

Still on how to attract investors to rental for the Portuguese

We all know that the money goes wherever it feels good and in the last fifty years it is obvious that there were no good feelings in national rental housing investment.

The legislation on rental has rules, found nowhere else in Europe, that penalise the owners, and our Parliament and left-wing parties have been worsening the situation and warding off both national and international investors, while in Europe and in the US we notice an growing international interest for this type of income-generating assets.

How can we invert this trend? Of course the investors like legal and tax security and, in the case of the Portuguese rental housing, the investor's past experience entails a sense of expropriation regarding the rightfully expected income, together with lack of freedom to avail of their assets. Lease agreements, known in the industry jargon as "vinculístico" or binding, generated a strong depreciation of the Portuguese housing stock, and the investors will not invest back as long as they do not feel safe.

We believe that the path to success in rental housing goes through the deconstruction of the web created throughout the years, in both fiscal and legal terms, and that several doses of "resuscitation" will be required to "revive the patient".

Specifically, how can we draw investors with letting agent profile? An investor with this profile requires investors with core profile above him, who acquired their constructed buildings and place them on rental market. Drawing core investors requires the accessible lease product to be financially feasible. From the real estate agent's perspective, one must ensure that the costs are as low as possible, and we all know that the core costs are the plots, licensing time, construction cost, minimum required areas for each house type and real estate taxation.

Therefore, all measures that allow to reduce these costs coincide with those that shall contribute to create an affordable rental market in Portugal. Regarding plots, creating conditions to access State or municipal lands. Regarding licensing, creating more certainties and guaranteed terms. When it comes to construction costs, the promotion of industrial construction models attracts workers and mitigates dramatic materials and workmanship costs increases. It is also necessary to review the minimum areas for each house type. Also regarding taxation, the VAT reduction already enacted in the Government's programme must be expanded to all new constructions intended for leasing, and also lay down IMT exemptions for the purchase of plots or buildings intended for rental housing; IRC, IRS, and IMI reductions, concluding with the TRIU reduction and other licensing fees.

And how are we going to draw core investors to rental? Firstly, one must ensure that the rental models created and the rents make this investment financially feasible. The core and core+ investor's major risk lies in their inflows (collectable rents), and therefore a very welcome measure would be State or municipality guaranteed rents or even payment or rents directly to the investors.

There are already some interesting tax schemes - among which we highlight the IRS lower rates scheme and the SIGI scheme - however, due to the low investment volume generated, these require ancillary measures and improvement.

On the other hand, the sluggishness of the Portuguese justice and the difficulty in collecting rent arrears are famous. If we remove this risk - and the State, through its tax machine, has collection mechanisms more efficient than the private ones - the investors would be more relieved and interested in this class of assets.

We suggest the creation of core and core+ investment profiles attraction mechanisms, designed to each investors category, from the minor saver to the institutional, so that we succeed in drawing as much investment as possible to rental.

For private investors, we suggest IMT, IMI, AIMI, and IRS exemptions (for received rents), and partial amortisation of acquisition costs under IRC for a set time period, as in France. For foreign private investors, we suggest the creation of an investment class with amounts yet to be established and without a geographical limit, for investment in affordable, direct rental, or through equity of a society dedicated to affordable renting (SIGI or other), with eligibility to Golden Visa.

For SMEs we must note that there are approximately 1500 companies with CAE 68200 - Renting of real estate (residential or non-residential). No large companies have this CAE and the few medium companies with CAE 68200 are not engaged in rental housing. We suggest that the SIGI regime should also apply to these companies with some adjustments, because these companies are not listed, such as non-compulsory distribution of profits, considering that one of the main goals is the reinvestment of the profits in more rental properties. We suggest the same IMT, IMI, and AIMI exemption.

Regarding the SIGIS, we believe that the regime of these societies is interesting and suitable, but there was no lift-off yet due to the lack of income housing product available in the market, and, regarding affordable rental, the lack of conditions, yet to be created, to make this investment profitable. To lift-off, this programme requires a few tax adjustments, to bring us closer to the Spanish SOCIMIS market, and as competitive, and surely more Portuguese SIGI will appear.

