

Instruments of urban regeneration: The urban regeneration companies in Portugal

Sofia Ribeiro Cabral

Abstract

Revitalizing and regenerating urban centers have been highlights in political debate for the last years, due to its merits in improving the living, social and environmental situation and also as an instrument used for promoting economy, especially in the construction sector which is facing a tremendous contraction.

In Portugal, the development of the cities has been conditioned by circumstances that have not allowed an integrated intervention on the urban area. On one hand, the demographic explosion occurred in mid 20th century originated an excessive growth of the outskirts. On the other hand, the characteristics of the rental market have been a justification for the buildings' degradation, resulting of successive laws approved to freeze rent prices and therefore preventing the capitalization of the buildings' owners.

In order to fight the abandonment of the inner city, a huge legislative effort has been made especially since the early 90's. Nowadays, the *New Juridical Regime for Urban Regeneration* is in effect and underlines the importance of integrating and coordinating the regeneration process, to reach coherent solutions regarding the functional, economic, social, cultural and environmental aspects. This regime enables municipal councils to create *Sociedades de Reabilitação Urbana* (SRUs), publicly owned urban regeneration companies, intended to incentivize the participation of private investors, with the aim to actively promote the urban regeneration in their areas of intervention.

The current study analyses the instruments of urban regeneration, focusing on these urban regeneration companies and presenting a case study: *Lisboa Ocidental SRU*.

Keywords: Urban Regeneration Companies; Urban Regeneration; Housing; Rental Market.

INTRODUCTION

In recent years, the growing public awareness towards revitalisation and regeneration of urban centres got these subjects into the political agenda, boosting the creation of several legal instruments addressing obstacles identified in the intervention of the urban space.

The objectives and scope of these interventions have been suffering several mutations over the past centuries. Commonly used methods of random restoration and repair work were progressively abandoned leading to the embracing of integrated local rehabilitation policies, legally framed, with economic, social and environmental objectives. Currently, the urban intervention goes beyond the territorial dimension, focusing also on the local populations, aiming to boost economical growth, increasing social cohesion and building a common local identity while respecting cultural diversity.

Due to the combination of the current economic environment and the potential that urban rehabilitation has to revitalize cities and boost the economy, it is now opportune to analyse the strengths and weaknesses of these urban regeneration companies and their legal framework, to understand how these instruments have been contributing to the urban regeneration in Portugal and conclude about their effectiveness.

In order to achieve these goals it is important, first, to understand the complexities of the current concept of urban regeneration, to characterize the national housing stock and comprehend the reasons behind its degradation and to analyze the current urban regeneration programs. Finally, it is analyzed the legal regime of urban regeneration, framing legally the SRUs, and it is presented a general evaluation of the existing SRUs and a case study.

URBAN REGENERATION

Nowadays, the Council of Europe (2004 p. 75) defines urban regeneration as *“a medium or long term urban revitalising or regenerating process. It is above all a political act aimed at improving components of the urban space and improving the whole population’s well-being and quality of life. Its spatial and human challenges require the implementation of local policies (e.g. integrated conservation and heritage policy, spatial cohesion and spatial planning policy, sustainable development and environmental policy). Rehabilitation therefore forms part of an urban project / urban development plan, requiring an integrated approach involving all urban policies.”* It has taken several decades, factors, events and characters for the concept of urban rehabilitation to achieve its current definition. What was once exclusively linked to the physical dimension of construction heritage nowadays corresponds to a complex and comprehensive process, gathering multiple players while including all urban policies together with a social and cultural dimension. In order to be successful, a proper plan application, that doesn't neglect any of its aspects, is essential (Pinho, 2009).

Urban regeneration began to be sparsely referenced in Portuguese legislation, by being acknowledged in several legal documents. Over time, policy makers have increasingly covered the problem with greater depth and detail. Due to the fact that new construction was privileged, for a long period of time, over rehabilitation and adding the consequences of the stagnant rent prices, which lead to a dysfunctional house letting market, the housing stock underwent through serious deterioration. More recently, the subject of urban renewal has been increasingly discussed, stemming from the public and political awareness of their responsibilities towards the state of degradation (Pedro, 2004). On the other hand, the economic situation of the Country has been forcing reversal of the status quo

and helping to promote urban regeneration at the expense of new construction, which has been imprinted through legislation.

The national framework, particularly in the 21st century, has been aiming to harmonize, coordinate and integrate urban rehabilitation with cities own policies. As the legislation is reviewed, there is intent to improve, simplify and unify the cases that show dispersed characteristics. In short, it is visible, on one hand, the effort of synergy through public policies and, on the other, the attempt to merge legislation. Year after year, programs and legal regimes have been created, modified and revoked with the objective of defining a coherent and effective housing and urban rehabilitation policy.

THE NATIONAL HOUSING STOCK

The increase of the resident population and the consequent increase in the number of families is reflected in the strong growth of the housing stock in Portugal since the first housing census, conducted in 1970.

The construction dynamics of the last decades lead to that a very significant part of the Portuguese housing stock is relatively recent. In 2011, 32% of listed buildings were built after 1991, 29% between 1971 and 1990, 25% between 1946 and 1970, 8% between 1945 and 1991, while the percentage corresponding to a time of pre-1919 building is a mere 6%. According to the results of the Housing Census of 2001, the national average of building age was 34 years.

Despite the national housing stock being relatively new, in 2001 it showed considerable need of repair (Table 1). In fact, the historic heritage housing in Portugal was in a very precarious state of preservation, with 40% requiring medium or large amount of work and 15% on the verge of ruin (INE, 2002; Paiva et al., 2006).

Table 1 – Buildings’ repair needs in 2001, per construction time (INE, 2002)

Time of Construction	Without need of repair	With need of repair			Very degraded
		Small repairs	Medium repairs	Big repairs	
Before 1919	20%	25%	22%	18%	15%
1919 to 1960	33%	31%	20%	11%	5%
1961 to 1980	59%	27%	10%	3%	1%
1981 to 1990	76%	18%	4%	2%	0%
1991 to 2001	88%	9%	2%	1%	0%
Total	59%	22%	10%	5%	3%

Regarding property occupation, in 2011 about 73% of the houses were occupied by the owner while 20% were on the rental market. The remaining situations, such as loans or other, accounted for 7% of the houses.

The national rental market is characterized by a clear duality: the dwellings rented before 1990 (i.e. prior to the publication of the *Regime do Arrendamento Urbano* (RAU)), with frozen and very low rent profiles, and a small number of dwellings with much higher rents (Guerra, 2008).

Regarding the monthly figures of rent payment, the average figure is inferior to 100 euros in 31% of the rented dwellings in Portugal. When the analysis is focussed on the contracts prior to 1990, this percentage rises to 70%. These values contrast with the number of contracts made since 2006, where 85 of the tenants pay at least 200 euros per month and 19% of which pay more than 500 euros (INE, 2012).

The current state of degradation of the housing stock worsens considerably when analysing very low rent properties, as it is visible per the Table 2.

Tabela 2 – Classical rented dwellings’ repair needs in 2001, per rent value (INE, 2002)

Rent value	Without need of repair	With need of repair			Very degraded
		Small repairs	Medium repairs	Big repairs	
Below 34,91€	30%	32%	21%	11%	6%
34,92 to 99,75€	42%	33%	16%	7%	3%
99,76 to 199,51€	51%	29%	13%	5%	2%
199,52 to 399,03€	62%	25%	9%	3%	1%
Over 399,04€	66%	23%	7%	2%	1%
Total	44%	30%	15%	7%	4%

THE URBAN REGENERATION PROGRAMS

Over the years several governmental programs of incentive have been developed to grant support for urban regeneration. This study analyses the most recent ones namely, RECRIA, REHABITA, RECRIPH, SOLARH and PROHABITA. Figure 1 depicts the evolution of the number of dwellings contracted under these rehabilitation programs.

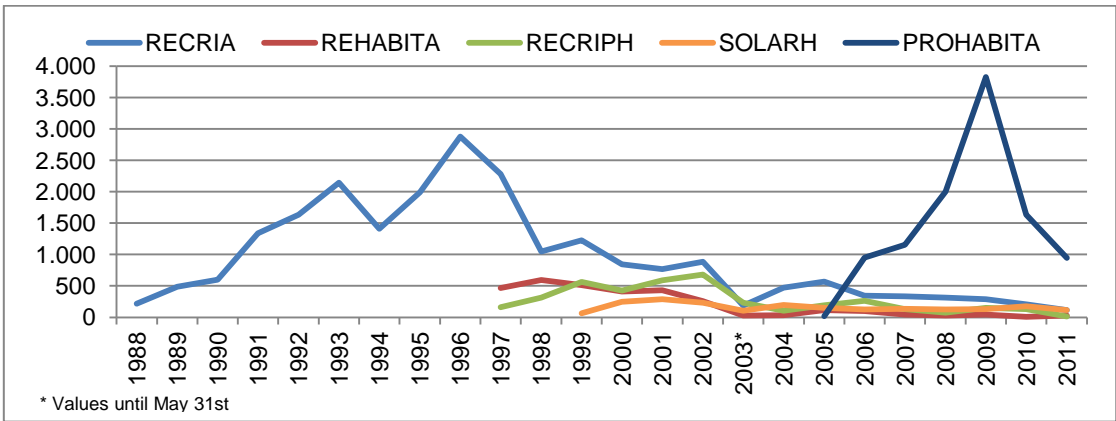


Figure 1 – Evolution of the dwellings contracted for rehabilitation

RECRIA was the first program to be created and also the one that reached furthest in what implementation is concerned. According to Pedro (2004) there were several parameters that have conditioned its implementation: unawareness; bureaucratic difficulties; shortage of funds from the local administration; complicated application process; lack of interest of the stakeholders; legal constraints; lack of technical expertise; difficulties when submitting and amending projects; constraints associated

with supervision during implementation; insufficient local authority support for the applicants; lack of promotion of the RECRIA program from public administration.

Regarding the programs REHABITA, RECRIPH e SOLARH, the same constraints and problems mentioned above were the cause of very low participation hence, very low implementation.

PROHABITA, a program designed for the rehousing of low-income families, made a strong investment in rehabilitation of buildings, which allows it to be considered as a rehabilitation program (OHRU, 2009). The number of housing units commissioned annually under the aspect of rehabilitation of PROHABITA has steadily been higher than the ones commissioned by the other four rehabilitation programs under review.

THE LEGAL REGIME OF URBAN REGENERATION

In 2004, the *Regime Jurídico Excepcional da Reabilitação Urbana* (RJERU) was created for areas with historical interest and for *Áreas Críticas de Recuperação e Reconversão Urbanística* (ACRRU). This legal framework allowed the local authorities to take control over urban rehabilitation interventions and enabled them to create *Sociedades de Reabilitação urbana* (SRU). This business tool possesses the authority and administrative powers to perform actions such as expropriation and licensing, hence promoting urban rehabilitation procedures. At the time of the creation of a SRU, the geographical limits of the respective intervention areas subject to urban regeneration must be established. Rehabilitation in these zones is performed by defining intervention units, which generally correspond to a block, courtyard or street or, in special cases, to a building. Once defined the unit of intervention and, if applicable, approved the detailed plan, it is SRU's responsibility to prepare a strategic document.

More recently, in 2009, this exceptional procedure was revoked by the *Novo Regime Jurídico da Reabilitação Urbana* (NRJRU), which currently frames the SRU instrument.

According to NRJRU, urban rehabilitation is promoted by municipalities through the delimitation of *Áreas de Reabilitação Urbana* (ARU) - areas that justify an integrated intervention under this legislation – which may be delimited as its own or through a detailed urban rehabilitation plan. The approval of an ARU requires the municipality to set local tax benefits on properties and gives the owners the right of access fiscal and financial incentives awarded in support of urban regeneration. A transitional regime was established so that, within five years, the areas of intervention of the SRU created under the previous regime can be converted in one or more ARU.

In these ARU, the type of urban regeneration operation and its instrument of programming must be defined. These operations are named *Operações de Reabilitação Urbana* (ORU) and can be Simple – rehabilitation of existing properties, carried out preferably by its owners; Systematic - integrated intervention of urban rehabilitation of an area, promoted by the managing body and associated with a public investment program – or Isolated – in buildings or fractions, located or not in ARU, that have been built for, at least, 30 years.

The managing body of the urban rehabilitation operations can be the municipality itself or an existing or newly created local business body within the sector. If such entity has the exclusive purpose of managing the operations of urban rehabilitation, it is then considered a SRU.

For the purpose of implementing an ORU, the managing body may exercise powers related to the control of urban operations: licensing, previous notification and authorization of use; inspections and surveys; urban development legality conservancy measures; collection of fees, among others. As for urban policy instruments, the managing body may use the following: imposition of obligation to rehabilitate and coercive works; building demolition; right of preference and forced rental. Exclusive for the systematic urban rehabilitation operations: urban servitudes; expropriation; forced sale and restructuring of the property.

With regard to financing, the NRJRU allows the possibility of granting financial aid from the State and municipalities to fund owners, managing bodies and third party bodies that promote urban rehabilitation, including boosting and modernisation of economic activities. Managing bodies can still raise loans intended for the financing of ORU. For the execution of the ORU, real estate investment funds can be created. The SRUs also articulate with the urban regeneration programs mentioned above.

In this way, the NRJRU encompasses a vast and special set of standards, defines a common structure to all urban regeneration projects, establishes the intervention methodologies and introduces a set of legal instruments of intervention, that stand out for their innovation, as the forced letting and the forced sale (Meirelles, 2010).

THE URBAN REGENERATION COMPANIES IN PORTUGAL

According to *Instituto Nacional de Estatística* (INE), in 2011 there were 20 SRUs in Portugal. In the same year, 132 ACRRUs were identified, 62 of which were in the historic center (47%) and 70 were located outside the historical centre (53%). The Lisbon region had the highest number of ACRRUs, a total of 56, most of them with a location in the historical centre (59%). Regarding the existence of ARUs, in 2011 there were 83, 24 of which resulted from the conversion of ACRRUs (INE, 2012).

An investigation of the existing SRUs has shown that most of them present a low or inexistent degree of execution. The crisis affecting the Country has been reflected in the reduction of municipal revenues coming from the State budget, which in turn is reflected in a reduction of funding to the SRUs. Some SRUs have been incorporated into companies with a wider range of interests and it's possible to see that there are more ARUs than SRUs. There has been an increasingly tendency for the ARU management to be carried out by the municipal councils or even by local business firms (other than SRUs).

CASE STUDY: LISBOA OCIDENTAL SRU

Currently this is the only active SRU in Lisbon, capital of the Country, given that the local authority decided to extinguish both *SRU Oriental* and *Baixa Pombalina SRU* since they constitute a heavy financial burden for the municipal council without actual effects in rehabilitation. On the other hand, the *Lisboa Ocidental SRU* was one of the firsts to be created, which implies a higher level of experience when compared to more recent SRUs. Subsequently, an analysis of *Lisboa Ocidental SRU* is made, having as main source of information its website¹ and the documents it contains.

The *Lisboa Ocidental SRU* was constituted in July 2004 by the Lisbon Municipality under the RJERU. This company, fully funded by this municipal council, aims to promote the urban rehabilitation of its ARU – which involves areas such as Santa Maria de Belém, Ajuda and Alcântara; create sustained attractiveness factors that enhance the value of the ARU in the social, cultural and economic plans; streamline and coordinate initiatives and both public and private resources.

The area of intervention of *Lisboa Ocidental SRU* was fully declared ACRRU in 2005, and subsequently converted into ARU. This ARU occupies an area on the ground of 81 hectares, integrating approximately 1,300 buildings and 5,990 fractions and, according to the data available at the date of its creation (Census of 2001), had approximately 9,300 residents. In order to fulfil its purpose, the SRU has divided its ARU in three areas (Figure 2) and specific rehabilitation strategies were defined.

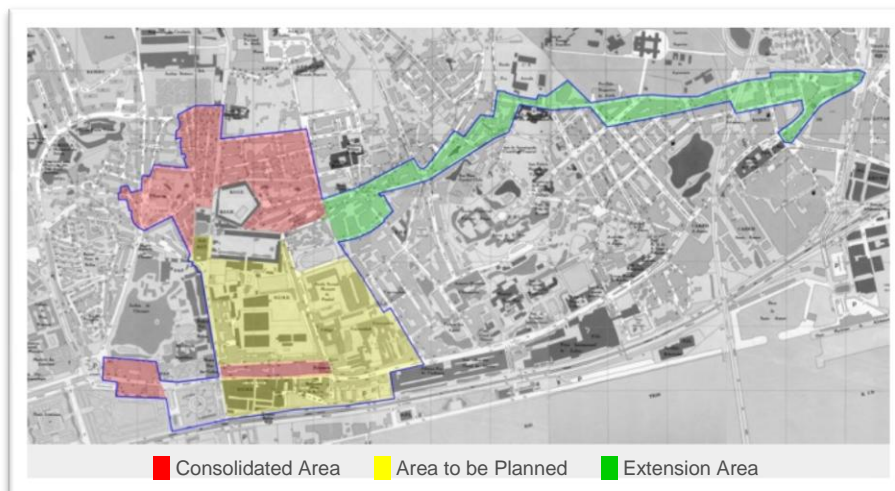


Figure 2 – Delimited areas within the ARU (<http://www.lisboaocidentalsru.pt>)

For the Consolidated and Extension Areas, of consolidated urban fabric and presenting distinct conservation stages, the generalized rehabilitation of buildings and public spaces begins with the definition of intervention units and preparation and approval of the respective strategic documents. For the Area to be Planned, which includes buildings and sites with significant constructive capacity, the strategy involves the elaboration of a detailed plan, with the purpose of creating a dynamic pole of development, qualification and sustainable development of the entire ARU. As, to date, the proposed

¹ <http://www.lisboaocidentalsru.pt/>.

detailed plan is still under assessment (Lisboa Ocidental SRU, 2013b), the present study focuses only on the Consolidated and Extension areas. According to the planning, for the Consolidated and Extension areas, a total 20 intervention units were defined, each encompassing several blocks, and the strategic documents were prepared and approved for 19 of these units. One of the fundamental components of each document corresponds to the survey and diagnosis of the current situation.

This characterization of the areas under study by *Lisboa Ocidental SRU* allowed to conclude that, of the total of 1,079 analysed buildings, 30% of the buildings were in good condition and almost 40% required maintenance work. It is important to mention that 325 buildings, which correspond to the remaining 30%, were classified as being in bad or very bad conservation state or even in ruins.

The intervention strategy was outlined according to the state of conservation. As such, the SRU came to the conclusion that 32% of the buildings didn't need any kind of intervention, 37% required a slight intervention and 30% needed an average or deep intervention or even demolition and reconstruction. In total, there was an urgent need to intervene in 151 buildings.

The SRU has also concluded with this diagnosis that a considerable number of buildings in these intervention units possessed high patrimonial value.

Regarding the public space, there was a deficit of infrastructure related to circulation and parking, tree shading, lighting, street furniture, eco-points and garbage bins.

The next phase of this process is the implementation of the rehabilitation itself, which corresponds to the execution stage of project and appreciation of the project by the municipality.

The *Lisboa Ocidental SRU*'s main expenses can be divided into two categories. On the one hand, the costs in terms of urban regeneration, ranging from the preparation of the strategic documents and the detailed plan to the rehabilitation of public space and municipal or expropriated buildings. On the other, all the running costs of the company, being the most significant value for personnel expenses.

With regard to financing, the operational costs of the SRU are supported by the Lisbon Municipality, through annual program contracts. In 2009 a contract was established with the *Instituto da Habitação e Reabilitação Urbana* (IHRU), a financing agreement amounting to 16.1 million Euros made available by the European Investment Bank to fund rehabilitation operations of public space, municipal buildings and buildings to expropriate for the rental market. Other sources of income correspond to the interest obtained from short-term financial investments, sale of rehabilitated buildings, among others.

It is possible to generally observe the level of execution of the rehabilitation of public space in the ARU in Figure 3. While the works in various intervention units are already completed, there are still several ongoing and others to start. In total, it is completed or ongoing the rehabilitation and renovation of the infrastructures of 33% of the total public space of the 19 intervention units in analysis.

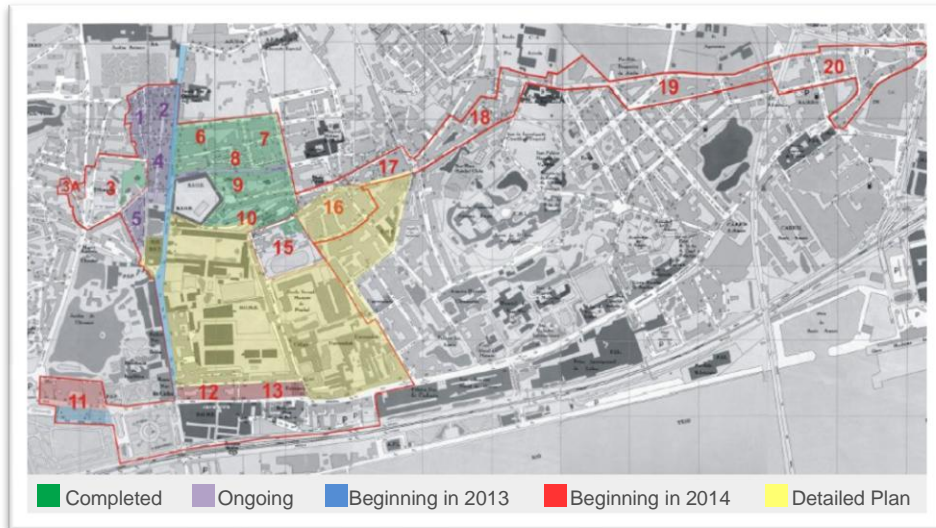


Figure 3 – Rehabilitation of the Public Space (Lisboa Ocidental SRU, 2013b)

The following data presented briefly reflects the results of the activity of *Lisboa Ocidental SRU* in its ARU (Lisboa Ocidental SRU, 2013a; 2013b):

- Rehabilitation of 8 municipal buildings: 2 completed, 3 in development, 3 in project;
- 8 buildings acquired in expropriation proceedings: 1 completed, 5 in development, 2 in project;
- 174 buildings rehabilitated, 15 in development and more than 76 ongoing processes – which corresponds to the rehabilitation of 265 buildings (approximately 153,727 m²) and an esteemed investment exceeding 29.3 million euros. It should be noted that almost all of these buildings have been rehabilitated by the respective owners;
- Completed or ongoing rehabilitation and renovation of infrastructures of 51,633 m² of public space;
- Completed 2 free parking lots with a total of 208 parking spaces.

CONCLUSIONS

The facilitated access to home ownership through credit incentives, accompanied by stagnation of rental market due to the freezing of rents, strongly boosted the growth of the housing stock. The freezing of rents also contributed greatly to the state of deterioration of the housing stock because, since it decapitalized the owners due to reduced income received, they found themselves without means to fulfill their duty of conservation of their buildings.

The SRU instrument presents innovative aspects compared to the earlier existing policies and programs in this area and even allows its articulation with some of these, providing funding for the SRU. With regard to financing, the SRUs feature more options than their predecessors. Other innovative aspects are their powers relating to the control of urban operations and their urban policy instruments. It is also important to highlight that the SRU's favor an urban regeneration process per intervention unit instead of being limited to an intervention per building.

The analysis of the case study of *Lisboa Ocidental SRU* allowed to demonstrate their effectiveness to the extent that it really promotes the regeneration of dilapidated housing stock, whether regarding the public space or the private buildings. Indeed, there has been a large adherence on behalf of the owners to carry out the works indicated in the Strategic Documents/Execution Plans, which is in accordance with the legal framework of urban regeneration.

Urban regeneration plays a key role in the attractiveness and competitiveness of cities, being fundamental to invest in this sector to the detriment of new construction and expansion of peripheries. This perspective has even more relevance nowadays due to Portugal's economic situation and the consequent stagnation of the construction sector. Namely, this critical period for the construction appears like a good opportunity to boost the urban regeneration sector with the objective of valuing the housing stock, boost the economy and create jobs.

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