



More social housing? A critical analysis of social housing provision in Spain

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Abstract: *Since the 1950s Spain has developed a set of policies aimed at stimulating ownership through subsidies, mainly in the form of interest rates or mortgage quotas to developers and households, while neglecting other forms of housing provision, such as social rental housing. That system provided a one-off benefit to the developer and/or the purchaser and could not be reused to help other households. The financial crisis in 2008 demonstrated the weakness of the Spanish housing system in providing affordable and secure shelter by means other than homeownership. The existent housing provision system failed to prevent the large numbers of evictions, while simultaneously the banks became the owners of a large number of empty dwellings. To some extent the severity of the situation generated substantial political pressure to devise a new framework of action to alleviate the housing problem in Spain. In this paper based on the post-crisis evidence we argue that it is necessary to reformulate approaches in order to provide adequate and affordable housing for certain collectives in Spain.*

Keywords: social housing; Spain; GFC.



Introduction

One of the main threats to social housing in Europe is related to the widespread reductions in public spending that challenge the sustainability of the model that has existed to date. The historical role of social housing as a substantial element in the renovation/regeneration of the built environment and the provision of decent affordable housing is now being dismantled by constant privatisation and reduced incentives to construct such housing (Scanlon et al. 2015).

This situation does not have a clear parallel in the Spanish case. Both the path- dependency of the housing system and the configuration of a set of policies that favour ownership to the detriment of the rental market, and especially of social rent[housing], has in Spain given rise to a peculiar scenario in which social housing is traditionally associated with ownership rather than the rental markets, whether public or private (Pareja-Eastaway, San Martín 2002). Thus, the social provision of housing is basically understood as the possibility of subsidising the acquisition of a dwelling or the construction of housing under certain requirements at a regulated price by means of a complex set of schemes implemented through successive state and regional housing plans (Pareja-Eastaway, San Martín 1999; Alberdi 2014, Pareja-Eastaway, Sánchez-Martínez 2016). The resultant units are the Vivienda de Protección Oficial (VPO), which benefit both developers and eligible households at the same time. Spanish social housing mainly refers to those houses that in one way or another have been beneficiaries of public aid aimed at facilitating access to housing, whether for ownership or rental. However, VPOs have rarely been intended for rent (Pareja-Eastaway, San Martín 2002). VPOs are therefore the central axis of action in the field of social housing in Spain.

It is true that the recent global economic and financial crisis has had a very negative effect on the Spanish economy, creating an unstable framework for employment and growth, more extreme than in most other countries. It is also true that the direct consequences for the housing market and particularly for housing access differ from what is happening in most of Europe. For example, while the key aspects of social housing in European countries are the changes in its ownership and management, the transition in the composition of tenants, or issues associated with access or rent conditions, in Spain the lack of any affordable and adequate housing is at stake. According to the latest data published by the Survey on Living Conditions (INE 2015), only 2.5% of households live in the public rental system, with most of these dwellings being located in large cities such as Madrid and Barcelona (Alberdi 2014). The AVS-Association of Public Developers, to which the majority of public housing managers in Spain belong, accounts for 140,000 public rental dwellings distributed among 130 companies.

The shortage of affordable housing in Spain has a series of serious consequences, which can be seen, among others, both in the upward trend of evictions and homeless people and in the increasing use of private rentals as an alternative to social housing (Pareja-Eastaway & Sánchez-Martínez 2016). Since the crisis, one of the remarkable effects it has had on the minds of Spanish households is the negative stigma that has come to be associated with homeownership, opposite to Spanish households' historical preference for this form of tenure. Thus, today the urgent need to find new solutions to housing provision in Spain first requires answers to key questions such as: Who should provide it? How should it be assigned? Which housing policy instruments should play a relevant role? What other housing systems in Europe can serve as a reference point?



The economic recovery that has become apparent in Spain since the end of 2016 requires an immediate response to these questions because, although improvement in the employment situation may alleviate a part of the housing shortage, it is possible to expect a deterioration in the conditions of access for the most vulnerable. In this essay we intend to discuss the answers to these questions, essentially taking as a starting point the fact that Spain, unlike Europe, has an endemic shortage of decent and affordable housing.

Key aspects of social housing in Spain

The Spanish social housing system can be included under the 'generalist' model, which is characterised by the setting of maximum income limits and priority criteria for access to social housing to accommodate the most vulnerable and low-income households (Scanlon et al. 2014). Since 2008, Spain has been facing an increase in unmet demand for affordable and secure housing: On the one hand, according to Eurostat's EU-SILC (European Survey on Income and Living Conditions) in 2017 (Eurostat 2017), 41% of households in private rental housing are at risk of poverty or social exclusion, which has shown a significant upward trend since 2007 (33%). On the other, the number of over-indebted households has also been increasing since the beginning of the 2000s, both because of the limited possibility to choose another tenure and because of the context of credit euphoria that allowed it.

The provision of social housing in Spain fails to meet the increasing housing needs of households for a number of reasons:

- ***There is a very small amount of permanent social housing stock (2.5%) with controlled rental prices, managed by public or private entities, with turnover possibilities.*** The majority of VPOs or Protected Housing go to the market directly for sale at a below-market price. However, they do not constitute a stable form of housing stock since the housing is no longer protected once the period of protection (in years) ends. From a public policy perspective, this requires constant reinvestment in the construction of new Protected Housing.
- ***The scale of social housing stock cannot be quantified.*** Although statistics show that more than 4 million VPOs have been built during the last 40 years, it is impossible to know the exact amount of existing stock as the majority of it is transferred to the private sector after a certain period (Alberdi 2014).
- ***There is no correlation between the number of VPOs built and the degree of demand for such housing that is met.*** The construction of VPOs has been countercyclical in nature owing to a lack of incentives for developers in the periods of real estate expansion, while in times of recession VPOs become/VPO construction becomes more attractive. Further evidence of this of this lack of correlation is that after the crisis some VPOs (especially second-hand or used ones) were paradoxically selling at above-market prices in some regions.
- ***There are no clear rules on the allocation and occupation of social housing.*** How housing policies are implemented differs from one AC (Autonomous Community) to another and the processes for allocating VPOs do not always coincide: although VPOs tend to be for low-income households with social problems, the eligibility criteria may vary. As well, 80%



of Spanish households would qualify as eligible for a VPO under the maximum income threshold scheme (Alberdi 2014). Demand is much higher than the existing supply, and as a result it has become a real lottery to obtain this type of housing.

- ***The provision of social housing is partly dependent on the market and ultimately on the decisions of financial intermediaries.*** Some VPO applicants that were assigned a VPO unit through a lottery system have been unable to obtain the necessary mortgage given the conditions of the banking system. Therefore, the banking system has the last word in the decision on who the final recipient of a VPO is. Although many low-income and economically vulnerable households qualify for eligibility, they are often the least likely to obtain a mortgage loan.

After the GFC, the endemic shortage of public housing in Spain was exacerbated by the privatisation of the already limited public housing stock owing to budgetary difficulties in the public sector (the stock was mainly sold to investment funds, private rental management companies, administrative concessions and to tenants). For instance, in 2013, the regional government of Madrid sold around 5,000 social rental dwellings to investment funds, among them Goldman Sachs and Blackstone.

Social housing provision after the GFC: has anything changed?

Spanish households were hit hard by the global financial crisis: In 2015, 67,359 households were evicted from their homes (CGPJ 2015), of which 29,225 (45%) were for non-payment of the mortgage and the rest for non-payment of rent. In the worst case, mortgage defaults and the loss of real estate value have turned many Spanish households into mortgage-holders without a home.

Two issues need to be taken into account when analysing the available measures to solve the problem of housing access in Spain since the GFC. One is the increased political sensitivity with respect to housing. The national government, in the hands of the conservative Popular Party, re-elected in 2017, has recognised the need to reorient public housing policy measures towards alleviating the country's housing emergency. In addition, the rise to power of political parties or platforms deeply rooted in civil society in Madrid and Barcelona has led to a change in the approach and design of many public policies, in particular access to housing. The other issue is that the upsurge in construction activity since the end of 2016 and the reignition of demand in response to the economic boom will test the sustainability of policy structures favouring certain groups' access to housing in conditions of economic expansion.

The change in focus of National Plans: from ownership to renting

With respect to the changes in policy tools that have taken place at the national level, perhaps the most important shift has been the shift of focus from VPOs for sale to VPOs for rent in the Housing Plans. In 2015, VPOs for sale represented less than 5% of the total sales of dwellings. However, financial entities do not play a neutral role here: strong credit restrictions have been one of the triggers of this decline. In addition, despite the fact that the Administration has reserved many plots of land to build VPOs, the land has been left undeveloped for years and



developers admit that they do not build VPOs because banks are selling dwellings for around 20% cheaper than the developers could build them at current prices. In other words, banks, transformed into real estate agencies, are now directly competing with many VPO developers. Thus, in an attempt to resolve this situation, the latest National Housing Plan 2013-2016 has revised the guidelines of housing policy and for the first time excludes the promotion and construction of public housing intended for sale. In fact, this programme focuses on the promotion of public rental of housing on publicly owned land or buildings. In addition, the Plan sets a maximum limit on the monthly rent, which must be equal to or less than 600 euros (ACs may impose a lower limit), and it provides rent subsidies, which can be for up to 40% of the rent, with a maximum limit of 2,400 euros per year per household.

The Housing Plan (2013-2016) also promotes public rental housing through a scheme of subsidies to private companies that own the *right to build*, and to public bodies, NGOs, and foundations and associations considered of public utility. This could be a fundamental starting point to finally provide a public safety net for social housing in Spain. However, difficulties have accompanied the launch of this scheme: on the one hand, because of the limited financial resources for developing the scheme; on the other, because of the lack of experience among developers and management professionals with this type of housing development; and finally, because the Spanish legislation is not fully designed to deal with the singular and complex problems that occur in the management of public housing stock (Burón 2008).

The change in actors: engaging cooperatives and banks as social housing providers

Traditionally, private developers (eligible to benefit from subsidies to build VPOs to buy or to rent) and public companies belonging to regional or local entities have assumed responsibility for the provision of social housing in Spain.

When rethinking social housing provision in Spain, alternatives such as cooperatives and self-build models, which are so common in other European countries, are considered innovative instruments and are being explored and developed to provide affordable housing. Most of these initiatives are bottom-up or community-led instruments. Among them, housing cooperatives represent the most established alternative.

The new cooperatives omit the traditional developer/intermediary, avoiding marketing costs and profit margins, making housing access much more affordable. Cohousing projects and housing cooperatives are already being put into operation under the 'assignment of use' system (*cesión de uso*). In the latter system, the cooperative owns the land or the right to build and assigns its partners the right to use a dwelling in exchange for the payment of an initial and recoverable amount, as well as the payment of an affordable periodic rent. This model is common in Sweden and has begun to be explored in Spain (Etxezarreta, Merino 2013).

For the first time, Spanish bank entities, which own a considerable amount of empty housing, have begun to play a role in the landscape of social housing in Spain. In 2012,¹ the Social

¹ The Social Housing Fund was established by Royal Decree 27/2012.



Housing Fund was established as an emergency measure, which was agreed between the Ministry of Economy and Competitiveness and the Ministry of Social Services and the main banking entities in Spain. As the owner of a considerable number of vacant housing units as a result of mortgage defaults, this Fund aims to mobilise some of the empty housing stock that financial institutions have in their portfolios for use by families who have lost their homes and are at risk of social exclusion (rents range from 150 to 400 € per month, with a maximum limit of 30% of the household's net income). Caixabank, BBVA, and Banco Santander are the main contributors to the approximately 10,000 units managed through this Fund. However, whether financial institutions contribute to the Fund is left to them to decide and, in any case, their participation will end once the existing stock of housing has been allocated, which is expected to happen in 2017. Other arrangements have also been set up between banks and governments - for example, BBVA is temporarily ceding (for 5 years) the use of 1,800 units to the Generalitat de Catalunya to 'tackle the social emergency in the housing sector' (BBVA-Generalitat de Catalunya Agreement).

The change in roles: from direct housing provision to intermediation

ACs historically responsible for the management of the national Housing Plans are currently developing measures to cope with the housing emergency - for instance, some of them in tandem with large municipalities are negotiating the acquisition and exercise of preferential rights to empty houses with financial institutions, which are the main holders of these properties. Among other measures, it is worth mentioning programmes aimed at transforming empty private housing into affordable rented dwellings where the regional government acts mainly as an intermediary. Bizigune in the Basque Country or the Avalloguer in Catalonia are the most developed examples. These programmes provide public funding to cover the gap between the market rent payable to the landlord and the below-level rent paid by the tenant. In addition, some ACs have developed a **set of emergency measures to pay the rent of groups at risk of social exclusion**, although the amounts and recipients vary considerably.

Given the extreme situation with regard to the existence of considerable quantities of empty housing in Spain together with a large share of unmet demand, the Basque Country, Catalonia, Valencian Community, Navarre, the Canary Islands and Andalusia, among other ACs, have enacted regulations of a coercive nature to impose **penalties for empty housing** - for example, its temporary expropriation, which means that such housing can be forcibly put up for public rent (Vaquer Aloy 2009). This might be considered an intermediary role public bodies can perform to increase the flow of affordable housing into the market. However, the current conservative government has challenged most of these laws before the Constitutional Court because they consider them to be in violation of the right to property and some of these laws have already been suspended. In the case of the city of Barcelona, penalties have also been applied to illegal tourist apartments (a penalty that can be avoided if those apartments are used for social rent), as a result of the increase in the price of rental housing.



Final remarks

The GFC has revealed the inability of the Spanish system of housing provision to meet housing needs, particularly the needs of the most disadvantaged. The severity of the housing situation since the crisis has generated important pressure on the public authorities to reverse the historical process, entrenched in Spanish housing policies, of avowedly favouring homeownership.

This change in the approach of housing policies has been accompanied by other phenomena that are more deeply rooted in citizens' behaviour after the GFC: given the negative reputation of homeownership, the rental market has emerged as a possible housing alternative to ownership. This is a double-edged sword since the intrinsic weakness of the rental market must nowadays face an increasing demand that can barely be satisfied by the existing rental housing available. The risk of a rise in rental prices is already a fact in many Spanish cities.

Besides the change in political will regarding the urgent need to provide housing for certain groups such as low income households or vulnerable collectives, there is now increasing participation by other actors in the provision of social housing, as the lack of an effective and rapid solution for housing has led to the emergence of highly innovative new initiatives to accompany public initiatives in the creation of social housing. In particular, Spain faces the paradoxical situation where a financial sector that has accumulated a significant number of real estate assets after evictions and foreclosures has opted to become involved, to a greater or lesser extent, depending on the bank, in the provision of social housing.

The final reflection of this article is twofold: On the one hand, there are no clear indications about the extent to which the severity of the GFC has contributed to a new policy of providing social housing, one that is more coherent and comprehensive. There are still gaps to be filled, which are fundamentally related to the lack of resources aimed at translating relatively increasing political awareness of the housing problem into real will. On the other, we want to emphasise the question that has been raised by the current improvement of the real estate market and the emergence of these new actors and particularly the financial sector: to what extent can this growing involvement become a real alternative to the provision of social housing in Spain?

It is definitely possible to detect signs indicating that social housing provision in Spain is changing. However, whether this change is established and structural or merely conjunctural is still unclear. The seriousness of the housing situation in Spain requires defining the fundamentals of a long-term strategy of social housing provision that goes beyond patchwork solutions to the serious problems caused by the crisis.

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