Local Accommodation in Portugal Past, Present and Future Trends

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Abstract. The figure for local accommodation was created by Decree-Law no. 39/2008, of 7 March, to frame the provision of temporary accommodation services in establishments that do not meet the legal requirements required to qualify as tourism enterprises.

Ordinance No. 517/2008, of 25 June, meanwhile amended by Ordinance No. 138/2012, of 14 May, defined the minimum requirements to be observed by local accommodation establishments, as well as the procedure for registering these establishments with city councils.

Local accommodation has gained immense popularity in Portugal in recent years, registering an increase of 3 thousand\% between 2010 and 2020. It has become an attractive activity as it allows you to monetize homes or rooms for short periods of time. However, opening an establishment requires understanding the bureaucratic process of applying for a license as well as the entire tax framework.

Keywords: Local accommodation · Tourism · Lodging establishment · Hotel · Tourist centers

1 Introduction

Local accommodation establishments are those that provide temporary accommodation services to tourists for a fee, and that meet the requirements set out in the Decree-Law - Article 2, paragraph 1 of Decree Law 128/2014, of 29 August. In this document “The legislator came to recognize the existence of local accommodation as an autonomous (and not just residual) category of tourist developments with a view to “allowing the provision of temporary accommodation services in establishments that do not meet the legally required requirements for tourist developments” - “Local Accommodation and Use of the Autonomous Fraction”, Fernanda Paula Oliveira, Sandra Passinhas and Dulce Lopes, Almedina 2018, p. 31. “(...) What this is about is, undoubtedly, a service provision activity: temporary accommodation services for tourists, through remuneration (...)” - ob.
cit, p. 33, which precludes the application of the Urban Lease Regime. The regime of Decree Law 128/2014, of 29 August, applies.

There are the following types of local accommodation establishments: i. Housing: the accommodation unit consists of an autonomous building, of a family character; ii. Apartment: the accommodation unit consists of an autonomous fraction of a building or part of an urban building capable of independent use; iii. Accommodation establishment: accommodation units consist of rooms; iv. Hostel: accommodation establishments whose predominant accommodation unit is the dormitory, being considered predominant whenever the number of users in the dormitory is greater than that of users in a room - cf. article 14 of the DL cit.

The objective of this work consists of a diagnosis of the tourism sector in Portugal and a detailed analysis of the modality of local accommodation promoted to accommodate tourists. The work adopts a qualitative methodology, seeking to describe the consequences and impact of local accommodation in Portugal. As a final point of this work, we will present a practical case of implementing a local accommodation establishment.

2 Tourism Sector in Portugal

The growth of the tourism sector over the past decade has been one of the major economic and social drivers worldwide. There was an increase in demand, stimulated by the increase in disposable income; motivations for traveling; the exponential growth of emerging markets accompanied by the continued growth of traditional markets; demographic, social and technological changes; the diversification of destinations and the growing liberalization of the sector (ENEI - National Strategy for Smart Specialization 2014).

In 2018, tourism growth in Portugal, at approximately 8.1%, had an impact on the economy of 14.3 million euros, with projections that will reach 15 million euros this year (Observer 2019).

Tourism represents an economic, cultural and social activity that was intensified with the Industrial Revolution (Wheat 2019). This revolution generated great changes in people’s daily lives, mainly due to changes in work (salary improvements and the right to vacation) and the creation of railway lines that allowed for more comfortable and quick trips (Holloway and Taylor 2006). The definition of tourism is very broad, and, (Mathieson and Wall 1987) define it as the movement of people out of their area of residence, in order to satisfy their need to travel.

The Portuguese government over the years has created several incentives to attract investment in tourism. This year, Portugal reached the 12th place in the tourism competitiveness ranking of the world economic forum. According to the Secretary of State for Tourism, Ana Godinho, Portugal was considered the country with the best tourist infrastructure in the world. The country is an international reference and this classification will be crucial for attracting more investment («Portugal rises to 12th place in the tourism of the world economic forum» 2019).

Due to the prospecting and economic contribution that tourism brings to the country, Turismo de Portugal established a strategy until 2027, which aims to position
Portugal as one of the most competitive, innovative and sustainable destinations. (AICEP Portugal Global 2017). In this sense, its performance is based on five strategic axes:

- Valuing the Territory; Boost the Economy; Enhancing Knowledge; Generate Networks and Connectivity; Design Portugal.

### 3 Typology of Tourist Enterprises

Tourist establishments are characterized by establishments that are intended to provide accommodation services and other ancillary or support services, with or without the provision of meals, upon remuneration, under the Legal Regime for Tourist Enterprises (RJET) which in its current version (5th amendment), is republished in Decree-Law no. 80/2017, of 30 June (Abranja and Almeida 2019).

However, RJET establishes that establishments intended to provide accommodation are not tourism enterprises, but that are operated for non-profit purposes or for the sole purpose of social solidarity. Also, establishments that do not aim to provide temporary accommodation for profit, do not meet the requirements to be considered tourist enterprises and that as such fall under Local Accommodation (Abranja and Almeida 2019) do not compete for tourism enterprises.

There are seven types of tourism enterprises (Abranja and Almeida 2019):

- Hotel establishments; Tourist villages; Tourist Apartments; Tourist complexes (resorts); Housing Tourism Enterprises; Tourism Enterprises in the Rural Area: Camping and Caravanning Parks.

These establishments must be properly identified with a sign with the initials “AL” inscribed. These identification plates, based on (Decree-Law 128/2014 of 29 August, 2014), must have the following characteristics: be made of transparent crystal acrylic material, 10 mm thick; dimension of 200 mm × 200 mm; font Arial 200, dark blue (pantone 280); application with a distance of 50 mm from the wall (using stainless steel screws in each corner: 8 mm in diameter and 90 mm in length).

According to Nuntsu et al. (2004), cited by (Dantas 2019), local accommodations are managed by private owners, and these have always been a reality of American vacations.

JLL (2015), quoted by (Dantas 2019) states that the fact that these accommodations have a more welcoming and familiar nature, are their main success factor.

### 4 Case Study

The implementation of a local accommodation annuity from a business perspective requires an understanding of the business plan and the cost and income variables. The first aspect to take into account concerns the seasonal nature of the activity. In this sense, it is advisable to divide the projection of the year’s data into quarters. Another important variable concerns the occupancy rate, which varies according to the location
of the establishment. At the moment, there are limitations in Portugal to new licenses on the central streets of some cities (Poto and Lisbon).

Table 1. Viability analysis
Table 1 shows how the initial investment is made in the different items that comprise it.

It includes three main aspects: the cost of the projects and the licensing of the work; the cost of legal advice; the cost of the work itself.

This table presents the overall costs and also the costs per unit of operation. We emphasize that costs also include tax charges that must be recovered when selling.

Table 1 ends with the consideration of the sunk costs in the project (understand the production costs of the units) and in its final part this table shows the feasibility if the units are sold.

The unit sales solution incorporates a risk associated with the value per square method that can be obtained from customers. In this sense, this analysis can be complemented by a sensitivity analysis to the level of sales price per square meter.

The case presented in Table 2 is a real case advised by the authors of this article. It is a local unit in the center of Porto, corresponding to an investment of 1,259,859.00 €. The operation of two commercial establishments and space rental and seven apartments for local accommodation are at stake. The financing structure is 30% equity and 70% equity. The management of the local accommodation unit will be carried out by a company specializing in the area, which collects the appropriate commission. The accounting depreciation is 15%, which does not coincide with the fiscal criterion, but must be the one in force depending on the useful life of the project.

The analysis of the viability of a tourist unit can be important in order to convince potential investors to purchase units in the property.

Taking into account the project’s useful life, expenses and underlying income, the promoter estimates an ROI (Return on Investment) of 12% per year.

### Table 2. AL investment project in Porto

| Port      | 56.00% | € 1,259,859 |
|-----------|--------|-------------|
| Month     | Q1     | Q2          | Q3          | Q4          | TOTAL      | € 1,259,859 |
| Average price | € 100 | € 36,500    |             |             |             |             |
| Occupation% | 70.0% | 55.1%       | 84.8%       | 87.8%       | 57.2%      | 70.0%       | 12%          |
| Commercial | 2      | 6,000       | 6,000       | 6,000       | 6,000      | € 24,000    | by commercial |
| Apartments | 7      | 4,954       | 7,715       | 8,080       | 5,779      | € 26,028    | per apartment |
| Total Income | € 32,885 | € 46,681 | € 66,003 | € 68,558 | € 48,952 | € 230,194 |             |
| Commission% | 25.0% | 116,70      | 165,01      | 171,40      | 122,38     | € 57,548    | 25%          |
| Partial total A | € 11,670 | € 16,501 | € 17,140 | € 12,238 | € 57,548 | 25%         |
| Maintenance | 3%     | 1,400       | 1,980       | 2,057       | 1,469      | € 6,906     | 3.0%         |
| Current expenses | € 70 | € 1,470 | € 1,470 | € 1,470 | € 1,470 | € 5,880 | 2.6%         |
| Breaks and services | € 3 | € 347 | € 540 | € 566 | € 370 | € 1,822 | 0.8%         |
| Safe | € 20 | € 420 | € 420 | € 420 | € 420 | € 1,680 | 0.7%         |
| Partial total B | € 3,637 | € 4,410 | € 4,512 | € 3,728 | € 16,288 | 7%          |
| EBITDA | € 434 | 0 | 0 | 0 | EBITDA |
| Interest (30%) | € 27,192 | € 6,798 | € 6,798 | € 6,798 | € 6,798 | € 27,192 | 3.0%         |
| Depreciation (15%) | € 5,250 | € 1,313 | € 1,313 | € 1,313 | € 1,313 | € 5,250 | 2.3%         |
| Tax rate @ 21% | € 2,169 | € 4,885 | € 7,766 | € 8,147 | € 5,224 | € 26,022 | 11%          |
| net income | € 8,158 | € 18,378 | € 29,215 | € 30,649 | € 19,651 | € 97,893 | 43%          |

Source: own elaboration
In finance, return on investment, usually abbreviated as ROI, is a common and widespread metric used to assess expected profit for different investments. Before any investment opportunity is considered, ROI is a solid basis for valuation. The metric can be applied to anything from stocks and real estate.

5 Conclusions

With the tourism sector growing annually, it is becoming increasingly tempting to invest in this market. According to data from Banco de Portugal, cited by (Jornal Negócios 2018), the growth of tourism is not due to low prices, but to the quality and safety of the country. Allied to the climate factor, there are areas of the country that are more attractive to tourists, such as Lisbon, Porto and Algarve (Instituto Nacional de Estatística, IP 2018), however, the government has encouraged investment in low-lying areas, density, offering some more attractive benefits. (Turismo de Portugal 2019), has continuously developed actions to promote the strengths of Portugal in several countries inside and outside the EU. These disclosures are also aimed at promoting less developed areas with less population, in order to boost them and allow them to open doors for their growth. According to data from (Instituto Nacional de Estatística, IP 2018), the regions with the greatest supply of hotel establishments are the Algarve, followed by the North, Center and Lisbon regions.

The practical case presented here highlights the importance of an analytical analysis when large investments are made in a local accommodation unit. This case demonstrates that the investment recovery takes a long time, being in the case under analysis approximately 8 years.

For future work we advise the possibility of a diagnostic analysis of local accommodation in Portugal.

As a limitation of this study was the lack of analytical data from the local accommodation units as well as the rigorous diagnosis of the impact quantified by Covid 19 on tourism.

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