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Lisbon's leading position

RECORD-HIGH INVESTMENT IN
THE CITY'S TECH SCENE



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Tech boom lifts Lisbon

A MAGNET FOR TOURISTS, LISBON IS NOW ENJOYING AN UNPRECEDENTED BONANZA OF FOREIGN INVESTMENT IN OTHER SECTORS, DRIVEN PRIMARILY BY TECH. SEBASTIAN SHEHADI REPORTS

fDi Markets is an online database tracking crossborder greenfield investment. It follows and profiles companies investing overseas, providing real-time monitoring of investment projects and job creation. For further information e-mail fdi@fit.com.

Headline foreign investment flows to Portugal decreased to \$4.9bn in 2018, its lowest since 2014, according to Unctad. However, greenfield foreign investment – tangible ‘ground-up’ investment which by its nature always creates jobs and physical facilities – has never been higher to the country and its capital Lisbon.

In fact, the city was western Europe’s fastest growing capital for greenfield foreign investment in 2018, attracting 42 projects valued at \$1.1bn, marking a 61.5% increase in project numbers compared with 2017, according to greenfield investment monitor **fDi Markets**.

This investment was primarily directed into Lisbon’s software and IT sector, followed by business services, real estate and tourism. And this stellar performance was not a one-off. Greenfield foreign investment into Lisbon has grown consistently since 2015, in both capital and project numbers, and is set to grow further according to **fDi Markets**.

The first seven months of 2019 have already seen more foreign investment projects than total annual amounts for every year between 2003 and 2017.

High on FDI

Portugal is home to roughly 10 million inhabitants, and attracting foreign investment has been a priority for the government over the past decade, due to the aftermath of the 2008 financial crisis, as well as the constraints of its relatively small domestic market.

In this regard, the country has enjoyed unequivocal success. In 2018, it witnessed the highest number of greenfield foreign invest-

ment projects since **fDi Markets** started recording FDI activity in 2003, a high proportion of which went into software and IT services. Meanwhile, the total stock of headline FDI stood at \$135.8bn in 2018, about 62.4% of Portugal’s GDP, according to Unctad.

These figures reflect the fact that the number of greenfield investment projects to Portugal has been growing steadily since 2014, with 2018 seeing about 34% more investment than 2017, according to **fDi Markets**. The country is set for another strong performance, given that the first half of 2019 has already witnessed an unprecedented number of investments.

This boom in foreign investment is a byproduct of Portugal’s successful and ongoing economic recovery. Only 10 years ago, the country was stuck in a deep financial crisis. Unable to repay its government debt, it received a €78bn bail-out package, which it successfully exited in mid-2014.

Portugal’s economic bounce-back has outshone fellow crisis victims Greece and Spain, largely due to its booming tourism and tech industries, as well as a fiscal policy that has boosted business confidence, made investment easier, and accelerated growth in exports, especially in services.

A working recovery

Portugal’s job market has significantly improved, with the unemployment rate falling to 6.7% in June 2018, the lowest it has been since 2004 and a big improvement on 2013’s all-time high of 17.5%, according to research company Trading Economics. Meanwhile, GDP hit 1.9% annual growth in 2016 with a 2.1% budget deficit, the lowest in the country since 1974, according to BBVA Research. In 2017, the country hit its highest GDP growth rate since 2000, at



THE PUSH FROM THE GOVERNMENT WORKED WELL, CREATING A SYSTEM FOR SEED CAPITAL, AND THEN PRIVATE PLAYERS JUMPED IN





Going up: Lisbon's successes of recent years have seen property prices rise

2.8%, while in 2018 the figure was 2.1%.

Moreover, export volumes accounted for 44% of Portugal's GDP in 2018, following exponential growth in recent years due largely to service exports, especially in tech, according to Aicep, the Portuguese government's trade and investment promotion agency.

Another confidence boost lies in Portugal's credit rating. Pegged as BB+ by Standard & Poor's since 2012, Portugal was upgraded to BBB- in 2017, and to BBB early in 2019.

Bumps on the road

The country's recovery, however, is still a work in progress. The public debt-to-GDP ratio remained at about 121% in 2018, one of the highest among developed economies. This ratio has decreased in recent years, but at the cost of public investment in key areas such as transport and infrastructure, a sector many consider to be in urgent need of attention.

Moreover, the country's banking sector is still host to a significant, albeit contracting, number of non-performing loans – 9.4% of total loan portfolios in 2018 – while its household savings remain low by European standards, according to the IMF.

Portugal also risks relying too much on its booming tourism industry, which can be unreliable. Tourism has grown eight years in a row, thanks partly to political or security instability elsewhere in the Mediterranean. While the country hosted a record 21 million tourists

in 2018, this was just a 0.4% annual increase on 2017, and way off the 12% jump seen between 2016 and 2017.

In recent years, Lisbon alone has received 4 million annual tourists, according to Invest Lisboa, the city's investment promotion and service agency, thereby putting the capital's infrastructure, quality of life and house prices to the test. The growing influx of foreign investors, workers and residents has compounded this bittersweet issue.

Gloom to boom

The blossoming start-up economy in Portugal can be traced back to the financial crisis, according to Alexandre Vaz, managing director of Mercedes-Benz.io, a tech arm of Mercedes-Benz that is based in Lisbon. "There weren't enough jobs, so people started to test out new ideas and companies. The push from the government worked quite well too, creating a system for seed capital, and then private players jumped in," he says.

The country's tourism boom and Lisbon's successful bid to host Web Summit, replacing Dublin in 2015, were also very influential in boosting Portugal's economy and international profile. As one of the biggest tech conferences in the world, Web Summit attracts more than 80,000 attendees from some 170 countries. Impressed by the capital's digital infrastructure, ecosystem and more, Web Summit recently agreed to stay in Lisbon for another 10 years. ▶

FDI INTO LISBON SINCE 2014

YEAR	NUMBER OF PROJECTS
2019	27
2018	42
2017	26
2016	19
2015	16
2014	14

Source: fDi Markets



Fast track: Lisbon is a magnet for tourists

In the longer term, Portugal's tech expertise has emerged out of several decades of high-quality education and strategic government funding in traditional and modern engineering to produce a talented workforce.

European hub

Portugal is now in the throes of a tech boom. Ecosystems are blossoming across the country, especially in the cities of Lisbon, Porto, Braga and Aveiro. However, the capital – 'the warm Berlin' as some have coined it – is the epicentre of activity. The EU Startup Monitor 2018 says Lisbon stands alongside London, Berlin, Paris and Copenhagen as the biggest hubs for start-ups in Europe. The sector contributed 1.1% to Portugal's GDP in 2018, according to Startup Portugal.

Sauntering around Lisbon's latest co-working spaces, and speaking to the numerous companies in slick mixed-used 'offices', the buzz is tangible. The past decade has seen a rapid rise in the number of Portuguese tech start-ups, such as Farfetch, Talkdesk, Uniplaces and Unbabel. Farfetch, now publicly listed and headquartered in London, was the first Portuguese tech unicorn (a company valued at more than \$1bn), and is now joined by Talkdesk and Outsystems. It is an impressive achievement for a country the size of Portugal.

Another mark of growth is that the number of people employed in Portugal's start-up

sector grew by 60% between 2016 and 2018, according to Startup Portugal.

Portugal's popularity

The ascension of Portuguese tech is reflected, and supported, by the growth in foreign investment in the country. Over the past two years, there has been a 15% increase in foreign tech companies active there, according to Aicep.

Big names have moved in. Google, for example, has opened a support centre on the outskirts of Lisbon, creating 500 tech jobs. Add to this Amazon, Huawei, Cisco, BMW, Mercedes, Volkswagen, BNP Paribas, Natixis, Bosch, Siemens and Euronext in recent years, among many others.

In 2018, Portugal was Europe's ninth top destination for greenfield foreign investment in software and IT in terms of capital, according to fDi Markets. The country has witnessed four years of uninterrupted growth in such investment, with 2018 setting historic highs. This year is gearing up to be another record breaking year, fDi Markets predicts.

Faber Ventures, one of the main institutional investors seeding Portuguese start-ups, sees 75% to 80% of its investment coming from abroad, according to Carlos Silva, an executive at the company. "From an investor's perspective, Portugal is one of the fastest growing ecosystems in Europe, but we still have to reach maturity. So things tend to be undervalued, which means there's some very interesting investing opportunities under the radar," he says.

Rising VC

Lisbon's venture capital (VC) market is moderate in size by EU standards, and dwarfed by Silicon Valley standards (a Europe-wide problem). Nonetheless, it is growing. Portuguese start-ups raised more than €485m in 2018, while the volume of transactions increased fourfold compared with 2017, according to a recent report called Venture Capital in Portugal 2018-S12019. Meanwhile, the number of private equity firms in Portugal has doubled over the past eight years, and private equity investment more than tripled to \$8.6bn between 2015 and 2018, according to industry consultant TTR.

Lisbon saw the opening of its largest VC fund, Indico Capital Partners, early in 2019. "It's far and away the first sizeable, independent and private early-stage, tech-focused fund to be based in Lisbon," says US online publisher TechCrunch.

Backed by the European Investment Fund and 20 other institutional and individual investors, Indico will fund early-stage start-ups across Portugal and Spain in business-to-business, software-as-a-service, AI, fintech, cybersecurity, marketplaces and business-to-consumer platforms. The fund is a milestone for the Portuguese ecosystem – and another vote of confidence for foreign investment. ■

Q&A: FERNANDO MEDINA

Lisbon's 'living lab'

LISBON'S MAYOR DISCUSSES WITH **SEBASTIAN SHEHADI** THE CITY'S TECH STRENGTHS AND ITS SOLUTIONS TO BUSINESS CHALLENGES, SUCH AS AFFORDABLE HOUSING

Q What are some of Lisbon's most exciting trends and specialisms, particularly in the tech scene?

A Lisbon is today a city of innovation, creativity and entrepreneurship, which actively promotes the creation of networks, experimental spaces and co-creation. It is a living lab in which public entities, businesses, universities, research centres, technological institutes and citizens collaborate in areas such as AI, augmented reality, virtual reality, social innovation and robotics. To foster this, we have innovative and vibrant spaces such as Startup Lisbon, NOW, Idea Hub, Village Underground, LACs, Beta-I and Casa do Impacto, to name just a few.

Q Are there any incentives you will be launching to attract foreign talent and capital to Lisbon's tech scene?

A The city and national government have maintained and reinforced the support of the start-up ecosystem (for example, with Startup Lisbon and Startup Portugal), which we combine with new tools such as TechVoucher and TechVisa to promote the attraction of more skills to the city and to the country.

It is not only the number of international companies that is growing and expanding in the city. In 2018 the number of foreign residents in the city grew 25% and the number of international students enrolled in city universities increased by 11%, showing an acceleration in the growth trend that started after 2014.

IN 2018 THE NUMBER OF FOREIGN RESIDENTS IN THE CITY GREW 25%

Q What is your solution to making Lisbon's housing market more affordable, improving transport, and encouraging the growth of venture capital in the city?

A We are promoting a big programme of affordable rents. This was launched to make available thousands of affordable housing units in 15 different locations inside Lisbon, combining public and private investment. We are also working closely with the national government to use government-owned buildings for this programme, and to increase the number of student residences to increase housing availability and lower prices.

At the same time, Lisbon has integrated the bus company Carris in the municipality, and is investing in the renewal of its fleet. This has triggered multiple changes to the public transport system, namely introducing a single ticket with access to all the metropolitan area for bus, tram, train and boats. It has also seen the implementation of a family pass that enables all family members to access public transport for a maximum of €80 per month in the metropolitan area and €60 inside Lisbon. An individual pays €40 in the metropolitan area and €30 inside Lisbon.

In parallel, we are encouraging the use of shared mobility and cycling. In the past two years, bike lanes in Lisbon have grown by one-third and the city has embraced the goal of achieving 200 kilometres of bike lanes by 2021 as part of the European Green Capital commitment. This, aligned with the public investment on a network of 1400 public bicycles, supported by 140 charging stations, is promoting soft mobility as a true alternative and it has triggered private investments in bicycles, kick-scooters and electrical scooters, with there now being more than 6000 shared vehicles.

Like any early-stage entrepre-



CURRICULUM VITAE
FERNANDO MEDINA
2015
Lisbon
Mayor
Previously
Portuguese MP

neurial ecosystem, Lisbon faces the challenge of access to venture capital, an issue that is usually only 'solved' in bigger and more mature ecosystems. But Lisbon has some specific characteristics regarding global start-up connectivity that allow us to address that issue at this early stage, and therefore attract more venture capitalists and business angels to our local ecosystem.

Q How do you expect the recently passed Portuguese legislative elections to affect Lisbon's tech scene and foreign investment climate more generally?

A We don't expect to make changes in policies regarding support to entrepreneurs. The policies followed are accepted between the centre parties and we believe that they will continue to be implemented and reinforced in the future. ■



Power of attraction: Lisbon's urban environment and tech talent are making it a magnet for foreign investors

Lisbon's tech star continues to rise

LISBON'S STATUS AS A EUROPEAN TECH HUB IS GROWING AND GROWING. WHILE THIS IS CONTRIBUTING TO ISSUES SUCH AS RISING PROPERTY PRICES, INTERNATIONAL INVESTORS ARE STILL FLOCKING TO THE PORTUGUESE CAPITAL.
SEBASTIAN SHEHADI REPORTS

People seem to want to live in Portugal. In 2018, the number of foreign residents registered in the country rose by more than 93,000 to a record of almost half a million, the third consecutive year of robust growth, according to Portugal's Foreigners and Borders Service.

Meanwhile, foreign investment into Lisbon hit historic highs, with 24% of all projects going into software and IT, a sector in the city that has seen unswerving growth in foreign investment since 2015, according to greenfield investment monitor **fDi** Markets. Parallel to this are the city's skyrocketing real estate and tourism sectors.

John Graham-Cumming, chief technology officer at cyber security group Cloudflare, which has more

than 155 data centres around the world, recently moved to Lisbon to help set up the company's third European office. Cloudflare looked at 45 different cities across Europe, but choose the Portuguese capital.

"Lisbon's tech growth has been tremendous and [the city] is doing a great job of attracting talent. It has the potential to be the next great European technology ecosystem. We chose Lisbon because of its strong tech talent, quality of life, time zone and political stability. Portugal also offers attractive incentives for returning Portuguese expats (50% income tax discount)," says Mr Graham-Cumming.

Invested in talent

Lisbon's educated and multilingual workforce is the primary reason foreign investors are entering the capital's tech scene, according to **fDi** Markets. For example, Global Shares, an Ireland-based provider of equity compensation management solutions, opened an office in the city in April 2019, creating 30 new jobs for IT engineers and service analysts. Mark Purcell, the company's chief operating officer, says: "Lisbon is a major hub with an extensive pool of

resources in terms of language skills and access to highly talented staff."

Much of this can be attributed to Portugal's education system, which ranks 17th out of the world's 63 leading economies in IMD's World Talent Report 2018; it comes fifth for language skills, eighth for skilled labour and 14th for university education. English is widely spoken across the country – more so than in Spain or France, according to the English Proficiency Index 2018.

The country also boasts the second highest rate of engineering graduates in Europe, according to Eurostat. The Portuguese government has long made this a priority, setting up exchange programmes with leading US engineering universities 20 years ago, among other initiatives, according to Ricardo Marvão, co-founder of Beta-i, an innovation platform that matches start-ups with corporate clients and organises events.

Many of the founders of Portugal's leading start-ups benefited from these exchanges, or gained experience outside of Portugal during the crisis years – two reasons why Portuguese start-ups think globally from day one, says Mr



CLOUDFLARE CHOSE LISBON BECAUSE OF ITS STRONG TECH TALENT, QUALITY OF LIFE, TIME ZONE AND POLITICAL STABILITY



Marvão. Another is the small size of the country's market, which forces companies to look further afield.

ICT scale-ups

Lisbon's thriving tech ecosystem and network is another key attraction for foreign investors and entrepreneurs. The city has registered a record number of tech companies and start-ups in the past few years, and boasts 32 incubators and accelerators and 41 co-working spaces, according to Invest Lisboa, the capital's investment promotion and service agency.

Led by Lisbon, the growth of ICT scale-ups across Portugal doubled the European average in 2017, according to the Startup Europe Partnership Initiative, which defines 'scale-ups' as start-ups that have raised more than \$1m. International investors have played a central role in this, accounting for 62% of capital made available to scale-ups, and 86% of later stage rounds.

"Ten years ago, Beta-i had 75 start-ups coming to us a year. Now we have 4000 a year – domestic and international – to choose from. The big explosion has come in the past three years, following the arrival of Web Summit, the end of austerity, and the

tourism boom," says Mr Marvão.

Alongside Beta-i, another key incubator in Lisbon is Startup Lisboa. Since its establishment in 2012, it has supported 400 start-ups from 35 countries, creating 3500 jobs and raising €100m.

Lisbon's draw

Lisbon also benefits from a lively events scene and thriving business tourism, and is the sixth most popular city globally for international meetings, according to the International Congress & Convention Association's ranking. The capital hosts one of the largest and most prestigious global tech conferences, Web Summit, which gathers roughly 80,000 people annually. The other main tech event is Beta-i's Lisbon Investment Summit, a more informal, grassroots and social gathering of 4000 people.

All of this makes Lisbon's tech scene highly international, undoubtedly helped by Portugal's strategic location. The top sources of foreign tech investments to the capital are the US, France, Germany, Spain, the UK, Brazil and Japan (in that order), according to fDi Markets. Most of those investment projects went into

software, not hardware. However, Lisbon is also home to interesting hardtech innovation, especially within its traditional commodities such as cork production.

What's the incentive?

Another key attraction for foreign investors in tech is Portugal's legal and financial incentives. "Portugal is a country very open to technology companies and has a cosy environment. It has also been [friendly towards] technology workers [through the Startup Visa, which is a residence visa for non-EU start-up founders]," says Etienne Amic, chief executive of VAKT, a blockchain-powered commodity trading platform that opened a new technology development centre in Lisbon in April 2019.

Attracting non-EU tech talent to Portugal has become simpler thanks to the Startup Visa, which is now complemented by the Tech Visa, which makes it easier for Portugal-based tech companies to hire highly qualified non-EU talent. Over the past decade initiatives such as these have propelled Portugal up the World Bank's Ease of Doing Business index, to 34th among 190 economies in the 2019 list. ▶



New from old: Hub Criativo Beato is 35,000-square-metre start-up campus in a former arms factory

However, further reduction of bureaucratic ‘red tape’ is something many in the country claim is still needed. “As part of the EU, it’s not so tough to set up things in Portugal. You just have to be patient because some admin tasks can take time – longer than in France and Spain in some areas,” says Julie Menakovski, Portugal managing director of Viseo, a global IT consulting firm that opened an office in Lisbon in February 2019.

On the plus side, foreign investors can benefit from Portugal’s attractive non-habitual tax resident regime, essentially a tax holiday for skilled professionals’ first 10 years of living in Portugal. Meanwhile, non-EU citizens who spend more than €500,000 on a property or create sufficient jobs can apply for a Golden Visa, which offers non-EU investors a fast-track to obtaining a residency permit.

Moreover, foreign and local entrepreneurs can apply for funding through the 200M co-investment fund or Portugal2020. For the latter, however, grant funding for companies registered in Lisbon is capped at a lower level than outside the capital, leading some companies to register beyond the capital’s borders while maintaining operations within, according to Rui Andres, corporate director at Frontier IP Group, a specialist asset management group. This contrasts the UK’s equivalent scheme, Innovate UK, where SMEs can receive 75% funding, he adds.

Costs rising

Moving to Lisbon may have many positives. The city’s attractive

Mediterranean climate, cuisine and heritage are well documented. The city has the 37th best quality of life in the world, and also ranks very highly for safety, according to Mercer’s annual study of more than 200 cities. More broadly, Portugal is one of Europe’s most politically stable countries, while the country’s largest political parties are widely considered to be friendly towards foreign investment.

Living costs, and labour costs within the IT and software sector, remain lower in Lisbon than other European tech hubs such as London, Berlin and Barcelona, according to location assessment tool **fDi** Benchmark. However, this is changing. “The way of life is very attractive in Lisbon. But in terms of salaries, it is not as cheap [as people think]. It’s increasing year after year, and the real estate is getting quite expensive for offices and homes,” says Ms Menakovski.

The cost of rent in Lisbon has risen sharply in recent years, with prices hitting an eight-year high in 2018, according to a report from Confidencial Imobiliário. Aware of the problem, especially for locals, Lisbon City Council launched an ongoing affordable rent programme in 2018, set to create up to 7000 new low-rent homes across the capital.

“[There’s a contest] for available offices that has [never] been witnessed before. New space that comes to the market is very often gone within a couple of days, costs by square metre are increasing constantly,” says João Delgado, head of communication and

governmental affairs at Volkswagen Autoeuropa. In 2018, Volkswagen opened its first software development centre outside Germany, in Lisbon, building a 300-person team creating user-driver-centric software.

Hot property

Big names within tech real estate have arrived in Lisbon, such as co-working space Factory, created by the same group that set up Berlin’s renowned company of the same name. Hub Criativo Beato is another big development, a former army factory being transformed into a 35,000-square-metre mega-start-up campus, thereby competing with Paris’s famous Station F incubator in terms of size.

“More than 20 buildings are being renovated to house national and international entities in the areas of technology, innovation and creative industries. We’re creating one of the biggest entrepreneur hubs in Lisbon and it will change the ecosystem and the city as we know it,” says Miguel Fontes, executive director of Startup Lisboa.

It is no surprise, therefore, that greenfield foreign investment into Lisbon’s real estate hit record highs in 2018, according to **fDi** Markets. In fact, by sub-sector, ‘accommodation’ saw more FDI than any other across Lisbon’s economy in 2018.

Lisbon is in demand and has an appetite for more business. Bar a global recession or crisis, the city’s international tech sector is set to boom on and solidify its position as one of Europe’s major tech hubs. ■