

Fátima Loureiro de Matos

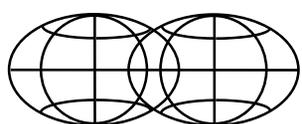
Recent dynamics in the Portuguese housing market as compared with the European Union

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Recent dynamics in the Portuguese housing market as compared with the European Union

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Abstract. The closing years of the 20th century witnessed profound changes in the European housing market, characterised by an increase in owner-occupied housing; instability of house prices (leading to a serious crisis in some regions, in light of a fall in demand); a change in people's attitude to the housing market, involving a rise in the importance of location, the quality of materials and spaces, environmental sustainability, and architectural and urban innovation.

The European Union does not have a common housing policy, which it believes is the responsibility of Member-States. However, it is recognised that the problems related to the socio-urban inclusion of low-income individuals do have an impact on Community policies.

Because we are in the midst of a transformation, it is difficult to talk today about the dynamics and policies of housing, the functioning of markets, and thereby about the ways in which public administrations are facing the current crisis of real estate overproduction.

This article aims at analysing the dynamics of the housing market in Portugal as compared with other European countries, highlighting the characteristics of demand and supply and the main changes recorded in the last few years.

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1. Introduction

The specificities of Portugal's economic development, as in other countries in southern Europe, have been expressed in late urbanisation and industrialisation

and in unique relationships between urban-industrial spaces and rural spaces (Serra, 2002), giving rise to certain particularities in the housing market. Several authors (Ferreira, 1987; Serra, 2002; Allen et al., 2004) have noted that semi-peripheral societies had

slower urban growth, which generated a housing stock that was essentially private and promoted by family initiatives.

This situation highlights the specific characteristics of the Portuguese housing market in the second half of the 20th century. One of these characteristics was the wide-spread occurrence of self-help construction and the fact that the responsibility for solving housing problems fell largely on families, a factor that facilitated the surge of illegal construction in the 1970s, particularly in the metropolitan areas of Lisbon and Porto. This took place within the context of a still fragile private enterprise housing development sector and the almost total absence of any significant public housing initiatives. Alongside this is the hugely important fact of the very strong dynamic in the real estate sector, a sector which is extremely important to the national economy.

In the last two decades of the 20th century, the upheaval in society led to new demands and new needs in relation to the housing market. Those cited as being most significant include changes in the demographic structure, for example population ageing, the diversification in the types of households, new dynamics and diversities related to migration.

But reference is also made to the more qualitative socio-cultural dynamics which are reflected in individualisation and changing lifestyles, leading, in close association to the factors above, to a diversification of demand.

At the same time, job insecurity, rising unemployment and increasingly stagnating social mobility were affecting a wide group of families and, more specifically, generating instabilities in income, in a context marked by heavy indebtedness associated with access to home ownership.

Today the real estate crisis is at the heart of the movement of financial capital, but it mainly reveals the pivotal role of the sector in national and world economic balance (Harvey, 1973, 2008).

Anyway, the global economic crisis, largely triggered by the real estate crisis in the USA, comes to reset the discussion of State intervention in the economy, not just on behalf of the quality of life but also social justice.

The current thinking about housing policies stems from these deep transformations of social, urban and housing context, but also from the political and financial complexity of social phenomena in late modernity (Guerra, 2011: 42).

The changes in society and in the Portuguese economy have also given rise to changes in housing development, with building firms becoming more

and more significant in the housing market although, as we will see later on, small companies do tend to predominate.

The changes deemed to be the most significant ones in terms of demand are: (a) demographic changes: related to the transformation of family structures, which involves declining birth rates, a fall in the number of members in the family, the increased ageing of households and a rise in the number of people living alone; (b) a change in cultural patterns and lifestyles: related to divorce and different ways of living and cohabitating, which require new kinds of dwellings, new architecture, new amenities, and new locations; (c) the greater mobility of the job market in the face of residential mobility; (d) the instability in the job market, the increase in unemployment, worsened by the current economic crisis, with implications for family incomes, contribute towards the increase in indebtedness and loan defaults; (e) the increasing social and economic disparities among population; (f) the presence of economic immigrants, with a varied but constantly changing make-up and with unique characteristics in the appropriation of housing (Plano Estratégico de Habitação 2008-2013, 2007).

These changes are reflected in a new segmentation of the housing market, in particular an increase in second homes and new housing typologies – high-end, as with luxury buildings or closed condominiums, or even sustainable design – while quantitative and qualitative deprivations remain, with housing structures in a serious state of decay, particularly in the central areas of the two main cities (Lisbon and Porto), precarious housing lacking even the minimum living conditions and a significant number of overcrowded dwellings.

In most European countries, the quantitative need for housing is a problem of the past and housing policies are today viewed as answers to specific social groups rather than global strategies of accessibility to housing. Concern is focused mainly on urban regeneration and, depending on the severity, on attempts to stabilise the currently volatile private housing markets.

Current investigations suggest a great convergence at the level of housing policies in all European countries, as manifest in research on social housing in Europe by: Boelhouwer, 1992; Barlow and Duncan, 1994; Forrest and Lee, 2003, among others. But the social consequences of these transformations are painful, the balance between supply and demand for accommodation is far from perfect and the current crisis of the subprime has put many families in difficulties because of housing costs raised by previous

commitments, and not even the lowering of housing costs in almost all of the European countries has satisfied the needs of more economically fragile groups (Guerra, 2011: 42).

Public concern at the beginning of the 21st century seems to be based on common principles across Europe, marked by: (a) a guidance for the private market through the negotiation of compensatory measures which permit the framing of groups with solvency problems; (b) an orientation of public support for specific groups, who need support: migrants, poor families, homeless, etc.; (c) sale of public dwellings to current occupants or the negotiated transfer to management institutions or local authorities; (d) emphasis on increased efficiency in the management of public dwellings by introducing forms of private financing and management; (e) integrated intervention in the logic of 'urban social development' in neighbourhoods with higher manifestations of exclusion, acting at the level of the building space, but also in housing, employment, culture, etc (Plano Estratégico de Habitação 2008–2013, 2007: 13–14; Guerra, 2011: 42–43).

The European Union does not have a common housing policy, which it believes is the responsibility of Member-States. However, some thought has in fact been devoted to this matter, for example the 'European Charter for Housing', approved by the Intergroup 'Urban Lodgement' of the European Parliament on 26th April 2006, defines housing as a front-line necessity, a fundamental social right underlying the European social model and an element of human dignity. Although the European Union does not have a specific policy for towns/cities and housing, concern with the degradation of some areas has prompted several initiatives, including the launch of urban intervention programmes (for example the URBAN I and II programmes). However, worries about the increasing marginality of urban populations and areas are often cited in Community documents, together with the warning to Member-States about a situation which tends to become publicly very visible, the more so because it is often associated with difficulties of social integration. It is recognised that the problems of socio-urban inclusion of low-income individuals have an impact on Community policies for several reasons: housing is a key factor in social cohesion; the success of the Lisbon Strategy requires competitive and non-segregated towns and cities, and increasing job mobility requires a smoothly-functioning housing market.

Although the Amsterdam Treaty stipulates no formal EU mandate on housing policy in issues related

to homelessness, access to social housing and the social integration of groups living in deprived inner-city areas have entered the European social policy agenda. This has occurred largely through the EU's development of anti-poverty and anti-social exclusion policies, aimed at making a decisive impact on the eradication of poverty by 2010. Overcoming poor housing conditions, 'fuel poverty' and overcrowding are seen as an integral part of eliminating poverty.

In the last 20 years of the 20th century we saw profound changes in the structure of European housing markets which resulted (in spite of the diversity between countries) in the following characteristics: a high level of owner-occupied housing (some countries have recently witnessed a recovery of the rental market); instability of house prices resulting in serious crisis in some regions, in light of a fall in demand; a change in people's attitudes to the housing market, involving more relevance for location, the quality of materials and spaces, environmental sustainability, architectural and urban innovation.

Because we are in the midst of a transformation, it is difficult to talk today about the dynamics and policies of housing, the functioning of markets, and thereby about the ways in which public administrations are facing the current crisis of real estate overproduction

This article sets out to analyse the dynamics of the housing market in Portugal in comparison to other European countries, highlighting the characteristics of demand and supply, and the main changes recorded in the last few years.

2. Discussion and research results: recent dynamics in the housing market in Portugal

Construction dynamics. The dynamics of the construction industry reflect the strong expansion of the real estate market in Portugal over the last few decades. In the 1990s the Portuguese housing stock kept up the strong growth rate it had enjoyed since 1970. The increase in the number of dwellings between 1970–2001 was always greater than 20%, though the growth rates had eased over time: 27% in the 1970s, 22% in the 1980s and 21% in the 1990s.

In the last period 2001–2011, the increase was slow by 16%. This growth is mainly due to the growth of vacant houses (35.1%), and seasonal housing (22.6%), since permanent residence only increased by 11.7% (INE, Census 2011 preliminary data).

The number of dwellings practically doubled during the four decades analysed here and recorded a growth rate that was always higher than the growth in the number of families (Fig. 1), which gave Portugal the third highest ratio of dwellings per household within the EU (Fig. 2). In 2011, the ratio of houses per household in Portugal was 1.7 (INE, Census 2011 preliminary data).

In terms of international trends, the situation in Portugal was similar to other European countries (Fig. 3). However, in the 1990s, in Portugal, the increase in the housing stock was greater than in the other countries analysed, with the exception of

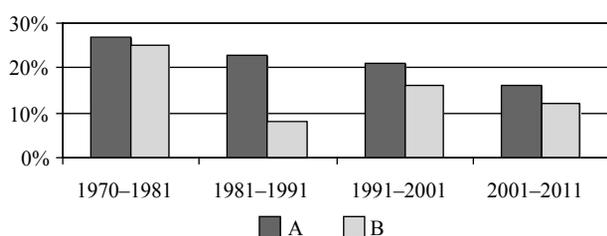


Fig. 1. Housing and household growth rate in Portugal (1970 to 2011)

Explanation: A – housing; B – household

Source: National Statistics Institute, Censuses 1970, 1981, 1991, 2001 and 2011 (Preliminary data)

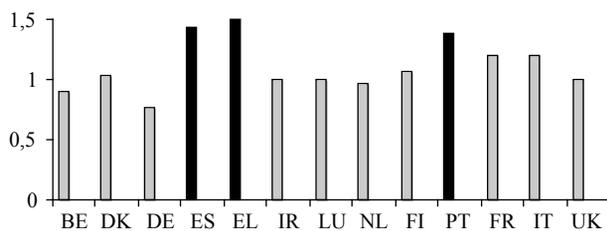


Fig. 2. Housing ratio per household 2001 in some EU countries

Explanation: BE data from 1991; DE data from 1998

Source: Housing Statistics in the European Union, 2002

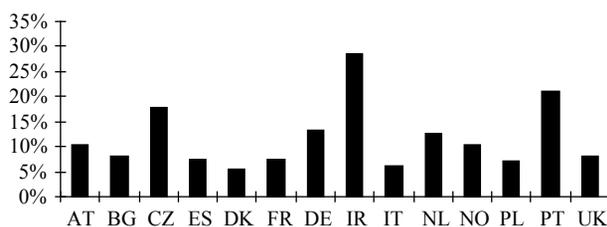


Fig. 3. Housing growth rate 1991-2001 in some EU countries

Source: UNECE – Bulletin of Housing Statistics for Europe and North America, 2002 and 2004

Ireland, which had the largest growth rate. Indeed, the growth rate between 1991 and 2001 in Portugal is more than twice the French and Spanish ones, and more than three times the Italian one.

Housing tenure and occupation. A common feature across Europe is the wider access to home ownership and the reduction, or at least stabilisation, of rental markets. There are many reasons behind this access to home ownership, ranging from cultural factors to the expansion of family incomes, coupled with the abundance of supply and a relative stability in selling prices. We should also stress the existence of public policies supporting loans for buyers, to the detriment of support for renting.

The access to property coincided with a period of strong growth in the number of dwellings and in public investment in housing, a situation that we do not see today due to the marked decline in public investment in promoting access to ownership in EU countries, associated with the budgetary control collectively assumed by these countries, particularly those in the Eurozone.

Therefore, in relation to tenure status, Portugal is also following the trends seen in most European countries. Between 2001 and 2011, owner-occupied housing increased by 9.2% while rented housing increased by 6.3%. But, curiously, although in 2011 there were 243,462 owned homes and 46,479 rented houses more than in 2001, occupancy percentages are lower than those of the previous census, indicating probably the cohabitation of families in the same houses due to difficulties in maintaining to maintenance their homes.

As Fig. 4 shows, in 2010 only in Austria, Denmark and Germany was the percentage of owner-occupied housing less than 50%. Belgium, Bulgaria, Czech Republic, Estonia, Cyprus, Finland, Spain, Portugal, Poland, Greece, Slovakia, Sweden, Ireland, Hungary, Estonia, Italy, Latvia, Lithuania, Malta, Slovenia, and Romania, had higher rates of owner-occupied housing (above 70%).

In the countries in northern Europe, with higher standards of living, public authorities sustained a good-quality public rental market, which led to a more moderate evolution of ownership.

However, the increase in home ownership was also the result of the large-scale sale of public dwellings to their occupants. The United Kingdom is one of the best examples of this. Following a series of measures implemented by the Conservative government of Margaret Thatcher, in particular the ‘Right to Buy’ (from 1980), (Donner, 2000; Bramley, 2004), ‘a total of 1,569,321 council dwellings were sold in 1980–95,

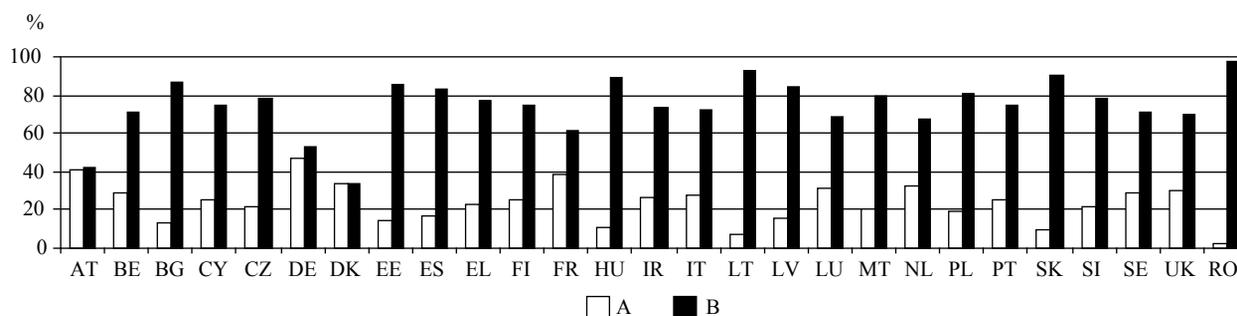


Fig. 4. Occupied dwelling stock by tenure in EU-27 countries (%), 2010

Explanation: DE – including Ex-DDR; A – rent; B – owner-occupied

Source: Eurostat, Statistics on Income & Living Conditions (SILC)

equivalent to 25 per cent of the total local authority stock of 1980' (Balchin et al., 2002: 68).

In the East-Central European countries the increase in home ownership was also largely due to the policy of selling social housing which was instigated in from the 1990s, following the political changes in those countries. Between 1990 and 1994 privatisation affected 3.1 million rental flats out of a public rental stock of 10 million, i.e., 31% of the public rental stock (data refer to 12 countries, not including Russia, see Hegedüs, Tosics, 1998: 659), the public stock has rapidly been sold off to the sitting tenants.

In Portugal, the strong weight of owner-occupied housing resulted from several factors, in particular: restrictions on supply in the private rental market which stemmed from the prolonged control of rents and the rigidity of the property rental legislation until 1990; new opportunities for investing savings in more profitable financial products, which replaced the general habit of applying savings to the construction of housing for rent; the scarcity of the social housing sector, resulting from the fact that a substantial share of public resources for housing was channelled either into subsidising credit or into providing tax incentives to owner-occupied housing, associated with a significant reduction in interest rates, and not into the direct promotion of social housing (Matos, 2001: 133-134).

The rental market in Portugal is not very appealing. This is explained both by a lack of demand, the result of the favourable mortgage conditions that entail a monthly payment that is not very different from current rents, and by a reduction in supply, the result of rent legislation and a legal system that prevent renting from being a sufficiently attractive source of income.

There is a clear split in the rental market: on the one hand, the dwellings rented before 1990 (33% of

the total dwellings rented in 2011), with rents that have been frozen at very low rates, and suffering severe deficiencies in terms of comfort and safety; and on the other hand, the percentage of dwellings rented after 1990, subject to the new rent control rules, representing 66% of the total dwellings rented.

Looking at the data in the 2001 Census on the distribution of dwellings by rent bracket, we see that for 30% of the dwellings rented before 1975, the rent was below €15; for contracts between 1975 and 1986, the figure dropped but remained the most representative bracket in the distribution (19%). Among the dwellings rented after 1990, the rent bracket with the greatest weight ranged between €300 and €400, and accounted for 15% of the total (for 2011 we still don't have the data).

Regarding owner-occupied housing with mortgages, the average monthly payment was €300, rising to around €400 for dwellings built after 1996.

Given the profound changes in requirements to obtain bank loans, particularly the reduction in the cost of credit and the increased flexibility of the entire process, families weighting a rent that is almost as high as instalments payable to the bank, see the purchase of their own home as more advantageous. We should point out that the State's role in facilitating access to credit, particularly through subsidised regime (1), but also via tax benefits and deductions, also explains why the percentage of families who own their own home in Portugal is higher than the European average, even among individuals with lower incomes (Fig. 5).

While there is no question that the Portuguese Government's support for home ownership was always greater than that recorded for renting, it is no less true that the number of loans granted as part of the subsidised regime only really exploded after the mid-1990s. Now this is exactly the point where the

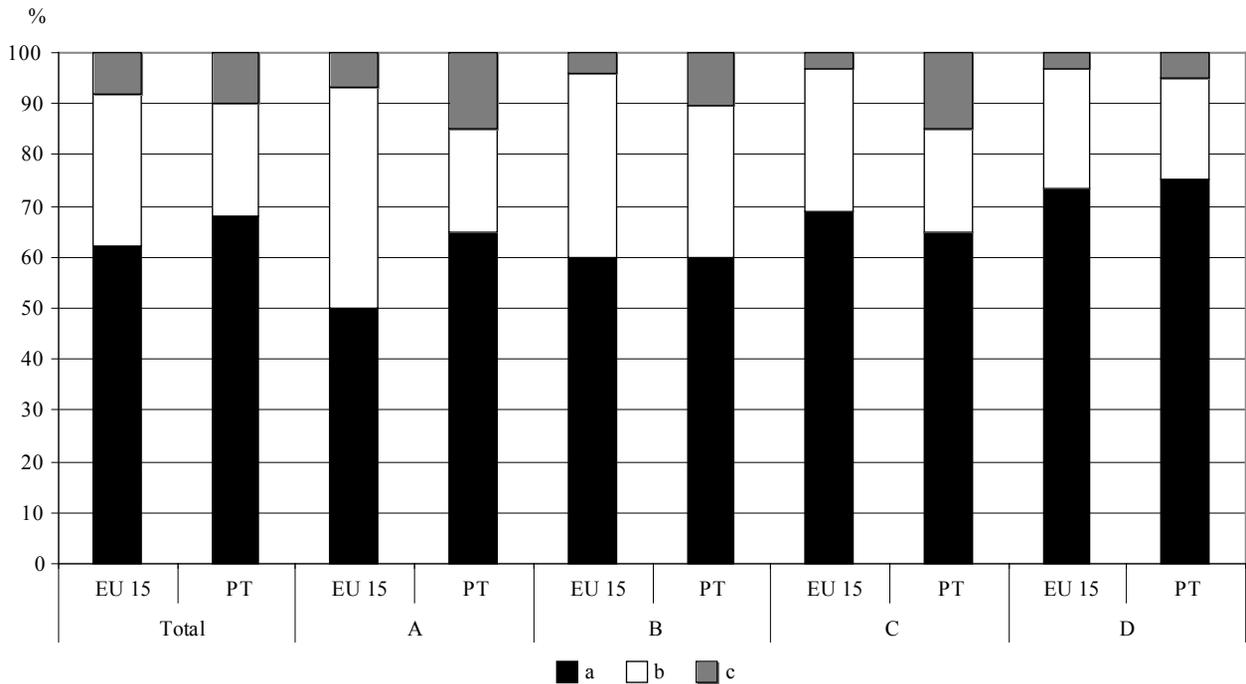


Fig. 5. Occupied dwelling stock by tenure and by income group (%), 2001

Explanation: A – household income less than 60% in relation to median income; B – household income between 60% and 100% in relation to median income; C – household income between 100% and 140% in relation to median income; D – household income greater than 140% in relation to median income, a – owner-occupied; b – rent; c – rent free

Source: Eurostat, European Community Household Panel

trend of falling interest rates that had begun at the end of the 1980s becomes more evident; it was in 1997, now in the countdown to joining the euro that interest rates fell below 10% for the first time. The real impact of the subsidised credit policy should in no way be underestimated, especially since between 1997 and 1999, 60% of new mortgages benefited from some sort of subsidy. But it was the changes in the financial market, along with a general improvement in household incomes – both closely linked to Portugal's entry into the EU (2) and its political and economic stabilisation – that were actually the greatest driving force behind the exponential increase in access to credit.

In the other countries in Southern Europe, Italy, Greece and Spain, the weight of owner-occupied housing is, as in Portugal, associated with two main factors: housing policy did not target the direct promotion of social housing, but was aimed at directly or indirectly supporting household access to owner-occupied housing; the supply of private rented housing was restricted as a result of frozen rents and sales to tenants (see Allen et al., 2004).

Thus, there is more social housing in the Netherlands (77% of rented housing and 34% of the housing stock) and in some countries in Northern

and Eastern Europe where social housing accounts for over 50% of rented housing, for example in Austria, Finland, United Kingdom, Slovak Republic, and Slovenia, as opposed to Spain, Portugal, Germany, Belgium, Italy, and Latvia, where social housing accounts for less than 25% of the rented accommodation and less than 7% of the housing stock (Fig. 6).

Second-home acquisition more than doubled in Portugal between 1981 and 2001. A second home on the coast or in the countryside has important implications for ownership. Portugal has the highest proportion, 18%, of all the countries considered, with Spain coming a prominent second, with 16%. In terms of vacant houses, Portugal and Spain have the highest figures, 11% and 14% respectively, with the other countries falling far below (Fig. 7).

In 2011, Portugal has 19% of second homes and 12.5% vacant houses (INE, Census 2011 preliminary data). The weight of second homes in Southern European countries compared with other European countries is closely linked to a number of factors, including: (a) population migration from the countryside to towns, which left the rural homes empty, serving only as places to go on holiday; some of this housing belongs to low income households that have

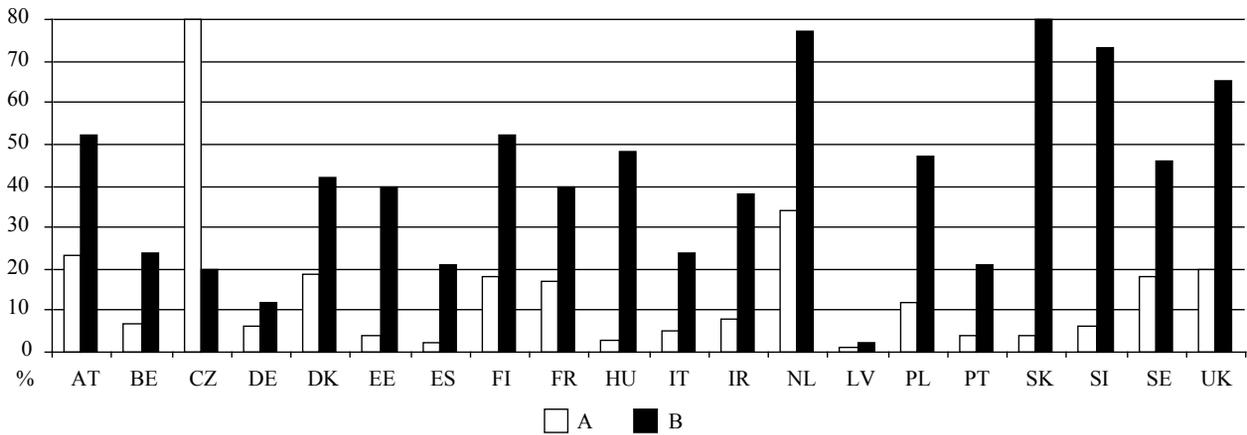


Fig. 6. Social rental dwellings as% of total dwelling stocks and as% of total rental dwelling stocks, 2004

Explanation: AT data from 2000, PT data from 2001, ES data from 2003, DE; A – % of total dwelling stock; B – % of total rental dwelling stock

Source: Federcasa (Italian Housing Federation), Housing Statistics in the European Union 2005/2006

retained it because they wanted to have a place of socio-geographical reference or a familial place of reference; from the 1990s many of these homes have been sold to other urban dwellers as second homes; (b) some second homes represent investment in new houses by emigrants who use them during the holidays or when they retire (associated with the emigration of people from Southern Europe to other European countries, notably France, Germany and Luxembourg in the 1960s-1970s); (c) other houses have been built deliberately as second homes by urban families, real

estate companies and people from other European countries, who come south for the climate and opt either for seaside places or – increasingly – for rural areas. These houses are often rented during the holiday season to nationals or foreigners, while many people from northern Europe also acquire such properties for their holidays. This phenomenon is important to the growth of leisure towns/cities, especially in the seaside areas of southern countries. “The growth of these leisure cities, mostly composed of second homes, was a way to promote less developed regions where there

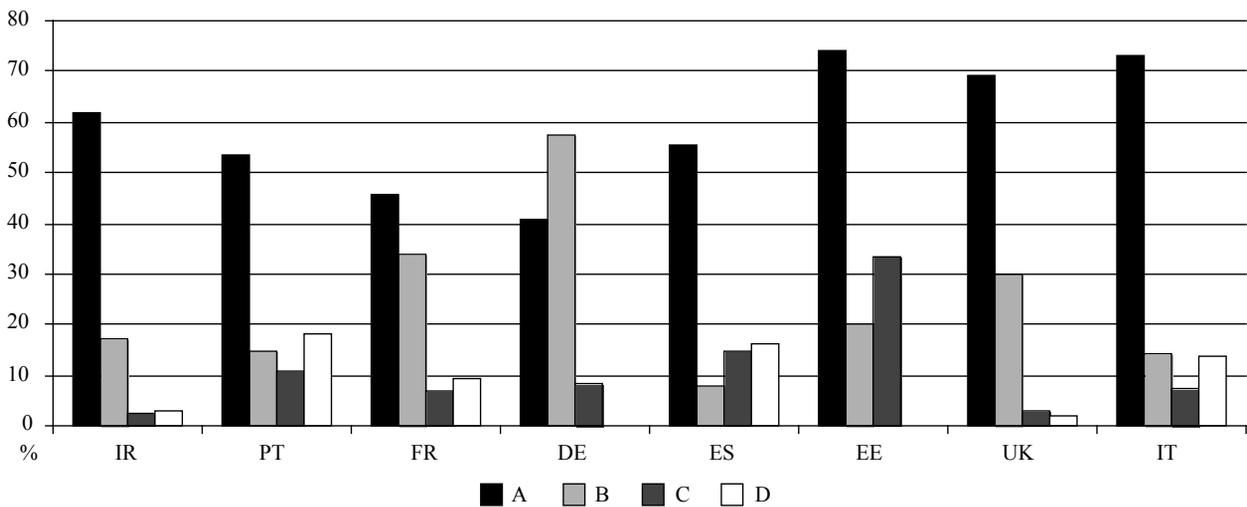


Fig. 7. Housing tenure and occupancy in some EU Countries, 2001

Explanation: DE vacant includes both empty homes and seasonal homes; DE no data for seasonal homes; A – owned; B – rented; C – vacant; D – seasonal homes

Source: Census Countries

were no other resources, like the southern coast of Spain, the Algarve in Portugal, some southern Italian regions and Greek islands’ (Allen et al., 2004: 37).

The recent growing proportion of retired people coming from other countries to live in southern Europe during winter raises the vision of some regions becoming a vast retirement home for older Europeans (Allen et al., 2004), like Algarve in Portugal or Benidorm, Marbella, Torremolinos, Benalmadena, Fuengirola, San Pedro de Alcantara, Canary Islands, Balearic Islands in Spain, for example.

With respect to empty houses, Portugal is high on the list in the context of Europe, as mentioned earlier: from a housing stock of 5 865 387 conventional dwellings, around seven thousand are vacant (2011 figures), which is a very high number. There are many reasons for vacant houses, such as homes available on the market (for sale or rent) and ones for demolition. The number of vacant houses shows, on the one hand, considerable discrepancy between the potential supply and demand for housing and, on the other hand, a significant proportion of unoccupied dwellings that are completely unused, comprising homes in need of renovation (many of them are family homes in the homeland inherited from their ancestors) or ones that represent financial assets for their owners.

The existence of a large number of new homes that are vacant is an important signal of over-supply, especially serious in areas of low demand. In these cases there is a dual responsibility: that of the developers/builders who often pay for the mistakes of poor planning with their own financial non-sustainability; and that of local authorities whose budget capacity depended on the number of licensed constructions, at least until the new local government law came into

force (Law 2/2007 of 15 January). So the number of empty new homes is both a good indicator of areas of low demand and also shows the problems of survival for a certain type of property developers. In the actual context of economic crises the difficulty to sell or rent homes is a big problem for developers.

Deficiencies in dwellings. Given the dynamics of the housing market in the past few years, in most European countries the quantitative needs of a home have been practically dealt with, although there are some qualitative deficiencies that mainly affect low-income households.

Housing quality is both and also an output measure itself, expressing an important element of quality of life, but it is also a determinant of social participation changes, at it has impact on health, on social relations and on access to jobs.

With respect to overcrowding, therefore, countries in Eastern Europe have the highest rates of population living in this situation, with particular emphasis on those with the lowest incomes, whereas countries in the centre, south and north have lower rates, indicating better living conditions (Fig. 8).

The population at risk of poverty is more likely to live in overcrowded dwellings. The social gap between low-income groups and the rest of the population tends to be proportionately larger in countries with lower overall overcrowding rates, including Norway, Finland, Luxembourg, Germany, Denmark, France, and others. In Hungary, 70% of the population at risk of poverty is exposed to overcrowded conditions. Similar rates prevail in Poland (66%), Romania (65%) and Slovenia (59%). The lowest percentages were recorded in Cyprus (6%), Spain (6%), the Netherlands (5%) and Malta (6%).

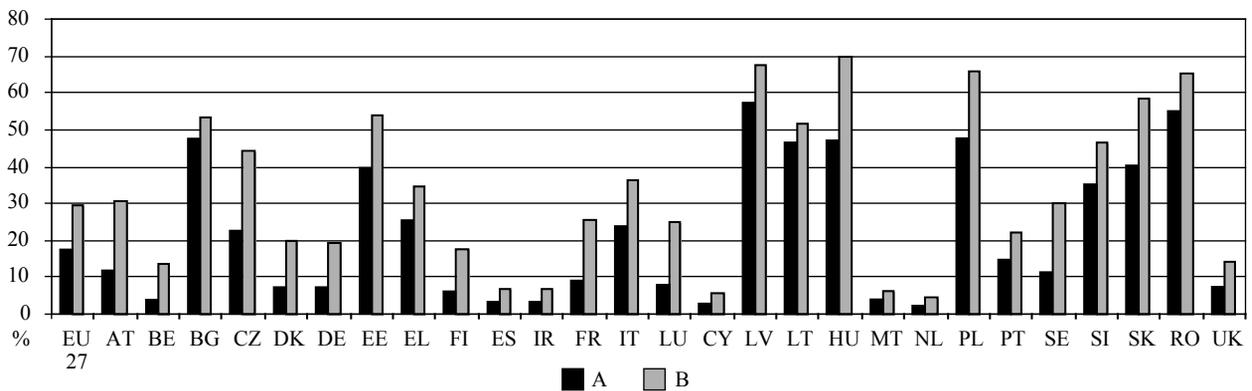


Fig. 8. Overcrowded rate comparing total population and those at-risk-of-poverty, EU countries 2010

Explanation: A – total; B – below 60% of median equivalised income

Source: Eurostat, Statistics on Income & Living Conditions (SILC)

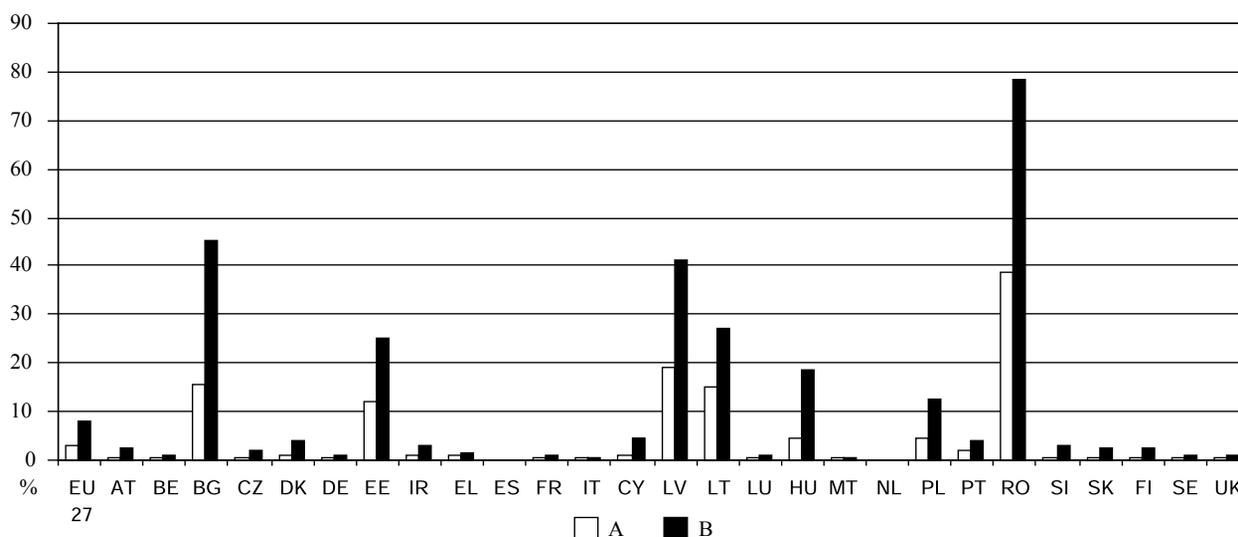


Fig. 9. Share of total population and at-risk-of-poverty having neither a bath, nor a shower in the dwelling, EU countries 2010

Explanation: A – total; B – below 60% of median equivalised income

Source: Eurostat, Statistics on Income & Living Conditions (SILC)

Having an indoor flushing toilet is the most basic feature of modern accommodation, and is therefore an essential component to address when assessing the standard of accommodation.

Moreover, it can also be assumed that the absence of a toilet indicates the absence of a bathroom, one of the most basic personal hygiene facilities. The lack of a separate toilet, instead replaced by 'shared' toilet facilities or an outdoor toilet, indicates a low standard of living conditions.

Fig. 9 shows that in the EU 27 the percentage of population having neither a bath, nor a shower in the dwelling are too small, but Estonia, Bulgaria, Latvia, Lithuania, and Romania, still among the least affluent countries in the EU 27, are exceptions and have the highest percentages for this indicator, with Romania topping the list. Overall, this pointer seems to be most prevalent in the lowest income group.

In Portugal, one of the biggest deficiencies in qualitative terms is the state of repair of the housing stock. Figures from the 2001 census show that there are about 1 million 6 hundred thousand homes that need small to medium scale repairs, and 326,000 are in a serious state of disrepair or need major repairs. The physical degradation mostly affects the oldest buildings, so deterioration prevails in areas where there are a great many old buildings, in the historic centres of Lisbon and Porto, for example.

Supply and demand for housing in Portugal. Although there are no actual organised data on

housing supply and demand, there are approximate variables that allow the main trends to be assessed: the number of buildings and apartments sold reflects part of the demand, that is, the proportion of intentions-to-buy that are successful; the number of homes completed for occupation reflects part of the supply, that is, the proportion of the supply represented by new dwellings.

An analysis of these variables for Portugal shows that the rate of growth of the number of buildings sold between 1996 and 1999 sent signals to the market that resulted in a greater incentive to construction and in a faster completion rate for finished dwellings. The supply impetus was kept up in the years that followed, although there was a slowdown in the number of buildings and apartments sold. Construction only slowed down from 2002 onwards (Fig. 10). The real estate crisis was particularly felt in this decade, aggravating successively since 2008. In the entire year of 2011, production in construction decreased by 9.9% (a decrease of 8.4% in 2010). Compared to the same month of the previous year, employment and salary decreased by 12.5% and 9.2%, respectively.

The trading volume in buildings and apartments grew by 39% between 1996 and 1999 and declined to 18% from 2000 to 2007, in line with the amount of mortgages approved each year for house purchase.

Housing demand seems to follow the loan condition trends, with the series of transactions keeping up with the amount of mortgages granted.

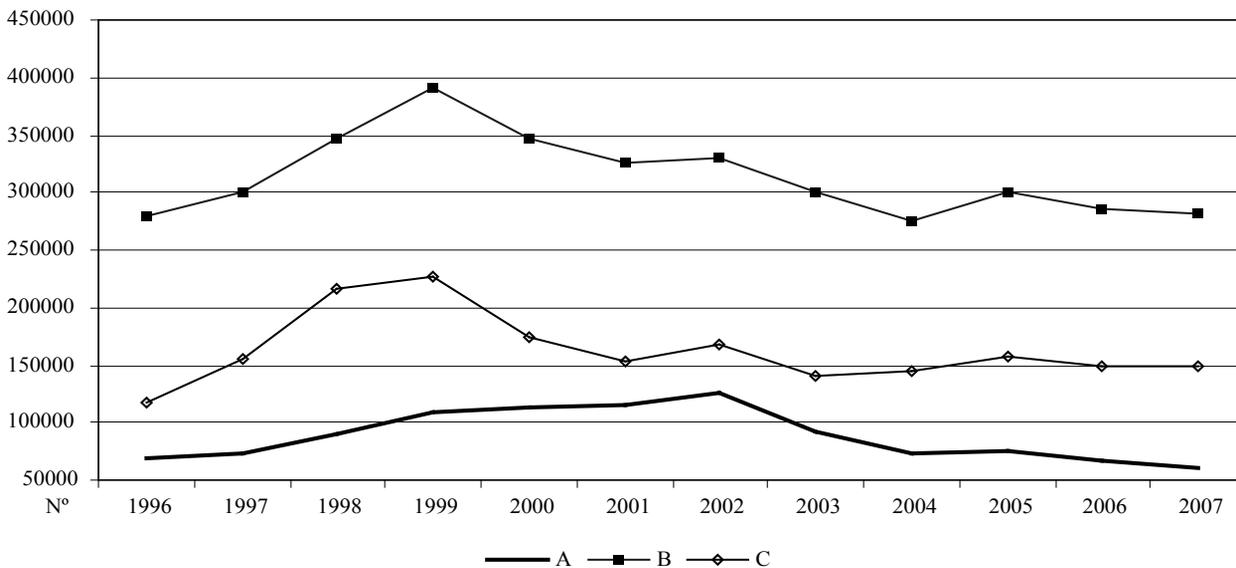


Fig. 10. Evolution of new housing completed for residential use, dwellings sold and housing loans in Portugal, 1996-2007
 Explanation: Dwellings sold included urban, rural and mixed buildings and urban and rural land, A - new housing completed for residential use, B - dwelling sold; C - number of housing loans

Source: National Statistics Institute (Construction and Housing Statistics), Ministry of Justice (Policy and Planning Office) and Ministry of Finance (Directorate-General for Treasury and Finance)

Between 1996 and 2006 house prices in Portugal were much lower than in other European countries, in real terms, and the supply was reactive enough to avoid a speculative bubble in the property market (Fig. 11).

Portugal also has one of the lowest construction costs in Europe, and the average selling price per m² is thus extremely competitive in the European housing property market (Fig. 12).

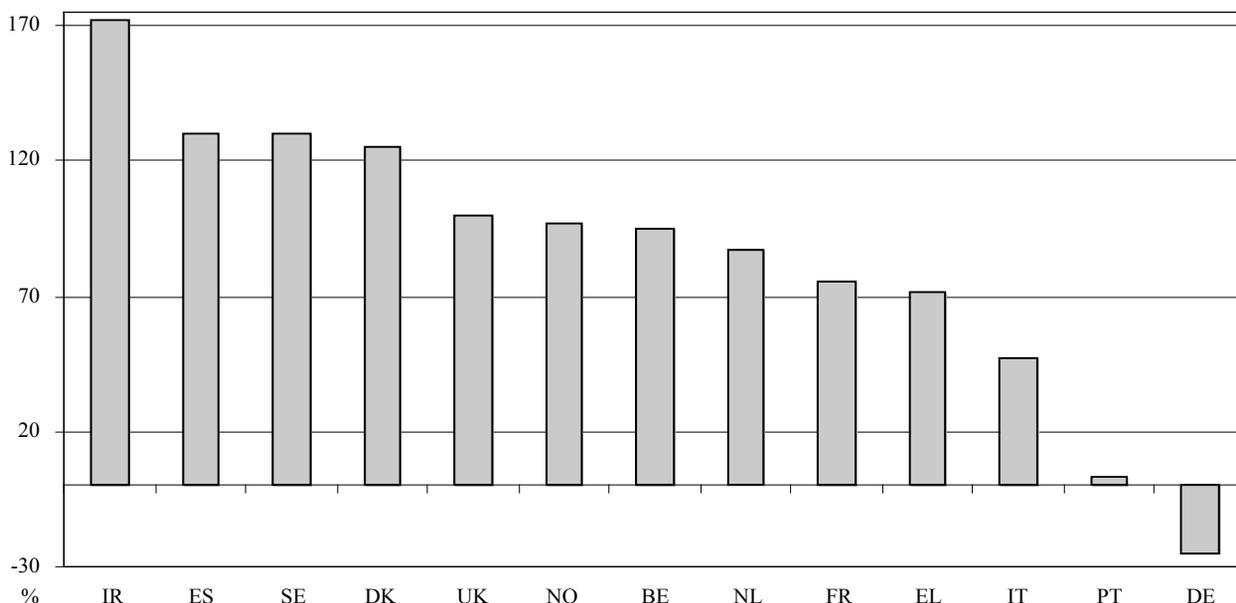


Fig. 11. Real house price changes between 1996-2006 in some EU Countries

Source: Oliveira, 2009

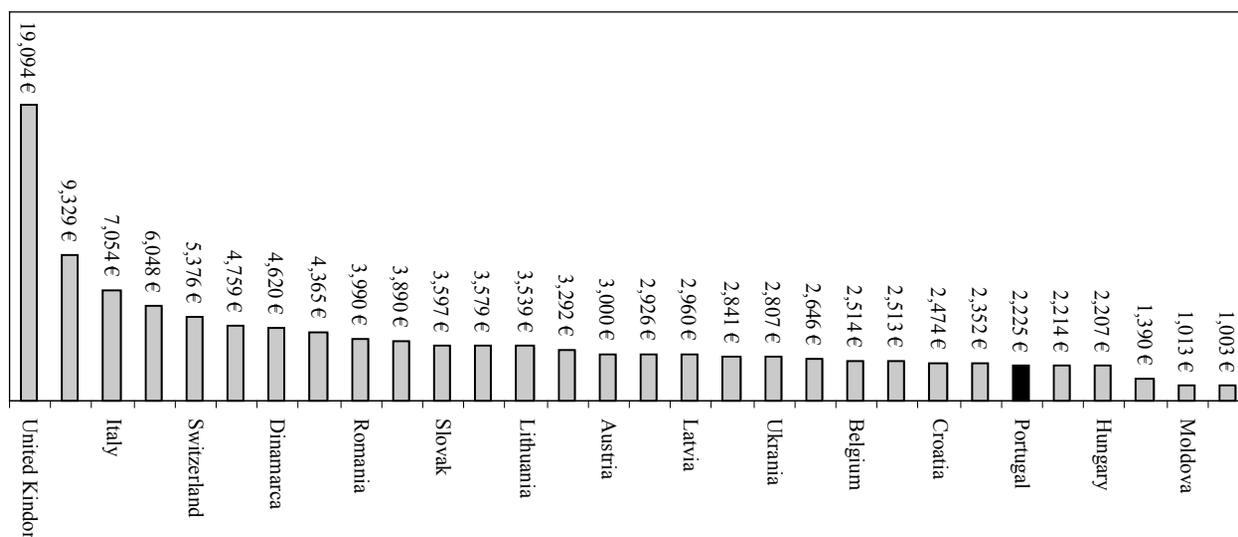


Fig. 12. Average sales price of housing per m² in some EU Countries in 2007

Source: Oliveira, 2009

The combination of an economic and financial climate that favours demand, a small rental market, an increase in new construction and a price that increases gradually and remains below the European average, has been a great incentive for getting into debt to buy one's own home.

Indebtedness of private individuals in Portugal grew at a significant rate in the 1990s, both in historical terms and in comparison with other countries in Europe, in a context notable for higher disposable income and lower credit costs.

The ratio for personal debt, particularly mortgage debt, has been rising since 1980 and really speeded up in the 1990s, between December 2004 and June 2008 the total amount of loans granted by banks for house purchase rose by 48.1% and the number of households in debt rose to 24.6% (356,886 households). In June 2008, then, the number of Portuguese families acquiring debt through bank loans to buy a house reached 1,808,096, about 49.5% of Portuguese households (Rosa, 2008).

Between January 2005 and July 2008 the average instalment paid by each family to amortise the mortgage fell by -18.9%, while the portion of this instalment going toward interest rose 75.3% (Rosa, 2008).

Since 2008, the economic crisis that the country is experiencing, in addition to the depreciation of the real estate, almost always the only major investment made by families, generated an inability to pay debts which resulted in the creditors holding a charge over the housing. Although it is difficult to estimate the number of families indebted due to housing, according to figures from the Bank of Portugal in 2011, this

record of indebtedness reached 670,604 families with loan defaults, most of them consumer credits. But the most spectacular rise in that year was the housing loan defaults, with 12,280 families when in 2010 it had been a little over two thousand. On average, each of the 139,875 families who cannot pay today the housing loan are in debt of 17,000 Euros, with indebtedness increased by 277 percent of indebtedness between 2010 and 2011.

Most European countries have seen a similar growth in indebtedness. In the United Kingdom, Sweden and Finland, in fact, indebtedness started to rise in the 1980s thanks to the early signs of the deregulation of the financial markets, and in the 1990s most European countries experienced higher growth rates. In 2007, Portugal was one of the Eurozone countries with the highest burden of debt in GDP, but it was superseded by the Netherlands and Denmark (Bank of Portugal, 2008).

Development of the construction sector. As in many countries, the building sector is very important to the national economy. Business within the sector tends to be pro-cyclical in that it influences and is influenced by the course the economy takes. It has a very long chain of value and generates strong multiplier effects on the various economic activities upstream and downstream.

The number of companies in the construction sector amounted to around 10% of the industry as a whole in 2009. The rate of growth of firms and workers in the building and property sectors was especially high in the 1996–2002 period, when there was an average annual growth of 11% and 16% (firms) and

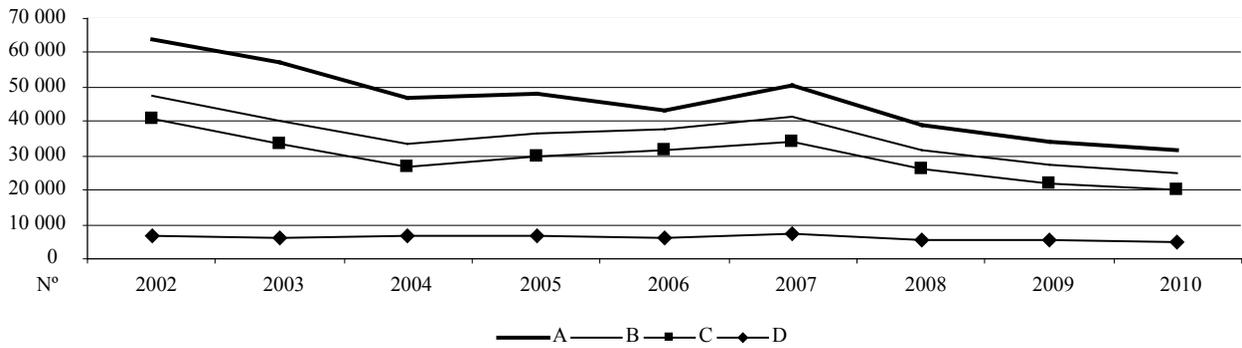


Fig. 13. Evolution of the number of building (s) concluded between 2002 and 2010 in Portugal

Explanation: A – building total; B – building for housing; C–new building for housing; D – housing building renewal

Source: National Statistics Institute, Construction and Housing Statistics

9% and 10% (workers) respectively for each sector, but there was a decline after this in the building sector and a levelling out in the property sector (Plano Estratégico de Habitação 2008–2013, 2007).

The present structure of the construction sector differs from the way it was at the start of the 1990s. It has seen a growth in the scale of business, growth in the foreign stake in Portuguese companies, the merging of some large Portuguese firms, the creation of joint ventures involving Portuguese and/or foreign firms – especially in tenders for large urban development projects – increasing internationalisation, in both labour (with the hiring of migrant workers and with Portuguese workers being subcontracted abroad) and works (in both Europe and beyond) and capital.

The need to be more competitive resulted in the outsourcing of some productive functions in order to make the cost structure more flexible, which led to downsizing in terms of employees in the larger firms and greater recourse to subcontracting smaller firms as subcontractors for certain stages of the works, or even as labour suppliers.

Despite the restructuring of the construction sector in general there is still a prevalence of small firms, which employ fewer than 10 workers and accounted for 92% of the sector in 2009. There is less concentration of labour, with only 10% of jobs in firms with more than 250 workers. The number of wholly foreign owned companies more than quadrupled between 1990 and 2004, but the importance of foreign capital in the sector is slight (0.3% of firms have foreign shareholders and account for 1.5% of jobs, as opposed to 1.2% and 11% respectively for overall corporate economic activity) (Plano Estratégico de Habitação 2008–2013, 2007).

In terms of supply, there was a 50% decline in the number of works completed between 2002 and 2010, and though there was a slight recovery in 2006–2007 the levels from the start of the period were never regained (Fig. 13).

The number of works was strongly influenced by the construction of apartment blocks, which represented 74% (start of the period) and 79% (in 2010) of all interventions in buildings. But in the period under study new buildings constructed for dwellings fell by 50%, while refurbishments fell to 24%, which seems to indicate a certain dynamic in the renovation segment, though far less significant than in other European countries. In Germany, the UK, Italy and France, for instance, renovation was much

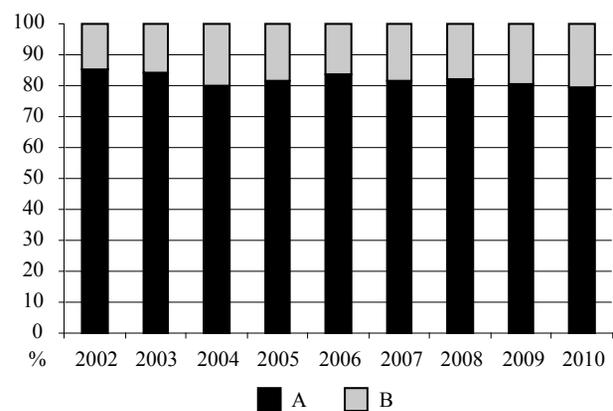


Fig. 14. Evolution of building concluded for house by type of work between 2002 and 2010 in %

Explanation: A – new building for housing; B – housing building renewal

Source: National Statistics Institute, Construction and Housing Statistics

more important, constituting 50% (in terms of the value of output in Euros, without tax) of all housing output, whereas in Portugal the figure is 10% (Euroconstruct, 2007).

Refurbishments continue to produce very low values in the set of works at building housing, never exceeding 20% of the total of the works (Fig. 14).

Among the measures being taken by the government to stimulate the renovation segment we have: the reduction of VAT to 6% from 2007; the Decree-Law 307/2009 of 23 October, which establishes the legal framework for urban refurbishment, and the creation of the ProReabilita programme (at the approval stage), which creates a system for supporting the renovation of rented property and property to accommodate needy families.

In terms of developers, in the period under consideration 53% of completed new dwellings were developed by private firms, 44% by individuals and just 2% by the public sector.

Private sector housing construction is still predominant in Portugal, but there is a small shift in relation to the previous periods since firms now slightly outweigh individuals, though the latter are still very relevant.

3. Conclusions

In European terms, Portugal in the 1990s saw its housing stock grow more than the other countries studied, and also with respect to home ownership it kept pace with the trends in most of the countries in Europe for increased owner-occupation.

As in the other countries of southern Europe, the rental segment and social housing in Portugal were lower than their counterparts in northern and eastern Europe.

Second homes more than doubled in Portugal between 1981 and 2011. The figures for second homes in Portugal are higher than those of all the countries considered in this study, though Spain also has a high figure, close to that of Portugal. In terms of vacant houses, Portugal and Spain have the highest figures, while the other countries lag a long way behind.

Given the dynamics of the housing market in the past few years, in most European countries the quantitative needs of a home have been practically dealt with, although there are some qualitative deficiencies that principally affect low-income households.

Portugal is notable for the number of under-occupied dwellings and dwellings in need of renovation work.

In Portugal, the rise in interest rates and changes in the subsidised loan system at the end of the 1990s influenced the fall in the number of loans approved in 2000 and 2001. This situation worsened with the scrapping of the subsidised loan scheme in 2002, whose repercussions were felt in the years that followed.

Although interest rates began to fall after 2000, the period of economic crisis and tighter controls on credit led to a fall in the demand for housing.

In response to the fall in demand the construction sector shrank further in 2002 and there was a marked drop in the number of completed houses. The contraction has continued in recent years.

The growth in indebtedness after the mid-1990s resulted from the sharp drop in nominal and real interest rates, the abolition of certain legal barriers, and competition between banks, all of which allowed a much wider number of households to gain access to credit. Indebtedness among Portuguese households has continued to grow throughout this decade.

Because of the actual economic crises, rising unemployment and salary cuts, many families and real estate cannot pay the housing debt to banks; this originated an increase in the number of homes returned to banks. In the year 2011 on average 19 houses were returned to banks, this number has risen to 25 in the first three months of 2012 (information from Portuguese Real State Professionals and Brokers Association).

The number of firms and workers in the building and property sectors was particularly high in the period 1996–2002, with a subsequent contraction in the construction sector and a levelling out of the property sector thereafter.

Despite the overall restructuring of the construction sector, small businesses employing fewer than 10 workers continued to predominate.

There has been a drop in the number of dwellings completed (in new constructions for family homes) since 2002, with a total actual decline of more than 30%. Refurbished dwellings decline too but more slowly, which seems to suggest some dynamics in the renovation segment, albeit at a level far below that in other European countries, and less than is needed in light of the conspicuous deterioration of Portugal's housing stock.

When it comes to developers, private initiative still reigns supreme in the Portuguese housing market.

Notes

- (1) The subsidised credit regime was created in 1977 and ended in 2002; it did not, however, have retroactive effects, which means that the contracts made under this scheme continue valid until the debt has been paid off, as long as the conditions of access are maintained. In 2008 and 2009, in the midst of the global economic crisis, the government passed new legislation on credit, for households affected by unemployment, which included changes to the subsidy bracket, and a new line of credit to pay for 50% of the monthly instalment owed the bank.
- (2) Portugal joined the EU in 1986.

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