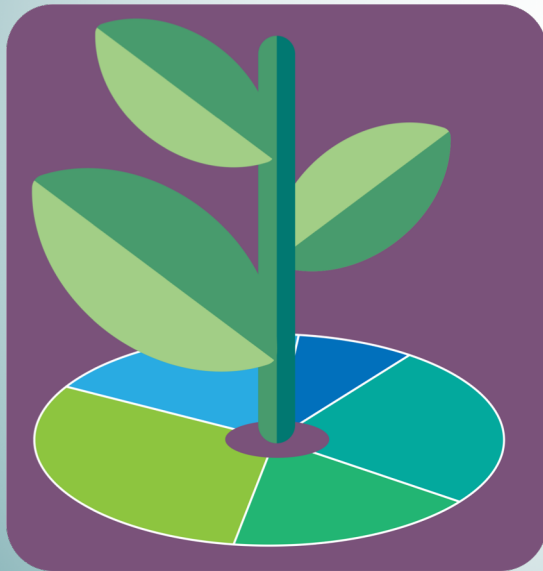


# Economics of Social Expenditure

## CHAPTER II. ANALYSIS OF MERIT GOODS

### 2.3 Public Spending on Housing



**David Cantarero Prieto**  
**Paloma Lanza León**  
**Javier Isaac Lera Torres**

DPT. OF ECONOMICS

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# 1. Housing as a merit good. Public housing expenses in Spain

## HOUSING ECONOMY AND POLICY (*Housing Economics*)

- **Art. 47 Constitution** : It is a merit good... right to enjoy decent and adequate housing and public powers will promote necessary conditions and pertinent norms for that, regulating land use to prevent speculation.
- **Public Sector provides aid for housing acquisition, rental or rehabilitation** → externalities (+): tangible and intangible (decrease delinquency and antisocial behavior; Rosen&Gayer, 2014).
- **Right to decent housing** → Public Sector helps to reach a minimum level of consumption and not just any level.

## *HOUSING POLICIES*

- **Art. 148.1.3 Constitution**: is regional competence (art. 24.3 Statute of Cantabria jurisdiction of housing and land exclusively).
- **Local Entities in formulation and execution of planning.**

## 1. Housing as a merit good. Public housing expenses in Spain

- **Consumption characteristics: Capital good whose output is ACCOMMODATION in a period of time.**

### ***1) TENURE REGIME (OWNED)***

- **Buy and self-consume accommodation (invest and consume; *current spending becomes investment spending and earnings K*).**
- **Purchase insurance in case possible future income does not cover future rent.**
- **Practice + advantage : Owners + decision power maintenance and ensure they remain in it. *But fixation to locality... Limit to mobility?***
- **Predominant ownership in Spain (76,3%) versus the EU (70%).**

### ***2) FOR RENT HOUSING (over 20% of all homes)***

**Advantage: + cheap for accommodation and mobile, between cities or areas in the same city, *no long-term liability... Freedom of movement. But rent spending is current spending, "quality of life"... You depend on market supply.***

- ***HOUSING DEMAND AND SUPPLY. HOUSING market AND Public Sector roll.***

- **Adjustment through Price (short term) and Quantity (long term). Influences expectations (ownership), spatial location (new imperfect substitutes for existing ones), ▲building 1° of +price, limited competition for land (50% price and monopoly).**

- 1) Satisfies a basic need of people: shelter.
- 2) It is the most important financial and consumption decision in a person's life.
- 3) Housing is the most durable asset over time (among the "important" assets).
- 4) Location is fixed. Houses cannot normally be moved → the location may have consequences not included in the price (distance to the workplace, school, etc.).
- 5) Unlike other assets, houses are indivisible.
- 6) Houses have a large number of characteristics. Not a homogeneous good, and characteristics are not equally valued by everybody.

- 7) High building costs → housing used as an investment asset to accumulation wealth.
- 8) Information problems: the applicants do not know perfectly the characteristics of the house and the bidders do not know directly the characteristics of the potential occupants.
- 9) Significant transaction costs associated with searching for or changing housing.
- 10) Market narrowness (housing is geographically dispersed).
- 11) There are no convexities in production (example: the average cost of producing a block of 20 dwellings is less than a block of 10 dwellings).
- 12) There is an almost complete absence of insurance and futures markets.

## 2. Housing demand

→ As in the case of other goods, there is a maximum price that each buyer would be willing to buy for each dwelling unit. Each additional housing unit gives you less satisfaction than the previous one.

→ **Superior good:** if the buyers' income increases, the demand for housing increases.

→ **Normal good:** if the price of housing increases, the demand decreases.

Living place: J.i. Antón Pérez (2009)

-> Several factors can affect the demand curve for housing

$$D_h = f(P, Inc, Emp, P_d^f, Sub, Pob, r)$$

-   +   +   +   +   +   -

1) Real price:

$$\uparrow P \rightarrow \downarrow D_h$$

2) Actual income:

$$\uparrow Inc \rightarrow \uparrow D_h$$

3) Employment:

$$\uparrow Emp \rightarrow \uparrow D_h$$

4) Future price expectations:

$$\uparrow P_d^f \rightarrow \uparrow D_h$$

5) Subsidies:

$$\uparrow Sub \rightarrow \uparrow D_h$$

6) Population:

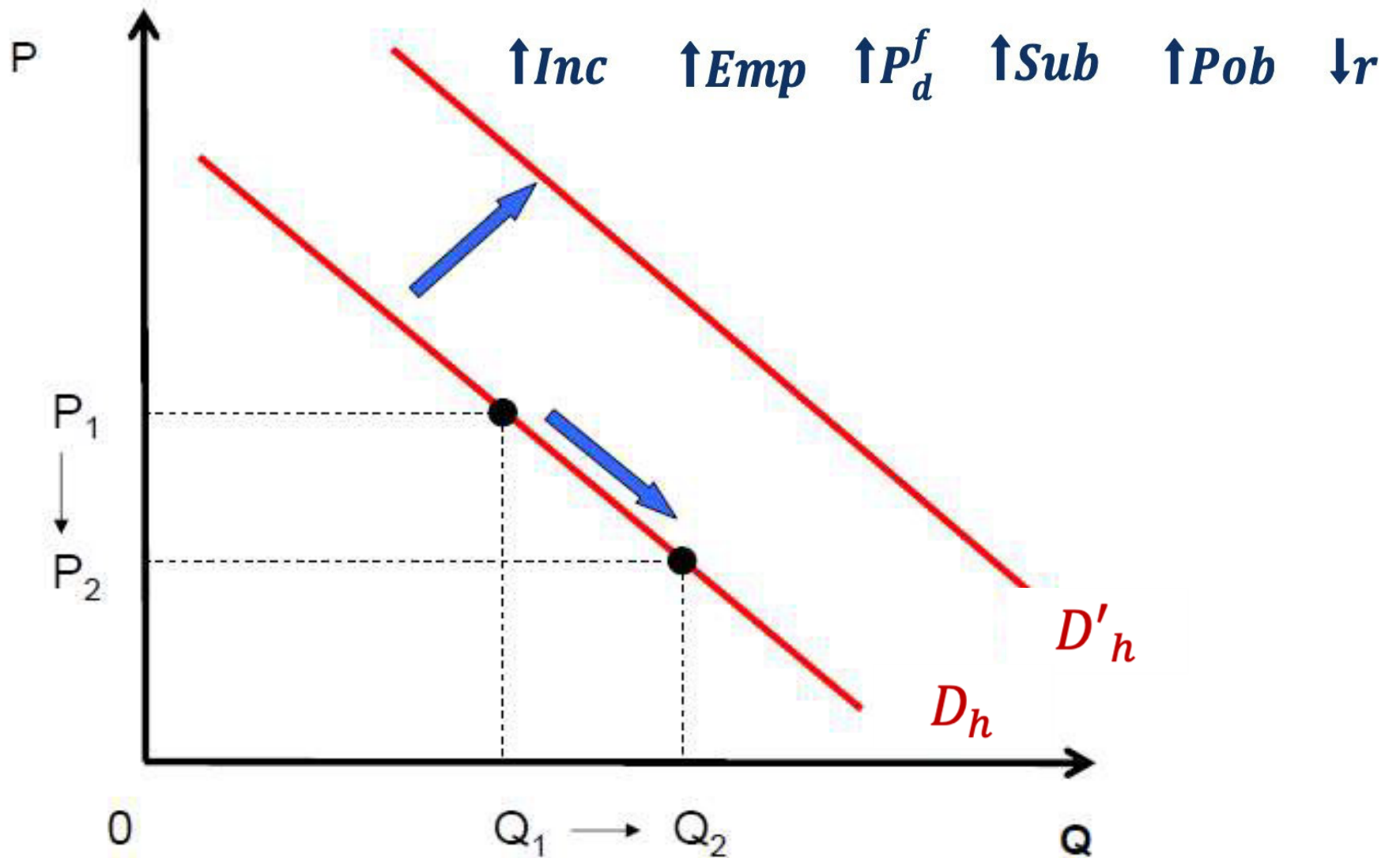
$$\uparrow Pob \rightarrow \uparrow D_h$$

7) Interest rate <https://www.euribordiarario.es/historico2023.html>

$$\uparrow r \rightarrow \downarrow D_h$$

**+ "COVID-19 effect"**





### 3. Housing supply

- A housing unit is defined by several characteristics:
- Location Limited competition for land (50% price and monopoly).
  - Area <60 square meters; 60-120; >120 and + price
  - Quality
  - Structural density of the building

→ **Inputs**: capital, labor, land.

→ The production of housing services comprises 4 processes:

- Building
- Maintenance
- Rehabilitation
- Conservation

**For example: promoters convert flats up to 1 year old that they do not sell into price-protected homes.**

->As in the case of other goods, there is a minimum price that each seller would be willing to accept for each dwelling unit. Each additional housing unit has a higher unit cost than the previous one.

->Several factors can affect the supply curve for housing services.

$$S_h = f(P, P_v^f, P_{inputs})$$

+   -   -

1)Actual Price:

$$\uparrow P \rightarrow \uparrow S_h$$

2)Future price expectations:

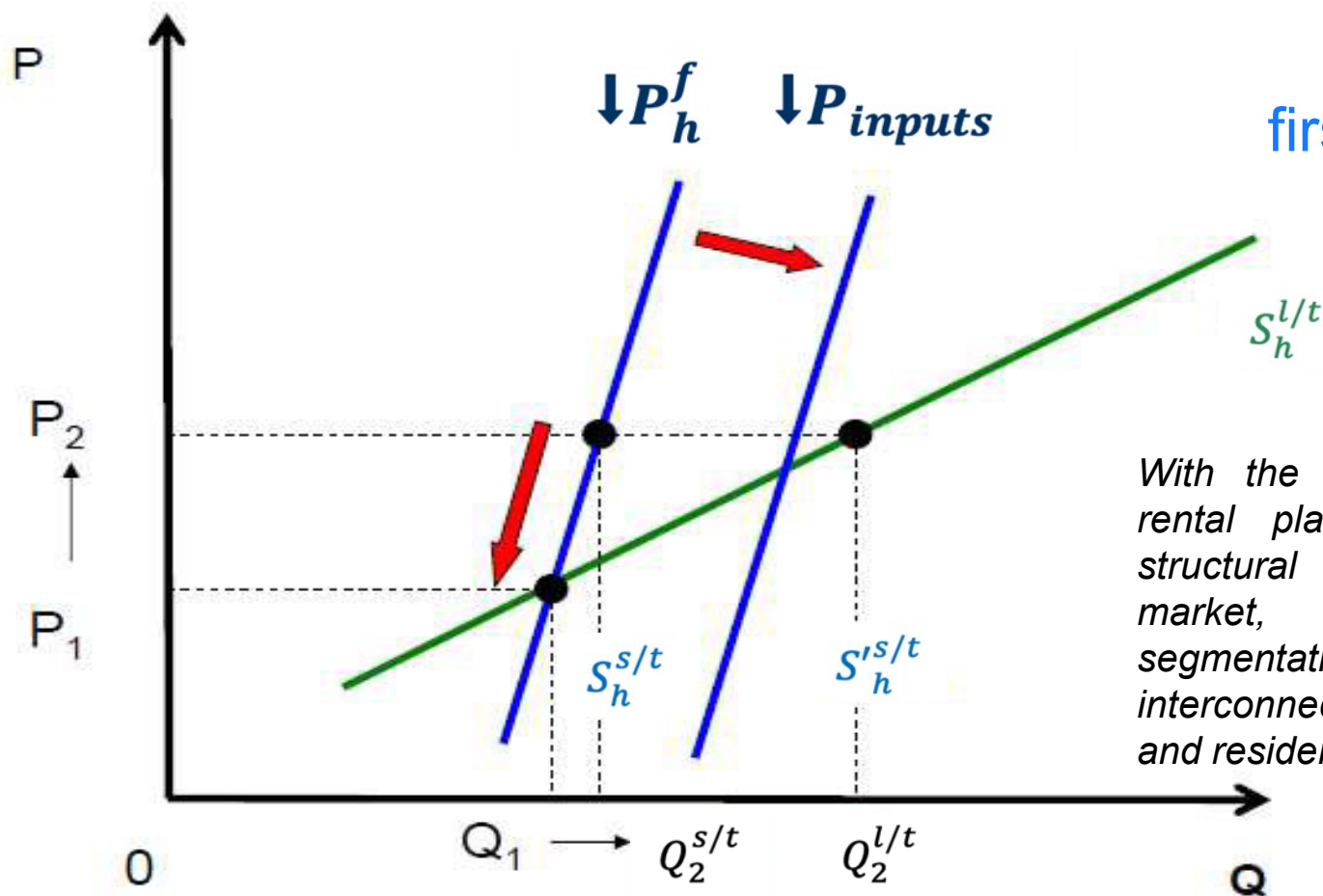
$$\uparrow P_v^f \rightarrow \downarrow S_h$$

3)Input prices\*:

$$\uparrow P_{inputs} \rightarrow \downarrow S_h$$

- In the s/t, the housing supply is more rigid than in the l/t: the construction of new homes requires sometime. In the long term, Supply is more flexible.

**Housing supply ( $S_h$ )**

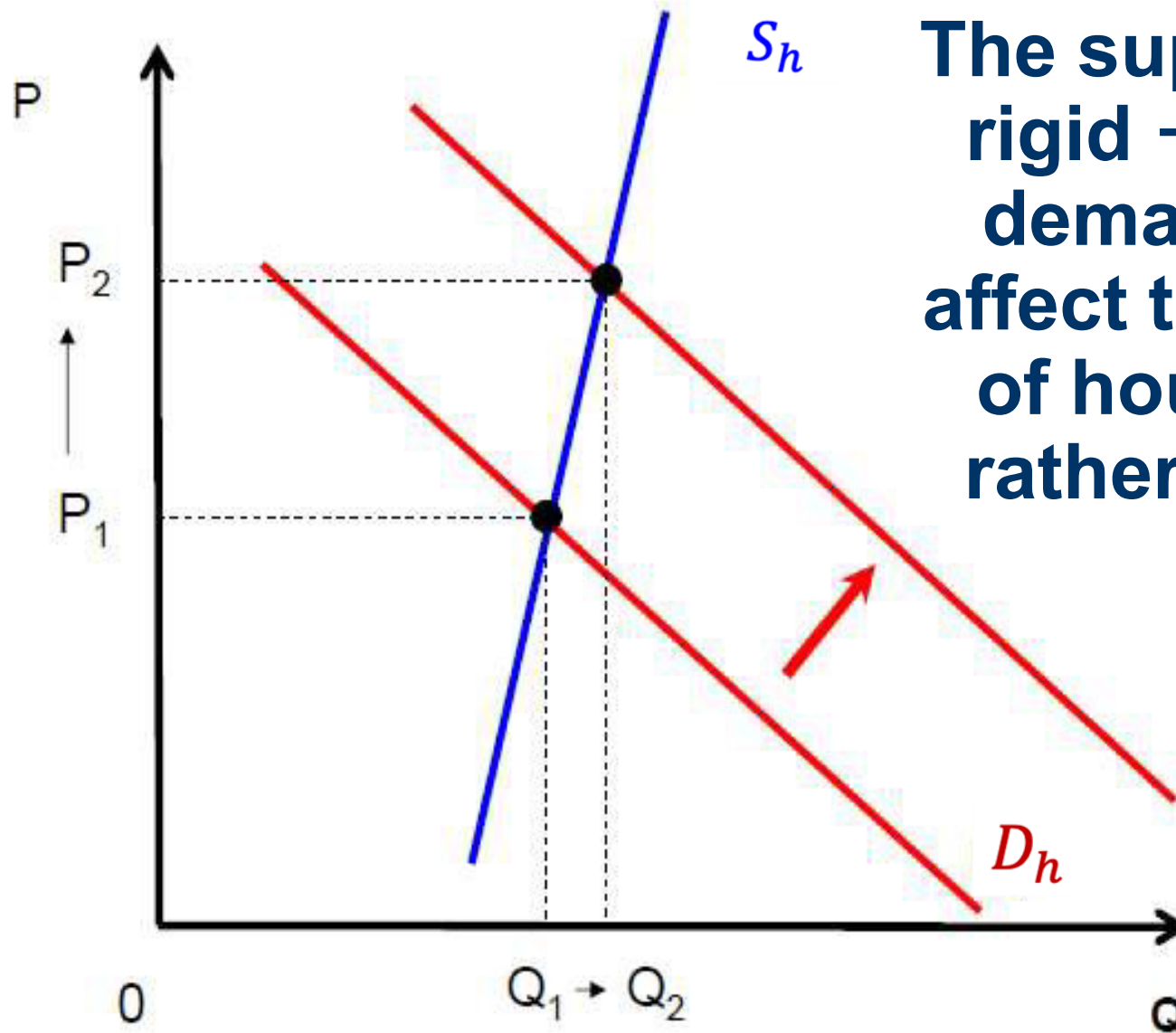


Market duality:  
first residence 67%  
VS  
holiday 33%

*With the appearance of tourist rental platforms, there was a structural change in the rental market, giving rise to its segmentation into two interconnected submarkets, tourist and residential.*

## 4. Balance in the housing market

→ Short term



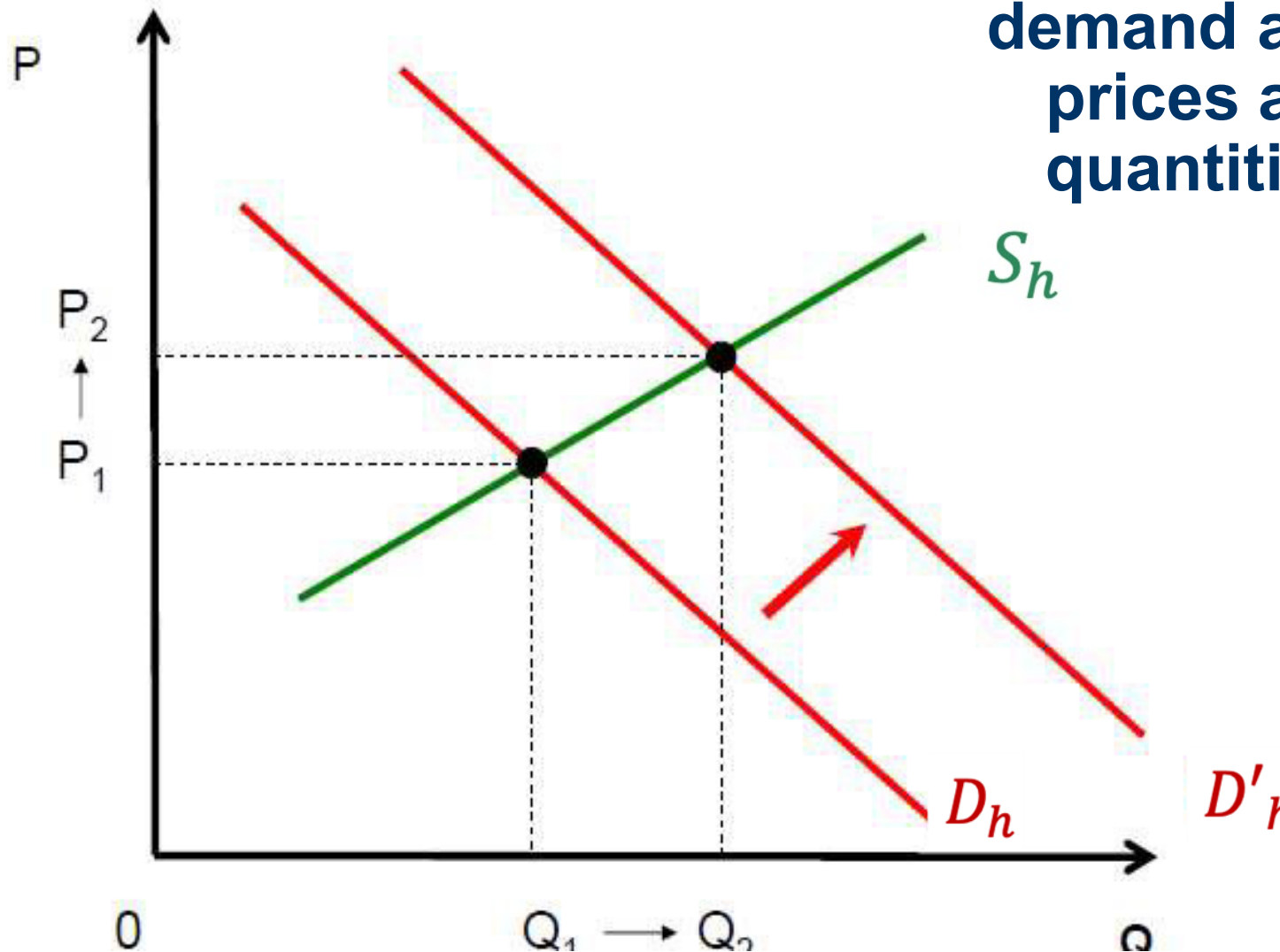
The supply is very rigid  $\rightarrow$  shifts in demand barely affect the quantity of housing, but rather the price.

## 4. Balance in the housing market

→ Long term

Will there be a gradual return to normality in the market, but will it be slow?

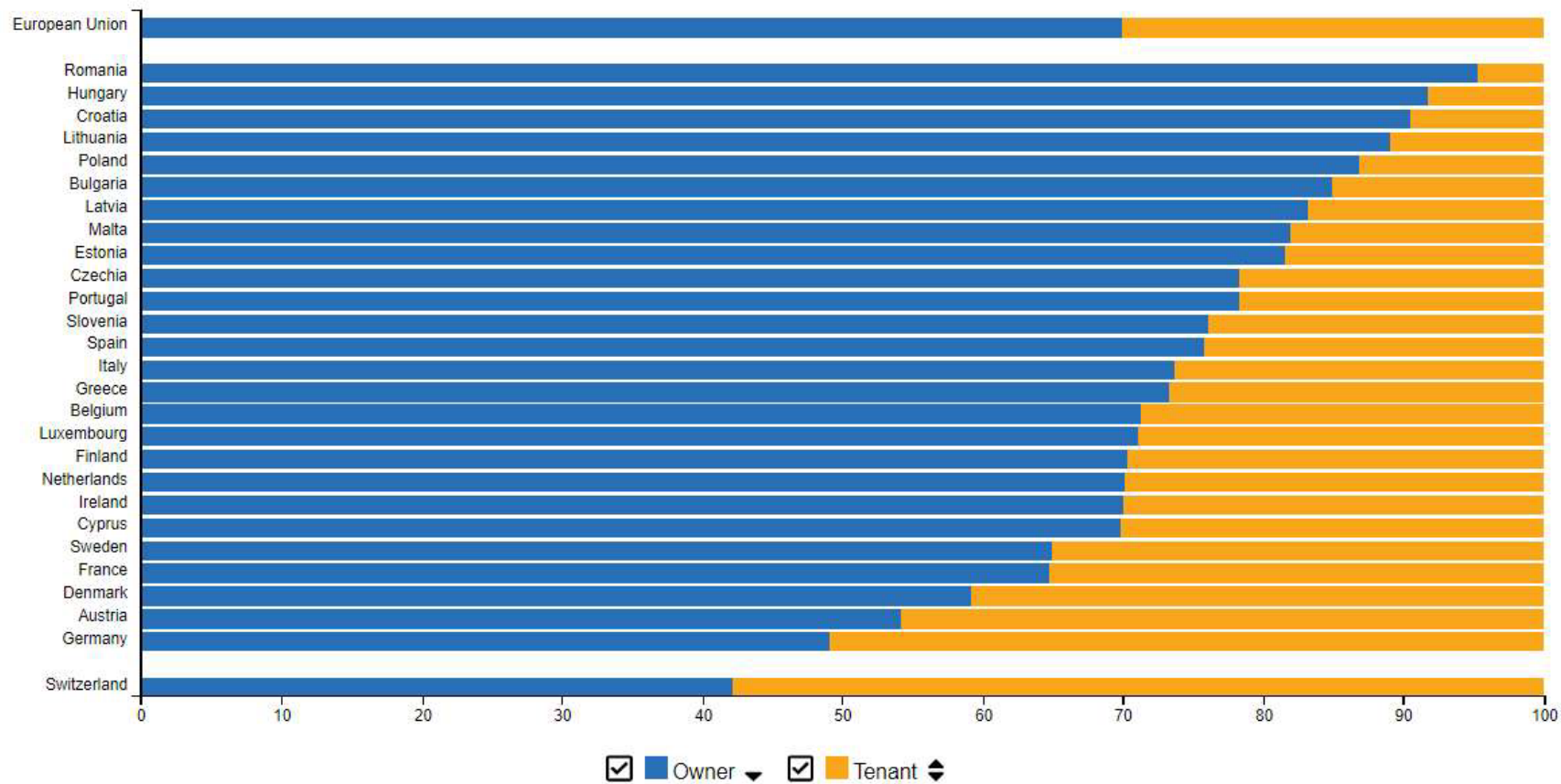
Supply is more elastic → shifts in demand affect prices and quantities.



# STATISTICS ON HOUSING IN EUROPE

### Share of people living in households owning or renting their home, 2021

(in %)



SOURCE: <https://ec.europa.eu/eurostat/cache/digpub/housing/bloc-1a.html?lang=en&lang=en>

## 5. Public policies in the housing market

### Why is the public sector involved?

1. **Efficiency: externalities in housing production:**
  1. **Neighborhood** effect. If the nearby houses are of higher quality, a house increases its value. However, when building the house, an investor will only take into account the private benefit obtained.
  2. **Social cost of degraded** open spaces. Areas with older houses and in worse conditions tend to be affected by crime, drugs, etc.
2. **Fairness: Benefits in cash are more efficient than benefits in-kind.** However, under certain circumstances, public intervention is justified to promote access to housing:
  1. A special good.
  2. Citizens have access to a certain level of housing



## 5. Public policies in the housing market

### PUBLIC POLICY TYPES IN HOUSING MARKET

#### *HOUSING ASSISTANCE POLICIES (Since 1978)*

##### 1. **TAX INCENTIVES FOR PURCHASING A HOME**

Mainly through personal income tax with deductions in fees and limits, not for rent. But suppression of deduction for purchase of main residence (since 2013).

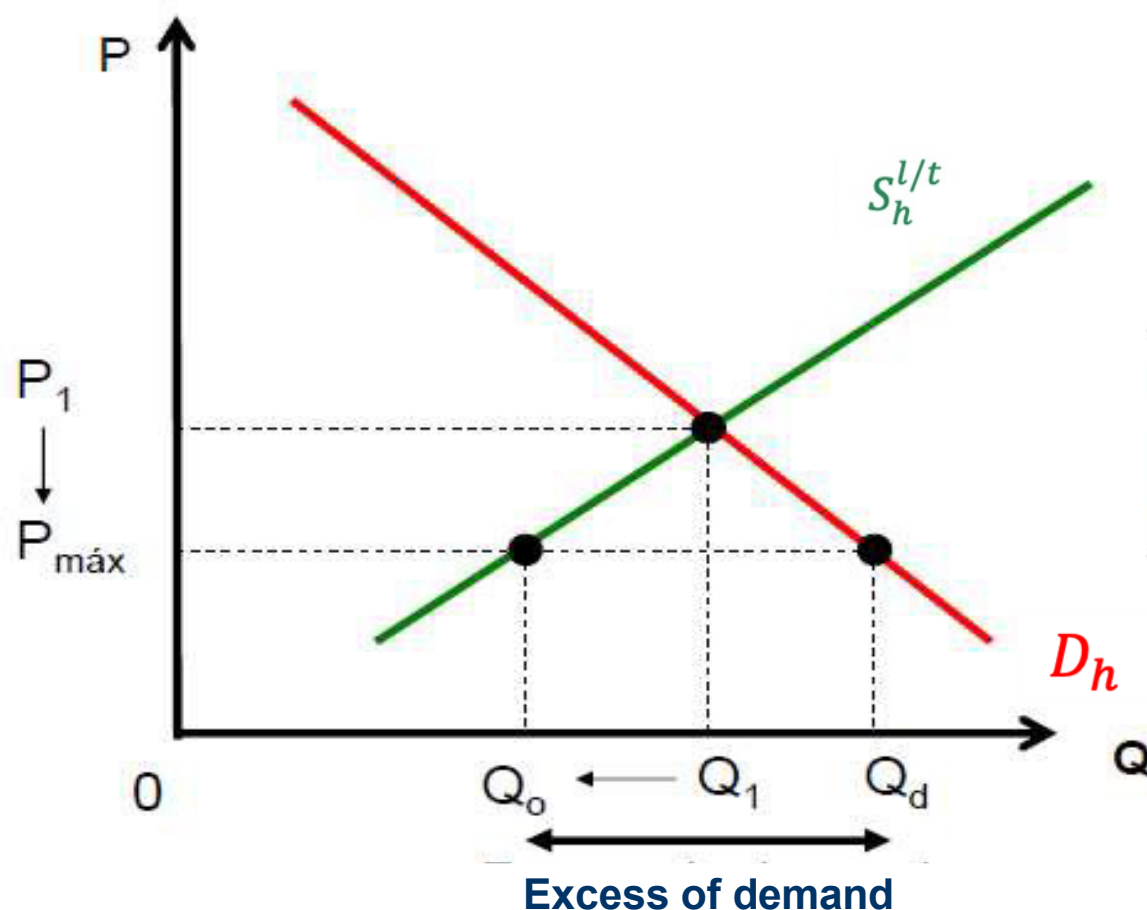
Are implicit subsidies distorting (inequality and inefficiency)?

*Discussion of interest : García, M. A. L., & Herrero, I. F. (2017). There are no longer deductions for housing. But can there be a tax policy directed at housing? In XXIV Meeting of Public Economy (p. 25). University of Castilla-LaMancha.*

## 5. Public policies in the housing market

### 2. PRICE CONTROL: CONTROL OF RENTALS OR MAXIMUM PRICES FOR HOUSING

The Public Sector tries to set maximum rental prices (CPI- Consumer Price Index) and duration of contracts (reform in 2005 by Public Rental Company and end in 2019 + actual debate). Conceptual problems (restrict the right to use private property) and effectiveness (number of rents depends on controls). Will rental price index arrive? For municipalities or regions to regulate rental limits in stressed areas?

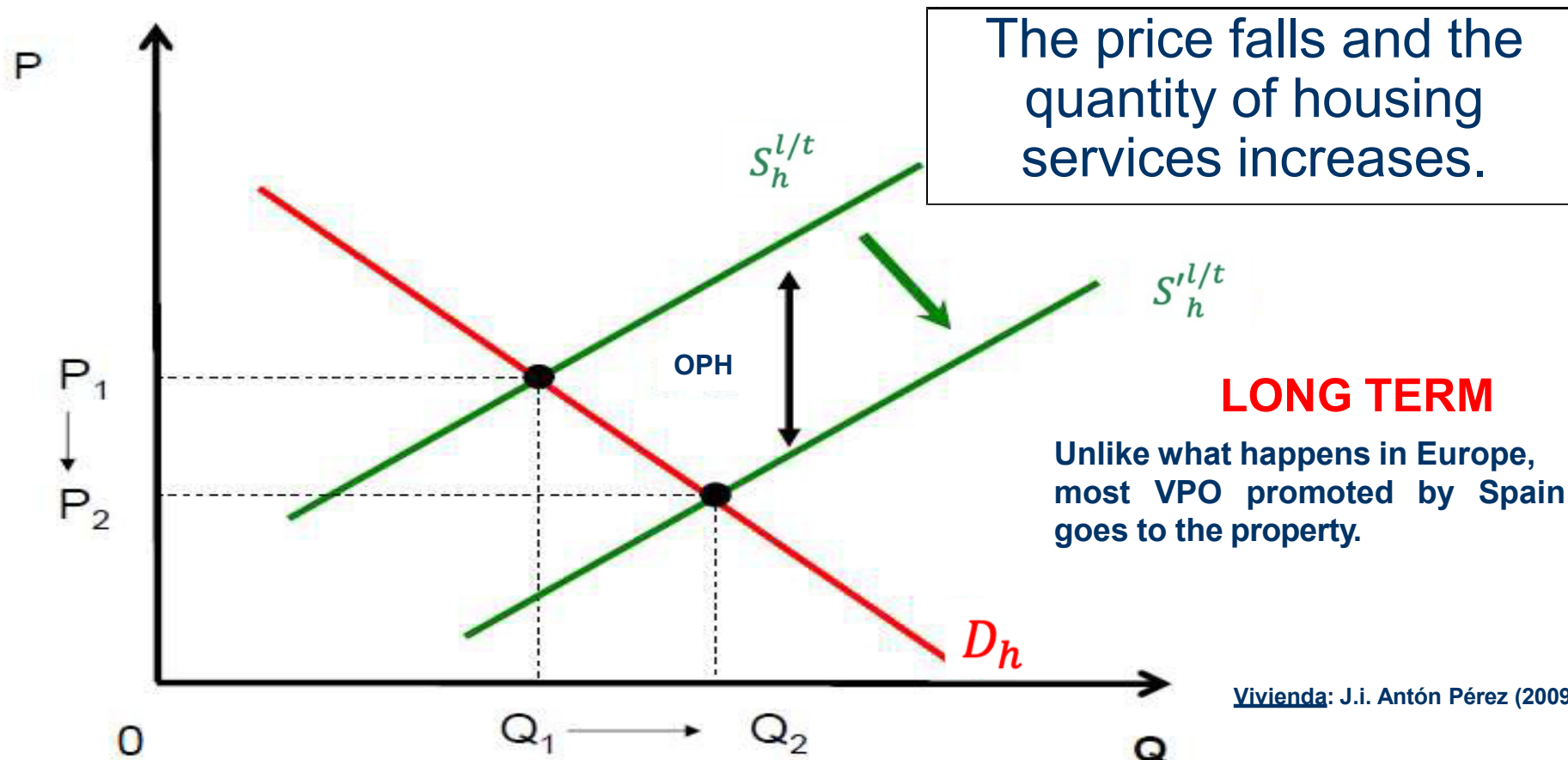


The price is lower but there is a shortage (excess demand)

## 5. Public policies in the housing market

### 3. PUBLIC DEVELOPMENT OF HOUSING OR OPH (DIRECT SUPPLY) (11% (because the free ones are 89%) compared to 16% European average)

*Public Sector promotes its construction and then rents at low prices or sells at subsidized prices to individuals/families according to conditions. In crisis? Is it better to rent them? Different qualities and combine them with free ones? Avoid problems (medium or low quality, outskirts, low-income families, segregation and marginal areas).*



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## TYPES OF PUBLIC SECTOR INTERVENTIONS IN THE HOUSING MARKET

### *HOUSING AID POLICIES (Since 1978).*

- *Ex. Cantabria: Measures of access to housing and land; Right to Basic Emancipation Income (RBE) young people for rent, Public Protection Housing Regime in the autonomous regime and subsidies.*
- *Creation of a new type of protected housing (“Public Protection in the Autonomous Regime”)-public company GESVICAN or Housing and Land Society in Santander.*

### **4. DIRECT SUBSIDIES FOR HOME PURCHASE**

*Aid for very low incomes for purchase (covers part of the cost and/or interest rate) but leaves medium/low incomes unprotected and extending them is a budgetary cost (State Plan for Housing and Rehabilitation 2018-2021 (extension of the period for granting aid until 31-12-2022); Ministry of Transport, Mobility and Urban Agenda; <https://www.mitma.gob.es>).*

*Public Housing Grants in Spain (facilitate access to property). Evolution of spending on housing (Bank of Spain and Central Europe and others). Management Company for Assets from Bank Restructuring-SAREB would be liquidated after 2027.*

- **▲ Prices ¿2023?** (HETEROGENEITY ZONES, REGIONS AND NEW BUILD VS. USED-Downward adjustment in general, "with an expectation of future upward adjustments, as demand rises again in the medium term"). Promote supply and housing for rent. Liberalize land (because problems of scarcity of finalistland).