

# Q&A

*Following a strong post-covid recovery, Lisbon is emerging as a bright star in European real estate markets. **Francisco Sottomayor**, CEO of Norfin, part of Arrow Global Group, explains why*

**Q What makes Lisbon such an attractive destination for investors?**

**A** As a political, economic and cultural capital, Lisbon benefits from dynamic labor, residential and touristic markets. Lisbon's affordability, multicultural environment, deep talent pool and Mediterranean way of life has been increasingly attracting international companies and professionals to live and work. Recently this trend has been further bolstered by digital nomads – students and tourists alike. This growing market dynamism is fueled by a welcoming market for international capital, a business-friendly environment and a compelling tax treatment afforded to foreign individuals.

**Q Which sectors are particularly appealing, and what's driving demand?**

**A** Through Norfin's €1.6 billion portfolio of development projects and standing stock, we benefit from first-hand data on the residential, office, retail and hospitality markets in Lisbon and beyond. In Lisbon, the residential and hospitality sectors have experienced substantial demand growth, driven internally by strong economic and demographic fundamentals and increasing demand from visitors and foreign residents. In the last seven years, house prices in Lisbon have grown by 10 percent per annum on average. The office market has also performed well, with a CBD vacancy rate below



4 percent and a 10 percent increase in prime rents over the past two years.

**Q How has the city recovered post-covid and how are macroeconomic factors affecting demand?**

**A** Lisbon was significantly hit by the pandemic, but in 2022 there has been a strong recovery across all sectors. Tourism indicators are already above 2019 levels and high street retail is increasingly active. Office demand has recovered strongly as well, with take-up volumes up until July already reaching the total take-up level of 2021. Investment activity in Portugal is keeping pace with the occupational markets and is expected to surpass the €3 billion mark for the third time ever.

While rising interest rates will certainly have an effect on investment markets, fundamentals in Lisbon

remain attractive. In our residential and mixed-use projects in Lisbon, we have so far seen price appreciation keep pace with construction cost inflation.

**Q Are there other cities in Portugal that have the same potential as Lisbon?**

**A** In the north, Porto has been able to attract investment in almost every segment, with a special focus on residential, student housing, office and logistics. In the south, the Algarve, the main tourist hub in Portugal, continues to attract significant investment in the residential and touristic segments, leveraging on its mild weather, good air connectivity with Europe and wide range of amenities. Managing Vilamoura, Portugal's largest integrated resort, has given us a unique perspective on the growing demand for residential properties in the Algarve.

**Q How important is ESG to real estate operators in the Portuguese market?**

**A** ESG is a hot topic in Portugal. Due to growing tenant and investor awareness, all of Lisbon and Porto's office pipeline currently envisions demanding environmental certifications, and the largest portfolio owners are planning substantial investments in ESG for their existing buildings. At Norfin, we are at the forefront of this development, and are currently completing the first LEED Platinum-certified building in Lisbon. ■