

ΟΙΚΟΣ

The long game for the Portuguese residential sector

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Foreword



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The Portuguese residential real estate sector has experienced a rapid price acceleration over the past decade, attracting significant investor interest, raising concerns among families, and occupying a prominent place in political discourse. This situation has been widely labelled a “housing crisis,” to which the solutions implemented so far—through laws and large-scale initiatives—have yielded no visible results and, in some cases, may have had the opposite effect.

Given that housing is simultaneously (1) a socially distributed good, (2) an investment good and (3) a consumption good, the sector depends on a complex and dynamic balance of multiple economic elements. Therefore, any sustainable solution requires broadening the analysis to a wider context. This was the motivation for writing the present document, which offers an updated, in-depth analysis of the Portuguese residential sector. It provides historical context to explain the dynamics and fundamentals that led to the current situation and identifies strategic avenues for addressing it.

The document examines key dynamics in components such as demographics, urbanization, household economics, construction sector, so that, together, these elements shed light on the current state of the residential market and highlight potential solutions and opportunities that can be leveraged.

CBRE believes that this contribution is useful to disseminate a holistic understanding for investors, civil servants and general audience, furthering the public discussion taking place in the Portuguese society.

Good readings!

Problem statement and methodology

The Portuguese residential real estate sector has been at the center of attention due to the sustained and disproportionate increase in housing prices compared with income levels, which has led to the so-called “housing crisis.”

Median residential bank valuation
[EUR per sqm]



Monthly average wage
[EUR/month; Net]

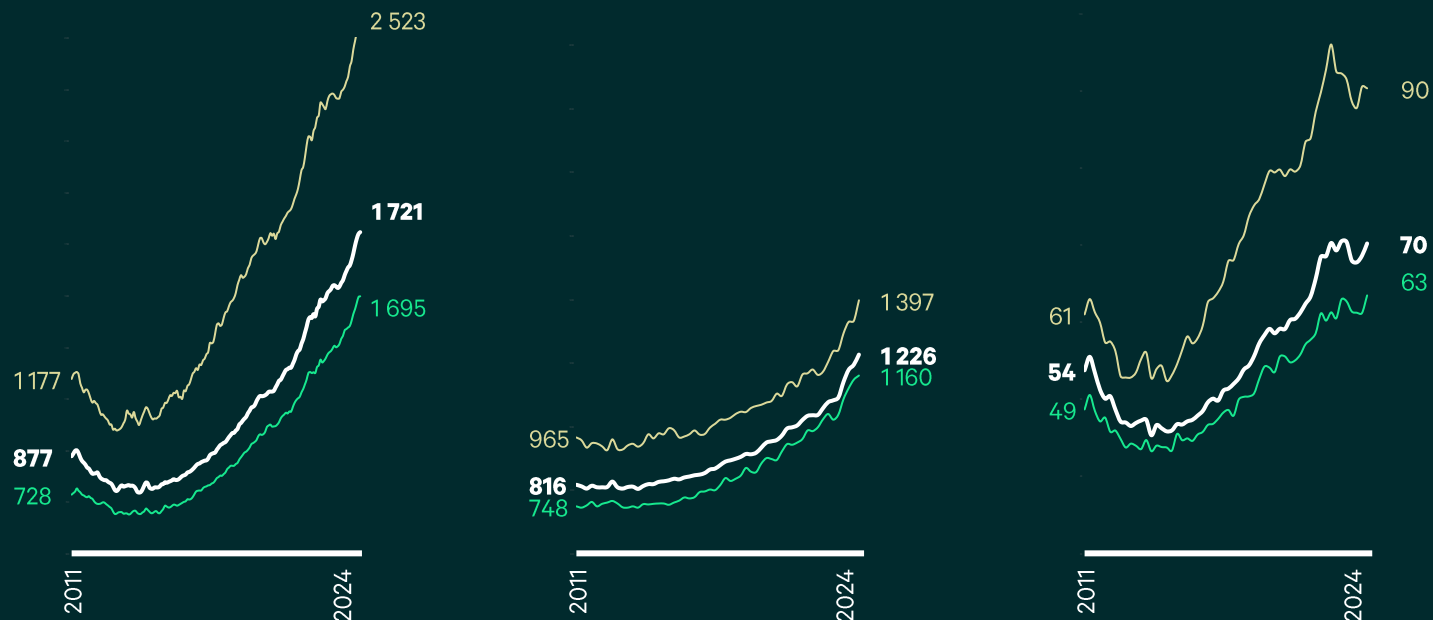


Price to Income ratio
[Months needed to acquire 50 sqm]

● Lisbon

● Portugal total

● North (incl. Porto)



To provide a comprehensive explanation of the residential affordability issue, one needs to examine in detail the first and second degree causes of this phenomenon, avoiding the pitfalls of a limited analysis. Under this context, the methodology used to describe the was a broad historical view of the different elements that influence both the house prices and the ability of the population to afford it.

This report covers:

1. An historical overview of the Portuguese socioeconomic model;
2. An overview of the Portuguese demographics and territory;
3. An overview of the construction sector;
4. A description of the housing stock and market dynamics.

With this elements, one can better point to the underlying issues and its solution.

Index

1. The Portuguese economy in the globalized world
2. Historical view of Portuguese demographics
3. The construction sector
4. Housing stock and home ownership
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6. Urban population and city dynamics
7. Strategic avenues and opportunities

The Portuguese economy in the globalized world

Summary

The Portuguese economic model brought chronic difficulties to its productive system

The globalized world features international trade, economic specialization, and urbanized population

As Europe became a trading block, the Central European countries became its key economic drivers

The Portuguese economic model features some fragilities that were exacerbated as Portugal joined the EU trading block

The Portuguese productive system is locked into a persistent state of low salaries

- The Post-WWII rebuilding strategy created and expanded a maritime trading system;
- The global trade enabled population growth and its migration to cities, which led to a global specialization movement of economies and created shifts from agrarian to industrial and service-based metropolitan economies
- As Europe became a predominantly trading union, the center European countries were able to exploit compounding factors to benefit and grow with the international trade;;
- The EU built its political model around free movement of goods, capital, and people, which further reinforced the already dominant position of the central economies.
- The Portuguese economy has experienced some structural shifts over the last decades, that were heightened by the changes in the political arrangements;
- Despite the nominal economic growth, there were some structural fragilities within the Portuguese economy that had a lasting effect and namely: (1) a decade-long inflationary monetary model, (2) a structurally negative trade balances and (3) expanding weight of the state in the economy with continued recourse to budget deficits and debt.
- The economic structure shifted from an agrarian and industrial economy to a service-oriented one and the workforce changed with it;
- With the current model, unemployment started into a cyclical upward trend, and despite the investments in education, the workforce has been locked into a low salaries paradigm, when compared to the central European economies, which has historically provided an unimpeded incentive to Portuguese emigration.

The last 70 years have seen the rise and expansion of a global trading system

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

The emergence of global trading system

As WWII ended and the Cold War took hold, a maritime-based trading system was established by the USA and its allies as a stark contrast economic alternative to the 'Eurasian Communist block and agenda.

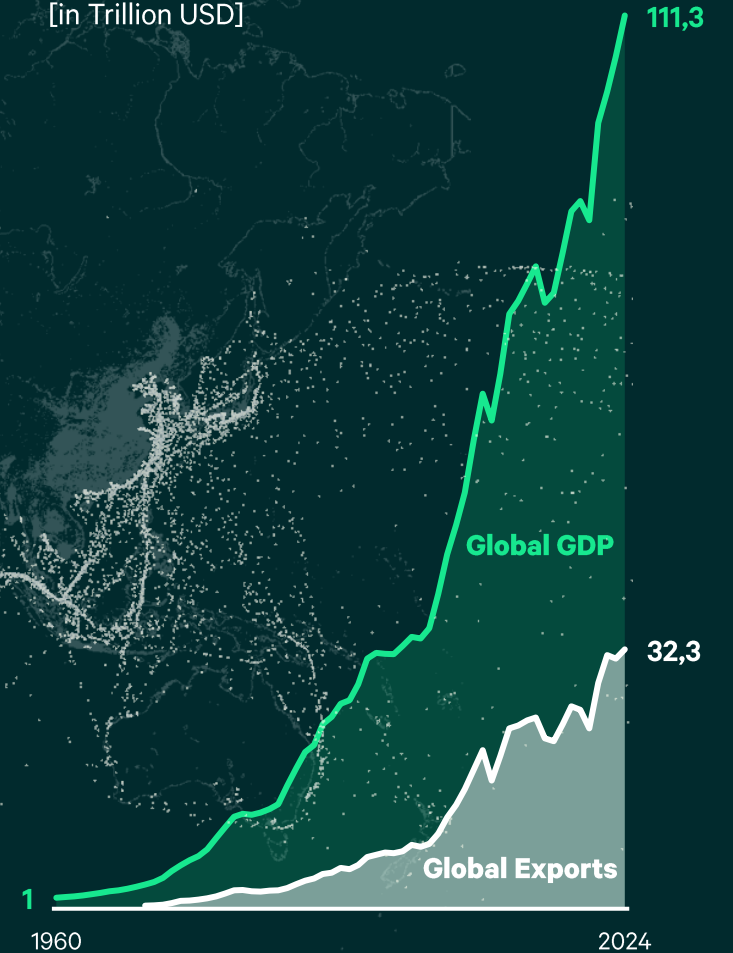
This maritime order and its institutions (such as the GATT and later, the WTO) would establish and enforce the membership and laws of the global trading system which saw more substantial and continuous increases in value and in loaded tons of cargo between countries.

After the Cold War came to an end, the global trade model became grew even further, adding major economies like China and Russia to the trading system, which furthered significantly the international trade value and interdependence.

On this map

Global trade routes (each dot is a ship)

Global GDP and Exports [in Trillion USD]



As economies trade, people aggregate in cities and devote their work to more value-added activities

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

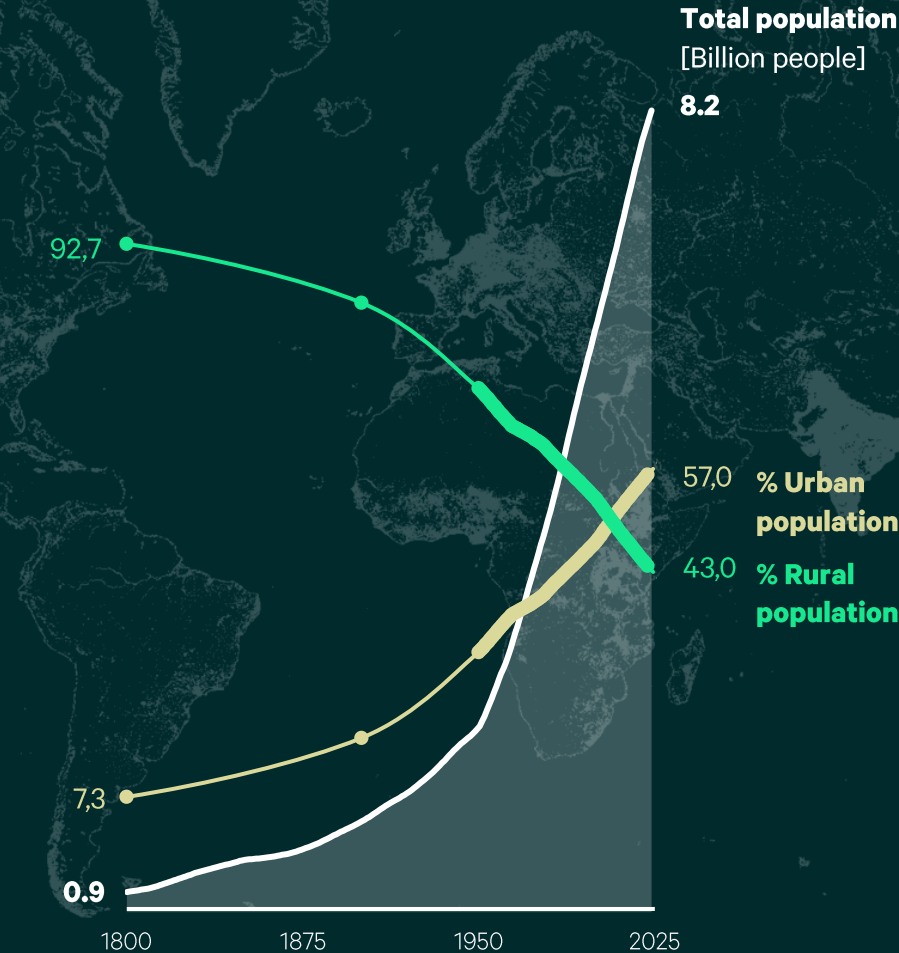
Urbanization as a paradigm of the global world

The globalized world permitted an overall increase in global population, due to global trade-induced efficiencies, which would allow entire populations to feed from imported food, rather than harvesting it locally and therefore creating food trade balances by direct labor to more productive sectors, that tend to locate in either industrial regions or in cities.

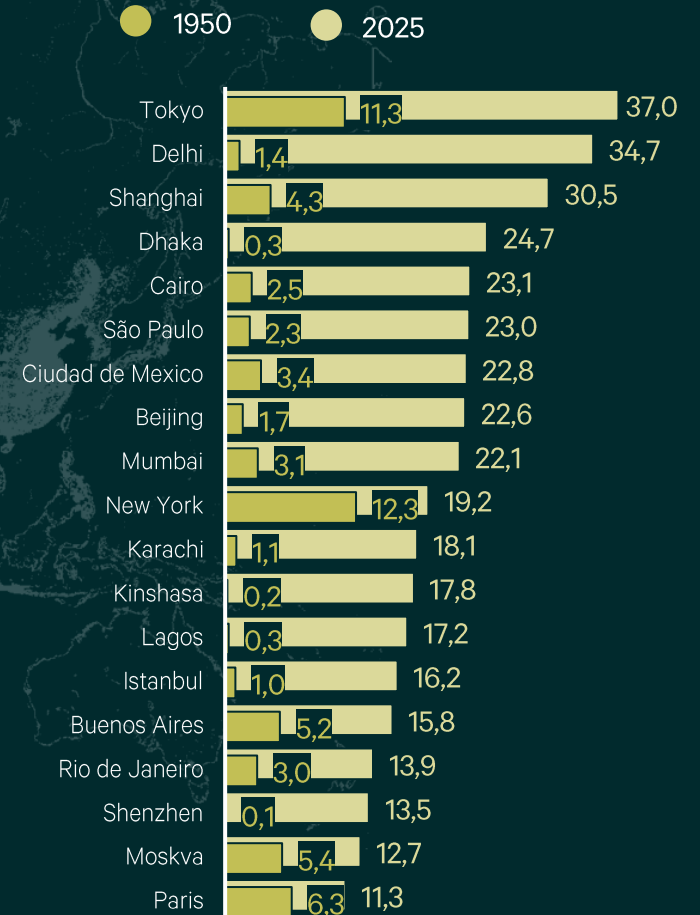
As a consequence, cities started to grow worldwide and not only did those cities accumulate population from previously rural communities as they would sustain an unprecedented number of people.

This urbanized world would also create its own necessities in terms of services and would feed yet another later transformation of previously industrialized nations to morph into a service-led economies.

Total Population
[in billion people]



Key global cities population
[in million people]

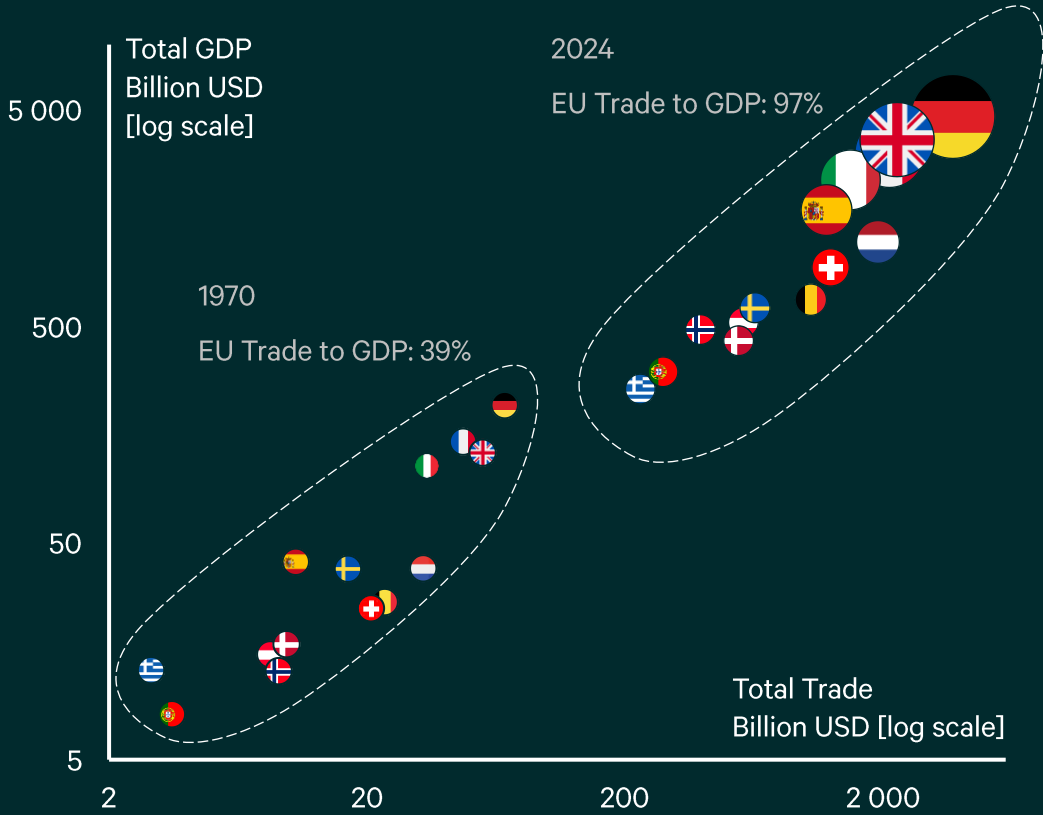


The European Union's economic model is contingent upon trade

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

Throughout the last decades, Europe's economic model has brought trade to the very center of its economic development strategy, allowing it to grow substantially and even create an entire political union based on freedom of movement of merchandise, capital and people currently known as the European Union. The natural dynamics of compounded growths creates attracts people to the key cities in Europe, and that allows these cities to grow and become metropolises, which become services hubs and opportunity magnets.

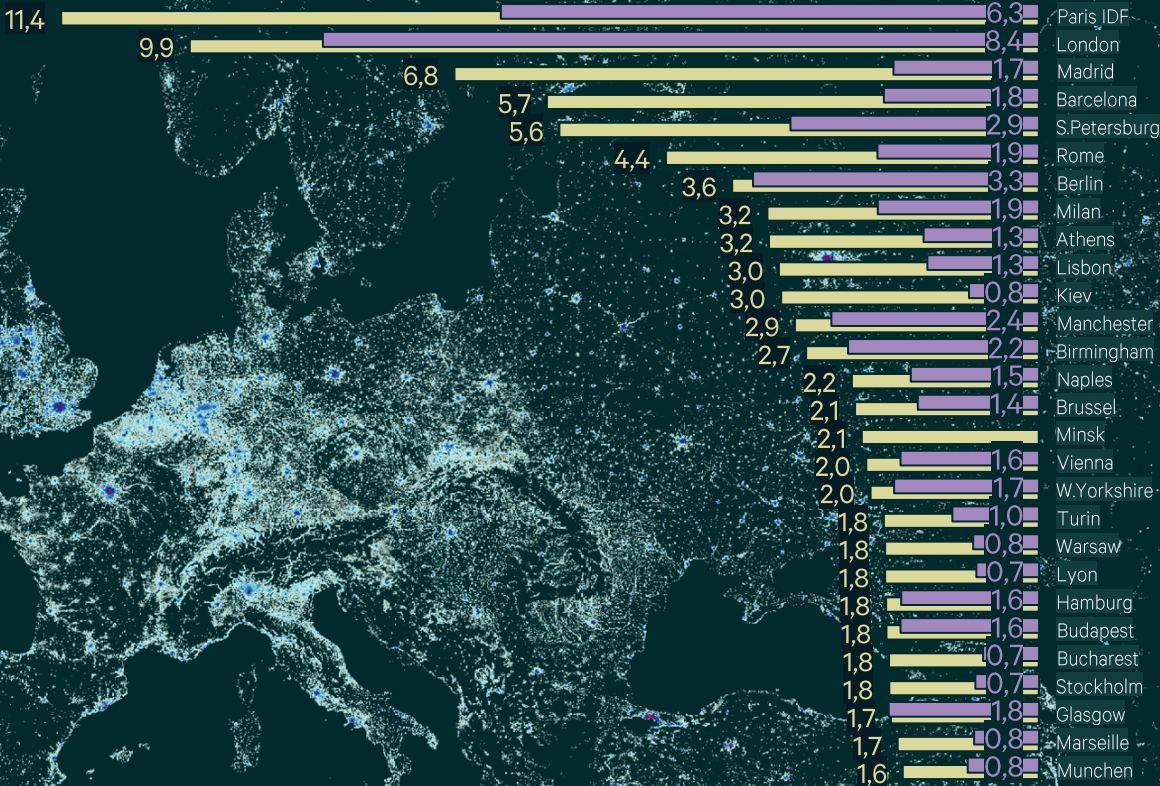
Europe Trade and GDP



Population of key European metro areas

[Million people]

● 2025 ● 1950



Sources: World Bank; UNDP

The Center European economies developed the key economic fundamentals toward trade...

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

The key role of central Europe to the trading block

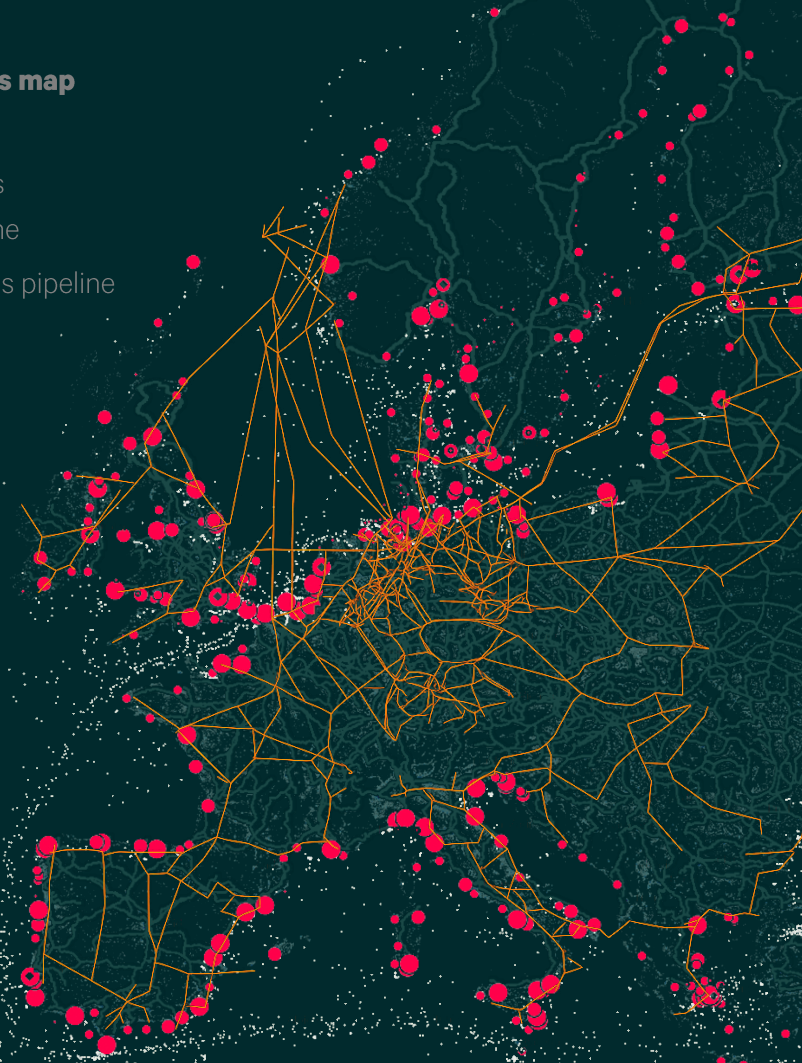
Legend of this map

- Port
- Ship lanes
- Railway line
- Oil and Gas pipeline

As Europe became a predominantly trading union, the center European countries were in the sweet spot for exploiting some of the compounding factors to benefit and grow with the international trade:

1. The legacy core industrialized areas of key industries (such as steel and auto);
2. Proximity to petrochemical supplies from the North Sea, Black Sea and (later added) Siberia;
3. A numerous and industry-trained human capital;
4. A well-developed local capital that could carry out large investments, creating economies of scale and industrial clusters;
5. An existing interconnected ecosystem of road and railway that could easily bring factors into and out of the manufacturing processes;
6. A number of ports that could efficiently service (and later hub) the industries located therein.

Under these conditions, trade surpluses and productivity were able to accrue over time and develop all the Central Europe economies to an unprecedented degree.



Along the last 70 years, Portugal has followed a globalization strategy...

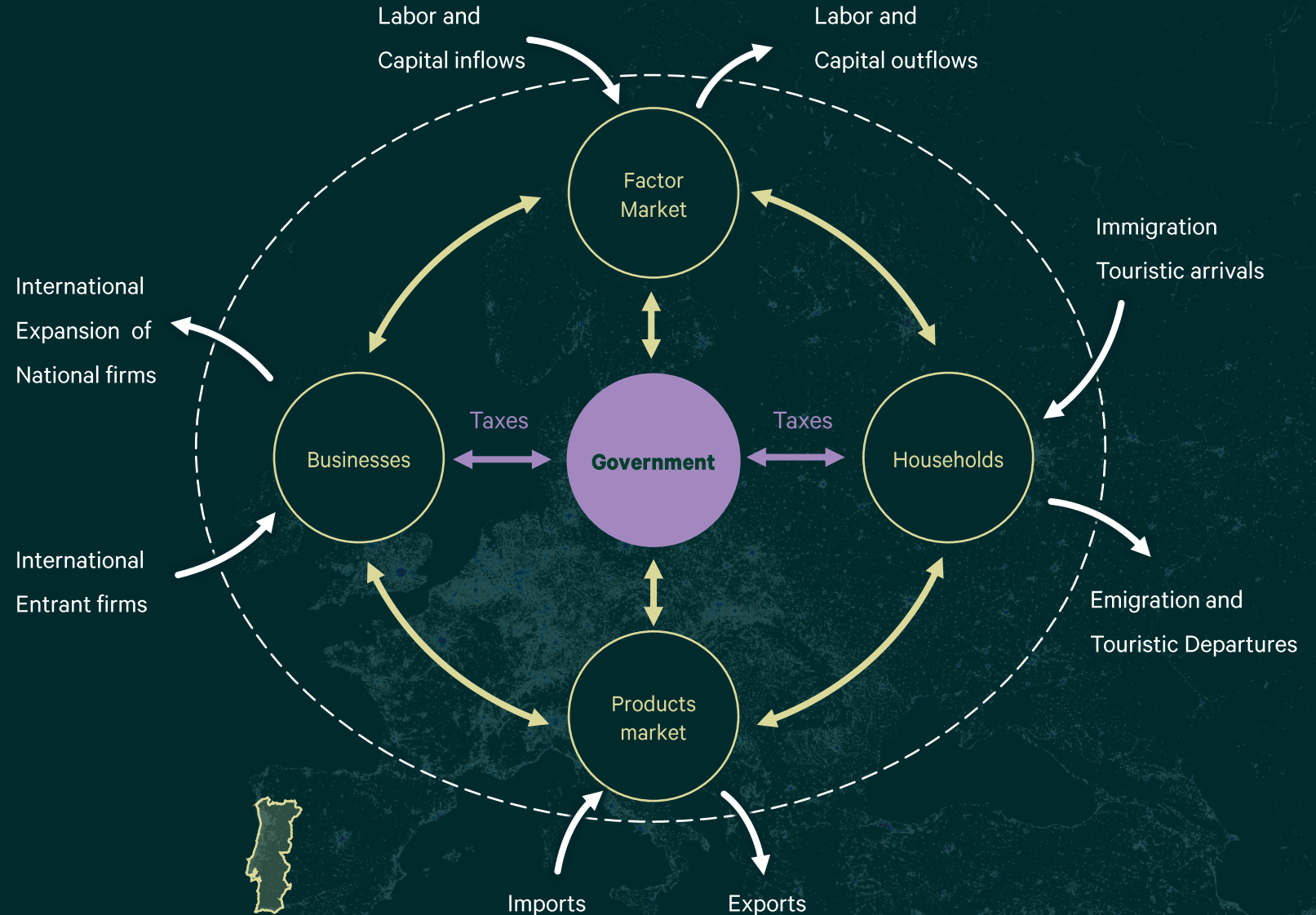
THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

The peripheral situation and the full openness strategy

As history unfolded, the Portuguese economic system shifted from a closed borders economy into an opened society with freedom of inflows and outflows of merchandise, people and an openness to international corporations.

This openness created several compounded impacts within the social and economic fabric of Portugal. There were two pivotal moments in time that created the Portuguese status quo:

1. The fall of Estado Novo – which brought with it a series of social, political and economic shifts;
2. The joining of Portugal into the European Union, which took the Portuguese economy into a long-term transformation of a closed economic system into an open one.



Which was not conducive to the same growth story as elsewhere in Europe.

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

The peripheral situation and the full openness strategy

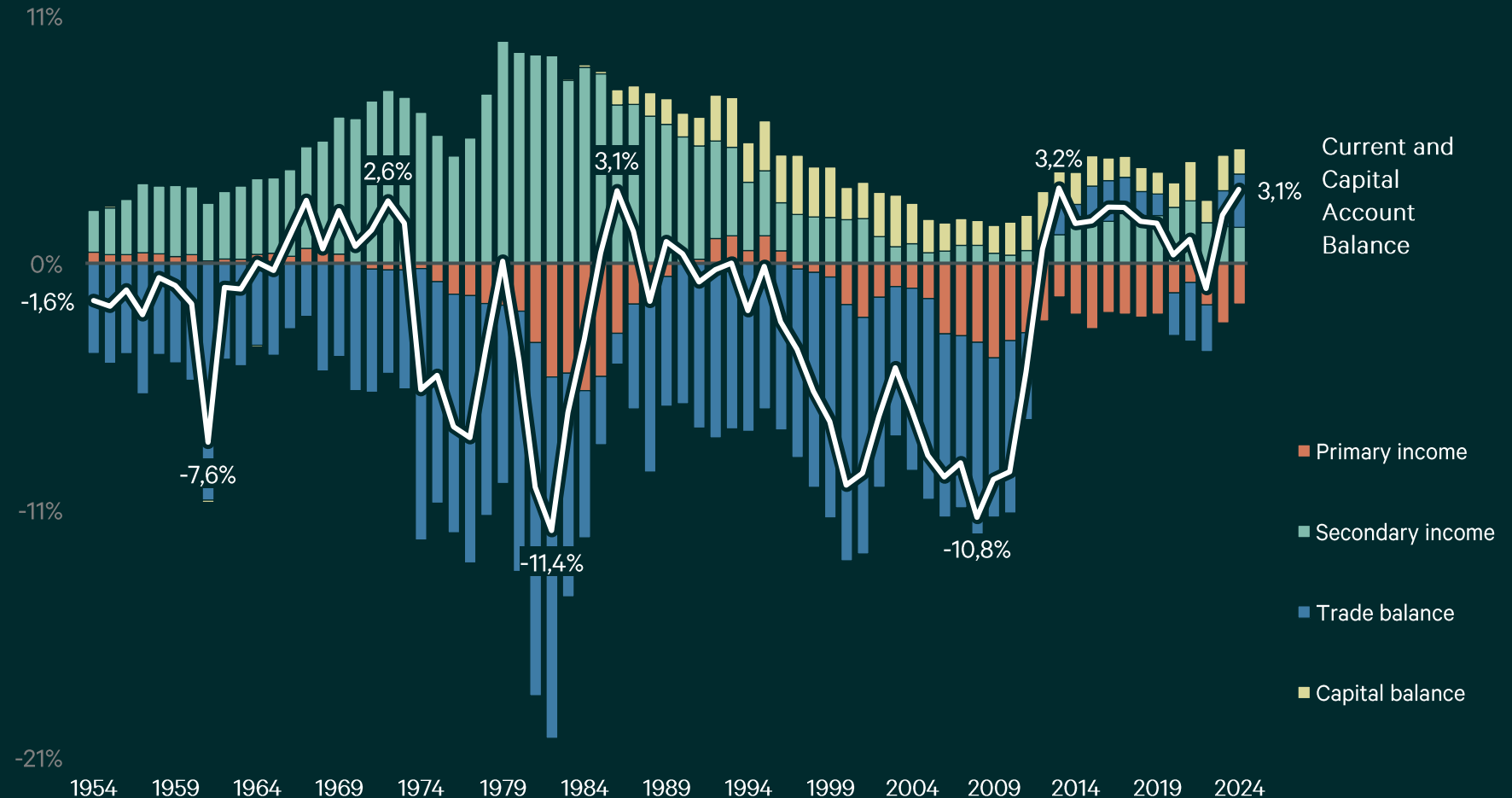
Analyzing the long-term effects of the Portuguese globalization story, there are some key specificities that have shaped the Portuguese story:

1. A persistent negative trade balance, only inverted throughout the last decade – mainly due to Tourism service exports;
2. A substantially negative primary balance to which the payments of capital are the primary driver;
3. A persistent strongly positive secondary income balance, due mainly to heavy contributions of emigrant remittances to the homeland;
4. A positive capital balance since 1986, the year that Portugal joined the European Union.

The overall result has been one of negative current and capital balances which has hurt the productive sector of the Portuguese economy.

Key commerce metrics for the Portuguese Economy

[Values in % of GDP]



70 years of social and political model changes viewed through the economic perspective

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

The Portuguese economic history in perspective

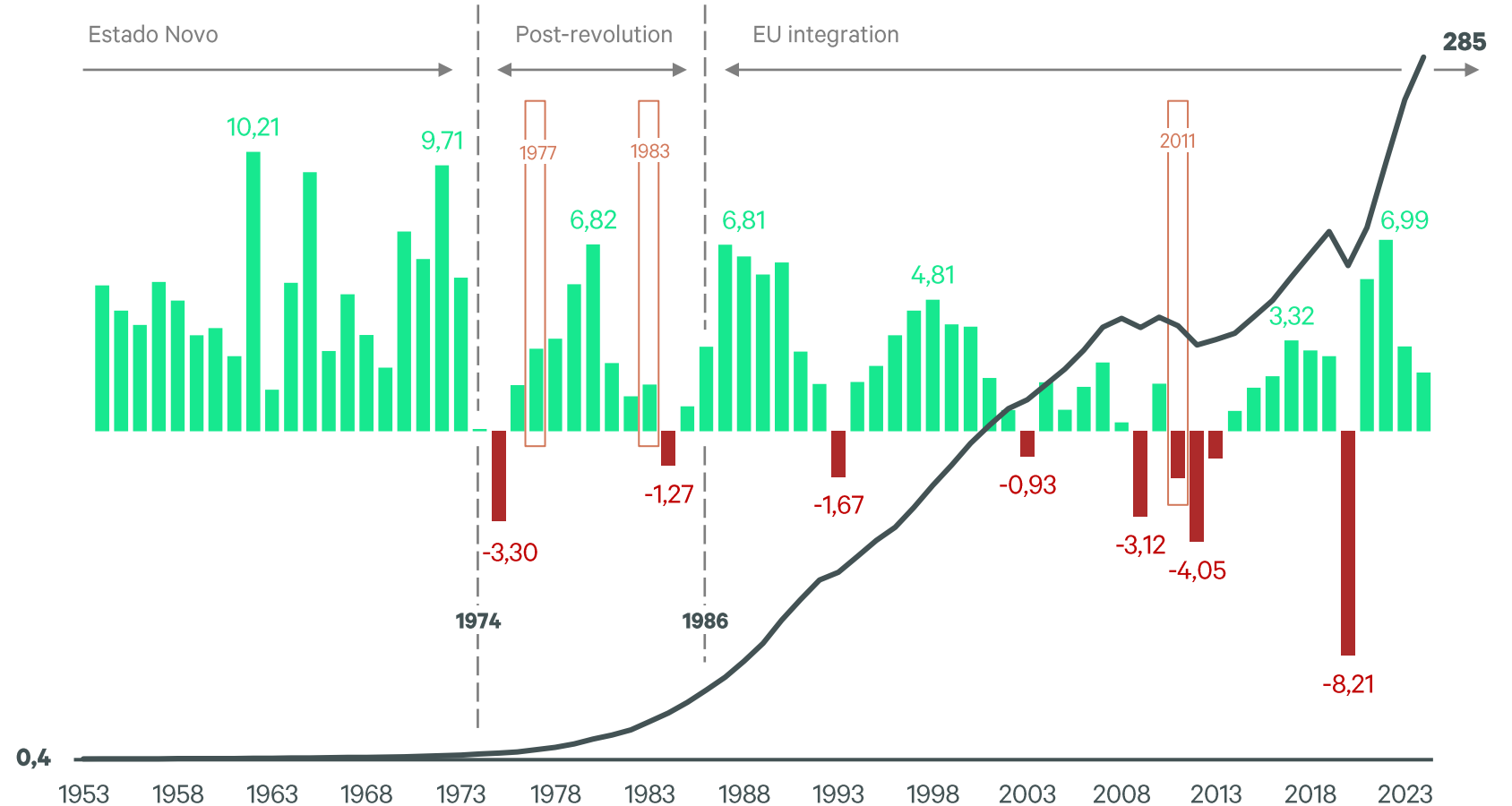
The Portuguese economic story has been one of nominal and real growth and was largely influenced by key moments in its political configuration. Before the fall of Estado Novo, even during the Portuguese “Guerra do Ultramar”, the economy registered significant real growths of its GDP.

After the April Revolution of 1974, there was a revolutionary period under which a new political and institutional system was shaped and, from that point onwards, the economy assumed a more cyclical real growth pattern. Even after joining the EU with all its associated funding, the economy never regained its former growth momentum,

The economy, and especially government finances, have gained some structural imbalances which have been targeted by subsequent IMF interventions.

The Portuguese nominal GDP and real GDP growth

— Nominal GDP [Billion EUR] ■ Real growth (%) □ IMF interventions



Inflation, negative trade balances and budget deficits, persistent features of contemporary Portugal

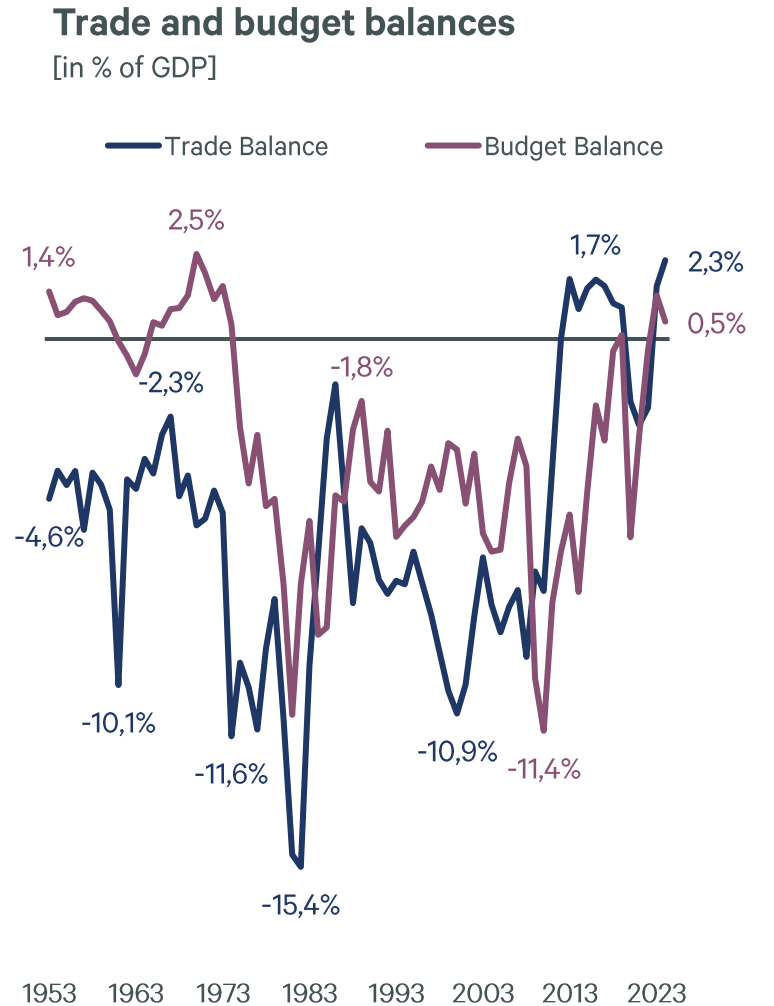
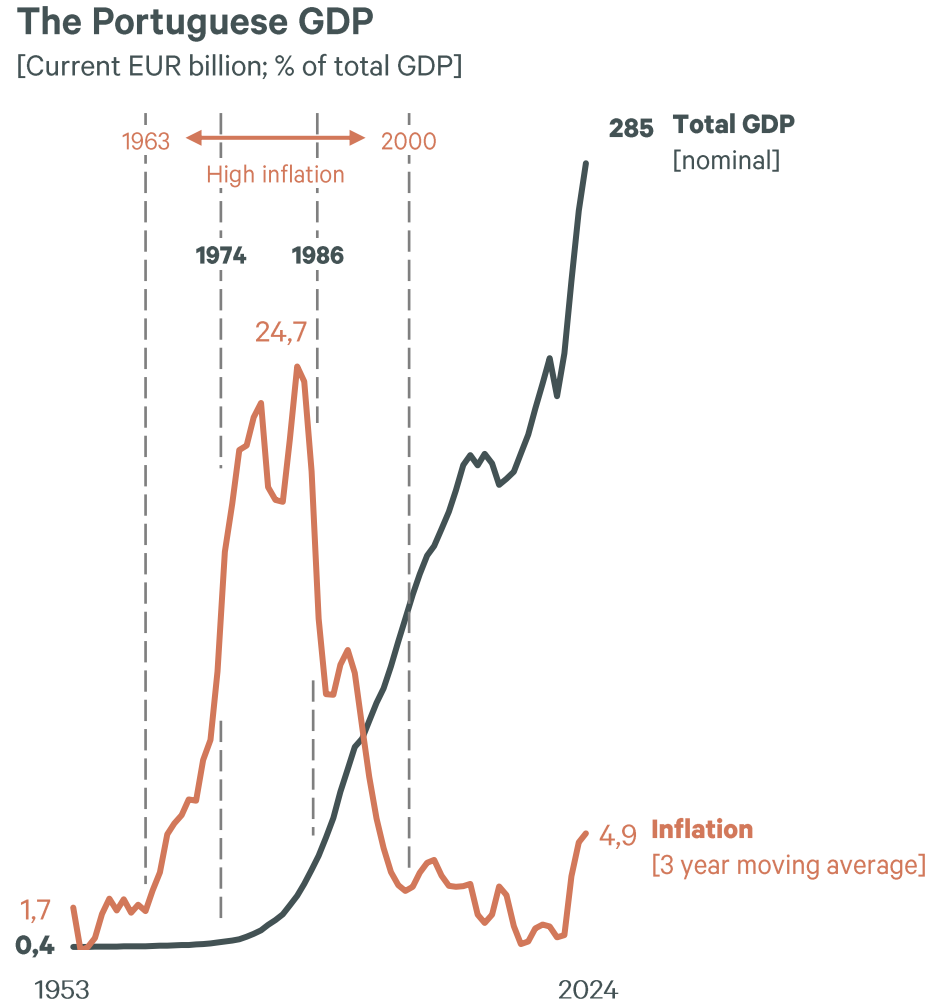
THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

The Portuguese economic history in perspective

There are three important aspects of the Portuguese economic model that have been taking place over the long run:

1. Persistent inflationary monetary model, which cumulatively represented a loss of value of the Portuguese currency to less than 1% of its 1950's value;
2. A negative trade balance - even during Estado Novo, and only recently inverted;
3. Nearly 50 years budget deficits that had a non-structural 2 years break of budget surpluses in 2023 and 2024.

All these elements excerpted a continued under-the-surface effect over the economy to the detriment of the citizens standards of living.



Portugal held a multi-decade negative trade balance which has only recently inverted due to tourism

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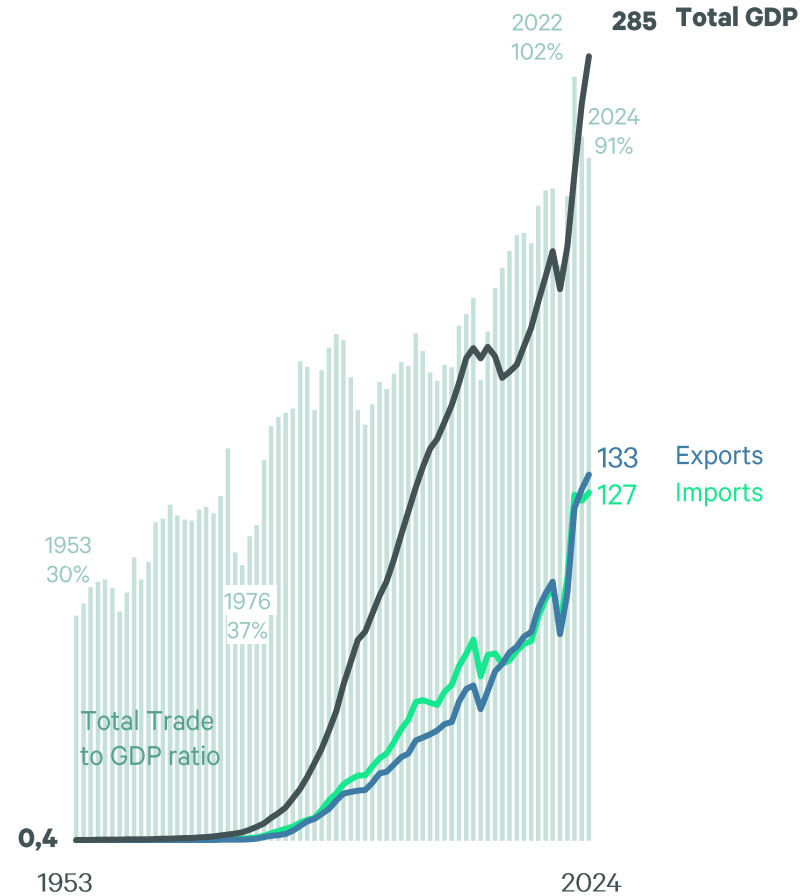
The fragile Portuguese trade balance position

As most of Europe, Portugal has increased its participation in global trade, not only in terms of increasing its exporting activities to the global markets, but also by increasing the importing activities.

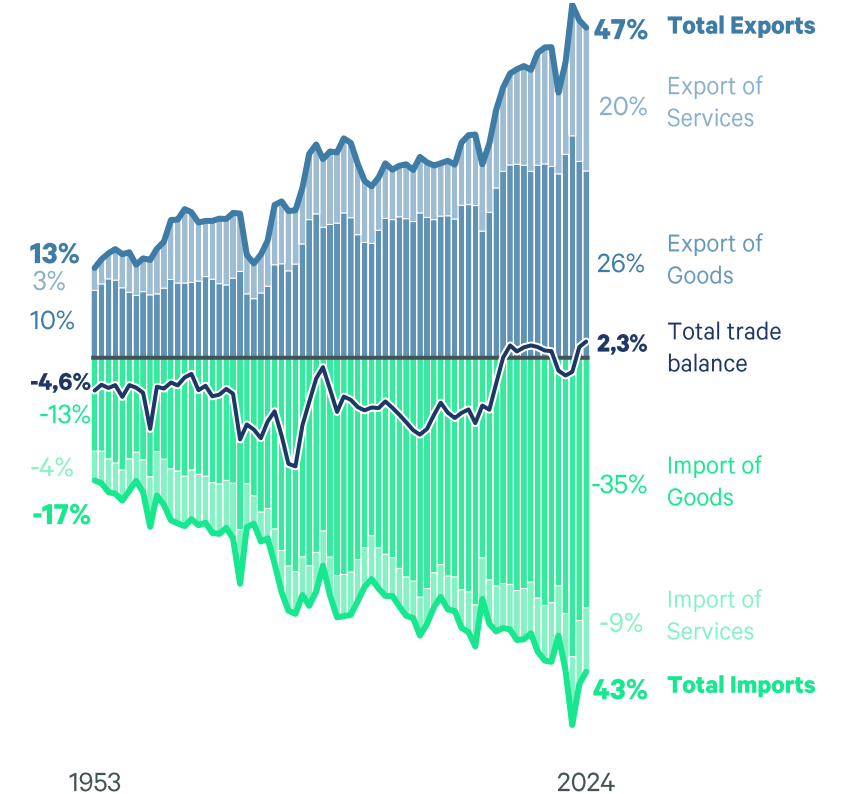
Although, unlike the key European economies, Portugal has had a persistent trade deficit, driven mainly by the goods trade deficit. This goods trade deficit has been generated by the importing of industrial goods, and energy resources with no corresponding exporting activity that can account for it.

The service trade however, shows a persistent surplus that has, throughout the most part of last decade, compensated for the negative goods trade balance. This positive outcome is due to the consist growth and positive performance of the touristic sector.

The Portuguese trade of goods and services
[Current EUR billion; % of total GDP]



Trade balance
[Current Billion EUR; % of total GDP]



The government expansion through increased taxation and budget deficits became standard policy

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

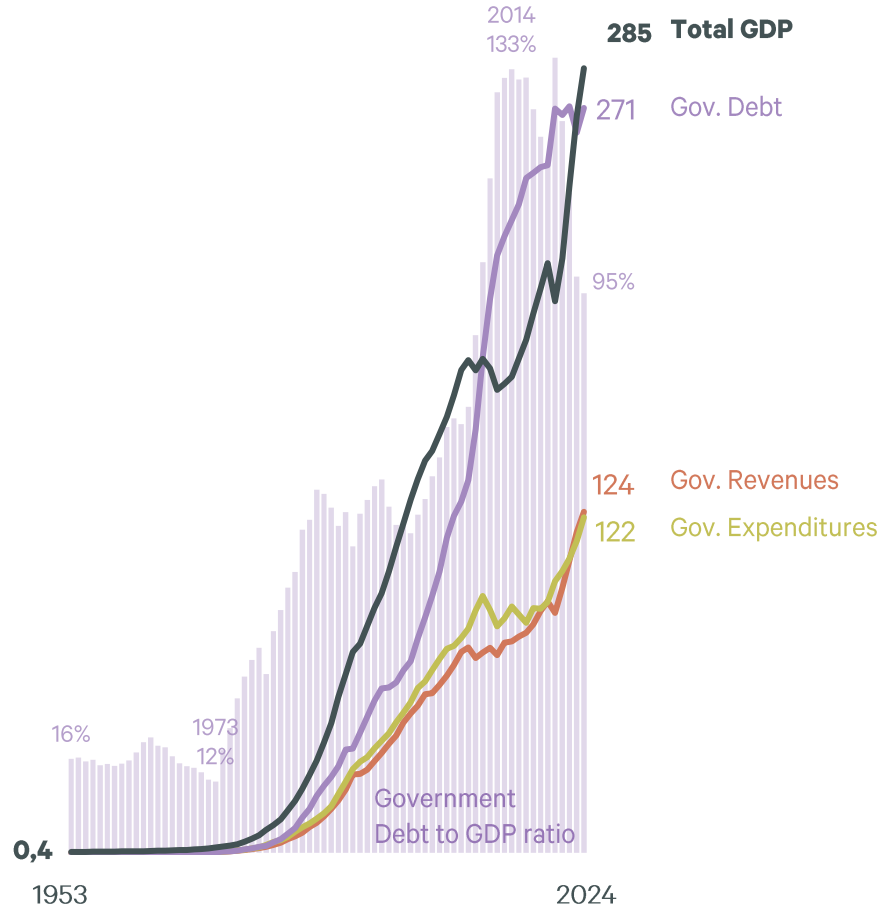
The deficit the symptom of the Government's central role

A prominent feature of the 3ª República regime is a persistent government deficit through the expansion of government expenditures and the insufficiency of government revenues [despite its consecutive increases] to account for those expenditures. Under this economic model, the state is the central economic agent within the economy – which extracts nearly half of its value add through taxation and injects nearly the same amount into it – giving the state the discretionary power of resource allocation.

The funding of the consecutive government deficits came from the increased government debt, which grew from 12% of GDP in 1973 until the staggering 133% in 2014. These debt increases were the key motivation the last IMF intervention in 2011, which prompted some reforms which partly account for the current downward trend.

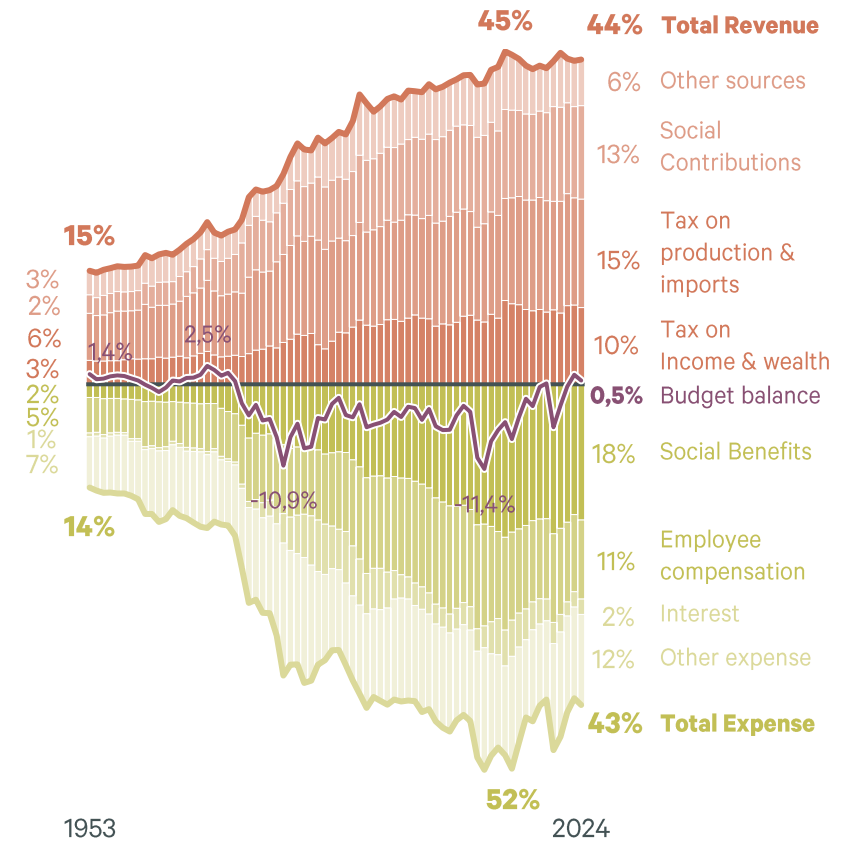
The Portuguese government finances

[Current EUR billion; % of total GDP]



Government revenues and expenditures

[in % of GDP]



The economy shifted from mainly agrarian and industrial to a mainly services economy

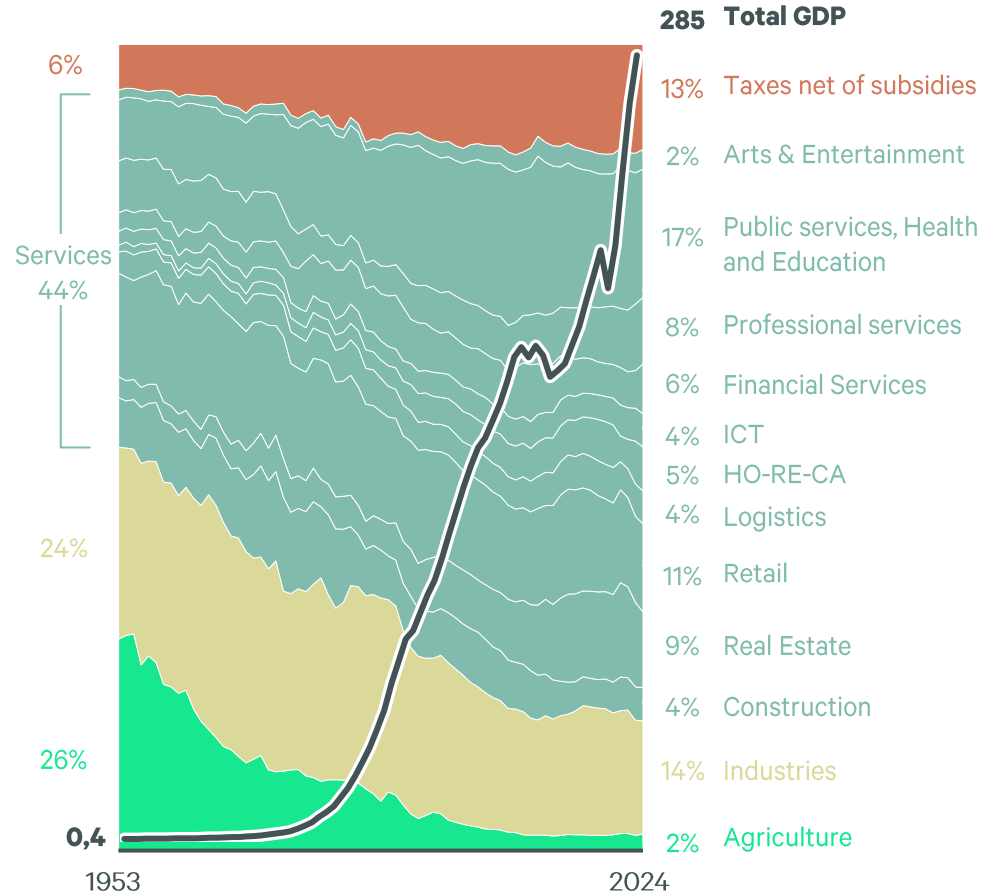
THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

The value add and the labor market transformation

The economic shifts taking place also shaped the different sectors and the associated labor markets. The agriculture and industrial sectors which in the 1950s accounted for nearly 50% of the total GDP and 65% of employment, have progressively shrunk to present day, account currently for nearly 16% of the total GDP and 22% of employment. In the opposite direction, the services sector which grew substantially in absolute and percental contribution to GDP and employment. Of all the sectors the most expressive increases happened in public services, health and education, which are either totally, or majority, state funded.

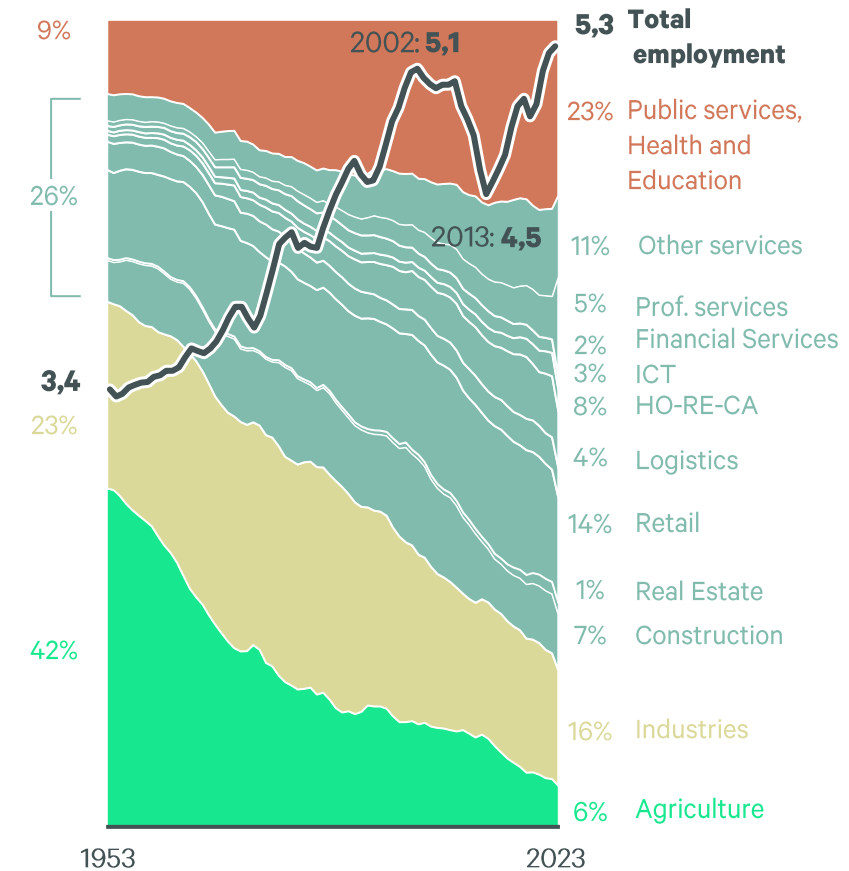
The workforce, which was experiencing increases from the 50's to the early 2000's started to shrink until 2013, only recently surpassing the high watermark of 2002.

The Portuguese GDP composition
[Current EUR billion; % of total GDP]



Portuguese employment

[Million employees; % of employed population*]



Wages in Portugal have been consistently lower of those in Central European countries

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

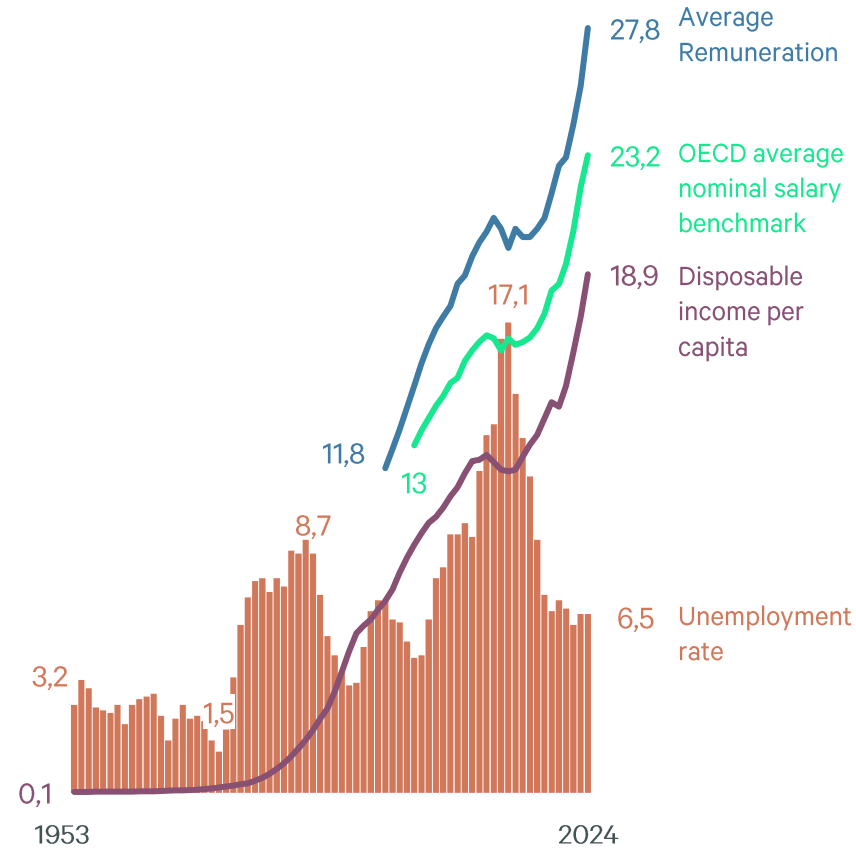
The persistent comparatively low wages of Portugal

As all the development of the new economic Portuguese model was taking place:

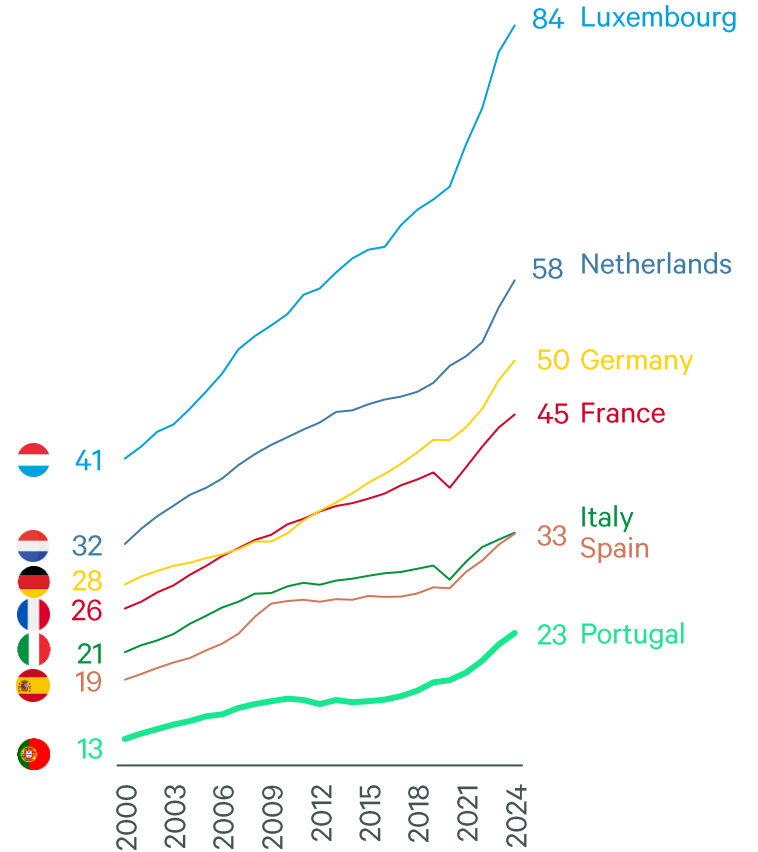
1. Nominal wages started to increase, and with it, the disposable income per capita – reinforcing the consumption economy;
2. Unemployment started to show a cyclical pattern, never returning to the low watermarks of its pre-globalized era, creating the structural unemployment phenomenon.

Even with the increased education of the Portuguese population – notable of the younger demographic echelons – the wages never reached those of central European levels, which creates two symmetrical effects: (1) provides incentives to emigration to qualified population and (2) creates the “Case for Portugal” for multinational companies to tap into qualified, fluent and comparatively cheap labor.

Income metrics and unemployment
[Values in Thousand EUR]



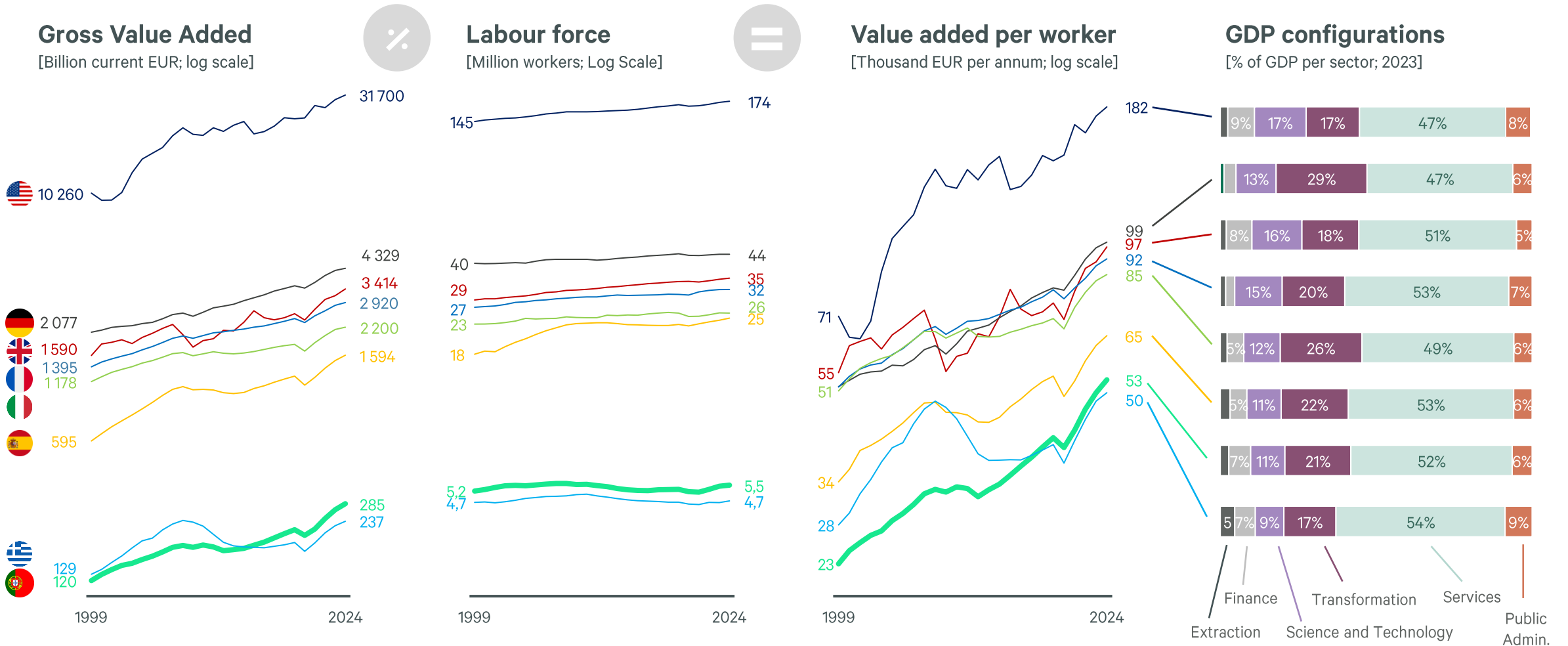
Benchmark of wages in Europe
[Current EUR]



The Portuguese job landscape shows a comparatively chronically low value-added economy

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

The aggregated differences in value added per worker happen due to different scales of the economies but also due to different economic configurations and technological settings, which then justifies a significant amount of the wage differences from country to country. Despite the positive development in the productivity metric, when compared to other OECD countries, Portugal ranks in the low value added per employee, next to Greece, but still distant to other central European countries.



However, the productivity per wage levels shows a disproportionate productivity for Southern Europeans

THE PORTUGUESE ECONOMY IN THE GLOBALIZED WORLD

Portuguese productivity per wage unit tells a different story

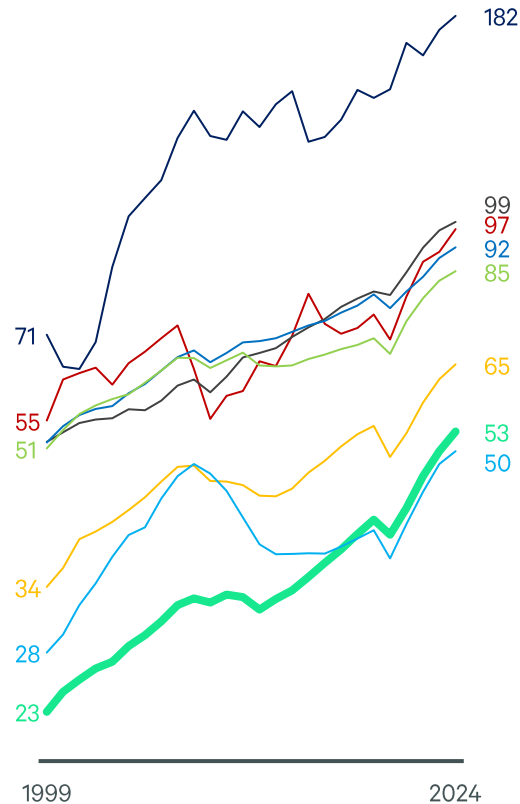
In countries with high value added per worker, such as the US, Germany, and the UK, salary levels per worker are among the highest. This implies that the ratio of gross value added to salary per worker is significantly lower than in Southern European countries, which exhibit the highest gross value added per worker relative to salary levels.

This would indicate that labor does not have a proportionate compensation given the value added it generates for Portuguese, Italian and Greek citizens due to a structural imbalance in the job market.

Coincidentally, these three countries have a strong historical emigration track record – to which, this imbalance contributes.

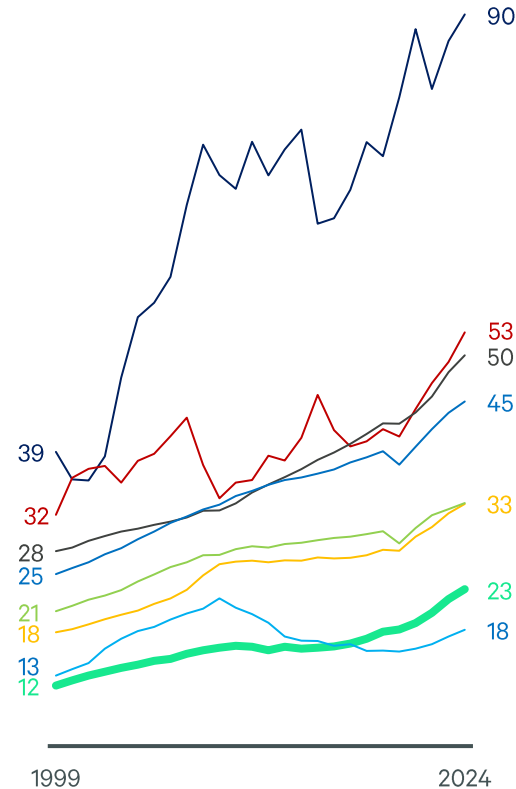
Value added per worker

[Thousand EUR per annum; log scale]



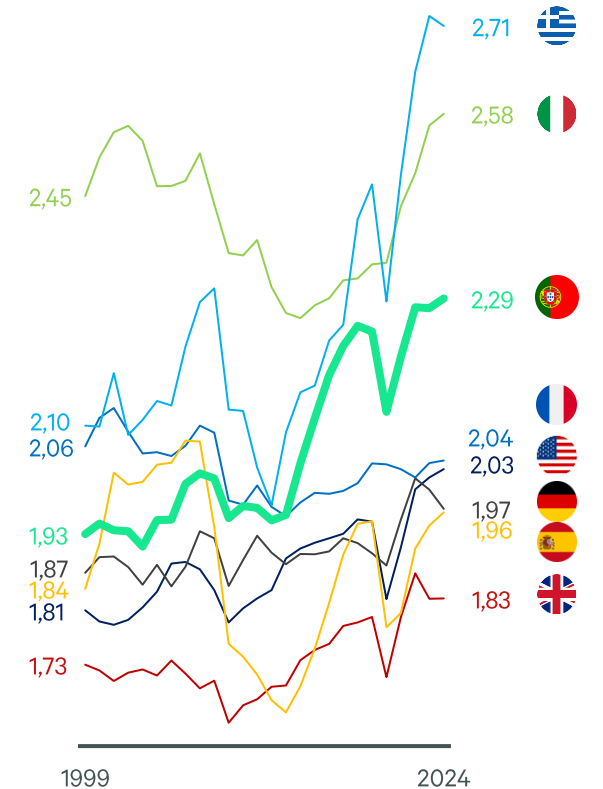
Salary per worker

[Thousand EUR per annum]



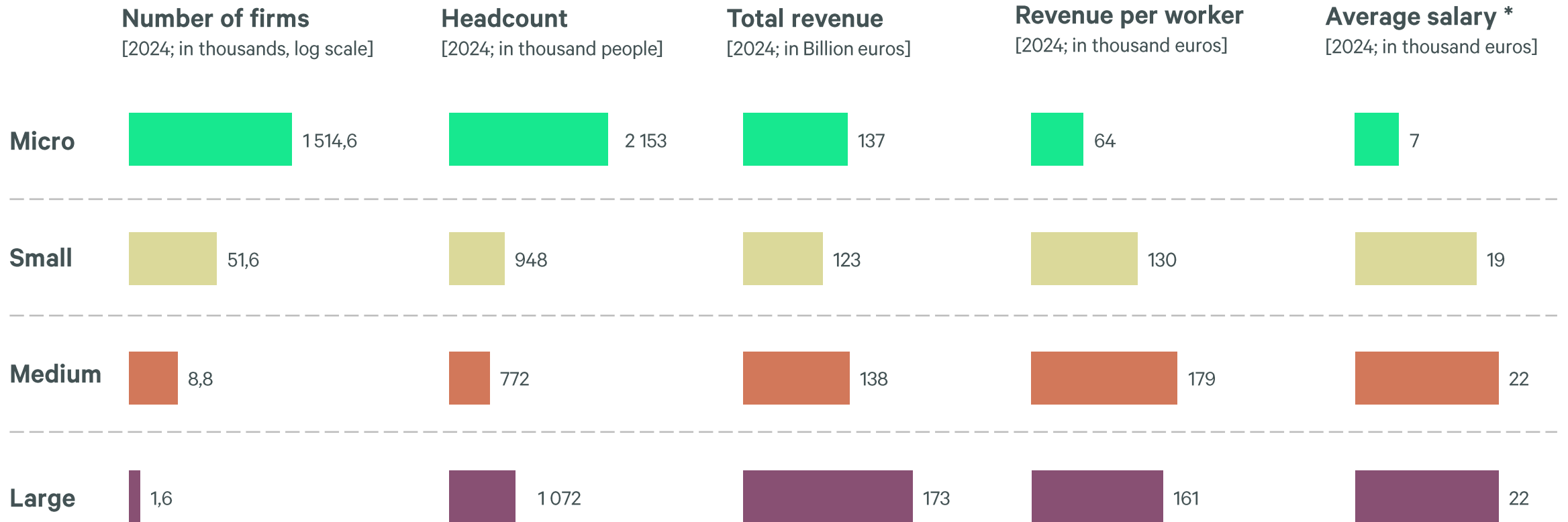
“Bang for your buck”

[Gross Value Added per worker’s salary unit]



The Portuguese business landscape is dominated by micro-enterprises

Micro-enterprises account for almost the entirety of firms. These firms operate at significantly lower productivity levels compared with larger firms. Medium and large companies, despite representing a tiny fraction of total firms, generate a disproportionate share of national revenue and deliver productivity levels two to three times higher than micro- and small businesses. Wage patterns broadly follow this hierarchy, although the extremely low average salary reported for micro-firms is due to the exclusion of owner remuneration, which is a common form of income in this segment. Overall, the data shows an economy constrained by firm fragmentation and scale limitations, where the inability of enterprises to transition from micro to small and medium restricts aggregate productivity and wage growth.



* Calculates by dividing the total payroll by headcount [which does not account for ownership remuneration]

The supply of qualified workers has surged, but wages have not kept that pace

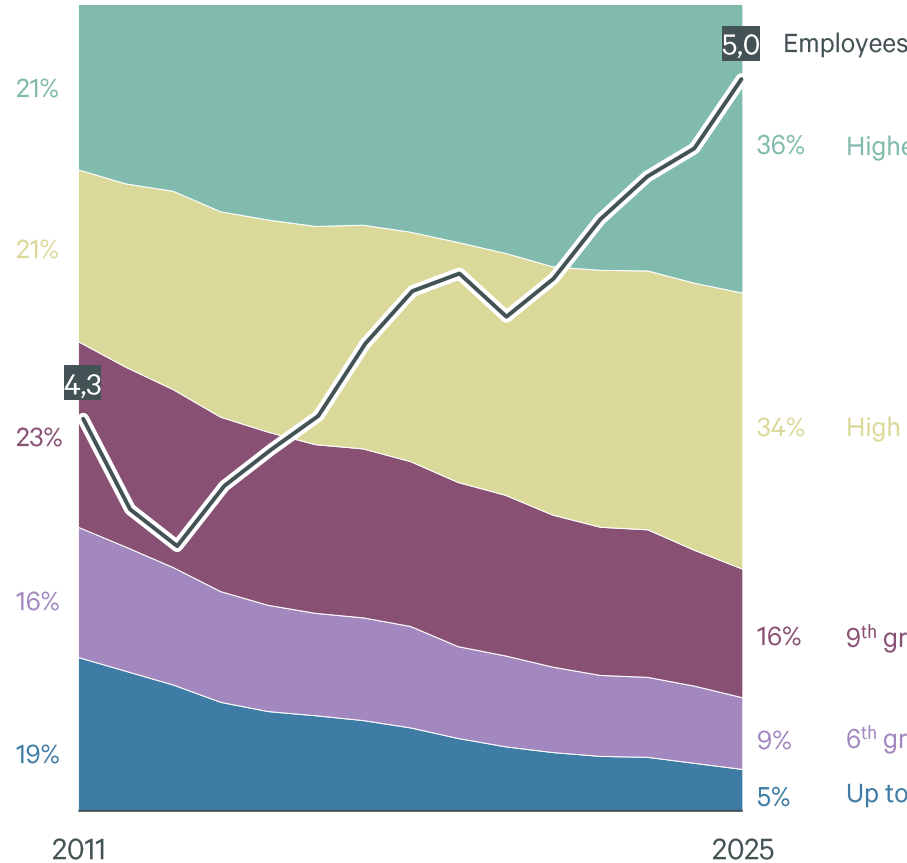
More Education does not mean higher wage returns

The data shows a structural shift in the labor market: the supply of highly educated workers has expanded, but wages have not kept that pace. Despite rising qualification levels, real earnings for most tertiary-educated (highly-educated) workers have stagnated or declined, highlighting a mismatch between skill formation and economic demand.

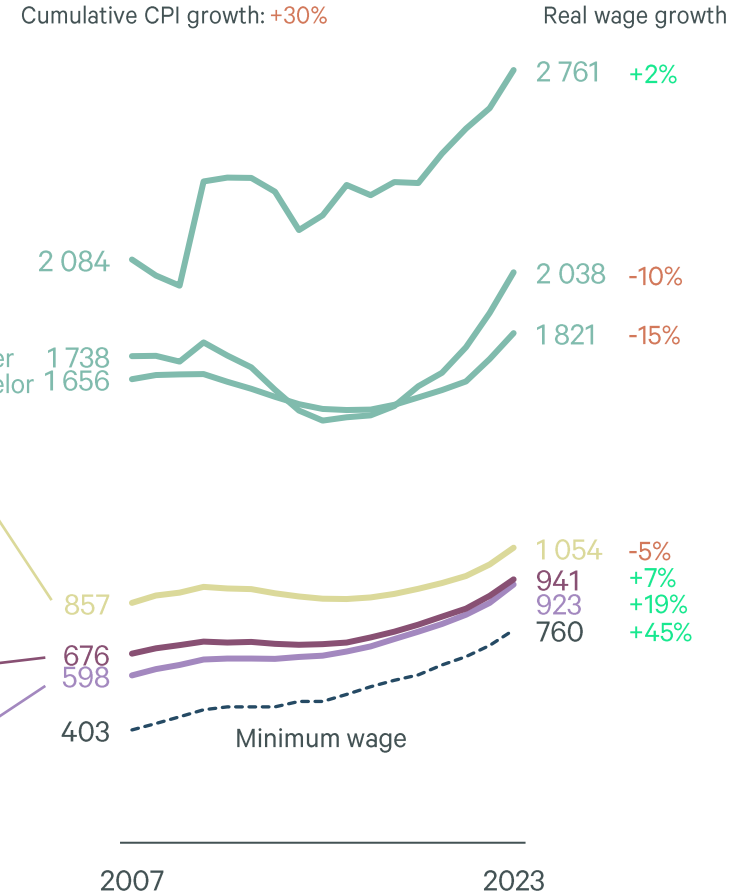
At the lower end, wage gains stem mainly from increases in the minimum wage, compressing the middle of the distribution.

Overall, rising educational attainment is no longer translating into proportional wage returns. This underscores the need for better alignment between skills, and labor market needs.

Wage and salary employees by education level
[in million; as % of total]



Average earnings by education level
[in thousand euros; monthly]



Historical view of Portuguese demographics

Summary

The Portuguese demographics have become increasingly fragile

The Portuguese demographics became structurally fragile

- Despite the decades-long pessimistic projections for Portuguese population there has been continual growth;
- However, these growths hide ongoing trends of fragility:
 - i. Decreased fertility
 - ii. Historically high emigration of fertile and productive aged population
 - iii. Downsized households
- The Portuguese population has been urbanizing over the last decades and still shows an urbanization gap when compared to other European countries.

A replacement population vacuum gained hold, pressuring the existing economic model

- The period of the demographic dividend has concluded, resulting in an aging population structure characterized by a shrinking youth and expanding elder population;
- The trend will aggravate in coming years and will exert further pressure over the productive and social welfare state.

The expedient solution found was the open-border immigration policy which unbalances the supply and demand for housing

- The Portuguese demographic balance became positive solely due to immigration;
- Portugal is experiencing a structural demographic exchange: a native-born outflow being replaced by a foreign-born inflow;
- Despite the active population growth, this growth in active workforce, introduced a significant challenge: these new entrants are in their productive years and thus require immediate housing solutions.

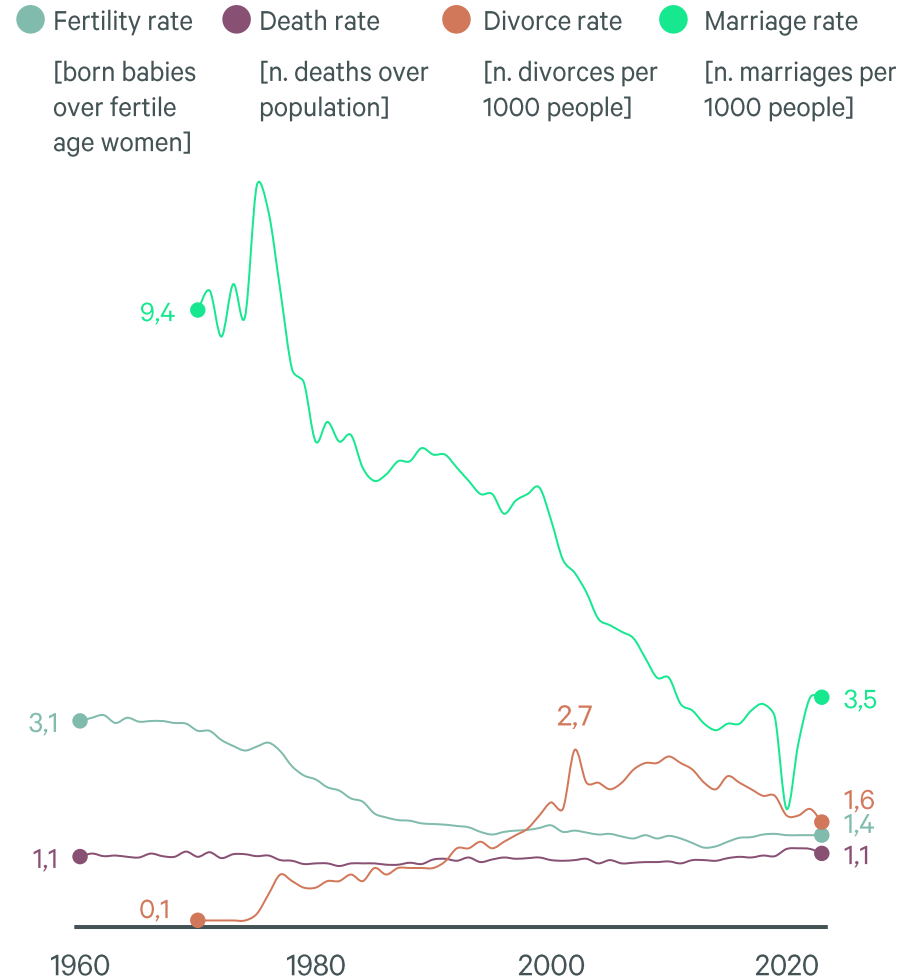
Fragile households means fragile demographics

The core household demographic metrics [fertility, death, marriage and divorce rates] and the population pyramid confirms a profound, ongoing structural shift in Portuguese demography.

The long-term decline in fertility rate, from 3.1 to a current level of 1.4 births per woman, ensures that the population will not naturally replace itself.

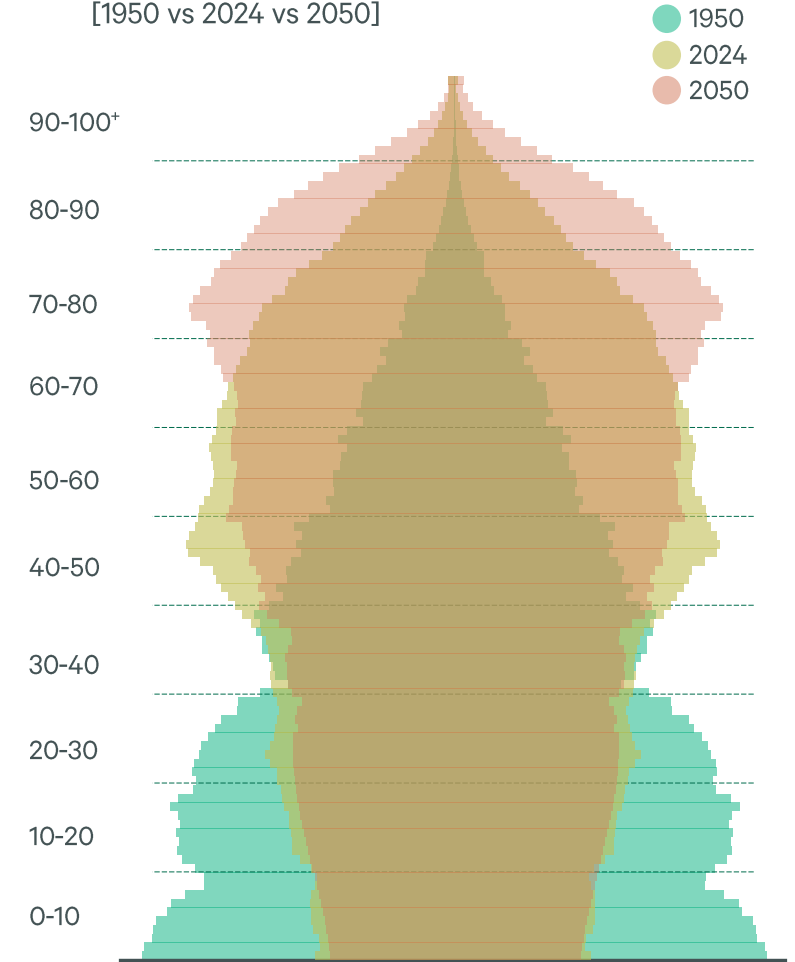
This trend is visibly transforming the population structure from the broad-based pyramid of 1950 to the projected inverted structure of 2050, characterized by an expanding senior population and a contracting base of young people, which then creates a pressure in the entire social fabric to keep the current social and economic model.

Portuguese core demographic metrics



Portugal is now old, and getting older

Portuguese population pyramid [1950 vs 2024 vs 2050]



The Portuguese demographic dividend is now exhausted

HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

The “old before rich” challenge

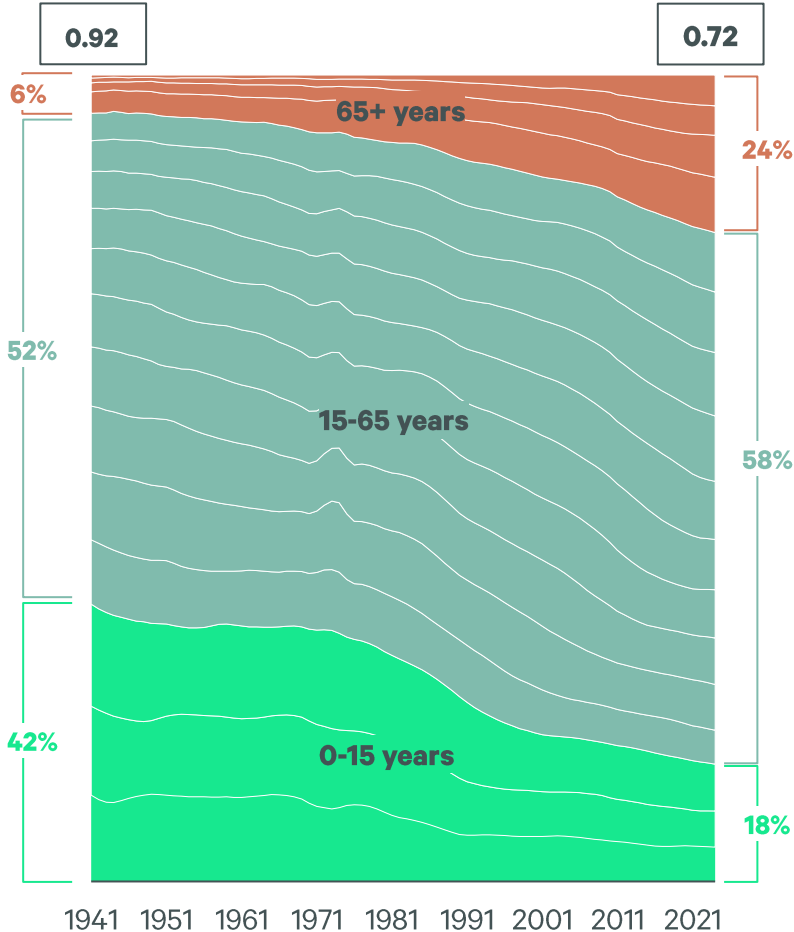
Portugal capitalized on its demographic dividend, driven by a demographic transition starting in the 1970s. This period was defined by a decrease in fertility and mortality rates. This minimized dependence on youth and created a working-age bulge, which drive economic growth by maximizing the ratio of producers to consumers.

However, the dividend window is now exhausted, and Portugal is firmly in the demographic late stage, characterized by an inverted population pyramid and an accelerating old-age burden.

The working-age population is shrinking, and the old-age dependency ratio is rising significantly, with the 65+ age group representing 24% of the population.

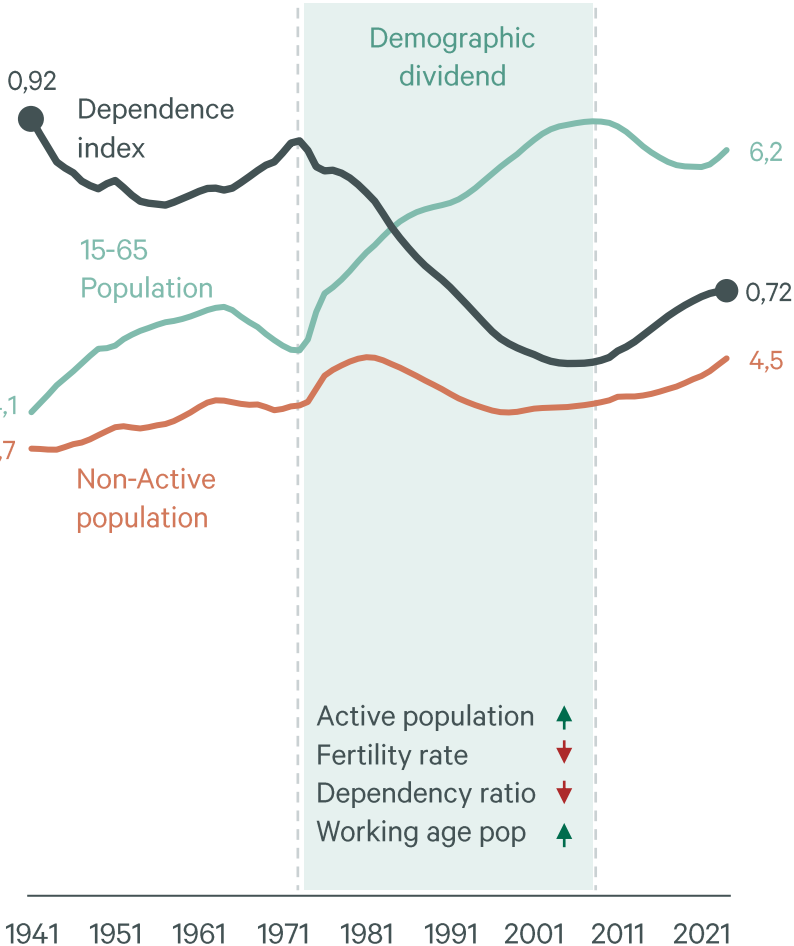
Active vs non active population

[in thousand people]



The dividend

[in thousand people]



- Active population ↑
- Fertility rate ↓
- Dependency ratio ↓
- Working age pop ↑

The households, though more numerous are shrinking

HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

Shrinking households: more units, fewer occupants

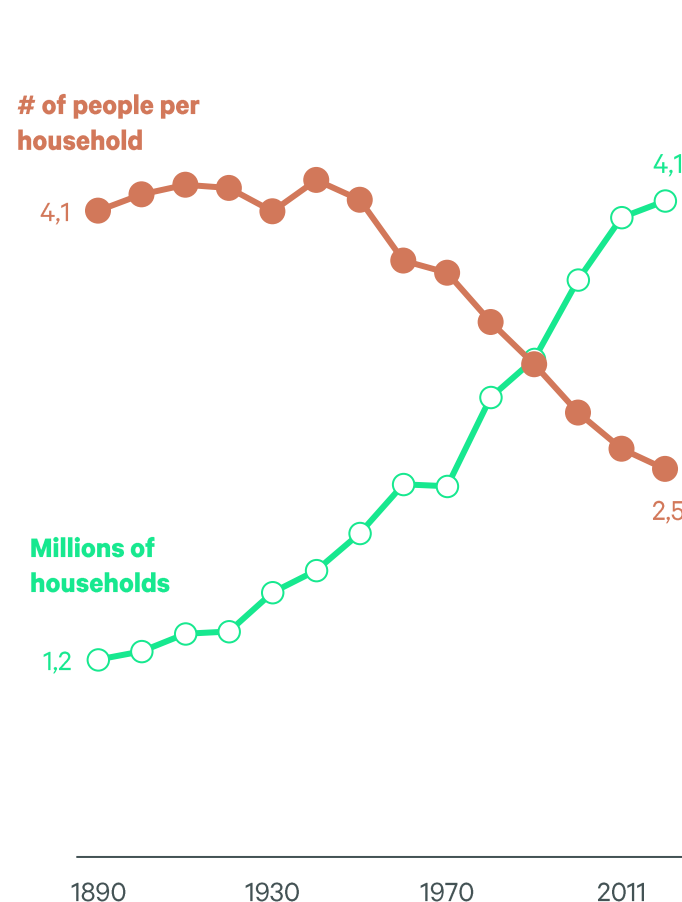
The analysis of household structure reveals a significant shift in housing demand independent of overall population growth.

The average household size has declined dramatically from 4.1 persons in 1890 to 2.5 persons in 2021. Concurrently, the total number of households has tripled, escalating from 1.2 million to 4.1 million over the same period.

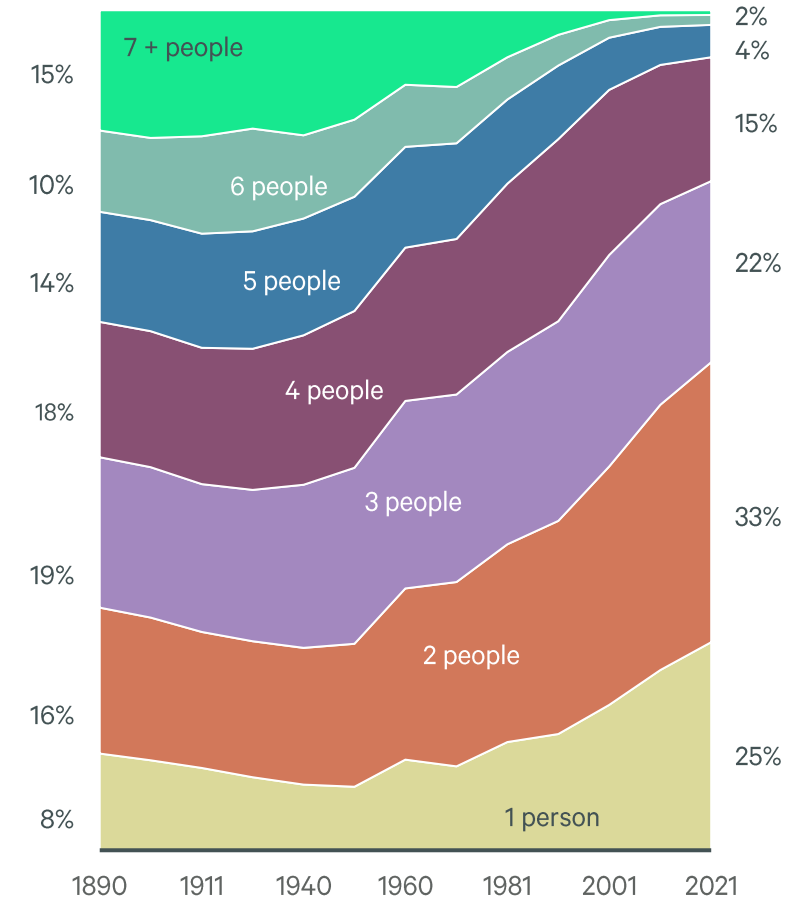
This downsizing is confirmed by the changing composition, where single-person households are now the largest category (25% in 2021).

This divergence, places an accelerating, structural pressure on the housing market and urban infrastructure.

Portuguese population estimates
[million people]



Portuguese household composition
[persons per household]



The Portuguese population does not behave like the successive projected scenarios

HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

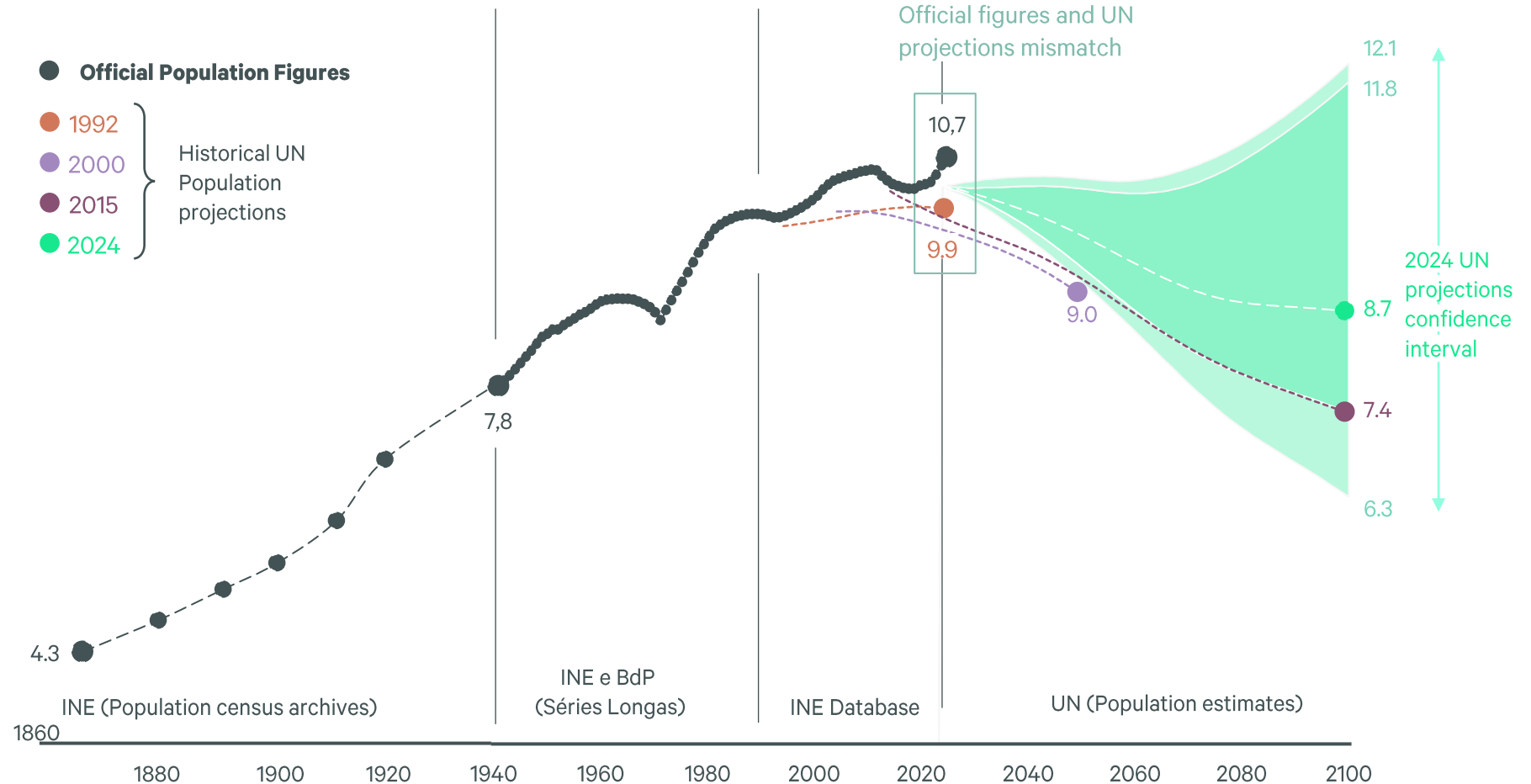
Portuguese population has an unpredictable movement

The Portuguese population's dynamics present a challenge to predictability. This difficulty in anticipation is demonstrated by the frequent failure of long-term estimates, such as those from UNDP, to materialize or align with observed realities.

Historically, data indicates a population increase in Portugal from 4.3 million in 1860 to 10.7 million in 2024, despite some fluctuations.

Regarding projections, various sources, such as the INE and UNDP, concur that Portugal is expected to experience population decline, particularly by 2050.

Portuguese population estimates [Million people]



The Portuguese demographic balances show a *sui generis* pattern

HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

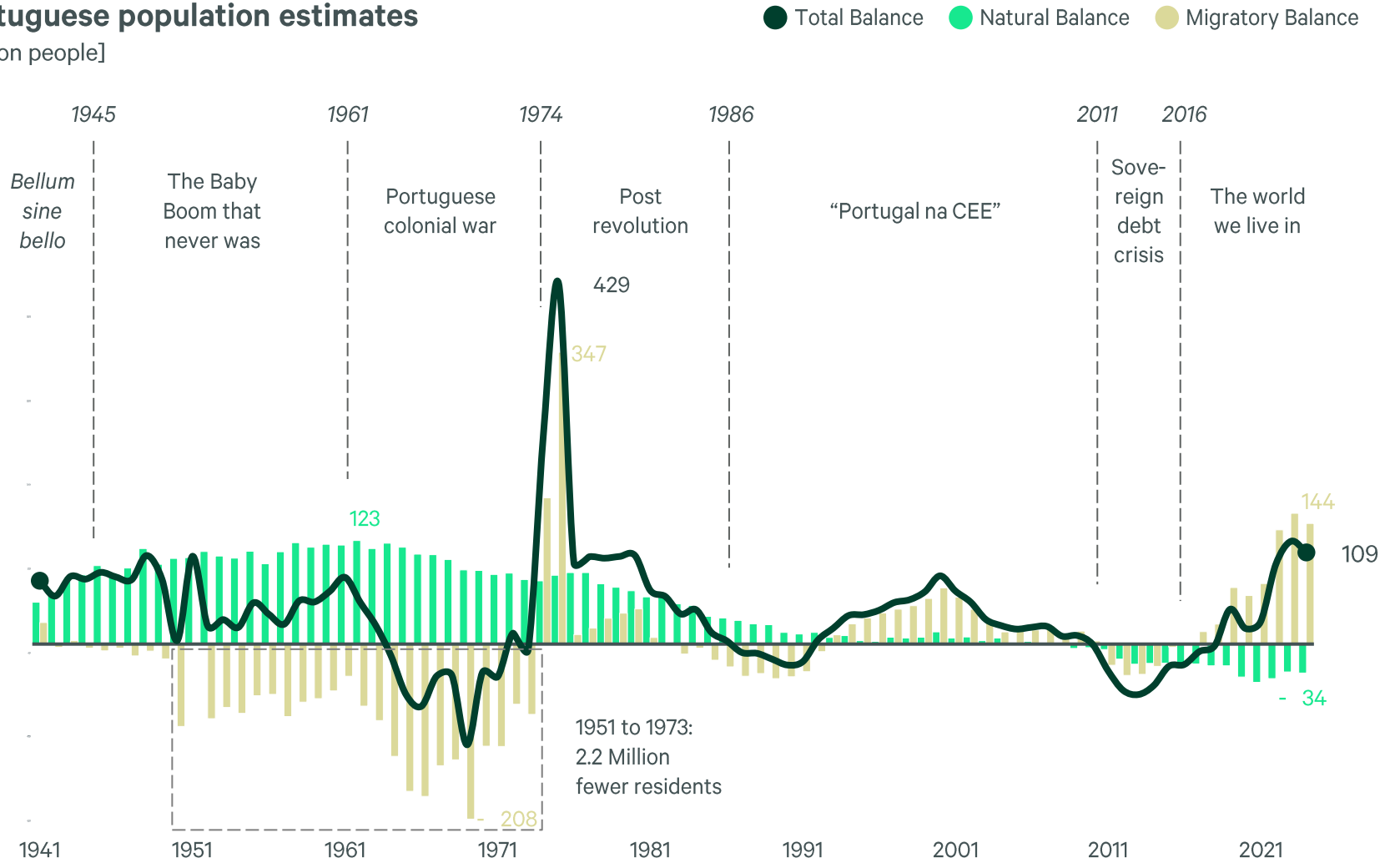
Portuguese population has an unpredictable movement

The Portuguese demographic balance reveals a fundamental transition in population drivers, moving from a model underpinned by natural growth to one entirely reliant on migratory flows.

Historically, the natural balance (births minus deaths) sustained positive overall population growth, peaking significantly around 1961. However, since the early 1980s, this component has steadily declined, becoming structurally negative.

Migration has been a key feature of the Portuguese demographics in different directions (e.g. continued emigration post-1950, then quick influx of 'retornados' then shifting from positive to negative). Recently, immigration became the sole growth engine, especially with the significant migratory influx seen post-2016.

Portuguese population estimates
[Million people]



Immigration is counteracting a natural deficit for more than a decade

HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

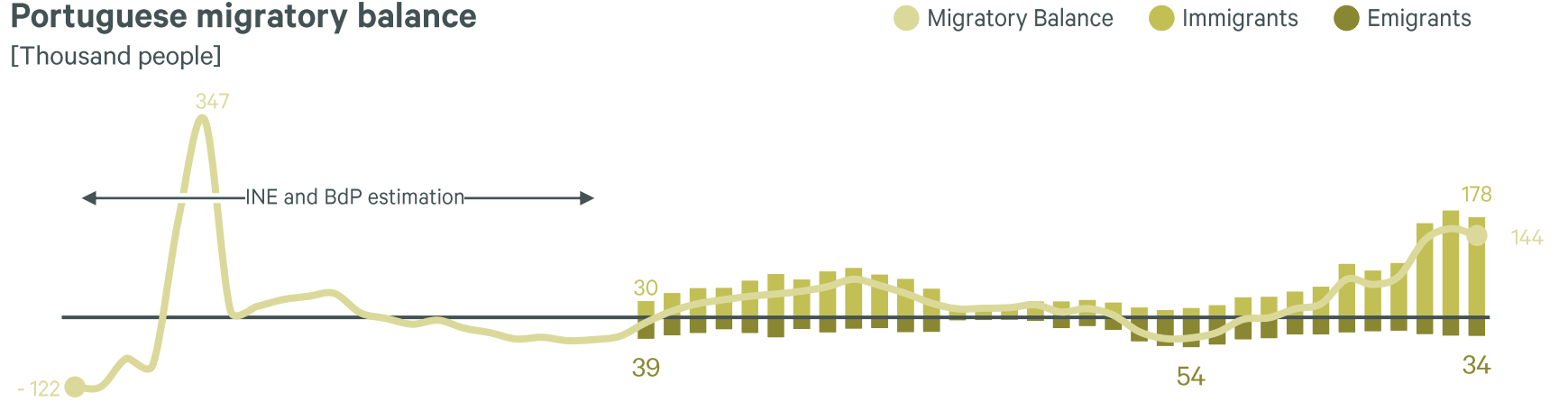
Immigration is currently the sole population growth lever

The detailed decomposition of demographic balances reveals that Portugal is navigating a structural crisis in its Natural Balance, which has worsened dramatically from a slight surplus to a deficit of -34 thousand people in 2024, driven by a sharp drop in births against stable deaths.

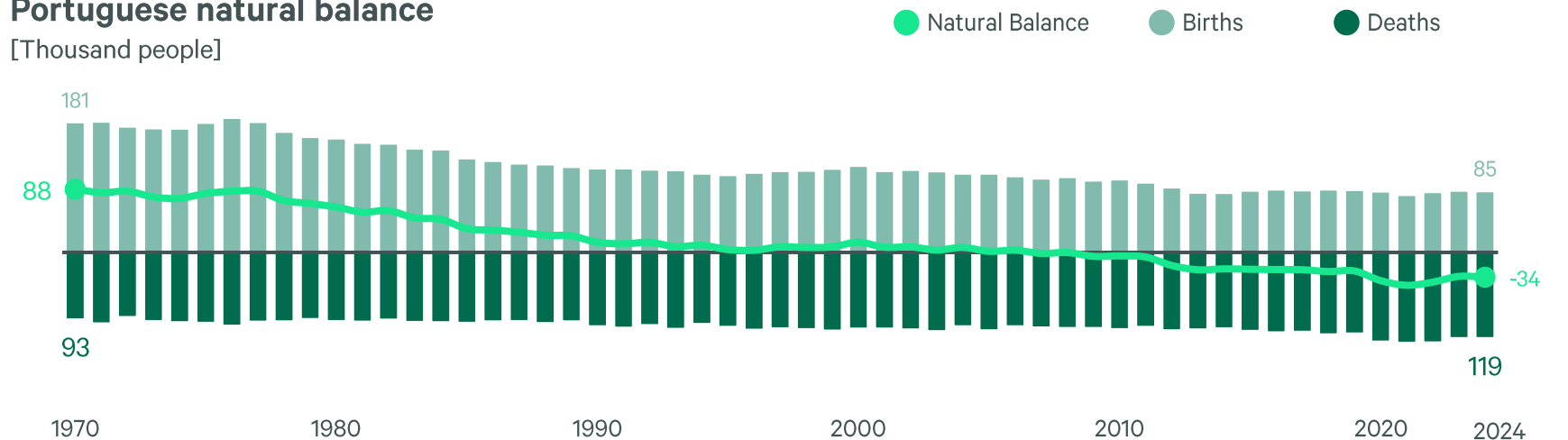
However, this intrinsic loss is being fully and substantially compensated by the surge in migratory balance, which reached a surplus of 144 thousand people in 2024, with net immigration becoming the sole and massive engine of population growth.

This scenario evidences a dependency on external attraction to sustain the total population levels, exposing the national demographic trajectory to the volatility of global migratory flows.

Portuguese migratory balance
[Thousand people]



Portuguese natural balance
[Thousand people]



Migration has shaped labor markets and population growth

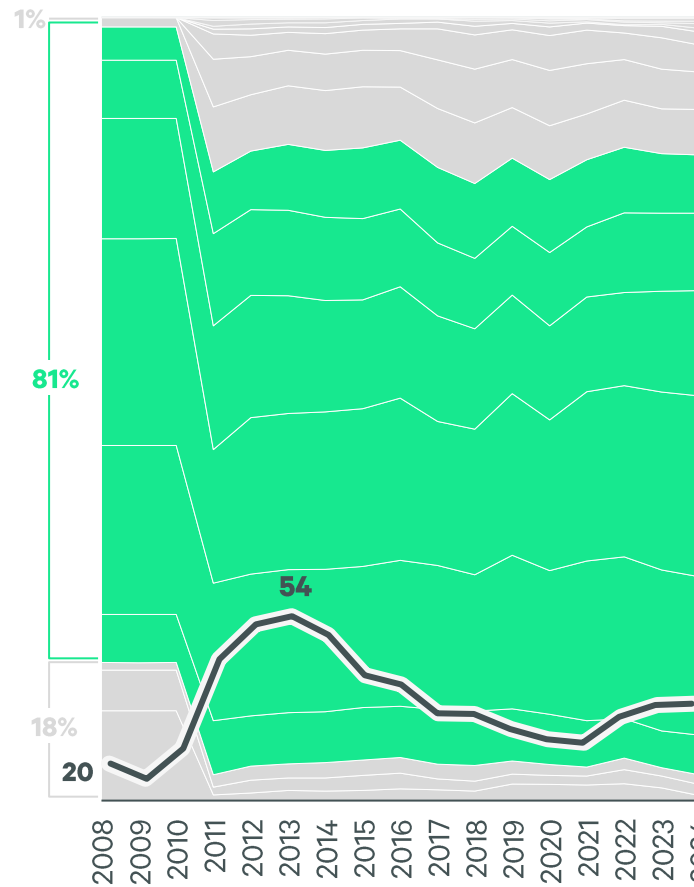
HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

Migration trends and workforce challenges

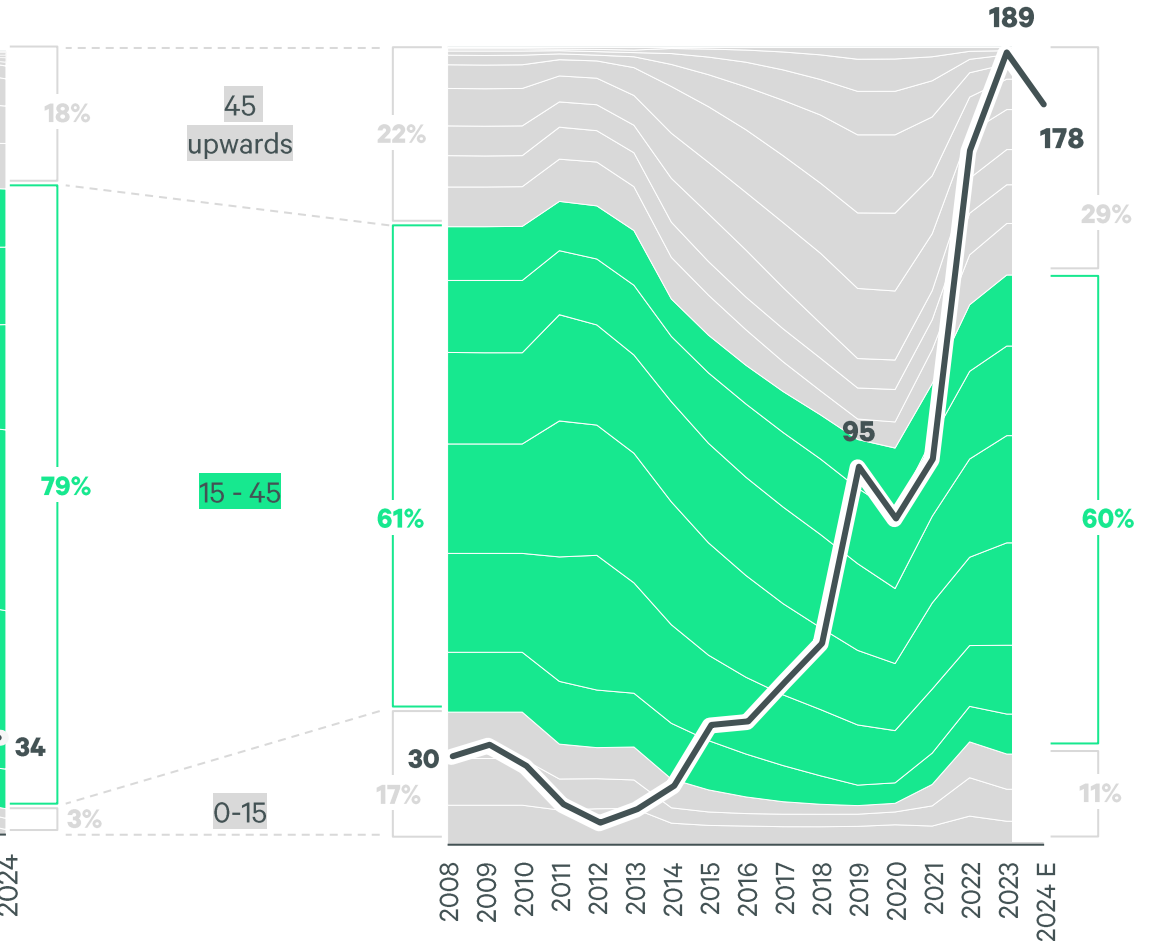
The analysis of migration trends up to 2024 reveals a significant contrast between the age profiles of emigrants and immigrants. Although the number of immigrants far exceeds that of emigrants, the age composition raises strategic concerns. Most emigrants are within the productive age range (16–45 years), representing a potential loss for the national labor market.

Conversely, immigrants show a higher proportion of individuals over 45 years old, which may reduce the expected positive impact on the workforce and birth rates and, conversely, (such as it has been the case for the incentives provided to non-habitual residents) wind up bringing individuals with higher purchasing power to Portugal. These findings highlight the need for policies aimed at attracting and retaining young, skilled populations to ensure demographic sustainability and economic competitiveness.

Emigrants by age group
[Thousand people]



Immigrants by age group
[Thousand people*]



There are 1.8 million Portuguese citizens born in the country, living outside the national territory

HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

Portugal is a population receiver and emitter

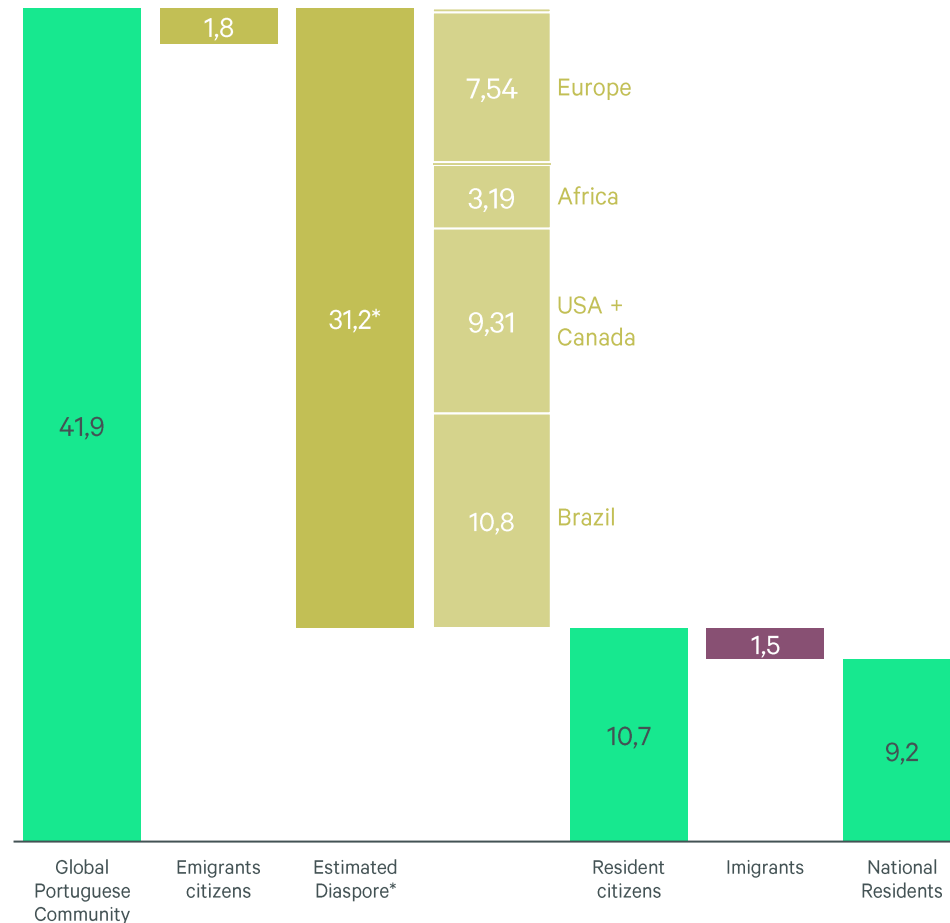
Portugal exhibits a dual migration profile, simultaneously operating as a significant net emitter of its native-born population (1.8 million emigrant citizens) and a substantial net receiver of foreign residents (1.5 million immigrants).

Immigration is strongly concentrated in Portuguese-speaking nations, with Brazil (484.6k) and the PALOPs (245.2k) together representing the dominant source of newcomers.

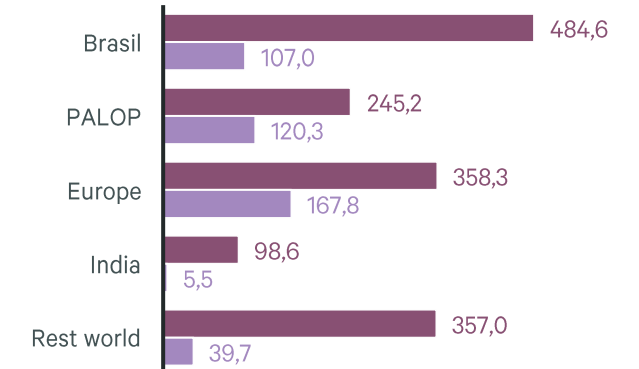
Conversely, Portuguese emigration is primarily directed toward major western economies, such as France (577.0k), Switzerland (203.7k), and the USA (161.7k).

Portugal successfully attracts immigrants, while its own citizens continue to seek superior economic opportunities within established markets.

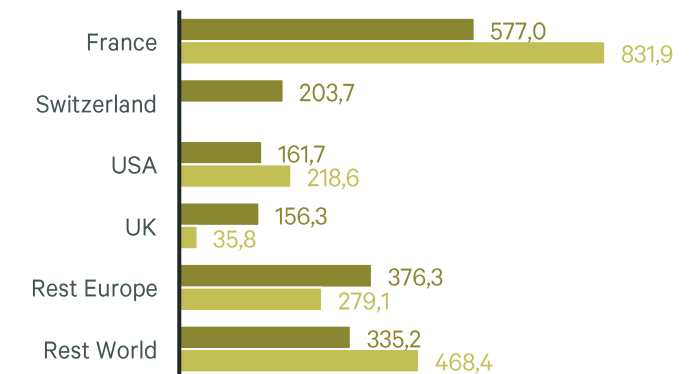
Portuguese population estimates
[million people]



Main countries of origin of immigrants
[Thousand people]



Main destination countries for emigrants
[Thousand people]



Portugal population replacement is underway

HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

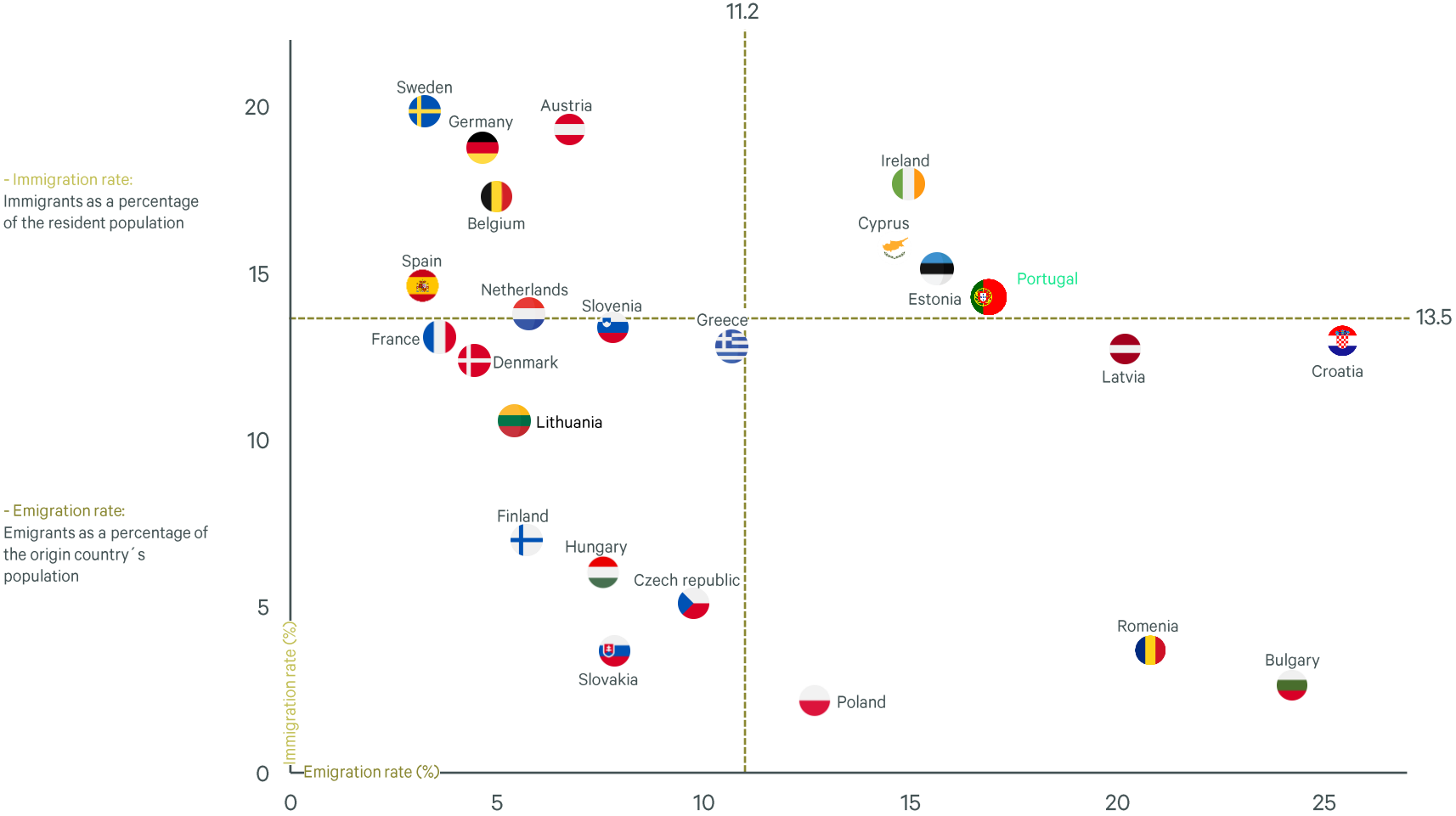
Citizenship without οίκος

Portugal is located on the top-right quadrant of the chart, characterized by high emigration and high immigration rates (approximately 18% and 15%, respectively).

The data supports the idea that Portugal is experiencing a structural demographic exchange: a native-born outflow being replaced by a foreign-born inflow. This creates a cultural gap where the population that defines and embodies the national οίκος (the 'home' or shared culture/heritage) is reduced, while the resident population increasingly comprises individuals who are not culturally rooted in the country.

International comparison: emigration and immigration rates in EU countries

[UE 2020, updated in March 2025]



Foreign workers earn less and therefore bring higher profitability to businesses

HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

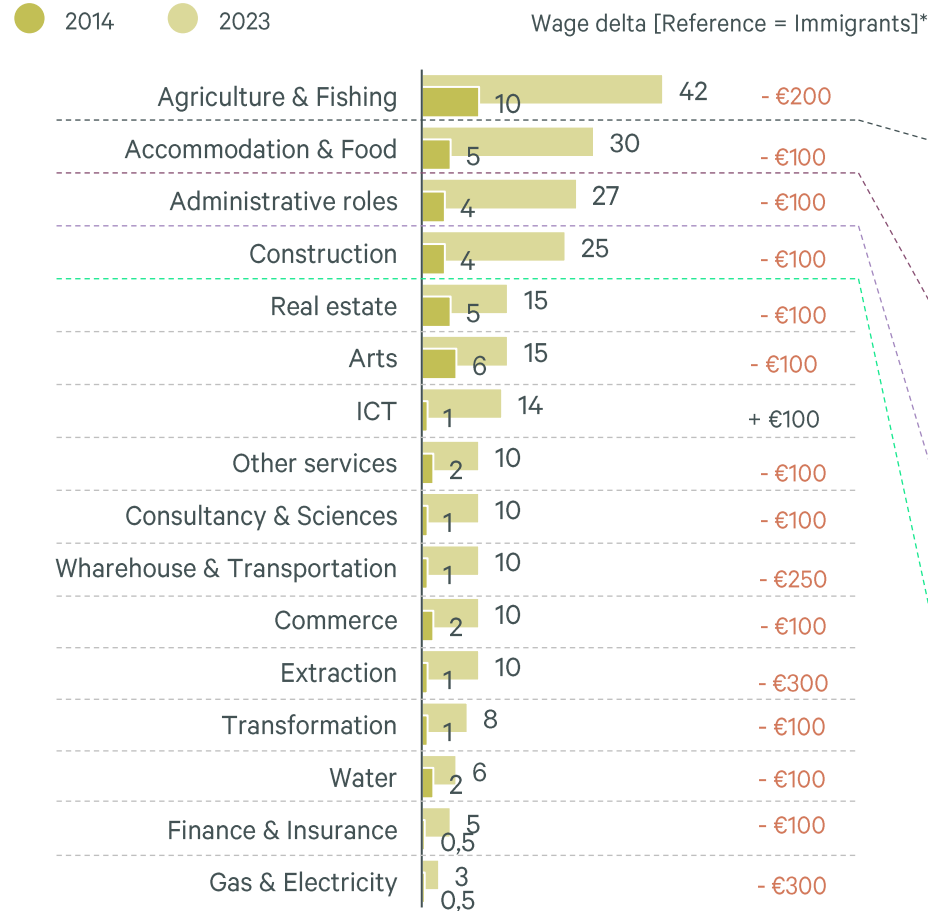
The immigration role in the Portuguese labour

Across nearly all sectors, immigrant workers receive lower wages than national workers, except for information and communication.

Companies operating in sectors that rely heavily on labour force have experienced higher profit margins since immigration became more prevalent. This reflects the availability of a broader and often more cost-competitive workforce, which has contributed to improved operational efficiency and reinforced sector-level profitability.

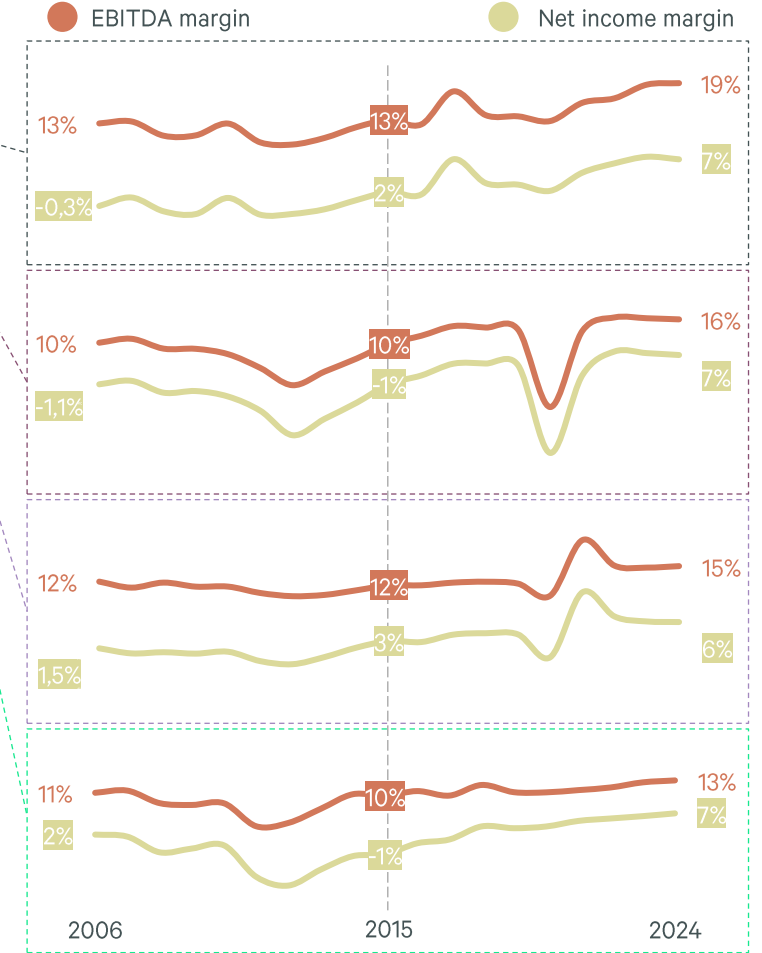
Immigrant workforce prevalence

[Immigrant workforce in % of total sector workforce]



Profitability of key foreign employer sectors

[Values in % of revenues]



Foreign workers bring simultaneously economic dynamism and social security surplus with lower wages

HISTORICAL VIEW OF PORTUGUESE DEMOGRAPHICS

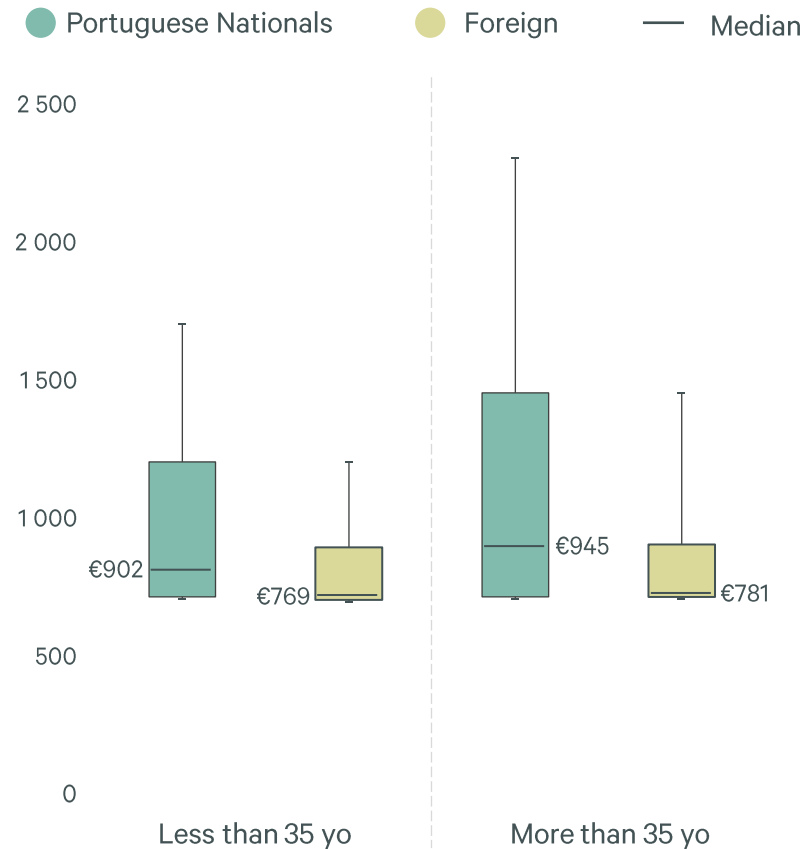
The immigration role in the Portuguese labour

The distribution of regular gross earnings among foreign workers showed both a lower median and lower dispersion compared with national workers in 2023, for both workers aged less or over 35.

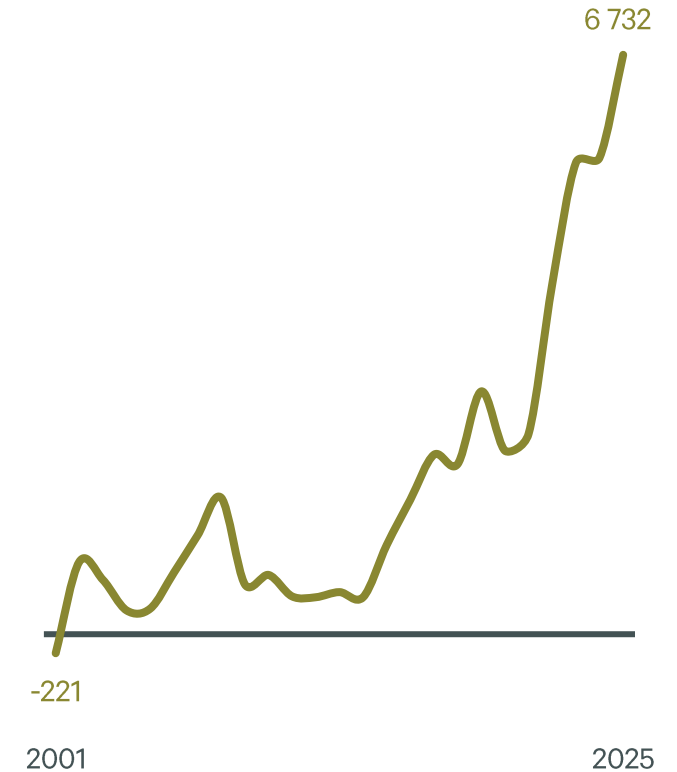
The median monthly earnings of foreign workers were very close to the national minimum wage (€760), standing at €769 for younger workers and €781 for those aged over 35. For nationals, median earnings were €902 and €945, respectively.

This implies that, both the state and companies, particularly non-family-owned firms, have strong economic incentives to attract immigrant labour, while workers employed in the sectors that rely most heavily on foreign labour tend to have the opposite incentive, as increased labour supply can exert downward pressure on wages and bargaining power.

Distribution of Nominal Gross Regular Earnings
[By age and nationality, in EUR for 2023]



Social security budget execution balance
[Values in Billion EUR]



The construction sector

Summary

The profitable moment for construction is underpinned by low completions and high labor costs

Construction has been historically relevant in Portugal, for investment purposes and as a key activity

The sector staged a robust post-crisis recovery, reaching record revenues and margins in 2024

The workforce experienced significant decrease during the sovereign debt crisis and a later demand surge

Housing construction and rehabilitation did not recover to face the current housing demand pressures

- Construction accounted for 10% of total GDP from the 70's and 80's, is now contributing to about 4% of GDP, conversely, real estate gained weight from the historically 3 to 4% and low contributes (9%);
- Construction has historically accounted for more than 50% of Gross Fixed Capital Formation well above the European average, which shows a picture of heavy reliance on physical assets and infrastructure, with limited technological diversification
- After contracting during the financial crisis (2011–2014), the sector rebounded: record revenue in 2024 (€37.7 billion);
- Shortage of skilled labor remains a structural challenge, which led to an increased weight of labor cost in construction firms P&L;
- However, the construction sector is registering years of record-level Gross, Operating and Net Margins
- Workforce fell from 594 thousand (2000) to 240 thousand (2014), recovering mildly in later years;
- Increased demand led to a surge of labor cost index surged over the last 5 years;
- Materials cost index experienced a peak motivated by the supply chains shock from 2021 to 2023 but is now stable;
- Despite the increased demand for housing, there has been only a mild recovery of number of newly built or remodeled buildings;
- The compounding effect of high labor and material costs, high construction firms' margins, and low number of new licenses emitted through an opaque licensing processes skews the capital allocation to decisions to development of high-end buildings.

There has been a shift from a production to a consumption economy

THE CONSTRUCTION SECTOR

Construction and real estate account for 13% of the GDP.

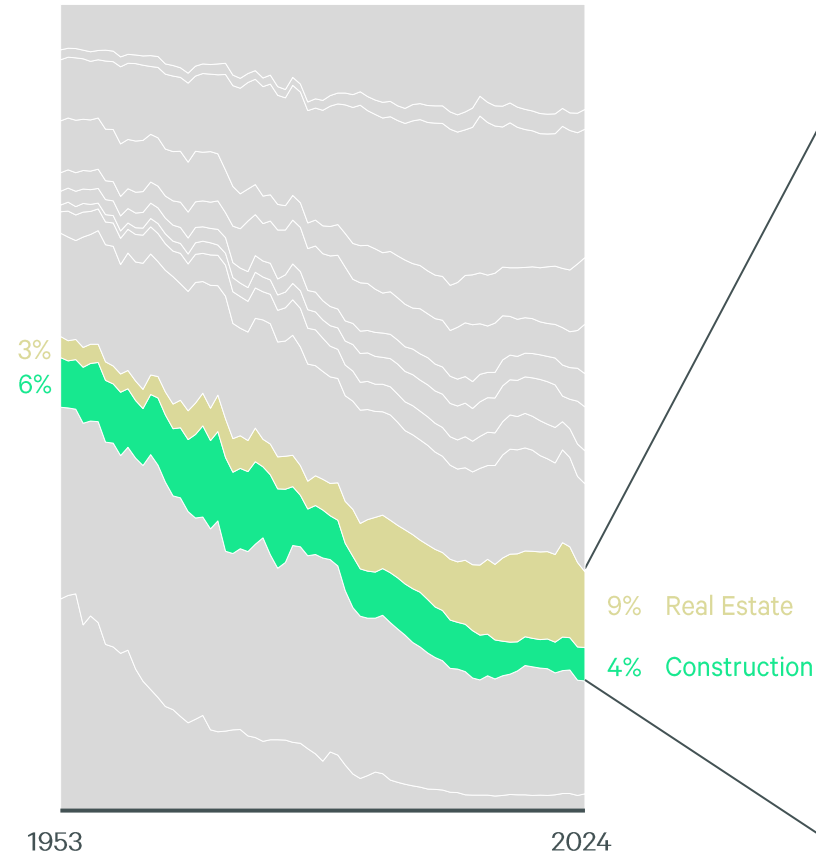
Portuguese GDP composition analysis confirms a transformation characterized by a decline in production economic activities to a corresponding rise in service-based sectors.

This transformation is particularly reflected by the divergence in sectoral contributions: the weight of real estate in the GDP has increased, while the share of the construction sector has seen a decline, which means that the value generated by real estate activities has increased significantly.

The country's economic valuation is increasingly derived from asset appreciation and property market services rather than fixed capital formation.

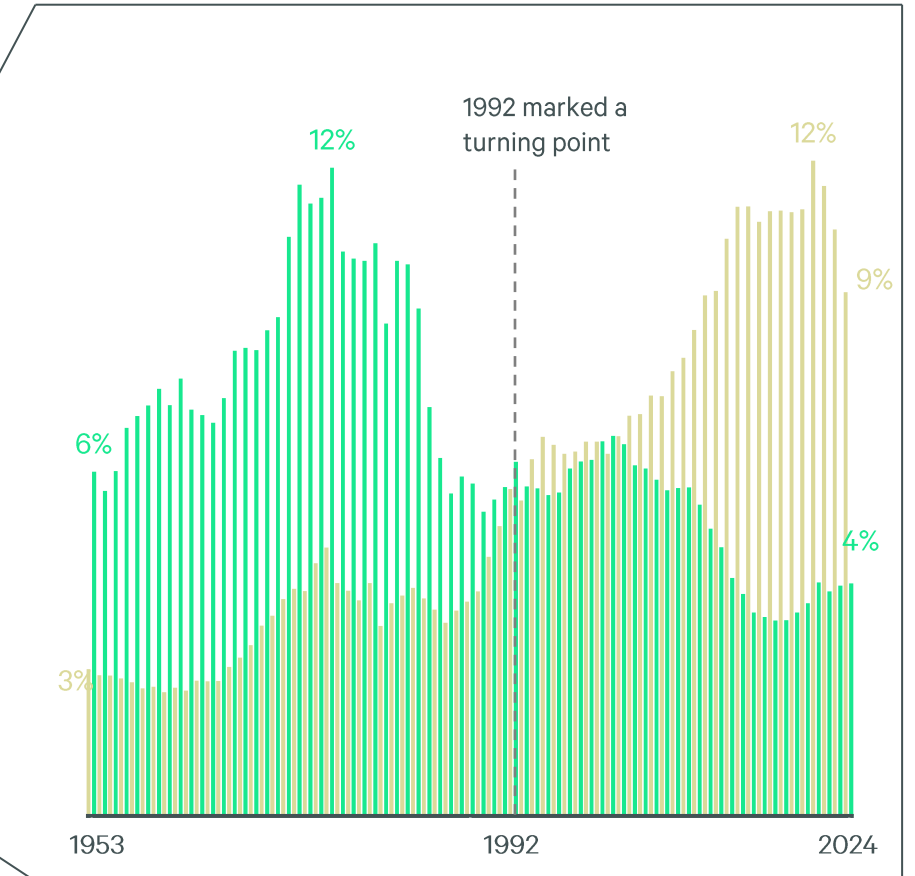
The Portuguese GDP composition

[Current EUR billion; % of total GDP]



The weight of construction and real estate activities on GDP

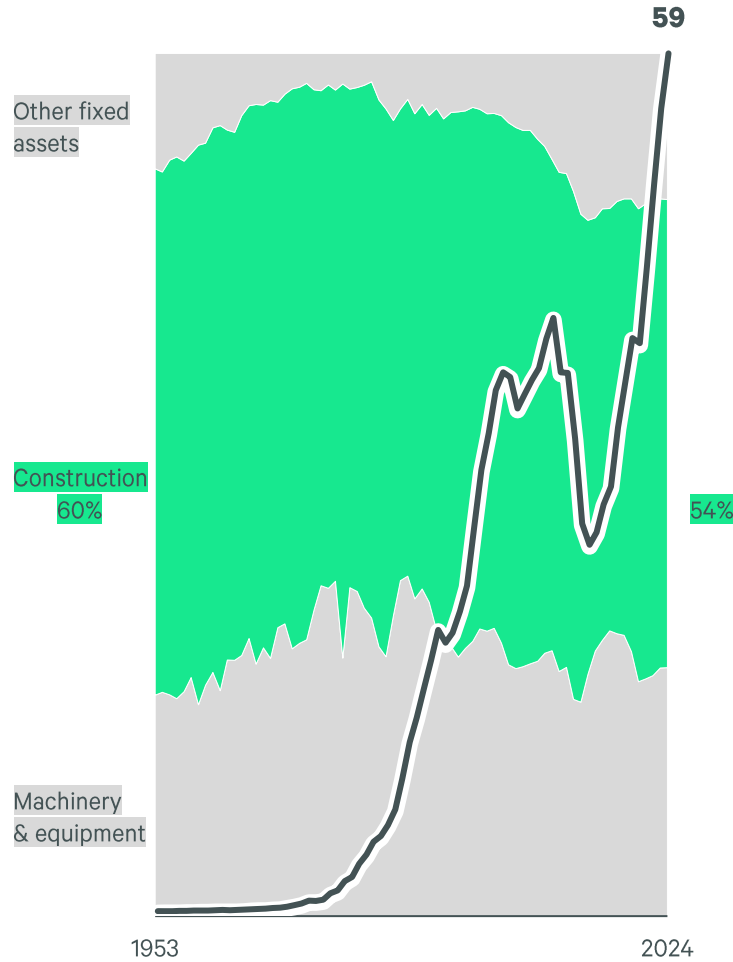
[% of GDP]



Construction: The primary pillar of Portuguese investment

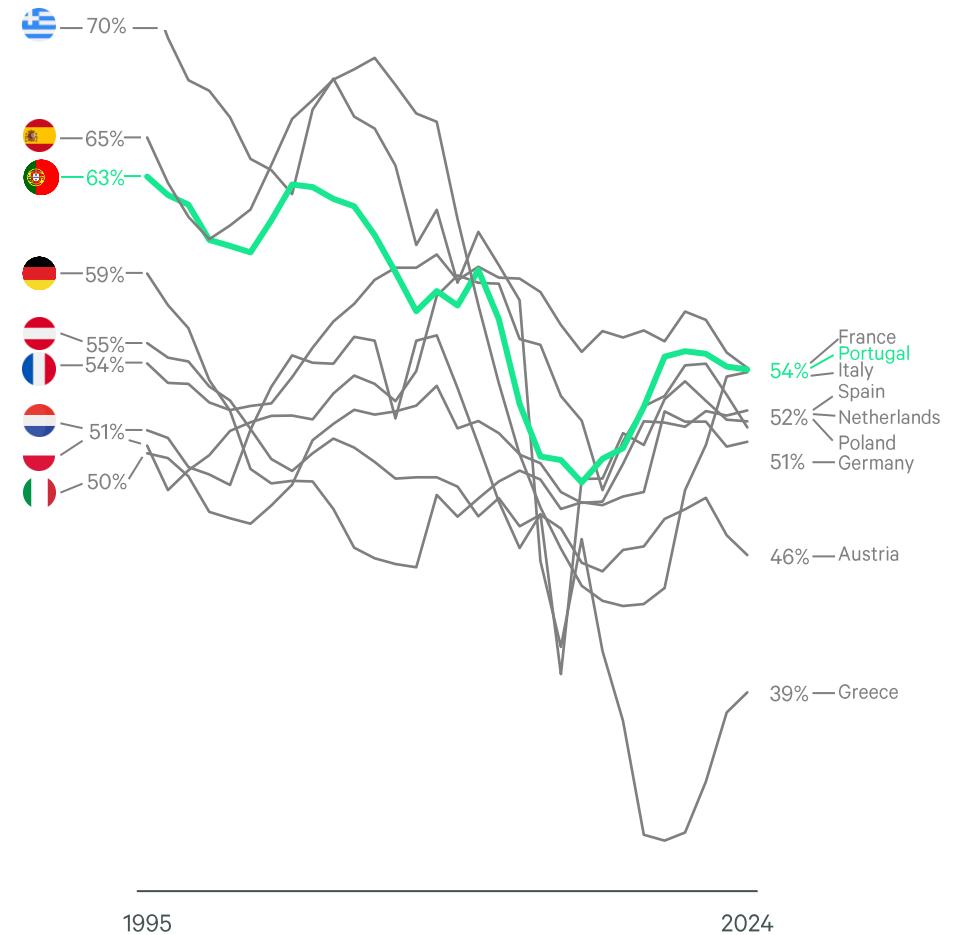
In Portugal, construction is a primary driver of Investment (Gross Fixed Capital Formation - GFCF). Although total investment has grown significantly, its reliance on construction is notably high, recently reaching 54%. This figure is comparable to or even exceeds that of many European and OECD partners, indicating an investment structure that places considerable weight on the real estate and infrastructure sectors.

Fixed capital formation (GFCF)
[Nominal prices; Billion euros]



Construction investment holds its leading position

Investment (GFCF) in construction
[OECD countries | as percentage of total GFCF]



The Portuguese construction sector rebounded to very healthy profitability levels

THE CONSTRUCTION SECTOR

Revenue peaks, margin recovery, and a stronger cost structure

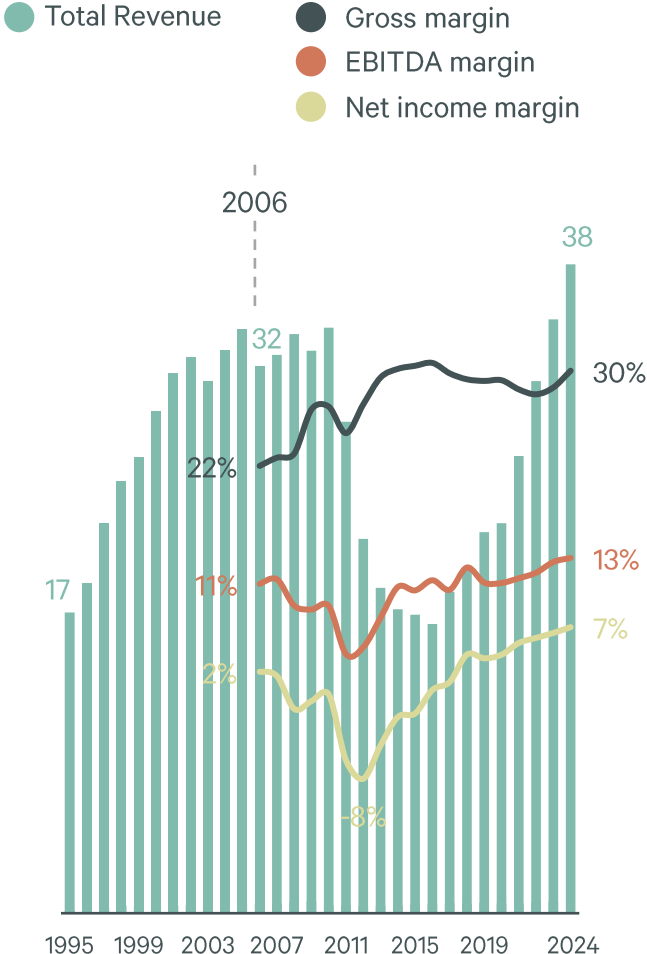
Over the past three decades, Portugal's construction sector has navigated dramatic economic cycles, expanding sharply in the early 2000s, contracting to historic lows during financial crisis, and then staging a remarkable recovery.

In 2024, total revenue has climbed to its highest level on record.

This recovery of revenue in absolute terms was accompanied by a recovery in the profitability – for which the existing record extends from 2006 to 2024. The recovery was expressive and shows that from 2017 onwards, EBITDA and net margins have been increasing year on year to new record levels.

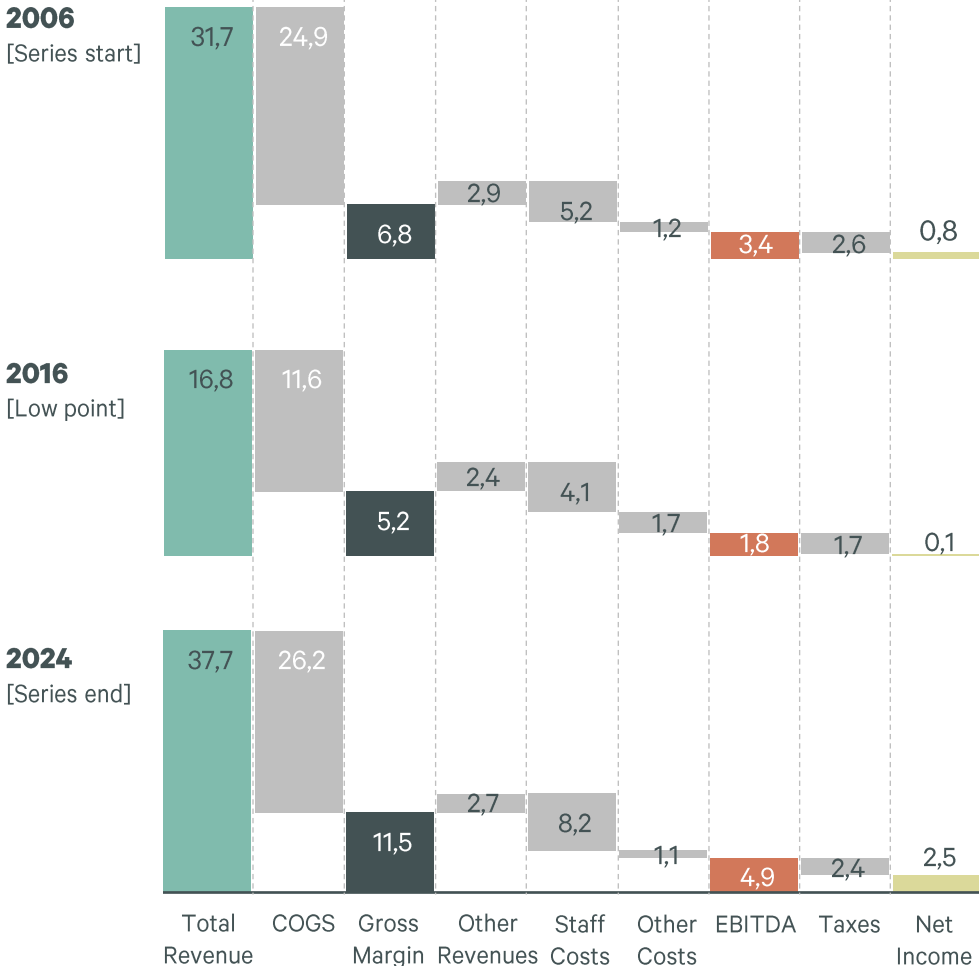
Financial KPI of the construction sector

[Billion EUR]



Financial performance of construction sector*

[Billion EUR]



The financial story of large companies has been different from the small and medium ones

THE CONSTRUCTION SECTOR

Large companies lag behind in growth compared to SMEs

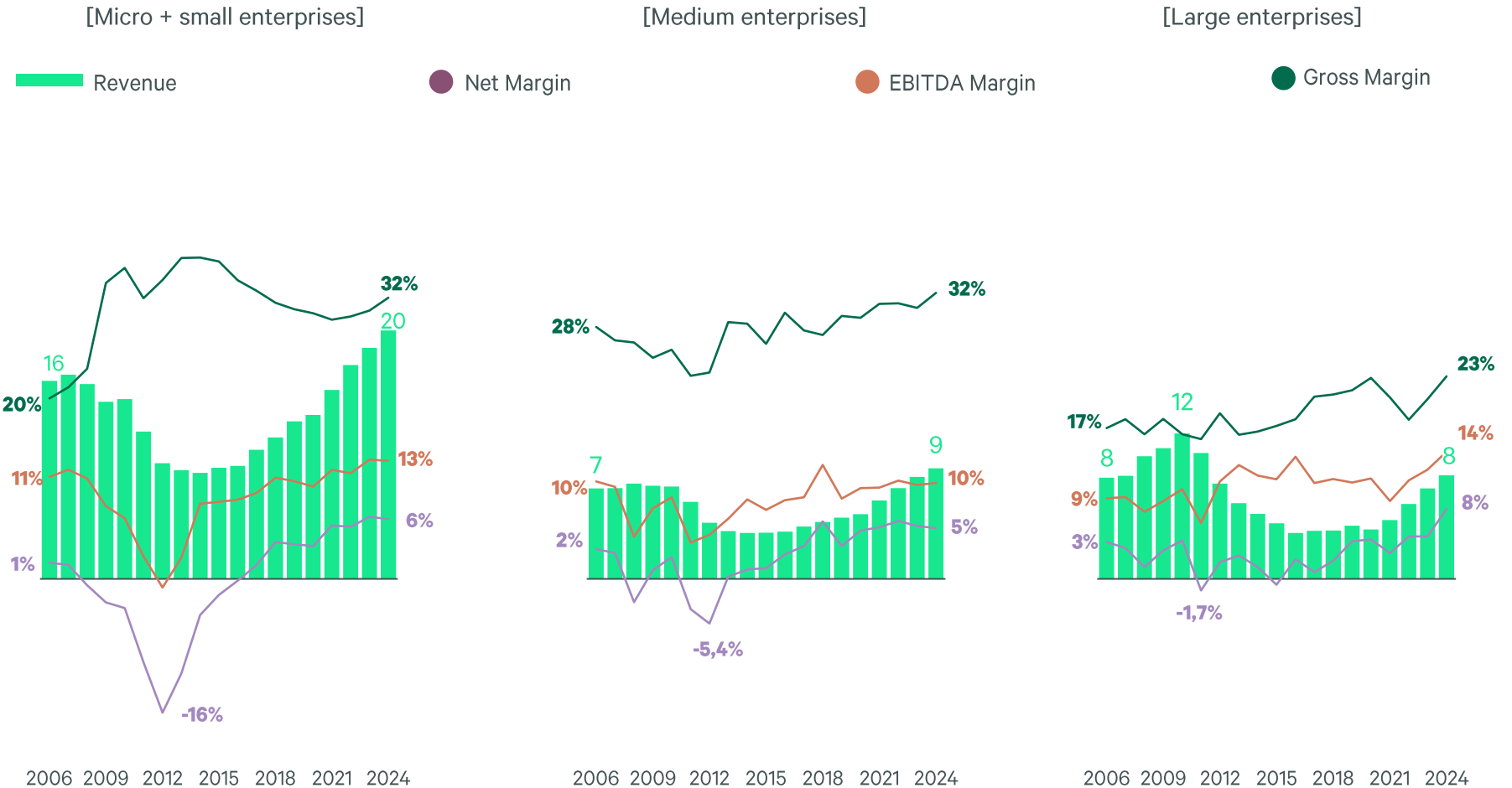
Large companies in the construction sector account for approximately 20% of total revenues.

This segment reached a significant peak in 2011, with revenues of around €11,840 thousand, before entering a downward trend and stabilizing at lower levels in subsequent years.

In contrast, small and medium-sized enterprises demonstrated more consistent and sustained growth throughout the period, with micro and small companies reaching €20,248 thousand in 2024 and medium-sized companies €9,019 thousand, highlighting a strong expansion dynamic that was not observed among large companies.

Overall, construction companies are currently operating with highly favorable profit margins.

Figures by company dimension | Construction sector*
[Billion EUR]



The costs rise despite of workforce pool recovery

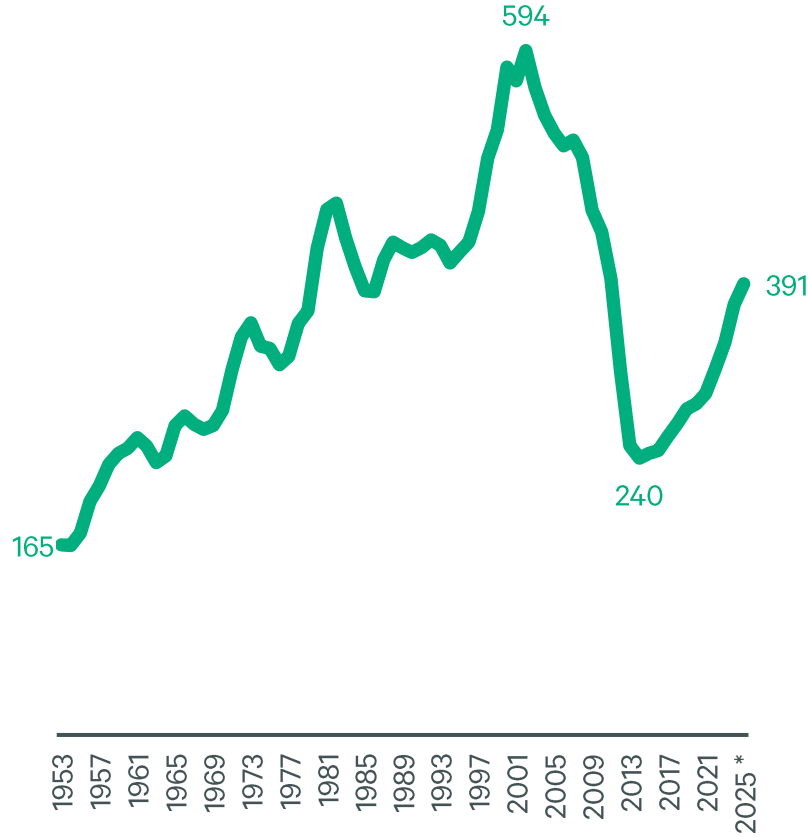
THE CONSTRUCTION SECTOR

Labor cost escalation outpaces materials cost stability

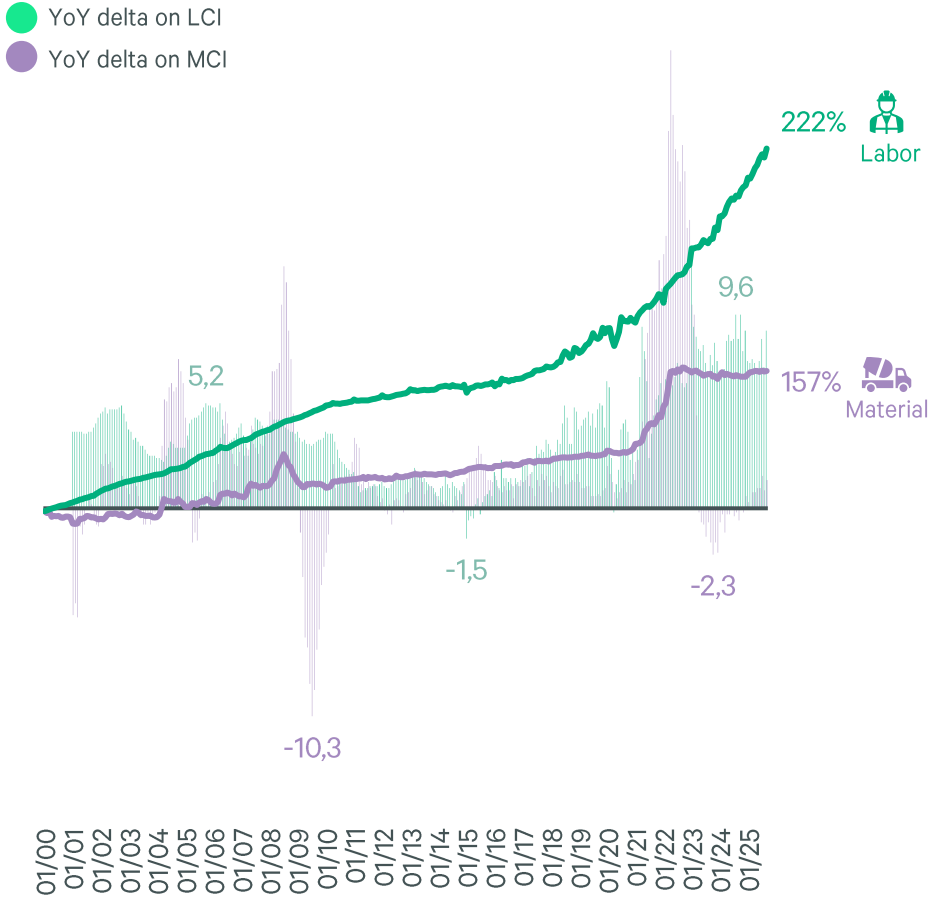
The workforce experienced a contraction, from a peak of 594 thousand workers in the early 2000s to 240 thousand by 2014. From this historical low, the workforce increased at a slow pace, and as of September 2025, these figures stood at 391 thousand.

This reduction in the workforce pool contrasts with the sharp increase seen in costs, as evidenced by the labor cost index surging to 222% (against a January 2000 base), which significantly outpaces the material cost index (157%), which though also high, now remains stable.

Number of employees
[Thousand workers]



Evolution of the labor and material cost index
[Jan 2000 = 100%]



New construction remains the primary driver of activity, consistently overshadowing the existing segment

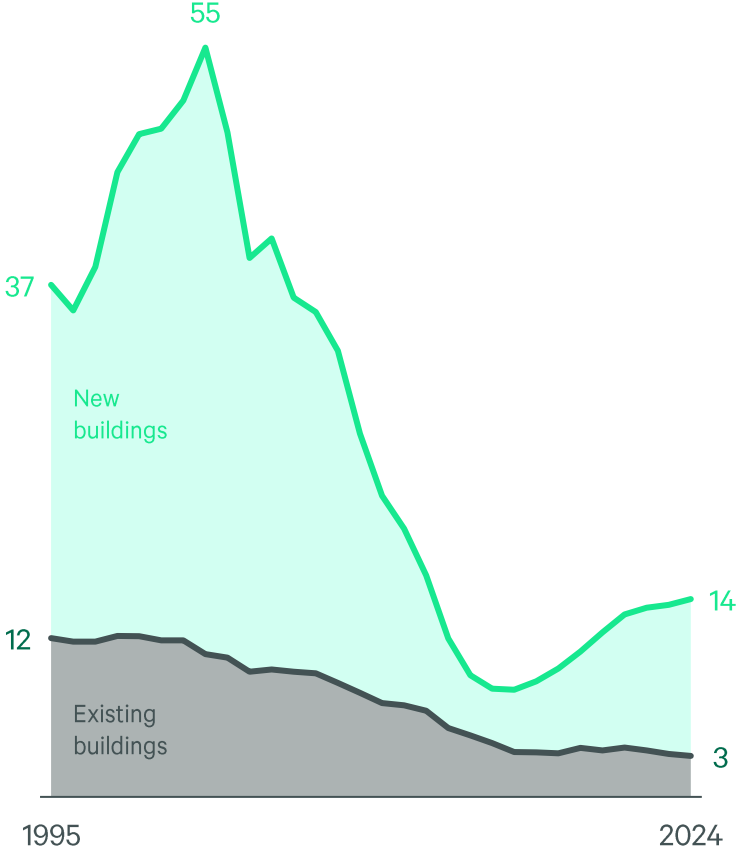
THE CONSTRUCTION SECTOR

Decreased licensing and construction

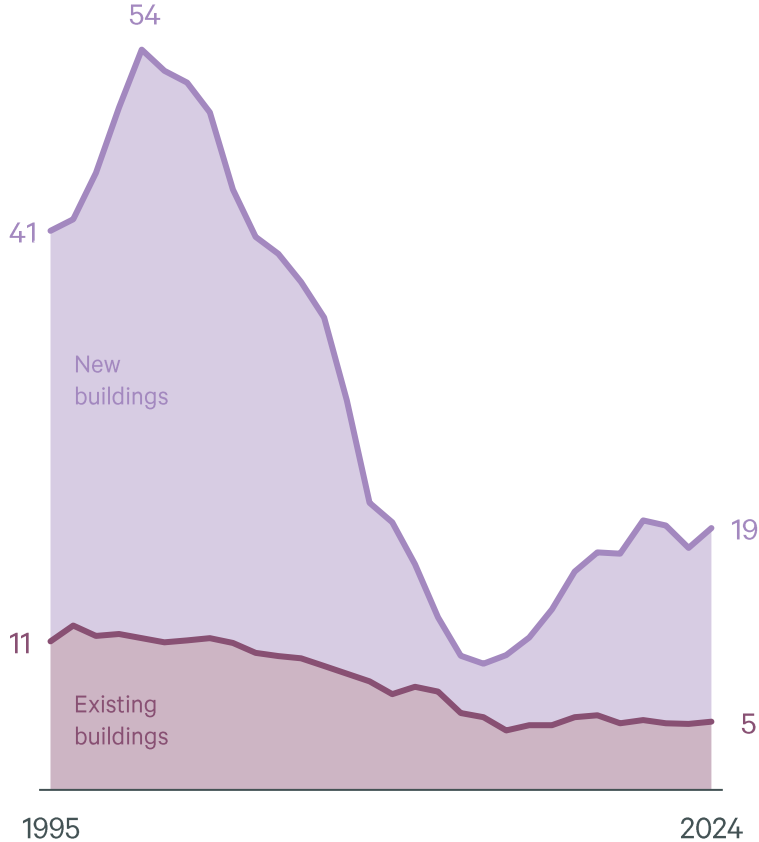
Activity in the construction sector is consistently dominated by new construction, which historically records higher volumes than the existing buildings segment across both licensing and completions. During the major market downturn, the existing segment exhibited stability, contrasting with the sharp reduction observed in new construction volumes.

Nevertheless, the existing segment itself has followed a long-term downward trend since 1995 for both concluded and licensed units. Post-2015, the sector registered a noticeable recovery, where licensed units now surpass concluded units. While the rebound is led by increased activity in new construction, the existing segment's stability persists without exhibiting significant growth, a dynamic that differentiates the current recovery phase.

Concluded Buildings
[Thousands]



Licensed Buildings
[Thousands]

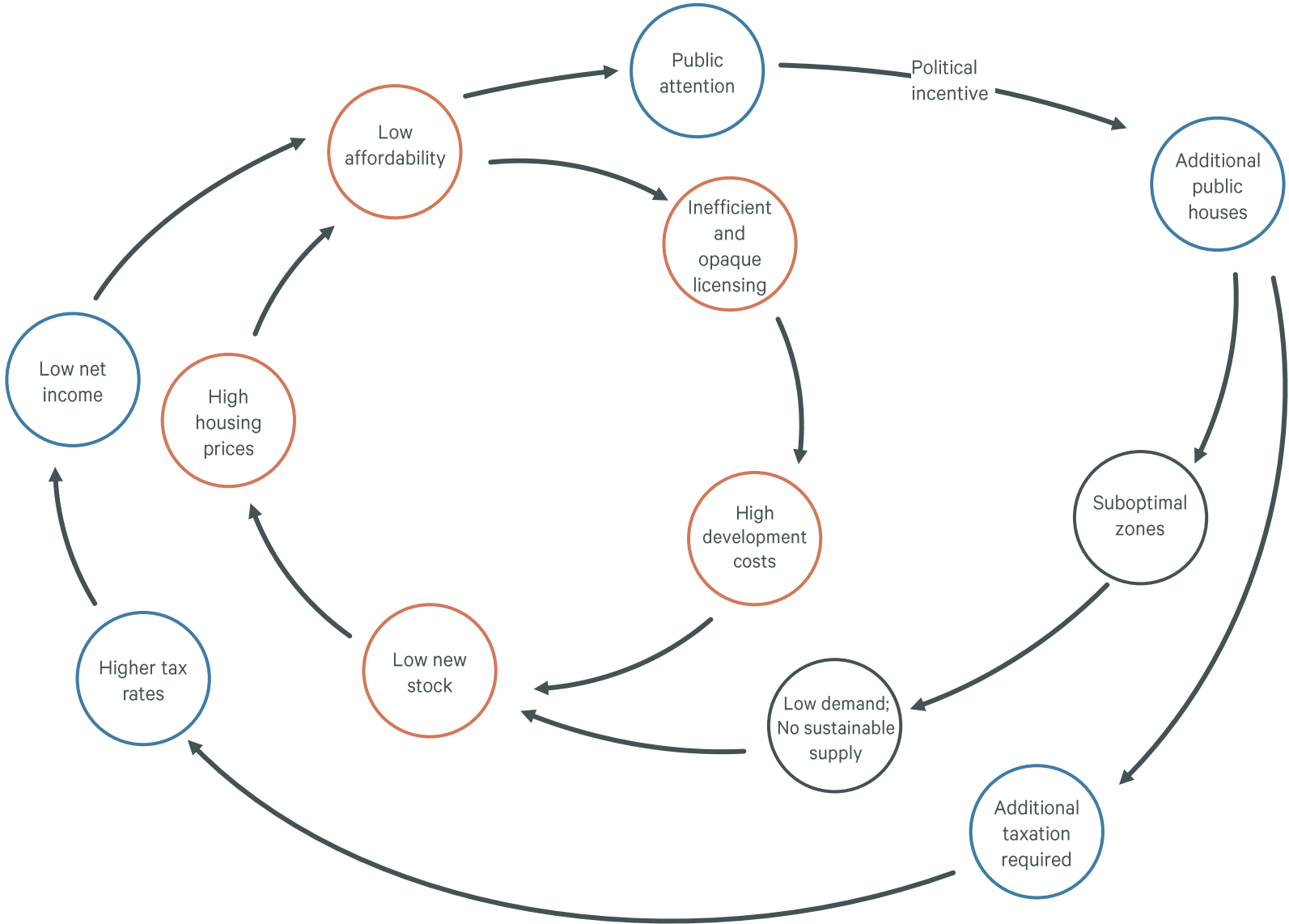


The licensing model locks the new developments in the high-cost paradigm

Licensing and context costs are cause high costs of development

The licensing process represents a major structural constraint on residential development in Portugal. Prolonged approval times, driven by administrative complexity, limited technical capacity, and inconsistent planning interpretations, delay construction timelines and heighten financial risk for developers. These delays restrict private housing supply and contribute to rising prices, further limiting access to homeownership for middle-income households.

Despite acknowledging the housing crisis, many municipal strategies priorities high-visibility social housing initiatives rather than addressing the systemic inefficiencies that generate it and impede a broader delivery, due to the low political gains of addressing one vis-à-vis the other.



The housing stock and homeownership

Summary

Overstock and homeownership result from to law-induced inefficiencies in capital and let markets

There is a structural surplus of 1.87 million dwellings when compared to households

Vacancy is a structural and prevalent phenomenon

Legal restraints on the let market incentivize and re-inforce the homeownership paradigm

A fundamental mismatch between housing layouts and households dimension

- Housing has been a key asset for Portuguese families throughout the decades, especially for the lower-echelons of wealth;
- In 2021, Portugal had 5.97 million dwellings for 4.1 million households, creating a structural surplus of 1.87 million units which are not primary residences;
- This gap reflects seasonal or vacant properties and Portugal ranks first in seasonal dwellings among OECD countries, and currently, 31% of homes are not permanently occupied: 12% vacant and 19% seasonal or secondary residence.
- Vacancy is a widespread nationally, while seasonal stock has a higher prevalence in non-urban areas. In addition, vacancy has remained stable over the last 20 years despite changing market situations.
- About 76% of primary residence homes are owner-occupied, with only 22% rented and among owners, 62% have no mortgage, showing a market with low leverage;
- Although rental support is a marginal phenomenon, the century long “binding” of past contracts [*vinculismo*] and subsequent decade long rent-freeze policies mixed with attempts to liberalize the let law, have restricted and distorted the let market, further reinforcing the home ownership decision
- Housing stock was designed for larger families, however, under the current demographic scenario, small households dominate (3 or less people per household);
- Most homes have oversized layouts and room counts, creating spatial inefficiency under the current demographics.

The growth in the number of dwellings outpaces the growth in households

THE HOUSING STOCK AND HOMEOWNERSHIP

There are more dwellings than households

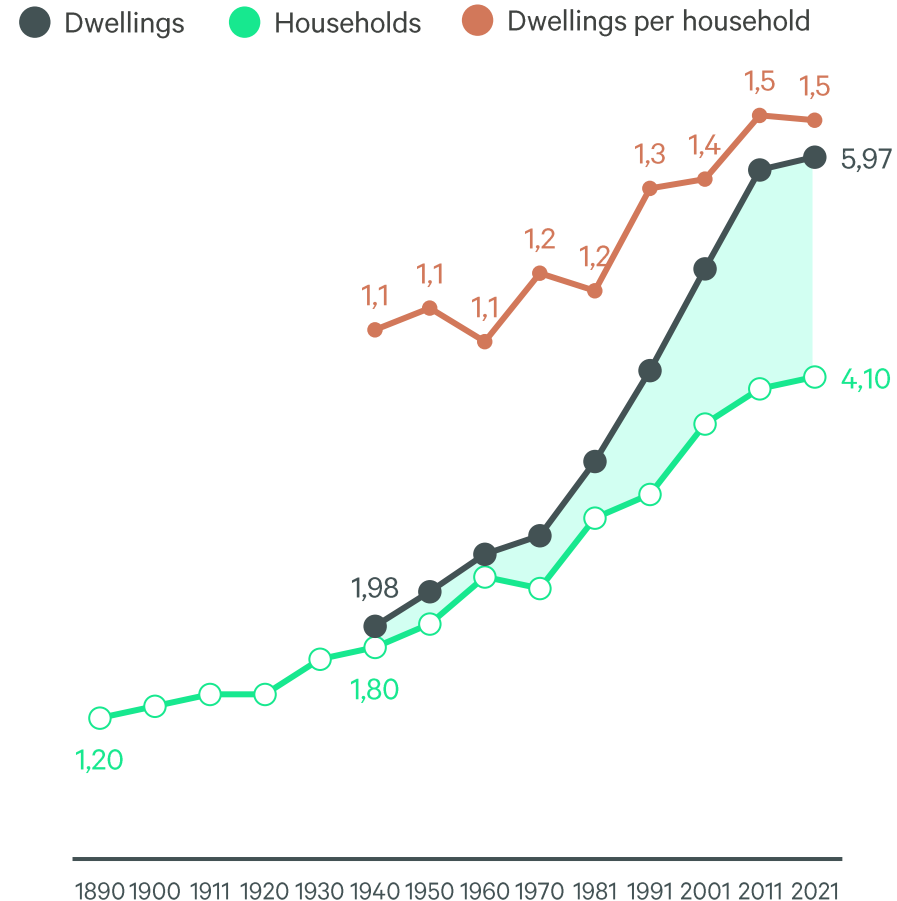
Despite the observed trend of proliferation of households in an overall stable population, the growth in the total number of dwellings has consistently outpaced the growth in households since the 1940's, which resulted in an increasing gap between the housing stock and the number of occupying families.

By 2021, the dwellings stock reached 5.97 million units, while the number of households stood at 4.10 million, creating a structural surplus of 1.87 million units. This differential represents the number of seasonal / second residence or vacant dwellings.

As a result of this historical dwellings proliferation the current residential stock is mostly composed of aged buildings.

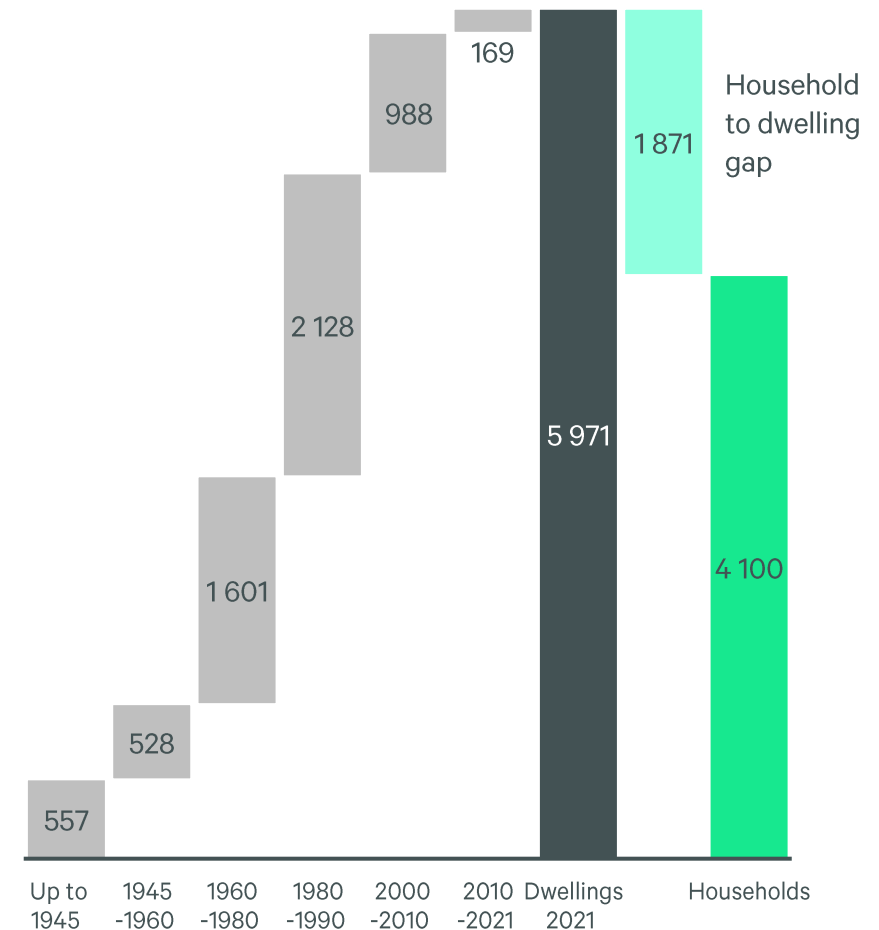
Dwellings, households and housing stock

[Dwellings and housing stock in thousands | Households in million people]



Dwellings stock

[Thousands]



Historically, the financial system has been subject to state interventions and distortions

THE HOUSING STOCK AND HOMEOWNERSHIP

The incentive for investing in real assets as an inflation hedge

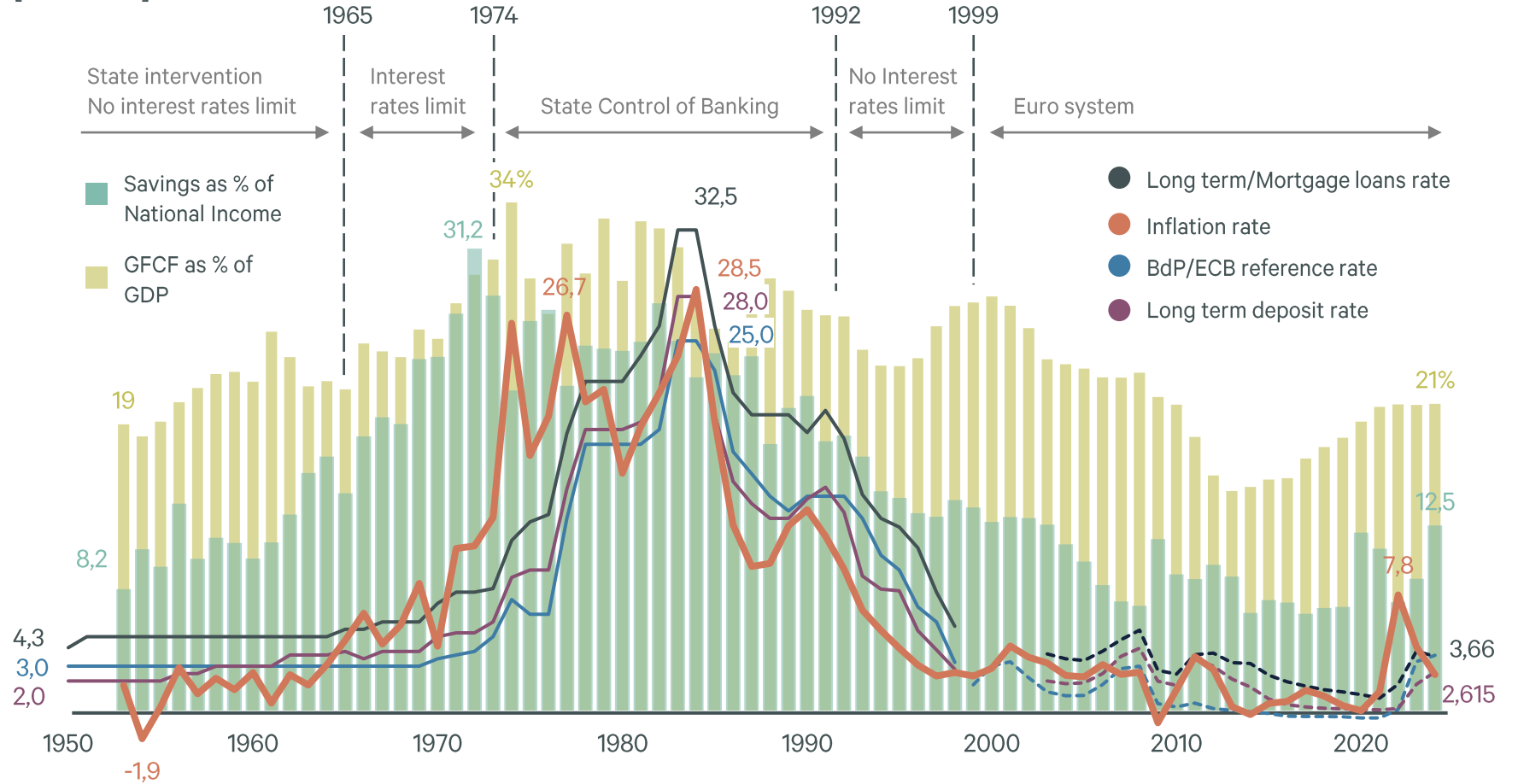
The Portuguese economy was historically characterized by chronic state intervention in the financial system, which created a powerful incentive for real asset investment.

Whenever inflation outpaced nominal interest rates, particularly after 1965, the resulting "negative real rates" discouraged traditional savings and drove capital toward tangible assets. This dynamic is evidenced by the Gross Fixed Capital Formation (GFCF) peaking at 34% of GDP during periods of high inflation and volatility.

Even as interest rates rose to 32.5% in the 1980s, GFCF remained high, confirming that investors prioritized real assets as a hedge against the persistent devaluation of financial capital.

An historical view of Portuguese key interest rates

[Values in %]



Though the loan rates have been historically high, inflation has been higher

THE HOUSING STOCK AND HOMEOWNERSHIP

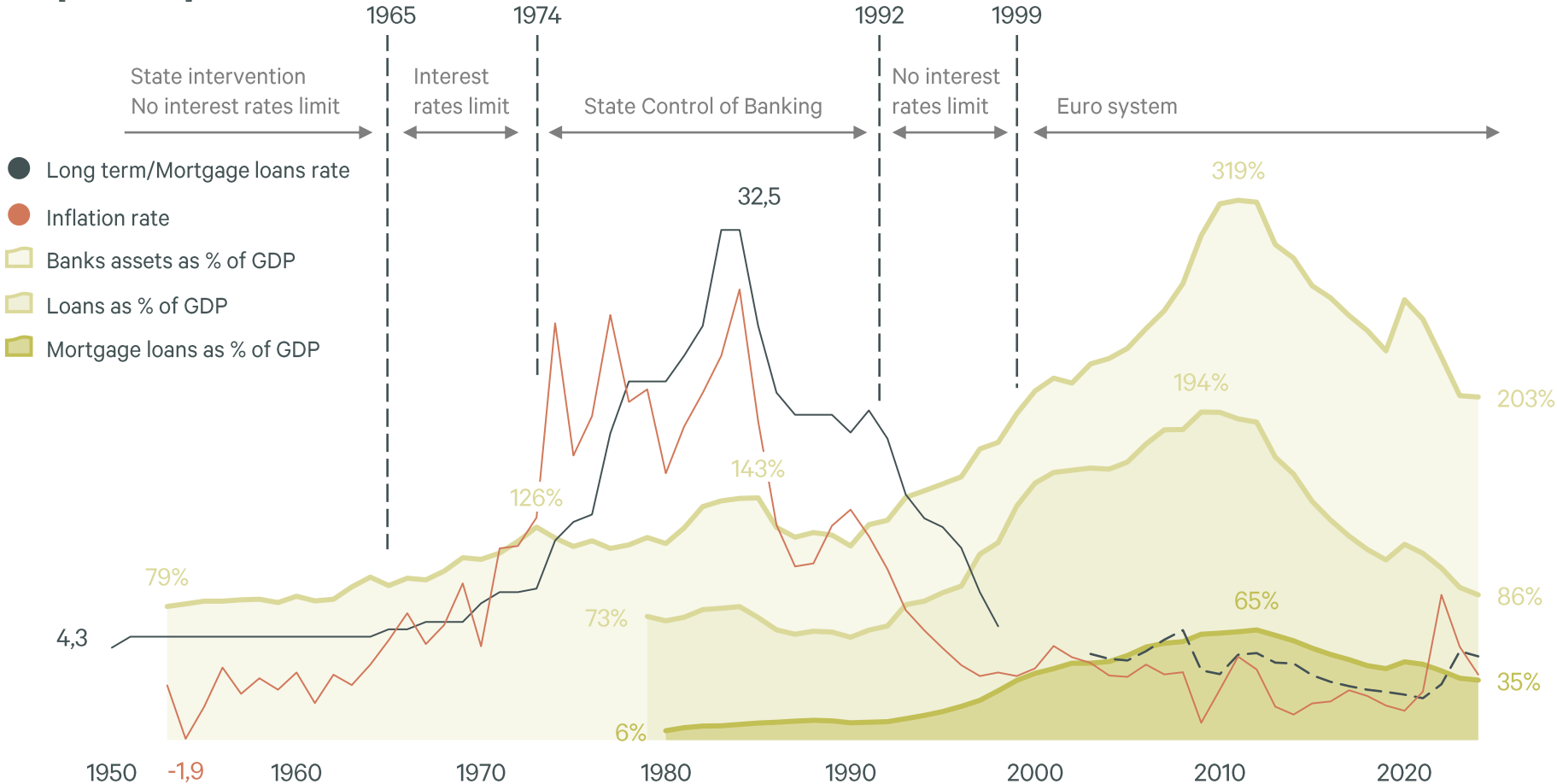
The leverage pivot: inflation-driven debt to market normalization

Historically, Portugal's credit market was shaped by a "negative real interest rate" environment, where inflation consistently outpaced nominal loan rates. This dynamic served as a powerful incentive for borrowing, as the real value of debt eroded rapidly over time. During the transition to fiscal stability in the 1980s and 1990s—marked by the end of state control over banking—loan-to-GDP ratios stabilized as interest rates began to reflect actual market risks. A second significant shift occurred with the adoption of the Euro; plummeting interest rates and market liberalization triggered a major surge in credit, with mortgage debt peaking at 65% of GDP.

Recently, the market has entered a deleveraging phase, with mortgage weight nearly halving to 35% of GDP by 2024, even as total banking assets remain high at 203% of GDP.

An historical view of banking assets, loans and mortgages

[Values in %]



Lowered capital costs fueled the housing credit, which allowed homeownership

THE HOUSING STOCK AND HOMEOWNERSHIP

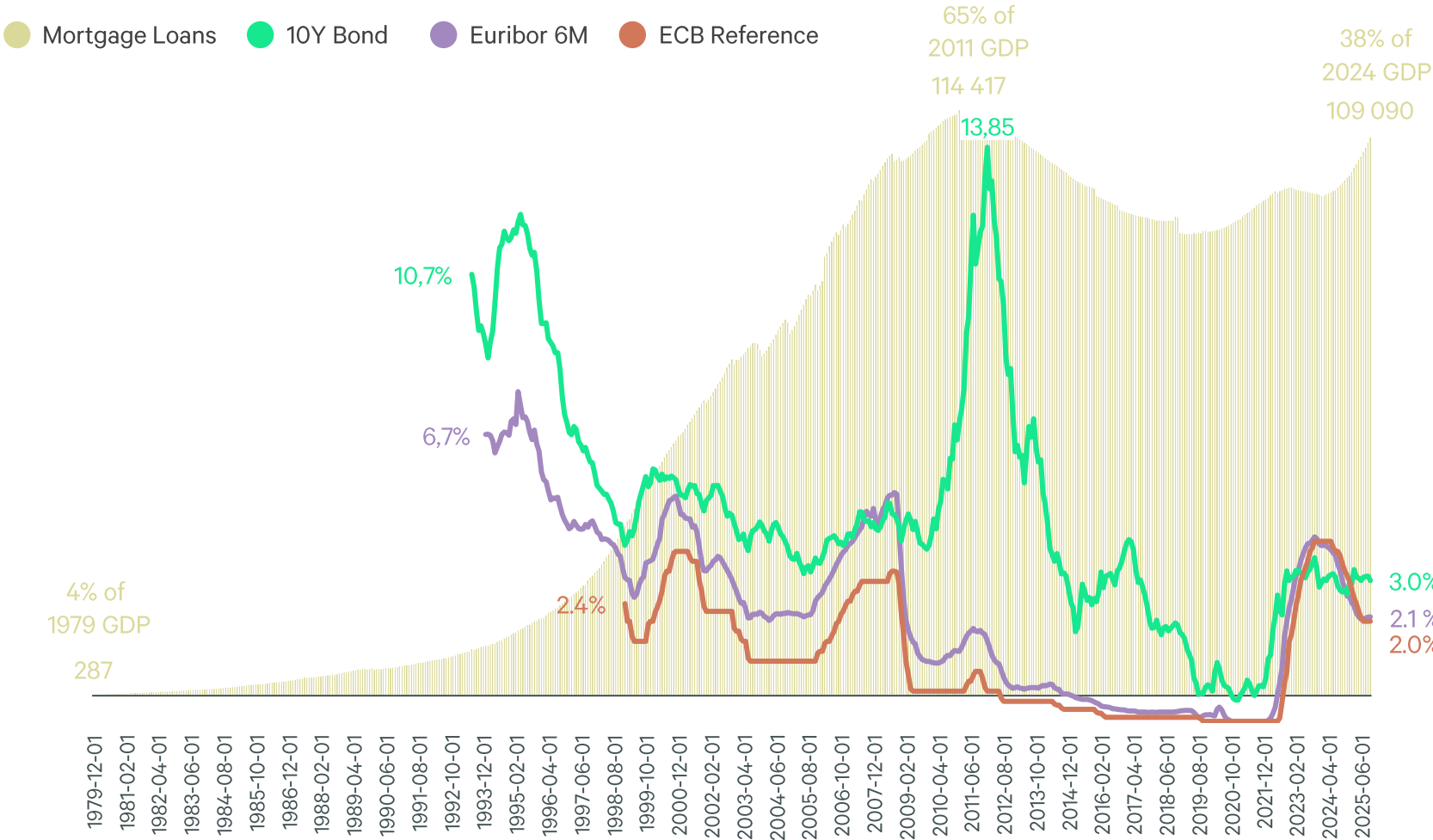
Between Historic Rates and Record Debt Levels

Mortgage credit in Portugal has grown significantly over the past decades, rising from just €287 million in 1976 to over €109 billion in 2024, representing 38% of GDP. The peak occurred in 2011, reaching €114 billion, 65% of GDP, driven by favorable financial conditions.

This happened as interest rates dropped sharply: the 6M Euribor, which hovered around 6.7% in the 1990s, fell close to zero after 2015, while the ECB reference rate stabilized around 2%. This combination of abundant credit and low rates fueled housing demand but also increased household and economic exposure to financial risk.

Evolution of residential mortgage loans

[in million euros]



Historically, a significant portion of families assets has been allocated to housing

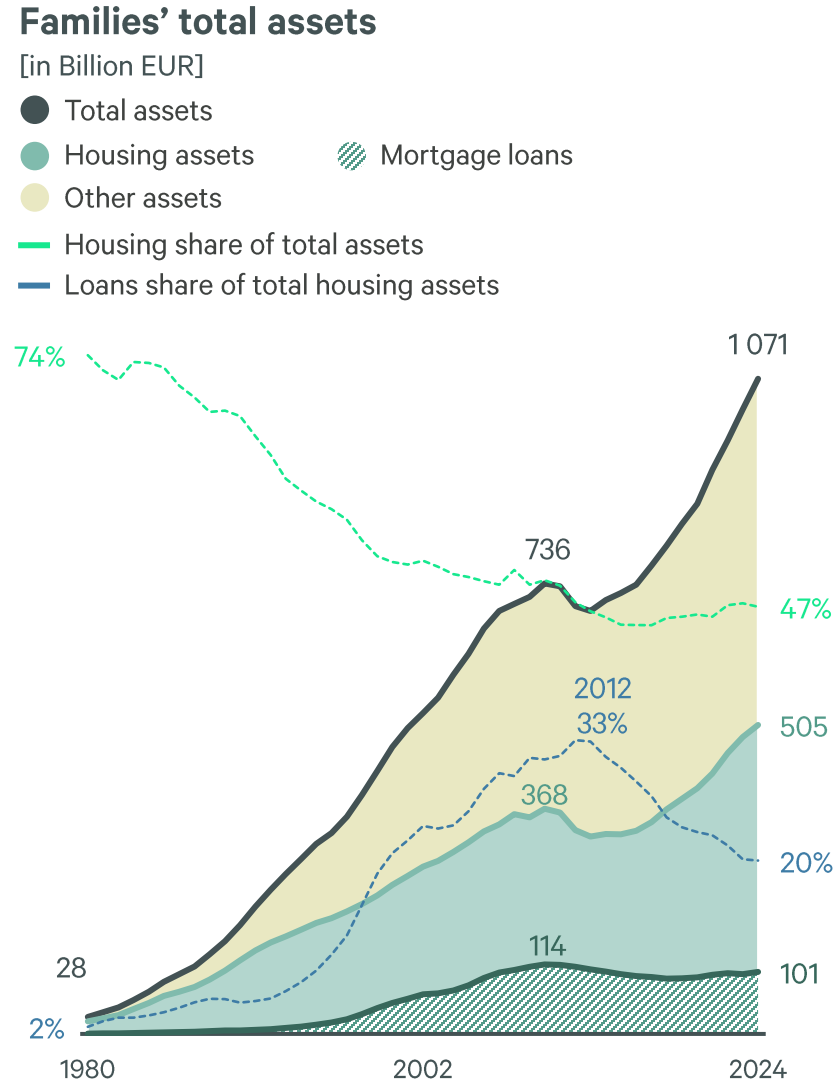
THE HOUSING STOCK AND HOMEOWNERSHIP

Housing is the main Portuguese asset class

The total assets of Portuguese families surpassed 1 trillion euros, with 47% of this value allocated to housing, which accounts for €550 Bn. This nominal figure contrasts with the reality in the early 1980s, when 74% of families' wealth was allocated to housing, accounting for a mere €20 B.

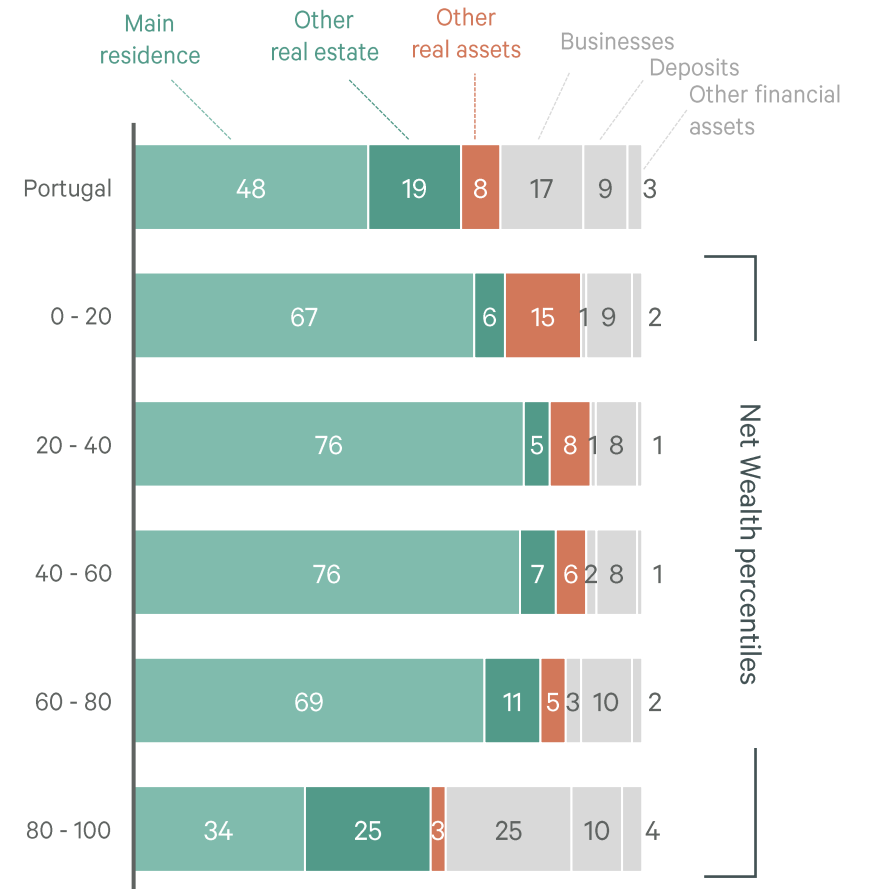
Real estate is the primary means for the Portuguese to accumulate wealth, as the share of the real estate portfolio – particularly the share of primary residence – increases from the lower wealth percentiles up to the 60th percentile, only decreasing thereafter.

The overall leverage of the housing sector accounted for 20% in 2024, reducing from 33%, the record level of 2012.



Portuguese wealth by asset type as of 2023

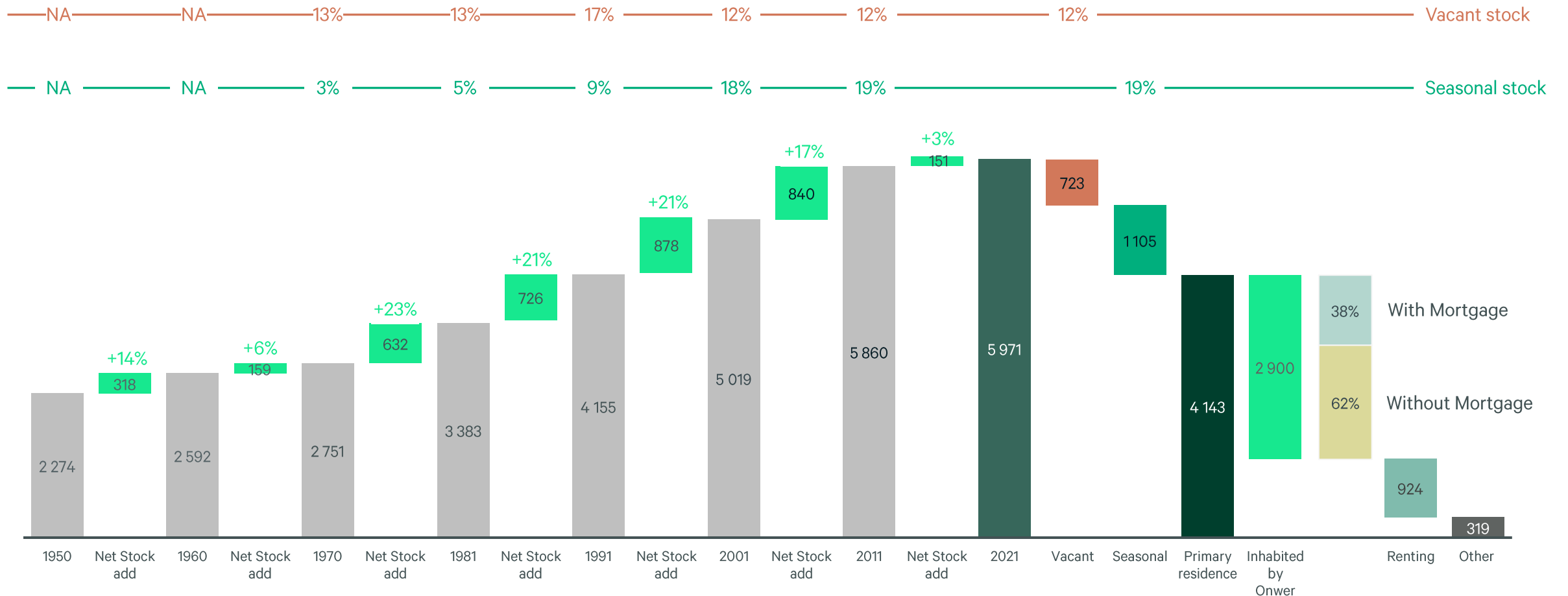
[in % of total wealth in 2023]



The housing stock and ownership structures has been responding to shifting property and let rights

THE HOUSING STOCK AND HOMEOWNERSHIP

The Portuguese housing stock grew consistently from 1950 to 2011, reaching 5,860 units while seasonal housing surged from 3% to 19% of the total. Primary residences currently account for 4,143 units, with a significant majority (62%) held without an active mortgage. A high vacancy rate of 12% (723 units) persists, reflecting the historical market inefficiencies and legislative rigidities established since 1911. This evolution highlights a market split between consolidated homeownership and the liquidity challenges resulting from a century of shifting rental regulations.



The Portuguese housing gap: 31% of houses are not permanently occupied

THE HOUSING STOCK AND HOMEOWNERSHIP

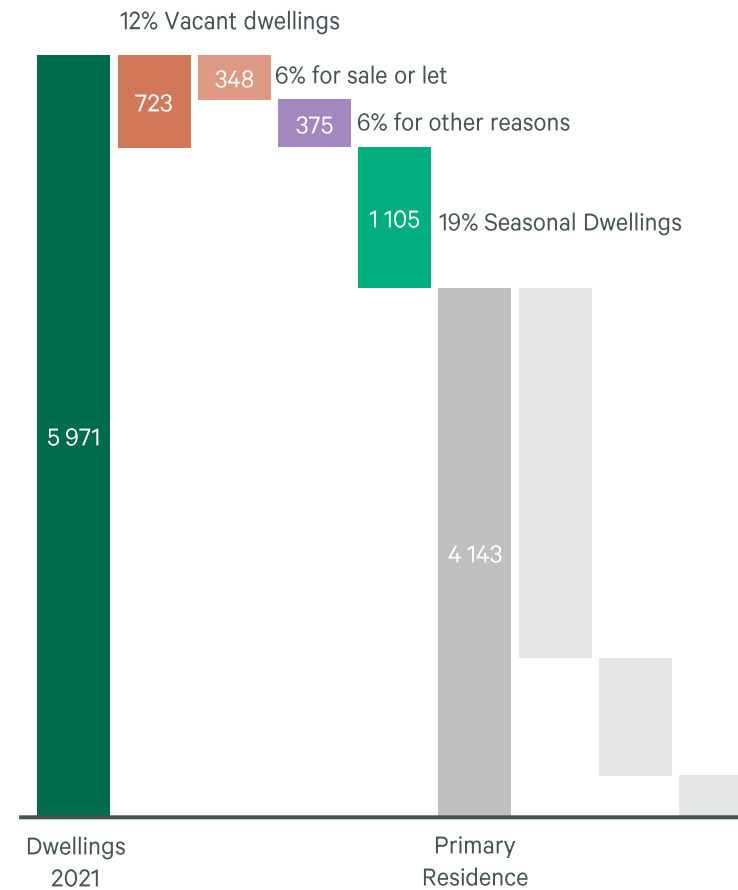
Portugal champions the seasonal dwellings

The dwelling to household gap is composed by a significant portion of seasonal dwellings, for which Portugal ranks #1 between the existing sample from the OECD.

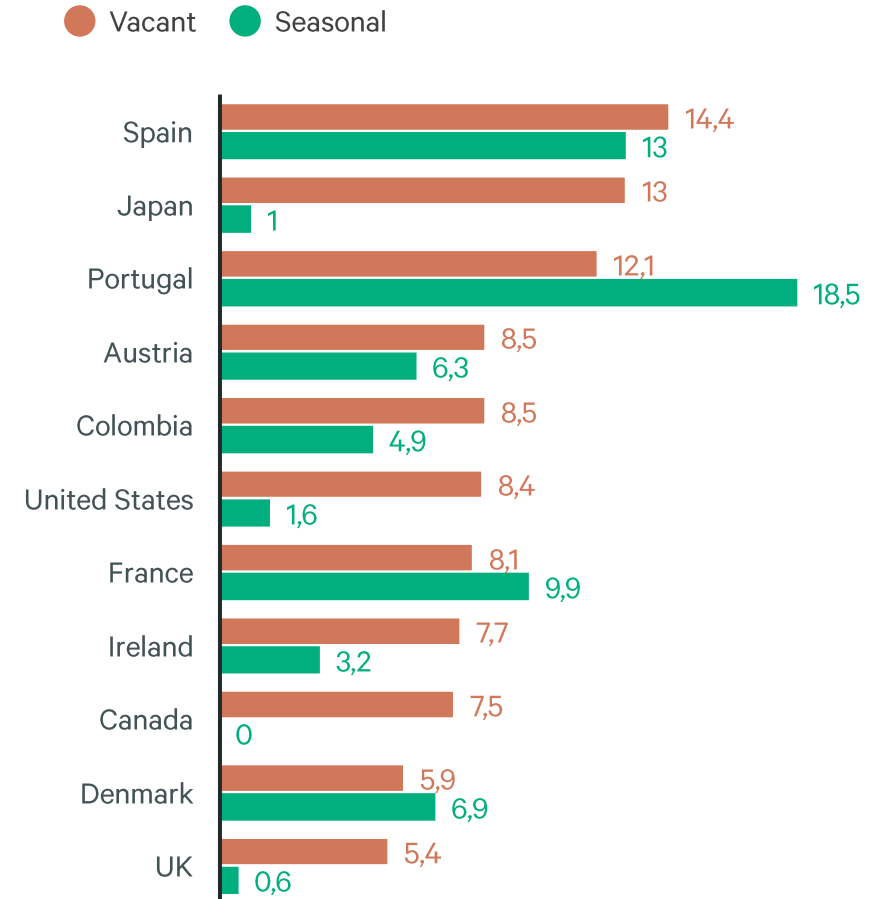
Regarding the vacant dwellings, in which also Portugal ranks highly, the all the top 3 countries have widely recognized ageing population issues.

However, when drilling down the total vacancy only half of the dwellings are available for selling or letting, which is a significantly decrease from the total 12% vacant figure.

Distribution of the housing stock
[Thousands]



Benchmark of Vacant and Seasonal Housing Share
[Vacant and seasonal dwellings as % of total built dwellings]



Vacancy is widespread while seasonality, though significant, is more prevalent in non metro areas

THE HOUSING STOCK AND HOMEOWNERSHIP

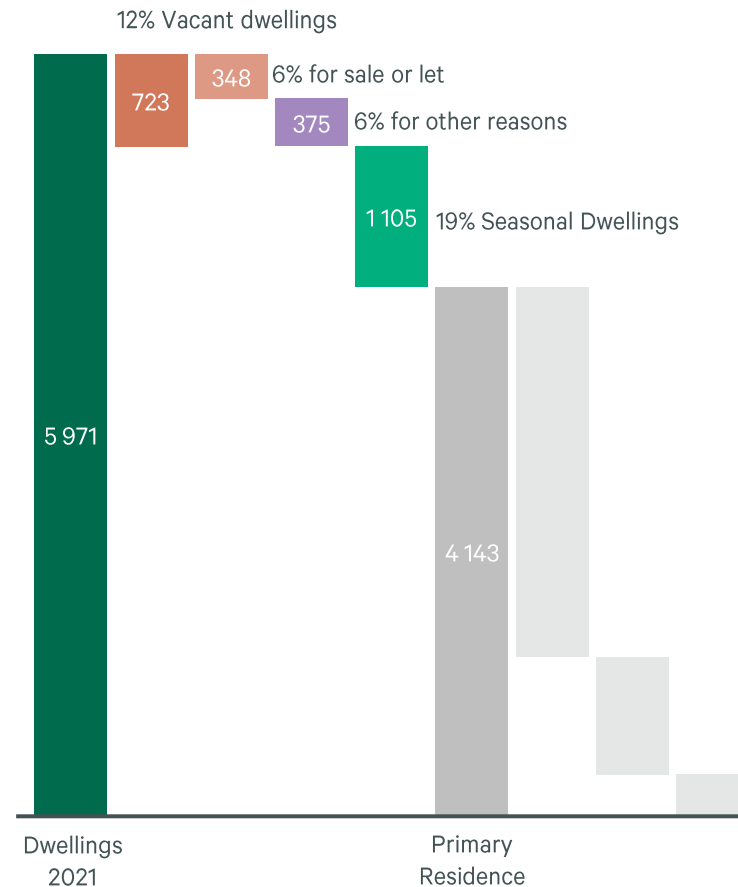
Lisbon and Porto Metro areas hold a still significant vacant stock

When contrasting the urbanized municipalities throughout Portugal, there are significant differences regarding seasonality, but less expressive regarding vacancy or availability.

Seasonality is significantly more prevalent in the interior or not-predominantly urban districts. This phenomenon would equate with the decades of migration towards metro areas and, under this circumstances, families keep the real estate patrimony from the original districts – even through inheritances.

Regarding vacancy, Lisbon and Porto show only slightly lower vacancies and availabilities than the rest of Portugal.

Distribution of the housing stock
[Thousands]



Vacancy and seasonality in key municipalities

[Vacancy and seasonality rates as % of key municipalities NUT4 stock]

| Municipality | Vacancy (%) | Seasonality (%) | Other (%) | Total |
|---------------------|-------------|-----------------|-----------|-----------|
| Castelo Branco | 30% | 7% | 6% | 39,618 |
| Guarda | 30% | 7% | 5% | 28,416 |
| Vila Real | 26% | 6% | 4% | 30,819 |
| Beja | 18% | 8% | 7% | 20,166 |
| Viana do Castelo | 22% | 5% | 6% | 49,171 |
| Viseu | 19% | 6% | 6% | 56,641 |
| Leiria | 15% | 5% | 6% | 70,307 |
| Coimbra | 7% | 6% | 13% | 81,872 |
| Faro | 14% | 8% | 5% | 38,638 |
| Évora | 11% | 7% | 7% | 29,755 |
| Aveiro | 11% | 5% | 6% | 42,182 |
| Lisbon (Metro area) | 10% | 5% | 6% | 1,496,902 |
| Braga | 10% | 4% | 4% | 88,623 |
| Porto (Metro area) | 9% | 4% | 6% | 836,291 |

About 80% of the dwellings in Portugal are owned by the household live in it

THE HOUSING STOCK AND HOMEOWNERSHIP

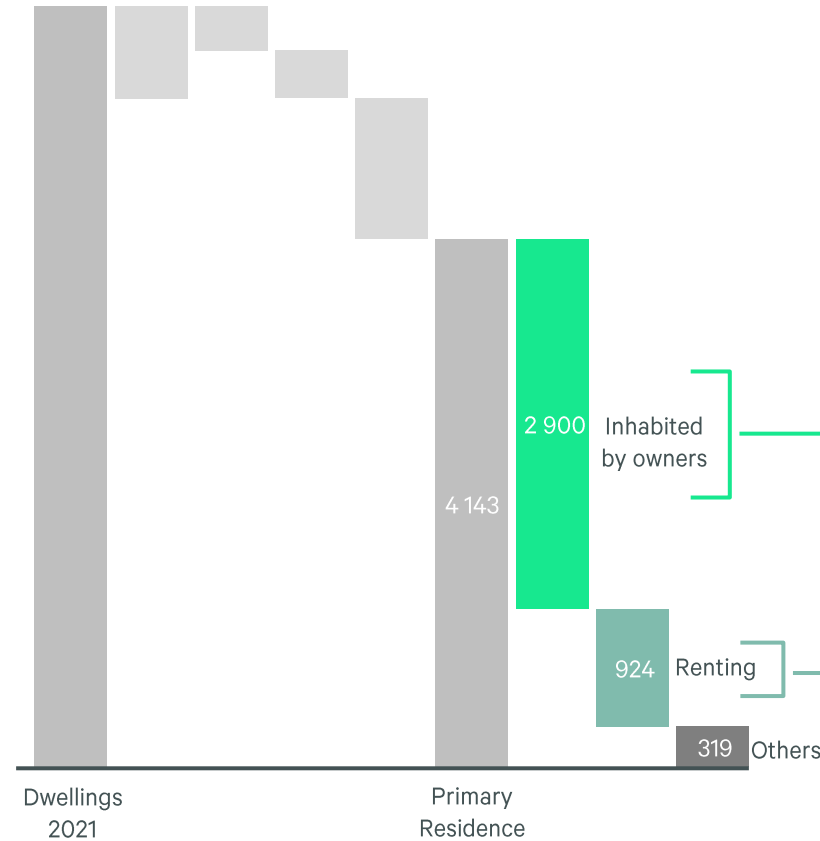
Most people own the house they live in

Of the remaining 4.1 million dwellings used as primary residences, approximately 2.9 million are owner-occupied, while 924 thousand are rented.

According to Eurostat, Portugal ranks highly in homeownership rates, with the majority of owners holding no mortgage on their property. Furthermore, sixty percent of the rental market is concentrated in Lisbon and Porto.

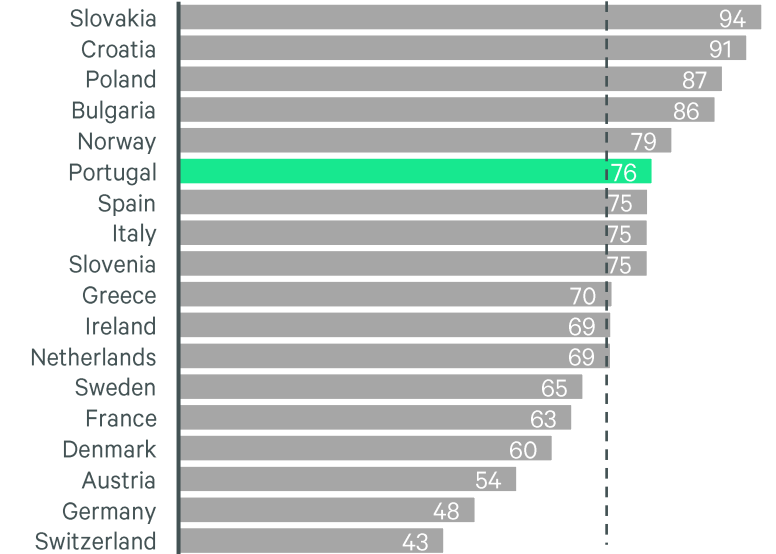
Despite a significant portion of the rental sector operating without subsidies, a critical factor remains absent from public data: rent freezes and bonding."

Portuguese Dwellings Ownership
[Thousands]

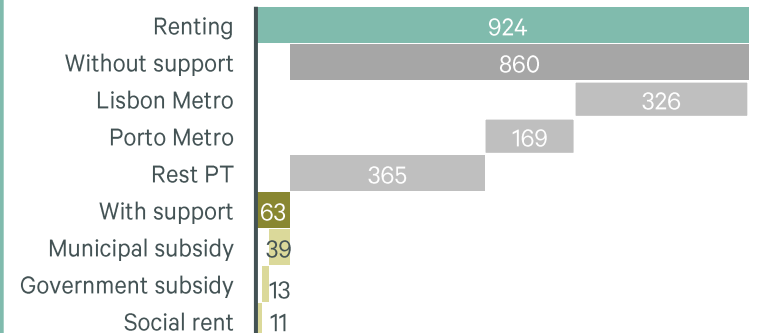


Eurostat home ownership benchmark (%)

EU: 69.2



Drilling down the renting sector



The housing stock and ownership structures has been responding to shifting property and let rights

THE HOUSING STOCK AND HOMEOWNERSHIP

The Portuguese rental market was shaped by decades of structural rigidity, originating from the 1911 "Permanent Tenure" act which was kept and later amplified by the 1974 nationwide rent freeze act which decoupled rents from inflation. Although the 1990 and 2006 reforms attempted liberalization, they have instead institutionalized a fragmented "two-speed" market where legacy contracts remained under restrictive rules. Following the 2012 shift toward urban rehabilitation and market liquidity, the 2019 framework pivoted back to tenant security and long-term contract stability. This legislative volatility continues to drive the significant volume of low-value contracts still observed in major urban centers today.

The 1974 Rent Freeze Decree-Law (DL 347/74)

Indefinite rent freeze at April 1974 levels with no inflationary adjustment mechanisms, extending the restriction nationwide

- **Fixed Pricing Structure:** Mandated that all urban rents be frozen at the levels practiced on April 24, 1974, effectively halting any market-driven price adjustments.
- **Indefinite Duration:** Converted a temporary 30-day emergency measure into an open-ended policy by removing any fixed expiration or revocation date. [*"sem fixação da data da sua revogação até à publicação dos diplomas que venham regular estas matérias."*]

NRAU (Novo Regime Arrendamento Urbano)

Aimed to unfreeze legacy rents through a phased update mechanism while introducing faster legal procedures to resolve landlord-tenant disputes.

- **Phased Rent Updates:** Introduced a legal mechanism to transition old, frozen rents toward market values through a gradual adjustment process.
- **Strengthened Fixed-Term Leases:** Enhanced the 1990 framework by making fixed-term contracts the default standard, increasing flexibility for landlords.
- **Social Safeguards:** Imposed caps on rent increases for low-income tenants or those over 65, maintaining a level of protection for vulnerable groups
- **Extrajudicial Eviction Process:** Created the BNA (Balcão Nacional do Arrendamento) to streamline eviction procedures in cases of non-payment, aiming to reduce legal bottlenecks.

2019 Housing Legislative Package (DL 83/2019)

Aimed to restore market stability by imposing longer minimum lease terms and strengthening legal protections for vulnerable and long-term tenants.

- **Mandatory Lease Stability:** Imposed a 1-year minimum term for new leases and a mandatory 3-year first renewal.
- **Vulnerable Tenant Protection:** Prohibited eviction of seniors (65+) and disabled tenants with 15+ years of residency.
- **Long-Term Tax Incentives:** Introduced a sliding tax scale, offering lower rates for landlords who sign longer contracts (5, 10, or 20 years).
- **Expanded Right of First Refusal:** Strengthened the tenant's priority right to purchase the property if the landlord decides to sell.



The Binding Decree (DL 12/11/1910)

Introduced the 'Right to Permanent Tenure,' prohibiting landlords from terminating leases and restricting rent increases.

- **Eviction prohibition**
- **Rent control:** Established strict limits on price-setting autonomy
- **Geographical Focus:** Lisbon and Porto

RAU (Regime Arrendamento Urbano)

Attempted to transition to a free-market system by allowing freely negotiated rents for new leases, yet it institutionalized a 'two-speed' market by leaving pre-existing contracts under the old frozen regime.

- **Free Market Reintroduction:** Established the "Free Rent Regime," enabling negotiated pricing for new contracts after decades of control.
- **Fixed-Term Contracts:** Shifted from "lifelong" binding leases to limited-duration agreements.
- **Dual-Speed Market:** Maintained legacy restrictions for pre-1990 leases while liberalizing new ones, creating a fragmented market.
- **Regulatory Consolidation:** Unified scattered housing laws into a single, modernized legal framework.

NRAU Reform

Accelerated the unfreezing of legacy rents and simplified eviction procedures to incentivize urban rehabilitation and increase market liquidity.

- **Accelerated Rent Unfreezing:** Streamlined the transition of pre-1990 contracts to market prices, allowing landlords to update rents more aggressively unless tenants proved financial hardship.
- **Negotiation Predominance:** Prioritized direct negotiation between parties; if no agreement was reached on the new rent, the landlord could terminate the lease with compensation.
- **Fast-Track Eviction (BNA):** Fully operationalized the Balcão Nacional do Arrendamento, drastically reducing the time required to evict tenants for non-payment (the "Special Eviction Procedure").
- **Urban Rehabilitation Incentive:** Aimed to encourage property owners to renovate decaying buildings by ensuring they could finally generate market-rate returns on their investments.

The let law has generated market distortions which retract homeowners to consider renting solutions

THE HOUSING STOCK AND HOMEOWNERSHIP

As a result of the let law and its changes, there is to this date a significant portion of tenants which legally and continually pay sub-market rents. This has historically retracted landlords to consider let solutions and simultaneously driving the price of new contracts upward.

| Census data on number of contracts by rent level and signature year (values in '000 contracts) | INE Census date | | 2001 | | | | | 2011 | | | | | 2021 | | | | |
|--|---------------------|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|--------------|--------------|---------------|---------------|--|
| | Contract start year | Monthly rent [EUR] | < 1975 | 1975-1990 | 1991-2000 | Total | < 1975 | 1975-1990 | 1991-2000 | 2001-2011 | Total | < 1990 | 1991-2005 | 2006-2011 | 2012+ | Total | |
| | | | | | | | | | | | | | | | | | |
| Portugal | up to 100 | | 249.25 | 121.57 | 58.87 | 429.68 | 121.95 | 69.60 | 22.10 | 40.07 | 253.73 | 72.61 | 31.43 | 14.81 | 29.00 | 147.85 | |
| 148,000 contracts are priced under €100, with 50% of all total contracts falling below the €300 threshold. | 100-300 | | 11.71 | 41.73 | 159.14 | 212.58 | 21.36 | 36.04 | 32.61 | 163.71 | 253.71 | 66.71 | 40.76 | 34.33 | 175.14 | 316.93 | |
| | 300-500 | | 0.53 | 3.80 | 60.55 | 64.87 | 9.54 | 9.29 | 12.83 | 175.41 | 207.07 | 9.65 | 13.63 | 26.31 | 244.98 | 294.56 | |
| | 500-650 | | 0.13 | 0.62 | 13.0 | 13.75 | 0.19 | 0.51 | 1.42 | 35.70 | 37.82 | 1.56 | 1.94 | 4.45 | 77.38 | 85.32 | |
| | 650+ | | - | - | - | - | 0.17 | 0.28 | 0.85 | 25.27 | 26.56 | 1.10 | 1.35 | 3.05 | 72.64 | 78.14 | |
| | Total | | 261.62 | 167.72 | 291.54 | 720.88 | 153.21 | 115.70 | 69.81 | 440.17 | 778.88 | 151.62 | 89.11 | 82.95 | 599.13 | 922.81 | |
| Lisbon Metro | up to 100 | | 119.38 | 47.58 | 18.75 | 185.70 | 56.12 | 28.25 | 8.75 | 12.20 | 105.32 | 27.19 | 13.42 | 4.25 | 9.62 | 54.47 | |
| 139,000 contracts with monthly rent below €300 | 100-300 | | 6.89 | 15.65 | 30.15 | 52.68 | 13.08 | 14.87 | 8.13 | 27.46 | 63.54 | 34.36 | 10.28 | 5.77 | 33.74 | 84.14 | |
| | 300-500 | | 0.33 | 2.25 | 28.31 | 30.88 | 6.02 | 5.24 | 6.13 | 71.11 | 88.51 | 6.62 | 6.02 | 10.16 | 84.96 | 107.76 | |
| | 500-650 | | 0.07 | 0.43 | 9.65 | 10.15 | 0.14 | 0.37 | 1.05 | 23.69 | 25.26 | 1.19 | 1.28 | 2.82 | 40.05 | 45.34 | |
| | 650+ | | - | - | - | - | 0.12 | 0.19 | 0.67 | 18.90 | 19.87 | 0.84 | 0.98 | 2.34 | 52.13 | 56.28 | |
| | Total | | 126.66 | 65.9 | 86.85 | 279.42 | 75.48 | 48.93 | 24.73 | 153.36 | 302.50 | 70.19 | 31.98 | 25.34 | 220.49 | 348 | |
| Porto Metro | up to 100 | | 60.15 | 24.49 | 11.57 | 96.20 | 31.41 | 15.10 | 5.25 | 11.01 | 62.77 | 20.71 | 7.81 | 4.41 | 8.07 | 41.00 | |
| In Porto, 22% of rental contracts are priced below €100, and a 55% majority of all leases remain below the €300 threshold. | 100-300 | | 2.57 | 8.71 | 30.52 | 41.80 | 4.30 | 7.86 | 7.93 | 32.71 | 52.80 | 14.48 | 10.82 | 7.70 | 28.72 | 61.72 | |
| | 300-500 | | 0.08 | 0.70 | 11.61 | 12.39 | 1.77 | 1.65 | 2.57 | 33.52 | 39.51 | 1.40 | 3.01 | 5.85 | 45.54 | 55.80 | |
| | 500-650 | | 0.02 | 0.08 | 1.45 | 1.56 | 0.03 | 0.06 | 0.13 | 4.26 | 4.47 | 0.21 | 0.28 | 0.70 | 15.51 | 16.69 | |
| | 650+ | | - | - | - | - | 0.03 | 0.04 | 0.08 | 2.85 | 2.99 | 0.14 | 0.17 | 0.38 | 10.14 | 10.83 | |
| | Total | | 62.82 | 33.98 | 55.14 | 151.95 | 37.54 | 24.70 | 15.96 | 84.34 | 162.54 | 36.94 | 22.08 | 19.04 | 107.98 | 186.04 | |

Smaller families, oversized dwellings, and a structural inefficiency of how space is used

THE HOUSING STOCK AND HOMEOWNERSHIP

Houses are generally larger than the current demographic needs

The current housing stock in Portugal reflects the demographic reality of past decades: large dwellings with many rooms and generous floor areas, designed for bigger, traditional households.

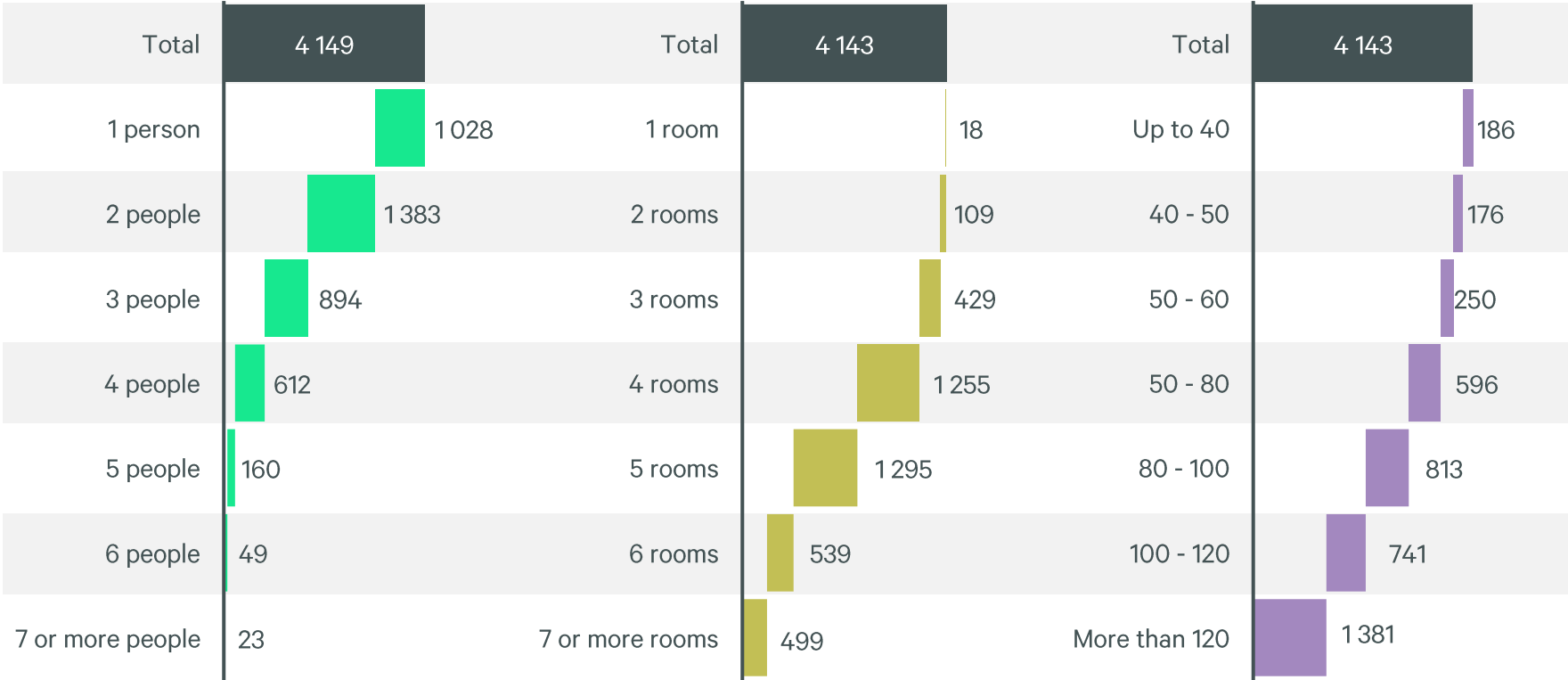
However, today's families are smaller and more diverse, creating a clear mismatch between existing supply and current needs.

While the number of small households continues to rise, much of the available stock remains oversized and poorly adapted to modern living patterns. This structural misalignment reinforces the urgency for renovation, resizing, and development strategies that respond to contemporary demographic trends.

'000 Households by size
[Number of people in household]

'000 Dwellings by number of rooms
[Number of rooms*]

'000 Dwellings by area
[Total area of dwelling in sqm]



The current market situation

Summary

The house price increases reflect the compounding of all the former impacts

Transaction grow while constructions and licensing decrease

- Transactions in family accommodation recorded significant growth, expanding from approximately €12.3 billion to €33.8 billion between 2009 and 2024;
- This expansion was primarily driven by nationals' buyers and by family buyers (respectively 90% and 85% of the total volume);
- Existing accommodation constitutes the majority of transactions, representing 72% of the total volume.

Prices increase in every metric and every region

- Significant increases observed in the housing price index which materialize in increases in average price per house, average price per sqm and average rent per sqm;
- The price increase happens in every region of Portugal (with Lisbon Metro, Algarve and Porto Metro as leading regions).

The newly-built houses price increased less than the old-built

- The restricted construction market shows a nuance: the price of old constructions increased at a higher rate than that of newly built houses;
- The shrinking premiums that new construction commands over old construction signals that demand volume has not matched by existing supply, directing capital toward (and increasing the liquidity of) the existing buildings.

The developing of luxury market

- With all the increased from international demand and the visibility Portugal has received lately, there has been a surge in all percentiles of price in Lisbon and in Porto;
- Those price increases have consistently developed and expanded the luxury real estate market in key hotspots such as Lisbon, Porto, Algarve and recently, Alentejo coast.

House price increases is the norm in Europe

THE CURRENT MARKET SITUATION

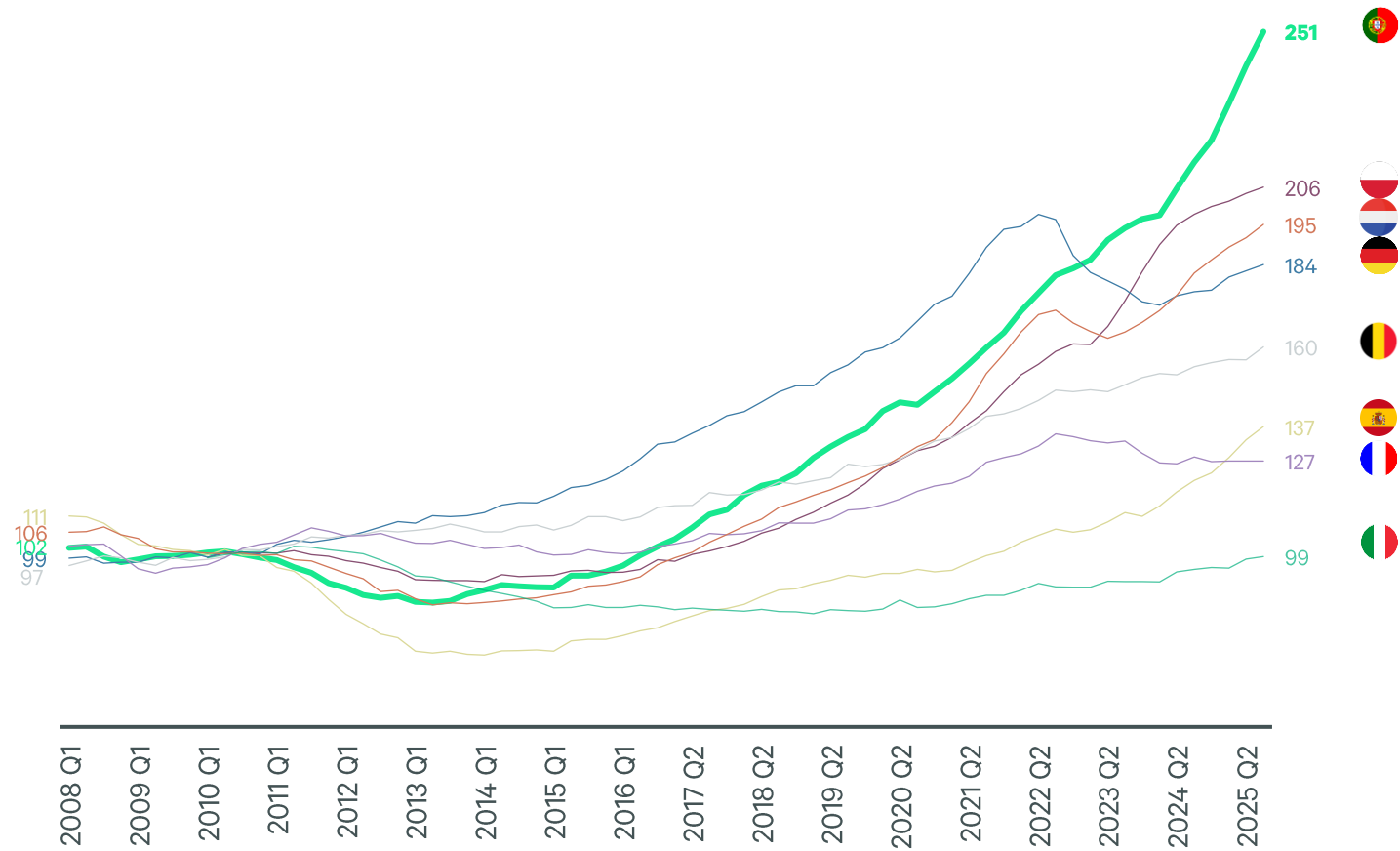
Housing prices increase is a common throughout Europe

The significant increases observed in the housing price index, (which encompasses rental, and sale prices), highlight growing home affordability challenges across European markets.

In that scenario, Portugal has been the leader in house price increases, with a price index increase of 120% since 2010.

Some of the effects observed in Portugal mentioned before are also taking place in Europe, namely, the demographic impact from immigration, or the restricted building and licensing. However, each territory has a different story when it comes to its housing market.

Housing price index benchmark
[2010 = 100]



The residential is showing transaction growth along with construction and licensing decreases

THE CURRENT MARKET SITUATION

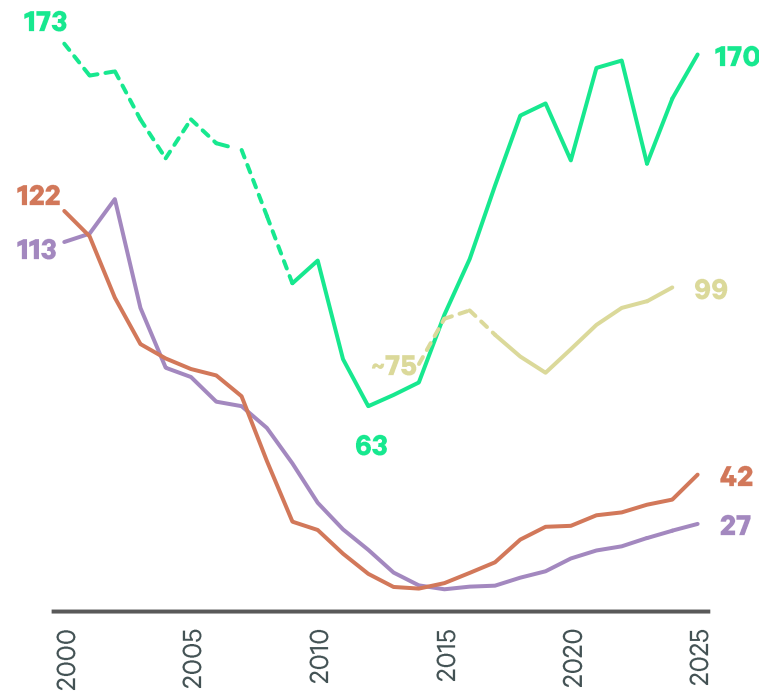
A Decade of diverging trends between supply and demand

Over the past decade, the residential market has experienced a sharp contrast between construction output and transactions.

After a significant decline in new dwellings built and licensed from 2000 to 2014, recovery has been slow, with construction volumes remaining far below pre-crisis levels. In contrast, demand indicators, such as property transactions and rental contracts have surged. The first half of 2025 marked the highest level of residential transactions ever recorded, reinforcing the trend of strong demand despite limited new supply. This imbalance has fueled price appreciation and intensified pressure on housing affordability. These dynamics highlight the need for strategic measures to accelerate construction activity and ensure sustainable growth in the housing sector.

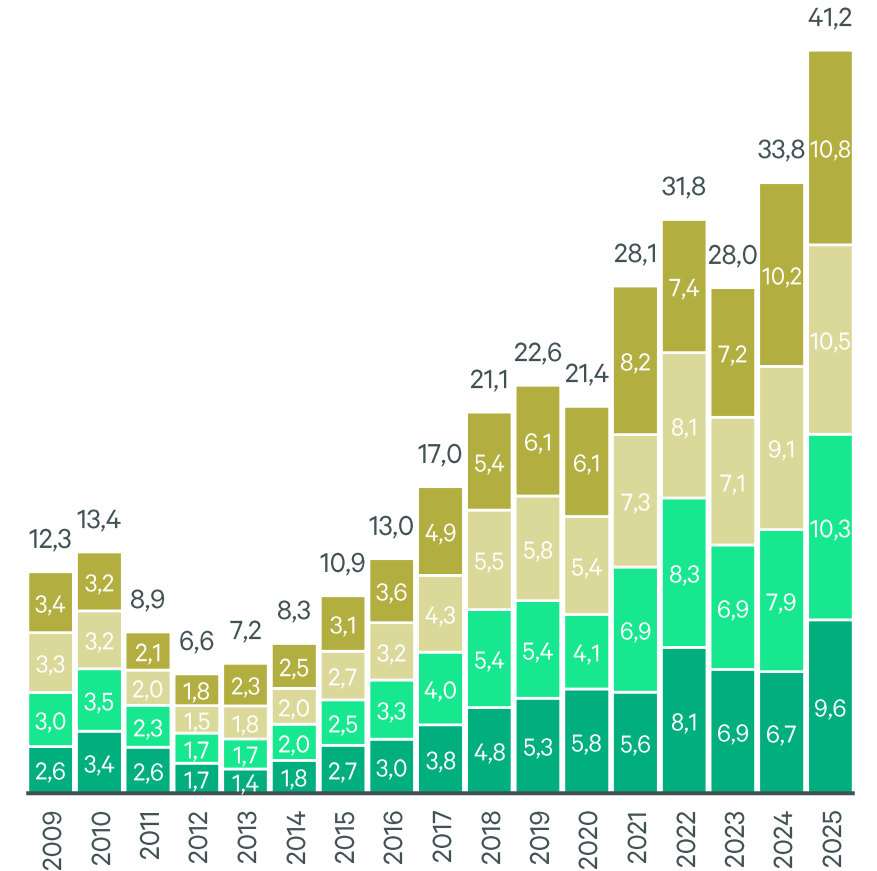
Key Residential Market Volumes

- 000 new dwellings built
- 000 new dwellings licensed
- 000 new dwellings transacted [dash-line shows CBRE estimations]
- 000 new rental contracts [dash-line shows CBRE estimations]



Value of Residential real estate transactions

[Values in billion of EUR]



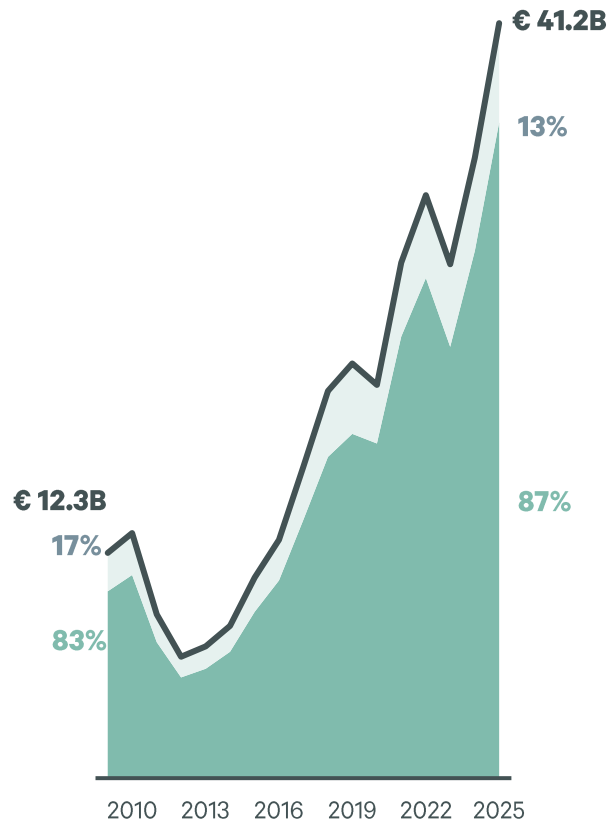
National families are the main buyers. The metro areas are the key markets. The New dwellings are now rare.

THE CURRENT MARKET SITUATION

Between 2009 and 2024, accommodation experienced significant growth, rising from approximately €12.3 billion to €41.2 billion. This expansion was driven primarily by family investors, who represent 87% of the total in 2025, confirming their dominant role in the market. In terms of property type, existing accommodation now leads, accounting for 74% of total value, while new developments – as a result from the low stock coming to market. Regarding investor nationality, domestic investors maintain a strong majority, holding around 92% of the share since 2019. Geographically, the metropolitan areas of Lisbon and Porto account for approximately 54% of the total transaction value in Portugal, underscoring their central role in the national real estate market.

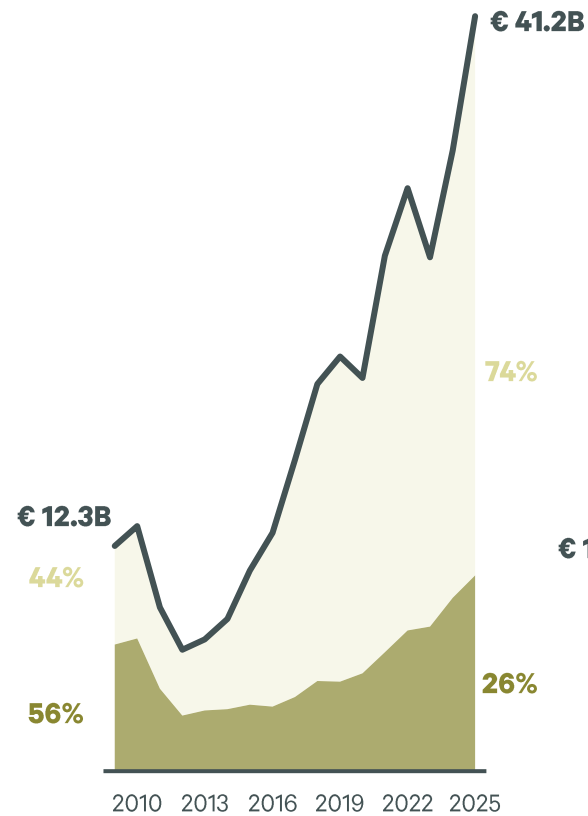
Buyer Type

- Families
- Institutional sectors



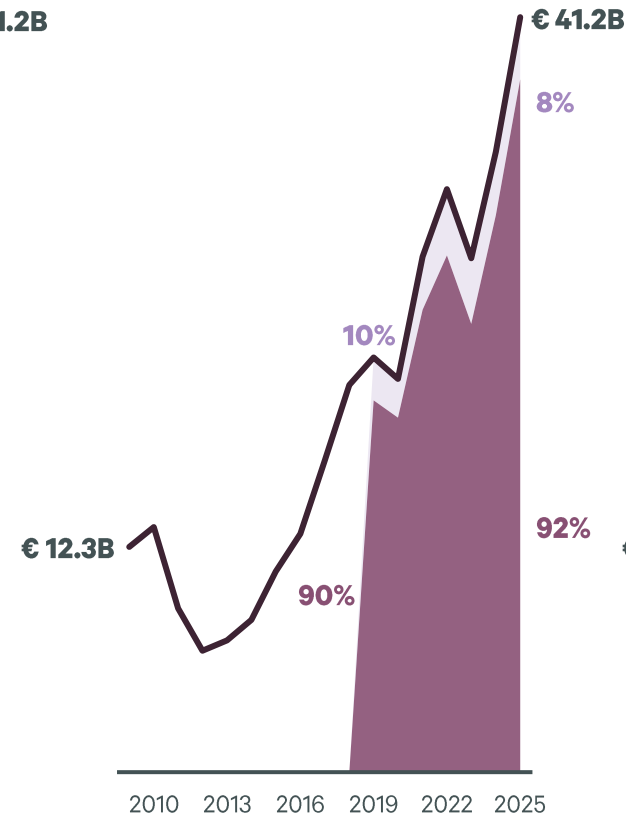
Accommodation Category

- New
- Existent

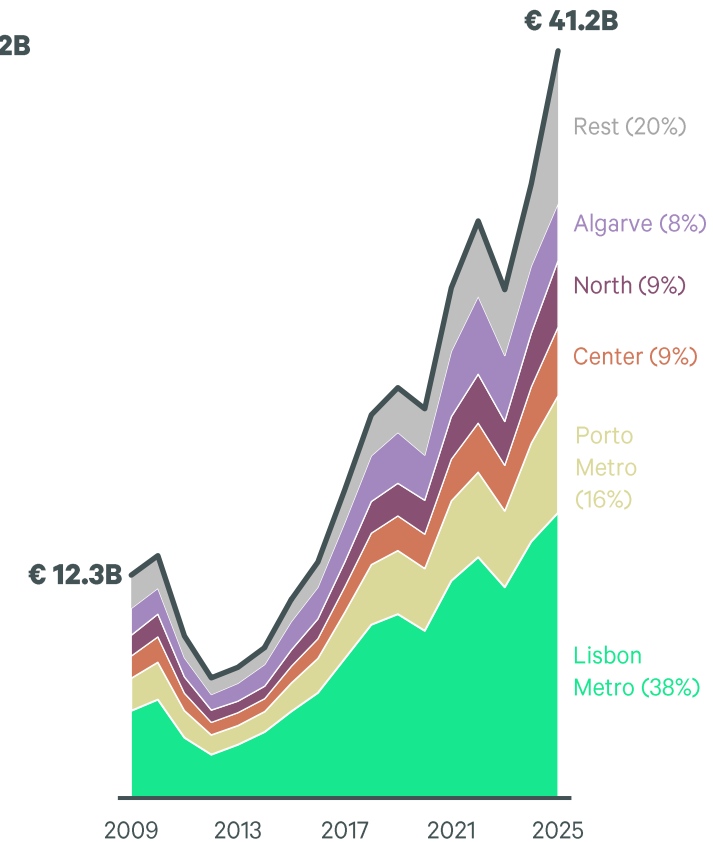


Buyer Nationality

- Domestic
- International



Regional dynamics



Although Algarve ranks highly on price, the Lisbon and Porto metro areas are the key market drivers

THE CURRENT MARKET SITUATION

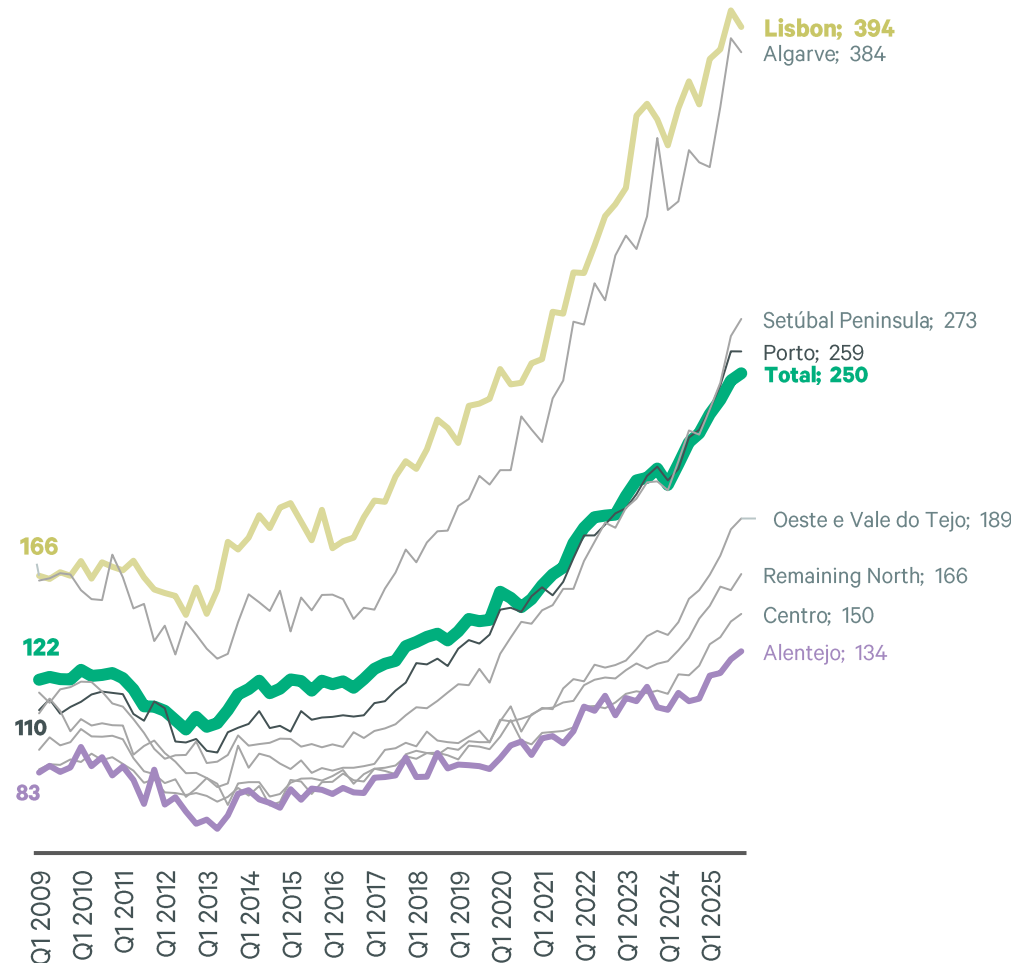
Lisbon, Algarve, Porto and Setúbal lead in price increases

Lisbon and Algarve are setting the pace in Portugal's real estate boom. With average dwelling prices soaring to €394,000 in Lisbon and €384,000 in Algarve, these regions dominate the market, fueled by strong demand and international investment.

Price per square meter tells the same story: Lisbon leads at €3,567/sqm, while Porto follows at €2,350/sqm. Even rental values reflect this surge, with Lisbon commanding €13.16/sqm/month. The gap between coastal hotspots and inland regions underscores a clear trend, Portugal's property market is thriving, and prime locations are racing ahead. Overall, aggregate yields have remained remarkably stable, fluctuating between 5.5% and 5.1%.

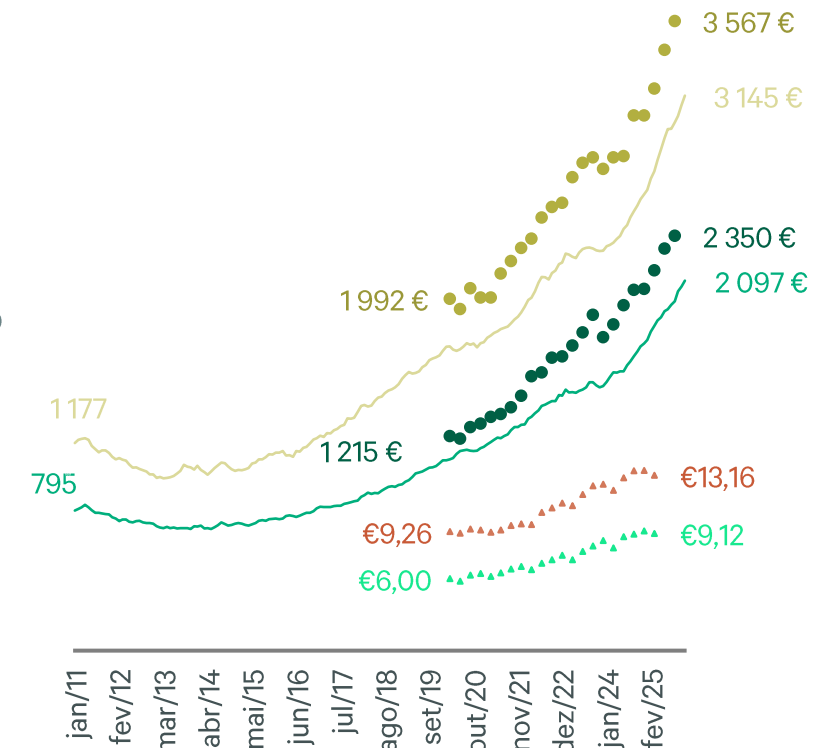
Evolution of residential average prices per dwelling

[Values in '000 EUR]



Market prices per sqm

- Bank valuation of transaction price per sqm in Greater Lisbon
- Bank valuation of transaction price per sqm in Porto Metro area
- Closing transaction price per sqm in Greater Lisbon
- Closing transaction price per sqm in Porto Metro area
- Closing rent price per sqm per month in Greater Lisbon
- Closing rent price per sqm per month in Porto Metro area



Existing dwellings now cost what once meant buying a brand-new, high-quality home

THE CURRENT MARKET SITUATION

Different price increases for new and old houses

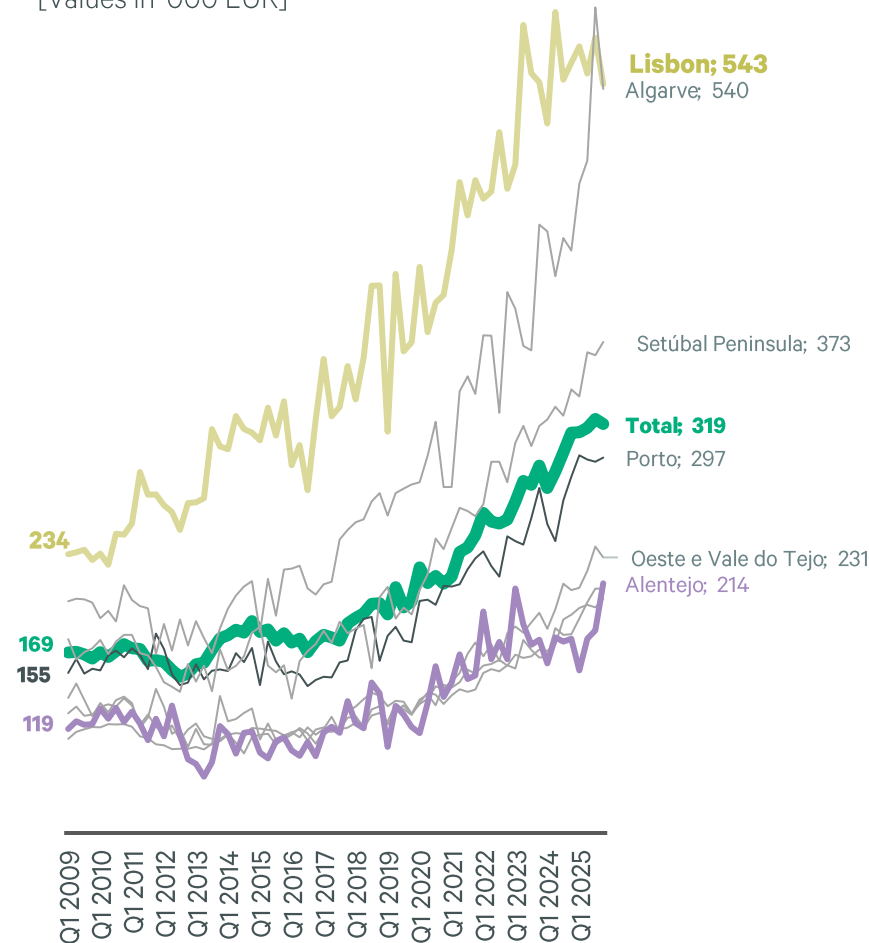
Over time, price trends reveal a striking reality: today, the price for existing homes is what, 5 years ago, represented an investment in new properties.

Both the prices of new and existing homes have increased, however, the premium commanded by the newly built homes over the existing homes has decreased considerably. Which means that the pressures in the market were built in a such a way that the new buildings are now scarce and the liquidity of existing homes has increased.

This shift shows not only the market appreciation but also a change in what is affordable.

Residential prices per dwelling New Construction

[Values in '000 EUR]



Residential prices per dwelling Existing Construction

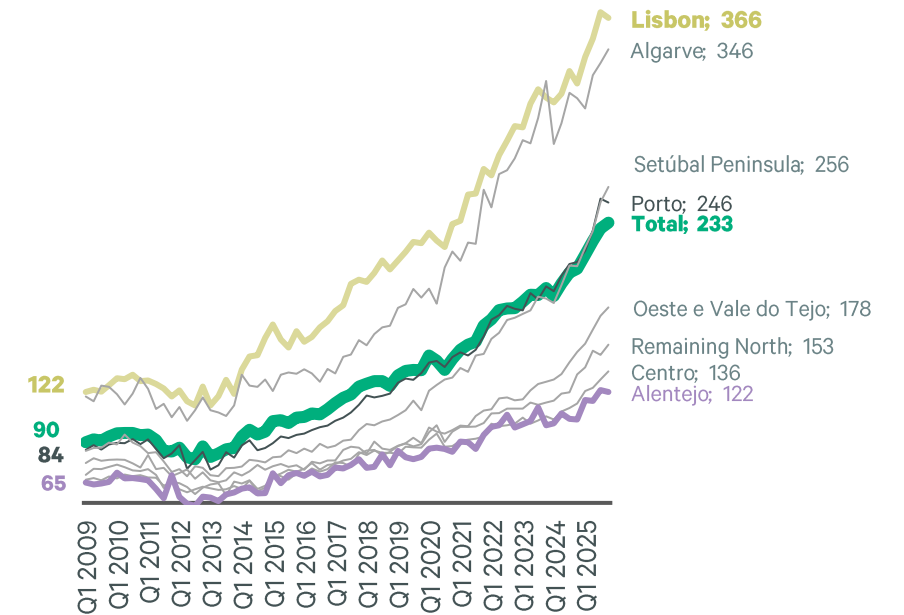
[Values in '000 EUR]

New to old construction premium in 2009

Portugal: 88%
Lisbon: 92%
Porto: 85%

New to old construction premium in 2025

Portugal: 37%
Lisbon: 48%
Porto: 21%



The developing luxury market in Portugal

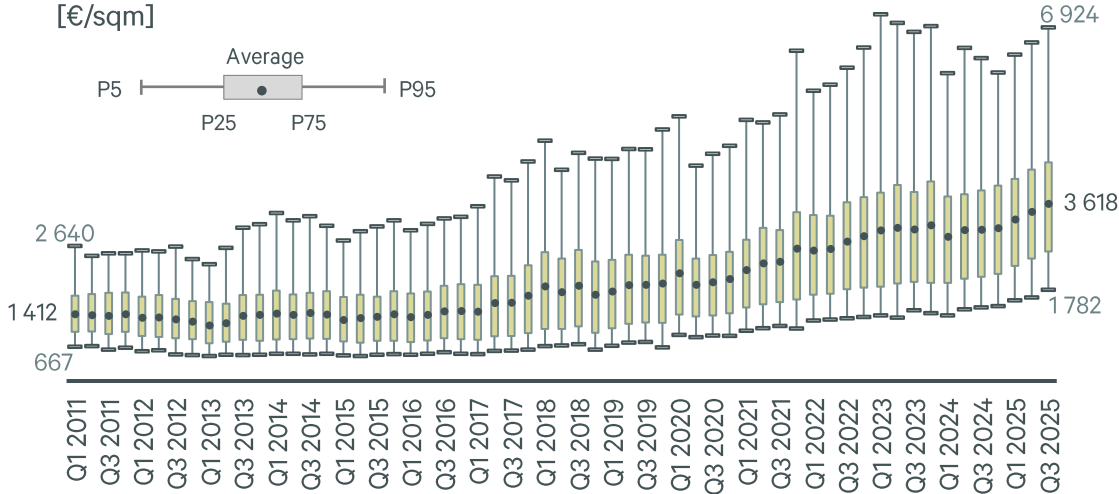
THE CURRENT MARKET SITUATION

Sustained price growth and expanding premium segments

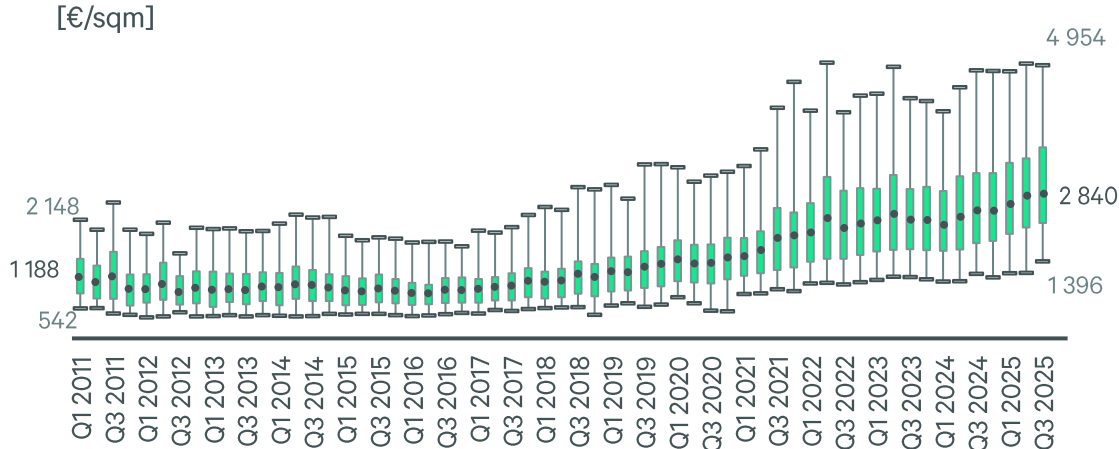
The Lisbon and Porto housing market has seen a sustained surge in prices since 2015 in all percentiles of pricing and, consequently, by the average prices per sqm. This increase is especially evident in certain prime areas. However, the largest metro areas in Portugal are not the only areas where prime real estate can be found.

The latest attention given to Portugal and the incentives offered to Non-Habitual Residents saw an uptake in luxury real estate demand, which in turn led to sustained price increases in specific hotspots where the luxury real estate can be found.

Price of housing in Lisbon Metropolitan Area

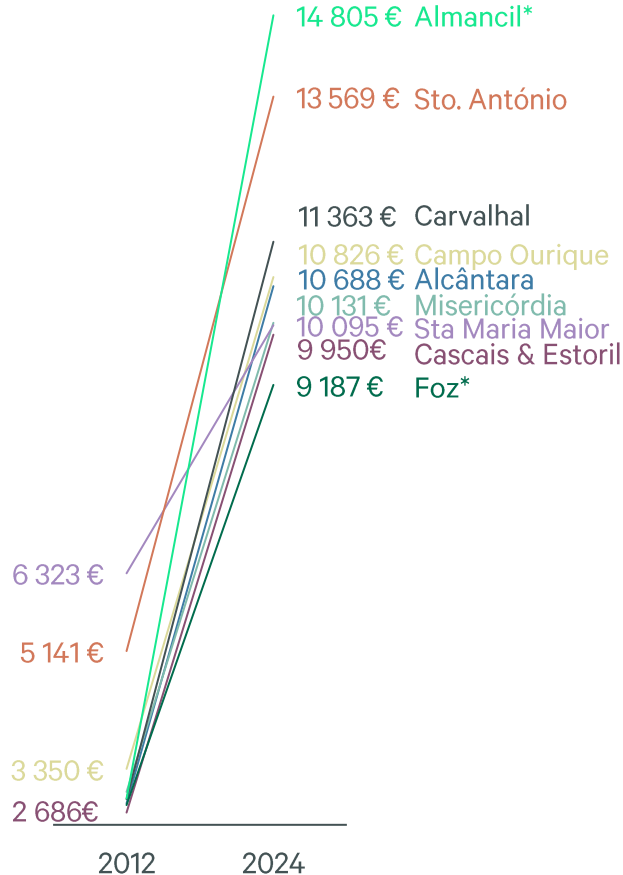


Price of housing in Porto Metropolitan Area



Luxury Market hotspots

[€/sqm of 95th percentile in each Freguesia]



* 2012 values are estimated

Urban population and city dynamics

Summary

A polarized urban transition constrained by structural housing and market inefficiencies

Portugal has urbanized and become polarized, although the country's urbanization process was not limited to coastal concentration

- Population growth has concentrated overwhelmingly in the Lisbon and Porto metropolitan areas, with adjacent coastal districts (Braga, Aveiro, Setúbal) also expanding, while most interior districts lost population.
- Beyond the coastal pull, Portugal's urbanization was driven by internal migration toward major regional cities such as Viseu, Castelo Branco, Guarda, Vila Real and Évora, reflecting a widespread decline in rural and village life even within the interior.

Housing pressure persists despite an overall surplus of dwellings

- Both Lisbon and Porto metros have more dwellings than households, yet the mismatch between where homes exist and where people live creates localized housing shortages, especially in central and high-demand municipalities.
- Large volumes of seasonal and vacant dwellings, signal substantial inefficiencies in stock utilization, reinforcing the gap between where homes exist and where demand is concentrated.. The surplus of dwellings is heavily driven by seasonal and vacant units, which represent a significant share of the existing stock and are not effectively available for the residential market, limiting the real supply.

Urban sprawl was the consequence of four decades of high levels of construction to accommodate new demand

- Decades of sustained construction activity aimed at meeting rising housing demand resulted in extensive urban sprawl across metropolitan areas.
- This expansion increased housing capacity overall but dispersed development spatially, contributing to inefficiencies and pressure on central, high-demand locations.

Rising demand compresses absorption times while prices climb despite shrinking dwelling sizes

- Transaction volumes have increased significantly in both metros, with T2 homes showing the strongest growth, indicating heightened market activity and sustained demand across segments.
- Absorption times have dropped to record lows, particularly for T1 and T2 units, reflecting rapid market turnover and intensified competition for smaller and more affordable homes.
- Average dwelling sizes have contracted across all property types, yet prices per sqm have risen consistently, underscoring strong demand pressure and reinforcing the trend of buyers trading space for location or affordability.

The dynamics of urbanization in Portugal are more complex than apparent

URBAN POPULATION AND CITY DYNAMICS

The urbanization process is not homogeneous

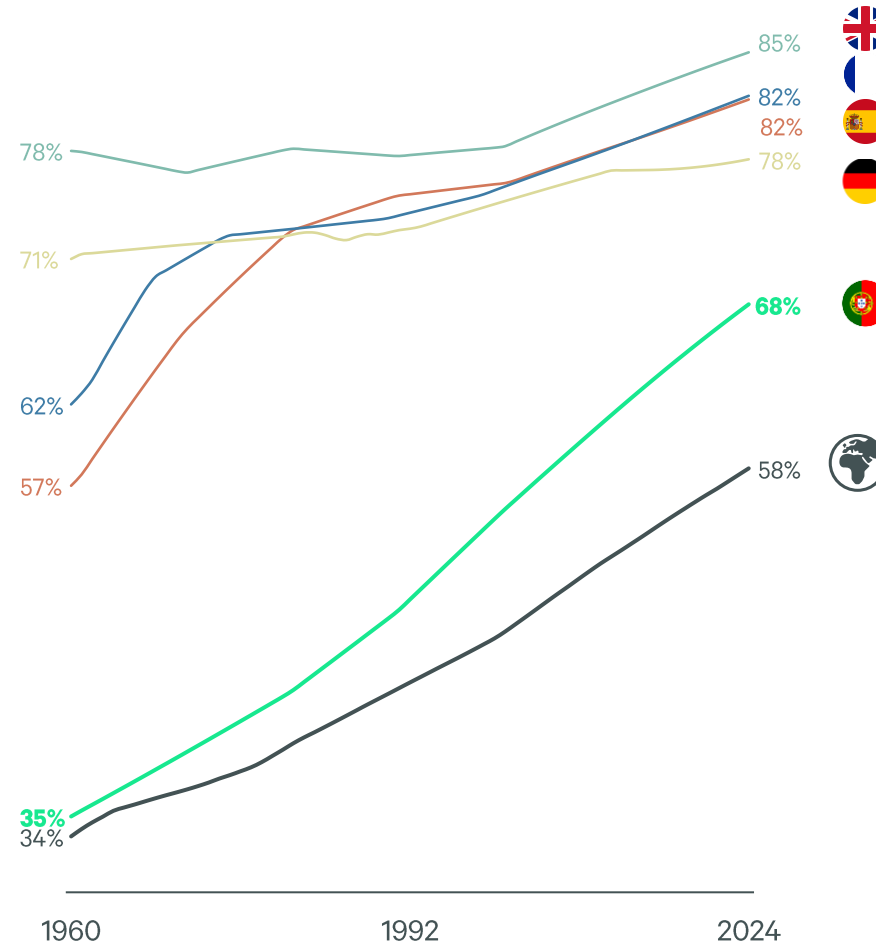
Nations tend to urbanize as a natural path for development. While most European countries reached advanced urbanization by the mid-20th century, Portugal lagged behind but experienced significant momentum from the 1970s to the present day.

It is important to note that urbanization profiles vary across countries, reflecting differences in historical, economic, and geographic factors that shape settlement patterns.

As urbanization takes place, it tends to create a pronounced divide in population density within national territories, and Portugal is no exception to this general rule. This trend materialized in Portugal as population concentrates along the western coast, particularly in the metropolitan regions of Lisbon and Porto

The Urbanization trend

[in % of total population]



The different urban profiles in Europe

[size of the bubbles represents NUT4 population]



Portugal's demographic polarization intensifies

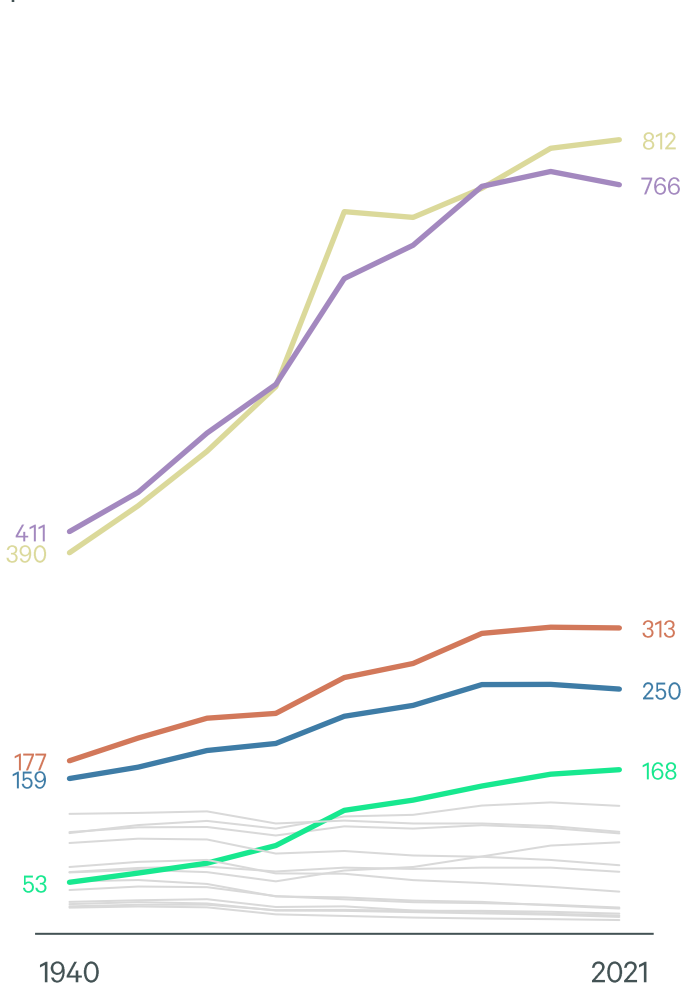
URBAN POPULATION AND CITY DYNAMICS

The two-reality Portugal

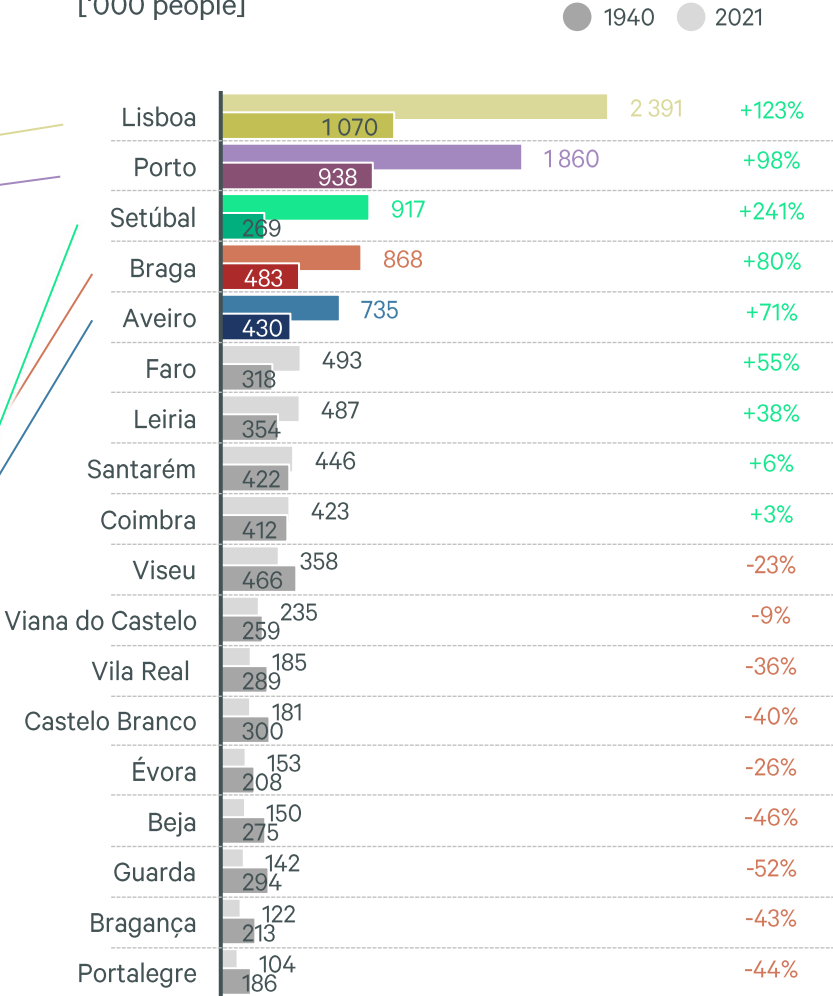
Portugal's population dynamics reveal a clear and persistent concentration in Lisbon and Porto, alongside strong growth in adjacent districts such as Braga, Aveiro and Setúbal. In contrast, most interior districts have experienced population decline.

This reflects a two-reality demographic and urban reality in the national territory

Population density by district
[people/km2]



Population by district
['000 people]



The dynamics of urbanization in Portugal are more complex than apparent

URBAN POPULATION AND CITY DYNAMICS

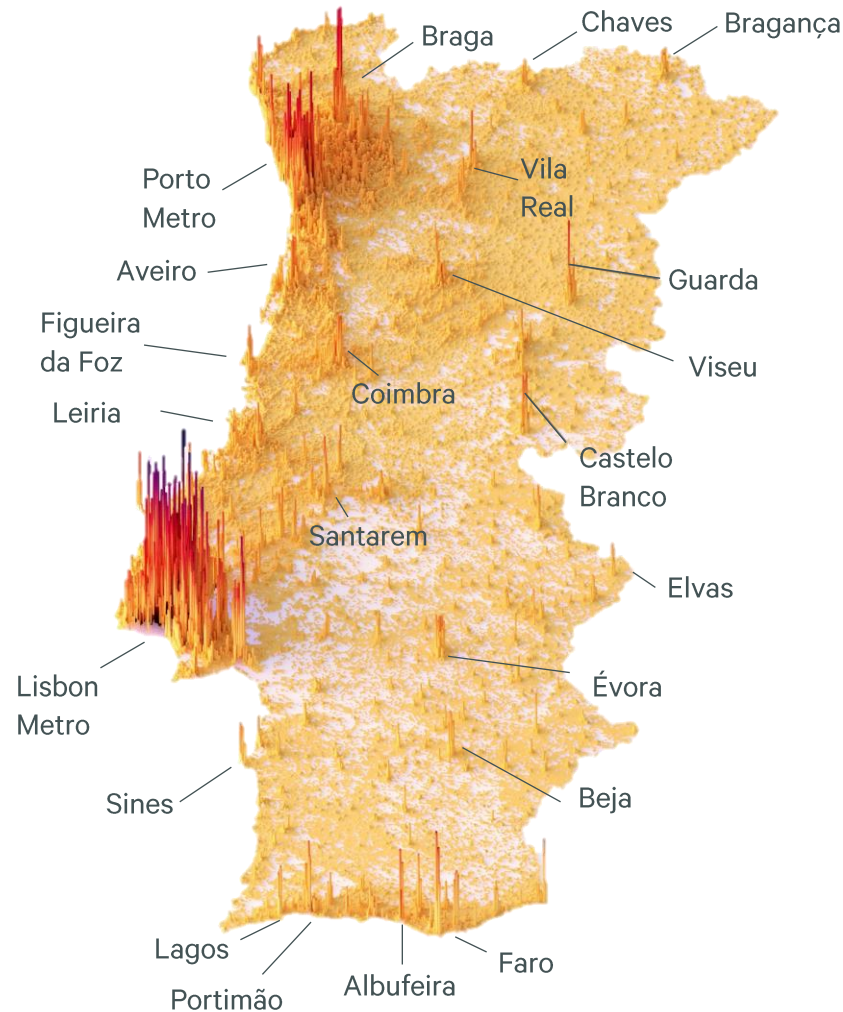
The urbanization process in Portugal was not limited to littoralization

The country's urbanization process was not solely characterized by littoralization. Portugal experienced a significant decline in its rural/village life, even in the interior regions, as residents migrated towards the major regional cities, such as Viseu, Castelo Branco, Guarda, Vila Real, and Évora.

This trend is underscored by the data, which demonstrates that the majority of the population in the interior districts resides in the respective key municipalities, which are, predominantly, the district capitals.

Despite the relevance of these regional cities, the Lisbon and Porto metropolitan areas hold a disproportionately large influence on the national demographic landscape, given the concentration of the country's population within these two hubs.

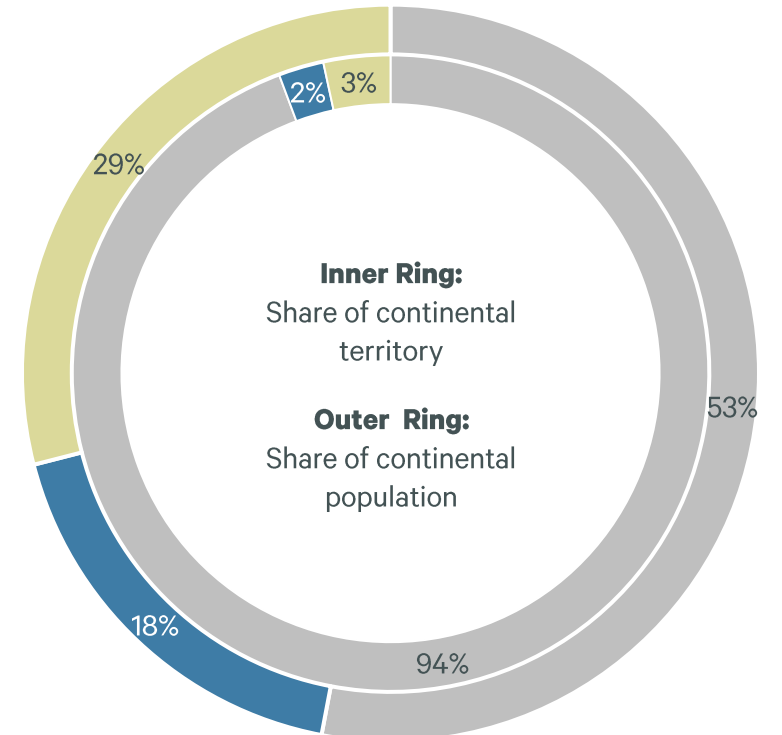
Portugal population density map
[as of 2022]



Population within

[Continental Portugal as of 2021; in millions]

| Lisbon metro | Porto metro | Rest of PT |
|-----------------------|-----------------------|------------------------|
| 2,836 K people | 1,719 k people | 5,142 k people |
| 3,015 km ² | 2,041 km ² | 83,833 km ² |



Lisbon and Porto remain significantly less dense than most global cities

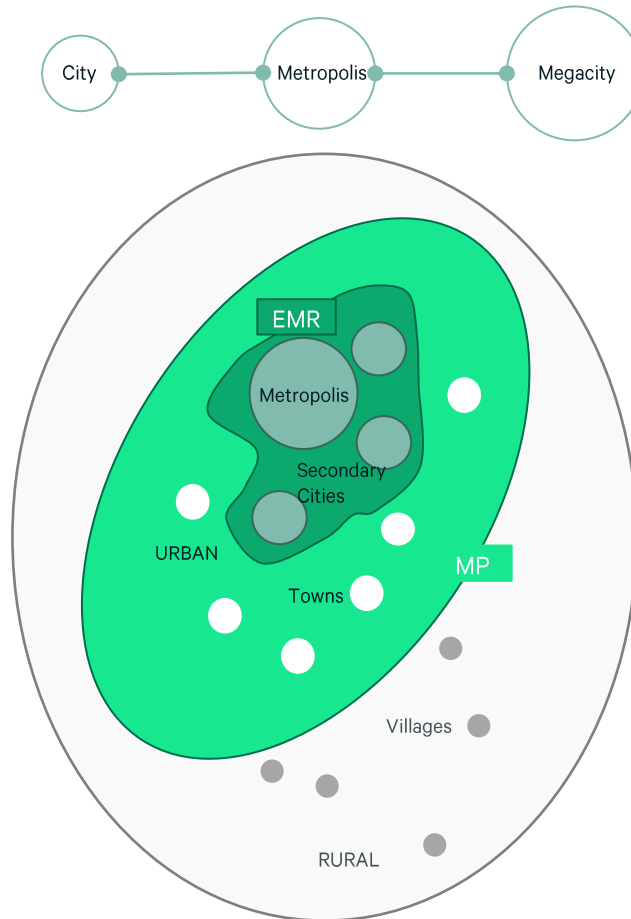
URBAN POPULATION AND CITY DYNAMICS

Urban areas are continuous and complex

The presented model illustrates that an urban area is a continuous and interconnected phenomenon, rather than an isolated entity. This model reflects a reality where daily life, work, and movement create a complex network in which urban and non-urban areas merge and depend on one another.

The population density distribution for both Lisbon and Porto is skewed to the left, indicating that the primary urban areas in Portugal are, on average, less densely populated than their global counterparts.

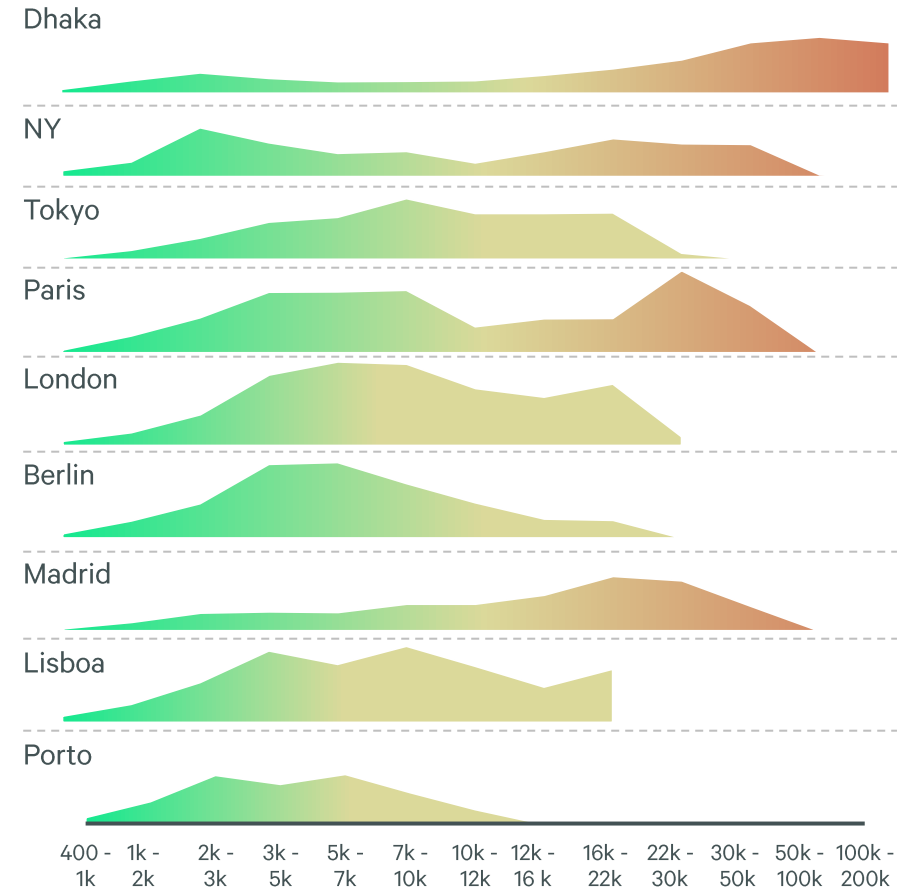
Framework of an Urban area



EMR: Extended Metropolitan Region; MP: Megalopolis

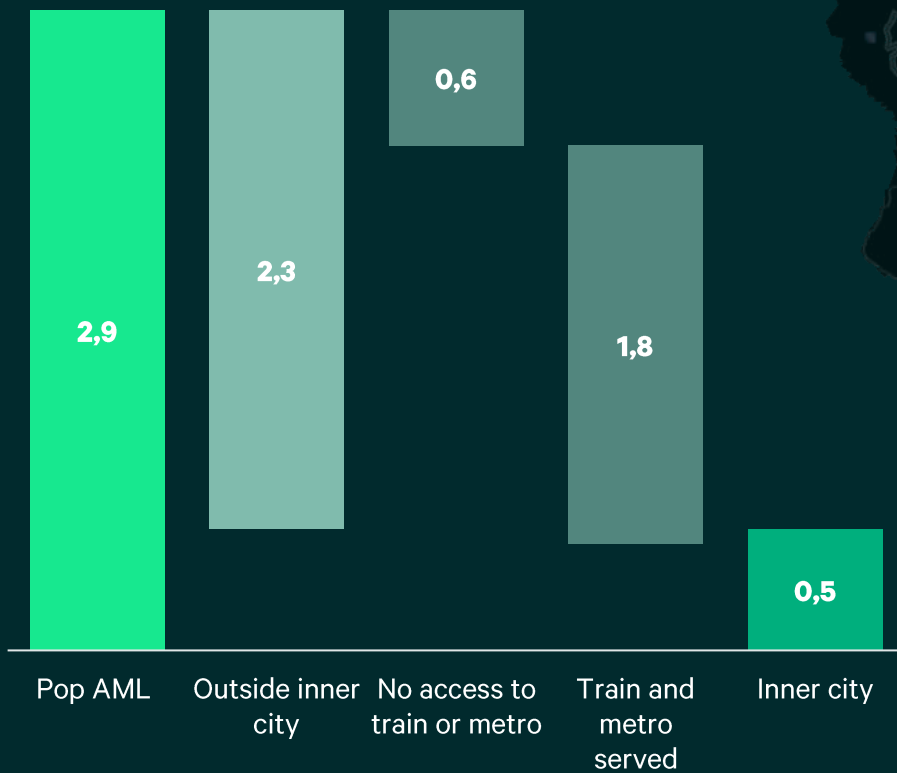
World cities by population density

[people/km²]

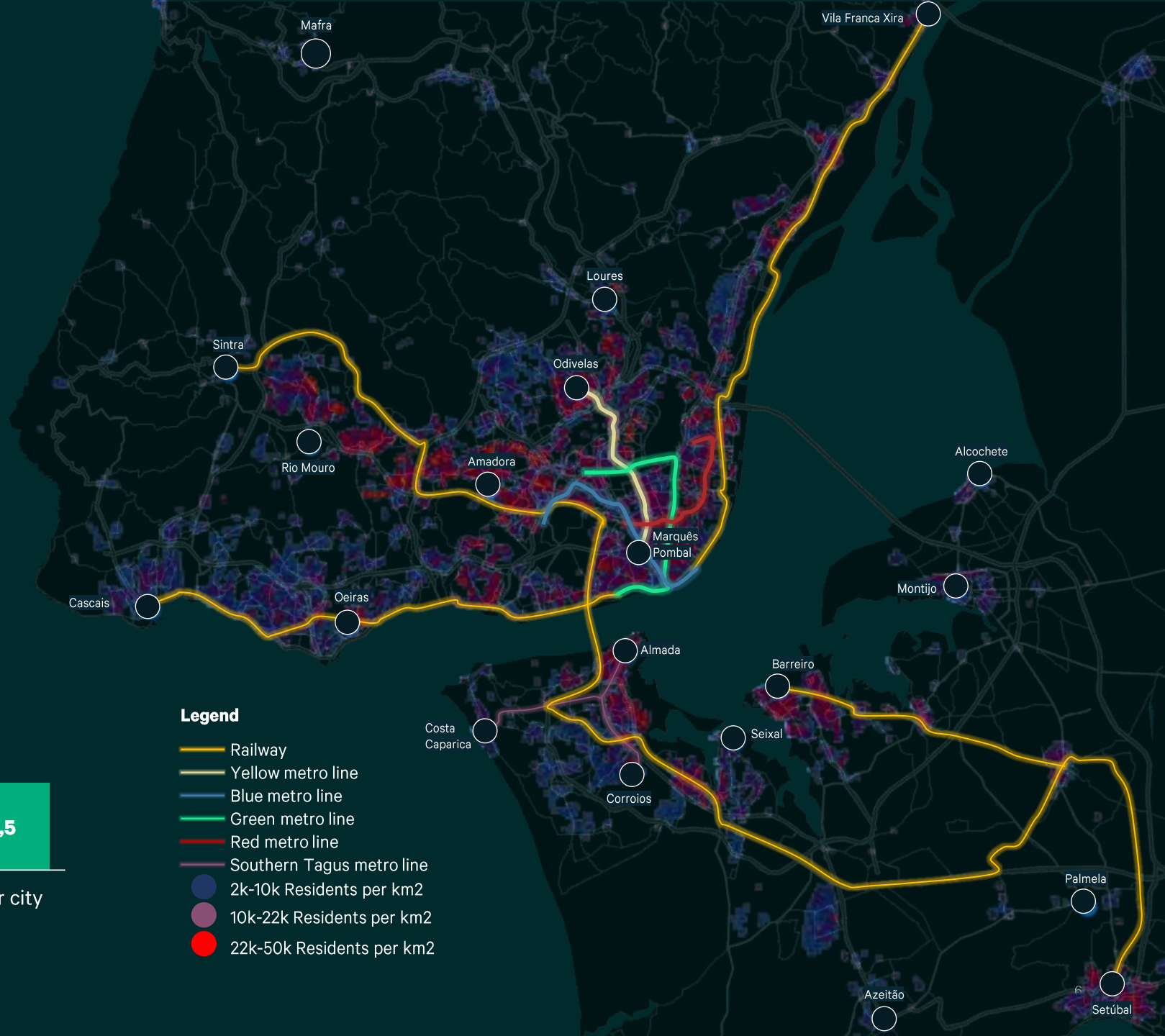


URBAN POPULATION AND CITY DYNAMICS

Around 80% of Lisbon metro area population lives outside the inner city



Sources: INE; EC JRC



URBAN POPULATION AND CITY DYNAMICS

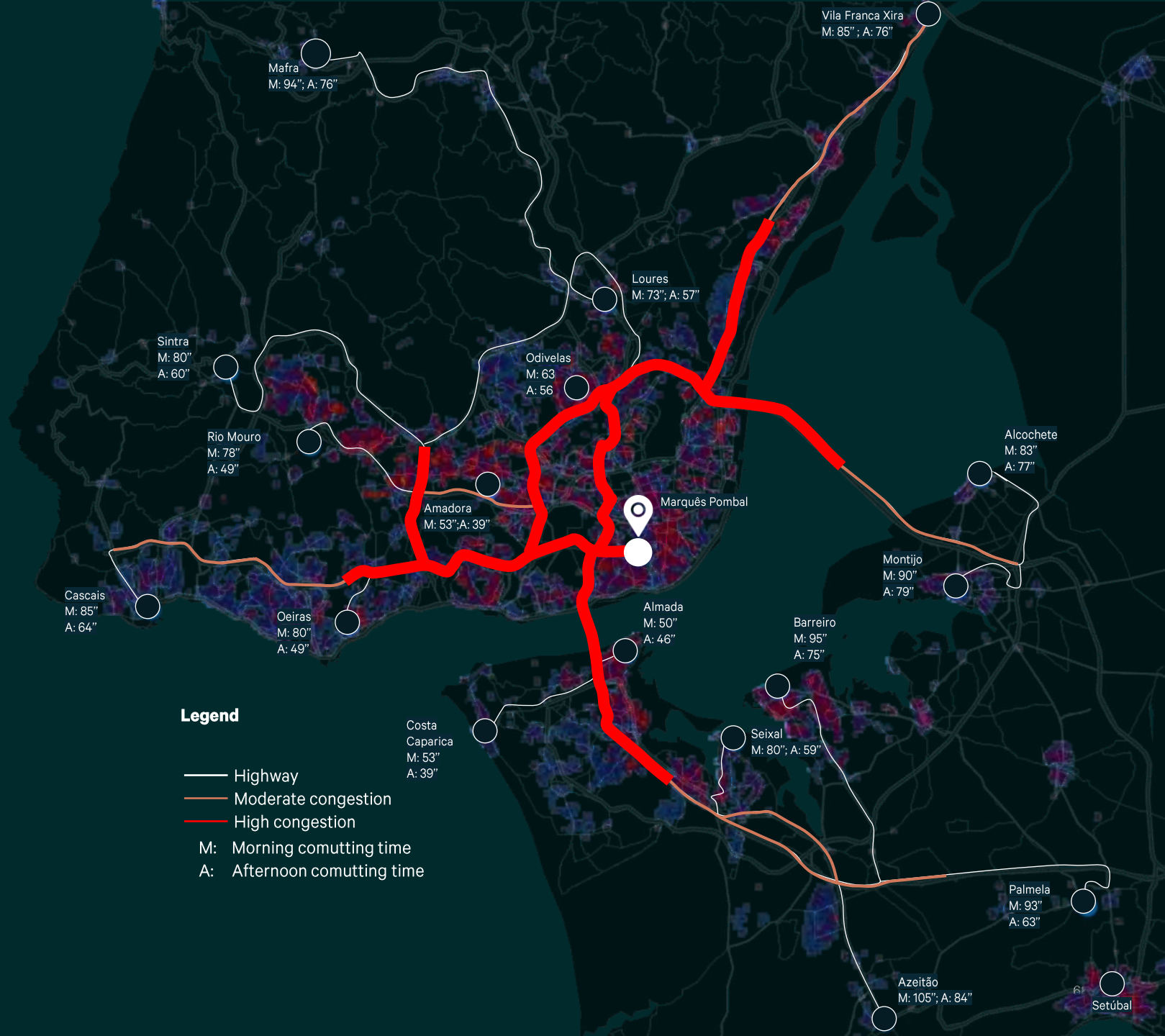
Lisbon has exhibited a mono-center urban sprawl pattern

Urban sprawl in the Lisbon Metropolitan Area has followed an infrastructure-led and corridor-based pattern.

Metropolitan growth has concentrated along well-defined radial axes extending from Lisbon municipality toward surrounding municipalities, closely aligned with major rail and road corridors.

This spatial structure reflects a monocentric metropolitan model, where accessibility shaped residential expansion while employment and higher-order services remained concentrated in the core.

As development extended further from Lisbon, road infrastructure reinforced outward growth, increasing reliance on the automobile. The result has been longer car commuting times from peripheral municipalities, driven by daily radial travel toward the metropolitan core and reinforcing functional dependence on Lisbon center.



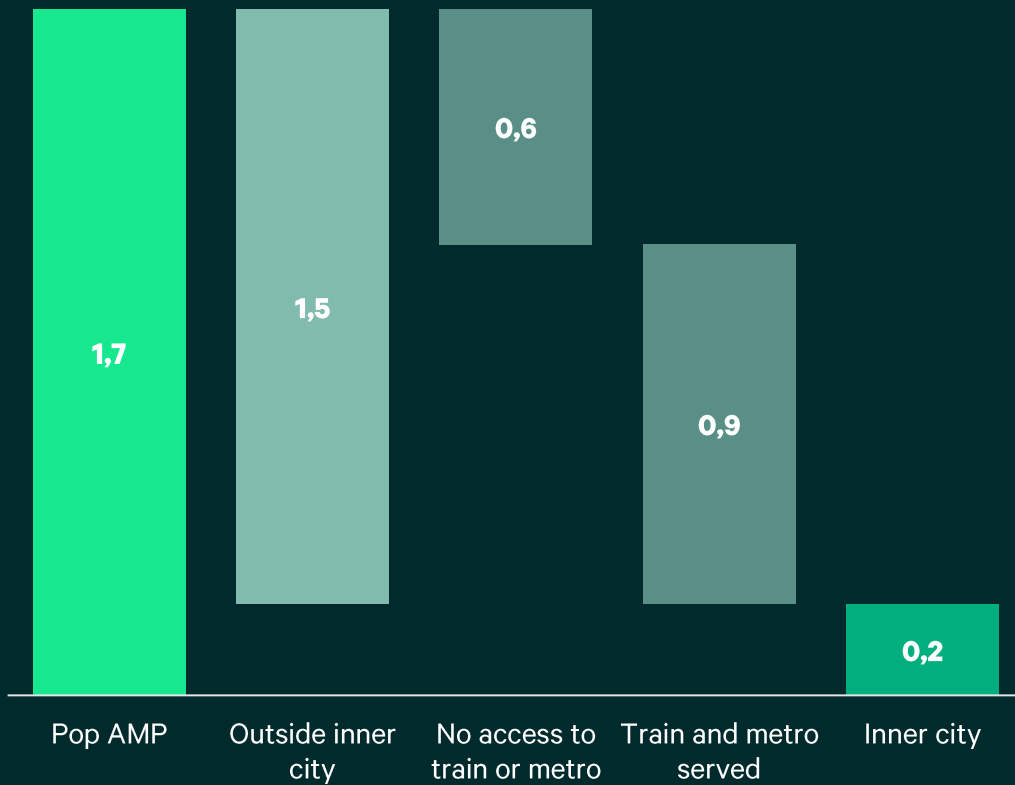
Legend

- Highway
- Moderate congestion
- High congestion

M: Morning commuting time
A: Afternoon commuting time

URBAN POPULATION AND CITY DYNAMICS

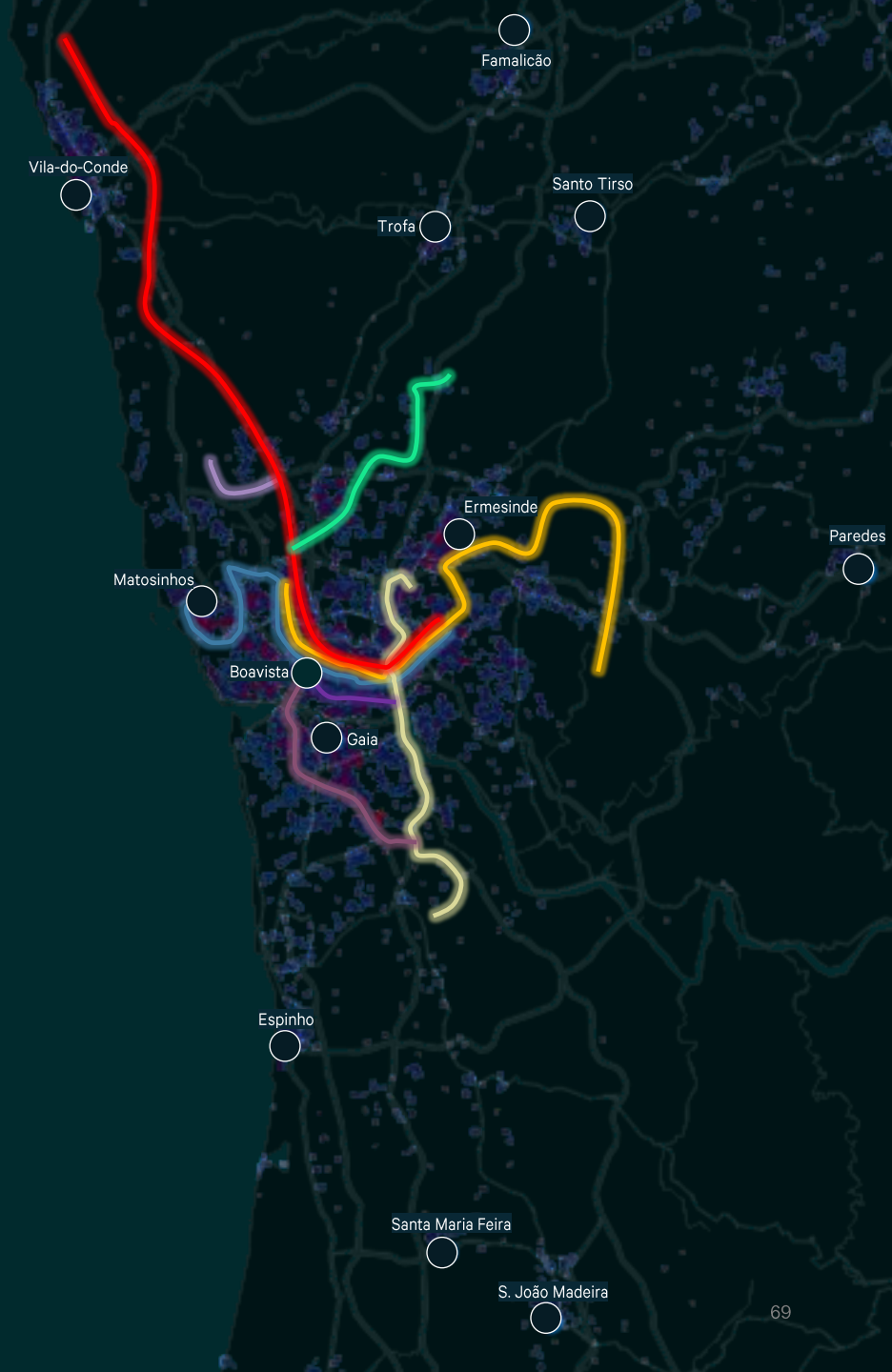
Around 88% of Porto metro area population lives outside the inner city



Sources: INE; EC JRC

Legend

- Metro line A
- Metro line B
- Metro line C
- Metro line D
- Metro line E
- Metro line F
- Metro line G
- Metro line H
- 2k-10k Residents per km2
- 10k-22k Residents per km2
- 22k-50k Residents per km2



URBAN POPULATION AND CITY DYNAMICS

Porto's urban sprawl shows a more diffuse and polycentric pattern

In contrast to the infrastructure-led and radial model observed in the Lisbon Metropolitan Area, urban sprawl in the Porto Metropolitan Area followed a more diffuse and polycentric pattern, shaped by historical settlement structures rather than by early high-capacity transport corridors.

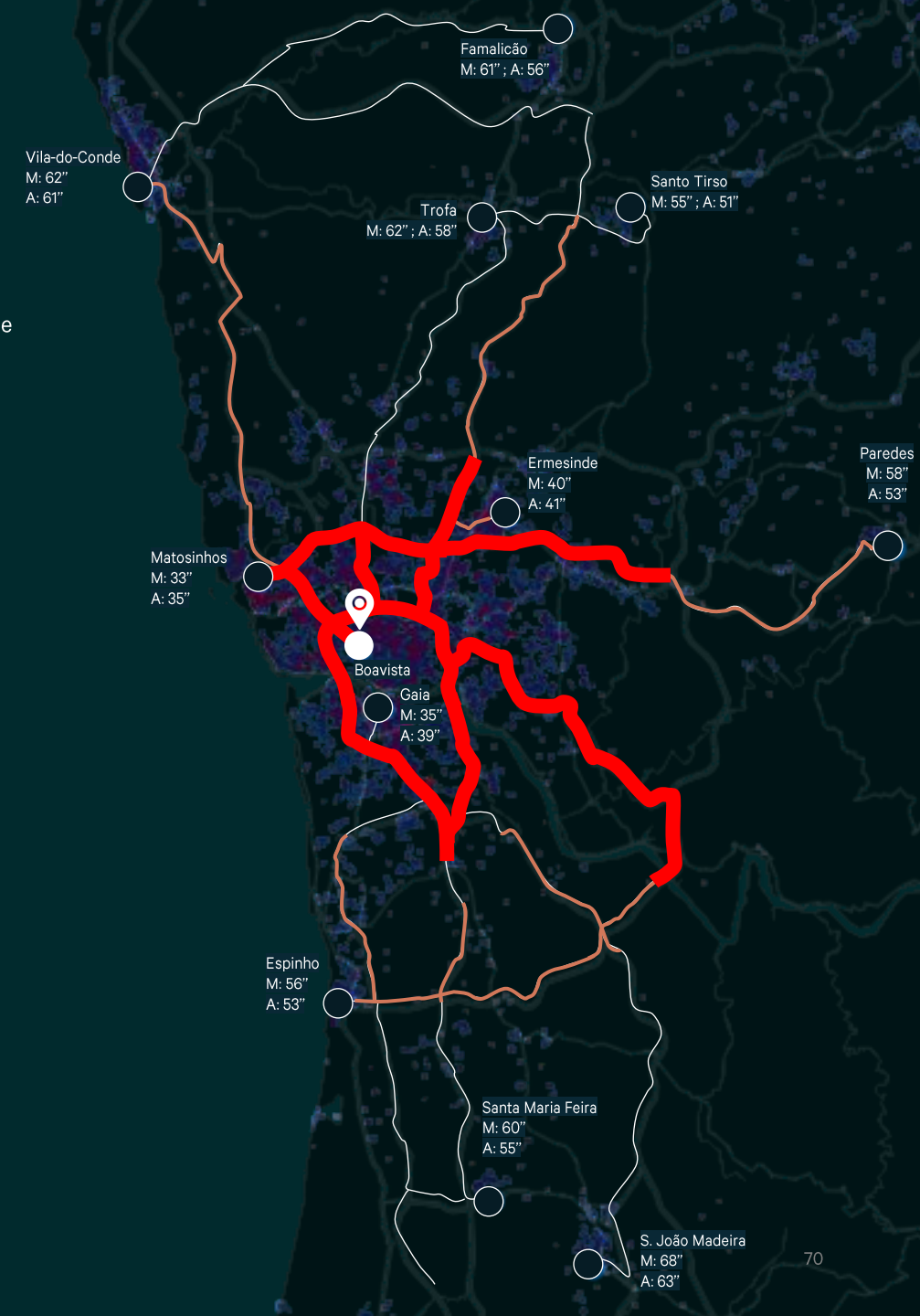
Urban development is widely distributed across multiple municipalities, such as Vila Nova de Gaia, Espinho, Maia, Trofa, Vila do Conde, Famalicão, Gondomar and Santa Maria da Feira, without clearly defined radial axes converging on a single dominant core.

Population and activity clusters appear spread and interconnected, reflecting a long-standing mix of residential and industrial functions. In the AMP, major public transport infrastructures were introduced after much of the urban fabric was already established, meaning that infrastructure largely adapted to an existing dispersed territory instead of structuring metropolitan growth from the outset.

Road connectivity therefore played a more decisive role in shaping daily mobility. This pattern results in more distributed car commuting flows, with generally shorter and less radial commuting times compared to the AML, as employment and services are spread across several metropolitan nodes rather than concentrated in one central city.

Legend

- Highway
- Moderate congestion
- High congestion
- M: Morning commuting time
- A: Afternoon commuting time



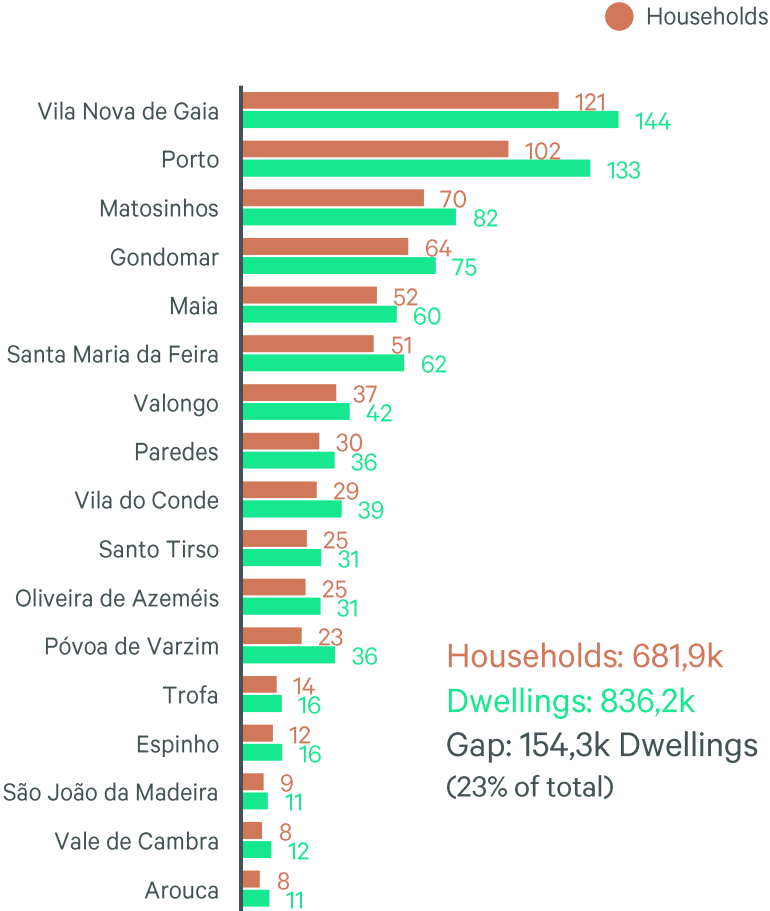
Housing pressure in not purely a supply shortage

Existing metro housing stock exceeds households

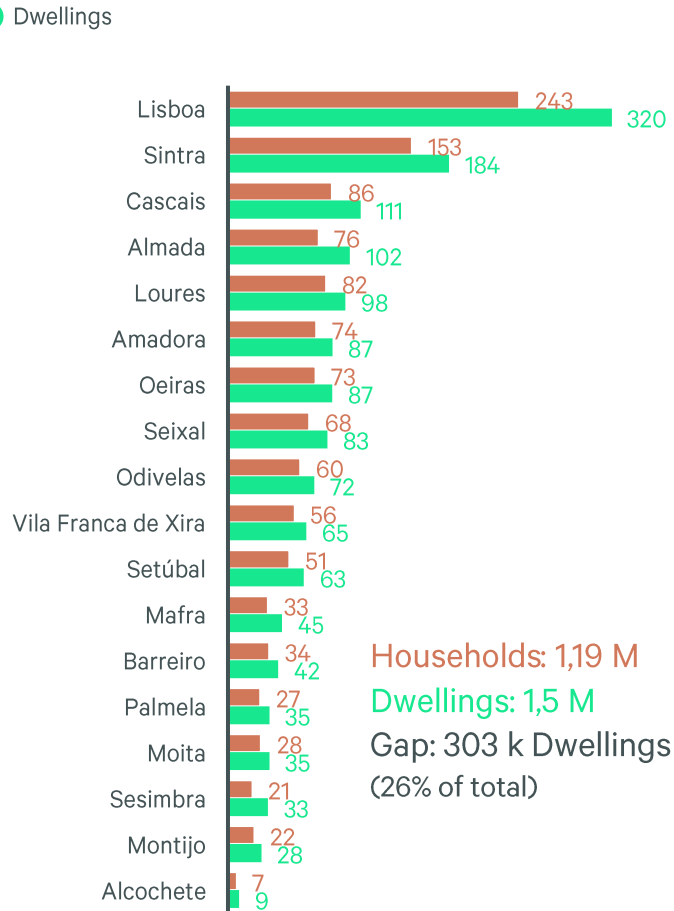
Both Lisbon and Porto metro areas show a structural gap between dwellings and households, Lisbon records approximately 1.49 million dwellings versus 1.19 million households, while Porto shows 836k dwellings against 682k households.

These figures suggest that housing pressure may not stem from an absolute lack of stock, but rather from issues related to distribution, usage patterns, and market accessibility within existing supply.

Porto metro area
[in thousands]



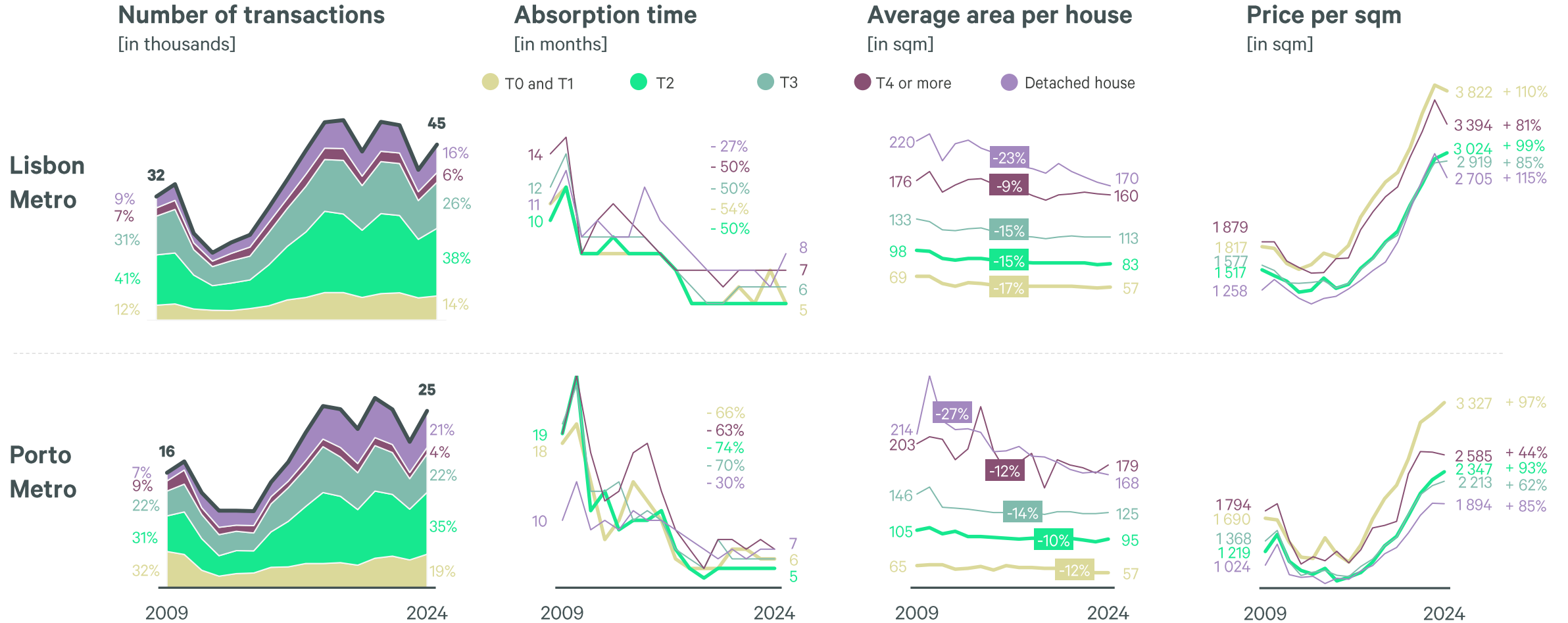
Lisbon metro area
[in thousands]



Increased transactions and prices alongside reduced average housing areas

URBAN POPULATION AND CITY DYNAMICS

Transaction volumes increased in both cities, with T2 properties experiencing the most significant growth. Absorption times decreased across both markets, and T1 and T2 properties demonstrated the shortest absorption times. This increased activity occurred alongside a reduction in the average dwelling area for all property types. Despite this, the price per square meter increased uniformly across all property types, with T1 properties achieving the highest values in both Lisbon and Porto.



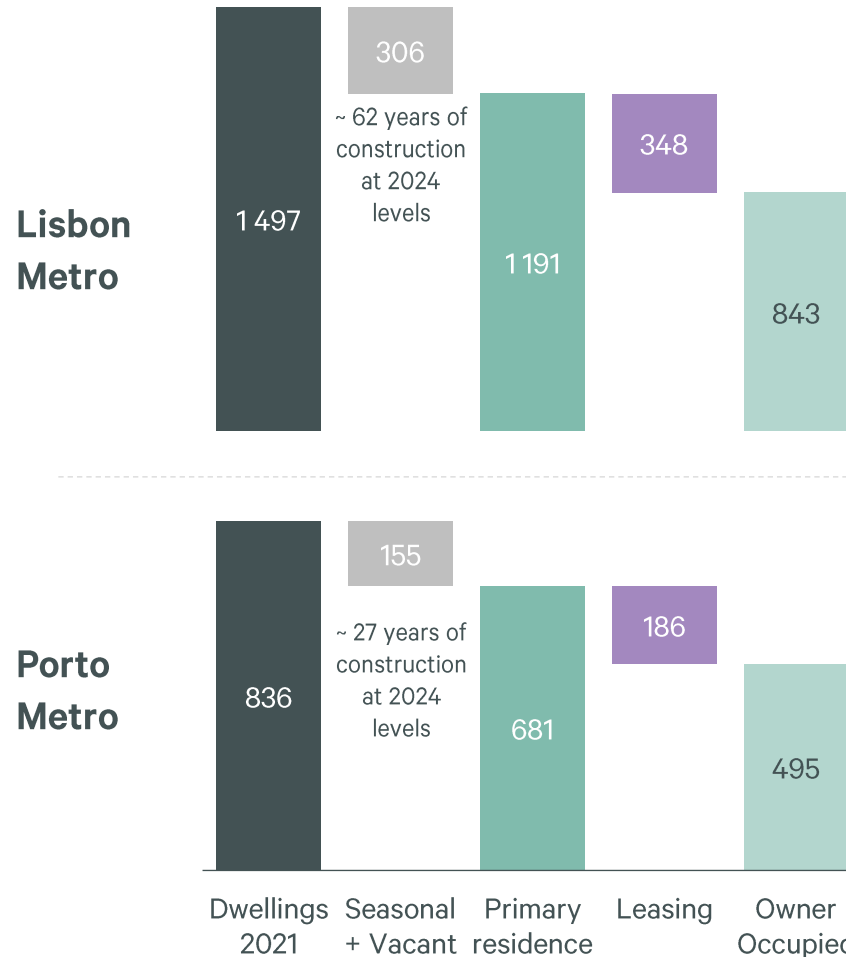
The scarcity is better solved by tapping into the seasonal and vacant stock than via new buildings

URBAN POPULATION AND CITY DYNAMICS

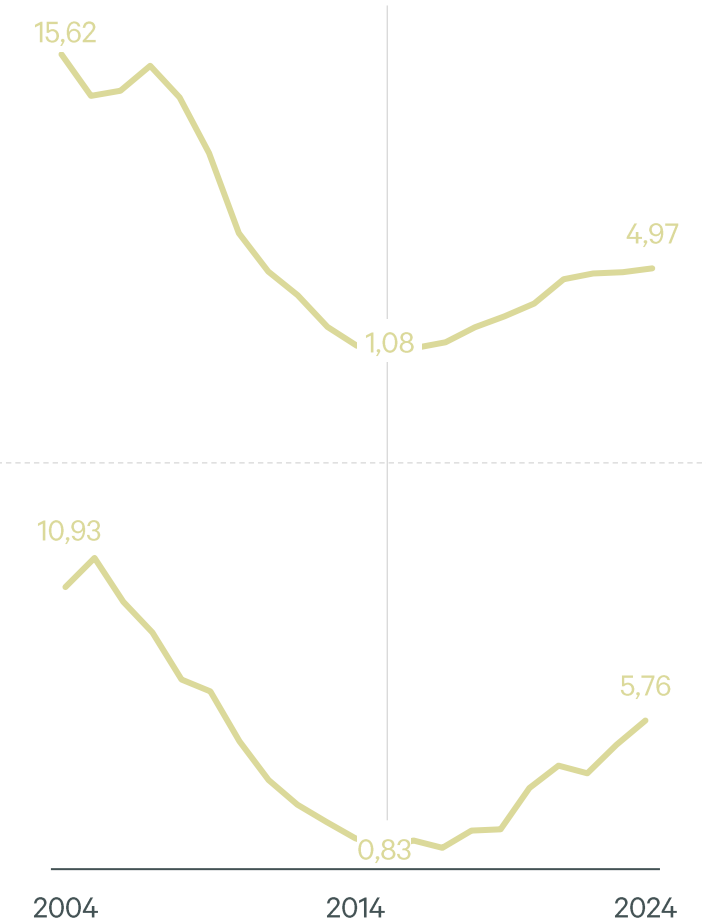
The inefficient housing utilization in Lisbon and Porto

Population growth has accelerated sharply since 2020 and, although construction activity has recovered, particularly in Porto, it remains far below what is required to meet demographic pressure. This imbalance is intensified by the large share of seasonal and vacant dwellings, equivalent to 62 years of construction in Lisbon and 27 in Porto at current building rates, underscoring major inefficiencies in housing utilization. At the same time, both markets have a prevalence of legacy low-rent contracts, which constrain mobility and limit the effective supply of homes at market prices. Combined, these factors create structurally tight urban housing markets characterized by rising demand, slow supply expansion, and persistent underuse of existing stock.

Dwellings 2021
[in thousands]



New dwell buildings
[in thousands]



Strategic avenues and opportunities

The complexity of the housing issue and the changing tides

The self reinforcing cycle

- Historical heavy state intervention in the rental market through rent freezes, asymmetric tenant protection, high taxation and regulatory uncertainty, has discouraged private investment, constrained supply, and prevented the housing market from adjusting to these labor, and demography-driven demand shifts.
- A structurally weak productive sector (further depressed by state taxes and regulations) fails to retain young workers, leading to sustained emigration during prime working and fertile years and eroding the base of household formation within Portugal.
- This selective out-migration and low fertility drives a structural demographic decline, reducing domestic family formation and increasing reliance on immigration to sustain economic activity and population levels—thereby intensifying immediate housing demand pressures.

Different government policy direction and the likely evolution of fundamentals

- Government housing policy has shifted direction, moving from a market restriction logic towards a supply-side reforms and more active market intervention.
- If new policies materialize in the intended direction, housing supply is expected to rise gradually, supported by the release of underused stock and faster project delivery, though remaining inflexible in the short term.
- Demand should grow moderately, driven by moderated demographic pressure and targeted policy support, particularly for younger buyers.

Implications for developers

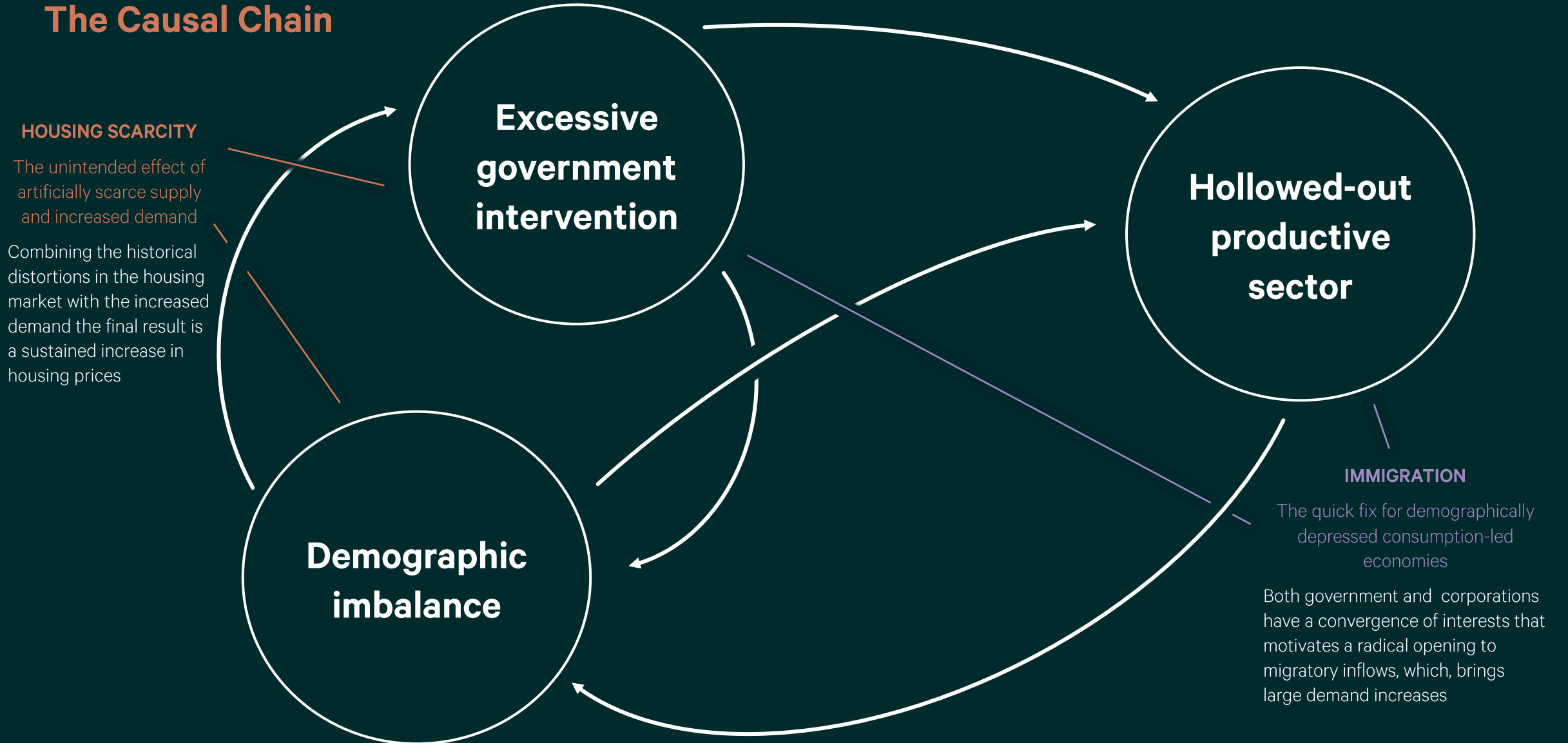
- Greater competition from existing stock will require higher development sophistication, as new projects can no longer rely on scarcity-driven demand alone.
- Product differentiation becomes critical, with success increasingly driven by design quality, location, unit sizing, layouts, features, and calibrated price points.
- Margins will be more selective, favoring well-positioned projects able to sustain a quality premium, while undifferentiated developments face. Under the new intended paradigm, there is scope for well-executed affordable developments.

Implications for government

- Restoring affordability and retaining the working-age population requires reducing structural frictions, aligning housing policy with labor mobility, household formation, and long-term demographic sustainability.
- As market dynamics become more competitive and differentiated, public policy should enable efficient, affordable development.

Strategic avenues and opportunities

The Causal Chain

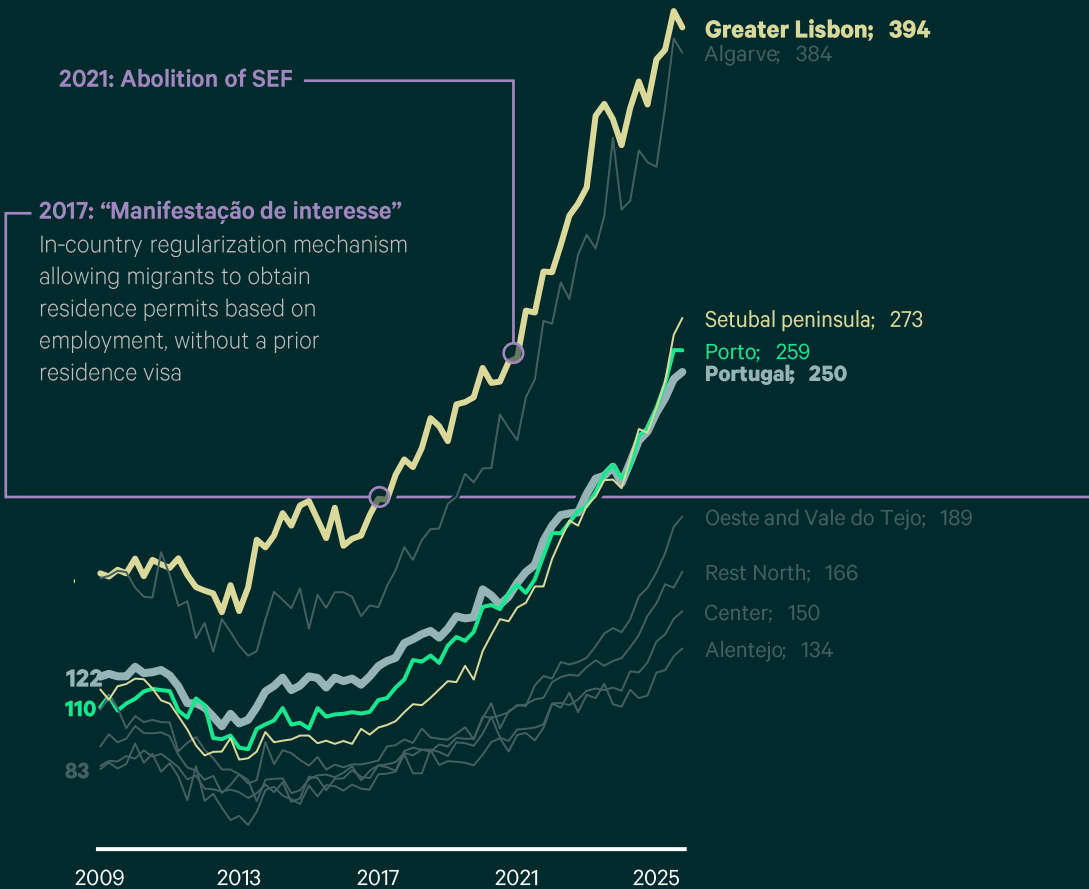


The government adopted a radical opening to migration, starting the demand surge...

STRATEGIC AVENUES AND OPPORTUNITIES

Average transaction price per dwelling

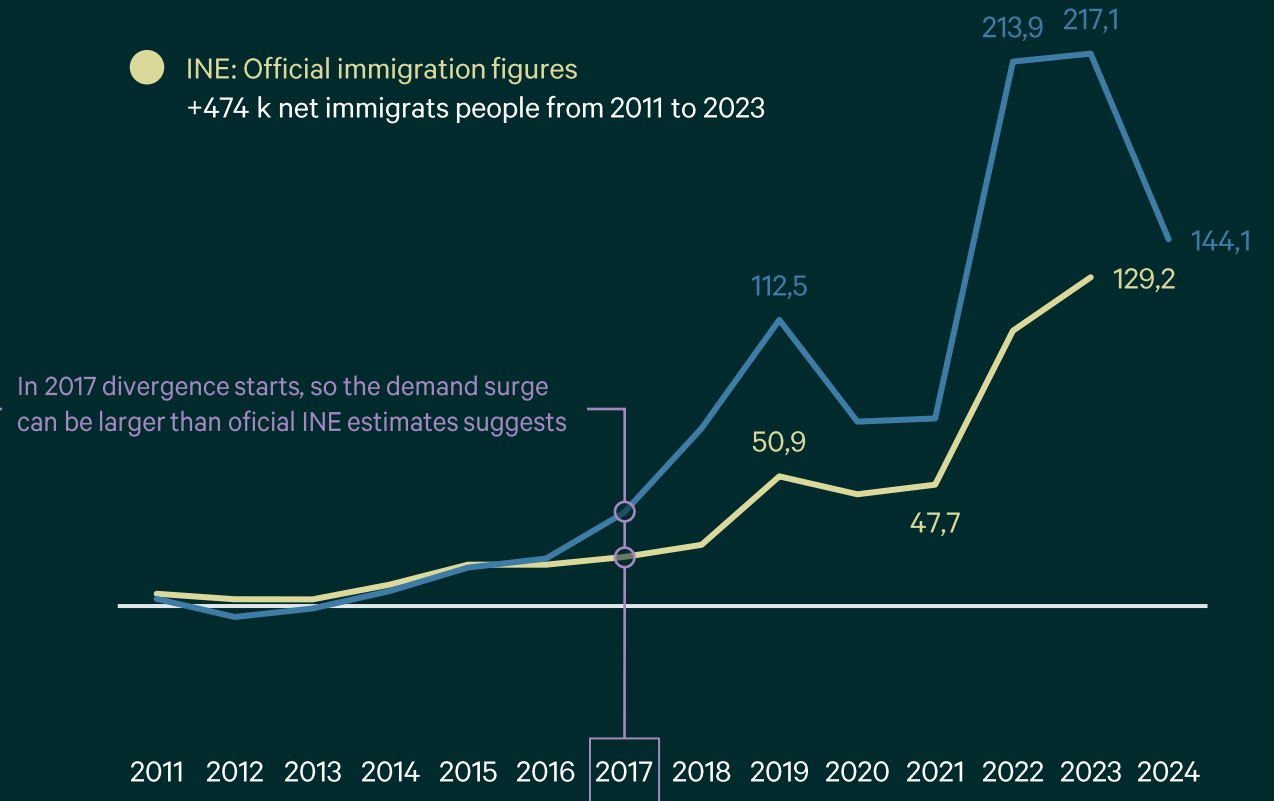
[Values in '000 EUR]



Net migration of non-Portuguese nationals

[Values in '000 of people]

- BdP: Calculated through Social Security microdata
+833 k net immigrants people from 2011 to 2023
- INE: Official immigration figures
+474 k net immigrants people from 2011 to 2023

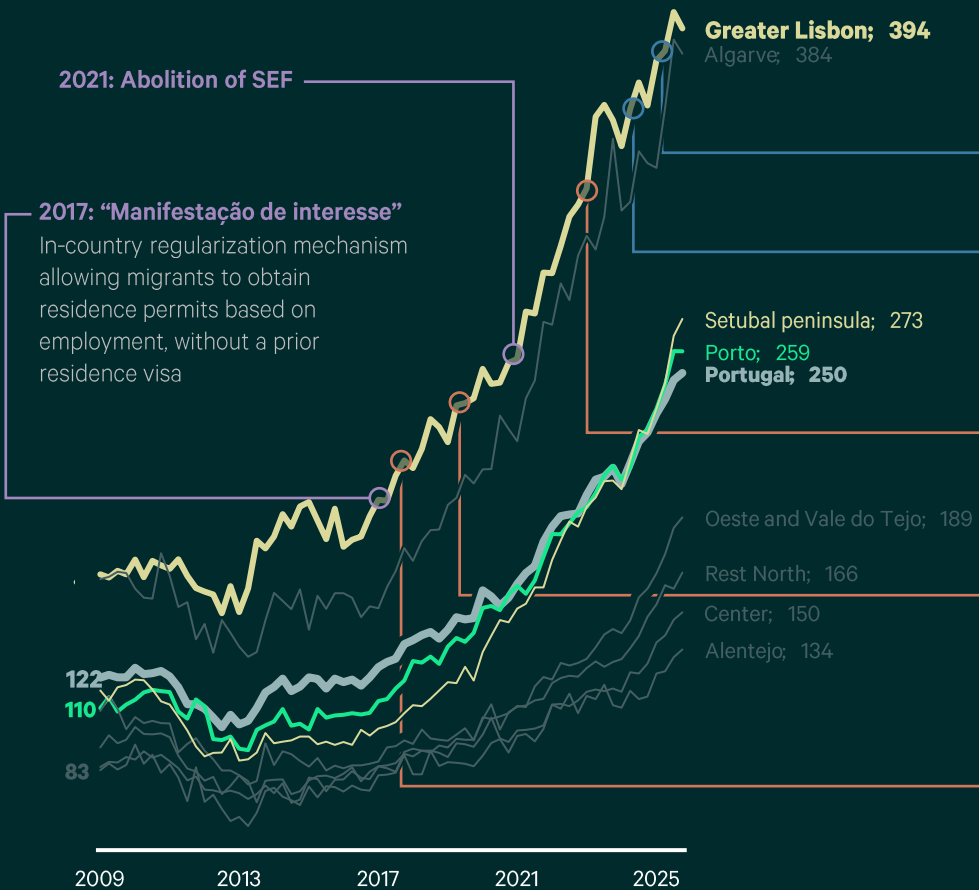


And until 2023 the measures have been market-restricting. The new policies are reverting that direction.

STRATEGIC AVENUES AND OPPORTUNITIES

Average transaction price per dwelling

[Values in '000 EUR]



Housing policy name

How it works?

Market implications

2026:

- Undivided inheritances
- Reform of the RJUE (ongoing)
- Tax incentives for the rental market

- Undivided inheritances free up long-blocked housing stock
- RJUE reform aims to simplify and speed planning and building approvals, reducing risk and costs
- Tax incentives guarantee lower taxation on rental income

- Supply: Increased supply by unlocking idle stock and accelerates new residential development

2025:

- "66/2025" – 6% VAT on construction

- Reduction of VAT rate applied to residential construction and rehabilitation projects

- Supply: increases via reduced costs which improves projects viability

2024:

- DL 44/2024" – "Garantia pública para jovens"
- "DL 10/2024" – "SIMPLEX Urbanístico"

- "DL 44/2024" introduces a public guarantee of up to 15% for young people aged up to 35
- "DL 10/2024" streamlines urban planning by enabling tacit licensing approval, easing commercial-to-residential conversions, and waiving occupancy permits at sale

- Supply: leaner licensing rules for new construction
- Demand: increased demand by boosting credit and reducing transaction costs

2023:

- "Mais Habitação"

- A regulatory-led housing package focused on rent controls, mandatory rental measures and market intervention to curb price growth. Prioritizes short-term demand protection while creating uncertainty for private investment and supply

- Supply: Discourages private investment and constrains new supply
- Demand: Protects short-term affordability for existing households

2019:

- "Lei de Bases da Habitação"
- "Leis 12 e 13/2019"

- Establishes housing as a fundamental right and a basis for public intervention in the housing market.
- Laws 12/2019 and 13/2019 shifted the housing framework toward tenant protection and public intervention

- Supply: Increases regulatory risk and reduces supply incentives
- Demand: Strengthens tenant protection and housing security

2018:

- New Gen of housing Policies
- "Porta de Entrada"
- "Primeiro Direito"

- Emergency housing programme to provide rapid housing solutions. The programme relies on public intervention coordinated by municipalities and the central government

- Supply: No structural impact on housing supply
- Demand: Provides short-term relief for vulnerable households

After a decade of expanding demand and artificially decreased housing supply

STRATEGIC AVENUES AND OPPORTUNITIES

Squaring the circle of high available stock and price increases

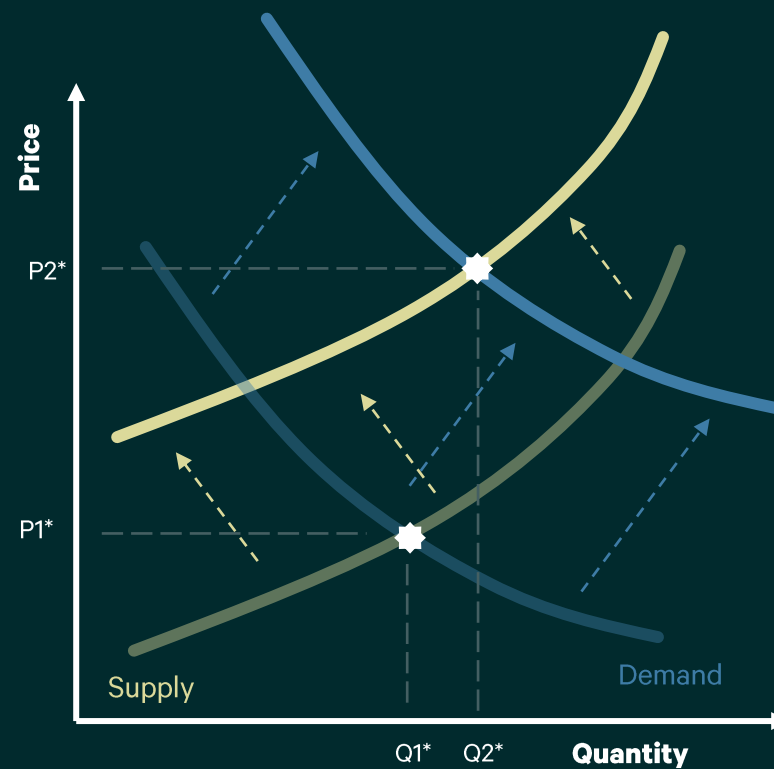
During the previous decade (to the time of writing this document), the market situation can be understood as an artificially scarce supply facing an accelerated expansion of demand.

The two effects put together simultaneously can then explain the fundamental paradox of the Portuguese housing market situation, of being simultaneously:

1. One of the countries in which the housing prices most increased in the EU, and;
2. One of the countries that holds more idle housing stock [vacant or seasonal] in the EU.

Market impacts

[2015-2025]



Historically observed market dynamics

Artificially constrained supply

- Long-standing disincentives to the rental market (rent freezes and high tax burden);
- Complex and lengthy undivided inheritance processes;
- Heightened new development costs:
 - Licensing and permitting challenges;
 - High construction input costs and high construction sector margins;
 - High taxation on construction activity

Accelerated demand expansion

- Accelerated migration dynamics;
- Internationally uncompetitive but rising wages;
- Improved access to credit;
- Historically low-cost of financing.

There are some changing tides in policy approach which should materialize on the supply-side of the market

STRATEGIC AVENUES AND OPPORTUNITIES

If new legislation achieves its goals, supply expansion will ensue

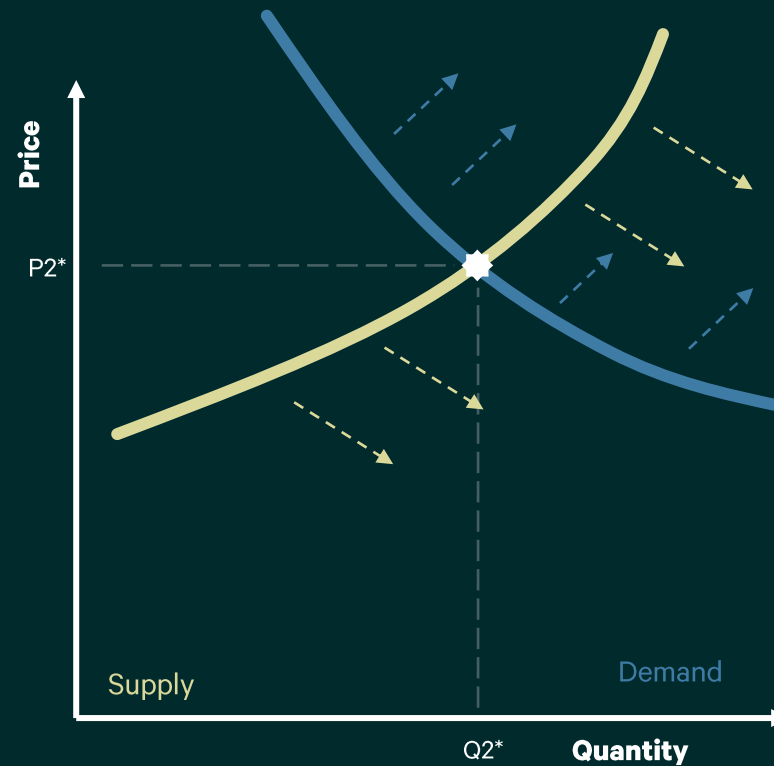
Given the new approach to the housing crisis and the emphasis on adding supply to the market, the proposed measures intend to allow the market to function more openly.

However, these new measures still have to withstand the test of time and of the political pendulum with regards to the state intervention in the housing market.

To date, here is still no statistically robust evidence on how do the impacts materialize on the prices and number of transactions or renting contracts.

Market impacts

[Expected new movements]



Anticipated market dynamics

Supply increases progressively

- Gradual release of existing housing stock [through solution of undivided inheritances and tax incentives to leasing]
- Acceleration of project pipelines, driven by licensing simplification and RJUE reform
- Improved project viability through VAT reduction
Supply becomes less rigid, but remains structurally inelastic in the short term

Demand grows moderately

- Sustained demographic pressure driven by migration flows [however with a moderation trend]
- Targeted demand support will remain in place [youth guarantees, improved credit access]
- Costlier credit [due to global macro scenario impacts on ECB rates and subsequently EURIBOR]

If existing idle supply enters the market, new developments will require sophistication

STRATEGIC AVENUES AND OPPORTUNITIES

For developers, the intended new scenario should bring sophistication



Intentional product design

Adapt supply to the needs of demand considering product dimensions that justify the added-value of housing



Location



Size



Layout



Features



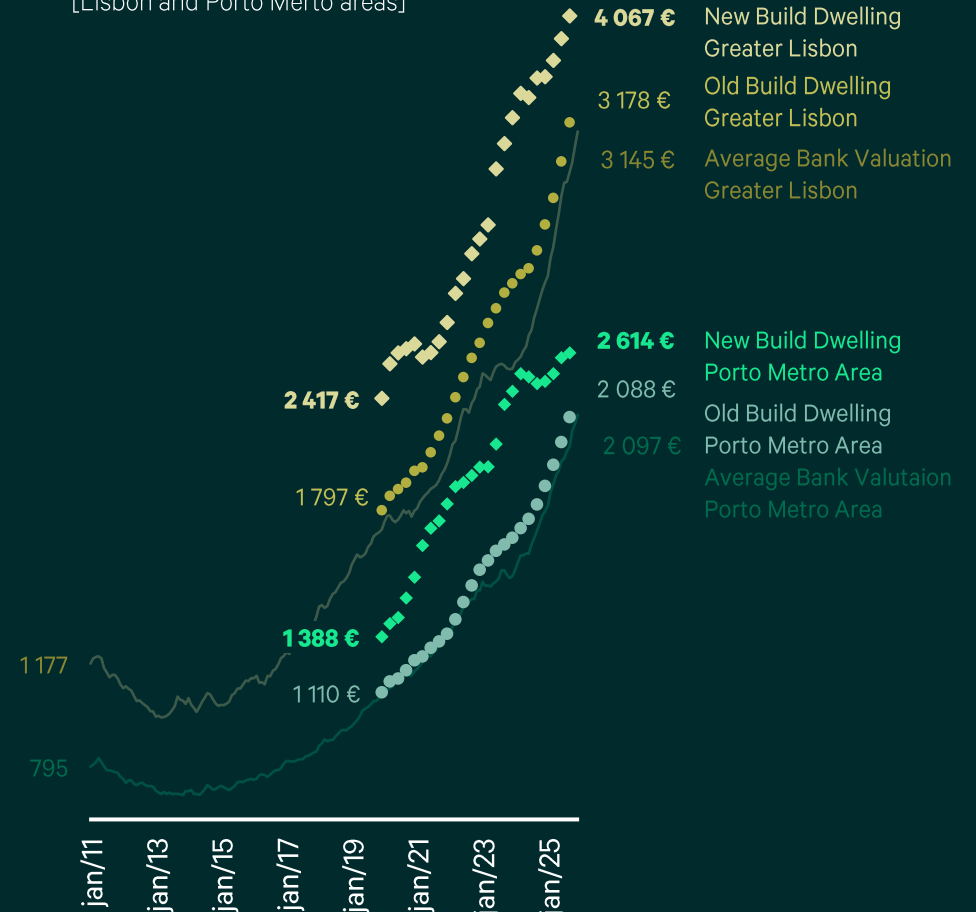
Price points

If new existing housing stock is incentivized to enter the market under a new business environment, the previous paradigm of elevated scarcity will no longer obtain. One can anticipate that the market equilibrium can evolve to a more differentiated situation:

1. Demand will stratify due to higher choice of stock in existing zones and therefore, housing should undergo differentiation paradigm – more than the traditional competition for square meters in locations;
2. Supply of new developments should then require higher sophistication with regards to purposeful product design that can harmonize the new building premium over existing building with the development margins.

Price per m²

[Lisbon and Porto Metro areas]



Under the new intended paradigm, there is room for new developments to target affordable segments

STRATEGIC AVENUES AND OPPORTUNITIES



Scale

Larger developments; Fixed costs are diluted across more units; execution becomes more efficient.

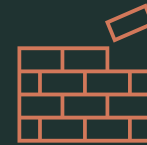
Lower cost per sqm



Semi-peripheral locations

Affordable land is a prerequisite; Central locations structurally constrains final pricing; well-connected peripheral areas enable viable projects.

Lower land cost



Adjusted building specifications

Build for use, not implicit high-end; Optimized material and constructions choices reduces costs with limited impact on buyer perception.

Lower construction costs



Efficient unit sizes

Smaller, well-designed units; Lower ticket sizes expand the addressable buyer base.

Faster absorption



Tax decreases and lower licensing uncertainty

Direct impact on projects feasibility; Optimized cost structure and better lead times entail lower total cost of development

Lower development costs

Strategic avenues and opportunities

Solving the housing issue requires long term view of and for Portugal

Promoting a socioeconomic model shift from state-led to subsidiary

- Reduce the excessive weight (financial and regulatory) of the State on the families' and companies' spheres, allowing effective subsidiarity and responsibility of the private space;
- Enhance territorial rebalancing by fostering policies that purposefully disperse economic activity throughout the Portuguese territory.

Setting the Oikos objective: Demographics as a policy priority, instead of a passive outcome

- Grow the Portuguese population by moralizing the family and promoting functional family life and higher birth rates with increased household sizes (e.g. offering substantial tax cuts to large families);
- Focus on retaining young population and mitigating the incentive to emigration;
- Manage immigration to ensure structural and political stability.

Reforming the let sector

- Overcome the "two-speed" let market legacy by moving away from historical rent freezes toward a stable, transparent, and balanced regulatory and tax framework for landlords and tenants.
- Enhance landlord confidence by ensuring legal certainty and swift dispute resolution, which incentivizes owners to lease assets rather than sell or maintain it vacant.

Promoting efficiencies in the development and rehabilitation sectors

- Reduce the bureaucratic friction to accelerate housing supply by measuring licensing requests, status and lead-times and creating effective counterweights to the public [local or otherwise] authorities' inefficiencies
- Increasing swiftness of judicial dispute resolutions and promote clear and adapted urbanistic guidelines;
- Promoting vibrant centers, by allowing faster licensing for rehabilitations and more flexible regulations;
- Promoting competition in the construction sector, by offering incentives to formalize and professionalize the sector [e.g.: lowered tax for micro and small enterprises].

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