

The Portuguese real estate market, wounded by the virus

- The impact of the pandemic has been felt in the Portuguese real estate market with a reduction in sales and a slowdown in prices.
- All the indicators suggest that, over the coming quarters, the real estate market will continue to suffer a correction as a result of the uncertain environment, the fall in household incomes, the reduction in purchases by foreigners and the lower levels of investment in accommodation businesses.
- Before the pandemic, however, the real estate market was in a much stronger position than it had been in the run-up to other crises, which will help the sector to regain momentum with the economic recovery.

The lockdown and the impact that the COVID-19 crisis has had on confidence and incomes have left their mark on the real estate market. Over the past few months, sales have declined significantly, while price growth has moderated. In particular, between January and June, sales fell by around 20% compared to the previous six months and by 11% versus the first half of 2019, reflecting both the restrictions on economic activity and the deferral of sale and purchase decisions in a more uncertain environment.

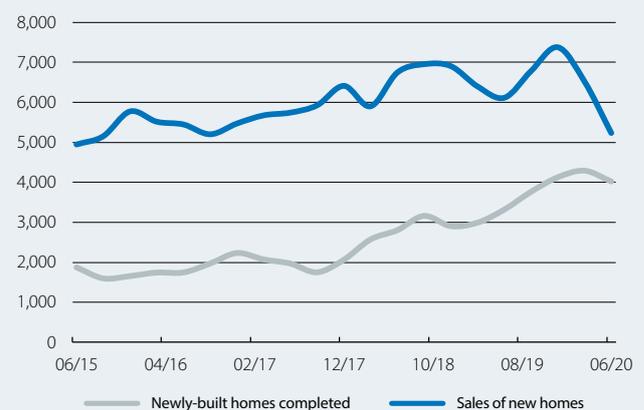
In the same period, prices continued to rise, albeit at a more moderate rate (+7.8% year-on-year in Q2 2020 compared to 10.3% in Q1). This lower impact on prices is likely to be a reflection of the fact that, in the real estate sector, price adjustments in reaction to negative shocks take longer to materialise. Moreover, there are factors of a more structural nature that have supported relatively high real estate prices in recent years. In particular, the completion of new housing has been persistently lower than the number of purchases of new homes (see first chart), and this may have generated a perception of a certain supply shortage relative to the demand.¹

Nevertheless, the gap between the number of new homes that are completed and property sales is narrowing. This is partly because sales declined by around 14% in Q2 2020, but primarily because the completion of new housing has grown at much higher rates in recent quarters (24% in 2019 and 32% in the first half of 2020). These dynamics are thus helping to balance supply and demand, with the consequent reduced pressure on prices.

In fact, the latest indicators suggest a slowdown in the pace of the entry of new properties onto the market, but they do not indicate stagnation. In the first half of the year, the GVA of the construction sector grew by 2.2%, while cement sales continue to rise and registered a year-on-year increase of around 13% in September. Furthermore, despite having moderated in recent months, the sector's confidence indices remain high

1. However, transactions in the real estate market are dominated by the sale of second-hand housing (accounting for around 85% of all transactions).

Portugal: housing supply and sale transactions (Units)



Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal.

Portugal: construction sector indicators

	2018	2008
Financing obtained (% of asset value)	35.7	43.5
Dependency on bank credit (% of total financing obtained)	54.7	75.7
Financing expenses (% of revenue generated)	3.1	4.9
Financial autonomy ratio *	27.7	22.0
Doubtful loans ratio	August 2020	November 2016
Construction activities	14.1	35.5
Real estate services	5.3	27.6

Note: * This is the ratio between internal capital and total liabilities.

Source: CaixaBank Research, based on data from the Bank of Portugal.

relative to the historical average, both in the sector as a whole and in real estate development in particular. In addition, the sector's starting point prior to the pandemic was more comfortable than in 2008. As can be seen in the table, construction companies are better capitalised this time round, while their sources of financing are more diversified (less reliance on bank credit) and they also have better credit rating indicators.

On the demand side, all the indicators suggest that sales will experience a slowdown after the rebound that followed the spring lockdown, which will push down prices. Among residents, who account for some 87% of all purchases made, it is expected that there will be a cooling off of demand and that some transactions will be postponed due to the deterioration of the labour market and uncertainty over what the future will bring for household incomes. For the time being, economic policies have mitigated the impact of the pandemic on the unemployment rate (8.1% in August, +1.7 pps compared to the same period in 2019) and on households' disposable income (in 12-month cumulative terms, it only fell by 2% last June). However, both elements are likely to deteriorate when the support measures are reduced or withdrawn.

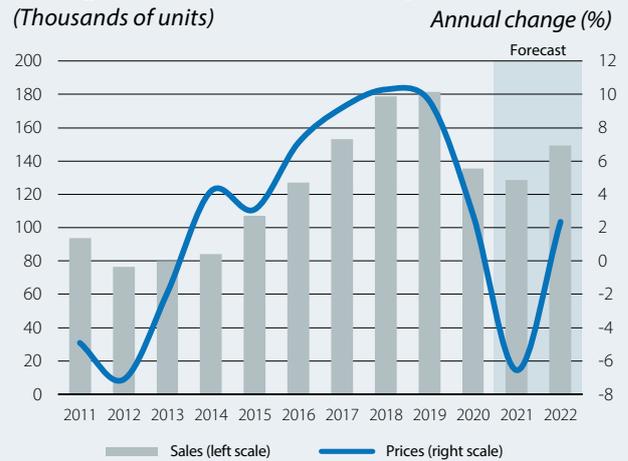
Furthermore, the current scheme of credit moratoriums (which has been extended until September 2021, with an application deadline that closed in September 2020) has eased the financial stress that home owners experiencing difficulties due to the pandemic might experience. Indeed, these moratoriums have been widely used: in the first half of the year, 13.2% of mortgage debtors benefited from moratoriums, and mortgage credit under this regime accounted for around 17% of the total outstanding balance of mortgage loans. However, these same homeowners could once again be put under financial stress if the economic scenario deteriorates.

Demand from non-residents, meanwhile, will also have a significant impact on the market, in terms of both sales and prices. This group played an important role in revitalising the real estate market in recent years, and in 2019 it accounted for 8.5% of property sales and 13.3% of their value (4.9% and 8.4%, respectively, in 2012). Restrictions on mobility could reduce the presence of foreigners in the market. On the other hand, the possible end of the «golden visas»² at the end of 2020 for purchasing housing in Lisbon and Porto will be another factor that will lead to a cooling off of the market, even if the scheme is maintained in the country's interior.

Finally, the tourist sector boom of recent years had boosted investment in real estate for local accommodation and had stimulated price growth (especially in the second-hand property segment). At the current juncture, the difficulties endured by the tourism sector are likely to also translate into downward pressure on real estate prices, especially as local

2. A statute law that allows foreigners to obtain a residence permit for the purposes of investment activity by purchasing real estate properties with a value equal to or greater than 500,000 euros. The 2020 state budget foresaw an end to the granting of these so-called «golden visas» in the case of purchases of property in Lisbon and Porto by the end of 2020. The government has recently opened the door to the ratification of this decision.

Portugal: real estate sales and prices



Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal and internal forecasts.

accommodation businesses have accounted for a substantial share of sales in recent years (around 10% on average between 2017 and 2019).

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