

What to expect from a new Government?

Portugal presents itself with the creation of a new Government with a reinforced ability for major, deep-reaching reforms that settle, once and for all, old persisting problems with a negative impact in the real estate industry, but also in attracting more foreign investment, which is currently so crucial in this moment of economic recovery, but specially to create affordable housing supply for the Portuguese people.

Portugal, its people and the real estate industry may expect that the new Government will take all the required steps to address, without the pressure and the excuse of the radical left-wing parties (which were highly detrimental to the creation of efficient public policies) the housing problem. The former government and responsible ministers had already expressed (witnessed by us) the intention to fight this national drama. But this intention was quite often harmed by those pressures outside the Government. Thus new times require new ambitions to solve old problems.

From the outset we must create a rental market. In Portugal house rental is mostly composed of micro, small and medium proprietors, who alone cannot create a real, thriving and dynamic long term rental market, capable of answering the huge demand. There are several national and international major players, who intend to execute in Portugal large scale, long term rental projects, and create thousands (and I stress thousands) of houses. But for that one must create the conditions for them to be able to proceed with their projects. The "built to rent" market is one of the largest investment dynamics in Europe and it is blooming, and getting all the attention from investors, funds and pension funds all over the world. These investors "check" Portugal, as we have the demand, but, unfortunately, we do not have a stable legal and tax framework, trustworthy and interesting, that will allow them to move forward.

It is, therefore, urgent to lend rental credence by stabilising its legal regime, which, in the past decade, was amended more than 10 times, that is more than once every year. We must also establish a regime agreement to steady its tax system, all this under a long term rationale; creating measures that will generate confidence in long term investments; and creating the required conditions for investors to develop their projects within 15/20 years. We must also change the course from a growing model of seizure of the Portuguese real estate, and a model acquitting and holding the defaulting tenant unaccountable. Additionally we must end the greatest fiscal abomination in Portugal, that is the AIMI. This double and transient tax should have ended a long time ago.

Another step required to create a true housing market to the Portuguese would go through fix the soaring context cost in the real estate production, specially lowering the VAT for new housing construction, or at least make it deductible. Maximum rate, non-deductible VAT for housing is an exception in Europe, and it is one of the major obstacles to new housing construction projects, either for sale or to rent.

The first sept was already taken by the former Government, in last December, when real estate developers were allowed to benefit from VAT at a reduced rate of 6% in projects under

the Public Affordable Rent Programme (in Portuguese, Programa de Arrendamento Acessível do Estado). We are in the right path. Now we must step further and progress.

The widespread implementation of VAT at reduced rate or its deductibility for all new housing construction projects, affordable to all the Portuguese would aim, firstly, at lessening the other context costs, specially the outrageous prices of construction plots and buildings to rehabilitate, the lack of installed capacity and manpower, the raising costs of the raw materials and of construction, and then would also aim at creating a model of real incentive to investment on more housing for the middle class and on rental, in such a way that would include also the promoters and investors for new constructions, who have a huge capacity to exponentially raise the supply of new houses.

If we apply a reduced VAT to the construction of all new constructions intended for middle class housing, we are leading a path that eventually the private entities will follow. This strategy was implemented for urban renovation, and had a fine result: our cities, previously in an advanced state of ruin and heading to an unacceptable level of decay, owe their regeneration to this VAT reduction.

Real estate developers and investors are available and fully interested in helping the Country to build more houses for the Portuguese people, but for that they need to see these types of projects made viable. Without effective and courageous measures, such as these, we fear that our families will continue to have to live in rundown, overpopulated buildings, lacking the minimum livability conditions and representing an excessive financial burden for the household.