

DEVELOPMENTS IN THE REAL ESTATE MARKET SINCE THE START OF THE PANDEMIC

Prior to the COVID-19 crisis, the Spanish real estate market was losing momentum, both in terms of transaction numbers and prices, albeit at differing speeds in the residential and commercial segments. This box describes the key changes observed in prices and transaction volumes in both market segments since the start of the pandemic.¹

In the residential real estate market, housing sales fell abruptly in 2020 Q2, hit by the stringent restrictions on mobility and economic activity in that period, which made it extremely difficult to complete sales (see Chart 1). Since then, the number of transactions has gradually picked up, but it has still not returned to the pre-crisis level. This is partly due to the uncertainty surrounding the course of the pandemic and its impact on the economic outlook for agents in the housing market. In particular, total transactions in 2020 overall were 18% below the 2019 figure.

To date, house prices have been more resilient than transaction numbers. Prices were already slowing before the pandemic and have continued to lose momentum, but with no widespread year-on-year declines (see Chart 2). Notably, both in terms of transaction numbers and prices, new housing has shown greater resilience than second-hand housing. This partly reflects purchase commitments made prior to the pandemic, and possibly also a greater supply shortage of new housing.

In any event, the impact of the pandemic on the residential housing market is highly uneven across the regions. In particular, the Mediterranean coast and the Balearic and Canary Islands post the largest loss of impetus. These are important tourism areas where foreign buyers have traditionally accounted for a large share of house purchases and where, therefore, the restrictions on international travel have had the most impact.

The pandemic has also triggered some marked changes in the type of housing demanded, on account of households' new requirements following the lockdown and the surge in remote working, among other factors. Indeed, in recent months there has been an increased preference for single-family homes and new housing, and for a larger average size of homes of almost all types² (see Chart 3). The present crisis has also quickened some existing trends, such as a certain demand shift away from

the big cities and towards less densely populated municipalities (see Chart 4). This has been encouraged by the greater structural supply shortage of new housing in the big cities – and hence a generally higher average price of housing in those areas – and by the search for more space outside the cities, in the wake of the restrictive measures adopted to contain the pandemic and the increase in time spent in the home.

In the case of residential rentals, drawing on information obtained from the main real estate portals to March 2021, rental prices appear to be falling in Catalonia, the Madrid region and the Balearic and Canary Islands, while in all other regions they seem to be gradually slowing or steadying. In general, the loss of momentum in rental prices observed in recent months is linked to the deterioration in the labour market since the start of the pandemic, particularly among young people and those on temporary employment contracts, which are the groups that most demand rental housing. In some big cities, where rental prices have been hit hardest by the crisis, other factors may also have played a part. These include the lower demand for student rentals, owing to the restrictions on mobility and the increase in distance learning, and the shift in households' preferences towards less densely populated areas with lower prices. Lastly, in cities that are tourist destinations, another important explanatory factor could be the increase in the supply of residential rental housing at the expense of other more short-term rental options, such as holiday rentals, which have been affected by the sharp drop in tourism flows.

To date, the effects of the COVID-19 crisis have been more pronounced in the commercial real estate market than in the residential market, possibly because the commercial segment is traditionally more sensitive to changes in the economic situation. Thus, while the demand for retail outlets essentially hinges on the general economic outlook, other factors, such as demographics, are also key to understanding housing market developments.

Commercial real estate transactions declined significantly in 2020, especially in the first half of the year when transaction numbers were down 44% on a year earlier (see Chart 5). Retail outlets in prime locations, i.e. in big

1 For more details on the effects of the pandemic on the residential real estate segment, see P. Alves and L. San Juan (2021), "El impacto de la crisis sanitaria del COVID-19 sobre el mercado de la vivienda en España", Analytical Articles, Banco de España (English version forthcoming).

2 Possibly partially as a result of a shift, on account of the pandemic, in the composition of home-buyers towards somewhat older buyers with a slightly higher socio-economic position.

DEVELOPMENTS IN THE REAL ESTATE MARKET SINCE THE START OF THE PANDEMIC (cont'd)

Chart 1
HOUSING, REGISTERED SALES: TOTAL, NEW AND SECOND-HAND

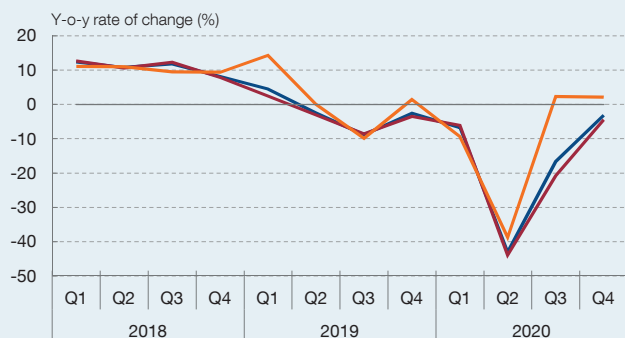
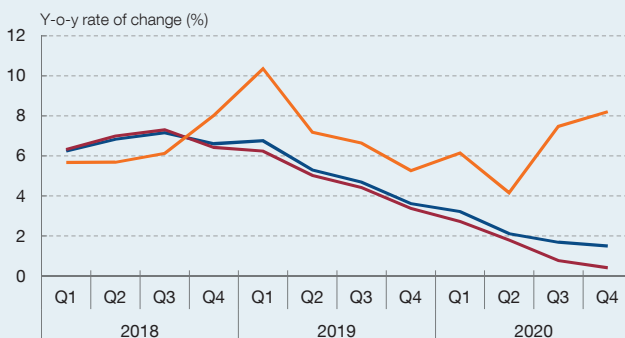
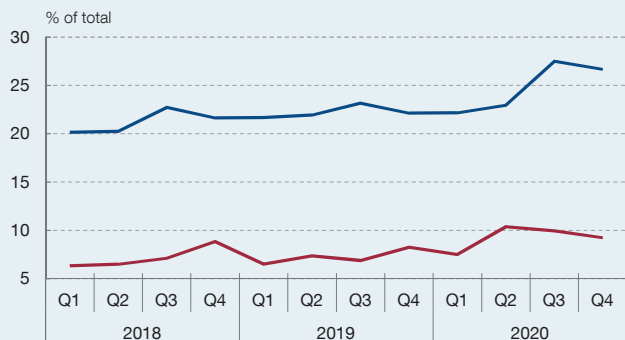


Chart 2
HOUSING, PRICES: TOTAL, NEW AND SECOND-HAND



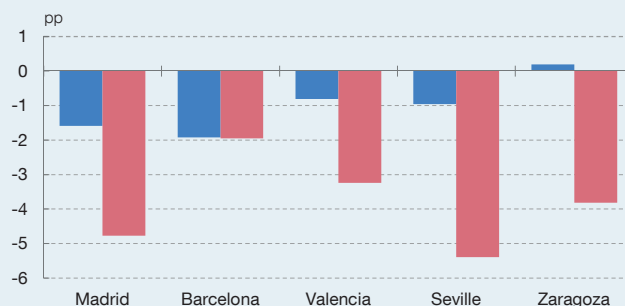
— TOTAL — SECOND-HAND — NEW

Chart 3
HOUSING, NOTARIAL SALES: SINGLE-FAMILY HOMES AND NEW OPEN-MARKET APARTMENTS



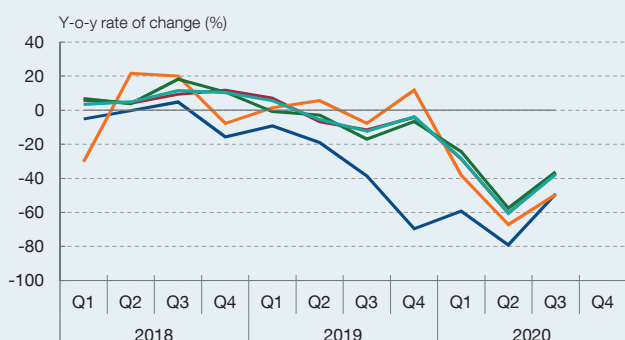
— SINGLE-FAMILY HOMES — NEW OPEN-MARKET APARTMENTS

Chart 4
HOUSING, PROVINCIAL CAPITAL SALES: CHANGE IN WEIGHT IN PROVINCE TOTAL



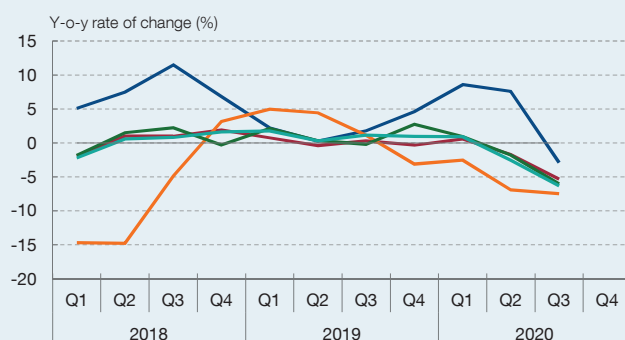
— ANNUAL AVERAGE 2016-2019 — 2020

Chart 5
COMMERCIAL REAL ESTATE, NEW TRANSACTIONS (a) (b)



— PRIME — COMMERCIAL PREMISES — OFFICES — INDUSTRIAL PREMISES — TOTAL

Chart 6
COMMERCIAL REAL ESTATE, PRICE PER M² (b) (c)



SOURCES: Centro de Información Estadística del Notariado, Colegio de Registradores, INE and Ministerio de Transportes, Movilidad y Agenda Urbana.

- a** Number of transactions calculated as the four-period moving average of the transactions registered each quarter in each segment.
- b** Prime: commercial premises in the prime retail districts of Madrid, Barcelona, Bilbao, Palma, Valencia and Malaga.
- c** Commercial real estate price indices calculated drawing on the four-period moving average of the median transaction price for retail outlets in each quarter.

DEVELOPMENTS IN THE REAL ESTATE MARKET SINCE THE START OF THE PANDEMIC (cont'd)

city centres, performed especially poorly, although transactions were under pressure in those areas before the pandemic. By asset type, sales fell most markedly in the office sub-segment and somewhat less so in industrial premises, in the latter case possibly as a result of certain structural changes that have become more pronounced during the crisis. For instance, the growth in e-commerce, which requires large, well-situated logistics hubs, could have cushioned the decline in demand for industrial premises. In turn, office purchases could have been more affected since the start of the pandemic as a consequence of the increase in remote working.

Prices in the commercial real estate segment have fallen across the board since March 2020, but less so than transaction numbers. Specifically, commercial real estate prices fell by 8.9% year-on-year in 2020 Q4 (expressed as a four-quarter moving average), with a very marked drop in the case of offices (see Chart 6). The fact that prices have been more stable than transaction numbers could indicate that sellers have delayed sales decisions in recent months, to avoid or postpone having to assume sharp price falls. In this respect it is noteworthy that prices in prime areas, unlike transaction numbers, have performed somewhat more favourably than the commercial segment overall.