

LAW FIRMS BENEFITTING FROM PORTUGUESE REAL ESTATE BOOM

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Portuguese real estate market could reach new high in 2016

According to Cushman & Wakefield, the volume of real estate investment in Portugal's commercial sector in 2015 exceeded the highest on record at approximately €1.9 billion, with 90 per cent of the total deriving from foreign investors. "The increasingly pronounced trend toward portfolio transactions nearly doubled the average transaction size to around €36 million in 2015," says Cushman & Wakefield managing partner Eric van Leuven. "This strong investment demand should continue into 2016, possibly reaching another all-time high in investment volume," he says.

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€1.9bn worth of deals in the last year means law firms have experienced a surge in instructions, with some recruiting more lawyers to meet demand

Commercial real estate transactions in Portugal hit an all-time high in 2015 – totalling €1.9 billion – and the level of activity is set to continue, according to leading law firms, many of which have experienced an increase in instructions and are bolstering their teams to meet client demand. Investment has been fuelled by Portugal's economic recovery and the restoration of investor confidence, in addition to the so-called 'golden visa' programme, under which Portugal granted more than 760 visas in 2015.

"We started feeling the first signs of recovery in 2013, when investors regained confidence in the market and returned," according to Tiago Mendonça de Castro, the partner who heads PLMJ's real estate practice in Lisbon.

In addition to the spike in commercial real estate deals, Mendonça de Castro adds that a large proportion of investment has been in residential real estate, especially high-end value homes not normally accessible to Portuguese investors. The golden visa programme has also been a key determining factor, as well as the tax exemption programme for foreign senior citizens.

"Portugal is an attractive market for retired foreign citizens," Mendonça de Castro says. He adds that Europeans are the main investors, but says a significant amount of investment comes from the US and China, with around 80 per cent of golden visas awarded to investors from the latter. "With this level of demand, Portugal started seeing supply problems, and construction restarted, as well as renovations," Mendonça de Castro says.

Investors have sought to take advantage of tax benefits for the conversion of old buildings into hotels, with more than 20 new hotels opening in central Lisbon in the last two years. This was in response to the country's lack of supply amid a tourism boom, in which visitor numbers have increased up by 10 per cent. There is also significant interest in vineyards and olive farms in southern

Portugal, according to Mendonça de Castro.

Competitive yields

Duarte Garin, partner at Uría Menéndez-Proença de Carvalho, says that, while there is considerable liquidity in European markets, it is becoming more difficult to acquire real estate in other countries, and that “when you compare the yields, they are much more attractive in Portugal”. He adds that concerns about leaving the Eurozone have also subsided, which has further increased Portugal's appeal.

The retail real estate sector is also booming due to tourism and a recovery in high-end consumerism, a trend that is creating big opportunities for luxury brands seeking to expand into Portugal, according to Mendonça de Castro. He also echoes the view that Lisbon's more competitive yields – in comparison with other European cities – makes the city a big draw for investors.

While some argue that cheaper real estate in Portugal is a key driver of investor interest, Filipa Arantes Pedroso, partner at MLGTS argues that the stronger economy, rather than low prices, is the reason for the surge in real estate investment. “Prices are not so low, but it's a very secure country, the economy is growing and there are many tax benefits,” she says. Arantes Pedroso says her firm has also seen an enormous increase in work and is currently looking to expand the real estate team. Lawyers see the current trend continuing, and law firms are growing their real estate practices to cope with the extra business. PLMJ, for example, recently recruited an additional real estate lawyer to meet demand. “There are deals still in the pipeline amounting to half of the investments last year, across all real estate sectors,” Mendonça de Castro says.

Meanwhile, Mendonça de Castro highlights that fees have returned to ‘2010-11 levels’. “We can now select which clients we want to work with,” he concludes.