

## **Austerity and (new) limits of segregation in housing policies: the Portuguese case**

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### **Abstract**

This article discusses segregation regimes in relation to housing policies, analysing their effects on residential occupation patterns and their connections with other urban policies in the Portuguese context. First, we focus on the effect of national housing policies from the past two decades, including social housing policies, on residential occupation patterns. Second, we examine the main instruments of housing policy implemented under the austerity programme, looking ahead to the new needs and segregation mechanisms linked to the crisis as well as the responses to the crisis. We show that during the past four decades, housing policies ended up acting as segregation regimes, unable to oppose centrifugal market forces present in the metropolisation process. In central metropolitan areas, as well as in neighbourhoods with social housing, the economic crisis and the austerity programme are magnifying problems regarding access to housing. The adopted policies have direct consequences on spatial segregation, as they contribute to the increase of housing stress in low-income dwellings.

Keywords: spatial segregation, housing policy, social housing policy, urban policies, austerity policies, Portugal

### **Introduction**

The aim of this article is to identify to what extent housing and urban policies act as segregation mechanisms. We analyse housing and urban policy instruments, applied since the 1974 revolution, in which logical and differentiated processes contributed cumulatively to residential occupation patterns in Lisbon and Oporto, as well as other medium-sized cities in Portugal.

Segregation is a concept with multiple meanings that has been used to describe a state or a process of separation of social groups, manifested in the establishment of social areas with low diversity, separated by boundaries (Ascher, 1995). The use of distinction between groups and the separation of groups into detached zones is not a new subject in urban policies. Spatial segregation, in parallel with other social and economic practices, involved urban transformation as an instrument of domination and hierarchisation long before its representation as a political and academic object (Bauman, 2005; Nightingale, 2012). As a

process of spatial separation of social groups, segregation is mitigated when there is a larger social mix. The direct correlation between social structure and segregation patterns has largely been taken as an assumption in urban and housing studies. This postulate engenders the very notion of social mix, and legitimises the urban policies that promote it.

However, empirical research shows that to achieve a higher social mix, it is not enough to accomplish lower levels of social inequality. Studies on residential segregation among immigrants in Spain and in cities located throughout southern Europe (see Arbaci, 2007; Leal, 2011; Leal & Pérez, 2008) show that the segregation index masks large inequalities in housing conditions.

In Portugal, until the present decade, the prospect of social mix was never stated as a principle or as an operative concept in the formulation of public policy or urban planning (Menezes & Craveiro, 2006). In fact, the general law does not provide any social housing policy for geographic distribution (Scanlon & Whitehead, 2007) designed to manage the residents' ethnic or socioeconomic propinquity. Studies on social–ethnic segregation were the biggest contributors to the conceptualisation of spatial segregation. These studies focused on poor neighbourhoods and immigrant populations (mainly from non-western countries). The debate was affected by the creation of the High Commissioner for Immigration and Intercultural Dialogue (1997) and by the related European policies intended to address the exclusion of young second-generation immigrants.

The research on spatial segregation had effects on a new phase of urban public policies that integrate the principles of equality and equity in urban intervention. The analysis of segregation processes in Lisbon's metropolitan dynamics also impacted these new policies. Advances in research (EU-Portugal, 2005; Salgueiro, 2000) contributed to positive discrimination in public policies within an integrated and decentralised approach.<sup>1</sup> This new generation of urban public policies was, however, unable to establish itself as a national housing policy to be implemented in deprived urban areas. These academic and political advances, nonetheless, contributed to redefining the concept of segregation. Social–ethnic segregation gave way to spatial segregation. Segregation was no longer seen as a mere feature of inequality, but considered as a driving force of inequality (Pato & Pereira, 2013a, 2013b).

Our perspective is that the concept of segregation is still a good basis on which to analyse the construction of (porous) borders. Numerous urban processes and procedures have potential segregation effects, for example, an urban index, urban design, restrictive or zoning measures, fiscal systems, rent support modalities, access to property and to credit, coercive measures, and restrictions on immigration and reuniting families. Thus, access to housing is deeply connected to urban policies – from the control of land costs to the residential function in urban development plans, through the methodologies for measuring areas for intervention.

Recently, the territorial effects of housing policies outside of marginalised areas have become the focus of a more refined analysis. This article is part of this critical debate, and

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<sup>1</sup> Corresponding to the Programme for the Urban Regeneration and Renewal of Critical Areas (*Programa Áreas Críticas de Recuperação e Reconversão Urbana*). It acted both in social housing and self-construction neighbourhoods. The aim was to introduce measures for the correction of social and urban inequalities, based on the application of the principles of anti-segregation policy.

is organised into two main parts. The first part examines the main housing policies of the past two decades. We consider, on the one hand, the mechanisms connected with political interference in the purchase and leasing market prior to the 2008 crisis; and, on the other hand, public social housing policy adopted between 1999 and 2010 (designed to supplement the process of rehousing people from slums in the two metropolitan areas). This policy proved to be particularly important in the residential pattern of lower income groups.

The second part explores some of the main tools of housing policy implemented under the austerity regime since 2011. This analysis discusses both the dynamics instilled by the crisis, as well as the failure and problems generated by the adopted policies. Some of the studied measures follow the Troika Memorandum guidelines for the housing sector and have been described elsewhere (Pereira & Pato, 2014; Pato & Pereira, 2015), namely the removal of tax benefits and the safeguarding of credit defaults, the leasing market liberalisation, and the Social Rental Market (SRM) Programme,<sup>2</sup> which is a central instrument of new housing policy that has been implemented through public–private partnerships. We will return to these mechanisms later in the article when we also explore the social rental housing system, identifying their influence on the pattern of segregation. Housing policies and the way they are being modified by austerity policy are changing both the processes of spatial segregation and its political legitimating regimes (Pato & Pereira, 2013a, 2015).

## **National housing policies as segregation regimes: the past two decades**

Portugal never developed an integrated approach between housing and urban policies. Thus, weak State intervention left neighbourhoods exposed to the influence of a variety of private actors (from families to building companies and banks). The urban residential areas built during the expansionist model (Nightingale, 2012; Roch Peña, 2008; Romero, Jiménez, & Villoria, 2012) tended to have market segments ranging from luxury condominiums to housing for low-income families, the most vulnerable to credit failure (Pato & Pereira, 2015). The homeownership policy adopted over 40 years has reinforced the pattern of segregation imposed by the market.

Restricted from entering the homeownership market due to the inability to access credit as well as the low number of affordable rental units, the most disadvantaged renters, including immigrants, have solved their problems by sharing homes, leading to overcrowded units in poor neighbourhoods.

Whenever public housing supply was sufficient, the solution was social housing, usually concentrated in neighbourhoods. Access to public housing policy remained limited, and the supply concentrated in neighbourhoods with hundreds of units, which maintained the segregation of the most vulnerable groups of the population.

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<sup>2</sup> *Mercado Social de Arrendamento (MSA)*.

The remote location and the degradation of the buildings, among many social problems, often attached to a discourse of insecurity and violence, which justified public intervention in deprived urban areas. Within this framework, a few urban and social regeneration programmes have been developed which have resorted to anti-segregational mechanisms in order to rectify disparities in urban facilities, education, social care and policing (Pato & Pereira, 2013a, 2013b).

The social housing estates, including those from the Special Rehousing Programme, mainly developed between 1995 and 2005, were built on the outskirts and in the interstices of recently built urban areas occupied by the middle class. While involving different logics, the process of building social housing estates was not independent from the process that gave rise to those urban areas dominated by middle class ownership. During the past two decades, both housing and social housing policies played a part in the residential occupancy pattern of many metropolitan areas, as discussed below.

## **Regimes of spatial segregation in Portuguese national housing policies**

In 2011, two-thirds of homes were owner occupied (INE-Census, 2011). Urban development was achieved by using a mix of urban plans and allotments,<sup>3</sup> and by developing a segmented supply of private homes in the homeownership market. The purchase support policy followed until 2011 turned out to be a factor in residential socioeconomic segmentation in homogeneous areas, similar to what had occurred in other cities of Southern Europe (Allen, Barlow, Leal, Maloutas, & Padovani, 2004; Arbaci, 2007).

The scheme to support the Purchase of Owner Occupied Permanent Housing,<sup>4</sup> created in 1976, was the crucial instrument of this policy. Subsidised loans (until 2002) and income tax relief from the costs of purchasing a home (until 2011) contributed to the rise of indiscriminate housing demand, leading to Portugal becoming a nation of homeowners. Of the almost two million mortgages that had been originated, 53% had been paid off by 2012. This regime has defined the investment structure over the past four decades, with 2002 representing the highest point of public investment channelled to Purchase Support (Table 1).

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<sup>3</sup> Urban form based on the issuance of permits to build not supervised by urban development plans. They are usually multifamily housing typology developments, which tend to be of high density, where the architectural form results from the successive addition of sets of buildings of similar volume, aesthetics and standing

<sup>4</sup> *Regime de Apoio à Aquisição de Habitação Própria Permanente.*

Table 1. Public housing investment in 2002 (M €).

	M €	%
Loan for purchase (SSPOPH)	767	81.4
Public construction (SRP and non-metropolitan programmes)	87	9.2
Aid to leasing (youth) – Porta 65 programme	57	6
Municipality (and equivalent) rehabilitation (REHABITA programme)	30	3.2
Aid to leasing (families) in social care system	1.3	0.1

Source: Isabel Guerra (2011, p. 58).

In the early 1990s, public policy allowed private banking to offer mortgage loans, making it possible for low-income families to have access to credit, which they could never have had without these loans. However, these contracts had fewer guarantees and, therefore, higher risk than other mortgage contracts.

The urban expansionist model (Nightingale, 2012; Romero et al., 2012; Roch Peña, 2008) contributed to the segmentation of the purchase market that accompanied the housing construction boom. In the final phase of the construction boom, the market response to increased purchases of homes by low-income households was to build low-cost housing in remote areas. Most of these units were constructed with low-quality materials and lacked garages. Moreover, accessibility and local services were also insufficient.

In sum, housing policy has created a separation between owners and renters, and within the latter, several sub-groups occupying different residential areas. This has specifically been achieved by, first, prioritising home purchase and by implementing the frozen rent policy<sup>5</sup>; and second, because housing policy has created a system that separates ‘classical social housing’ from the ‘aid to housing leasing’ scheme.<sup>6</sup> It means, for example, that a young person needing housing assistance is likely to be allocated a public dwelling in social housing estates, far away from the city centre, while a young person with higher income, but still benefiting from the Programme *Porta 65*, will have a rent subsidy to live in the city centre.

The procedural and geographic separation of these two support systems – the ‘classical social housing’ and the ‘aid to housing leasing’ – has created an exclusionary boundary between the ‘autonomisable’ beneficiaries (who can be integrated into the market, although with support) and the ‘non-autonomisable’ (who are referred for State protection) (IHRU, 2008).

<sup>5</sup> Rents contracted prior to 1990, the increase of which is forbidden by law. The policy of frozen rents was implemented throughout the country in the period between the wars and was continued only in the two principal cities, Lisbon and Oporto, up until 1948. In 1974–1975, it was re-applied. Such a policy is linked to the lack of political interest in any other type of rent assistance

<sup>6</sup> Programme called *Porta 65 Jovem*.

## Decentralised social housing policy as a regime of spatial segregation

In adopting the European typology regarding social housing models (CECHODAS, 2006), the Portuguese system appears a universalistic one since housing became a fundamental right, codified in the Constitution (1976). The social housing policy that was adopted resulted in a model of residual intervention aimed at small target groups considered to be the most vulnerable.

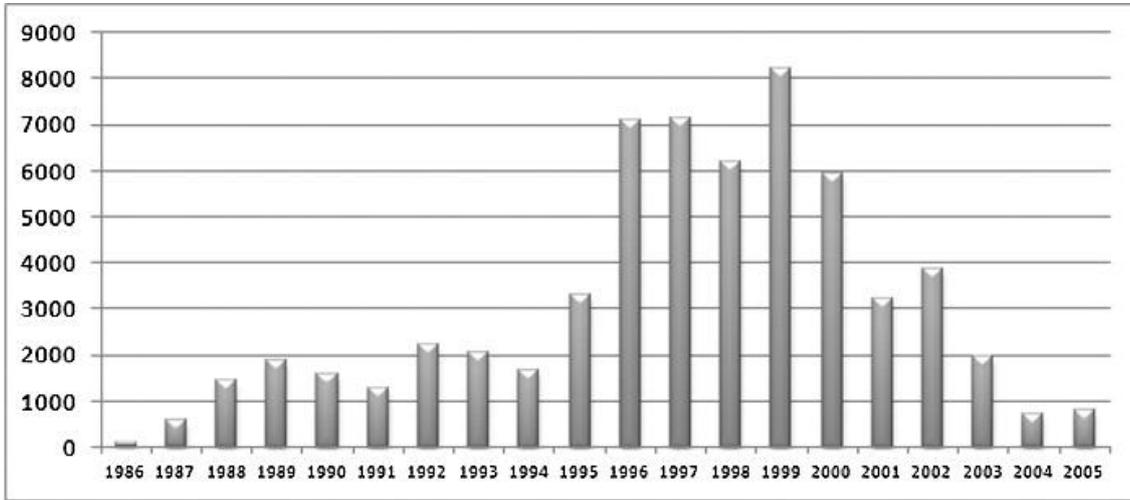
Portuguese social housing policy has two main measures: the 'supported rent' system for eligible households (covering the part of the value of the technical rent which could not be borne by the tenants due to their low income); and incentives to increase the number of social housing units. These incentives have been directed at social housing providers, for example, local authorities, the central State and entities contracted by the State Administration. The way measures targeted different groups of the most disadvantaged (providing an incentive to the settlement of the city centres with a young population), without first resolving the needs of these groups, and the lack of investment in the public sector, are an indication that despite the political intentions of the Constitution, housing policy has been a weak sector of the Portuguese Welfare State (Ferreira, 1987), remaining residual in its financial planning and limited in those it targets.

The residual and narrow targets of the adopted model also explain why in 2011 less than 3% of the 5.8 million existing homes were public (3.3% if we only consider first residences) (INE-Census, 2011). These public units were either built by central and local governments or by entities contracted by them, for households with incomes below the poverty line (about 60% of the average income), whose rent is publicly subsidised.

Ferreira (2011) identifies three stages in social housing policy: the first stage corresponds to the dictatorship period of the *Estado Novo*; the second began after the revolution in 1974; and the third stage began with the Special Rehousing Programme, established in 1993 and revised in 2003. In the post-revolutionary period, locally based movements for self-construction were important, and were progressively replaced in the 1980s and 1990s by a policy of State housing provision for the most disadvantaged groups. This period involved large-scale developments promoted by the central State. Across the country, precarious residential neighbourhoods gradually gave way to social housing, despite slums remaining an important urban element. However, only a small proportion of public investment was allocated to social housing. Instead, housing policies mostly provided support for purchase. The Keynesian model never sustained a universalistic system, that is, affordable housing for those in need, and was neither legalised nor funded.

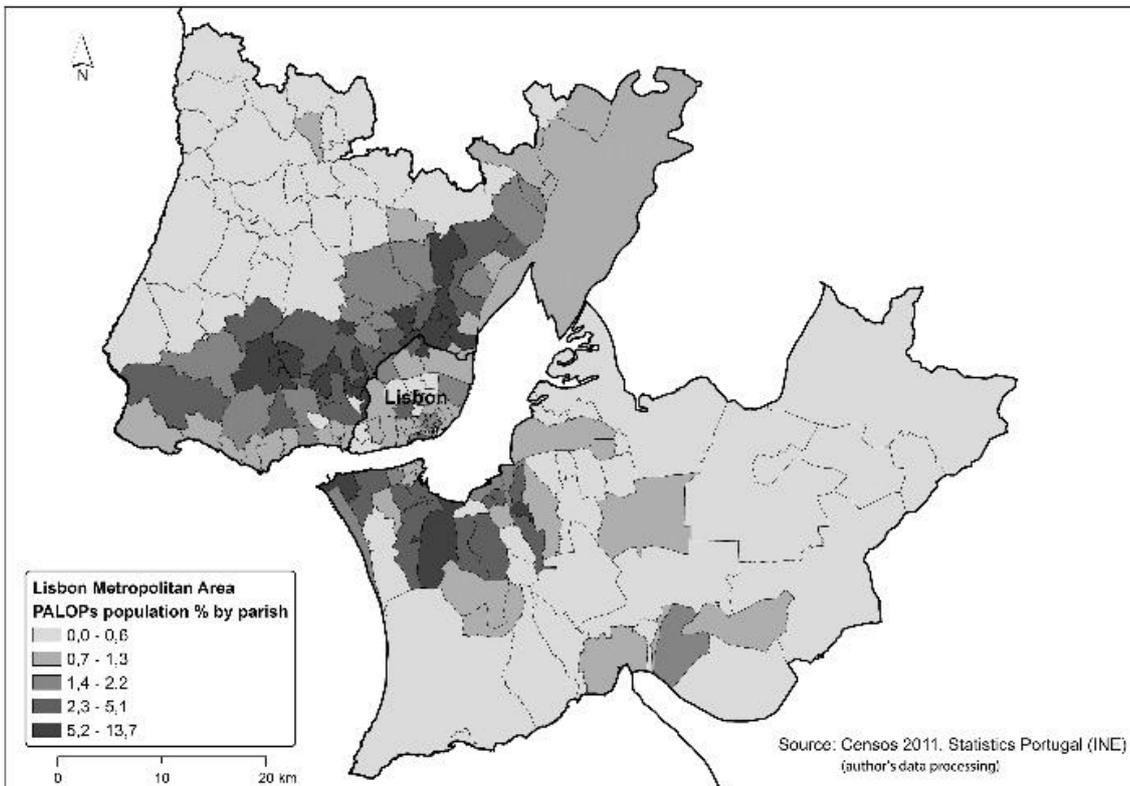
The third stage in social housing policy began with the implementation of the Special Rehousing Programme (1996) and lasted until 2002 (Figure 1). Due to this programme, the number of social housing units increased, involving construction for the rehousing of populations living in the precarious neighbourhoods located in the two metropolitan areas. At this time, the construction of social housing was part of municipal policy, supported by the central government and European funds. The Programme took place at a time when Europe was experiencing the growing externalisation of housing construction and other state functions. Thus, the Special Rehousing Programme was swimming against the tide (Pato & Pereira, 2013b).

Figure 1. Number of social housing units built between 1986 and 2005.



Source: IHRU Database, 2007, in IHRU (2008)

Figure 2. Proportion of African immigrants from Portuguese-speaking countries, by parish (2011).



The involvement of municipalities in the Special Rehousing Programme was immediately noticeable in its initial years for three reasons according to Guerra, Mateus, and Portas (IHRU, 2008). These were:

1. the favourable operational conditions offered by the Central Administration<sup>7</sup> specifically committed to the programme;
2. the programme's urgent nature, which was a factor in speeding up the cases (making the means available immediately after the diagnostic stage);
3. concerns regarding restrictions on public debt were not high at that time.

Furthermore, social housing policy was an important social and electoral issue. From 1996 to 2000, there was a significant increase in public housing supply, minimising the housing needs of many low-income families.

Early research on segregation patterns was marked by the conceptualisation of socioethnic and socioeconomic segregation (Pato & Pereira, 2013a). This subject was particularly studied by a number of Institute of Geography and Spatial Planning (IGOT) geographers (Malheiros, 2000; Malheiros & Fonseca, 2011; Malheiros & Vala, 2004), who analysed the segregation patterns of immigrant groups in Lisbon. These studies showed that the Concentration Index of different immigrant groups varies substantially in the metropolitan area. High levels of segregation are correlated with the high concentration of African immigrants from African Portuguese-speaking countries in the municipalities that are located in the first urban ring. The overrepresentation of immigrants from African Portuguese-speaking countries in these areas has shaped the suburbanisation process of this population group (PE-Portugal, 2005), particularly in the past decade (Malheiros & Fonseca, 2011). Figure 2 spatialises this process of suburbanisation in the Lisbon Metropolitan Area for this group.

Thus, while the Special Rehousing Programme<sup>8</sup> was not specifically oriented to immigrants and Gypsy communities, these groups have been overrepresented in slum neighbourhoods, ultimately determining that, among the total of beneficiaries, these groups were those who disproportionately benefited from the programme (Malheiros & Fonseca, 2011). According to the authors, two distinct processes explain this finding. On the one hand, the concentration of immigrants in slums, and on the other hand, the larger availability of social housing, specifically in the new neighbourhoods built for slum inhabitants. Both dynamics were strengthened by the role of solidarity networks.

Social housing estates are mainly located in large complexes, especially in Lisbon and Oporto. Despite having contributed to meeting the housing needs of more than 35,000 low-income households, the programme was unable to stop segregation. In short, the Special Rehousing Programme was the most recent major social housing programme which has

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<sup>7</sup> The Programme provides non-repayable financing up to 50% of the purchase and the infrastructure, for the land and the construction of the housing units, plus 50% of the cost of the residential units purchased by the municipality. The remaining costs could be covered by loans from credit institutions with IHRU guarantees.

<sup>8</sup> *Programa Especial de Realojamento (PER)*

remained incomplete in some municipalities due to their indebtedness<sup>9</sup> and which has increased socioeconomic segregation as poorer social groups have continued to be concentrated in peripheral residential areas. In some cases, there has been hyper-concentration where populations that had previously lived in scattered neighbourhoods now live in housing estates with a high density (Lambertin, 2006; Pato & Pereira, 2013a).

The Special Rehousing Programme was implemented along with a decentralisation of social housing units. From 2000 to 2010, local housing authorities became the main supplier of social housing, as providers and as construction promoters. From 2006 until 2008, more than 12,000 dwellings were transferred from Central Administration to municipalities who owned 80% of the 118,000 dwellings in the country by 2011 (INE-ICHS, 2012). The government incentivised the private sector to participate by supporting cooperatives, although this support was modest. Since then, central and local housing authorities have sold an increasing number of social housing units to households, achieving surpluses on their balances, decreasing operational costs and discarding management responsibilities (Pato & Pereira, 2013b).

Scattered social housing has garnered some political attention but little quantitative significance. Scattered social housing was considered in various legal instruments,<sup>10</sup> but was never regarded as a positive measure for social mixing. The fiscal and credit incentives to support slums inhabitants to purchase a house – involving the branch of the Special Rehousing Programme (SRP Families) – accounted for no more than two thousand households (statement of the President of IHRU, May 5).

After 2004, and within the framework of decentralisation of responsibilities for social housing, local authorities and non-profit private entities with housing responsibility may apply for the PROHABITA Programme (2004), which supports purchases and applies to housing units to be allocated to social housing or subleasing. However, in metropolitan municipalities, the Programme turned out to play a small role in increasing access to housing: only 2661 units were renovated between 2007 and 2012. Few dwellings were subject to renewal works, and those works mainly took place in dwellings located in social housing neighbourhoods. Thus, in metropolitan municipalities, PROHABITA was not a measure for increasing the supply of social housing but was a way of improving the quality of municipal and central state properties instead.

Outside the metropolitan municipalities, the quantitative impact of the Programme was larger, with 23,000 units rehabilitated or renovated from 2007 to 2012. In both cases, the programme increased the application of new calculation formulas to define and update rents.

The Territorial Portrait of Portugal in 2011 (INE, 2011) analysed the distribution of dwellings by type of housing at the parish scale, and showed an increased concentration of units that were located either in slums or in other self-constructed neighbourhoods. According to INE

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<sup>9</sup> According to IHRU, the PER Almada, Amadora, Loures, Odivelas and Seixal, in the metropolis of Lisbon, and Espinho, Maia, Matosinhos and Povoia de Varzim, in the metropolis of Oporto, are still not finished (IHRU, President interview to the Lusa Agency, 5 May 2013).

<sup>10</sup> Among which are: (1) In SRP context, the SRP branch – SRP families (1996) – supported home purchases with 40% of non-repayable financing; (2) Measures to support the purchase and renewal of vacant dwellings or buildings earmarked for rehousing (2003); (3) The PROHABITA Programme (2004) that supported the purchase and renewal of housing units for social housing.

(2011), the Gini index for these units is above 70% (Table 2). In spite of the decrease of 76% in the number of households in this category between 2001 and 2011, these findings reveal the persistence of the problem of non-conventional housing, as well as the continuing failure to address its segregated pattern.

Table 2. Gini index of the housing units distribution by parishes, by type of housing (2011).

Gini index	1991	2001	2011
Usual residence	57.5	60.6	63.3
Vacant	55.8	60	59.9
Seasonal use of secondary residence	50.2	50	49.3
Non-classical residence	77.5	73.8	72.6

Source: Territorial Portrait of Portugal, Part 3, INE, [2011](#), p.147.

## Undertaking ‘rental policy’: new regimes of spatial segregation under austerity

Since 2011, Portugal has followed the trend set in the European Union of stimulating renting (Aalbers & Gibb, 2014; Cuerpo, Kalantaryan, & Pontuch, 2014). This strategy has been inevitable due to the financial crisis and the end of the expansionist model. With credit contraction, the rental market has been considered effective, both for its real estate value and for its stabilising role in market prices (Cuerpo et al., 2014). Given the centrality of the real estate market in the crisis, rental policy has become structural policy.

In the past three years, two main guidelines for housing policy have been established in order to support renting: on the one hand, the elimination of tax subsidies for homeownership; on the other hand, the liberalisation of the rental market with rent increases, especially in the historic urban areas.

The SRM Programme, a public–private partnership between State and housing rental funds, also supported renting. The Programme addresses households with incomes too high to make them eligible for access to social housing but possibly too low to rent on the open market. Together with building rehabilitation programmes (such as PROHABITA) or interventions under public and public–private consortia<sup>11</sup> by municipalities and by the Urban Rehabilitation Societies, the SRM Programme promoted a new, yet still imprecise, category of ‘social renting’.

The central authorities responsible for housing essentially recognise a growing diversity in ‘social renting’ regulations that were implemented by the local entities. The regimes in force for each municipality are unknown for central authorities, because they are partially specified at local level, since the contractual conditions vary from one operation to another.

<sup>11</sup> For example: for big rehabilitation operations and, more recently, for the introduction of unfinished dwellings on the market.

The impact of such programmes (from the rehabilitation of social housing to the promotion of accessible rents) and the related rent adjustments on the pattern of segregation may, thus, represent an interesting field for spatial segregation research in the future.

Over the past three years, the Portuguese housing policies that were drawn up to increase the rental market have introduced new political regimes of segregation, affecting the residential pattern. We will analyse some of these regimes:

1. retraction of support for homeownership;
2. rental market liberalisation;
3. the SRM Programme, addressed to the middle class in financial recession;
4. the revision of regulations of social rents.

### **Decreasing support for homeownership and dealing with non-performing loans**

The crisis created new housing problems that have been aggravated by political conditions under austerity. First, the 2012 Budget Law reduced support for homeownership, which had been in place since 1976, and eliminated the fiscal benefits associated with the interest on credit.<sup>12</sup> This particularly affected low-income households. Second, Central Bank interest rates were reduced to ease the burden of credit loans, but do not appear to have been sufficient in preventing non-performing loans. The default on housing credit stood at 2.9% in September 2013 and 2.56% in September 2015. By the end of 2012, 6.3% of families with credit were unable to repay their housing loan (BoP, 2013, 2014, 2015). Mortgage defaults have thus increased, with almost 30,000 units foreclosed by the tax authorities in 2013. This number increased to more than 50,000 in the first half of 2014.

Default on credit in construction and real estate development has assumed alarming proportions, especially in recent years (nearly 25% default in the construction and over 40% in the real estate sector, as of October 2013) (BoP, 2013). Until September 2012, 34.6% of properties received in lieu of payment by banks were located in the metropolitan areas of Lisbon and Oporto, with most of these properties provided by the construction industry.

As a consequence of the default on credit in construction and real estate sectors, the portfolio owned by banks and the Finance authority has increased. During the recession and under the pressure of devaluation, banks have been seeking to sell these properties as the European Central Bank penalises banks for having them in their portfolio. The location of housing properties is proving to be decisive in the replacement of these portfolio units on the market. The properties with the highest values are typically sold on the international market, while those with the lowest market values are sold domestically, either via real estate agents or at auction. Speculators with either cash or credit often buy properties.

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<sup>12</sup> With the 2016 budget, a tax rebate was reintroduced.

Banks offer prices 'below the market' rate and sales campaigns may involve discounts of more than 30%, or lower spreads, as well as 'kindnesses' in the granting of credit<sup>13</sup> (Pereira & Pato, 2013, 2014). These transactions have generated strong objections from developers and real estate agents who accuse banks of transgressing competition guidelines.

The financial regulation of mortgage and credit default has also brought new actors into housing sector. In 2009, under the scope of structuring operations, banks and municipalities were allowed to access the Real Estate Investment Fund for Housing Leasing to stimulate the affordable rental market. With the exception of the public bank *Caixa Geral de Depósitos*, which owned a considerable proportion of residential properties, the funds were not considered attractive enough to capture private investment.<sup>14</sup>

Bank regulation for the handling of credit and mortgage default and the housing protection of very low-income families was created by the financial model of the Euro Zone Code that came into effect in Portugal in 2008. This regulation was recently reformulated by Law 58/2012, which came into effect in January 2013. It has introduced two instruments for dealing with the housing problems of households in the context of the financial crisis: (1) the Action Plan for Default Risk (PARI), and (2) the Extrajudicial Regularisation of Procedure Default Situations (PERSI) (BoP, 2013). However, these policies are not succeeding in solving problems for households. Only 148,000 of household requests for assigning the status of protected debtors (integrated processes in PERSI) resulted in debt renegotiation (BoP, 2013), which represents 10% of the total. As regards housing protection, an important role is still played by the banks and there are legislative omissions in the regulation regarding banking decisions (Pereira & Pato, 2014).

The default properties received by banking units in lieu of payment, as well as the property seizures by the tax authority, are having broad socioeconomic effects. Indeed, some areas constructed for low-income families now show signs of urban decline: for example, vacancies and an increased proportion of poorer renters.

## Urban rental policy

Together, the decrease in support for homeownership and the revision of the urban rental Act (Law 31/2012) represent two main outcomes of the austerity measures of the Troika Memorandum<sup>15</sup> in national housing policy. Changes to urban rental laws in 1990 and 2006 focused on updating, by creating two categories: those rents which had been brought up to date and those which had not, namely contracts previous to 1990. Law 31/2012 implemented the full liberalisation of the rental market. All rents could be updated, regardless of the type of contract, but the update could be stopped if tenants have an income below the poverty level and /or are older than 65 years old. In other cases of proven economic need, the rent increase is limited by a maximum of rent effort in accordance with

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<sup>13</sup> For example, combining credit loans on different properties (in the case of a family wishing to move house), making monthly payments on one of the loans for two to three years.

<sup>14</sup> In Portugal, there are 264 funds, mostly involving real estate investment. Only six involve real estate investment for residential leasing (INE, 2011).

<sup>15</sup> Economic and financial adjustment loans agreed on by the IMF, the CBE, the 'strong government' of the EU (Troika) and the Portuguese Government.

the annual household income. This law also introduced a new rent subsidy scheme, which is expected to come into effect in 2017.

The impacts of the law are currently not known. The National Association of Owners estimates that the old contracts amount to about 255,000, of which only 10% have been updated. According to data from the Ministry of Justice, 1007 and 1868 eviction titles were issued in 2013 and 2014, respectively.

This new Act disregarded legal rights and obligations of property-owners on over 735,000 units that were vacant in 2011, representing 12.5% of the total number of units in the country (INE-Census, 2011). This number has probably increased due to the economic crisis. By postponing the implementation of the rent subsidy until the end of 2017, the State does not have to provide social protection in the rental market.

It is too early to analyse the impact of Law 31 on spatial distributions. However, the Law will increase the demand for units with low rents in city centres, potentially facilitating gentrification. Faced with rising rents, and without an effective protection system, low-income renters are forced out of city centres where the return in the rental market has sharply increased. In the short term, some areas in city centres will still be able to overcome the filtering-up effect of the new law, for example, by strategies of ethnic appropriation (promoted by urban policy), combined with overcrowding.

### **The Social Rental Market Programme: the main response to the crisis**

The SRM Programme has focused on the rental market and can be considered a cushion that addresses the effects of the crisis within the National Emergency Plan (August 2012). The SRM is a public-private partnership between State and housing rental funds.<sup>16</sup> Properties enrolled in the programme are placed on the market at below average rents (by 20%–30%) and developers are exempted from taxes on renting. As regards the tenant, the programme is intended for households with incomes too high to make them eligible for access to social housing, but possibly too low to rent on the open market, and who are not covered by *Porta 65* (limited to age and specific housing needs).

The SRM Programme has had launching difficulties. The media reported that about 1184 households were affected by the Programme by March 2013, when the 2012 objective was to reach 2000. After 2014, the Real Estate Investment Fund for Housing Leasing has been expanded due to two main factors: (1) the obligation imposed by the regulator that the banks dispose of their housing portfolio; (2) the obligation created by Law 58/2012, according to which banks were forced to receive units in lieu of payment, which is stated to have occurred, but only in a few extreme situations.

In February 2014, the SRM parked 3000 housing units (of which 90% were from Real Estate Investment Fund for Housing Leasing). This increase was strongly influenced by the liberalisation of the 'social rental market', since, by administrative decision, real estate

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<sup>16</sup> Institute of Housing and Urban Rehabilitation (IHRU) and Real Estate Investment Funds for Housing Leasing, REIFHL (*Fundos de Investimento Imobiliário para Arrendamento Habitacional, FIIAH*).

agencies are now managing these housing units, under the same commercial conditions as the private market.

In promoting the occupation of vacant properties, social renting has an intrinsic anti-segregation character as it aims to increase the availability of units in upscale areas. In spite of its objectives, several critiques can be made. First, the fact that properties integrated into the Real Estate Investment Fund for Housing Leasing continue to have the lowest profitability, and their location hardly matches the geography of needs, while for the banks the outflow problem persists. Second, the calculation of prices is based on market values, which have been overestimated due to the heavy influence of the luxury and high-end market sector – ever more internationalised – on price evolution. Third, the programme induces the transfer to the owners of those housing units (Public Entities and the REIFHL) with extremely favourable fiscal conditions. Finally, the policy is seen as a centralised response that gives the central government the task of assessing applications, introducing discretionary decision-making processes, which is very far from a universal and equitable affordable housing policy.

## The social housing rental policy

Finally, changes have happened in the regulation of social housing with the adjustment of the supported rent regime (Law 81/2014) and with the revision of the contract period of 'conditioned rent'<sup>17</sup> (Law 80/2014), which moves from 25 to 20 years. This new delay anticipates the liberalisation of surplus value from the sale of public units and of housing units belonging to other entities benefiting from financial subsidies.

The changes introduced by the Law 81/2014 on supported rent reaffirm management trends that have already been affirmed. The decree keeps the calculation of rent support based on gross income, and considers social benefits as income.

From the perspective of the residential occupancy structure, the new Social Housing Rental Policy contributes to the concentration of low-income populations, by inducing a process of *filtering down* in neighbourhoods with a high proportion of social housing, thus creating conditions for two simultaneous yet opposite trends: higher income population moving out and, where the construction and the social climate allow, the coexistence of the most vulnerable populations with homeowners who were able to purchase social housing units. Some neighbourhoods, arguably, will experience an increase in their poverty rate.

The changes in the SRM regulations may bring a medium-term problem of social housing financial viability, in the sense that these regulations 'do not guarantee the long-run sustainability of the social and affordable housing stock' (Yates, 2013, p. 112). As Yates has stated in the Australian case, financial viability can be threatened when capital gains associated with decreases in the social housing stock are allocated to operating losses. The decrease in net income associated with the economic crisis, along with the devaluation

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<sup>17</sup> Rent applied by entities benefiting from financial subsidies, such as cooperatives or neighbourhood associations, that have benefited from construction grants and which as a consequence are obliged to maintain rents below the contracted amount.

of wages and the change in the types of social housing tenants, resulted in a further decline in public financing. The requirement that social housing should be targeted to those most in need seems to have rendered it financially infeasible after all (Yates, 2013).

In sum, the economic crisis magnified the problems of urban deprived areas, some of which have been characterised by subleasing and overcrowding, with no solution in sight. Meanwhile, changes to social housing policy have opened the way to an acceleration of the process of alienation surrounding social housing, already felt in 2011 (Pato & Pereira, 2013b).

## Conclusions

Since the Carnation Revolution (1974) that established the democratic regime in the country, Portuguese housing policies have cumulatively contributed to a segmented and segregated residential pattern. The model has followed and even reinforced the centrifugal force imposed by the market, pushing households with fewer resources to more peripheral and/or more devalued areas with lower rents and purchase costs. The social housing estates built at the turn of the millennium ended up emphasising the spatial segregation of populations with fewer resources, namely immigrants from African Portuguese-speaking countries and other impoverished migrants. The expansionist model, implemented by many agents, such as urban planners, builders, banks and real estate agents, among others, converged to strengthen the social segmentation of residential properties. Over the past 20 years, the criterion of equality in spatial occupation has remained absent from housing and urban policies. They have essentially been ineffective in addressing inequalities in residential patterns. The absence happened in spite of some policies of positive discrimination, a few particular urban plans (usually connected with big rehousing operations), as well as significant methodological improvements of the analysis of spatial inequality.

State intervention has been marked by disconnected housing and urban policies. Housing policies have largely ended up supporting segregation regimes. Nevertheless, such segregating regimes have coexisted with other forces that have worked against segregation. Examples of such forces are the frozen rents policy – the most important anti-gentrification force implemented for decades, and illegal neighbourhoods, which are a singular illustration of the coexistence of different social and ethnic groups, currently in different degrees of regeneration.

Since 2011, developments in housing policy have been greatly influenced by changes in the public functions of the State. In terms of housing, the Portuguese State is no longer supporting housing construction. The rehabilitation driven by socially concerned housing development policy has not increased the supply of social housing, and the recent changes in social housing rental law are expected to reduce the number of social housing units.

The question arises of whether an opportunity to take advantage of less valuable bank portfolios, while at the same time implementing anti-segregation measures, is not being wasted.

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