A turnaround for Portuguese real estate
Preface

We are grateful to the participants who, over the past year, have been proactively contributing with their knowledge and experience in the real estate industry, for the great success of the Portuguese Real Estate Investment Survey.

Proving the quality, potential, effort and dedication of the professionals who work daily in this sector, this 4th edition closes an optimistic period for real estate in Portugal.

In this way, we maintain the ambition of continuing to provide a tool for the understanding of the sector's dynamics over 2018, with the acknowledge that the dedication of the participants was and will continue to be the reason for this initiative's success.

We are at your entire disposal to discuss any relevant question.

Carefully,

Jorge Marrão

Jorge Sousa Marrão
Partner
Real Estate Leader
Main conclusions
Overall, respondents aim to focus in investment or portfolio management strategies in opposition to divestment strategies.

Value added investments (44%) are perceived as the preferred investment strategy by respondents, with a more optimistic fundraising perception when it comes to finance acquisitions.

Banks (50%) stand out as the main business feeders of real estate acquisitions, as capital sources will mainly arise from Europe (69%).

Regarding divestment strategy, respondents are more keen in selling "Core" assets (50%). Respondents perceives a greater difficulty in attracting investors for assets acquisition.

Sovereign Funds (50%) are identified as the main real estate buyers in Portugal. Capital sources mainly arises from Europe (80%).

Regarding to the Portuguese real estate market, there is a perception of an increase in the volume and sales price for residential, retail/services and hotel sectors, and a greater stability of profitability rates.
## Portuguese Real Estate Investment Survey – 4th Q 2017
### Comparative analysis

#### 3rd Quarter
- **"Value added" investments are the most representative**: 69%
- **44% of the respondents invest in "Core" assets**: 44%
- **Banks and Sovereign funds are the main business feeders**: 38%
- **Capital arising from Europe**: 75%

#### 4th Quarter
- **"Value added" investments are the most representative**: 44%
- **31% of the respondents invest in "Core" assets**: 31%
- **Banks are the main business feeders**: 50%
- **Capital arising from Europe**: 69%

#### 3rd Quarter
- **Disposal of "Core" assets**: 50%
- **Divestment in "Opportunistic deals" represents only 29%**: 29%
- **Funds of Funds are the main real state purchasers, with Insurance companies (43%) becoming more relevant**: 50%
- **Capital arising from Europe**: 86%

#### 4th Quarter
- **Disposal of "Core" assets**: 50%
- **Divestment in "Opportunistic deals" represents only 20%**: 20%
- **Sovereign Funds are the main real state purchasers**: 50%
- **Capital arising from Europe**: 80%

### Investment Policy
- **69%**
- **44%**
- **31%**
- **50%**

### Divestment Policy
- **50%**
- **29%**
- **50%**
- **86%**

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**Real Estate strategy for 2017**

Compared to the 3rd quarter of 2017, divestment strategy lost its representativeness for the benefit of investment and portfolio management strategies.

**Portuguese real estate market**

Respondents maintain the perception of an increase in the volume and sales price for residential, retail/services and hotel sectors, related to a greater stability in the profitability rates.

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Introduction
Type of organization that respondents represent

Real Estate Asset Management Companies and Corporate Companies represent together 72% of the respondents.
For 2017, the preferred strategy option was the investment (36%) and portfolio management (36%)
Investment strategy
In the future, respondents foresee that the most favourable strategy is the investment in Value Added assets.

Core assets tend to lose their representativeness matching up the Opportunistic deals (25%).

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Current</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added</td>
<td>31%</td>
<td>44%</td>
</tr>
<tr>
<td>Opportunistic deals</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Core</td>
<td>31%</td>
<td>25%</td>
</tr>
</tbody>
</table>

(1) Multiple choice question
For the next year, Banks (50%) will be the main funders. Funds’ allocation is predominantly European (69%).

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>50%</td>
</tr>
<tr>
<td>Sovereign funds</td>
<td>25%</td>
</tr>
<tr>
<td>Fund of funds</td>
<td>19%</td>
</tr>
<tr>
<td>Pension funds</td>
<td>13%</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>9%</td>
</tr>
</tbody>
</table>

Legend: Each icon represents 10%
Fundraising perception for the next 12 months is considerable optimistic in the last 12 months and for the next 12 months.

<table>
<thead>
<tr>
<th></th>
<th>Last 12 months</th>
<th>Next 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficult</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Neutral</td>
<td>27%</td>
<td>36%</td>
</tr>
<tr>
<td>Easy</td>
<td>64%</td>
<td>55%</td>
</tr>
</tbody>
</table>
Size of funds and length of process are the most relevant factors affecting fundraising.

- **Size of funds**: 18% Very significant, 64% Significant, 18% Low
- **Range of investors**: 27% Very significant, 27% Significant, 46% Low, 0% Meaningless
- **Length of process**: 9% Very significant, 45% Significant, 36% Low, 10% Meaningless

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The majority of the respondents considered that AIFMD, FATCA and EMIR will have a low impact on their Organizations.

(1) AIFMD: Alternative Investments Fund Managers Directive; (2) FATCA: Foreign Account Tax Compliance Act; (3) EMIR: European Market Infrastructure Regulation.
Portuguese Real Estate Investment Survey – 4th Q 2017
Length of the real estate assets’ acquisition process

In general, real estate assets’ acquisition process takes from 3 to 6 months.
Divestment strategy
In the present and in the future, divestment strategy in Core assets will be the greatest focus of the organizations.

(1) Multiple choice question
For the next year, Sovereign Funds represent 50% of the main real estate investors/buyers for entities seeking to divest.

Europe with 80%, will be the main real estate investment player, followed by Asia with 70%.

Legend:
- Each icon represents 10%

(1) Multiple choice question.
For the next 12 months, with regard to fundraising for asset’s acquisition, respondents perceive a greater difficulty.
Level of impact of different factors affecting fundraising

The size of funds, range of investors and length of process are the most relevant factors affecting fundraising.

- **Size of funds**
  - 20% Very significant
  - 60% Significant
  - 10% Low
  - 10% Meaningless

- **Range of investors**
  - 0% Very significant
  - 70% Significant
  - 10% Meaningless
  - 20% Low

- **Length of process**
  - 0% Very significant
  - 60% Significant
  - 30% Low
  - 10% Meaningless
AIFMD, FATCA and EMIR will, in general, have a low impact in the divestment of the organizations.

(1) AIFMD: Alternative Investments Fund Managers Directive; (2) FATCA: Foreign Account Tax Compliance Act; (3) EMIR: European Market Infrastructure Regulation.
In general, the real estate assets’ selling process takes from 3 to 6 months.

- 70% From 3 to 6 months
- 30% From 6 to 12 months
Real estate valuations
The most used valuation method for land and other uses is the DCF.

(1) Multiple choice question
According to the respondents, the assets valuations assigned by the external evaluators are in general, in line providing the fair value of the assets (40%) or slightly underestimated (30%).
Real estate market in Portugal
Real estate sector dynamics

For the next 3 months, it is expected an increase of the volume and sales price for residential (80%), retail/services (100%) and hotel sectors (90%).
Real Estate sector dynamics

Profitability of real estate assets for the next 3 months

It is also expected that profitability rates remain steady over the next 3 months in the retail/services, industrial and hotel sectors.

In the residential sector is expected a stagnation or a slightly decrease of rates.
Impact of several variables in the Real Estate sector

For the next 3 months, the respondents consider that supply and foreign investment will have a positive impact in the real estate sector.
Portuguese Real Estate Investment Survey – 4th Q 2017

Technical Note

The Portuguese Real Estate Investment Survey’s main goal is to assess:

• The perception of the real estate market evolution by the involved parties; and
• Understand which is the current and future strategy of the organizations.

The survey was sent to a Selected Panel of Participants on 4th December, the answers were obtained on 19th December, and were subject to analysis.

In case of doubt, some additional information or any clarification, please contact:

Jorge Sousa Marrão
Partner
Tlm.: +(351) 963 902 674
Tel.: +(351) 210 422 503
jmarrao@deloitte.pt

Inês Cintra Costa
Manager
Tlm.: +(351) 962 103 923
Tel.: +(351) 210 427 515
incosta@deloitte.pt