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Property investment and housing affordability in Lisbon and Porto.

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Contents

Abstract

This study describes how the housing markets in Lisbon and Porto have developed over the past decade in terms of property investment and housing affordability. Like many cities in Europe, Portugal's two biggest cities have witnessed significant changes in their housing markets. Both cities have become increasingly attractive to tourists, as well as investors. Foreign direct investment in real estate and construction doubled in the last 10 years. These capital inflows strongly contributed to the regeneration and revitalisation of inner city neighbourhoods. At the same time, these developments are associated with an increasing socio-spatial segmentation of the residential market. In 2019, the average number of months a dwelling was on the market (rent and buy) decreased to record low values. In parallel, the years of income needed for families to acquire a home substantially increased. For the lower classes, in central Lisbon and Porto, as well as adjoining municipalities in the metropolitan area, the percentage of average monthly income spent on rental costs can increase to almost 70%. A number of policies have been implemented to attract (foreign) investment and to stimulate renovation, as well as to increase housing affordability. Furthermore, in response to its impact on house prices and evictions of residents, short-term accommodation for tourists has been progressively regulated since 2014. Nonetheless, in general, housing affordability in both cities decreased for the middle classes and the younger generations, since local incomes have not kept pace with the more globally driven house and rental price developments.

Keywords: Housing market, housing affordability, property prices, tourism, short-term rental market, real estate investors, Portugal, Lisbon, Porto.

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Executive summary

Lisbon and Porto are the two largest metropolitan areas in Portugal, representing respectively 2.8 and 1.7 million of Portugal's 10 million inhabitants. Two decades ago, the old city centres were characterised by low-income renters and a high share of vacant and derelict buildings, while most owner-occupied homeowners were found in the urban peripheries.

However, in the last decade, the country's urban housing market substantially changed, turning its two main city centres into vibrant and globally recognised destinations. Encouraged by state policies, both domestic and foreign investments contributed to urban regeneration and rehabilitation. Increased tourism stimulated the local economy and in particular the hospitality sectors. At the same time, housing costs relative to income increased, whereby the lower and middle classes, as well as the younger generations, have seen access to affordable housing decline. The impact of these price increases is strongest in Lisbon.

In central Lisbon and Porto, as well as in the adjoining municipalities in the metropolitan areas, the percentage of average monthly income spent on rental costs for the lower classes, can increase to almost 70%. The percentage of average monthly income spent on rental costs for the middle class lies between 52 and 68% in the Lisbon municipality. Furthermore, assuming that a household uses all its income on housing expenses, it takes more than 10 years for the middle class to purchase property in the municipality of Lisbon. For Porto, it would take an estimated 6-7 years for the middle class, and 10 or more years for the lower-middle class.

While in both cities investments and tourism have soared, local dynamics differ. Lisbon attracts most investments, and housing financialisation is also strongest in the capital. It took time to implement local policies, but currently short-term tourist rental operations are regulated in some areas. Porto became increasingly attractive at a later stage, although paired with somewhat slower dynamics and less impact on price increases. However, as of late the major real estate developments have been substantially financed by foreign capital, which has also been reflected in rising house prices.

In both cities, tourist rentals take up the largest share of the active rental market, and the state does not have enough houses to meet public demand. Currently, the public rental market only serves a small part of the most vulnerable population. Traditionally homeownership has been a desired way of accumulating wealth, but the relatively low salaries rule out the possibility of obtaining a mortgage for many. The incomes of the middle classes and the younger population do not keep pace with the rising market prices and, therefore, housing needs persist. Furthermore, the availability of affordable housing in well-connected off-centre neighbourhoods with a similar access to services and quality-of-life is not for granted.

Against this background, the Portuguese government announced a new housing policy to enlarge the supply of public housing and controlled-cost housing. This policy will promote investments in public buildings, and support the rehabilitation of the most deteriorated housing stock with the poorest living conditions. It will further be accompanied by policies aimed at the improvement of other social services, for example related to education and health.

This implies a shift towards the territorialisation of housing policies, taking into account local contexts and their external positioning. On the one hand, policies address the magnitude of housing problems in the Lisbon and Porto metropolitan areas, on the other hand, policies emphasise the importance of looking after and appreciating the housing stock in the remaining areas, as a means of fostering greater social and territorial cohesion. A number of these policies and instruments are embedded in, or emerge from EU policies, such as the European Green Deal, including the Renovation Wave, as well as the EU Recovery and Resilience Facility that is at the heart of NextGenerationEU.

1. Introduction

Since 2008, a global surge in national and international corporate acquisitions in urban properties has been observed. In parallel, online rental platforms such as Airbnb, have allowed homeowners to flexibly participate in the commercial market for short-term residential housing, whereby the high profits also attracted private investors buying apartments for short-stay. While investments and the increase in tourism have brought income, employment and urban regeneration, concerns have been raised about the negative impact on housing affordability, especially for the middle classes and the younger generations.[1]

In Portugal, access to housing for both the middle and lower classes has been a challenge since the 1980s, especially in Lisbon and Porto. In both cities rents had been frozen since 1948 (and throughout the country since 1974), blocking any investments into new housing for rent. In result, there was minimal supply, whereby the state had only a limited number of houses available to the poorest households, and loans for buying a house were expensive and inaccessible to middle and lower class Portuguese families (Matos, 2001, Serra, 2002, Allen et al, 2004).

Between 1990 and the 2008 financial crisis, the financial sector came in strong, providing the conditions to support a public policy based on homeownership. This policy was developed as a way of counteracting the stagnation of the rental market, increasing the construction of new housing so that the middle class and the lower middle class could have access to homeownership. The process went hand in hand with the European integration and the creation of the Economic and Monetary Union, which allowed Portugal to have access to external financing (Santos, 2019; Santos et al, 2014).

In the post-crisis period (after 2008), the link between finance and housing consolidated due to a transnational demand for domestic real estate, and the strengthened role of financial agents, in particular international real estate funds (Santos, 2019). This denoted a new phase of housing financialisation. The subsequent continuous global capital flows, and increasing international travel, resulted in a strong rise in demand for housing by foreigners (residents or tourists) that translated into a huge hike in house and rental prices, both in Lisbon and Porto.

To support an inclusive housing market protected against excessive speculation, the national government implemented an extensive housing policy providing subsidies for more vulnerable groups, as well as tax incentives for homeowners to house such groups. So far, results have been limited, also because public financial resources remain restricted. According to The State of Housing in Europe (2021), public housing in Portugal accounts for just 2% of all housing (Lisbon rates at 8,2% and Porto at 10,4%). At the same time, there is not any policy in Portugal restricting or conditioning land sales or construction permits, other than the customary laws of land-use and urban policy, e.g. restricting construction in protected areas or in historic city centres. As such, housing affordability remains a concern, in particular for the local middle classes and younger generations.

In 2020, a motion was passed by the European Parliament calling to the European Commission to assess how EU policies and regulations contribute to the financialisation of the housing market. It calls to assess the ability of national and local authorities to ensure the right to housing, and, if appropriate, to provide legislative proposals to counter the financialisation of the housing market. It also calls upon Member States and local authorities to implement measures that counter speculative investment, and to adopt policies that favour sustainable development of the housing market, paired with planning policies that foster affordable housing, social cohesion, and social mixing.

In this study, the housing markets of Lisbon and Porto (both and municipal and metropolitan level) are analysed in terms of property investments, short-term rental accommodations, and housing affordability.[2] The period under analysis is from 2011 to 2019. The first main section describes the general characteristics of both housing markets, followed by a subsections on short-term tourist accommodation, house and rental

[1] See Saskia Sassen *Who owns our cities – and why this urban takeover should concern us all,* The Guardian, November 2015. https://www.theguardian.com/cities/2015/nov/24/who-owns-our-cities-and-why-this-urban-takeover-should-concern-us-all.

[2] This study is part of a broader exploratory research activity, as summarised in the report: *Who owns the city Exploratory research activity on the financialisation of housing in EU cities*, Van Heerden, S., Ribeiro Barranco, R. and Lavalle, C. editor(s), EUR 30224 EN, Publications Office of the European Union, Luxembourg, 2020, ISBN 978-92-76-18956-5 (online), doi:10.2760/07168 (online), JRC120776. It is possible some textual overlaps exist. Please see: https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/who-owns-city-exploratory-research-activity-financialisation-housing-eu-cities.

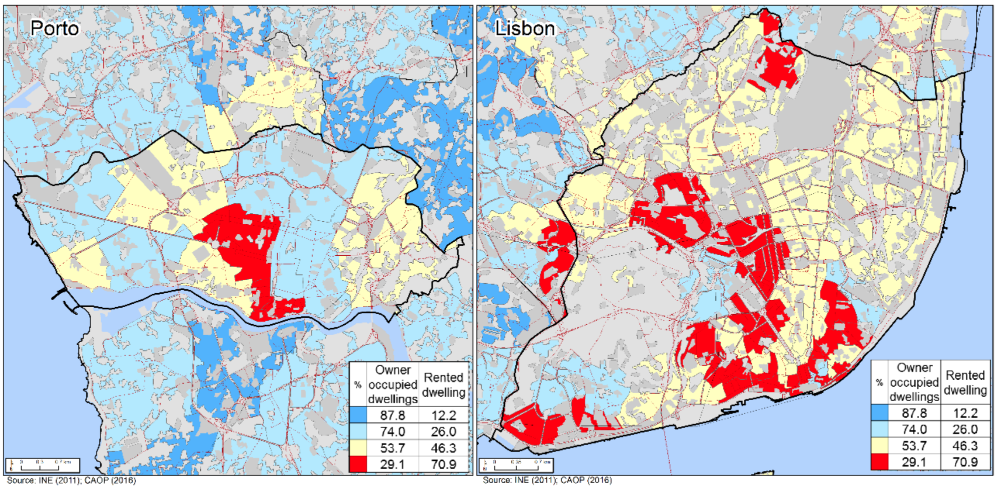
price development, affordable housing in terms of demand and supply, and finally, on investments. [3] The second main section addresses some of the relevant polices and instruments that have been implemented, such as: instruments to attract (foreign) investment and to stimulate building rehabilitation; programmes to support affordable housing for vulnerable groups, and incentives to provide long-term affordable accommodation.

[3] The data used in this report derive from the databases of the CEGOT housing research group of the University of Porto, official statistics, and the statistics from the company *Confidencial Imobiliário.*

2. Lisbon's and Porto's housing market

To understand the changes that took place in the last decade, some development or features of the Lisbon and Porto housing markets in recent history should be noted. First of all, in both metropolitan areas, 67-68% of families are homeowners. In the municipality of Lisbon, homeownership is 52%, and in the municipality of Porto it is 51% (see Figure 1). Thus, both urban peripheries have more homeowners than the urban centres, and in the old centres of Porto and Lisbon, tenancy is superior compared to the suburbs and urban peripheries. In these centres, population densities are generally low, and also the average income of the tenants is low.

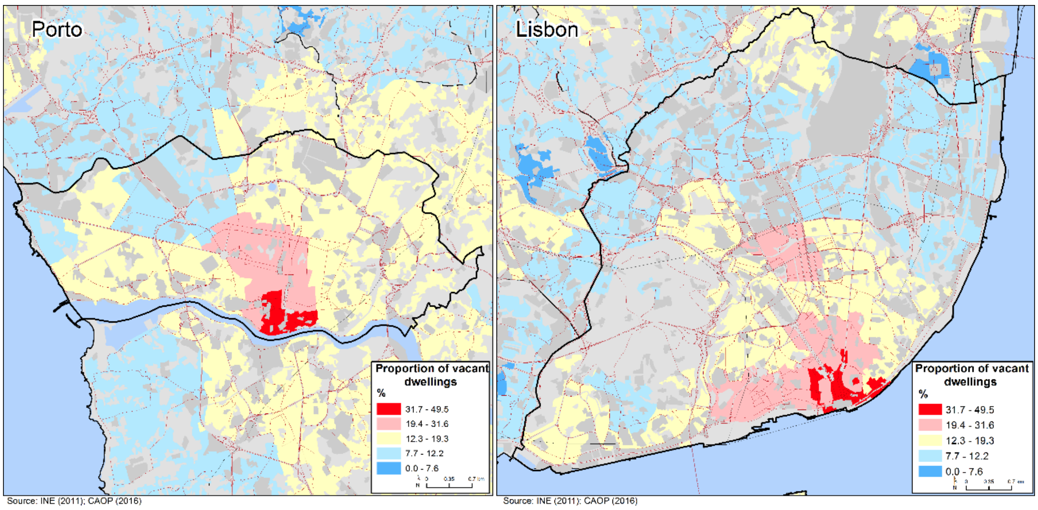
Figure 1. Housing tenure clusters in Porto and Lisbon (2011)



Source: elaborated by authors; data source: INE, Housing Census, 2011.

A second feature that stands out is the share of vacant buildings (see figure 2). This is largely due to a strong suburbanisation process that took place over the past decades, whereby public policies encouraged homeownership as a way of counteracting the stagnation of the rental market. In this respect, Portugal moved from being a country of tenants (1960s) to a country of homeowners (2011). Through this policy, the middle class and the lower-middle class gained access to housing of minimal quality, fitting the size of their families. Following this strong suburbanisation process the increase in vacant dwellings rose to 16% in Lisbon and 19% Porto.

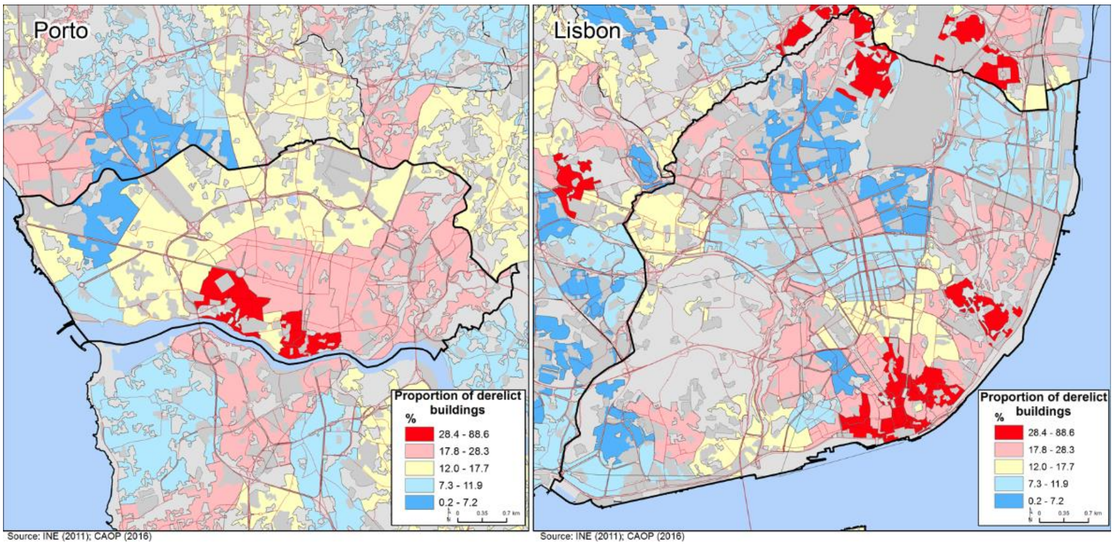
Figure 2. Proportion of vacant dwellings in Porto and Lisbon (2011)



Source: elaborated by authors; data source: INE, Housing Census, 2011.

Finally, over the years, both city centres lost large parts of their residential function, becoming unoccupied, depopulated and degraded (see figure 3). Hence, the dynamics of rehabilitation and appreciation of built heritage in recent years have strongly contributed to urban regeneration.

Figure 3. Proportion of derelict buildings in Porto and Lisbon (2011)



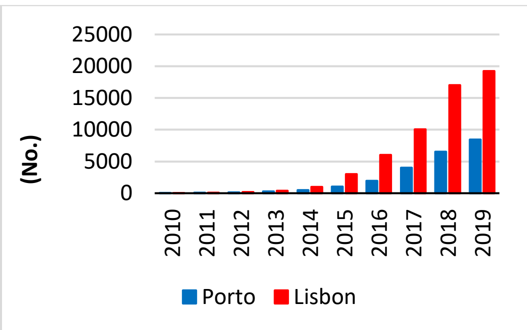
Source: elaborated by authors; data source: INE, Housing Census, 2011.

2.1 Recent dynamics: tourism

After a period of recession associated to the great financial crisis in 2008 and subsequent economic crisis, the Portuguese housing markets witnessed an unprecedented recovery and expansion. This is undoubtedly related to the rise in tourism and the attractiveness of short-term rental accommodation, facilitated by online rental platforms such as Airbnb.

Unlike in many other EU countries, Airbnb had a slow entry in the Portuguese market. In the early 2010s, there were less than 100 annual listings on the platform in Lisbon, and less than 50 in Porto (see figure 4). This does not mean, however, that there were no short-term tourist rentals available. Before 2014, there were simply no legal regulations for registration or control at municipal level, so many operated without regulation or monitoring. In 2014, Lisbon marked 1,000 listings on the platform. For Porto, this was the case in 2015. Since then, the rise has been exponential. In 2017, Lisbon had over 10,000 listings and in 2019 over 19,000. In Porto, the growth has also doubled in the two-year period, with over 4,000 registries in 2017 and over 8,000 in 2019. In both cases, the main city contains over 70% of all accommodations in the respective metropolitan areas.

Figure 4. Annual Airbnb registries for Lisbon and Porto, between 2010 and 2019

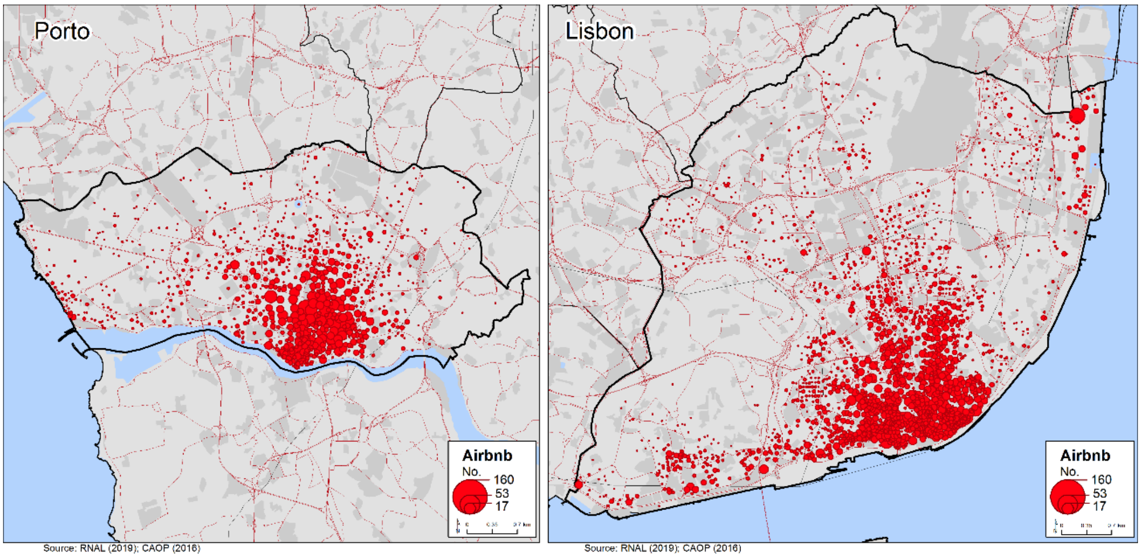


Source: elaborated by authors; data source*: Turismo de Portugal* – RNAL, 2010-2019.

In Lisbon, 75.1% of local accommodations correspond to entire apartments or single-family dwellings, 23.4% to private rooms and 1.5% to shared rooms. In Porto, the numbers are, respectively, 81.4%, 17.9% and 0.7%. Average prices per night are around 90€, ranging from around 30€ for a shared room in both Lisbon and Porto, to around 80€ (in Porto) and 100€ (in Lisbon) for an entire apartment.

Figure 5 displays the location of Airbnb listings in the cities of Lisbon and Porto. Both Porto and Lisbon exhibit the highest densities within the metropolitan area, along with some adjoining municipalities, particularly along the coast. In Porto approximately 75% of local accommodations are concentrated in the city's downtown area, in a relatively small radius of 3 kilometres. Another major hub is west of this area, in a neighbourhood known as Boavista. At the west end of the city, by the sea, there is further concentration, whereas the eastern part of the city does not possess a significant number of accommodations. In Lisbon, there is also a strong concentration of short-term rentals in the city centre (the areas of Baixa Pombalina, Bairro Alto and Alfama) as well as to the east (Parque da Nações) and west (Alcantara, Ajuda and Santa Maria de Belém).

Figure 5. Location of Airbnbs in Porto and Lisbon



Source: elaborated by authors; data source: *Turismo de Portugal* – RNAL, 2019.

Entire apartments and single-family dwellings are concentrated in the historical centre of both cities, whereas rooms (private or shared) are more prominent outside city centres. This denotes the strong relevance of real estate investment in the rehabilitation and requalification of city centres. However, it also sheds light on the pressures on long term rentals in downtown locations.

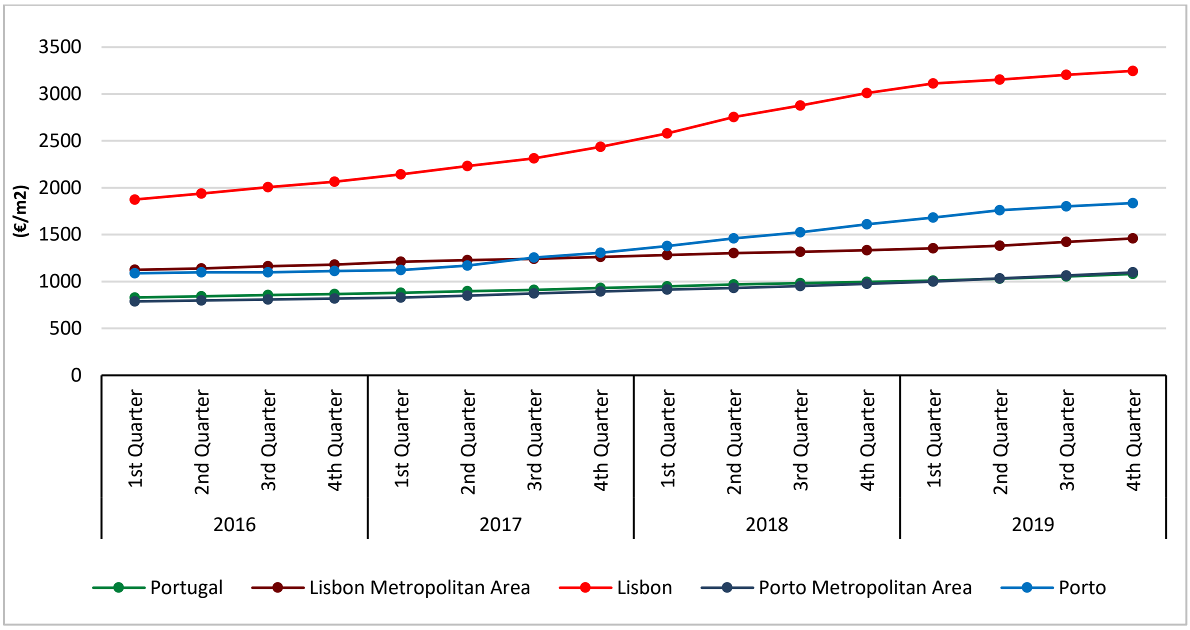
According to data provided by *insideAirbnb.com*, the occupancy rate in Porto is an estimated 34.6%, corresponding to approximately 126 nights a year. In Lisbon, the values are 32.2% and 118 nights per year. Lisbon has kept a steady rise in the number of guests, much due to the international events it hosts. In Porto, where short-term rental accommodations are more important for the rehabilitation of the city centre than in Lisbon, the effect of seasonality is stronger.

Around 71% of the hosts in Lisbon, and 72% of the hosts in Porto present multiple listings (according to www.airdna.co), i.e. they promote more than one room or apartment, something that could point to running a business. However, looking at the official registries, the number of companies (defined in Portuguese legislation as "collective persons") is not much higher than sole traders. In Lisbon this share is more or less the same, and in Porto the share of companies is 54%. In both metropolitan areas, the share of sole traders increases a bit (56% in Lisbon and 53% in Porto).

2.2 House price development

As shown in figure 6, house prices per square meter have steadily increased in Portugal between 2016 and 2019. Median values for the country increased from around 800 €/m^2 to 1,100 €/m^2. Values for the metropolitan area of Porto closely follow the national pattern, while those for the metropolitan area of Lisbon are slightly higher. In the city of Porto prices rose from around 1.100 €/m^2 to 1.800 €/m^2, in the city of Lisbon prices have always been structurally higher, increasing even more in recent years. In early 2016 the median square meter price was around 1.900 €/m^2, and at the end of 2019 it was around 3.200 €/m^2.

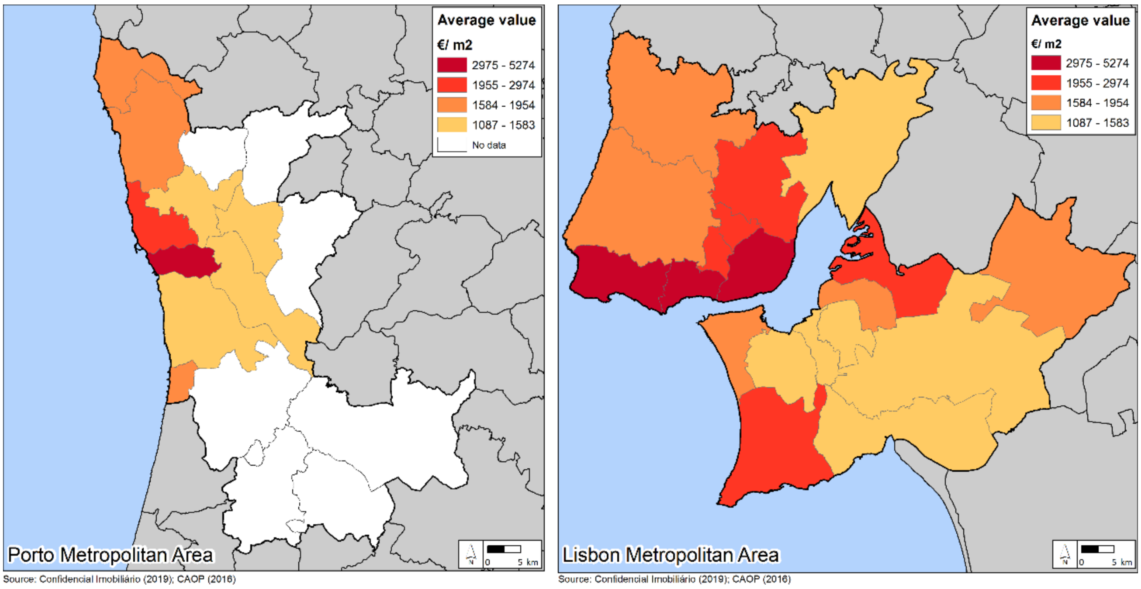
Figure 6. Median value, in Euros, of sales of residential dwellings, per square meter



Source: elaborated by authors; data source: INE, House prices at the local level, 2016-2019.

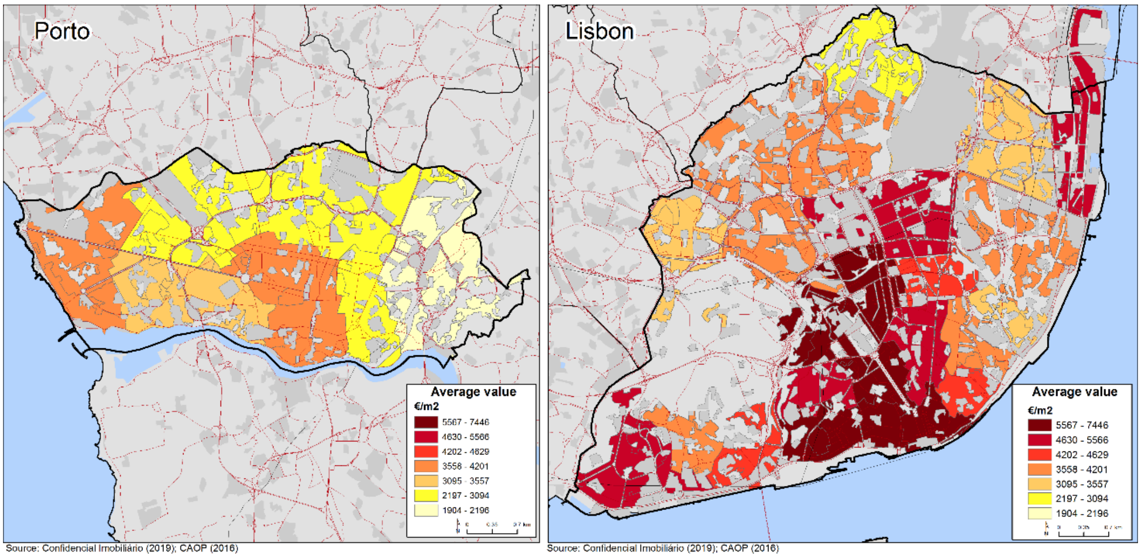
Figures 7 and 8 show the spatial distribution of house prices in the metropolitan areas and inside each municipality, for the end of 2019. Both the municipalities of Lisbon and Porto are the most expensive locations inside the respective metropolitan areas, with average prices as high as 4,250 €/m^2. Also other municipalities in the metropolitan areas show a positive trend. The increase of house prices in suburban locations is also responsible for the steady overall average increase in prices. Lisbon, for example, is no longer the municipality in the metropolitan area with the greatest annual increase. However, lowest values are also found farther from the centre, being around 1,000 €/m^2, closer to the national average.

Figure 7. Average value of house sales, in euros, per square meter in the Porto and Lisbon metropolitan areas, by municipality



Source: elaborated by authors; data source: *Confidencial Imobiliário*, 2019.

Figure 8. Average value of house sales in euros, per square meter in Porto and Lisbon, by parish



Source: elaborated by authors; data source: *Confidencial Imobiliário*, 2019.

Figure 8 shows that the most expensive average housing values for Porto are close to 4,000 €/m^2, in the downtown area, as well as to the west, by the sea. The northern and eastern areas of the city are the cheapest. In Lisbon, values increased to almost 7,500 €/m^2 in the downtown area, with other areas around the city displaying average values between 4,000 to 5,000 €/m^2. The cheapest areas of the city are to the northeast. There is a clearer separation of city areas by price in Porto than in Lisbon.

Figure 9 shows the association between the average sales prices of houses with the presence of Airbnb in the metropolitan areas of Lisbon and Porto.

Figure 9. Number of Airbnb's and average sale house prices in Porto and Lisbon

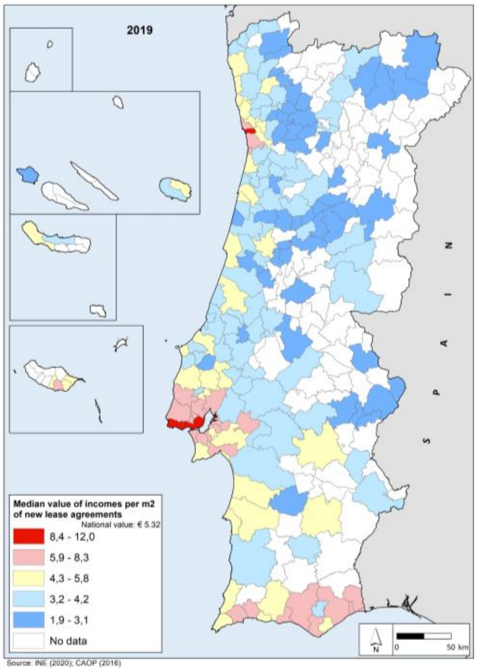
Source: elaborated by authors; data source: *Turismo de Portugal* – RNAL; and *Confidencial Imobiliário* 2012-2019.

A correlation between the two variables shows r-square values of over 0.90 for Lisbon, Porto, and the metropolitan area of Lisbon, and 0.70 for the metropolitan area of Porto. In particular, correlation for Lisbon is almost perfect, at 0.99. This indicates a very strong positive correlation: the more Airbnb listings, the higher the prices. The correlation series does not take into account any other potential variables, and no causal inference can be drawn at this point.

2.3 Rental price development

Between 2017 and 2019, average rent values increased in Portugal from 4.39 €/m^2 to 5.32 €/m^2. Highest values are witnessed in Lisbon and Porto's municipalities and adjoining territories. In Porto, values have increased from 6.77 €/m^2 to 8.83 €/m^2. In Lisbon, values are over twice as much as the national average, having increased from 9.62 €/m^2 to 11.96 €/m^2 in the twenty-four-month period (see figure 10). For the same period, a modest decrease in the number of new lease agreements for family dwellings is observed both at national level, and at the level of the municipalities of Lisbon and Porto.

Figure 10. Median rental prices per square meter, in euros, for new lease agreements for family dwellings in 2019



Source: elaborated by authors; data source: INE, House rental statistics at local level, 2019.

2.4 Supply and demand

At the beginning of this century, the central areas of Lisbon and Porto were rather depopulated and derelict, showing signs of physical and functional degradation. The preference for urban peripheries and the abandonment of the older central areas, is explained by: (1) the decline in environmental quality and the degradation of heritage built in the historic or ancient city; (2) the evolution of lifestyles that gave preference to new housing in tall buildings or single-family homes with a small garden; (3) the high costs associated with rehabilitation of the existing building in the older parts of the city (4), and the greater opportunities and less bureaucratic constraints and urban regulation in the peripheral areas. Between 1981 and 2011, Lisbon lost 32% of its inhabitants (a decline of 359,000), and Porto lost 27% (a decline of 129,000).

Following the recent increase in investments, visitors and new residents, the central areas rehabilitated and recreated their centrality, both urban and global. Buildings in central areas that had previously been ruined, and deprived of its residential or commercial and service functions, gained an attractiveness that is progressively challenging in terms of urban management.

The external attractiveness of Portugal has led to major changes in the residential market, especially in Lisbon and Porto. There has been an increase in real estate property prices, capital gains have increased, and real estate investment returns have skyrocketed. This led to a socio-spatial segmentation of the residential market, as prices in the most attractive areas (especially in Lisbon), rose to values compatible with other EU cities, while having a much lower GDP. Thus, the remaining housing in these areas quickly became unaffordable for most of the local population, whereas those receiving salaries consistent with national averages do not have access to this offer. In Lisbon and Porto about 51-52% of households do not own their homes, and it is likely they will become increasingly vulnerable to market developments.

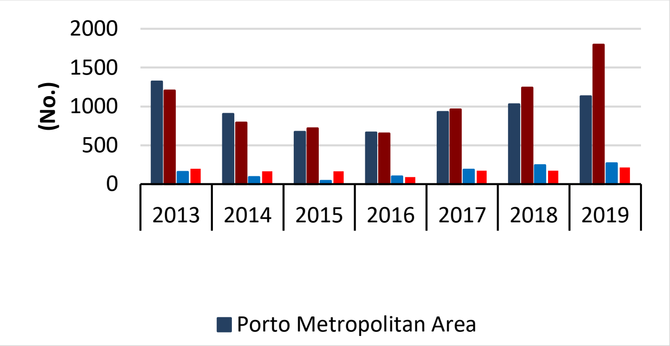
Furthermore, younger generations experience difficulties emancipating themselves from their families because they do not receive an income that is compatible with market prices. University students, traditionally resident in the city centre, have a hard time paying rent.

On the other side, homeowners profit from rising house prices, increasing family wealth. Thus, middle-class homeowners can also be beneficiaries of a more global real estate market, with their houses becoming an asset.

2.5 Construction

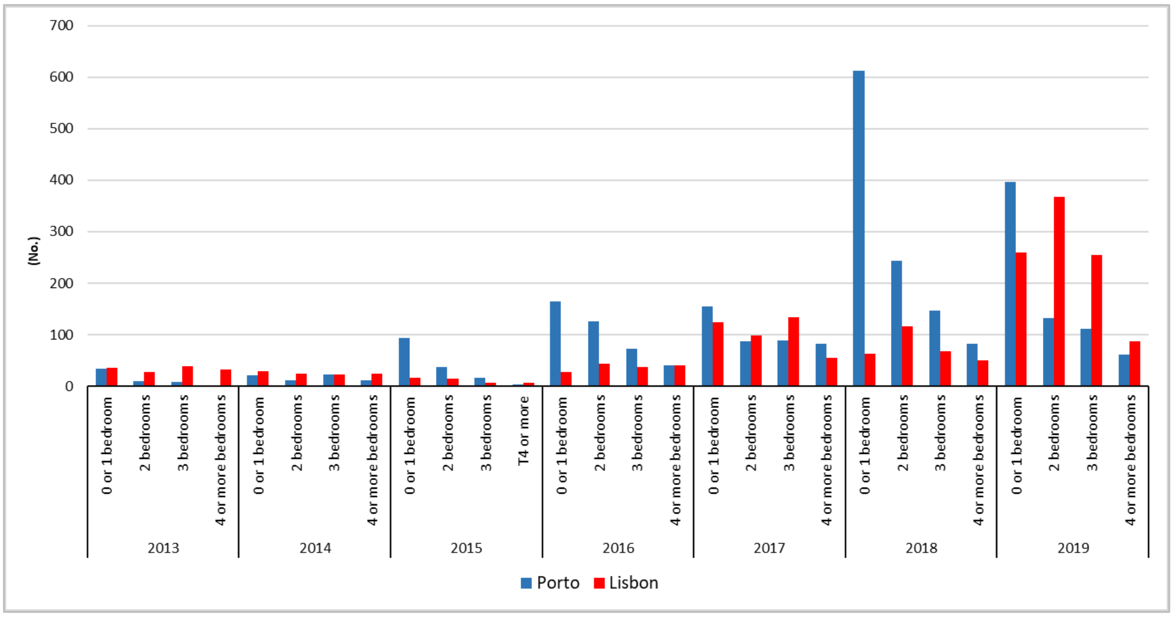
After 2013, in the aftermath of the economic crisis, the real estate sector showed signs of slowing down. Figure 11 demonstrates that between 2013 and 2015/2016, the number of completed buildings destined for family residence decreased, both in the wider metropolitan areas of Lisbon and Porto, and in the cities themselves. In the metropolitan areas, numbers decreased from around 1,200 completed buildings in 2013 to around 700 completed buildings in 2016. However, from 2016 onwards, the number of completed buildings steadily increased up to 1,100 in the metropolitan area of Porto and to 1,800 in the Lisbon metropolitan area. Also noticeable is the relative small weight the main cities of Porto and Lisbon have in terms of new construction in the metropolitan areas, illustrating that in these areas the real estate sector has been more focused on rehabilitation, rather than new construction, as build-up central areas are often historical and protected locations. Even so, from 2016 to 2017, new construction has almost doubled, from around 100 to around 200 completed buildings, a number that has only slightly increased since.

Figure 11. Buildings completed for family residence



Source: elaborated by authors; data source: INE, Statistics on completed construction works completed, 2013-2019.

Figure 12. Licensed housing in new constructions for family residence, by housing typology

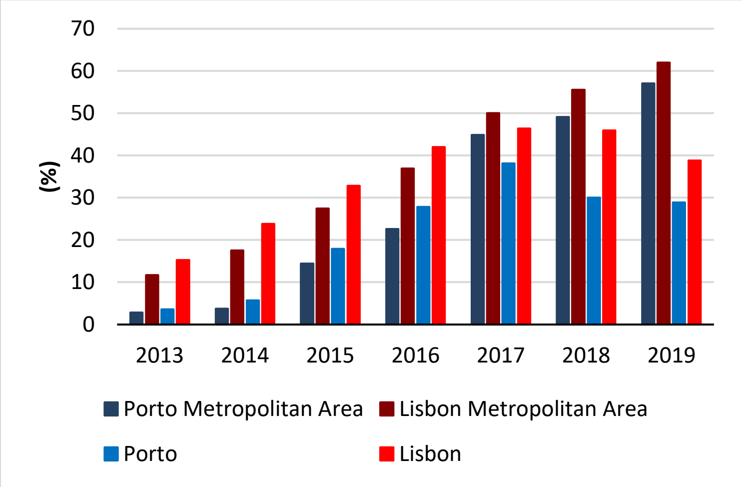


Source: elaborated by authors; data source: INE, Projects of building constructions and demolitions survey, 2013-2019.

Figure 12 shows the housing typologies for licensed new constructions for family homes between 2013 and 2019. Until 2014, licensed dwellings were evenly distributed between typologies, with a slight preference for 0, 1 or 3 bedroom apartments, after 2015 a more evident preference is displayed for smaller typologies. This is probably caused by the smaller requirements of tourist accommodations, but also by the reduction in family sizes and the presence of younger residents as students. In Porto this is especially evident, with exponential growth after 2015 in the licensing of 0 or 1 bedroom apartments (particularly in 2018), followed by 2 bedroom apartments. Lisbon took a bit longer to show a significant increase in licenses, with the number tripling between 2016 and 2017 for the smaller typologies, and then almost tripling again (particularly 2 bedroom apartments) in 2019.

The evolution in the number of dwellings for sale has been more or less steady since 2013, showing slight decreases (see figure 13). However, the number of dwellings actually sold has substantially increased since 2013. In 2013, around 15% of the offered dwellings were sold in Lisbon, and around 4% in Porto. In 2019, the numbers reached 40% in Lisbon, and 30% in Porto. The market maintained steady supply, while demand expanded considerably.

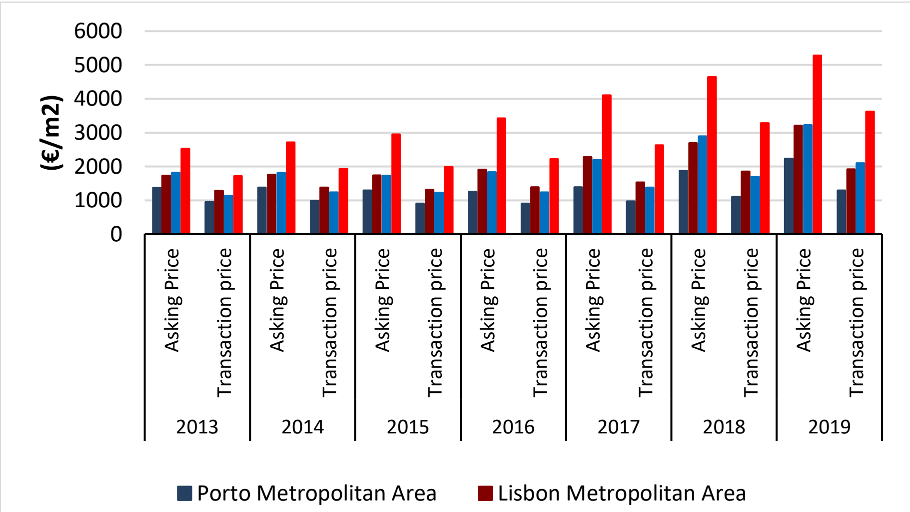
Figure 13. Number of dwellings for sale (top) and percentage of those actually sold (bottom)



Source: elaborated by authors; data source: *Confidencial Imobiliário*, 2013-2019.

Asking prices have also risen considerably, both in Lisbon (since 2013) and Porto (since 2015). Average asking price was around 2,500 €/m² in Lisbon in 2013; and in 2019 it has almost doubled, to 5,000 €/m². In Porto it has risen from around 1.800 €/m² in 2013 to close to 3.200 €/m² in 2019. The actual transaction price is lower, reaching over 3.600 €/m² in Lisbon and over 2.000 €/m² in Porto for 2019, displaying a normal trend in Portuguese negotiations between buyers and sellers before actual purchase. The sale-to-asking price ratio has been maintained at around 70% in Lisbon and at around 65% in Porto (see figure 14).

Figure 14. Average price (in €/m²) for sale – asking and transaction price

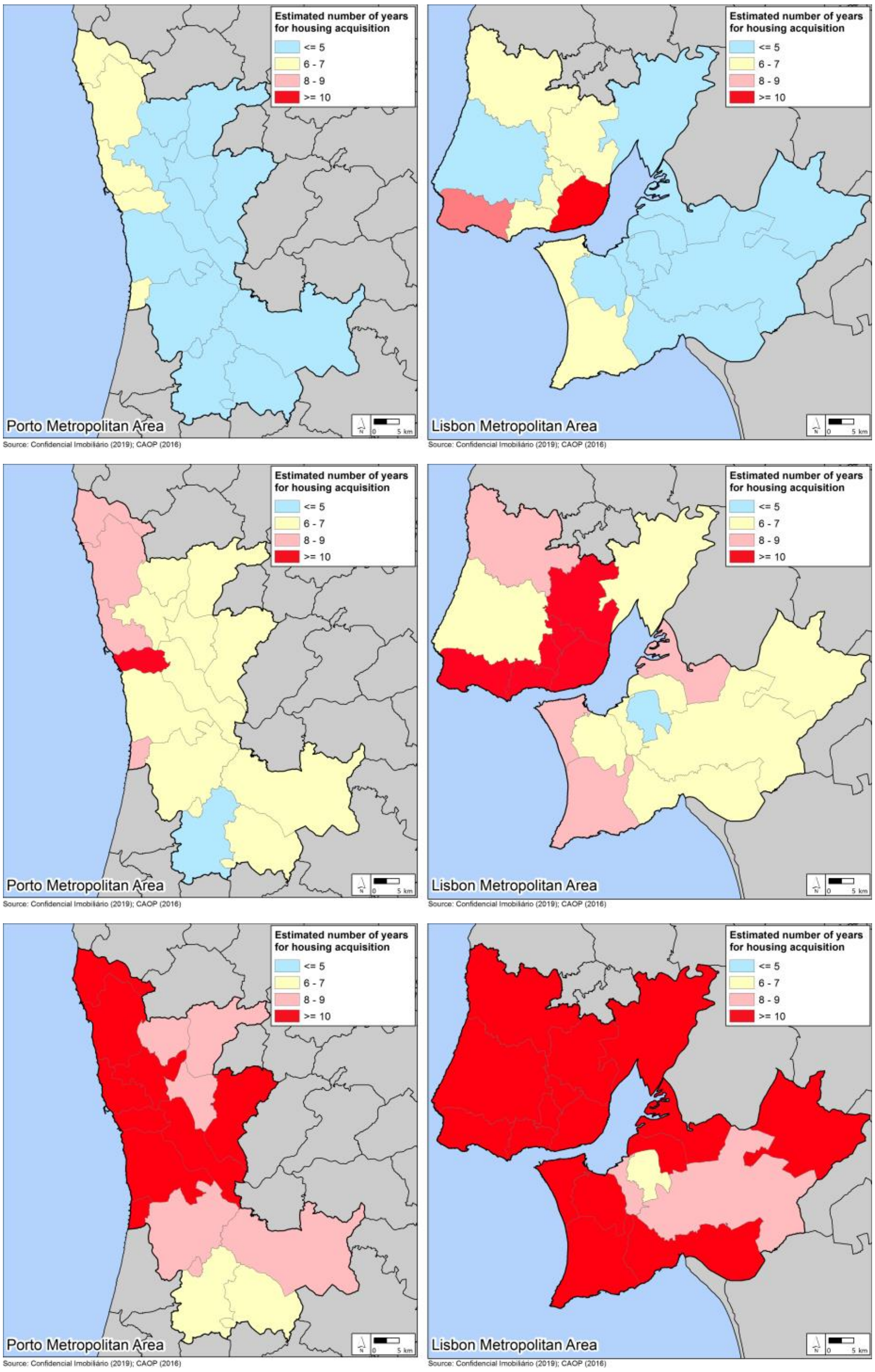


Source: elaborated by authors; data source: *Confidencial Imobiliário*, 2013-2019.

2.6 Affordability

Overall, for lower and middle classes it is increasingly difficult to get access to housing in Portugal. Figure 15 displays, for the two metropolitan areas of Lisbon and Porto, the estimated number of years required to acquire a house, divided by class types (middle, lower middle and lower class). In order to create this indicator, a series of variables have been taken into account, including the average family income (based on the available years of 2017 and 2018), the average value of real estate (considering median sales values from 2017 to 2019), as well as the minimum size a 2-bedroom apartment should have according to the Portuguese legislation. It is considered that the family uses all its income on housing expenses. As expected, the number of years increases moving from the middle class to the lower classes, where the vast majority of the metropolitan area has longer waiting periods. However, the municipality of Lisbon possesses in average the greater number of years (over 10) both for the middle and lower middle classes. This illustrates the difficulty in obtaining a house in the capital city. For Porto, values are lower, set on 6-7 estimated years for the middle class, and 10 or more years for the lower middle class.

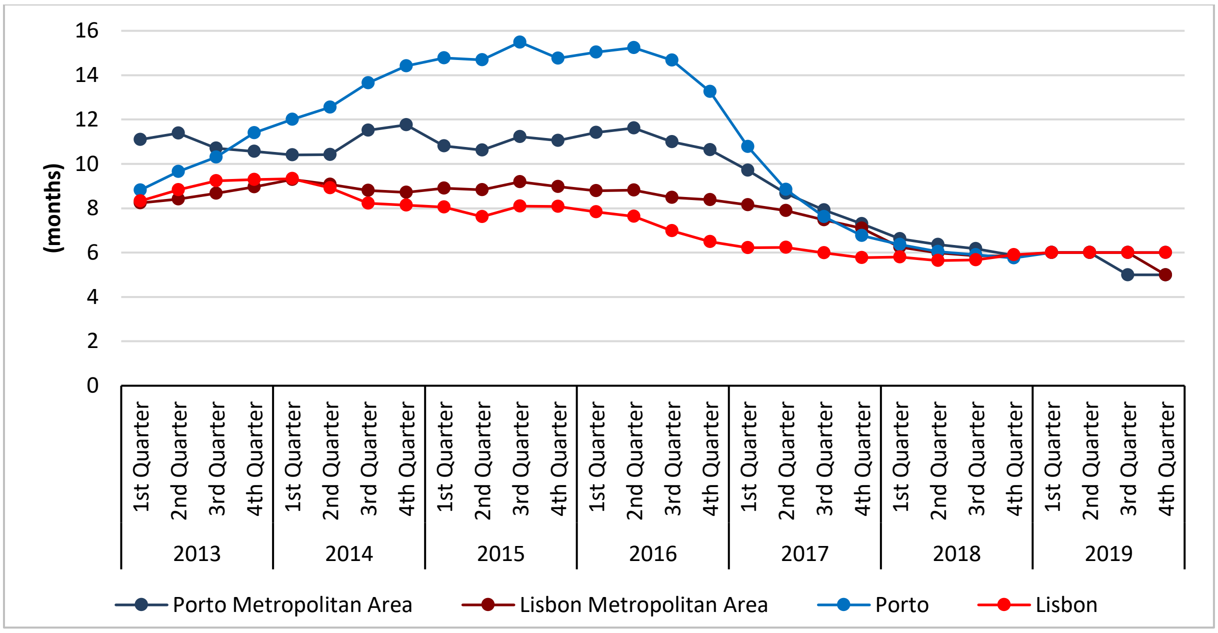
Figure 15. Estimated number of years for the housing acquisition – middle class (top), lower middle class (middle) and lower class (bottom)



Source: elaborated by authors; data source: INE, House prices at the local level 2017-2019; Tax and Customs Authority 2017-2018 and General Regulation of Urban Buildings, 2018.

The average number of months until a dwelling put on the market is sold, is decreasing, see figure 16. For Lisbon, average time in between advertising and selling was between 8 and 9 months, and is currently (2019) close to six. For Porto the time in between was almost 16 months in 2015 and 2016, but has since also dropped to six months, signalling increased demand across the board.

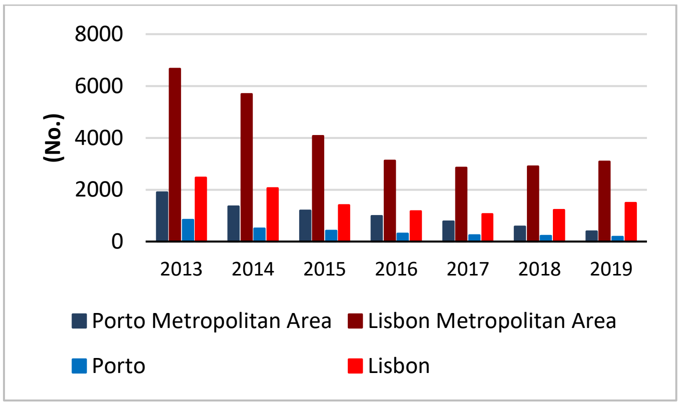
Figure 16. Average number of months until a property on the market is sold



Source: elaborated by authors; data source: *Confidencial Imobiliário*, 2013-2019.

In contrast, the rent market has shrunk (Figure 17). The number of dwellings available for rent has decreased to about half in Lisbon, from around 2,500 in 2013 to around 1,500 in 2019, and in Porto from close to a 1,000 in 2013 to a couple of hundred in 2019. The metropolitan areas, particularly Lisbon's, shows a more significant fall in numbers. The conversion of apartments into short-term accommodations (for tourists), as well as the increase in house purchases are the most probable causes to explain this decline.

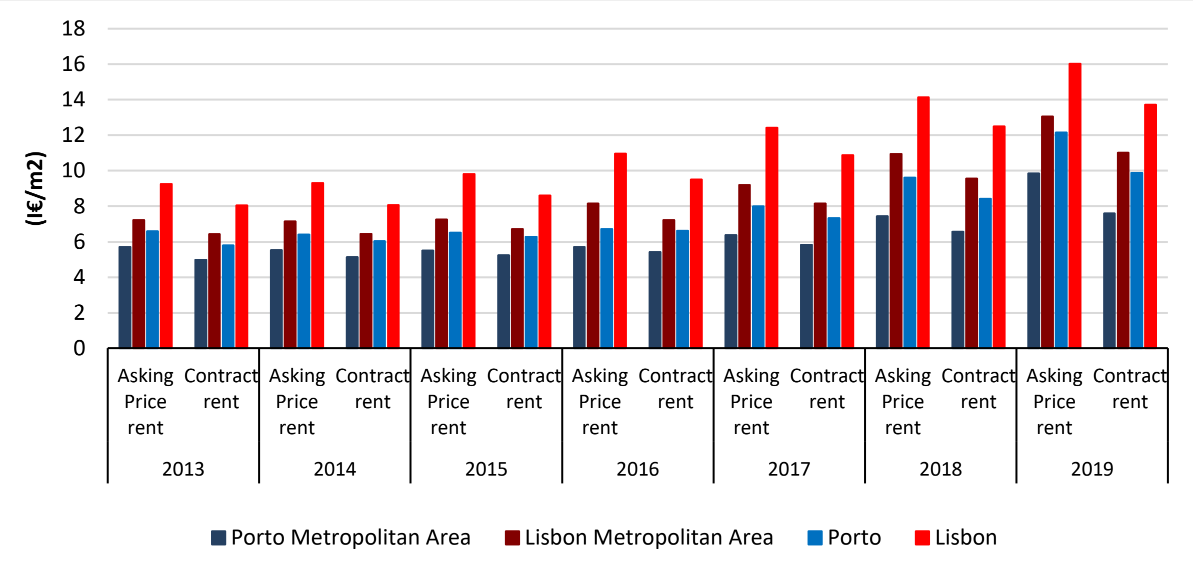
Figure 17. Number of dwellings on offer for rent



Source: elaborated by authors; data source: *Confidencial Imobiliário*, 2013-2019.

At the same time, average rent values have increased (Figure 18). Since 2013 average asking rents have risen in Lisbon from 9 €/m^2 to 16 €/m^2; and in Porto from 7 €/m^2 to 12 €/m^2. Also, contract rents have risen in Lisbon from 8 €/m^2 to 14 €/m^2, and in Porto from 6 €/m^2 to 10 €/m^2. Asking and contract values were much closer in 2013, than they were in 2019.

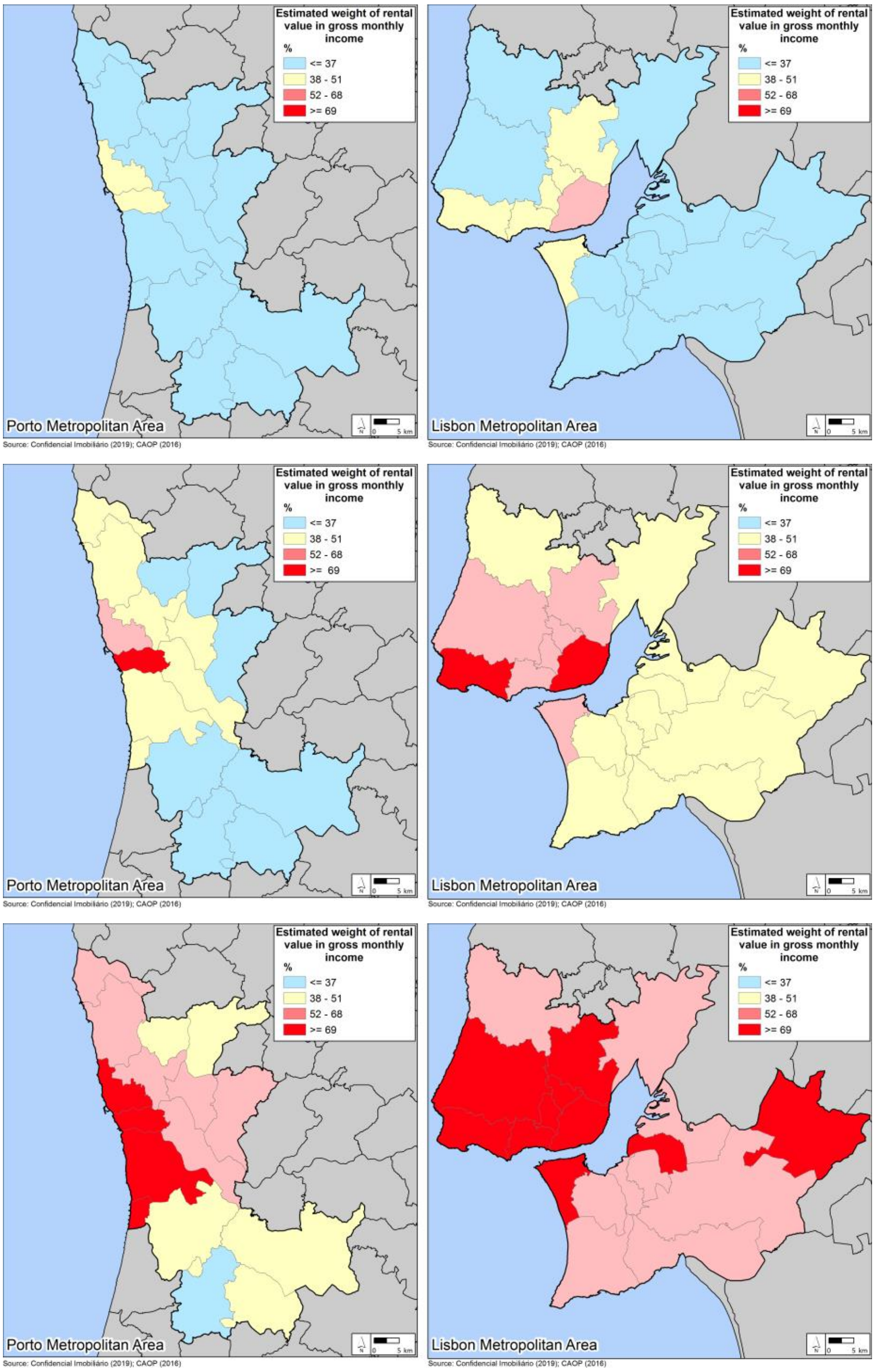
Figure 18. Average rent per €/m² – asking and contract rent values



Source: elaborated by authors; data source: *Confidencial Imobiliário*, 2013-2019.

Figure 19 displays, for the two metropolitan areas of Lisbon and Porto, the estimated weight of rent costs in the gross monthly income, divided by class types (middle, lower middle and lower class). In order to create this indicator, a series of variables have been taken into account, including the average family income (considering the available years of 2017 and 2018), the average rents (considering median rent values of new lease contracts from 2017 to 2019), and the minimum size a 2-bedroom apartment should have according to Portuguese legislation. It is assumed that the household uses all its income on housing expenses. The percentage of monthly income spent on rent, increases from the middle to the poor classes. In both central Lisbon and Porto, as well as adjoining municipalities in the metropolitan area, values for the lower classes can be higher than 69% of the income. This means that families have either no resources to access a decent home, or have no resources to live with dignity. For the lower middle classes such extreme values are more prevalent in the metropolitan area of Lisbon than in the metropolitan area of Porto, whereas for the middle class, the Lisbon municipality presents values between 52 and 68%, but elsewhere values are lower than 51%.

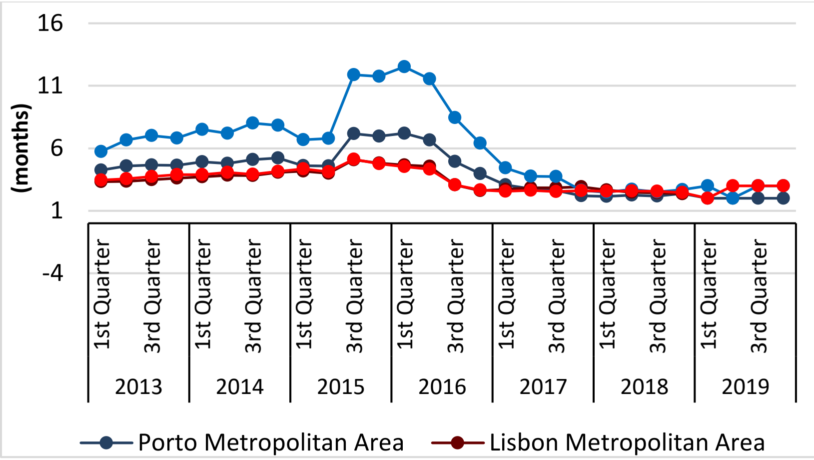
Figure 19. Estimated weight of rental costs in gross monthly income (%) – middle class (top), lower middle class (middle) and lower class (bottom)



Source: elaborated by authors; data source: INE, House prices at the local level 2017-2019; Tax and Customs Authority 2017-2018 and General Regulation of Urban Buildings, 2018.

The average number of months until a dwelling put on the market is actually rented has also been decreasing, after having increased in the years after the financial crisis (Figure 20). Again, Porto has been more subject to fluctuations, with the number of months rising from six in early 2013, to a full year in mid-2015, and then dropping to just two-three months (2018-2019). For Lisbon, values have been more steady; the peak has been four months (also in mid-2015) but it has since also dropped to two-three months.

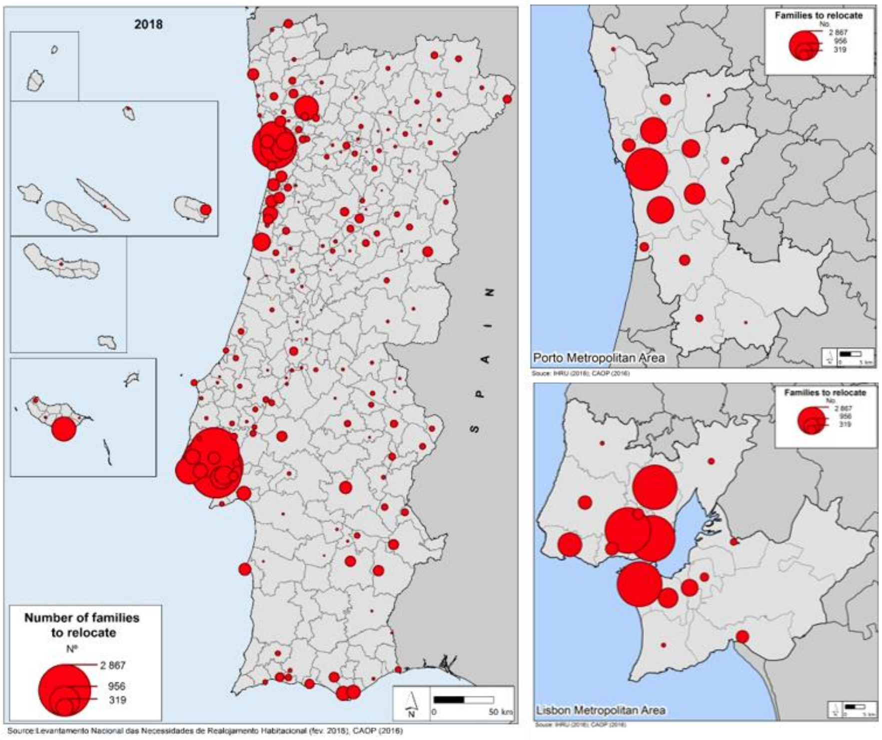
Figure 20. Average number of months until a dwelling on the market is rented



Source: elaborated by authors; data source: *Confidencial Imobiliário*, 2013-2019.

Finally, throughout the country, but especially in the larger urban areas, there is a large number of families that should be relocated to homes with better conditions, or that are waiting for a vacancy in social housing (Figure 21). It is precisely in Lisbon and Porto, and respective surrounding municipalities, that this need is more pressing. There are over 2,000 families in these conditions in the municipality of Porto, almost 3,000 in Lisbon, and over 2,500 in each of the main municipalities adjoining Lisbon, Amadora, Almada, and Loures.

Figure 21. Number of families to be relocated (2018)

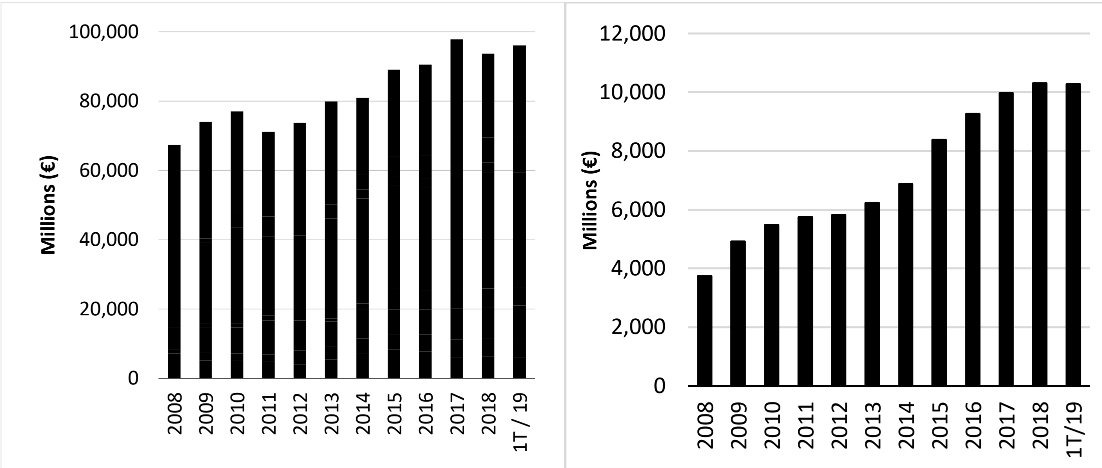


Source: elaborated by authors; data source: IHRU - *Instituto Nacional da Habitação e Reabilitação Urbana,* 2018.

2.7 Investments

Figure 22 shows total Foreign Direct Investment (FDI) in Portugal between 2008 and 2019, as well as specifically in real estate activities and construction. While both investments show an upward trend, the latter has increased more sharply, doubling over the past decade.

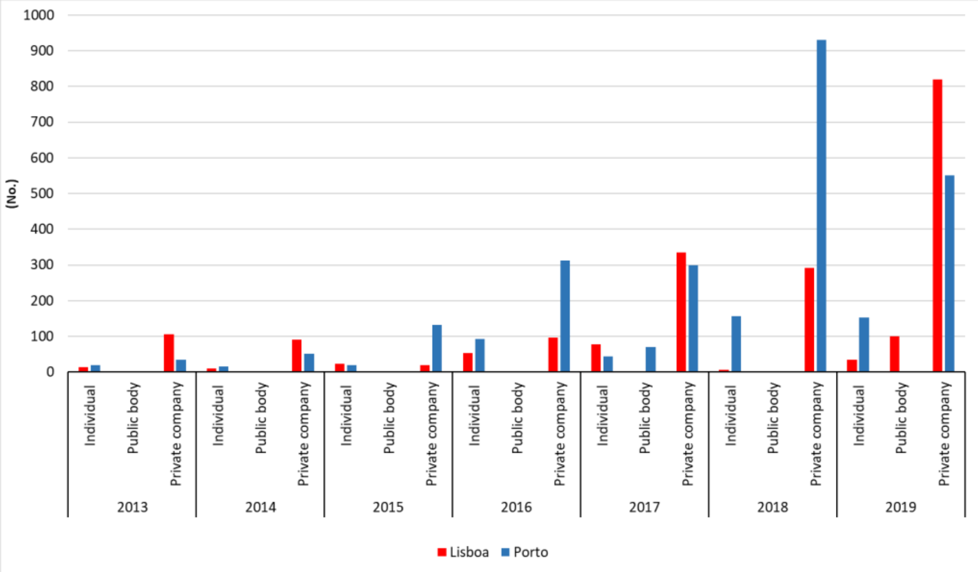
Figure 22. Foreign direct investment (FDI), total (left) and in real estate activities and construction (right) (millions of euros) for Portugal



Source: elaborated by authors; data source: *Banco de Portugal,* 2008-2019.

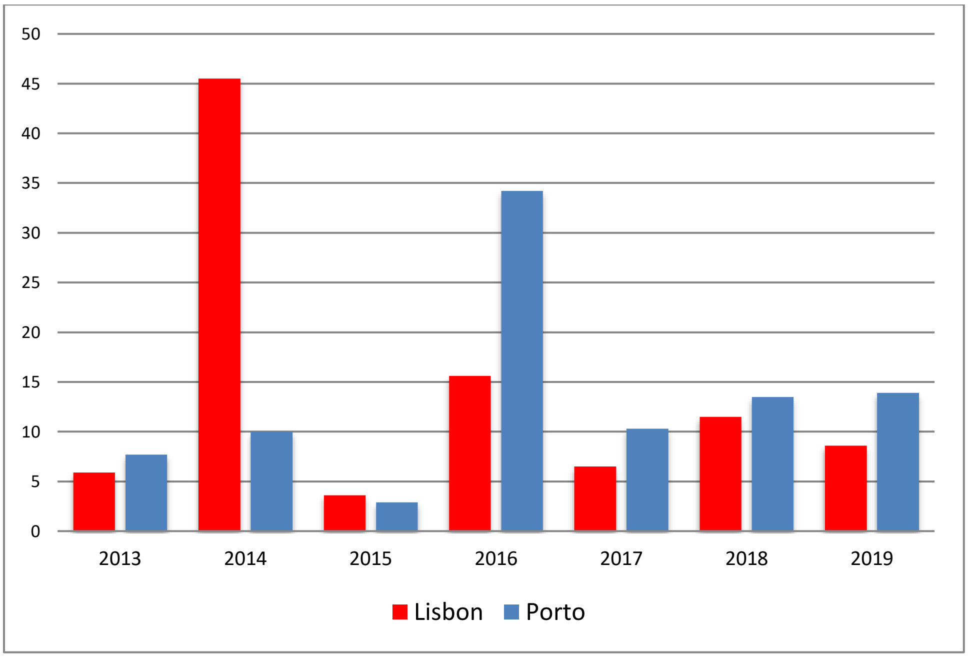
Figure 23 shows the type of investing entities for licensed dwellings in new constructions destined for family housing between 2013 and 2019. Private companies dominate the new housing market, followed by private individuals, and then public bodies. In Porto, investment in licensed dwellings by private entities has exponentially increased from less than 50 in 2013 to over 900 in 2018. In 2019, the number fell back to around 500. In 2018, the contrast between Porto and Lisbon was remarkable, showing the second city's increasing competition with the nation's capital. However, Lisbon also peaked in the following year, 2019, after having declined in the post financial crisis years, until 2015. This may be related to the construction of larger buildings with more apartments and the greater presence of real estate companies in the housing provision, also caused by the fact that Porto has more dwellings that are being rehabilitated than Lisbon (Figure 24). The number of licensed dwellings by private individuals has also been more significant in Porto than in Lisbon in the last two years, while the number for public bodies was relevant in 2017 for Porto, and in 2019 for Lisbon. It should be noted, that the fluctuation in annually attributed licences (particularly for private companies) can also be a reflection of administrative processes specific to each municipality.

Figure 23. Licensed dwellings in new constructions for family housing, by investing entity (2013-2019)



Source: elaborated by authors; data source: INE, Projects of building constructions and demolitions survey, 2013-2019.

Figure 24. Licensed dwellings (rehabilitation) for family housing by 100 new licensed dwellings for family housing



Source: elaborated by authors; data source: INE, Projects of building constructions and demolitions survey, 2013-2019.

Associated to this, real estate investment funds (which exist since 1985) have shown a significant growth. These funds are authorised and regulated by the Portuguese Securities and Exchange Commission (CMVM) and their profitability is fomented by a more favourable tax regime. Mortgage securitisation also appeared at a late stage in Portugal (it exists since 1999) and has reached a peak of 65 billion euro in 2011. However, the crisis and regulatory changes caused credit securitisation to plummet (Santos, 2019). Furthermore, Real Estate Investment Trusts (known in Portugal as SIGI – *Sociedades de Investimento e Gestão Imobiliária*) have emerged in recent years. Like real estate investment funds and mortgage securitisation, the SIGI allow a fixed asset to be transformed into a tradable asset, thus enabling any external agent to obtain land rents. The SIGI are public limited companies. As Santos (2019) indicates, "It is still too early to assess how the SIGI will impact on housing; however, it is easy to see that the new companies specializing in real estate are part of a continuing process to expand financial capital in housing" (Santos, 2019: 42).

In addition, according to Avenue and Prebisa (2019), two real estate companies, the percentage of foreign investment of all their property investments in Porto is 16%. This relates to the 247 newly or renovated real estate developments (amounting to 2,871 apartments) the companies promoted between 2016 and 2019. Close to 85% of the foreign investment is located in the city centre, where the average sale prices per square meter are 38% above the city's average. Furthermore, according to InvestPorto (a municipal company that aims to attract and support investment in the city), about 55% of the investment in major real estate projects in Porto is foreign. As for Lisbon, according to recent data by *Confidencial imobiliária*, in 2019, 1,630 residential properties in Lisbon's ARU (the Urban Rehabilitation Area defined by the municipality) were purchased by foreign buyers, translating into an investment of 744.3 million euros. This amounts to 35% of the total investment in Lisbon's housing market in the ARU that year.

3. Policy

In Portugal a number of instruments have been created to attract foreign investment and to develop state investment funds. These funds and instruments are mainly oriented towards a rehabilitation of housing stock and expansion of the rental market. Furthermore, because of on-going difficulties for families to access adequate housing, the state has created support programs to increase housing affordability. In addition, in response to the increasing house prices and residents' evictions from the central areas of Lisbon and Porto, short-term housing has been progressively regulated. Some of these policies and instruments are embedded in, or emerge from broader EU policies, such as the European Green Deal, and the EU Recovery and Resilience Facility that is at the heart of NextGenerationEU.

The European Green Deal aims to transform the EU into a fair and prosperous society, with a modern, competitive and efficient economy in the use of resources. As such, it has identified the renovation of both public and private buildings as a key initiative to drive energy efficiency and to comply with the decarbonisation goals, and in 2020 a new strategy was published called 'A Renovation Wave for Europe – greening our cities, creating jobs, improving lives'. In alignment with the European Green Deal, Portugal prepared the Long-Term Building Renovation Strategy (LTRS) that involves setting up financial support for building renovation in line with energy performance and sustainability criteria.[4]

More specific, a number of programmes are implemented to promote an accessible and sustainable residential rental market in general, while also trying to combat the splitting of incentives to perform (energy) renovations between owner and tenant, such as the Affordable Rental Programme, "Door 65" Youth Programme, the Rehabilitate to Rent–Accessible Housing, and A First Right: Support programme for access to housing.

The underlying objectives of the LTRS also comply with Portugal's Recovery and Resilience Plan that supports Portugal in becoming more sustainable, resilient, and better prepared for the challenges and opportunities of the green and digital transitions. Next to reforms to promote the energy efficiency of buildings, it includes measures to provide access to affordable social housing, investing in construction, renovation, and wherever necessary in the acquisition of new buildings, or the lease of buildings. Furthermore, integrated programmes to support disadvantaged communities in deprived metropolitan areas, and the provision of a wide range of social services for the elderly and people with disabilities will address social issues. As such, the plan aims to improve social safety nets, notably in social housing and in social services[5]. These objectives further align with the Porto Social Summit held in 2020, whereby social partners and civil society representatives committed to further implementing the European Pillar of Social Rights, endorsing the European Commission's proposal to create a new set of measurable social targets for 2030.

3.1 Instruments to attract (foreign) capital and to support rehabilitation

Golden Visa

Since the financial economic crisis, several peripheral EU countries adopted instruments of economic diplomacy to attract foreign investment that had already been used in countries such as the UK or the USA. In particular, countries like Portugal, Spain, Cyprus, Bulgaria, and Malta started to grant, in the last decade, residence permits in exchange for investment. Arguably, the increased competition between the relevant Member States has led to a loosening of the admission criteria. Investment has largely occurred in the real estate sector.

In Portugal, the Residence Permit for Investment Activities (known as the Golden Visa) exists since 2012. It allows foreign citizens, outside the EU, to obtain a residence permit (and consequently open access to the Schengen area) in exchange for business or real estate investment in Portugal for a minimum period of five years. Unlike the UK, where applicants need to stay in the country for a period of at least 185 days, in Portugal the law states that applicants should remain in the national territory seven consecutive days a year (or 14 non consecutive days). This has made the Portuguese program especially attractive, as well as a source of debate, as many investors have no desire to live in the country.

Two types of eligible investment in real estate are permitted. The first is housing acquisition of a value equal to, or higher, than 500,000 euros. The second is acquisition of real estate constructed at least 30 years ago, or located in designated areas of urban regeneration, for which rehabilitation work is performed for at least

[4] Please see: https://ec.europa.eu/energy/sites/default/files/documents/2020_pt_ltrs_-_en_version.pdf

[5] https://ec.europa.eu/commission/presscorner/detail/nl/ip_21_2985

350,000 euros. Not only did this regulation substantially increase foreign investment in the Portuguese housing market, it also significantly contributed to the rehabilitation of the housing stock, particularly in Porto and Lisbon.

According to data of The Immigration and Borders Service of Portugal (SEF), a total of 5,553 Golden Visas have already been granted; 9% in 2013; 27% in 2014; 14% in 2015; 25% in 2016, and again 25% in 2017. In 2017, total investment in real estate derived from the Golden Visas reached almost 750 million euros. Since 2012, the entire investment has been on the order of 3.5 billion euros (SEF, 2012-2017). According to SEF, investors are mainly from China, Brazil, South Africa, Turkey, and Russia. In 2019, Lisbon has attracted real estate investors of 80 different nationalities.

However, early 2022, the government has decided to increase some of the minimum amounts related to Golden Visa investments, and to put a stop to the option of purchasing residential property in Lisbon and Porto, as well as part of the Algarve. These changes have mostly been designed to promote international investments in low-density territories, taking some pressure of the highly populated metropolitan areas.

3.2 Real Estate Investment Funds for Rental Housing

In 2008, the Portuguese government created The Real Estate Investment Funds for Rental Housing (FIIAH) to stimulate the rental market. These funds offered people who had outstanding loans to the bank on their property, the chance to sell their property, but still dwell there as tenants. This mechanism allows families in risk of losing their homes to remain in the same house when they are unable to afford the monthly instalments. The property sale to the FIIAH investment fund is supported by a series of fiscal benefits, like the exemption to pay added value taxes on the transaction. The tenant has the option to repurchase the property, but loses this right when he or she fails to pay the rent for more than three months. The program was meant to close on December 31st of 2020.

Financial Instrument for Urban Rehabilitation and Revitalization

The Financial Instrument for Urban Rehabilitation and Revitalization (IFRRU 2020) offers more favourable loans for rehabilitation than those existing on the private market. The favourable conditions, in terms of interest rates and grace periods, result from the use of European funds (loans from the European Investment Bank and the Council of Europe Development Bank) along with private funds. More concretely, this programs supports the full rehabilitation of i) buildings over 30 years old or, in case they are younger, those that demonstrate a low state of conservation according to specific parameters; ii) social housing buildings or specific dwellings therein; iii) abandoned industrial units; and iv) public space. Overall, this instrument provides for a total investment of 1,400 million euros for the 2016-2023 period. By June 2019, there had been 363 requests for financing; 129 of which were contracted, corresponding to 394 million euros (https://ifrru.ihru.pt/).

National Building Rehabilitation Fund

The National Building Rehabilitation Fund (FNRE) has been created in 2016 (Resolution of the Council of Ministers no. 48/2016). It is another instrument to promote the rental market, and it consists of a special closed-end real estate investment fund of private subscription. General rules and regulations regarding real estate investment funds apply to the FNRE and are subject to the supervision of the Securities Market Commission (CMVM), which approves the respective regulation. Fundiestamo, a Real Estate Investment Fund Management Company, SA, wholly owned by public capital, was assigned the mission of managing the FNRE. Possessing public funds, the FNRE has the mission of rehabilitating public properties that are vacant or available, for subsequent lease, including affordable housing. The purpose is to help promote the increase of public housing offer in this segment of the market.

Rehabilitation of derelict dwellings

The new Decree-Law No. 66/2019 establishes the legal rights and obligations of property owners to maintain their real estate in minimum conditions of habitability, in the interest of public good, public wealth and public safety. The decree allows the municipality to actually enforce maintenance, rehabilitation and demolition works. Namely, 1) owners can be notified directly through a notice of the need to rehabilitate their property; 2) municipalities can take charge of the property to execute the needed works, and legal mechanism can be created to compensate for the expenses incurred; and 3) potentiate the effects of existing instruments such as “forced leasing”. Forced leasing can be applied by a municipality, instead of collecting a debt resulting from doing the work that should have been made by the owner. In this scenario, the municipality manages the leasing of buildings or dwellings until the debt is paid.

3.3 Housing market accessibility programs

"Door 65" Youth Program

The program "Door 65" financially supports renting for young adults between 18 and 35 years of age (in case of couples, one can be up to 37 years old). The program was created in 2017 and supports/subsidises a given percentage of the rent (for primary and permanent homes). To be eligible for support, the rent should be a certain share of the household income and it must be lower than the maximum rent for the area where the house/apartment is located, or that defined by the government for each housing typology. Each approved application has a duration of 12 months, with support lasting up to 5 years, subject to yearly application for renewal. In the current national state budget for 2019, 18 million euros are foreseen for this program (Santos, 2019).

Affordable Rent Program

In 2019, the Portuguese state approved a new law (Decree-Law No. 68/2019) that offers rental housing at affordable prices, compatible with household incomes. This program is mainly meant for families whose income is too low to access the private housing market, but too high to be eligible for social housing. The dwellings supported by this program have a maximum rental price, which is lower than the reference value for renting derived from the characteristics of the dwelling and the average renting prices per square meter. The program also allows sub-renting of dwelling parcels for university students. Leasing contracts have a minimum duration of five years. For university students it has a minimum duration of nine months.

The program aims to ensure the maintenance of the housing stock, and to fill the space between the rent sector and the home-owning sector, facilitating the transition between regimes and increasing the rental offer. Landlords receive full exemption of taxes over property income in contracts of five years or more, as long as the rent is 20% below market value, and the tenants have effort rates below 35% (Decree-Law No. 2/2019). The effort rate is the ratio between the monthly instalments of the housing loan that a family has and its monthly disposable income. Decree-Law No. 69/2019 gives more security and stability to rental contracts, by defining mandatory insurances for both parties, with better conditions than those available on the market. These include i) the rent payment in case tenants suffer from an involuntary break in monthly income; ii) the rent payment in case there is an eviction process under way due to lack of payment; and iii) the payment of an indemnity if the dwelling is damaged.

In Lisbon, there are 15 housing projects of this kind underway, with dwellings destined for the Affordable Rent Program. In Porto, 2 have started, one with 250 dwellings and another with 154. However, this measure is expected to still have a limited impact on the value of rents. In the opinion of the president of Lisbon Landlords Association "although they are granted a full IRS exemption, landlords will have to set an income 20% below the market median to obtain it. Since this median is 10% below the average income, property owners are asked to lose 30% of their income to earn 28% of IRS exemption. In addition, they are not entitled to choose their tenants, which are placed in their home by the state, and they still have to pay an insurance to cover the default risks, which cannot be included in the rent defined by the administration. It's thus clear that this program is highly detrimental to landlords and that they are not expected to adhere to it" (Leitão, 2019).

In addition, this measure might also include a counterproductive element whereas "discounts granted through tax benefits to landlords represent an income transfer from the state to the landlords (…) in turn, this income transfer means lower tax revenue and therefore less resources for socially fair measures, such as the public housing provision for affordable rent" (Santos, 2019, p. 306-307).

Rehabilitate to Rent - Affordable Housing

The program "Rehabilitate to Rent - Affordable Housing" finances the rehabilitation of buildings over 30 years old, preferably located in areas signalled for urban rehabilitation. Once rehabilitated, these units should be predominantly destined for housing with rent control. Loans can go up to 90% of the cost of the rehabilitation, and there can be an advance up to 20% of the value of the loan. The interest rate is the same throughout the amortisation period, and the only guarantee to be given is a mortgage on the building. The cost of the rehabilitation cannot exceed 700 euros per square meter. This program was initially financed with 50 million euros through the European Investment Bank and the Council of Europe Development Bank.

The First Right - Support Program for Access to Housing

The First Right is a public support program for the promotion of housing solutions for people who dwell in houses with poor conditions and who do not have the financial capacity to bear the costs of adequate housing (Decree-Law No 37/2018).

This program is included in the document "New Generation of Housing Policies" (NGPH, 2018) produced by the government. In order to access the funding provided for this program, municipalities must have their "Local Housing Strategies" approved. This program will be largely funded by the "Recovery and Resilience Plan" (2021).

Basic Law of Housing

This Law (Law No 83/2019) establishes the basis for the right to housing and to the fundamental state responsibilities and tasks, in the effective guarantee of this right to all citizens, under the terms of the Constitution.

To ensure the right to housing, the state is responsible for planning and implementing a housing policy integrated with territorial management instruments that guarantee the existence of an adequate network of transport and social facilities.

This law also states that the government must carry out a National Housing Program and that the municipalities must have a Municipal Housing Charter, the municipal planning instrument in the field of housing, which must be articulated with the Municipal Master Plan.

3.4 Short-term rental market regulation

Short term rental accommodation, or local accommodation as they are often referred to in Portuguese context, has rapidly expanded in Lisbon and Porto in the last few years, fuelled, as elsewhere worldwide, by the proliferation of online platforms and new business models. While having a positive effect on the rehabilitation of the urban fabric of historical city centres, and on boosting local retail and other activities associated to leisure and culture, this development has also had negative impacts, related to a rise in demand, an increase in house prices, and the non-renewals of rental contracts and subsequent "expulsion" of traditional (long-term) tenants.

Consequently, the Portuguese government has tried to regulate this market– initially an almost informal activity – by a series of law decrees. Local accommodation was legally recognised in 2008 (Decree-Law No. 39/2008) as a complementary entity to regular tourist accommodations, in a legal regime which also included, at this stage, pensions, motels, hostels and inns. Only six years later, in 2014, a specific legal regime was created for local accommodations (Decree-Law No. 128/2014), as a consequence of its significant and increasing market share in the tourism sector. This law decree allows the establishment of local accommodations in single-family homes, single apartments or in regular tourist accommodations composed by various rooms. This decree also prescribes the obligation to clearly identify the local accommodation at the street entrance, and that a registration of local accommodation units is overseen by each respective municipality.

In 2015, Decree-Law No. 63/2015 further clarified the conditions under which local accommodation could operate. The most relevant change was the restriction of local accommodation units in a single building, stating that only a maximum of 75% of the units within a building can be used for local accommodation. In 2018, Decree-Law No. 62/2018 created an additional category, "room", and reinforced the powers of municipalities and condominium associations, as well as the obligations of the accommodation promoters. Municipalities can now delimit areas for local accommodations, limit the number of operating licenses, and oppose new registrations. Condominium associations gained approval rights for the installation of hostels in buildings with residential units. Condominium associations can also dictate the shutting down of local accommodation if it disrupts the functioning of the building, although this measure is subject to municipal validation. Finally, condominium associations can dictate that local accommodation owners pay an additional fee to compensate the more intense use of the common areas of the buildings. Moreover, owners have a civic responsibility and need a multi-risk insurance to cover damages to common areas of buildings; they need to clearly identify their lodgings (the only exception is single family homes), and they need to provide documentation regarding safety and other information in four languages. Furthermore, supervision has been tightened and penalties have increased in order to combat illegal properties. Lastly, the restriction in the number of units a single promoter can own has been lifted, except in areas delimited by the municipality in which an owner can own maximum 7 units.

Observing more or less a standstill of holiday rental during the COVID-19 pandemic, the key question is how short-term accommodation will be managed once tourism fully returns. With this in mind, 22 mayors have written to EU antitrust chief Margrethe Vestager, urging for access to rental platform data to provide city administrations with the necessary information to support the development of an inclusive and affordable housing market. Ricardo Valente, a councillor in Porto stated to news organisation Reuters: “As tourism returns, we must make it sustainable - creating a model that isn’t prohibitive to holiday lets but does have limits which ensure this is a city you can visit, but also where you can live and work”.[6]

This study started before the pandemic, and therefore, its impact has not been taken into account. In Portugal, there have not been, at the time of writing, significant changes in the housing market, short of a decline in the occupation of short-term rentals that are now turning their attention from tourists to university students. The latest data from INE (2021) show that real estate transaction prices continue to increase in both cities. Between 2020 and the first half of 2021, licences for new dwellings increased in both cities, with the increase in Porto being greater than that of Lisbon (INE, 2021).

Anecdotal evidence suggests that in Lisbon tourist rentals are now offered as mid-term and long-term accommodation, and while it is expected that some owners plan to return to short term rental once tourism returns, others have left the holiday rental business more permanently. In this respect, the head of Portugal’s holiday let association, estimates that around 15% of Airbnbs will stay off the market in Lisbon for good. At the same time, just over 100 holiday–let licences for the city’s centre districts have been given up since the start of the pandemic related travel restrictions. Also, not many Airbnb owners have been persuaded to put their property on the social housing market, despite attractive tax incentives and the promise of a five-year contract.[7] For now, more time and more data are required to truly analyse the impact of the pandemic on the Portuguese housing market.

[6] https://www.reuters.com/article/us-Airbnb-europe-cities-insight-idUSKBN2B014R
[7] https://www.reuters.com/article/us-Airbnb-europe-cities-insight-idUSKBN2B014R

4. Conclusion

Between 2011 and 2019, housing costs relative to income have increased in both Lisbon and Porto. In parallel, the lower and middle classes, as well as the younger generations, have seen access to affordable housing decrease, whereby the impact of price increases have been strongest in Lisbon. Notably, international investments in high-end properties and touristic accommodations drove up house prices, especially in the inner city areas.

As a consequence of these sharp house price increases, a substantial share of the local population experiences difficulty in finding appropriate housing. The rental market does not meet public needs and the results of polices implemented in recent years have not (yet) been satisfactory. Tourist rentals take up the largest share of the active rental market, and the state does not have enough public houses to meet demand, serving only a small part of the most vulnerable population. Traditionally homeownership has been a desired way of accumulating wealth, but the relatively low salaries rule out this possibility for many as they have difficulty in obtaining loans. The incomes of the middle classes and the younger population did not keep pace with market prices and, therefore, housing needs persist. Furthermore, the availability of affordable housing in well-connected off-centre neighbourhoods with a similar access to services and quality-of-life is not for granted.

While in both cities investments and tourism have soared, local dynamics differ. Lisbon attracted more investments than Porto, and also housing financialisation is strongest in the capital. Local policy took time to be implemented, but has currently regulated short-term-rental operations in some areas. Porto became increasingly attractive for investments over time, although paired with somewhat slower dynamics and less impact on house price increases. However, as of late the major real estate developments have been substantially financed by foreign capital, which has been reflected in rising house prices. Short-term tourist rental operations have grown significantly in both cities, causing (inner-city) urban regeneration, as well as higher prices for long-term residential housing.

Against this background, the Portuguese government has announced a new housing policy aimed at strengthening the supply of public housing, by promoting investment in the rehabilitation of public buildings, and especially the most deteriorated housing stock. This new housing policy implements the right to housing as it is stated in the constitution, being a key element in the quality of life and well-being of citizens.

In this respect, a number of measures and instruments emerge from broader EU policies, such as the European Green Deal, including its priority policy the 'Renovation Wave for Europe – greening our buildings, creating jobs, improving lives'. Furthermore, the policies also comply with the country's Recovery and Resilience Plan that is part of NextGenerationEU and supports Portugal in becoming more sustainable, resilient, and better prepared for the challenges and opportunities of the green and digital transitions. Next to reforms to promote the energy efficiency of buildings, it includes measures to promote access to affordable housing, which will be realised by investing in construction, renovation, and wherever necessary in the acquisition of new buildings, or the lease of buildings. Furthermore, integrated programmes to support disadvantaged communities in deprived metropolitan areas, and the provision of a wide range of social services for the elderly and people with disabilities will address social issues.

In alignment with these overarching objectives, most of the municipalities have developed a local housing strategy that should increase access to housing for the most vulnerable, also taking into account spatial contexts. These policies will be accompanied by social policies aimed at the improvement of (access to) education and (long-term) health services. This means moving towards the territorialisation of housing policies, in accordance with social and economic policies, taking into account local contexts and their external positioning. On the one hand, policies will address the magnitude of housing problems in the Lisbon and Porto metropolitan areas, on the other hand, it will emphasise looking after and appreciating the housing stock in the remaining areas, as a means of fostering greater social and territorial cohesion.

Often affordability issues are most visible in the big (inner) cities; therefore it can be argued that a substantial improvements of local public services like education and healthcare, as well as transport connections outside (the centres of) Lisbon and Porto might be most effective to mitigate the situation for low and middle class households. That is to say, those moving out of (inner) city areas should be met with a sufficient supply of affordable housing stock in safe and well-connected neighbourhoods that offer a similar quality-of-life in terms of access to services. Once living outside (the city centres of) Porto and Lisbon becomes significantly more attractive thanks to excelling local public goods, both business and citizens will seek new opportunities. At the same time, such policies could be an efficient measure to counter depopulation of villages and towns in deprived areas, and contribute to raising the value of the housing stock in these territories.

In sum, both domestic and especially foreign investments have contributed to urban regeneration and rehabilitation in Lisbon and Porto. Furthermore, increased tourism has strongly stimulated the local economy and in particular the hospitality sectors. At the same time, these developments have created a housing market that increasingly diverges from the local average salaries. For that reason, there appears a need for authorities (from local to supranational) to carefully assess how the right to housing can be ensured, implementing policies that also favour a sustainable development of the housing market outside Lisbon and Porto to create alternatives, fostering affordable housing and social cohesion across the country, whereby, if appropriate, excessive speculation is countered.

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