http://www.globalpropertyguide.com/Europe/Portugal/Price-History

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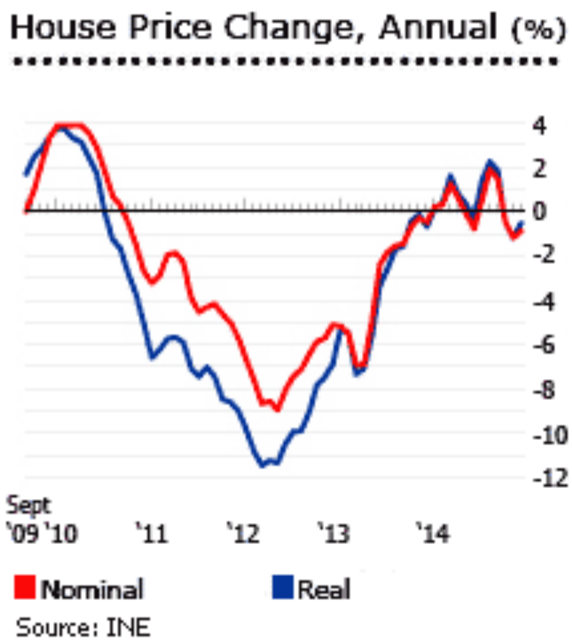
House prices are rising in Portugal, excellent value to be had



Click graph for more Portuguese house price data

Portugal's housing market continues to recover. Property prices in Portugal rose by 1.81% (1.50% in real terms) during the year to March 2015, to an average price of €1,011 (US$ 1,104.72) per square metre (sq. m.), based on figures released by Statistics Portugal (INE). After more than three years of depression, house prices in Portugal started to rise again in 2014, amidst a struggling economy.

- In **Lisbon metropolitan area**, property prices were up by 4.32% (4% in real terms) y-o-y in March 2015, to an average of €1,231 (US$ 1345.11) per sq. m.
- In **Porto metropolitan area**, house prices rose by 2.59% (2.27% in real terms) during the year to March 2015, to an average of €951 (US$ 1039.16) per sq. m.

Among urban areas **Vila Nova de Gaia** had the highest annual house price increase of 7.67% during the year to March 2015, followed by **Setúbal** (7.51%), and **Vila Nova de Famalicão** (7.06%). Other notable house price increases were recorded in **Sintra** (5.03%), **Lisboa** (4.12%), **Almada** (2.98%), **Vila Franca de Xira** (2.53%), **Matosinhos** (2.19%), and **Barcelos** (2.08%).

The municipalities with the largest annual house price declines were **Oeiras**, with a drop of 4.59%. Other municipalities struggling include **Coimbra** (-3.95%), **Cascais** (-3.61%), **Leiria** (-3.35%), and **Funchal** (-3%).

Dwelling completions continue to plunge in 2014, with completions down by 54% y-o-y to 9,429 units.

There are no restrictions on foreign property ownership in Portugal and transaction costs are generally low.

Portugal will grant a 5-year residency permit to non-EU citizens who buy a minimum of €500,000 worth of property. The permit allows holders to work or study, as well as to travel in Schengen countries. They can opt to apply for permanent residency after five years.

Property prices in Portugal are substantially down on their peak

All regions of Portugal have experienced significant house price falls since late 2007. And despite some recovery in 2009, house prices started to fall again in the last quarter of 2010. Prices only began to recover in Q4 2014. after 13 consecutive quarters of y-o-y house price declines.

HOUSE PRICE CHANGE (%)

	Average price	**Y-o-Y change**	**Q-o-Q change**	**From peak**
Portugal	1,011	0.93	0.23	-18.82
AM Lisboa	1,227	2.76	1.15	-18.92
Norte	889	1.29	0.19	-18.29
Centro	846	1.20	-0.24	-24.23
Alentejo	875	-1.83	-0.04	-29.18
Algarve	1,201	-0.61	-2.78	-23.84

Source: Instituto Nacional de Estatistica (INE)

In Q1 2015, Alentejo was 29.2% down on its peak, while Centro was down by 24.2%. House prices in the Algarve were 23.8% down on the peak, and in AM Lisboa 18.9% down. Norte had the lowest price drop from the peak at 18.3%.

Except in 2003, house price growth in Portugal has been generally lacklustre:

- 2003 - 2004: house prices rose by an average of 6.2% y-o-y (3.3% in real terms);
- 2005 - 2007: prices rose by an average of 1.25% (-1.3% in real terms);
- 2008: prices fell by an average of 4.7% (-7.1% in real terms);
- 2009: prices fell by an average of 2.6% (-1.8% in real terms);
- 2010 - 2012: house prices fell by an average of 3.1% (-5.5% in real terms)
- 2013-2014: house prices dropped by an average of 1.5% (-1.5% in real terms)

The house price boom that swept most of Europe and the developed world from the mid-1990s to 2006 completely by-passed Portugal, except in the Algarve.

Why did Portugal miss the boom? Largely because of sluggish economic growth, with a contraction of 0.9% in 2003 and average of only 1.2% GDP growth from 2004 to 2008. In 2009, the economy contracted by 2.9%. Although it grew 1.9% in 2010, Portugal's GDP fell by an average of almost 2% annually from 2011 to 2013. The economy is poised to grow by 1.5% in 2015, after 0.99% in 2014.

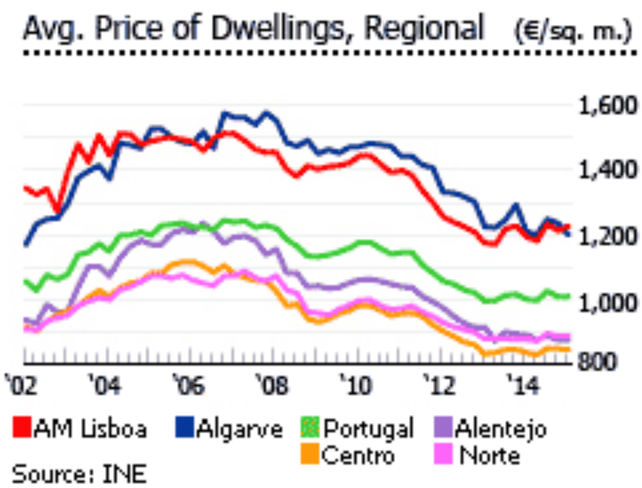
Portuguese property is very inexpensive.

If we were to take account of inflation, the price declines mentioned above would be even larger. And the Euro has fallen during the past year by around 20% against the US Dollar, and around 10% against Sterling, so from the perspective of the foreign buyer, Portuguese property prices are exceptionally low.

Portuguese property is astonishingly good value. The most expensive housing in Portugal can be found in AM Lisboa, with an average price of €1,227 (US$ 1,341) per sq. m., and in the Algarve with €1,201 (US$ 1,312) per sq. m. Global Property Guide Lisbon square metre house price research finds that Lisbon city-centre prices are higher, at around €1,800 (US$ 1,935) per square metre for 120 sq. m. Lisbon apartments.

Portugal´s house price to GDP per capita ratio is one of the lowest in Europe, according to Global Property Guide research (see table). Again in terms of square metre prices, Portugal has some of the lowest prices for city-centre property in Europe, according to Global Property Guide research (see table).

Rental yields are moderate to good



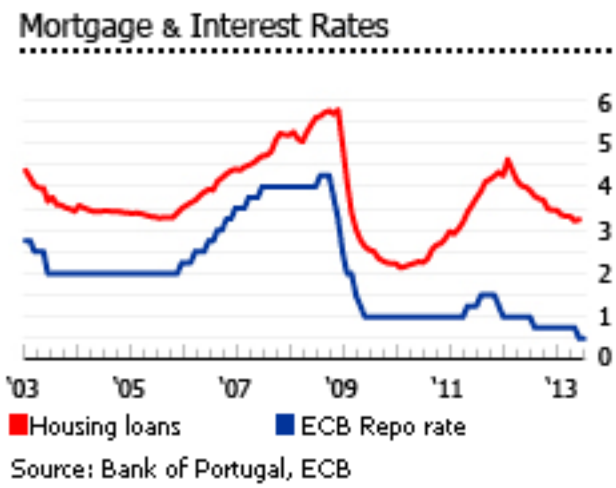
Gross rental yields in core Lisbon are moderate to good, according to Global Property Guide rental yields research of September 2014. As a reminder, the rental yield is the total percentage return you would earn as a landlord, when renting out your property. Higher rental yields of around at 6.41% are found in smaller apartment units of around 50 sq. m.. Larger apartments have much lower yields, ranging from 4.94% for units of 200 sq. m., to 5.77% for units of around 120 sq. m. But these are very acceptable yields, given the very low interest rates.

Villas in Lisbon follow a similar pattern. A 650 sq. m. villa would yield around 3.05%, while smaller villas of around 150 sq. m. to 300 sq. m. have rental yields of around 4.82% to 4.83%.

In Algarve, apartment unit gross rental yields range from 3.52% to 3.79%. Villas in Algarve have much lower yields, ranging from 2.48% to 2.76%.

In terms of price to rent ratios, a significant indicator of value, Global Property Guide research suggests that Lisbon is exceptionally good value, now that reform of the rental system has been achieved.

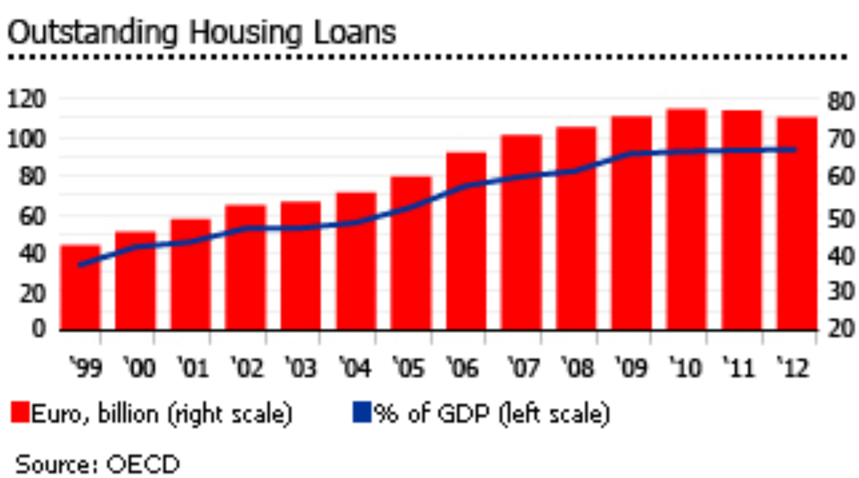
Interest rates are astonishingly low; there´s been a slight increase in loan demand



Interest rates on housing loans declined after reaching a peak of 4.62% in January 2012:

- Interest rates on housing loans fell to 2.79% in February 2015, from 3.49% rate in the same period last year, partly due to the recent rate cuts of the European Central Bank (ECB) to 0.05% in September 2014.
- The mortgage market is extremely sensitive to interest rate changes, since 93.2% of new mortgage loans approved in Q3 2014 have variable interest rates or initial rate fixation of less than one year, according to the European Mortgage Federation (EMF).

Portugal's mortgage market size has grown from 41.5% of GDP in 2000 to its current size of 64% of GDP. But housing loans have declined for three consecutive years: -0.5% in 2011, -3% in 2012, and -3.6% in 2013. Housing loans also dropped by 3.6%, during the year to Q3 2014.



According to the ECB's April 2015 Bank Lending Survey, there was a slight increase in loan demand for house purchase among households during the first quarter of 2015. The increase in demand was supported by the general level of interest rates, also aided by housing market prospects and consumer confidence. Over the next quarter, most banks expect further increase in loan demand for house purchases among households.

Pent-up rental demand - new tenancy law

Around 20% of primary residences in Portugal were rented as of 2011. Most rented dwellings have contracts with indefinite duration (58%), fewer have contracts for a limited period (32%). Even fewer have social or supported annuity contracts (9%), or sublease contracts (2%).

Portugal has one of the highest owner-occupation rates in Europe, generous government mortgage subsidies having helped push up owner occupation from 52% of all housing in 1981, to 70% in 2013. Meanwhile the private rental market has shrunk from 39% of total dwelling stock in 1981, to 18% in 2008. The social rental sector is small at around 3% of the total housing stock, or 16% of total rental stock.

The shrinking of private rental market was caused by tenancy laws that discouraged landlordism by giving tenants controlled rents and protecting them against eviction. As a result, young people either live at home, or pay exorbitant key money, or buy an apartment.

This has led to a considerable pent-up demand for rental housing.

Rents have rarely been sufficient to maintain dwellings in good condition. Most landlords previously refused to rent due to "lack of collateral" according to Antonio Frias Marques, president of the National Association of Landlords (NPA). Despite this there is actually substantial oversupply, with a relatively high degree of second-home ownership (19.3% in 2011) and vacancy (12.5% of housing stock in 2011).

New lease law 31/2012

On August 14, 2012, the Portuguese government approved new legal measure, Law 31/2012, to reform the current urban lease regime. It is part of the condition for the country's €78bn bailout agreement from the IMF, ECB and European Commission.

Changes in the law include the following:

- The new legislation allows parties to agree on any specific period for the duration of the lease, instead of the previous minimum of 5 years. If a period is not defined in the contract, the lease is assumed to be set for two years, which can be renewed automatically.
- There is now a procedure for revising rental values: (1) landlord proposes a new rent to the tenant; (2) the tenant accepts or suggests a counterproposal; (3 if no agreement is reached the agreement may be terminated, and the landlord pays five years' worth of rent as compensation. Exemption is given to tenants with financial difficulties, who enter a transitional regime with small rent increases for five years. A special transitional regime is also applicable to tenants over 65 years old, or with 60% disability.
- As with the previous law, in case of death of the tenant, the lease will be transferred to the spouse, common law spouse, or relatives, but now only for a period of two years. The tenant's beneficiaries are not allowed to hold purchased or rented property within the same municipality, or in Lisbon and Oporto's case in neighbouring municipalities either.

The new law also strengthens the landlord´s ability to terminate a lease agreement:

- The landlord has the right to terminate the contract if the tenant fails to pay two consecutive rents and still hasn't paid the rents due at the end of the third month.

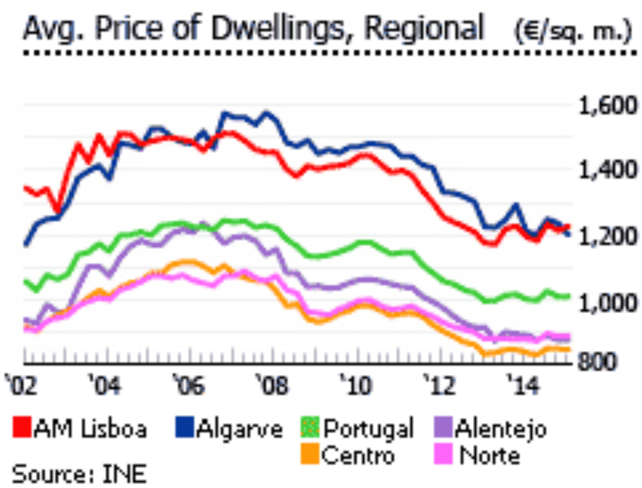
- If the tenant fails to pay on time (or more than eight days after the due date) for four times in a year, the landlord can terminate the contract.
- The landlord is allowed to terminate the contract by notifying the tenant of its intention to terminate the contract with at least two years notice.
- If the landlord wishes to demolish or undertake works on the property, he may also terminate the lease.

The law aims to update the rents of older contracts, as well as amending the Law 6/2006 or the New Urban Lease Act (Novo Regime de Arrendamento Urbano – "NRAU") – an attempt to solve old lease issues.

The new legislation also includes a special procedure on evicting tenants who do not vacate the property on the specified date by the court or the contract. It also creates the National Office for the Leases (*Balcão Nacional de Arrendamento*) where a landlord may apply so as to notify the tenant to vacate the property.

Landlords felt the new laws were long overdue. According to the President of the Lisbon Property Owners´ Association, Luis Menezes Leitao, foreigners find the old law hard to believe, and he recounts that some people in central Lisbon pay rents as low as €5 a month.

Construction activity set to turn up



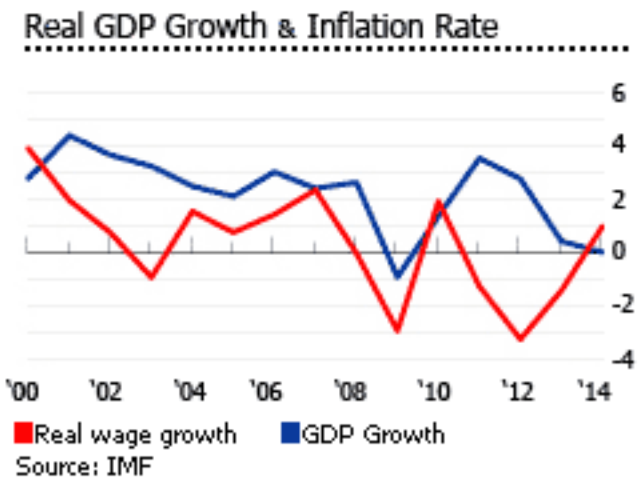
Construction activity in Portugal has been in decline since 2002. Building completions buildings fell by 35.7% y-o-y during the last quarter of 2014, but this was actually a lower decline than the 42.3% y-o-y decline in Q3 2014. And there are other hopeful signs. The number of dwelling permits for new family housing construction rose by 17.3% during the year to Q4 2014, an improvement on the 11.6% y-o-y decline the previous quarter. Lisbon (85.7%), Madeira (84.6%) and Algarve (63.6%) had large increases in the number of dwelling permits for family housing during the year to Q4 2014; only Alentejo (-42.1%) and Azores (-27.3%) experienced declines.

In terms of dwelling completions, all regions had annual declines especially in Lisbon (-72.9%) and Madeira (-68.2%) which had the sharpest drops.

- The number of for family housing completions fell to 20,689 units in 2013, from a peak of 125,708 units in 2002.

- The number of new dwelling permits fell to 7,286 in 2013 from an annual average of almost 120,000 units from 1998 to 2001.

Slowly, slowly: Portugal's economic growth continues in 2015

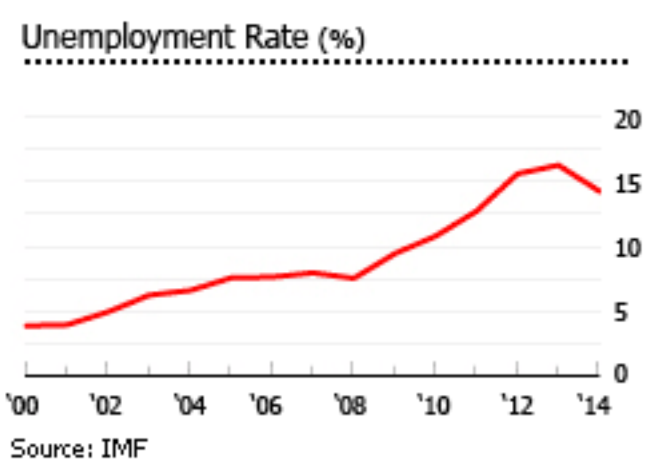


In 2014, the Portuguese economy´s GDP expanding by 0.9%, according to the Bank of Portugal, pushing it out of its previous recession. The gradual recovery started in late 2013. Growth in 2014 was supported by the increase in private consumption and, to a lesser extent, investment.

This good news comes after a series of dismal years. Portugal's economy contracted by 1.4% in 2013, 3.2% in 2012, and by another 1.3% in 2011, according to the IMF. In 2010, the economy grew by 1.9%, but in 2009 GDP contracted by 2.9%, after average annual growth of only 1.2% between 2004 and 2008.

The economy is expected to continue its gradual recovery. In 2015, Portugal's GDP is predicted to grow by 1.7%, followed by 1.9% in 2016, and 2% in 2017.

After three years of austerity, Portugal was the second euro zone country to exit the bailout program in May 2014. Portugal had sought its €78 billion (US$ 88.6 billion) bailout program in 2011, due to the government's inability to meet its debt payments.



"The Portuguese authorities have established a strong track record of policy implementation to address the country´s long-standing structural problems…This bodes well as Portugal exits its EU/IMF-supported programme," according to Christine Lagarde, IMF's Managing Director.

Portugal still faces a huge public debt burden of around €225 billion (US$ 247.54 billion) or around 130.2% of GDP. Its fiscal deficit stands at 4.5% of GDP in 2014, according to the Statistics Portugal (INE), but is expected to fall to around 2.7% of GDP in 2015.

Inflation slowed to 0.04% in 2014 according to the IMF.

Unemployment remains high at around 13.5% in March 2015, down from 14.7% in March 2014, according to INE.