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Monthly Report | Real Estate Market | June 2023

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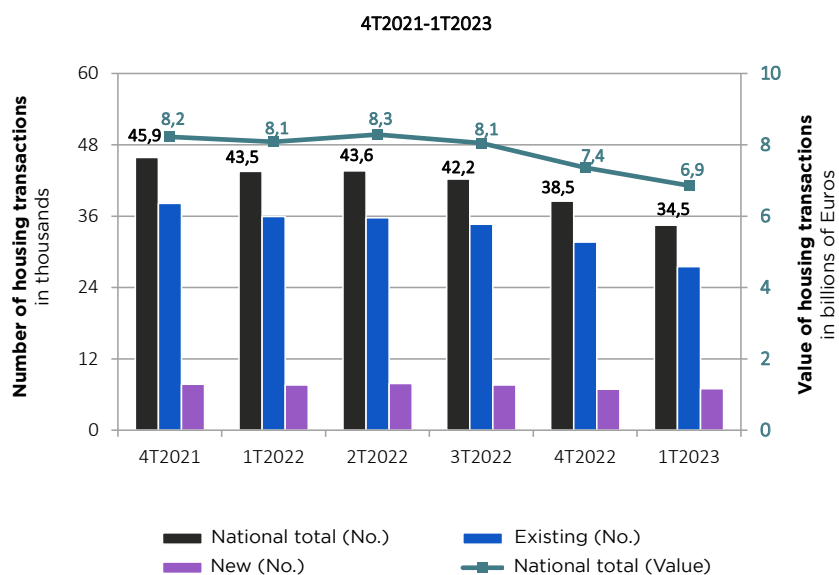
Market decline stalls, but ECB may cool expectations

While the National Institute of Statistics' (INE) figures confirmed the drop in sales in the 1st quarter anticipated by the leading indicators, Confidencial Imobiliário's forecasts for the 2nd quarter show a revival in the market in May, namely in the Lisbon Metropolitan Area. **Also the number of bank valuations showed a slight increase in May, interrupting a continuous decline that had lasted for exactly one year, since the reversal of monetary policy.** It remains to be seen whether the National Residents market (more than 85% of the total market) will be again affected by the ECB's more aggressive stance revealed at the end of June by Governor Lagarde. It should be recalled that the rise in the key interest rates is already at 400 basis points and there is still no clear horizon on how high they can go.

INE - Number and value of housing transactions in the 1st quarter of 2023

Between January and March of 2023, 34 493 houses were traded, 20.8% less than in the same period of 2022. For the third consecutive quarter there was a negative year-on-year rate of change in the number of transactions, further evidencing fact that it shows a growing amplitude (-2.8%, -16.0% and -20.8%, between the 3rd quarter of 2022 and the 1st quarter of 2023). Of the total transactions, 6 970 related to new housing, resulting in a reduction of (only) 8.3% compared to the 1st quarter of 2022.

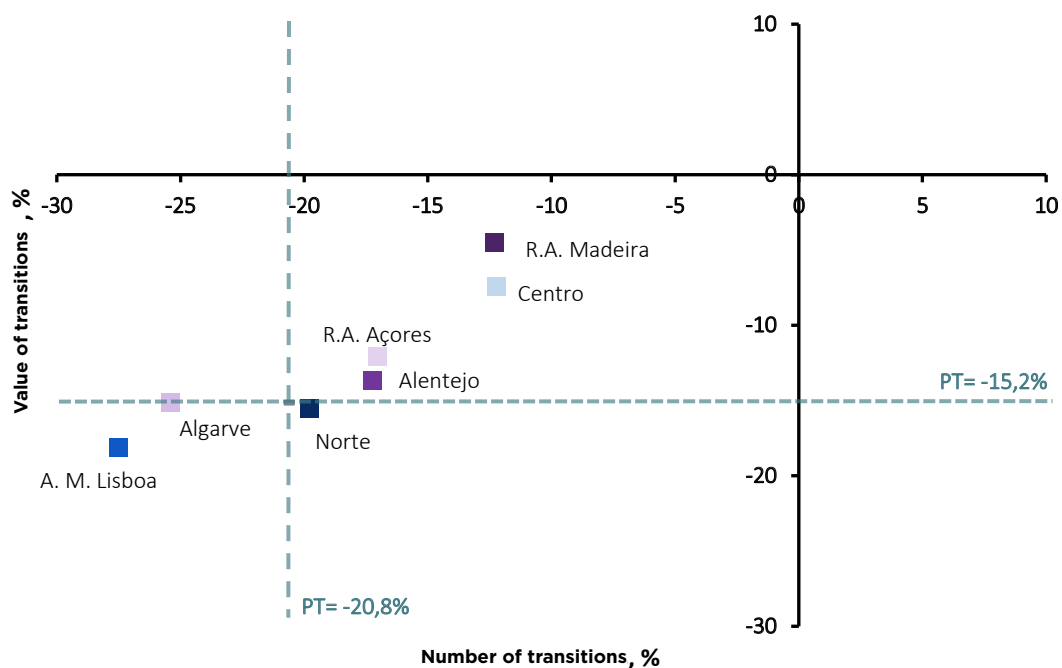
The value of housing transactions decreased 6.9% in the 1st quarter of 2023 compared to the immediately preceding quarter (-8.6% in the 4th quarter of 2022). **By category, there was an increase of 6.1% in the value of new housing transactions and a rate of change of -10.9% in the indicator relating to existing housing.**



Source: INE, House Price Ind



In regional terms the Lisbon Metropolitan Area was the one that recorded the largest decline in the no. and value of transactions. In the Lisbon Metropolitan Area and the Algarve, there were rates of change of -27.5% and -25.4%, respectively, in number and -18.1% and -15.1%, in the same order, in value, in both cases, above the national average. The number of transactions in the Lisbon Metropolitan Area returned to pre-pandemic values (similar to the last quarters of 2019) but the values (due to price increase and an increase in quota of “new housing”) remain 15% above.



Source: INE, House Price Ind O.

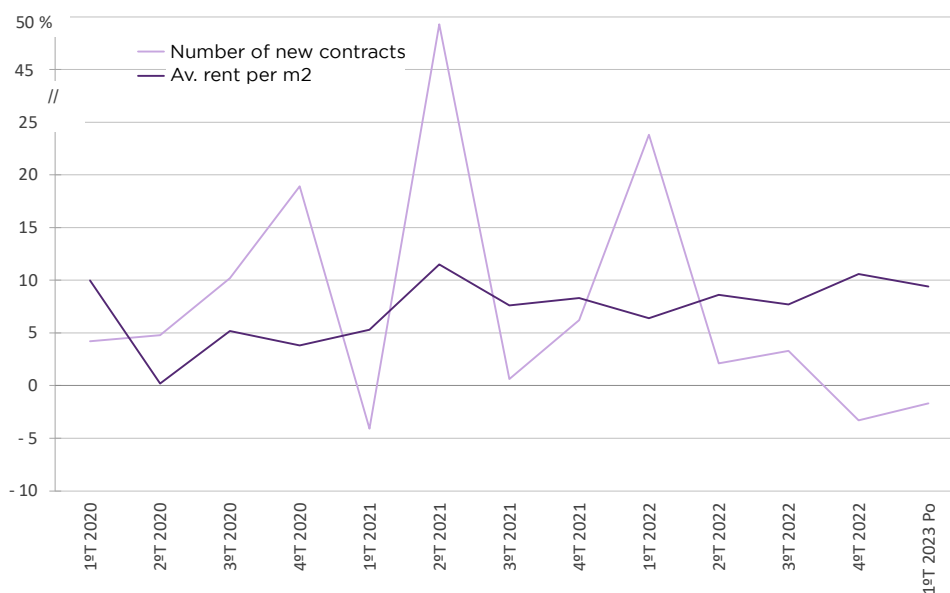
INE - House Price Index

Between the 4th quarter of 2022 and the 1st quarter of 2023, the HPI grew 1.3% (1.1% in the 4th quarter of 2022 and 3.8% in the 1st quarter of 2022). In the quarter of reference, transactions of purchasers with tax residence outside of Portugal totalled 2 492 dwellings, representing a reduction of 2.5%. The category of tax residence Non-residents outside the European Union increased the number of transactions by 9.1%, to 1 223 units.



INE- Rentals

In the 1st quarter of 2023, the number of new rental contracts (24 300) was less than that registered in the same quarter of 2022 (24 727), representing a decrease in rental activity of -1.7%. However, compared with the previous quarter, there was an increase in new rental contracts of +7.4%. This indicator on a quarterly basis is, however, quite volatile as can be seen in the graph below.

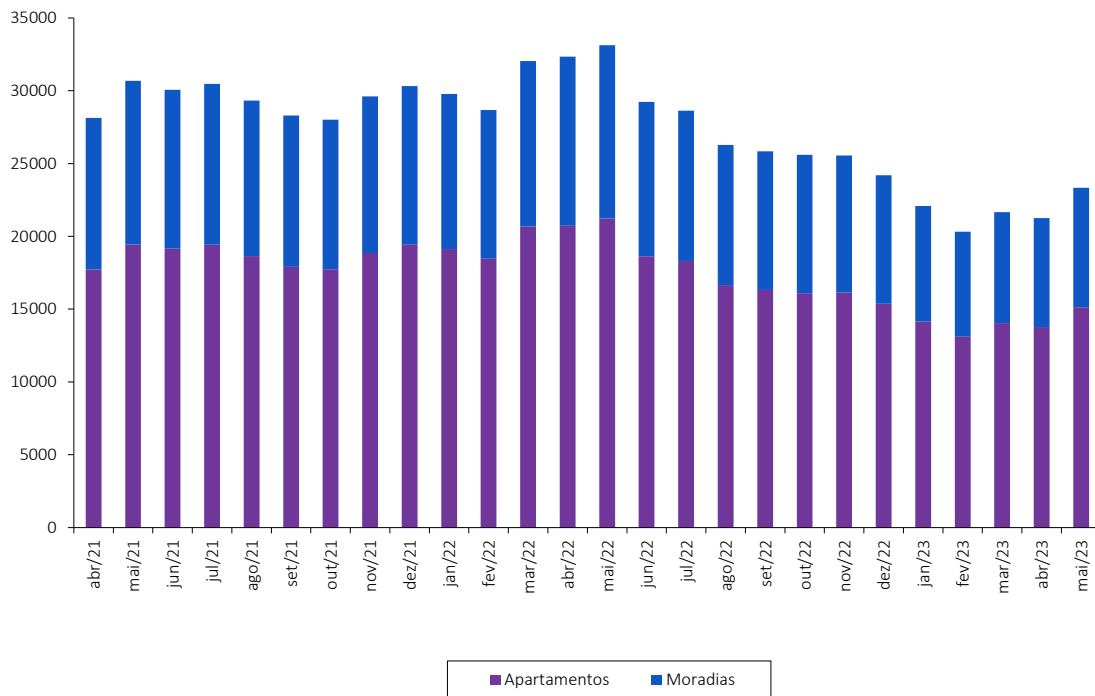


Note: Po - provisional data



***INE - Requests for bank valuations stabilise

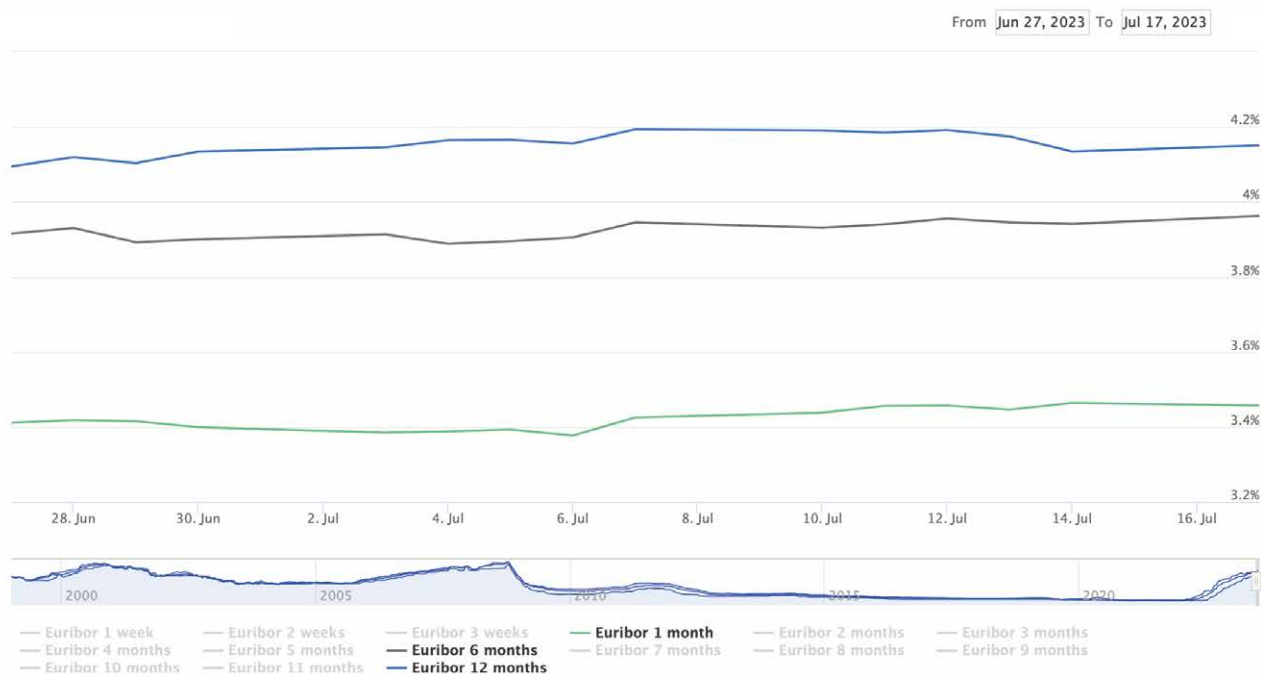
To establish the median bank valuation for May 2023, 23 335 valuations were considered (15 120 apartments and 8 215 homes), 29.6% less than in the same period of 2022. Compared to the previous period, 2 078 more bank valuations were carried out, which corresponds to an increase of 9.8%. Here too this indicator may suffer another inflection with the rise in Euribor rates in June.



The Bank of Portugal should review prudential recommendation in the concession of Housing Loans.

Since June 2018 the Bank of Portugal, in view of the scenario of very low or negative interest rates and the enormous share of variable-rate mortgages in the Portuguese market, issued guidelines for Banks to be more demanding in calculating the various indicators. Among several others, there is the need to calculate the effort rates with scenarios of rate increases of up to 3%, foreseeing precisely the scenario in which we find ourselves now. This means that current loans are tested in a scenario of rates close to 7% (4% Euribor +3% Scenario rise = 7%) which makes many loan applications unviable.

The declarations of the Deputy Governor of the Bank of Portugal at the start July already anticipate a change: “It makes sense for us to revise the macroprudential recommendation. We are looking to see if it alleviates the extra shock a little. When, in 2018, we considered adding a further [three percentage points] to the interest rate, interest rates were very low. The truth is that they went up [four percentage points] in the last year”



Uncertainty about the "More Housing" package increase in the discussion of the proposals for the area.

Proposals for amendments (namely by the Parliamentary Group of the PS, hence with a strong probability of approval) are being presented, which at the moment include:

Exclusion of the concession of Golden Visas also for investment in Investment Funds that invest in Residential Properties.

The need for unanimous approval of the Meeting of Co-owners and delivery of the respective Minutes to the Town Hall when applying for a new registration of Local Accommodation.

If the activity of local accommodation is carried out in an autonomous fraction of a building or part of an urban building which can be used independently, the Meeting of Co-owners can object to the exercise of the activity of local accommodation in the said fraction «by the resolution of at least two thirds of the ownership of the building», when in the government proposal it is foreseen that a quorum «of more than half of the ownership of the building» is sufficient. After the Meeting of Co-owners reports its resolution to the Mayor it takes effect in the period of 60 days after the sending of the resolution.