

Portuguese Retail Market - Portugal

1st Quarter 2006

The retail market continues to be dominated by shopping centres mainly concentrated in Lisbon and Oporto regions. However, we are now witnessing a wider diversity of retail formats, as well as expansion into new regions outside the major urban centres.

The retail market continues to perform well in terms of investment return and risk, as is the case across Europe. Consequently, demand in terms of investment has been strong both from international and local investors.

MARKET OVERVIEW

The retail market performed well in 2005, both in terms of investment return, and capital values. According to CB Richard Ellis and IPD (Investment Property Databank), the performance of this sector has followed the trend of yields achieved in the European Markets.

There has been a reduction in yields mainly due to the excess liquidity from the capital markets and strong demand for quality investment product. Consequently the net initial prime yield stands now at 6.25% and the trend is for further yield compression.

Around 70% of existing retail space is concentrated in Lisbon and Oporto, with shopping centres representing 86% of total retail stock.

Over the last couple of years development of the retail sector has diversified, both in terms of formats and geographic distribution.

Increasingly, we are seeing the construction of new retail parks. Furthermore, new retail schemes (shopping centres and retail parks) are also now being built or about to be developed in medium and smaller sized cities away from Lisbon and Oporto.

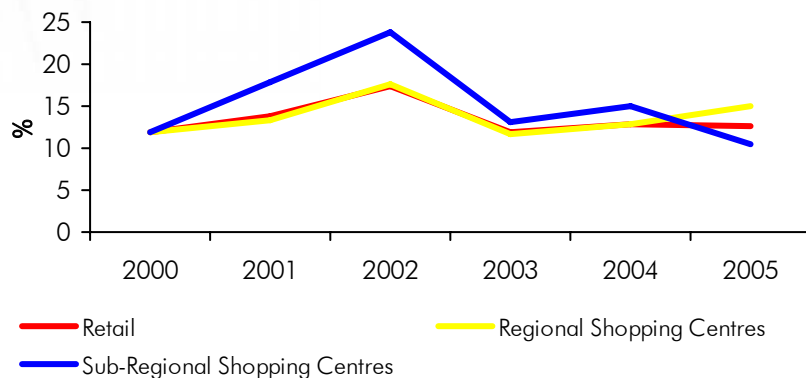
In 2005, Portugal experienced a reduced economic growth of 0.3%. For 2006, the Bank of Portugal's forecasts for GDP growth are more optimistic. Furthermore, consumer confidence has been improving since an all time low in the summer of 2005.

The New Urban Lease Law has finally been approved and will allow for a controlled indexation of rents for contracts signed under the old law. With regards to the retail market, the new law allows the parties to freely negotiate all conditions within new contracts.

1st QUARTER AT A GLANCE

Rents	➡
Yields	⬇
New Developments	⬆

INVESTMENT RETURN



Source: CB Richard Ellis and IPD 2005

ECONOMIC OVERVIEW

The **Portuguese economy** has undergone a period of stagnation during which the Gross Domestic Product increased a mere 0.3% in 2005. Perspectives for 2006 appear to be more optimistic and the Bank of Portugal is predicting a growth of 0.8%. The **exports** are likely to represent the main driver for an increase in the economy.

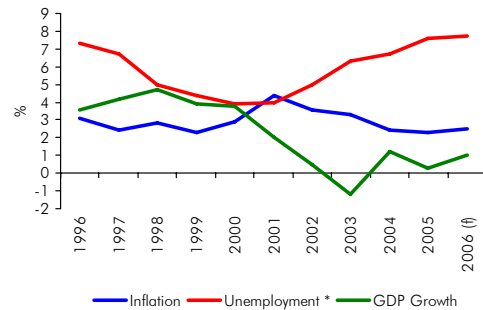
In 2005, Portuguese **inflation** (2.1%) was situated below the Euro Zone average (2.2%) for the first time. However, the values for the first quarter of 2006 appear to already be contradicting this trend.

Family consumption has experienced significant growth in recent years, exceeding economic activity. In 2005, private consumption grew 2%, whilst the economy only grew 0.3%. It is considered that this trend is not sustainable for much longer. However, an increase in credit has contributed towards this phenomenon. The anticipation of a VAT rise in mid 2005 led to the increase of consumption of durable goods, especially in the automobile sector.

The data available regarding **retail turnover** during the first three months of the year appears to indicate a slowing down in activity. However, the first quarter of 2006 shows an increase of 1.2% in relation to the same period last year. **Consumer confidence** reached minimum levels last summer and has since been recovering. Nevertheless, the economic sentiment of retail entrepreneurs has not reflected such a clear trend.

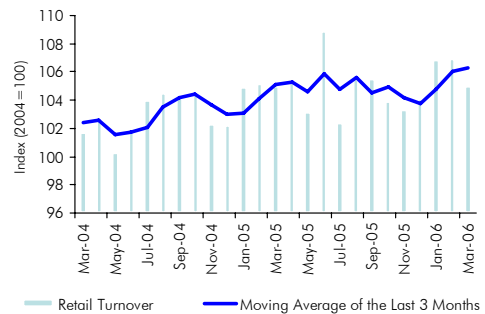
Unemployment has risen over recent years reaching a historic level. In 2005 7.6% of the active population was unemployed. This is still below the European average which registered an unemployment rate of 8.5% for the same period.

KEY ECONOMIC INDICATORS



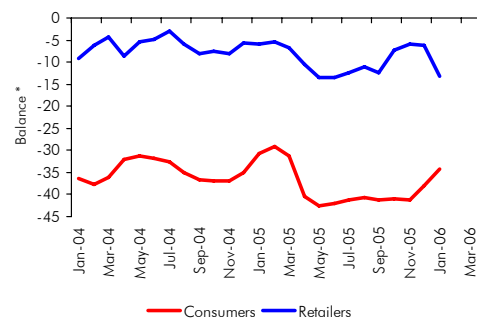
* % of active population; (f) forecast
Source: Bank of Portugal, INE and IMF

RETAIL TURNOVER FROM 2004



Source: INE

CONSUMER AND RETAILERS CONFIDENCE IN RETAIL



* Balanced answerer - Effective Value
Source: INE

FISCAL AND LEGAL REFORMS*

*In collaboration with the law firm Uria Menéndez

The government has finally approved the “Novo Regime do Arrendamento Urbano” (NRAU) (new regime of urban leases). The transitory regime in the law permits the controlled updating of old lease law rents (residential rents before 1990 and non-residential rents before 1995). The process of updating will have to occur over a transitional period of, in general, 5 years, at the end of which the updated annual rental amount cannot exceed 4% of the value of the premises (calculated by the multiplication of the fiscal value of the property. The fiscal value is based on a valuation under the IML fiscal calculations, using a coefficient of state of repair/conservation).

Relatively to new lease contracts for non-residential uses, the new regime anticipates that the parties can freely agree, from the date NRAU comes into force, to establish the contractual conditions. If the parties do not stipulate clauses in the lease, one can apply the rules for renting residential property, by considering a contract agreed with a fixed term, for a period of 10 years, in which the tenant cannot terminate the contract with a notice period of less than 1 year.

It is important to note that when NRAU comes into force, “trepassé”, the assignment of a commercial establishment or alteration of the title of more than 50% of the social participation of the tenant, existing at the date the NRAU comes into force, gives the landlord the right to denounce the contract by means of a 5 year notice period (except for contracts before 1995, in order to protect tenants) and requiring the immediate updating of the rent, with the tenant losing the right to phasing the extraordinary updating of the rent.

This last alteration puts to an end to “fraudulent trepasses”, in which the asset effectively the object of the transaction corresponds directly to the rent (the low rent) and not – as would be expected – the commercial establishment (i.e. the business), stopping these rents from continuing indefinitely, which has been the case up until the new law.

Finally, it is worth highlighting that NRAU maintains the preferential right of the tenant to purchase the property from the landlord, with this right now being extended to include leases of a fixed term. Until NRAU comes into force, this preferential right of the tenant was only applicable to rental contracts subject to the “regime geral” (old lease law system), and was not applicable to contracts of limited duration.

TAX RATES FOR COMPANIES

Tax	Rate
IRC (Income Tax)	25%
Derrama (Local Income Tax)	0% - 10% of IRC Paid
VAT* (Value Added Tax)	21%
IMT (Transaction Municipal Tax)	6.5% of sales price paid by the purchaser
IMI (Property Municipal Tax)	0.2% - 0.5% of revalued taxation value
Stamp Tax	0.8% of sales price paid by the purchaser

* The sale or leasing of property is exempt from VAT, although this may not be an exception.

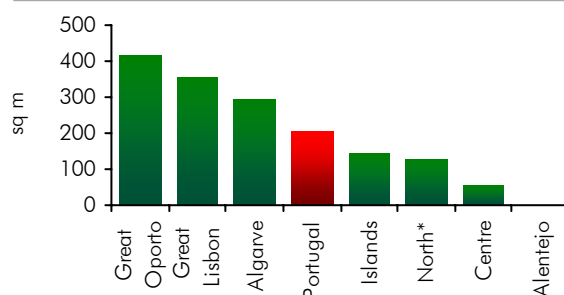
Source: CB Richard Ellis

CURRENT MARKET SITUATION AND FUTURE SUPPLY

The retail market is presently highly concentrated both geographically as well as in terms of formats.

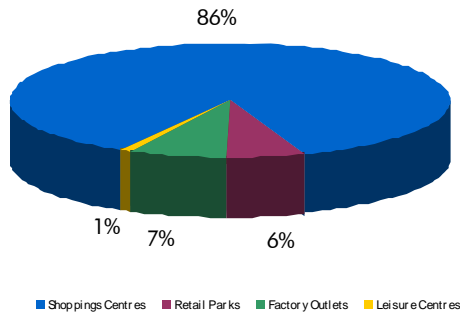
The distribution of retail per region and per 1,000 inhabitants shows that the Lisbon and Oporto metropolitan areas represent around 70% of the market. Shopping Centres comprise a large proportion of the existing retail area provision (86%). Nevertheless, there is a significant provision of new retail outside the main urban centres of Lisbon and Oporto. A large proportion of this new space is attributed to Retail Parks, rather than traditional Shopping Centres

DISTRIBUTION OF RETAIL SURFACES PER REGION AND PER 1,000 INHABITANTS IN 2005



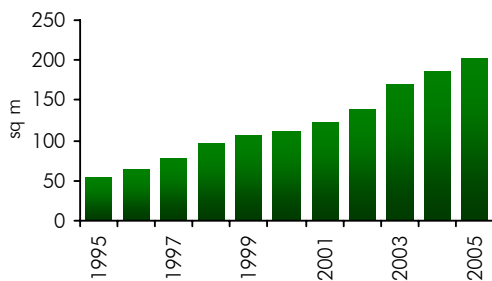
* Except Great Oporto | Source: CB Richard Ellis

PERCENTAGE OF RETAIL FORMATS (sq m) IN 2005



Source: CB Richard Ellis

RETAIL PROVISION (GLA*) PER 1,000 INHABITANTS



* Gross Lettable Area
Source: CB Richard Ellis

SHOPPING CENTRE OPENINGS IN 2005

Name	City	GLA* (sq m)	Developer
Serra Shopping	Covilhã	17,900	Sonae Sierra
Forum Viseu	Viseu	19,500	Multi Development & Visabeira Group
Dolce Vita Porto	Porto	38,200	Amorim & Somague/Prosacyr
Dolce Vita Coimbra	Coimbra	42,300	Amorim
TorreShopping	Torres Novas	11,100	Mateus Group
LoureShopping	Loures	38,800	Sonae Sierra
Forum Madeira	Funchal	19,900	Multi Development

* Gross Lettable Area
Source: CB Richard Ellis

Portugal has seen an increased diversity of retail project types as well as their choice of locations. Despite the increase in retail supply the total gross lettable area of retail in Portugal is still below that of other European Countries such as Spain or France.

The medium and smaller sized cities have a lower retail supply, therefore there is space available for new retail premises. Furthermore, consumer capacity is expected to increase in these areas making new developments more attractive.

If we include all retail formats, there is 223,900 sq m of new retail developments projected for 2006, and over 420,000 sq m projected for 2007.

The limitations of the retail licensing framework which was introduced in 2004, led to many retail development projects not being pursued. However, modification or expansion of existing retail areas only requires permission from the respective municipality. Therefore, Portugal has seen a growth of these type of projects.

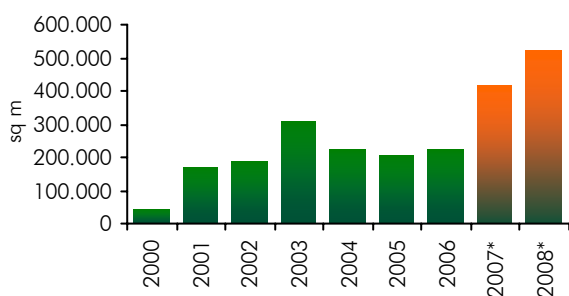
2005 proved to be a dynamic year with the opening of seven new **Shopping Centres**, amounting to a total of 187,500 sq m of gross lettable area.

For 2007, the predicted supply of new Shopping Centres remains high, and numerous proposals are currently being studied. For 2006 the opening of 125,000 sq m of new retail space is projected, and for 2007 around 186,000 sq m, gross lettable area.

The recent trend is for new developments to be located away from the urban areas of Lisbon and Oporto, and towards medium and smaller sized cities. However, there are some notable exceptions. For example, Dolce Vita Tejo, is due to open in Amadora, Greater Lisbon, in 2007. The GLA represents some 25% of the new retail space due to be built in the next couple of years.

Following the strong growth of the retail sector at the beginning of the decade with the arrival of the **Factory Outlet** concept in Portugal, there have been no recent new openings. Looking forward, only the expansion of the Nassica Outlet (Vila do Conde, Greater Oporto), with over 12,000 sq m, is expected.

HISTORIC RETAIL SPACE OPENINGS AND PROJECTED LEVELS



* Includes projects under study and appreciation
Source: CB Richard Ellis

The number of new openings of **Retail Parks** in recent years is considered low with no openings in 2004 and in 2005 only 4,000 sq m at Almada Fórum. However, the forthcoming years are expected to be considerably active with the opening of 15 Retail Parks planned, totalling approximately 207,600 sq m of gross lettable area.

Several developers appear to be focusing on a more family-oriented retail, in particular in **Leisure Centres**. 'Cinema City', a concept incorporating a retail space plus a diversion park, opening in 2006 in Leiria, is an example of such a format.

Galaxy Park, in Vila Nova da Barquinha, Santarém, is a theme park dedicated to Portuguese Explorers. A Shopping Centre of 21,000 sq m is planned for the site with an area of 55 hectares. Construction should commence at the beginning of 2007.

Regarding **other large retail schemes**, the opening of the second El Corte Inglés department store in Portugal in 2006 is worth nothing. It is located in Vila Nova de Gaia (Oporto) and comprises of 43,500 sq m. Ikea is expected to open a second store in 2007, with approximately 21,000 sq m in Matosinhos, also in Oporto.

Other international brands are also investing in Portugal. PC City, which are a part of the Dixons Group, are currently in the process of opening six computer hardware stores, to be in place before 2008. Aldi, a German supermarket chain, will also open in Portugal several supermarkets in the near future.

Traditional high street retail in Portugal has been weak due to the old lease law and high "trespasse" values. It is anticipated that the New Urban Lease Regime will resolve this situation. However, in the more established high street retail areas, such as Chiado and Rua Augusta in Lisbon, demand has been strong, particularly by fashion store retailers.

Prime rents in the principal Shopping Centres are approximately 70-75 €/sq m /month. For the high street retail, prime rents have been marked by more stability, and these are presently at approximately 70 €/sq m /month.

RETAIL OPENINGS IN 2006 AND 2007

Name	City	GLA* (sq m)	Developer
RioSul Shopping	Seixal	39,750	Sonae Sierra
Campo Pequeno	Lisboa	7.000	IPG/SRUCP
Forum Coimbra	Coimbra	45,000	Multi Development
Trindade Domus	Oporto	6,000	Eiffage Immobilier
Ferrara Plaza	Paços de Ferreira	28,000	Martifer
Dolce Vita Tejo	Lisbon	122,000	Amorim e ING
Funchal Centrum	Funchal	15.400	Nossa Cidade
Torres Vedras Shopping Centre	Torres Vedras	17,260	Mundicenter
Sports Forum	Ovar	20,400	Amorim
Porto Plaza	Oporto	11,090	Ferreiros & Almeida
Gaia Retail	Vila Nova de Gaia	15.700	Doururbano
Portimão Retail Park	Portimão	22,000	Capitalinvest
Braga Retail Centre	Braga	18,800	Bouygues
Chaves Retail Park	Chaves	6,000	Next Prime
Viseu Retail Park	Viseu	17,500	Martifel and Nagatel
Lima Retail Park	Viana do Castelo	10,800	Sonae Sierra and Miller

* Gross Lettable Area
Source: CB Richard Ellis

RENTS - RETAIL FORMATS

Type	GLA* (sq m)	Price (€/sq m /month)
Prime Shopping Centres	100-250	70-75
Retail Parks	1.000	10-12
Factory Outlets	200	20
Lisbon High Street Retail	150	70

* Gross Lettable Area
Source: CB Richard Ellis

INVESTMENT MARKET

The investment market continues to be dynamic, revealing strong demand especially from foreign investors from the United Kingdom and Germany.

According to IPD (Investment Property Databank), the retail sector reflected the highest return on investment and highest capital values in the Portuguese Real Estate Market, registering a total return of 12.7%. This is in line with its European partners.

The (net initial) prime yield for retail is presently at 6.25%, for the top Shopping Centres in the country. Over the next couple of years this is expected to decrease, due to the excess liquidity of the capital markets and the strong demand for quality products.

However, in the medium term, the raise in the interest rates may change the yields downward trend as the transactions from foreign investors are highly leveraged.

In terms of investment transactions in 2005, Sonae Sierra sold 50% of the RioSul and Serra Shopping Centres to the Pan European Fund (Rockspring). Furthermore, in 2005 there was the sale of the Continental Retail Fund, owner of the Centro Comercial Carrefour in Aveiro.

INVESTMENT TRANSACTIONS

Year	Name	Seller	Purchaser	GLA* (sq m)
2006	Picoas Plaza, Lisboa	Grupo Santos Carvalho	Amorim Imobiliária and Banif Gestão de Activos	5,500
2005	RioSul Shopping**, Seixal	Sonae Sierra	Pan European Fund (Rockspring)	39,750
	Serra Shopping**, Covilhã	Sonae Sierra	Pan European Fund (Rockspring)	17,866
	Continental Retail Fund, Aveiro	Imorendimento	Madford Developments	29,293
	Braga Retail Centre	Bouygues	CGS/Commerz Bank fund	18,800
	Coimbra Retail Park	Miller/ Sonae Sierra	Scottish Widows	12,750
	Fórum Madeira	Multi Development	DB Real Estate	19,900

* Gross Lettable Area ** Sale of 50% of assets
Source: CB Richard Ellis

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