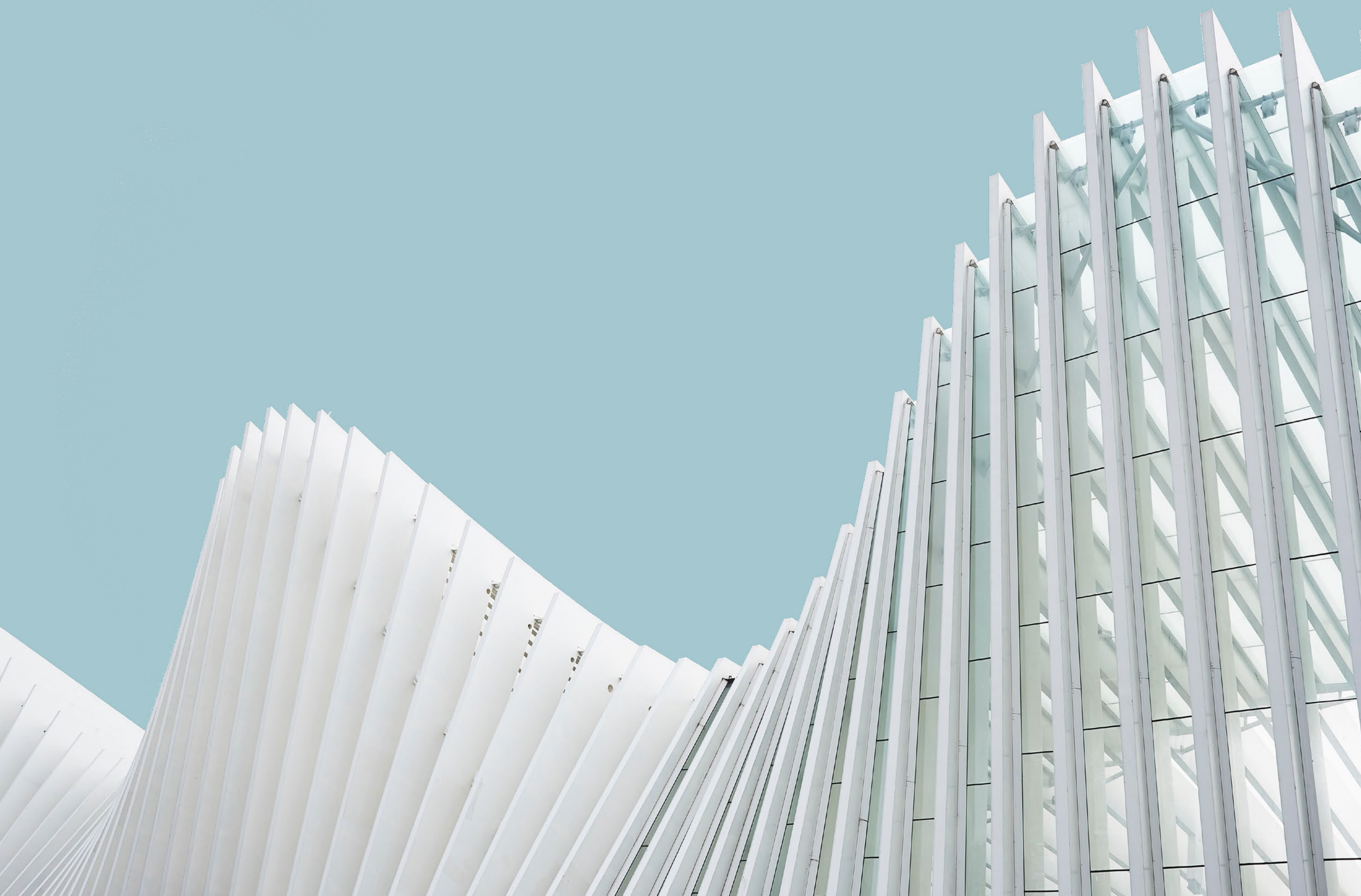
REAL ESTATE INVESTORS ROADMAP PORTUGAL

2019 Investment Guide



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WELCOME NOTE

Recently, Portugal was distinguished as an irrefutable destination status for investment, both at the European and world stage. Moreover, this accomplishment stems from the country's assertion in a multitude of dimensions: 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 and from more and more origins of the globe.

Investment in commercial real estate has never reached current proportions in our country, across all real estate segments and with capital sourced from so many countries.

At the same time, the cities of Lisbon and Porto are rejuvenating, focusing on historical centres that were degraded and began to be lived by people of many nationalities. Also, in the residential sector, we have never had so many foreigners from so many different origins buying properties in Portugal and moving here to work. In the business spectrum, more and more multinationals are choosing Portugal to establish their offices.

Portugal is not only fashionable; this event is here to stay. From the perspective of the international investor community, the country showed an exemplary conduct, revealing transparency and credibility, with a solid and promising path, with a great future.

The very positive and promising factor is that good things never go out of fashion. So, let's be determined, as a country, to preserve our attributes. Maintaining common sense in politics and governance as demonstrated in recent years, along with fiscal stability, there is no reason to doubt that Portugal will continue the fantastic path it is already undertaking.

We believe that this journey will no longer be unravelled. And once we have reached this point, following a 2018 where all records were beaten, we strongly believe this is clearly the best time to launch this Real Estate Investors Roadmap in Portugal.

JLL and Morais Leitão thus partner up to provide the best possible information on market practices and legal and tax issues, aiming to facilitate the investor approach to our market.

The real estate market continues to grow attracting new foreign investors that continue year after year believing in Portugal. The still unstable financial markets and the low interest rates will continue to benefit the real estate market.

We believe this Roadmap could not be launched at a better time.

The 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 analysis of the current status of the real estate market in Portugal. This Roadmap also focus on the recently created Portuguese REITs, the so called "*Sociedades de Investimento e Gestão Imobiliária*" (real estate investment and management companies) ("SIGI"), which follow closely the regulation of the REITs already implemented in several European countries.

Also, the Roadmap already includes the most recent changes to the urban lease legal framework.

We trust that this Roadmap proves helpful for all potential investors willing to invest in real estate in Portugal.

FOREWORD

APPII

APPII
Portuguese Association of Real Estate Developers and Investors

Portuguese real estate industry is booming and cities like Lisbon and Oporto are today one of the hottest topics and fashionable places worldwide.

Due to several reasons. From geographical and socioeconomical causes to tax and legal incentives, added to a consolidated annual grow of investment and transactions of the last four years and not forgetting the motivating yields, the high valuation of the assets and the good expectation of return, made that Portugal became a country under the attention of all investors worldwide.

Portugal and its cities in particular are currently in the target of several investors all over the globe, from US or Brasil, throughout Europe and Africa, to Middle East, China or Russia.

Under this matter, we must point out the fact that the total amount of investment made in all sectors of the Portuguese real estate market in the last year reached an expressive amount of € 30 billion, which represents an annual increase of 20% and an incredible growth of 80% since 2014. If we add up all the real estate investment made in Portugal in the period 2014-2018 we hit a number absolutely record of € 100 billion. We should also mention the roughly € 20 billion of foreign investment made in this sector in the period 2014-2018, which helped not only to refurbish many of the Portuguese cities, but also to grow the entire economy.

We believe that in 2019 the main cities of Portugal will still deserve the consideration of the international and also local investors and we expect that our Country will still represent an interesting and secure destination of investment. This Roadmap is an important and very useful tool to all investors willing to step into Portugal and its Real Estate Industry.

ROADMAP

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JLL Achieve Ambitions

MORAIS LEITÃO
GALVÃO TELES, SOARES DA SILVA & ASSOCIADOS

BUY A HOUSE

Identify the property

- Asset Concluded
- Asset Off-plan

Reservation

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

Promissory Purchase and Sale Agreement

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

Payments

- Asset Concluded – 20%-30% minus the reservation deposit

Off-plan Asset

- 20% minus the reservation deposit
- Additional payment of 20% - 30% during the construction period, made in different phases

Final Deed

- After receiving the use license.
- 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 price.

OWNING COSTS

ANNUAL COSTS

Property insurance
Contents insurance

MUNICIPAL TAX (IMI)

0.3% - 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) to the taxable amount higher than €1.000.000 and equal or lower than €2.000.000 is applicable a marginal tax rate of 1%; and (iii) to the taxable amount exceeding €2.000.000 is applicable a marginal tax rate of 1,5%.)

CONDOMINIUM COSTS

typically €0.5 / sqm - €4 /sqm

TRANSACTION COSTS

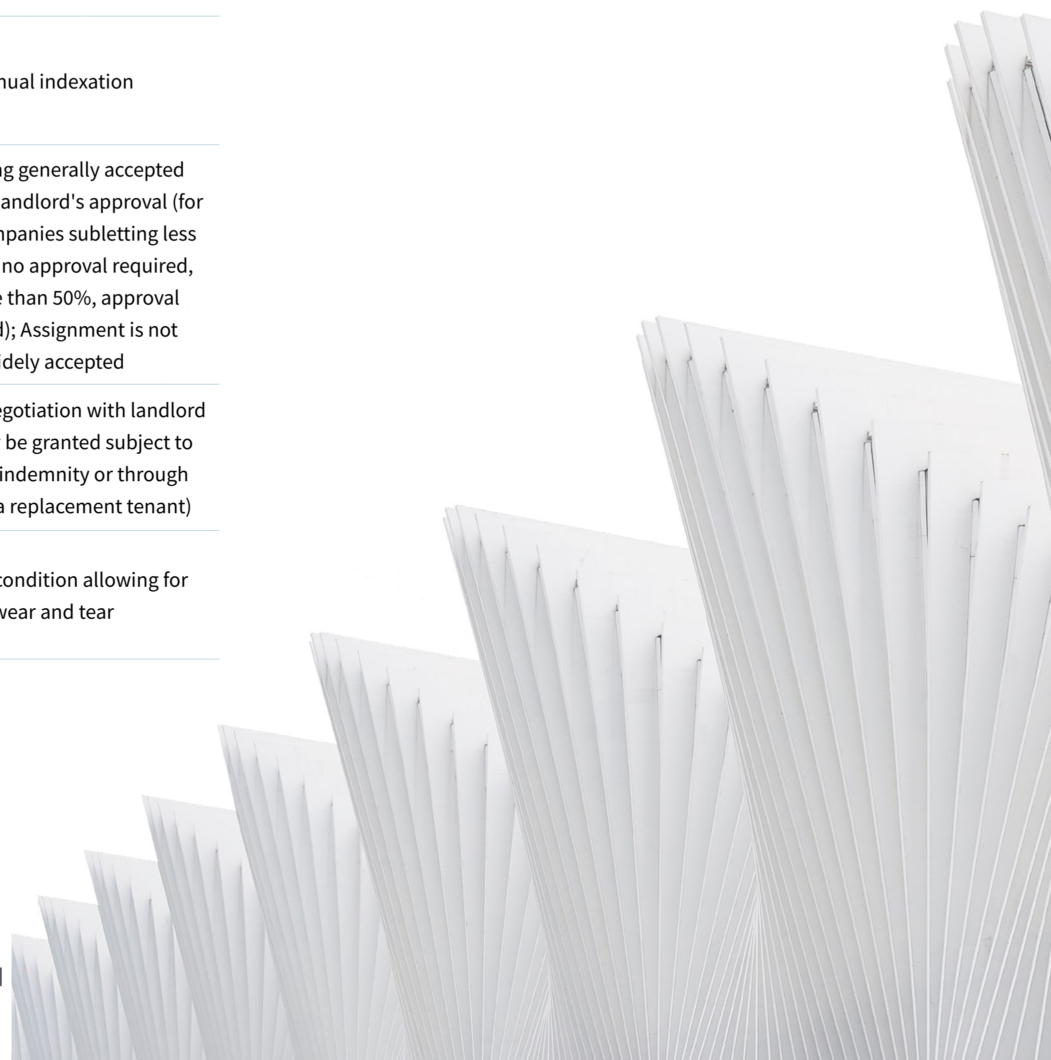
COSTS	% PURCHASE PRICE
Legal Fees	Not related with the purchase price
Notary	Depends on the complexity and purchase price
Registration Fees	€250 (or €500 in case of acquisition financed and secured by a mortgage)
Real Estate Transfer Tax (IMT)	0% - 6,5% depending on the type of property and the acquisition 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	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 – 15 years	5 - 10 years	There's no typically 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 month of rents + service charges; or up-front payment of 6 months of rents	Bank guarantee: 6 month of rents + service charges	Bank guarantee: 6 month of rents + service charges	Deposit of 3 months
Service Charges paid by the tenant (security, maintenance and cleaning of common areas)	€1.5 - €4/ sq m/ month	€10 - €16 /sqm Anchors: €4 - €8 / sq m / month Restaurants usually pay more €2 /sq m/ month	€1 - €2 /sq m/ month	€0.5 - €4 paid by the tenant (security if exist, maintenance and cleaning of common areas)
Incentives	Rent free period: 0.5 a 1 month per contract year; Fitout contribution in some cases for big tenants	Rent free period: 3 months; Fitout contribution for anchors; Discounts: first 3 years 25% 1st year, 15% 2nd year, 5% 3rd year	Rent free period for fitout: 3 months; Discounts: 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 repairs and maintenance
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 more than 50%, approval required); Assignment is not widely accepted
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 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
Promissory Agreement Negotiation

CLOSING

Promissory/
Conditioned SPA Signature

+

Definitive SPA

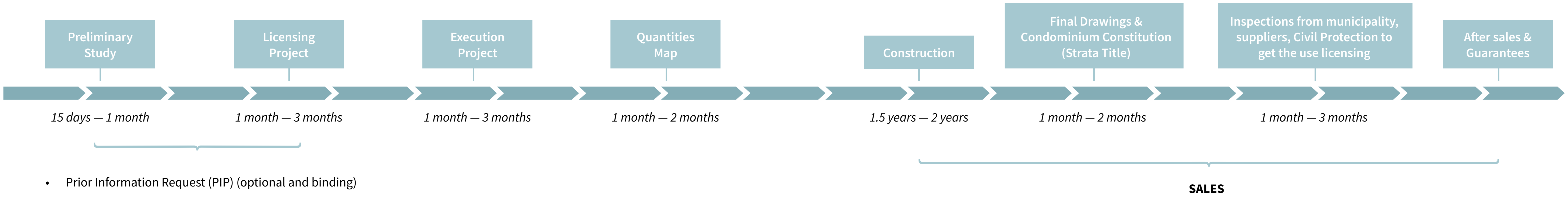
INVESTMENT

TRANSACTION STEPS	ASSET DEAL SELLER	ASSET DEAL BUYER	SHARE DEAL SELLER	SHARE DEAL BUYER
1. Pre-Contract	• Prepare relevant data package (financial, legal and technical) and contract draft • Negotiate contract draft	• Searches • Enquiries • Investigate title • Surveys • Prepare report • Negotiate contract draft	• Prepare DD data pack • Prepare DD responses • Negotiate contract draft	• Due dilligence (DD) enquiries • Prepare DD report • Negotiate contract draft
2. Contract Exchange	-	• Pay deposit	-	• Pay deposit
3. Pre-Closing	• Manage property to buyer	• 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	• 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 • Registration fees

DEVELOPMENT

PROJECTS

DEVELOPMENT



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

DEVELOPMENT

CONSTRUCTION COSTS

€/ SQ M	NORTH	PORTO	LISBON	SOUTH
Residential				
High-end	900	1,150	1,450	900
Midscale	800	1,000	1,150	800
Low-end	700	850	1,000	700
Retail	400	600	700	500
Office	400	600	600	500
Industrial	300	400	400	400
Underground	300	350	400	350

FITOUT & FURNITURE

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

SOFT COSTS

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

GUARANTIES
2 years for equipment (corresponds to the legal applicable period)
10 years for the building structure
5 years for construction - finishing (corresponds to the legal applicable period)

REAL ESTATE MARKET

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& ASSOCIADOS

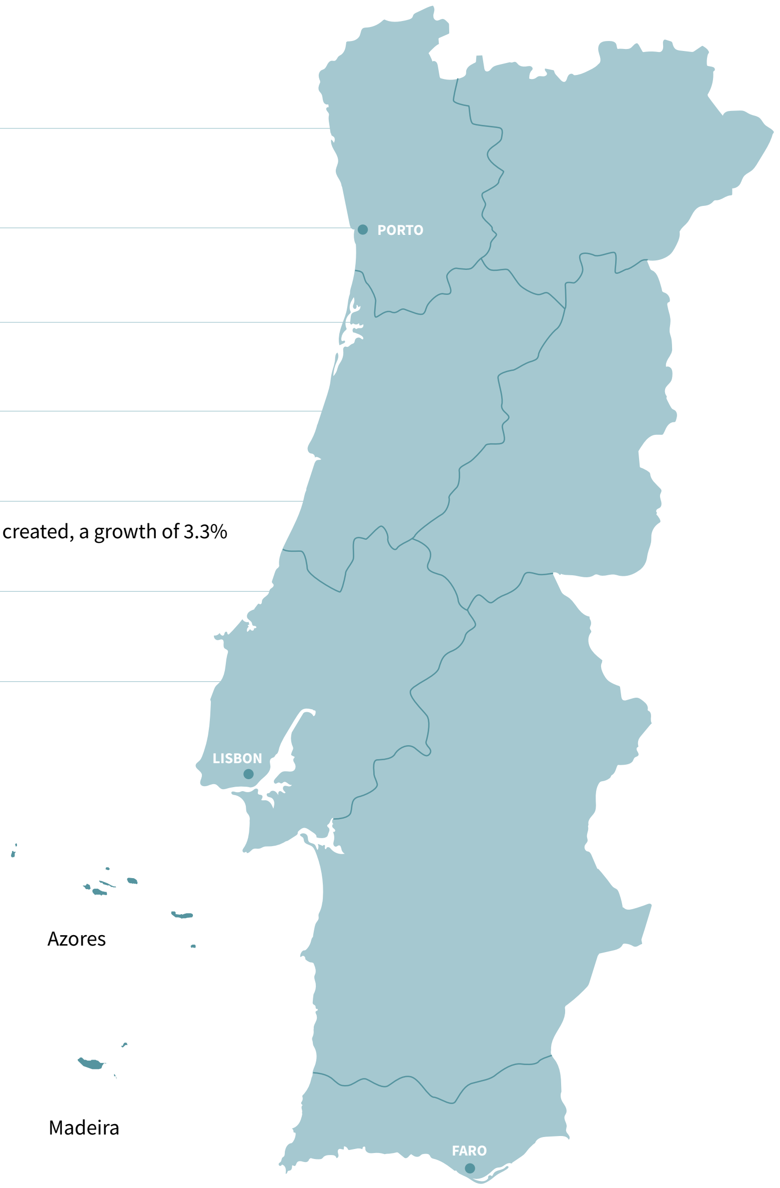
PORTUGAL KEY FACTS

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

20th Country with best quality of life in the world in 2018

4th Most Peaceful country in the world

1st Best Country in Europe for the expats to live in

73% Satisfaction of the portuguese people with the living conditions

Source: Expat Insider 2018, Global Peace Index 2018, Internations, US News Quality of Life Ranking 2018 worldwide

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

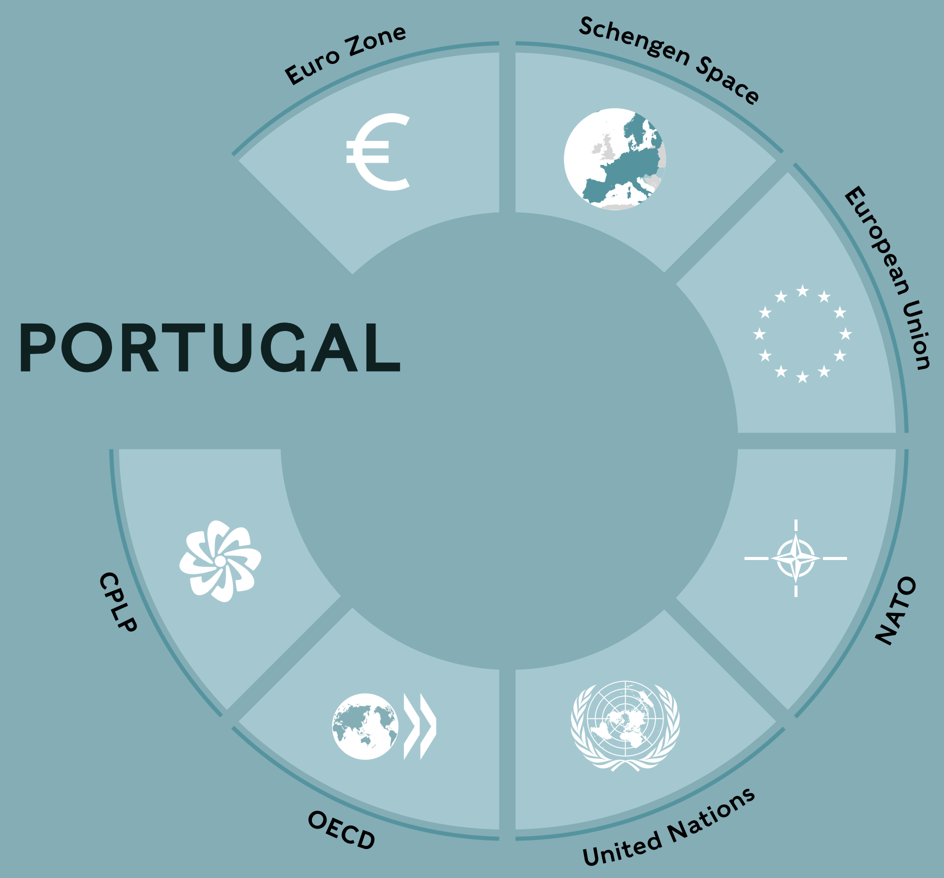
10th Countries with a Portuguese Historical Presence

10th Best democracy in the world

Source: Liberal democracies index (180 countries)

25th

JLL Global
Real Estate Transparency
Ranking - 100 markets



OVERVIEW

Portugal has established itself as a consolidated destination, much sought after by investors from around the world. Several factors were responsible for placing Portugal on the investor radar including favourable economic, security, solid real estate market indicators, growth of tourism and higher levels of profitability than most comparable markets.

The political and governmental stability has allowed Portugal to comply with its international commitments improving the country's credibility, which is reflected in the performance of sovereign bonds and the positive review submitted by credit rating agencies showing more confidence in the Portuguese economy. Economic growth, deficit reduction and increased employment in Portugal place the country on a converging path with the European Union.

The performance of the **investment** market in commercial real estate has evolved very positively in line with international trends. Investment volume remains at record highs year after year since 2014, surpassing the 3.35 billion euros barrier in 2018, never achieved before. The Retail sector is the one responsible for achieving such high volumes, due to the large tickets that it usually entails. The office sector is also extremely sought after, especially the well-located assets with good tenants, which easily attract low risk profile investors. Investment in commercial real estate in Portugal has been driven by an increasing and diverse number of investors of different nationalities and profiles. Due to market consolidation and the resulting lower risk perception, a market transition has been witnessed, which regained at the end of the crisis with a more opportunistic nature and now reflects a core and value-add profile.

As a result, rents have increased and yields have compressed, increasing asset value and the respective return for investors, increasing market liquidity.

. Real estate investment is also more diversified, with more opportunities to invest in the hotel sector and demand for alternative sectors such as senior and student residences, hospitals, clinics and private rented schemes (multifamily schemes). Transactions of large real estate portfolios and NPL assets held by banks are also reflecting a strong growth.

In the **office** occupational market, Portugal has established itself as a destination for the establishment of several large multinational services and startups with a noted increase of co-working spaces. Portugal is an excellent choice for multinational expansion or the creation of new businesses given the qualified human resources and the low costs associated with tax, labour and occupation. The level of competitiveness, the infrastructure quality and the capacity to attract talent are also key to the competitive advantages of our country. In this sense and given the significant increase in demand and shortage of quality office space, rents have been progressively rising. The take up volume has been experiencing records year after year, highlighting both the entry of new companies and existing company expansions. Currently, strong demand is primarily focused on quality buildings with large dimensions, which explains the increase in the average deal size. Vacancy is low and mostly not matching the quality standards, however, there is a robust pipeline of new buildings.

Vacancy Rate
6.5%

Pipeline 2019 – 2023
561,000 sq m

The buoyancy of the **residential** market continues to exceed expectations, with the number of national home sales increasing followed naturally by the increase of values. Additionally, according to the Statistics Portugal, housing appreciated 11% in the first three quarters of the year against the same period last year. Price increase will however tend to slow down due to the emergence of several projects that will, in a way, bring a better balance between supply and demand. The residential projects developed in the centres of the cities of Lisbon and Porto have been mainly targeted at the high-end market or the short-term rental market, primarily attracting foreign buyers, whose purchasing power is higher than the Portuguese. Thus, the centres of the cities have reached unattainable values for most of domestic buyers, which has naturally channelled domestic demand to other zones. This trend has evoked the interest of various developers for less central areas aiming to develop projects targeted at the middle-class with affordable prices, adjusted to the purchasing power of Portuguese families. The short-term rental market is still very active, through the increase in tourism; and the long-term rental market continues to reflect an extremely scarce offer.

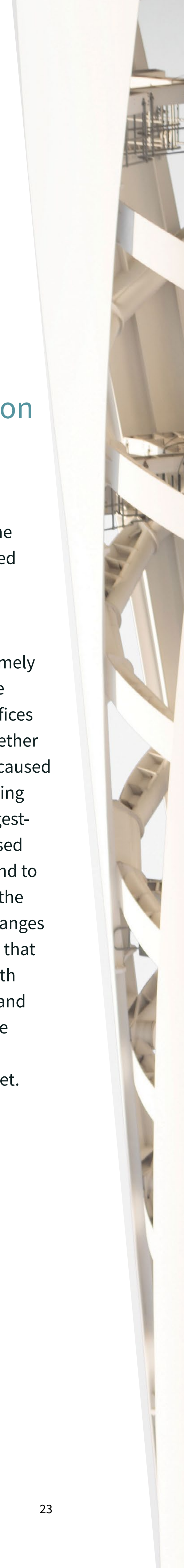
The imbalance between supply and demand is significant which explains the extremely high values.

This situation, combined with the general increase in housing prices and the different lifestyle adopted by the new generations, suggests that the long-term rental market is effectively starting to emerge in the medium term. Banks have been offering mortgage loans with increasingly low interest rates, luring the buyer towards a purchase instead of a lease, where rents are constantly increasing.

National Home Sales (Q3 2018)
132,000 units /
+19% yoy in Portugal
and +22% yoy in Lisbon

Following the boost of the residential market, the **property development** sector has also registered record performance levels, both in number and volume of transactions in land or buildings to refurbish. In the centres of Lisbon and Porto the demand for development opportunities is extremely high, driven by a very positive momentum in the placement of the final product, be it housing, offices or hotels. The shortage of buildings for sale, together with the increase in the final product price, has caused pressure on the value for which buildings are being transacted for real estate development. The largest-scale mixed-use projects will cater to the increased demand for offices, retail, hotels and housing, and to the necessary stock renewal. Thus, and despite the less positive impact that the latest legislative changes brought to the real estate market, the outlook is that the transactional activity will continue in line with previous years, mainly backed by the solid demand for the final product and the continuous increase and diversity of developers, both national and international, operating in the Portuguese market.

Buildings to refurbish
in the centre of Lisbon
more than 7,000



Retail is strong and increasingly consolidated. The shopping centres continue to maintain their relevant and important position in the life of the Portuguese people. They are undergoing an image upgrade, expansions and innovations, with a great focus on the restaurant sector, where food courts are becoming more humanized, keeping up with current trends to provide visitors with new experiences. Tourism continues to be the driving force behind street shopping in prime areas, but the new lifestyle of the Portuguese is pushing the locals further and further onto the "street," where the physical stores of successful brands focus on the relationship and engagement with the client, rather than on the product itself. Due to the economic recovery and the growth of tourism, high street retail continues to grow, with more and more zones showing significant consolidation.

Shopping Centre Pipeline

50,000 sq m

Year after year, **tourism** has hit record highs and has been crucial for the economic development, job creation and historic city centres refurbishment. 2018 was a successful year defined by international awards and international published articles, which enhance the notoriety, quality and media coverage of the Portuguese destination. The main tourism performance indicators have grown sustainably and reach records year after year. On the supply side, the focus is on the growing qualification and diversification in terms of size, positioning, concept and targeted markets. Local accommodation has asserted itself as an alternative to the traditional hotel and in this sense, the Portuguese hotel market is in increasing consolidation as a destination for the major international operators, through the construction of hotels from scratch or transactions over € 500,000 per room. More tourists and a greater diversity of nationalities are expected given the strategy of creating new air routes.

Hotel Openings in 2018

7 hotels with a total of 556 beds

Portugal is a truly global destination, considered one of the best in the world. The last few years have been exceptional, full of business, awards and recognitions that led us even further.

If the Portuguese were the ones to discover the world in the fifteenth century, today it is Portugal that is being discovered by many other nationalities.

No wonder, therefore, that more and more companies, investors and individuals look to Portugal through a different perspective eyes, *a country to work, to invest and to live!*

INFRASTRUCTURES

HIGHWAYS
3,100 kms

RAILWAYS
2,600 kms

Source: Infraestruturas de Portugal 2018

AVIATION
No. of Airports – 10 *(ANA)*
No. of aerodrome – 39 *(NAV)*
Cargo Handled – 167,000 tons, +22% *(ANA 2017)*

MARITIME
No. of Maritime harbors – 10
Cargo handled - 95.9M tons *(AMT 2017)*
3M TEUS

Source: AMT 2017

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: OMS

MACRO ECONOMIC FACTS

GDP	€ 187bn + 2,8%
GDP per capita	€ 23k
Unemployment Rate	8.9%
Inflation	1.6%
Private Consumption	2.4%
Exports	7.8%
Minimum Wage	€ 600 *(14 months)*

Source: INE Jully 2017;Turismo Portugal 2017; ANA Aeroportos 2017

TOURISM

20,6M No. of tourists

51,8M No. of passengers in the airports

51,8M No. of passengers in the airports + 16,5%

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

12th Country with less organized crime.
14th Country with less bureaucracy.
17th Country with the latest technology available.
19th Infrastructure Quality. Portuguese roads are in 6th place in the ranking of the 140 countries.
22nd Country with the longest life expectancy.
23rd Quality of the Education System: Quality of future workforce.
26th Country with most transparency in institutions.

Source: Competitivity ranking of the World Economic Forum 2018 - 2019 (140 países)

+44% Tourists growth in 5 years 2017 vs. 2013	*+64%* Tourism revenue growth in 5 years 2017 vs. 2013
1st Portugal Best Destination in Europe 2018	*11th* Country in the world with more events and international conferences

Source: Travel BI, World Travel Awards & European Best Destination, Country & Cities rankings ICCA 2017

OWNERSHIP AND TRANSFER OF PROPERTY

Real estate ownership (propriedade) in Portugal encompasses not only the full ownership (plena propriedade) but also other in rem rights (v.g., in rem guaranty and acquisition rights like the surface rights and usufruct rights). Full ownership is similar to the French "droit de proprieté" and to the common law "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.

LAND REGISTRY

Registration is essential to prove title to the property. The responsibility of the land registry rests with 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 (*princípio da prioridade do registo*) whereby the first recorded *in rem* right prevails over other recorded *in rem* rights even if the latter have been created prior to such record 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*)
- 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 a letter of intent and/or a promissory purchase contract that precedes the effective transfer of the property and which sets out certain obligations and/or the fulfilment of a set of conditions precedent.

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 10% and 20% 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, this provisional registry provides security to the promissory purchaser against potential subsequent liens and encumbrances that may fall over the property.

Prior to the conclusion of the final purchase contract, investors should typically have their advisors verifying the legal, urban planning, licensing, environmental, technical and tax status of the property (due diligence).

By law, unless parties agree to sell the property on an "as is" basis or agree to specific guarantees, a vendor is liable for any hidden defects of the property for a legal five-year period.

SHARE DEAL

Usually the corporate vehicles used to acquire properties correspond to limited liability companies, either joint stock companies (*sociedades anónimas* – "S.A.") or limited liability companies by "quotas" (*sociedade por quotas* - "Lda."), and undertakings for collective investment under contractual form (real estate investment funds - FII) or undertakings for collective investment under corporate form (*i.e.*, real estate investment companies - SII).

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 situation.

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 which 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 the shares in the shares' registry book; in case of book entry shares, the transfer will take place through its registration in the buyer'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

Limited liability companies by "quotas" ("Lda.") correspond to the most typical structure of small and medium companies in Portugal, given their lighter structure. Capital is split in "quotas", with a minimum of 1 € per "quota". In general, the company has two partners, but it is possible to have only one, taking into account some legal specificities and provided that the expression "unipessoal" is added to its corporate name. The "quotas" are registered in the Commercial Registry. The transfer of "quotas" must be in writing and must be also registered; information on the "quota's" holders and on the respective amount is publicly available.

b) Undertakings for Collective Investment in Real Estate

AIFs under contractual form (FII)

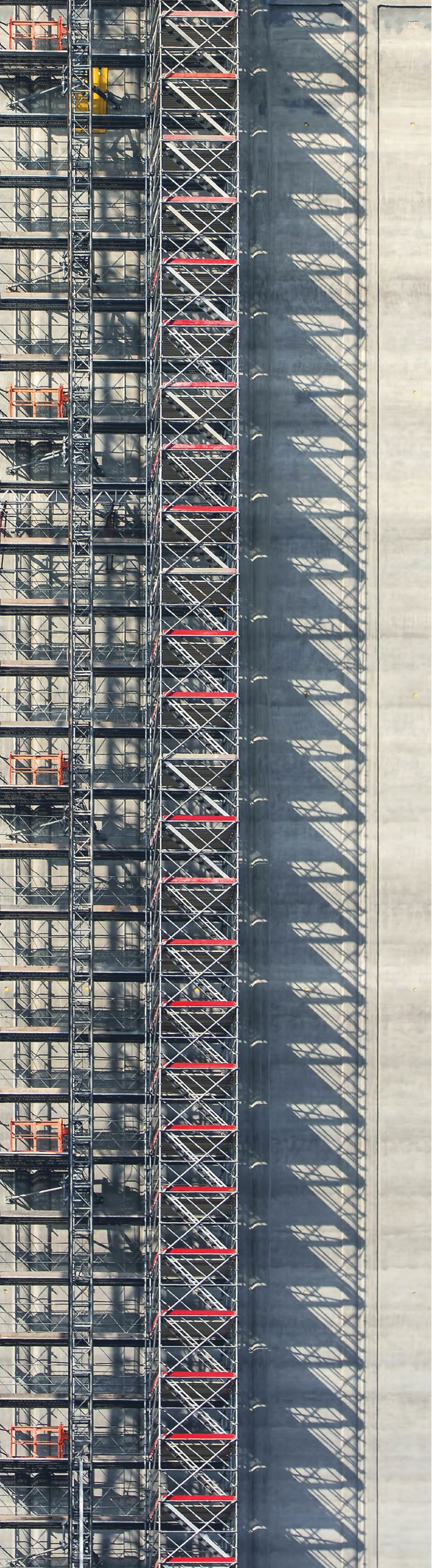
Undertakings for collective investment correspond to Alternative Investment Funds foreseen in the Directive 2011/61/UE (AIFs) and are governed by Law 16/2015 dated of 24 February, as amended (RGOIC), which implemented the said AIFs Directive. AIFs in real estate assume the form of real estate investment 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 company and of the custodian entity. Only AIFs assets will be liable for AIFs debts.

FIIs 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 of the FII investment policy.

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 AIF management companies is subject to the authorisation of the Bank of Portugal (BdP) and CMVM. Their activity is subject to different rules concerning the management of funds. Investors generally resort to existing AIF management entities



as their incorporation corresponds to a complex procedure ultimately depending on the authorisation of BdP and of CMVM.

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

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 (SII)
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).

The main advantages of the self-managed SIIs consists in allowing investors to be involved in its operation through the appointment, by the latter, of the relevant directors of the SIIs.

Undertakings for collective investment under corporate form are governed by the RGOIC and by the Portuguese Companies Code, save where the rules of the latter are incompatible with the specific purpose of these AIFs or with the provisions of the RGOIC.

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

c) Portuguese REITs: Sociedades de Investimento e Gestão Imobiliária ("SIGIs")

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 joint stock companies (SA), with or without public subscription, and have a minimum paid-up share capital of €5,000,000. SIGIs may either directly manage its properties or economical rights over properties or enter into service agreements with third parties for the management of the same.

SIGIs' shares shall mandatorily be admitted to trading in a regulated market or in a multilateral trading system and at least 20% of the shares must be held by investors which hold shareholdings corresponding to less than 2% of the voting rights, that is at least 11 investors must hold 20% of the share capital.

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 or other form of economic exploitation.

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 (SIIs) 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 for the temporary use of a real estate property against the payment of a consideration by the respective user.

A) FORM / CONTENTS

Entered in writing

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 business transfer of the tenant, 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 upkeeping 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.

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: residential and non-residential leases

Non-residential 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-residential leases can be for a specific duration (from 1 year up to a maximum of 30 years)

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

Unless otherwise agreed the duration is automatically extended for equal and successive periods or for successive periods of 5 years if the agreement has a duration inferior to 5 years.

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

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

Lack of such registration inhibits the tenant from invoking the lease duration in excess of the said 6year 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 is entitled to a pre-emption right thereover.

Residential Leases

A) CONTENTS

The degree of contractual freedom in residential leases is more limited than in non-residential 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 duration from a minimum of 1 year up to a maximum of 30years.

Unless otherwise agreed the duration is automatically extended for equal and successive periods of 3 years if the agreement has a duration inferior to 3 years.

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 240day or 120day 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 day prior notice to the landlord.

Transitional system
There are two transitional systems enacted by the Law 6/2006, of 27 February, as amended (NRAU) in respect to "old leases" executed prior to 28 June 2006: *(i)* the legal framework applicable to residential leases entered into under the former urban lease regime (RAU), i.e. after 18 November 1990, and to non-residential 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 residential leases and non-residential leases entered into prior to the said dates.

Old rents updating system
Furthermore, a system 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
Early termination of leases by the landlord is allowed for the purposes of execution of reconstruction, modification and expansion works on the leased property, insofar as after the envisaged works it is not feasible to keep the lease in the existing property under equivalent physical conditions and under certain terms and conditions defined by law (v.g. indemnity to the tenant equivalent to 2 years of rent). As a general rule the consequences of such works in the leased property is the suspension of the lease agreement (and not its termination), in which case the landlord must relocate the tenant in alternative leased premises for a period of 3 years under similar conditions.

Use of shop agreements
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.

PLANNING AND LICENSING

FRAMEWORK
The Public Policy Basic 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 feasibility of a property project requires compliance with the territorial management instruments (national, regional or municipal planning instruments) that apply to the area or zone where such project will be located.

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

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).

Portuguese legal system has rules that limit the use, occupation and transformation of the land, namely the "public interest constraints and easements" resulting 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 interests involved.

Municipal territorial planning instruments (*Planos Municipais de Ordenamento do Território*): These instruments implement the public policies at a local level and 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" – Detail Plans (*Planos de Pormenor*).

The feasibility of any property project requires compliance with the relevant applicable territorial management instruments, especially at local level.

PRELIMINARY CONTROL PROCEDURES: LICENSING, PRIOR COMMUNICATION, PRIOR INFORMATION REQUEST AND USE PERMIT
The RJUE is in the forefront in respect of licensing property projects and defines which urban operations require prior control (i.e., licensing – *licenciamento*, prior communication – *comunicação prévia* or use permit – *autorização de utilização*), respective administrative approval procedure, and the monitoring of their execution.

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

Real estate projects are also subject to the rules contained in the municipal urbanisation regulations on construction and land, as approved by the municipalities.

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; and
(vi) Works carried in buildings located in protection area.

B) PRIOR COMMUNICATION (*COMUNICAÇÃO PRÉVIA*)

As a rule, urban operations that do not require licensing are subject to administrative prior control, notably: the prior communication.

According to the RJUE, the following works are subject to prior communication:

(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.

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 the licensing request. The municipality's decision on the PIP is binding on the municipality insofar as the subsequent licensing request is filed under the exact terms and conditions of the PIP which is 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*)

The use of buildings or of their condominium units (*frações*) 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.

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 undertakings 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 on the basis of the level of services and amenities.

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 large commercial surfaces licensing: However, the installation of large commercial surfaces not integrated in commercial complexes and of commercial complexes with a lettable gross area ≥ 8,000 sq. meters 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). By law DGAE shall prepare a final report submitting a draft decision, based on the criteria set out in the law. Said permission is conditioned upon the payment of fees to the said public authorities.

Short Rentals (*alojamento local*)
Short rentals offered to tourists for consideration, notably through apartments, houses, lodges or hostels) are subject to prior registration with the relevant municipality and are not qualified as a tourism undertaking. The local lodging activity is 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 short rental properties must comply with certain rules, such as an information book detailing the internal rules of the property, including the relevant provisions of the condominium regulation (if applicable) and civil liability insurance.

URBAN RENOVATION

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 renovation areas. These are well defined areas, which, due to the degradation of the buildings and infrastructures require integrated urban renovation.

The delimitation of urban renovation 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 commonly resort to mortgage-backed financing. 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 day month and a 360 day 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 of 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 term 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 6%, 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 (FIIs) and AIFs under corporate form (SIIs)
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 IRC under the generally applicable terms, the income from capital and properties and 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) Portuguese REITs: Sociedades de Investimento e Gestão Imobiliária ("SIGIs")
It is expected that SIGIs will benefit from the tax framework applicable to AIFs, i.e., the SIGI in practice will be exempted 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.

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%.

It is still unknown if there is going to be a stamp duty on the net asset value of SIGI's assets.

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, usufructuaries or people entitled to use the property 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		COMPANIES		
From € 600,000 to € 1,000,000	0.7 %	From € 600,000 to € 1,000,000	0.7 %*1	0.4 %*2
From € 1,000,000to € 2,000,000	1 %	From € 1,000,000 to € 2,000,000	1 %	0.4 %
More than €2,000,000	1.5 %*3	More than €2,000,000	1.5 %*3	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.
*3 New tier introduced by the Budget Law for 2019.

c) IRC and IRS

Residents
Property income of companies (IRC) 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 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%.

In case of aggregation of income, all costs effectively borne and paid by the taxable person 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 "IRC" under the general provisions of the law at the customary 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.

On the other hand, 50% of the capital gains obtained by a resident individual is taxed based on the positive difference between *(i)* 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 and *(ii)* the corresponding selling price and is subject to 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 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 and *(ii)* the corresponding price. Capital gains obtained by non-resident individuals are subject to a 28% tax on the same value.

Non-resident investors that are individuals must declare these capital gains on property under the same terms and within the same time limits; companies must declare the capital gains within 30 days of the transfer.

URBAN RENOVATION OF REAL ESTATE
Renovation 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.

The Tax Authority has adopted the understanding that these two incentives for urban renovation cannot be applied cumulatively.

(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) IRC and IRS

The income generated by FIIs 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 IRC.

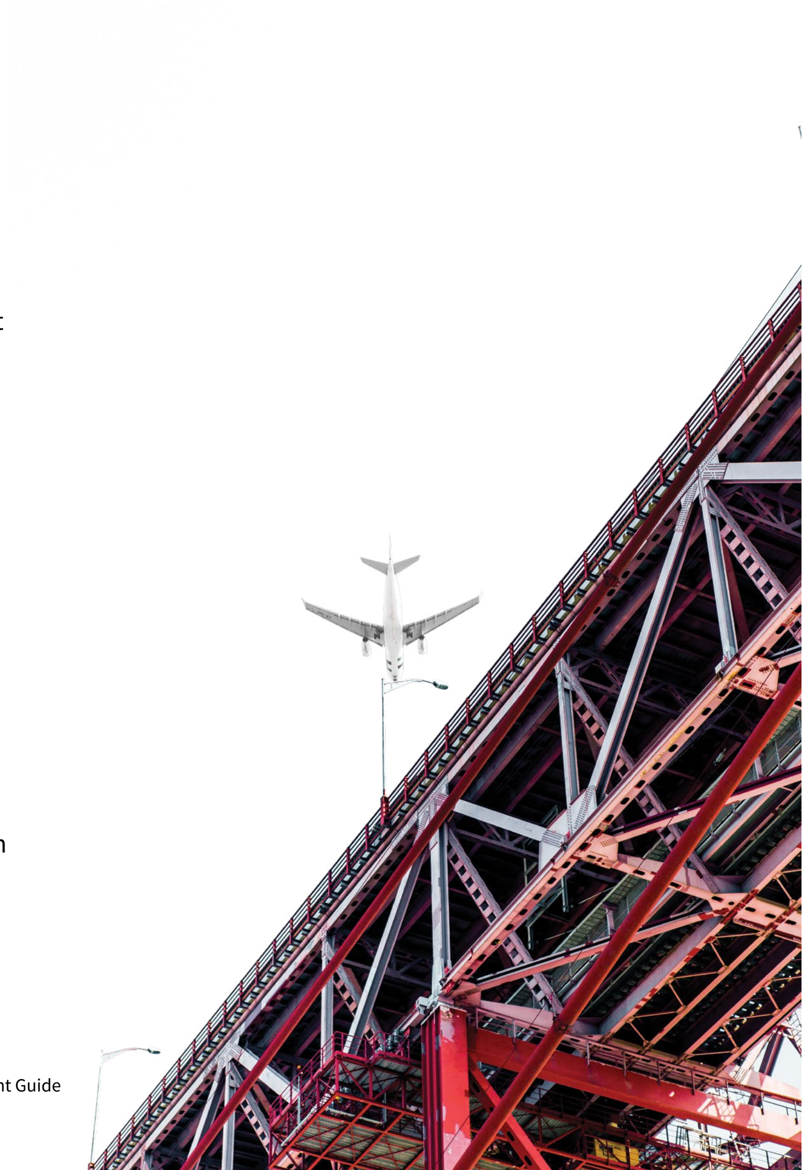
The income from units in the above-mentioned investment funds are subject to a 10% withholding tax, whether it is paid or placed at the unit holders' disposal by way of distribution or redemption, save where these are exempted entities regarding capital income or non-residents without a permanent establishment 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 participation 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 IRS who reside in Portuguese territory and receive income outside the scope of a business, industrial or farming activity and have not opted for aggregation

In terms of IRS 30% of the costs borne by the investor in connection with the renovation of properties is deducted from the taxable income up to a cap of € 500, whether these are located in urban regeneration areas and recovered in accordance with the relevant regeneration strategies, or rented out and subject to a phased increase of rents under the terms of the NRAU and have been the subject of regeneration work.

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 IRS at the autonomous rate of 5% when earned by taxpayers residing in Portuguese territory. Moreover, residents are subject to IRS 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, without prejudice to opting for aggregation.



REAL ESTATE IN NUMBERS

Construction Costs

	OFFICE (LISBON)	OFFICE (PORTO)	SHOPPING CENTRES	RETAIL PARKS	HIGH STREET RETAIL (LISBON)	HIGH STREET RETAIL (PORTO)	INDUSTRIAL & LOGISTIC	RESIDENTIAL
Yields %	4.25%	6%	5%	6.25%	4%	5%	6.25%	4.50%
Rents (€/sqm)	22	19	125	11	135	70	4	20

Hotels Kpi's

	OCCUPANCY RATE	ADR	REYPAR
Portugal 2018 ytd (Q3) STR	72%	118 €	86 €
Lisbon 2018 ytd (Q3) STR	79%	123 €	98 €

Stock

OFFICE	RETAIL		RESIDENTIAL (UNITS)	HOSPITALITY (BEDS)
Lisbon (sqm)	Shopping Centres (sqm)	Retail Parks (sqm)	5,700,000	277,700
4,700,000	3,000,000	430,000		

Shopping Centres

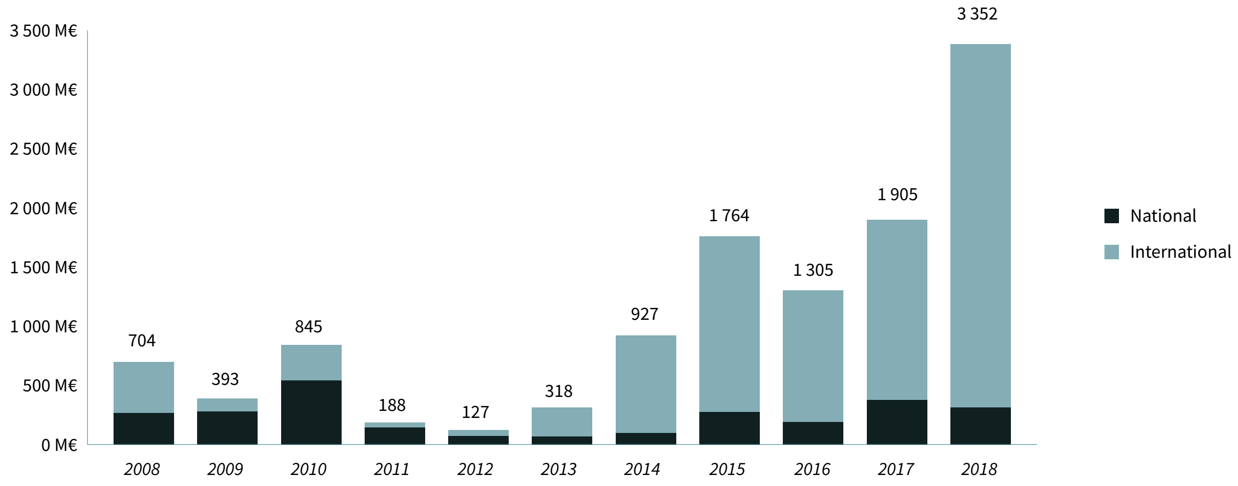
	VERY SMALL	SMALL	MEDIUM	LARGE	VERY LARGE	RETAIL PARK	TOTAL	VOLUME INVESTED 2015-2018
No. of Shopping Centres in Portugal	13	54	24	19	4	36	150	€ 2,55bn
Average Size	500 - 4,999	5,000 - 19,999	20,000 - 39,999	40,000 - 79,999	> 80,000	4,000 - 35,000		21 transactions

Hospitality

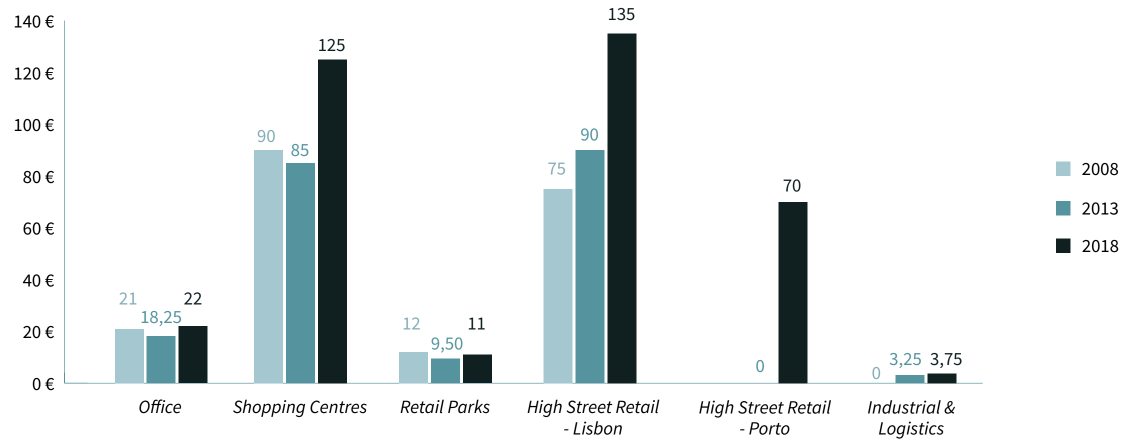
TYPE OF ACCOMMODATION	NO. OF UNITS	NO. OF ROOMS	NO. OF BEDS
Hotels	1,300	99,000	211,000
Local Lodge	2,700	27,700	66,700

INVESTMENT

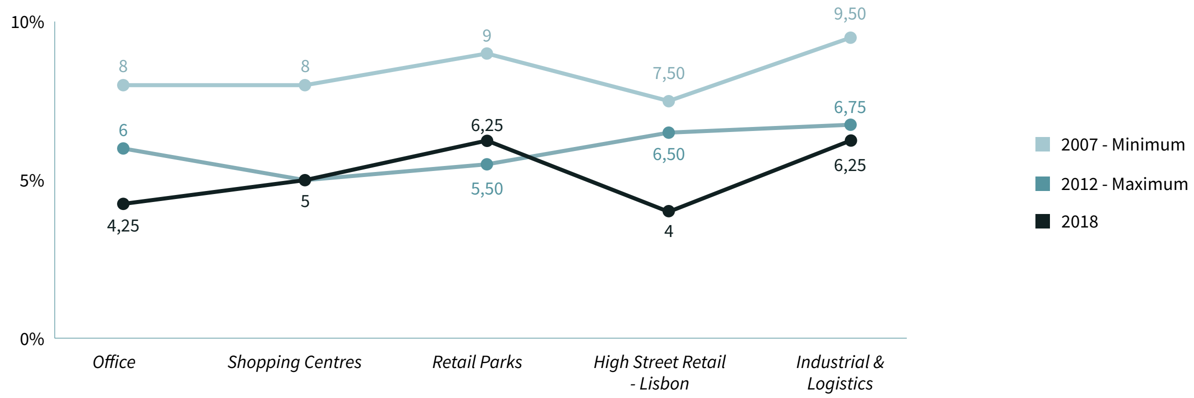
INVESTMENT VOLUME EVOLUTION



RENTS EVOLUTION

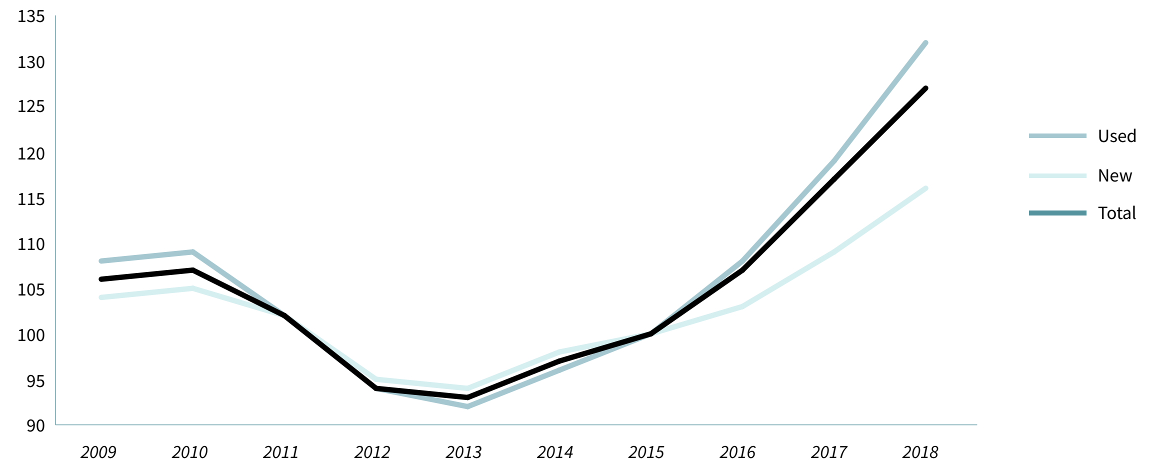


PRIME YIELDS EVOLUTION



RESIDENTIAL

HOUSING PRICE INDEX



LISBON PRIME VALUES

Lisbon is still more affordable than other European capitals

29,500 €/sq m	17,500 €/sq m	14,000 €/sq m	10,500 €/sq m	10,500 €/sq m
London	Paris	Berlin	Madrid	Lisbon

Source: Financial Times

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