

AFFORDABLE HOUSING AND URBAN REGENERATION IN PORTUGAL: A TROUBLED TRYST?

Rosa Branco¹

Interdisciplinary Centre of Social Sciences – CICS.NOVA – FCSH/UNL, Av. de Berna, 26 C, 1069-061 Lisboa, Portugal

Email: rmbranco@fcsch.unl.pt

Sónia Alves²

Instituto de Ciências Sociais, Universidade de Lisboa / Danish Building Research Institute, Aalborg University, Av. Professor Aníbal de Bettencourt, 9, 1600-189 Lisboa, Portugal

Email: sonia.alves@ics.ulisboa.pt

Abstract

The process of decline in historic city centres has been inseparable from the decline in the resident population, significantly among families with greater purchasing power. Statistical data on population and housing show that the historic centres of Lisbon and Porto have maintained a recessive demographic trajectory over recent decades. Despite some signs of sporadic residential gentrification, the local social fabric continues to be characterized by an ageing population and weak educational and socio-economic capital. In the current phase of economic and social crisis, it is critical to consider whether and how the new agents of urban regeneration, in particular the Urban Rehabilitation Societies, are providing affordable housing in these areas. In this context, it makes sense to discuss the meaning of concepts and models of social and affordable housing in Portugal since they are key elements in the analysis of the sustainability and social relevance of current strategies.

Keywords: urban rehabilitation, affordable housing, public policies, private rental, Portugal

Introduction

The historic centres of Lisbon and Porto, the largest cities in Portugal, experienced negative development in their physical, social, and economic conditions throughout the 20th century. The problem of urban decline in these cities is related to a set of heterogeneous and interacting factors such as suburban sprawl, the freezing of rents (depriving landlords of the incentive to maintain properties and rehabilitate housing), and the exodus of middle-class residents from poorly maintained buildings, facilitating the influx of poor and unskilled workers (Alves, 2010).

Efforts at slum clearance and physical renewal remained insufficient in the face of limited funding and the intensity and extent of housing deterioration. Also, the demands of tourism during since the 1990s favoured processes of land speculation by directing processes of urban regeneration towards commercial activities such as hotels, restaurants, and cafés (Fernandes, 2001)

Whilst the tension between cause and consequence in processes of neighbourhood decline is extremely difficult to assess, especially since “processes of neighbourhood decline are often set in motion by a chain reaction of a combination of social, economic or physical processes” (Zwiers et al 2014: 4), in the case of Portugal the association between housing policy and city centre decline is noticeable. On

¹ Supported by the Portuguese Fundação para a Ciência e Tecnologia under the UID/SOC/04647/2013 grant agreement.

² I gratefully acknowledge the financial support of the Portuguese Fundação para a Ciência e Tecnologia for research grant SFRH/BPD/75863/2011, POPH/FSE.

the one hand, the freezing of old rents at very low levels has removed resources and discouraged home-owners from maintaining and rehabilitating their buildings. On the other hand, subsidized loans and tax incentives have promoted construction on the peripheries of owner- occupancy.

In the actual context of economic crises (namely, high household, corporate, and public debts and unemployment rates) and of austerity measures that have increased taxation and cut public budgets, a new urban lease law was enacted in 2012 to liberalize old rent contracts. This legislation follows the implementation of a new model of urban rehabilitation in Portugal³ that started in 2004 with the creation of urban rehabilitation companies, “Sociedades de Reabilitação Urbana” (SRU), set up with the aim of promoting institutionalized cooperation with the private sector.

The main aim of this paper is to assess whether this model has provided, or is likely to provide, affordable housing for low and middle income families in Lisbon and Porto and how this may be achieved. Considering the crucial role of affordability in sustaining long-term rehabilitation, we seek to test to what extent it has been made workable by this model of urban rehabilitation.

To fill gaps in current knowledge of means, strategies, and aims, the following two research questions guide a comparative analysis of the Lisbon and Porto cases.

1. Does the 2012 law afford SRU the competences to provide decent and affordable housing?
2. How have SRUs understood and incorporated these competences in local practices?

In terms of data and methods, the case study is built upon qualitative documentary analysis (such as legislation and execution reports), and 10 semi-structured face-to-face interviews digitally recorded and transcribed with the permission of each interviewee.

A review of the literature on urban regeneration shows that the link between ‘urban regeneration’ and ‘housing affordability’ has not always been established in a clear way

Debates have mainly involved the interpretation of the causes of decline and strategies and models of intervention, and rarely issues of housing affordability. The thematic approaches of urban regeneration initiatives have been emphasized, broadly falling into three categories: those focusing upon the rehabilitation of buildings, public spaces, and so on; those with a more economic focus looking at support for economic activities; those focusing upon the social, that is, focused upon training and support for the most vulnerable groups (elderly, children).

Less attention has been paid to the outcomes of urban regeneration initiatives, which in our view is especially critical when they are subsidized by public money. The following underestimated questions address initiatives involving projects of urban transformation and its effect upon housing issues: What percentage of renovated buildings is intended for residential purposes? And of the permanent rental sector, what will be the effect upon rents? What measures will be used to prevent displacement? What percentage of affordable housing will be provided to attract low and middle income families?

The importance of these issues becomes all the more obvious when we consider, as Kemp P. (2011), that the private rental housing market has always been an important provider of accommodation for low-income households Kemp (2011); and before World War One the overwhelming majority of the population rented their homes (Hall 2014, 78).

In Lisbon and Porto, as in many other cities in Southern Europe, in the early 20th century thousands lived without electricity or running water in slums that still proliferated in the 1990s, when the central government launched a massive programme of social housing construction specifically targeting people living in shanty towns.

³ In this paper the concepts of ‘urban regeneration’ and ‘urban rehabilitation’ are used interchangeably.

The transformation of old historical cities, with a heritage of poor working class and degraded buildings, has posed major challenges for public action. In this paper we identify the major phases of urban regeneration in Portugal according to their main programmes and oriented strategies, focusing especially upon Lisbon and Porto. This brief overview provides information on general housing conditions, and aims to explain why affordability is a current and growing issue in these cities, especially since the financial crisis of 2008.

Relating to the concept of affordability, it is worth mentioning that affordability is defined by the ratio of housing costs to income. Whilst some claim that an affordable rent is a rent that should not exceed 30% of the net income of a household, others (cf. Dewilde & De Decker 2014) define it using the so-called 30/40 rule in which problems of affordability are defined as housing costs greater than or equal to 30% of disposable housing income for the lowest two income quintiles, while for income quintiles 3-5, the threshold is set at 40% or more. An affordability ratio of over 40% for poorer households is justified against the evidence that people at risk of poverty spend the most on housing compared to their income. On average, Europeans spend over a fifth of their income (22.9%) on housing, but the share of disposable income represented by housing costs for those at risk of poverty is almost double the overall rate (40.4%) (Pittini & Laino 2011: 14).

Besides the threshold used to define it, one key aspect of the debate on housing affordability has been whether government strategies to increase affordability should focus either upon the rental market (incentives to support renters and renting), or on support for home-owners and home-ownership.

Regarding the menu of policy instruments that influence affordability, Kemp (2012) distinguishes between instruments focused upon. On one hand the supply-side: incentives to support construction such as bricks and mortar subsidies to housing suppliers or tax relief, rent controls, and land use regulation, and, on the other hand, the demand-side: subsidies paid to consumers to boost their capacity to pay for their housing (or directly to landlords or mortgage lenders on the individual's behalf), such as housing allowances⁴.

The paper is structured as follows. Following a short introduction to the main characteristics of the Portuguese private rental market with a special focus upon Lisbon and Porto, we critically analyse how they have been the result of housing policies that favoured new construction and owner occupancy at the expense of housing rehabilitation and private renting.

Lisbon and Porto in the Portuguese context

Brief overview of the Portuguese housing market and housing policy

The results of the 2011 Census indicate that about a million buildings throughout Portugal are in need of repair and of these about 400,000 require significant works.

Problems of degradation, loss of resident population, and ageing of vacant buildings are more severe in city centres where there is a greater concentration of old buildings. For example, in the historic centre of Porto, where there is a total of 1800 buildings, about 34% are in poor or very poor condition, requiring deep interventions, and another 51% require small and medium-scale repair (Census 2011). Between 1991 and 2011, the population of the historic centre fell from 20,342 to 9,334 individuals, a loss of about half of the total resident population (Census, 2011).

Figure 1 shows the higher share of private rental in the total housing stock, and Figure 2 shows that the general quality of the housing stock is relatively low, with a high share of housing in need of major

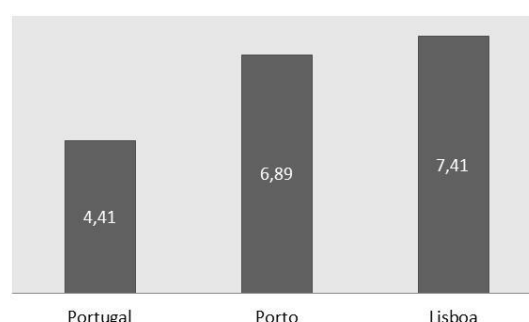
⁴ For example including housing benefit, rent assistance, shelter allowances, accommodation supplements, housing vouchers, rent certificates, and rent rebates.

repairs. This is a problem that especially affects buildings built before 1945, hence the historical centres of Porto and Lisbon.

Figure 1 - Share of the private rental sector in 2011 as a percentage.



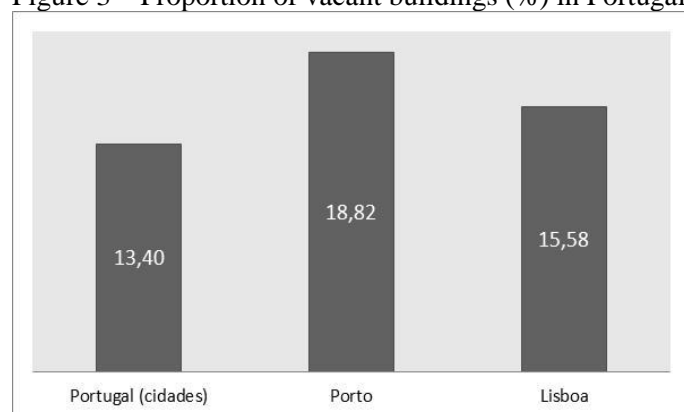
Figure 2 – Share of dilapidated buildings in (%) in 2011 as a percentage.



Fonte: INE (2011)

As regards the state of occupation, it is estimated that 19% of all buildings are vacant in the municipality of Porto and 16% in the municipality of Lisbon (Figure 3).

Figure 3 – Proportion of vacant buildings (%) in Portugal (cities), Lisbon and Porto.



Fonte: INE (2011)

The number of vacant houses in Portugal has increased considerably in recent decades. For example, from 2001 to 2011 in the municipality of Lisbon the number of vacant units increased by about 10,000 and, out of a total of 50,225 houses in 2011, only 10,903 were available for rent. A considerable percentage of this vacant housing stock is made up of old and derelict dwellings constructed before 1919 and associated with very low rents.

Average rents have increased significantly between 2001 and 2011 in Lisbon and Porto, respectively from € 118 to € 269 and € 94 to € 191 per month. The census data shows a decrease in the number of homes leased with lower rent values and the increase in intermediate rents, amounting to an increase in problems of affordability in these cities.

As emphasized by Hoekstra et al. (2012): “even though the private sector is often regarded as a sector in which market forces dominated, government intervention is far from absent” (idem: 390). Accordingly, in Portugal government policies have had important effects in the private rental sector. In this section, we look briefly at, on the one hand, the effects of rent control in the frozen rents of old contracts that have an indefinite term; and on the other, policies of urban renewal and housing rehabilitation that have addressed problems of unsanitary housing and unsafe dwellings.

The effects of rent regulation in Lisbon and Porto

Rent controls were first introduced in Portugal in 1910 before the First World War, but the freezing of all private sector rents was implemented in Lisbon and Porto in 1948. With the democratic revolution in 1974, and in the context of economic recession, very high inflation rates, and housing shortages, the freezing of rents was extended throughout Portugal.

These rules allowed sitting tenants to stay in the houses without incurring increased housing costs and, due to inflation, rents become almost symbolic, namely for tenants of middle incomes that had hitherto paid very low rents. Because property owners were not making enough money for maintenance or renovation and tenants could not be evicted, the vast proportion of older housing stock has suffered dilapidation. Problems of physical deterioration in the 1990s included a lack of basic amenities inside houses such as bathrooms or kitchens.

This so-called ‘first-generation rent regulation’ (Haffner et al. 2012) has significantly affected the quality and quantity of housing in the private rental sector. As in other European countries: “investment in new private rental dwellings dried up, renovation and maintenance were neglected, and many landlords sold their dwelling as soon as they had the opportunity” (Haffner et al. 2012, 40) Only in the 1980s did the law allow the updating of existing rent contracts but according to coefficients approved by the government (according to the condition of the building, the date of last update, and improvements).

The effect of this legislation was reduced because the adjustments were based upon such low values that it did not have a significant impact upon rents. In recent decades, landlords have been forced to rent out their houses for low rents without any government subsidies (Figure 4).

In 2012 the government presented a new law amending the New Urban Lease Act Law 6/2006 with the purpose of ensuring equally the rights and obligations of landlords and tenants. This legislation sets the five-year period of transition from the old lease contracts to a new regime of free rent, and introduces measures to broaden the conditions under which renegotiation of open-ended residential leases can take place, measures to phase out rent control mechanisms, and limits the possibility of transmitting the contract to first degree relatives.

The 2012 law determines that, in the case of low-income tenants or those with disabilities, rent increases will be covered by housing allowances or subsidies paid by the state. This update of rents must be made based upon valuation of properties.

Up to the time of writing, about a year from the end of the transition period the head of the Socialist Party, the main opposition party promised that, if elected, he will extend the transitional regime of the new law to protect sitting tenants. Electoral considerations and high public debts in a context of austerity measures that have increased taxation and cut public budgets seem to threaten the updating of old rent contracts in Portugal.

Urban rehabilitation policy background

As strict rent regulation and tenant security has resulted in the under-capitalization of the private rental sector and degradation of the older housing stock in city centres, the government has launched over the decades several policy initiatives aiming to increase private investment in private housing.

In the 1960s and 1970s, efforts aimed at housing rehabilitation focused primarily upon conservation of historic patrimony and slum clearance, leading in the 1980s and 1990s to a more integrated socio-economic and humanistic approach influenced by European Union (EU), namely EU initiatives on poverty alleviation, urban pilot projects, etc.. Since the 2000s, however, the approach has mainly focused upon public space and market-led regeneration through involved with private initiatives.

In the historic centres of Porto and Lisbon in the 1960s and 1970s overcrowding and degradation problems increased. The situation in some areas carried with it the risk of widespread dilapidation

while pressure by commercial and service sector interest groups to renovate the centre justified a number of slum clearance initiatives, with expropriation of rundown buildings and relocation of tenants to new social housing areas in peripheral areas.

With the 25th April Revolution a new movement of strong popular participation and housing rights was initiated: the Local Service of Itinerant Support (SAAL) that between 1974 and 1976, directed at the less affluent classes, aiming to develop in situ solutions. State support was offered through land, technical infrastructure, and funding and the approach was based upon maintaining the popular classes as residents of their original neighbourhoods.

The Programme of Urban Rehabilitation, launched by the government in the 1980s enabled the creation of Local Technical Offices (GTL) and of several programmes of urban revitalization with the purpose of rehabilitating historic areas⁵. As in the case of Lisbon, these offices were often based in their intervention areas (historic neighbourhoods), respected the powers and followed the priorities of local authorities without imposing top-down plans, and favoured greater proximity to the population living in these areas. In the case of Lisbon, urban rehabilitation was led by GTLs⁶ at this stage. In Lisbon several GTLs were created, starting with the historic neighbourhoods of Alfama and Mouraria, lasting until 2002.

Most of the funding for the recovery of buildings came from central state programmes. With the purpose of eradicating large shanty towns in the metropolitan areas of Lisbon and Porto, in 1993 the central government launched a massive programme of social housing construction targeting the rehousing of families living in shanty towns. PER (Special Rehousing Programme) enabled large-volume construction within a short time and in limited areas. Between 1995 and 2002, 50,000 housing units were built, most of them on large estates located in suburban or peripheral areas of Lisbon and Porto. Whilst the programme provided alternative solutions to the construction of new buildings, either through the acquisition and rehabilitation of homes or by occupying vacant buildings (e.g. city centres), these were used less. Also, the funding for housing with controlled costs was spent on new construction, often for sale rather than favouring the rental market.

Funding for the rehabilitation of buildings for rented housing was supported for a considerable period by a group of programmes created in 1985 which co-funded rehabilitation works promoted by landlords – called RECRIA, REHABITA and SOLARH – complemented by the RECRIPH programme created in 1996. Although they were funded by the central state, the application procedures and contact with owners were managed by the municipalities, which therefore played an important role in their execution.

The RECRIA (Special Funding Scheme for the Rehabilitation of Rented Buildings) programme created in 1988 deserves special attention. The execution rate of this programme was always lower than anticipated, owing to the fact that the programme demanded about 40% matching funds from the municipalities' own budget. But it was an interesting programme for several reasons. Firstly, because it enabled tenants to return to their houses after they were rehabilitated, since in case they could not afford the rent increase they could access a rent subvention from Social Security⁷. Along with state financial support, from 2003 onwards some municipalities (as was the case in Porto), decided to relocate tenants temporarily for the duration of the works, providing a great incentive for owners to rehabilitate their properties.

⁵ In both Porto and Lisbon, the Local Technical Offices (GTL) were implemented in different neighbourhoods, with wide competencies in planning, management of national funding programmes for rehabilitation works, and programmes for the improvement of commercial activity and urban licensing.

⁶ The PRU programme created 36 GTLs nationwide. These technical offices were established in municipalities and were responsible for the preparation of rehabilitation projects for housing rehabilitation and public spaces in historic centres.

⁷ One has to mention that those increases were never significant because old rent contracts were restricted

With the exception of the REHABITA programme, which was limited to the Critical Areas of Urban Recovery and Reconversion (mostly coinciding with historic centres), these programmes were not tailored for city centre needs and were simply directed at helping owners of degraded buildings resolve problems that were linked to the lack of conservation.

Although the list of housing rehabilitation programmes is long, the allocation of resources was not impressive. Official data on state expenditure over the last 25 years leave no doubt in this respect. Between 1987 and 2011, building rehabilitation programmes received euro 166.594.609.24 in funding which corresponds to only 1.7% of the total central state expenditure in housing for this period (IHRU, 2015)

In the case of Porto, after the 25th April Revolution, an institution was created by the government – CRUARB – that was charged with the rehabilitation of the riverside front of Porto (near the D. Luís Bridge). Its mission was ensuring that the “working class population that inhabited that area for a long time, in the worst conditions of housing and exploitation” could remain in the area. The goal was to avoid evicting the poor as a result of rising property values deriving from the rehabilitation works (Alfredo, 1997: 78).

The CRUARB intervention was developed in Porto over 30 years, with public funding only, first from the Housing Development Fund and, from 1985 when CRUARB became a municipality project, from municipal funding and national or European competitive bids. The CRUARB intervention model was based upon buying degraded properties through negotiation or expropriation, developing the projects, constructing the buildings, and exploring the resulting spaces through the social rent market.

In 1992 the Foundation for the Development of the Porto Historic Area (FDZHP) was created to manage funding from the Poverty III programme, meaning that it worked in the economic and social areas. CRUARB and FDZHP promoted an integrated programme of actions that combined urban rehabilitation with more immaterial dimensions of intervention (Alves, 2010).

Overall, in the 1990s the policy guidelines focused upon critical areas and adopted an integrated approach that aimed to combine small-scale housing developments with social equipment and modest public projects, patrimony and cultural valorisation, and proximity social interventions.

In the case of Porto, the 2000s saw projects funded and directly executed by the municipality, focusing mainly upon public spaces, streets, cultural facilities, streetscaping, pedestrianization schemes, and new urban furniture (Balsas 2007, 232). The 2001 Porto European Capital of Culture is a clear example of this. The urban renovation intervention of the Lisbon World Exhibition of 1998, which was led by the central state and based upon new construction, also represented the concentration of public funding in large- scale projects rather than in urban rehabilitation.

With the approval, in 2004, of new legislation concerning urban rehabilitation and, for Porto, in particular, the creation of the Porto Vivo Urban Rehabilitation Society which absorbed all competencies and resources of the municipality regarding urban rehabilitation, a new phase of policy began.

The SRU introduced a new logic of intervention, with greater emphasis given to strategic planning. Interventions were now based upon strategic documents that guide implementation for each street block, creating possibilities for change in tenure and forced intervention, using expropriation and swift licencing procedures (Sousa and Conceição 2013, 26).

Two institutional models for Urban Rehabilitation Societies (SRUs in the Portuguese acronym) were created in 2004, that is, societies in which the municipalities hold all the capital, and societies with capital from the municipality and the central state made available through the Institute of Housing and Urban Rehabilitation (IHRU). The latter was implemented in only three cities: Porto, Coimbra, and Viseu. Interest in the municipal initiative model was more sustained, but the fact that many SRUs have

been dismantled throughout this period shows that implementation faced some difficulties. There are two reasons for this. Firstly, the central government's imposition of budget constraints and regulations forcing the municipalities to incorporate the deficits and bank loans of municipally owned companies into their accounts and secondly, in 2012 the approval of legislation that stipulates the end of municipal companies which are not financially sustainable. In 2013 there were thirteen SRUs in Portugal (INE 2013, 129) and nowadays only eight of these are still functioning, five of which being entirely owned by municipalities.

It is important to note that, from the three SRUs created in Lisbon, in 2004 only Lisboa Ocidental SRU is still active. The official municipal document *Strategy of Urban Rehabilitation of Lisbon 2011-2024* (CML, 2010) presents the following explanation: “Of these (three), only Lisboa Ocidental SRU pursued its goals by producing the strategic documents and initiating the territorial management of part of its area of intervention. The Oriental and Baixa Pombalina SRUs only did some studies and technical inspections, being extinct in 2008 and 2009 because they had become a heavy financial burden for the municipality without producing effective results in rehabilitation” (CML, 2010: 43). In footnote 18 of this document it cites that: “SRUs – Oriental, Ocidental and Baixa Pombalina – between 2002 and 2006 spent around 14 million euros and only rehabilitated two municipal buildings (one located in Nova do Carvalho Street and the Lisboa Ocidental SRU headquarters building)” (CML, 2010: 43).

The legislators assumed that the SRU model was created with the aim of improving the effectiveness of urban rehabilitation by exploring the flexibility that the corporate status of such societies allows, for example, making it easier to employ staff and contract commercial loans, –and by using faster licensing procedures and being closer to the district.

The 2010 financial crisis in Portugal reinforced this approach with a drastic cut in public funding for housing and rehabilitation policies and the end of easy access to private funding for buying and rehabilitating buildings. It was precisely this context that forced the authorities to view the rental market as a decisive instrument for housing policy and, as a consequence, for urban rehabilitation. As the strategic document that defines the national policy for cities until 2020 points out: “The revival of these urban centres in a critical situation of abandon and, sometimes, with a high concentration of poverty, demands answers that make the rental and building rehabilitation markets more dynamic, with the associated attraction of higher income classes and the due articulation with lower income and older populations that still inhabit these areas” (DGT, Annex 1: 21).

Empirical research results

Affordable housing and the model of SRUs

In the following sections, we present empirical research findings regarding the question of whether the 2012 law furnishes the SRUs with the necessary competences to provide decent and affordable housing.

Urban Rehabilitation Societies are institutions that implement urban rehabilitation policy in cooperation with the municipalities and central state. Owing to the terrible conditions in which most of the population of the urban centres lived, the social dimension of rehabilitation could not be ignored. The most recent official policy documents identify issues of rehabilitation and rental housing markets as a priority⁸. Therefore, it is crucial to evaluate how the provision of housing was approached in the definition of SRU competency and whether concrete goals and benefits were identified.

⁸ Whereas in the Masterplans for the two case study municipalities, only very general goals of physical rehabilitation, social cohesion and rejuvenating urban population were stated.

The legislation that defines the scope of action of the SRUs determines that urban rehabilitation should be: “an integrated form of intervention on the existing urban tissue where the urbanistic and real-estate patrimony should be maintained, in its whole or in a substantial part, and modernized through remodelling works or improvements in urban infrastructures, urban or public spaces and equipments and through works of construction, reconstruction, enlargement, restructuring, recovery or demolition of buildings” (Law 32/2012, 14 August, Article 2). The legislation defines broad concerns, namely, to combine actions of a physical nature with social and economic interventions, and to promote social inclusion and territorial cohesion. In the matter of housing, it refers to the goal of: “developing new solutions of access to decent housing” (Law 32/2012, 14 August, Article 3).

Municipalities and SRUs enjoy substantial freedom to define their strategy of action. On the one hand, the legislation attributes to the municipality exclusively the competency of rehabilitation within the priority areas of intervention (called Urban Rehabilitation Areas – ARU). On the other hand, the central state has not defined the issues that should be tackled in the strategic documents that support the intervention, therefore transferring the responsibility of coordinating and ranking the various goals of urban rehabilitation from the strategic to the operational stages.

SRUs have the legal power to expropriate or force the sale of buildings that are in a poor state of repair with the aim of promoting their rehabilitation⁹. However, the law stipulates that such power should be used only when all other options are excluded, as repair is a duty of the owners. The role of the SRU is primarily to enforce the duty to perform repairs and by doing so ensure that their area of intervention enjoys quality housing conditions. In interviews SRU spokespeople stated that their direct intervention in rehabilitating buildings has mainly focused upon municipal patrimony.

Changes in the Urban Rehabilitation Laws of 2009 and 2012 introduced significant amendments to the instruments of action of SRUs, especially in the incentives to rehabilitation directed at private owners. In 2009 new tax benefits were introduced as well as the possibility for municipalities to define Urban Rehabilitation Areas (ARU) where the owners would have immediate access to these tax benefits and to financial and fiscal incentives.

The concept of Urban Rehabilitation Operation (ORU), which is defined as an articulated group of actions that aims to rehabilitate a given area in an integrated way, is also associated with an ARU and with a management institution (either the municipality or a local public company, that is to say, an SRU). There are two types of ORU, according to the more or less intense nature of the approach, that is, the simple ORU or systematic ORU. In a simple ORU, private owners have access to benefits and incentives but there is not a detailed and systematic programme, because a strategy and a technical justification are sufficient to approve the ARU and its ORU. For systematic ORUs, where the execution is supposed to be implemented by the SRU or by a partnership with private actors, a strategic rehabilitation programme comes into effect, which means that the manager of the ARU is required to play an active part in the implementation.

Currently, the municipality of Porto has approved the Historical Centre ARU (with a systematic ORU) and proposed another six small-scale ARUs. Lisbon has approved the Lisbon ARU for virtually all the consolidated built area of the city, with a simple ORU that is supported in the Urban Rehabilitation Strategy 2011-2024, and the Santa Clara ARU in a smaller and peripheral area of the city (no ORU is currently being undertaken in Santa Clara).

Affordable housing in the practices of SRUs

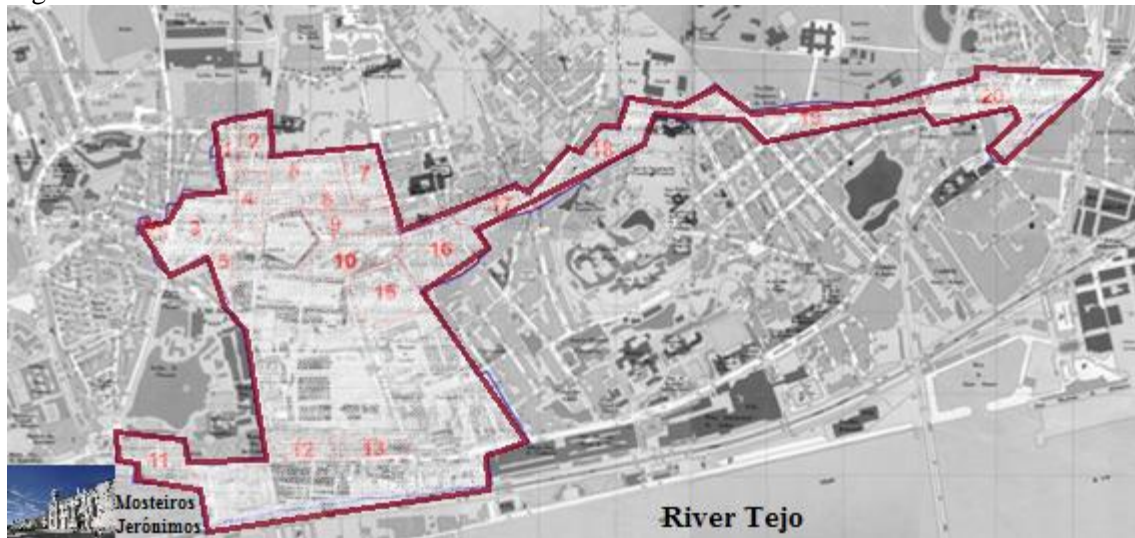
The present section does not present a systematic description of all initiatives and funding schemes used by the SRU, but rather discusses the most relevant elements to characterize and critically discuss the action of the SRU as an innovative institutional model for the delivery of rehabilitation policy.

⁹ As regards property rights, the law states that, if the property is sold, the owners have the choice to either return or sign a new rent contract.

The origin and institutional model of the two SRUs studied here is substantially different, contributing to a contrast in approaches. In Lisbon the SRUs were created in a context of evolution from a social, locally-based approach to rehabilitation to a large-scale model that later proved to be inefficient. Of the three SRUs, the Lisboa Ocidental stood out as the only SRU to generate consistent technical work and it operated in an area with no history of local public interventions in rehabilitation.

Nowadays, this SRU is an exception to the usual municipality approach, as in the vast majority of the territory of the Lisbon ARU the municipality implements rehabilitation directly. In the Urban Rehabilitation Strategy 2011-2024, the relationship between housing and urban rehabilitation policies is clearly stated. A dynamic rental private market and middle and low income housing supply, as well as housing for young residents, are considered crucial (CML, 2010: 7-8). This document marks a new policy direction, responding to the decrease in resources while rehabilitation needs increase, extending beyond the historic neighbourhoods. The main policy aim is now to generate market dynamics and incentives for owners, while focusing municipal action upon public equipment, public spaces, and municipal buildings, and limiting compulsory works to exceptional cases. By extending the ARU to the whole consolidated area, the municipality has maximized incentives for private owners in the hope that it would increase their contribution to the rehabilitation of the city.

Figure 5 - Intervention area of the Lisboa Ocidental SRU



Adapted from: <http://www.lisboaocidentalsru.pt>

The strategy of the Lisboa Ocidental SRU, which remains unchanged, was defined immediately after its constitution in December 2004¹⁰ and it establishes only general principles, such as promoting the area's urban rehabilitation and creating long-term attractiveness. The document states that the "general rehabilitation of the existent buildings and public space" will value the social, cultural, and economic domains (SRU Ocidental, 2004: 18). Strategic documents were developed for each intervention unit which do not expand upon how the social and economic goals will be achieved, but only present an inventory of the conditions and need for intervention in the buildings and public spaces. There is also no reference to the principles or goals that should regulate the transformation of the buildings, in terms of use, housing tenure, or other dimensions of socio-economic change.

In Porto, the Porto Vivo SRU ordered a strategic study to support urban rehabilitation interventions in the city centre. This study defines six priority areas of intervention based upon the extent of building degradation and social and economic difficulties (statistical data and multivariate analysis techniques

¹⁰ For practical purposes, the Lisboa Ocidental SRU distinguishes a 'Consolidated Area' in which significant changes in volume are not intended, and an 'Area To Be Planned', having significant building capacity, in which a detailed plan is being developed. Direct SRU interventions focus upon the Consolidated Area.

were used for this diagnosis), and the possibility of developing investment opportunities related to the areas of creativity, tourism, and patrimony potential. In a later stage, strategic documents referring to whole street blocks were developed for each intervention area. These documents are quite diverse in goals and partners, although large-scale interventions with high investment prevail.

Figure 6 - Intervention area and priority areas of intervention of the Porto Vivo SRU



Source: Plano de gestão do Centro Histórico do Porto (2010: 19)

As we have seen, the main goal of intervention by the SRUs is to mobilize private owners to rehabilitate their buildings both in Lisbon and Porto. To achieve this, SRUs have acted as mediators between owners and tenants to achieve rehabilitation agreements including rehousing during and after the works and between owners and investors to facilitate rehabilitation when there is no interest in rehabilitation by the owners.

Interviews have demonstrated that all involved in the action of the SRUs agree that this mediating role is their main task and find it crucial to unlock constraints to rehabilitation to ensure the success of rehabilitation strategies. In this respect, the negotiation capacity, and the legal tools of expropriation and ability to impose a forced property sale in order to promote building renovation are what attract private investors to participate in partnerships. Another aspect of SRU actions with positive impacts upon private investment are more agile procedures in licensing of building renovation and changes in use.

This understanding results from a quite narrow interpretation of the policy of rehabilitation. Those responsible for implementing the SRU exclude the area of affordable housing provision for low-income families from their competencies, although it should be dealt with if a particular operation interferes with social rent tenants.

In this case, re-housing has been carried out by the municipal company Domus Social in the case of Porto (often in social housing estates away from their neighbourhood although there is always an attempt to keep people as near to the neighbourhood as possible) and by the SRU in Lisbon Ocidental (with very few cases registered, the return to the rehabilitated house has always been possible).

It should be noted that legislation already assumes that the public sector should facilitate the market forces by stating the owners' duty to rehabilitate their buildings and defining tax benefits and incentives as the main instruments of rehabilitation policy. This paradigm shift is viewed as necessary and inevitable in the interviews. There is a clear consensus that the SRUs should be responsible for promoting rehabilitation and, where it is directly involved, for producing housing slightly below market costs as a result of public funding contribution. Meanwhile, social security services or municipal services should provide social housing solutions for residents who are affected by the interventions.

This is clearly a distinct model from the intervention of the CRUARB in Porto or the GTL in Lisbon, whose action was directed at providing affordable housing for low-income families in the area. In the entrepreneurial model of the SRU, interventions aim at urban rehabilitation that is financially sustainable. The following view illustrates this approach: "we should take the greatest possible return of the public investment made here, so that this surplus is re-invested in more urban rehabilitation". Interviews made clear that the social dimension is not present or it is marginal, transferring all responsibilities to other public institutions.

As a result, the opportunities for real-estate investment have greatly increased and, in the case of Porto, criticism has emerged regarding the excessive focus upon commercial and touristic dynamics that inhibit the production of affordable housing, therefore evading the initial goal of reinstating residents, in particular middle-class families¹¹.

As one of the interviewees observed: "interventions licensed by the SRU Porto Vivo during the last decade make evident a new type of investor that did not exist, a population with capacity to invest, often foreigners who buy buildings to rehabilitate for activities connected to tourism".

In the case of Lisboa Ocidental, the more conservative profile of the rehabilitation projects developed by the SRU, which excluded high-impact works, combined with the dominance of local owners with small properties and less central locations in the city, have helped to contain speculation tendencies. As for funding of public sector intervention in urban rehabilitation that includes the issue of housing, two instruments stand out.

On the one hand, the Partnerships for Urban Regeneration (PRU) which were supported by European Union funds during the 2009-2014 period. In this case, funding was destined to rehabilitate or renovate degraded urban areas, combining physical works with social cohesion actions. These partnerships could be built both in critical social housing neighbourhoods and in historic centres and they were typically led by municipalities and included local private and ONG institutions. This instrument has been used to promote urban rehabilitation in Lisbon (Mouraria) and in Porto (Morro da Sé and Mouzinho-Flores).

In 2007 IHRU negotiated a loan with the European Bank of Investment (EIB) which was channelled exclusively to the SRUs of Porto and Lisbon and to the Lisbon municipality. These funds were destined for the rehabilitation of buildings and public spaces and they were to be paid with much more favourable interest rates than the commercial banks.

More recently (2013), a new financial instrument using funds from the EIB was launched nationally by IHRU. It is destined for the rehabilitation of buildings that are totally or partially occupied with rent

¹¹ This goal had been stated in both the Porto Vivo SRU Masterplan (SRU Porto Vivo 2005) – where "Re-inhabiting" is one of the aims of rehabilitating Porto city centre – and in the strategic documents of the SRU Lisboa Ocidental (2004).

contracts that are conditioned or supported by the state, but also for public space and public equipment works. It has a budget of around 50 million euros.

Access to funding from the commercial banks has been very difficult for the SRUs. Owing to austerity measures, tight debt controls were implemented in the municipalities and a rule enforcing financial sustainability for municipal companies was put into practice. As a result, the use of complementary sources of financing became a necessity, as mentioned in many interviews. SRUs look for funding opportunities and sometimes adapt their priorities to fit the available programmes in each moment.

In ten years of intervention, two types of strategy stand out in the Porto Vivo SRU action:

- a) Urban Rehabilitation contracts with private partners (used for example in the Carlos Alberto and Cardosas operations);
- b) Partnerships for Urban Regeneration supported by European funding schemes (in Morro da Sé and Mouzinho/Flores).

An exemplary case of rehabilitation using partnerships with private actors is the Cardosas operation, which was based on a deep intervention in both built and public space with heavy investment from the state, allegedly to induce new dynamics in the surrounding area. The role of Porto Vivo SRU was very active in this intervention, as this SRU owned some of the properties involved and implemented the expropriation of the others as well as the demolition of structures in the interior of the block to build a parking area and a public plaza. This operation produced a park for 355 cars, 19 commercial spaces, and 50 housing units. Most of the stakeholders we interviewed were very critical of this operation that has allegedly produced a deficit of seven million euros and a housing offer aimed at the upper middle class.

The Morro da Sé operation involves 11 blocks, two of which were rehabilitated through the Bairro da Sé Urban Pilot Project (1984-1988) and the remainder with strategic documents approved by the SRU. The operation includes social facilities, public space, and re-housing in 29 buildings, where 67 social housing units will be created with IEB funding (six million euros). These units will benefit families that were affected by the works and temporarily located outside the area. The remaining rehabilitated housing will be rented below market values, this being pre-determined by the BEI funding programme. The intervention has been delayed over time and only few buildings were actually renovated.

As we have seen, in Lisbon the existing SRU represents only a small part of the rehabilitation policy. There are examples of funded Partnerships for Urban Regeneration outside the Lisboa Ocidental SRU area of intervention, the most noticeable of which is the Mouraria neighbourhood integrated project. This intervention included public space rehabilitation, rehabilitation of two buildings for public use, and a large number of immaterial social, cultural, and environmental actions. From a total investment of 7.6 million euros, 3.5 million were funded by the EU Cohesion Funds.

The IEB loan has been the main source of funding for the Lisboa Ocidental SRU. With a total of 16.1 million euros, it has supported practically all the rehabilitation promoted directly by the SRU. This loan will be paid almost exclusively by the municipality, as the SRU does not generate enough revenue. This will imply a substantial increase of municipal contributions amounting to 260 thousand euros each year.

The majority of these funds have been spent on the rehabilitation of public spaces, which accounts for 54% of the total investment between 2004 and 2014, with municipal buildings taking 31% of the investment and only 15% spent on rehabilitating buildings bought by the SRU¹². This is consonant with the orientation of inducing rehabilitation without intervention in the private housing market. According to SRU data, in fact, private initiative rehabilitation accounted for 242 buildings while the

¹² Source: SRU Lisboa Ocidental, Plano de Actividades 2015 - Quadro 5.2 (Outubro 2014).

SRU was responsible for 13 rehabilitated buildings,¹³ that is, 1.7% of the buildings with intervention needs at the time of the inventory supporting the SRU strategic document.

It is important to remember that the funding schemes for rehabilitation by private owners have been drastically reduced in recent years and replaced by tax reductions and tax benefits that do not solve the problem of lack of capital for investment. Whilst the municipalities have attempted to maximize these instruments, as in the case of Lisbon, where the Urban Rehabilitation Area was extended to practically all the consolidated city and other incentives and municipal tax reductions introduced¹⁴) the middle income landlord has little support from the state to maintain their properties.

Another important aspect of affordable housing policy in SRU actions is the issue of whether rehabilitated buildings are put on the rental or sale market. It is apparent that selling rehabilitated housing excludes access to the housing supply for low- income people.

A study of Sousa and Conceição (2013) concludes that only around 60% of the housing units rehabilitated by Porto Vivo SRU have some degree of occupation. The authors attribute this to difficulties in selling these houses, indicating a clear mismatch between supply and demand in terms of prices and the long- term strategies of buyers who do not occupy these units immediately after the buy (Sousa and Conceição 2013, 30).

Arguably given funding conditions, rental markets have gained ground in recent years. We note that, when placing the housing units on the market, values are defined in a rather simplistic way. At the Porto Vivo SRU, interviews reveal that they are defined based upon the costs of the intervention, which is calculated using the value of the project and the housing area. Lisboa Ocidental SRU will use an internal and informal consultation of market values and define a slightly inferior value as the basis for a procedure of blind bidding. In both cases there is no positive discrimination based upon such characteristics as age or place of prior residence.

Overall, it can be said that the two SRUs studied in this article have implemented their competencies using contrasting methodologies.

The Porto Vivo SRU intervention has been dominated by private partnerships and integrating housing with large- scale interventions, firstly for sale and now increasingly for rental. Lisboa Ocidental SRU has privileged public space and approached housing through micro negotiations with small owners and direct intervention in municipal buildings using only public funding. Housing rental is approached as a source of income in a context in which rehabilitation for sale has never been practised.

Although partnerships have great potential to boost SRU capacity for direct intervention in rehabilitation, they are faced with the critical issue of aligning their goals with the strategy of the SRU and of making sure that investment and profits are adequately distributed between partners. SRU participation is mainly through property (their own or acquired through expropriation or forced sale), while the private partner executes the works and revenues are divided according to the proportion of the investment effort. The SRU benefits by reducing the need for capital but it should not lose touch with the policy goals it has set. High- profit operations in desirable areas are obviously attractive to private investors, therefore they should not need this type of model. However, it can be useful to produce affordable housing in degraded areas by using SRU participation to increase attractiveness for private investors. This does not seem to be the view of those responsible for implementing SRUs, as they have made clear in the interviews that more socially-focused operations are not sustainable and need to be compensated by more commercial operations. Ironically, it was the high-end intervention of Cardosas that has resulted in the greatest losses for both SRUs to date.

¹³ Source: SRU Lisboa Ocidental, Plano de Actividades 2015 (Outubro 2014). Cabral (2013: 100)

¹⁴ Such as a programme in which municipal buildings are sold and the payment is made within a time- frame for the execution of rehabilitation works.

This analysis of the available resources and of the way they are used confirms that affordable housing is still exclusively dependent upon public funding. In this context, SRUs have limited potential, as their operational strength is also their greatest weakness. They are small structures that have little capital to invest and limited capacity to generate revenue. In this context, private sector involvement in models that ensure that affordable housing provision is financially sustainable is critical.

Conclusions

The main aim of this paper is to assess whether the model of “Sociedades de Reabilitação Urbana” (SRU), set up with the aim of promoting institutionalized cooperation with the private sector for urban regeneration purposes, has provided or is likely to provide, affordable housing for low- and middle-income families in Lisbon and Porto.

'Rehabitar' ('Re-inhabiting') was set as a priority goal of intervention by both local authorities in Lisbon and Porto and by the Portuguese government (IHRU, 2015). At national and local levels there is a consensus that a new generation of housing policies is needed to attract population to the cities and to re-establish demographic vitality there. Over the last 30 years, the municipality of Lisbon lost approximately 330,000 inhabitants, and the municipality of Porto 90,000, which represents in both cases a population loss of around 30% of their residents. The transfer of population from central city municipalities to the periphery where a construction boom took place was, as is commonly recognized, the result of housing policies that, on the one side, froze old rents at very low levels, discouraging home-owners from maintaining and rehabilitating their buildings, and on the other hand, subsidized loans and tax incentives that promoted owner-occupancy and construction on the peripheries.

The result of this policy can be witnessed today in the historic centres of Lisbon and Porto, where problems of demographic ageing and degradation of vacant buildings are very obvious. In this context, which has obtained for several decades now, it is worth questioning the orientation of rehabilitation policy interventions. What and for whom are we rehabilitating? What is the underlying rationale behind the transformation in the historic centres, namely of those under the leadership of the SRUs? How have SRUs incorporated concerns with housing affordability in their practices?

The issue of housing affordability was introduced in order to discuss the possibilities of SRUs providing adequate housing for middle and low-income families, that is widely considered to be essential to rebalance the demographics of these areas. Concerns about the ability of families to pay housing costs are a crucial aspect to consider in Portugal, which remains one of the most unequal countries in the EU and the OECD (Alves, 2015: 20) and particularly in metropolitan areas that are characterized by high levels of inequality.

Findings of the comparative analysis of the means, strategies, and aims of SRUs in Lisbon and Porto show that a few basic policy principles require reinforcement:

- Housing improvement grants (provided by the state or local authorities) should not be used by home-owners (private or public) for the purpose of gentrifying property to displace tenants;
- Public funding for urban rehabilitation should regulate which households may have access to rehabilitated dwellings, taking into account the interest of creating social mixed areas as regards income, age structures, family composition, etc. The main instrument to promote this mix is to regulate the structure of tenure by combining rental and owner- occupancy and different types of tenure.
- Policy guidance has changed significantly. The current leaders of the IHRU are critical of the prior strategy of high investment in very small and expensive interventions (such as Cardosas) and the governing wisdom is that they should avoid it. At the local level, where the need for closer alignment between policies and urban rehabilitation stakeholders is also recognized, that is, municipalities, the state, SRUs; and housing and urban planning, times of economic

crisis demand more affordable models of housing rehabilitation and housing supply that address the rental sector, and they shall have more positive impacts in the long run.

It is therefore crucial that housing and rehabilitation policies express more clearly the results they aim to achieve and tackle the issue of financial sustainability. Instruments such as setting an upper limit for building costs and implementing a cost-related formula to set the rents could be an interesting option to direct rehabilitation to the demand it should aim to attract. At the same time, this could contribute to making these segments attractive for private investors, provided that housing allowances to assist tenants to afford them were finally created.

References

- Alfredo C. (1997) *Planeamento e gestão em zonas históricas: estratégias, políticas e critérios de intervenção: a Ribeira-Barredo*, Master Thesis, Faculdades de Arquitectura e de Engenharia da Universidade do Porto
- Alves S. (2010) *O Social, o Espacial e o Político na Pobreza e na Exclusão - Avaliação de iniciativas de regeneração de áreas urbanas 'em risco' na cidade do Porto*. PhD Thesis, Instituto Superior de Ciências Sociais, Lisbon University, Portugal.
- Alves S (2015) "Welfare State Changes and Outcomes: the Cases of Portugal and Denmark from a Comparative Perspective." *Social Policy & Administration*, Vol. 49 (1), 1-23.
- Balsas C. (2007) City Centre Revitalization in Portugal: A Study of Lisbon and Porto, *Journal of Urban Design*, 12 (2): 231-259.
- Berry, M. (2012) *Policy Instruments that Support Housing Supply: Social Housing*. Elsevier, pp. 306-310.
- Cabral, S. (2013) *Instrumentos de reabilitação urbana: as Sociedades de Reabilitação Urbana*. Masters dissertation presented at the Instituto Superior Técnico of the University of Lisbon.
- Câmara Municipal de Lisboa (2005) "Habitação e Mercado Imobiliário na Área Metropolitana de Lisboa" Coleção de Estudos Urbanos – Lisboa XXI – 3, Lisboa.
- Câmara Municipal de Lisboa (2010) *Estratégia de Reabilitação Urbana 2011 - 2024*. Available at <http://www.cm-lisboa.pt/viver/urbanismo/reabilitacao-urbana/estrategia-de-reabilitacao-urbana> [11/06/2015].
- Dewilde C. and De Decker P. (2014) Trends in Housing Inequalities in Europe: What Has Happened and Why Does It Matter? HOWCOME Working paper series, 4.
- Fernandes, J. A. R. (2011) Area-based initiatives and urban dynamics - The case of the Porto city centre, *Urban Research & Practice*, 4 (3): 285-307.
- Haffner M., Elsinga M. and Hoekstra J. (2012) *Access and Affordability: Rent Regulation*, Elsevier, pp. 40-45.
- Hall, P. (2014) *Cities of Tomorrow: An Intellectual History of Urban Planning and Design Since 1880*, John Wiley & Sons.
- J Hoekstra, M Haffner, H van der Heijden, and M Oxley (2012) *Private Rental Landlords: Europe*, Elsevier. pp. 387-392.

- IHRU (2015) *25 anos de esforço do orçamento do estado com a habitação 1987-2011*, Lisboa: Instituto da Habitação e da reabilitação urbana.
- INE (2013) *O Parque Habitacional e a sua Reabilitação: análise e evolução 2001-2011*, Lisboa: INE/LNEC.
- Kemp P. (2011) Low-income tenants in the private rental housing market, *Housing Studies*, 26 (7-8), 1019-1034.
- Kemp P. (2012) Access and Affordability: Housing Allowances PA Kemp, University of Oxford, Oxford, UK, p. 23-29.
- Kemeny J. (1995) *From public housing to the social market: Rental policy strategies in comparative perspective*. Routledge.
- Pittini A. and Laino E. (2011) *Housing Europe review 2012: the nuts and bolts of European social housing systems*, CECODHAS Housing Europe's Observatory.
- Sousa, F. and Conceição P. (2013). Análise dos Contributos das Sru para a Reabilitação Habitacional e o Arrendamento: Um Estudo de Caso e Algumas Propostas Metodológica. *Revista portuguesa de estudos regionais*, 32, 3-4, pp. 25-33
- SRU Porto Vivo (2012) *Delimitação da Área de Reabilitação Urbana do Centro Histórico do Porto*, Porto.
- SRU Lisboa Ocidental (2014) *Plano de Actividades 2015*, Porto. Available at <http://www.lisboaocidentalsru.pt/default.aspx?module=ArtigoDisplay&ID=40&substateactive=5> [11/06/2015].
- Zwiers M., Bolt G., van Ham M., van Kempen R. (2014) *Neighborhood Decline and the Economic Crisis*, Discussion Paper No. 8749, Institute for the Study of Labor (IZA): Bonn.