
The housing market in Spain

The authors of this article are Jorge Martínez and M^a de los Llanos Matea, of the Banco de España Research Department.

1. INTRODUCTION

In Spain, more than 80% of families live in their own house. Real estate accounts for between 60% and 70% of Spanish households' total assets (1) and for the collateral of a most sizable proportion of their liabilities. Moreover, residential investment accounts for 7% of GDP. The workings of the housing market and house prices thus have notable consequences for the growth of the economy. On the demand side, residential construction is the main component of the construction industry, and the wealth effects on household expenditure arising from movements in house prices are potentially very relevant. On the supply side, an inadequate working of this market may bear significantly on job mobility and on the formation of wage costs. Further, from the monetary policy standpoint, the housing market plays a fundamental role in the transmission of monetary impulses, given the influence of interest rate movements in housing supply and demand conditions.

The cyclical movements characterising this market, which affect both its prices and rate of activity, are therefore important for the functioning of the economy. For several years, the housing sector of the Spanish economy has been in a clearly expansionary phase (as in other developed economies), in which value added and prices have grown at notable rates. The aim of this article is to study the housing market over the past two decades, presenting the analytical information and elements needed to explain its recent behaviour.

The article is structured as follows. After the introduction, section 2 describes changes in the number of houses and their prices in Spain. The following sections analyse the main factors that have influenced this. Hence, firstly, section 3 reviews the main changes and characteristics of the regulatory framework for housing (tax treatment, land use and rental regulations, public promotion policies, etc.). Next, sections 4 and 5 respectively consider the demographic and economic factors underlying the behaviour of the housing market in Spain. Finally, section 6 draws the main conclusions of the paper.

(1) According to the estimates by Naredo and Carpintero (2002).

TABLE 1

Housing stock and types of dwelling

	1981	1991
Total dwellings	14,726,134	17,206,363
PERCENTAGE BREAKDOWN BY TYPE OF DWELLING:		
Primary	70.8	68.2
Secondary	12.9	17.0
Unoccupied	16.3	14.4
Other	—	0.4

Source: Instituto Nacional de Estadística (housing censuses).

2. CHANGES IN THE NUMBER OF HOUSES AND THEIR PRICES

As the information from the last two censuses (1981 and 1991 — see Table 1) shows, the increase in the number of dwellings in this period was notable. Recent estimates (2) suggest it may have reached around 20 million in 2001. Between 1981 and 1991 there was, moreover, a change in the distribution of types of housing, with the weight of primary homes diminishing and that of secondary homes increasing. At the same time, the proportion of unoccupied houses fell slightly, but held at a high percentage of over 14% in 1991. Since then, the difference between the growth rates of housebuilding and of the number of households suggests that the importance of secondary homes must have heightened in recent years. Thus, in Chart 1 (3) it can be seen how the difference between the number of housing starts and the increase in households has widened recently. Between 1980 and 1994, on average, 58% more houses than those strictly needed to meet the demand for new homes were constructed, while between 1995 and 1999 (4) and between 2000 and 2001, the respective figures were 82% and 152%.

(2) See Rodríguez (2001) and La Caixa (2001).

(3) This Chart uses housing starts as an indicator of the number of houses placed on the market because the information on finished housing understates the number of houses constructed, since not all finished houses are approved. Generally, the lag between the start and completion of a house is approximately one and a half years, but at times of surging demand for new housing (as in recent years) this period usually shortens. Consequently, in the comparison made in Chart 1, the housing starts series is shown with a lag of one year.

(4) The year 1996 has been excluded from the sub-period because the house data for that year were much affected by the methodological change to the Spanish EPA (Labour Force Survey).

CHART 1

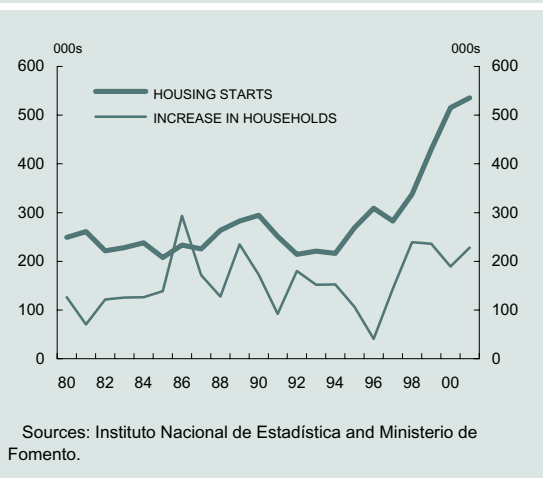
Increase in the number of households and housing starts in t-1

Table 2 provides information on house tenure by primary home. Despite the differences in the percentage shares shown by the two statistical sources used in preparing this table (the housing census and the Household Expenditure Survey), two essential features are discernible: the predominance of owner-occupied housing (85% in 2001, according to the Survey) and, at the other end of the scale, the limited weight of rented housing (9%). The progressive polarisation of this situation over time means that Spain is one of the countries with the highest proportions of owner-occupied housing.

Since 1997, the rate of housebuilding has progressively quickened. Indeed, in the period 1999-2001 the number of housing starts was over half a million per annum, compared with a rate which had varied between 200,000 and 300,000 in prior years (see Chart 1). In the latest expansionary cycle the increase in housing starts has been a widespread phenomenon throughout national territory, although by far the biggest growth has been in the islands and on the coast. That indicates once more the importance of secondary homes in this cyclical phase, including non-resident investment.

With regard to house prices, the analysis is based on the information on the price per square metre. Although this indicator does not adjust for all the differences in house characteristics that may bear on house prices (5), it does reflect, ap-

(5) It should be borne in mind that housing is not a uniform good but varies in terms of its location, size, structure (detached dwellings, blocks of flats, etc.), quality of construction, etc. Likewise, the characteristics change over time. Consequently, the average price of new houses or of the houses existing at each point in time is an indicator that may incorporate biases of some significance, which are only partially corrected when price is expressed in terms of useful surface area.

TABLE 2

House tenure by primary home (%)

	Housing censuses		Household expenditure survey		
	1981	1991	1985	1991	2001 (a)
Owner-occupied	73.1	78.3	76.0	79.3	84.7
Rented	20.8	15.2	17.1	13.5	9.3
Free let	3.1	4.5	6.9	7.2	6.0
Other	3.0	2.0	—	—	—

Source: Instituto Nacional de Estadística.
(a) Provisional.

proximately, the main trends over time (6). Chart 2 depicts the average price per square metre of appraisal-value housing nationwide (this information is only available as from 1987), and of new housing in the city of Madrid (with data available since 1976). The two series show a similar pattern, moving on a rising trend (Chart 2.A), but not uniformly over time. Indeed, following a period of strong growth between 1986 and 1991, there was a phase of moderate and even negative growth (Chart 2.B). In real terms, the declining prices ran from 1992 to 1996. However, in nominal terms, declines were confined to the years 1992 and 1993, with more pronounced reductions observable in the prices of new houses than those of second-hand ones. A fresh expansionary phase in the property market began in 1997, with price increases which, between 1998 Q4 and 2001 Q4, totalled 48%. This increase is, at least so far, less than that seen in the previous expansionary cycle and should be set against an international background of price rises on other property markets. Nonetheless, the increases recorded in Spain in recent years have been amongst the sharpest in the OECD [see BIS (2002)].

In the latest property cycle, prices have risen in a generalised fashion throughout national territory, unlike in previous cycles when there was a more marked positive relationship between the intensity of the rises and the size of the municipality. Further, comparing what has happened across municipalities of a similar size, house price rises have been greater in small coastal locations than inland (see Chart 2.C). Possibly, this is also reflecting the greater intensity of the demand for secondary homes. Finally, in the current cycle, price increases for new housing and second-hand homes are proving similar, irrespective of the size of the municipality.

(6) Bover and Velilla (2001) make an estimate of the impact of the change in quality on prices per square metre of new housing developments in Spain in the period 1993-1997, estimating this impact to be over 2%.

As to rent prices, Chart 3 shows that, until 1987, the related growth rates were less than those of the overall CPI index; accordingly, they diminished in real terms. Conversely, from 1988 onwards they systematically outpaced the overall index, a development related to the regulatory changes that will be discussed below.

3. REGULATORY FRAMEWORK

In the housing sector, numerous aspects are regulated, namely: land supply, rents, terms of access to financing and tax treatment. Outlined below are the most significant changes that have taken place in this area (7) in the last 20 years.

Regarding the regulation of land use, the central government has made several changes in recent years in order to raise the available supply of buildable land. However, the implementation of these changes is the responsibility of the regional and local governments, whose remit covers town planning and land management. Among the measures mentioned, 1996 saw land classification simplified (8) and the percentage that property developers have to cede (9) obligatorily to municipal town councils reduced from 15% to 10%. And this proportion could be further cut by the regional governments. Subsequently, in 2000, regional government regulations provided for the possibility of private initiative promoting the transformation of buildable land into developed land, and administrative formalities were lessened. Regional

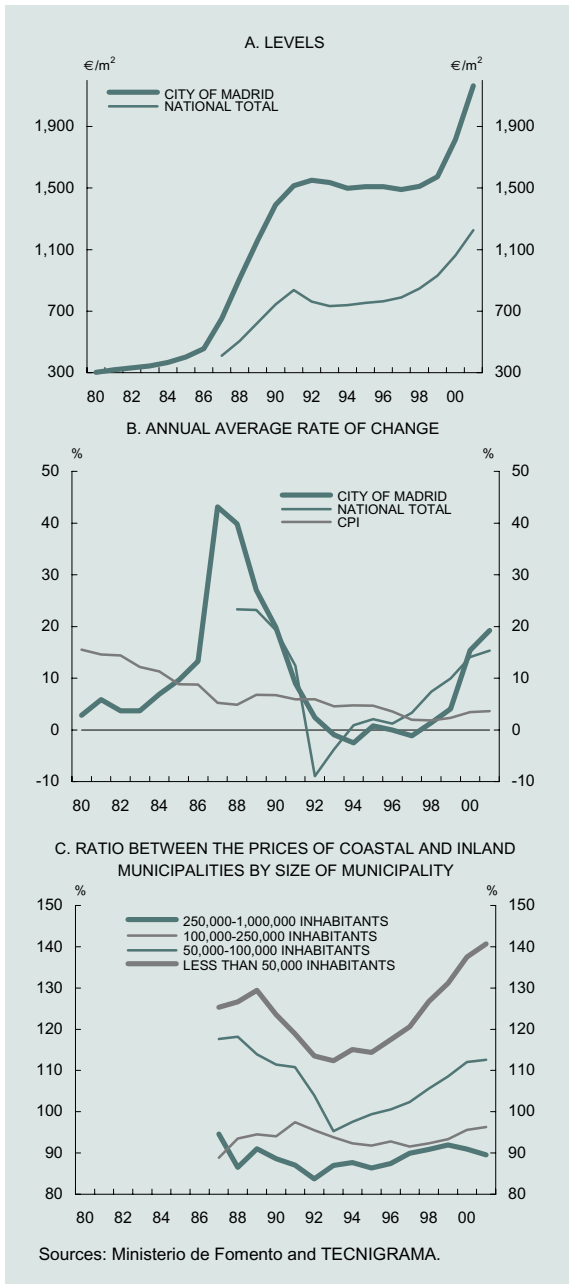
(7) The financing of house purchases, however, is addressed in section 5.

(8) The distinction between earmarked and non-earmarked buildable land was removed, with all buildable land becoming earmarked.

(9) The cession should be made by the owners of buildable land and developed land without a consolidated development. However, unlike what was the case until then, land need not be assigned for developed land with a consolidated development (construction sites) or, since 1997, for reforms, renovation or improvements.

CHART 2

Average price of new houses (per m²)



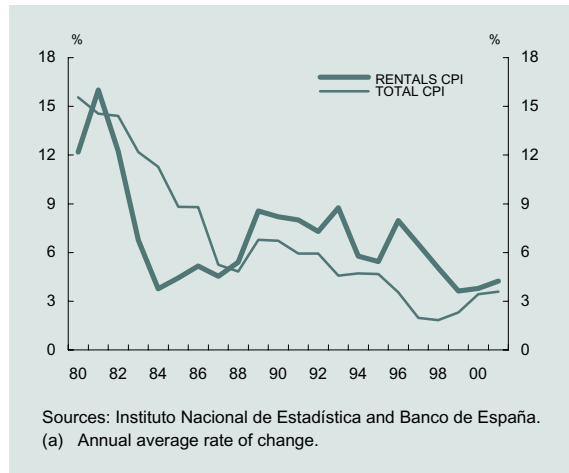
governments, for their part, are introducing the figure of the land development agent (10) into their laws. As a result, town councils may commission the development of land not belonging to it to these agents (11) within a period ranging from one to three years, according to the regional government in question. In this way, the

(10) The Valencia region was a pioneer in this respect.

(11) Included under development works are those relating to road layout, sanitation, water and electricity supply, and landscaping. Irrespective of who carries out this work, financing should be by the owners of the land.

CHART 3

Rentals CPI and total CPI (a)



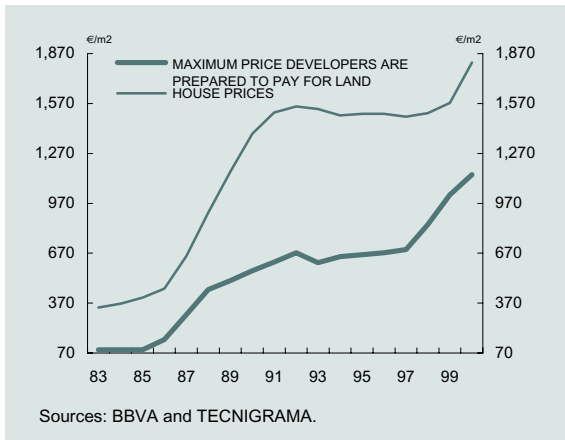
placing of new sites on the markets is simplified, since development is decoupled from land ownership rights.

Despite these changes, town planning regulations contain elements that restrict the supply of land, while the process to make it available as buildable land remains slow, complex and uncertain. This has been seen in the substantial rise in land prices at times of high demand, with this affecting house prices. Chart 4 depicts new house prices for the city of Madrid and an approximate indicator of the price of land in Madrid (an estimate of the maximum price developers are prepared to pay for land). This indicator is obtained by deducting the current value of construction, promotion and financing costs, along with the related profits and overhead costs, from the maximum potential sale price of the building. As the chart shows, the high growth of house prices in the latest expansionary phase must have incorporated a substantial rise in the price of land.

Another instrument used to influence the housing market and, ultimately, to provide for readier access for the underprivileged to housing, turns on housing schemes. Such schemes establish means-tested assistance for house purchases, and maximum sale prices are set for housing subject to official protection. The schemes also envisage financial assistance for restoration work and for rented housing. Municipal town councils and regional governments regulate the land obligatorily set aside for subsidised housing, along with the obligatory cession of residential land earmarked for such housing. One notable development has been the loss in the weight of officially subsidised housing compared with privately promoted housing; from accounting for around 60% of housing starts in the

CHART 4

Maximum price developers are prepared to pay for land and new house prices in the city of Madrid



first half of the eighties, the share of the former had fallen to somewhat less than 10% in 2000 and 2001 (see Chart 5). This is probably due to the diminished return on investment in the construction of subsidised housing, at times of strong rises in prices on the market.

As regards taxation, the tax benefits encouraging house purchases have generally tended to diminish over time, with respect both to new houses for secondary residence (12) and primary abode (13). Further changes were introduced in 1999, with the tax arrangements for housing standing as they are outlined in Table 3 (14). Despite these amendments, owner-occupied housing remains one of the most favourably treated assets under the Spanish tax system, owing to the absence of imputed income, to personal income tax allowances and to assistance under the terms of housing schemes and the tax treatment of house-purchase-saving ac-

(12) Thus, whereas it was possible between 1985 and 1987 to deduct for tax purposes investment in an unlimited number of such houses, in 1988 and 1990 this deduction was restricted to the purchase of a single secondary dwelling, and in 1991 this tax benefit was removed altogether. The deduction for the investment as a whole, including life assurance and donations, was limited to 30% of the net tax payable.

(13) In 1983 the maximum deduction was limited to 30% of the net tax payable. Prior to that date there was no such limit.

(14) That year saw the elimination from personal income tax of the income imputed to the primary abode (previously, 2% of the property's officially assessed value was generally charged) and the ceilings on deductions for the purchase of a primary dwelling were altered, as well as being concentrated in the net tax payable section of the return. The period in which the purchase of a house has to be made in order to be able to apply a 15% personal income tax deduction for the amounts deposited in a house-saving account was also cut from five to four years in 1999, and the rent deductions for which tenants had qualified from 1993 to 1998, inclusive, were also eliminated.

CHART 5

Housing starts: officially subsidised housing as a percentage of the total



counts. Consequently, tax considerations continue to encourage buying as opposed to renting a house. And this has undoubtedly been conducive to owner-occupancy. However, this might be altered to some extent in the forthcoming personal income tax reform, as mentioned below.

As regards the legislation on rentals, there were substantial changes in 1985 and 1995. Until 1985 leases were for an indefinite term, the lease could be subrogated upon the death of the tenant both to spouses and descendants and ascendants and the level of the rental was fixed freely between the parties. However, rentals could only be updated to cover certain expenses. This, together with compulsory subrogation, meant that a large number of leases had very low rentals. This regulation was clearly unfavourable to the lessor and was a disincentive to the supply of rented housing. In May 1985 the situation was changed radically for new agreements by a new law under which rentals were set freely between the lessor and the lessee. However, the co-existence of two different regulations –one for old leases and another for new ones– gave rise to a significant segmentation of the rentals market: on one hand were leases with successive compulsory extensions at very low rentals, and on the other leases with minimum terms and very high rentals, owing to the scant supply of rented housing.

In order to boost the urban rented-housing market and to overcome market fragmentation, a new law was enacted. This amounted to a compromise between the two previous ones and it came into force on 1 January 1995. Specifically, the new law maintains certain restrictions in favour of the lessee, establishing a minimum term for leases of five years, at the tenant's option,

TABLE 3

Tax treatment of housing

	Primary abode	Other non-leased dwellings	Leased dwellings
CHARGES			
Purchase	New dwelling: 7% VAT and approximately 0.5% stamp duty (a). Second-hand dwelling: 6% property transfer tax.		
Ownership: Income for purposes of taxable income per personal income tax	None.	2% of the higher of officially as- sessed property value and cost, or 1.1% of the officially assessed prop- erty value if revised after 1-1-1994 or 50% of the value for the purposes of wealth tax.	Rent.
Ownership: Other taxes	Wealth tax for value exceeding €150,253.	Around 0.6% for property tax (a).	Wealth tax.
Transfer	Transaction subject to tax on increase in urban land value (b).		
	Reinvestment of the capital gain gen- erated is tax-exempt. If it is not rein- vested and if the capital gain has arisen in the space of one year, the personal income tax marginal rate is applied or a rate of 18% is levied if it has arisen over a longer period (c).	The capital gain generated in one year is taxed at the personal income tax marginal rate or at 18% if it has arisen over a longer period.	
SUBSIDIES			
Purchase: personal income tax deduc- tions	From personal tax payable (d): — House-purchase-saving account: 15% of the amounts deposited, up to €9,015.18 (e). — Without borrowed funds (f): 15% of the investment up to €9,015.18. — With borrowed funds (f): a) first two years: 25% of the in- vestment up to €4,507.59 and 15% of rest of investment up to €9,015.18. b) following years: 20% of invest- ment up to €4,507.59 and 15% of rest of investment up to €9,015.18.	None.	Taxable income under personal in- come tax: interest payments with a ceiling set at same level as gross in- come for tax purposes.
Ownership: personal income tax deduc- tions	None.	None.	Personal income tax base: a) maximum of 2% for depreciation of property (except land). b) property tax, local charges, main- tenance expenses, insurance, community charges, etc.
Source: Compiled by authors.			
(a) The rate need not be the same nationwide as it has been assigned to Regional or Local Governments.			
(b) Freely set by municipal authorities. Its average rate is around 26%.			
(c) The sale of the primary abode by those aged over 65 is not taxable.			
(d) Investment includes the amounts paid, expenses and, where appropriate, loan repayments, interest and the attendant expenses.			
(e) Conditional upon the first primary abode being purchased within four years from account being opened.			
(f) The disabled also qualify for deductions for house adaptation and alterations under the same conditions as primary-dwelling purchases, but with brackets of €6,010.12 and €12,020.24.			

while the lessee is only required to agree to a minimum term of one year. The initial price is agreed between the parties, but for the remaining four years of the minimum term the rental is updated in accordance with the year-on-year rate of the CPI. Also, the compulsory extension of old leases was eliminated except in the case

of first descendants, and certain mechanisms to bring old rentals into line with market rentals were established. Finally, it should be recalled that under the personal income tax reforms scheduled to become effective in 2003, several tax changes are envisaged to encourage housing to be placed on the rental market.

4. DEMOGRAPHIC FACTORS

As regards the determinants of the demand for housing, changes in population play a primary role. In this respect, the Spanish population has undergone substantial changes in recent years. The birth rate fell heavily from the mid-seventies, adversely affecting the growth of the total population. However, this has not yet had a significant impact on the housing market; for that to happen, the generation born since 1975 has to reach the age when they will leave their homes and set up their own, and this is still largely an unfinished process (15). In fact, during the nineties, the number of young people becoming potential house-seekers was in excess of 600,000 per year. In any event, note that the impact the reduction in the birth rate may have on the housing market in the coming years could be checked, at least in part, by the strong inflow of immigrants seen in recent years.

The latest population projections made by INE, prior to the 2001 Census, showed in fact an increase in the growth rate of the Spanish population. This was partly the outcome of a slight pick-up in the birth rate, but was above all due to the heavy inflow of immigrants. Early data from the new Census indicate that the number of residents in Spain in 2001 could exceed the prior projections by approximately 400,000. That would mean that the Spanish population would have risen from 1991 to 2001 by 1,975,103 inhabitants, far higher than the increase of 1,126,008 inhabitants recorded the previous decade.

Adding to the demand for housing arising from residents in Spain is that for secondary homes by foreign residents, which has increased notably in recent years. The balance of payments data on foreign investment in property show annual average growth of 31% in the last eight years. These data reflect both the demand for housing for residential motives and the demand for housing and other property as an alternative means of investment.

Lastly, there have also been changes affecting the structure of Spanish households, reducing the average number of inhabitants per home and thus bearing on the demand for housing. Hence, on one hand, increased life expectancy has translated into a higher number of households made up of one or two adults and without children (16). On the other, the average

number of children per woman has fallen and the number of single-person households has increased (17). As a result, the average number of inhabitants per household dipped from 3.51 in 1987 to 3.04 in 2001 for total households, and from 3.80 to 3.42 over the same period for households comprising more than one person.

The aforementioned demographic factors have influenced recent changes in the number of households in Spain. According to EPA (Spanish Labour Force Survey) data, an average of 155,000 households per year have been created in the last two decades. Nonetheless, in the short and medium run the number of households is also affected by economic factors. In recessionary phases, worsening economic conditions hamper the formation of new households and may delay this process. Conversely, in upturns the process accelerates, and there may be a pick-up in the demand for first houses, this having been repressed in prior years by economic conditions. In Spain's case, the number of households grew at a rate of 150,000 per year between 1986 and 1992 (a period of expansion), signifying 0.46 new households for each new inhabitant aged over 20. Between 1993 and 1997 (a downswing) the number of households grew by only 121,000 per year, i.e. 0.34 new households for each new inhabitant aged over 20. Finally, from 1998 to 2001 (a new expansionary phase), the EPA data revealed an average increase of 209,000 households per year, 0.51 for each new inhabitant aged over 20 (18). These developments highlight the significance of economic factors as determinants of the demand for housing, an aspect which is analysed in the following section.

5. ECONOMIC FACTORS

The importance of income as a determinant of the demand for housing is patent when housing market cycles are compared with the business cycle in general. Phases of highest growth in the economy and, therefore, in household income (1986-1991 and 1997-2001) coincide with the periods of highest house price rises and construction volumes. In the long run, the growth of real income exerts pressure on the limited supply of land, potentially generating a rising trend in real land and house prices.

(17) This is the case both for single-person households made up of inactive people (a rise from 8% of the total in 1987 to 11% in 2001) and active labour force participants (a rise from 2% to 4.4%).

(18) Something similar –though less marked– occurred with the number of marriages. Between 1986 and 1992 there were on average some 217,000 marriages. From 1993 to 1997, this figure fell to 199,000, rising again to 210,000 between 1998 and 2001.

(15) The average marrying age rose from 24.9 in 1980 to 27 in 1990 and again to 29.5 in 1998.

(16) According to the EPA (Labour Force Survey), households in which no member is part of the labour force have risen from 23% of the total in 1987 to 29% in 2001.

CHART 6

Real household income and wealth

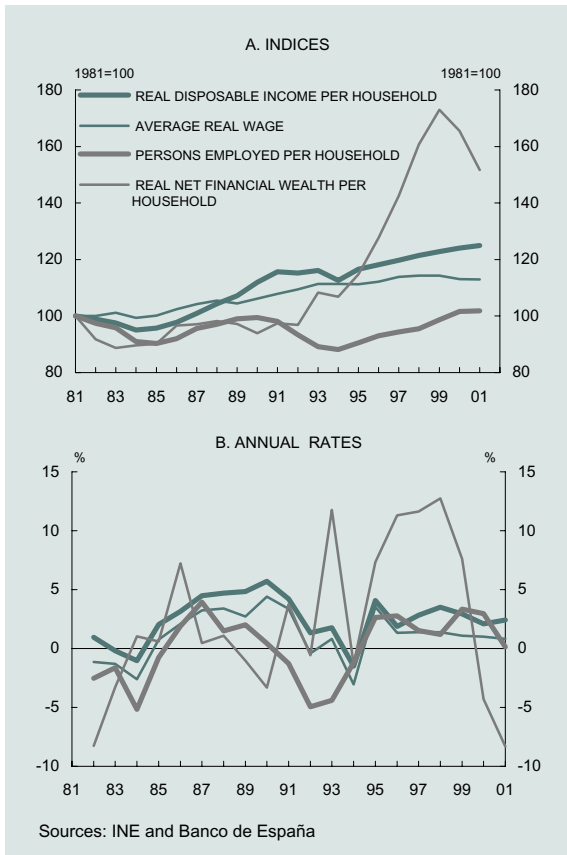
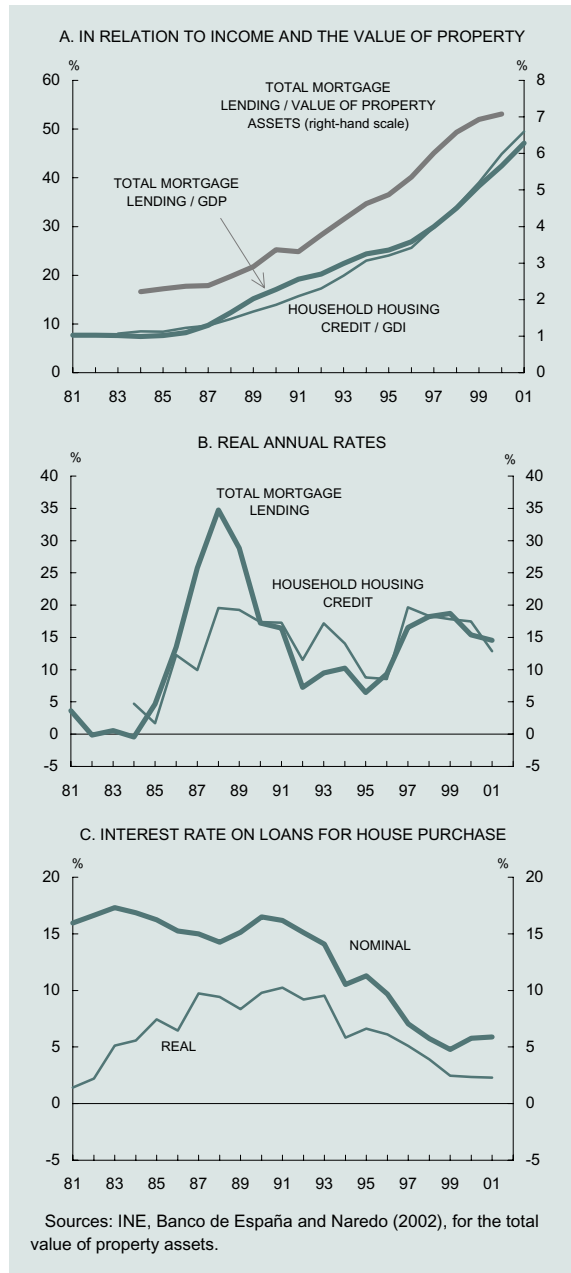


Chart 6.A shows the growth of the average real disposable income of Spanish households in the past twenty years. The related cumulative growth is 25%, the result both of the rise in real average wages (13%) and of the increase in other non-wage income. Conversely, the number of occupants per household (the behaviour of which is markedly cyclical) stood in 2001 at a similar level to that in the early eighties. However, this latter factor is highly influenced by the reduction in the average number of household occupants and by the increase in households comprising inactive people, as mentioned in the preceding paragraph. Analysing exclusively households with at least one active member reveals a growing weight of those with two or more wage incomes (job-holders); in 2001, these exceeded the number of households with a single source of income (47.6% and 47.1% of the total, respectively). It is therefore likely that the changes in the income of new households (made up of youths belonging to the labour force) have been even more favourable than those of total households on average.

In recent years wage restraint has made for average growth in real wages that has been sustained but modest when compared with that posted in the previous expansionary phase

CHART 7

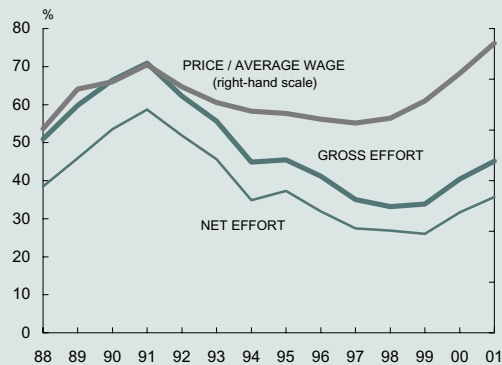
Mortgage lending



from 1986 to 1991 (see Chart 6.B). However, employment has increased notably, which has made for a significant reduction in the youth unemployment rate. This composition of the growth of total household income has proven conducive to the demand by first-time buyers in this latter expansionary phase compared with the previous one. A further notable feature of recent economic developments is the strong growth of real net financial wealth per household; despite a heavy fall in the past two years, this variable still stood in 2001 at over 50% above the level in the early nineties. Evidently,

CHART 8

Affordability of housing



Source: Ministerio de Fomento

the distribution of such wealth is not uniform, so its impact on purchasing power will vary greatly from one household to another.

Among the economic factors explaining the demand for housing, the availability and cost of financing are particularly important, since the price of a house is more than four times the total annual wage of an average family.

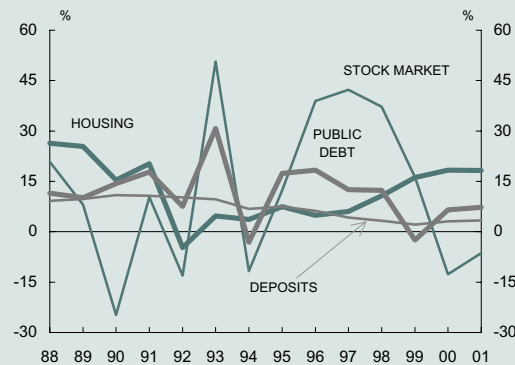
In this respect, the mortgage market and house financing have changed radically in the past twenty years. The deregulation of the financial system, in general, and of the mortgage market, in particular, coupled with the emergence of new securitisation possibilities and heightened competition between banks have undoubtedly led to mortgage credit supply that is wider and more flexible (in terms of maturities and payment conditions). Moreover, the attainment of high levels of price stability and, once again, competition between banks, have substantially reduced financing costs (see Chart 7.C) (19). The outcome has been an exponential increase in both total mortgage credit (extended to households and firms) and in credit to households (not only mortgages) for house purchases. The latter has risen from accounting for less than 10% of the gross disposable income of households in the first half of the eighties to 50% in 2001 (see Chart 7.A). It is worth noting that mortgage credit in relation to the total value of real estate in the Spanish economy (20) has also

(19) In this respect, the reduction in nominal interest rates has proven as important as that in real interest rates. This is so because, for a same real interest rate level, the higher the nominal interest rate, the greater the real credit burden in the initial years of the loan's life and, therefore, the lesser the possibility of an average household assuming such a burden.

(20) Estimated in Naredo and Carpintero (2002).

CHART 9

Annual return on alternative investments



Source: Banco de España .

shown sustained growth in recent years, albeit standing at very low levels, as was to be expected, given the long average life of property, which is far greater than the average term of credit.

Both total mortgage credit and credit extended to households for house purchases have grown at significant real rates in recent years (at over 15% to 2001), thanks largely to the heavy fall in mortgage interest rates. This decline has meant that the effort an average household has to make to pay mortgage loan instalments has diminished considerably (21). No doubt also contributing to this has been the availability of loans at longer maturities. Spanish households are thus now in a position to incur higher levels of debt and, therefore, pay higher house prices. Against this, their exposure to adverse movements in interest rates, income or house prices is higher. Chart 8 shows how recent rises in the average price of housing have placed house prices at almost six times the annual wage of an average household, above the peak reached in the previous upturn (22). Nonetheless, in terms of the effort (gross and net of taxes) required to pay the instalments of a typical mortgage loan at 15 years, financing 80% of the purchase of a dwelling with 93.5 square metres of constructed surface area, housing is now more affordable. In 1991, an instalment of this hypothetical mortgage loan would have represented 59% of the average wage, net of taxes. In 1999, this figure had fallen to 26%, though it has risen in recent

(21) Defined as the proportion accounted for by the mortgage loan instalment payable in relation to disposable wage income, calculated before or after taxes.

(22) The same result is obtained when gross disposable income per household rather than average wages is used for the comparison.

years (reaching 36% in 2001) as a consequence of the increases that have taken place in the market price of housing.

A final element contributing to the demand for housing is the return on housing relative to other alternative forms of investment. Houses are not only purchased for use and enjoyment but, like any other asset, they form part of an investment portfolio. Although this type of demand may not be so important in Spain as in other countries, owing to the lack of development of property investment funds and companies and the regulatory distortion of rentals, its impact on the recent development of the housing market must also be significant. In fact, in the decision to purchase a house, especially in the case of secondary homes, it is difficult to separate residential from portfolio-investment motives. The sharp increases in house prices and expectations concerning future trends, along with the adverse behaviour of other alternative forms of investment (see Chart 9), may therefore have contributed notably to the growth in the demand for housing in Spain in recent years.

6. CONCLUSIONS

The Spanish housing market has seen significant developments in recent years, with potentially important implications both for the economy as a whole and for economic policy.

In comparison with the last property cycle, the rate of housebuilding has been much higher, indicating a stronger and more rapid supply-side response. This high rate has, moreover, coincided with a loss of importance of housing subject to official protection. As regards land, although there have been certain measures to increase supply, town planning laws still contain elements that restrict the availability of this factor.

The cumulative increase in house prices is still lower than during the previous upswing (in the late eighties). However, in 2001 prices already exceeded previous highs, both in real terms and as a percentage of income, without any clear signs of deceleration in their rate of increase.

Most of these developments can be explained by income growth and demographic factors, but it is necessary to resort to other factors to explain them all. The favourable tax treatment of housing and the decline in the cost of borrowing have played a vital role. The latter has enabled Spanish households to incur higher levels of debt, which has, incidentally, increased their exposure to unfavourable changes in house prices. The fact that the islands and coast have seen the largest price rises and the highest rates of activity shows the importance of the demand for secondary homes on the part of Spanish residents and foreigners. Finally, the demand for housing for investment motives may have been boosted by the recent price trends and the recent decline in the returns on alternative investments.

Lastly, mention may be made of the underdevelopment of the Spanish market for rented housing, partly owing to the persistence of restrictions on the market and partly because tax regulations, despite having been modified somewhat over time, still make buying more attractive than renting.

18.9.2002

REFERENCES

- BANK FOR INTERNATIONAL SETTLEMENTS (2002): *72nd Annual Report*.
- BOVER, O. and VELILLA, P. (2001): *Hedonic house prices without characteristics: the case of new multiunit housing*, Estudios Económicos, no. 73, Research Department, Banco de España.
- LA CAIXA (2001): *Informe mensual*, October, pp. 74-87.
- NAREDO, J. M. and O. CARPINTERO (2002): *El balance nacional de la economía española. 1984-2000*. Fundación de las Cajas de Ahorros Confederadas. Estudios de la Fundación, no. 11.
- RODRÍGUEZ, J. (2001): "La vivienda en España: datos básicos y coyuntura reciente", *Cuadernos de Información Económica*, no. 163, July/August, pp. 1-17.
- SANZ, J. F. (2000): "Las ayudas fiscales a la adquisición de inmuebles residenciales en la nueva ley del IRPF: Un análisis comparado a través del concepto de coste de uso", Instituto de Estudios Fiscales, Papeles de Trabajo, no. 5/00.
- TRILLA, C. (2001): *La política de vivienda en una perspectiva europea comparada*, Fundación la Caixa, Colección Estudios Sociales, no. 9.