

# Outlook

CRE Investment Market  
Q3 2022



# KEY TAKEAWAYS

**GDP  
GROWTH**  
2022 (p)



**+6.7%**

**10Y TREASURY  
BONDS**  
Q3 2022



**2.4%**

**CRE  
INVESTMENT**  
Q1-Q3 2022



**€1,660**  
million

**PRIME  
YIELD**  
Q3 2022



**3.75%**  
offices



## GDP Growth

The Portuguese economy should still continue its recovery path in 2022, with a growth of 6.7% as foreseen by the Bank of Portugal (BdP). As of 2023, the economic activity is expected to substantially slow down.



## 10Y TREASURY BONDS

The 10-year Portuguese Government Bonds (PGBs) registered a yield of 2.44% in the third quarter, reaching a peak of 2.89% last September.



## CRE Investment

Commercial real estate (CRE) investment in Portugal summed up €1,100 million in the third quarter, taking the total volume to exceed €1,660 million in Portugal (+35% YoY).



## Prime Yield

Prime yields recorded a general reduction compared to last year and remained stable in the last quarter.

Source: Banco de Portugal | WORX

# Outlook



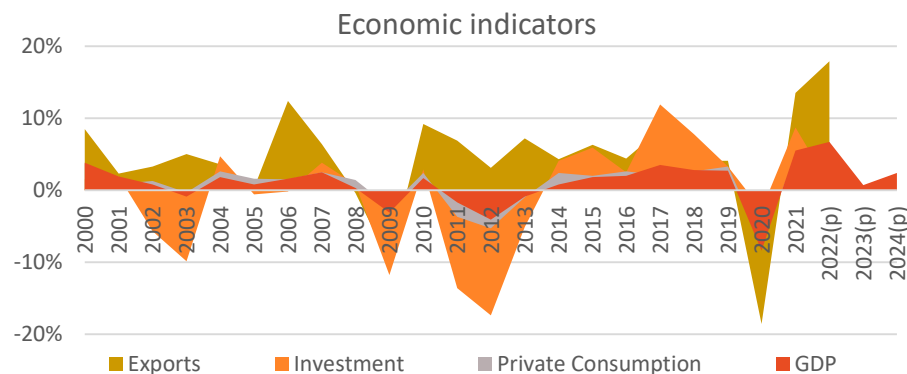
# ECO NO MY





The Portuguese economy should still continue its recovery path in 2022, with a growth of 6.7% as foreseen by the Bank of Portugal (BdP). This economic growth is mainly boosted by private consumption and exports. Families have been spending the high level of saving accumulated during the pandemic, and also the Government supporting measures provided to face the upcoming hard times, will lead private consumption to grow 5.5%. And the outstanding tourism activity, alongside with the increase in foreign demand particularly for energy goods, will drive exports to grow an historical high of 17.9%.

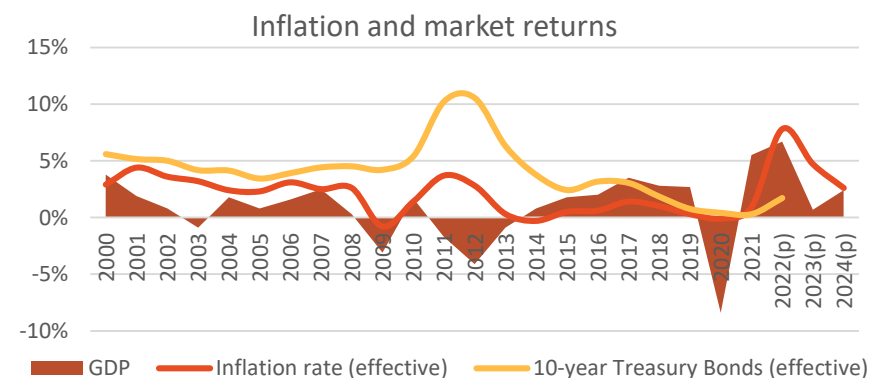
As of 2023, the economic activity is expected to substantially slow down. Without any recent forecasts from the BdP, the International Monetary Fund (IMF) has recently pointed to 0.7% Portuguese GDP growth for 2023, followed by a (too soon to say) recovery in 2024 to a growth of 2.1%.



Source: BdP | IMF | ECB (last updated in October 2022)

In a broadly overview, the European Central Bank (ECB) points to 0.9% GDP growth in 2023 and to 1.9% in 2024 for the Euro Zone. The inflation rate shows an upward trend, from 0.9% in 2021 to a forecast of 7.8% for Portugal in 2022. The recent global events, in particular the geopolitical tensions, together with the immediate impact of the shortage in some commodities like food and raw materials, should create a greater and more prolonged upward pressure on inflation. For 2023, the IMF forecasts an inflation rate at a national level of 4.7%.

The 10-year Portuguese Government Bonds (PGBs) reached a peak yield of 2.89% last September. However, the main credit rating agencies for the Portuguese debt kept the credit rates levels high. It is unlikely that this framework changes considering the tool developed by the ECB aiming to prevent an increase in peripheral countries debt spreads.







# CRE IN VEST MENT



**€1,660 million**

CRE investment volume

Commercial real estate (CRE) investment in Portugal summed up €1,100 million in the third quarter, taking the total volume to exceed €1,660 million in Portugal (+35% YoY) up to September. This was mainly from foreign origin (77%), with highlight for the North American capital.

**32%**

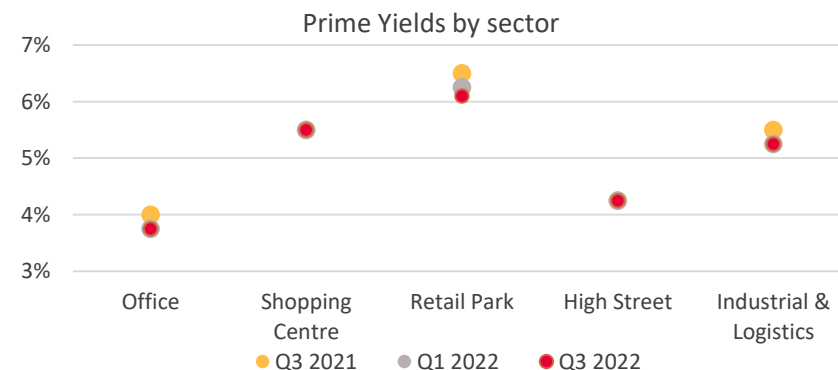
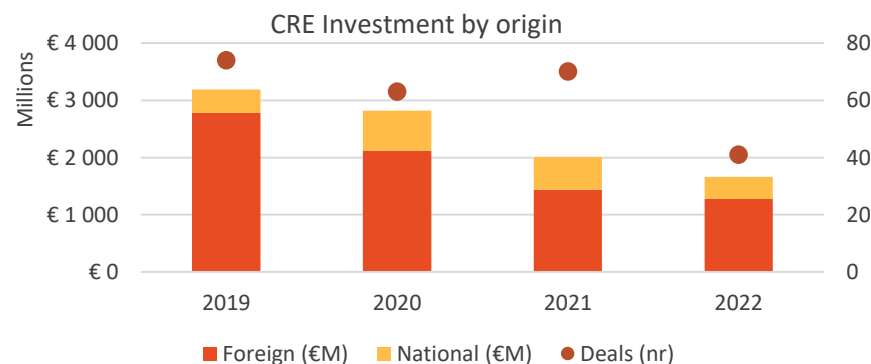
I&L investment

Given that 2 of the 4 largest transactions were in industrial & logistics (I&L) sector – 2 portfolios purchased by Blackstone, one for €208 million and another for €125 million –, it took the lead in the investment volume with 32% of the allocated capital. The office sector followed, with one portfolio composed by 3 core assets sold for €110-120 million adding to represent 30% of CRE investment. And also the hospitality sector, along with the alternative sector, representing 14% and 15% of the total investment, respectively. Purpose Built Student Accommodation (PBSA) segment stands out, with the Smart Studios portfolio sold to Round Hill Capital & Canada Pension Fund for €200 million, being the 3<sup>rd</sup> largest transaction.

**3.75%**

Prime yield - Offices

Prime yields recorded a general reduction compared to last year and remained stable in the last quarter. Retail parks (-40 bps YoY; -6% YoY; 0 bps QoQ) stand out with the greatest annual decline in prime yields.



Source: WORX

## Outlook

## TOP 5 Investment deals

**€110-120 M**

EREF Portfolio with 21,000 sq.m sold from Explorer Investments to Castel Group (Q3)

**€125 M**

Linda Portfolio with 182,000 sq.m sold from M7 Real Estate to Blackstone (Q3)

**€200 M**

Move Portfolio with 2,200 beds sold from Smart Studios to Round Hill Capital & Canada Pension Fund (Q3)

**€205 M**

Atrium Saldanha with 31,200 sq.m sold from Grupo Fiberia to Sonae Sierra & Bankinter (Q3)

**€208 M**

Connect Portfolio with 325,000 sq.m sold from Novo Banco to Blackstone (Q3)

For more information on leasing comparables, please contact us.



Source: WORX

## Outlook



# FORE CASTS

A photograph of a weathered industrial building under a clear blue sky. The building has a concrete facade with significant peeling paint and graffiti. A large, stylized eye is painted on the left side of the building. The word "believe" is painted in large, blocky letters across the lower right section of the building. The word "FORECASTS" is overlaid in large, white, sans-serif capital letters on the left side of the image. A thin white line is drawn across the upper right portion of the image, starting from the top right and curving towards the center.

believe



## EXPECTED EVOLUTION




In a macroeconomic context of tightening financial conditions, increase of reference interest rates, high inflation, the investors are closing deals at advanced stages but are adopting a “wait-to-see” approach to new investments and will enter a “price discovery” process. This may affect 2023 CRE investment volume, especially in the first half of the year.



A decompression in all sectors is expected to be seen in the foreseeable future following the increase of interest rates and risk-free (RFs), which will impact CRE prime yields. This will dictate a “new normal” for the reference yields in the market. Nevertheless, CRE continues to be an attractive investment alternative given that, although spreads to RFs may decrease, a substantial part of the capital gains of this type of assets comes from exit gains.


Source: WORX | BNPPRE

  
Strong  
increase

  
Moderate  
increase

  
Stable

  
Moderate  
decrease

  
Strong  
decrease

For more information  
on forecasts, please  
contact us.







Francisco Caldeira  
Capital Markets  
[francisco.caldeira@worx.pt](mailto:francisco.caldeira@worx.pt)



Silvia Dragomir  
Head of Research for Real Estate & Sustainability  
[silvia.dragomir@worx.pt](mailto:silvia.dragomir@worx.pt)

## CONTACTS

---

### PHONE

217 999 960  
[www.worx.pt](http://www.worx.pt)

### ADDRESS

Palacete Duque d'Ávila,  
Av. 5 de Outubro, 38  
1050-057 Lisbon  
Portugal



# Inspired in Portuguese Mural Artists

**WORA**<sup>®</sup>  
Real Estate Consultants

An alliance member of  
**BNP PARIBAS**  
REAL ESTATE

Artist: Vhils