

Build to rent: a mirage

Unfortunately one must say it and above all clearly alert in a simple, frank manner. Build-to-rent or *BTR* is blooming abroad, specially in Europe, but insists in not happening in Portugal.

It is important to raise awareness about this, might even be controversial and displeasing to many. We cannot keep burying our heads in the sand any longer. One must state it openly and without fear, if we want to finally solve the problems keeping us from progressing and have more construction projects intended to rent.

BTR is one of the largest investment dynamics in Europe and it is getting all the attention from investors, funds and pension funds all over the world. And these investors even "check" Portugal, as we have the necessary demand, but, unfortunately, we do not have a stable, regular legal and tax framework, trustworthy and interesting, that will allow them to move forward with new projects. We say and repeat it as many times as necessary, so that later on no investor, specially international investors, may claim that he was not warned: With our legal *status quo* there will be no "*BTR*" market large enough to as much as become a reality, unless, of course, we amend the last public policies in this subject.

We have been adamant: investors do not see in the current legal and tax regulatory framework the necessary measures that might motivate them to proceed. On the contrary, they see a constant assault to investors and to proprietors. For instance, watch the three extensions of return to rent freeze, in which an initial 5 year period with older frozen rents was laid down, and with the 2022 state budget we are already talking of a 11 year period. The legislative unpredictability and instability is such that renting is considered a huge risk let alone build to rent (please note that we are here talking about 15, 20 year investments). Worse, what investors have actually watched is laws upon laws created to extend frozen rents, coercive property possession, constant attacks to owners and landlords, growing unaccountability of defaulting tenants, (specially non-paying and defaulting tenants whereas the BTR is paid by the rents themselves...) doubling taxes such as AIMI on plots and buildings to build or rehabilitate for renting, etc.

Now is the investor looking for such an environment when he decides to enter into a new market segment, or when the proprietor thinks of renting out a property? Of course not. One must give credibility and stabilize the lease act and make this market more attractive.

Worse, the policies in the past decades led us all to buy a house instead of renting. The Portuguese citizen's mindset does not conceive renting instead of buying. The property feeling prevails, although less and less, and in the younger generations renting is getting a second breath of life. We shouldn't waste it, at least amongst the younger population. Also, because of the low interest rates, the monthly value of a bank loan to buy a house is quite desirable and lower than most rents in the big cities. But there is more, it is much more advantageous, predictable, and profitable to "Build-to-sell" instead of the "Build-to-rent" in the country's major cities, and one can even declare that BTR in city centers, such as Lisbon and Porto, is impracticable from an economic and financial point of view, if we take in consideration all the existing context and production costs: licensing delays, increasing construction costs, shortage and increase in labour costs, rampant increase of raw materials, cost of the legislative instability and growing default risk amongst the tenants, or new and unpredictable measures to freeze rents, and last but not least, in our perspective, one of the largest obstacles and production costs that refrains the progress of BTR, but strangely enough, the one that would be the easiest to solution, giving the BTR green light in Portugal:

6% VAT rate for new constructions intended to rent. Only the new construction can save affordable leasing construction for the Portuguese, for the families and youth. It is not in the centers of the (big) cities that it will be feasible and possible to develop renting offer at a scale large enough to close the huge existing demand gap, because of all that was said before, from the assets' prices, construction costs of urban rehabilitation, and lack of satisfactory returns within the cities as compared with "Build-to-sell". Only in the suburbs, in the surrounding areas of major urban centers, and that is why the answer might be in new construction. But for that one must lower the applicable VAT, because without this we shall continue without affordable leasing in Portugal.