

Changes to the Spanish Rental Law

The approval of the Law 2/2015, whose main purpose is to reduce inflation in the Spanish economy, has also brought changes to the Spanish Rental Law ("*Ley de Arrendamientos Urbanos*").

Historically, the Spanish Rental Law from 1964, applicable to rental contracts signed before 1995, had several pitfalls, amongst others, the revision of rental prices. The 1964 rental law was modified by the Urban Lease Act of 1994, and from this moment until the end of March 2015, the rent would automatically increase (or decrease) according to the **Consumer Price Index** (CPI).

From now on, with the amendment of Article 18 of the 1994 Rental Law, the CPI will no longer be the predetermined reference. This new regulation applies to contracts entered into after 1st of April 2015.

Now, the general rule is that the rental price will not be adjusted according to variation in CPI if not expressly stated in the rental contract.

The concept of contractual freedom

The new amendment to the rental law provides three different scenarios regarding the revision of the rent:

On the one hand, there is the possibility that the landlord and tenant do not include a clause regarding an update of the rental income. In this case, the rent will not be reviewed.

A second option, is that the parties to the rental contract choose to include the possibility to review the rental income, but have not defined which mechanism to use, then the law states that it will be reviewed according to the annual change in the **Competitiveness Index Assurance** (CIA), instead of the CPI as before. The CIA is the price indicator driven by the Spanish Government to fight inflation on the CPI in the Eurozone.

As a last option, there is a contractual freedom, leaving the landlord and tenant to agree which mechanism to use regarding the revision of rent. They can use a variation of the Gross Domestic Product (GDP), Price Index Housing (IPV) or even the Consumer Price Index (CPI) on rent, among a variety of reference standards.

This change in the law has been welcomed positively, but some questions have risen, questioning if it is sufficient for the fairness in the rental prices of old rentals, with outdated rents.

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