

## ANNUAL REPORT 2023. CHAPTER 4

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## Chapter 1

The resilience of the Spanish economy in the European context

## Chapter 2

Structural challenges facing the Spanish economy

## Chapter 3

The Spanish labour market: current developments, structural trends and labour market policies

## Chapter 4

The Spanish housing market: recent changes, risks and affordability problems

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

# TAKEAWAYS

- Robust housing demand, along with relative supply rigidity, has resulted in **sustained growth in house purchase and rent prices in Spain since 2014**
- Despite this, **the associated vulnerabilities and risks to financial stability associated with the residential housing market are contained**
- Nevertheless, **housing affordability problems have become more pronounced over the last few years**, particularly among lower-income households (young people and the immigrant population) and in certain geographical areas (urban and tourist areas)
- The **adverse social and economic effects associated with housing affordability difficulties** warrant the introduction of economic policy measures that seek to correct them
- In any event, considering the **scale of the problem diagnosed here**, it seems unlikely that isolated short-term actions can have sufficient scope to significantly reduce today's housing affordability difficulties
- Public policies must be designed to ensure that actions that may have relatively limited effectiveness in the short term do not ultimately have significant **unwanted effects** that hinder the functioning of the housing market in the medium and long term
- The measures taken would ideally envisage a broad time horizon, involve the different tiers of government with responsibility for housing and **focus especially on boosting supply**, particularly for the rental market
- These measures should **prioritise resource allocation to the most vulnerable groups** and consider other aspects that have an impact on the housing market, such as the labour market, economic productivity, and tax and transport policies

# RECENT HOUSING MARKET DEVELOPMENTS FOR PURCHASE

Housing purchases are markedly robust despite the slowdown observed since 2022 Q4

Among recent developments, foreign purchases and lower recourse to mortgage financing, in a context of tighter financing conditions, stand out

The significant volume of sales coincides with modest new housing production, which is reflected in the containment of real estate supply indicators

House prices have shown a sustained recovery since 2014  
Cumulative growth is uneven: stronger in new housing, large urban areas and tourist areas  
The sustained dynamism of house prices in Spain stands in contrast to the recent correction seen in some euro area economies

# RECENT HOUSING MARKET DEVELOPMENTS

## THE RENTAL MARKET

The size of the rental market has grown significantly since the economic crisis that began in 2008

This growth has been uneven across population groups (especially strong among lower-income households and, in particular, among young people) and geographical areas (higher in municipalities in large urban areas and tourist areas)

This expansion is taking place in a rental market dominated by private individuals and small-scale landlords, and with a notably small share of social rentals

The significant increase in the rental housing supply has been countered by the higher pressure exerted by demand  
→ Sustained increases in rental prices since 2015, albeit with high geographical heterogeneity

# THE MAIN DRIVERS OF THE DEMAND-SIDE DYNAMICS OBSERVED

Since 2016, demographic growth (owing to migration flows) and the concentration of the population in certain geographical areas are key factors in explaining the rise in demand and in house prices for both owner-occupied and rental residential housing

The increase in demand arose in a relatively favourable macroeconomic setting, especially in terms of employment and with financial conditions that remained loose until monetary tightening started in late 2021

The strength of demand from non-residents (whether for owner-occupied or rental housing) and the attractiveness of investment in buy-to-let property (with a higher ex post nominal gross rental yield on average in the period 2015-2022 than other financial assets, without correcting for risks and other expenses) also appear to have contributed to the surge in demand

Banks have applied prudent credit standards in mortgage lending  
This, along with house price and labour market dynamics, seems to have contributed in recent years to a notable shift in housing demand from the purchase segment to the rental segment among the lower-income groups

# THE MAIN DRIVERS OF THE SUPPLY-SIDE DYNAMICS OBSERVED

Compared with the robustness of demand, lacklustre housing supply, especially in the new housing segment, has significantly underpinned house purchase and rental price growth

The contribution of new housing to aggregate supply has been limited, owing to, among other factors, the scarcity of build-ready land and construction labour, rising production costs, and scant investment into acquiring and developing new urban land

The mobilisation of second-hand residential housing has been instrumental for absorbing some of the strength in demand and limiting the surge in prices

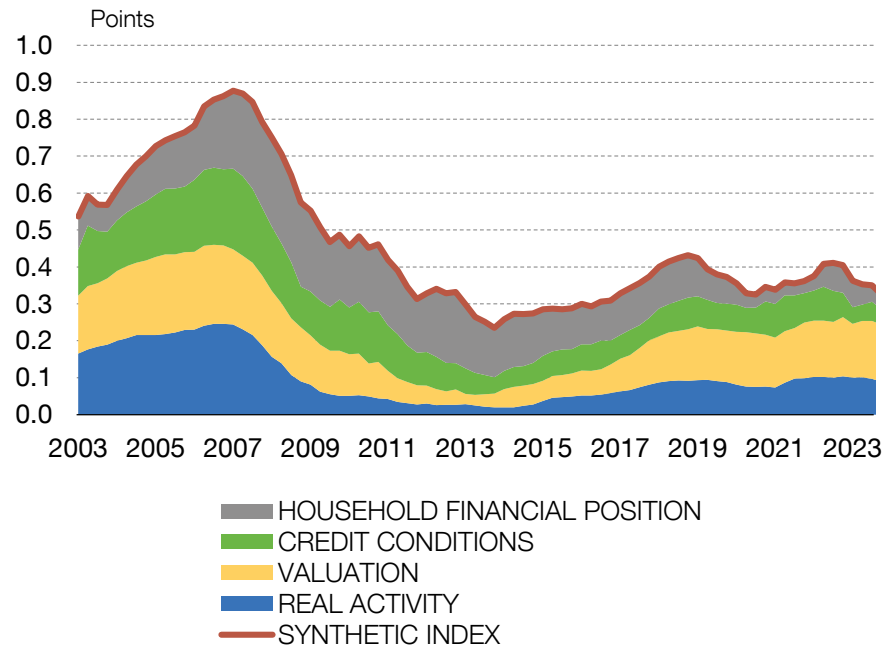
Nevertheless, the rigidity of residential housing supply in the short term is explained by a low house renovation capacity, empty houses not matching current household preferences, regulatory uncertainty, and the rise of alternative housing uses, such as holiday and seasonal rentals



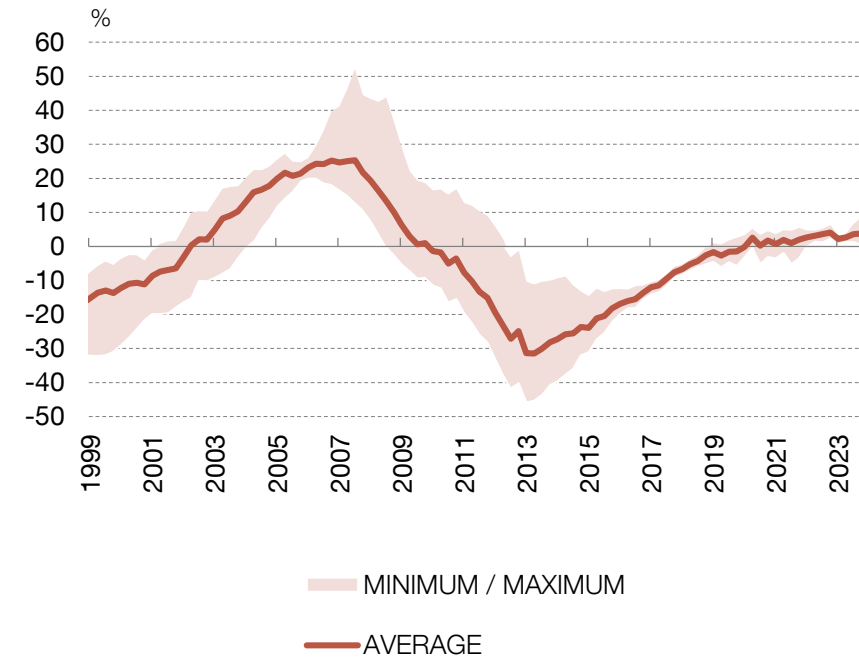
# IMPLICATIONS OF THESE DYNAMICS FOR FINANCIAL STABILITY RESIDENTIAL SECTOR

- On balance, the indicators used by the Banco de España to monitor the vulnerabilities and risks to financial stability associated with the housing market suggest that the risks are contained.

**SYNTHETIC INDEX OF HOUSING MARKET VULNERABILITIES AND RISKS (a)**



**INDICATORS OF HOUSE PRICE IMBALANCES (b)**



Sources: INE and Banco de España.

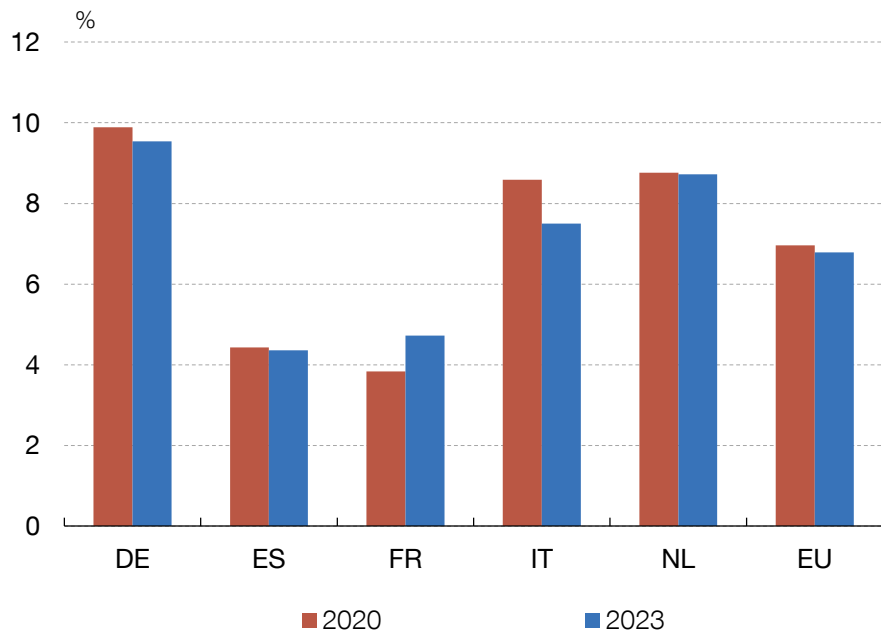
(a) Synthetic indicator summarising the individual housing market indicators. These individual indicators refer to metrics proxying the financial position of households, credit conditions (such as the volume of mortgage lending and credit standards) and developments in housing prices or supply and demand indicators (for more information, see Alves, Broto, Gil and Lamas (2023)). The synthetic index takes a value between zero and one. Higher (lower) values indicate higher (lower) imbalances.

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

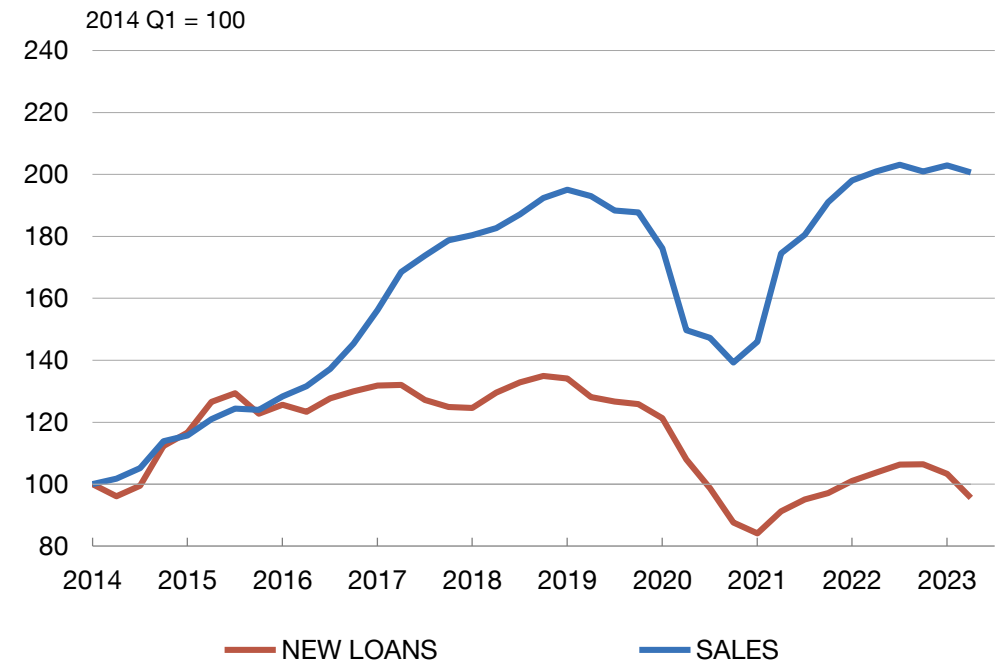
# IMPLICATIONS OF THESE DYNAMICS FOR FINANCIAL STABILITY COMMERCIAL REAL ESTATE SECTOR

- In Spain, banks' credit exposure to the commercial real estate sector is relatively low (below the European average) and has remained stable in recent years

**RELATIVE WEIGHT OF COMMERCIAL REAL ESTATE CREDIT  
IN TOTAL CREDIT (a)**



**COMMERCIAL REAL ESTATE SALES AND NEW LOANS (b)**



Sources: Banco de España, Colegio de Registradores and EBA Risk Dashboard.

(a) The series show total exposures to the commercial real estate sector relative to total credit by country. The information is provided at consolidated level.

(b) The series show the four-period moving average of the number of commercial real estate sales and the number of new commercial real estate loans. All the series are shown on a 2014 Q1 = 100 basis.

# HOME OWNERSHIP AFFORDABILITY DIFFICULTIES

The indicators available show that home ownership affordability difficulties have become more pronounced over the last few years, particularly for certain types of households and in certain geographical areas

Ratio of average house price to the gross annual income of the median household

Ratio of average mortgage instalment to the gross annual income of the median households

The scant saving capacity and low income of renter households hinder their ability to purchase a home  
(In 2021, 61% of households living in rented or rent-free housing had insufficient savings to purchase a home in their municipality of residence; 40.5% of the remaining households bore a mortgage instalment exceeding the recommended threshold of 35% of their net income)

The proportion of mortgaged households overburdened by their housing costs is low

# RENTAL AFFORDABILITY DIFFICULTIES

Although the median cost burden associated with renting a home has declined slightly over the last decade, the burden is substantially higher among lower-income groups and has increased in the last two decades

Once again, these housing affordability problems show considerable geographical heterogeneity

The evidence available shows higher gross rental yield (GRY) in areas where both gross household income and house prices are lower

Households across the main European economies are experiencing rental cost overburdening, but the difficulties are particularly acute in Spain among lower-income households

# HOUSING AFFORDABILITY PROBLEMS AMONG YOUNG PEOPLE

Young people are especially affected by housing affordability difficulties, reflecting, in part, their less favourable labour market situation, with unemployment and part-time rates (21.3% and 25.3%, respectively, in 2023) that are systematically higher than those recorded for the Spanish economy as a whole (12.1% and 13.3%, respectively) and for young people in other European economies (11.2% and 23.7%, respectively, in the euro area)

The housing market dynamics significantly affect young people's emancipation decisions

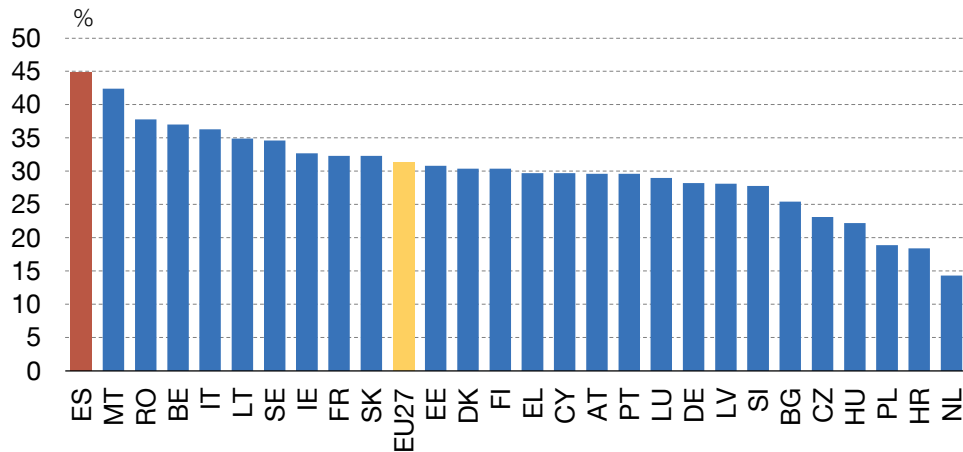
In comparison with other European markets, Spain has the highest share of young households living in rent-free dwellings. By contrast, the share of young households in Spain paying below-market rents is very low, owing to the low proportion of social rental housing

# HOUSING AFFORDABILITY: THE PUBLIC POLICY CHALLENGE

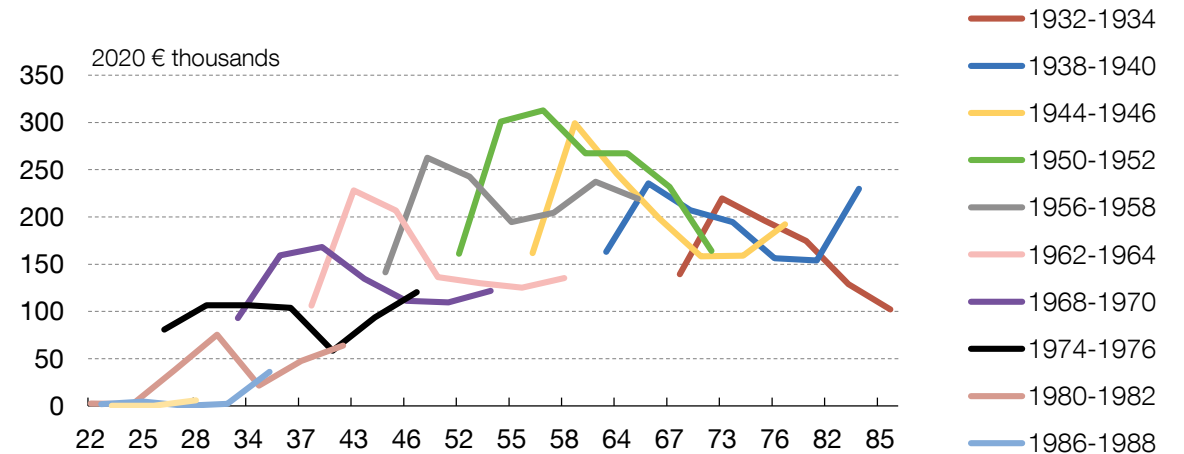
## ECONOMIC AND SOCIAL IMPLICATIONS OF HOUSING AFFORDABILITY PROBLEMS

- **Social vulnerability.** Spain is the European economy with the highest percentage of people living in rented accommodation that are at risk of poverty or social exclusion
- **Intergenerational inequality in wealth accumulation.** In recent decades, young households' net wealth accumulation (financial and real estate wealth) is below that of their peers in previous generations. In this connection, today's young cohorts are likely to be more vulnerable to possible future negative shocks than previous generations were
- Housing affordability problems could also limit **GDP growth in the long term** through their impact on the **location of labour, labour mobility** and the **proportion of households whose consumption is restricted by their housing costs**

**POPULATION LIVING IN RENTED ACCOMMODATION AT RISK OF POVERTY OR SOCIAL EXCLUSION IN 2022 (a) (b)**



**MEDIAN HOUSEHOLD WEALTH OVER LIFETIME, BY YEAR OF BIRTH**



Sources: Eurostat (2023) and EFF 2020.

(a) Market-rent households. Households whose income is no more than 60% of the median equivalised income after social transfers are considered to be at risk of poverty.

(b) AT: Austria; BE: Belgium; BG: Bulgaria; CY: Cyprus; CZ: Czech Republic; DE: Germany; DK: Denmark; EE: Estonia; EL: Greece; ES: Spain; FI: Finland;

FR: France; HR: Croatia; HU: Hungary; IE: Ireland; IT: Italy; LT: Lithuania; LU: Luxembourg; LV: Latvia; MT: Malta; NL: Netherlands; PL: Poland; PT:

Portugal; RO: Romania; SE: Sweden; SI: Slovenia; SK: Slovakia; EU27: European Union.

# HOUSING AFFORDABILITY: THE PUBLIC POLICY CHALLENGE

## RECENT PUBLIC POLICY MEASURES ADOPTED

In recent years, Spain's different tiers of government have deployed a broad range of measures to address the rising housing affordability difficulties. These include, most notably, the following:

### Protective measures for tenants

(For example, extending the duration of rental contracts and making it more difficult for socially vulnerable households to be evicted from their homes)

### Protective measures for mortgaged households

(For example, the reform of the Code of Good Practice (CGP) in late 2022 and the introduction, in late 2023, of enhanced conditions for households under its successor (CGP 2023))

### New rental price indicators and framework for declaring areas under pressure

(which could introduce new caps on annual rent increases and provide for rent controls to be established in areas under pressure)

### Housing demand support measures

(For example, public guarantees and tax incentives for house purchase and rent subsidies)

### Measures to increase the stock of social or affordable rental housing

(For example, ICO loan facilities, mobilising public land and encouraging public-private collaboration)

Measures to speed up the planning permission process, increase the volume of building land and the housing floor area ratio, and facilitate the residential use of real estate

Other measures: tighter regulations for tourist rental developments in certain areas, larger tax incentives for individual landlords who rent their properties at lower prices in areas under housing pressure, etc.

# HOUSING AFFORDABILITY: THE PUBLIC POLICY CHALLENGE

## POSSIBLE FUTURE ACTIONS (1/2)

Considering the scale of the problem diagnosed here (\*), it seems unlikely that isolated short-term actions can have sufficient scope to significantly reduce the current difficulties in current housing affordability

(\*) Using as a reference the difference between net household formation and the number of new homes completed, according to the latest projections, the **new housing shortfall** could stand at around 600,000 units in 2025

(\*) Converging to EU27 average **rental housing stock** levels would require adding 1.5 million new homes to social rental housing in Spain. Achieving this aim in 10 years, through new housing, would require an increase of over 150% in the average annual production of homes in Spain in recent years



The measures taken would ideally extend over a long time horizon and involve the different tiers of government with responsibility for housing

Public policies must be designed to ensure that actions that may have relatively limited effectiveness in the short term do not ultimately have significant unwanted effects (\*\*) that hinder the functioning of the housing market in the medium and long term  
→ Assess the effects of the existing policies

(\*\*) The economic literature that has analysed the effects of various housing policies over time and across different geographical areas suggests that:

- In a rigid supply setting, demand-side policies may, to a great extent, ultimately become transfers of public resources to home owners, and have a limited capacity to reduce the problems of housing affordability (See Box 4.2 of this report)
- Some protective measures for tenants may have unintended effects on the level and composition of the rental housing supply (e.g. by reducing supply and/or shifting towards less regulated types of rentals) and on the prices of new rentals, which could be stronger among the most vulnerable groups
- Price controls could have similar adverse effects



# HOUSING AFFORDABILITY: THE PUBLIC POLICY CHALLENGE

## POSSIBLE FUTURE ACTIONS (2/2)

Given the nature of the problem diagnosed here (\*), public policies should ...

(\*) characterised by a relative rigidity in the supply of housing, higher levels of overburdening in the rental segment, a particular concentration of affordability problems in certain groups and geographical areas, and the predominance of non-professional landlords in the rental market in Spain ...



- Increase the social rental housing supply
- Encourage public-private collaboration to energise the rental market
- Foster a more professional profile for the rental market
- Strengthen legal and regulatory certainty
- Improve how administrative processes relating to land and urban planning policies are managed
- Promote measures for rehabilitation and take-over of housing
- Review housing taxation (\*\*)
- Consider applying restrictive measures to non-residential accommodation, subject to an overall assessment that takes into account the potential effects on housing affordability and economic activity.
- Foster structural policies (\*\*)
- Improve public transport in metropolitan areas

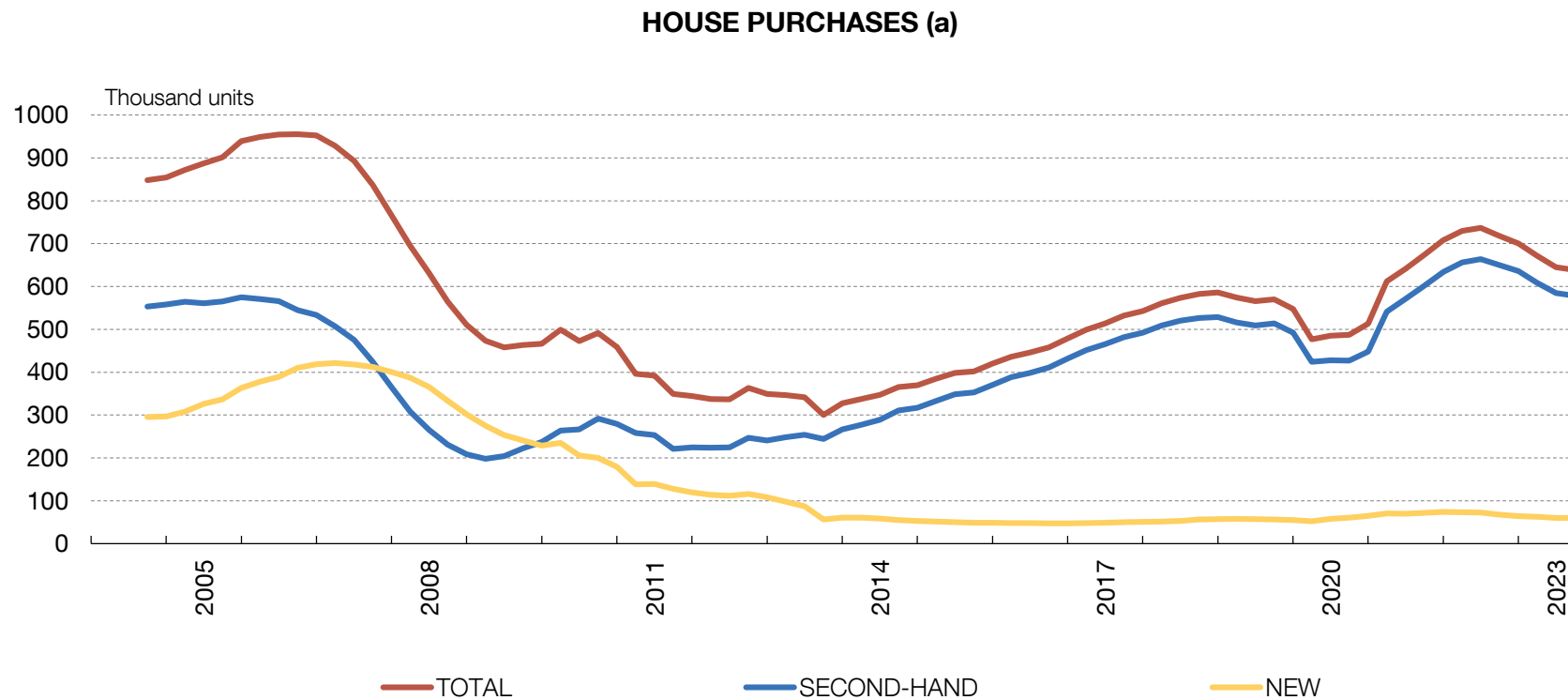
(\*\*) [See Box 4.2 of this report](#)

THANK YOU FOR YOUR ATTENTION



# HOUSE PURCHASES

- House purchases have fallen since 2022 Q4, although they remain relatively high: 640,000 in 2023, 12% above the 2019 figures
- The buoyancy of the second-hand market, which accounted for around 90% of the total transactions (40% in 2008), stands out



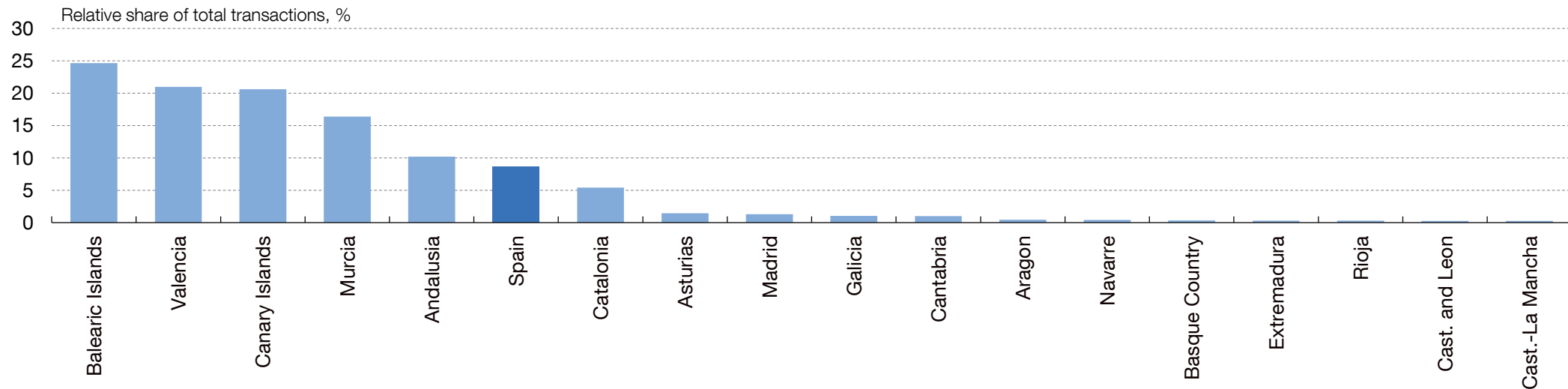
Source: Ministerio de Transportes y Movilidad Sostenible.  
(a) Cumulative 4-quarter data.



# PURCHASES BY FOREIGNERS AND MORTGAGE-FINANCED PURCHASES

- House purchases by the foreign population, both resident and non-resident, reached their all-time high in 2022 (134,000 units), a figure that dropped to around 125,000 in 2023, which was 19.3% of the total, in contrast with 7.1% in 2007. The largest shares of foreign purchases are seen in tourist areas
- This demand is characterised by non-residents' high purchasing power in relative terms. For example, in 2023 H1 the average price per square metre of dwellings purchased by non-residents and residents was €2,600 and €1,600, respectively
- In 2023 around 45% of transactions were financed by new mortgages, some 10 pp less than in 2021. This share has fluctuated in recent decades, depending, among other factors, on the ease of access to credit, falling from 60% in 2007 to 30% in 2013. In any event, despite its recent decline, the flow of new residential mortgage credit stood in 2023 16% above its 2019 level

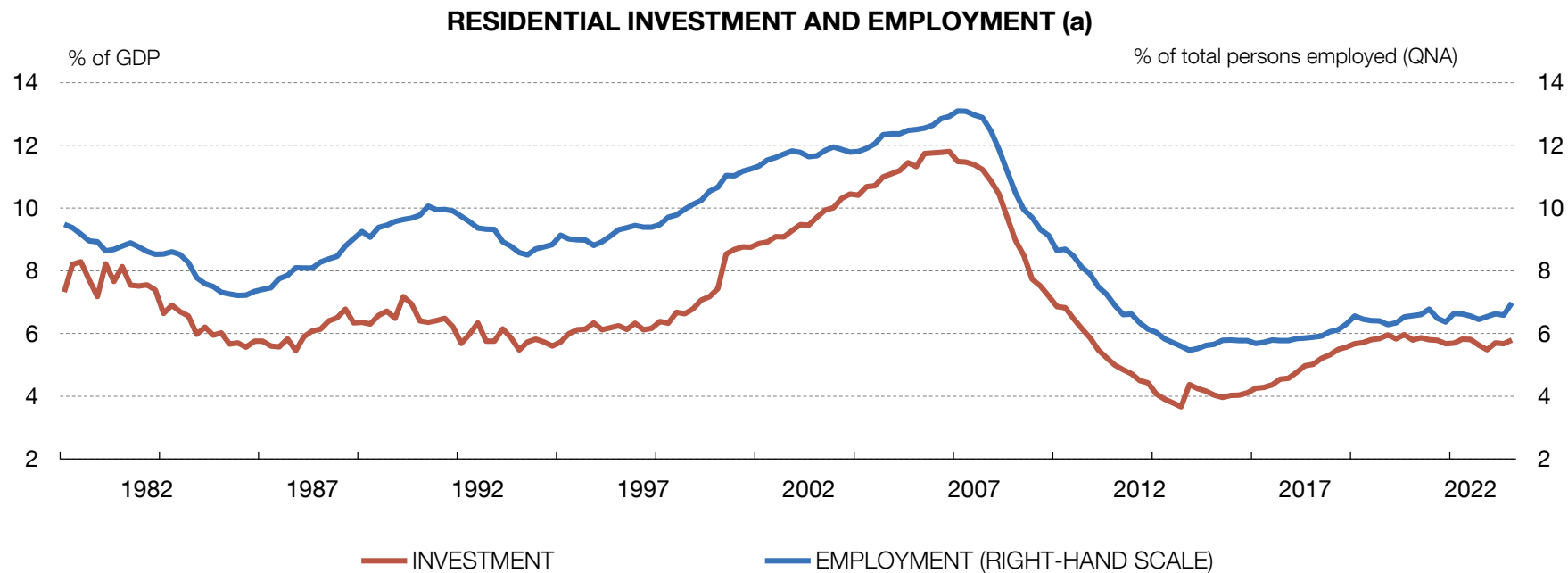
## PURCHASES BY NON-RESIDENT FOREIGNERS IN 2023



Source: Ministerio de Transportes y Movilidad Sostenible.

# REAL ESTATE SUPPLY INDICATORS

- in 2023 **residential investment** in Spain stood at 5.7% of GDP, below the euro area's 6.1% and below the annual averages of around 6.5% recorded in the 1980s and 1990s.
- There were around 110,000 **new building permits** in 2023, well below the 320,000 annual average of the 1990s and the 550,000 annual average of the first decade of the 21st century.
- Since 2020 H2 the construction sector has accounted for around 6.5% of total **employment**, below the annual average of 9.1% in the 1980s and 1990s and the 12% seen during the boom of the 21st century's opening decade.



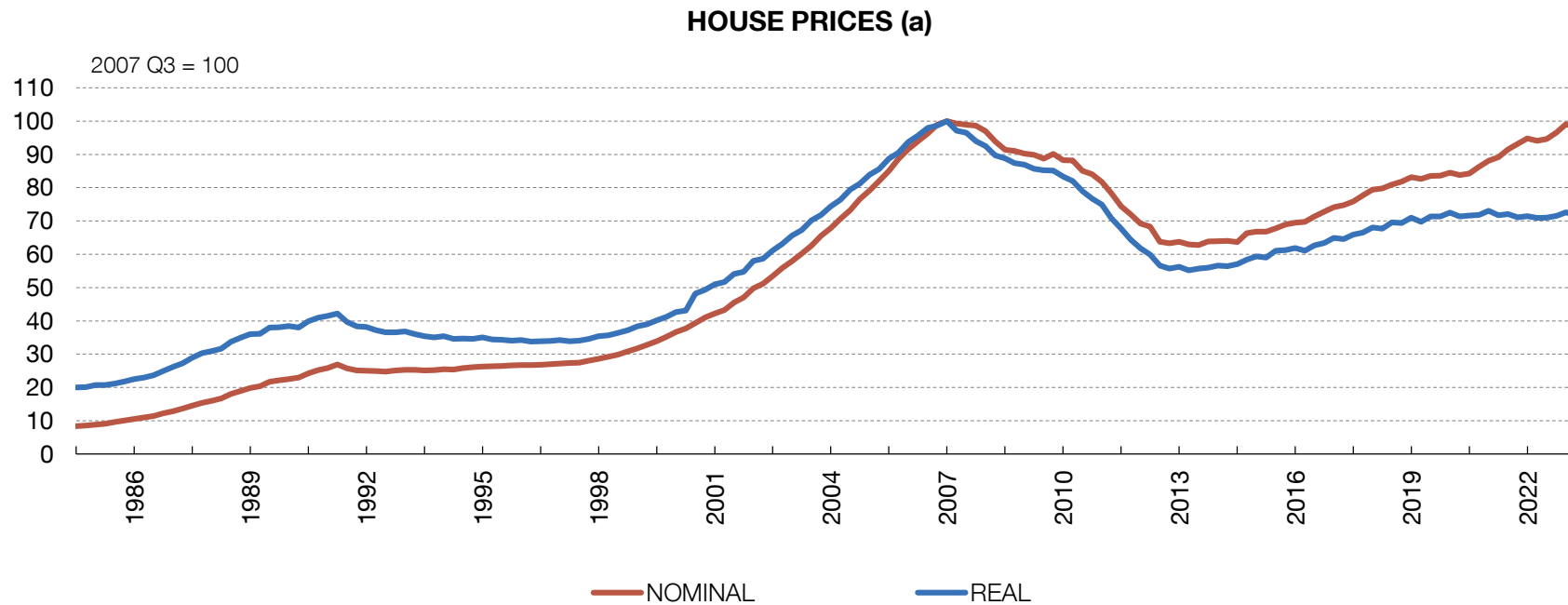
Sources: INE and Banco de España.

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



# HOUSE PRICES

- Average house prices have recovered notably since 2014, with a **nominal appreciation of 56%** and a **real appreciation of 30%** (but still 2% and 28.5%, respectively, below their 2007 levels)
- **Heterogeneity by housing type.** In the new housing segment, prices are growing faster: in real terms they are only 6% below their 2007 peak, while second-hand housing prices are 37% below theirs
- **Geographical heterogeneity.** Higher price increases are observed in urban areas with greater growth in activity and in areas with higher populations and more tourist activity. Declines are observed in areas experiencing depopulation



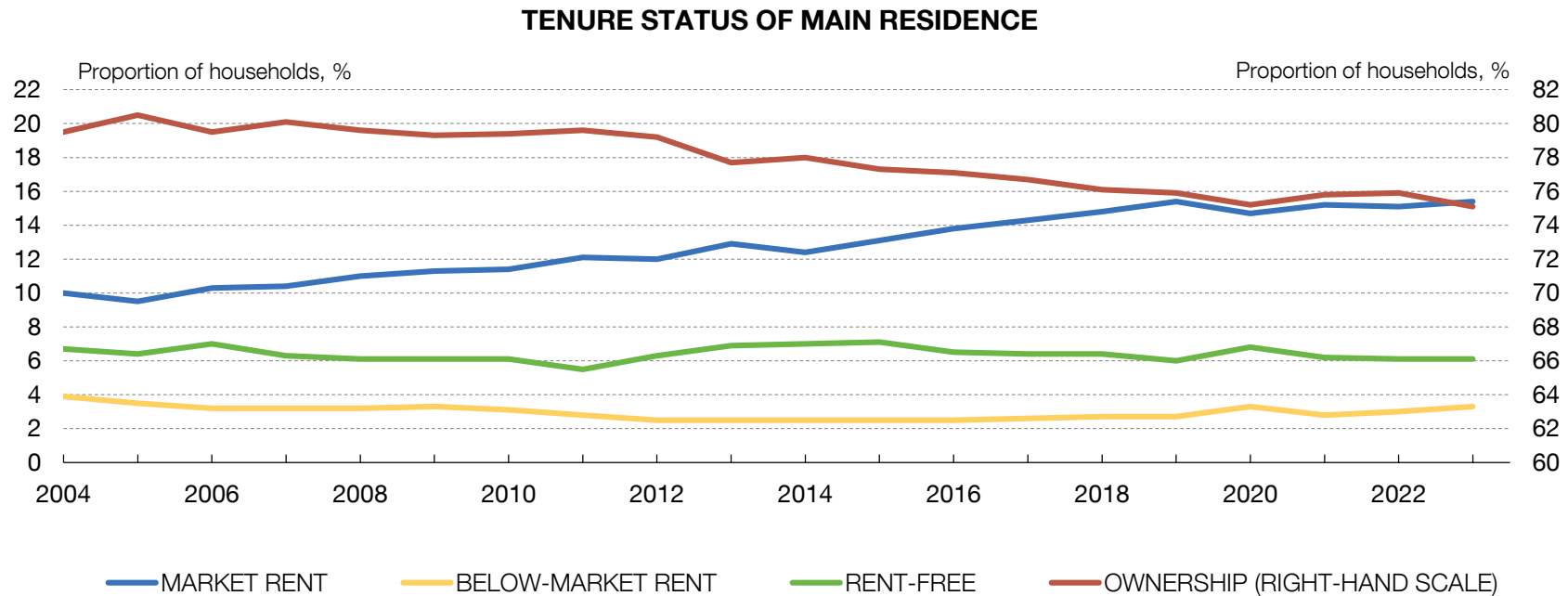
Source: INE. Latest data: 2023 Q4.

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



# RENTAL MARKET SIZE

- The rental market has shown marked growth in recent years, rising to around **3.6 million main residences in 2023**, accommodating **18.7%** of households
- The rental housing stock has risen by an estimated **1.3 million homes over its 2007 level**, with a cumulative increase in the size of this market of more than 50%
- This development has contributed to Spain's gradual convergence towards the EU27 average, although **the proportion of home ownership in 2022 was still higher in Spain (75% versus 65%)**

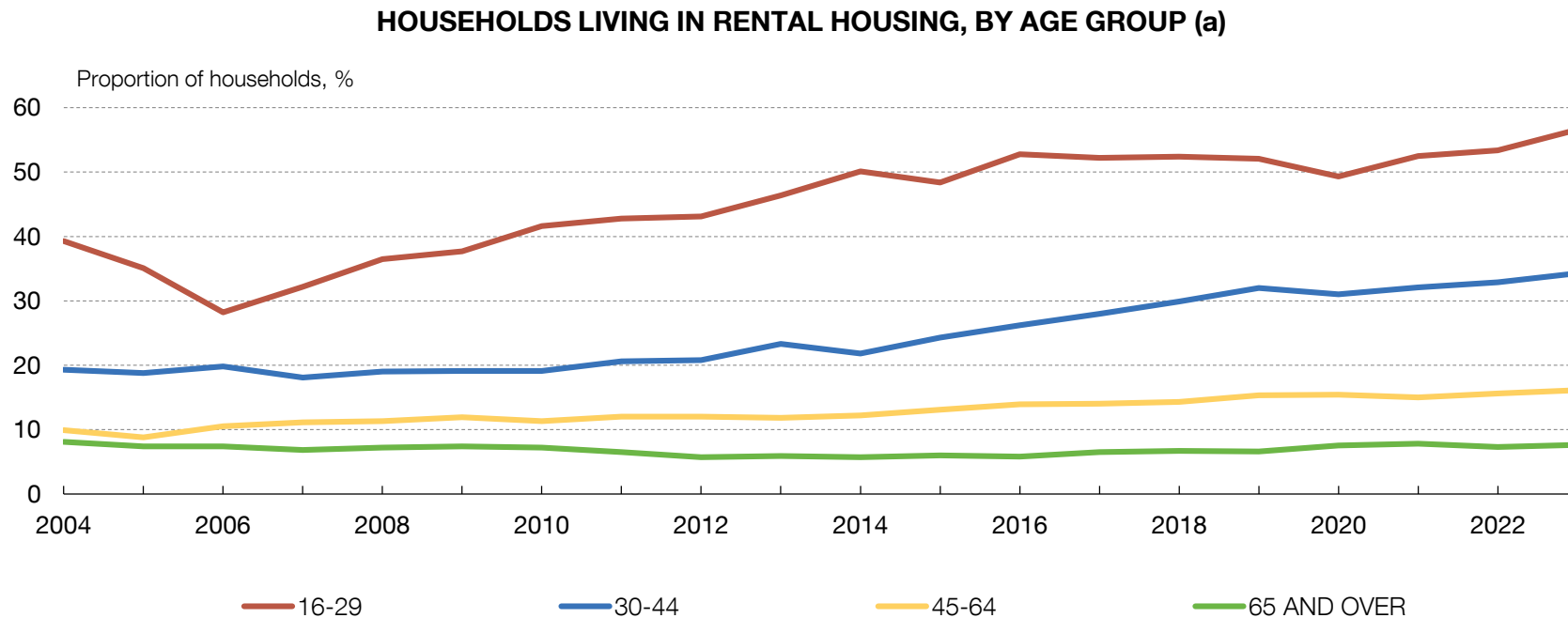


Source: Living Conditions Survey (INE 2024).



# UNEVENNESS IN THE RENTAL MARKET ACROSS GROUPS AND REGIONS

- The growth in renting is explained by its rise among **younger households** and its predominance among the **foreign-born population**, both groups in which lower-income households are concentrated
- The regions with a higher share of rental housing in 2023 were **Madrid (23.7%)**, **Catalonia (24.9%)**, **the Canary Islands (28.5%)** and **the Balearic Islands (30.9%)**, compared with a national average of 18.7%



Source: Living Conditions Survey (INE 2024).

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

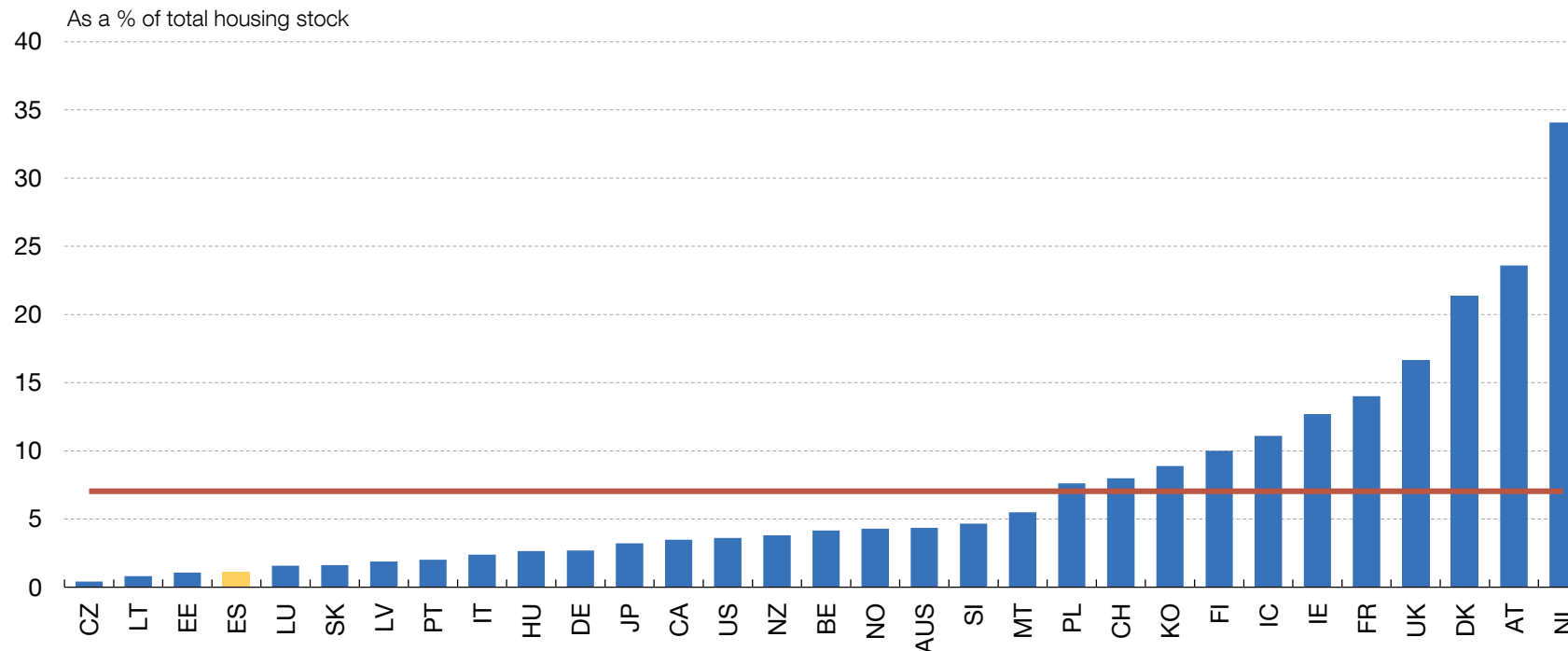




# DISTRIBUTION OF OWNERSHIP IN THE RENTAL MARKET

- Main market rent residences owned by **private legal entities** represent an estimated 8% of the total, while individuals account for 92%
- Houses leased by **individual landlords who own 10 or more properties** appear to represent a maximum of 7% of all market rent properties
- **The share of social rental housing is very low in Spain**, with an estimated 300,000 units (1.5% of main residences)

## SOCIAL RENTALS (a)



Source: Affordable housing database (OECD, 2024).

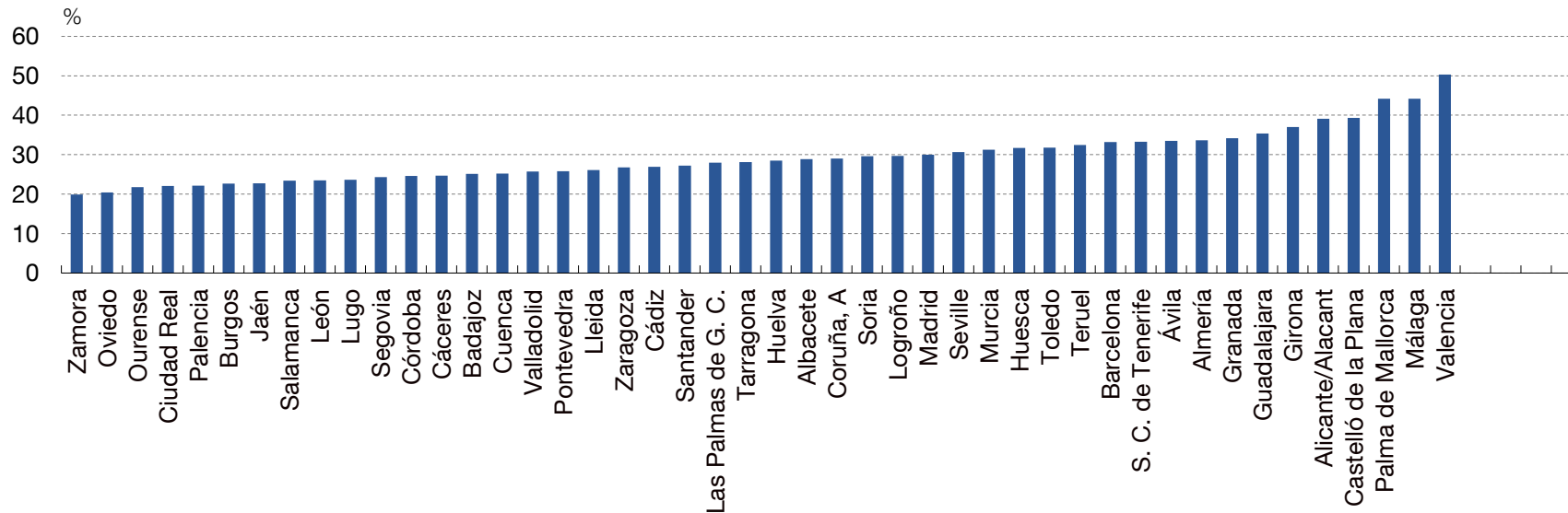
(a) The data are for 2020 or for the last year with data available. The horizontal line denotes the average for the OECD economies.



# RENTAL PRICES

- Between 2015 and 2022, the cumulative average growth rate of rental income per square metre for the rental housing stock was more than 28.5%. The average annual price increase of new rental contracts is estimated to be between 7% and 8% in the same period. These increases appear to have continued in 2023
- Rent prices have risen significantly along the Mediterranean coast in areas with significant tourism activity (e.g. by 50% in the city of Valencia and in Estepona), in central districts of large cities (e.g. by between 35% and 40% in the urban area of Barcelona) and in some municipalities on the edge of large urban areas
- This strong growth in rent prices in large urban areas has also been observed in the major advanced economies over the past decade

**CUMULATIVE GROWTH IN AVERAGE RENT PRICES PER SQUARE METRE FOR RENTAL HOUSING BETWEEN 2015 AND 2022**



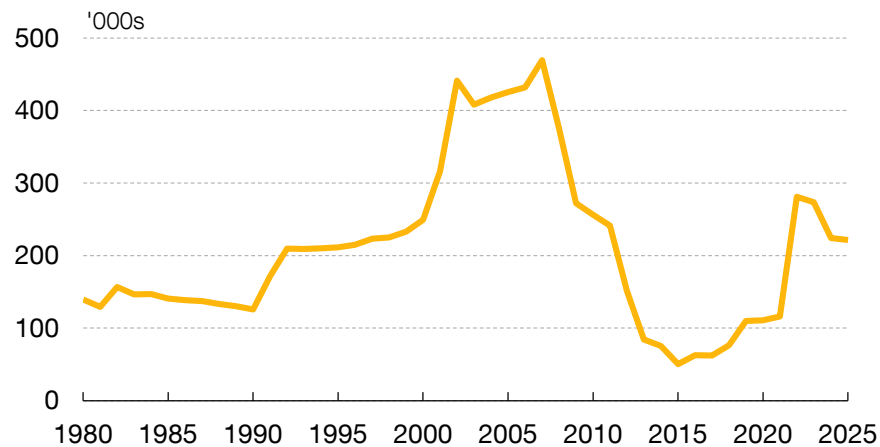
Source: Banco de España based on data from the AEAT Tax Studies and Statistics Service.



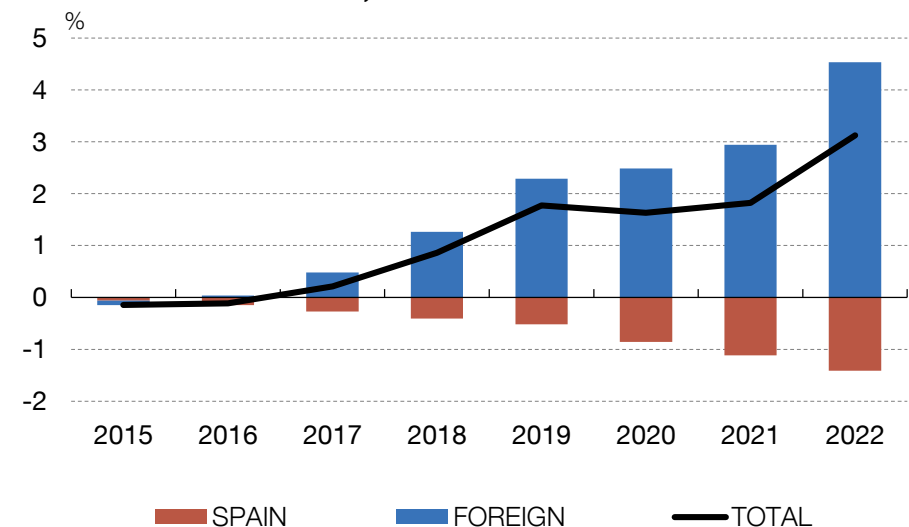
# POPULATION GROWTH

- In recent years, **substantial growth in net household formation has been observed in Spain**, from 50,000 in 2015 (the lowest figure recorded since 1980) to provisional figures in excess of 275,000 new households per year on average in 2022 and 2023
- The (highly uncertain) demographic projections point to a net increase of around 220,000 households per year for the period 2024-2026, while an increase of around 120,000 per year is estimated over a ten-year horizon
- The demand for housing also increases owing to a **progressive reduction in average household size**. This was 2.5 persons in Spain in 2023, compared with 2.86 in 2001 and 3.59 in 1981, above the euro area average of 2.2.

**NET HOUSEHOLD FORMATION (a)**



**CONTRIBUTIONS TO CUMULATIVE POPULATION GROWTH SINCE 2014, BY COUNTRY OF BIRTH**

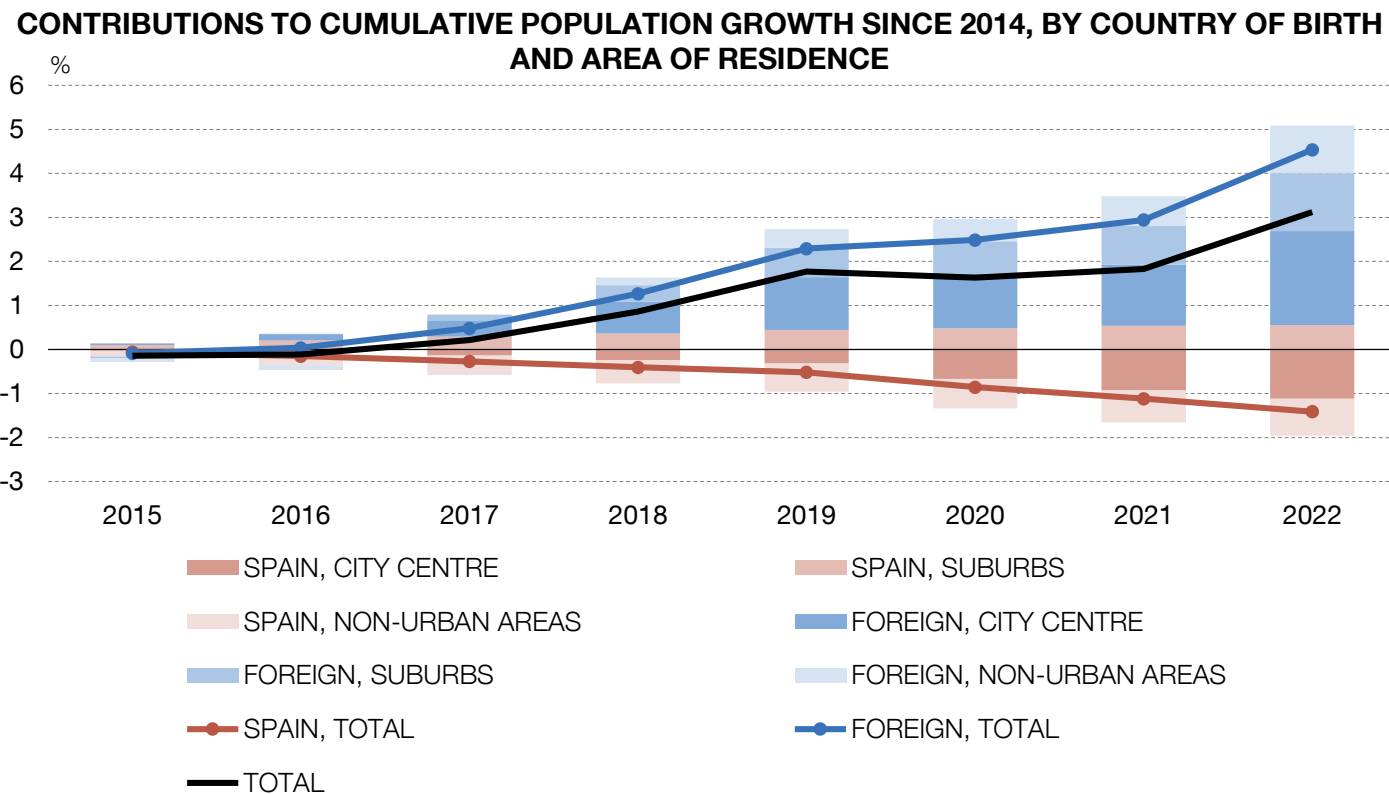


Sources: INE and Banco de España.

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

# POPULATION CONCENTRATION

- In recent years, population growth has tended to concentrate in urban areas. Specifically, between 2014 and 2022, the population in urban areas grew by 4.2% vis-à-vis an aggregate increase of 3.1%. This change was driven by growth in the suburbs (6.1%). However, outside these areas the population is only 0.8% above the 2014 levels.
- By nationality, it can be seen that Spaniards are moving from the city centres to the suburbs, while foreign-born individuals seem to have substantially increased their relative presence in city centres

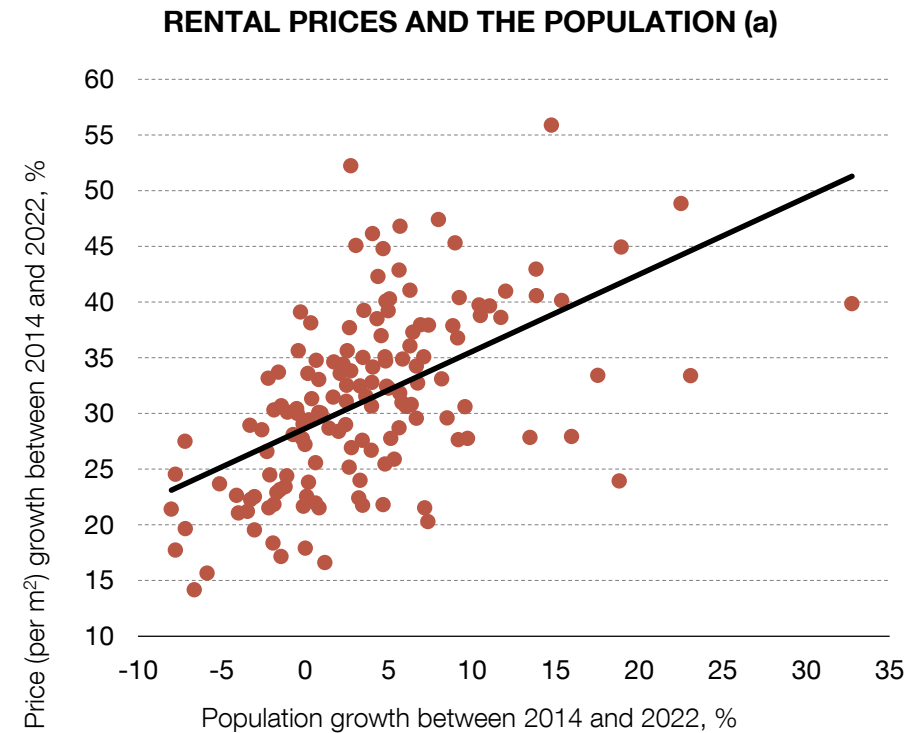
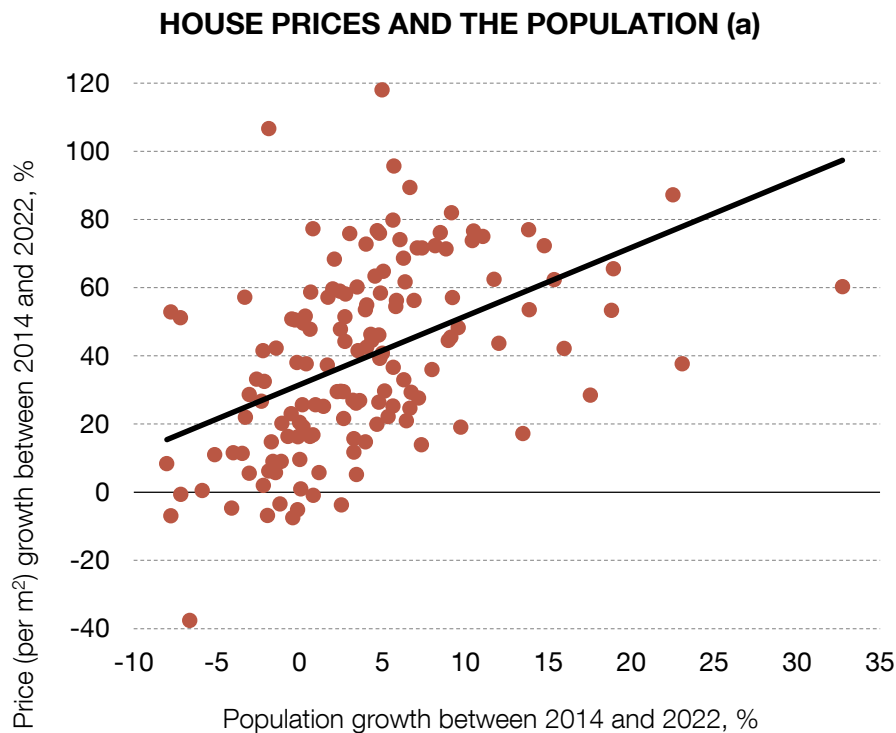


Sources: INE (Padrón Continuo and Censo Anual de Población) and Banco de España.



# DEMOGRAPHIC GROWTH AND HOUSE PRICES

- There is a **strong positive correlation** between population growth and the rise in purchase and rental prices from the start of the economic recovery in 2014 to 2022
- This evidence seems to point to some **relative rigidity in the supply of housing** to accommodate the increase in demand that has arisen, to a large extent, as a result of demographic developments



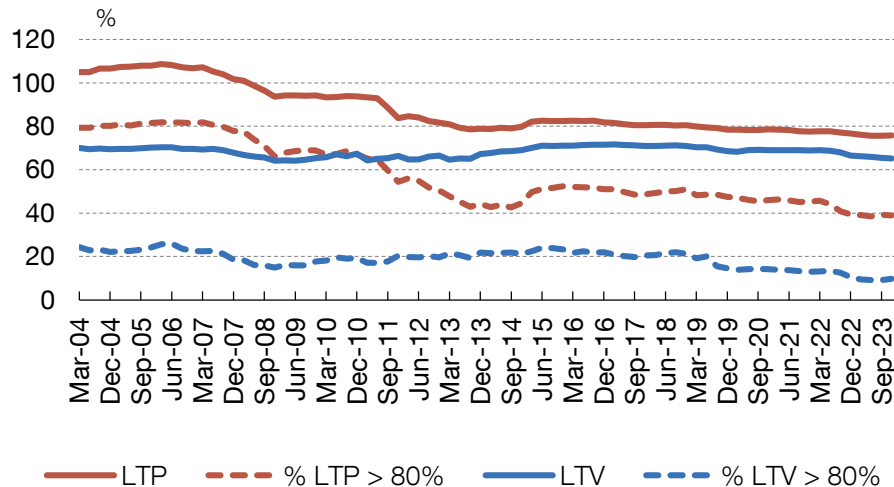
Sources: INE and Banco de España using data from the Colegio de Registradores and the AEAT Tax Studies and Statistics Service.  
(a) Calculations made for municipalities with more than 50,000 inhabitants, excluding those in Navarre and the Basque Country.



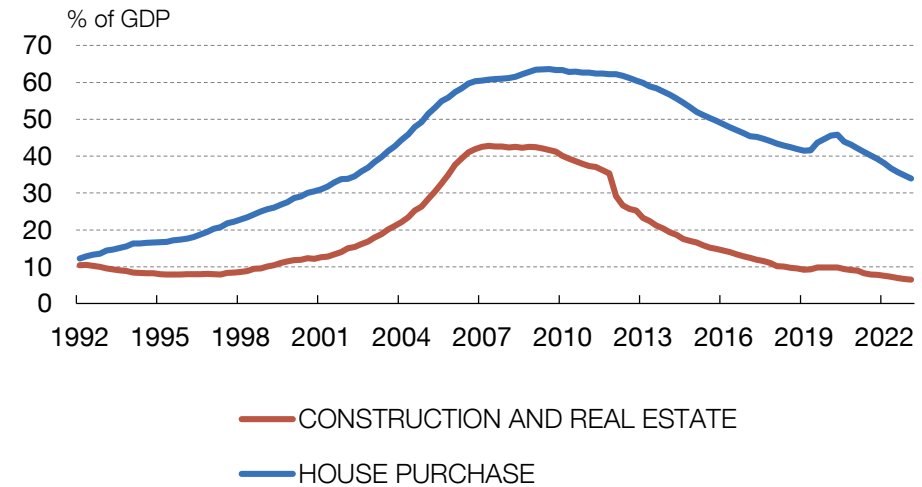
# CREDIT CONDITIONS

- Following the 2008 financial and real estate crisis, and partly as a result of the regulatory and supervisory changes introduced in response thereto, **banks have applied prudent credit standards that have prevented the build-up of imbalances** such as those that led to that crisis
- This prudence in mortgage lending is reflected in the decline in (i) the proportion of house value that is financed with mortgages, (ii) the average loan-to-house price ratio and (iii) the share of household income devoted to payment of the initial mortgage instalment
- This change in credit conditions, along with other factors, appears to have contributed to a **notable shift in housing demand towards the rental segment, especially so in the case of young people**

**LOAN-TO-PRICE (LTP) AND LOAN-TO-VALUE (LTV) RATIOS (a)**



**OUTSTANDING STOCK OF CREDIT, BY PURPOSE (b)**



Sources: INE, Colegio de Registradores and Banco de España.

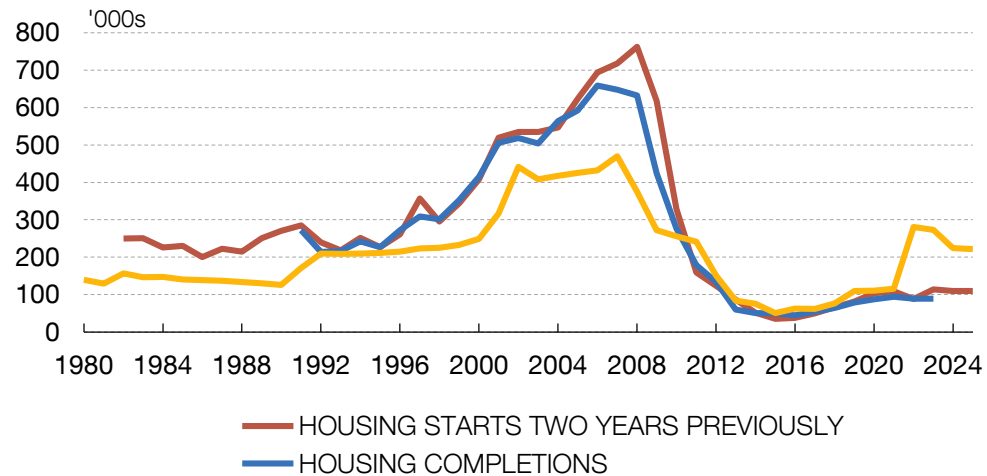
(a) The LTP ratio is the ratio of the mortgage principal to the house purchase price. The LTV ratio is the ratio of the mortgage principal to the appraisal value of the house. The average values of these ratios are weighted by the capital of each mortgage and are calculated for new mortgages. The LTP>80% and LTV>80% series show the percentage of loans extended in each quarter with LTP and LTV ratios, respectively, of over 80%.

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

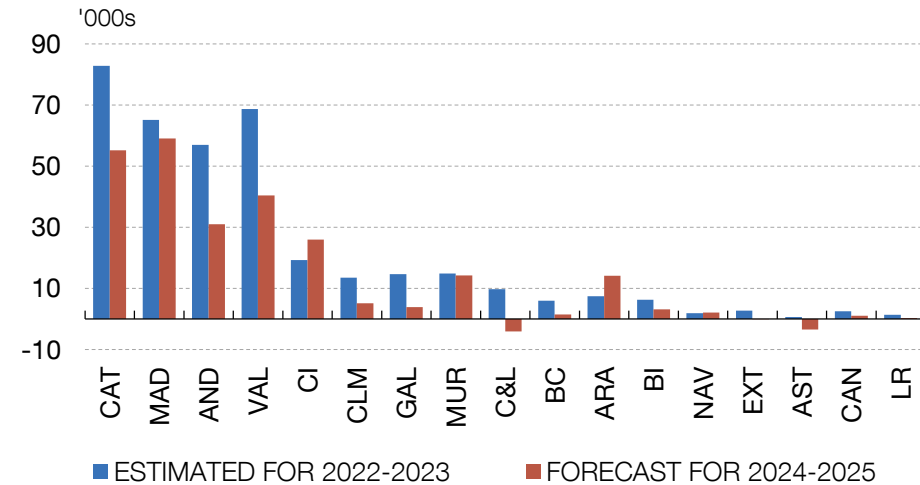
# NEW HOUSING SUPPLY

- Since 2021, the number of new houses completed has stabilised at around 90,000 units per year – compared with an average of 650,000 per year between 2006 and 2008
- This volume is significantly lower than the net household formation figure relating to 2022 and 2033, which is unprecedented in the history of the Spanish real estate market. The differential built up in 2022 and 2023 between net household formation and new housing production was approximately 375,000 units. Also, in 2024 and 2025, the projections of net household formation, along with the volume of current housing starts that will be completed during this period, will give rise to an additional shortage in excess of 225,000 homes
- The shortage of new housing is particularly intense in the regions with the highest population growth and tourism activity

**HOUSING AND NET HOUSEHOLD FORMATION (a)**



**DEFICIT/SURPLUS OF NEW HOUSES BY REGION (b)**



Sources: INE, Ministerio de Vivienda y Agenda Urbana, Ministerio de Transportes y Movilidad Sostenible and Banco de España.

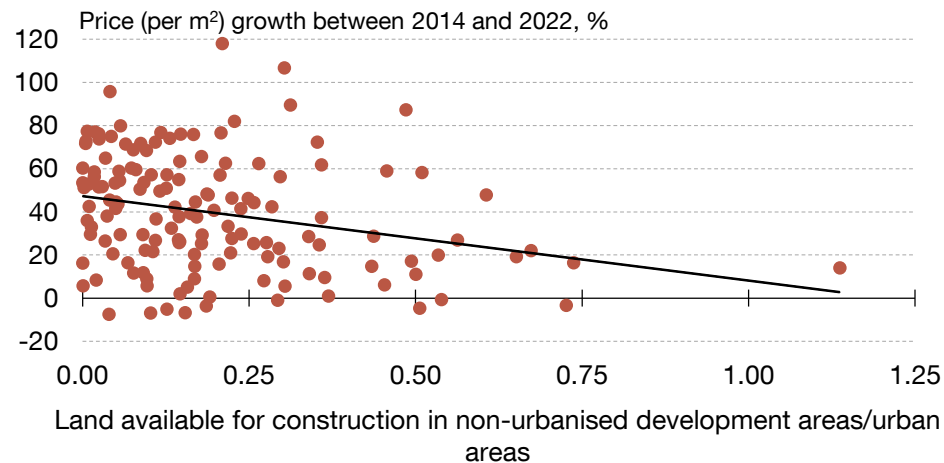
(a) Net household formation to 2021 is based on the census and continuous registers published by the INE, while for 2022 and 2023 the figures are the average annual change in households (based on quarterly data from the INE's Continuous Population Statistics). Net household formation for 2024 and 2025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

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

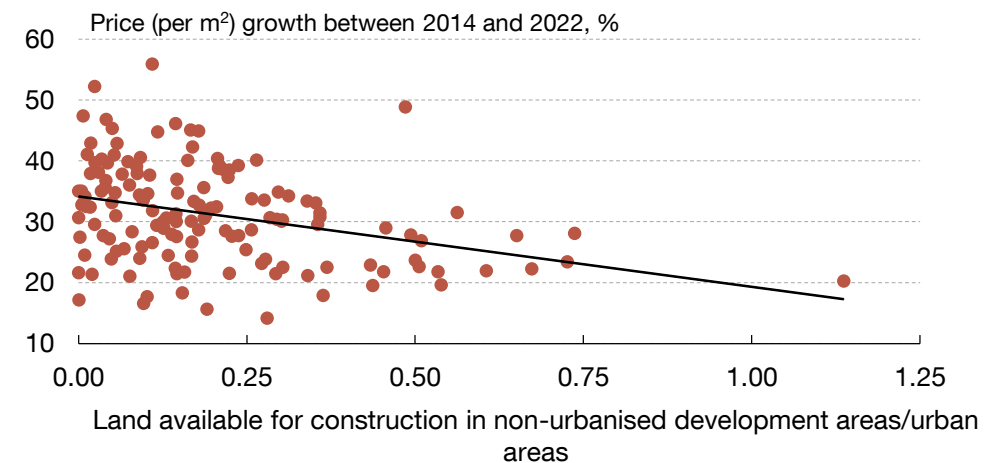
# DETERMINANTS OF NEW HOUSING SUPPLY

- The evidence indicates that both purchase and rental real estate prices have tended to grow more in municipalities with a lower relative availability of build-ready land
- Other factors that effect the new housing supply include the labour shortage (55% of the businesses in the construction industry that participated in the Banco de España Business Activity Survey reported at end-2023 that the labour shortage had a negative impact on their activity) ...
- ... and the lack of investments in the acquisition and development of new urban land (owing, in part, to the high uncertainty associated with the profitability of these investments and the limitations to the availability of funding for these activities), which has been especially significant in build-to-rent activities and in the social rental housing segment

**HOUSE PRICES AND AVAILABLE LAND (a) (b)**



**RENTAL PRICES AND AVAILABLE LAND (a) (b)**



Sources: Ministerio de Vivienda y Agenda Urbana and Banco de España using data from the Colegio de Registradores and the AEAT Tax Studies and Statistics Service.

(a) The ratio of available land is calculated in relation to urban land in 2014. Land available for construction in development areas corresponds to the latest figure available for the period analysed.

(b) Calculations made for municipalities with more than 50,000 inhabitants, excluding those in Navarre and the Basque Country.



# EMPTY HOMES, HOME RENOVATIONS AND ALTERNATIVE USES

## Empty homes

- There are slightly fewer than 4 million empty/unoccupied homes. However,
  - they are largely concentrated in areas with less demographic buoyancy (in cities with more than 250,000 inhabitants, empty homes account for around 400,000 units)
  - a significant proportion of them is in poor condition, with suboptimal accessibility or very low energy efficiency (their mobilisation would require their prior renovation)
  - the stock of unsold new housing (around 450,000 units) has not declined in recent years despite the surge in demand, which could indicate a mismatch between these houses and current household preferences

## Renovation

- Home renovation permits stood at around 25,000 in 2023, with the annual ratio of renovated housing in Spain standing at 0.1%, compared with 2% in France, 1.5% in Germany and 0.8% in Italy
- The Spanish Recovery, Transformation and Resilience Plan aims to reach 300,000 renovated homes per year by 2030. The expected revitalisation of this activity could be hampered by the shortage of skilled labour and the location of some empty homes requiring renovation in areas of lower demand

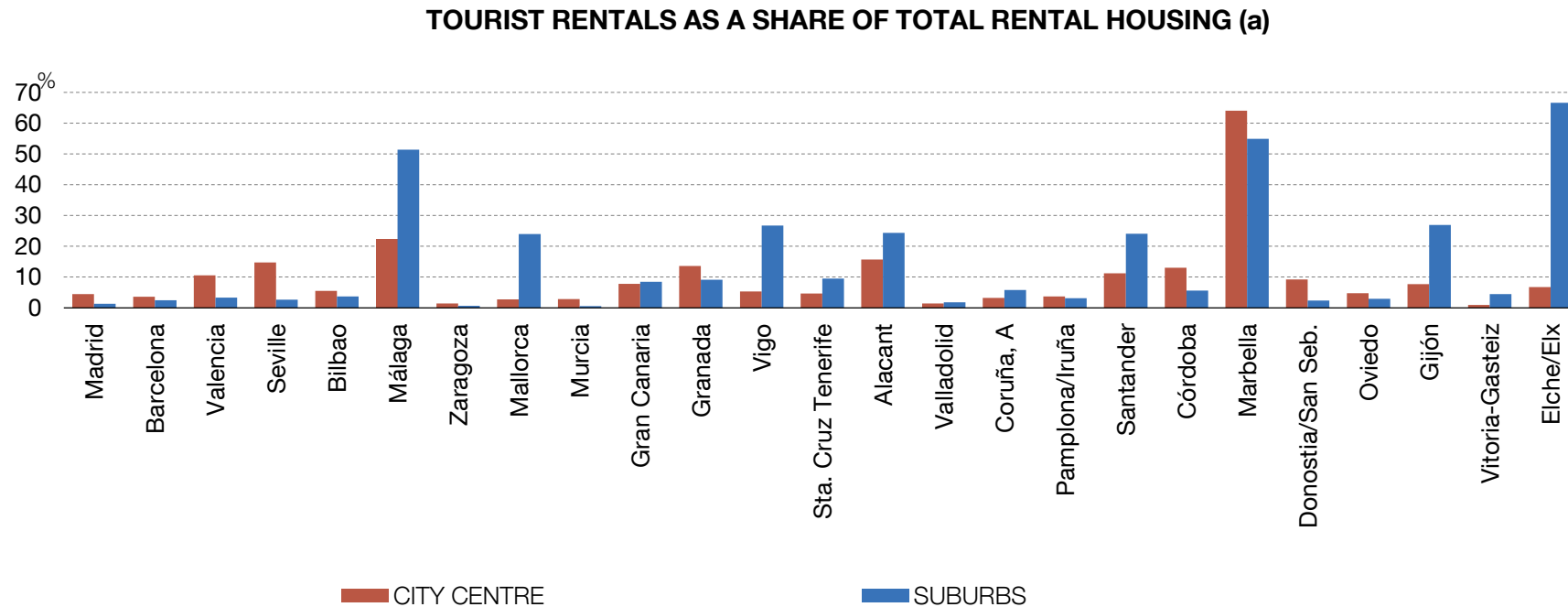
## Tourist and seasonal rentals

- Holiday rentals are estimated to account for 340,000 homes, nearly 10% of the rental market, although this is highly uneven across geographical areas
- Rapid growth is observed in seasonal rentals (according to estimates based on data drawn from real estate portals, in 2023 this type of rental accounted for 10% of the total supply of rental housing, albeit also with exceptional unevenness across regions) which appear to have a laxer regulatory framework that is more favourable for owners
- Other alternative uses are also emerging, such as the use of residential housing for room rentals



# GEOGRAPHICAL HETEROGENEITY IN TOURIST RENTALS

- This activity is concentrated in the **main tourist areas** in **certain urban areas** (such as Málaga, Marbella, Elche and Palma de Mallorca) and in the **central districts of the major cities** with the most tourist activity (Barcelona, Madrid, Seville and Valencia)
- According to the economic literature, **neighbourhoods in which there is a greater presence of tourist rentals (displacing residential housing) experience larger relative increases in house purchase and rental prices**



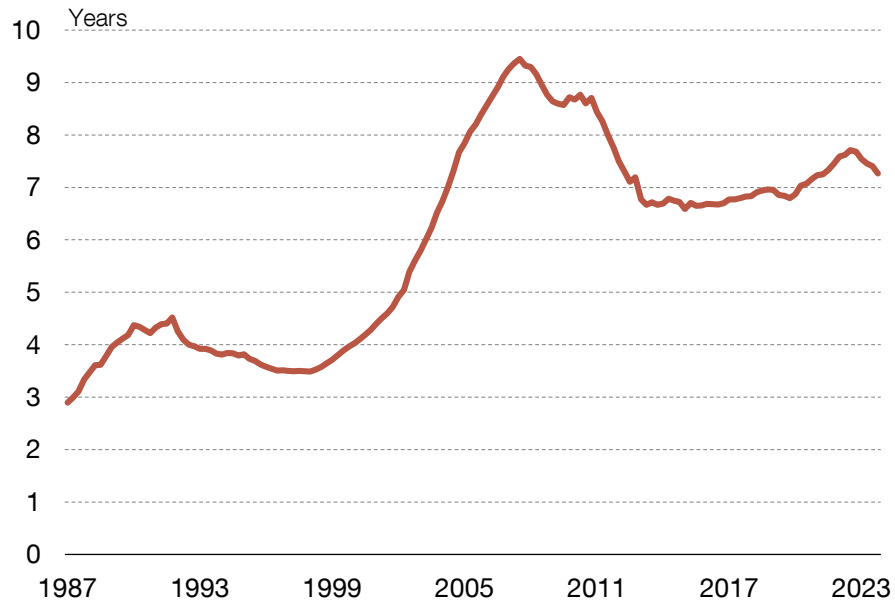
Sources: INE and Banco de España.

(a) Calculated for the 25 largest urban areas as the ratio of tourist housing in August 2023 to the latest figure available for the number of residential rental houses at municipal level (Population and Housing Census 2021).

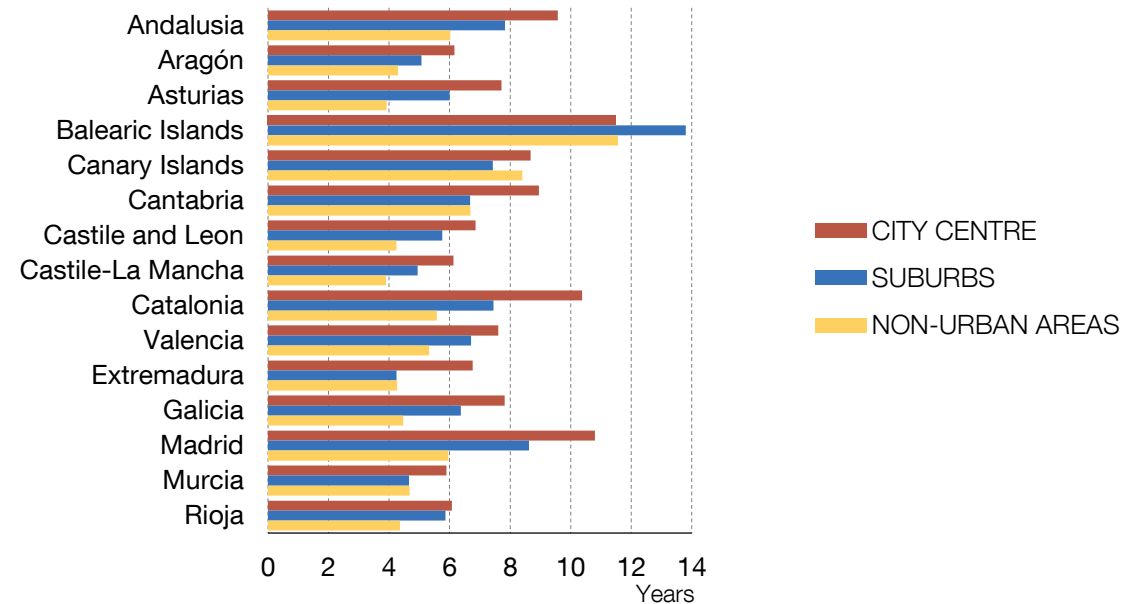
# PURCHASE PRICE-TO-HOUSEHOLD INCOME RATIO

- In terms of the years of current income needed to pay off a house, the theoretical burden associated with house purchase has risen in Spain in recent years (to slightly more than seven years) as it has in other nearby countries
- In 2021, this theoretical burden was greatest among non-home owners (7.4 years for renter households, compared with 4 years for homeowners) and, within this segment, among young people (7.7 years) and foreign-born households (7.8 years), owing to their lower income levels. This affordability indicator is higher, for non-home owners in urban areas and in regions with greater tourist and economic activity

**POTENTIAL HOUSE PURCHASE BURDEN (a)**



**INITIAL BURDEN OF HOUSE PURCHASE IN 2021 (b)**



Sources: Banco de España, based on data from the AEAT Tax Studies and Statistics Service, and Household Panel.

(a) Defined as the ratio of the average house price to the gross income of the median household.

(b) 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. No data are available for Navarre and the Basque Country.

# MORTGAGE INSTALMENT-TO-HOUSEHOLD INCOME RATIO

- This indicator, which proxies the regular financial burden entailed by an average mortgage instalment, has increased by some 8 pp since end-2021, to stand at close to 40% of the median household's gross disposable income in 2023

## THEORETICAL REGULAR FINANCIAL BURDEN OF HOUSE PURCHASE (a)



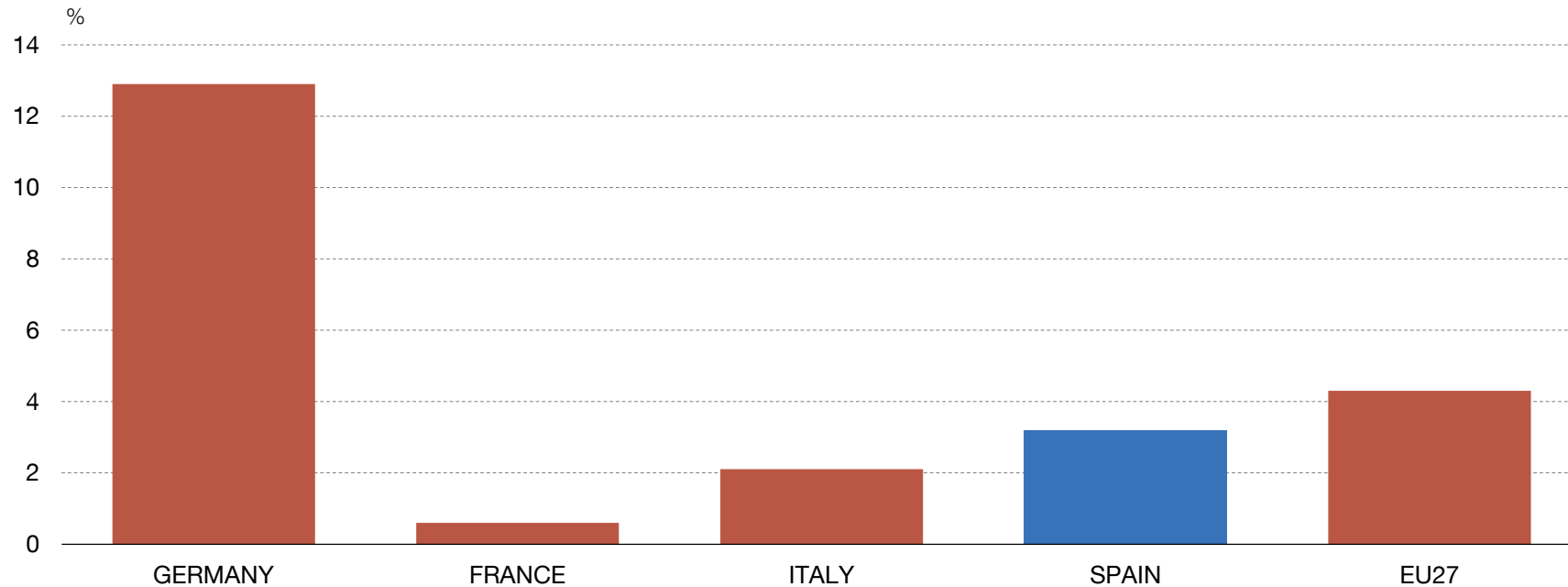
Source: Banco de España.

(a) “Annual theoretical burden” calculated as the instalments paid by a median household in the first year of a mortgage on a standard home, financed with a standard loan amounting to 80% of the property's appraisal value, relative to gross household disposable income. This gross burden is not adjusted for the tax benefits in force until December 2012.

# OVERBURDENED MORTGAGED HOUSEHOLDS

- Selective lending by banks, which only extend credit to households with sufficient savings and income relative to the house purchase price, helps to explain the **low proportion of overburdened mortgaged households** in 2022 both in Spain and in the EU27 as a whole

OVERBURDENED MORTGAGED HOUSEHOLDS IN 2022 (a)



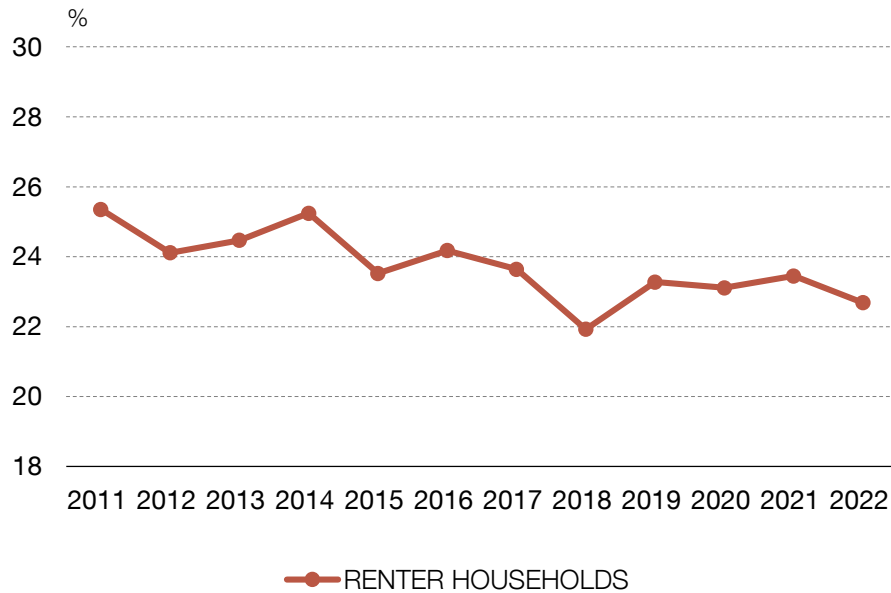
Source: Banco de España, drawing on EU-SILC (2023) data.

(a) Eurostat sets the overburden threshold at 40% of gross household income. It considers households above this limit to be overburdened. Housing costs include both mortgage instalments on loans to purchase main residence and utilities (e.g. water, gas and electricity).

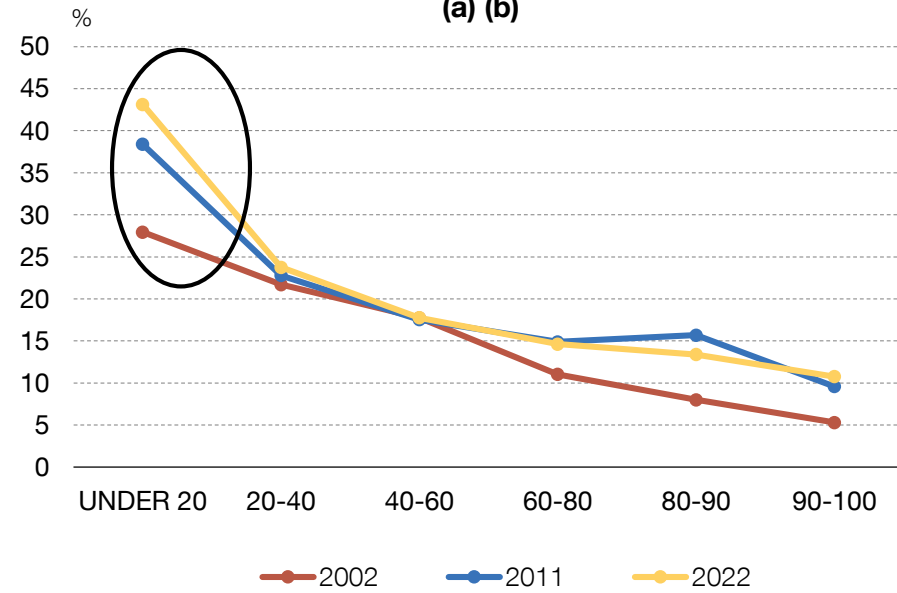
# RENT COST BURDEN

- The median cost burden for households paying market rents has declined slightly over the last decade, from 25.5% of gross income for the median renter household in 2011 to 22.5% in 2022
- However, the burden among lower income groups is substantially higher and has increased in the last two decades. In particular, in 2022 the median rent cost burden in the first quintile of the income distribution was around 45% of gross income

**MEDIAN PERCENTAGE OF INCOME SPENT ON HOUSING COSTS (a)**



**MEDIAN PERCENTAGE OF INCOME SPENT ON HOUSING COSTS. RENTER HOUSEHOLDS, BY INCOME PERCENTILE (a) (b)**



Source: Banco de España, drawing on EU-SILC (2023) data and the EFF.

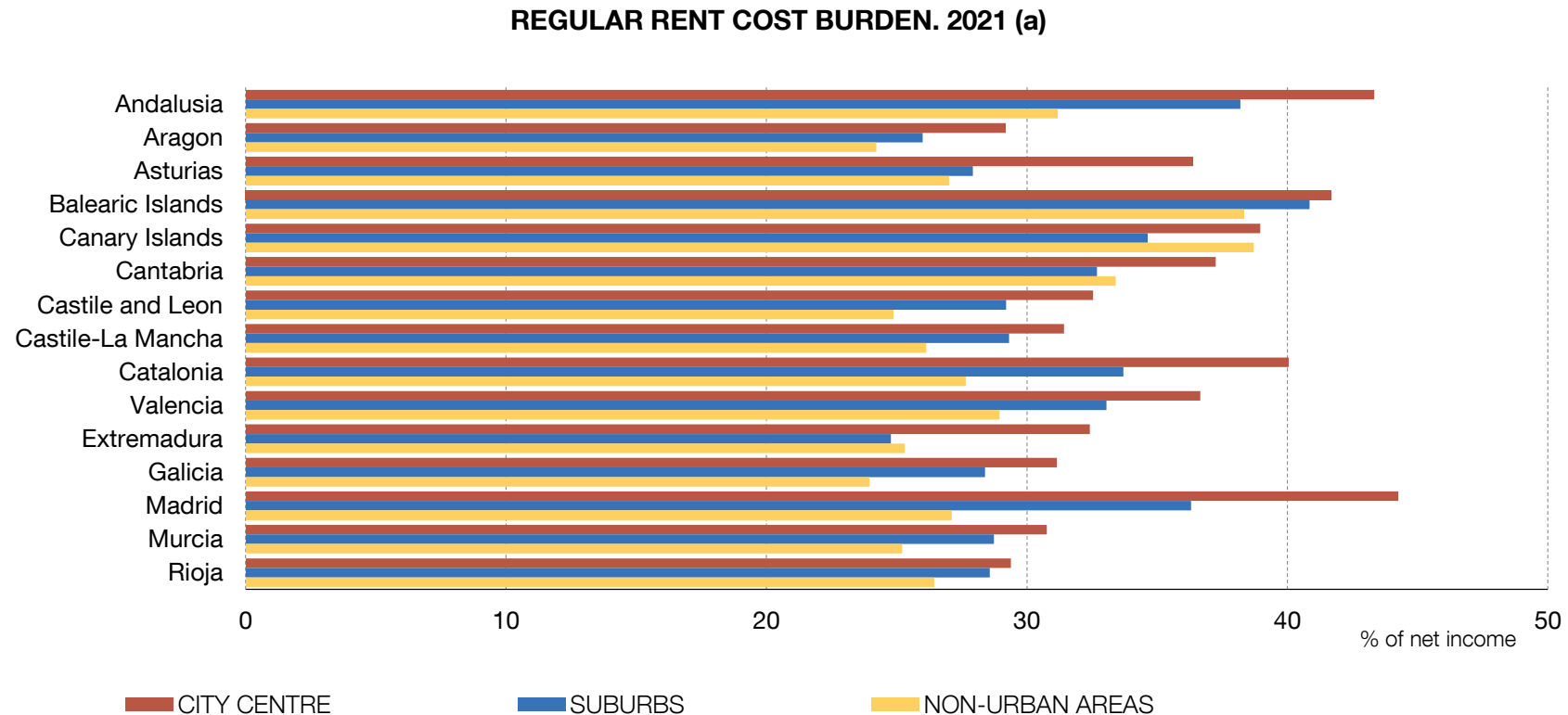
(a) Housing costs refer to rent payments. The household's gross income for the year prior to the survey is used. Only households renting at market rates are included.

(b) The data for 2002 and 2011 are taken from the Spanish Survey of Household Finances (EFF) and those for 2022 from the EU-SILC.



# GEOGRAPHICAL HETEROGENEITY IN THE RENT COST BURDEN

- In 2021 and for the average household, the potential cost burden of renting a house, in net income terms, exceeded 25%. However, the highest ratios (around 40% of net income) were found in urban areas with the strongest population dynamics and the most tourism activity

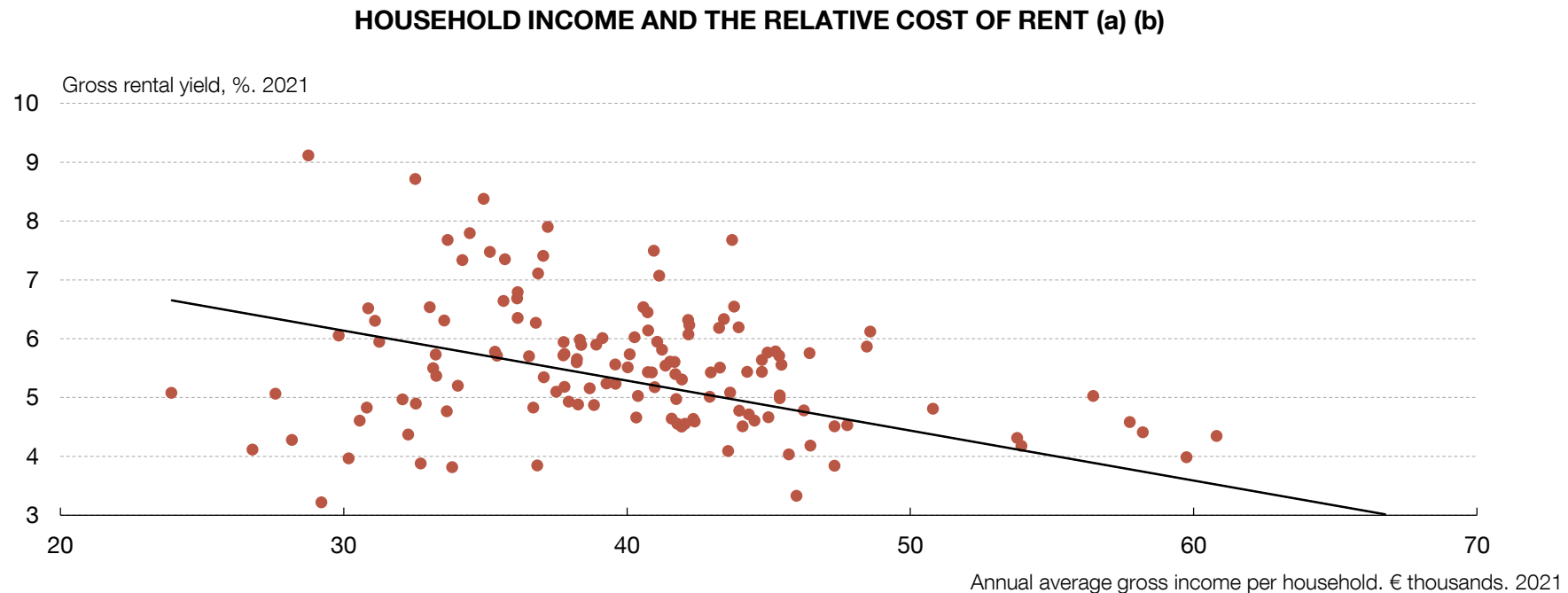


Sources: Household Panel (INE, AEAT, FSR 2023) and Banco de España based on data from the AEAT Tax Studies and Statistics Service.

(a) Calculated for non-homeowner households in the different regions as the ratio of the average rent in the household's municipality of residence to net household income. Navarre and the Basque Country are not included since rent price information is not available for those regions.

# THE RELATIVE COST OF RENT AND HOUSEHOLD INCOME

- Gross rental yields (GRYs) are higher in lower-income areas
- This may owe, at least in part, to landlords applying a positive risk premium to rent prices in these areas
- Alternatively, these higher GRYs might reflect stronger rental demand in these areas, due to households living there finding it harder to access mortgage loans



Sources: INE and Banco de España based on data from the Colegio de Registradores and the AEAT Tax Studies and Statistics Service.

(a) 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.

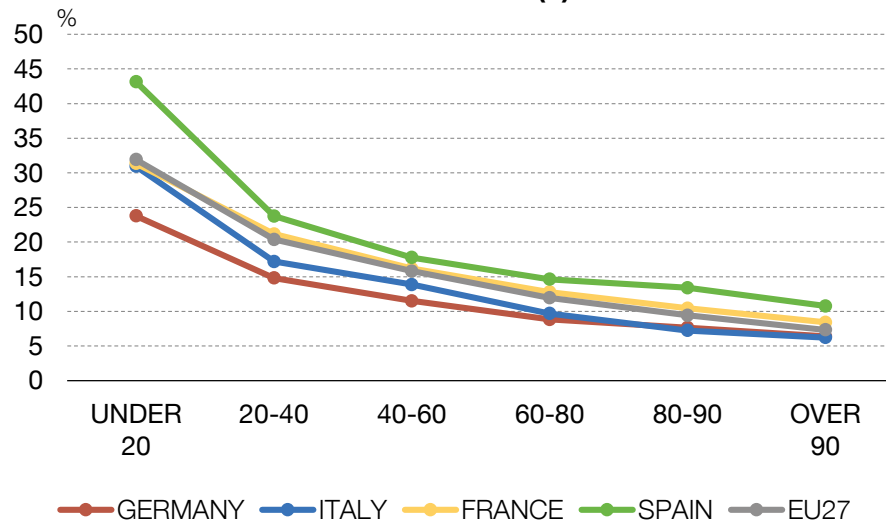
(b) Calculated for municipalities with more than 50,000 inhabitants, excluding those in Navarre and the Basque Country.



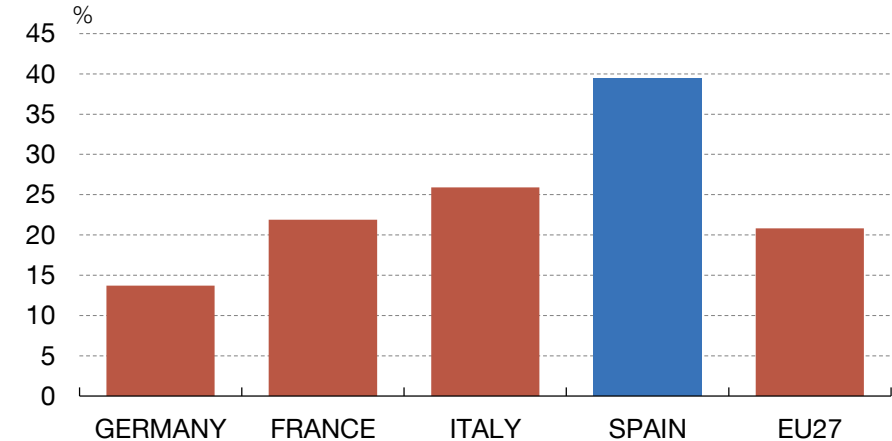
# OVERBURDENED RENTER HOUSEHOLDS

- In 2022, Spanish households renting at market prices bore a larger cost burden (relative to their gross income) than their peers in the main European economies. This was true across all of the income percentiles considered. However, the rent burden differential vis-à-vis other countries was particularly marked in the lower tail of the income distribution, where overburdening is concentrated
- Thus, in 2022, around 40% of Spanish households paying market rents were overburdened, 20 pp more than the EU27 average

**MEDIAN PERCENTAGE OF INCOME SPENT BY RENTER HOUSEHOLDS ON HOUSING COSTS. 2022, BY INCOME PERCENTILE (a)**



**OVERBURDENED RENTER HOUSEHOLDS. 2022 (b)**



Source: Banco de España, based on EU-SILC (2023) data.

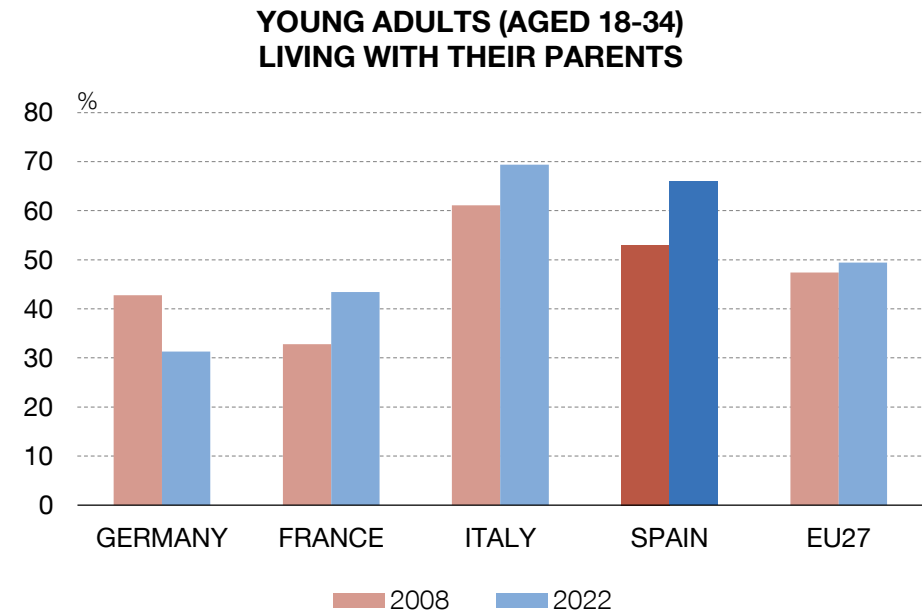
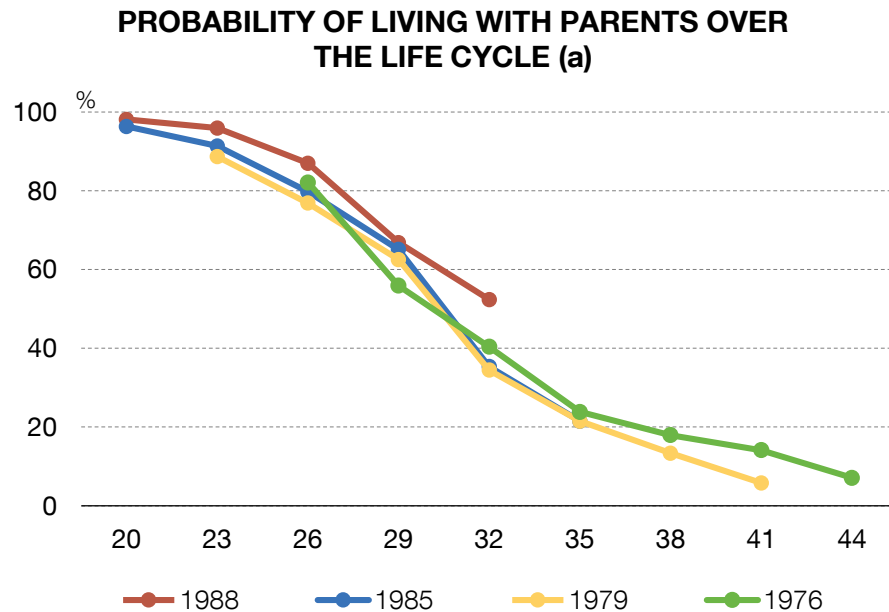
(a) Housing costs refers to rent payments. Only households renting at market rates are included.

(b) Eurostat sets the overburden threshold at 40% of household disposable income. It considers households above this limit to be overburdened. Housing costs include mortgage instalments or rent payments, along with utilities (e.g. water, gas and electricity).



# YOUNG PEOPLE: THE DECISION TO LEAVE THE FAMILY HOME

- The **age at which young people move out of the family home has been steadily rising** since 1980. In the period 2008-2022, of the main European countries, Spain recorded the largest increase in the proportion of young people aged 18-34 living in the family home
- **Rentals:** In 2022, just 12.5% of young people aged 18-34 in Spain rented their homes, compared with 52.5% in Germany, 35.5% in France and the EU27 average of 20%.
- **Home ownership:** At the same time, in 2022 the share of young home owners in Spain (around 17.5%) was similar to that in Italy and in France, but higher than in Germany (around 13.5%).



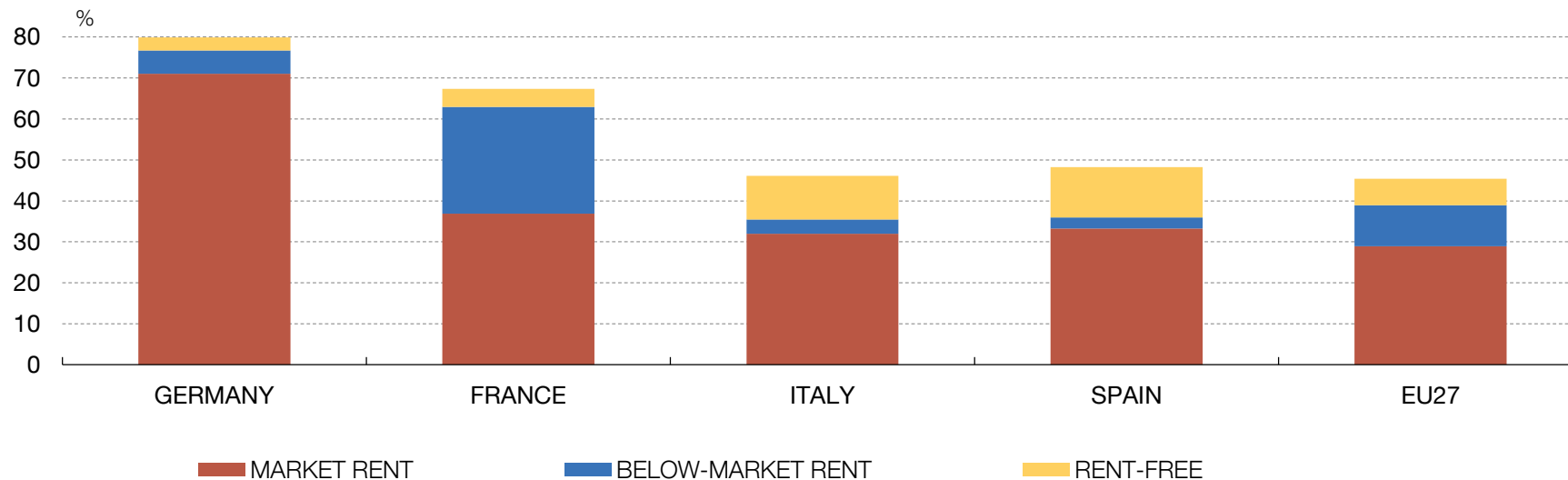
Sources: EFF (2002-2020) and EU-SILC (2023).  
 (a) By year of birth. Cohorts from 1976 to 1988.



# RENTED HOUSING AMONG YOUNG PEOPLE WHO HAVE LEFT THE FAMILY HOME

- In 2022, 48.5% of Spanish households with a reference person aged 18-34 were not homeowners, some 3 pp above the EU27 average, having increased sharply in Spain over the last decade
- Spain has a high share of young households using a dwelling rent-free (12.3% compared with 6.5% for the EU27), which may be testimony to the significant role played by family support in the case of households with greater financial resources
- By contrast, the share of young households in Spain paying below-market rents (2.7%) is very low compared with the EU27 average (10%), due to the low proportion of social rental housing

YOUNG HOUSEHOLDS LIVING IN RENTED HOMES. 2022 (a)

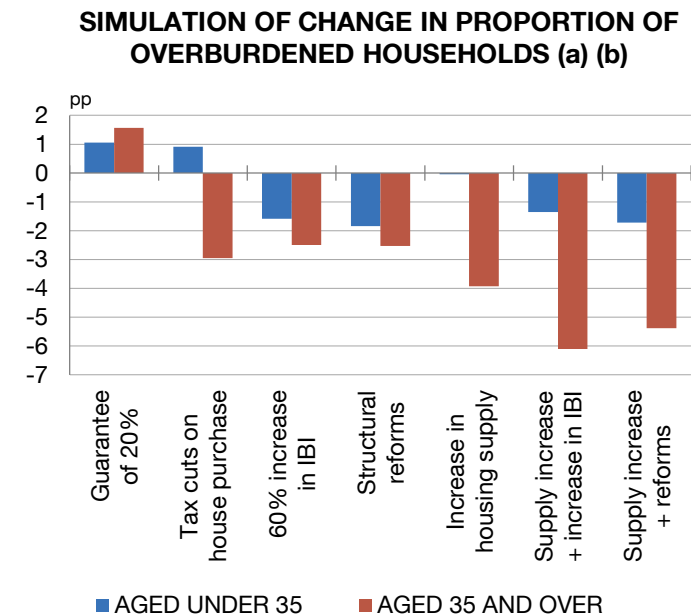
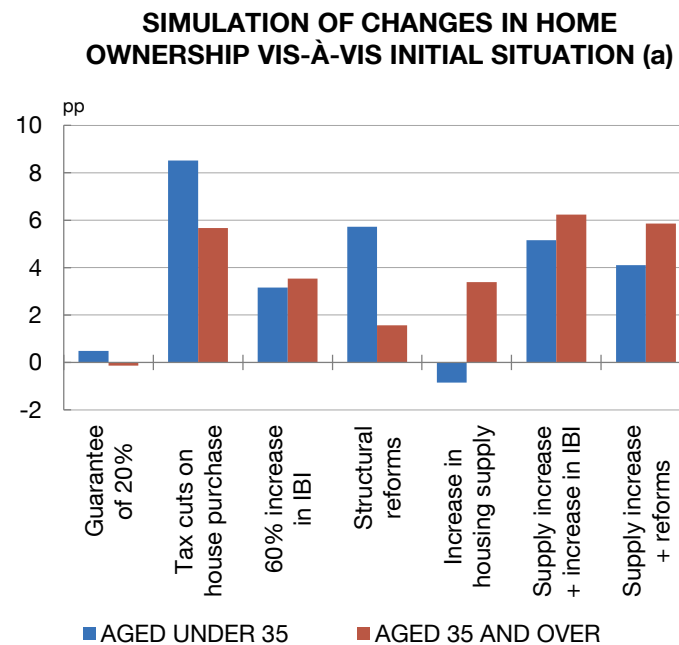
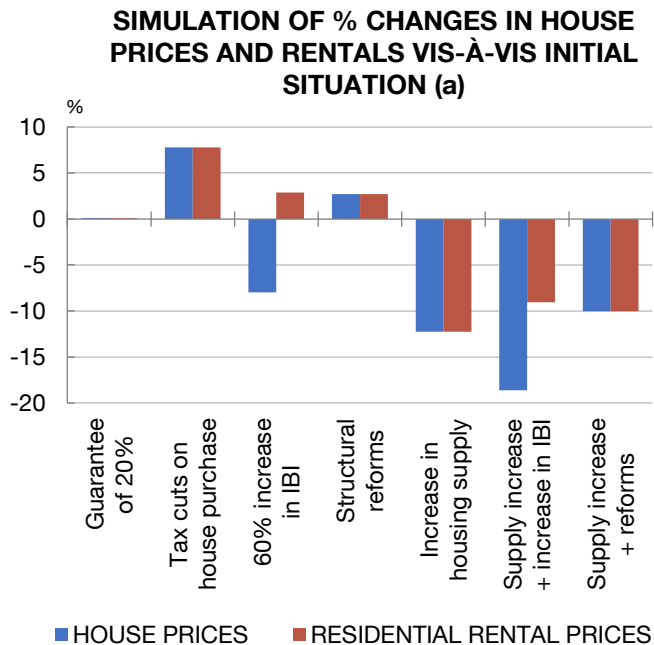


Source: EU-SILC (2023).

(a) 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.

## BOX 4.2: AN ANALYSIS OF ALTERNATIVE PUBLIC POLICIES TO REDUCE THE PROBLEMS OF HOUSING AFFORDABILITY

- The measures that have the most positive impact on housing affordability (home ownership and rentals) are those affecting housing supply and household income determinants; they could be complemented by increasing the share of real estate taxation accounted for by recurrent taxes (property tax).
- Measures that affect final prices – through lower taxes on transactions – with no accompanying supply measures have a very high cost in terms of revenue and may exacerbate housing affordability difficulties among lower-income households.
- Introducing public guarantees for house purchases would have a limited impact, as many renter households have little savings, which limits their leverage capacity to prudent levels.



Source: Banco de España.

(a) The “Tax cuts” scenario envisages eliminating the taxes and associated expenses on house purchases which amount to 10% of the purchase price. The “Structural reforms” scenario considers the effects of a set of policies that in total would raise the relative income of young households (aged under 35) by 15%.

(b) The housing cost burden is defined as the ratio of rental payments or mortgage instalments to a household’s net income.