

General Indicators

2009 vs. 2008

Nr. of Licenses (Year)	↓
Interest Rates(Dec.)	↓
Value of Bank Valuation On Housing (Q4)	↑

Lisbon Indicators

Housing supply (Dec-09 vs. Dec-08)	↑
Average asking Price (€/sq m)	2,500
Average prime asking price (€/sq m)	4,300

Porto Indicators

Housing supply (Dec-09 vs. Dec-08)	↑
Average asking price (€/sq m)	1,700
Average prime asking price (€/sq m ²)	3,500

Trends

- The present crisis of sovereign debt is not only affecting the loan conditions of the banks, a mechanism essential for the functioning of the economy and for the development of a sustained growth, but is also considerably reducing the purchasing capacity of the Portuguese, due to the Austerity Measures imposed by the Government. This scenario has led to an anticipated significant decrease in the acquisition of first residences aggravated by the increasingly limited access to bank financing.

SUMMARY

• Access to bank financing increasingly limited

Despite the economy showing signs of recovery during the second half of 2009 and beginning of 2010, the recent instability in Portuguese public finances has again led to restrictions in the access to bank financing, including diminishing loan to value ratios, increasing bank margins (spread) and the application of rigorous risk and valuation analysis criterions.

• New Urban Regeneration Law may bring good opportunities for Developers in the Property Sector

The New Urban Regeneration Law has various fragilities, with special reference to the excessive dependency on the goodwill and actions of the municipalities and the lack of compatibility with the urban lease law. However, companies in the property sector, especially those that are able to establish good partnerships with the municipalities that will undertake future regeneration, may benefit considerably from this new legal regime.

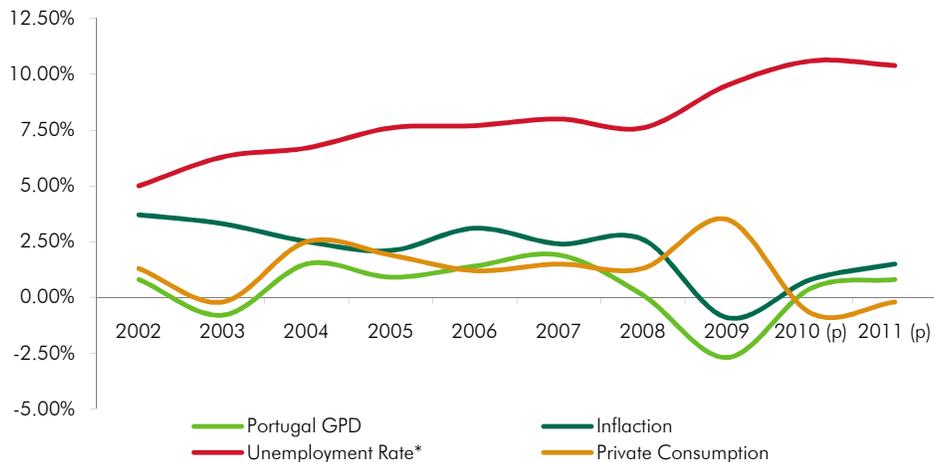
• Lease Market more active

Despite the fact that interest rates stand at historically low levels, the increase in restrictions on bank financing, together with the ever increasing mobility by families, have been contributing to the resurgence of the leasing market, a traditionally secondary market in Portugal. The current economic conditions have led to an increase in the number of leases, further strengthened by government incentives, but, however, these measures have proved to be insufficient.

• Residential Construction Sector continues to slow

The surplus residential supply witnessed in the 90's led to a slowing in housing development activity, which has worsened over the last few years. Consequently, there has been a significant decrease in the number of housing licenses granted, with a 43% drop between 2008 and 2009.

Key Economic Indicators



*% of active population%
Source: CB Richard Ellis

LEGAL & FISCAL CONTEXT

Property Taxation

IMI (Annual Municipal Tax)
<p>Rates:</p> <ul style="list-style-type: none"> • 0.2% - 0.4% of the re-valued fiscal value or; 0.4% - 0.7% of the valued property fiscal value according to the previous regime (annual tax payment). Properties which values are less than 157,500 € and between 157,500 € and 236,250 € are exempt for 8 and 4 year periods, respectively. • The rates double annually for property vacant for more than a year; and triple for property in ruins. <p>Exemptions:</p> <ul style="list-style-type: none"> • Property classified to be of national, public or municipal interest are also exempt; amongst others.
IMT (Property Transfer Tax)
<p>Rates:</p> <ul style="list-style-type: none"> • 6% of the highest value between the notary deed value and the property fiscal value (VPT). • Tax reduction for property values between 90,418 € and 561,960 €, and IMT exemption for property values lower than 90,418 € (payment to be made on signature of notary deed). <p>Exemptions:</p> <ul style="list-style-type: none"> • Buildings up for resale, classified to be of national, public or municipal interest; amongst others.
Capital Gains of Property Sales
<ul style="list-style-type: none"> • 50% of a property sale capital gains is taxed according to IRS – Income Tax. • Capital gains obtained from property sale are exempt, as long as the capital gains in question are reinvested in the acquisition of another property exclusively for personal ownership and permanent living, with a maximum deadline of 36 months; or if the sales value of the property is used to pay for a property acquired within the previous 24 months.

Source: Ministry of Finance; CB Richard Ellis

Urban Regeneration

In co-operation with Garrigues Law Firm

The New Urban Regeneration Law came into force on the 22nd December 2009. This legislation was presented by the former Government as a fundamental instrument for city and residential policies, with its aim of revitalising the cities, in particular the more degraded areas, as well as the regeneration of the residential areas.

According to the *Federação Portuguesa da Indústria de Construção e Obras Públicas* (Portuguese Construction Industry and Public Works Federation), there are presently 800 thousand residential properties in Portugal in an advance stage of poor conservation, of which 114 thousand are in ruins. However, according to a study on the Regeneration Market, published by the ACEOPS, Portugal is one of the European countries where urban regeneration represents a lesser weight, with 9.6%, while the European average is of 23%. Furthermore, this indicator drops to 6.2% when considering residential constructions only.

This data, together with the high volume of new construction, witnessed during the 90's, have, in the past years, led to increased efforts by public and private entities to create conditions that allow for urban regeneration, but, effectively, Portugal still has a long way to go in this respect.

This legislation was long awaited by the operators in the property sector, hoping that this would establish the necessary measures to overcome the difficulties felt up until now related to urban regeneration, in particular with regards to the time consuming licensing process and lease law.

The New Urban Regeneration Law covers a wide scope and is better structured than the previous regime, it confers more powers to the municipalities, (and, in general, to the managing companies active in the urban regeneration areas), establishes licensing solutions for urban regeneration, promotes a vaster and better articulation between the public and the private, valuing public-private partnership solutions, and organises a conjunction of instruments of urban policies, namely forced leases, expropriation and the forced sale (highly contested by the landlords), which will certainly contribute (eventually with a few hindrances) towards the effective undertaking of urban regeneration. The regime also establishes the possibility of the future creation of a series of financing mechanisms, which, if completed by the fiscal incentives available for urban regeneration, will undoubtedly constitute a motivating factor for undertaking urban regeneration operations.

Urban Regeneration (Continued)

Within this scope, the Government foresees in the Budgetary Law 2010 Report, the implementation of the Urban Regeneration Support Program for 2010-2015 with financial support from the State for the regeneration works on residential properties that meet the following conditions: leased property for the purpose of phased update of rents; Vacant property for lease; Property occupied by low-income families; Youth Residences leases. However, these measures have not yet been implemented.

Despite all the efforts, there are still obstacles preventing the development of regeneration activities. On the one side stand the high costs of regeneration works and the continued delay in the licensing processes, as opposed to new constructions. On the other side are the urban leases, which legislation has led to the degradation of many buildings and restricted owners, who continue to face great difficulties in terminating or even suspending old lease law contracts in order to carry out regeneration works.

Notwithstanding the above, property sector companies may effectively come to benefit from this new legal regime, especially if there are able to establish good partnerships with the municipalities that will develop regeneration activities.

FISCAL INCENTIVES FOR URBAN REGENERATION	
TAX	INCENTIVE
IMI (Annual Municipal Tax)	<ul style="list-style-type: none"> Exempt from IMI for a five year period counting from the year (inclusive) of completion of the refurbishment of urban buildings, that may renewable for an additional five year period (*)
IMT (Property Transfer Tax)	<ul style="list-style-type: none"> Exempt from IMT in the acquisition of urban property or an autonomous unit, destined exclusively for personal ownership and permanent residential use, during the first onerous transmission of the refurbished building, when located in an "urban regeneration area" (*)
VAT	<ul style="list-style-type: none"> Subject to reduced rate (6 % (**)) for the construction works destined for urban regeneration.
IRS (Income Tax)	<ul style="list-style-type: none"> Subject to a rate of 5% of the capital gains and property income obtained by residents, resulting from the alienation/leasing of refurbished property within an "urban regeneration area", without prejudice to the possibility of opting for aggregated taxation (*); Subject to a rate of 10% of the positive result between the capital gains and capital losses resulting from the alienation of Property Fund units that operate in conformity with the Portuguese legislation, as long as these have been incorporated between 1st January 2008 and 31st December 2012, and at least 75% of its assets are comprised by property assets subject to refurbishment activities in an area of urban regeneration, with regards to the capital gains obtained (i) by residents, outside the scope of commercial, industrial or agricultural activities that do not opt for aggregated taxation (ii) or by non-residents (*); Tax credit up to a maximum of 500 €, of 30% of the charges supported by the owners related to regeneration (*).
IRC (Corporate Income Tax)	<ul style="list-style-type: none"> Exemption from IRC for any income of any nature resulting from the above mentioned Property Funds (*).
IRC/IRS	<ul style="list-style-type: none"> The income related to the participation units of the above mentioned Property Funds, is as a rule, subject to withholding tax at the rate of 10% (definitive if obtained by residents outside the scope of commercial, industrial or agricultural activities that do not opt for aggregated taxation or by non-residents (*)); When the titleholders of this income aggregate the income that they have been attributed, these are entitled to deduct 50% of the income relative to the dividends (*).

(*) Only applicable to property object of regeneration initiated after 1st January 2008 and works completed by the 31st December 2020. The regeneration works that fulfil at least one of the following conditions fall within the scope of these incentives: (i) urban buildings leased and subject to phased indexation of rents pursuant to the terms of article 27 and the subsequent articles of the NRAU (New Urban Lease Law) or (ii) urban buildings located in "urban regeneration areas".

(**) Rate in force from 1st July 2010.

Source: Garrigues

LEASE MARKET

Despite the fact that interest rates stand at historically low levels, the increase in restrictions on bank financing, together with the ever increasing mobility by families, have been contributing to the resurgence of the leasing market, a traditionally secondary market in Portugal. The current economic conditions have led to an increase in the number of leases, further strengthened by government incentives, but, however, these measures have proved to be insufficient.

In order to support the youth in residential leases, the **Porta 65 Jovem** Program was created in 2007, contributing towards the monthly rent with a percentage as a monthly subsidy. Currently, the maximum monthly rent subsidy ranges between 514 €/month and 771 €/month in Lisbon and between 412 €/month and 669 €/month in Porto (pursuant to the number of rooms in the house in question). The program has new rules that were approved in January of this year, widening the scope of youths benefiting from this program.

With regards to residential policies, the 2010 Budgetary Law aims to maintain the urban lease incentives created in 2009, namely through the policy of the creation of property investment funds and companies for Residential Leases and of incentives for property regeneration. However, in contrast the Budgetary Law 2010 Report foresees a reduction of 16.7% for subsidies and compensatory indemnities relative to Urban and Residential Leases.

KEY MARKET INDICATORS

The residential market has been one of the sectors most affected by the crisis which Portugal and the world have faced. The recent scenario of instability of the Portuguese public finances has resulted in a drop in the rating, creating difficulties for Portuguese banks to obtain financing from international banking institutions.

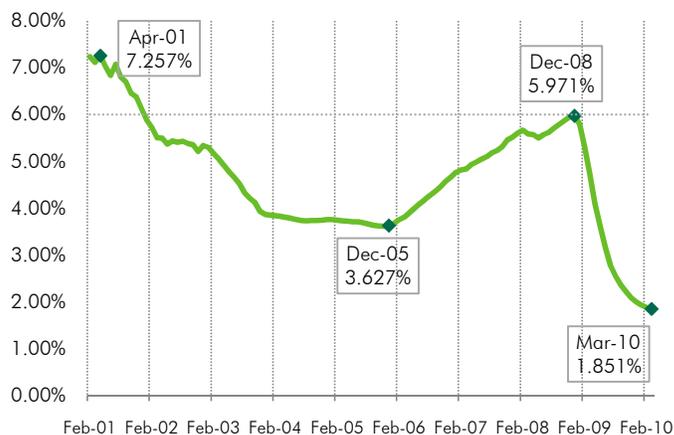
Therefore, and despite the fact that interest rates stand at historically low levels, the restrictions on bank financing are increasingly higher - including rigorous risk and valuation analysis criteria, diminishing loan to value ratios, and the increasing bank margins (spread). This scenario has been having a greater impact on the residential real estate market, due to the fact that the Portuguese market has historically been strongly orientated towards owner occupation.

However, an analysis of **implicit interest rate on mortgage** reveals a consecutive drop in this indicator since December 2008, at which time it reached its highest value since 2002, standing at 5.971%. In March 2010 this rate was of 1.851% representing a drop of over 2/3 of the respective value.

When analysing the quarterly evolution of the average **bank valuation value on housing** we can verify that, in Portugal, this indicator registered successive decreases during 2008 and the beginning of 2009, as a direct consequence of the international financial crisis during this period. At the end of last year this situated inverted, and increases in excess of 3% were registered during the 4th quarter of 2009 and in the first quarter of 2010 when compared to the same period of the year before (?).

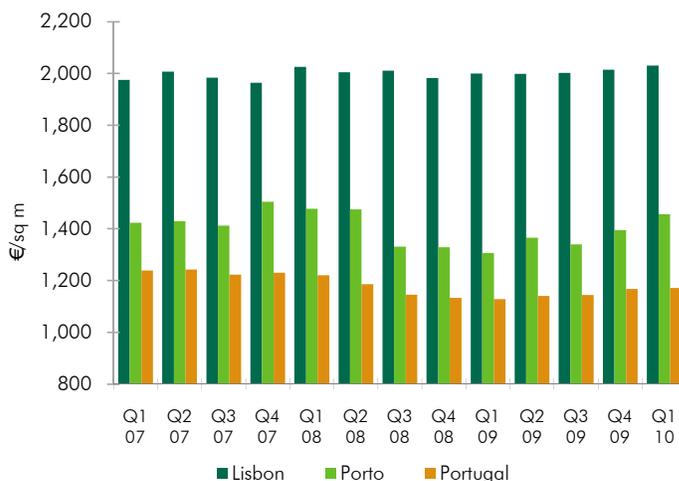
In Lisbon, during 2009, the quarterly average **bank valuation value on housing** showed some stability, registering an average reduction of 0.1% in comparison to 2008. During the same period, an even more accentuated drop was registered in Porto, with an annual average of 3.3%. However, as was the case in the rest of Portugal, at the end of 2009 and during the 1st semester of 2010, some signs of recovery were verified. In the 1st semester of 2010, the value of bank valuations increased 1.6% in Lisbon and 11.5% in Porto, when compared to the same period in the previous year, standing at 2,031 €/sq m and 1,457 €/sq m, respectively.

Evolution of Implicit Mortgage Interest Rate



Source: CB Richard Ellis; INE

Quarter Evolution of Average Value Valuation on Housing



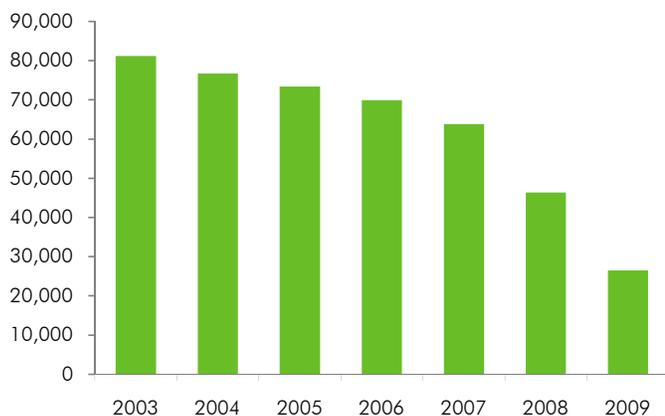
Source: CB Richard Ellis; INE

Residential Refurbishment Development Prestige Mártires da Pátria, Lisbon



Source: CB Richard Ellis

Evolution of Number of Housing Licenses Granted in Portugal



Source: CB Richard Ellis; INE

Confidencial Imobiliário Index



Source: CB Richard Ellis; Confidencial Imobiliário

Residential Development Foz Garden, Porto



Source: CB Richard Ellis

There were tentative signs of recovery as mentioned previously, namely due to the reduced interest rates associated to home mortgage loans, relatively low spreads, as well as an increase in the value of bank valuations in the last two quarters. However these tentative signs of recovery have been negated by the current Portuguese public finances crisis.

Consequently, this situation will undoubtedly change, as previously stated, spreads will continuously increase and the criteria for the valuation of property will become progressively more rigorous. Lower bank valuations below market values, lead to a reduction in the value of the loan granted by the bank, making it more difficult to acquire residential property.

According to the Bank of Portugal **residential investment** has registered consecutive drops since the beginning of the decade. Following a drop of 3.4% in 2008, residential investment in 2009 reduced around 12%. According to this same source, this tendency is likely to remain in 2010 and 2011, partially due to the reduction in the income of the population imposed by the Austerity Measures recently approved by the Portuguese Parliament, and, furthermore, due to the increasingly restricted granting of home loans.

The construction sector has likewise been affected by the unstable economic scenario. In 2009 **housing licenses** were issued for around 26,500 dwellings, representing a decrease of 43% in year-on-year growth terms. 2008 had already registered a 27% reduction in the number of licensed dwellings when compared to the year before.

Finally, an analysis of the **Confidencial Imobiliário Index (ICI)** which measures the evolution of the **value of residential supply** over a period of time, shows that despite all the turbulence and instability which we have witnessed, Portugal did not witness a boom of speculative construction, unlike the Spanish and Irish markets. The average year-on-year growth of the ICI, reflects this scenario and despite the slowing down registered since the beginning of 2009, always shows positive growth.

LISBON RESIDENTIAL MARKET

The Lisbon Residential Market is subdivided into 10 well defined zones, as illustrated on the map on the last page of this report, namely: Baixa/Castelo, Chiado, Santos/São Paulo, Lapa, Campo de Ourique/Amoreiras, Avenidas Novas, Western Zone (Alcântara, Ajuda, Belém and Restelo), Eastern Zone (including Parque das Nações), Campolide/Benfica and Lumiar.

Supply

At the end of 2009, according to data available from Imométrica/LardoceLar.com, the residential supply available in the Lisbon Metropolitan Area (LMA) was of around 264,500 dwellings (new and used). When compared to the same period in 2008, this reflects an increase in supply of approximately 14%. The councils of Lisbon, Cascais and Sintra are clearly dominant in terms of total stock available in the LMA, representing a share of around 17%, 12% and 11%, respectively.

In the council of Lisbon, the supply of dwellings at the end of 2009 stood close to 45,400 units, an increase of approximately 10% when compared to the same period in 2008. Around 23% of the houses comprising the supply in the capital city are new, and are mainly concentrated in the areas of Avenidas Novas, Oriental Zone, and Campolide/Benfica, with quotas of 21%, 17% and 16%, respectively. On the opposite end stand the areas of Santos, Lapa, Chiado and Campo de Ourique/Amoreiras, where each zone registers around 3% of the total stock.

Residential Prices

In Lisbon, the average asking prices for new houses were in the region of 2,940 €/sq m, while the asking prices for used houses stood at around 2,380 €/sq m. An analysis per zone shows that Lapa registered the highest average asking price, namely circa 3,750 €/sq m for new units. The Lumiar zone registered the lowest values, where the average price for the supply of new products was situated at around 2,370 €/sq m.

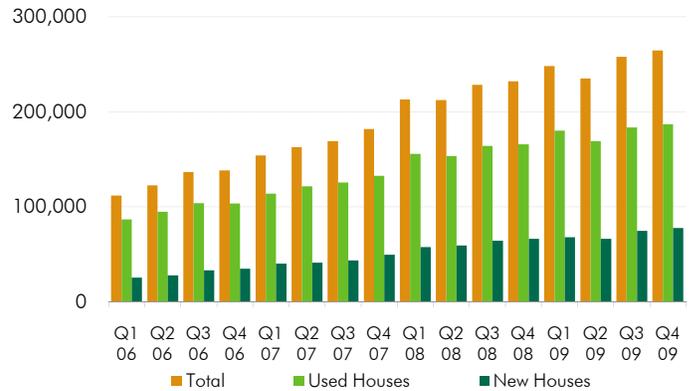
According to the data of Percentile 95* published by the SIR – **Sistema de Informação Residencial** (Residential Information System) the Baixa-Chiado zone registered the highest average asking prices, in excess of 4,200 €/sq m. In the top range segment of Lisbon, the average asking prices stand at around 3,800€/sq m.

* **Percentile 95:** focused on the top range segment stock, represents the 5% of the supply with higher asking prices per sq m.

In relation to the evolution of asking prices, the LMA registered a similar trend to the rest of Portugal, with positive ICI variations, despite the deceleration registered since the beginning of 2009.

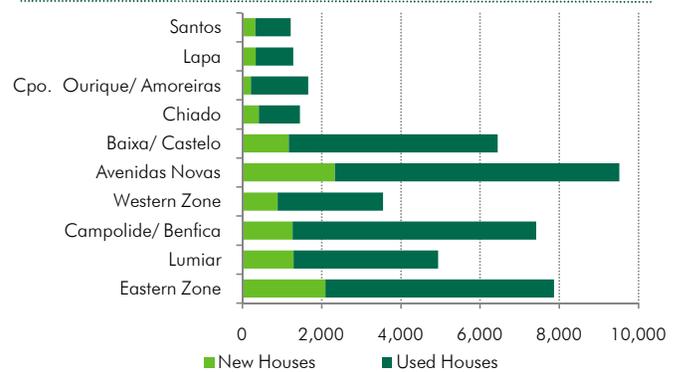
Analysing the values registered in the residential lease market published by Imométrica/LardoceLar.com, we verify that the asking prices in Lisbon reach an average of 11€/sq m/month, and in the Baixa-Chiado zones these exceed 13 €/sq m/month.

Evolution of New and Used Houses Supply in LMA



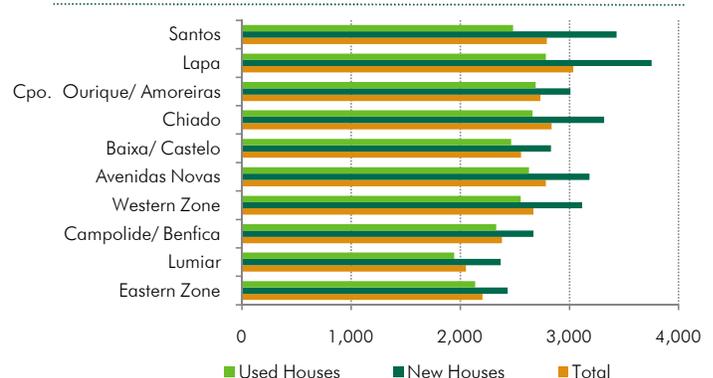
Source: CB Richard Ellis; Imométrica/ LardoceLar.com

New and Used Houses Supply, per Lisbon Zone, in Dec-09



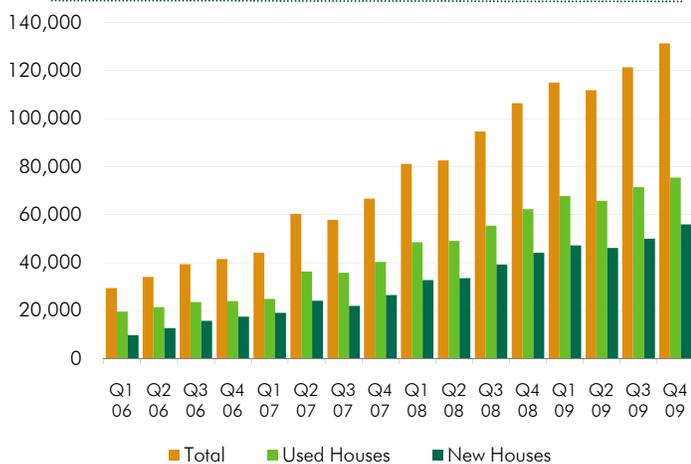
Source: CB Richard Ellis; Imométrica/ LardoceLar.com

Valor Médio Pedido por Fogo, por Zona de Lisboa, em 2009



Source: CB Richard Ellis; Imométrica/ LardoceLar.com

Evolução da Oferta de Fogos Novos e Usados na AMP



Source: CB Richard Ellis; Imométrica/ LardocelLar.com

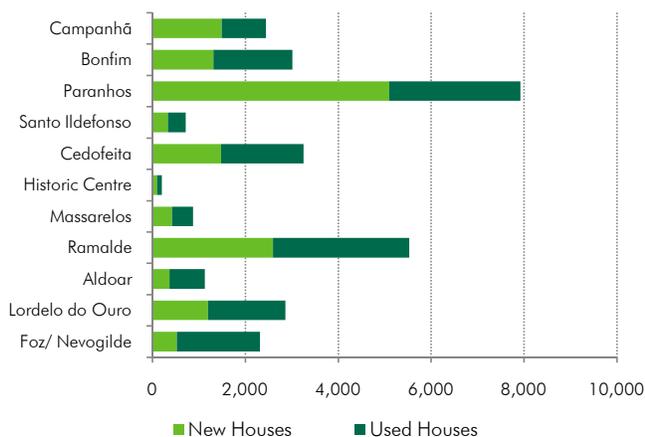
PORTO RESIDENTIAL MARKET

The Porto Residential Market is subdivided into 11 well defined zones, as illustrated on the map on the last page of this report, namely: Foz/ Nevogilde, Aldoar, Lordelo do Ouro, Ramalde, Massarelos, Historic Centre, Cedofeita, Santo Ildefonso, Bonfim, Campanhã and Paranhos.

Supply

At the end of 2009, and according to data published by Imométrica/LardocelLar.com, the residential supply available in the Porto Metropolitan Area (PMA) was of approximately 131,000 dwellings. When compared to the same period in 2008, this reflects an increase in supply of circa 23%. The councils of V.N. de Gaia, Porto and Matosinhos are clearly dominant in terms of total stock available in the PMA, representing around a share of 26%, 23% and 15%, respectively.

Oferta de Fogos Novos e Usados por Zonas do Porto, em Dez-09



Source: CB Richard Ellis; Imométrica/ LardocelLar.com

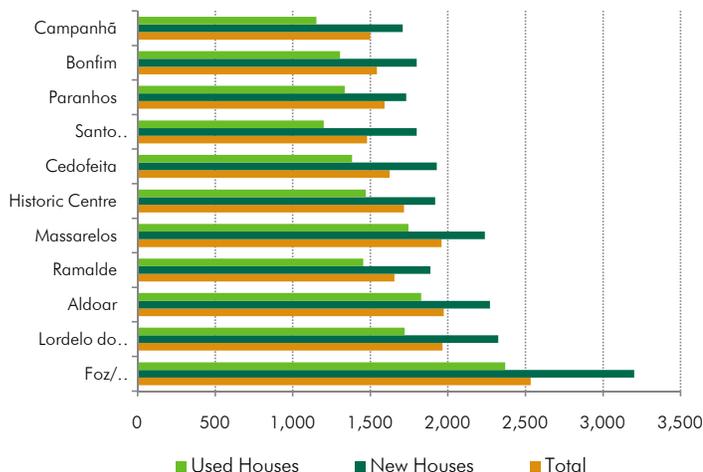
The supply of residential dwellings available in the council of Porto stood close to 30,300 units at the end of 2009, representing an increase of around 16% in comparison to 2008.

Approximately 49% of the available stock in Porto is comprised of new dwellings, and the highest share, which stands in the region of 34%, is situated in the Paranhos zone. The Historic Centre registers less than 1% of new houses available, but this share is expected to increase in the future, due to the policy to regenerate the city Porto.

Residential Prices

In 2009, average asking prices for new houses in the city of Porto stood at around 1,900 €/sq m, and prices for used homes at 1,550 €/sq m. The Foz zone continues to be the most attractive area of the city, with a higher average price for new dwellings, of around 3,200 €/sq m. In Paranhos, on the other hand, average values for new products stood at 1,730 €/sq m.

Valor Médio Pedido por Fogo, por Zona do Porto, em 2009



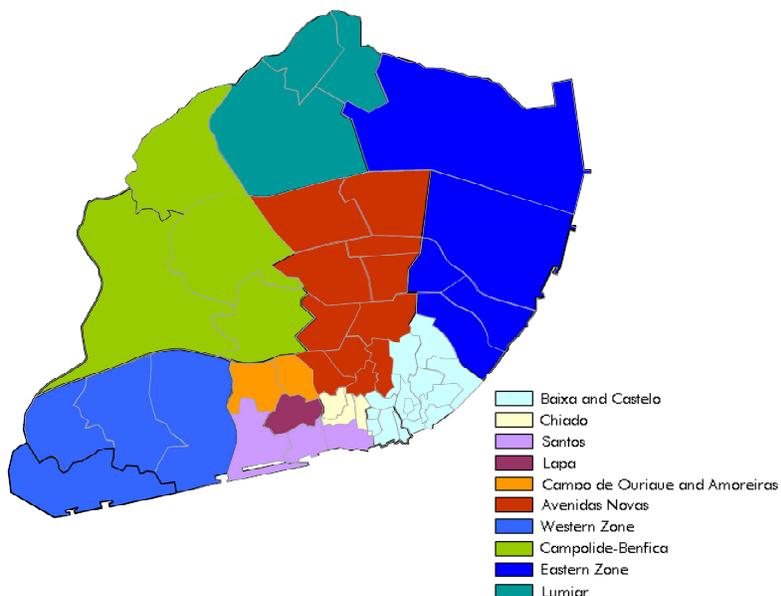
Source: CB Richard Ellis; Imométrica/ LardocelLar.com

Maximum prime asking prices in Porto reached as much as 3,500 €/sq m, namely in the Foz zone.

With regards to the evolution of asking prices, according to the ICI, the PMA also registered positive growth in 2009, despite the deceleration registered at the beginning of the year. However, in the 1st quarter of 2010, there was a slight drop in prices.

With regards to the city of Porto lease market, the average values stand at 7 €/sq m/month. In the Foz zone, average values are above 9 €/sq m/month.

LISBON MAP



PORTO MAP



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