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The Impact of Foreign Investment in Portuguese Real Estate Market. Is Portugal selling itself?

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Master in International Management

Supervisor:

PhD, Maria do Rosário Costa e Silva da Veiga, Assistant Professor, Department of Accounting
Iscte-lul

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BUSINESS
SCHOOL

Department of Marketing, Strategy and Operations

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Resumo

Este estudo oferece uma análise abrangente do mercado imobiliário português, focando especificamente na influência do investimento estrangeiro nos preços da habitação. Distinguindo-se de pesquisas anteriores concentradas em grandes centros urbanos como Lisboa e Porto, este estudo procura fornecer uma visão panorâmica, abrangendo todos os 18 distritos de Portugal. Para abordar os objetivos da pesquisa, foi adotada uma abordagem multifacetada. Esta abordagem envolveu um inquérito web que rendeu 112 respostas de agentes imobiliários, investidores e compradores portugueses, oferecendo um conjunto diversificado de opiniões. Além disso, foram realizadas 21 entrevistas aprofundadas, uma em cada um dos 18 distritos, envolvendo as principais partes interessadas do setor imobiliário. As principais conclusões do estudo revelam um cenário imobiliário dinâmico e em evolução. Embora o investimento estrangeiro seja um fator significativo, a influência sobre os preços da habitação é multidimensional, interligada com um espectro de dinâmicas regionais e específicas do mercado. Por isso mesmo, a avaliação do aumento dos preços da habitação exige uma consideração abrangente de vários elementos contribuintes, incluindo a escassez da oferta e o papel da inflação no mercado imobiliário. Além disso, esta investigação destaca a importância de considerar todo o país ao avaliar o mercado imobiliário português, uma vez que tendências e nuances distintas emergem em diferentes distritos.

Palavras-chave: Mercado Imobiliário Português, Valores Imobiliários, Taxas de Juro, Lei da Oferta e da Procura

JEL Classification System: G21, R31, R32

Abstract

This study offers a comprehensive examination of the Portuguese real estate market, focusing specifically on the influence of foreign investment on housing prices. Distinguishing itself from prior research concentrated on major urban centers such as Lisbon and Porto, this study endeavors to provide a panoramic view, encompassing all 18 districts of Portugal. To address the research objectives, a multifaceted approach was adopted. This approach involved a web survey that yielded 112 responses from real estate agents, investors, and Portuguese buyers, offering a diverse array of opinions and insights. Additionally, 21 in-depth interviews were conducted, one within each of the 18 districts, engaging key stakeholders within the real estate sector. Key findings from the study reveal a dynamic and evolving real estate landscape. While foreign investment is a significant factor, the influence on housing prices is multi-dimensional, intertwined with a spectrum of regional and market-specific dynamics. Therefore, the assessment of rising housing prices necessitates a comprehensive consideration of various contributing elements, including the scarcity of supply and the role of inflation within the real estate market. Furthermore, this research highlights the significance of considering the entire country when evaluating the Portuguese real estate market, as distinct trends and nuances emerge in different districts.

Keywords: Portuguese housing market, Real estate pricing, Interest rates, Law of supply and demand

JEL Classification System: G21, R31, R32

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Abbreviations

APA	American Psychological Association
ARI	Residence Permit for Investment Activity
CFA	Chartered Financial Analyst
CMVM	Securities Market Commission of Portugal
ECB	European Central Bank
ETF	Exchange-traded Fund
EU	European Union
FEII	Real Estate Special Investment Fund
FII	Real Estate Investment Fund
FUNGEPI	Real Estate Asset Management Fund
GVA	Golden Visa Attributions
HICP	Harmonized Index of Consumer Prices
ICT	Information and Communication Technology
INE	Instituto Nacional de Estatística
JLL	Jones Lang LaSalle
NHR	Non-Habitual Resident
REIT	Real Estate Investment Trust
RMBS	Residential Mortgage-backed Securities
SEF	Immigration and Border Service of Portugal
SICAVI	Variable Capital Investment Company

SICAFI	Fixed Capital Investment Company
SIGI	Sociedades de Investimento e Gestão Imobiliária
USA	United States of America

1. Introduction

The real estate sector, as an important part of any economy, plays a key role in shaping the socio-economic face of a country. The importance of real estate is intrinsically linked to the well-being of individuals, communities, and overall economic stability.

This thesis begins a global exploration of the Portuguese real estate market, with particular emphasis on the perceived importance of foreign investment. While the role of foreign capital flows is an essential central point, it must be recognized that the dynamics of this market are diverse and closely linked to many other determinants. Of particular importance are the effects of inflation and housing availability, which also shape the real estate landscape.

This study attempts to discern the complex interaction of these factors as it seeks to answer fundamental questions: *“To what extent does foreign investment contribute to property price fluctuations in Portugal and how does it compare with other important factors?”*; *“What is the impact of foreign home purchases in relation to the total number of homes transacted on the Portuguese real estate market?”*; and *“Is foreign investment present only in Lisbon and Porto, or can we say that it is present on a national scale?”*

By delving deeper into the multifaceted determinants of the Portuguese real estate market, this thesis aims to provide a comprehensive understanding of the driving forces behind its development. With a national perspective covering all 18 districts, this study examines the impact of foreign investment, inflation, housing supply and other contributing factors, as it seeks to provide valuable insights value to the discourse surrounding this important economic sector.

2. Literature Review

2.1. Description, Forms, Risks and Benefits of Real Estate Investing

2.1.1. Description

Real estate comprehends several sectors and is considered a dynamic and lucrative industry that may be subject to fluctuations or economic trends. Nevertheless, it is a tangible asset of great importance to society and represents a pivotal role in the global economy. Furthermore, real estate differentiates itself by having some unique features, such as heterogeneity, since no two properties are identical, and the fact of having a fixed location.

The key facets of real estate include *residential real estate*. The housing market consists of individual single-family and multifamily units, such as apartments, condominiums, or townhouses. It serves the primary purpose of providing shelter for individuals and families, playing a crucial role in our lives. When residential real estate is acquired with the intention of generating income through letting, leasing, or renting, it falls into the category of commercial real estate.

Commercial real estate includes properties designed for business purposes. It represents *office buildings* that may be occupied by pharmaceuticals, consultancy or law firms, *retail* or *shopping centers* filled with outlets or small stores, *industry*, or *warehouses* pivotal for logistics and the supply chain, *hospitality* for hotels or motels, and branded or prime residencies, student housing or the senior living market. These commercial properties generate returns from rent and capital appreciation.

On the other hand, infrastructure investments involve real, long-lasting, and capital-intensive assets that serve essential public purposes, such as transportation systems (airports, seaports, railways), information and communication technology (ICT) assets, and utility and energy infrastructure (e.g., water facilities).

These investments are often facilitated through public-private partnerships and can be categorized based on the asset's development stage, with greenfield investment pertaining to

assets under construction and brownfield investment referring to existing infrastructure assets (CFA Institute, 2023).

2.1.2. Forms

Real estate investing can be categorized into two primary investment approaches: direct and indirect ownership of real estate property. Many investors opt for real estate to diversify their investment portfolios, especially in response to increasing inflation and market volatility.

Direct real estate involves the acquisition of a specific portion of a property, whether through debt or equity investment. Residential real estate, which accounts for 75% of the global market, primarily consists of individuals and families owning their homes.

Historically, institutional funds and high-net-worth individuals with extended time horizons and low liquidity requirements have also seen commercial real estate as a suitable direct investment, whether through equity or debt.

While equity investments give ownership of the property along with a part of the income and possible value growth, debt investments include lending money for property development or acquisition. Any gain or reduction in the home's value is reflected in the owner's equity, which is amplified by the mortgage's leverage.

Some examples of direct real estate are “*purchasing a property, buying an ownership stake in a commercial property, and investing in the lending capital required to build a property*”.

Indirect real estate requires purchasing shares in real estate investment funds or stocks in companies that invest in real estate. Consequently, rather than investing in a particular property, the investor chooses pooled assets, having no control over how or where their money is being allocated. Some examples of indirect real estate are “*publicly traded REITs, private REITs and exchange-traded funds (ETFs)*” (Parvis, 2022).

A real estate investment trust (REIT) is a company that enables investors to buy shares in a diversified portfolio of income-generating real estate properties, making this previously exclusive investment opportunity available to a broader range of individuals.

REIT portfolios encompass various property types such as apartment complexes, data centers, healthcare facilities, office buildings, or warehouses and provide investors with the

potential to receive dividends generated by these properties, offering a means to diversify their portfolios with real estate assets (James Chen, 2023).

On the other hand, home loans can either be retained on the lender's balance sheet or bundled into securities and then sold to the financial markets. In this way, securitization allows for indirect investment in residential real estate through debt products like residential mortgage-backed securities (RMBS).

As a result, the structuring of mortgage-backed securities follows the asset-backed securitization model, which involves converting less easily traded assets (e.g., mortgages) into more liquid securities and shifting the associated risk from the original asset owners, such as banks and finance companies, to investors (Frank J. Fabozzi, 2002).

2.1.3. Risks

Real estate investments may potentially underperform since property values are influenced by macroeconomic and microeconomic factors. The real estate sector is particularly sensitive to interest rates, as many home buyers rely on mortgages to finance their purchases. Lower interest rates tend to stimulate home buying and construction, while higher interest rates can lead to contractions in these activities and can also affect the demand for commercial real estate and business investment, as higher borrowing costs can lead to reduced investments in profitable projects.

Credit cycles play a crucial role in real estate dynamics, representing fluctuations in the availability and pricing of credit. During economic upswings, lenders are more willing to extend credit on favorable terms, conversely, during economic downturns, lenders tend to tighten credit, making it less accessible and more costly. The availability of credit significantly influences the real estate market's health and activity (Gerhard Rünstler and Marente Vlekke, 2016).

Furthermore, the real estate market can be influenced by speculative behavior, where individuals may purchase properties based on the expectation of further price increases. This speculative behavior can fuel upward price cycles and eventually result in overbuilding, leading to an oversupply of unsold homes and downward pressure on real estate prices. This phenomenon was observed in various countries during the 2008-2009 global financial crisis, as

late buyers who stretched their financial resources faced significant losses when the market corrected.

Numerous economic activities are linked to a certain price index, which serves as a crucial inflation indicator. The Harmonized Index of Consumer Prices (HICP) is the main focus of the European Central Bank (ECB), which is the central bank for the European Union (EU). Consequently, the EU's statistical office, Eurostat, reunites each member nation's report on their separate HICPs before combining them with national weights (European Central Bank, 2023).

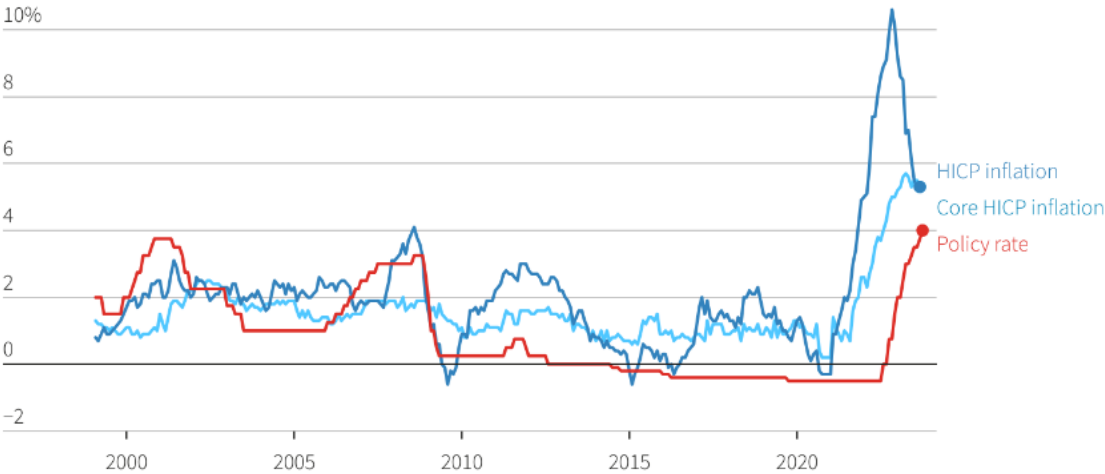


Figure 1: ECB hikes policy rate to record high of 4% (Source: Reuters Graphics, September 2023)

In today's globalized economy, even investors with a purely “domestic” portfolio focus are increasingly influenced by the foreign exchange market. This is because most large companies rely on international operations, face foreign competition, and have their domestic asset prices influenced by foreign investor demand.

2.1.4. Benefits

Real estate investing differentiates itself from every other market in the sense that every investor has access to a fixedly located illiquid asset with unique features in which there are no two equal properties.

There are several reasons why real estate is appealing to investors. Firstly, the value appreciation over time offers the prospect of competitive long-term returns through steady income generation. In the graphic below, there is the perception that from 2010 to 2023, house prices went from Index Levels 2010 = 100 to Index Levels 2023 = 145.

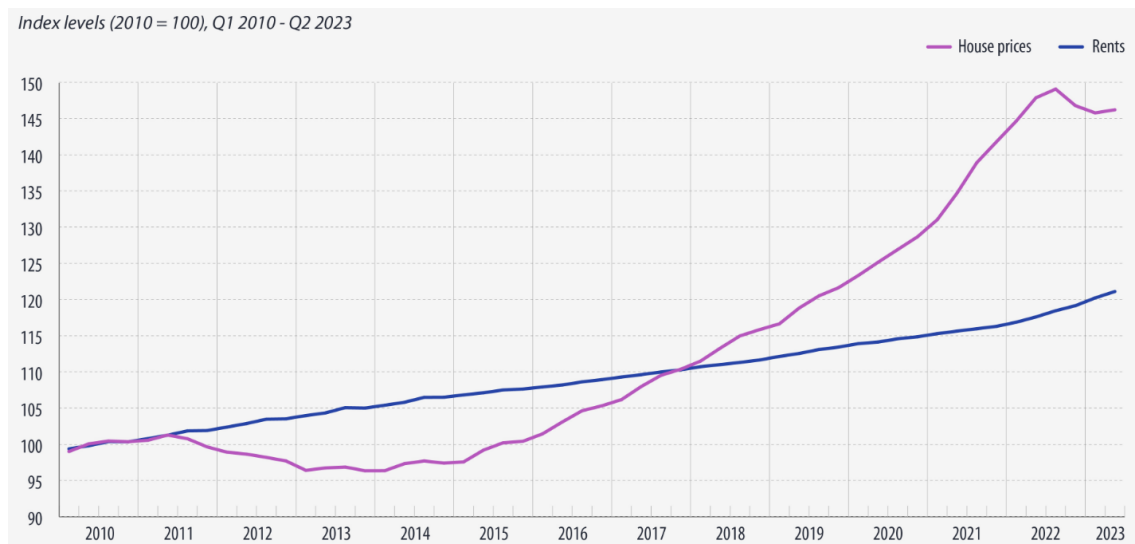


Figure 2: Housing Prices and rents, EU (Source: Eurostat, 2023)

Secondly, the opportunity to have a stable income with fixed rents throughout several economic cycles can work as an effective hedge against inflation, as rents are adjustable to market rates. Lastly, investors consider it attractive and versatile because it is a valuable diversification tool within investment portfolios (Jeremy Pagan, 2023).

2.2. Foreign Investment in Portuguese Real Estate Market

2.2.1. Real Estate Investment Trust - SIGI

The so-called Real Estate Investment and Asset Management Companies (“*Sociedades de Investimento e Gestão Imobiliária*”) also known as SIGI were introduced into the Portuguese legal framework under Decree-Law No. 19/2019 of 28th of January 2019 and introduce a model REIT into Portuguese real estate investment options.

SIGIs are investment vehicles specifically intended for real estate, with the exception that the shares that constitute their share capital must be listed and adhere to certain free-floating guidelines. SIGIs must also adhere to stringent guidelines regarding the makeup of portfolios, debt ceilings, and compulsory allocation of earnings.

SIGIs profit financially from the explicit reference to the favorable tax environment that is currently in place for real estate investment funds and businesses. Still, they are not governed by the laws that apply to collective investment vehicles or subject to the oversight of the Securities Market Commission of Portugal (CMVM).

Regarding the tax treatment of a foreign REIT, when it receives revenue directly from real estate assets located in Portugal, it will be subject to standard Portuguese tax laws and will be taxed either as a resident corporation, if it has a permanent establishment, or as a non-resident at a rate of 25%. (European Public Real Estate Association and Garrigues, 2023)

2.2.2. Real Estate Investment Funds – FII, FEII and FUNGEPI

In broad terms, real estate investment mechanisms can be categorized as follows: Real Estate Investment Funds (FIIs), which are standard investment funds that can be established either as contractual (REIF) or corporate entities (REIC); Real Estate Special Investment Funds, which are akin to FIIs but possess a more adaptable legal framework concerning the types of eligible assets, investment strategies, and allowable indebtedness.

Both FIIs and Real Estate Special Investment Funds (FEIIs) may take the form of open-ended or closed-ended funds. In the context of corporate REICs, open-ended funds are classified as Variable Capital Investment Companies (SICAVIs), while closed-end funds are designated as Fixed Capital Investment Companies (SICAFIs). Despite their structural disparities, a SICAFI operates under the legal framework of a closed-end REIF, while a SICAVI adheres to the legal regulations associated with an open-ended REIF (Diogo O. Ramos and Gonçalo B. Lopes, 2020).

According to data from September 2023 published by the Securities Market Commission of Portugal (CMVM), “the value under management of real estate investment funds (FII), special real estate investment funds (FEII) and real estate asset management funds (FUNGEPI) reached 12,409.3 million euros, 138.3 million (1.1%) less than in August.”

At this time, Square Asset Management - Sociedade Gestora de Organismos de Investimento Coletivo, S.A. (13.1%), LYNX Asset Managers - SGOIC, S.A. (7.9%), and Interfundos - Sociedade Gestora de Organismos de Investimento Coletivo, S.A. (7.5%) had the highest market shares (CMVM, 2023).

	FII			FEII			FUNGEPI		
	Sep 2023	Aug 2023	Δ monthly	Sep 2023	Aug 2023	Δ monthly	Sep 2023	Aug 2023	Δ monthly
No. of management entities	33	34	(1)	23	24	(1)	1	1	0
Value under management (1)	10 296,4	10 358,8	-0,6%	1 837,6	1 914,1	-4,0%	275,3	274,6	0,3%
Open	4 187,0	4 164,1	0,6%	102,9	102,4	0,5%	275,3	274,6	0,3%
Closed	6 109,4	6 194,8	-1,4%	1 734,7	1 811,7	-4,3%			
No. of funds (2)	165	162	3	63	64	(1)	1	1	0
Open	12	12	0	1	1	0	1	1	0
Closed	153	150	3	62	63	(1)			
Average capitalization of the funds	62,4	63,9	-1,54	29,2	29,9	-0,74	275,3	274,6	0,73

Figure 3: Monthly aggregate indicators for real estate investment funds - September 2023 (Source: CMVM, 2023)

2.2.3. Golden Visa - ARI

The Golden Visa Policy was implemented in Portugal in 2012 under Law No. 29/2012 on the 29th of August and is a “special regime of residence permits for foreigners investing in Portugal”. Fast-forward 11 years, and on the 16th of February 2023, Portuguese Prime Minister António Costa stated that “the Golden Visa policy has already served its purpose”.

Were able to apply for a Residence Permit for Investment Activity (ARI) those who were able to invest in one of the following possibilities: the acquisition of real estate worth 500,000 EUR or 350,000 EUR if the construction of the building has been done 30 years ago; the creation of at least 10 jobs; the capital transfer of 1.5 million EUR or of at least 200,000 EUR depending on if it is invested in culture or in a commercial society.

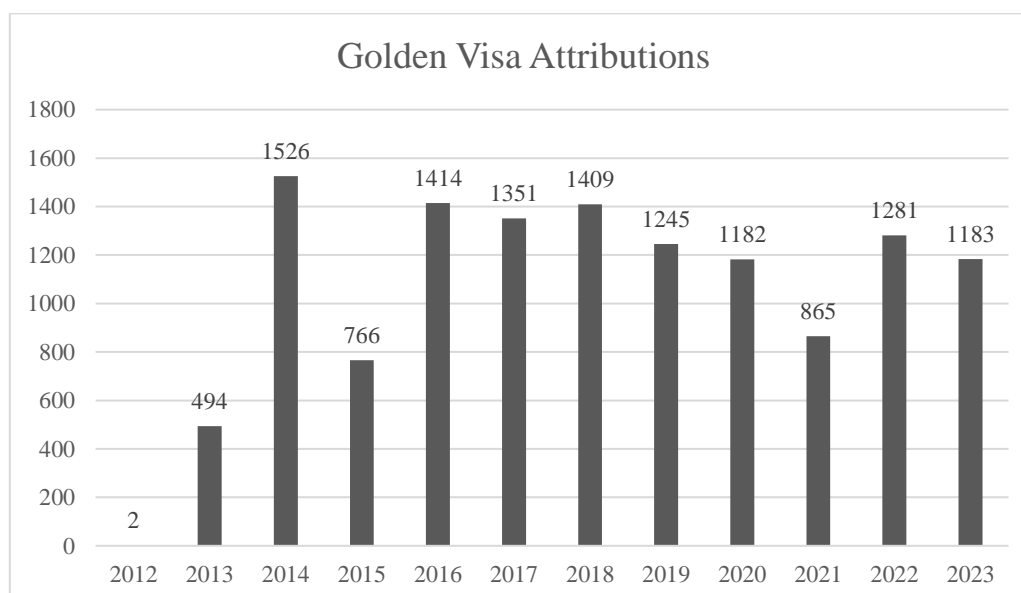


Figure 4: Golden Visa Attributions (Source: SEF, September 2023)

The main goal of the golden visa authorizations was to attract foreign investment and help the Portuguese economy recover from bankruptcy in 2011. However, from October 2012 to

September 2023, 12,718 residence permits for investment have been authorized, and 89.50% were for real estate property purchases. Of the total investment gathered, 6,451,363,649.48 EUR went directly to the real estate market, while only 23 ARI were for the creation of job positions (SEF, 2023).

According to the latest report from Immigration and Border Service of Portugal (SEF), the nationalities that have more Golden Visa holders in Portugal are Chinese, followed by Brazilians and USA. However, it is important to point out that North Americans have shown more and more interest in buying a property or investing in the Portuguese market.

On the 1st of January 2022, the Portuguese government changed the legal regime for obtaining the residence permit for investment in Portugal with the goal of “*promoting investment in interior areas, in urban regeneration, in cultural heritage, in activities with a high environmental or social value, and also in productive investment and job creation*” (PLMJ, 2021).

With this new amendment, “*excluded from this regime is investing in housing in the metropolitan area of Lisbon, in the metropolitan area of Porto, and almost the entire Algarve*”, meaning that investment in real estate would only be allowed in interior areas.

The Golden Visa program for financial transfers of 1.5 million euros and the purchase of real estate valued at 500,000 euros and 350,000 euros (the latter subject to rehabilitation work) was nonetheless discontinued by the government in October 2023. These agreements were terminated without a transition period and went into effect as soon as the President signed them.

2.2.4. Non-Habitual Residents

In line with the American Chamber of Commerce in Portugal, a recent meeting developed together with Pestana Hotel Group shows that Americans importance in Portuguese GDP is rising, as in tourism, it was the fastest-growing nationality in 2022 compared to 2019.

In accordance with Patrícia Barão, Head of Residential at Jones Lang LaSalle (JLL), they intervened in 67% of commercial real estate investment in Portugal, according to the first trimester of 2023. She believes that “*they discovered Portugal in the various real estate aspects*” and “*there is no doubt that we are on the radar of the Americans*”. The reasons behind

this interest are: (1) the good quality-price ratio; (2) the appreciation of the dollar; and (3) the growth of American tourists in Portugal.

Therefore, North Americans, fueled by an expanded offer of flights between the two countries, recognize Portugal as a safe country to live in, with a great quality of life, safety, climate, and good food. They look for a house to live in with their family, perhaps have the possibility to work remotely, and, consequently, value the international school options that we offer (AmCham, 2023).

Another important persona is John Calvão, fund manager of the Arrow fund, who was also present at the Amcham meeting and was compliant with what he had to say about this matter, which concerns the American market potential in Portugal: “*The sky is the limit*”.

Having a direct bearing on the proportion, the Arrow Credit Opportunity II fund, managed by Arrow Global, is considered the largest distressed debt fund and the fourth-largest debt fund overall. It closed within the first quarter of 2023, reaching €2.75 billion, and is apparently continuing to scale. Its geographical diversification has a 28% impact in Portugal and is diffused in real estate and direct lending adjacent asset classes from a diverse range of respected institutional limited partners (Arrow Global, 2023).

Effective from January 1, 2024, the Non-Habitual Resident (NHR) status will no longer be granted by the Portuguese Government with the application of the program “*Mais Habitação*”. The NHR regime was instituted in 2009 with the primary objective of attracting proficient non-resident professionals to Portugal, particularly those engaged in high-value-added occupations and individuals receiving foreign pensions.

Under this regime, for a decade, both employed and self-employed individuals in high-value-added sectors benefitted from a reduced tax rate of 20 percent, along with the opportunity to claim exemptions on capital income, property-related income, or capital gains. Furthermore, withdrawals from pension funds were subject to a 10 percent tax rate or were exempt if the pensions were already taxed in the originating state (Idealista News, 2023).

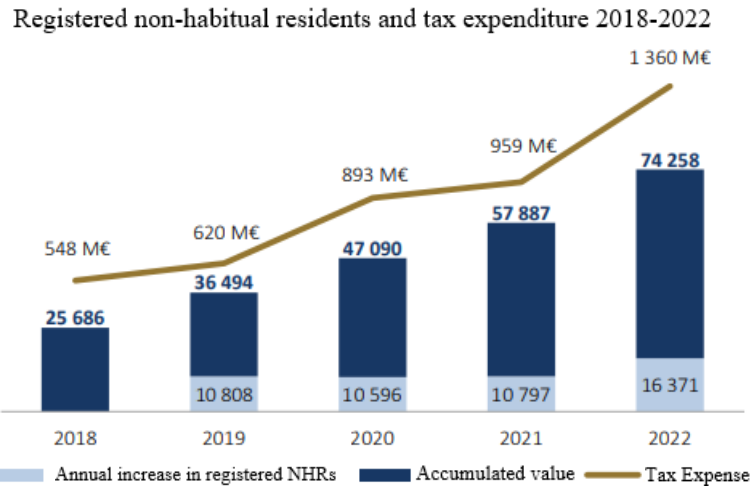


Figure 5: Opinion on the State General Account (Source: Tribunal de Contas, 2022)

2.3. Midyear Portuguese Real Estate Market Outlook 2023

Nonetheless, when scrutinizing the influence of real estate transactions involving properties sold to Non-Habitual Residents in Portugal relative to the overall volume of real estate acquisitions, it becomes evident that their significance is relatively modest. This observation is further accentuated when we contrast the count of Golden Visas issued with the aggregate number of residential properties transacted. In 2019, 8.5% of all properties transacted were bought by non-residents in Portugal which in terms of the value transacted corresponds to 13.3% (13.0% in 2018) (INE, 2019).

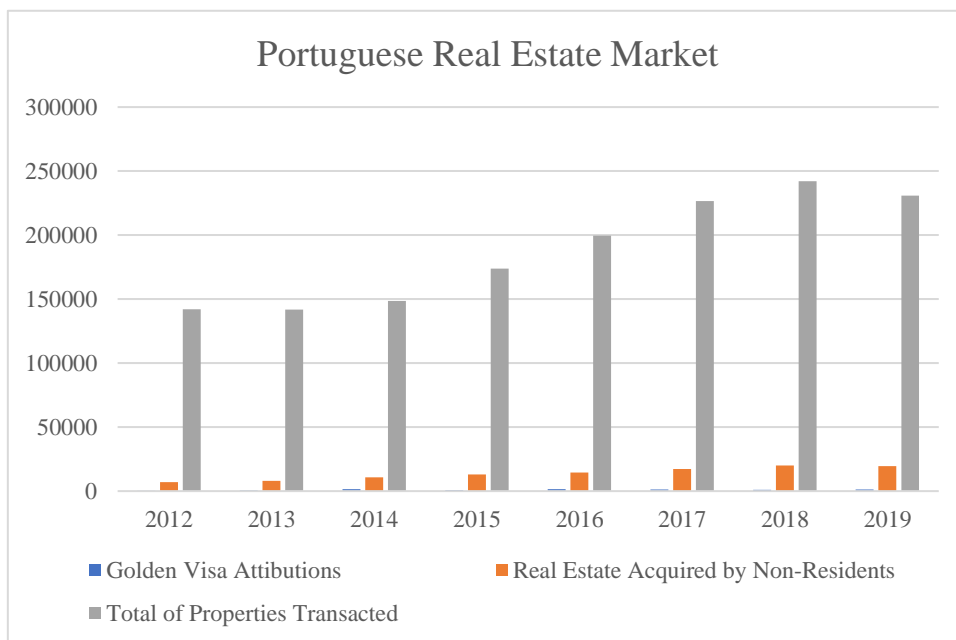


Figure 6: Portuguese Real Estate Market (Source: INE)

If we investigate a news report from SIC NOTÍCIAS, one of Portugal’s main television channels, Carlo’s Lobo, former Secretary of State for Tax Affairs responsible for creating this scheme in 2009, stated that the tax expenditure of 1.300 million euros is “a virtual tax expense because if they didn't come here, it wouldn't exist either. If we consider that there is this immoral gap between the taxation of residents and this taxation of non-habitual residents, then why don't we reach a compromise in which all the additional revenue from NHRs, which is generated and identified, is used to reduce the personal income tax of residents in Portugal?”.

Another testimony is from Pedro Fontainhas, managing director of the Portuguese Association of Residential Tourism and Resorts (APR) as he explains that “there is a deliberate desire to keep foreigners out of the country and make them guilty of policies that don't happen here, particularly the housing problem, because as has been duly documented, it is a problem of supply” (SIC NOTÍCIAS, 2023).

Correlation between the average value of buildings traded and the completed number of dwellings in new construction for family housing.

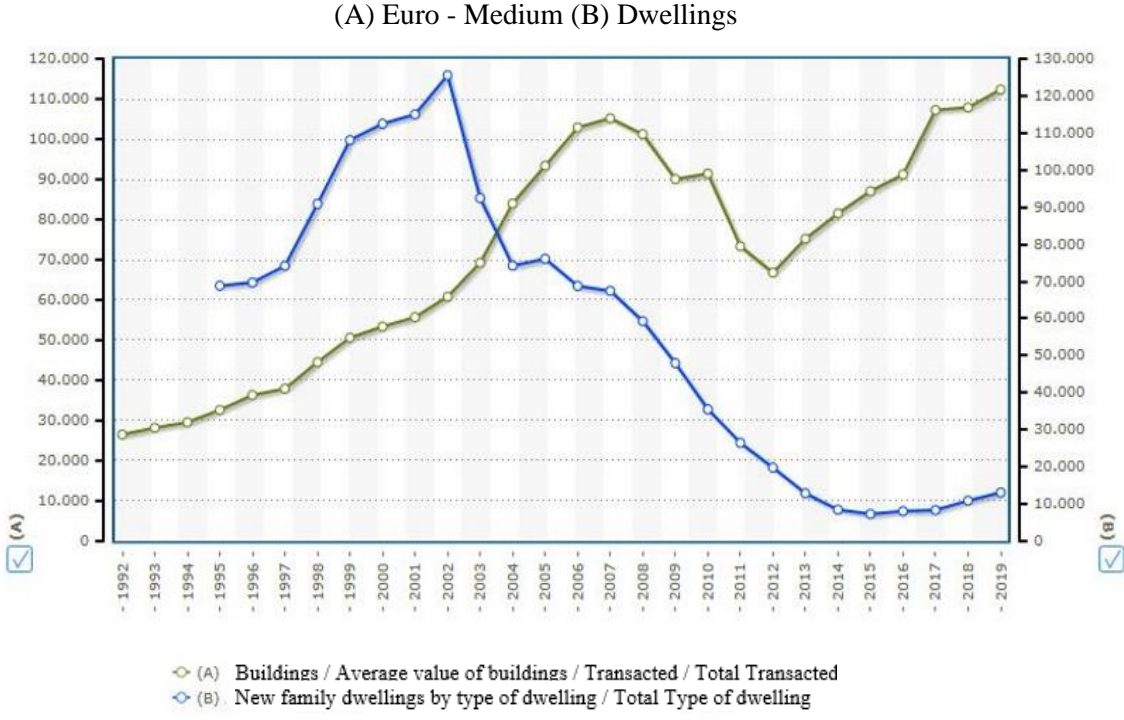


Figure 7: Correlation between the average value of buildings traded and the completed number of dwellings in new construction for family housing (Source: PORDATA, 2023)

By examining Figure 7, which delineates the correlation between the mean value of traded buildings and the total count of newly constructed residential dwellings designed for family habitation, several observations can be made. Notably, Variable A has displayed a consistent upward trend over the past decade, particularly after the housing crisis of 2011. In contrast,

Variable B exhibits a proportional decline. For instance, in the year 2002, a total of 125,708 thousand new dwellings were completed, while in 2016, only 7,909 new dwellings were introduced to the market.

Consequently, when considering the reduction in the supply of the Portuguese housing market from 2002 to 2019, there is a notable deficit of 112,754 new residential units available in the market, potentially exerting downward pressure on market prices. As per the preliminary data released, the year 2022 witnessed the construction of 20,156 new residential properties, indicating a 3% increase compared to the preceding year, 2021 (PORDATA, 2023).

Conversely, the cost per square meter in September 2023 has escalated to 2,525.00 EUR, marking a 5.7% progression when contrasted with the same period in 2022 across the entirety of Portugal. Notably, within the Lisbon region, the cost per square meter has surged from 1,776.00 EUR five years ago to 3,841.00 EUR in the present year (Idealista, 2023).

The economic landscape in Portugal has exhibited remarkable dynamics following the aftermath of the COVID-19 pandemic in 2020-2021. This is particularly evident in the context of inflation, which saw a notable increase, reaching its zenith in October 2022 with an inflation rate of 10.6%, subsequently moderating to 4.8% by September 2023 (BPStat, 2023).

The Russia-Ukrainian war initiated on the 24th of February 2022 marks a pivotal event in European geopolitics. The conflict has precipitated a seismic shock to the global economy, with particularly pronounced impacts on energy and food markets. These shocks have strained supply chains, leading to unprecedented escalations in prices. Notably, in comparison to other economic regions, the euro area has exhibited heightened vulnerability to the economic aftershocks stemming from Russia's invasion of Ukraine.

This inflationary trend, as illustrated in Figure 1, has reverberated across Europe, and prompted the European Central Bank (ECB) to raise its policy rate to an unprecedented level of 4%. This policy decision has, in turn, had discernible implications for EURIBOR rates and, consequently, has left an imprint on the housing market.

On the 26th of October 2023, Christine Lagarde, the head of ECB has made the official announcement that European Central Bank has taken the decision to set its key interest rate at 4% after *“bringing an end to its unprecedented streak of 10 consecutive increases in borrowing costs amid rising concerns over eurozone growth.”* (Financial Times, 2023).

Concerning EURIBOR and property financing, Portugal is susceptible to heightened risk in the residential real estate sector due to the predominant utilization of variable-rate contracts in most cases.

At the end of 2022, institutions held 92.6% of all contracts with variable interest rates, and 89% of the outstanding debt balance was linked to these contracts. Fixed-rate contracts continued to hold a very small part, making up 1.7% of the number of contracts held and 2.4% of the debt balance, while mixed-rate contracts made up 5.7% of the contracts held and 8.6% of the debt balance.

In the context of rising reference interest rates, such as the Euribor, the relative importance of fixed-rate and mixed-rate home loan agreements, which are intended to reduce changes in monthly payments (although temporarily, in the case of mixed rates), is on the rise (Banco de Portugal, 2023).

Furthermore, at the beginning of 2023, the New Housing Construction Cost Index (ICCHN) has marked 11.2% in year-on-year terms and the prices of materials and labor costs exhibited year-on-year variations of 10.4% and 12.4%, respectively (INE, 2023).

Hence, the cumulative influence of the aforementioned factors has extended across the Portuguese real estate market. This underscores the significance of conducting a comprehensive assessment of the 2023 outlook for Portugal, a task undertaken by CBRE, a prominent entity specializing in commercial real estate services and investments:

2.3.1. Sustainability

An expanding trend is discernible as an increasing number of enterprises are embracing sustainability initiatives, which is manifesting in a growing proliferation of environmental certifications, particularly within the construction sector. Concurrently, as construction expenditures have surged markedly in recent years, firms are increasingly incorporating sustainable practices as a means of economizing on resource consumption.

Portugal's environmental objectives for the year 2030 encompass overarching imperatives such as the global reduction of carbon dioxide (CO₂) emissions, heightened energy efficiency, and the enhanced utilization of renewable energy sources.

2.3.2. Investment

Property investments continue to have solid fundamentals. The primary dangers for 2023 are expected to be obtaining and paying for loans as well as a mismatch in price expectations between buyers and sellers. Even though Lisbon is now, for the first time, ranked sixth among the best cities in Europe to invest in, yields should still be correcting.

2.3.3. Offices

The office market is anticipated to remain invigorated by ongoing international demand, coupled with the substantiated occupation of office spaces exceeding 200,000 square meters. Nevertheless, a notable challenge is the shortage of supply and the persistently low vacancy rate. Prime rental rates in key business districts are projected to experience a rise of 5-10%, primarily attributable to the high quality of newly constructed buildings.

2.3.4. Retail

The retail industry is still recuperating from the pandemic, and the decline in consumer spending power is making matters worse. Supermarkets like Mercadona and Aldi, which are vying for new locations in Portugal, will also keep growing. Additionally, there are ten retail parking projects now under development, and high street shopping targeted at tourists is still growing.

2.3.5. Logistics

In logistics, the supply continues to be smaller than the number of interested investors, but there is the beginning of a response to demand outside the traditional consolidated areas. Although new projects are emerging, they are not expected to be completed until the end of the year and current availability is practically non-existent, leading to a sustained rise in rents.

2.3.6. Hotels

CBRE believes that there will be a stabilization in the number of overnight stays or even a cooling off in Tourist Accommodation, which will limit the growth of international demand, *“Most of the new openings planned for this year are upscale and luxury hotels, with new international brands entering some markets, such as the launch of Moov and Meliá in Lisbon.”* CBRE also considers that the change to the Golden Visa regime also allowed greater investment in the interior with the development of new hotel units.

2.3.7. Residential

An anticipation of diminishing property sales values and heightened demand in the rental sector is based on the persistent and substantial disparity between property supply and demand. With the concomitant increase in interest rates and the associated challenges in securing loans “*the greatest uncertainty currently arises from the ability of banks to prevent bad loans and forced sales, that is, the availability to renegotiate existing mortgage loans, especially for creditors with loans above 300 thousand euros*”.

2.3.8. Alternative Segments

The alternative real estate segments encompass sectors such as senior housing and healthcare, agribusiness featuring novel cultivation approaches and component technology, as well as student accommodations. Within the domain of senior housing, a conspicuous deficit of 55,000 available beds is evident in the market, a shortfall that major private healthcare providers are endeavoring to address. Regarding student accommodation, upcoming developments are anticipated, including a combined total of 4,000 units in Lisbon and Porto. Nevertheless, there is discernible enthusiasm for this market in the cities of Coimbra, Aveiro, and Braga (CBRE, 2023).

3. Methodology

The limitations of this study stem from the scarcity of reliable information, attributed to the recent nature of the subject and the lack of comprehensive research on the topic. Furthermore, the data obtained from various sources often exhibit disparities.

To ensure the robustness of our research, it was imperative to transcend mere anecdotal conversations and seek out authoritative sources for accurate figures. To this end, a mixed methodology, incorporating both quantitative and qualitative approaches, was employed.

On the qualitative side, a detailed market survey was disseminated among a diverse array of professionals, including real estate agents, lawyers, solicitors, bankers, consultants, credit intermediaries, law firms, management firms, real estate agencies, retirees, non-habitual residents, golden visa holders, and international investors. In addition to this, between the 3rd and 5th of May 2023, I personally engaged with professionals in the real estate sector at the "Salão Imobiliário de Lisboa" during the "Feira Internacional de Lisboa," facilitating their participation in the web survey through a QR-Code mechanism.

Furthermore, it should be noted that in order to obtain a comprehensive nationwide perspective, 21 interviews were conducted among experienced professionals across the 18 districts of Portugal. This additional effort was undertaken to ensure a well-rounded understanding of the subject matter.

Moreover, to enhance the depth and accuracy of our quantitative data analysis, key governmental institutions such as the "Serviço de Estrangeiros e Fronteiras" (Foreigner and Borders Service), the "Instituto Nacional de Estatística" (National Institute of Statistics), as well as data from PORDATA and Market Outlook Reports from management societies were instrumental in providing significant insights through their annual and midyear reports.

4. Results and Discussion

4.1. District-Level Interviews

Throughout the past year, a total of 21 interviews were held between the 18 districts of Portugal. The goal was to provide a national perspective, rather than focusing solely in Lisbon, Porto, or Faro, which are commonly considered as the major cities.

Consequently, several experienced professionals from the real estate market gave their opinion on the impact of foreign investment in Portuguese real estate market. The interviews were either done through a Teams Meeting, Zoom or a phone call and varied between a 15 and a 45-minute conversation.

The questions asked were the ones presented on point 4.2.1 of this dissertation as well as: *“Why do you think investors chose to invest on your district instead of the other ones, what distinguishes it?”*; *“Do you consider that we are living in a real estate bubble?”*; *“Do you think the only reason prices have gone up in recent years is because of foreigners?”*; *“How would you describe the first semester of 2023?”*.

4.1.1. District of Aveiro

According to their testimony, what distinguishes this district from all the others is the convergent geolocation with some important cities such as Viseu, Coimbra and Porto, which are an hour away by car, supported by excellent transportation routes. As a result, they have easy access to an airport that can take them to another European city in just a couple of hours.

On the other hand, Aveiro is home to several small and medium-sized enterprises (SMEs) that conduct research in collaboration with the prestigious University of Aveiro, and this collaboration contributes to the vibrant youth scene.

The interviewee believes that foreign demand has been on the rise in certain market branches. However, it is something that cannot be extended to all Portuguese cities. The nationalities he has primarily worked with are Americans, French, and Swiss individuals, who encompass both expatriates and those who have discovered Portugal and are genuinely interested in the country and its culture, they are attracted *“pelo sol, o peixe, e o mar”* (by the sun, the fish, and the sea).

When asked about tax benefits, the response was that they were detrimental to Portuguese buyers. Regarding the housing market prices, *“they are expensive from every angle”*. From their point of view, there is a perceived lack of support in terms of community engagement and public administration, especially for younger people. They find this situation intolerable.

As for the Golden Visa policy, the interviewee stated: *“It is good, as long as there is a filter on who gets in”*. In their view, there should be stricter control to prevent money laundering and drug cartels from acquiring Portuguese nationality without even setting foot in Portugal.

In response to the question *“Do you think the only reason prices have gone up in recent years is because of foreigners?”*, José stated that the increase in prices has nothing to do with foreign investment. Instead, he believes that the rise in prices is due to a shortage of manpower and supply, along with the tax burden that contributes to the overvaluation of real estate. José also contends: *“Banks exist to buy and sell money, and I think there are still some of them with a significant amount of money to invest, which is why property values are extremely high”*.

4.1.2. District of Beja

According to their testimony, the demand from foreigners in Beja has been steadily increasing. They are drawn to Beja by its favorable climate, safety, gastronomy, and competitive housing prices, as Beja is considered one of the most affordable regions to purchase a house in Portugal. The primary nationalities they have worked with are the French, Dutch, and German. Furthermore, Francisco also pointed out a growing demand from Portuguese families looking to make Beja their home.

As for the interviewee's sales, they explain that 50% are for personal and permanent residence, while the other half is for investment purposes. However, it is worth noting that demand during the first quarter of 2023 has been cooling.

When asked about the primary challenges that investors face when purchasing property, the interviewee points to the bureaucratic nature of the public government, particularly the complex civil service. This, combined with the language barrier in more rural and rustic regions like Beja, complicates accessibility for investors.

In relation to the Golden Visa program, the interviewee's opinion is that *“they have deviated from their primary purpose, and opportunism has increased”*. They believe that, concerning

foreign investment, *“foreigners are taking away the Portuguese’s chance of survival. Investment is welcome but only up to a certain point. Foreign investment is contributing to the real estate bubble and eroding Portugal’s heritage”*.

Regarding the real estate bubble, the interviewee considers that *“we are experiencing it because people can no longer afford a simple house. It is inevitable that it will burst; the only uncertainty is when”*. However, during the interview, they also acknowledged that without foreign investment, there would not be as much renovation of properties. They provided the example of Aljustrel, where 1,200 people from abroad are working in the mines and require housing.

On the other hand, the interviewee also explained that *“we cannot judge a landlord who receives 30.00 EUR or 40.00 EUR for rent because they signed a contract 50 years ago and prevent them from renovating or applying new conditions to the rental contract. It is the Portuguese opportunism that has been on the rise”*.

4.1.3. District of Braga

Among the major challenges in investing in the real estate market, the interviewee specifically pointed to Portuguese families. They stated: *“House prices in Portugal are expensive, especially in Viana, where people work in the industry or at supermarkets, and their incomes are comparatively lower, making it difficult to afford the current prices”*.

Furthermore, they explained that foreign investors choose Braga because of its housing prices: *“They can acquire a three-bedroom apartment in Braga for the price of a studio in Lisbon, for example”*.

4.1.4. District of Bragança

According to their testimony, investors opt for Bragança due to the low investment costs, the established peace, security, and the natural environment. However, they acknowledge that housing prices, while low for investors, present a different situation for Portuguese families. In the interviewee's view, there is still room for improvement, particularly concerning fiscal benefits.

Not only for foreigners but also for Portuguese residents: *“If we want to make the interior more dynamic, we need to offer incentives rather than enforcing the same standards. These incentives should include reducing IMT values and diluting IMI for the interior”*.

Their opinion is that, especially in the interior zones of Portugal, *“there are numerous vacant and dilapidated houses, and plans to address this issue should involve direct incentives. In Portugal, we often implement general measures, while the State itself has abandoned properties”*.

When asked about the Golden Visa policy, the interviewee explained that it is a positive measure for certain areas in Lisbon and major cities that have undergone renovation. In their opinion, rising property prices are a result of insufficient construction in Portugal over the last few decades, leading to a supply shortage.

Additionally, the high cost of construction materials, driven by inflation, has contributed to a cooling phase in this sector. Furthermore, the exodus of experienced workers from Portugal during the 2008 crisis has left a workforce shortage.

Regarding the challenges faced by foreign investors, the interviewee believes that it is difficult to receive proper legal advice due to the highly bureaucratic nature of the process. In response to the question *“Are we living in a real estate bubble?”*, they stated that they could not provide an exact answer.

4.1.5. District of Castelo Branco

The three interviewees agree that foreign demand has been increasing in recent years, however, during the first quarter of 2023, it has shown signs of stagnation. In their view, people typically choose to buy in Castelo Branco due to its isolation, rural areas rich in natural beauty, a desire for solitude, the appeal of the climate, and the lower cost of living in the interior, along with the option of remote work.

As for the Golden Visa program, the general opinion was that it did not bring anything special for the interior, and there are concerns about money laundering, suggesting that it should not continue. However, when asked about foreign investment, one of the interviewees explained: *“Once you reach a certain threshold, you know you are likely selling to a foreigner.*

But without foreigners, Castelo Branco would be deserted. Young people move to the cities, and the elderly stay in their homes, so the region would become depopulated”.

4.1.6. District of Coimbra

When asked about the first quarter of 2023, the interviewee inevitably compared it to 2022, describing it as a completely different year.

According to their testimony, *“they had 47 commercial transactions in 2022, and only two of them involved bank financing. In contrast, in 2023, 30% of the transactions already include bank financing”.*

The interviewee primarily works with foreigners and mentioned that the most predominant nationalities are from the United States, Canada, and the Netherlands. They also noted that the type of investor varies from year to year and stated that current interests are divided between investing in AIRBNB properties, living in Portugal with their families, and retirement purposes.

In their view, due to the insufficient construction of new houses, one of the targets for foreigners, there is difficulty in sourcing new houses for sale. Additionally, the time it takes to sell a property is longer than in 2022.

4.1.7. District of Évora

According to their testimony, the demand for foreign investment in Évora has not increased since they started working. In their view, Portugal provides more guarantees to foreigners than to the Portuguese people themselves. When asked about golden visas, the interviewee replied: *“They only serve to drive up the prices of houses”.*

However, they acknowledged that housing prices are currently very high due to the lack of new construction, resulting in a shortage of supply, and the current high-interest rates, which make it difficult to access home loans.

The interviewee explained that among the three nationalities they work with the most - Belgians, Angolans, and Mozambicans - they advocate for *“paying the same taxes as we Portuguese”.* The interviewee also pointed out that they come to Évora for its gastronomy, historical interest, culture, as well as the affordable housing prices.

4.1.8. District of Faro

The interviewee begins the conversation by confirming that they primarily sell to foreigners, particularly the French and Swedes, but they also experience significant demand from Portuguese families.

Regarding housing prices and rental options, the interviewee mentioned: *“For those who rent an apartment in the Algarve, paying 28% in taxes may seem high. For those who work, the prices are quite high, but in the context of Portugal as a whole, they are considered reasonable”*.

On the other hand, they also confirmed that *“among all the foreigners who purchased property in the Algarve, only a minority did so through the Golden Visa program”*. Therefore, in their view, this policy has been beneficial for Portugal in attracting investment.

In response to the question, *“Do you believe that foreign demand is taking opportunities away from Portuguese families?”* they answered: *“No, of course not. One thing has not hindered the other; there are opportunities for everyone”*.

4.1.9. District of Guarda

The interviewee believes that when foreigners, whether they are French, British, or Indian, choose Guarda as their place to live, it is often because *“they do not have specific wishes or requirements; they see a house they like and settle there”*.

From their experience, they noted that *“there are generally very few rental options available, except for those who study at Guarda Polytechnic Institute”*. Unfortunately, they explained that *“industries have disappeared, and graduates are not inclined to come to the interior. This has led to significant depopulation and economic challenges”*.

Furthermore, the interviewee explained that *“despite there being no Golden Visa program in Guarda, many retired people come for the benefits offered by the D7 Visa”*. In August 2023, Guarda had a price per square meter of 654 EUR, the lowest in all of Portugal, and it was the only district with a negative annual variation of -3.5% (Idealista, 2023).

When asked about the challenges of retaining people in the interior, the interviewee pointed out that the closest medical facility is in Castelo Branco and Covilhã. They expressed gratitude

for the fact that Beira Interior University (UBI) developed these facilities. Otherwise, residents would have to travel to Coimbra, which is 100 km away via a toll highway, to access a “*decent hospital*”.

The interviewee also provided an example of Dutch families who have purchased small schist villages in the hills and have become entirely self-sufficient. This illustrates that tourists are not always interested in the beaches, food, and culture; sometimes, they simply want isolation and a peaceful, calm life.

4.1.10. District of Leiria

One of the interviewees believes that the real estate market is not only expanding in Portugal; other countries are also garnering significant foreign interest. The most common nationalities to work with in Leiria are British, Belgian, and French.

Both interviewees agreed that investors are drawn to the region because they seek a combination of peace, quiet, safety, and quick access to essential services. One of the interviewees mentioned that some clients have specific requests, such as: “*I want to be within half an hour of the beach, with good access to highways, in an accessible area without sacrificing peace and quiet*”. According to their testimony, the specific areas of Alvados and Alcaria attract several foreigners.

When asked about the main challenges investors face, one of the interviewees explained that “*they are not accustomed to the paperwork, and most of the time, they engage lawyers out of distrust*”.

Regarding housing prices and the first semester of 2023, both interviewees agreed that they are excessively inflated, but “*buyers determine market prices. However, there is a significant difference between 2022 and 2023*”.

Furthermore, one of the interviewees mentioned that “*in 2022, anyone could become a real estate agent because houses sold within a week. Nowadays, the buying process takes longer, as not everyone is in a hurry to purchase a house. Some clients are willing to wait for a cooling in the market, rather than buying at these high interest rates*”.

In response to the question “*Do you believe that housing prices will decrease?*” one of the interviewees anticipates an inevitable value adjustment due to several factors. The primary reasons cited are the lack of supply and the halt in construction.

One of the interviewees distinguishes between two types of investment that are closely tied to different motivations for coming to Portugal. The first type involves retiring, living in Portugal, and immersing in its culture. The second type is focused on investing in properties for rent, local accommodations, or future resale for speculative gains.

4.1.11. District of Lisboa

One of the interviewees explained that Portugal is currently a trending destination, especially in the American market. Lisbon is featured in articles in the Financial Times, Forbes, and various rankings, which capture the attention of foreign investors. According to the respondent, clients are satisfied with the climate conditions and the widespread use of English.

The top three nationalities they work with the most are Americans, British, and South Africans. In response to a question about fiscal benefits for foreign investors, one of the interviewees mentioned Portuguese legislative instability and gave the example of non-habitual residents who cannot extend their 10-year fiscal benefits.

In their view, the most significant challenge is meeting the demand with an adequate supply. When asked about the reasons behind the rising housing prices, one of the respondents cautioned: “*We must be careful when explaining why prices have surged*”. They explained that the exponential price increases in Lisbon are due to the city's trendiness, increased demand, limited supply, and a sluggish licensing process. They emphasized that these factors are not easily transferrable to the national level.

Regarding the Golden Visa policy, they described it as a very positive program, attracting substantial direct and indirect investments. This includes investments in real estate, capitalization of companies, job creation, financing of hotel construction projects, and involvement from various sectors like banks, accountants, lawyers, and mediators, all benefiting from this program.

Furthermore, one of the interviewees contends that “*terminating the Golden Visa policy while introducing the “Programa Mais Habitação” was an irrational and poorly considered*

measure". This perspective is grounded in the fact that *"it was no longer possible to acquire real estate in the Litoral region under the Golden Visa policy even before the implementation of this new program"*. They also indicated that *"in contrast to certain perspectives, foreign investors are not depleting opportunities in Portugal, given the presence of a substantial domestic market"*.

Another interviewee stated that in the first quarter of 2023, there was a 39% decrease in investment due to rising interest rates, inflation, and the Ukrainian-Russian war. In their view, *"Portuguese buyers purchase properties for personal use, while foreign investors aim to generate rental income"*.

The same respondent expressed concerns about the anxieties of investors, which revolve around political fluctuations and abrupt changes in Portuguese fiscal policies, often lacking assurances for investors. They further emphasized that *"the government has room for improvement in addressing the substantial tax burden in Portugal"*. Drawing upon data from INE, they noted that *"the declining trend in the number of constructions permits issued over the years, combined with a situation of limited supply and high demand, raises concerns"*.

When questioned about the challenges investors encounter in Portugal, the same interviewee highlighted that *"they are often unfamiliar with their options and assume that everything is simpler outside of Portugal"*.

They began to discuss the Real Estate Investment and Asset Management Company (SICAFI) investment model. SICAFI is a regulated investment type under Portuguese law designed to pool multiple investors together for the acquisition, development, or management of residential, commercial, or industrial properties.

In this specific investment model, investors acquire shares or units in the company, entitling them to proportional ownership of the total portfolio managed by the underlying real estate assets.

The same respondent then proceeded to delineate several investment projects recently developed in Lisbon, including the EXEO Office Campus in Parque das Nações (€150M) by Avenue, Alcantâra Lisbon Offices (ALLO, €125M) by CBRE and JLL, the World Trade Center Lisbon in Oeiras (€120M) by Foz Vintage, the modernization of Lagoas Park (€25M) by Henderson Capital Park, and the Infinity Tower in Campolide (€80M) by Vanguard Properties.

The last interviewee pointed out that one challenge in the market pertains to access to databases. They observed that foreign investment is a relatively recent phenomenon and noted that the hotel segment is typically sought after by Americans, while the office spaces are usually of interest to the French.

When asked “*Do you believe we are currently experiencing a real estate bubble?*” they responded: “*No, real estate operates in cycles, and this is merely a peak within one such cycle*”. Regarding the first semester of 2023, their assessment was: “*It remained remarkably stable*”.

They further explained that Lisbon is one of the more affordable capital cities in Europe, which adds to its appeal for investors. They noted that Portugal is gaining increased recognition, but there is a shortfall in available properties to meet the demand of the growing interest.

The last interviewee also pointed out that “*Portugal tends to be more conservative in terms of risk-taking, and investors who choose not to invest here may opt for other countries, resulting in missed opportunities*”. On the contrary, they noted that “*although there are many competitions, Portugal often struggles to compete because, for instance, companies seek offices located near metro stations and robust public transport connections, and such opportunities are limited here*”.

4.1.12. District of Portalegre

According to the respondent, the ongoing territorial issues in Ukraine have led to increased interest from the Eastern market in Portalegre. The region's appeal lies in its natural park within the Serra de São Mamede, diverse landscapes featuring extensive olive and almond groves. The interviewee attributes the rising property prices to a limited supply of new construction. In their view, the Golden Visa policy should be continued as it revitalizes disadvantaged areas.

4.1.13. District of Porto

At the outset of the interview, the respondent provided me with the Sistema de Informação Residencial (SIR) report for Porto County and the Portuguese Housing Market Survey (PHMS) from Confidencial Imobiliário and the Royal Institution of Chartered Surveyors, dated May 2023.

One noteworthy point raised during the interview was the speculation in the housing market. According to the SIR report, the market gap measures the “*degree of price adjustment*”

between actual demand and supply on the market. It is calculated as the percentage difference between the average price of dwellings traded and the average offer value of all dwellings available for sale. It differs from the discount because the denominator is the value of all the homes on offer (and not just the homes transacted)."

In the case of Porto, the market gap stands at -19.6%, indicating a significant level of market speculation. Additionally, the accumulated discount is -8%, suggesting that property owners are more open to negotiation. The absorption time, which measures the “*average number of months between the offer being made and the transaction (CPCV)*”, is 5 months.

According to the interviewee, investors prefer Porto over Lisbon due to its “*greater potential for historical appreciation and growth, coupled with a lower entry price compared to the capital*”. This preference is rooted in two distinct methods of investment evaluation: the rate of return, which, although typically higher in Lisbon, is balanced by the more favorable property valuations in Porto, where properties of the same type can be acquired at a lower cost.

The interviewee also emphasizes the importance of the D7 Visa over the Golden Visa due to significantly higher global investment. The Golden Visa has faced heavy criticism in the media and is subject to various political opinions, but its contribution is relatively insignificant. The D7 Visa, on the other hand, offers non-habitual resident status, providing a tax benefit to retirees who plan to reside in Portugal for at least six months and only pay 10% of IRS, which is a highly appealing option.

When asked about the reasons behind the rising housing prices, the interviewee points out several factors to consider. Firstly, there is an increase in construction material costs due to inflation. Secondly, there is a shortage of manpower. Thirdly, the law of supply and demand plays a significant role.

Real estate is one of the few sectors in Portugal that has experienced growth in recent years. This growth is attributed to the low returns on interest, which have prompted small and medium-sized savers to invest in the real estate market.

Additionally, the influx of foreigners is another contributing factor. The interviewee's perspective is that this phenomenon is not unique to Portugal but rather a European trend, with foreigners seeking investment opportunities in major European cities. As an example, they mentioned the British housing market.

4.1.14. District of Santarém

The interviewee's opinion is that the “*taps should be turned off to foreign investment*” especially because, in their understanding, “*the Golden Visas didn't serve their intended purpose; they mostly attracted investments that increased the value of real estate. Now, we have funds and management companies seeking European visas. This is not how we should attract companies. A substantial amount of illicit funds has circulated. Portugal has not benefitted from this*”.

When asked about the reasons behind the rise in housing prices, the respondent explained that “*there is no real estate bubble in Portugal. The increase in prices is not solely attributable to foreign investors; it also relates to migratory movements among Portuguese citizens who previously resided in areas that have appreciated in value. These individuals, driven by economic considerations, have chosen to move away from major cities*”.

As a result, Santarém is located less than an hour away from Lisbon and offers properties at approximately half the price, which has led to an increasing interest from Portuguese families. Regarding the first semester of 2023, the interviewee mentioned: “*There has been a cooling down; many individuals are facing difficulties in obtaining credit. This has created a disparity between property values and people's ability to secure credit. As a result, many are residing with their parents while they await the opportunity to purchase a home*”.

4.1.15. District of Setúbal

The respondent believes that Portugal is currently experiencing a real estate bubble due to “*significant price fluctuations, with properties suddenly dropping in value, and many being priced above their fair market value*”.

When asked about the first semester of 2023, their response indicated that there were “*fewer transactions and more deals failing because property valuations were incompatible with the loans individuals required. Consequently, smaller investors are waiting for property prices to decrease before making purchases*”.

4.1.16. District of Viana do Castelo

The interviewee has observed a shift from their early years to the present day, marked by an increase in foreign demand, particularly among Americans, Brazilians, and Dutch individuals. What sets this trend apart is that these foreign buyers are not seeking second homes in Portugal;

rather, they are looking to purchase primary residences and make Portugal their actual place of residence.

In their opinion, *“what distinguishes Viana is its peaceful environment combined with access to essential services, educational institutions, hospitals, and proximity to larger cities like Braga and even Spain. The city offers a lower cost of living, a rich gastronomic scene, friendly and pleasant residents, as well as a temperate climate. Viana is closely connected to nature, characterized by clean and self-sustainable communities with strong ties to agriculture, providing foreigners with access to organic products”*.

By the end of the interview, the respondent explained that one of the challenges investors face is *“bureaucracy and the fact that they are accustomed to specific procedures, such as having a home inspection before purchase, which is not common practice in Portugal”*.

Last but not least, the interviewee also noted that the *“increase in prices is not solely due to foreign demand. High interest rates and inflation, coupled with limited supply in the market, are contributing factors”*.

4.1.17. District of Vila Real

According to their testimony, *“we are currently experiencing a real estate bubble because prices are higher than they should be in relation to the available properties. However, Vila Real still offers good value for money at the moment”*.

When asked about potential changes, the interviewee responded: *“I would like to see policies that address low-density areas, focusing on improving transport, Internet coverage, essential services, and creating opportunities. Since I may become isolated from the world, I need to drive or at least have access to reliable train services”*.

4.1.18. District of Viseu

The interviewee began by explaining that investors choose Viseu due to its *“high quality of life and the affordability of properties. These investors often aspire to retire or spend their vacations in the region”*.

However, the respondent noted that “*there is room for improvement, particularly in terms of the city's accessibility through public transportation, such as train connections to other major cities in the country*”.

When asked about the reasons for the rising property prices, they attributed it to the fact that “*construction has been stagnant for a considerable period, and we have not even returned to previous construction levels. This increase is not solely due to foreign demand but is also influenced by significant domestic demand*”.

4.2. Market Survey

The Market Survey was distributed to various stakeholders, including real estate agents, lawyers, solicitors, bankers, consultants, credit intermediaries, law firms, management companies, real estate agencies, retirees, non-habitual residents, golden visa holders, and international investors.

Additionally, from the 3rd to the 5th of May 2023, on-site surveys at “*Salão Imobiliário de Lisboa*” during “*Feira Internacional de Lisboa*” where in-person contact with real estate professionals was conducted to respond to the web survey via a QR-Code.

Furthermore, online platforms, such as LinkedIn real estate groups, Facebook groups for real estate agents, and NomadGate, one of the web's most active independent communities for global citizens to spread the market survey. In total, 112 responses were collected, analyzed, and studied.

4.2.1. Real Estate Agents; Lawyers; Solicitors; Bankers; Consultants; Intermediaries' Opinion

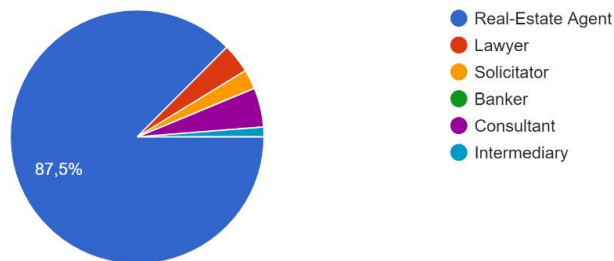
Questions asked:

- What do you do for a living?
- How many years of experience do you have?
- Do you consider the demand from foreign investors in Portuguese real estate market has increased in the last few years?
- Why do you think a foreign investor chooses Portugal to buy a house?
- List the top three nationalities that have gotten in touch with you for advice on this issue.

- Do you think the benefits offered to foreign investors are fair/adequate in comparison to other countries?
- What are your thoughts about the housing prices in Portugal?
- What is your opinion on Golden Visas?
- What do you believe are the primary challenges that investors confront when purchasing a property?
- Would you be interested in receiving the results of this study? If yes, please leave your e-mail below.

Out of the 112 responses received in the web survey, 80 of the respondents were real estate professionals, with 87.5% of them being real estate agents. In terms of years of experience, 46.3% had less than 5 years of experience, 25% had between 5-10 years, and only 5% had more than 30 years of experience.

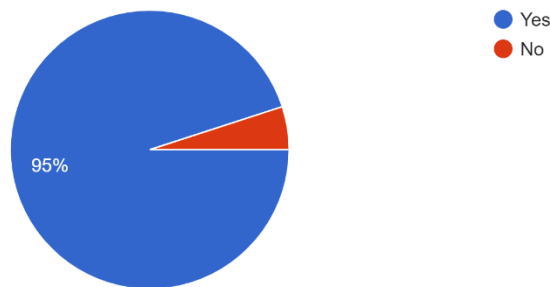
What do you do for a living?
80 respostas



Regarding the question “*Do you consider the demand from foreign investors in Portuguese real estate market has increased in the last few years?*” 95% of the respondents agreed, while only 4 respondents disagreed.

Do you consider the demand from foreign investors in portuguese real-estate market has increased in the last few years?

80 respostas



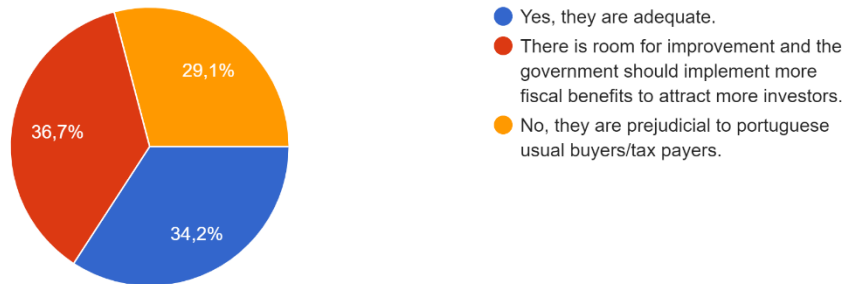
The responses regarding the reasons why foreign investors choose to invest in Portugal were consistently similar, albeit expressed in various ways. For instance, *“Good quality of life and low cost of life”*; *“Lifestyle, pleasant climate, things are cheaper for them here, the country is safe”*; *“Due to the climate and financial status”*; *“(i) Real estate has very competitive prices and a market full of investment opportunities; (ii) Very friendly and safe social climate; (iii) Possibility of obtaining a permanent residency and even citizenship (after 5 years) in a European Union country (Golden Visa Program)”*.

The top three nationalities that most real estate professionals work with when investing in Portugal are Americans, French, and Brazilians, followed by the British and the Dutch.

For the 6th question of the web survey, opinions were divided regarding the fiscal benefits offered to foreign investors. The majority, 36.7% of the respondents, considered that there is room for improvement and the government should implement more fiscal benefits to attract more investors. On the other hand, 34.2% of the respondents considered them adequate, while 29.1% think that they are prejudicial to Portuguese usual buyers and taxpayers.

Do you think the benefits offered to foreign investors are fair/adequate in comparison to other countries?

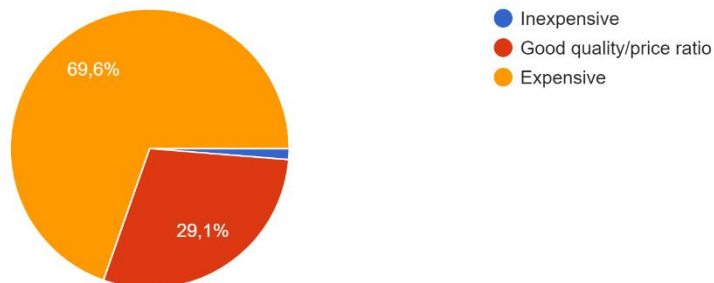
79 respostas



Regarding the question “*What are your thoughts on the housing prices in Portugal?*”, from the professionals' perspective, 69.6% of them considered the prices to be “*expensive*”. In contrast, 29.1% thought that they offered a “*good quality/price ratio*”, and only one respondent found them “*inexpensive*”.

What are your thoughts about the housing prices in Portugal?

79 respostas



On the open-ended question regarding their opinion on Golden Visas, 73 out of the initial 80 respondents provided answers. The opinions varied, with some respondents expressing positive views, such as “*They bring foreign investment to the country and are beneficial for the economy*”; “*They helped develop areas that were forgotten and created conditions for welcoming tourism*”; “*It is a pity they decided to close the program; a completely populist decision*”; and “*A program that has placed Portugal on the international map since its inception*”.

The second opinion, contrary to the first one, is that *“There should be a revision to the laws to make it not that easy to obtain one”*; *“they should not exist”*; *“they do not bring equity”*; and *“they are problematic”*.

The third opinion stands right in the middle, *“It is a means of improving the economy of Portugal, however, it harms the Portuguese citizen, for the most part, because there is no ability to monitor the purchasing power they have, and that causes an increase in average values in the market”*; and *“I work in the far north and in a rural environment. Ending the Low-Density Golden Visa is a terrible lack of justice. When the villages, which were dying, begin to use this platform, they end (or intend to end). Once again, what counts is Porto and Lisbon.... the rest is secondary!”*.

One of the respondents commented: *“I am supportive of a Visa program that attracts the 'right' investment in our country. What I do not know is if it is the presently active program. A program that only focuses on capturing money and not on the ability of that money to generate value and well-being for Portuguese society. It is handing over to destiny - instead of guiding it - the application and final destination of that value and potential wealth and well-being for society. One message that has been passed over is: ‘If you have money, you can buy a permanent residency permit’, and no clear message based on clear and detailed information is being communicated to society about the positive (or negative) impact of this money in the economy”*.

On the final question of the web survey, *“What do you believe are the primary challenges that investors confront when purchasing a property?”* the answers were always similar: *“Our system is complicated; there is too much bureaucracy. The law changes too often”*; and *“The problems of porosity in all need to be solved. When they want to make some changes in the house, everything turns into a nightmare”*.

Something curious was the opinions on the new housing program created by António Costa's government in 2023 to face the current housing crisis, called *“Programa Mais Habitação”*. One of the respondents stated: *“At this very moment, the instability of the Portuguese tax laws that emerged from recent measures of the actual government (Programa Mais Habitação), namely lease agreements, local accommodation, tax on real estate capital gains, Golden Visa, etc., and several others not yet legislated but promised, as well as the lack of a transparent strategic plan based on clear and credible market information, causes*

uncertainty for investors because those who should properly advise them are also confused and lack an adequate long-term vision for the real estate market”.

4.2.2. Foreign Investors’ Opinion

Questions asked:

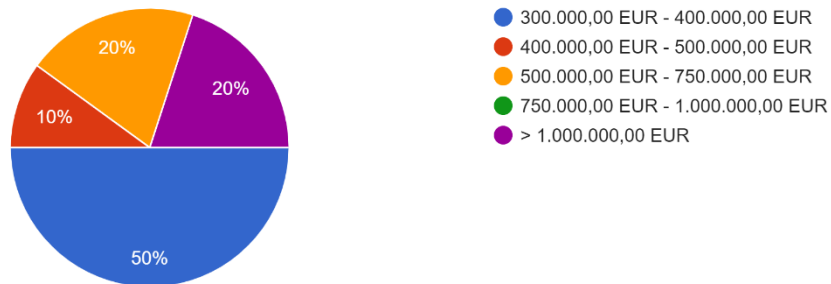
- How old are you?
- Where are you from? (Please specify your country)
- Have you bought any property in Portugal?
- In what year did you invest?
- Why did you decide to invest in Portugal? (Ex. Retirement)
- How much did you invest?
- In which district in Portugal did you decide to invest? (They are organized in alphabetic order.)
- To which of the options below did you apply? Golden Visa; Non-habitual Resident; I am a Portuguese Emigrant
- What were the primary challenges encountered while purchasing a property?
- Would you recommend to a friend/relative buying a house in Portugal?
- What do you think about the housing prices in Portugal?
- Would you be interested in receiving the results of this study? If yes, please leave your e-mail below.

Out of the 112 answers received on the web survey, 11 of the respondents were foreign investors, representing a portion of 9.8%. The median age is 47 years old and the nationalities most predominant were Americans (3 answers), British (3 answers) and the Swiss, Spanish, Brazil, Bangladesh, and Lebanon had one answer each. Most of them have chosen the year 2021 to invest in the Portuguese real estate market.

The most common goal while investing in Portugal, according to the investors, is for retirement purposes, but the climate conditions, family relocation, and how peaceful and safe it is in Portugal were also relevant to the choice. When asked about how much they invested, the most common answer was between 300,000.00 EUR and 400,000.00 EUR.

How much did you invest?

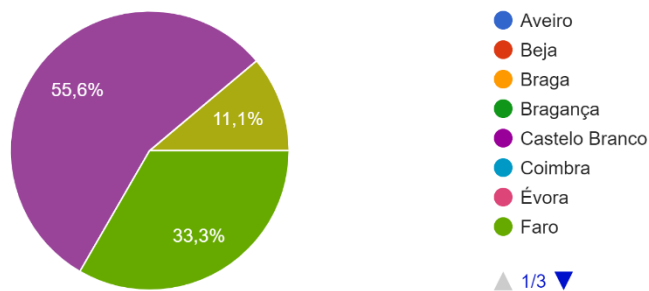
10 respostas



The districts chosen to invest in were essentially Lisbon (55.6%), Faro (33.3%), and Porto (11.1%).

In which district in Portugal did you decide to invest? (They are organized in alphabetic order.)

9 respostas



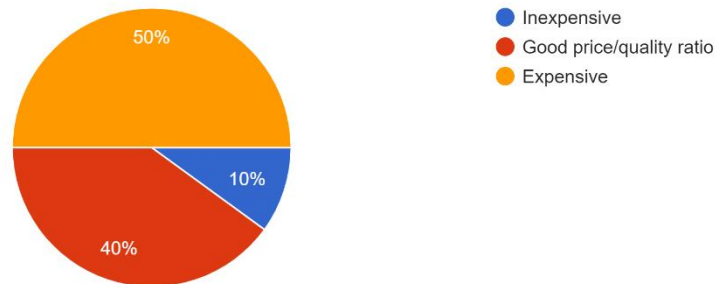
Another important piece of data to analyze is the fact that out of the 11 foreign investor respondents, 7 have applied to the Golden Visa Program, 2 are Portuguese emigrants, 1 is a non-habitual resident, and the other respondent did not give an answer.

In their understanding, while faced with an open question about the primary challenges in investing in Portugal, they indicated: *“The entire process was extremely inefficient with significant delays. Every approval takes ages.”*; *“Find a good lawyer!”*; *“Inadequate internet listings”*; and *“Low quality listings on Idealista. Dreadful selection, quality, prices, value, unresponsive agents”*.

Consequently, when asked if they would recommend investing in Portugal to a friend or relative, only 60% answered “yes”, and the other 40% said “no”. On the other hand, 50% of

them considered housing prices “*expensive*”, 40% considered it a “*good price/quality ratio*, and 10% considered it “*inexpensive*”.

What do you think about the housing prices in Portugal?
10 respostas



4.2.3. Portuguese Buyers' Opinion

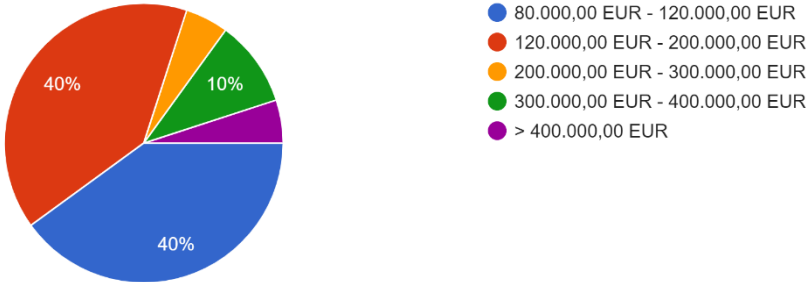
Questions asked:

- How old are you?
- In what year did you buy a house?
- In which district in Portugal did you buy a house? (They are organized in alphabetic order.)
- How much did you invest?
- Why did you decide to buy a house?
- What do you consider to be the biggest problems on Portuguese real-estate market? (Ex. Lack of supply/high demand; inflated housing prices...)
- What is your opinion on Golden Visa?
- Would you be interested in receiving the results of this study? If yes, please leave your e-mail below.

Out of the 112 answers received on the web survey, 21 of the respondents were Portuguese buyers, representing a portion of 18.8%. The median age is 42 years old, and 12 of them have chosen the past 3 years to buy a house, while the other 9 bought before the year 2020. The three top districts chosen to invest in were essentially Lisbon (30%), Porto (15%), and Setúbal (15%), followed by Faro (10%) and Évora (10%).

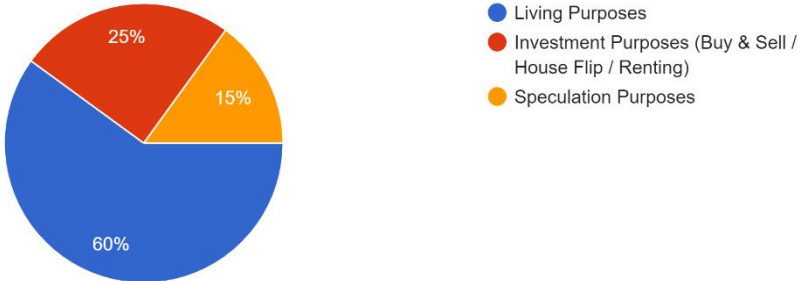
When asked about “*How much did you invest?*”, the most common answer was between 80,000.00 EUR and 200.000.00 EUR, which firmly contrasts with the interval from foreign investors of 300,000.00 EUR to 400.000.00 EUR.

How much did you invest?
20 respostas



For 60% of the respondents, they have bought it for living purposes, 25% for investment purposes (buy&sell/house flip/renting) and the other 15% for speculation purposes.

Why did you decide to buy a house?
20 respostas



To the question “*What do you consider to be the biggest problems on the Portuguese real estate market? (e.g., lack of supply/high demand; inflated housing prices)*”, the respondents answered: “*Low remuneration in general society and real estate fund speculation*”; “*Lack of housing supply*”; “*Inflated housing prices*”; “*Licensing projects*”; and “*Exorbitant commissions and costs of banks to apply for housing credit and disparity of values between banks for the deed, which is a tabulated act*”.

Concerning the point of view in regard to the Golden Visa policy, the general opinion of Portuguese buyers is : “*I do not agree in a way that Portugal is becoming a dream for the*

foreigner, but a nightmare for the average Portuguese in terms of housing or investment in general”; “I consider it terrible, it only increases the cost of living of the Portuguese”; “It should never have been allowed because it inflated prices greatly reducing the purchasing power of the Portuguese”; and “Increases the price of houses. Negative for the Portuguese”.

5. Conclusion

In recent years, the Portuguese real estate market has undergone significant changes, attracting significant interest from foreign investors. This study aimed to determine whether foreign investment is the main factor behind the increase in real estate prices in Portugal. Through comprehensive data analysis, expert interviews and online surveys, this research has provided valuable insights into the dynamics of the Portuguese real estate market.

Contrary to popular belief that foreign investment, especially through programs such as the golden visa and non-habitual residence status, is the sole cause of skyrocketing real estate prices, this study reveals a more complex reality. It is clear that the main causes of rising real estate prices in Portugal are multifaceted, including lack of supply, high construction costs and inflation rates leading to higher interest rates.

Furthermore, detailed analysis of data from the golden visa program and the non-habitual residence status indicates that the current housing crisis in Portugal is not mainly caused by foreign investment, especially when a nationwide view is considered. The recent cancellation of real estate investment in golden visa and the non-habitual residents' status under the "*Programa Mais Habitação*" is expected to directly affect foreign investment in the real estate market Portugal as it also raises questions about the potential consequences for the overall investment climate.

In conclusion, policymakers should consider these factors when formulating strategies to maintain a balanced and sustainable real estate market. While adjustments are aimed at addressing specific issues, they need to be carefully evaluated to ensure they do not inadvertently hinder foreign investment or deter potential investors. As Patrícia Barão, National Director of JLL Portugal (2023) stated *“It is always important to remember that the housing crisis experienced by the Portuguese is indeed a reflection of the lack of supply, causing prices to rise even in a context of inflationary pressure and highly restrictive monetary policies. All of this is exacerbated by the weak growth in average household incomes in recent years”*.

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