



Real Estate and Urbanism

Changes to property taxation and to the rental market and simplification of licensing procedures in respect of renovation works are the main issues addressed by the Memorandum of Understanding establishing the terms of the financial assistance granted by the International Monetary Fund (IMF), the European Union (EU) and the European Central Bank (ECB) to Portugal (MoU) in connection with the housing market.

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The impact of the MoU between the IMF, the EU and the ECB and the Portuguese Government in the housing market**1. Property taxation**

The measures established in the MoU in this respect include measures applicable to personal income tax and to property taxation. In this regard, principal payments under loans granted for housing purchase will not be deductible as from January 1, 2012 and the tax deductibility of rents and mortgage interest payments under such loans will also be limited. Property taxation should be gradually focused on Real Estate Tax (IMI) and not on Real Estate Transfer Tax (IMT). Temporary exemptions of IMI in connection with owner occupied dwellings should be substantially reduced and the rates of IMI applicable to vacant or non rented property should be increased. For purposes of bringing taxable value of property close to market value by the end of 2012, rules on property valuation should be reviewed by the end of the third quarter of 2011. Residential properties should be subject to evaluation every three years while commercial properties should be evaluated on an annual basis.

2. Rental market

The New Urban Lease Act Law (NRAU) should be amended by the end of 2011 in order to (i) broaden the conditions for renegotiation of open-ended residential leases, (ii) limit the possibility of transmitting the lease contract to the first degree relatives, (iii) reduce the prior notice for termination of leases for landlords, (iv) provide for an extrajudicial eviction procedure for breach of contract, aiming at shortening the eviction time to three months, and (v) phasing out rent control mechanisms.

3. Licensing procedures for renovation works

In this respect, the MoU establishes that new legislation must be approved until the end of the third quarter of 2011 to, among others, (i) simplify administrative procedures for renovation works, safety requirements, authorisation to use and formalities for works that benefit and enhance property's quality and value, (ii) simplify the rules for temporary re-location of tenants of buildings being renovated, and (iii) allow landlords to terminate the lease contracts in case of major renovation works (affecting structure and stability of the building) with a maximum of 6 months prior notice.

4. Conclusion

Until now, Portuguese housing market has favoured the purchase of housing based on bank financing and construction of new buildings in detriment of rental contracts and renovation and conservation of the existing buildings, particularly in the cities. Although the exact terms of implementation of certain measures included in the MoU are not yet known, it appears that Portuguese housing market will be required to adjust its model to be increasingly focused on investment in existing buildings. The tools to implement such adjustment are the changes to property taxation, the incentives to rental contracts and the simplification of licensing procedures for renovation works.

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