



W10 – Home Ownership and Globalisation

**Recent changes in Spanish housing policies:
subsidized owner-occupancy dwellings as a new
tenure sector?**

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Abstract

The conventional model of social housing in Spain is a peculiarity within European housing policy, in that it is almost entirely owner-occupied. Subsidized owner-occupancy housing maintains the status of social housing for a set number of years, during which time it cannot be sold against market prices. After that period, its status changes, and the housing concerned becomes part of the free housing market.

However, recent developments in Spanish housing policy suggest that this model might change in the future. In some Spanish regions, subsidized owner-occupancy housing is now considered as a separate and permanent tenure category, and not as a temporal subsidy arrangement. This paper discusses the background and the possible implications of this new policy perspective.

Keywords: housing policy, Spain, subsidized owner-occupancy housing

1. Introduction

Spain is a country of homeowners. Of all Spanish dwellings, 81% is owner-occupied, 11% belongs to the rental sector and 8% belongs to the category 'other' (for example dwellings that are provided rent free). The large majority of the Spanish rental dwellings is owned by individual private landlords. The share of the social or subsidized rental sector is very limited. Nevertheless, this does not mean that there is no social housing in Spain. In contrast with most other European countries, social housing in Spain is mainly delivered through the owner-occupancy sector.

Since 2000, the Spanish housing market is characterized by a housing construction boom and by substantial house price increases. Although these developments are positive for housing developers and households that have been owning their dwelling for a relatively long time (*insiders*), they are negative for first-time buyers (*outsiders*). The latter group deals with serious accessibility and affordability problems.

Traditionally, social housing in Spain is mainly provided through subsidized owner-occupied dwellings that are sold at below-market prices to households with low and middle incomes. For a limited number of years, during the so-called qualification period, these dwellings keep a protected status, which means that they may not be sold against market prices. Only when the qualification period has expired, the housing concerned becomes part of the 'normal' housing stock. Recently, there have been policy changes in some Spanish autonomous regions which make the qualification period much longer than it was before. Consequently, it seems as if the subsidized owner-occupancy sector is developing into a new permanent tenure sector. This paper analyzes the background and the possible implications of these policy changes. It is structured as follows.

Section 2 analyses the house price increases and the housing construction boom on the Spanish housing market, and the accessibility and affordability problems in which these processes have resulted. Subsequently, section 3 briefly describes the nature of the Spanish housing and housing policy system. As such, these two sections set the stage for section the sections 4 and 5, in which the Spanish system of subsidized owner-occupancy dwellings, and the recent changes that have been taking place in this system, are described. Finally, section 6 contains the conclusions and proposes some elements for discussion.

2. The Spanish housing market

2.1 Development of house prices and housing construction

An explosive house price growth

In the last decades, but especially so in recent years, the Spanish home owning sector has been characterized by large house price increases. According to a study carried out by the *Banco de España* (Martínez-Pagés and Maza, 2003), the average price of owner-occupied housing increased 16-fold in nominal terms between 1976 and 2002, and has doubled in real terms (taking into account the effect of inflation) in the same period. Also in an international perspective, the house price growth in Spain has been rather exceptional. As far as long term growth in real house prices is concerned, Spain is at the top of the EU-15 (see table 1).

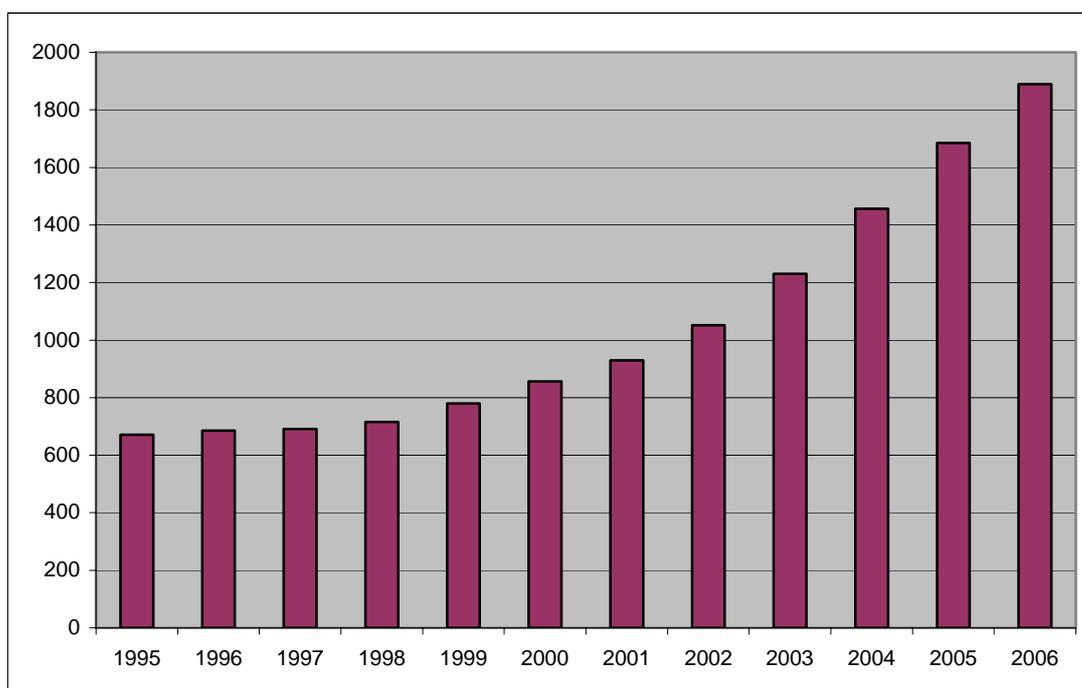
Table 1 Annual long term growth of real house prices in 15 EU countries, ranked from high to low, in %

Spain (1987-2001)	4.2%
Ireland (1980-2001)	3.7%
Austria (1987-1999)	3.5%
Greece (1994-2001)	3.5%
United Kingdom (1980-2001)	3.0%
Luxembourg (1980-2000)	2.6%
Netherlands (1980-2000)	2.3%
Finland (1981-2001)	1.9%
France (1980-2001)	1.4%
Belgium (1981-2001)	1.2%
Italy (1980-2001)	1.2%
Denmark (1980-2000)	1.0%
Germany (1980-2001)	0.5%
Portugal (1988-2001)	0.4%
Sweden (1980-2001)	-0.2%

Source: ECB, 2003

Especially after the year 2000, the increase in Spanish house prices was spectacular, with average house price increases of more than 10 percent each year (see figure 1). Very recently, however, the increase in house prices has slowed down somewhat. In the first trimester of 2007, the Spanish house prices were ‘only’ 7,2 percent higher than one year earlier.

Figure 1 Average house prices of unsubsidized dwellings (in €per square meter), 1995-2006



Source: Spanish Statistical Institute (www.ine.es)

Background of the price increases

The reasons for the strong increase in Spanish house prices are complex and multiple. This paper does not intend to provide an in-depth analysis of all relevant factors. Instead we merely provide a summary of the most frequently used arguments in the scientific discussion around this theme (see also Heras, forthcoming). According to most analysts, the Spanish house price boom is largely a demand-driven phenomenon. The demand for dwellings is high as a result of the following determinants.

First of all, socio-demographic factors play a role. Although population growth in Spain is rather limited, the number of people that want to live independently (future households), and thus the demand for dwellings, is still substantial. This is due to the baby-boom that took place in the early 1970s (these people are now ready to live on their own), the increasing share of people that are living single, and the rising number of divorces. Furthermore, Spain receives a large number of immigrants, mainly from Latin America, Northern Africa and Eastern Europe. Last but not least, the strong housing demand of relatively wealthy people from Western and Northern Europe, who are looking for either a permanent or a second dwelling in Spain, has given an extra boost to the Spanish house price development, particularly in the coastal regions.

Socio-economic and financial developments are a contributory factor as well. As a result of decreasing unemployment and a growing number of households with two wage earners, there has been an substantial increase in the real disposable incomes of families. Moreover, the interest rate is still very low (although it has been slowly rising recently), and the mortgage market has been deregulated and liberalized, which makes it easier to get a high mortgage.

Also, cultural factors are of relevance. Spain is a typical example of a Mediterranean welfare state, which means that the state offers relatively little social and financial security (see Hoekstra, 2005). It is largely up to the families themselves to accumulate a financial buffer that can be used as an insurance against social risks in the various phases of the life cycle (sickness, unemployment, old age). In such circumstances, investments in immovable property are seen as a safe way of saving and investing money. After all, such investments are inflation-proof (in the past Spain was characterized by a very high rate of inflation) and generally yield high returns (at least, this was the case in the last 30 years). Moreover, as a result of the low interest rate and the volatility of the stock market, there are few other investment opportunities that are considered secure and financially attractive. Consequently, Spain has a long-standing tradition of *inversión en ladrillo* (investments in bricks and mortar). The relatively large informal economy also plays a role here. A fair amount of the black money that is earned in this hidden economy is invested in the property sector (Hoekstra and Vakili Zad, 2006).

A housing construction boom

Spain is not the only European country with a large increase in house prices. A similar trend can be observed in countries such as Ireland, the United Kingdom and the Netherlands (see also table 1). However, in these countries the price increases are mainly caused by a limited supply responsiveness; Due to institutional factors, such as a strict spatial planning and a complicated regulatory framework, the production of new dwellings cannot keep pace with the increasing demand for dwellings (see Boelhouwer, 2005).

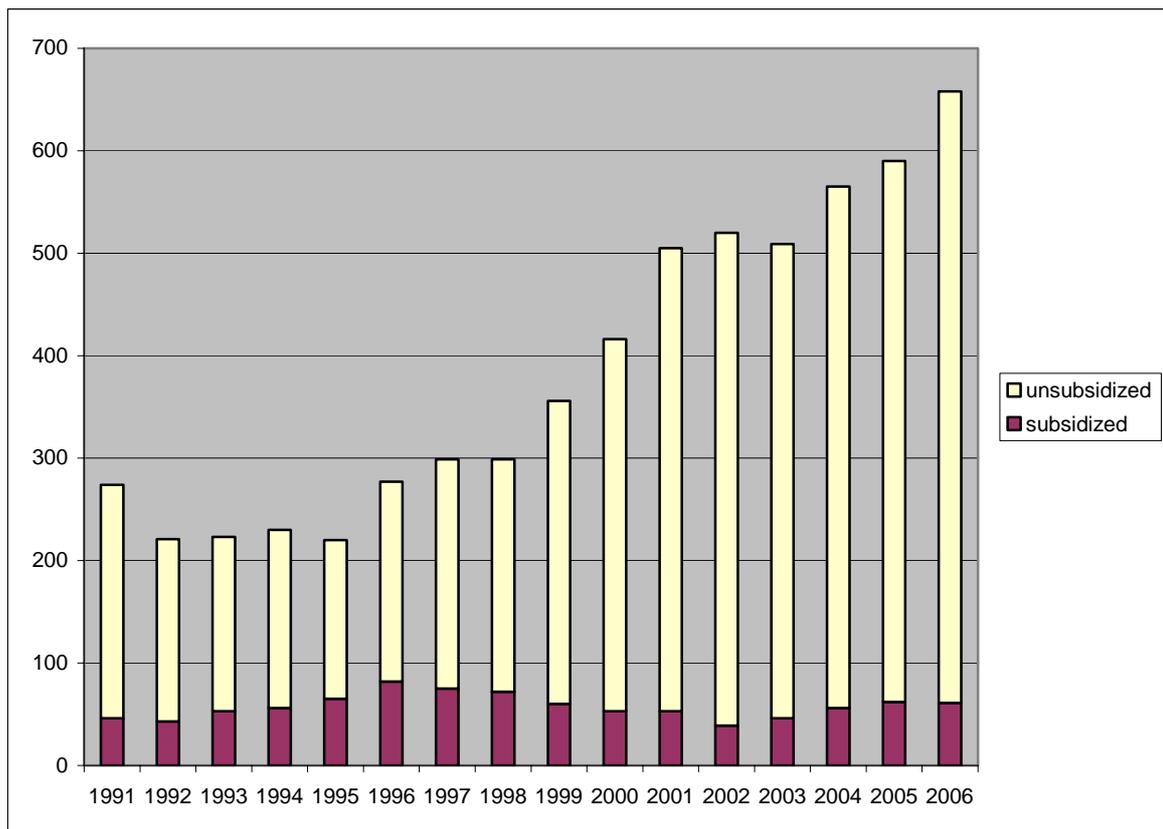
In Spain, the situation is different. Since 1950, the Spanish housing stock has tripled while the number of households has only doubled. Since 2001, more than 500.000 dwellings were built each year (see figure 2), whereas the average number of

households increased by some 280,000 per year¹. For the coming years, the growth in the number of households is estimated at 250.000 each year (Analistas Financieros Internacionales, 2003), whereas the production of new dwellings will probably be around 500.000 dwellings each year.

The discrepancy between the growth in the number of households and the growth in the number of the dwellings can be explained by the fact that a significant share of the newly built dwellings is used as second residence, either by Spanish households or by households from abroad. Furthermore, thousands of properties are built as personal investments. Once they are completed, these properties often remain uninhabited because, for a variety of reasons, they are not sold or placed on the rental market (see Hoekstra and Vakili Zad, 2006).

There are some very telling figures that illustrate the above processes (Paniagua, 2003): between 1991 and 2001, of every 100 dwellings built, 60 were intended as a main residence and 40 as other types of residence, not related to meeting the need for permanent housing (for example, tourist accommodation, investment properties, second homes, etc.). This clearly demonstrates the importance of the investment component in the current Spanish housing market.

Figure 2 Number of finished subsidized and unsubsidized dwellings in Spain, 1991-2006 (* dwellings)



Source: Spanish Ministry of Housing (www.mviv.es)

¹ This concerns an estimation by an important Spanish building company (Metrovacesa) that was picked up in the Spanish press (Portilla, 2006).

Increasing affordability and accessibility problems

As a result of the strong increase in house prices, the affordability and accessibility of the home owning sector has been significantly reduced. This is clearly illustrated by table 2, in which two different indicators are shown.

The first indicator ‘theoretical effort’ is an index that has been developed by the Spanish central bank (*Banco de España*). This index shows the percentage of the net household income that the median household pays to the mortgage provider in the first year after the acquisition of an unsubsidized dwelling that is financed with a standard mortgage that covers 80% of the value of the dwelling, taking into account fiscal deductions. Factors such as the development of house prices and incomes, the interest rate and the conditions of credit providers are (implicitly) taken into account in this index.

The index shows a peculiar development. It was high in 1995 and then dropped in the second half of the 1990s as result of a lowering interest rate, better and easier access to mortgages, longer mortgage terms and an increasing share of households with two wage-earners. However, due to the house price boom that characterized Spain in the first years of the 21st century, the index started to rise again after 2002, until it reached more than 30 percent in 2006.

The second indicator that is shown in table 1 is simpler than the first one. This indicator shows the ratio of the price of an average unsubsidized dwelling (this concerns a dwelling of 93,75 m²) and the average gross household income (AHP/AHI). Thus, other than the theoretical effort indicator, it does not reckon with better access to mortgages, longer mortgage terms and decreasing interest rates. This is the reason why this index did not decrease, but remained stable in the second half of the 1990s. After 2002, however, the AHP/AHI index heavily increased as well.

Thus, regardless of the index we look at, we can conclude that the affordability and accessibility of the Spanish unsubsidized owner-occupancy sector has significantly decreased in the last five years. As far as this is concerned, it should be noted that the already preoccupying indicators in table 1 refer to Spain as a whole. In the regions with the highest house prices (Madrid, Catalonia and Basque country), the accessibility and affordability problem is actually much bigger than the figures in table 2 suggest.

Moreover, the risks for individual households have become bigger as first-time buyers have been forced to take out large mortgages with long terms. In relation to this, it should be pointed out that a very high proportion of the new mortgages (90 to 95%) has been taken out at a variable rate, as opposed to the fixed-rate loans favoured in the past. Because of this, a large part of the risk associated with interest rate increases has been transferred from lenders to homebuyers.

For an increasing group of households, the unsubsidized owner-occupancy sector is simply not accessible anymore. These households can only access homeownership through the subsidised owner-occupancy sector. However, subsidized owner-occupancy dwellings, which are often allocated by means of a lottery system, are scarce. The demand for such dwellings is generally much higher than the supply. Depending on the luck that one has in the lottery system, the waiting time for subsidized owner-occupancy dwellings can therefore be as long as five to ten years (or sometimes even longer).

Table 2 Affordability indicators for the Spanish owner-occupancy sector, 1995-2006

Year	theoretical effort	average house price / average household income (AHP/AHI)
1995	35,5%	3,6
1996	27,7%	3,5
1997	23%	3,5
1998	21,6%	3,6
1999	20%	3,8
2000	22,7%	3,9
2001	21,6%	4,2
2002	22,3%	4,8
2003	22,5%	5,5
2004	24,6%	6,2
2005	25,6%	6,8
2006	30,4%	7,1

Source: website from the Bank of Spain (www.bde.es)

Is there a bubble and will it burst?

Given the current situation on the Spanish housing market, a number of respected analysts and institutions such as the OECD, the IMF, the European Commission, the European Central Bank and even the *Banco de España* – have warned of the possibility that a speculative bubble has been created in the Spanish housing market. This is due to the fact that the house price increases are not only governed by fundamental factors, but also respond to speculative behaviour that is based on unrealistic expectations of future house price growth. Some studies estimate that speculative factors may account for around 30% of the house price increase (García-Montalvo, 2003) and predict a fall of house prices in the near future.

Other analyses, however, disagree with this point of view. For example, the 2006 Real Estate Situation report of the BBVA bank (BBVA, 2007) states that house prices have entered a phase of “orderly” deceleration. This report sees no reason to expect a sudden house price drop; according to BBVA only a an unexpected rise of the interest rate or a sharp increase in unemployment could lead to such a scenario.

Nevertheless, it seems probable that the demand-related factors that have been pushing up the house prices in the last ten years will ease off somewhat in the near future. It is for example expected that the 20-34 age group will become smaller and that the interest rates will rise. Thus, a slackening of the house price growth seems very likely. The future will learn whether this will lead to a hard or to a soft landing.

3. The Spanish housing and housing policy system

The Spanish housing system

In Spain the right to housing is enshrined in the Constitution (Leal, 2004). Article 47 of the Spanish Constitution establishes that “All Spaniards have the right to enjoy decent and adequate housing. The public authorities shall promote the necessary conditions and establish appropriate rules to uphold this right, regulating the use of land in accordance with the general interest to prevent speculation”. However, Spanish housing policy has yet been unable to fulfil the provisions of this constitutional mandate, witness the large accessibility and affordability problems described in section 2.

In our opinion, the nature of the Spanish housing system is closely related to the nature of the Spanish welfare state (see also Allen et al., 2004). Spain can be seen as a Mediterranean welfare state (Hoekstra, 2005). In such welfare states, the influence of the state is relatively limited. Most of the welfare tasks are carried out by either the market or the family. This is clearly visible in the Spanish housing system, in which the free market is the main provider of housing (Trilla, 2003). At the same time, however, the family plays an important role; the help provided by families is a major factor in enabling young people to access housing and live independently. Roughly speaking, one could say that the accessibility and affordability problems that the free market creates for the *outsiders* (the starters on the housing market) are, at least partly, compensated by resource pooling between outsiders and insiders within the family. As a result of the financial help that they receive from the insiders, the outsiders on the Spanish housing market can afford a more expensive dwelling than they would have been able to afford on the basis of their salary alone. These interfamilial financial transfers are one of the reasons why the Spanish house prices have increased so much without creating a drop in demand.

Finally, it must be borne in mind that, as well as being a very imperfect market, the housing market is closely linked to two key sectors of the Spanish economy: the construction sector and the financial sector. Developments in these sectors are quite decisive in shaping the structure of housing-related public policies (Trilla, 2001, Sánchez García and Plandiura, 2003). Housing policies and economic policies are thus closely interlinked.

The Spanish housing policy system; a bit of history

The basic characteristics of Spanish housing policy have their roots in the Francoist period and have remained relatively stable since that time. In fact, one could say that Spain has never had a genuine social housing policy. As highlighted by Trilla (2003), Spanish policies for the provision of housing – both private market housing and social or subsidised housing – have been shaped more by a desire to stimulate economic activity than by social policy *per se*.

It should be noted that the responsibility for housing policy is shared among the different tiers of government. The national government is in charge of coordinating housing as an economic sector. The Autonomous Communities, depending on the powers granted to them in their respective statutes of autonomy, are authorised to modify and complement the central state's housing policies with the help their own resources. Additionally, they are responsible for establishing regional housing and land-use regulations, developing and managing their subsidized owner-occupied and rental housing stock, and granting and controlling subsidisation of housing investments. Finally, the municipalities also play a very important part in housing policy, as they are responsible for urban planning and land management in the urbanisation process.

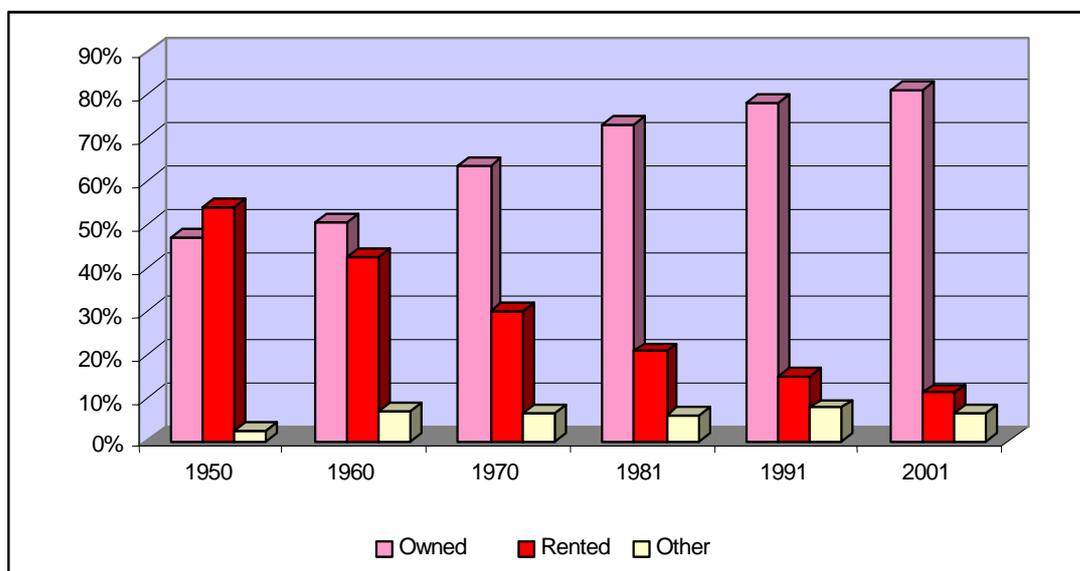
An important characteristic of Spanish housing policy is the complete lack of tenure neutrality in the housing policy instruments. Through both direct (providing subsidised owner-occupancy dwellings) and indirect housing policy interventions (tax policy), the owner-occupancy sector is clearly favoured above the rental sector. Moreover, there have been some serious policy disincentives, such as the privatisation of the public rental housing stock and a rather strict rent regulation (especially so in the past), to both public and private investment in the rental sector (Leal, 2003 and 2004). Consequently, the share of the rental sector has been reduced from more than 50% in the 1950 to about 10% in 2001 (see figure 3).

To understand the decline of the Spanish rental sector, we must go back to the end of the Spanish Civil War (Leal, 2003). Due to the destruction of housing that had taken place during the conflict, rental prices rose considerably, harming the middle classes, which had supported the victors of the war, the Franco regime. Thus, in order to support these middle classes, new laws were passed that provided rent freezes and rental contracts with an indefinite term.

This suddenly changed in 1985 when the *Ley Boyer* came into force, and the rent regulation was almost completely liberalized. However, this new law resulted in insecurity for tenants and instability on the rental housing market. Therefore, the rent regulation was revised yet another time. The 1994 Urban Tenancy Act (*Ley de Arrendamientos Urbanos*) aimed at restoring a certain balance between tenants' and landlords' interests (Blas Lopes, 2004, p. 3). In the new law, the usual term for rental contracts is five years. The rent setting at the beginning of the contract is free, but during the term of the contract the annual rent increase may not be higher than the inflation. In fact, the actual Spanish rent regulation system is not particularly strict, especially in comparison to other countries (see also Elsinga et al., 2007). Nevertheless, the Spanish rental sector shows little signs of recovery. It is especially the slowness of the legal processes for recovery of defaulted rent payments that still greatly hinders the Spanish rental sector, despite some regulatory changes implemented in recent years².

In general, Spaniards view paying rent as a waste of money. That's the reason why the rental sector is largely the domain of people who are in a economically insecure or transitory situation, such as young people who have recently left home and who don't have enough resources to access ownership, recently divorced people and immigrants with precarious employment. Also, the supply of rental dwellings is atomised and there is a lack of qualified and professional suppliers (Pareja and San Martin, 2002).

Figure 3 Tenure structure in Spain, 1950-2001



Source: Paniagua, 2003

² Such as the change introduced with the 2000 Civil Prosecution Act or the **Arbitration Act 60/2003**, intended to speed up the procedure for processing non-payments and implementing evictions. Nevertheless, despite these changes, it is still not possible to resolve such disputes swiftly.

4. Spanish subsidized owner-occupancy dwellings

Spain has a long-standing tradition of providing social or subsidized owner-occupancy housing, generally referred to in Spain by the acronym VPO (*Vivienda de Protección Oficial* – Officially Protected Housing). As pointed out by Sánchez García and Plandiura (2003), the very concept of subsidised housing, the characteristics – and even the name – have undergone constant changes over time, through a complex series of laws.

After the Civil War, a policy of construction of low quality public rental housing was adopted in order to meet the growing housing demand in the cities. This demand was caused by large-scale rural to urban migration associated with the industrialisation process. Nevertheless, this policy did not last long and had a relatively limited impact. This is related to the fact that the Spanish government quickly adopted the policy of selling off the stock of public rental housing.

Since the 1960's, the Spanish government almost uniquely focused its attention on the production of new housing intended for owner occupancy (Leal, 2003, Tatjer, 2005, Jurado, 2006). As the management of public rental housing generated considerable losses, it was argued that the promotion of owner-occupied housing could result in the construction of more units for the same cost.

The policy of promoting subsidized owner-occupancy housing has since the onset been based on providing assistance to private developers and homebuyers (Beltrán, 2002), as a form of subsidisation specifically designed to boost the construction sector. Within this system, the social circumstances of the recipients were barely taken into consideration and cronyism and fraud prevailed. The new *home ownership society* that began to emerge required stable employment in order to assure mortgage repayments and, consequently, social and political confrontation eased off.

Even today, direct public intervention in the area of social housing is markedly different in Spain than in most other EU-countries, where the majority of social housing tends to be rented. In Spain public housing provision primarily focuses on owner-occupied housing, geared towards medium- and low-income households (households with an income below 5.5 times the minimum wage). It is characterised by a strong involvement of private developers. The production of subsidized owner-occupancy dwellings is coordinated through a complex system of subsidized loans and a variety of subsidies and grants for both developers and buyers (depending on income). There have been considerable fluctuations in the number of subsidized owner-occupancy dwellings that is built each year (see also figure 2). In general, one could say that the production of subsidized owner-occupancy dwellings drops when the housing market is doing well. This is due to the fact that, in such circumstances, it is more profitable for private developers to invest in non-subsidized owner-occupancy dwellings than to invest in subsidized owner-occupancy dwellings (Sánchez García and Plandiura, 2003).

A temporary social housing model

A fundamental characteristic of Spanish subsidized owner-occupancy housing is the temporary nature of the subsidisation arrangement. Housing developed with public money is only considered as subsidized housing for a given period of time; the so-called qualification period. During the qualification period, subsidized owner-occupancy dwellings can only be sold against prices that are determined by the government (generally the price of new subsidized owner-occupancy dwellings). The aim of this is to prevent speculation. When the qualification period expires, the housing concerned loses its status as subsidized housing and is incorporated into the 'normal' housing

stock, which implies that it can be sold at market prices. This system dates back to the 1950s and 1960s, when social housing had a qualification period of between 20 and 50 years (Sánchez García and Plandiura, 2003). At the end of the 1970s, a qualification period of 30 years was established.

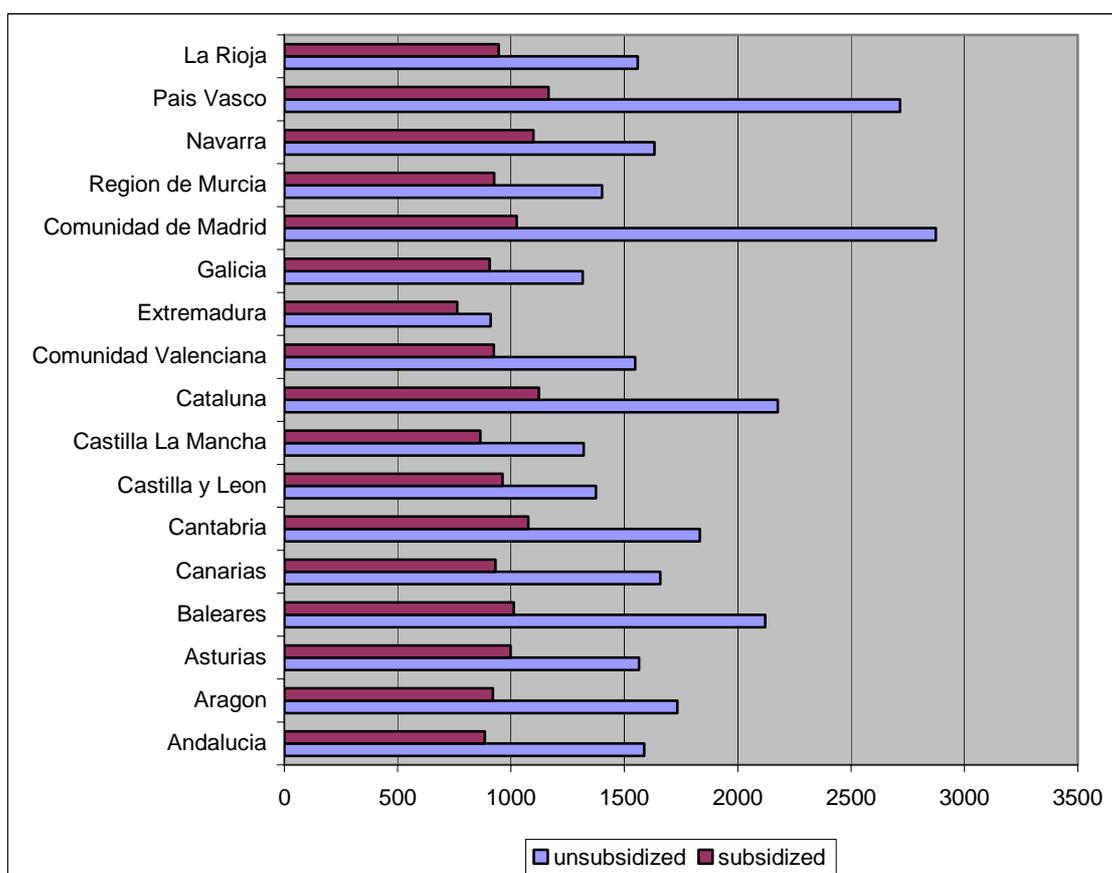
At the beginning of the 1990s, a new form of subsidised owner-occupancy housing with no qualification period was created: *Vivienda a Precio Tasado* (VPT). The price of this medium-cost housing was lower than the market price, but much higher than the price of VPO housing. As mentioned above, the VPT housing was not subject to the 30-year qualification period that applied to VPO housing. However, recipients of VPT housing that sold the dwelling within 5 years were required to pay any personal subsidies they had received back to the government. Since VPT dwellings could be sold against market prices immediately after they are bought, they soon became a profitable object for speculation (Sánchez García and Plandiura, 2003).

In 1993, all subsidized owner-occupancy housing provided prior to 1978 was liberalised. In other words, a large part of the stock of VPO housing was retroactively deregulated, being released from the 20- or 50-year protection arrangements and the maximum sale prices applicable during those periods.

Since the entry into force of the 1998-2001 Housing Plan, the maximum duration of the protection arrangement for VPOs has been reduced to 20 years. During these 20 years, the sale price may not exceed the maximum price decided by the government. This maximum price is based on the selling prices of new subsidized owner-occupancy dwellings. Furthermore, if a subsidized dwelling is sold in the first 10 years after purchase, all the personal subsidies that are tied to the VPO-regime have to be repaid to the government.

In sum, we can conclude that the term of the subsidisation period for subsidised owner-occupancy housing (VPO housing) is still relatively limited. The consequence of this is that, on the longer term, the owners of such dwellings still have good possibilities to make profits. After all, the house prices on the free housing market are much higher than the house prices of subsidized owner-occupancy dwellings. Especially in regions with very high house prices in the non-subsidized owner-occupancy sector, such as Madrid, Catalonia and Basque country, the potential for profit making is tremendous (see figure 4). However, recently some autonomous regions have taken steps that should prevent such profit-making. The next section discusses these new policy initiatives.

Figure 4 Prices of non-subsidized and subsidized owner-occupancy dwellings in the different Spanish autonomous regions, prices in Euros per square meter, first trimester of 2006



Source: website of the Spanish ministry of housing (www.mviv.es)

5. Towards a permanent subsidized owner-occupancy sector?

Very recently, some steps have been taken towards limiting the temporary aspect of subsidized owner-occupancy housing in Spain. These changes have come about in a social context that is characterised by keen awareness of Spanish public opinion in relation to the issue commonly referred to as “the housing problem”. For example, according to the latest opinion poll conducted by the Spanish Sociological Research Centre, housing is the issue that most worries Spaniards³. Various young people’s associations have recently begun to mobilise, claiming the right of young people to have a decent home without being burdened by a high mortgage for the rest of their lives. Furthermore, many people consider it unfair that young people (*outsiders*) have big problems to find an affordable dwelling, whereas people who have bought a subsidized dwelling 20 years ago (*insiders*) can now make large profits.

In our opinion, all these factors have considerably influenced the policymakers in their decision to begin taking steps towards limiting the temporary nature of subsidized owner-occupancy housing. Indeed, the 2005-2008 Housing and Land Plan

³ The most common response to the question “What is the problem that most affects you personally?” was “housing”, with 20.3%, followed by unemployment/financial problems (18.7%), social insecurity (13.3%) and immigration (11.6%) (CIS, 2006).

prepared by current Spanish social-democratic government establishes a minimum qualification period of 30 years for traditional social housing (VPOs), which can be changed at the discretion of the Autonomous Communities. The Plan also established that the autonomous communities are free to determine the qualification period for medium-cost VPT housing.

If an owner of a subsidized owner-occupancy dwelling wants to sell his dwelling, the dwelling concerned should be sold to potential buyers that are registered in a register that is set up by the Autonomous Communities. In this way fraud can be prevented⁴. According to the state plan, second-time and subsequent sales of subsidized owner-occupancy dwellings are only possible after 10 years, for a maximum sale price that is capped at twice the initial sale price (adjusted in line with the Consumer Price Index). This measure has also been criticised, as it still leaves considerable room for profit-making.

Regional differences with regard to the qualification model

Within the regulatory framework described above, the autonomous regions have the freedom to implement their own regulations with regard to the qualification period of subsidized owner-occupancy dwellings (Burón, 2006). As far as this is concerned, three types of autonomous communities can be distinguished.

1. Autonomous Communities that have opted for permanent or nearly permanent qualification.
2. Autonomous Communities that apply a qualification period of 30 years, in line with the timescale set by the 2005-2008 State Plan.
3. Autonomous Communities that, through different regional varieties of subsidised housing, have reduced the qualification period to below the 30-year benchmark period. This last case includes, for instance, *Viviendas de Protección Pública*, a form of subsidised rental housing with an option to buy, introduced by the Autonomous Community of Madrid, which can be declassified after 7 years, and the *Vivienda Protegida Autónoma*, also in the Madrid region, which can be declassified after 15 years.

The first option is chosen in the Autonomous Communities of Catalonia, Asturias, Extremadura and the Basque Country. In 2004, the Autonomous Community of Catalonia established a 90-year qualification period for VPO housing, whereas the Autonomous Community of Extremadura gave the VPO housing a permanent character. Similarly, the Autonomous Community of Asturias established the qualification of social housing until such time as the property is declared unfit, i.e. for the entire useful life of the dwelling.

The Autonomous Community of the Basque Country deserves a separate mention. This region made a pioneering move when it established a permanent qualification of all subsidized owner-occupancy housing in 2002. The background of this is discussed in more detail below.

⁴ However, due to the opposition of some of the Autonomous Communities, which claimed they would have difficulty implementing those registers immediately, this measure was not made compulsory in a transitional period, with the Communities being left to establish their own control measures to avoid fraud in the first-time sale of subsidised housing.

Permanent subsidized housing: the case of the Basque country

In this paragraph, we will look at some innovative initiatives that have been introduced in recent years in the Autonomous Community of the Basque Country. After Madrid, the Basque country (*Comunidad Autonoma del Pais Vasco: CAPV*) is the region with the highest house prices in Spain (see figure 4). Since the 2002, subsidized owner-occupancy housing has a permanent status in this autonomous region. Moreover, the Basque government has a first right to buy on all VPO sales on the free market so that they can subsequently reallocate the housing.

The above policy measures are widely accepted by the Basque society. According to the Survey of Housing Needs and Demand conducted by the CAPV in 2005 (Department of Housing and Social Affairs, 2006), the vast majority of the Basque population was in favour of the permanent qualification of social housing. More specifically, 89.7% of young people seeking their first home and 90.4% of the households that want to move to another dwelling approve this initiative.

The sale of subsidized owner-occupancy social housing with a limited leasehold is another recent feature of housing policy in the Basque region. For some years now, the bulk of subsidized owner-occupancy housing in the CAPV has been provided under a 75-year leasehold arrangement. This means that the government retains the ownership of the land on which housing is built. After 75 years, the units themselves also become the property of the government. This period remains fixed, regardless of any changes of owner.

Further limitations on the ownership of subsidized owner-occupancy housing are currently under consideration. For example, it has been suggested to review the circumstances of the occupants of subsidised owner-occupancy dwellings at given intervals, in order to ascertain whether there has been any change in their financial and economic situation. If occupants are found to no longer be entitled to continue living in subsidised housing, they will have to give it up. In that case, they may receive a compensatory sum of money that is calculated on the basis of their efforts to finance the dwelling in question and the benefits gained from living in it⁵.

6. Conclusions and discussion

Conclusion

This paper has shown that there are some serious problems on the Spanish housing market. Despite the impressive housing production rate, the house prices are very high and there are affordability and accessibility problems for young people, especially in the more urbanised regions such as Madrid, Catalonia and Basque country. For many young households that want to buy a dwelling, the subsidized owner-occupancy sector is the only alternative.

Traditionally, the Spanish subsidized owner-occupancy sector was a temporary sector. As a result of the big price differences with the non-subsidized sector, this offered good possibilities for profit making once the subsidy term had ended. In order to prevent this, some regions have recently taken policy initiatives that are supposed to give the subsidised owner-occupancy sector a more permanent character. Some autonomous communities have now chosen for a permanent or nearly permanent qualification period. As a result of this, it seems as if a 'new' permanent or semi-

⁵ Actually, there already is a community in Basque country, Getxo, where such a system is already in force.

permanent tenure category is being created. As far as this is concerned, it should be noted that Spain is not the only country with a permanent or semi-permanent subsidized owner-occupancy sector. More or less comparable sectors exist in countries such as the United Kingdom (shared ownership, home buy), Ireland (affordable housing scheme), the United States (Low Equity Housing Cooperatives), and the Netherlands (see Elsinga, 2005 for more information on these schemes).

Discussion

In our opinion, the more permanent nature of the Spanish subsidized owner-occupancy sector in at least some regions is a positive development. After all, it allows for a fairer and more efficient allocation of government resources. Given the large price differences between subsidized and non-subsidized dwellings, and thus the potential for profit-making, it seems logical to give the subsidized owner-occupancy sector a more permanent character.

At the same time, the creation of a permanent subsidized owner-occupancy sector may have consequences for the further development of the housing market in the regions concerned. It can for example result in a further reduction of the already relatively low mobility rate. If occupants of subsidized owner-occupied dwellings are not able to accumulate significant assets in their dwelling by taking profit of house prices increases, it will be difficult, as well as financially unattractive, for them to move to a non-subsidized dwelling in a later stage of their life. After all, the price difference between subsidized and non-subsidized owner-occupancy dwellings is so large that it is difficult to bridge this gap on the basis of income increases and personal savings alone. Thus, the creation of a permanent subsidized owner-occupancy sector might lead to a compartmentalization of the housing market. It can result in a subsidized owner-occupancy sector on the one hand, a non-subsidized owner-occupancy sector on the other hand, and few interaction between these two segments. On the long run, intergenerational transfers might even pass on the above difference from one generation to another.

The question is if and how this can be prevented. One option would be to invest more in the creation of a so-called intermediary sector. Such a sector already exists in the form of VPT housing, which is more expensive and offers more quality than ordinary subsidized owner-occupancy housing, but is still less expensive than the unsubsidized owner-occupancy sector. This VPT housing can possibly function as a bridge between the subsidized owner-occupancy sector (VPO) on the one hand, and the unsubsidized owner-occupancy sector on the other hand. Nevertheless, we doubt whether this is a real solution since the price differences between VPT housing and unsubsidized housing are still considerable. Thus, the stimulation of VPT housing might as well result in the creation of yet another segment within the Spanish owner-occupancy sector (next to the VPO dwellings and the unsubsidized dwellings).

In our opinion, the true solution for the Spanish housing problems should be found in a better matching between the dwelling stock on the one hand, a the demand of house seekers on the other hand. In our opinion, this can be realized by activating the empty dwelling stock.

As we have indicated earlier in this paper, Spain doesn't have a shortage of dwellings in numerical terms. There are much more dwellings than there are households, and the production of dwellings is much higher than the growth of the number of households. Nevertheless, the house prices are high and still increasing. This is due to the fact that a significant part of the new and existing Spanish dwellings are vacant without being on offer on the housing market. About 16% of the Spanish

dwelling stock is currently empty, and only a very limited part of this empty dwelling stock is for sale or for rent on the housing market (see Hoekstra and Vakili Zad, 2006, for an analysis of this phenomenon). If a larger part of the vacant dwelling stock could be made available for the housing market, the supply of dwellings would increase and the house price growth would be subdued.

Recently, the Spanish government has taken some initiatives in this direction. These initiatives aim to add vacant dwellings to the rental sector. First of all, there is a premium for renting out dwellings. Owners who possess a vacant dwelling with a surface of less than 120 square meters, and who agree to rent out this dwelling for at least five years, can get a government subsidy that can be used for making the dwelling suitable for letting. The subsidy covers the necessary revision and redecoration costs, up to a maximum of € 6.000. However, homeowners are only entitled to this subsidy if they charge a rent that is below a certain government-determined level.

A second initiative concerns the establishment of the so-called public rent fund (*Sociedad publica de alquiler*). This fund acts as an intermediary institution between owners of vacant dwellings on the one hand, and house seekers on the other hand. It offers security and comfort to homeowners since it carries out all administrative procedures concerning the letting a dwelling, and gives the landlord the guarantee that he/she will receive a fixed amount of rental income every month, independent on whether the tenant does or does not pay the monthly rent. In exchange for this, the landlords should let the dwelling against a social rent instead of a market rent.

Until now, the impact of the above policy initiatives has been rather limited. In our opinion, this might be due to the fact that these initiatives only aim at adding vacant dwellings to the rental sector, and not to the owner-occupancy sector. And as we have seen earlier in this paper, renting is only a second-best option for most Spanish households. Against this background, it might be a good option to stimulate owners of vacant dwellings to sell their dwelling on the housing market instead of keeping it vacant. In order to achieve this, one could think of fiscal measures such as a higher taxation of the cadastral value of dwellings, or a specific taxation of vacant dwellings. In France, the latter taxes already exist and in Spain they are currently under discussion. However, given the fact the construction sector occupies a very important position within the Spanish economy and many Spanish families possess a vacant dwelling, it will probably be very difficult to find sufficient political and popular support for such measures.

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