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HOUSENOMICS: External demand for housing in Portugal: multidimensional impacts and the role of public policy

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The significant rise in housing prices emerged as a striking feature in Western economies after the 2008 financial crisis and the ensuing recessionary cycle. This increase in prices, both in the purchase and rental markets, is now creating growing difficulties for some social segments in accessing affordable housing.

A vast body of international scientific literature shows that foreign investment and the touristification of housing are relevant factors in the rise in prices. But it also demonstrates that regulation is common and effective when well designed. In this regard, we make a set of recommendations:

1. To **guide public policies that have an impact on housing**, it is a priority to create a **robust information system;**
2. **Regulate foreign investment in residential assets**;
3. **Regulate and reverse the weight of Short-Term Rentals (STR) in the most pressured areas;**
4. **Introduce a sufficiently dissuasive progressive tax increase** on vacant properties owned by non-residents in areas under pressure, to mobilise housing for its social function;
5. **Regulate rents** to discourage speculative and strictly rentier investment by non-resident investors;
6. **Guide new construction and renovation at controlled costs**.

Improving access to and security of housing generates social and economic benefits – it promotes family stability, boosts non-housing consumption, and makes urban mobility more efficient. It is essential for attracting and retaining skilled workers and reducing inequalities.

Target audience: This policy brief is intended for public entities, policy makers and civil society organisations, enabling accessible knowledge to foster broad participation in debates on housing policies. Namely: Institute of Housing and Urban Renewal (IHRU); Ministry of Infrastructure and Housing; Local Councils; the Social and Economic Council; National and Municipal Housing Councils; National Federation of Housing Cooperatives (FENACHE); Association Habita!; Association for Autonomous Life (AVA).

1. The Problem: a housing crisis that must be addressed

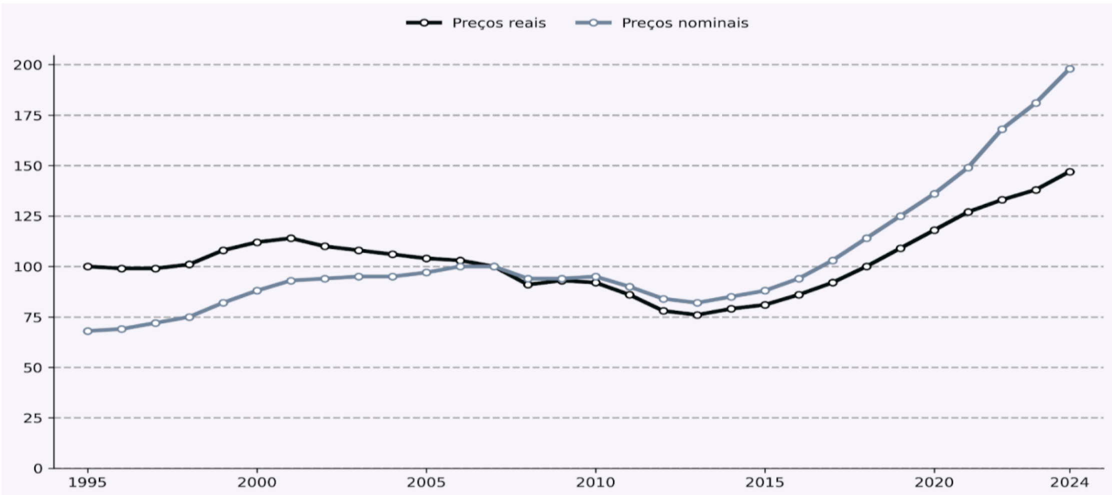
The sharp rise in housing prices has become a defining feature of the recovery of Western economies after the 2008 financial crisis and the subsequent recession. This increase in prices, both for buying and renting, has made it difficult for various social groups to access housing.

1.1 Changes in the Portuguese housing market over the last decade

In this international context of rising housing prices, Portugal stands out.

The evolution of housing supply also does not explain the observed appreciation. Although new housing construction declined sharply after 2008, **the ratio of dwellings to households remained high — 1.44 in 2021 — one of the highest in the OECD and the EU27**. Even in the metropolitan areas of Lisbon and Oporto, as well as in the Algarve, where pressure on prices is most intense, the number of dwellings continues to exceed the number of households.[6] Recent waves of immigration have contributed to additional pressure on the market, but do not explain a price increase that preceded them.[6]

Figure 1. Real and nominal price indices for the housing market in Portugal 1995-2024 (base 2007=100)



Source: Authors' calculations based on OECD, Analytical house prices indicators.

Portugal is the Eurozone country with the highest price increase between 2015 and 2024 and the third country among the 29 non-Euro economies reported by the OECD. The volume of real estate transactions places **Portugal among the most dynamic markets in the Eurozone in the post-crisis period.**[4]

The rise in housing prices in Portugal has not been accompanied by equivalent growth in household incomes. Portugal has one of the largest international discrepancies between household income and housing prices, **leading the rise in the price-to-income ratio in the OECD in 2024.**[5]

After 2008, bank credit lost its central role in financing purchases. Between 2008 and 2022, only between 28% and 54% of the amount transacted corresponded to bank credit, well below the approximately 75% recorded before the crisis. Portugal was even one of the few Eurozone countries where the rise in interest rates from 2022 onwards did not lead to a reduction in prices. At the same time, the weight of credit granted to foreigners increased, representing around 20% of new loans between 2023 and 2024.[7]

In contrast, there was a **sharp increase in Foreign Direct Investment (FDI) in the real estate sector. Between 2008 and 2024, the annual flow quadrupled, and the accumulated stock doubled its weight in total FDI in Portugal,** constituting one of the most consistent explanations for the transformation of the Portuguese housing market[8].

The growing discrepancy between prices and incomes is limiting access to housing for young people, middle-class households and lower-income families, revealing a housing crisis with unequal effects.

1.2. The role of science in understanding and responding to the housing crisis

In this context, it is crucial to understand the origin of the crisis and to outline effective responses.

Our study focused on the impact of external demand — purchases by non-residents and the expansion of short-term rentals (STR) — on recent price developments, analysed international experiences of regulation and proposes policy guidelines to bring supply and prices into line with the needs of residents.

2. The Results: the role of public policies, characterization and impacts of external demand for housing

The analysis of external demand's impact on the Portuguese housing market is based on a vast body of scientific literature that points to an increase in international capital flows into residential real estate after the 2008 financial crisis. This phenomenon was favoured by expansionary monetary policies, low interest rates and public initiatives to attract foreign investment [1, 2](Infographic 1).

In the international context of liquidity that emerged from 2012 onwards, which encouraged transnational capital to seek high

Infographic 1 - Measures to attract foreign investment in residential real estate 2009-2024

NON-HABITUAL RESIDENT TAX REGIME (RRNH)

Created in 2009 and which, despite some recent changes and a new name (Tax Incentive for Scientific Research, Innovation and Human Capital - IFICI), remains a scheme designed to attract non-resident qualified professionals, offering them significant tax benefits. Recent data indicate 115,000 beneficiaries.

RESIDENCE PERMITS FOR INVESTMENT (ARI, COMMONLY KNOWN AS "GOLDEN VISAS")

Created in 2012, these permits were granted to third-country nationals upon transfer of capital; the creation of jobs or the purchase of real estate worth €500,000 or more. Between 2012 and 2023, around 90% of ARIs were granted based on property purchases, representing an investment of €6.5 billion in the Portuguese property market.

INVESTMENT TAX CODE (CFI)

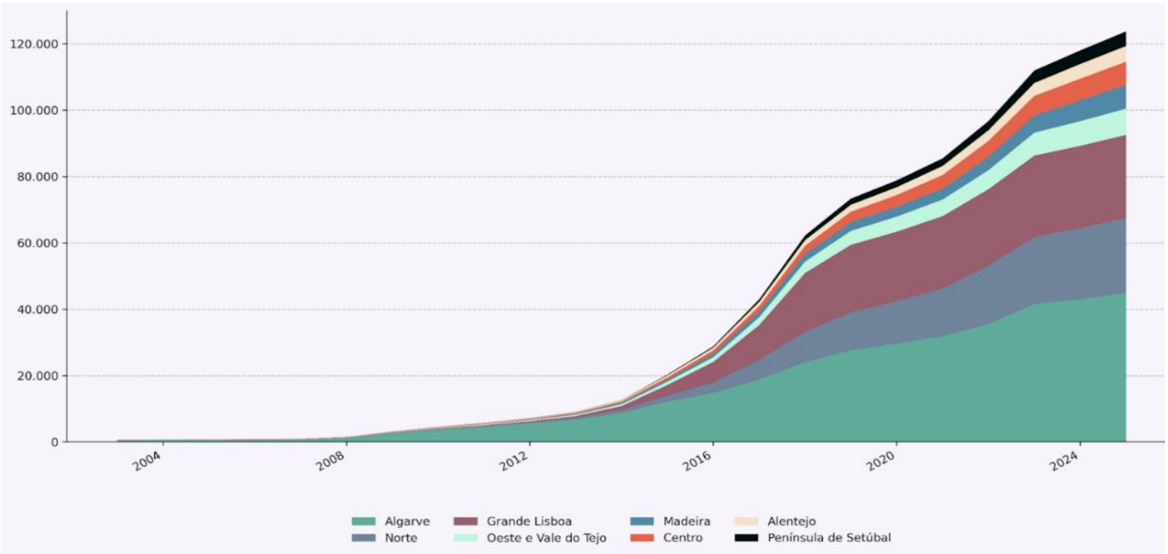
Package of incentives for companies, including contractual tax benefits for large productive investments and tax deductions. Although not directly linked to the housing sector, these instruments can indirectly favour the acquisition of real estate assets, especially those linked to tourism.

URBAN REHABILITATION AND REVITALISATION (IFRRU)

Created in 2017. Aimed at supporting rehabilitation and energy efficiency projects, with a strong concentration in the Metropolitan Area of Lisbon. Although designed to promote territorial cohesion, a significant part of the funding ended up benefiting the high-end housing and tourism segments.

returns in real estate, these measures aimed to attract foreign investment had a structural effect on the Portuguese real estate market. The **weight of the real estate sector in Gross Domestic Product (GDP) has exceeded 10% since 2009, with FDI in real estate increasing by 500% between 2008 and 2025.**

Figure 3. Number of STR unit registrations by region, 2003-July 2025



Source: RNAL, Travel BI.

2.1 External demand for housing purchases is pushing up prices in almost all regions of the country

International literature shows that non-resident buyers tend to be more solvent and purchase high-end properties, contributing to price increases without this investment being accompanied by new construction.

Available data indicate that between 2019 and 2024, the Portuguese housing market became more exposed to external demand[1].

In 2024, non-EU buyers paid median prices around 60% higher than residents; EU buyers paid, on average, 22% more. The discrepancies are more pronounced in Lisbon, Oporto, Algarve and Madeira.

In 2019, Algarve accounted for 45% of foreign acquisitions; in 2024, this figure fell to 38%, but there was strong growth in the North (10% to 18%) and in the Centre region (8.7% to 15.4%).

The overall value of transactions reflects this distribution: Algarve maintained the highest volume, albeit with a relative decline, while the North and Centre doubled their share. Greater Lisbon accounted for between 28% and 33% of the total value.

These dynamics confirm the importance of foreign investment in property valuation, particularly in the luxury and tourist/short term rental segments and reveal the territorial spread of these acquisitions.

[1] In Portugal, territorial analysis of external demand faces difficulties – statistical data is only available from 2012 onwards and at regional level only from 2019 onwards.

2.2 The expansion of STR inflates prices in the residential acquisition and rental markets

The expansion of STR intensified from 2014 onwards with a favourable legal regime based on simplified registration and significant tax advantages.

Between 2013 and 2016, registrations doubled annually and continued to increase in subsequent years. More than half of the registrations are in Lisbon Metropolitan Area (LMA) and Algarve.

3. International literature and studies on Portugal show that STR has inflationary effects on the purchase and rental markets and is now a highly professionalised activity, focused on investors.[11,12,13]
4. **We demonstrate that the weight of STR has a positive and statistically significant impact on rents**. Econometric analysis shows that a 1 percentage point increase in the proportion of STR generates a €0.20/m² increase in rents in the following year, with significant cumulative effects in areas of high concentration. This conclusion is particularly relevant given the commitment that successive Portuguese governments have made to promoting affordable rental housing.
5. In several municipalities, STR accounts for over 20% of the housing stock, contributing to accelerated appreciation, gentrification and the exclusion of lower-income residents.

3. Conclusions: the role of external demand in the reconfiguration of the Portuguese housing market

The effects of external demand must be analysed in the context of the post-2008 economic scenario, but there are limitations on available data: transaction statistical series only begin in 2009 and data on purchases by non-residents only in 2019. Indirect indicators and interviews with industry players were therefore used.

The 2008-2013 crisis

Portugal faced a deep recession, with GDP falling for three consecutive years, unemployment at 16% in 2013 and widespread loss of income. The housing market experienced deflation: in 2012, the number of transactions was less than half of 2007 and the total value fell to a third of the pre-crisis amount.

Decline in credit and emergence of "investment without credit"

Since the crisis, the weight of credit in housing has fallen from around 74% of transactions until 2010 to less than 30% between 2012 and 2014, then stabilising between 40% and 55%. Between 2014 and 2024, "investment without credit leverage" reached almost €100 billion, an amount close to household debt, suggesting a strong inflow of foreign capital.

Public policies to attract external demand (2009-2014)

Measures such as the Non-Resident Regime, the “Golden Visas”, changes to the Urban Rentals Regime (2012) and the STR regime (2014) were introduced in the context of a depressed market, onsetting structural effects. Changes in Rental legislation facilitated the termination of old contracts, allowing for rehabilitation and conversion to STR; STR profitability functioned as a strong incentive for housing purchases; schemes to attract foreign residents and investors introduced highly solvent demand. These policies reinforced each other, encouraging rehabilitation geared towards tourism and high-end housing.

Market reconfiguration and pressure on prices

Lisbon, Oporto and Algarve have become markets shaped by expectations of profitability associated with STR and international buyers. New construction has been geared towards high-end segments, while the market has progressively decoupled from the regional wage structure. Price increases have spread to peripheral areas through the reinvestment of capital gains by resident owners.

Multiplier effect and housing exclusion

The impact of external demand goes beyond the number of transactions: it has influenced expectations, shaped supply, increased the value of existing assets and transformed the market into a system dependent on foreign investment and tourism profitability. At the same time, excluded young people, lower-income families and part of the middle class, deepening territorial and generational inequalities.

Thus, Portugal has moved from a model based on domestic credit and home ownership to a system centred on external demand, continuous asset appreciation and tourism profitability, with profound and structural social consequences.

4. Final recommendations

The transposition of regulatory models requires two principles: adaptation to the territorial context and a combination of mutually reinforcing measures. The capacity for enforcement is a condition for success, as is continuous monitoring of the sector.

The housing shortage in Portugal is significant: 136,800 households needed decent accommodation in 2021; this number is expected to rise to 143,283 in 2025, mainly concentrated in the metropolitan areas of Lisbon and Oporto. Although the expansion of public housing is underway, it is a lengthy process. Market regulation measures are urgently needed in view of the impact of external demand and the use of housing for tourism, in a context where vacant properties coexist with production that is poorly aligned with demand.

In this regard, we present a set of recommendations (Infographic 2).

Infographic 2 – Recommendations

1 Creation of a robust system of information

2 Regulate foreign investment in residential assets

3 Regulate and reverse the weight of Short Term Rentals in the most pressured areas

4 Progressive tax increases that are sufficiently dissuasive on vacant properties owned by non-residents in areas under pressure, to mobilise housing for its social function

5 Regulation of rents to discourage speculative and strictly rentier investment by non-resident investors

6 Guide new construction and renovation at controlled costs through urban and territorial management instruments, so that new construction supply is not directed mainly towards the most solvent external demand

We recommend the creation of a regular Housing Survey by the National Institute of Statistics (INE) that captures the dynamics of supply and demand, with a variety of indicators (beneficiaries and amounts of special tax regimes; annual time of residence in properties and frequency of transactions of the same property); with territorial breakdown by municipality and, in the main urban centres, down to the parish level.

Disclosure of administrative data (Tax Authority, Public Institute of Registral and Notarial Services) and data from private agents in the sector on national and international supply and demand.

Eliminate preferential regimes that induce speculative demand (e.g., IFICI, "Golden Visas", D8 Visas for digital nomads).

End tax exemptions on transactions, property, inheritance and capital gains from real estate funds.

Increase taxation on purchases by non-EU non-residents, with the possibility of taxing up to 100%, applicable throughout the territory, to avoid spillover effects.

These measures aim to re-anchor the market to the reality of labour income and curb expectations of returns that are out of line with the payment capacity of resident households.

Eliminate the transferability of licences in housing transactions, preventing "STR rent" from being capitalised in the sale price.

Limit the validity of licences to 5 years, renewable according to pressure on supply and the economic situation.

Increase taxation on full-house STRL in areas under pressure, favouring STR in part of a house and/or with an annual limit on rental days;

Reduce by 50% by 2030 the number of whole-house STR registrations in areas under the greatest pressure, with a phased reassessment from 2027 onwards, according to transparent criteria (debt service, income dependency, etc.). It is estimated that this could return thousands of homes to the permanent housing market in three years (around 6,000 in Lisbon, 4,000 in Oporto and several thousand in Algarve);

Creation of national enforcement instruments to support municipalities, based on the European directive which, in 2026, will require STR digital platforms to share data and combat illegal offers.

Prevent increases in new contracts when the previous one already exceeds "affordable" levels, favouring gradual decreases (and exempting, for 10 years, houses that re-enter the rental market).

It is suggested that a comparative study on European rent control models be commissioned.

Together, these measures form a coherent strategy to stabilise prices, increase affordable supply and rebalance the market in favour of residents.

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