

Cooling is different from drop

In these past few months, when one talks about real estate, it is frequent to mention a "drop", "real estate collapse", and "end of the boom". 2022 is readily designated the *Annus horribilis* or even "the worst".

This is only natural and it would be strange if the real estate industry were not impacted by the global geopolitical situation. We are going through volatile times; a highly impacting war with no end in sight, economic consequences of a serious post-pandemic scenario, soaring inflation, increasing interest rates, subsequent decline in families' purchasing power and, because of that, decrease in retention of savings, the huge difficulties in supplies, the rapidly increasing prices in raw-materials, labour and construction.

However, 2022 is expected to be a positive year for this industry.

The numbers that have been disclosed so far, such as in the business sector, are a good indicator and with the help of logistics, business offices and hotels 2022 is expected to reach EUR 2.7 billion, compared to last year's global investment values (EUR 2.2 billion). Actually, last August, and according to data recently published by *Cushman & Wakefield*, EUR 1.2 billion had already been invested, and EUR 1.5 billion are expected to be invested until the end of the present year. The residential sector, despite higher difficulties, also reveals a good performance, and it is expected to get to December with interesting global investment values, hopefully reaching last year's value (almost EUR 32 billion) or close to that. Please note that even in 2021 (still under the pandemic), the residential sector reached global investment values 18% higher year-on-year and 12% higher compared to 2019, the year before the pandemic and the best year in the past decade. Also during 2021 almost 200 thousand more houses were sold compared to 2019, a solid sign of this industry's resilience and recoverability.

Undoubtedly, 2023 will be an even more challenging year due to the inflation and expectable increase in interest rates reducing the families' available income, and due to the increasing volatility of the world's geopolitical context.

Real estate developers must also face the uncertainty regarding prices "cap" for construction, labour (increasingly scarce), and raw-materials: knowing these prices and financing cost will be key factors in 2023. Naturally we can anticipate in the near future, specially for residential real estate development and particularly for more affordable targets, some market cooling and a kind of standby or standstill effect on investment, waiting for more clear periods.

One thing is certain: cooling or slowdown do not mean drop, not even price collapse. And why? Even with the normal and foreseeable demand decrease (specially regarding the demand of affordable houses - middle class and lower classes - and more specially for the Portuguese), the truth is that nevertheless we are not going to meet the supply's side of the scale. That is, the

undersupply of houses will not be enough to respond to the enormous lack of demand (bad news for the prophets of doom, yearning for a real estate bubble).

In the highest residential market segments, hardly any impact will be felt due to the demand reduction, because Portugal managed to position itself as a tourism and real estate development destination at a global level. There is a huge amount of investors, non-habitual residents, golden visas, tourists willing to spend a part of their year here and arriving every day to Portugal. The French, Brazilians, and the Chinese had already discovered that we are one of "the best countries in the world". Now the Americans and Spaniards are swiftly running away from a new wealth tax.

However, as I mentioned before, we are not keen of this image of Portugal. We must build affordable houses for the Portuguese and not only the above said context costs are to blame. The brutal tax burden on real estate projects is the major cause: the 50% in taxes the Portuguese pay to buy a house, the wretched AIMI, the red tape and unspeakable licensing procedures that more and more impair the production of low cost houses and, once again, leave no other alternative for real estate developers than turn to those with buying power.

Also on the business segment side, 2023 has a good prospective; the scheduled investment, the liquidity available in the world and the financial system's will to invest in real estate is still high. Fortunately, our national real estate market is still targeted by investors worldwide.

Therefore, we are prepared and attentive to the growing challenges for 2023 and for a slightly cooling demand for those more dependent on bank funding, but I see a very peaceful and calm national real estate industry and, above all, with a great desire to win new challenges.