € 50,000. Although it is recommended, a transfer of shares does not have to be agreed in writing. The transfer shall be made by endorsing the shares and by requesting the issuing company to register the transfer of shares in the shares' registry book; in case of book entry shares, the transfer will take place through its registration in the purchaser's account, based on an order of the seller.

Private limited companies (Lda.)

- Typical for small and medium enterprises
- Capital split in quotas, with minimum of €1

Private limited companies by "*quotas*" correspond to the typical structure of small and medium companies, given their lighter structure. Capital is split in *quotas*, with a minimum of 1 € per *quota*. In general, the company has two or more partners, but it is possible to have only one, taking into account some legal specificities and provided that the expression "*unipessoal*" is added to the company's name. The *quotas* are registered in the Companies Registry Office. The transfer of *quotas* must be in writing and must be registered in the Companies Registry Office.

b) Undertakings for Collective Investment in Real Estate

AIFs under contractual form

Collective investment undertakings correspond to Alternative Investment Funds as foreseen in the Directive 2011/61/UE (AIFs) and are governed by Law 16/2015, dated of 24 February, as amended, which implemented the said AIFs Directive. AIFs in real estate assume the form of real estate investment funds (FII), open-ended or closed-end (public or privately subscribed), or the form of joint stock real estate companies (SII), with fixed capital (SICAFI) or variable capital (SICAVI). AIFs are under no circumstance liable for the debts of unit holders, of the AIFs management companies, depositories and custodian entities. Only AIFs' assets will be liable for AIFs' debts.

AIFs are represented by investment units. Holders of investment units are called participants.

The investment units may be represented by certificates of one or more units, or in book-entry form. More than one class of units may be issued, based on rights or special characteristics, provided that this is stipulated in the incorporation documents and consistent with the risk profile and that the FII investment policy is assured.

The incorporation of the FII depends on the authorisation of the Portuguese Securities Market Commission (CMVM). The FII have no legal personality and are managed by an AIF management company.

The incorporation of FII management companies is subject to the authorisation of CMVM. Their activity is subject to different rules and own funds requirements. FII management companies may exercise their activity in another undertaking by establishing an affiliate company. Investors generally resort to existing management entities insofar as their incorporation corresponds to a complex procedure ultimately depending on the authorisation from CMVM.

The investment units must be entrusted to a single custodial entity.

The AIF's management company and the custodian are jointly and severally liable to unit holders for compliance with the obligations set out both in the law and in the FII's management regulations.

The FII's assets may include property, liquidity and equity interests in property companies. This composition shall comply with the rules and limits legally defined for each type of asset and each type of FII. Within one year from incorporation, the FII must have assets worth at least € 5 million under management.

FIIs' property must be subject to evaluation by at least two independent expert appraisers within the period provided in the law.

The FII regulation defines the rules to call and operate unit holders' meetings, as well as their competence, and in the absence or insufficiency of such rules, the Portuguese Companies Code applies.

The creation of the FII is contingent upon the submission of an application underwritten by the management company, together with the drafts of the management regulation, of the contracts to be entered with the custodian of the subcontracted entities or of the service providers, and the documents certifying the acceptance of functions of all the involved entities.

Several charges are due upon incorporation and operation of the FIIs, including charges with the CMVM, fees due to the management company, to the custodian, to the appraisers of the properties and to the auditor.

AIFs under corporate form

SIIs have legal personality and may assume the form of a joint stock company with variable capital (SICAVI) or with fixed capital (SICAFI). The property assets held by these companies are managed by the companies themselves (self-management) or by a third-party manager (external-management), acting independently and in the exclusive interest of the shareholders on a fiduciary basis.

Collective investment undertakings under corporate form are governed by the General Regulation and by the Portuguese Commercial Companies Code, save where the rules of the latter are incompatible with the specific purpose of these AIFs or with the provisions of the General Regulation.

SICAVIs and SICAFIs are respectively subject to the regulations legally provided for open-ended and closed-end FIIs.

c) Real estate investment and management companies (SIGI)

SIGIs were created by a decree-law which entered into force on 1 February 2019 and follow the regulation of the Real Estate Transfer Trust (REITs) implemented in various European countries.

SIGIs are incorporated joint stock companies, with or without public subscription, and have a minimum paid-up share capital of € 5,000,000. SIGIs may either directly manage or economically operate properties or enter into service agreements with third parties for the management or economic operation of such properties.

SIGIs' shares are mandatorily admitted to trading in a regulated market or a multilateral trading system and, from the end of the third full calendar year after admission or selection for trading of SIGI' shares, at least 20% of the shares must be held by investors which hold shareholdings corresponding to less than 2% of the voting rights. Furthermore, from the end of the fifth full calendar year after admission or selection for trading of SIGI' shares, at least 25% of the shares must be held by investors which hold shareholdings corresponding to less than 2% of the voting rights.

At least 80% of SIGI's asset value shall correspond to property ownership rights, surface rights or other equivalent rights over properties and at least 75% of the total value of SIGI's assets shall correspond to rights over properties subject to lease agreements, including non-standard contracts comprising additional services related to the use of real estate property.

SIGIs' indebtedness may not exceed, at all times, 60% of SIGI's total asset value and at least 75% of the net income resulting from the sale of assets should be reinvested within 3 years in other assets allocated to the SIGI business.

AIFs under corporate form are allowed to convert into SIGIs through a resolution of its shareholders adopted by a majority of votes corresponding to 90% of its share capital.

LEASES

1.1. GENERAL LEGAL FRAMEWORK

Leases are mainly regulated by the Portuguese Civil Code. This legal regime is applicable to any agreement whereby the temporary use of a real estate property is granted by one party against the payment of a consideration by the respective user.

A) FORM/CONTENTS

Entered in writing (the nonfulfillment by the parties of such formality can entail the lease agreement being claimed null and void)

Do not require any additional formalities, except if term equals or exceeds 6 years (mandatory registry with the Land Registry Office)

Include parties' identification, description of premises, purpose, use permit and rent

Common to provide rental guarantee — rent deposit, security or bank guarantee

Can encompass term and respective renewal/opposition to renewal, early termination rights, maintenance and upkeep obligations, work obligations, reinstatement of leased premises, rent review

B) ASSIGNMENT / SUB-LEASE

Unless agreed otherwise or in case of transfer of business as an ongoing concern (*trespasse*), a tenant can neither assign its contractual position nor sublease the leased premises without prior authorisation of the landlord

Upon sale of the leased premises, the contractual position of the landlord is automatically assigned in favour of the purchaser of the leased premises

C) RENT

Unless otherwise agreed between the parties, rent will be paid on a monthly basis, until the first working day of the month immediately preceding the relevant month

The parties can freely agree on the payment of the rent in advance for a period that shall not exceed three months

D) MAINTENANCE

Unless otherwise foreseen by the parties, the landlord is responsible for maintenance of the leased premises

E) REINSTATEMENT

Unless otherwise foreseen by the parties, the tenant shall return the leased premises at the end of the lease in its original state except for normal wear and tear

F) PRE-EMPTION RIGHT

In case of sale of a leased property, the tenant of the property for more than 2 years is entitled to a mandatory legal pre-emption right over the respective sale (additional requirements may be applicable whenever the leased property is not structured under the condominium regime)

G) DEFAULT AND EVICTION OF TENANT

Either party may terminate the lease contract in case of serious default by the other party

Termination by the landlord must be judicially declared, except in case of non-payment of rent, charges or expenses or of the tenant's opposition to works ordered by public authorities, in which case it is possible to obtain an out of court special eviction process with the National Lease Desk (*Balcão Nacional do Arrendamento*)

When under certain circumstances (*v.g.* in case of opposition by the tenant) the process may be brought ultimately to court

1.2. TYPES OF LEASES

There are two types of lease contracts: housing and non-housing leases

Non-housing Leases

A) CONTENTS

The most relevant aspects of non-residential leases can be freely agreed upon by the parties, including term, early termination and opposition to the renewal, reinstatement and upkeep obligations, etc. Otherwise, the rules on residential leases shall apply.

B) DURATION/RENEWAL

Non-housing leases can be entered for a specific term (up to a maximum term of 30 years and for a minimum period of 1 year).

Leases with non-specified term are not commonly used in the market. Where the parties do not specify the term, the lease shall be deemed a 5 year fixed-term lease.

Unless otherwise agreed the term is automatically extended for equal and successive periods or for successive periods of 5 years if the agreement has a term inferior to 5 years (some doctrine sustains that this corresponds to a 5 year extension period mandatory determined by law).

Regardless of the term of the agreement, the landlord is not entitled to oppose to its renewal during the first 5 years.

Lease with a term equal or exceeding 6 years must be registered with the land registry office.

Lack of such registration inibits the tenant from invoking the lease term in excess of the said 6 year period vis-à-vis third party purchasers of the leased property.

C) EARLY TERMINATION

By law, the early termination of the lease (*denúncia*) by the landlord is only allowed upon a 5 years minimum prior notice by the landlord or in case the latter intends to execute demolition works or refurbishment works in the leased property insofar as the leased premises cannot be kept leased after the said works are implemented.

Furthermore, in the cases of early termination by the landlord, tenants and any of its employees are allowed to claim compensation for damages arising therefrom.

D) LANDLORD'S PRE-EMPTION RIGHT ON BUSINESS TRANSFER BY TENANT

Unless otherwise agreed, in case of transfer or payment in lieu of business by the tenant that includes the lease, the landlord has a pre-emption right thereover.

Housing Leases

A) CONTENTS

The degree of contractual freedom in lease agreements for housing purposes is more limited than in non-housing leases insofar as the matters pertaining to early termination and opposition to renewal are mandatorily determined by law.

B) DURATION/RENEWAL

Leases can have a specific term from a minimum of 1 year up to a maximum of 30 years.

Unless otherwise agreed the term is automatically extended for equal and successive periods or for sucessive periods of 3 years whenever the duration of the agreement is inferior to said period.

C) EARLY TERMINATION/OPPOSITION TO RENEWAL

The opposition to renewal and early termination rights of each party under fixed term residential leases are mandatorily determined by law.

By way of example, where the initial duration of the lease or its renewal is six years or more, the landlord or the tenant will be required to comply, respectively, with a minimum 240 days or 120 days prior notice to the other party for its opposition to renewal.

However, landlord is not entitled to oppose to the renewal of the lease agreement during the first 3 years.

Provided that one third of the lease term has elapsed, the tenant will also be entitled to an early termination right at any time upon 60 to 120 days prior notice to the landlord.

Transitional rules applicable to "old leases"

Law no. 6/2006, of 27 February (NRAU), foresees specific transitional rules in respect to "old leases" executed prior to NRAU entering into force: *(i)* the legal framework applicable to housing leases entered into under the former urban lease regime (RAU), *i.e., after* 18 November 1990, and to non-housing leases entered into under Decree-Law no. 257/95, of 30 September, *i.e., after* 5 October 1995 (DL 257/95); and *(ii)* the legal framework applicable to all lease agreements entered into prior to the said dates (commonly referred to as "*contratos vinculísticos*").

Old rents updating procedure

Furthermore, a procedure has been enacted in 2012 aiming the smooth transition into the NRAU of the leases entered into prior to the RAU and to the DL 257/95 as well as the update of the respective rents.

It corresponds to a negotiation process between the landlord and the tenant that starts at the initiative of the landlord.

Works on leased properties

Also, early termination of leases by the landlord is allowed for the purposes of execution of reconstruction, modification and expansion works on any existing leased property under certain terms and conditions defined by law. Termination is allowed provided that (a) the landlord pays an indemnity to the tenant equivalent to 2 years of rent or (b) relocates the tenant in alternative leased premises for a period of, at least, 3 years under similar conditions. In case the tenant is 65 years old or more or proves a disability in excess of 60% the termination is conditioned upon relocation of the tenant.

Contracts for the use of shop

Contracts for the use of a shop integrated in commercial schemes (*v.g.*, retail parks, shopping centres or factory outlets) are neither subject to the lease's general legal framework nor to any typified regime specially provided in the law. In fact, these correspond to non-standard contracts (*i.e.*, atypical contracts), entered into by the parties within the scope of their freedom to contract under the general contract law.

This type of contract tends to be standardised within the industry and entails the right of the shopkeeper to use the relevant shop area and to benefit from the common/centralised services and amenities provided by the owner or the operator of the commercial scheme at hand.

VISA FOR INVESTMENT ACTIVITY

Established in 2012, Portugal's Golden Residence Permit Program (normally referred to as "Golden Visa" or "ARI") enables non-European citizens to obtain a special residence permit in exchange for a 5-year investment in Portugal.

The legal framework was introduced in Portugal by Law no. 29/2012, of 9 August. In particular, the benefits of the program include visa-free travel in the Schengen countries and the eligibility to European citizenship for 5 years.

i) Who may apply for this regime?

Non-European citizens directly or through a single quota holder company incorporated in Portugal or in another Member State of the European Union with permanent establishment in Portugal. Some members of the investor's family may also apply for a Golden Visa without making any investment.

ii) Eligible investments that qualify to obtain the Golden Visa

- Transfer of capital to a financial institution operating in Portugal in an amount of at least 1 million euros;
- Creation of at least 10 working jobs;
- Acquisition of real estate property for an amount of, at least, € 500,000 (it can be spread over several properties);
- Acquisition of real estate property for an amount of, at least € 350,000, that was built more than 30 years ago, or is located in an urban renovation area. The costs of renovation can be included in this amount;
- Investment of, at least, € 350,000 applied to R&D activities that make up the national scientific and technological system;
- Investment of, at least, € 250,000 to support artistic productions and recovery or maintenance of cultural assets;
- Investment of, at least, € 350,000 in the acquisition of participation units in investment funds or venture capital funds for the purpose of the capitalization of small and medium sized companies, that are created according to Portuguese law and whose maturity, at the time the investment is made, is of at least 5 years and at least 60% of the investments is made in companies located in Portugal; and
- Investment of, at least, € 350.000 in the incorporation of a company with registered office in Portugal, together with the creation of 5 working jobs, or in the increase of the share capital of a company with registered office in Portugal together with the creation of maintenance of at least 5 working jobs for a minimum period of 3 years.

iii) Minimum periods of residence in Portugal

The investment activity should be maintained for a minimum period of 5 years. The residence permit is granted for a period of 2 years and may be renewed for periods of 2 years. In what concerns permanence for renewal purposes, the applicants are required to stay in Portugal for 7 days, consecutive or not, in the first year and 14 days, consecutive or not, in the subsequent two-year periods.

PLANNING AND LICENSING

FRAMEWORK

The Public Policy Base Law on Land, Regional Planning and Urbanism (approved by Law no. 31/2014, of 30 May, as amended) provides for the general rights and duties regarding the land, the structuring of property, the means for intervention and administrative control of the use of the land, and the territorial management system. The Base Law is further regulated by Decree-Law no. 80/2015, of 14 May which establishes the Legal Regime for the Territorial Management Instruments.

The territorial management instruments set out land occupation, use and transformation rules, which have a binding nature, both for private and public entities, depending on the type of instruments.

On the other hand, the material execution (construction) of the property project requires the implementation of urban operations (mainly urbanisation and construction operations), which, as a general rule, require the Administration's prior control by means of administrative licensing procedures.

Thus, the Portuguese Urbanism Law rests on three major pillars: the Basic Law on Territorial and Urban Planning Policies ("*Lei de Bases da Política e do Ordenamento do Território e do Urbanismo*") (LBPOTU), the Territorial Planning Instruments Regulations ("*Regime Jurídico dos Instrumentos de Gestão Territorial*") (RJIGT) and the Urbanisation and Construction Regulations (*Regime Jurídico da Urbanização and Edificação* – "RJUE").

The Portuguese legal system has rules that limit the use, occupation and transformation of the land, taking into consideration public interests in various sectors, such as environment, defence, protection of wildlife, etc. These restrictions are considered "public interest constraints and easements" and they can derive from the Public Hydric Domain Regulations, the National Agricultural Reserve Regulations, the National Ecological Reserve Regulations, the Natura 2000 Network Regulations, or the Immovable Assets with Cultural Interest Classification Regulations.

Certain property projects may also require an environmental impact assessment.

PLANNING

Territorial management instruments interact between themselves and include three major categories: national, regional or municipal, depending on the public entities and players involved.

Municipal planning instruments (*Planos Municipais de Ordenamento do Território*): These instruments are land use plans and implement the public policies at a local level. They are divided in three categories that shall be considered for each property project: *(i)* "PDMs" – Municipal Master Plans (*Planos Diretores Municipais*); *(ii)* "PUs" – Urbanisation Plans (*Planos de Urbanização*); and *(iii)* "PPs" – Detailed Plans (*Planos de Pormenor*).

Each of the three types of land use plans that are highlighted above can be enacted by more than one municipality as there can be intermunicipal land use plans.

The feasibility of a given project in a property requires compliance with the above mentioned land use plans.

PRELIMINARY CONTROL PROCEDURES: LICENSING, PRIOR COMMUNICATION, PRIOR INFORMATION REQUEST AND USE PERMIT

The RJUE is the legal regime which foresees the required administrative permissions for construction and land development and defines which urban operations require prior control (*i.e.*, licensing – *licenciamento*, prior communication – *comunicação prévia* or use permit – *autorização de utilização*), and what is the administrative procedure to observe, as well as the monitoring of the respective execution.

Municipalities are the local entities responsible for control of urban planning projects, including license applications, prior communications and permissions. Notwithstanding, in certain cases, the relevant projects may require prior approval or an opinion from other public entities from the Central Administration.

Real estate projects are subject to the rules contained in the land use plans that we highlighted above, as well as municipal urbanisation regulations on construction and land development enacted by each Municipality.

A) LICENSING

According to the RJUE, urban operations with major territorial impact are subject to licensing, notably:

(i) allotment operations;
(ii) urbanisation works in areas not covered by allotment operations;
(iii) works carried out in areas not covered by allotment operation or layout plan;
(iv) works in classified/proposed buildings, as well as
(v) in buildings integrated in classified/proposed assemblages or sites;
(vi) Works carried in buildings located in protection area; and
(vii) Works that result in the removal of tiles from the façade.

B) PRIOR COMMUNICATION (*COMUNICAÇÃO PRÉVIA*)

As a rule, urban operations that do not require licensing integrate another mode of administrative prior control, notably: the prior communication.

According to the RJUE, the following works are subject to this control mode:

(i) reconstruction works which will not result in an increase in the façade's height or in the number of floors;
(ii) urbanisation works and renewal works in plots in an area covered by allotment operations; and
(iii) construction, modification or extension works in an area covered by allotment operations or layout plans;
(iv) Works that derive from an order given by the Municipality.

C) PRIOR INFORMATION REQUEST (*PEDIDO DE INFORMAÇÃO PRÉVIA* – PIP)

In this context, it is common practice in the market that a potential property investor files a PIP with the municipality in order to obtain formal confirmation on the feasibility of a specific urban operation before submitting its respective specific licensing request. The municipality's decision on the PIP is binding insofar as the subsequent licensing request is filed under the exact terms and conditions of the PIP granted within the maximum period of one-year (this period may be extended for one additional period of one year).

D) USE PERMIT (*AUTORIZAÇÃO DE UTILIZAÇÃO*)

On the other hand, as general rule, the use of buildings or of their condominium units also requires a specific use permit attesting that the relevant building has been built in accordance with the respective construction license or prior communication regarding what is its allowed use. As mentioned above, the exhibition of the use permit of the property is condition precedent for its sale by the respective owner.

SPECIAL LICENSING

Tourism licensing
Tourism undertakings include hotels, tourist villages, tourist apartments, tourist resorts, tourism undertakings corresponding to manor/country houses, rural tourism undertakings, and camping and caravan parks.

The installation of tourism developments is subject to licensing according to general law (notably, the RJUE). Whenever there are allotment operations intended for the installation of tourism development, a favourable opinion by the Portuguese tourism regulator (*Turismo de Portugal, I.P.*) is mandatory.

Differently from other countries, the tourism undertaking operator is not required to have a specific operation license for its activity. Nevertheless, certain tourism undertakings are required to have a star classification, which is attributed by the Portuguese tourism regulator taking into consideration the requisites established by law.

Commercial licensing
Advance notice: in general, the exercise of commercial activities does not require administrative licensing. It requires only the submission of an advance notice (*comunicação prévia*), *i.e.*, a formal statement informing the relevant administrative authority in advance that the activity will be started.

Commercial schemes and big commercial surfaces licensing: However, the installation of big commercial surfaces not integrated in commercial complexes and of commercial complexes with a lettable gross area ≥ 8,000 sqm requires an installation prior permission, to be granted by joint decision of the director-general of economic activities (DGAE), of the mayor of the relevant municipality and of the chairman of the competent Commission for the Coordination of Regional Development (*Comissão de Coordenação e Desenvolvimento Regional* – CCDR). It is incumbent upon the DGAE to prepare a final report presenting a draft decision, based on the criteria set out in the law. Said permission implies the payment of fees.

Short Rentals (*alojamento local*)
Temporary local accommodations offered to tourists for consideration, notably apartments, houses, lodges or hostels) are subject to prior communication and registration with the relevant municipality and are not qualified as a tourism undertaking. Short rentals are subject to the supervision of the relevant municipality as well as of the Food and Economic Security Authority *(Autoridade da Segurança Alimentar e Económica – "ASAE")*.

The owners of properties must comply with certain rules, such as an available information book detailing the internal rules of the property, including the relevant provisions of the condominium regulation (if applicable) and civil liability insurance.

Furthermore, and in order to mitigate the impact of COVID-19 in the local lodging sector (*alojamento local*), the Municipality of Oporto has decided to suspend the existing containment areas (*áreas de contenção*) by parish enabling now the approval and licensing of new local lodging establishments. Even not knowing whether other municipalities will follow the same path, this suspension emerges as an incentive to the investment in short rental properties in Oporto.

URBAN RENEWAL

Renovation of buildings has shown in recent years a remarkable dynamism, as a result not only of tax incentives associated with the recovery and refurbishment of existing buildings, but also of the simplification of prior control procedures specifically implemented to facilitate the approval of urban renewal operations.

In certain situations, the prior communication does not require opinions, approvals or permissions granted by entities other than the relevant municipality.

Municipalities can define a perimeter of a renewable area. These are well defined areas, which, due to the degradation of the buildings and infrastructures require integrated urban renovation.

The delimitation of urban renewal areas by the relevant municipalities may determine the following effects: *(a)* tax incentives, notably the IMT (Municipal Tax on the Transfer of Property) and the IMI (Municipal Tax on Property); *(b)* the access of the owners of the properties to financial incentives.

PROPERTY FINANCE

FINANCING

In Portugal, property projects are usually secured by guarantee-backed financing (to mortgages, in particular). The financing contract includes the usual representations and warranties in this type of operation, the registration of the lender in the insurance policy as mortgage creditor and with an interest in the insurance, securities ranking *pari passu*, negative pledge and evidence that the tax and contributory duties (fiscal, parafiscal and social security) have been fulfilled, compliance with the financial ratios (loan-to-value, interest coverage ratio and debt service coverage ratio), payments made free of any future or present taxes, tax withholding or any other deductions, provisions on material adverse effect and market disruption.

In this type of financing, interest is calculated in general on a daily basis, with reference to a 30 days per month and a 360 days per year.

SECURITY

As a rule, the provision of security does not require governmental permission. However, there are certain assets (for instance, assets located in the public domain or connected to public services) that cannot be pledged as collateral.

Securities usually associated with property financing comprise:

Mortgage: the mortgage «grants the creditor the right to be paid for the value of the immovable asset, with preference over all other creditors whose claims are not preferential or who have no registered priority». The mortgage must assume the form of a public deed or a certified private document and shall be registered in the Land Registry Office with constitutive effects;

Assignment of income: the assignment of income guarantees compliance with an obligation or the payment of the respective interest, or both, with the income of certain immovable assets, and it must be pledged during a certain number of years or until the payment of the secured debt, a term which, wherever covering immovable assets, shall not exceed 15 years. The provision of this guarantee shall be made by means of a public deed or by a certified private document and shall be registered in the Land Registry Office;

Pledge of shares/quotas: the pledgee grants the creditor the right to be paid for his credit with preference over all other creditors for the value of a certain movable asset. The pledge of nominal shares shall be registered in the shares' registry book, as well as in the respective securities or in the respective securities account in the case of registered shares. The pledge of quotas requires registration in the Commercial Registry Office. In any of the cases, it is possible that a company's articles of association may require the partners/shareholders' permission to create the pledge. Without prejudice to the aforesaid, the pledge of quotas/shares shall not take effect regarding the company as long as the company does not give its consent or recognizes it tacitly;

Transfer of credits as a guarantee: to guarantee compliance with an obligation, the creditor assigns to a third party a part or the entire credit. The transfer is made by means of a private document and shall take effect between the parties as of the date of conclusion of the respective contract. In order to take effect regarding third parties, namely before the debtor of the assigned credits, the latter shall have to be given notice thereon;

Pledge of the balance of bank accounts: the balance of a bank account shall be usually subject to financial pledge, whenever the borrower is a legal person and the lender a bank or another institution subject to prudential supervision. The provision of the guarantee does not require prior consent but only that the credit institution where the account has been opened be given notice thereon; and

Sureties: where a third party makes itself personally liable before the creditor, ensuring with his own assets the fulfilment of the creditor's credit right over the debtor.

ENFORCEMENT

In case of default of the guaranteed obligation, the mortgage creditor shall not be entitled to appropriate the burdened asset. Nevertheless, he will be entitled to be paid first, with the sale proceeds, taking priority over other creditors whose claims are not preferential or who have no registered priority.

In the enforced sale, «assets are transferred free of any liens, as well as of any other real rights with no registration prior to any seizure, pledge or guarantee».

The purpose of the enforcement procedure may consist on the payment of a fixed sum of money, the handling of a particular item or the fulfilment of a positive or negative obligation.

Enforcement to pay a fixed sum of money where the creditor's claim is backed by a mortgage, depends first of all on the fact that the obligation to be enforced must be certain, due, and net.

Where the mortgage creditor wishes to enforce the mortgages constituted on his behalf, enforcement shall be brought against the owners of relevant assets, even if these are not his debtors. Moreover, the mortgage creditor shall also be entitled to sue the debtors in this enforcement.

Thus, where enforcement is brought by the mortgage creditor only against a third party, owner of the assets, and should it be established that the assets burdened with the mortgage are insufficient, the creditor can request the continuation of said enforcement proceedings against the debtor in order to fully satisfy his claim.

Any creditor may obtain the suspension of the enforcement in order to prevent the payments by demonstrating that the recovery of the company or the insolvency of the debtor was requested.

It is particularly complex to define an average duration of enforcement proceedings in Portugal. Nevertheless, drawing on our experience, one may say that, normally, the time elapsing between the beginning and the conclusion of enforcement proceedings for the payment of a fixed sum of money, where the creditor's claims are guaranteed by a mortgage, will range between 18 to 36 months. This period may be extended where the parties lodge appeals.

The mentioned duration also varies based on the court that is territorially competent for the enforcement.

TAX FRAMEWORK

TAX ON ACQUISITION

a) IMT

Property transfer is subject to the Municipal Tax on the Transfer of Property (IMT) at a rate of 6.5% on urban property or land for construction and 5% on rural property. The taxable value is levied on the property price or its tax registered value, whichever is higher.

In case of residential property, the applicable rate may vary between 0% and 7.5%, depending on the value of the property.

No IMT is due in case of indirect acquisition of property through the purchase of equity interests in joint stock companies or up to 75% of interests in private limited companies by *quotas*.

Municipalities may grant total or partial IMT exemptions in order to support investment made in the municipality.

b) Stamp Duty

Property transfer is also subject to Stamp Duty (IS) at a rate of 0.8% over the taxable value calculated for IMT purposes.

The financing of real estate and the respective guarantees, notably of mortgages, are also subject to IS.

However, no stamp duty will be due on a guarantee which is simultaneous and accessory to a taxed financing contract.

c) VAT

As a rule, the transfer of property is exempt from Value Added Tax (VAT).

However, the "exemption waiver" of VAT is possible and may be useful in case of construction has been carried out in the property and VAT borne therein is to be recovered by the respective developer.

d) AIFs under contractual form and AIFs under corporate form

The purchase of properties by AIFs set up and operating in accordance with Portuguese law are subject to IMT and IS (stamp duty), under general law.

AIFs are subject to Corporate Income Tax (CIT) under the generally applicable terms, the income from capital and properties as well as capital gains not being considered in the calculation of their taxable profit, save where this income originates from entities residing in tax havens. AIFs are exempt from State and Municipal Surcharge.

Certain expenses relating to their activity are not deductible from the AIFs' taxable profit. The list of these expenses includes, *inter alia*, cost of deposit fees paid or borne by the AIFs, cost of acquiring or selling financial instruments and properties, including mediation fees and corresponding taxes, condominium charges, insurance, IMI, stamp duty on the value of properties, upkeep and maintenance of the properties they own, as well as interest and other financial costs, in so far as the loan capital to which they refer is aimed at funding the acquisition, maintenance or upkeep of the assets whose income is excluded for the purpose of calculating taxable profit.

On the other hand, the cost of property appraisals and other administrative costs and expenses are deductible.

Moreover, AIFs are subject to stamp duty at the rate of 0.0125% on their overall net value, to be paid quarterly.

e) Real estate investment and management companies (SIGI)

It is now expressly set out that the SIGIs will benefit from the tax framework applicable to AIFs, *i.e.*, the SIGI in practice will be excluded from corporate income tax in relation to income arising from the lease of real estate properties and capital gains from the sale of those properties, as well as on dividends paid by entities in which the SIGI holds a shareholding equity interest.

Notwithstanding the above, this tax regime also foresees that the income arising from the transfer of real estate properties will only be excluded from taxation when such properties have been held by a SIGI for at least 3 years.

In respect of shareholders, the income distributed by a SIGI to shareholders with residence in Portugal will be subject to a withholding tax at the rate of 28% in case of individuals, and 25% in case of corporate entities. Non-residence shareholders will be taxed at a reduced rate of 10%.

On the other hand, SIGIs should not be subject to stamp duty on its net asset value.

f) Venture Capital Funds

Finally, venture capital funds benefit from a full exemption of corporate income tax on the income obtained through these structures.

TAX ON OWNERSHIP

a) IMI

Property ownership is subject to the Municipal Tax on Property (IMI). IMI is an annual tax levied on the property's tax registered value and is payable by the respective property owners, usufruct title holders or people entitled to use the property, by means of other *in rem* right, on 31 December of each year. IMI is generally paid in three instalments, notably May, August and November.

IMI rates currently vary between 0.3% and 0.45% for urban property and land for construction. The rate on rural properties is 0.8%. These rates are annually increased to three times their amount in the case of urban property that has been vacant for more than one year or buildings in ruins. The IMI rate on buildings which are owned by residents in a listed tax haven is of 7.5%.

The taxable value is the tax registered value (VPT) indicated in the cadastre.

b) AIMI

In 2017 an additional IMI tax was approved (AIMI).

The owners, superficiaries or usufructuaries of urban buildings in Portugal (natural or legal persons) are subject to this tax if those buildings are residential buildings or land for construction.

The tax is levied on the tax registered value (VPT) of the urban buildings owned by each taxable person on the 1st of January of each year.

Single individuals subject to this tax (and only they) can deduct either € 600,000 of the taxable value or € 1,200,000 in case of a couple.

The buildings that have been exempted from IMI in the previous year are exempt from AIMI.

The tax assessment period is in June and the payment is due in September.

AIMI tax rates applied are the following

INDIVIDUALS	
From € 600,000 to € 1,000,000	0.7 %
From € 1,000,000 to € 2,000,000	1 %
More than € 2,000,000	1.5 %

COMPANIES		
From € 600,000 to € 1,000,000	0.7 %*1	0.4 %*2
From € 1,000,000 to € 2,000,000	1 %	0.4 %
More than € 2,000,000	1.5 %	0.4 %

*1 If the building is owned by legal persons but used by shareholders, members of the company or their spouses or relatives in the ascending and descending lines.
*2 General rule for the buildings owned by legal persons.

c) Income Tax

Residents
Property income of companies is taxable at the rate of 21% on the taxable profit. Municipal surtax accrues at a rate which may reach a maximum of 1.5%. Individuals are subject to Personal Income Tax (IRS) at the autonomous rate of 28% or may opt to aggregate income, in which case income will become subject to progressive rates that may reach 53%. Moreover, rental income from long term leases for housing purposes benefits from a reduction of the applicable autonomous rate of 28%, depending on the extension of the contract. The longer the initial term or the renewal of the contract, the greater the reduction, which can be significantly high as 18%.

In case of aggregation of income, all costs effectively borne and paid by the individual to obtain or guarantee this income shall be deducted from the value of the rents, namely the costs borne and paid in the 24 months preceding the beginning of the lease and relating to the property's maintenance and upkeep, provided that in the meantime the property has not been used for any purpose other than the lease. Expenditure of financial nature and costs relating to depreciation and furniture, household appliances, comfort and decoration articles are excluded from deductible expenses.

Non-residents
Property income obtained in Portugal by non-resident natural or legal persons is taxable at the special rate of 28% and 25% respectively, corresponding to the value of the final tax due.

Non-resident investors must file with the Portuguese tax authorities a declaration at the start of activities (prior to initiating the property rental activity), as well as their respective income tax returns, the same way as resident-investors. Such returns, in the case of individuals should be filed between the 1st of April and the 30th of June if filed in electronic format. In the case of companies, the returns are filed in May of the following year.

DISPOSAL OF PROPERTY

(a) Residents
Capital gains on the sale of real estate located in Portugal by resident companies is subject to CIT under the general provisions of the law at the rate of 21% on the taxable income. A Municipal surcharge accrues up to 1.5% and a State surcharge of between 3% and 9% may also accrue.

On capital gains reinvested in tangible fixed assets, intangible assets or biological assets that are not consumables, only 50% of their value is considered, provided the reinvestment takes place by the end of the second financial year following that of the sale.

In what concerns resident individuals, 50% of the capital gains is taxed based on the positive difference between *(i)* the selling price and *(ii)* the purchase price of the property, corrected by the applicable currency devaluation rates, plus the duly proven expenses incurred to make improvements to the property over the last 12 years, as well as the necessary costs actually disbursed for the purchase and sale of the property and compensation paid for the onerous waiver of contractual positions or other rights inherent to contracts relating to the property. 50% of the capital gain is subject to tax at progressive rates that may attain 53%.

Capital gains obtained with the sale of a property that is the permanent residence of such person is not subject to taxation in certain cases, namely:

- reinvestment of the value of the sale minus the repayment of a loan contracted to purchase the property in the purchase of another property, land for the construction of a building and/or the construction thereof, or for the enlargement or improvement of another property to be used exclusively for the same purpose;
- The property in which the investment is made must be located in Portuguese territory, in any Member State of the European Union or in the European Economic Area, in the last case provided there is exchange of tax information;
- the reinvestment must be made between the 24 months before and the 36 months after the sale; and
- the taxable person must state an intention to make the investment, even if only in part, setting out the relevant amount in the tax return for the year the sale took place.

The said exemption ceases to be applicable where *(i)* the taxpayer reinvests in the purchase of another property but neither he or his family uses it as their permanent abode within 12 months of any such purchase or *(ii)* in all other cases, fails to apply for the registration with the tax department of the property or the alterations within 24 months of the date of the sale, required to use the property for himself or his family as their permanent abode by the end of the fifth year following that of the sale.

(b) Non- residents
Capital gains obtained by non-resident companies are subject to a 25% tax on the positive difference between *(i)* the selling price and *(ii)* the purchase price of the property, corrected by the applicable currency devaluation rate, plus the expenses incurred to make improvements to the property over the last 12 years, the necessary costs actually disbursed for the purchase and sale of the property, and the compensation paid for the onerous waiver of contractual positions or other rights inherent to contracts relating to the property. Capital gains obtained by non-resident individuals are subject to a 28% tax on the same value.

URBAN RENEWAL OF REAL ESTATE
Renewal of real estate benefits from a wide range of tax incentives, which include, *inter alia*, exemption from IMI and IMT.

(a) IMI Exemption
Real estate subject to urban renovation works is exempted from IMI for three years as of the year in which the relevant municipality licence is issued.

This benefit depends on the relevant municipality acknowledging the condition of the property after the works are completed and the issuing of a license of use and an energy certificate. As this benefit does not prevent the payment and collection of this tax, the benefit operates by refunding the amount paid by the property holder.

The property owner can benefit from exemption from IMI for three years counted from the date the renovation is concluded, which may be extended for another five years. This tax incentive only applies to the renovation of urban properties located in renovation areas or that are rented out and have rents which are increased in accordance with applicable lease law.

(b) IMT exemption
The purchase of a property for urban regeneration purposes is exempt from IMT provided that investors start the works within three years of the purchase date. This benefit is subject to the relevant municipality acknowledging the rehabilitation works, the condition of the building after the works are completed, the issuing of the license of use and an energy certificate. As this benefit does not prevent the payment of this tax, the benefit operates by refunding the amount paid by the property owner.

(c) VAT
VAT has a reduced rate of 6% for:

- urban renovation work on properties or in public areas located in renovation areas (critical areas of urban renewal and reconversion, intervention areas of urban regeneration companies and others) or within the scope of requalification and regeneration operations of overriding national public interest; and
- urban regeneration work on properties which, irrespective of their location, are contracted directly by the IHRU (*Instituto da Habitação e Reabilitação Urbana* – housing and urban regeneration institute) and work performed

within the scope of special systems for financial or tax support to the regeneration of buildings or of programmes funded by the IHRU.

(d) Income Tax

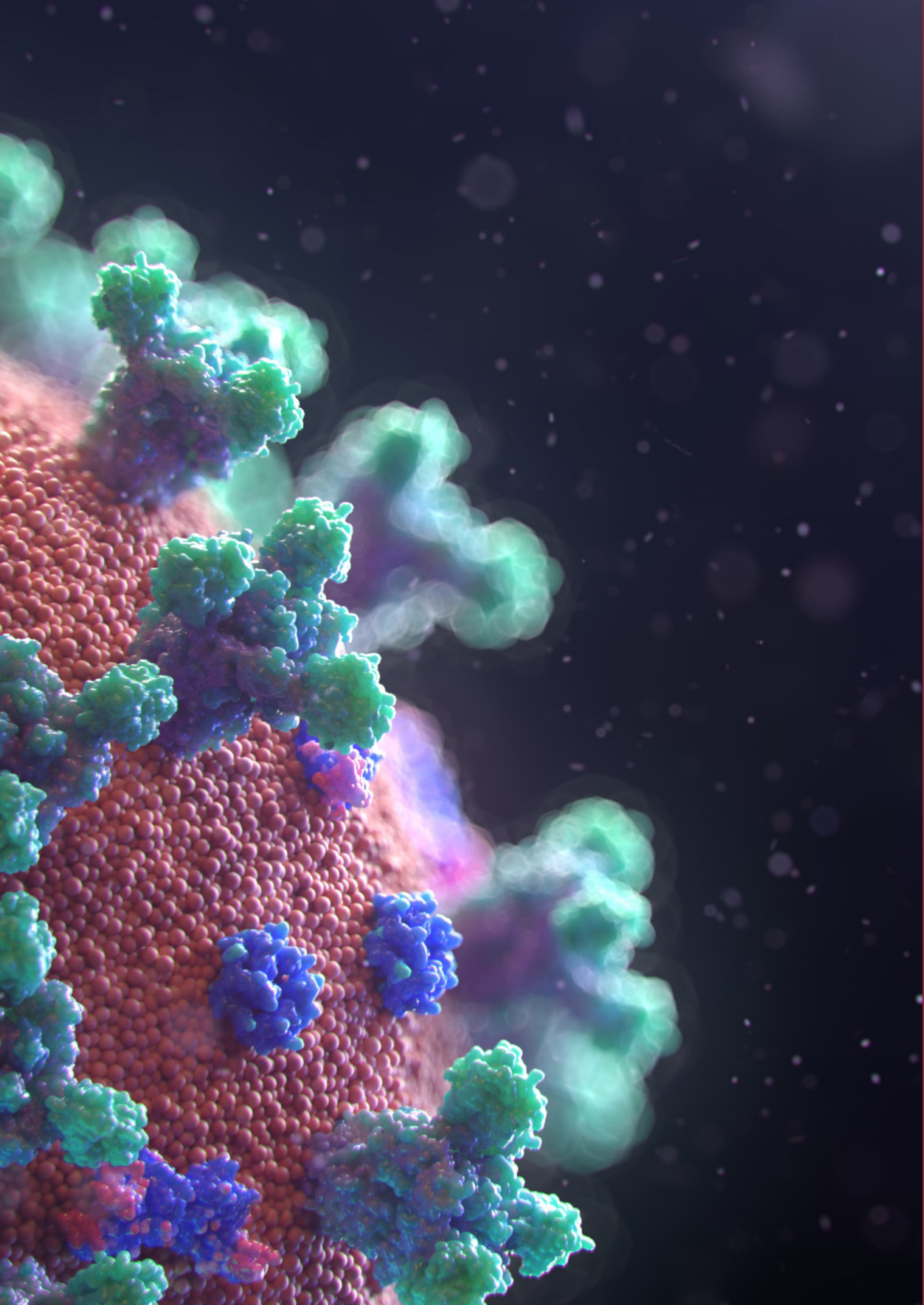
The income generated by AIFs operating in accordance with Portuguese law, set up between 1 January 2008 and 31 December 2013 and whose assets are composed of no less than 75% of properties subject to renovation work performed in urban renovation areas are exempt from CIT.

The income from units in the investment funds are subject to a 10% withholding tax, whether it is paid or placed at the unit holders' disposal by way of distribution or redemption, save where these are exempted entities regarding capital income or non-residents without a permanent establishment in Portuguese territory to which the income may be imputed. This tax benefit does not apply to entities resident in tax havens and to non-resident entities, over 25% of the share capital of which is held directly or indirectly by entities residing in Portuguese territory.

The balance between capital gains and capital losses resulting from the sale of units is subject to tax at the rate of 10% for:

1. Non-resident entities to which tax exemption on this income is not applicable pursuant to article 27 of the Tax Benefit Statute; or
2. Taxable persons subject to personal income tax who reside in Portuguese territory and receive income outside the scope of a business, industrial or farming activity and have not opted for aggregation.

The capital gains obtained exclusively from the sale of properties located in urban regeneration areas and recovered in accordance with the relevant regeneration strategies are subject to personal income tax at the autonomous rate of 5% when earned by taxpayers residing in Portuguese territory. Moreover, residents are subject to personal income tax at the rate of 5% on property income generated by the lease of properties located in urban regeneration areas, which have been regenerated in accordance with the applicable regeneration strategies in urban regeneration areas, or rented out and subject to a phased increase of rents under the terms of the NRAU and have been the subject to regeneration work.



COVID-19

REAL ESTATE INVESTORS ROADMAP PORTUGAL

2020 Investment Guide

aicep Portugal Global
Trade & Investment Agency

CÂMARA DE COMÉRCIO

APPII

JLL Achieve Ambitions

MORAIS LEITÃO
GALVÃO TELES, SOARES DA SILVA & ASSOCIADOS

PREFACE

The COVID-19 pandemic had a tremendous and completely unexpected impact on the daily lives of companies and citizens, the economy and the financial system. Governments all around the world decided on extraordinary and urgent measures, balancing between a drastic public health situation imperiling the lives of all citizens and a growing concern regarding an imminent global recession.

Much has changed from the initial state of emergency, with the implementation of a set of exceptional and temporary measures regarding COVID-19. The legislation has been permanently subject to revision and/or amendments in the two extensions of the referred state of emergency and now in the implementation of the state of disaster.

For most economic agents, navigating through these circumstances has been a challenge. The following sector of this Roadmap addresses the main concerns and problems that we have identified with our partners and clients. There is an urgent need for innovative solutions, recalling lessons and knowledge from other crises, always with a fresh and open multidisciplinary perspective.

IMPACT ON BUSINESS AND THE ECONOMY

The first subject investors want to discuss is the recovery speed and shape that will allow further investments. The extent of the impact will determine the speed and shape of the recovery. The more "second order" effects, the deeper the downturn and the longer the recovery.

SEVERITY & RECOVERY

FIRST ORDER EFFECTS

These are the immediate and direct impacts, short term in nature, and with limited or no knock-on impacts or longer term repercussions

Examples:

- Temporary household income loss
- Temporary revenue drop and business loss

Recovery profile:

SECOND ORDER EFFECTS

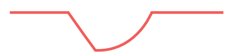
Lasting, negative effects that leave economic scars and impact the productive capacity of the economy.

Cause a semi-permanent downward shift in economic activity.

Examples:

- Business bankruptcy
- Unemployment
- Tenant eviction

Recovery profile



DETERMINING THE IMPACT ON THE ECONOMY

The severity of the impact depends on 3 factors:

- The fiscal & monetary policy response
- The duration for which they are in place
- The severity of the isolation or social distancing measures

CHARACTERISING THE ECONOMIC RECOVERY PROFILE

Each economy will take a different path out of the crisis: here are four examples.

V

A V-shaped recovery assumes that the negative effects of the containment restrictions imposed are short-lived and that the economic impact is limited to primarily first order effects. A sharp recession is followed by an equally sharp rebound to re-establish the previous level of economic activity.

U

Similar to the V-shaped recovery but with containing measures remaining in place for longer. This means economies spend more time on the "floor" of the downturn. The economic impact remains mostly limited to first order effects, but second order effects become increasingly apparent as time passes. The recovery phase is extended considerably compared to the V.

L

The L-shaped recovery path is less a recovery and more a long, drawn-out recession. Economic scarring is significant due to the extended duration for which containment measures are imposed and the ineffective policy response. The economy will not recover its previous activity level within the near term (*circa* 3 to 5 years) horizon.

W

The W-shaped recovery is a double-dip downturn that occurs when the initial momentum of a V-shaped recovery stalls. This may be due to accumulated domestic economic scarring; due to the re-imposition of containment restrictions; due to stalling external demand; or due to reasons. The second rebound phase is unlikely to be a "V", unless the policy response is considerably enhanced.

Containment stringency: severe

Containment duration	Ineffective	Partially effective	Fully effective
Long (3Qs+)	L	U-L	U
Medium (2Qs)	U-L	U	U-V
Short (1Q)	U	U-V	V

Policy effectiveness

The effectiveness of the policy response will be the determining factor.

This can be seen in the avoidance (or minimisation) of four categories of second order effects:

Avoid insolvency

Support business cash position (*i.e.*, reserves) to prevent illiquidity turning into insolvency and business dissolution

Avoid redundancy

Ensure continued workforce employment, continued income for self-employed

Avoid eviction

Keep households in their homes through supporting household balance sheets to avoid huge negative knock-on effects of evictions and homelessness

Avoid financial crisis

Prevent contagion to the banking system and the downward economic spiral a financial crisis would cause

GLOBAL REAL ESTATE MARKET IMPACTS

SECTORS	SHORT TERM	LONGER-TERM/STRUCTURAL
1. Occupiers	Business continuity	Focus on operational resilience
2. Investors	Slowing demand & transactions	Increased allocations to real estate
3. Retail	Risks to cash flow	Growth in online shopping
4. Office	Remote working	Fast tracked technology adoption
5. Living	Human impact	Demand resilient
6. Logistics	Disruption to supply chains	Increased automation & robotics
7. Hotels and hospitality	Falling occupancy amid restrictions	Bounce back

1. Occupiers
Operational resilience crucial to recover from the outbreak.

Prepare
Outbreak
shock & realisation

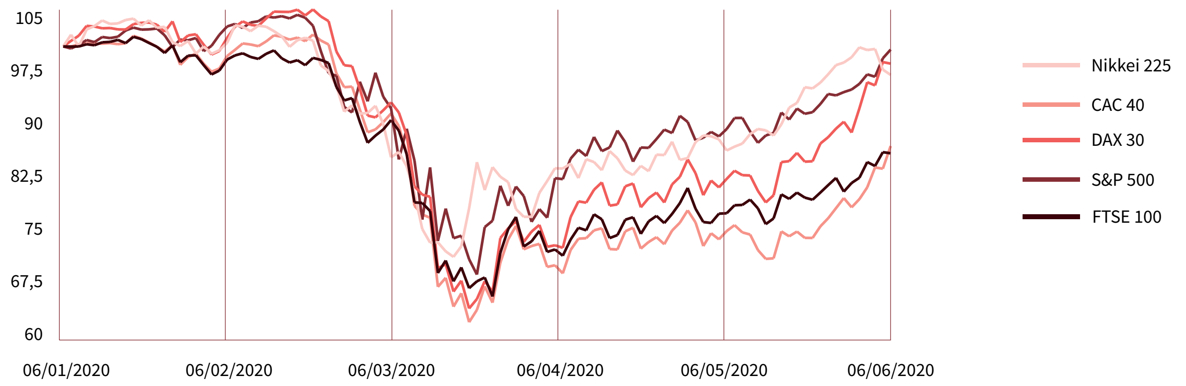
Respond
Peak
adaptation & business continuity

Re-entry
Almost there
productivity challenge & re-entry

Reimagine
The "new normal"
reimagination, implementation & flourish

2. Investors
Investors have moved out of risky assets. Markets remain unable to price risk, assets or cash flows confidently.

BENCHMARK GLOBAL EQUITY INDICES



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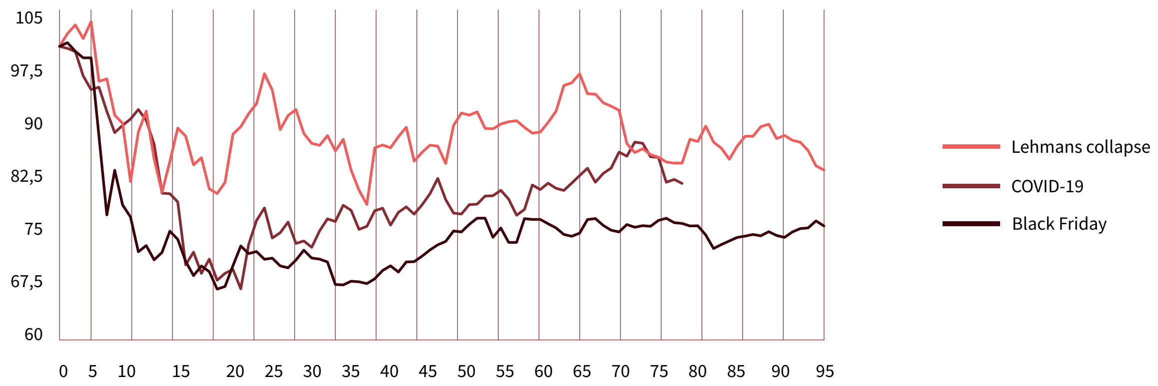


3. Retail

The state of emergency resulted in a severe reduction in consumer spending across the majority of the retail segments, leading to high uncertainty in the sector. The reopening of the economy, with the less strict containment measures, are reactivating the economies across the world, with street movement slowly returning to pre-COVID levels. Despite a structural change in the online consumption, sales in the online market space will see a natural decrease as stores and restaurants are fully functional once again.

Brands are reexamining its distribution and communication channels, leading to important opportunities across the different retail sub-sectors.

.KEY OPPORTUNITIES AND CONSIDERATIONS PER TYPE OF RETAIL

Prime and local assets to prevail

Shopping Centres (SC)
- Premium for physical space in high quality shopping centres;
- Neighbourhood SCs remain well visited due to daily-goods offer;
- Larger tenant-base limits downside risk to income;
- Mixed-use development and repurposing retail space.

Convenient, flexible and affordable

Retail Parks
- Convenient and cost effective to access appealing to consumers;
- Suited to embrace click-and-collect, fast growing channel for online;
- Low-occupancy costs appeals to retailers looking to protect margins;
- Flexible & low-cost to reconfigure retail units in comparison with SC and HS.

Prime retail destinations have recovered historically

High Street Retail (HSR)
- Prime locations will continue to attract high-levels of footfall post-COVID;
- Tourism volumes expected to recover once consumer fear resides;
- Strong positive growth outlook for luxury and premium goods;
- Retailers need flagship stores for brand exposure and sales;
- Acceleration in neighborhood stores in major cities;
- Continued domestic investor demand and overseas wealth preservation.

4. Office

In the short term we have witnessed a slower dynamism – nevertheless the market did not stop and we are still seeing large firms who are still actively looking for space in Portugal.

Uncertainty regarding the current market conditions is reducing takeup and delaying pipeline. Nonetheless, across all recovery scenarios, a long-term market impact in the sector is expected. An adaptation to new work spaces will be required from companies and workers. From new office spaces, quality, safety and health concerns will be key demands from its stakeholders.

Despite the reduction in demand for offices being unlikely due to the COVID-effect, supply can be partially affected: a key consideration is that delays in construction (mostly due to lack of labour force and materials) can tend to aggravate the lack of quality supply in the Portuguese market. Nevertheless, it will allow for an adaptation of the future spaces to the new quality and safety requirements.

Despite new constructions spiking in several markets for the next few years, Lisbon will be below the European average in terms of the offices under construction as a % of stock.

Long term effects of the pandemic in the office occupation market still to be determined, balancing remote working and the presence in the office spaces. The transformation of the work space will induce the creation of larger social & networking areas as well as concentration and productivity areas. Hot-desking spaces are part of the future office space trends as well. Guaranteeing the balance between remote and presential work as well as securting quality and safety conditions will be the keys for the new spaces.

JLL market research performed a survey where 95% of the inquired considers ideal to work at least one day from home and 71% considers that the remote working can increase productivity. Nevertheless, the need to boost productivity and internal networking induces the need for working from the office locations.

FLEX OFFICE IMPACT

Future of Flex: Short term pain, long term gain

Near-term: significant drop in demand for Flex space.	Near term: widespread consolidation, business failures a nd handing locations to landlords.	Near-term: increase in self-perform & managed solutions as operators hand back space.	Medium-term increase in demand for pre-built spaces and lease flexibility.	Medium-term: BCP space, returned demand from SME segment.

LONG TERM IMPACT

Long-term impact
Reduced demand for offices unlikely.
Occupier: sentiment has not materially shifted for larger corporate occupiers.

Limited excess space in optimised portfolios.	Investments in BCP and remote working facilities .	Transmission mitigation protocols might lead to lower densification .	Social distancing will highlight the value of day-to-day social interactions.

5. Living

Living sectors, which have a strong history of counter-cyclical performance, are unlikely to suffer as much, with only a slowdown period. Investors are also unlikely to sell off exposure to the sector. Income streams are expected to remain strong for living assets, with multfamily expected to see the best performance and minimal changes to occupancy levels.

Alongside a housing stock that is aged and weak in quality, the demand has grown at a higher pace than the building capacity. According to the Deloitte Property Index 2019, Portugal is one of the countries in the bottom of the construction of dwellings per 1000 habitants' index.

As for the rental market, which is still scarce and under developed, the indications regarding its potential are very strong, on one hand because of the yet high unfulfilled demand and on the other because of the generation trends that are emerging and suggesting that buying a house is not a priority mainly due to high initial costs and the lack of the needed flexibility and freedom that renting allows for.

LIVING – KEY LONG TERM CONSIDERATIONS

Long term demand for the Living sector to remain strong

- Continued tenure shifts
- Urbanisation and socio-demographic changes
- Supply/demand imbalances
- Risk-adjusted performance

New housing requirements

It is possible to highlight new housing requirements that are starting to arise in most markets, including *(i)* more versatile and flexible spaces (spaces that are able to be allocated to distinct activities such as remote working, entertainment and sports activities), *(ii)* healthy and sustainable houses, *(iii)* different locations for bathroom elements (separating hygiene and relaxing/well-being elements) and *(iv)* preference for exterior spaces.

Build-to-Rent schemes

Build-to-Rent schemes proliferate as a de-risking scheme, due to *(i)* affordability concerns for some age groups increasing and *(ii)* Restrictions in housing financing. Demographic fundamentals still present and instigating residential developments and investments.

Other considerations

- Occupier: income streams are expected to remain broadly strong for Living assets, with multifamily expected to see the best performance and minimal changes to occupancy levels
- New Supply: construction of schemes may be delayed due to a lack of labour and supply chain disruptions

6. Logistics

The logistics sector has seen different effects across its subsectors: while the pure logistics operators have struggled due to the reduction in consumption "proximity" operators have seen an increase in demand (due to online sales fast increase). Current market disruptions have consequently triggered a market with slow dynamism in Portugal.

Future of logistics - Last mile locations – an in demand option due to current and long term market disruptions

LOGISTICS – KEY LONG TERM CONSIDERATIONS

Online retail has been growing strongly	Post COVID-19 growth could accelerate - especially in grocery. Retailers in need of proximity locations to continue to support online operations.
Logistics and supply chain management are critical differentiators for retailers	The retailers that can combine the right physical retail, logistics real estate and digital infrastructure will secure a competitive advantage. Investors that can identify resilient real estate assets, can look forward to significant outperformance.
Omnichannel retail is generating demand for a range of logistics buildings	These are the types of warehouses we see for online fulfilment: 1. Large fulfilment centres where items stocked and picked; 2. bottom large central parcel hub, long and thin not for storage but for rapid throughput; 3. local parcel delivery centre; 4. dark store warehouse for grocery picking.

7. Hotels & hospitality
The touristic demand is bound to rebound to pre-COVID levels, depending solely on the timings of the recovery.

Potential positive indicators for tourism from internal demand - Domestic demand is set to boost in the short-term while key fundamental points of the Portuguese market will attract back international tourism when the market recovers. Furthermore, as the markets reopen, Portugal will be seen even more as a safe travelling destination, given the infrastructures and health system quality, and hence being a preferred destination for the after-COVID period.

HOTELS & HOSPITALITY – LONG TERM CONSIDERATIONS

Demand

- If the virus is contained quickly, demand will see a short term rebound as restrictions on travel are lifted.
- Despite a potential decrease tendency for a quicker rebound in markets where domestic demand is stronger (in comparison with countries where international guests are less relevant), the uncertainty about travelling restrictions will boost domestic demand in Portugal.
- Corporate travel demand could be impacted in the short/medium term. Alongside cash flow issues coming out of the crisis, travel behavior will also change as corporates choose not to put the workforce at risk or spend unnecessarily on travel. Remote working will become more attractive.

Performance

- Recovery will be dependent on segments hotels have traditionally targeted.
- Some markets will be quick to recover as they did after the Global Financial Crisis, but others may take longer.
- The hospitality industry is resilient in times of crisis and more often than not, recovers more quickly than other real estate sectors.

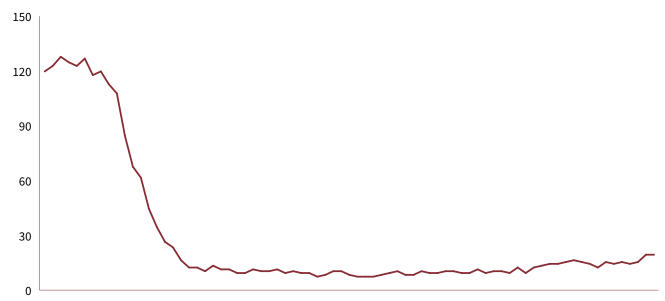
Investment

- Hotel investment activity will slow for the time being, but will pick up when restrictions are lifted. What the nature of activity will look like, is still uncertain. The balance may shift to more opportunistic investors while others (such as institutions) may be more reluctant to invest.
- Transactions are likely to take longer as more robust due diligence measures are adopted compared to pre-virus and there may be shifts in pricing.
- Opportunistic investors will take advantage of distressed assets. Potential distressed asset trades are likely to pick up pace in the second half of 2020.
- Considerable amount of dry powder looking for opportunities.
- Development pipeline will slow, with delays to projects. Non-operational developments with 1 to 2 years to completion will gain interest among investors over operational assets.

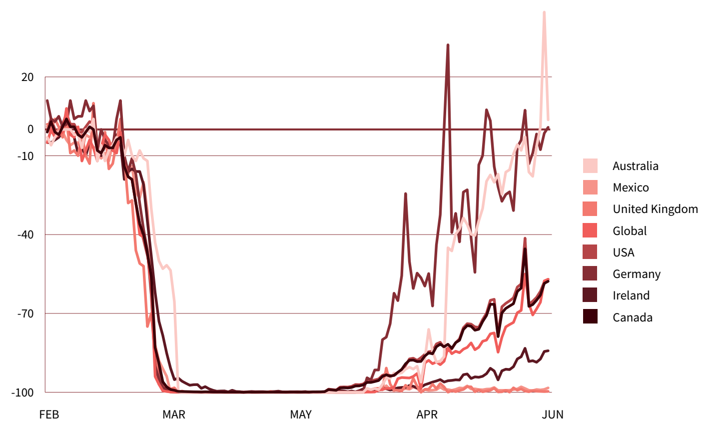
INDICATORS TO WATCH AS ECONOMY RESTARTS

As the pandemic obliged several measures restricting circulation and permanence in several venues, cities became empty with a very low people flow. After restrictions were taken off, still with precautions, human behavior was still fixed in the fear of going outside, due to the lack of confidence.

CITY MOBILITY INDEX - PT



RESTAURANT RESERVATIONS (% YOY)



LEAVING HOME

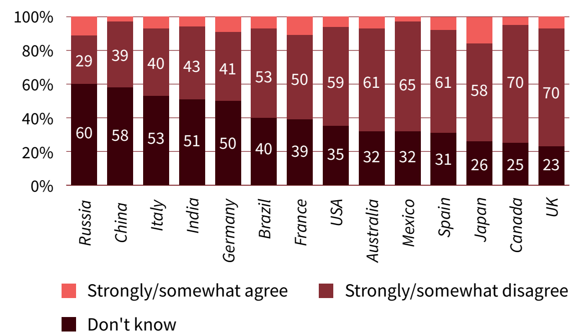
Recent polls show the appetite to lift restrictions varies considerably across populations:

- Only just half of Italians want restrictions lifted if the virus is still prevalent;
- 70% of UK citizens want lockdown measures to continue until the *all clear* is given.

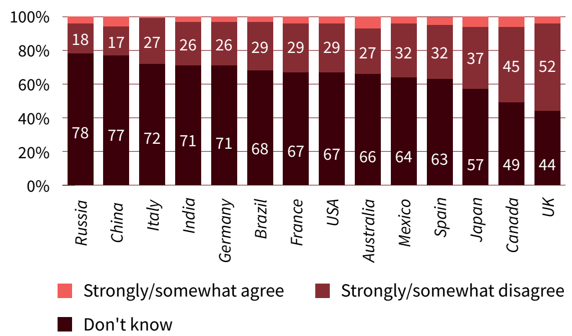
When restrictions are lifted, people are unlikely to revert to their previous ways of life:

- 72% of Chinese remain nervous about leaving their homes despite lockdown measures being lifted;
- Only just over half of Germans are comfortable to leave their homes as businesses there reopen.

SHOULD THE ECONOMY AND BUSINESSES OPEN EVEN IF THE VIRUS IS NOT FULLY CONTAINED?



ARE YOU NERVOUS ABOUT LEAVING YOUR HOME IF BUSINESSES REOPEN AND TRAVEL RESUMES?



EXCEPTIONAL MEASURES

REAL ESTATE
The COVID-19 pandemic had a sudden and significant impact in our life, not only due to the lockdown quarantine that many of us were put in, but also in what regards to the economic and social effects arising therefrom.

Despite Portuguese law not providing a definition of *force majeure*, one may frame the current COVID-19 pandemic as a *force majeure* event, as the pandemic is considered, without doubt, an extraordinary, unpredictable and unavoidable event, with a significant impact on the performance of any particular obligations foreseen in the relevant agreements.

Apart from the general rules applicable in case of *force majeure* events, notably *(i)* the impossibility to perform legal regime (not caused by the debtor), applicable whenever it becomes impossible for any of the parties to perform its contractual obligations and *(ii)* the change of circumstances framework, comprising the situations where an abnormal change of the circumstances on which the parties or one of them grounded their decision to enter into the agreement is not covered by the contractual risk scheme accepted by each party and seriously affects one of the parties, the Portuguese Government has enacted several exceptional measures further to the previous and initial declaration of the exceptional regime of State of Emergency (*Estado de Emergência*) that was in force from 19 March up to 2 May and to the declaration of the State of Disaster (*Situação de Calamidade*) that has been in force from 3 May and still remains in place at the time of this publication over some specific areas (parishes in the Lisbon region.

In the real estate sector, the most significant measures taken so far are related with lease agreements and contracts for the use of shops and may be wrapped up as follows: *(i)* the legal mandatory lockdown of certain facilities and establishments and the suspension of retail activities and services activities rendered in establishments open to the public (a restriction that has become less restrictive over time, notably with the transition from the State of Emergency to the State of Disaster); *(ii)* the suspension until 30 September 2020 of several forms of termination of lease agreements; and *(iii)* a suspension of the payment of rents due during the period of the State of Emergency (including 1 month after its term) and the deferred payment of the same during a subsequent period which may vary depending on the type of lease and on the specific tenant (an extension of such deferred payment period regarding the non-housing lease agreements is under discussion and pending approval).

TAX
As Portugal faces the global pandemic of COVID-19, a series of tax measures where approved by the Portuguese Government. In this regard, we shall refer to specific approved measures, namely regarding *(i)* the extension and easement of reporting obligations, namely for VAT and corporate income tax purposes, which deadline would have fallen due in the days or weeks of the state of emergency and *(ii)* the suspension of tax enforcement procedures during the second quarter of 2020, both those ongoing and those which were initiated during the emergency period. However, we must note that little or no specific measures regarding real estate taxes where approved since the State of Emergency was declared in 19 March 2020 and terminated on 2 May 2020.

As far as real estate taxes are concerned, the main issue is to know if the counting of some general deadlines were suspended or remain in place, namely for Municipal Property Tax and for Real Estate Transfer Tax (RETT). For instance, regarding the Municipal Property Tax there are certain facts that have to be communicated to the tax authorities within 60 days of their occurrence. In these situations, there is still no guidance on whether such deadlines are considered suspended during the emergency state. Similarly, in relation to RETT, it is unclear if the 3 years deadline to resell the property acquired for resale purposes is extended taking into account the emergency period.

Taking into account the importance and potential relevance in terms of tax burden of some of these matters it is expected some guidance from the tax authorities in due course.

DIGITAL DISRUPTION
The real estate industry tends to be more conservative when compared to other fields of business, nonetheless, over the last few years we have been witnessing the transformation and simplification of several relevant services in the real estate sector, which have enabled the performance of several digital acts that used to be extremely bureaucratic.

This has been an ongoing procedure, and even before the pandemic situation, additional changes aimed to simplify and develop the digital transformation and convergence in relevant activities such as municipal planning services, notarial acts or even real estate brokerage services were already being implemented or under discussion. As a matter of urgency, the pandemic has forced the relevant authorities to streamline the provision of said services, especially in a lockdown situation. We highlight below the main recent changes introduced in this respect.

i) Municipal planning services
Although some municipalities (in the frontline of the digital transformation) have already been using online platforms as the chosen path to run municipal procedures, we note that the Municipality of Lisbon has recently created an online platform for planning matters, allowing for licensing requests or prior communication (*comunicação prévia*), as well as PIPs (preliminary information requests), to be submitted through this platform. We cannot ascertain if this will necessarily entail swifter and more efficient planning procedures, but it seems a clear sign of the municipality's intention to improve expediency of its services. This innovative platform is being replicated in other municipalities throughout the country.

ii) Remote notarial services
In the context of the current pandemic scenario, the Portuguese government has recently approved an innovative legal framework, currently pending to be formally enacted, which establishes a "test drive" regime for the remote execution of notarial acts. This new regime is still pending further regulation, however it enables the possibility of certain notarial acts being performed remotely (with no need of the relevant signatories being present at the notary), including the execution of sale and purchase public deeds of real estate properties, as well as the creation of other in rem rights or securities (notably but not limited to, usufruct, surface right and mortgage).

COVID-19 INTERIM RE-ENTRY CONSIDERATIONS

GOVERNMENT

- Shelter in place
- Business and public area shutdowns
- Overall re-entry strategy

LANDLORD

- Building capacity/entry restrictions
- Social distancing/ /elevator and common areas
- Cleaning protocols
- Modification of amenities, selective re-opening
- Building entry policies/ /security

OCCUPIER

- Office capacity/entry restrictions
- Social distancing/ /floorplan adjustments
- Cleaning protocols
- Modifications of amenities, selective re-opening

INDIVIDUAL

- Ultimate decision maker on re-entry
- Must be confident in health and safety

(RE)ENTRY

KEY PILLARS TO (RE)ENTRY

NAVIGATING THE NEXT NORMAL

(RE) ACTIVATE SPACE

- Objective re-entry triggers
- Stagger return to office
- New behaviors
- Office reconfigurations
- Spatial distancing strategies

(RE) SPECT HEALTH & WELLNESS

- Focus on wellness
- Visitor protocols
- PPE & other health products
- Employee health screening

(RE) VITALIZE PROPERTY & WORKPLACE OPERATIONS

- Communications
- Building technical readiness
- Regular enhanced cleaning routines
- Expectations in the next normal

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