



Moving to a new housing pattern? New trends in housing supply and demand in times of changing. The Portuguese case

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Abstract: *This article seeks to explain the effects of the recent economic and financial crisis on housing conditions and the ability of Portuguese families to access housing. It also discusses how the crisis is reconfiguring housing patterns in terms of access to housing and changes in public policies, challenging the predominant mode of access to housing based on homeownership. This article also discusses the role of social housing in the Portuguese housing system and the changes and challenges in this sector coming from the economic and financial constraints of families and the state. This article has three parts. The first describes the Portuguese housing system and social housing in particular, highlighting the factors and conditions that led to a reduced social housing stock and to the predominance of homeownership. The second part discusses the impact of the crisis on families and the state, showing how the constraints on both are translated into (1) worsening housing conditions, (2) the diversification of groups struggling to access housing in the private market, and (3) decreased housing affordability that further adds to the pressure in the social housing sector. The third part reflects on how the crisis has changed the focus of housing policies and policy instruments, arguing that the patterns of the Portuguese housing system are changing and a growing emphasis is being placed on the need to diversify the housing supply to satisfy increasingly diverse groups in need of housing.*

Keywords: social housing; Portugal; home ownership; welfare policy.



Housing policies in Portugal: From a fragile social housing to supporting homeownership

One way of understanding the specific nature of the Portuguese housing system is its articulation with the dynamics of urban growth and with the structuring context of the welfare state. On the one hand, Portugal's late urban growth - dating from the mid-20th century - was centred on two major metropolitan areas, Lisbon and Porto. It led to coastal occupation and the abandonment of the countryside in a process of urban concentration that accelerated after the 1960s. At the same time, the Estado Novo had implemented an authoritarian regime, heavily regulated by ideological and moral principles, and supported by a rural society of landowners who went into a process of decline when confronted with the emerging and active industrial bourgeoisie, increasingly concentrated in the big cities.

During the dictatorship period until April 1974, the promotion of public housing was practically non-existent. Some social housing programmes had been implemented in the two largest urban areas (Lisbon and Porto) and - for ideological and propaganda reasons - targeted those who best served the regime. A small number of social housing programmes were designed that combined the ideology of the regime with the provision of modest villas in a homeownership regime, directed at workers strongly loyal to the moral and political values of the regime (Pereira 2012).

In the period between the 1960s and 1974, growing industrialisation ushered in a level of urban growth that visibly increased the pressure on housing. The alliance of land and real estate interests attracted the financial system and the dominant economic groups to support construction and real estate companies, many of them working in both the formal and the informal market. At the time, housing supply increased but at prices that were not affordable to lower income groups. Overcrowding, unhealthy housing, the occupation of courtyards ("ilhas"), and illegal construction were the response to the severe housing deficit in the two metropolitan areas.

In this period, large private neighbourhoods of collective housing (most of them of bad quality) were built up, which led to the urbanisation of peripheral areas and the expansion of the city across its limits.

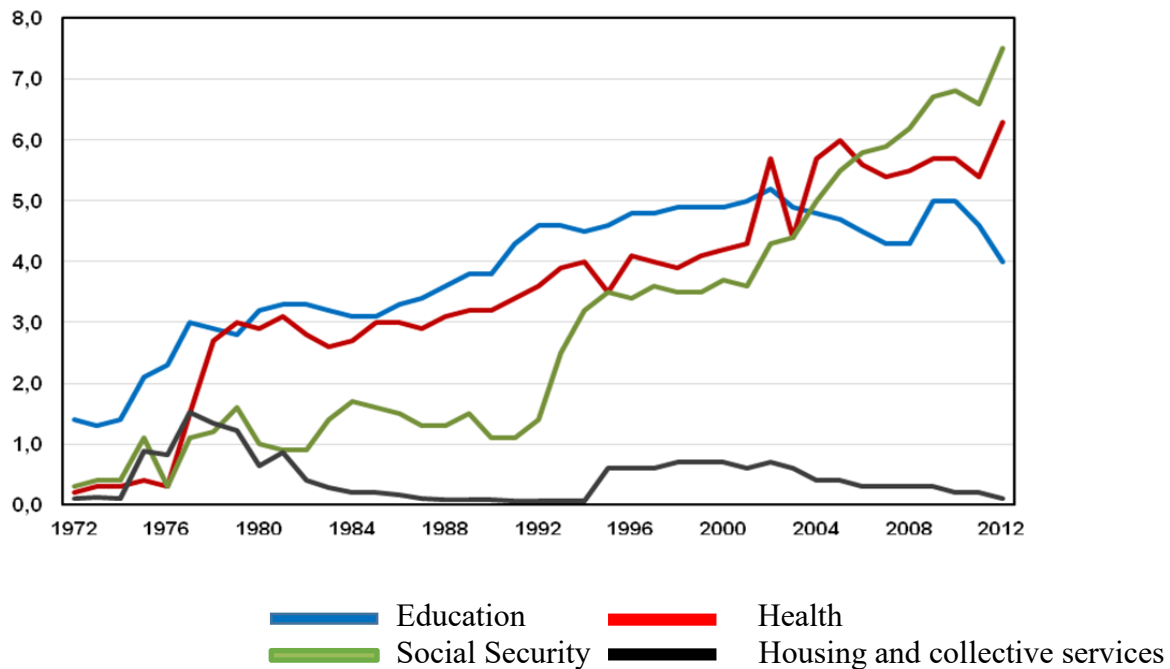
After the democratic revolution (1974): the 'happy joint venture' towards homeownership

The Portuguese welfare system mainly emerged out of the democratic revolution (1974) and established itself onwards from there, when the European discussion about the sustainability of the 'welfare state' began. The specific focus of the Portuguese welfare system can be analysed through the evolution of expenditures on the fundamental pillars of the welfare state: education, health, and social security. These sectors recorded substantial development in the second half of the 1970s and grew continuously over the next three decades (Santos et al. 2014). Figure 1 shows how housing policies were strongly disadvantaged compared to other social policies, and



the exclusion of housing from the financial support provided under European programmes put housing in a more secondary place.

Figure 1: Various components of public expenditure as a percentage of the GDP over time (1972-2012)



Source: Ana Santos, Nuno Santos e[and] Nuno Serra, 2014, p. 9.

After April 1974, increasing industrialisation accelerated the urbanisation process and the exodus from rural areas. In the absence of sufficient housing supply (private or public), families found several ways to respond to the growing housing needs: the extension of precarious housing areas (slums), illegal construction on the outskirts of large cities, and a large outbreak of civil construction offering housing to the integrated working and middle classes in the private market.

The vicissitudes of the democratic process and several periods of economic difficulty (IMF intervention in 1977, 1983 and 2011) made public housing policies after 1974 inconsequential in nature. The promotion of public housing fluctuated significantly in this period in connection with the social and political changes in the country and international economic environment. Even with a democratic regime in place, the supply of social housing has remained scarce, although there are more signs of public responsibility for housing in the two metropolitan areas of Lisbon and Porto. In 2012, there were around 118,000 social homes located in 268 municipalities, representing about 3% of the housing stock, but in the cities of Lisbon and Porto the share of the population in social housing is more than 10%. (INE 2012)

The central state (or central public bodies) is almost entirely responsible for the provision of social housing, but since the 1980s agreements have been made between the central state



(financing) and the local authorities to give local authorities responsibility for the construction, distribution, and management of social neighbourhoods.

The scarcity of public housing and the specific nature of the Portuguese welfare state directly influenced the social housing allocation system. Housing stock is allocated to people on low income through regional and public competition. There are multiple co-existing systems for calculating rent based on a family's income. The populations living in social housing neighbourhoods are mostly made up of families with indicators of poverty so high that no social or housing mobility is possible.

In a recent representative survey of social neighbourhoods in Lisbon, 69.4% of the families were poor, with the average income per adult equivalent being 357.86€. The risk of poverty particularly affects children (0-17 years of age), as 89.1% of those in this cohort, in these neighbourhoods, suffer from poverty. The average rental sum was 84€ per month and 30% of the households are in arrears with their rent (GEBALIS 2015).

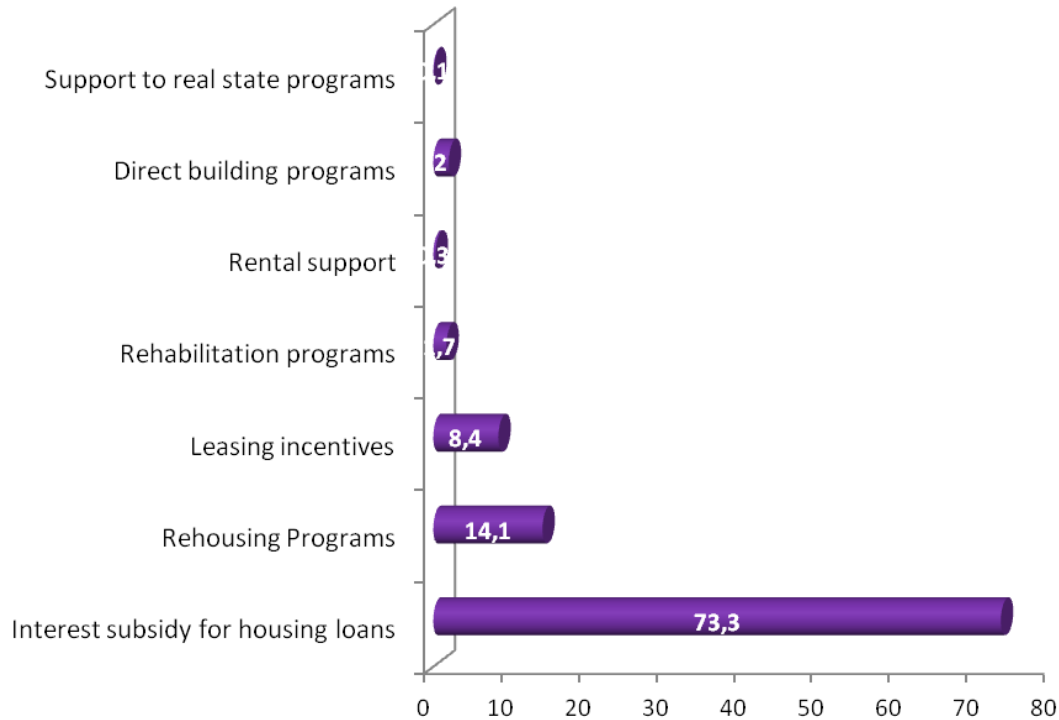
Over the decades, the incipient public provision of housing did not prevent Portuguese families from accessing homeownership. In the context of a paralysed rental market, the number of homeowners increased steadily in the four decades after the 'revolution' of 1974. This tenure status has grown to represent the majority in all social groups, accounting for 73% of all forms of tenure in Portugal (INE, Census 2011).

We have been arguing that this feature of the Portuguese housing system represents a 'happy joint venture' between families, the state, and the market.¹ For families, not only does this way of getting access to housing seem to work as an attachment to a specific cultural model - as it is usually referred to (Allen et al. 2004) - but above all it can be seen as a source of security in the face of an unstable job market and a weak welfare state that does not protect citizens from social risks (Conley and Gifford 2006; Doling and Ronald 2010) This quest for security goes hand in hand with the most permanent and resource-consuming policy - the support provided to homeownership in the private market through subsidised credit for home purchases, which ran from the 1980s until 2002. According to official data, between 1987 and 2011, 73.3% of total public funding for housing was channelled into this policy measure and only 14.1% went to direct public housing programmes (Figure 2). Finally, this 'alliance' met the market interests in housing construction which had been, prior to the crisis, a powerful lever in the creation of stable conditions in the Portuguese economy (Santos 2014).

¹ See Pinto, T. C. and Guerra, I., (2016) 'Social housing in Portugal: understanding the semi peripheral housing policies', a paper presented at the 2nd Seminar of the RESHAPE Project at the Free University of Bozen-Bolzano, 6-8 April 2016, and Pinto, T. C. and Guerra, I. (2016), 'Housing policies and homeownership in Portugal: behind the cultural model', a paper presented at the ENHR conference in Belfast, 28 June – 1 July, 2016.



Figure 2: Public investment in housing between 1987 and 2011, by programme (%)



Source: IHRU, 1987-2011, 25 anos de esforço do Orçamento do Estado com a habitação, Março de 2015.

This public support had thus favoured the wide spread of homeownership access without control over the social strata supported by these measures, allowing the middle class and the working class to gain access to homeownership. If, on the one hand, this support given to large social groups to help them access homeownership effectively reduced housing needs and contributed, in a less visible way, to the expansion of the middle class, on the other hand it allowed the depreciation of work reproduction costs and compromised the value of pensions in the future (Kemeny 1981; 2013). In fact, one of the consequences of this type of public support, which in effect depletes public funds for housing, is increasing inequality and social segmentation among those who, even with public support, cannot access housing. These are the clients of social housing programmes, which thus tend to generate social and geographically devaluated and stigmatised spaces.

In short, housing policies in Portugal have been characterised by chronic public disinvestment, most of it oriented towards subsidised credit for homeownership, and weak investment in social housing based on a model targeting the poorest, most spatially concentrated, and most socially homogeneous households.

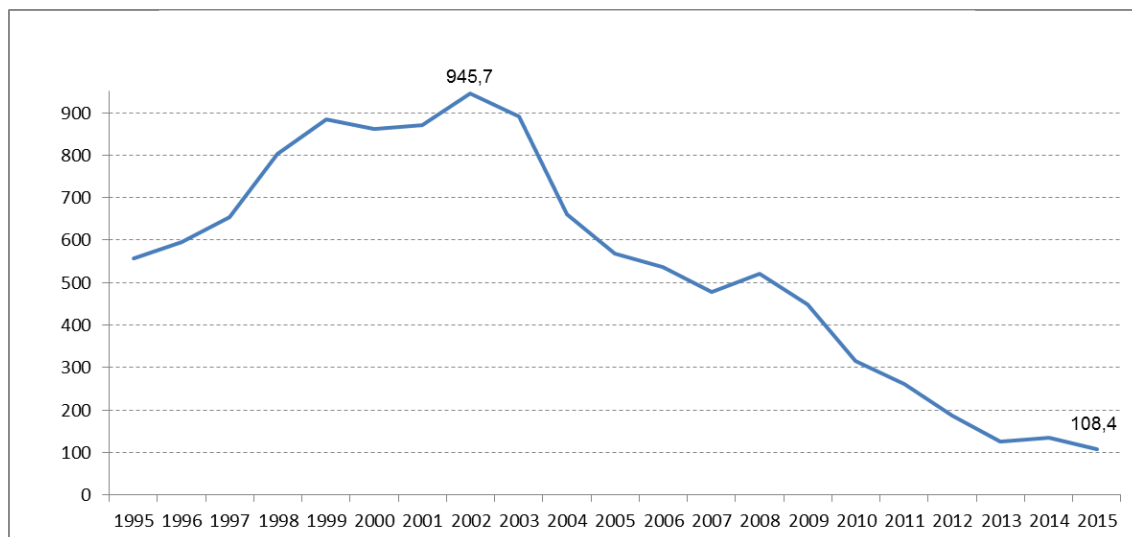


The impact of the crisis on the housing system: new trends in housing supply and demand

It is well known that Portugal was one of the countries hard hit by the recent global financial crisis and it was subject to a readjustment programme that entailed severe austerity measures that simultaneously affected families, the state, and the market.

The economic and financial crisis of these last years has had a deep effect on families as a result of the continuous contraction and precariousness of the labour market, increased unemployment, and the severe drop in family income. However, the crisis not only affected families, their living conditions, and their income, compromising their ability to access the housing market, but also drastically impacted public investment in social policies and especially in housing. Figure 3 shows the dramatic cuts in public expenditure on housing and collective services, which have been the trend since 2002.

Figure: 3 Public expenditure in housing and collective services over time, 1995 – 2015, M€



Source: *PORDATA*.

As a result of these two linked and complementary dimensions of the crisis, housing conditions have significantly worsened. In comparative terms, the share of housing costs in disposable household income does not seem to penalise the Portuguese population, as these costs are below the European average. However, the trend in recent years, particularly since the beginning of the crisis, has been the increase in housing costs as a share of disposable income in Portugal, contrary to the trend in the European average, which shows a tendency towards stabilisation.² In 2015, Portugal clearly approached the European average in terms of the share of housing costs in disposable household income, which were, respectively, 18.9% and 21.8% (Eurostat, Silc, 2015 [online data code *ilc_mdcd01*], author’s calculations). Furthermore, 11.3% of

² It is important to note that in Portugal the increase in the share of housing costs in disposable household income and of the housing cost overburden rate are due not so much to an increase in house prices, like in other countries, but to a decrease in household income as a result of growing unemployment and the introduction of austerity policies, which have drastically cut family income.



European households and 9.1% of the Portuguese ones spent in 2015 more than 40% of their disposable income on housing (Eurostat, Silc, 2015 [online data code `ilc_ivho07a`], author's calculations). These values are much higher for people at risk of poverty: 39.4% and 33.5%, respectively. In both situations, the housing overburden rate is increasing, particularly since 2010. (Eurostat, Silc 2015, [online data code `lvho07a`], author's calculations). The same tendency has been observed regarding the number of households being in arrears with their rents or mortgage credit payments (Eurostat, Silc 2015, [online data code `ilc_mdcs06`], author's calculations).

The breakdown in both the ability of families to pay rent/mortgages and in public intervention poses a serious problem for housing affordability, not only for traditionally lower income groups but also for those people facing unemployment or loss of income problems – especially young adults, single-parent families, or the elderly.

This means the increase and diversification of the population that is in a vulnerable situation and for whom it is becoming more and more difficult to find affordable homes in the private sector.

In this context, housing policies are currently faced with a double challenge: on the one hand, they are called upon to respond to increasing housing needs, which are not satisfied by the market; on the other hand, resources that have typically been used to finance housing access are decreasing in some cases, as mentioned above, having suffered a dramatic cut over recent years.

The capacity of the social housing providers to intervene in the market is challenged by these phenomena and the sustainability of social housing provision is at risk of being deeply affected by the multivariate dimensions of the crisis, namely: i) the increasing demand for social rental housing, adding to the already long waiting lists – in 2012, 25,600 urgent requests for housing were registered with local authorities, and half of them were in the Lisbon area, while about half a million households live in overcrowded houses and 42,000 families are registered on the local authorities' urgent waiting lists (INE 2012); ii) the decrease in public budget funds allocated to housing and specifically to social housing. In recent years, some of the responsibilities in such areas of housing as urban regeneration have been transferred to municipalities which have been leading the development of Local Housing Plans and defining urban areas of priority intervention involving individuals, enterprises, and local stakeholders. But public funding is being reduced to the point that many projects cannot be implemented and those that were approved in the past are still on hold. In Portugal, we also find that social housing providers have fewer resources but greater responsibilities (Scanlon and Whitehead 2014).

The financial crisis, which quickly transformed into an economic, social, and political crisis, profoundly changed the patterns of access to housing that had prevailed in Portugal in the previous decades. Banks have substantially reduced access to purchasing a home and households with mortgage credit have suddenly found themselves unable to cover their housing costs. The State, given the financial constraints imposed by the adjustment programme, has also been dismissive of its function as a provider and even as a regulator. Portugal is now leaning towards the complete liberalisation of the housing market, either by breaking the provision of



social housing or housing with regulated production costs, by decreasing investment in subsidised rent programmes for young and vulnerable groups, or by producing legislation to liberalise the rental market³ leading to increasing prices in this sector and making it impossible to establish an alternative form of affordable housing.

In this situation, the providers and managers of social housing, namely the municipalities, are now facing growing housing needs without the means to tackle them. Management of the social housing stock is increasingly being transformed into management of a waiting list, amidst the constraints of very low rents and the continuing deterioration of the social housing stock.

Current debates and issues: moving to a new housing pattern?

Access to housing and the affordability of housing are now at a crossroads. In this specific context of severe economic and financial constraints many questions have been raised by central and local authorities, academics, and housing sector associations: What should the role of the state be? What financial model should be adopted for sharing resources and responsibility between the state, the municipalities and enterprises? How to reuse existing urban and housing resources? How to design programmes to support insolvent families and low-income middle classes? How to ensure a more flexible and sustainable housing system? In this context what should the role of social housing be? And should there be regeneration or an increase in the current social housing stock?

Interestingly, the discussion of the future of social housing seems to have gathered some consensus at this crossroads over how the housing situation in Portugal is doing. As noted above, because the housing stock is very small, the provision of social housing has always been aimed at those who are in serious need of housing. But even despite this limited amount of stock, the sector suffers from serious maintenance and management problems, resulting in particular from the system of very low rents⁴ that compromises its sustainability and regeneration. In addition, social housing neighbourhoods are accompanied by negative images and represent stigmatised spaces, which leads municipalities to avoid facing (or even to reject) the possibility of strengthening social housing in their territories. In this sense, the idea has emerged that the paradigm of social housing policies has run its course and needs to be transformed into a paradigm of 'housing social policies'.⁵ These new policies would be aimed at more diverse groups, such as the population that faces difficulty finding a home in the private market without any kind of support, and at the same time it would be a means of reusing and regenerating the existing housing stock without creating stigmatised and difficult to manage neighbourhoods.

³ The most recent reform of the tenancy act was in 2012, in response to the obligation that Portugal assumed to fostering the rental market as part of the Economic Adjustment Programme. The legislation has been amended to give more flexibility to landlords to increase rents and to speed up the eviction process, while retaining some protection for the most vulnerable tenants.

⁴ The average rent in the social housing stock belonging to IHRU (National Institute for Housing and Urban Rehabilitation) is 75€ a month.

⁵ However, the document that defines the National Housing Strategy envisions the expansion of the social housing stock from the current 118,000 housing units to 130,000 in 2031, without, however, defining the means or the model for the construction and allocation of this housing (IHRU, National Housing Strategy).



Timid attempts have been made in this regard. The IRHU, in partnership with other entities, has developed two programmes designed to make the rental market more accessible. Firstly, the Social Rental Market (*Mercado Social de Arrendamento*) was established in 2012 as one of several measures envisioned under the Social Emergency Plan. The programme allows real estate seized by banks to be re-leased at a price 30% below the regular market price. It is aimed at people who can't access social housing, but don't have enough income to buy their own house or to rent in the private market. Secondly, Rehabilitating for Rent (*Reabilitar para Arrendar*) is intended to provide municipalities, companies, and urban regeneration societies with support to rehabilitate buildings for use as housing and this housing is specifically restored for use as rental housing with regulated rents.

The first programme intends to provide 2000 housing units in 100 municipalities and the second programme has been allocated 50M€. However, while not disregarding these initiatives, they contrast with the real housing needs and the increasing difficulties of families in accessing housing. A 2013 report by the LNEC (National Civil Engineering Laboratory) estimated that some 500,000 dwellings were needed.⁶

The awareness of these difficulties and the need to facilitate housing access to Portuguese families led to the elaboration of a National Housing Strategy for the period 2015-2031.⁷ In a country that has strongly invested in access to homeownership and new construction, this document seems to want to reverse this housing pattern, presenting three pillars that will sustain housing policies in the coming years: 1) to encourage urban rehabilitation; 2) to boost the rental market; 3) to improve housing regeneration.

This change in public policy orientation reflects the awareness, likely driven by the crisis, that the previous paradigm of access to housing can't be sustained, faced now with severe constraints both on families and the state. The need to diversify the housing supply to meet the demands of the increasingly diverse groups in a situation of housing need is confronted with a housing system marked by a structural bottleneck in access to housing, a bottleneck formed by the primacy of homeownership, so the path(s) to accessing housing need to be revised. On the other hand, the significant amount of vacant housing stock and the growing need for rehabilitation, especially in urban centres, pose new challenges to the ability to articulate these two imperatives, which will certainly require the involvement of the private sector and other stakeholders. The crisis can be seen as an opportunity if the state can assume, if not the role of provider, at least the role of regulator in order to ensure there are affordable homes for those in need of housing.

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⁶ LNEC, *Habituação, Reabilitação Urbana e Inovação Social*, 2013

⁷ The National Strategy for Housing (ENH) for the period 2015-2031 was approved by Government Resolution no. 48/2015.



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