

THE SPANISH HOUSING MARKET

Pablo Hernández de Cos

Governor

ECONOMÍA HOY CONFERENCE

Badajoz

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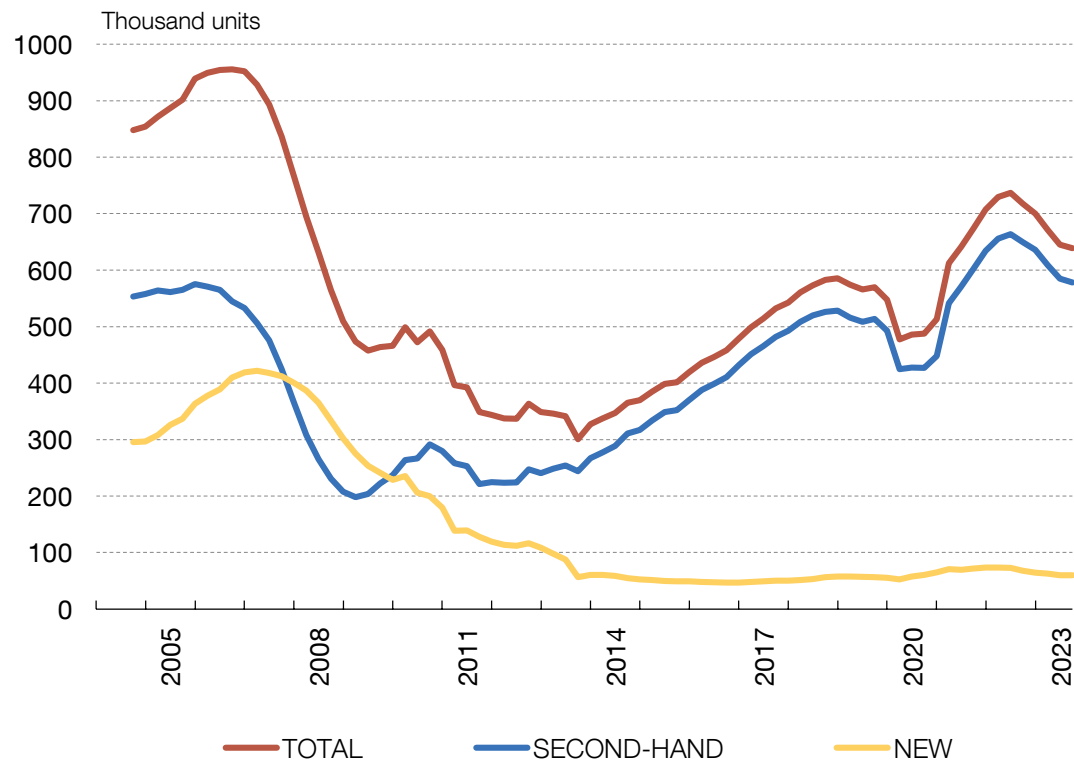
CONTENTS

1. Recent housing market developments
2. The main drivers of the dynamics observed
3. The implications of these dynamics for financial stability
4. Housing affordability difficulties
5. Housing affordability: the public policy challenge



- House purchases remain high (640,000 in 2023, 12% more than in 2019) and average prices have continued to recover, although in real terms they are still 28.5% below their 2007 level.

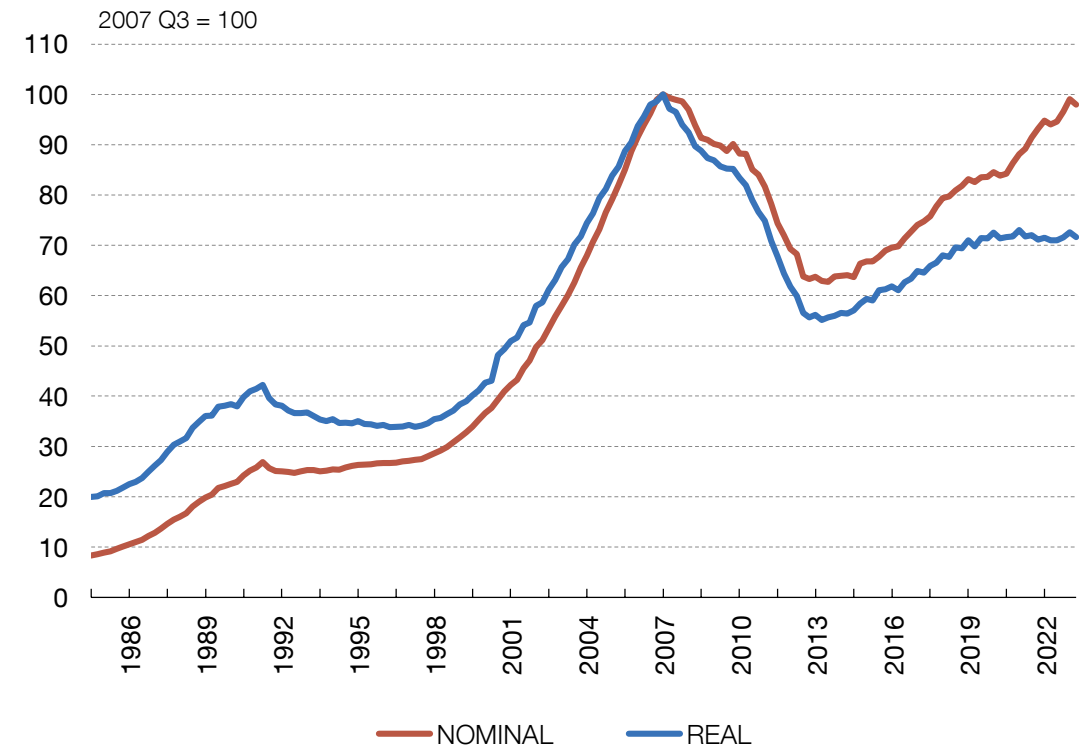
HOUSE PURCHASES (a)



(a) Cumulative 4-quarter data.

SOURCE: Ministerio de Transportes y Movilidad Sostenible.

HOUSE PRICES (b)

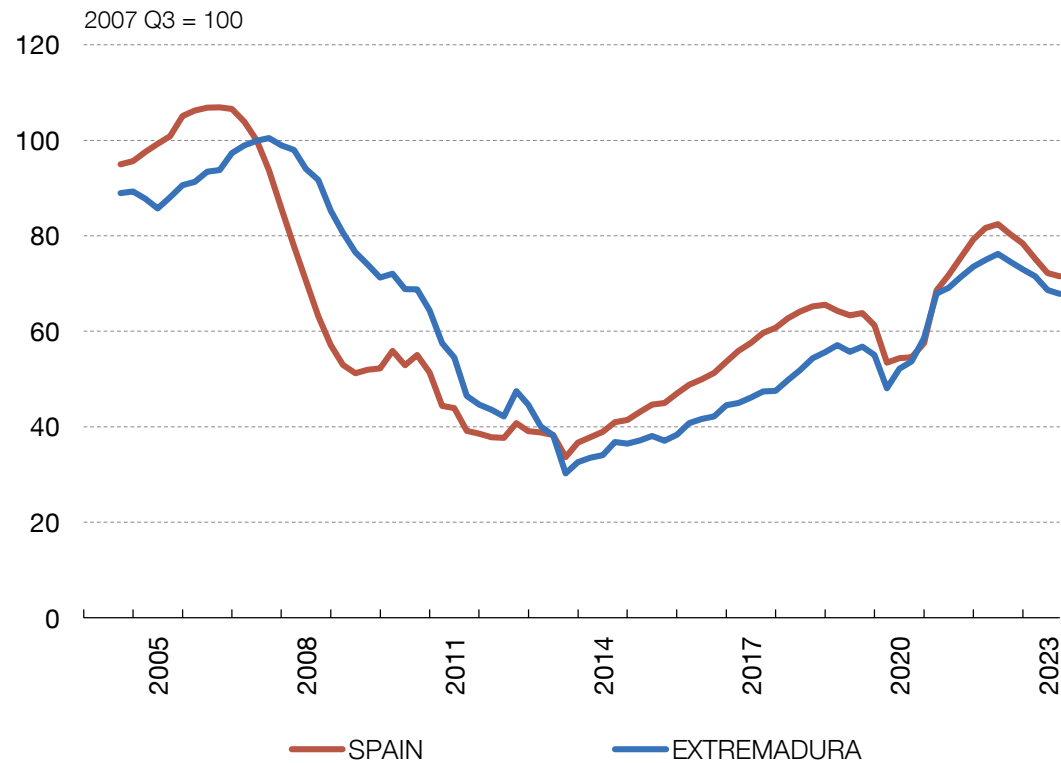


(b) Real house prices are deflated by the consumer price index.

SOURCE: INE.

- House purchase and price dynamics are in line with national developments, although prices have risen less sharply. As a result, nominal prices are 13.2% below their 2007 level.

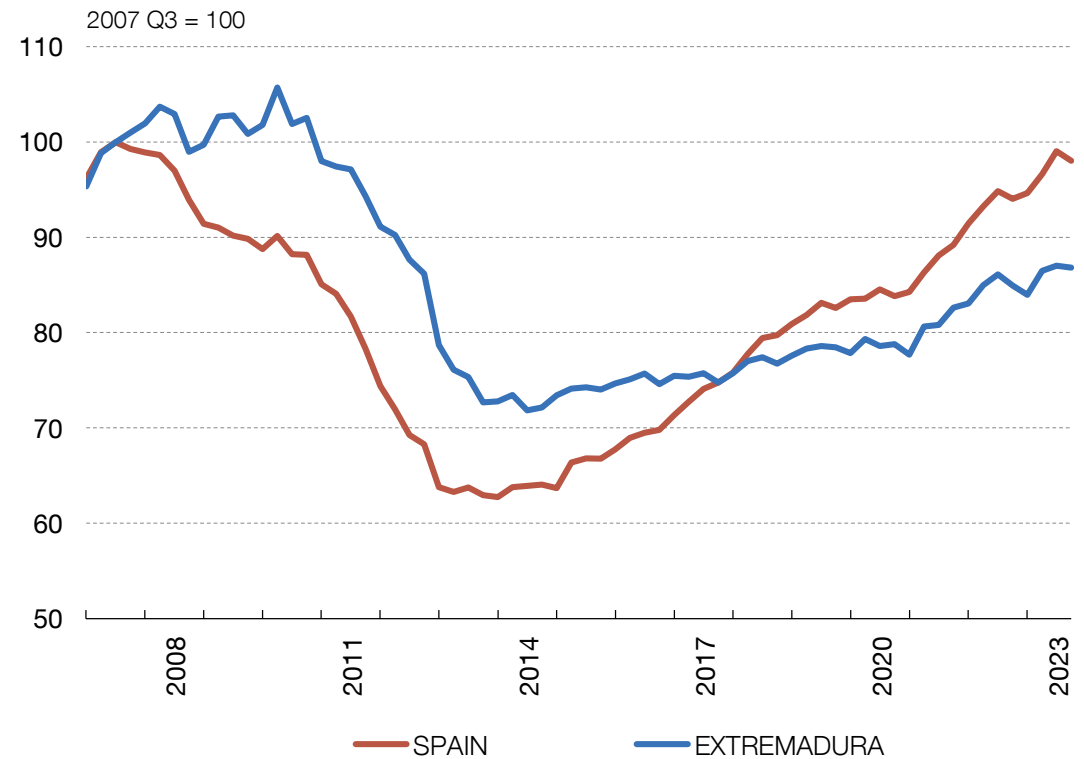
HOUSE PURCHASES (a)



(a) Cumulative 4-quarter data.

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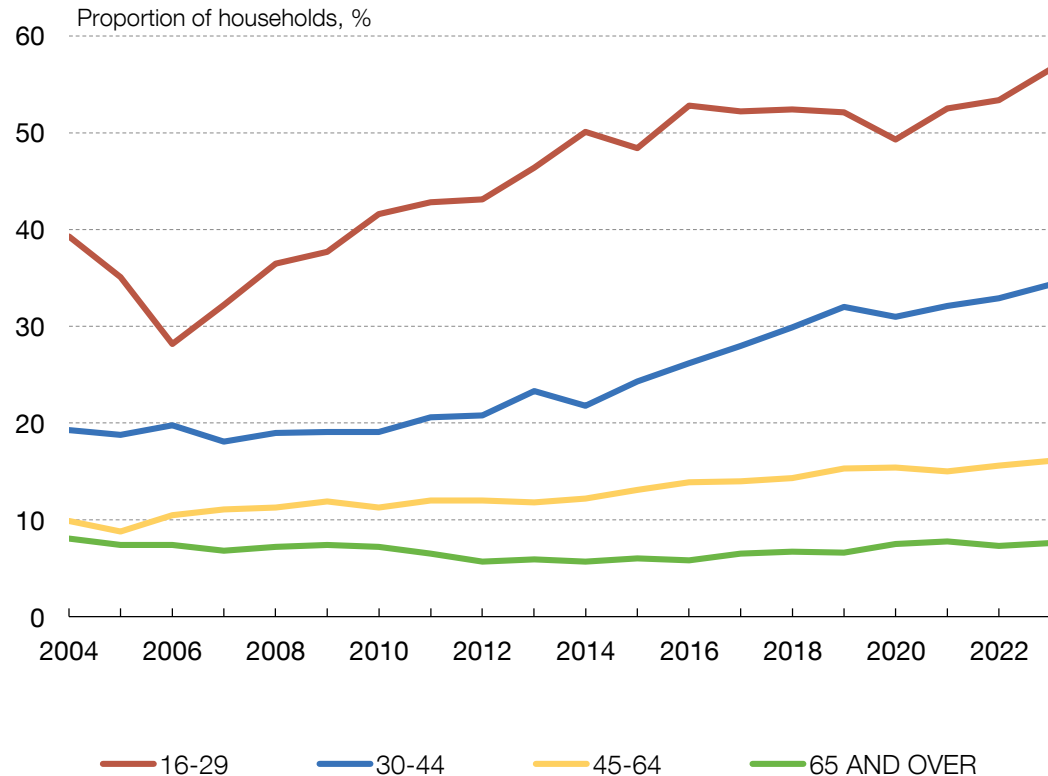
HOUSE PRICES



SOURCE: INE.

- The proportion of tenant households has increased since 2008, particularly among young people, where it now exceeds the EU27 average. The proportion of young households living rent-free is also high by European standards.

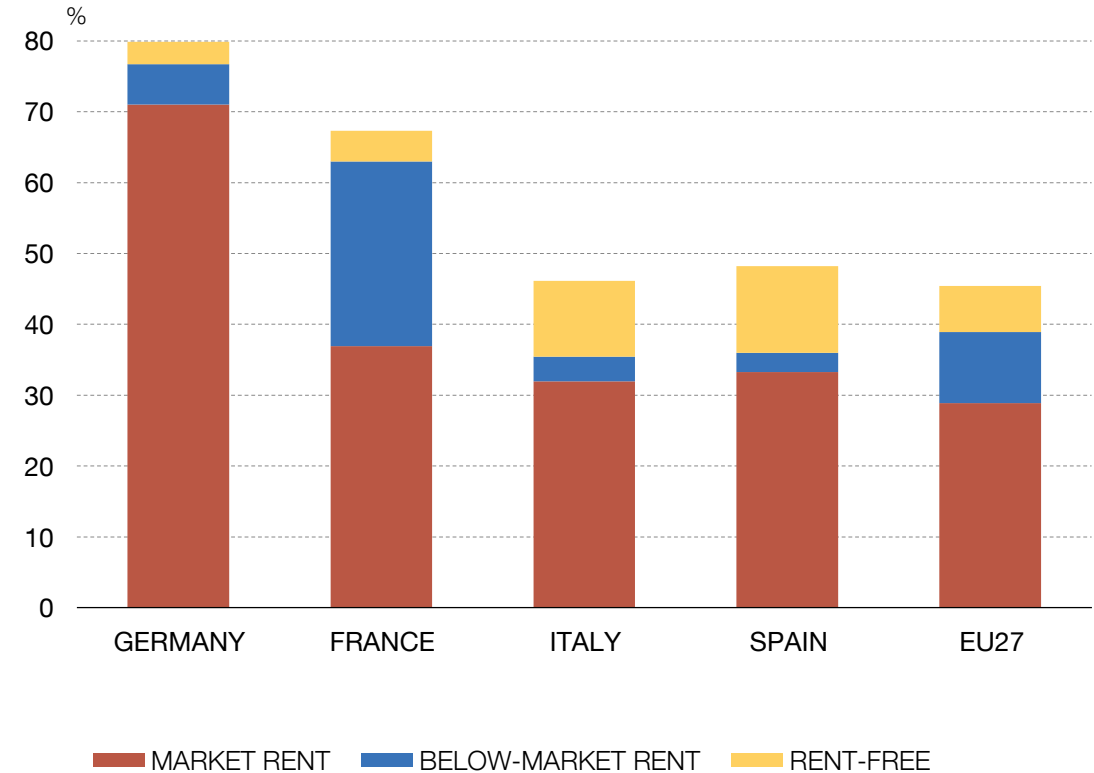
RENTAL HOUSING BY AGE GROUP (a)



(a) Rentals include both market rents and below-market rents (e.g. social housing rentals and the old rent-control system).

SOURCE: Living Conditions Survey (INE 2024).

YOUNG HOUSEHOLDS LIVING IN RENTED HOMES IN 2022 (b)

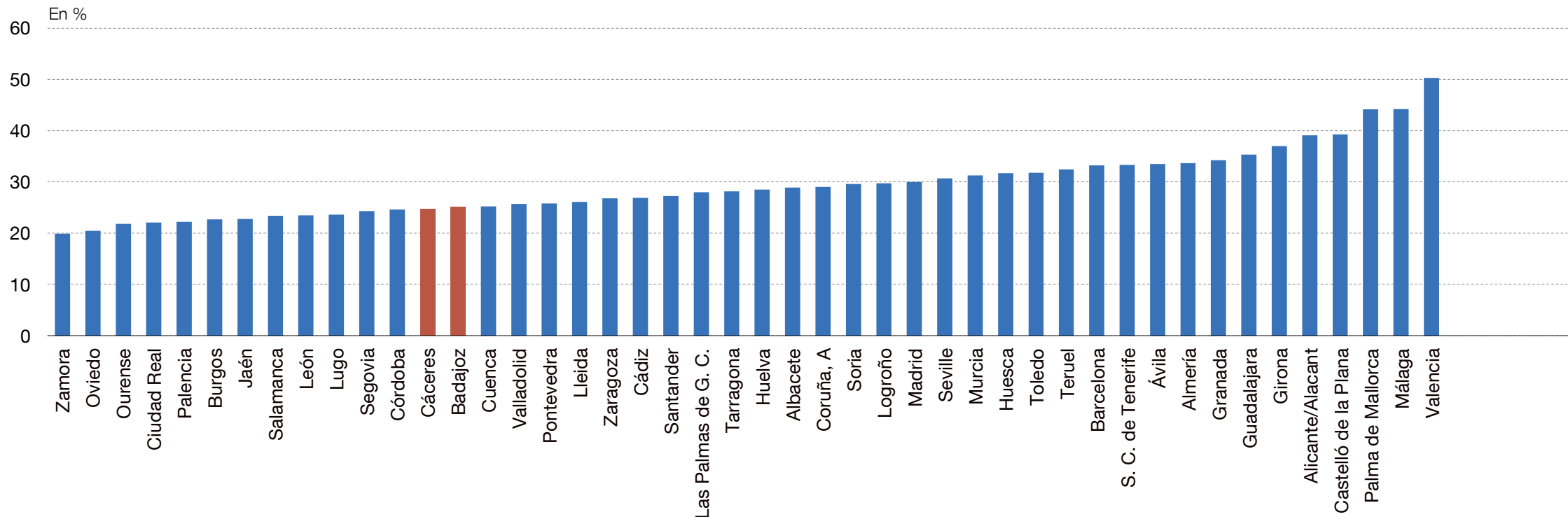


(b) Young households are those whose reference person is aged between 18 and 34. Rented housing includes at market rents, at below-market rents and dwellings used rent-free.

SOURCE: EU-SILC (Eurostat 2023).

- Tourist areas and large cities have seen the greatest increases in rent. Extremadura's capital cities show cumulative increases between 2015 and 2022 of around 25%, below the national average of 28,5%.
- The proportion of renter households in Extremadura grew significantly, to 14.3% in 2023, but it is still lower than the national figure (18.7%).

CUMULATIVE RENT PRICE GROWTH 2015-2022 (a)

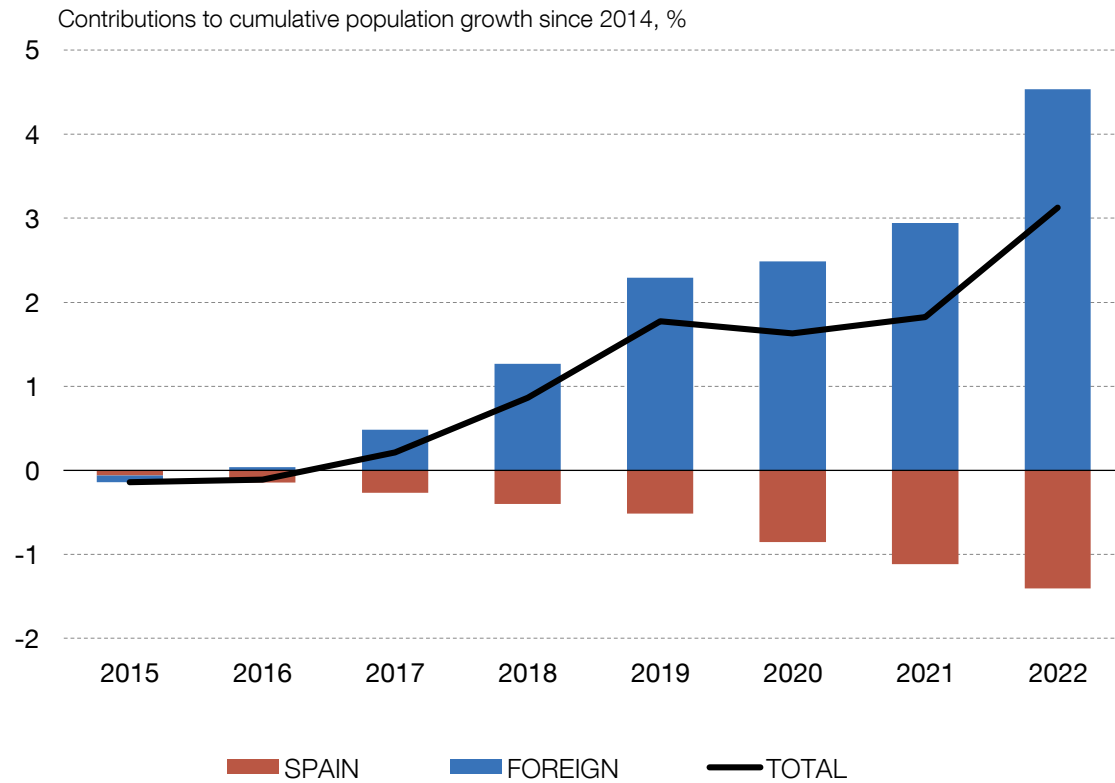


(a) Cumulative growth of rental income per square metre of rental housing between 2015 and 2022 in provincial capitals, excluding the Basque Country and Navarre.

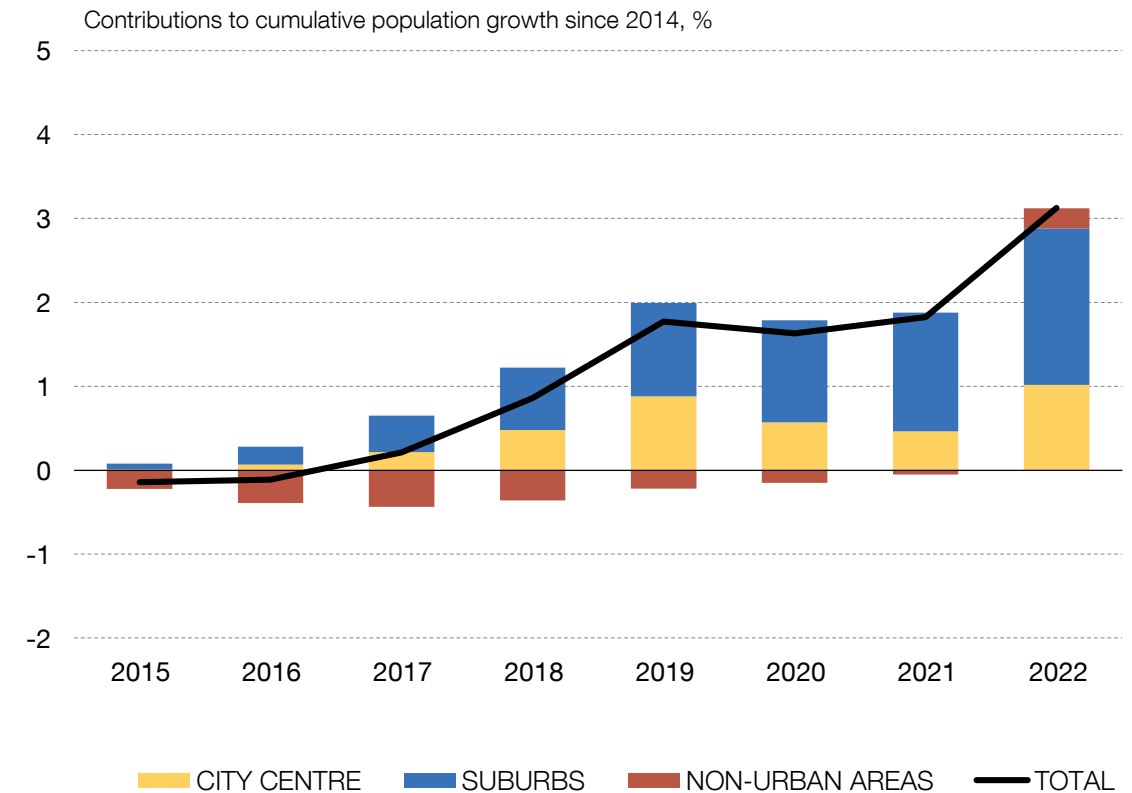
SOURCES: Banco de España using data from the AEAT Tax Studies and Statistics Service.

- External migration flows are driving residential housing demand, which tends to concentrate in the main urban areas, with notable growth in the suburbs.

POPULATION GROWTH BY COUNTRY OF BIRTH



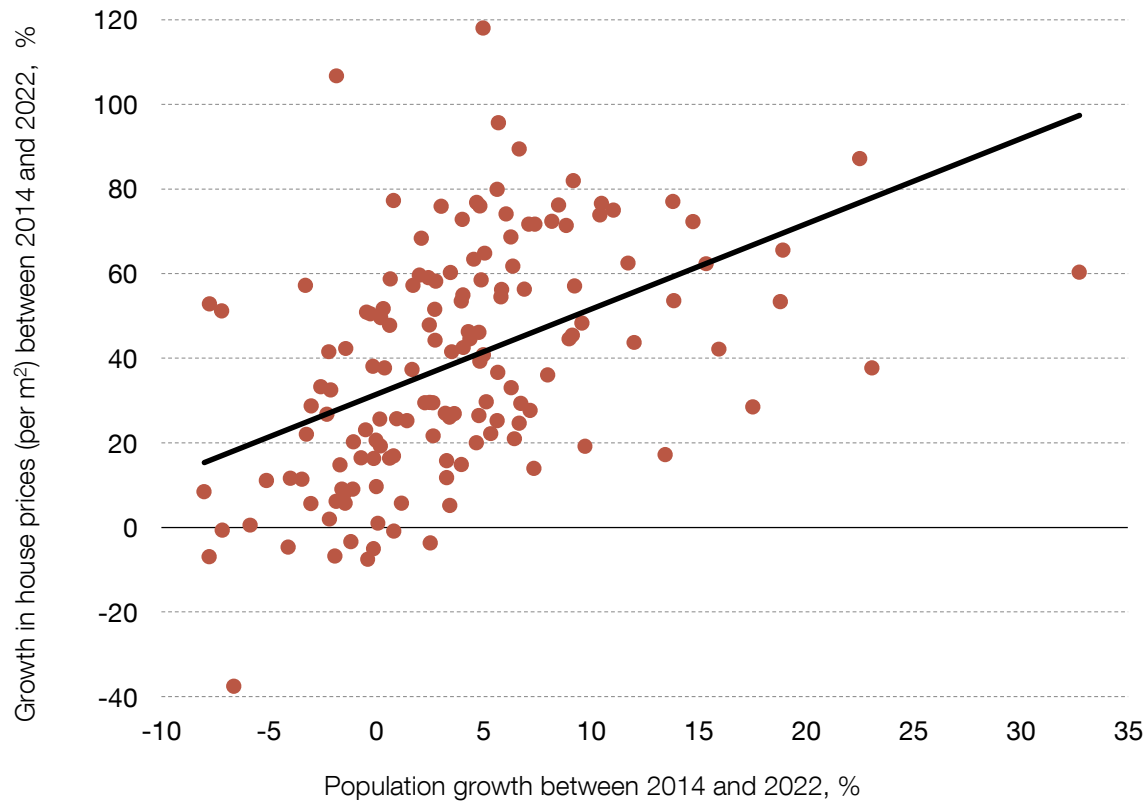
POPULATION GROWTH BY AREA OF RESIDENCE (a)



(a) The term "urban area" refers to the concept of functional urban area (FUA) defined by Eurostat.

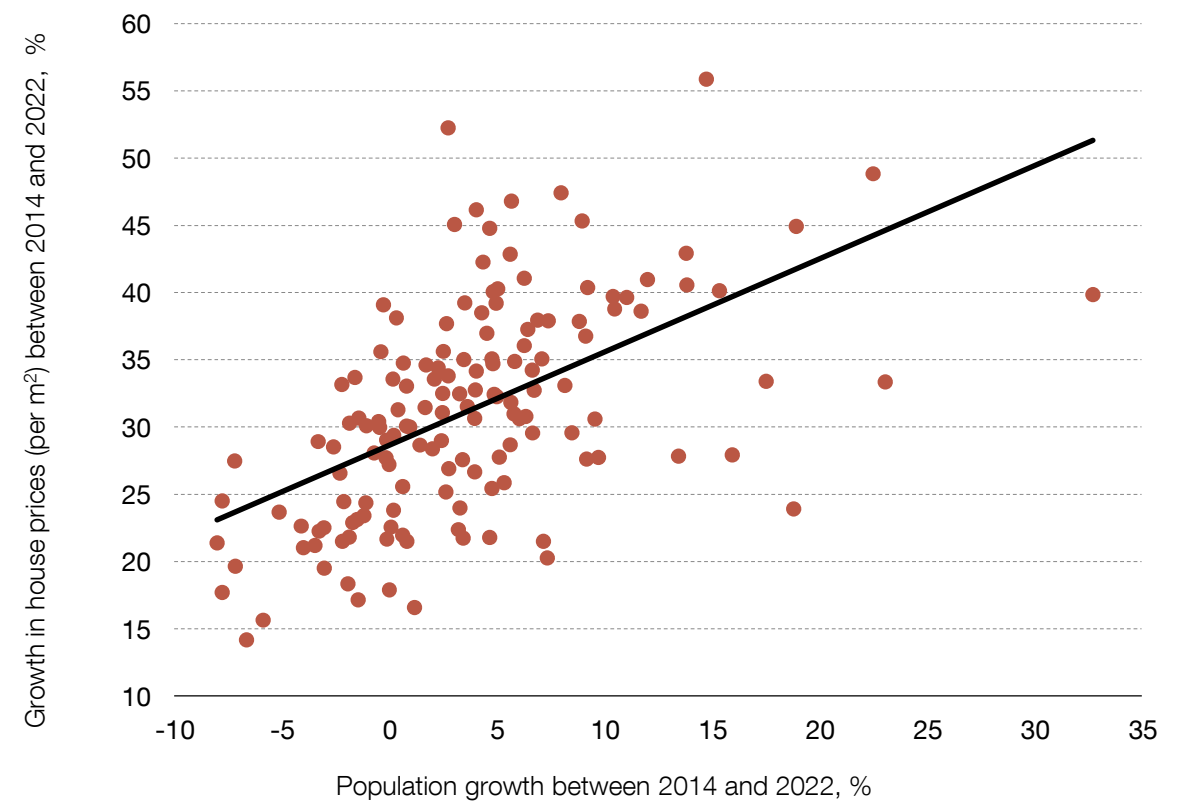
- The municipalities with the strongest population growth have recorded the sharpest increases in house and rental prices, pointing to supply-side rigidity in absorbing demand momentum.

HOUSE PRICES AND POPULATION (a)



(a) Municipalities with more than 50,000 inhabitants, excluding the Basque Country and Navarre.

RENT PRICES AND POPULATION (b)



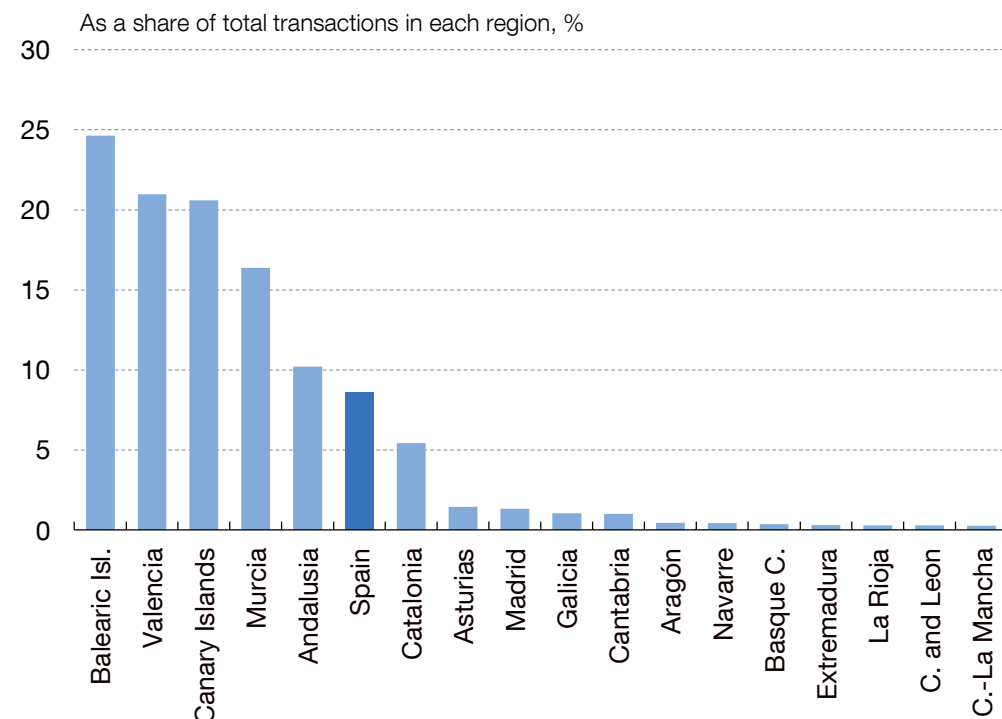
(a) Municipalities with more than 50,000 inhabitants, excluding the Basque Country and Navarre.

SOURCES: INE and Banco de España using data from the Colegio de Registradores and the AEAT Tax Studies and Statistics Service.

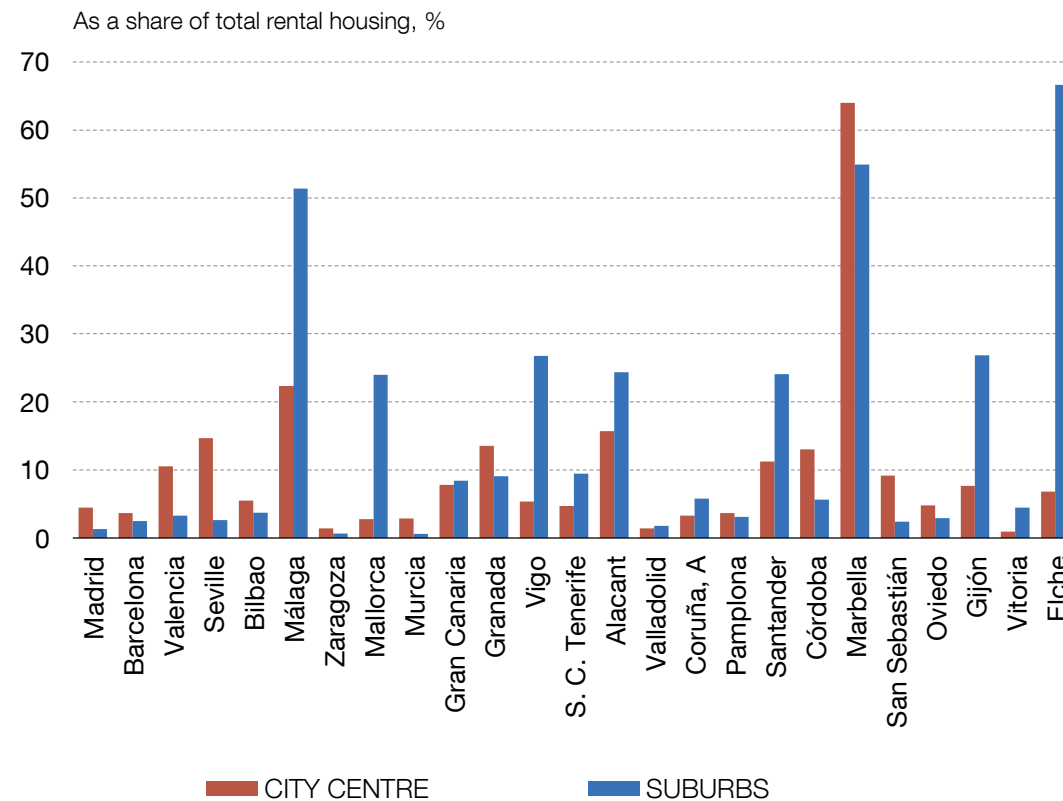
SOURCES: INE and Banco de España using data from the Colegio de Registradores and the AEAT Tax Studies and Statistics Service.

- House purchases by non-residents are mainly on the Mediterranean coast and the islands. Tourist rentals account for a considerable share of housing in certain areas and in the central districts of major cities.

HOUSE PURCHASES BY NON-RESIDENT FOREIGNERS. 2023



TOURIST RENTALS (a)



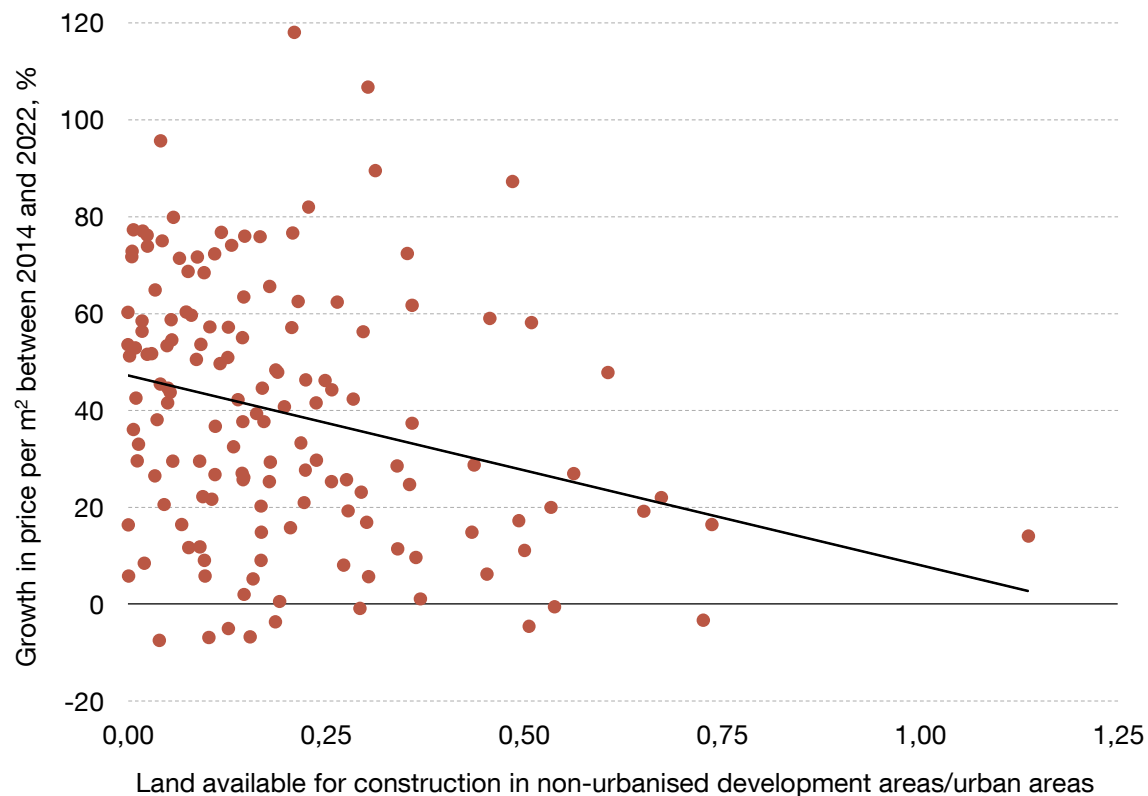
(a) Calculated as the ratio of tourist housing in August 2023 to the latest available figure for the number of residential rental houses at municipal level.

SOURCE: Ministerio de Transportes y Movilidad Sostenible.

SOURCES: INE and Banco de España.

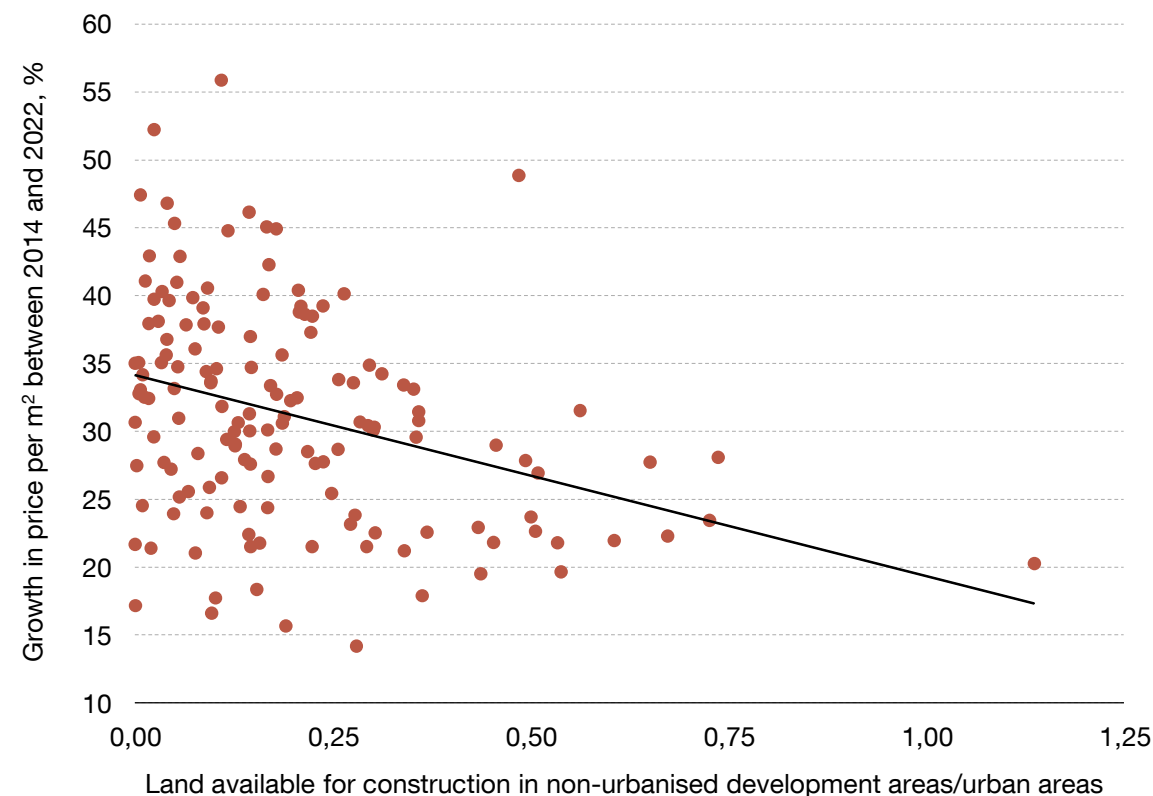
- Supply rigidity owes to reduced rehabilitation, the rise of alternative housing uses and constraints on housing production due to construction workforce shortages, rising costs and a lack of investment in land development.

HOUSE PRICES AND AVAILABLE LAND (a)



(a) The latest published figure is taken for land available for construction in development areas and the 2014 figure is taken for urban land. Calculation for municipalities with more than 50,000 inhabitants.

RENT PRICES AND AVAILABLE LAND (b)



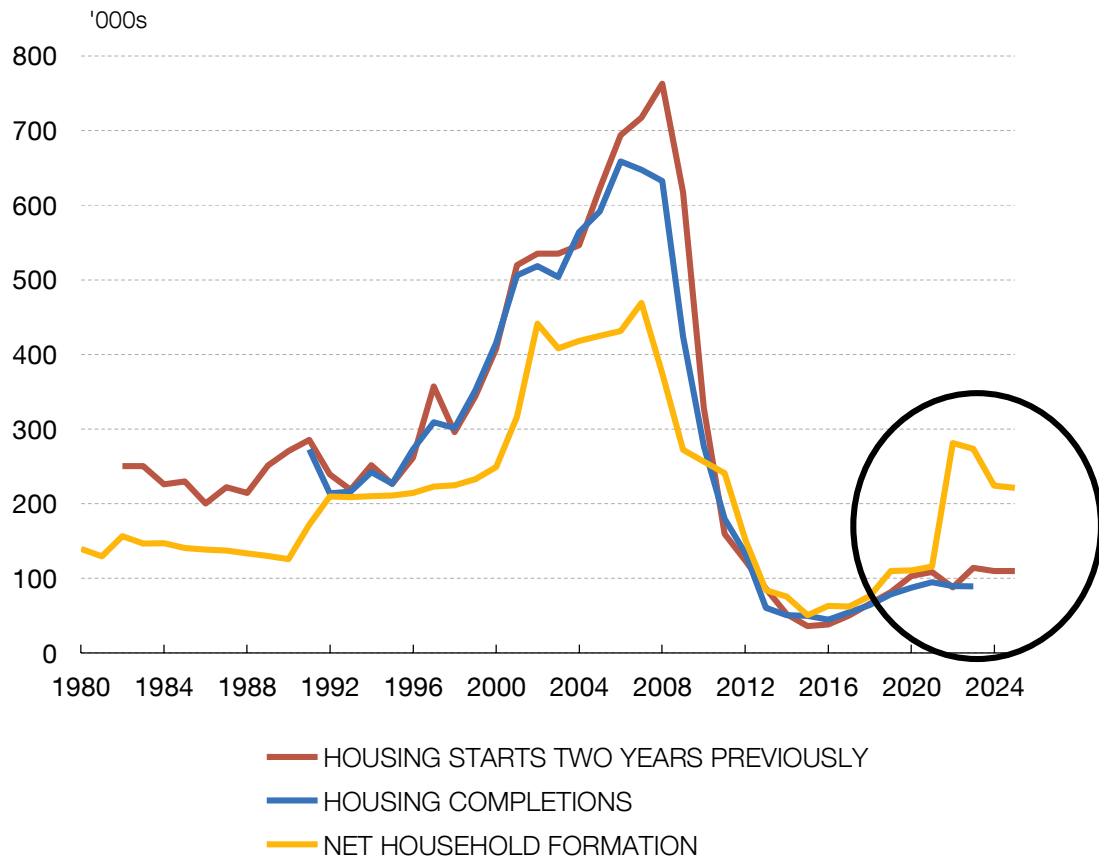
(b) The latest published figure is taken for land available for construction in development areas and the 2014 figure is taken for urban land. Calculation for municipalities with more than 50,000 inhabitants.

SOURCES: Ministerio de Vivienda and Banco de España using data from the Colegio de Registradores and the AEAT Tax Studies and Statistics Service.

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- Net household formation up to 2023 has been above new house completions, resulting in a new housing deficit of around 375,000, which is expected to rise to around 600,000 houses in 2025, concentrated in the regions with the most vibrant economic and tourist activity.

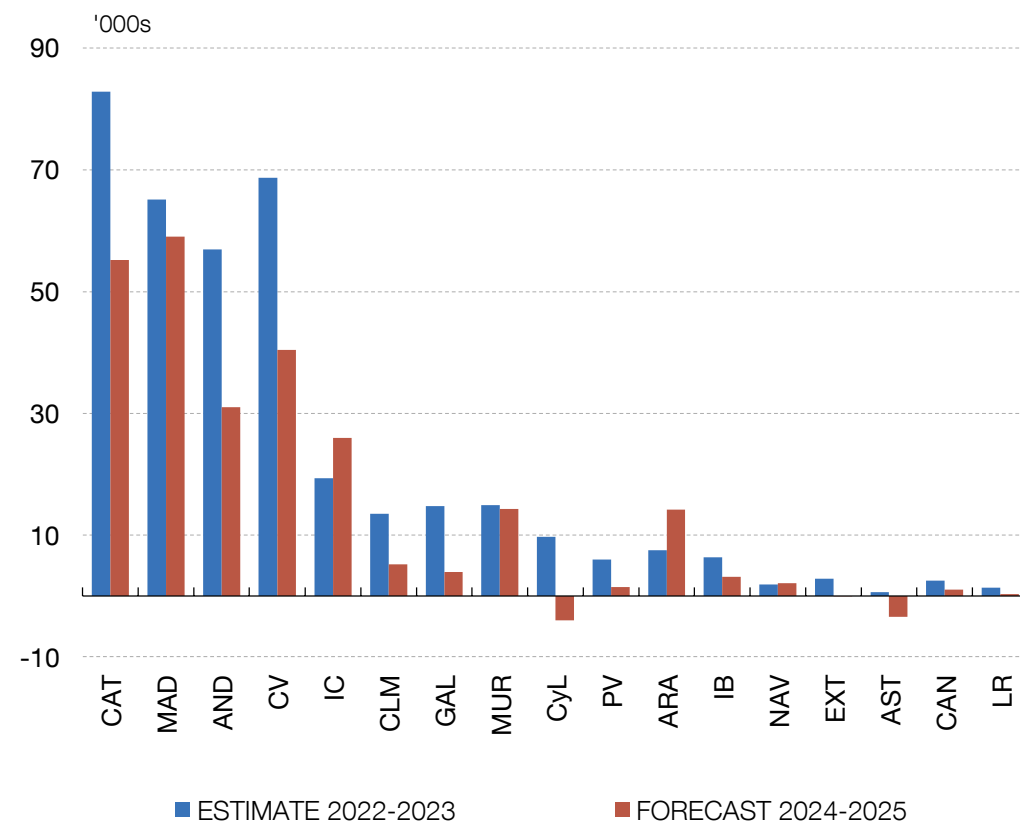
NEW HOUSING AND HOUSEHOLDS (a)



(a) Net household formation is taken from various sources published by the INE: (i) to 2021, it is based on the census and continuous registers published by the INE, (ii) for 2022 and 2023 the figures are the average annual change in households (based on quarterly data from the INE's Continuous Population Statistics), and (iii) for 2024 and 2025 the latest household projections published by the INE in October 2022 are used.

SOURCES: INE, Ministerio de Transportes y Movilidad Sostenible and Banco de España.

NEW HOUSING DEFICIT/SURPLUS (b)

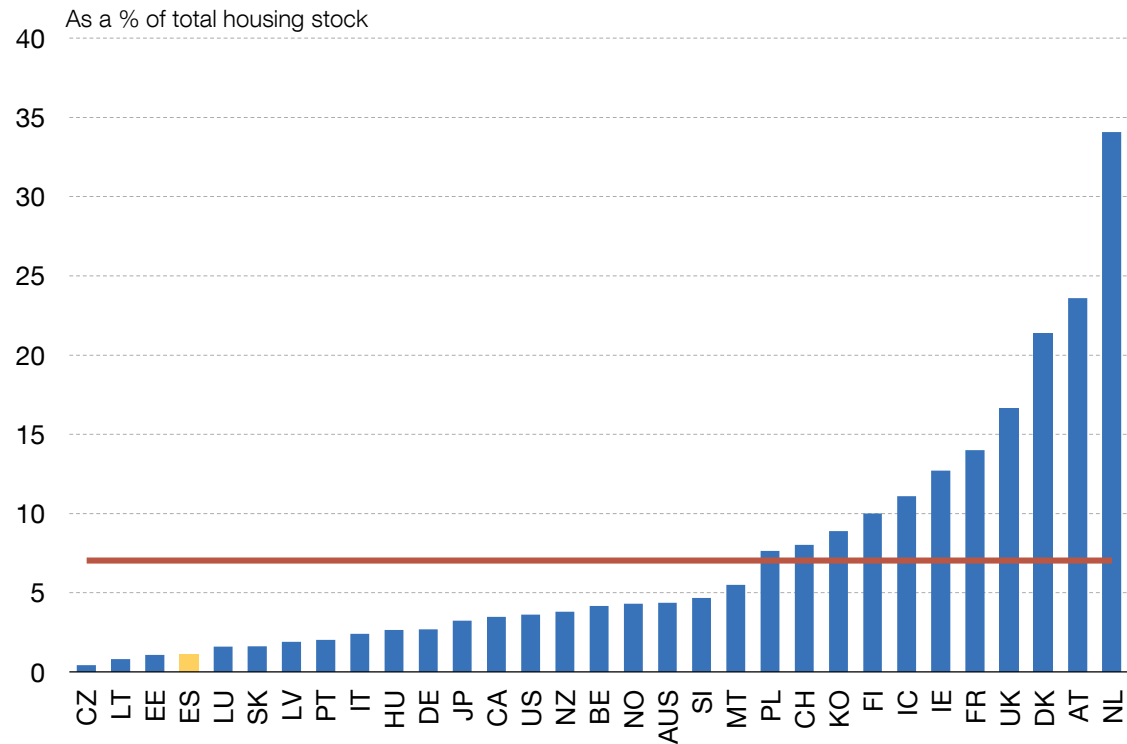


(b) The new housing deficit/surplus is calculated as the difference between net household formation and new housing completions.

SOURCES: INE, Ministerio de Transportes y Movilidad Sostenible and Banco de España.

- Despite an increase of 100,000 houses per year since 2012, supply in the rental market has been unable to absorb rising demand, in a context where social rentals and professional agents play a limited role.
- 92% of rented houses are owned by individual landlords. Rental yields are higher in lower-income areas.

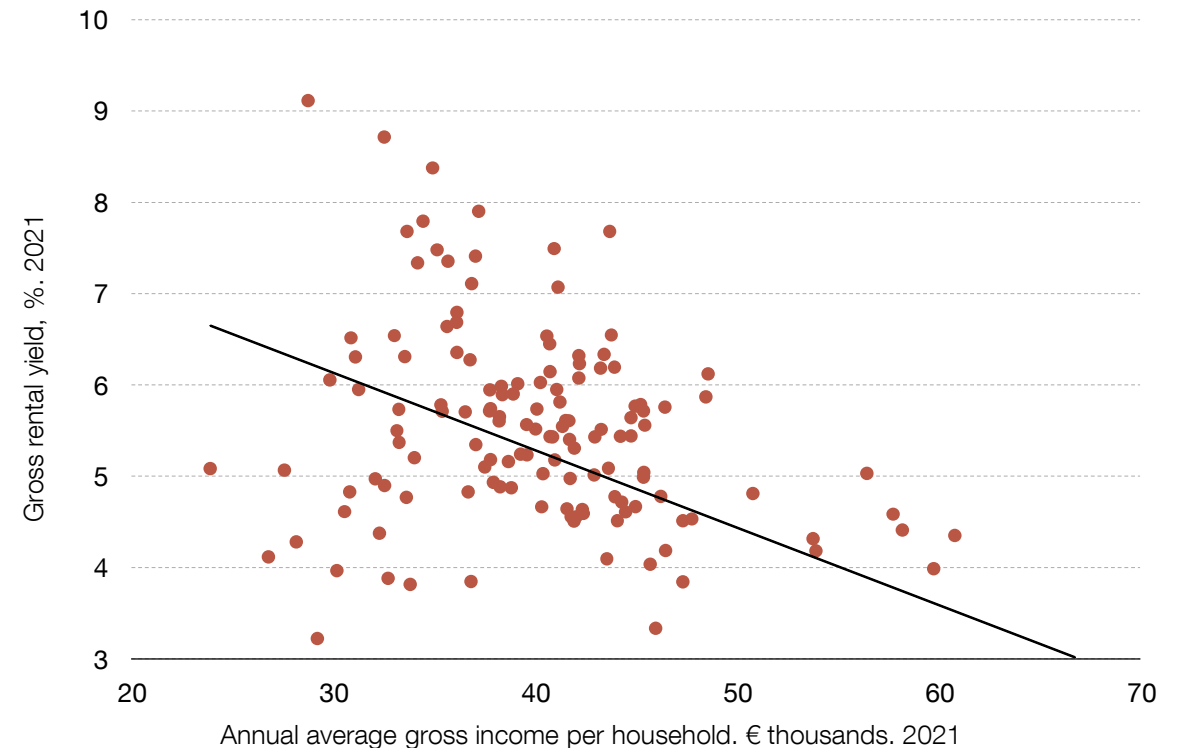
SOCIAL RENTAL (a)



(a) The data are for 2020 or for the last year with data available. The horizontal line denotes the average for the OECD economies.

SOURCE: OECD (“Affordable housing database”, 2024).

RELATIVE COST OF RENT (b)

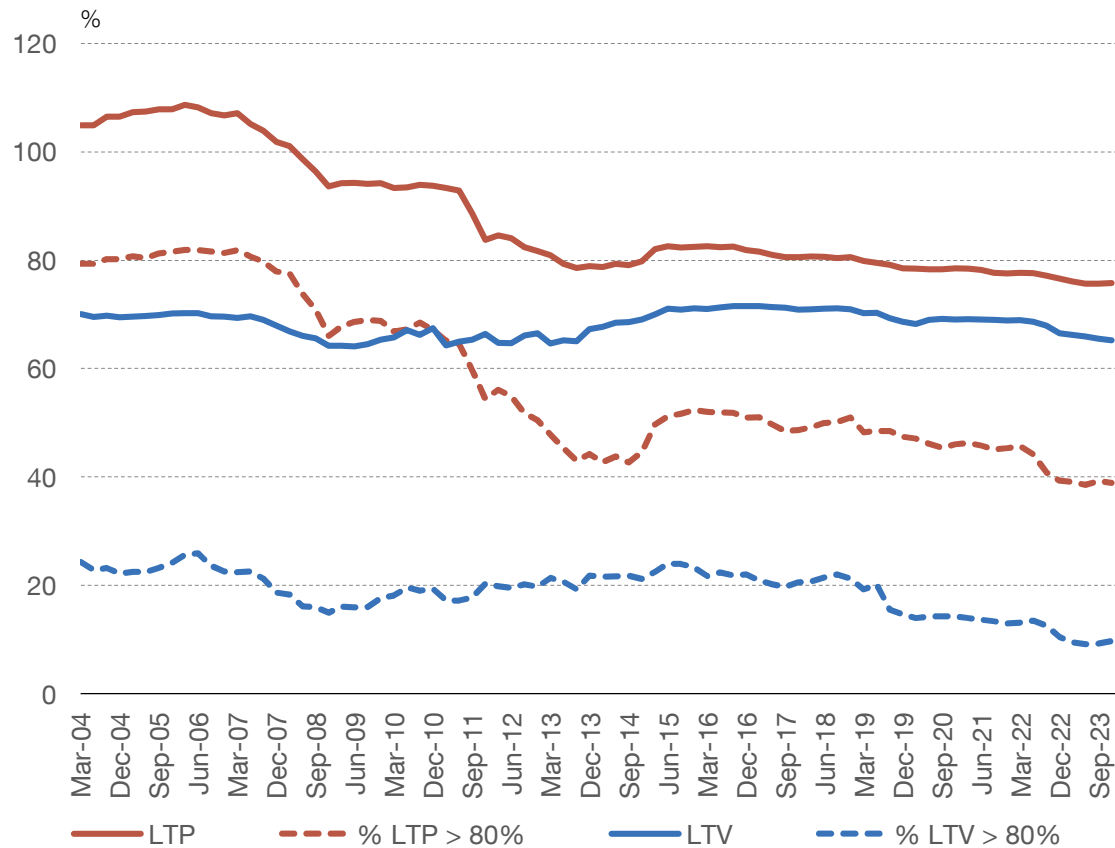


(b) Gross rental yield is defined as the ratio of the average annual rent to the average house purchase price (per square metre) in a municipality. Calculated for municipalities with more than 50,000 inhabitants, excluding the Basque Country and Navarre.

SOURCES: INE and Banco de España using data from the Colegio de Registradores and the AEAT Tax Studies and Statistics Service.

- No warning signs have been detected in mortgage credit standards, nor any activity growth based on the excessive build-up of real estate credit.

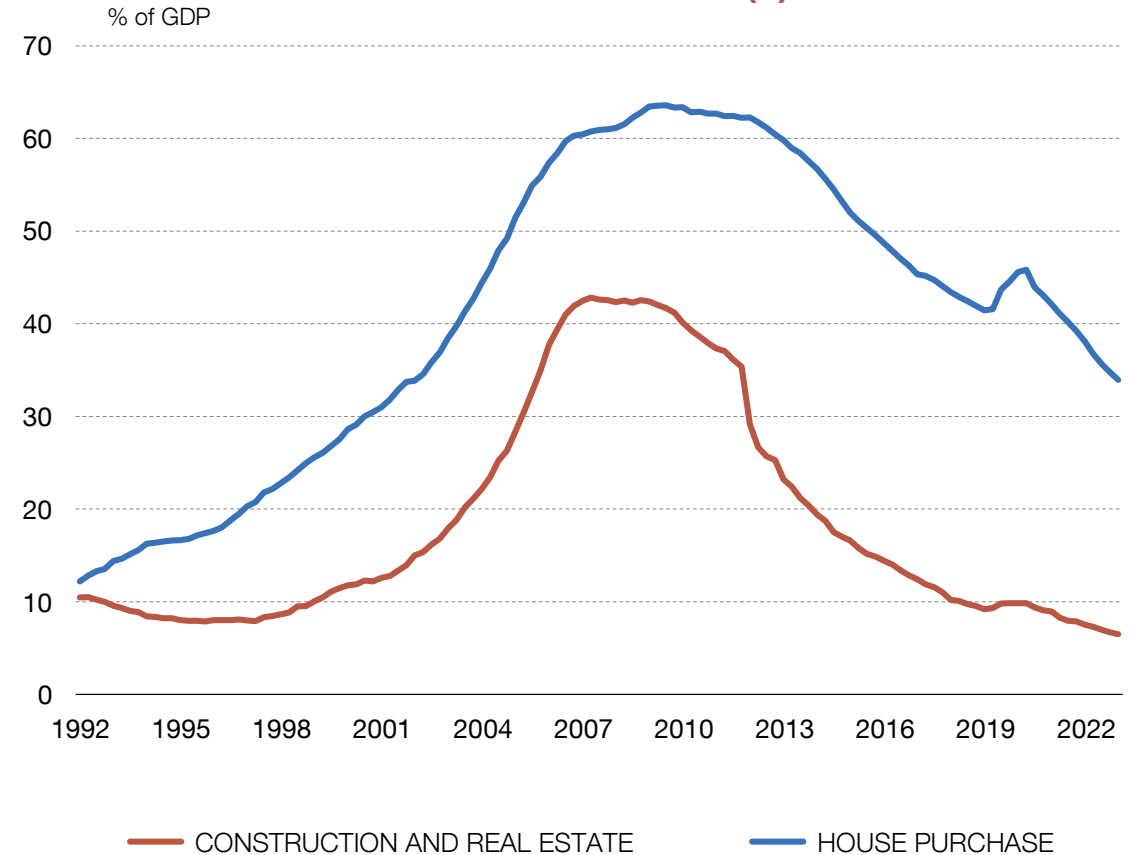
LTP and LTV RATIOS (a)



(a) The loan-to-price (LTP) ratio is the ratio of the mortgage principal to the house purchase price. The loan-to-value (LTV) ratio of the mortgage principal to the appraisal value of the house. The average values of these ratios are weighted by the capital of each mortgage and are calculated for new mortgages.

SOURCE: Banco de España using data from the Colegio de Registradores.

OUTSTANDING STOCK OF CREDIT, BY PURPOSE (b)

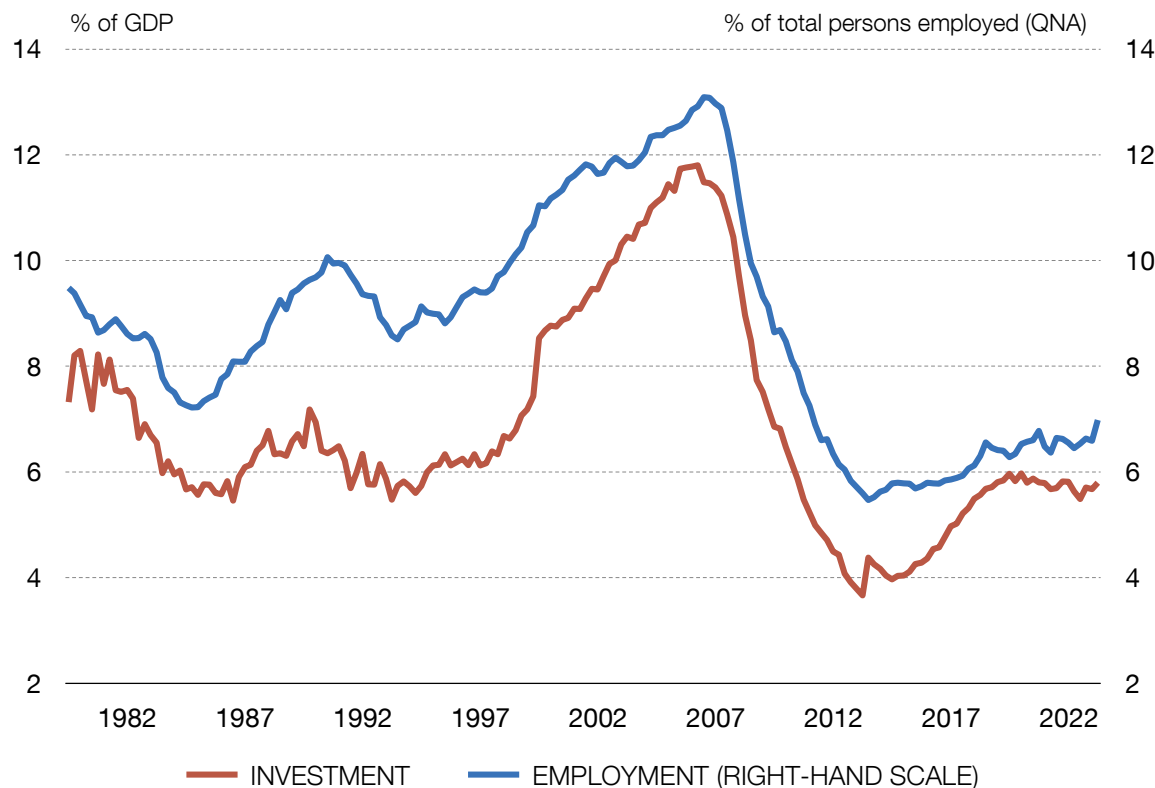


(b) Seasonally adjusted series. Latest data: 2023 Q4.

SOURCES: INE and Banco de España.

- Nor are there any signs of the real estate market becoming oversized, while indicators of house price overvaluation suggest that average prices stand close to equilibrium level.

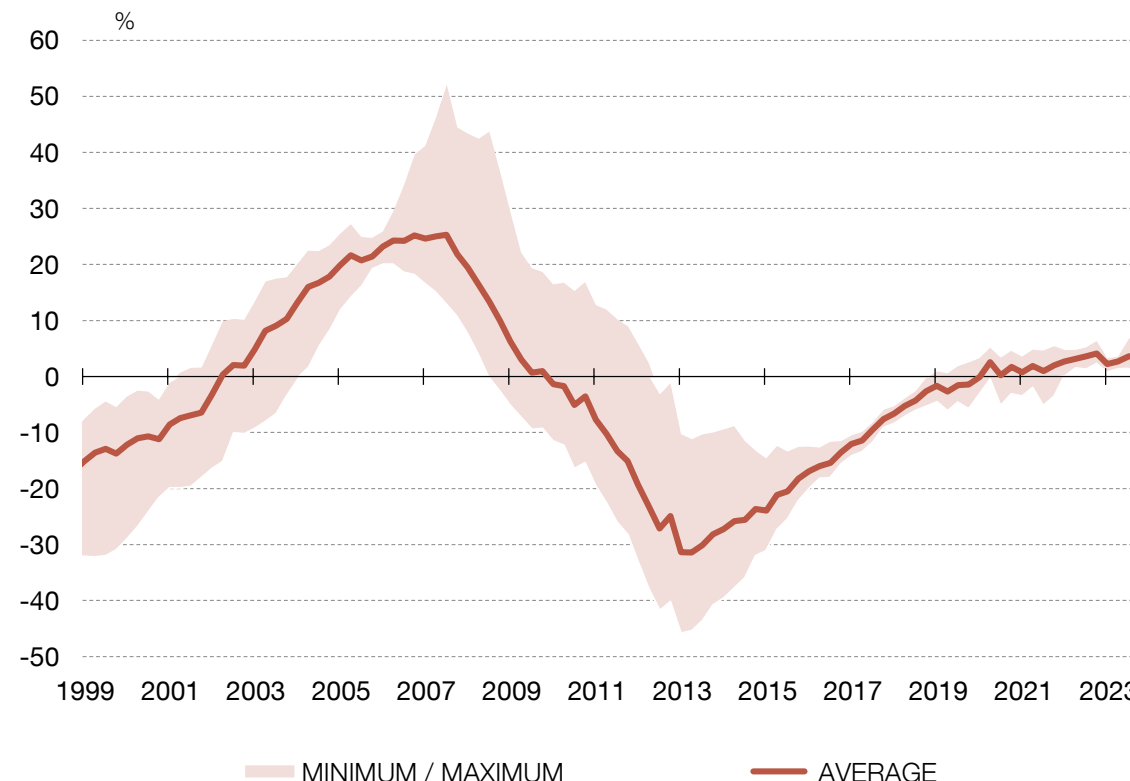
RESIDENTIAL INVESTMENT AND EMPLOYMENT (a)



(a) Seasonally adjusted series. Latest data: 2023 Q4. The employment data refer to the construction sector, excluding real estate development.

SOURCES: INE and Banco de España.

INDICATORS OF HOUSE PRICE IMBALANCES (b)

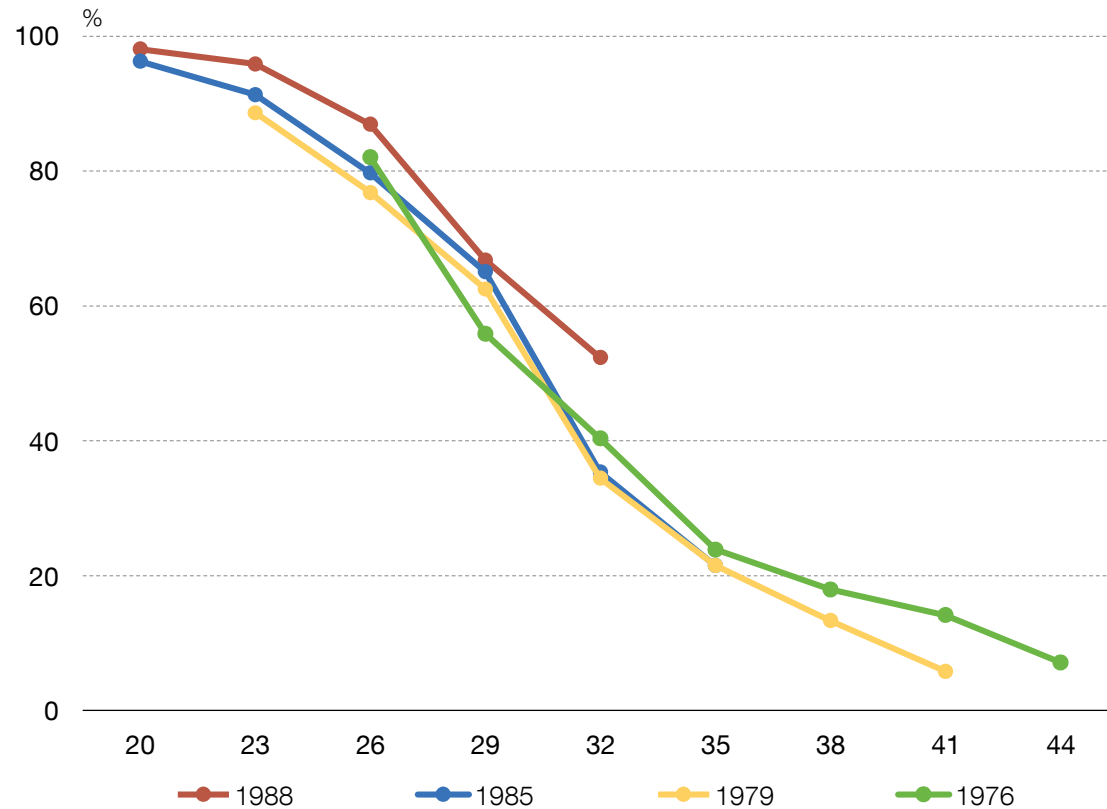


(b) The shaded area represents the lowest and highest values of four indicators of house price imbalances. Data updated at December 2023.

SOURCE: Banco de España.

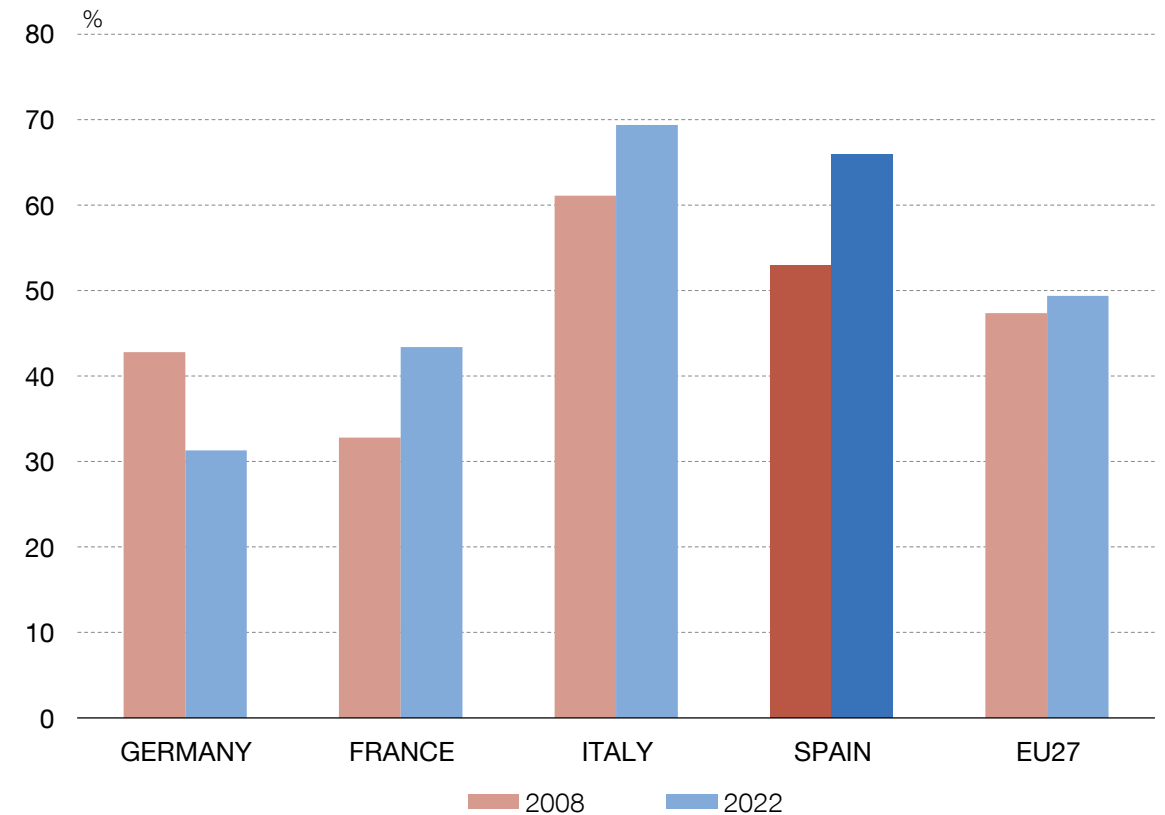
- Cohorts born after 1980 have been steadily delaying the decision to move out of the family home: in 2022, 66% of Spanish people aged 18-34 still lived with their parents.

PROBABILITY OF LIVING WITH PARENTS OVER THE LIFE CYCLE



SOURCE: EFF (2002-2020).

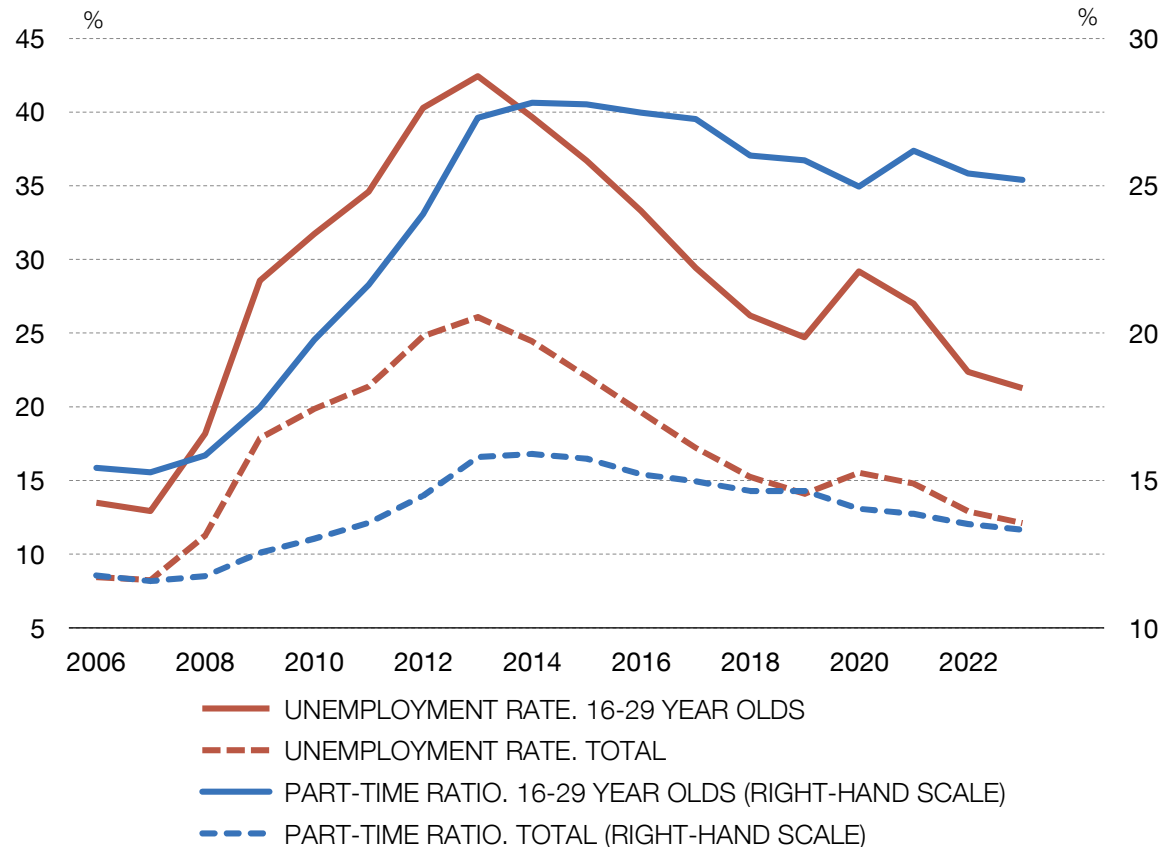
YOUNG ADULTS (18-34) LIVING WITH THEIR PARENTS



SOURCE: EU-SILC (2023).

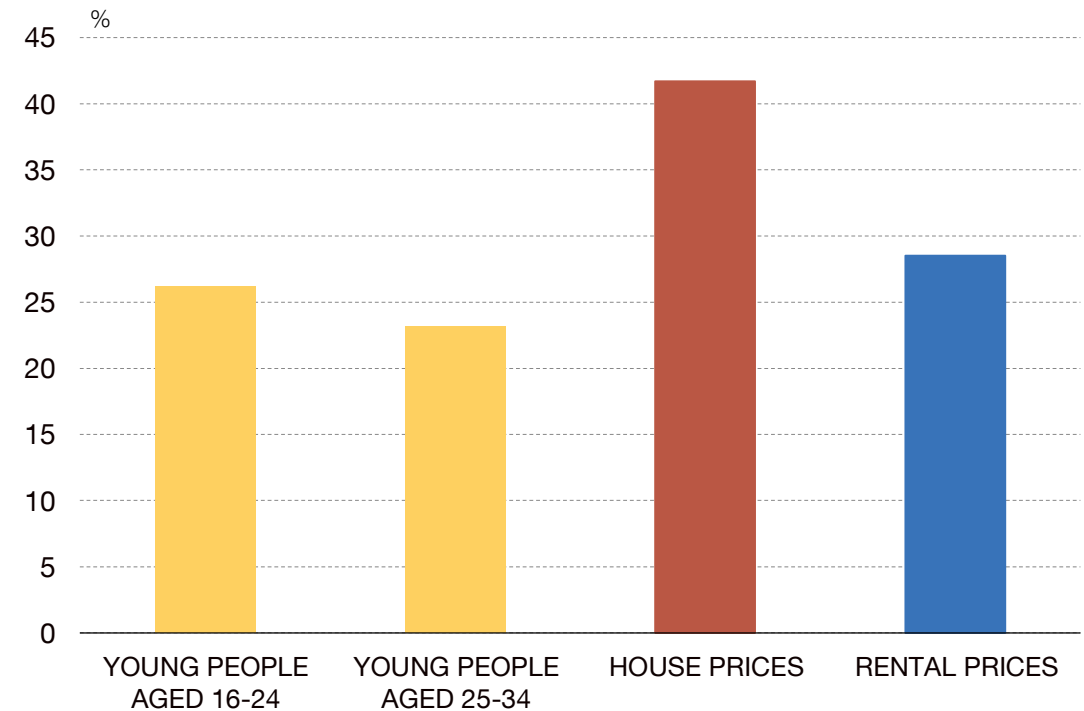
- Young people are the group with the highest levels of unemployment and part-time employment. Although their wages have grown in recent years, house prices have done so more quickly.

UNEMPLOYMENT RATE AND PART-TIME RATIO



SOURCE: INE.

GROWTH IN WAGES AND REAL ESTATE PRICES. 2015-2022 (a)

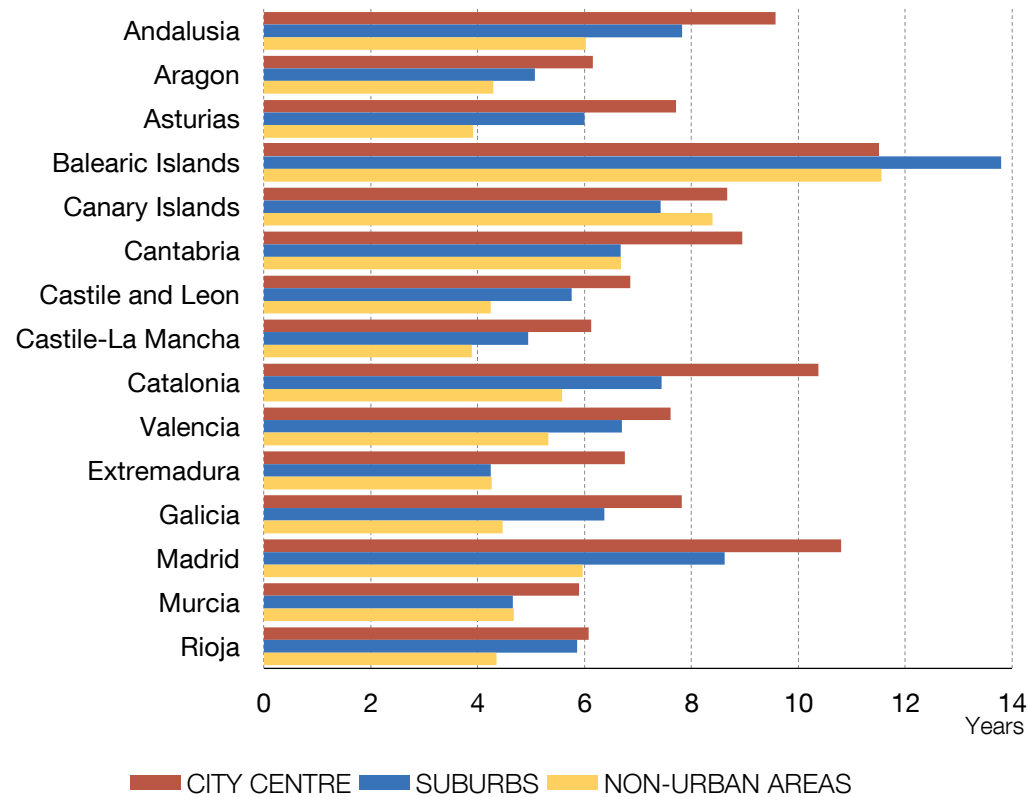


(a) Wage growth is based on monthly gross wages from main employment by age group, drawn from the Spanish Labour Force Survey (EPA); house price growth is based on the house price index published by the National Statistics Institute (INE); and the increase in rental prices is the increase in rental income per square metre for the stock of rental housing according to AEAT data. In the period 2015-2022, the average annual price increase in new rental contracts is estimated to stand between 7% and 8%, compared with a 6% increase in the average purchase price.

SOURCES: INE and Banco de España using AEAT data.

- The potential cost burden is higher for lower-income households in urban areas in regions with higher levels of economic activity. However, the percentage of overburdened mortgaged households is contained.

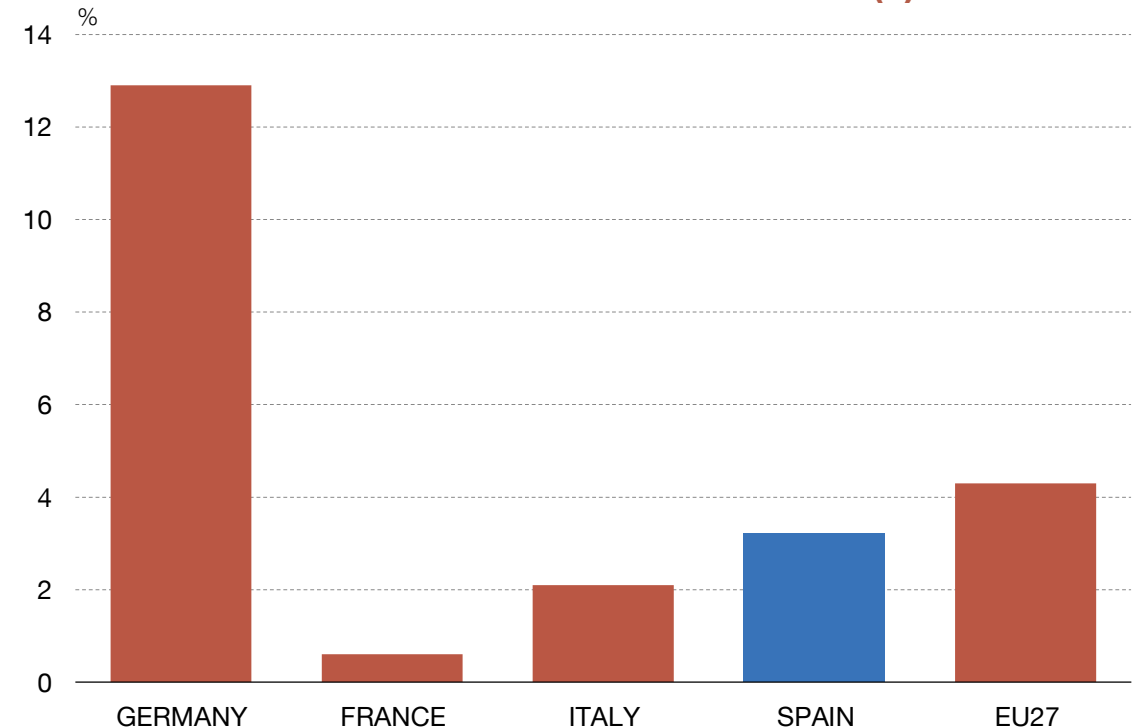
INITIAL COST BURDEN OF HOUSE PURCHASE. 2021 (a)



(a) Calculated for households residing in each geographical area as the ratio of the average house price in the municipality of residence to gross household income, expressed in years and considering all non-homeowner households.

SOURCE: Banco de España using data from the AEAT Tax Studies and Statistics Service.

OVERBURDENED MORTGAGED HOUSEHOLDS. 2022 (b)

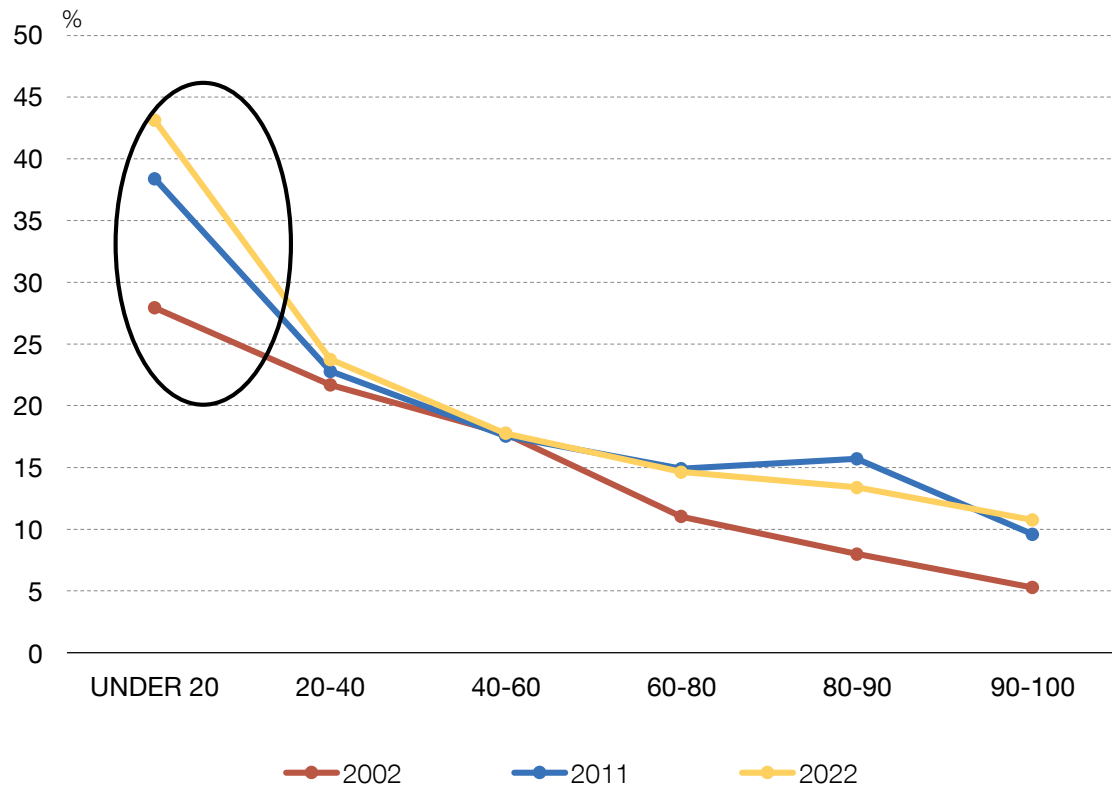


(b) Eurostat sets the overburden threshold at 40% of gross household income. It considers households whose housing expenditure exceeds this limit to be overburdened. Housing costs for mortgaged households include mortgage instalments and utilities (e.g. water, gas and electricity).

SOURCE: Banco de España using EU-SILC (2023) data.

- The rent cost burden is higher in Spain than in other major European economies and is particularly large for lower-income households.

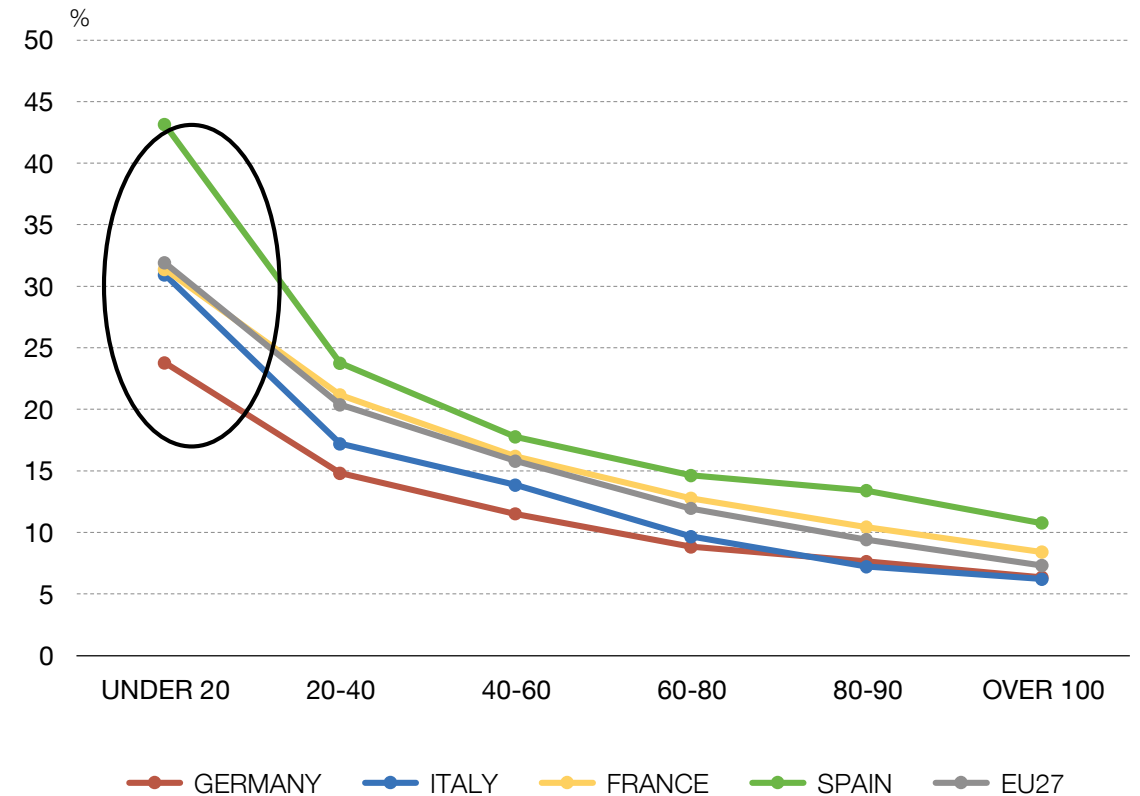
RELATIVE SPENDING ON RENT, BY INCOME PERCENTILE (a)



(a) Income refers to gross household income for the year prior to the survey. The data for 2002 and 2011 are taken from the Spanish Survey of Household Finances (EFF) and those for 2022 from the EU-SILC.

SOURCE: Banco de España using EU-SILC (2023) and EFF data.

RELATIVE SPENDING ON RENT, BY INCOME PERCENTILE (b)

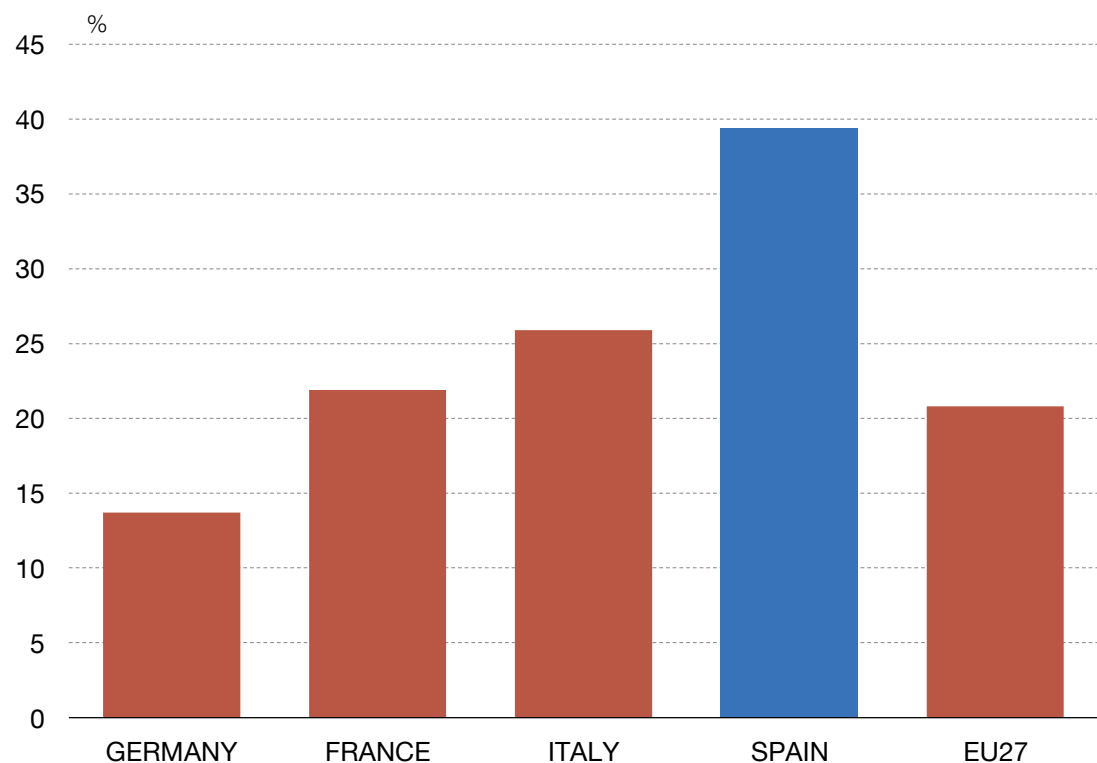


(b) Only households renting at market rates are included.

SOURCE: Banco de España using EU-SILC (2023) data.

- By EU27 standards, Spain has a high proportion of overburdened renter households, particularly in large urban areas.

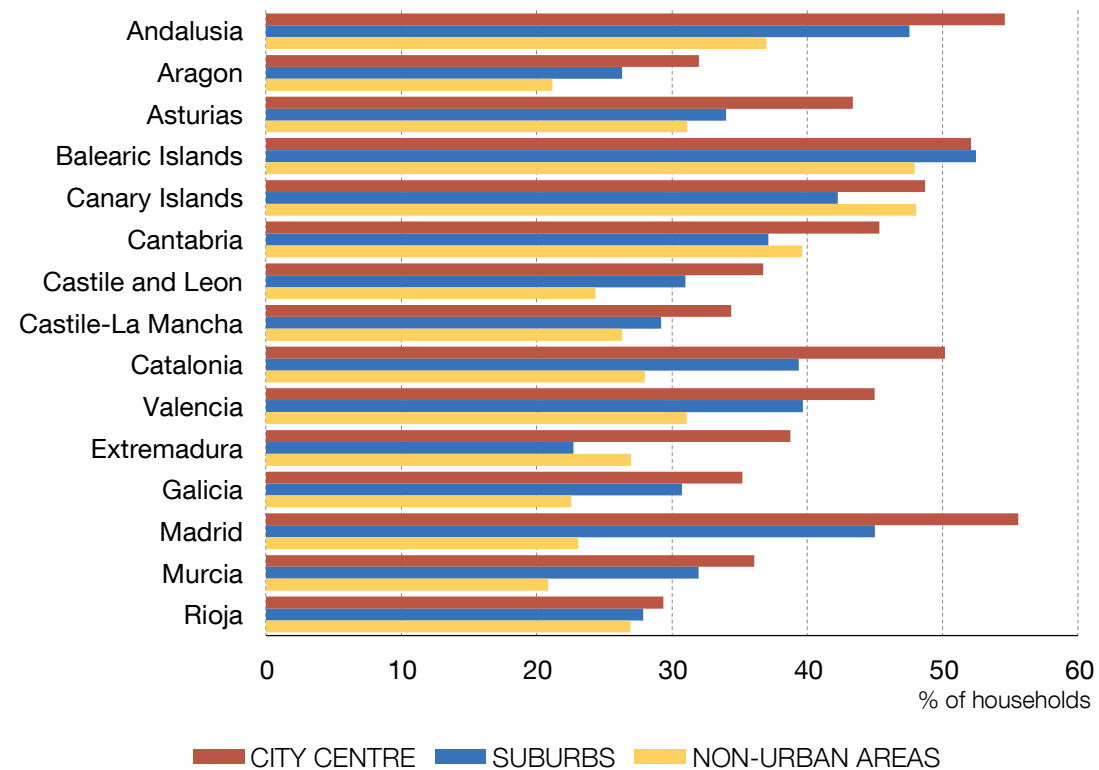
OVERBURDENED RENTER HOUSEHOLDS. 2022 (a)



(a) Eurostat sets the overburden threshold at 40% of household disposable income. It considers households whose housing expenditure exceeds this limit to be overburdened. Rental housing costs include both rent payments and utilities (e.g. water, gas and electricity).

SOURCE: Banco de España using EU-SILC (2023) data.

OVERBURDENED RENTER HOUSEHOLDS, BY GEOGRAPHICAL AREA (b)



(b) Overburdening calculated for non-homeowner households in each region as the ratio of average rent in the household's municipality of residence to net household income.

SOURCE: Banco de España using data from the AEAT Tax Studies and Statistics Service.

- The detrimental effects on long-term economic growth, intergenerational wealth inequality and levels of social exclusion warrant the adoption of public policies to correct these difficulties.

CHANNELS OF IMPACT AND EFFECTS OF HOUSING AFFORDABILITY DIFFICULTIES

IMPACT OF HOUSING AFFORDABILITY DIFFICULTIES	ECONOMIC AND SOCIAL EFFECTS
Hinders the location of labour in more productive areas	Misallocation of labour, leading to aggregate losses of productivity and well-being
Lowers worker mobility , particularly for young people	Less opportunity to gain education and skills and accumulate human capital , and hinders labour market matching
Raises housing costs, giving rise to budget-constrained household	Greater sensitivity of aggregate consumption and economic activity to changes in real estate prices
Delays household formation and can be conducive to lower birth rates and human capital accumulation	Lower potential growth capacity for the economy
Increases household overburdening and vulnerability	Increases the population at risk of poverty or social exclusion
Limits young people's ability to save and conditions wealth accumulation over their lifetime	Conducive to greater intergenerational wealth inequality

SOURCE: Banco de España.

- Regional governments are deploying a wide array of measures seeking to improve housing affordability. However, they should consider the risks of the measures and evaluate their effects.

MEASURES ADOPTED AND PRELIMINARY ASSESSMENT

MEASURES DEPLOYED TO IMPROVE HOUSING AFFORDABILITY	POSSIBLE EFFECTS AND RISKS
<p>Greater protection for tenants (extending the duration of contracts, capping rent increases and making it harder to evict)</p>	<p>Reduction in overburdening in the short term, but risk of reducing the housing supply for vulnerable groups and driving up rental prices</p>
<p>New rent price indicators and framework for declaring areas to be under housing pressure (to allow price controls to be introduced)</p>	<p>More information made publically available and containment of the cost burden for tenants, but risk of unwanted effects on supply (reduction and shift to other markets, such as holiday or short-term rentals)</p>
<p>Measures to bolster demand (public guarantee schemes, rent subsidies and tax incentives for house purchase)</p>	<p>Pass-through to final prices, leading to transfers of public resources to the supply side and limited effectiveness due to supply rigidity</p>
<p>Measures to increase the stock of social or affordable rental housing (ICO loan facilities, mobilisation of public land and fostering public-private collaboration)</p>	<p>A considerable and sustained budgetary effort is required to reduce the current mismatch with demand</p>
<p>Measures to speed up the planning permission process and increase the volume of building land, the housing floor ratio and real estate use</p>	<p>Positive impact on aggregate residential housing supply over a medium and long-term horizon, provided there is coordination between tiers of government</p>

SOURCE: Banco de España.

PRIORITY AREAS

Assessing the impact on housing affordability of the **public policies** already deployed

Coordinating action across all **tiers of government** with responsibility for housing

Prioritising increases in the supply of residential housing, especially in the rental market

Collaborating with private initiatives to significantly boost the **stock of social or affordable rental housing**

Increasing the role of the **institutional private sector** in the **rental** market to further professionalise the sector

Allocating available public resources to **lower-income groups** and focusing measures on **areas under housing pressure**

Bolstering legal certainty and reducing regulatory uncertainty to increase investment and lessen the risks

Improving administrative procedures related to **land and urban planning** and **promoting the rehabilitation of housing**

Combining the design of housing policies with **structural reforms** (productivity and employment), **tax reforms** and improved **metropolitan transport policies**

SOURCE: Banco de España.

THANK YOU FOR YOUR ATTENTION

