



FOREIGN INVESTMENT: a turning point... in two gears

MIGUEL MARQUES DOS SANTOS | Lawyer and Partner, *GARRIGUES PORTUGAL*

Foreign investment is an essential factor for the development of the real estate market of any country. Portugal is no exception. The time we're going through now is a turning point (in the positive sense), albeit with a market reacting in two gears.

Things have been very positive in the commercial real estate investment area (largely in part to investors from BRIC countries, particularly Brazil and China) and residential real estate investment (essentially because of the Golden Visa scheme). And all the indicators seem to point to things getting even better.

On the downside, in the real estate development area (now mainly urban renewal), developments have been much slower and harder (with some good examples, but these are the exception rather than the rule). While to ensure growth in the investment area the Government needs to follow its current course without making huge changes, in the real estate development area growth is less certain and depends on a number of factors that could take some time to achieve. Let's take a look at each one in turn:

INVESTMENT

Since the beginning of the bailout in 2011, very important steps were taken to stabilise and bolster the country's credibility, which have born extremely important fruits in terms of foreign investment in commercial real estate. After an abrupt fall in investment, which plummeted from a high of around €1.4Bn in 2007 to a minimum of around €100 million in 2012, 2013 was a year of clear recovery, with estimates (still provisional) for investment amounts of between €300 and €400 million. International investors are sitting up and taking notice of the positive indicators in the Portuguese economy (reduction in the sovereign bond interest rates, positive external balance of payments, notable recovery in exports, end of the recession, lowering of unemployment, etc.) and are once again seeing Portugal as one of the potential destinations for their investments. At the beginning they

were essentially less institutional investors who were willing to take a risk (particularly European Family Offices and investors from economies with booming growth rates like Brazil and China), but more recently we've been seeing examples that confirm that European institutional investors, always more conservative, are also looking at Portugal, with some relevant transactions in recent months. If the course followed over the past two years is maintained (with improved public accounts, improved external image of the country and implementation of the recently approved Corporation Tax reform), then international investors will continue to have a positive opinion about the country, which will ensure the continuity of the growth seen throughout 2013.

Along with this good news in terms of commercial real estate, 2013 also brought good news in terms of residential real estate, with the appearance of a new investment market in the residential area: the individual foreign investment market in residential real estate. Portugal was able to create a new market from scratch, based on a very well structured Golden Visa programme, which has been developing and continues to enjoy excellent growth potential. In 2013 total investment turnover has been of around €280m and the forecasts show that in the coming years it is reasonable to suggest that investment turnover of €400m to €500m per year is achievable. This new market will enable Portugal to practically double its annual foreign investment turnover in the Portuguese real estate market (to an annual commercial real estate investment turnover of around €700m-€800m, we will add now a residential real estate investment turnover of around €500m per year), which well illustrates the potential of this new market. Here too the philosophy should be one of maintaining course. The Golden Visa regime has been well received by investors, available assets are attractively priced and there are more and more areas of the world with investors interested in securing an open door into Europe and Schengen.

REAL ESTATE DEVELOPMENT (URBAN RENEWAL)

In recent years, Portugal has made considerable strides in creating an auspicious environment for urban renewal. A very attractive tax regime was created and an urban renewal regime was approved which give local councils ample powers to create urban renewal policies (Lisbon Council has made considerable efforts to harness the potential of this regime), a new regime has been approved for undertaking improvement works on rented buildings and financial sweeteners were set up for urban renewal. All these conditions have created a solid base so that investors can develop their projects. On the other hand, the Golden Visa programme has also had a very important role in clearing out available property excess stock.

But unlike the investment situation with regards to already built commercial and residential real estate, investment in new real estate development depends on factors (micro-economic ones) the success of which is by its very nature, slower. Factors such as availability of finance and the recovery of the home consumer market, that only now are starting to show some timid improvements, will from now on have relevant consequences in the recovery of the real estate development market. Foreign investment in real estate development can't enjoy the same pace as investment in ready assets. In any case, real estate development opportunities are cropping up. And there is a fact that investors can't ignore – the good projects are sold out.

There are no doubts now that we are seeing a turning point, even if the market is operating in two gears. In the investment area, growth is now an evident reality and looks set to grow. In the real estate development area (especially urban renewal) change is still under way and, although it will surely take some time to happen, there are already attractive business opportunities out there which investors simply can't ignore. ■