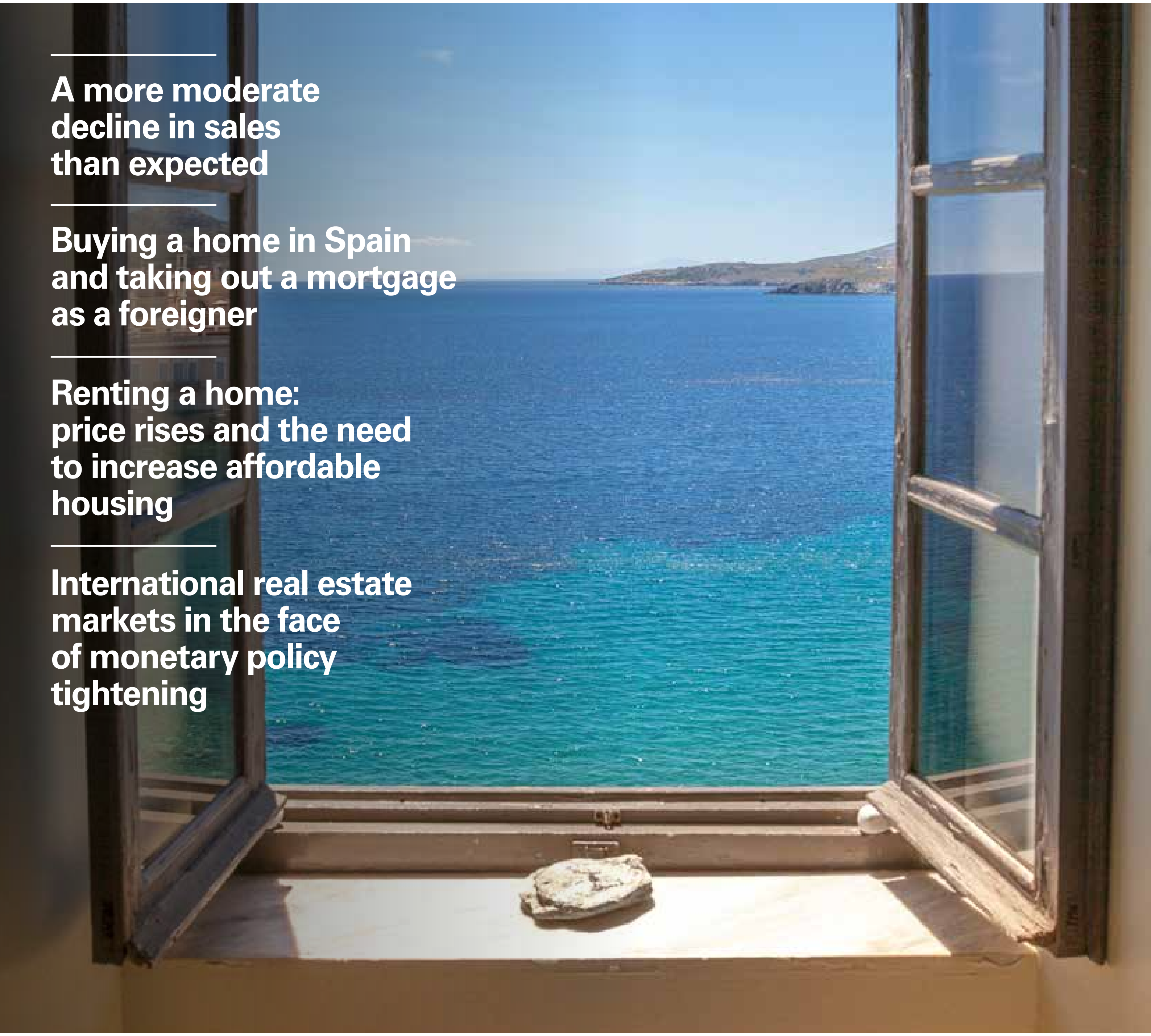
Real Estate

Sector Report

2/2023

Slowdown in Spain's real estate sector



A more moderate decline in sales than expected

Buying a home in Spain and taking out a mortgage as a foreigner

Renting a home: price rises and the need to increase affordable housing

International real estate markets in the face of monetary policy tightening

CaixaBank Research

SECTOR REPORT

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CaixaBank Research

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Summary 2/2023

«The best time to buy a home is always five years ago.»
Ray Brown

Real Estate

CAIXABANK RESEARCH FORECASTS FOR SPAIN'S REAL ESTATE SECTOR

CaixaBank Research

2022	2023	2024	
5.0	2.9	1.1	**House prices (MITMA),** change (%)
650	500	510	**Sales (thousands)**
109	90	105	**New building permits (thousands)**

KEY ASPECTS OF THE REAL ESTATE SCENARIO

S1 2023

Change in trend: sales dipping and growth in prices slowing down

However:

- The drop in demand has been more moderate than expected.
- The growth in house prices has decreased but rates are still positive.

We have revised upward our 2023 sales and price forecasts.

S2 2023 and 2024

The second half of the year will be key to assessing the sector's resilience regarding the sharp rise in interest rates and weakening economy

Support factors:

- Resilient labour market and larger wage increases.
- Downward inflation.
- Substantial immigration numbers.
- Favourable financial situation of households and the financial sector.

Scenario:

- Appreciable decline in **sales** but moderate impact on **prices**.
- The **supply of new housing** will continue to lag behind the net creation of households.
- **Construction costs** will tend to fall, albeit remaining above their pre-pandemic level.

OTHER TOPICS OF INTEREST ADDRESSED BY THE REPORT

Real estate markets in the main advanced economies: house prices have started to decline in a large number of markets and we expect this downward trend to continue.

Foreign demand for housing and its financing: 1 out of every 3 foreigners who buy a home in Spain also takes out a mortgage.

Spain's rental market: in recent years, the growth in rents has outstripped the rise in wages, making it difficult for young adults to set up their own home and increasing the economic vulnerability of a large number of households living in rented accommodation.

Source: CaixaBank Research.

Executive summary

The change in trend in Spain’s real estate market is happening but more slowly than expected

Spain’s real estate market is slowing down but at a more moderate pace than predicted in the scenario published in last December’s *Real Estate Sector Report*. The data that have become available for the first half of 2023 have been better than we anticipated, leading us to revise upwards our 2023 forecasts for house prices (to 2.9% according to the MITMA appraised value) and for the number of sales (to 500,000). On the other hand, we have maintained our projections for the number of new building permits (around 90,000 homes), as the figures are still quite weak and the high construction costs and labour shortages mean we do not expect a larger number of new homes to be started in the short term.

Despite these upward revisions, however, it is important to remember that they are due to the good performance observed in the first part of 2023. In fact, looking ahead to the coming quarters, we still expect a marked drop in the number of sales from the record highs of 2022, and house prices will probably continue to decelerate given the context of higher interest rates for longer. Although we believe the impact on the number of sales will become more tangible in 2023, the effect on prices will be felt mainly in 2024 (house prices are forecast to grow by 1.1% for 2024).

The second half of the year will be key to assessing the sector’s resilience regarding the sharp rise in interest rates and weakening economy. In contrast to these negative factors, there are also several positive elements, including a resilient labour market, falling inflation, somewhat stronger wage increases, significant immigrant inflows and the favourable financial situation of the various agents involved in this market.

With respect to the latter, an increasingly important role is being played by non-resident foreign buyers, especially in large cities and the tourist areas of the Mediterranean coast and islands. Such buyers tend to opt for more expensive homes, need less financing to buy a property and are proving to be highly resilient in the face of rising interest rates. We examine these issues in more detail in the second article of this Report, dedicated to foreign demand.

The third article looks at the recent trends in Spain’s rented accommodation, a market that has attracted a lot of attention in recent times due to the sharp rise in rental prices, much greater than the increase in wages. This has led to concerns regarding the difficulties faced by young adults who want to set up their own home, as well as the greater economic vulnerability of many of the households living in rented accommodation. To address this situation, every effort should be made to increase the supply of affordable housing.

In the last article of this Report, we look outwards and examine the situation of the real estate markets in the main advanced economies. In a large number of countries, house prices rebounded considerably during the pandemic, a growth that, in many cases, was accompanied by a significant increase in household debt. The real estate markets in some of these countries began to correct around mid-2022 as a result of rising interest rates. Although the most recent data show a pause in this adjustment of house prices in some countries, we believe the downward trend will continue in the coming quarters as the tightening of financial conditions feeds through to the real economy.

Situation and outlook

Slowdown in Spain's real estate sector

Spain's real estate market started to slow down by mid-2022 with the change in monetary policy. For the time being, and despite the fact that the ECB has already raised its benchmark interest rates by 4 bp, the pace of this slowdown is proving to be gentler than anticipated, leading us to improve our forecasts for the sector in 2023. However, looking ahead to the coming quarters, we still expect a marked dip in the number of sales from the high figures recorded in 2022 as well as a slowdown in house price growth, especially in 2024, within the context of higher interest rates for longer. Nevertheless, there are several factors that will continue to support the sector and make a sharp correction such as the one seen in 2008-2013 unlikely, including a resilient labour market and significant inflows of immigrants.

A more moderate decline in sales than expected

The data published on the performance of the residential real estate market in the first half of 2023 have been confirming the sector's expected change in trend. The main causes of this change in cycle are the gradual disappearance of the temporary pandemic-related support factors (a change in residential preferences and enforced savings due to the brakes on consumption) that drove housing demand in 2021 and 2022; persistent inflation, which erodes the purchasing power of households, and rising interest rates. As a result, the number of house sales recorded its first negative year-on-year rate of change in December 2022 (–10.2%) and, except for a hiatus in January, continued to be negative until April (latest available data). So far this year, house sales are down 3.4% year-on-year to the figure of 642,000 in April (12-month cumulative). This decline was observed in both the segment of new builds (–4.0%) and also second-hand properties (–3.3%). However, sales are still 16.7% above the level for the same period in 2019, in spite of this drop from the exceptional figures posted in 2022 (650,000).

> **House sales have started to fall but the rate of decline has been fairly moderate so far**

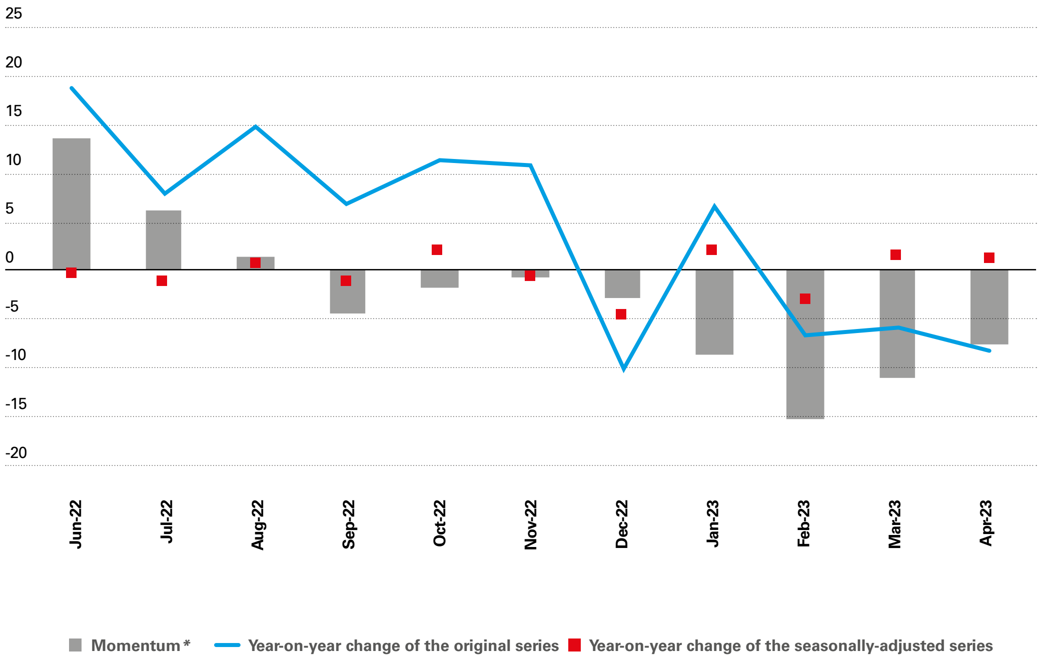
For a more rigorous assessment of the degree of the slowdown in house sales, we have seasonally adjusted the original data series (i.e. we have eliminated variations due to seasonal effects) and calculated the month-on-month changes in the seasonally adjusted series.[1] The chart below shows that, since last June, the month-on-month change has been negative over several months. Since these monthly variations present some volatility, we have also calculated the momentum[2] of the seasonally-adjusted series. In April 2023, momentum stood at –7.4%, while in February it reached –15.2%, an improvement thanks to the fact that the last two records were slightly positive in seasonally-adjusted terms, suggesting that the rate of decline is still quite moderate for the time being.

1 Seasonality has been corrected using an X-13-ARIMA-SEATS model.

2 Momentum is defined as the rate of change of the three-month average of the seasonally-adjusted series for sales, in annualised terms.

Moderate decline in house sales for the time being

Change (%)



Note: (*) Momentum is defined as the annualised change in the three-month moving average of the seasonally-adjusted series.
Source: CaixaBank Research, based on data from the National Statistics Institute (INE).

By type of buyer, foreign purchases are holding up considerably better than purchases by Spaniards, both for main residences and second homes.[3] Specifically, the number of foreign purchases fell by just 2.7% year-on-year in Q1 2023, compared to –9.0% for second home purchases and –12.1% for main residence purchases by Spaniards. In addition, this good performance by foreign purchases comes after a strong rally in 2022, when sales grew by 30.7% compared to 6.4% growth for the total, substantially increasing their share of all purchases (19.5% according to MITMA and 14.5% according to the College of Registrars in Q1 2023). In the article «Buying a home in Spain and taking out a mortgage as a foreigner» in this *Sector Report*, we analysed the resilience of foreign buyers to rising interest rates, a phenomenon that is partly explained by the fact that such buyers are less dependent on credit when buying property.

3 For the breakdown by type of buyer, we used data from the MITMA (Ministry of Transport, Mobility and Urban Agenda). When the buyer's province of residence is different from the province in which the property is located, this is classed as a second home purchase.

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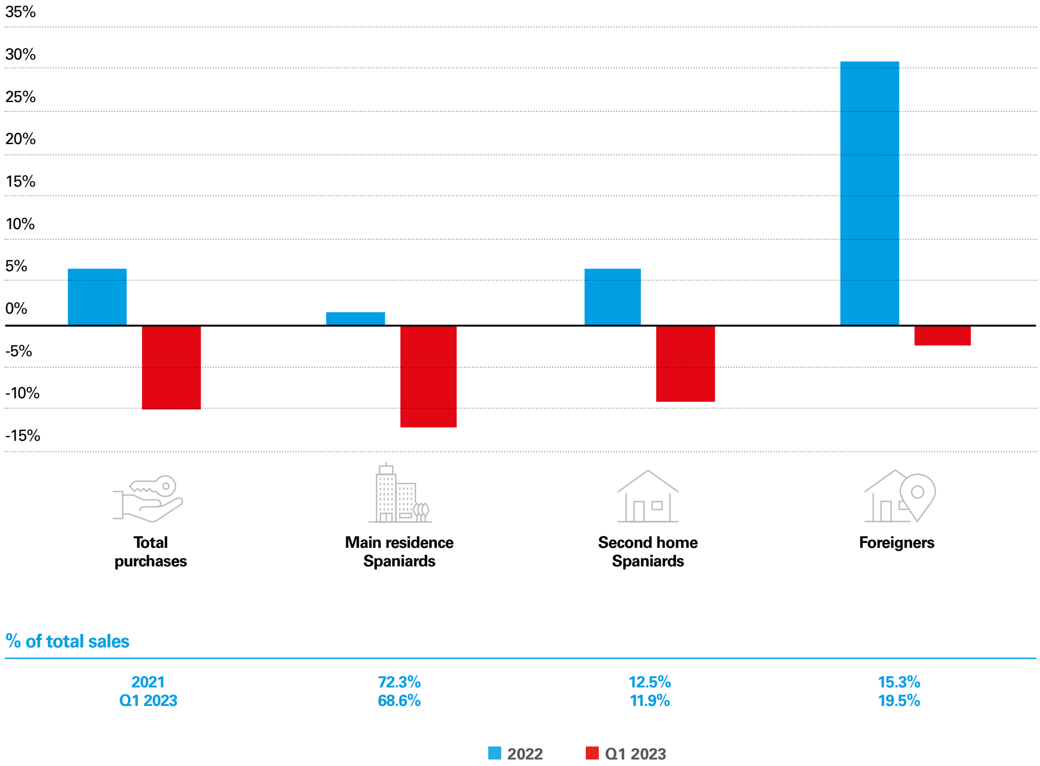
Foreign purchases are holding up better
Change in house purchases by buyer



Note: Change in Q1 2023 compared to Q1 202.
Source: CaixaBank Research, based on data from the Ministry ofTransport, Mobility and Urban Agenda (MITMA).

Rising interest rates are having a stronger impact on the mortgage market than on housing demand, reflecting the fact that a significant proportion of buyers do not need external financing to buy a property

Mortgage market data do show more palpable signs of the impact of rising interest rates. The mortgage interest rate stood at 3.97% in May 2023 compared to 1.62% a year earlier,[4] while the number of mortgages fell by 8.4% year-on-year in the year up to April and, over the same period, the amount of new credit granted to households for house purchases (without renegotiations) fell by 22.7% year-on-year. This drop in demand for new credit, together with the growth in extraordinary prepayments, has meant that the outstanding balance of mortgage credit has begun to fall (–2.1% year-on-year in April). We have also observed an increase in mortgage renegotiations, which now account for 7% of new transactions and are well above the average for 2017-2019 (3.6%).

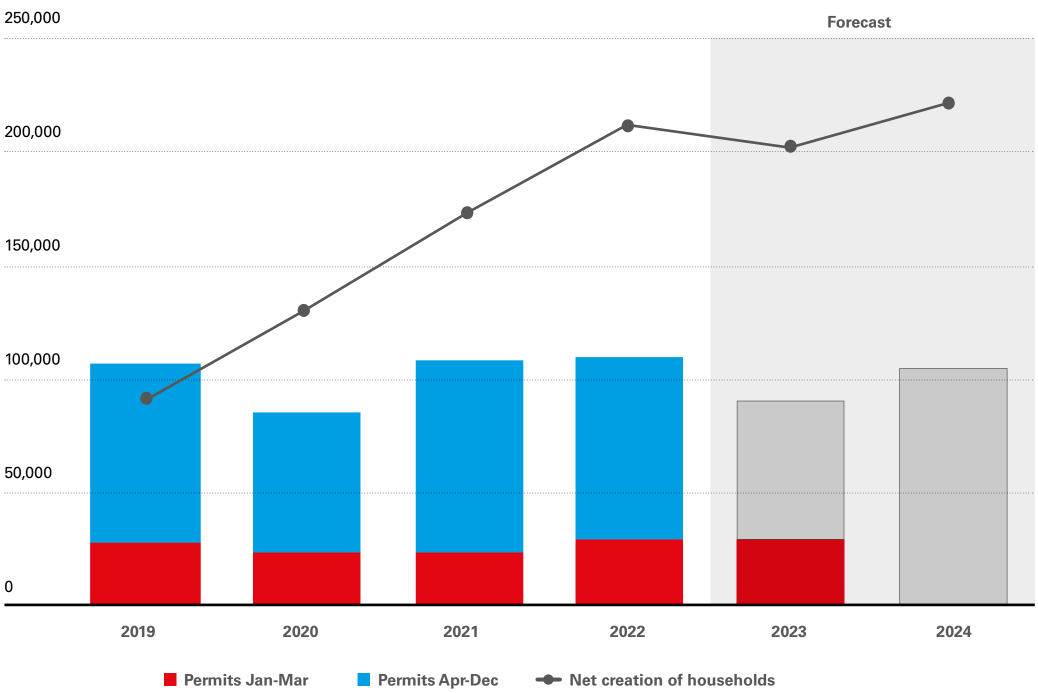
4 **Average interest rate to purchase free housing, more than three years.**

Housing supply fails to recover

Supply is still very limited and not enough to meet the housing needs considering current demographic trends. The number of new building permits (109,000 homes in the last 12 months up to March) remains well below the net creation of households (241,000 in the last four quarters up to Q1 2023, according to the Labour Force Survey or LFS). It should be noted that this dynamic household creation rate reflects the substantial number of immigrants arriving in Spain (whose foreign population has grown by 452,000 people in the cumulative figure over four quarters up to Q1 2023, according to the LFS), which explains the high demand for housing in Spain's most economically active regions.

New building permits

Number of dwellings



Source: CaixaBank Research, based on data from the Ministry ofTransport, Mobility and Urban Agenda and the National Statistics Institute.

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Despite this insufficient production of housing, leading supply indicators remain rather weak and do not point to a change in trend in the near future. Cement consumption grew by a meagre 1.2% year-on-year in the cumulative figure up to May, while residential investment rose by a modest 0.6% year-on-year (0.1% quarter-on-quarter) in Q1 2023 and is still very contained as a percentage of GDP (5.4%), well below the pre-pandemic level of investment (–9.5% vs. Q4 2019). On the other hand, some indicators offer slightly more positive signs: confidence in the construction sector has improved slightly so far this year, while labour market data for the construction sector also show a favourable trend (the number of construction sector workers grew by 4.6% year-on-year in the year up to May).

Supply indicators for the real estate sector

	Units	2022	2023*	Latest
New building permits	Thousands	108,923	28,443	March-23
	Change	0.6%	0.4%	
Certificates of final completion	Thousands	89,107	20,408	March-23
	Change	-2.5%	0.4%	
Registered workers in construction	Thousands	1,334	1,376	May-23
	Change	3.5%	4.6%	
Residential investment	Change	3.1%	0.6%	Q1 2023
	% of GDP	5.5%	5.4%	
Cement consumption	Change	-0.6%	1.2%	May-23
Confidence in the construction industry	Level	8.9	7.1	May-23
Construction costs	Change	15.2%	7.8%	Mar-23

Note: *The data for 2023 correspond to the cumulative figure for the year up to the latest data available.
Source: CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda, Ministry of Inclusion, Social Security and Migration and the European Commission.

Construction costs remain high but are starting to ease

One very significant constraint on supply is residential construction costs which, although still high, are beginning to show signs of moderating. After double-digit growth in mid-2022 (reaching 19.5% year-on-year growth in May 2022 according to MITMA), they are now posting more contained rises of 6.0% year-on-year in March (latest available data). The notable drop in industrial metal prices on international markets (the benchmark LME index has fallen by 30% since its peak in April 2022) and the fall in energy prices (remember that the production of a large number of building materials is highly energy-intensive) suggest that this downward trend in costs will consolidate in the coming months. Specifically, according to our projections (which take into account the prices of commodity futures markets on international markets and our oil price forecasts in euros), residential construction costs in Spain could start to decline in August and fall by around 5% on average in 2024 (in the absence of new shocks). Despite this drop, however, costs would still consolidate at a higher level than before the shock (about 16% above the January 2021 level).

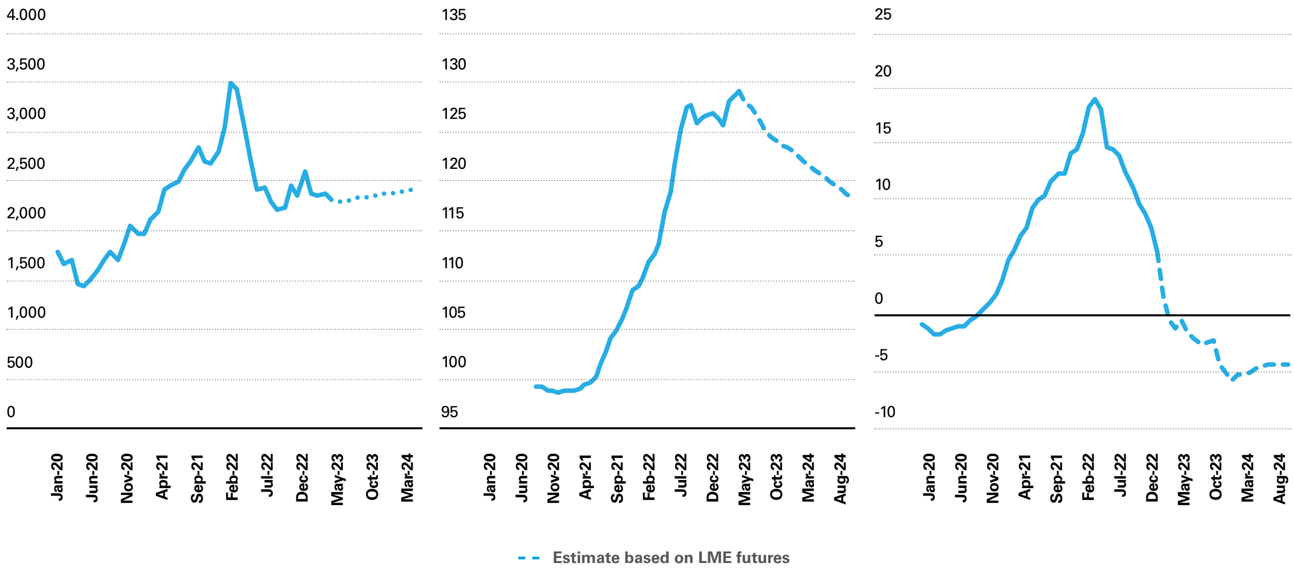
LME index and futures

(points)

Residential construction costs in Spain

Index (100 = January 2020)

Year-on-year change (%)



Source: CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda and Bloomberg.

House prices remain resilient despite rising interest rates, especially for new builds

The greater resilience seen in demand, especially by foreigners, the shortage in supply of new housing and high construction costs have all been driving house prices in recent quarters despite the sharp rise in interest rates. House prices (according to the appraised value published by the MITMA) grew considerably in Q1 2023 (2.2% quarter-on-quarter vs. 0.5% in Q4 2022) although in year-on-year terms the rate of growth continued to slow (3.1% year-on-year vs. 3.3% in Q4 2022). In the same vein, the INE house price index (based on transaction prices) also posted a significant rise in Q1 2023 (0.6% quarter-on-quarter, 3.5% year-on-year), in contrast to the decline recorded in Q4 2022 (–0.8% quarter-on-quarter).

All the autonomous regions posted positive year-on-year rates of change in house prices in Q1 2023, although the growth rate still varies greatly. At the high end are the Balearic Islands with a year-on-year increase of 7.3%, while Murcia is the region reporting the smallest increase in Q1 2023 (0.4% year-on-year). The price of new builds is growing more vigorously than that of second-hand housing (6.0% and 3.0%, respectively, in Q1 2023), a pattern observed in all the autonomous regions and explained by the relative scarcity of this type of housing and the need to pass on the higher construction costs.

House prices in municipalities with more than 25,000 inhabitants also recorded a somewhat more positive trend than in the previous quarter: the percentage of municipalities with a negative year-on-year change was 15% of the total in Q1 2023 (compared to around 25% at the end of last year). The percentage of municipalities with a year-on-year rise in house prices of more than 10% was 13.4% in Q1 2023 (compared to 6.5% in Q4 2022). Likewise, house prices grew more strongly in tourist municipalities (5.7% year-on-year) than non-tourist municipalities (4.8% year-on-year), a fact that reflects the strength of foreign demand.

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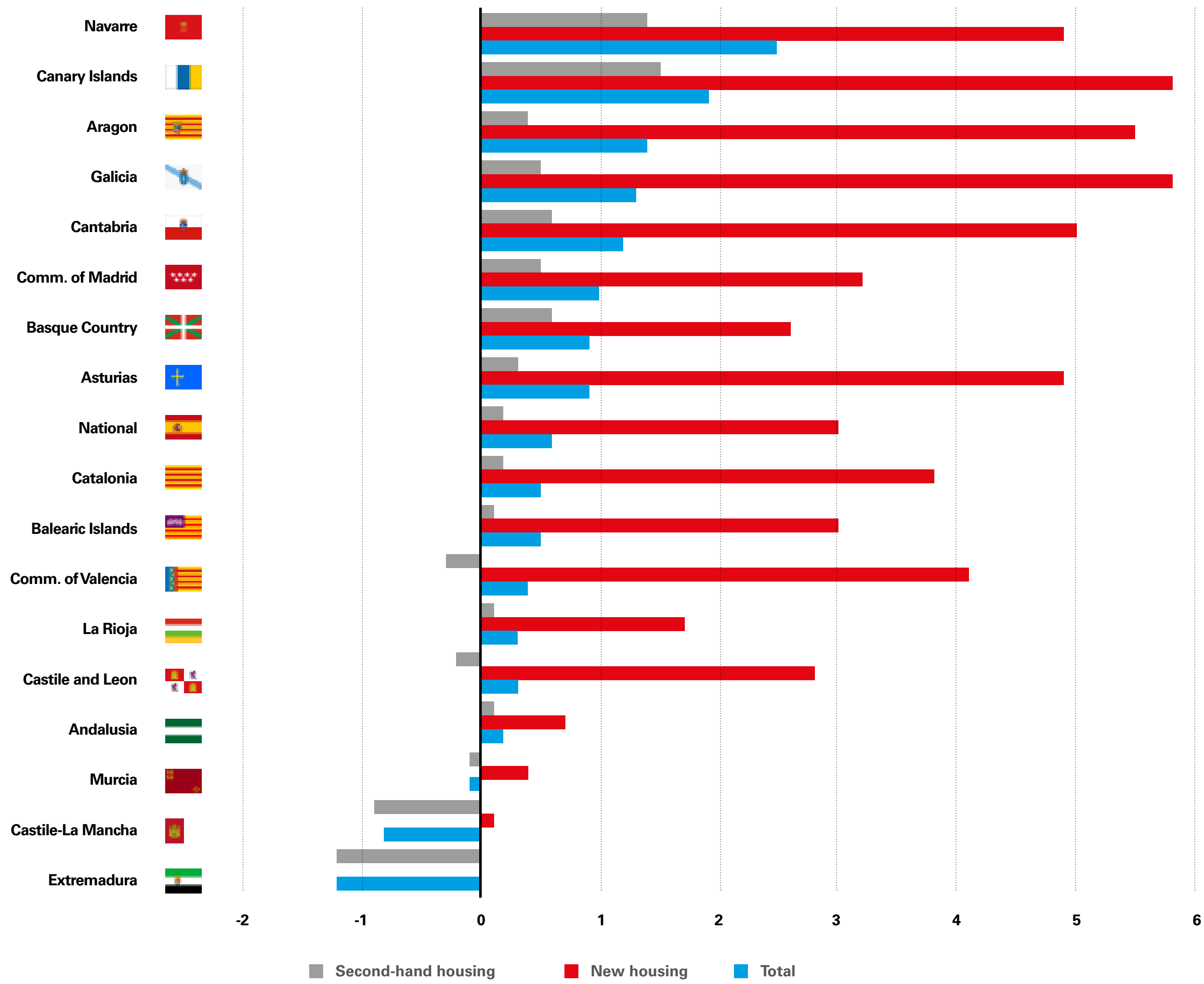
House prices by autonomous region

Quarter-on-quarter change in Q1 2023



Source: CaixaBank Research, based on data from the National Statistics Institute.

Revised real estate forecasts for 2023 and 2024

The second half of this year will be key to determine to what extent the cumulative rise in interest rates has a more or less significant impact on the economy as a whole and, in particular, on the real estate sector. With a 25 bp hike in June, the ECB has now increased its benchmark interest rates by 4 bp since July 2022. Moreover, spurred on by the inertia of underlying inflationary pressures, the ECB is hinting at another interest rate hike in July, up to 3.75% for the depo rate and 4.25% for the refi rate.[5] At CaixaBank Research, we believe that a further increase in benchmark rates is also possible and we expect that, once they reach their peak, interest rates will remain at these levels until mid-2024. A few months earlier, however, we should start to see some downward movement in the 12-month Euribor.[6]

5 The 12-month Euribor, the main indicator used to calculate mortgages in Spain, exceeded the 4% daily rate in mid-June, following the ECB's interest rate hike and its hawkish attitude (maintenance of a restrictive monetary policy). It will have therefore reached its highest level since 2008.

6 Moreover, the ECB has already ended its APP purchases, although PEPP reinvestments should continue at least until the end of 2024.

The second half of the year will be key in order to take the pulse of the market and see how it is reacting to the interest rate hikes

However, there are also several countervailing factors that will continue to support housing demand and prices, including a **resilient labour market** (we predict that 390,000 jobs will be created in 2023 and 270,000 in 2024 in terms of the total LFS workforce), **falling inflation** (below 4% in 2023) and **more dynamic wage growth** (around 4%-5% in 2023 and around 3.5%-4% in 2024). Likewise, substantial **migratory inflows** (the INE estimates that, in 2023 and 2024, Spain's foreign population will increase by around 490,000 people per year) will continue to sustain demand for housing in those areas of greatest economic activity.

It is also worth remembering that the **sector's fundamentals are much more robust** today than in the previous expansionary cycle (there is no oversupply, there has been no excessive growth in credit nor have credit standards been relaxed) and the growth in house prices in previous years was fairly stable, much lower than in other advanced countries (see the article «Real estate markets in advanced economies in the face of monetary policy tightening» in this *Sector Report*).[7] All this suggests a slight moderation in the pace of price increases and a normalisation of the volume of sales during the period 2023-2024, and we do not expect any sharp adjustment in the market such as the one observed in the period 2008-2013.

7 For a detailed analysis, see the Situation and Outlook article in our previous *Real Estate Sector Report*, corresponding to the first half of 2023.

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Turning to demand, **we expect purchases to decline sharply in the coming months**, falling to around 500,000 in 2023 as a whole, a figure similar to that recorded in 2019 but 23% lower than in 2022 (650,000). This forecast has recently been revised upwards (previous forecast:[8] 480,000) due to a smaller than expected drop in purchases in the first few months of the year. By segment, the largest adjustment is expected in **purchases of second-hand homes**. In contrast, the number of **purchases of new builds** will remain within a similar range to the previous year (about 110,000 homes, in line with the number of housing starts in the last 12-18 months).

Similarly, we also **revised upwards our house price forecast** due to the good Q1 data published. Specifically, we substantially improved our annual projection for 2023, from 1.0% to 2.9% (appraised value, MITMA) and from 1.7% to 2.1% (transaction price, INE). Despite these upward revisions, however, we must remember that they are due to the good performance observed to date and to prices resisting any decline in the short term. Looking ahead to the coming quarters, and in line with the weakening of demand and the economy in general, **we continue to expect a significant slowdown**, as reflected in our forecasts for 2024 (1.1% for both indicators).

Finally, **housing supply will remain very limited** (forecast: 90,000 new building permits in 2023), much lower than net household creation (241,000 in the last four quarters up to Q1 2023, according to the LFS). The signs of demand cooling down, new legislation, structural problems in the sector and construction costs remaining high despite their recent moderation do not suggest that this deficiency in housing supply will be reversed in the coming quarters.

8 **Forecasts published in the *Real Estate Sector Report* for the first half of 2023.**

CaixaBank Research forecasts for Spain's real estate sector

	2022	2023	2024
House prices (MITMA), change (%)	5.0	2.9	1.1
Sales (thousands)	650	500	510
New building permits (thousands)	109	90	105

Foreign demand

Buying a home in Spain and taking out a mortgage as a foreigner

Foreign demand for housing in Spain has performed exceptionally well after the pandemic. In 2022, foreigners bought 90,000 homes in Spain, 46% more than in 2021. In line with this good performance, the number of mortgages taken out by foreigners also increased and reached 30,000 in 2022, so that one in three foreign buyers took out a mortgage in Spain last year. Foreign residents tend to buy homes and take out mortgages for a similar amount as Spaniards. On the other hand, non-resident foreigners tend to opt for more expensive properties and, consequently, the average mortgage taken out by foreigners is higher, although there are notable differences depending on nationality and autonomous region. The value of mortgages taken out by foreigners in the Balearic Islands is particularly high while, in terms of nationality, Swedes and Americans tend to take out the largest mortgages.

Rise in home purchases by foreigners in Spain and, with it, the mortgages taken out

Home purchases by foreigners in Spain have recovered remarkably well after the pandemic, breaking all records in 2022. According to the College of Registrars, foreigners were involved in about 90,000 purchases in 2022 (45.6% more than in 2021) and accounted for 13.8% of the total.[9] In line with these good figures, **the number of mortgages for housing taken out by foreigners in Spain also rose to over 30,500**, 33% more than in 2021. Despite this sharp increase, their relative weight in all mortgages was 6.6%, a figure similar to previous years (6.2% in the 2017-2021 average) and still well below the percentage represented by foreigners in Spain's real estate market (13.8%). These data highlight the growth potential of the mortgage market for this segment of buyers.

9 In this article, we primarily use data from the College of Registrars. According to MITMA real estate transaction data (based on the Notary Public's Office), foreign purchases in 2022 totalled 134,592, 19.5% of the total. On the other hand, according to the Statistics Centre of the Notary Public's Office, transactions carried out by foreigners amounted to 143,629 in 2022 and represented 21.1% of the total sales of free housing.

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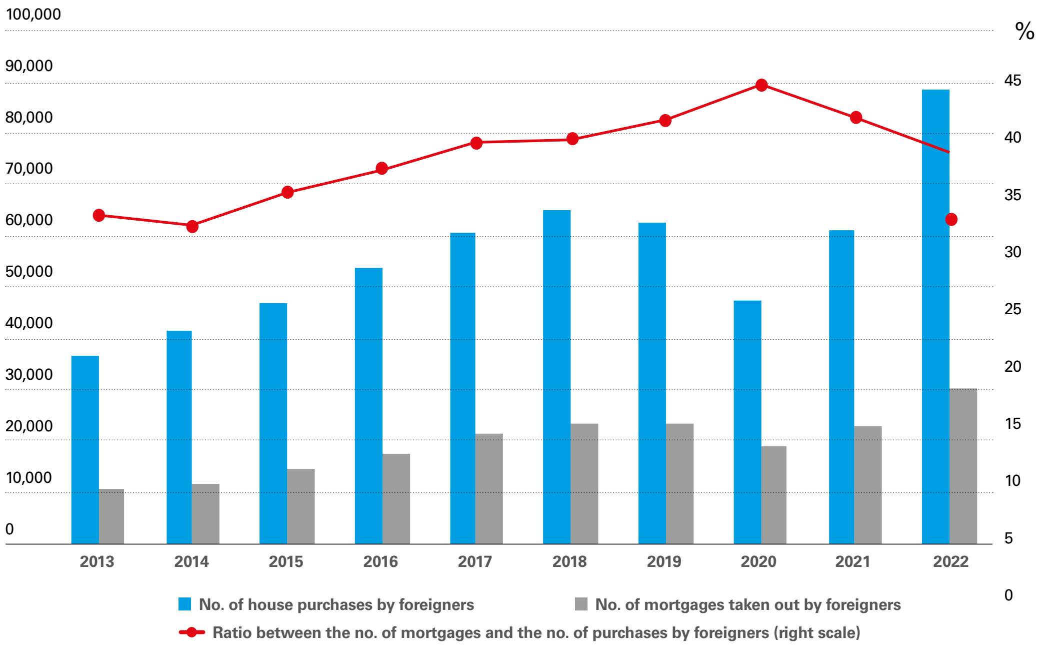
In order to examine the use of financing by foreigners when buying a home, we calculated the ratio of the number of mortgages out of the number of foreign purchases. In 2022, 34% of foreign buyers took out a mortgage in Spain, compared to around 78% of Spanish buyers. This lower propensity of foreigners to take out a mortgage in Spain is mainly because they either obtain financing in their country of origin or do not need external financing (i.e. they buy with their own funds).[10] However, as we will see in this article, there are marked differences by nationality and region, reflecting different financing needs depending on whether buyers choose Spain for work or vacation purposes.

10 Unfortunately, no official statistics are available to analyse this issue in greater depth.

Approximately one third of foreigners who buy a home in Spain also take out a mortgage in our country

Strong recovery in house purchases and mortgages by foreigners in 2022
Number



Source: CaixaBank Research, based on data from the College of Registrars.

Foreigners tend to buy more expensive properties than Spaniards and take out larger mortgages on average

In order to examine the typology of foreign buyers in more detail, we have used the statistics provided by the General Council of Notaries, since these enable us to differentiate between purchases made by resident and non-resident foreigners. In 2022, resident purchases accounted for 55% of all purchases by foreigners, while non-resident purchases accounted for the remaining 45%. The first chart below shows that the evolution over time of the average price per square metre of properties purchased by foreign residents is very similar to that of Spanish buyers. In contrast, **non-resident foreigners tend to buy significantly more expensive homes** whose price, moreover, has increased relatively more since 2020. On the other hand, if we look only at the price differences by nationality, we can see that the price paid by foreign buyers is clearly above the average price of housing purchased by Spaniards. As we have seen, this difference is entirely due to the higher price paid by non-resident foreigners. Next, we will analyse the data on mortgages taken out by foreigners, for which unfortunately there is no distinction between residents and non-residents.

> **In 2021 and 2022, the gap between Spaniards and foreigners in terms of the price paid for homes purchased and the average mortgage taken out has widened**

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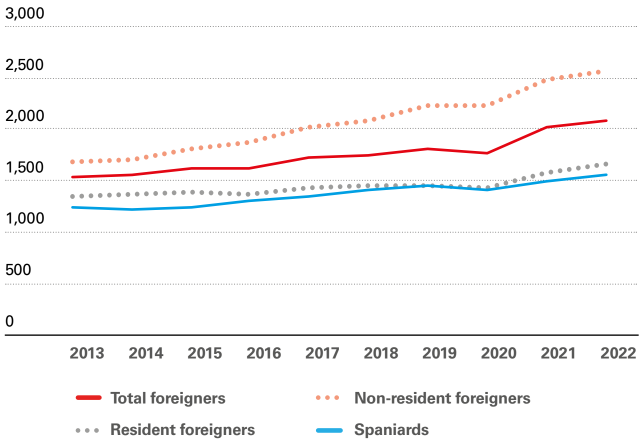
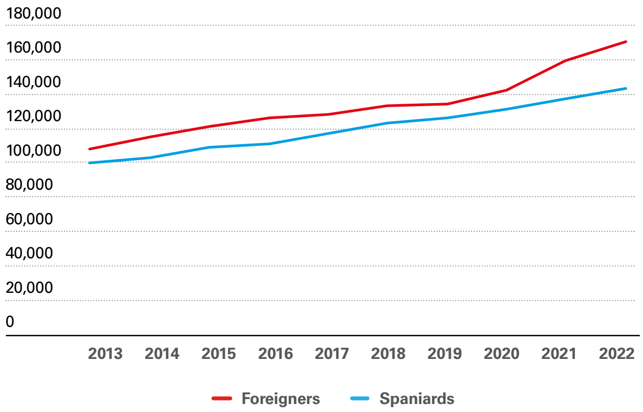
In line with this trend in the price of purchases, the following chart shows that **the average value of mortgages taken out by foreigners is greater than those taken out by Spaniards**, and that this situation intensified in 2021-2022: in 2022, the average mortgage taken out by foreigners was for 171,000 euros, 19% higher than the average mortgage for Spaniards (143,330 euros). In view of the trend in the average price per square metre purchased, based on notary figures, it can be inferred that the higher average value for mortgages taken out by foreigners is due to the non-residents, since resident foreigners present a very similar trend to that of Spaniards.

Non-resident foreigners tend to buy more expensive homes
Price per square metre of free housing purchases by nationality and residency (€)



Source: CaixaBank Research, based on data from the Notary Public's Office.

The average mortgage taken out by foreigners has increased significantly since 2019
Average mortgage for a home by nationality (€)



Source: CaixaBank Research, based on data from the College of Registrars.

Which nationalities take out mortgages in Spain?

By nationality, the differences are very noticeable. The table below shows the low correspondence between the ranking of nationalities according to their number of purchases and the ranking corresponding to the number of mortgages taken out. If we look at the ratio of the number of mortgages in relation to the number of purchases, we find Chinese and Romanian citizens in first place, with a very high ratio, similar to that of Spaniards. They are followed by Bulgarians, Italians and Moroccans, with ratios of around 40-55%. These nationalities are usually foreigners who reside permanently in Spain and work here. It can be seen that the average mortgage is relatively small, smaller than mortgages taken out by Spaniards, with the exception of Italians, among whom there likely to be a combination of residents and non-residents who buy a home in Spain, both for permanent residence and for tourism purposes.

The British are the foreigners who buy the most homes in Spain but Romanians are the ones who take out the most mortgages, while Swedes and Americans take out the largest mortgages on average

On the other hand, at the bottom of the table we find the Belgians, Germans, Swedes, British and French. These five nationalities are all significant buyers of housing in Spain. Together they account for 37% of all house purchases by foreigner but only 17% of the mortgages; i.e. only 16% of the purchases made by these nationalities have a mortgage associated with them. When a mortgage is taken out, however, its average value is very high, particularly in the case of the Swedes, with the largest average mortgage of all (337,413 euros). These nationalities correspond to countries with high levels of per capita income and, on average, they acquire more expensive and larger properties, resulting in larger mortgages on average.

Foreign house purchases and mortgages by nationality in 2022

Nationality	% of mortgages taken out by foreigners	No. of purchases by foreigners	% of purchases by foreigners	No. of mortgages taken out by foreigners	Ratio between the no. of mortgages and the no. of purchases by foreigners	Mean mortgage value
China	1,964	2.2%	1,580	5.2%	80.5%	142,988 €
Romania	4,505	5.1%	3,160	10.4%	70.1%	94,200 €
Bulgaria	977	1.1%	552	1.8%	56.5%	95,757 €
Italy	4,105	4.6%	1,751	5.7%	42.7%	172,669 €
Morocco	4,576	5.2%	1,908	6.3%	41.7%	57,338 €
Ukraine	1,555	1.8%	586	1.9%	37.7%	97,905 €
US	1,057	1.2%	366	1.2%	34.6%	335,625 €
Netherlands	4,363	4.9%	967	3.2%	22.2%	226,340 €
Poland	2,977	3.4%	554	1.8%	18.6%	181,919 €
France	6,193	7.0%	1,136	3.7%	18.3%	217,369 €
UK	9,837	11.1%	1,762	5.8%	17.9%	232,597 €
Sweden	3,954	4.5%	686	2.2%	17.3%	337,413 €
Germany	8,415	9.5%	1,176	3.9%	14.0%	322,455 €
Belgium	4,630	5.2%	423	1.4%	9.1%	173,754 €
Rest	29,750	33.5%	13,896	45.6%	46.7%	-
TOTAL FOREIGNERS	**88,858**	**100.0%**	**30,503**	**100.0%**	**34.3%**	170,965 €
TOTAL SPANIARDS	**557,383**		**433,111**		**77.7%**	143,330 €
TOTAL	**646,241**		**463,614**		**71.7%**	145,190 €

Source: CaixaBank Research, based on data from the College of Registrars.

Notable regional differences in the purchase of housing by foreigners

It is no secret that the geographic distribution of house purchases by foreigners is very uneven among Spain's different regions. Tourist areas (the islands and the Mediterranean coast) and cities account for the largest share. Likewise, most mortgages taken out by foreigners are also granted in these regions, although we can find important differences in the ratio of the number of foreign mortgages to purchases, as can be seen in the table. Some regions, such as Madrid and the Basque Country, have very high ratios (over 80%) while, at the other extreme, we find very tourist-oriented communities such as the Canary Islands and the Community of Valencia, where the number of mortgages taken out by foreigners is much lower than the number of purchases (ratio below 20%).

Real Estate

Special mention should be made of the Balearic Islands, which alone account for one out of every three foreign purchases in Spain, although «only» 17% of the mortgages. The very large average mortgage taken out by foreigners (367,000 euros) is of note, reflecting both the high price of housing in the region and the importance of the luxury segment. Moreover, this amount grew by 44% between 2019 and 2022, a much larger increase than the 27% recorded in Spain as a whole and the 20.1% increase in house prices (INE) in the region.

The median value of mortgages for housing purchased by foreigners has risen considerably since 2019, much more than the price of housing in the vast majority of the regions

In terms of the size of the average mortgage, after the Balearic Islands (367,000 euros) we find the Community of Madrid (229,000 euros), Andalusia (197,000 euros) and Catalonia (178,000 euros). These regions also account for most of the «golden visas» granted to non-EU citizens for the purchase of a home worth 500,000 euros or more.[11] However, their small number makes it unlikely that they will play a significant role in the evolution of house prices in Spain as a whole, although they may exert some upward pressure on a few local markets. On the other hand, there are seven autonomous regions where the average mortgage does not reach 100,000 euros. These are regions that are not so popular with tourists, where the nationalities of the buyers are generally linked to residence for reasons of work, and they tend to correspond to buyers with lower per capita income who therefore buy less expensive homes and take out smaller mortgages on average.

11 According to information provided by the Spanish government, 476 visas were granted in 2022 to foreigners who acquired a property worth €500,000 or more, visas that were introduced by Law 14/2013 to support entrepreneurs and their internationalisation. Between 2013 and 2022, 4,940 such visas were granted (including those granted for capital investments and business projects).

Tourist regions dominate housing transactions and mortgages
Data from 2022

	Purchases foreigners		Mortgages foreigners		Mortgages foreigners			
	Number	% of total sales	Number	% of total mortgages	Ratio between the no. of mortgages and the no. of purchases by foreigners	Median value	Change between 2019 and 2022	Transactions eligible for Golden Visa*
Catalonia	13,863	13.6%	7,533	9.3%	54.3%	178,444 €	18.5%	6.4%
Andalusia	20,062	15.0%	5,893	6.5%	29.4%	197,135 €	25.1%	6.3%
Comm. of Valencia	26,785	26.8%	5,335	10.0%	19.9%	108,191 €	19.3%	1.4%
Madrid	4,194	5.0%	3,499	4.3%	83.4%	229,075 €	36.9%	12.1%
Balearic I.	6,129	34.4%	1,930	16.9%	31.5%	367,494 €	44.5%	8.4%
Canary islands	8,057	28.6%	1,369	8.6%	17.0%	123,465 €	12.0%	1.7%
Murcia	4,281	19.1%	1,268	9.2%	29.6%	70,080 €	17.2%	1.1%
Castile-La Mancha	1,140	4.3%	767	4.6%	67.3%	96,544 €	14.7%	0.1%
Basque Country	763	3.2%	683	2.9%	89.5%	145,074 €	14.6%	5.5%
Aragon	1,070	6.4%	656	5.5%	61.3%	90,448 €	24.7%	0.8%
Castile and Leon	675	2.4%	402	2.2%	59.5%	83,084 €	14.9%	0.4%
Navarre	448	6.6%	307	5.8%	68.5%	111,829 €	22.6%	0.0%
La Rioja	343	6.9%	220	6.8%	64.1%	72,651 €	15.7%	0.3%
Asturias	406	3.6%	203	2.5%	50.0%	99,472 €	17.0%	1.3%
Cantabria	277	3.2%	200	3.6%	72.3%	112,352 €	15.9%	2.6%
Galicia	256	1.2%	147	0.9%	57.4%	120,049 €	0.3%	0.8%
Extremadura	127	1.2%	79	1.0%	62.1%	85,559 €	71.4%	0.0%
SPAIN	**88,876**	**13.8%**	**30,491**	**6.6%**	**34.3%**	**170,965 €**	**27.4%**	**4.3%**

Note: (*) Percentage of purchases for values in excess of 500,000 Euros by non-EU residents out of the total purchases by foreigners.
Source: CaixaBank Research, based on data from the College of Registrars, the Ministry of Transport, Mobility and Urban Agenda and the National Statistics Institute.

How will house prices in tourist areas evolve? An analysis using internal CaixaBank data

As we noted at the beginning of this article, house purchases by foreigners in Spain have been highly resilient to the rise in interest rates. In fact, the data for Q1 2023 continue to show a significant increase (8.1% year-on-year) compared to the decline in purchases by Spaniards (–3.5% year-on-year).

> **The resilience of foreign purchases to rising interest rates will support the trends in house prices in tourist destinations**

One key factor explaining this resilience is that **foreign buyers are less dependent on external financing**. In fact, many of them (especially non-residents) tend to finance such purchases with their own funds, as an investment.[12] In this respect, in tourist areas dominated by non-resident foreigners, who tend to buy more expensive properties, demand is expected to be stronger and, consequently, house prices are expected to be more resilient in spite of the current context of a generalised slowdown due to interest rate hikes.

12 It is also possible that a proportion of these buyers who do not take out a mortgage in Spain do so in their country of origin, but no such data are available.

Real Estate

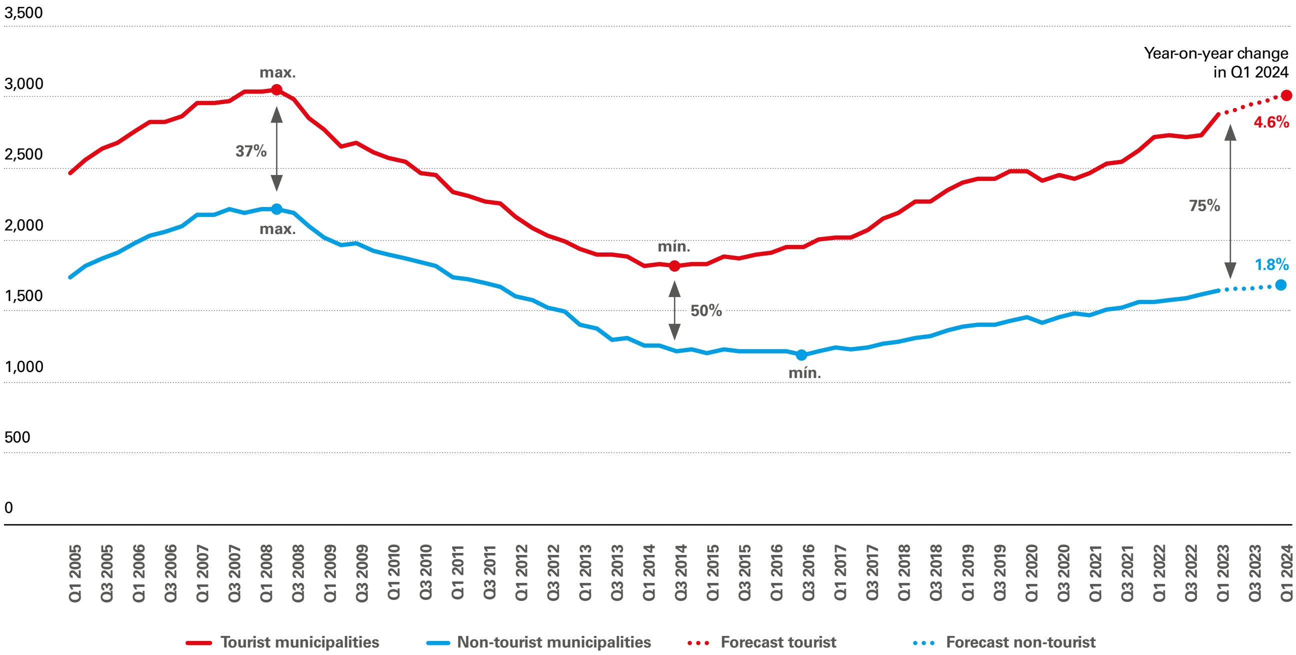
The following chart shows the trend in house prices in municipalities classified as tourist and non-tourist based on the percentage of CaixaBank POS spending using foreign cards.[13] It can be seen that **the average house price in tourist municipalities is higher than in non-tourist municipalities**, a gap that has been widening, reaching the current figure of 75%. Indeed, the most recent data, corresponding to Q1 2023, show that the rate of growth in house prices is higher in tourist municipalities (5.7% year-on-year) than in the rest (4.9%). Looking ahead to the coming quarters, forecasts regarding the trend in house prices at a municipal level[14] point to the growth rate moderating in both tourist and non-tourist municipalities, largely as a result of higher interest rates. However, this moderation is expected to be less in tourist municipalities, which will continue to enjoy strong growth (4.6% year-on-year in Q1 2024), enabling them to reach an average house price similar to the previous peak recorded in mid-2008. On the other hand, in non-tourist municipalities the slowdown will be more pronounced: from year-on-year growth of 4.9% in Q1 2023, a much more subdued 1.8% growth is expected in Q1 2024. The average house price in these municipalities will therefore still be 26% below the peak reached in 2008.

13 We have classified municipalities as tourist and non-tourist according to whether spending using foreign cards via CaixaBank POS terminals was higher (or lower) than 10% of the total in 2019.

14 Obtained from the machine learning models of CaixaBank's real estate big data tool.

House prices in tourist municipalities are close to their previous peak

Euros per m²



Notes: A municipality is considered to be tourist (or non-tourist) when the share of payments via CaixaBank POS terminals using foreign cards was higher (or lower) than 10% of the total in 2019. The chart shows the average house price weighted by the number of inhabitants in each municipality. The percentages indicate the average price differential between tourist municipalities and the rest.
Source: CaixaBank Research, based on internal models and data from the Ministry of Transport, Mobility and Urban Agenda.

The rental market

Renting a home in Spain: on rising rental prices and the need to increase the supply of affordable rented accommodation

The rental housing market has attracted a lot of attention in recent years. Its sharp price rises, much bigger than the increase in wage income, has highlighted the economic vulnerability of households living in rented accommodation. These households tend to have a lower-than-average income level and a high percentage of them spend more than 40% of their income on housing-related payments. To redress this worrying situation, much-needed economic policy measures have been taken to increase the supply of affordable housing. However, other types of policies have also been proposed, such as rent caps in stressed market areas, although their effectiveness is limited judging by experiences in other countries.

Recent trends in the rental market: how much have Spain's rental prices increased?

After a few years of decline, **in 2015 the price of rental housing in Spain began to grow, coinciding with the start of a recovery in the economy and in the real estate sector.** However, the extent of the increase since then depends very much on the indicator employed, as can be seen in the following chart. In the high band, of note are the sharp rises recorded by the supply prices on real estate portals (Fotocasa and Idealista), growing by more than 60% between 2014 and mid-2023,[15] which contrast with the rental prices recently published by the National Statistics Institute (INE) and the Ministry of Transport, Mobility and Urban Agenda (MITMA).[16]

The price of rental housing in Spain began to grow in 2015 and, despite a hiatus during the pandemic, the increases accumulated since then are considerable

15 The supply prices on real estate portals are very useful in order to diagnose the state of the market and determine the trends in prices affecting potential tenants looking for rented accommodation, but these prices are not representative of all households living in rented accommodation.

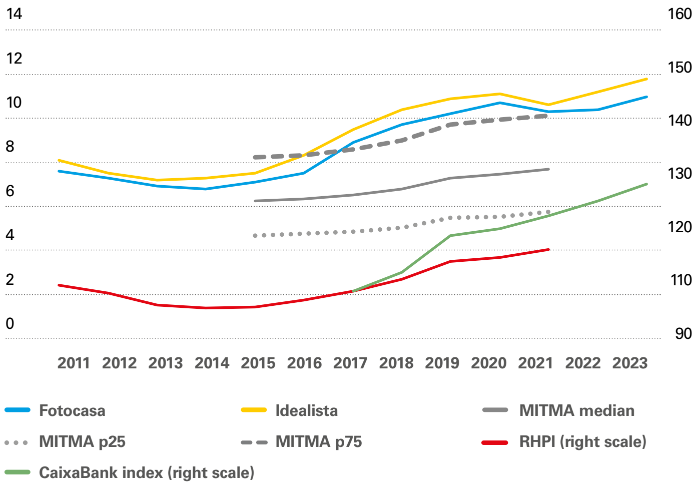
16 Official rent indicators (the INE's RHPI and MITMA's rental price benchmark index) are only available up to 2021. These indicators are based on tax-related data on main residences that are rented, so the data are linked to personal income tax returns and therefore annual and published with a considerable time lag. At least part of the difference between the real estate portal indices and the official indicators can be explained by the fact that the latter take into account revisions to existing lease contracts whilst the portals focus on rises in new lease contracts.

Real Estate

According to the rental housing price index (RHPI), an experimental statistic published by the INE, the cumulative growth in rental prices between 2014 and 2021 was 13.0%. The largest rise occurred in 2019 (3.5%). In 2020, with the outbreak of the COVID-19 pandemic, rental prices were largely contained, caused by owners of properties transforming tourist apartments into traditional rented accommodation and also by the mandatory six-month extension of leases about to expire, maintaining the existing conditions,[17] given the context of high uncertainty and the restrictions imposed on travel. Once the economy reopened, rental prices started to rise again in 2021 (1.6%). For its part, MITMA's rental price benchmark index posted increases of around 23% between 2015 and 2021 in the three available indicators (median, 25th percentile and 75th percentile).

(17) See Royal Decree-Law 11/2020, of 31 March, adopting urgent measures to tackle COVID-19.

The average rental price in Spain has increased substantially since 2015



Rental price indicators	Period	Change rental price	Change GDHI*	Change wages*
Fotocasa	2014-2023	61.5%	21.3%	13.0%
Idealista	2014-2023	61.6%	21.3%	13.0%
MITMA median	2015-2021	22.7%	12.1%	6.3%
MITMA p25	2015-2021	23.0%	12.1%	6.3%
MITMA p75	2015-2021	23.4%	12.1%	6.3%
RHPI INE	2014-2021	13.0%	16.3%	7.5%
CaixaBank index	2017-2023	22.7%	11.1%	11.9%

Notes: (*) GDHI is the gross disposable household income. Wage costs come from the INE's quarterly labour cost survey. The MITMA indicator is derived from the statewide housing rental price benchmarking system and the median, 25th percentile and 75th percentile of the rental price are provided. The national total is calculated as a weighted average of the price per m2 of multi-family housing in each autonomous region, using the number of multi-family housing units in each autonomous region as weighting. RHPI refers to the Rental Housing Price Index, an experimental statistic published by Spain's National Statistics Institute (INE). 2023 data from Idealista and Fotocasa up to June.
Source: CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda, the National Statistics Institute and real estate portals.

Official indicators, however, are only available up to 2021. Very useful in this regard is the **rental price indicator produced by CaixaBank Research**, which provides data with only a few days of lag after the close of each month and is calculated based on internal data on receipts paid for rent, duly anonymised and processed in aggregated form using big data techniques. According to this indicator, rental prices rose by 22.7% between 2017 and mid-2023.

> **The sharp increase in rental prices in relation to the trend in household income has raised concerns about the economic vulnerability of households living in rented accommodation, especially among lower-income households**

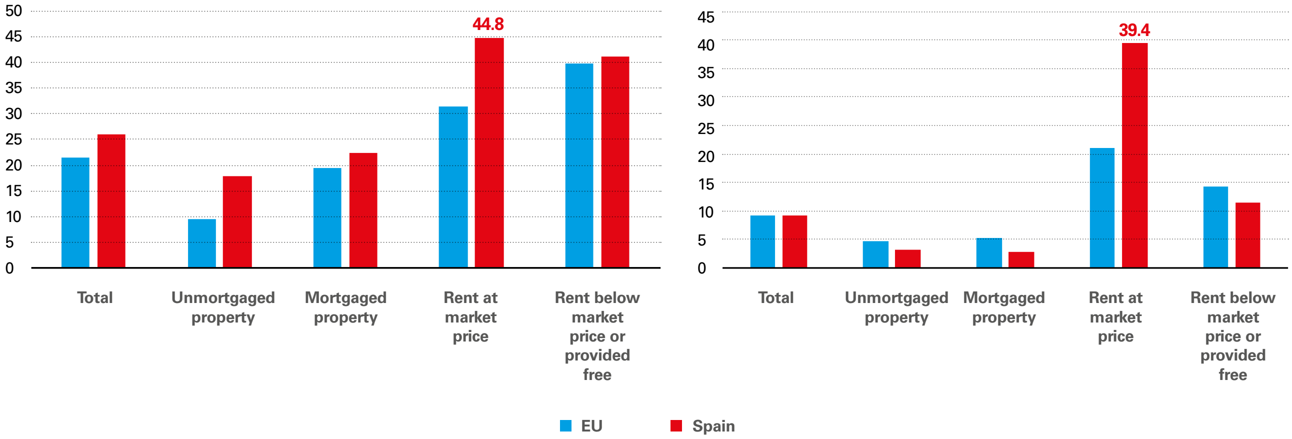
Despite the differences between indicators, what is most relevant is that they all agree there has been a significant increase in rental prices since 2015. In addition, **this growth has outstripped the increase in household income** over the same period, creating some tension in the rental market in those areas most in demand and hitting lower-income households the hardest. In general, households living in market-rate rentals tend to have a relatively modest level of income: according to the 2022 Living Conditions Survey, households living in market-rate rentals had an average net income of €21,271 per year, 28.4% lower than the net income of households that own their main residence (€29,704). In addition, **44.8% of Spaniards residing in market-rate rental housing were at risk of poverty or marginalisation** (the highest percentage in the EU) and 39.4% of them spent more than 40% of their disposable income on housing-related payments (compared to 21.0% in the EU).

> **Nearly 45% of Spaniards living in market-rate rental housing are at risk of poverty or marginalisation**

Spanish households living in rented accommodation face greater economic difficulties

% of people at risk of poverty or marginalisation

% of households that spend more than 40% of their income on housing-related payments



Note: Data from 2022.
Source: CaixaBank Research, based on data from Eurostat.

Trend in rental prices by autonomous region: different rates, same challenges

A similar pattern can be observed across autonomous regions: rental prices posted significant increases between 2015 and 2021 (the latest data available from official sources) and this growth was greater than the wage increase in almost all regions. Only Asturias and Galicia had rent and wage increases that were more aligned. However, if we extend the period to 2023 using the CaixaBank rent index, even in these regions the increase in rental prices far outstrips the average wage increase.[18]

(18) For a detailed analysis of the trend in rental prices by region and municipality according to different sources (including information on the deposits of different autonomous regions), see: «Observatorio de vivienda y suelo. Boletín especial Alquiler residencial 2022», published by the MITMA.

Rental price increases outstrip wage increases in all autonomous regions

Change between 2015 and 2021 (%) | Change between 2017 and 2023 (%)

	Rental price indicators						
Autonomous Region	RHPI INE	MITMA p25	MITMA median	MITMA p75	Wage cost	CaixaBank rental index*	Wage cost 2017-Q1 2023
Andalusia	13.1	23.3	23.0	24.7	2.9	24.7	8.9
Aragon	11.0	20.9	18.2	19.2	5.9	17.9	8.7
Asturias	8.0	16.9	14.1	14.3	8.4	11.7	2.3
Balearic I.	16.7	32.7	33.8	34.2	2.7	13.6	12.8
Canary islands	13.7	23.8	25.0	27.3	-1.6	24.9	11.9
Cantabria	9.9	17.3	15.8	17.2	7.0	14.0	4.5
Castile and Leon	9.0	18.6	16.5	16.5	6.6	17.5	9.2
Castile-La Mancha	13.3	21.4	19.6	21.5	7.5	20.3	7.6
Catalonia	14.5	23.0	23.2	24.7	7.4	20.2	14.4
Comm. Valencia	15.3	26.5	27.7	29.6	8.8	17.3	11.1
Extremadura	9.6	18.0	14.6	14.7	3.5	-	6.2
Galicia	9.1	17.4	16.3	18.0	10.6	13.6	9.5
Comm. Madrid	12.8	23.6	23.2	22.4	6.8	31.4	16.8
Murcia	12.7	20.0	20.0	21.6	6.9	8.0	7.2
La Rioja	10.8	17.6	18.0	21.6	0.8	-	6.2
NATIONAL TOTAL	**13.1**	**23.0**	**22.7**	**23.4**	**6.3**	**22.7**	**11.9**

Notes: (*)The CaixaBank rental price index is calculated based on direct debited rental bills. Data from Navarre and the Basque Country are not published because the INE and MITMA indicators are constructed using tax information on main residences that are rented. Rental price of multi-family accommodation.
Source: CaixaBank Research, based on internal data and data from the Ministry of Transport, Mobility and Urban Agenda and National Statistics Institute.

Rising demand for rental accommodation in Spain

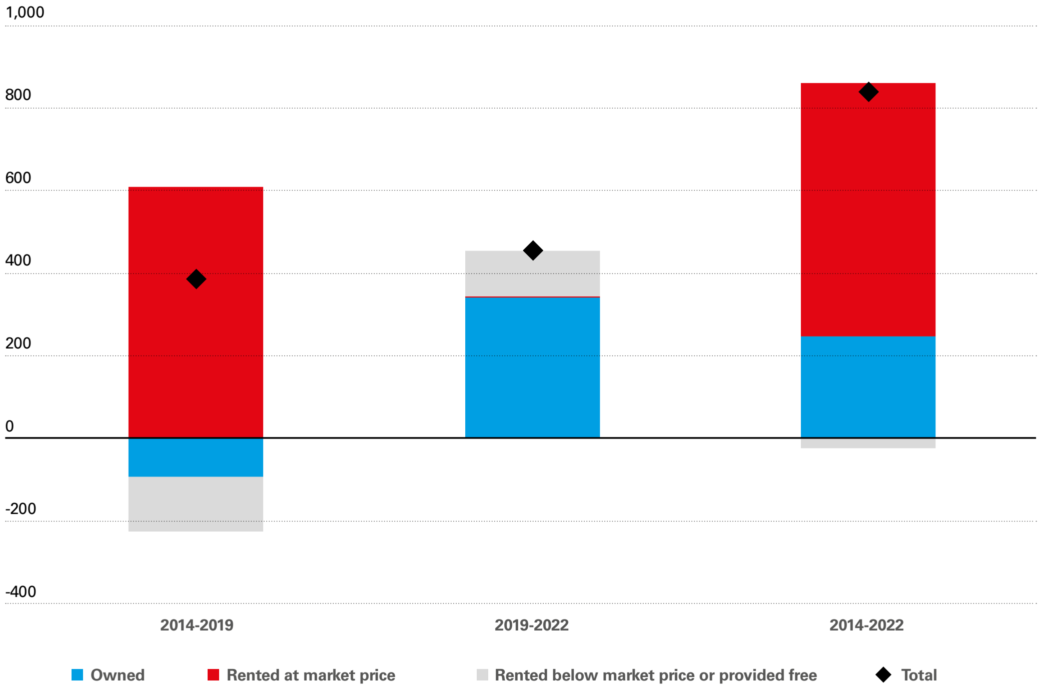
One factor behind the sharp increase in rental prices in recent years is the high demand for rented accommodation. While the number of households living in market-rate rentals had already been growing markedly in recent decades (about 73,000 households per year between 2004 and 2014), between 2015 and 2019 demand picked up strongly (122,000 new households per year on average).[19] In fact, between 2015 and 2019 the increase in the number of households in market-rate rentals (610,000) far exceeded the net creation of households over the same five years (385,000) because of the decline in home ownership (–93,000) and below-market rent or free lets (–132,000). However, this trend was very different between 2019 and 2022: of the 454,000 new households, only about 5,000 were in market-rate rentals while the bulk were concentrated in home ownership (341,000).

(19) **Data from the Living Conditions Survey.**

> **Between 2015 and 2019, the increase in the number of market-rate rental households far outpaced net household creation over the same five-year period**

The number of households renting in Spain grew considerably between 2015 and 2019

Change in the number of households by tenancy/ownership of their main residence (thousands)



Source: CaixaBank Research, based on data from the National Statistics Institute.

As a result of these figures, the percentage of households living in market-rate rentals in Spain increased considerably between 2014 and 2019 (from 12.4% to 15.4%) but, since 2019, this figure has remained fairly stable at around 15% of all households.

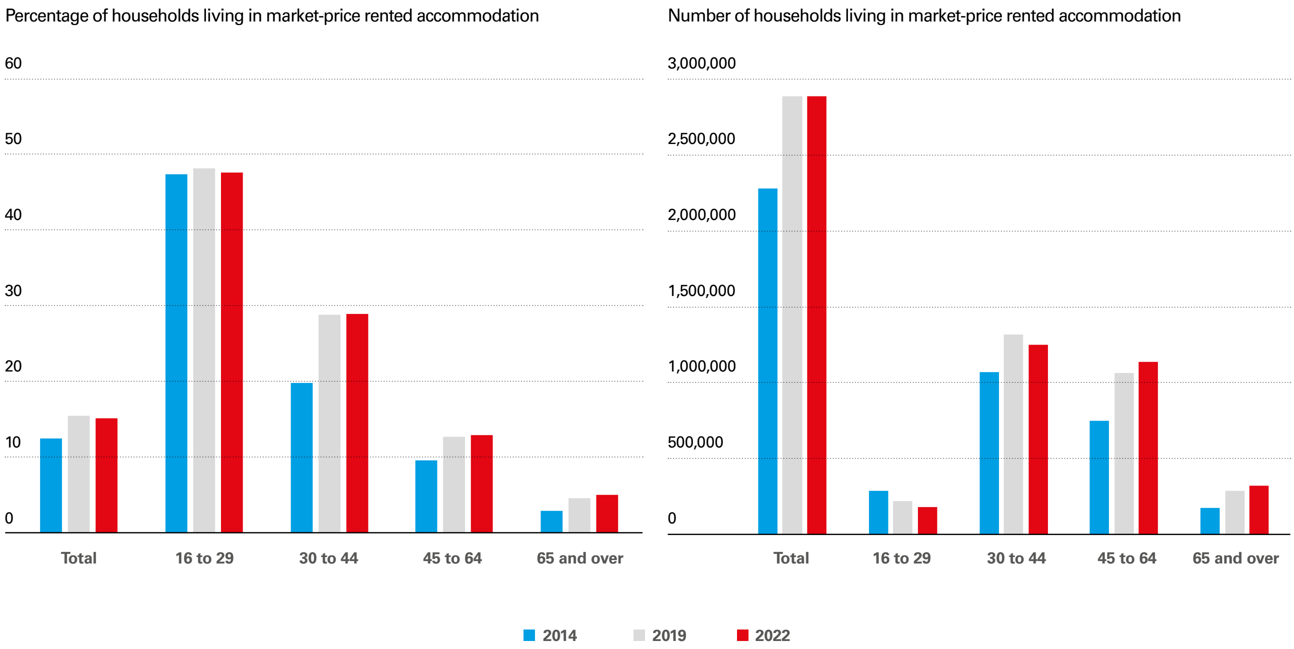
Young households are the biggest renters but growth in rental households has been concentrated in the older age groups

The trend in the percentage of households living in market-rate rented accommodation is similar across all age groups (a rise between 2014 and 2019, stable between 2019 and 2022), with the exception of young households (aged 16 to 29). These households already had a high percentage of renting (47.4% in 2014) that has remained at these levels since then.[20] However, the number of young households renting their accommodation has declined in recent years as a result of demographic developments (cohorts are smaller because of the ageing population and low birth rate) and the later age at which they leave their parents' home.[21] In fact, the growth in households living in rented accommodation has been concentrated among households aged 30 to 44 (158,000 more between 2014 and 2022) and especially among those aged 45 to 65 (368,000).

20 Young people who set up their own home tend to rent their accommodation both because of preference (mobility, for example) and because their employment conditions do not favour home ownership.

21 According to the Spanish Youth Council (CJE), the percentage of young people under 30 who have left their parents' home was 15.9% in 2022, compared to an average rate in the EU of 32.1%, double that of Spain. This rate was 21.5% in Spain in 2015.

Renting has increased among the older age brackets



Source: CaixaBank Research, based on data from the National Statistics Institute.

The Right to Housing Act and its impact on the rental market

The recent trends in the rental market have led to concern among a large part of the population due to their impact on whether young adults are able to set up their own home and the problems of affording housing, especially among low and medium-low income households. In this respect, **one priority of public housing policies should be to promote an increase in the amount of social and affordable rental accommodation in Spain**, since the current stock is very small.[22]

The Right to Housing Act[23] includes some positive measures to achieve this goal, such as making subsidised housing permanent when it is developed on land classified as «reserved» (a minimum declassification period of 30 years is established for all other cases). This measure should help the public stock of housing in Spain to increase year after year, unlike what has happened in recent decades when subsidised housing mostly ended up being sold and was passed on to the free market after just a few years. However, the results of this type of measure will only be seen in the medium and long term. This Act also establishes tax incentives for owners who rent out their properties at affordable prices, a measure that may also help to contain the growth in rental prices. Ideally, all this would be complemented by measures to improve legal certainty for owners of properties, as well as a review of urban planning regulations to increase the availability of land.

22 In Spain, social rented accommodation accounts for 1% of the total while in the OECD this figure is 7%.

23 Act 12/2023, of 24 May 2023.

The Act also provides some measures to impact prices, including **rent caps and the possibility of limiting rental prices in stressed areas.** Broadly speaking, the Act establishes that, for properties located in stressed areas that are owned by small-scale private landlords, the rent established in a new lease may not exceed the rent of the last lease in force within the previous five years. For properties owned by large-scale entities, the rent applied is the lowest out of the previous rent and the regulatory index, in any case this rent only being increased by 2% in 2023, 4% in 2024 and thereafter according to a revaluation index to be developed by the INE.

However, price regulation in other countries has produced very unsatisfactory results. In the short term, in such regulated areas there is usually a moderate decline in rental prices (focusing on rents that were higher) but, in the medium and long term, there tends to be a reduction in the supply of rented accommodation, an increase in rental prices in unregulated areas that are close to regulated areas, a deterioration in the housing (less investment in maintenance and renovation), and less residential mobility.[24]

24 See «Public intervention in the rental housing market: a review of international experience». Occasional Papers, 2020. Bank of Spain.

Stressed residential market areas

The first step to be able to regulate rental prices is to declare a residential area as stressed, a classification which is requested by each autonomous region. These stressed areas, which are designated as such for three years, must meet one of the following conditions: (i) the average burden to purchase or rent housing plus utilities exceeds 30% of the income of an average household, or (ii) the purchase or rental price of housing has recorded cumulative growth of at least 3 percentage points above the cumulative growth rate of the CPI over the previous five years.

Madrid, Barcelona, Álava, Girona and the Balearic Islands are the provinces with the highest percentages of population in stressed areas, according to internal CaixaBank data

Real Estate

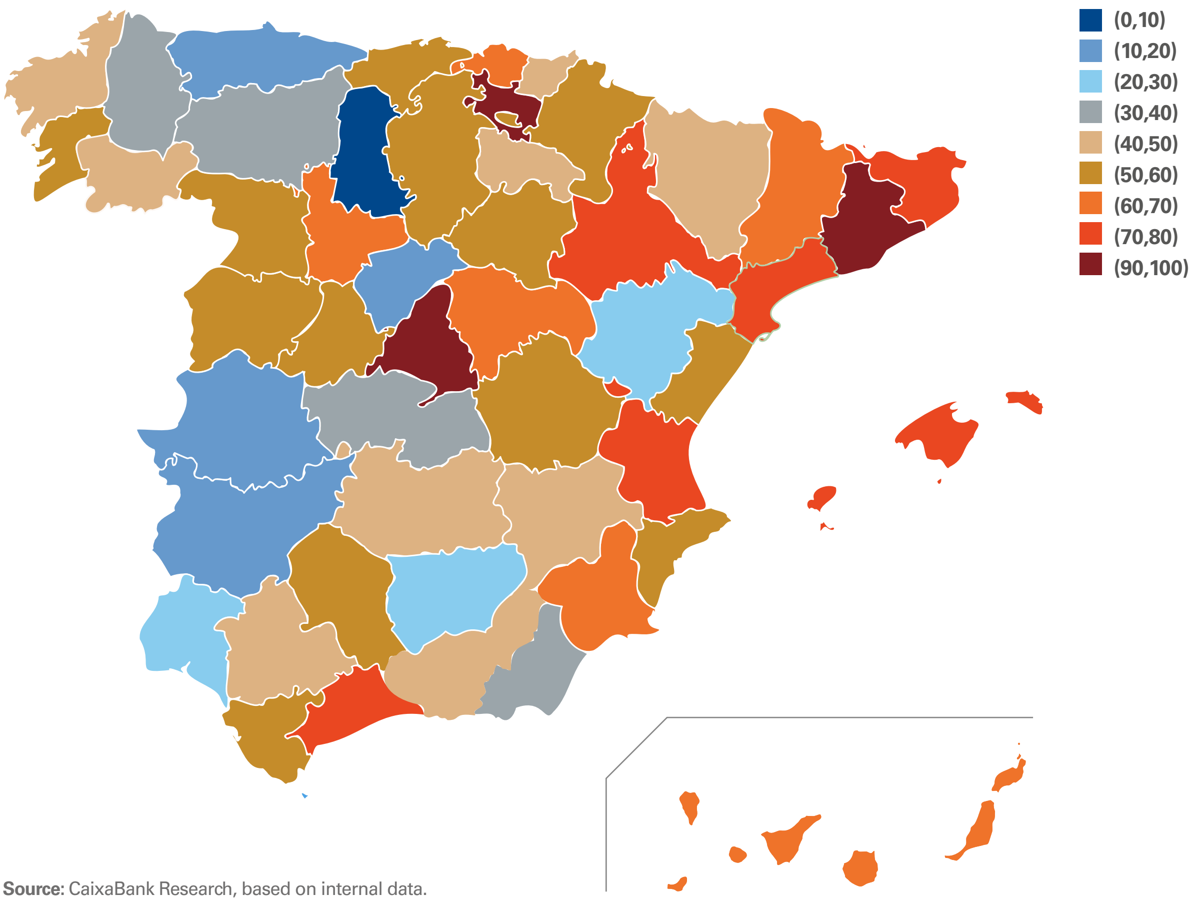
According to calculations made using internal CaixaBank data based on bills for rent and utilities (water, electricity, gas) and on the wage income of households, we have estimated that, for Spain as a whole, only 12.3% of municipalities would have a rent burden of more than 30% but around 60% of households reside in these municipalities. Likewise, the percentage of municipalities with an average rent burden above 30% rises to nearly 50% of municipalities in the province of Barcelona and the Balearic Islands, and close to 40% in Madrid, Girona and Las Palmas de Gran Canaria.

Based on these data, we have constructed the map below which shows, for each province, the percentage of households residing in municipalities where the average rent burden is above 30%. Madrid, Barcelona, Álava, Girona and the Balearic Islands are the provinces with the highest percentages of population living in stressed areas.

Catalonia has been the first region to request the declaration of 140 Catalan municipalities as «stressed areas»[25], in which it intends to apply the rent capping measures provided for in the Spanish Act, which has many points in common with Catalonia's own Act 11/2020 that was in force in the region between September 2022 and April 2022. In any case, the application of this Act is subject to the will of the different regional governments and its longevity depends largely on which government emerges from the general election to be held on 23 July.

25 See the press release by the Department of Territory of the Catalan government on 22 June 2023.

Percentage of households residing in municipalities where the average rent burden is above 30%



Source: CaixaBank Research, based on internal data.

International markets

Real estate markets in advanced economies in the face of monetary policy tightening

The real estate market is one of the main channels through which monetary policy is passed on to the real economy. Tighter financial conditions are feeding through to mortgage interest rates and are cooling down the demand for housing. Given the notable tightening of monetary policy over the past year in many of the advanced economies, in this article we document the change in trend in international real estate markets and analyse the extent of the adjustment that may lie ahead.

Diagnosis: which real estate markets have accumulated the biggest imbalances?

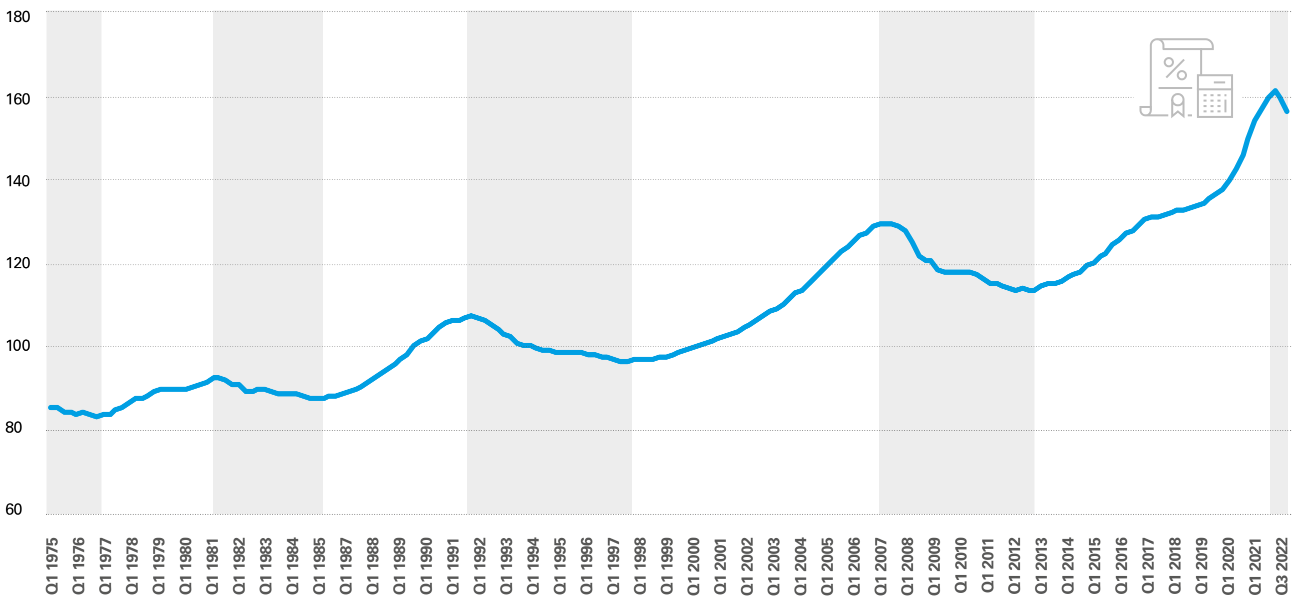
In many developed economies, house prices had been rising substantially for years, a trend that accelerated during the pandemic (due to a change in residential preferences, expansionary fiscal and monetary policies, limited housing supply, etc.). Global house prices went from 2.8% growth in 2019 to 4.3% in 2020 and accelerated to 11.8% in 2021 in nominal terms (1.4%, 3.5% and 8.6% respectively, in real terms).[26] In the chart below, we can see that this upward trend slowed down in 2022, especially in real terms (–0.3% year-on-year in Q4 2022). The recovery in house prices was much greater than the trend for household income, leading to notable overvaluation in some markets. According to the Dallas Fed's Exuberance Indicator, 12 of the 25 countries analysed showed signs of overvaluation in Q3 2021.[27]

26 Global house price indicator constructed from 25 advanced countries. See the International Housing Observatory.

27 The price correction observed since last summer in many economies has already cooled down some of these markets, so that in Q4 2022 only two countries still showed signs of overvaluation (New Zealand and Israel).

Real Estate

Global house prices
Index (100 = Q4 2019)



Note: Aggregate price in real terms of 25 countries with dynamic weighting.
Source: CaixaBank Research, based on the database of the International Housing Observatory, described in Mack and Martínez-García (2011).

The most worrying cases are those in which the recovery in price was accompanied by an increase in household debt (which was already at high levels in some cases). This group includes New Zealand, Canada, Australia and the US. In Europe, the cases of note are the Netherlands, Luxembourg, Sweden, Norway and Denmark, countries in which, moreover, variable-rate mortgages predominate, making newly mortgaged households more vulnerable to rising interest rates. A second group is made up of Portugal, Germany and the UK, countries that have also recorded strong growth in house prices since the outbreak of the pandemic as well as, in the case of Germany and the UK, an increase in household debt.

Indicators for the residential real estate market in several developed economies

	House prices			Household debt		Variable rate	Housing overvalued?
	Change btw. Dec-2019 and peak	Change since peak	Annual change latest figure	% GDI latest figure	Change *vs.* Q4 2019 (pp)	% new mortgages (2019-2022)	Dallas Fed Exuberance Indicator
New Zealand	49.1%	-6.8%	6.2%	116%	-1.9	-	YES
US	42.6%	-4.5%	-0.8%	100%	2.2	5%	YES
Canada	41.2%	-8.9%	-7.7%	177%	-0.3	-	YES
Netherlands	40.4%	-6.1%	-4.4%	193%	-18.5	15%	YES
Luxembourg	37.5%	-4.1%	2.6%	193%	8.0	38%	YES
Portugal	36.7%	-	10.0%	110%	-0.9	69%	-
Sweden	36.2%	-10.5%	-7.8%	188%	4.4	64%	YES
Germany	32.3%	-5.3%	-5.2%	89%	1.9	11%	YES
Ireland	25.8%	-1.5%	3.6%	93%	-23.8	21%	NO
Australia	25.2%	-7.0%	-6.7%	197%	-0.3	-	YES
Norway	25.0%	-	0.1%	247%	3.0	-	MEDIUM
UK	23.0%	-2.5%	-1.0%	139%	2.2	4%	NO
France	19.5%	-	4.8%	117%	3.4	3%	YES
Denmark	18.3%	-7.2%	-6.2%	200%	-35.7	26%	YES
Japan	15.7%	-1.3%	7.0%	206%	18.3	-	MEDIUM
Italy	9.7%	-1.5%	2.1%	66%	0.2	26%	NO
Spain	6.6%	-	3.2%	94%	-3.2	30%	NO

Notes: Debt data for New Zealand, Luxembourg, Norway and Japan are for 2021 and as a percentage of net income. Housing is considered overvalued if the real house price exuberance indicator has been higher than the critical value in at least 1 quarter during the period 2021-2022 (models with 1 and 4 lags). «MEDIUM» indicates that it exceeds only according to 1 of the 2 models considered.
Source: CaixaBank Research, based on data from Eurostat, ECB, Refinitiv, Federal Reserve of Dallas and OECD.

Current situation: change in trend for real estate markets

Housing markets in several advanced economies began to adjust by mid-2022, against a backdrop of rising interest rates and eroding real household disposable income.The markets recording the biggest declines in house prices since their peak (with data up to March-April 2023, depending on the country) are Sweden (–10.5%), Canada (–8.9%), Denmark (–7.2%), Australia (–7.0%), New Zealand (–6.8%), the Netherlands (–6.1%), Germany (–5.3%) and the US (–4.5%).

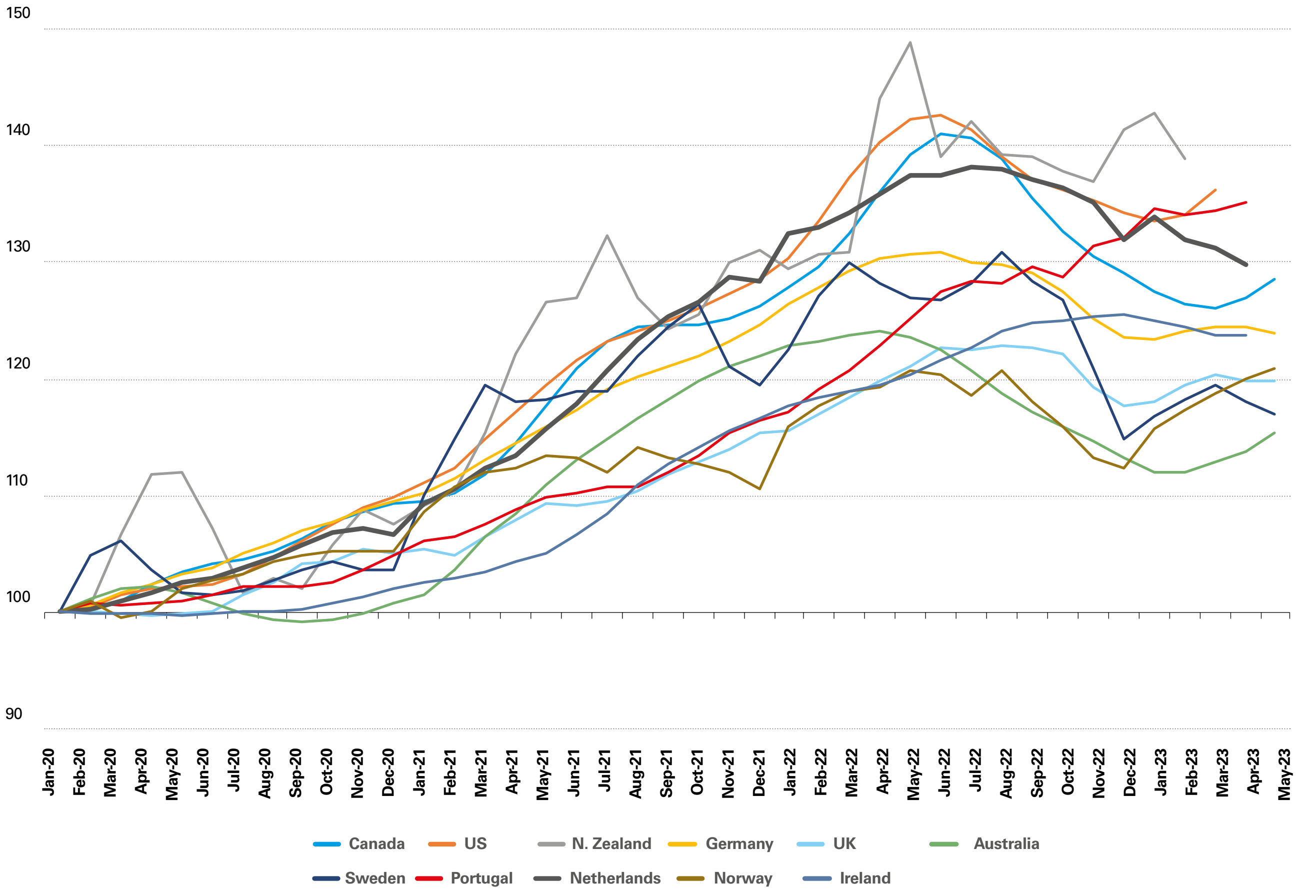
Despite these declines, house prices in all these countries are well above their pre-pandemic level, as can be seen in the chart below. In addition, the most recent data for some countries indicate a certain pause in this price adjustment (especially in Australia, Canada and the US) while, in the case of Norway, a marked upward trend has resumed. House sales, meanwhile, have fallen at double-digit year-over-year rates in several of these markets so far in 2023: Australia (–42%), Sweden (–30%), the US (–23%), the UK (–19%), New Zealand (–15%) and the Netherlands (–11%).[28]

28 **Average year-on-year change for the months of 2023 with available data.**

Real Estate

Nominal house prices

Index (100 = January 2020)



Source: CaixaBank Research, based on data from Refinitiv.

The future prospects for house prices in international markets

Although the most recent data show a pause in the adjustment of house prices in some countries, we believe the downward trend will continue in the coming quarters as the tightening of financial conditions feeds through to the real economy.[29] The speed and intensity of this adjustment in the various real estate markets will depend largely on the imbalances accumulated during the expansionary phase of the cycle. Consequently, corrections should be more extensive in those markets where: (i) house prices have grown more strongly, outstripping household income (overvalued markets); (ii) household debt is high and has been rising in recent years, and (iii) the financing of home purchases has become tougher due to the interest rate hikes by central banks in recent quarters.

To assess the potential house price adjustment that could occur in these markets, we have analysed in-depth the pressure exerted by more limited affordability and rising interest rates. Our calculations point to potential corrections (for the average of the countries analysed) of close to 15%. Let's look at this in more detail.

29 Generally speaking, house prices tend to be relatively resistant to downward adjustment in changes of cycle. However, the sharp declines seen in the number of sales suggest that the adjustment in house prices will continue in the coming quarters.

Gauging the sensitivity of international real estate markets

To determine the force that both factors might exert on these markets, we have carried out two complementary exercises that provide insights into the potential house price adjustment that could occur. First, we calculated the fall in house prices required to bring the housing affordability ratio (house price in relation to household disposable income) back to pre-pandemic levels over the next two years. Second, we produced an econometric model that indicates the sensitivity of house prices to an interest rate shock for each of the countries.

According to the first methodology,[30] and for the 25 countries analysed as a whole, the average adjustment in house prices over the next two years from their peak could be around 13%.[31] However, there are notable differences between countries. The US and New Zealand are the markets where we estimate that house price adjustment would need to be the greatest (close to 20% peak-to-bottom) to regain the affordability ratio of late 2019. In both countries, prices began to fall in the middle of last year but a significant portion of the estimated total adjustment required is still pending. On the other hand, in Italy we estimate that house prices still have room to grow over the next two years as the expected increase in household income alone would already bring the affordability ratio to converge at the Q4 2019 level by the end of 2024. Denmark has already seen considerable house price adjustment (–7.2%), bigger than the estimated figure.

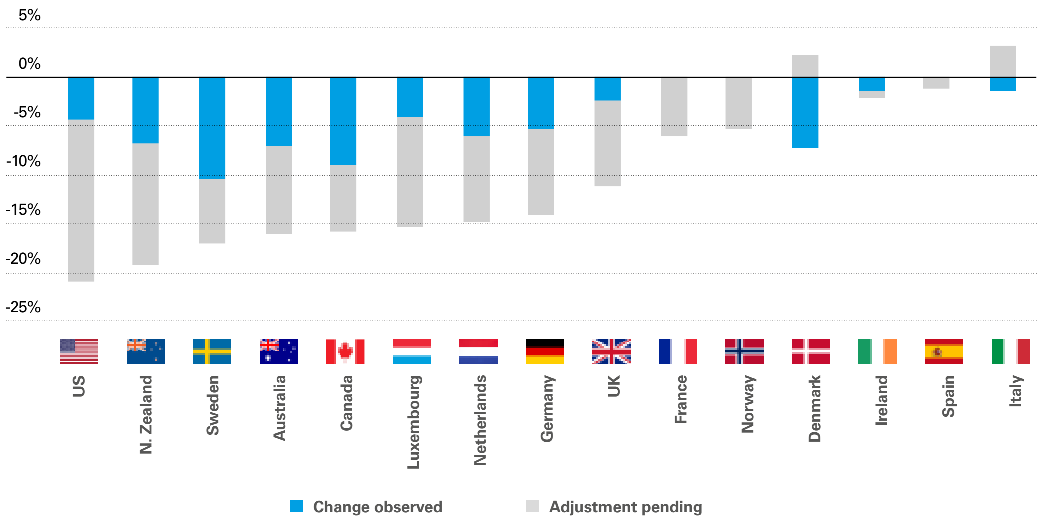
Sweden, Australia and Canada, which were among the markets overheating the most, have carried out about half the adjustment required. In contrast, Luxembourg and the Netherlands, with a similar adjustment potential (around 15%), are only a quarter of the way there.

30 This calculation assumes that household income in 2023-2024 (the denominator of the affordability ratio) grows at the same rate as real GDP and as per IMF forecasts (WEO October 2022). We have also carried out alternative calculations using GDP per capita and nominal GDP forecasts. The results are qualitatively similar. In other words, the adjustment required in order to regain the Q4 2019 affordability ratio is achieved, in part, thanks to an improvement in the denominator (income).

31 We have assumed a period of eight quarters for this adjustment to take place since this is the time it usually takes for the impact of tighter monetary policy to peak after central banks raise interest rates.

Potential adjustment in house prices

% drop with regard to peak

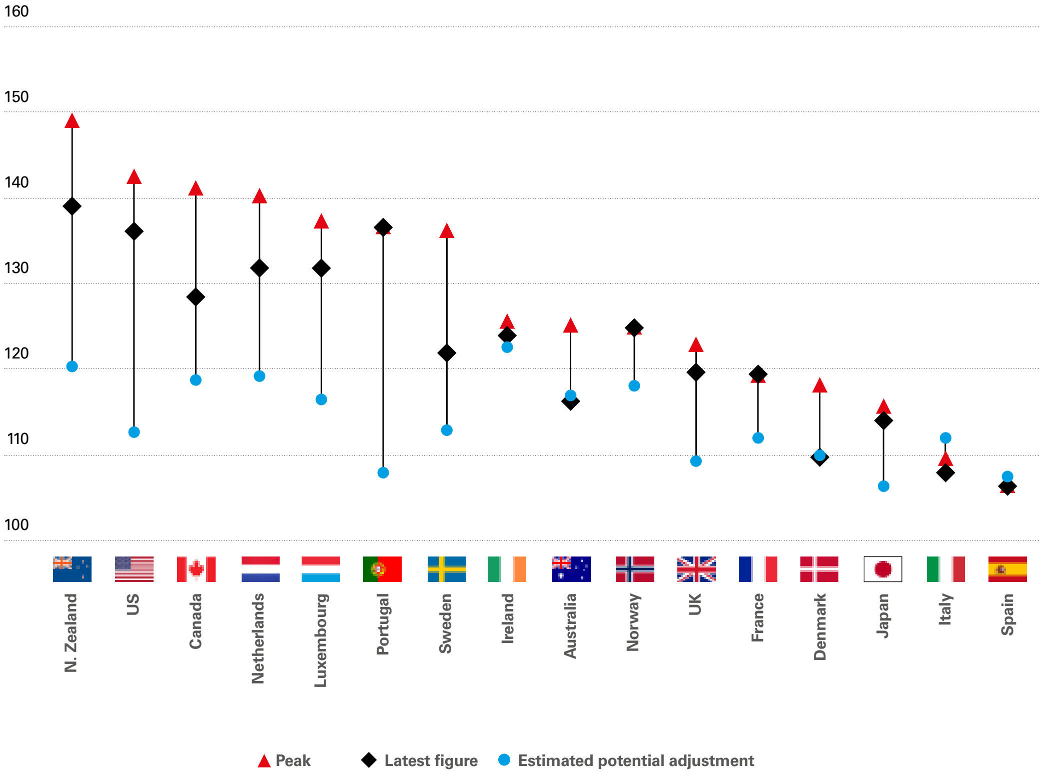


Source: CaixaBank Research, based on the database of the International Housing Observatory, described in Mack and Martínez-García (2011) and data from Refinitiv.

Real Estate

Although the potential adjustments estimated are large, it is also important to note that house prices would still be above their December 2019 level in all countries by the end of 2024. In other words, this is only a partial correction after the strong upturns recorded during the pandemic (see the chart below).

Trends in house prices from 2019 and estimated potential adjustment
Index (100 = December 2019)



Source: CaixaBank Research, based on the database of the International Housing Observatory, described in Mack and Martínez-García (2011) and data from Refinitiv.

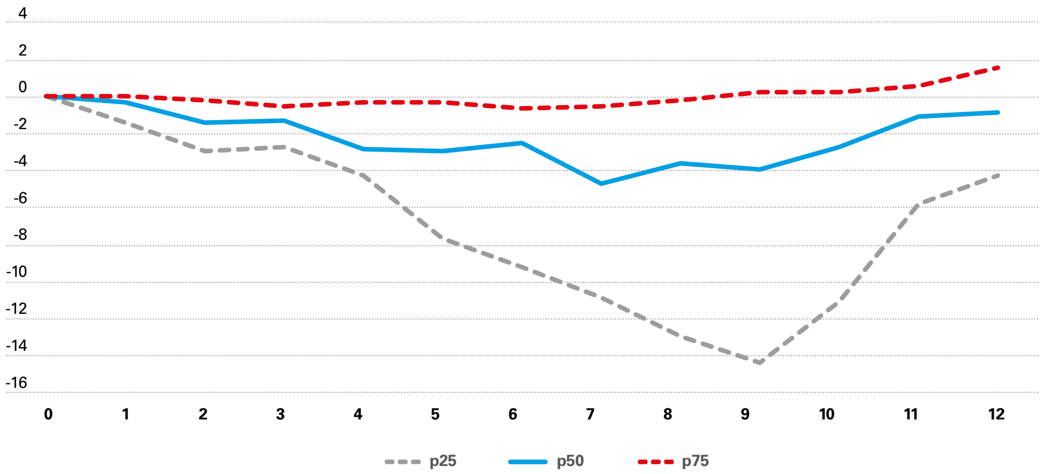
The second methodology[32] indicates that **the monetary tightening observed in recent quarters entails, on average, a potential price adjustment of close to 5%.**[33] Our analysis suggests that it takes about eight quarters for interest rate hikes to be fully passed on to house prices, pointing to a gradual cooling down of real estate markets that could continue into the second half of 2023 and 2024. Furthermore, this exercise enables us to separate the final impact of monetary tightening between two forces: on the one hand, the sensitivity of each economy to a given interest rate hike; and, on the other hand, the rise in interest rates actually observed in recent quarters. Similar to the first exercise, in some economies we estimate a potential impact of close to 15% while in others we predict hardly any impact at all.

32 We have reproduced and extended, to the rest of the countries, the Euro area model provided by Battistini et al. (2022), «The impact of rising mortgage rates on the euro area housing market», ECB, Economic Bulletin 6/2022. Specifically, we have estimated an autoregressive vector between house prices, residential investment and the mortgage interest rate, adding control variables (real GDP, CPI, short-term interbank interest rates and real estate credit), for the period 2003-2022. The impulse-response functions have been calculated using the local projection method.

33 We analysed a group of Anglo-Saxon countries (US, UK, Canada and Australia), a group of European countries (Euro area aggregate, Germany, France, Italy, Spain, Netherlands and Ireland) and a group of Scandinavian countries (Norway, Denmark and Finland).

Impact of the interest rate hikes observed in 2022 on real estate prices

Deviation (%)

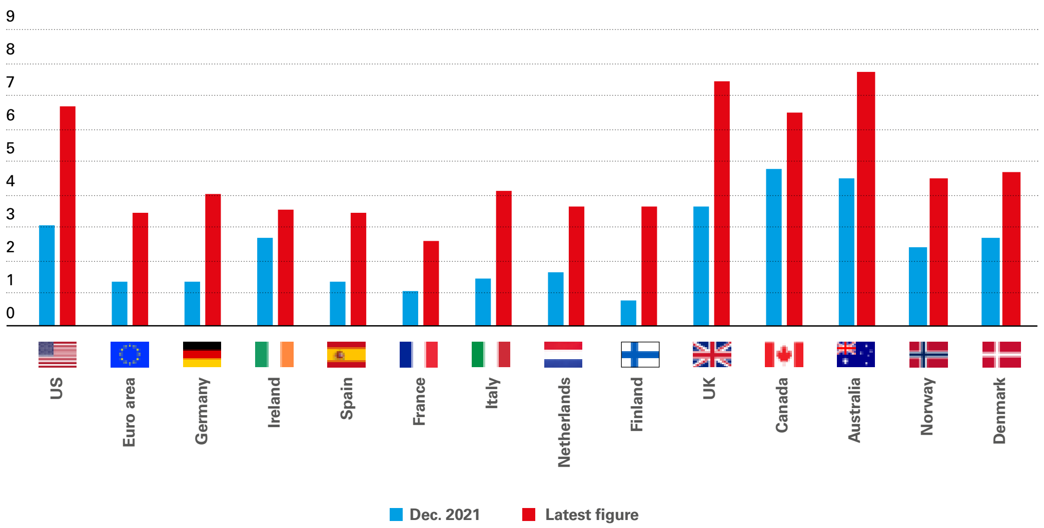


Notes: Deviation from the price level that would have prevailed in the absence of interest rate hikes. P25, p50 and p75 refer to the 25th, 50th and 75th percentiles of the median response of prices in a sample consisting of the US, Euro area aggregate, Germany, France, Italy, Spain, Netherlands, Ireland, Finland, Norway, Denmark, UK, Canada and Australia.
Source: CaixaBank Research.

For example, in the US, the estimated sensitivity of real estate prices to interest rates is not among the highest in the sample but monetary tightening has been extensive, resulting in a relatively high potential adjustment (almost 20%). The picture for the Euro area as a whole is similar, although slightly more moderate due to lower interest rate tensions (potential slightly below 15%). However, the estimated impact among the four large European economies (Germany, France, Italy and Spain) is clearly lower (between –2% and –10%). In the sample as a whole, the markets most affected by this exercise are the Anglo-Saxon markets, with Canada, Australia and the aforementioned case of the US, as well as the Netherlands in Europe.

Mortgage interest rates

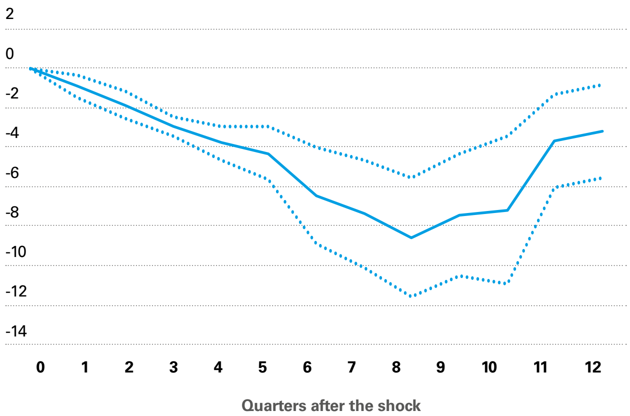
(%)



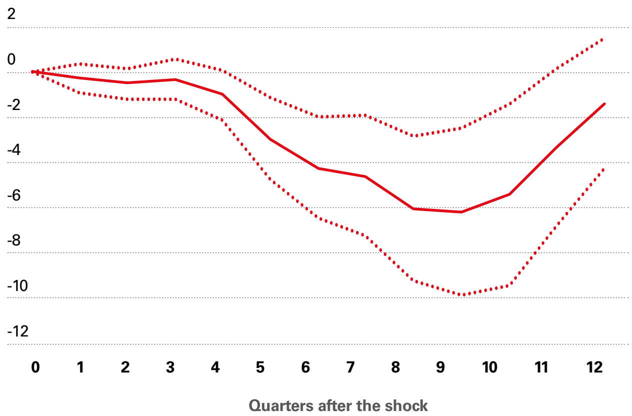
Note: CaixaBank Research, based on data from the Fed, ECB, BOE, Bank of Canada, RBA, Norges Bank and Danmarks Nationalbank.

Real Estate

Euro area: impact on real estate prices of a 1-bp rise in interest rates
Deviation (%)



US: impact on real estate prices of a 1-bp rise in interest rates
Deviation (%)



Note: Deviation from the price level that would have prevailed in the absence of interest rate hikes.
Source: CaixaBank Research.

Is it different this time round?

Looking beyond the figures, there are two important caveats to be made here. First, the estimated adjustment is not abrupt but rather occurs over a two-year time period. Secondly, there are considerable differences between countries, with greater adjustment potential in the Anglo-Saxon economies (in particular, the US, Australia and Canada) and some heterogeneity in Europe. In this respect, it should be pointed out that Spain's real estate market is in a good position, both in relative and absolute terms. It should also be noted that the calculations carried out gauge the potential drop in house prices in those countries where imbalances are most pronounced, but these are illustrative exercises which do not take all relevant factors into account and are therefore more a measure of risk than a forecast *per se*.

In fact, there are several factors that could support real estate markets. One notable factor is the good performance of the labour market, which is widespread among the economies analysed, as this boosts household income, helping to mitigate affordability problems and limiting the number of forced sales. In addition, households have healthier balance sheets and banks have ample capital buffers to absorb potential losses without triggering feedback mechanisms that push down prices. However, tougher housing affordability ratios and the tightening of monetary policy highlight the great challenges posed by the current economic environment.

Indicators and forecasts

Annual change (%), unless otherwise specified

	Average 2000-2007	Average 2008-2014	Average 2015-2021	2022	Forecast 2023[1]	Forecast 2024[1]	Trend
Economic activity indicators							
Total GDP	3.4	-1.2	0.6	5.5	2.0	1.8	
GVA construction	3.1	-9.8	-0.8	4.1	2.5	2.0	
Investment in construction	5.4	-9.4	1.6	4.7	0.7	1.7	
Residential investment	5.4	-8.5	3.6	3.1	-0.5	2.0	
Investment in rest of construction	3.1	-9.8	-0.8	4.1	2.1	1.4	
New building permits (thousands)	642	94	85	109	90	105	
New building permits	2.8	-28.7	13.9	0.6	-17.4	16.7	
Certificates of final completion (thousands)	482	230	66	89	105	100	
Certificates of final completion	8.3	-34.9	12.5	-2.5	17.8	-4.8	
Confidence in the construction sector (level)[5]	13.1	-41.7	-17.7	8.9	7.1	-	
Labour market							
Total workers registered with Social Security	3.5	-2.4	2.1	3.9	2.7	1.9	
Registered workers in construction	6.1	-13.5	3.9	3.5	4.6	2.0	
Construction of buildings	-	-14.4	5.2	4.3	4.4	1.9	
Civil engineering	-	-16.4	1.0	4.9	7.2	1.7	
Specialised construction	-	-8.9	3.3	2.9	3.3	1.7	
Registered workers in real estate activities	10.3	2.1	4.3	5.5	3.7	3.2	
Total employees (LFS)	4.1	-2.7	1.7	3.1	1.6	1.3	
Employees in construction (LFS)	6.7	-14.0	3.1	2.3	2.0	1.4	
Temporary employment rate in construction (%)[5]	57.6	39.6	41.4	36.7	18.6	-	
Unemployment rate in construction (%)[5]	7.5	22.8	12.4	11.0	9.3	-	
Demand for housing							
Sales[2] (thousands)	886	388	463	650	500	510	
Sales[2]	-0.1	-8.7	8.1	14.7	-23.0	2.0	
New housing[2,5]	12.1	-13.4	6.8	2.4	-4.0	-	
Second-hand housing[2,5]	-7.8	-5.0	8.4	17.7	-3.3	-	
Foreign sales[3]	-	11.3	4.8	30.7	-9.7	5.7	
Second home sales[4]	-	-8.5	8.1	6.5	-20.4	5.4	
Prices							
House prices (MITMA)	12.9	-5.7	2.0	5.0	2.9	1.1	
House prices (INE)	-	-6.8	4.7	7.4	2.1	1.1	
New housing[5]	-	-5.7	6.2	7.9	6.0	-	
Second-hand housing[5]	-	-7.7	4.5	7.3	3.0	-	
Land prices	17.5	-8.7	-0.2	4.8	0.0	1.5	
CPI rent[5]	4.3	0.8	0.8	1.3	2.0	-	
Affordability ratios							
House prices (% gross disposable income)	6.7	7.9	7.2	7.8	7.7	7.5	
Theoretical burden (% gross disposable income)	37.8	38.7	31.3	33.1	38.6	36.8	
Return on rent (%)[5]	4.5	3.5	4.0	3.6	3.4	-	
Financing[5]							
Number of mortgages	5.8	-20.9	9.2	11.0	-8.4	-	
Outstanding balance of credit to purchase housing	14.1	-1.6	-1.7	0.8	-1.4	-	
New loans, housing	17.7	-24.9	13.9	9.8	-22.7	-	
Outstanding balance of credit for property development and construction	23.6	-12.8	-8.9	-6.7	-4.1	-	
NPL ratio of credit for housing (%)	0.5	3.5	4.2	2.7	2.4	-	
NPL ratio of credit for property development and construction (%)	0.5	20.2	16.1	4.8	4.2	-	

Notes: 1. Forecasts at 30 June 2023. 2. The 2000-2007 average for house sales corresponds to the period 2004-2007 and the data come from the Ministry of Transport, Mobility and Urban Agenda (MITMA). The sales figures from the National Statistics Institute (INE) are as from 2007. 3. Foreign sales according to MITMA. 4. Sales of second homes are estimated based on the sales carried out in a different province than the buyer's residence. 5. The data in the column «Forecast 2023» correspond to cumulative data up to the latest data available for 2023.

Source: CaixaBank Research, based on data from the National Statistics Institute (INE), Ministry of Transport, Mobility and Urban Agenda (MITMA), Ministry of Employment and Social Security and the Bank of Spain.

CaixaBank Research

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