



# PORTUGAL GRI 2024

Key takeaways from high-level knowledge exchange and strategic assessment discussions among top players in the Portuguese real estate market

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**Editor:** Helen Richards

**Designer:** Douglas Soldera Junqueira

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# WELCOME TO GRI EUROPE

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Portugal's booming hospitality sector and gaping demand for housing highlight the strong fundamentals across various real estate sectors, while recent maturation of the Portuguese real estate market has elevated its status in Europe. However, investors remain concerned about liquidity and exit strategies due to the market's limited size.

There was certainly an air of optimism at this year's Portugal GRI 2024, and hopes lie in the newly introduced administrative Simplex Urbanístico system, with promises for a more streamlined and transparent experience for those investing within Portuguese real estate, boosting confidence in the market's outlook.

**Enjoy reading!**

**GUSTAVO FAVARON**  
CEO & Managing Partner, *GRI Club*



# INTRODUCTION

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For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports present the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled following a number of private roundtable discussion sessions during **Portugal GRI 2024** in Lisbon, which gathered the leading decision-makers in Portugal's real estate market to take stock of the current scenario amid favourable economic indicators, and the recently introduced Simplex Urbanístico.



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# CROSS-BORDER INVESTMENT

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Portugal's attractiveness extends beyond its scenic beauty and favourable climate. The burgeoning digital knowledge sector is becoming a significant draw for investors, while economic indicators are favourable, with GDP growth and low inflation positioning Portugal as a promising destination for continued investment.

Portuguese bonds reflect this confidence, with yields lower than those of some larger European economies. This financial stability underscores the country's potential as a secure investment environment.

However, for larger global investors, Portugal continues to be considered as a relatively small market, and this limited size poses difficulties for large portfolios due to fewer exit opportunities. In the words of one participant, "the days in which the Blackstones of the world came over and dropped 100 million in Lisbon are over, if they ever were here."

## » **South American Funds**

There is growing anticipation that South American funds may use Portugal as a strategic entry point into Europe, leveraging its advantageous location and market dynamics. This was noted particularly in the luxury residential sector, where, despite a noticeable slowdown, international interest from Brazil remains robust.

This trend of South American capital entering Portugal was compared to how South African funds entered Central Europe a decade ago. The recent [Iberian-American-South American conference](#) underscored Portugal's potential as an entry point for capital into Iberia and beyond.

## » **Strength of Retail & Hotel Sectors**

Investors continue to favour Portugal, buoyed by its strong fundamentals. The retail sector, in particular, has seen remarkable improvement. Once considered one of the weakest markets in Europe, it is now a consistent performer, showing significant resilience and growth.

Both the retail and hotel sectors stand out as particularly strong areas driven by high visitor numbers and spending trends, with "consumers spending like never before". Lucrative opportunities for investors are emerging, however, once again, liquidity remains a challenge, limiting the ability to make quick exits.

Finding opportunities in Portugal can also be challenging for opportunistic funds. Unlike Spain and Italy, where market saturation brings more non-core assets to market, Portugal's market is less saturated. This lack of saturation limits the availability of investment opportunities but also suggests potential for growth and future liquidity.

## » **Geopolitical and Economic Risks**

Macro risks, including geopolitical tensions, inflation, and political instability, were highlighted as potential disruptors to the market. There is a tangible concern about the impact of external economic issues on Portugal, given its integration with the broader European economy. Described by one participant as a “slow-motion risk”, the warning signs of wider economic volatility must not be ignored.

Portugal presents a unique paradox for real estate investors; while it can be challenging due to its often sluggish municipal processes, this same characteristic prevents the market from overheating. The slow pace of bureaucracy means that deploying large investments quickly is nearly impossible, which, in turn, keeps the market from rapid escalation.

This slower growth rate can be frustrating as it hampers the speed at which the market can expand. However, when economic pressures mount, the market’s inherent gradualism acts as a buffer, resulting in a more stable, less volatile environment. This has been witnessed of late, where, unlike other regions experiencing severe downturns, Portugal has maintained relative stability.

Furthermore, consensus from the discussions suggested that Portugal is better prepared now than in past crises, boasting stronger economic fundamentals and a more resilient market structure. This preparation enhances investor confidence, even amid global uncertainties.

## » **Future Outlook & Simplex**

Understanding local market dynamics and regulatory environments is crucial for investors. The implementation of the Simplex Urbanístico administrative system is expected to streamline processes, reduce bureaucratic delays, and improve conditions for investments. This system aims to enhance efficiency and transparency, further bolstering Portugal’s attractiveness.

While the Portuguese market has not undergone the same level of repricing seen in the UK, France, Germany, Italy, and Spain, this stability could be either a risk or an opportunity, depending on future market developments.

The short-term outlook for the Portuguese real estate market remains uncertain due to global economic volatility, however long-term prospects are promising, with the simplified Simplex system proving pivotal in maintaining investor confidence and fostering growth. Investors with a longer horizon, such as those operating on a five to ten-year basis, can benefit significantly from the market’s potential growth.

# INVESTMENT STRUCTURING

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The Portuguese real estate market is attracting an increasingly diverse range of investors and evolving into a mature and dynamic sector. Post-global financial crisis (GFC), investment was minimal, but as the market has developed and matured, a broader spectrum of investors, from core to opportunistic strategies, have begun to engage.

Today, there is a noticeable shift towards value-added and opportunistic investments driven by higher interest rates and tighter credit conditions. Core investors, once dominant, are now less active due to the unfavourable risk-return profiles at current cap rates.

## » **Raising Capital**

Raising capital in the current environment poses significant challenges. High interest rates and a competitive global market for investment funds have made investors more cautious and selective, often favouring larger, well-established funds over smaller, regional ones.

The Portuguese market heavily relies on foreign capital, which poses a risk given the intense global competition for investment funds. The lack of a vibrant local investor base in Portugal exacerbates this issue, making capital raising a critical concern for local developers and investors.

Banks in Portugal adopt a cautious approach, focusing on low leverage and projects with strong cash flows. This cautious stance further limits the availability of financing for speculative or high-risk projects.

Alternative lenders play a crucial role in bridging the gap left by traditional banks, particularly through bridge loans and mezzanine financing. However, the lack of scale in the Portuguese market makes it difficult for these lenders to leverage their positions effectively.

## **Debt vs. Equity**

In the present climate of elevated interest rates, debt investments have become more attractive than equity due to the higher returns achievable with lower risk. This is particularly the case for projects already generating cash flows.

Equity investments, meanwhile, with their higher risks and difficulty in achieving desired returns, are proving less favourable. Moreover, the scarcity of distressed opportunities limits the appeal of opportunistic equity investments.

## » Future Outlook

There is optimism about the long-term prospects of the Portuguese real estate market, with focus on developing new real estate products to meet the growing demand across various sectors.

The hospitality sector is performing exceptionally well, driven by strong tourism demand, and remains a focus for many investors. Similarly, logistics remains resilient with low vacancy rates and robust demand. Significant opportunities also exist in alternative assets such as student housing, data centres, and self-storage, driven by strong underlying fundamentals and demand.

As interest rates stabilise, the market is expected to witness more transactions and investments, with investors adjusting their strategies to the new economic realities.





# SIMPLEX

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The Portuguese government's 2024 implementation of Simplex marks a transformative shift in the country's regulatory landscape, particularly impacting the real estate market. This new approach moves from ex-ante control - meaning prior control before you execute - to ex-post administrative control - a backward-looking control.

The updated Simplex system signifies a fundamental change from traditional Roman law-based administrative practices to those more akin to Anglo-Saxon jurisdictions. This shift aims to streamline regulatory processes, reduce bureaucratic delays, and increase efficiency in real estate transactions.

It was emphasised during discussions that a backward-looking control does not mean a lack of control, and challenges are still involved for all parties, including municipalities, promoters, architects, designers, engineers, appraisers, lawyers, insurance companies, and banks.

## » Simplification Measures

A suite of simplification measures has been introduced under the Simplex system. Significant among these is the reclassification of numerous operations:

- Licensing requirements have been downgraded to prior communication.
- Prior communication requirements have been further downgraded to exemptions.

## Elimination of Certain Permits

Construction permits, which were traditionally mandatory, have been eliminated. Instead, a construction licence is now granted upon payment of applicable fees. Moreover, the administrative control at the stage of the '*authorisation of use*' (*licença de utilização*) has been removed, replaced by a statement of responsibility from qualified technicians. This change simplifies the process, placing greater emphasis on professional accountability.

The new system allows for the legal acquisition of real estate without the previously mandatory '*authorisation of use*' title. This change is expected to streamline and simplify real estate transactions, making the process more efficient and less cumbersome for buyers and sellers alike.

## » Municipalities

While promising greater efficiency, the radical change which accompanies the new Simplex system presents significant challenges for municipalities, particularly smaller ones. The shift to ex-post controls requires the development of new administrative structures and processes. Smaller municipalities may struggle due to limited technical staff and resources, necessitating substantial adjustments to accommodate the new system.

The main impact on municipalities will be how they fulfil their responsibilities as an authority. They will now need to differentiate between high-quality developers and lower-tier promoters to ensure proper urban development. The primary risk lies in the quality of developments and rehabilitation projects. The exemptions to municipal authorisations for certain developments shift the focus to planning, especially for new cities and secondary cities.

Portugal has 308 municipalities, many lacking the technical staff to handle the transition. Supervision is a key issue, as Portugal is known for its extensive regulations but often poor supervision. Municipalities near Porto, for example, are adopting new technologies like drones for supervision, but smaller cities face greater challenges, one of which is managing human resources.

More positively, the Simplex system eliminates excuses related to licensing delays, which is expected to pave the way for more public housing and better organisation to solve Portugal's severe housing crisis. In Lisbon and Porto, the pressure for residential development is intense. It's too early to say definitively what the impact on supply will be, and municipality representatives during discussions reported not having observed significant changes in market operations yet.

Discussions highlighted that the missing piece is now partnerships between public and private sectors, with the need to work on three axes: public, private, and public-private partnerships.



Image: GRI Club / Midjourney

## » Other Challenges

A suite of simplification measures has been introduced under the Simplex system. Significant among these is the reclassification of numerous operations:

- **Architects & Engineers:** With the elimination of certain public licensing processes, architects, engineers, and other professionals now bear greater responsibility. They must conduct more thorough due diligence and adhere to higher standards of certification and qualification, as they can no longer rely on the additional oversight previously provided by the public sector.
- **Banks and Financing:** The removal of certain administrative checks means that banks will likely demand more detailed due diligence and proof of compliance with urbanistic regulations from developers. This could lead to increased costs for developers, who will need to invest in more comprehensive project preparation to secure financing.
- **Future Inspections and Controls:** To ensure compliance with submitted projects, municipalities are developing new models for post-construction inspections. These will include both proactive and reactive inspections, although current resources for these tasks are limited. Efficient implementation of these inspection models is crucial for maintaining regulatory standards.

Despite challenges, the overall sentiment among developers and market players was overwhelmingly positive. One participant reported a positive experience with Lisbon municipality on an office project, proving the successful implementation of the changes.

Designers and architects now hold more responsibility and they must be trusted in order to avoid turning Simplex into a complexity. This also applies to financing processes and legal security, which must be reinforced with clear guidelines.

The simplifications introduced within the Simplex system are expected to bring more confidence, stability, and predictability to all sectors of the real estate market, ultimately fostering a more dynamic and efficient real estate market in Portugal.

Image: GRI Club / Midjourney



# HOSPITALITY SECTOR

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The country's growing appeal as a tourist hotspot, combined with the introduction of innovative hospitality concepts, has bolstered this trend.

The market's robustness is evident from its capacity to accommodate new hotels and serviced apartments, driven by the steady demand from leisure and business travellers alike. The growth trajectory of the Portuguese hospitality market is particularly notable in major cities like Lisbon and Porto, whose popularity among tourists continues to increase.

Despite the saturation of existing and planned developments, there remains a strong belief in the market's capacity to integrate additional hotels and serviced apartments, considering the consistent influx of leisure and business travellers, ensuring sustained demand.

## » **New Hospitality Trends**

### **AI & Technology**

Innovative hospitality concepts are increasingly gaining traction in Portugal. The market is witnessing a rise in tech-enabled short-term rentals, serviced apartments, and branded residences. These new offerings cater to travellers who desire flexibility, home-like amenities, and seamless digital experiences.

Companies at the forefront of this transformation are using technology to personalise and enhance guest experiences, streamline operations, cut costs, and provide valuable data insights for better decision-making.

The shift towards tech-enabled models allows operators to maintain a consistent and high-quality experience across different locations and property types, ensuring a competitive edge in the market.

### **Food and Beverage**

Food and Beverage (F&B) has become a crucial differentiator in the hospitality sector, with high-end dining experiences proving integral to the value proposition of many hospitality brands as they significantly drive occupancy and revenue.

There is also a growing trend towards integrating renowned F&B brands within hotels, attracting both guests and locals, and boosting the overall appeal and profitability of the properties.

## » **Short-Term Rental Challenges**

The regulatory environment poses challenges particularly for the short-term rental sector and the conversion of residential properties into hospitality use. Compliance with local regulations and addressing community concerns are essential for sustainable operations.

Cities across Europe are being shaped by increasing legislative efforts to regulate platforms like Airbnb, with Barcelona, Brussels, and Amsterdam all cracking down on short-term rentals due to their impact on housing affordability for middle-class residents. This regulatory trend aims to prevent the reduction of residential spaces available for long-term rent.

To overcome these hurdles in Portugal, participants emphasised the need to align with these regulations by operating in compliance with commercial zoning laws and securing appropriate short-stay licences. This ensures that operations do not contribute to the housing crisis and align with governmental objectives to protect residential spaces.

Operating on a level that serves a niche market that is too large for smaller operators and too small for major hotel brands is an interesting strategy for short-term rental operators. Meanwhile, flexibility in operating models is also important in order to operate efficiently in various market segments, from hostels and boarding houses to traditional hotels, and to adapt to unique markets.

## » **Future Outlook**

Investor outlooks for the Portuguese hospitality market are certainly optimistic, with expectations of continued growth and development. Amid regulatory challenges, as well as rising construction costs and project timelines, sustainable, innovative, and adaptable practices are needed to ensure long-term success and positive impact on the local economy and communities. In a fast-changing society, the focus is on creating unique, value-driven experiences that cater to the evolving preferences of modern travellers.

Image: GRI Club / Midjourney



# RESIDENTIAL SECTOR

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The Portuguese residential market continues to show resilience and growth, particularly in key areas such as Lisbon and its outskirts. The continued success of projects in Lisbon and surrounding areas underscores the strong demand, with some developments selling out within days of their launch.

Developers reported strategically pricing these projects to ensure steady sales over extended periods, effectively using higher prices as a hedge against inflation. This approach is crucial in maintaining market momentum and managing economic uncertainties.

Discussions also reported a shift in investor and buyer profiles, with an increasing presence of international buyers, alongside a mix of investors and first-time homebuyers. This diversification has contributed to the market's resilience, maintaining demand across both residential and commercial sectors despite broader economic challenges.

## » Location, Location, Location

Developers in Portugal have adopted a conservative approach, focusing on prime and established locations rather than taking risks with unproven areas or properties entangled in legal issues. This strategy ensures stability and minimises potential setbacks.

Additionally, there is a growing interest in developing the outskirts of Lisbon, such as Ericeira, which offers better infrastructure and lower prices compared to more central areas like Cascais. This shift not only diversifies the market but also makes residential properties more accessible to a broader range of buyers.

## » Innovation in Residential

Looking ahead, developers are also exploring innovative approaches to add value to residential projects. Incorporating modern amenities and sustainable practices is becoming a standard strategy to attract buyers. There is a particular focus on creating livable, community-oriented spaces equipped with amenities like swimming pools, gyms, and co-working areas. These features enhance property value and appeal, catering to the evolving preferences of today's buyers.

Image: GRI Club / Midjourney



## » Supply and Demand

The Portuguese residential market faces a notable supply and demand imbalance. Cautious approaches by developers have resulted in fewer new apartments being delivered. This imbalance presents significant opportunities for those who can address the supply shortfall and meet the evolving demands of the market, however high construction costs are a major concern, impacting the feasibility of delivering affordable housing.

Addressing these costs is critical for sustaining market growth. There is a pressing need for a coherent government strategy that addresses housing supply issues while also investing in infrastructure to support growth in both city centres and suburban areas.

The government's new Simplex licensing initiative has been well-received, promising to streamline the process of obtaining necessary permits and reducing bureaucratic delays. However, supply chain issues and the practical hurdles of construction and operation post-licensing persist. Developers must navigate these hurdles in order to fully capitalise on the simplified licensing procedures.

Image: GRI Club / Midjourney



## » Rented Living Sector

The rented living real estate sector in Portugal is increasingly important due to changing demographics, including the increase in household numbers and the influx of digital nomads, as well as urbanisation, with major cities like Lisbon and Porto becoming hubs for young professionals and expatriates, further driving the need for rental accommodations.

There is optimism about the growth potential of the rented living market in Portugal, and the need for more affordable and diverse rental options is widely recognised. The varying segments within the rental market - co-living, senior living, student housing, Built-To-Rent (BTR) - are distinct in their demands and operational models, but share common challenges:

- **Supply:** Scarcity of supply hinders the rapid development of the rented living sector in Portugal, driven by high construction costs and lengthy licensing processes that delay the introduction of new projects to the market.
- **Cultural Preferences:** Another hurdle hindering growth in the rented living sector were reported to be cultural preferences, more specifically referring to the traditional preference for homeownership over renting.
- **Financing Costs:** Elevated financing costs remain a critical concern for the development of rental projects, and are severely hindering the private real estate market from feeding the supply of affordable rental options.

While institutional investors show growing interest in the Portuguese rental market, the gap between development costs and expected returns remains a substantial challenge. Discussions suggested the need for innovative solutions, such as ESG visas, to attract investment and make rental projects financially viable.

- **Regulatory Environment:** Frequent regulatory changes and uncertainty around rental laws have added to the complexity of developing the rental market. There is a need for stability and confidence in the regulatory framework in order to attract long-term investment and ensure the sector's growth.

To address these challenges, developers and investors reported increasingly targeting peripheral areas around Lisbon and Porto, where land is cheaper and large-scale BTR projects are more feasible.

Discussions also emphasised the need for public-private partnerships and government incentives to stimulate investment in the rental sector. Proposals included tax incentives and streamlined regulations to facilitate quicker development and lower costs.



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## CONTACT



**Diego Tavares**

Managing Director & Senior Partner

[diego.tavares@griclub.org](mailto:diego.tavares@griclub.org)



**Kirsty Stevens**

UK & Pan-Europe Director

[kirsty.stevens@griclub.org](mailto:kirsty.stevens@griclub.org)

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GRI Club



@griclub.europe



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