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THE NEW PLATFORM FOR INVESTMENT IN SPAIN & PORTUGAL

TOP IBERIAN CITIES: WHAT ARE THE HOTSPOTS FOR INVESTMENT IN REAL ESTATE?

- Madrid, Lisbon and Barcelona markets are hotter than ever
- Valencia, Bilbao, Malaga and Oporto stand out among the investors as alternative destinations

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A CAUTIOUS OPTIMISM!

ANTÓNIO GIL MACHADO
DIRECTOR, IBERIAN PROPERTY

There's no denying that we are living a moment of great optimism in the property investment market, both of Spain and Portugal, where investor activity and appetite reach levels never before achieved, succeeding transactions of all type of real estate and for any of the assets classes.

However, if we do not stop to reflect, there's the risk of, at the same speed with which the market came out of the most difficult years, this power may quickly go back to a depressing spiral. There are currently several the signs that recommend us prudence in investing and that invite us to reflect...

As I write these lines in the wake of the EPRA Conference, I use this space to summarize some simple ideas that were discussed on that stage of reflection and whose organization was, once again, a true success:

- Geopolitical risks: today they are greater than before and have worsened, with the potential to generate extreme events that will affect very seriously any business;
- Macroeconomic risks: the debt problem remains unsolved, in its essence, not only in the banking sector but also in many countries; the European EQ will be challenged by a more aggressive policy of raising the FED' interest rates, and the impact of Brexit only now, with the pound achieving euro parity, will start to be felt;
- Technological risks: with the phenomenon of e-commerce growing at a double-digit rhythm and traditional non-food sales stagnating in the main economies over the last 10 years. The non-food retail space is narrowing, and at the same time we will have to find logistics solutions for the last mile of e-commerce delivery. Still in this field of technology, we must not forget that automotive electrification and autonomous driving will redefine the paradigms of our daily life in just 10 years, without anyone knowing how to measure the impact in our cities!

This positive moment is, therefore, the perfect time to launch new tools that may contribute to sustain markets, such as the example of the creation in Portugal of a REIT' scheme, that can support the attraction of capital to our country.

Given that real estate investment is a business inevitably planned for a minimum of 5 years, investing prudently today, including all these premises of an uncertain future, is a challenge to which we hope we can contribute to!

With our events and editions, we hope to meet your expectations! And that is what we are trying to do with this number 3 of Iberian Property, which celebrates the II edition of Portugal Real Estate Summit, after the success achieved with the organization of the Iberian Summit, held in London last June, and which summary we present in this magazine.

Enjoy your reading!

EVENTS

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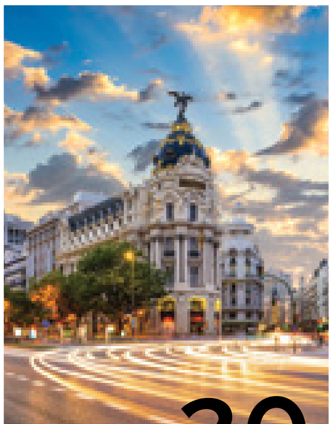
DOSSIER: SPECIAL TOP IBERIAN CITIES

MADRID

LISBON



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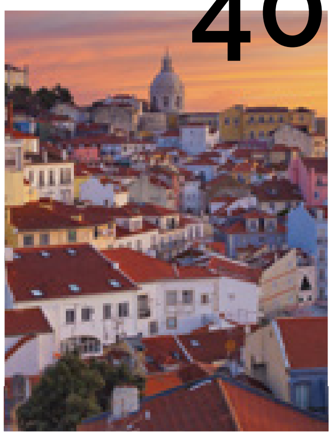

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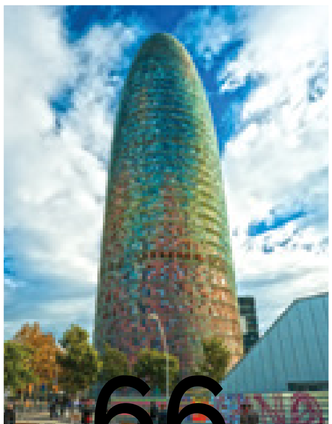

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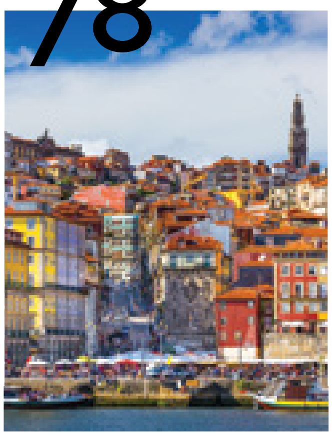

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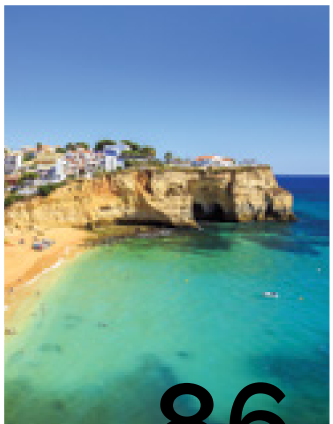

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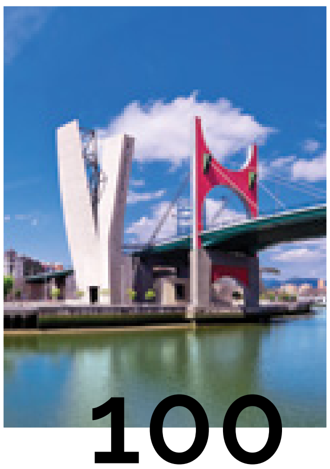

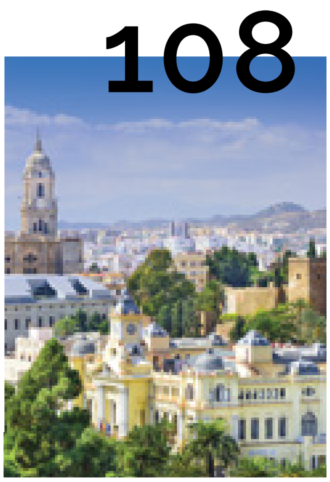

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PHOTO COVER
"Madrid, Spain cityscape at Calle de Alcala and Gran Via.", photo: Sean Pavone

Iberian PROPERTY SUMMIT LONDON

A GROWING MARKET DRIVES INVESTORS TO SECONDARY CITIES

Although the principal focus remains on the cities of Madrid, Lisbon and Barcelona and on prime product, the strong growth of the Iberian property market is now starting to turn investor attention to secondary cities and alternative segments.

Rupert Nabarro, conference chairman

Indeed, this was one of the main conclusions reached in the first Iberian Property Summit that, on 20 June, brought together approximately 150 professionals from the international real estate investment industry in London. The event's participants agreed that the volume of foreign capital aimed for investment in the Iberian Peninsula's property market is expected to increase over upcoming months, and that 2017 will surpass the more than 10 billion euros invested in commercial real estate last year.

Competition to purchase assets in the most consolidated destinations also continues to increase, which is why investors are now directing their attention beyond core products and destinations, with a growing focus on secondary cities and alternative market segments.

Organised by Iberian Property with the dual purpose of providing the international investor community with reliable information on the Iberian property market, as well as making it easier for the industry's main decision-makers to meet, the event brought to the British capital representatives from

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some of the major global giants in the investment industry, such as Castelake, CBRE GI, Blackstone, AXA REIM and Schroeders, among many others. There was also contribution from the main SOCIMIS and listed companies in Spain – such as Colonial, Neinor and Hispania – as well as SAREB, the company that manages the disinvestment process of Spanish banks in real estate assets.

Development and residential products are increasingly attractive

In other words, while Madrid, Lisbon and Barcelona and the offices, retail, hotel and logistics segments still tend to be the principal focus of real estate investment in Iberia, this conference made it clear that, due to the rise in demand for this region, investors now consider purchasing assets located in other Iberian cities and in alternative segments. Entering real estate development projects as an alternative to purchasing consolidated income assets is one of the possibilities, and assets aimed for the Spanish residential rental market were also pointed out as interesting options.

Average ticket size continues to rise

Exponential growth in both markets and the evident recovery of the Iberian economy, confirmed in an analysis by the economist Daniel Lacalle, are other factors noted by investors, who also mentioned the healthy rise in the average ticket size, in a market where sustainable returns are beating European records.

According to data presented by MSCI at the event, even despite the most challenging years faced by the Iberian economies, the property market in Iberia has generated investors an average annual return of 7% over the past 16 years.

The Iberian real estate market *«is truly vibrant, full of opportunities and, at the moment, extremely interesting»*, stated Rupert Nabarro, Chairman of the event, founder of IPD (now part of MSCI) and one of the most recognised names in the British real estate community.

Brexit: challenge or opportunity?

The impact of the United Kingdom's exit from the European Union was another topic on the table. In the opinion of the event's participants, one of the main advantages of Brexit for the Iberian property market will be in occupier markets, considering the relocation potential not only of European institutions, but of companies that aim to interact with European markets in an open regime and will no longer be able to do so from London. Nonetheless, everyone agreed that, until the negotiations of the exit conditions are completed, it is hard to predict the negative effects of Brexit on the UK and the rest of Europe. ■

Tim Kesseler, EPRA; Juan Velayos, Neinor Homes; Cristina Garcia-Peri, Hispania; Carmina Ganyet, ColonialPedro Coelho, Square Asset Management; Paulo Sarmento, Meyer Bergman

Mikel Marco Gardoqui, CBRE Spain; Javier Hortelano, Catella Asset Management; Pedro Coelho, Square Asset Management; Paulo Sarmento, Meyer Bergman

Francisco Horta e Costa, CBRE Lisbon

Iberian Property Summit

Organised by Iberian Property, the Iberian Property Summit took place on 20 June at the Hyatt Regency – The Churchill, in London, and included the participation of more than 20 renowned speakers. It was, according to the organisation, *"a real success"*.

In this first edition, the event received support from the main associations and bodies that mobilise real estate investment on a global, European and national scale, including RICS – Royal Institution of Chartered Surveyors, EPRA – European Public Real Estate Association, and ULI – Urban Land Institute. ASPRIMA – Asociacion de Promotores Inmobiliarios de Madrid, ACI – Asociacion Española de Empresas de Consultoría Inmobiliário, APFIPP – Associação Portuguesa dos Fundos de Investimento, Pensões e de Património are APPII – Associação Portuguesa dos Promotores e Investidores Imobiliários, were the Iberian entities associated with the event, which was sponsored by CBRE and Uría Menéndez.

Re-Think 2017

EPRA CHALLENGED THE INDUSTRY WITH TRENDS THAT WILL CHANGE THE REAL ESTATE

EPRA (European Public Real Estate Association) challenged the real estate investment industry with the Conference *"RE-Think 2017"*, and a high quality panel that launched a debate about the future of the real estate industry. The conference, with an audience of more than 350 professionals, took place in London last 6 and 7 September.

Niall Fergunson, professor at Stanford and Hoover Institute, was very forceful in its analysis, issuing serious warnings about the uncertain times! The policy of QE (Quantitative Easing), started by FED, will have an impact on Europe, and force BCE to reduce the support to economy. This will represent higher interests already next year. Also, the debt problem has not found yet a solution, *«our governments seem to have given up to solve the problem!»* Without the debt problem under control and interests raising, Europe *«will experience problems again»*, warned Niall Fergunson.

On the Brexit, Niall Fergunson was even harsher... Politician managed to create the illusion that Brexit wouldn't have consequences on English people returns. But the impact only now is starting to make sense, with a slower growth, the pound devaluing, and the first relocation decisions being known. British returns will drop, over the next years, and the more extreme the Brexit the more it will be felt by the families!

Electric vehicle transformation!

Regarding the impact of new technologies in real estate, William Wheaton, professor at MIT, highlighted the technology trends that will have an impact on our cities and on the way we live in community. The vehicle and electric mobility will change *«our buildings and cities, in a way we can't foresee»*, stated Wheaton. The reality of electric vehicles will have a huge impact, should take 10 years to represent the majority of sold cars and a very important share of car traffic. *«Electric cars are cheaper to operate, have lower maintenance costs, don't have battery problems, and will be cheaper to build!»*

In a statement with same controversy, and more in the USA reality, the electric vehicles will expand the suburban limits. Whenever the cost per Km has reduced, our cities became wider. If we also consider the autonomous driving ability, the travel time will be less critical!

E-Commerce impact

Digital transformation was approached, both by William Wheaton and by Salim Ismail, Executive Director at Singularity University. Electronic commerce grows two digits for 10 years, alongside with an anemic or negative growth of the non-food retail. The price benefit of electronic commerce is huge... In an analysis of Salim Ismail, while a Department Store has a cost of more than 20c$ for every dollar of sales, Amazon spends 7c$ for every dollar of sales (in infrastructures, without the cost of the product sold and last-mile delivery).

This means we have *«a tremendous overcapacity of retail sale, mainly non-food»*, which will reflect in an industry reconfiguration. Shopping centers are, currently, places for entertainment and products exhibition, instead of transaction places. Salim demonstrates with the fact that many stores are now show rooms, and many of the online sales are made with an assisted help on stores.

"Re-Think" Conference left many future trends and plenty food for thought, for a future that's happening today!

New rules for insurance companies anticipate an increase on investment flows

Changes among capital requirement rules of UE for insurance companies, in order to the listed real estate to be considered as a direct real estate investment, may lead to a significant increase of institutional capital investment flows.

Who said it was Dominique Moerenhout, CEO at EPRA, during the Conference, and according to whom *«one of the biggest obstacles to European insurers investing in listed real estate companies is the heavy capital weightings imposed by Solvency II. EPRA is strongly petitioning the European Commission to cut this»*. He also explains that *«Solvency II deters insurance investors from a key source of quality assets and management, liquidity and transparency for their real estate portfolios. If insurers are able to appropriately weight listed real estate in their investment asset allocations, we believe the market capitalization of the sector in Europe could possibly double»*.

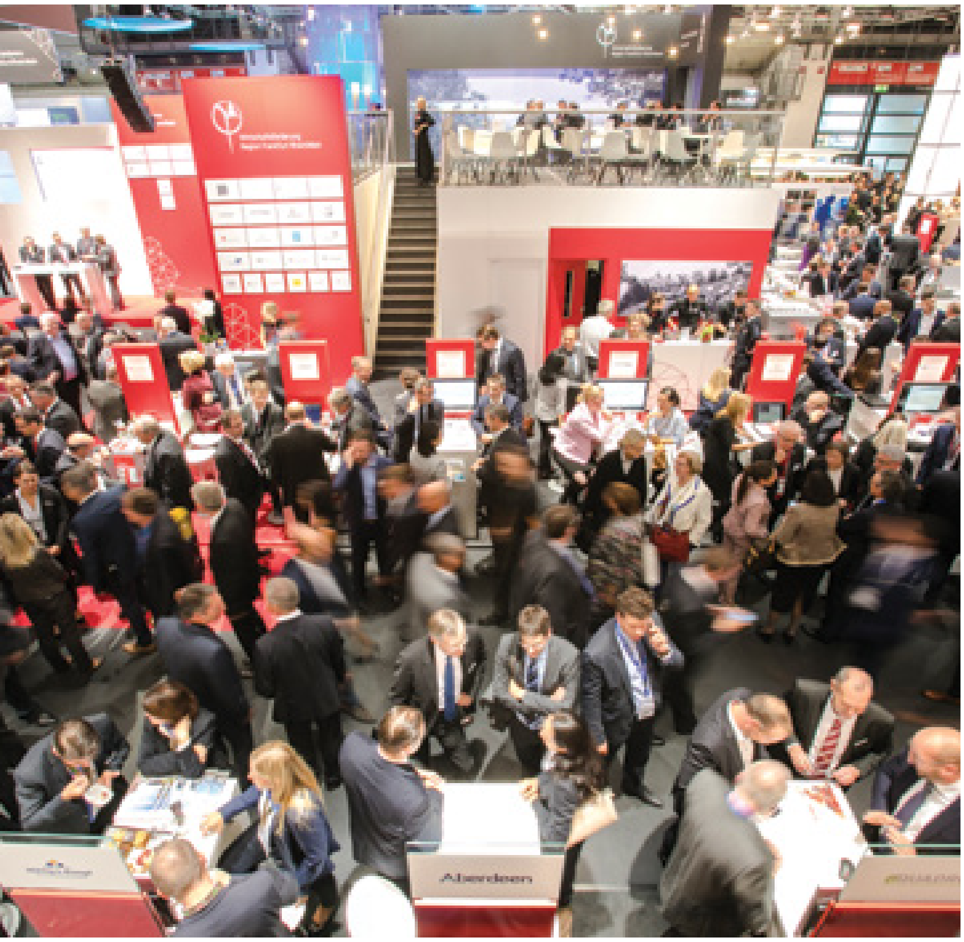
106 companies integrate EPRA Best Pratices Recomendations

For the first time, a total of 106 companies integrate EPRA Best Practices Recommendations (BPR), the industry-leading standard for disclosure and transparency in financial reporting.

Dominique Moerenhout referred that *«in 2017 we exceeded our expectations. This year, 75% of the companies included in this survey won an award, setting a new record of 106 companies integrated in EPRA BPR»*. These awards are assigned by Deloitted, based upon the companies' annual reports. There are analyzed components such as Earnings Per Share (EPS), Net Asset Value (NAV), or NNNAV (triple net asset value).

EXPO REAL: INVESTMENT BOOM IN EUROPE TO CONTINUE

A real barometer of real estate investment in Europe, EXPO REAL returns to Munich from 4^{th} to 6^{th} October, confirming that the boom in this market is here to stay.



The director of the trade fair, Claudia Boymanns, told Iberian Property that «*interest from exhibitors to participate in Expo Real is substantial again this year. And, indeed, the trade fair reflects the boom that continues to take place in the property market*». Complementing the participation of approximately 1.800 companies, regions and cities from all over Europe at the exhibition, the organisation will offer a «*versatile conference program, so that all participants may obtain comprehensive information on the different markets in the European continent, as well as others*».

Aside from providing insight on each individual market and segment, «*we are particularly pleased to include the presence of the American economist and Nobel Prize winner, Professor Joseph Stiglitz as speaker in the conference program*», Boymanns underlined.

Another newcomer is the Real Estate Innovation Network REIN, «*a forum that addresses the baselines and impact of the digitalisation process taking place in the real estate industry, comprised of several events where 25 startups in the fields of Investment, Market, Planning & Development, Construction, Management & Operation, can introduce themselves to the market with exhibition stands and pitches to the real estate public*».

European markets offer *«solid»* opportunities

Looking at the current reality in the Old Continent, Claudia Boymanns has no doubts: *«the boom continues, and there are great opportunities now if you are looking for investors».* And that is a topic that will be featured in the EXPO REAL conference program.

Especially because, she states, *«the European Central Bank continues to drive this development through low interest rates. And, although there is growing uncertainty regarding how long this policy will last, the industry expects that change will be quite moderate in an initial stage, which does not imply an interruption, but rather the possibility for markets to adapt gradually».* In this sense, *«many markets in Europe offer solid investment opportunities. Aside from Germany, countries like Spain, Holland, Sweden, Finland, France and the United Kingdom are those that stand out the most».*

At the same time, the director of EXPO REAL also notes that *«we are living in turbulent political times. The European Union is struggling to define its future direction. On the one hand, there are increasingly nationalistic tendencies, while on the other, France has created a new stimulus to drive cooperation. It is also uncertain how the USA's protectionist tendencies will impact real estate and investment markets in the long run».*

However, EXPO REAL's conference program will not dwell on these topics alone, also addressing urban development projects and asset classes such as tourism, logistics, retail and health, within an international context.

Spain and Portugal are gaining ground

«The solid recovery of the Iberian market has also been felt at EXPO REAL», affirms Claudia Boymanns. And one of the reflections of the positive phase the region is experiencing *«is the fact that visitors from the Iberian Peninsula are among the TOP 10 nationalities participating in the trade fair»*, the director comments.

Mindful of this market's trends, the organisation took the robust interest for investment in Iberia into account when defining the conference program, which will include different sessions dedicated to those markets, Boymanns explains. Therefore, at the Investment Locations Forum (Hall A1, stand 040), the morning of ThursdayOctober 5th will focus entirely on southern Europe.

Beginning at 12h40, the conference *«Invest in the Fast Growth Europe – Iberia»* is organized by Iberian Property with the main goal of portraying a faithful scenery available today to real estate investors in Iberia, at the same time it acknowledges the biggest investment opportunities in Spain and Portugal. To that end, the organization brings to the stage Manuel Enrich Izard, SAREB´s Investor Relations Director, the entity in charge of alienating a portfolio of more than 50.000 million euros in Spanish real estate assets; together with Sérgio Saraiva, Lisbon South Bay administrator, this Portuguese society, besides managing more than 600 ha in business locations, is also actively promoting Lisbon Waterv City, one of the biggest urban renewal projects going on at an European Capital. These two responsible will be joined by Pedro Coelho, administrator at Portuguese Square Asset Management and Borja Ortega, Capital Markets Director at JLL Spain.

This *"iberian"* morning program starts at 10 am, with *"Viva España"* session, or «How "real" is Madrid?», and will include the participation of guest speakers Gunther Deutsch, Managing Director and Head of Investment Transactions Europe at Barings Real Estate, and Alejandro Monge, Director of Transactions, Spain at Invesco Real Estate. Immediately afterwards, starting at 11am, the session dedicated to *«Portugal: a look at the land of the European football Champions»* will include input from speakers João Lélis, Fund Manager at Sonae Sierra and Ricardo Quaresma, from the department of Capital Markets at Worx Real Estate Consultants.

«We are experiencing the fact that many cities and regions use EXPO REAL to promote networking and partnerships, so that the challenges of urbanisation, but also those of attracting investment, can be mastered better. At the same time, events in the forums provide the advantage that you can present a site comprehensively with its growth opportunities and advantages to draw the attention of companies and investors to new plans and projects», she adds.

Regarding the Iberian presence in the exhibition, Claudia Boymanns also underlines greater participation by the cities of Lisbon and Barcelona, which this year expanded their exhibitive space, as well as the presence of the Portuguese multinational Sonae Sierra. ■

> Iberian.Property promotes once again the best investment opportunities in Spain and Portugal, organizing the conference «Invest in the Fast Growth Europe – Iberia» in the morning of October 5th

IBERIAN PROPERTY IN THE SPOTLIGHT AT BARCELONA MEETING POINT

From 18 to 22 October, Iberian Property will return to the spotlight in the Catalan capital, partnering yet again with one of the major Iberian events dedicated to the real estate sector: Barcelona Meeting Point.

Celebrating its 21st edition, Barcelona Meeting Point (BMP) is the largest international event dedicated to professionals in the real estate industry in Spain. Organised every year by El Consorci de Barcelona, the annual event takes place over five days, and features several dynamic discussion forums included in the agenda of the International Symposium that runs concurrently with the exhibition.

Standing as one of the official BMP collaborating entities, Iberian Property is responsible for organising the conference on the morning of Thursday 19 October, where several international guests will discuss the topic *«Spain & Portugal: Hottest Countries in Europe's Real Estate»*. Moderated by the director of Iberian Property, António Gil Machado, this session will present the point of view of various market leaders who are excelling in the investment industry in both countries, regarding the best destinations and products to invest in at the moment. The morning will also include an examination of the possible business models in this field, with discussions regarding other issues associated with the current stage in the market cycle, as well as whether this is the right time to enter or leave.

Among the names already confirmed for this session are Simon Rubinsohn, Chief Economist of the RICS (London), Julien Toyer, Spain's Bureau Chief at Thomson Reuters, Hermann Montenegro, CEO of AXA Real Estate Ibérica (Madrid), Pedro Silveira, Chairman of Grupo SIL and Pedro Coelho, Executive Director of Square AM (Lisbon). ■

Social housing and rental among this year's hot topics

«Social housing and rental will be in the spotlight in the Barcelona Meeting Point Symposium, where an international think tank will discuss foreign success stories as an example of what can be done in Spain», revealed Jordi Cornet, special State delegate and CEO of Consorci ZF International (CZFB), the entity that organises BMP.

Regarding signing the agreement with CaixaBank, through its subsidiary Building Center, which, along with Servihabitat, officially made these the main sponsors of this year's edition of BMP, Cornet reiterated CZFB's strategic commitment to promote the social housing and rental market. This entity is *«one of the main public operators with planned housing in the city and our idea is to promote them with the collaboration of development and business organisations such as CaixaBank group. We can do this because we have reorganised El Consorci, we are receiving benefits again and may serve a social purpose. The BMP exhibition is a platform to find real estate partners and to explain this strategic objective to citizens»*, Jordi Cornet concluded.

Juan Alcaraz, CEO of CaixaBank, said that *«if one analyses the evolution of housing sales figures and price changes, we can see an expansion cycle in the Spanish real estate sector, which will continue over the next few months. CaixaBank and the financial sector are prepared to support the economic recovery forecast by macroeconomic data. Therefore, the favourable outlook for the real estate market is one of the factors behind last year's economic growth»*. Thus, according to the CEO of CaixaBank, *«This Barcelona Meeting Point edition is one of the most interesting in recent years»*.

Regarding the evolution of the sector, Juan Carlos Álvarez, general manager of Real Estate Business of Servihabitat, said that *«we are optimistic about the housing market and the signs of recovery in 2017, according to the main indicators»*. Furthermore, he states that *«Servihabitat remains committed to BMP as an essential meeting point for real estate strategic players. We have renewed our confidence in this world-renowned exhibition and reinforced our commitment to this event, which is a must for the global industry leaders»*.

Proptech and the market's international expansion in Spain spice up the agenda

In line with the major trends in the sector, in 2017 the BMP programming features a series of new events specifically created to address the growing internationalisation and great technological upheaval of the market, focusing strongly on the development of social housing and rental; the debate on the digital culture and Proptech, and how this will affect the sector; the first WIRES (Women in Real Estate) meeting in Barcelona, as well as stepping up international networking activities.

For the fourth consecutive year, the event will also host the Barcelona Funds Meeting, which brings together investment fund managers from all over the world. BMP also features the Luxury Real Estate cluster, bringing Spanish real estate firms into contact with buyers and agents from more traditional European markets, which are currently the largest buyers in Spain.

Held at the Montjuïc – Plaça d'Espanya da Fira de Barcelona venue, Barcelona Meeting Point is the principal professional event for the real estate sector in Spain, as well as one of the most important events internationally. To organise the trade fair, this year CZFB will once again receive support from some of the most important national and international institutions in the property sector, among which Asociación de Promotores y Constructores de España, European Public Real Estate Association, ESADE, Global Real Estate Institute, Iberian Property, IESE, Royal Institute of Chartered Surveyors, Urban Land Institute and WIRES (Women in Real Estate).

> «This Barcelona Meeting Point edition is one of the most interesting in recent years», Juan Alcaraz, CEO of Caixa Bank

DOSSIER

SPECIAL TOP IBERIAN CITIES

Which are they, how much are they worth and what do they offer investors?

The race for the best investment opportunities in Iberia continues, and the competition is tougher than ever. As a result, it is clear that the geographic focus of investor interest has expanded.

As such, as competition increases in the core markets of Madrid, Lisbon and Barcelona – the three largest and most important cities on the Peninsula-, a greater number of players are channelling their capital to other alternative destinations in Iberia.

Bilbao, Valencia and Málaga, in Spain, and Oporto and Algarve, in Portugal, are the secondary locations that stand out the most as alternatives for investment in commercial real estate.

Join us in this issue and discover the main arguments for investing in what are now considered the six top Iberian property markets, in a new exclusive ranking produced by Iberian Property. ■

TOP IBERIAN CITIES: A MARKET CONSENSUS

An unprecedented benchmark with the market fundamentals that every real estate investors need to know about the Top Iberian Cities. An exclusive work from Iberian Property, joining the input from real estate consultants such as CBRE, Cushman & Wakefield, JLL and Aguirre Newman.

REFERENCE PERIOD: H1 2017

PRIME YIELDS All values in %	SPAIN																	
	Madrid						Barcelona						Valencia		Malaga			Bilbao
	Prime Location			Secondary Location			Prime Location			Secondary Location			Prime Location		Prime Location		Sec. Loc.	Pri. Loc.
	CBRE	C&W	AN	CBRE	C&W	AN	CBRE	C&W	AN	CBRE	C&W	AN	CBRE	C&W	C&W	AN	AN	C&W
Retail (High Street)	3,25	3,40	4,50	6,00	4,50	6,00	3,25	3,40	4,25	6,00	4,50	6,00	4,00	4,70	4,70	-	-	4,60
Office	3,75	3,50	3,50	5,50	4,75	5,75	4,00	3,50	4,25	5,50	5,25	6,00	5,75	-	-	5,75	7,50	-
Logistics	5,85	5,90	5,75	-	6,75	7,00	5,85	5,90	5,75	-	6,75	7,00	7,50	-	-	5,75	7,00	
Hotel	5,75	-	4,00	-	-	6,50	5,50	-	3,75	-	-	6,00	-	-	-	-	-	-

INVESTMENT VALUES All values in € per sq.m	SPAIN																	
	Madrid						Barcelona						Valencia		Malaga			Bilbao
	Prime Location			Secondary Location			Prime Location			Secondary Location			Prime Location		Prime Location		Sec. Loc.	Pri. Loc.
	CBRE	C&W	AN	CBRE	C&W	AN	CBRE	C&W	AN	CBRE	C&W	AN	CBRE	C&W	C&W	AN	AN	C&W
Retail (High Street)	95.631	93.529	63.330	-	28.000	28.000	94.200	98.824	67.760	-	18.667	28.000	35.000	33.191	33.191	-	-	32.609
Office	9.520	10.971	9.771	-	5.558	2.682	6.900	7.714	5.147	-	3.657	2.794	2.087	-	-	2.379	1.264	-
Logistics	1.077	1.017	1.252	-	533	531	1.300	1.017	1.357	-	533	557	600	-	-	1.273	600	-
Hotel	-	-	10.000	-	-	4.500	-	-	11.000	-	-	5.000	-	-	-	-	-	-

RENTAL VALUES All values in € per sq.m *per month*	SPAIN																	
	Madrid						Barcelona						Valencia		Malaga			Bilbao
	Prime Location			Secondary Location			Prime Location			Secondary Location			Prime Location		Prime Location		Sec. Loc.	Pri. Loc.
	CBRE	C&W	AN	CBRE	C&W	AN	CBRE	C&W	AN	CBRE	C&W	AN	CBRE	C&W	C&W	AN	AN	C&W
Retail (High Street)	259	265,0	23,75	-	105,0	14,00	255	280,0	24,00	-	70,0	14,00	120	130,0	130,0	-	-	125,0
Office	29,75	32,0	28,50	-	22,0	12,85	23	22,5	18,23	-	16,0	13,97	10	-	-	11,40	7,90	-
Logistics	5,25	5,0	6,00	-	3,0	3,10	6,50	5,0	6,50	-	3,0	3,25	3,75	-	-	6,10	3,50	-
Hotel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

REFERENCE PERIOD: H1 2017

PRIME YIELDS All values in % *per month*	PORTUGAL															
	Lisbon								Oporto							
	Prime Location				Secondary Location				Prime Location				Secondary Location			
	CBRE	C&W	JLL	AN	CBRE	C&W	JLL	AN	CBRE	C&W	JLL	AN	CBRE	C&W	JLL	AN
Retail (High Street)	4,75	4,75	5,00	5,00	-	7,00	-	6,50	6.00	6,00	5,00	6,00	-	8,25	-	7,50
Office	4,80	4,75	5,00	4,75	6,50	7,00	-	6,00	7,50	7,50	7,00	7,00	8,00	9,75	-	8,00
Logistics	6,50	6,50	6,50	7,00	-	8,50	-	8,00	7,25	7,00	6,75	8,00	-	8,50	-	9,00
Hotel	-	-	5,00	6,00	-	-	-	7,50	-	-	5,50	6,00	-	-	-	7,50

INVESTMENT VALUES All values in € per sq.m *per month*	PORTUGAL															
	Lisbon								Oporto							
	Prime Location				Secondary Location				Prime Location				Secondary Location			
	CBRE	C&W	JLL	AN	CBRE	C&W	JLL	AN	CBRE	C&W	JLL	AN	CBRE	C&W	JLL	AN
Retail (High Street)	32.842	29.053	28.800	20.000	-	3.429	-	5.000	9.000	11.500	28.800	5.000	-	2.182	-	1.500
Office	4.875	4.926	4.440	4.000	2.400	2.400	-	2.500	2.560	2.560	2.229	1.500	1.500	1.108	-	850
Logistics	646	646	646	700	-	353	-	500	579	600	622	1.000	-	353	-	500
Hotel	-	-	-	3.500	-	-	-	2.500	-	-	-	3.000	-	-	-	2.000

RENTAL VALUES All values in % *per month*	PORTUGAL															
	Lisbon								Oporto							
	Prime Location				Secondary Location				Prime Location				Secondary Location			
	CBRE	C&W	JLL	AN	CBRE	C&W	JLL	AN	CBRE	C&W	JLL	AN	CBRE	C&W	JLL	AN
Retail (High Street)	130	115,0	120	120	-	20,0	-	45	45	57,5	120	50	-	15,0	-	20
Office	19,5	19,5	18,5	18	13	14,0	-	12,5	16	16,0	13	16	10	9,0	-	9
Logistics	3,5	3,5	3,5	3,75	2,75	2,5	-	3	3,5	3,5	3,5	4,5	3	2,5	-	2
Hotel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

WHAT DOES MADRID NEED TO ATTRACT MORE FOREIGN INVESTMENT?

To consolidate its position as one of the principal European destinations for foreign investment, Madrid needs to keep attracting more international investors.

But, for this to happen, what should be the priority?
This is what we asked the participants of this Opinion Forum:

Juan Antonio Gómez-Pintado
ASPRIMA
President

From my point of view, there are two factors that Madrid should take into account to attract more foreign investment. The first is urban regeneration. When Theresa May announced the United Kingdom's exit from the single European market, there were many voices that positioned Madrid as London's possible successor. However, this position will be difficult to achieve if there are not adequate spaces. Is it feasible for companies situated in the City of London to relocate their headquarters to the outskirts of the city? According to the Madrid Municipal Council, the capital has 1.9 million square metres of available offices, compared with 3.9 in Paris. But it is not just about the metres available but where they are located, their quality, technological infrastructures and energy efficiency. Launching plans such as Castellana Distrito Norte, areas like Valdebebas Fintech District, or regenerating districts in the city centre will undoubtedly be an incentive to attract foreign investment. The most important step is for businesses in different sectors to decide to establish here with the consequent job and wealth creation for the whole society.

In second place, it is crucial that the professional talent of Madrid citizens be recognised, 47% of which have university degrees. Madrid has some of the best universities and business schools in the world, every year hosting more than 30.000 foreign students.

Our priority should be to decide what city model we want and define where to concentrate our efforts if the objective is to turn Madrid into a financial leader. I believe that managing our urbanism with a future vision and open mind, avoiding obsolete ideas from past times, and managing the talent of Madrid's professionals will be the keys to make Madrid the city that these companies will want to settle in.

Marián Prieto de Liébana
HILL INTERNATIONAL ESPAÑA
Vice President
Country Manager

The first step is to make a clear commitment to the current growth trajectory, with all authorities working together to create an urban plan that makes Madrid attractive to investors. If a long-term plan is combined with a more flexible legal framework, appropriate fiscal measures and policies that drive public-private partnerships, Madrid could take off significantly.

Currently, the development of any project requires lengthy deadlines due to a legal framework and urban regulations that fail to keep up with the rate at which investments and projects are carried out, designed to address irregularities that they are often unable to prevent.

Furthermore, other countries have demonstrated that a favourable tax regime has been extremely well received by investors, many of whom do not find opportunities here.

Public-private partnerships are another interesting way to attract foreign capital. This is a highly politicised debate, however this model's advantages and disadvantages should be analysed independently and on a case-by-case basis since it has generated extremely interesting urban transformations, such as those in Hamburg and Liverpool, which could be successfully reproduced in Madrid.

Finally, I emphasise the need for greater judicial security. Changes in the legal framework and incentives, and their retroactive application, affect investment viability and profitability. Long-term planning would provide the stability and reliability that foreign capital values so highly.

Carlos Armero
MACE
CEO Spain

The key to attract foreign investment is for Madrid to generate interest among investors with a development or patrimonial profile who arrive in our country seeking to consolidate their investment and create wealth. Opportunistic investors are unavoidable, but we should strive to keep them at a minimum. In order to achieve this, we must improve in many aspects:

- A truly stable and protective legal and regulatory framework, especially regarding urban planning, that facilitates land development
- Compliance with administrative deadlines; foreign investors do not understand the lack of a guaranteed deadline to obtain a license
- Consistent criteria so that the whole territory follows the same procedures, norms and deadlines

We should promote the provision of quality services and international experience that Madrid offers investors: Lawyers, real estate agents, project managers, consulting firms… At the same time, we should avoid the potential risks that in one way or another deter investment, principally the climate of institutional and political instability, as well as changing tax policies that convey an image of unreliability.

Above all, the most important factor is to maintain a growth momentum that ensures returns on investment above those attained in other countries.

> «We should promote the provision of quality services and international experience that Madrid offers investors»

Effectively unlocking Operation Chamartín in northern Madrid is the principal feature to attract foreign investment, especially capital originating from London following the corporate flight brought on by Brexit.

The launch of construction works that have been in administrative limbo for several decades can lead to a more favourable decision by companies coming to Madrid, as the capital of Spain, to serve as the nerve centre from which they can expand their business.

However, there is a major obstacle that curbs the investment expected from across borders, and it is none other than the bulk of administrative and territorial authorities that hinder the steady execution of urban activities.

In 2017, it is unthinkable that the concession of licenses remains such an archaic process considering the technological solutions at each municipality's disposal. A judicial security that occasionally falls under administrative arbitrariness. And of the political party in government at the time.

Legislation should also keep up with modern times. Any excessive interference from public authorities in the laws of supply and demand may lead to a fictitious market. In Madrid this can occur with the phenomenon of tourist apartments, which we recall not only involves houses that take on this use, and which largely make up part of a community of owners, but also apartments located in buildings included in the vertical property regime where foreign investment is active.

Manuela Julia Martínez Torres
CAFMADRID
Colegio Profesional de Administradores de Fincas de Madrid
President

Jesús Paños
Colegio Oficial de Aparejadores y Arquitectos Técnicos de Madrid
President

Madrid has a good structure to attract foreign investment, but it faces a serious problem: most of the building stock is antiquated, dating prior to 1980, when thermal insulation began to be enforced in buildings, and it is not being renovated.

Quality attracts quality, and this brings investment. The appropriate balance must be achieved and maintained in the sector, ensuring that the sale and purchase of existing buildings and residences remains at a healthy rate and that new construction may continue to satisfy the demand in the areas that need it, striving to maintain housing prices within stable parameters.

A consistent message that offers the sector guarantees to financing and investment, a better economy as well as an agile and flexible legal framework, all within a long-term plan agreed upon and sustained by the different political powers, are sure to act as an essential catalyst.

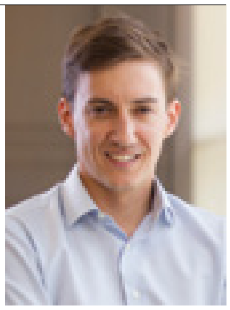
The flexibility mentioned above, which should not conflict with the need for administrative powers to exercise their official controls, can drive access to building regeneration and renovation through a public-private financing model, thereby motivating and helping owners initiate these activities, while also improving quality of life and restoring an obsolete building stock.

A stable political and economic framework, as well as the structural and legal reforms carried out in recent years position Spain as one of the most attractive options for foreign investors. This is corroborated by the latest data on capital markets, placing the volume of investment in Spain at approximately 6 billion euros during the first semester of 2017.

Madrid is the city that attracts the greatest share of capital, and international funds maintain their focus on this market. The regional government is working on the project #ThinkMadrid, based on low taxation and an 'administrative fast track', to provide benefits to companies and investors who decide to leave the United Kingdom following Brexit.

The current availability of office space with competitive rents and good communications infrastructures is the principal basis for the increase in international firms setting up in Madrid, since opening local offices is fundamental to provide effective and close contact between companies and investors, although these are investors who have been operating here for some time.

New players in the Spanish property market, as is the case with servicers, and specifically Haya RE, are facilitating investors' work in this country because, in addition to a profound knowledge of the market, we also use methodologies for purchase analysis adapted to investor needs, with new tools and advanced solutions to facilitate access to the best assets for each type of investor.



Iván Fernández-Valdés
HAYA REAL ESTATE
Advisory & Institutional Sales Director

Mikel Barriola
CHAPMAN TAYLOR
CEO of the
Madrid studio

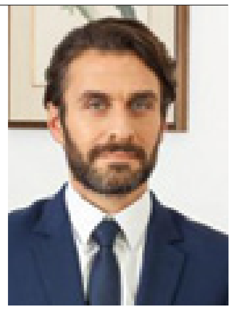
In our humble opinion, and growing from a continuous presence and hard work firmly established in Madrid for many years while travelling from here and developing projects all over the world, we believe Madrid is a European capital with excellent growth potential for the future of Europe, whose strategic location is unrivalled, as are its national and international infrastructures.

We consider that for investment to increase, the communication between all of the processes involving the Region and Municipality of Madrid must be simpler and more agile. The communication flow between institutions is crucial, as is creating incentives for future and current investors.

On the other hand, it is vital that bureaucratic transparency be stressed, protected and prioritised in every aspect of the real estate investment process, increasing the regular and seamless management of different European languages, avoiding sterile internal divisions and facilitating, maybe through expert committees for each sector, serious analysis and support of investment processes and their returns in line with guarantees and expectations.

It is important that Madrid remains an open, dynamic, cultural and fun city, while further developing its professional integrity, especially within the context of Europe and Latin America, maintaining and building its exceptional infrastructures and proportionally increasing its support of the *"Madrid brand"* as an open capital that represents, globally and unabashedly, the extraordinary human, social and geographic wealth of Spain as a country.

This is the time for Madrid to emphatically position itself in Europe as one of the new and most reliable drivers of Europe's growth and, as such, the world's. For this, we must continue to believe in this country; we must all show even more enthusiasm and drive, more professional rigour, more unity and confidence in a country that has always been, and will continue to be, determinant in building the future and making a better life for its citizens.



Saïd Hejal
KRONOS HOMES
Founder partner

Madrid is the most underappreciated capital of Europe. The city offers the highest quality of life, the best infrastructures and the sunniest energy a capital can have. However, Madrid lacks a proper marketing effort to promote the greatness of the city internationally like Barcelona did in the 1990s prior to the Olympics.

If the suitable government entities focused on promoting the city internationally, there would be an abundance of investor flow.

Most foreigners who come to Madrid for the first time always ask me why they didn't hear or know about Madrid before.

In this changing framework and in order to be a fundamental player in the real estate sector, we must focus on the client, offering real answers to their residential expectations, as well as privileged locations and a home where the customer can live to the fullest. Particular attention must also be paid to Design and the latest trends, which is why our commitment is clear: houses designed to enjoy life in style, with superior quality, and architecture that is well integrated into the surroundings and environmentally conscious.

Since one of our fundamental pillars is Design, we work with recognised names in the architectural field to carry out our projects, such as Rafael de la Hoz and Manuel Torres. In short, we provide a differentiated concept in line with lifestyle trends.

«Most foreigners who come to Madrid for the first time always ask me why they didn't hear or know about Madrid before»

Sareb

real opportunity in real estate

The Management Company for Assets Arising from the Banking Sector Reorganisation (Sareb) is a Spanish entity, which was created towards the end of 2012 to help clean up the Spanish financial system. More specifically, Sareb manages a sizeable and **diverse real estate portfolio**, both in terms of **asset class and location within Spain.**

From both a price and location perspective, the properties marketed by Sareb offer good investment opportunities

Created as a liquidating company, with an initial portfolio valued at almost €51,000 million, Sareb has until 2027 to divest all of its assets. Since it was created four years ago, the company has **played a key role in driving the Spanish real estate sector and attracting international capital.**

From both a price and location perspective, the properties marketed by Sareb offer good investment opportunities. Slightly over half of Sareb's product portfolio is located in the regions of **Andalusia, Catalonia, Valencia and Madrid**. The rest of its assets under management, including both properties and real estate loans, are located in areas such as **Castilla León, Castilla la Mancha, Galicia and Murcia**, and to a lesser extent in **Asturias, Cantabria, Extremadura and La Rioja**. Almost 40% of the company's products are **residential, both new-build and existing homes**.

Sareb also has a sizeable portfolio of **serviced development land and land under development**, making it one of the most important agents driving the Spanish economy.

Its product catalogue is complemented by **a wide range of assets from construction works currently on hold, to commercial and industrial properties,** thereby greatly diversifying the number investor profiles that the company deals with.

Sareb markets its products via four real estate servicer platforms **(Altamira, Haya, Servihabitat and Solvia)**, whilst it also **directly manages major institutional deals**. It also actively works via its investor relations department to target and **adapt its divestment strategies to best suit the needs of its clients and the market as a whole.** The company has specific divestment vehicles that offer international investors significant tax benefits.

Since its creation, **Sareb has sold almost 50,000 properties**, which were either directly under its ownership or linked to loans that it manages. The company actively works with Spanish developers to find **ways in which they can collaborate to generate value in the portfolio and thereby speed up the asset divestment process.** Sareb is also actively launching marketing campaigns directed at both the general public and institutional investors. This year, it has been particularly successful with its **coastal and completed housing campaigns,** as well as the campaigns for projects where construction work **has been temporarily suspended** and land, which focused on professional public buyers.

All the company's current sales campaigns can be viewed on its website www.sareb.es

VALDEBEBAS, A NEW WAY TO BUILD THE CITY OF MADRID

Valedebebas, a new way to build the city, is the most important urban development in northern Madrid, with more than 10.600.000 m² of land.

Until now, residential offer has been driving the area and there are already more than 14.000 people living here but, in less than five years, there will be a lack of land for housing construction.

However, Valdebebas also has the greatest offer of space for the tertiary sector in Madrid. More than 1.300.000 m² of land for new development, under the name Valdebebas Fintech District, representing a unique opportunity for real estate investors, especially foreign investors, and for companies affected by Brexit, as well as any business wishing to establish in a unique location that, according to all forecasts by the Valdebebas Compensation Board, will witness its first tertiary projects over the coming year.

Valdebebas Fintech District, included in a large green space that borders one of Madrid's prime residential areas, is especially designed as a place for new technologies, business and financial sectors to come together. The site allocated for the tertiary sector is unique due to its size and features, located in an area situated in one of Madrid's prime zones and with great future potential, including state of the art road infrastructures, among which we highlight the bridge to T4 (under construction), with an enviable technological infrastructure (dual-channel supply network to accommodate the largest volume of data foreseen in the future).

> Plans to develop 1.300.000m² of tertiary spaces

Key location is the greatest competitive edge

Located in the north-eastern part of Madrid, Ciudad Aeroportuaria-Parque Valdebebas is surrounded by major financial complexes, such as the neighbouring Parque Empresarial Campo de las Naciones, Sanchinarro, Avenida de Burgos and Alcobendas, sites where there is already a great number of companies and which offer one of the area's most valued characteristics: location.

The unique and exclusive combination of urban development and nature will enable investors and corporations to develop state of the art, energy efficient buildings in a green space measuring more than 5.000.000 m², where the Forest Park stands out, a veritable green lung that occupies approximately 470 hectares and results from the concession of land by the Valdebebas owners. The park, in the shape of a large tree, reproduces 10 types of woodlands, with more than 206.000 trees and 183.000 bushes. The Forest Park will end at the Central Park, a large green space measuring more than 80 hectares, which will connect the development to the Forest Park.

The 20 blocks of tertiary area are surrounded by a generous retail infrastructure, restaurants, schools and health facilities, and also include a fully operational public transport network, with several bus lines that connect the Fintech District to the Madrid city centre; the C1 line commuter train station; the light rail that will connect Valdebebas with the metro network, greatly increasing the transport capacity. Apart from the public transport, fast and direct access to the centre of Madrid is guaranteed by the main motorways (R2, M40, M12) and other high capacity roads such as the M11. Furthermore, there are 27 kilometres of bicycle lanes that connect with Madrid's Anillo Verde cycling route.

One of the new symbols of Madrid will rise here

In a technological world, being connected is a necessity for people and businesses, and involves agile communications and flow of information. Therefore, one of the most outstanding infrastructures to become a symbol of Madrid is the bridge connecting Valdebebas to T4, a direct connection to Adolfo Suárez Madrid-Barajas Airport that is guaranteed to benefit the tertiary sector and will be an important asset for corporations and hotel chains due to the connection and proximity to the airport, only five minutes away, thereby shortening the distance between Madrid's largest business development and Spain's greatest air transport infrastructure.

The bridge, which will consolidate Valdebebas as the most important urban development in Madrid, is a unique engineering feat with a scrupulous architectural design: measuring 260 metres long, it will include 160 metres of lighting between its abutments and two lanes in each direction, projected over the M-12 motorway to the roads that connect directly with Terminal 4 of the airport.

The airport's overpass will facilitate and optimise the area's connections, as well as those of the corporations located there, to the rest of the world. Already under construction, the works are due to last 24 months and the investment exceeds 20 million euros, fully covered by the Valdebebas Compensation Board to then be granted to the city of Madrid.

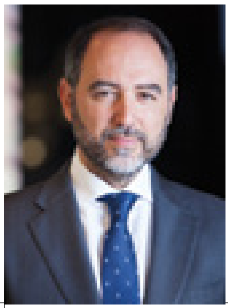
The strategic location of Ciudad Aeroportuaria-Parque Valdebebas will enable the development of 1.300.000 m² for the tertiary sector with a wide range of uses (offices, hotels, retail, private education...), which are sure to benefit from the connection between the largest business development in Madrid and the airport, one of the most important connecting points in Europe to international markets and, above all, Latin America. ■

An opportunity for the tertiary sector in the most important urban development located in northern Madrid

3 QUESTIONS you should ask before investing in Madrid:

A pool of experts answers three key questions, predicting how they expect investment in Madrid to evolve over upcoming months.

Antonio Simontalero
CBRE GI
Head of Investment Operations Iberia



Enrique Losantos
JLL
CEO Spain

1 Would you recommend investing in Madrid today? What is the principal reason?	There are still good opportunities to invest in Madrid, despite the increase in prices of the last few years. The logistics sector is a good example due to the attractive combination of secure income with high entry yields (c.6.0% comparing with 5.0-5.5% for France/Germany), limited availability of quality stock (3-5% vacancy rate) and rental growth potential driven by positive trends in tenant demand.	Absolutely. Madrid is the capital of Spain and the country's main business hub. Products in Madrid are still relatively cheap compared to other European cities. It is an ideal market for investors who focus purely on the office segment, as reflected by the latest data which shows that investment volumes were up 55% in the first half of the year, versus the same period last year.
2 Do you believe the market will continue to appreciate over the next 12 months? Will that evolution occur mainly through yield compression or a rise in rents?	With yields at historic lows, it will be difficult to see additional value increases on core properties since, in most cases, rental growth is already priced in the valuations. However there is room to create value for those investors initiating projects that involve (re) development, refurbishment and leasing risk.	In our opinion, the market is not fluctuating. In fact, the outlook is positive across all market segments and, although we're seeing yield compression, the trend is towards a more stable scenario and a gradual increase in rental levels, due mainly to the lack of supply.
3 What is the main investment barrier?	The main difficulty in executing investments in Madrid has to do with the scarcity of *"investable"* assets which, combined with the current low yields, puts pressure on asset pricing, making it difficult to achieve the returns required by institutional investors unless additional risk is taken. As a result, some markets in secondary cities (i.e. high street) are increasing their attractiveness vs. Madrid and Barcelona.	The primary challenge is the lack of quality product. This is why the major opportunity for the market lies in asset renovation and repositioning to adapt existing stock to current trends and investors' demands.

 **Javier Hortelano** **CATELLA ASSET MANAGEMENT** Managing Director	 **Luis Espadas** **SAVILLS SPAIN** Head of Capital Markets	 **Thierry Bougeard** **BNP PARIBAS REAL ESTATE SPAIN** Director General Advisory
Yes, for 3 reasons: a) the attractive risk/return ratio, b) positive macroeconomic fundamentals, and c) market liquidity.	I would recommend investing, given the potential increase in rents and take-up. The Spanish economy, particularly in the Madrid region, is growing significantly, and this is expected to continue over upcoming years. The Madrid property market offers good prospects for improvement in a growth scenario that has proven its resilience in one of the most severe economic crises in Spain's history.	Madrid captures a large part of the volume invested in Spain, approximately 50%. The principal reason is the upward trend in rents. At the same time, the economy's strength maintains interest in acquiring real estate assets in the capital high, along with the low risk that these will remain vacant.
Through an evolution in rents, although we should analyse each asset class and submarket separately since they do not all offer the same potential. Since there has been significant yield compression, this is the time for investors and specialised managers who know the market, since that knowledge is crucial to obtain the expected rental growth and therefore an attractive return on investments.	We believe the market will appreciate, particularly through rental growth and, in some zones, through yield compression.	Yields are still contracting, and will continue to do so, albeit more lightly, in 2018. Overall, rents are on the rise and may increase between 5% and 10% in the next three years, possibly reaching the maximum levels seen in 2006 – 2008. There is also impact from the large amount of money available from national and foreign REITs, as well from all types of funds.
Fortunately, investment remains robust and, in the medium term, we need only consider the possibility of destabilising elements that arise from nationalist tensions within Spain, or events that can occur in the international sphere, both of which seem unlikely at the moment.	The lack of available product and, in some cases, high expectations in terms of price.	Over recent years, investors have focused their acquisitions on prime assets located in Madrid and Barcelona, especially in the offices and retail segments. This has resulted in a lack of product and an overall rise in prices. In turn, this increases competition among investors and makes it harder to invest.

MADRID, THE GREAT IBERIAN CAPITAL

In the geographic centre of Iberia, Madrid continues to grow on every front and make its mark in the international sphere. More than the Spanish capital, it is commonly known as the great Iberian capital.

A vibrant, youthful and cosmopolitan city, Madrid is also the principal centre for finance and decision-making in Spain. With an economy that has an efficient market orientation, Madrid stands out for having a lighter tax burden than the other Spanish regions.

The capital has also been gaining increasing recognition as an investment destination, attracting 56.8% of the direct foreign investment that entered the country between 1993 and 2016. Furthermore, it is currently considered the 3rd best city in Europe to set up multinational headquarters, concentrating 40% of the foreign companies established in Spain.

Housing some of the best European universities and business schools, and with one of the highest university student populations in Europe – 265.000 -, the highly skilled human capital is another of Madrid's qualities, where 46% of the resident population has a university degree.

The quality of the region's infrastructures is another one of its strong points. Madrid's Barajas airport is the largest in Spain and the 5th largest in Europe, both in terms of passenger and cargo transportation. With direct connections to 187 destinations in 68 countries, last year alone, it received more than 50 million passengers, an average of 137.000 per day. ■

Area: 8.030 km^2 (1.6% of Spain)

Population: 6.435 million (13.8% of Spain)

Visitors (2015): 11.17 million

GDP (2015): € 203.62 billion (18.7% of Spain)

R&D outlay: € 3.43 billion (25.8% of Spain)

R&D / GDP (2015): 1.75 %

TOP Spanish region per capita GDP: € 31,812

MADRID'S REAL ESTATE IS INCREASINGLY COMPETITIVE

Step by step, the Spanish capital has been positioning itself as one of the principal and most promising European destinations for real estate investment.

This is a unique time for Madrid, whose property market is growing on every front and, as such, is also creating greater competition among investors from all over the world.

OFFICES

Driven by the economy's performance, Madrid's office market has been evolving quite positively throughout 2017, and may close with a gross take-up of more than 500.000 m², surpassing last year's results. Driven by solid growth in demand and successive years with minimum levels of new supply entering the market, rent values have been rising over the past months, while investment has also made a notable comeback due to the launch of new development projects.

270

270.000 m² |Take-Up: gross office take-up surpassed 270.000 m² in the 1st semester, with a positive performance in supply during the 2nd quarter.

29

29.00 €/m² | Rising rents: the 1st semester registered an overall increase in average rental prices in every subzone of the market. Currently, the average rent in Madrid's prime zone is around 29.00 €/m² per month, with the maximum rent practised in the semester reaching 35.00 €/m². Rents are expected to maintain their upward trajectory until the end of the year, with the greatest rises taking place in the CBD.

Investment in development is back | the development of new office space is returning to the Madrid market, and several projects are already under construction, totalling a GLA of approximately 153.000 m².

300

300.000 m² under regeneration | At the same time, there is a continued commitment to regenerate the existing stock, with at least 300.000 m² of GLA undergoing renovation, an important contribution to increase Madrid's quality supply.

11%

11% | Vacancy-Rate decreasing| the total volume of available stock in the market continued to drop throughout the 1st semester, currently standing at around 1.400.000 m². Forecasts indicate that the vacancy rate will maintain its downward trajectory over the next months, essentially sustained by the positive performance of demand.

INDUSTRIAL & LOGISTICS

Displaying a favourable performance, the activity of the industrial and logistics market in the Spanish capital continues to grow since the beginning of the year, with the area taken up during this period breaking the record of the past ten years.

380

380.000 m² Take-up | in the 1st semester of 2017, the take up of logistics spaces in the Madrid market increased 110% compared with the same period in the previous year, with a result that usually represents the take-up levels for an entire year. This is primarily due to the high number of transactions, more than 30, for large spaces during the semester.

263

263.075 m² under construction in 2017| 74% of which are speculative construction projects, and 26% with guaranteed occupancy. It is estimated that 70.993 m² were completed by the end of June.

5€

5.00€/m² prime rent | although the prime rent has remained stable since the beginning of the year, at the end of June, average rents in the market had increased in comparison with the 1st semester of 2016.

2,3%

2.3% annual rent growth until 2021 | in what will be the 5th largest average annual increase in the European logistics market.

3,3%

3.30% Vacancy Rate | The vacancy rate reached a record low in the Madrid market in the first half of 2017.

Distribution |The major groups in the distribution sector have been the principal players for demand in 2017, preferring above all locations in the 1st and 2nd market clusters. The 3rd cluster is the zone in highest demand for spaces above 20.000 m².

Annual market appreciation of 3.5% | Madrid is expected to register the 5th greatest average annual appreciation in Europe between 2017 and 2021

Industrial & Logistics Rents Madrid – 1st Sem 2017		
	€/m²/ month	
	Min.	Max.
1ª Cluster	4,25	5,00
2ª Cluster	3,10	4,50
3ª Cluster	2,50	3,25

SOURCE: JLL – Fundamentales Mercado Industrial y Logística (Q2, 2017)

RETAIL

High street retail moves onwards and upwards in Madrid, with the sector featuring its greatest performance ever, thanks to the growth in the economy, consumer confidence and tourism.

265

265 €/m² | Calle Preciados is the most expensive location to lease a shop in Madrid, and the second most expensive in the country.

6%

6% Vacancy Rate | the Madrid market can be divided into two principal zones: the centre and Salamanca District, where approximately 912 shops are concentrated and the vacancy rate is below 6%.

Salamanca District| The luxury cluster: this is the principal cluster for the most exclusive brands in Madrid, in the premium and luxury segments, especially concentrated in the areas surrounding Calle José Ortega y Gasset (66% of luxury brands) and Calle Serrano (43% of premium brands). The average rents practised on these streets vary between 220 and 250 €/m² per month.

Barrio Centro is the preferred location for mass market brands: in Madrid's most central zone, Calle Preciados, Gran Via and the Fuencarral zone are the preferred destinations for mass market operators, occupying 84% of the 557 shops located here. The average vacancy rate on this axis is 5.4%.

50

More than 50.000 m² of new GLA | there are currently various works under way that will significantly reinforce the retail stock in Madrid, namely the Plaza Rio 2 shopping centre (with a GLA of 39.000 m²) and the Canalejas project, which includes a retail component measuring 16.000 m². Added to these, there are various building regeneration projects taking place on Madrid's most commercial streets, such as Calle Preciados and Fuencarral, which intend to compete for the power wielded by the Gran Via to attract flagship stores.

Mercado de San Miguel (© Aguirre Newman)

HOTELS

One of the main urban tourism destinations in Europe, Madrid receives millions of visitors every year, and the numbers keep growing. The results in the hotel business reflect this, with investment in the sector maintaining an upward trajectory.

83

83.000 rooms in supply | At the end of the 1st quarter of 2017, approximately 52% of hotel rooms in the city were in the four-star category and 13% were five star.

H ★★★★★

2.8 hotel rooms/ 100 inhabitants |A ratio that is significantly below cities like Barcelona, Paris and Roma, confirming that there is room to increase supply.

More international operators | Over the past months, there has been an evident increase in interest from major international operators to set up or reinforce their operation in Madrid. Four Seasons, Barceló, Riu Hotels & resorts, Pestana and Starwood are some of the major chains that recently purchased new hotels in the city, or signed management or concession agreements for luxury units in the city centre.

18

18 new projects under construction | Regarding new supply, most of the new hotel works are concentrated in the Centre district, where 18 new units are being constructed, 15 of which will offer more than 1.720 rooms, which will be reflected in an increase of approximately 10% in supply on that axis. Most of the current projects are in the four and five star categories.

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INTERNATIONAL TIES WITH THE PORTUGUESE-SPEAKING WORLD
Angola | Macau | Mozambique | Portugal

Real Estate

Filipa Arantes Pedroso | fapedroso@mlgts.pt
Rita Ferreira Vicente | rfvicente@mlgts.pt

INVESTMENT

OFFICES | More than 500 million invested until June:
Madrid continues to lead investment demand for office assets, concentrating approximately half of the 1.05 billion euros allocated to this asset class in the 1st semester. Over recent years, the capital's market has maintained an average share of 70% of the investment in offices in Spain.
Yields have remained stable since the beginning of the year (5.75% Prime Yield), and this indicator is not expected to compress further on the prime axis or CBD (CDN & RDN), where it is currently at record lows. However, yields in the peripheral zones (DEC & OUT) may still undergo additional adjustments, sustained by the notable rise in take-up and rents.

HOTELS| 27.1% of the total volume invested in the country
Last year, Madrid reached a record value of investment in hotels, with 614 million euros, in other words, the equivalent of 27.1% of the national total. Altogether, 20 assets were traded, totalling 2.599 rooms, including in these results hotels and other buildings for conversion into hotels.
Regarding product typology, the four star segment predominated in 2016, with 1.286 rooms, followed by five and three star products, with 586 and 524 rooms sold, respectively.
Standing as the principal destination for investment in hotel assets in Spain, in 2016 Madrid also reached a new record regarding the price for a single asset, with the sale of the Hotel Vila Magna for 180 million euros. We note that 57% of the value invested in Madrid, the equivalent of 325.57 million euros, was for the purchase of single assets; the remaining 252.43 million were invested to purchase portfolios.
SOCIMIs and international investment funds were the most active players in the acquisition of hotel assets in Madrid.

High street retail among the most profitable sectors
The high street shop continues to stand as one of the most profitable assets for investors who want to participate in the property market, with assets located in the prime zone of Madrid offering gross profits between 4.5 and 6%.

SOURCES: JLL, CBRE, Aguirre Newman and Cushman & Wakefield

The Madrid Region receives one out of every two euros invested by the insurance sector in real estate purchases in Spain.

TOP 5 DEALS IN MADRID 2017

XANADÚ SHOPPING CENTRE, Madrid

Date	03/2017
GLA (m²)	153.695
Price	€ 530 million
Buyer	Intu Properties
Seller	Ivanhoe Cambridge group
Brokers & Advisors	CBRE and Linklaters, Eastdil and Clifford Chance

ESPAÑA BUILDING, Madrid

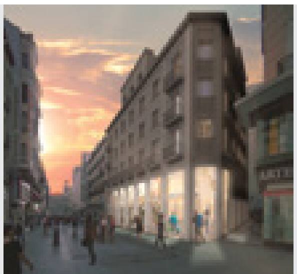
Date	06/2017
GLA (m²)	----
Price	€ 272 million
Buyer	Baraka Group
Seller	Wanda Group
Brokers & Advisors	JLL

50% STAKE FROM XANADU SHOPPING CENTER, Madrid

Date	05/2017
GLA (m²)	153.695
Price	€ 264 million
Buyer	TH Real Estate (European Cities Fund)
Seller	Intu Properties
Brokers & Advisors	----

ISLA DE CHAMARTÍN, Madrid

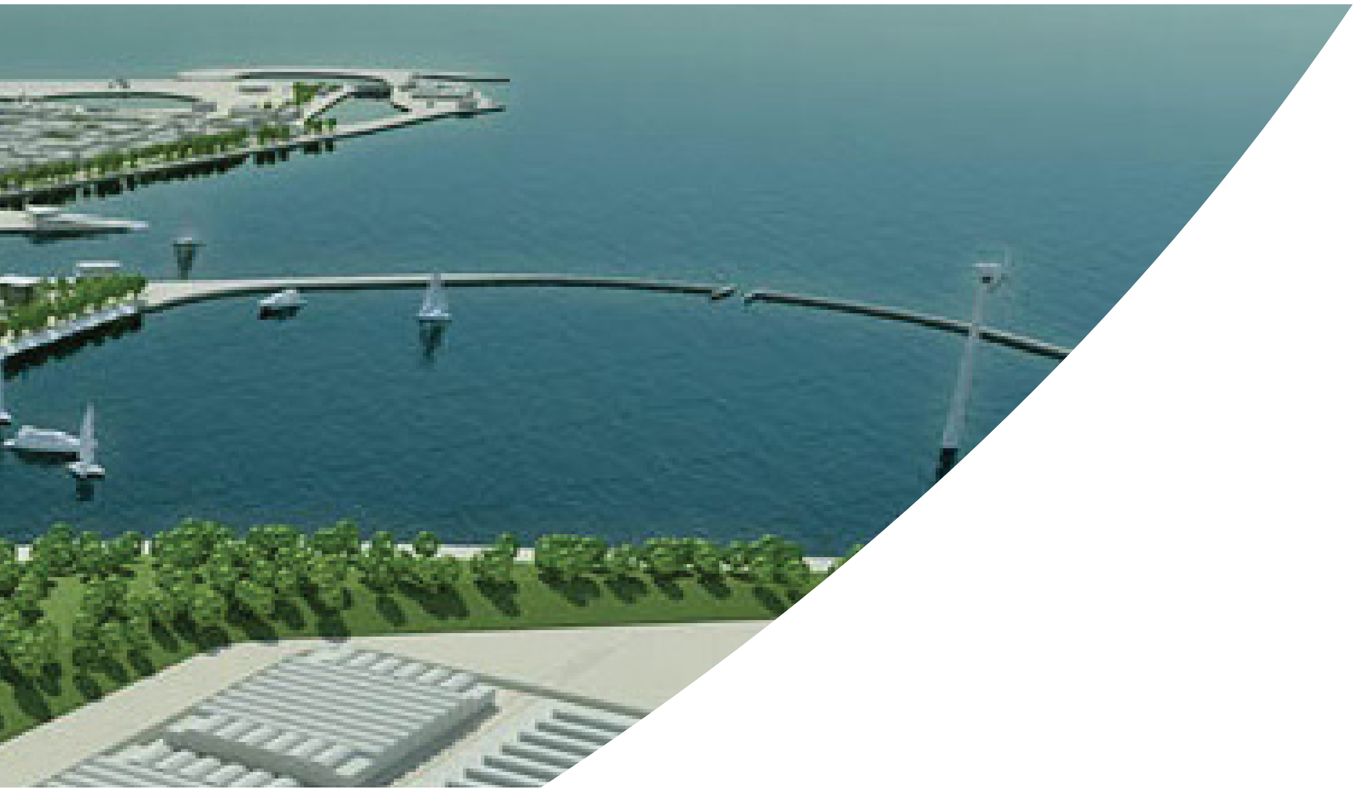
Date	05/2017
GLA (m²)	38.134
Price	€ 103 million
Buyer	Tristán Capital and Zaphir Asset Management
Seller	Lone Star REF
Brokers & Advisors	CBRE and Knight Frank



PRECIADOS 9, Madrid

Date	03/2017
GLA (m²)	2.400
Price	€ 100 million
Buyer	Generali Real Estate
Seller	CBRE GI (on behalf of its (FEC) and IBA Capital
Brokers & Advisors	Garrigues, Savills, Agu-irre Newman, PwC, Uría Menéndez, Colliers and JLL

The Atlantic Way of Business



Lisbon
South Bay

WHAT DOES LISBON NEED TO DRIVE INVESTMENT?

For those who know the city, Lisbon is full of attractions, and its appeal has also been growing in tourism, as well as among companies and new residents.

In order to maximise on the positive phase the city is currently experiencing, this is the time to face the challenges to attract and maintain more foreign investment and, of course, resolve them. For this, we must first identify which are the greatest and most urgent obstacles to solve, and that is exactly what we set out to discover among the Portuguese experts who participate in this opinion forum.

What are the major challenges that Lisbon currently faces to attract more real estate investment?

Rui Coelho
INVEST LISBON
CEO

In 2017, following record years in capital markets, tourism and entrepreneurship in Lisbon, the city's main challenge is to channel the tremendous investor interest to projects that can serve the city's best interests.

If before the priority was to invest in regenerating the historic centre, which was abandoned and degraded, now it is necessary to steer investor interest towards other parts of the city, new construction and large real estate projects, solutions that Lisbon needs to satisfy the city's enormous demand and even greater potential.

If before the need was for new tourist accommodation (Hotels, Hostels and Tourist Apartments) and luxury residences to satisfy the demand from tourists, investors and foreign talent, who finally discovered the wonders of Lisbon and the fantastic quality of life one can enjoy here, now the greatest need is for affordable housing for Lisbon's residents.

If before a small business incubator in the Baixa district was able to revolutionise entrepreneurship in the country, now that Lisbon is known as one of the *'startup cities'* with the fastest growth, we need the Hub Criativo do Beato and its 35.000 m^2 of covered area ready to be filled with startups and innovative businesses to support city's economy.

If Parque das Nações is completely taken up, then let's move quickly to expand it to adjoining areas.

This is what we're doing in Lisbon!

«If before the priority was to invest in regenerating the historic centre,now it is necessary to steer investor interest towards other parts of the city»

Paulo Sarmento
MEYER BERGMAN
Principal

The biggest challenge facing Lisbon as a destination for real estate investment has to do not necessarily with Lisbon, but with the size of Portugal in the context of Europe. Portugal is a small country with a small economy, and decision makers across the most important European capitals will tend to allocate the biggest portions of their real estate investment budgets to countries / cities / markets that are significantly bigger.

This can be a *"catch 22"* situation, whereby investors choose other locations because Portugal is a small market. This has a self-replicating effect over time, increasing the gap between the Portuguese market and the other main European markets.

The second factor is the stability of the economic and financial situation. A more stable economic performance would certainly help attract more investment; conversely, the fact that the country was just recently bailed out by the international community leaves investors concerned about country-specific risk.

Other important factors, but not of the same magnitude as the two above mentioned, are (i) the strength of the banking system, (ii) the stability of tax rules, (iii) the operation of courts of law and (iv) the planning permission system for refurbishments and new developments.

The banking system has been undergoing massive changes and taxpayers have been called to bail out a big portion of the most important banks. Real estate investment is fuelled by debt, and without strong banks it is hard to generate investment deals.

Investors feel very uncomfortable if the tax framework is not stable, which unfortunately can be the case in Portugal. The reverse effect is also true, as has been the case for example of the enormous boom in the residential market after the change in the rules for non-habitual tax residents.

The speed at which courts of law operate can have a significant impact on the returns of your real estate investment. Unfortunately, Portuguese justice has a reputation for being slow, which can discourage international investors familiar with this situation.

Progress has been made regarding the planning permission processes both for refurbishments and new developments. Local and national authorities seem to be much more business oriented and this is having a positive effect on real estate investment.

Portuguese real estate players need to be aware of the importance of the factors mentioned above and work together with the government and local authorities to achieve improvements wherever possible. It is not possible to change the size of the country vis a vis its European counterparts (at least not in the short or medium term), but it is possible to (i) implement economic policies conducive to growth and stability, (ii) introduce adequate supervision mechanisms in the banking system that prevent further collapses of supposedly solid institutions, (iii) provide investors with a stable and reliable tax framework and (iv) make sure that laws are produced and courts of law are streamlined, so that justice is available in due time.

Portugal is currently experiencing a good economic moment and morale is high. But there is a lot of work to be done to launch the country to a better position in terms of European real estate investment. I am afraid that boasting about the warm weather, good food, hospitable people, quality of the national football team and victory at the Eurovision song contest will hardly move the needle – the country has to work hard at implementing structural reforms conducive to growth and stability.

«Portugal is currently experiencing a good economic moment and morale is high. But there is a lot of work to be done to launch the country to a better position in terms of European real estate investment»

Francisco Horta e Costa
CBRE PORTUGAL
Managing Director

A lack of grade A office buildings. It is impossible to keep attracting corporations and investors if Lisbon's office stock does not have quality and dimension at the European scale. We should look at some buildings in the City of London (or even Canary Wharf) and the four towers on Paseo de la Castellana in Madrid: big, impressive, modern and green.

A lack of affordable housing. It is crucial to have housing alternatives, in quantity and quality for Portuguese residents and foreigners who come to work in the companies that are setting up in Lisbon. The city runs the risk of losing major corporations if their employees can't find homes to live in. Lisbon cannot survive on the Chiado and Principe Real alone.

Release the last major, iconic plots of land, namely Feira Popular and Campolide. Any self-respecting European capital no longer has this type of undeveloped areas in the city centre. The most balanced price vs. urban mix formula must be found so that these plots can be developed, thereby creating product for residents and companies. We are at the ideal stage in the economic and property cycle for this to happen.

Resolution of the infrastructure issues that have been talked about for years, but that no one believes in anymore: expansion of the airport (or a new airport) and expansion of the metro network. The metro must reach Alcântara (or even Belém), Campolide, etc. We cannot keep saying *"there will be a new metro station here..."* and years go by and nothing happens! The Airport is completely congested and on some days it takes more than an hour to get through security ... There can be no economic development without developing infrastructures. The metro is also crucial to keep cars out of the city.

Pedro Lancastre
JLL PORTUGAL
Managing Director

Lisbon is an amazing and vibrant city but we still face some challenges as we are aiming to attract real estate investment:

1- New infrastructures: As the existing airport is becoming overloaded, there is an urgent need for a new and improved one, otherwise we risk slowing down tourism, one of the key drivers of real estate investment in Lisbon. Also in what concerns internal urban mobility, Lisbon must improve its local public transport network, especially the extension of the underground network.

2- There is a need to boost the development of new office stock as the city is gaining momentum as an attractive international business destination. The existing new office supply with the technic and technologic requirements demanded by multinational companies are not enough to meet the existing demand. There's an urgent need for new, quality office stock in Lisbon, or we may lose the opportunity to secure important international operations that are targeting the city for corporate space.

3- Attracting Portuguese inhabitants for the city's centre is also a challenge to address. The average housing price range affordable to Portuguese households is below the 5,000-7,000 euro/sqm being marketed at Lisbon's centre and historical areas, so this stock is mainly sold to international investors/ buyers. Bringing local inhabitants to these central areas may have to involve public owned properties. If public estates such as old deactivated hospitals or military equipment's can be sold to private developers at *"controlled"* pricing, the residential products resulting from that developments could be priced to target Portuguese medium-income buyers.

Nevertheless, and apart from these and other challenges that we will need to face in the future, the real estate market in Portugal has made a huge turn around in the past 5 years, with great and positive impact in the city and in the life of its inhabitants, and it will continue to evolve, grow and adapt to the upcoming requirements of the market. We have some challenges, but most of all, we still have great opportunities!

Eric van Leuven
CUSHMAN & WAKEFIELD
Managing-Partner Portugal

Portugal has come a long way since the successful exit of the Financial Assistance Programme in 2014: the public finances have improved substantially, with the 2016 budget deficit no more than 2.0%; economic growth has resumed and forecasts for 2017 year-end have been reviewed upwards to 2.5%; unemployment has reduced dramatically from nearly 18% in 2012 to just under 10% today; and in recognition of all this, rating agency Fitch has finally changed its Outlook to *"Positive"*.

Structural reforms enacted in the labour, judicial and, importantly, property sectors are making the country's economy more competitive. With a depressed domestic market during the crisis, Portuguese companies successfully turned to overseas markets and exports today represent well over 40% of GDP – compared to 27% in 2009. Portugal is also one of the net beneficiaries of the turbulence in the Mediterranean Basin, with tourism growing at double digits over the past few years.

All these factors have contributed to a boost in both private and business confidence, and buoyant occupier markets. Office take-up is back to pre-crisis levels of ca. 150,000 m^2 per year, and with very few projects in the pipeline, a shortage of space is imminent, resulting in upward pressure on rents. With consumer spending rising, retailers have started to expand again, evidenced by low vacancy rates in the major shopping centres and, even more so, by an extraordinarily vibrant high street retail scene in Lisbon and Porto.

The investment market is aware of the much improved Portuguese market and transaction volumes have broken successive records. While US investors are predominant, the origin and risk profile of capital is more diverse than ever, ranging from European institutions and Asian family offices acquiring core assets at sub-5% yields, to private equity players buying large and heterogeneous portfolios in the value-add and opportunistic space.

Availability of product has increased with the ask-bid gap closing, vendors (banks in particular) becoming more realistic, and some of the recently acquired stock already coming back in the market from recent buyers with a generally shorter-term vision than before.

In summary: the fundamentals of the Portuguese economy and property markets, coupled with the generally high quality of the real estate at attractive returns when compared to other Euro-zone markets, make Portugal a compelling investment destination!

In the past four years, the profile for real estate income investments has been shifting, starting with a more speculative profile, evolving into a value added profile and now tending towards a more patrimonial profile. Market stabilisation will eventually diminish real estate investments with a more speculative profile, reducing investment options with high returns, where the realisation of capital gains took place above all over time, thereby enabling confidence in the country to grow, and/or portfolios to be split and their assets sold individually or in smaller portfolios. By reducing opportunities with a more speculative profile, the opportunities for patrimonial investors can only grow through the offer of assets with the right profile, which not been possible to achieve.

It is within this reality that Lisbon, and the country, should position itself to create vehicles that are better suited to the investment profile we aim to attract, more productive than merely transactional, within a framework of fiscal stability and with a growth model that is not based primarily on the residential segment.

Paulo Silva
AGUIRRE NEWMAN PORTUGAL
Managing Director

«Portugal should position itself to create vehicles that are better suited to the investment profile we aim to attract»

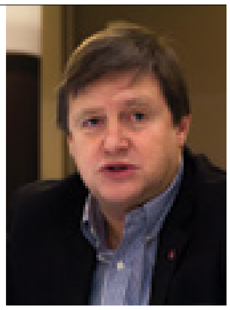
Jorge Marrão
DELOITTE PORTUGAL
Partner |Real Estate Leader

The concern among real estate players is not centred on attracting investment, since the industry has already responded to that need; the current concern is ensuring that flow of investment is reinforced and consistent. Lisbon's real estate must be seen as a safe haven for capital preservation, hence having the ability to capture external savings. Therefore, the key challenge is to channel the interest of those investors towards long-term investments and the development of new real estate projects, to ensure foreign capital remains in Portugal for longer.

Currently, Lisbon competes directly with other European cities, either due to the favourable fiscal framework implemented in the residential market, or the strong growth in tourism and the office market, thanks to more attractive rates of return in comparison with competing markets. The change of cycle, accelerated by these favourable conditions, is accompanied (and provoked) by the natural change in the investor profile.

We should be more aware of the growing interest among long-term investors that are targeting Lisbon, focusing on market segments that until recently were not on the investment radar: residential projects aimed for local residents or new office buildings without a pre-defined tenant. For that to happen, it is fundamental that public and private policies be put in place in order to ensure that investors have a stable risk perception and high levels of confidence in the market, two critical factors for this new wave of investors.

Regardless of how frequently we review context costs (legal, fiscal, processes, licensing procedures, environmental, inter alia) in order to become a more competitive market in comparison with other cities, we should consider stability the main condition.



José Araújo
MILLENNIUM BCP
Director of Real Estate

The lack of new product aimed for the middle class segment is the major challenge currently facing the Lisbon property market.

Lisbon is hot and not only because of the season's high temperatures.

The city is buzzing with tourists, festivities, new restaurants, urban renovations with new squares for the population to gather and investors who emerge each week seeking good real estate opportunities, but almost always in the usual places! – Central axis, Marquês – Baixa – Chiado – Santos and Parque das Nações.

Prices here are already high since these transactions are mostly re-sales and completed regeneration projects although, in comparison with some central zones of other major Europeans cities, they are still relatively competitive. Nonetheless, the future returns that may be obtained will certainly be lower than looking *"outside the box"* or building from scratch.

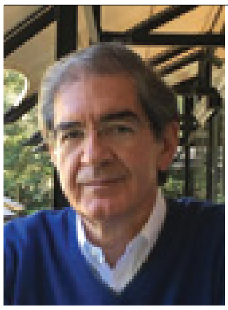
Therefore one of the greatest challenges our city faces is finding a way to attract investors to less central zones like Lumiar, Benfica, or Alcântara, so that they may acquire land at very attractive prices and develop projects targeting middle markets, rental or senior citizens. Since there is a lack of new affordable products in these segments, this is where the opportunity lies to obtain better returns in the future.

In order to accomplish this, a more efficient and comprehensive transport policy must be developed to reduce distances, since the current policy is inadequate and irregular.

A local fiscal policy for each zone may also be a solution to drive targeted investment. If the central government applies it, why not let the local authorities do so as well?

Managing tourism flows and the relationship with local lodging / long-term rental will undoubtedly be another challenge for Lisbon and an option where fiscal instruments can be applied.

Finally, the Lisbon Municipal Council should continue to respond, as it has been doing, to the many requests for information and project analysis that have been flooding their services in recent years. Failure to adapt and adjust to a different reality may deter new investors if they perceive they will miss the opportunity to begin construction in a market that is cyclical and extremely exposed to international variations, which is true in the property market and ours in particular since it is peripheral.

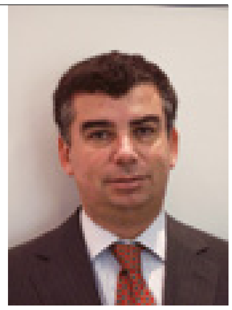


Fernando Santos
MONTEPIO REAL ESTATE ASSET MANAGEMENT
Administrator

Investors will increasingly have to perceive the city of Lisbon as a whole, no longer confining themselves to the centre. Particularly in the residential market, attention is highly focused on certain riverfront zones and specific historic districts, forgetting that Lisbon is a very small city, but that still has areas with great development potential and extremely interesting opportunities. One need only look at the entire hillside of the city's eastern zone, located one km or less from the Tagus River, which begins in Expo, passing through Braço de Prata and Vale de Santo António, and we see the extensive terrain offering good conditions for development. But this is not the only case. There are similar examples in other parts of the city, such as Ajuda, Lumiar, Olivais and Encarnação, among others.

In other words, it is important to look at this territory as a whole, expanding focus to a radius 1.5 or 2 km around the nucleus where investment is currently concentrated (the historic centre) and, yes, consider the Lisbon municipality as the centre of a great city that has 2.8 million residents (considering the Metropolitan Area of Lisbon).

> «Investors will increasingly have to perceive the city of Lisbon as a whole, no longer confining themselves to the centre»



Frederico Andrade e Sousa
WIDERPROPERTY
Administrator

Lisbon has become, over the past years, target of significant foreign investment in all areas of the real estate sector.

The focus was originally established in developed property for commercial use – offices, retail, warehousing – but most recently the development activity, led by direct foreign investment, picked up strongly in areas such as residential and hotels.

The booming tourism sector has added to the momentum a strong demand for use of residential and touristic properties.

All things considered Lisbon is today a hot market but, beneath the surface, still full of opportunities.

One has only to tour around the city to realize that, despite the touristic use, there is still a lot to do in different areas such as the residential leasing market, recovery of street retail, parking facilities, amongst other.

In parallel, the office rental market, that has been stagnant in terms of value, may be on a turning point with unemployment rate now dropping below 9%, creating the need for additional areas.

Also only recently there has been movement in the development of commercial property, a fact that may contribute for the recovery of rental values.

The competition is now fierce on traditional investment in prime locations but still capable of producing appealing returns in non-obvious locations.

The insight to these opportunities lies in the local know-how of these fast changing conditions and the ability to explore innovative hands-on approaches to turn around solutions.

It is impossible to talk about barriers to real estate investment without mentioning Portugal's positive aspects and attractions.

There is one undeniable truth: Portugal is fashionable for several reasons, and it remains in the sights of foreign real estate investors, as well as others. The Portuguese property market is considered extremely appealing worldwide.

Portugal offers excellent competitive conditions and important attractions:

- It is considered a safe country;
- It has very good air, maritime and land transport connections;
- Excellent climate, excellent cuisine, truly welcoming people;
- Political and social stability;
- Interesting rates of return on investment;
- Golden Visa Policy;
- Excellent quality hotel infrastructures, as well as services.

Contrary to the possible contraction of English investment expected as a consequence of Brexit and, with the English as the principal investors in Portugal, the reality is that this phenomenon created a market of opportunities for the country.

In order to anticipate the possibly negative conditions resulting from Brexit, the British have reinforced their investment in Portugal even further, by obtaining Golden Visas and purchasing luxury assets.

The Lisbon, Porto and Algarve areas are especially attractive to investors.

The city of Lisbon is undeniably one of the favourite destinations.

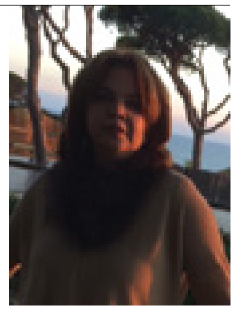
A special note must be made of the incentives created by the government for urban regeneration, recovering historic districts, restoring the architectural heritage and turning these into assets that generate a profit, for example luxury hotels, as well as others.

Lisbon is increasingly becoming an internationally recognised cultural and technological centre, which drives investment, namely hosting the Portugal Web Summit, the Real Estate Summit, etc.

Construction of the Cruise Terminal on Lisbon's riverfront attracts an increasing number of investors, denoting positive change, as does the construction of hotels, office buildings, housing and an entrepreneurship hub.

The difficulties that are considered challenges and which obstruct real estate investment by national and foreign investors are not only in Lisbon, and are diverse:

- The widespread implementation of Local Lodging by owners has led to demand outweighing supply, with the resulting rise in rents and sale prices;
- Difficult access to credit, namely for national companies;
- Weak productivity and the strong deleveraging needs of many companies;
- High number of non-performing loans in banks;
- Great bureaucracy and slowness to approve processes, grant licenses, etc.
- Implementation of a new property tax: AIMI, a tax added to the Municipal Property Tax.



Maribel Galeas Aguilar
CERAT, CONSULTORES DE ENGENHARIA
Administrator

«Contrary to the possible contraction of English investment expected as a consequence of Brexit, the reality is that this phenomenon created a market of opportunities for the country»

LISBON SOUTH BAY, THE FUTURE OF THE CITY IS HERE

Occupying 900 ha on the south bank of the Tagus River, Lisbon South Bay involves some of the largest investments planned for the Portuguese capital, creating one of the biggest urban centres to emerge in Europe.

With support from the government, the public company Baía do Tejo and the municipal councils of Barreiro, Seixal and Almada have been actively promoting the investment potential of the Lisbon South Bay land, while reinforcing investment to renew the areas where the largest industrial production centres in Portugal once operated.

«Recovering these plots of almost 900 hectares of land of the former Quimiparque, Siderurgia and Margueira is a great opportunity for this country's development», stated the Prime Minister, António Costa, at the end of the working session with the heads of the entities that run Lisbon South Bay (see insert), where he was accompanied by the ministers of the Environment, João Pedro Matos Fernandes, and the Sea, Ana Paula Vitorino.

Investment in regeneration and mobility are a government priority

Emphasising that *«it is essential that the State and municipalities work together»* to ensure this project's success, António Costa took advantage of this occasion to announce several structural investments for the region's development, focusing particularly on mobility and environmental regeneration, which are a priority.

Therefore, as well as maintaining the solid investment to decontaminate the land in Barreiro and Seixal, the government is also preparing to invest millions of euros on mobility. Part of this will be the launch of a Barreiro/ Seixal road connection that will substantially reduce the travel time between these locations, and financing for this project will be provided either within *«the framework of support infrastructures for the new airport»*, or *«the next Community support framework»*. He also announced the intention to extend the Metro Sul do Tejo light rail line, which will take place under the next Community support framework. And, regarding the project for the new Barreiro Multi-modal Platform and Container Terminal, there is also a clear intent to install this project in front of the former CUF/ Quimigal land.

> Lisbon South Bay is the new driving force for Lisbon's development

Lisbon Water City

Lisbon Water City closer to launch date

The Prime Minister also announced that approval will soon be given to the decree-law that will finally give the green light to remove the land in Margueira, Almada, from public domain. Thanks to this, the Cidade da Água plans may finally be launched, which means that investors who have shown interest in the project may get ready to present their official proposals soon.

In one of the largest urban planning interventions under way in a European capital, the area where the Lisnave shipyard used to operate in Margueira will be completely transformed, creating a new urban centre that will extend along 2 km of the riverfront.

With Lisbon and the Tagus River as a backdrop, this area measuring 53 hectares will enable the construction of more than 630.246 m² for offices, retail, housing and tourism, using a marina and an intermodal river terminal as its principal anchor projects.

Real estate development will be fully guaranteed by private capital, and Baía do Tejo is working actively to promote this mega project internationally among numerous investors all over the world. A mission that is already bearing fruit, as the company's administration confirmed to Iberian Property, adding that several formal expressions of interest have already been received from major foreign investors.

Lisbon South Bay

Resulting from a joint-effort by the municipalities of Almada, Barreiro and Seixal, Lisbon South Bay is the brand created by the firm Baía do Tejo to internationally promote the land and business parks it manages on Lisbon's south bank. On this site, only minutes from the centre of the Portuguese capital, several urban planning projects are planned and/or under way, innovative industrial and leisure plans that promise to improve the appearance of this strip of riverbank, and are attracting growing interest from the community of international investors.

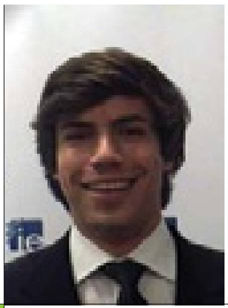
As well as disseminating information and attracting potential investors to the Cidade da Água project, Lisbon South Bay is also committed to presenting and attracting corporations and investors to the Baía do Tejo business parks in Barreiro and Seixal.

Aimed for different socioeconomic targets, each of these territories offers real estate solutions adapted to different investor profiles, and is equipped to accommodate every type of business: from the entrepreneur who seeks a small office or coworking solution, to major investors who need space to install industrial facilities. The common denominator is the short distance to the centre of Lisbon, approximately 20 minutes, as well as direct access to motorways, a dedicated railway and, in the case of Barreiro, dedicated port infrastructures.

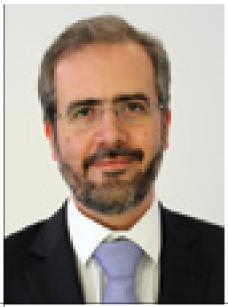
Occupying 290 hectares, the Barreiro business park is set up in the former Quimigal facilities, which belong to the group CUF, and is equipped to accommodate logistics and services activities. The Seixal business park is close by, extending across an area of 536 hectares and equipped to accommodate heavy industry operations.

3 QUESTIONS you should ask before investing in Lisbon:

A pool of experts answers three key questions, predicting how they expect investment in Lisbon to evolve over upcoming months.



João Cristina
SILCOGE
General Manager



Nuno Nunes
CBRE
Head of Capital Markets

	João Cristina	Nuno Nunes
1 Would you recommend investing in Lisbon today? What is the principal reason?	Today, Lisbon is a recommendable destination for private investors and institutional money. The fact that the capital values are cheaper comparatively to their European peers, makes it a natural arbitrage destination.	That is the advice we give numerous investors every day. There are various sectors where dynamic demand far outweighs the available supply, such as offices and high street retail on the main retail axes. A large part of this increase in demand is not due to economic factors or trends, but to an effective change in Lisbon's international positioning as a leading city for leisure and business.
2 Do you believe the market will continue to appreciate over the next 12 months? Will that appreciation occur mainly through yield compression or a rise in rents?	There is still room for value increase in the next 12 months and the market should continue to perform very positively. The increase will most likely come from rental growth, due to supply shortage, rather than from compression of yields, as interest rates are already very low.	Assets should continue to appreciate significantly over the next 12 to 24 months. Commercial real estate yields are still dropping. However, we believe that compression will not be too significant in the medium term, and will most likely stabilise. On the other hand, dynamic demand and a lack of supply suggests that rents will rise significantly, especially in prime locations and in assets with the best technical features.
3 What is the main investment barrier?	The biggest investment barrier is the high level of taxation and the ever-changing legal framework. Capital typically prefers to stay in those jurisdictions that allow for foreseeability of investments and efficient capital allocation, rather than countries that have an arbitrary and random approach to investment. Portugal should create conditions for capital inflow.	The usual constraints in the Portuguese property market, such as high taxation and granular investment, have been overcome or minimised. The only barrier that is regularly noted by investors regards the difficulty to obtain bank financing to support investment, even in prime assets with good tenants and solid leases.

 **Luís Rocha Antunes** CUSHMAN & WAKEFIELD PORTUGAL Head of Capital Markets	 **Fernando Ferreira** JLL PORTUGAL Head of Capital Markets	 **Paula Sequeira** AGUIRRE NEWMAN PORTUGAL Head of Investment – Capital Markets
Yes, with some caution and rigour, like in all markets we invest in. On the positive side, Lisbon is experiencing a new economic and demographical dynamic, which creates real value, and there is great drive in demand in residential, retail, tourism and services. However, we must proceed with caution because the demand for investment projects is inflating prices, in some cases beyond reason.	Yes and for several reasons. 1) The city is now the main tourism destination for both many Europeans and non-Europeans; 2) An increasing number of companies are targeting Lisbon to set up their offices in Portugal, especially the shared services sectors. The city presents strong fundamentals for attracting these companies, including competitive rental values (compared with the core European markets), skilled labour and European legislation. 3) More and more people are choosing Lisbon to live, study and work; 4) The city is undergoing a strong renewal movement and there is still great potential.	Definitely! For several reasons: sustained growth of the Portuguese economy, and this trajectory is expected to maintain for the next two years; real estate yields that are above those in other Western European countries and capital markets; the current framework of tax incentives (including those for urban regeneration) and political stability (Portugal is the 3rd most peaceful country in the world, Global Peace Index 2017).
That is a very broad, and somewhat dangerous, question. I believe that the strong demand we are witnessing and the lack of quality product in every sector has already made prices rise substantially, therefore we should exercise caution. Within each building, we must separate shops or apartments that have a peak market value and others that may only be worth half.	Yes, both through yield compression and rental growth. In the first case, although yields have been strongly compressing for the past three years, Lisbon still has a 150 to 200 bp gap when compared to other European capitals. As for rental growth, occupier markets are very buoyant and the lack of quality supply is pushing rents upwards.	Yes. On both counts. The rise in rents will be driven by an improvement in economic conditions on the one hand, and on the other, by a lack of product, namely of office buildings in Parque das Nações. Yield compression will also be driven by this shortage, namely of core income assets and assets for development / regeneration.
Lengthy processes that often deter investors, heavy taxation not only on the assets themselves but on the contingencies they create – the VAT tax regime is completely absurd! - and legislation that is adverse to some issues, of which the recent amendment to the New Urban Lease Regime is a sad example.	Currently we identify three main challenges. 1) The lack of core product; 2) Secondary products showing unsuitable prices; 3) Financing conditions that are not in line with buyers' needs.	The lack of product.

 **Miguel Paiva Couceiro** DELOITTE PORTUGAL Manager Real Estate	 **Miguel Bacalhau** THE K ADVISORS MRICS, Head of Valuation	 **Tim Seconde** RETAIL PARTNERS EUROPE Head of Capital Markets
Due to the current imbalance between demand and supply, namely in the residential and office markets, Lisbon is currently a very interesting real estate market with diverse opportunities for various investor profiles, from developers to yield investors.	Yes, absolutely. Portugal is currently enjoying political and economic stability, as well as implementing numerous incentives, which creates a climate that is conducive to investment. There are good investment opportunities in Lisbon in several segments, among which I highlight tourism and offices.	Quite a wide question! Depends on your risk profile and sector but, as a property investment location across most sectors, Lisbon still benchmarks well against other European capitals in terms of sustainable / improving rents and potentially attractive returns. The Lisbon office market in particular, is showing solid growth. The principal economic indicators are currently positive.
An increase in rents may occur due to the insufficiency of Grade "A" office spaces and new real estate projects; on the other hand, the favourable evolution of the Portuguese economic scenario has attracted new players with a long-term view and a more conservative expectation on return on investment. These two factors result in an increase in the market value of real estate assets.	Over recent years, office take-up has been limited by a lack of available spaces. Today, the vacancy rate is already below 10%, and there are some areas, like Parque das Nações, where it has reached 3%. This is a new reality in this market, where some zones have reached structural vacancy. The trend in upcoming years will be for a sustained rise in rents, along with yield stabilisation in central zones.	Subject to the stability of macro-economic forces, the Portuguese market is likely to continue at the same pace for the coming 12 months. Yields may tighten further for core product in some sectors and the office sector in Lisbon will enjoy the most rental growth.
A professional investor knows that all markets have their singularities; this comes with the job. The obstacles in Lisbon aren't greater than those in other locations and, although they may be different in some regards, they are identifiable and addressable if there is a profound knowledge of the local market.	One of the less positive aspects of our situation is uncertainty regarding the lengthy decision-making process, both in terms of licensing entities and courts. Furthermore, the country has been slow to introduce new investment vehicles that are more fiscally attractive, such as SOCIMIS in Spain and REITs in other European countries.	The main hurdles are the same as ever for those who know they wish to enter the Portuguese market. The transfer tax (IMT) is still higher compared to other geographies (in particular Spain). The Portuguese property market would benefit substantially from the introduction of a local equivalent of the Spanish Socimi (SIPIs).

Jorge Bota
B.PRIME
Managing Director

Absolutely! Despite some liquidity constraints, the Portuguese property market has shown some of the best returns on investment in comparison with other European markets, as has been demonstrated in data by the IPD.

We believe the market still has room to grow in the next 12 months, although this will take place primarily through an increase in rents than in yield compression. There will also be some growth in yields, principally in some secondary locations, but rents will carry greater weight in the near future.

Stability, both in the fiscal and judicial framework, may well be the most important factor that still makes some investors hesitate. Explaining the VAT regime in the Portuguese property market is a challenge that, for investors analysing our market for the first time, may be a difficult barrier to overcome!

LISBON, A CAPITAL THAT EMBRACES THE ATLANTIC

With arms open onto the Atlantic, the Portuguese capital, Lisbon, has been positioning itself as one of the most entrepreneurial cities in Europe, as well as a preferred destination to set up multinational service centres.

THE LISBON REGION'S ECONOMY IN NUMBERS (2016)

- Residents: 2.8 million
- Foreign residents: 205.669
- GDP: 64 billion euros
- GDP per capita: 23.000 €
- GVA: 55.98 billion euros
- Established companies: 312.000
- Higher Education Students: 134.000
- Share of the country's international trade: 44%
- Nº Tourists: 5.2 million
- Area: 3.015 m^2 (Lisbon Municipality: 100 km^2)

The capital of Portugal and the country's principal economic driver, Lisbon is committed to standing out on an international scale as one of the most competitive and innovative cities in Europe. Combining its heritage from the past with a strategy for the future, the city takes advantage of its geostrategic position facing the Atlantic and its smaller size in comparison with other European counterparts, in a strategic vision of growth consolidated around four major pillars:

- **Atlantic Business Hub**
- **Entrepreneurial City:** 16 business incubators with more than 300 startups and 1.200 direct jobs; several business accelerator programs (including 2 international), 4 fab labs and 40 coworking spaces
- **Knowledge & Innovation**: 100 higher education institutions, 3 science & technology parks, 163 Research & Development centres; with 140.000 university students, 40.000 graduates and more than 15.000 researchers; receives more than 13.000 foreign students each year and more than 3.000 students under the Erasmus program
- **Strategic Clusters,** that complement the most consolidated business sectors and carry the greatest weight in the profile and specialisation of the region's economy (financial services, trade, tourism and real estate):
  - **Creative Economy:** 54.417 jobs (47.3% of the country's creative employment); 24.558 creative companies and represents 62.9% of the country's creative GVA.
  - **Health & Wellness** – 95.926 jobs, with 28.242 companies responsible for 45.5% of the sector's national GVA.
  - **Digital Economy** – 53.404 jobs (66.4% of the national total); 5.839 companies in the region, representing 82.8% of the national GVA of Digital.
  - **Sea Economy** – 55.174 jobs (33% of the sector's national employment), with 15.468 companies and representing 41.8% of the national GVA of the Sea.

And, looking at the results obtained in recent years; this is undeniably an opportunity for success!

LISBON CLOSE TO BREAKING NEW REAL ESTATE RECORDS

2017 is going very well for the property market in the Greater Lisbon Area and, judging by forecasts by analysts, the sector is in store for another record breaking year.

OFFICES

Demand: The nearshore sector has had enormous impact on Lisbon's office market, and is responsible for the take-up of more than 200.000 m² between 2009 and 2016, in other words, approximately 30% of take-up during that period, according to calculations by CBRE. And this trend is here to stay.

- +2% Take-up: 87.316 m² in 2017 (until the end of July)
- 39% of the area taken up (until July 2017) originated from the expansion of companies already established here or companies that chose Lisbon to set up their business
- 40% of take-up in 2017 (until July) was carried out by the TMT & Utilities (21%) sectors and Financial Services (18%), in other words the fields of a large part of the shared services centres that have set up in Lisbon

Supply: the market's recovery is still not reflected in the development of new projects, which remains at one of the lowest rates ever. However, the continuous drop in the vacancy rate, along with the fact that there are few projects in the short term pipeline, is putting pressure on supply, especially for large scale operations. Added to this, there is a need to diversify investment in real estate development, as well as in tourism and the luxury residential market, and we should soon be witnessing a new wave of office development in Lisbon that will satisfy the needs of companies who want to settle in the city. In any case, the tendency will involve a more conservative approach from developers, who will favour a pre-lease regime more than ever.

- Stock: 4.6 million m²
- Vacancy rate: 8.8%
- Pipeline: 59.000 m² under construction, with 71% guaranteed occupancy

RENTS (€/m²/Month)		1st Sem 2017
Zone	**Average**	**Prime**
1- Prime central business district	17,50 €	19,50 €
2- Central business district	15,00 €	16,50 €
3- New office zones	12,50€	15,00 €
4- Secondary office zones	14,00 €	16,00 €
5- Parque das nações	15,50 €	17,00 €
6- Western corridor	9,75€	13,00€

SOURCES: LPI – Lisbon Prime Index, JLL, Aguirre Newman, Cushman & Wakefield, CBRE

HIGH STREET RETAIL

Benefitting from the rise in tourism, a greater commitment to urban regeneration and amendment of the lease laws, in the midst of full economic recovery, high street retail is today a consolidated retail format in Lisbon, playing a fundamental role in the development of the city centre. The sector's growth also benefitted the market as a whole, helping diversify and specialise supply.

100

100 new operations | Demand: in the 1st semester, 100 new rental operations were completed in Lisbon, of which more than 20% were in the Chiado zone. We also note the change in the retail mix brought about by the tourism boom, with a strong increase in demand from operators in the F&B business (+ 64%).

17

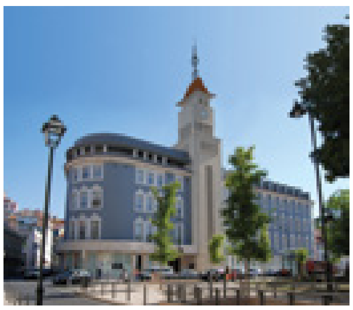
17 new shops until 2018 | Supply: on Avenida da Liberdade alone, the prime zone for the capital's luxury retail, approximately 17 new shops are expected to open between 2017 and 2018, in completely regenerated buildings. In Chiado, particularly on Rua Garret, few available spaces are expected to emerge, and those that do enter the market will be taken up rapidly, helping expand the market to adjacent zones (Baixa & Principe Real), but also to other parts of the city, like Restelo, Alvalade and Avenida de Roma.

9,5%

Rents rise | Chiado is the high street retail location with the highest rent increase in Europe in the 2nd quarter, according to Cushman & Wakefield. At 115€/m² per month, the prime rent in the leading zone in the Portuguese capital's high street retail rose 9.5% compared with March 2017 and 15% with the same period the previous year, against an average increase of only 0.2% in Europe. Average rents vary between 50 and 55€/m² in that location.

4,5%

Yield | Reinforcing this persistent appreciation of Lisbon's high street retail, the reference yield demanded by investors for top assets is currently 4.75%.



INDUSTRIAL

The lack of quality supply continues to restrict the industrial real estate market. Nevertheless, the 1st semester of 2017 displayed growth in the demand for spaces in the Greater Lisbon Area, albeit concentrated in the prime zones, and on a scale that is still insufficient to correct the high vacancy rates in the Montijo, Alcochete and Palmela secondary zones.

63

63.000 m² taken up | 14 new occupancies were identified in the 1st semester, with take-up growing 17% compared with the same period the previous year

3,75

3.75 €/m² maximum rent | the low average rents practised (between 2.00€/m² and 3.75€/m² per month, depending on the zones) continue to seriously limit the growth in supply. However, increasing pressure from the demand side may enable a rise in rents in some locations.

SOURCES: Cushman & Wakefield, CBRE

HOTELS

Over the past couple of years, the region has been positioning itself as the principal tourist destination in Portugal, which was made possible by the solid growth in the country's tourism activity. And that growth is most pronounced in the capital city.

69

69.05 € RevPAR | RevPAR continues to evolve favourably in the entire region, and in 2016 this indicator stood at 59.18 €

90,6

90.60 € ARR | Despite the increase in supply, solid growth in demand sustains the increase in hotel room prices in the city, which continue to be among the lowest among European capitals. For the region as a whole, the average room price was 80.65 €

18

18 new hotels | Lisbon leads the number of new hotel openings expected for Portugal in 2017

30

30.646 rooms | in supply in the Lisbon region at the beginning of the year, 20.634 of which are in the city of Lisbon

76,2%

76.2% occupancy | the occupancy rate was higher in the city centre, and was 72.5% for the entire region

5,6

5.6 million guests | in the region in 2016, of which more than 4 million stayed in the city of Lisbon

13

13.146 million overnights | 9.7 million of which were in the city of Lisbon

Tourism and hospitality are among the fastest growing sectors in Lisbon's property market, where there is still plenty of room to grow. According to Deloitte, the Portuguese capital concentrates only 4% of the hotel accommodation units available in Portugal and 5% of the number of hotel beds in the country.

SOURCE: Hospitality Atlas 2017, Deloitte

The capital appreciation of real estate assets in Lisbon remained throughout the last semester, surpassing the yields registered in the last market peak, in 2007.

INVESTMENT

Capital markets maintained a positive performance in 2017 and, until the date of this publication, the volume of capital traded has already surpassed the value attained in same period last year. Forecasts indicate that the overall value traded in commercial assets in the Portuguese market will exceed 2 billion euros in 2017 which, if achieved, will make this a new record year.

1 — **+ than 1 billion euros** | invested in the 1st semester in the purchase of commercial assets alone, approximately 90% of which by foreign investors

1,5 — **1.5 billion euros** | in potential deals for the 2nd semester

Retail | continues to be the leading sector, concentrating more than 40% of the investment in the semester nationwide

Logistics | this sector's share of investment increased ten times in comparison with the same period last year, representing 30% of capital markets (compared with a 3% share in 2016). This growth is due above all to the transaction of the Logicor portfolio, which involved an investment of 260 million euros in assets located primarily in the Lisbon region.

Offices | concentrated only 24% of the volume invested during the semester, although there are reports of various transactions of buildings in Lisbon

SOURCES: Cushman & Wakefield, JLL, CBRE

UNIVERSITY ACCOMMODATION

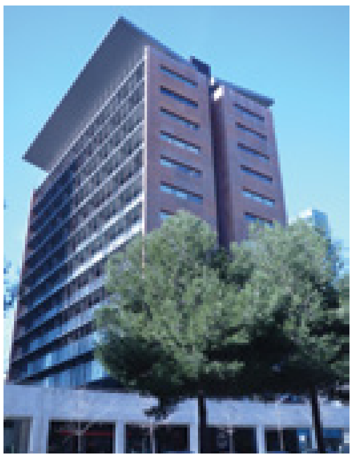
Given the great momentum that is making the Portuguese capital an international destination for university students, the student residence sector is one of the alternative segments that is starting to awaken investor interest, attracting new players to the city.

Demand: representing 11% of the Portuguese student population, almost 16.000 of which studying in Lisbon, foreign students are the principal target for this product

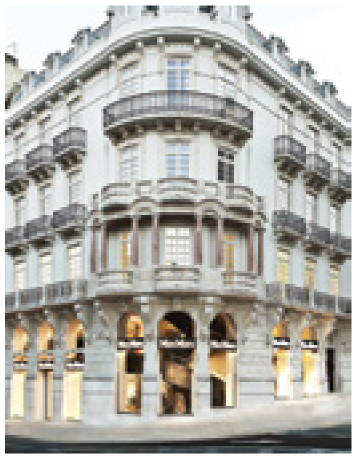
Supply: the stock for modern residences is still residual, since most of the supply of student accommodation is operated through private apartments, often within an informal regime with poor quality, or obsolete public facilities. Rents vary between 350 and 600 € per month per room, with units in Lisbon and Porto registering great demand and rapid take-up.

Pipeline: two new facilities of this type are in the pipeline for Lisbon and several projects are expected to emerge in the next two years, especially on the Saldanha, Almirante Reis and Bairro Alto axes, adding to the current capacity of little more than 300 students.

SOURCE: «*European Student Housing 2017*» & JLL Portugal



Central Office, Parque das Nações



Avenida da Liberdade

TOP DEALS LISBON H1 2017

PORTFOLIO LOGICOR, Lisbon Area

Date	06/2017
GLA	530.000 m^2
Price	€ 260 million
Buyer	CIC
Seller	Blackstone
Brokers & Advisors	----

ENTREPOSTO BUILDING, Lisbon

Date	01/2017
GLA	48.000 m^2
Price	€65,5 million
Buyer	Signal Capital
Seller	Entreposto Gestão Imobiliária
Brokers & Advisors	JLL, Cushman & Wakefield

GAGO COUTINHO PORTFÓLIO, Lisbon

Date	Q1/2017
GLA	32.000 m^2
Price	€ 50 million
Buyer	HIG
Seller	undisclosed
Brokers & Advisors	----

GUITARRA BUILDING (BERNA 18), Lisbon

Date	05/2017
GLA	28.000 m^2
Price	€ 50 million
Buyer	FESS – Fundo de Estabilização da Segurança Social
Seller	Fundimo
Brokers & Advisors	----

LIBERDADE 242 – TRANQUILIDADE HQ, Lisbon

Date	02/2017
GLA	10.000 m^2
Price	€ 40 million
Buyer	Norfin & Achorage Capital Group
Seller	Tranquilidade
Brokers & Advisors	CBRE Obs: this was the landmark asset of the Portfolio Vasco da Gama (aka Tranquilidade), which was sold for a total amount of € 97 million.

MORE FOREIGN INVESTMENT FOR BARCELONA

The second largest city in Spain, Barcelona is currently one of the European destinations with the greatest potential to attract foreign investment.

Notwithstanding the increasingly growing rate of investment, there are still issues that need to be improved for the city to keep attracting more foreign capital. But what should the priorities be? This was what we wanted to find out among experts in this market, who share their opinion in this Forum.

«What should be the priority in Barcelona to attract more foreign investment?»

Juan Carlos Álvarez
SERVIHABITAT
General Manager of Real Estate

Barcelona should maximise on the differentiating features that make it unique and attractive as a residential destination, giving precedence to promoting them and satisfying the great demand for the city's real estate, extending across several areas.

It is also an extremely attractive tourist destination, which should continue to be promoted in order to help drive interest among investors in the sector.

On the other hand, the development of world-leading educational centres is also an essential piece of this puzzle, turning the city into the focal point for real estate demand among the student sector. At the moment, Barcelona already occupies the 8th position in the ranking of the most attractive European cities for university studies and continues to progress in that direction, increasing the investment needs for rental and options such as student housing.

Furthermore, Barcelona offers fantastic conditions and great quality of life as a business destination. Both freelance professionals and major corporations can find the ideal space to set up their workplaces and corporate headquarters in the city. Furthermore, the fact that Barcelona has made a firm commitment to be recognised as a technological hub has been generating increasing interest among companies to establish here.

Therefore, the strong demand and all indicators combined make Barcelona a good place to invest. Making initiatives that drive these factors a priority, in line with the necessary political stability, will be key to attract more foreign investment.

«Barcelona offers fantastic conditions and great quality of life as a business destination»

Allbert Casajuana
ALTAMIRA ASSET MANAGEMENT
Regional Director for Catalonia & the Balearic Islands

25 years after hosting the Olympic Games of 1992, the city of Barcelona maintains the mark that raised interest worldwide and increased over the years. That event turned Barcelona into one of the principal tourist destinations in the world. In 2016, Spain received more than 75 million visitors and Barcelona was a key point of interest, attracting the attention of developers and investors.

This interest also led to a great influx of students, a phenomenon that has driven the offer of university residences and residential assets for this target.

In the office sector, take-up in the first semester of the year increased 29% compared with the same period last year, with a vacancy rate of 8% and less than 2% in the centre. In the first quarter alone, the investment volume reached 450 million euros, compared with 40 million during the same period in 2016.

Furthermore, Barcelona is one of the principal logistics destinations, with a vacancy rate under 3% in the first logistics ring. Accordingly, we note the investments announced by Amazon (63.000 m²) and Mango (119.000 m²).

In the retail sector, investor interest stands out both in the large shopping centres and in the busiest sections of the main retail arteries, concentrated around Paseo de Gracia, Plaza Cataluña and Portaferrissa.

To sum up, Barcelona offers the ideal setting for real estate investment in every segment, a scenario that has benefitted from solid economic prospects for the country and the sector.

> «Barcelona offers the ideal setting for real estate investment in every segment»

3 QUESTIONS FOR:

Thierry Bougeard
ADVISORY BNP PARIBAS REAL ESTATE SPAIN
Director General

1. Would you recommend investing in Barcelona today? What is the principal reason?

Barcelona represents the second most important focal point in Spain where investors concentrate their attention. As with Madrid, consolidation of the property market foresees an increase in rents. The price of assets, particularly offices, remains below the European average.

2. Do you believe the market will continue to appreciate over the next 12 months? Will that appreciation occur mainly through yield compression or a rise in rents?

The market continues to appreciate and yields are expected to keep contracting throughout this year, albeit more lightly in 2018. This is due to a lack of product, as well as the expected rise in rents in every segment.

3. What is the main investment barrier?

The principal barrier is a lack of product, especially in the three types of assets in highest demand, which are offices, prime retail and logistics, where supply is scarce.

In the residential segment, the problem is that prices have risen exponentially in the past two years, returning to levels comparable with 2006 – 2008 and making investment more risky.

Finally, the situation of Barcelona's hotel market must be noted: monotony has made supply limited and very expensive, thereby diminishing transactions.

22@, THE NEW TOP BUSINESS DISTRICT IN BARCELONA

The 22@Barcelona project is converting 200 hectares of industrial land in the El Poble Nou zone into an innovative district that offers modern spaces for the strategic concentration of intensive knowledge-based activities.

This initiative is both an urban regeneration project and a new city model that aims to meet the challenges of the knowledge society.

It is the city of Barcelona's most important urban transformation project in recent years and one of the most ambitious of its type in Europe, with high real estate potential and a public investment of 180 million euros in the infrastructure plan.

22@, one of Barcelona's new business districts, is mostly under construction and offers an extraordinary urban and metropolitan centrality. It is connected with Avenida Diagonal, Barcelona's principal business axis, whose first section connects two core hubs: Plaza de les Glòries, the city's future cultural and administrative centre, and the Centro de Convenciones Internacional de Barcelona (the largest convention centre in southern Europe).

The 22@Barcelona district will be accessible to 4.4 million people through public transport in less than one hour and guarantees excellent urban, metropolitan and international accesses, through its comprehensive transport network.

In 2016 the 22@ district attained a record investment volume of € 930 million

The most sought after office submarket in Barcelona

22@ is the office submarket in highest demand in Barcelona, not only among users, but also investors and developers.

Rents are responding upwards, while developers are reactivating new developments: in 2016, rents in the financial district increased 12.1% and 23% of operations were registered in this zone.

The 22@ district has always played an important role in office take-up in the city. According to Cushman &Wakefield, in 2016 a total of 71 rental operations were completed in 22@, adding up to 76.000 m² (23% of the total in Barcelona).

There is great demand to establish in this zone and interest has increased since last year. During 2016, 33% of operations in Barcelona above 2.000 m² took place at 22@. And at the close of 2016 and end of the first quarter of 2017, there is firm interest in the area from companies that require large spaces. This type of offer is fragmented and the situation is driving the development of new spaces.

BCN Fira District, developed by Iberdrola Inmobiliaria in the 22@

Potential for more than 700.000 m² of offices

22@ is consolidated not only due to its demand for offices; it also involves a social transformation, urban transformation (current & potential) and development initiative. Cushman &Wakefield notes that the available surface area of 22@ at the end of 2016 was only 64.000 m², which represents an 8% vacancy rate (Available offices at 22@ by building quality: A 48%, B+ 25%, B 13% & C 14%). If we take into account the A and B+ quality buildings at 22@, the percentage drops to 6%.

At 22@ there is more than 700.000 m² of potential offices, of which 243.000 m² are located on development land. The growth potential of the stock in the area is remarkable and, if all the projects go through, the office park in this submarket will double.

Therefore, over upcoming months, projects adding up to more than 130.000 m² of covered area for the tertiary sector will be in the construction stage or initiating works, among which public and private establishments (for example, new offices developed by AXA for Generalitat, the twin towers for the BCN Fira District project by Iberdrola Inmobiliaria – which join Torre Auditori and Torre Marina, already completed, a turnkey hotel project developed by Inmobiliaria La Campana, the development of offices adjacent to the new Agbar headquarters and the Catalan Tax Agency, etc).

Also notable is the proximity to new urban developments with great potential, such as District 38 (which brings an additional 300.000 m² to the tertiary sector) and La Marina del Prat Vermell (medium term development with 80 ha, almost 870.000 m² of covered area for residences and 315.000 m² for economic activities).

The purchase by Merlin Properties of Torre Agbar at the beginning of 2017 marked a milestone in the Barcelona office market and, therefore, in 22@. The expected increase in take-up in the area for the next years is sustained by the acquisition of this and other projects that extend to retail, hotels and land in the area.

«There is an extremely important critical mass of land for development and under development concentrated virtually in two or three hectares», notes Miguel Ángel García, director of Patrimonio de Iberdrola Inmobiliaria, who adds that *«so far this year, 22@ has recorded spectacular take-up rates, consolidating and improving the tendency»,* due primarily to the lack of quality product in the city and the fact that this is one of the few areas that can accommodate the demand for large spaces and sustainable buildings with the highest equipment standards.

A record investment volume of 930 million euros

According to data by Cushman & Wakefield, in 2016 the 22@ district attained a record investment volume of 930 million euros, 22% more than the previous record in 2006 and well above the volume in 2015 (180 million euros).

Foreign and national institutional investors were the most interested, proving that the current market is highly professionalised and the property profile is comparable to the business centres (CBD) of Madrid and Barcelona. Prime yields for offices at 22@ are between 4.5% and 5%, surpassing yields in the Barcelona CBD, which closed the first quarter of 2017 at 3.5%. This differential is attractive to investors, since the zone is displaying renewed demand for modern spaces in an excellent location. Investors will be closely monitoring the development of land in the northern part of 22@ that has the potential to house new developments, to maximise on the robust demand expected for 2017-2019. ■

BARCELONA, A GLOBAL SUCCESS STORY

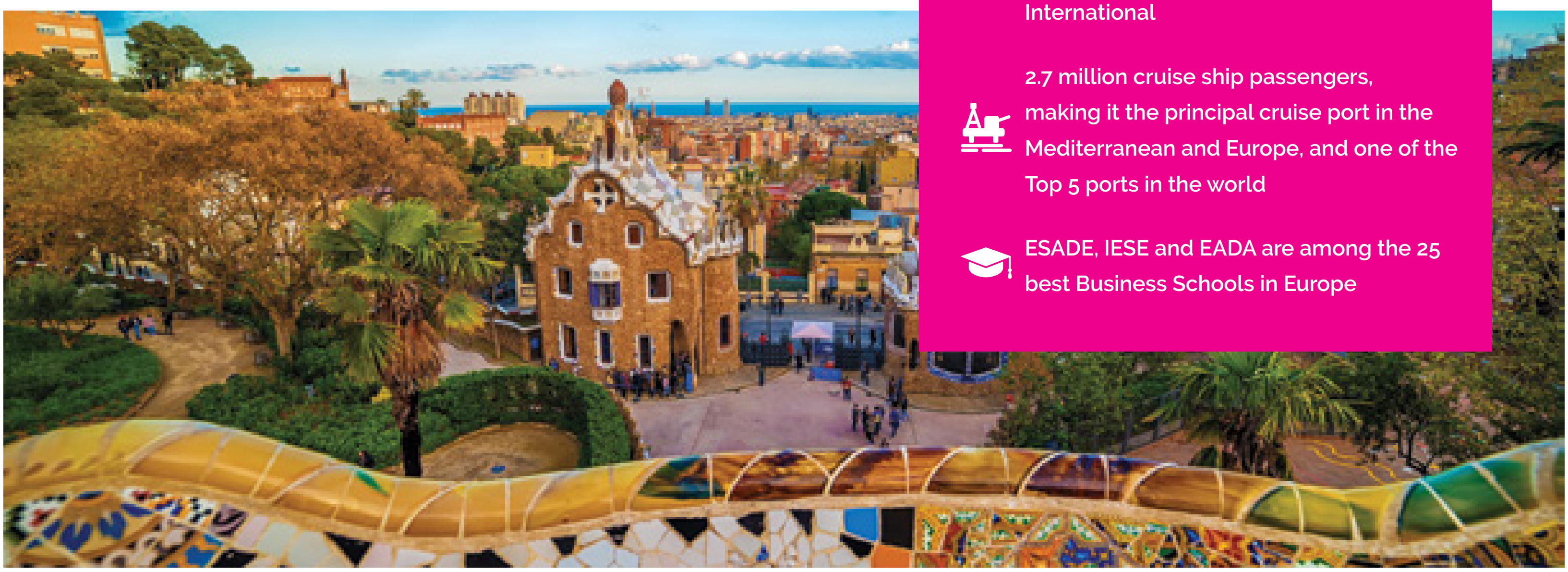
Throughout the past decades, Barcelona has positioned itself as one of the principal economic drivers of Southern Europe, establishing the city as a global success story.

The capital of one of Spain's most dynamic regional economies, Barcelona is at the heart of a metropolitan area that measures 2.500 km² and has five million inhabitants, and it is the principal city of a Mega region with a population of 27 million. Presenting a diversified and consolidated corporate fabric, Catalonia generated a GDP of 214.93 billion euros in 2015, and was responsible for 19.9% of the Spanish GDP, generating a GDP per capita 14% above the European average.

Asserting itself as an increasingly international destination, where 16.6% of the residents are foreigners, the Catalan capital currently holds great appeal to take in companies and foreign investment. Proving this, the Global Cities Investment Monitor 2016 by KPMG placed Barcelona in the 8th position of the principal urban areas in the world to attract major direct foreign investment projects between 2012-2016, registering more than 500 greenfield projects. In addition, the Attractiveness Survey Europe 2016 by Ernst & Young ranks Barcelona as the 5th most attractive European city for foreign investment, directly behind London, Paris, Berlin and Amsterdam.

A vibrant destination, with great cultural wealth, served by modern infrastructures and set against a unique landscape; Barcelona and Catalonia continue to develop their ability to attract business, direct foreign investment and talent. And not even the threat of terrorism – materialised in this summer's recent attack – seems capable of stopping this growth trajectory or breaking the confidence the international community has in the region' success. ■

- 10.2% of the Spanish population lives in the Barcelona Metropolitan Area
- 16.6% of residents in the city of Barcelona are foreigners
- 42.200 € of GDP per Capita
- 44.1 million arrivals at the Aeroporto de El Prat in 2016, placing it as the Nº 1 airport in Spain and Nº 7 in Europe, in number of passengers
- 7.5 million tourists and 19.5 million overnights in 2016
- 25th Most Visited City by International Tourists in the world and the 8th most visited in Europe, according to Top Destination Cities by Euromonitor International
- 2.7 million cruise ship passengers, making it the principal cruise port in the Mediterranean and Europe, and one of the Top 5 ports in the world
- ESADE, IESE and EADA are among the 25 best Business Schools in Europe



GROWTH: THE KEY WORD IN BARCELONA'S PROPERTY MARKET

Serving a region that is becoming increasingly competitive for investment, as well as to establish people and goods, Barcelona's property market is going through one of its best phases ever, where growth is the key word on virtually every front.

OFFICES

This segment had a positive performance in the 1st semester, with the vacancy rate decreasing compared with the 9% registered last year, and take-up growing 39% compared with the same period the previous year, standing at 208.000 m^2. There was also a notable increase in rents, with the prime rent currently at around 22.5 €/m^2 per month, in other words, 7% above the values practised a year ago.

208

208.000 m^2 take-up | 41% of this area represents expansions and the entry of new companies to the city. Demand should continue to evolve favourably this semester, and Aguirre Newman predicts that 2017 will close with a take-up of around 390.000 m^2.

Residual growth in supply | The increase in stock was residual in the 1st semester, which is currently around 5.967.703 m^2. Since the beginning of the year, only one new building has entered the market (Torre Marina, in the BCN Fira District) measuring 20.800 m^2. This rate is expected to maintain at least until 2019, since no new buildings are due to be completed in this market until then, except for the occasional regeneration of smaller buildings.

485

485.000 m^2 | Available Stock at the end of the 2nd quarter of 2017, 45.000 m^2 less (-9%) than the same quarter last year

8,2%

8.2% Vacancy Rate | After reaching a maximum of more than 14% in 2010, over the last years, this indicator dropped more than five points, with the decrease in available supply reflecting not only healthy take-up levels, but also the lack of new stock entering the market. In certain zones, such as the Passeig de Gràcia / Diagonal axis and in the city centre, the vacancy rate is currently below 3% and 4%, respectively.

22,5

22.5€ /m^2/month | the prime rent in the Barcelona market (Passeig de Gracia / Diagonal axis), at the end of the 1st semester of 2017, representing a 7% growth compared with the same period last year. The upward tendency extended across virtually every market zone.

Rents increase 35% in 4 years | Rents have been evolving positively, on a course sustained by the rise in demand and decrease in available quality supply. Since 2013, when rents reached a record low of 17.7 €/m^2, until the end of the 1st semester of 2017, prime rents (Passeig de Gràcia & Diagonal) have already recovered by approximately 35%, although they have yet to reach the record high of 27€/m^2.

HIGH STREET RETAIL

Benefitting from tourism, Barcelona continues to position itself as one of the principal international destinations for luxury shopping. This, combined with a growing economy and consumption, has driven the performance of high street retail. Proof of this is the rapid rate at which demand for shops has been growing throughout 2017, both for rental and investment product.

27

+ 27% increase in demand for high street shops in Barcelona in the 1st semester of 2017, compared with the same period last year

Prime axes: Passeig de Gràcia, Portl d l'Ángel

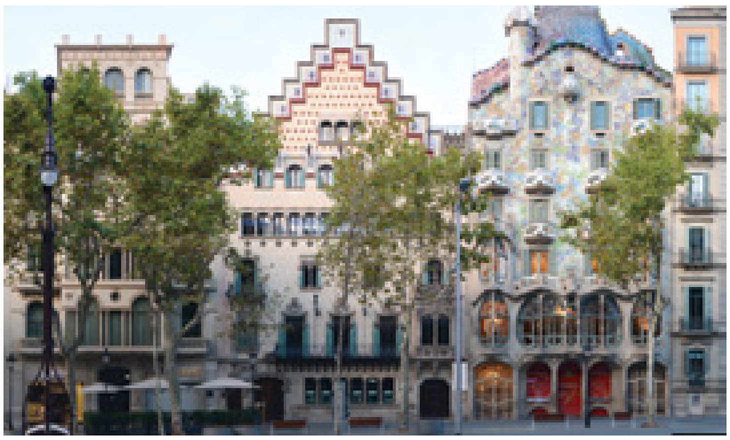
Demand | shops with areas up to 200 m^2 are the product in highest demand on the city's principal retail arteries

Supply | Great demand, both by major international operators keen to find large spaces, and by national operators and small retailers, has led to remarkable take-up levels, currently making it difficult to find vacant quality spaces not only on prime streets, but also in surrounding areas with a heavy footfall

The «*capital*» of municipal markets | Barcelona has the largest network of food / fresh produce markets in Continental Europe. The municipal markets, which total more than 260.941 m^2 in area and 2.442 points of purchase, are today a fundamental element for the city's retail model, given their economic and social relevance for the different neighbourhoods

280

280 €/m^2/month | This is the highest rent for high street retail in the city, practised in the Portal d'Àngel zone. It is followed by Passeig de Gràcia, with average rents around 240 €/m^2 per month



INDUSTRIAL & LOGISTICS

Barcelona's industrial and logistics market closed the semester with a total take-up of 236.000 m², bringing the vacancy rate to a record low: 3.03%.

236 **236.000 m² Take-Up |** 1st semester 2017

486 **486.722 m² under construction |** of which 14% are speculative projects and the remainder are projects with guaranteed occupancy. Only 48.000 m² are due to be completed by September.

2,7% **Annual rent growth until 2021 |** In the first half of 2017, the prime rent remained stable, at approximately 6.75 €/m² month. However, JLL estimates that throughout the next four years, the values practised will increase 2.7% each year.

3,9% **Annual market appreciation of 3.9% until 2021 |** The Barcelona logistics market will be the 3rd to most appreciate in Europe until 2021, and JLL estimates an average annual appreciation of 3.9%

5,75% **Prime Yield (2nd quarter 2017)**

3,03% **Vacancy Rate** reaches a record low at the end of the 2nd quarter

INDUSTRIAL & LOGISTICS RENTS BARCELONA – 1ST SEM 2017

	€/m²/ month	
	Min.	Max.
1st Cluster	5,5	6,75
2nd Cluster	4	5,25
3rd Cluster	2,5	3,75

SOURCE: JLL – Fundamentales Mercado Industrial y Logistica (Q2, 2017)

INVESTMENT

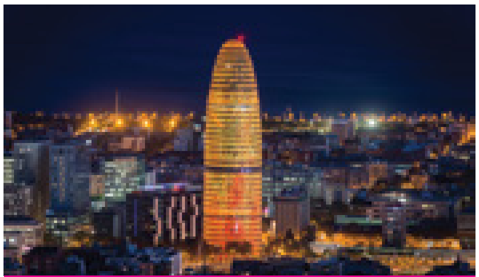
470 million euros | Offices
In the 1st semester, capital markets increased in comparison with the same period last, with 16 investment operations completed in the office segment that totalled an investment volume above 470 million euros. Funds, SOCIMIs and Family offices were the key players in this sector.
The thriving economic environment encouraged investors to take a stand in this market, and this was also reflected in yields. The CBD closed the semester with yields standing at 3.5%, while the New Office Zones display yields between 4.5% and 5%. Forecasts indicate that these rates will remain stable until the end of the year, although the lack of product on the market may still lead to additional compression in some specific assets.

15.6% of investment in hotels | 2016
In 2016, 353 million euros were invested to purchase hotel assets in the city of Barcelona, representing 15.6% of the total volume allocated to this asset class in the country, JLL calculated. And, in comparison with 2015, the total value invested increased 25%.
In summary, last year 15 hotels changed ownership in Barcelona, representing a total of 1.868 rooms. These numbers are significant, and they are even more so when taking into account the moratorium imposed by the municipality that restricts the development or potential conversion of assets into new hotels in the city centre.
Most of the investment in Barcelona in 2016 (51%), represents transactions involving portfolios. Looking at the activity in the last year, the substantial increase in transactions of two-star hotels is also evident which, considering the number of rooms, surpasses the transactions involving three-star hotels.

Investment increases 13% in the 1st semester | Retail
The purchase of retail assets also evolved positively in the 1st semester of the year, with a half-year variation of 13%, according to Forcadell, who also adds that the major investors, namely international investment funds and SOCIMIs, were the leaders in this market.
High street shops are an increasingly attractive product for investors, although the lack of product is currently the biggest challenge faced by those who want to invest their capital in Barcelona's prime high streets. Nonetheless, Forcadell believes that this will not be a barrier to the development of capital markets, estimating that 2017 may close with a greater investment volume than last year.
Yields practised in Barcelona's retail segment continued to compress throughout the 1st semester, which was more evident in prime product due to pressure from investors and the sector's good prospects for the future.

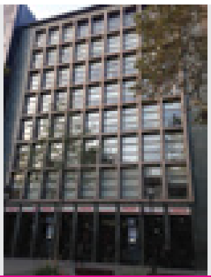
SOURCES: *«Locales Comerciales del primer semestre de 2017 en Barcelona»*, Forcadell; *«Marketbeat Oficinas Barcelona Verano 2017»*, Cushman & Wakefield; *«Informe de Oficinas de Barcelona – 1ºSem 2017»*, Aguirre Newman; JLL – Fundamentales Mercado Industrial y Logistica (T2, 2017); Hotel Investment Analysis in Spain 2016, JLL (June 2017)

TOP DEALS BARCELONA 2017



GLÒRIES TOWER, Barcelona

Date	01/2017
GLA (m²)	37.640 m^2|
Price	€ 142 million
Buyer	Merlin Properties
Seller	Sociedad General de Aguas de Barcelona
Brokers & Advisors	Savills

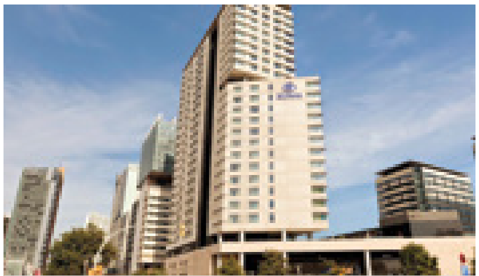


GRACIA 17, BANCO POPULAR HQ, Barcelona

Date	02/2017
GLA (m²)	8.000 m^2
Price	€ 90 million
Buyer	Hines and Universal Investment (on behalf of the Bayerische Versorgungskammer)
Seller	Banco Popular (on behalf of a private fund)
Brokers & Advisors	CBRE

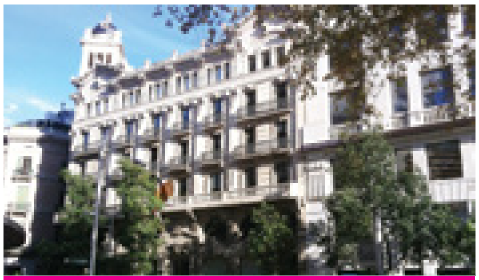
HOTEL SILKEN DIAGONAL, Barcelona

Date	04/2017
Keys	240
Price	€ 80 million
Buyer	Benson Elliot Capital Management, Walton Street Capital and Highgate
Seller	Oak Hill Advisors (on behalf of Bank of America Merrill Lynch)
Brokers & Advisors	----



55% OF THE HOTEL HILTON DIAGONAL, Barcelona

Date	06/2017
Keys	433
Price	€ 80 million
Buyer	AXA Investors Managers – Real Assets
Seller	Iberdrola Inmobiliaria
Brokers & Advisors	Irea Corporate Finance, Ashurst



FONTANELLA 6-8, Barcelona

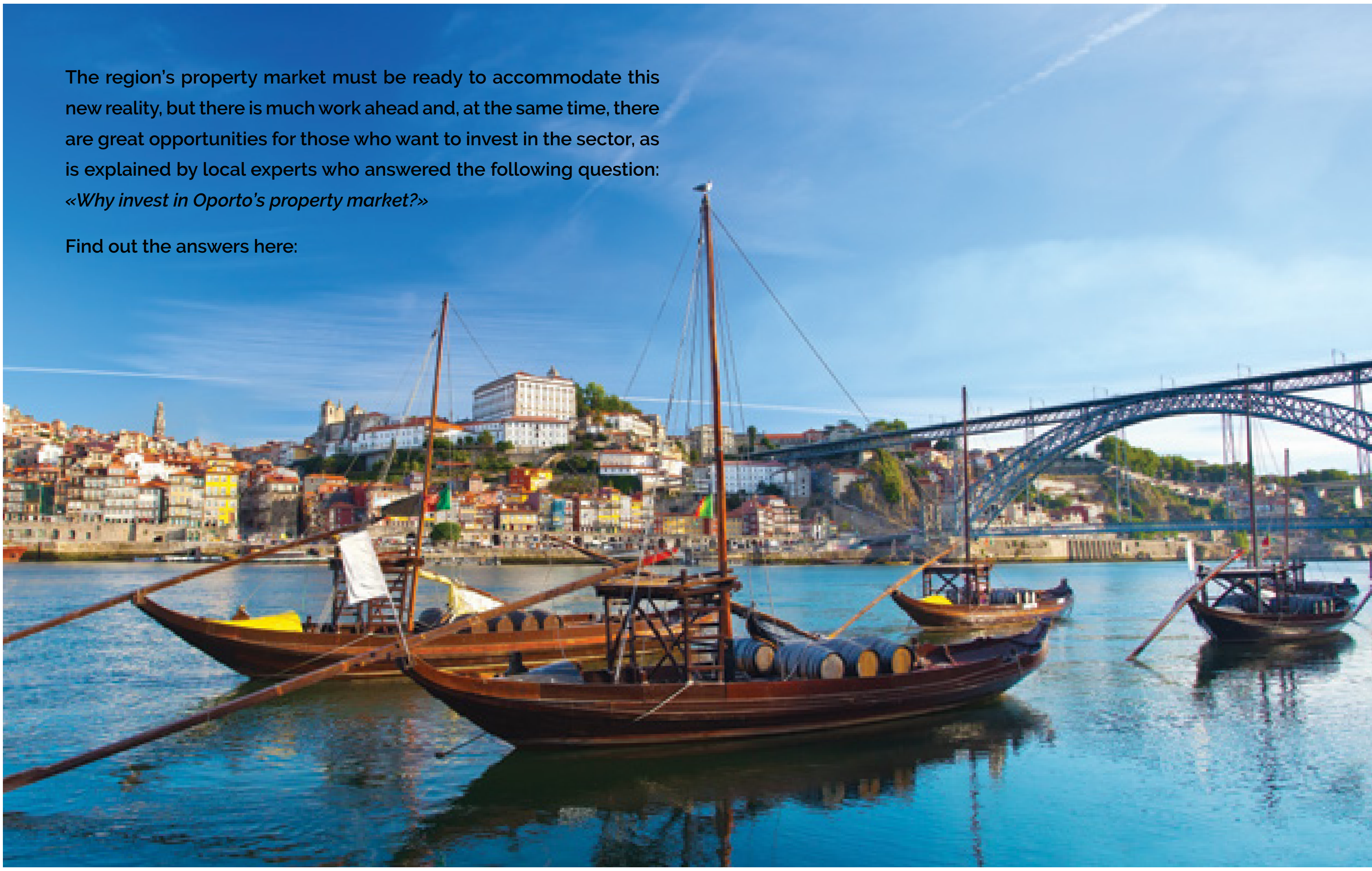
Date	06/2017
GLA (m²)	8.126 m^2
Price	€ 65 million
Buyer	CBRE GI (on behalf of a Korean institutional separate account client)
Seller	Avignon Capital
Brokers & Advisors	Garrigues

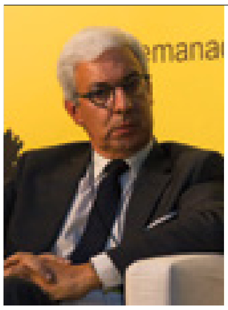
INVESTING IN THE OPORTO PROPERTY MARKET TODAY. WHY?

The second largest Portuguese city, Oporto is currently the focus of renewed international interest, and it is an increasingly popular destination, not only among students and tourists, but also for corporations and services.

The region's property market must be ready to accommodate this new reality, but there is much work ahead and, at the same time, there are great opportunities for those who want to invest in the sector, as is explained by local experts who answered the following question: *«Why invest in Oporto's property market?»*

Find out the answers here:





Rui Ávila
GRUPO FERREIRA
Administrator

The question posed is extremely relevant because the Oporto property market is undergoing profound change. Evidence of this lies, in my opinion, in two facts:

1. Oporto entering foreign markets;
2. Demand in every real estate sector – residential, retail and services.

These two factors make a huge difference and are very reassuring for real estate developers and investors. The first because it finally places us on a much greater stage, with great purchasing power. The second because it creates investment alternatives, slowing down market saturation and diversifying customers and portfolios. This diversification is very attractive to owners of real estate portfolios who can have, in a single investment territory, assets aimed for offices, hotels, retail spaces and even housing under a rental regime.

The reasons why we got here are numerous, but the existence of a quality international airport like Francisco Sá Carneiro and the beautification the city has undergone over the past 15 years, were undeniably a great help. Oporto is well prepared to receive tourists and foreign university students who, seeing a competitive alternative to other destinations that have become saturated and massified, embraced and disseminated our city extensively. In the past five years, hotel developers have had the greatest growth, with increasingly higher rents and lower yields (among the lowest in the country, in some cases 5.0%), along with investors in Local Lodging. The vitality new hotels and Local Lodging brought to the Baixa district drove demand for housing, initially on the Mouzinho da Silveira – Flores axis, now stretching to Sá da Bandeira, Aliados and Cedofeita. Purchase and sale prices doubled in two years, with some offers around 5000 €/m^2, a value that is moderate in the European sphere but unprecedented in Oporto. Where there are people, there is retail, therefore there was an increase in demand for spaces for shops and a subsequent rise in rents.

We must also mention the office segment. There has been much talk about great demand for large spaces, around 2000 m2 to 10 000 m^2, which is not unusual considering the scenario described above. However, that demand is still considerably limited by low prices, which explains why supply stills falls short, in other words, the real estate equation does not impress developers yet. Nonetheless, I believe that equation will inevitably be resolved by a rise in rents of approximately 20%.

To conclude, there is demand for spaces for new hotels, housing, shops and offices in Oporto. That demand has driven prices upwards, both in buildings for regeneration and units that have already been regenerated, as well in market rents. Professional, national and foreign investors are purchasing well leased assets. And there is great anticipation regarding expansion, by approximately 50%, of Sá Carneiro airport, which is driving developers' willingness to invest.

"As we all know, Portugal suffered a grave financial crisis, leading to stagnation of the construction sector which, in turn, disrupted the development of the real estate market.

Seeing signs of the economy's recovery, many developers decided to turn to construction as a way to guarantee buyers a secure investment. At the same time, many foreigners began to emerge with a will to invest in the country through real estate. In Portugal, aside from construction and the labour it employs still being considered cheap, the country presents unique conditions in comparison with the rest of Europe, namely a strategic location, quality of life and, above all, safety.

Oporto is a 'jewel' recently discovered by investors, and which has been growing at an excellent rate. Receiving the distinction of "Best European Destination 2017" by the organisation European Best Destinations brought the city worldwide recognition, while tourism in Oporto has been growing exponentially for a number of years, opening up new investment opportunities. Urban regeneration in the city centre, which is intricately connected to the residential sector, but also retail, hotels and development, displayed robust growth in 2016. The strong potential of tourism and local lodging were factors that contributed to this momentum in transactions.

It is still possible to obtain affordable prices per m^2 in Oporto compared with other similar European cities, and purchasing a real estate asset always represents acquiring a physical asset with a low likelihood of loss, while also offering the possibility of some return."

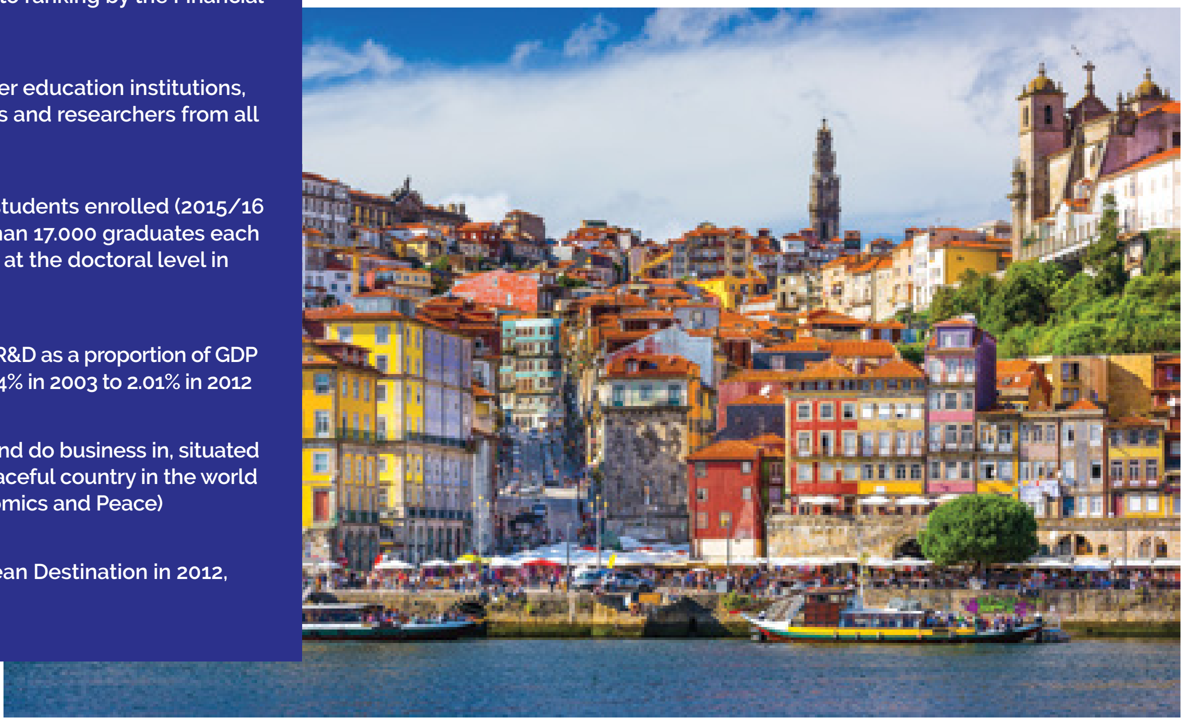
João Nuno Magalhães
PREDIBISA
General Manager

- 2.040 km² (Metropolitan Area), of which 45 km² correspond to the city of Porto
- 1.752 million inhabitants (Metropolitan Area) / 240.000 residents in the city of Porto
- It is the only MEGA (Metropolitan European Growth Areas) in the north-eastern Iberian Peninsula
- 120 minutes from Galicia (Spain) 180 minutes from Lisbon
- 3.8 million consumers within a 90-minute driving distance / 5.5 million within a 120-minute driving distance
- Airport located 11 km from the city centre, with regular flights to approximately 80 destinations, registering about 9.4 million passengers in traffic in 2016.
- National leader in Ro-Ro traffic, the Leixões Port is one of the largest ports operating on the Iberian Peninsula and Atlantic Coast: it handles more that 18 million tons of cargo/ year and represents approximately 20% of Portuguese exports (to 180 countries). The port's new cruise terminal received 84 calls and almost 72.000 passengers in 2016.
- 3rd Best City for investment in Southern Europe according to ranking by the Financial Times (2014/15)
- More than 40 higher education institutions, attracting students and researchers from all over the world
- 72.000 university students enrolled (2015/16 Porto) and more than 17.000 graduates each year (500 of which at the doctoral level in 2014/15)
- The investment in R&D as a proportion of GDP increased from 0.84% in 2003 to 2.01% in 2012
- A safe city to live and do business in, situated in the 5th most peaceful country in the world (Institute for Economics and Peace)
- Voted Best European Destination in 2012, 2014 and 2017

OPORTO: AN INCREASINGLY COMPETITIVE AND INNOVATIVE ECONOMY

The city of Oporto is the principal economic, university and cultural centre of Portugal's northern region, and the central hub in a metropolitan area of significant size on a European scale.

Occupying a central position for the country's competitiveness and internationalisation, Oporto is now beginning to see its «*charms*» discovered by an increasingly large international audience, which is confirmed by the rising indicators of demand for tourism and foreign investment in the city.



OFFICES

Extremely dynamic demand: Greater Porto Area is an increasingly popular destination to set up companies

40

40.000 m² taken up in 2016, and this number is expected to increase in 2017 (Source: CBRE)

1,5

1.5 million m² in stock in the Greater Oporto Area, distributed across 400 projects. Only 13% of the stock is owned by institutional investors, representing little more than 200.000 m² (source: Confidencial Imobiliário - Porto Business Location Plataform (PBLP), Cushman & Wakefield/ Predibisa)

11,8

11.8% - Vacancy Rate 2016 (source: Confidencial Imobiliário - Oporto Business Location Plataform (PBLP), Cushman & Wakefield/ Predibisa)

Leading occupants (2015/16): Natixis Bank (12.000 m²), Blip (5.000 m²), Euronext (3.000 m²), Farfetch (6.000 m²), Webhelp (2.200 m²)

16€/m²/month – prime rent Q1 2017 (source: Cushman & Wakefield)

OPPORTUNITIES & CHALLENGES:

Affirming Oporto as a destination for large multinationals to set up BPO and shared services centres, with an increase in demand for areas measuring 1.000 m² or more

10%

Only 10% of the stock on offer is considered high quality, thereby limiting the immediate satisfaction of more stringent requirements by demand

Prospects: in a near future, the Greater Oporto Area will consolidate its growing attractiveness among the international market of office demand. The increase of supply in quantity and quality will happen, with regeneration as the principal driver. The market's level of professionalism will also increase, as well as its transparency and liquidity, which will give it an even more attractive profile to capture growing institutional investment.

Zone	Average Rent (€/m²/month)
Boavista	12-14
Baixa	8-11
Oriental	8-10
ZEP	10-12
Maia	8-10
Matosinhos	8-10
Vila Nova de Gaia	8-10

SOURCE: Cushman & Wakefield / Predibisa – Q1 2016

RETAIL

HIGH STREET RETAIL:

191

191.000 m² of GLA in stock in the city of Porto's prime locations (Baixa, Clérigos, Boavista & Cedofeita

57,50

Prime rent: 57.50€/m²/month (Rua de Santa Catarina, in the Baixa district), while the average rent varies between 25-30€/m²/month

4.200

Rua de Santa Catarina (Baixa) is the street with the greatest footfall in Portugal: 4.200 people/hour at the busiest period (+20% than in 2007). Source: CBRE

SHOPPING CENTRES:

780

780.000 m² of GLA in stock

+

Increase in supply should remain stagnant over the next years

INDUSTRIAL

3,50

3.50 €/m²/month – prime rent in the Greater Porto Area in Q1 2017 (Source: Cushman & Wakefield)

7,5 %

7.5 % - prime yield in Q1 2017, 0.50 basis points less than in Q1 2016 (7.50%)

Supply: the rate at which new projects are launched remains stagnant, except for some projects that are tailor-made or aimed for owner occupancy

OPPORTUNITIES & CHALLENGES:

Growth potential: due to less investment in the logistics segment in the last decades, demand currently outweighs supply

Low rents: construction of new projects is also financially unviable, mostly due to rents kept at historically low levels

HOTELS in the City of Oporto

Dynamic demand and robust growth

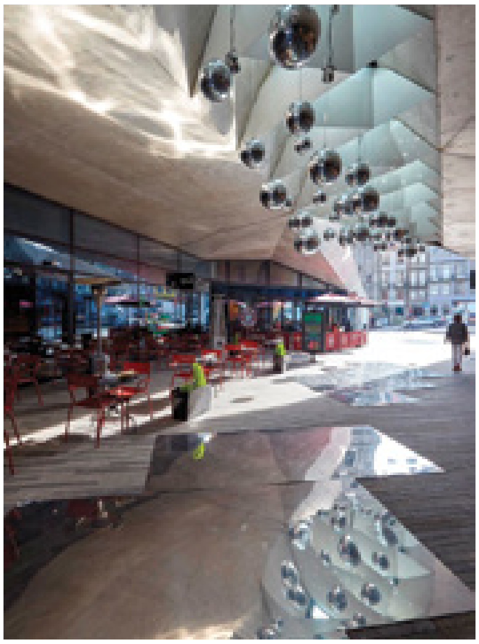
Operational performance is effectively improving, with increases of 16.9% in RevPAR (61€), 4.3% in occupancy (up to 73.7%) and 12.1% in the average room price (82€) in 2016

Supply was expanded by 15 new openings in 2016 (currently at 86). For 2017, at least six new hotel openings are confirmed in the city of Porto which, altogether, add up to approximately 620 new rooms in the four and five star segments. There are also at least ten other units awaiting approval by the municipality.

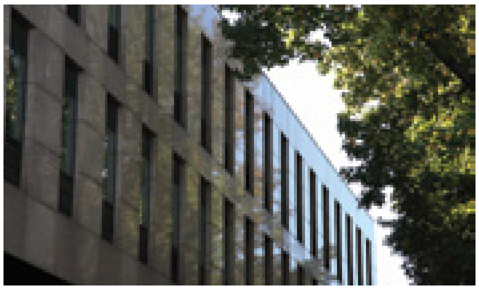
SOURCE: Confidencial Imobiliário - Porto Business Location Plataform, CBRE, Cushman & Wakefield, Predibisa and JLL

Bom Sucesso

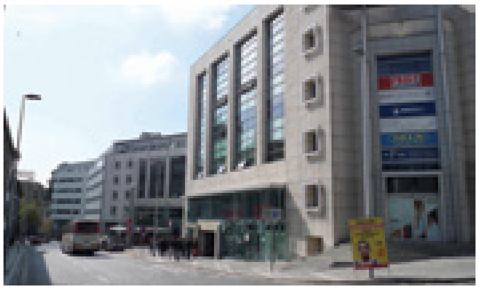
Pestana Douro Hotel



Passeio dos Clérigos, Oporto



Oporto Center

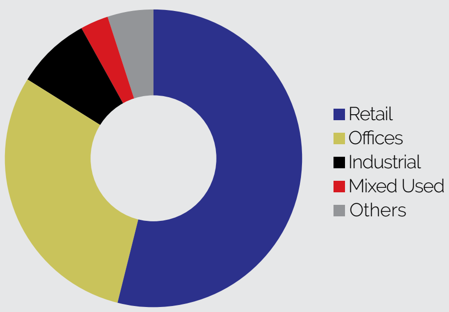


Trindade Domus (©JLL)

INVESTMENT

1 — **1 billion euros** – of institutional investment 2000-2016 (source: Cushman & Wakefield / Predibisa)

INSTITUTIONAL INVESTMENT 2000-2016



> Oporto is the second largest city in Portugal, known as the capital of the North and one of the country's most dynamic and innovative regions

OPORTO & NORTHERN PORTUGAL TOP DEALS 2016/17

ESTAÇÃO VIANA SHOPPING, Viana do Castelo

Date	06/2016
GLA	19.182 m²
Price	€ 50-55 million
Buyer	CBRE GI on behalf of the Iberia Coop Fund
Seller	Sonae Sierra
Brokers & Advisors	Retail Partners Europe, Cushman & Wakefield

VILA DO CONDE OUTLET, Vila do Conde

Date	Q1/2017
GLA	43.700 sqm
Price	€ 130 million
Buyer	Via Outlets
Seller	Neinver
Brokers & Advisors	----

MEDIA MARKT BRAGA, Braga

Date	05/2017
GLA	5.000 m²
Price (million €)	€ 5,7 million
Buyer	ORES Socimi
Seller	TRIUVA Kapitalverwaltungs-gesellschaft
Brokers & Advisors	Cushman & Wakefield

ALGARVE: THE MAIN DESTINATION FOR RESIDENTIAL TOURISM IN PORTUGAL

With an exceptional weather and some of the most beautiful and welcoming beaches in the world along 200 km of coast, Algarve has long positioned as the main Portuguese tourist destination.

- Area: 4,997 km²
- Capital: Faro
- Resident population: 444.390 inhabitants
- Population Density: 90.3 inhab/km²
- Weather: temperate Mediterranean, with more than 3000 sunny hours per year
- Tourism: 18 million nights spent (14.2 from foreigners), over 1.3 million rounds of golf in 2016
- Faro International Airport: more than 7.6 million passengers in 2016

source: INE

Establishing itself as the main economic motor, tourism is responsible for ca. 60% of total employment, and 66% of regional GDP; it also boost one of the property-touristic market more dynamic in the country.

The presence of some of the best European resorts and world class golf-courses has helped to the fact that over the last few years efforts have been made to qualify the offer, seeking to attract clients with greater purchasing power. The region has the largest share of residential tourism stock, integrated in a resort environment at national level.

On the demand side, Algarve has long positioned as the main foreign investment destination regarding property-touristic in Portugal. UK citizens take the lead among foreign buyers, followed by France, Benelux and Scandinavia with regard to the main investing nationalities.

UPTOWN, THE FUTURE HAS COME TO VILAMOURA

The future has come to Vilamoura. Uptown merges commerce, leisure, tourism and residential to create a new centrality in Vilamoura. The destination is supported by nature and will create a new vision of the future for the largest resort in Portugal.

«Uptown is unique and different from everything that already exists in the Algarve. The project provides a base to develop a new form of living in the region», explained the Vilamoura World Administration to Iberian Property

Uptown will be developed near to the west entrance of Vilamoura and aims to create a new destination that mixes both community and village experiences. Residents of Uptown will be able to make all journeys on foot and experience nature in their everyday life. The Vilamoura International School, Equestrian Centre, and Environmental Park are already operating on Uptown's boundaries.

Focusing on its mission as Master Developer, Vilamoura World has already invested heavily in its infrastructure and is now consolidating the architecture and urbanisation components. French architect Jacques Ferrier was chosen from an international architecture contest that took place earlier in 2017.

Construction in 2018

Subject to licensing and approvals, Vilamoura World aims to start construction in 2018. Uptown is expected to launch when the property-touristic demand in Portugal is at its highest, *«Uptown will represent a unique opportunity to investors who wish to capitalise on one of the leading regions of tourism in Portugal»*, states Vilamoura World.

Uptown will be developed in four stages and involves the creation of 190 new units, a hotel, touristic apartments and retail. The residential area of Uptown includes apartments and townhouses, of one to four bedrooms. The innovative architectural approach and landscaping will maximise privacy, while also revealing the site's panoramic beauty.

Large and fresh public spaces will allow residents to live outside, socialise and connect with others while enjoying a range of activities. The Main Square in Uptown, will open onto a lively shopping area that operates throughout the year. Incidentally, investment has already begun, with the opening in 2016 of Chef Olivier's famous *"Praia na Villa"* restaurant, and in 2017 *"Jardim na Villa"*.

Uptown is connected to the 200-hectare Environmental Park, an area which will have a major focus on agriculture, families, and education. The Environmental Park merges the two central zones of Vilamoura, the Marina, and Uptown.

«Uptown sets a new urban vision and defines a fresh tone for Vilamoura»

«Uptown sets a new urban vision and defines a fresh tone for Vilamoura»

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VALENCIA AMONG THE BEST DESTINATIONS TO INVEST IN SOUTHERN EUROPE

Valencia keeps scoring points as one of the most promising investment destinations in Southern Europe, gaining ground as a principal focal point attracting foreign capital to Spain.

One of the main logistics hubs in the Mediterranean, the Valencia Region is strongly industrialised and among Spain's major tourism centres. As such, it is a principal driver of the country's economic growth, while also standing as one of the most prominent destinations for direct foreign investment in Spain.

The capital of the region with the same name, following Madrid and Barcelona, the city of Valencia is one of the principal hubs of direct investment in Spain. In its 2012/13 edition, the ranking *"European Cities and Regions of the Future"*, produced by the FDI division of the Financial Times, placed Valencia in the 4th position of the TOP 10 cities in Southern Europe with the best strategy to promote investment, and 5th in the TOP 10 cities in Southern Europe with the greatest economic potential.

- Autonomous Region, made up of the provinces of Alicante, Castellon and Valencia (where the capital is located, the city of Valencia)
- 23.255 km^2
- 4.953.482 inhabitants, including 667.676 foreign residents (14.5% of all of Spain)
- GDP: 101.604 million euros / Per capita: 20.586 € (2015)
- Trade balance: 7.8 billion euros (4.7% of the GDP in 2015). Exports: 28.6 billion euros (28% of the GDP) / Imports: 23. 8 billion euros (23% of the GDP)
- 4th position in the ranking *"Spain Doing Business 2015"* (World Bank), which classifies autonomous regions according to how easy it is to do business there

HOUSING

Sales (Valencia Region, 2015): 59.605 units (52.644 used / 6.961 new). Source: INE

Stock (Valencia Region, 2015): 3.147.062 units – 1.986.896 primary residences, 655.137 secondary residences and 505.029 unused units (source: INE)

Demand: slow but consistent growth in demand, driven by the improvement in employment and economic prospects, as well as in the demand for investment

Mortgages: 12.248 mortgage loans granted in 2016 in the province of Valencia, +61% compared with 2015, (source INE, CBRE)

Prices: on an upward trend, due to the rise in demand and decline in supply. The average price per transaction in the Valencia Region is around 100.000 euros, and Alicante is the province that displays the highest average value, surpassing 115.000 euros per transaction (Source: CBRE)

Investment: the difficulty to find product for investment at attractive prices in the cities of Madrid and Barcelona has been turning the Valencia Region into one of the most active investment locations in the country, concludes CBRE

RESIDENTIAL TOURISM

Demand: beginning to intensify, with sales growing 19% in the Alicante area and 23% in Valencia last year (source: CBRE)

Sales: demand driven by foreigners is growing rapidly, with the Valencia Region registering more than 27.000 sales to foreigners between 2015 and the first semester of 2016, which represents 30% of the national total

Zones: in the province of Valencia in particular, 15% of the sales completed were to foreigners. The province of Alicante stands out as one of the most active markets in this segment on a national level, both in the number of sales and the predominance of foreign buyers

TOURISM (2015)

40.720 hotel or similar establishments, making up a total offer of 421.886 accommodation units

TOURISM OFFER 2015

	Nº Establishments	Nº Units
Hotels	749	123.503
Hostels	208	6.938
Apartments	38.319	204.190
Camping	123	71.001
Rural Housing	1.031	7.943
Inns	63	3.457
Boarding Houses	227	4.854

SOURCE: Generalitat Valenciana

Representing 30% of the total residential sales to foreigners in Spain, Valencia is the Spanish region to sell the largest number of homes to citizens of foreign countries

SOURCE: Generalitat Valenciana

INDUSTRIAL

Stock: 188.000.000 m² of industrial land distributed across 660 developments

Demand: 130.000 m² allocated in 2016, consolidating Valencia's position as the third principal focus of logistics demand in Spain

Supply: built-up area available for occupancy is increasingly scarce, generating a positive reaction from the development side with the launch of several speculative projects that will inject larger and more sophisticated facilities into the market. One example is the platform constructed by Prologis in Ribarroja (23.472 m²)

Under sale: almost 1 million m² of public land, environmentally friendly and in compliance with the most demanding sustainability requirements, available for industrial use; sold under a land at no cost leasing regime and through the concession of surface rights

8,7

Vacancy rate: 8.7% (Q1 2017, Source. CBRE)

RETAIL

High Street Retail: the number of high street retail operations in the city of Valencia has increased substantially, both for rental and investment

Shopping Centres: 594.500 m² of new GLA in the pipeline until 2019

TREND

Scarce quality supply in prime zones, which has driven demand in alternative locations by logistics operators looking for large spaces

The lack of available quality logistics warehouses has extended to all of Valencia's market segments

PROVINCE	Town	Square metres	Min. plot area	Max. plot area
VALENCIA	Utiel	78.334,93	800	10.454
	Sagunto	888.496 (industrial)	6.500	358.270
		159.530 (tertiary)	15.860	51.781
CASTELLON	Alcalà	136.020	820	5.875
ALICANTE	Tibi	75.609,28	1.018,32	2.339
	Xixona	65.553	900	5.787

SOURCE: Invest in Comunidad Valenciana, Parques Empresariales

INVESTMENT

500

500 million euros – volume invested in the property market in the Valencia Region in 2016 (Source: CBRE)

Origin: most of the capital invested in 2016 was of national origin, but there is a strong presence of foreign capital in the hotel and shopping centre sectors

Profile: private investors and investment funds lead the market in 2016, with 42% and 44% shares, respectively

Demand increases with the number of investors analysing opportunities in the city of Valencia, especially in the high street retail, hotel and residential segments

ANALYSIS PER SEGMENT

Retail: the city of Valencia continues to witness yield compression in the zones in highest demand in the high street segment due to a lack of product on the market and solid demand from investors, particularly local investors. The initial prime yield was around 4% at the end of 2016, a minimum value. The shopping centre sector is the star of the investment market in the region, both among foreign funds and SOCIMIs, with operations completed in 2016 adding up to 246 million euros (156.000 m² of GLA traded).

Offices: the Valencia market continues to awaken investor interest. And, despite registering a low investment volume compared with other major Spanish cities, in 2016 the city attained a new record of capital invested, with more than 20.000 m² traded. The key players are Valencian family offices, and the operations in this segment were both numerous and large scale.

Logistics: due to the lack of available quality product, the volume invested decreased 45% in 2016, with transactions involving 37.000 m² and approximately 15.7 million euros. International investment funds were the most active players in this market, and family offices dominated 40% of the total investment. Yields were between 7.75% and 9% at the end of 2016.

Hotels: demand is growing, and 2016 closed with more than 150 million euros invested in the purchase of assets, portfolios and projects under development.

TOP DEALS 2017, VALENCIA

Portfolio: La Marina shopping center and Llobregat shopping

Date	08/2017
GLA	48.844 m² (35.599 m² + 13.245 m²)
Price	€ 98 million
Buyer	Marathon Asset Management
Seller	Pradera European Retail Fund

EL MANAR RETAIL PARK, Valencia

Date	06/2017
GLA	24.000 m²
Price	€ 40 million
Buyer	Catella and Aberdeen
Seller	Harbert Management Corporation
Brokers & Advisors	CBRE and Eversheds Sutherland, Dentons

HOTEL SELOMER, Benidorm

Date	06/2017
Keys	245
Price	€ 16 million
Buyer	Hispania
Seller	undisclosed
Brokers & Advisors	----

Autonomous Region: Basque Country

Province: Biscay

Total population: 345.474 (2017)

Foreign population: 26.074 (2017)

GDP per capita: 30.890 € (2012)

Registered unemployed: 26.486 (July 2017)

Economic activities: 39.939 (Q2 2017)

Creative industries: 2.473 (2016)

Retail trade: 6.834 (Q2 2017)

Investment in innovation: 280.8 million euros (2015)

Visitors in hotel establishments: 91.325 (July 2017)

Events & conferences: 1.129 (2016)

Average price of new housing (liberalised market): 3.549,2 €/m² (Q2 2017)

Number of buildings: 11.643 (2016)

BILBAO: A GROWING NUMBER OF INVESTORS CHOOSE THE BASQUE CAPITAL

The economic capital of the Basque Country, Bilbao is one of Spain's largest cities and a metropolis that stands out due to its cutting edge infrastructures, thereby attracting an increasing number of foreign investors

On the path to growth, the Basque economy moves approximately 66 billion euros each year and maintains its frank recovery, with 2016 ending with an unemployment rate approximately 30% below the Spanish average and a GDP per capita about 30% above the rest of the country. Geographically, the province of Biscay, where Bilbao is located, carries the greatest weight in the Autonomous Region's accounts, contributing with approximately 33.6 billion euros.

Bilbao, the economic capital of the Basque country, is one of the most modern cities in Spain, and an international success story due to the positive evolution it has been displaying in the last decades; economically, financially, administratively, as well as in terms of services.

With growth prospects for the next years working in the region's favour, the Basque Country's socioeconomic indicators are currently generating solid confidence among real estate investors who, over the past year, have started discovering in Euskadi and, more specifically its capital, an attractive and reliable market.

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The Autonomous Community of the Basque Country

Located in northern Spain, near the border with France, the Basque Country is an Autonomous Community comprised of the provinces of Álava, Gipuzkoa and Biscay. The official capital is the city of Vitoria-Gasteiz.

LOGISTICS

At the heart of a heavily industrialised region, Bilbao maintains its position as one of the core logistics hubs in Spain. And, confirming this, the logistics sector was the greatest driver of the Basque property market over the past year

Demand: displays latent growth, but the logistics activity associated with E-commerce is expected to consolidate and become the main driver of this market in 2017, especially in the metropolitan areas of Bilbao and San Sebastian.

Supply: due to the Basque geography itself and the current stock that exists, at the moment, demand is not being satisfied.

Stock: there are 18 main industrial parks in Biscay, located in seven zones with different characteristics: Puerto Bilbao, Uribe, Metropolitan Bilbao, Airport, Busturialdea, Ecartaciones and Duranguesado. The greatest portion of supply (75%) is concentrated in the zones of Metropolitan Bilbao and the Airport.

Rents: after reaching record lows in 2014, rents maintain the slight upward trend initiated in 2015 in the three Basque capitals and their respective metropolitan areas. In Bilbao, although the highest rent may reach 6.40 €/m², the average rent is around 3.50 €/m². We note that the values for buildings outside the market have been heating up, more a reflection of the lack of product than of its quality.

OFFICES

The overall building stock is quite old and of poor quality, making it unable to satisfy current requirements. Therefore, reinforcing investment to regenerate the building stock is a trend that began in 2016 and should continue to grow over the next months.

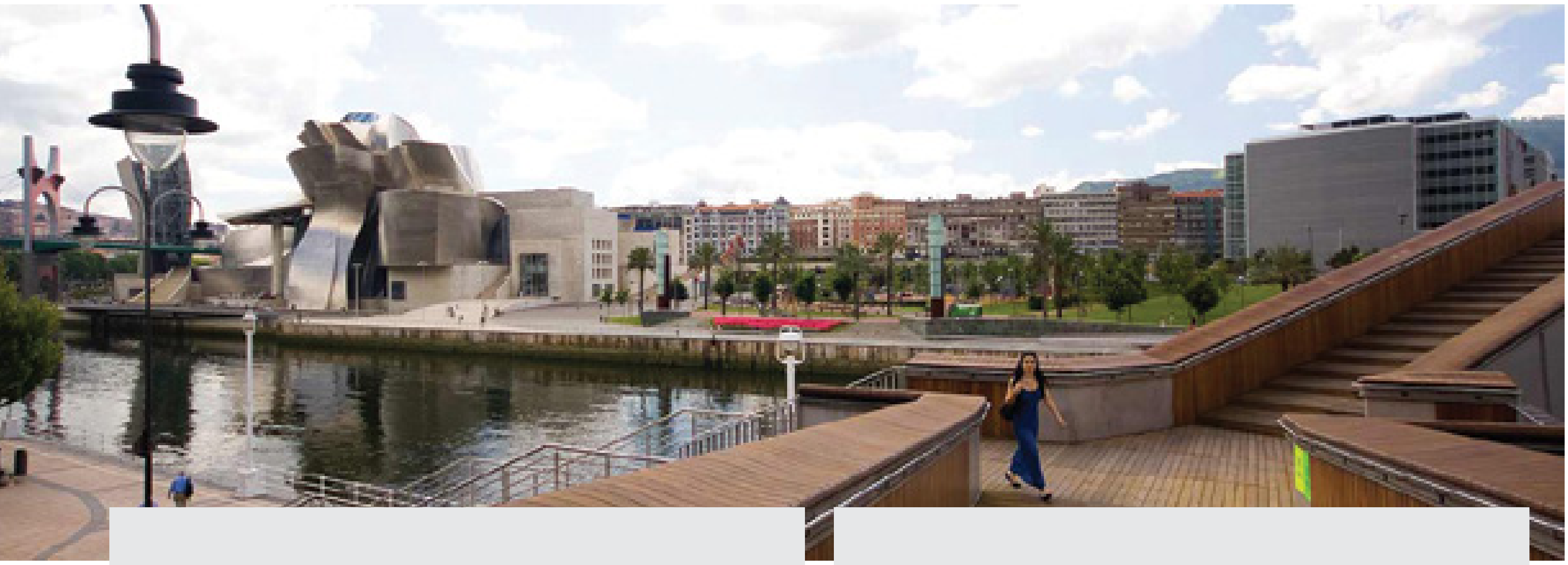
Demand: rising demand and take-up of spaces in 2017.

Supply: 820.000 m² of stock in the metropolitan area of Bilbao, 190.000 m² of which are mixed-use buildings and 630.000 m² are buildings solely for office use (and, of these, 375.000 m² are located in the city centre).

Prices: the movement to adjust rents has ended, and values are expected to start rising throughout 2017.

5.500 m²

The average size of the 25 principal office buildings in Bilbao's city centre, and the average age is 42 years. The average rent practised in this sample is 13.5 €/m² per month, and the vacancy rate is around 12%.



RETAIL

Demand: displays strong growth for spaces in the prime streets of Bilbao and San Sebastian, remaining stable in other secondary cities such as Vitória and Santander. National fashion brands, followed by accessories and specialised retail brands, are the major players in this format.

Supply: in the high street retail format, there are virtually no vacant spaces in Bilbao's prime locations, which is causing new retail hubs to emerge in the surrounding areas, especially in the Gran Via zone, between Plaza Moyúa and Plaza Circular. In the city of San Sebastian, the trend is identical.

Stock: in the case of shopping centres, 54% of the available supply in the Basque Country is in the province of Biscay, which concentrates 13 centres and a total GLA of 394.168 m².

Rents: in the cities of Bilbao and San Sebastian, the average rent for shops up to 300 m² in prime locations is around 120€/m² per month, while in the cities of Pamplona and Vitória, the rents practised are about 45 €/m² and 40€/m², respectively.

RESIDENTIAL

Regarding residential stock for sale, the available supply in the Basque region carries little weight in the national average (2.1%)

Demand: sale and purchase operations maintain the upward tendency initiated in 2014-15. Although this trend extends across the entire Basque territory, in 2016, the most substantial increases took place in Biscay and Gipuzkoa.

Supply: moderate development of new housing in the free market, and the stock launched between 2014 and 2016 represents, on average, only 30% of supply launched between 2001 and 2007. Subsidised housing, of all variants, represents approximately 40% of the total production.

Available stock: around 10.200 units, in line with the national average. Most of these residences are located in Biscay (50%), where the ratio of residences for sale represents only 0.6% of the province's total stock. In the case of Gipuzkoa and Araba, these concentrate 30% and 20% of the residences available for sale in the region, respectively, although they represent only 1.6% of the total stock of each province.

Prices: on an upward course in the purchase and sale market, this tendency is expected to maintain throughout upcoming years, driven by the lack of stock available in the short term, and scarcity of land in the medium and long term.

Rents: in the liberalised market, at the end of 2016, average rents were around 880 €/month in Biscay and 860 €/month in Gipuzkoa, while in the province of Álava, the average rent was about 750€/month.

INVESTMENT

Retail: the solid growth in demand witnessed in the cities of Bilbao and San Sebastian since 2014 led to the current lack of available product in these markets. Due to this, it has been progressively difficult to close deals, which has forced investors to be increasingly creative.

Offices: several transactions were recorded in the last year in the Gran Via-Moyúa and Abando zones, with average sale prices of approximately 3.650 €/m² and 3.100 €/m², respectively. Regarding yields, the downward tendency registered since 2013 (when they were above 6%) should remain in 2017, dropping from 5.5% in 2016 to a minimum value closer to 5% for prime buildings.

Logistics: one of the trends that marked 2016 was the strong investor interest in this sector, especially in the Bilbao area. However, the lack of available prime product seriously limited transactions, which explains the low number of operations. Pressure from investors remains strong this year, which is why CBRE expects a rise in the number of operations with greater yield compression, citing SOCIMIs and international Funds as the main players.

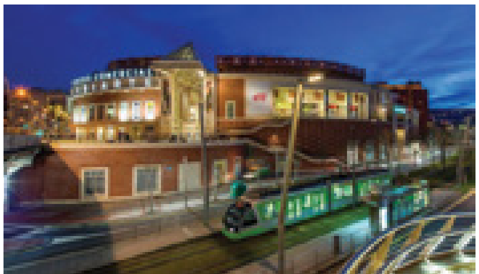
Tourism: throughout recent months, investor interest in Bilbao's hotel market has been gaining momentum, with the completion of some purchase operations involving pre-existing properties to be regenerated into hotels.

sources: Ayuntamiento de Bilbao, Bilbao Turismo, CBRE Market View – Boletin Inmobiliario Bilbao 2017

TOP DEALS 2016/2017

Portfolio Euroski (11 supermarkets + 2 commercial galeries)

Date	02/2016
GLA	----
Price	€ 358 million
Buyer	Invesco Real Estate
Seller	Eroski & Topland
Brokers & Advisors	Savills



ZUBIARTE SHOPPING CENTRE, Bilbao

Date	01/2016
GLA	20.640
Price	€ 30 million
Buyer	Activum SG Capital
Seller	Sierra Fund / CBRE GI
Brokers & Advisors	----

2 RETAIL PARKS: Artea And Galari, Bilbao and Pamplona

Date	04/2017
GLA	8.400 m²
Price	€ 18,7 million
Buyer	ORES Socimi (Bankinter & Sonae Sierra)
Seller	Private RE Investment Fund
Brokers & Advisors:	Savills

MALAGA: THE CAPITAL OF COSTA DEL SOL

Considered the economic capital of Andalusia, Malaga is the destination chosen by an increasing number of investors who recognise boundless real estate opportunities in the region's vast tourism potential

Area:
7.276 km²

Autonomous Region:
Andalusia

Capital:
Malaga

Population:
1.629.298 (2016)

Airport – the third largest international airport in Spain

GDP per capita:
16.210 € (2013)

Residential stock:
897.400 units (2011)

Nº of companies: 119.512, of which 13.745 are in the construction sector and 8.648 in the real estate sector (2017)

SOURCE: INE – Instituto Nacional de Estatistica

Facing the Mediterranean, the city of Malaga and its province are the great economic driver of the Andalusian region, based on the strong momentum of the tourism, agro-foodstuffs, ICT and transport infrastructure sectors.

Populated by 1.641.098 inhabitants, the province of Malaga extends across 7.276 km². The province's capital with the same name houses almost one million people in its metropolitan area, making it the fifth most populated city in Spain. This is also one of the most prominent residential tourism destinations in southern Europe.

Equipped with quality infrastructures, accesses and an exceptional climate, as well as a fast-growing economy, this is a propitious time to invest in Malaga. And this is especially evident in the real estate sector, not only due to an increase in the appetite of foreign investors, but also, and very importantly, to the changes that have taken place in the profile of buyers who turn increasingly towards Malaga as a location to work and live in, and not only as a tourist destination.

HOUSING

Better quality product: higher selectivity in terms of the location of land, a focus on architecture with modern lines and better quality rather than the traditional *«Mediterranean style»* that was popular in the previous cycle, as well as larger average areas. This new paradigm in construction is also resulting in higher prices, targeting a public with greater purchasing power.

New players: a greater presence of local developers financed by international funds, which are risk-averse but seek fast returns and prefer to invest in land that is already developed.

Land: given the lower availability of land in Marbella, the adjacent municipalities of Mijas, Estepona, Benahavis and San Roque have absorbed the largest share of the development activity, accompanied by a rise in land prices.

Demand: in 2016, sales increased 8% in the province, in line with the Andalusia Region but, nonetheless, below the national average. Torremolinos, Fuengirola and Malaga were the municipalities with the greatest increase.

Supply: the amount of new construction and licensed residences continues to rise, and the launch of new projects is expected to grow in upcoming months.

OFFICES

The activity of the office market is concentrated in the capital, Malaga. This sector is expected to undergo a rotation in upcoming years due to projects on the table to convert some buildings located in the historic centre into hotels and tourist apartments.

Demand: around 10.000 m² in 2016, take-up is evolving favourably, driven not only by local businesses, but also by national and international companies (including operators in the technology and call centre segment, for spaces above 1.000 m²). There is also renewed interest from some companies to purchase their premises although, at the moment, this movement is moderate.

Supply: 600.000 m² of stock, concentrated in four zones (Historic Centre, Business District, Periphery and PTA). This number does not include institutional buildings, which represent an additional 300.000 m². There are 100.000 m² in the pipeline exclusively for office use, namely involving expansion of the PTA.

Rents: stabilised. The highest rents are practised in the Historic Centre, more specifically Calle Larios and the surrounding area, where values above 15 €/m² are applied in the best buildings on the Calle. The average rents for reference are between 10 and 14€/m² in the Business District, while in the out-of-town areas (Teatinos, Parques Empresariales & Poligonos Industriales) these vary between 7 and 12€/m².

Cañada Homes, Marbella (@Neinor Homes)

RETAIL

HIGH STREET RETAIL

Demand: remains high, with prime locations in the city of Malaga featuring in the top 5 expansion plans of the principal national and international retailers operating in Spain.

Supply: in the prime zone, namely calle Marqués de Larios, Plaza de la Constitucion, calle Nueva and the beginning of calle Granada, the available supply is insufficient to satisfy demand, especially for spaces above 300 m^2.

Rents: on an upward trajectory, with values practised in the prime zones on a par with some locations in Madrid and Barcelona.

SHOPPING CENTRES:

Demand: recovering, with the average take-up of the portfolio managed by CBRE evolving from 89.6% in 2014 to 93.9% in 2016.

Supply: development of new supply is resuming: in 2016 a new shopping centre was inaugurated in the region, the Nevada – Armilla, injecting 120.000 m^2 of new GLA in Granada; and, until 2019 the new Intu Costa Del Sol will open in Torremolinos, measuring 175.000 m^2 and developed by Intu in partnership with Eurofund. Another opening expected in the next couple of years is the McArthur Glen Designer Outlet Malaga, developed by Sonae Sierra.

HOTELS

In the city of Malaga, the hotel sector has been recording extremely solid indicators and prospects for the future are quite encouraging, given that this is one of the principal tourist destinations in Spain.

Supply: there has been little increase in stock in recent years.

Demand: meanwhile, Malaga has been consolidating its position as a tourist destination, not only due to the increase in tourists for leisure (driven greatly by the municipality's efforts to improve and expand the cultural offer) but also due to the rise in demand in the events and conferences segment.

36%

Performance: in 2016, the number of overnights was 36% higher than those registered in 2011, with the city registering occupancy levels and average room prices above those attained in the previous market peak.

INDUSTRIAL & LOGISTICS

Demand: evolving positively since 2015, demand should continue to increase throughout upcoming months, along with a growth in demand for spaces measuring 5.000 m^2 or more.

Supply: the existing stock is predominantly obsolete and there is a lack of quality warehouses, generating some sites of new development.

Rents: expected to rise over the next years, both for built warehouses and turnkey product, in a momentum sustained by growing demand.

INVESTMENT

Offices: the highest sale prices are in the Historic Centre and Financial District, where they can reach 4.000 €/m^2, although this is just a reference value due to the low number of transactions carried out in this period.

Industrial & Logistics: in the past two years, there has been some interest to invest in logistics in Malaga and Andalusia in general, not only from investment funds and SOCIMIs, but from regular investors as well. However, these seek assets with an extremely specific typology, with more reasonable returns, turning their attention to this region due to the decrease of this type of product in major capitals like Madrid and Barcelona.

Retail: benefitting from the synergies created with the strong tourist movement, retail is one of the preferred products among investors. Over the past months, the rise in tenants with an international profile and subsequent appreciation of spaces they take up, has led some owners to place an increasing amount of assets on the market.

Hotels: the number of transactions involving hotels in the city is beating new records, with 9 deals reported between January 2015 and the first quarter of 2017. A momentum that seems to indicate that international capital is closely following the expansion movements of hotel operators. In 2016 the total hotel investment in the region was € 160 million, with the province increased its investment volume with nearly 3% between 2015 and 2016 and represented more than 7% of the total hotel transaction volume in Spain in 2016. representing 7% of the total investment volume in Spain. The city of Málaga alone represented a hotel investment volume of € 67 million in 2016, through the sales of three hotels (ca. 433 rooms).

SOURCE: CBRE, JLL and Cushman & Wakefield

TOP 3 DEALS IN MÁLAGA 2016/2017

BYBLOS ANDALUZ HOTEL, Mijas

Date	Q3 2016
Keys	135
Price	€ 60 million
Buyer	Ayco Inmobiliaria
Seller	Amstrad
Brokers & Advisors	----

NH MÁLAGA, Málaga

Date	02/2017
Keys	245
Price	€ 41 million
Buyer	Hispania
Seller	NH Hotel Group
Brokers & Advisors	----

430 Touristic Apartments At Valle Romano Golf, Estepona

Date	01/2017
Keys	430
Price	€ 32 million
Buyer	HIG Capital
Seller	Neinor Homes
Brokers & Advisors	The Carlton Group. Deloitte, Pérez-Llorca

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