

Box 1

DEBT FOR PURCHASE OF MAIN RESIDENCE: DEVELOPMENTS ANALYSED BY AGE GROUP

Household debt for purchase of main residence¹ is usually closely linked to the household's stage in the life cycle. A household will typically incur debt when young, allowing future income to be leveraged for the house purchase. The propensity to borrow depends, in any case, on households' preferences with regard to owning or renting, as well as home ownership affordability and access to credit. Middle-aged indebted households tend to generate savings, which they use to gradually pay off their debt. That said, changes in their financial situation or household size could lead to increased debt in some cases. Households generally reach old age with the bulk of their debt paid off, although there are financial instruments that allow them to borrow money against the value of their home.² Accordingly, the demographic structure of a country influences the household sector's degree of indebtedness.

In line with the life cycle theory, the Spanish Survey of Household Finances (EFF, by its Spanish initialism) shows, in each of its waves up to 2011, a high concentration of debt for purchase of main residence in the group of households under 45 years of age,³ with a percentage close to or above 70% (see Chart 1). However, later waves of the EFF show a marked decline in the share of debt held by this group of households, falling to 42% of the total in 2022 (the latest wave available). The decline is particularly marked for the youngest household group, those under 35.⁴

This trend could reflect the decline in the proportion of young households in Spain, against the backdrop of a secular fall in fertility since the mid-1970s and an increase in the age at which young people leave the family home, together with the ageing of the baby boom generation (those aged 47-62 in 2022).⁵ Households below the age of

45 accounted for 25% of the population in 2022, according to the EFF, compared with 37% in 2002 (see Chart 2).

However, the decline in the share of debt held by young households also reflects their lower propensity to borrow, relative to previous cohorts, which is largely linked to home ownership becoming less affordable for these young households.⁶ While the share of households with debt for purchase of main residence has remained relatively stable at around 28% since 2014 for the population as a whole, developments have been uneven across age groups (see Chart 3). For instance, this share has fallen considerably among young households, particularly the very youngest. In 2022 40% of households under 45 had a loan related to their main residence, compared with more than 50% towards the end of the period 2000-2010.⁷ By contrast, the share of households between the ages of 45 and 54 with real estate debt rose from 32% in 2011 to 42% in 2022.

Moreover, as Chart 4 shows, among indebted households, the average amount of outstanding debt per household decreased by 25% in real terms⁸ between 2014 and 2022. This decline is relatively broad-based across age groups, except for the oldest households, although the volume of debt for purchase of main residence is very small in this latter group.

These age group-related developments have shaped indebtedness in the sector as a whole. According to the aggregate credit indicators, households' debt for house purchase decreased by more than 25 percentage points of gross disposable income (GDI) between 2014 and 2022 in Spain, while it increased slightly in the euro area, resulting in a convergence in levels of this type of debt between the two areas (see Chart 5).⁹ The EFF shows a

1 The main residence accounts for more than 40% of gross household wealth according to the latest wave of the Spanish Survey of Household Finances.

2 For example, a reverse mortgage allows those over 65 to receive periodic payouts that only come due after their death. Unlike a normal mortgage, the debt grows with time.

3 A household's "age" refers to the age of the reference person, i.e. the person who is most familiar with the household's finances and responds to the survey.

4 Note that only a small percentage of households are under 35, so the findings of the EFF may be less precise for this age bracket.

5 This covers those born between 1960 and 1975.

6 See the analysis and discussion in Banco de España. (2024). "Chapter 4. The Spanish housing market: recent changes, risks and affordability problems". In Banco de España, *Annual Report 2023*, pp. 208-272.

7 This is exemplified by the fact that around 50% of younger households owned their main residence in 2022, compared with more than 70% between 2002 and 2011. For more detailed analysis, see, for example, Clodomiro Ferreira, Julio Gálvez and Myroslav Pidkuyko. (2024). "Housing Tenure, Consumption and Household Debt: Life-Cycle Dynamics during a Housing Bust". Documentos de Trabajo, Banco de España. Forthcoming.

8 Unless otherwise indicated, debt is expressed in real terms and indexed to 2022, as reported in EFF results, and with the consumer price index (CPI) as a deflator.

9 Note that, based on Financial Accounts of the Spanish Economy data and breakdowns of bank lending by purpose, the aggregate housing debt ratio started to decline earlier, from 2010 onwards.

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similar decline in housing-related debt in this period, largely driven by the reduction in debt for purchase of main residence, but also shaped by a lower level of debt for purchase of other real estate properties.

We analyse the process of debt reduction in Spain by age group, with a focus on debt for purchase of main residence, drawing on data from the various waves of the EFF between 2014 and 2022. The real debt of each age group is expressed as the product of “average nominal debt per indebted household”, “proportion of indebted households”, “number of households” and

“price deflator” as illustrated by the following expression:

$$\sum_{i=1}^N \text{debt}_i \text{ (total debt)} = \frac{\sum_{i=1}^N \text{debt}_i \times \text{CPI}}{\text{number of indebted households}} \times \frac{\text{number of indebted households}}{\text{number of households}} \times \text{number of households} \times \frac{1}{\text{CPI}},$$

where debt_i is the outstanding amount at constant 2022 prices of the debt for purchase of main residence of each household i in that age group. The change in debt for each

Chart 1
Debt for purchase of main residence and distribution by age group (a)

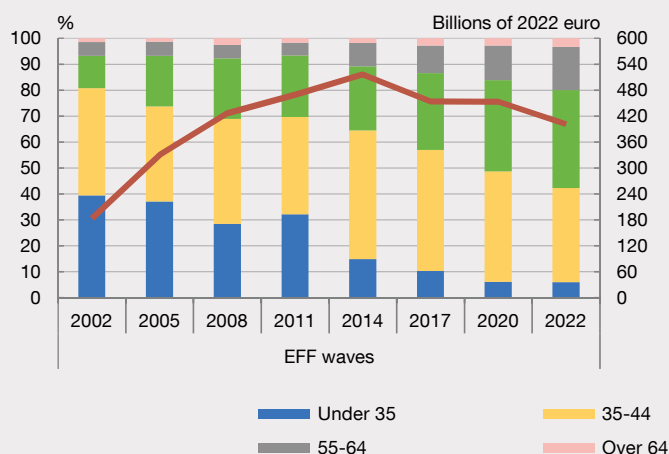


Chart 2
Number of households and distribution by age group

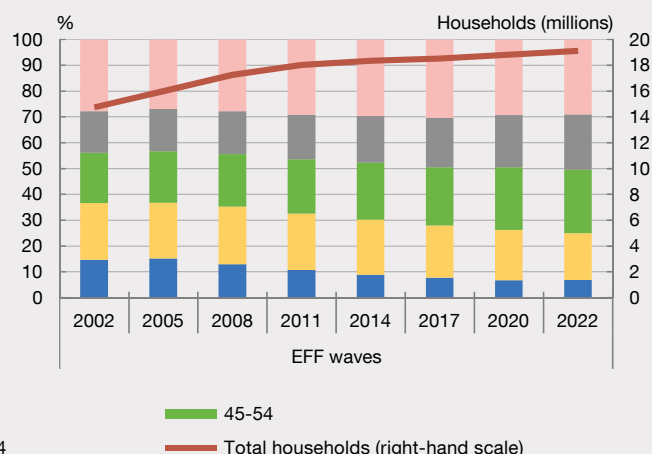


Chart 3
Debt for purchase of main residence. Percentage of indebted households

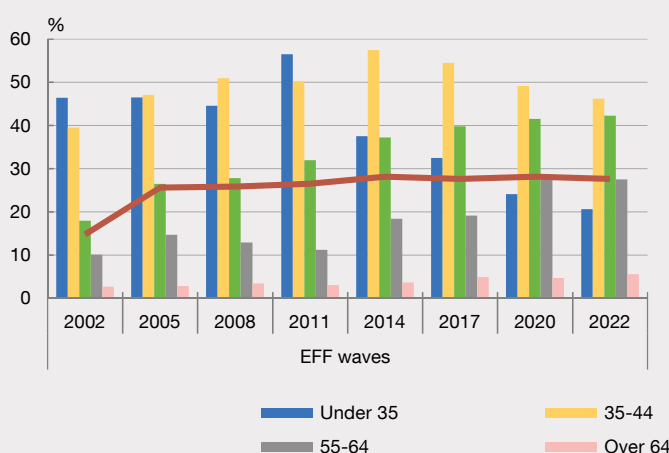
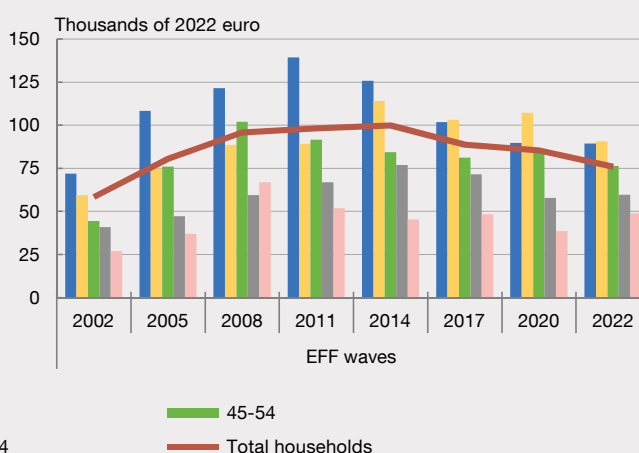


Chart 4
Debt for purchase of main residence. Average per indebted household (a)



SOURCE: Banco de España.

a Debt shown in real terms in 2022 euro with the CPI as a deflator.

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age group between 2014 and 2022 is decomposed approximately into these four factors on the basis of changes in each component between the different survey waves.¹⁰ This decomposition, in real terms, is presented by aggregating the changes between waves for three age groups (see Chart 6).

For young households, aged under 45, the decomposition indicates that all factors have contributed to debt reduction, although the smaller proportion of indebted households made the largest contribution. The lower proportion of indebted households in this age group is directly related to the deterioration in home ownership affordability for young households, which has driven a shift in the housing market from the purchase segment to the rental segment.¹¹ The rest of the decline is shared

equally between the other three components. Inflation has significantly cut the debt's real value. Inflation for the period as a whole stands above 17%, but most of it was concentrated between the last two survey waves (2020 and 2022), when it was over 12%. The effect of the fall on the number of young households is not purely demographic in nature, since empirical evidence¹² shows that access to and cost of financing also influence household formation. Lastly, part of the decline in the average debt could be explained by the use of the extraordinary savings accumulated during the pandemic for the early repayment of loans.¹³

The volume of real aggregate debt of middle-aged households – between 45 and 64 – rose between 2014 and 2022 as a result of both the higher number of

Chart 5
Loans for house purchase

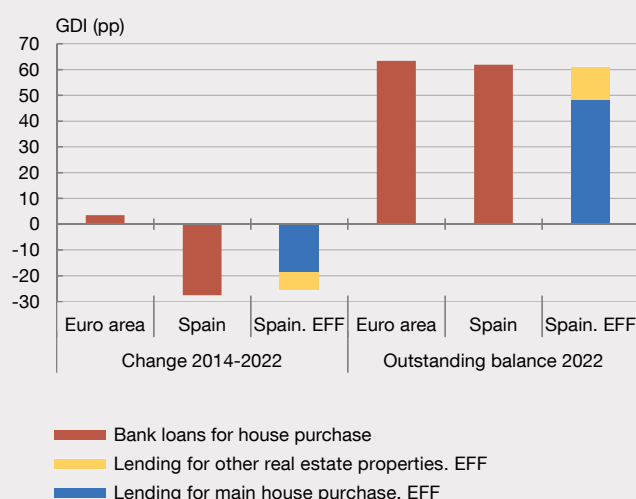
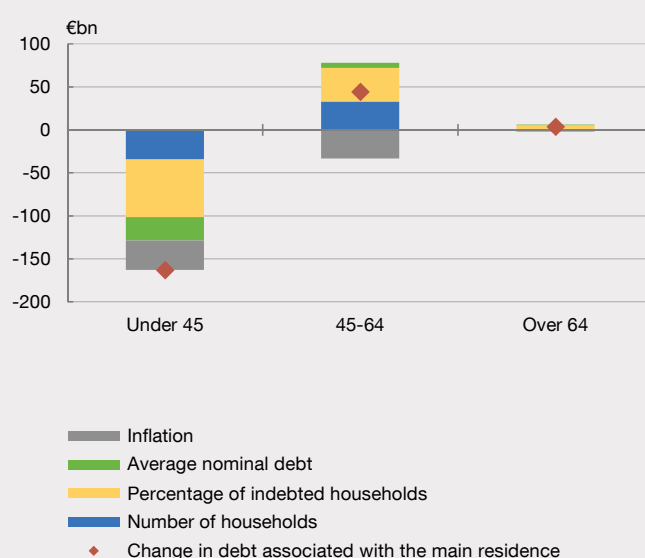


Chart 6
Change in real debt between 2014 and 2022 by age group. EFF. Main residence (a)



SOURCES: EFF and Banco de España.

a The real total debt of each age group is expressed as the product of the average nominal debt of indebted households, the proportion of indebted households, the number of households and the inverse of the price deflator (proxied by the CPI). Each factor's contribution is approximated drawing on its logarithmic change.

¹⁰ These changes are calculated with a logarithmic approximation that ensures that the components add up to the total.

¹¹ For more details, see Banco de España. (2024). "Chapter 4. The Spanish housing market: recent changes, risks and affordability problems". In Banco de España, *Annual Report 2023*, pp. 208-272..

¹² See Nuno Martins and Ernesto Villanueva. "Does High Cost of Mortgage Debt Explain Why Young Adults Live with their Parents?". *Journal of the European Economic Association*, 7(5), pp. 974-1010 and the Box "Changes in the loan-to-price ratio and property market dynamics". In Banco de España. (2020). "The housing market in Spain: 2014-2019". Documentos Opcionales, 2013, Banco de España.

¹³ See Pana Alves and Carmen Martínez-Carrascal. (2023). "The accrual and use of the excess savings built up by Spanish households since the onset of the pandemic". *Economic Bulletin - Banco de España*, 2023/Q2, 08.

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households (due to the progressive concentration of the baby boom generation in that age group) and the increasing share of those with debt. The higher participation in the credit market in this age group reflects the ageing of cohorts that borrowed to purchase housing during the real estate boom of the 2000s. This is partly due to the lengthening of mortgage maturities that was seen in the run-up to the global financial crisis. The average nominal debt of indebted households has remained broadly unchanged in this age group, but inflation has contributed significantly to the decline in the real value of the debt.

There has been little change in the level of aggregate debt in the group of households aged over 65, with each factor's contribution being practically neutral. This is testimony to the negligible level of real estate debt in this

group, as those that acquired debts when they were younger have paid them back by the time they reach this age.

In summary, over the past few years there has been a significant decline in the debt for purchase of main residence, particularly among younger households. This reflects two factors. First, the ageing of the baby boom generation, which appears to have resulted in the recent cohorts of households aged 45 to 64 having more debt. Second, it is the result of a sharp drop in the participation of younger households in the credit market, driven by the more pronounced home ownership affordability difficulties for this group. A further effect is associated with the fall in the number of young households – a factor that appears also to be partly linked to housing affordability difficulties (whether to buy or to rent).