



IMOE Market Intelligence

Presentation

July 2008

IMOE Market Intelligence

What is it?

IMOE Market Intelligence is an information system with national coverage, it characterises in-depth the housing markets in each of the 308 councils that make up continental Portugal and the islands.

What are the objectives ?

- /// To diagnose, in an integral way, the situation in the residential housing markets and identify trends in each council for 2008.
- /// Respond, in terms of secondary information, to the requirements of a professional study of the residential market.

IMOE Market Intelligence

The questions it responds to..

- // What is the **situation of demand in relation to supply?**
- // What is the **most plausible tendency for the housing market ?**
- // What is the **number of transactions of new dwellings?**
- // What is the **number of transactions of used/resale dwellings?**
- // What is the **affordability rate of the families?**
- // What is the **average potential sales for real estate agents?**
- // What **significance does the second homes sector have?**

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The Methodology

IMOE Market Intelligence was developed in accordance with the *Local Housing System Analysis – Best Practice Guide* developed by the University of Glasgow (Scotland, UK) for Scottish Homes and the analysis of local residential markets according to procedures defined by Fannie Mae (USA).

6 Market Indicators were created with the objective of providing the user with intuitive understanding of the situation in the housing market:

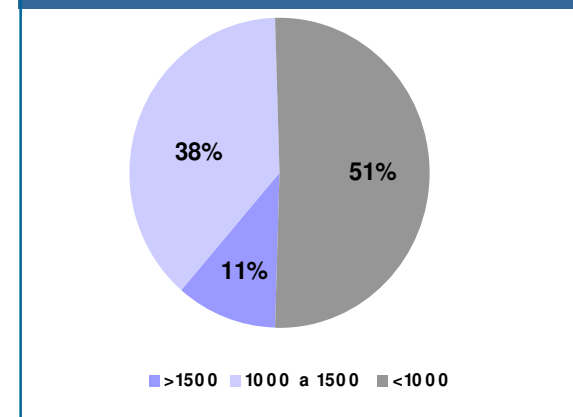
- ✓ Affordability Indicator;
- ✓ Indicator of Rhythm of Sales;
- ✓ Indicator of Risk;
- ✓ 2nd Homes Indicator;
- ✓ Indicator of Construction Dynamics;
- ✓ Indicator of Evolution of Prices.

SUPPLY AND DEMAND

History	Stock	Total households	Total Employed	Total Unemployed
Number (2006)	33.156	25.632	16.982	16.982
AGR (*) 2006	0,78%	0,84%	10,3%	10,3%
AAGR 2 (**)	0,90%	0,89%	6,1%	6,1%
AAGR 5 (***)	1,37%	1,10%	5,4%	5,4%

Negative growth in the rate of unemployment is a positive sign in relation to the evolution of the council's economy.

Distribution of employees working for others by income bracket (2006; €/month)



In councils where the weight of second homes is not significant, the growth in the number of dwellings should, on average, reflect the growth in the number of families.

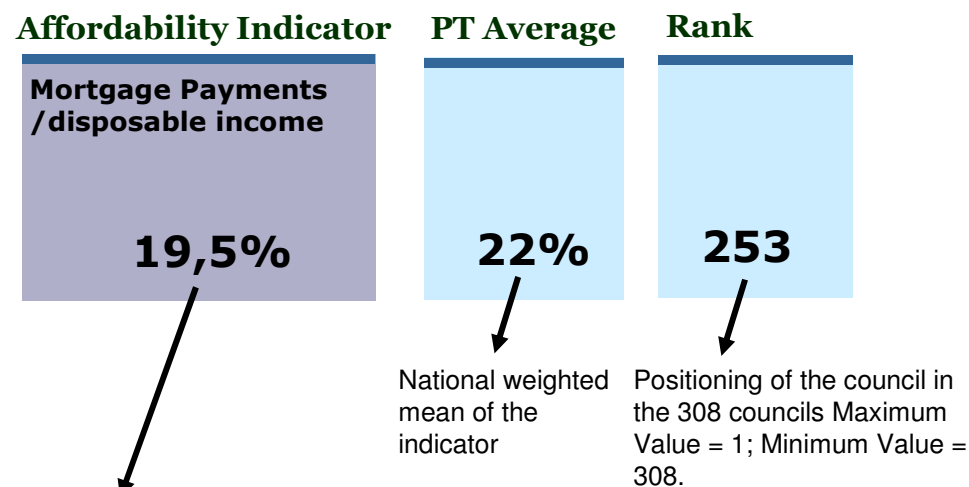
(*) Annual Growth Rate; (**) Average Annual Growth Rate in the past 2 years; (***) Average Annual Growth Rate in the past 5 years.

Affordability Indicator

This gives us an indication of the relative acquisition costs of housing, measuring the average proportion of disposable income necessary to cover mortgage costs at the beginning of 2008. The indicator was developed in accordance with the procedure developed by Fannie Mae (USA). This indicator varies nationally between 13% and 39%.

A value of less than 28% is recommended for the affordability indicator.

Sources: BdP, DGI, INE, Estimate: ImoEconometrics (2008)



Assumptions/Method:

- i) Average dwelling with a net area of 95 m², the average evaluation/offer price (Euros/m²) in the council for the 3rd trimester of 2007, deposit of 25% of the value of the property, mortgaged for 25 years, interest rate = 4,70% + spread of 0,75%.
- ii) Multiplication of gross national disposable income (2007, BdP) by income factors per mille. The factors considered: income tax declared in 2006, average remuneration of employed (by others), in 2006, and spending power estimated by INE in 2005.

Indicator of Rhythm of Sales

Measures the average number of new dwellings sold monthly per council

Estimate: ImoEconometrics (2007)

Rhythm of Sales

New Sales/month

27

PT Average

18

National weighted mean of the indicator

Rank

55

Positioning of the council in the 308 councils Maximum Value = 1; Minimum Value = 308.

Assumptions/Method:

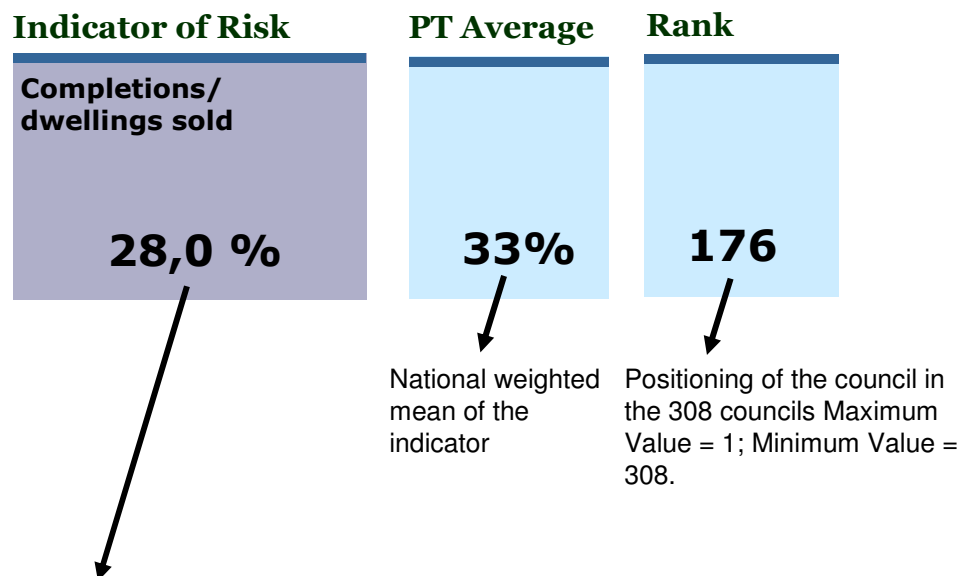
The number of dwellings sold monthly was estimated by ImoEconometrics based on a cross tabulation of the following information: factor used to divide the total number of dwellings sold, factor which is not constant throughout the property cycle; processes undertaken in the land registry.

Indicator of Risk

Measures the number of dwellings constructed annually as a percentage of the number of transactions.

This indicator varies between 1 and 109.

Source: INE(2006), Estimate: ImoEconometrics (2007)



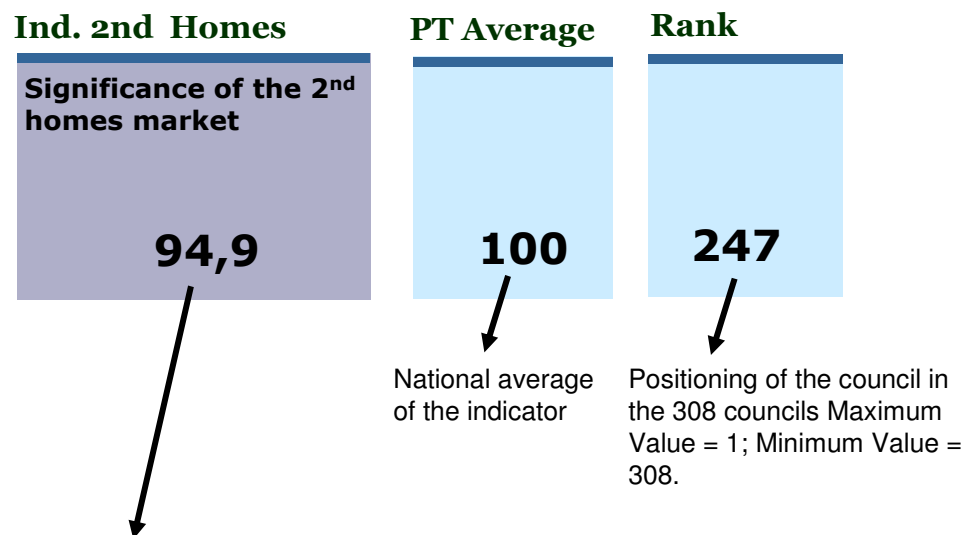
The indicator of risk varies throughout the property cycle. In the present phase of the national residential cycle, a value superior to 35% may signify a excess of housing supply in the council.

Indicator of Second Homes

Measures the importance of the segment of second homes for leisure.

This indicator varies between 85 and 144.

Estimate: ImoEconometrics (2007)



The indicator of 2nd homes is separated in two markets:

- 1) Inherited dwellings located in rural areas, where the tourism sector is of little importance;
- 2) Dwellings associated with decisions to acquire 2nd homes, in areas with greater tourism propensity

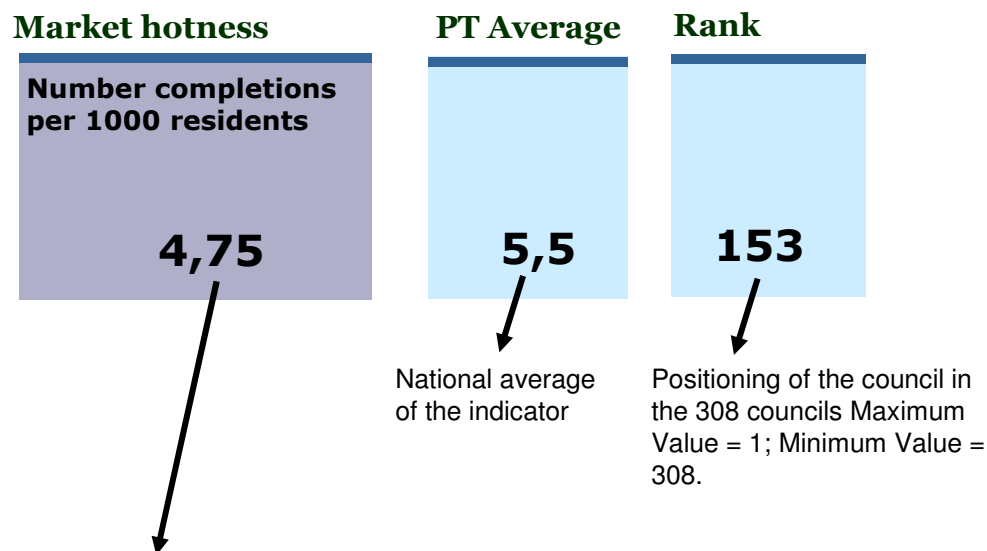
The factor is a result of the application of statistical analysis on two variables: the weight of second homes (INE, 2001); and spending power as a result of the tourism sector (INE,2005).

Indicator of Construction Dynamics

Measures the volume of construction of dwellings per 1000 inhabitants.

This value varies between 0 and 37.

Source: INE (2006), analysis ImoEconometrics



The indicator of market hotness allows us to assess the vitality of the residential construction sector in each council.

This indicator should be interpreted together with the indicator of 2nd homes. For example, a value of more than 15 may be considered as being high for a council in which second homes bear a reduced weight, and normal for a council with a high weight of second homes.

Evolution of Prices

Source: INE (2007, 3rdT) portais imobiliários 2007, analysis ImoEconometrics

Prices change

2007 year change

-10,1%

Median Price

Median prices of new and resale dwellings 20074Q (Euros/m2)

1.018



Average valuation values (Euros/m2 net area). For the medium cities and councils in the metropolitan areas of Lisbon and Porto. Supply values from real estate portals for the remaining councils.

CONSTRUCTION AND SALES

Year	Completions	New Dwellings Sales	Resales Sales
2001	416	394	743
2002	543	495	853
2003	429	340	686
2004	623	317	683
2005	333	397	796
2006	304	326	760
2007E	280	281	721
2008P	267	226	611

Forecast based on ARIMA (*Autoregressive Integrated Moving Averages*):

- GDP: simple average of most recent forecasts (June 2008) FMI, European Commission, OCDE and BdP;
- Interest rates on mortgages: yield – governmental bonds AAA obligations.
- Restriction levels on the concession of mortgages: Survey by the Bank of Portugal on the credit market, June 2008.

Historical Performance (1995-2006)			
Min	304	243	683
Max	623	687	1.021
Mean	447	404	797

Summary of the historic performance of the annual volume of dwellings constructed (1995 to 2006). Minimum, maximum and average values.

HOUSING BROKERAGE

Year	N.º Transactions	N.º Licensed Brokers	N.º Franchised Brokers	Average Sales (€/broker)
2008P	837	21	3	40.807

Assumptions: Average commission for intermediation is equal to 3% of the value of the property, average national percentage of transactions intermediated by licensed brokers is equal to 30%. In this estimate, an adjustment of the percentages of intermediation was considered in line with the disposable income in the respective councils.

MORTGAGE CONCESSIONS

Annual average in the last 2 years (millions €)	Average value per contract in the last 2 years (thousands €/contract)	AARG 2 (*)	AARG 5 (**)
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248,4



Annual average of the amount of mortgage credit granted (2005 and 2004)

91



Annual average of amount of credit granted per contract (2005 and 2004)

70,9%



Average annual growth rates in the past 2 years and the past 5 years.

30,2%

IMOE Market Intelligence

The technical team

IMOE Market Intelligence was developed by **ImoEconometrics**' international team, specialised and scientifically prepared in the area of real estate markets.

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Doctorate in Property Economics from the University of Glasgow (Scotland, UK);
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