The New Housing Policy Programme in Spain: The Financial Aspects at Central, Regional and Local Level

by Montserrat Pareja and Pere Riera

INTRODUCTION

Spain has one of the higher housing ownership rates (2/3), compared to the rental rate (1/3). Most of the housing policy over the past, and still at present, has been devoted to the supply of housing for the ownership market and the financial aid to families wanting to buy a house.

Nevertheless, whereas there is a huge volume of houses not used as a main residence, many families cannot afford to buy a house in many areas of the country, the rental sector being insufficient. This mismatch appears both in territorial and social segments of supply and demand.

During the last Spanish local elections, the central government committed itself to providing new and more generous housing. Actually, it became the main issue of that campaign. This reflects the social concern on housing affordability in Spain, which consistently ranks very high in the opinion polls.

Thus, in 1992, a new four year housing programme has been implemented in coordination with different administration levels. This paper develops, in some detail, the financial benefits provided by the programme, and the role played by the central, regional and local government.

Montserrat Pareja is a lecturer in Economics at the University of Barcelona. Pere Riera is Vice Director of the European Studies Institute at the Autonomous University of Barcelona. *This paper was presented at a seminar on European Housing Finance organised jointly with the European Network of Housing Research at the School of Advanced Urban Studies, University of Bristol, U.K., 4-5 February 1993.*

HOUSING POLICY AND THE ADMINISTRATIVE STRUCTURE

Since Franco's death in 1975, Spain has gone through a process of government decentralisation. Under the 1978 Constitution, the regions of Spain were recognised as Autonomous Communities. Thus, the administrative system was organised in three tiers: central, regional and local. In the following years, 17 Autonomous Communities passed their own Constitutional Chart and claimed most of the responsibilities that the Spanish Constitution allowed at regional level, taking at the same time some power from local authorities. Housing and planning were among the responsibilities the central government had to decentralise to the Autonomous Communities.

The only responsibilities for housing policy remaining at central level are the preparation and approval of a financial framework program and the regulation of the urban housing rental sector. Also, the central administration has full responsibility on fiscal policy and, therefore, establishes the fiscal exemption levels, if any, for housing buyers and renters.

The Autonomous Communities undertake the actual management and part of the implementation of the financial housing policy designed by the central government. They can develop their own legislation to meet the regional housing needs.

The local administration can play an active role in housing supply, although in practice the limited budget they manage constitutes a major handicap. Nevertheless, some local authorities, in partnership with the private sector or on their own, become major developers of social housing.

Planning responsibilities, on the other hand, are shared in a different way. According to the 1978 Constitution, the central administration has almost no power for planning. However, there are many closely related topics the central government is responsible for. On these grounds, after transferring planning responsibilities to the Autonomous Communities in the 1980s, the central Parliament has issued a new Planning Act, in 1992, containing two kind of articles: those which have to be followed by the regional planning acts and those which apply when the Autonomous Community has not developed its own planning legislation. The former articles have been challenged in the Constitutional Court by some Autonomous Communities. In practice, the regions have only introduced minor changes, if any, in their planning legislation, based on the older 1976 Spanish Planning Act. Regions have become the higher planning authority, supervising and in many cases approving local plans.

Usually, the municipalities are the planning authorities who draw the master plans, called "general municipal plans" in Spain. Such plans are legal binding documents, which zone in detail the land uses allowed in their territory. Municipal general plans ought to follow the broad indications contained in regional or upper level plans; however, to date such plans exist only in legislation and none has been passed so far. The implementation of the general plan can be undertaken by the private sector, the local authority or in partnership between both sectors. Planning control stays at the local level.

Furthermore, local authorities hold a number of instruments to devote land to social housing. The new 1992 Spanish Planning Act has introduced some devices which stress the involvement of local authorities. However, the implementation of these novelties involves the modification or revision of general plans, the preparation of land for social housing and the actual construction of the houses, in all consuming a great deal of time. Therefore, the reform of the new Planning Act will demonstrate its effects only in the long run.

SPANISH HOUSING POLICY

There are at least two main trends in the Spanish housing policy: (a) providing financial support, basically to the demand side, and (b) reactivating the building sector as a way of expanding the whole economy.

Depending on the objective to achieve, the government has made use of different instruments, from fiscal aid to direct aid. The effectiveness of each policy has varied in time according to the stress on one or other goal, and the economic situation. Thus, the current housing market in Spain is strongly influenced by different interventions from the government.

In Spain, housing supply policies have been dominant during this century, beginning in 1908. The most important device has been regulated housing (RH), which is explained in some detail below. Before 1978, the Spanish public expenditure on housing was basically oriented toward the "brick", giving priority to supply policies and to stress the economically important construction sector.

Rent control also has a long tradition in Spain, the first relevant experience dating from 1920. Only in 1985, there was a first attempt of streamlining the sector.

A re-examination of housing policy in Spain (1978-1991)

This section re-examines the preceding policies and the current housing programme in Spain. The analysis is based on the means used in each policy or programme:

- public aid
- regulated housing
- fiscality
- standards and market regulation

Table 1 sumarises the main policies.

(a) Public aid. Whereas before 1978, the Spanish public expenditure on housing was oriented to the "brick", in the 1980s and 1990s priorities in housing policy have changed and the social point of view has been prevailing in the totality of the policies. Direct public expenditure in housing has targeted aid to people as its principal component.

(b) *Regulated Housing (RH)* or "Vivienda de Proteccion Oficial", in Spanish. During the dictatorial stage, the central government was involved in a wide and ambitious project of developing of housing. RH was by far the main instrument in trying to achieve it. The valuation of the results of the policy is not unanimous. This instrument, with minor changes, has survived all the periods and it still constitutes an important part of Spanish housing policy.

A dwelling is classified as RH before the development takes place. The dwelling must satisfy some requirements to be eligible as RH; the main conditions are:

- The developer is not able to sell the dwelling below a threshold price fixed by the government. It varies according to the area where it is located: in the cities the selling price allowed is higher than in the countryside. However, the RH price always lies below the market price.
- The area of the dwellings cannot exceed 90 square metres. For first buyers, it cannot exceed 70 square metres. However, the area does not account for the garage (for one car only) and an ancillary room.
- The dwelling is affected by the RH system during a number of years. At present, if the owner sells or rents the house within the first 30 years from the completion of the building, the renting or selling price is fixed by the administration.
- It could be built by public developers or private developers.
- The government establishes a difference between the RH targeted for low income people and the rest of the population. When the buyer qualifies for low income, the financial aids are available under the so called "special regime", whereas when the owner is wealthier, the legislation offers benefits under the "general regime".

(c) Fiscality. Fiscal aid is embodied in the indirect public expenditure in housing. It is necessary to understand the role played by fiscal policy in housing until 1991. The main purpose of this policy was to support housing investment without any reference to redistribution. The results of the housing policy were, to some extent, offset by the side effects produced by the fiscal objectives: fiscal aid had greater benefits for the higher income groups with expenditure

Table 1: Spain's Main Housing Policies

	Instrument	Beneficiaries	Amount	Interest Rate	Repayment	Quota
Real Decreto 31\1978	RH, Private development	Developers, Buyers	70% over selling price	11%	12 years + 2	constants
	RH, Public development	Buyers with income less 1.5 OMW	70% over selling price	5%	25 years	increasing
Triennial Program 1981\1983	RH, Private Development	Developers, Buyers	70% over selling price	14% negotiated, 11% effective	12 years + 2	constants
	RH, Public development	Buyers with income less 1.5 OMW	70% over selling price		25 years	increasing
	Rehabilitation		70% over total cost		7 years	
Four - year Program 1984-1987	RH, Private development	Developers	75% - 80% over selling price	6% - 1.5% depending on income	13 years + 2	increasing at a constant rate of 3%
		Buyers: Income < 2.5 OMW; 2.5 OMW < Income <3.5 OMW <3.5 OMW				
	RH, Public development	Developers, Buyers	75% over selling price	5%	25 years	
	Rehabilitation	Protected	60% over the modules. Minimum covered: 200,000 pesetas		12 years	
		Free	80% over the modules			
Real Decreto 1494\87	New Development General System	All the proceedings except the ones under the Special System		11.25%	15 years + 3	
	New Development Special System	Public developers for acquirents with income < 2 OMW		6% for selling housing, 4.5% for rental housing		
	Rehabilitation General System	All the proceedings except the ones under the Specific System; 100% of the cost under specific assumptions		11.5%	Minimum 3 years + 1, Maximum 13 years + 2	
	Rehabilitation Special System	Public Developers under special system, and buyers of developed housing under special system		6%		

capacity in the real estate business. At the time, the second or third residence enjoyed a considerable reduction in taxes.

Table 2 shows the current housing fiscal policy.

(d) *Standards and market regulation*. Some of the housing policy goals have been targeted from the use of standards, which have varied during the century, and the regulation of the market. The latter has been most influential in the rental sector and in the land use policy.

Current housing policy: the 1992-1995 programme.

The new housing programme, aiming to facilitate access to housing to low and mid-income people, has been issued by the central administration, and is adapted and implemented by the Autonomous Communities and the local authorities The programme integrates all the different policies concerning housing. It is articulated in different regulations according to particular aspects. There are two Decrees which regulate the financial aids for affordable access to housing and public land for regulated housing.

The financial policy on housing is regulated through the Royal Decree 1932/91, whereas the land aspects are regulated in the Royal Decree 1668/91. These measures for the four year housing plan are developed each year through governmental orders. The specific measures to be applied in 1992 are specified in the Order of March 3, 1992, which establishes the interest rate agreed between the central government and the financial institutions for this year.

Different regions have different housing needs and financial capabilities. Therefore, each regional government adapts the central legislation and develops its own policy accordingly. For instance, some Autonomous Communities have included a number of grants which other regions have not.

There are different forms of aid under the programme, all of them being given after the transaction has taken place and the first payments made.

Objectives of the programme

Housing affordability is one of the main

Table 2: Fiscal Policy for Housing

Taxes	Taxpayer	Specific taxes	Subject to taxation	Taxable basis	Tax rate	Level of Government
Taxes placed on property	Owner	Income tax	income related to the ownership	2% over the property value used in the patrimony tax	Progressive rate until 56%	Central Government
		Patrimony tax	availability of property	The biggest of the cadastral value, the selling price or the administrative verified value	Progressive rate from 0.2% to 2.5%	Autonomous Community (if the tax is transferred)
		Property tax	ownership of property	Cadastral value	Fixed rate 0.4%, plus a variable % fixed by the municipality	Municipality
Taxes placed on transmissions	Buyer	VAT	First transmission of property	Transmission value	6%, 3% for RH	Central Government
		Patrimony transmissions tax	Second transmission of property	Transmission value	6%	Autonomous Community (if the tax is transferred)
		Legal acts tax	Transmission value (first transmission)	Transmission value	0.5%	Autonomous Community (if the tax is transferred)
		Succession tax	Buying for lucrative reasons or "mortis causa"	Real value or verified value		Autonomous Community (if the tax is transferred)
	Seller	Increased land value tax	Gain in value lucrative transmissions	Cadastral value plus a territorial and population corrector coefficient	from 16% to 30%	Municipality
		Income tax in non profit or lucrative transmissions	Patrimony increase or decrease	Surplus weighted by a coefficient		Central Government

social issues in Spain. This problem has been assumed by the government because the free market is unlikely to cover the housing needs of the entire population.

The established literature considers three sources of housing need in Spain: creation of new families; urban renewal; and changes of land use in the cities. Additionally, low-income people are negatively affected by the market structure. Housing affordability represents the social objective of the programme.

The main characteristics of the new housing policy are:

- The public aid in the new programme is directly targeted to people, not to "bricks". The government is aiming to solve the weak capacity of demand, as a consequence of the current disequilibrium in the Spanish housing market: the unsatisfied demand drives prices up instead of expanding the supply.

- The programme tries to coordinate the efforts in housing aid: financial and fiscal policy applied into housing programmes. Both policies affect not only the demand but also the supply. Besides the social objectives, the policy wishes to soften the crisis in the construction sector. That represents the economic objective of the housing plan.

- Another objective is the reform of the mortgage system. The programme does not tackle the reform, but intervenes in the financial market to lower the interest rate for eligible buyers through subsidies. The underlying objective is to reduce the interest rate of the whole market.

- It also states the goal of improving the use of housing-saving accounts. The programme establishes the possibility of giving a grant to the buyers under the plan, who have a previous housing-saving account, increasing the attractiveness of this financial instrument.

- The scarcity of land available at affordable prices for housing has lead the programme to introduce a specific section to overcome the problem. Local authorities can benefit from devoting public land mainly to regulated housing (RH).

- For each Autonomous Community, the programme targets a given number of houses to enter the market at affordable prices, considering the different needs of the regions. The programme specifies the maximum number of houses eligible for financial aid under each modality: regulated housing and houses under determined price. The figures are deducted according to the characteristics of the territory and its economic and social composition. The regional distribution has been one of the difficulties in the assignment of the participation of each community in the programme. The outcome is the consequence of a mixture of political negotiations and economic criteria as:

  - population between 25 and 44 years,
  - number of low-income families (less than 3 times the official minimum wage (OMW)), and
  - land use qualifications two years ago.

- The policy is designed to fit in a varied number of cases. Flexibility and diversity are in the aim of the new policy. The new programme is promoting new construction as much as used or renewed housing to satisfy the needs of the demand.

- Given the deep disparity between the rental market (one third) and the property sector (two thirds), the administration is committed to develop the former. The program aims to increase the private rent supply and to improve the conditions of the existing and future rental contracts.

- In addition to coordination in fiscal and financial policies, the programme defines the public intervention considering the three levels of government in Spain. As mentioned above, the regions hold most of the political responsibilities in housing policy, which could lead to inefficiencies in the implementation of a central government housing plan that aims to integrate different policy instruments. Thus, the coordination of responsibilities between administrations has become an objective of the new housing programme.

Instruments

Demand side instruments:

a) *State level*:

The Spanish housing programme redesigns the traditional policy and introduces a new device, encouraging the demand for acquisition of housing and rehabilitation. The programme considers three basic instruments: (i) the RH and (ii) rehabilitation, used in previous programmes, and (iii) housing with determined prices, which constitutes a novelty.

Regulated Housing: The programme details under which conditions possible buyers qualify for RH. The purchasers of a property under RH must:

- declare their intention to live in the house as a main residence,

- not be the owner of another dwelling under RH or a non-regulated dwelling located in the same municipality and with a market value higher than 20% of the selling price of the RH he/she wants to acquire,

- meet some income requirements. According to the classification stated above of general system and special system, the programme establishes a threshold annual income of 2.5 times the official minimum wage (£15,500 in 1991) to qualify for the special regime. If the buyer earns less than 5.5 times the OMW (£33,000), he/she would be admitted in the general system.

For those buyers who qualify for RH, the programme establishes some aids. The financial aid for buying RH housing includes loans with an interest rate under the standard market rate, with some further subsidies, and grants.

Qualified loans: The programme mandates the central government to negotiate with both the public and private financial institutions a loan interest rate below the market for buyers (and developers as explained below) eligible under the programme. In 1992, the interest rate agreed was 12.25%, the market rate being around 14.5%, and inflation 5.4%. Each year there will be a revision of the agreement. For 1993, the new interest rate will be 12.50%.

Dwellings under the RH system, which qualify for financial aid under the housing programme, have a buying (selling) price constraint. This maximum buying price is calculated using a so called "weighted module" (expressed in monetary units per square metre), which is fixed by the government, varying across the territory. Under the special regime, this weighted module is multiplied by the usable area of the dwelling. Under the general regime, it is also multiplied by a coefficient given by the programme. Table 3 shows the procedure to determine this threshold price according to the characteristics of the buyer.

Another concept which plays an important role in determining the financial aid is the "maximum qualified loan", which is the amount of money that can be subject to a subsidised interest rate. It varies according to the income of the buyer (special or general regime). Its calculation includes the usable surface, expressed in square metres, which is multiplied by the weighted module; the maximum qualified loan is a given percentage of this product.

Furthermore, the central government is committed to subsidise a part of the agreed rate, depending on the income of the acquirer. The resulting subsidised interest rate applies to the maximum qualified loan, calculated as explained above. Table 4 shows the level of subsidy for each income bracket.

Thus, for instance, a first buyer who earned less than 3.5 times the OMW and more than 2.5 times the OMW the year previous to the application for the benefits of the programme, instead of getting the agreed interest rate of 12.25%, will get an interest rate of 6.5% on the maximum qualified loan, which in this instance is the 95% of the given weighted module times the usable square metres of the dwelling. If the principal borrowed is larger than the amount resulting from the application of the mentioned qualified loan, the difference will be repaid at the market interest rate (around 14.50% in 1992-93).

These conditions remain stable for a period of five years. If the buyers who benefit from these conditions sell the house before the end of the period, they have to return the subsidies, plus the interest that this money would generate. At the end of the five year period, the buyers have to submit the income statements of the last two years. If

Table 4: Programme Eligibility for RH Buyers

RH Regime	Income level of the beneficiaries	Interest rate over the maximum qualified loan	Repayment
Special Regime	<2.5 times OMW	5%	20 years
General Regime	<3.5 times OMW (first buyers only)	6.5%	15 years
	<3.5 times OMW	7.5%	15 years
	3.5 - 4.5 times OMW	9.5%	15 years
	4.5 - 5.5 times OMW	11.5%	15 years

Table 3: RH Maximum Buying Price and Maximum Qualified Loan

	Income requirements	Maximum buying price of the dwelling	Maximum qualified loan
RH (Special regime)	<2.8 Mptas	Weighted Module * 90 sq. m.	80% over Weighted Module * usable sq. m.
	<4 Mptas (1st buying)	Weighted Module * 1.2* 70 sq. m.	95% over Weighted Module * usable sq. m.
	<4 Mptas	Weighted Module * 1.2* 90 sq. m.	95% over Weighted Module * usable sq. m.
RH (General Regime)	4 Mptas < income < 5 Mptas	Weighted Module * 1.2* 90 sq. m.	95% over Weighted Module * usable sq. m.
	5 Mptas < income < 6 Mptas	Weighted Module * 1.2* 90 sq. m.	95% over Weighted Module * usable sq. m.

Table 5: Grants for RH

	Income levels				
	<2.5 OMW (special regime)	<3.5 OMW (1st buying)	<3.5 OMW	3.5 OMW-4.5 OMW	>5.5 OMW
Grant 1	10%	5%	5%	-	-
Grant 2	15%	10%	-	-	-

income remains within the same bracket, the conditions remain untouched. On the other hand, if there is a variation in the relevant income bracket, the conditions for the next five year period will change accordingly.

In any case, the maximum qualified loan must be repaid at a constant monthly quota during the next 20 years under the special regime, and 15 years for the general regime. In all cases, the programme considers an annual accumulative increase of the quota, 3% under the general regime and 1.5% for the special regime.

Grants: The programme has conceived a grant system in addition to the qualified loans and agreements in interest rates. The grants vary according to the RH regime and income level, as shown in Table 5.

All the grants are calculated over the price registered in the title deed. Grant 1 is given unconditionally by the central administration when the qualified loan is conceded. Grant 2 reflects the situation where the acquirer possesses a housing-saving account.

Housing under determined prices (HDP)

Whereas regulated housing involves demand and supply aids, the aids for housing under determined prices (HDP) are devoted to buyers only. This part of the programme constitutes the major innovation in housing policy in Spain. It was set up to meet the present needs of the housing market, since one of the major problems was (is) high housing prices with limited affordability from most families. Although HDP can be applied to new and second hand houses, it is mostly devoted to used dwellings, which are in the market without meeting the potential buyers. A particular case of HDP is a RH dwelling which is resold in the market.

Financial aids for HDP are subject to two factors: the characteristics of the dwelling and the income level of the buyers.

A dwelling can be considered eligible for HDP aids if:

- its usable area does not exceed 120 square metres,
- it is not acquired for speculative reasons,
- it will not be sold again within the next 5 years,
- the buying (selling) price does not exceed the amount fixed by the programme, as explained below.

The aids for RHP vary according to the income level of the families and the usable surface of the dwelling. The income level is split into brackets. The programme establishes several groups of aid, combining the income brackets and the surface of the dwelling:

- First buyers and Income ≤ 3.5 OMW. Maximum square metres: 70,
- Income ≤ 3.5 OMW. Square metres ≤ 90,
- Income ≤ 3.5 OMW. Square metres ≤ 120,
- Income between 3.5 OMW and 4.5 OMW. Square metres ≤ 90,
- Income between 3.5 OMW and 4.5 OMW. Square metres ≤ 120,
- Income between 4.5 OMW and 5.5 OMW. Square metres ≤ 120.

The maximum buying price is the result of multiplying the weighted module (explained above) by the usable surface of the dwelling, and by a coefficient stated in the programme. This coefficient has been established as 1.5, except for dwellings of less than 90 square metres of usable surface located in the cities of Madrid and Barcelona and their surroundings, where the coefficient goes up to 1.7. Table 6 illustrates the computation of the maximum buying price according to income levels.

Table 6: HDP maximum buying price and maximum qualified loan

Income requirements	Maximum selling price of the dwelling	Maximum qualified loan
<3.5 OMW (1st buying)	Weighted modules* coefficient (1)* 70m2	70% over the registered price, 80 % if it is a former RH
<3.5 OMW	Weighted modules* coefficient* 120m2	70% over the registered price, 80 % if it is a former RH
3.5 - 4.5 OMW	Weighted modules* coefficient* 120m2	70% over the registered price, 80 % if it is a former RH
4.5 - 5.5 OMW	Weighted modules* coefficient* 120m2	70% over the registered price, 80 % if it is a former RH

Qualified loans: The benefits from HDP are twofold: qualified loans and grants. The procedure for the qualified loans are very similar to the one described for RH. The agreed interest rate is the same: 12.25% for 1992.

The maximum qualified loan varies according to the status of the dwelling: a former RH or otherwise. The maximum qualified loan is a percentage of the buying price registered in the title deed. Table 6 shows the figures.

As in the RH, HDP enjoys of a subsidised interest rate depending on the income level of the buyer. Table 7 shows the subsidised interest rate for each income level bracket and dwelling size.

As in the RH procedure, the time periods for revision are of five years, the conditions being the same. Also, the increase of the monthly quota remains at 3%.

Grants : At the state level, the grants for HDP are the same as in the general regime of RH, under the same conditions.

b) *Regional level*

The Autonomous Communities organise the implementation of the aid system. Application forms are issued and collected by the regional administration. The decision on whether the applicants meet the established requirements are also decided at the regional level. The central government has to confirm the decisions of the Autonomous Community. Afterwards, the regional administration notifies the decision to the applicants, who will approach a financial institution to get the subsidised loan.

Autonomous Communities can further legislate on the issue and extend the benefits of the programme. For instance, in Catalonia, the regional government has established an additional grant of 5% of the buying price for younger buyers (under 30 years old) with an income lower than 3.5 times the OMW.

There is no participation of the local administration at the demand side.

Supply side instruments:

a) *State level* :

Regulated housing : As explained above, one of the traditional instruments in the Spanish housing policy has been the regulated housing (RH). This section examines its supply implications.

Traditionally, the public sector was involved in both the general regime and the special regime, whereas the private sector was only allowed to take the lead in RH devoted to the general regime. The programme introduces the possibility for the private sector to develop under the special regime, getting larger benefits than in the general regime.

When a developer decides to build an RH dwelling, he can apply for a qualified loan, under the agreed interest rate (12.25%, in 1992). As in the cases explained above, this interest rate (which is already below the market rate) can be lowered under certain circumstances.

Under the general regime, if the dwelling is constructed for the rental market, the interest rate goes down to 7%. Under the special regime, dwellings both for rent and sale benefit from low interest rates: 4% and 5% respectively (Table 8). The calculation of the maximum qualified loan to which these interest rates apply follows the same procedure already explained above under the demand side for RH.

Furthermore, the developer can obtain a grant depending on the RH regime and the size of the dwelling. The grants are expressed in percentage over the maximum selling price. They range from 10% to 25%, as shown in Table 8.

b) *Regional level* :

Similar to what has been explained in the demand side section, the regional government manages the implementation of the programme benefits for developers at the Autonomous Community.

The programme also allows the regional administrations to further develop the policies given by the central government. Some Autonomous Communities have been active in buying land and buildings from the public sector, expropriating sites and partially subsidising the interest rates for the developers.

c) *Local level* :

The local level is involved mostly in the provision of land to develop affordable housing. As mentioned in a previous section, the effectiveness of the policies implied for achieving this goal will be seen in the long run.

Table 7: Subsidised interest rate

Income levels	Maximum square metres of the dwelling	Subsidised interest rate
<3.5 OMW (1st buying)	70	6.5%
<3.5 OMW	90	7.5%
<3.5 OMW	120	11%
3.5 OMW - 4.5 OMW	90	9.5%
3.5 OMW - 4.5 OMW	120	11%
4.5 OMW - 5.5 OMW	120	11% (first 5 years) 12.25 % (the rest)

Table 8: Benefits for developers under RH

	Qualified loans (agreed interest)	Subsidised interest rate	Grants depending on maximum square metres
RH (General regime)	12.25%	7% if the dwelling is a rental one	90m2 => 10% over the maximum selling price 70m2 => 15% over the maximum selling price
RH (Special regime)	12.25%	5% if the dwelling is going to be sold 4% if the dwelling is a rental one	90m2 => 15% over the maximum selling price 70m2 => 25% over the maximum selling price

CASE STUDY: AN APPLICATION OF THE SPANISH NEW HOUSING PROGRAMME

This case study reflects an actual case, which is very representative of the demand sector for which the new Spanish housing programme applies.

Situation before the application of the programme

Our case study looks at a young couple who want to buy their first house. They are both under 30, so they will qualify for some governmental aid.

Their income is rather low. In 1991, the husband earned 1,400,000 ptas (some £8,000), while the wife's income was 960,000 ptas (just over £5,000). Both incomes account for some £13,000, which is under 2.5 times the minimum Spanish wage.

They manage to find a house which is eligible for subsidies under the current housing programme. It is a small flat, about thirty years old, located in the surroundings of Barcelona (Autonomous Community of Catalonia), on the third floor of a non-rehabilitated block of flats without elevators. The flat has a gross surface of 85 square metres, although the usable part (according to the official Spanish definition) accounts for only 70 square metres.

Despite the recent boom of house prices and the added pressure on prices in the Olympic city, the transaction can be settled for 9.5 million pesetas (about £53,000).

The couple now require a mortgage. The financial institution has to consider the so called "taxation value" of the property. They will be willing to lend a maximum of 80% of this value.

The financial institution hires the Spanish equivalent of a surveyor, who estimates the value of the flat. The market value was estimated in 11.6 million pesetas (£65,000); therefore, the bank is willing to offer a mortgage of £52,000.

The young couple gets the mortgage for almost the whole quantity: £51,000, with a nominal interest rate of 14.5% (current inflation is around 6%). The borrower will have to make monthly repayments of approximately £700 for a period of fifteen years.

In addition to all these expenses, they have to pay the taxes related to the transaction, the title deed cost, dwelling insurance and management expenses. The total amount would be atleast £6,000.

Possibilities with the requirements of the new programme

In 1992,the Spanish government issued the promised new housing programme, and the regional government legislated accordingly, to implement the programme in its Autonomous Community.

The couple are eligible to apply for the benefits of the programme, since they, as a family with two earners, earned less than 2.5 times the minimum wage (see Table 9) according to their income tax declaration for the previous year. They meet the requirements of first time buyers, and they are both younger than 30 years old. They also meet the requirement of having bought the flat within the six months prior to the start of the programme on January 1, 1992.
The buyers will sign a declaration stating that they will use the the dwelling as their main residence for the next few years. If they sold the house before that time, they would lose the benefits for which they qualify.

After certifying that the couple qualify for the

Table 9: Eligibility levels for programmes

	Income < 2.5 OMW		
	People in the family	1 income receiver	2 income receivers
Area 1: Municipalities located in regions of the Metropolitan area, those with more than 100,000 people, and high mountains capitals	1	2.215.633	
	2	2.332.245	**2.454.995**
	5	2.735.349	2.879.315
Area 2: The rest of municipalities	1	2.011.897	
	2	2.117.786	2.229.248
	5	2.483.823	2.614.550

programme, it is necessary to check whether the dwelling meets all the requirements. It is a second hand flat, so it could be considered under the part of the programme that assists housing with regulated prices.

Its selling price is under the maximum required by the programme. As explained before, this maximum price is reached by multiplying the stipulated module by a coefficient which includes territorial aspects and by the usable square metres of the dwelling, as illustrated in Table 10.

Once the regional administration has received the application from the couple, and eventually verifies the fidelity of the data, it sends the application to the central government with a positive recommendation, and issues some documentation to the applicants, so they can go back to the bank and refinance their mortgage.

The characteristics of the family determine a subsidised interest rate of 6.5%, instead of the former 14.5%. Table 11 shows the monthly quota per million at 6.5%, repaying the loan in 15 years.

This 6.5% will remain fixed for the next five years, if the couple does not break the requirements already stated. After five years, the rate of interest may change, depending on their level of income over the last two years.

The maximum amount that can be refinanced under these conditions is 70% of the selling price. Note that this time the "taxation price" is not used. If the couple had declared a buying price below the actual amount (£53,000), as many people do in order to pay less taxes, they would qualify for a lower subsidy, actually losing money. The 70% of the selling price accounts for about £37,000. The difference between this quantity and the former mortgage would be financed with another mortgage, under the market conditions, with an interest rate close to 15%. Under the new circumstances, the couple would pay £440 a month for their mortgage, instead of the former £700.

However, the refinance of the mortgage involves some expenses, which in this case exceed £3,000.

Additionally, because the couple are buying a house in Catalonia, they can apply for two grants from the Autonomous Community, one related to the qualified loan granted by the central government being 5% (£2,600) over the selling price and an additional one representing the same amount, £2,600, because they are less than 30 years old.

CONCLUDING REMARKS

The effort of the Administration to publicise the objectives and the possibilities of the new programme has resulted in a good level of information for the whole population.

The programme offers new opportunities to low and mid-income people to buy a house. However, one of the concerns of the programme is that it may lead to increasing house prices.

Table 10: Maximum selling price

	Modules	Weighted modules (WM)	1.2 WM	1.5 WM	1.7 WM
Area 1	78,978 ptas	84,167	101,000	126,250	143,084
Area 2	71,870 ptas	76,592	91,910	114,888	

Maximum selling price:

Module		coefficient		sq. metres		maximum price
84,167	X	1.7	X	69	=	9,872,789 ptas

Table 11: Amount of the monthly quota

Years	Monthly quota (in pesetas)
1	6,994
2	7,204
3	7,420
4	7,643
...	
12	9,682
13	9,972
14	10,272
15	10,580

The programme is essentially a demand side device. It raises the question of whether the aid to relatively high income earners (more than 4.5 million pesetas per year) is trying to promote the filtering effect as a way of reactivating the demand as a whole.

In practice, the implementation of the programme is too slow. The delays in the perception of the benefits by the eligible buyers or developers involves an extra cost which goes in the opposite direction of the aim of the policy.

The selling prices resulting from the application of the programme are rather low. One of the main problems for the potential beneficiaries is to find a house in the market that meets such a low price.

Although theoretically, every Autonomous Community can complement the programme with further benefits according to the needs of its population, in practice, the richer regions are in a better position to improve the budget assigned to the policy.

Finally, the rental market is almost neglected by the programme. Although the rental policy involves the modification of some legislation, the need for an improvement of the sector remains paramount. ■