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RECENT DEVELOPMENTS IN THE RENTAL HOUSING
MARKET IN SPAIN

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ABSTRACT

The proportion of the population living in rental housing in Spain is low compared with the main EU economies. However, in recent years there has been a perceptible rising trend in the relative weight of rental housing in the Spanish residential market. The most significant and dynamic aspects of this development are concentrated in specific groups (essentially young households, immigrants and temporary workers) and specific areas (above all in Madrid, Catalonia, the Balearic Islands and the Canary Islands). One key factor behind the rise in the demand – especially among young households – for residential rentals is the difficulties lower-income groups face in raising their income. This is due to still-high unemployment, the scant duration of new employment contracts and the greater significance of shorter contract hours. The reduction in the average loan-to-value ratios of new mortgages, the concentration of economic activity in geographical areas with a rigid supply of residential housing and the tax arrangements associated with housing are other factors that have contributed to a notable increase in demand in the market for residential rentals in Spain. The rise in demand concentrated in specific markets set against a relatively rigid supply of residential rentals in the short term would explain the dynamism of rental prices in these locations. Such robust demand in specific markets has been countered only in part by the increase in private supply following the entry of new professionalised agents in the rental market. Encouraging these new entrants will have been the increase in the gross return on residential rentals in the 2014-2017 period. The diminished buoyancy of supply has come about against the background of the weak public supply of rentals, marked by the emergence of alternative sources for residential housing such as the holiday rental. For a fuller analysis of the residential rental market in Spain, greater socio-demographic and economic information would be needed – including rental prices – at the municipal level or with the greatest geographical breakdown possible.

Keywords: residential rental market, asking rental prices, housing affordability.

JEL codes: R21, R31, O18, K12, K25.

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The residential housing rental market in Spain

The proportion of the population living in non-owner-occupied housing stood at 22.9% in Spain in 2017, according to the European Survey on Income and Living Conditions (EU-SILC, Eurostat, 2018). This ratio reveals a lesser significance of residential rentals in Spain compared with the EU countries (see Chart 1). Specifically, in 2017, 30.7% of the EU population, on average, lived in rental housing. These figures were prominent for Germany (48.6%), Austria (45%), Denmark (37.8%), France (35.6%) and the United Kingdom (35%). At the same time, the relative weight of rentals at a reduced price stood at 10.7%, with the weight of this category proving notable in Ireland (18%), the United Kingdom (17.9%) and France (16.4%). In Spain's case, 14.4% of the population lived in market-price rental housing and 8.5% in houses with a reduced rental price.²

On average in the EU economies, there has been a tendency for the renting population to grow since 2007 (by 3.6 pp from the latter year to 2017). This growth is essentially due to the increase in market rental prices (7.5pp), which offsets the reduction in the reduced price (−3.9pp).³ This European trend is also witnessed in the Spanish rental market, a more detailed analysis of which has been made using information on households, updated to 2018, in the INE Survey on Living Conditions (ECV).

1 This article, which focuses on describing developments in the residential rental market in Spain, will be complemented by a forthcoming Occasional Paper in which the main instruments of public intervention in the rental market are examined drawing on experience at the international level.

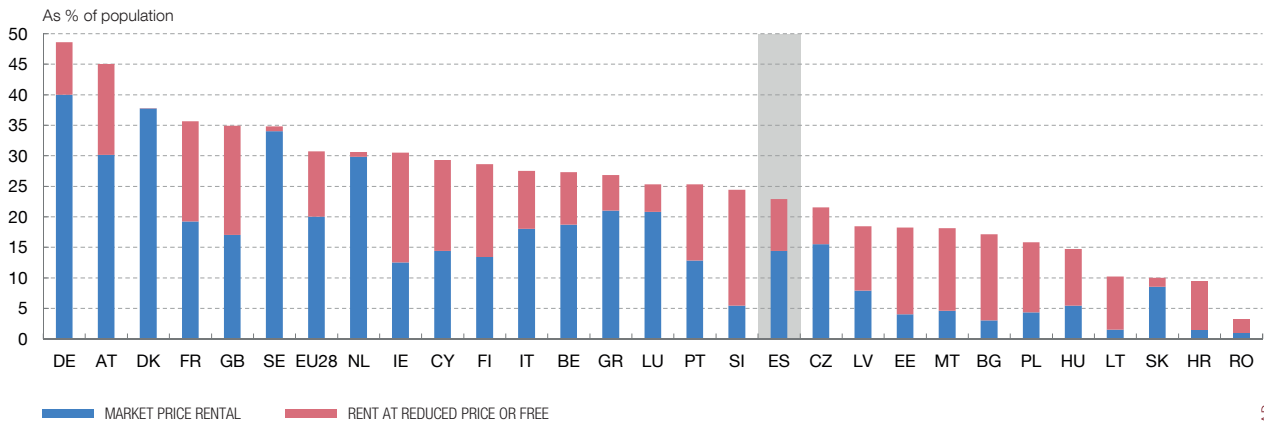
2 The rent at reduced price or free category in Eurostat (2018) includes both rentals subsidised by the public sector and free-rent housing. In Spain, this category essentially comprises free-rent housing which, according to the Survey on Living Conditions (ECV by its Spanish initials), account for 6% of households' main dwellings compared with a rent at reduced price proportion that has stood at around 3% since 2012 (INE 2019a). Free-rent housing is particularly significant among young households. Specifically, for all households up to the age of 29, the percentage of free-rent housing was 8.7% in 2008 and has grown to 18% in 2018.

3 The differences between 2007 and 2017 refer to the average for the EU 27 aggregate, i.e. excluding Croatia.

Chart 1

POPULATION LIVING IN RENTAL HOUSING IN THE EU COUNTRIES IN 2017

The proportion of the population living in a dwelling they did not own stood in 2017 in Spain below both the EU average and the proportion observed in the major EU economies (Germany, France, Italy and the United Kingdom).



SOURCE: EU Survey on Income and Living Conditions (EU-SILC) [Eurostat (2018)].



The trend in the ECV over the last 15 years shows a gradual increase in the weight of residential rentals and free-rent housing across Spanish households from 19.4% in 2005 to 23.9% in 2018. The increase in the proportion of households residing in rented housing stepped up from 2013, becoming concentrated in the rent at market price segment (14.8% in 2018 compared with 9.5% in 2005), while there has been a decline in social rentals (2.7% in 2018 against 3.5% in 2005). Free-rent housing, for its part, has oscillated slightly around 6.4% in recent years (see Chart 2).⁴ Overall, the number of renting households stood at somewhat over 3 million in 2018, compared with 2.4 million in 2008.

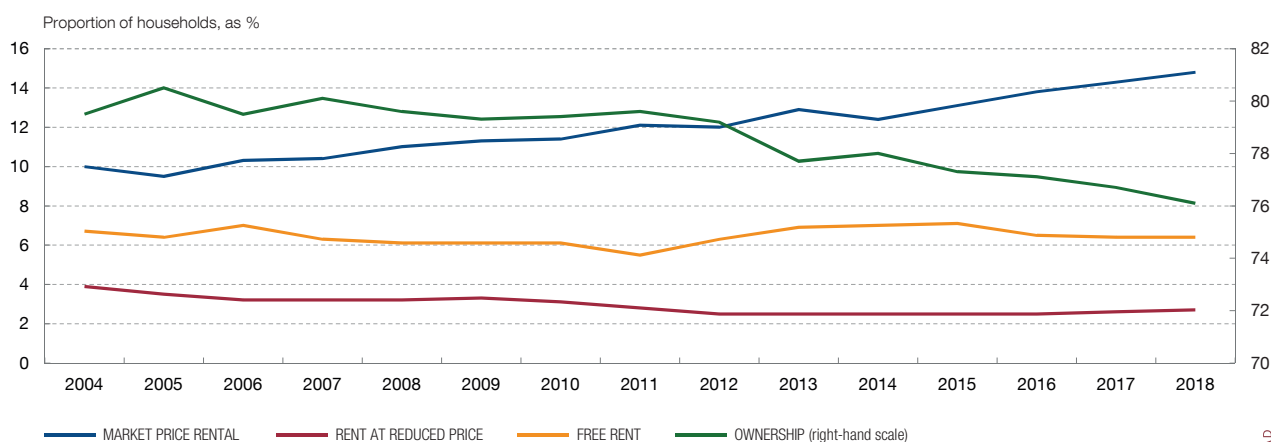
At the aggregate level, both the starting ratios and the increases in residential rentals are relatively moderate; however, notable heterogeneity between groups of households and geographical areas is discernible. In particular, young households and those of foreign origin are notable both for their higher starting levels and for their intensive growth dynamics over the past decade (see Charts 3.1 and 3.2). Against this background, there has been a notable increase in the proportion of rental housing, excluding free-rent housing, among young households and, in particular, owing to their greater relative weight in total households, those whose

4 The increase in residential rentals recorded in the ECV as from 2013 is also detected in the latest wave published by the 2014 Spanish Survey of Household Finances (Banco de España, 2017). Specifically, the percentage of households reporting they are living in a house not owned by them rose from 17.4% in 2011 to 19.6% in 2014.

Chart 2

TENURE STATUS OF HABITUAL DWELLING IN SPAIN (2004-2018)

The trend observed over the last 15 years shows an increase in the proportion of Spanish households living in rented housing. This increase has stepped up since 2013 and is concentrated in the market-price rental segment.



SOURCE: ECV [INE (2019a)].



household head is aged 30-44. For this latter group, the ratio rose from 19.1% in 2010 to 29.9% in 2018.⁵ By type of household, the highest rental ratios are seen in single-parent households, with a ratio of 21.8% in 2018. Further, viewing households in terms of the number of adults living in them, rental ratios are systematically higher in those households with young dependants.⁶

Likewise, the proportion of household rentals where the household head is not a Spanish national stood in 2018 at 58.9% for EU nationalities and at 77.3% for non-EU nationalities. These figures are telling when set against the proportion of rentals among Spanish nationality households, which rose to 13.1% in 2018, compared with a low of 8.8% in 2007. However, in recent years there has been a reduction in the relative weight of young and foreign-citizen households in the total population. This has been due to both the effects of the crisis – on delaying the age of leaving the family home and on the decline in foreigners resident in Spain – and to the presence of structural demographic trends associated with population ageing.⁷

5 The 2014 Spanish Survey of Household Finances (Banco de España, 2017) also recorded notable growth in the proportion of young households (up to 35 years of age) who say they are residing in dwellings they do not own. Specifically, this proportion increased from 35.5% in 2011 to 50.5% in 2014.

6 According to the ECV methodology, young dependants are understood to be all those under 18 and economically inactive persons aged 18-24 for whom at least one of their parents is a household member [INE (2019a)].

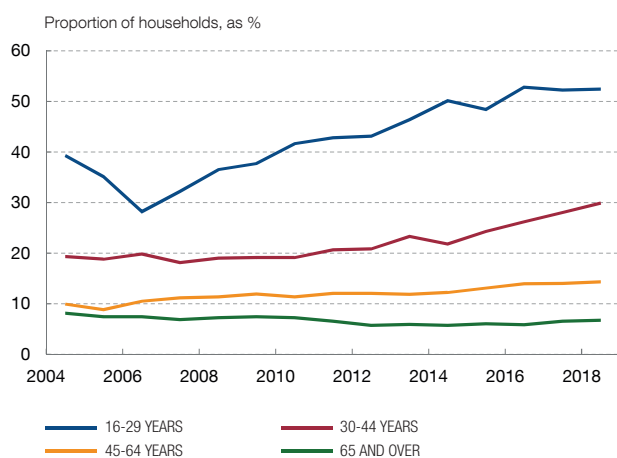
7 Figures from the continuously updated municipal population register in Spain show a decline in the relative weight of the young population (aged 20-29) from 16.4% in 2002 to 10.4% in 2018. In the group in which

Chart 3

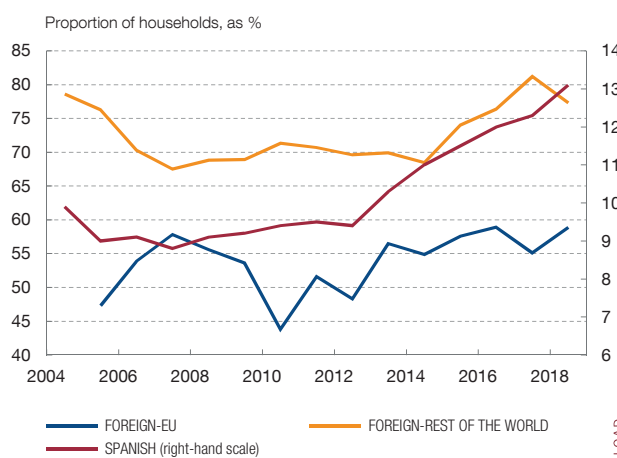
RESIDENTIAL RENTALS IN SPAIN (2004-2018)

Young and foreign-origin households are prominent in light of their residential rental ratios. The growth in the proportion of rented housing is largely due to the increase in this ratio in households whose head is between 30 and 44 years old.

1 RESIDENTIAL RENTALS BY AGE GROUP



2 RESIDENTIAL RENTALS BY NATIONALITY



SOURCE: ECV [INE (2019a)].



These changes in household composition make the significant increases in the residential rental ratios of these groups compatible with the moderate rises in rentals at the aggregate level.

With regard to the labour market status of households, rental ratios are higher among the group of households whose head is economically active. The attendant ratio was 23.3% in 2018 compared with 8.3% in non-economically active households, among which ownership is predominant and whose household head is usually retired (see Chart 4.1). Among economically active households, rental ratios are observed to be on a growing trend in all types of household (see Chart 4.2), although these ratios are higher for households whose head is unemployed (27.8% in 2018) or is a wage-earner with a temporary contract (37.3% in 2018).

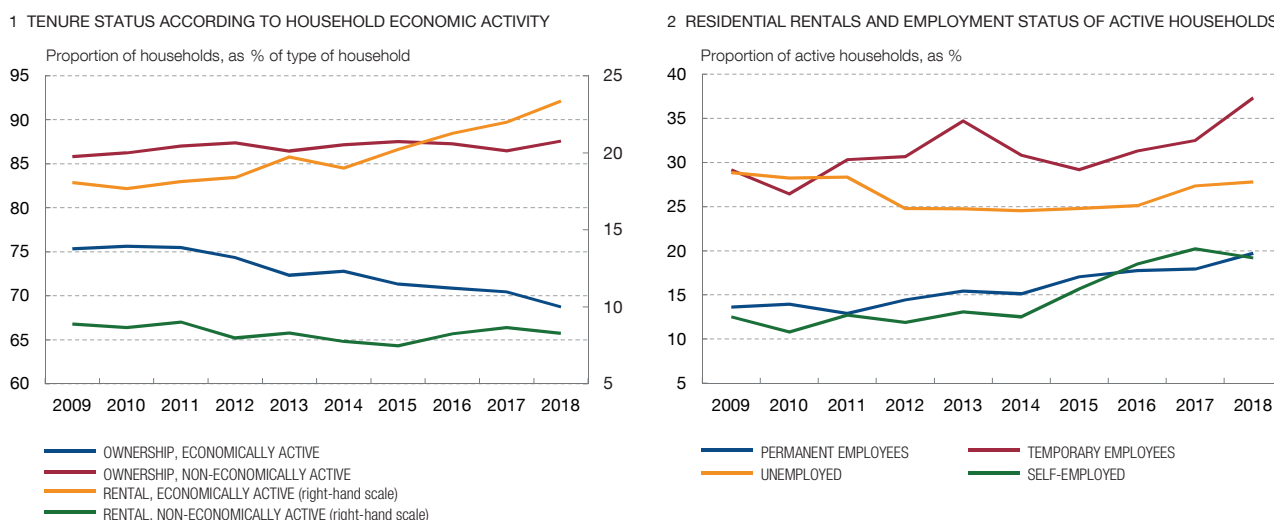
There is also a notable disparity in residential rental ratios across regions and municipalities depending on the size of the population. According to the ECV, the proportion of renting households systematically stands above the average for Spain as a whole in four regions. Specifically, in 2018, these ratios amounted to 28.3% in the Balearic Islands, 26.3% in Catalonia, 23.6% in Madrid and 19.5% in

a large part of the demand for housing is concentrated (30-44 years old), the relative population declined from 24.0% in 2002 to 22.5% in 2018. Since 2017 there has been a notable rise in the non-EU foreign population [INE (2019b)].

Chart 4

TENURE STATUS OF HABITUAL DWELLING IN SPAIN (2009-2018) (a) (b)

Among active households as a whole, there is a rising trend in rental ratios in all types of households; however, these ratios are higher for those households whose head is unemployed or is a wage-earner on a temporary contract.



SOURCE: ECV [INE (2019a)].

- a Household employment status and household economic activity refer to those of the household head. The household head is the person responsible for the main dwelling. This person is the household member to whose name the ownership (owner-occupation) or rental contract (rental housing) is assigned. If two persons share responsibility for the dwelling, the elder of the two shall be considered primarily responsible.
- b The residential rental category includes market-price rental and below-market-price rental (*social rental*).



the Canary Islands. At the same time, since the recovery that began in 2013, the increase in the proportion of residential rentals in Catalonia (6.9pp), the Canary Islands (4.8pp), Asturias (3.2pp), Castile-La Mancha (3.1pp) and the Valencia Region (3.1pp) is in contrast to the declines in Galicia (-3.8pp), Aragón (-3.7pp), Extremadura (-2.2pp) and Murcia (-2pp). On the latest available official information at the municipal level on the significance of residential rentals (the 2011 Population and Housing Census) [INE (2013)], there is also high heterogeneity, on average, in the weight of residential rentals across municipalities in the same region or province. Nonetheless, these figures refer to 2011, which highlights the need to update statistical information on the residential rental market with greater frequency. It would moreover be desirable for these data to offer the highest degree of geographical disaggregation possible

The recent dynamics of residential housing rental prices in Spain

One of the main limitations of the analysis of the rental housing market is the absence of an official price index of new contracts. Such an index would, ideally, adjust rental prices to take into account the characteristics of the rented

Chart 5

RENTAL PRICES IN SPAIN

Residential rental prices in Spain as a whole have been notably buoyant since their 2013 low, with cumulative growth to May 2019 of around 50%.



SOURCES: INE and Idealista.

property. The changes in the CPI rentals component, compiled by INE (see Chart 5.1), include month-by-month price changes, drawing on a sample of rental housing which it is sought to hold stable over time. This index includes information on regular renewals and contract extensions, and also on changes in price when tenants change. However, the index does not include information on new housing forming part of the rental market, nor on its characteristics compared with those that were previously present in the market. Such data would be desirable for examining price dynamics in detail.⁸

This limitation regarding the information available can be mitigated in part through the use of other, non-official indices. One example is the indices of asking rental prices constructed by Internet real estate portals.⁹ Thus, the index constructed by the portal with the greatest coverage of the rental market for Spain as a whole (Idealista 2019a,b) shows asking rental prices to be notably dynamic, with an increase of around 50% from their low, in 2013 Q4, to the high in May 2019.¹⁰

8 Royal Decree-Law 7/2019 includes, among its measures, the creation of a State system of reference indices of residential housing rental prices with a high degree of geographical disaggregation.

9 Asking prices in respect both of residential housing rentals and sales are usually higher than market prices. This difference might be greater in expansions owing to lessors' greater expectations during this phase of the cycle (García-Montalvo 2019). However, the simultaneous comparison of asking prices in sale and rental markets provides signs of the relative dynamics of prices agreed between agents in both markets.

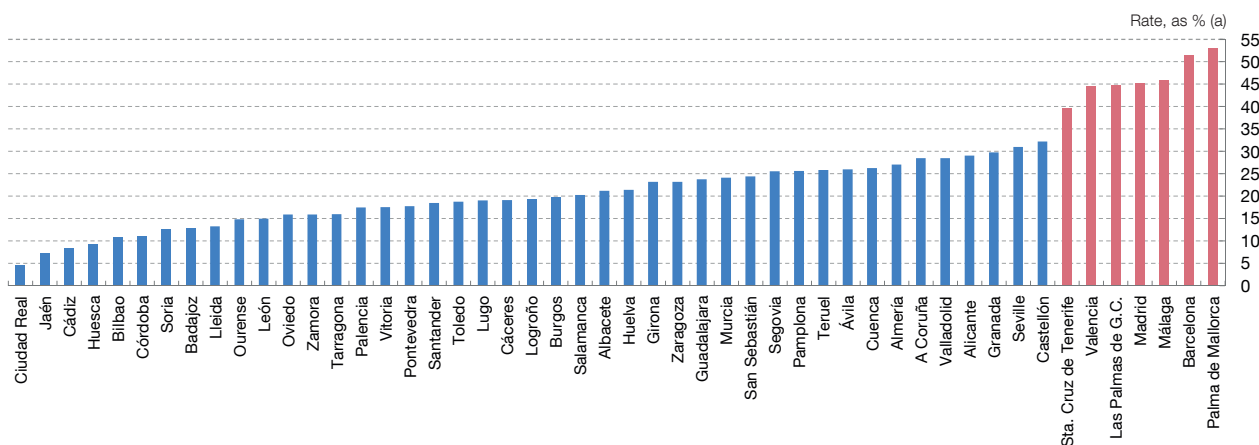
10 This cumulative growth in Spain as a whole, of over 50%, is due to the significance for asking prices of towns that are not provincial capitals, situated in the metropolitan areas of the major cities and in coastal areas that are highly attractive to tourists, but which evidence very dynamic rental prices.

Chart 6

CUMULATIVE GROWTH OF AVERAGE ASKING RENTAL PRICES (2014-2019)

Residential rental price dynamics show extensive geographical heterogeneity. The highest cumulative growth rates since 2014 are concentrated in the most populated regional capitals (Barcelona, Madrid and Valencia) and in the most touristic provincial capitals. The smallest increases are in the Spanish inland capitals.

PROVINCIAL CAPITALS



SOURCES: Idealista and Banco de España.

a Cumulative growth is calculated as the rate of change between average prices in December 2013 and those in May 2019.

During this same period, asking house prices grew at a significantly lower rate, of 6.8%, while the increase from the 2016 Q4 low was 14.5% (see Chart 5.2).

The availability of indices of asking rental prices in different provincial capitals, and in the main districts and municipalities adjoining Barcelona and Madrid, enables the significant heterogeneity in rental prices across municipalities and districts within the major cities to be documented. The cumulative growth rates from end-2013 to May 2019 across the provincial capitals show a group of cities with cumulative growth of over 40% compared with other much less dynamic results, with a cumulative increase in asking prices of around 10% (see Chart 6). The highest growth is seen in the major cities (Barcelona, Madrid and Valencia) and in cities with a high concentration of tourists (Málaga, Palma, Las Palmas de Gran Canaria and Santa Cruz de Tenerife). The smallest increases are seen in the inland Spanish cities.

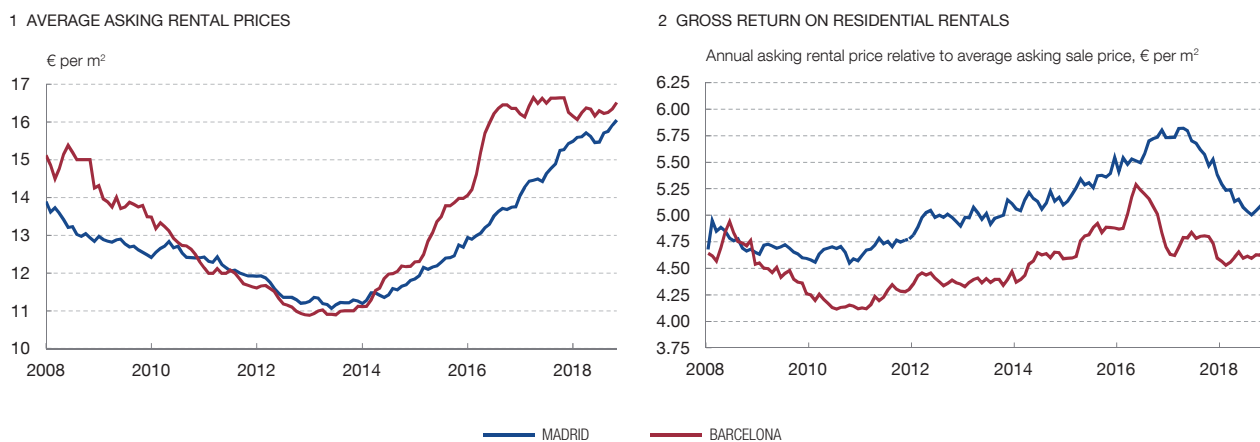
The aggregate index of asking rental prices in Barcelona¹¹ and Madrid show cumulative growth from their respective lows of over 45%. That said, the increase in Barcelona came about somewhat ahead of that observed in Madrid. The recent

11 The statistics on rental prices released by the Barcelona Municipal Authorities (2019), drawing on the filings of deposits for house rental contracts lasting more than one year, show cumulative growth from 2014 Q1 to 2018 Q4 of 34% compared with Idealista’s 48%. Nevertheless, the time paths of both indices show the same trend. This evidence suggests that, although the levels of the price indices should be viewed with caution, they might be a good proxy for the market rental dynamics in Barcelona.

Chart 7

RENTAL MARKET IN MADRID AND BARCELONA (2008-2019)

The residential asking rental price indices for Barcelona and for Madrid show similar cumulative growth. In these cities a high gross return on residential rentals continues to be observed, despite the fall since 2017 owing to the notable increase in asking house sale prices.



SOURCES: Idealista and Banco de España.

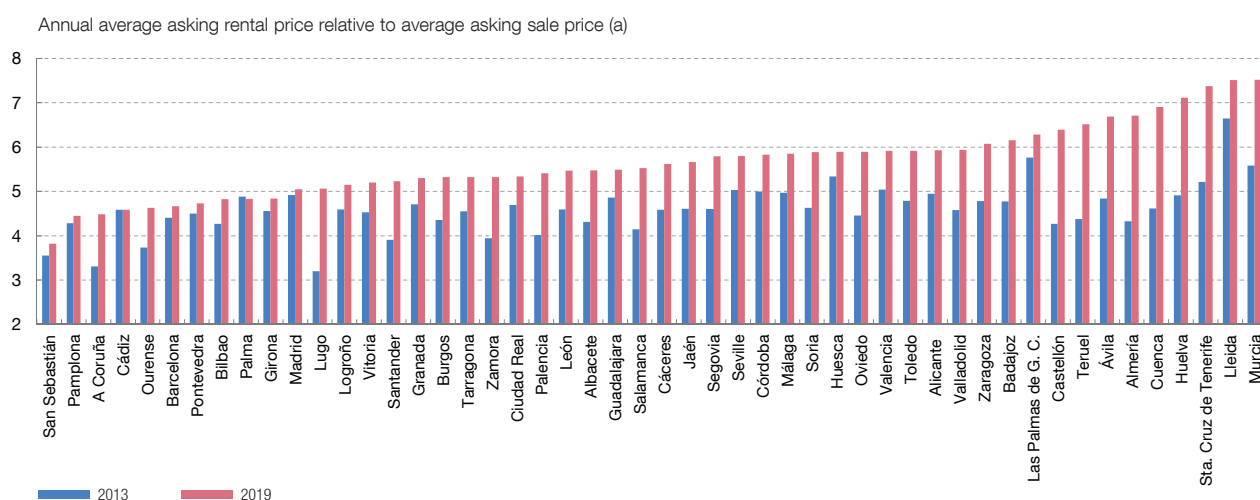
slowdown in asking prices has only been observed to date in Barcelona (see Chart 7.1). The evidence relating to price dynamics in the city’s districts and in the municipalities of the Barcelona metropolitan area reveal high cumulative increases in some of the towns adjoining Barcelona (Hospitalet de Llobregat, Sant Cugat del Vallès, Gavà, Cerdanyola del Vallès, Santa Coloma de Gramenet) and also in the central districts (Eixample), with lesser relative dynamism in areas of the city with a greater presence of high-income households (Sarrià-Sant Gervasi, Les Corts). While in the rental market in Madrid the biggest increases in asking prices were initially concentrated in the central or higher-income districts (Centro, Salamanca, Chamberí and Retiro), more recently an ongoing convergence in price dynamics has been observed. This has been due to the notable increase in asking rental prices in relatively low-income districts. At the same time, smaller cumulative increases in asking rental prices have been seen in high-income municipalities close to Madrid (Majadahonda, Boadilla del Monte and Pozuelo de Alarcón) and higher growth in low-income municipalities or those that are furthest from the city centre (e.g. Navalcarnero and Arroyomolinos). Overall, although clear price patterns and their determinants cannot be inferred or identified causally from the foregoing descriptions, this evidence highlights the presence of many local residential rental markets with both heterogeneous levels and price dynamics depending on the supply and demand forces in each market, even within the same province or same municipality.

Based on the ratio of asking house rental and purchase prices per square metre, it is possible to construct an indicator proxying the gross return on rental housing

Chart 8

GROSS RETURN ON RENTALS IN PROVINCIAL CAPITALS (2013-2019)

The indicator of gross residential rental returns by provincial capital shows significant heterogeneity across local markets. On average, however, this indicator reveals a generalised rising trend in the attractiveness of investment in residential rentals, against the background of low returns on alternative assets.



SOURCES: Idealista and Banco de España.

a The asking sale and residential rental prices are the December 2013 and May 2019 average prices.

in a market. This indicator shows similar dynamics in the cities of Barcelona and Madrid (see Chart 7.2), reflecting an increase in the attractiveness of rentals as an investment instrument from 2013 to 2017. However, since 2017 the gross return on rentals is estimated to have been declining in these cities, standing currently at 2014 levels. These dynamics reflect the notable increase in asking rental prices relative to sale prices up to 2017, with a slowdown in asking rental prices and even flatness in Barcelona in 2018, along with the notable buoyancy of asking sale prices in Madrid. This same indicator of rental returns per provincial capital once again shows the significant heterogeneity across local markets (see Chart 8); however, on average it indicates a generalised rising trend of the attractiveness of investing in residential rentals against a backdrop of low returns on alternative assets.

One factor that might have contributed to increasing the gross return on residential rentals relative to purchase would be the reduction in the tax bias towards owner-occupied housing as a result of the budgetary consolidation measures applied during the crisis. Specifically, the elimination of the personal income tax deduction for purchase of the habitual dwelling, the rate hikes in the taxes on house purchase (VAT and transfer tax) and the increased bases in property tax might have contained both the demand for owner-occupied housing and sale prices. As regards the taxation of residential rentals, the increases in property tax admittedly raise costs for lessors, lowering the net return if this cost

is not passed through to the price. But the tax incentives for business investment in the rental market, e.g. the special regime governing real estate investment trusts (Socimi, by their Spanish initials), enhance the returns for these types of agent.

The increase in rental returns and, therefore, in their attractiveness as an investment instrument has coincided with the market entry of new operators. True, in Spain as a whole the companies engaged in house rentals accounted for around 10% of rented housing in 2018, compared with the vast majority of individuals (CIS, 2018). But their presence in the major cities is more significant, revealing a growing weight in new rentals.¹² For instance, in Barcelona legal entities accounted in 2018 for around 25% of the residential rental market (Observatori Metropolità de l'Habitatge de Barcelona, 2019).

Potential determinants of the recent dynamics in the residential housing rental market

The significant increase in rental prices in specific areas is the result of numerous supply and demand factors whose relative contribution is difficult to accurately measure. Such measurement would require municipal-level information on the socio-economic characteristics of households, and on the main conditioning factors of the supply of residential housing with a high level of geographical disaggregation. Admittedly, this information is not available. But various aggregate data sources suggest there is a set of economic and demographic determinants that have contributed to the increase in the demand for residential rentals, passing through to a significant increase in prices in this market.

Firstly, the greater prevalence of residential rentals among households whose head is unemployed or on a temporary employment contract (see Chart 4) illustrates the key significance of labour market conditions in explaining the recent dynamics of residential rentals. Specifically, in the period of economic recovery that began in 2013, we have seen the difficulty lower-income groups face in raising their current and expected income owing to the still-high incidence of unemployment, the scant duration of new contracts and the greater relevance of shorter working hours (Anghel et al. 2018). For a significant percentage of households, especially the young, with low income and wealth levels, the combination of low employment income and the risk of job loss would hamper access to a house purchase loan.

¹² Among the new agents entering the rental market are the so-called Socimi which, although they own only a small portion of the habitual stock of rental housing, have notably increased their investment in this asset. From very low levels in 2014, they now have a housing portfolio worth more than €4.5 billion, largely concentrated in the metropolitan areas of Madrid and Barcelona.

The difficulty of building up the necessary savings to purchase a house would have thus increased the demand for residential rentals or, for lower-income households, remaining in the family home.¹³ In particular, according to the 2014 Spanish Survey of Household Finances (Banco de España, 2017), a greater proportion of lower-income households respond that they are residing in houses they do not own. And it is these same households who experienced the biggest growth in residential rentals from 2011 to 2014. Specifically, this proportion stood at 32.6% for the first income quintile and 28.1% for the second quintile in 2014, compared with an aggregate average of 19.6% and a proportion of 11% for the fourth and fifth income quintile in 2014.

The flat employment income of certain groups of households combined with the rise in rental prices has considerably increased the significance of this expenditure relative to total income. Specifically, the median of rental housing expenditure accounted in 2014 for 27.8% of Spanish households' net income, and 46.9% among the lower-income households (those in the first quintile of the income distribution). Both ratios are higher than those of the OECD economies on average (see Chart 9). At the same time, the indices measuring overspending on rental housing¹⁴ were particularly high in Spain. For 24.7% of households, rental housing expenditure accounted for more than 40% of their net income in 2014, compared with the OECD average of 13.1%. This overspending index was significantly higher for households in the first quintile of the income distribution, 63.9%, a ratio only exceeded in 2014 by Greece (see Chart 10).

The normalisation in credit access conditions during the upturn that began in 2014 has been compatible with a reduction in the average loan-to-value ratios for new mortgages. This suggests that, on average, households' initial savings requirements to have access to a mortgage loan may have increased.¹⁵ For young households, and in particular those with lower income and in unstable employment, this might prompt longer permanence in the rental market, thereby contributing to the increase in the demand for rental housing.

13 This change in fundamentals does not exclude the possible presence of other factors, such as a greater preference for rental housing that provides, for example, for greater regional mobility for this group of households.

14 International organisations recurrently use ratios of housing expenditure to net household disposable income in order to proxy the overspending accounted for by housing costs in household finances (OECD 2016, Eurostat 2018, US Census Bureau 2017). In particular, arbitrary housing expenditure thresholds are set, between 30 and 40% of the household's net income, to evaluate the proportion of households whose housing consumption entails a financial burden. The spending on rentals considered includes market-price leases and public-sector-subsidised leases, along with the expenses borne when the household resides in a free-rent dwelling. These expenses include spending on household utilities (water, electricity, gas and other services).

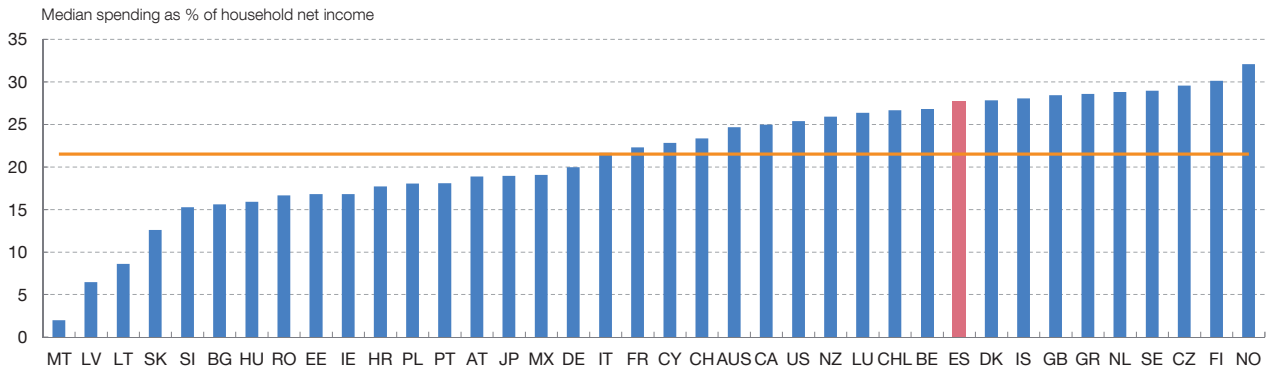
15 Specifically, the average loan-to-value ratio, using the transaction value, fell from 110 in 2007 to 80 in 2016 [Bover, Torrado and Villanueva (2019)].

Chart 9

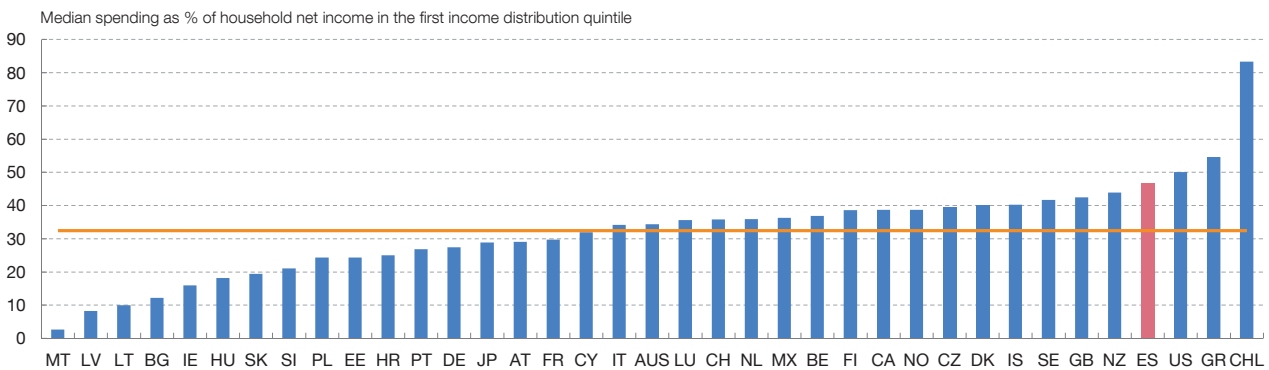
HOUSEHOLD SPENDING ON RENTAL HOUSING IN THE OECD COUNTRIES IN 2014 (a)

Median rental housing spending relative to net household income stood in Spain, in 2014, at levels close to 30%. As a proportion of income, this spending was particularly high for lower-income households.

1 SPENDING ON RENTAL HOUSING



2 LOWER-INCOME HOUSEHOLD SPENDING ON RENTAL HOUSING



SOURCE: Affordable Housing Database [OECD (2016)].

a The horizontal lines depict the arithmetic means of those countries for which information is available.



The demand for residential rentals is estimated to have increased especially in certain municipalities that offer better opportunities both for training and for employment. The available evidence shows how, in recent years, there has been a greater concentration of domestic migratory flows into the most populated provincial capitals, where employment is observed to be more buoyant. Consistent with this phenomenon, a positive correlation can be seen between the growth of asking rental prices and demographic dynamism at the level of provincial capitals (see Chart 11).

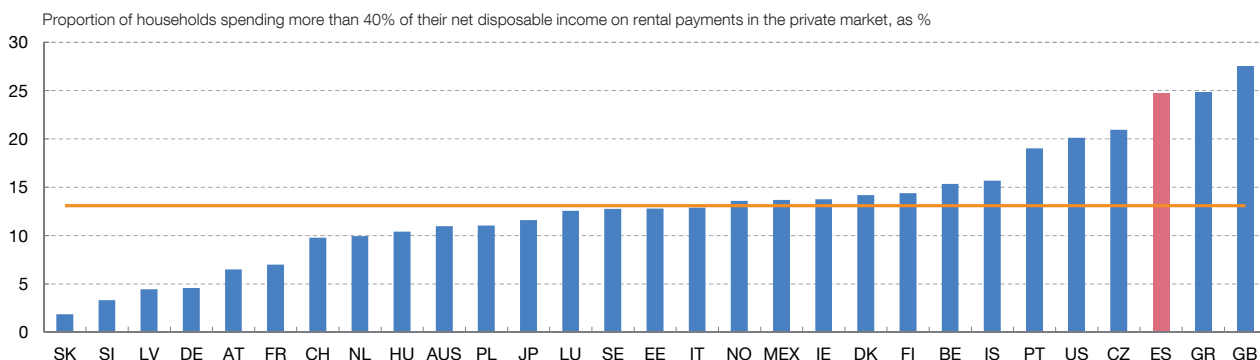
Since 2013, there has also been a significant decline in the number of government-sponsored housing units (VPO by their Spanish name) (see Chart 12). The VPO

Chart 10

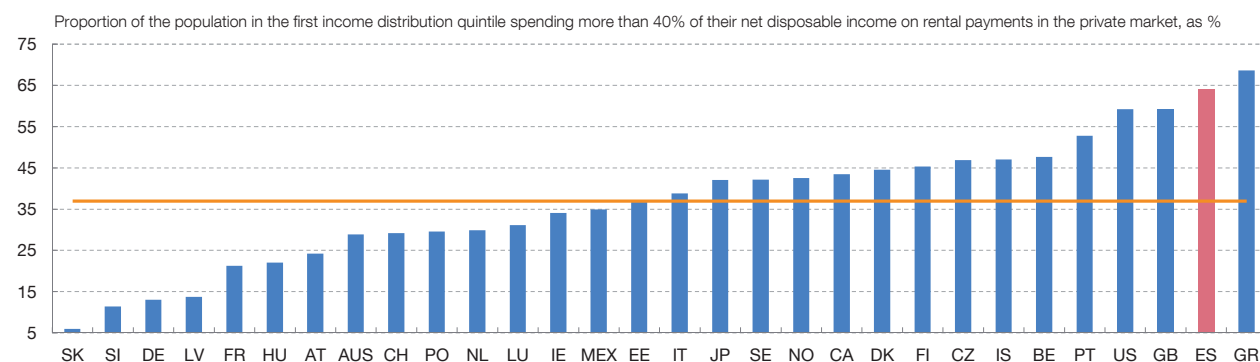
INDEX OF RENTAL HOUSING OVERSPENDING IN THE OECD COUNTRIES IN 2014 (a)

Spain stands out among the OECD economies as it has one of the biggest proportions of households whose rental housing spending entails a burden relative to their net income. This overspending is concentrated in the lower-income population in the first income distribution quintile.

1 TOTAL HOUSEHOLDS



2 LOW-INCOME POPULATION



SOURCE: Affordable Housing Database [OECD (2016)].

a The horizontal lines depict the arithmetic means of those countries for which information is available.



is a priori an alternative for lower-income households to private-sector market rentals. In the 1995-2012 period, an annual average of more than 60,000 VPO were put on the housing market and, on the information available for the 2005-2012 period, around 20% of them were earmarked for rental. The low weight of rentals in VPO and their declining trend in quantitative terms in recent years are compatible with the lesser weight of government-sponsored rentals in Spain in relation to the situation in other EU economies (see Section 1).

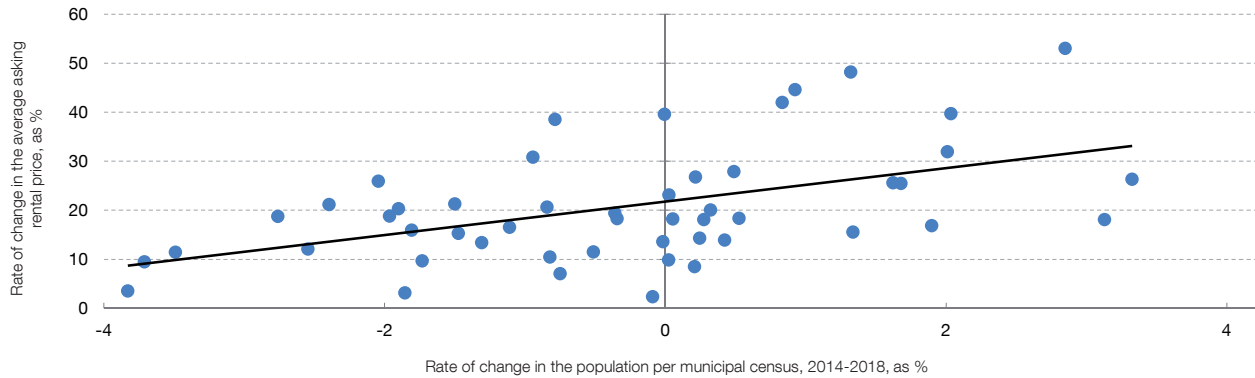
Further, the emergence of new forms of holiday rentals in some of the major Spanish cities, particularly concentrated in central districts, might enter into competition with the supply of residential rentals. Should they be concentrated in a specific

Chart 11

POTENTIAL DETERMINANTS OF RENTAL PRICES (a)

A positive correlation is observed between the cumulative growth of asking rental prices and demographic dynamism at the provincial capital level.

DEMOGRAPHIC CHANGES



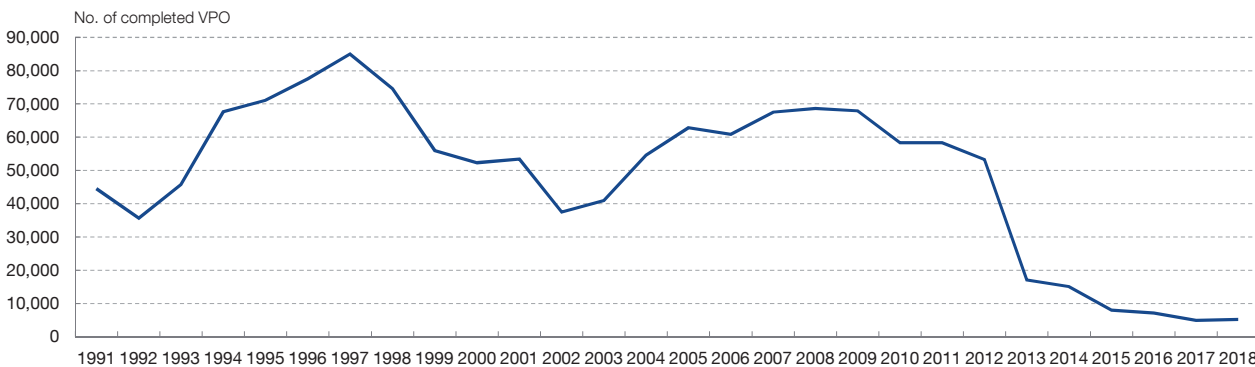
SOURCES: INE, Idealista and Banco de España.

a Regressions with rates of change of average asking rental prices for the provincial capitals from December 2013 to December 2018.

Chart 12

NUMER OF GOVERNMENT-SPONSORED HOUSING UNITS (VPO) IN SPAIN (1991-2018)

The number of new VPO declined significantly from 2013 compared with the large number of VPO placed on the residential housing market in previous years.



SOURCE: Ministerio de Fomento.



area, the shift to a tourist-related activity of a significant percentage of housing units potentially earmarked for rental might prompt an increase in residential rental prices. However, the evidence available on the impact of holiday rentals on the supply of rentals for primary-dwelling purposes and on real estate prices is scant

and rather unreliable. This is largely due to the availability constraints affecting microdata on rental market prices. The academic papers available are rather inconclusive as to the quantitative effect of holiday rentals on primary-dwelling rental prices. Yet they do suggest the scale of the effect depends both on the density of the holiday rental in the city under study and on the demand for residential housing.¹⁶ The information for Spain on tourist rental portals, e.g. Airbnb, shows a high concentration of the supply of holiday rentals in the major cities, and in particular a higher relative weight of such rentals in historical districts such as Centro in Madrid and Eixample in Barcelona.¹⁷ According to the real estate portals, there has been notable growth in these districts in residential asking rental prices over this period. The strong increase in the supply of holiday rentals has led some regional and local authorities to tighten tourist rentals regulations.¹⁸ The relative size of the supply of residential tourism is significant in certain cities and districts, indicating its potential to affect residential asking rental prices in these markets. But it is not possible to infer from this correlation a causal relationship, across the board, between residential rental prices and the supply of holiday rentals for the economy as a whole.

Overall, the evidence set out in this article shows how the aggregate increase in the relative weight of residential rentals in Spain masks high heterogeneity across regional markets which has also fed through to the dynamics of rental prices. And against a background of economic recovery in which lower-income households' employment income, especially among the young, is restricted by the high incidence of temporary contracts, part-time working hours and the still-high unemployment rate, there has been an increase in demand concentrated in specific markets that has come up against the relatively rigid supply of residential rentals in the short term. In this respect, supply has not kept pace with demand, despite new professionalised agents (such as Socimi) entering the rental market and despite

16 For example, Horn and Morante (2017) detect a modest effect of holiday rentals on asking rental prices in Boston. In an analysis for the metropolitan area of Los Angeles, Koster, van Ommeren and Volkhausen (2018) show a greater impact of holiday rentals both on the reduction in the supply of rentals and on real estate prices, this impact being concentrated in areas with a higher density of tourist rentals. In the case of Barcelona, García-López, Jofre-Monseny, Martínez Mazza and Segú (2019) show the significant impact of holiday rentals on asking rental prices, on second-hand house transaction prices and on the sale prices of housing in districts with a high concentration of Airbnb activity.

17 On the information available on platforms such as Airbnb and HomeAway, the number of holiday rental homes in mid-2018 in Spain stood at around 200,000. Most of the supply is concentrated in Barcelona, Madrid, Málaga, Seville and Valencia, with the stock of housing in central districts accounting for significant proportions. For instance, the data available for Barcelona show there were 10,000 holiday rental homes in 2017. This figure should be set against the figure for rentals recorded in the city that year, at around 50,000, and it should be borne in mind that holiday rentals are concentrated in the most touristic districts [Observatori Metropolità de l'Habitatge de Barcelona (2018)].

18 In recent years the Barcelona municipal authorities have frozen permits for new tourist apartments, and they have at the same time encouraged the closure of more than 2,000 illegal properties for tourist use. The city of Palma de Mallorca has prohibited tourist rentals in multi-user dwellings since July 2018.

the increase in real estate assets held by business entities engaging in property rentals. Also, the flatter supply-side dynamics have come about against the backdrop of a weaker public-sector supply of rentals. That said, the public-sector supply accounts for a relatively modest volume of rentable property, and there are alternative end-uses for residential housing in this setting such as holiday rentals. However, a more detailed and accurate analysis of the determinants of the recent changes in the rental housing market would require detailed socio-economic information on households, price indices and the main conditioning factors of the supply of residential housing offering the highest degree of geographical disaggregation possible.

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