

Universidade de Lisboa  
Instituto de Geografia e Ordenamento do Território



## **Housing Financialization in Lisbon's Historical Center**

**Gloria Aguilar Dominguez**

Dissertação de Mestrado orientada  
pelo Prof. Doutor Agustín Cocola-Gant e pelo  
Prof. Doutor Jorge Da Silva Macaísta Malheiros

Mestrado em População, Sociedade e Território

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## Abstract

This dissertation explores the phenomenon of the financialization of housing in the historic city center of Lisbon during the last years, between the years of 2012 and the present. By housing financialization what is meant is residential properties being primarily utilized as vehicles of investment, at the expense of their social use of being homes. This study looks at whether signs of housing financialization are present in the country's capital, and focuses on what is believed to be one of its particular manifestations: the rise of short-term rentals, commonly referred to as vacation rentals. A growing incidence of homes are placed on the short-term rental market through online platforms such as Airbnb. Finally, this study aims at examining if short-term rentals are a new frontier of housing financialization in Lisbon, and to further understand the means through which investment is channeled into this sector.

This dissertation first addresses the topic of housing financialization as a global phenomenon, and analyzes its distinct mechanisms being employed in diverse geographies. Upon this framework attention is directed towards the context of Portugal, and more specifically Lisbon, and how past politics and economic policies of the country shaped the development of the housing market. The analysis grants specific emphasis to the period post crisis, in which a series of neoliberal policies, the growing touristification of the city and a push for urban rehabilitation greatly reconfigured the city's residential real estate market. Paving the path for the rise of short-term rentals and the entrance of a deluge of capital investment.

This study followed a qualitative interview model and began with a series of exploratory in-depth interviews with key experts in the real estate market. Upon analyzing the content of the initial interviews there was a narrowing of the scope of the study and a lens was placed upon the subject of short-term rentals. A number of interviews were carried out with key actors in the short-term rental market, which have been the core of the findings of this study lie. The mode in which this sector directs investment into residential real estate is addressed, and insight was gained into the facets of the sector that attract investors.

**Key words:** housing financialization; short-term rentals; *Alojamento Local*; investment; residential real estate

## Resumo

O ponto de partida central desta dissertação é examinar o fenómeno da financeirização da habitação no centro histórico da cidade de Lisboa. O termo financeirização da habitação, entende-se como o processo de utilização de uma propriedade residencial como veículo de investimento, tirando partido do seu uso social como lar. O velho ditado inglês “o lar é onde se encontra o coração” assumiu um novo significado no atual clima económico, pois tendo em conta o seu foco na financeirização da habitação, o ditado deveria ser “o lar é onde se encontra a riqueza.” É nessa relação interdependente e de troca entre "lugar de habitação" e de "capitalização de um lugar" que reside a premissa desta tese. Enquanto as tendências económicas globais continuarem a avançar em direção a um modelo de crescimento e lucro a todo custo, e os fluxos de capital além-fronteiras determinarem o tecido social das nossas cidades e o ambiente construído, o papel da habitação continuará sempre a expandir-se. Igualmente, assistimos à iniciativa crescente dos governos em liberalizar os mercados imobiliários locais e o facilitar da entrada de fluxo de capital internacional. É por este motivo que a habitação se tem tornado cada vez mais, numa espécie de esponja que absorve o excesso de capital das elites transnacionais.

Este estudo procura fazer uma leitura do índice da financeirização habitacional na cidade de Lisboa, e concentra-se naquilo que se acredita ser uma das suas manifestações específicas: a proliferação do aluguer de curto prazo, ou mais comumente chamado Alojamento Local (AL). Através do desenvolvimento das tecnologias digitais de comunicação, como o Airbnb, temos vindo a assistir a uma crescente incidência de residências a serem colocadas no mercado de aluguer de curto prazo. Esta dissertação tem como objetivo investigar se o aluguer de curto prazo é a “nova fronteira” da financeirização habitacional em Lisboa, procurando entender melhor os meios pelos quais o investimento é canalizado para esse sector.

Esta dissertação começa por abordar o tema da financeirização habitacional como um fenómeno global, analisando os distintos mecanismos, empregues em diferentes geografias. Esta revisão bibliográfica é assim construída a partir do quadro teórico marxista da mercantilização da habitação (Marx, 1990). É com base nesta premissa, que proponho o desdobramento pelo qual a habitação se tornou um veículo de investimento, tendo como referência as obras dos seguintes autores: David Harvey (1989, 2014, 2018) e o seu conceito de “capital switching”; a análise de Manuel Aalbers (2008, 2009, 2010) sobre a expansão e a globalização do mercado de hipotecas nos Estados Unidos da América; o estudo de David Ley (2017) sobre o aumento dos fluxos globais de capital no mercado imobiliário de Vancouver, entre muitos outros. Ao identificarmos a origem das várias facetas da financeirização da

habitação, podemos entender como esse problema se tornou sistémico, evidenciando até que ponto o nosso sistema financeiro global depende de que a habitação sirva como fonte de investimento.

Seguindo esta estrutura, o foco desta dissertação é direcionada para o contexto de Portugal, mais especificamente, o contexto de Lisboa. Através da análise dos diferentes desenvolvimentos políticos, económicos e históricos do país, mostro como é que as implementações das suas políticas específicas moldaram e têm moldado o mercado imobiliário da cidade. Vários fatores foram considerados, como a existência de um edificado bastante degradado - concentrado principalmente no centro histórico da cidade -; valores de propriedades que eram substancialmente baixas, em comparação com outras capitais da Europa Ocidental; a liberalização do mercado de aluguer e o desenvolvimento das novas tecnologias digitais que ajudaram investidores de todo o mundo a conectarem-se com os agentes locais. Deu-se ênfase ao período específico da pós-crise, na qual a aplicação de uma série de políticas neoliberais, a par da crescente turistificação da cidade e o impulso à reabilitação urbana, reconfiguraram consideravelmente o mercado imobiliário residencial da cidade. Aqui vemos uma descrição clara dos múltiplos e simultâneos processos em jogo, que levaram Lisboa a enfrentar a atual onda de financeirização da habitação. Aqui, faz-se referência ao elevado número de investidores que compram-para-alugar (buy-to-let) (Leyshon & French, 2009), ou seja, ao caso específico de investidores que compram imóveis para os colocar no mercado de aluguer de curto prazo. Com a crescente incidência de alugueres de curto prazo, abriu-se caminho para a entrada de um “dilúvio” de investimento de capital.

O alicerce desta dissertação foi construído com base numa série de quinze entrevistas em profundidade, realizadas com especialistas e profissionais nas áreas de investimento imobiliário e no mercado de aluguer de curto prazo. Tomou-se em consideração, o facto deste tópico não ser ainda amplamente estudado, e por essa razão procurou-se adotar uma abordagem exploratória. Não pretendendo ser um estudo de caso intensivo, mas sim mais uma exploração do tópico, onde vários peritos do mercado imobiliário ofereceram as suas perspectivas em torno do fenómeno. Tendo em mente, o objectivo de examinar o nível de investimento em propriedades residenciais, na primeira fase das entrevistas conversei com: empresas internacionais de consultoria (JLL, CBRE), corretores imobiliários, gerente de propriedades, um académico e consultor, e o vice-presidente da Associação Portuguesa de Promotores e Investidores Imobiliários, obtendo desta forma uma visão global do que está a acontecer no mercado imobiliário residencial e sua correlação com o setor de aluguer de curto prazo. O analisar do conteúdo destas entrevistas, fez com que o espectro de questões se clarifica-se, e uma lente foi colocada sobre o mercado de aluguer de curto prazo.



Na segunda fase das entrevistas, conversei com agentes-chave do mercado de aluguer de curto prazo, os quais a grande maioria, trabalhava em empresas que gerem apartamentos para o efeito. Este é um novo sector que surgiu como resultado do aumento da popularidade dos alugueres de curto prazo. Estas empresas fornecem um grau variável de serviço relacionado com o próprio funcionamento do aluguer, e servem essencialmente como intermediários entre o proprietário e os hóspedes. Desta forma, os entrevistados foram capazes de oferecer informações importantes sobre o funcionamento do sector, bem como a sua visão sobre os fatores determinantes que levam os investidores ao sector.

A segunda parte da minha pesquisa procurou complementar as visões dos meus entrevistados, com a análise de fontes secundárias relevantes, mais precisamente dos relatórios da indústria. Empresas de consultoria imobiliária como a Jones Lang LaSalle (JLL) ou a Cushman & Wakefield, produzem relatórios anuais sobre o mercado, com um crescente interesse no sector de aluguer de curto prazo. O analisar desses relatórios, permitiu avaliar as tendências do investimento imobiliário, que estão em curso em Lisboa, e dessa forma obter uma imagem da situação real do mercado imobiliário. Além destes relatórios, analisei também uma série de estudos e dados disponibilizados por entidades públicas, como: a Câmara Municipal de Lisboa (CML) - que realizou estudos sobre os efeitos das ALs na cidade -; o Instituto Nacional de Estatística (INE) - a partir do qual se pôde comparar estudos que falam do aumento dos preços de aluguer na cidade -; o Travel BI do Turismo de Portugal - um site que oferece informações estatísticas do número de visitantes que a cidade recebe todos os anos, bem como a incidência de ALs registadas pelas juntas das freguesias -; e o Registo Nacional de Alojamento Local (RNAL). Finalmente, examinei os dados disponibilizados pelo Airdna, um website direcionado para investidores, que fornece dados estatísticos do desempenho de alugueres de férias nas principais cidades do mundo.

Com o reunir e analisar destes dados, pôde-se então obter um entendimento estatístico da demografia dos investidores privados, e o alcance geográfico de como esse fluxo de capital se tem disseminado pela cidade. Estes dados complementam a informação que adquirei com as entrevistas. É aqui que reside o núcleo das minhas descobertas.

**Palavras-chave:** financeirização da habitação; aluguer de curto prazo; Alojamento Local; investimento; imóveis residenciais.

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# 1. Introduction

The old time saying of “home is where the heart is” has taken on a new meaning in the current economic climate, I would go as far to say that in the current state of housing financialization the saying should be “home is where the wealth lies” or better yet in the Germanic sense of the word house, which closely links the origin of the word to the verb to hide, “house is where the wealth is hidden” (Lieberman, 2015). It is within this intrinsic interwoven relationship that has evolved between housing and wealth that the premise for this thesis lies.

As global economic trends continue to push towards a model of growth and profit at all cost, and cross border capital flows dictate the social fabric of our cities and built environment, the role that housing has in our current economic context is ever evolving. My aim in this study is to focus on housing being primarily utilized as a source of investment and not as a place of residence. It is within this framework that the term housing financialization becomes relevant. To borrow the definition utilized by the United Nations, the financialization of housing “occurs when housing is treated as a commodity – a vehicle for wealth and investment rather than a social good” (United Nations). Our global economy has become dependent upon this premise of housing being a mechanism of investment, again to borrow from the United Nations and to grant a glimpse at the magnified role that housing plays in our economy:

“Global real estate represents nearly 60 per cent of the value of all global assets or \$USD 217 trillion – with residential real estate comprising \$USD 163 trillion or 75 per cent. This represents more than twice the world’s total GDP” (United Nations).

Here we witness to the extent to which housing financialization has expanded to and how our global economy is built upon it.

This thesis begins by analyzing housing financialization as a global phenomenon and tracking the manifestations it has gained through out space and time. I aim to look at the role of housing in the ever evolving and transforming capitalist economic system. While at the turn of the 20th century the right to adequate housing gained growing recognition as an inherent right, which led many European countries and the United States to invest in public housing

(in varying degrees), particularly in the post WWII era, but in some instances as early as before WWI (Rolnik, 2015). This was followed by a growing incentivization by certain governments to promote homeownership among its citizens, in most cases leading to public housing stock being sold off, such as the 'right to buy' program in the UK for instance. This turn towards the growing push for privatization in public housing is where the bulk of my interest lies, for in this shift lies the key to further understanding the transformation in the role of housing that we are currently witnessing. I will explore how during the period of a growing push for homeownership the first tools of the financialization of housing were constructed. Through the creation of mortgages, while at the time deemed as well intended, the framework for housing financialization was implemented. The home finance apparatus that was developed became increasingly profit driven. We saw the damaging results of that with the Subprime Mortgage Crisis of 2008, through the securitization of mortgages and subprime lending.

Further yet, in the years proceeding the crisis we continue to witness new mechanisms of housing financialization being developed. While they have transformed from those we saw pre 2008, with recent technological advancements and further market deregulation that permit the uncontested flow of capital through international borders, these newly created tools continue to hold at their foundation housing as a vehicle of investment. Most countries have shown signs of housing financialization in various forms and in differing timelines, and the prevalence of this phenomenon is ever reaching and shows no sign of slowing down.

This finance apparatus that is in continuous transformation has revealed one of its most recent manifestations in Lisbon. The housing market in the city has undergone a dramatic alteration in the years following the Global Financial Crisis.

I would argue that the city, and the country for that matter, appear to be experiencing an economic recovery that is highly dependent on a growing housing market. Housing is being increasingly viewed as a piece of real estate and in a large sense what was once deemed residential real estate is being converted into commercial real estate. Commercial in the sense that many house buyers objectives in purchasing a house or apartment is not to have a place to live, but a place to deposit their wealth and then implement mechanisms to yield profit from the property.

In Lisbon, as in numerous cities world wide, we are witnessing the commercialization of the residential space, through processes of short-term rentals (Lee, 2016 ; Gurran & Phibbs, 2017). Further in some instances the conversions of entire residential buildings into holiday rentals is taking place (Cocola-Gant, 2016; Cocola-Gant & Gago, 2019). Entire neighborhoods are being transformed and the building stock in the city is being repurposed. While I find housing financialization to be an integral part of this transformation, it has not been the only process at play, gentrification has also played a pivotal role in this development. Gentrification is widely identified as a process in which middle class individuals, with higher purchasing power, move into run down central urban neighborhoods; and through the refurbishment of the housing stock and transformation of local commerce drive up property values and price out the original inhabitants of the neighborhood. This process leads to the appreciation of properties in a neighborhood and turns it into an attractive location for investment (Paccoud, 2016); I intend to explore the link that this has to housing financialization.

There is a growing trend of large flows of tourism continuing to flood global cities (Glaudemans; 2016; Barata Salgueiro, 2017), and this process has taken housing financialization a step further. With the growing advancements made in information technology, and the generation of what some have deemed the “sharing economy” the short-term rental market, a form of housing commercialization was born from a need to cater to steady streams of tourist that continue to gravitate towards major cities (Cook, 2010; Guttentag, 2013; Lee, 2016). I would argue that this is as a new mechanisms of housing financialization being activated. Through the development of new technologies such as Airbnb, property owners can rent out their apartments to tourist on the short-term rental market for brief periods of time, and it has proven to be much more profitable than the long-term rental market (Gurran & Phibbs, 2017; Horn & Merante, 2017).

## **I - Aim and Objectives**

This is not a phenomenon that is singular to Lisbon, numerous housing markets throughout the world have undergone comparable processes. However, each geographical location has had it develop at different rates and with distinct mechanisms being implemented.

It is within this scope that I focus my attention on Lisbon, through mapping the development of housing financialization I arrive to the aim of this study, which is:

*– to explore whether short-term rentals represent a new frontier in the financialization of housing in Lisbon.*

This aspect of the connection between short-term rentals and the financialization of housing has not been explored in-depth, and gaining a greater understanding of the link between these two processes is vital to building a more complete image of the housing market in the city.

This broader topic is narrowed into more specific objectives. The first being:

*a) to examine whether short-term rentals channel investment into residential real estate.*

By this what is intended is to understand if the prospect of utilizing the short-term rental market as a mechanism of extracting profit from a residential property is driving investors to purchase properties in Lisbon. It appears that investors from all over the world have their sight on Lisbon and understanding which factors are attracting them to place their capital in the city is vital to constructing a better map of the flow of investment into the city. The second objective I mean to research is:

*b) to analyze the benefits investors find in the short-term rental market.*

With this what is meant is to comprehend why investors opt for the short-term rental market, as opposed to the long-term market. It is often held in common perception that investors opt for the short-term market because it is far more profitable than the long-term market, in this study I intend to understand if investors motivation is strictly economically guided, or if there are other factors that are not being considered.

While the expansion of this phase of what I would deem housing financialization is occurring world wide, it is important to note that there are a number of policy implementations placed into effect by both local and central governments that facilitated and in many regards incentivized this process (Aalbers, 2019). This question of policy is a recurring topic throughout the text, the role of the state in the process of housing financialization cannot not be ignored and will be addressed within a context of varying geographies.

## II - Structure of the dissertation

In order to present a proper theoretical framework for this thesis an extensive literature review was carried out. The work of various authors were addressed, beginning with the work of Karl Marx (1990) and his assessment of historical events that led to the commodification of housing. Upon this premise the unfolding of the manner in which housing became a vehicle of investment is addressed through the use of the work of various authors, such as David Harvey (1989, 2014, 2018) and his concept of capital switching; Manuel Aalbers' (2008, 2009, 2010) analysis of the expansion and globalization of the mortgage market in the United States; David Ley's (2017) study of the surge of global capital flows into the Vancouver housing market, among many more. Throughout the explanation of how various facets of housing financialization have arisen we can understand how systemic this issue has become and it accentuates just to what degree our global financial system is dependent upon housing serving as a source of investment.

The literature review is followed by a chapter that focuses on the context of Lisbon, and showcases various instances of housing financialization that the city has experienced in the last decades. Particular focus is given to the period post 2008, in the wake of the Global Financial Crisis, as this marked a clear turning point for the city's housing market. Here we are able to track both the policy implementations as well as the socioeconomic developments that helped craft the opening for international capital flow to flood and transform the city. Multiple factors are considered such as a considerable dilapidated property stock - concentrated primarily in the historical city center -, property values that were substantially low in comparison to other Western European capital cities, the liberalization of the rental market, and the development of new technologies that help investors from around the world connect with local actors as well as serving as platforms upon which the commercialization of housing takes place. In this section there is a clear depiction of the multiple processes simultaneously at play in the city that have led to the current rush of housing financialization the city is experiencing. By this I mean the slew of buy-to-let investors (Leyshon & French, 2009), making reference to investors who purchase a property to then place on the short-term rental market.

This is followed by the methodology, a brief chapter that describes the methods of data collection and analysis that were utilized. The basis of this study was constructed upon a series of fifteen in-depth interviews performed with specialist and experts in both the areas of real estate investment and the short-term rental market. The methodology chapter offers a greater explanation into why the methods exercised were chosen. This chapter is followed by my data analysis in which I offer a description of my findings and attempt to contribute to the growing body of literature that discusses the topic of short-term rental market in Lisbon, by offering an insight into the views and observations made by those who are the most intrinsically involved and invested in the real estate and the short-term rental markets we will be able to paint a wider picture and gain a greater understanding of how the market works, and since the short-term rental market is such a recent phenomenon, we will gain a larger insight into how it is developing.



## 2. Literature Review

In an effort to contextualize how the role of housing has evolved and more specifically to describe how it has become a vehicle of investment multiple facets must be considered. For one housing in and of itself must be considered, the relevance of housing lies in when it became an exchangeable good. In this vein the work of Karl Marx will be discussed to describe the process by which housing became a commodity and a source of profit. Then the work of David Harvey will be presented to review the role of housing in the capitalist system, and place it at the center of a debate regarding matters of political economy. Harvey's work pertaining to the contradictions of capitalism and how this involves housing will be referenced, as well as his concept of "capital switching," which highlights the relevance of housing in sustaining the capitalist system.

Following the constructing of this framework, I will go on to introduce the role of the globalization of the housing market in the financialization of housing. In this section the work of David Ley and Manuel Aalbers will be examined, as they present two distinct but relevant manners in which housing has been financialized at a global scale. This will lead to the next topic that I aim to expand further which is one of the mechanisms of housing financialization, by this I mean to explore the distinct methods that have risen and continue to arise by which housing is used as an investment. Here I will explore distinct geographies such as Germany and Singapore to demonstrate how mechanisms of housing financialization adapt to the political and social circumstances of cities and countries.

Lastly I will focus my attention on what I have found to be the two most prevalent mechanisms of housing financialization currently underway. One being housing being utilized as a "safe deposit box" (Fernandez, Hofman, Aalbers, 2016), meaning that wealthy elites are depositing their wealth and excess capital in residential real estate as a safe place to investment money. The second being the proliferation of "private landlordism" meaning the private rental market being viewed as a source of investment and profit. While some authors are already researching this matter (Leyshon & French, 2009; Ronald & Kadi; 2017), this topic needs to be further explored and further developed. Particular in regard to the role of the short-term rental market evolving as one of the latest mechanisms of housing

financialization, and the social implication this has had on the issue of access to affordable housing.

## **I - Commodification of housing & Capital Switching**

Marx's well established and highly referenced concept of "primitive accumulation" is an excellent base on which to develop the relevance of the commodification of land to the commodification of housing. Marx constructed his concept upon the "privatizations of the commons," which refers to a period when feudal England underwent a drastic transformation through the expulsion of the peasantry from the land, to which they had the same feudal title as the lords; setting loose a mass of proletarians on the labor-market, who had been completely detached from their means of subsistence (Marx, 1990). This enclosure of the commons allowed for land to become exchangeable goods and sources of profit (Marx, *op. cit*, Madden & Marcuse, 2016). The huge number of newly displaced peasantry created a demand for land and subsequently housing.

With this perception of housing as a commodity, Marx's observations of commodities' use value and exchange value brought important insight. Marx argued that in order for a commodity be fit for circulation "it must represent both the unity and the duality of use-value and exchange-value." (Marx, 1990; 955). Considering this description it can be seen why housing does not fit this mold, its exchange value has become far too decoupled from its use value. Harvey developed this concept of the inherent contradictory nature of housing under capitalism further. Harvey (2014) points out that the exchange value of housing is generally dictated by the cost of land, cost of production, plus the speculative price mark up dictated by the developer and the market, in essence in most capitalist societies housing is created with the objective of acquiring the highest exchange value possible, and the use value it provides is simply a bi-product of seeking profit. Thus signaling that the "unity and duality" between the two of which Marx spoke of are not aligned. Assuming that use value could be quantified, a home that has x use value and holds y exchange value, can two years later continue to have x use value, but hold z exchange value.

In essence housing lies in a crossroad, while a home is generally viewed as a place of residence and on the surface it is seen as serving primarily that purpose, it can also serve the

role of storing wealth. In the case of the working class and middle class it particularly serves as a way to build wealth. However, as the economic markets evolve and capitalism transforms this wealth generating aspect of housing has been captured by capitalist and financial institutions and new mechanism have been created to extract profit from housing. An explanation of how housing gained this role can be further explained by Harvey's concept of capital switching.

An important matter to note is that the real estate market has progressively arisen as a mega-force of investment, Harvey (1982) attributed this trend to what he termed as a "secondary" circuit of capital (*op. cit* Aalbers & Christophersons, 2014). He argues that not only "is surplus value generated through the production of housing, but surplus value generated in other sectors of the economy is pumped into the housing sector through a process that he calls 'capital switching'" (Harvey, 1985 *op. cit* Aalbers & Christophersons, 2014: 378-379). By this what is meant is that capitalist place their excess capital in the built environment, what Harvey has termed as the "secondary" circuit of capital, as opposed to investing in the traditional "circuit of capital," meaning the circuit of production. In fact by the twentieth century the magnitude of the secondary circuit had reached such levels that it led Lefebvre (2003) to suggest that the secondary circuit had substituted the primary circuit because speculation and property construction had become the primary source of surplus value (*op. cit* Gotham, 2009).

Harvey suggests that this tendency for capital switching is a direct result of the inherent volatility and crisis prone nature of capitalism. In essence what is meant by this is that capital always needs to flow, surplus capital must be invested somewhere, and whenever no viable sources of investment arise capital remains stagnant, resulting in crisis (Harvey, 2018). In consequence to the crisis of over-accumulations created in the "primary circuit" other circuits were created to absorb excess capital. Aalbers and Christophers (2014; 379) highlight that "the deflation of the IT bubble and the inflation of the housing bubble are empirically and analytically related – it is a clear example of capital switching to the secondary circuit of capital". Beyond the secondary circuit, which also results in crises of over-accumulation, Harvey described a tertiary circuit, as the circuit of social infrastructure, meaning that investment is made in technology, science, working conditions, health and

education. Aalbers (2008) furthered this concept with his introduction of a quaternary circuit of capital, this quaternary circuit is what he characterizes as the financialization of existing economies, meaning that capital is transferred from the primary, secondary and tertiary circuit to the quaternary. By this he means not only that finance arose as an economic power but that “financial and non-financial firms alike became increasingly involved in financial markets” (Aalbers, 2008; 150). Essentially with the growing deindustrialization of the global economy financial markets grew to have a greater importance. This is not incidental nor a recent development, this is a process that has been forming for decades and has been heightened by the expanding trend of homogeneous global policies of market liberalization that has arisen in the last decades.

While this matter of capital switching is highly relevant to the matter of housing financialization, it should be highlighted here that both the secondary and quaternary circuits are permeant for this effect. On the one hand capital flow to the secondary circuit speaks directly to the matter of investment in housing, however, this type of investment was more generally made with the intent of constructing houses, apartment buildings, office buildings, or other examples of built environment. The rise of the quaternary circuit resulted in the development of financial instruments that incited the further financialization of housing, this pointed to a trend. As Aalbers (2008; 150) points out “financialization can be characterized as the capitalist economy taken to extremes: it is not a producer or consumer market, but a market designed only to make money”. This economic manifestation does not act singularly, it is one of multiple processes that have arisen, as Foster and Magdoff (2009) pointed out neoliberalism, globalization and financialization have become the all mighty triad that dictate the global economy. More as to how this trio of phenomena has had an affect on housing will be discussed further below.

## **II - Globalization and financialization of the housing market**

While a home is spatially fixed and thus the state of real estate markets is associated to local conditions, present developments show how this is no longer the case and how global accounts shape the local. Two clear but distinct examples of the globalization of the housing market have been presented by David Ley and Manuel Aalbers. Ley’s work lies within the

context of Vancouver, Canada and the effects of foreign investment on the local housing market. While, Ley's work focuses on one specific geography it must be added that the findings he retrieved are applicable to other cities and countries, and other authors have performed studies related to this topic of foreign investment in real estate (DeVerteuil & Manley, 2017; Fernandez, Hofman & Aalbers, 2016). Aalbers speaks to the effect of mortgages being globalized and the banking system broadening its economic reach across international borders, and the effects that this has had on housing.

### *1) – Foreign Investment –*

Firstly Ley's analysis will be addressed, he highlights the relevance of large flows of foreign investment in shaping a local housing market. He spoke directly to this matter of the risks of large capital flows to the housing of a city in a presentation he gave in Lisbon, on April 18<sup>th</sup>, 2017, entitled *Globalisation and Displacement in the Inner City Housing Market of Gateway Cities: Lessons from Vancouver*. He touched upon Canada's investor immigration program and the devastating effects it has had on access to housing in Vancouver. He pointed out that the price of housing rose by 250% in the 20 year period from 1986 to 2006, while wages only increased by 7%. Essentially the price of dwellings was uncoupled from the labor market, which in the case of Vancouver, as is in many other global cities, has resulted in a vast amount of local residents being priced out and displaced (Ley2, 2017). Ley (2017) pinpointed the cause of this occurrence to multiple factors, such as the local level gentrification the city experienced, the neoliberal turn the country underwent in the mid-1990s in response to economic crisis and largely the high amount of Chinese and other East Asian capital the city received through Canada's Immigrant Investor Program (IIP).

An important thing to note is that while Ley's research focuses on Canada's IIP, it was not the first country nor the last to implement an investor immigration program. Ley's focus on investor immigration program highlights the role states have had in facilitating the globalization of the housing market. For over 30 years countries have implemented their own version of investor immigration programs in order to attract wealthy individuals with the capacity to invest large sums of money in their economy. Some stress that these residency programs have been utilized and continue to be used as a tool by wealthy individuals who

come from less affluent and unstable countries to ensure residency in more politically stable or politically neutral countries (Sumption & Hooper, 2014; Ley, 2017; Del Olmo, 2015). Countries that have a variance of this program range from highly developed nations like the UK and the US, to emerging economies such as Brazil. In the wake of the Global Financial Crisis (GFC) that erupted after the 2008 Subprime Mortgage Crisis (SMC) many Southern European countries have adopted such strategies to incentivize investment, including Portugal. However, each country sets different bars as to what it considers to be qualifying investments; generally the more developed nations require candidates to invest larger sums of money. These investments may come in numerous different forms.

According to a study published by the Migration Policy Institute, based in Washington D.C., there are two types of qualifying investments (Sumption & Hooper, 2014). The firsts are transactions between the investor and a private-sector entity and this may be in the form of a) investing in local business or b) buying private properties. The seconds are transactions between the investor and the government. These may be in the form of a) the cash model in which the investor simply makes a cash transfer to the government, b) the purchasing of zero- or low-interest government bonds and c) the purchasing of regular government bonds (Sumption & Hooper, 2014; 8-15). While a variety of investments are permitted, growing media coverage from business periodicals such as Bloomberg, Forbes and the Wall Street Journal indicate that the leading type of investment opted by foreign investors is private property. This speaks directly to the matter of housing being utilized as a source of investment and how the state functions as a facilitator in this process.

Another matter upon which Ley touched on and is relevant to the matter of housing as and investment asset was the question of East Asian capital investment in real estate. This point has also been explored by Rogers and Koh (2017). They argue that a high occurrence of East Asian investment has been highly documented since the rise of the Asian Tigers (Hong Kong, Taiwan, South Korea, Japan) in the 1980s in major cities such as London, New York, Sidney, among others (Ley, 2017; Rogers & Koh, 2017). This trend was followed by the rise of the Chinese economy and the subsequent rise of a Chinese elite class and with growing investment in real estate in global cities by ever more present wealthy Chinese investors. Rogers and Koh (2017) point out that the more recent global real estate players have emerged from China's fellow BRICS countries, which consists of Brazil, Russia, India, and South

Africa. The growing new middle class and new super rich in these countries have also turned to the global real estate market to allocate their recently acquired excess capital (Rogers, Lee, & Yan, 2015 *opt cit* Rogers & Koh, 2017).

Essentially with the rise in wealth in particular geographies, and the growing concentration of capital within an elite minority of the population a new breed of investors have emerged. Growing literature has developed around this matter and authors have presented the new categories of investors that have surfaced (DeVerteuil & Manley, 2017; Fernandez *et al.*, 2016; Rogers & Koh, 2017). While this matter is still debated, according to Hay (2013) there are largely four investor cohorts, they are: (1) the new middle-class (NMC), generally used to refer to the growing middle-class from BRICS countries; (2) high-net-worth individuals (HNWI), often used to describe individuals with disposable assets over US\$1 million; ultra-high-net-worth individuals (UHNWI), those with assets over US\$30 million; and ultra-ultra-high-net-worth individuals (UUHNWI), refers to those with a minimum asset holding of US\$50 million (*op cit* Rogers & Koh, 2017). The development of these categories allows researchers to highlight the difference in the type of investors that exist, and subsequently the geographical locations and types of real estate in which they invest also differs.

Marking this difference in the literature is permeant to deconstructing the cultural and racial prejudices that often arise when a foreign group is targeted as the symbol of capital that is disrupting the "balance" of a city. This xenophobic rhetoric resonates in many ways within public discourse, a clear example of this manifested at Ley's presentation in Lisbon, when one of the members of the audience made a comment in reference the high incidence of Chinese investment that has taken a hold of Lisbon's real estate market, and strongly worded that *os chineses* should take their money elsewhere. These words while having no scientific backing as to the actual effect of Chinese investment in Lisbon, did represent the public perception that is shared by many in Lisbon regarding Chinese investors, who are blamed for raising the cost of housing in the city. By resisting the tendency of lumping all Chinese investors into the same group and instead focusing on the type of investor and the kind of property of investment that they take part of, we will be able to better map how a city's housing market is being transformed by foreign influences.

It is pivotal to differentiate between NMC investors who purchase holiday homes abroad either to diversify their investment portfolio or to ensure residency rights for themselves and their family and UHNWI or UHNWI investors, who have a much larger purchasing power, and who have the capacity to purchase entire buildings in a city. The agenda and capacity to transform a city between these categories of investors differs considerably and the literature on the matter should reflect this. More on this matter of the wealthy elite investing in residential real estate will be discussed later in the text.

In essence what can be assessed by this surge of foreign investment in residential real estate is that the local is increasingly being globalized. Spatially fixed localities are increasingly subject to transformation by global trends and fast flowing capital. In these incidences of direct foreign investment in housing one can see that multiple factors are at work. In first regard we are seeing a clear example of capital switching, as less viable opportunities for investment arise there has been an increasing re-directing of capital to the secondary circuit. Secondly we are witnessing the role of the state in facilitating this residential real estate investment channel through state sponsored programs to attract foreign investment and increasingly deregulating local markets (Ley, 2017). The ever expanding neoliberal agenda has taken reign of governments at the national and municipal level. A clear example of this has taken hold of Lisbon, and a more detailed explanation of such will be presented in a later chapter. Lastly, residential real estate is being viewed as a place of low-risk investment and global capital is pouring into local markets.

## *2) – The Mortgage Market –*

Aalbers (2008, 2009, 2010) presented the matter of mortgage securitization and the process by which it was globalized all on the pretense that mortgages were low-risk investments. Securitization is a financial instrument, it is the process in which mortgages are pooled together and deemed an asset, these assets are repackaged and sold to investors. In essence investors buy homeowners' mortgage debt with the expectation of high returns. Aalbers (2009) discussed mortgage lending and the matter of access to credit in order to contextualize the United State's SMC in 2008, which had rippling effects and devastated the global economy. He explains how before 1980 savings and loans institutions (S&L) granted



loans based on the amount of savings they amassed and lent at a local level (Aalbers, 2009). In order to facilitate credit lines to a larger pool of people the S&L institutions reconfigured their mortgage systems and connected local markets, this way widening the pool of savings and spreading the risks. This move had the effect of transforming S&L institutions, from local to national dimensions (Aalbers 2009).

The relevance of mortgages being made more easily accessible speaks directly to Harvey's concept of capital switching. By mortgages being made more plentiful and credit lines more abundant the banks were facilitating capital switching to the secondary circuit. One may say that what was viewed as an attempt to facilitate homeownership for the working classes, at its core was also a mechanism to permeate the capitalist system and the principle of private property. Some examples of initiatives to promote capital switching to the secondary circuit through homeownership were seen in the UK, through the selling off of council housing during the Thatcher era through Right to Buy; and in West Germany in the 1980s through the push for banks to "move into commercial real estate services and to increase mortgage lending" (Rohmert, 2013 *op cit* Wijburg & Aalbers, 2017; 976).

Returning to the specific case of mortgages in the US, finance institutions argued that "mortgage markets could be even more efficient if they were connected to other financial markets and not just to savings" (Aalbers, 2009; 35). Through the securitization of mortgages, lenders would be able to attract low-risk investors. In this step national lenders were swept into the global market. An additional matter to note is that through the securitization of mortgages, as Aalbers (2008) noted they also gained the dimension of enabling capital switching to the quaternary circuit of capital. And in this regard accentuating the globalization of the mortgage market, for international investors were able to gain access to mortgage backed securities that originated in places they had never heard of, cities such as Stockton, California (one of the cities most heavily devastated by foreclosures in the wake of the SMC).

It must not be overlooked that the securitization of mortgages has been practiced in the U.S. since the 1960s (Aalbers, 2009, 2010). By the 1970's banks were widely practicing mortgages securitization through financial instruments known as collateralized debt obligation (CDO)(Foster & Magdoff, 2009). These mechanisms were kept in balance for decades

through to a set of checks and balances created by the state. As the neoliberal agenda gained momentum and increased government deregulation occurred such checks began to disappear. A vital example of such deregulation was seen through the repeal of the the Glass-Steagall Act of 1933 in 1999, an occurrence that has been deemed by many as one of the leading cause for the SMC.

The Glass-Steagall Act was signed into law in direct response to the market crash of 1929 that led to the Great Depression. It was intended “to provide for the safer and: more effective use of the assets of banks, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purpose” (Federal Reserve Bank of New York, 1933). The Glass-Steagall Act forbade commercial banks, which managed regular deposits, from underwriting securities; this was done in an effort to reduce speculation. In short it forbade commercial banks from behaving like investment banks. Fast track over 60 years later, after decades of the gradual chipping away and loosening of Glass-Steagall regulation over the years, its complete repeal was signed in 1999.

An additional factor that contributed to the further financialization of the mortgage market was the development of subprime lending in the early 1990s. Subprime loans were designed as a way to grant individuals with low credit scores – who otherwise would not have received a line of credit – loans at higher interest rates than prime rate loans, and with higher fees. The rise in subprime lending in the 1990s, resulted in a number of loan defaults, which led to the first subprime mortgage crisis in 1997-8. However, since the mortgage lenders were small in scale, it did not have global repercussions. In fact, as Aalbers (2009) highlighted, in part as a response of the crisis, multiple specialized subprime lenders were bought out by commercial banks, signaling to the profitability that was seen in this type of lending.

Subprime lending began to gain steam again after 2000, when subprime loans were reformulated and were no longer exclusively aimed towards borrowers with low credit scores (Aalbers, 2009). What was seen prior to the SMC was a shift where subprime loans were given to borrowers with prime credit, meaning high credit scores (Brooks and Simon, 2007; Dymski, 2007 *op. cit* Aalbers, 2010). “Subprime loans were pushed on borrowers – low and moderate-income as well as middle and high-income – because they brought in more money, not just because lenders were pushed to sell them” (Aalbers, 2010; 174). There was more

profit to be made from subprime loans, on multiple fronts, they allowed lenders and brokers to charge higher fees, and they also posed as more attractive securities because they offered higher returns to investors. As one author pointed out these loans were created to feed the demand for mortgage backed securities and other complex financial mechanisms on Wall Street (Aalber 2008 *op. cit* Reid 2017). In essence they were created to further the financialization of the home ownership process.

Another matter to note about subprime lending, and that is permeant to the financialization of housing, is that it made credit easily attainable. As Reid (2017) pointed out borrowers were able to attain loans to buy a house with low down payments or in some instances no down payment at all, Albers (2010) furthered that this abundant and indiscriminate flow of easy credit incentivized more individuals to enter the housing market and as demand rose so did the price of houses. This combination of increase in home prices and easy credit heightened the concept of a house being viewed as an investment in two distinct ways: with the fast flow of credit and what seemed like limitless rising property values many purchased a second home, or at times multiple homes, with the intention of flipping them in a few years once prices increased (Reid, 2017). Regular homeowners played at real estate moguls because they could obtain multiple loans, and with no down payment. For those who were already homeowners, the appreciation of their home allowed them to use the increased value of their home as a cash dispenser (Aalbers, 2010). With the large surge of accessible credit they could easily refinance their loan or take out second mortgages, money that they could then turn around and use to buy a second home or to sustain a consumer lifestyle that was beyond their means.

The putting into effect of subprime lending came about to be known as predatory lending. Lenders who exercised predatory practices over charged borrowers through excessive and at times hidden fees, higher interests rates than were typically practiced, and variable interest rates. Aalbers (2009, 2010) stressed how more often than not homeowner did not fully understand the terms of their loans, and predatory lenders took advantage of this.

Predatory behavior that began in the U.S. expanded across the Atlantic and manifested itself in the mortgage lending system of Europe. Irene Sabaté (2016) wrote directly to the predatory practices of mortgage brokers in Spain, and describes tactics that

resembled those utilized in the U.S.. Coates (2008) and Stephens & Quilgars (2008) showed that subprime lending also occurred in Ireland and the UK (Cano Fuentes, Etxezarreta Etxarri, Dol, & Hoekstra, 2013). Cano Fuentes *et al.* (2013) also pointed out that some subprime lending was seen in Denmark and the Netherlands prior to the crisis. Nonetheless, it must be noted that subprime lending never gained the same dimension throughout Europe as it did in the US, but it was an indication of the globalization of financial apparatuses that originated in the US. The expanding of easy credit lines to continue supplying the constant demand for mortgage backed securities is a clear indication of how the global financial market was growingly reliant on a complex financial apparatus that revolved around mortgages.

The level to which the global financial system was dependent on the housing market became clearly visible when the first series of borrowers began defaulting on their loans and the SMC in the U.S. set off. This time around, its reach was global, and multiple factors were at play here. For one the the giant banking conglomerates that were allowed to form after the repeal of Glass-Steagall perpetuated speculative behavior within the securitization of mortgages, particularly of subprime mortgages that bleed over to the workings of the global banking system. According to Goodard, Molyneux, and Wilson (2009) banks in countries such as the UK, Switzerland, Spain and France faced financial turmoil as a result of their over-exposure to mortgage lending and investment in U.S. backed securities. This banking crisis, as we know all too well now, led to the largest global financial crisis since the Great Depression.

While there were a variety of elements at work here, such as the furthering of the neoliberal agenda through deregulation; the financialization of the economy through a greater gearing towards financial services and dependence on finance it self as a means for profit; the globalization of the banking system and the mortgage lending system through the competing of local banks for credit on the global market, and the subsequent securitization of mortgages that were sold on the global trading market to international investors; we cannot disregard that at the base of this crisis was a very material thing which is a house, better yet millions of homes. This transnational financial system was built on the principle of a house being utilized as an economic tool to facilitate and incentivize investment.

Both Ley and Aalbers present quite distinct but relevant examples of the globalization and financialization of housing. While one is more current and obvious through the onset of direct foreign investment in housing, the other speaks more so to the complex role that housing has played in the matter of political economy and how the mechanisms to promote homeownership have also been altered and reformulated to stimulate the economy and to drive what some may consider fictitious economic growth. This noticing of the two distinct manners in which housing has been financialized in the past three decades brings light on the matter that housing financialization has taken many different forms, and brings me to the following point which speaks to the non-linear and geographically diverse way in which housing has been financialized. In the following section I will discuss the distinct housing financialization mechanisms that have been utilized, and while their implementation has not been geographically uniform there has been foundational global trends that have shaped the financialization of housing into its current course.

### **III - Mechanisms of housing financialization**

As discussed in the previous section, while our global economic model is transforming new and distinct mechanisms of housing financialization have arisen. To echo the work of Wijburg and Aalbers (2017), it could be said that it comes in waves. Here the authors' work regarding the 'waves of financialization' of housing in Germany is referenced. It should be noted that Wijburg and Aalbers were inspired by Hackworth and Smith's text, *The changing state of gentrification* (2001), and adapted the authors' use of the term 'waves of gentrification' to understand the manner in which the German housing system evolved. The case of Germany is distinct because its rate of housing financialization has not followed common global trends.

According to Wijburg and Aalbers (2017) the financialization of the German housing system has manifested in three waves: the first took place in the mid-1980s to late 1990s through the attempt by West German banks to augment their mortgage activities; the second came through the wave of privatizing the former public housing sector in the ten year period between 1999 and 2009. However, unlike the UK where the units were made available for tenants to buy, in Germany entire public housing apartment blocks were sold to private equity

firms and hedge funds. An interesting note about this wave of financialization in Germany is that it is quite contrary to the global trend that was in effect at the time, which was one of mortgage securitization. This divergence in economic behavior speaks to the matter that the financialization of housing has not been uniform, and that geographical, historical and political differences all play a role in dictating the housing financialization mechanisms that are placed into effect. The third wave that Wijburg and Aalbers (2017) identified began after the GFC and has been portrayed as a housing boom in German cities accompanied by the entrance of a small number of very large real estate companies.

While the waves of housing financialization in Germany have not been particularly distinct from the mechanisms that have taken place in other countries, the distinct order in which they have been implemented does speak to the matter of capital actors taking into consideration regional differences and local market characteristics when determining which financialization instruments to implement.

A distinct example of how geographical characteristics determine the mechanisms of housing financialization placed into effect has been seen in Singapore. Ben Huat Chau (2015) presents the unique case of public housing on the island state. The author contextualizes how a national initiative to promote affordable homeownership among its citizens transformed and fell hostage to market trends over a 60 year period, and led to public housing no longer being affordable for new homebuyers. Interestingly Singapore's public housing model is quite distinct from the typical European nation model of public housing, Singapore's model lies in the structure of individuals being able to purchase a state subsidized 99-year lease from the Housing and Development Board (HDB), in essence they own the lease but not the the property. What makes Singapore particularly distinct, is that the state promoted citizens buying homes from the HDB without an established mortgage market, in fact they were able to avoid banks all together through a unique financing system that allowed home buyers to make "pre-retirement withdrawals" from their state managed pension fund to make a downpayment and monthly mortgage payments to the HDB who held the mortgage (Chau, 2015). This resulted in the majority of Singaporeans placing their retirement fund in their home, making their home not only their single most valuable asset, but also their retirement fund.

As Chau (2015) described, what began as a very controlled and regulated public housing market, progressively loosened its grip and through a deregulation process evidence of waves of financialization became evident. Homeowners were permitted to resell their state-subsidized homes on the open market and keep the profit or reutilized it in the purchase of another home, also since homeowners pension funds were so deeply interwoven with the value of their home the state had an obligation to ensure that the value of homes continued to rise, thus solidifying the idea that public housing was a safe investment. Additionally, as homeowners began aging, more and more moved in with their children, leaving the question open of what should be done with their home, in light of this, the state permitted for public housing homes to be rented out on the private rental market.

Here what can be surmised by analyzing Chau's study, is that while the mechanisms of financialization are quite distinct from those that were prevalent at the global level at the time, there is a important point to be made to as to the capacity of the capitalist system to adapt and to implement regionally compatible mechanisms of housing financialization. Another point to note is that while the mechanisms of housing financialization in Singapore are unique, they stood on the foundation of housing being treated as a safe investment, a depiction that is universal.

In light of these observations of two very distinct cases, one can deduce that the financialization of housing is a global phenomenon. And while the implementation of certain mechanisms become global trends, such as the proliferation of the securitization of mortgages, at a more regional level such mechanism are finessed to the conditions of the local housing market. With this duality in mind, I will approach the following topic at hand, which is discussing the mechanism that developed following the GFC and that have become global trends. Two particular developments that have been seen in the era post the financial crisis, is the turning of the financial elite towards high end residential real estate as a safety deposit box. And the second has been the rental housing market as a source, of investment and to extract profit from.

#### IV - Housing as a “safe deposit box”

Following the GFC the unarguable volatility of the capitalist system and the devastating effects it can have when it is on a downward spiral were made more than evident. The repercussions of the crisis were felt for years to follow, and as working class families struggled to remain in their homes, the global capitalist elite class also struggled, to find viable sources of investment that is. In the immediate aftermath of the crisis, the global elite scrambled to safeguard their wealth and engineered new tools to safely invest their capital (DeVerteuil & Manley, 2017). In Dorling’s *Inequality and the 1%* he points out that “since 2008, after the initial shock of the drop in the value of their stock holdings, the rich in both the US and the UK maneuvered to become much richer” (2014: 3 *op cit* DeVerteuil & Manley, 2017: 1311); DeVerteuil & Manley (2017) highlighted that this was due in part to their “haven seeking behavior”.

It is precisely within this concept of “haven seeking” that the matter of housing as investment arises. In the wake of the GFC the wealthy elite reconfigured the manner in which they managed their investment, they diversified their portfolio by looking for a distinct source of investment, a safer one. As Fernandez, Hofman and Aalbers (2016) coined it, in this vain we witnessed the rise of luxury apartments being purchased in major cities, not with the purpose of being lived in, but to serve as a “safe deposit box”. An important note that echoed throughout the literature on the topic is that this type of investment is led by transnational investors, an elite class whose capital is granted free access to flood the real estate market of major global cities (Cook, 2010; Sassen, 2015; Rogers, Lee & Yan, 2015; Fernandez *et al.*, 2016; DeVerteuil & Manley, 2017).

Dominant literature on the topic focuses on the incidences of haven seeking residential real estate investments in major cities such as London and New York (Fernandez *et al.*, 2016; DeVerteuil & Manley, 2017). Real estate in both of these cities have become increasingly attractive locations for investment because it is perceived as having high liquidity, meaning that it can be resold to other investors with ease (Fernandez *et al.*, 2016). In addition to this, property value in these cities are seen as steadily growing, or in the least maintaining existing value, both characteristics make them attractive sites for investment. Besides the inviting market conditions, the policy and political conditions provided by the state that entice this sort



of investment behavior should also be considered. While the US and the UK have distinct governmental systems, according to Fernandez *et al.* (2016) they do share particular similarities that attract high foreign real estate investment, such as: a high level of property rights and low transaction costs for real estate investments. In addition to this both countries have their own variance of an investor residency program, which as mentioned previously in the text has been a marked incentive for enticing foreign investment in real estate.

While London and New York are the top two cities for real estate investment, research shows that wealthy elite have been flooding to other cities as well, such as Singapore – also considered a first-tier global city – and second-tier cities such as Paris, Amsterdam and Miami (Fernandez *et al.*, 2016). Rogers, Lee & Yan (2015) spoke to the matter of foreign investment, predominantly from Chinese investors, in the Australian cities of Sydney and Melbourne. This plurality of real estate investment destinations, indicates how wide spread this global phenomenon of housing as a safe deposit box has become, and how varying geographic and political characteristics have not deterred high capital investors from dipping into different real estate pools.

While investors follow similar patterns of investment, being that they seek to invest in already elite neighborhoods of global cities (DeVerteuil & Manley, 2017). The manner in which they then manage their investment does vary, among the literature three types of investment strategies were identified: Buy-to-live, Buy-to-let and Buy-to-leave (Fernandez *et al.*, 2016). Some investors do in fact choose to live in the residence, while others opt to buy and then lease out the property, these buy-to-let investors signal towards a growing trend of “private landlordism” (Leyshon & French, 2009; Ronald & Kadi, 2016 *op cit* Fernandez *et al.*, 2016). This matter of a growing trend of profit seeking from rental properties will be further discussed in the following section. The third, Buy-to-leave is in its own way disconcerting because of the social repercussions that it creates for entire neighborhoods.

DeVerteuil & Manley (2017) spoke directly to this matter of how elite neighborhoods in London, have become the prime target for Buy-to-leave investors. Consequently as large parts of neighborhoods, such as Chelsea and Kensington, are bought up by foreign investors who simply deposit their capital in a residence they do not utilize, the social fiber of the place is substantially transformed. Neighborhoods become ghost towns and local businesses become

unsustainable if there are not enough local residents to support them (DeVerteuil & Manley, 2017). Furthermore, DeVerteuil & Manley highlight the important matter that:

“overseas investors do more than just price out certain people through knock-on effects – they create a different kind of city, characterized by what [they] will call ‘*piéd-a`-terre*’ urbanism, which goes against traditional ideas of the gregarious city (i.e. Jane Jacobs) and replaces it with un-occupation, dullness, emptiness, anonymity, urban space as pure exchange value, and convenience for the transient few at the expense of day-to-day uses and permanent citizens” (2017; 1318).

Utilizing the framework of *piéd-a`-terre* urbanism, DeVerteuil & Manley (2017) point out how the super rich transform the social structure of the entire city, for by making already elite neighborhoods more expensive and unaffordable to the local elite class, who then push out to neighborhoods further out from the center and drive up the price of housing there, creating a domino effect and expanding the ripples of gentrification throughout the entire city.

While elite foreign investors pose as a likely villain of the social transformations that global cities are undergoing, the process is much more complex. There are multiple factors at work here and as presented earlier in the text the state also plays a vital role in facilitating foreign investment in residential real estate. It may be through lax regulation, tax incentives, or investor immigration programs, or it may be, as suggested by Cook (2010) within the context of post-socialist Prague that “the relative fiscal and political weakness of the municipal authorities” facilitated the proliferation of internationalized capital (617).

In addition to the role of investors and the state, the part that real estate agencies and investment consultancy firms play in this process must also be considered. International investors would not have access to local real estate markets if it were not for the intermediaries that facilitate and aid the process of investing. As some literature points out “Australian real estate agents are travelling to China to market their properties directly to the foreign investors, and Chinese and Australian agents are offering, as one professional stated: ‘free group tours for potential Chinese investors to travel in Australia’” (Rogers *et al.*, 2015; 740). International investors are not materializing and gaining access to local markets by chance, as the authors above have pointed out, they are being courted by real estate agents. The role these middlemen have in the process is something that lacks in the literature and should be further explored. There is a significant gap on this matter in the literature, particularly in the case of Lisbon, and having a greater understanding of how investors are

gaining access to local markets is pivotal to mapping out the entrance of foreign capital into housing markets.

An additional factor that must be considered as presented by Rogers, Lee and Yan (2015) is the role that “mediating technologies of the internet” have played in promoting this sort of global investment. They point out how “new (i.e., websites) mediating technologies... has changed the speed and type of information that is transmitted about foreign real estate investment” (Rogers *et al.*, 2015; 733). This matter of new technologies is pivotal to the current developments that have been seen in real estate investments, it is through new and emerging media platforms that investors are capturing new housing markets, and further yet it is through online platforms and websites that some investors are making their investment profitable on either the short-term or long-term rental market. This role that web technologies play in furthering the financialization of housing should be further researched particularly when it comes to widening our understanding of the mechanisms and motivations behind Buy-to-let investors and the rise of “private landlordism”.

## **V - Private rental market as a business opportunity**

While the previous section spoke of the growing incidences of super rich investors, of which some followed the Buy-to-let model, here we contextualize the rise of Buy-to-let real estate investments as a broader investment mechanism that has become prevalent among investors of varying economic capacities. A large part of the literature pertaining to Buy-to-let before the GFC comes from the UK. While this sort of investment did not only take place in the UK, it was highly studied there and thus is a good start to pose and contextualize the process and explain how it developed to the current state it is in.

Leyshon and French (2009) contextualize the rise of Buy-to-let in the UK quite succinctly. They explain how the Buy-to-let market “was only created in the mid-1990s, in response to regulatory reform delivered in the late 1980s, and it managed very quickly to rehabilitate the idea of the private landlord, making it socially acceptable, and potentially highly rewarding, option for those seeking financial enrichment through property investment” (Leyshon & French, 2009; 440). Leyshon and French (2009) went on to explain how the financial securitization that led to the GFC was one of the factors that helped further expand

the Buy-to-let market in the UK through the facilitating of easy mortgage credit lines. An additional factor they mentioned, is what they described as “a set of socioeconomic changes” that helped create a demand for rented property. These included: labor migration – including international migration; the growth of student numbers – whom generally reside in rental properties; increasing number of incidences of divorce; and a propensity for ‘urban lifestyle choices,’ meaning that young adults prefer to rent housing in the city center than to buy in “less glamorous (suburban) locations” (Leyshon & French, 2009; 445). While these observations were made about the UK, it can be said that similar social shifts have occurred in many countries.

An interesting observation that was found in the literature was that despite the GFC having had devastating effects on the price of houses world wide it did not slow down the Buy-to-let market, it in fact helped advance it (Leyshon & French, 2009; Rolnik, 2015; Ronald & Kadi, 2017). Leyshon and French (2009) found that while the GFC greatly affected some investors ability to continue to pay the mortgage on their properties, larger and more established landlords positioned themselves “within the market to pick up properties at discounted prices” (457). Ronald and Kadi (2017) found that there was a “rapid increase, particularly since the onset of the crisis in 2008” of private landlords in the UK (Ronald & Kadi, 2017; 6). Furthermore, Paccoud (2016) has argued that this rise in buy-to-let is intrinsically paired with gentrification. He maintains that in contrary to conventional gentrification theory, that places more affluent homebuyers at the forefront of raising property values and displacing original residents, landlords leasing out their properties in working class neighborhoods to more prosperous tenants with a capacity to pay higher rents are actively contributing to the gentrification process, referring to this process as buy-to-let gentrification (Paccoud, 2016). Now while these occurrences are specific to the UK, other authors have written about a rise in private investment in housing worldwide (Rolnik, 2015; Sassen, 2015)

Rolnik (2015) has been particularly outspoken about this phenomenon and pointed out how the subprime crisis and the subsequent foreclosures it caused became a “new business for financial investors” (Rolnik, 2015; 108). She pointed out how in many North American cities, there has been an intense purchasing of houses and apartments – in large part properties that had been foreclosed – by hedge funds and private equity firms since 2011. Financial investment entities such as these have purchased hundreds of thousands of homes in

the US alone and have already begun to export their investment model abroad. “The business – today called ‘REO-to-rental’ consists of buying houses at rock bottom prices, investing in remodeling, renting it out for a period of time, taking advantage of the high demand by those who were left without a home, and waiting for a new cycle of high real estate prices”<sup>1</sup>(Rolnik, 2015; 108-109). Rolnik (2015) went on to highlight that many of the hedge funds and private equity firms went on to become Real Estate Investment Trusts (REIT) in order to further participate in the sector. REITs are corporate real estate investment companies that acquire and manage real estate assets with the objective of extracting profit from them. This shift in private landlordism has greatly augmented the facets in which housing can be financialized, now not only is multiple property ownership an attractive and profitable investment, but it is now possible to invest in companies whose business model is based on purchasing a vast number of properties to then rent out.

This rise of financialization of rental housing through private equity firms has been noted to be occurring in major cities such as New York, Berlin, and Toronto among others (Fields & Uffer, 2016; August & Walker, 2017). According to Field and Uffer (2016), private equity firms work in the following manner:

“Investment banks, private firms or other real estate players create and manage real estate private equity funds by collecting money from institutional investors and leveraging credit capital from banks. Funds invest in real estate directly, for example, purchase of housing estates, or indirectly, through shareholding of housing companies” (Linneman, 2004 *op cit* Field & Uffer 2016; 1489).

Further:

“In the corporate sector, private equity funds often implemented cost cutting measures to maximize short-term value because they prioritize high returns over risks” (Evans & Habbard, 2008 *op cit* Fields & Uffer, 2016; 1489).

This business model has proven to have detrimental effects on the quality of housing and increasingly adverse implications for the tenants of the units that are owned or managed by such firms. Research shows that the implementation of such property management models

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<sup>1</sup> Translated from Portuguese: “O negócio – hoje chamado de “*REO-to-rental*” – consiste em comprar casas a preço de banana, investir em sua renovação, alugá-las por um período, aproveitando a alta do mercado dos sem-casa, e esperar um novo ciclo de alta nos preço dos imóveis.”

have led to increased deterioration of housing conditions; management cuts costs through reducing services, repairs and maintenance of entire building blocks all while gradually raising rent and squeezing out low-income tenants (Fields & Uffer, 2016; August & Walker, 2017).

Within the literature a factor that has uniformly appeared, independently of geographical location, as one of the contributing factors for the rise of private equity funds in rental properties has been the disinvestment by the state in social housing and the subsequent deregulating of rental provisions (Fields & Uffer, 2016; August & Walker, 2017). This move to privatize public housing stock in major cities set the stage for large investment firms to purchase entire former public housing towers and develop mechanisms to extract profit from the rents of low income tenants. August & Walker (2017) describe how:

“In Toronto, low-rent apartment buildings are a final frontier for gentrification, remaining as last bastions of affordability amidst landscapes of gentrified retail and low-rise housing (Walks and Maaranen, 2008a). The (re)discovery of apartment buildings as a basis for capital accumulation has changed this reality, as these actors apply resources and sophisticated asset management strategies to upgrade, flip, and gentrify entire buildings. In non-gentrifying areas, meanwhile, financialized landlords squeeze revenues from lower-income tenants in aging concrete tower blocks” (2017; 1).

The description above demonstrates how these firms define their strategy depending on the location of the apartments, and socioeconomic makeup of the neighborhood. These firms have the ability to define the social and socioeconomic configuration of a neighborhood, depending on the rents they charge they can attract particular demographics and simultaneously detract others.

## **VI - Short-term rentals**

Now while these investment firms have a big role in the Buy-to-let market they are not alone. With the development of new technologies and the rise of what has been deemed the “sharing economy” additional mechanism have appeared, one particular platform that has been at the center of great debate is Airbnb. It is a platform that allows individuals to rent out either a room or an entire house or apartment to tourists. It presents itself as a company that

“uniquely leverages technology to economically empower millions of people around the world to unlock and monetize their spaces, passions and talents to become hospitality entrepreneurs”(Airbnb). Here the key word is monetize, in other words commercialize the domestic space and contribute to the financialization of housing. While the original intent of the website is innovative and certainly has multiple positive aspects, one being it turns lodging more accessible to a wider social economic group, who perhaps otherwise would not travel, or as Jefferson-Jones (2014) highlights, it helps homeowners subsidize the burden of owning and maintaining a property by gaining additional earnings through short-term rentals. However, these perks do come at strenuous costs to entire neighborhoods and communities.

For one, platforms that facilitate short-term rentals disproportionately benefit the home-owning class, at the expense of the renting class. It has been argued that the on slew of Airbnb rentals in certain neighborhoods has led to marked rent increases, this has been particularly visible in cities like New York, Los Angeles, Boston, London, Sydney and many more (Lee, 2016; Gurran & Phibbs, 2017; Horn & Merante, 2017; Wachsmuth & Weisler, 2018). Large part of the literature touches upon how the short-term rental market has taken numerous homes off the long-term rental market and this way contributed to rent hikes by reducing supply of housing. Thus heightening the crisis of affordable housing throughout major cities. Now, more specifically to the matter of housing financialization, the development of these peer to peer technologies has created yet another mechanism for the financialization of housing. Platforms such as Airbnb, HomeAway, Booking.com, amongst others, have provided yet another instrument by which investing in residential real estate is ever more profitable.

Further Cocola-Gant (2016) argues that the proliferation of short-term rentals has given rise to a new battlefield of gentrification. A number of authors have presented the point that tourism and gentrification have been co-conspirators “in the production of the post-industrial city and both are the results of the strategies used to bring capital and consumers back to cities (Gotham, 2005; Judd, 1999; Mullins, 1991 *op cit* Cocola-Gant, 2015; 4). Within this line of reasoning the term tourism gentrification, coined by Kevin Fox Gotham (2005), becomes relevant. Gotham explains “that flows of capital in the real estate market combined with the shift to tourism explain gentrification more fully” (Gotham, 2005; 1100). Gotham

(2005) elaborates further making the point that his intent in utilizing the term tourism gentrification is to better explain the transformation of middle-class neighborhoods into swank and upscale areas marked by the proliferation of tourism venues. As the hold that tourism has on cities continues to evolve this term becomes ever more relevant to describing this urban process, and in the case of Lisbon it is particularly poignant. This connection will be further developed later in the text.

While Airbnb and other short-term rental platforms are at the forefront of new technologies contributing to the further financialization of housing. Recently new business models for investment that maintain the concept of housing as an investment at its core have arisen. One recent example of such that recently arrived to Portugal, but that has been functioning in major cities in Spain and Italy for approximately two years now is a company named Housers. Housers advertises itself as a savings and investment platform, individuals can invest in a project with as little as 50 euros, according to their website, they pull funds to finance three types of investments in properties (Housers). One being a development loan, meaning the money invested goes directly towards the development of an existing project; the other being Buy-to-sell meaning that the property is purchased with the aim of remodeling it and then being sold for a profit; and the third being buy-to-let meaning the property will be placed on the rental market. While this platform is quite recent and it is yet to make a substantial impact on the housing market as Airbnb has, it is worth noting that as this start up culture prevails and promotes the so called “sharing economy”, we will continue to see an expansion of mechanisms of housing financialization and of the capitalist system.

## **VII - Conclusion**

As the work of the array of authors above has showcased, the financialization of housing is a global phenomenon. While its implementation has not been linear and each territory has undergone its own distinct transformation, as we saw in the specific cases of the privatization of the public housing stock in Berlin (Wijburg & Aalbers, 2017); the liberalization of public housing model in Singapore (Chau, 2015); the expansion of the mortgage market and its subsequent securitization in the U.S. (Aalbers, 2008, 2009); and the globalization of the housing market by the onset of international investors in Vancouver (Ley,



2017). However, what has been prevalent in most geographies is housing being utilized as a vehicle of investment. It dates back to capital switching to the secondary circuit and has gained various manifestations, be it through the expansion of the mortgage market, the securitization of mortgages, the privatization of public housing stock, the globalization of the housing market, the surge of Real Estate Investment Funds, the development of new technologies that have facilitated the commercialization of the domestic space such as Airbnb; and it is just a matter of time and further technological advancements to dictate what new forms of housing financialization will arise. It has already been made quite evident that numerous geographies have undergone various waves of financialization.

Further the literature has made it evident that housing financialization is one of the many processes that are simultaneously underway in urban settings. Returning full circle to a reference made earlier in the text, Foster and Magdoff (2009) were adamant of the mighty triad - neoliberalism, globalization and financialization - that dictated the global economy. Similarly, these three processes have also directed the role of housing within this global economy. Housing and the multiple facets of its production are being utilized as mechanisms of investments and sources upon which the proliferation of the existent global economy is dependent. Nevertheless, existing literature within the discipline of urban studies has highlighted a new level of complexity within these issues, and has pointed to a series of other social phenomena linked to the matter of housing financialization that are underway. Here I make reference to Paccoud (2016) and his analysis of Buy-to-let gentrification and Gotham's (2005) work on tourism gentrification, both measures that are intrinsically woven with the rising of property values, which aid the process of housing financialization.

We have witnessed over time a series of new and varying methods that have held housing at the center of profit seeking behaviors, and the present day expansion of the buy-to-let market as a source of profit is certainly the most pressing in this day. Further, considering the current technological trends, and the ease in which foreign investors gain access to local markets, the rate at which these actors transform local housing markets is unprecedented and difficult to track. Further with the onset of the sharing economy, new online platforms have further proliferated new mechanisms of housing financialization. The most prevalent in present cities is undoubtedly the rise of short-term rentals. They have completely transformed the rental market, they have acted as agents of reducing the housing

stock and driving up rental prices. In this sense, short term rentals have as Cocola-Gant (2016) put it, become a new battlefield of gentrification. Within this thought frame I would argue that the continual reproduction of short-term rentals in cities has become the new battlefield of housing financialization as well, and more attention should be granted to this topic in future studies. Existing literature does not thoroughly explore the link between housing financialization and short-term rentals, with this study I make an attempt to help fill this gap in the literature.

It is this with framework in mind that I intend to look at the context of Lisbon. My objective is to delve deeper into this issue of short-term rentals and to gain a further understanding of the factors and actors that have allowed them to thrive in the city. As the literature has shown, no process in singular, and many times the development of one is dependent upon the proliferation of another. While the focus of this thesis is the financialization of housing in Lisbon, with a specific emphasis on the short-term rental market; it is important to understand what other processes have preceded it or are currently underway, which have paved the way for the current state of housing financialization in Lisbon. For this reason a more thorough analysis of the history of the housing market in the city is necessary.

### **3. A History of Housing Financialization in Lisbon**

In order to proceed with adequate understanding of the topic at bay, it is pivotal to have a basic comprehension of what the current scenery of the Lisbon real estate market looks like, and to contextualize what about Lisbon's specific history has led to the current state of its housing market. For one, it is important to recognize that as some of the other cities discussed in the literature review, Lisbon too has undergone its own unique and geographically specific waves of housing financialization. However, undoubtedly its most concentrated and socially devastating manifestation has begun since 2012 with the onset of the Structural Adjustment Program put into place by the Troika and the pressured liberalization of the housing market.

This chapter discusses the rise of the construction sector in Lisbon in the 1980s, which was highly fueled by Portugal's entrance into the European Union and the entry of international banks in the country which facilitated the expansion of the mortgage market. Through the promotion of homeownership the state was able to greatly fuel the construction sector upon which its national economy grew dependent and signaling towards an initial wave of housing financialization. Then it takes a further leap back in time to discuss the issue of the city center's degradation and the decades of failed urban rehabilitation attempts (Marques & Madeira, 2010) and the nation wide implementation of strict rent control which has been signaled to be one of the leading causes of the abandonment of the city center. Leading to another section that gives some insight as to how the urban sprawl of the city unfolded.

Following this, the topic of the onset of neoliberal policy in the country is discussed. The argument is presented that the neoliberal project began in Portugal and subsequently in Lisbon since the internationalization of its banking system that was a direct consequence of the country's accession to the European Union, and further yet that this was the mark of the financialization of the national economy as well (Santos, Teles & Serra, 2014). This is followed by a section that presents the extent to which the neoliberal project was furthered in the wake of the Great Financial Crisis (GFC), and how the forced Structural Adjustment Program placed upon Portugal required the liberalization of the rental market, preparing the conditions for another wave of housing financialization to take place.

Lastly the matter of economic recovery is discussed, and how the city council built a model reliant on urban rehabilitation, the attraction of private investment, and the touristification of the city. Various policies to promote the first two at both the central and municipal level are discussed and their role in aiding another wave of housing financialization. Then attention is veered towards the matter of the touristification of Lisbon, this influx of international flows of global tourism into the city has gravely transformed the housing market in historic neighborhoods in the city, and further with the growing onset of short-term rentals in the city the profitability of investing in residential real estate is being maximized, giving rise to the newest battlefront of housing financialization the city is facing.

### **I - An economy driven by housing**

One important historical, and in hindsight paradoxical, factor that needs to be considered is that Portugal and the City of Lisbon have a history of protecting tenants rights, while simultaneously promoting the construction industry and incentivization of the built environment as a means of driving the national economy. Much as Loís, Piñera and Vives (2016 *op cit* Barata-Salgueiro, 2017) argue, Spain as other peripheral European nations opted for the specialization of their national economy in the Secondary circuit of accumulation - that which Harvey referred to as the built environment - of which Portugal has been no exception. Here we are witness to a clear case of capital switching. According to a comparison study performed on data made available by *Instituto Nacional de Estatística* (INE), *Plano Estratégico de Habitação 2008-2013* and *Empresa Pública de Urbanização de Lisboa* (EPUL) the housing construction industry was very dynamic between 1970 and 2001, the increase in lodgings built during those three decades was always greater than 20%; a figure larger than the demand that Portuguese families exerted (Pereira, 2011). The construction companies were building at a rate far higher than the needs of the Portuguese population.

Barata-Salgueiro (1994 *op cit* Barata-Salgueiro, 2017) points out how the real estate boom the country underwent in the 1980s was made possible through the financing of institutional foreign investors who entered the Portuguese market anticipating the country's entry into the European Union. Rodrigues, Santos and Teles (2016 *op cit* Mendes, 2017) further this line of reasoning by arguing "that the construction of the Single Market and

Economic and Monetary Union within the European Union allowed national banks to have access to international capital markets, opening the way for the convergence between the practices of the Portuguese banking sector and the international banking sector” (Mendes, 2017; 486-487).<sup>2</sup> In essence these authors argue that the entrance of Portugal into the European Union led to the overlapping of the finance and construction sectors, and the housing market. Mendes (2017) went on to point out that the finance sector benefited in two ways, for as the Portuguese state promoted home ownership to its citizens by expanding credit, finance reaped the benefit of financing construction firms and thus capturing part of their profits and also extracting interest rates from private and independent home buyers, who relied on mortgage loans to purchase a home.

Here a clear indication of housing financialization can be observed, it lies in similar trend as to what Aalbers (2008, 2009) described regarding the globalization of local mortgage markets and the expansion of credit lines in the US, which is referenced to in the literature review of this thesis.

Now returning to an earlier mentioned observation by Loís, Piñera and Vives (2016 *op cit* Barata-Salgueiro, 2017) regarding peripheral European nations, whose development model focused on the built environment, thus favoring the perpetuation of financial and real estate speculation, and financialization through credit; Barata-Salgueiro (2017) added and highlighted that countries such as Spain and Portugal which followed this pattern of development were the most impacted by the GFC of 2008. The period after the crisis has undoubtedly seen the most rapid rate of housing financialization in Portugal, but before delving deeper into this matter there is another important historical factor that must be considered.

## II - Lisbon's (Sub)Urban Sprawl

Now to briefly backtrack to the 20th century, Portugal was undergoing its own industrial revolution and began experiencing a rural exodus towards the cities, the issue of a

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<sup>2</sup> Translated from Portuguese: *Rodrigues, Santos e Teles (2016) defendem que a construção do Mercado Único e da União Económica e Monetária no seio da União Europeia permitiu à Banca nacional ter acesso aos mercados de capitais internacionais, abrindo caminhos para a convergência entre as práticas do setor bancário português e a banca internacional.*

scarcity of housing became quite rampant as more people moved from the countryside into the city. The government placed into effect a series of symbolic, well intended but ineffective housing policies, which never fully tackled the complete scope of the problem, but did serve to raise an awareness to the matter of urban rehabilitation (Marques & Madeira, 2010). One policy that is worth mentioning for the purpose of this thesis, is the policy of *Rendas Congeladas* (Frozen Rents), which essentially served as a very strict rent control that did not adjust with inflation over time. Variations of this policy were placed into effect by the *Estado Novo* (the 41 year long dictatorship that governed the country) since the 1930s, Lisbon had a version of it since 1943, but after the Carnation Revolution of 1974 the state assumed a housing policy of strongly regulating the housing market (Serra, 2002 *op cit* Marques & Madeira, 2010), and the policy of *Rendas Congeladas* was placed into effect at a national level.

This policy of *Rendas Congeladas* is very relevant because it is considered by many as one of the leading reasons for the lack of conservation and maintenance of buildings in the city centers (Marques & Madeira, 2010, Pereira, 2011, Barata-Salgueiro 2017). It has been observed by one author that while Lisbon had had this policy placed into effect since 1943, it was only after the April 25th Revolution and the exponential inflation rates that accompanied it, that the policy had a true impact on the housing market in the city (Pereira, 2011); some would say that it weakened the rental market and directly attributed to the disinvestment in building maintenance. While the perpetuation of this law into the 21st century was problematic because it contributed to the dilapidation of the city center, from a social stance it strongly protected tenants rights and allowed working class families to continue living in the city center. This lay in stark contrast to tendencies in other major cities throughout the world where processes of gentrification and the pushing out working class families from the city center can be observed as early as the 1960s.

This law is quite central in the discussion of the development of the urban sprawl of Lisbon because it greatly influenced the exodus out of the city center, along with other factors. In the years following the revolution, growing inflation and the freezing of rents led to lack of housing units entering the rental market (EPUL, 2007). This accompanied with a growing influx of thousands of Portuguese nationals living in the ex-African colonies who were forced to return in 1975-76 (Lucinda Fonseca, 1990; Barata-Salgueiro, 1992 *op cit* Mendes, 2008),

high interest rates and limited credit lines, which did not facilitate homeownership, led to the proliferation and construction of “clandestine neighborhoods” in the city’s periphery (EPUL, 2007). This matter was only made worse by the loss of public investment in public housing in the 1980s (Cachado, 2013).

An interesting note worth mentioning regarding the clandestine construction of neighborhoods is that it emerged in the metropolitan area of Lisbon since the late 1950s. They were a consequence of multiple factors. One being the increment of rural migration in response to the increased industrialization of the city and the existing housing stock not providing enough housing for the newly arrived individuals in search of factory work, another was that the prices charged on the legal housing market were too expensive for average workers and hence alternatives were procured (Barata-Salgueiro, 1977). Clandestine neighborhoods were initially created through individual private initiative. Generally an individual would buy a property that was not zoned for residential use and illegally built their home there. If city officials did not crack down on the initial construction, often a subsequent phase of construction would follow and the owner of the property would build additional housing to rent out (Barata-Salgueiro, 1977). Here we lay witness to an early onset of housing financialization, and how in light of the reduced access to housing in the city, the informal housing sector developed a “build-to-let” model of their own. Also it is important to highlight that the city was experiencing a crisis of housing accessibility long before the Carnation revolution and the nation wide implementation of the *Rendas Congeladas*.

As above mentioned this process of illegal construction was greatly heightened with the events of the Carnation Revolution and the return of Portuguese nationals who lived in the newly liberated African colonies, and was furthered in the mid-1980s by the arrival of an increasing number of immigrants from the former African colonies, which are termed as PALOP (Lucinda Fonseca, 1990; Barata Salgueiro, 1992 *op cit* Mendes, 2008). This grave housing situation led the central government to take action and in the 80s the state resorted to promoting and incentivizing homeownership, financing social programs that aimed to build infra-structures in various neighborhoods, and legalizing “clandestine” constructions (EPUL, 2007). In essence the development of the city was focused outwards while the city center was left to decline.

The financing for this sort of development was furthered with the entrance of Portugal to the European Union in 1986, as above mentioned authors (Barata-Salgueiro, 2017, Mendes, 2017) relate, this event was met with a high influx of foreign investment as well as a shift in the finance sector in Portugal. As of the 1990s credit lines were extended and interest rates dropped steadily throughout the decade, in the beginning of the 90s interest rates were about 20% and as of 2002 they stood at about 2% (EPUL, 2007). This increased access to credit lines drove up the local demand for homes and in response to this demand construction of new homes in the suburbs of Lisbon increased as well,. This new wave of construction coupled with a higher investment in infrastructures like railway lines and public transit that facilitated mobility, led more families to opt to live in the outskirts of the city and resulted in the abandonment of thousands of homes in the city center (Pereira, 2011, Barata Salgueiro, 2017).

This exodus out of the city center continued well into the 21st century, according to a report published by Lisbon's city council, the city lost close to 300 thousand residents in the period between 1980 and 2001, and in the decade between 2001 and 2011 the population decreased 3% further (CML, 2011). This mass exit from the city center was attributed to two factors, one being that the price per square meter was far more affordable in the suburbs and the second being that housing in the city center was far too rundown. The grave deterioration of the built environment was greatly attributed to the stagnated rental market. The effects of the *Rendas Congeladas* were evident in this regard, as of 2001 74% of all lease contracts were signed prior to 1990, and 72% had rents below 100€ (CML, Marktest, 2009 *op cit* Pereira, 2011). The year of 1990 is relevant because by law all rental contracts signed before that year were valid for the period of the lease holder's lifetime. This combination of low rents and stark protection of renters' rights had two very contrasting effects, on a social level it greatly protected underprivileged populations and ensured their ability to live in the city center, on an economic and development level it greatly disfavored property holders and limited the profitability of landlordism, thus triggering their disinvestment in property maintenance.

The lack of building maintenance in the city center was so grave that the rate of derelict buildings steadily increased. It was in such a bad state that according to the 2001 Census the municipality of Lisbon had close to 40,000 dilapidated dwellings, which



## Map of Lisbon - by Parish Council

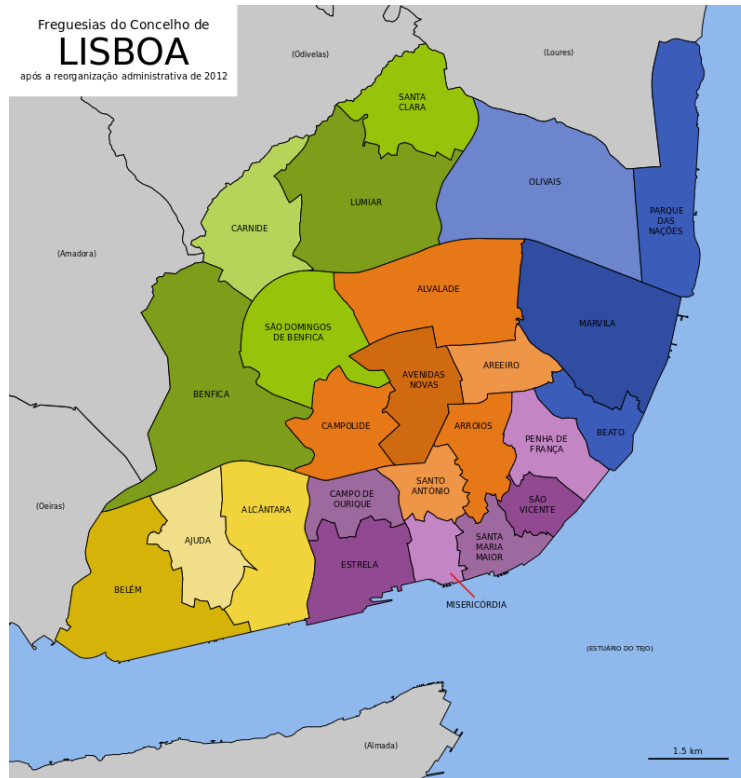


Figure 1

Source: CML

represented 14% of existing housing stock (EPUL, 2007). Further EPUL's study estimated that as of 2007, the year the study was published, there were an additional 20,000 derelict dwellings in the city, totaling 60,000. The study also points out that the highest rates of derelict dwellings were present in the historic center. Signaling to neighborhoods such as Cais do Sodré, located in the parish council of Misericórdia, which had 29% of the existing housing stock vacant, Castelo with 29% vacancy, and the most astonishing statistic in Baixa with 37% vacancy, both neighborhoods are located in the parish council of Santa Maria Maior. While these figures were undoubtedly the most marking, a large part of the historic neighborhoods had a percentage higher than 15% of vacant dwellings (EPUL, 2007).

### III - Neoliberal turn

In light of this severe desertification and degradation of the city center, Lisbon's city council as well as the central government partook in a number of initiatives to promote urban rehabilitation and to incentivize people to inhabit the city center. According to Mendes (2017) the city council and the central government initiated a neoliberal turn in 2004, marking the

creation of urban rehabilitation businesses. The state sought to promote the incentivization of private investment in the rebuilding and beautification of the built environment and as Mendes (2017) points out this shift was clearly marked by the implementation of two laws, the first being Decree-law no. 104, of May 7, 2004, which created the Exceptional Legal Regime for the Urban Rehabilitation of Historical Zones and Critical Areas for Urban Recuperation and Reconversion.<sup>3</sup> The second was approved five years later, Decree-law no. 307, of October 23, 2009, which “assumed urban rehabilitation as an indispensable component of urban policy and housing policy in Portugal, extending the regime of fiscal incentives to private investment in the urban rehabilitation market”<sup>4</sup> (Mendes, 2017; 495).

The implementation of these laws were a clear shift toward neoliberal policy in the city by the central government. Hansen (2003) had previously expressed a similar sentiment by pointing out that with the coming to power of Durão Barroso in 2002, his center-right party had pushed for “fiscal restraint,” which manifested in the sale of state property and a cut in public spending, a clear play from the neoliberal handbook. Hansen (2003) did, however, highlight a shift in urban policy had already occurred at a more localized level. He made reference to the planning of EXPO 98 in Lisbon and the development of a private-public partnership, and how the development of EXPO marked “changes in the priorities of public budgets that are increasingly redirected from social objectives to investments in the built environment and the restricting of the labor market” (Swyngedouw, Moulaert & Rodrigues, 2002; 543 *op cit* Hansen, 2003). Here the key term for the purpose of this study being the “built environment.” While a large part of investment had already been geared towards the built environment in Portugal, the development of a private-public partnership for the development of EXPO marked a clear shift in policy and served as a model for future urban rehabilitation policy.

Baptista (2013) gave body to this point through her analysis of the Polis Program, a “state led urban rehabilitation and environmental improvement program” placed into effect by the Portuguese government in 2000. She pointed out how “the program rode on the success

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<sup>3</sup> *Decreto-lei no 104, de 7 de maio de 2004, Regime Jurídico Excepcional de Reabilitação Urbana de Zonas Históricas e de Áreas Críticas de Recuperação e Reconversão Urbanística*

<sup>4</sup> Translated from Portuguese: *decreto-lei no 307, de 23 de outubro de 2009, assumiu a reabilitação urbana como uma componente indispensável da política de cidades e da política de habitação em Portugal, prolongando o regime de incentivos fiscais ao investimento privado no mercado da reabilitação urbana.*

wave of Lisbon's urban regeneration for the world fair EXPO'98" considered by many a classic neoliberal case of urbanization" (Baptista, 2013; 597). And furthered that "policy-makers believed that, if successfully replicated, the EXPO model would overcome the cumbersome paralysis of planning bureaucracy, stimulate a new governance culture within municipalities, and assure the effective delivery of the program by 2006" (Baptista, 2013; 598-599). Baptista furthered her analysis of the program by stating it was not strictly a neoliberal approach to governance and that certain elements of the program lied in contradiction with classic neoliberal principles, such as its stated intent of avoiding urban speculation and the policy-makers clear stance on their position that public institutions should lead the rehabilitation of public space. Baptista argued that Portugal was not experiencing a linear implementation of Neoliberalism, but more so a mixture of various processes.

This matter of a non-linear implementation of neoliberal policy and the promotion of urban rehabilitation in Lisbon is highly relevant to the topic of housing financialization, because as it will be better developed later in the text this combination of processes was central to the unfolding of the current state of the residential real estate market in the city.

As Baptista (2013) points out, the Polis program rode an unclear and contradictory line of promoting neoliberal policies while simultaneously attempting to further the welfare state, in essence multiple processes were underway. Within this line of reasoning that different processes were simultaneously in motion. Santos, Teles and Serra (2014) argue that the financialization of the Portuguese economy and society was underway since the 1980s and corresponded with the country's entrance to the European Union, further the subsequent privatization of the banking system, abolition of capital controls and deregulation of the financial system, clear neoliberal policies, gradually paved the way for the growing level of debt Portuguese households incurred. As previously mentioned in the text the state took a position of promoting and facilitating homeownership through fiscal benefits and low interest rates, having the direct result of incentivizing the construction industry and creating an economy highly dependent on the built environment.

Santos, Teles and Serra (2014) further their point by stating that the intrinsic intertwining of the finance sector and housing in Portugal went further than the over-indebtedness of Portuguese families and companies. They point out how even after the

economic stagnation experienced in the 2000s, more specifically after 2002 when the government ended fiscal incentives to promote homeownership, new actors arose such as real estate investment funds, and new finance mechanisms were implemented such as mortgage securitization. The authors highlight how the expansion of the financialization process allowed banks to capture new capitals, and permitted the perpetuation of the business model created by the banking system. Here it becomes evident that Portugal underwent another wave of housing financialization, where new mechanisms are created to ensure the perpetuation of an economy dependent on the housing sector.

The surge of real estate investment funds in Portugal should not be made light of. Santos, Teles and Serra pointed out how “real estate investment funds appeared to emerge as a way for banks to manage their very extended balance sheets in the housing and construction sectors, thus creating a source of liquidity and asset turnover that is favorable to bank’s profitability”<sup>5</sup> (2014; 50). Hence it is no surprise that the largest funds belong to the largest domestic banks, for instance Interfundos belongs to BCP, Fundger is controlled by Caixa Geral de Depositos, the largest public bank (Santos *et al.*, 2014). The state also played a crucial role in stimulating the expansion of these funds, as of 2002 they have benefited from a series of tax benefits which have heightened their profitability and ensured their growth (Santos *et al.*, 2014). This is made increasingly evident when we look at the progression of the number of funds there are in the country, in 1996 there were 48 and as of 2016 there are 242, with the largest surge in growth being in the period between 2005 and 2008 (Lestegás, 2016 *op cit* Barata Salgueiro, 2017). With this growing presence institutional investors undoubtedly have a heavy hand in the workings of the housing market.

Now returning to the matter expanding financial markets in Portugal, in the beginning of the 21st century Portugal followed in suit with the global financial market of easy credit lines. By the end of 2007 Portuguese households collectively held a debt that represented 129% of available income, and as of July of 2008, 49.5% of Portuguese household held a mortgage (Guerra, 2011). As the repercussions of the Subprime Mortgage Crisis began to ripple and reached Portugal, Portuguese household were being faced with the severe

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<sup>5</sup> Translated from Portuguese: *Os fundos de investimento imobiliário parecem, pois, surgir como uma forma de a banca poder gerir os seus muito estendidos balanços no sector da habitação e construção, possibilitando uma fonte de liquidez e de rotação de ativos favorável à rentabilidade destes últimos.*

predicament of depreciating home values and the growing incapacity to pay their mortgages: as of 2011, 12,280 families were defaulting on their home loans, which was a steep hike from the same figure for 2010 which stood at a bit over 2000 families (Guerra, 2011).

While the high rates of debt seen in 2007 were also a reflection of an increased consumer culture based on credit and the acquisition of second homes, the vast majority of the debt was a result of primary home mortgages. However, unlike in the United States where Subprime lenders targeted people from all socioeconomic backgrounds, from low income and underprivileged communities to high income families with high credit scores, the over lending in Portugal was directed towards the middle and upper-middle classes, who had a higher purchasing power and a greater guarantee of financial solvency (Santos *et al* 2014). Here Santos, Teles and Serra (2014) map out how through the implementation of neoliberal policy in the Portuguese banking and financial system the financialization of housing proceeded, yet with its own particularities that deviated from the countries which were at the center of the Subprime Mortgage Crisis.

Here we lay witness to the relevance of the process of neoliberalization, first at the central government level and the repercussions it comes to have at the local level. To return to Mendes point that city had taken a neoliberal turn since 2004, it is clear that the process of neoliberalization had initiated since the 80s, however, Mendes does raise a valid point for there being a much more stark and overt exemplification of an neoliberal urban policy in the rehabilitation of the built environment in the city as of 2004. Also it is worth acknowledging that other authors have noted that the neoliberal project was taken further post crisis (Tulumello, 2015). Now while the implementation of neoliberal policy is at the base of the financialization of housing in Lisbon, it is important to acknowledge that it is not the only process at hand, multiple geographically specific and historical events, and the upsurge of other processes such as gentrification, austerity measures, liberalization, and touristification have played an active role in the current state of housing in the city.

#### **IV - Effects of bailout on housing**

In the wake of the financial crisis austerity measures were placed into effect by the central government in 2010 and were “deployed in full scale since 2011 after the external

bailout by the Troika,” which was made up of the European Commission, the European Central Bank, and the International Monetary Fund (Tulumello, 2015; 5). The Troika was infamous in Portugal for imposing austerity measures and furthering the neoliberal project in Portugal. Clear examples of a neoliberal agenda are evident in the document published by the European Commission (2011) entitled “The Economic Adjustment Programme for Portugal,” in which they imposed such measures as: the privatization of state held companies (such as EDP, GALP, Correios de Portugal, to name a few), the liberalization of the labor market, which translated to reducing job protection and unemployment benefits, and more specifically to the purpose of this thesis, the liberalization of the housing market, which they coined as “reviving the housing market.”

63. Reviving the dysfunctional rental market will improve households' access to housing and foster labour mobility. Rental regulation is cumbersome, tenant protection is very strong and eviction procedures difficult and slow, hampering the functioning of the rental market. A large number of apartments in city centres remain empty, causing a substantial waste of capital as well as additional costs in terms of welfare, equity, transport, and environment. The lack of a rental market hampers geographical labour mobility and contributes to a high structural unemployment rate. This situation, as well as tax incentives, has encouraged house purchases and the building up of household indebtedness.

64. The reform programme addresses the many distortions currently in place while safeguarding the most vulnerable social groups. The strategy aims at easing rental control, strengthening ownership rights, simplifying judicial procedures and construction permits and modernising property taxes. Some of the changes will be phased in only gradually to reduce social disruptions. This is notably the case for adjustments of rents which were not allowed to increase for many decades and where contracts can be passed on to the relatives of the current renters. Others are to be introduced relatively swiftly, like the quickening of judicial procedures in the case of contract breaches and the simplification of renovation procedures. In addition, property taxation will also be made more equitable and less distortive, in particular by accelerating the convergence of valuations for tax purposes towards market prices. Similarly, the preferential treatment of housing credit in personal income taxation will be phased out (European Commission, 2011; 26-27).

The transformation of the rental market was initiated through an amendment to the New Urban Rental Regime - Law No. 6/2006<sup>6</sup> (NRAU) that was placed into effect in 2012. In effect this new amendment liberalized the rental market and allowed landlords to renegotiate old rental contracts, phased out and eventually eliminated rent control and also facilitated the termination of housing contracts (Farha, 2017). In essence the *Rendas Congeladas* were unfrozen, and while the European Commission claimed that “changes will be phased out to reduce social disruptions,” in reality it created the conditions for tenants to be forced out of their homes and thus facilitating the inflow of capital investment into the city centers. As Mendes (2017) points out the NRAU allowed for rents to be hiked up to prices that many tenants could not afford, largely affecting low income families that lived in the city centers, these areas were prime investment opportunities for real estate capital because as they were already greatly devalued due to decades of disrepair, allowing investors to grasp the existing rent gap. This law and a combination of other measures taken by the central and city governments facilitated the onset of a new wave of housing financialization in Lisbon.

The matter of rent gap is highly relevant to the process of housing financialization. In order to better understand the current wave of financialization occurring in Lisbon a further explanation of this theory is necessary. While the intent of the theory was to give an economic explanation for the process of gentrification, as we have seen in the literature – housing being used as a vehicle of investment in the city center has been highly dependent on rising property values and gentrification is an inherent factor in that. Neil Smith, geographer and academic, arrived to this theory of rent gap by questioning “a theory of gentrification must therefore explain why some neighborhoods are profitable to redevelop while others are not. What are the conditions of profitability?” (Smith, 1979; 540)

The concept is founded upon Marxist conception of capitalism (Mendes, 2016), and Smith builds upon Marx’s conceptualization of the commodification of land. Smith states that “in a capitalist economy, land and the improvements built onto it become commodities” (Smith, 1979; 541). From here he derives the separation between the value of the land, ground rent, and the built improvements that can be made on the land; he points out that the constructions on the land increase the ground rent that can be demanded by

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<sup>6</sup> Lei n.o 6/2006 Novo Regime do Arrendamento Urbano (NRAU)

landlords. However, Smith (1979) also highlights that the land does not require any upkeep to maintain its value, while the built improvements on the land do deteriorate, and its level of maintenance or deterioration affects the price of ground rent. In essence what the author highlights here is the distinct roles that land and building structures play in dictating property value, a stark differentiation between the value of the land and the value of the property that stands on it.

Smith (1979) also relies upon Harvey's theory of capital switching to build the foundation for his theory, he points to the reliance on the secondary circuit, the built environment, as a place for capital investment when economic growth in the industrial sector is "hindered." He argues that this facet of the economy is crucial to understanding how the ground rent of a space plays a hand in the development of a city. Further, Smith (1979) points to the suburbanization experienced in cities in the U.S. during the 20th century as a exemplification of this concept, and how "spatial expansion rather than expansion *in situ* was the response to the continual need for capital accumulation (Smith, 1979; 541). The author explains how capital moves out because land value in the city center is too high and larger profit margins exist in the surrounding land. As capital is pushed out, long term investments occur in the suburbs, and a steady appreciation of suburban land takes place, a process that takes decades. Subsequently as land value in the suburbs goes up the building stock in the city center begins to deteriorate and land value begins to decrease. Smith (1979) points out that this is not a natural process, but more so that the deterioration or upkeep of a neighborhood is dictated by public and private investment trends, and that the depreciation of inner-city neighborhoods is the logical outcome of the socially constructed land and housing markets by which our economic system abides to. Mendes (2016) highlighted the intentionality behind the deterioration of central city neighborhoods, and added that "the creative destruction of capital that accompanies a capitalist crisis always prepares the ground for a new phase of capitalist development"<sup>7</sup> (Harvey, 2001, 2006, 2010, 2013, 2014 *op cit* Mendes, 2016; 497). Here pointing to the cyclical tendencies of the market, and pointing to the inevitability of a re-appreciation of city centers.

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<sup>7</sup> Translated from Portuguese: *A destruição criativa de capital que acompanha as crises capitalistas sempre prepara terreno para uma nova fase de desenvolvimento capitalista* (Harvey, 2001, 2006, 2010, 2013, 2014).



Furthermore, Smith argues that “this depreciation produces the objective economic conditions that make capital *revaluation* (gentrification) a rational market response” (Smith, 1979; 545). And this is where his rent gap theory comes into play. He describes the rent gap as “the disparity between the potential ground rent level and the actual ground rent capitalized under the present land use” (Smith, 1979; 545). In other words the value of the land is far below its potential land value. Smith (1987) indicates that rent gap is crucial to understanding the gentrification process in central neighborhoods, but he also stresses that the incidence of rent gap in an area does not guarantee that a gentrification process will take place. More so he argues that in order for gentrification to take place in a neighborhood, a wide enough rent gap that promises high returns on investment must exist there.

This framework of rent gap is highly relevant to explaining the process of gentrification that is taking place in Lisbon’s central neighborhoods, particularly after the NRAU was placed into effect. As it has been already presented in the text, Lisbon’s city center fell into a heavy state of disrepair and deterioration, central neighborhoods were increasingly abandoned and residents opted to live in suburban neighborhoods that had a newer building stock and more affordable prices, leaving the center to be overrun by vacant and derelict buildings, a shrinking population, and decreasing land values. One of the primary policies that has been blamed for this process was the *Rendas Congeladas*, for it limited the ground rent that could be demanded by landlords and led to a growing disinvestment in the building stock. A clear exemplification of Smith’s rent gap was presented here and the implementation of the NRAU gave a green light for landlords and investors to capitalize on it. Mendes (2016) draws attention to the case that the NRAU serves as a vehicle to phase out old housing leases and facilitates evictions. Through the liberalization of the rental market, the margin for profitability grew, and consequently capital followed.

A more demarcated surge of gentrification began to reveal itself in the historical districts of the city, and while the implementation of the new rental law was one of many factors that contributed to this process’ proliferation, it cannot be ignored that this new law released the market for the existing rent gap to be captured.

## V - State initiatives to attract private investment.

As it is mentioned above, the Troika imposed a series of neoliberal policies through a structural adjustment program, and as multiple authors have stated this process helped speed up the neoliberal project in Lisbon (Tulumello , 2015; Barata Salgueiro, 2017; Mendes, 2017). In an attempt to attract the capital flow that this intended model so desperately needs the central government enacted some measures to attract private investment, such as promoting their own foreign investor program.

The Golden Visa program, legally known as *Autorização de Residência para Investimento – Lei 29/2012, de 9 de Agosto. Republicação da Lei n.º 25/2007, de 4 de Julho* – was reinstated in 2012, and went into effect on October 8<sup>th</sup> of that same year. The law indicated that in order for a foreign national of a country outside the EU to be eligible to obtain Portuguese residency they must invest in the country in one of three forms:

1) a minimum capital transfer of 1 million euros; 2) the creation of at least 10 jobs (it should be noted that the original version of the law required the creation of 30 jobs); 3) the acquisition of real estate property with a minimum value of 500,000 euros (SEF).

As the program gained popularity additional investment models were added, one being directly directed towards rehabilitation:

4) The purchase of real estate property, with construction dating back more than 30 years or located in urban regeneration areas, for refurbishing, for a total value equal to or above 350 thousand Euros (SEF).

An additional program the central government placed into effect, that could be considered a second foreign investor program, as it attracts investors within Europe, is the Tax Regime of Non Habitual Resident Decree – Law No. 249/2009<sup>8</sup>. According to a publication of the *Autoridade Tributária e Aduaneira (AT)*, the Portuguese tax agency, this investment tax code was put into effect to attract “non-resident professionals qualified for activities with high added value intellectual or industrial propriety or knowhow, as well as beneficiaries of pension schemes granted abroad” (AT, 2016). This law essentially gives non-habitual resident status to individuals that exercise one of the qualifying professions listed by the AT, non-habitual resident status translates into a lower and more favorable tax regime.

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<sup>8</sup> Decreto-Lei n.o 249/2009 Regime Fiscal para o Residente Não Habitual

This law has also largely contributed to increased investment in the Portuguese real estate market as it has attracted many new residents.

In response to the crisis the city council also assumed the position of being the facilitators of attracting private capital investment to the city, particularly for the purpose of rehabilitation. According to Tulumello “a strategic charter of schemes for stimulating private intervention was thus approved. The strategy is grounded on several typologies of public intervention as a way to stimulate private investment: text analysis emphasizes public works and investments in public spaces and services, leasehold subsidies, and the role of the municipality in speeding up building permission procedures” (2015; 6). Here we see a series of plans of action that the city governance placed into effect to draw capital to the Lisbon.

The city council of Lisbon took numerous steps to encourage private investment in the city center, particularly in the post crisis city, in which the urban policy of regeneration and rehabilitation has been directed towards attracting private investment (Mendes, 2013, 2014, 2017; Tulumello, 2015; Barata Salgueiro, 2017). Tulumello states that “urban regeneration shapes the strategy of the town master plan, launched in 2008 and approved in 2012, called the ‘3 Rs plan’: reuse, refurbish, regenerate (*reutilizar; reabilitar; regenerar*)” (Tulumello, 2015, 6). This relationship between urban rehabilitation and private investment has been made brazenly obvious. In a document published by the city council entitled Lisbon’s Strategy for Urban Rehabilitation 2011/2024<sup>9</sup>, the city council makes it clear that their intent is to attract private investment:

A new strategy to reverse the vicious cycle the degradation of private buildings is to make investment in rehabilitation attractive, which requires a concerted effort between the government, the city council and developers (CML, 2011; 10).<sup>10</sup>

This point is stressed further in the text:

The outlined strategy is based on the assumption that financial resources have to come from several sources, but mainly from private investment. In order to do so, rehabilitation should be viewed as being as interesting and safe as any other investment, and small promoters who

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<sup>9</sup> *Estratégia de Reabilitação Urbana de Lisboa 2011-2024*

<sup>10</sup> Translated from Portuguese: *Uma nova estratégia para inverter o ciclo vicioso da degradação do edificado privado passa por tornar o investimento na reabilitação atractivo, o que exige um esforço conjugado entre Governo, Autarquia e promotores.*

build in the surrounding counties and the small investors who purchase one or more units to rent out should be mobilized (CML, 2011; 11).<sup>11</sup>

Here we see the city council's undisguised objective of placing the refurbishment of the city's building stock in the hands of independent investors.

It was within this line of reasoning that the city council put into effect a series of policy initiatives to promote private investment, to this day the city council lists distinct programs to incentivize urban rehabilitation on their website. Such as the program *Reabilita Primeiro Paga Depois* (Rehabilitate First Pay Later). This program aimed to:

- a) Encourage the economy, by generating diversified investment in the urban rehabilitation market;
- b) Boost the construction sector, which is fundamental for the maintenance and creation of new jobs;
- c) Support small and medium sized investors, by allowing them to defer payment of the price of the property until the rehabilitation process is complete;
- d) To promote the rehabilitation of municipal assets that are derelict and in a poor state of conservation, without utilizing public resources and increasing the city's debt (CML1)<sup>12</sup>.

By this we can see how the aim in rehabilitation was greater than refurbishing the dilapidated buildings in the city center, but to also promote economic recovery through a re-stimulated construction sector.

The city council has furthered this attempt to promote the construction sector and building rehabilitation through the program RE9 - *9 vantagens para reabilitar em Lisboa*, which is a series of fiscal incentives. One being a process that exempts homebuyers from paying the IMT<sup>13</sup>, which is a city tax on the transaction of purchasing a property. This city program allows recent property owners to forgo paying the IMT, which amounts to thousands of euros, if they refurbish properties that lie within areas of urban rehabilitation (CML, 2019). Another

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<sup>11</sup> Translated from Portuguese: *A estratégia que se delineou tem como pressuposto de que os meios financeiros têm que assentar em várias origens mas, principalmente, no investimento privado. Para tanto, há que tornar a reabilitação um investimento tão interessante e seguro como qualquer outro, e mobilizar o pequeno promotor que constrói nos concelhos limítrofes e o pequeno aforrador que adquire uma ou mais fracções para arrendamento.*

<sup>12</sup> Translated from Portuguese: a) *Incentivar a economia, gerando investimento diversificado no mercado da reabilitação urbana;* b) *Dinamizar o setor da construção, fundamental para a manutenção e criação de novos postos de trabalho;* c) *Apoiar os pequenos e médios investidores, permitindo diferir o pagamento do preço do imóvel para o final da operação de reabilitação;* d) *Promover a reabilitação de património municipal devoluto e em mau estado de conservação, sem recurso a capitais próprios nem aumento do endividamento;*

<sup>13</sup> *Imposto Municipal sobre as Transmissões Onerosas de Imóveis*

incentive is being exempt of paying IMI,<sup>14</sup> which is the city council property tax, for a period of five years if the apartment is refurbished. These are just two examples amongst many more listed on the cite.

Beyond initiatives that focused on housing and building stock rehabilitation, the city council also took on initiatives to rehabilitate neighborhoods. Programs aimed at rehabilitating public space in neighborhoods, such as *Uma praça em cada Bairro* (A square for every neighborhood), which aimed at remodeling public spaces to ensure the existence of central meeting point for members of the local community to gather. This measure in effect had the objective of creating active citizenship through the repurposing of public space (Barata-Salgueiro, 2017). While this program did have the positive effect of beautifying public space and granting a collective outdoor space for all central neighborhoods, it was also an exemplification of public funds being utilized to help boost property values. A more critical reading one could have of this initiative is that it served as a bastion of gentrification; for it helped initiate the process of beautifying deteriorating neighborhoods, turning them into up and coming neighborhoods, resulting in the appreciation of property values, and transforming these neighborhoods into attractive locations for investment. While it can be widely recognized that initiatives such as this one can be truly enriching for neighborhoods, one cannot help but question its effects when it was implemented without, the city council having offered any sort of safety social nets to tenants who were in danger of being displaced. The coupling of city wide beautification programs with the implementation of the NRAU leave one to wonder who the measures were truly meant to benefit.

Although private investment in real estate and rehabilitation have been strongly linked, particularly by central and city governments, in an attempt to promote economic recovery. This was not the only process that was incentivized by the state. Tourism was a mechanism that was widely promoted to boost the economy after the crisis as well.

## **VI - The Touristification of Lisbon**

Some have described tourism and gentrification as being co-producers in the creation of the neoliberal city, specifically when the processes of urban regeneration that are being put

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<sup>14</sup> *Imposto Municipal Sobre Imóveis*

into effect in city centers are analyzed (Gravari-Barbas & Guinand, 2017 *op cit* Barata Salgueiro, 2017). In the case of Lisbon the promotion and incentivization of tourism proved to be another policy objective of both the central and municipal governments. The housing market in Lisbon fell under heavy pressure by the touristification of the city and the subsequent rehabilitation policies that accompanied it. As Barata Salgueiro pointed out “the emergence of a new demand for investment and the growth of tourism represented opportunities for the rehabilitation of central areas through public and, above all, private investments” (Barata Salgueiro, 2017; 12).<sup>15</sup> This combination of a push to attract global flows of tourism and surge of private investment has had dramatic effects on the social and built landscape of Lisbon. As Mendes (2016) points out, the process of tourism gentrification has had a dominant role in present development of the city. He described the process as following:

[W]e understand “Tourism Gentrification” as the transformation of popular and working class neighborhoods of the inner city in[to] consumption places, gaining markedly new middle classes and exclusively [directed to the proliferation of entertainment] and tourism sites, so that recreation, leisure or lodging functions begin to gradually replace the [traditional] residential and commercial functions, emptying the neighborhoods of their original population (Mendes, 2016; 35).

Here Mendes provides a clear indication of how tourism can be utilized to transform a city landscape, both physically and socially.

It should be noted that tourism had been a sector that the central government had been directing the country towards since before the crisis, as of 2004 tourism represented 11% of the country’s GDP (MEI, 2007), and there was a clear objective of furthering this sector in the country. According to a study presented in 2007 by the Ministry of Economy and Innovation Lisbon was in the running to compete with major tourism destinations cities such as Barcelona and Prague (MEI, 2007). So tourism was not a sudden solution sought after the crisis, it was a process that was already in motion and that was accelerated after the financial crisis. The city of Lisbon has undergone substantial increase in tourism in the years following the crisis. As the the chart (figure 2) below shows there has been a continual growth in tourist

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<sup>15</sup> Translated from Portuguese: *O surgimento de novas procuras para investimento e o crescimento do turismo representaram oportunidades para a reabilitação das áreas centrais por meio de investimentos públicos e, principalmente, privados.*

visiting the city since 2010, with an accentuated increase since 2014.

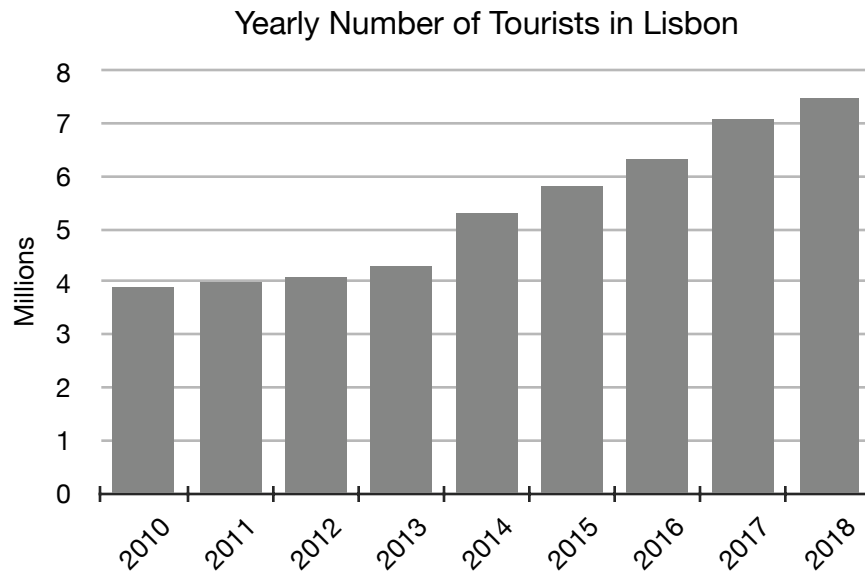


Figure 2

Data source: TravelBI by Turismo de Portugal

Now taking into consideration this boom in tourism and Mendes' (2016) analysis of a process of tourism gentrification taking place in the city, it is difficult to ignore that there is a clear connection between the upsurge in visitors the city has had and the inflow of private investment directed towards building rehabilitation with the end of tourism activity. Many of the proponents for the expansion of tourism argue that it has a positive impact in the city because it creates jobs and new business opportunities, as well as ensuring the rehabilitation of the city center, which the central and city government did not have the means to do so. "Lestegás (2016) considers that the biggest beneficiaries have been investment funds and activities related to the exploration of mass tourism, unlike most citizens who have seen their quality of life diminish, some were left without a home, do not have the means to pay the rent of rehabilitated apartments, they feel strange in a place [they once knew] and have been pushed farther away"<sup>16</sup> (Barata Salgueiro, 2017; 21). Undoubtedly the surge of tourism and the private investment that has accompanied it has had controversial effects on the city, and

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<sup>16</sup> Translated from Portuguese: *Lestegás considera que os maiores beneficiados terão sido os Fundos de Investimento e as actividades ligadas à exploração do turismo de massas, ao contrário da maioria dos cidadãos que viram diminuir a sua qualidade de vida, alguns dos quais ficaram sem casa, não têm acesso às rendas praticadas nas casas rehabilitadas, sentem-se estranhos no lugar e foram afastados para mais longe.*

has certainly pitted the interest of residents versus the interests of the tourism sector and its agents.

One of the avenues that private capital has been directed towards is building refurbishment for the objective of the short-term rental market. The perceived high profitability of this business model has had significant effects on the housing market in the city. As discussed earlier in the literature review of this thesis, the onset of short-term rental apartments has resulted in the appreciation of property values and has driven up the price of rent in central neighborhoods of an array of large cities (Lee, 2016; Gurran & Phibbs, 2017; Horn & Merante, 2017; Wachsmuth & Weisler, 2018). Lisbon has been no exception to this trend, and the central historic neighborhoods have been the most affected. The chairman of the parish council of Santa Maria Maior, one of the neighborhoods most gravely affected by the onset of short-term rentals, Miguel Coelho has been one of the public figures most outspoken about evictions that his area of the city has experienced, and which he correlates directly to the expansion of short-term rentals, or as they are referred to in Portuguese, *Alojamento Local* (AL) (Moreira, 2018; Ferro, 2019). It should be noted that according to a article published in the newspaper *Diário de Notícias*, Santa Maria Maior has the highest concentration of short term rentals in the city, and since 2013 it has lost 20% of its voting population, attributed to the onset of evictions due to the larger profitability of the short-term rental market (Ferro, 2019). The irony in the fact that a city council that implemented policies to revitalize the city center and attract inhabitants back to the center has effectively pushed out the few original residents of one of the most iconic Lisbon neighborhoods cannot be ignored.

It is within this focalized observation of the occurrences of the parish council of Santa Maria Maior, that I re-reference the work of Cocola-Gant (2016) in raising his argument once more, that short-term rentals are the new battlefield of gentrification. The proliferation of short-term rentals have given rise to a new mechanism of displacement of original inhabitants, and further have facilitated the commercialization of the domestic space, serving as one of the most recent mechanisms of housing financialization. It is this facet of housing financialization that this study aims to focus its attention to, looking at how this recent wave of private investment in Lisbon has affected the development of short-term rentals in the city.



## VII - Conclusion

Through out this chapter the argument that Lisbon has undergone various waves of housing financialization has been presented. Beginning with the entrance of Portugal to the European Union and the influx of foreign investment in its banking system, which essentially served as a way to expand easy credit lines and aided and incentivized home ownership. In this process we began to witness the entrance of the before mentioned mighty triad - neoliberalism, globalization and financialization (Foster & Magdoff, 2009) into the Portuguese economic system. Here we see how multiple phenomena are intertwined and help mold the path for a further manifestation of housing financialization at a later point. Also in the period of the early 2000s, as the construction industry was letting up, the implementation of mortgage securitization and the entrance of Real Estate Investment Funds demonstrated the markets adaptability to help perpetuate the financialization of housing.

As we observe the period after the crisis, circa post 2012, is when a more pronounced manifestation of housing financialization can be observed. Lisbon's housing market in the city center had been demarcated by stagnation, high tenant rights and a steady rate of building dilapidation, greatly attributed to the afore mentioned *rendas congeladas*. The period after the crisis was met with the implementation of a series of neoliberal policies, most notably for the purpose of this study, the liberalization of the rental market. This process, accompanied with a series of state led initiatives to promote the inflow of international capital flows accelerated the entrances of private, and often time, foreign investors into the housing market. This along with a high rate of derelict building stock, low property values, and additional state policies to promote building rehabilitation provided the provisions for a classic case of gentrification in the central neighborhoods of the city.

This would be text book case of gentrification, was heightened and expedited with the parallel heavy rush of touristification that flooded the city. With the growth of the tourism sector in the city, coupled with the emergence of new technologies and the onset of the so called "sharing economy," a new business opportunity related to housing arose. I am referring to the emergence of short-term rentals through websites such as Airbnb, which is the most prevalent, but others, such as Booking and HomeAway as well. Here we are currently witnessing the most recent wave of housing financialization in the city, where homes are being

removed from the traditional long-term rental market and being directed towards the short-term rental market, prioritizing the needs of tourists over local residents.

## 4. Methodology

The intention of this study is to analyze the link between the financialization of housing and the short-term rental market, hence my principal aim is to examine if short-term rentals can be considered a new frontier of housing financialization in Lisbon. My objectives in complementing this analysis is to explore whether short-term rentals channel investment in residential real estate and to understand the benefits that investors gain from participating in the short-term sector. The literature on this subject in Lisbon is limited, for the phenomenon is recent and is a process in motion. However, this being said it is rapidly expanding, and it is widely acknowledged that the city is being engulfed in it.

“*Alojamento local*” (AL) is a hot topic, it is a common topic of debate among Lisbon residents, and opinions of the effect of this phenomenon varies depending on who you speak to. While local “*conversa de café*,” the Portuguese expression referring to informal coffee shop chat, are often critical of short-term rentals. ALs are often spoken about with scorn and the growing incidence of them are often related to the growing arrival of foreigners in the city. This is by no means an all englobing depiction of public opinion, nor does it aid in understanding the full effects of the surge of short-term rentals in the city. Being conscious that as a resident of the city I am inherently biased, this has led me to take great care and consideration in the design of my project. Instead of falling into the trap of being guided by public chatter and the overarching feeling of discontent that many local residents express, I sought out to explore the role of short-term rentals in shaping the housing market.

I took into consideration that this topic has been largely unexplored and sought to take on an exploratory approach. Upon considering that the goal of this project is to understand the flow of private investment that is entering the residential real estate market, with a specific emphasis on the short term rental market I have opted for an interview model of data collection. I opted for this model, as opposed to a survey with questionnaires, because with closed ended questions the scope of the interviewee’s answers would be limited. As Flowerdew and Martin (2005) explain an interview that is structured as a dialogue allows the interviewee to guide the conversation by their specific areas of expertise. Further this approach allows the possibility for the respondents to bring up issues that the interviewer

might not have otherwise thought of (Silverman, 1993 *op cit* Flowerdew & Martin, 2005). By opting for a qualitative interview approach, I made a choice that my focus was on the quality of the data as opposed to the quantity (O'reilly, 2004). In line with this option, I opted to carry out in-depth interviews which provided me insight into the expertise of a number of individuals whose profession is related to real estate investment connected to the short-term rental market, and whose knowledge of the subject would help guide and further my research.

By treating the interview as a dialogue, and often allowing the interviewees to guide the content of the conversation throughout the interview process this allowed me to gain a broader scope of the topic at hand. While some interviewees preferred to speak about the attractiveness of the residential real estate market as a place of investment, others zeroed in on specificities of the short-term rental sector, for instances one person interview offered a lot of insight into the operations aspect of their business, while others spoke more specifically about their clients, meaning both the property owner and the guests. This structure of data collection, often results in “rambling” by the study subject, which when guided correctly works greatly to the researcher’s advantage. For as Bryman highlights “in the unstructured interview a phenomenon like rambling can be viewed as providing information because it reveals something about the interviewee’s concerns” (2004; 47). Having access to the interviewees’ concerns allowed me to construct an array of subtopics within the greater topic and allowed me to more fully answer my objectives for it provided me with facets of the subject matter that I would have never otherwise considered or thought to ask about.

Having a consciousness of my inherent bias, formed from my experience living in the city and having established my life in the city of Lisbon before this surge of short-term rentals had manifested itself in such a pronounced manner, I opted for a humanistic approach. By humanistic I borrow Flowerdew and Martin’s (2005) explanation stating that:

there is no such things as objectivity in social sciences research. Rather they argue that all research work is explicitly or implicitly informed by the experiences, aims and interpretations of the researcher who designed the questionnaire or the interview schedule and that researchers should treat participants in there research as people, not objects to be exploited or mined for information (England, 1994 *op cit* Flowerdew & Martin, 2005; 112).

In this regard I wanted my study to be informed by the actors who are highly informed on the subject I am studying, while being acutely conscious that I have a critical view of their role in

the process, with the intention that by having a dialogue with individuals who have such distinct views from my own, I would be able to deconstruct my own prejudice and provide the study with an objective and informed outlook that all research deserves.

This is not an intensive case study, but more so an exploration of the topic in which various key participants around the phenomenon offered their perspectives. With this delineation in mind I have developed a research design that consists of two parts. The first part of my methodology consisted of a qualitative approach, in which I carried out a series of in-depth interviews with experts in the sector. I began with a first phase of interviews in which I spoke to: international consultancy companies (JLL. etc), real estate agents, a property manager, an academic and consultant, and the vice-president of the association of real estate developers to gain a global view of what was going on in the residential real estate market and its correlation to the short-term rental sector. As I carried out the interviews it became more and more blatant that the emergence of short-term rentals as a wave of housing financialization is inadvertently linked to the touristification of the city. With this finding in mind I sought out to speak to an individual who has closely followed the development of tourism in Lisbon for over forty years and understands how these two processes are coupled.

In the second phase of interviews I spoke to key participants of the short-term rental market, the vast majority of them worked in short-term rental management companies. This is a new sector that has arisen as a result of the increased popularity of short-term rentals, these companies provide a varying degree of service that are related to running a short-term rental. They essentially serve as the middleman between the property owner and the guests, hence they were able to offer key insight into the workings of the sector, as well as granting a vision of the driving factors that lead investors into the sector. Investors were difficult to approach due to their anonymity but through my social network in the city I was able to meet with one individual who purchased a second apartment in Lisbon for the sole purpose of placing it on the short-term rental market. Speaking with this investor offered a small glimpse as to what drives investors into the city and into that sector. Here I can already identify the first flaw in my data collection, which was not having had the opportunity to speak to more individual investors.

Overall gaining access to individuals for this study was difficult, I sent out emails to numerous real estate and short-term rental companies and the vast majority of them went unanswered. The process of initiating the interviews was prolonged, but once the first individuals who had the generosity of time to participate in the study replied, the process was facilitated. Often those who were interviewed, would offer suggestions and the contacts of other people to interview. My original intent was to have carried out twenty interviews, but due to a constriction of time and a lack of availability from my intended subjects of study, I was able to complete fifteen interviews.

In the table below you will find a list of the individuals who agreed to participate in my study, they all agreed to be interviewed and to have the interview be recorded. I then transcribed the interviews and worked from the transcriptions to construct my data analysis. Of the people I spoke to only one asked that both their name and the name of their company be left out of the study. With this understanding in mind that some may feel that having their positions printed in text may place them in a compromising position, I opted to not make reference to any person's name when writing my data analysis, this way to ensure that nobody may feel overexposed. Through the text they are referred to as specialists and interviewees in an attempt to safeguard individuals positions and also to ensure that my analysis is honest to the data found in the transcriptions. It was very important that the information presented be a reflection of the interviews, and it not be influenced or filtered to sugarcoat the reality of the situation.

<b>Interviews</b>		
	<b>Company</b>	<b>Job title</b>
<b>Real Estate Industry</b>		
<b>International Companies</b>	CBRE	Director of Research & Senior Consultant
	JLL	Sales Manager Residential
<b>Local Companies</b>	Silviurbana	Managing Partner
	Century 21	Real Estate Agent
	INS Portugal	Executive assistant & Director of Sales
	Lisbon School of Economics & Management, University of Lisbon / ImoEconometrics	Assistant Professors / Managing Partner
<b>Associations</b>	Associação Portuguesa de Promotores e Investidores Imobiliários	Executive Vice President
<b>Tourism sector expert</b>	Hotel Britania	Manager / Former presidente of Associação de Hotelaria de Portugal
<b>Short-term Rental Management Companies</b>		
	Lisbonne Collection	Co-founder & Manager
	Rent Experience	Marketing Director
	The Lisbon Concierge	Co-founder & CEO
	Casas d'Almedina	Founder & Manager
	Feels like Home	Founder & Managing Director
	Anonymous	Client Success Executive
	-----	Investor/ Manages his own short-term rental

The interviews I performed followed a similar structure and I approached them with a prepared question outline to help guide and inform the question and discussion I wished to develop. However, I did allow myself the freedom to deviate from the pre-prepared question set if I found the interviewee open to diverging questions. Besides that I allowed my interview

to be guided by the information the interviewee was willing to offer. While many of the interviewees performed similar roles in the process of housing financialization, it was interesting to understand how much their experiences and opinions varied upon an array of topics. Also their level of expertise upon specific elements of real estate investment and short-term rentals also differed considerably. Most notably it was interesting to observe, that while they had an overarching similar analysis of what is occurring in Lisbon's real estate and short-term rental markets, they often focused in on different factors and shone light on facets of the issue which other people interviewed did not seem to consider. This information is invaluable for someone outside the sector trying to gain a more intimate understanding of the workings within it.

The second part of my research sought to complement the views of my participants with the analysis of relevant secondary sources. By these I mean the analysis of industry reports. Real estate consultancy firms such as Jones Lang LaSalle (JLL) and Cushman and Wakefield produce annual reports about the market with an increased interest on the short-term rental sector. I have analyzed these reports in order to assess the trends of real estate investment currently underway in Lisbon and to gain a picture of the actual state of the housing market. In addition to this I reviewed a series of studies and data made available by public entities, such as the *Camara Municipal de Lisboa* (CML - Lisbon's city council) which has carried out studies on the effects of ALs in the city, *Instituto Nacional de Estatística* (INE - The National Statistics Institute) from which I was able to compare studies that speak to the rise of rent prices in the city, Travel BI by Turismo de Portugal a site that offers statistical information of the number of guests the city receives every year as well as the incidences of registered ALs by parish councils, and *Registo Nacional de Alojamento Local* (RNAL - The National Short-term rental Registry). Additionally I examined data made available by Airdna, a website aimed towards investors that gives statistical data of the performance of holiday rentals throughout major cities. The studies and research I reviewed were often informed by interviewees, who guided by research through their insight and who had the generosity to offer me data which they had access to. Through an analysis of this data I was able to gain a statistical understanding of the demographics of private investors and a geographical scope of how this capital flow was spreading through the city. This data was used to complement the data that was acquired through the interviews, in which lies the core of my findings.



A matter to take note of is that all but one of the interviews were performed in Portuguese, meaning that the overwhelming majority of the quotes utilized throughout the text are of my own translation, I do not include the original Portuguese version, so as not to fragment the flow of the text. Another important stylistic matter that should be explained is that when referring to the people interviewed I utilize the gender neutral pronoun “they.” As mentioned in the methodology I choose to not reference any name directly, and in order to further ensure the anonymity of the person being referenced I found it better to conceal their gender as well. Also considering the socially engrained gender bias that continues to permeate in today’s society, by utilizing the neutral pronoun I provide a platform for the person’s view to be validated by their knowledge and expertise on the subject matter at hand, and avoid the reader being influenced by their gender.

Upon examining the transcripts I began to look for linking and recurring topics that arose in the interviews. The analysis below attempts to present a current depiction of the agents of diffusion of the short-term rental market, while at the same time explaining the specificities of its functioning in Lisbon, and also maintaining an eye forward towards what could lie ahead for this sector.

## 5. Data Analysis

While the expansion of short-term rentals is underway throughout the entire city, there is a considerable concentration of them in the city center. For this reason this study grants particular attention to the parish councils of Santa Maria Maior, Misericórdia, and Santo António, but it is not limited to just those geographical delineations. For there are other parish councils and specific neighborhoods that are also affected, such as Madragoa in the parish council of Estrela and the parish council of Arroios. Additionally as the proliferation of short-term rentals begin to expand a growing number of neighborhoods outside of the historic city center are also beginning to be impacted. It should also be noted that throughout the text the term short-term rental and *Alojamento Local* (AL) are used interchangeably, as many of the people interviewed referred to short-term rentals as ALs.

This chapter takes the following form, it begins with a section that describes the current state of the housing market in Lisbon, taking a look at property sells and property values. This is followed by a section that speaks to the matter of tourism and rehabilitation in the city, and contextualizes the role that these processes have had in preparing the stage for the rise of short-term rentals. The third section describes how short-term rentals came to have the prevalence that they do in the city. The fourth section looks into a facet of short-term rentals that only recently has begun to be explored, which is the flexibility the model provides all parties involved in the sector. Lastly, I look at housing financialization beyond short-term rentals and discuss new mechanisms that are advancing in Lisbon.

### I - Current state of the residential real estate market

Upon examining the transcripts of the interviews, there was a universal tone of acknowledgement that the Portuguese real estate market has undergone a substantial transformation in the past five years. Multiple of the individuals interviewed made reference to the Portuguese market having been considerably undervalued, particularly compared to other European capitals, as of the result of a historic process of capital abandonment of the city centre, suburbanization and rent controls, and that this re-appreciation of the market was a natural course. As one interviewee put it “I have been in Lisbon for 10 years. The large part

of the transformation, the great transformation has been in the past four or five years. But, I find, that the beginning of growth in the real estate market was really an adjustment, a logical and normal thing for a European capital.” This appreciation of the residential real estate market is illustrated in the graphs below.

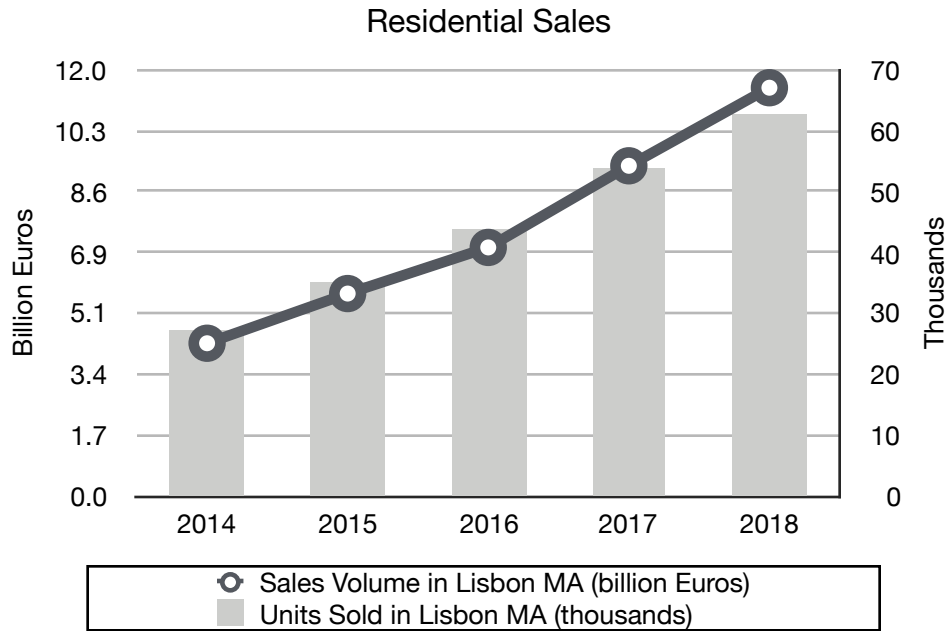


Figure 3

Data Source: INE & JLL

Figure 3 shows how the yearly number of units sold more than doubled over a period of five years and the sales volumes nearly tripled in that same time frame. Here we see the powerhouse of investment that the residential real estate market has become in the city of Lisbon. Also we can notice that the growth in sales volumes increased at a larger rate than number of units sold, an explanation for this could be the increment in property value that accompanied this surge of investment in the city’s residential real estate market. As the chart (figure 4) below illustrates the average price per square meter has progressively grown each year since 2014 with a substantial leap between 2016 and 2017. This trend of steep increases in property values was widely recognized, by those interviewed and by real estate firms (Cushman & Wakefield, 2019; JLL, 2019; CBRE, 2019), to be a matter of the demand being much greater than the supply the city had to offer. However, I find this neoclassical economic explanation of supply and demand over simplistic for it does not address the policy implementations that created this demand.

In 2018, the neighborhoods that reached the highest price medium of €4,770/m<sup>2</sup> were Misericórdia, Santa Maria Maior and Santo António, the historical center of the city (Cushman & Wakefield, 2019). Here we can see how the historical center of the city is certainly leading in property values, and the prices practiced there are above the city's average. This rise in property values also is an excellent explanation for why Lisbon - particularly those neighborhoods that were mentioned above - is such an attractive location for investment, with the yearly rise in property values the city is experiencing it is easy to see that investors are seeing returns on their investments every year without having to do a single thing, owning the property suffices.

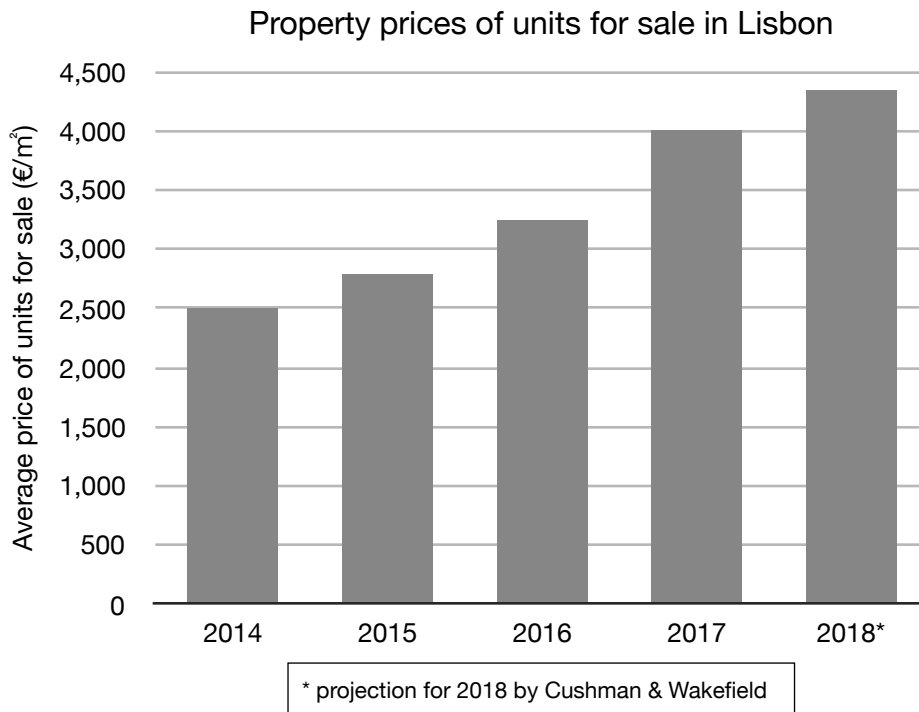


Figure 4

Data Source: SIF Ci, Cushman & Wakefield

Also it is worth noting that this price increment also translated to the long-term rental market. According to data made available by INE (2018, 2019) the price per square meter practiced in Lisbon is far above the country's average, which is to be expected since it is the capital city. However, the rate at which rent prices have increased is what is the most marking. In 2017 the cities average rent price lied at 9.62 €/m<sup>2</sup> and in 2018 the figure was 11.16 €/m<sup>2</sup>, representing an increase of 16% (INE, 2018, 2019). The increase in rent prices were the most pronounced in the core historical neighborhoods, for instance in the parish

council of Santo António the average rent price was 11,08 €/m<sup>2</sup> in 2017 (INE, 2018), as of 2018 the price had gone up to 14,10 €/m<sup>2</sup> (INE, 2019), representing the largest price increase in the entire city of 27%. The parish council of Misericórdia went from 11,64 €/m<sup>2</sup> to 13,38 €/m<sup>2</sup> in 2018. This rent price hike in the most exclusive neighborhoods in the city perhaps is not the most concerting matter for some, since they were neighborhoods that were already so far out of the average residents financial reach, however seeing the ripple effect that this has had on other neighborhoods should be.

According to the study published by INE (2019) of the 24 parish councils in the city 13 had an average rent higher than the city average. Further the parish council of Santa Clara, the most northern parish council in the city, which had the lowest average rent in the city of 6,82 €/m<sup>2</sup> in 2017, had a considerable price hike in 2018, (8,31 €/m<sup>2</sup>) representing a 22% increase, six points above the city average. Leaving one to wonder, with yearly price increases such as these where will middle class and working class families in Lisbon live.

In the midst of the interview process when interviewees were asked as to what they signaled as one of the leading stimulators for this influx of investment in the residential real estate market there was a general consensus that the Golden Visa program and the Non Habitual Residency tax status served as an initial lure for investors. As one of the individuals interviewed put it “We did an internal search and realized that we were in a decapitalized country, we had to resort to foreign investment. Foreign investment is what saved us, mainly in the first post-crisis years.” Or as another person interviewed stated: “Now, it is clear that the Golden Visa created a strong dynamic and attracted a lot of foreign demand like the legislation of Non Habitual Residency. It was a positive situation that allowed us to get to where we are.” There is general common understanding by many actors in the sector that foreign investment served a vital role in revitalizing the residential real estate market.

This notion is seconded by market reports, according to JLL they highlighted that 65% percent of the sales they carried out in 2016 were to foreign buyers (JLL, 2017), this notion was seconded in a different report published that same year in which they disclosed that their firm doubled sales in the residential sector during the first trimester of 2017 compared to the same period in the previous year and foreigners made up 60% of sales closed by JLL, the report then went on to highlight that “the Golden Visa and the Fiscal Benefits for

Non-Habitual Residents programs continue to contribute to the market's dynamic, and the countries of origin of international buyers has grown in diversity, with buyers from the Middle East, Asia and more recently the United Kingdom" (JLL2, 2017; 17). Now if we look at the data made available by *Serviços de Estrangeiros e Fronteiras* (SEF), dating from 2012 to July 31st of 2019 a total of 7,738 Gold Visas have been granted, with 7,291 being to individuals who invested in real estate. A total of just over 4.2 billion euros have been invested in the sector.

Now considering that in 2018 alone over 11 billion euros (see figure 3) were invested in the residential real estate market of Lisbon and since 2014 over 35 billion euros have been invested in the city; the sum of 4.2 billion for the entire country appears to be rather minor. Leaving one to wonder where all of this capital is coming from. Granted it has been recognized that the Non-Habitual Residents programs has attracted investors within Europe, but still are individual private investors capable of this purchasing power? This raises the matter of the involvement of international corporate investors, opening the question of whether it is possible to distinguish between corporate and individual investors. Throughout my research the topic of the presence of institutional investors in the market was discussed by many interviewees, however, nothing conclusive was said about them. There was a general understanding that they were present, but no one could tell me specific details about who they were and how they were investing. Information on the role of corporate investors in Lisbon is considerably lacking, and further research on this matter is greatly needed.

It is worth noting that while international buyers continue to have a substantial influence over the volume of real estate transactions executed in the city, this tendency is steadily changing. In JLL's (2019) latest report, they announced that in 2018 international buyers accounted for 57% of the transactions performed by the company. Here we see a declining trend for foreign investors, where domestic buyers begin to have a more active role in the market. Yet, with this observation being made of more Portuguese people being involved in the market, the prices in the city center continue to be far out of reach for the average middle class family, as one of the interviewees put it, "Most Portuguese people unfortunately can no longer afford to live in the center of the city. The transactions that we have facilitated have been to foreigners." There is a clear understanding that the city center is

now for an elite class, predominantly foreign, with high purchasing power while the local middle class is pushed further out of the center. This trend has not gone unnoticed by real estate developers, and predicted trends for 2019 showcase this. Both JLL (2019) and CBRE (2019) have pointed to the surge of new developments in lots outside the center aimed towards the middle class.

Now having considered the profile of those investing in residential properties in the city center it is important to understand what other factors incentivized this heightened interest in Lisbon.

## **II - Tourism and Rehabilitation**

While analyzing the transcripts of the interviews, two topics that repeatedly arose when discussing the development of the real estate market in the city were tourism and rehabilitation, and more often than not they were closely linked. As one person interviewed put it “With the arrival of tourists in Portugal, a lot of potential has come along, in Lisbon as in Porto, and with the attractive prices, some real estate projects began to be developed. They had a lot of success. And in return, those new real estate projects brought more tourists. A lot by word of mouth, social networks. And from there a real estate boom began.” This idea was seconded by another interviewee who stated “From my point of view, tourism has had a very positive role in the growth and development of the city. It is known that it had a positive role in the growth of the economy, particularly in the period of the crisis,” this same person later went on to say “I feel that we know that many buildings were rehabilitated to be placed in the tourism sector.” These assessments made by specialists in the area have been strongly backed by market reports, where it is pin pointed that tourism is “one of the primary sectors responsible for the rehabilitation of cities and for growth in the national economy” (JLL, 2018; 33).

According to the latest yearly market report by Cushman and Wakefield (2019) new developments and rehabilitation projects have grown considerably since 2015, as of November of 2018 close to 900,000m<sup>2</sup> of area of construction were in the process of having their building project approved in Lisbon, this was not including the over 300,000m<sup>2</sup> that already had a building permit. Within these figures “the residential segment remains the most

dynamic in rehabilitation and development in the city of Lisbon, accounting for 77% of the licensed area and 41% of the area in the licensing stage”<sup>17</sup> (Cushman and Wakefield, 2019; 33). These numbers completely coincide with the discourse of those interviewed, as one of interviewees put it “we have the main cities of the country in a process of rehabilitation, and much of that rehabilitation is due to tourism, mostly to AL,... Because urban rehabilitation in Portugal, for better or worse, is in the ‘hands’ of tourism.” This notion has not been overlooked, nor by residents, investors, and state officials.

In light of the potential that tourism led rehabilitation demonstrated having, the state initiated a process to further incentive the flow of investment into rehabilitation. As discussed in the section about the surge of private investment in Lisbon, a number of policy measures were put into place, programs such as RE9 - *9 vantagens para reabilitar em Lisboa, Reabilita Primeiro e Paga Depois*, along with a number of tax incentives to incentivize rehabilitation.

It is difficult to not see the link between the urban rehabilitation that has been set upon the city being a result of investors who intended to use the property for tourism related activities. One clear channel to fulfill that purpose has been seen in short-term rentals. As one of the persons interviewed put it, the laws regulating tourist accommodations were significantly modified in 2008, in our interview this person highlighted that prior to 2008 tourist accommodations such as apartments and lodges were required to have “permanent doorman service” as stipulated by the Decree No 34/97 of 17 September<sup>18</sup> and Decree No 36/97 of 25 September<sup>19</sup>; as well as “a commercial license requiring authorization from the condominium.” This regulation was sidelined by the ratification of Decree-Law No 39/2008 of March 7<sup>20</sup> in which the definition for *Alojamento Local* was established, here the law states: “Local accommodation establishments are considered to be houses, apartments and lodging establishments, that have authorization to function, and provide temporary accommodation services, in exchange for payment, but do not qualify to be considered as tourist

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<sup>17</sup> Translated from Portuguese: *O segmento residencial mantém-se o mais dinâmico na atividade de reabilitação e promoção na cidade de Lisboa, responsável por 77% da área licenciada e 41% da área em licenciamento.*

<sup>18</sup> *Decreto Regulamentar n.o 34/97 de 17 de Setembro*

<sup>19</sup> *Decreto Regulamentar n.o 36/97 de 25 de Setembro*

<sup>20</sup> *Decreto-Lei n.o 39/2008 de 7 de Março*



enterprises.”<sup>21</sup> With the implementation of this law, there was an effective de-professionalization of the tourism accommodation sector, there was an effective deregulation of the sector and this allowed individuals who were not specialized in the area to participate in the sector.

According to a study performed by Nova School of Business and Economics and by *Faculdade de Direito da Universidade Nova de Lisboa* (2016) for the *Associação Hotelaria de Portugal* (Portugal’s Hotel Association) the proliferation of short-term rentals was taken a significant step further by the Decree Law No. 128/2014 of August 29.<sup>22</sup> This Law in essence recognized the extent to which ALs are relevant to tourism, and aimed to “recognize the growing and consolidated importance of local accommodation [AL] and, in this new context, to seek its coherent integration into the Portuguese legal system”<sup>23</sup> (NOVA, 2016; 17). Through this process of the AL gaining its own legal stature, the legal framework for it to grow and expand as a legitimate source of investment was provided.

Another factor that considerably helped expand the growth of short-term rentals was the low tax rates practiced when AL was first established as a legal regime. As one of the persons interviewed put it when explaining why their clients opt for the short-term rental “Well now things are changing, but when it began to grow it was really a fiscal choice. Because the taxes on short term income is low, it has low tax rates. And so, from this point the profitability of this type of investment grows.” In this regard the short-term rental specialist was making reference to the tax rate practiced until 2016, in which a coefficient of .15 was applied, meaning that investors were only taxed on 15% of income earned from the property. Meaning that if a property owner earned €10,000 on the short-term rental market in one year, they would only pay taxes upon €1,500. This in the meantime has changed and as of 2017 a coefficient of .35 has been applied, meaning that now property owners pay taxes upon 35% of their earnings. This places short-term rentals at a considerable fiscal advantage over the long

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<sup>21</sup> Translated from Portuguese: *Consideram-se estabelecimentos de alojamento local as moradias, apartamentos e estabelecimentos de hospedagem que, dispendo de autorização de utilização, prestem serviços de alojamento temporário, mediante remuneração, mas não reúnam os requisitos para serem considerados empreendimentos turísticos.*

<sup>22</sup> *Decreto-Lei n.o 128/2014 de 29 de agosto*

<sup>23</sup> Translated from Portuguese: *[Regista-se assim que o objetivo prosseguido em 2014 foi o] de reconhecer a importância crescente, e consolidada, do alojamento local e, nesse novo contexto, de procurar a sua integração coerente no ordenamento português...*

term rentals, where up to last year the flat rate of 28% was charged upon all rent charged. This rate has been modified as of January 1, 2019, but the tax rate is dependent on the duration of the lease, and still in most situations the tax rates placed upon short-term rentals is far more favorable.

However, with these observations having been made it is not possible for us to discern which properties have been rehabilitated and redirected towards the short-term rental sector. As one of the people interviewed pointed out,, they are able to track all of the construction going on in the city, and that they know when hotels are being built. This person went on to stress “we do the same for residential buildings. Our great difficulty is knowing if the residential building ... if the end of that building is traditional residential use or AL.” There is no system that allows us to know concretely how many properties are being taken from the city’s housing stock and being moved into the short-term market.

### III - The Rise of Short-Term Rentals (ALs)

Concentration of Short-term rentals by parish council

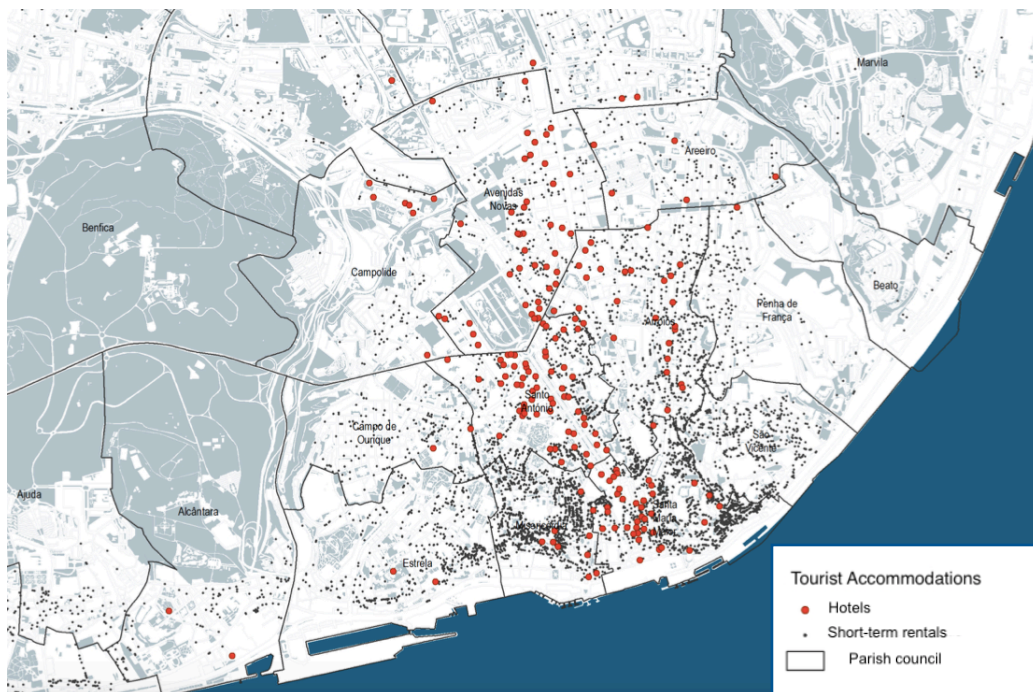


Figure 5

Source: CML

There has been a considerable hike in the number of short-term rentals through out the city, but particularly in the historical city center. As figure 5 above demonstrates the

neighborhoods of Alfama, Mouraria, Bairro Alto and Santa Catarina have the the highest concentration of short-term rentals, all neighborhoods that lie within the parish council of Santa Maria Maior and Misericórdia. In a study published by the City Council of Lisbon they pointed out that it has been since 2014 that this surge in short-term rentals took place, due in large part to new legislation, and that the hike in short-term rentals became more evident in 2016 (CML, 2018). It should be noted that Figure 5 represents data available to the City Council of Lisbon as of August of 2018, at that period there were a total of 14,461 short-term rentals legally registered in the database of the *Registo Nacional de Alojamento Local* (RNAL). Upon performing a similar search on the RNAL cite on August 24, 2019 there were a total of 18,783 registered short-term rentals, representing an increase of over 4000 short term rentals in a single year. And these figures do not take into account the incidence of illegal, unregistered short-term rentals functioning in the city. For instance on a search performed on AIRDNA on the same date, the site showed a total of 18,990 active listing, which is a discrepancy of about 200 listings. Besides that these are the number of properties that are actually advertised and up and running, the figure of 18,783 listed by RNAL indicate the properties that are registered but not every single one of them is operating, thus signaling that the number of illegal listings is far greater than 200.

The previously observed trend of short-term rental being concentrated in particular neighborhoods persists. As figure 6 below demonstrates the Parish councils of Santa Maria Maior, Misericórdia, Arroios, São Vicente and Santo António have the highest concentration of short-term rentals, with Santa Maria Maior and Misericórdia leading by far. There is a clear trend here of short-term rentals proliferating more densely in a handful of select neighborhoods. This is not by chance, these neighborhoods are the most iconic quintessential Lisbon neighborhoods and thus are highly attractive for tourism.

Another worthwhile link that should be mentioned is that the parish councils that have the highest number of registered short-term rentals are also the neighborhoods that have the highest property values and rent prices in the city. There has been a high demand for properties in the parish councils of Santa Maria Maior and Misericórdia, and the price increases in these neighborhoods certainly reflect this. This is a divergence from the findings

Registered Short-Term Rentals by Parish Council - Aug 2019

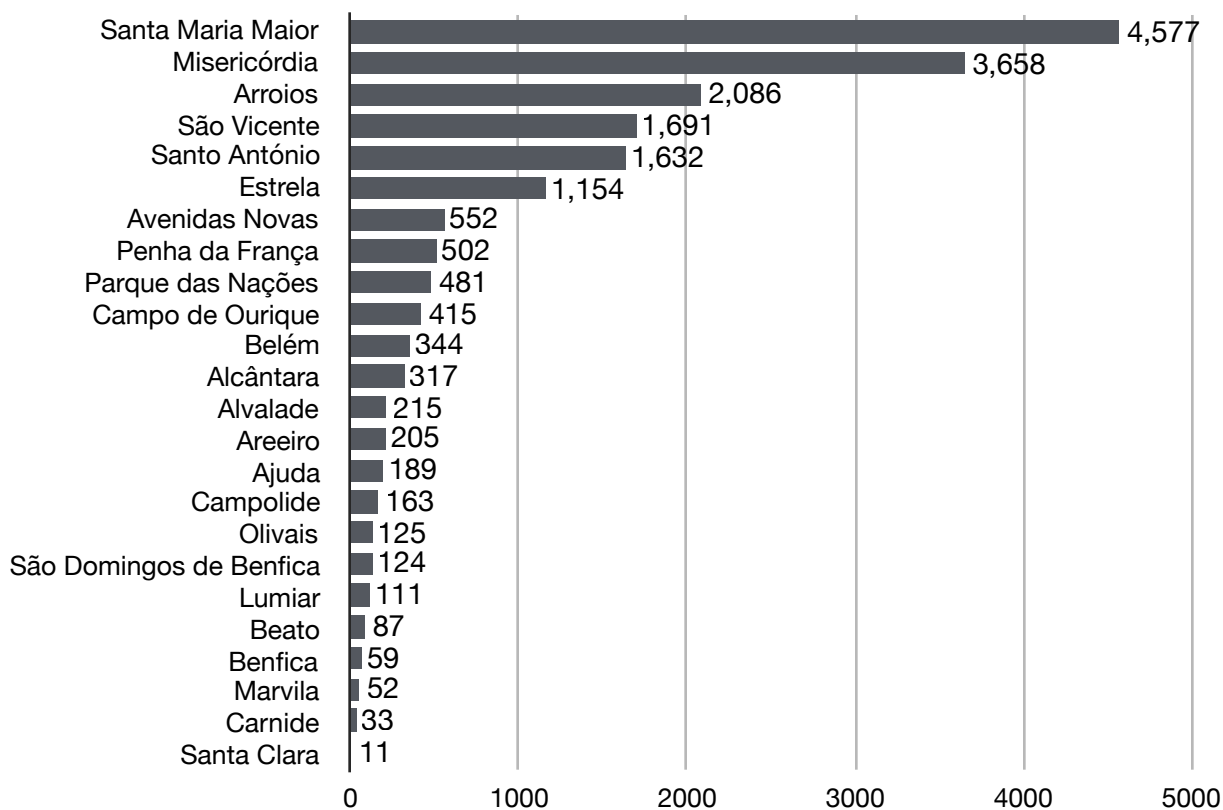


Figure 6

Data source: TravelBI by Turismo de Portugal

that DeVerteuil and Manley (2017) found in their study, of investors preferring to invest in already elite neighborhoods in global cities, in the case of Lisbon Santa Maria Maior encompasses neighborhoods such as Alfama and Mouraria which were historically working class neighborhoods. Misericórdia encompasses Bairro Alto and Cais do Sodré, neighborhoods that have a history of a dark night life and in some cases prostitution and drug use, and only began to be held in better regard as of 15 years ago. Some possible explanations for the flow of foreign capital to have entered these neighborhoods are because they are located in the historic center of the city and had some of the highest rates of derelict buildings, leaving a larger rent gap to be captured. Also their prime location made them optimal for the tourism sector.

When performing the interviews all real estate specialist acknowledged that the short-term rental market was a great way for investors to yield profit from their properties. An interesting point that arose while we discussed the matter of investing in residential real estate, was whether the primary goal of investors was to purchase a property with the objective of

making profit from the short-term rental market, and it became evident that investors' primary investment is the property itself, any yields that come from leasing the apartment on the short-term rental market is a plus. As one of the real estate specialist put it "They want to buy, and if they want to make a profit they can rent it out, either on a short-term or long-term market, but they want to buy." Another real estate specialist had a slightly different reading, this person found that the initial investors came to Lisbon because it had a very immature short-term rental market, in comparison to other cities, and that the attractiveness of high returns was an initial pull to the city, but as the market matures investors continue to buy in Lisbon because the city has so much to offer and because as they put it "if you are going to enter in a country in terms of investment, safer [investment], you buy in the capital. The capital."

This matter of investing in real estate being a safe investment was recurring, as another real estate specialist put it, "Nowadays placing [capital] in the bank does not yield anything. Place it in the stock market, people will earn a bit ... real estate, people see it as a safer good. And that's why they see it much more as an alternative of where to apply their money than properly as an extra return. As long as the money they earn is safe. Then, if they can earn money with that, all the better, but I think it is more the security of the investment." This notion was seconded by an interviewee who gave the following explanation "Essentially, people want to make a good business acquisition, to purchase. If today, a property that is in bad state ... yields 10% [profit] per year, and there is a better, nicer, newer property that only yields 5%, people prefer 5%," here indicating that people prefer a lower return because their true investment is the property. Within the opinion of those working in the sector there appears to be a clear stance that real estate is being viewed as a "safe deposit box", however in contrast to Fernandez *et al* (2016) study were they find that transnational elite who deposit their capital in first tier cities and leave the properties empty, here we see as Montezuma and McGarrigle (2019) found that they are directing capital to a second tier city such as Lisbon, and then implementing additional mechanisms of housing financialization through the short-term rental market.

It should be noted that this assessment of the property being the investment in it of itself lies in stark contrasts to the results of a study carried out by Barata Salgueiro (2017),

through a series of questionnaires that the author sent out to property holders who had a short-term rental property registered with the national registry and had a listed email address associated to the property in 2016, it was discerned that of those who replied to the survey, 70% of the owners acquired the property as a source of income. From these findings it could be observed that there is a stark disconnect in perception between those who sell and manage the properties and those who acquire the properties, or this could also be a matter of the two year difference in which our studies were performed which indicate a shift in the market. Or further and this is something that was difficult to ascertain in this study, but it could be that the intentions of foreign investors and domestic investors differ significantly on this matter. This would have been a very interesting angle to explore, but making contact with private investors is very difficult and prolonged, and due to time constraints it lied outside my field of possibilities for this thesis.

An additional interesting observation that arose, is that specialist in both the real estate and the short-term rental markets had an understanding that short-term rental is not always the most profitable mechanism to implement. There was a wide spread consensus that a property's profitability in the short-term rental market is dependent on location and multiple other factors, and that often time placing the property on the long-term rental market is more profitable for the property holder. As one short-term rental specialist put it when asked if long-term rental can be more viable at times: "Sometimes it is more viable. Depending on the location of the apartment, regardless of its property value, traditional rental or local accommodation may be more successful. There are some areas of Lisbon that may be premium areas for living but not tourist areas." Here there appears to be a rebuking of a common public opinion that the short-term rental is always far more profitable.

Another short-term rental specialist furthered their explanation of this predicament and stated the following when speaking about short-term rental properties: "Its annual profitability ranges from 4.5 to 8%. A bit more, in super exceptional cases and top premium properties that are super well located and spotless with everything the guest wants and a little more. These properties have 100% occupancy and certainly we can put the price up and it also yields above average profit. But anyone who tells you that vacation rentals are 100% more profitable than long term is lying. Because it is not true. There are cases and cases, it cannot be considered as a general rule." This sentiment has been shared by specialist in real

estate, one particular person interviewed discussed how not all properties are well suited for Airbnb, considering the the cost of the management companies, the cost of maintaining the apartment and with the huge amount of short-term rentals that already exist on the market, it might be best to place the property on the mid-term or long-term market.

This same person even went on to say how they have had to curb new investors expectations, “There are many customers that last year, at the beginning of last year, before this issue of the areas of containment<sup>24</sup>, all came with the expectation of 6-7% returns on Airbnb, and we, my team of real estate agents, we began to realize this and turn the script around, Airbnb will no longer due, but from the point of view of profitability medium and long-term remain attractive compared to other cities in Europe, we continue to have higher levels.” Here we see indications of what business experts would call a maturing short-term rental market in Lisbon, one which is so saturated with a high level of supply that the margin of profit is becoming narrower and narrower and yet more properties continue to enter the market, which leaves one to wonder why people continue to insist in participating in this sector.

One possible explanation that would need to be further explored would be - being that short-term rental is simply not as profitable for those working with management companies - investors who manage their own properties may very well continue to have a greater margin of profit. The single investor that I was able to interview, did speak to the nature of the profitability of the short-term rental market. This person is from the United States and purchased two apartments in Lisbon in order to qualify for a Gold Visa, they reside in one of the apartments and rent out the second apartment on the short-term rental market. When asked why they opted for the short-term as opposed to long-term market the investor had the following to say: “I mean the big difference is that the revenue right now is incomparable, you make 3 or 4 times as much on Airbnb. That’s the sad reality.” Here we may again be making reference to a potential difference in behavior between foreign (meaning they live abroad) and domestic (meaning they live in Lisbon) investors, for domestic investors have the possibility of managing their own properties, but as stated earlier further research on this matter is necessary. This being said, among both domestic and foreign investors who prefer the short-

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<sup>24</sup> Reference to a new law placed in effect in 2018 that has placed a cap on new licenses for short-term rentals in specific parish councils, this matter will be discussed further later in the chapter.

term rental market a recurring topic that arose throughout the interviews was the matter of flexibility.

#### **IV - The flexibility of short-term rentals**

While speaking to the various individuals that were in one way or another involved with the short-term market what became a recurrent observation from their part was the matter of flexibility. Upon reading further into the transcripts of the interviews, it became evident that there was a wide set of flexibility in multiple facets, and for the multiple parties involved in the sector. For one there was a clear indication that investors were drawn by the flexibility of being able to have access to their property whenever they see fit. Secondly there was a great range of flexibility within the management companies in the services they provided, each management firm spoken to proved to have quite distinct strategies in meeting clients needs and adapting to the emerging and changing sector, this observation also falls in line with a growing level of professionalization within the short-term rental sector. And lastly there was a vision of the flexibility there is for properties to leave the short-term rental market all together, if other opportunities present themselves or if profit margins continue to decrease.

##### *1. Flexibility of accessing the asset*

According to specialist in the sector, investors are highly drawn to the short-term rental market because it allows them the opportunity to still have access to their property, many of those investing in properties continue to live abroad, and want to have the possibility of utilizing the property when they are in Lisbon. The short-term rental market caters to all their needs, because it ensures that they have a place to stay when they are in Lisbon, but when they are not utilizing it they have the opportunity to extract profit from their investment. This assessment coincide with the findings of Cocola-Gant and Gago (2019) and Montezuma and McGarrigle (2019) who identified this matter of flexibility in the use of the property as a drawing characteristic for investors.

The people interviewed shared an array of different scenarios in which the flexibility of the short term rental proved to be the most beneficial for their clients. For instance one stated, “There are many people who like the idea that if they need to use the house they know they



can use it. Lots of them, let's imagine: our clients who have been working outside of Portugal, and they might even know they won't be using the house all year, but they like the idea that if they need to come here for a weekend in the middle of the year ... They ask us to block these dates and they can use the house." Another person interviewed stated that many time Portuguese people living outside Portugal like the possibility of being able to use their apartments when they visit Lisbon for Christmas or the summer holidays.

Another interviewee brought up the point that clients "almost always use the house. Some expect to come to live in this house when they are older and retire, so they buy the house with the future in mind, but I would say that almost all of our foreign clients, they or someone in the family use the house at sometime of the year." Here we see that for some the apartment is more than an investment, but a past or future home, and the flexibility of not losing complete access to it draws them into the short-term rental market. Or as another person interviewed put it "the big difference between AL and long-term alternatives, the medium-term one is different, is the availability of the real estate asset. This means that the owner has the asset when he wants, at any time, to use it, or to lend it to a friend, or sell it, or to throw a party," with this making it clear that property owners want is to be able to utilize the unit whenever they deem it necessary, and here being that for some this property is simply an investment, the ready accessibility of being able to sell if a good offer presents it self is very important to them, they want to maintain the liquidity of the asset.

Within this facet of being able to access the property, there was a general understanding that through the short-term rental market owners have greater control over the property as well. As one short-term specialist put it "they prefer short term rentals for one simple reason: there is a sense of greater control over the house. There is less wear and tear on the house in short-term. While in traditional tenancy, let's imagine that you rent a house for a year: only after a year will you see what state the house is in." Another person interviewed pointed out that some people choose to lease short-term even if its not the most economically profitable, this person stated "But we have more and more homeowners that say, 'I know I could make a little more with traditional tenancy but I prefer to have the notion that I have control of my home...' Because otherwise they would rent for 2, 3 years to a local or a foreigner who comes here to work and they lose any control they had over the house."

A different person interviewed when asked about the choice to be made between short-term and long-term rentals spoke to this similar notion of controlling the wear and tear over the property, but they also brought up two additional points. This person stated “ I would totally do... long-term, I think it would, there would be a lot more to get there because there’s the difference of taxes, but also the difference of wear and tear on your apartment... Right, you don’t have a cleaner coming in, you’re not going in there every couple weeks to check things and fix stuff that’s broken,... And then also like longer contracts and like the rights that you have as a long-term tenant are much different than short-term.” This person pointed to the matter of the tax rate being much higher on long-term rentals, and also the matter of tenants rights. Long-term tenants do in fact have greater legal protection, although considerably less than they once did, and this a deterring factor for many property owners and thus leads them to the short-term rental market.

When discussing the long-term rental market with the people interviewed, a number of them brought up the history of the *rendas congeladas*, the low rents and the strong tenant protection that came with it, and how so many landlords had been burned by tenants who did not pay rent or would leave the unit in disarray when they left. Some went on to place blame on the legal system and a lack of legal mechanisms that would allow a landlord to lawfully evict a tenant who was in non-compliance of their lease contract. The long-term rental market was tainted with a stain of inflexibility and rigidity, and while this has considerably changed since the placing in effect of the NRAU, the perception remains that short-term rentals allow the property owner the flexibility and dynamism that current economic trends favor.

## *2. Flexibility in short-term rental business models*

A further observation that was made upon speaking with short term rental specialists is the degree of diversity in the services that each company offers their clients. Some companies offer a full service package that begins from the initial stage of investment, they will help a client choose a property to buy, help with the furnishing and getting the apartment ready and will then carry through with placing the property on online platforms, managing the reservations and greeting the guests at the door; to the follow up of cleaning the apartment and repairing any broken equipment in the unit. Or there is another model of business

provided in which the management company subleases a property from lease holders, provides all of the short-term rental services themselves without any involvement from the property owner.

The level of services provided varies upon the clients' needs, and how much they are willing to pay. A common trend of services are the property holders choose between two options, full services in which the management company handles everything, from check-ins to cleaning services; to partial services in which the management advertises the property, but the property owner confirms reservations and does check-ins. Essentially they allow the property owner to be as hand on as they wish. While other companies offer a more depersonalized services where they forgo the at the door check-ins and guests have to pick up the keys from the company's main office, or the example of another company where there is an electric lock on the door and the guest is given a code that grants them access to the apartment.

The scope of the matter is that no one management company is completely alike, they have all adapted and transformed their business models to cater to their clients' needs. Here we see the high level of flexibility that these companies have, and their ability to shift their strategies as they see demands changing. An excellent example of this was given by one person when they explained their reason for leaving a previous company they were a part of: "In the other company I was doing almost the same thing, or almost, and I wanted to continue because I wanted to change the characteristics of what we had. The other company did not help the owner so much. And as the market has changed a bit, where owners are more often foreigners, and not Portuguese, they need more help on the ground. In the past, companies like mine received the apartments all ready and the owner accompanied and did all the paperwork because they were Portuguese: did the registration, did everything ... But in the new market the owners are completely lost, so my idea in starting this company was to provide all the services and put the owner first. That is, the owner buys, leaves the key and we take care of everything else."

Within this range of services provided, and these management companies ability to adapt to the new demands of the market a high level of professionalization in this sector can be observed. The original short-term rental model in which landlords leased out their own apartment and depended solely on Airbnb to connect them to guest has been greatly altered.

So much so that it led one of the property managers interviewed to state “This is not a ‘sharing economy’ logic anymore. That’s over, it’s over.” Barata Salgueiro (2017) made reference to this phenomenon and stated “ as the market tends to professionalize, due to economies of scale, many individual operators will tend to be absorbed by large operators”<sup>25</sup> (JLL, 2015 *op cit* Barata Salgueiro, 2017; 28). This notion was seconded by one of the short-term rental specialists interviewed, who according to his own data collection, six years ago people who managed more than one property represented 25% of the market, and as of last year they represent 75% of the market, indicating that many individuals who used to manage their own properties have handed them over to professional companies.

This observation of the professionalization of the short-term rental sector coincides with the findings that Cocola-Gant and Gago (2019) discovered in their study about Alfama, however, these authors took their analysis further as to point out that the professionalization of the sector is further facilitating buy-to-let investments, and how a number of agents such as property managers, real estate agents and lawyers are pivotal “to allowing the flow of international capital into the STR market” (Cocola-Gant & Gago, 2019; 20). There is a clear connection between the furthering of the scope of the services provided by these management companies and the proliferation of short-term rental listings.

Now returning to the matter of flexibility of services provided by short-term rental management companies, when speaking to property managers it became clear that the range of the services provided can surpass the realm of short-term rentals. One of the people we spoke to indicated that their company was going to begin a partnership with another company that catered to clients seeking mid-term rentals. Here indicating that these management companies can always offer services beyond the short-term sector, because while short-term rentals is a profitable market, the real asset is the property it self and a diversity of mechanisms can be implemented to extract profit from it. This same person also pointed out how they as property managers already have a relationship with property owners, and if the owner should choose to place their property on the long-term rental market, there is nothing keeping them from doing it. As he put it “We can do that. We don’t have any properties for which we do long-term rental, but we have the structure and knowledge to do so.”

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<sup>25</sup> Translated from Portuguese: *Como o mercado tende a profissionalizar-se, por questões de economias de escala, muitos particulares tenderão a ser absorvidos pelos grandes operadores.*

Here the point is that the connection between the investors and property managers has already been made, and if investors choose to place their asset in a different sector property managers can surely adapt to this new call. This element of the flexibility that these management companies have is a characteristic of new business structures that are being formed in our current economy. And the ease of connectivity that online platforms allows between investors and professionals who aid in the management of their asset, in this case a house or apartment, helps in the perpetuation of the financialization of housing.

### *3. Flexibility in leaving the short-term rental market*

Within this scope of possibilities that the flexibility of the short-term rental market allows, it is also feasible to see how the ease in exiting the sector for investors exists as well. From speaking to the multiple real estate and short-term rental specialists it became evident that the investment is the property, and the means from which they extract profit from the asset is flexible. As one real estate specialist explained, just because an investor bought and rehabilitated an apartment with the end of placing it in the short-term rental sector, there is nothing keeping them from placing it in the long-term sector again. This understanding was understood across the board, and multiple people interviewed gave examples of cases of when property owners opted for removing their apartment from the short-term rental sector.

One example of such was one individual interviewed who had two apartments in Baixa which he had rented out on the short-term rental market since 2007. He pointed out how the massification of short-term rentals in the area drove down the prices and as of three years ago he stopped doing short-term and placed one of the properties on the long-term rental market and the other one was empty because he was planning to sell the property to take advantage of the high property prices. This is interesting considering that this person's apartments are in a prime location, but yet they found that the short-term rental market is over saturated and that it is not worth the hassle anymore.

Another person interviewed shared a similar sentiment and brought up that many property owners are deciding whether to do long-term or short-term, because there is not very much money in short-term year round. As they put it, "There are apartments that in November, December, January or February don't make much, because they are not very

close to the center, and it is as if they were empty. Only that the owners still have to pay electricity, water, internet, all the same. At this moment, what we feel is that people who live here, who have short-term rentals, are choosing to sell the apartments, because they know that the market is high and they prefer to take advantage of it, or doing traditional leasing. But the vast majority is selling.” Here we see that for local investors the option of selling the property is increasingly more attractive, and the high property prices that are being practiced in the city help facilitate this decision. Again this highlights the flexibility that the short-term rental market affords property owners, they can choose to leave it whenever conditions change or when they see that the opportunity to utilize their property in a different manner arises. Also it is worth nothing that there appears to be a difference in behaviors here among local and foreign investors, selling seems to be a more attractive for local investors considering the current developments of the city’s real estate market.

For those living outside of Portugal, foreign investors and Portuguese people living abroad, the short-term rental market is undoubtedly the most attractive model of extracting profit from the property because it permits them to still have access to the property when they so wish to do so, however, if the market changes there is nothing keeping them from placing the property on the long-term or mid-term rental market. Placing a property on the short-term rental market is relatively simple, and investors do not have a particularly large stake in the sector in it of it self, nor is there any legal binding tying them to it, so gravitating to another sector is relatively painless. Particularly if as mentioned before, their existing management company is willing to do the transition for them. Now it is just a matter of observing the market and understanding what conditions will have to change in order for more investors to be pushed out of the short-term market and into a new venture.

This is not meant to imply that the short-term rental market is in any way in decline in Lisbon, on the contrary new ALs are being registered every day, and while the vast majority are concentrated in the historical center of the city, more and more ALs are being registered in neighborhoods outside of the center. However, while observing the flexibility of the sector from multiple facets, it is also feasible to see the potential fragility of it as well. One of the persons interviewed summarized the hypothetical decline of the short-term rental market very well, they pointed out: “If one day there is a decrease in tourism, which I hope not (knocks on wood), I think that who will suffer the most are the apartments. Because the hotels can begin

to lower prices, they have more capacity than property owners, who have the option of leasing in the long-term to have an additional income ... Therefore, I think that all those apartments that today are part of the market, those that are not in the heart (of the city), if there is a slowdown in demand, ... those that naturally will leave the market, that is, the offer that will be reduced are the apartments.”

Now to reinstate there is no indication of tourism slowing down in Lisbon, on the contrary, there has been a steady increase in visitors in the last five years, and there is nothing to indicate that the figures for 2019 will break that trend. However, having in light the flexibility in which investors can leave the short-term rental market, this accentuates the notion that the real asset is the property it self and the mechanism implemented upon it to extract profit varies depending on where the property is located and what economic trends are prevalent in the place it is located. Also it highlights that the short-term rental is just one of many tools that can be utilized to perpetuate the financialization of housing, and while this one is the one that is the most prevalent in the city of Lisbon at the moment, it is just a matter of time before new ones arise.

## **V - Future frontiers of housing financializaiton**

As multiple experts in the area pointed out, these past few years of rapid growth in the short-term market has been an indication of a fresh market that was untapped and had a lot of space to grow, nevertheless, as the market has matured, and an abundance of short-term apartments have multiplied like mushrooms throughout the city, its high profitability that once made it so attractive has curved. This has been attributed to multiple factors, such as higher taxes, an increased supply that some have said has driven down prices, and most recently to changing legislation regarding the regulation of ALs throughout Portugal. In August of 2018, the central government instated an alteration to the Decree Law No. 128/2014 of August 29, which launched the original regulation upon ALs, this new Law n.º 62/2018 imposed a series of new regulations upon the sector and considerably shifted the paradigm in which it practiced. The most notable facet of the new law, is that it gave greater power to city councils, as an article in the periodical *Diário de Notícias*, highlighted “The new legal framework for

short-term leasing gives municipalities the **power to define containment zones** - which may correspond to the area of a parish or part of it - where the opening of new local

### Areas of containment for short-term rentals

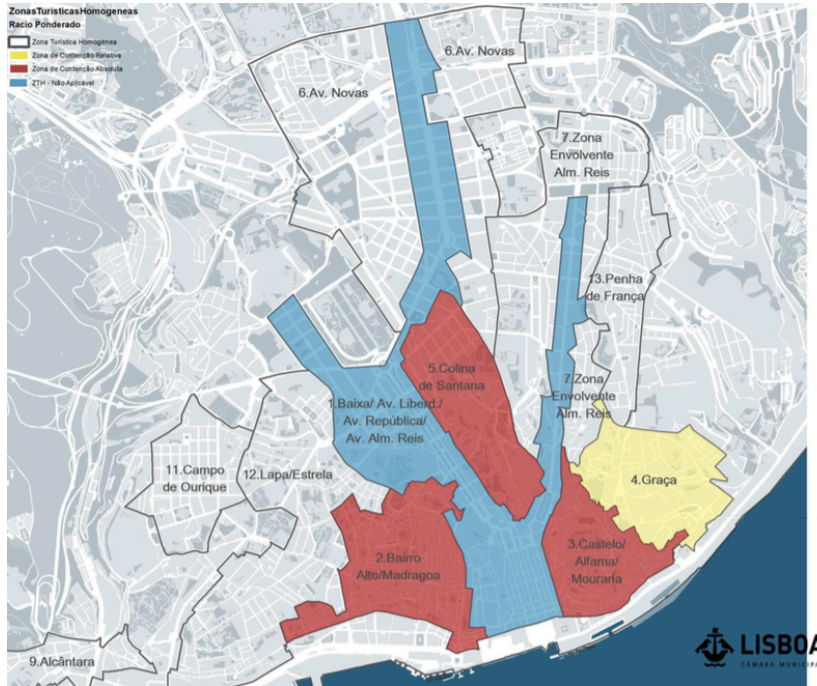


Figure 7

Source: CML

accommodation units is subject to the authorization of municipalities”<sup>26</sup> (Francisco, 2018). Subsequently the city council of Lisbon created areas of containment in the neighborhoods of Alfama, Mouraria and Castelo, which lie in the parish council of Santa Maria Maior, and neighborhoods of Bairro Alto (parish of Misericórdia) and Madragoa (parish of Estrela) (CML2, 2019). However upon further research they extended the area of containment to two additional neighborhoods, Colina de Santana and Graça, with the later only having a partial restriction hence why it is yellow in figure 7.

This new containment law was widely discussed throughout the interviews and while every person had a wide range of opinions upon this new legislation, the overwhelming majority shared the sentiment that it was very important for the city council to regulate short-term rentals in order to preserve the authenticity of the city. However, many did not agree with the manner in which it was carried out and believed there were more effective ways to do

<sup>26</sup> Translated from Portuguese: *O novo enquadramento legal para o arrendamento de curta duração dá às autarquias o poder de definir zonas de contenção - que podem corresponder à área de uma freguesia ou de parte dela -, onde a abertura de novas unidades de alojamento local fica condicionada à autorização dos municípios.*



it, other than areas of containment. Some recognized this as an opportunity for there to be a sort of cleansing of the market, all the new regulation would weed out all the smaller less professionalized actors in the sector. In many regards it could be seen how this new regulation will further the professionalization of the sector, but of course this is only stipulation and only time will tell what effects this new legislation will truly have.

One other factor that should be consider in light of this new legislation is that beyond areas of containment it also stipulated that by 2020 all registered ALs should have a multi-risk insurance policy to cover damages for both the property and the guests, additionally by that point in time property owners can be subject to pay higher condominium fees if the condominium should deem it necessary (Francisco, 2018). Here we see how this new regulation will serve to increase over head cost of running a short-term rental and hence further narrows the margin of profit, leaving one to wonder if this will dissuade investors from entering the sector or will it push some of those already in it out. It will be interesting to observe how this legislation will serve to shape the market, and it also raises the question of whether it will lead investors to re-direct their assets to a different sector, and if so which sectors will that be.

Upon completing the interviews it became clear that while the short-term rental market is the most dominant in popularity amongst investors, it is not the only one that exists. In fact according to one person interviewed investors are already beginning to alter their strategy with the properties they purchase, they stated: “of the 100% who invest in houses, ... The perception I have ... is that this has changed a lot since last year, because last year I would say that 90% would go to Airbnb, this year I would say that, I am not sure, 50-50.” Granted this is one person’s opinion, but through speaking with specialists in the real estate market and in the short-term rental market there was a growing impression that the short-term rental market has peaked, and there were strong indications that implied that new mechanisms of housing financialization are developing in the city.

One new concept that arose throughout the interviews was co-living, this model can be described as a professionalized scheme of house sharing, where a space is designed to have communal spaces and private rooms or shared bedrooms. It stems from the idea of sharing a house with roommates, but at a larger scale for the spaces often houses over 15 people, it often includes cleaning services, and it is generally managed by a start up company. As one of the

interviewees described, “First co-working appeared, but now we are looking at the co-living ... one of the big sectors that is growing in real estate , with certainty, is co-living.” This notion that co-living is a growing thing was backed up by a series of news articles in *Diário de Notícias*, *Idealista news* and Montepio magazine. In an article published by *Diário de Notícias* they quote Marta Esteves Costa, research director of Cushman & Wakefield in saying "The concept of co-living is much discussed today in the real estate market as one of the major trends of the residential segment's future,"<sup>27</sup> further the author of the article made the point to highlight that investors are setting their sight on this segment due to the potential it has (Guerra, 2018). Such is the enthusiasm around this new model that in January of this year the *Associação Portuguesa dos Promotores e Investidores Imobiliário* (APPII) organized an event by the title “Co-living: Get inside the millennial-inspired co-living boom” where specialist in the area from around the world gathered and aimed to be the bridge of this model into Portugal (Celestino, 2019). There are in fact already a few of these co-living spaces functioning in Lisbon, such as Selina located in the neighborhood of Santa Catarina, Outsite in Cais de Sodre, and Same Same in Baixa. It is worth noting that these are located in the heart of the city center.

The big draw of this model is the flexibility it offers those seeking a room for a mid-term period of time, they generally do not have to sign a lease. This model is geared towards digital nomads and young professionals that will be making a prolonged stay in a city, but do not have any intention of living there permanently. While it is too soon to say what will come of this type of model, regarding the matter of housing being utilized as as a vehicle of investment in Lisbon, co-living is certainly something to be observant of.

Another sector that arose was the matter of student housing, as one of the people interviewed put it “Another business is growing, student housing, I don't know if you are interested. It isn't a short or long-term lease, they are 6, 8 month contracts, for people who come here to work and need a place that is already furnished, that has everything. They are usually people (the owners) who used to do short-term, and are registered and everything, but don't do it anymore because its not financially viable anymore, and that is why they do this type of rental. We have many people like that, mainly in winter they do that.” Here we see

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<sup>27</sup> Translated from Portuguese: "O conceito de co-living é hoje muito discutido no mercado imobiliário como uma das grandes tendências do futuro do segmento residencial"

that people who once functioned in the short-term rental market are already seeking other options. Another person we spoke to also called attention to the sector of student housing, and the need there is for it in the city, although that person also recognized that this model would be difficult to develop in the city center, due to high property prices, but indicated that they are already looking for opportunities of investment in areas outside the city center.

Another model was just discussed by one of the people we spoke to as an aside – but it resonated with a topic discussed in the literature review (Section VI) – when discussing new technologies and the new mechanisms of housing financialization that arise from them. This person described “Nowadays there is already a line of action in which a property is divided by several small owners... Because there are those who bought the building, there are those who bought the apartment, and now there are those who buy a single property divided into several partners. Then this property is leased and the income is distributed. The advantage of this is that you can invest a lot less money and have a much higher return than if you put it in the bank, given the liquidity of the investment in short-term housing.” This model of investment resonates with the business model that Housers offers, and makes it so that individuals with some modest savings can invest in real estate as well.

Lastly, the topic of the entrance of REITs in Portugal arose. In January of this year the Decree-Law No 19/2019 of January 28<sup>28</sup> was passed, allowing the emergence of *Sociedades de Investimento e Gestão Imobiliária* (SIGI), which essentially function in the same manner as REITs. These companies own and manage real estate with the intent of producing income from them, these companies are known for investing in commercial real estate, but as Rolnik (2015) pointed out in the wake of the Subprime Mortgage Crisis, many of these trusts began re-channeling their investment towards residential real estate in the wake of widespread foreclosures, scooping up foreclosed homes at auctions, and banking upon the principle that the former home owning class would become tenants. This model of corporate investment in the city is highly relevant because due to the magnitude that these trust tend to have the effect that they will be capable of having in the city’s the real estate will be greatly significant.

In the latest report published by Cushman & Wakefield (2019) they applauded the entrances of SIGIs into the Portuguese market, stating that the introduction of this new

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<sup>28</sup> Decreto-Lei no 19/2019 de 28 de janeiro

vehicle of real estate investment has the potential to be very positive for the sector. Upon speaking with specialist in the sector there was an overarching enthusiasm when discussing the entrance of these trusts into Portugal. As one of the people spoken to put it, Portugal has already attracted a lot of investment, but in their mind it could attract a lot more, pointing out that “there are certain types of investors, within a scale, that only enter a certain country when that country presents a type of investment vehicle that they know. They are the famous SIGIs, internationally known as REITs, ‘Real Estate Investment Trust’. We are talking about pension funds, insurance companies ... very large vehicles.” While the entrance of these SIGIs promise to provide new dynamism to the real estate market, we should not ignore the other side of the coin, as Rolnik (2015) calls attention to, since after the Great Financial Crisis large institutional investors such as REITs have implemented strategies of squeezing out profit from their rental properties at all costs, often as August & Walker (2017) point out at the expense of the quality of housing they offer their tenants.

Another person interviewed expressed some hesitation when asked about SIGIs, they acknowledge that they would be a great source of investment in Portugal, but admitted to having some doubts regarding what their role would be. This person explained that some parts of the new legislation were not very clear, because it was still unclear if they only will be able to develop rental units, or if they will be allowed to develop apartments with the objective of selling them. Essentially with the ambiguity that lies within the legislation it is still difficult to decipher how large of an impact the entrance of SIGIs in Portugal will be able to have.

## 6. Discussion

Through out the chapters of this dissertation clear exemplifications of housing financialization have been presented. We have begun by looking at incidents of housing financialization across various geographies and the argument has been raised that while it has manifested itself through varying mechanisms, the financialization of housing is a global phenomenon. However, as Wijburg and Aalbers (2017) have presented in the specific case of Germany, housing financialization comes in waves, and each geography demonstrates distinct wave patterns. This having been said, as of present, most global cities appear to be facing a rather similar wave of housing financialization, by this I mean the rise of buy-to-let investment in residential real estate. Leyshon and French (2009) brought light to the relevance to this form of investment, and highlighted that particularly in the wake of the Great Financial Crisis some of the larger investors in the buy-to-let sector placed themselves in the position to pick up more properties at a discounted price. Paccoud (2016) went on to elaborate that this surge of buy-to-let has been a catalyst of the gentrification process in certain neighborhoods. This process of gentrification is quite relevant to housing financialization, because in the buy-to let sector they go hand in hand. Purchasing a property in a city or neighborhood that has a higher promise of appreciating, makes it a better place for investment. Further as August & Walker (2017) presented, for some corporate landlords gentrifying entire buildings is a mechanism used to extract more rent from tenants.

Now looking further and taking into consideration the development of new websites and platforms such as Airbnb, we have seen the buy-to-let sector gain a new facet and a greater capacity of extracting profit from residential properties. With the germination of the short-term rental market, cities worldwide have been stricken by a new wave of housing financialization. Lisbon has been no exception to this global trend, and this study delineates how the short-term rental sector developed in the city and the effects it is having on its housing market. An important observation that was highlighted in the previous chapter and should not be made light of is the involvement of the Portuguese state in promulgating the development of *Alojamentos Locais*, beginning with the Decree-Law No 39/2008 in which they established the definition of an AL, followed by the Decree Law No. 128/2014 which granted

ALs a legal stature and was the mark of a large proliferation of short-term rentals through out the country. In fact, as discussed in the data analysis, according to a report published by the City Council of Lisbon, this legislation of 2014 aided the surge of ALs in the city (CML, 2018).

As it can be observed in the data analysis, there is a direct correlation with the concentration of short-term rentals in a neighborhood and property values. The parish councils of Misericórdia and Santa Maria Maior have the highest price per square meter in the city, these also happen to be the neighborhoods with the highest number of registered short-term rentals. As figure 7 (pg. 81) demonstrates according to the data made available by TravelBI by Turismo de Portugal, Santa Maria Maria Maior has 4,577 registered short-term rentals - representing 24% of all the registered properties in the city; and Misericórdia has 3,658 properties listed - composing 19.5% of all the properties registered. It is quite significant that these two parish councils alone, out of a total of 24, contain 43.5% of all the registered short-term rentals in the city. Also as has already been mentioned in the previous chapter, these property price increases also had a reflection in the housing rental market, with considerable yearly increases in rent prices. There is no doubt that the neighborhoods with higher incidents of short-term rentals are facing greater property price increases in comparison with the rest of the city.

Upon delving further into the transcripts of the interviews performed, I was able to discern overarching themes and links that the participants of the study spoke about. An interesting point arose when discussing investors' motivation for placing their capital in Lisbon, it was asked if investors bought in Lisbon with the specific objective of placing the property on the short-term market. The resounding answers was that the primary investment was absolutely the property, that the short-term rental market had been a popular option because it was so profitable for a time, but as the market matures and margins of profit decrease investors are opting for different ways of extracting profit from their investment. Essentially, their greatest interest is to place their money in what they deem a good and safe investment. Here we see housing in Lisbon being utilized as a "safe deposit box" (Fernandez *et alt*, 2016), however, as Montezuma and McGarrigle (2019) point out the fact of "safe deposit" investments taking place in a second tier city like Lisbon indicate a changing trend.

Another finding that was reached from the content of the interviews was that contrary to common belief, short-term rentals are not always more profitable than the long-term or mid-term sector. Multiple specialist of the short-term rental market stressed that the profitability of a property is dependent of the location and amenities that the apartment offers. This also can imply that it cannot be taken as a given that property owners opt for the short-term market for purely economic purposes. Here it became rather clear that there are other benefits and advantages that investors gain from opting to place their property on the short-term rental sector.

The most visible finding as to what attracted investors to the short-term rental market was the matter of flexibility. It was widely understood after speaking to specialist in both the real estate and the short-term rental sectors that one of the facets that most appeals to investors in short-term rentals is the flexibility that it grants them, they are able to access the property whenever they need to. Also it was noted that often time those who opt for the short-term rental sector live abroad and like having the possibility of staying in their property when they visit the city, or being able to loan it out to friends and family. Besides that property owners prefer the sense of control that the short-term market permits them, because some claim that it allows them to have a greater say over the property than if it were leased to a long-term tenant.

A second facet of flexibility related to the short-term sector, revolved around the matter of short-term rental property management business models. As was found in the interviews, all companies offer a distinct array of services and each can adapt their business model to the client group that they wish to attract. This point of the services management companies offer becoming so diverse, signals to the professionalization of the sector (Cocola-Gant and Gago, 2019), and also indicates that the concept of it being an example of the sharing economy is less and less accurate. Also this matter of management companies having flexibility in their business model, also stresses the point that the true investment is the property, because if need be the property can always be placed on the long-term or mid-term rental sector. Here we see it marked very clearly that the asset is the property, and the mechanisms utilized to extract profit from it can and do vary.

Within this logic of the asset being the property itself, the third finding related to flexibility arises, and that is the flexibility in exiting the short-term rental market. As is mentioned in the data analysis there is nothing particularly tying property owners to the short-term rental sector and in the case that it stops being the most profitable option, it can always be placed on the mid-term or long-term rental sector. Or further yet, if the investor feels that they can make a better investment elsewhere they can simply sell the property. For just as their capital can be stored in a property in Lisbon, it can just as easily be stored in a property in another city or country.

Now looking again towards the aims and objectives of this study, I sought out to determine if short-term rentals could be considered the new frontier of housing financialization, and it appears to be evident that in fact the short-term rental market has been one of the latest mechanism of housing financialization implemented in Lisbon for it has created another avenue for residential properties to be treated like a business. Aalbers (2019) has argued that companies that promote short-term rentals such as Airbnb are an example of “platform capitalism,” by this he means that short-term rental platforms serve as a tool for channeling more capital into specific areas of the city and are an example of fifth-wave gentrification. Now, in order to further understand this concept, one should be familiarized with Aalbers’ (2019) description of third and fourth wave gentrification, third-wave describes how “local authorities and national state use their regulatory and financial powers to enable – and indeed, to boost – profits made by private developers” (2019; 4), signaling to the involvement of the state in facilitating gentrification. This is followed by “an intensified financialization of housing ... with the consolidation of pro-gentrification politics and polarized urban policies” (Lees *et al*, 2008; 179 *op cit* Aalbers, 2019), and is what is deemed fourth-wave gentrification. Fifth-wave gentrification is a culmination of third, fourth and the element of short-term rentals.

With this notion of increased capital being directed towards particular neighborhoods, the effects it has on property values and rent prices, and the distinct use that former homes begin to have, it appears quite clear that it has become the most recent bastion of housing financialization. Particularly in the historical center of the city, but the concentration of capital that these neighborhoods are experiencing are having rippling effects in neighborhoods



outside the city center. In this regards the city has experience what DeVerteuil & Manley (2017) describe as *pieð-a`-terre* urbanism, in which the concentration of investment in a particular region of the city, pushes the prices of properties and rents up in the surrounding less central neighborhoods.

Now when we consider my objective of examining whether short-term rentals channel investment into residential real estate, this question was inconclusive. For as we can see there is a growing number of investors, who are purchasing apartments and opt to place it on the short-term rental market in order to gain additional returns. However, as was discussed earlier the main objective of investors is to place their capital in residential real estate because they deem it to be a good and safe investment. I found it impossible to factually discern if less investment would have come into Lisbon had the short-term market not been an option. This being said the impression that was gained from speaking to real estate specialists was that as the short-term rental market matures and with the implementation of areas of containment for ALs by the city council, there has been a cool down in procurement by investors.

Considering the second objective I sought out to analyze, being to understand the benefits investors find in the short-term rental market, the resounding response was flexibility. They have an increased flexibility in being able to use the property whenever they need it, and they also have the flexibility of leaving the sector when they decide that it is not the most adequate for their needs any longer, whether it be personal or financial reasons. In this regards it becomes evident that the asset is the property they invested in, and if new mechanisms of extracting profit from it arise, they can just as easily direct it towards that channel.

Here we see that at the core of this investment lies an apartment or house, the manners by which financial gains are made from it are flexible and dependent on the context, but the real possession of value is the property. For as was mentioned in the previous chapter new mechanisms of housing financialization are continuously being created in the city, be it through the development of the new of model of co-living, the allowance of SIGIs in the market, or the growing demand for student housing. These were just a few that were discussed in the interview, but with the rapid advancement in information technology, the new

modes of the so called sharing economy the my arise, and the inventive ways that capital finds to move, it is just a matter of time before new mechanisms are developed.

## 7. Final Remarks

It has become clear that housing, either through production of housing, the mechanisms created to finance home mortgages or housing development, and more recently new tools created to extract profit from housing, has been at the core of our global economy for the past 60 years or so. There has been a variety of waves of housing financialization that have reinvented the manner in which profit can be made through housing, be it through the globalization of the mortgage market, the securitization of mortgages, the privatization of public housing, to name a few, and more recently the short-term rental market. If we consider the historical uses of housing, we will find that housing as a source of profit is not a new concept, for Lewis Mumford points out how in ancient Rome “Crassus, who made a fabulous fortune in tenement house properties boasted that he never spent money in building: it was more profitable to buy partly damaged old properties at fire sales and rent them with meager repairs” (1989; 220). This sounds strikingly reminiscent of the tactics that corporate landlord presently use to increase their margin of profit, and is representative of the social ailment that continues to plague the question of housing.

The matter of access to affordable housing has been an issue for centuries, as Frederick Engels points out in his work *The Housing Question* (1935), making reference to workers living in European industrial cities in the second half of the 19th century, that the housing shortage that major cities were facing was nothing particular of that time, but moreover the working class from other periods of time had struggled to gain access to suitable dwelling conditions. This reading of housing is just as accurate today as it was nearly 150 years ago. However, the economic system in which it exists has been dramatically altered. To revisit the work of Foster and Magdoff (2009), our current global economy is driven by neoliberalism, globalization, and financialization - the before mentioned mighty triad. And the simultaneous unfolding of these processes has held housing captive in a manner that we had not seen before. For as of present we are witnessing multiple mechanisms of housing financialization at play, and the ever loosening of regulation and the abetment of capital crossing international borders by global real estate mediators is furthering their reach all the more.

As the academic Richard Florida has argued, we are currently facing a global housing crisis, that can highly be attributed to the financialization of housing, “which has caused an oversupply of luxury housing and a lack of affordable housing in many cities across the world” (Florida & Schneider, 2018). Now while there are numerous other factors that have contributed to the current state of housing on a global scale, the issue I aim to address in these closing words is that which I have deemed a crisis of governance. I find that our cities’ last bastion of protection from the deluge of capital that is storming in should be our governments, however, as John Isbister so precisely described: “The world seems to be withdrawing its faith in governments and replacing it with a new faith in unregulated capitalist market” (2001; 154). Such is the case that our governments have been the largest advocate for this model of governance, or should I say absence of governance, in which the social construct and physical environment of our cities is dictated by capital.

Revisiting Aalbers’ (2019) concept of Third, fourth and fifth wave gentrification, we see that the hand of the state has been heavy in utilizing its policy and economic force to promote and facilitate the entrance of private capital into urban settings. So in this regard perhaps an “absence of governance” may not be considered by some the best description, what I mean by this term is what I interpret to be a lack of moral courage by part of our government to defend the well being of their citizens. Local and national level officials have fallen prey to a vision of neoliberal urban governance, where private capital is valued disproportionately more than public interest. In face of this predicament, the work of J.K. Galbraith resonates when we consider his observation of post WWII United States and his description of what he deemed the contrast between “private affluence and public squalor,” questioning how it was possible for there to be public squalor in the richest country in the world (Schummacher, 2011). By public squalor, meaning a lack of investment in public services and a growing rate of wealth inequality.

This same question can be raised in most urban settings, of which Lisbon is no exception. The city finds itself in a time where there is a considerable amount of capital entering its premises, and this is considerably visible when you look at the city’s horizon line from any of its numerous look out points and spot an outstanding amount of construction cranes cluttering your view, or when you walk down the streets of most central neighborhoods and see the amount of building rehabilitation that has recently taken place or

is in the process of occurring. And while an elite few have been able to amass a handsome amount of wealth from the prosperity that has been created in the city, it has certainly not trickled down to the majority of the population. Lisbon is faced with a conundrum of “private affluence and public squalor,” the state of housing financialization and lack of affordable housing reflects this. However, the question remains as to when politicians will gain the moral courage to confront and challenge global capital, and further when will the city’s citizens take action and demand their government defend a greater public well being.

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