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the case of Porto

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MODELS OF URBAN REQUALIFICATION UNDER NEOLIBERALISM AND AUSTERITY: THE CASE OF PORTO.

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1. INTRODUCTION

This paper critically analyses the legal and institutional framework set up by the Portuguese government in 2004 to boost ‘urban requalification’ – the Urban Rehabilitation Societies (SRUs) – and its implementation in the city of Porto. Firstly, we present a diachronic analysis that identifies phases of continuity and change in models of urban requalification in Portugal. Secondly, we present the background for the SRU model and discuss the context in which it was implemented in Porto. Thirdly, based upon a qualitative methodology, which uses literature reviews, analysis of political documents, and six semi-structured face-to-face interviews conducted with local and government officials, we analyse practices of urban requalification³ within a specific urban requalification operation, in the Cardosas quarter, which is an example of a large-scale requalification operation promoted by the Porto Vivo SRU in a context of public-private partnership.

Discussion of the results of this operation contributes to the debate on the criteria for evaluating the success of urban requalification projects from both processual and substantive perspectives vis-à-vis their effects on families and neighbourhoods. A set of research questions was formulated with this purpose in mind:

- How have urban requalification strategies and goals been defined in the context of a neoliberal model which was implemented in a time of crisis and what role did partnerships with private actors play in that definition?
- What groups were targeted by the requalification projects and, regarding housing, were there affordability concerns that protected less affluent populations from increasingly hostile conditions for middle class families in the historic centre of Porto?
- Were the local population’s interests and local heritage considered in strategies and implementation, especially in large systematic operations such as the Cardosas?
- To what extent did the Cardosas operation contribute to gentrification dynamics and to the explosive growth of tourism-related activities in the historic centre of Porto?

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³ In this article the terms rehabilitation and requalification are used interchangeably, as the use of the portuguese “reabilitação”, present in the SRU designation, fits more accurately to the concept of requalification found in international literature.

2. THEORY

Several studies have shown that the impact of rent regulation in the private rental sector varies greatly between countries and regions (see, for example, Moore & Dunning, 2017; Andersen, 2012, and Oxley, et al. 2011). They also have shown that reform of the first generation of rent control has followed different paths in different countries. In countries with strong state-led social welfare traditions, such as Germany, first-generation rent control has been replaced by softer rent controls complemented by incentives, such as tax concessions and direct subsidies to private landlords to provide housing at sub-market levels and means-tested housing subsidies to families. Meanwhile, in countries dominated by neoliberal ideas reform of first-generation rent regulation, which is associated with security of tenure (including protection from eviction), but also low rents and problems of maintenance, has led to deregulation and urban requalification subsidies which are not tied to conditions (e.g. the definition of lower prices or lower rents), leading to cycles of boom and bust (see Ball, 2016).

Scrutinizing the relation between urban requalification and systems of rent control and tenancy law, Altes (2016) notes that, whilst rules that protect tenants from rising rents may result in under-investment and the misallocation of housing, deregulation of rent control and tenant protection (against forced relocation) can lead to over-investment in real estate, make it more difficult for new households to enter the housing market as rents generally rise faster than incomes.

National and local housing policies are important to stimulate housing requalification but also to shape the effects of requalification on housing costs, the control of rent increases for sitting tenants, and to counteract speculation so that median and low-income groups are not denied housing opportunities in areas of high demand. These groups are increasingly affected due to the contemporary pressure on real estate markets brought about by financialization, which produces urban (re)development where real estate is treated as a 'financial asset' and investment locations are chosen according to its perceived return rate (Loon & Aalbers, 2017).

Local governance is a key intermediary in such processes, as public actors are playing the role of facilitators in the creation of financial assets (see Loon & Aalbers, 2017, pp. 222) The analysis of objectives that guide national and local policies, specifically political instruments that used to stimulate urban requalification and the way they filter external factors such as globalized finance or tourism, affecting the characteristics of national and local housing markets, is therefore crucial for those concerned with the transformation of cities.

3. GENERAL BACKGROUND

3.1. URBAN DECLINE OF PRIVATE RENTAL SECTOR AND INNER CENTRES IN PORTUGAL

Degradation, loss of resident population, and a growing number of vacant buildings have been severe problems in Portuguese city centres for the last decades. According to the 2011 Census, about a million buildings throughout Portugal are in need of repair and of these about 400,000 require significant works, with a greater concentration in city centres. In the case of the historic centre of Porto, where there is a total of 1800 buildings, about 34% were in poor or very poor condition, requiring deep interventions, and another 51% required small and

medium-scale repair (Census 2011). Regarding the occupation of buildings, it is estimated that 19% of all buildings were vacant in the municipality of Porto in 2011. Accordingly, between 1991 and 2011, the population of the historic centre fell from 20,342 to 9,334 individuals, a loss of about half of the total resident population (Census, 2011).

The private rental sector decreased abruptly in Portugal between 1981 and 2011, from 40% to 20%, a reduction from 1,074,590 to 545,710 dwellings (Census, 2011). In the municipality of Porto, between 1981 and 2011, the private rental sector decreased from 67,373 to 43,302 dwellings.

In 2011, in Portugal 19% of total rent contracts were established before 1975, 34% between 1975 and 2005, and 47% between 2006 and 2011. Evidence shows that pre-1990 contracts are characterized by low rents. Moreover, about 15% of all rented accommodation in Portugal in 2011 still carried rents equal, or less than, 35 euros per month, where often senior tenants live with poor housing conditions⁴. In Porto half of a total of 43,302 private rental dwellings, equivalent to 21,084 have rents below 100 euros. Contrarily, the segment of contracts signed after 1990 is increasingly dominated by higher rents, due to a high demand from tourism activities, which has raised issues of affordability and tenant security from middle and low incomes families. In the historical Porto, after a period of stagnation that followed the 2008 global economic crisis, when the availability of credit was problematic, between 2010 and 2014, real estate sale prices increased 50% and by the end of 2014 rehabilitated dwellings had an average value of 2,370€/m² (Porto Vivo SRU, 2014: 86).

Legal changes in rent regulation (Law 31/2012) have been implemented with the aim of reversing the effects of decades of rent freeze. The 2012 new Urban Lease Act Law, aiming to implement the full liberalisation of the rental market, set a five-year period of transition from the old (prior to 1990) lease contracts to a new regime of rents (free of rent control mechanisms), with the exception for low-income tenants or those with disabilities, where the rent increases should be compensated by housing allowances paid by the state. It was expected that full liberalisation accompanied by a new rent subsidy scheme, would come into effect in 2017, but the left-wing government increased the transition period by another five years.

3.2. URBAN REQUALIFICATION IN PORTUGAL AND IN PORTO

Over time, several programmes have attempted to boost the renovation of the private rental sector building stock, being possible to identify different phases, in terms of strategies, instruments, and implementation. Two main phases of national policy for urban requalification can be identified: i) from 1986 until 2000, an approach that targeted private rented dwellings with old contracts and poor housing standards, and gradually adopted an integrated approach that aimed to combine small-scale housing interventions with social equipment, patrimony and cultural valorisation; ii) from 2000 onwards, a neoliberal approach focused on public-private partnership to

⁴ It is worth noting that rent controls were first introduced in Portugal in 1910, but the freezing of all private sector rents was not implemented in Lisbon and Porto until 1948. With the revolution of 1974, in a context of economic recession and housing shortages, the freezing of rents was extended throughout Portugal. These rules allowed sitting tenants to remain in their houses without incurring increased housing costs and, owing to inflation, rents become almost symbolic, namely, designed for tenants of middle incomes who had hitherto paid very low rents. Because property owners have not traditionally made enough money for maintenance or renovation and tenants could not be evicted, the vast proportion of older housing stock has suffered dilapidation.

leverage private investment and generate trickle-down effects. The latter involved the creation of public-private partnerships to allow economic revitalization and operations of housing requalification, the Urban Requalification Societies (SRU, in the Portuguese acronym).

The first national framework for urban requalification was created when Portugal entered the European Union in 1986, the access to funds of the Community Support Framework enabled an important expansion of national investment in urban requalification, in matters of public space, slum clearance and the conservation of historic monuments and sites, but not of housing requalification, which was then considered a responsibility of national member states (Alves, 2017a).

The 'Programme of Urban Requalification' launched at this time by the central government in partnership with local authorities, aimed at the requalification of private rented buildings and involved two main instruments, one technical/ institutional and the other financial.

The first provided funding for the creation of Gabinetes Técnicos Locais (GTL) Local Technical that hired architects, engineers, sociologists, social workers, etc. in an attempt to support local municipalities in efforts of urban requalification, namely of historic centres Costa (2010: 398). When government financing ceased, many of the GTLs, whose activity was structured around social objectives and bottom-up approaches, became local municipal offices.

The second enabled the creation of a list of programmes of housing requalification that targeted private rented dwellings with old contracts and poor housing standards. In particular, the RECRIA (acronym for Special Reimbursement Scheme for the Recovery of Leased Property), and more recently the REHABITA (acronym for Regime to Support Housing Recovery in Ancient Urban Areas provided funding for landlords - to support the upgrading and maintenance of buildings and sitting tenants – and for tenants - housing allowances to cover the rent increases following housing requalification. In some municipalities, municipal housing services provided housing for the temporary relocation of sitting tenants during the periods of housing requalification, which was considered a great incentive for landlords to rehabilitate their properties. In the case of RECRIA, access to funding was conditional on the existence of at least one tenant in the building with a pre-1980 contract (i.e. with frozen rent values). However, the execution rate of this programme was lower than anticipated, since it demanded about 40% matching funds from the municipalities' own budget. Except for programme REHABITA, which targeted areas mainly coinciding with historic centres, the national programmes of requalification were not tailored for city centre needs. They were simply targeted to individual owners interested in carrying out maintenance/requalification in occupied buildings associated with old contracts and low rents.

Whilst national policy for urban requalification in the 1990s focused upon critical areas and gradually adopted an integrated approach that aimed to combine small-scale housing interventions with social equipment, modest public projects, patrimony and cultural valorisation, the 2000s saw a significant policy shift. There was greater focus upon public spaces, cultural facilities, streetscaping, pedestrianization schemes, and urban refurbishment. Large events such as the 2001 Porto European Capital of Culture (Alves, 2017b) and POLIS (Baptista, 2013), created after the Lisbon World Exhibition of 1998, are clear examples of this.

More recently, the European Bank of Investment (EIB) has become one of the most relevant funding sources for urban requalification. In 2008, the Portuguese authorities and the EIB signed a Memorandum of Understanding

for the application of the Joint European Support for Sustainable Investment in City Areas (JESSICA), which was deployed for country's structural funding programme (ERDF) from 2007-2013. This instrument funded municipalities, SRU, banks, investment funds or private entities involved in urban regeneration projects. The national program 'Partnerships for Urban Regeneration', operationalized this strategy during the period 2009-2013, through initiatives that were supported the requalification of historic centres, critical neighbourhoods, and waterfronts. In the historical centre of Porto supported 2 interventions (see next section)

In 2013, a new financial instrument using funds from the EIB was launched by IHRU for the requalification of buildings that are totally or partially occupied by sitting tenants with old contracts associated to low rents. It has a budget of around 50 million euros and is expected to induce both housing requalification and affordable rents. This was expected to capitalize on the effects of the new Urban Lease Act Law, which paved the way for greater flexibility in the renegotiation of open-ended residential leases between private landlords and tenants, by phasing out rent control mechanisms for old leases and imposing stricter limits on the possibility of transmitting the contract to first degree relatives.

Porto urban requalification policy followed closely the national phases mentioned above.

After the 25th April Revolution, in 1974, the state created a government agency, CRUARB⁵ to promote the requalification of the riverside front of Porto. Its mission was ensuring that the "working class population that inhabited that area for a long time, in the worst conditions of housing and exploitation" could remain in the area (Alfredo, 1997: 78). The goal was to avoid evicting the poor as a result of rising property values deriving from the requalification works.

Over 30 years, with public funding only, first from the Housing Development Fund and from 1985 onward as a GTL, when government financing ceased and CRUARB became a municipality project, municipal funding and national or European competitive bids, the CRUARB agency developed a model that was based upon buying degraded properties, though negotiation or expropriation, and developing projects of engineering architecture to rehabilitate derelict buildings. The rehabilitated buildings were either sold or entered the social housing rent market, meaning they had rents below market values. In 1992 access to Poverty III funding created the Foundation for the Development of the Porto Historic Area (FDZHP) that with CRUARB promoted an integrated programme of actions that combined urban requalification with more immaterial dimensions of intervention, such as of training for unemployed, support for children, etc. (Alves, 2017b). In 2001, the preparation of the Porto European Capital of Culture event led to investments that were mostly focused upon "public spaces, streets, cultural facilities, streetscaping, pedestrianization schemes, and new urban furniture" (Balsas, 2007: 232).

3.3. THE URBAN REQUALIFICATION SOCIETIES MODEL

In 2004 the approval of new legislation concerning rent regulation and urban requalification led to the creation of the Urban Requalification Society (SRU) model. This institutional arrangement was based on the premise that, in order to tackle city centre requalification, local authorities need a lighter structure of governance and partnerships with national authorities and private actors. This model, that operates under a regime of

⁵ Portuguese acronym for Committee for the Urban Renovation of the Ribeira/Barredo Area.

exception providing the SRU with more entrepreneurial and discretionary processes of decision and delivery outside existing state bureaucracies, included the possibility of property restructuring and forced intervention through expropriation.

The Urban Requalification Law (legal decree no. 103/2004) created two institutional models for these societies, one in which the municipalities hold all the capital, and another in which societies enjoy capital from the municipality and the central state. The second model was implemented only in Porto, Coimbra, and Viseu, all of which remain active to date.

The SRU model puts great emphasis on strategic planning. First of all, municipalities and SRUs enjoy substantial freedom to define their strategy of action and priority areas of intervention (called Urban Requalification Areas – ARU). In these areas, special benefits apply automatically regarding national taxes (Value Added Tax for requalification works), and local taxes (namely, property taxation). In addition, specific action programmes may be approved – Urban Requalification Operations, ORU – with concrete goals and requalification programmes to be executed by SRU directly or in partnership⁶.

It is a competence of municipalities in coordination with SRUs to rank and coordinate the various goals of urban requalification from the strategic to the operational stages, which means that, for the first time, there is policy decentralization in behalf of municipalities.

SRUs have the legal power to expropriate or force the sale of buildings that are in a poor state of repair with the aim of promoting their requalification, when all other options are excluded, considering that requalification is, in the first place, a duty of the owners, and the role of the SRU is primarily to enforce the duty. On the other hand, the legal status of the SRU model makes it easier to employ staff and contract commercial loans, and to implement faster licencing procedures, allegedly improving the cost-effectiveness of urban requalification.

Owing to austerity measures from 2009 onwards, tight debt controls were implemented in the municipalities and a rule enforcing financial sustainability for municipal companies was put into practice, leading to many SRU in small and medium cities being shut down and to strong pressure for financial sustainability. At the same time, changes in urban requalification laws in 2009 and 2012 introduced significant amendments to the SRU's instruments of action. Funding schemes for housing requalification to be used by private owners were drastically reduced and replaced by tax reductions and tax benefits. These changes increased the need for municipalities and the SRU to engage in partnerships that would enable higher investment.

4. PORTO VIVO SRU AND THE CASE OF THE CARDOSAS INTERVENTION

This paper scrutinizes the SRU model, by looking at the city of Porto, where historic centre degradation were very severe by national standards and SRU implementation represented a drastic change in both governance and policy goals. The paper focuses on a particular Porto Vivo SRU intervention, designated Cardosas Operation, which is an interesting example of SRU strategies for two reasons. Firstly, it was identified in Porto Vivo SRU

⁶ ORUs are approved by the executive and deliberative organs of the municipality and can be either simple ORUs (an integrated operation of urban requalification aimed main mostly at buildings) or systematic ORUs (which require a strategic programme and are aimed at both building requalification and qualification of infrastructures and public spaces and equipment).

strategic documents as a priority intervention area or pilot intervention quarter, meaning that it qualified for flagship projects aimed at inducing requalification in neighboring buildings and surrounding quarters. Secondly, an innovative implementation mode was used, intending to test partnership models and inspire future actions. In effect, requalification was not led by private owners but by real-estate promoters with whom Porto Vivo SRU established partnership contracts. Porto Vivo assumed important investments in this operation, such as the acquisition of buildings (expropriated or negotiated purchases from private owners), demolitions and constructions, namely a square inside the quarter and an underground parking space.

This project has generated strong controversy over the amount of public spending and goals of the intervention (supporting a luxury hotel and a high-end housing development), but also for the real-estate speculation that it generated, a result which is recognized by supporters as a sign of success and by critics as a negative effect. There was strong opposition also from academics and practitioners in the areas of architecture and conservation due to disregard of local heritage and the option to demolish many buildings and completely alter the quarter's urban design.

The research presented here is informed by two main sources of information. Firstly, upon qualitative documentary analysis, namely legislation, strategic documents, SRU execution reports, and a literature review on the topic. And secondly upon qualitative, semi-structured, face-to-face interviews with staff/officials working in SRU (5), local authorities (2), and in the central institution responsible for housing policy (2). Interviews were conducted in Porto in 2015 and were later transcribed.

Bearing in mind that, depending upon the goals of the evaluation, its research object, and methodology, different results and knowledge can derive from the evaluation process, we framed an evaluation matrix based on two main fields of analysis fields and several associated indicators to be studied and documented, where possible, with quantitative data. Essentially, the focus of the research is upon underlying strategic principles and assumptions behind governance and operational choices, modes of implementation and, finally, their direct effects in in the hosing and residents' socio-economic profile (see Table 1).

Table 1 – Analysis matrix

| <i>Analysis fields</i> | <i>Elements of study/ indicators</i> |
|---|--|
| Strategies and governance | Goals and principles embedded in the Cardosas operation, and their relationship with the broader strategy for the historic centre. The purpose of partnerships between Porto Vivo SRU and private investors, and how it was defined in terms of roles, costs, and the benefits for each partner. Perceptions of success/failure associated with the operation. |
| Physical and social impacts of requalification (the before and the after) | Changes in housing stock and structure (tenures, rent values, etc.). Changes in the state of conservation of the buildings. Changes in the residents' socio-economic profile (social status of the incoming population, evidence of displacement). Changes in economic activities (effects on the local economy in terms of new/old uses, etc.). |

4.1. THE IMPLEMENTATION OF URBAN REQUALIFICATION SOCIETIES IN PORTO

Porto Vivo SRU was set up as a public capital company, where the central state (through the Institute for Housing and Urban Requalification, IHRU in the Portuguese acronym) owns 60% of the capital and the Porto municipality the remaining 40%. The creation of this company led to transference of competencies and resources from the municipality to the SRU. In terms of governance, this decision was preceded by a strategic study – the Porto Vivo SRU Masterplan - which delimited the historical centre as the main area of intervention by the SRU. By using statistical data and multivariate analysis techniques, the choice of the city centre was justified on two grounds: the high level of housing degradation and concentration of poverty and social exclusion in the historical neighbourhoods, and the existing economic opportunities related to tourism, heritage, and creativity.

The Porto Vivo SRU Masterplan defined a strategy of requalification based upon two main strategic guidelines (Porto Vivo SRU, 2005): Re-population, through attracting new residents, and economic revitalization, through the promotion of activities related to commerce, culture, and leisure that benefit from the tourism dynamics, which in turn derive from Porto historic centre's status as a UNESCO World Heritage site.

In strategic terms, the historic centre of Porto was defined as an ARU (the so-called Urban Requalification Areas – ARU) in 2012, and within this area several blocks were identified as priority areas of intervention or pilot areas to guide future interventions. It was also expected that the concentration of public investment in these priority areas would generate trickle-down effects that would attract private investment to neighbouring areas, stimulating a wave of private investment that allowed for the requalification of the whole city centre.

For each quarter targeted for priority intervention, strategic documents were drafted. In terms of strategies, instruments, and implementation, after more than 10 years of SRU intervention in the historic centre of Porto, we can identify three main types of intervention:

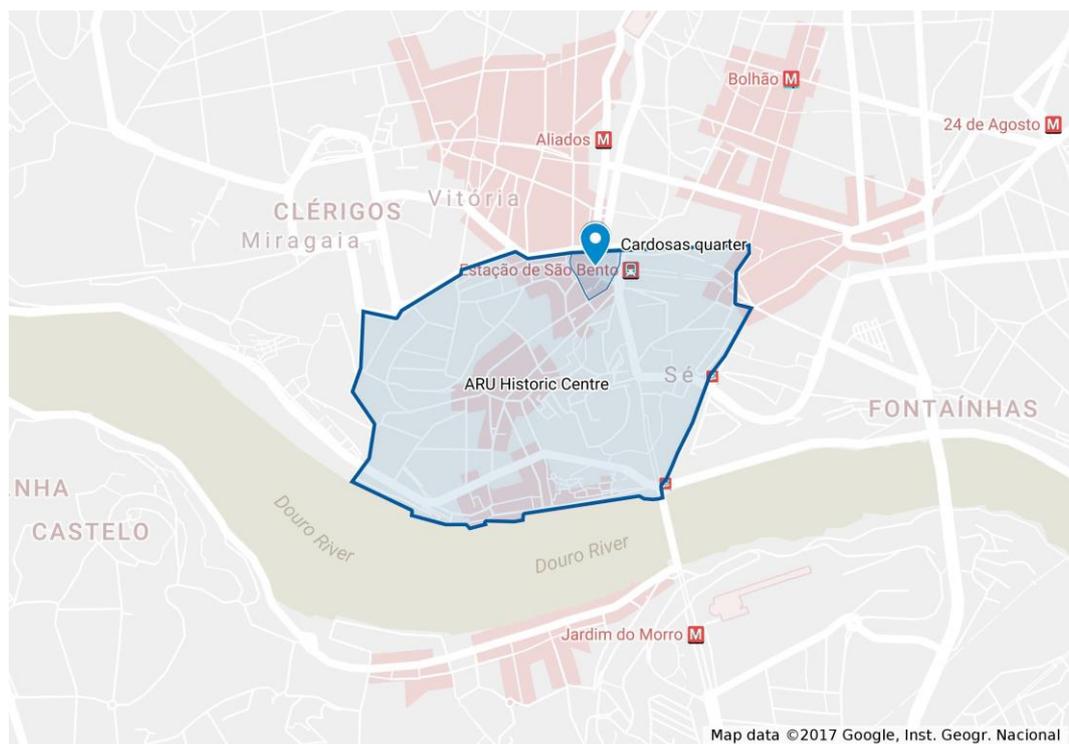
- (1) Direct requalification of derelict buildings owned by the SRU and designated for housing. The rehabilitated dwellings have been either sold or placed on the rental market. It is interesting to note that those that have been rehabilitated for renting are located in a deprived area, the Morro da Sé neighbourhood, benefitting chiefly from a €7,5m loan granted by the European Investment Bank, which has enabled the requalification of 32 buildings. It is also interesting to note that, of all housing stock in Morro da Sé, 47% needed deep interventions, 23% medium interventions, while only 4% were in suitable for use. Furthermore, due to expropriation processes throughout the 1990s, 40% of all buildings was public property (SRU/municipality) and of these many were vacant or in poor condition. Of the total, before interventions by SRU, 80% of the buildings were already occupied by tenants and the remaining 20% by owners.
- (2) Urban Requalification contracts with private partners (e.g. the Carlos Alberto intervention) or real estate funds (e.g. Cardosas and D. João II operations), where Porto Vivo SRU participated with the expropriation of buildings, rehousing of sitting tenants, demolition, cleaning etc. These were, by and large, ambitious and expensive real estate projects aimed at selling for profit (on average, 1.900 euros/m²). The tenants who lived in the blocks where these operations took place were relocated to social housing districts or to Morro da Sé

- (3) Direct physical requalification of public space aimed at inducing requalification by private owners. This is the case of the operation in Mouzinho-Flores, contiguous to the Cardosas operation, which was funded by a national programme paid for using structural funds and Partnerships for Urban Regeneration.

4.2. THE CARDOSAS INTERVENTION

The Cardosas quarter occupies 7,485 square metres and is located in a transition area between Praça da Liberdade/Aliados boulevard (where Porto town hall is located) and the historic Centre (Figure 1). The requalification strategy for the Cardosas quarter was detailed in a document approved in June 2007, but the decision to intervene and the general strategy was undertaken in 2005. The minutes of a meeting of the Administration Board of the Porto Vivo SRU date from 2005 and already describe the decision to develop an ambitious and systematic requalification operation that would involve the social, economic, and urban revitalization of the quarter. The goal of mixed-use occupation (housing, commerce, and services), with car parking to support future residents and activities, is clearly stated in that document.

Figure 1 – Location of the Cardosas quarter in the Historic Centre of Porto



4.2.1. STRATEGIES AND GOVERNANCE

Drafted by a private consulting firm on behalf of Porto Vivo SRU, the Cardosas strategic document is structured in two parts. One describes the conditions before intervention, seeking to justify the need for a systematic intervention that targets a segment of the population with high purchasing power. The second details the strategy that must be followed to achieve this goal. Regarding the former, it states that prior intervention in the quarter there were 42 buildings with 92 owners. The document is, however, vague regarding characterization

of the resident population. It states that six buildings were for housing purposes, but does not elucidate the number of residents, the number of families living there, or their specific needs. It also states that, 35% of the built area was used for commerce and services, and 15% was allocated to commercial storage.

The document defines a systematic strategy of requalification that aims to produce quality housing for a high-end market segment. Affordable housing at controlled costs and for rent is not envisaged for the quarter. With this purpose in mind, strategy has been drafted based on the following:

- The demolition of the buildings inside the quarter (11 buildings) to create a public plaza and (see below) underground car parking;
- The requalification of a historic palace overlooking Praça da Liberdade and a few minutes' walk from São Bento station, that became a luxury hotel⁷;
- The restructuring of uses, promoting mixed use of qualified commerce and services on the ground floors and housing on the higher floors for new, and affluent segments of the population;
- The alteration of the existing built structure to increase space available for housing and other activities (merging two or more buildings to create more spacious housing). While the general façade was maintained, the back (interior of the quarter) had been totally demolished and reconstructed.

In a different section of the document, it is stated that the resident population will be relocated in other areas, without stating which, or the conditions thereof. It is clear, however, that the decision to displace and rehouse this population elsewhere relates to the understanding that they can afford the “higher standard” quality housing that will be provided there (SRU strategic document, 2007: 21). It is even stated that, as only a small proportion of the population live there, this will facilitate displacement and the success of the operation:

“Another aspect to be considered [...] relates to the fact that, currently, the quarter has virtually no resident population, therefore the introduction of a ‘new’ population will, in theory, introduce no significant social conflict factors.” (our translation) (Porto Vivo SRU, 2007: 24).

The document also states that it is likely and desirable that the renovated dwellings will be sold as second houses or to private investors interested in tourism-related business, such as short-term rentals:

“Excellent access to public transport, such as train, underground (qualified transports), and buses, may be an added factor of differentiation for this quarter, namely, for the segment which chooses to have a second home in the city of Porto.” (our translation) (Porto Vivo SRU, 2007: 24).

Whilst the strategic document recognizes the excellent access to public transport (metro and train station, bus), and the fact that alternative parks are available within 150m (Sequeira, 2011), the strategic document claims that a car park “is indispensable to make housing viable in the quarter”, due to the current demands of the affluent population that is expected to occupy the area, both as residents and hotel guests, which are typically car users. (Porto Vivo SRU, 2007: 25).

Analysis of the strategic document reveals that it mainly proposes the need for deep intervention in the quarter based on evidence that it was underused⁸ and in a poor state of conservation⁹. The SRU proceeded to expropriate

⁷ See <https://www.ihg.com/intercontinental/hotels/gb/en/porto/prtha/hoteldetail>

⁸ technical inspections report that 24% of the buildings were empty and only 28% were totally occupied

⁹ 57% of the inspected buildings were in poor condition, 17% were average and 26% had a good conservation state

some block-front buildings and invested €13M in expropriation of the core of the block to gain possession of 22 buildings. In the case of other buildings with requalification needs that were not subject to "forced sale", contracts were drawn up between owners and the SRU for requalification promoted by the owners themselves. An equal percentage of buildings remained in good repair. It should be noted that the SRU's Statement of Accounts for 2012 explains €7M of deficit by the high cost of expropriation, arrived at not by agreement with owners but by court decisions: *"Judicial decisions in expropriation proceedings were above the amounts allocated in the framework of expert opinions requested by the SRU for this purpose."* (Porto Vivo SRU, 2012).

In the case of the Cardosas operation, Porto Vivo SRU, as the project leader, assumed the costs of expropriation and demolition for park construction and public spaces, establishing a partnership with two private partners - Lúcio da Silva Azevedo e Filhos, S.A. (LUCIUS) and the InterContinental Hotels Group - for the requalification of Palácio das Cardosas. While LUCIUS was responsible for the construction, real estate development, and marketing of the housing, Intercontinental was responsible for the construction and hotel management (see Table 2 for details of the partnership roles). For the hotel project, a real estate investment fund - designated First Oporto Urban Regeneration Fund (4F) - was involved as a financial instrument to support the operation.

The business plan of the Cardosas project, as submitted to JESSICA program for funding¹⁰, defined that i) all of the project's construction and commercialization expenses are assumed by the private partner, and ii) the revenue obtained from the sale of commercial areas and houses is equally divided between the SRU and the private partner, while the amount received from the sale of the car park is almost all the private partner's: *"Porto Vivo SRU and Lúcio will each receive 50% sales of residential and commercial areas (about €7.9M). In addition, Lúcio will receive the amount relating to the car parking sale (€6.5M)."* (Deloitte and Parque Expo, 2009: 46).

The 4F began activity in June 2011, with an initial capital of €5M and acquired all the 40 buildings in the Quarteirão das Cardosas that were owned by LUCIUS, that is, buildings expropriated by Porto Vivo and transmitted to Lúcius, new buildings, however erected or under construction, inside the block intended for trade/services/equipment, parking, and possibly other real estate acquired by way of negotiations. (See Gaspar, 2014: 61-63).

Table 2 – Public-private partnership structure for the Cardosas operation

| | Porto Vivo SRU | LUCIUS | Intercontinental |
|--------------|---|--|---|
| Role | Project leader Expropriation, when necessary Mediator between Intercontinental Group and property owner regarding the hotel | Real-estate promoter Construction Sale of housing units Use a real-estate fund to support the operation: First Oporto Urban Regeneration Fund (4F) Lúcio was the sole subscriber of the 4F capital | Promotion and management of a hotel used a real-estate fund to support the operation |
| Cash inflows | Expropriation, demolition, and underground car parking costs | Construction and commercial costs | Investment and management costs (hotel) |

¹⁰ The goal of JESSICA (Joint European Support for Sustainable Investment in City Areas) is to support institutional investors, namely, municipalities and Urban Requalification Societies, to invest in requalification funded by Real Estate Investment Funds. It is important, however, to note that projects to be eligible for funding, which have to be framed by "integrated sustainable urban development plans".

| | | | |
|---------------|--|---|----------------------------|
| Cash outflows | 50% of sales in commercial and residential areas €100,000 (from LUCIUS) | 50% of sales in commercial and residential areas Sale of car park (expected €6.5M) | Operation revenues (hotel) |
|---------------|--|---|----------------------------|

Adapted from: Sequeira (2011: 69), Jessica Evaluation Study, Gaspar (2014: 55-63).

4.2.2. CRITICAL ANALYSIS OF CARDOSAS OPERATION IN THE CONTEXT OF THE SRU INTERVENTION

Based upon nine semi-structured face-to-face interviews conducted in Lisbon and Porto at the beginning of 2015, we now aim to shed light upon how the SRU, local authorities, and the Institute of Housing and Urban Renewal (IHRU), that is, the government-run body responsible for supporting and implementing government housing policy in Portugal, assessed the Cardosas operation from the point of view of their impacts upon i) practices of urban governance (formal and informal relations between stakeholders within the municipality, across government levels, and in the context of public-private partnerships), and ii) on housing market dynamics (e.g. changes of tenure, rents etc.). The link between strategies of housing and urban requalification and issues of housing affordability for low- and middle-income families were broached when, for example, we asked about the impact of the operation on the provision of affordable rental housing (below market rates). Whilst some interviewees did not know in detail about the Cardosas operation, they were, however, familiar with the contents, methodologies, and purposes of the SRU model in one or more cities, which introduced new perspectives to the analysis.

Of those interviewees who were familiar with the Cardosas intervention they all recognize that this generated a high deficit for the public partners (values mentioned vary from seven to nine million euros). This was due to a wrongful evaluation of the costs involved in the Porto Vivo SRU tasks. However, the interviewees presented different explanations of the reason for such high deficits. In one interview (PS3), the construction of the square was decided during the project and exceeded initial costs. Another interviewee (CG2), mentioned that expropriation costs were above the expected and Porto Vivo SRU argued that this caused the deficit. Another criticism regarding financial management involved the sale of the park to a private company for a very low price (100 thousand €) (CG1).

Because central government manages the majority of Porto Vivo SRU's capital, it was expected that this deficit would be financed with additional public funding. This led to major conflicts between stock-holders and closer scrutiny of the conditions of partnerships in future projects (PS3). IHRU interviewees stated that this deficit was not expected, as financial studies of the project estimated that it would generate profit from the sale of apartments: *“The model defined for that operation was expected to be profitable [...] the State decided to go forward, I am convinced, because it was not a waste of money. It was, in a certain way, a loan.”* (CG1).

When looking at the operation globally, besides housing, the major project was a luxury hotel, interviewees alleged that *“1 € of public spending generated 16 € of private investment”* (PS1), and that housing sales were highly successful, indicating that private partners achieved their goals.

In terms of the physical and social impacts of requalification, the Cardosas operation had several impacts regarding the transformation of the housing stock (e.g. tenures and typology structure, rent values), the state of conservation of the buildings, in some cases more renovation than requalification, economic revitalization of the area (with the creation of 19 commercial spaces), and changes in the residents' socio-economic profile, with the displacement of existing tenants (how many was not stated), and the attraction of 50 new luxury apartments (e.g. most one- or two- bedroom units). The sale of all new apartments at high prices indicates a transfer of tenure towards ownership but not necessarily for permanent use or permanent residents, but most for short rental. A high share of apartments is for short rental, as the transaction prices are not attractive for most families that showed an interest in the historical centre. (CG2)

Interviewees who claimed the success of the Cardosas operation (PS1, PS2, PS3) argue that, from a commercial point of view, the operation as a whole was a success (PS1), showing that it targeted a type of demand that needed to be accommodated. When asked about the need for a more diverse social composition of the quarter, one interviewee argued that the inclusion of other social groups (low-income groups) is a fact in nearby quarters: "50m from the Cardosas we have the Morro da Sé" (PS3), a typical medieval district with narrow streets, difficult access and a concentration of derelict buildings, favouring traffic and drug use in some public plazas, associated with a bad reputation (Alves, 2017c). In the historical centre of Porto, rehabilitated housing for rental purposes provided by SRU for temporary or definitive relocations is concentrated in Morro da Sé, while some families are rehoused in social housing neighbourhoods.

The transformation of the physical built environment was also the object of strong criticism, for several reasons: LG1 mentioned the rearrangement of parcels (fusions of small buildings to create larger housing units); the lack of respect for architectural heritage; the car-friendly strategy, and the privatization of open space in the quarter which was initially designed for public use. In the words of one interviewee: "*In the end, all that was left was a scenario, a square that is not a square, a hotel solution that gives me the chills, so from my point of view it is something that cannot happen again.*" (LG1).

Porto Vivo SRU representatives justify the need for the closing of the inner square after 9pm to avoid security problems such as vandalism and the presence of marginal populations (PS1, PS2). There is an underlying concern to create a safe environment for new residents. Whilst it was mentioned that this situation may be reviewed after the opening of commercial spaces on the ground floors (PS1), this has not happened and the central plaza remains closed at night.

5. DISCUSSION AND CONCLUSIONS

Housing dilapidation, poor housing conditions, and the decline of the private rented sector remain key challenges to historic Portuguese cities as the result of obsolete forms of rent control and housing policies focusing upon purchase rather than rental.

The model of "Urban Rehabilitation Societies" was created in a context of neoliberal framing of the role of the state and it became fully operational in the early days of austerity enforcement. The discourse and rhetoric of this policy model is framed by cutbacks in instruments of direct public intervention and employs the view (both

ideological and practical) that intervention must rely upon private investment. This is apparent in the two main strategies set up by the central state to boost urban requalification, that is, the liberalization of rent markets, and the setting up of governance models that encourage public-private partnerships vis-à-vis quarter-based operations of urban/housing requalification, chiefly SRUs.

Local authorities, which in the context of SRUs became key actors in the definition of strategies of urban and housing renewal, both in terms of the selection of priority areas for intervention, that is, the definition of goals that should guide intervention, and policy implementation, have been 'steered' towards policies designed to increase real-estate prices (Van Loon & Aalbers 2017).

The Cardosas operation is an interesting case to illustrate the many pitfalls of this model of urban rehabilitation (e.g. governance, forced displacements, social-spatial income polarization), as it was promoted by Porto Vivo SRU, which is owned by the central state and Porto municipality, and diverged from the fundamental principles and goals of previous models (e.g. CRUARB) that aimed to promote housing rehabilitation for social purposes and promote a rental market accessible to the more vulnerable living in the city centre (Alves, 2017a).

By funding deep restructuring of the Cardosas quarter, both in terms of urban design and the social composition of the area, [SRU] acted as intermediaries in the financialization of the real-estate market in Porto, reinforcing the income gaps between the poorest and the wealthiest neighbourhoods of this historical centre.

The process is widely documented. The urban renewal operation of Cardosas transformed the mixed structure of the area, both in terms of population and economic activities, on which its historical identity is based, to offer the provision of new services and luxury housing affordable only for a few. Associated with architectural and infrastructural improvements and to territorial marketing, the urban renewal operation meant real estate prices rose and led to the expansion of property ownership. This was accompanied by forced displacements and a non-intervention policy regarding the use of rehabilitated housing for temporary accommodation (e.g. short rental destined for tourism), so as to attract further investment and expansion of activities in the area, in accordance with a global market perspective (chiefly tourism and real-estate).

It should be noted that SRU strategy in large-scale partnership projects found strong opposition and the Cardosas project became the focus of counter-action, as the interviews demonstrate. Firstly, due to the high financial deficit of the SRU, it legitimated criticism of the society's governance model, justifying the central state position of backing away from requalification policy implementation. This deficit also made apparent the appropriation of public investment by private interests, accompanied by widespread public criticism of the use of public money to fund high-end real-estate developments. Secondly, contestation of the planning and design of the project by academic and practitioner movements raised awareness of heritage protection. Thirdly, due to pressure from a boom in tourism activities, housing affordability has become a major issue for local populations hence a topic of political debate.

What new elements does this case bring to our knowledge of gentrification processes?

- (1) The effect of globalization and financialization was enhanced because local capital was low and a very profitable investment opportunity was available;

- (2) Governance restructuring under a neoliberal model provided favourable conditions to the entry of market-led interests (such as a partnership model, lack of public scrutiny, and no coordination of goals between central and local authorities);
- (3) The state made no effort to counterbalance these trends and actively supported them as a result of austerity.

As emphasized by Pugalis, based on other neoliberal experiences (Pugalis, 2016), the SRU model provides a resignification of the concept that is inherent in requalification policy. Requalification that once focused upon the provision of decent housing for city centre populations, and in the 1990s to the provision of infrastructure and public amenities, paved the way in the 2000s for a more systematic market-led approach which in Portugal has been reinforced by neoliberal and austerity policies. The SRU model provided the governance instruments that made possible its implementation in the case of Porto, leading us to question whether, with good governance, the outcomes would have been different (Clark, 2014).

In this regard, we claim that measures could have been undertaken for the production and preservation of affordable housing, so that increases of rent would be limited and adapted to middle-class housing needs and demands. To do so, models of urban governance should be reviewed to ensure accountability regarding respect for policy guidelines across all stages of action (from strategy to project implementation), while the funding of public institutions, such as SRUs, should be designed to relieve dependence upon private investors and ensure that no public funding is used to increase profit in speculative operations, but to limit such profit.

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