

Briefing: The Portuguese real estate market

What are currently the biggest opportunities for law firms?

The Portuguese real estate market is booming, according to Tiago Mendonça de Castro, partner at PLMJ. "This boom is a result of the depreciation of real estate assets prices and the efforts of several public policies aimed at promoting Portugal abroad, with the purpose of highlighting Portugal as a safe and open place for foreign investment and a prime living or tourist destination," he says. "Several tax schemes have recently been designed for attracting foreign investors to Portugal, which has a real estate market that is highly sought after by foreign investors and companies from all around the world." Mendonça de Castro adds that the biggest opportunities for law firms lie in their "ability to advise and assist foreign clients in such a way that they feel safe investing within a legal context which is foreign to them".

Providing advice to international investors acquiring real estate assets in Portugal is a significant source of work for Lisbon firms. "Structuring foreign real estate investments is currently one of the biggest opportunities for law firms," says Sofia Galvão, name partner at real estate boutique Sofia Galvão Advogados. The most significant opportunities exist in the commercial sector – specifically retail, hotels, shopping centres and offices – according to MLGTS partner Filipa Arantes Pedroso. She adds: "Urban redevelopment is also an opportunity with tax benefits in place."

What have been the latest developments in the real estate finance market?

"Depending on the quality of the underlying assets, banks, equity investors and other sponsors have increasingly become available to finance real estate acquisitions and development based on more appropriate loan to value ratio," says Pedro Ferreirinha, partner at Vieira de Almeida. However, there is still a feeling that banks are largely reluctant to fund real estate projects. Tiago Mendonça de Castro, partner at PLMJ, says: "The Portuguese real estate finance market is still licking its wounds and proceeds extremely carefully – the financing for real estate investment is very low when it comes to individual investors, banks are sometimes more willing when the investor is a well renowned foreign company but the banks' approach is still generally cautious with respect to real estate." However, Hugo Nunes, partner at Sofia Galvão Advogados, says there are opportunities for law firms in this area: "New rules on available public funds in Portugal mean there is demand for legal advice in light of the very interesting opportunities for alternative sources of funding."

What assets are developers targeting?

There are two main categories of asset that developers are seeking, according to PLMJ partner Tiago Mendonça de Castro. "They are commercial assets – such as shopping centres and new retail stores in prime areas for street shopping – as well as houses or touristic assets, or assets with a high tourism potential, such as services apartments or boutique hotels all in prime areas," he adds. ABBC partner Luis Filipe Carvalho says developers are focusing on properties in "strategic localisations in city downtowns" to reconstruct or refurbish in order to sell as prime real estate to foreign investors either for residential or commercial purposes. He continues: "Additionally, investors are also looking for bigger properties to develop office spaces."

Gómez argues that this complexity extends to investment and financing structures, which is the "driver that real estate lawyers have to play with". Other lawyers in Spain say that the financing market, especially the alternative financing market, is driving investments. "The leading traditional credit institutions are financing real estate projects again and new market participants have entered the Spanish lending market, for example, direct lenders such as hedge funds," García-Manso comments. "We have also seen certain projects financed by insurance companies – the pricing of loans, in terms of margin, is relatively low if compared to other financings such as project and acquisition financings."

Fernando Azofra, partner at Uría Menéndez, agrees that most Spanish and international banks, and also some investment funds, are "back on track to finance transactions", adding that this includes development finance. Meanwhile, Ferreirinha cites the availability of significant funds in the Portuguese market as an influence: "We have witnessed some major international players entering the market with the acquisitions of significant retail portfolios, stand-alone retail and hospitality projects and sale and lease back transactions."

High office vacancy rate

Despite the positive messages, there is a degree of caution about the future. Many observers believe it will be a challenge to maintain the current momentum, especially in Portugal, if the market does not develop in a sustainable and balanced way. "Low inflation is a risk for the economy and therefore for the real estate market," warns Filipa Arantes