

### **How to attract investors to rental for the Portuguese?**

Did you know that the investment market in housing rentals is huge in such markets as Europe or the USA, especially in this last instance, where it is significantly larger than the office investment market.

Unfortunately Portugal is not included in that group of countries where housing rentals bloom. The answer can only lie with the creation of more incentives for private entities in order to further the production of supply. All the other measures, such as those incorrectly adopted by the Parliament, such as penalising investment by non-residents, have shown to be mistakes. On the other hand, the need for consistency and stability in law and tax matters is a critical factor to succeed in drawing investors to the rental market.

The legal regime itself has been switching between periods of stability, as happened during the seventies in the past century, and was responsible for the development of most of the rental housing in the major Portuguese cities, specially in Lisbon and Porto; or later, until 2006, with greater emphasis on the "rental freeze", contributing for the rental market degradation and subsequent degradation of city centers, culminating in periods of great instability, with successive amendments to the regime, such as those that took place in 2012, 2014, 2017, 2019 and more recently in 2020 and 2021, within the pandemic context.

There has been much instability in the amendments to the tenancy law and no regime's pact has been reached yet, thereby it is quite susceptible to "attacks" with each change of power, state budget bills, etc. This instability puts a brake on rental market investments, specially to Built to Rent projects of relevant funding and size. It is easy to understand why someone considering to invest in a specific Portuguese town (because this country combines many favourable variables to real estate investment, connected to the legal framework) backs away as soon as he realises that the rules of the game change regularly, impacting that investment's turnover.

Let's consider, as an example, the 2019 amendment, which changed the old article 1041 of the Civil Code to soften the consequences of late payment by reducing the compensation charged to the defaulting tenant from 50% of the unpaid rents to 20%. Also, contract termination based on rent lack of payment become much more conditioned.

On the other hand, frequent changes to the law, as well as the landlord's frequent compulsion to forget the rents as a consequence of the pandemic or any other

abnormal phenomenon, with no benefit or compensation from the State (superseding the State Social Role), makes it quite difficult to draw new investors, specially in lower prices rental market, with lower turnover and higher risks.

But also the emergence of new taxes, such as the AIMI or other fees, and the constant changes regarding the State Budget, causes awkwardness among investors willing to invest in this market. At the beginning, the initial plans designed by the investors are apparently interesting, but when they start crunching numbers, they decide to opt out.

All this is true, but it is also true that Portugal has a fine example of success regarding well defined and oriented policies and tax systems, such as the Golden Visas and Non-Habitual Residents Regime, which managed to draw relevant investments into our country and boosted the short-term accommodation supply, thereby highly strengthening Portugal's tourism supply and appeal.

Now, we could start by tuning the existing programmes, creating other strictly targeted ones, and stablishing a framework of stable rules and tax incentives to contribute to draw foreign investors (either institutional or individual), or even non-resident national citizens, capitalising on the emigrants base and exposure to investors from markets more robust than our own. This would most certainly result in a strong increase in the investment demand in residential assets, and would translate into a higher availability of supply for the end tenant, thereby contributing for lower rents.

Above all, it is urgent to give credibility to the rental market by furthering an incentives climate for this market under three prisms: stabilisation of the legal regime; steadying a regime agreement to steady the tax system, all this under a medium/long term rationale; creating measures that will generate confidence in investments; and creating the required conditions for investors to develop their projects in the long run, thereby launching more supply in the rental and housing market, and changing the course regarding a model of growing seizure of the Portuguese real estate and exceeding tax burden on national owners.