

### **Alarming rising costs in construction**

For the past year, and specially in the latest months, we have been witnessing to record high prices in supplies, raw materials and workmanship, which has generated sharp, disturbing rises in construction costs.

The Instituto Nacional de Estatística - INE (National Institute of Statistics) disclosed now its new housing construction costs index, showing that, in February 2022, construction cost increased 8.6% year-on-year, which is the highest value since the beginning of the millennium. This raise is largely due to the growing raw material prices, which increased 10% in February, the steepest raise since 2008.

It should be specially noted the year-on-year 20% abrupt increase in February 2022 for materials such as steel, ceramic, glass, or cork and wood chipboards and derivatives.

These increases are still largely due to the impact of the COVID-19 pandemic on supplies, production and distribution chains, currently exacerbated by the war in Ukraine and its consequences also in the fuel pincing.

This is all extremely disturbing and we all should think about it as the impact of all these increases shall (and we are already feeling it) take its toll in the real estate end price. That is, one must be blunt about this, the soaring increases in construction costs shall impact directly the price the Portuguese will pay for their homes in Portugal. Once again, naturally it will be the end client, the Portuguese nationals buying their homes, who will bear this increase. That is truly alarming.

We have been raising awareness regarding the fact that, with the context cost we currently have for the production of housing in Portugal, it is impossible or very difficult to build affordable houses. From licensing delays affecting an excess close to EUR 500,00/m<sup>2</sup> each year in people's houses, to the heavy and hindering VAT rate maximum rate at a non-deductible in the construction of the Portuguese people dream home, largely increasing to 40% the tax burden paid by us to buy a house, as opposed to the Spaniards right next to us, who pay only 10%, including the greatest abomination in our tax system, that is the double tax or punishment - AIMI - levied on plots of land and buildings for housing, and finally the legal and tax instability targeting mainly the house rental market, which the Parliament should drop soon to stabilize the regime and help the owners to gain the required confidence to put up more houses for rent, thereby increasing the supply and lowering the prices.

Well, if all this had worsened the housing access problem, now, with the steep raise in construction costs, creating more houses for the population is seriously endangered. And the problem is not going to be limited to the private sector. Also public entities are rightly concerned with the PRR execution regarding housing. This is a legitimate and serious concern because it is becoming a hard and nearly impossible task to fit dramatic increases such as those we have been watching in the construction industry in the housing public programs.

Urgent and solid measures are required. If it was already obvious the necessity for mitigation of some of the context costs in housing production, now this became a pressing need. Truthfully, it is very hard to control the raising costs of raw materials, fuels, considering that those are international problems unfortunately out of our control. But there are other context costs we can try to remedy or mitigate: it is up to the town halls to shorten licensing, allowing for more new houses in the market in the short term, consequently lowering the pressure exerted by the demand on the existing houses and, thereby, lowering the price; it is up to the Parliament to put an end to the ill-fated AIMI, which is a burden weighing down housing construction, or even providing the spreading of reduced rates of VAT or its deductability in house construction for the Portuguese, or yet grant stability for rental; and ultimately take steps to bring the 80 thousand workers needed in construction.

And this is all going to be fulfilled, not only for the sake of the real estate industry, which is one of the cornerstones of our economy, bringing health and building the towns of tomorrow, but above all for the Portuguese and the houses of each one of us, citizens.