

REPORT

REAL ESTATE INVESTMENT IN PORTUGAL

JULY 2023



Photo: TMP - An Instant of Time / Shutterstock

Text: Sarah Garnett
Layout: Douglas Junqueira

GRI CLUB

GRI CLUB

GRI Club is changing the game for networking and providing key market insights with its event coverage that transforms the intimate discussions of C-level executives into digestible reports.

GRI Club events are a way to pick the brains of the leading figures in real estate. This report was created after Portugal GRI 2023 in Lisbon, which gathered 100+ of the top decision-makers in the business.

“The high number of investors present at Portugal GRI 2023 proves that the country remains in the crosshairs of foreign capital, which currently identifies opportunities in the most different asset classes.”

Gustavo Favaron

GRI Club CEO & Managing Partner

For more insights into the Italian and European markets, attend **Europe GRI 2023**, GRI's flagship event for real estate leaders.



CHOOSING PORTUGAL

Portugal is now better positioned than the rest of Europe for investment opportunities. Deals to sell are available at very affordable prices. Overall, Portugal offers a unique blend of culture, attractively priced real estate, a favourable tax policy, a well-educated workforce, and a high quality of life that makes it an exciting market for international businesses to invest in.

Portugal has been receiving increasing attention from international investors as a result of its strong fundamentals and characteristics that attract business occupiers to the market. The country's solid macroeconomic landscape, including low unemployment, consistent growth, and reduction in public debt, makes it very favourable when compared to other European countries. Additionally, Portugal's real estate market, although small when compared to other major European markets, offers a very attractive niche market for business investments.



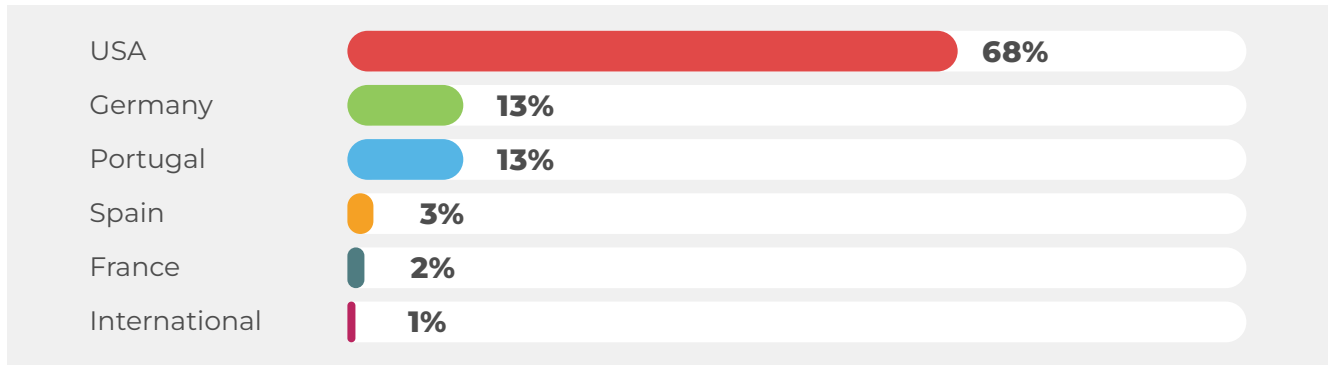
Source: MSCI, Idealista, Cushman & Wakefield

Moreover, Portugal has several data sites, along with superb alignment, tools, and initiatives, that make businesses stand out in Europe. The country's talent bank is impressive, and businesses wish to put their Offices and conclude their business in Portugal. The Tesla Global Media Program, Tesla's factory in Lisbon, and the WEC Summit bring a lot of innovation to Portugal, along with incubating and supporting startups that result in great initiatives. Therefore, Portugal is a great destination for international business investment due to its solid macroeconomic system, niche real estate market, and excellent tools, initiatives, and alignment.

Photo: W_NAMKET



CAPITAL ORIGINS, Q1 2023



Source: Savills

The European real estate market is experiencing intense competition from the US market. In the past, people used to invest in fixed-income categories or prime issues in case of negative interest rates. However, this has changed drastically. The United States' competition has put a little pressure on the European real estate market, and governments need to do more to attract investors and increase transaction volumes.

PRICE ADJUSTMENTS

The real estate market in Portugal and across most European economies has not yet adjusted prices, especially when it comes to bid and ask. This situation is not specific to Portugal and affects the entire European real estate market. It will take some time for the markets to adjust and accept the new interest rate environment and the changes in reality. Until then, there may not be any significant changes in the market.

Governments need to take action and show transparency in the asking prices on the transaction side. However, it is crucial to invest in a country where the prices have been adjusted, and transaction volumes are picking up. Investors must consider the competition from the US market and the impact it has on the European real estate market.

For property prices to adjust, it will take some time for markets to accept the new interest rate environment and for alternative investments versus real estate to become more expensive again. This adjustment will likely be necessary to balance out the supply and demand of the market. Meanwhile, companies are looking for ways to educate themselves on these adjustments to have more inflow and pipeline in the UK, as well as other parts of Europe.

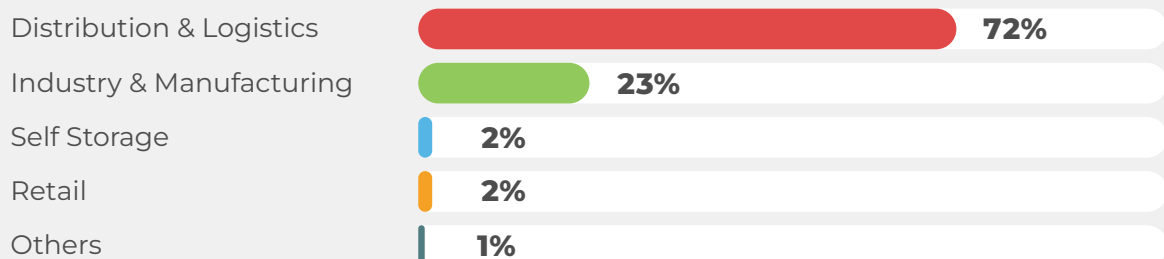
INVESTOR'S CHALLENGES

Investing in real estate is attractive, which will hopefully be temporary. It's important that markets react quickly and adapt valuations. However, institutional investors are facing a challenging decision when it comes to where to invest their money, especially in the current interest rate environment.

The commercial real estate market in Portugal, like many other markets across Europe, has seen some challenges down the road. There are some uncertainties, and banks are reducing leverage or only focusing on their historical plans. As a result, they are repricing their financing because funding costs for banks are increasing, and they are imposing indirect rate cuts in most cases. Banks that were lending at 2-3% are now lending more between 5-6%.

Limited funding options have slowed down the construction industry and contributed to the housing deficit. Banks have been the sole source of financing, and their balance sheets are limited by the economy. The introduction of authority lenders into the construction industry would boost competition and drive the growth of the sector. Alternative lenders, such as pension funds and insurance companies, could play a crucial role in providing much-needed financing.

LOGISTICS TAKE-UP BY BUSINESS SECTOR | PORTUGAL, Q1 2023



Source: Savills

Launching new projects in Portugal is going to be less straightforward than before, most likely because bank financing will not be as readily available as it was previously. During this time, having a more grounded understanding of the project's needs and risks will be necessary. It will also be advantageous to get support from alternative financing sources like holding loans, breach financing, mesh finance, and other similar options.

However, the process of alternative financing needs to be flexible, structured in a way that allows the borrower to pay off interest over time and establish an overall business plan to cover expenses. Ultimately, banks will play a crucial role in providing the cheapest sources of capital and increasing their involvement in bridging the financing gap created by alternative capital sources.

ESG FINANCING IN REAL ESTATE



Source: CBRE

ESG and green financing are becoming increasingly prevalent in the real estate industry. Clients are starting to demand ESG projects, and it's becoming clear that ESG is not a burden but a valuable opportunity for growth and positive impact. Some attendees intend to present ESG-specific financing offers with discounts for promoters who prioritize energy efficiency and sustainable practices.

Moreover, the need for green financing is apparent in today's society, where the majority of employees, investors, and supporters demand ESG compliance. Therefore, it is vital for institutions to comply with ESG standards to attract and retain employees and investors.

While there is no public policy on ESG compliance, adhering to sustainable projects for long-term development is an excellent idea for organizations. However, companies need to pay attention to the ESG measures applied to green financing and seek ways to comply with them to attract investors.

THE TOP THREE CHALLENGES FOR IMPLEMENTING ESG GOALS ARE...

53%

Poor availability or quality of data

39%

Costs exceeding benefit, making it difficult to justify action

36%

Benefits being unknown or uncertain

Source: Savills

BRAZILIANS IN PORTUGAL

Portugal is also emerging as a profitable investment destination for Brazilian investors, with opportunities in various sectors, including real estate, renewable energy, tourism, and agriculture. However, navigating the local market and regulations can be challenging, making it essential to have a local partner to help with cultural understanding and regulatory compliance.

Despite these challenges, Portugal's stable political and economic environment makes it a safe bet for long-term investment planning. Additionally, alternative lending solutions have become more popular in the real estate market due to tough economic conditions, providing flexible conditions and fast decision-making processes for developers. Overall, with careful consideration and due diligence, investing in Portugal can offer great opportunities for profitable returns and potential growth.

2023 SO FAR

€1,369,000

Purchased

233,138

Brazilian residents in Portugal

15%

Approx. of transactions in 2023

Source: SEF

Investing in Portugal and Brazil can be very different, with each country presenting its own unique set of challenges. Brazil has more market opportunities but can be more closed off to foreign investors. In contrast, investing in Portugal requires a local partner to navigate the market effectively. However, the visits are big, making it easier for investors to come and invest in Portugal.

Although investors have been facing some negative news for a few months, they have started to face the challenge with considerable effort. Financing from the bank is not a constraint, but it's more expensive. The main constraint here is defining a latitude. It's challenging to work on investments in Portugal because development is one of the most fragile things in terms of time taken to complete. Hence, selecting an appropriate project is of utmost importance.

90%

Approx. of buyers interested in Algarve region are there for second homes

UNDER 55 YEARS OLD

Majority of buyers

300

Days of sunshine a year in the Algarve

80%

Of buyers are foreign citizens

Source: Engel & Völkers

Photo: Marcin Krzyzak / Shutterstock



GRI CLUB PORTUGAL

Aside from Portugal GRI, the members of GRI Club Portugal meet throughout the year to discuss new trends and maintain their real estate connections while making new deals.

Over the past year, the GRI Club Portugal has aimed to create a strong network of players in the Portuguese market as well as international players interested in the country in order to facilitate the injection of new capital.

Our club meetings have aimed to cover rented living models and the transaction volumes in the country, as well as Chinese and Brazilian investments in the country and how they're powering up the property sector and getting more synergy with the local market.

CHECK OUT THE CLUB MEETINGS IN THE PAST YEAR:

CHINESE CAPITAL'S STRATEGIC POWER PLAY INTO PORTUGAL REAL ESTATE

Powering-up investment decisions or waiting-seeing to sharpen focus on the property sector?



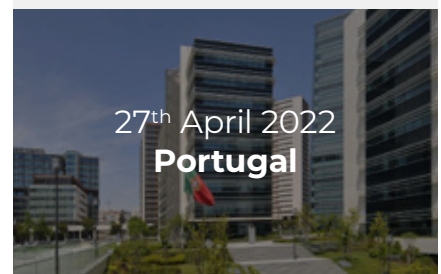
INVESTIMENTOS IMOBILIÁRIOS ENTRE BRASIL E PORTUGAL

Cada vez mais sinergia?



PORTUGAL RENTED LIVING MODELS

Investment scale growing or transaction volumes and market maturity not there?



THE MEMBERS OF GRI CLUB PORTUGAL WILL
ALSO ATTEND **EUROPE GRI 2023**

SEPTEMBER 12-13, PARIS

EUROPE

— GRI 2023 —

Access multiple discussions at the
most **exclusive real estate event**

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