THE PROPERTY HANDBOOK

All you need to know about
Investing in Portugal

CBRE GARRIGUES

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INTRODUCTION

Fostering a growth environment in Portugal

In 2011 Portugal was on the brink of a major crisis in its public finances. A pattern of successive deficits, low growth and an exponential rise in public debt, together with the financial crisis in Europe, culminated in a situation that bordered on the unsustainable.

Faced with this imminent threat, Portugal negotiated with its international partners of the IMF and EU a comprehensive and ambitious adjustment programme to restore credibility, solve our macro imbalances and reform our economy.

The challenge was great, but the response has been effective.

Portugal faced a huge task. But the Portuguese people and the since elected government understood that the situation was also a once in a lifetime opportunity to change a country.

The three major political parties were aligned with the need for change, our international partners stood ready to support us and the people understood that though painful, Portugal needed to rebalance its public accounts and reform its stagnant business environment.

What we achieved

In little more than one year, we were able to reduce our primary expenditure from around 48% of GDP down to 42% of GDP.

Over this period we had five successful reviews of our programme, carried out by the ECB, the EC and the IMF. This means that the country is doing what it takes, it is meeting its commitments, it is adjusting and implementing the ambitious reform package contained in the program.

We have approved a new rental law and renovation works law, which liberalises the conditions for the development of the rental market in Portugal, and simultaneously simplifies the urban rehabilitation procedures, which will help the urban rehabilitation of several buildings in the city centres.

A new Competition law was approved, and we are overhauling our regulatory architecture – these moves are decisive in fostering a level-playing field for all companies. For many years, visible and invisible barriers curtailed the growth of our most innovative and agile companies.

The new insolvency law, already in force, and the proposed revision of the civil procedure code, are decisive in generating a more business-friendly legal environment. Our entrepreneurs and workers in general, when faced with a legal issue, had to face prolonged and costly legal battles.

The transposition of the services directive, the elimination of excessive restrictions in the access to professions or the removal of most licensing requirement, are all decisive steps in lowering barriers in our economy. Portuguese companies faced numerous bureaucratic hurdles that hindered growth and innovation.

We approved, in agreement with most social partners, major changes in our labour code, eliminating long standing rigidities that protected a few, to the detriment of most. And we are reforming our product markets, reducing rents in sheltered sectors, thus benefiting the dynamic agents of our society.

These reforms are already creating a more open Portuguese economy, which is a precondition to kick-start growth and promote a resilient economy.

Portugal, the Portuguese people, our companies and the government decided to thread a different path – a path of fiscal responsibility and structural transformation, towards a more balanced society, one which is centred on merit but protective of the less fortunate.

With the structural reforms we are implementing we have the ambition to foster one of the friendliest business environments in Europe – we want to help our companies succeed, promote new companies and attract foreign investment.

There is still much to be done in the coming months and years.

And no doubt, looking beyond our borders, we are facing strong headwinds.

But I think we are on the right path and I think we will exit this crisis in better shape to face the future.

Carlos Moedas
Secretary of State to the Prime Minister

AT A GLANCE

Property Market at a Glance

Office Market	• Total Stock (Q4 2012): 4.5 million sq m • Average Take-Up (10 yrs): 150,000 sq m • CBD Prime Rent (Q4 2012): €18.5/sq m/month • Lisbon Vacancy Rate (Q4 2012): 12%
Retail Market	• Total Stock in Retail Schemes (Q4 2012): 3.5 million sq m • Total Stock in Shopping Centres (Q4 2012): 2.8 million sq m • Prime High Street Retail Locations: Av. Liberdade and Chiado • Shopping Centre Prime Rent (Q4 2012): €85/sq m/month • High Street Prime Rent (Q4 2012): €85/sq m/month
Warehouse and Logistics Market	• Average Take-Up (7 yrs): c. 170,000 sq m • Prime Rent for Logistics (Q4 2012): €3.25/sq m/month
Investment Market	• Highest Annual Investment Turnover (2007): €1.401 million • Lowest Annual Investment Turnover (2012): €100 million • Office Gross Prime Yield (Q4 2012): 8.25% • Shopping Center Net Prime Yield (Q2 2012): 7.75% • High Street Gross Prime Yield (Q4 2012): 7.50% • Industrial and Logistics Gross Prime Yield (Q4 2012): 9.50%

Legal at a Glance

Ownership

- "Ownership right" is the broadest and strongest title over real estate in Portugal. It grants its titleholder full and exclusive rights of use, fruition, and disposal of real estate, unlimited in time, within the limits of the law (comparable to "freehold title" in common law systems).
- Portuguese legislation establishes other forms of property tenancy such as horizontal property, surface rights, etc.

Lease

- The most commonly used contractual arrangements for offices, logistics and high-street retail segments are standard leases executed under the Portuguese "urban lease law" ("standard commercial leases").

  The "urban lease law" is quite flexible, allowing the parties to freely stipulate the main terms and conditions of the lease (such as duration, renewal, termination options, rent review, cost allocation, etc.).
- The lease of retail units in shopping centers, retail parks and other similar commercial schemes is normally carried out through "shopping center leases". These leases are considered as contractual arrangements not regulated by any specific legal framework, and therefore are not subject to the legal framework of the "urban lease law", but only subject to the general legal framework applicable to contracts. These agreements tend to follow market standards of the specific segment in question.

Real Estate Transactions

- Direct transfer of rights over real property in Portugal (asset deal) is done either by means of a public deed, or a private document certified by a notary, a Land Registry Office or a lawyer (the most commonly used form is the public deed). The transfer of title must be registered at the Land Registry office within 30 days of the transaction.

  Portuguese Land Registry offices are public record offices which register information on the legal status of real estate (description of the property, ownership, charges, mortgages, encumbrances and/or other rights *in rem*).
- Indirect transfer of real property, through the transfer of shares of a Portuguese company owning the property (share deal), is made by means of a private document entered into by the relevant parties, which does not need to be notarized.

  The acquisition of an interest in a Portuguese company may be subject to further formalities, such as communications to the company and to public authorities and, in case of acquisition of interest in a quota company (a specific type of limited liability company available in Portugal), registration with the Portuguese Companies Registry.

Foreign Investment

- There are no restrictions on foreign investment in Portugal.
  However, among other formalities, foreign investors must obtain a Portuguese tax identification number and, foreign investors with tax residence outside the EU must appoint a Portuguese tax resident (individual or legal entity) as their legal representative before the Portuguese tax authorities.

Real Estate Financing

- Real estate financing in Portugal is usually secured against the property assets and/or the shares of the property owning company and/or property generated income.
- Mortgages are the most common securities provided in real estate transactions in Portugal. They consist of a right *in rem* that grants to the creditor, in case of breach, the right to be paid by the value of the property, with priority in relation to other creditors (provided other creditors do not benefit from special privileges, such as it would be the case, for example, of the tax authorities in respect of property taxes).
- Pledges over shares and pledges over receivables are commonly used in Portugal.

Tax at a Glance

Asset Deal	**Acquisition of real estate**	IMT (Property Transfer Tax)	General regime rates (levied on the acquisition value or the taxable value of the property, if higher): URBAN PROPERTIES: • Residential purposes: from 0% to 6%. • Other (including comercial property): 6.5%. RURAL PROPERTIES: 5% Transfer of properties to entities resident in tax havens: 10%.
		Stamp Duty	0.8% (levied on the acquisition value or the taxable value of the property, if higher); stamp duty is excluded in case VAT exemption is waived.
	Property holding	IMI (Municipal Property Tax)	General regime rates (levied on the taxable value of the property): • 0.3% to 0.5% (urban properties)*. • 0.8% (rural properties). Properties owned by entities resident in tax havens: 7.5% (*) 0.5% to 0.8% for urban properties where the respective taxable value has not been assessed by the tax authorities after December 1, 2003.
		Stamp Duty	1% levied on the taxable value of the property when equal or higher than €1,000,000 and allocated to residential use (except for properties owned by entities resident in tax havens, where the applicable rate will be 7.5% on all properties regardless of its use).
	Property Income	IRC (Corporate Income Tax - CIT)	PORTUGUESE COMPANY : • Property income is included in the global taxable income for taxation purposes (please refer to "profits" in the next page). • Subject to withholding at the rate of 25% (companies whose statutory scope of business includes the management of owned properties are not subject to withholding). FOREIGN INVESTOR: • Property income is subject to withholding at the rate of 25% on the gross amount of the lease income (only maintenance and repair expenses, plus IMI payments, are deductible).
	Sale of real estate	Capital gains	PORTUGUESE COMPANY: • Capital gains are subject to CIT and are included in the global taxable income (please refer to profits in the next page). In case of reinvestment, taxation may be limited to 50% of the capital gain. FOREIGN INVESTOR: • Capital gains are subject to CIT at 25%.

Tax at a Glance

Share Deal	**Acquisition of shares**	IMT/Other taxes	No taxation provided the target company is a joint stock company. If the target company is a quota company and an interest of 75% or more is acquired, IMT will be levied on the transaction by reference to the percentage of share capital acquired, on the value of the property in proportion to the book value of the total assets of the company.
	Activity	Profits	CIT: 25% MUNICIPAL SURTAX: 0% to 1,5% (levied on the taxable profits before the deduction of tax losses carried forward from previous years). STATE SURTAX (levied on the taxable profits before the deduction of tax losses carried forward from previous years): • 3% from €1,500,000 to €7,500,000. • 5% in what exceeds €7,500,000.
		Dividends	PORTUGUESE COMPANY: • 0% (if certain conditions are met) or general CIT regime. FOREIGN INVESTOR: • 0% (if certain conditions are met) or 25% (with a possible reduction to a rate of between 5% to 15% under the relevant Tax Treaty where applicable).
	Sale of shares	Capital gains	PORTUGUESE COMPANY: • Subject to the general CIT regime. FOREIGN INVESTOR: • 0% (if no taxation is due under the relevant Tax Treaty) or 25% (notably if at least 50% of the company's assets are comprised of property assets).

1. MACROECONOMIC PICTURE

After 2.7% **Gross Domestic Product** (GDP) average growth in the last decade of the millennium (1990-1999), 2000 was the last year with an economic growth higher than this average. Since then, Portugal has witnessed a stagnation period with recession in 2003 and 2009. Despite an increase of 1.4% in 2010 GDP, quarterly figures show a continuous fall in this indicator from the beginning of 2011. The Bank of Portugal points towards a 3% economic contraction for the year end 2012 and a decline of 1.6% in 2013. Although exports are expected to continue rising, the rate of increase is likely to slow due to weakening demand, resulting from the aggravation of the Euro Zone sovereign debt crisis.

The **unemployment rate** has been increasing continuously since the beginning of the millennium, from 4% in 2000 to 12.7% in 2011. Given the austerity measures imposed by the Government in order to balance public accounts, unemployment is expected to increase up to 15.5% in 2012 and to 16.4% in 2013.

In the past decade the **Consumer Price Index** (CPI) has been around 2.4% on average with deflation of 0.9% in 2009. After an inflation rate of 3.6% in 2011, the Bank of Portugal anticipates a relatively high level of 2.8% in 2012 and a reduction to 0.9% in 2013.

Private consumption decreased 4% in 2011 after an increase of 2.3% in 2010. A deeper decrease of 5.8% is expected in 2012 and a slower fall of 3.6% in 2013. Higher taxes, cuts in public wages, relatively high inflation and increasing unemployment are reducing household incomes.

MACROECONOMIC INDICATORS

Indicator	2001 - 2010	2011	2012 (f)	2013 (f)
GDP	0.7	-1.6	-3.0	-1.6
Consumption	1.3	-4.0	-5.8	-3.6
Unemployment (%)	7.3	12.7	15.5	16.4
Consumer Prices	2.4	3.6	2.8	0.9

Notes: Annual percentage changes unless otherwise specified
Source: Bank of Portugal, INE and Ministry of Finance

2.
TERRITORIAL DIVISION AND DEMOGRAPHICS

Portugal is made up of the mainland and the archipelagos of Madeira and Azores located in the Atlantic Ocean.

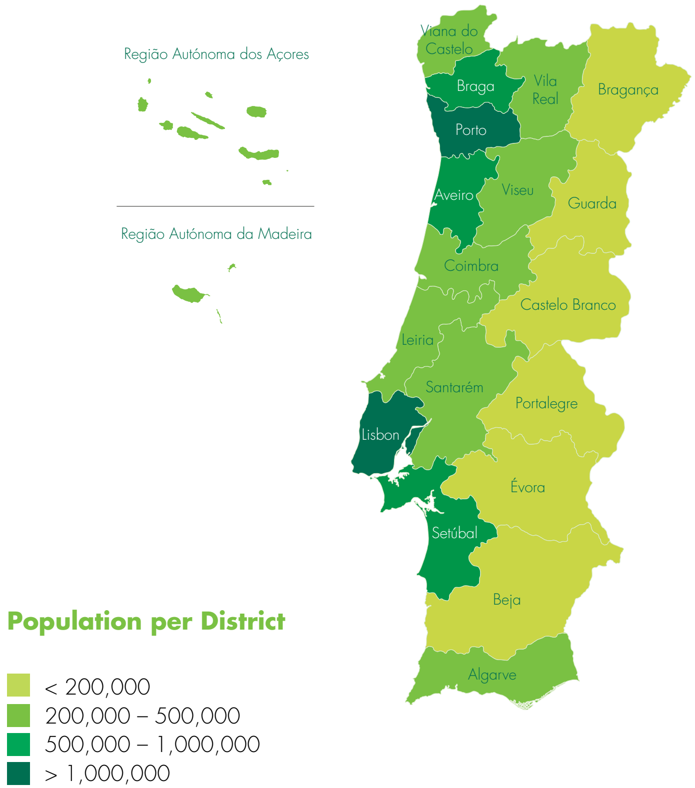
Portuguese territory comprises 9.2 million ha and is administratively divided into 18 districts and the two autonomous regions of Madeira and Azores, which together integrate 308 councils. The councils are subdivided into parishes ("freguesias"). Currently, there are a total of 4,260 parishes but a process is underway to aggregate and reduce this number.

Statistically, Portugal is divided in 7 different regions: North, Centre, Lisbon, Alentejo and Algarve, in the mainland, as well as Madeira Autonomous Region and Azores Autonomous Region. These are then subdivided in 30 sub-regions.

According to the last census carried out in 2011, Portugal currently has 10.6 million inhabitants which reflects a 1.9% demographic growth in the last decade. The Greater Lisbon sub-region concentrates circa one fifth of the Portuguese population with 2 million inhabitants, while 1.3 million people live in the Greater Porto sub-region. The most populated councils are Lisbon, Sintra and Vila Nova de Gaia.

The map to the right shows the demographics of the Portuguese districts.

POPULATION BY PORTUGUESE DISTRICTS



Source: CBRE/INE

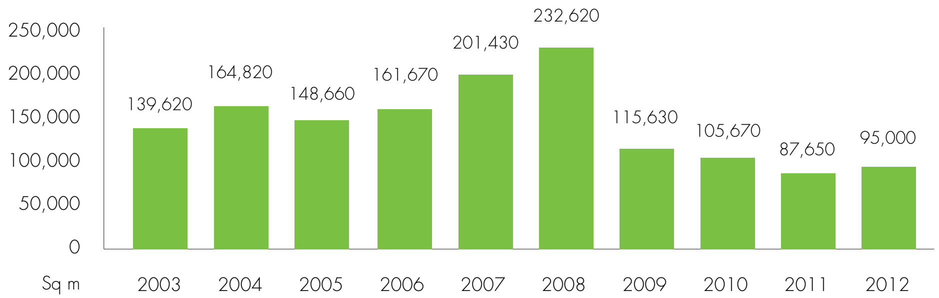
3. COMMERCIAL PROPERTY MARKET SNAPSHOT

3.1 LISBON OFFICE MARKET

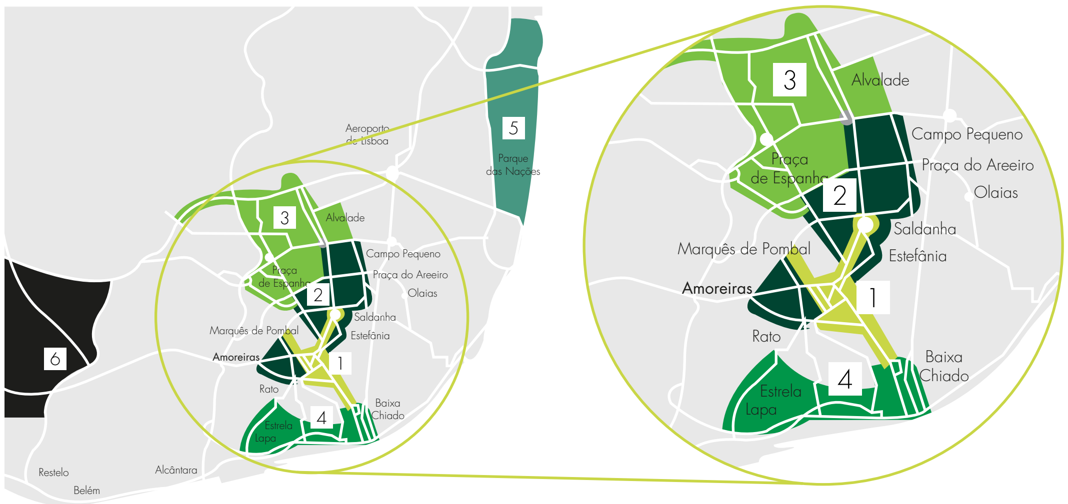
The Lisbon office stock is concentrated in 6 well-defined zones, the locations of which are indicated on the map below. The main zones make up the CBD (Central Business District) and are located in the city centre, while the Western Corridor is the only zone located on the periphery of Lisbon. Any high quality office buildings situated in the city of Lisbon, but outside the defined zones, are integrated in a wider area called Other Zones.

The gross office **take-up** in Lisbon varied in the last 10 years between a minimum of 88 thousand sq m in 2011 to a maximum of 233 thousand sq m in 2008, with an annual average of around 150 thousand sq m.

GROSS OFFICE TAKE-UP EVOLUTION IN LISBON



Note: Estimated value for 2012.
Source: CBRE/LPI



LISBON OFFICE ZONES

- 1.CBD 1 - Av. Liberdade, Saldanha
- 2.CBD 2 - Av. República, Amoreiras
- 3.Expansion Area - Praça de Espanha, 2ª Circular
- 4.Historic Center
- 5.Parque das Nações
- 6.Western Corridor

The level of take-up in 2008 was considerably influenced by the largest lease transaction registered in Portugal this decade. This involved the concentration of several Ministry of Justice entities in a building complex completed that year, situated at Parque das Nações and comprising a total area of 62 thousand sq m.

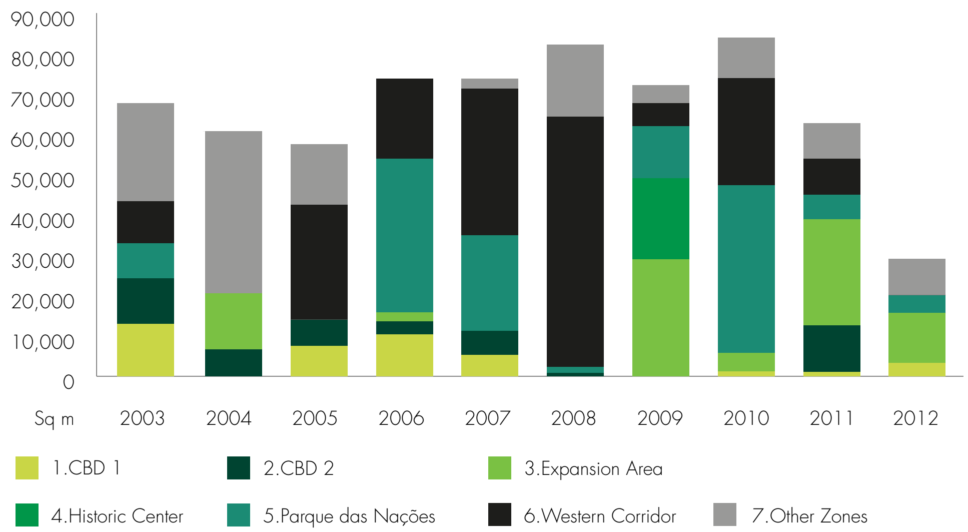
Gross take-up has reduced significantly in the past 4 years, with 2011 registering the lowest level of the decade. In 2012 occupancy was slightly higher than in the previous year.

The Lisbon office **stock** is currently in the region of 4.5 million sq m, with an increase of 663 thousand sq m between 2003 and 2012 that results in an annual average of approximately 66 thousand sq m. The highest increase in stock of the decade was accounted for in 2010, with a total of 84 thousand sq m. 2012 already reflects the impact of the economic and financial crises on property development, with the completion of only 4 buildings in Lisbon totalling 29 thousand sq m of office space, by far, the lowest level recorded in the past 10 years. However, for 2013 it is expected the completion of 11 office buildings, new or refurbished, bringing to the market circa 60 thousand sq m of new spaces, most of which speculative developments located in the CBD.

Parque das Nações, a zone which emerged at the end of the 90's and has been developed over the last decade, concentrated the highest area of new office space in the last 10 years, with 36% of the total new supply. This is followed by the Western Corridor, with a 23% share.

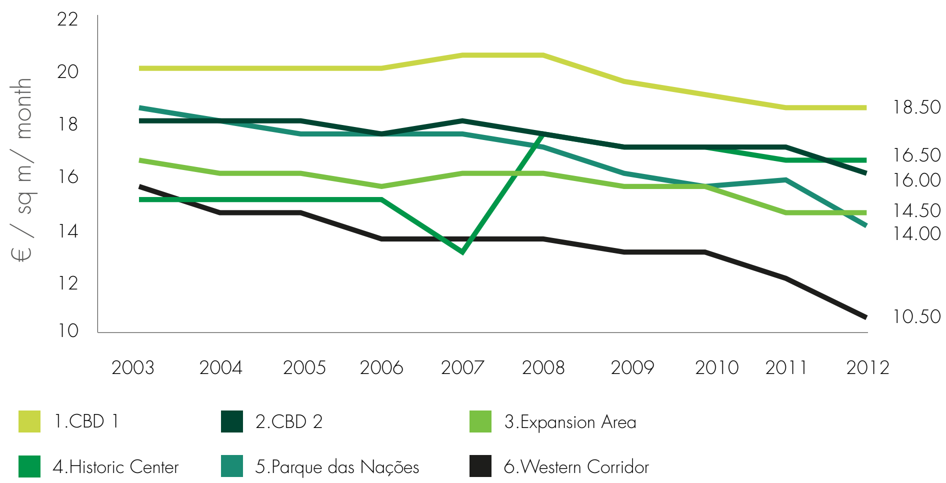
The **vacancy rate** in Lisbon has oscillated between minimums in the region of 7% in 2007 and 2008, and maximums of around 13% in 2004 and 2005. Currently, the vacancy rate stands at around 12%, reflecting gradual increases since 2009. The Western Corridor registers the highest vacancy rates, followed by Parque das Nações, a zone which, due to its reduced dimension, suffers a greater impact from the variations between supply and demand. In the CBD the average rate in the past years was of around 8%.

YEAR-ON-YEAR OFFICE STOCK INCREASE



Source: CBRE/LPI

LISBON PRIME RENTS EVOLUTION



Source: CBRE

With regards to **prime rents**, Lisbon shows a relatively stable trend following an accentuated drop at the beginning of the decade, as a result of the economic deceleration, with the greatest variations registered in the Western Corridor and Expansion Areas, where vacancy was higher.

This reduced oscillation in the prime rental values has been ascertained, namely over the past years, by an increased flexibility demonstrated by landlords, to offer rent-free periods and to participate in costs associated to fit-out works. Nevertheless, since 2007, there were registered drops in rental values of more than 10% in all zones.

In 2008 the Historic Centre recorded a significant increase in rent values with the refurbishment of a number of buildings into offices and the consequent increase in demand in the Chiado subzone, considered to be one of the most charming areas of the city.

3.2 RETAIL MARKET IN PORTUGAL

Over the last decade, the retail market in Portugal has diversified, both in terms of format, as well as in geographic distribution. There are presently a total of approximately 3.5 million sq m of space located in retail schemes including shopping centres, retail parks and outlets in Portugal.

The retail market is currently a consolidated sector with saturated supply in several locations. This situation has forced a number of developers and owners to adapt, which consequently, over the past years and as a result of the crisis, has led to the adjustment and repositioning of some schemes.

In average terms, in the last decade around 230 thousand sq m/year of retail area was completed. In 2010 there was a significant drop in new openings with the inauguration of 77 thousand sq m, and although there was an increase in this value in 2011, with the completion of 104 thousand sq m, this was still below the average value of the last 10 years. There were no openings in 2012 and there are only 2 projects currently under construction (Dolce Vita Braga and Évora Forúm) due to open in 2013 adding 88 thousand sq m to the stock.

Shopping centres are the main retail attraction in Portugal. In the last ten years, shopping centre area almost doubled, with the opening of 124 schemes, presently standing at a total of 2.8 million sq m. Colombo and Vasco da Gama in Lisbon, and NorteShopping in Porto, are considered the best shopping centres in Portugal.

The **retail park** format expanded particularly during the period between 2004 and 2008. There are currently 36 schemes of this type in Portugal, dispersed throughout the entire country, occupying a total area of 450 thousand sq m. The main occupiers of this retail format are large sized DIY, electronic and white goods as well as household goods retailers.

Although the shopping centre is the dominant retail concept in Portugal, there are several **high street** locations and zones in Lisbon and Porto that strongly attract international operators and consumers. In Lisbon, the main retail areas are Av. da Liberdade and Chiado zones, and in Porto the Boavista/Aviz and Rua de Santa Catarina zones. However, the supply of quality space in Lisbon prime locations is very limited, and consequently the values of the spaces that become available are significantly high.

PRIME RENTS PER RETAIL FORMAT

Format	GLA (sq m)	Prime Rent (€/ sq m/month)	Y-o-Y Change (%)
Shopping Centre Lisbon	100	85	0
Shopping Centre Porto	100	60	0
Retail Park	1,000	9	-10
Outlet	200	20	0
High Street Retail - Lisbon	100	85	6
High Street Retail - Porto	100	25	-17

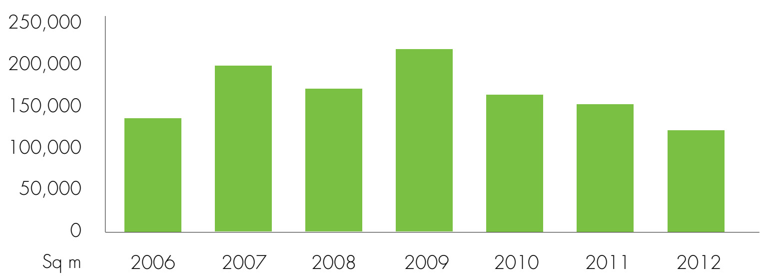
Source: CBRE, December 2012

Despite the crisis, the demand in the top shopping centres and main high street retail areas continues to be strong, allowing for prime rental values to remain stable. However, in the secondary retail schemes and in the retail units located outside the principal zones, there has been a steady downward pressure on rents, with an increase in the turnover rent and the reduction, or even disappearance, of rent key money.

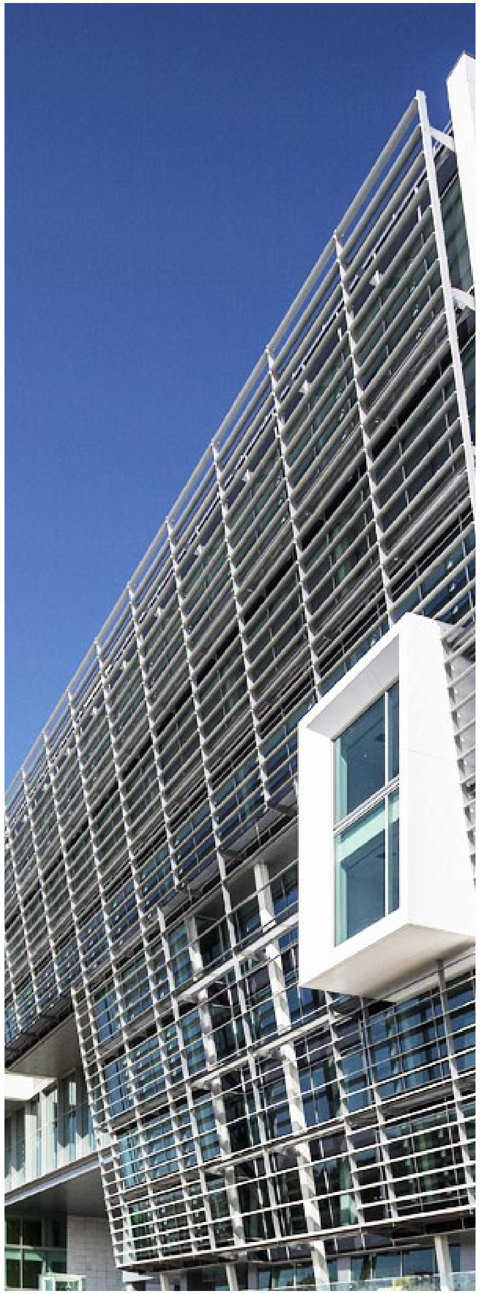
3.3. LISBON WAREHOUSE AND LOGISTICS MARKET

The Lisbon warehouse and logistics sector is distributed into 6 zones, as identified in the map on the next page. The more central zones, namely Lisbon City (Zone 4), Sintra - Cascais (Zone 3) and Loures - Vialonga (Zone 2) are characterised by the supply of smaller sized warehouses

LISBON WAREHOUSE AND LOGISTICS TAKE-UP



Note: Estimated value for 2012.
Source: CBRE



and frequently of mixed - use. The second ring includes the Alverca - Vila Franca de Xira axis (Zone 1A) as well as the zones south of the Tagus River, Montijo - Alcochete (Zone 5) and Palmela - Setúbal (Zone 6), with supply comprising medium sized warehouses. The Carregado - Azambuja axis (Zone 1B) is further from the city and concentrates the largest warehouses (> 10,000 sq m), occupied by the principal logistics operators and food chain suppliers.

This is the least mature market of the 3 principal commercial property sectors in Portugal, and relative to which less information is available. Notwithstanding, the sector has developed substantially over recent years, both in terms of supply and demand, at the request of logistics operators and the major national food distribution players.

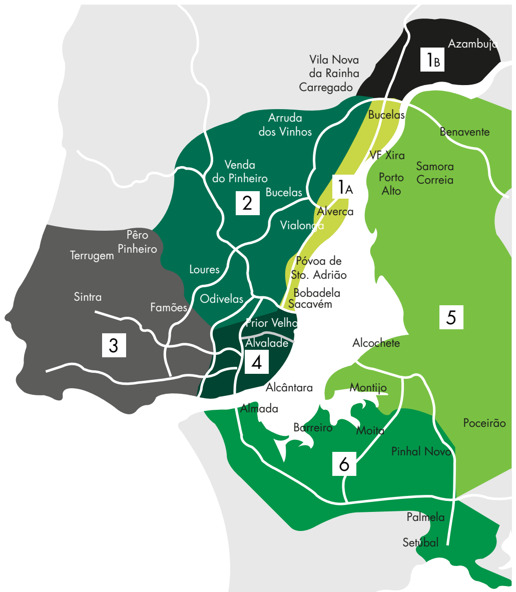
According to the information collected by CBRE over the last 7 years, the gross **take-up** level of warehouse and logistics space oscillated between a minimum of 120 thousand sq m in 2012 and a maximum of 225 thousand sq m in 2009, with an annual average of 170 thousand sq m.

Zone 1 accounted for more than 50% of the take-up in the past 7 years, equally split between Alverca - Vila Franca de Xira and Carregado - Azambuja axis. However the highest number of transactions is registered in the Alverca - Vila Franca de Xira axis.

According to the data obtained by CBRE, the **supply** of new warehouse and logistics areas in the Lisbon Region varied in the last years between a minimum of circa 50 thousand sq m in 2012 and 197 thousand sq m in 2007. The types of developments were equally distributed between speculative construction and built - to - suit, although the majority of logistics areas are built - to - suit schemes. This is the case of the logistics platforms of Logista at Passil Logistics Park (40,000 sq m), FCC Logística/Aitena at LogPlace Azambuja (75,000 sq m) and Sonae at EcoPark Azambuja (107,000 sq m), constructed in 2007, 2009 and 2010/2011 respectively, which contributed significantly towards the take - up levels recorded during these years.

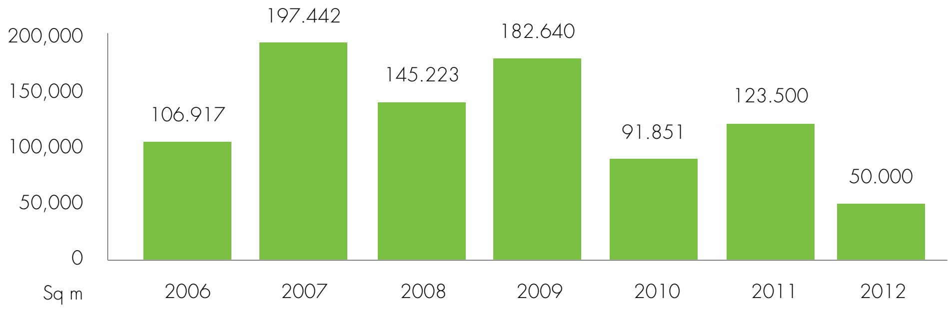
LISBON WAREHOUSE AND LOGISTICS ZONES

- 1A. Alverca - Vila Franca de Xira
- 1B. Carregado - Azambuja
- 2. Loures - Vialonga
- 3. Sintra - Cascais
- 4. Lisbon City
- 5. Montijo - Alcochete
- 6. Palmela - Setúbal



Source: CBRE

LISBON NEW SUPPLY OF WAREHOUSE AND LOGISTICS



Note: Estimated value for 2012.
Source: CBRE

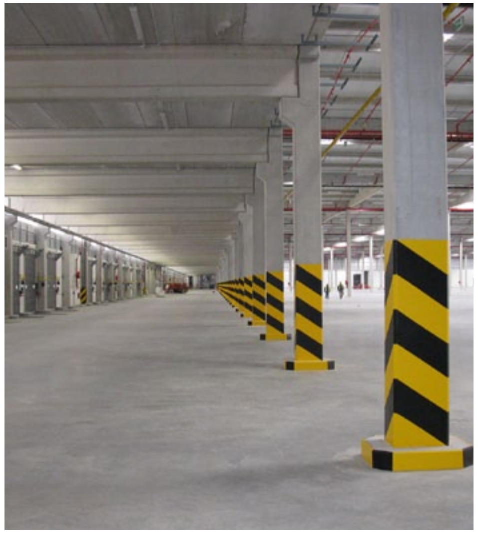
Currently we are not aware of any speculative development for 2013. In the same way, the project *Portugal Logístico* announced by the Government in 2006 has been suspended.

The **prime rents** in the warehouse and logistics sector have suffered a strong downward pressure in recent years with values falling well below those of the remaining commercial property sectors.

PRIME RENTS PER WAREHOUSE AND LOGISTICS ZONE

Zone	GLA (sq m)	Prime Rent (€/sq m/month)	Y-o-Y Change (%)
Alverca - Vila Franca Xira	5,000	3.50	-13
Carregado - Azambuja	10,000	3.25	-7
Loures - Vialonga	1,000	4.00	-11
Sintra - Cascais	1,000	4.00	0
Lisbon City	2,000	5.00	-9
Montijo - Alcochete	5,000	3.50	0
Palmela - Setúbal	5,000	3.00	0

Source: CBRE, December 2012



4. INVESTMENT MARKET SNAPSHOT

Investment in commercial property has been very diverse over the last decade, with regards to volumes, type of investors, origin of the capital, type of products, deal structures and values.

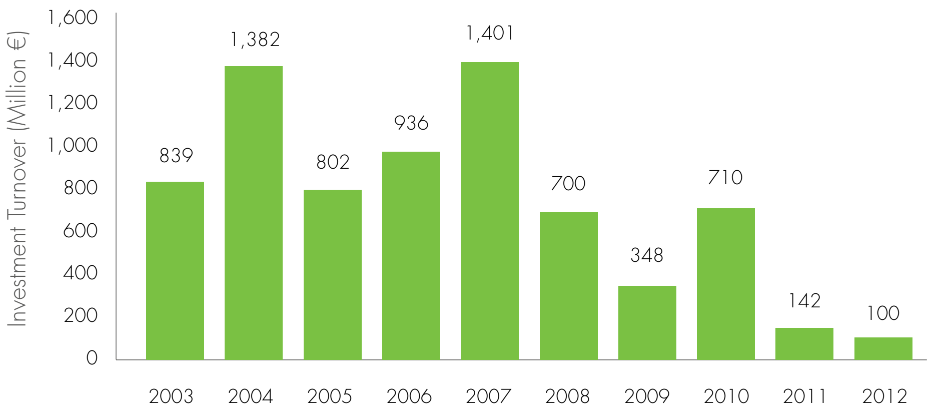
Up until 2002 institutional **investment turnover** in Portugal was very low, and limited to Portuguese funds and a small number of foreign investors. It was only after 2002, with the entry of the Euro, that the commercial property investment market became much more dynamic, namely with the appearance of different international players.

The strong growth registered resulted predominantly from the renowned quality of the Portuguese shopping centres that strongly attracted foreign investors, coupled with the low long term interest rates. Other factors that contributed towards this growth were the reduction of IMT (property transfer tax) in 2004, from 10% to 6.5% making the acquisition of Portuguese assets more attractive, together with the change introduced in 2005, in the Property Investment Funds regulation, which meant that closed-ended funds were then able to leverage without restrictions.

2007 recorded the highest property investment activity in Portugal, fuelled by the easy access to credit from which investors benefited during that period. Activity in this market was not affected by the abolishing of total exemption from IMI (municipal property tax) and IMT (property transfer tax) for certain closed-ended funds. This meant that the acquisition and ownership of these buildings in the fund portfolio was subject to 50% of the abovementioned taxes.

The world economic crisis that has been felt since the beginning of 2008 has considerably affected investment in Europe, with a drop in the level of property transactions in the majority of European countries. However, this situation was made worse in Portugal with the acknowledgement of the Portuguese public debt crisis in 2010.

COMMERCIAL INVESTMENT TURNOVER IN PORTUGAL



Note: Estimated value for 2012.
Source: CBRE

Surprisingly, 2010 property investment volumes totalled €710 million, double the investment of the previous year. Nevertheless, €300 million of this total included shopping centre transactions that could almost be considered as internal re - organisation exercises. 2012 saw the lowest overall investment of the last decade with only around €100 million of transactions registered.

Over the last decade the retail sector has recorded the highest share in accumulated investment volumes, followed by offices, with 49% and 32% respectively of the total invested. However, with regards to the number of transactions, the office sector is predominant.

Portuguese shopping centres have attracted a significant number of international investors. This is not only because of the higher investment and debt capacity of the latter when compared to Portuguese investors, but also due to the high potential returns of this type of asset, the high quality construction, architecture and design and the popularity of these schemes amongst the Portuguese consumer. The majority of transactions involving this type of property are completed via the acquisition of the holding company of the asset in question.

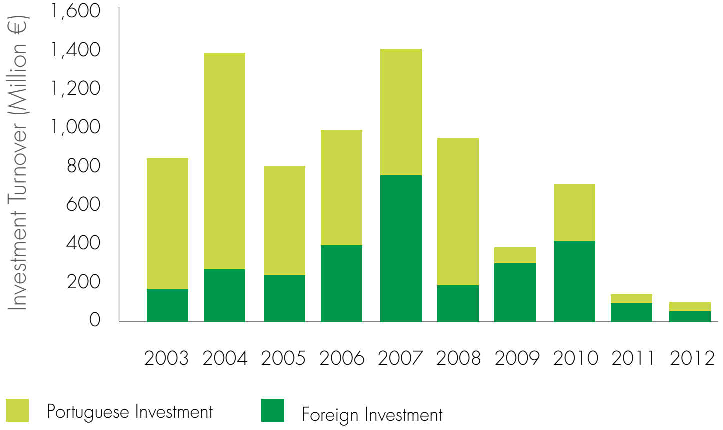
From 2009 we also note an increase in warehouse and logistics property transaction volumes. This trend results from a boost in the construction of built-to-suit warehouses and lease contracts for much longer periods than usual and, consequently, more interesting from an investment point of view.

The majority of investment in commercial property in Portugal has been by foreign investors that, in aggregate terms, have represented 57% of the total transaction volume since 2003. Portuguese investors, however, have closed the highest number of transactions. The dominant foreign investors in Portugal have been from the UK and Germany.

INVESTMENT TURNOVER DISTRIBUTION PER PROPERTY SECTOR

Note: Estimated value for 2012.
Source: CBRE

PORTUGUESE AND FOREIGN INVESTMENT IN PORTUGAL



Note: Estimated value for 2012.
Source: CBRE

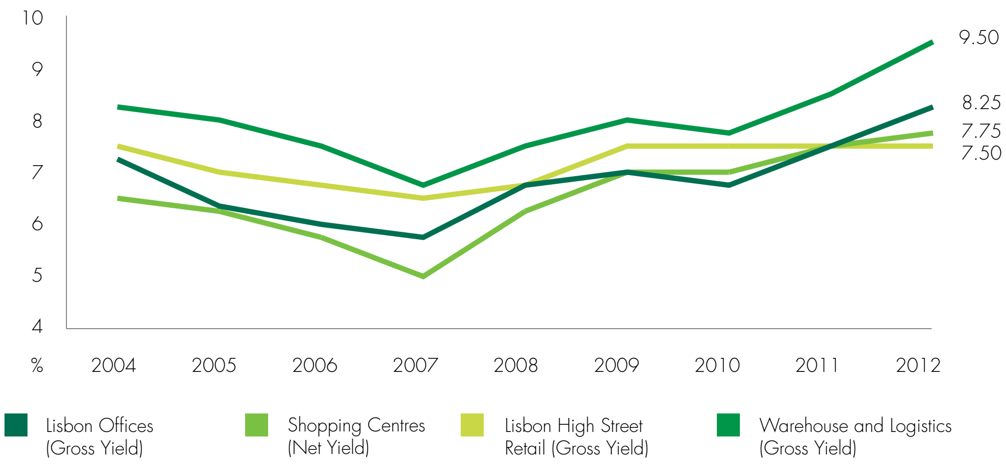
As previously referred, foreign investors made up most of the activity in the retail sector, as a result of a superior availability of capital. By contrast, Portuguese investors have been more active in the office segment, due to the generally smaller lot sizes involved in this sector.

However, we are now witnessing a change in investor type in Portugal. With prime yields increasing and institutional investors staying away from the Portuguese market, there is room for private investors and family offices to buy quality assets, for which they were not able to compete in the past.

Yields had dropped consecutively since the beginning of the decade up until 2007. That year saw prime yields reach their lowest values in recent times: 5.75% (gross yield) in the office sector, 5% (net yield) in shopping centres and 6.75% (gross yield) in warehouse and logistics.

However, the property investment market was significantly affected by the international financial crisis and, more recently, by the Portuguese public debt crisis, resulting in an increase in prime yields. These yields are now 275 basis points (b.p.) higher than the minimum registered in the shopping centre sector, and in the warehouse and logistics assets, and 250 b.p. higher in the office sector. The high street retail sector, where tenant demand remains high, has been the most resistant to the crisis with an yield increase of only 100 b.p. since the peak of the market.

PRIME YIELD EVOLUTION IN PORTUGAL



Source: CBRE

5. OWNERSHIP

5.1 LEGAL STRUCTURES

• Ownership

"Ownership right" (*direito de propriedade*) is the broadest and strongest title over real estate in Portugal. It grants its titleholder full and exclusive rights of use, fruition, and disposal of real estate, unlimited in time, within the limits of the law (comparable to "freehold title" in common law systems).

Ownership title may be held individually, or on a co-ownership basis (*compropriedade*), which is less common. Co-ownership exists when two or more people (designated as "*co-owners*") simultaneously hold an ownership right over the same asset. Co-owners jointly exercise all the rights that pertain to an ownership, and participate in the benefits and encumbrances of the property, in proportion of their respective shares.

• Horizontal Property

"Horizontal property" ownership (*propriedade horizontal*) results from the legal division of a property or building into several units subject to separate ownership. Horizontal property confers its titleholder the right to exclusive ownership of one of the units and the right to co-ownership over the common areas of the building (such as the stairs, lifts, lobbies or hallways, etc.). However, both rights are indivisible as they form part of the same right. Horizontal property division is created by formal deed and must be registered at the Land Registry. The Horizontal property deed can only be executed when the autonomous units, besides constituting independent units, are distinct and isolated from each other, each one with its own exit to a common area of the building or on to a public road.

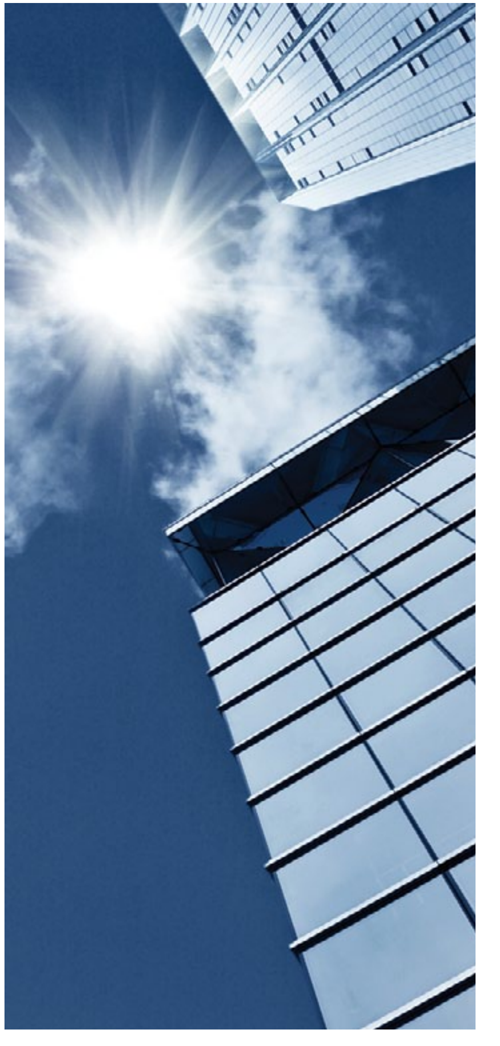
Costs deriving from the management, maintenance and works relating to the common parts of the property are apportioned amongst the co-owners in proportion to the relative value of their units. In commercial properties, such costs are usually passed on to the tenants.

• Surface Right

"Surface right" (*direito de superfície*) under Portuguese law is the right to erect and maintain a building on land which is owned by a third party. It is a right *in rem* (and not a mere contractual interest) which is marketable and can also be used as collateral.

Surface right can be temporary (usually granted on a long-term basis) or perpetual. When the right is granted on a temporary basis, the ownership of the building erected on the land shall revert to the land owner at the end of the surface right.

The parties may agree that the consideration for the surface right is payable through a single initial payment or through periodic rental payments.



5.2 TAXATION

• Municipal Property Tax ("IMI")

IMI is payable every year over real estate in Portugal, by both full owners and surface right owners. Applicable rates range from 0.3% to 0.5% under the rules currently in force (rates of between 0.5% and 0.8% may also apply in the case of urban properties where the respective taxable value was assessed by the tax authorities before December 1, 2003, and until that taxable value is reassessed - a general reassessment of the taxable value of all properties in Portugal is currently underway and is expected to be concluded by the end of the first quarter of 2013).

Every year, each local municipality determines the IMI rate to be applied within the mentioned ranges.

Properties held by entities resident in tax havens (as listed by the Portuguese tax authorities) are subject to IMI at the rate of 7.5%.

• Municipal Sewage Charge

There are some other levies on real estate located in certain municipalities in Portugal.

For example, in Lisbon and certain other municipalities, a Municipal Sewage Charge is payable every year by both full owners of real estate and surface right owners, and is levied on the taxable value of the property, as assessed by the tax authorities. In Lisbon, the applicable rate in year 2011 was 1/8 of the IMI rate (1/4 of the IMI rate for properties where the respective taxable value was assessed by the tax authorities before December 1, 2003).

6. LEASE STRUCTURES

Under Portuguese law, a lease (*arrendamento*) is a contractual interest (as opposed to a right *in rem*) under which one party (the landlord) undertakes to provide to the other (the tenant) the temporary use of a real estate property in exchange for the payment of rent.

Lease agreements must be executed in writing (private document).

Typical lease terms include a description of the demised premises specifying its state and condition, permitted use, term, renewal conditions, rent and rent review, securities (normally consisting of a deposit, a surety or a bank guarantee, or a combination of all), terms and conditions for the execution of maintenance works and improvements and termination options.

Unless otherwise established, leases may not be passed by the tenant onto third parties without prior consent of the landlord.

6.1 COMMERCIAL LEASE STRUCTURES

The assignment of commercial property in Portugal normally takes place under lease schemes. There are two main contractual arrangements used in the Portuguese commercial real estate market.

• Standard Commercial Leases

The most commonly used contractual arrangements for offices, logistics and high-street retail segments are standard leases executed under the Portuguese "urban lease law" ("standard commercial leases").

The "urban lease law" is quite flexible and allows the parties to freely stipulate the main terms and conditions of the lease (such as duration, renewal, termination options, rent review, costs allocation, etc.).

• Shopping Centre Leases

Lease contracts used for leasing retail units in shopping centres ("shopping centre leases") are considered as contractual arrangements not regulated by any specific legal framework, which means that they are not subject to the legal framework of the "urban lease law" (but only to the general legal framework applicable to contracts).

Such contracts (commonly referred to in Portugal as "*contratos de utilização de loja em centro comercial*", that is, "contracts for the use of shops in shopping centres") are normally very detailed agreements that regulate not only the use of the shop but also the ancillary services provided by the shopping centre to the shopkeepers and the respective service charges.

These agreements are mainly used in shopping centres, retail parks and other similar commercial schemes and tend to follow market standards of the specific segment in question.

6.2 DURATION / RENEWAL

Both in standard commercial and shopping centre leases, the parties are free to establish the duration, and the terms and conditions of renewal and termination (the law establishes however a maximum initial duration for standard commercial leases of 30 years).

Standard commercial leases are generally entered into for an initial period of between 5 to 10 years.

Leases with an initial period longer than 6 years must be registered with the Land Registry as a condition for being enforceable *vis-à-vis* third parties.

In shopping centre leases, anchor retailers generally take long-term leases while smaller retailers often take 6-year contracts, normally with no extensions granted.

In the logistics segment, leases tend to be shorter, with an initial duration of 3 to 5 years, except in the case of "built-to-suit" deals where duration is normally longer.

Both in standard commercial and in shopping centre leases, termination due to default in the rental payments may be made by out-of-court notice to tenants. However, the subsequent eviction of the defaulting tenant must be enforced through court-of-law proceedings that may prove to be rather long. The Portuguese government has recently approved a change to the applicable laws with the aim of simplifying proceedings and favouring more flexible and effective eviction mechanisms.

6.3 RENTS

Both in standard commercial and shopping centre leases, the parties may freely agree on the amount of the initial rent and on the rent review mechanisms (in the absence of a specific stipulation, rent shall be updated yearly in accordance with a coefficient published by the Portuguese National Institute of Statistics, which is based on the consumer price index – excluding housing).

Rent is usually payable on a monthly basis and, typically (although not mandatorily), one month in advance. Different rental payment periods may be agreed.

Rent-free periods and stepped-up rent are commonly used.

In standard commercial leases, the rent is usually a fixed amount. Conversely, most shopping centre lease agreements provide for both a fixed and a variable component of the rent, linked to the tenant's revenues.

6.4 SERVICE CHARGES AND COST ALLOCATION

Both in standard commercial and shopping centre leases, the parties may freely agree on the allocation of maintenance, repair and other costs, as well as on the responsibility for the execution of works on the property. According to standard market practice, landlords pass on to tenants all costs for maintenance, repair, utilities and other services, and retain the costs relating to building insurance, property related taxes and structural works (although "triple net" leases are acceptable under Portuguese Law).

"Service charges" are normally based on the area of the premises leased out to each tenant in proportion to the overall area of the building.

In shopping centre leases, in addition to the service charge, tenants normally pay a "marketing charge" in consideration for the property manager's marketing efforts.

6.5 TAXATION

- Value Added Tax

The lease of real estate is exempt from VAT, unless the landlord opts to waive such exemption, which can only occur where both parties are VAT taxable persons in Portugal and the tenant uses the leased premises for VAT taxable activities, amongst certain other conditions that also need to be met. In that case, the rents are subject to VAT at the standard rate (currently 23%), and no stamp duty is payable. In shopping centre leases, rents are always subject to VAT and no stamp duty is payable, as such agreements are treated as service agreements for VAT purposes.

Service charges, and any other form of payment in consideration for services supplied in the context of lease arrangements, are also subject to VAT in any type of lease.

- Stamp duty

Standard commercial lease agreements are subject to stamp duty when they are exempt from VAT, payable by the landlord and charged at 10% of the first rent.

7.
REAL ESTATE TRANSACTIONS

7.1 FORMALITIES

7.1.1 ASSET DEALS

The direct transfer of rights over real property in Portugal (asset deal) is done either by means of a public deed, or a private document certified by a notary, a Land Registry office or a lawyer (the more commonly used means is the public deed). The transfer of title must be registered at the Land Registry office within 30 days of the transaction.

Portuguese law does not restrict the acquisition of property by foreign or non-resident investors, but may require the latter to comply with certain tax formalities (such as obtaining a Portuguese tax identification number, previously).

Before the execution of the notarial deed of transfer, a due diligence review (both legal and technical) should be performed. As regards the legal due diligence, amongst other aspects, the Land Registry should be searched for any mortgages, charges or encumbrances on the property, the tax authorities should be searched to confirm that there are no outstanding municipal property taxes on the property, and the existence of municipal use permit for the property should be confirmed (the existence of such permit is a requirement for the use of the property and for the direct transfer of real property through an asset deal).

Portuguese Land Registry offices are public record offices which register information on the legal status of real estate. The Land Registry records the description of a property as well as ownership or other title subject to registration, notably charges, mortgages, encumbrances and/or other rights in rem.

By being recorded at the Land Registry, the transfer of ownership (or any other title *in rem*) and the creation of rights over property become enforceable against third parties, and gain priority over subsequent transfers and rights created on real estate.

Frequently, the definitive purchase and sale agreement (public deed or private certified document) is preceded by the execution of a promissory purchase and sale agreement, under which the parties undertake to execute the definitive sale and purchase agreement.

Promissory purchase and sale agreements may include conditions precedent that need to be verified before the execution of the sale. Such arrangements are common in situations where the property to be acquired is affected by irregularities that need to be settled by the seller to the purchaser's satisfaction.

Promissory purchase and sale agreements usually stipulate a deposit which generally varies between 10% and 25% of the purchase price.

In case of failure to complete the promissory purchase and sale agreement, if the parties have not agreed otherwise, the following consequences are established by law:

- Failure attributable to the vendor: the promissory purchaser may claim twice the amount of the deposit;
- Failure attributable to the purchaser: the promissory vendor may keep the amount received as a deposit.

As an alternative to the above remedies, in case of breach, the non-breaching party may, in certain circumstances, apply in court for the specific performance of the promissory purchase and sale agreement.

The execution of a promissory purchase and sale agreement entitles the promissory purchaser to file for a provisional registration of the acquisition. Such registration may provide security towards subsequent encumbrances that could possibly be registered against the property, as in general the provisional registration of the acquisition will benefit from registral priority with respect to subsequent registries. Upon execution of the sale, an application must be filed for the provisional registration to become definitive.

7.1.2 SHARE DEALS

The indirect transfer of rights over real property in Portugal, through the transfer of shares in a Portuguese company that owns the property (share deal), is formalized through a private agreement between the relevant parties which does not need to be notarised.

The laws of Portugal do not restrict the acquisition of holdings in Portuguese companies by foreign or non-resident investors, but may require the latter to comply with certain tax formalities (such as obtaining a Portuguese tax identification number, previously).

In case of a share deal, in addition to a due diligence review of the property, a due diligence review should be carried out on the company, including, amongst other aspects, enquiries to the commercial registry, in order to confirm the legal status of the company, and to the tax and social security authorities, in order to confirm that the company has no outstanding tax or social security debts, and in particular no outstanding transfer tax or municipal property tax in relation to the real estate assets held by the company. Portuguese Companies Registry offices are public record offices which register information on the legal status of companies.

The acquisition of shares in share companies must, in certain cases, be notified to the company (notably for the registration of the shares in favour of the acquirer) and to public authorities (tax authorities and regulatory entities). The acquisition of an interest in a quota company (*sociedade por quotas*, i.e., a specific type of Portuguese limited liability company whose share capital is represented by "quotas" rather than by "shares") must be registered with the Portuguese Companies Registry.

7.2 TAXATION

7.2.1 ASSET DEALS

- **Transfer Tax ("IMT") and Stamp Duty**

Acquisitions of real estate are subject to:

- Transfer tax at a rate of between 0% and 6% (residential properties);

- Transfer tax at a rate of 6.5% (properties used for other purposes, including commercial properties);

- Transfer tax at a rate of 10% if the property is transferred to an entity resident in a tax haven (as listed by the Portuguese tax authorities);

- Stamp duty at a rate of 0.8%.

These taxes are payable by the purchaser and levied on the purchase price or on the property's taxable value, whichever is higher.

Both IMT and stamp duty are non-recoverable costs (albeit deductible for corporate income tax purposes when related to real estate acquisitions which are deemed as indispensable for business purposes).

- **Notary and registration fees**

Notary and registration fees are payable by the purchaser upon execution of the public deed of transfer and respective registration, however these fees tend to be immaterial.

- **VAT**

The transfer of real estate in Portugal is exempt from VAT, unless the vendor opts to waive such exemption, provided that both parties involved in the transaction are VAT taxable persons in Portugal and certain conditions are met (amongst others, the purchaser must assign the property to VAT taxable activities).

If the transaction is subject to VAT, the general rate (currently, 23%) will be applicable, levied on the purchase price. In this case, no stamp duty is payable. The 6.5% IMT, however, will still be due. In general, the VAT is self-assessed by the purchaser, meaning that it is assessed and deducted in the same periodical VAT return, without any amount being payable.

If the property is later used for non-VAT taxable activities, the VAT initially deducted must be adjusted. This restriction binds the taxpayer for a 20-year period.

7.2.2 SHARE DEALS

- **Transfer Tax ("IMT") and Stamp Duty**

Acquisitions of real estate by means of share deals are subject to neither IMT nor stamp duty.

Exception is made for the case where a single entity acquires, or increases, an interest of 75% or more in a Portuguese "quota" company. In this case, IMT will be levied on the transaction by reference to the percentage of share capital acquired, on the value of the property in proportion to the book value of the total assets of the company. For this reason, quota companies tend not to be used as vehicles for the acquisition of real estate.

- **Notary or registration fees**

No notary or registration fees are payable in a share deal, except in case of acquisition of an interest in a quota company, where registration with the Portuguese Companies Registry is required and, consequently, payment of the respective registration fees is due. Such fees, however, tend to be immaterial.

In light of the above, an indirect acquisition of real estate, through acquisition of the share capital of a joint stock vehicle (*sociedade anónima*) that owns property, is normally considered the most efficient way to invest in the Portuguese market. Nonetheless, a final decision on the transaction structure should be taken on the basis of a case-by-case analysis.

8.
FOREIGN INVESTMENT

8.1 DIRECT INVESTMENT

There are no restrictions to foreign direct investment in real estate in Portugal.

The mere holding of property assets in Portugal does not in itself imply the existence of a permanent establishment in Portugal for direct tax purposes. However, among other formalities, direct foreign investors must obtain a Portuguese tax identification number and foreign investors with tax residence outside the EU must appoint a Portuguese tax resident (individual or legal entity) as their legal representative before the Portuguese tax authorities.

• Lease Income

Where no permanent establishment exists, income obtained by foreign investors from the leasing of properties located in Portugal is subject to withholdings on account of corporate income tax ("CIT", named "IRC" in Portugal). The applicable withholding rate is 25% on the gross amount of the lease income, payable on account of the final CIT. In order to comply with tax statement obligations and to recover any excess withholding tax (*i.e.* resulting from tax deductible expenses), the foreign investor owning leased property in Portugal must file a CIT return with the Portuguese tax authorities reporting the lease income less deductible expenses. Only maintenance and repair expenses, plus municipal property taxes (IMI), are deductible for CIT purposes (depreciation charges and financial costs are not).

• Capital Gains

Capital gains obtained by a foreign investor on the sale of properties in Portugal are subject to CIT at a 25% rate. Taxable capital gains correspond to the difference between the sale price and the acquisition historic cost, the latter being updated by official inflation indices if more than two years have passed since the acquisition date and accrued by the costs incurred with actions that increased the value of the property in the last five years, and transaction costs incurred with the acquisition and sale of the property (depreciation and financial costs not included). The purchaser of a property in Portugal is not required to withhold any tax. A CIT return must also be filed.

8.2 INDIRECT INVESTMENT / PORTUGUESE SPV

Foreign investors often structure their investments in Portuguese real estate by acquiring a Portuguese company (e.g. a special purpose vehicle, or "SPV") that owns the target real estate asset(s), or by incorporating one for the purposes of investing in Portugal.

In addition to the different transactional tax costs of the alternatives of acquiring the asset directly (asset deal) or through an indirect acquisition (share deal), as outlined above, the tax treatment applicable to a Portuguese resident entity owning real estate should be noted, as follows:

• Lease Income

Lease income collected by a Portuguese company is subject to CIT at a rate of 25%, plus a municipal surtax ranging between 0% and 1.5% on the annual taxable profit (applicable before tax loss deduction). Taxable profits exceeding €1,500,000 and up to €7,500,000 are subject to a state surtax at a rate of 3%, and taxable profits exceeding €7,500,000 are subject to a state surtax at a rate of 5% (also applicable before tax loss deduction).

All expenses relating to the lease activity – i.e. not only maintenance and repair expenses and municipal property tax (IMI), but also depreciation charges (generally, 1% annually on 75% of the global value) plus financial costs – are generally tax deductible.

The tenant must withhold 25% on rental payments, on account of the landlord's final tax liability. Companies whose statutory scope of business includes the management of owned properties are not subject to withholding.

Portuguese permanent establishments and companies are entitled to certain tax credits, and to carry forward tax losses (currently through a period of 5 years, but limited to 75% of the annual taxable profits).

• Capital Gains

Capital gains obtained from the sale of property by a Portuguese company are subject to CIT at a rate of 25% (plus the aforementioned surtaxes, where applicable) levied on the difference between the sale price and the tax basis of the property (i.e., the historic acquisition cost less impairment and tax deductible depreciation), updated by official devaluation coefficients. No withholding tax has to be paid by the purchaser of the property. Tax benefits for reinvestment are available under certain circumstances.

Upon the sale of the Portuguese SPV, capital gains may benefit from a tax exemption, depending on the relevant Tax Treaty where applicable.

• Dividends

Dividends distributed by a Portuguese SPV to resident CIT taxpayers are not subject to withholding tax or to taxation at the level of the shareholder, provided that, among other requirements, the shareholder has a direct interest not lower than 10% in the Portuguese SPV, held for a minimum period of one year prior to the dividend distribution.

Dividends distributed by a Portuguese company to foreign shareholders/investors are not subject to taxation in Portugal if paid to EU companies or to EU permanent establishments of EU companies that qualify under the EU Parent/Subsidiary Directive, provided that they are paid out of a minimum stake of 10%, held for a minimum period of one year prior to the dividend distribution. In all other cases, a maximum 25% rate applies. This rate can be reduced to a rate of between 5% and 15% under the relevant Tax Treaty where applicable.

9.
REAL ESTATE FINANCING

Investors usually finance their real estate investments in Portugal by raising external debt with financial institutions.

9.1 SECURITY

Real estate financing in Portugal is usually secured against the property assets and/or the shares of the property owning company and/or property generated income.

A mortgage, the most common security provided in real estate acquisitions in Portugal, consists of a right *in rem* that grants to the creditor, in case of breach, the right to be paid by the value of the property, with priority in relation to other creditors (provided other creditors do not benefit from special privileges, such as it would be the case, for example, of the tax authorities in respect of property taxes).

A mortgage must be enforced by means of a judicial process in the course of which the property is sold and the creditor is paid with the proceeds of the sale. As an alternative, within the legal procedure in question, the creditor may in certain circumstances apply for the adjudication of the asset as payment in kind.

Mortgages are created by means of a public deed or a private deed certified by a notary, a Land Registry office or a lawyer, and only become effective upon registration with the Land Registry. The deed must indicate the maximum amount secured. The mortgage may also secure interests of up to three years and also a certain amount for recovery expenses.

Pledges over shares and pledges over receivables are commonly used in Portugal.

9.2 TAXATION

• Stamp Duty

Generally, both loans and securities are subject to stamp duty, at rates which vary depending on the maturity of the loan/security: ordinary loans - 0.04% (monthly), 0.50% or 0.60% applicable on credit granted for less than one year, one year or more, or five years or more, respectively; revolving credit facilities - 0.04% on the average monthly debt balance assessed daily (dividing the sum of the daily debt balance by 30). Some exemptions are available: (1) long-term (at least 1 year) parent/subsidiary loans; (2) loans between financial institutions; (3) short-term (up to one year) loans granted to cover treasury shortages by a holding company to its subsidiary or vice-versa or by a parent company to its subsidiary (where a minimum 10% stake is held uninterruptedly for at least one year).

When the loan and the security are executed simultaneously and the loan is subject to stamp duty in Portugal, stamp duty is only payable on the amount of the loan (principal).
Interest paid by a Portuguese resident borrower is also subject to stamp duty at the rate of 4% on credit obtained from financial institutions (assessed by the bank). Stamp duty is also payable on the amount of any fees or commissions paid for financial services, at the rate of 4% (3% for bank guarantees).

• Withholding Tax

Withholding tax applies on interest paid by a Portuguese entity to a lender which is a non-resident financial institution, up to a maximum rate of 25% (possibly reduced to a rate of between 0% and 15% under the relevant tax treaty where applicable). Withholding tax at a rate of 5% shall be applicable under the EC Interest and Royalties Directive, if the shareholder/lender is a qualified associated company (i.e., a company with a direct holding of at least 25% held for at least two consecutive years, or vice-versa, or sister companies in which the same entity holds at least 25%). A 0% withholding tax rate will apply as from July 1, 2013 under this Directive.

If the lender is a non EU company, the thin capitalization rule would apply. According to this rule, where the indebtedness of a resident entity subject to CIT to a nonresident related party is excessive (where a 2:1 debt to equity ratio is exceeded), the interest on the part considered excessive is not deductible for the purpose of determining the taxable profit.

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