MARKETBEAT

PORTUGAL ECONOMIC SNAPSHOT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD®
Global Real Estate Solutions

Q1 2009

ECONOMY CONTRACTS IN Q408

After stagnating in the third quarter of 2008, the Portuguese economy contracted by 1.6% in the final quarter of the year. Exports fell by 9.1% and constituted one of the main reasons for the slowdown, although domestic demand was weak too, seeing a 1.8% fall over the same period.

INDUSTRIAL PRODUCTION PLUNGES

As has been the case in many European countries, industrial output in particular has been hit by falling external demand. Industrial output contracted by 19.1% in January 2009 compared with the same month in 2008, and production expectations continue to decline.

CONSUMER SECTOR SHOWING WEAKNESS

At the same time, the consumer sector is rapidly deteriorating. Rising unemployment during the past two quarters has added to already weaker consumer sentiment, and although somewhat volatile in recent months, February saw retail sales fall by 2.5% over February of the previous year.

INFLATION FALLS TO NEW LOWS

Inflation has long since been low compared to the rest of the EU, and this remains the case, with January and February seeing annual inflation of just 0.1%. Consequently, a short period of deflation is becoming increasingly likely.

€2BN STIMULUS PLAN ANNOUNCED

In line with similar moves by other Eurozone governments, Portugal has put together a fiscal stimulus plan to aid struggling sectors of its economy. According to the Portuguese finance minister, however, the government does not require any EU financial assistance, as its banking sector appears stable and there has been little in the way of a real estate boom to create instability, as has been the case in Spain for example.

OUTLOOK

At present, the greatest threat to the Portuguese economy is a continuation of the slowdown in demand seen throughout its key export markets in the Eurozone and Europe. While the government's fiscal stimulus measures are to be welcomed, their short-term impact remains to be seen, and a significant upturn in fortunes is only expected to materialise once conditions improve elsewhere in Europe.

MARKET OUTLOOK

GDP:	Sharp contraction now predicted for 2009	↘
INFLATION:	A brief period of deflation could occur later in 2009	→
INTEREST RATE:	There is little scope for the ECB to lower interest rates further	→
EMPLOYMENT:	Unemployment has started to rise	↘

ECONOMIC SUMMARY

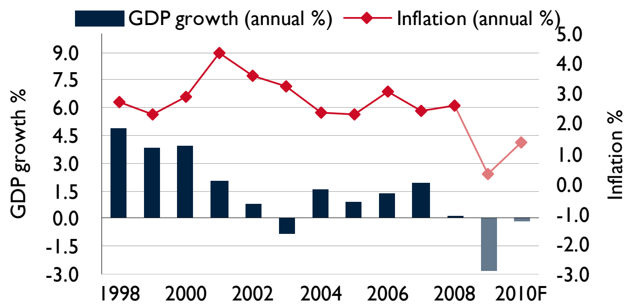
*Economic Indicators**	*2006*	*2007*	*2008[E]*	*2009[F]*	*2010[F]*
GDP Growth	1.3	1.8	0.1	-2.8	-0.2
Unemployment Rate (%)	7.7	8.0	7.4	8.3	8.5
Inflation	3.1	2.4	2.6	0.3	1.4
Consumer Spending	1.2	1.3	1.6	-1.1	-0.4
Investment	-1.6	3.0	-1.1	-9.4	1.1
Industrial Production	2.8	1.9	-3.5	-14.2	-1.0
US$/€ (average)	1.26	1.37	1.46	1.32	1.39
US$/€ (end-period)	1.32	1.46	1.28	1.36	1.40
Interest Rates: 3-month (%)	3.1	4.3	4.6	1.7	1.8
Interest Rates: 10-year (%)	3.9	4.4	4.5	4.1	3.8

**annual % growth rate unless otherwise indicated. [E] estimate [F] forecast*
Source: Consensus Economics Inc., Economist Intelligence Unit

ECONOMIC & POLITICAL BREAKDOWN

Population	10.6 million (2008)
GDP	US$ 244.2 billion (2008)
Public sector balance	-2.4% of GDP (2008)
Parliament	Socialist Party (PS)
President	Aníbal Cavaco Silva
Prime Minister	José Sócrates
Election dates	November 2009 (legislative)

ECONOMIC ACTIVITY



Source: Cushman&Wakefield LLP. 2009

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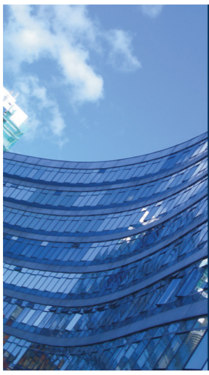

MARKETBEAT

PORTUGAL OFFICE SNAPSHOT

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OVERVIEW

After a relatively strong end in 2008, the first quarter of 2009 has been somewhat more subdued, with take-up down, and low investment activity. Rents have edged down in some locations, and prime yields have continued their outward shift.

OCCUPIER FOCUS

Following a rebound in Q4 08, take-up in the first quarter of 2009 fell sharply, only managing around 60% of the level seen in the first quarter of 2008. On the corporate side, prime CBD locations have been the most heavily penalised, as occupiers in these locations tend to have the greatest exposure to the economic downturn.

Demand for out of town space has been maintained, as firms continue to be attracted by the lower costs and more competitive contract benefits associated with such locations. Occupiers are seeking to renegotiate their existing leases in order to reduce costs.

Supply levels increased moderately over the quarter, although vacancy fell back to 7.9%, after having risen to 8.5% in the previous quarter. Uncertainty surrounding the sector is delaying the construction of speculative projects, with the increase in pipeline seen during Q1 entirely down to a rise in pre-let space.

INVESTMENT FOCUS

Investors continue to focus on offices at the expense of retail assets, but there is still a mismatch between asking prices and offers, and activity remains low. Prime yields have continued their outward shift, reaching 7.25%.

OUTLOOK

With corporate activity expected to focus on downsizing and lease renegotiations as economic conditions worsen, it will be down to the public sector to take up the slack, although the size of deals means that some may take time to come through. Downward pressure on rents will continue, but rent free periods are expected to become more common and longer in length.

MARKET ACTIVITY

CapGemini leased 2,085 sq.m at Colombo Towers, Lisbon Zone 3.

JWT took 1,232 sq.m at Centro Cultural de Belém, Lisbon Zone 7.

MARKET OUTLOOK

PRIME RENTS:	Downward pressure on rents continues	↘
PRIME YIELDS:	Yields expected to move out further during 2009	↗
SUPPLY:	Construction activity continues only where work is already in progress	↘
DEMAND:	Focus is on downsizing and lease renegotiation	→

PRIME OFFICE RENTS – Mar 2009

	Prime Rent € sq.m/mth	€ sq.m/yr	US$ sq.ft/yr	*Compound(p.a) % Growth* 5yr	1yr
Lisbon					
Zone 1	19.50	234	28.9	-0.5	-7.1
Zone 2	17.00	204	25.2	-1.1	-5.6
Zone 6	14.00	168	20.8	-1.4	0.0
Porto					
Av. da Boavista	16.00	192	23.7	-0.6	0.0

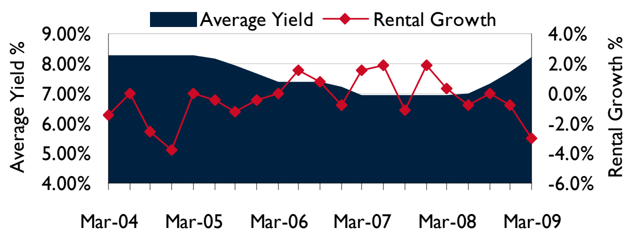
PRIME OFFICE YIELDS – Mar 2009

	Prime Yield (%) Current Quarter	Last Quarter	Last Year	*10 year* High	Low
Lisbon					
Zone 1	7.25	6.50	5.75	8.00	5.75
Zone 2	7.50	6.75	6.00	9.00	6.00
Zone 6	8.25	7.50	6.25	8.50	6.25
Porto					
Av. da Boavista	9.00	8.00	7.00	9.50	7.00

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

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

RECENT PERFORMANCE



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MARKETBEAT

PORTUGAL RETAIL SNAPSHOT

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OVERVIEW

Following a lacklustre year in 2008, the negative trend for retail sales has continued in to 2009. The seasonally adjusted figures for February show that sales were down -4.8% year-on-year, with employment growth in the sector also static and the number of hours worked slightly down. Whilst food sales have held up (+1.4%), sales of non-food were down -9.7% year-on-year.

OCCUPIER FOCUS

The difficult trading environment has led to a drop in leasing activity. Indeed, retailers have gained greater negotiating power in all aspects of leasing, with developers more open to negotiate. Greater retailer caution has led to longer decision-making processes and it is expected that there will be an increased trend towards the sharing of risk between retailers and developers, in some cases with a lower base rent being off-set by a higher turnover component. The level of shopping centre supply remains at a high level following the significant amount of development in recent years. However, the lack of finance has delayed or even cancelled numerous pipeline projects. For schemes which are still coming to the market, there are likely to be more questions as to their viability, with retailers being more careful about choice of location. There is now evidence that secondary schemes are starting to see falling sales which will inevitably impact on their short term performance.

INVESTMENT FOCUS

Investment activity remains well down on the peak of the market, notably as many schemes are under pressure. Nevertheless, good quality and well-located schemes (including retail parks) are still in demand. Conversely, there is little interest in new schemes without a solid track record. Yields remain under pressure. The high street has been less adversely affected in terms of yield shift – the prime yield remained unchanged at 6.50% in March but yields softened in some locations. The prime shopping centre and retail park yields moved out to 6.00% and 7.25% respectively.

OUTLOOK

Short term, the outlook is uncertain. High street is bucking the wider negative trend, with occupiers and investors looking increasingly in-town for opportunities. The financial crisis may yet have a positive impact on the market in terms of acting as a brake on new development, potentially boosting the market once the economic recovery kicks in.

MARKET ACTIVITY

Leasing activity is down and no significant retail investment transactions were reported in Q1.

MARKET OUTLOOK

PRIME RENTS:	Stable for prime assets.	→
PRIME YIELDS:	Still moving out.	↗
SUPPLY:	Over-supply in some areas, although financial crisis may put a brake on development.	↗
DEMAND:	Greater caution, although high street interest is holding up.	↘

PRIME HIGH STREET RETAIL RENTS – Mar 2009

	Prime Rent € sq.m/mth	€ sq.m/yr	US$ sq.ft/yr	Compound (p.a) % Growth 5yr	1yr
Lisbon					
Chiado	85	1,020	126	n/a	13.3
Ave. da Liberdade	75	900	111	-4.6	0.0

PRIME RETAIL WAREHOUSING RENTS – Mar 2009

Portugal	10.00	120	14.8	-1.9	-16.7

PRIME HIGH STREET RETAIL YIELDS – Mar 2009

	Prime Yield (%) Current Quarter	Last Quarter	Last Year	10 Year High	Low
Lisbon					
Chiado*	6.50	6.50	6.00	7.00	6.00
Ave. da Liberdade	6.75	6.50	6.00	7.50	6.00

NOTES:
* 6 year record

PRIME RETAIL WAREHOUSING YIELDS – Mar 2009

Portugal	7.25	6.75	5.75	7.50	5.75

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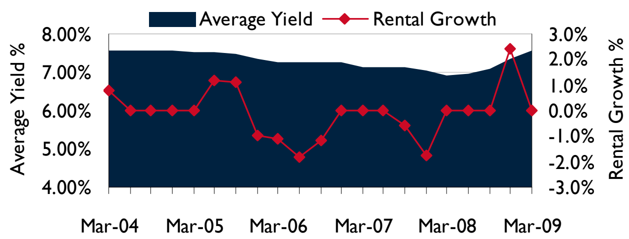

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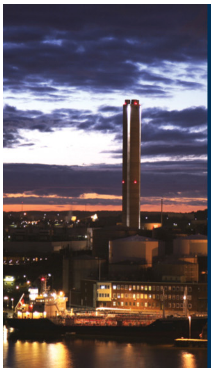

MARKETBEAT

PORTUGAL INDUSTRIAL SNAPSHOT

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OVERVIEW

The Portuguese industrial market has shown little change over the first quarter of 2009, however, greater levels of caution are now evident. Moderate activity has prevented rents from falling, although lease terms are becoming more competitive.

OCCUPIER FOCUS

The weakness in the Portuguese economy is having a detrimental effect on confidence in the market, both as a result of concerns about domestic businesses such as retailing, as well as the export-focussed manufacturing businesses, which are suffering from a fall in external demand. Demand remains insufficient for the amount of space on offer, and deals take longer to close.

Following delays to a number of openings and the postponement of some expansion programmes, the supply side has begun to see a moderate readjustment. Nevertheless, some construction activity is still going ahead, such as the Abertis Logistics Park in Castanheira do Ribatejo (the first buildings should be completed in early 2010) and the Poceirão scheme which is expected to go ahead next year.

INVESTMENT FOCUS

The investment market has remained difficult, as the constraints on financing as well as the worsening economic sentiment have taken their toll. Yields moved out further over the first quarter of 2009 in both Lisbon and Porto, although in both cases the rate of outward movement was less significant than in the previous quarter. Prime logistic opportunities still attract demand, but only for contracts of at least 10 to 15 years in length.

OUTLOOK

The year is set to become tougher as the economic environment remains unhelpful. Having held stable so far, rents are coming under increasing pressure, and may fall later in the year. Countering this however, is a relatively tight supply with little in the way of new construction expected in the short and medium term.

MARKET ACTIVITY

Euro-Yser - Produtos Químicos has taken 3,100 sq m in Aveiro.

Santa Casa da Misericórdia de Lisboa has taken 3,500 sq m at Prior Velho, Loures, in Lisbon's Zone 3.

MARKET OUTLOOK

PRIME RENTS:	Stable, but coming under increasing downward pressure	➔
PRIME YIELDS:	Stabilising, but may still see some further outward movement	➔
SUPPLY:	Tightening somewhat as construction slows	➔
DEMAND:	Weak, as Portuguese economy suffers	➔

PRIME INDUSTRIAL RENTS – Mar 2009

	Prime Rent			*Compound(p.a) % Growth*	
	€ sq.m/mth	*€ sq.m/yr*	*US$ sq.ft/yr*	*5yr*	*1yr*
Lisbon	4.00	48.0	5.93	-2.3	-11.1
Porto	3.50	42.0	5.19	-2.6	-6.7

PRIME INDUSTRIAL YIELDS – Mar 2009

	Prime Yield (%)				
	Current Quarter	*Last Quarter*	*Last Year*	*10 year High*	*10 year Low*
Lisbon	8.25	8.00	7.00	9.50	7.00
Porto	8.50	8.00	7.25	10.00	7.25

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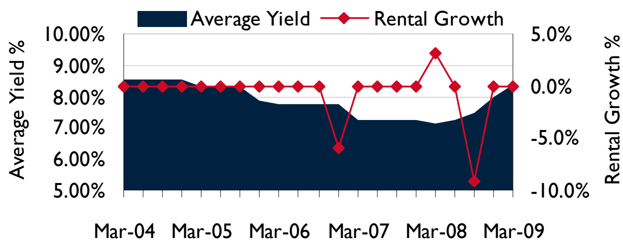

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