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The Importance of Housing in Portugal in the Age of Austerity

Alves, Sonia; Veludo, Ricardo

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The Importance of Housing in Portugal in the Age of Austerity

Abstract

Housing is one of the pillars of the welfare state. It is, however, one of the least developed and most market-determined domains of social provision. In Portugal, as in other southern European countries, housing occupies a contingent position with complex social, historical, and nationally-specific political factors bearing upon it.

By using statistical data and a literature review, this paper will provide an overview of the key factors shaping the housing system in Portugal in recent decades. We demonstrate the critical importance of housing in the Portuguese economy and society in regard to its significant share of GDP, national debt, and the high percentage of families who cannot afford satisfactory housing in the private sector. Among the main conclusions of this study are the inability of the state to regulate the property market and urban dynamics and contribute efficiently to the satisfaction of housing needs.

Furthermore, land regulation and urban policies based on the growth-dependent paradigm raise questions not only regarding their adequacy in a crisis period, but also in terms of the sustainability of this paradigm.

Introduction

Whilst housing is an essential component of well-being and social development, it has been organized and provided in diverse ways across countries and societies. As Gibb (2002) points out “EU national housing systems differ markedly and interact with national economic structures, welfare regimes, social trends and policy agendas (Gibb, 2002: 325). As a result of institutional and legal developments, housing policy and wider socio-economic drivers, the pattern of tenure varies considerably from country to country. For example, whilst in Portugal, Spain, and other southern European countries, housing has been provided mostly as a private form of consumer good, in countries such as Sweden or Denmark state intervention has ensured a good supply of housing for all social groups (Andersen, 2012).

In the Scandinavia countries the period of economic growth that followed the Second World War enabled the construction of high quality public housing for a large number of households (Musterd, 2012), according to the fundamental relationship between economic growth and distributional justice (Alves, 2014). In Portugal the period of economic growth that followed entry into the European Union (EU) in 1986 was heavily informed, in terms of methods of production and consumption - by the logic and interests of market forces (Malpass, 2008). In Portugal, as elsewhere in southern Europe, housing is one of the least de-commodified and most market-determined domains of social provision (Allen et al., 2004; Harloe, 1995).

By using statistical data and literature reviews, in this paper we seek to identify the range of economic and political factors which have played an important role as key drivers of change in housing in recent decades. From this perspective, the presence of a housing market characterized by high home ownership a lack of affordable housing, and degradation of the

housing stock is explained by the state's inability to regulate property market speculation and land development.

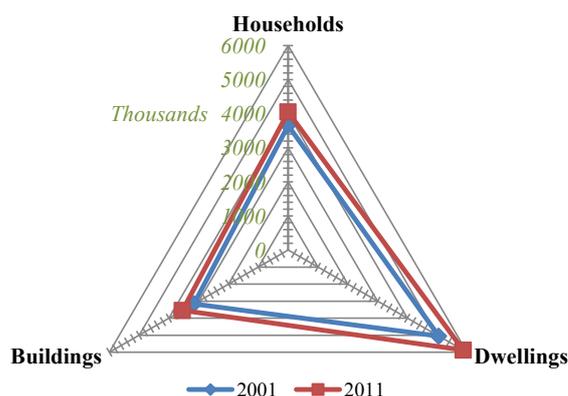
In the analysis of the negative externalities associated with the evolution of the Portuguese housing market, marked by a focus on quantity vs quality, urban sprawl vs re-qualification, we emphasize issues of loss of environmental assets, the indebtedness of Portuguese families, and high levels of underused and vacant dwellings.

Economic expansion from the mid 1980s

Accession to the EU in 1986 was followed by a period of economic expansion that created more and better paid jobs in the cities. This was accompanied by an intense and rapid process of urbanization which led to the abandonment of houses in rural areas and to massive construction of new houses in the larger cities. In a context in which only a small percentage of affordable accommodation was supplied by the social rental sector, the implementation of housing policies to encourage home ownership such as supported loans, public payment of a portion of the capital cost, tax incentives, drops in interest on mortgages, resulted in a boom in housing construction.

In 2012 about 10.51 million people, that is, around 4.08 million households, were occupying a housing stock of 5.9 million homes (Figure 1). In only 20 years, the share of owner-occupied housing increased from 57% to 76% by 2012. In absolute terms, this represented a rise from 1.6 million to 2.7 million owner-occupied units.

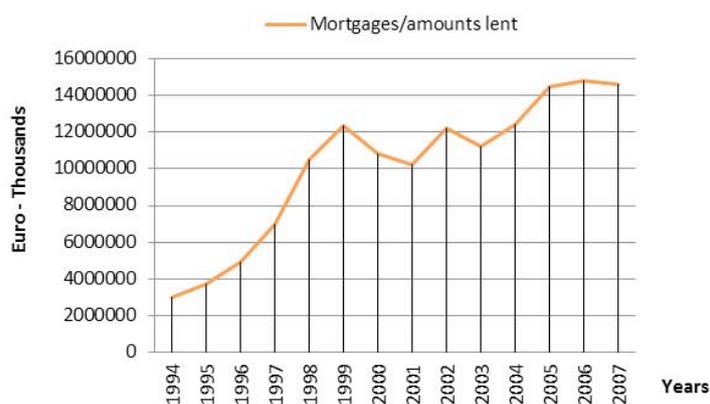
Figure 1



Source: FFMS

The number of Portuguese families with home loans was around 1.8 million in 2008, representing approximately 49.5% of total Portuguese families. The total amount of household debt in late 2007 represented 129% of disposable income, well above the figure of 90% in 2001.

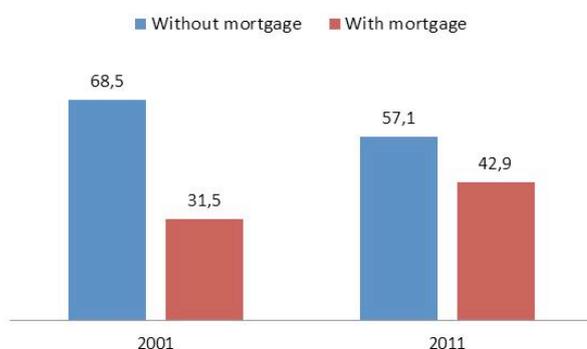
Figure 2 – Mortgages: amounts lent



Source: FFMS

Until the mid-1990s, the percentage of owner-occupiers with mortgages represented only 14% in Portugal, but the figure increased to 31.5% in 2001 and 43% in 2011 (Figure 3). In 2005 Portugal was already one of the European Union countries with the highest burden of private debt in total GDP.

Figure 3 – Home ownership in Portugal in 2001 and 2011



Source: FFMS

According to Pina e Abreu (2012) Easy credit in global markets, the absence of incentives to limit loan-to-deposit ratios, and insufficient risk perception led to: “the excessively high consumption and high indebtedness in the Portuguese society” (Pina and Abreu, 2012: 1).

During this phase, housing conditions improved significantly. Table 1 shows the qualitative improvement observed in recent decades in Portugal in terms of coverage of basic infrastructure within the housing stock.

Table 1

	Total	Running Water	%	Shower / Bath	%	Sanitation	%	Sewers	%
1970	2283235	1081210	47,4	737760	32,3	1325960	58,1	1375720	60,3
1981	2805617	2005763	71,5	1610903	57,4	2189713	78,0	1883512	67,1
1991	3083144	2675466	86,8	2521742	81,8	2730011	88,5	2578620	83,6
2001	3578548	3502726	97,9	3354632	93,7	3371464	94,2	3518685	98,3
2011	3997724	3971833	99,4	3918455	98,0	3961515	99,1	3977467	99,5

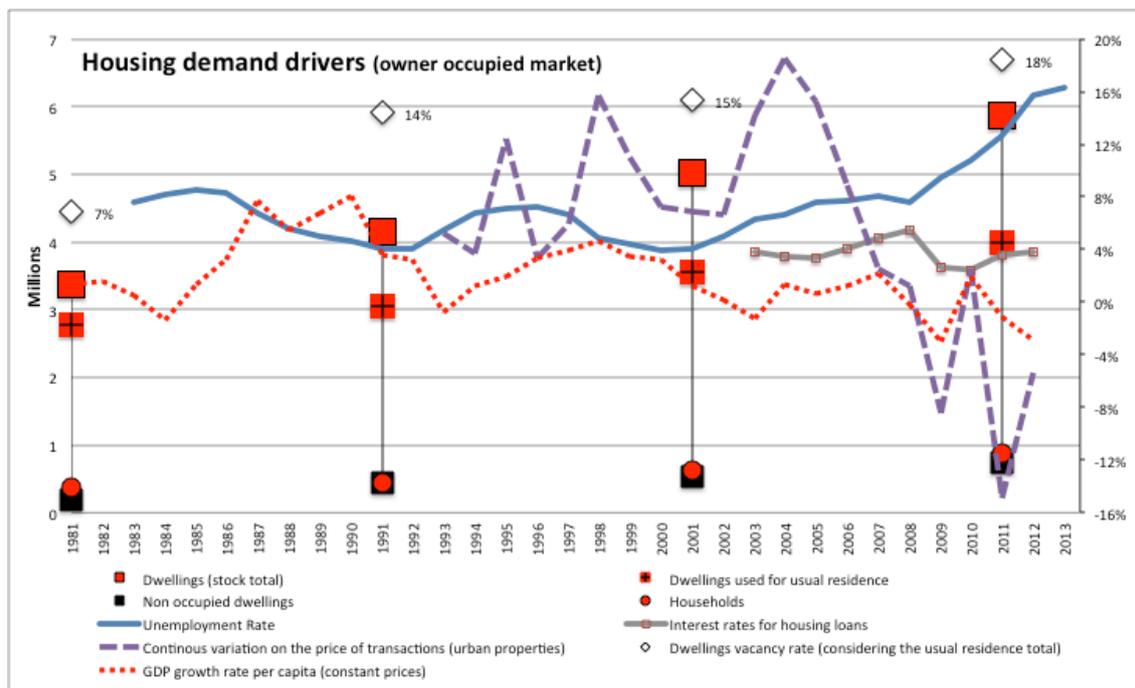
Source: FFMS

Massive housing construction since the 1990s did not address the construction of a non-profit sector to assist people to find decent housing at affordable prices. In 2011 the share of non-profit housing represented 3% of the total national housing stock, and the government was spending less than 1% of GDP on housing policy.

The inability of the state to regulate property market speculation and land development favoured the expansion of the suburbs and a lifestyle based on car ownership, but also led to high levels of vacant/underutilized housing. According to the 2011 census, 19% of the total housing stock in Portugal is second or summer houses used seasonally, during weekends or vacations, while 13% of the total vacant dwellings (INE, 2011). Of the total number of vacant houses, 34% was available on the market for purchase or rent, while the remaining 66% was not available for purchase or rent due to high levels of deterioration, a common situation in buildings constructed before 1919. The worst conditions could be found in the private rented sector on inner city areas, although there are often pockets of extreme poor quality and deprivation in social housing estates on the urban peripheries (Alves, 2010).

The housing market in Portugal experienced new developments and challenges owing to a combination of changes in the traditional determinants of housing supply and demand (Geltner, 2007), as well as changes in housing policy, urban planning, and other economic growth indicators, such as the evolution of GDP per capita, unemployment, interest rates, and housing prices (Graph 1)

Graphic 4 – Drivers of housing demand for the owner-occupied market in Portugal



Source: FFMS

The Portuguese housing stock continued to grow at a higher rate than the household growth with implications for the number of unoccupied dwellings. Portugal became one of the European Union countries with the highest ratio of housing per family. Currently, the number of dwellings per 1000 inhabitants is 557.

The production growth dynamic currently seemed to be independent of per capita GDP growth, invoking the possibility of other market drivers such as: (i) external demand (the impact of the Algarve region); (ii) easier access to loans for housing, second residence, and investment; (iii) consumer behaviour, and (iv) inequalities in wealth distribution.

In addition...

- Demand side / consumer behaviour: increased household incomes; easier access to housing loans; inertia of the rental market and real or perceived social mobility by social groups stimulated by unusual credit facilities;
- Supply side: availability of financial capital speculatively invested in real estate, and the increase in the number of construction and real estate companies;
- State: the adoption of land use regulation and local plans approved in the 1980s and 1990s which favoured massive urbanization and housing construction (Guerra, 2011).

The financial crash of 2007

If at the beginning of the 1990s Portugal had one of the lowest unemployment rates in the EU (equivalent to 3.9% in 1991), after 2008 the unemployment rate increased from 9.6% in 2009 to 11% in 2010 and rose to 16.3% in 2013 (Graph 1). In around 20 years, Portugal went from having the lowest unemployment rate in the EU to the highest. From 2000 to 2010, the unemployment rate more than doubled (Alves, 2014).

The consumer confidence index in 2006 was -28.7, decreasing to -49.3 in 2013, while the construction sector rose from -34.9 to -59.3 for the same period (Eurostat, 2014).

The rapid growth of second homes, the result of a vast demand for summer houses in coastal areas by Portuguese and other buyers from Ireland, the UK, the Netherlands, Germany, and Spain, evolved to a crash in the housing market in tourist regions such as the Algarve. In those areas, where the property market was mainly geared to tourists and speculative operations, summer houses came to represent almost 40% of the total housing stock. Following the economic crises of 2007, the owner-occupied housing market saw a strong reduction in prices and the number of transactions, and vacancy rates began to grow. Around 440,000 dwellings were available in 1991, but in 2011 this number rose to around 735,000, besides the dwellings that remained in the construction pipeline after the crisis of 2007.

A significant continuous reduction was observed in property prices in urban areas between 2004 and 2011. In nominal terms, between 2007 and 2011 prices decreased by 23.4%.

Final remarks

There are several lessons that emerge from this review. First, Portuguese urban planning instruments and regulation have failed to regulate the national and local housing markets which reveal a highly unbalanced and unsustainable dynamic. They have also failed to ignore the negative impact of urban sprawl on the economic and financial sustainability of urban infrastructure and public facilities, which currently raises major concerns around how to finance and guarantee adequate levels of service for that infrastructure built since the 1980s, considering that their life cycles typically require significant costs after around 50 years of operation.

Even since the mid 1980s Portugal has demonstrated gradual convergence in many social and economic domains such as economic growth and housing conditions. Economic inequality has not been challenged, and Portugal remains one of the most unequal countries in the EU and the OECD (Alves, 2014).

The type and level of correlation between economic inequality and housing needs further investigation in Portugal. In general terms, it is known that the growth dependent paradigm is not always adequate to achieve prosperity, that is, sustainable prosperity for all (Jackson, 2009). The (apparent) contradictions between economic growth dynamics and inequality raise questions about social justice and the role urbanism and urban planning play in preventing negative economic and environmental impacts related to the loss of ecological assets and intense social and geographical transformation.

On this issue, in the book *L'urbanisme d' après crise*, Bourdin (2010) proposes an urbanism of regulation to address the negative consequences of market-driven urban development, based on four types of strategy: (i) the production and capture of wealth and resources; (ii) urban supplies and their affordability; (iii) social cohesion and socialization, and (iv) organization in governance, space, economy and administration. Bourdin makes the case for an interdisciplinary way that requires a new organizational model. Concerning reform of the planning system, in opposition to exclusively market-driven policies, Rydin (2013) proposes a system beyond growth-dependences. The results presented in this paper confirm the relevance to Portugal of this agenda.

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