

## **General Trends in Financing Social Housing in Spain**

Montserrat Pareja Eastaway Ignacio San Martin

**Summary.** The affordability of houses has become one of the main problems for Spanish families in recent decades. The government has been actively involved in designing policies to solve this problem. Theoretically, the characteristics of the housing stock and population always determine the type of public intervention. In the Spanish case, there are some features that give rise to a particular approach which is slightly different from that of the rest of Europe. The following elements, among other things, have been taken into account when designing housing policies in Spain: the cultural importance of home-ownership, the evolution of prices, the distinct condition of large cities such as Barcelona and Madrid, the high proportion of mortgage burdens in relation to family income and the role played by the several levels of government. In present Spanish housing policy, it is possible to identify at least two main trends. Both the 1992–95 scheme and the 1996–99 scheme seek to provide financial support, basically to the demand side, in order to promote ownership and reactivate the building sector as a way to expand the whole economy. The housing market in Spain is strongly influenced by government intervention: a varied set of instruments has been applied in housing policy for the period 1996–99. The government also formulated a plan of action that followed the trends established by the former programme (Plan de Vivienda 1992–95). The aim of this paper is to examine in detail the objectives of the scheme and the instruments implemented to achieve them. In addition, we will analyse the involvement of the banks and the savings bank system and their role in the funding of the scheme. We will conclude with an evaluation of the extent to which the objectives of the first scheme have been met. We will also make some predictions and mention the special details concerning the second scheme.

### **1. The Housing Market in Spain**

In Spain, the affordability issue of housing for families has become an unpleasant consequence of the upward trend in housing prices at the end of the 1980s and the beginning of the 1990s. Therefore, one of the main concerns of the different Spanish governments has been to implement a housing policy programme that addresses this problem.

The housing market in Spain has become highly regulated through public intervention with the objective of satisfying the large and growing housing needs. The aim of public policy in Spain generally is to offer housing or adequate housing to poor people. However, the instruments used to achieve this objective have changed over time. The

**Table 1.** Main and second residences by tenure, occupied houses, 1960–91 (percentages)

	1960	1970	1981	1991
<i>Main residences</i>	95.5	91.4	84.5	81.8
Owned	48.4	58.0	61.9	63.4
Rented	40.6	27.5	17.6	12.2
Other	6.5	5.9	5.1	6.2
<i>Secondary residences</i>	4.5	8.5	15.4	18.2
Owned	3.5	7.0	12.9	—
Rented	0.07	0.05	0.01	—
Other	0.02	0.1	1.2	—

*Sources:* Calculations based on Housing Census and Instituto Nacional de Estadística (INE) data.

‘bricks and mortar’ subsidies have been replaced by housing allowances to people—a substitution of courses of action—which means a reduction in direct intervention, the so-called *Vivienda de Protección Oficial* (subsidised housing), in favour of other forms that take more advantage of the existing stock of dwellings.

The tension in the Spanish housing market between the supply and demand for housing services can be illustrated by examining the number of dwellings per 1000 households. During the 1960s there were 253 dwellings per 1000 households. Today, the relationship between the stock of dwellings and the number of households in Spain is closer to the European average: 300 main residences per 1000 households compared to 425 in Germany, 389 in France and 338 in Italy (see Alberdi, 1993, for further details). This relationship to a certain extent reflects the continuing difficulty experienced by households in getting access to decent housing in southern countries, even though families in these countries have always been larger than in other European countries.

According to population predictions (San Martín, 1993), about 300 000 new households will be formed every year in the period 1991–2000. Taking into account the dissolution of households and the loss of houses during this period and the need to replace the existing stock, the annual need for new dwellings is estimated to be around

250 000 dwellings a year for the period considered.

During the 1980s, due to the tax advantages introduced to support the house-building sector, a substantial percentage of the growth in the total stock of housing was due to the building of second homes (see Table 1). In any case, there was a considerable lack of balance between housing production and housing needs. Furthermore, housing needs have concentrated in the big cities such as Madrid and Barcelona where immigration has altered the availability of housing and where at present there is a housing shortage.

The housing market in Spain is traditionally quite different from other housing markets in Europe because of the high ownership rate compared to the share of rented dwellings. The lack of a substantial private rental sector has not been counterbalanced by the growth of a public rental sector, as has occurred in some other European countries. Unfortunately, Spain does not have a very long tradition in other forms of tenure such as housing co-operatives.

## 2. Housing Policy in Spain

Spain has gone through a process of government decentralisation since 1975. The 1978 Constitution created a hierarchy of public responsibilities: the central government, the regional governments (autonomous communities) and the local authorities. Theoreti-

cally, housing and planning have been virtually transferred to the regional governments, however in practice the Central Government still plays a decisive role.

The central government is in charge of the general design of the housing policy and its financial control. In addition, the central government is fully responsible for the fiscal policy and can therefore establish the fiscal exemption levels for housing purchasers and renters. The regional governments tackle the implementation of the financial housing policy designed by the central government. In some cases, they can develop their own legislation, always in line with the main legislation designed by the central government, to meet their own housing needs.<sup>1</sup> The local municipalities are basically responsible for providing land to develop new dwellings in their territories. Both the regional governments and local authorities carry out self-funded policies specific to their areas, such as the renovation of the historic centres or the development of social housing to be rented or sold.

The regional governments are responsible for planning—that is to say, they are the higher planning authority that supervises and, in many cases, approves local plans. The town council is the planning authority which compiles the master plans known as general municipal plans. This document describes in detail the land uses that are allowed in the territory.

The most traditional device of Spanish housing policy has been the subsidised housing (SH) or *Vivienda de Protección Oficial*. A dwelling is classified as SH before the development takes place. The dwelling must satisfy a number of requirements in order to be classified in this way.<sup>2</sup>

In order to help the construction of SH, the funding of the development is allowed to take place at lower market interest rates; the financing system is committed to granting loans at a rate slightly lower than market rates. Negotiations concerning the precise amount of annual financing, the level of assistance, the loan conditions, the payment of additional subsidies and grants are the re-

sponsibility of the central government. The autonomies merely administer and manage the policy.

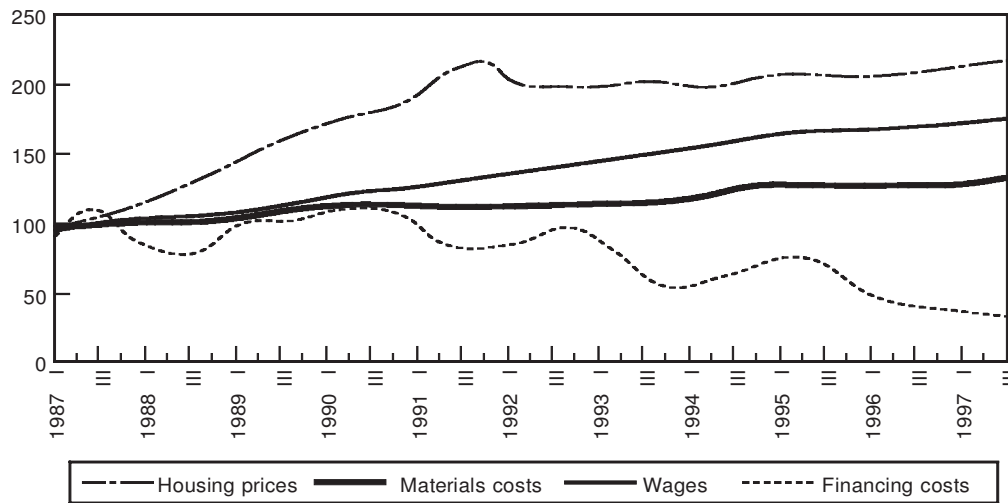
The SH system is divided into two sub-categories, depending on the income of the family to whom the dwelling is allocated.<sup>3</sup> When the buyer has a very low income, financial aid is available under the so-called special regime; when the income of the future purchaser is low or moderate, the legislation refers to it as the general regime.

The SH system is not only committed to families, but to the whole economy, because subsidised dwellings are used to reactivate the building sector.

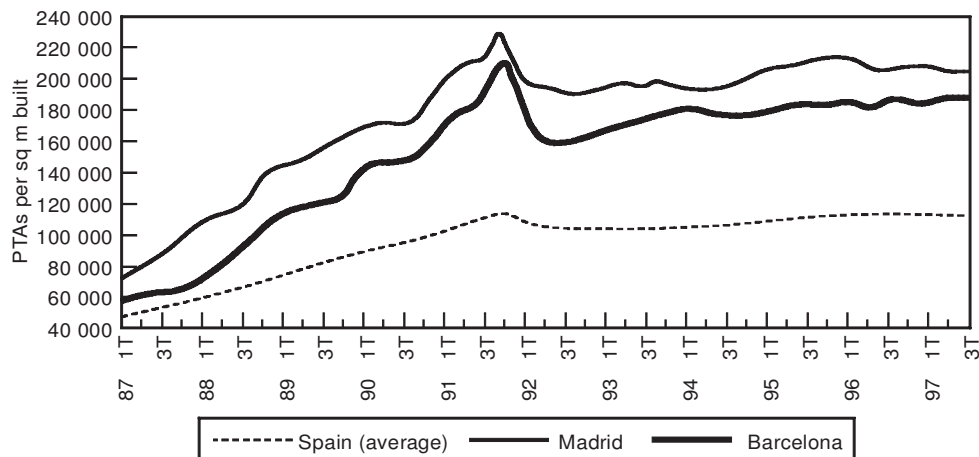
Following Ràfols (1992), it is possible to distinguish between two basic types of housing need. On the one hand, there is the housing demand of those who enter the housing market as independent households for the first time. In this situation, the affordability problem emerges as a result of the high prices of housing on the market and the few options that exist except for ownership. Usually, first-time buyers are in their first job. Uncertainty in the labour market makes it difficult for first-time buyers. On the other hand, there is an increasing demand for better housing. This second demand can usually be either delayed or accelerated, depending on economic evolution.<sup>4</sup>

The characteristics of the Spanish housing market make the acquisition of a house more attractive than renting one. One of the problems to be faced when families decide to purchase a house is the large mortgage burden in relation to monthly family income. There are two reasons for this: first, the high interest rate results in high repayments for mortgages and, secondly, high prices are faced by households in some areas of the country. Figure 1 shows the evolution of housing prices, wages and a measure of building cost evolution. Figure 2 stresses the different evolution of prices per square metre in Spain as a whole, in Madrid and Barcelona.

Table 2 gives details of the numbers of housing starts in Spain between 1978 and 1960. Three main periods can be dis-



**Figure 1.** Housing prices, costs and wages in Spain, 1987–97 (1987 = 100). *Sources:* Banco de España, Instituto Nacional de Estadística, Ministerio de Fomento.



**Figure 2.** Housing prices per sq m in Spain, 1987–97. *Source:* Ministerio de Fomento.

tinguished since the SH system was first implemented (Alberdi and Levenfeld, 1996):

- (1) Until 1986, over 50 per cent of the new housing was SH. The general level of housing construction fell seriously in 1978 and levelled off in later years. The economic objective underlying the social objective was a great success during this period.
- (2) From 1987 onwards, following the period of the 1985–87 recession, the de-

mand for housing increased rapidly. New construction in SH was replaced by private construction, which was seen as much more profitable. SH developments declined significantly, leading to a shortage in the demand segments to which the SH was oriented. In addition, the high cost of building land prevented new SH construction in many areas of Spain because the high land prices made it impossible for developers to meet the price requirements set for SH.

**Table 2.** Protected and free-market housing starts by housing programme, 1978–96 (per 1000 units)

Programme	Protected	Free-market	Total
1978–80	402.5	418.1	820.6
1981–83	420.8	285.8	706.6
1984–87	484.3	404.2	888.5
1988–91	221.7	774.3	996.0
1992–95	231.7	714.9	946.6
1996	60.3	224.3	284.5

*Source:* Ministerio de Fomento.

- (3) In the 1992–95 scheme and later, the increasing importance of free-market housing resulted in the creation of a new subsidised housing type: housing under controlled prices (HCP) or *Vivienda de Precio Tasado*. Later we will explore this new scheme of subsidised housing in detail.

### *2.1 Housing Policy in the 1990s*

During the 1990s, there has been an enormous effort on the part of the government to accelerate some of the pending reforms related to housing. The measures to improve the mortgage market, the rental laws and the approval of the housing scheme for 1992–95 (Royal Decree, 1932/91) and later years were the most decisive and ambitious.

The central government and the financial sector, both public and private, concluded an agreement through which more than 400 000 housing developments have been funded under the 1992–95 scheme and over 157 000 under the 1996 scheme. Several types of development may qualify for the scheme: new housing developments, existing housing purchases and the renovation of the housing stock (especially rented houses). The majority of the families who benefited from the scheme had an annual family income below 3.5 times the minimum wage.<sup>5</sup>

In addition, the funding activities of the scheme implied a transfer of financial resources, public and private, to the housing sector. This transfer increased the economic activity in the sector, both in terms of

new construction and the renovation of houses.

Once finished, it can be said that the net outcome of the 1992–95 and the 1996 schemes has been positive. Table 3 presents a comparison between objectives and results of the whole 1992–95 scheme. However, there are a number of problems that still persist, such as the inadequate relationship between those who want to rent and the rent that has to be paid for housing. Young people are still the segment of demand that faces most of the problems of the housing market.

In order to identify who has benefited from the 1992–95 scheme, recent analyses have been made about the main characteristics of eligible families. When taking the Catalanian Autonomous Community as an example, it can be said that families whose members are between 25 and 30 years of age, with two members and with an annual family income between 1–3 million PTAs benefited most (see Table 4).

Moreover, even taking into account the decrease in population and the housing stock, there is still a need for new housing construction. In order to meet the demand, it is vital that a proportion of the new construction is accessible to low- and middle-income groups.

The main trends of the 1992–95 scheme were followed by the 1996 scheme. The shared characteristics of both programmes are as follows:

- Public aid is addressed to people rather than to ‘bricks and mortar’.

**Table 3.** Funded housing and comparisons of the objectives, 1992–95 scheme

<i>Funded housing</i>		Funded
	General regime	230 530
SH (VPO)	Special regime	80 495
HCP (VPT)		181 456
Renovation		51 545
Total		494 056
<i>Objectives adjusted scheme</i>		
	General regime	199 466
SH (VPO)	Special regime	54 986
HCP (VPT)		98 732
Renovation		46 807
Total		399 799

SH = subsidised housing; VPO = Vivienda de Protección Oficial; HCP = housing under controlled prices; VPT = Vivienda de Precio Tasado.

Source: Ministerio de Fomento.

**Table 4.** Annual household income of those who benefited from the 1992–95 scheme (percentages)

	Annual income (million PTAs)				
	Less than 1	1–3	3–4.3	4.3–5.3	More than 5.3
<i>VPO</i>	16.4	67.6	13.6	1.7	0.6
<i>HCP</i>	16.6	66.2	15.2	1.7	0.3
New	15.7	64.6	17.1	2.1	0.5
Existing	17.5	67.8	13.4	1.2	0.2
Total	16.6	66.4	14.9	1.7	0.4

Source: Results from Direcció General d'Accions Concertades, Arquitectura i Vivenda data (published in *Eficacia social de la politica d'habitatge*, Fundació Jaume Bofill).

- Efforts are to be co-ordinated between different policies.
- A more flexible and competitive mortgage market is to be consolidated.
- Housing saving accounts are to be improved.
- Land is to be made available.
- Public concerns about the insufficient rental market are to be addressed.
- The intervention is defined, taking into account the three levels of government in Spain.

For each autonomous community, the programme defines a given number of houses that should be available at affordable prices, depending on the needs of the different regions. The regional governments outline the numbers for the central government, who will make a final decision regarding the maximum number of houses that qualify for financial aid under each of the main types: subsidised housing (SH) and housing under controlled prices (HCP). The total amount is calculated according to the particular features

of the territory and its economic and social composition. The outcome is the result of a mixture decided by political negotiations and economic criteria such as the population between 24 and 44 years of age, the number of low-income families, the number of municipalities with a population exceeding 100 000 and land use qualifications.

The 1996 housing scheme includes a number of novelties, all of them in the spirit of the 1992–95 scheme: a redefinition and enforcement of renovation areas, an improvement in the aid system for the urbanisation of suitable land, the generation of suitable land and the co-funding of public developments in subsidised housing in the autonomous communities, especially of the rented houses for very low-income families. In addition, municipalities donate land and the central government funds its urbanisation through the scheme.

Concluding, the new 1996 scheme supports the primary objectives of the former 1992–95 scheme with some qualitative modifications in order to improve the social efficiency of the developments and, in particular, to improve the mechanisms of aid to the rental market, the renovation and the development of land intended for subsidised housing. The most relevant instruments used are summarised in Table 5.

## *2.2 Fiscal Instruments for Housing Policy*

Fiscal instruments belong to the policies to activate and stimulate the housing sector. Before 1991, the main objective of fiscal aid was to support housing investment without any reference to the aim of facilitating access to housing for the lowest-income groups. The negative effects were too obvious: purchasing a second or third property meant that a considerable reduction in taxes would be given. This was a regressive aid because it favoured the higher-income groups with expenditure capacity in the real estate business (Pareja and Riera, 1994). At present, the most important tax relief is concentrated on the income tax bill. Table 6 illustrates sche-

matically how fiscal aid is placed in the income tax bill.

## *2.3 Rent Policies*

Rent control also has a long tradition in Spain. Since democracy was established, governments have been concerned with the need to develop a social rental market to facilitate the access of lower-income groups to the housing market. During the 1964–85 period, tenants had their rents fixed administratively at the start of their tenancies. The rents were updated annually according to inflation and the tenants enjoyed great security. After 1985, tenants lost this protection (McCrone and Stephens, 1995). The market fixes the initial rent and there is no maximum increase. There is no security for tenants in terms of the contract. The large deregulation defended by the so-called Boyer Decree of 1985 has generated some impact on the rental housing sector: the majority of the new tenancies agreed (65 per cent) are for less than 12 months and, as one would expect, rents vary enormously across the sector as a whole, according to the date on which they were agreed.

A new rental law (*Ley de Arrendamientos Urbanos*) was passed at the end of 1994 and lays down the amount and term of the rental for the parties involved, depending on the housing. If the term of the contract is established for less than five years, the tenant has the unilateral right to extend it to five years after the signature.

## **3. Funding Social Housing in Spain**

Until the mid 1970s, the funding system in Spain was fully regulated by the Banco de España. Mortgage funding was the responsibility of the public bank and the savings bank system, the latter being subject to high quotas of obligatory investment. Long-term loans enabled banks to finance public intervention subsidised housing. The commercial bank was not excluded, however in practice it was rarely used, as it concentrated its

**Table 5.** The main features of the 1996 scheme

Subsidised housing (SH) <sup>a</sup>	The development, acquisition and rent of <i>new</i> SH are considered as a matter of protection. <i>Special regime</i> : Refers to households with an annual weighted family income WFI <sup>b</sup> above 2.5 times the minimum wage. <i>General regime</i> : Refers to households with a WFI above 5.5 times the minimum wage.
Housing under controlled prices (HCP)	The acquisition of new or existing housing and the transfer of existing SH at a price lower than a maximum determined price. An effective area not larger than 120 sq m is also considered as a matter of protection.
Renovation	The renovation of houses located in poor quality and/or deteriorating urban areas together with essential community services qualify for subsidy.
Publicly developed housing	The development of housing classified as public development, jointly with the autonomous communities, can qualify for subsidies under the programme
Land urbanisation	The urbanisation of land to be developed immediately and the acquisition of land to be urbanised and developed, especially the land intended for SH, can qualify for subsidies under the programme.

<sup>a</sup> The laws of each autonomous community can add other houses to the list in order to qualify for SH. They may be specific households with problems of access to housing—young people, the disabled, etc.

<sup>b</sup> Weighted family income (WFI).  $WFI = BT * N * A * T * V$ ; where, BT = taxable base amount expressed in multiples of the minimum wage; N = coefficient that indicates the number of households; A = coefficient that indicates the number of working households; T = location coefficient; and V = coefficient that indicates the specific features of each autonomous community.



**Table 6.** Fiscal aid within the income tax system

Labour income (net) =	Income	Expenditures
Real estate return (net) =	Income (2 per cent over house land registry value)	Expenditures (Interest paid annually on repayments of loans for house purchase (up to a maximum: 800 000 for individual bills and 1 000 000 for family bills))
Other income		
Taxable amount = Sum of net revenues		
Taxable amount $\times$ Tax rate = Gross tax bill		
<i>Deductions</i>		
15 per cent over rent <sup>a</sup>		
15 per cent over purchase investment or rehabilitation <sup>b</sup>		
15 per cent over the amount in housing accounts <sup>b</sup>		
Gross tax bill — Deductions = Total to pay		

<sup>a</sup> The rent deduction has a maximum depending on family income and amount paid.

<sup>b</sup> The repayment sums are considered as investment. House-buyers can deduct 15 per cent of the purchase investment from their tax bill annually, with the limitation that the sum to which the 15 per cent applies does not exceed 30 per cent of the base taxable amount. For housing accounts, the 15 per cent is deducted before the acquisition of the house and only if the purchasers commit themselves to buy the house in a 5-year period; in fact, this type of account can only be held for 5 years.

**Table 7.** Subsidies made under the general regime

Weighted family income (WFI)	Subsidised interest rate (percentage)
Less than 3.5 times the minimum wage	7.75
Between 3.5 and 4.5 times the minimum wage	9.0
First-time buyers <sup>a</sup>	6.5
Developers of rented housing	7.0

<sup>a</sup> Their income must be above 3.5 times the minimum wage and the effective area of the house less than 70 sq m.

activity on short-term financing (Alberdi and Levenfeld, 1996).

During the 1970s, the bank system was reformed, so their participation in mortgage financing increased. In the mid 1980s, a fully deregulated system was introduced. During this decade, the housing finance system in Spain was liberalised. Private banks and the savings banks system participated in real estate finance. Previously, the public bank system and the savings banks had been the only institutions engaged in offering mortgages to consumers.

Mortgage loans were refinanced by the issue of mortgage bonds by the financing entities that previously had a great mortgage portfolio. These bonds had considerable fiscal advantages. However, they disappeared in the early 1990s when fiscal advantages were eliminated (Rodríguez, 1990).

At present, banks and savings banks compete to attract borrowers. The introduction of variable interest rates that were revised according to reference indexes—Mibor and, in the future, Euroibor—allowed for interest rates that are competitive in actual terms with those of the major countries of the EU. At present, the mortgage funding functions better than other segments of the Spanish finance market.

The financing of the different housing types mentioned above is carried out through a set of modalities: on the one hand, *qualified loans* granted by the financial sector, both public and private, under the agreement concluded with the government; and, on the other hand, *direct subsidies*: a subsidy on qualified

loans, grants given by the central government or the regional governments and specific aid for first-time buyers and, simultaneously, owners of a housing bank account.

The central government will first decide the financial resources intended for direct public aid regarding housing and, secondly, the amount agreed with the financial sector in order to be granted as qualified loans. The government will also decide how these resources are to be shared between the different types of instrument—for example, between the subsidised housing and housing under controlled prices. It is also responsible for the annual allocation of the funds as a result of the agreement—for example to the autonomous communities.

Next, we will analyse the funding for each of the main instruments applied by housing policy.

#### **4. Subsidised Housing (SH): Vivienda de Protección Oficial**

##### *The General Regime*

The maximum amount of the qualified loan for purchasers or developers is 80 per cent of the maximum selling price. The interest rate will be determined annually by the Council of Ministers and it could be fixed or variable. The maximum repayment period will be 15 years for owner-occupied housing and houses for sale and 10 years in the rental sector with an additional period without repayment of 3 years. The guarantees of the loans will always be mortgages. The programme consists of a

**Table 8.** Maximum selling prices per square metre (general and special regime), 1996

Geographic area	SH			
	General regime		Special regime	
	Formula	PTAs/m <sup>2</sup>	Formula	PTAs/m <sup>2</sup>
Madrid and Barcelona	$1.46 \times \text{WC}^a$	136 379	$1.22 \times \text{WC}$	113 960
Influence areas	$1.25 \times \text{WC}$	116 763	$1.70 \times \text{WC}$	97 146
<i>Other locations</i>				
<i>(classified by population)</i>				
Area 1 (> 1 million inhabitants)	$1.20 \times \text{WC}$	112 092	WC	93 410
Area 2 (500 001–1 000 000 inhabitants)	$1.20 \times \text{WC}$	99 415	WC	82 846
Area 3 (100 001–500 000 inhabitants)	$1.20 \times \text{WC}$	87 167	WC	72 639
Area 4 ( $\leq$ 100 000 inhabitants)	$1.20 \times \text{WC}$	80 933	WC	67 444

<sup>a</sup> WC = weighted coefficient.

3 per cent annual increase of the monthly quota: a repayment of loan plus interest.

The subsidy on qualifying loans for purchasers and individual developers for private use, depending on income category, is given in Table 7. In addition, there are some funds and grants for particular situations. For those first-time buyers and individual developers in first access<sup>6</sup> with a concession of a qualified loan,<sup>7</sup> a grant of 5 per cent of the selling price is available. If applicants have had a housing account for 2 or more years of over 10 per cent of the selling price, the total amount of interest paid during the first year will be granted. For developers of rental housing, the 10 per cent is taken of the maximum selling price. If the effective area of those dwellings does not exceed 70 sq m, the grant will be 15 per cent of that price.

#### *The Special Regime*

The maximum amount of the qualifying loan for purchasers or developers is 80 per cent of the maximum selling price. The interest rate is the same as that of the general regime. The maximum repayment period will be 25 years for owner-occupied housing and houses for sale, with an additional period of 3 years without repayment for developers. The guarantees of the loans will always be mortgages.

The increase in the quota is 1.5 per cent. The special regime subsidy on qualified loans for SH or VPO has a maximum of 20 years and varies with tenure, being 5 per cent when

buying/selling and 4 per cent when renting. In both regimes, the SH is conditioned to a price constraint. This maximum price is calculated using a weighted coefficient (WC) (expressed in monetary units per sq m). It is fixed by the government and takes the location of the house in the territory into account as well as a number of building-cost indexes such as energy cost or labour force cost. The parameter which multiplies WC differs, depending on the SH regime. In 1996, the maximum selling prices were determined as illustrated in Table 8.

Therefore, for instance, a first-time buyer from Barcelona who bought a SH of 65 sq m—the maximum is 70 sq m of effective area—and who earns less than 3.5 times the minimum wage, can be eligible for a qualified loan with a subsidised interest of 6.5 per cent only if the selling price per square metre is equal or less than 8 864 635 PTAs [ $65\text{m}^2 \times 136\,379\text{ PTAs/m}^2$ ].

#### **5. Housing under Controlled Prices (HCP)**

Whereas SH involves demand and supply subsidies, the subsidies for HCP are only

**Table 9.** Maximum selling prices for HCP, 1996

Geographical area	HCP	
	Formula	PTAs/m <sup>2</sup>
Madrid and Barcelona	$1.85 \times WC^a$	172 809 <sup>b</sup>
Influence areas	$1.70 \times WC$	158 797 <sup>b</sup>
<i>Other locations</i>		
<i>(classified by population)</i>		
Area 1 (> 1 million inhabitants)	$1.50 \times WC$	140 115
Area 2 (500 001–1 000 000 inhabitants)	$1.50 \times WC$	124 269
Area 3 (100 001–500 000 inhabitants)	$1.50 \times WC$	108 958
Area 4 ( $\leq$ 100 000 inhabitants)	$1.50 \times WC$	101 166

<sup>a</sup> WC = weighted coefficient.

<sup>b</sup> Housing with an effective area not exceeding 90 sq m. If this area is exceeded, the formula is  $1.5 \times WC$ .

intended for buyers. As the name of the figure indicates, the financial aid is meant for purchasers of houses for sale under pre-fixed price conditions. A new or secondhand dwelling can be considered eligible for HCP aid if:

- its effective area does not exceed 120 sq m;
- it is not purchased for speculative reasons; and
- the selling price does not exceed the amount fixed by the programme, as explained below.

The maximum amount of the qualified loan for purchasers is 80 per cent of the selling price. Qualified loans for HCP are subsidised depending on the weighted family income (WFI) and follow the same pattern as shown above. There is an exception when the purchased house exceeds 90 sq m. In this case, the subsidised rate will be 11 per cent irrespective of the WFI. First-time buyers enjoy the same qualified loans and grant conditions as those indicated above for the SH general regime. In 1996, the maximum selling prices for HCP were determined as shown in Table 9.

Until now, we have discussed those instruments that have direct social repercussions. Other instruments such as renovation, public developed housing<sup>8</sup> and the development of urban land deserve proper consideration, but are outside the scope of this paper.

## 6. Housing Policy Efficiency

One of the characteristics of social housing programmes in Spain is that they have historically encouraged the buying of a house as a means to get access to housing. The 1992–95 and 1996–99 housing programmes have continued this tradition; both plans reduced the economic effort needed by families to access housing.<sup>9</sup>

During the 1990s, housing policies improved the affordability of housing through lower house prices and interest-rate subsidies on mortgages. Tax deductions when buying a house also applied to social housing.

In 1992, the average house price represented 4.7 times the average annual family income. If we consider that acquisition was funded at 80 per cent over a 15-year refund mortgage—which were most common in the 1980s—at a market interest rate, an average family was involved each month in a repayment that represented more than 60 per cent of the gross monthly family income. If we include fiscal deductions, the economic effort of this family would be reduced to 50 per cent. In 1996, the ratio between house price and family income was 4:1 and the economic effort to purchase an average house represented 40 per cent of gross income, and 30 per cent if we take into account tax advantages. Social housing prices have been

**Table 10.** Accessibility of free-market and social housing, 1992 and 1996

	Average (PTAs)	Housing average (PTAs)	Annual loan (PTAs)	Fiscal deductions (PTAs)	Price/Repayments/Income		
					Percentage	Gross (percentage)	Net (percentage)
<i>Free-market houses</i>							
1992	2 050 800	9 550 000	1 308 000	216 000	4.7	63.8	53.2
1996	2 490 000	10 100 000	1 012 000	242 000	4.1	40.6	30.9
<i>VPO houses (general regime)</i>							
1992	2 050 800	8 280 000	748 200	160 000	4.0	36.5	28.7
1996	2 490 000	8 950 000	702 038	151 000	3.6	28.2	22.1

Source: Estimates taken from INE and Ministerio de Fomento data.



**Figure 3.** The cost of access to housing, 1992. *Sources:* Calculations based on INE and Ministerio de Fomento data.



**Figure 4.** The cost of access to housing, 1996. *Sources:* Calculations based on INE Ministerio de Fomento data.

historically lower than market prices. In 1992, the price of social housing under the general regime accounted for, on average, 85 per cent of the market price while the prices of social houses under the special regime were between 70 per cent and 75 per cent of market price. On the other hand, subsidies on the interest rates for loans to buy a house reduced the amount of monthly mortgage quotas. As we can see in Table 10, lower housing prices and subsidised interest rates meant a considerable reduction in families' economic effort to gain access to housing. In general, all eligible families for housing plan benefits were positively affected by these lower prices and subsidised interest rates.

In 1992, the expenditure needed to buy a VPO house represented almost half the economic effort needed to buy a house on the market. In 1996, the economic effort was 30 per cent less for social housing than for free-market housing.

As we can see in Figures 3 and 4, in 1992, tax deductions represented 16.6 per cent of the total expenses when buying a house. In 1996, this percentage was 23.9 per cent. Tax deductions do not only apply to houses on the open market, but also to social housing. If we consider the lower prices and subsidised interest rates, the economic effort to acquire a social house was 57.2 per cent in 1992 and 69.3 per cent in 1996.

Summarising, the combination of lower prices and interest subsidies in mortgages reduces substantially the economic effort needed by a family to acquire a house, which was the main goal of housing policy. Tax deductions lower the net effort of buying a house in Spain.

About 560 000 families benefited directly from lower prices and interest subsidies from the social programme during 1992–96. Tax deductions apply to all house buyers. The costs of housing policies have been shared by the administration, financial entities and developers.

The quality of the housing has met social standards—lower prices and better affordability did not result in poorer housing.

## 7. Concluding Remarks

Housing finance during the 1990s has been made possible thanks to the established agreements between the government and the various financial entities. The housing policy has reactivated the building sector and housing consumption, especially by low-income families.

As reflected in Table 2, during economic growth periods (1988–91), an average of about 250 000 new houses per year were built. As a consequence of the expansive housing policy during the economic recession period (1992–95), the number of houses started increased to an average of 310 000 per year. This high number was possible not only because more social housing was built, but also because private developers increased their activity to respond to the demand from families that could benefit from the better financial loan conditions and other subsidies derived from housing policy.

After the 1992 Olympic events, the building sector slowed down considerably but, as far as the residential sector was concerned, this downward trend was offset through the 1992–95 housing scheme which promoted not only subsidised housing (SH) but also housing under controlled prices (HCP).

Moreover, the decreasing interest rates in mortgages since the mid-1990s have made it

possible to fund a larger number of houses than expected. The same factor has produced an improvement in the affordability of houses and has decreased the number of families in need of social housing.

The agreed interest rate between government and financial entities in the 1996 housing scheme is established in a different way from that in the earlier scheme. The interest rate is fixed through a kind of public auction, of which the aim is to create a greater market transparency in the above-mentioned agreements.

In the past decade, the government has done much to solve the structural problems of the housing market related to urbanisation and land supply. In 1993, the government set up a commission to study the effects on prices of interventionism in the land market. The commission concluded that the current land legislation both prevents new developments and increases the price of housing.

At present, the central government is planning new land legislation, which will allow an increase in the land supply, easing the process of urbanisation and reducing the fiscal charges on land. One of the most controversial aspects is related to the supposed great powers of intervention that local governments will have over public land.

## Notes

1. There are large differences between the richest and the poorest autonomous communities.
2. The effective area must not exceed 90 sq m; the materials used to build the house have to meet various quality standards; the price of the house must be below a threshold price fixed by the government; the selling price is generally lower than the market price and varies, depending on the area where the house is located; development of SH is undertaken either by private or public enterprise.
3. Introduced in the 1988–91 housing scheme.
4. The idiosyncrasy of the Spanish housing market makes it very difficult to be confident that market mechanisms will facilitate access to housing for low- and middle-income families (Pareja, 1996).

5. A family is considered a low-income family if the total amount of family income is less than three times the minimum wage.
6. Developers who build housing for first-time buyers are referred to as 'individual' because they are a private company.
7. The concession of a qualified loan is an administrative document certifying that the family who buys the house meets the necessary conditions for social housing loans. It is referred also for the developers of the housing plan.
8. Public developed housing is housing developed by a public body or a non-profit company. It could be understood as a social housing development but under a deep control of the development and final destiny by the administration.
9. Economic effort is understood to be the annual amount paid by families to enjoy a house; usually, it is represented by a mortgage quota. Net economic effort takes into account fiscal elements such as tax advantages or income tax deductions.

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