The Tenure Imbalance in Spain: The Need for Social Housing Policy

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Summary. Spain is usually chosen as an example of an unbalanced picture among tenures. The owner-occupied sector has been growing since the 1950s while the rental sector has become smaller. Surprisingly, other European countries are at present following the same pattern, but mostly we also see an important function for social housing. Taking into account that public housing, built by public developers, is almost negligible and that government housing policy programmes basically stimulate ownership, the ‘social housing’ concept lacks an adequate definition in Spanish housing policy. In this sense, the encouragement of the rental sector through public policy should provide an alternative for low-income families. Despite different cultural housing backgrounds, the emergence of a reliable rental sector in Spain appears to be the most promising strategy for solving current housing problems. The aim of the paper is twofold. On the one hand, it analyses the evolution of the rental sector through recent decades, stressing how different central government regulations have affected the tenure structure in Spain. On the other, it considers the rental sector as a potential instrument for authorities to meet the housing needs of low-income families. Housing policy still plays a crucial role in offering the opportunity for certain groups to access a suitable house. What can be called the ‘European shift’ to the market can cause irreparable damage to those families that have benefited from former, direct or indirect, public means.

1. Introduction

The rental sector in Spain has experienced a dramatic decrease in recent decades. The housing stock available for renting is considerably smaller than in other European countries. The decrease is undoubtedly the supply response to severe economic conditions and to the strict regulations of the sector.

A direct consequence of the reduction has been the profound increase in rent which, at present, prevent a determined demand segment access to this type of dwelling. Rental demand in Spain is mainly a captive demand, formed by collectives in a precarious labour situation or with not enough income to access ownership. Supply is atomised, in private hands and there is a lack of qualified and professional suppliers.

The objective of the paper is to consider the need for social housing policy as an alternative to the established tenure in Spain.
In particular, we will argue for the intervention of central government in the rental sector to ameliorate the unbalanced picture and to foster specific collective access to affordable housing. In other words, we will suggest the rental sector as a means for social housing.

First, the paper will analyse the current situation of the rental sector in Spain. We will look at both supply and demand forces and at housing programmes to determine the extent to which those have affected the rental sector. The situation of scarcity and low-quality supply, along with high rents, will be outlined and also the low attractiveness of rental real estate investment.

Secondly, and taking into account that housing policies and regulations establish a framework of a non-neutral intervention, we will map out how the rental sector has been affected in the past by the change in regulations in order to understand the main cause of the supply decrease. The evolution from a highly regulated sector to a greatly liberalised market has not been able to redress the decrease in the number of rented dwellings.

In addition, and considering this sector as one of the alternatives of governments to solve a still-persistent housing shortage, we will discuss how it can be used to realise social housing policy and, also, stress the potentialities of the rental sector as an option for social housing. The failure of the market system to provide accessibility for certain demand segments certainly demands a strong policy action.

2. The Role of the Rental Sector: Evidence from Spain

2.1 Main Characteristics from the Supply Point of View

Quantity and quality. Taking into consideration housing tenure structure, Spain has one of the smallest rental sectors in Europe. This has not always been so. In 1950, the percentage of dwellings to be rented was higher than the one representing houses in ownership (see Table 1). However, the sharp downward trend in the rental sector jointly with the upward evolution of owner-occupation had completely changed the scene at the end of the 1990s.

Scarcity, ageing stock and location in old city centres, along with poor house quality, are the main features of the sector in Spain. According to data provided by the Ministerio de Fomento (Ministry of Public Works and the Economy) in 1991 approximately 30 per cent of the rental stock had been built before 1940 and around half of the total amount dated from before 1960. It can be said that the newer the stock, the fewer rental houses available. For Spain as a whole, data confirmed the deterioration of rental dwellings relative to owner-occupied houses. Qualifying the housing stock according to the level of maintenance, 53 per cent of the owner-occupied stock was in good condition while only 36 per cent of the rental houses were. Indeed, around 20 per cent of rented housing was in ruins or deteriorated, but only 8 per cent of owner-occupied housing. In

| Table 1. Tenure patterns of main residences, 1950–95 (percentages) |
|-------------------|---|---|---|---|---|---|
| Social rented housing | 3   | 2   | 2   | 2   | 1   | 1   |
| Private rented housing | 51  | 43  | 30  | 21  | 15  | 13  |
| Total rented housing | 54  | 45  | 32  | 23  | 16  | 14  |
| Owner-occupation      | 46  | 51  | 64  | 73  | 78  | 81  |
| Others               | 0   | 4   | 4   | 4   | 6   | 5   |
| Total                | 100 | 100 | 100 | 100 | 100 | 100 |

Sources: INE (various dates) and Ministerio de Fomento.
1995, the INE (Instituto Nacional de Estadística) official statistics reconfirmed the situation: there was, and still is, a lack of incentives to private owners of rental housing to spend time and money on the conservation of the dwelling.

Return on housing investment. So far we have considered the size and condition of the rental stock, but several facts must be taken into account to explain this situation. In this context, we will turn to the question of profitability. Why is the rented sector so unattractive for suppliers, both individuals and developers? We need to look at the returns obtained from renting a house and compare them with other alternatives such as public debt. Figure 1 shows that returns from the rental market were lower than those from public debt during the 1984–99 period. The gap became narrower over time because of the decrease in interest rates.

Not only are returns from real estate investment unattractive, but also real estate capitalisation—the other issue at stake for suppliers—plays an important role in the reduction of the rented sector. Figure 2 shows housing revaluation in Madrid through the comparison of nominal and real housing prices. We notice that real estate capitalisation has not been high enough to stimulate housing acquisition to rent. In the second part of the 1980s, house prices grew almost three times, yielding strong capital gains. This did not happen in the 1990s and housing investment caused some capital losses from the beginning of the decade to the very end of it.

2.2 Main Characteristics from the Demand Point of View

The scarcity of rental housing has caused a high rise in rents, discouraging the demand in particular circumstances, such as first access to housing or the beginning of the housing career. Additionally, in many cases, the absence of an interesting substitute to ownership causes, to a considerable portion of the population, substantial distress. Although renting would be the best option in several situations, people buy and accept a considerable amount of debt if they wish to access housing.

With the intention of illustrating a general panorama of a family’s effort when considering the several residential options, Figure 3 evaluates and compares affordability considering owner-occupation and rent as residential choices in Barcelona. In the

Figure 1. Returns from the housing rental market and from public debt, 1984–99. Source: Banco de España, Ajuntament de Barcelona.
owner-occupation case, we understand affordability to be the percentage of gross annual family income addressed to pay mortgage quotas encompassing both interest and redemption of the loan, given an average dwelling and an average family. In the rental case, affordability relates to the annual rent paid from gross annual family income.

At the beginning of the 1990s, a medium-income family addressed over 70 per cent of earnings to repay the mortgage needed to buy a standard house (100 square metres and medium quality). This high percentage implied a general crisis in accessing ownership for a considerable share of the population. Housing policy programmes were mainly oriented to facilitating access to housing. Despite their considerable success, the high land

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**Figure 2.** House prices in Madrid, 1976–99. *Source:* Tecnigrama, INE.

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**Figure 3.** Housing affordability in Barcelona, 1990–98 (percentages). *Source:* Ministerio de Fomento, Ajuntament de Barcelona.
prices of big cities such as Barcelona or Madrid, as a result of price control and limited extension, caused difficulties in meeting the established requirements. In this case, the alternative for housing access to certain families was the rental market which meant a lower housing expenditure—around 30 per cent of gross family income.

As the 1990s advanced, the decrease in mortgage rates jointly with an improvement in banking conditions defined a better scenario for those who wanted to access owner-occupation. Therefore, at the end of the 1990s, while monthly rent represented 20 per cent of family income, the monthly mortgage repayment was around 30 per cent.

In a context of low mortgage rates, the rental choice does not offer any additional attraction. Moreover, as will be explained below, the uncertainty in agreed contracts, together with the need for maintenance and repairs of the rental stock, has characterised the rental option in Spain. In this sense, it is absolutely justifiable that not only high- and medium-income families, but also low-income households are not interested in the rental alternative.

2.3 Housing Policy Programmes and the Rental Sector

While the development of dwellings in the owner-occupied sector has received a great boost, the building of other forms of tenure such as rent has not been attractive enough to promoters—public ones included—to increase the number of dwellings in this sector. Apart from considerations related to psychological background and cultural differences, housing policy in recent decades has strongly determined tenancy in the country.

Broadly speaking, ‘social housing’ is understood in several ways in Spain: on the one hand, it defines central government intervention through the establishment of the general guidelines for housing programmes. On the other, it merely refers to the Vivienda de Protección Oficial (VPO) or subsidised housing, built by public or private developers and complying with some requirements, such as square metres or price, established by the government. Since 1978, the role played by the so-called VPO was addressed to satisfying the housing needs of the poor, mainly through the subsidy of acquisition and rarely by stimulating rent. The increasing involvement of private actors in social housing supply has reduced the relative weight of the VPO that in 1999 represented 12.3 per cent of the total stock.

In particular, the Spanish public rental sector represents nowadays the lowest percentage compared with other European countries (see Table 2). In the 1980s, public development of housing was decentralised and transferred to autonomous communities (ACs). Taking into account that the decentralisation process involved a considerable decrease in economic resource endowment to intermediate levels of government, not only the

<table>
<thead>
<tr>
<th>Housing stock (millions)</th>
<th>Owner-occupation (percentage)</th>
<th>Rent (percentage)</th>
<th>Private (percentage)</th>
<th>Public (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>35.55</td>
<td>42</td>
<td>58</td>
<td>83</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.43</td>
<td>50</td>
<td>44</td>
<td>42</td>
</tr>
<tr>
<td>France</td>
<td>27.81</td>
<td>54</td>
<td>39</td>
<td>52</td>
</tr>
<tr>
<td>Italy</td>
<td>25.03</td>
<td>79</td>
<td>18</td>
<td>70</td>
</tr>
<tr>
<td>UK</td>
<td>23.71</td>
<td>65</td>
<td>35</td>
<td>29</td>
</tr>
<tr>
<td>Spain</td>
<td>18.26</td>
<td>78</td>
<td>14</td>
<td>92</td>
</tr>
</tbody>
</table>

central government but also ACs and local authorities reduced their participation in public developments. In addition, difficulties in management and administration by ACs and the municipalities of the existing rental housing stock drove authorities to sell the main part of it. This process was similar to the one carried out by the UK authorities in the 1980s but on a smaller scale.

But unfortunately, as has been pointed out before, the rental market in Spain does not constitute a tangible alternative for families that look for a house. The scarce supply of houses to be rented generates affordability problems on the demand side. In addition, historically, the rental legislation has discouraged new rental developments. What, then, is the role of rental dwellings at present?

One of the questions at stake in terms of housing policy is how the rental sector could better answer demand needs. In this sense, two alternatives are theoretically possible: on the one side, the total deregulation of the sector with a small role assigned to the government, basically guaranteeing the accomplishment of contracts; and, on the other, a deeper intervention using the sector as a direct ‘social’ instrument. Despite the traditional trade-off between efficiency and equity, the implementation of a decided rental policy can improve both.

According to López García (1992), the cost in equity caused by the ‘shift’ to the market should be covered by other related policies, more efficient than the housing one. But, even when true, how can this assumption be implemented? The Spanish case and its liberalisation process opens a line of enquiry about how policies other than housing could be implemented to end the exclusion of some targeted groups.

3. The Spanish Rental Sector through Regulations

3.1 Rental Legislation until the Mid 1980s: A Rigid Framework

A profound analysis of regulations for the rental market, jointly with the description of the main trends of related policies, is necessary in order to understand the picture of the downward trend of the rental sector in the Spanish housing stock.

As has been mentioned before, housing regulations and policy programmes have deeply affected the tenure imbalance in Spain. In particular, rental laws have determined different agreements between owners and households affecting basically two aspects: the term of the contracts and the settlement and future modification of rents.

After the Civil War, a severe housing problem in terms of a highly deteriorated housing stock and an unsatisfied demand determined a great reform of the rental legislation. Populist measures were introduced such as the stipulation of very favourable conditions for tenants: frozen rents and constant renewal of contracts, which were automatically extended for offspring, meant a great disadvantage to owners. Once the 1940s economic recession had passed, renewed real estate investment could not find enough incentives in the rental sector, basically due to restrictive regulations.

The reform of the existing Urban Rent Act in 1964 made the revision of contracts possible but maintained the conditions of compulsory prorogue. As a consequence of such a restrictive regulation, housing investment fell significantly and new construction was mainly addressed to the owner-occupation sector.

Taking into account that those contracts signed before 1964 were frozen, tenants had very few incentives, from the economic point of view, to leave their houses and owners, legally responsible for the dwelling maintenance, had few stimuli to rehabilitate or repair. As a consequence, the housing stock deteriorated over time, basically concentrated in the old city centres.

Before the Boyer law was passed in 1985, all expired contracts were compulsory prorogued by the owner and optionally by the tenant, with all its rights and duties. There were some hypothetical devices that allowed the general rule to be broken. For instance, if
the landlord’s relatives needed to occupy the dwelling, or if alternative houses were available to live in. In addition, two compulsory prorogues were established for the owners determining a continuing relationship for generations and, therefore, excluded from revision.

Considering conditions to fix and modify rents, freedom has been the general rule for fixing rents in all Spanish rent legislation, except in the case of the so-called subsidised housing (Vivienda de Protección Oficial) where rents are determined by the relevant policy measures. Mainly, the standing problem was the ability to actualise rents according to revision indexes such as the CPI.

Historically, no rent update was considered until the approval of the 1964 regulation (Urban Rent Act 4104/1964 of 24 December). There were two ways to modify rents: first, by changing the level (known as a stabilisation clause) and, secondly, by means of a periodical updating. Both aspects were included in the above-mentioned law. Following this pattern, updating was freely established in contracts signed after 1964. For those contracts agreed before then, the law provided for instruments to update rents under certain assumptions. Maintaining the same level of services along the length of the contract was clearly behind the dispositions of the law.

Around the mid 1970s, some legal considerations forced contracts to be indexed through an official price index. This situation persisted until the mid 1980s, when the rental regulation reform, the so-called Boyer Decree, implied the abolition of existing restrictions and duration agreements.

The tenure structure in Spain was certainly affected by the functioning of these strict regulations. During the period analysed, we moved from a share of 54 per cent rented dwellings in the housing stock in 1950 to 23 per cent at the beginning of the 1980s. The opposite alternative to this rigid framework was the absolute liberalisation of the market: in this sense, the Boyer Decree reversed the legal structure looking for an increase in the rental housing stock by means of liberalisation.

Theoretically speaking, one of the main reasons put forward for the use of rent controls has been to stop income redistribution from tenants to owners. This argument is based on the assumption of monopolistic structures of owner-occupation which generate excessive benefits. However, empirical evidence suggests that the non-existence of entrance barriers determines the consecution of a competitive profit determining the rental market as a competitive one (López García, 1991).

With the acceptance of such reasoning, rent controls seem to be the worst instrument to stimulate the construction of rental dwellings in that they eliminate incentives to build new rent houses due to reductions in profits that fall under the market level. Moreover, rent controls prevent reasonable maintenance and repair programmes by the owners and, in fact, tenants are encouraged to be responsible for this task due to the almost unlimited term of rental contracts.

Several authors consider, in the light of these assumptions, that rent control is the most inefficient instrument to develop a greater rental sector—not only from the redistribution point of view, but also in equity terms. As an alternative, and having in mind social objectives related to housing access, direct subsidies linked to housing should bring a positive solution. In this sense, and following López García, direct subsidies involve both subsidies based in supply—that is, public housing—and subsidies oriented to demand—income transfers to low-income families to be spent on housing, the so-called housing allowances.

3.2 The Boyer Decree: A Turning-point?

Historically, a turning-point in Spanish rental regulations can be identified in 1985 with the Boyer Decree. While measures addressed to rent control prevailed until this date, absolute liberalisation in terms of contracts was allowed with the new regulation. Rent control had been used as a policy instrument, mainly to redistribute income from landlords to tenants. In fact, the Spanish evidence does not
confirm this assumption: considering the existent regulation, owners were not obtaining as many benefits as one would expect if they were implicitly to transfer income to tenants.

After the liberalisation of the rental market, the absence of a stable framework to set up relations between tenants and landlords determined a period of instability, worsening the rental sector. Moreover, the co-existence of former contracts and new ones did not help to clarify the landlord and tenant position in that situation. Therefore, the reform (see section 3.3) of the rental market was considered absolutely necessary at the beginning of the 1990s, taking into account, among other things, the extremely low share of this sector compared with other European countries and the side-effects generated by the Boyer Decree.

The term of contracts under the Boyer Decree was liberalised from then on, basically to be determined by the agreement between landlord and tenant. In this sense, the elimination of prorogues was a consequence of the agreed ending term. The main characteristic of the rental market after the approval of the Law was the co-existence of ‘old-rent’ contracts (contratos de renta antigua) unlimited in time with very short-term ones with high rents agreed under the prevailing law.

However, the analysis of the market reaction to the new framework does not confirm the success of the objectives. The outcome was ambiguous: on the one hand, it stopped the downward trend of the rental sector initiated at the beginning of the 1980s and, on the other, it caused the growth of new rents due to the instability created by the short-term contracts (Faus, 2000).

In addition, the coincidence between the removal of rent control in 1985 and the high rise in house prices allowed owners to increase rents influenced by the general rise in house prices. Therefore, tenants observed a higher rate of increase in rents compared with their incomes (Rodriguez, 1990).

Unfortunately, there are no statistics for the whole Spanish market. As a reflection of similarities in the total rental sector but taking into account possible divergences, the city of Barcelona has been chosen, due to the availability of data, to show how rents and prices have evolved in recent years (see Figure 4). Despite the CPI downward trend, two aspects can be noticed: on the one side, it is possible to identify a positive correlation between house prices and rents and, on the other, the increase of both variables since 1993.

The graph shows how housing prices increased dramatically in the second part of the 1980s, coinciding with the abolishment of

Figure 4. The evolution of rents, house prices and the Consumer Price Index, 1985–95 (percentages). 
rent controls and conditions of contracts. This was the main result of the increasing housing shortage due to the growing demand in this period. The trend of housing prices had a lagging effect on rents. It seems reasonable to argue that the owners’ behaviour when faced with an increase in dwelling value, is to push rents up in order to continue obtaining the same profits associated with the investment.

The revolutionary components of the Boyer law suggested the need to evaluate the main consequences of an almost totally liberalised legal framework and to make the components of the law compatible with the need to increase the rental supply, especially for low-income families.

First, the new legislation, consistent with liberalisation, was compelled to limit to a certain extent the excessive instability created for the landlord and tenant. The establishment of a minimum contract term jointly with neutral updating criteria such as CPI seemed to be the evident option. Furthermore, over 1 million houses needed to be adapted through a political agreement without generating considerable damages for households. Secondly, an increase in the institutional supply of rental houses through private and public means had to be guaranteed in order to provide housing for targeted groups such as low-income families. In this context, the suggested alternative for the rental sector reduction due to difficulties in management was the partnership between private entities and those shared by private and public capital with more facilities to undertake the organisation of the rental houses (Comité de Expertos, 1992). Public intervention would play an important role, mainly by exempting taxes on the profits of enterprises oriented to increase rental supply. And finally, urban plans were urged to include land earmarked for the building of rental houses, to assist those mixed societies oriented to the production and management of rental houses. Some of these aspects were considered when the current Urban Rent Act (24/1994) came into force in 1994, some others were not.

3.3 The Current Legislation

The aim of the current regulation is mainly to stimulate the rental sector. A long-run stable legal framework and a minimal public intervention are the two basic guidelines under which the regulation is structured. Other related measures, including fiscal policies, must also be considered to assess the whole panorama affecting the rental sector in Spain.

The current law is more restrictive than the previous one. It establishes a minimum contract term of five years limiting the possibilities of prorogues for new contracts. The problem generated by the diversified existing contracts was to be solved through a gradually implemented revision system. Nowadays, it is possible legally to divide the rental stock according to the type of contract agreed between landlords and tenants. Four different possibilities can be distinguished, by type of contract:

— Contracts signed before the Urban Rent Act, 1964, Ley de Arrendamientos Urbanos (LAU) 4.104/1964, came into force. Basically, the main characteristic is that rents were frozen and the extension of the contract is compulsory for the landlord.

— Contracts agreed between 1964 and 1985, when the Royal Decree 2/1985 was published. In this case, despite the compulsory prorogation, the landlord was able to increase the rent according to an official Consumer Price Index.

— Contracts arranged since the Boyer Decree took effect until the enactment of the current law, Urban Rent Act of 1994, LAU 29/1994. The most important innovation was the abolition of the compulsory agreement extension and the freedom to establish the term of the contract.

— Contracts negotiated after 1994. One step back in the liberalisation process, the new law establishes, among other things, a five-year period as the minimum term of contracts.

This co-existence of several types of tenancy situation in the rental stock made it more difficult, until 1994, to adopt policy measures.
oriented to stimulating the sector. In 1992, approximately 50 per cent of contracts dated from before 1964 and 75 per cent had been signed before the Boyer Decree (Sánchez, 1992).

Those contracts signed before the legislation passed in 1985 were actualised regarding the particular situations of the households, and tried to minimise disadvantages for tenants. Frozen rents would be unblocked through an amendment according to tenant incomes.

3.4 Other Policies Addressed to the Rental Sector

Alongside specific measures and regulations addressed to the rental sector, other instruments have been used in Spain in order to stimulate the sector: namely, housing programmes and related policies such as fiscal policy, oriented to define and determine grants and subsidies to make housing affordable.

Mainly, rental policy during the 1990s has been based on fiscal exemptions for tenants, under a set of assumptions. Until the last Income Tax Law (Law 40/1998 9 December), fiscal incentives to owners to stimulate them to rent their houses, were implemented through income tax deductions. At present, this measure is not considered anymore. Exemptions in value added tax are still in operation. Additionally, societies and real estate funds, fondos de inversión inmobiliaria, were created in 1992 through the Law 19/1992 (recently reformed by the Law 20/1998 and the Royal Decree 686/1993, also reformed by the RD 845/1999) to be a fundamental facet of housing policy. Those funds oriented to develop social rented housing enjoy reductions in taxes; however, until now, very few of them have been used.

Moreover, developers of rental dwellings smaller than 120 square metres are demanding additional exemptions in capital gains tax (Impuesto de Sociedades). An additional proposal consists of a 50 per cent discount over patrimonial increases when rental dwellings are sold to tenants after 10 years of the first rental contract.

The latest housing programme in Spain, Plan 1998–2001, introduces grants and subsidies to developers in the rental market. The aim is to fix rents by developers at under the market level (see Table 3). Additionally, developers can enjoy three years without starting repayment. It will be noticed that, observing certain conditions, direct grants to developers can involve up to 15 per cent of the maximum selling price of the dwelling. Indirectly, a maximum rent is established under the requirements in order to obtain a loan quota subsidy.

### Table 3. The housing plan 1998–2001: grants and subsidies in the rental sector

<table>
<thead>
<tr>
<th>Type of aid</th>
<th>Developers’ requirements</th>
<th>Maximum rent per year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan quota subsidy</strong></td>
<td>25-year loan 50 per cent during first 5 years; 40 per cent the rest</td>
<td>5 per cent of maximum selling price of the dwelling</td>
</tr>
<tr>
<td></td>
<td>10-year loan 30 per cent during first 5 years; 20 per cent the rest</td>
<td>7 per cent of maximum selling price of the dwelling</td>
</tr>
<tr>
<td></td>
<td>25-year loan 15 per cent of maximum selling price.</td>
<td>If the grant is conceded in advance, 4 per cent during first 5 years of contract</td>
</tr>
<tr>
<td><strong>Grant (maximum surface allowed: 70 sq m)</strong></td>
<td>10-year loan 7 per cent of maximum selling price</td>
<td>If the grant is conceded in advance, 6 per cent during first 5 years of contract</td>
</tr>
</tbody>
</table>

*a* Loan quota subsidy is understood as the percentage of quota (interest and redemption of the loan) subsidised by the public sector.
Those dwellings considered as publicly developed and allocated to rent, at least for 10 years, can be favoured by a maximum grant of 30 per cent over the computed cost. Moreover, developers rehabilitating complete buildings to rent can have access to a ‘qualified loan’ (the maximum amount of the loan being 80 per cent of the selling price) as well as the same type of grant and subsidy as those dwellings initially allocated to be rented.10

Nevertheless, the situation at the end of 1999 was not very optimistic. Official calculations at the end of 1999 pointed out a 25 per cent accomplishment of the Plan. Results vary deeply depending on the autonomous community considered. For instance and considering rent actions, while Catalonia and the Canary Islands represent 28 per cent and 31 per cent, respectively, some autonomous communities such as Valencia or the Balearic Islands do not participate at all in this modality.

4. Conclusions and Recommendations

Despite public efforts to elaborate and promote regulations and housing programmes aimed at increasing the rental housing stock, the present situation still denotes a reduced number of rented dwellings. The question is whether this small percentage causes or at least, does not improve, the housing situation of certain groups such as young people and very low-income families, in particular, those with an income less than the amount that represents 2.5 times the minimum wage. Since the beginning of the 1980s, families have assumed high debts while thinking that house purchase is their only option. This indicates that some groups would be excluded from housing access—for instance, the unemployed or families without a regular income. This situation has certainly been ameliorated due to the downward trend of interest rates, but it could be worsened if the latest rise persists.

Two facts have been considered in the article as main determinants of rental real estate investment: profitability, in the sense of rents obtained from landlords compared with public debt returns; and capitalisation, as an incentive to buy housing due to revaluation expectations. Neither has been attractive enough up until now to direct savings towards real estate assets. However, the more stable financial environment, with lower interest rates expected within the European Monetary Union, could attract investors to the rental market in the medium and long term.

Past legislation and economic conditions considerably determined the situation before the mid 1980s: a narrow and inaccessible rental market jointly with a heterogeneous situation of existing contracts. In this context, suppliers had no incentive to enlarge the sector and families had no incentive to demand rental dwellings: on the one hand, supply lacked an attractive legislative environment in which to develop and, on the other, consumers thought owner-occupation more attractive in economic terms.

Implications of liberalisation have been discussed in this paper. Theoretically speaking, flexibility and transparency can be obtained in competitive markets through the removal of all type of barriers, legal ones included. Then, the liberalisation of rental market, if assumed as competitive, should drive rents to the lowest level and increase the supply response. If, on the opposite side, the rental market is considered a reflection of a monopolistic relationship, then intervention can be justified under common arguments to fight against power concentration. In this sense, the Spanish experience illustrates a policy change from a very rigid structure to a highly liberalised one. The historical evolution of tenure in Spain suggests a very slight response to this switch. However, a rather progressive decrease in rent prices can be noticed after the removal of terms and conditions of contracts.

Nevertheless, several questions remain still unanswered: nowadays, the rental market cannot be considered a feasible alternative for low-income families or specific groups due not only to the scarcity of rental dwellings, but also to high rents, even after
the latest efforts to update and improve the rental legislation. As a result, the lack of market opportunities for targeted groups such as young people still demands an imaginative solution on the part of the different levels of government. Since liberalising measures adopted in 1985 have not been excessively successful in coping with the needs of the targeted groups, other possibilities must be investigated.

As a possible path, we would first recommend the assessment of the failure that resulted from the decentralisation of the public rented housing stock in the 1980s. The inability of the autonomous communities to manage this stock has been offered as the main explanation for the great number of sales to tenants. So, we would suggest a deeper research of that process and tentatively propose that private bodies should manage such stock.

Alternatively, we would argue for the consideration of housing allowances as a side-instrument when liberalisation occurs and neither public housing supply nor rental dwellings are available. To regard the rental market as a social housing instrument for determined demand segments should at least be considered as a measure in future policy programmes. The difference from former actions would be the implementation of an allowance system, which might turn out to be more efficient and redistributive than other proceedings to ease housing access.

Notes

1. Research conducted by SOFEMASA.
2. See in San Martín (2000) a simulation model of tenure choice by families in different scenarios.
3. Due to difficulties in obtaining reliable data, we have used, for the whole research, rent data from the city of Barcelona as a reflection of the general situation.
4. See Alberdi and Levenfeld (1996); Pareja and Riera (1994) and Pareja and San Martín (1999) for a complete description of housing policy programmes in Spain.
5. Since the 1992–95 Housing Programme, Spanish housing policy has introduced new modalities (Vivienda a Precio Tasado, Vivienda Protegida) to subsidise the mortgage interest rate of free market acquisitions. The dwellings must meet some requirements related to square metres, price and income of buyers, among others.
6. Usually known as Ley de Arrendamientos Urbanos (LAU) (Urban Rents Acts).
7. Some particular cases were contemplated allowing voluntary alteration of rents by owners.
10. A qualified loan is understood as a subsidised loan under certain conditions established by the general guidelines of the housing programme (see Pareja and San Martín (1999) for a conceptual definition).

References

INE (various years) Censos de población y vivienda 1991. Madrid: INE.


