

Chapter 4

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

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Chapter 4

Takeaways

- Robust housing demand, along with relative supply rigidity, has resulted in sustained growth in house purchase and rent prices in the Spanish economy since 2014.
- Despite the marked dynamism of activity in the residential housing market, the associated vulnerabilities and risks to financial stability 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 the current difficulties in housing affordability.
- In addition, 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.
- As such, the measures taken would ideally extend over a long time horizon, involve the different tiers of government with responsibility for housing and focus especially on boosting supply, particularly for the rental market and social rentals.
- Furthermore, 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 those affecting the functioning of the labour market, the economy's productivity and tax and transportation policies.

1 Introduction

The housing market has an important economic and social function.¹ First, conditions in the housing market, together with those in the labour and credit markets, determine housing affordability for households, in both the house purchase and rental segments. Potential housing affordability problems, in addition to being of considerable social importance, may also generate adverse economic effects. Second, housing market activity plays an important role in the economy, both via employment in the construction sector and residential investment. This, together with the fact that a significant portion of real estate transactions are credit financed, means that the functioning of the real estate market may also have significant implications for financial stability. Indeed, property crises have often been associated with banking crises, such as the one in Spain between 2008 and 2013.

This chapter analyses the situation of the Spanish housing market, including both the house purchase and rental segments. First, the main features characterising recent housing market developments are detailed, as are their possible determinants. This is followed by a review of the associated financial stability vulnerabilities and risks, based on a broad set of indicators. The remainder of the chapter focuses on issues related to housing affordability conditions for households. In particular, it shows how the degree of affordability has changed in recent years, how it compares to other economies, and which groups face greater difficulties in accessing owner-occupied and rented housing. Lastly, there is a discussion of possible lines of action that could be considered to address these problems.

¹ This chapter focuses on the residential housing market, except in Box 4.1 which delves into recent developments in the commercial real estate market, both in Spain and internationally, and their implications for financial stability.

2 Recent housing market developments²

2.1 The housing purchase market

Housing purchases are markedly robust despite the slowdown observed since 2022 Q4. Among recent developments, foreign purchases and lower recourse to mortgage financing, in the 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. Against this backdrop, house prices have shown a sustained recovery since 2014. However, cumulative growth is uneven and is 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 of the main euro area economies.

- **Volume of house purchases.** The number of house purchases has been falling since 2022 Q4, but remains high and above pre-pandemic levels. House purchases have grown strongly since late 2020, when the mobility restrictions linked to the COVID-19 pandemic were lifted. This growth was underpinned by the pent-up demand from that period and by accommodative financing conditions (see Chart 4.1). As a result, the volume of sales surpassed 700,000 units in 2022, the highest figure since the real estate boom of the first decade of the 21st century. Although the number of transactions has fallen since late-2022, there were around 640,000 housing purchases in 2023, 12% more than in 2019, with average volumes exceeding 50,000 transactions per month.
- **New and second-hand housing purchases.** Housing transactions mostly involve second-hand stock, which accounted for around 90% of the market in 2023. This figure – which stood at 40% in 2008 – rose during the economic and real estate crisis of 2008-2013 before steadying at its current level from 2014 (see Chart 4.1). The prevalence of second-hand housing is partly the result of the accumulation of a large housing stock over the previous decades and a shortage of new housing (see Section 3).³
- **Purchases by legal entities.** Housing purchases by legal entities accounted for 10% of the total in 2023, in line with the proportions observed since 2020. These figures are below the annual average of 12% recorded between 2014 and 2019 and well clear of the peaks of around 20% reached between 2012 and early 2014.
- **Foreign purchases.** Housing purchases by the foreign population, both resident and non-resident, account for a significant share of the total, albeit spread unevenly across

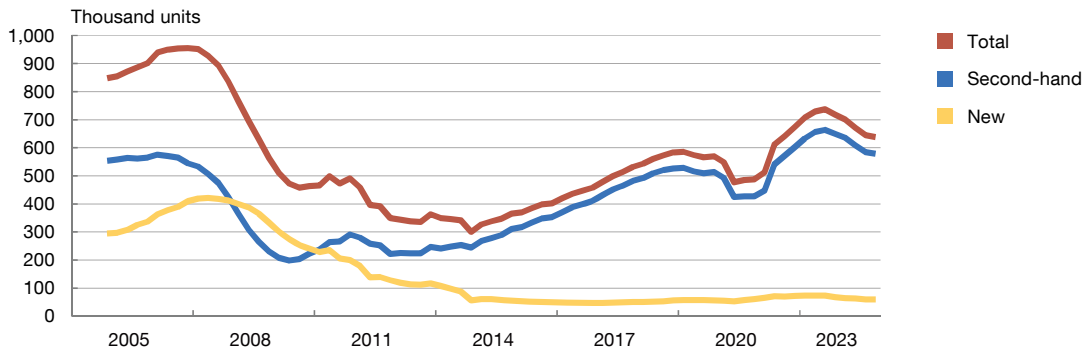
² For a more detailed analysis of recent developments in the Spanish residential housing market and how they compare with previous cycles, see Lájero, López-Rodríguez and San Juan (2024). See also Khametshin, López-Rodríguez and Pérez (2024) for a description of developments in the housing rental market.

³ Among European economies, Spain has one of the highest ratios of houses per 1,000 inhabitants, with around 550 residences compared with the EU-27 average of 500 and the average of 470 for Organisation for Economic Co-operation and Development (OECD) countries (OECD 2024).

Chart 4.1

House purchases have fallen recently, although they remain high from a historical perspective and are especially strong in the second-hand market

4.1.a House purchases (a)



SOURCE: Ministerio de Transportes y Movilidad Sostenible.

a Cumulative 4-quarter data.



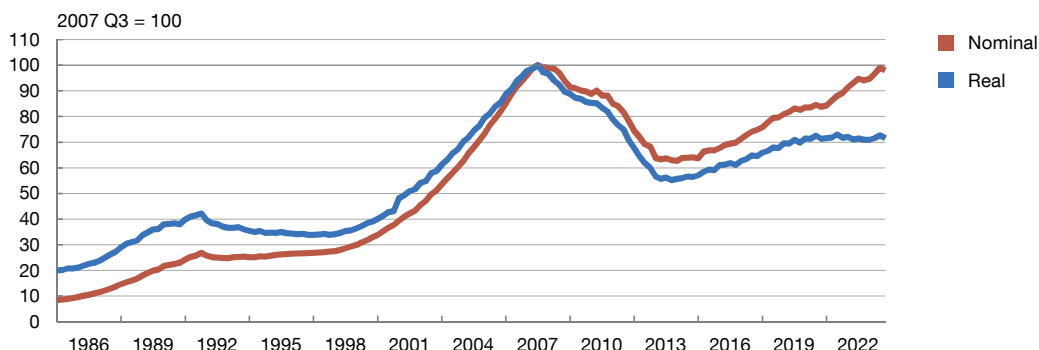
geographical areas. These transactions reached their all-time high in 2022, at 134,000 units, a figure that dropped to around 125,000 in 2023, which was 19.3% of the total, in contrast with 7.1% in 2007. The largest shares of foreign purchases are seen in tourist areas, such as the islands and along the Mediterranean coast. This can be explained by the high demand for second homes from non-residents.

- **Real estate supply indicators.** Consistent with the low share of new housing transactions, real estate supply indicators are relatively subdued, by historical standards. In particular, new building permits, employment in construction and residential investment stand below the figures recorded in previous upturns and below those of the euro area as a whole. Specifically, in 2023 residential investment in Spain stood at 5.7% of GDP, below the euro area's 6.1% and below the annual averages 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 accounts 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 (for more details, see Sections 3 and 4).
- **Debt-financed housing purchases.** Recourse to mortgage financing has declined since the start of monetary tightening in late 2021. Specifically, around 45% of transactions in 2023 were financed by new mortgages, some 10 percentage points (pp) less than in 2021. This share has fluctuated in recent decades, depending, among other factors, on the ease of access to credit. It fell from 60% in 2007 to 30% in 2013, coinciding with the economic and banking crisis during which banks significantly tightened the credit supply. Following the economic recovery that began in 2014, the share of mortgage-financed purchases rose, growing to 55% in 2021 as access to bank lending improved. The subsequent decline in this

Chart 4.2

Aggregate house prices have recovered notably since 2014, although in real terms they stand more than 28% off their 2007 peak

4.2.a House prices (a)



SOURCE: INE.

a Real house prices are deflated by the consumer price index. Latest data: 2023 Q4.



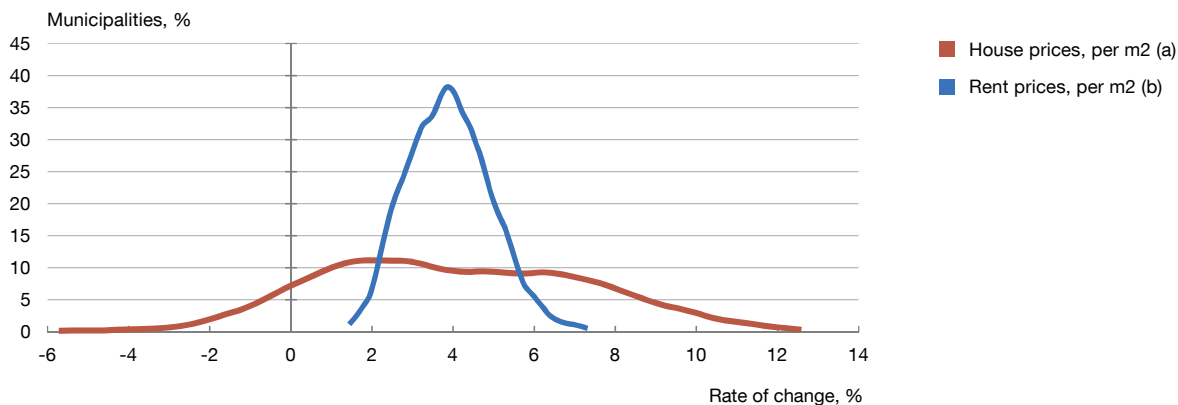
percentage could be linked to two factors: i) the tightening of financing conditions, which has resulted in tighter lending standards and a significant increase in the cost of financing; and ii) growth in the share of purchases by non-residents using alternative funding sources. Nevertheless, in spite of the fall relative to 2022, in 2023 the flow of new mortgage credit and the number of new residential mortgages were 16% and 4%, respectively, above their 2019 levels. At the same time, lower leverage and prudent credit standards are observed among new mortgages (see Section 4).

- **House prices.** In 2023 Q4, the year-on-year growth rate of average house prices in Spain was 4.2%. This increase continues the upward trend in prices in recent years, which has led them to accumulate, on average, a nominal appreciation of 56% since early 2014 (see Chart 4.2). However, these prices are still 2% below their 2007 peak. In real terms, the revaluation since 2014 Q1 is close to 30%, although real prices in late 2023 were, on average, 28.5% below the maximum levels observed in 2007.
- **New and second-hand house prices.** Price growth is highly uneven between new and second-hand housing. In the new housing segment, prices are growing faster, with a year-on-year increase in 2023 Q4 of 7.5%, compared with a 3.6% rise for second-hand housing. As a result of these heterogeneous dynamics, by late 2023 real average prices of new housing were 6% below their 2007 peak, while real average prices of second-hand housing were around 37% short of theirs.
- **Geographical variation in house prices.** Higher price increases are observed in urban areas with greater growth in activity and in areas with higher populations and more tourist activity (see Section 3). These differences are also reflected in a significant dispersion in

Chart 4.3

Considerable geographical heterogeneity (at municipality level) in house price growth, compared with less dispersion in rent price growth

4.3.a Distribution of average annual growth in house prices and rent prices. Municipalities with more than 50,000 inhabitants



SOURCE: Banco de España, drawing on data from the Colegio de Registradores and the AEAT (Servicio de Estudios Tributarios y Estadísticas).

- a** Rate of change calculated for open-market house purchases between the start of the aggregate house price recovery in 2013 and 2023.
b Rate of change calculated for the stock of rented housing owned by private individuals between the start of the aggregate rent price recovery in 2014 and 2022 (latest year available). Municipalities in Navarre and the Basque Country are not included since information on rental prices is not available for those regions.



average annual house price growth since 2013 between the largest municipalities, with declines even observed in areas experiencing depopulation (see Chart 4.3).

- **The residential housing market in the global context.** The housing markets of the main advanced economies recovered strongly in the aftermath of the global financial crisis and were highly buoyant following the COVID-19 pandemic. This was reflected in very robust cumulative growth in house prices. For example, euro area-wide house prices in mid-2022 were 40% higher than their 2007 level (10% higher in real terms).⁴ In the United States, United Kingdom and Japan, nominal prices grew in that same period by 75%, 50% and 25%, respectively (30%, 10% and 20% in real terms). However, the tightening of monetary policy in most of these economies, which began in late 2021 in response to persistent inflationary pressures, has led to a degree of correction in real estate activity and house prices that has been particularly intense in those economies whose valuation indicators showed more marked signs of imbalances. Indeed, real house prices in the euro area have fallen since 2022,⁵ and there are even significant cumulative falls in nominal prices from their peaks in 2022 to 2023 Q4 (latest available figures) in Germany (-13%), the France (-4%) and the Netherlands (-2%).

⁴ Cumulative price growth between 2007 and mid-2022 was 100% in Germany, 60% in the Netherlands and 30% in France. However, nominal aggregate prices did not reach the highs of 2007 in Italy and Spain.

⁵ In the euro area as a whole, real prices decreased from the beginning of 2022 to 2023 Q4 by around 10% – by around 20% in Germany, 13% in the Netherlands, 10.5% in France and 6% in Italy – compared with a slight increase of 0.5% in Spain. Real house prices have also fallen by 6% from their 2022 peaks in the United Kingdom and Canada, while gradually recovering (rising by 2%) in the United States and Japan.

2.2 The residential rental market⁶

The size of the rental market has grown significantly since the economic crisis that began in 2008. However, this growth has been uneven across population groups and geographical areas. The largest increases in tenant households have been observed among lower-income households and, in particular, among young people. By geographical area, municipalities in large urban areas and tourist areas have experienced the most growth in both market size and price levels. 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. In this regard, it should be noted that the significant increase in the rental housing supply has been countered by the higher pressure exerted by demand, as the result of a partial shift from the purchasing segment (see Section 3). This imbalance has driven sustained increases in rent prices since 2015. These increases stem mainly from the prices of new houses entering the market and rental contract renewals.

- **Rental market size.** The rental market showed marked growth in 2023, rising to around 3.6 million main residences,⁷ accommodating 18.7% of households (INE 2024a). This is an estimated increase in the rental housing stock of 1.3 million homes over its 2007 level, with a cumulative increase in the size of this market of more than 50%. The growth in renting is explained by its rise among younger households (see Chart 4.4), and its predominance among the foreign-born population, both groups in which lower-income households are concentrated. This development has contributed to Spain's gradual convergence towards the EU-27 average, although the proportion of home ownership in 2022 was still higher in Spain (75% versus 65%).
- **Distribution of ownership in the rental market.** The Spanish residential rental market is characterised by the prevalence of private landlords and small-scale landlords, with a relatively low share for legal entities and landlords with ten or more properties. Specifically, main market rent residences owned by private legal entities represent an estimated 8% of the total, while individuals account for 92%.⁸ The recent surge in buy-to-let investments by individuals partly explains this market structure. In particular, households increased their holdings of rental housing at an annual average rate of over 100,000 units between 2012 and 2022. In addition, it is estimated that individual landlords who own or have usufruct over ten or more properties appear to represent a maximum of 7% of the entire rental market stock in common fiscal territory.⁹ At the same time, the share of social rental housing is very low, with an estimated 300,000 units (1.5% of main residences).
- **Geographical heterogeneity in rental market size.** The regions with a higher share of rental housing in 2023, whether market or below-market rents, are Madrid (23.7%), Catalonia

⁶ This section does not include tourist rentals, which are discussed in Section 3.

⁷ Some 3 million of which are market rents, while the remainder are below-market rents (including social and affordable housing rentals and homes under the old rent control system).

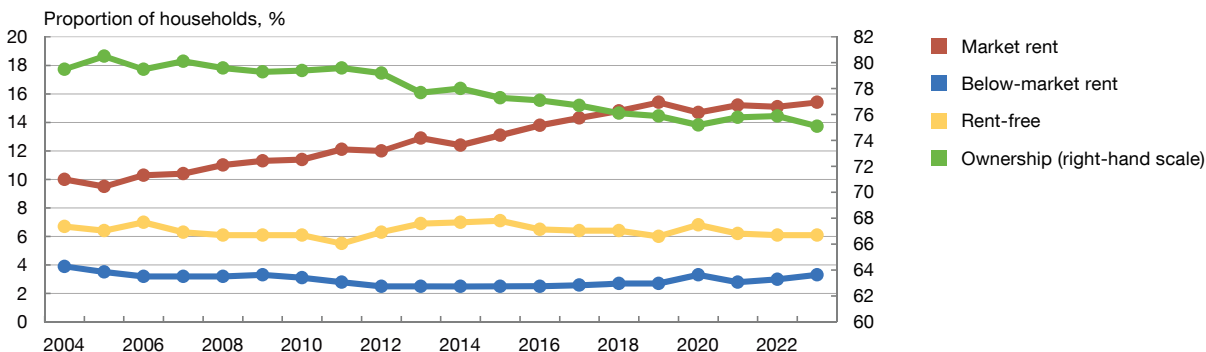
⁸ Own estimates based on the information provided by the Tax Studies and Statistics Service of the Tax Agency (AEAT, by its Spanish acronym) and by the Official Statistics Institute (INE, by its Spanish acronym) in the 2021 Population and Housing Census, the Living Conditions Survey and the Continuous Population Statistics.

⁹ Estimations made by the Tax Studies and Statistics Service of the AEAT for 2021 (latest data available).

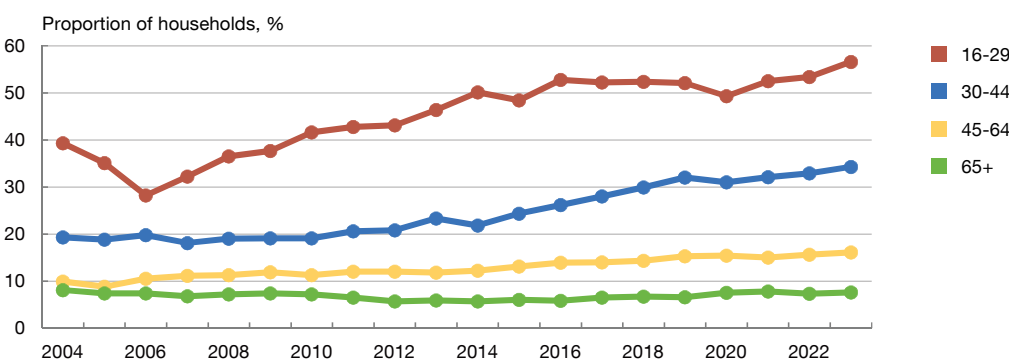
Chart 4.4

The proportion of households living in rented dwellings has grown markedly in the last decade, driven by this market's growing share among young people

4.4.a Tenure status of principal residence



4.4.b Households living in rental housing, by age group (a)



SOURCE: Living Conditions Survey (INE 2024).

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



(24.9%), the Canary Islands (28.5%) and the Balearic Islands (30.9%), compared with a national average of 18.7%. At the same time, according to the 2021 Population and Housing Census, the median ratio of rented main residences in municipalities with more than 50,000 inhabitants stood at 17.2% in 2021. Among the provincial capitals, however, the rental housing stock exceeded 30% in Girona and Barcelona,¹⁰ and stood at around 25% in Madrid and Palma de Mallorca, compared with figures below 10% in Huelva and Jaén.

- **Rental prices.** Since 2015, when they reached their lowest levels, rents have accumulated sustained increases. 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%.¹¹ These increases are primarily the result of higher rents for new homes entering the market and

¹⁰ In the central districts of Barcelona, the percentage of rental housing ranged from 35% to 50% in 2021.

¹¹ According to the State benchmark system for residential rental prices (Ministry of Housing, 2023) and own estimates based on the information provided by the AEAT Tax Studies and Statistics Service.

price increases in rented homes when new contracts are agreed. Specifically, between 2015 and 2022, the average annual price increase of new rental contracts is estimated to be between 7% and 8%.¹² By way of comparison, over the same period, house prices rose by an annual average of 6% in nominal terms. The indicators available for 2023, based on the statistics for asking rents published by the real estate portals, also appear to point to a marked dynamism in rent prices for new contracts in recent months. In particular, the year-on-year change in asking rents, which may serve as a proxy for the increase associated with new contracts, stood between 6% and 10% in late 2023, depending on the real estate portals consulted.

- **Geographical heterogeneity of rental price growth.** The average annual growth between 2015 and 2022 in rents in larger municipalities shows a more limited dispersion than does the increase in average house prices (see Chart 4.3). This can be partly explained by the fact that annual updates to rental contract prices are dependent on benchmarks, such as the consumer price index (CPI). However, rent prices have risen significantly in certain regions: i) along the Mediterranean coast in areas with significant tourism activity; ii) in the central districts of large cities; and iii) in some municipalities on the edge of large urban areas.¹³ Such strong growth in rent prices in large urban areas has also been observed in the major advanced economies over the past decade and has resulted, for example, in high rent prices for houses, rooms and studio apartments in the major European cities and those popular with tourists.¹⁴ Growth in new rental prices was a contributor to the recent inflationary episode in the United States, with these prices remaining buoyant in large US cities.¹⁵

12 Annual updates of existing contracts grow at more moderate rates in line with the rental consumer price index.

13 For example, between 2015 and 2022, cumulative growth in rent prices per square metre stood at more than 50% in the city of Valencia and in Estepona, and at more than 40% in Málaga, Palma de Mallorca, Ibiza, Torremolinos and Alicante. The urban area of Barcelona recorded cumulative growth of between 35% and 40%. For more details, see Khametshin, López-Rodríguez and Pérez (2024).

14 See the International Rent Index compiled by HousingAnywhere and the Index of Private Housing Rental Prices, UK compiled by the UK Office for National Statistics.

15 See Adams et al. (2022) and the Zillow Observed Rent Index.

3 The main drivers of the dynamics observed

3.1 House demand momentum

Since 2016 demographic growth has been a key factor in explaining the rise in demand for both owner-occupied and rental residential housing. This growth is largely explained by significant net external migration, which has intensified since 2022, contributing to a substantial increase in net household formation. These new household flows are concentrated in certain regions and in the main urban areas, where the largest price increases in owner-occupied and rental housing are observed. The increase in the demand for a main residence has also been accompanied by the strength of demand from non-residents, whether for owner-occupied or rental (but mainly seasonal) housing. The surge in demand for housing 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. In addition, banks seem to have maintained prudent credit standards when extending mortgage loans. This, together with the house price and labour market dynamics, appears to have contributed in recent years to a notable shift in demand for housing among the lower-income groups from the purchase segment to the rental segment, which was particularly intense in the case of young people, who have higher rates of unemployment and part-time work, along with weaker cumulative wage growth.

- **Population growth.** Resident population growth is an important driver of demand for owner-occupied and rental housing through new household formation. 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 (see Chart 4.5). Although these demographic projections are highly uncertain, they point to significant net household formation over the coming years that will continue to boost housing demand. In the short term the projections point to a net increase of around 220,000 households per year for the period 2024-2026, while in the medium term an increase of around 120,000 per year is estimated over a 10-year horizon.¹⁶ The main factor underlying this growth (recently and in the near future) in the number of residents and households is the increase in net external migratory flows – particularly sharp in 2022 and 2023 – which offsets the negative natural population growth and the net outflows of Spaniards abroad.¹⁷
- **Average size of new households.** The demand for housing also increases owing to a progressive reduction in average household size, which in Spain was 2.5 persons in 2023, compared with 2.86 in 2001 and 3.59 in 1981 (INE, 2023a). This trend is also observed in the euro area as a whole, where the average household size in 2022 was estimated at 2.2 persons

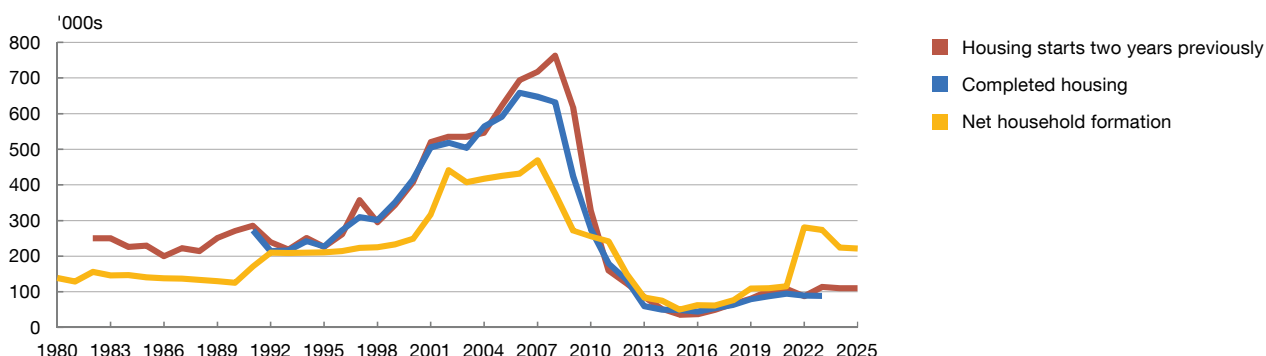
¹⁶ These forecasts relate to the household projections statistics and the projections published by the INE in October 2022.

¹⁷ Spain's population has increased by close to 2.2 million people since 2016, with 50% of this increase concentrated in 2022 and 2023. The number of foreign-born residents has increased by around 2.9 million, while births in Spain have fallen by approximately 700,000.

Chart 4.5

Since 2022, new housing production has lagged well behind demographic dynamics

4.5.a Housing starts two years previously, housing completions and net household formation (a)



SOURCES: Banco de España, INE and Ministerio de Transportes y Movilidad Sostenible.

a Latest data observed: 2023 Q4. 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.



(European Commission, Eurostat, 2023). A more in-depth analysis of these data shows an increase in the dispersion of the number of members per household over the last decade. Thus, in Spain, households with five or more members have increased, but, notably, so have one-person households, in part influenced by population ageing.¹⁸ These changes have implications regarding the type of housing in demand, for instance, in terms of size.

- **Geographical heterogeneity in net household formation.** The autonomous regions where net household formation and the increase in demand for residential housing are concentrated are the most highly populated ones. Specifically, the Catalonia, Madrid, Andalusia and Valencia regions, which represented 58% of the stock of households in 2021, account for around 70% of the new households formed in 2022-2023 and of the projected increase for 2024 and 2025 (see Chart 4.6). This concentration is largely explained by the demographic growth dynamics in the five provinces where more than 50% of new households reside (Málaga, Alicante, Valencia, Barcelona and Madrid).
- **Population concentration in urban areas.** In recent years, population growth has tended to concentrate in urban areas¹⁹ (see Chart 4.7). Specifically, between 2014 and 2022 (the latest available figure), 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%), which accounts for 65%

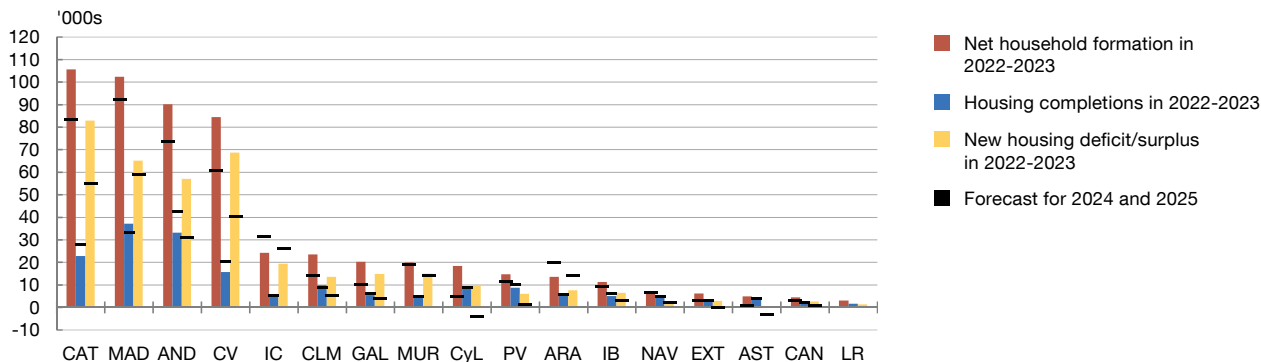
¹⁸ The increase in households with five or more members between 2011 and 2021 is estimated at around 200,000 (INE, 2023a), while the increase in one-person households since 2011 exceeded 1.2 million at 1 January 2024 (INE, 2023b).

¹⁹ Throughout this chapter, the term "urban area" refers to the functional urban area (FUA) concept. According to Eurostat, an FUA consists of a densely inhabited city and a less densely populated commuting zone whose labour market is highly integrated with the city. In Spain, 70 FUAs were defined in 2023, which account for nearly 68.5% of the population. For more methodological details, see European Commission, Eurostat (2019).

Chart 4.6

The lower buoyancy of housing completions relative to net household formation has led to a new housing deficit since 2022, concentrated in certain regions

4.6.a New households and housing completions in 2022 and 2023, by region



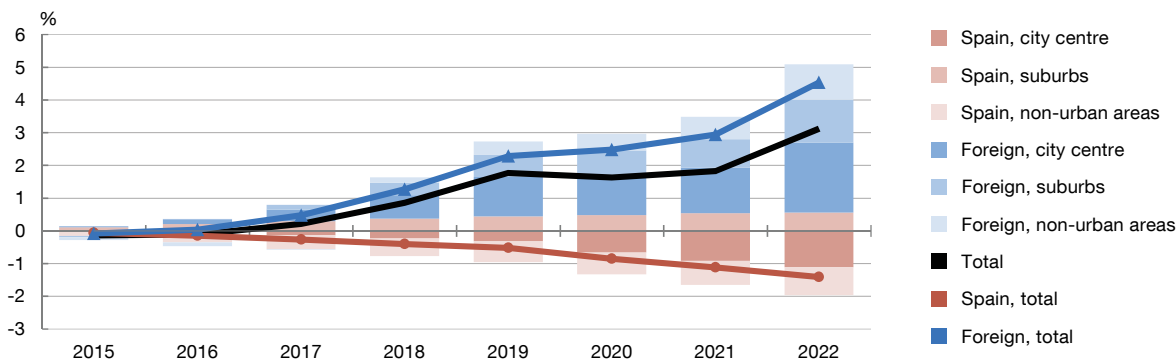
SOURCES: INE, Ministerio de Vivienda y Agenda Urbana and Banco de España.



Chart 4.7

Net external migration is driving demographic growth, particularly in urban areas

4.7.a Contributions to cumulative population growth since 2014, by country of birth and area of residence



SOURCES: INE (municipal population register and annual census) and Banco de España.



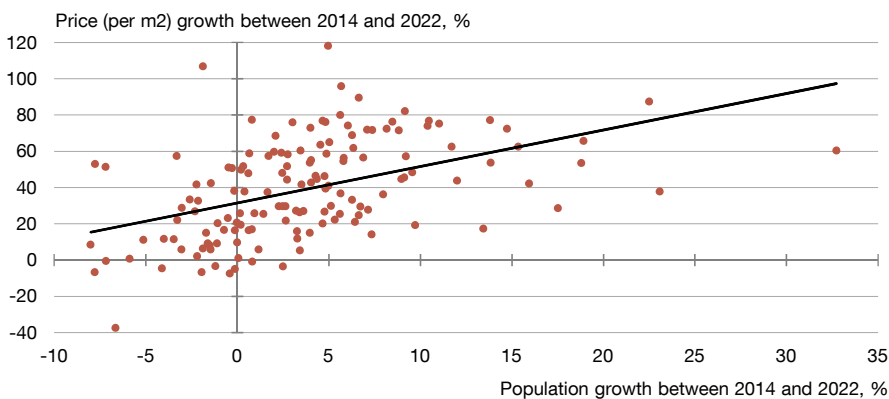
of the population increase in urban areas. However, outside these areas the population declined until 2018, after which it recovered somewhat until 2022, when the 2014 levels were exceeded by 0.8%.²⁰ The breakdown by nationality evidences that the foreign-born population has grown across all the geographical areas considered, although more in urban areas, with growth figures between 2014 and 2022 of around 1 million inhabitants in the city centres and over 600,000 in the suburbs. Conversely, during this period, citizens born in Spain contributed to the decline in population, with falls of more than 500,000 inhabitants

20 For a more detailed analysis of recent spatial population distribution dynamics in Spain, see Banco de España (2021).

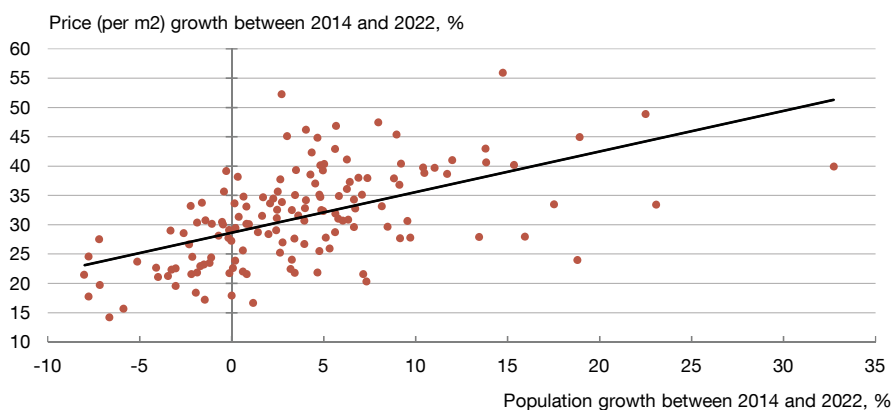
Chart 4.8

The municipalities with the strongest population growth have recorded the sharpest increases in house and rental prices

4.8.a Cumulative growth in house prices and the population. Municipalities with more than 50,000 inhabitants



4.8.b Cumulative growth in rental prices and the population. Municipalities with more than 50,000 inhabitants (a)



SOURCES: INE and Banco de España using data from the Association of Registrars and the AEAT Tax Studies and Statistics Service.

a Municipalities in Navarre and the Basque Country are not included since information on rental prices is not available for those regions.

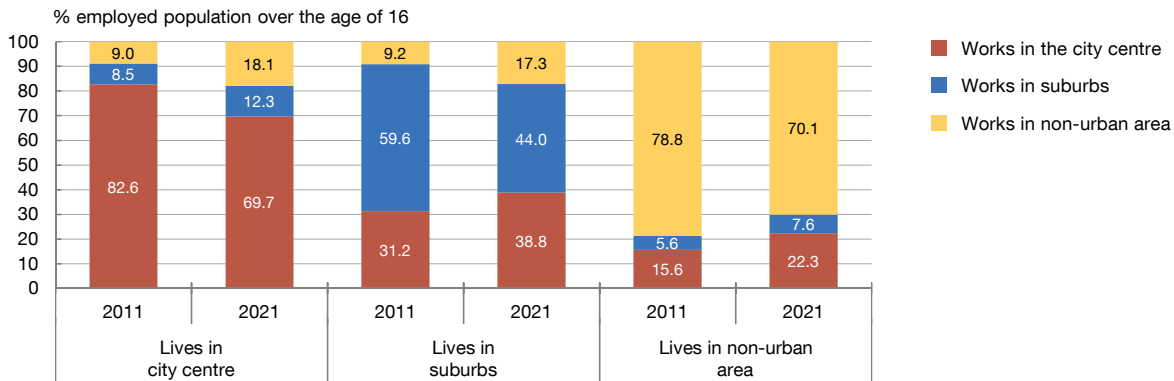
in the city centres and increases of around 250,000 in suburban areas. The latter suggests that Spaniards are moving from the city centres to the suburbs, in an environment of higher house prices in the centres of large cities. By contrast, foreign-born individuals seem to have substantially increased their relative presence in city centres. Given their lower average income levels and the high real estate prices in the main cities, they tend to live in rented housing and, in the most recent period, increasingly in shared rentals and rented rooms.

- **Demographic growth and real estate prices.** The differences in demographic dynamics across geographical areas are one of the main determinants of the uneven growth in owner-occupied and rental house prices in recent years. Indeed, as shown in Charts 4.8.a and 4.8.b, 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 (latest available data). This evidence seems to point to some relative rigidity in the supply of

Chart 4.9

Increase in the proportion of workers living and working in different areas, driving up mobility and the need for transport infrastructure

4.9.a Composition of the employed population by place of residence and of work



SOURCE: Population and Housing Census 2011 and 2021 (INE).

housing to accommodate the increase in demand that has arisen, to a large extent, as a result of demographic developments.

- **Real estate prices in congested urban areas.** Congestion in the main urban areas influences the demand for housing and exerts upward pressure on prices. First, there is a high population density in city centres and the population is gradually concentrating in urban areas.²¹ The international evidence suggests that these urban developments are associated with higher purchase and rental prices. This is especially so when (both urban and metropolitan) public transport infrastructure fails to increase the scale of cities and improve mobility within metropolitan areas. Second, congested urban development increases the relative cost of living in city centres²² and lengthens commute time. In Spain, these costs seem to have risen over the past decade owing to population growth and greater labour mobility within urban areas (see Chart 4.9). This growth in potential users does not appear to have been accompanied by a sufficient increase in investment in metropolitan transport.²³
- **Demand from non-residents.** The demand for housing by foreign non-resident citizens contributes to rising owner-occupied and rental house prices. The largest share of house purchases by non-residents is observed in the Balearic Islands, the Canary Islands and Valencia, with figures ranging between 20% and 25% of all purchases in 2023 (see Chart 4.10). This demand is characterised by non-residents' high purchasing power in

21 Banco de España (2021) and Banquet, Delbouve, Daams and Veneri (2022).

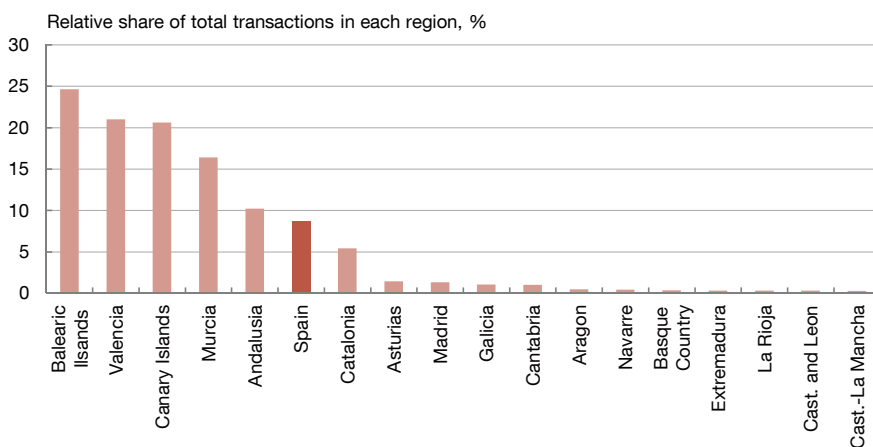
22 Forte-Campos, Moral-Benito and Quintana (2021) estimate that the cost of living indices in Madrid and Barcelona are, on average, around 20% higher than those observed in other Spanish cities, with house prices contributing significantly to these higher costs. Thus, wage premia associated with residing in large cities are significantly squeezed when wages are measured in terms of purchasing power parity (see Chart 4.17).

23 In this connection, the Independent Authority for Fiscal Responsibility (AIReF, by its Spanish acronym) points to an insufficient investment effort in urban area (especially local) transport infrastructure (AIReF, 2020).

Chart 4.10

House purchases by non-resident foreigners are mainly on the Mediterranean coast and on the Islands

4.10.a Purchases by non-resident foreigners, by region. 2023



SOURCE: Ministerio de Transportes y Movilidad Sostenible.

relative terms, as the higher average price of transactions of this kind tends to show. For example, in 2023 H1 (the latest available figures) the average price per square metre of dwellings purchased by non-residents and residents was €2,600 and €1,600, respectively. Meanwhile, foreign citizens play a significant role in the increase in tourist and seasonal rentals, which is reducing the residential use of housing in certain areas, thus contributing to rising rental prices in areas under housing pressure (see Section 3.2).

- **Impact of the macroeconomic situation and the labour market situation.** Favourable macroeconomic developments since 2014 have supported the cyclical recovery of the home ownership and rental market. In particular, during this period employment and real gross disposable income per capita grew steadily. This favourable trend was only temporarily interrupted during the peak of the COVID-19 pandemic and, in the case of real income, also during the surge in inflation between 2021 H2 and 2022 H1. Thus, at end-2023 employment was 19.2% above the figures recorded at end-2013, while real gross income per capita was 12.8% higher. However, these favourable developments at the aggregate level in the labour market are highly uneven across groups (see Chapter 3). In particular, workers with lower skills and less work experience are those with the highest rates of unemployment and part-time work, and weaker wage growth. These facts are related to shortfalls in business productivity and the Spanish economy's human capital endowment, resulting in the existence of vulnerable groups with lower income levels (most notably young people) where the problems of access to housing are concentrated (see Section 5).
- **The impact of monetary policy.** Financial conditions have been a significant driver of changes in the demand for home ownership in the recent period. The economic recovery initiated in 2014 was accompanied by loose financial conditions linked to an expansionary monetary policy. These financial conditions boosted demand for housing by both final

homeowners and buy-to-let investors. The monetary policy tightening which started at end-2021 seems to have helped contain the demand for home ownership since then, as access to financing became more expensive and the expected return on some alternative financial assets improved.

- **The attractiveness of investment in buy-to-let property.** In recent years, many private investors have been attracted by rental profitability and the expected appreciation of house prices since their recovery in 2014. The gross rental yield (GRY)²⁴ for the average stock of rental housing stood at around 5.5% per year in the period 2015-2022, while the GRY at the start of the rental contract reached around 7% per year during this period.²⁵ It should be emphasised that the GRY is not adjusted for the risk implicit to leasing nor does it take into account rent-associated expenses which, as reported by individuals in their personal income tax returns, seems to reduce profitability by around 2 pp. The ex post GRY obtained by a private investor with a buy-to-let dwelling (which, aside from the rent, includes capital gains associated with house price growth) appears to have stood at 10.5% per year on average in the period 2015-2022.²⁶ By way of comparison, the average annual nominal gross yield over the same period of 10-year government bonds, bank deposits and the IBEX 35 average, including dividend payments, stood at 1.2%, 0.3% and 6.8%, respectively.²⁷ In net tax terms, it should also be borne in mind that there is a favourable tax treatment of rental income from individuals' main residence vis-à-vis higher effective tax rates on, for instance, other rental income or the double taxation of dividends.²⁸ These yields, compared with financial asset yields, contribute to explaining the surge in buy-to-let investments by natural persons who do not professionally engage in real estate, to the point that this group already accounts for over 90% of the rental market in Spain (see Section 2).
- **The impact of credit conditions.** Changes in credit conditions applied by banks have also impacted housing demand through their effect on households' ability to access financing. The evidence indicates that, 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 the 2008-2013 real estate and banking crisis (see Section 4). This prudence in mortgage lending is reflected in the decline in (i) the proportion of house value that is financed with mortgage loans, (ii) the average loan-to-

24 The GRY is calculated as the ratio of annual average rent to average house price, in square metre terms, for the economy as a whole. GRYs are calculated drawing on data provided by the Tax Studies and Statistics Service of the Tax Agency and the Association of Registrars.

25 Khametshin, López-Rodríguez and Pérez (2024).

26 This ex post yield is the result of the dividend obtained as rental income and the unrealised capital gain associated with the appreciation of the dwelling. This nominal yield has been reduced in real terms by annual average CPI growth during the period of 1.8%.

27 In 2023, with average annual inflation of 3.5%, the yields of these alternative investments stood at 2.9% in the case of 10-year bonds, and 2.6% for bank deposits. (see [Summary Real Estate Indicators](#)). The index calculated by BME is used to calculate the cumulative dividend yield of the IBEX 35 from early 2023 to end-2023, which stood at 20.6%.

28 The rental income earned by individuals is generally subject to a 50% reduction in the case of contracts entered into before 2024. A 60% reduction applies in the case of contracts in force until termination.

house price ratio and (iii) the share of household income devoted to payment of the initial loan instalment (see Section 4). This change in credit conditions, along with other factors, appears to have contributed to a notable shift in housing demand towards the rental segment, which was underdeveloped. This is especially true in the case of young people (see Section 5), which is the group with the highest share of rented housing in recent years (see Chart 4.4).

3.2 The rigidity of housing supply

The lacklustre housing supply in the recent period, compared with the robustness of demand, has significantly underpinned house purchase and rental price growth. Against this backdrop, the mobilisation of second-hand residential housing has been instrumental for absorbing some of the strength in demand and limiting the surge in prices. By contrast, the contribution of new housing to aggregate supply has been more limited, owing to, among other factors, the scarcity of build-ready land,²⁹ construction workforce shortages, rising production costs, and difficulties in acquiring and developing new urban land available for construction. The rigidity of housing supply in the short term is also 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 or seasonal rentals.

- **The housing stock.** It is estimated that in 2023 the aggregate housing stock was around 27 million units, of which 19.3 million (72% of the total) were main residences. The remaining stock of available housing, around 7.5 million, is used for different purposes, such as second homes, and tourist and seasonal rentals. As described in this section, new housing for residential purposes has lost momentum in recent years, leading to a significant number of second-home conversions into main residences. At the same time, the emergence of new house uses, such as for holiday purposes (whether on an owner-occupied or rental basis) and the surge in alternatives, such as seasonal and room rentals, have contributed to weaker growth in the supply of traditional residential housing. The recent regulations that have restricted tourist rentals in some areas and those that have provided greater protection for low-income tenants (see Section 6) could contribute to shifting the housing supply to these alternative uses. In particular, rapid growth is observed in the weight of seasonal rentals (commonly lasting between 1 and 11 months), which appears to have a laxer regulatory framework that is more favourable for owners.³⁰ The housing stock as a whole is growing at a slower pace than demand for its main uses.

²⁹ Throughout this chapter “build-ready land” will be understood to be urban land in development areas available for construction (building plots). Build-ready land belongs to the category of consolidated land that does not require any urban transformation, and also includes urban land under development. In a previous phase, urban land is classified as unconsolidated and includes plots that require urbanisation processes for future development and construction. Urban land is land included in a municipality’s urban development plans and that has some basic urban services (e.g. water, sanitation, electricity and road transport).

³⁰ Estimates based on data drawn from real estate portals show strong growth in seasonal rentals in 2023, with figures accounting for around 10% of the total supply of rental housing, with ratios exceeding 30% in San Sebastián and Barcelona. The data for Barcelona indicate that in mid-2023 the supply of dwellings for tourist and seasonal rentals already accounted, overall, for around 45% of the supply of residential rental housing (Observatori Metropolità de l’Habitatge de Barcelona, 2023).

- **The mismatch between the supply of and demand for owner-occupied and rental housing and its impact on prices.** Since 2021 there has been a substantial reduction in the differential between supply, resulting from aggregating the volume of new and second-hand housing announced in the real estate portals, and demand for housing, as approximated by the volume of transactions. There is evidence that this fall in excess supply is positively correlated with house price growth, both at the aggregate level and across geographical areas.³¹ At the same time, rental price dynamics in large cities suggest that the notable increase in the stock of privately owned rental housing in recent years (see Section 2.2) seems to have been insufficient to absorb the larger relative increase in demand.
- **New housing supply.** The number of new houses completed declined abruptly after the 2008 real estate crisis, in a setting in which significant excess housing production had built up relative to household formation. The number of homes completed declined from its peak of 650,000 per year between 2006 and 2008 to a low of 45,000 units in 2016. Since then, the number of completed homes has slowly recovered, stabilising, from 2021, at around 90,000 units per year (see Chart 4.5).³² This volume is significantly lower than the net household formation figure relating to 2022 and 2023, which is unprecedented in the history of the Spanish real estate market, in which the gross supply of new housing has traditionally grown more than household formation.³³
- **The new housing shortfall.** 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 (see Chart 4.5).³⁴
- **Geographical heterogeneity in the new housing shortfall.** The shortage of new housing is particularly intense in the regions with the highest population growth and tourism activity (see Chart 4.6). For instance, new housing could meet close to 40% of the potential demand from new households in the period 2022-2025 in Spain as a whole. This figure falls to below 20% in the Canary Islands and to between 25% and 30% in Catalonia, Valencia and Murcia.
- **The role of the stock of unsold housing.** The existence of a large stock of unsold new housing could help explain the lacklustre supply of new housing up to 2018, but not in the

31 San Juan (2023).

32 In the euro area, excluding Spain, around 1.2 million house building permits were issued in 2022. This is 25% less than in 2007 but 35% more than in 2014, when the recovery started. In the main euro area economies, the percentage of residential building permits relative to the total euro area is 33.7% in France, 23% in Germany, 9.1% in Spain and 4.7% in Italy.

33 The excess supply observed since 1980 has reflected, in part, the existence of an amortised volume of dwellings and the demand for second homes.

34 The figure for housing starts in 2022 and 2023 is used to approximate the volume of homes that will be completed in 2024 and 2025 given the estimated average construction time in Spain. In calculating the housing shortage, only the demand by resident households is considered, while purchases by non-resident foreigners are not.

most recent period. The accumulation of unsold new housing during the real estate boom of the first decade of the 21st century raised the stock of these dwellings to 650,000 units in 2009. This figure declined progressively, stabilising at around 450,000 homes in 2018, a figure representing 2.3% of the stock of main residences in 2023.³⁵ Despite the surge in demand, this stock has not declined since then. This could indicate a mismatch between such dwellings and current household preferences. Thus, other factors, analysed below, seem to have contributed to a larger extent to the lacklustre supply of new housing in recent years.

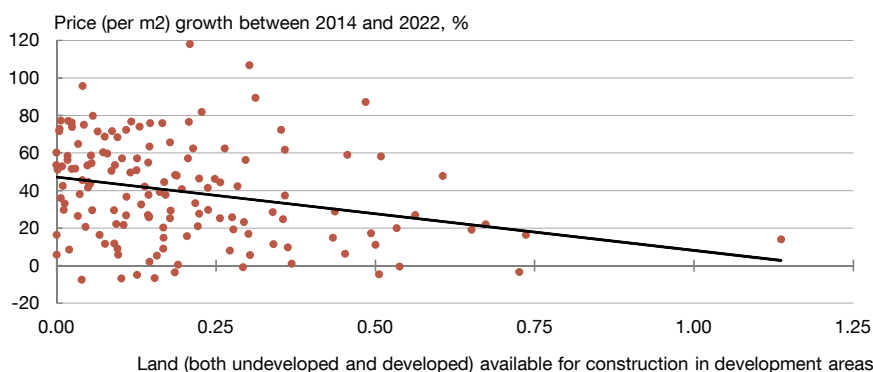
- **The shortage of land available for construction.** The evidence indicates that both purchase and rental real estate prices have tended to grow more in municipalities with a lower relative availability of build-ready land (see Chart 4.11). This lower availability may be due to physical factors, such as the lack of land (as a large portion of the available land has already been built on), but also to various general government decisions and the development sector's risk-taking capacity. Specifically, regional and local governments are initially responsible for determining the degree of development and urban planning of a territory. Thereafter, different administrative procedural formalities and investments are needed to effectively create buildable land that can be used for construction. The speed and degree of certainty with which these procedural formalities are carried out substantially influences this process. Also, together with other factors, it affects the development sector's expected return on the purchase and development of new urban land for construction.
- **Cost and availability of factors of production.** The increase in the supply of housing may have been limited in recent years by the rise in construction costs and the shortage of skilled labour. Indeed, 55% of the businesses in the construction industry that participated in the Banco de España Business Activity Survey (EBAE, by its Spanish acronym) reported at end-2023 that the labour shortage had a negative impact on their activity. Meanwhile, the ageing of construction workers and the lack of vocational training weigh on the sector's productivity. The labour shortage is also reflected in an increase in total labour costs per worker of 11.2% between 2019 and 2023, which is higher than that for the industrial sector (10.5%), but lower than the increase in the services sector (14.9%). Moreover, these increases are in addition to a nearly 30% rise in the costs of materials over the same period.
- **Residential real estate financing.** The construction of new housing also seems to be influenced by the lack of investments in the acquisition and development of new urban land. The high uncertainty associated with the profitability of these investments and the limitations to the availability of funding for these activities might also contribute to this shortage. Specifically, the financing of this activity with own funds accounts for less in Spain than in other advanced economies and it has not increased significantly following

35 The number of unsold new dwellings in a given year is calculated on the basis of the difference between the number of homes completed (approximated by the number of building completion certificates) and the number of new house purchases whose data are available from 2004. The stock of unsold new housing is, therefore, the build-up of this measure since early 2004.

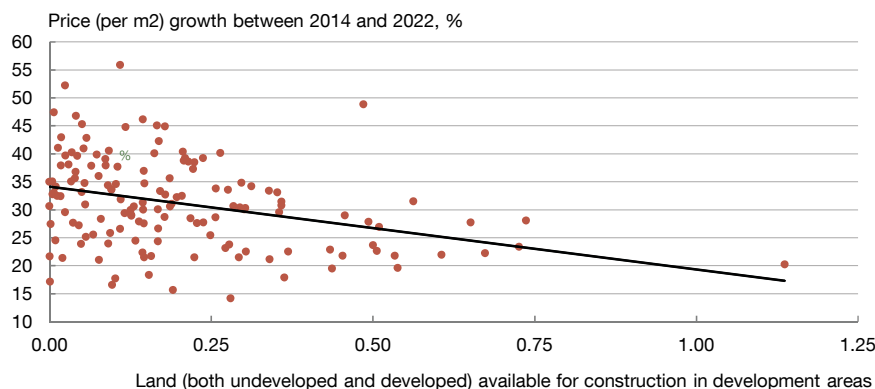
Chart 4.11

House prices and rents tend to rise most sharply in municipalities with less land available for construction (a)

4.11.a Cumulative growth in house prices and available land. Municipalities with more than 50,000 inhabitants



4.11.b Cumulative growth in rental prices and available land. Municipalities with more than 50,000 inhabitants (b)



SOURCES: Ministerio de Vivienda y Agenda Urbana and Banco de España using data from the Association of Registrars, the Cadastre 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 Municipalities in Navarre and the Basque Country are not included since information on rental prices is not available for those regions.

the global financial crisis. Nor has an increase in international investment in this field been observed. Thus, investment with own funds has not been able to offset the limitation in access to credit of projects for these purposes with low credit quality. These limitations were justified owing to the need to avoid an excessive build-up of risks in this segment³⁶ and are consistent with the regulatory³⁷ and supervisory changes in this field after the global financial crisis, and with banks' prudent practices. The insufficiency of new

³⁶ In the years leading up to the 2008-2013 real estate crisis, the build-up of risks in Spain's real estate market was excessive. As a result, the ratio of non-performing loans for firms engaging in real estate activities and construction was close to 40% in 2013. However, the non-performing ratio for this loan portfolio is currently low (4.3% at end-2023).

³⁷ The evidence available internationally suggests that the adoption of the Basel III regulatory standards increased banks' resilience and reduced systemic risk, with no adverse effects on the aggregate credit flows having been identified (Basel Committee on Banking Supervision, 2022).

investments by the private sector seems to be especially significant in build-to-rent activities (since the cost of capital for these activities, with a greater associated risk, is higher) and in the social rental housing segment (where failure to periodically update the module price, against a background of increasing production costs, exerts downward pressure on developers' expected returns).³⁸

- **The role of housing renovation.** The contribution of home renovations to the increase in the supply of housing is relatively modest in Spain. Thus, home renovation permits stood at around 25,000 in 2023, slightly lower than the average for the past decade and below the renovation ratios observed in the large European economies.³⁹ In this connection, the Spanish Recovery, Transformation and Resilience Plan (RTRP) aims to boost home renovation to increase the supply of residential housing. Specifically, the renovation of more than 500,000 homes is envisaged over the RTRP application period, with the aim of reaching 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.
- **The role of empty housing.** A priori, the capacity to increase the supply of housing by mobilising empty homes seems to be relatively limited, since they are largely concentrated in areas with less demographic buoyancy.⁴⁰ For instance, in municipalities with fewer than 10,000 inhabitants, where 20% of the population lives, 45% of homes are empty. By contrast, in cities with more than 250,000 inhabitants, empty homes account for 7.5% of the total housing stock (and 10.5% of the national stock of empty homes), i.e. around 400,000 units. Although mobilising these homes could contribute to increasing supply, a significant proportion of them is in poor condition, with suboptimal accessibility or very low energy efficiency, thus requiring prior renovation.
- **Tourist rentals.** In recent years, the surge in holiday rentals appears to have somewhat reduced the potential supply of housing available for residential use, albeit highly unevenly across geographical areas. The share of the holiday rental activity in the overall residential market is modest, with the estimated ratio to total main residences standing at 1.8% (340,000 homes).⁴¹ However, it already accounts for nearly 10% of the rental market. 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) (see Chart 4.12).⁴²

38 The module price determines the maximum value at which subsidised housing (for purchase or rent) may be offered. Many regions have frozen their module prices in recent years, but some regions have announced that they will be updated.

39 The annual ratio of renovated housing stood at 2% of the housing stock in France, 1.5% in Germany and 0.8% in Italy, compared with 0.1% in Spain.

40 A home is classified as empty when its electricity consumption is below a minimum threshold. For further details, see INE (2023b).

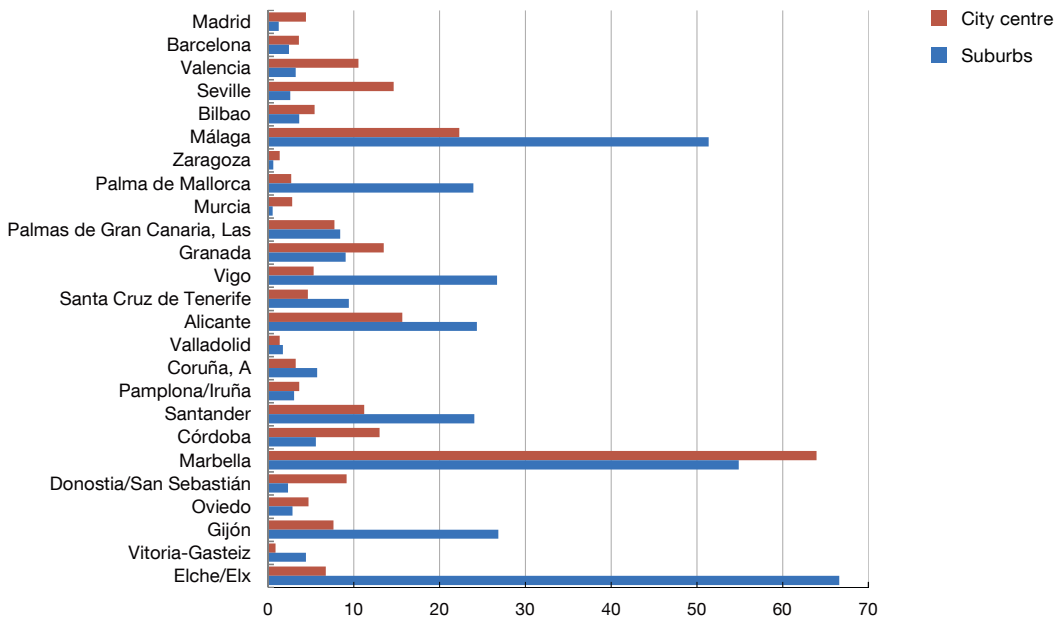
41 [Experimental Statistic. Measurement of the Number of Tourist Dwellings in Spain and their Capacity.](#)

42 For instance, in the census sections falling in the quintile with the highest share of tourist rentals in a city, this activity accounted for between 13% and 90% of the rental housing stock in the city of Valencia. Another example is that the number of tourist rental units was 1.5 times higher than the number of residential rental dwellings in some census sections of central Seville. For more details, see Khametshin, López-Rodríguez and Pérez (2024).

Chart 4.12

Tourist rentals account for a considerable share of housing in certain urban areas and in the central districts of major cities with the most tourist activity

4.12.a Tourist rentals as a share of total rental housing in the 25 largest urban areas, % (a)



SOURCES: INE and Banco de España.

a Calculated 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).



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.⁴³

43 In the case of Barcelona, García-López, Jofre-Monseny, Martínez-Maza and Segú (2020) estimate that rental and purchase prices increased by 7% and 17%, respectively, in the areas located in the highest decile of the distribution of Airbnb activity. In Los Angeles, Koster, Van Ommeren and Volkhausen (2020) estimate that tourist rentals through Airbnb led to a 15% increase in housing prices near areas with the most tourist activity.

4 The implications of these dynamics for financial stability

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. For instance, according to the latest data, the Banco de España's synthetic indicator of risks to financial stability⁴⁴ stands at around 0.32, signalling a moderate risk level (see Chart 4.13). By way of comparison, this indicator was above 0.6 during the real estate boom of the early 21st century, peaking at close to 0.9 in 2007, just before the real estate crisis. Conversely, it followed a downward path in the period 2008-2013, posting a low of 0.25 in late 2013. In any event, aside from this synthetic index, the Banco de España's risk analysis is also based on the individual monitoring of a broad set of indicators covering the following aspects: i) housing market activity, ii) the volume and status of credit, iii) credit standards for new loans, iv) the financial position of households, and v) house valuation. The status of each of the main indicators is discussed below. Box 4.1 examines the risks to financial stability associated with the commercial real estate market.

- **Indicators of house price imbalances.**⁴⁵ Given the difficulties in estimating long-run equilibrium house prices, the Banco de España uses several alternative methodologies and presents the results as ranges. The resulting indicators, based on the latest data (for 2023 Q4), point to moderate house price overvaluation in the economy as a whole (see Chart 4.14). In particular, in 2023 Q4 the average indicator stood close to the equilibrium level and well below the overvaluation levels reached during the mid-2000s real estate boom.⁴⁶
- **Indicators of house price developments under adverse scenarios.** These indicators, based on quantile regressions, serve to estimate the potential fall in house prices at different horizons under adverse scenarios of varying severity.⁴⁷ On the latest information, under an adverse scenario equivalent to the 10th percentile of the price distribution (i.e. the level below which the 10% most adverse scenarios lie), average house prices would decline by 5.2% over a one-year horizon and by 9.4% over a two-year horizon. These falls are similar to those historically observed for that percentile over the same horizons (4.8% and 8.5%, respectively). All of which suggests that, at present, the downside risks to house price developments are moderate as compared with the historical average.
- **Indicators of real estate activity.** In terms of housing transactions and building permits, the activity indicators point to a slowdown in housing market dynamics in the most recent

44 For more details on the methodology used, see Alves, Broto, Gil and Lamas (2023).

45 These indicators are regularly presented in Chapter 3 of the Banco de España's Financial Stability Report. For further methodological details, see Castro, Estrada and Martínez (2016), and Martínez and Maza (2003).

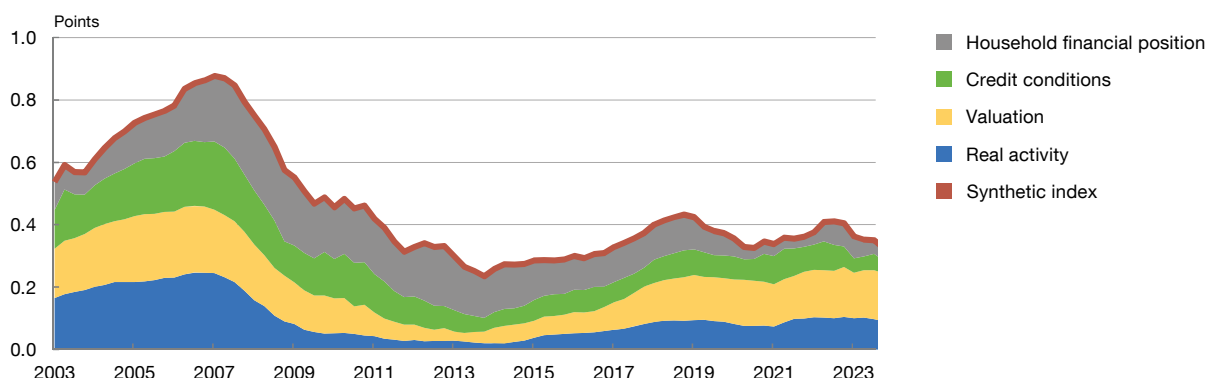
46 It is important to note that these overvaluation indicators do not take into account some relevant variables, such as demographics and certain supply-side factors. As discussed in Section 3 of this chapter, these drivers have played a significant role in Spanish house price dynamics in the most recent period.

47 For more details on the methodology used, see Ganics and Rodríguez Moreno (2022).

Chart 4.13

The synthetic risk indicator currently stands at a moderate level

4.13.a Synthetic index of housing market vulnerabilities and risks (a)



SOURCE: Banco de España.

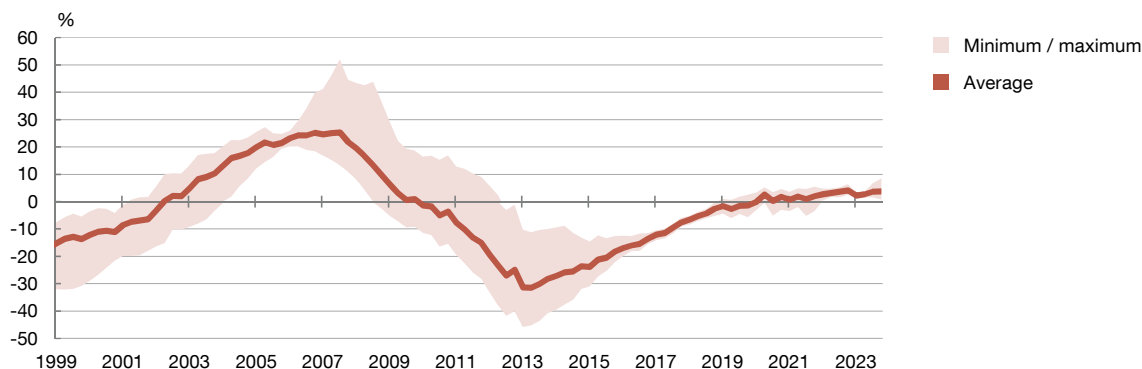
a Synthetic indicator summarising the individual housing market indicators. These individual indicators refer to metrics proxying the financial position of households, credit conditions (such as the volume of mortgage lending and credit standards) and developments in housing prices or supply and demand 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.



Chart 4.14

The indicators of house price imbalances point to a moderate level of overvaluation

4.14.a Indicators of house price imbalances (a)



SOURCE: Banco de España.

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



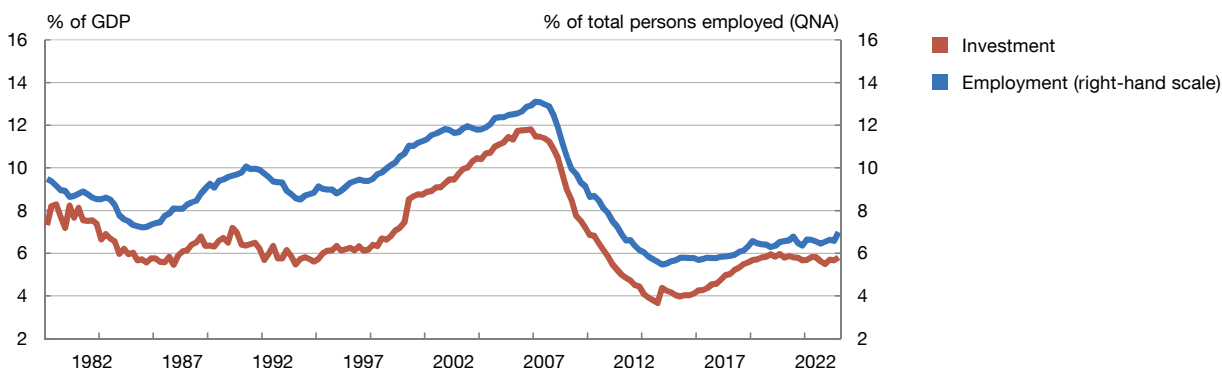
period. Further, there are no indications of the real estate market becoming oversized. For instance, both the share of the construction sector in total employment and the ratio of residential investment to GDP currently stand at low levels, especially by historical standards (see Chart 4.15.a).

- **Real estate credit developments.** Nor have any warning signs been observed in relation to the credit market. In particular, since 2022 there has been a drop in new loans for house

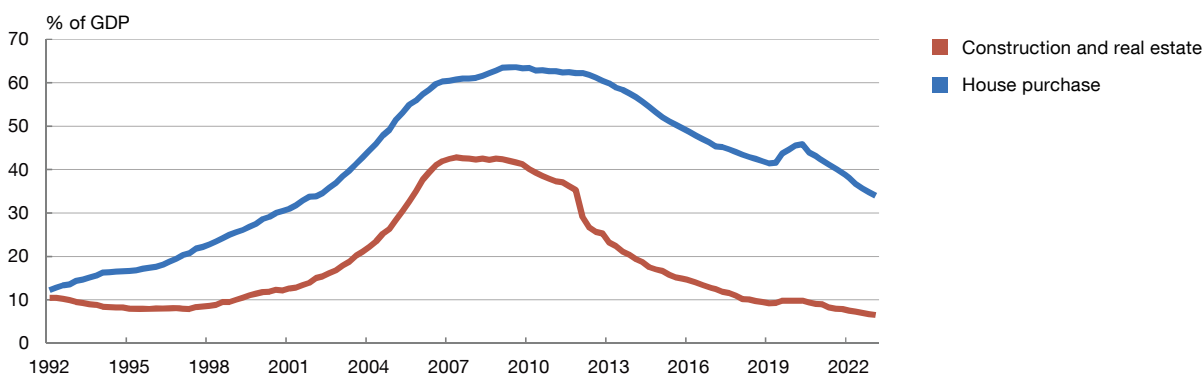
Chart 4.15

No indications of the real estate and mortgage markets becoming oversized

4.15.a Residential investment and employment in the real estate market (a) (b)



4.15.b Outstanding stock of credit, by purpose



SOURCES: Banco de España and INE.

a Seasonally adjusted series. Latest data: 2023 Q4.

b The employment data refer to the construction sector, excluding real estate development.



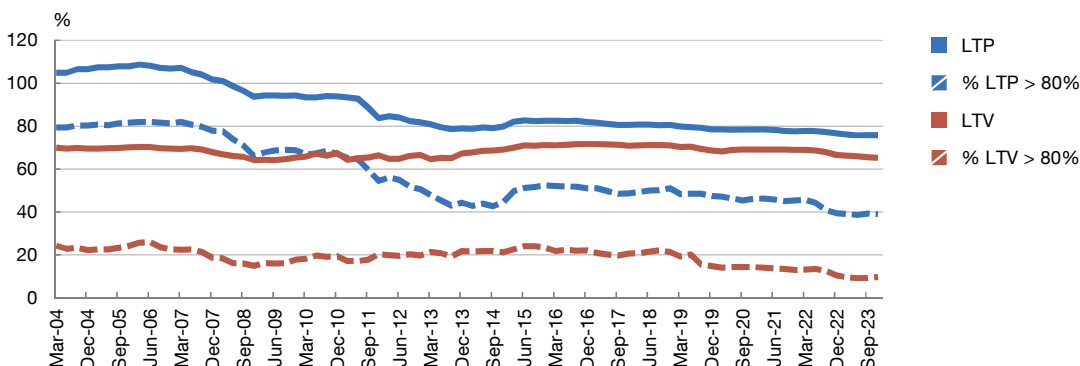
purchase, together with a contraction in the outstanding stock of such credit to its lowest levels (in GDP terms) since 2003 (see Chart 4.15.b). Meanwhile, the outstanding stock of loans for real estate construction and development (as a percentage of GDP) is at its lowest point for the last 30 years. As for the credit quality of banks' real estate exposures, again, there are no indications of a significant deterioration. For instance, despite rising in recent months, at end-2023 the non-performing loan ratio for mortgage loans stood at moderate levels by historical standards (2.6%, compared with the average of 3.5% in the period 2007-2023).

- **The financial position of households.** Household balance sheets have improved somewhat over the last few years. In particular, there has been a decline in the ratio of household debt to disposable income, which in 2023 Q4 stood at its lowest level since mid-2002. This came in step with a recovery in household wealth. Meanwhile, the saving rate climbed to 13.1% in 2023 Q4 (the latest figure available), above the average for the period 2000-2023 (9%).

Chart 4.16

Mortgage lending standards in relation to house prices and the value of mortgage collateral remain at prudent levels

4.16.a Loan-to-price (LTP) and loan-to-value (LTV) ratios (a)



SOURCES: Banco de España, Association of Registrars, CCR and INE.

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%.



However, as indicated in the Banco de España's latest [Report on the financial situation of households and firms](#), these relatively favourable overall dynamics are consistent with lower-income households and those with lower saving capacity finding themselves in a vulnerable position.

- **Credit standards related to collateral and maturity.**⁴⁸ Broadly speaking, these credit standards are at prudent levels. For instance, the average ratio between the loan amount and the transaction price (loan-to-price (LTP) ratio) for new mortgages stood at around 75% in 2023 Q4 (see Chart 4.16). This ratio has decreased slightly since mid-2021, by around 2.5 percentage points (pp), having held relatively stable at close to 80% since 2013. Likewise, the average ratio between the loan amount and the value of the mortgage collateral at origination (loan-to-value (LTV) ratio) stood at around 65% at end-2023, while the proportion of riskier loans (those with an LTV ratio above 80%) was low (around 9.5% in 2023). As for the share of new mortgages with maturities of more than 30 years, the most recent data also indicate prudent practices. Specifically, this share stood at 30% at end-2023, after holding relatively steady at around 45% in the period 2013-2020.
- **Indicators of loan repayment capacity based on borrower income.** Again, these indicators stand at prudent levels, although some deterioration has been observed in the most recent period. The loan-to-income (LTI) ratio for new mortgages, which captures the relationship at origination between the principal amount of the loan and borrower income, has held steady in recent years. At the same time, the share of mortgages with a ratio above 5 (considered

48 The figures in this paragraph and the next one refer to new lending rather than the overall stock of outstanding mortgages.

a high value) has tended to decline. Conversely, the median debt-to-income (DTI) ratio, which measures debt service costs as a share of borrower income, has risen since 2022, mainly as a result of higher borrowing costs. Likewise, the share of new mortgages with a DTI ratio of over 30% (the level below which default risk is considered low)⁴⁹ has increased to 25%. Despite this, the share of new mortgages considered riskier stands at prudent levels and well below the figures of over 50% observed in the period 2002-2008.⁵⁰

49 Beyond this gross income threshold, the probability of mortgage default rises. For a median income level bearing an effective income tax rate of 15%, this threshold is equivalent to around 35% of net household income.

50 See Galán and Lamas (2019).

5 Housing affordability difficulties

This section analyses the extent to which there are housing affordability difficulties in Spain, both for buyers and renters. The indicators available show that such difficulties have become more pronounced over the last few years, particularly for certain types of households and in certain geographical areas. By cohorts, housing affordability poses greater challenges for lower-income households and those with scant saving capacity, groups that include a high proportion of young people and foreign residents. By geographical area, the difficulties are most acute in areas that are more economically buoyant and those with higher levels of tourism. Conversely, the proportion of mortgaged households overburdened by their housing costs is low. This appears to reflect, at least in part, sound selective lending by banks, which only extend credit to households that have sufficient savings and income relative to the price of the property. By contrast, the percentage of renter households that are overburdened by their housing costs is very high, above the EU-27 average. Lower-income households, which cannot afford home ownership, face high rental costs, partly on account of the problems in the functioning of the housing market.

5.1 Housing affordability for young people

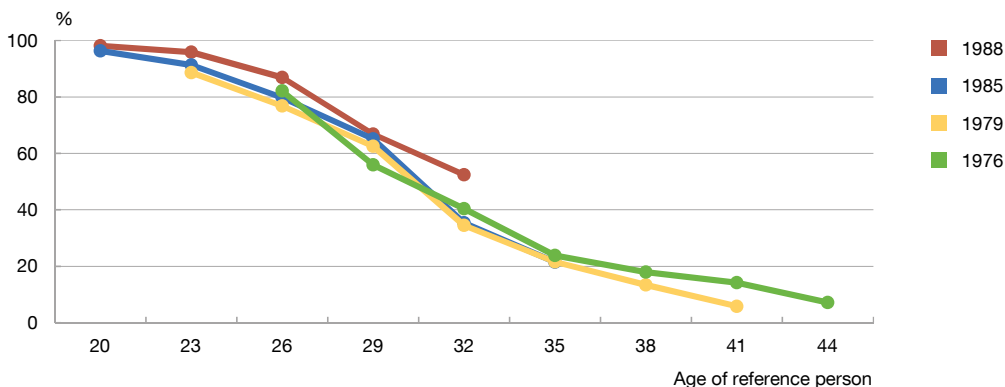
- **Leaving the family home.** The age at which young people move out of the family home has been steadily rising since 1980 (see Chart 4.17). In the period 2008-2022, of the main European countries, Spain recorded the largest increase in the proportion of young people aged 18-34 living in the family home (see Chart 4.18.a). Specifically, 65.9% of Spanish people in this age bracket still lived at home in 2022, up by around 13 pp on 2008 and 16 pp above the EU-27 average.⁵¹ This high ratio and its marked increase in recent years are an indication of growing housing affordability problems – whether to rent or to buy – for a cohort that also tends to have worse labour market conditions. 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 EU-27 average of 20%. 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%).
- **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 (see Chart 4.18.b). This ratio was around 3 pp above the EU-27 average, having increased sharply in Spain over the last decade. However, it remained below the levels observed in the main euro area economies, such as Germany (80%) and France (67.5%), albeit somewhat higher than the figure in Italy (46.2%). Furthermore, among the main European economies as a whole, Spain has the highest share of young households using a dwelling rent-free (12.3%,

⁵¹ In addition to Spain, the highest ratios are to be found in southern EU-27 countries, such as Greece (71.9%), Portugal (70.7%) and Italy (69.4%), and in Ireland (64.1%), which are also the economies where the ratio has increased most sharply since 2008 (by 13.5 pp in Greece, 10 pp in Portugal, 8.3 pp in Italy and 13.7 pp in Ireland).

Chart 4.17

Cohorts born after 1980 leave the family home at an older age, suggesting that young people face growing housing affordability problems, whether to buy or to rent

4.17.a Probability of living with parents over the life cycle, by year of birth



SOURCE: Spanish Survey of Household Finances (EFF 2002 - EFF 2020).

compared with 6.5% for the EU-27), which is probably 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 other European economies (26% in France) and the EU-27 average (10%), due to the low proportion of social rental housing (see Section 2).

- **Young people’s labour market situation and access to credit.** In recent years, young people’s capacity to purchase a home has been stymied by their labour market situation (see Section 4). For instance, in 2023 the unemployment rate for the Spanish labour force aged 15-29 stood at 21.3%, while the part-time employment rate was 25.3%. Both figures are systematically higher than those recorded in other age groups (12.1% and 13.3%, respectively, for the economy as a whole) and in other European economies (euro area averages for the same age group: 11.2% and 23.7%, respectively).⁵² Meanwhile, although the gross wage of young workers aged 16-34 grew by around 25% in cumulative terms in the period 2015-2011,⁵³ average house prices rose by 42% and average rents by 28.5%⁵⁴ in the same period. In sum, in recent years these real estate price dynamics and the labour market situation of young people,⁵⁵ together with banks’ prudent mortgage lending

52 The labour market situation of Spanish young people also compares poorly with that of their euro area counterparts once their higher participation rate (50.3% vs 44.8% for the euro area) is taken into account, with the Spanish group having a lower employment rate in 2022 (39.6%) than that of their euro area peers (49.7%).

53 This is a larger increase than observed in the period for workers overall (12.5%). However, the negative differential between the average wage of young people and that of workers overall was 5.5 pp greater than observed in 2008.

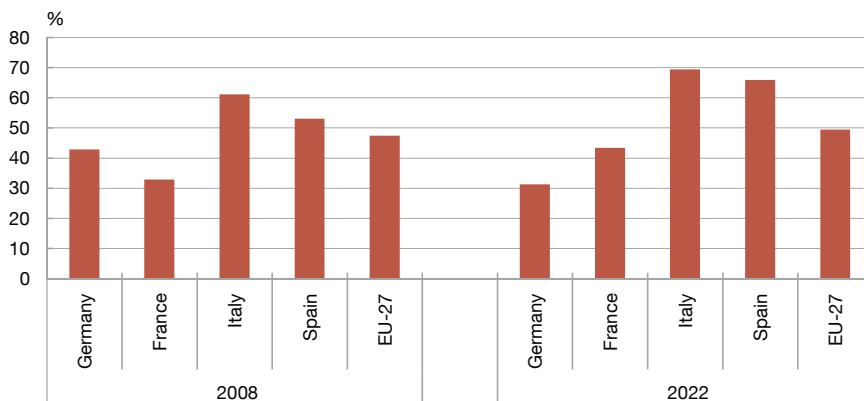
54 The average rent increase for the stock of rented housing. The average annual increase in new rental contracts was more pronounced, standing between 7% and 8% in the period 2015-2022.

55 For an analysis of the potential adverse effects of this labour situation, in terms of the higher uncertainty and risk associated with young households’ income and how this affects the decision to move out of the family home, along with consumption and investment decisions, see Barceló and Villanueva (2018) and Arellano, Bonhomme, De Vera, Hospido and Wei (2022).

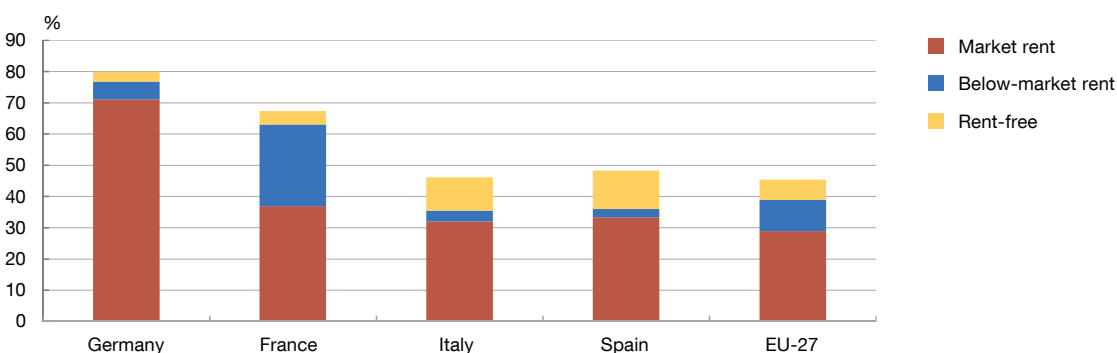
Chart 4.18

Over the last decade, Spanish young people have notably delayed the decision to move out, with the share living in rented accommodation rising markedly

4.18.a Percentage of young adults (18-34) living with their parents



4.18.b Percentage of young households living in rented homes. 2022 (a)



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

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.



practices, appear to have hindered this cohort’s access to financing for house purchase, significantly shifting young people’s housing demand towards the rental segment (see Section 3).

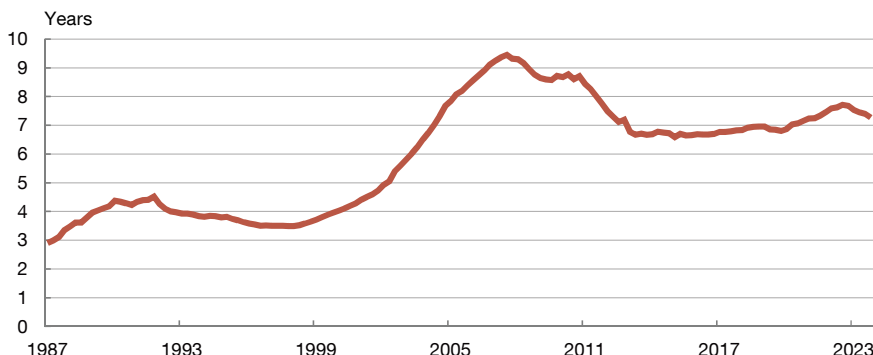
5.2 Home ownership affordability

- **House purchase affordability: the price-to-income ratio.** House purchase affordability can be proxied using the ratio between the average house price and the gross annual income of the median household. This indicator, expressed in terms of years of current income needed to pay off a house, has risen substantially since the onset of the COVID-19 pandemic. That said, at end-2023 it had declined slightly to 7.3 years (see Chart 4.19.a). From a historical perspective, the affordability indicator is short of its 2008 peak (9.5 years),

Chart 4.19

The indicators that proxy the theoretical burden associated with house purchase remain at high levels by historical standards

4.19.a Potential house purchase burden (a)



4.19.b Theoretical regular financial burden of house purchase (b)



SOURCE: Banco de España.

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

b "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.



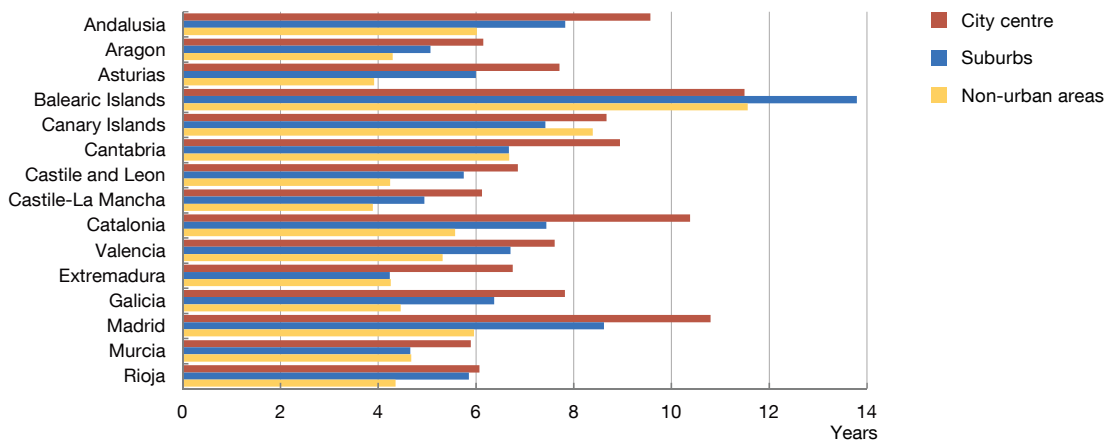
but is still double the average figure for the period 1987-2000. At international level, the OECD price-to-income indicators available from 1995 show housing purchases becoming less affordable. For instance, at end-2023 this affordability indicator stood at double its 1995 level for the United Kingdom and Canada, and had increased by around 60% in the Netherlands, 55% in France, 45% in Spain and 25% in the United States, while remaining contained in Italy (5%) and declining in Germany.⁵⁶

- **House purchase affordability for first-time buyers: cross-cohort heterogeneity.** House purchase affordability is lowest among renters, and within that segment among young

⁵⁶ In the case of Germany, the indicator had dropped by 26% since 1995, reaching its lowest level in 2010. House prices grew notably in Germany to 2022 (see Section 2), driving a cumulative 50% increase in the indicator between its 2010 low and early 2022, followed by a correction of 19% up to end-2023.

Chart 4.20
Significant geographical heterogeneity in homeownership affordability difficulties

4.20.a Initial financial burden of house purchase. 2021 (a)



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 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. Navarre and the Basque Country are not included since household income information is not available for those regions.

people and foreign residents due to their lower income levels. Specifically, in 2021 (the latest year available), for the median renter household looking to buy a house in their municipality of residence, the affordability ratio described in the above point stood at 7.4 years.⁵⁷ This compares with just 4 years for the median homeowner household. Further, among households living in rented or rent-free dwellings, this affordability indicator stood at 7.8 years for the median foreign-born household and at 7.7 years for the median childless household and whose reference person is, on average, aged 35 or lower.

- **House purchase affordability: geographical heterogeneity.** For non-home owners in Spain, purchasing a house is less affordable, in gross income terms, in city centres and in certain regions of Spain (see Chart 4.20). For instance, in 2021, for the median renter household, the house purchase affordability indicator for city centres stood at 8.1 years, compared with 6.8 years for suburbs and 5.6 years for non-urban areas. At the same time, there is significant cross-region heterogeneity: buying a house is less affordable in areas with higher levels of economic activity and tourism. For instance, in 2021, for the median non-homeowner household, the affordability indicator for a city centre property stood at 10 years in the Balearic Islands, Madrid and Catalonia, compared with 6 years in Aragon, La Rioja, Castile-La Mancha and Murcia.

57 These affordability ratios are obtained by combining household income and geographical location data for 2021 taken from the Household Panel (INE, AEAT, FSR 2023), average house prices calculated based on property sales microdata provided by the Association of Registrars, and housing tenure data provided by the State tax revenue service (AEAT).

- **House purchase affordability: buyers with mortgage financing.** A further significant indicator of home ownership affordability, this one for buyers with access to mortgage credit, is the theoretical affordability of mortgage repayments as a proportion of gross household income. This indicator, which proxies the regular financial burden that an average mortgage instalment entails for households, 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 (see Chart 4.19.b).⁵⁸ This is the highest figure since 2011, albeit still below the highs recorded in 2007.⁵⁹ The recent increase in this indicator owes to higher financing costs and persistent house price growth, which offset the positive impact on affordability associated with the increase in per capita income (see Chart 4.21.a).⁶⁰ Similar developments have been observed in the euro area as a whole (see Chart 4.21.b). That said, since 2014 this housing affordability indicator has risen less in the euro area (around 20%) than in Spain (more than 30%).
- **House purchase affordability: renter households.** In relative terms, the scant saving capacity and low income of renter households hinder their ability to purchase a home. In 2021, an estimated 61% of households living in rented or rent-free housing had insufficient savings to purchase a home in their municipality of residence due to the size of the initial down payment (not covered by the mortgage loan) and the associated costs and taxes.⁶¹ For the remaining 39% of renter households (those with sufficient savings to cover the initial purchase costs and down payment), 40.5% would bear a mortgage instalment equivalent to more than 35% of their net income (the recommended threshold, beyond which the probability of default for a median-income household rises).⁶² Taking the average interest rate for 2023 (3.9% APR), that proportion would climb to 55%. Combining the two constraints (sufficient savings to cover the initial costs and a mortgage instalment-to-income ratio of less than 35%) suggests that, in 2021, 76.5% of renter households faced difficulties accessing a loan for house purchase. These difficulties would be more pronounced under 2023 interest rates, driving that proportion up to 82.5%. These results are in line with the 2021 Survey of Financial Competences, in which just 27% of renter households reported living in rented housing by choice or due to its lower cost.

58 The “observed” affordability ratio for mortgage loans actually arranged in 2023 is estimated to stand around 22%. The difference vis-à-vis the “theoretical” affordability indicator reveals a certain bias towards higher-income buyers in loans actually arranged.

59 However, until 2012 significant tax benefits were available for mortgage-financed house purchases, which reduced this theoretical regular burden by an estimated 5-7.5 pp during the 2000s.

60 This breakdown is based on an affordability index calculated following the methodology used in the Atlanta Fed's HOAM Index. The determinants of this index are similar to those for the indicator shown in Chart 4.19.b, although the latter is not available for the euro area.

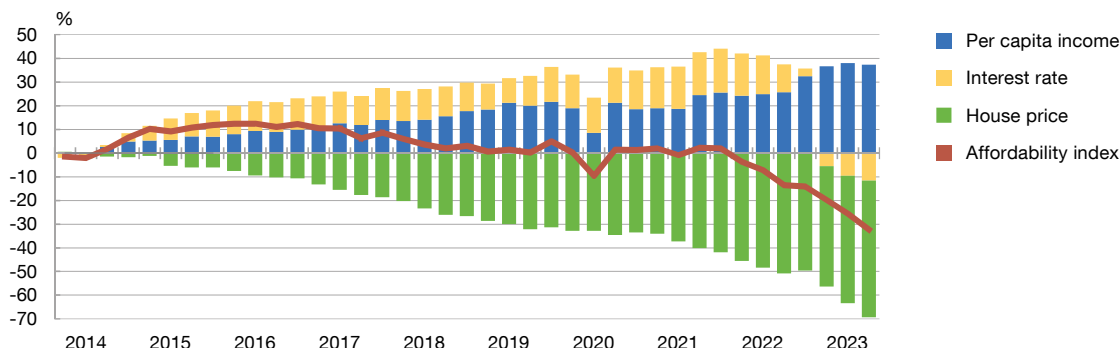
61 Simulated based on the 2021 data for households' net income and gross assets, drawn from the Household Panel (INE, AEAT, FSR 2023), considering the average purchase and rental prices for residential housing in those households' municipality of residence (AEAT and Banco de España). It is assumed that mortgage financing covers a maximum of 80% of the average appraisal value of a housing unit in their municipality of residence and that taxes and expenses amount to 10% of the average house price.

62 Mortgage instalment calculated assuming the “French method”, with a fixed instalment over 25 years and based on the average synthetic mortgage rate for 2021 (1.6% APR). Net household income is defined as gross household income net of income tax and social security contributions paid by the worker.

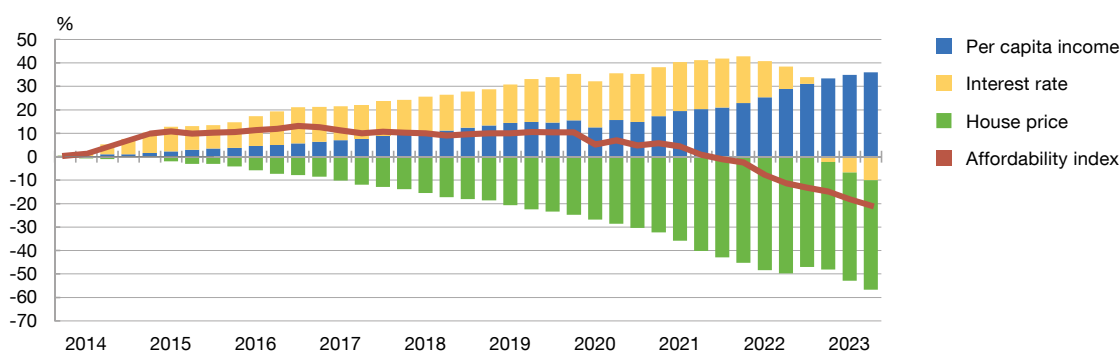
Chart 4.21

House purchase affordability has deteriorated due to price growth outpacing income growth and higher financing costs

4.21.a House purchase affordability (a). Spain



4.21.b House purchase affordability (a). Euro area



SOURCES: Eurostat, ECB and Banco de España.

a Cumulative change in the index calculated following the methodology used in the Atlanta Fed's HOAM Index. A positive (negative) value denotes an easing (tightening) of house purchase affordability compared with the base period (2013 Q4). The change in the index reflects the sum changes of its components.



- **Overburdened mortgaged households.**⁶³ 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 EU-27 as a whole (see Chart 4.22.a). Indeed, the marked increase in financing costs in 2023 would have driven up the house purchase burden both for first-time buyers and households with variable-rate mortgages. However, the increase in the percentage of overburdened mortgaged households looks relatively contained once the increase in their disposable income is considered.⁶⁴

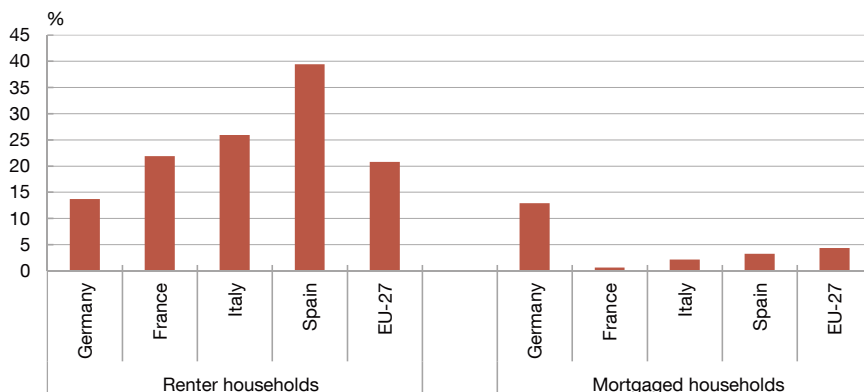
⁶³ Eurostat sets the overburden threshold at 40% of household disposable income. It considers households above this limit to be overburdened or potentially restricted in their saving capacity due to the difficulty in reducing their housing costs. Housing costs include mortgage instalments or rent payments, along with utilities (e.g. water, gas and electricity).

⁶⁴ *Report on the Financial Situation of Households and Firms* and *Financial Stability Report*.

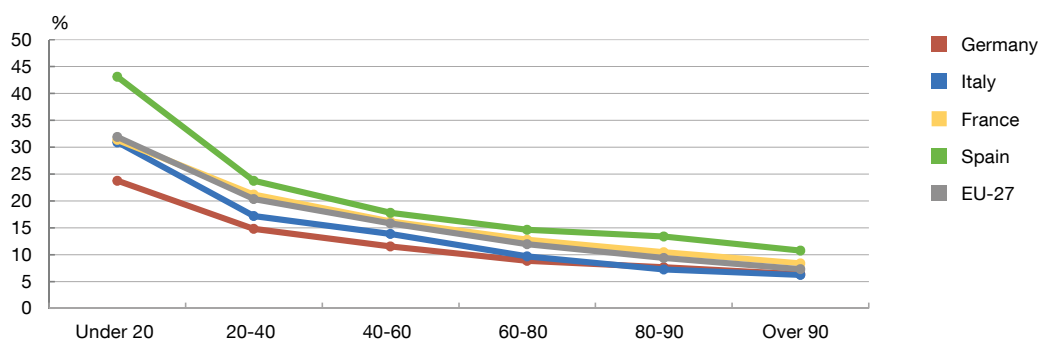
Chart 4.22

Housing cost overburdening is concentrated in the rental market, with Spain in a worse position than other major European economies

4.22.a Households spending more than 40% of their income on housing costs. 2022 (a)



4.22.b Median percentage of income spent by renter households on housing costs. 2022, by income percentile (b)



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

- a Housing costs include rent payments or mortgage instalments on loans to purchase main residence, along with basic utilities (e.g. water, gas and electricity). Only households renting at market rates are included.
- b Housing costs refer to rent payments. Only households renting at market rates are included.



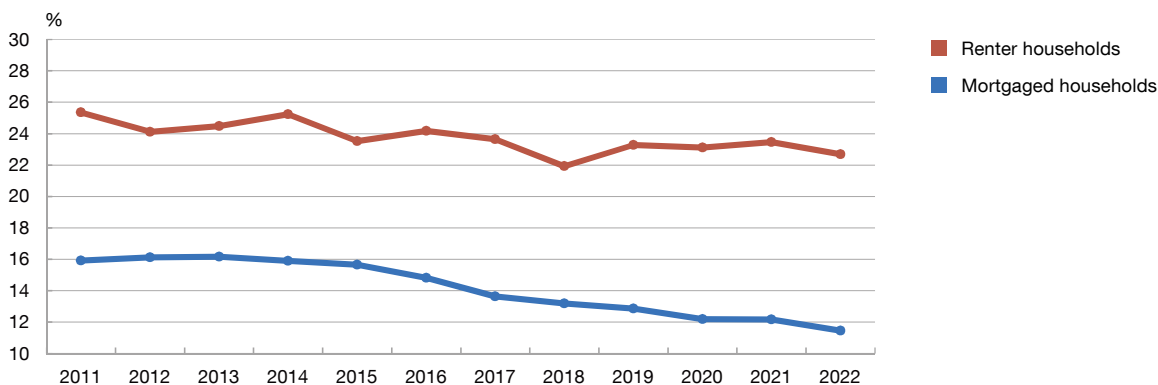
5.3 The rent cost burden

- **The cost burden associated with renting a home.** The median cost burden for households paying market rents has declined slightly over the last decade (see Chart 4.23.a), specifically 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 (see Chart 4.23.b). In particular, in 2022 the median rent cost burden in the first quintile of the income distribution was around 45% of gross income.
- **The rent cost burden: geographical heterogeneity.** In 2021 and for the average household, the potential cost burden of renting a house, in net income terms, exceeded 25% across the different regions of Spain (see Chart 4.24.a). However, the highest ratios (around 40% of net income) were found in urban areas with the strongest population dynamics and the highest

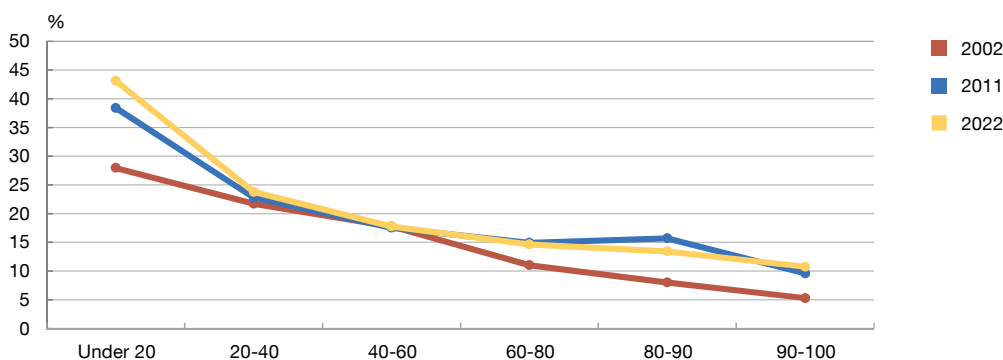
Chart 4.23

Renter households spend a higher share of their income on housing costs than mortgaged households. This cost burden is substantially larger (and growing) among lower-income renter households

4.23.a Median percentage of income spent on housing costs (a)



4.23.b Median percentage of income spent on housing costs. Renter households, by income percentile (a) (b)



SOURCES: Banco de España, drawing on EU-SILC (2023) data and the Spanish Survey of Household Finances.

- a Housing costs refer to rent payments or mortgage instalments on loans to purchase main residence. For rental housing, only households renting at market rates are included. The household's gross income for the year prior to the survey is used.
- b The data for 2002 and 2011 are taken from the Spanish Survey of Household Finances and those for 2022 from the EU-SILC.

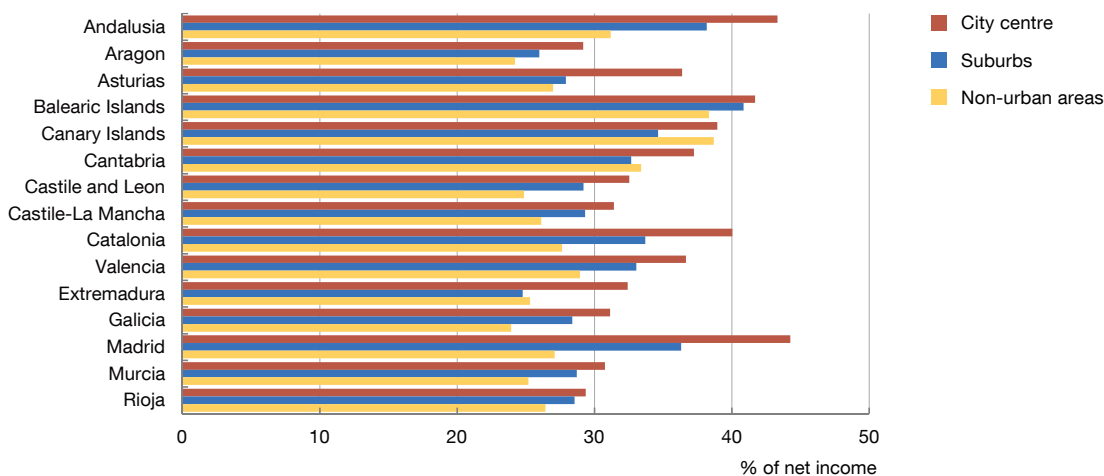


levels of tourism. Despite the heterogeneity, this relative burden indicator has less dispersion, both across regions and across urban areas, than the house purchase burden indicator discussed above (see Chart 4.20).

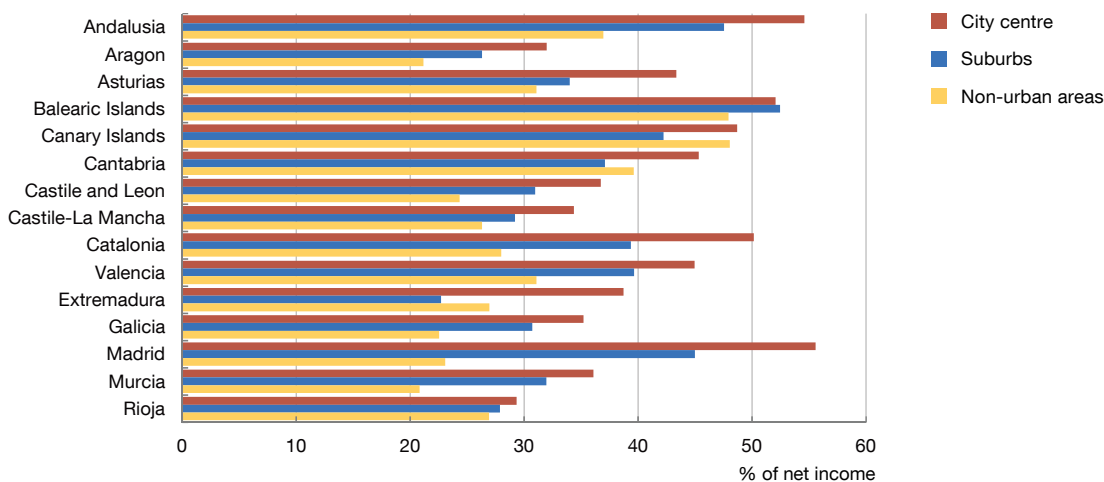
- **The rent cost burden: relative to household income.** The evidence available shows higher gross rental yield (GRY) in areas where both gross household income and house prices are lower (see Chart 4.25). These higher GRYs in lower-income areas could owe, at least in part, to landlords applying a positive risk premium, based on the perception that renting to tenants with lower purchasing power carries higher relative risk. Alternatively, they might reflect stronger rental demand in these areas, where households have lower income and saving capacity and therefore might find it harder to access a mortgage loan. In any event, this evidence shows that households unable to access home ownership and who live in higher-GRY areas bear comparatively higher rental costs (relative to property prices) than residents in other higher-income and lower-GRY areas.

Chart 4.24
Significant geographical heterogeneity in the rent cost burden

4.24.a Regular rent cost burden. 2021 (a)



4.24.b Percentage of households that spend more than 40% of their income on rent. By region and geographical area



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

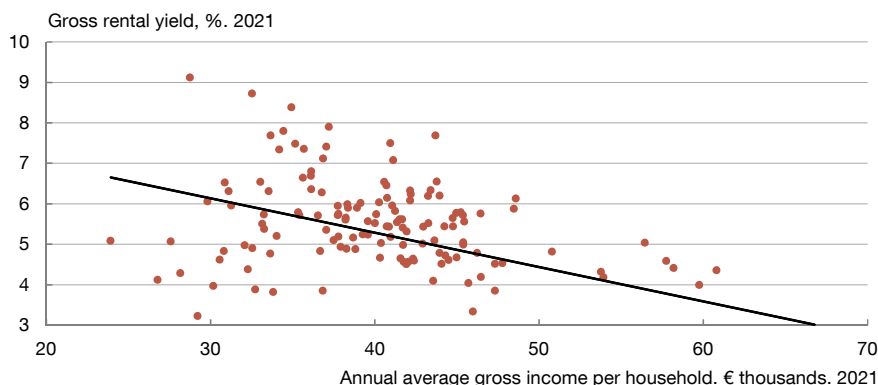
a Calculated for non-homeowner households in the different regions as the ratio of the average rent in the household's municipality of residence to net household income. Navarre and the Basque Country are not included since household income information is not available for those regions.

- **Overburdened renter households.** Households across the main European economies are experiencing rental cost overburdening, but the difficulties are particularly acute in Spain among lower-income households. For instance, 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 (see Chart 4.22.b). Thus, in 2022, around 40% of Spanish households paying market rents were overburdened,

Chart 4.25

Gross rental yields tend to be higher in municipalities with a lower average household income

4.25.a Gross rental yield and average gross income per household. Municipalities with more than 50,000 inhabitants (a) (b)


SOURCES: INE and Banco de España based on data from the Association of Registrars and the AEAT Tax Studies and Statistics Service.

- a Gross rental yield is defined as the ratio between the average annual rent and the average house purchase price (per square metre) in a municipality.
- b The six municipalities with average household incomes of over €75,000 per annum are excluded as outliers. No municipalities in the regions of Navarre and the Basque Country are included since rent price information is not available for those regions.

20 pp more than the EU-27 average (see Chart 4.22.a).⁶⁵ Although this is similar to the average figure since 2007, the higher prevalence of rented accommodation meant that the share of overburdened households rose from 3.7% in 2007 to 6% in 2022.

- **Rent cost overburdening: geographical heterogeneity.** The percentage of overburdened renter households is higher in city centres and in certain Spanish regions (see Chart 4.24.b). In particular, in the Madrid region, Andalusia, the Balearic Islands and Catalonia, more than 50% of households paying market rents in city centres spend more than 40% of their net income on housing costs. This compares with 35% for renter households in suburbs and 30% for those in non-urban areas.

⁶⁵ This percentage stands at elevated levels of around 30% or higher in economies such as Belgium, the Netherlands, Greece, Denmark, Portugal, Romania and Bulgaria.

6 Housing affordability: the public policy challenge

6.1 Economic and social implications

The housing affordability problems documented in the previous section can have adverse economic and social effects. They limit households' ability to save and may influence not only their consumption and investment decisions but also their decisions on where to live, whether to have children and whether to continue their education. In consequence, housing affordability problems may have both short and long-term negative implications and may give rise to lower aggregate productivity and lower economic growth.

- **Location of labour and productivity.** The impact of housing affordability problems on the location of labour could reduce aggregate productivity in the economy. In particular, areas with a shortage of residential housing and high house prices and rents have difficulty attracting new workers, and some lower-skilled workers may even move to other areas with lower real estate prices. In consequence, more productive areas but which suffer from residential housing supply constraints may fail to reach their optimal scale, leading, as a result of a spatial misallocation of labour, to aggregate losses in productivity and well-being.⁶⁶
- **Rental market and mobility.** A properly functioning rental market favours worker mobility, especially among young workers. Worker mobility has positive economic effects, as it helps young workers gain more education and skills and thus accumulate human capital. It also helps reduce unemployment and improve labour market matching. However, the small size of rental markets in some urban areas, especially in the big cities, can limit this mobility. Indeed, people could be discouraged from accepting job offers in areas where rents are high.⁶⁷
- **Households with budget constraints owing to their housing costs and the macroeconomic impact.** Housing affordability problems can have a negative impact on the macroeconomic situation, from both a cyclical and a long-term perspective. First, because the increase in the proportion of households whose consumption is restricted by their housing costs poses a risk to the macro-financial stability of the economy. In particular, a higher share of budget-constrained households means that aggregate consumption and economic activity are more sensitive to changes in real estate prices and in the economic cycle.⁶⁸ Second, because housing affordability problems delay household formation and can affect the decision to have children, contributing to the decline in the birth rate.⁶⁹ Accordingly, these

⁶⁶ See, for example, Hsieh and Moretti (2019) or Diamond and Moretti (2021) for an analysis of the differences in consumption and lower standards of living among low-skilled workers in areas of the United States with higher real estate prices compared with other more affordable areas.

⁶⁷ For an analysis of the relationship between the housing market and labour mobility see, for example, Blanchflower and Oswald (2013) or Causa and Pichelmann (2020).

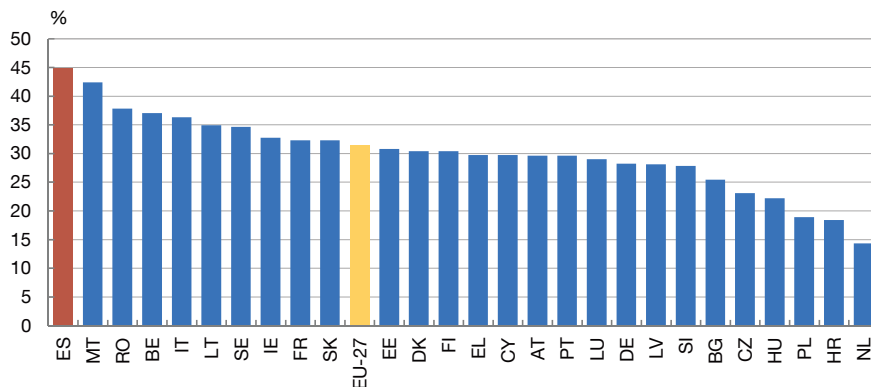
⁶⁸ See, for example, Paciorek and Sinai (2012).

⁶⁹ Dettling and Kearney (2014) document significant declines in birth rates among non-homeowners in the face of house price rises in metropolitan areas of the United States.

Chart 4.26

Spain has the highest percentage in the EU-27 of people living in rented accommodation that are at risk of poverty or social exclusion

4.26.a Population living in rented accommodation at risk of poverty or social exclusion in 2022 (a) (b)



SOURCES: European Commission and Eurostat (2023b).

- 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 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; EU-27: European Union.



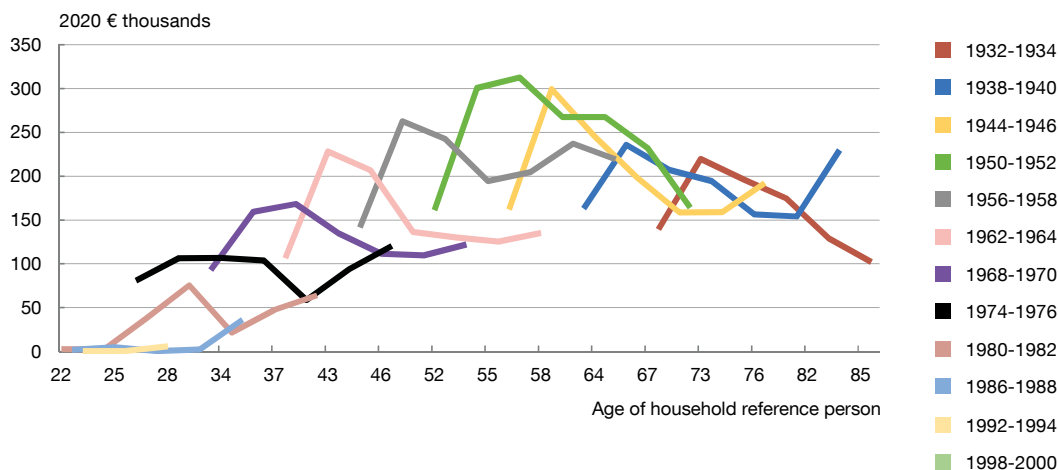
problems may also affect economic growth in the long run, particularly against a backdrop of progressive population ageing. Moreover, housing affordability difficulties, especially among young people, limit households’ ability to invest in their education and to build up their human capital, thereby also reducing the potential growth capacity of the economy.

- **Social vulnerability.** The housing affordability problems faced by certain groups make them economically vulnerable. In Spain, vulnerable households are concentrated in particular in market rents and among the lowest income quintiles. Spain is the European economy with the highest percentage of people living in rented accommodation that are at risk of poverty or social exclusion (see Chart 4.26). Specifically, in 2022, 45% of Spanish renter households were at risk of poverty or social exclusion, compared with 31% in the EU-27 average.
- **Intergenerational inequality in wealth accumulation.** Higher house prices and higher rents limit households’ ability to save and condition their wealth accumulation over their lifetime. As discussed in the previous sections, lower-income households – and especially young lower-income households – are those most affected by the adverse consequences of housing affordability difficulties. In this respect, the Banco de España’s Survey of Household Finances (EFF, by its Spanish acronym) shows that, in recent decades, young households’ net wealth accumulation (financial and real estate wealth) is below that of their peers in previous generations (see Chart 4.27). The fact that they accumulate less wealth in their lifetime suggests that today’s young cohorts are likely to be more vulnerable to possible future negative shocks than previous generations were. In addition, by international

Chart 4.27

Greater housing affordability problems coincide with lower median net wealth accumulation among young households compared with net wealth accumulation among previous cohorts

4.27.a Median household wealth over lifetime, by year of birth



SOURCE: EFF (2002-2020).



standards, these generations will have borne a moderate degree of wealth inequality.⁷⁰ Specifically, in a setting of substantial increases in real estate prices, wealth inequality in Spain appears to have been contained by the predominance of home ownership and the high proportion of households that own other real estate assets.⁷¹

6.2 Public policies

The housing market diagnosis presented in this chapter shows how the combination of high demand-side pressures and a relatively rigid supply-side – both for house purchases and rentals – is creating housing affordability difficulties. These problems are concentrated among lower-income groups, including young people and new foreign residents, and are more acute in the large urban areas.

The adverse social and economic consequences of these difficulties warrant the adoption of economic policy measures geared to correct them. In recent years, Spain's various tiers of government with responsibility for housing have deployed a broad range of measures. These are mostly at a relatively early stage of development, but the evidence and analysis presented

⁷⁰ Anghel et al. (2018).

⁷¹ According to EFF 2020 data, 32.6% of households owned at least one home other than their main residence, and 45.3% owned other real estate assets. These figures are among the highest in the euro area, where 25% of households owned real estate assets other than their main residence in 2021, specifically 16.8% in Germany, 24.3% in France and 28.6% in Italy (ECB, 2023).

in the economic literature on the effects of housing policies make it possible to offer a preliminary assessment.⁷²

In any event, considering the scale of the problem diagnosed here, it seems unlikely that isolated short-term actions may be sufficient to significantly reduce today's housing affordability difficulties. At the same time, 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.

In this regard, insofar as today's housing affordability problems are the result of imbalances that have built up over many years, they must be addressed via a combination of multiple structural policies in different areas. In particular, the measures adopted should:

- envisage a broad time horizon for design, implementation and evaluation of the public policies;
- involve all the various tiers of government with responsibility for housing, in a coordinated manner and in collaboration with private initiatives;
- focus, in particular, on stimulating housing supply, especially in the rental market and social rentals, prioritising allocation of the available resources to the most vulnerable groups;
- consider, in addition, other structural aspects beyond housing policy that also have a significant impact on housing market developments, such as actions affecting the functioning of the labour market and economic productivity – both of which are fundamental determinants of household purchasing power – and the effects of tax and transport policies.

6.2.1 Recent public policy measures adopted

- **Protective measures for tenants.** Over recent years, central government has introduced a number of measures that seek to ease affordability problems in the rental market and provide greater protection for tenants. These actions notably include extending the duration of rental contracts,⁷³ capping annual rent increases below the rate of growth of the CPI and making it more difficult for socially vulnerable households to be evicted from their homes.⁷⁴ These measures help explain the significant drop in evictions for non-payment of rent since

⁷² See López-Rodríguez and Matea (2020) for a detailed analysis of housing policy design and international experience.

⁷³ Royal Decree-Law 7/2019 establishes the minimum duration of rental agreements at five years (contracts with individual landlords) and seven years (contracts with legal entities), compared with three years previously.

⁷⁴ During the pandemic, and in subsequent extensions, tighter restrictions were placed on evictions of vulnerable households and those with children in their care where there was no housing alternative available. At the same time, annual rent updates were capped at 2% for 2022 and 2023 and at 3% for 2024.

2020, according to figures provided by the General Council of the Judiciary (Consejo General del Poder Judicial (CGPJ), 2024). In 2023 there were around 20,000 such evictions, 55% of the annual average in the period 2013-2019, despite the growth in rental housing over the last ten years.

- **Protective measures for mortgaged households.** The key measures in this field are 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). These measures provide protection for lower-income mortgaged households in the event, mainly as a result of the surge in interest rates in recent years, that their creditworthiness becomes impaired.
- **Medium and long-term housing market measures.** Law 12/2023 of 24 May 2023 on the Right to Housing and the various complementary measures approved seek, inter alia, to gradually increase the social rental housing stock, with a greater role for public-private collaboration. The measures to encourage the supply of private rental housing take the form of larger tax incentives for individual landlords who rent their properties at lower prices in areas under housing pressure (defined in the new Law). The Law also proposes measures that seek to improve affordability for tenants with existing contracts. In particular, it sets new caps on annual rent increases and provides for rent controls to be established in areas under pressure, in accordance with central government regulations, where agreed by the competent regional government and within a price range set by central government.⁷⁵ It also introduces support measures for young people wishing to rent or buy a home, in the form of rent subsidies and public guarantees for house purchase. Lastly, more recently, land reforms have been proposed, to enhance legal certainty,⁷⁶ and initiatives have been announced to foster the mobilisation of new subsidised social or affordable rental housing, to speed up the planning permission process and to eliminate the so-called Golden Visa programme whereby residency rights were granted linked to purchases of homes worth over €500,000.
- **Increase in the subsidised rental housing stock and the role of Sareb** (the asset management company for assets arising from bank restructuring). The various tiers of government have announced a range of plans to build social or affordable rental housing. For instance, under a multiannual framework, the [Affordable Rental Housing Plan](#) aims to increase the social or affordable rental housing stock by 184,000.⁷⁷ Compared with recent

75 Specifically, the [State benchmark system for residential rental prices](#), published in February 2024. These benchmark prices are adjusted for housing size and characteristics and lie between the 25th and 75th percentiles of the 2022 rental price distribution in the census section corresponding to the location of the housing. The benchmark prices for 2024 are calculated based on the 2022 rental housing stock owned by individual landlords.

76 On 26 March 2024 the Council of Ministers approved the text for reform of the Land and Urban Renewal Law, for its subsequent passage through Parliament.

77 The sum of 123,000 new homes in programmes driven by the Ministry of Housing and Urban Agenda, 50,000 to be mobilised by Sareb and 11,000 from the Rental Housing Social Fund. Those under the Ministry's programmes would be mobilised through an Official Credit Institute (ICO) loan facility of €4 billion, together with a public guarantee of up to 50% of the amount of the loans granted, for housebuilding and rehabilitation of housing (43,000 units), construction of affordable housing on public land owned by SEPES, the state-owned enterprise for land (36,000), the use of European Recovery, Transformation and Resilience Plan (RTRP) funds to build social rental housing in energy efficient buildings (20,000), aid for the regional governments under the State Housing Plan (14,000) and agreements with local authorities (around 10,000).

years, this plan will entail a significant increase in subsidised rental housing production, for instance, under central and regional government programmes, which in 2022-2023 averaged between 25% and 30% of the 9,000 homes classified as subsidised housing per annum in that period (definitive classification).⁷⁸ In addition, on public data as at July 2023, some 47,000 social rental housing units were available or under development by the Ministry of Housing and Urban Agenda, plus a further 14,000 from Sareb and around 10,000 from the Rental Housing Social Fund.

— **Measures at regional and local level.** In the most recent period, regional and local level housing measures have been very diverse, both in their design and their typology. Some of the main measures may be summarised as follows:

- public guarantee programmes for house purchase by young people;
- income tax relief on spending on or investment in housing, whether rented or purchased;
- tighter regulations for tourist rental developments in certain areas;
- higher subsidised housing quotas in residential property developments;
- possible taxation of empty homes;
- measures to speed up the planning permission process or to cut new housebuilding timelines;
- measures to make public land available for social rental housing developments;
- rent controls;
- regulatory changes and local regulations on the volume of urban building land, the housing floor area ratio or real estate use.

6.2.2 A preliminary assessment of the measures adopted on the basis of evidence from the economic literature

— **Protective measures for tenants.** The measures adopted can be expected to have improved the conditions of households with existing contracts and, according to the economic literature, to have helped reduce uncertainty and price volatility in the rental market.⁷⁹ However, the international literature also suggests that some of these actions may have

⁷⁸ The provisional classification data for new subsidised housing for the same period point to 12,500 new homes per annum, of which around 40%-45% would be rental housing.

⁷⁹ Fasilukis et al. (2023) analyse the welfare gains generated by affordability policies that provide greater assurance to lower-income households facing uncertainty and price volatility in rental markets under pressure.

unintended effects on the level and composition of the rental housing supply, and on prices of new rentals.⁸⁰ In particular, as a result of greater protection for the most vulnerable tenants, the risk of default for landlords increases. This could drive up rents – owing to a higher risk premium – or reduce the rental housing available for vulnerable households. For instance, the rental housing supply could be replaced by room rentals or short-term rentals (under a year) where tenants have less protection. At the same time, against a backdrop of rising operating and housebuilding costs, longer rental contracts, combined with annual rent increases below the rate of growth of the CPI, reduce incentives to increase the rental supply. These disincentives are greater for legal entities, as their tenants are afforded greater protection. In particular, rental agreements with legal entities are longer and, in the case of vulnerable households, non-payment evictions can also be stayed for longer. Lastly, longer rental contracts and rent updates below the rate of growth of the CPI could drive up prices of new rentals, as lessors seek to assure a certain flow of rental income throughout the life of the contract.

- **Protective measures for mortgaged households.** These measures have been deployed against the backdrop of prudent mortgage credit allocation over the last decade (see Section 4), accompanied by favourable developments in the most recent period in employment and economic activity.⁸¹ These factors may explain the limited reach, to date, of the measures introduced in this area, and in particular the small number of households with mortgages under the CGP.⁸²
- **Rent controls.** The introduction of rent caps has been justified by the fact that they immediately ease affordability problems for vulnerable households, yet the announcement of such controls and their sustained application over time may create fresh affordability problems.⁸³ First, affordability gains are concentrated mainly on households with existing contracts, where the impact will be temporary, and on new contracts entered into under the new conditions. Second, the economic literature has documented at international level the emergence of adverse effects, which may be particularly significant in the absence of structural measures to increase the housing supply. The possible effects identified at the empirical level notably include: a contraction in rental housing supply in rent-controlled areas; a shift in housing use to alternative markets (for instance, seasonal or tourist rentals); and a decline in housing quality due to lower maintenance.⁸⁴ Capping rental market prices could also have regressive distributional effects and increase affordability difficulties among lower-income households. In particular, price

80 Some studies also suggest that actions that seek to protect tenants with existing contracts could also have adverse effects on their mobility (as a change of residence would entail the loss of protection). See, for example, Bingley and Walker (2001) or Jacob and Ludwig (2012).

81 The macroeconomic situation and the measures adopted help to explain the decrease in 2023 in the number, in year-on-year terms, of mortgage foreclosures (21.5%) and evictions arising from mortgage foreclosures (38.2%). The number of evictions in 2023 (5,260) is the lowest for a decade and amounts to 37% of the 2019 pre-pandemic figure (CGPJ, 2024).

82 For more information on the design and use of the CGP, see “Box 1.2. Use in 2023 of the Codes of Good Practice introduced by Royal Decree-Laws 6/2012 and 19/2022”. Banco de España. (2023).

83 See López-Rodríguez and Matea (2020) for a review of the economic literature on rent controls..

84 For the United States see, for example, Sims (2007), Autor, Palmer and Pathak (2014) and Diamond, McQuade and Qian (2019). Studies on recent experience in Germany suggest that rent controls led to higher prices in unregulated areas (Mense, Michelsen and Kholodilin, 2023) and that price cuts had less impact in lower-income areas (Breidenbach, Eilers and Fries, 2022).

caps could reduce rents that are over the regulatory maximum but increase those below that level, which would impact lower-income households.⁸⁵

- **Tax benefits for housing demand.** Spain's various tiers of government have recently maintained or introduced tax incentives and other schemes to help households realise their demand for rentals or house purchases. In a rigid supply setting and with markets under pressure, such policies could trigger further increases in house prices and rents. These general equilibrium effects, illustrated in Box 4.2, mean that, eventually, some of these demand-side policies designed to support vulnerable households may, to a great extent, ultimately become transfers of public resources to residential property owners.⁸⁶
- **Guarantees for house purchases by young people.** Various regional governments and, more recently, the central government have introduced public guarantee schemes, seeking to encourage house purchases and ease the pressure on the rental market. Such measures aim to make access to mortgage credit easier for young households that are financially solvent and wish to buy a home but do not have the necessary savings to meet the initial expenses. These schemes have two constraints that may limit their effectiveness (see Box 4.2). First, as mentioned in the previous paragraph, in a rigid supply setting, measures to bolster demand for home ownership tend to push up house prices.⁸⁷ Second, the evidence on income distributions, gross assets and location of young Spanish households suggests that only a small group of such households may potentially benefit from these measures in areas under pressure. In part, because of the high correlation between income and gross wealth, which means that most households that have limited access to credit, owing to their low level of savings, do not earn sufficient income for banks to grant them a mortgage. Moreover, the greater leverage involved in buying a home without previous savings means that mortgage instalments are higher, especially in the present high mortgage interest rate environment. In consequence, many potential applicants for this guarantee programme would encounter difficulties having their loan applications approved by banks, as their mortgage instalment-to-income ratios would exceed prudential thresholds. Such programmes may potentially be of most benefit to young people in locations with lower housing prices outside the large urban areas.

6.2.3 Possible future measures

- **Assess the effects of the existing policies.** As highlighted above, in the most recent period the various tiers of government with housing powers have adopted a broad set of measures

⁸⁵ The studies available on the effects of rent controls of this kind applied in Catalonia during the pandemic (2020-2021) indicate that, although this policy reduces rents on average, in the short term, supply remains rigid (Jofre-Monseny, Martínez-Mazza and Segú, 2023) or even shrinks due to the loss of rental properties with prices above the reference price (Monràs and Garcí-Montalvo, 2023). This last paper also documents an increase in rents among lower-rent properties as a result of the regulation.

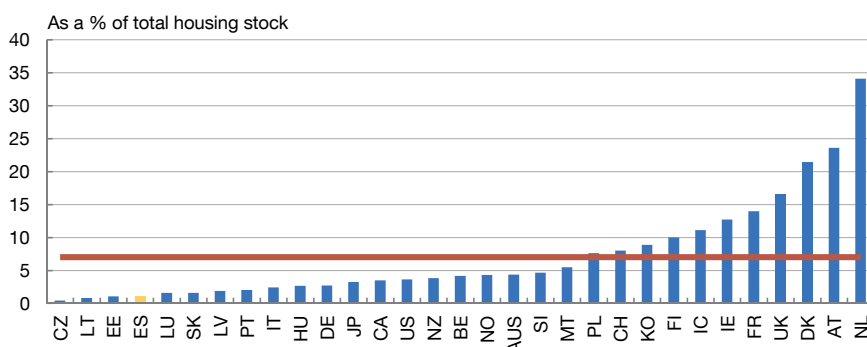
⁸⁶ Among the studies that document an increase in rents due to the pass-through to prices that these policies entail see, for example, Susin (2002) for the United States, Gibbons and Manning (2006) for the United Kingdom and Laferrère and Blanc (2004) and Fack (2006) for France.

⁸⁷ Carozzi et al. (2024) analyse the Help to Buy schemes in the United Kingdom whereby Government-funded equity loans of up to 20% of the purchase price (40% in London and its metropolitan area) are available to buyers. The findings suggest that, as a result of this programme, house prices in London climbed, there was no increase in the housing supply, affordability difficulties did not ease and developers' profits rose.

Chart 4.28

Spain stands out among the advanced economies for its shortage of social rental housing

4.28.a Social rental housing stock in advanced economies (a) (b) (c)



SOURCE: OECD (2024).

a The data are for 2020 or for the last year with data available (for more details, see OECD (2024)). The horizontal line denotes the average for the OECD economies.

b For Spain, the public social rental housing stock amounts to some 290,000 homes, accounting for 1.6% of households.

c AT: Austria; AUS: Australia; BE: Belgium; CA: Canada; CH: Chile; CZ: Czech Republic; DE: Germany; DK: Denmark; EE: Estonia; ES: Spain; FI: Finland; FR: France; HU: Hungary; IE: Ireland; IT: Italy; JP: Japan; KO: Korea; LT: Lithuania; LU: Luxembourg; LV: Latvia; MT: Malta; NL: Netherlands; NO: Norway; NZ: New Zealand; PL: Poland; PT: Portugal; SI: Slovenia; SK: Slovakia; UK: United Kingdom.



that seek to mitigate the problems of affordability both for potential homeowners and tenants. In this setting, apart from deploying new initiatives, it would be of particular interest to analyse and assess in greater depth the effects that the measures already adopted are having on the housing market. This would entail improving statistical sources on real estate prices, sharing of data and analysis between the different tiers of government, and providing specialised researchers with greater access to real estate microdata.

- **Achieve greater coordination between the different tiers of government.** Powers over the functioning of the housing market in Spain are highly decentralised. For example, the regional governments have powers over regional and city planning, urban development and housing. Local authorities have powers over urban planning, management, execution and scrutiny of urban development projects and housing development and management. Lastly, central government has powers to implement basic land and housing legislation. In this framework, in order for housing policy to be effective, it is imperative that targets and measures are highly coordinated between the different tiers of government involved. This coordination is particularly important, as effective policy design should consider a metropolitan area of action and housing policies should be integrated into territorial balancing policies.
- **Increase the social rental housing supply.** Spain’s public stock of social rental housing is very small compared with that of some of our neighbouring economies (see Section 2.2 and Chart 4.28). In this setting, as discussed above, the various tiers of government have announced targets and measures (such as the Affordable Rental Housing Plan) to increase this stock. While these measures are generally welcome, the quantitative scale of this challenge must be borne in mind. Given the current starting point of the social housing stock (1.5% of main residences), converging to the average public stock levels of the

advanced economies or of the EU-27 would entail an extraordinary effort, requiring adding some 1.5 million new homes to the existing social rental housing supply. A 10-year plan to achieve this aim would entail an increase of over 150% in the average annual production of homes in Spain in recent years. This challenge would entail a high and sustained budgetary cost and would have a greater impact if the new housing is concentrated among lower-income households and areas under pressure.

- **Encourage public-private collaboration to energise the rental market.** Given the scale of the challenge described in the previous paragraph and the relatively small fiscal space available to general government, rebalancing public spending priorities and collaboration with the private sector are the only options that could significantly boost the stock of affordable rental housing.⁸⁸ In this setting, the public sector can move further with the measures already approved to support the private sector, such as assigning public land and granting guarantees for rental housing developments and funding for social or affordable rental housing developments. Updating social rental modules (the benchmarks used to set maximum social rents), to absorb part of the increase in construction and funding costs, would also help in this respect. However, the low income levels of vulnerable households that have housing affordability difficulties could mean that they are unable to afford even below-market rents. In such cases, the various tiers of government could design guaranteed income or direct support programmes to supplement tenants' rent payments and thus ensure access to housing for the most vulnerable households.
- **Foster a more professional profile for the rental market.** The institutional private sector can play an important role in increasing the rental housing supply. Yet, as seen in Sections 2 and 3 above, in the Spanish residential rental market non-professional individual landlords predominate. Such individuals cannot benefit from the economies of scale and risk diversification associated with larger managed housing portfolios, which may give rise to higher costs and, therefore, higher rents. In this sense, measures to increase the part played by professional agents would be positive, increasing supply and thus easing upward rent dynamics. Two such measures would be key. First, removing the differential treatment currently afforded, in all types of regulations and contractual rules, to legal entities and landlords with ten or more properties⁸⁹ compared with small, individual landlords. Second, aligning the tax treatment of these agents (landlords with ten or more properties) with that applicable in other European countries where the professional rental sector plays a greater part. In particular, it would be desirable to link tax relief for landlords to social or affordable rentals.
- **Strengthen legal and regulatory certainty.** Housing policy at all levels of government must provide regulatory certainty, to ensure that agents are aware of the risks they assume when

88 See Trilla (2024) and García-Montalvo, Raya and Sala Roca (2024) for a discussion of possible public-private collaboration to enhance housing policy efficiency and, in particular, to boost the affordable social rental market.

89 The greater economic power associated with the accumulation of real estate assets could be subject to higher taxation. Furthermore, if increasing the activity of these professional landlords were to create the risk of potential market power situations, competition policy measures could be used to address them.

making their decisions. In particular, periodic changes to regulations affecting the main conditions of existing rental agreements, or successive changes to local urban planning requirements for housebuilding, should be avoided. Moreover, given that individual landlords have less capacity to manage the risks associated with this activity than professional agents, incentivising greater development of the rental housing insurance market, to extend its current limited scope, could be appropriate in the context of public-private collaboration. This measure could be complemented, in addition, by speedier administrative and judicial procedures in the event of non-payment, and by greater compensation payments to landlords with vulnerable tenants who are unable to pay their rent and to whom the public sector has been unable to offer a housing alternative.

- **Improve how administrative processes relating to land and urban planning policies are managed.** The time needed for development of new land with planning permission and for housebuilding is a constraint on new housing production. New measures are being taken to improve the situation in this respect, but the various tiers of government should analyse whether it is possible to further simplify and speed up these processes, and increase coordination between the different tiers to reduce the current long lead times. Also, given the housing shortage in large urban areas, the possibility of adjusting real estate and land use so that a larger proportion may be assigned to residential use could be considered. Making these decisions at metropolitan area – rather than local – level could generate efficiency gains in areas where housing markets are under pressure.
- **Promote measures for rehabilitation and take-over of housing.** The current housing shortage, combined with high construction costs and long lead times in new housing production, demands optimal mobilisation of the existing housing stock for residential use. In this respect, it is imperative to speed up the absorption of NextGenerationEU (NGEU) funds, to align housing rehabilitation ratios with those of the main EU economies (see Section 3). At the same time, it would be desirable to assess the appropriateness of establishing different mechanisms and incentives for dwellings that are empty or are used only sporadically to be taken over by the public sector, for use as social rental housing.
- **Review housing taxation.** Under the Spanish tax system, real estate assets and, in particular, housing account for a larger share of taxation than in the EU-27 economies. For instance, reflecting this higher taxation on housing, property tax revenue amounted to 2.8% of GDP in Spain in 2022, compared with an average of 1.4% of GDP in the EU-27 economies and of 1.6 % of GDP in the euro area.⁹⁰ Moreover, in Spain, taxes on housing production and house purchase (non-recurrent taxes) account for a larger share of real estate taxation, and taxes on property ownership (recurrent taxes) for a smaller share (40% in Spain compared with around 50% on average in the EU-27), even though the housing stock per person is higher in Spain. In this respect, in addition to increasing the efficiency of the tax

⁹⁰ See López-Rodríguez and García Ciria (2018) for a more detailed description of the composition of Spanish tax revenue in the context of the EU-27, and the Committee of Experts (2022) for a discussion of high real estate taxation in Spain compared with real estate taxation in other advanced economies.

system,⁹¹ raising recurrent taxation on property ownership – for instance, through Spanish property tax (IBI, by its Spanish acronym) – could make access to housing easier (see Box 4.2). This tax increase should be offset by a cut in all other taxes on house purchase or housing production in order to avoid over-taxation of housing. Nevertheless, proposals to cut the non-recurrent taxes should only be considered when the supply and demand mismatches in the housing market have been reduced (see Box 4.2). Otherwise, a significant part of the tax cut may be passed on in the form of higher final house prices, transferring public resources to developers and house sellers.

- **Consider applying restrictive measures to non-residential accommodation, making them subject to an overall assessment that takes into account their potential effects on housing affordability and economic activity.** Increased demand for housing from non-residents and the boom in holiday and seasonal rentals are reducing the residential housing supply in certain areas (see Section 3). This is a widespread international phenomenon affecting, in particular, big cities and tourist areas. In consequence, various countries have introduced limits or tax surcharges, or have eliminated tax benefits, on house purchases by foreign buyers, while some have placed limits on holiday rentals.⁹² In the same vein, various Spanish cities and regional governments have tightened the conditions for operating tourist rentals as an economic activity,⁹³ although it is extremely difficult to effectively enforce such regulations. These measures have been justified by the role these activities have played in pushing up prices, against a backdrop of housing shortages and affordability problems (see Section 3), and by the negative externalities that holiday rentals may generate among residents. But tourist rentals can be justified by their potential to contribute to economic activity and employment, where demand cannot be absorbed by the professional sector (hotels). In this context, any restrictive measures considered should be subjected to a cost-benefit analysis, taking into account not only the impact on the housing market but also the effects on economic activity.
- **Foster structural policies.** A very significant proportion of housing affordability difficulties are linked to low-income households' low wages and, in particular, to working conditions and youth unemployment. This is partly due to the productivity deficit of the economy, a sectoral composition with a relatively low weight of high value-added activities, and the constraints on workers' continuous training and human capital. Driving structural policies to correct these shortcomings would help improve the financial situation and relative income of lower-income households, making it easier for them to access housing. But purchasing power gains among lower-income households should be accompanied by an increase in the main residence housing stock. Otherwise, in an insufficient supply setting, greater

91 See Mirrlees et al. (2010) for an analysis of optimal taxation and efficiency in the design of the tax system, and Best and Kleven (2018) for an analysis of the distortions created by high taxes on residential property transactions.

92 For example, restrictions on house purchases approved in Canada and New Zealand, tax surcharges in Australia and tighter criteria envisaged for availing of tax benefits linked to residence in Portugal. Tourist rentals are subject to growing limitations and restrictions in cities such as New York, Florence, Berlin, Amsterdam, San Francisco, London and Paris.

93 For instance, limits introduced by local authorities in cities such as Palma de Mallorca, Madrid and Barcelona, and restrictions in Málaga, Valencia, San Sebastián, Cádiz and Santiago de Compostela. Spain's regional governments have also regulated this activity and some – such as Andalusia, Madrid or Catalonia – have progressively tightened the requirements.

purchasing power on the demand side could pass through, in part, to higher real estate prices (see Box 4.2).

- **Improve public transport in metropolitan areas.** The current housing shortage demands that existing housing be mobilised for residential use and that new housing be built. In urban areas, potential development land tends to be more plentiful in the suburbs, and more so the greater the distance from the city centre. The existence of a metropolitan public transport network, combined with good urban transport, makes it possible to increase the potential size of urban areas, extend the benefits of agglomeration economies and ease pressure on real estate prices (see Section 3). The gradual build-up of population in Spain's large urban areas, and the ensuing congestion costs (see Section 3), require higher investment in urban and interurban public transport.⁹⁴

⁹⁴ See Monte, Redding and Rossi-Hansberg (2018) for an analysis of the welfare gains associated with lower commuting costs through better allocation of workers to more productive locations other than their place of residence where housing is in greater supply.

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Box 4.1

THE COMMERCIAL REAL ESTATE MARKET AND ITS FINANCIAL STABILITY IMPLICATIONS

The commercial real estate (CRE) sector engages in the acquisition, construction, development and management of real estate used for business activities.¹ This sector's performance is important due to its potential implications for the financial system and the economy as a whole. First, CRE is a factor of production necessary for firms in other sectors to do business, meaning that such firms may be affected by the valuation and availability of these assets. Second, turnover and asset prices in this sector tend to exhibit large swings over business cycles, more so than in the residential market. This is partly because demand for these assets is highly sensitive to the business cycle. Moreover, sometimes asset overvaluations occur, which, when corrected, can have adverse effects on macroeconomic developments and financial stability.

Globally, this sector currently exhibits certain vulnerabilities linked to both cyclical and structural factors. In relation to the former, the recent increase in interest rates raises the debt burden of firms in this sector and hampers their ability to refinance themselves and access new financing. While firms in other sectors are also affected by the same factors, those operating in the CRE market are, on average, more exposed to the effects of rising interest rates, since they have a higher degree of leverage.

As regards structural factors, the greater use of e-commerce and the expansion of teleworking following the COVID-19 pandemic have reduced demand for office space and certain retail premises. This results in lower revenue-generating capacity for the firms managing these assets and decreases their value.² The fall in CRE prices generates potential losses for owners while limiting their ability to raise new financing, as these assets are often used as loan collateral. In addition, it is more difficult for lenders to recover the amounts lent through the liquidation of such collateral in the event of default.

Another structural factor that affects the CRE sector is climate change-related economic policies, including more

stringent construction standards. The implementation of these measures will lead to higher building and maintenance costs for commercial property.

Given these vulnerabilities in the CRE sector, several international organisations have recently expressed concern about the potential implications for financial stability. Although in European countries banks' are far less exposed, in aggregate terms, to the CRE sector than to the residential sector, potential negative developments in this segment could amplify an adverse scenario and spill over to the rest of the financial system (as noted by the ECB)³ and have a negative effect on economic growth (as suggested by the IMF).⁴

In late 2022 the European Systemic Risk Board (ESRB) issued a recommendation on vulnerabilities in the CRE sector with the aim of improving monitoring of the sector and the related risks.⁵ This took place against a background in which the CRE sectors of various European countries had been highly expansionary since the end of the global financial crisis. Such monitoring remains important despite the growth of bank exposure to this sector having slowed since 2020. This slowdown was broad-based, but more pronounced in some of the European countries where signs of vulnerability were more evident, such as Belgium, Finland, France, Italy, Luxembourg and Portugal. The slowing momentum in this sector has potentially been influenced by the tightening of monetary policy, but also, in some countries, by the effect of macroprudential measures implemented in the CRE sector (e.g. Norway, Poland and Romania) and in the residential sector (e.g. Belgium, Finland and the Netherlands).

Beyond the European context, vulnerabilities in this sector are also observed in other global systemically important economies. For instance, commercial property prices in the United States have experienced a very pronounced

1 CRE includes, inter alia, offices, industrial premises and commercial premises.

2 By contrast, there has been an increase in demand for industrial premises used for e-commerce logistics.

3 See European Central Bank (2023). "Real estate markets in an environment of high financing costs". Financial Stability Review, November 2023, Special Feature B, noting that in 2022 Q4 the exposure of euro area banks as a whole to residential mortgage lending accounted for almost 30% of total loans, while CRE credit accounted for 10% of the total.

4 See International Monetary Fund (2021). "Chapter 3: Commercial real estate. Financial stability risks during the COVID-19 crisis and beyond". Global Financial Stability Report, April 2021.

5 See [Recommendation ESRB/2022/9](#) on vulnerabilities in the commercial real estate sector in the European Economic Area. The publication of the recommendation was accompanied by a technical report by the ESRB, [Vulnerabilities in the EEA commercial real estate sector](#) of January 2023. The Banco de España has formally adopted this recommendation and is currently working on strengthening its CRE sector risk monitoring framework (see Box 3.1 of the 2023 Supervision Report).

Box 4.1
THE COMMERCIAL REAL ESTATE MARKET AND ITS FINANCIAL STABILITY IMPLICATIONS (cont'd)

correction in the recent period, raising some doubts about the impact on banks exposed to this sector.⁶ In China, the weakness of the real estate sector adversely affects the

overall economic climate⁷ and there are some concerns about its interconnectedness with non-bank financial intermediaries.⁸

Chart 1
Relative weight of commercial real estate credit in total credit (a)

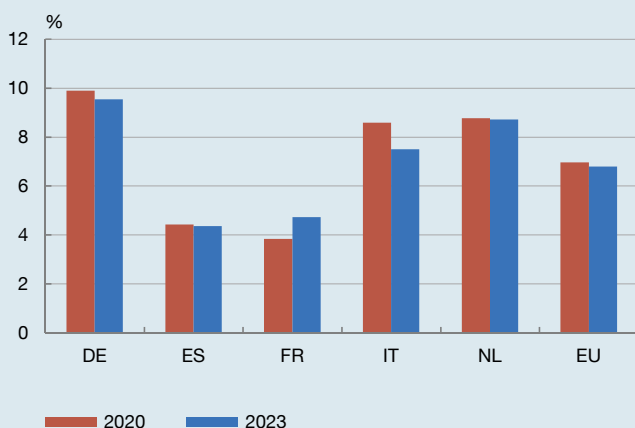


Chart 2
Commercial real estate hedonic price index (b)

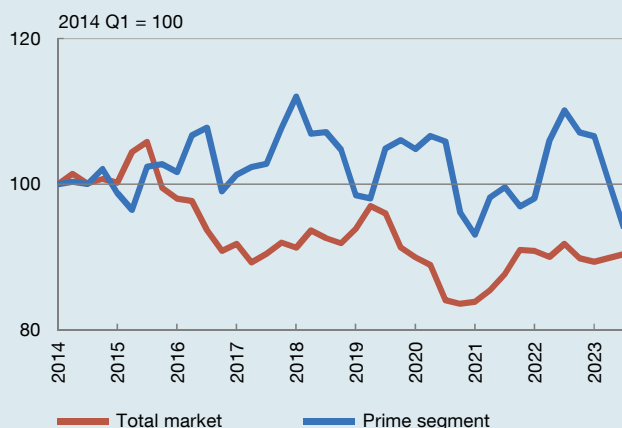
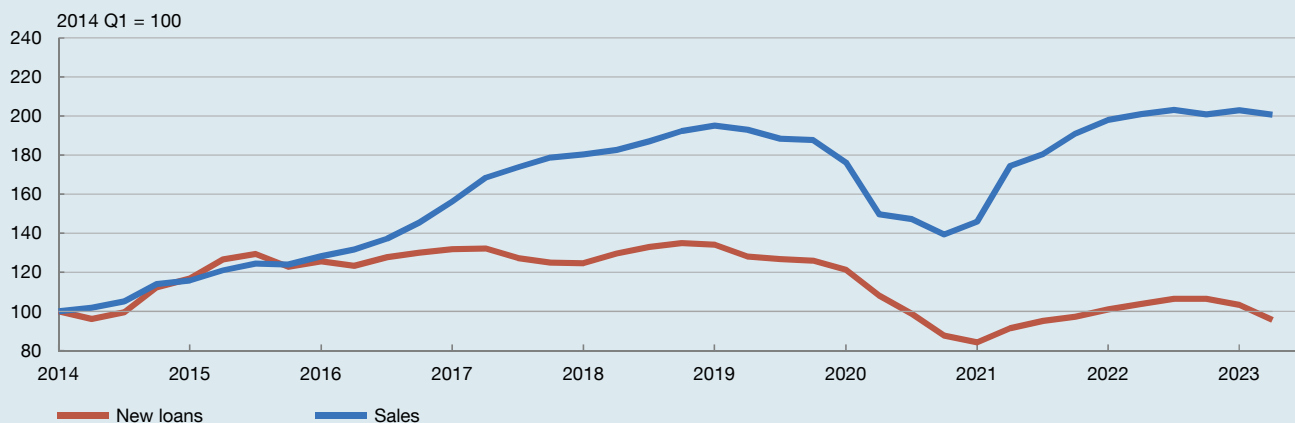


Chart 3
Commercial real estate sales and new loans (c)



SOURCES: Banco de España, EBA Risk Dashboard and Association of Registrars.

- 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 changes in the hedonic price index for the commercial real estate market as a whole and for the prime segment on a 2014 Q1 = 100 basis.
- c 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.

6 For a discussion of risks, see, for example, “Commercial Real Estate: Where Are the Financial Risks?”, Economic Synopses, No 22, Federal Reserve Bank of St. Louis.

7 See, for example, “China’s Real Estate Sector: Managing the Medium-Term Slowdown”, IMF, February 2024.

8 See Box 1.1. of the Financial Stability Report: “The slowdown in China’s real estate sector and its potential channels of domestic and international transmission”, autumn 2023.

Box 4.1
THE COMMERCIAL REAL ESTATE MARKET AND ITS FINANCIAL STABILITY IMPLICATIONS (cont'd)

In Spain, banks' credit exposure to CRE is relatively low.⁹ At end-2023, the stock of credit granted to this sector represented 4.4%¹⁰ of the total loan portfolio (excluding those held for trading)¹¹, which is below the European average and has remained stable in recent years (see Chart 1).

CRE prices in Spain have, on average, remained relatively steady since mid-2021, having followed a declining trajectory in previous years. Thus, by end-2023 these prices were around 10% below their levels in early 2014 (see Chart 2).¹² Meanwhile, CRE prices in the most buoyant areas, known as prime areas, have shown greater volatility, with a stronger recovery following the pandemic, and a steeper fall since the start of the ECB's interest rate hikes in 2022.

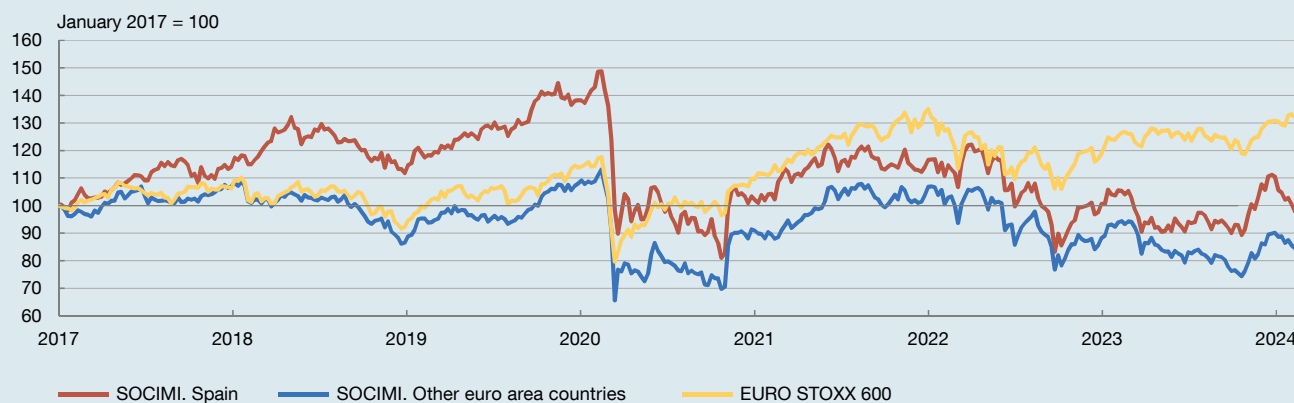
The number of commercial property transactions grew rapidly from 2021 as the social restrictions imposed to contain the COVID-19 pandemic were lifted, stabilising in 2022 and 2023 just above pre-health crisis levels. The number of transactions doubled between 2014 and 2019, but this notable increase was not accompanied by a rise in prices.

In contrast to other European countries, Spain has not seen strong expansionary dynamics in lending to the CRE sector. Having held steady between 2016 and 2020, the number of bank loans extended dropped significantly during the health crisis, recovering subsequently, albeit without reaching pre-pandemic levels (see Chart 3).

Lastly, the role of institutional investors in this sector is worth examining. In Spain's case, real estate investment trusts (SOCIMIs), which grew substantially before the outbreak of the COVID-19 pandemic, are particularly noteworthy. These firms typically purchase dwellings and properties for commercial use, such as offices, shopping centres and hotels, with the aim of obtaining a return through their sale or rental.

Despite their relatively small scale (in March 2024 the stock market value of the main SOCIMIs listed in Spain was less than 2% of the market value of all IBEX 35 companies, compared with 32% in the case of banks), monitoring SOCIMI activity is important from a financial stability viewpoint for several reasons. First, investor appetite for equity or debt issued by these firms significantly affects their ability to invest in real estate, in contrast to traditional

Chart 4
SOCIMI stock prices (a)



SOURCES: Datastream (Refinitiv) and Banco de España.

a SOCIMI indices based on a selection of such firms that are traded with a certain frequency in the markets.

⁹ Vulnerabilities in the EEA real estate sector, January 2023.

¹⁰ According to supervisory data (individual data, businesses in Spain), at end-2023 13.5% of credit to the CRE sector was for the purchase of properties (including dwellings) on a buy-to-let basis.

¹¹ The accounting designation "held for trading" applies to assets originated or acquired for the purpose of selling them in the short term to make a financial gain. It applies to few bank lending transactions.

¹² The commercial real estate market in Spain is heavily concentrated in the commercial premises asset class, which accounts for almost 80% of transactions. By contrast, offices account for less than 5%. Price developments tend to be similar in both asset classes.

Box 4.1

THE COMMERCIAL REAL ESTATE MARKET AND ITS FINANCIAL STABILITY IMPLICATIONS (cont'd)

real estate companies which are more dependent on bank financing. Therefore, a worsening of investor sentiment may lead to pressure to generate liquidity and negatively impact prices in the CRE. Second, SOCIMI stock market prices may, more generally, be a useful source of information on investors' outlook for the CRE market. In addition, SOCIMIs are a financial vehicle widely used by international investors to acquire exposure to commercial buildings in Spain, which may also be a transmission channel for global shocks to the Spanish CRE market.

In recent years, the stock prices of SOCIMIs domiciled in Spain have moved very much in line with those of other similar European firms. In particular, a downward pattern has been observed since spring 2022, partly capturing the effects of the tightening of the monetary policy stance. These firms' stock prices have underperformed those of other listed enterprises (see Chart 4). Stock prices have decreased significantly with respect to 2019, reflecting, at least in part, the effect of the structural transformations described above.

Box 4.2
AN ANALYSIS OF ALTERNATIVE PUBLIC POLICIES TO REDUCE THE PROBLEMS OF HOUSING AFFORDABILITY

The main text of this chapter details the existence of housing affordability problems, in both purchases and rentals, which are especially acute among those with lower incomes and, in particular, among young people. This situation has several adverse socio-economic implications that justify government intervention in the housing market. In this box, a variant of the structural model developed in Ferreira, Gálvez and Pidkuyko (2024)¹ is used to analyse the effects of various economic policy alternatives that seek to improve housing affordability for both rentals and purchases.

The model used assumes that households make consumption, debt and saving decisions in the form of investing in housing and other more liquid financial assets at different points in the life cycle. One of these decisions is whether to rent or own a home. Mortgage credit can be used to fund the purchase, subject to two initial restrictions: a maximum loan-to-value (LTV) ratio of 80% and a maximum debt service-to-income (DSTI) ratio of 35%.² Rental housing is managed by specialised firms owned by households that invest in real estate assets. These lessors have a long-term profit objective and also operate in the residential housing market to tailor their inventory to short-term shifts in demand. For an aggregate housing stock that is assumed to be constant (i.e. the housing supply is absolutely inelastic in the short term), this market structure determines the price per square metre that the two markets clear endogenously on the basis of the housing demand of households and firms.

The model is calibrated for Spain using household-level data from the 2020 edition of the Spanish Survey of Household Finances (EFF, by its Spanish abbreviation) to match various patterns observed in the data across the overall age, income and wealth distribution. In particular, as shown in Chart 1, the estimated model fairly accurately replicates housing tenure among households over their lifetime.³

Initially, without new housing policies, the model generates a life cycle dynamic in which a high percentage (around

90%) of young households – under the age of 35 – do not have sufficient savings to be eligible for a mortgage (upfront payment of 30% of the value of a house, consisting of 20% for the down payment and 10% for the necessary costs of a house purchase).⁴ Furthermore, for a significant proportion of these households, around 40%, their income is still insufficient to assure they will be able to make their mortgage payments, since their DSTI ratio exceeds 35%. As households age, more can afford home ownership, if they choose it. However, households that continue to rent or return to renting after selling their home are generally constrained by the DSTI limit as a result of their low income.

Starting from the baseline situation, the first measure analysed is the *introduction of a public guarantee that would cover the risk of up to 20% of a mortgage's collateral value*.⁵ This could potentially benefit those rental households that wish to purchase housing and have savings amounting to more than 10% of the price of a house (that is, they can cover the costs and taxes) but less than 30%. However, the size of the mortgage instalment is a fundamental hindrance to the effectiveness of this measure. Specifically, for a significant share of households whose income would cover a mortgage instalment on a loan that does not exceed the 80% LTV limit, purchasing housing with a public guarantee and an LTV ratio of 100% entails a mortgage instalment in excess of 35% of their income. As such, the effectiveness of this measure is very limited. As Chart 2 shows, both rental and purchase prices in the new long-term equilibrium increase very slightly (0.1%) as a result of the guarantee being made available. These minor price changes are largely the result of the limited scope of this measure. In particular, in equilibrium, the public guarantee gives rise to an increase of 0.5 pp in the share of owner-occupier households in the under-35 age group, while not boosting ownership rates significantly for those aged 35 and over (see Chart 3). The impact of this measure on the housing cost burden (defined as the ratio of rental payments or mortgage instalments to a household's net income) is also minimal. In particular, the

1 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).

2 These values are consistent with a prudent mortgage lending policy by banks. See Section 4 for more details on changes in mortgage standards in Spain over the last decade.

3 The difference between the data observed and the model's calibration for households over the age of 65 is quantitatively small and may be partly explained by possible differences in the assumptions regarding this group's preferences and transaction costs relative to other households.

4 These costs are, chiefly, 10% VAT on new house purchases, and transfer tax and stamp duty on second-hand purchases. Stamp duty varies across regions but, for the purposes of this exercise, a 10% rate is assumed.

5 In the simulation exercises in this box, there are no limits on access to public guarantees depending on household characteristics.

Box 4.2

AN ANALYSIS OF ALTERNATIVE PUBLIC POLICIES TO REDUCE THE PROBLEMS OF HOUSING AFFORDABILITY (cont'd)

increase in the burden is virtually zero for households that do not change their housing tenure status or their housing characteristics. However, in equilibrium, households that make use of the guarantee change their tenure-related decisions and their housing characteristics leading them

to take on slightly more debt. As such, the public guarantee allows the small number of beneficiary households to purchase better (for example, larger) homes, resulting in an increase of between 1 pp and 1.5 pp in the share of overburdened households (see Chart 4).⁶

Chart 1
Home ownership (a)

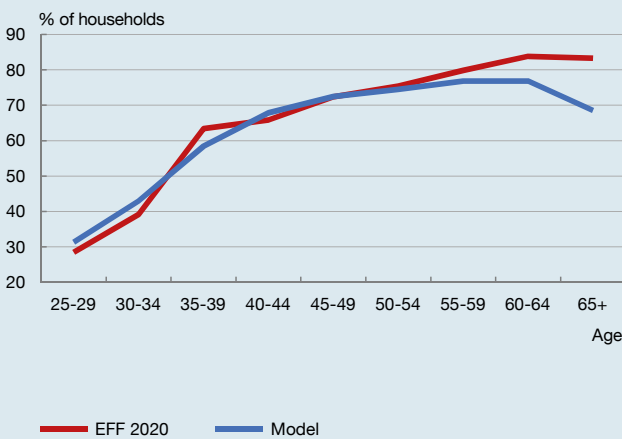


Chart 2
Simulation of % changes in house prices and rentals vis-à-vis initial situation (b)

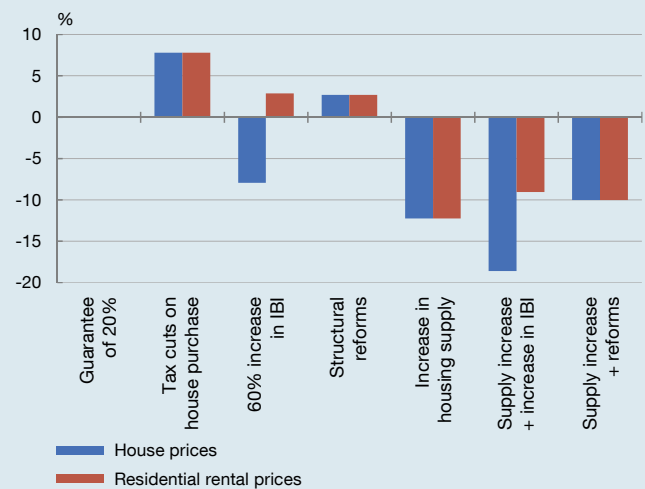


Chart 3
Simulation of changes in home ownership vis-à-vis initial situation (b)

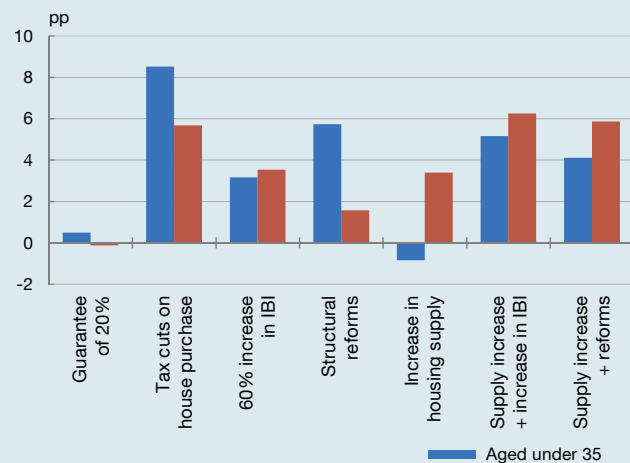
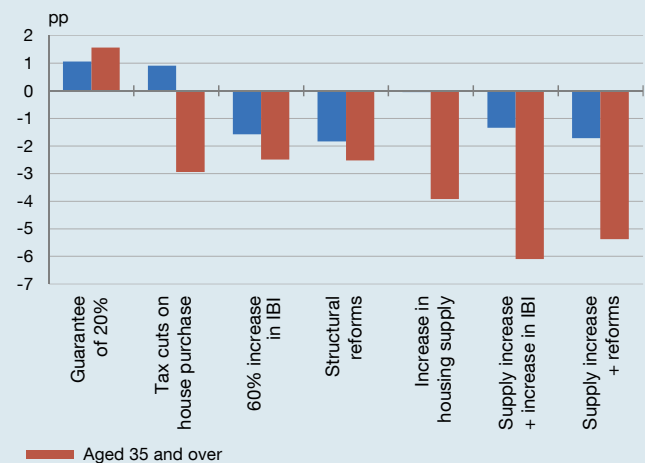


Chart 4
Simulation of change in proportion of overburdened households (b) (c)



SOURCE: Banco de España.

- a Comparison between EFF 2020 and the simulations developed under the model in 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).
- b 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%.
- c Households are deemed to be overburdened when they spend more than 40% of their net income on rent or mortgage payments.

⁶ Throughout this box, households are deemed to be overburdened when they spend more than 40% of their net income on rent or mortgage payments.

Box 4.2
AN ANALYSIS OF ALTERNATIVE PUBLIC POLICIES TO REDUCE THE PROBLEMS OF HOUSING AFFORDABILITY (cont'd)

The second measure analysed is *eliminating the expenses and taxes linked to a house purchase*. This measure is often put forward with a similar aim to the public guarantee – to lower barriers to home ownership. The removal of these upfront costs has a direct impact on the actual expense for households wanting to buy a home. Immediately upon introduction of this measure, and before the general equilibrium effects materialise, the post-tax purchase price per metre falls in the same proportion as the tax (10%). This could simultaneously ease both obstacles faced by potential buyers. First, it reduces the liquidity needed to purchase a home by 10%. Second, the lower post-tax final purchase price means a cut in the potential mortgage instalment as a proportion of household income. Once the general equilibrium effects are taken into account, these two positive impacts for home ownership affordability result in an increase in owner-occupier rates of around 8.5 pp for households under 35 and of 5.7 pp for those aged 35 and over, as shown in Chart 3. However, housing supply rigidity in the face of rising demand entails an increase in both purchase and rental equilibrium prices of 7.8% (see Chart 2).⁷ Such real estate price growth, unaccompanied by an increase in household incomes, has an adverse impact on the housing cost burden and, more generally, on the vulnerability of younger households. In particular, this measure leads to greater difficulties for households that continue renting, as rental market prices rise. These effects are concentrated on younger households, with around 1 pp more becoming overburdened (see Chart 4). At the same time, higher rents cut rental households' ability to save, which could hold them back from home ownership in the future. Conversely, it becomes easier to buy a house owing to lower post-tax prices, although the impact is only moderate, since the easing of the tax burden is largely countered by rising prices. As such, the proportion of overburdened households aged 35 and over falls by 3 pp. Nevertheless, this measure comes at a high cost in terms of tax revenue.⁸

The third measure considered is an *increase in property tax (IBI, by its Spanish abbreviation)*. Specifically, a 60%

increase in IBI is simulated.⁹ Unlike the two previous measures, an IBI hike does not have a direct impact on restrictions on gaining a mortgage. However, the measure entails an immediate uptick in costs for owner-occupiers and firms that manage rental housing. As such, real estate prices shift until they reach a new equilibrium on the purchase and rental markets. Specifically, these changes in taxation lead to an increase in the overall cost of owning a home, which may lead some households to purchase a smaller home or to choose to rent. This flow of demand towards the rental market, along with the impact of the price decisions made by management firms in the real estate market, cause rent prices to rise by nearly 3% and purchase prices to fall by around 8% (see Chart 2). Accordingly, changes in the relative prices of both markets eventually counteract the initial effect of the IBI hike and result in a rise of 3.2 pp in the proportion of owner-occupiers under the age of 35 and of 3.5 pp in those aged 35 or over (see Chart 3). The drop in house prices causes the share of overburdened households to fall by between 1.5 pp and 2.5 pp (see Chart 4). However, rising rents increase the housing cost burden for households remaining in rental accommodation, with lower-income groups being more negatively affected.

Young people have higher rates of unemployment and part-time work, along with weaker wage growth relative to real estate prices. Together these factors help to partly explain their difficulties in accessing housing, whether for purchase or rent. In order to study the role played by young people's lower purchasing power in their housing affordability difficulties, a scenario is simulated in which the labour income of households under 35 is increased by 15%. This scenario combines, in a limited fashion, the impact of a set of *structural reforms* which, for example, may alleviate the Spanish labour market's structural problems and the shortfalls in human capital and worker training. These measures would have the most positive impact on young people's income. The income hike has a positive impact on housing affordability for young people through three channels by: (i) loosening the restriction on regular mortgage instalment amounts for households with

7 Rent prices rise because an equilibrium relationship between purchase and rental prices is assumed in the model. This means that, in practice, prices on both markets move by the same amount, unless the measure under consideration affects each market differently. For the sake of simplicity, it is assumed that firms operating on the real estate market are affected in the same way as households by changes in taxation of housing purchases.

8 Depending on the annual volume of real estate transactions, removing the tax burden associated with households' housing purchases could entail a loss of revenue of between 1% and 1.5% of GDP.

9 This figure would be equivalent to the ex ante increase in revenue needed for the structure of Spanish property and conveyancing taxes to converge with the average of the European Union.

Box 4.2

AN ANALYSIS OF ALTERNATIVE PUBLIC POLICIES TO REDUCE THE PROBLEMS OF HOUSING AFFORDABILITY (cont'd)

enough savings to make a down payment on a home and obtain a mortgage, (ii) allowing households without sufficient savings to build up the necessary savings in less time, and (iii) allowing households that choose to continue renting to afford larger or better quality homes. In equilibrium, the result of these effects is a 5.7 pp increase in the share of young owner-occupiers (see Chart 3). However, since the total housing stock remains the same, rental and purchase prices rise by 2.7%. In equilibrium, these effects result in a slight drop (between 1.8 pp and 2.5 pp) in the proportion of overburdened households (see Chart 4).

The simulation exercises analysed above assume that the aggregate housing supply, i.e. the existing housing stock, is rigid. This assumption is made to isolate the role of various housing affordability challenges faced by households and, moreover, enables approximation of the current relatively rigid supply situation on the Spanish market. However, one of the consequences of an unchanging housing stock is that the effects of housing affordability policies are limited by their effects on real estate asset prices. In addition, the assumption of a rigid housing supply does not allow the effects of various policies that influence the housing stock and composition of the supply to be taken into account. In particular, the possible mobilisation of existing non-residential housing for sale or rental and incentives for new housebuilding.

To illustrate the *importance of housing supply* for price dynamics and affordability, *three additional scenarios* are simulated: (i) an increase in the housing stock of 1% per year for ten years;¹⁰ (ii) this growth in housing stock, combined with the increase in IBI discussed previously; and (iii) this growth in housing supply, accompanied by structural policies that entail higher incomes for young households. As Chart 2. shows, under all three scenarios the fall in house prices and rentals is significant, between 9% and 19%, in equilibrium. However, the impact on the proportion of young homeowners varies considerably. Under the scenario of an increase in the housing supply but with none of the other measures considered under scenarios 2 and 3, the proportion of young homeowners decreases by around 1 pp. However, the greater ability to

save at an early age, owing to greater rental affordability, means that the proportion of homeowners aged over 35 increases by 3.4 pp. When the growth in housing supply is combined with the increase in IBI or with higher incomes for young people, the proportion of young homeowners climbs by 5.1 pp and 4.1 pp, respectively. At the same time, the greater ability to save as result of lower rents pushes up home ownership for households aged over 35 by 6.2 pp and 5.8 pp, respectively. Affordability relating to housing costs also improves, and more so when the growth in supply is combined with either of the two other measures considered (see Chart 4).

Overall, based on the model used, the simulations presented show that the measures that have the most positive impact on housing affordability (home ownership and rentals) are those affecting housing supply and household income determinants. Measures that impact 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 the low income levels of many rental households with no savings mean they are able to assume only limited leverage. Increases in recurrent property taxes, in addition to generating efficiency gains in the design of the tax system, could help ease affordability problems. Nevertheless, these tax changes would have greater impact if they were accompanied by growth in supply.

In any event, the outcomes of the different scenarios presented, and the conclusions drawn, should be viewed with caution. Despite considering the main characteristics and constraints that affect the Spanish housing market, and the decisions faced by households over their lifetime, the model used does not capture the key characteristics of the market, mainly on the supply side. These limitations could affect the final impact of the policies considered. Specifically, there are three elements not included in the model used that are of particular significance in the case of Spain: (i) young people's emancipation decisions; (ii) second homes and empty properties; and (iii) social or affordable rental housing.

¹⁰ This increase is assumed to be in the private sector, distributed in equilibrium between rental and home ownership, and would mean more than doubling current new housing production.