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Monthly Report | Real Estate Market | July 2020



Lisboa | Linha de Cascais | Ribatejo | Master Minas Gerais, Brasil



Which factors drive real estate markets?



Utility / Need
Demography / Professional mobility
Visibility in a globalised world



Domestic and international economy



New Segments compete for the same space - (Tourism Growth triggered many businesses)



Confidence

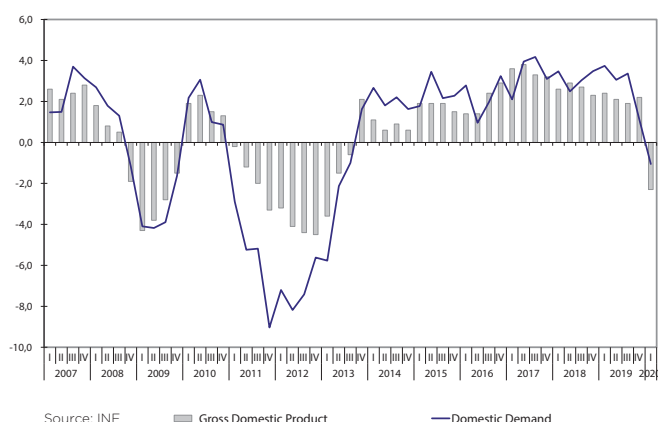
What we already know about the effects of the “stoppage of the economy”?

After only 15 days of March, growth in GDP went from +2.2% to -2.4%. It is estimated that the drop in March could have been in the order of 10%.

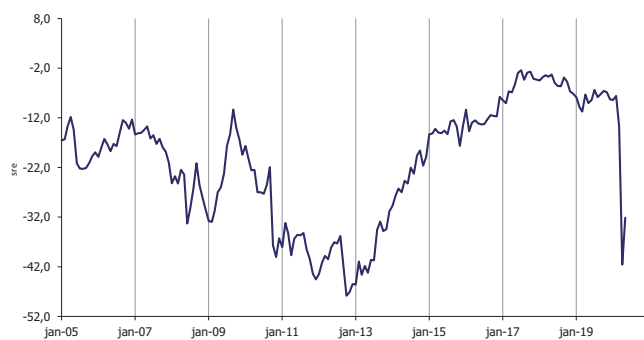
In the initial period of deconfinement (1st weeks in May) confidence indicators already showed a recovery in the levels of confidence that had reached all-time lows.

Gross Domestic Product and Domestic Demand Volume (Year of reference=2016)

Rate of year-on-year change, %

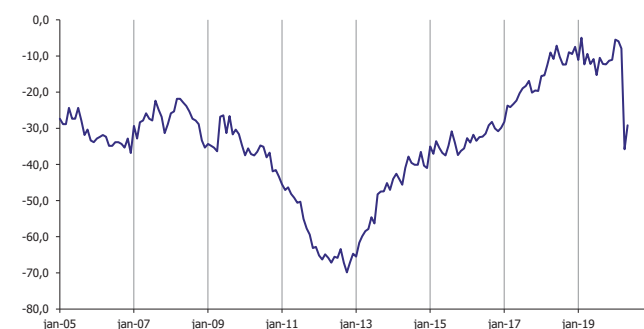


GDP
-2,3%
in March



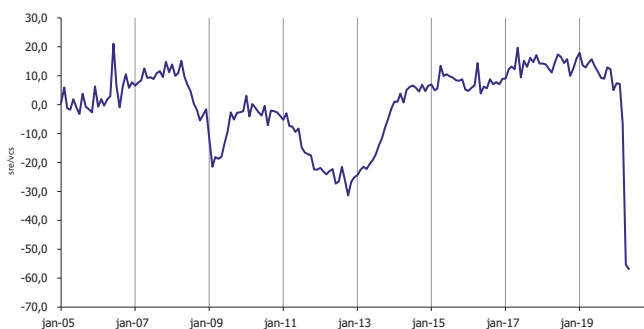
Source: INE

► Consumer Confidence



Source: INE

► Confidence of Construction and Public Works



Source: INE

► Confidence of Services

Macroeconomic forecasts

Macroeconomic Forecasts for Portugal have been adjusted in line with those of the other world economies

2020						2021			
GDP	Date	Government	BPortugal	EC	IMF	Government	BPortugal	EC	IMF
	June	-6,90%	-9,50%			4,30%	5,20%		
	May			-6,80%				5,80%	
	April				-8%				
	March		-3,70%				0,70%		
Unemployment									
	June		10,10%			8,70%	8,90%		



What happens in a crisis?

1st

TRANSACTIONS FALL



2nd

PRICES DROP



Once things have stabilised once more, transactions start to increase again (not to the level they were at before the crisis... first confidence needs to stabilise). Prices are slow to recover (this has to do with the production cycle in the real estate sector). But Prices also did not fall at the same rate in all locations or segments.

For example, in **2007-2013**

**LISBON
EXISTING HOMES**

-20%

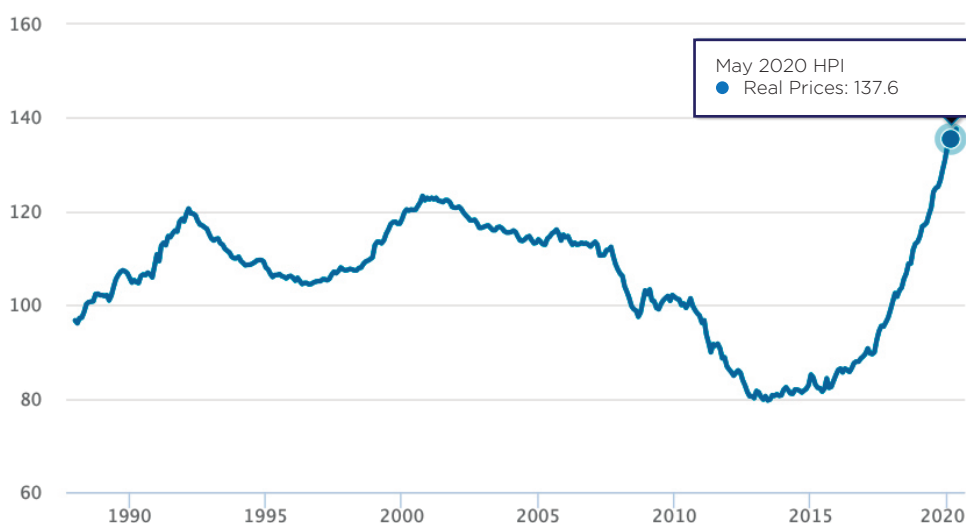
**PERIPHERY
EXISTING HOMES**

-30 TO 45%

The new buildings in the peripheries, totally exposed to credit, were those that suffered most

What happened in the last crisis?

House price index Ci - VERSION IN REAL PRICES
Continental Portugal - Long Series (Base 2010=100)



Fall 35%

Rise 73%

Variation
between peaks +12%
(19 years)

Source: Confidencial Imobiliário



Banking Crisis - NPL's



Application for financial assistance
(State could not support the economy)
Government debt around 110% (but
there was more hidden debt)



Greater fiscal pressure in the
following years...



The cycle of falling prices took 6 years (2007/2013). The recovery of values at real prices took 6 years (2013-2019). The rise was not uniform, but rather by "themes" (Foreign investors; Historic Centres; Urban renewal; Projects connected to Tourism, etc)

What will happen now?



Unemployment with immediate effect / less accentuated NPL (Loan To Value of credit granted until the end of 2018 is at comfortable levels)



Low / negative interest rates (support from the European Central Bank)



The State is propping up the Economy with the support of the European Community – and with all the subsidies. Public debt is at 115%, tomorrow it will be 140% and Social Security will start to collapse if the economy and unemployment do not pick up right away in 2021.



Greater fiscal pressure in the future (and in the past the real estate sector was the target of measures to increase tax revenue)



What is different now?



The crisis is global and not just of one country or region so there is no clear “flight to quality” as is typical in crises.
- Good for more indebted countries



Although rents will go down, the yields required may also drop further, curbing the fall in prices. This is because although the increase in risk should lead to an increase in yields, the alternative investments do not generate income.



Interest rates at minimum levels in all the developed countries. In Portugal too! In the last crisis Portuguese Public Debt struggled with the highest rates ever since the Euro.



Companies and Individuals (in principle) are less indebted than in the last crisis.

What is our greatest weakness?



Foreign tourism will not return very soon. Besides the fear factor, the cost of flights will go up and Portugal does not have alternative forms of transport, we are the furthest away from the centre of Europe and depend more on air travel. In April the occupation rate in short term rentals were below 20% (+/- 60% in 2019 in the same period) and in May they dropped to 8% and prices started to fall (-6%).

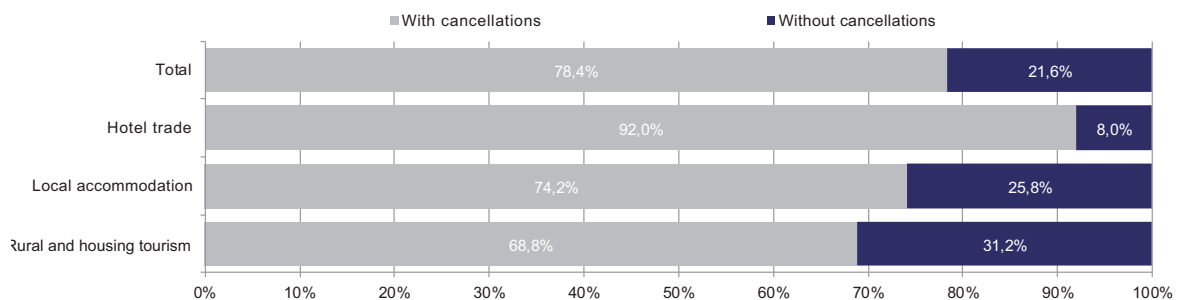
In the last ten years the Balance of Tourism accounted for a large part of the recovery of the external accounts, the reduction in unemployment and the growth in GDP. The balance in each of the last 3 years (+/- 12MME) was more than double the capital imports of the whole Golden Visa program over the last 7 years (+/- 5 billion Euros) or 8 times the total invested by foreigners in the urban recovery areas of Lisbon in 2019!

Years	Balance	Exports	Imports
2009	4.195,58	6.907,84	2.712,26
2010	4.648,45	7.601,27	2.952,82
2011	5.171,99	8.145,56	2.973,57
2012	5.659,57	8.605,54	2.945,97
2013	6.218,29	9.156,98	2.938,69
2014	7.156,89	10.284,20	3.127,32
2015	8.272,63	11.605,21	3.332,58
2016	9.261,18	12.811,41	(R)3.550,23
2017	11.500,36	15.550,37	(R)4.050,01
2018	12.469,11	17.053,55	4.584,44
2019	13.130,87	18.430,72	5.299,86



As a result, the deficit of the external accounts to April quadrupled to 864 million Euros. Tourism penalised the balance of services by over a billion Euros.

Proportion of establishments with cancellation of bookings, by segment of establishment



Which Locations/ Segments will suffer most?



Those purchased by people more prone to losing income and to uncertainty in the labour market. Typically in the peripheries but this time the sudden emptying of the Historic Centres can create two rings of crisis.



Those that centered their price increase in tourism growth / short term rentals - Historic Centres / mainly in less upscale neighbourhoods which do not compete with high-end housing - (Alfama, etc...) but also properties built for this purpose (T0 and small T1) - the offer can be unsuitable for the new requirements.



Land / buildings for renovation in the more central areas - With the disappearance of the pressure from tourism, the demand for the installation of hotels (a sector which will be in oversupply perhaps for some years) will cease to exist. Renovation for purposes of short term rentals too. Some projects may be converted to bigger typologies but, with the increase of areas, the €/m2 will have to come down so that the total final value is affordable. The promotor's whole equation will therefore be adjusted down to the purchase of the raw material (land/ building).



What do the Databases tell us in these first months post Covid 19?



On 19 June the National Statistics Institute (INE) published a preliminary report on the impact on the real estate market, still relating to March, which already showed the impact on sales. The effect extended to the lease market but even more abruptly. We should point out the fact that the Lezíria do Tejo zone is in counter-cycle, evidence of the increase in demand for dwellings outside of the urban centres.

Designation

Relationship between the number of sales of family accommodation in March of 2020 (last 3 months) compared with the same period a year earlier (No.)

	Apr 20	Variation
Portugal	0,83	
Metropolitan Area of Porto	0,82	-18%
West	0,78	-22%
	0,81	-19%
Área Metropolitana de Lisboa	0,86	-14%
Metropolitan Area of Lisbon	1,07	7%
Algarve	0,76	-24%



Período de referência

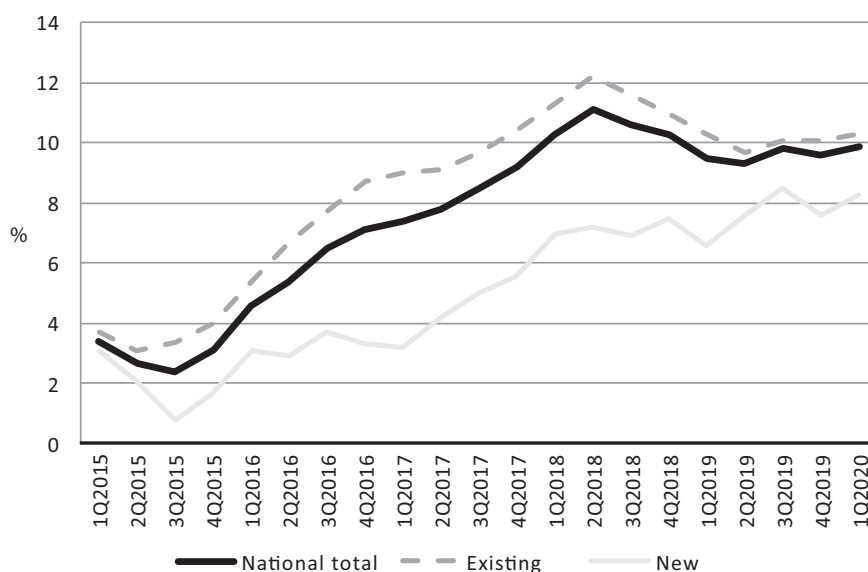
Número de novos contratos de arrendamento (últimos 3 meses) por mil alojamentos familiares clássicos (N.º / 1 000)

	Portugal	North	Centre	Lisbon Met. Area	Algarve
oct/19	3,70	3,65	3,54	4,59	2,92
nov/19	3,65	3,57	3,48	4,49	3,34
dec/19	3,11	2,95	2,85	4,04	3,18
jan/20	3,13	2,98	2,81	4,10	3,17
feb/20	3,18	3,00	2,83	4,17	3,29
mar/20	3,23	3,10	2,83	4,20	3,34
abr/20	2,15	2,08	1,85	2,86	2,09
Variation April/March	-31%			-30%	

On 23 June, INE's regular reporting on the no. of housing transactions in the 1st quarter confirms a quarter that is still positive with the variation in the price index showing an increase of 10.3% and a number of sales that was very similar to the same period of the previous year - but with higher turnover (1% higher average value of buildings)

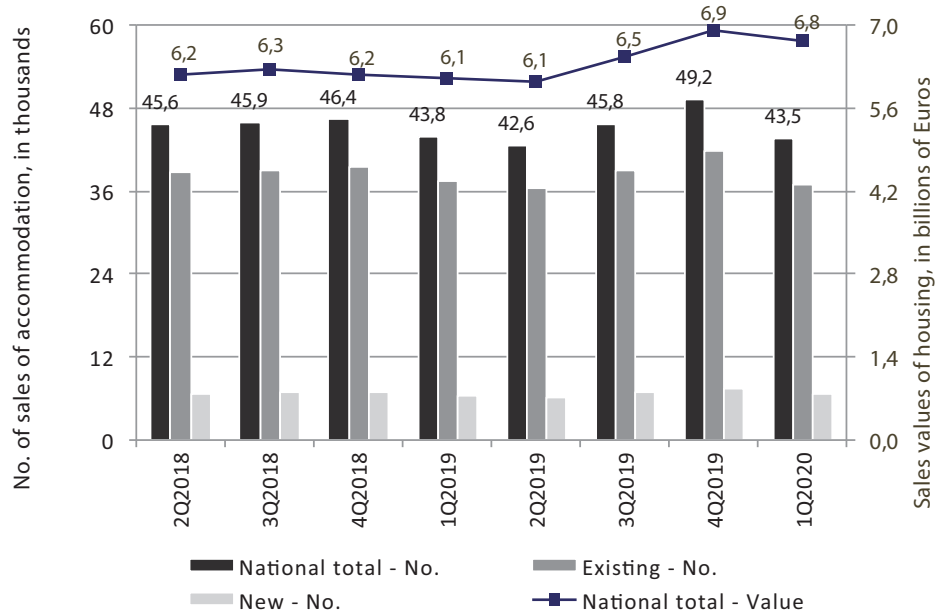
We should not forget that these are deed values, and as there is a time lag. We will have to wait another quarter in order to have a better picture of the behaviour in this indicator.

Average variation of the HPI, 172015 - 172020



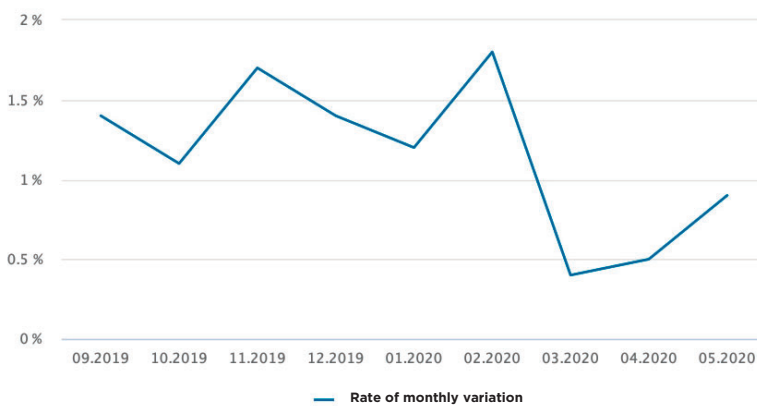


Indicator of the number and sales values of housing, national total, existing and new, 2Q2018 - 1Q2020



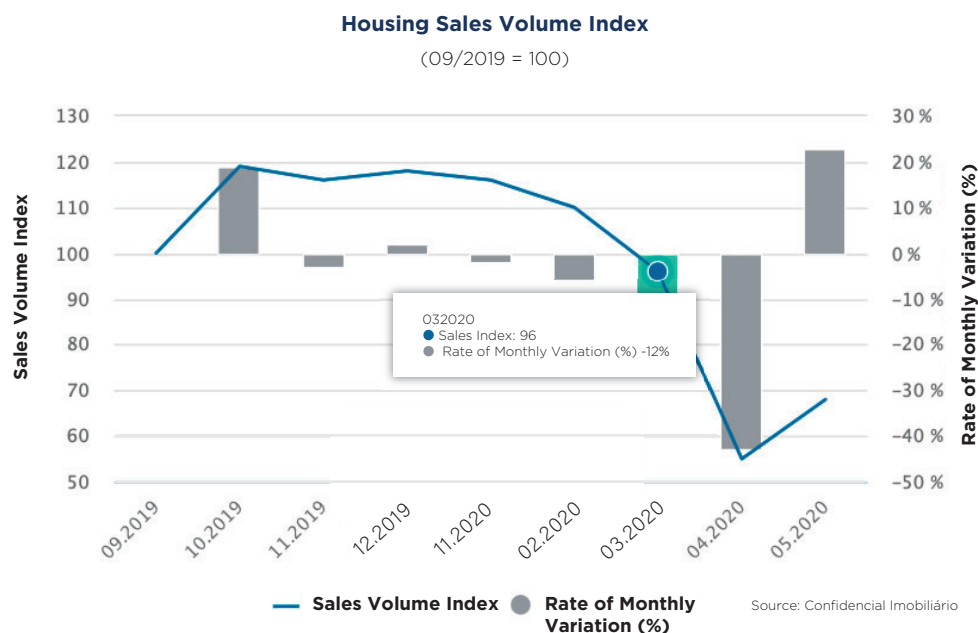
Rate of monthly variation

House Price Index Ci - Continental Portugal



Source: Confidencial Imobiliário

In the SIR database for May (published by Confidencial Imobiliário) the number of transactions fell to 60% of what the values were one year ago but recovered to 70% in May. The transactions were mostly carried out in a lower price range than before, especially in the period of the 2nd fortnight in March and in the month of April. In May and already in June the range of prices rose once again, albeit only slightly.



News on the renting market, a Market for Investors



The disclosure of Lisbon City Hall's "Programa Renda Segura" (PRS - Safe Rent Program), once again puts the spotlight on this market.



The program aims to make rentals more accessible in the city of Lisbon with the supply of privately owned properties in which the tenant will be Lisbon City Hall which will sublet them at a cheaper level.



The lease market may once again be (as it was in the crisis of 2010-2013) an alternative for the placement of vacant houses who cannot currently find a purchaser in the market.



On the other hand, it creates a new segment for investors in the real estate market who are looking for revenue and who value the stability in the relationship with the Tenant and less conflict in the management of rent collection.

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NEW OPPORTUNITIES**