

Urban rehabilitation, governance, and housing affordability: lessons from Portugal.

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Abstract

This paper examines the role of ‘urban rehabilitation societies’, a legal and institutional framework launched by the Portuguese government in 2004 and implemented locally ever since. The paper discusses how this model has provided an alibi for neoliberal narratives, grounded on the virtues of the market and on market-oriented strategies. The research methodology uses a combination of qualitative documentary analysis and face-to-face interviews with government officials and public officers to scrutinize the effects of policies on issues of governance and housing affordability.

Keywords: Urban Rehabilitation; Affordable Housing; Public Policies; Governance; Portugal.

Introduction

Many cities throughout the world struggle with the problem of how to rehabilitate urban areas without displacing lower income residents. This paper explores how this question has been addressed within the context of a new wave of urban rehabilitation initiatives operating in Portugal since 2004. Framed by a new institutional framework designed to boost housing requalification¹, the Urban Requalification Societies (SRU in the

¹ Whilst the concept of renovation has been used in the field of urban policy to designate operations that involve significant demolition of existing structures, in Portugal the concepts of ‘requalification’ and ‘rehabilitation’ (which have been used interchangeably) describe actions that aim to improve the physical condition of buildings and infra-structures in order to adapt them to contemporary requirements and new uses, while maintaining their fundamental characteristics (see Law nr. 32/2012, 14 August). This is a

Portuguese acronym) have come to consolidate an approach comprising privatization, deregulation, and marketization in the context of public/private partnerships.

Given that the historic centres of Porto and Lisbon are dominated by the private rental sector which, owing to strict rent controls that protect tenants' rights, are characterized by low rents but poor housing quality, this paper aims to scrutinize the effects of such a model of urban rehabilitation on housing market trends, namely changes of tenure and housing affordability provision. Considering that the new model was launched during an era of public sector retrenchment and the predominance of neoliberal ideas, which in Portugal followed a period of high and persistent unemployment, and bearing in mind Portugal's burden of private and public debt, we aim to assess the impact of this model on modes of local governance in Porto and Lisbon. These are both cities in which the increasing economic importance of tourism and a heritage of poor working class and degraded buildings expose sitting tenants to various forms of displacement.

Two groups of research questions were formulated for scrutiny:

1. On the issue of governance, we scrutinize how the SRU model was understood and implemented locally, considering that it was created as a vehicle for the delivery of public-private partnerships and had a strong potential impact on governance in Porto and Lisbon;
2. In relation to housing affordability, we investigate how the SRU requalification model has shaped issues of affordable housing provision for low- and middle-income families. Specifically, on how the needs of a less affluent local population were affected by local interventions (e.g. forced evictions and tenurial transformation associated with housing rehabilitation which exclude low- and middle-income populations from housing).

particularly important distinction in operations that involve heritage buildings and landscapes, and is also common in countries such as Italy, France, and Spain.

In this paper we opt for the concept of urban rehabilitation rather than urban regeneration because the latter is associated with more normative content², which is not always incorporated or translated into social practices (Alves, 2016; Stouten, 2010). The remainder of this paper is structured in three parts. The first presents a brief review around broader urban rehabilitation literature to help set the scene for the following sections, on the topics of affordability and institutional practices of governance vis-à-vis approaches to urban rehabilitation. The second part is preceded by a brief description of the research methodology and structured around two interconnected sections. In the first section we discuss the main causes and consequences of urban decline in the inner-city areas of Porto and Lisbon, presenting statistical data on population and housing. The second section discusses the legal background and policy implementation of the SRU model in Porto and Lisbon vis-à-vis issues of housing affordability and governance. The third focuses upon how the SRU model was implemented on the ground in both cities and, based on documentary analysis and interviews, discusses its strategies and results from the viewpoints of governance and housing affordability.

Literature review

Urban renewal literature: the main dimensions of the debate

To tackle urban social problems, such as poor-quality housing, high unemployment, or low average income, policy-makers in several countries around the world have increasingly relied upon so-called ‘integrated’, multi-sector, area-based initiatives, policies, or programmes (Van Gent, 2010). The justification used for these initiatives

² Whilst the concept of urban regeneration involves normative assumptions related to models of local governance and social change (Healey et al., 2002), the unbiased analysis of practices of urban regeneration has shown that, in a society structured by conflicting interests defined along lines of class, race, and politics, optimism must be more guarded (Alves, 2017).

has been the existence of socio-spatial inequalities at the local level across several domains (housing, education etc.), and the need for better cross-sectoral coordination with citizen participation (Skifter-Andersen, 2002).

A review of the literature on area-based initiatives reveals many criticisms of the adoption of a place-based policy that focuses upon neighbourhoods in a context of rescaling of urban governance and the retreat of the Keynesian state (Musterd & Ostendorf, 2008; Pugalis, 2013). Among others, there are two main criticisms related to (i) the prioritization of resources: strategies often target issues that are considered less critical (e.g. public space rather than inadequate housing conditions), and (ii) the lack of effectiveness and harmful impacts (e.g. in housing market dynamics and the residential trajectories of lower income families) due to the general policy objectives they promote (Kleinhans, 2012; Kadi & Musterd, 2015; Alves, 2017b).

The development of area-based initiatives and policies aimed specifically at inner city areas has been a result of urban decay, namely of population loss and building degradation which demand housing improvement and urban renewal. Whilst these strategies have been exercised during the last half century (at least) in most large cities, they have had different starting points (as processes of suburbanization began earlier in central and northern Europe), and diametrically different policy commitments and purposes. In fact, even though the general aim of strategies that targeted the inner city was to improve the physical conditions of historical neighbourhoods, they evolved over time, under different rationales, and on behalf of different stakeholder interests and powers. In this regard, we distinguish a first phase of urban renewal policy that mainly focused upon issues of physical renovation by deploying strategies of slum clearance through the demolition of older and poor quality housing. In reaction to criticisms driven by architectural conservation and the participation of residents (Larsen &

Nørgaard, 2003), subsequent policy has shown more sensitivity to locations and people. It now involves, on the one hand, rehabilitation rather than renovation, and on the other measures that limit the direct displacement of residents and encourage the preservation of local identities, activities, and populations.

However, in urban contexts affected by prolonged economic crisis, such as in southern European countries, the implementation of austerity policies and, in particular, neoliberal policies in the field of urban requalification have led to a setback in the formulation and implementation of policies. Strategies seem to have departed from the objectives of improving housing and living conditions for those families suffering the most precarity, to advocate a certain idea of deregulation (in planning norms, rules, regulations), and improvements in the neighbourhood to attract other residents with greater economic power.

Given a context of limited possibilities for state intervention, the argument advocating the superiority of market solutions has facilitated the adoption of new political and institutional arrangements, both in terms of competency transfers for the private sector and of legal status for new governance arrangements, frequently exempted from public rules (also regarding planning procedures), which facilitate project approaches over traditional land-use and strategic planning. In different contexts, this type of strategy has involved the transformation of housing tenures through privatization and renewal of council housing, financing mechanisms that focus mainly upon issues of increasing energy efficiency, and the requalification of buildings to improve amenities/attraction. The main policy goals are to attract economic activities, job creation, and the settlement of residents with greater economic power, rather than the provision of affordable apartments for low-income families (whose number is reduced in a context of price increases and reduction of public housing).

It is crucial to discuss strategies of rehabilitation/renovation as they mobilize public resources that transform the features of the housing stock (e.g. the provision of expensive versus affordable, spacious versus smaller and modest dwellings), affecting the social composition of neighbourhoods, namely in more desirable locations, by discouraging middle and lower-class households from remaining.

Urban rehabilitation and housing affordability

The relation between housing affordability and policy is important, as national and local policies in crucial domains such as economics, housing, and urban planning shape housing costs and socio-economic inequality across different housing tenures and residential spaces. Van den Nouwelant et al. (2015) define the concept of 'affordable housing' as housing below a specified price threshold, that is appropriate for the needs of a range of low to moderate income households and priced so that low and moderate incomes can meet other basic living costs.

In broad terms, 'affordability problems emerge when housing costs increase faster than household incomes' (Yates, 2008: 200), therefore exceeding what families can afford.

In the debate on the causes and consequences of increasing housing costs across different tenures, Yates (2008) claims that, whilst for purchasers housing costs primarily depend upon the evolution of house prices and interest rates, for tenants in the private rental market they are usually associated with circumstances of high demand that push prices up. Altes (2016) notes the relevance of changes in systems of rent control and tenancy law. Whilst rules that protect tenants from rising rents may result in under-investment and the misallocation of housing, the deregulation of rent control and tenant protection (against forced relocation) can lead to over-investment in real-estate and housing renewal, tending to displace sitting tenants and leading to gentrification (see

also Ponzini, 2016). The importance of legal constraints is also emphasized by Gorczyńska (2017) who, in a case study on transformations of the centre of Warsaw, emphasizes the role of the state in generating different ownership structures and controlling future sales of houses to sitting tenants.

Regarding the debate concerning the threshold level for housing affordability, whilst some claim that an affordable rent is one that should not exceed 40% of the net income of a household (Eurostat, 2015), others believe that higher housing costs are more problematic for low-income households because they leave them without adequate resources to meet other needs (food, transportation, health services etc.), defining the threshold using the so-called '30/40 rule'. In other words, a threshold stipulating housing costs greater than or equal to 30% of disposable housing income for the lowest two income quintiles, while for income quintiles 3-5 the threshold is set at 40% or more (Dewilde & De Decker, 2014).

According to Eurostat, in 2015 11.3% of the EU-28 population lived in households that spent more than 40% of their disposable income on housing, with affordability problems being prevalent in Central Eastern and Southern Europe³, and for tenants in the private rental sector (Eurostat, 2015). In Portugal, where the social housing sector is reduced (2%) and the private rental market accommodates around 18% of all Portuguese households, the rate of private rental tenants with housing costs representing more than 40% of their disposable household income was well above the EU-28 average (27%) and saw a more than 17-point increase since 2010, a period of economic crisis when median income values suffered a 5% loss. Problems of housing affordability are especially severe in Porto and Lisbon where, according to the 2011 Census, the rental sector represents 44% and 42% respectively, a share substantially higher than the

³ Source: <http://www.uia-initiative.eu/en/housing> [accessed in 15/10/2017].

national average (20%). The importance of specific policies aimed at the private rented sector and, specifically, at urban renewal or rehabilitation targeted at the inner cities is also higher in Lisbon and Porto because these cities still have a considerable stock of housing characterized by old contracts, low rents, and poor housing conditions, typically accommodating sitting tenants with low economic resources who are therefore more exposed to displacement.

Owing to an abrupt transition from a rent freeze to liberalization of the rental market, and expectations of high profitability associated with tourism, over the last decade housing prices have grown rapidly in Lisbon and Porto (official statistics state that rents in Lisbon and Porto city centres rose 19% and 13% respectively in 2016).

In the debate concerning the menu of policy instruments that influence housing affordability, Gurran and Bramley (2017), who provide a series of international comparative studies that analyse the relationships between housing supply and affordability outcomes (e.g. on the size and quality of the housing stock), claim that, while the main drivers of supply and demand are well understood (housing demand and prices being driven by demographics, incomes, and the availability and cost of credit), there are still elements of uncertainty. For example, on the demand side, the extent to which speculative investment plays a predominant role in the market, creating housing bubbles that as prices rise have a positive rather than a negative feedback effect on demand. On the supply side, the fact that supply changes not only through addition of new buildings but also through conversion and refurbishment. This analysis provides an insight into the challenges in policy design and evaluation in this area.

Urban rehabilitation and governance issues

Problems of urban and housing decay, especially when associated with poverty, social exclusion, and territorial stigmatization, are generally considered to be a complex phenomenon demanding multidimensional and integrated policies. Governments of varying political orientations and ideologies have, however, proposed contrasting approaches to the problem. While left-wing governments have emphasized the importance of a good supply of non-profit housing for all social groups, especially for those unable to achieve acceptable housing conditions by themselves (Skifter-Andersen, 2012), right-wing governments have claimed the benefits of entrepreneurialism and the role of the market in replacing bureaucratic and centralized forms of housing provision and rehabilitation (Brenner, Marcuse & Mayer, 2012). In contexts in which processes of deregulation, liberalization, and state retrenchment (McKee, 2015) have been implemented, the withdrawal of the state in favour of the private sector and the implementation of forms of 'market renewal' (Pugalis, 2016: 54) have raised several issues regarding the use of public money to pursue market interests. For example, Glynn (2012), who notes that 'under neoliberalism, the function of governments becomes the facilitation and protection of the market' (Glynn, 2012: 657), and not the protection of tenants who have relatively few powers, criticizes the overarching strategic framework of market-led initiatives and their social and territorial effects. These processes lead to the displacement of low-income households and the reinforcement of social segregation processes that Pugalis describes as: 'the deepening inequalities between enclaves of the super-rich and those of the extreme poor' (Pugalis, 2016: 59).

The priorities and allocation of public funds in the context of new models of neoliberal urban governance, in which the participation of the community/voluntary sector is non-existent or instrumental and in which political leaders attempt to strengthen

relationships with the private sector, have been heavily criticized in terms of theory and practice. Fuller (2010) and Pugalis (2016) observe that property-led capitalist solutions have marginalized not only community interests but also local knowledge, political visions, and capabilities. As outlined in the introduction, this paper seeks to scrutinize the implementation of a particular model of neoliberal urban rehabilitation in Lisbon and Porto.

Methodology

The empirical research presented in this paper is based on three main sources of information. First, statistical data analysis which was used to establish a background for the different phases of urban rehabilitation policy, and to follow demographic dynamics and affordability trends. Second, qualitative documentary analysis that involved the study of existing documents, such as pieces of legislation that set the legal framework for the operation of SRUs, political documents, executive reports etc. Third, semi-structured face-to-face interviews conducted in Lisbon and Porto at the beginning of 2015 with representatives of local and national institutions involved in policy-making and implementation of SRU actions. Those interviewed included staff and officials working in SRUs (5), in local municipalities (2), and in the central institution responsible for housing policy (2). An outline of their professional roles is presented in Annex 1.

Two interviews were conducted to test the guidelines and, following this preliminary stage, all nine interviews were digitally recorded with the permission of each interviewee, anonymized, and subsequently transcribed. The guidelines were structured around two main groups of questions, one related to issues of governance, the other to issues of housing affordability. Interviewees were asked to assess the operations

developed by SRUs regarding their impacts upon (i) practices of urban governance, namely formal and informal relations between stakeholders within the municipality, across governmental levels, and in the context of public-private partnerships, and (ii) on housing affordability, concerning the impacts of housing rehabilitation on the provision of housing for the less affluent (for example, how local interventions shaped issues of displacement and whether trends of tenurial transformation were associated with housing rehabilitation).

The background of the SRU model of urban rehabilitation

Urban decline in Lisbon and Porto

Whilst the tension between cause and consequence in processes of urban decline is extremely difficult to assess, especially since ‘processes of neighbourhood decline are often set in motion by a chain reaction of a combination of social, economic or physical processes’ (Zwiers et al., 2014: 4), in the case of Portugal the association between housing policy and city centre decline is noticeable. As emphasized by Alves (2017c), the problem of urban decline in historic city centres has been related to a set of heterogeneous and interacting factors. On the one hand, the freezing of rents at very low levels from 1948 onwards in Porto and Lisbon removed incentives for landlords to maintain and rehabilitate their properties, while poor maintenance of old buildings facilitated the exodus of well-off families and an influx of poor and unskilled workers. Thus, as in other countries (Kemp, 2011), the private rental housing sector is still an important provider of accommodation for low-income households, although it is often of poor quality. On the other hand, housing policies, including subsidized loans and tax incentives, favoured the acquisition of housing (owner-occupancy), leading to a major expansion of new construction in suburban areas (urban sprawl to the peripheries),

while efforts at housing rehabilitation remained insufficient in the face of limited funding.

The results of the 2011 Census show that problems of building degradation, ageing population, and vacant buildings are important issues for Porto and Lisbon. Whilst around one million buildings throughout Portugal need repair (4.4% of the total), in Porto and Lisbon this proportion is even higher, corresponding to 6.9% and 7.4% respectively (INE, 2011). The problem of demographic loss and ageing is even more severe in the historic centres of these cities. Between 1991 and 2011, the population of the historic centre of Porto fell by more than 50% to 9334 individuals, while in Lisbon the variation was -34% with around 47,000 inhabitants in 2011 (INE, 2011). Both cities have a proportion of elderly people well above the national average which, considering the weight of low retirement pensions, adds to social problems of poverty related to poor housing conditions.

The national urban rehabilitation policy background

Several studies (Balsas, 2007; Baptista, 2013) use a historical perspective to trace and explain the main phases in the development of housing policy in Portugal vis-à-vis the rehabilitation of the private rented sector and the city centres of Porto and Lisbon, noting that, whilst the list of housing rehabilitation programmes is long, the allocation of resources has been very limited.

As emphasized by Ouwehand and Doff (2013: 115), ‘When we assess a city’s policies we have to be aware of where they come from (path dependency)’, since normative ideas and socio-economic and historical conditions shape the long-term composition of the housing systems. But it is also important to understand the main features of the

political system where these systems are implemented as they affect practices of city governance. In this regard, we should note that:

- (1) Portugal is a highly centralized unitary state (Michalski, 2012) in which a regional level exists only for administrative purposes (Alves, 2017b), remaining subordinate to the central state, while local policies are highly constrained by central state directives, agenda-setting, and decision-making, for example, regarding funding (Silva & Syrett, 2006).
- (2) Portugal has traditionally engaged in low levels of state intervention in housing. Figures on government spending show that levels of state expenditure are very low, equivalent to only 0.1% of GDP in 2015 (FFMS, 2017), and have steadily decreased since 2000 when they represented 0.7% of GDP.
- (3) Political ideology has played a crucial role in supporting owner-occupancy, which is the dominant tenure in Portugal (in 2011, 73% of all persons lived in a privately-owned dwelling). According to the Institute of Housing and Urban Renewal (IHRU), a government-run body responsible for supporting and implementing government policy in the domain of housing, between 1987 and 2011 around three-quarters of all public resources spent in housing were used to support interest rate subsidies on bank loans for construction and purchase of homes whilst housing rehabilitation received only 1.7% of the total funding (IHRU, 2015). Incentives to support the construction and purchase of homes motivated the better off to migrate towards owner occupation in the suburbs, while the less privileged congregated in the least attractive parts of the rental sector.

(4) Analysis of Portuguese spending in the domain of housing rehabilitation reveals that investment in housing rehabilitation was not only very limited but also associated with a complex bureaucracy (Alves, 2017a).

It should be noted that the high percentage of property ownership and a centrally-led housing policy is similar to other southern Europe countries, drawing upon a common context of dictatorships in the second half of the 20th century and late industrialization and urbanization.

Whilst city centre degradation trends have been diagnosed for decades – at least since the drawing up of urban policy documents which supported the implementation of the first European-wide programmes directed at urban development, such as the Urban Initiative in the early 1990s – the policy options seem to have followed the funding scheme criteria designed by European authorities rather than addressing specific issues at the core of urban decline in Portugal, such as housing provision. In the 1990s context of increasing housing dereliction, public space and urban amenities became the focus of public intervention, paving the way for investment opportunities in degraded housing stock, while pro-gentrification policies facilitated the implementation of urban rehabilitation operations. In 2006 a new Urban Lease Act Law was enacted to provide greater flexibility in the renegotiation of open-ended residential leases between private landlords and tenants by phasing out rent control mechanisms for old leases and imposing stricter limits on the possibility of transmitting the contract to first-degree relatives. The law also established that the revision of property values, carried out by the local administration finance offices, would define the increase of old rents. Further legal changes in rent regulation were implemented in 2012. While setting a five-year period of transition from the old (pre-1990) lease contracts to a new regime of rents (free of rent control mechanisms), with an exception for low-income tenants or those with

disabilities, Law 31/2012 expected that full liberalization, accompanied by a new rent subsidy scheme, would come into effect in 2017. The crisis of housing affordability resulting from the liberalization of the rental market has had several adverse consequences for the middle class and the most vulnerable groups. In the meantime, the current left-wing government has increased the transition period by another five years and recently announced several programmes aimed at increasing the provision of ‘affordable’ housing, both for tenants and first-time buyers. Whilst many issues remain unclear, namely how much public funding will be allocated and the timeline for implementation, it is obvious that there is a growing emphasis on new provision of a stock of ‘below-market housing’ primarily through market mechanisms.

Empirical analysis and results

In this section we reflect on the empirical data collected for the purpose of this research (see the prior section on methodology for details). First, we present the framework for the implementation of the SRU model and analyse its policy instruments, regarding the powers conferred by its specific legal framework and regarding the main funding sources available for their actions. Second, we scrutinize the implementation on the ground of SRUs in Porto and Lisbon, taking into consideration: (i) the political context which led to their creation; (ii) the strategic documents which guided their actions, and (iii) the general characteristics and impacts of concrete projects that were carried out. Finally, we discuss the qualitative information provided by interviews with staff and representatives of public entities involved in SRU projects, which have given us valuable insights into both subjective and objective issues that complement the formal evaluation of SRU projects.

Urban Rehabilitation Societies: legal and financial framework

Urban Rehabilitation Societies are an institutional arrangement based on the premise that local authorities need a lighter structure of governance and – if justified – a partnership with national authorities and private actors to tackle the rehabilitation of urban centres. This approach is not new in urban public policy (see Baptista, 2013), but for the first time the central role has been given to the municipalities.

The Urban Rehabilitation Law (legal decree no. 103/2004) created two institutional models for these societies, one in which the municipalities hold all the capital, and another in which societies obtain capital from the municipality and the central state, the latter made available by IHRU. The second model was implemented only in Porto, Coimbra, and Viseu, all of which remain active to date. Interest in the municipal initiative model was more widespread, but many SRUs were dismantled during this period, as local authorities struggled with implementation. There were two reasons for this. First, the central government's imposition of budget constraints and regulations forced municipalities to incorporate the deficits and bank loans of municipally owned companies, and second, in 2012 the approval of legislation that stipulates the end of municipal companies that are not financially sustainable.

As local agencies, SRUs are meant to work in close cooperation with municipalities and the central state, but they enjoy substantial freedom to define their strategy. On the one hand, the legislation attributes to either SRUs or municipalities the competence to rehabilitate within the priority areas of intervention delimited by them (the so-called Urban Rehabilitation Areas – ARU in the Portuguese acronym). On the other hand, the central state has not defined the substantive issues of the strategic documents that guide intervention on the ground, therefore transferring the responsibility of coordinating and

ranking the various goals of urban rehabilitation from the strategic to the operational stages.

SRUs have wide legal powers, namely to expropriate or force the sale of buildings that are in a poor state of repair with the aim of promoting their rehabilitation. However, the law stipulates that such power should be used only when all other options have been exhausted, as it is clearly stated that the role of the SRU is primarily to enforce the duty to perform repairs.

On the other hand, the non-profit corporate status of the SRU model makes it easier to employ staff and contract commercial loans, and to implement faster licencing procedures, allegedly improving the cost effectiveness of urban rehabilitation by the private sector.

Changes in the urban rehabilitation laws in 2009 and 2012 introduced significant amendments to the SRU's instruments of action. Funding for rehabilitation of housing to be used by private owners was drastically reduced and replaced by tax reductions and tax benefits. The 2009 amendment introduced the possibility of municipalities defining Urban Rehabilitation Areas where the owners would have immediate access to these tax benefits and to financial and fiscal incentives even if there was no official intervention strategy. It is worth noting that, whilst, in an effort to maximize the use of this instrument, the municipality of Lisbon has defined the 'Urban Rehabilitation Area' as nearly all of the municipality, the municipality of Porto delimited the historic centre as the main area of urban rehabilitation.

Regarding the funding schemes available for SRUs in this period, and specifically related to urban rehabilitation operations, the main programmes are identified in Table 1. The European Bank of Investment (EIB) has been one of the most relevant funding sources, namely through the first credit line to be managed by IHRU, which was signed

in 2007. In 2008 the Portuguese authorities and the EIB signed a Memorandum of Understanding for the application of the Joint European Support for Sustainable Investment in City Areas (JESSICA), which was deployed for the country's structural funding programme (ERDF) for 2007-2013. This instrument funded municipalities, SRU, banks, investment funds, and private entities involved in urban regeneration projects. Also, during the period 2009-2013, the national programme 'Partnerships for Urban Regeneration' operationalized an integrated strategy through initiatives that were directed to support urban rehabilitation in different types of area – historic centres, critical neighbourhoods, and waterfronts – requiring the involvement of local stakeholders.

In 2013 a new financial instrument using funds from the EIB was launched by IHRU. The programme, known as Rehabilitate to Rent,⁴ is aimed at the rehabilitation of buildings totally or partially occupied by sitting tenants who benefit from old contracts associated with low rents. It has a budget of around €50 million and aims to induce both housing rehabilitation and affordable rents. The latest instrument deployed, the IFFRU 2020, which was effectively launched on the ground only in 2017, has a substantially higher capacity, but includes no positive discrimination of housing or affordability criteria.

Table 1. Main SRU funding schemes from 2005 to 2017

It should be noted that access to funding from both commercial banks and the national budget has been very difficult in Portugal during and after the 2008-2009 global financial crisis. Besides, owing to austerity measures from 2009 onwards, tight debt controls were implemented in municipalities and a rule enforcing financial sustainability for municipal companies was put into practice.

⁴ Our translation, originally *Reabilitar para Arrendar*.

The implementation of the SRU in Lisbon

In 2004, immediately following the publication of the Urban Rehabilitation Law, the municipality of Lisbon decided to set up three SRUs in different districts of the city, that is, Lisboa Oriental SRU in the east, Baixa Pombalina SRU in the historic centre, and Lisboa Ocidental SRU in the west (Costa, 2010: 4001). This option for different SRUs in the same municipality was not taken up by any other municipality and, in practice, it delivered weak structures in terms of technical staff and range of competency. Key instruments such as national rehabilitation funding programmes, approval of private rehabilitation works, and detailed urban planning were kept under direct control of the municipality, and a city-wide programme of enforced building repairs was put in practice at the same time across the city which was not bounded by the perimeters of the SRU (see Craveiro, 2004: 233-234 for details).

After a political shift in the municipality, in 2009 urban rehabilitation policy was again revised and all SRUs except for Lisboa Ocidental were closed down by the municipality. The municipal strategy document for the period 2011-2024 (Câmara Municipal de Lisboa, 2010) justifies this decision by citing the alleged lack of effectiveness of SRUs with the exception of Lisboa Ocidental SRU which was the only institution with approved strategic documents at the time.

Lisboa Ocidental SRU is located outside the core historic centre, in a middle-class area, near important national monuments built between the 16th and 19th centuries. It targets a small area of intervention (0.8 km² and 1300 buildings) and follows a strategy defined immediately after its constitution in December 2004, which has not been reviewed since then. In generic terms, Lisboa Ocidental SRU defines as its main goals to support and guide urban rehabilitation and foster long-term attractiveness, distinguishing two

different typologies of territory: (i) Consolidated Area, in which significant changes in construction volume are not envisioned, and (ii) Area to Be Planned, where there is still vacant land. Nevertheless, Lisboa Ocidental SRU focuses upon the Consolidated Area. As for implementation strategies, it intervenes directly in both public space and SRU/municipal buildings and places strong emphasis on promoting rehabilitation by owners, who are predominantly local residents or small-scale investors.

The approved strategic documents for each intervention unit⁵ are mere inventories of the current situation in terms of housing conditions and of the need for intervention in the buildings and public spaces, rather than strategic documents that articulate an integrated vision for the future of the area. There is no reference to issues of forced eviction, tenurial transformation associated with housing rehabilitation, or any other dimensions of socio-economic change. The documents also do not explain the expected social and economic outcomes and the main principles that should guide the transformation of the area regarding housing and urban rehabilitation policies.

By the end of 2014, Lisboa Ocidental SRU had directly rehabilitated 17 buildings and approved rehabilitation work for 279 other privately-owned buildings. Public space interventions – developed through operations in groups of streets located both in the residential and the tourist area of Belém – accounted for more than half of accumulated SRU investment at that time (54%) (SRU Lisboa Ocidental, Plano de Actividades 2015, October 2014). It is expected that during 2017 all the projects funded by the EIB loan would be concluded, a total of 20 buildings and 49 dwellings.

⁵ All approved strategic documents are available at <http://www.lisboaocidentalsru.pt/default.aspx?module=ArtigoDisplay&ID=50&substateactive=16>.

(a) Housing building in Travessa Paulo Martins



(b) Public space of Largo da Paz.



Figure 1. Rehabilitation operations by Lisboa Ocidental SRU

It is worth noting that the Municipality of Lisbon has been particularly active in the rehabilitation of other areas, in particular in the historic centre. Through a bid for the Partnerships for Urban Regeneration funding instrument, it developed a large-scale integrated intervention project in the Mouraria neighbourhood, in cooperation with a large number of local actors (namely, local NGOs), enabling the rehabilitation of public space, rehabilitation of two buildings for social/public use, and a large number of immaterial social, cultural, and environmental actions. This project represented a total investment of €7.6 million, 3.5 million of which was provided by EU Cohesion Funds and leveraged a strong rehabilitation trend in one of the most dilapidated areas of the city centre, which is now under strong gentrification pressure. Due to its location next to the monumental area, the Mouraria neighbourhood has attracted investment in both tourist accommodation and large rehabilitation operations (where whole quarters are renovated for luxury housing) which has created strong resistance from local residents and NGOs and has forced the municipality to step in and negotiate with investors.⁶

⁶ For more information, see: <https://www.publico.pt/2017/08/08/loc.al/noticia/moradores-da-mouraria-em-lisboa-vaio-poder-continuar-nas-suas-casas-1781694>.

The implementation of SRUs in Porto

Porto Vivo SRU was set up in November 2004, only a few months after the approval of the legal framework for these societies. It was one of only three SRUs with central state participation in its capital. State support for the rehabilitation of Porto's historic centre has been granted before, both through direct management – by the Committee for the Urban Renovation of the Ribeira/Barredo Area between 1974 and 1982 – and through indirect management, as in the case of European Capital of Culture (2001).

The overall strategy of Porto Vivo SRU was defined in 2005 in the Masterplan of Porto Vivo SRU. This document reiterates the intention to favour the rehabilitation and revitalization of the Historic Centre of Porto, classified by UNESCO as a World Heritage Site in 1996, with a total of 1800 buildings, about 34% of which were in poor or very poor condition and requiring profound intervention, while another 51% required small and medium-scale repairs (INE, 2011). Several vectors of strategic development are identified, such as requalification for the repopulation of the historic centre, economic revitalization through economic activities related to tourism, services, culture and leisure, and the promotion of social cohesion via the development of socially acceptable solutions for low-income families. Porto Vivo SRU also identified anchor projects (priority intervention blocks) that would allegedly induce rehabilitation dynamics in neighbouring buildings/blocks. Porto Vivo SRU carried out surveys for each area of intervention and dwellings, and information such as size, occupancy, tenures, housing conditions, rehabilitation needs, and vacant plots became available. For each area, a strategic document was drafted with specifications for funding arrangements, types of partnership, purposes and contents of intervention etc. Over the last 10 years, different strategies have come to light as a result of the intervention by Porto Vivo SRU.

- (1) Direct rehabilitation of derelict buildings owned by the SRU. Following rehabilitation, dwellings had two different destinations. First, purchase: Porto Vivo SRU attempted to sell them to secure funding for the requalification of other dilapidated buildings. Owing to the impact of the global financial crisis and the economic downturn, many dwellings have never been sold (dwellings requalified in 2008 which have been vacant since then are still advertised e.g. in Corpo da Guarda quarter at €1,877 / m²). Second, the rental market: a €6M loan, granted by the European Investment Bank (under the Rehabilitate to Rent programme) enabled the rehabilitation of several buildings. In January 2017 Porto Vivo SRU launched the tender for the lease of 28 residential and 11 commercial units with rents below the market rate. The dwellings are all located in Morro da Sé, a neighbourhood in the historic centre of Porto, that contains buildings of historic, cultural, and architectural interest but has a bad reputation owing to the concentration of degraded and vacant buildings (due to processes of expropriation during the 1990s), in which public space was appropriated by drug dealers and users.
- (2) Urban Rehabilitation contracts with private partners (e.g. Carlos Alberto intervention) or real-estate funds (e.g. Cardosas and D. João II operations). This public-private partnership implementation model included actions of Porto Vivo SRU such as: expropriation of buildings, rehousing of sitting tenants, demolition, cleaning etc. For example, the Cardosas operation involved a systematic transformation of a quarter with the demolition of buildings inside that quarter, the construction of a costly underground parking lot for 355 cars, a new plaza, and the construction of a luxury condominium of 50 housing units and 19 commercial units.

(3) The Mouzinho-Flores Operation. Mouzinho da Silveira and Flores are contiguous streets in the Cardosas operation that were funded by national and structural funds under the Partnerships for Urban Regeneration programme. Between 2009 and 2014, a total of €6.5M was invested in the physical rehabilitation of these streets, the requalification of several buildings in the area, and social cohesion measures.



Figure 2. Rehabilitation operations by Porto Vivo SRU

SRU intervention: interview results

In the following pages, we present the main findings of the interviews. The data collected was organized according to the two main research questions of the paper, as described in the methodology section.

Regarding the issue of governance, we scrutinize the local implementation of the SRU model by focusing upon the vertical coordination of public institutions and horizontal coordination between the public and private spheres, bearing in mind that the SRU model was created as a vehicle for the delivery of private-public partnerships, therefore could have a strong potential impact on local governance.

Concerning housing affordability, we look at the contribution of SRU strategies to the provision of affordable housing and the perceived impacts of housing rehabilitation operations on housing market prices, housing tenure transformation, and the socio-economic profile of new residents.

Governance issues of SRU implementation

Regarding vertical coordination among public sector organizations, interviews reveal that the SRU institutional framework has not contributed to the creation of a well-articulated and collective strategic vision. Even in the case of Porto, where the central state held the majority of SRU capital, the definition of the strategy followed top-down methodologies, being decided by the mayor and president of the SRU and implemented by the technical staff. Interviewees also agreed that the definition of strategies and approaches to urban renewal is a task for local governments. As stated by a Porto Vivo SRU representative:

The [central] State should participate in the SRU. Participate and be active and cooperative [...] in terms of policy, I have no doubt that we must follow and adapt to municipal policy for the planning of each municipality's territory.

However, central government officials criticized local actors for their lack of accountability regarding investment options or the rationality of the more onerous investments in a number of quarters. The following excerpt from an interview with one IHRU representative illustrates the lack of collaboration that existed over time between Porto Vivo SRU and IHRU:

The SRU that I found was very attached to the municipality. Although the Institute [IHRU] was the main owner, with 60%, and the municipality had 40%,

it was very aligned with the municipality, in fact. [...] When things arrive at the owner's desk, they already come with a 'package.'⁷

In Porto an open conflict related to issues of accountability and expenses, first between SRU and the municipality and later between the Porto institutions and the state, played out in the media. Tension worsened when, during the period of heavy cutbacks in spending imposed by the Troika (the International Monetary Fund, the European Central Bank, and the European Commission) Porto Vivo SRU showed unexpected negative financial results in 2010 and 2011. When these results went public, the central government questioned management decisions related to costly rehabilitation operations whose outputs in urban and housing rehabilitation were housing condominiums that only the upper-middle class could afford. Owing to this conflict, the transfer of funds from the central state to the SRU was blocked and by the end of 2012 the company had a €2.4 million deficit. Following negotiations, a memorandum of understanding was signed in May 2014 by central and local state officials defining strict conditions for funding during a five-year period, after which IHRU-owned stocks allegedly will be transferred at a symbolic cost to the municipality (€1). At the time of writing, the state maintains the view that all SRUs should become 100% municipal. However, legal constraints have emerged, as the court which regulates financial matters for the central and the local state opposed the memorandum. Therefore, the financial sustainability and future of Porto Vivo SRU remains uncertain.

In Lisbon, where there has been total subordination to the policy options of the municipality, the lack of participation by the central state is not viewed by SRU officials as a limitation to vertical cooperation. As stated by one interviewee, as a governance structure separate from the municipality, Lisboa Ocidental SRU relates to the

⁷ An idiomatic expression meaning that all matters were decided in advance.

municipalities through the political sphere, with few links existing between related technical services of both institutions. For example, the creation of three SRUs in Lisbon was attributed in interviews to a decision by the mayor which was viewed with distrust by municipal staff owing to institutional complexity, the extra costs that would be incurred, and the fear of giving away power to a less scrutinized stakeholder.

In the case of Porto, various interviewees attested that the municipality pushed for the creation of an SRU with central government participation and that the transfer of all competencies related to urban rehabilitation in the city centre was a decision taken at the top political level. The strong alignment between municipality and Porto Vivo SRU was shaken by the election of a new mayor in 2013. The new municipal authorities were very critical of SRU strategies and interventions, which was apparent throughout the election campaign. At the time of the interviews, municipality officials strongly objected to the SRU's alleged lack of transparency and even stated that management information was not passed to the municipality.

In Porto the SRU and municipality are two stakeholders with similar power (the SRU prevailing to some extent owing to its autonomy). In Lisbon the SRU is part of a mode of governance of rehabilitation policy in which the municipality is clearly dominant.

The Lisboa Ocidental SRU was created prior to the current strategy for urban rehabilitation and, whilst evaluation of its work by the interviewees is very positive, there seems to be no intention of replicating the model. According to a member of the municipality staff:

It would be a return to the past, because nowadays the action of the municipality is totally different. All the area is a rehabilitation area and we cannot have decentralized units everywhere. [...] It is unthinkable.

Focusing upon horizontal coordination between the public and private sphere, it is worth noting that for both SRUs the main aim was to attract private investment for urban rehabilitation areas. In the words of an official from the Porto Vivo SRU, the SRU plays a neutral role in the implementation of the projects: ‘it serves as a mere instrument to expropriate the properties which were not in the private partners’ possession so that he could execute the works.’

Statements from Porto Vivo SRU representatives show that there is also great flexibility regarding strategies and goals for the intervention areas, in favour of private investors’ interests:

The owner can bring ideas into the project or an investor can appear who is not the original owner and has a given project in mind and all this is flexible. We have changed various situations according to market dynamics.

The risks of these large-scale operations with strong private investor involvement are well represented in the Cardosas operation, in which the costs incurred by the SRU were underestimated and housing sales did not cover them. Under fire from both central state and municipality, Porto Vivo SRU officials state that their strategy to avoid this risk is to choose smaller projects and define partnership conditions with greater caution, the overall aim being to improve financial sustainability.

From the start, in Lisboa Ocidental SRU there was a preference for small and manageable housing projects aimed at local owners. SRU staff mentioned that intervention units were deliberately small so that strategic documents and intervention management was simplified. Representatives of Lisboa Ocidental SRU also stated that this small-scale approach allowed for flexible solutions and close scrutiny of the processes, giving concrete examples: ‘we had one building that we rehabilitated

directly, and the tenant re-located with his own means. He found a solution, we did everything in agreement, we rehabilitated and then he returned.’

Housing affordability, tenure changes, and socio-economic composition

Interviewees unanimously claimed that the main purpose of the SRU is not housing provision but rather the rehabilitation of public spaces and public buildings, and the facilitation of private investment in rehabilitation by cutting back bureaucracy and supporting projects (for example, the temporary rehousing of sitting tenants).

The arguments in favour of focusing upon public space to the detriment of an active housing policy drew upon the same reasoning across all interviews, by combining issues of jurisdiction (the public space is an arena where public intervention is crucial while rehabilitation is a legal obligation of all owners), and practical considerations (it is cheaper and easier to implement). In the words of an SRU representative:

Public space is the priority, because public space is what we do alone, private actors don't rehabilitate public space. It is up to the state to have a rehabilitated and well-maintained public space [...] building rehabilitation should be residual and limited to what private actors don't do.

Interviewees also pointed out the clear division of tasks that has existed concerning housing. SRUs are responsible for promoting rehabilitation and, when formal contracts of rehabilitation are signed with private sector actors, municipal services are responsible for rehousing these families on social housing estates. At the time of writing, Porto Vivo SRU has announced that 28 apartments will be available for rent in the Morro da Sé neighbourhood, stating that priority will be given to landlords who own real-estate in the historic centre or in intervention units with approved strategic documents for the relocation of their tenants during rehabilitation works. Whilst it is still unclear who will

have access to apartments, it is apparent that the SRU is not bringing back low-income families who were displaced from the city centre in previous decades and relocated in peripheral social housing estates. In the Lisboa Ocidental SRU area, directly promoted rehabilitation was mainly implemented in vacant buildings, with very few temporary relocations.

When reviewing the structure of usage in rehabilitated areas, interviewees pointed out the positive impact of SRU activities on attracting investment and contributing to the growth of commerce and tourism. All in all, they recognized a rise in land value and, gradually, the transformation of the social profile of inhabitants and usage in the city centre. The widespread perception of strong growth in tourism, especially in the Porto Vivo SRU area, is arguably associated with speculative rent values. The concentration of public investment in the area near the main train station, S. Bento, as well as the growing supply of hotels and hostels in the historic centre, generated an increase in real-estate transaction prices (nowadays at around €2600 / m²). To place such values in context, it should be noted that the average monthly earnings of a Portuguese worker in 2015 was €1096.70 (Pordata, 2017).

Regarding investment flows in the intervention area, the prevailing view of Porto Vivo SRU staff is that tourism is a catalyst of rehabilitation which cannot be dismissed, even when an expected increase raises political concerns.

In terms of change to the housing stock in rehabilitated buildings, both SRUs state that they aim to create a cycle of investment in commercial housing leveraged by public actors. This approach has clearly benefitted new dynamics in real-estate investment, most of them generated by external investors who have transformed the local housing markets. As a Porto Vivo SRU representative stated:

owners are the first to thank for the existence of Porto Vivo SRU [...] We have great demand from people who had never been here, who never owned a building here, those are the promoters who are appearing, many of whom are foreigners who want to invest here.

Housing directly rehabilitated by SRUs and provided for rent in the private sector was not directed at specific groups (according to age, family income, or prior residency in a given area). As a result, it did not contribute to solving problems of affordability in the area as rent values were only slightly below the area's market prices, which supports the claim that the SRU's commitment to affordability was insufficient.

Discussion

Projects of urban requalification are highly complex as they involve multiple actors and interests to counteract processes of urban decline. In the cases of Lisbon and Porto, processes of physical, economic, and social decline of historic districts have been inseparable from the freezing of rents at very low levels, removing incentives for landlords to maintain and rehabilitate their properties. All of which have led to poor housing conditions for sitting tenants and urban sprawl.

Statistical data demonstrates that representatives of the public sector at various levels of decision-making have been unable to halt the long-term demographic decline and ageing of Lisbon and Porto, especially in their historic centres. As mentioned, the decline in the population of the historic centres of these cities and its physical degradation demonstrate the need for more collaboration with the private sector and landowners, such as in the facilitation of building approvals and fiscal and financial incentives.

In a context of limited funding for housing policies and urban rehabilitation (Alves, 2016), and of increasing pressure by property developers, business elites, and investors to accommodate tourism-related activities rather than permanent housing, the creation of the SRU model in 2004 led to the formation of local governance regimes that supported pro-growth strategies and real-estate development (Navarro & Rodríguez-García, 2015).

While the economic recession, which severely affected Portugal from 2007 to 2015, provided a legitimate alibi for austerity policies (Pugalis, 2016), the neoliberal narrative, grounded on the virtues of the market, provided the framework for the implementation of market-oriented strategies. The state-sponsored strategy based on de-regulation and support for private sector-led projects was operationalized by the SRU and facilitated the expropriation of buildings, the displacement of sitting tenants, and a city marketing operation to promote commercially-focused housing rehabilitation.

Within a society highly polarized by economic and political inequalities, the new practices of entrepreneurial governance did not tackle problems of housing affordability but, by fostering real-estate speculation, increased socio-spatial polarization, especially in Porto, leading to the concentration of tourism activities in specific parts of the city and the relocation of a population with fewer economic and educational resources elsewhere (Alves, 2017c).

The use of public resources to promote costly rehabilitation operations and produce luxury housing condominiums that only the upper-middle class can afford has raised criticisms and concerns regarding the lack of transparency and de-regulation enabled by market-oriented development practices. More recently, the housing boom has attracted strong media attention which now increasingly focuses upon the unsustainable nature of the growth in housing prices.

Conclusion

The aim of this paper is to fill a gap in empirical research into the role of new urban rehabilitation agencies (SRUs), based on the cases of Porto and Lisbon. The paper contributes to understanding how this new model, driven by entrepreneurial public practices and a market-oriented rehabilitation approach have affected governance practices in both cities, and increased housing prices, raising concerns about the needs of a less affluent local population affected by the interventions.

In terms of the governance impact, the empirical evidence presented in this paper shows that the lack of cooperation between these new institutions and formal government structures has led to a redistribution of powers, competencies, and responsibilities without adequate mechanisms or instruments to enforce accountability and to measure how objectives are being met. In the name of greater flexibility and independence, these new institutions, emerging from cooperation between local and central actors, have actively supported private actors' interests and, in the context of formal partnerships not involving third sector partners, have adapted their strategies to the profit-driven goals of the private sector. However, despite the rhetoric of market-led investment, the leading role played by the SRU in several systematic operations assumed risks that produced deficits for the public sector, while generating lucrative results for private investors. By targeting costly developments in geographically circumscribed areas, allegedly to generate positive trickle-down effects in neighbouring areas, the actions of SRUs have led to increased real-estate prices in areas suitable for tourism, which has resulted in speculative housing prices. Evidence shows that rent markets are becoming unsustainable for the middle-class despite the definition of 're-inhabiting' as a priority

goal of intervention by both the municipalities of Lisbon and Porto and the Portuguese government (IHRU, 2015).

As emphasized by Mendes and Carmo (2016), Tulumello (2016), and Alves (2017c), urban policy in Lisbon and Porto demonstrate a public sector in favour of private investment and privatization of council housing stock, which is driving real-estate refurbishment towards big investors and the tourism industry.

It is crucial that housing and rehabilitation policies in Portugal set more progressive and redistributive agendas, taking into account issues of financial sustainability and housing affordability. Instruments such as setting an upper limit for building costs and implementing a cost-related formula to set rents would be interesting options while housing allowances would enable tenants to afford refurbished dwellings.

The current cycle of expansion in property development and housing markets is arguably generating increased revenues for private investors, but there is little sign that public authorities are using the increasing tax revenues to address affordability policy goals.

In this context, it is important to emphasize three general recommendations drawn from the comparative analysis of these two case studies. First, housing and rehabilitation policies should not support real-estate speculation, gentrification, and the displacement of tenants but should rather focus upon the eradication of poor housing by non-profit housing associations. Second, the public sector should better regulate housing and rehabilitation policies that involve price instruments (namely taxation and subsidies) and infrastructure provision, requiring in each operation a mix of housing types/tenures and of families (in respect of income, age structures, composition etc.). And, finally, as has been practised in other countries (Karadimitriou et al., 2013), in exchange for securing sites and obtaining planning and statutory consents, public officials should

encourage private and non-profit investors to employ a percentage of their investment to produce affordable housing for middle and low-income populations. The delivery of non-market housing in operations of housing requalification would be beneficial in a buoyant market as in the cases of Porto and Lisbon where price boom/bust cycles have increased social and spatial inequality.

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