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Property investors from abroad offer Lisbon a passport to recovery

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A combination of visa incentives and new developments is creating a surge of foreign investment in the Portuguese capital

The Elevador da Bica tram in Lisbon

Buying at the bottom of a market that is about to rise is every investor's aspiration. As Portugal begins to emerge from the financial crisis of the past seven years, some investors believe acquiring property in Lisbon is one way to realise that ambition.

House prices in the country increased by 5.9 per cent in the second quarter of 2014, according to Portuguese government statistics released in September. And international speculation on Portuguese real estate is growing fast. According to a Jones Lang LaSalle market report released at the beginning of the year, the proportion of the real estate market made up by foreign investment increased from 45 per cent in 2012 to 70 per cent in 2013.

One developer making a significant outlay is US-based Eastbanc. The company has begun acquiring property in Lisbon's Principe Real – a hilltop suburb within walking distance of the city's premier shopping districts. Portuguese fashion designers, architects and advertising agencies are based here, and there are quirky boutiques and upmarket antique stores alongside local bakeries, grocers and cafés.

Eastbanc president Anthony Lanier says the company has so far invested €50m and acquired 20 buildings in the district. The first residential component of Eastbanc's investment will open to buyers in November.

The development, called Palácio Faria (Faria Palace), is situated on Praça do Príncipe Real, the area's leafy main square. It will feature six apartments varying in size from 250 to 400 sq metres. Prices are expected to range from €1.5m upwards.

Lanier says the low cost of property in the city is part of its attraction: "In Lisbon, prices are still very favourable. You can buy in prime locations, which in many other European capital cities have become unaffordable."

Lanier is not just talking about the likes of London, where costs for prime residential properties are about €33,000 per sq metre. Even smaller European capitals are significantly more expensive than Lisbon, he says. "In Vienna you're paying around €25,000 per sq metre for a well-developed asset in a prime location; in Lisbon the cost is around €6,000 per sq metre for the same thing."

Luis Infante da Câmara is an associate at Lucas Fox, which has specialised in Spanish property for almost a decade and is now gaining a foothold in Portugal. The company has a 120 sq metre, two-bedroom apartment in a 19th-century, converted *palácio* for sale in Principe Real at €550,000. Infante da Câmara agrees with Lanier about Lisbon's relative affordability. "You can find properties for as low as €3,000 per sq metre in prime locations in Lisbon, but you will need to invest in refurbishing. For €5,000 per sq metre you can find very good quality properties."

A glance at what is on offer across the market confirms these price points. At Sotheby's a 600 sq metre, eight-bedroom home with potential for further development is on the market for €1.1m, while a 1,500 sq metre *palácio* is available for €4.9m.

It is not just institutional investors who are buying homes in the city. Home Lovers recently sold a 700 sq metre converted *palácio* in Principe Real for €3.8m. The buyer, a Swede aged over 50, was typical of the company's purchaser profile. "Almost 90 per cent of our buyers are European, particularly French and Scandinavian, and the tax benefits now on offer here are one of the biggest reasons driving people to buy," says Home Lovers co-founder Miguel Tilli.

Andrew Coutts is managing partner at the Lisbon office of Henley & Partners, which assists wealthy clients with residency and citizenship planning. He agrees with Tilli. "Portugal has one of the most tax-attractive environments in the world and also has one of the most attractive investor immigration programmes out there, and these benefits are having a very strong impact on overseas buyers," he says.

There are two programmes in Portugal that are particularly appealing to investors: the Non-Habitual Residents (NHR) regime, which is attracting primarily European buyers; and the Golden Residence Permit (GRP), which is attracting primarily Chinese, Angolan and Brazilian buyers.

The NHR programme offers people moving to Portugal for the first time reduced tax rates or tax exemption for 10 years on certain incomes. Some forms of creative income are also exempt from income tax and recent high-profile movers to the country have included designer Philippe Starck.

Portugal's so-called "golden visa" has also had a significant impact on the property market for non-European nationals – it gives foreign investors who spend €500,000 on a property the right to live in Portugal. They are also free to travel around the EU and after six years can apply for Portuguese citizenship. According to Henley & Partners, a total of 1,441 golden visas have been issued by Portuguese authorities so far. Chinese nationals continue to dominate demand, collecting 1,159 of the visas, followed by Russians with 46.

The Jones Lang LaSalle report highlights that international buyers prefer properties located in central areas of Lisbon such as Principe Real. As a result, Infante da Câmara says foreign interest is starting to impact on supply.

"It's getting more difficult to buy here. Five years ago there was very little demand, but the demand is really strong now. Everyone wants to be in the cultural, historical area and there are not a lot of new developments. I think there is some frustrated demand, particularly under €500,000."

Buying guide

Property prices in Portugal are improving slowly. Government figures released in September show a 5.9 per cent increase for the second quarter of 2014 compared with the same period a year earlier

Central Lisbon remains the most expensive area in the country and anecdotal evidence from estate agents suggests prices here have risen by about 10 per cent in the past year

Lisbon has 270 days of sunshine a year and an average temperature of 17C

Buyer taxes and stamp duties are equivalent to about 15 per cent of the transaction price

What you can buy for . . .

$500,000 A two-bedroom apartment in a converted *palácio* with a shared garden

$1.5m A five-bedroom, two-bathroom apartment with a swimming pool

$5m A 12-bedroom, converted *palácio* with a garden and pool

Photographs: Art Kowalsky/ Alamy; Sotheby's