Who owns the city?

Exploratory research activity on the financialisation of housing in EU cities

European Commission, Joint Research Centre (JRC)

Unit B3 Territorial Development

EUR 30224 EN

Contact information
Sjoerdje van Heerden
European Commission, Joint Research Centre (JRC)
sjoerdje.van-Heerden@ec.europa.eu

EU Science Hub
https://ec.europa.eu/jrc

JRC120776

EUR 30224 EN

PDF ISBN 978-92-76-18956-5 ISSN 1831-9424 doi:10.2760/07168

Luxembourg: Publications Office of the European Union, 2020

How to cite this report: Van Heerden, S, Barranco, R., and C. Lavalle (eds), *Who Owns the city? Exploratory Research Activity on the financialisation of housing in EU cities.*, EUR 30224 EN, Publications Office of the European Union, Luxembourg, 2020, ISBN 978-92-76-18956-5, doi:10.2760/07168, JRC120776

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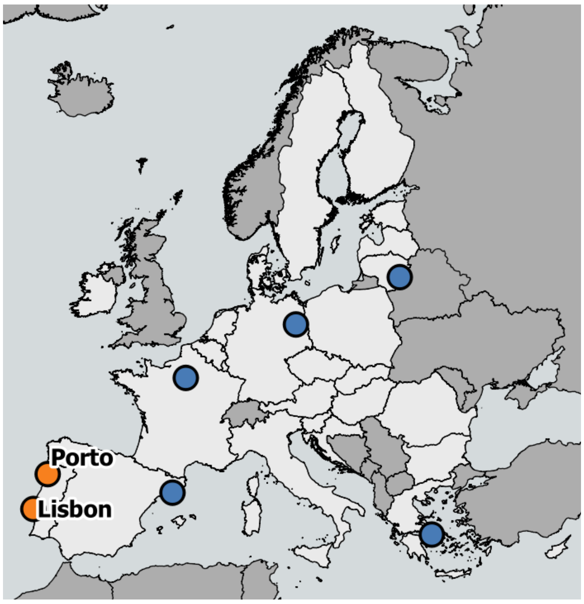


2.4 Lisbon and Porto

Based on a study by:
Teresa Sá Marques
Fátima Loureiro de Matos
Miguel Saraiva
Catarina Maia
Diogo Ribeiro
Márcio Ferreira
CEGOT – Centre of Studies in Geography and Spatial Planning
Faculty of Arts and Humanities of University of Porto

Background

Lisbon and Porto are the centres of the two largest metropolitan areas in Portugal (respectively 2.8 and 1.7 million inhabitants). Together, they account for 52% of the country's GDP. Due to historical, social, economic, and policy reasons, Lisbon's and Porto's housing stock is characterised by high rates of home ownership, a significant number of vacant homes, and a strong role of family in housing provision.

In the two metropolitan areas, respectively 67%, and 68% of the families are homeowners. For the municipality of Lisbon this is 52%, and for the municipality of Porto it is 51%. Housing appreciation improved the financial situation of homeowners, but it brought some potential negative repercussions for tenants.

In 2011, for the two metropolitan areas, around 10% of housing is of seasonal or for secondary use, and 12% vacant. For the Lisbon municipality 10% is seasonal or for secondary use, and 16% vacant. For Porto municipality the values are respectively 9%, and 19%.

In the old centres of Porto and Lisbon, population densities are low and the resident population is largely composed of tenants with below average incomes. However, both cities experienced a revival of their downtown areas since the mid-2000s, strongly stimulated by tourism.

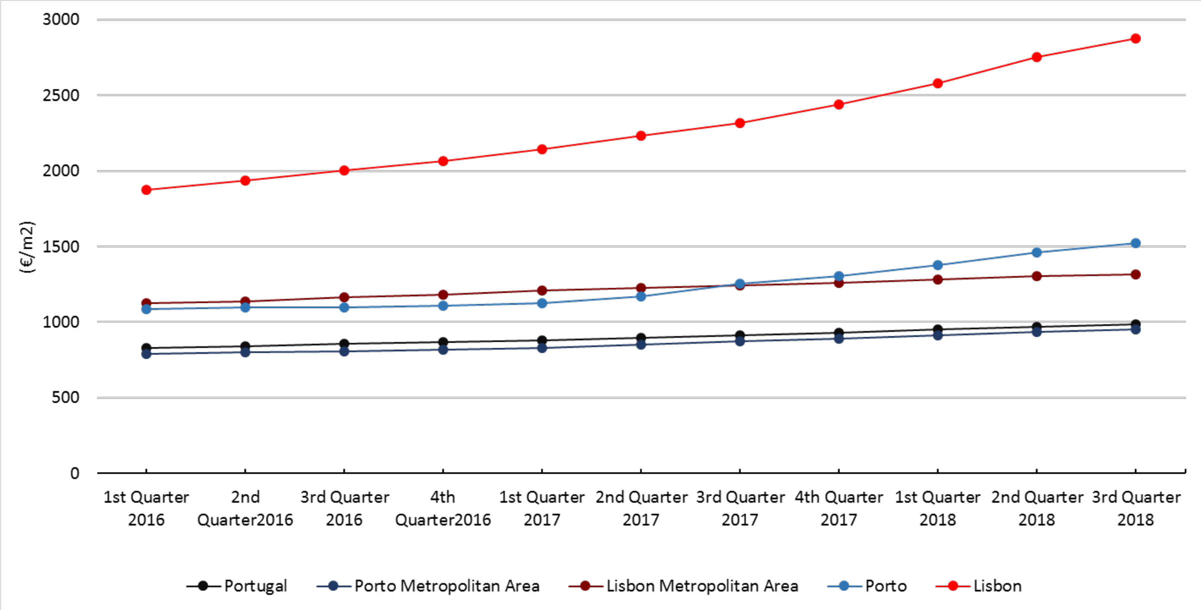


Figure 7. Median selling price per square meter Source: INE, House prices at the local level 2016-2018 (elaborated by authors)

Source: INE, House prices at the local level - 2016-2018 (elaborated by authors)

House prices per square meter steadily increased in Portugal between 2016 and 2018. See figure 7. The metropolitan area of Porto closely follows the national trend, while Lisbon metropolitan also follows the same trend, but consistently with higher values. Especially from mid-2017 onwards, both cities diverge from the national and metropolitan trends, with Lisbon city significantly widening the gap. Early 2016, the median square meter price was around €1,900, and late 2018 it was around €2,900.

In contrast to an increasing volume of purchases and sales, the number of new rental agreements declined between 2013 and 2018. The number of dwellings available for rent has decreased to about half in Lisbon (from around 2,500 in 2013 to a little over 1,000 in 2018), and in Porto it decreased from close to 1,000 in 2013 to a couple of hundred in 2018. The metropolitan areas, particularly Lisbon's, had declines that are more significant. The conversions of apartments to tourist accommodations, as well as the increase in housing purchases are the most probable causes.

From mid-2017 to mid-2018, national average rent values per square meter increased from €4.39 to €4.80. In Porto, rent per square meter increased from €6.77 to €7.85. In Lisbon, it increased from €9.62 to €11.16, twice the national average.

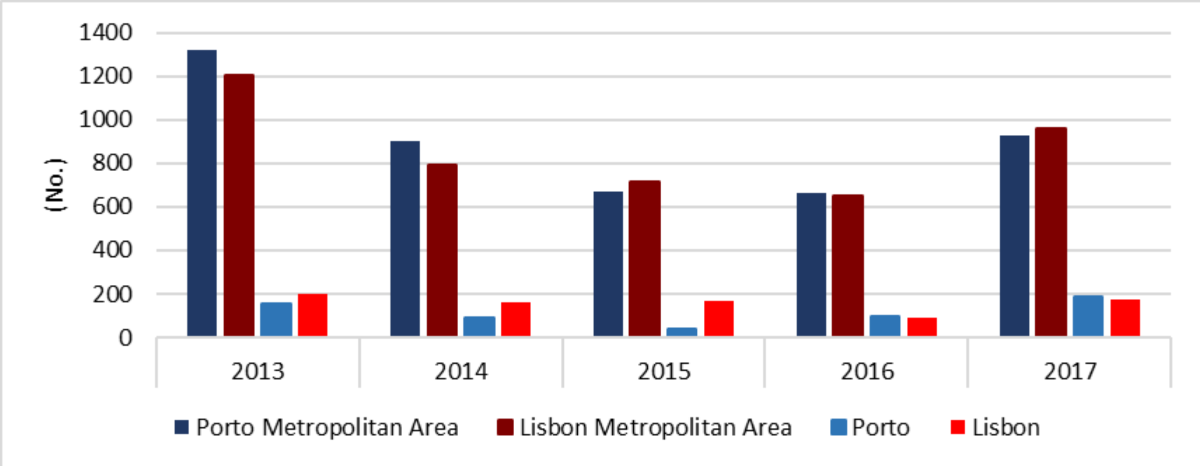


Figure 8. Completed buildings for family residence
Source: INE, Statistics on completed construction works completed, 2013-2017 (elaborated by authors)

Financialisation

The external attractiveness of Portugal changed the residential markets of Lisbon and Porto in significant ways. Real estate property prices increased, capital gains increased, and real estate investment returns have skyrocketed. This led to a socio-spatial segmentation, as prices in the most attractive areas rose to unprecedented levels, particularly in Lisbon. The middle class, receiving salaries consistent with national averages, does not have access to this.

After 2013, in the aftermath of the economic crisis, the real estate sector showed signs of slowing down. As figure 8 demonstrates, from 2013 to 2015/2016, the number of completed family housing decreased, both in the metropolitan areas of Lisbon and Porto, and the cities themselves. However, in 2017 (last available data) the numbers increased. It is noted that overall most buildings are completed in the metropolitan areas, illustrating that in the city municipalities the focus is more on rehabilitation, rather than new construction. Even so, from 2016 to 2017, new construction has almost doubled, from 100 to 200 completed buildings.

Until 2014, new construction slightly favoured studios (no separate bedroom), and one or three bedroom apartments. However, after 2015 there is a clear preference for smaller apartments. In the period 2015-2017, Porto shows a significant increase in the licensing of studio or one bedroom apartments, as well as a sharp increase in two bedroom apartments in 2016. Lisbon shows a significant increase somewhat later in time, with numbers tripling between 2016 and

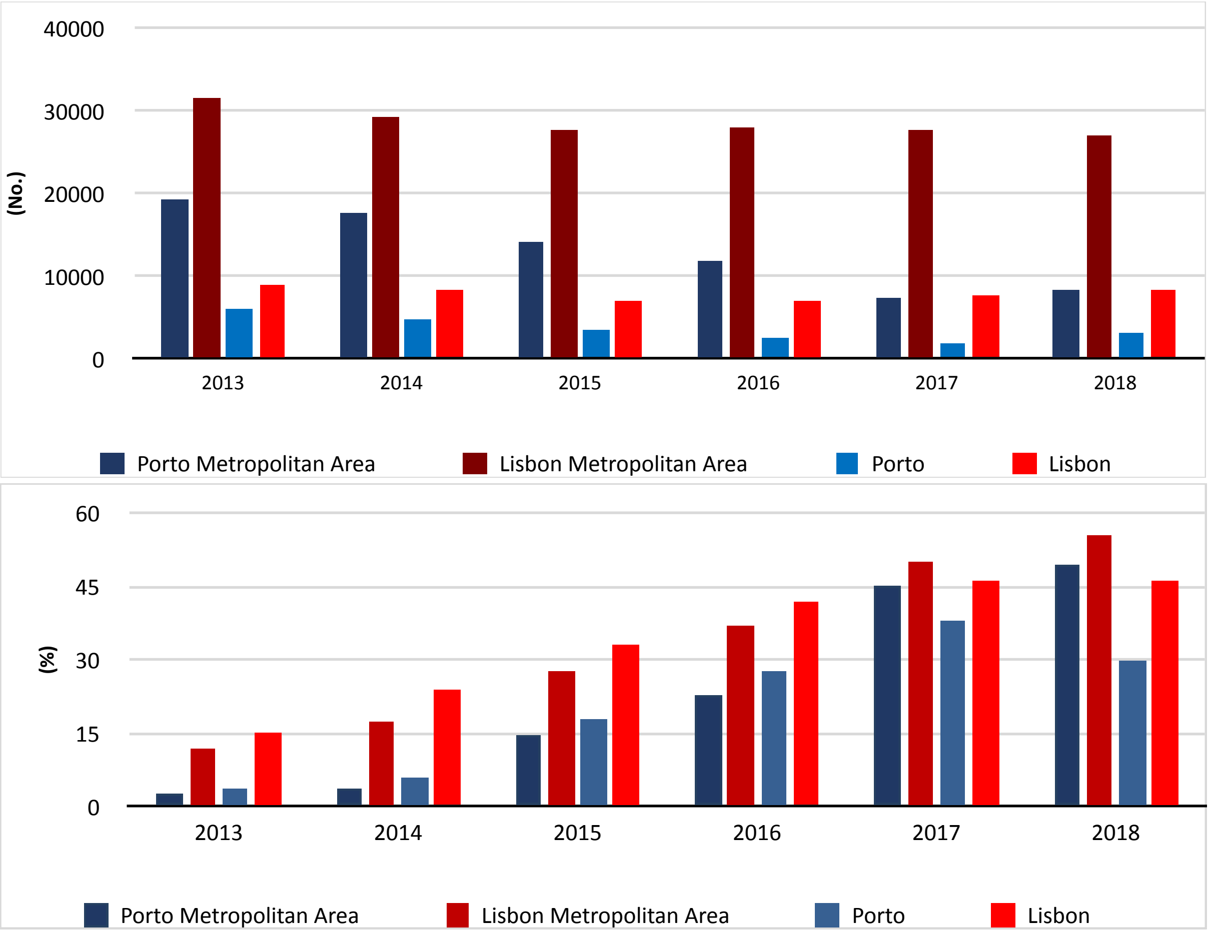


Figure 9. Number of housing for sale (top) and percentage of offered housing sold (bottom)
Source: Confidencial Imobiliário, 2013-2018 (elaborated by authors)

2017 for studio, one and three bedroom apartments.

The number of housing for sale has been more or less steady since 2013, showing slight decreases. See figure 9. However, the number of dwellings that have actually been sold, has substantially increased over time. In 2013, around 15% of the offered dwellings were sold in Lisbon, and around 5% in Porto. Five years later, numbers reached 50% in Lisbon, and 30% in Porto. The market has maintained a steady supply, while demand increased considerably.

Asking prices have also risen considerably, both in Lisbon (since 2013) and Porto (since 2017). In 2013, the average asking price per square meter was around €2,500, while in 2018 it has almost doubled to €4,500. In Porto, the square meter price has increased from around €1,750 in 2013, to close to €3,000 in 2018. The actual transaction price is lower; over €3,000 per square meter in Lisbon and over €1,500 in Porto in 2018. This

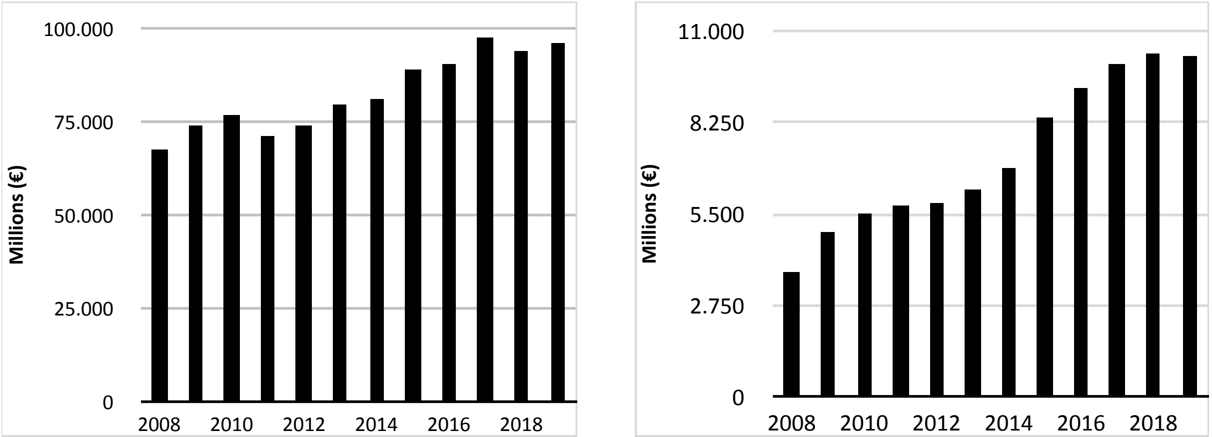


Figure 10. Foreign direct investment (FDI), total (left) and in real estate activities and construction (right) (millions of euros) for Portugal
Source: Banco de Portugal (elaborated by authors)

discrepancy is believed to reflect the Portuguese custom of negotiations between buyers and sellers before actual purchase. However, the divide between asking price and transaction price has increased over the years (it stands at around 22% in Lisbon and 30% in Porto), implying real estate might be overvaluated to capitalise on (foreign) investors with a greater investing capacity.

Figure 10 shows an upward trend for total Foreign Direct Investment (FDI) in Portugal between 2008 and 2019. FDI in real estate activities and construction shows a stronger growth over time: increasing from 3,738 million euro in 2008 to 10,307 million euro in 2018 (for 2019 no complete data).

Some recent studies have shed light on the amount of foreign investment in Porto's residential market. According to a study conducted by two real estate companies, the percentage of foreign investment is 16%, and associated to 247 real estate development projects (amounting to 2,871 apartments) these companies promoted between 2016 and 2019. Close to 85% is invested in the city centre, where sale prices per square meter are 38% above the city's average. According to InvestPorto (a municipal company that aims to attract and support investment in the city) for major real estate projects in Porto, about 55% of the investment is foreign.

Figure 11 shows the number of licensed dwellings in new construction destined for family housing between 2013 and 2017, categorised by type of investor. Private

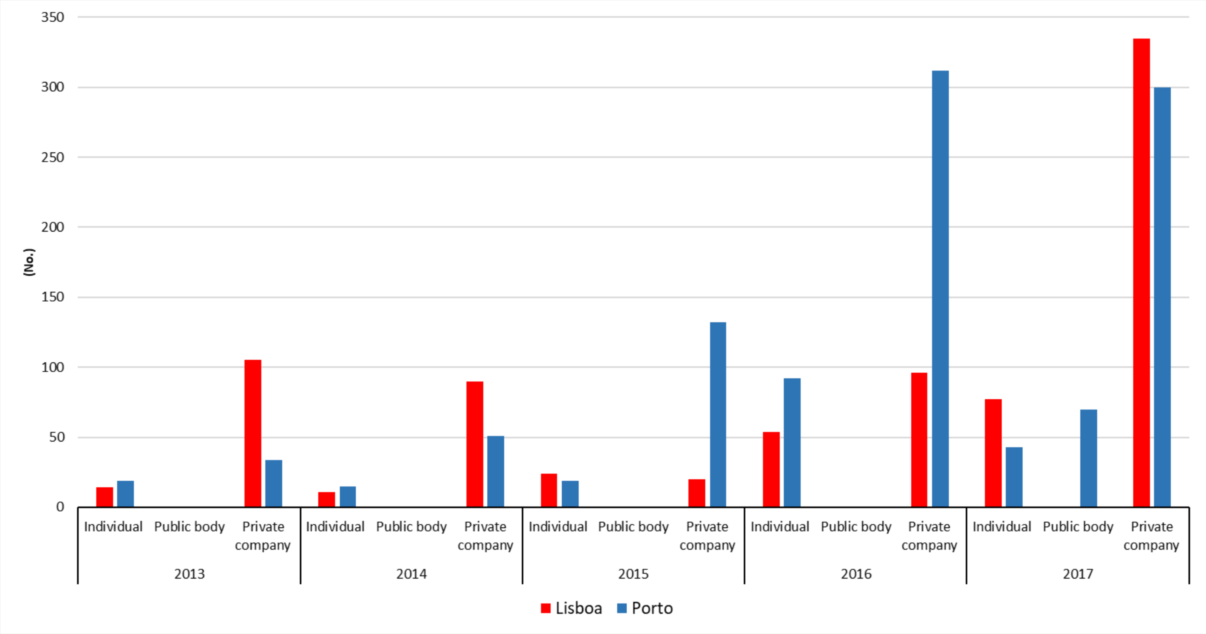


Figure 11. Licensed dwellings in new constructions for family housing, by investing entity

Source: INE, Projects of building constructions and demolitions survey (2013-2017) (elaborated by authors).

companies dominate the family housing construction market, followed by private individuals, and public bodies. In Porto, licensed dwellings by private companies significantly increased from less than 50 in 2013, to over 300, in 2017. The peak year was 2016 for both private companies and private individuals, while investment by public bodies peaks in 2017. In 2017, Lisbon also sees a significant increase in investment from private companies, as well as a continuous rise in investment from private individuals.

Associated, real estate investment funds (which exist since 1985) have shown a significant growth in Portugal. The Portuguese Securities and Exchange Commission (CMVM) authorises and regulates these types of funds, while a more favorable tax regime has instigated their profitability. Mortgage securitisation[15] reached a peak of 65 billion euro in 2011. However, the crisis and regulatory changes caused credit securitisation to plummet (Santos, 2019).

Furthermore, Real Estate Investment Trusts (known in Portugal as SIGI - *Sociedades de Investimento e Gestão Imobiliária*) have emerged in recent years. Like real estate investment funds and mortgage securitisation, SIGI allows transforming a fixed asset into a tradable asset, enabling

[15] Mortgage securitisation concerns the practice of pooling together different mortgages (debt instruments) and selling them as bonds to investors. A bond compiled in this way is referred to as a Mortgage Backed Security (MBS). Holders of MBSs are entitled to receive principal and interest payments. Footnote added by JRC.

any external agent to obtain ownership. While it is still too early to determine how exactly SIGI will affect the housing market, the emergence of companies that specialise in real estate speculation, can be considered part of a continuing process of expanding financial capital in housing (Santos, 2019).

In Portugal, the Golden Visa program exists since 2012. It allows foreign citizens, outside the European Union, to obtain a residence permit, and consequently open access to the Schengen space, in exchange for business or real estate investment in Portugal. Portuguese law states that applicants should stay in the national territory seven consecutive days a year, or 14 non consecutive days. This has made the Portuguese program very attractive, but also a source of debate, as most investors have no desire to live in the country.

The program permits two types of investment. The first is housing acquisition of a value equal to, or higher than €500,000. The second is acquisition of real estate constructed at least 30 years ago or located in areas of urban regeneration, to be rehabilitated for €350,000 or more. The program has enlarged foreign investment in the Portuguese housing market, as well as significantly contributed to the rehabilitation of the housing stock, particularly in Porto and Lisbon. It has also stimulated the housing market, with the consequence that promoters, seizing the opportunity, strongly increased house prices.

The Immigration and Borders Service of Portugal (SEF) states that 5,553 Golden Visas have already been granted; 9% in 2013; 27% in 2014; 14% in 2015; 25% in 2016, and again 25% in 2017. In 2017, total investment in real estate derived from the Golden Visas reached almost 750 million euro. Since 2012, total investment has been 3.5 billion euro (SEF, 2012-2017). According to SEF, investors are mainly from China, Brazil, South Africa, Turkey, and Russia. However, the origin of foreign investment remains varied, with Lisbon welcoming investors from 80 different nationalities.

Tourism

While Lisbon’s downtown area was partially run-down at the turn of the millennium, today it is bustling with activity, attracting a large number of tourists. In 2017, according to the Global Destination Cities Index, Lisbon was the second European city, after Bucharest, with the fastest increase in tourism, having a yearly growth rate of

11% since 2009. The International Congress & Convention Association states Lisbon is the sixth most sought-after city worldwide to host major international events.

About 20 years ago, Porto was also a city with numerous challenges, including a growing resident exodus to suburban localities, and a considerable number of derelict and empty buildings, particularly in the downtown area. However, its tourism sector increased significantly over the past decade, changing urban dynamics. In 2017, the city won the European Best Travel destination Award, and from 2005 to 2015, the number of hotel guests per year increased 10.8% on average, reaching 1.5 million in total (with each guest averaging a two-night stay). The number of hotels increased 150% in the same period, and since 2008, almost 3,000 tourist accommodations have been licensed (Marques, 2018).

AirBnB had a relative slow entry in the Portuguese market. In the early 2010s, there were less than 100 annual listings in Lisbon, and less than 50 in Porto. In 2013, Lisbon held 1,000 listings on the platform. For Porto, this happened in 2015. In 2018, Lisbon counted around 17,500 listings, and Porto around 8,000. Furthermore, around 71% of the hosts in Lisbon, and 72% of the hosts in Porto present multiple listings (www.airdna.co), which may point to running a business. Overall, private individuals and companies both promote about half of the total listings in the cities. In the metropolitan areas, private

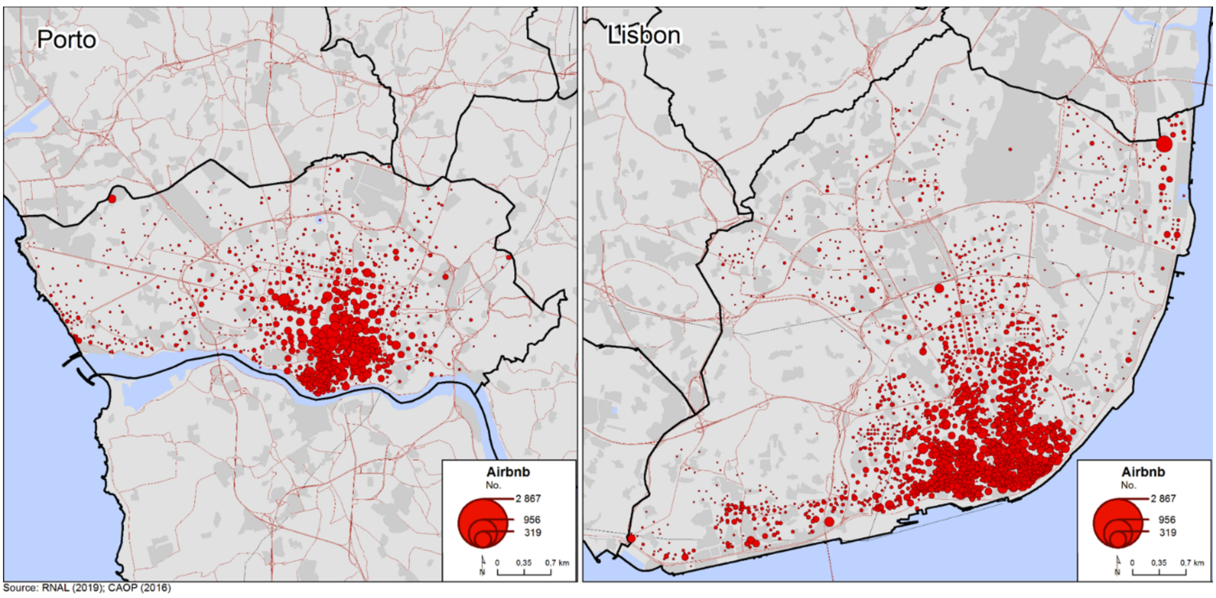
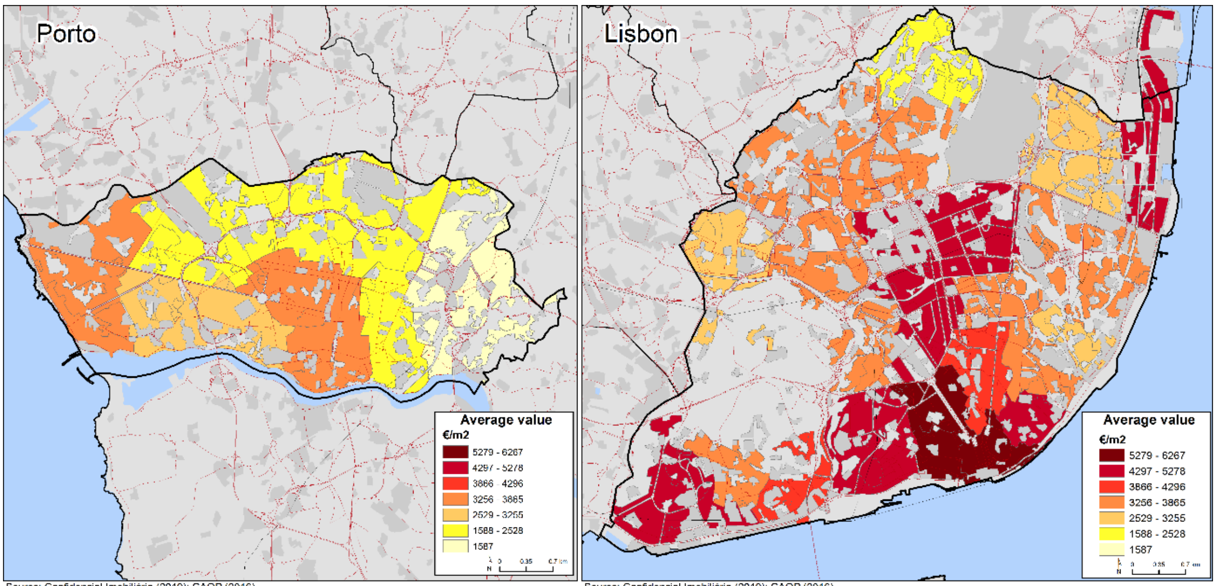


Figure 12. AirBnB location in Porto and Lisbon
Source: Turismo de Portugal – RNAL, February 2019 (elaborated by authors)

individuals host the slight majority of listings (56% in Lisbon, and 53% in Porto). Figure 12 shows the location of AirBnB listings in Lisbon and Porto. In Porto approximately 75% of local accommodations are concentrated in the city's downtown area, in a relatively small radius of 3 kilometers. Another major hub is west of this area, in the Boavista neighborhood. The eastern part of the city does not possess a significant number of accommodations.

Regarding type of accommodation, there is a concentration of entire apartments or single-family dwellings in the historical centre areas of both cities. Rooms (private or shared) are more prominent outside city centres. Besides these being the areas most attractive to tourist, this prevalence is likely to correspond to real estate investment in the rehabilitation and requalification of city centres. According to Inside Airbnb, the rate of occupancy in Porto is around 34.6%, corresponding to 126 nights a year, and in Lisbon this is 32.2%, corresponding to 118 nights per year. Lisbon has kept a steady rise in the number of guests, much due to the international events it hosts. In Porto, where tourist accommodation has been more relevant than in Lisbon for the rehabilitation the city centre, the seasonality is much more felt.

Figure 13 maps the average sales price per square meter in both Porto (left) and Lisbon (right) per district. It shows that the highest average selling prices in Porto are close to €4,000 and located in the downtown area, as well as to the west, by the sea. The northern and eastern areas of



Source: Confidencial Imobiliário (2019); CAOP (2016)

Source: Confidencial Imobiliário (2019); CAOP (2016)

Figure 13 Average value of housing sales in euros, per square meter in Porto (right) and Lisbon (left), by district.

Source: Confidencial Imobiliário. Data for the third quarter of 2018 (elaborated by authors) the city shows lower averages. In Lisbon, average selling prices are close to €6,000 per square meter in the downtown area, with other areas around the city displaying average values around €4,000 to €5,000. The lowest average selling prices of the city are to the northeast. There is a clearer separation of areas by price in Porto than in Lisbon.

Figure 14 shows the association between the average sales prices per square meter and the presence of Airbnb. A simple correlation between the two variables shows r-square values higher than 0.95 for Lisbon, Porto, and the metropolitan area of Lisbon, and 0.75 for the metropolitan area of Porto, pointing to significant positive correlation. No causal inference can be drawn based on this, but the association raises interesting questions. More sophisticated analyses could explore the relationship further, taking into account other variables over time (e.g. mortgage interest rates, disposable income, housing supply and demand, consumer confidence, Golden Visa program etc.), as well as examining the dynamics and/or direction of the assumed effect(s).

Policy

In 2018, the most recent revision of Portugal's National Programme for Spatial Planning Policies (PNPOT), stressed that insufficient access to (affordable) housing, and housing deficiencies persist. The lack of access to housing is considered one of the 18 major problems in the country. Following, the development of an integrated housing policy is one of the key measures proposed in the PNPOT Plan of Action (Measure D2.2).

A number of instruments have been created to support housing rehabilitation and affordability, addressing housing stock degradation and the lack of housing for rent. Short-term residential housing supply has also been progressively regulated since

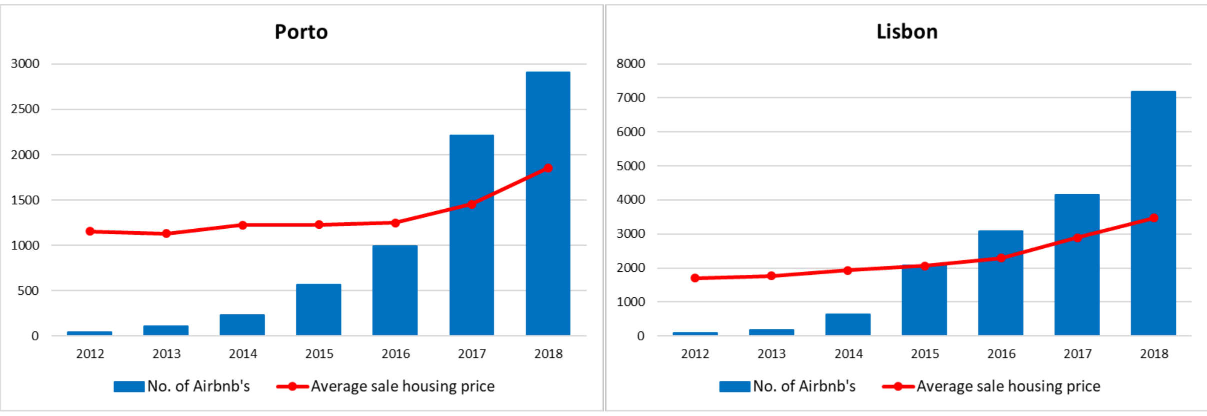


Figure 14. Number of Airbnb's and average sale house prices in Porto and Lisbon

Source: Turismo de Portugal – RNAL; and Confidencial Imobiliário (elaborated by authors)

2014, in response to strong pressures on housing market prices and resident evictions.

Overall, current measures seem particularly unable to provide affordable accommodation for the younger population, as well as for the middle class, whereas housing needs do not match income. The combination of demand and foreign investment has put an external pressure on the housing market, which is related to a hike in sales and lease prices, both in Lisbon and Porto (although it also led to rehabilitation). There is not an adequate and affordable rental market for the local middle class, and both the public rental market and public policies in support of the younger population, and disadvantaged households appear insufficient.

Finally, it has not been possible to determine the full extent of the financialisation of housing, as there is no available information on external investors, due to bank and tax secrecy. Most investments are linked to real estate funds, or operated through national companies, and investments cannot be easily assessed. This information is also not available at municipal level. In recent years, the National Institute of Statistics has been producing new information, but only about house prices.