

HOUSING IN A TIME OF CRISIS: PORTUGAL AND SPAIN AN OVERVIEW

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Abstract

Since the '70's until the current economic crisis Portugal and Spain, had changed social and economically, with significant impact transformations on the housing market: growing urbanization; the growth of home ownership; the increase of tourism and the expansion of second homes; the increase in the number of vacant dwellings and residual social housing sector.

Following the deep economic crisis, these countries have experienced a significant increase in poverty rates and housing exclusion. Socio-economic conditions decreased and households have experienced increased difficulties too accessing and maintaining suitable accommodation. Middle class and workers with temporary contracts are the most affected, by the increase unemployment, the decrease social benefits, the limited accessibility to stabilised jobs and home ownership difficulties.

The purpose of this communication is to assess the impact of the crisis in the housing sector of the two countries.

Keywords: Housing, Crisis, Portugal, Spain

1. Introduction

Portugal and Spain have gone, in the recent past, through similar transformation processes, the transition to democracy in the 70s, the integration into the European Union in the 80s and in 2008-2009, suffering a deep economic crisis with strong socio-economic impacts. These processes have had, selective and sometimes contradictory intense impacts in different aspects of social life, causing a series of changes.

However, despite the different opportunities of the European integration, there are numerous changes in both countries caused by this integration, emphasizing, the most significant: from emigration countries, they become immigration countries, with a corresponding change of social and cultural structure, after the crisis they had a new emigration wave; increasing urbanization and the consequent depopulation of certain areas; aging population; increased of home ownership and second homes; emergence of new forms of organization of civil society; increased supply of higher education; increased participation of women in several areas of social and political life; consolidation of the public social security system and the consequent deterioration with the crisis; increased use of new communication technologies; increased employment insecurity and unemployment, specially of the highest skilled;

increasing poverty rate and emergence of new types of poverty; increasing gap between income and consumption, with the consequent indebtedness of households; improving infrastructure; increased services, trades and changes in consumption patterns " (Santos, B.S., 2001, p. 36-37).

Regarding the crisis, both countries have to apply to financial rescue and are adopting an austerity policy of neoliberal inspiration and conservative profile. A crisis that began specially in the financial and real estate sector, quickly spread its effects to the whole economic system, resulting in the two countries in a social crisis, reflecting a rise of unemployment, reduced purchasing power, both in corporate bankruptcy and families. Imposing a tax regime of austerity, a reduction of salaries and pensions, "not only brought about a second recession of the economy and a later phase of stagnation ... but also emphasized the unfair distribution of its impacts" (Méndez, 2015, p. 11).

As a result, the daily life of the population in both countries is affected in different ways. First, with a slowdown of production, consumption and investment, with the stagnation of the housing and urbanizing activity, along with the destruction of jobs. Then there is a growing deterioration in the quality of life for a large part of the population that sees their incomes reduced drastically, greater precariousness of their jobs and the deterioration of some essential public services (such as health, for example) with the consequent increasing social polarization. All these aspects cause a growing uneasiness, which leads to a growing social mobilization, that wants to challenge the measures imposed by political and economic power (more present in Spain, in a large street manifestation in several cities – "*rebelión de l@as of the "indignad@s"*"), and a variety of networks of social solidarity and mutual support, emerged in the society, which some authors call a "new social economy" (Murray, R., 2009). Over time, this process gets bigger as it progresses socially, starting with the most vulnerable groups, it affects the middle classes that form the basis of social and political stability of the welfare society (Méndez, 2015, p.171).

The multiple dimensions of the crisis and austerity allows the "approach of its study from multiple perspectives and encourages the pursuit of various indicators to a better understanding of its effects" (Méndez, 2015, p. 12). So, the purpose of this communication is to assess the impact of the crisis in the housing sector of the two countries, starting from the analysis of the characteristics of their housing markets, in the context of the EU countries, and the analyses of the effects of the crisis in the two countries, based on some housing and social indicators, finishing with some conclusions.

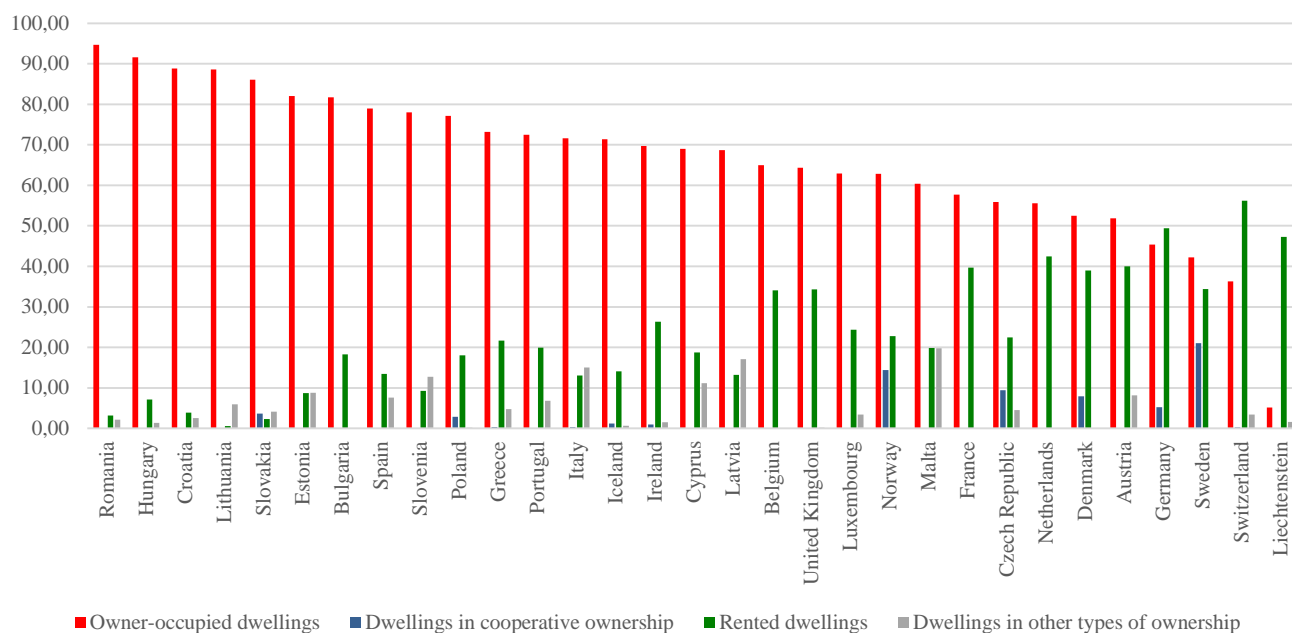
2. Spain and Portugal in the European context - brief analysis

Comparing Spain and Portugal, with the other EU countries, it appears that, as in the other countries of Southern Europe (Greece and Italy), there are three aspects that characterize this group, with regard to its housing stock: high rates of home ownership associated with a weak promotion of social housing and a small rental sector; the significance of second homes and the role of families in housing production.

An important aspect of access to housing is housing tenure, understanding patterns of tenure helps us better understand the conception of home in different countries as well as the impact of the economic crisis in the real state sector, of the countries.

A widely shared feature of housing markets in the European Union is the highest rate of home ownership in most Member States (figure 1). According to the most recent available data, today home ownership ranges from 90%-80% in some Eastern European countries such as Romania, Hungary, Croatia, Lithuania, Estonia and Bulgaria, to 5% in Liechtenstein. Home ownership levels are also particularly high among southern European countries such as Spain, Malta, Cyprus, Italy, Portugal and Greece, as well as in Ireland.

Higher home ownership implies a small rented sector, the figure shows clearly that Spain and Portugal have smallest rented sectors than the North and Central countries, but Portugal has a rented sector higher than the Spain, reflecting its lower rate of home ownership.



Source: Eurostat Census 2011

Figure 1. Housing tenure, European Union countries, 2011

Within the rental sector, the relative importance of private versus social rental varies substantially. In a few countries social rental housing accounts for more than 50% of the rental market (Netherlands, Austria, UK as well as in Eastern European countries which don't have a well-developed rental sector), while others represent a rather marginal sector within the housing market. What distinguishes Portugal and Spain from other countries, with high rates of home ownership, is that they have an exceptionally small social rented sector and the cuts in government spending, caused by the crisis, further reduces investment in this sector (see CECODHAS, 2011, 2012 and Housing Europe, 2015).

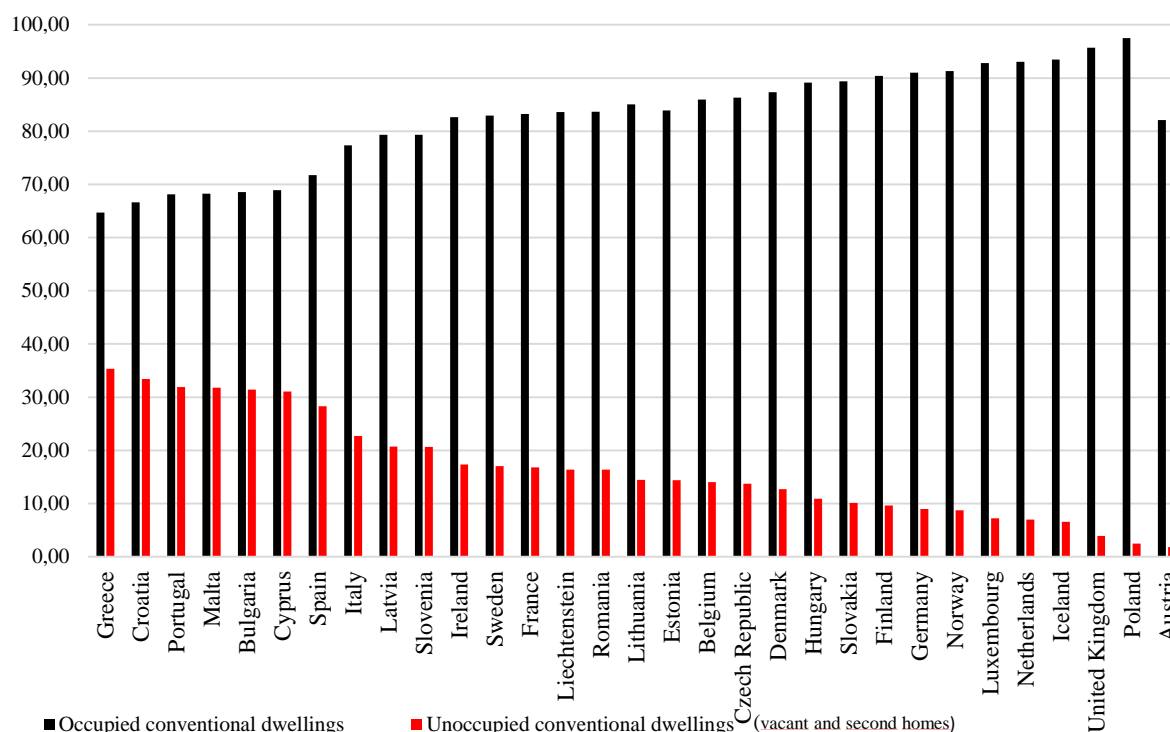
In addition, in some countries cooperatives have a prominent role in supplying affordable housing. In terms of statistic gathering, there is a wide variation across countries on how cooperatives are defined: while in some countries figures on cooperatives are included as part of the home ownership sector, in others they are regarded as part of the social housing sector, and in a third group of countries there is even a separate 'cooperative' category. Therefore, as *figure 1* above is based on official classifications of different tenures, in some countries cooperative housing is not presented as a distinct tenure, although housing cooperatives are active in the country (for instance in Austria, Hungary, Italy, Spain and Portugal).

Despite large differences in tenure types, the general trend is an increase in home ownership rates in most EU countries. The general increase in owner occupancy partly reflects demographic and socio-economic developments, such as population ageing. This trend has also been greatly boosted, on one hand by policies encouraging home ownership (mainly through tax incentives for home buyers but also measures encouraging the sale of social housing), and on the other by the sustained low interest rates over recent years, as well as an increasingly competitive mortgage market. Among 'old' member states, countries with the fastest home ownership growth rates since the 1980s are the Netherlands and the UK. The increase in owner occupation has gone hand in hand with rising levels of households' indebtedness (CECODHAS, 2012).

In most Central and Eastern European countries it is the mass privatisation of the housing stock following the fall of communism in the region that has led to the rapid increase of home ownership to highest levels (Pittini. and Czischke, 2009).

The main explanations for the relatively high levels of home ownership in Portugal and Spain, can be summarized in four explanations: the idea of a home ownership culture; the later urban growth in these two countries over the Northern and Central European countries; the tenure policies and the concept of provision systems (see for more details about this Allen 2004, *Plano Estratégico da Habitação*, 2008 and Angulo, 2013).

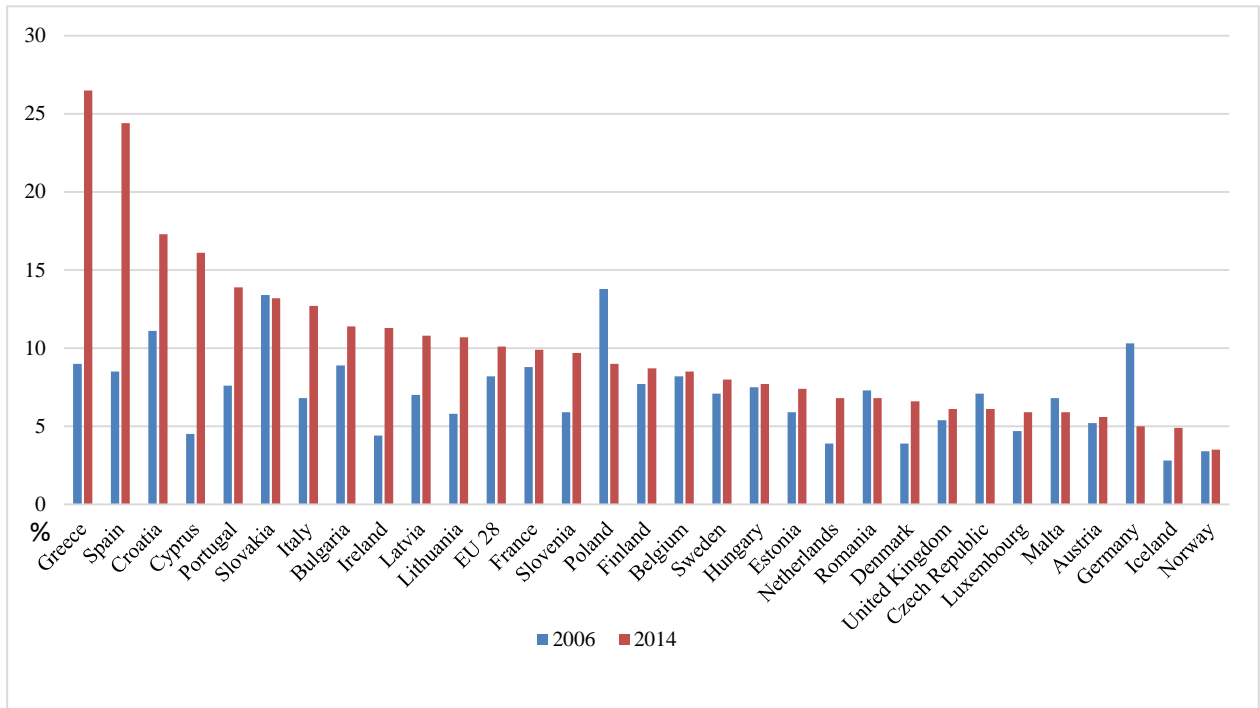
Another difference between Spain and Portugal and the other EU countries is the second and vacant homes levels. *Figure 2* shows that the rates of unoccupied dwellings are higher in Portugal and Spain, as well as in other countries of Southern Europe (Greece, Cyprus, Malta and Italy), than in Northern European countries (e.g. Germany, Netherlands, UK and Austria). Even in other countries, the distribution of this kind of housing is uneven, for example, for Croatia, Bulgaria, Latvia, Slovenia, Sweden and France, the rate is relatively high. In recent years, the number of second homes has increased in many countries, although it tends to slow down, due to the greater supply, compared to demand, especially due to the current crisis that affects the real estate sector (Matos, 2013).



Source: Eurostat Census 2011

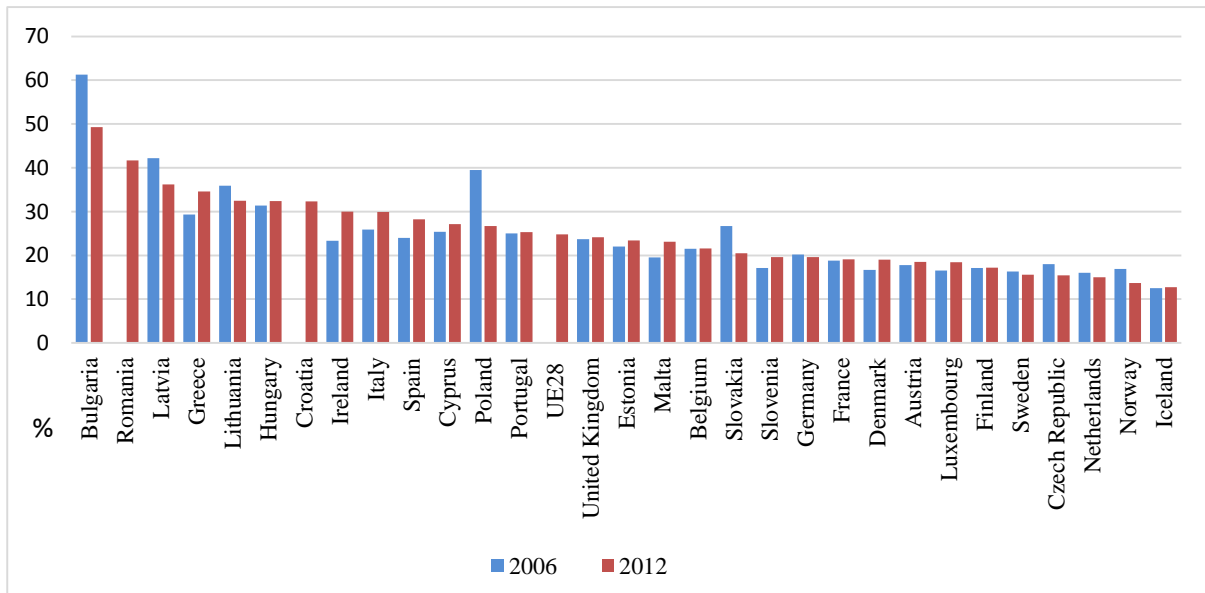
Figure 2. Housing Use, European Union countries, 2011

Socially, the impact from the crisis in Southern and Eastern Europe is significant. Within the European context, the southern countries demonstrate very high levels of poverty, namely Greece, Italy Spain and Portugal. Between 2006 and 2012, the situation worsened, with a significant increase on the percentage of the population in risk of poverty. The impacts of the crisis have manifested themselves mainly in the increase of the unemployment rate; three times higher in Greece, Spain and Cyprus, and twice as high in Portugal and Ireland. The northern and central Europe Countries still present low unemployment levels (figure 3 and 4).



Source: Eurostat, PORDATA 2014

Figure 3. Unemployment rate, aged 15 to 64, in Europe, 2006/2014.



Source: Eurostat, PORDATA 2014

Figure 4. Population at risk of poverty (%), in Europe, 2006/2012.

The population unable to face unexpected financial expenses has greatly increased in some European countries. In Portugal, the percentage of the population unable to face unexpected financial expenses has raised from 15% to 45% of the population (between 2006 and 2013); in Italy from 28 % to 40%; in Spain from 33 % para 42%; and in Greece from 31% to 47 %. However, in Norway, Finland, Austria and Germany it has decreased. Apparently, the economic and financial crisis that is affecting Europe has contributed to enlarge the social gap within Europe.

3. Portugal and Spain: Economic crisis and impacts on housing and social vulnerability

Like a number of other South European countries, Portugal and Spain has recently been in a state of economic crisis with impacts on increasing social risks. In terms of social and housing aspects there are diverse signs of the crisis, however, the available indicators to measure their territorial impacts are relatively small and only allow us to a vision at the national level. According to the European Union Report on the Social Impact of Fiscal Consolidation from 2011, housing and related services emerge as one area that has been particularly adversely affected by the economic and financial crisis. Portugal and Spain responded to recession by implementing cuts in welfare benefits, in wages and increases in taxes.

The Spanish and Portuguese economy have characteristics which differ from the rest of Europe. Since mid-1990's, Spain and Portugal had a strong growth in GDP, at times above the European average. However, this growth has not been very stable and it was mainly explained by the uncontrolled expansion of the Building sector. The volume of housing has increased at a much higher rate than the real demand. There was a speculative growth stimulated by easily obtained credit (Llussá and others, 2013; Valenzuela, 2013; Mendez, 2014).

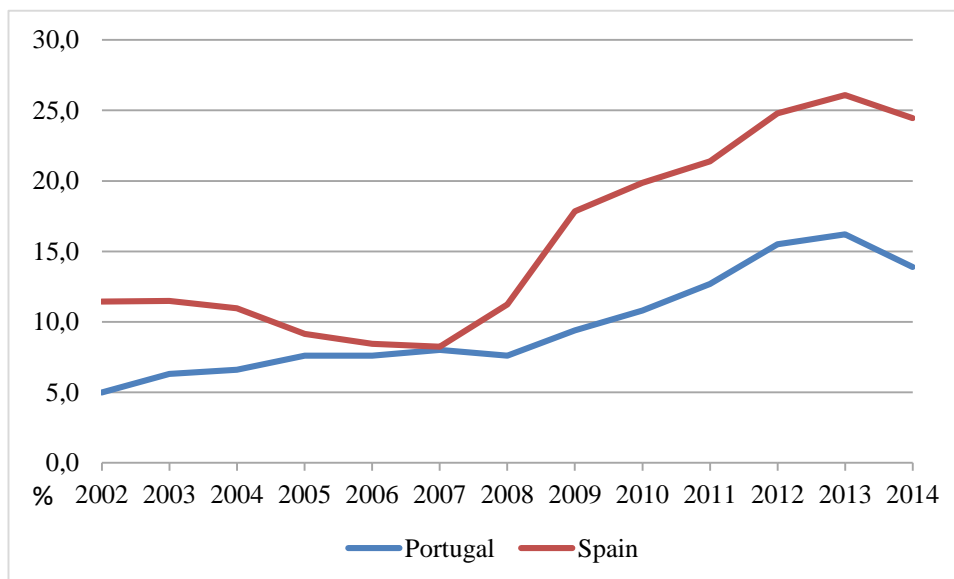
At the same time, it is important to remember the financial sector was in a much more favourable situation when it was affected by the crisis, due to not having acquired any “toxic” assets. Because of this, the bank did not require any governmental aid, unlike what happened to the banks in Germany, France or Belgium. This, however, was the immediate cause of the Portuguese (2007 – 2008) and Spanish (2009) recession. Due to the real-estate crisis, the bank held “toxic” assets from credit to the real-estate sector, with a simultaneous decline of the value of real-estate assets. From that moment, the crisis in the banking sector is set. Currently, in 2015, the lack of credit remains (Valenzuela, 2013; Mendez, 2014; Llussá and others, 2013). To these factors, others must be taken into account, such as the weight of public expense, corruption levels and poor management of public and private entities. Spain had another peculiarity. During the pre-crisis years there was a need for labour in the Building sector which implied a large immigration rate of unqualified young workers. These immigrants are currently unemployed and has impacts on health and public education spending.

Next, we will look further into the relation between the crisis and housing, analysing three types of indicator. Firstly, the evolution of a social indicator, the unemployment rate. Secondly, indicators where the consequences of the crisis are identified. Thirdly, the consequences of the crisis in the real-estate market, namely the number of mortgages and the price of housing.

High levels of unemployment¹ are the most evident and documented social impact of the crisis particularly among the youth population. Another important consequence is the growing indebtedness of households that worsened the living conditions and have increased social inequalities. Actually, the cost of living for families with low income has increased much faster than for high-income households.

¹According to the 2013 INE data (EU-SILC data: Survey on Income and Living Conditions 2012), the percentage of poverty risk for the unemployed stood at 40.2%.

Statistics confirm that since late 1980's until today, Spain has been registering the highest unemployment rates in Europe: 8% in 2007, 26% in 2013. In fact, with exception to Greece, the other EU countries register much lower values. However, the evolution of the unemployment rate in Spain is very peculiar. Even before the crisis, while showing positive socio-economic values with a great international importance, Spain has always maintained a high unemployment rate. (Figure 5)

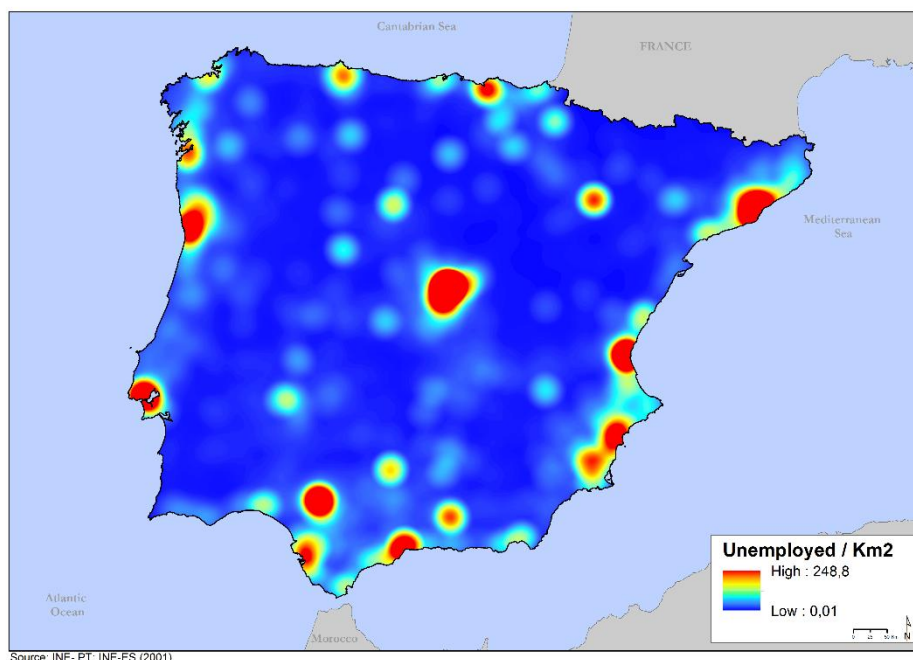


Source: INE (Portugal and Spain), 2015.

Figure 5. Unemployment rate, Portugal and Spain, 2002/2014.

Figure 5 highlights the evolution of unemployment rate in both countries. Going from around 8% in 2007 to around 26% in Spain and 16% in Portugal. In territorial terms (figure 6), the absolute variation in number of unemployed shows a strong concentration in the metropolitan and urban areas, highlighting the dimension of the problem in some areas of the country. There are families with 2 or more unemployed members, who saw their family income reduced drastically. This has reflected severely on the families' ability to invest in housing.

To understand why Spain and Portugal have such high rates of unemployment one must take into account several factors. There is a low percentage of employed population (actually working) in relation to the total population. On the other hand, Spain and Portugal have a high rate of temporary contracts (fixed-term), which facilitates the destruction of jobs. Besides, there is little worker mobility and an imbalance between the educational system and the employment market. In Spain and Portugal there is a great temporal rupture between concluding college education and integrating the job market. The employment market shows difficulty assimilating the most qualified. Simultaneously, in Portugal and Spain, there is a strong mind-set for families to purchase own housing. However, the increase in family debt and the weight of housing credit in family income makes geographical mobility difficult, in order to access employment outside the area of residence.



Source: INE (Portugal and Spain), Census 2011

Figure 6. Unemployment, Portugal and Spain, 2011.

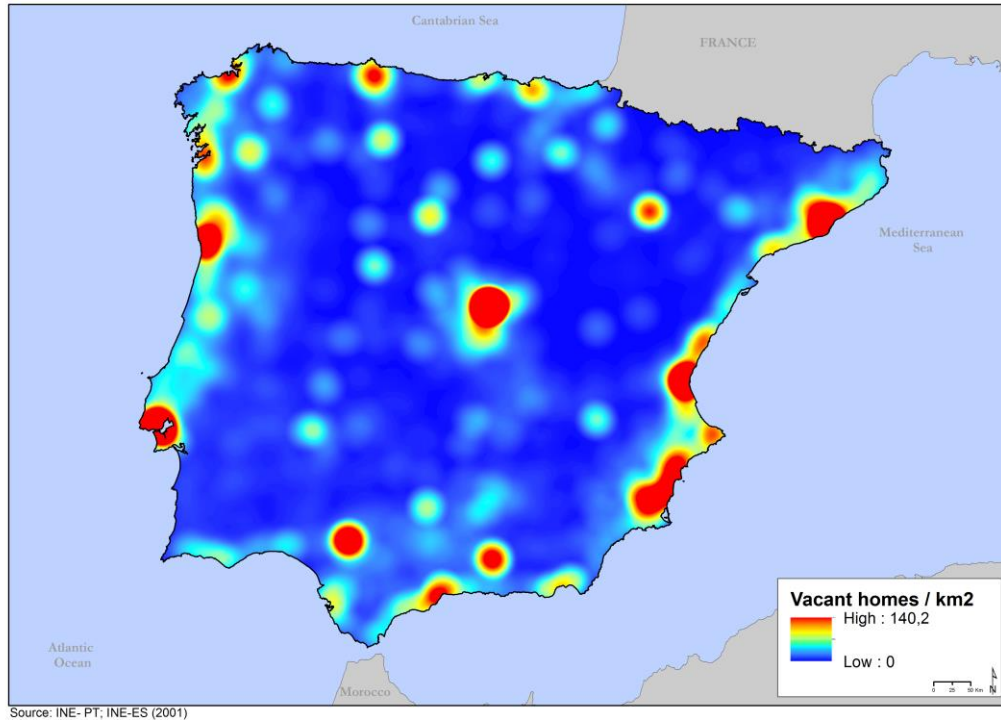
Table 1 – General features of the housing stock, in Portugal and Spain, 1991, 2001, 2011.

	Country	Year			Rate (%)	
		1991	2001	2011	1991-2001	2001-2011
Total conventional dwellings (or households) of usual residence	Portugal	3 083 154	3 578 548	3 997 724	16,1	11,7
	Spain	11 821 145	14 187 169	18 083 692	20,0	27,5
Second Homes	Portugal	659 172	924 419	1 133 300	40,2	22,6
	Spain	2 923 615	3 652 963	3 681 565	24,9	0,8
Vacant conventional dwellings	Portugal	440 291	543 777	735 128	23,5	35,2
	Spain	2 475 639	3 106 422	3 443 365	25,5	10,8
Total conventional dwellings (or households)	Portugal	4 182 617	5 046 744	5 866 152	20,7	16,2
	Spain	17 220 399	20 946 554	25 208 623	21,6	20,3

Source: INE (Portugal and Spain), Census 1991, 2001 and 2011

Relative to the evolution of the number of residences in Portugal and Spain, a very significant increase has been verified in the last decades. In fact, despite the socioeconomic situation, there has been a 20% growth in each decade (Table 1).

This behaviour can be observed on main residences, between 2001 and 2011, despite the beginning of the crisis. However, the number of secondary residences (destined for holidays or resting periods) and vacant residences has dropped considerably (figure 7). Spanish and Portuguese societies have lost their purchasing power and have reduced their investments in secondary residences.



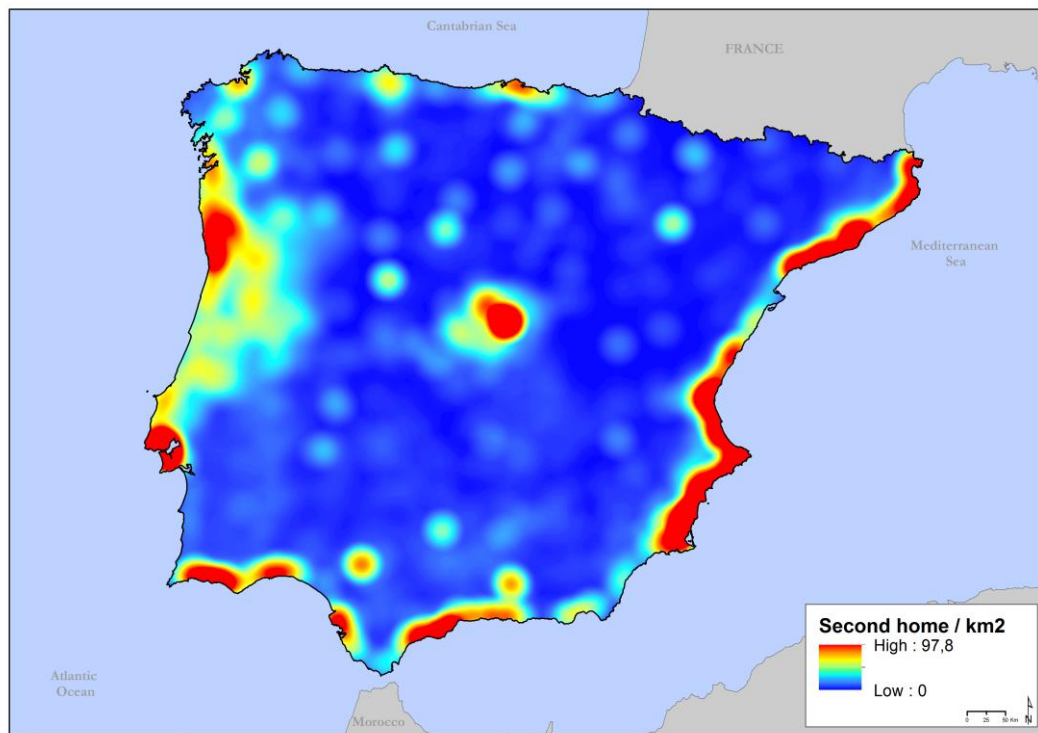
Source: INE- PT; INE-ES (2001)

Source: INE (Portugal and Spain), Census 2011

Figure 7. Vacant conventional dwellings, Portugal and Spain, 2011

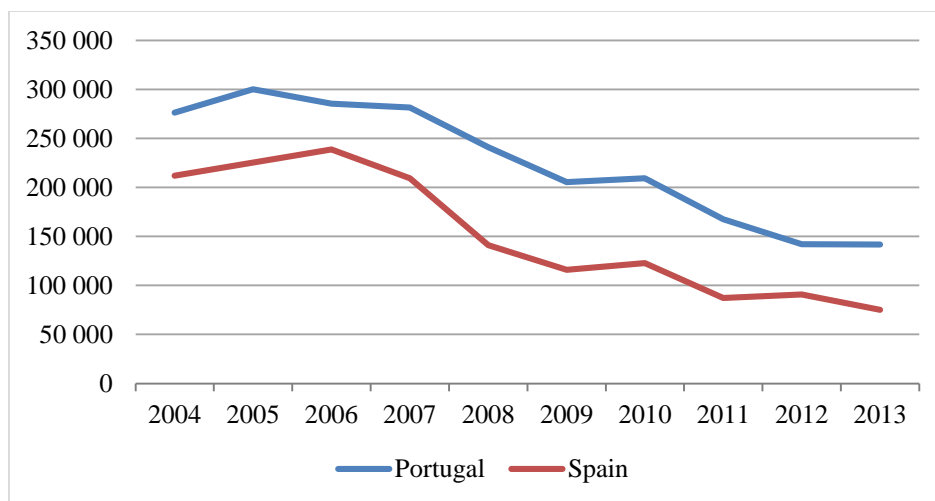
The design and spatial distribution of second homes in the Southern countries, mainly in Spain and Portugal, lies in the increase of tourism, they are used as holiday or retirement destination for many other European countries citizens (Matos, 2013). This process has had its most pronounced effect in the growth of leisure cities, near the sea, with all types of new second homes, from luxurious private villas located in secluded areas, to cheaper small apartments (Matos, 2013), mainly in some regions like Algarve in Portugal and Catalonia, Valencia, Baleares and Andalusia, in Spain (figure 8).

The real-estate crisis is clearly visible in the representation of the number of housing transactions (purchase and sale) in Spain and Portugal (figure 9). In Spain the value goes from 300 thousand in 2005 to less than 150 thousand in 2013; in Portugal from less than 250 thousand in 2006 to less than 100 thousand in 2013. The trend remained positive until 2005 – 2006, until the burst of the real-estate “bubble”. The banks provided loans and mortgages with no control or safety, and housing was sought after as means to speculate and invest with the intent of obtaining large profits. As the crisis began, the number of transactions plummeted. This trend for decline is maintained, despite a recent trend to stabilize. If the financial sector goes into crisis, private credit is severed and the number of mortgages tends to drop. In fact, in 2006, shortly before the beginning of the worldwide economic crisis, the number of mortgages in Spain began to decline, going from 1.3 million to only a few hundred thousand in 2014 (See figure 11).



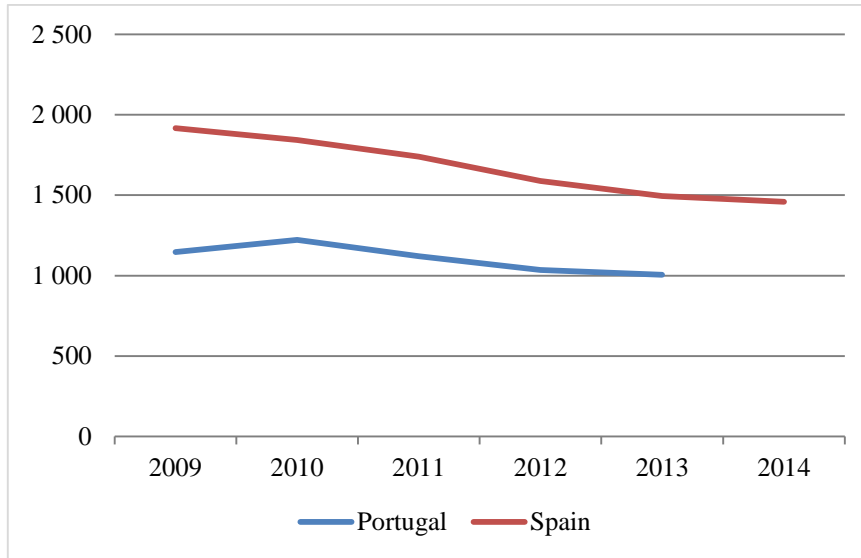
Source: INE (Portugal and Spain), Census 2011

Figure. 8 Second homes in Portugal and Spain



Source: INE (Portugal and Spain), 2015

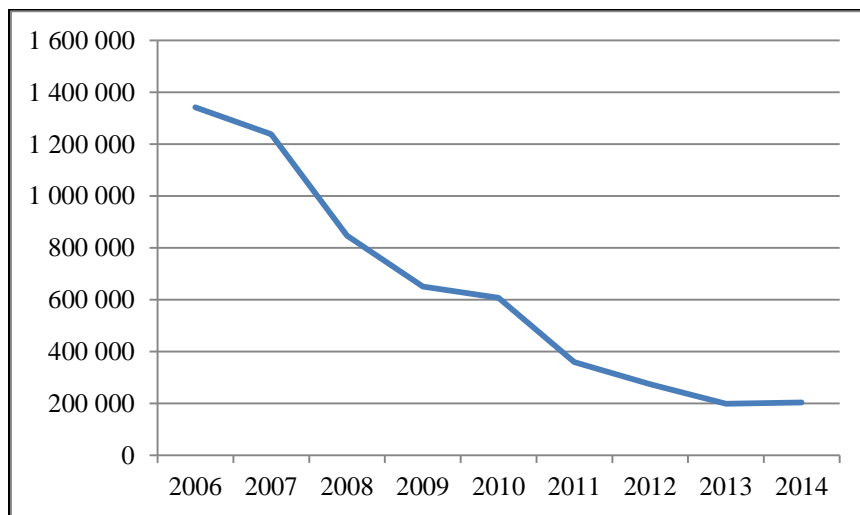
Figure 9. Evolution of buildings transaction number, 2004 a 2014.



Source: *Ministerio de Fomento de España and the Banco de Portugal, 2015*

Figure 10. Evolution in house prices in Spain and the bank evaluation of housing in Portugal (€ / sq. m.)

However, when analysing the evolution of housing price per square meter in Spain and Portugal, another peculiarity becomes evident. Housing supply is higher than demand and to the population's ability to absorb it. Even though, in a crisis context, the price reduction is low (figure 10). In Spain, we now have €1.500/sq. m. when it has previously maxed at €2.000/sq. Banks were left with a great number of housing, subject to mortgage that the previous owners could not repay, because they lost their jobs, among other reasons. Today, many banks refuse to lower the excessive price of "their housing" because they would lose many benefits.



Source: INE, 2015

Figure 11. Evolution of the number of housing mortgages in Spain, from 2006 to 2014

4. Final Remarks

In European terms, we identified a number of countries, mainly located in southern Europe (Portugal, Spain, Greece, Italy, Malta and Cyprus) who have high levels of home ownership, with a very significant percentage of second and vacant housing and where the economic and financial crisis had strong impact on family life, expressing in terms of unemployment and increase poverty (table 2).

Table 2 - Synthesis of the main data, Portugal and Spain

	Portugal				Spain			
	2001	2011	Var. %	Source	2001	2011	Var. %	Source
Number of dwellings	5 046 744	5 866 152	16,2	INE -PT	20 946 554	25 208 623	20,3	INE -ES
Total conventional dwellings (or households) of usual residence	3 578 548	3 997 724	11,7	INE -PT	14 187 169	18 083 692	27,5	INE -ES
Number of second homes	924 419	1 133 300	22,6	INE -PT	3 652 963	3 681 565	0,8	INE -ES
Vacant conventional dwellings	543 777	735 128	35,2	INE -PT	3 106 422	3 443 365	10,8	INE -ES
	2006	2013			2006	2013		
Unemployment rate (%)	7,6	13,9*		Pordata	8,5	24,4*		Pordata
Population at risk of poverty (%)	25	27,4		Pordata	24	27,3		Pordata
People unable to support unexpected expenses (%)	16,4	43,2		Pordata	32,6	42,1		Pordata
	2006	2013			2006	2014		
Number of contracts for purchase and sale of properties	285483	141839	-50,3	INE -PT	238797	91399	-61,7	INE -ES
Mortgages number	17963	4948 *	-72,5	INE -PT	1 342 171	202 954	-72,0	INE -ES
Average value of bank evaluation (€/sq. m)	1146**	1006	-12,2	Pordata	1944,275	1459,4	-24,9	MFE

*2014 **2009

MFE -Ministerio de Fomento de España INE – National Stastical Institute

Source: *Ministerio de Fomento de España*, Portugal and Spain National Stastical Institutes and PORDATA, 2015.

The analysis of Spain and Portugal demonstrates the impacts of the crisis in the real estate sector and the families' quality of life. Urbanization processes from these two countries were very intense in recent decades (1980-2000), having recorded an improvement in the quality of housing as a result of household investment and a public policy of loan incentive for housing. Household's investments headed toward main dwellings and often to second housing. The offer exceed the demand and part of the housing stock became vacant.

With the crisis in recent years (2007-2014) the real state sector and the housing market collapse. The number of real estate transactions decreased and brutally mortgages declined. Wages and social benefits decreased and families lose financial capacity and show difficulties in meeting their commitments with bank loans for housing. Some families get into financial insolvency and lose the dwellings acquired, others have seen their limited incomes to be heavily taken up by expenses on housing. In addition, the financial costs with home ownership takes away geographical mobility to people and families who do not have jobs and need to find it in other regions or countries.

In terms of housing buy /sell averages values, the decline in prices is not very significant because the banking sector does not want to lose their benefits. So are the families that shouldering the impact of the indebtedness from home ownership in a period of crisis and austerity and sharp decrease in their income. Part of the housing stock is vacant.

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