

## **Promoting Investment in Private Rented Housing Supply: International Policy Comparisons**

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# **Country Policy Framework Spain**

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**1. Introduction**

- 1.1 This note gives a brief overview of the policies towards the private rental sector in Spain, with specific attention being paid to policy measures that aim to promote investment in this sector. The report is based on an analysis of existing sources and documents, with a particular focus on Elsinga (2007) and Dol *et al* (2009).

**2. Data and information**

**Three types of rental dwellings**

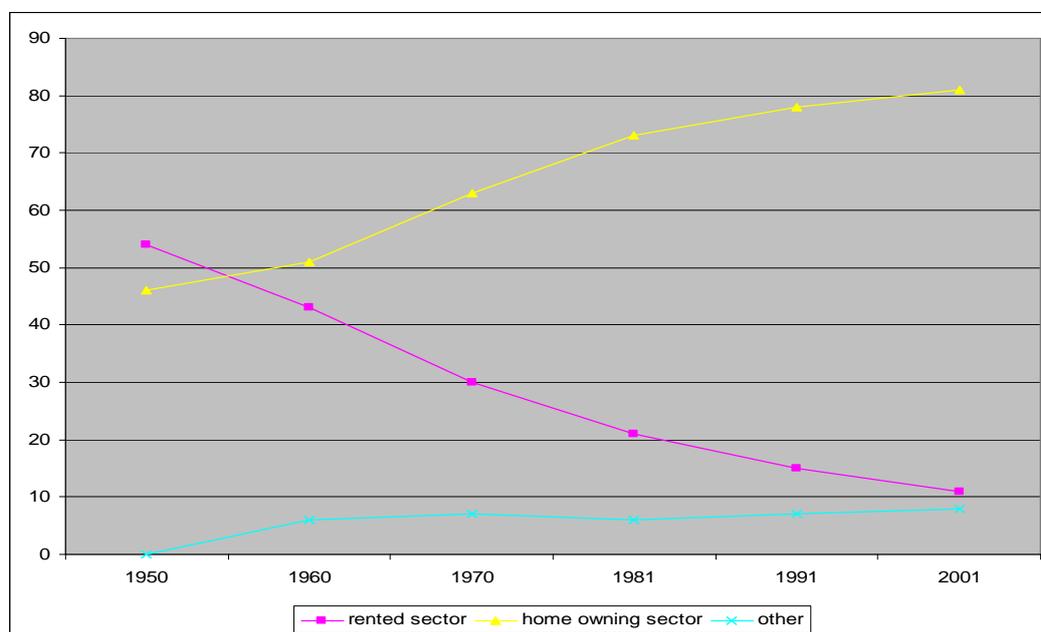
- 2.1 In Spain, three types of rental dwellings can be distinguished. First of all, there are the unsubsidised rental dwellings. These are dwellings of which the initial rent may be set freely. Second, there are the subsidised rental dwellings. These are dwellings with a state-controlled initial rent setting that are let by private landlords. In compensation for the moderated rent that they have to ask, the landlords concerned receive subsidies from the state. Third, there are the social rental dwellings. These are rental dwellings with a moderated rent that are let by public institutions such as municipalities, provinces or autonomous regions.

**The Spanish tenure distribution**

- 2.2 Statistics on the Spanish tenure distribution are collected through the national censuses, the last of which took place in 2001. In the census of 2001, 81 per cent of the Spanish housing stock belonged to the home owning sector, 11 per cent to the rented sector and 8 per cent to the category 'other' (this is a mixed bag that consists of both dwellings that are provide rent-free and accommodation forms such as farms, mobile homes, etc).
- 2.3 The Spanish tenure distribution has changed drastically in second half of the twentieth century (see figure 1). In 1950, the majority of the Spanish dwelling stock still consisted of rented dwellings.

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**Figure 1: Historical development of the Spanish tenure distribution**



Source: Spanish census 2001 ([www.ine.es](http://www.ine.es))

**Developments in the tenure distribution since 2001**

- 2.4 The Spanish ministry of housing has made an estimation<sup>1</sup> of the developments in the Spanish tenure distribution since 2001 (see Table 1). The figure shows a clear development. From 2001 to 2006, the home-owning sector kept on increasing whereas the rental sector kept on declining. However, in 2007 there is a break in the trend. From that year and onwards, the share of rental sector (and since 2008 also the rent-free sector) increases, whereas the share of the home owning sector starts to decrease (probably for the first time since data on tenure patterns are collected). It is difficult to indicate the exact reasons for this development. However, it seems plausible that a combination of the following factors plays a role:
- The large increase in house prices after 2001, which has made the home owning sector increasingly unaffordable for starters on the housing ladder.
  - The large overproduction of Spanish home ownership dwellings, which may have stimulated developers and owners of vacant unsold dwellings to let these dwellings (see Hoekstra & Vakili Zad, forthcoming).
  - The Spanish housing policies of the current social-democratic government of Zapatero that started in 2004; much more than the former conservative

<sup>1</sup> It should be noted that these estimations result in a higher share of the home owning sector and a lower share of the tenure category 'other' than the Spanish census. This is due to the fact that the category 'other' now only contains dwellings that are provided rent-free. The other forms of accommodation are considered to be homeownership dwellings.

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government of Aznar, the Zapatero administration has developed policy measures that aim to stimulate the private rental sector.

**Table 1: Developments in the Spanish tenure distribution in the period 2001-2008 (row percentages)**

Year	Home owning sector	Rental sector	Rent free
2001	85.97	11.38	2.65
2002	86.20	11.37	2.43
2003	86.45	11.34	2.22
2004	86.71	11.28	2.01
2005	86.92	11.25	1.83
2006	87.25	11.04	1.71
2007	87.11	11.25	1.63
2008	84.51	13.19	2.30

Source: Spanish Ministry of Housing ([www.mviv.es](http://www.mviv.es))

**Importance of the different types of landlords**

- 2.5 Official statistics with regard to the importance of the different types of landlords are not available. Nevertheless, it is estimated that about 85 per cent of the Spanish rental dwelling stock is owned by an individual private rental landlord (an unknown part of these dwellings is subsidised). About 7 per cent of the Spanish rental dwelling stock is owned by commercial companies (also here, the division between the subsidised part and the non-subsidised part is not known). Finally, about 8 per cent of the Spanish rental stock is owned by public institutions; this stock may be seen as the Spanish social rental sector (Elsinga *et al*, 2007; p91).

**3. Rent regulation and tenant security**

**Rent regulation**

- 3.1 Just as the other Southern European countries, Spain has a strong tradition of rent regulation and tenant security. In the first decades after World War II, long term rent freezes were common, rental contracts had an indefinite term and eviction of non-paying tenants was almost impossible. As a result of this, home owners were very reluctant to let vacant dwellings and the share of the private rental sector fell markedly.
- 3.2 From 1985, new rental contracts were deregulated. Rent setting and the term of the contract now had to be determined in mutual agreement between landlord and tenant. However, this led to much insecurity as well as financial problems for the tenants. That is why regulation for new lettings was reintroduced in 1994 and still applies today.

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3.3 Rental contracts now have a standard length of five years. The rent setting at the beginning of the contract is free but during the contract the annual rent increase may not be higher than the inflation. After the term of the rental contract has passed, new negotiations about the rent may take place (Haffner et al, 2008; p226). Eviction of non-paying tenants is still rather difficult in Spain.

#### **4. Financial support for the private rental sector**

4.1 In Spain, there are various government measures that aim to stimulate investment in the private rental sector:

- The general subsidy program for the construction and acquisition of dwellings. With the help of this programme, subsidised dwellings in both the homeownership sector and the rental sector can be added to the housing stock;
- A special programme that intends to make vacant dwellings available for the rental market;
- A series of special measures, some of them taken in the light of the current economic crisis, that aim to promote new investment in the private rental sector.

Below, the main characteristics of these policy measures are briefly summarised.

##### **State support for the construction of rented dwellings**

4.2 Traditionally, subsidised housing construction in Spain mainly takes place in the homeownership sector. In recent years, however, the focus has shifted considerably towards the rented sector. For the period 2009 to 2012 the current Spanish government wants 40 per cent of subsidised dwellings to be in the rented sector. Based on an extrapolation from the production of subsidised dwellings in recent years, this will correspond with a production of about 25,000 to 30,000 subsidised rental dwellings per year.

4.3 The production of subsidised homeownership and rental dwellings is steered by a rather complex financial system in which both developers (subsidies and soft-loans) and homeowners and tenants (subsidies) receive financial support from the government (see Hoekstra, Heras Saizarbitoria and Etxezarreta Etxarri (2009) for more information on this). A part of the subsidised dwellings is built by public developers that work on a non-profit basis. The rest is built by commercial developers that receive financial aid from the government. As compensation for this financial aid, the maximum prices (sale prices or rental prices) that may be asked for the subsidised dwellings are well below the market prices. The target group of subsidised dwellings consists of households with a low or middle income. The allocation of the dwellings is

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regulated by the government; often a stratified lottery system is used. In the period 2009 to 2012, the total state support for subsidised dwellings will be €10.2 billion.

**Making vacant dwellings available for the rental market**

- 4.4 To deal with the problem of vacant dwellings, a so-called public rent fund (*Sociedad publica de alquiler*) was established in 2005. This fund acts as an intermediary institution between owners of vacant dwellings on the one hand, and house seekers on the other hand. The Spanish central government has taken the initiative for this fund, and defines the general framework within which it operates. However, the local authorities (bigger municipalities, autonomous regions) have the freedom to organise the activities of the fund in the way that best suits them. The public rent fund doesn't have its own offices, but cooperates with the autonomous regions, local foundations and real estate agents. It provides the following facilities<sup>2</sup>:
- 4.5 For the landlords:
- All administrative obligations concerning the letting of a dwelling are carried out by the public rent fund. The rent that landlords can ask is regulated; it cannot be higher than 7 per cent of the theoretical value of the dwelling. Furthermore, 20 per cent of the rental income has to be paid to the public rent fund, in order to cover the expenses of this fund.
  - The landlord obtains the guarantee that they receive a fixed amount of rental income every month, independent of whether the tenant does or does not pay the monthly rent. Thus, it is the public rent fund and not the landlord who runs the financial risk.
  - If a dwelling needs to be renovated before it can be rented, the public rent fund takes care of these renovations and its funding (there is a special subsidy available for this).
  - The landlord obtains the guarantee that, after the tenancy agreement has expired, the condition of the dwelling is the same as at the start of the tenancy agreement. Possible damage caused by the tenants is repaired and paid for by the public rent fund.
  - When there are disagreements between landlords and tenants, the public rent fund acts as a mediator. If necessary, they can also offer juridical assistance to landlords.
  - The landlord does not have to be in touch with the tenants. The public rent fund selects the tenants and deals with all the questions and requests of these tenants.
  - Landlords are allowed to sell the dwellings that they let, provided that the new owner respects the tenancy agreement with the sitting tenant and the

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<sup>2</sup> The description of the conditions of the public rent fund is based on sources that date from a few years back. Since then, the exact conditions might have changed somewhat.

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arrangements that are made between the selling landlord on the one hand, and the public rent fund on the other hand.

4.6 For the tenant:

- Only households that earn at least 1.5 times the Spanish minimum salary can apply for a dwelling via the public rent fund. Furthermore, the rent of the dwelling may not be higher than 30 per cent of the household income. Potential tenants have to provide a bank guarantee for four months rent in addition to paying a deposit of one month's rent (Ararteko, 2007).
- The public rent fund helps house seekers that look for a rental dwelling. All dwellings that are let via the fund are displayed on a special internet site. House seekers from all over Spain can apply for these dwellings.
- Not the landlord but the public rent fund is responsible for repairs.
- The tenants are not dependent on the possible arbitrariness of an individual landlord, but they can turn to a professional organisation (for example, the public rent fund) in case of problems.
- The tenant can be sure that the dwelling is in good condition.

4.7 At the end of 2009, about 12,000 rental dwellings are let through the public rent fund<sup>3</sup>.

**Policy measures that aim to promote investment in the private rental sector**

4.8 The current social-democratic Spanish government seems convinced that the problems on the Spanish property market (high vacancy rate due to speculation, strong increase in house prices, affordability problems for homeowners and starters on the housing ladder) are related to the fact that the housing policies in the past put too much emphasis on the home owning sector. Now that this sector is in crisis, attempts are being made to further develop the rental sector. Apart from a stronger focus on rental dwellings in the subsidy programme described above, and the establishment of the public rent fund, the following measures have been taken to achieve this aim (BBVA, 2009)<sup>4</sup>:

- There is a credit facility available of €3 billion that can be used to transform unsold homeownership dwellings into rental dwellings;
- There are housing allowances for young people and tenants with a low income;
- There are fiscal advantages for individual private rental landlords. Depending on the characteristics of the household to which they let the dwelling, the landlords can deduct a percentage of their rental income from

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<sup>3</sup> See [www.spaviv.es](http://www.spaviv.es).

<sup>4</sup> Some of these measures have been specifically taken to combat the current economic crisis whereas others were already longer in force.

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their income for taxes. If the tenant is younger than 30 years, this percentage may even be 100 per cent;

- A new law enables the creation of so-called Real Estate Investment Trusts (REITs);
- Just as owner-occupiers, tenants can deduct 15 per cent of their rental payments from their income for taxes.

4.9 In addition to the above policy measures, Vorms (2009) indicates that the Spanish mortgage providers are considering purchasing (temporarily) the dwellings of owner-occupiers with mortgage payment problems. These owner-occupiers would then be offered the possibility of renting the dwelling so that they can stay where they are. In order to make this possible, the mortgage providers have requested an exemption of the transfer tax that usually applies to such transactions.

## **5. Key factors influencing investment in the private rental sector**

5.1 In Spain, renting has long been considered as second best tenure. Landlords were afraid of non-paying tenants and damage to their dwellings. In theory, the establishment of the public rent fund should take away these fears. However, Spain still has a strong home owning culture in which letting a dwelling is equated with 'asking for problems'. It is very difficult to change this overnight. Furthermore, a substantial part of the Spanish population, especially from the right wing of the political spectrum, shows a big distrust towards the public sector and is therefore not very willing to participate in initiatives such as the public rent fund.

## **6. Reasons for selecting or not selecting Spain in the next stage of the research**

6.1 Reasons for selecting Spain:

- There are many interesting policy initiatives that aim to stimulate investment in the private rental sector;
- Just as the United Kingdom, Spain is characterised by a strong homeownership culture on the one hand, and a home ownership sector that is actually declining on the other hand. Also, both countries are hit comparatively hard by the current economic crisis;
- There is little information in English available on the Spanish private rental sector.

6.2 Reasons for not selecting Spain:

- Many of the policy initiatives described in this report have started very recently, which makes it too early to evaluate their effects.

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