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FOREIGN INVESTMENT IN THE RESIDENTIAL REAL
ESTATE MARKET IN SPAIN BETWEEN 2007 AND 2019

Laura Álvarez, Roberto Blanco and Miguel García-Posada

ABSTRACT

This article analyses changes in investment by foreigners in the residential real estate market in Spain between 2007 and 2019. Two indicators are used for this purpose: gross purchases by foreigners as a percentage of total transactions and net purchases (purchases less sales) relative to the housing stock. A distinction is made between resident foreigners and non-resident foreigners. Non-resident foreigners who invest in the Spanish real estate market mainly come from high-income European countries, while resident foreigner buyers are mostly from countries from which Spain receives immigration, such as Romania and Morocco. The article also shows how non-resident foreigners concentrated their purchases in the islands and in the Mediterranean coastal provinces, while residents distributed their purchases more evenly throughout Spain. Finally, there is no statistical evidence supporting the hypothesis that investment by non-resident foreigners has in itself contributed significantly to an increase in house prices. However, the high correlation between population growth and the increase in real estate prices suggests that the increase in the foreign population resident in certain provinces, particularly in the islands, appears to have contributed to raising house prices through its effect on the demand for property.

Keywords: foreign investment, real estate market, regional analysis, house prices.

JEL classification: R30, R31.

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Introduction

This article analyses changes in investment by foreigners in the residential real estate market in Spain between 2007 and 2019.² It focuses in particular on the market's recovery period, which commenced in 2014. The data used were provided by the General Council of Notaries.³ Given the different profiles of foreigners who acquire houses in Spain, depending on whether or not they are resident in Spain, the activity of these two groups is analysed separately.⁴

In order to evaluate the investment made by each of these groups two alternative measures, based on gross and net purchases, respectively, are used. The net purchases indicator, defined as purchases less sales relative to the housing stock, captures more adequately the impact on the real estate market associated with the activity of foreigners. In addition to reviewing investment by foreigners, this article also analyses the extent to which such investments have had an impact on house prices during the market recovery phase initiated in 2014.

Activity of foreigners resident in Spain

As shown in Chart 1.1, house purchases by foreigners resident in Spain as a percentage of total transactions in the market followed a growing trend between 2007 and 2019, increasing from 4.2% to 10.9%. By investor nationality, EU countries (including the United Kingdom) and Norway increased their relative weight in purchases by resident foreigners until 2015, when they accounted for 58% of the total, declining in subsequent years, to 53% in 2019. However, during this period there have been changes by country within this group. For example, the relative weight of the United Kingdom decreased by 6 pp between 2007 and 2019, accounting

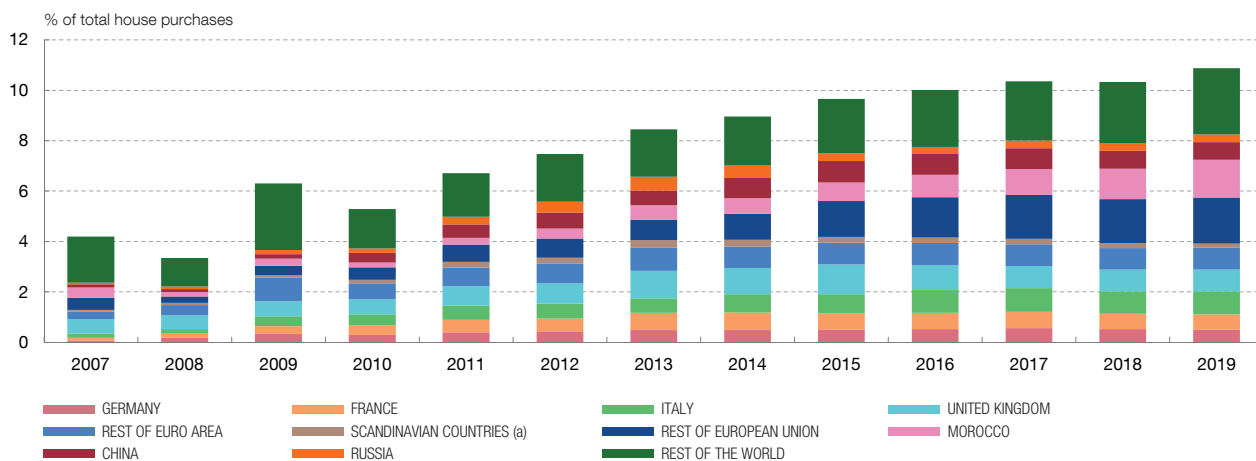
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- 1 Laura Álvarez collaborated in this article during her stay at the Banco de España as research assistant.
 - 2 Only investments by natural persons are considered, since there is no information available on investments carried out by legal persons.
 - 3 Data collected from notarial acts registered in Spain. Most foreigners who purchase properties engage the services of notaries owing to their control of legality and to the legal security provided by a public deed (for further details, visit www.cienotariado.org).
 - 4 Persons who declare in the notarial act required to purchase a house that their primary residence is located abroad are non-resident foreigners.

Chart 1

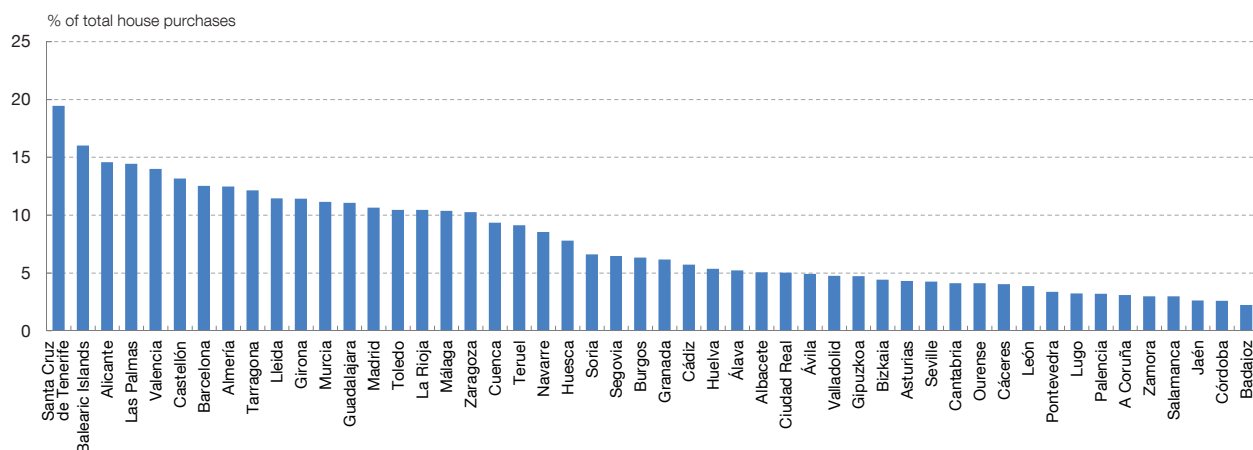
THE PARTICIPATION OF RESIDENT FOREIGNERS IN THE SPANISH REAL ESTATE MARKET HAS INCREASED

Resident foreigners in Spain increased their weight in the Spanish real estate market from the onset of the global financial crisis in 2008 until 2019. The main buyer nationalities, with activity in all the provinces but concentrating more strongly in the islands and in the Mediterranean coast, were associated with countries for which Spain is a significant immigration-receiving country.

1 HOUSE PURCHASES BY RESIDENT FOREIGNERS



2 HOUSE PURCHASES BY RESIDENT FOREIGNERS IN THE PERIOD 2014-2019 BY PROVINCE



SOURCES: General Council of Notaries, INE and Ministry of Transport, Mobility and Urban Agenda.

a Including Denmark, Norway and Sweden.

for 8% of total purchases by resident foreigners in 2019, while the relative weight of countries such as Italy or Romania increased, representing 8% and 12%, respectively, of total purchases by resident foreigners in 2019. Notable among non-EU countries are Morocco and China, with a share of 14% and 6%, respectively, in purchases by resident foreigners in 2019. Total purchases made by foreigners from the rest of countries outside the EU are also significant (27% in 2019).

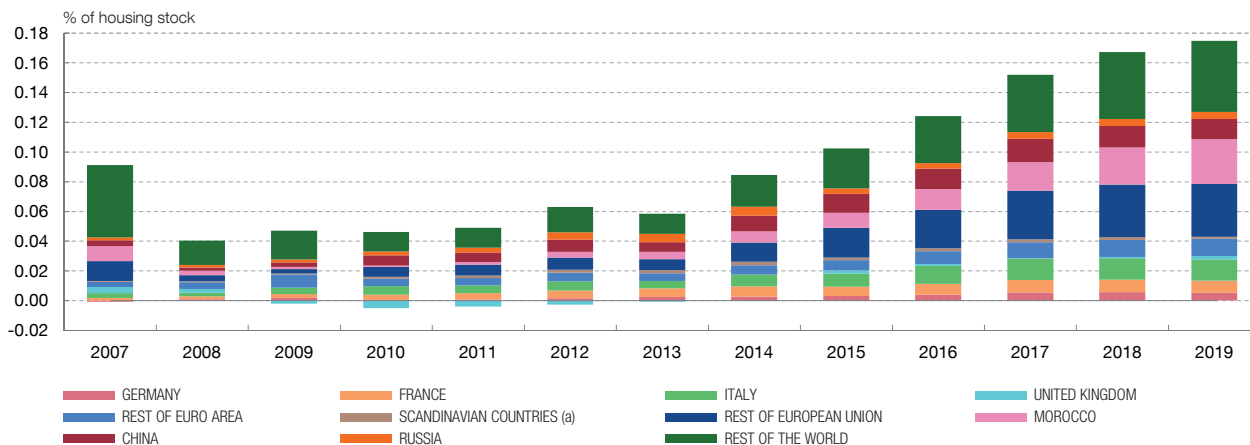
During the period of economic recovery (2014-2019), purchases by resident foreigners were distributed unevenly throughout Spain, mostly concentrating in the

Chart 1

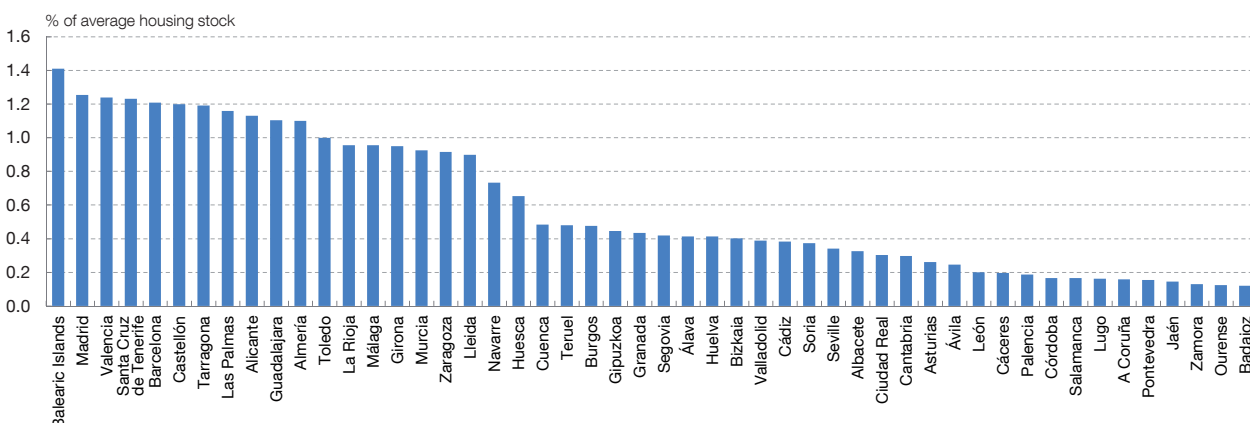
THE PARTICIPATION OF RESIDENT FOREIGNERS IN THE SPANISH REAL ESTATE MARKET HAS INCREASED (cont'd.)

Resident foreigners in Spain increased their weight in the Spanish real estate market from the onset of the global financial crisis in 2008 until 2019. The main buyer nationalities, with activity in all the provinces but concentrating more strongly in the islands and in the Mediterranean coast, were associated with countries for which Spain is a significant immigration-receiving country.

3 NET HOUSE PURCHASES BY RESIDENT FOREIGNERS



4 NET HOUSE PURCHASES BY RESIDENT FOREIGNERS IN THE PERIOD 2014-2019 BY PROVINCE



SOURCES: General Council of Notaries, INE and Ministry of Transport, Mobility and Urban Agenda.

a Including Denmark, Norway and Sweden.

archipelagos and in the Mediterranean coastal areas (see Chart 1.2). The highest weight was observed in Santa Cruz de Tenerife, where resident foreigners accounted for 19% of total house purchases in the province during this period, followed by the Balearic Islands (16%), Alicante (15%) and Las Palmas (14%).

The average price per square meter in transactions carried out by resident foreigners in the period from 2014 to 2019 was 4% higher than that relating to purchases made by Spaniards in the same period, a figure very similar to the average price difference between the two groups from 2008 to 2013, i.e. during the financial crisis (3%). However, there is considerable provincial disparity. Thus, while in most provinces

the average price per square meter paid by resident foreigners during the period of economic recovery was below that paid by Spaniards, in Santa Cruz de Tenerife, Barcelona and the Balearic Islands it was more than 10% higher. These differences probably reflect a different investor profile across provinces. High-income foreign investors who demand better quality housing in the more upscale areas are likely to have a greater weight in the Mediterranean coast and in the islands.

A second indicator to measure foreigner activity in Spain's residential real estate market is net purchases as a percentage of housing stock. As seen in Chart 1.3, this indicator also shows ongoing growth in net investment by foreigners resident in Spain during the phase of economic recovery. The positive sign of this indicator reflects that the stock of housing owned by resident foreigners has risen steadily since 2007, having accelerated from 2014. Thus, in 2019 net purchases by resident foreigners accounted for nearly 0.2% of the stock of housing, almost three times more than in 2013. In 2019 the share of EU countries and Norway in net purchases was 45%, with the weight of Romania (15%) and Italy (8%) standing out. Non-EU nationalities include most notably Moroccans, whose net purchases accounted for 17% of those made by all resident foreigners in 2019. In the case of the United Kingdom, its weight in net purchases has been declining over the last few years, in comparison with the behaviour of gross purchases. This is because the high number of purchases by the British has been accompanied by an equally substantial number of sales.

In line with the distribution by province of gross purchases by resident foreigners during the economic recovery period (2014-2019), there is also a high provincial dispersion in net purchases by resident foreigners (see Chart 1.4). In particular, the highest weights of net purchases relative to the housing stock were in the islands, the Mediterranean coast and the provinces of Madrid and Barcelona, with the maximum relating to the Balearic Islands (1.4%). Nonetheless, all the provinces showed positive signs of this indicator during the period. In other words, there were more purchases than sales of houses by resident foreigners in all of them.

Net investment by resident foreigners was positive despite the fact that during the period of economic recovery the contribution of foreigners to population growth was small or even negative in most provinces (see Chart 2). Positive contributions by foreigners to population growth were concentrated in the island provinces.

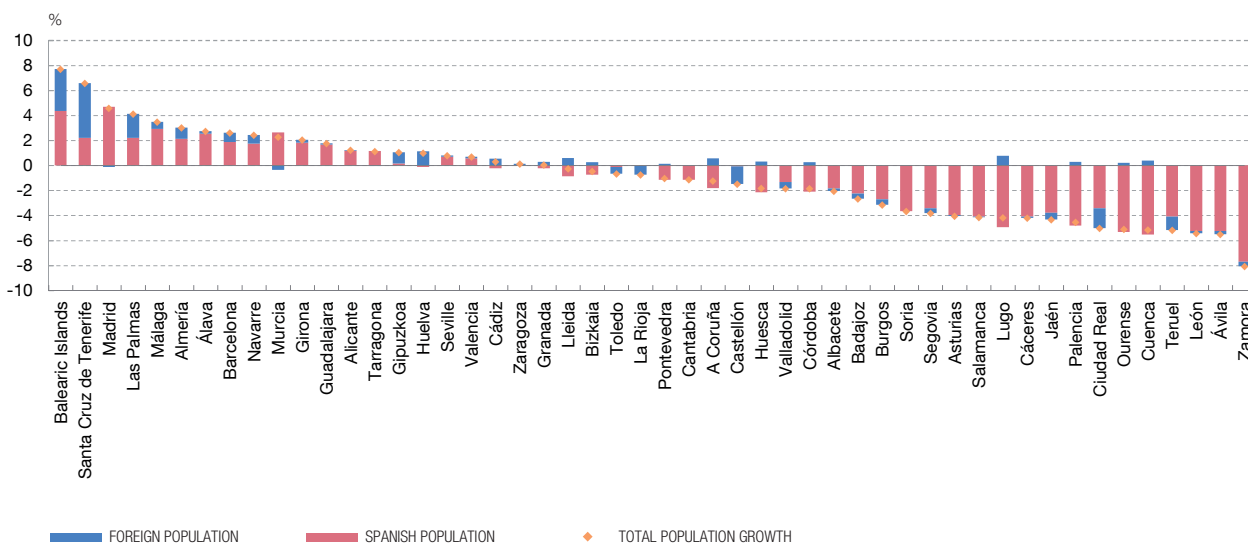
Activity of non-resident foreigners in Spain

As seen in Chart 3.1, house purchases by non-resident foreigners as a percentage of total house purchases in Spain, which represented 3.3% on average between 2007 and 2010, rose to a maximum of 10.5% in 2014. This percentage has declined gradually since then, to 7.8% in 2019. This lower weight in house purchases by non-

Chart 2

CONTRIBUTION TO POPULATION GROWTH BY PROVINCE BETWEEN 2013 AND 2019

Over the course of the recovery period the contribution of foreigners to total population growth was small or even negative in most provinces, with positive contributions concentrating in the island provinces.



SOURCE: INE.

residents during the recovery period contrasts with the positive changes observed previously in the group of resident foreigners. The bulk of these purchases relates to high-income European buyers. On average during the economic recovery period, 84% of purchases by non-resident foreigners related to EU citizens (including the United Kingdom) and Norway. Within this group, the British were the nationality with the highest proportion of purchases, accounting for 23% of purchases made by non-resident foreigners between 2014 and 2019. However, their relative weight decreased with respect to 2007, while that of other nationalities, such as Germans and the French (in both cases 12% of total purchases by non-residents in 2019), Belgians (10%) and Swedes (8%), increased.

During the economic recovery period, house purchases by non-residents varied widely in terms of location by province, concentrating, to a greater extent than those made by resident foreigners, in the islands and in the Mediterranean coast (see Chart 3.2). The location with the highest weight of purchases by non-resident foreigners was Alicante (38% of total purchases in the province), followed by Málaga (28%) and Santa Cruz de Tenerife (25%). In contrast, purchases by non-residents accounted for less than 2% of total house purchases in 35 out of the 50 provinces in Spain.

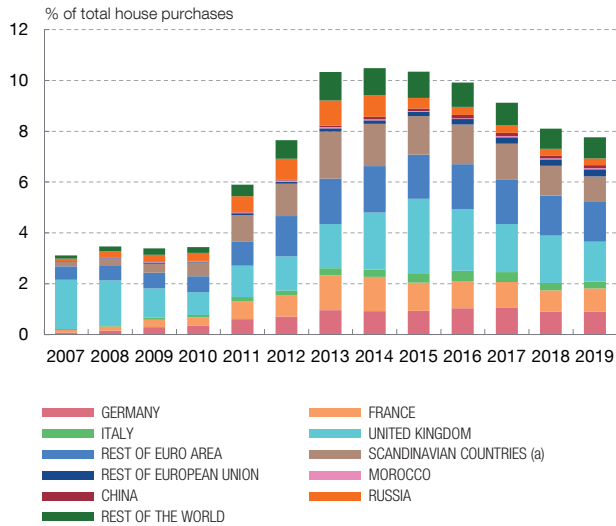
The average price per square meter in transactions carried out by non-resident foreigners during the economic recovery period was 46% higher than that for

Chart 3

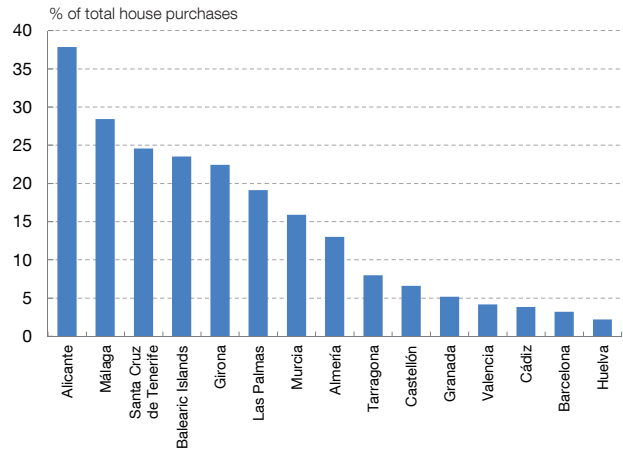
THE MAIN NON-RESIDENT BUYERS ARE FROM HIGH-INCOME EUROPEAN COUNTRIES

The activity of non-resident foreigners in Spain increased significantly until the start of the recovery period and decreased slightly until 2019. The main buyers are from high-income European countries and their investment was markedly concentrated in the Mediterranean coast and in the islands.

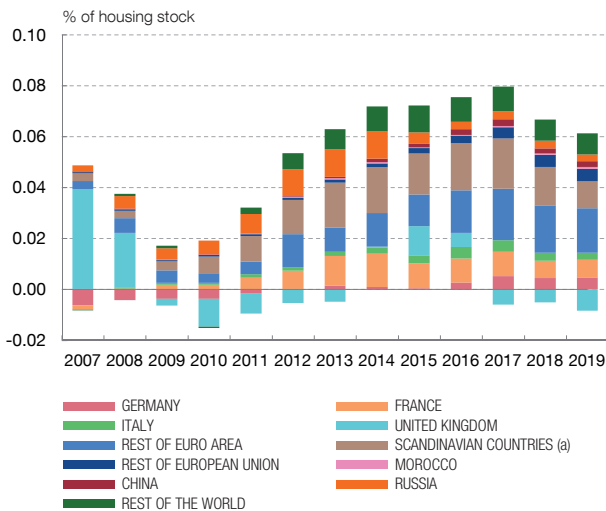
1 HOUSE PURCHASES BY NON-RESIDENT FOREIGNERS



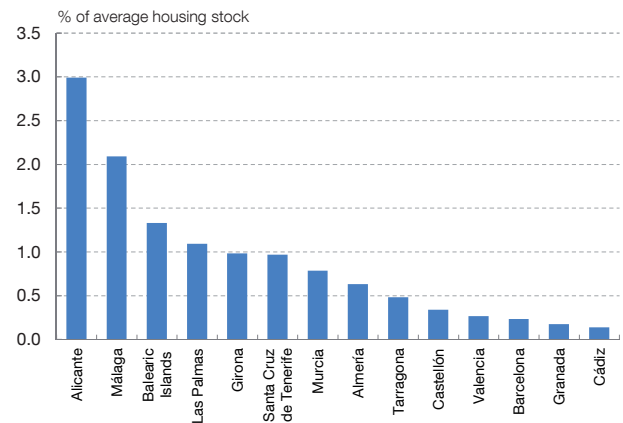
2 HOUSE PURCHASES BY NON-RESIDENT FOREIGNERS IN THE PERIOD 2014-2019 BY PROVINCE (b)



3 NET HOUSE PURCHASES BY NON-RESIDENT FOREIGNERS



4 NET HOUSE PURCHASES BY NON-RESIDENT FOREIGNERS IN THE PERIOD 2014-2019 BY PROVINCE (c)



SOURCES: General Council of Notaries, INE and Ministry of Transport, Mobility and Urban Agenda.

- a Including Denmark, Norway and Sweden.
- b Provinces with house purchases by non-resident foreigners as a percentage of total house purchases above 2%.
- c Provinces with net house purchases by non-resident foreigners as a percentage of the average housing stock above 0.1%.

purchases made by Spaniards, substantially widening the gap between the average prices corresponding to the two groups in comparison with the crisis period (from 2008 to 2013 (19%)). The regional heterogeneity observed in the number of transactions is also reflected in the average prices per square meter paid by non-resident foreigners relative to those paid by Spaniards. In particular, they were higher than the average prices paid for acquisitions by Spaniards in 26 provinces and lower in the rest.

In comparison with the net purchases by foreigners resident in Spain, net purchases by non-residents were much more sensitive to the economic cycle (see Chart 3.3). This procyclical behaviour is most likely related to the fact that non-resident foreigners' houses are acquired as second homes or investments rather than as primary residences, as is foreseeably the case in most transactions conducted by resident foreigners.

As in the case of gross purchases, net purchases by non-resident foreigners relate mainly to high-income European citizens. Within this group, the distribution by nationality has varied over time, with Belgium, Sweden and France as the major net purchasers in 2019. The British, which in 2007 were the nationality with the highest proportion of net purchases by non-resident foreigners in Spain, reduced home-ownership in Spain during the economic crisis initiated in 2008 against a backdrop of depreciation of the pound sterling, posting negative net purchases between 2009 and 2013. Although with the economic recovery net purchases by the British were once again positive, factors such as the uncertainty about Brexit, which was also reflected in the depreciation of the pound, may have led house sales by non-resident British citizens between 2017 and 2019 to exceed their acquisitions in Spain once again.

Between 2014 and 2019 net purchases by non-resident foreigners were mainly concentrated, as were their gross purchases, in the Mediterranean coastal provinces and in the islands (see Chart 3.4). The highest value was reached in Alicante, where 3% of the housing stock was acquired by non-resident foreigners, followed by Málaga (2.1%) and the Balearic Islands (1.3%). Also, during the economic recovery period, unlike the case of net purchases by resident foreigners, which were positive in all the provinces, non-residents' sales were slightly higher than their purchases in 29 provinces.

Impact of foreign real estate investment on house prices

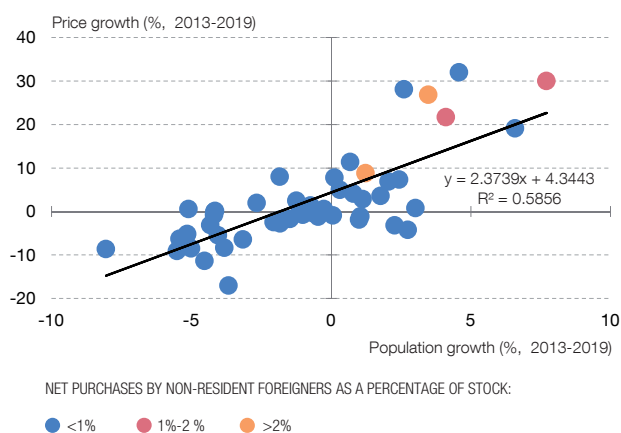
In order to assess the impact on house prices of foreign investment in the Spanish residential market, a regression analysis of house price growth during the recovery period has been conducted for Spain's 50 provinces on net purchases by non-resident foreigners relative to the housing stock and other controls. The dependent variable is

Chart 4

HOUSE PRICES HAVE GROWN MORE IN THE PROVINCES WHERE THE POPULATION HAS INCREASED

There is a strong positive correlation between population growth and house price growth. The impact of population growth on prices is more pronounced in areas with higher population density. The effect of net purchases by non-resident foreigners on house prices is not statistically significant.

1 HOUSE PRICE AND POPULATION GROWTH



2 EXPLANATORY VARIABLES IN HOUSE PRICE GROWTH (a) (b)

	(1)	(2)
Net purchases by non-resident foreigners	2.55	2.44
(standard error)	(2.26)	(1.68)
Population growth	2.12***	1.07***
(standard error)	(0.43)	(0.29)
Population growth * population density * population growth >0		0.01***
(standard error)		(0.00)
Change in unemployment rate	-0.13	-0.21
(standard error)	(0.31)	(0.24)
Constant	1.99	-2.02
(standard error)	(3.78)	(2.73)
Number of observations	50	50
R ²	0.60	0.77

SOURCES: General Council of Notaries, National Geographic Institute, INE and Ministry of Transport, Mobility and Urban Agenda.

- a The results shown relate to the OLS estimation coefficients for two alternative specifications of house prices in each province between 2013 Q4 and 2019 based on a set of explanatory variables. These include net purchases by non-resident foreigners over the course of the 2014-2019 period as a percentage of the average housing stock in that province and period, population growth, change in the unemployment rate, and interaction between population growth and average population density, measured as the number of inhabitants per square kilometer, between end-2013 and 2019. The standard errors of the coefficients estimated are shown below each coefficient, within brackets.
- b * significant coefficient at 90%, ** at 95%, *** at 99%.

the growth of the nominal house price series of the Ministry of Transport, Mobility and Urban Agenda at provincial level. Up to three control variables are included. First, population growth is considered, since this is a key determinant of house prices, as suggested by the strong positive correlation between the two variables observed in Chart 4.1. According to this chart, even if the population effect is taken into account, provinces with a greater relative volume of net purchases by non-resident foreigners appear to have experienced higher growth in house prices, since they mostly stand above the regression line. Second, for the purpose of including a non-linear effect of population growth on house prices, the interaction of population growth with population density in provinces where the population has grown between 2014 and 2019 is considered as an additional variable. The underlying hypothesis is that population growth will have a greater impact on house prices in areas with high population density, since the housing supply cannot absorb increases in demand so easily. This argument is not symmetrical when the population declines and, consequently, it is only included in the provinces which experienced population growth. Finally, the change in the unemployment rate is added to control for the economic cycle.

Chart 4.2 shows the results of this exercise. The coefficients of all the control variables, except for the change in the unemployment rate, have the expected signs

and are statistically significant. Also, in the second specification (second column) the hypothesis that the impact of population growth on prices is greater in provinces with a higher population density is confirmed. In the two specifications, the coefficient of the variable net purchases by foreigners to the housing stock is positive, but it is not statistically significant at the standard confidence levels.⁵

This evidence does not appear to support the hypothesis that non-resident foreigners have contributed to the rising house prices in Spain in recent years. These results, however, need to be taken with caution, since net purchases by non-residents are concentrated in a few provinces and there is a high correlation between total population growth and the volume of net purchases, making it difficult to identify the effect. It should also be borne in mind that, owing to the lack of information, the analysis does not include transactions conducted through legal persons, such as investment companies, although these vehicles mainly concentrate their activity in the non-residential market.

In any event, the high correlation between house price growth and population growth suggests that the increase in foreign-born residents in certain provinces, particularly in the islands, may have contributed to increases in house prices through its effect on the demand for property.

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⁵ Very similar results are obtained using net purchases by both resident and non-resident foreigners.