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GLOBAL CITIZEN REALTY

MARKET INSIGHT



LISBON

HIGHLIGHTS

- An improving economic backdrop
- On a national scale the pace of property price falls is slowing
- Several analysts suggest that Portuguese property is now undervalued
- Lisbon is outperforming the rest of the market and has experienced some reasonable price growth in recent months

BACKGROUND

The Portuguese economy grew by more than the EU average for much of the 1990s, slowed between 2001-08. Much of this growth was based upon tourism and a booming property market supported by second home buyers from North-ern Europe. As a result of the economic crisis the economy suffered greatly and contracted 2.5% in 2009 alone.

Austerity measures also have contributed to record unemployment and a wave of emigration not seen since the 1960s. Booming exports will contribute to growth and employment in 2014, but the need to continue to reduce private- and public-sector debt could weigh on consumption and investment.

The government has introduced more flexibility into the labour market, and, this, along with steps to trim the budget deficit, should make Portugal more attractive to foreign investors. Despite efforts to trim the deficit public debt stands among the highest in the EU.

Despite this, economic commentators have become more positive on Portugal's outlook in recent months. Challenges remain to be overcome with major bond refinancing in mid-2014, but there are tentative statements suggesting the worst is over.

LISBON REAL ESTATE IN 2014

Before the financial crisis began in 2008, Portuguese property prices were some of the highest in Southern Europe. Today, after years of price falls, research by the OECD suggests that property in Portugal is now undervalued by between 5 and 10 percent. This analysis is based upon ratios for rents and wages compared with the long-term average. In comparison, the same report stated that Spain remains overvalued by as much as 20%.

A report on Portugal published by the Royal Institution of Chartered Surveyors (RICS) remained more cautious about the prospects, despite a recovery in confidence. It said: "House prices remain in decline, but at the slowest pace in the survey's history. Despite this, respondents are still projecting further falls in the coming three months."

It added: "Lisbon was in fact the only area to see a pick-up in activity, whilst Porto remained stable and the Algarve experienced a marginal decline."

The general trend is supported by positive expectations, driven by the improvement in the economic environment. However concerns remain over the continued impact of strong credit restrictions still imposed by the financial institutions.

Comments by the ratings agency Fitch also show confidence in the Portuguese market. The company picked out the UK, Ireland and Portugal as the three countries most likely to see property market recoveries as a result of positive central bank policies.

However, Lisbon remains somewhat unique within Portugal. Whilst price falls are slowing everywhere and the consensus view is that Portuguese property in general is undervalued, the Lisbon market has already experienced significant recovery. Since March 2013 the market in Lisbon has been the almost exclusive beneficiary of demand generated by international investors seeking Portugal's Golden Visa.

Within Lisbon itself areas such as Baixa and Expo have seen significant price recovery although prices remain good value by European standards. This relatively rapid year on year growth has pushed demand outward to the areas close to the Lisbon metropolitan area, particularly Cascais and more recently the Silver Coast.

Around 1,000 Golden Visa applications have been passed to date, the vast majority obtained through the property investment route. Of those more than 90% are related to property purchases within and around Lisbon. The cities historical and leisure appeal is part of the reason that it has captured the majority of the Golden Visa market, but the most significant factor is its international air links. With the majority of Golden Visa buyers coming from China, Lisbon offers much easier connectivity than the Algarve.

As a whole Portugal is seen to offer excellent value at the moment. Lisbon may well have passed the bottom of the market, but it still represents good value compared to both other European capitals and its own historical prices.



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London
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Valencia
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St. George's
Grenada

Global Citizen Realty Ltd
43-44 Hoxton Square
London
N1 6PB
United Kingdom

www.globalcitizenrealty.com



+44 207 148 1557

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