European Construction Sector Observatory

Policy measure fact sheet

Portugal

Rehabilitate for Rent Programme

Thematic Objectives 1 & 3

March 2018

In a nutshell

Implementing body:	Institute for Housing and Urban Rehabilitation (Instituto da Habitação e da Reabilitação Urbana – IHRU)
Key features & objectives:	Affordable housing programme that aims to increase the supply of social rented housing in Portugal
Implementation date:	9th July 2015
Targeted beneficiaries:	Actual and potential landlords and tenants
Targeted sub-sectors:	Property sector, rental housing sector
Budget (EUR):	50 Million

The Portuguese housing market is mainly owner-occupied and has been for decades, largely due to a cultural preference for homeownership and the availability of low interest mortgages. Portuguese families view housing as an investment and as a way to guarantee an inheritance for their relatives. According to the last Housing Census, 73% of housing is owner-occupied. In contrast, the rental housing market accounts for just 20% of housing in Portugal, of which private rented housing accounts for 18% and social rented housing accounts for just 2%. The remaining 7% is made up of other tenures, such as free housing concessions, usufruct and housing provided by employers. As a consequence, there is a need to increase the supply of affordable housing, not just for people on low incomes, but also for those whose incomes are too low to enable them to buy their own home but are also too high to qualify for social housing. The latter economic situation particularly applies to young people (18-34 years of age), 58% of which still live with their parents, largely due to financial reasons.[1]

Another significant issue is urban planning and development in Portuguese cities. While peripheral urban areas have become more and more populated with new building construction, the condition of housing in city centres has progressively deteriorated[2]. Old buildings and apartments in city centres have often not been renovated in years and this is severely affecting living conditions and the appearance of neighbourhoods.

In particular, the renovation of the Portuguese rental housing stock has been hindered for decades by a rent freeze that applies to older leases and presents a barrier to rental property owners' investment in renovation. The government implemented two reforms to respond to this problem – the Urban Lease Law[3] (1990) and the New Urban Tenancy Regime[4] (2006), but they did not succeed in resolving the rent freeze problem.

The limited results achieved by the two tenancy measures and the impact of the economic crisis have exacerbated the housing situation in Portugal. Investing in housing has been increasingly viewed as a luxury, particularly by citizens on low and middle incomes. However, this growing demand for rental property is constrained by the small and decreasing size of the rental market - the size of the private rental sector decreased by 49.1% between 1981 and 2011, from 1,074,590 residential units to 545,710 residential units.[5]

> To improve the functioning of the rental market, the Portuguese government has implemented two key measures: the New Urban Lease Regime in 2012 and the Rehabilitation for Rent Programme (RRP) in 2015.

The New Urban Lease Regime, which provides the legal framework for the RRP, is part of the Economic Adjustment Programme that was agreed between the European Central Bank, the European Commission, the International Monetary Fund (IMF) and Portugal. The measure provides landlords with greater flexibility in setting rents. It makes it easier for them to renegotiate open-ended residential leases and provides a framework to improve access to housing by phasing out rent control mechanisms and prioritising citizens on low incomes. It reduces the prior notice period for the termination of leases, and provides an extrajudicial eviction procedure for contract breaches, with the aim of reducing the eviction time to three months[6].

The Rehabilitate for Rent – Affordable Housing Programme (RRP) (Reabilitar para Arrendar - Habitação Acessível) was launched on 9 July 2015. The programme provides low interest loans to support and encourage the renovation of older buildings, on the condition that they are then provided for rent under the conditional rent regime. The aim is to increase the supply of affordable housing in urban areas.

Opinions on the success of the RRP, thus far, are mixed. On the implementation side, the general view is one of ongoing success, despite relatively low demand for the available financing. Building owners, on the other hand, point to a number of limitations that may explain the lack of demand. The general consensus is that the programme could prove successful if the limitations are addressed.

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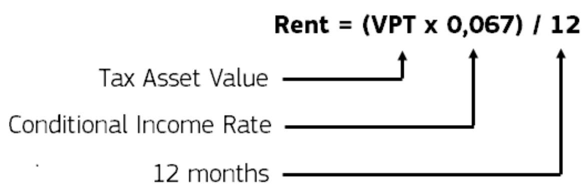
1
General description

Rehabilitate for Rent is a loan programme that is designed to increase the supply of social rented housing and reduce building degradation in historic urban areas.

The programme supports the rehabilitation of buildings aged 30 years or more that are located in Urban Rehabilitation Areas. In some particular cases, the measure also provides funding for buildings aged less than 30 years that are in need of urgent rehabilitation. Financing is not available for buildings that have been renovated with public support in the 10 years prior to submitting an application[7].

The Institute for Housing and Urban Rehabilitation (IHRU) is responsible for implementing the measure and for verifying that renovated buildings are provided for rent at affordable prices. For a loan to be awarded, a building must be entirely renovated and must be provided for residential use throughout the loan repayment period. In addition, rental prices should be affordable for citizens on low incomes ('renda condicionada'). Social rent for each building is calculated using the formula shown in Figure 1.

Figure 1: Conditional rent (renda condicionada) formula



Source: IHRU[8]

The award process for long-term loans requires building owners to demonstrate Economic sustainability of the building renovation operation;
- Payment of an analysis fee of EUR 150;
- Renovation work commencing within 90 days of signing the loan agreement or obtaining the approval of the Court of Auditors;
- Completion of renovation work within 12 months of receiving the loan amount[9]
- The loan scheme covers 90% of the total investment for the rehabilitation and the interest rate throughout the repayment period is fixed at 2.9%. The loan must be repaid over a maximum period of 15 years. The cost of renovation work covered by the loan scheme should not exceed EUR 700 per square metre and this should be reflected in the economic sustainability section of the building renovation proposal[10].

For the measure to be successful, it must deliver urban development in cities and it must ensure the preservation of historic areas.

To receive funding through the programme, building owners must ensure that their renovation projects adhere to municipal licensing conditions and comply with architectural heritage rules to avoid landscape irregularities. Landlords must also rehabilitate all of the essential components of the building, because the loan is not intended to fund partial renovations. Owners can benefit from the Exceptional Urban Rehabilitation Regime (Regime Excecional para a Reabilitação Urbana, RERU), which simplifies the legal regulations, requirements and procedures for urban rehabilitation, through to 9th April 2021[11].
The application process is done online on the IHRU website and is divided into two phases:

The first 'pre-application stage' requires applicants to provide all of the necessary documentation to support their loan application. Assessment of an application's eligibility and viability requires the submittal of a simplified copy of the real-estate registry, the building passbooks from each party involved in the building work, four representative photographs of the building to be renovated, and a simulation document.

The second and final 'financing application stage' determines the loan amount and award conditions. The conditions include architectural elements, the real costs of the intervention and proof of municipal prior control, if applicable.

2
Achieved or expected results

The Institute for Housing and Urban Rehabilitation (Instituto da Habitação e da Reabilitação Urbana – IHRU) has published data on the results of the RRP in its first two years of operation (up to 2017). Table 1 presents the results so far, which the IHRU says have been significant. The RRP has approved funding to rehabilitate 91 buildings for a total investment cost of EUR 13.8 million in loan financing, which is 28% of the RRP's available budget EUR (50 million). The level of investment reported is intended to provide a total of 359 residential units for rent on the market at conditional rent rates.

Table 1: Rehabilitate for Rent Programme results

Number of buildings rehabilitated	**91**
Number of rental homes to be made available after completion of work	359
Total investment cost of rehabilitation loan funding (EUR)	**13.8 Million**

Source: IHRU, 2017[12]

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Although the Government and the IHRU have declared that the measure has been successfully implemented thus far, stakeholders highlight a number of issues with RRP implementation. Building and apartment owners claim that the RRP implementation process has been burdensome, that it is not sufficiently transparent and that it has not solved the main issues of the Portuguese housing market.

The main point of discord is the fact that the RRP only provides loans to owners of entire building that are to be rented out and excludes owners of rental apartments that want to renovate their properties. According to the President of the Lisbon Building Owners' Association (Associação Lisbonense de Proprietários), the vast majority of buildings in Portugal are not owned by a single company or person. As a consequence, the RRP excludes the majority of property owners.

Although the RRP has been designed at national level in collaboration with the European institutions, municipalities are the public administrations in charge of providing building licenses for rehabilitation. In recent years, these institutions have been facing budgetary constraints which sometimes hinder the proper implementation of the measure. To address this, the IHRU is collaborating with over fifty municipalities to help them to introduce the RRP[13].

The case of Portugal is quite complicated as urban land tends to be privately owned rather than publicly owned. This makes expropriation unsustainable, as the price of land is too expensive for public budgets. However, the government expects that by the end of the programme, about 2,000 residential units will have been renovated with its support.

3

Perspectives and lessons learned

From an **implementation perspective**, the Institute for Housing and Urban Rehabilitation (IHRU) contends that the measure has been successfully implemented and has been well received.

The IHRU says that the Rehabilitating for Rent measure has unblocked the rental housing system and has increased the supply of social rented housing in Portugal. The IHRU points out that the measure is not only helping building owners to renovate their buildings and increase the value of their buildings, it is also helping to reduce the amount to frozen rents in the housing market.

From a **building owners' perspective**, the Lisbon Building Owners' Association (Associação Lisbonense de Proprietários – ALP) says that the implementation of the measure has been limited, as only building owners can benefit from the loans provided by the programme.

The president of the ALP argues that although the measure has generated a lot of interest, it has missed an important opportunity to be really successful by excluding the large numbers of apartment owners that wish to renovate their apartments for social rent from the programme. This is a cause for concern and apartment owners are unhappy about it.

The President of the ALP says that another issue is that the rent proposed by the policy measure is below the real market value which makes it difficult for building owners to achieve a return on their investment. He also makes the point that the loans provided do not cover the total investment costs for building renovations. By only guaranteeing 90% of the total cost, the programme may act as a disincentive to many owners that wish to carry out renovations but are unable to privately fund the remaining 10% of the cost involved.

From an **academic perspective**, the measure is viewed as a great opportunity to increase the much-needed social rented housing stock in Portugal.

A Research Fellow at the Institute for Social Sciences, University of Lisbon, makes the point that the economic downturn has increased the demand for rental housing as many citizens cannot afford to buy a property. According to the expert, the rehabilitation of buildings in the city centre would help to stop degradation of these fundamental areas as well as reduce migration to the suburbs. The lack of local housing non-profit associations is also concerning. The establishment of such associations or cooperatives would help citizens to find affordable renting housing and help address the problem of deteriorating neighbourhoods. Finally, the expert considered that the measure has not been designed to maintain the social housing stock in the long run, as once the rehabilitation mortgage is paid off, the buildings renovated through the scheme may be put in the market for sale for owner occupation.

Endnotes

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