

Social housing in Spain: what role does the private rented market play?

1. Introduction

The amount of dwellings in Spain has increased by around 20 per cent during the last decade: from 20,946,554 dwellings in 2001 to 25,208,623 dwellings in 2011 (INE, Population and Housing Census 2001, 2011). Between 1998 and 2007, housing prices increased at a faster rate than inflation: real housing prices doubled in real terms evidencing annual increases of around 15 per cent. In 2007, peak of the boom, the average housing price was equivalent to nine times the average annual gross salary, which was four times in 1997 (Rodríguez, 2009).

Not all tenure types were affected in the same way during the period of expansion and homeownership indeed allowed more speculation on future returns. Rented markets, both private and public, already narrow and inadequate, were definitely neglected. This is one of the most tangible results of an explosive booming period in the real estate sector with clear negative consequences after the bursting of the house price bubble in 2007 (Garcia-Montalvo, J. 2008).

In this paper we want to focus on private rented market and on how the long-standing lack of social housing in Spain has meant that the private rented sector has assumed, for decades, certain functions that do not correspond to its intrinsic nature. This is strongly related to the peculiar Spanish approach to housing provision when compared to the rest of Europe: in many European countries, housing provision has been guaranteed through a series of tools oriented toward promoting a varied range of social housing types. However, housing provision in Spain has been mainly understood as the possibility to subsidise homeownership, under a complex set of schemes (xxx, Allen et al., 2004; xxx).

In Spain, the meagre social housing stock does not supply enough housing for vulnerable groups (xxx). This is particularly true during economic recession when these groups are larger than in any other period. They are in fact competing in the rented market with others looking for a certain type of housing service that homeownership cannot provide (i.e. those with a high mobility rate, those in the early years of their housing careers, those with prospects of moving out soon...). Besides, Spanish housing policy has not been neutral to this fact by encouraging, landlords and tenants, the use of the private sector as a means for social housing.

Our hypothesis here is that the private rented market (PRM) in Spain has been accommodating types of families that are not necessarily able to afford a market rent despite the downward trend they have experienced after the real estate collapse (Xxx). Consequently, the negative impact of the economic and financial crisis has been stronger in those households living in the private rented sector with not enough means to afford the rent. In other words, since housing demand from certain groups such as low-income families or single parent households cannot be satisfied by the noticeably low percentage of social rented housing, the private rented market becomes their only alternative for accommodation clearly performing the role of social housing.

We believe that the private rented sector as such might be negatively affected by fulfilling the role of social housing: for instance, by the competing uses of rented dwellings or the lack of incentives for

landlords given the high probability of arrears. In this paper, our main research question is: Does the private rented market in Spain perform a social function? And if so, which are the consequences for the Spanish housing system? Our objectives are two-folded: on the one hand, we aim to define the characteristics of those living in the private rented sector in Spain, paying particular attention to the consequences of the economic and financial crisis. On the other, our purpose is to explore how public policy has encouraged the use of the private rented sector as a form of social housing. Additionally, we want to answer how and up to what extent public policies might be able to readdress this situation in the future.

To do this, in the first section, we will provide a theoretical analysis on the function of PRM in a certain housing system and its relationship with social housing. Next, we will characterise the PRM in Spain by analysing data on both supply and demand, providing a profile of those living in, paying particular attention to their level of income and household characteristics compared to those living in private rented markets in other European countries. Additionally, as we believe that the economic crisis has had dramatic impacts on those households living in the rented market, given their high vulnerability and financial insecurity, we will go in depth into the effects of the crisis in PRM. In the following section, we will explore measures and actions adopted by the Spanish government to promote the PRM as a means for social housing and policy implications related to the outcome of these endeavours. Finally, our contribution will summarise our findings aligned with the questions and objectives previously stated.

2. The private rented sector and its social function

Several authors (Kending, 1984; Scanlon and Kochan, 2011; Crook and Kemp, 2014; among others) have argued the need for a substantial rented market in European housing systems: the presence of a developed private rented sector fulfils a series of functions that are not always fully achieved. Among others, it allows an early start in the housing career of young people, it might accommodate new types of households as a result of changes in the very conception of the family, provides shelter to those that have recently arrived to the country, facilitates labour mobility and facilitates housing access to low-income households that are not in a position to buy a house (Mulder and Wagner, 2001; Clark and Dieleman, 1996; Van Ewijk and Leuvensteijn, 2009). In addition, the lack of a rented market exacerbates housing price oscillations because it prevents the existence of a reserve of dwellings for domestic use, and housing is left exposed to speculative market forces treating it as if it were a mere investment (Kofner, 2014; Voigtländer, 2009 and 2014; International Monetary Fund, 2009).

The rented market in Europe has seen an increasing variety of forms and modalities regarding financial means, actors involved and population served. As Haffner *et al.* (2009) point out, there is an increasingly blurred and shifting line between private and social rented housing in Europe that differs from country to country creating the so-called 'gap' between forms of social and market rented tenure. Private rented dwellings can be classified according to *who provides* them (or who the owner is), that is, private ownership by individuals and companies or public or semi-public by municipalities, non-profit organisations or cooperatives, and *who allocates* them and according to what criteria allocation is carried out, that is, market forces, links to employment or family, or according to social

criteria (Oxley *et al.*, 2011). If we accept that a broad definition of social housing would consider housing allocated according to criteria of need rather than market forces, under this rationale, housing that is privately owned but socially allocated is a form of social housing. If the criterion of allocation instead of ownership is used to define social housing, then the same house might be classified as a private rented dwelling in terms of ownership, but if the individual or company owner or the tenant receive any form of tax advantage or soft loan or if the tenants' income is taken into account to determine the amount of rent, then despite these rented properties being privately owned they are actually socially allocated.

The link established between the private rented sector and social housing provision might take different forms: for instance, private providers may be used to manage publicly owned rented dwellings (Ireland), or just simply the absence of other options may make certain forms of the private rented sector the only alternative. Depending on the make-up of the private rented market supply, for-profit developers compete with non-profit providers for the receipt of subsidies to provide new social housing (Whitehead and Scanlon, 2007; Oxley *et al.*, 2011).

An additional feature to take into account when analysing the interaction between private rent and social rent are the so-called 'social rent agencies' (SRA), set-up in the 80s in Belgium as a result of the shortage of social housing. As grassroots organisations, they were primarily founded as welfare institutions aiming at nationalising the private rental market (De Decker, 2002). Similarly, in countries like the UK and Ireland, some local authorities have established social agencies for rent allowing them to act as managing agents for owners in the private sector (Lalor, 2014). These SRA rent properties in the private rented sector and sublet to vulnerable families. They provide security to the owners and allow the local authority to ensure that the tenant is properly housed while awaiting assignment of a social rental home. This social rental agencies option also emerged in post-socialist countries after decades of privatisation where the need for affordable housing became considerable (Hedegüs *et al.*, 2014).

Thus, the private and the social rented sector appear increasingly intertwined in European housing markets. As we have seen, research has been conducted to explore the different mechanisms that allow the connection between both market segments. However, in housing systems like the Spanish where there is no traditional social housing, that is, publicly owned and rented housing, it becomes highly relevant to investigate the revamp of the private rented sector to perform a social function.

In Spain, social housing is usually associated with housing in the owner-occupied sector and, clearly, allocation criteria are those considered to define 'social housing': traditionally, two different options have been used to facilitate housing provision under the label *Vivienda de Protección Oficial* (VPO) or subsidised housing: housing in the ownership market where both supply and demand sides receive subsidies, and housing for rent, where developers qualify for a subsidy and households benefit from rents below market prices. As we will see later on, the amount of VPO for rent has historically been very low: for instance, in 2005, licenses for VPO for rent represented in Spain 22.2% of all licenses for VPO¹; in 2014, this percentage went down to 8.2%.

¹ In 2005, VPO (homeownership and rent) represented around 11% of total new housing construction in Spain. In 2014, this percentage was 16.4% (Statistics, Ministry of Public Works, 2005 and 2014).

In this paper, rather than focusing on changes in financial means for housing development or types of old and emerging landlord, we will explore who lives in private rented markets in Spain responding to certain allocation criteria and how the economic and financial crisis has affected them. Since social rented housing directly provided by the public sector is almost non-existent in Spain², the comparison between different forms of rented housing (social and market) under the criteria of who provides it, does not make much sense. However, it is the analysis of the private rented sector under different criteria of allocation responding to different incentives of public policy, the interesting part of the story. In some cases, owners receive incentives to rent their homes: they obtain subsidies or incentives that depend on the social utility of the rent (for example, if you rent private housing to young people, single parents, homeless, disabled or large families with small children, etc.). In other cases, tenants in particular conditions can also receive subsidies.

We will base our analysis on available data from the Spanish Ministry of Public Works, the Spanish Statistics Institute (INE) and also the European Survey on Income and Living Conditions, for several years. For examples related to Catalonia, we will use data from the Catalan Housing Agency and for the study of evictions in the rented sector, data from the General Council of the Judiciary.

3. The PRM in Spain: dimension and characteristics

In Spain, the tension between market forces and the orientation of housing policy is clearly evident when analysing the real estate sector since the late 40s in terms of its structural composition, prices and rent levels, location in space, and the institutional characterisation of the agents (Xxx). With regard to tenure, the problems that characterise the Spanish housing market are one of the visible consequences of this dilemma: a strong imbalance in favour of homeownership, a very small and low quality private rented sector, and almost no public or 'social' housing are the obvious results. As a result, housing affordability in Spain has been strongly damaged by the peculiar characteristics of the housing system. During the housing boom, the situation worsened, hardening housing access not only in the homeownership sector but also in the rented sector (Akin, *et al.*, 2014; Taltavull and Juárez, 2012; Naredo, J. M. *et al.* 2009).

Nevertheless, the financial and economic crisis since 2008 has had its effects on the tenure balance in Spain. According to the National Institute of Statistics, Population and Housing Census (2011), the percentage of homeownership has declined over the period 2001-2011 to 78.9 per cent, while rental housing has increased to 13.5 per cent. Thus, the number of rented dwellings has increased by 51.1 per cent in a decade (2001-2011) and represents 2,438,574 units of a total of 18,083,692. The EU-SILC (European Survey on Income and Living Conditions) provides a slightly different picture: in 2014, private rented dwellings represented 12.5 per cent of the housing stock and dwellings rented below market prices were at 2.5 per cent after a constant downward trend since 2004 (see Figure 1).

Figure 1. Tenure in Spain, 2004-2014

Source: EU-SILC, 2004-2013

² According to the Spanish Ministry of Public Works, around 1-1.4% of the total annual amount of non-subsidised housing completed is public rented housing: in 2014, only 486 dwellings were developed as public rented housing, while 35,226 new non-subsidised housing was built

Despite the differences in numbers, the financial and economic crisis represents a turning point for rented markets, from a continuous decline to a positive rise in its evolution which is accompanied by a continuous fall in social housing: the implications of these two issues signal PRMs as compensators for the downward trend in public rented housing.

Taking Catalonia as an example, one of the Autonomous Communities with the highest percentage of rented housing in Spain, the increase in the amount of contracts since 2008 is easily noticeable (see Figure 2).

Figure 2. Rented sector in Catalonia: number of contracts and rent per square metre

Source: Agència Catalana Habitatge (Catalan Housing Agency), several years.

The relative rent decreases experienced since 2008 may have contributed to the increase in the PR sector: living in a rented dwelling of 75 square metres in Catalonia in 2008 cost 918 Euros (on average) while the same apartment could be afforded with roughly 750 Euros in 2013. Simultaneously, the negative perception of homeownership after arrears that have resulted in many dramatic and controversial evictions in the country has enlarged the range of subjective choice for Spaniards considering the rented market as a potential option. The positive shift of the demand side might contribute to a future increase in rents if the supply side does not react accordingly.

3.1 From the supply side: what counts?

The composition of the private rented supply in Spain is highly atomised and mostly in the hands of private owners: in 2013, the EU-SILC confirms that in more than 74 per cent per cent of the cases, tenants had rented their dwellings from private agents, 14.7 per cent from public institutions, 1.1 per cent corresponded to non-profit institutions, and 10.7 per cent to other institutions, including employers (EU-SILC, 2013). The allocation of private rented housing in Spain follows the logic of the market. However, as we will show later, our main thesis in this paper is that a certain segment of private rented stock is being allocated according to social criteria: in some cases, landlords receive encouragement to rent their dwellings obtaining help or incentives that depend on the social utility of the allocation (providing housing for young people, single-parent households, homeless people, disabled people, or large families with small children, among others), in others cases, tenants under particular conditions might also receive allowances. As we will see, financial vulnerability of those living in the private sector has increased over the years.

The profitability of the rented sector has been taken into account when identifying the mechanisms behind this tenure type's reduced participation in the market. As it can be seen in Figure 3, returns in the form of rents received have been comparable to public debt returns for a long while but considerably inferior to housing revaluation. Only very recently have private rented markets been more profitable than the acquisition of public debt. The downturn of housing revaluation in Spain since 2007 is also noticeable, recovering only since the second quarter of 2013. Until very recently, there were not enough incentives to invest or participate in the rented sector. Rent returns still scarcely represent 5 per cent.

Figure 3. Rented market returns (gross rent), public debt returns, and housing revaluation

Source: Banco de España, several years

In addition to this, problems in the management of public rented housing given the lack of public resources to compensate the critical lack of income of tenants, historical difficulties in the definition of rent contracts and the absence of companies devoted to this sector are the main reasons behind the reduced participation of housing for rent in the Spanish housing market (xxx; Burón Cuadrado, 2008).

3.2 From the demand side: satisfying multiple needs

From the demand point of view, there are many consequences of a narrow private rented sector: the emancipation of Spanish young people, and the consequent formation of their first home, is delayed due to the scarcity of affordable rental housing supply, and this is a negative consequence of a meagre rented market in Spain (Jurado, 2004; Xxx). Many young people delay leaving the parental home until they can go straight into the owner-occupied sector, avoiding first housing contact through the rented sector. This phenomenon, the delay in the emancipation and the higher percentage of young people living in owner-occupied housing, is a differential element in the behaviour of young households in Southern Europe when compared to the European average (Módenes *et al.*, 2013; Allen *et al.*, 2004).

In many cases, the current lack of rented housing in Spain forces couples to cohabit due to the huge cost involved in turning the current residence into two (Leal, 2010). The number of single-person households has almost doubled in 20 years: from 13.3 per cent in 1991 to 20.3 per cent in 2001 and 23.2 per cent in 2011. This group has increased while larger households have decreased: families formed by a couple and three children were halved in this period, going from 12.4 per cent in 1991 to 6 per cent in 2001 and 3.1 per cent in 2011 (INE, Population and Housing Census, 2001, 2011). Furthermore, the phenomenon of immigration for economic reasons has been very significant in the last three decades in Spain, developing a direct housing demand primarily for rent and, at the same time, a latent demand, shown by the high average size of these households as a result of more than one family of foreign residents living together in a single dwelling (Xxx). The issue of overcrowded housing is quite common in relation to immigration, particularly in large urban agglomerations with a clear shortage of affordable homes.

In Spain, the increasingly precarious labour market, with insecure salaries and high unemployment risk after the labour market reform initiated in 2012 (Dolado, 2012), makes the option of homeownership impossible, thus simultaneously increasing the demand in the PRM. In that regard, more general policies adopted by neighbouring countries, building on redistributive objectives, have encouraged the development of social housing aimed at a population segment which might not otherwise gain access, freeing the rented market for other population segments.

Having said that, the average profile of those that have managed to live in private rented dwellings can be examined in Table 1. PRMs in Spain concentrate the youngest population, and there are also higher percentages of female heads of household than in other tenure types. Those that are

unemployed are overrepresented and, regarding income; PRMs accommodate lower income segments than other tenure types. As expected, single-person households and single-parent households show higher participation together with those arriving to Spain from non-European countries.

Table 1. Average profile of tenants living in the rented sector in Spain.

Source: EU-SILC, 2012

However, as we have already seen, the lack of social housing in Spain is of paramount importance when it comes to the issue of providing affordable shelter to vulnerable groups. These households, unable to access housing units under the label of 'social', are forced to enter the rented sector, also stimulated by policy measures as we have just seen. An example of the dramatic mismatch between the supply and demand of VPO in Catalonia can be seen in Figure 4, representing the overall situation in Spain. It is the rented market that shows a huge disparity between the existing supply and the potential demand.

Figure 4a Supply – finished dwellings – (*) and Figure 4b. Demand for subsidised housing (VPO), Catalonia, 2011-2014

Source: Housing Agency of Catalonia and own elaboration

(*) includes stock per year since 2009

The new register of households demanding housing under a VPO scheme is essential for identifying the characteristics of those in need of subsidised housing. As we can see, the majority of the requests are for rented housing. Around 80 per cent of registered households demand rented housing, in their majority 'pure' rent (53 per cent) as opposed to rent with the option of buying (26.6 per cent). This fact can be extended to the rest of Spain: this strong demand is totally neglected by public housing provision, particularly in areas of higher population density. Where do these households look for housing? In the case of young people, they might delay the start of their housing career, but for the rest, the private rented market is the only feasible alternative.

3.3 Spanish tenants and the consequences of the economic and financial crisis

Research has been conducted on the effects of the crisis on the homeownership sector in Spain: the huge amount of vacancies, the increasing number of evictions and negative equity for many homebuyers, are among others, some of the sequels (Vinuesa, 2008; Hoekstra *et al.* 2010; Hoekstra and Vakili-Zad, 2011; Naredo *et al.* 2009). However, the rented market and those old and potential tenants have also been heavily disturbed.

The crisis has left a large number of first homebuyers without a job, creating a very unstable situation and a downward spiral since they cannot afford to pay their mortgage payments. They are thus, forced to move out of their homes, looking first for a place in the social rented market but usually ending up in the private sector as a result of the meagre social rental options. Many of these households do not end up living on the streets or in shelters thanks to the so-called 'Mediterranean mattress': the strong social ties among friends and family that are activated to provide temporary or

even permanent shelter. The issue of eviction has resulted in people living in 'insecure housing', as defined by the European Typology of Homelessness and Housing Exclusion (ETHOS) developed by the European Federation of National Organisations Working with the Homeless. Insecure housing not only encompasses situations involving eviction, but also those in which households are forced to live with relatives or friends, sublet rooms in flats, or squat empty buildings.

One of the aspects that can be considered as an indicator of the rented market poor functioning is the amount of tenants for whom the percentage of income used to pay for housing services, is over 40 per cent. This is an indicator of an excessive burden on budgets used to satisfy housing needs. Two aspects may contribute to this high percentage: on the one hand, an excessive amount of rent, and, on the other, and a low level of family income.

Figure 5. Housing cost overburden rate (over 40 per cent of disposable income) (*)

Source: EU-SILC, 2004-2013

(*) The category: 'tenant, rent at reduced price or free' includes rent-free housing. This fact causes a clear underestimation.

As shown in Figure 5, Spanish households living in private rented dwellings exhibit a worse situation than the European average of those living under the same kind of tenure (taking the EU27 and EU18 as points of reference) in relation to the overburden of housing costs in their budget. In addition, the amount of families with housing expenses that consume over 40 per cent of their disposable income has increased in the period analysed (2007-2013), going from approximately 35 per cent in 2007 to its highest peak in 2012, at 50.4 per cent. The turning point in 2013 might be related to the drop in rents after the crisis. As it might be expected, households in rented housing with rents below the market price are better off than those living in the private sector for all the geographical scales considered (i.e., Spain, EU 18, and EU 27).

In a similar vein, around 45 per cent of those living in private rented dwellings in Spain are currently (2013) at risk of poverty or social exclusion, a percentage far higher than the average in European and neighbouring countries, and exhibiting a dramatic increase (36 per cent to 47.2 per cent) after the financial and economic crisis (see Figure 6A). Additionally, when compared to other European countries with different tenure systems, Spain shows the worst situation with regard to the amount of households at risk of poverty (see Figure 6B). It is worth stressing the German case, as it is the European country with the highest percentage of private rented dwellings and exhibits the lowest percentage of German households living in private rented markets at risk of poverty or social exclusion.

Figure 6. People at risk of poverty or social exclusion in the private rented sector per country (a) and per year (b).

Source: EU-SILC, 2004-2013

As mentioned elsewhere, Spanish households refrain from non-fulfilment of their financial obligations. Figure 7 shows the non-payment of financial obligations by households in certain European countries. Spanish households are positioned in the European average, Dutch households being the most reliable, and Irish households experiencing the most difficult situation since 2011.

Figure 7. Arrears (mortgage or rent, utility bills, or hire purchase), 2005-2012

Source: EU-SILC, 2004-2013

Looking at arrears according to tenure, that is, on mortgage or rent payments, private and social rented households exhibit a higher percentage than those living under homeownership (see Table 2).

Table 2. Arrears by tenure

Source: EU-SILC, 2012

Regarding the amount of evictions in the rented sector, it is very difficult to identify the number of households that have been moved out of their rented homes at the national scale.³ Until 2013, official statistics did not distinguish between tenure types in the calculation of evictions. By and large, evictions in the rented sector are higher than those in other types of properties. Considering the available data, Figure 8 shows the evolution of evictions in Spain and, in particular, in the rented sector for the last three years. At first sight, evictions in the rented sector cover more than half of the evictions in Spain. In 2012, they reached their highest peak: nearly 80 per cent.

Figure 8. Evictions in Spain: total and in the rented sector

Source: Consejo General del Poder Judicial (General Council of the Judiciary), several years

(*) Includes evictions in ownership, rented housing, and others

An additional problem can be detected after the crisis: since national, regional, and local governments are obliged to reduce their expenditure, cutbacks are generalised, together with the implementation of other ways to obtain income. Following this reasoning, some authorities have sold (partially or completely) their stock of social housing to private funds. For instance, in 2013, the regional government of Madrid sold about 5,000 rental apartments with rents under the market rate to equity investors, including Goldman Sachs and Blackstone.⁴ Residents, mainly low-income families, people who cannot work for medical reasons, and unemployed people, would hardly notice a change in their situation in the immediate future. However, when leases expire, some of the residents have seen rent increases of 900 per cent. As they cannot afford the resulting rent, they are evicted from their homes. While the actions of private equity funds are completely legal, residents and activists are fighting against evictions.

Summarising, the private rented sector in Spain has faced one of the most turbulent periods in its pathways along the crisis, mainly determined by the poor economic situation of the tenants living in. Clearly, as it was in our hypothesis, the private rented sector has been accommodating families with

³ There is no clear link between arrears and evictions due to the relatively slow procedure to evict households in Spain. However, in 2013, a new figure called 'Express eviction' was definitely aimed at speeding up this procedure.

⁴ In August 2013, Goldman Sachs-Sura bought 3,000 flats originally belonging to the Plan for Young People designed by IVIMA, the Madrid Housing Agency, paying 201 million euros. A month earlier, the fund Blackstone Real Estate Magic acquired 1,860 houses belonging to the Local Housing and Land Company of Madrid (EMVS) for 128.5 million euros.

huge difficulties to afford housing. This problem has been exacerbated after the arrival of the crisis in 2008, when their financial vulnerability reached its high.

4. The social function of the PRM in Spain: policy responsibilities and implications

Since the 90s, Spain has been witnessing a heated debate among academics about the need to enhance the rented market through intervention from the public authorities. The so-called 'culture of homeownership' is merely the result of a rational choice by Spaniards: for decades, and mainly thanks to public encouragement to enter homeownership, housing acquisition was, at least, as affordable as rent but provided the household with a safety net for the future (Xxx, 2002; Leal, 1992, 2010; Xxx; Burón, 2008; García-Montalvo, 2007). After the crisis, the situation has worsened given the competition between different types of households in the rented market, as social housing in Spain is almost negligible. The new Housing Plan 2013-2016, the reform of Law 4/2013 on Urban Leases, and other complementary measures are intended to further continue toward a change of paradigm in Spanish housing provision, focusing more on the rented sector and rehabilitation. However, social housing is still a pending issue.

What we argue in this paper is that various policy measures that attempt to encourage investment in the private rental sector or facilitate access to the rental market under more affordable rents are trying to reinforce the potential of the rented market as a form of social housing. Some measures are currently in force, contained in the current National Housing Plan 2013-2016 or tax regulations, while others have already disappeared (see Table 3).

Table 3. Private rented markets encouraged to performing the role of social housing

Source: Own elaboration

From the supply-side perspective (if you are a landlord):

- Soft loans for private owners to rehabilitate their houses, including those for renting. These loans are intended to finance works for preservation, quality improvement, sustainability, accessibility, and maintenance. Intervention is eligible in dwellings built before 1981 or showing serious structural damage and those that are to be used for renting in the next 10 years. This measure is currently in force.
- Facilitating the conversion of unsold vacant housing in the hands of private developers into social housing, with special interest in the rental sector. This measure was introduced as an extraordinary measure within the previous National Housing and Rehabilitation Plan 2009-2012. It affected individuals, financial institutions (especially private banks and savings banks, which accumulate an important part of the stock), or public enterprises. This measure is currently not in force.
- Tax incentives for owners of private rented dwellings. This measure aims to put vacant homes on the market at the same time providing access to housing for young people through a more affordable rent. The individual landlord is obliged to pay taxes on the income obtained through rent. A reduction of 100 per cent of this rent can be applied if tenants are between 18-30 years of age and their net income is no greater than the public income index (IPREM). This measure is currently in force.

From the demand side (if you are a tenant):

- Subsidies or grants to facilitate access to and occupation of rented housing for people with limited economic means (National Plan 2013-2016), representing up to 40 per cent of their annual income (maximum of 4,200 euros per year). The requirements are, on the one hand, a maximum rent threshold of 600 euros a month (the different ACs may set a lower limit), thus avoiding the grant being used for high rents and, on the other hand, household incomes limited to a maximum of three times the minimum wage, thus ensuring access to the most needy families. This measure is currently in force.
- Tax incentives. Taxpayers whose maximum yearly taxable income did not exceed 24,107.20 euros could apply a deduction of 10.05 per cent of the amount paid in rent, considering a maximum threshold, which varied according to the tax base. This measure is no longer in force, since 2015.
- 'Leaving the nest' subsidy. This consisted of a grant of 210 euros per month for up to four years. This measure was intended to facilitate the access for young people (between 22 and 30 years of age, whose gross income did not exceed 22,000 euros per year) to decent rented housing. This measure came into force in 2008 and is no longer in force.

The consequences of using private rented dwellings as a means for social housing in Spain are highly controversial from a policy perspective. Competitiveness of uses, that is, social housing provision and market provision in the private rented sector, creates for Spanish households with preference for rent an additional tension to the already existing one due to the narrowness of the sector. Besides, and despite the incentives provided by authorities, private landlords, in many cases, individuals, suffer from a high degree of insecurity motivated primarily by its arrears of tenants; they might even prefer to keep his property vacant rather than on the market. In this situation, some countries consider that leaving vacant housing without being rented is a very negative influence that violates the social objectives of their housing policies, so they implement measures to mobilize empty houses (France, Belgium, Denmark or England). However, other countries like Spain and other Mediterranean countries (Greece, Italy and Malta) develop their social housing policies without intervening firmly to diminish the high rates of vacant housing (Escajedo *et al.*, 2011).

As mentioned elsewhere, agencies oriented to connect private dwellings and social functions have considerably solved the mismatch problem in the rented market. However, these agencies have not been set up as such in Spain. However, after the negative consequences of the economic financial crisis, public authorities are urging private sector developers to rent using social criteria, given the critical situation in the housing market and the lack social housing. Banks might play a key role here since they have accumulated a considerable stock of unsold, unfinished or evicted housing. In 2013, a *Social Housing Fund* was created⁵, consisting of around 6,000 dwellings voluntarily supplied by 33 banks to provide affordable housing to evicted families, particularly those with children or members with special needs (Banco de España – Central Bank of Spain-, 2014). It is worth stressing that after two years in operation, the results are not exactly remarkable.⁶

⁵ Royal Decree-Law 27/2012, Law 1/2013, of 14 May 2013.

⁶Similar efforts have been made in some ACs to mobilise and connect the owners of the vacant housing stock and those in need of shelter (for example, the Social Mediation Network – *Xarxa de Mediació Social* – in Catalonia).

Comparable to this, the effect of changes in policy tools aiming to boost the sector since the collapse of the real estate market in 2008 has also had its positive effect on the rented sector. In particular those oriented to punish through taxes the existing stock of vacant housing: for instance, in Catalonia, this measure has proved highly controversial since the issue has been discussed for more than ten years with severe opposition from certain groups. Finally, the Law was passed at the end of February 2015. In a similar vein, during the mortgage crisis, when the problem of evictions was at its height (March 2013), the Ombudsman presented a report to the Spanish Parliament. The aim of this report was to draw attention to the existence of vacant subsidised housing and to provide recommendations to the government to end the mismatch between housing needs and the number of empty subsidised housing units. At that time the number of registered people in Spain looking for subsidised housing was at 332,529 (taking into account that not all ACs have a register of applicants). Simultaneously, empty subsidised housing in Spain represents at least 10,179 units (managed by the Autonomous Communities and large municipalities) that could be inhabited immediately and many people who need housing urgently could benefit from them (Defensor del Pueblo - Ombudsman Report-, 2013).

But maybe the key issue behind the negative impact on Spanish tenants of the crisis goes further than enlarging the private rented sector in Spain; probably, the insufficient social housing segment should require a clear compromise from authorities to look for an alternative form of housing provision for those households under extreme economic and social difficulties. An extended social housing market would reduce the progressive pressure on the private rented sector that would then, provide a powerful alternative for homeownership.

5. Conclusions

Housing in Spain has suffered a series of major imbalances in its history that have been exacerbated since the crisis of 2007. The public provision of housing for vulnerable groups has functioned through the figure of homeownership, abandoning the idea of creating a decent and affordable social housing stock for those who need it. The strong orientation toward homeownership, even for those that should not have entered this sector, together with the almost non-existent percentage of public rented housing have resulted in the development of a new function for private rented markets. Currently, households with unstable jobs or unemployment cannot enter (or progress in) the housing market through homeownership, since after the financial crisis no bank will lend them money. They would probably need to look for a place to live in the social rented sector. Given the small percentage of housing stock serving this function, they will presumably enter the private rented market. A similar situation corresponds to those that have been unable to pay their mortgage and have been forced to leave their homes: they are also looking for shelter in the private rented market given the deficit in affordable social housing.

This paper has emphasised the role that private rental markets have been playing in recent decades in Spain, a role that has strengthened since the crisis. In many cases, the rented market is considered as the last chance for families who cannot buy. This role has also been supported, directly or indirectly, by the public authorities providing conditional aid to homeowners who rent their housing according to social criteria and to applicants that fulfil a specific set of requirements that make them

eligible on the basis of their potential vulnerability. Additionally, the rented market has been abandoned for decades under the Spanish housing provision system and, furthermore, a variety of rent laws introduced in the past century have failed to achieve any considerable success in enlarging this sector.

Given the enormous potential that the rented market shows as a provider of housing for vulnerable groups, the boundary between what constitutes private rental housing and social rental housing is increasingly blurred. It is not a question of competing for subsidies from the supply side, as the social rented sector is very narrow. The risks of assuming this responsibility has negatively affected the rental sector since, in addition to covering a series of demands that homeownership cannot, by definition, meet, the rented sector has been providing housing for those who should benefit directly from social housing.

Regarding our main research question, the private rented market has progressively changed its role in the Spanish housing system becoming a means for 'social' housing provision. This is not only because of the lack of alternatives for the demand side, particularly in the social rented sector, but is also clearly induced by public intervention facilitating housing provision in the rented sector as if this should fulfil certain roles attributed to social housing. Furthermore, although in principle the rented market has not been designed to provide permanent housing, it is indeed providing shelter for long periods of time to certain groups. Accommodating vulnerable households has increased the amount of arrears (and evictions) in the sector, reducing the incentives for private developers or landlords to invest.

The question that remains unanswered is to what extent the rented market in Spain can meet all these demands considering that today it represents only 12.3 per cent of the total housing stock. The Spanish housing system currently exhibits a large stock of finished, new and second hand, vacant, and unsold housing that contrasts with citizens' difficulties in accessing an adequate home, particularly the most vulnerable sectors of the population that are negatively affected by a weak labour market and also by difficulties in accessing credit. All in all, the figures suggest a new future housing scenario with even more blurred boundaries between private rented and social housing. In terms of Haffner *et al.* (2009), 'bridging the gap' or a situation with 'no gap', cannot, in Spain, be related to not having a social rented sector as there is almost none already. A possible solution would probably be to clearly differentiate rented markets. Alternatively, strengthening the focus on the demand side directly supporting low-income households by providing vouchers or subsidies to minimise the costs of housing services, might increase affordability and reduce the financial vulnerability of tenants. That strategy would improve their 'reputation' and, accordingly, landlords would be inclined to accept them. That would also reduce vacancies in the market.

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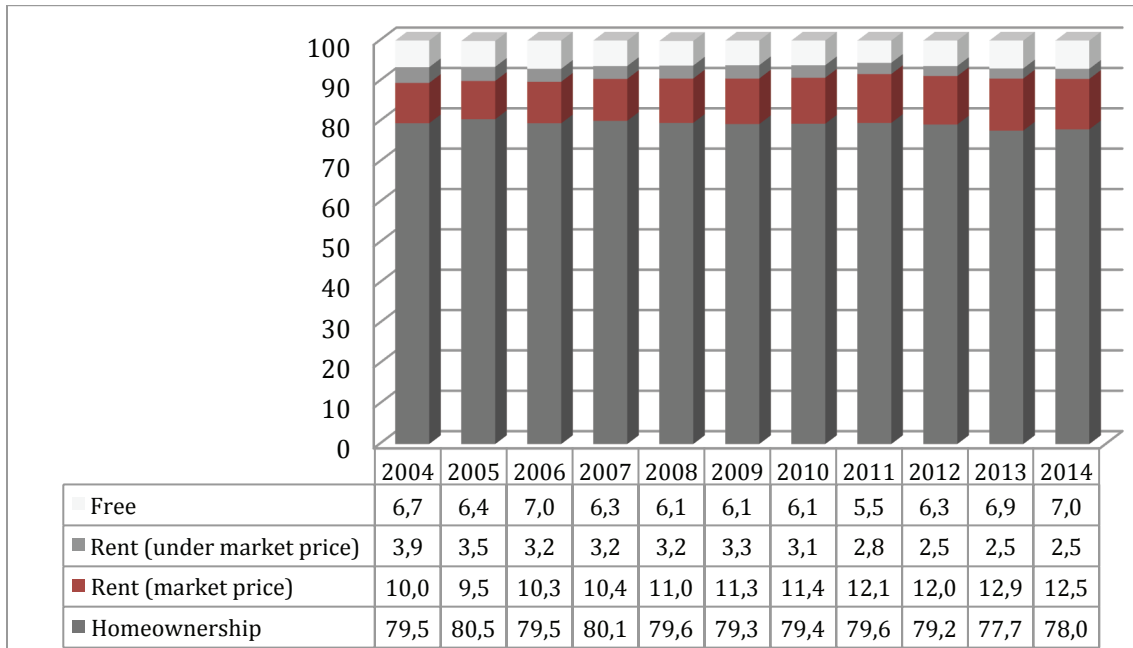
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Figure 1. Tenure in Spain, 2004-2014



Source: ESLC, 2004-2014

FIGURE 2

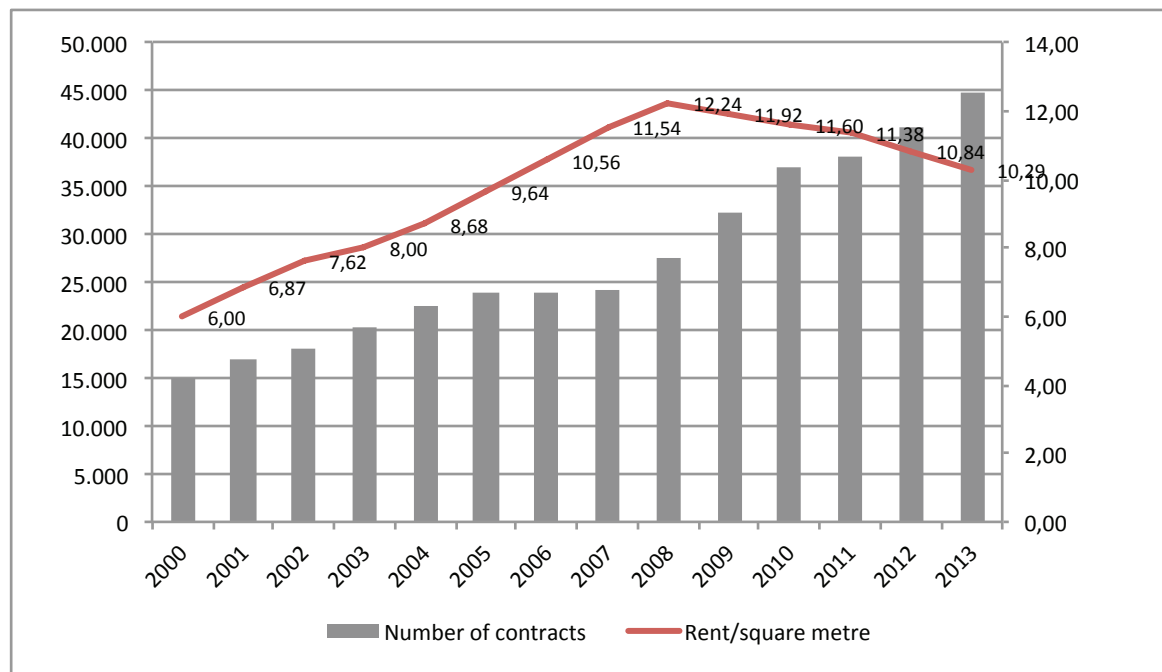


FIGURE 3

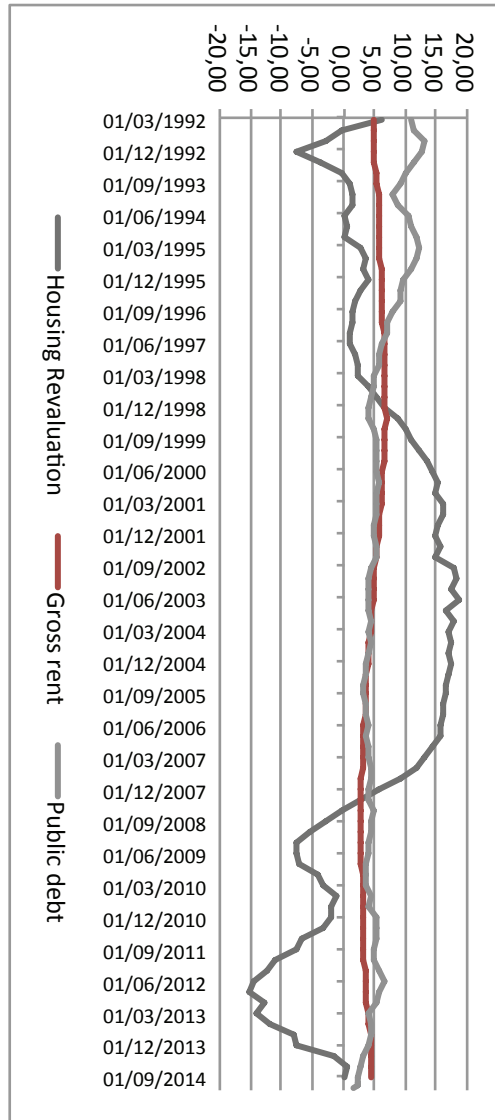


FIGURE 4 A

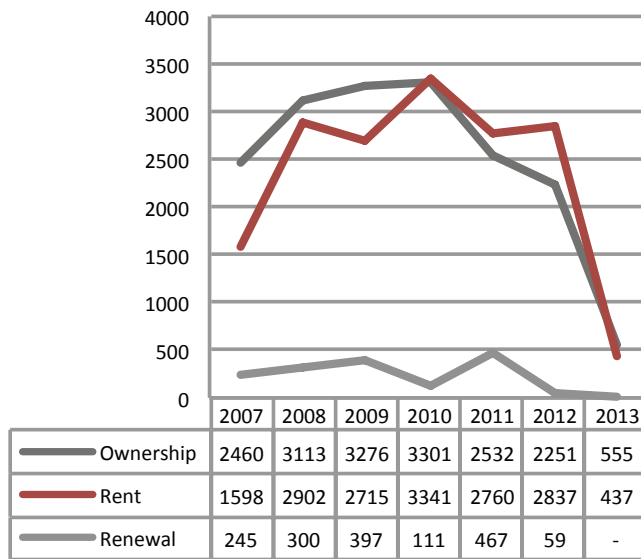


FIGURE 4 B

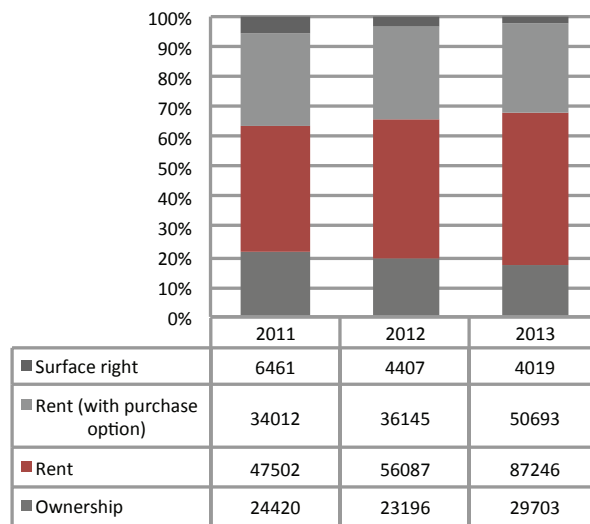


FIGURE 5

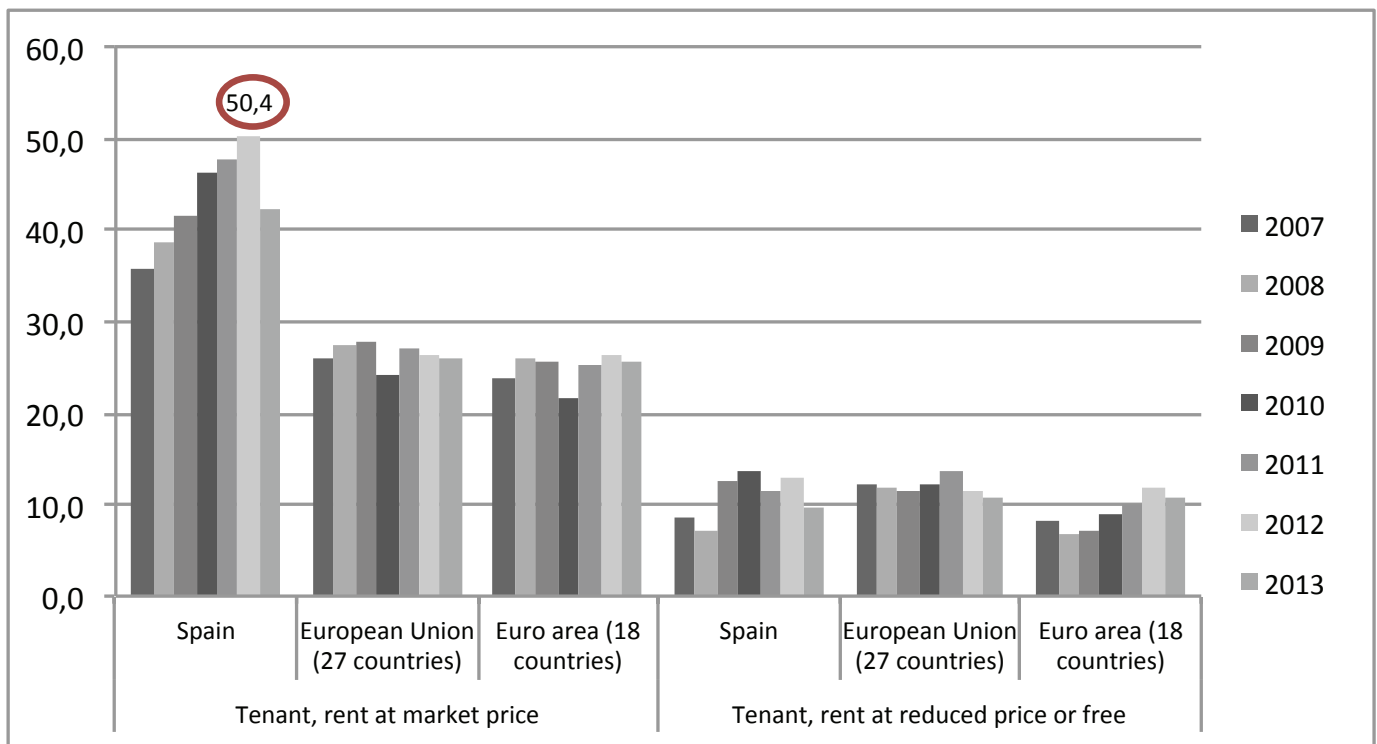


FIGURE 6 A

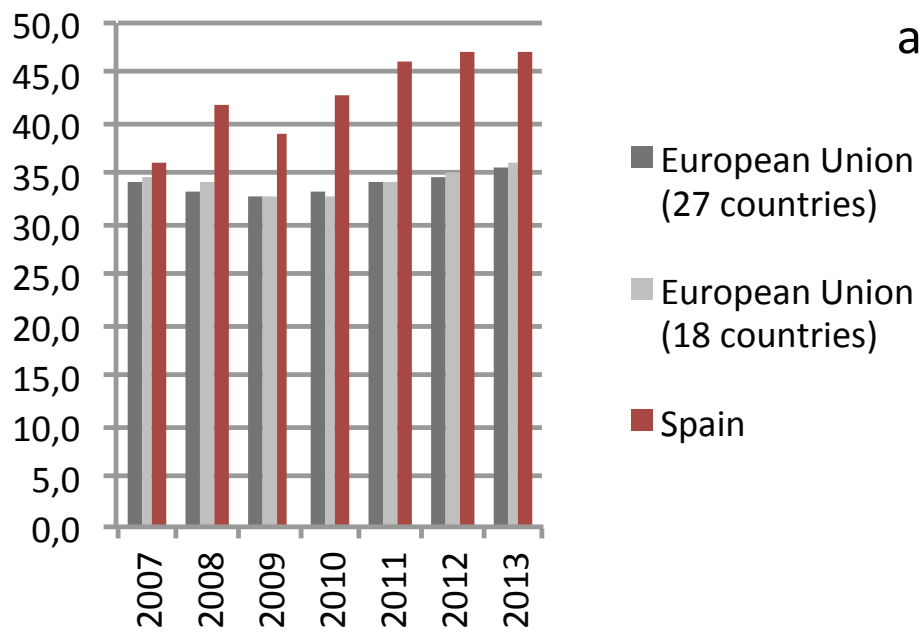


FIGURE 6 B

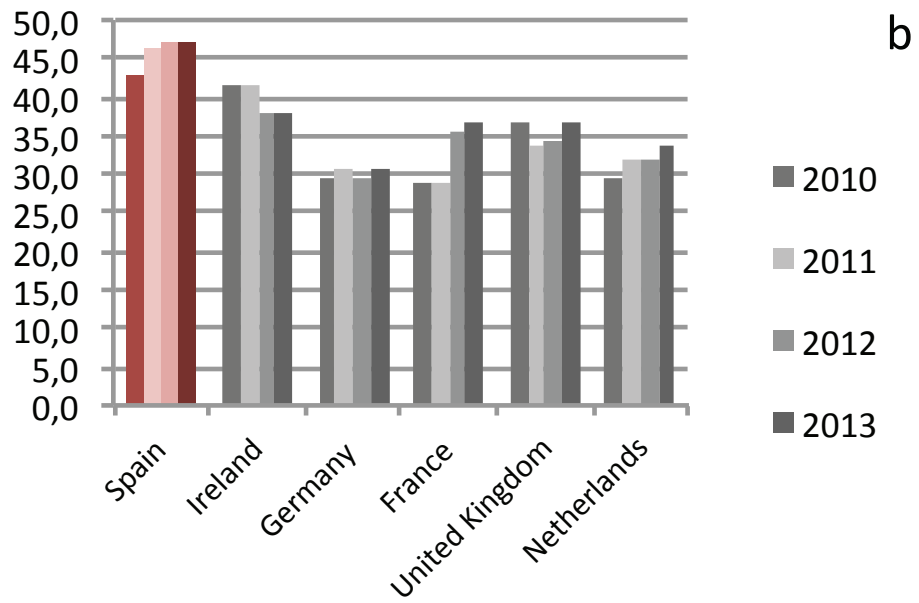


FIGURE 7

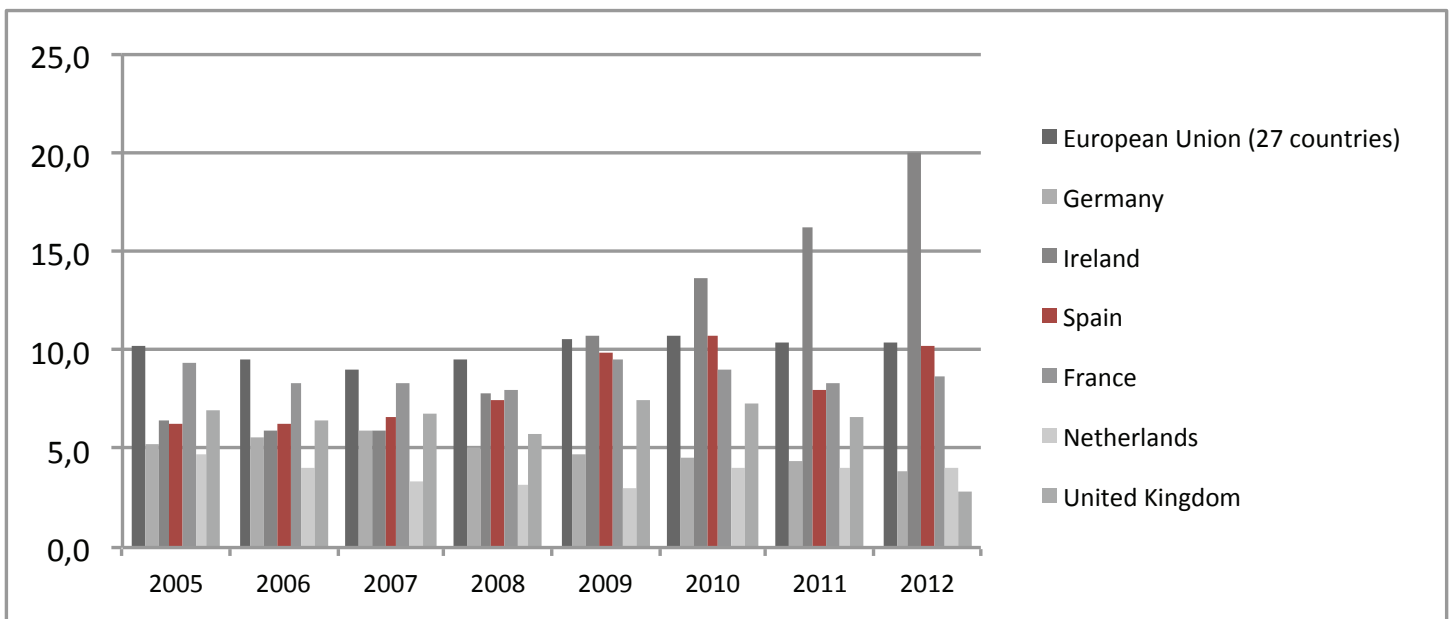


FIGURE 8



Table 1. Profile of residents by tenure

| | Owner- occupier | Tenant | Rent-Free |
|---|--------------------|--------|-----------|
| By age | | | |
| 16-29 years | 50.2 | 38 | 11.8 |
| 30- 44 years | 77.6 | 14.8 | 7.6 |
| 45-64 years | 85.7 | 9.1 | 5.2 |
| 65 years or more | 88.7 | 6.7 | 4.6 |
| By gender | | | |
| Male | 82.4 | 11 | 6.6 |
| Female | 81.2 | 13.2 | 5.6 |
| By employment status | | | |
| Employed | 81 | 12.2 | 6.8 |
| Unemployed | 65.2 | 25.6 | 9.2 |
| Inactive | 86.4 | 8.1 | 5.5 |
| By income | | | |
| Up to 9000 Euros | 74 | 13.8 | 12.2 |
| 9000-14000 Euros | 75.8 | 16.1 | 8.1 |
| 14000-19000 Euros | 78 | 15.4 | 6.6 |
| 19000-25000 Euros | 83.5 | 11 | 5.5 |
| 25000-35000 Euros | 84 | 10.6 | 5.4 |
| More than 35000 Euros | 89.5 | 6.9 | 3.6 |
| By household size | | | |
| Single-person households | 73.9 | 16.1 | 10 |
| 2 adults with no dependent children | 83.2 | 11.1 | 5.7 |
| Other households with no dependent children | 87.5 | 9.5 | 3 |
| 1 adult with 1 or more dependent children | 70.9 | 20.9 | 8.2 |
| 2 adults with 1 or more dependent children | 84.1 | 9.8 | 6.1 |
| Other households with dependent children | 80.5 | 14.2 | 5.3 |
| By nationality | | | |
| Spanish | 84.8 | 8.9 | 6.3 |
| Foreign (European Union) | 49.7 | 46.3 | 4 |
| Foreign (rest of the world) | 26.8 | 71.2 | 2 |

Source: ESLC 2012.

Table 2. Private rented markets encouraged to perform the role of social housing

| Supply incentives in the private rented sector | | |
|---|--|-----------------------------------|
| | <i>Programme</i> | <i>Validity</i> |
| Soft loans for private owners to rehabilitate | National Plan 2013-2016 | In force |
| Facilitating the conversion of unsold vacant housing in the hands of private developers into social housing, with special interest in the rented sector | National Housing and Rehabilitation Plan 2009-2012 | Not in force |
| Tax incentives for owners of private rented dwellings | Spanish Personal Income Tax | In force |
| Demand subsidies in the private rented sector | | |
| | <i>Programme</i> | <i>Validity</i> |
| Subsidies or grants to facilitate access to and occupation of rented housing for people with limited economic means | National Plan 2013-2016 | In force |
| Tax incentives | Spanish Personal Income Tax | Not in force |
| 'Leaving the nest' subsidy for young people | Ministry of Public Works | Not in force since 1 January 2012 |

Source: Own elaboration

Table 3. Arrears by tenure

| | Yes, once | Yes, twice or more | No |
|---------------------------|------------------|---------------------------|-----------|
| Owner | 1,8 | 7,1 | 91,1 |
| Tenant at market price | 2,4 | 9,5 | 88,1 |
| Tenant below market price | 2,9 | 10 | 87,1 |

Source: ESLC, 2012