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Finance and Housing Provision in Portugal

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Abstract

In the last forty years, Portugal has experienced an extraordinary quantitative and qualitative transformation in housing provision, reflecting the rapid urbanisation of the country. These transformations were guided by a construction boom fuelled by rising mortgage debt resulting in a significant rise of homeownership. The paper analyses these changes through a Systems of Provision (SoP) approach, examining the interests, actions and interactions between different agents and how these have determined the dynamics and outcomes of the Portuguese housing SoP. It is argued that the financialisation of the Portuguese economy is central to account for the dynamics and specificities of the housing sector. Finance is an integral part of the boom in the second half of the 1990s and of the slow burn crisis since the turn of the millennium. The financialisation of the Portuguese housing SoP has had very mixed impacts both on production and consumption. In the construction sector, asymmetry is visible between small contracting companies and big companies, with the latter taking advantage of the possibilities opened up by eased access to external finance, expanding their activities to new national and international markets. It has also contributed to the amplification of inequalities between those included and excluded from the mortgage markets, as housing loans have been heavily concentrated on the better-off segments of the Portuguese population, which has not experienced a housing bubble like some of their European counterparts, accessing to new homes at affordable prices while at the same time accumulating wealth.

Keywords: systems of provision, housing, financialisation, Portugal

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1. Introduction

In the last forty years Portugal has experienced an extraordinary quantitative and qualitative transformation in housing provision with the number of dwellings doubling during this period. For decades the deficiencies of housing provision were vast and particularly evident in the numerous self-constructed neighbourhoods that had expanded on the outskirts of major cities, fuelled by demographic growth, and internal and international migrations. As a result, the population became concentrated along the country's coastal area, densifying its urban networks, particularly around its two major cities: Lisbon and Oporto.

Nowadays, the profile of the sector is radically different. The shanty towns are a thing of the past, and most of the population own their homes. The rate of homeownership has risen – from 57% in 1981 to 73% in 2011 – as well as the number of secondary homes – from 7% in 1981 to 20% in 2011 of total family dwellings (INE, 2012). Houses were built at such speed during the past 30 years that the property market today is characterised by an excess of supply in relation to the resident population. In fact, Portugal has one of the highest rates of homes per household in Europe – 1.70 in 2011 (rising from 1.16 in 1980), coming third at the European level, after Spain and Ireland (Guerra, 2011).

Although degradation of a large proportion of the (public and private) housing stock still affects the more vulnerable segments of Portuguese society, the service of household (mortgage) debt has emerged as a new social problem facing those households most severely hit by the economic crisis. Even if departing from low levels, the default rate of mortgages has risen from 1.6% in 2009 to 2.4% in 2014,¹ mostly due to unemployment and deteriorating working conditions, in a context marked by an increase in the cost of living and a shrinking welfare state (DECO, 2014).

This study examines the evolution of the housing sector in Portugal, placing it in the context of the Portuguese process of financialisation and its implications for housing provision. It draws on the 'systems of provision' (SoP) approach that takes the SoP as "the integral unity



of the economic and social factors that go into its creation and use”, and that sees each SoP “as distinct from, if interacting with, others and to vary significantly from one commodity (or commodity group) to another”, a distinction that “not only applies to different commodities but also to different countries and geographical units, thus illustrating the variegated character of provision across time and space within common international structures” (Bayliss *et al.*, 2013: 10).

Hence, and building upon the SoP approach, the paper aims at identifying the role of the main agents in the evolution of the Portuguese housing SoP, their interests and interrelationships, and resulting impacts on the various segments of the population. It will do so by placing these in the Portuguese context, thus providing an additional vantage point from which to establish specificities and variations of structural transformations of contemporary capitalism. It will also give particular attention to the international insertion of the Portuguese economy, taking financialisation as a pervasive force.

As will be shown, in the Portuguese case, introducing finance and financialisation in the study of housing provision is particularly relevant since the latter has been the preferred conduit for financial expansion since Portugal's accession to the European Economic Community in 1986. The housing sector has, thereby, constituted an important economic activity by which financial agents have reinforced their economic and political power in different domains of socioeconomic life. The Portuguese economy, combining features of the more and less developed countries, was particularly vulnerable to external pressures, namely those resulting from European integration, these having intensified with the conditionality the recent financial “bail-out” imposed on the country since 2011. But, as underlined, the study of the tensions and convergences among specific agents in the Portuguese setting differentiates it from countries with similar financial and economic structures, including other southern European countries, such as Greece and Spain (López and Rodríguez, 2010).

The study is organised as follows. Section 2 presents the recent evolution of the financial sector and its role in the Portuguese housing SoP. Section 3 turns to the role played by the

state in various domains of public policy that has contributed to the expansion of private provision of housing. Section 4 examines the remarkable evolution of (private) housing production in Portugal, and Section 5 assesses the distributional impacts of Portugal's housing SoP based on private ownership. Section 6 analyses the extent to which the relationship between housing and finance has involved the construction sector and how extending and deepening this relationship has led to the formation and consolidation of new markets, as well as the emergence of new actors, through which the Portuguese financial system has developed and become more complex. Section 7 summarises the main conclusions of the study, highlighting the increasing vulnerability of families as exposed and intensified by the crisis.

2. Financialisation and housing in Portugal

The financialisation of the Portuguese economy and society began in the 1980s, replicating the same earlier trends observed in most advanced capitalist societies such as the USA and the UK. That is, it was the same policies of bank privatisation, abolition of capital controls and deregulation and decompartmentalisation of the financial markets that contributed towards the growing influence of the financial sector (as well as of their agents, motives and products) on the activities of households, businesses and the economy (Epstein, 2005; Krippner, 2005). As a result, profound changes took place in financing for the provision of a specific range of goods and services, in which housing was no exception, contributing in turn towards increasing the importance of the financial sector (Fine, 2010).

However, the privatisation of the banking system and financial liberalisation in Portugal occurred relatively late in comparison with other countries, coming up against the historical constraints of the nationalisation of the banking system after the 1974 Revolution. Thus, in the early 1980s the vast majority of banks were still public, interest rates were set administratively, there were strict controls on capital flows, and the exchange rate was targeted using a sliding scale pegged to a basket of foreign currencies.

Privatisation of the banking system and financial liberalisation: a shared trend

The liberalisation of the banks began in 1984 when new private banks were allowed to be set up. In this year the first Portuguese private bank, Banco Comercial Português, was founded, and new foreign banks, such as the Spanish bank Santander, entered soon afterwards (Mendes and Rebelo, 2003). In 1989, following a review of the Constitution and the possibility of reversing nationalisations, the move towards privatising the majority of state banks began (Banco Totta, Banco Espírito Santo, Banco Português Atlântico), with the exception of Caixa Geral de Depósitos, which remains state-owned to the present day. In just five years, between 1990 and 1996, the market share of the state banks fell from 74% to approximately 24%, whilst the market share of foreign banks rose from 3% in 1991 to 9% in 2000, remaining more or less the same since then (Antão *et al.*, 2009). However, as a result of further mergers and acquisitions, activity in the sector subsequently concentrated around five major banks: Caixa Geral de Depósitos, Banco Comercial Português, Banco Santander, Banco Espírito Santo and Banco Português de Investimento.

The privatisation and liberalisation of the financial sector, which put an end to credit limits and administrative setting of interest rates, were the first set of factors contributing towards the increase in bank loans in the 1990s. A second set of factors is linked to the release of (poorly remunerated) compulsory reserves deposited in the Bank of Portugal, with the rate of compulsory reserves falling from 17% in 1989 to 2% in 1994, in line with European practice. The released compulsory reserves were then transformed into public debt negotiable at market prices, leading to a drop in the real interest rate, which had been very high since the mid-1980s. This resulted in a quantity and price effect associated with the growth of credit in Portugal, i.e. greater available liquidity at lower prices, which favoured the expansion of, and consequently the demand for, credit.

The expansion of credit cannot, therefore, be separated from the monetary and financial policies of successive Portuguese governments. Additionally, the state's role in the necessary task of politically constructing capital markets involved the gradual securitisation of public debt, which began to be traded on the markets. The process of

breaking national links between the Treasury and the Central Bank – supposedly as a means of guaranteeing the independence of the Bank of Portugal – finally imposed new restrictions on treasury loans which would make the state totally dependent on the financial markets for financing its deficits.

The legislation regulating the financial system – under Decree-Law n° 298/92 – was the last milestone in the deregulation of the financial sector, transposing the 1989 European Directive into Portuguese law. Within the framework of the single market for goods and services, this law aimed to liberalise and harmonise the different segments and practices in the European banking sector, putting an end to the traditional distinction between investment and commercial banking, abolishing restrictions on the entry of new agents, and aligning prudential requirements for the sector with the 1989 Basel Accords. European integration was thus also central to financial liberalisation in Portugal. As Pinho (1997: 2) put it: “without the need for alignment with single market legislation, the deregulation of the banks would have been much slower and probably less extensive”. The removal of all national controls preventing the international circulation of financial capital, reflected in the full convertibility of the *escudo*, was the culmination of this process of Europeanization in the financial sphere.

This brief account of institutional reform therefore illustrates the active commitment of the dominant political elites to a process of integration increasingly guided by market forces and, in particular, by finance. The processes of bank privatisation and financial liberalisation, which were basically completed in Portugal by the beginning of the 1990s, and the nominal convergence towards the *euro* – all contributing to the overvaluing of the *escudo* – were decisive factors in the growth of the Portuguese financial sector. Between 1995 and 2013, the value of financial assets as a percentage of the GDP rose by around 255 percent points to represent, in 2013, approximately 700% of Portuguese GDP, even if still below that of many other countries in the Eurozone.²

Although the financialised profile of the Portuguese economy is undeniable, its expansion and diversification were, nevertheless, more contained than in the Anglo-Saxon countries,

particularly with regard to securitisation of credit, the development of new credit markets such as the subprime market, stock market euphoria, and even the growth of investment banking. The growth of the financial sector was based first and foremost on the retail banking sector and, whilst financial assets have increased, it is through the rising indebtedness of all sectors of the Portuguese economy that the evolution of the financial sector in Portugal has left its clearest mark.

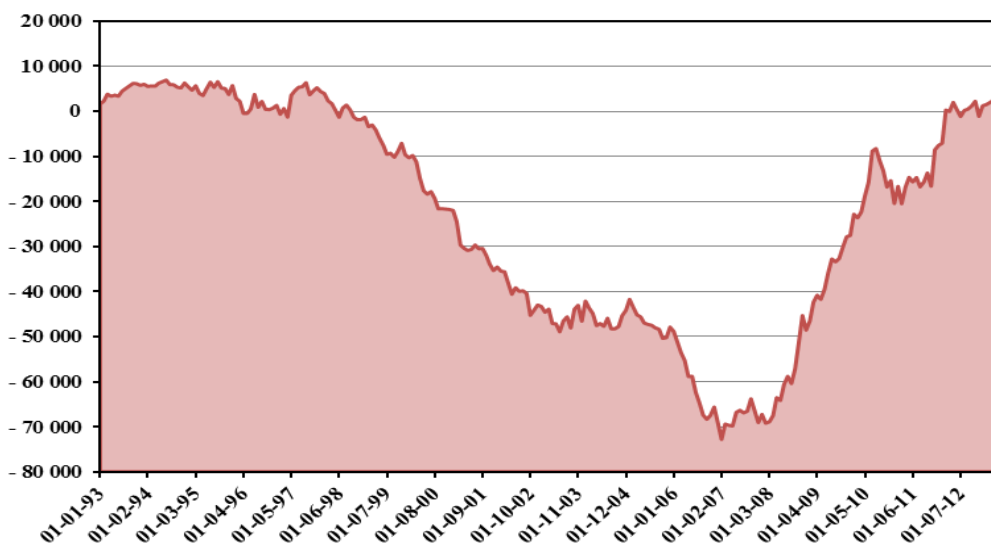
The extraordinary rise of private indebtedness

The creation of the single market and, later, of the Economic and Monetary Union made it possible for the Portuguese financial system to participate fully in the global financial sphere and become part of a strong monetary zone within contemporary capitalism. This has allowed the Portuguese economy to access to external financing at low cost, without the need to accumulate vast reserves of foreign currency to ensure the stability of its exchange rate as did other countries with similar economic structures (Rodrik, 2006). Indeed, in the absence of any exchange rate risk, during the second half of the 1990s and the beginning of the 2000s, Portugal managed to insert itself into the international financial markets in a way that no other country outside the Eurozone with a similar production structure was able to achieve, accessing cheap and plentiful external finance with no apparent risk of massive capital flight. This has marked the recent trajectory of the Portuguese economy and of the financial sector, which is associated more with the expansion of bank loans and less with the development of capital markets, sustained by an interrupted flux of foreign capital in a context marked by the European Central Bank's (ECB) restrictive monetary policies and very high real exchange rates.

The opening up of the financial markets proved decisive for the recently privatised Portuguese banking system to access foreign capital. With the arrival of the *euro* and the end of the exchange rate risk, Portuguese banks had access to external financing (mostly from countries within the Eurozone) at interest rates that were marginally superior to those used in the inter-bank markets of the European core countries. This abundance of capital was a key factor in the growing external debt of the national banks from 1998-99 onwards

when the *euro* became the single European currency unit. As a result, the net financial position (in terms of assets and liabilities) of national relative to non-resident banks gradually deteriorated up to 2008 (Graph 1), reflecting the accumulation of growing external deficits. After 2008, in the wake of the international financial crisis, international financial markets gradually closed down and were replaced by emergency financing from the Eurosystem (Lapavitsas *et al.*, 2012).

Graph 1. Net position of national vs. non resident banks (millions of euros)



Source: Bank of Portugal

However, the Portuguese economy did not benefit from the greater availability of capital. It experienced one of the lowest growth rates in the world in the 2000s (Table 1). The flow of foreign capital seems to have served only to finance an increasing external deficit, signalling Portugal's badly-managed integration into the international economy. The growing interdependence between finance, housing and construction is part of this process, the point to which we now turn.

Table 1. GDP Growth Rate (1996-2013)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
EU15	1,8	2,8	2,9	2,9	3,9	2,0	1,2	1,3	2,4
Portugal	3,7	4,4	5,1	4,1	3,9	2,0	0,8	-0,9	1,6
	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU15	2,0	3,2	3,0	0,1	-4,6	2,0	1,5	-0,5	0,0
Portugal	0,8	1,4	2,4	0,0	-2,9	1,9	-1,3	-3,2	-1,4

Source: EUROSTAT

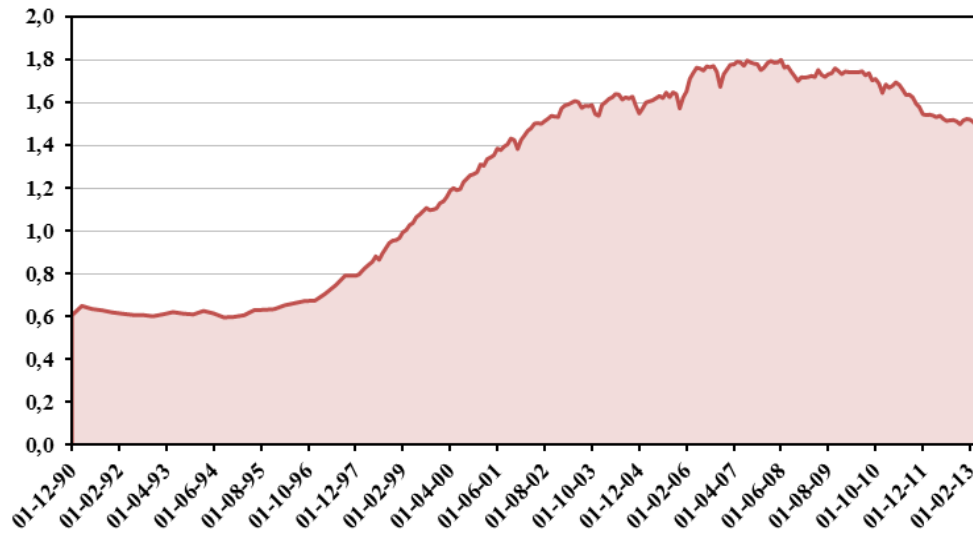
Finance, housing and construction

The turn of national banks to the housing sector cannot be separated from the international context within which the national banks operated. Besides the opening of the international capital markets to the national banking sector, European regulation of the financial markets, in general, and of the banking sector, in particular, together with the Basel Accords, favoured a shift in the national banking sectors towards mortgage loans (Allen, 2004). This has been mainly achieved through bank practices, namely the techniques for assessing credit risk as promoted by the various Basel Accords and technological innovation (Lapavitsas and Dos Santos, 2008), as attempts at creating a single market for mortgages in the EU failed. Differences in tax systems, the wide geographical coverage of domestic bank branches, the obstacles posed by Member States to the entry of external competitors, the lack of knowledge of national markets by foreign competitors, and the gradual saturation of the market all hampered the liberalisation of this market to the benefit of national banks. The EU institutions then turned their efforts to promoting capital markets, including the securitisation of mortgage loans (Hardt and Manning, 2000; Aalbers, 2008).

Credit expansion with continually falling interest rates led to a record rise of bank loans, mostly to private agents, i.e. households and companies. Loans to households multiplied by three in relative terms between 1990 and 2007, rising from 60% to reach around 180% of the total amount of loans granted to business (Graph 2). Most of these consisted of

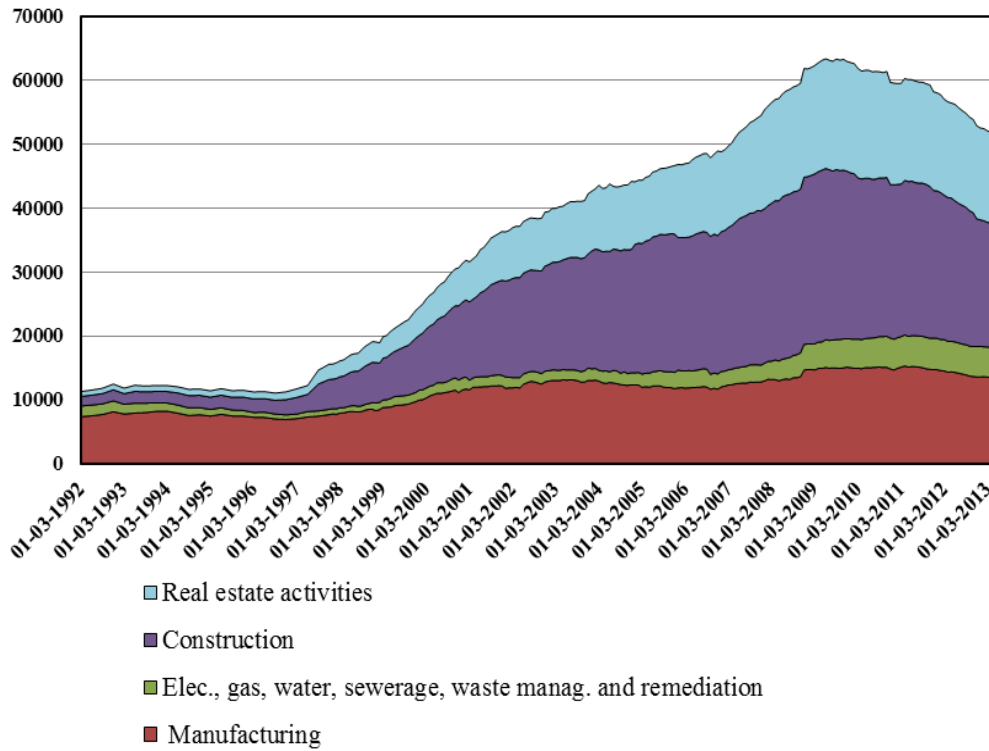
mortgage loans, pointing to the importance of housing not only in the growth and transformation of the Portuguese financial sector, but also in the economy, especially in the construction sector and real estate business, which are among the most indebted within the business sector, especially in the late 2000s (Graph 3).

Graph 2. Ratio of loans to individuals vs. loans to non-financial companies



Source: Bank of Portugal

Graph 3. Composition of business bank debt, by selected sectors (millions of euros)



Source: Bank of Portugal

The housing sector – and its agents, such as households and homebuilders – was thus the main recipient of external funding. The whole sector became financialised as banks not only financed house purchases but also their construction, thus controlling the production and provision of this essential commodity. The financing of homeownership, considered the most secure form of credit since it is based on a durable asset as a guarantee of payment, was also a guarantee of the return on the loans granted for construction and real estate, since these would be repaid via mortgage loans to individuals and households.

The process of European integration not only benefited the Portuguese financial sector through reforms of the Portuguese banking system and greater availability of capital, but it also shaped the organisation of business around housing and construction. The participation in a monetary zone with a strong currency penalised the tradable goods sector thus favouring the move of domestic capital to sectors protected from international competition, such as construction and real estate (Reis *et al.*, 2014), further aggravating

external imbalance and external debt. This is clearly visible in the evolution of bank loans to the industrial sector which, at the beginning of the 1990s, absorbed almost 40% of all loans granted to business, before this percentage reduced by half in the 2000s. It is also evident in the evolution of bank loans to construction and real estate, which absorbed about 10% of all loans granted to business in 1992 and 40% in 2008 (cf. Graph 3; see also Reis *et al.*, 2014).

3. Policy in the era of financialisation

The Portuguese housing SoP is marked by the growing relationship across housing, finance and construction since the 1990s. However, this relation not only pertains to the expansion and consolidation of private provision and the rise of homeownership through cheap credit. It also includes, though to a lesser extent, public investment in social housing, facilitated by the availability of EU structural funds, deployed in the outskirts of the major urban centres and targeted for those segments of the population excluded from mortgage finance, often relocated in what have been described as new urban ghettos.³

The EU, through its then generous structural funding, has been perceived as promoting a hegemonic project based on the political expansion of market forces, incorporating and diluting ideologies, policy options and national institutions, including the welfare state, in what has been referred to as the embedded character of European neoliberalism (Van Apeldoorn, 2002). This has also been typical of Portugal. In the 1990s, the growing and unprecedented access to international financial markets coincided with access to EU structural funds. While the former allowed the promotion of private forms of housing provision, through the expansion of credit to the middle and upper classes, the latter allowed an unprecedented level of EU subsidised public investment in social housing targeted to those excluded from mortgage markets. This provides another indication of the extent to which financialisation and its interactions with systems of provision is variegated across time and space within common international structures. It is also an indication of the contradictions inherent to financialisation processes and the need for considering “those for whom the market is dysfunctional even if that is seen as a personal

responsibility”, for “even the hardest neoliberals are liable to be faced with a Polanyian double (or multi-dimensional) movement albeit arguably of their own making (if also subject to conflict and pressure) and on a greater or smaller residual of the population as opposed to social policy of universal scope” (Fine, 2014: 20).

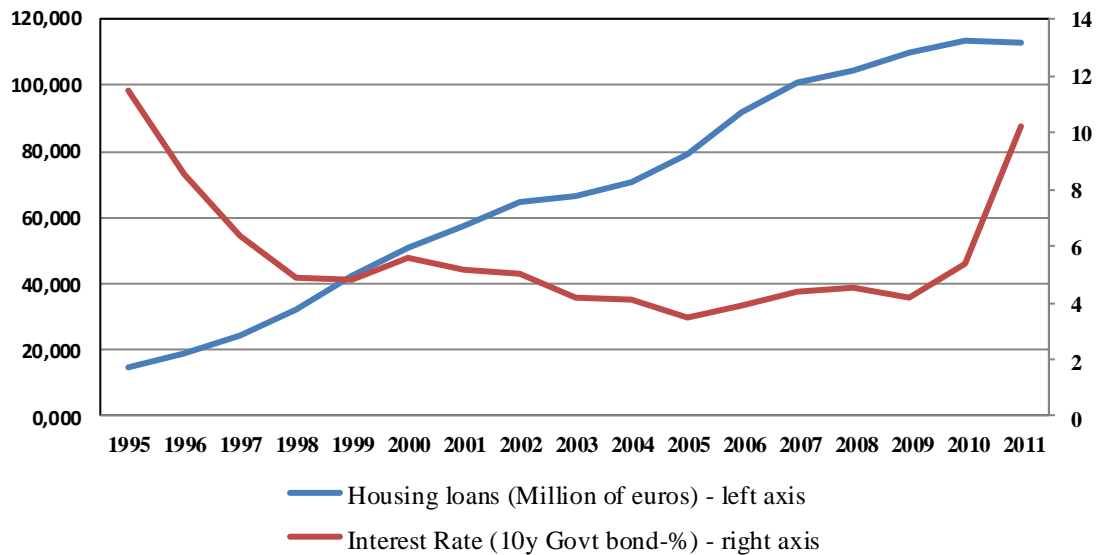
Thus, the synchronic access to European financial markets and EU funds has contributed to the legitimisation of the growing financialisation of the housing SoP, where the state had an active role not only as an enabler of the new mortgage and construction markets, but also, though at a much smaller scale, as a direct provider of related infrastructure in new urbanised areas and social housing.

Promoting the new mortgage and construction markets

Notwithstanding a short-lived period in which the state was most active in directly promoting housing between 1974 and 1976, reflecting the will to implement a housing policy that would not simply be limited to dealing with the most pressing housing needs of the most destitute, the 1980s already saw a reversal of the central government housing policy, that would translate into the transition from the ‘support for bricks and mortar’ paradigm (direct public promotion of housing) to the ‘support for people’ paradigm (Serra, 2002). In other words, in the 1980s, already discernible was a gradual realignment of state intervention with private forms of provision by stimulating homeownership with recourse to credit using tax benefits and subsidies as preferred instruments. The first steps in this direction had already been taken in 1976, the year in which the first loan subsidy system for homeownership was established, and continued with the development of a subsidy system, expanding the number of banks authorised to offer subsidised loans, diversifying the range of benefits, and extending the socioeconomic profile of subscribers. However, these policies as a whole did not reach, as intended, the objective of facilitating access to housing, essentially because these policies were not complemented with measures that prevented land and property speculation. This has meant that public expenditure on housing has mainly been allocated to a small part of the middle and upper classes, leaving largely unaddressed the housing needs of the most vulnerable households (Serra, 2002).

Despite their failure, these policies, nonetheless, indicate a growing commitment for homeownership which would soon become the main pillar of housing policies. The financialisation of the Portuguese economy finally provided the conditions for the success of this policy model focused on homeownership through the use of credit, which from the second half of 1990s onwards became cheap and plentiful. The reforms of the banking market and the accession to the EMU finally expanded the supply of lower cost loans which extended to a greater number of Portuguese families (Graph 4).

Graph 4. Housing loans and interest rates

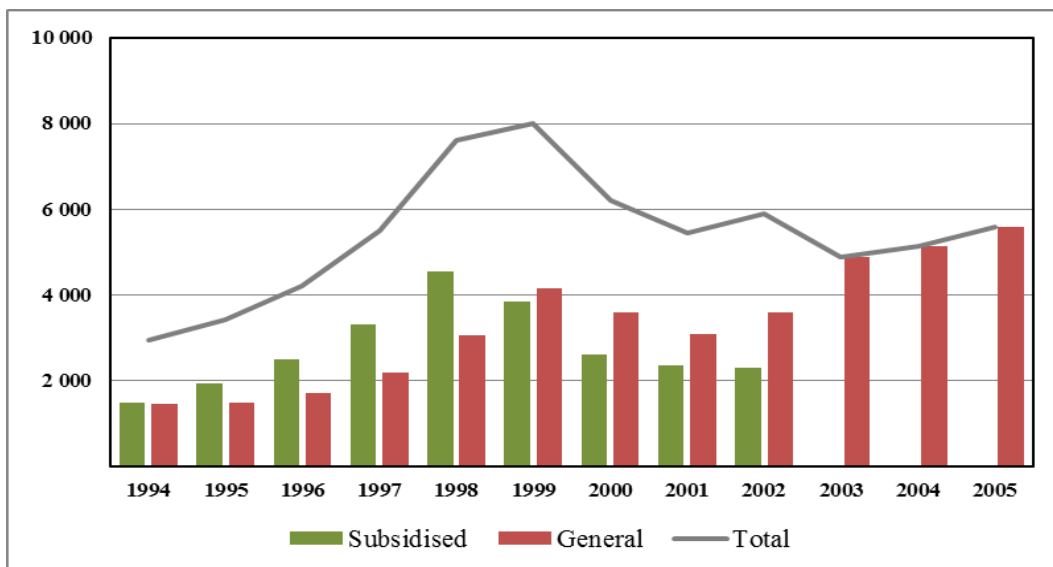


Source: ECRI and AMECO

The state's efforts have clearly been directed towards encouraging homeownership. Between 2003 and 2005, 70%-80% of the support measures for this area of social policy focused on subsidies associated with loans for permanent homeownership and tax incentives granted under the Income Tax Code for the acquisition, construction or improvement of private housing for permanent residence or to rent, despite the fact that subsidies to new loan contracts ended in 2002 (CET-ISCTE *et al.*, 2008a). The decisive role of state support is also revealed by the abrupt halt to construction work in 2002, when public support for homeownership through loan subsidies ended, and in the fall in the number of loans contracted, even though the overall value continued to rise (Graph 5). The

central government, whose intervention in the direct promotion of housing was limited to the resolution of most urgent housing needs, gradually began to transfer responsibilities and powers to local councils, who became responsible for responding to the needs of low-income families. The central state's withdrawal from the direct promotion of housing (associated with underinvestment in the sector through national programmes for the construction of dwellings and infrastructure in social housing neighbourhoods), while endowing local authorities with the responsibility for responding directly to most pressing housing needs, implied also added economic and political power for the local councils (i.e., municipalities).

Graph 5. Number of Loans Contracted (subsidised and general) 1994-2005



Source: Direção Geral do Tesouro in CET-ISCTE *et al.* (2008a)

Land and urban planning and public investment

Mortgages subsidies and tax breaks are but two instruments of public policy that have been mobilized in the promotion of the financialised configuration of housing provision in Portugal. Land use regulation and public investment in infrastructure are two additional key instruments that have had a direct impact on housing and on the interests served, especially those of the construction sector and local administrations. These instruments have been determinant in the identification of new opportunities for urban development and thence of new sources of revenue.

While land is primarily a non-produced good with low fungibility, landowners profit from monopoly rents, whose value is influenced by a myriad of factors. These include: regulations on land uses; the location and proximity to infrastructure and amenities; general levels of supply and demand for land of different types (i.e. designated for different uses); determinants of quality (e.g. brownfield vs greenfield; cultural desirability); and other factors that influence the rent's net present value, such as monetary policy (through interest rate and credit availability), economic growth and demographic trends through their impacts on the demand for land (Bingre, 2011; Robertson, 2014).

Land and urban planning (or lack thereof)

In Portugal, land regulation has traditionally been lax in terms of use. The first comprehensive legislation on land and its urban use dates back only to 1965 (Law n^o 46 673). Private rural land was subdivided into plots and its urbanisation required public licensing, but private owners enjoyed a large degree of discretion in its use (Pereira, 2004). Stricter regulation applied to specific projects in the two major urban centres of the country, Lisbon and Oporto. But this was fragmented and erratic, based on a segregated notion of the urban space according to social class, contributing to the suburbanization of the popular classes and the proliferation of self-constructed neighbourhoods.⁴

After the revolution of 1974 attempts were made to improve regulation and plan the uses of land better. In 1976, the Constitution, for the first time, explicitly included as the fundamental responsibility of the state the "correct planning of the territory" [article n^o 9, e)]. In the same year, and based on the need to "fight land speculation and allow the swift solution for the housing problem", a new land law (n^o 794/76) soon gave increased powers to public authorities in urban planning. This law defined "reserve" areas, adjacent to urban centres, whose use "could be inconvenient for the collective interest of the population", granting new expropriation powers to the state (in case of failed construction in land allocated to household dwellings and urgent rehabilitation interventions), and it introduced the state's first refusal to purchase in land transactions between private agents.⁵ However, this law proved largely ineffectual in the post-revolutionary context, with the new political

emphasis on the protection of property rights and the limiting of public intervention (Bingre, 2011). In 1991, a new law (n^o 438/91) was passed that redefined the value of land as a “function of the value of existing and future construction”, which escalated the amount of the compensation for public appropriation, making the latter more costly and difficult (Cardeiro, 2009). In an adverse political context, the new legal framework in the end undermined land and urban planning policy by making it difficult for public entities to access land at reasonable prices and in reasonable time (Bingre, 2011).

In the 1990s, a new regulatory effort established three different levels of urban policy and associated regulatory mechanisms: Municipal Director Plans (PDM); Urbanization Plans (PU); and Detail Plans (PP). But this again proved to be largely ineffective. Even though municipal plans (PDM) became operational to some degree, covering the national territory, urbanization (PU) and detailed plans (PP) were not implemented in many municipalities – 37% of the municipalities never approved a Detail Plan (Cardeiro, 2009). Without an integrated plan for the use of urban areas (including local amenities, transport or green areas), the result was a dispersed and disorganized expansion of urban areas in many Portuguese cities.⁶ The booming supply of, and demand for, housing was thus fuelled by an extensive construction growth model, detrimental to the alternative of rehabilitation and renovation of already built areas (Oliveira, 2011). The new regulatory framework has, in effect, contributed to this expansive growth model in that municipalities tended to overestimate urban development in the PDMs to avoid future constraints. As many areas in the centre of the cities were defined by the PDMs as “urbanization reserves”, to be subjected to detail plans that were never accomplished, “empty areas in city centres” proliferated (Oliveira, 2011: 13).

Land and urban planning instruments have thus favoured an extensive availability of land for urban development. It might be expected that this would prevent speculation in the value of land. But the reverse has occurred. Municipal regulation has been a powerful instrument in the distribution of land rents through its prerogative in modifying the uses of land from rural to urban development. It has been estimated that around 55 000 hectares of

rural land were converted into urban land by local and national authorities between 1985 and 2000, allowing the construction of 1.3 million homes (Caetano *et al.*, 2005). This has generated extraordinary gains with the valorisation of the newly-developed hectares, ranging from 400.000 €/ha to 2.000.000 €/ha according to location, producing rents between 22 and 110 billion euros during this period (Bingre, 2011). Land reclassification has thus become a powerful land rent distribution mechanism, rendering municipal policymakers vulnerable to the pressure of the interests of construction and finance, as the generation of most of these rents depended on urban development. The convergence of interests between local authorities, big developers, investment funds and banks follows from the latter's financial capacity to develop land which, in turn, favoured the local municipality's capacity to levy real estate taxes (one of the very few taxes locally charged and kept by municipalities), and to stimulate the local economy and employment creation. For example, in 2008, 744 hectares of an ecological national reserve were reclassified as a urban development project of 5000 beds in Grândola and Alcácer do Sal, promoted and financed by one of the major Portuguese financial groups at the time (Grupo Espirito Santo, GES), having been enthusiastically greeted by the local mayors at the time. This project thus garnered the support of the local authorities, one communist and the other socialist, each, seeing here an opportunity for local development (Guinote, 2008). With the recent insolvency of the financial group, GES, the future of this major tourist project is now in jeopardy.

With vast amounts of land available to develop that did not require strict conditions for actual development, the capture of land rents depended first and foremost on the ability of construction companies and financial institutions to propose concrete projects of development and fast-track their approval, at the national level when it concerned ecological reserves, or at the local level otherwise. The prevalence of denounced corruption crimes associated with the approval and fast-tracking of specific projects or changes in the PDM testifies for the role of public authorities in the creation of land rents through these means (Lima, 2011).

Thus, in contrast to the UK, where stricter land regulation seems to have favoured the position of landowners in extant areas for development, who have capitalized rents, resulting in an undersupply of housing and an acute pressure on prices (Robertson, 2014), in Portugal the distribution of land rents has depended more on the availability of private and public resources for investment rather than on rigid public regulation. In Portugal, lax land regulation has generally favoured homebuilders and financial agents, who have also become landowners, but, most importantly, had the financial capacity and the political influence to force an expansive model of land use by engaging in big development projects with the complicit and explicit support of local authorities. And land rents were appropriated by various means, through speculative transactions based on land reclassification, through purchase of urbanized allotments or through the sale of finished built homes.

Public investment

The expansion of public investment in infrastructure, following Portugal's accession to the EU, is equally important to the Portuguese housing system of provision. Structural EU funds (i.e. allocated to poorer EU regions), European loans from the European Investment Bank, and substantial public investment in transport, natural gas, electricity, water and telecommunications favoured the expansion of new urbanized areas (Table 2).⁷ The growth of motorway density illustrates this expansion well, rising from 2.6km/1000km to 28.5km/1000km between 1988 and 2008, particularly in the coastal areas where population became more concentrated (Mendes, 2012). The construction of the second bridge over the Tagus River, in 1998, provides another paradigmatic illustration of urban expansion in the country, resulting in the heavy urbanization of rural areas in adjacent municipalities to the south of Lisbon. Massive public investment in water provision and waste water services during the same period, allowing virtually full coverage of the population, provides yet another example of a public policy with a significant impact on the housing system of provision during the past two decades (Teles, 2015). Public investment in means of communication and utilities together provide additional evidence for the role of the state in

the promotion of an extensive model of housing, where intricate relations between construction and finance prevail.

Table 2. Public Investment and EU transfers (% of GDP)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
EU Transfers	2,7	2,6	2,6	2,4	1,5	1,7	1,7	2,4	2
Public Investment	5	5,6	5,2	5	4,4	5	4,2	4,4	4,5
	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU Transfers	1,5	1,1	1,3	1,4	1,1	1,3	1,5	2,9	2,5
Public Investment	4	3,5	3,2	2,8	4,2	5,3	3,4	2,3	2,2

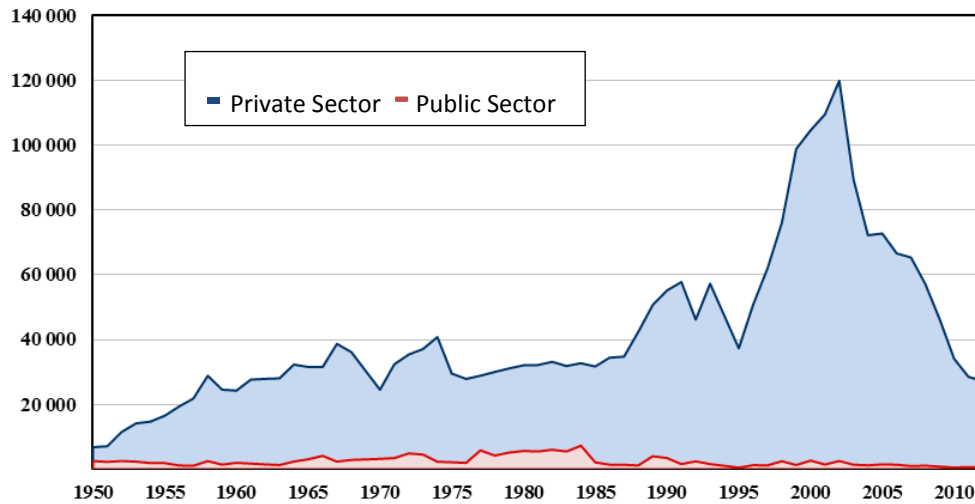
Source: Pordata

The dependence of construction on European-funded public investment has meant, however, that this sector would be severely affected by the roll back of public investment after 2001 (to be further discussed below). Under the fiscal rules of the Stability and Growth Pact, Portugal, especially after breaching the target for its public deficit in 2001, was forced to cut back investment, which declined from a peak of 5.6% of GDP in 1997 to 3.2% in 2007 (Table 2), also following the slowdown of structural European transfers in the 2000s.

4. Housing production

The construction of household dwellings has risen dramatically over the past three decades, most especially since the second half of the 1990s, when the number of homes built per annum tripled from 40.000 in 1995 to 120.000 in 2002 (Graph 6). This growth is explained almost entirely by the private sector, which includes the production of housing by private companies and forms of direct private promotion by households, betraying a low level of involvement of the state in direct promotion and a high level of involvement in promoting private forms of housing provision, as described in the previous sections. During the period 1950-2012, the private sector was responsible for constructing approximately 89% of all housing, and its weight within the various forms of housing provision as a whole progressively gained ground, ranging from 71% in 1950 to approximately 98% (the highest figure registered for the series) in 2012, (Graph 6).

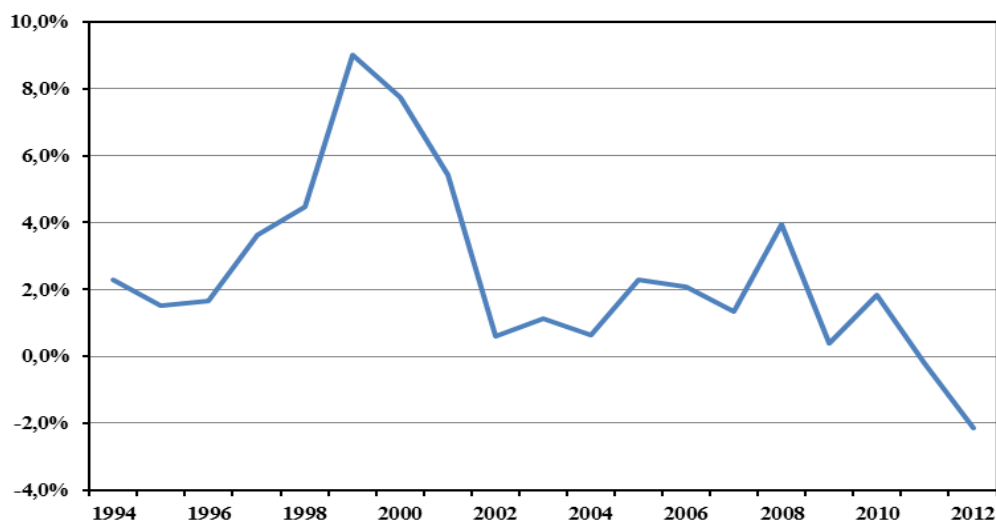
Graph 6. Dwellings constructed, by sector (1950-2012)



Source: INE

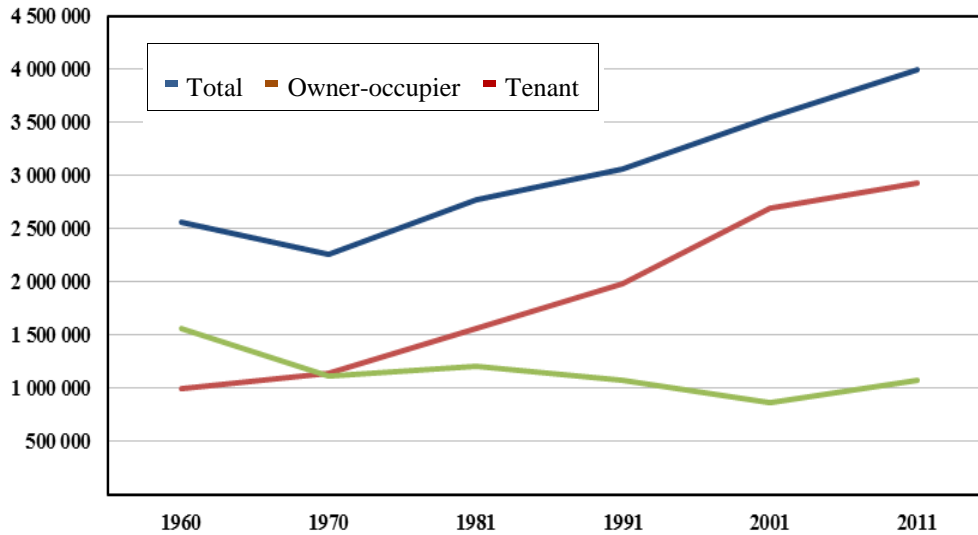
The rapid growth of dwellings constructed since 1995 was followed by a significant increase in house prices, stabilising at a 2% growth rate since 2001 (Graph 7). This growth in dwellings constructed has corresponded to a rise in the proportion of property owners relative to tenants, with homeownership representing approximately 73% of the accommodation in 2011, steadily growing from 39% in 1960 (Graph 8). It has also led to an increase in the number of second homes, signalling the unequal and unbalanced effects of the sector's evolution, with these growing from 3% to 20% of total dwellings between 1970 and 2011 (Graph 9).

Graph 7. Evolution of housing prices in Portugal



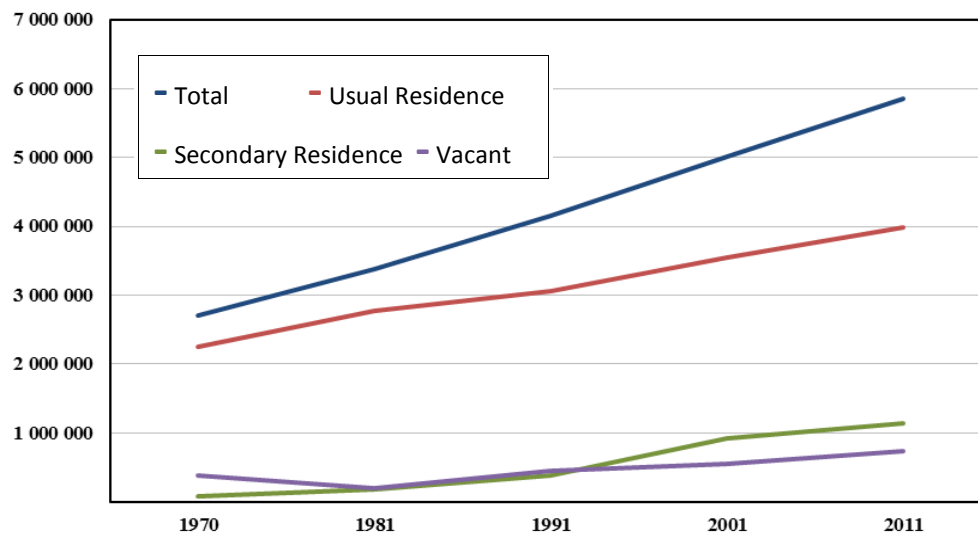
Source: ECB

**Graph 8. Standard household dwellings of usual residence:
Total, owner-occupier and tenant**



Source: INE

Graph 9. Conventional dwellings, by form of occupation

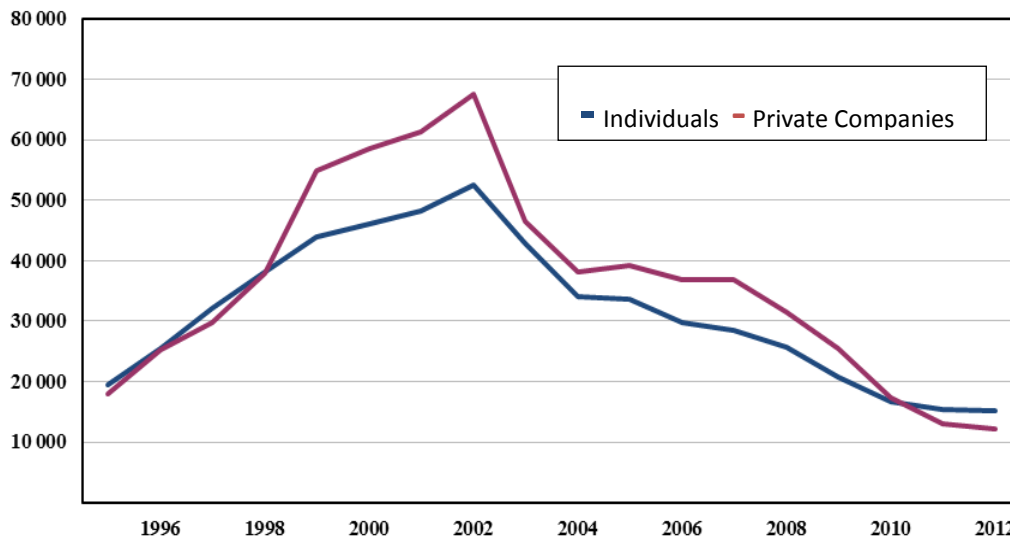


Source: INE

Private provision is relatively equally divided between housing developed by individuals and by private companies (Graph 10). However, individual developments encompass very diverse strategies ranging from (and very often combining) informal mechanisms (such as self-building and unauthorised building) to mechanisms which are by nature much closer

to the market logic, such as the direct contracting of homebuilders. Finally, and reflecting lax regulation on land and urban planning leading to an extensive growth model referred to above, less than 20% of concluded buildings were renovated, representing approximately 10% of the value of all housing, whereas it reaches 50% in some European countries, such as Germany and the UK (Loureiro de Matos, 2012).

Graph 10. Homes constructed by the private sector (1995-2012)



Source: INE

In 2001, with the international recession, the gradual ending of state support for homeownership and the slowdown of public investment (due to the new budgetary discipline to which the Portuguese state was subjected to the Stability and Growth Pact, as mentioned above), the housing market in Portugal began to face an imbalance between supply and demand, most severely affecting the construction market. Investment in housing fell sharply in the first years of the millennium never to recover. The number of completed dwellings fell suddenly, from a peak of around 122.000 in 2002, to 73.000 in 2004, to reach 28.000 in 2012, with annual reductions since then, with the sole exception of 2005 (see Graph 6).

However, during the period 2003-08, the annual rate of transactions (Table 3) was consistently higher than that of completed dwellings (unlike the market euphoria between

2000 and 2002). The relative resilience of the real estate market throughout the crisis might begin to explain the relative stability of house prices since 2001 (cf. Graph 7). The resilience of the real estate market can in turn be partly explained by the fall in interest rates between 2001 and 2006 (cf. Graph 4), which enabled maintaining “a demand for houses for speculation, which should remain empty to maximise the speed of transactions” (Bingre, 2011: 33). It can also be explained by the robustness and sophistication of the domestic banking sector with continuing access to foreign capital, thereby sustaining household demand, and new forms of controlling real estate supply through newly-created investment funds (to be further developed below).

Table 3. Evolutions of houses completed and sold (%)

	2000	2001	2002	2003	2004	2005
Houses completed	0,04	0,02	0,09	-0,27	-0,20	0,04
Houses sold	-0,08	-0,06	0,01	-0,09	-0,08	-0,08
	2006	2007	2008	2009	2010	
Houses completed	0,02	-0,10	-0,03	-0,06	-0,04	
Houses sold	0,09	-0,05	-0,01	-0,14	-0,15	

Source: EMF

Private Homebuilders

The construction sector was clearly one of the winners of the processes of European integration and financialisation of housing provision, benefiting from the growth in public works subsidized by European funds, and the expansion of credit and household demand for new homes. The dynamism of the sector is reflected in the growth of its weight within national Gross Value Added (GVA) during the period of strong economic growth in the second half of the 1990s, and in the growth of its relative weight in employment, which covered 12% of the entire working population in 2002 (Table 4).

Table 4. Construction sector weighting within GVA and employment (1994-2012)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
GVA	6,4	6,7	7,1	7,7	7,7	7,7	7,7	7,8	7,5	6,9
Employment	7,8	8,1	8,1	9	10,9	11,2	12,1	11,5	12,2	11,5
	2004	2005	2006	2007	2008	2009	2010	2011	2012	
GVA	6,7	6,5	6,2	6,2	5,9	5,4	5	4,6	4,0	
Employment	10,7	10,8	10,7	11	10,7	10	9,7	9,1	7,7	

Source: INE

However, being the main channel for the entry of foreign capital into the country, even if mediated by the domestic banking sector, the construction sector was more vulnerable to the boom and bust cycles of financial markets, benefiting from the explosion of financial flows in the second part of the 1990s, but being severely hit by the current crisis in the Portuguese economy, with its weight in GVA reduced by almost half between 2001 and 2012 (Table 4).

But the housebuilding industry is highly fragmented and heterogeneous with thousands of small companies co-existing alongside big multinationals of Portuguese origin, denoting a symbiotic relationship based on outsourcing strategies by major national companies, passing on certain phases of the work to (small) subcontractors. This has allowed big firms to manage the intermittent volume of work, benefiting at the same time from the typically precarious labour relations within the sector in Portugal (Baganha *et al.*, 2002).

Even though it is difficult to have a reliable measure of productivity in the sector, mainly due to informal contracts and work seasonality, Gross Value Added per employee in construction is low when compared to other European countries, constituting about half (49%) of the productivity levels of small EU companies and three quarters (74%) of the productivity of large EU companies (Moreira da Fonseca, 2008). The structure and the labour-intensive character of this industry have been taken as an obstacle to the introduction of new technologies, which partly account for the low productivity levels. With a very fragmented structure where small and medium companies prevail, the sector has shown low progress in the adoption of new technologies involving large capital investments

and a qualified workforce. Indeed, even larger companies with more advanced technologies outsource their work to small and medium companies, taking advantage of labour informality and low wages instead of technological expertise and a qualified workforce. This is aggravated by the fact that construction workforce not only has a low level of qualification but it also presents high turn-over rates, where workers with informal contracts frequently change workplace preventing the accrual of in-house experience and qualification. For example, in 2000, 70% of construction workers had less than four years of work in their current company (Baganha *et al.*, 2002).

The sector has undergone considerable changes since 2001 and, more recently, with the 2008 crisis. The scale of business grew with the rising number of mergers and acquisitions and the entry of foreign capital into ownership of Portuguese companies (Loureiro de Matos, 2012), and the closedown of small- and medium-sized firms, reducing the total numbers of firms from 30.404 in 1995 to 21.588 in 2012 (InCI, 2013). However, firms belonging to classes 1 and 2 (with budgets up to 332.000 euros) still accounted for about 76% of all construction firms in Portugal in 2012 (*ibid.*).

The prolonged crisis in the construction sector is reflected in its financial position. The financial autonomy index for construction companies (the ratio between equity and total net assets) presents a modest average of 29%, which conceals some disparate and difficult situations in which around 10% of the companies have a ratio of less than 5%. This disparity can also be seen in the general liquidity levels for the sector, with 10% of companies presenting a liquidity ratio (the balance between current assets and current liabilities) of less than 100%, and a median value of 178%, where the overwhelming majority of over-indebted firms are small businesses belonging to classes 1 and 2 (InCI, 2013).

However, a small group of listed companies have access to a wide range of sources of capital. These include Mota-Engil, Soares da Costa, Teixeira Duarte and Somague (the latter dominated by Spanish capital via Sacyr), which have benefited from a wave of mergers and acquisitions and have expanded overseas, particularly in Africa. Benefiting from public investment in infrastructure, and gaining know-how and diversifying their

activities to areas adjacent to construction, such as the environmental industry or water provision (Teles, 2015), these firms have acquired new capacities that favoured their expansion both from a geographical and economic point of view.

The boom and slow burst of the Portuguese construction sector had a strong impact on the labour market. Being a labour-intensive sector where informal labour relations still abound, the labour force in construction has diminished dramatically since 2001. Its weight in national employment went from 12.2% in 2002 to 7.7% in 2012 (Table 4), being a major contributor to the doubling of the national unemployment rate – from 8% in 2007 to 16% in 2012. This impact has been most severe among unqualified immigrants from the Portuguese-speaking (Cape Verde, Guinea Bissau, Angola and Brazil) and East European countries (Ukraine, Moldova and Romania), as testified by the decline in the number of declared immigrant workers in construction, from 17% in 2002, dropping to 14% in 2006 to reach a mere 4% in 2012, with their absolute number cut almost by half in this later year.⁸

The State as a producer: The Special Re-housing Programme (PER)

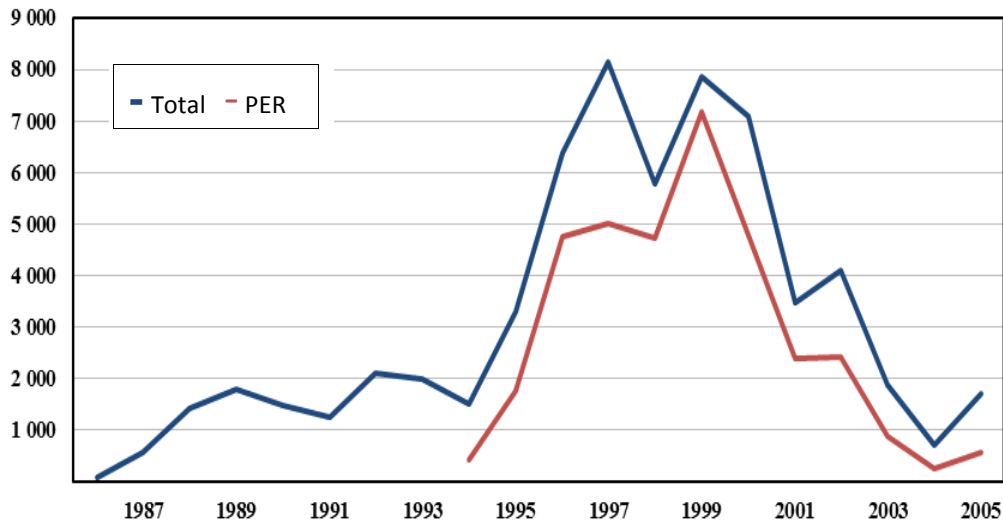
The PER is the most significant public housing programme of the last twenty years and is illustrative of how the policy for the direct promotion of housing is restricted to the most urgent housing needs. Established in 1993 under Decree-Law n^o 163/93, the PER was organised and funded by the direct central government in cooperation with municipalities in the metropolitan areas of Lisbon and Oporto, being co-funded by European subsidies. Designed as a 'mega' social housing programme, the PER was seen as an emergency response whose main objective was to eradicate shanty towns (which still existed in large numbers at the time) and rehouse residents in properties constructed (for rent) at controlled cost, including plots and respective infrastructure.

The PER would prove highly controversial in various aspects inherent in its design, implementation and meaning in terms of housing and urban development policy. On the one hand, the controversy revolved around its creation and objectives, since it was an initiative that focussed more on responding to a situation of serious housing need (the

shanty towns) than one elaborated within the framework of an inclusive social housing policy. On the other hand, there was the issue of its institutional organisation, given the decentralisation of responsibilities to the municipalities without negotiation with them. Finally, it reflected an enduring and outdated model for the direct promotion of housing based on building isolated council estates peripheral to the main urban fabric and, in many cases, located in rundown areas lacking infrastructure.⁹ In general, there was a clear lack of foresight in planning social and collective facilities, which bore witness to the main objective of the programme being 'relocation', in its strictest sense (CET-ISCTE *et al.*, 2008b). The peripheral location of these neighbourhoods, in many cases in isolated areas, the lack of public services and infrastructure, and the exclusion of the residents in the relocation process illustrate the main objectives of this policy: the eradication of signs of persistent poverty in city centres, in a country that aimed to show itself as belonging to a socially and economically modern Europe.

However, between 1994 and 2005 the PER provided for the construction of over 31.000 homes (CET-ISCTE *et al.*, 2008b). And between 1996 and 1999 alone around 65% of the approximately 35.000 homes that comprised the total PER contracts were built (Graph 11). Its relative success in terms of construction, although limited in time and territory, was essentially the result of the speedy creation of the necessary conditions for its execution and, from this perspective, it can be considered the most significant social housing programme of the last two decades (CET-ISCTE *et al.*, 2008b).

Graph 11. Number of social housing units for rent contracted between 1986 and 2005 (Total and PER)



Source: IHRU in CET-ISCTE *et al.* (2008b)

As a programme designed to reallocate the excluded segments from the mortgage markets, the PER was never part of a wider strategy of direct public involvement in housing provision. But even within the PER, specifically the PER-Famílias programme, attempts were made to integrate a small percentage of the population of the shanty towns into the mortgage market, granting them a lump-sum subsidy that could reach 60% of the value of the new (private) home and a subsidised mortgage loan, under particular conditions.¹⁰ This provides further evidence that the direct involvement of the state in housing provision was limited to households that were left out of the model of the publicly-sponsored financialised private provision, and the extent to which financialisation and its interactions with systems of provision is variegated across time and space and the contradictions inherent to financialisation processes and the need for considering the residual of the population along with those targeted by policy of a more universal scope.

The PER programme also illustrates the instability, volatility and fragmentary nature of housing policies in Portugal, both in terms of overall guidelines, measures and the institutional frameworks that shape them. With implementation marked by political, financial and administrative hardship, housing policies have reflected a relatively erratic

succession of measures and programmes with a variety of contexts and scope developed under the remit of an often incongruous range of bodies. Fragmentation, dispersal and volatility are core characteristics of the Portuguese housing policies; with marginal public financial resources (compared with other areas of social policy such as education, health and social security), public housing programmes were oriented to specific social segments (e.g. poor households, residents of shanty towns, etc.). Thus, there was never a national strategy for housing, i.e. a strategy built on clear policy objectives that integrated different scales and areas of intervention and that included a comprehensive set of measures required to implement those objectives. On the contrary, as we have seen, the policies implemented in the last decades were limited in time and space and targeted at the resolution of particular problems.

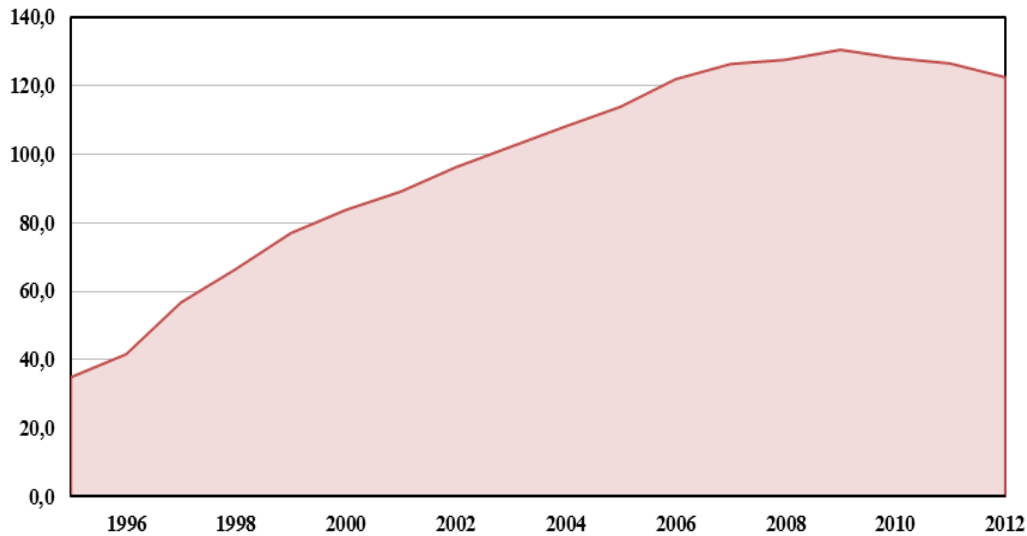
The main features of housing policy are also particularly evident in the area of renovation. This is the case of the PROHABITA programme, launched in 2004, that aimed to serve as a new key housing programme to replace and update the previous rehousing programmes (including the 1987 Collaboration Agreements, the 1993 PER and the 1996 PER-Famílias). Initially taking “the resolution of severe housing needs affecting families in national territory” (DL n° 135/2004 of 3 June) as its main objective, the PROHABITA revision in 2007 created an additional objective, the renovation of council estates that had become rundown or lacked facilities. This reveals a reversal of strategy, by focussing on rehabilitation at the expense of new building projects and supporting the renewal of rundown council estates or those lacking facilities (CET-ISCTE *et al.*, 2008b). Thus, with the end of support for homeownership through loan subsidies and the granting of tax benefits and the winding down of public housing construction, the focus of housing policy turned to rehabilitation and incentives to rent.

5. A country of indebted owners...

The financialisation of the Portuguese economy within the context of EU integration, the traditional weakness of the Portuguese welfare state, together with a housing policy focused on the promotion of private ownership, have resulted in massive household debt. In

1995, household debt represented approximately 35% of disposable income, while in 2009 it reached its highest level of 130.5% (Graph 12).

Graph 12. Debt as a proportion of household disposable income (1995-2013)



Source: EUROSTAT

The rise in Portuguese household debt can easily be identified with housing loans, which constitute the main portion of household bank debts, rising from 70% of the total debt in 1995 to 81% in 2011. Other types of household credit – such as consumer credit – have also risen, but not at the same rate (ECRI, 2012). Modernisation and innovation in the banking system also led to new products and marketing strategies aimed at attracting households to take out loans. Periods of free credit, promotional rates, and the option of reserving payment of part of the capital for the final phase of the loan, are some examples of innovation in an aggressively competitive and extremely dynamic financial markets operating without due monitoring by the Portuguese Central Bank. As a whole, these changes favoured “the appearance of quick, easy credit with hardly any charges, enabling clients to purchase a vast range of goods and services provided by an affluent society that partly constructs its identity on the basis of consumer patterns” (Frade, 2007: 39).

The very low starting point for debt and the historically low interest rates were guarantees of the financial robustness of household loan agreements. In these circumstances the real

estate credit market became very attractive, offering the possibility of risk dispersion (given the wide range of clients), the opportunity to apply higher interest rates (due to the lower impact on instalments resulting from the lower amounts financed), and greater maturity on loans, as well as the opportunity to retain clients through loan agreements (Lobo, 1998). In a second phase in the 2000s, with the gradual removal of state support, credit facilities were expanded in the household sector by increasing the value of loans and lending to secondary homes rather than by extending credit to new segments of the population (Antão *et al.*, 2009).

Unlike the recent household credit expansion in the American subprime market, this expansion was not directed at all at the lower social classes with greater risk of defaulting, but to households with higher incomes and better guarantees of financial solvency, with loan facilities focussing on the higher income brackets. According to information compiled for the *Inquérito à Situação Financeira das Famílias* (ISFF – Survey to the Financial Situation of Families) produced by the Bank of Portugal (BdP) and the *Instituto Nacional de Estatística* (INE – Statistics Portugal), in 2010 only 37.7% of Portuguese families were in debt, approximately 24.5% had housing loans and 13.3% loans not secured by property. Parallel to this, around 7.5% of families had outstanding balance of credit card debt or bank overdrafts and 3.3% had mortgages for properties other than their main residence. The ISFF also reveals that the level of involvement of households in the debt market rises in line with income level, ranging from 18.4% for the lower income class to 57.4% for the highest (Table 5).¹¹ Nevertheless, almost two thirds of households (62.3%) were not in debt.¹²

Table 5. Proportion of households in debt, by income bracket

	Mortgage on main residence	Mortgage on other properties	Loans not guaranteed by property	Credit card, credit limit or bank overdraft	Any debt
TOTAL	24.5	3.3	13.3	7.5	37.7
1st Quintile (<20%)	10.1	0.7	8.4	2.8	18.4
2nd Quintile (20-40%)	14.2	2.0	12.0	4.6	26.1
3rd Quintile (40-60%)	28.0	2.3	14.7	7.3	41.9
4th Quintile (60-80%)	30.7	3.7	16.8	9.4	47.2
9th Decile (80-90%)	38.7	6.5	14.1	13.5	52.3
10th Decile (90-100%)	39.9	8.8	14.7	13.5	57.4

Source: BdP and INE (2012)

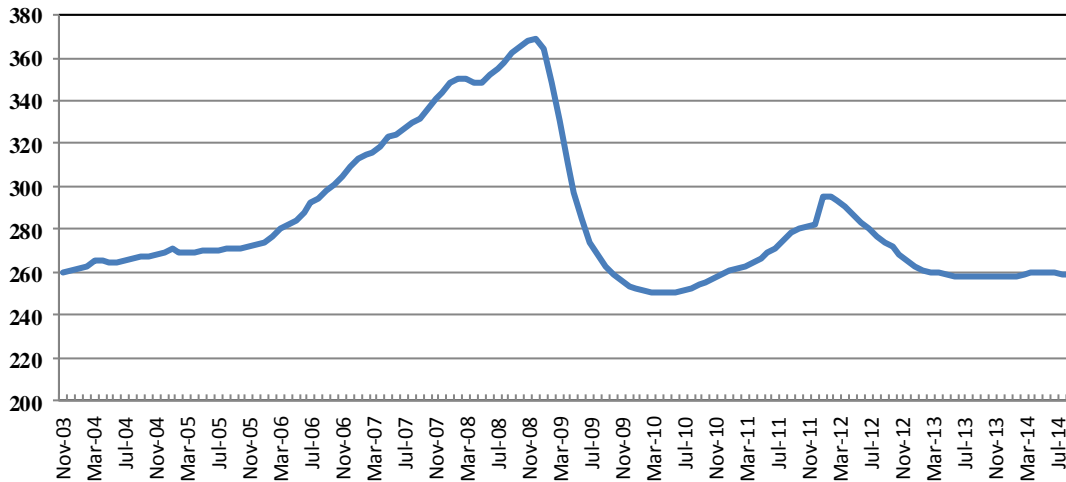
Involvement in the real estate loans market is higher amongst households in which the head belongs to the 35-44 age group, has a higher education qualification and is a salaried employee who is not on a fixed term contract. This is explained, on the one hand, by younger households having a greater need to resort to loans for homeownership and, on the other hand, by the greater financial capacity and stability of educated workers in more secure employment, who can therefore access mortgage loans more easily (Costa and Farinha, 2012).

The profile of Portuguese household debt, based almost exclusively on real estate, is similar to the profile for peripheral and semi-peripheral countries in which debt is also concentrated in the higher social strata (Santos and Teles, 2014; López and Rodríguez, 2010). The higher concentration of homeowners with mortgages amongst households with greater resources, and of tenants amongst families with fewer resources is naturally reflected in the proportion of spending on housing within the available household income. The difference between the cost of a mortgage and paying rent is clear. In 2012, for example, only 7% of families with mortgages were bearing an excessive burden of

expenditure on housing (i.e. over 40% of the household available income), whereas the figure was 36% for households who were renting the household home.¹³ For a significant part of the Portuguese population, homeownership emerged as the best option for meeting household accommodation needs. It also had the advantage of serving as a form of asset investment, particularly during the 1990s when prices were booming. However, it should be noted that the Loan-to-Value (LTV) housing loans in Portugal in 2007 was 71%, below the European average of 79% (Drudi *et al.*, 2009). This relative low level of LTV housing loans might be explained by the timid evolution of housing prices during the 2000s that may have favoured more cautious lending behaviour. At any rate, Portuguese indebted households have not been as vulnerable to housing price evolution as some European counterparts.¹⁴

The differentiated impact of housing financialisation is also discernible in the evolution of household average loan monthly repayments. With most of them contracted at variable rates indexed to the interbank rate Euribor (thus reflecting the reliance of domestic banks on interbank funding in their long term operations) and for large periods (the standard mortgage has a timespan up to 30 years), the monthly repayment amounts are comprised mainly by interest payments, having followed the rise of ECB interest rates until 2009 and their decline since. Thus, the financial crisis and resulting drop of the reference interest rates has led to a significant reduction in levels of mortgage loan repayments (Graph 13). This may have worked as a financial buffer counterbalancing the burden of austerity measures that affected disposable income across all segments of the population. However, and in line with the distribution of mortgage debt, this buffer most likely benefitted the most affluent households better positioned to access the mortgage market and with higher levels of indebtedness vis-à-vis small debtors as well as households who continued to pay rising rents.

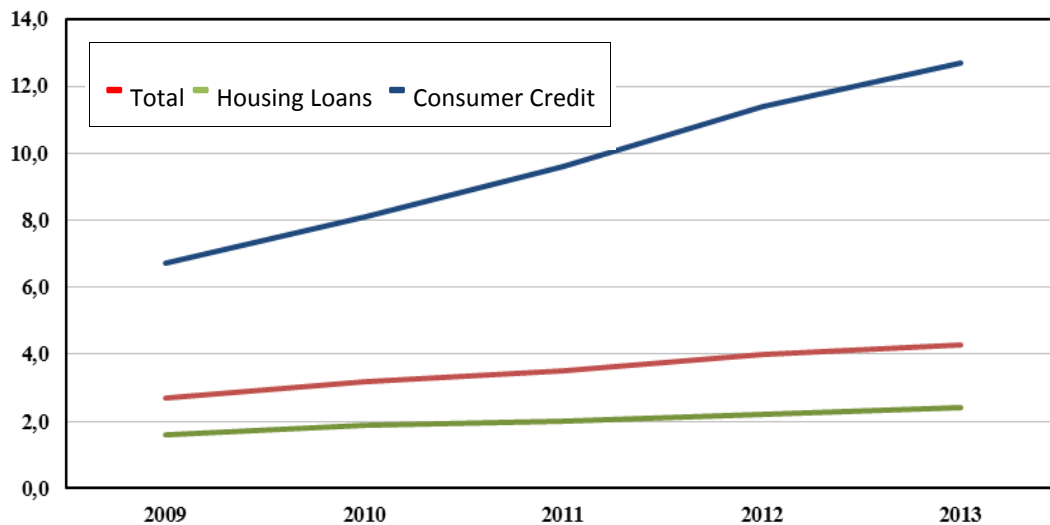
Graph 13. Average monthly loan repayments on housing (euro)



Source: INE

The rapid expansion of credit and the increase in levels of indebtedness amongst Portuguese households in the past two decades were associated with low levels of default. It was the crisis – and the consequent drop in household income and overall increase in the cost of living – that led to bad debts in bank portfolios. The default rate on credit for consumer goods and other purposes rose fastest, from around 6.7% in 2009 to 12.7% in 2013. The default rate for housing loans has also been rising but remains relatively contained, increasing from 1.6% to 2.4% in the same period (Graph 14).

Graph 14. Household overdue credit ratio, 2009-2013



Source: Bank of Portugal

Reflecting the rise in default rates, the number of requests of the over-indebted, mostly for assistance in the renegotiation of debt contracts with credit institutions, to the Portuguese association of consumer protection, DECO, has more than doubled between 2010 and 2013, reaching the record number of 29.214 in this year.¹⁵ Most of these requests were made by employees from the private sector (35%) and the unemployed (31%). Though, in recent years, the retired and the civil servants have been increasingly soliciting assistance, representing, in 2013, 15% and 16%, respectively, of the requests. This reflects the rather wide-ranging impact of the crisis, affecting not only those who lost their jobs, but also a generalised reduction of disposable income of the employed and the retired through wage and pension cuts. Indeed, the main causes given for inability to pay credit commitments are unemployment (35%) and deteriorated labour conditions (34%). And, reflecting the composition of default rates, most requests pertain to personal loans (35%) and credit cards (31%). Mortgage loans comprised only 16% of the processes (DECO, 2014).

It was therefore essentially the crisis itself that revealed the seriousness of debt incurred by Portuguese families and made them more vulnerable to the economic and financial instability of the country. But as mentioned above, its effects are highly differentiated. Unlike credit for consumer goods and other purposes, housing loans are relatively well protected by the value of the property, are associated with lower interest rates, the loan terms are easier to manage, and they are concentrated within the higher income brackets. Thus, vulnerability to debt problems was not caused by the debt dynamics, such as the rise in interest rates observed in countries such as Hungary or Poland (where mortgage loans in foreign currencies were common), but by the rise of unemployment and the sudden lack of income caused by austerity conditionalities imposed by the European Union and the IMF and endorsed by the government. Although Portuguese indebted households benefitted from access to finance and the drop in interest rates, fiscal austerity measures had a particularly severe impact given the lack of economic policy instruments (exchange rate and monetary policy) that might have been used to adjust the Portuguese economy to the new international economic conditions.

... and poor tenants

The evolution of the Portuguese housing rental market has been defined by a gradual but marked decline since the 1960s, as it lost ground to the owner-occupier form of tenure (see Graph 8). This has been attributed to regulation of this segment of the housing market, namely the administrative freezing of rents, which dates back to 1943 (Quental e Melo, 2009). This situation continued into the post-25 April period and it was only in 1985, the year before Portugal joined the European Economic Community, that rent freezes were revoked (under Decree-Law n^o 46/85), liberalising the value of rents if only in new contracts (Serra, 2002). Since then, and considering the significant volume of dwellings constructed in the last decades (with a considerable part of them unoccupied), controlled rents have lost explanatory relevance in accounting for the problems in the rental housing sector.

However, the liberalisation of this market was slow. Successive reforms to the urban rent system only applied to new contracts, hindering market dynamics. From 2006 onwards, the reforms began to cover old contracts but even so the conditions required of landlords with older contracts – for example, living conditions, generous deadlines for revising rents (10 years for tenants aged over 65) and the immediate change to a more onerous system of taxation – continued to limit the expansion of the private rental segment (Quental e Melo, 2009).

This situation gave rise to a dual rental market, leading to the degradation of older properties in city centres, with lower rents, where the elderly populations were concentrated, and the emergence of a new, profitable, rental market. Data from the latest Portuguese Census show that in 2011 over 50% of the accommodation rented at less than 20 euros per month corresponds to contracts signed before 1975. On the other hand, over 80% of the accommodation rented at 650 euros or more corresponds to rental contracts signed between 2006 and 2011 (INE, 2012). The same survey shows that accommodation rented at less than 20 euros is located in decrepit buildings or those that need major repairs and, not surprisingly, that the state of conservation of the buildings improves considerably as the monthly rent increases (INE, 2012). However, only 7% of

accommodation was rented at less than 20 euros and 3% at more than 650 euros (INE, 2012). Most accommodation is rented at 100 to 400 euros, with the average monthly amount totalling approximately 250 euros. But in the liberalised market, the average monthly rent increased in real terms by around 50% between 2001 and 2011, while average monthly costs of homeownership rose by just around 7% (INE, 2012).

However, the current crisis appears to be changing the market situation. Since access to mortgage loans has become more difficult, renting is expected to become a more attractive, if not the only, viable option for an increasing number of Portuguese individuals and families. In addition, the reforms envisaged for the rental market, within the conditional framework of the financial assistance programme, may also provide an impetus for the supply of competitively rented accommodation. Landlords thus emerge reinforced by the crisis, stimulated by a foreseeable increase in demand due to the shrinking mortgage market together with strengthened rights for landlords of household dwellings.¹⁶ Housing will become a more difficult commodity to access, putting the older and more disadvantaged population at risk.

6. The deepening of the finance-housing nexus

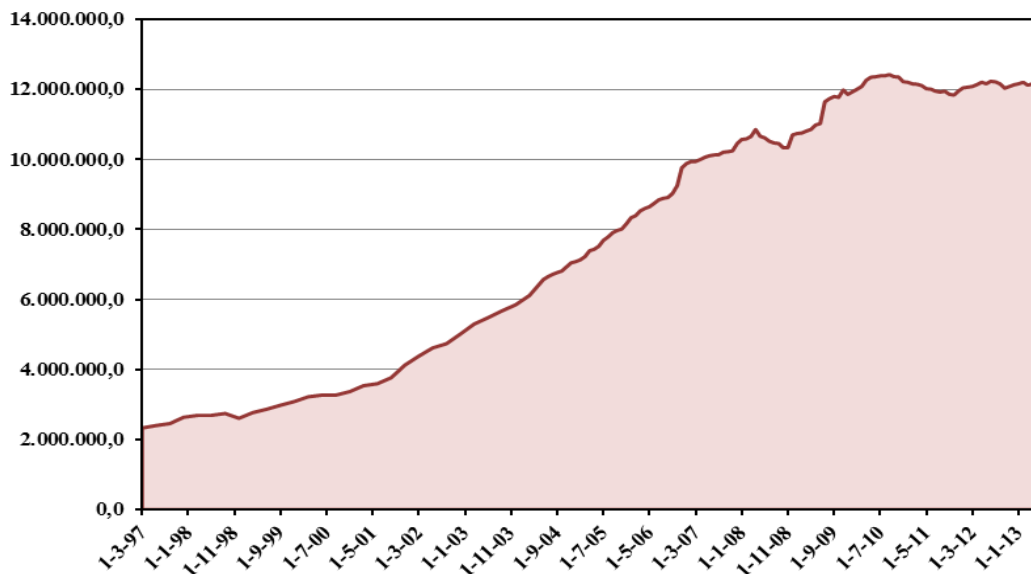
The intertwined relation between finance and housing in Portugal is not confined to the rise of mortgage loans and debt of the construction and real estate sectors. It also concerns the development of new financial markets in the country, whether through the emergence of new actors, such as real estate investment funds, or new financial instruments such as securitisation of mortgage loans. These developments not only allowed banks to raise new capital and increase their liquidity, thus enabling them to continue offering loans in the new context of economic stagnation in the 2000s, and thereby attenuate the impact of the crisis on real estate activities.

New actors: Real Estate Investment Funds (FII)

Real Estate Investment Funds have experienced steady growth in Portugal in the last two decades. Created in 1984, the year in which the first steps were taken towards liberalising

the financial sector, these funds grew fastest in the 2000s and by 2013 comprised assets worth 12 billion euros – in comparison with slightly over 2 billion euros in 1997 (Graph 15). The period of greatest growth took place between 2004 and 2009, when they rose from 65 to 244 funds, corresponding, nevertheless, to a fall in the average capitalization of the funds, from 108 million euros in 2004 to 48 million in 2009 (IHRU, 2010).

Graph 15. Value of assets held by real estate investment funds (millions of euros)



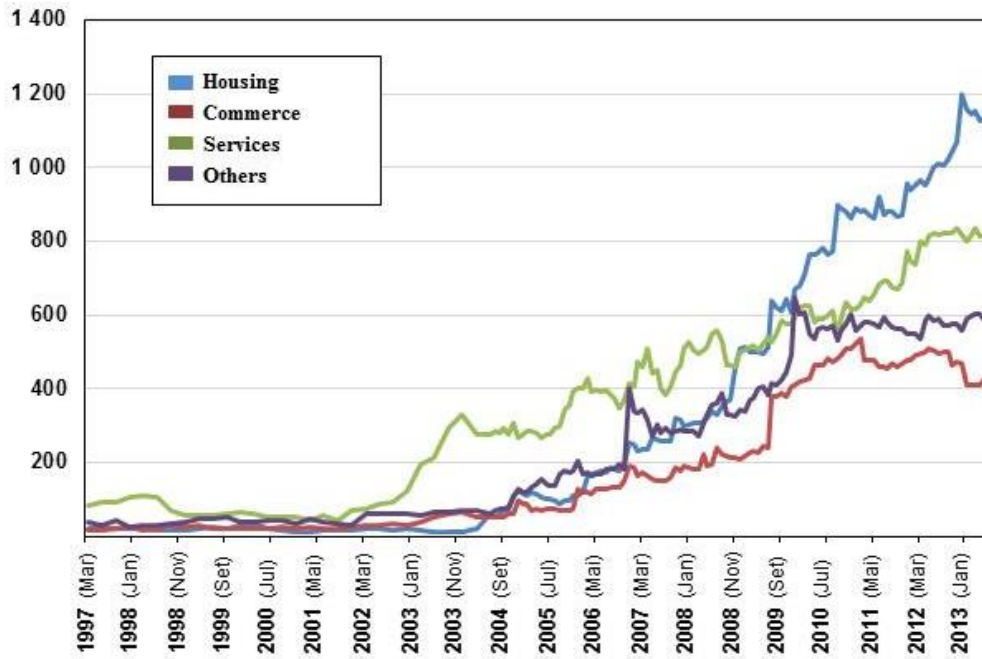
Source: CMVM

The legal framework for real estate investment funds was established in 2002 under Decree-Law nº 60/2002 that defined three categories of funds: open-end (FIIA), closed-end (FIIF) and mixed (FIIM). In open-end funds the number of securities, investors and the amount of capital may vary during the term of the fund, whereas in closed-end funds the shares are fixed, and in mixed funds there are two types of share, one involving fixed and the other variable numbers. These funds are authorised and regulated by the Portuguese Securities Commission and must comply with a set of criteria regarding asset composition. But all may be involved in four activities: acquisition of property for rent or other forms of related business use; acquisition of property for resale; acquisition of other property rights (e.g. garage space); and construction and urban rehabilitation projects (IHRU, 2010).

The funds enjoy a special tax status which favours them over individual investors. For example, properties included in FIIA are exempt from Municipal Property Tax (IMI) and Municipal Property Transfer Tax (IMT), and the rates are reduced by half for properties included in FIIF. In addition, assets undergoing renovation are exempt from corporate income tax (IRC), and IMI and contracts benefit from a 5% reduction in VAT (IHRU, 2010). This favourable tax status was reinforced in 2009 when the revenue from funds established between 2009 and 2013 became exempt from IRC. Exemption from IMT was also extended to urban properties destined for rent, together with exemption from stamp duty. Given the extension of tax benefits to investment funds in general, and to real estate funds in particular, the contribution made by the tax system to FII profitability is not surprising. Razina and Cardoso (2005) calculate that in 2004 exemption from IMI and IMT had a 33% impact on returns on investment in these funds, which does not include the aforementioned later benefits. Once again, the role played by the state in the creation of this new market is evident.

The capitalised value of these funds did not suffer a great deal during the 2008-9 economic crisis and the value of these assets has since stabilised. However, since 2008, the composition of portfolios shows a sharper growth in the weight of housing, particularly in funds containing assets not destined for rent (Graph 16).¹⁷ In terms of housing, the assets held by these funds are concentrated in the Lisbon and Porto metropolitan areas, particularly the former, with a major geographical concentration in the central areas of these cities (IHRU, 2010).

Graph 16. Composition of FIIIs with not-for-rent assets



Source: CMVM

This recent increased weight of housing assets may be explained by two factors. On the one hand, housing seems to have best weathered the overall fall in prices in the economy in 2009 and subsequent years, thus presenting itself as an asset that is, despite everything, secure against the financial instability experienced during this period. On the other hand, given the close links between these funds and the domestic banking sector, it is possible that they have served to drain off the real estate assets that the banks had begun to accumulate due to the crisis. The biggest real estate funds belong to the biggest domestic retail banking groups. The largest fund, *Interfundos*, until recently belonged to the largest Portuguese private bank, the BCP, the *Fundger* is controlled by the largest Portuguese (state) bank, the CGD, the *Montepio Valor* belongs to a small mutual bank, Montepio Geral and, finally, the *ESAF* belongs to the Banco Espírito Santo (Table 6). The main national real estate funds are therefore closely linked to the domestic banking sector and a considerable number of transactions take place amongst the financial groups to which they belong (cf. Fundger, 2013). Real estate investment funds therefore have emerged as a means of enabling banks to manage their over-extended balance sheets for the housing and

construction sectors, providing a source of liquidity and asset turnover which liberated available funds for new credit.

Table 6. Largest real estate investment funds in Portugal

Entity	Banking group with shareholder control	Market share
Interfundos	BCP	12,6%
Fundger	CGD	11,7%
Montepio Valor	Montepio	9,1%
ESAF	BES	8,4%
Norfin	Crimson Investment Management	6,9%

Source: CMVM

The use of real estate investment funds as a source of liquidity and asset turnover seems to be confirmed by the discrepancies identified between the market value of housing (calculated on the basis of real estate transactions) and the book value of these funds (IHRU, 2010). Thus, whilst in some municipalities (such as Guimarães or Braga), the market values are significantly higher than the book values for these funds, in the municipalities where investments are concentrated (for example, Lisbon, Oporto and Sintra), the book values are clearly higher than the average market value for the same locations (by 8%, 27% and 12%, respectively), (IHRU, 2010). These discrepancies therefore attenuate the losses resulting from the devaluation of real estate assets against market value, since the assessment of assets depends on the establishment, by the fund manager, of the purchase value of the property and the average of two assessments carried out by external assessors, thus providing the manager with some leeway in terms of fund performance (Pais, 2011).

New instruments: loan securitisation

Loan securitisation emerged late in Portugal in comparison to the core countries where these operations date back to the 1970s (Wolfson, 1994). Created legally only in 1999, under Decree-Law n^o 453/99, the first loan securitisation operation was only carried out in December 2001 via a credit securitisation fund, raising a total value of mortgage loans to be

securitised of 1 billion euro (Campos, 2005). This increased to 26 billion in 2011, with 39 securitisation funds operating on the market. Favoured by tax benefits, since abolished, securitisation funds were the favoured means of issuing securities. With the international crisis and regulatory changes – specifically aimed at reinforcing collateral through the ECB – the credit securitisation companies gained ground, becoming responsible for the securitisation of credit worth 35 billion euros between 2003 (the year in which the first credit securitisation company was created) and 2011.¹⁸

Whilst the possibility of resorting to securitising loans in order to remove them from the balance sheets of banking institutions may have been one of the initial reasons for this type of operation, the regulatory changes of 2005 introduced certain restrictions. Nevertheless, according to the Bank of Portugal (BdP, 2012), in 2011, 19% of securitised loans were removed from the banks' balance sheets. In other words, despite emerging late and being subject to regulatory limits, securitisation also played a role in expanding credit facilities in Portugal by removing the loans granted by banks from their balance sheets, thus increasing liquidity in the banking sector. These securities also offered the advantage of having a high level of liquidity, since they could be traded amongst financial agents, and serving as collateral, as they could be used to guarantee loans from the ECB, thus also serving as an instrument for managing liquidity.

To conclude, it is important to highlight the power of international banking in the segment of securitisation (Hardt and Manning, 2000). Credit securitisation funds are controlled by the Deustch Bank (through its securitised *Navegator* and *Magellan* funds), together with some domestic agents (e.g. Portucale Espírito Santo),¹⁹ whilst the securitisation companies are mainly controlled by the Citigroup (via Sociedade Sagres), the Deutsch Bank (via Sociedade Tagus) and Hefesto (LB UK RE, formerly Lehman Brothers).²⁰

7. Conclusion

This paper examines the recent evolution of the housing sector in Portugal, emphasising the European integration of the Portuguese economy and its role in the Portuguese housing

SoP. Drawing on the SoP approach, it has sought to identify the role of the main agents involved in the sector, the interests that have been promoted and the distributive effects across different socio-economic segments of the Portuguese population.

The recent evolution of the Portuguese economy has been shaped by the process of European integration, namely the creation of the Economic and Monetary Union, which has been one of the main driving forces behind the financialisation of the Portuguese economy and society. The evolution of the Portuguese financial sector, in particular, replicated, even if with a time lag, the financialisation processes of most advanced capitalist countries. This meant that the same policies of bank privatisation, abolition of capital controls and the deregulation and decompartmentalisation of the financial markets contributed decisively towards the growing influence of financial markets on the activities of the Portuguese households, businesses and the economy.

This growing influence of the financial markets had a very direct impact on the housing sector, contributing to the predominance of policies focussing on demand that have stimulated homeownership through the use of credit, to whose expansion the European integration contributed by successive lowering of interest rates. The state played an active role in this process by various means. It did so through the reconfiguring of the Portuguese financial sector and providing substantial public support for homeownership in the form of loan subsidies and attractive tax benefits. It also promoted an extensive growth model of construction through public investment in infrastructure, with the support of European structural funds, and complacent attitude towards an ineffective regulation of land use and urbanisation that favoured the interests of homebuilders and finance.

The result was an oversupply of housing, already noticeable in the beginning of the 2000s. The progressive withdrawal of various forms of public support for housing loans together with the decrease in public investment in major public works led to a prolonged crisis in the construction sector, which further dragged the Portuguese economy into stagnation. Nonetheless, Portugal, in contrast with other countries with an oversupply of housing, such as Ireland and Spain, did not go through the same collapse of housing prices. The growing

intertwining between the banking and construction sectors partly explains these somewhat contained effects in the housing market. Even if at a slower pace, the emergence of new financial instruments and agents gave access to new sources of capital in foreign financial markets at low interest rates. Household debt thus continued to rise, through the rise of the amount of loans granted to higher income segments and the new expanding market for secondary homes.

Already suffering from the eradication of state support to mortgages and the cuts in public investment during the 2000s, the construction sector was the most severely hit by the crisis, resulting in major structural transformations. Bigger companies have reinforced their position thanks to consistent diversification and internationalisation strategies, largely unscathed by this slow burning crisis. Small- and medium-sized companies, which had thrived during the 1990s with the rise of outsourced contracts in the sector, were the first to perish with the economic recession, and thus a major contributor to the rise of unemployment in Portugal.

The recent evolution of housing provision has also had differentiated impacts on households. If on the one hand, the rising indebtedness of households fuelled by mortgage loans enhanced the vulnerability of all households, particularly evident after the international financial crisis producing unprecedentedly high levels of unemployment and a general decline in disposable income; on the other hand, indebted (affluent) households seem generally to have benefitted from the transformations of provision as they gained access to housing at record low interest rates and with historically low monthly payments. Indebted households have also benefitted from the relatively contained evolution of housing prices in Portugal, in contrast to other European countries that have equally experienced an extraordinary expansion in their mortgage markets. While these households did not gain to the same degree from booming housing prices, they have not suffered from declining prices either. This has meant that the financialisation of the housing SoP in Portugal has mostly carved a fracture between those included and excluded from the mortgage markets. The former have had access to new homes at affordable prices and at the same time

accumulating wealth, while the latter have endured repeated waves of market liberalisation in the rental markets resulting in subsequent rises in rents.

The poorer segments of the population, excluded from both the mortgage and rental markets, have seen a general improvement in their housing conditions with the eradication of the shanty towns in the urban centres. However, they were relocated to the outskirts of what have become new urban ghettos. The housing provision of the “residual” population left out of the new model of private ownership thus betrays an association with the dominance of financialisation and the new roles opened to social policy ever more devoted to those excluded from the housing and financial markets.

The Eurozone crisis has moreover exposed the fragility of the Portuguese economy. In the absence of an autonomous monetary policy and sovereign currency, its impacts have been magnified by the stringent conditionality of the troika financial bail-outs, thus having a negative impact on all agents present in the provision of housing. As we have seen, these impacts have been varied depending on the different content that financialisation has acquired for different agents. It has most affected the construction sector, leading to the collapse of small- and medium-sized construction firms, and creating enormous difficulties in the banking sector. But despite their more fragile condition in a stagnant economy with the rise of both household and business insolvency, banks, given their systemic nature, have nonetheless benefited from new (public) capital and unlimited liquidity from the ECB.

However, the model of housing provision based on private ownership through credit seems to be exhausted due to the more difficult access to foreign capital constraining the mortgage market. But this creates new possibilities for the expansion of the private rental market, which may benefit from a likely increase in demand due to the shrinking mortgage market and an equally likely increase in supply, given the recent trend towards the reinforcement of landlord rights. It is also foreseeable that the older and more disadvantaged segments of the population, having benefitted from administratively fixed rents that are condemned to end, will face new risks having limited alternatives in the face of a shortage of social housing and a financially drained state. Housing conditions may

therefore decline significantly as accommodation shared between various generations already emerges as a solution. A paradox thus seems to develop in the Portuguese housing sector where a growing number of vacant houses, created by decades of intense construction, attains new heights, whilst a growing proportion of the population is faced with more acute housing needs.

1

http://www.bportugal.pt/EstatisticasWeb/%28S%28a3sgsnawxf45ni454zx4eleu%29%29/SERIESCRONOLOGICAS.ASPX?Token=2A28BA49-9225-4013-AEFC-F24723AD8938&Session_Start=1

² <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>.

³ Interview with Tiago Castelo, Urban history researcher at CES.

⁴ Interview with Tiago Castela, Urban history researcher at CES.

⁵ Any private transaction since then needed the prior confirmation that the state would not exercise its right.

<https://dre.pt/application/dir/pdf1sdip/1976/11/25900/25172524.pdf>

⁶ Interview with Ana Jara, Architect, Artéria.

⁷ Interview with Antonio Manzoni, Head of research of the Construction Business Portuguese Association (AECOPS).

⁸ www.ine.pt.

⁹ Interview with Ana Jara, Architect, Artéria.

¹⁰ http://www.portaldahabitacao.pt/pt/portal/habitacao/programasapoio/per_familias.html

¹¹ According to the ISFF, in 2010 mortgage debt associated with the main residence represented approximately 80% of household debt, whilst debt associated with other properties amounted to 12% and loans not guaranteed by property 7%. The total for credit cards, credit limits and bank overdrafts was 1% (BdP and INE, 2012).

¹²¹² This is in line with other surveys. For example, the *Inquérito à Literacia Financeira da População Portuguesa (Survey to the Financial Literacy of the Portuguese Population)*, conducted by the Bank of Portugal, in 2010, reported that 26% of Portuguese families had mortgages and 16% had other types of debt, excluding outstanding credit card debt and outstanding bank overdrafts (BdP, 2011).

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<http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do;jsessionid=9ea7d07d30d6856d59f18bfb40d7b025a0eb26041fff.e340aN8PchaTby0Lc3aNchuNa3iPe0>

¹⁴ Interview with anonymous Caixa Geral de Depósitos (CGD) bank branch manager.

¹⁵ DECO, through its service *Gabinete de Apoio ao Sobreendividado* (Office of Support to the Over-indebted), is the most relevant Portuguese NGO providing assistance to the over-indebted, especially in the renegotiation of debt contracts with credit institutions.

¹⁶ Interview with Rita Silva, member of the board of the NGO HABITA.

¹⁷ Real estate funds destined for rent are marginal and were created in 2009 to resolve the problem of growing household debt default, preserving the latter option of purchase. According to the IHRU (2010) the two main funds, belonging to the state *Caixa Geral de Depósitos* bank, did allow for the recovery of assets of defaulting debtors.

¹⁸ http://www.cmvm.pt/CMVM/Estatisticas/Gest%20Activos/2011_4t/Pages/2011_4t.aspx

¹⁹ http://web3.cmvm.pt/sdi2004/fundos/app/pesquisa_nome_ftc.cfm

²⁰ http://web3.cmvm.pt/sdi2004/titularizacao/pesquisa_stc.cfm

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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

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