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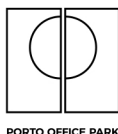
# Porto

## bounces back

A GLOBAL CITY REDISCOVERED



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## PORTO GOES FROM GLOOM TO BOOM

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# Porto goes from gloom to boom

RECLAIMING ITS ROLE AS A GLOBAL CITY FOR BUSINESS AND TOURISM, PORTO IS WITNESSING RAPID TRANSFORMATION AND RECORD HIGHS AS IT PUSHES ASIDE YEARS OF ECONOMIC DECLINE.  
**SEBASTIAN SHEHADI REPORTS**

**G**uided by a pro-business mayor, Porto is experiencing a business and tourism boom as Portugal rebounds from the economic crisis. Unlike most European cities its size, Porto boasts a river and a coast. As Portugal's second largest city, it houses roughly 230,000 inhabitants and more than 1.9 million in its metropolitan region, located in northern Portugal.

For many centuries, 2000-year old Porto was one of Europe's leading hubs for maritime trade, and later industrial activity, from which the city's internationally renowned port wine was exported.

Porto's crown jewel is its historic centre, the Ribeira, a Unesco World Heritage site that scales the hilly banks of the river Douro. Spared from two devastating earthquakes that flattened Lisbon, the Ribeira is remarkably well preserved.

Indeed, Porto offers a surreal combination of the medieval, baroque and 19th-century worlds, all in a Mediterranean setting. Looking down from the city's 12th-century cathedral, terracotta tiles cascade down to Porto's iconic Dom Luís I Bridge, a 19th-century masterpiece and one of six crossings in the 'city of bridges', as Porto is known.

## **Hard times**

Despite such cultural riches, Porto only recently began to realise its business potential. "If you came to the city 10 or even five years ago, it was completely different. It was a land of no investment. Unemployment and abandonment was high in the city centre. There were drugs and safety problems," says Ricardo Guimarães, director of *Confidencial Imobiliário* magazine, a Portuguese real estate data provider.

Porto's economic troubles began in the 1990s when Portugal's manufacturing industry lost significant ground to its Asian competition. Clothes, shoes, furniture and other production lines were significantly undermined.

The situation only worsened. Following years of internal economic problems that started around the turn of the century, Portugal was hit hard by the global financial crisis, leaving it unable to repay its government debt in 2010. The country received a €78bn bail-out package from the European Financial Stabilisation Mechanism, the

European Financial Stability Facility and the IMF, which it successfully exited in mid-2014.

## **Portugal revitalised**

In the past few years, Porto, like the rest of Portugal, has benefited from a significantly improved job market as well as strengthened fiscal and net trading positions, supported by export revenues continuing to grow significantly, according to Peter Holden, group development director at Round Hill Capital, a UK-headquartered global real estate investment and asset management firm that put €100m into a mixed-use regeneration project in Porto in 2018.

"This was helped by the government, [which since 2015 has moved] to reverse the cuts in wages, pensions and social security, and offer incentives to business, [thereby] boosting business confidence and growth in production and exports", he says.

Indeed, Portugal's GDP witnessed 1.9% annual growth in 2016 and a 2.1% budget deficit, the lowest since 1974. The following year saw the country's highest growth rate since 2000, at 2.8%, while 2018 is estimated to have hit 2.1% according to BBVA Research. FDI figures reflect this positive trend, with 2018 seeing the highest number of greenfield projects in Portugal since 2003, according to data from greenfield investment monitor *fDi* Markets.

## **Perfect storm**

Porto fell, and then rose, with the national economic tide, but has also undertaken ambitious initiatives to overcome the slump.

"Civil society took matters into its own hands. We saw the rise of a strong, entrepreneurial tech-based ecosystem and of hi-tech manufacturing. Our universities improved – this is the best educated generation [that this country has ever seen]. [Also] we've had a mayor since 2013 who is a politically [independent] businessman.. So, it has been a perfect storm for the past five years," says Rui Coutinho, executive director of the Center for Business Innovation at Porto Business School.

Indeed, the number of jobs created by foreign investors grew by more than 300% in Porto and northern Portugal between 2013 to 2016, according to local IPA InvestPorto. The region saw the most FDI in the whole of Portugal in 2016 and 2017.

In 2018, Porto alone attracted its highest



Best of both worlds: unlike most European cities of its size, Porto boasts a river and a coast

number of greenfield foreign investments in terms of projects and capital expenditure since the 2008 crisis, according to fDi Markets.

“We [in Porto] have fought hard to bring it alive again. We’re no longer a city for natives; we’re a global city. Our value has changed. There’s a new economy rising, oriented to talent and tourism,” says Mr Guimarães.

#### From the top

Rui Moreira, Porto’s mayor, was re-elected in 2017 to further his business-friendly agenda that has opened the city to more investment. The mayor established InvestPorto in 2015, which is a one-stop shop for investors, and structures his executive team, all ex-private sector, like a company, according to Ricardo Valente, Porto’s minister of economy, tourism and commerce.

“We found a mayor with a very different vision for the city, one that’s open to the world... If you talk to businessmen and ask: ‘What’s the difference between Porto and Lisbon?’, it’s governance. It’s the way that we manage the city,” he adds.

“We appreciate the positive engagement we have received from Porto City Council and InvestPorto, which gives us great confidence in the future of this project,” says Michael Bickford, founder and CEO of real estate investor Round Hill Capital, which has embarked on projects in Porto.

Similar sentiments were voiced by Dr Tiago Violas Ferreira, CEO of Violas Ferreira, a Portuguese real estate company. “[The mayor] is very Porto-focused, independent and doesn’t go along with the politics of the government. Everyone likes him. He’s good for business, but focused on social care too”.

#### Safe haven

With Portugal’s general elections in October 2019, foreign investors will be eyeing their likely impact on the country’s investment climate. Since 2015, the country has been governed by a coalition comprised of the Socialist Party, on the centre-left, and the radical left-wing Left Bloc.

“I think that the Socialist Party will win the elections by a majority, and then we will not need the extreme left. [Subsequently], they will be even more business-friendly,” says Mr Ferreira.

However, Portugal has successfully retained investors’ attention since 2015, despite ushering in a government with a left-wing base, according to Mr Guimarães. “So, the hard part is over, and the next election will either repeat the same situation we have now, or bring a more central result that is even more attractive to investors,” he adds.

There is agreement among political parties on most major topics, such as foreign investment, says Mr Coutinho. “This is why [little changed after the 2015 elections], and why we don’t have extreme right populist movements coming in. We’re very tolerant towards immigration,” he adds.

Considering Brexit and the global rise of right-wing populism, Portugal serves as one of Europe’s political safe havens.

“In Portugal and Porto we’re very dependent on foreign investments. Our biggest threat is what’s happening in the world. A recession in Germany would be a disaster for us. If globalisation [turns to] nationalisation, we’d face a big impact on tourism and FDI,” says Mr Valente. ■

**O&A: RUI MOREIRA**

# Strength in clusters

THE MAYOR OF PORTO TELLS **SEBASTIAN SHEHADI** ABOUT THE CITY'S BUSINESS BOOM AND EXPLAINS HOW ITS MANY SECTOR-BASED CLUSTERS WILL KEEP IT FIRMLY ON THE RADAR OF FOREIGN INVESTORS

**Q** In 2018, Porto saw its highest number of greenfield foreign investments since 2008. Why was that?

**A** Ten years ago, the public space was very mistreated and the historic centre was, as someone called it, 'the donut hole' [in that the historic centre was empty of life and investment]. This has changed thanks to a set of public policies accompanied by private entrepreneurship.

Porto's momentum is persisting [and all of the factors that make the city] a unique place for business are still in place: our quality of life, the fantastic availability of talent, a first-class infrastructure and city governance that is very focused on enabling the city with a multi-functional ecosystem.

Porto is an open city with a vibrant cultural life, a resurgent entrepreneurial scene, a world-class university and a unique city centre, which carries a culture of diversity in its genes. We combine cultural heritage with innovation.

**Q** What are the most exciting opportunities in Porto for foreign investors?

**A** Porto has priority clusters for investment, such as advanced engineering, technologies and materials. We are home to Productech, the Production Technologies Cluster, which is comprised of world-class entities in areas such as industrial automation,

advanced computing systems, materials and composite structures, mechanical engineering design and product development.

Health and life sciences is another key area. Health Cluster Portugal, based in Porto, is a prominent, fast-evolving cluster that carries out world-class research in areas such as neurosciences, cancer, immunology, regenerative medicine and nanomedicine.

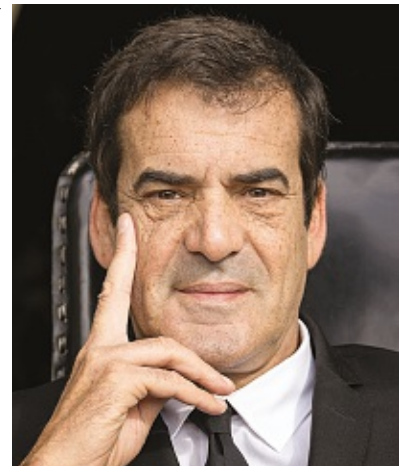
Porto's nearshore services are exciting too. Several nearshore centres are already based here, acting as engineering, shared services and contact centres for countries all over the world. Porto has clear advantages in terms of strategic location, being geographically located in a time zone with minimal deviation in relation to Central European Time.

The city's transport industry is another priority sector. Portugal is a pioneer in the development of new energy models for sustainable transport, and Porto was at the core of this achievement, supplying leading aeronautics and automotive companies. The cluster is managed by the CEiiA-Centre for Mobility Industries.

Our creative industry cluster is also special, for fashion, footwear, jewellery, music, film and more. Porto has also a solid reputation in architecture. The city is the hometown of two Pritzker Prize-winning architects, and the Porto School of Architecture is an international reference in contemporary architecture.

**Q** How are you further improving Porto's business environment, and what are the remaining challenges?

**A** As examples of public investments, we are developing a new area of the city, Campanhã, on the east side, and making relevant investments to prepare the city to be more competitive.



**CURRICULUM VITAE**

RUI MOREIRA

2013

Porto Mayor

Previously

Commercial Association of Porto, president

First is the Campanhã Intermodal Transport Terminal. Expected to be finished in 2021, the new terminal will integrate different mobility solutions, buses, trains, metro and taxis [and improve regional and international connectivity]. It [will hopefully] become a leading hub in the northern region of Portugal.

We are also converting the former Porto slaughterhouse, transforming it into a centre for creative and hi-tech companies. We will start construction by the middle of 2019.

**Q** What is your economic vision for Porto over the next three years of your time as mayor?

**A** I think the city is undergoing a very profound transformation in its infrastructure, which will make it a more sustainable city. The new lines of the underground, the investment in parks and the improvement in utilities are bound to have a positive impact on private investment. ■

HEALTH CLUSTER PORTUGAL, BASED IN PORTO, IS A PROMINENT, FAST-EVOLVING CLUSTER THAT CARRIES OUT WORLD-CLASS RESEARCH



Boom town: PwC reports that Porto had the highest growth in revenue per available room in Europe in 2018

recovery. Portugal has also benefited from political or social instability in other European or nearby countries, such as Turkey and Tunisia, boosting its appeal to risk-averse tourists and investors alike.

**Record numbers**

Porto received 2.8 million overnight stays and 1.4 million visitors between January and November 2017, of which 73% were foreign tourists, according to local IPA InvestPorto.

Considering the city's small population, Porto saw a higher ratio of tourists to residents than hotspots such as Barcelona and Prague in 2017, according to Porto's Institute for Tourism Planning and Development.

Many parts of Portugal have experienced a downturn in tourism, especially in the south. However, northern Portugal, where Porto is situated, was the only part of the country to witness double-digit growth in 2018, in terms of tourism revenues, rising at more than 11% annually, according to Ricardo Valente, Porto's minister of economy, tourism and commerce.

"We have a state-of-the-art airport with the ability to grow by more than 60% from the current level. We reached close to 12 million passengers in 2018, and we are easily able to grow to 20 million," he adds.

The city is very much the gateway to Portugal's northern region as well as the northern and western areas of Spain. Within a two-hour drive of Porto's airport there are four Unesco World Heritage sites and popular Spanish tourist hotspots such as Santiago de Compostela.

**Unprecedented price rises**

Porto had the highest growth in revenue per available room in Europe in 2018, according to a PwC report.

"We've never seen [rental] prices like this in central Porto. Some locals think it's crazy, a bubble, things must go down. But they're viewing the market with the same pre-crisis model, before Porto's tourism boom that is now capitalising its short-term tourism potential", says Mr Guimarães.

House prices in Porto's historic centre have more than doubled since 2014, albeit from a low starting point, according to Confidential Imobiliário's house price index. For years leading up to 2011, house prices were experiencing negative growth, after which there was a

# On the map

**'DISCOVERED' BY TOURISTS IN RECENT YEARS, PORTO IS WELCOMING RECORD NUMBERS OF VISITORS AND EXPERIENCING SOARING RENTAL AND PROPERTY PRICES. SEBASTIAN SHEHADI REPORTS**

Porto has become one of Europe's most acclaimed holiday destinations, winning the prestigious European Best Destination award in 2012, 2014 and 2017 from the European Best Destinations organisation. Meanwhile, international tourist arrivals into Portugal have been growing consistently since 2009, according to the World Travel and Tourism Council.

Porto's tourism and real estate markets have blossomed over the past five years, running hand in hand with Portugal's economic recovery. However, other

factors have been at work.

"Porto has changed a lot since 2015. The city is benefiting from the digital revolution. It's changing the relationship Porto has with tourism and real estate, in terms of new work opportunities, global markets, new sectors, etc," says Ricardo Guimarães, director of *Confidencial Imobiliário* magazine, a Portuguese real estate data provider.

For example, peer-to-peer networks such as Airbnb have been assimilated into Porto, thereby internationalising the city and simplifying the hotel industry for guests and landlords. The 'digital revolution' has also coincided with the rapid increase in low-cost flights across Europe, consolidating Porto as a short-stay tourist market.

However, Portugal's fundamentals also work in Porto's favour: a hot climate, a rich culture, a low cost of living, acclaimed gastronomy, very low crime rates and political stability and economic



## TAX INCENTIVES ON URBAN REGENERATION HAVE LED TO AN ATTRACTIVE ENVIRONMENT FOR INVESTORS



flurry of public spending in the Porto Vivo regeneration programme.

There has been significantly more public and private investment in more recent years in Porto, as shown by the quality of public spaces and cultural programmes on offer in the city, the number of hotels – including luxury accommodation – and Airbnb venues, most of which are new refurbishments, according to Mr Guimarães.

On the other hand, house prices in Porto city as a whole only began recovering in 2016, and at a modest but accelerating pace, according to Confidencial Imobiliário.

### What's hot?

Within Porto's real estate market, hotels and residential properties have been the main targets for investment, both foreign and local. A lot of foreign investment has gone into regenerating Porto's historic centre, and many of these buildings are now being utilised as Airbnb lodgings, according to Rui Coutinho, executive director of the Center for Business Innovation at Porto Business School.

In other words, investments in Porto have focused on the rental market, be it for tourists or the 72,000 students in higher education in the city. Indeed, Porto has developed more than 7000 new housing units over the past few years, three-quarters of which are one-bedroom homes, according to Mr Guimarães.

"Tax incentives on urban regeneration in designated regions within the centre of Porto have led, over the past five years, to an attractive environment for local and international investors willing to invest in real estate for short-stay accommodation," says Peter Holden, group development director at Round Hill Capital, a UK-headquartered global real estate investment and asset management firm that put €100m in a mixed-used regeneration project in Porto in 2018 for student and residential housing.

Round Hill sees significant opportunities in these sectors due to the persisting supply/demand fundamentals for student housing, as well as much-needed high-quality new homes, adds Mr Holden.

However, Portugal's rental market is facing legal changes that restrict landlords' powers. "We now have to rent for a minimum length of time of one year. This makes no sense for student residents who

might only need nine months. One-year contracts will also be [automatically renewed for three years,] so you might be stuck with your tenant. We feel this is a huge political mistake," says Mr Valente.

### Other opportunities

Although Porto's city centre still offers plenty of regeneration opportunities, the local government intends to build more projects outside the centre, with private sector assistance – be it affordable housing or public buildings – with the city's neglected eastern district being a particular area of focus, according to Pedro Baganha, Porto's minister for urban planning.

The €100m Round Hill development was one of the most significant foreign investments in Porto in 2018, due to its location and the size of the investment, says Mr Valente.

"It really was a game-changer for how people look at the city. We've seen a lot of investment in the centre but no one thought we'd receive a €100m investment outside of [the city centre]," he adds.

Porto's office space is also in demand. Five years ago, vacancy rates in the central business district were about 20% to 25%, according to Dr Tiago Violas Ferreira, CEO of Violas Ferreira, a Portuguese real estate company. Today they hover around the 3% to 4% mark.

"Over the past two years, we've [seen a huge growth in the] development of offices buildings. With a pipeline of more companies coming to the city, we think there is a huge opportunity," says Mr Valente.

Considering Europe's ageing population, another opportunity within Porto's real estate market lies in housing for the elderly. The city already has a history of accommodating retired foreign buyers, especially from Scandinavia, many of whom were attracted to Porto by its high-quality healthcare system.

Porto's popularity is making the city stand out on a global scale. An increasing number of London-based and US firms have invested in Porto since 2016, such as Lone Star and Apollo, as well as wealthy individuals from Brazil, China, Germany, Israel and South Africa, suggesting that the city's appeal to investors still has some distance to go. ■



Driving a diversified economy: BMW developed an in-car operating system with Porto tech start-up Critical Software

# Not just a pretty place

WHILE THE TOURISTS AND REAL ESTATE DEVELOPERS FLOCK TO PORTO, AWAY FROM THESE SECTORS THE CITY IS STRENGTHENING ITS APPEAL TO INVESTORS IN A NUMBER OF AREAS, SUCH AS HI-TECH MANUFACTURING AND R&D. SEBASTIAN SHEHADI REPORTS

**A**lthough tourism and real estate have become very significant parts of Porto's economy, other sectors are flourishing due to the city's many specialisms, its talented workforce and its experience in R&D.

"The business boom we're experiencing today is on the same level as tourism, so if we had a problem with tourism, business would stand up to the challenge", says Tiago Violas Ferreira, CEO of Violas Ferreira, a Portuguese real estate company.

## Numbers talk

Indeed, Porto broke records in 2018. For one, foreign investment hit a 15-year high in the city's administrative region, with 13 projects valued at \$210m in sectors outside of tourism

and real estate, according to green-field investment monitor **fDi Markets**.

Only four years before, the city was mired with low and stagnant FDI flows due to the financial downfall that hit Portugal between 2009 and 2015.

Porto's business revival is also demonstrated by the variety of companies that have risen to prominence in recent years. Most notable is Farfetch, an online fashion vendor and the first Portuguese company to reach a value of \$1bn and thus become the country's first tech 'unicorn'. Founded in Porto, it now employs 3000 people worldwide.

It is in this environment that the number of businesses established in Porto has increased by 52% since 2014, with 2340 companies estab-

lished in 2018, according to the National Statistics Bureau of Portugal.

## Old and new

Thriving business is not new to Porto, however. "Our DNA is one of business people, manufacturers, [industrialists] and traders. So, there's a strong and long entrepreneurial background to the city," says Rui Coutinho, executive director of the Center for Business Innovation at Porto Business School.

Portugal's manufacturing industry is experiencing a rebirth, especially in the Porto region, which is home to a sizeable chunk of the country's manufacturers. Within the city, industrial knowhow is embracing innovation and the opportunities of Industry 4.0, according to Mr Coutinho. ▶





## PORTO HAS BECOME A VERY COMPETITIVE LOCATION IN THE TECH SCENE, THANKS TO THE YOUNG TALENT HERE



The city's traditional manufacturers – in shoes, clothes, cork and ceramics – are innovating. For example, Olympic grade swimsuits, such as those worn by Olympic legend Michael Phelps, were researched, developed and manufactured in the Porto region by Petratex.

Historically, foreign investment in the Porto region took the form of blue-collar factories from Ikea, Continental and Bosch. However, more recently, these companies have upgraded to technological development, creating some of the most innovative centres within their sectors, according to Mr Coutinho.

Newcomers have followed suit, with Amsterdam-based stock exchange operator Euronext relocating its technological back office from Belfast to Porto. In 2017, Danish wind turbine developer Vestas created a research and innovation centre in Porto. Then, in 2018, BMW opened in Porto after partnering with local tech start-up Critical Software to set up an innovation centre.

“The talent of postgraduates [in the Porto region] is impressive. The cost of labour is equal to or less than that in Belfast”, says Stephane Boujnah, CEO of the managing board of Euronext.

### Knowledge hub

Porto's educational excellence is generated by the city's world-class universities and research centres. Indeed, the University of Porto is Portugal's highest ranked institution, according to the QS World University Rankings 2018.

Porto has the highest number of students in higher education in Portugal thanks to the aforementioned University of Porto and other

institutions such as Porto Polytechnic, Porto Business School and the Catholic University.

With specialisms in engineering, medicine and computer science, Porto's metropolitan area houses 9000 researchers in its 200 R&D institutions, such as the first Fraunhofer Institution outside of Germany, and the Institute for Research and Innovation in Health, which is focused upon finding tech solutions to cancer.

This ecosystem has been facilitated by Porto's strong links between business, government and education.

Meanwhile, Portugal ranks 12th in Europe for the quality of its scientific research, according to the World Economic Forum's Global Competitiveness Report 2017/18.

### Check the tech

From Porto's pool of talent has risen a flourishing tech scene. Indeed, the city was awarded the 'Best Start-up Friendly City of Europe' title in the World Excellence Awards 2018, and Porto files more patents with the EU than any other Portuguese city.

For this reason, the city is home to the country's leading hi-tech companies and start-ups, such as Farfetch, BLIP, Critical Software, Feedzai, Talkdesk and Veniam. The latter develops 'Internet of Moving Things' solutions. It is responsible for the development of the world's largest network of connected vehicles in Porto.

Spinning off from the University of Porto in 2012, Veniam is now backed by Zipcar and headquartered in California. However, the company maintains its engineering team in Porto, where it feeds into the region's automotive industry.

Veniam recognised Porto as a good test bed for global markets, according to Mr Coutinho. “The most successful start-ups and foreign investments in Porto are tech-based, not in tourism, because we've got the talent, business knowhow and quality of life, and Porto's manufacturing side is demanding this technology,” he says.

### Joining the party

International investors are also recognising Porto's tech attractions. French bank Natixis created its first foreign technology centre in Porto in 2017, employing more than 500 people. Similarly, Chinese agrofood company Cofco recently established a large technological development centre in Porto, while US biotech company Amaris is setting up a research centre in partnership with the city's Catholic University.

“In recent years, Porto has become a very competitive location in the tech scene, thanks to its universities and the [level] of young, international talent here. The city is experiencing a boom,” says Jens Pape, CTO of Xing SE, a German social networking site.

Porto's multilingual and tech-savvy talent has also attracted foreign investors, such as BNP Paribas and Adidas, to the city's shared services sector. Indeed, Portugal's geographic location has made the country one of the most relevant nearshore centres in Europe.

The big picture, therefore, is positive for Porto's foreign investment climate. However, could the country do more to attract FDI?

“Porto's mayor is simplifying business processes [as much as possible], but bureaucratic red tape, an uncompetitive tax system and a public sector-focused mentality are all part of Portugal's structural problem: it's a heavily centralised country [under] Lisbon,” says Mr Coutinho.

Nonetheless, as Portugal's economy continues to rebound and attract further FDI, these issues are likely to be addressed. For example, the national government recently legislated real estate investment trusts, tax-efficient property vehicles in keeping with other European member states, thereby assisting UK-headquartered Round Hill Capital with its €250m real estate investment in Portugal in 2018, according to Peter Holden, group development director of the company. ■