

Rehabilitation for residential use in Lisbon'17 Supply and legal regimes for foreigners

Legal and Tax Regimes for Foreigners

Portugal currently offers two attractive legal/tax regimes for foreigners who wish to buy a property in the country and live here. Get to know them.

Tax regime for non-habitual residents

What is the Non-Habitual Resident Regime?

It's a personal Income tax system for the non-regular resident, created with the purpose of attracting to Portugal nonresident professionals qualified for activities with high added value intellectual or industrial propriety or know-how, as well as beneficiaries of pension schemes granted abroad. The regime may exempt some foreign income from Portuguese Personal Income Tax (subject to certain conditions) and reduces the tax burden on Portuguese income.

For how long is it valid?

For a 10-year period.

What are the advantages?

For a period of 10 years, taxation related to IRS (personal income tax) on labour income in Portugal is at a fixed rate of 20%; and no double taxation for pension incomes or for employment and self-employment income obtained abroad

What are the requirements to qualify as Non-Habitual Resident?

(a) To be tax resident under Portuguese domestic legislation; and (b) to not have been a Portuguese tax resident in the five years prior to taking up residence in Portugal.

How to acquire the Portuguese Tax Residency?

(a) Staying for more than 183 days in the Portuguese territory, whether these days are consecutive or not; (b) If staying for a shorter period, having in the Portuguese territory a dwelling under circumstances that lead to the presumption of an intention to hold and occupy it as a place of habitual abode (we usually do not recommend trying to obtain a Portuguese tax residence based on this requirement due to possible conflicts with the previous tax residence country, and partial residency issues);

How to apply to the Non-Habitual Resident Status?

In order to obtain the non-habitual resident status, the beneficiary must file a requirement to the Portuguese tax authorities (until March 31st of the year following which the beneficiary becomes a Portuguese tax resident).

Once obtained, what are the obligations?

(a) In each of the 10 years of the non-habitual resident status, to be considered as a Portuguese tax resident (i.e. meeting at least one of the requirements mentioned above); (b) To file a Portuguese tax return, for each tax year, until May 31st.

What are the taxes applied?

(1) Portuguese source income | Portuguese sourced employment

and self-employment income shall be liable to a special 20% flat rate if derived from high value added activities of scientific, artistic or technical character performed in Portugal, as listed in a Ministerial Order. Examples: senior company personnel and board members, architects, engineers, researchers. Other types of domestic income are liable to tax according to the rules applicable to ordinary tax residents.

(2) Foreign source income – (2.1) *Employment Income* -

Employment income received by a NHR shall be tax exempt from PIT provided that it is either: (a) Effectively taxed in the source State according to the applicable Tax Treaty; or, (b) If no treaty is applicable, the income is effectively taxed in the source State and not deemed as derived in Portugal in accordance with Portuguese sourcing rules. (2.2) *Other income* - Foreign source passive income (e.g. dividends, royalties, interest, investment and rental income) together with self-employment and professional income derived from high value added activities, shall be tax exempt from PIT if: (a) The income may be liable to tax in the country of source, according to the applicable Tax Treaty or according to the OECD Model Tax Convention; and (b) Is not deemed derived in Portugal in accordance with Portuguese sourcing rules nor deemed obtained in a tax haven. (2.3) *Foreign source pensions* - Foreign sourced occupational pensions shall benefit from a tax exemption if they are effectively taxed in the source country in accordance with the provisions of a tax treaty or are deemed not to be derived in Portugal in accordance with the Portuguese sourcing rules.

“Golden Visa” – residence permit for investment activities (ARI)

What is the Residence Permit for Investment Programme?

This legal programme allows third country nationals to apply for a temporary residence permit to conduct an investment activity with residence visa waiver to enter national territory.

What are the advantages?

(a) Resident visa exemption to enter Portugal; (b) Living and working in Portugal, on condition that they stay in Portugal for a period of 7 or more days, in the first year, and 14 or more days, in the subsequent years; (c) Visa exemption for travelling within the Schengen Area; (d) Family reunification; (e) Applying for permanent residence (after 5 years and in the terms and conditions set out by the legislation in force); (f) Applying for Portuguese citizenship (after 6 years and in the terms and conditions set out by the legislation in force).

Who can be a beneficiary of ARI?

All third country citizens who conduct an investment activity, as an individual businessperson or through a company set up in Portugal or in another EU Member State and who, in addition, is stably settled in Portugal, provided that these citizens fulfil the quantitative requirements and the time requirements set out by the relevant legislation. The ARI legal mechanism does



not apply to individuals with Portuguese citizenship and to EU and EEE citizens.

What are the quantitative requirements to apply?

One of the following conditions has to be met in national territory: (1) Capital transfer with a value equal to or above €1,000,000; (2) Creation of, at least, 10 job positions; (3) Purchase of real estate property with a value equal to or above €500,000; (4) Purchase of real estate property, with construction dating back more than 30 years or located in urban regeneration areas, for refurbishing, for a total value equal to or above €350,000; (5) Capital transfer with a value equal to or above €350,000 for investing in scientific and technological; (6) Capital transfer with a value equal to or above €250,000 for investing in artistic output or supporting the arts, for reconstruction or refurbishment of the national heritage; (7) Capital transfer with a value equal to or above €500,000, for purchasing shares in investment funds or in venture capital geared to capitalize small and medium companies that, in turn, must present a feasible capitalization plan.

Are there any other requirements?

Yes. (1) Time Requirements: The minimum time requirement for maintaining the investment is five (5) years, from the date of issuance of the Residence Permit. (2) Cautionary measures and documents: All of those interested in obtaining ARI are, cumulatively, subject to a number of cautionary measures, whereby they may not have been convicted of an offense punishable in Portugal with penalty involving deprivation of liberty of more than one year; banned from entering national territory, following expulsion from the country; had an alert in their name issued in SIS (listed person); had an alert in their name issued in SEF's Integrated System. All of those interested in obtaining ARI are, cumulatively, subject to a number of document requisites, including in terms of passport, Visas, criminal records or health insurance, amongst others. Also in order to prove the quantitative requirements, investors shall deliver the documents in accordance to the type of investment made.

As ARI holder, what family members may benefit from this same scheme?

(1) Conventional relatives: Spouse; children (both minors and dependants children of full age); First degree dependent ascendants (parents) and Minor siblings. (2) Relatives resulting from non-marital partnership: Life partner and Minor, single or incapacitated children.

When may you apply for family reunification?

It can be applied for at the same time as the ARI title, or at a later stage, according to the preference of the investor. In any case, it is always dependent on the decision on the application of ARI. It can be applied for at a Regional Directorate or Delegation of the Immigration and Borders Service (SEF) from your area of residence.

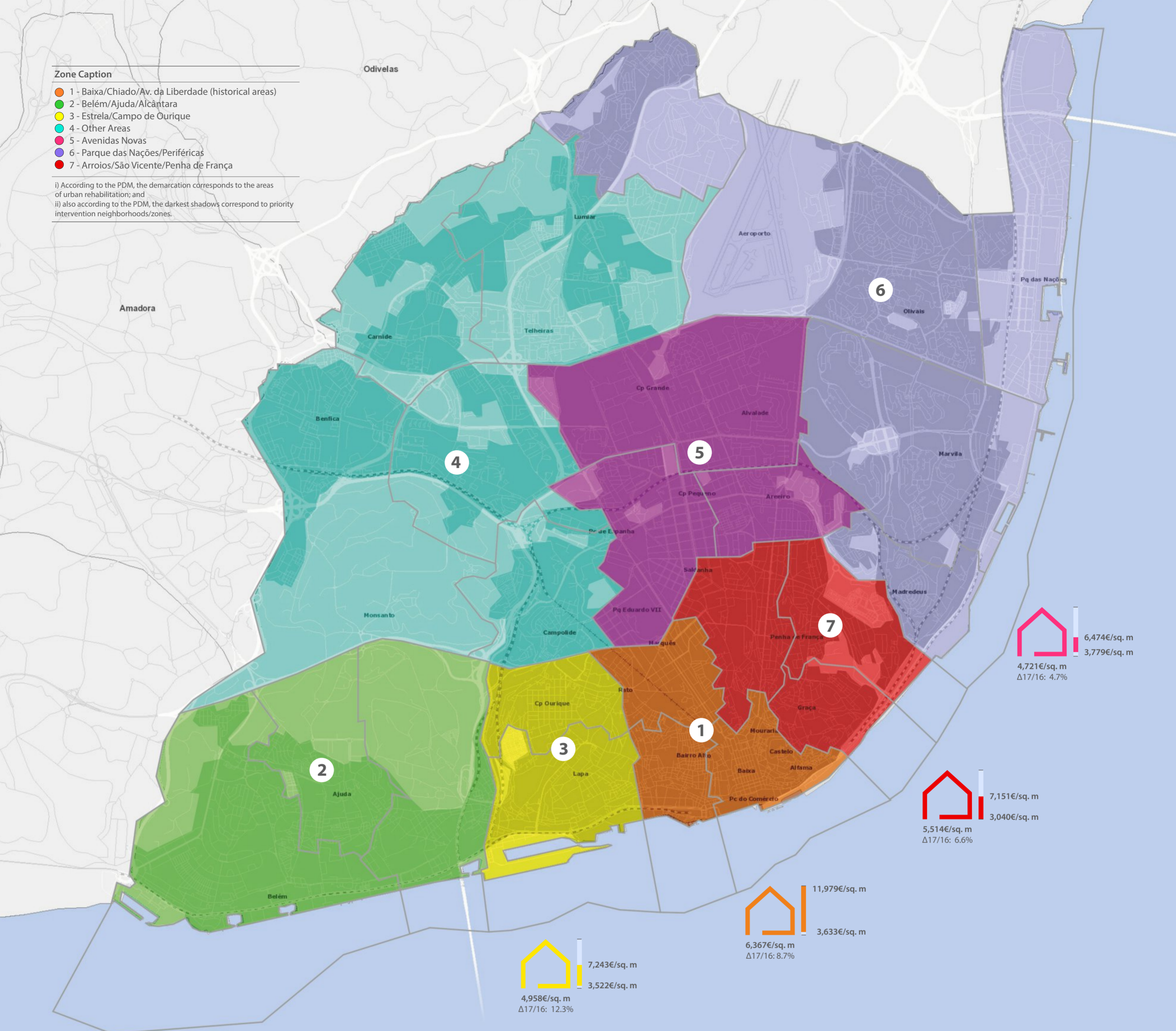
Final Note: this information is not intended to be a substitute for consulting the applicable legislation.

Investment in residential rehabilitation projects in Lisbon should continue to grow this year, especially the ones targeting premium segments.

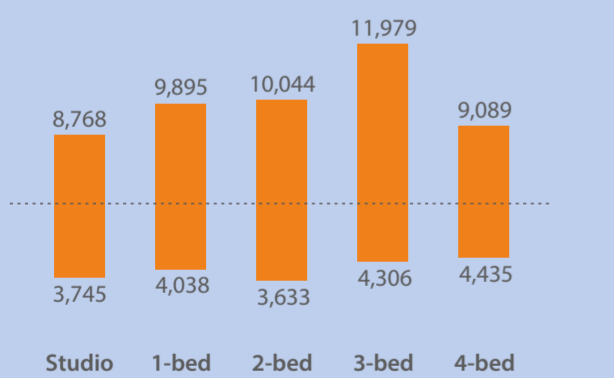
Zone Caption

- 1 - Baixa/Chiado/Av. da Liberdade (historical areas)
- 2 - Belém/Ajuda/Alcântara
- 3 - Estrela/Campo de Ourique
- 4 - Other Areas
- 5 - Avenidas Novas
- 6 - Parque das Nações/Periféricas
- 7 - Arroios/São Vicente/Penha de França

i) According to the PDM, the demarcation corresponds to the areas of urban rehabilitation; and
 ii) also according to the PDM, the darkest shadows correspond to priority intervention neighborhoods/zones.



ZONE 1
 Baixa/Chiado/Av. da Liberdade – Historical Areas
 Average asking price: 6,367 €/sq. m



It remains as the most expensive zone for this type of product in Lisbon (6,367€/sq. m), also concentrating the bulk of the supply currently being marketed (71%).

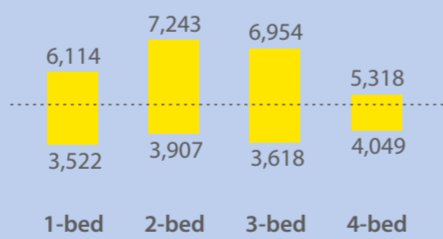
Compared to 2016, it shows an appreciation of 8.7% of the average asking price and presents a similar weight in total supply (67% in 2016).

Average asking price in this area is about 35% to 16% above the other analysed areas.

1-Bedroom (39%) and 2-bedroom (34%) apartments are the dominant types of products in this area, although this is the only zone that offers the most diversified supply, comprising from studio to 4-bedroom apartments.

The area has the highest average asking prices in the different apartment types, ranging from 5,938€/sq. m (studio apartments) to 7,054€/sq. m (3-bedroom apartments).

ZONE 3
 Estrela/Campo de Ourique
 Average Asking Price: 4,958 €/sq. m



This area concentrates about 9% of the supply (8% in 2016) and presents an average asking price for rehabilitated residential units of 4,958 €/sq. m.

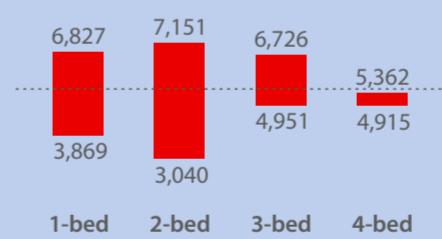
Within the supply, 1-bedroom (26%), 2-bedroom (25%) and 3-bedroom (20%) apartments are the preferred units, although 4-bedroom apartments also have a significant weight (13%).

This was the area where asking prices showed the strongest rise compared with 2016 (+12.3%).

Compared with the most expensive zone (1), the average asking price in this zone shows a gap of 28%.

Average values in the different apartments types range from 4,853€/sq. m in 1-bedroom apartments to 5,098 €/sq. m for 2-bedroom apartments.

ZONE 5
 Avenidas Novas
 Average Asking Price: 5,514 €/sq. m



It accounts for about 10% of rehabilitated residential supply in Lisbon, steady remaining as the second most expensive area in the city (5,514€/sq. m).

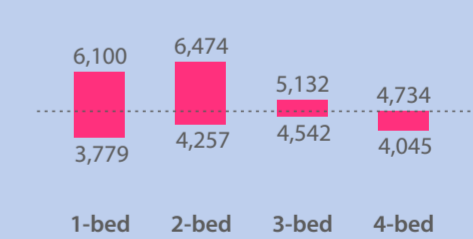
1-Bedroom apartments (26%) and 2-bedroom apartments (37%) are the main types of units on the supply.

Average asking price in this area increased about 6.6% when compared with 2016. As for the weight in total stock, this zone slightly decreased over 2016 (14%).

Compared to the most expensive zone, the average asking price shows a gap of 13%.

Average asking price for this type of residential product range from 5,138€/sq. m (4-bedroom apartments) to 5,839€/sq. m (3-bedroom apartments).

ZONE 7
 Arroios/São Vicente/Penha de França
 Average Asking Price: 4,721 €/sq. m



Presenting the lowest average asking price in the city for this type of residential units (4,721€/sq. m), this area accounts for about 10% of the stock being marketed.

This is a similar weight to 2016 (11%) and the current supply is dominated by 1-bedroom Apartments (34%) and 2-bedroom apartments (28%).

Average asking prices rose about 4.7% compared with 2016, recording the weakest increase in the market.

Considering zone 1 (the most expensive), this zone presents the most expressive gap (35%) regarding the average asking price.

Average values in the different apartments types range from 4,416 €/sq. m in 4-bedroom apartments to 5,115 €/sq. m for 2-bedroom apartments.

Rehabilitation for residential use in Lisbon'17

"Rehabilitation for residential use in Lisbon" is an annual publication produced by Prime Yield. The document analyses the supply of residential units integrated in rehabilitation projects located in Lisbon, focusing on asking prices, geographical distribution and types of apartments. The study also comprises a legal insight, presented in this edition by DLA Piper.

Methodological Notes // The analysis of the supply of residential units integrated in rehabilitation projects carried out by Prime Yield considers the following assumptions: 1) Seven areas were initially delimited for this research. However, the analysis of the urban rehabilitation market for residential use only comprises four of these areas in which existed significant supply volume. Namely: zones 1, 3, 5 and 7. 2) The stock under analysis in this edition comprises 1,465 apartments, integrated in 91 projects. 3) The supply integrated in the research sample comprises residential projects both completed and under development, the later mostly in construction. 4) The analysed projects are in the marketing phase and about 65% of the stock is already sold. 5) The values presented are asking prices, i.e., the values at which the units are placed in the market. These values do not necessarily coincide with the transaction's final value agreed for the available stock. 6) Maximum and minimum value ranges per square meter are presented for each relevant apartment type; 7) The analysed projects are mostly targeted to medium-high and high segments. 8) For year-on-year comparison purposes, the average asking prices obtained in the previous edition of this research (2016) were revised and, in some cases, updated.

Supply – Conclusions



1. The Historical area (Baixa/Chiado/Avenida da Liberdade) remains as the preferred destination for residential rehabilitation projects in Lisbon, concentrating 70% of total stock currently being marketed. The remaining three delimited zones show similar supply weights, of about 10% each.

2. Also in terms of average asking prices, the Historical area (zone 1) continues to stand out as the most expensive for this type of product (6,367 €/sq. m), a value that is 35% to 16% above the average asking prices recorded in the other areas, which range from 4,721 €/sq. m in Arroios/São Vicente/ Penha de França (zone 7) to 5,514 €/sq. m in Avenidas Novas (zone 5).

3. Although the average asking price in the most expensive area sits at around 6,400 €/sq. m, some apartments may reach a peak price of 10,000-12,000 €/sq. m, as in the case of 2-bedroom (10,044 €/sq. m) and 3-bedroom (11,979 €/sq. m) apartments located in the Historical areas.

4. Compared with 2016, average asking prices rose between 4.7%

and 12.3% in the four zones. The strongest increase was felt in Estrela/Campo de Ourique (zone 3).

5. Nevertheless, breaking down supply into apartment types, year-on-year (y-o-y) price growth was, in some cases, above the average rise recorded for the total corresponding zone, even surpassing the 20%-appreciation mark. Studio apartments in zone 1 showed a 20% y-o-y increase on asking prices and 2-bedroom apartments in zone 3 also recorded a strong 25% growth. Also noteworthy are 2-bedroom apartments in zone 5, with a 15% y-o-y appreciation in asking prices.

6. The current stock being marketed is strongly dominated by 1-bedroom and 2-bedroom units, which together concentrate over 50% of the supply in all the analysed areas.

7. Zones 3 and 7 present average asking prices in the different apartment types that sit at around 4,000 to 5,000 €/sq. m, whereas zone 5 shows a higher average price range of 5,000 to 6,000 €/sq. m. In zone 1, the most expensive one, the values for all units are mostly at a 6,000 to 7,000 €/sq. m level.

Disclaimer

The present research is for information purposes only. Several information sources were used in this study's preparation, including data collected and processed by Prime Yield's Research Department.

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