

Contributions to the analysis and development of the urban renewal program of CML "Regenerate first pay later"

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ABSTRACT

Urban regeneration is defined as the renovation of the existing urban area, which focuses on buildings, public spaces and infrastructure, with expectations to improve the economy, culture, the environment and society while focusing on the preservation of the original architectural features of the building and surrounding areas.

This work aims to evaluate the program, launched in 2012, by the Lisbon municipality, "Regenerate First Pay Later" (RFPL), which consists of the sale of degraded municipal Buildings where the investors have the obligation to rehabilitate them within a period of time set by the Lisbon City Council. The program was studied considering its main factors, namely the quantification of properties already auctioned off and those still in the eight public auctions held so far, the approximate total value collected, the incidence in the parishes of Lisbon and the investor's profile.

With the evaluation of the program it can be concluded that the RFPL holds great potential since 129 properties were already sold and ready to be rehabilitated in 18 different parishes of the city of Lisbon. Also, with more EUR 35 million already collected based on the 88 purchase and sell agreements, allowed to fulfill one of the main objectives of the program: the stimulation the economy and construction sector.

Moreover, this work allowed to identify a number of the program, such as its auction, monitoring of the rehabilitation process with investments in energy efficiency sector and control of the use given to real estate, among others.

Key-words: Urban regeneration, Regenerate First Pay Later, incentive program, Lisbon City Council.

1. INTRODUCTION

Due to the decline in the construction sector in Portugal, a considerable number of companies abandoned this sector, leading to an increase in unemployment. According to figures released by the Institute of National Statistics (INS) employment rates in the construction sector fell 5.3% yoy in February 2015.

Thus, the rehabilitation process has emerged as a viable alternative to the negative economic impact that in comparison to the decrease in demand for new buildings from companies in the construction and public works sectors. Over the past few years, populations have preferred urban areas and it is expected that this number will continue to increase (Cruz & de Brito, 2014) however not all cities have the capacity to do so (Andersen, 2003). Thus, with the rehabilitation of buildings, increases the useful life of these same (Whalley, 1988), and it is intended that the population will come to reside in urban centres, also impacting the social, cultural, urban and environmental sectors (Martins, 2008).

Improving the existing housing stock is an alternative to the construction of new properties (Wang, 2016) and is also provides a substantial source of housing supply, as well as a decrease in employment in rural areas, in the same way as with new construction, management of constructed buildings, use of renewable energy, increase the quality of life of populations, among others (Appleton, 2010; Lopes, 2011).

European countries have shown different concerns regarding the rehabilitation of the buildings, and spending in the construction sector which is distinctly re-distributed in the three segments, shown in Figure 1.1 (Euroconstruct, 2012).

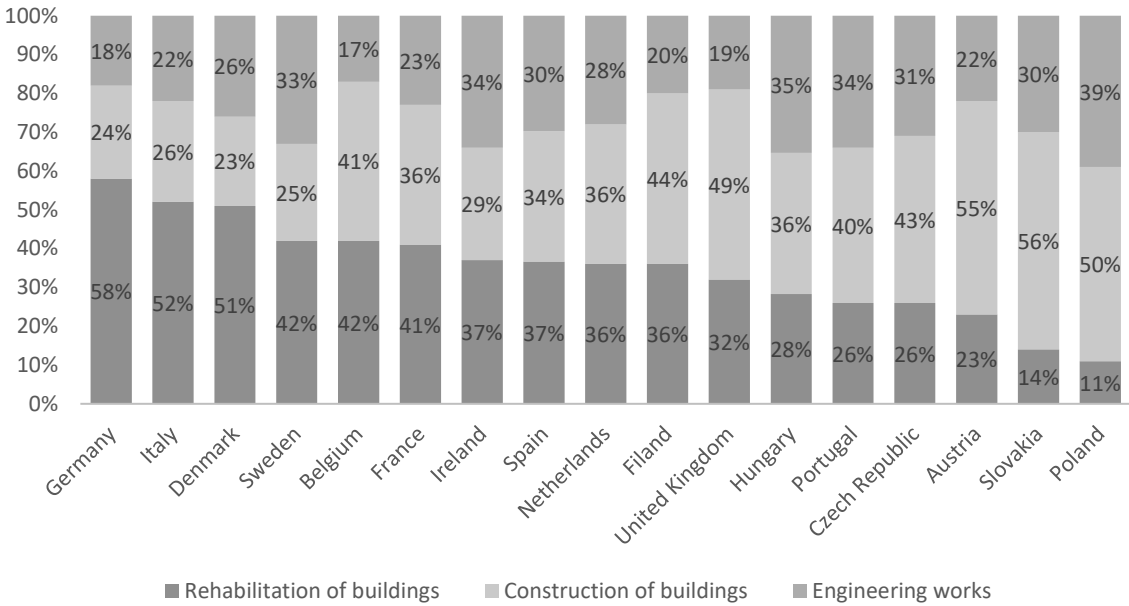


Figure 1.1 – Distribution of productivity construction sector in European Union countries according to the segment 2011

Portugal has good results when considering the age of the buildings with their condition, this being a direct consequence of old housing stock, reflecting the constructive dynamics of the last decades. However according to the 2011 Census, about 2% of the buildings were very degraded and 27% needed repairs, either small, medium or large, corresponding in absolute terms to 59 155 and 965 782 buildings (INE, 2011). Hence the reduced expression of rehabilitation in our country, albeit with increasing importance, Figure 1.2 (LNEC & INE, 2013).

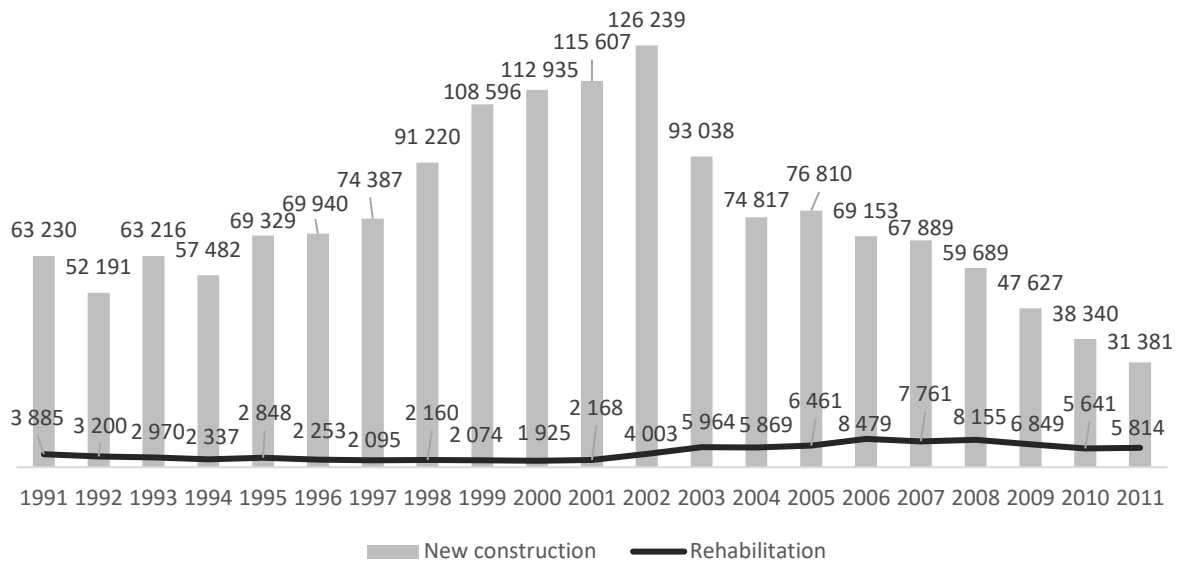


Figure 1.2 – Number of dwellings completed in new and rehabilitation construction works

In recent years, there has been a decrease in the construction of new buildings, due to greater concern in the rehabilitation of buildings in Lisbon (Pordata, n.d.), Figure 1.3, in an attempt to make the City more appealing and attractive.

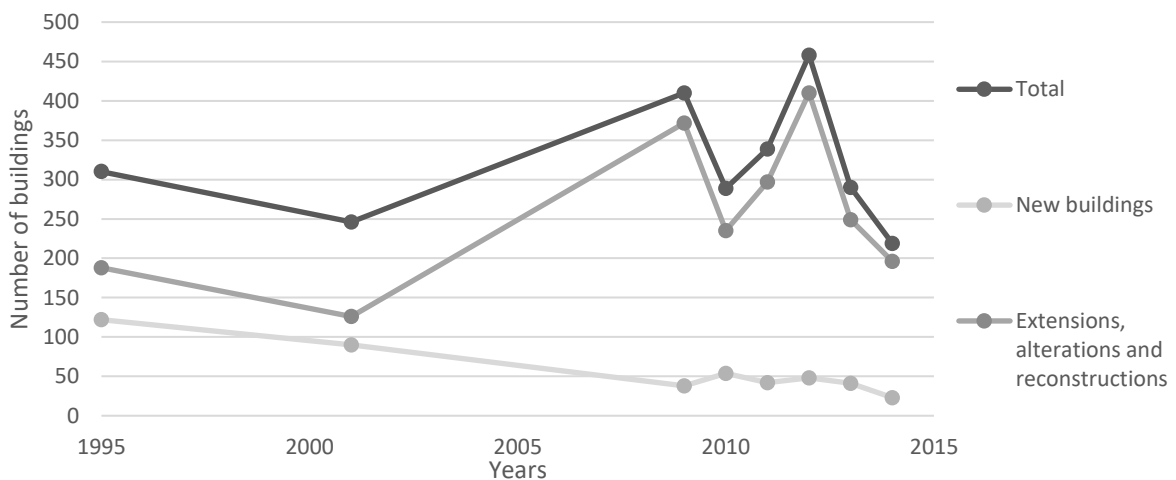


Figure 1.3 – Buildings completed by type of work

The main objective of this work is to study the evolution of the rehabilitation market in the country, analysing incentive programs especially the RFPL program and presenting some suggestions for improvements.

2. “REGENERATE FIRST PAY LATER”

RFPL was launched in Lisbon, for the purpose of sale and rehabilitation of buildings that are in the possession of the CML, many of which are degraded or even at risk of collapse, causing a threat to the security of citizens and property. The location of these properties, in the historic centre of the city, leads people to seek housing outside the city consequently resulting in a decrease of inhabitants in these areas (Mayer et al., 2005). Figure 2.1 represents the steps of the process for the sale of real estate.



Figure 2.1 – Process steps for the sale of real estate

This initiative will increase municipal revenues and the overall quality of buildings, thus contributing to the repopulation of the historic City centres, attracting new and young families, drawing more tourists, avoiding the use of private transport in favour of public transport and establishing businesses and jobs. So far, 8 public auctions have been held, and it is up to investors to bid on properties, conduct rehabilitation works and market them. These investors have the possibility to pay the full value of the building at the time, benefiting from a 10% discount on the auction value or at the end of the period of rehabilitation. In addition, buyers can also access special credit conditions and benefit from exemption of Council Tax on Properties during the period of rehabilitation and the next five years. However, it should be noted that this exemption is only granted to the first buyer, if the property is then sold, the exemption is void.

The creation of this program was to solve problems especially in historic districts of Lisbon, and its objectives (CML, 2012): stimulate the city's economy; improve the construction sector by encouraging the creation and maintenance of new jobs; supporting small and medium investors, since payment facilities are presented by the program; promote the rehabilitation of municipal heritage vacant and or in poor condition, avoid the increased borrowing by the municipality and increase the supply of housing in the city of Lisbon, either by acquisition as per lease or entering dwellings for rent or sale at affordable costs to low-income families.

3. ANALYSIS OF THE RESULTS OF THE PROGRAM LISBON CITY COUNCIL

3.1 Comparison of market values with the bidding price based auction and for parishes

The RFPL is an alternative way of acquisition of properties relative to traditional real estate market, and as such it was decided to make the comparison between the values practiced in two parts.

According to a study by Cushman & Wakefield, (2014), Lisbon remains one of the most attractive cities in the country, where the price per m² for the acquisition of real estate varies between € 2500 and € 4000 depending on their location, as can be seen in Figure 3.1.

Taking into consideration the RFPL program study and data of buildings for sale collected from real estate agencies sites, was held to Table 3.1, which compares the average values of the program deal with market values currently practiced by each parish.

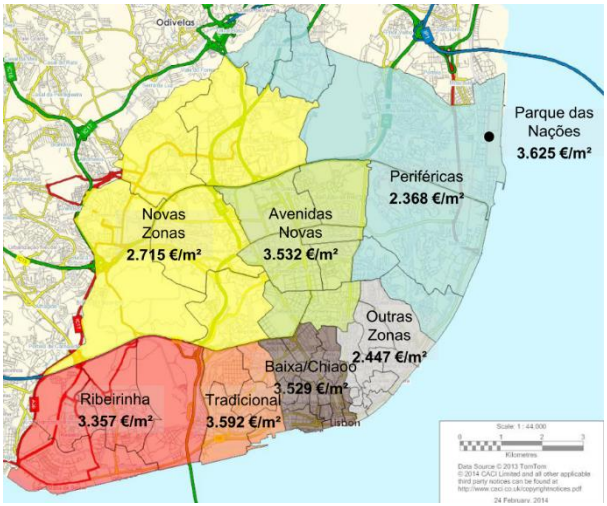


Figure 3.1 – Average purchase prices of the different areas of Lisbon

Table 3.1 – Comparative average values of RFPL and market by parish

Parish	Values RFPL program					Market values			Variation in the parish
	GCA (m ²)	BP (€)	BP/m ²	AV (€)	AV/m ²	GCA	Price	Price/m ²	
Ajuda	215	76 625	384	142 292	662	807	1 065 600	1 560	135%
Alcântara	311	144 000	463	150 000	482	977	1 077 000	1 139	136%
Arroios	371	145 385	382	123 625	410	1 101	1 323 050	1 572	284%
Avenidas Novas	70	60 000	857	81 000	1 157	1 748	2 312 250	2 668	131%
Beato	286	72 000	252	82 000	287	1 206	1 068 113	1 221	326%
Belém	287	148 000	515	356 000	1 221	454	932 525	2 085	71%
Benfica	581	97 000	167	98 500	170	798	846 500	1 146	576%
Campo de Ourique	349	126 100	341	396 429	1 063	601	890 500	1 587	49%
Campolide	600	367 000	612	670 000	1 117	794	672 000	1 215	9%
Estrela	382	212 833	534	384 083	971	1 326	1 913 000	1 677	73%
Lumiar	281	86 313	380	143 500	680	874	685 100	865	27%
Marvila	540	131 125	241	91 000	353	1 533	1 286 400	1 067	202%
Misericórdia	274	155 333	593	270 250	1 082	568	1 529 000	3 462	220%
Parque das Nações	240	64 000	267	138 000	575	3 019	1 900 000	629	9%
Penha de França	659	243 800	409	496 400	726	875	1 039 700	1 323	82%
Santa Maria Maior	413	204 290	499	359 290	971	637	2 125 250	4 511	365%
Santo António	339	135 457	560	307 600	1 141	800	1 965 750	2 446	114%
São Vicente	491	263 094	564	487 469	1 127	343	645 625	2 503	122%

Note: GCA refers to gross construction area, BP to base price, AV to auction value.

Analysing Table 3.1 it can be concluded that the market prices charged, are higher than the auction base price and also the obtained value.

Based on this study, it appears that the proposed prices, in the CML program are much more advantageous to investors than the values practiced in the real estate market, which is proved by the analysis performed relative to each parish comparing the average values tailpiece with average market values. Once in RFPL the real estate buyers are required to carry out rehabilitation works which ultimately results in them having to invest more to improve the buildings, we tried to make the study of properties that need recovery and even demolition, so that the buyers also needed to invest in the rehabilitation of buildings. We also used the state used, because there is always the possibility of the investor deciding to make improvement in the property.

Analyzing the process of buying and rehabilitation or reconstruction of program listings, investors end up making an excellent investment which in the future can result in a return on investment and may in fact be lead to profit from the sale of real estate already rehabilitated, regardless of use, which can be given to them as own housing, services or local accommodation.

We must consider that this study does not present all kinds of properties available in the market, in some cases the sample analysed was not enough to take great conclusions and that the properties analysed have different states which also influences the different values as shown in Figure 3.1 market values per m² Table 3.1.

3.2 Global value of sales

With the assistance of 138 properties for auction, CML has managed to raise a considerable amount from the sale of vacant buildings, as shown in Table 3.2. However, this value is not 100% reliable, since it is not known if all properties were finally attributed, some come in more than one auction and buyers who opt for payment at time of writing relying on a discount 10% in the auction value were not considered.

Table 3.2 – Amount collected in each auction

Auction	Amount (€)	Property No.	Average (€)
1 ^a	3 172 500	24	132 188
2 ^a	2 275 500	3	758 500
3 ^a	3 069 500	22	139 523
4 ^a	2 807 500	7	401 071
5 ^a	6 084 000	24	253 500
6 ^a	6 067 200	19	319 326
7 ^a	8 237 300	15	549 153
8 ^a	7 332 200	15	488 813
Total	39 045 700	129	-

Although the analysed program is called "Rehabilitate First and Pay Later", few investors chose to make the payment at the end of the rehabilitation period, Figure 3.2 shows that.

The difference presented is notable. According to the data provided by the CML only 3 investors, corresponding to 2% preferred pay the auction value of the property at the end of the rehabilitation period.

The remaining 98% chose to pay the full amount at time of writing thus benefiting from the 10% discount offered by the program. These results end up contradicting with the program name itself, concluding most investors choose to pay the entire fetch value when the purchase and sale agreement was reached and can thus invest more in rehabilitation works. Based on this information it is possible to reach a level closer to the amount collected by CML with RFPL program, since almost all of the discount investors benefited from 10% of the auction amount. Therefore, the CML has raised about € 35 141 130. The amount amassed, by this program is for the realization of other rehabilitation projects carried out by the municipality of Lisbon, for example, the program "A Place in each district - interventions in public space", the rehabilitation of public space in the central axis of city, among others.

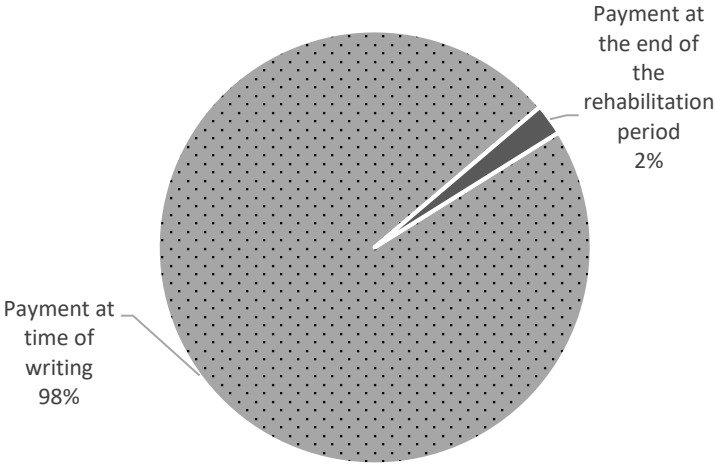


Figure 3.2 – Date of payment option value of auction

3.3 Compliance with program objectives

CML aims to achieve the objectives it has set itself when it launched the RFPL program. With the completion of the 8 public auction virtually all the goals have been met.

Over time the RFPL became sought after, and buyers saw this program a way to invest their money, thus being able to monetise their investment within about three years. This program stimulated the economy, with the sale and purchase of vacant properties that CML had in its possession.

Due to the advanced state of degradation of properties for auction, the involvement of construction companies is necessary, but hiring these is the responsibility of the investors who made the successfully bid.

With the ease of payment offered by the program, giving the chance to the same at the end of the rehabilitation works, with a deadline, the CML proposes to support any interested investor, which is also one of fulfilled goals RFPL. As shown in Figure 3.3, the majority of participants have been domestic companies, but according to a source of the CML, in the 3rd auction there was a greater tendency for small investors and families.

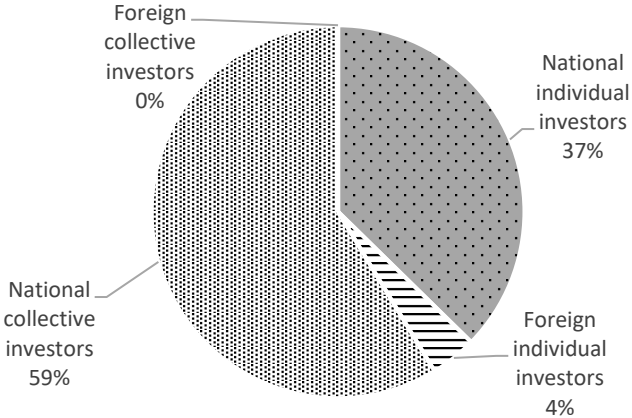


Figure 3.3 – Categories of investors participating in the program RFPL

With the creation of this program, the CML sells each auction properties vacant in poor condition that are part of their heritage, thus allowing investors to rehabilitate the buildings without increasing its debt and thus leaving the city with its buildings in better state.

The rehabilitation of these properties allows an increase in housing supply in Lisbon, either for rental or purchase, repopulating the historic centers and oldest areas, but does this not guarantee young families a permanent home in these places, but ultimately attracts more tourists to these areas, where there are properties used for local housing.

Another of the goals that the RFPL proposed was the introduction of homes for rent or purchase at affordable costs for low-income families, but since these properties are auctioned by certain investors, the choice of what to do next with the buildings in terms of lease and sale falls to them, and in most cases CML have no choice in the value which is then given to these properties.

4. IMPROVEMENT OF PROPOSALS

RFPL was a very well structured and designed program, by the CML in order to rehabilitate their vacant properties, improving the appearance of the City of Lisbon. However, there are always some aspects that can be improved to benefit all stakeholders, including the City, investors and potential users.

First, raising awareness of not only this particular program, but all the programs that the Municipalities of Portugal have carried out in recent years in relation to urban regeneration should be considered of vital importance. It is suggested that there should be a wider propagation of the parishes of Lisbon, their own newsletter or magazine and also on their website, in the media, both on the radio and television, in order to draw more investors and the population to clarify your questions taking notice of all the initiatives and programs pursued by CML regarding the rehabilitation of the city. Since only 4% of the buyers were foreign nationals, raising awareness on an international level would be important in order to improve the country's economy and by reaching more investors.

It would be interesting if the CML imposed greater and more rigid control over the future use of the property, since it only divides them into services and family housing. Distinguishing the outset that the real estate for the local housing and which for the family housing so that urban centres can have more permanent residents.

With the list of all auctioned property, it was possible to externally visit some of them, in different states of the rehabilitation process. It was recommended that all properties belonging to this program are identified as such. This would be a form of disclosure and also a small sample of all the work that has been done to improve the city of Lisbon. It was noted that some of the surrounding built were also degraded, suggesting that these properties can be inserted in other existing incentive programs.

Another concern that emerged was the difficult access, both in terms of public transport and in terms of roads, pavements and also parking spaces a greater concern in these areas, allowing somewhat greater ease in terms of bidding and after the purchase for those who want to live the fractions is required.

Continuous monitoring is also recommended in the process of rehabilitation of buildings, regardless of the payment period by investors. It would also be interesting to see a greater concern for the owners, investments in energy efficiency and renewable energy.

The CML could also make a partnership with Portuguese construction companies Portuguese interested and deserving of their confidence, which already have proven in the construction and rehabilitation area, with the goal of having solutions for individual investors whether domestic or foreign, and groups that are not connected to the civil engineering sector for the rehabilitation of the property.

Finally, and before the results presented, it would be interesting to think up an alternative to the program name, once, and although there is the possibility of payment at the end of the rehabilitation period, with the discount of 10% at time of writing almost all investors prefer to make payment when signing the purchase agreement, not doing so supports the real name given to the program.

5. CONCLUSION

This article evaluates the potential of the "Rehabilitate First Pay Later" program through an analysis of the collected results, giving a contribution to help make better decisions and also to improve existing programs in Portugal.

Once degraded buildings in Lisbon are considerable, the CML does not have the possibility of rehabilitation or reconstruction of all their buildings due to economic reasons.

This initiative allowed the bidding of 129 properties spread across different parishes of Lisbon, most notably the parish of St. Mary Major, which includes areas such as São Jorge Castle, the Cathedral of Lisbon, ending these to be very busy areas and appealing for local accommodation.

This program has a very interesting feature that allows investors to make payment of the auction value at the end of the rehabilitation period. However, and perhaps contrary to what would be expected, only 2% of investors prefer to make payment at the end of this period, this is because the buyers who choose to pay the auction value of the act of writing benefit from a discount of 10% compared to the bid value.

With all the calculations and adjustments that are made to the base price of the bidding, this program turns out to be an asset to investors who buy these buildings, with their value well below the price per m² practiced in Lisbon, which allows, after rehabilitation, and even in the short or long term profit, depending on the destination you want to give the property.

The RFPL does not impose any restriction on investors, they can be individual or collective, national or foreign, you just have to submit all documents requested to apply for a public auction. It concludes that despite this most investors represented national companies, although from the 4th auction began to be more of foreign individual investors and collective investments, contrary to what had happened on the 3rd auction.

This study concluded that the RFPL has a significant potential to improve economically, socially, environmentally and culturally the city of Lisbon.

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