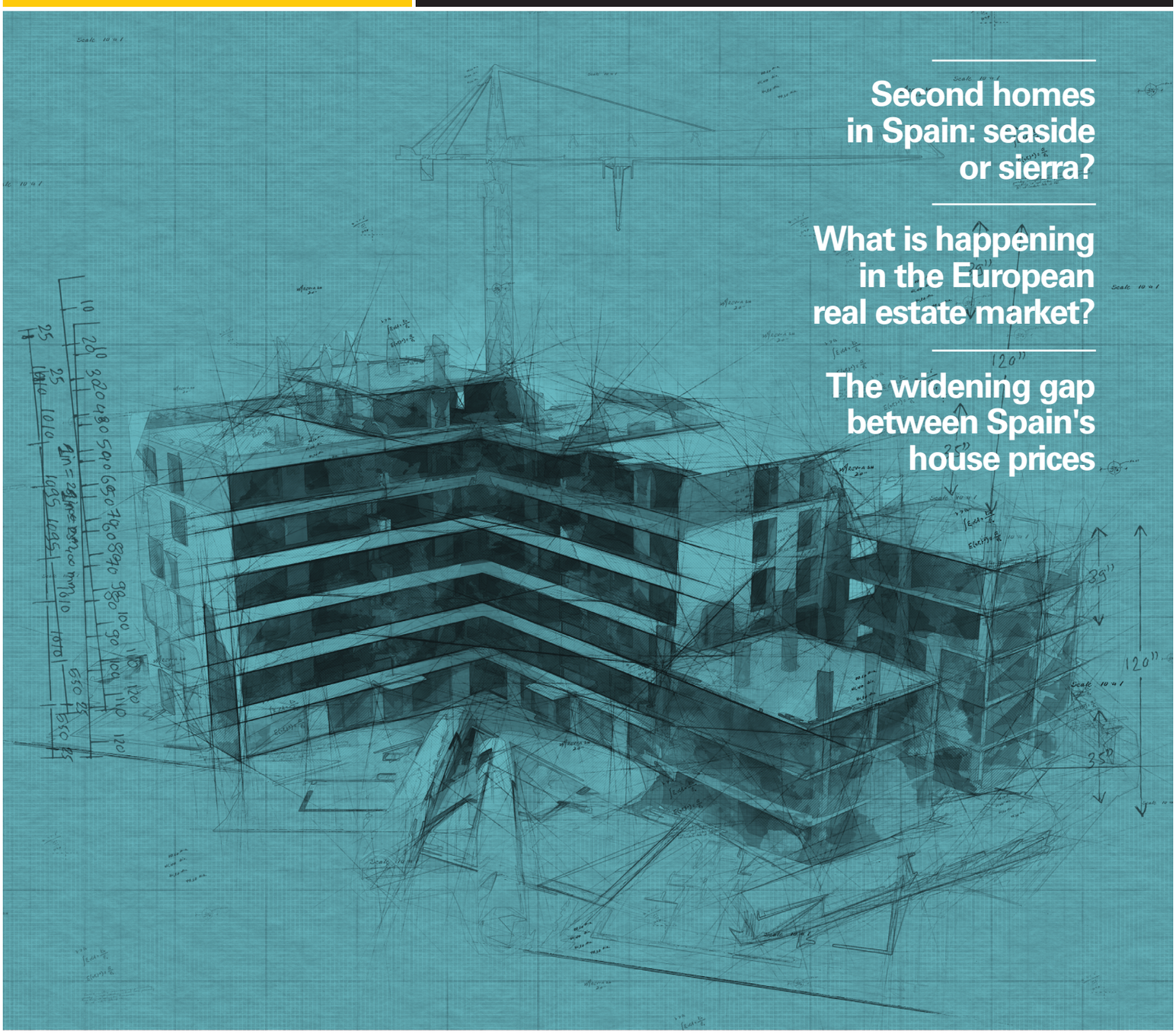
# Real Estate

## Sector Report

1st Semester 2020

## A controlled slowdown



Second homes in Spain: seaside or sierra?

What is happening in the European real estate market?

The widening gap between Spain's house prices

CaixaBank Research

IS Inmobiliario 2020 ENG.indd 1 7/1/20 17:16

## SECTOR REPORT
## Real Estate 2020

The *Sector Report* is a publication produced by CaixaBank Research

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IS Inmobiliario 2020 ENG.indd 2 7/1/20 17:16

# Summary 2020

**01** **A CONTROLLED SLOWDOWN**
The sector has seen a slowdown in 2019 as the economic outlook has deteriorated. In 2020 the trend will still be positive although the rate of growth will ease.

**07** **SECOND HOMES IN SPAIN**
Second homes account for 14.6% of Spain's housing, this figure exceeding 30%, in some provinces. Using big data to analyse their distribution can help to identify the more complex dynamics of this situation.

**17** **EUROPE'S REAL ESTATE MARKET**
Since 2016, house prices in the EU have risen by 4.6% year-on-year on average, outstripping the growth in wages and GDP. We examine the factors behind this trend.

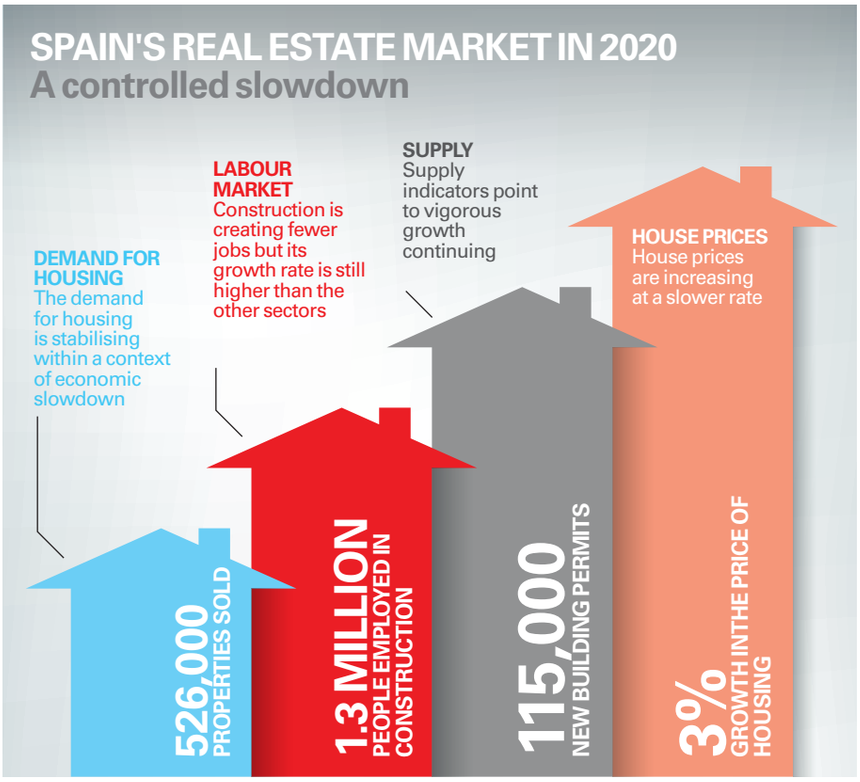
**25** **THE WIDENING GAP BETWEEN HOUSE PRICES**
House prices have risen sharply in large cities and tourist destinations whereas the recovery has been slower in less urban areas, amplifying regional differences in terms of price and affordability..


**«Housing is not just real estate, it is also a form of spiritual consolidation».**

**MARIO BENEDETTI**

# Real Estate

## SPAIN'S REAL ESTATE MARKET IN 2020
### A controlled slowdown




## Second homes in Spain: seaside or sierra?

Owning a second home is a prevalent practice in Spain. Where are these located? What kind of household owns them?

**14.3%**

Share of second homes out of Spain's total housing

**8.9%**

Alicante is the province with the most second homes

**47.6**

Average age at which a second home is bought

**33%**

Madrid and Barcelona residents account for 33% of second home ownership

## What is happening in the European real estate market?

House prices have grown in tandem in European countries, particularly in cities.

## THE WIDENING GAP BETWEEN SPAIN'S HOUSE PRICES

House prices are recovering at different rates in different regions

**LEADERS**
Madrid, Barcelona, Balearic Islands, Las Palmas, Santa Cruz de Tenerife and Malaga.

**ADVANCED**
Cadiz, Granada, Seville, Zaragoza, Valladolid, Guadalajara, Girona, Tarragona, Alicante, Valencia, Caceres, La Coruña and Navarre.

**FOLLOWERS**
Almeria, Cordoba, Huelva, Huesca, Asturias, Cantabria, Burgos, Palencia, Salamanca, Albacete, Toledo, Lleida, Castellón, Badajoz, Lugo, Orense, Pontevedra, Murcia, Álava, Guipúzcoa and La Rioja.

**TAKING OFF**
Jaen, Teruel, Ávila, Leon, Segovia, Soria, Zamora, Ciudad Real, Cuenca and Vizcaya.

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Situation and outlook

# A controlled slowdown

Spain's real estate sector has been slowing down throughout 2019 at a brisker rate than expected, given the deterioration in the economic outlook. Nevertheless, the fundamental factors supporting housing demand are still solid and no excesses can be observed on the supply side. With a view to 2020, we expect the sector's trend to remain positive although the growth rate will be more moderate, both for prices and sales.

**The rate of growth of Spain's real estate sector has declined in 2019 compared with its excellent performance the previous year**

The real estate sector is slowing down more markedly than had been predicted just a few months ago. This has led us to revise downwards our forecasts for growth in house prices and sales compared with the projections published in the *Real Estate Sector Report* last July. However, it should be noted that **this slowdown has occurred while the growth outlook for the Spanish economy has also declined**. Specifically, the CaixaBank Research GDP growth forecast has been adjusted from 2.4% to 1.9% in 2019 and from 1.9% to 1.5% in 2020 due to the impact of declining global growth, especially in some European countries, and also the revision of the historical figures carried out by the National Statistics Institute.

## Despite the slowdown observed in the real estate sector, its trend will still be positive in 2020

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Should we be concerned about this change in outlook? Although there is good reason to be on the alert, as yet there does not seem to be any cause for alarm. The factors that lie behind the slowdown are largely external while those underpinning growth in the real estate sector (essentially a sustained increase in employment, the recovery in wages and accommodative financial conditions) are still solid, even though they have weakened slightly, as we will see in more detail below. It should also be remembered that this slowdown in the growth rate of house prices, with increases more in line with household disposable income, will ensure the current cycle is more sustainable and lasts longer. For these reasons, **we have maintained our scenario of moderate growth for the real estate sector in 2020**.

### The factors underpinning housing demand are still solid although they have weakened

As we noted in the previous section, employment is still posting considerable growth rates (our forecast is 330,000 more employed in 2019 and 265,000 in 2020), although this rate is significantly lower that the average posted between 2015 and 2018 (500,000 workers per year). Moreover, although fewer jobs are being created, **household disposable income is still increasing at a similar rate to previous years thanks to the recovery in wages**, up by just over 2%. On the other hand, the real estate sector is also being supported by **favourable financial conditions**. Although there was speculation before the summer that the ECB might start to raise interest rates in 2020, the deterioration in the global scenario has led to an about-turn in monetary policy. In fact, the ECB has implemented another monetary stimuli programme, further cutting the depo rate to -0.50% and restarting net asset purchases at a rate of 20 billion euros per month. All the evidence now suggests that **interest rates will remain very low for quite some time**.



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## Demand for housing is stabilising at a high level

After strong growth in the past few years, demand for housing is starting to stabilise. According to the National Statistics Institute (based on the Spanish College of Registrars), house sales fell by 3.2% year-on-year between January and September 2019, although this was partly due to the temporary impact of the new mortgage act which came into force last June (house sales fell by 9.6% year-on-year between July and September). According to data from the National Accounts system, in real terms residential investment fell by 0.9% quarter-on-quarter in Q3 2019 (+1.8% year-on-year), for the first time breaking the upward trend that began in 2014. In any case, sales total more than 500,000 units per year, which translates into over 10 transactions per 1,000 inhabitants, so it is not surprising that growth should start to taper off.

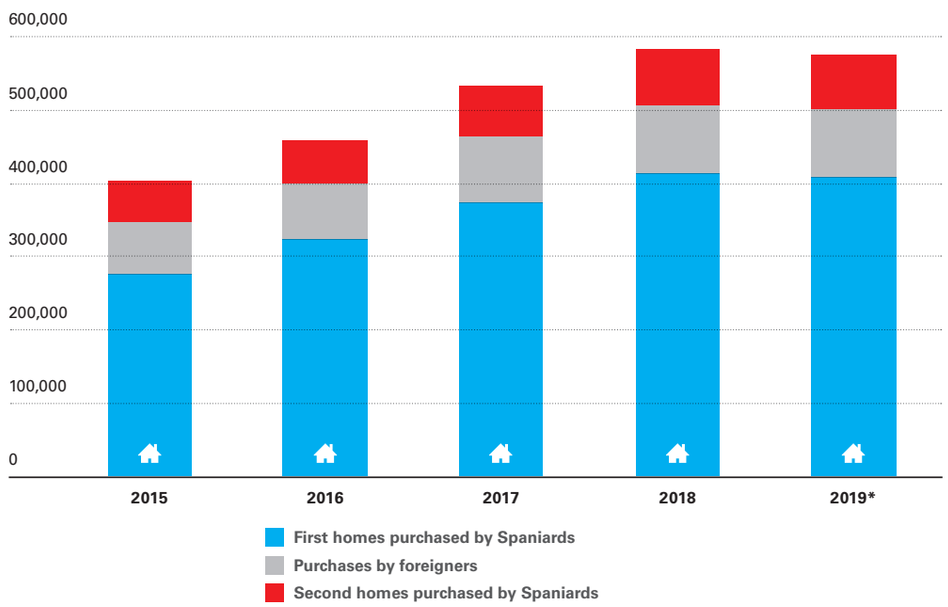
Statistics published by the Ministry of Public Works (based on data from the General Council of Notaries) provide a breakdown by type of buyer. In the first half of 2019, house sales fell by 2.8% due to the decline in Spanish buyers, especially sales of second homes (-7.5% year-on-year in the first semester).[1] Sales to foreigners also slowed down but still grew (+1.2% year-on-year in the first semester).

In line with the dip in sales, there was also a slight decrease in new credit granted to households to buy housing (-0.6% year-on-year in the cumulative figure from January to September 2019). This decline can partly be explained by decreases above 20% in June and July because of the delay in some transactions owing to the regulatory changes, since credit flows picked up again in August and September (by 5.3% and 4.6% year-on-year, respectively).

**(1) Sales of second homes are defined as those in which the buyer lives in a different province to the property's location.**

### House purchases by type of buyer in Spain

Number of purchases




**Note:** (*) Cumulative data over four quarters up to Q2 2019.
**Source:** CaixaBank Research, based on data from Ministry of Public Works.



IS Inmobiliario 2020 ENG.indd 3 7/1/20 17:16

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## After the strong growth of recent years, house sales are stabilising at the levels reached in the past

**Supply indicators point to growth remaining strong**

Growth in the construction sector may have weakened throughout 2019 but it is still outperforming the Spanish economy as a whole.The gross value added for construction, in real terms, increased by 2.4% year-on-year in Q3 2019, compared with 6.2% growth one year earlier. However, it is still growing more than GDP as a whole (2.0%). New building permits also saw notable growth of 8.8% year-on-year between January and September 2019 in spite of this being a significant slowdown compared with the rise of 24.7% posted in 2018. It is also important to note that **no supply-related excesses have been observed**: the current production level for new housing (around 107,000 homes per year) is still below the net creation of households in the past 12 months (120,000 according to the LFS) and also below the INE's projection for the coming years (around 135,000 households each year on average in 2019-2025).

## The construction sector was responsible for 1 out of every 12 jobs created in the Spanish economy between Q4 2018 and Q3 2019

**However, labour market data for the construction industry point to a more pronounced slowdown**

The number of people employed in construction increased by 2.4% year-on-year in Q3 2019 (29,700 more workers than the previous year), a significant slowdown when compared with the 7.4% growth posted over the same period in 2018 (86,000 workers). Nevertheless, employment in construction has grown more strongly than in the rest of the sectors (total employment rose by 1.8% year-on-year in Q3 2019).



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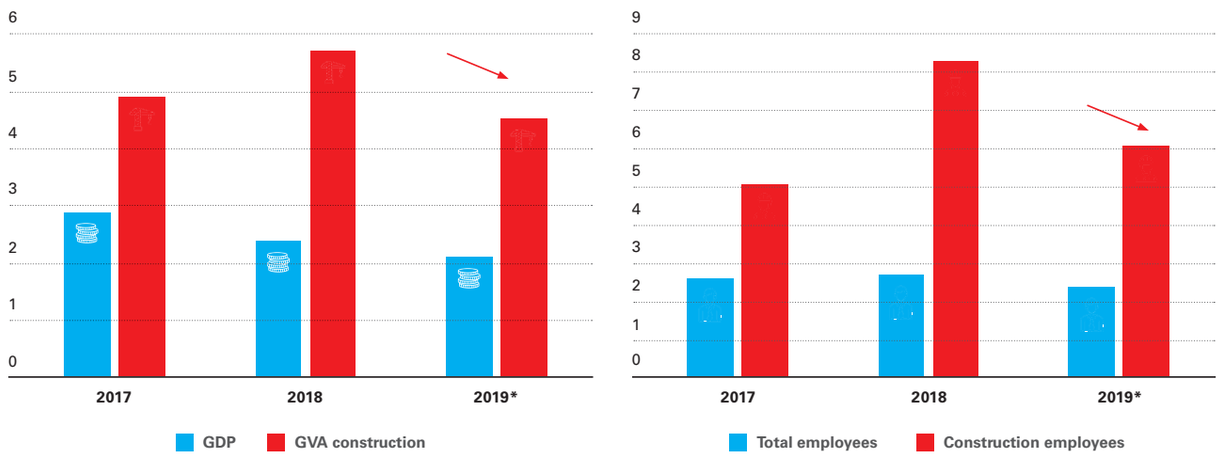
## The construction industry is slowing down but still growing significantly more than the Spanish economy overall

Annual change (%)




**Note:** (*) Cumulative change between Q1 and Q3 2019 compared with the same period the previous year. .
**Source:** CaixaBank, based on data from the National Statistics Institute.

### House prices are rising at a slower rate

In keeping with more subdued demand, house prices have also eased in 2019. According to the statistics published by the Ministry of Public Works (based on appraisal prices), house prices grew by 3.2% year-on-year in Q2 and Q3 2019, slightly below the 4.4% posted in the first quarter of the year. House prices according to the National Statistics Institute (based on transaction prices) also eased, going from 6.8% growth year-on-year in Q1 2019 to 5.3% in Q2. However, there are still considerable regional differences, as analysed in detail in the article «The widening gap between Spain's house prices» in this *Sector Report*. Over the next few quarters, we expect prices to continue their slowdown, with growth in the region of 3% in 2020. As mentioned at the beginning of this article, it is important to note that **this slowdown in growth for house prices, with increases more in line with household disposable income, should help the current expansionary cycle in the real estate sector to continue**.



IS Inmobiliario 2020 ENG.indd 5 7/1/20 17:16

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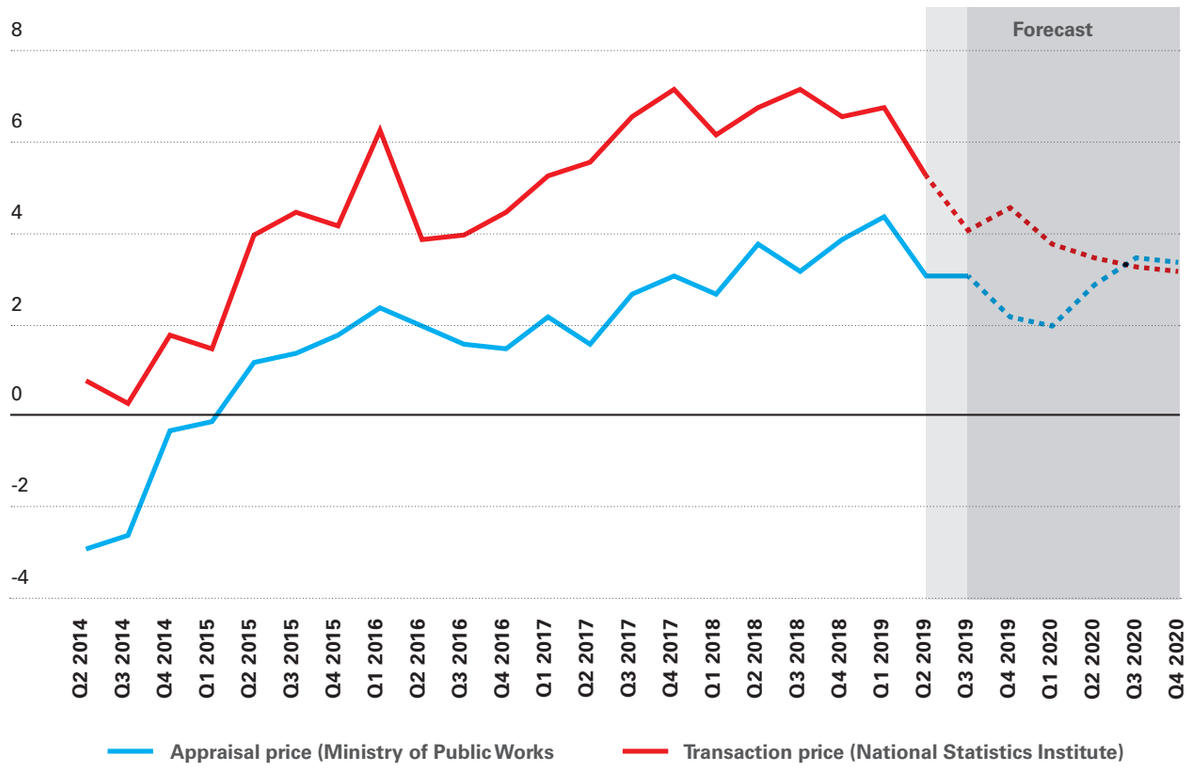
**Year-on-year change**
(%)




**Source:** CaixaBank Research, based on data from the National Statistics Institute and the Ministry of Public Works.

### Housing affordability and sector sustainability

The moderation in the growth rate of house prices, the increase in household disposable income and favourable financial conditions will help to keep **affordability ratios and the mortgage burden at a similar level to the present**. According to the Bank of Spain, these ratios fell slightly in the second quarter, breaking the upward trend that began in 2015. Specifically, the affordability ratio (years of income required to buy a home) was 7.49 in Q2 2019 (compared with 7.51 in Q1 2019) and the mortgage burden (percentage of gross disposable income which a median household allocates to meet the mortgage payments required to buy a home in the first year) was 33.3% in Q2 2019 (compared with 33.5% in Q1 2019).



IS Inmobiliario 2020 ENG.indd 6 7/1/20 17:16

Demand for housing

# Second homes in Spain: seaside or sierra?

Owning a second home is a widespread practice in Spain. In fact, second homes make up 14.6% of all Spanish housing, this figure exceeding 30% in some provinces. Where are these second homes located? What kind of household owns them? Understanding their distribution throughout Spain in relation to the usual place of residence is of great help in analysing the behaviour of the real estate market at a local level. Once again, we can use big data techniques to process the information and identify more complex dynamics than with traditional methods.

The dream of many Spanish households is to have a second home that can be used at the weekend, for holidays or extended periods each year after retiring, be it located at the beach, in the mountains or the family village. Compared with other similar countries, this custom is deeply rooted in Spain: 14.3% of Spanish households own a second home for personal use, twice the number in France (6.4%) and Italy (7.5%).[1]

Owning a second home does not only mean you can enjoy the services offered by the property (consumption) but, as property is also an investment, it can help households to accumulate wealth, something which can be highly advantageous in retirement. On the other hand, demand for second homes influences the dynamics of the real estate market in zones with a high concentration of this kind of property. We will now look at the prevalence of second homes in Spain, the characteristics of the households that buy them and their geographical distribution.

(1) Data from the European Household Finance and Consumption Survey (first wave), produced by the ECB. Data from 2010, except for Spain (2008-2009) and Greece (2009). A household is considered to own a second home if it has a property other than the main residence which is used during holidays or for another private use by the household. Property acquired solely as an investment (usually buy-to-let) is not considered to be a second home as it represents the main residence for another household.



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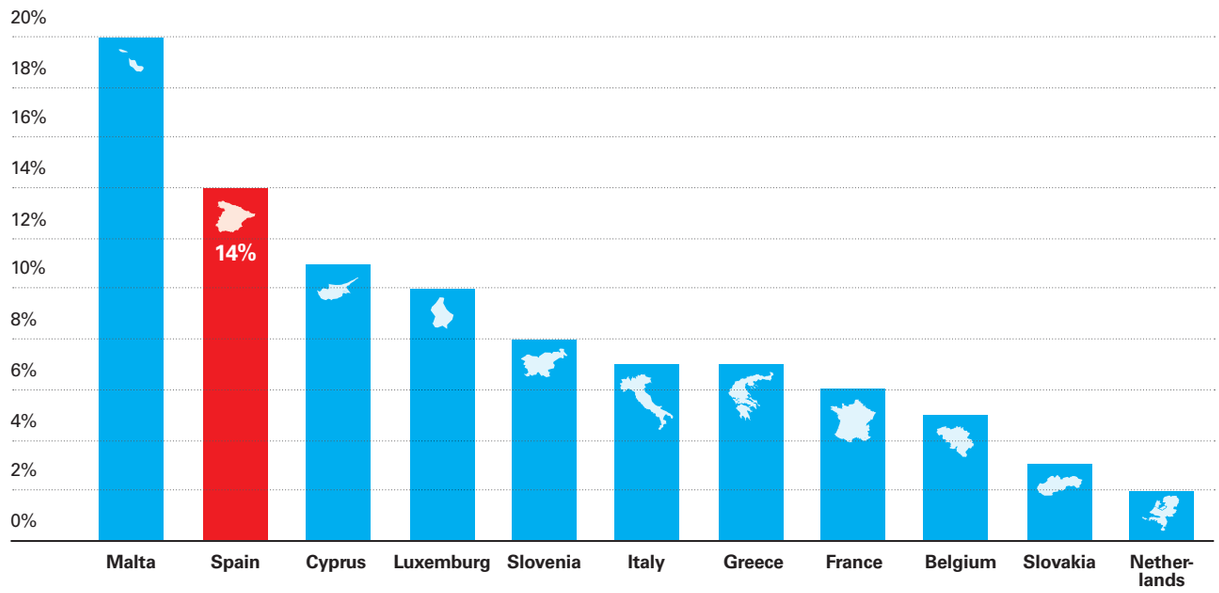
## Which European countries have the most second homes?

(% of households owning a second prices for personal use)




**Source:** CaixaBank Research, based on data from the European Household Finance and Consumption Survey (first wave).

### How may second homes are there in Spain?

The second home market started to boom during the 1970s and 80s, coinciding with a notable increase in the standard of living for the middle classes, as well as greater numbers of workers migrating from rural areas to the city (their homes in their original villages became second homes) and the opening up of the Spanish economy (a large proportion of second homes were bought by foreigners).

More recently, growing urbanisation, the increase in time dedicated to leisure and better communications have helped to boost second homes in areas close to major cities, especially Madrid and Barcelona but also in popular tourist destinations (mostly coastal properties but also some locations in the mountains).

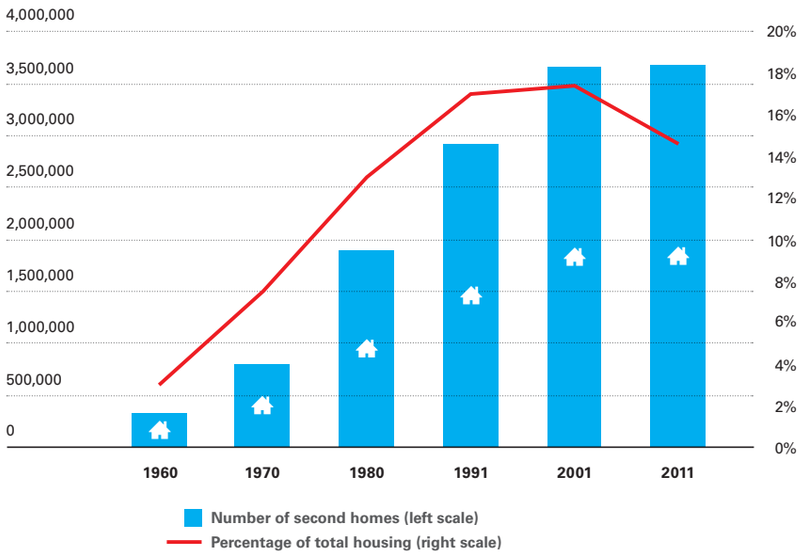
**There are 3.7 million second homes in Spain, accounting for 14.6% of all housing** [2]

② Data from the housing census (2011). All housing in Spain is classified as main, secondary or vacant housing. The country of residence of the property's owner is not taken into account, so the figures include housing owned by non-residents.



IS Inmobiliario 2020 ENG.indd 8 7/1/20 17:16

## Trend in second homes in Spain




### FACTORS CONTRIBUTING TO THE GROWTH IN SECOND HOMES

**ECONOMIC FACTORS**
- Higher standard of living
- Boom in international tourism
- Accumulate wealth for retirement and/or inheritance
- Better communications

**DEMOGRAPHIC FACTORS**
- Migration from rural areas to the city
- Urbanisation

**CULTURAL AND SOCIAL FACTORS**
- More time for leisure and recreational activities
- Social status

**Source:** CaixaBank Research, based on the housing census (National Statistics Institute).

**The age, economic situation of the household and GDP per capita of the province of residence are the main factors influencing the decision to buy a second home. For instance, 1 out of every 5 Madrid households has a second home compared with 1 out of every 20 households in Cadiz or Badajoz**

### What kind of household tends to own a second home?

We have used the household census from 2011 to analyse the characteristics of households with a second home. Specifically, the main person in the household is asked whether they spend more than 14 nights per year in a second municipality and, if so, about the availability of housing in that municipality.[3] The household using the property is not necessarily the owner, although this is the most typical situation for second homes in Spain.[4] According to this source of data, **11.7% of Spanish households have a second home**.

The **age** of the main person in the household is one of the key factors determining whether they own a second home. In fact, **a marked life cycle** can be observed: **as from 35-40 years of age, the proportion of households with a second home gradually increases, reaching around 20% of households close to retirement age** (65 years). From then on, the percentage of households with a second home starts to fall rather sharply. The 2001 census shows a similar pattern, suggesting the importance of the life cycle in the decision to buy a second home, although it is also true that the generation aged between 60 and 70 in 2011 (50-60 in 2001) are more likely to own a second home whereas later generations tend to have fewer second

(3) The household census concerns people who habitually live in a family home in Spain and therefore does not include non-residents, even when they own a second home in Spain. In the *Real Estate Sector Report* on the second semester of 2019, the article «The rise in house purchases by foreigners» was dedicated to analysing sales by non-Spaniards.

(4) 91.5% of Spanish households that own a second home, according to the 2001 housing census (figure not available for 2011).



IS Inmobiliario 2020 ENG.indd 9 7/1/20 17:16

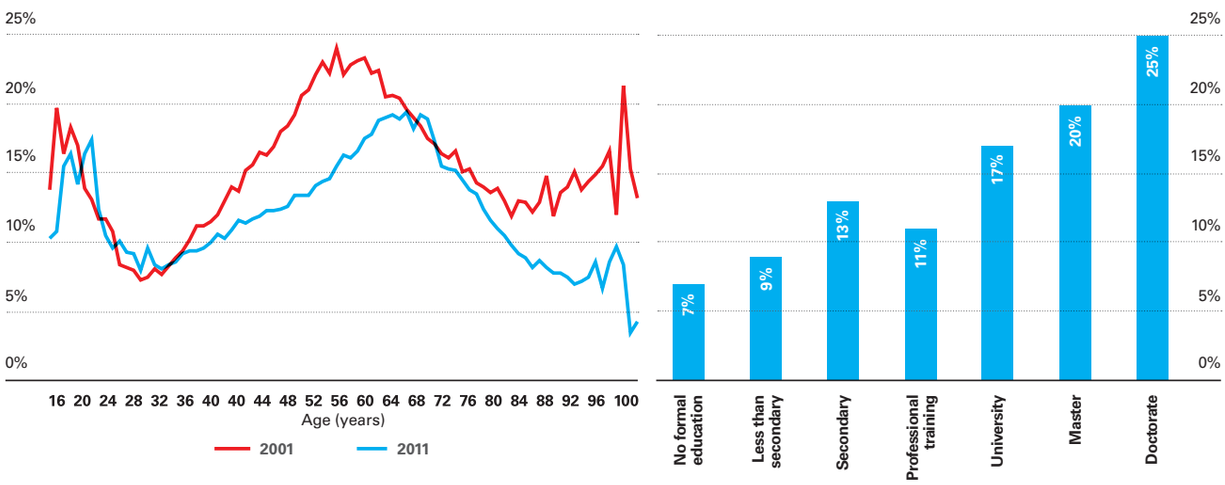
# Real Estate

homes that previous generations at the same age. According to CaixaBank's own data, the average age at which a second home is acquired has risen from 41.6 years in 2009 to 47.6 years in 2019.[5] This perhaps reflects the greater economic difficulties encountered by young adults at present, as well as a shift in preference regarding leisure (visiting different places rather than spending every summer in the same location, for instance) and use as opposed to ownership.

[5] Average age of individuals in the year when they took out a mortgage to buy a second home.

## Spanish households with a second home by age and level of education

(% of all households)




**Source:** CaixaBank Research, based on the 2001 and 2011 housing census (INE).

The **economic situation of households** is undoubtedly another key factor as, in general, households acquire their main residence first and only decide to buy a second when they are sufficiently affluent. Although the census does not contain data on household revenue, we have used the level of education as an estimate of income. The chart above shows that **the proportion of households with a second home increases with the level of education**: only 7% of households with no formal education have a second home compared with 20-25% when they have taken a master's degree or doctorate.

On the other hand, at a provincial level we can also see a clearly positive relationship between GDP per capita and the percentage of households with a second home (either in the same province as their main residence or another). This is particularly the case in Madrid, the second province in terms of GDP per capita and where 21.1% of households have a second home (91% of these in another province). On the other hand, only about 5% of households resident in Cadiz or Badajoz (provinces with a lower GDP per capita) have a second home.



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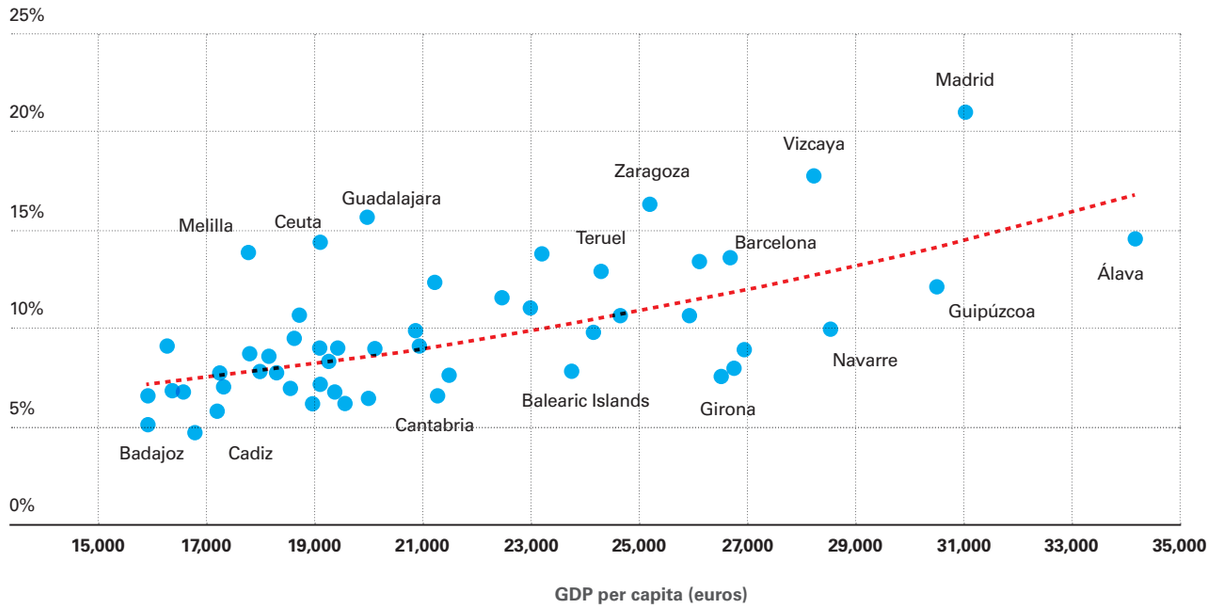
## Positive relationship between GDP per capita and the share of households with a second home in Spain

(% of households with a second home)




**Note:** Each dot on the chart represents a province. Data from 2011.
**Source:** CaixaBank Research, based on the 2011 household census and regional accounts (INE).

### Where are second homes located?

**Most second homes are on the Mediterranean coast.** Alicante is the province with the largest number of second homes (326,705 homes, 8.9% of the national total), highlighting the dominance of the Costa Blanca as a tourist destination, both for international and domestic tourists.[6] This is followed, albeit at some distance, by Valencia (223,885 homes, 6.1% of the total) and Malaga (170,438 homes, 4.6% of the total).

Other coastal provinces such as Girona, Tarragona, Murcia, Castellón and Cadiz also occupy a notable position in the ranking of second homes whereas the absence of the Canary Islands and Balearic Islands at the top of the ranking is surprising. Perhaps because they are islands and transport from the mainland is therefore more expensive could be the reason why most of the people visiting these archipelagos opt for tourist accommodation rather than owning a second home.

(6) Data from the housing census which, as already mentioned, does not differentiate between the nationalities of owners.



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# Real Estate

**A large number of second homes can also be found away from the coast**. Ávila, Vizcaya, Soria, Segovia, Cuenca and Guadalajara are the six provinces with the largest share of second homes out of the total homes in each province, all exceeding 30% (more than double the national average of 14.6%). Perhaps the reason for many of these second homes is that their owners originally migrated from rural areas to the city, as mentioned previously.

**At the other end of the scale we find the more urbanised provinces** (Barcelona, Madrid, Seville, Vizcaya, Álava and Guipúzcoa). In all these the share of second homes is below 7%, as most of the housing in these provinces is used as the main residence.

At a municipal level, the census data show that **the smaller the municipality, the larger the share of second homes out of the total**. The five municipalities with more than 2,000 inhabitants and the largest share of second homes are Noja (Cantabria), with 91%; Daimús (Valencia), with 76%; Llançà (Girona), with 73.9%; Alcázares (Murcia), with 68.9%, and Canet d'en Berenguer (Valencia), with 68.5%.

**If we cross-reference the data on the location of the household's main residence and the location of their second home, we can identify the area of influence of each location, a very useful aspect when analysing the dynamics of the local real estate market**

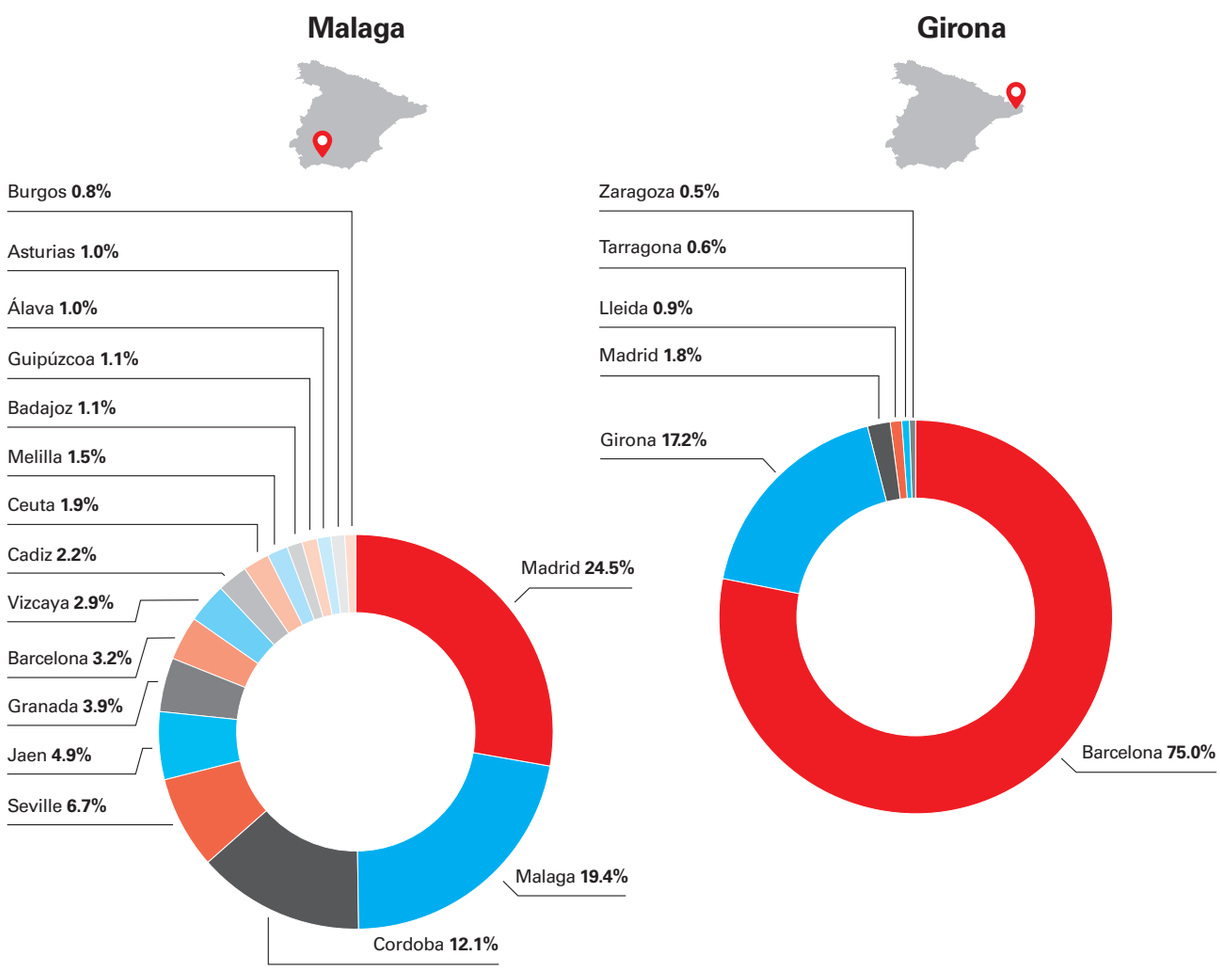
IS Inmobiliario 2020 ENG.indd 12 7/1/20 17:16

### Where do households with a second home in a particular province come from?

The data from the housing census allow us to cross-reference the location of a household's main residence and the location of its second home. We can therefore **classify the second home market of each province according to the degree of concentration (or diversification) of the owner's place of residence**.

Malaga is a highly diversified destination. In fact, residents from all Spanish provinces have a second home there, especially those from Madrid (24%), Malaga (19%), Cordoba (12%) and Seville (6.7%). On the other hand, Girona, Ávila, Toledo, Segovia and Santa Cruz de Tenerife are highly concentrated destinations; in other words, the households with a second home in these locations come from a small group of provinces. Girona is the most concentrated destination of all due to the large presence of households from Barcelona (75% of the total).

## Which province do the people come from with a second home in...?




**Source:** CaixaBank Research, based on the 2011 household census (INE).



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# Real Estate

**What are the most popular locations by the household's main residence?**
The same data, observed from a different perspective, help us to identify the most popular locations according to the household's main residence. People living in Madrid, Barcelona and the three Basque provinces tend to choose the most diverse destinations and their second homes are distributed over a large number of provinces. On the other hand, residents from Huelva and Castellón have the most concentrated second homes since almost 70% of households with a second home have this in the same province as their main residence.

**Madrid and Barcelona**
The cases of Madrid and Barcelona warrant special attention as their residents account for a third of the second homes in Spain (22% from Madrid and 12% from Barcelona) and, as we have already noted, these are spread all over Spain. The census data, however, do not allow us to analyse any deeper than the level of province and larger municipalities (with over 20,000 inhabitants). This is an important limitation, since second homes are often found in small municipalities (80% of second homes are concentrated in municipalities with fewer than 20,000 inhabitants and more than 40% in municipalities with fewer than 1,000 inhabitants).



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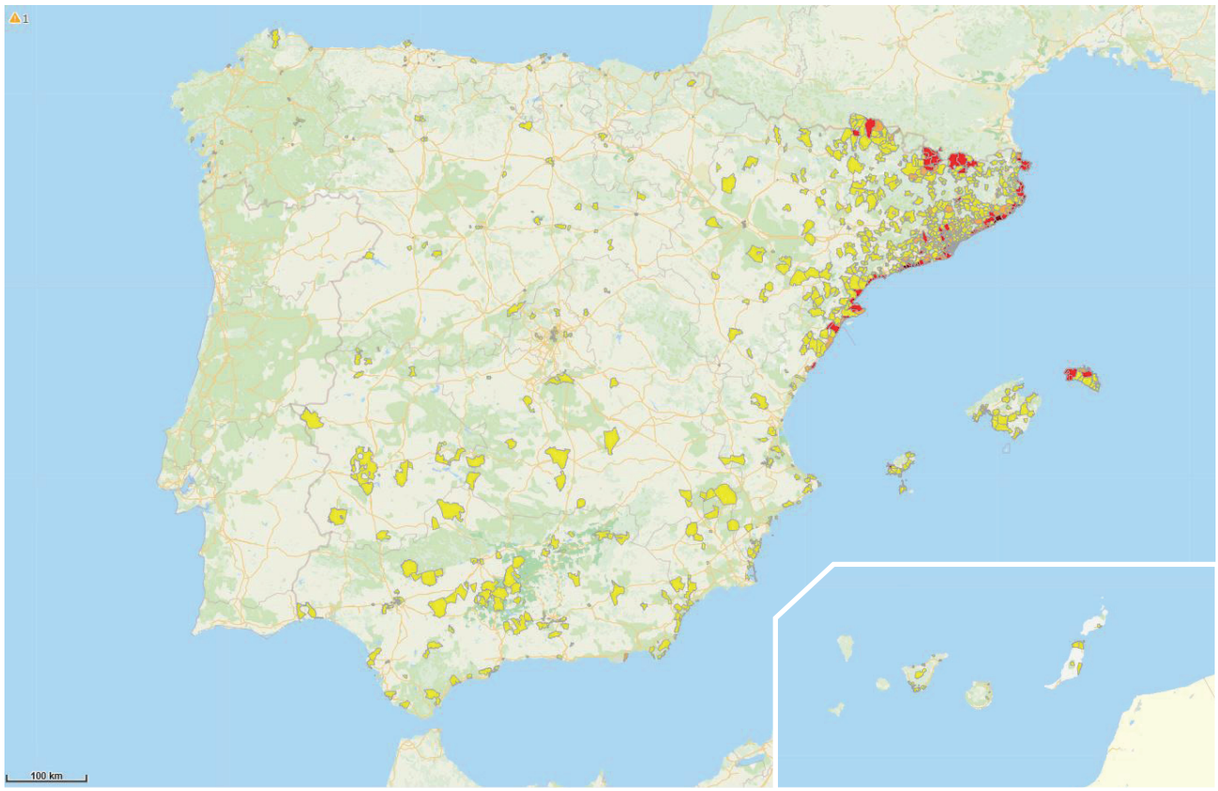
## Where do the residents of Barcelona province have their second homes?




**Source:** CaixaBank Research, based on data from Numbeo.

CaixaBank's own data on mortgages granted to buy a second home offer greater granularity. These maps show the location of the second homes of residents in the provinces of Barcelona and Madrid. It can be seen that the geographical distribution of second homes is far from uniform and, moreover, varies considerably according to the buyer's usual place of residence. For instance, people from Barcelona have many of their second homes in Catalonia (on the Costa Brava, Costa Dorada and in the Cerdanya region) but also in villages in Andalusia and Extremadura. On the other hand, the second homes of those from Madrid are more spread out in Spain, although particularly concentrated in the mountains and on the coast of the Levant region.



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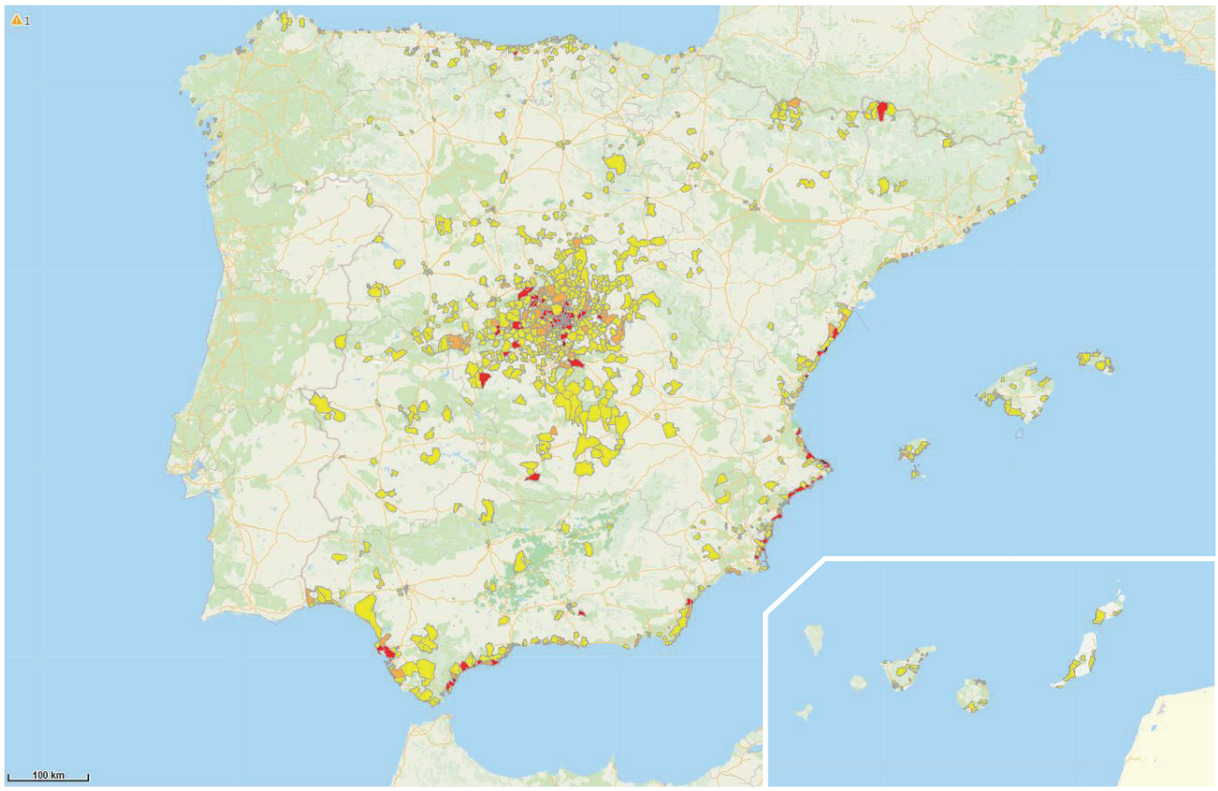
## Where do the residents of Madrid province have their second homes?




**Source:** CaixaBank Research, based on data from Numbeo.

Therefore, the «area of influence» of a given location can be extensive. This has implications for the local property market as the characteristics of second home buyers may differ greatly from those of residents in that area, for instance in terms of their preferences or purchasing power. In this respect, big data analysis allows us to process this information systematically and incorporate it into models that can predict house prices or the number of transactions at a granular level, thereby identifying more complex dynamics than those that can be modelled using traditional techniques.



IS Inmobiliario 2020 ENG.indd 16 7/1/20 17:16

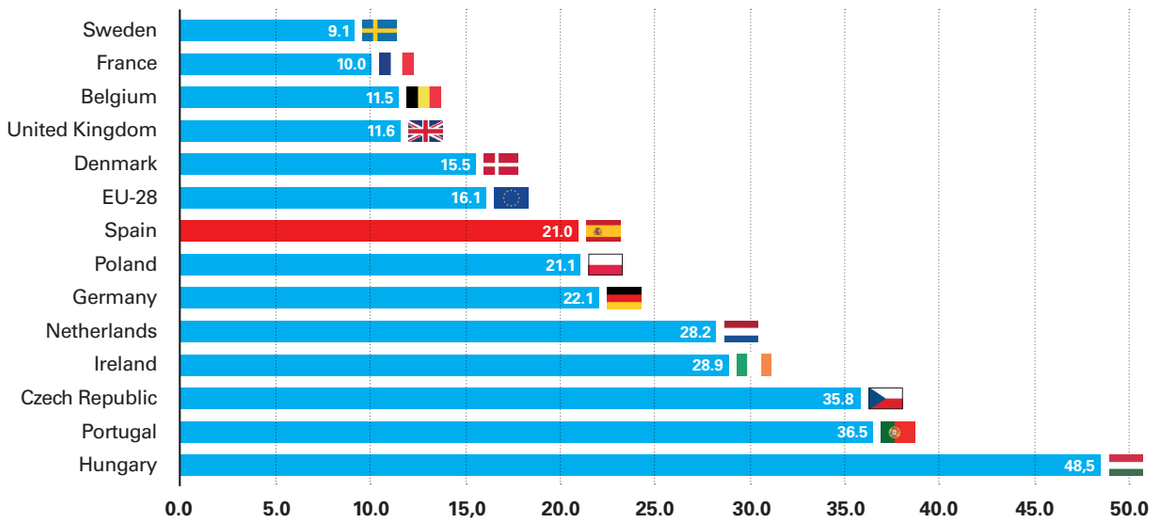
House prices in Europe

# What's happening in Europe's property market?

The European real estate market has seen several years of strong growth. In fact, since early 2016, house prices in the EU have risen by 4.6% year-on-year on average, outperforming wages and GDP growth. This upward trend has been widespread across countries and also large cities. This article examines the factors underpinning this trend and whether it poses any risks.

House prices have risen markedly across all European countries bar Italy and have now exceed pre-crisis levels in most cases, while some countries prices are growing well above the EU average. This is the case of Hungary and Portugal, where prices have risen by more than 9.0% year-on-year on average since 2016.

**House prices have risen considerably in European countries**
Cumulative change between Q1 2016 and Q2 2019 (%)




**Source:** CaixaBank Research, based on data from Eurostat.



IS Inmobiliario 2020 ENG.indd 17 7/1/20 17:16

# Real Estate

**What factors lie behind the syncronised growth in house prices?**
In part, the rise of house prices in Europe is due to a **synchronised economic recovery**. The european recovery began in 2013 and gradually consolidated, particularly from 2016 onwards when growth speeded up in most member states. This upswing has been accompanied by a notable rise in employment, with the EU's average unemployment rate falling from 11% at the beginning of 2013 to 6.3% in Q3 2019. The positive evolution of the labour market, together with a favourable economic outlook translated into higher household disposable income and greater consumer confidence. Likewise, the strengthening and restructuring of the european banking sector also helped to improve credit availability. All this has increased **demand for housing**, in turn pushing up prices in several european residential markets.

**The synchronised growth in EU house prices is explained by both economic and financial reasons, including the economic recovery and accommodative financial conditions, boosting demand for both housing and property investment**

On the other hand, **the environment of accommodative financial conditions** propitiated by the monetary stimuli of central banks in main advanced economies has also contributed to the synchronized rise of house prices.[1] First, because it has resulted in a generalised reduction of **financing costs to historically low levels**.[2] For example, in the eurozone, the average interest rate for mortgage loans stood at 2.0% in 3Q 2019, compared to 5% in the years before the financial crisis. Secondly, because the low interest rate environment has pushed down bond yields and the return of some financial savings products and that has encouraged **demand for property as an investment asset**. This is shown by the fact that international and institutional investors, in their search for greater profitability, have intensified their participation in some real estate markets (including residential markets) over the past few years.[3]

In this sense, an IMF study shows that the tendency for house prices in different markets to move in tandem and in the same direction (particularly in the advanced economies) is getting stronger due to **financial factors** (more accommodative financial conditions and greater financial integration).[4] Specifically, these factors currently explain for 30% of the growth in house prices in many advanced economics, well above the 10% explained in 1971.[5]

(1) IMF (April 2018). «Global Financial Stability Report. Chapter 3: House price synchronization: what role for financial factors?».

(2) Global financial conditions (those prevailing in the world's major financial centres) tend to be passed on through capital flows, which can affect credit availability and mortgage interest rates in the receiving country (irrespective of whether the capital flows are aimed at property). See Bernanke, B. S. et al. (2011), «International Capital Flows and the Return to Safe Assets in the United States, 2003-2007». Federal Reserve Board.

(3) Hekwolter, M. of Hekhuis, Nijskens, R. and Heeringa, W. (2017). «The Housing Market in Major Dutch Cities». Netherlands Central Bank.

(4) Both supply-related factors (such as construction costs) and also demand-related factors (such as demographics and the fiscal system) lie behind this greater house price synchronicity.

(5) See IMF (April 2018), «Global Financial Stability Report».



IS Inmobiliario 2020 ENG.indd 18 7/1/20 17:16

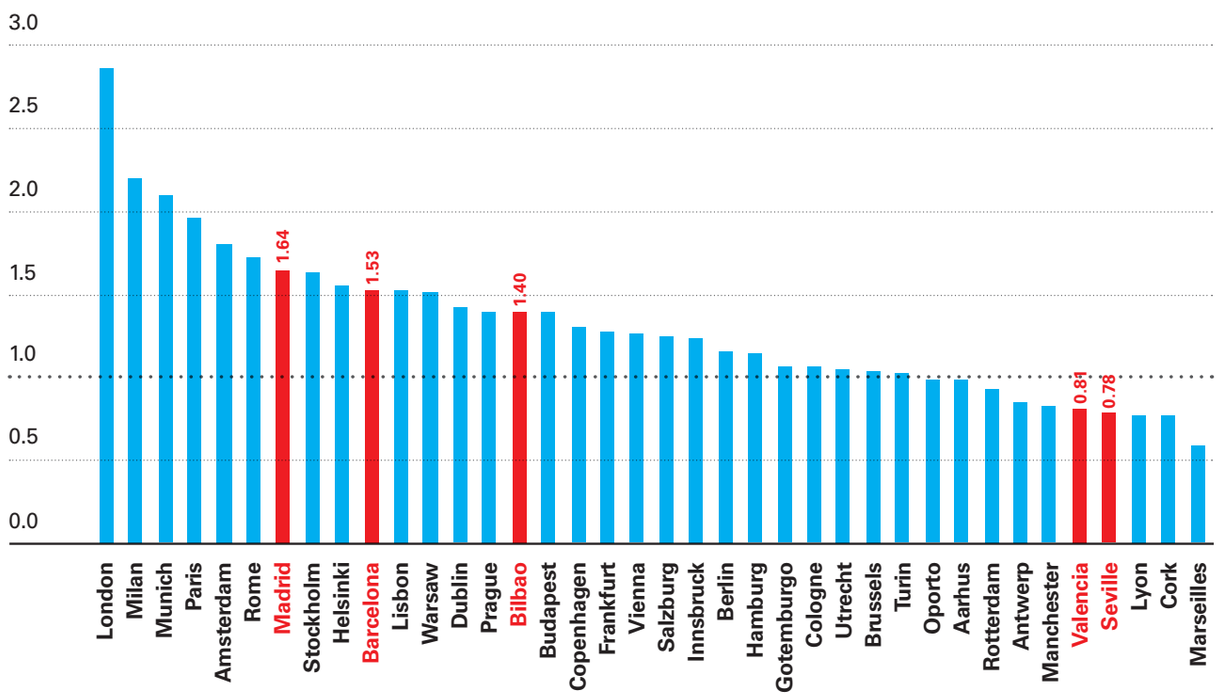
**What about cities?**

Both the upward movement of real estate prices and the phenomenon of synchronization of housing markets are more pronounced in main cities of advanced economies. In the case of Europe, this is especially evident when comparing house prices in the largest cities with the average house price in the rest of the cities of a given country (see the next chart).

**The upswing in house prices has been particularly sharp in large cities due to the trend towards greater urbanisation, a larger number of international investors and accommodative global financial conditions**

## House prices in large cities tend to be higher than the national average

Ratio of house prices in large cities to the national average for cities




**Source:** CaixaBank Research, based on data from Numbeo.

The higher growth in property prices in large cities compared with the national average reflects a **generalised trend towards greater urbanisation**, an important stimulus for demand for residential property in cities, especially in dynamic locations that attract more talent.[6]

[6] According to United Nations projections, while two thirds of the world's population was rural in 1950, by 2050 two thirds will be urban.



IS Inmobiliario 2020 ENG.indd 19 7/1/20 17:16

# Real Estate

On the other hand, this phenomenon also responds to the fact that **large cities tend to attract more investment** per se. For example, within the real estate sector, cities tend to be the most liquid sub-markets with the least uncertain outlook. Also, cities are attractive from an investor point of view for other reasons, such as their excellent location or because they are popular tourist destinations. In addition, in some specific areas, idiosyncratic factors, such as legal and tax systems, can play an important role in attracting foreign investment.

These factors, which could be called «traditional», have been complemented recently by some of the aspects we've already mentioned. such as **accommodative global financial conditions and a larger number of international investors**. These factors are especially relevant in large cities that are more open to international capital flows, either because of their integration with global financial markets, or because of their attractiveness to investors looking for greater profitability.[7]

### Are there any risks?

The recent evolution of house prices in several European regions could be a cause for concern. To determine whether house prices are overvalued and detect tensions in the market, we can compare these prices with other indicators of the purchasing capacity of domestic demand. In this sense, a first step to assess whether house prices are too high and detect tensions in the market is put prices in relation to other indicators that show the purchasing capacity of domestic demand.

(7) Moreover, the aforementioned IMF report shows that the role played by global financial conditions in house price synchronicity is considerably greater when there are regulatory or physical constraints on the supply of housing.



IS Inmobiliario 2020 ENG.indd 20 7/1/20 17:16

**In general, the main for housing affordability indicators do not show, any signs of increasing tension for the local population, although there are some exceptions.** The share of European households allocating over 40% of their disposable income to housing costs (a common affordability indicator) stood at 9.9% at the end of 2018, lower than the 2007 average (11.0%). This indicator does suggest, however, that households in Denmark, Germany and the UK are slightly overburdened. For the euro area as a whole, the affordability ratio (house prices compared with household disposable income) is slightly higher than the historical average,[8] with some differences between countries. In particular, in some countries (such as Belgium, the Netherlands and Austria), residential prices are close to an all-time high and affordability is particularly low (see the table below).

(8) Average between 1980 and 2019.

## Risk map for Europe's real estate market

| | Assessed at country-level | | | | | | Situation of households | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Change in house prices (cumulative since 2016) | Price index/income* | Price-to-income ratio (cities) | Price index/rent* | Price-to-rent ratio (cities) | Affordability indicator (% of households allocating over 40% of their income to housing) | Household debt (% of GDP) | Mortgage loans (year-on-year change, in %, Q3 2019) | Mortgage loans (% of GDP) | Residential investment* |
| Germany | 22.1 | 95.3 | 9.5 | 101.7 | 30.1 | 14.2 | 54.0 | 5.3 | 37.6 | 107.6 |
| Austria[1] | 18.7 | 129.9 | 10.9 | 115.9 | 29.6 | 6.8 | 49.5 | 5.5 | 29.2 | 97.7 |
| Netherlands | 28.2 | 130.7 | 7.4 | 125.3 | 18.3 | 9.4 | 101.5 | 2.7 | 61.2 | 97.0 |
| Italy | -0.8 | 90.0 | 9.7 | 91.1 | 23.5 | 8.2 | 41.5 | 1.5 | 21.7 | 87.3 |
| Spain | 21.0 | 125.2 | 9.5 | 141.3 | 21.0 | 8.9 | 58.4 | -1.4 | 41.6 | 77.9 |
| Portugal[1] | 36.5 | 103.9 | 13.3 | 100.8 | 18.5 | 5.7 | 66.2 | 0.1 | 44.8 | 61.6 |
| France | 10.0 | 121.1 | 13.0 | 136.0 | 36.5 | 4.7 | 60.6 | 5.9 | 45.3 | 101.2 |
| United Kingdom | 11.6 | 123.2 | 9.9 | 149.7 | 26.4 | 12.4 | 85.3 | 3.7 | 58.3 | 112.7 |
| Sweden | 9.1 | 135.9 | 9.4 | 170.4 | 30.9 | 8.3 | 88.0 | 1.3 | 67.2 | 142.2 |
| Finland | 4.6 | 94.3 | 7.9 | 113.3 | 26.0 | 4.3 | 65.7 | 2.2 | 41.8 | 121.5 |
| Denmark | 15.5 | 127.3 | 7.4 | 109.8 | 24.4 | 14.7 | 114.9 | 1.7 | 98.9 | 100.4 |
| Belgium | 11.5 | 136.5 | 6.9 | 150.3 | 19.9 | 8.6 | 61.9 | 6.6 | 35.7 | 102.9 |
| Ireland | 28.9 | 112.4 | 7.4 | 142.4 | 14.7 | 4.5 | 40.4 | -1.0 | 22.7 | 40.7 |

**Note:** (*) Divergence compared with the country's long-term average (100 = long-term average)
(1) Data available for 1995-2019 (Portugal) and 2000-2015 (Austria), so the long-term average may be slightly overestimated.
**Source:** CaixaBank Research, based on data from OECD, Numbeo, Eurostat and ECB.



IS Inmobiliario 2020 ENG.indd 21 7/1/20 17:16

# Real Estate

**In general, the main housing affordability indicators show no signs of widespread tension in Europe's property markets, the exceptions being the Netherlands, Austria, Denmark and Belgium**

Another benchmark indicator for the financial situation of households is their level of debt, which is **at a comfortable level for the euro area as a whole** (57.8% of GDP) but of more concern in some European countries, such as the Netherlands and Denmark (above 100% of GDP), although this figure has been falling in recent years. Lastly, except in Sweden and Denmark, similar excesses to those occurring in the mid-2000s have not been observed, such as a boom in property investment and mortgage loans.

In short, **most European countries do not show any evident signs of overvalued property prices compared with domestic demand. However, some countries such as the Netherlands, Austria, Denmark and Belgium** could be at risk should house prices continue to grow at the same rate or even faster, as **their prices are already at an all-time high**. The case of Sweden and the UK warrants particular attention since, after several years of booming house prices and some overheating in the sector, growth has now eased due to factors such as political uncertainty, problems with affordability and fewer tax breaks when buying a home.

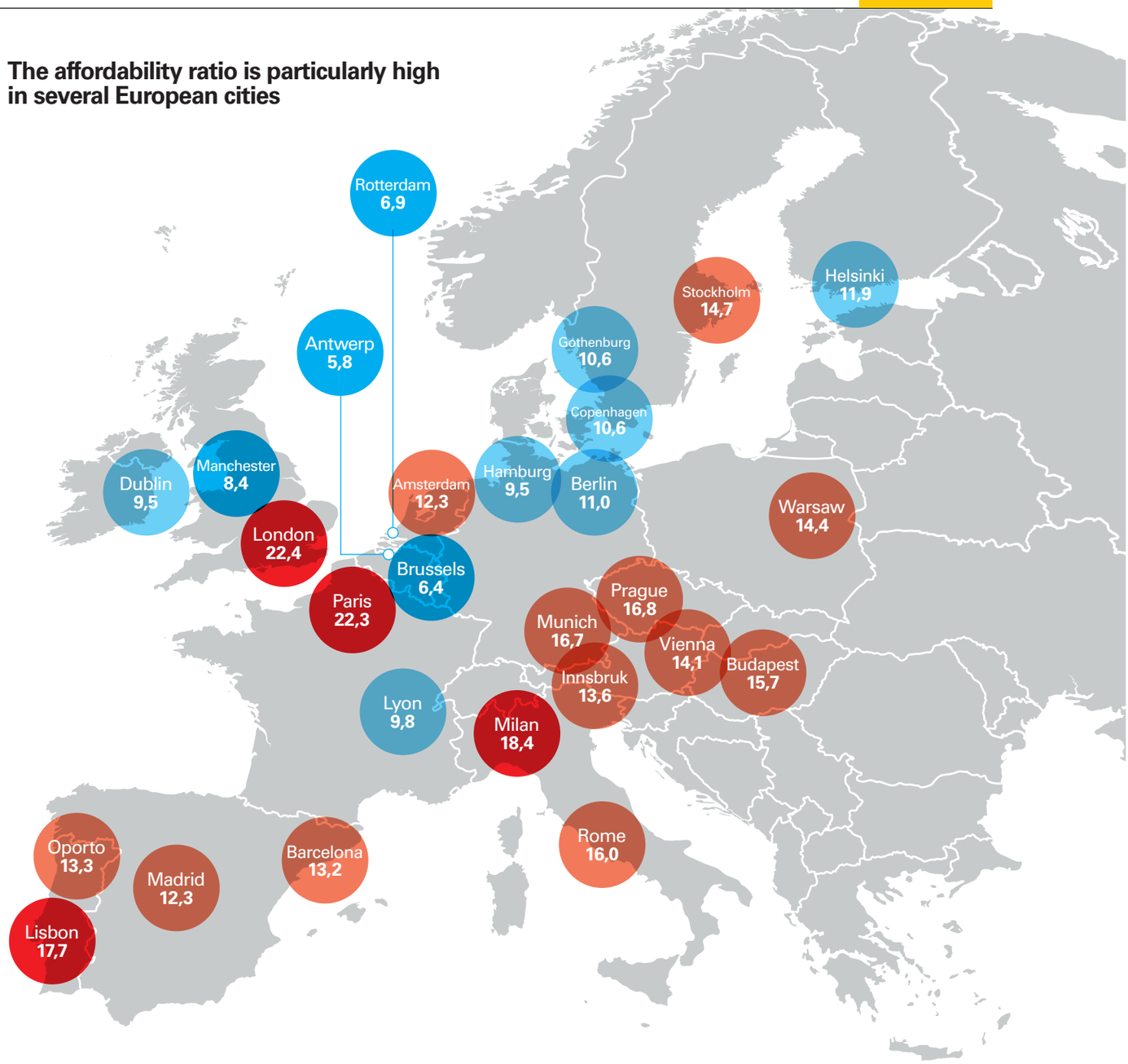
### Housing affordability in large European cities

In large cities there are clear symptoms of **house prices decoupling from local income** and the affordability ratio is particularly high (above 15) in several European metropolises such as London, Paris, Milan and Munich (see the map).



IS Inmobiliario 2020 ENG.indd 22 7/1/20 17:16

## The affordability ratio is particularly high in several European cities




**Note:** * Assuming a property of 90 m².
**Source:** CaixaBank Research, based on data from Numbeo.

In other cases, prices seem to be slightly higher than those justified by domestic demand, such as in Vienna, Oporto and Barcelona (the article «A widening gap between Spain's house prices» in this Sector Report analyses the trend in house prices and affordability ratios in Barcelona and Madrid). As we've already noted, this is due to several factors, such as the influence of foreign buyers and global and institutional investors, generally with a greater buying capacity than the average local population. **Such dynamics mean that a close eye should be kept on the trend in housing markets at a local level** (compared with the rest of the country but also with other countries).



IS Inmobiliario 2020 ENG.indd 23 7/1/20 17:16

# Real Estate

## The affordability ratios of large cities are getting tight, a reflection of the decoupling of house prices and local income. The ratio is particularly high in London, Paris, Milan and Munich

In short, with the exception of some particular cases, **there are no clear signs of overvaluation in European property markets**. Also the financial situation of European households is relatively comfortable. However, **in large cities there is a certain decoupling between house prices and the income of the local population,** partly because of the greater weight of foreign demand. Given the current economic slowdown in many European countries, **greater house price synchronicity across countries and cities raises doubts about the consequences of an eventual correction in prices** as closer links (exposure of local markets to global financial and economic conditions) may transmit or amplify financial and macroeconomic shocks. In this regard, because of the increasing importance of foreign demand and greater vulnerability of the housing market to the world's financial and economic cycles, **the capacity of local authorities to manage imbalances in the property market** (through national policies, such as macroprudential, or locally) **could now be more limited than in the past.**

IS Inmobiliario 2020 ENG.indd 24 7/1/20 17:16

Housing affordability

# The widening gap between Spain's house prices

House prices have risen considerably in recent years and the first signs of overvaluation are starting to appear in cities such as Madrid and Barcelona, as well as some tourist spots. But the situation is very different in less urban areas, where the recovery in the real estate sector began later and is much slower. As a result, regional divergences in the price and affordability of housing are widening.

**The recovery in house prices in Spain: what point have we reached?**

After the sharp fall in house prices between 2008 and 2014 (30.7% nominal and 37.2% in real terms),[1] a new expansionary cycle began for the real estate market in 2015 characterised by a high degree of geographical heterogeneity, as we shall see later. However, before examining how the price of housing has evolved in different areas and localities, it is useful to review the key figures at a national level, as these will serve as a reference for further analysis.

## The price of housing has picked up in the last five years although it is still 22% lower than the peak reached before the crisis and is very heterogeneous in geographical terms

The price of housing beganto increase in 2015, according to data from the Ministry of Development (based on appraisal prices). From its minimum value in Q3 2014 to the most recent data, corresponding to Q3 2019, it accumulated growth of 12.3% (8.6% in real terms). Despite this upward trend, the price is **still approximately 22% below its all-time high** (-31.8% in real terms). On the other hand, the housing price index published by the INE (based on transaction prices)[2] indicates a more vigorous recovery, with a nominal advance of 30.4% between Q1 2014 and Q2 2019 (24.7% in real terms), although the distance separating this from the pre-crisis peak is similar to the one indicated by the data from the Ministry of Public Works[3] (-18.2% below the maximum in nominal terms, -30.6% in real terms).

(1) In this article, unless otherwise indicated, we use the price of housing published by the Ministry of Public Works as this is published by province and for municipalities with more than 25,000 inhabitants.

(2) INE house prices have been published since 2007, nationally and by autonomous community.

(3) This is because INE house prices fell more sharply between 2007 and 2014 (-37.2% nominal and -44.3% real) than the Ministry of Public Works prices.



IS Inmobiliario 2020 ENG.indd 25 7/1/20 17:16

# Real Estate

**A recovery at different speeds: leaders, advanced, followers and taking off**
Based on the trend in house prices since 2014, we have classified the Spanish provinces into four groups:

1) **Leaders:** Madrid, Barcelona, the Balearic Islands, Malaga, Santa Cruz de Tenerife and Las Palmas make up the group that is leading the recovery in the real estate market, provinces containing major cities and well-established tourist destinations. Here the price of housing began to recover earlier and has grown more vigorously (27.8% between Q1 2014 and Q3 2019, well above the national figure of 12.3%).

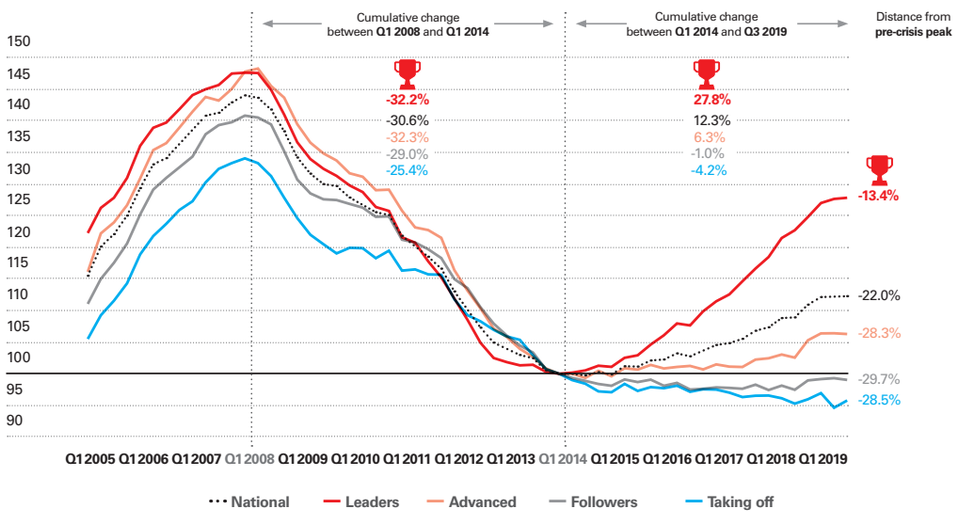
2) **Advanced:** Cadiz, Granada, Seville, Zaragoza, Valladolid, Guadalajara, Girona, Tarragona, Alicante, Valencia, Caceres, La Coruña and Navarre. In these provinces we find important cities in terms of population, tourism and economic activity. Here the recovery took longer to get going and price growth is positive but more modest (6.3% between Q1 2014 and Q3 2019).

3) **Followers:** This group contains almost half of Spain's provinces (Almeria, Cordoba, Huelva, Huesca, Asturias, Cantabria, Burgos, Palencia, Salamanca, Albacete, Toledo, Lleida, Castellón, Badajoz, Lugo, Orense, Pontevedra, Murcia, Álava, Guipúzcoa and La Rioja). This is a fairly heterogeneous group, made up of provinces that are located in the so-called «abandoned Spain» and others that are still digesting the excesses of the real estate boom. Here house prices are still very close to their minimum, although they have been posting positive growth rates for a few quarters.

4) **Taking off:** Jaen, Teruel, Ávila, Leon, Segovia, Soria, Zamora, Ciudad Real, Cuenca and Vizcaya. These are provinces where house prices are still at or very close to their minimum.

## House prices are recovering at different speeds

index (100 = Q1 2014)




**Note:** We have classified the provinces into 4 groups accordingto the increase in house prices since 2014:
**Leaders:** Madrid, Barcelona, Balearic Islands, Las Palmas, Santa Cruz de Tenerife and Malaga
**Advanced:** Cadiz, Granada, Seville, Zaragoza, Valladolid, Guadalajara, Girona, Tarragona, Alicante, Valencia, Caceres, La Coruña and Navarre.
**Followers:** Almeria, Cordoba, Huelva, Huesca, Asturias, Cantabria, Burgos, Palencia, Salamanca, Albacete, Toledo, Lleida, Castellón, Badajoz, Lugo, Orense, Pontevedra, Murcia, Álava, Guipúzcoa and La Rioja.
**Taking off:** Jaen, Teruel, Ávila, Leon, Segovia, Soria, Zamora, Ciudad Real, Cuenca and Vizcaya.

**Source:** CaixaBank Research, based on data from the Ministry of Public Works.



IS Inmobiliario 2020 ENG.indd 26 7/1/20 17:16

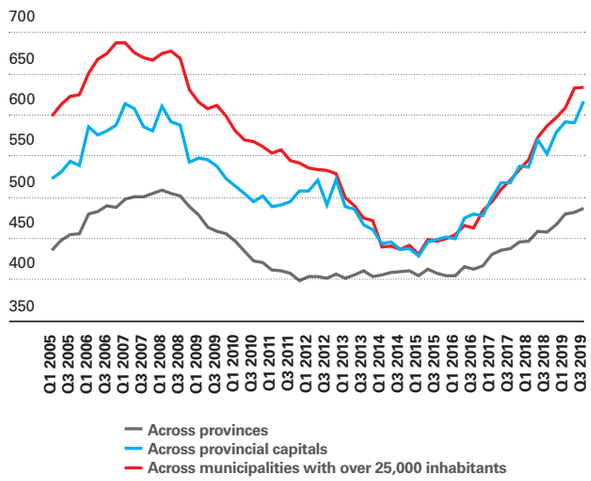
### A widening price gap between regions and between cities

As a result of this recovery at different speeds, prices across the different regions are diverging and **the gap between the most expensive and cheapest provinces is widening.** The leading provinces (where house prices have risen the most) were already among the most expensive in 2014 whereas the group of followers and the group of those that are taking off are made up of provinces with the lowest price (both in 2014 and 2019), with the notable exceptions of Vizcaya and Guipúzcoa.[4]

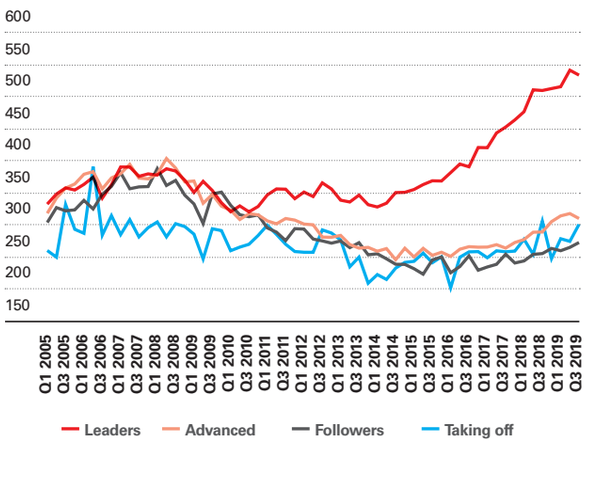
This divergence is even more pronounced between cities. The spread in house prices has increased across the different provincial capitals, as shown in the chart below (on the left). This trend is even more pronounced if we include all municipalities with over 25,000 inhabitants.[5]

**The gap between the most expensive and cheapest provinces and cities is widening. In 2019, buying a home in Barcelona or the Spanish capital costs more than double the national average, while in 2014 it was «only» 1.6 times more**

**The spread between prices across provinces and municipalities is increasings**
(standard deviation of house prices)




**The spread between prices across municipalities in the same province is increasing**
(standard deviation of house prices across municipalities in each province) *




**Note:** *The standard deviation of house prices across the municipalities of a province is calculated and then the simple average of the provinces classified into four groups.
**Source:** CaixaBank Research, based on data from Ministry of Public Works.

On the other hand, price divergence within provinces **is also increasing**, as shown in the right-hand chart.[6] This is particularly true in the leader provinces, where prices in the major cities have grown much more than in the rest of the cities in the same province. The most extreme case is the city of Ibiza, where the price of housing grew by 52.6% between Q1 2014 and Q3 2019 while, in the Balearic Islands as a whole, the increase was also considerable (26.6%) but clearly lower than the Ibizan capital.

④ Formally, the regression coefficient is significant and positive, at the level of province, for the variation in house prices between Q1 2014 and Q3 2019 on the price of housing in 2014. In other words, there is evidence of beta divergence; i.e. house prices in provinces with a higher initial price grow faster, so that price differences become more pronounced. There is also a positive regression coefficient for provincial capitals and in municipalities with over 25,000 inhabitants.

⑤ In other words, there is evidence of sigma divergence; i.e. over time, the spread in price levels (estimated via the standard deviation) increases within a group of provinces or cities.

⑥ Here we refer to sigma divergence. As for beta divergence, evidence supporting this hypothesis has only been found for the Balearic Islands, Barcelona and Alicante. For the rest of the provinces, the coefficient is not significant.



IS Inmobiliario 2020 ENG.indd 27 7/1/20 17:16

# Real Estate

**Price divergence within provinces has also increased, as shown by the Balearic Islands: the city of Ibiza is the second most expensive place to buy a home in Spain, after San Sebastian**

In the rest of the tourist provinces that make up the group of leaders (Malaga and the two Canary Island provinces), this pattern of strong growth in house prices was also observed in other cities that are highly attractive for tourists. For example, in the province of Malaga, those cities with the greatest house price growth since 2014 are Benalmádena (57.5%), Fuengirola (53.5%) and Rincón de la Victoria (50.7%), outperforming Malaga city (37.1%) and Malaga province (24.5%).

Barcelona and Madrid saw their pattern change in 2019 after several years of above-average growth compared with the average for their respective provicines.[7] Madrid house prices grew by 7.0% year-on-year in Q3 2019 compared to 4.6% for the Community of Madrid as a whole, whereas other municipalities in the province reported much higher growth rates, especially Parla (14.0%) and Getafe (11.3%) (24.5%).

This «oil stain» that spreads from the capital to the surrounding towns can also be observed in the province of Barcelona. In Barcelona city and Sant Cugat del Vallès (the most expensive city in Barcelona province after the capital), the price of housing grew more moderately (3.4% and 2.2% year-on-year in Q3 2019, respectively) compared with increases of over 10% in the around surrounding Barcelona city (Santa Coloma de Gramenet, Badalona, L'Hospitalet de Llobregat, etc.).

(7) In the municipalities of the province of Barcelona and Madrid there is evidence to support beta convergence in the past year; i.e. in 2019, house prices in these provinces have grown more than in those cities with the lowest price level in 2018.



IS Inmobiliario 2020 ENG.indd 28 7/1/20 17:16

**The divergence in house prices is passed on to affordability ratios**

The sharp rise in house prices since 2014 in the cities of the leader provinces has also pushed down affordability ratios; i.e. the effort required for households to buy housing.[8] Although household income in these cities has grown more than the national average, as these locations are also the most dynamic in terms of economic activity and tourism, this increase in income has not been enough to offset the rise in house prices. As a result, affordability ratios in the six capitals of the leading provinces (Madrid, Barcelona, Malaga, Palma de Mallorca, Las Palmas de Gran Canaria and Santa Cruz de Tenerife), which were already among the highest in Spain, have grown more than in the rest of the provincial capitals. In other words, the divergence between prices has been passed on to the affordability ratios, as can be seen in the chart below.

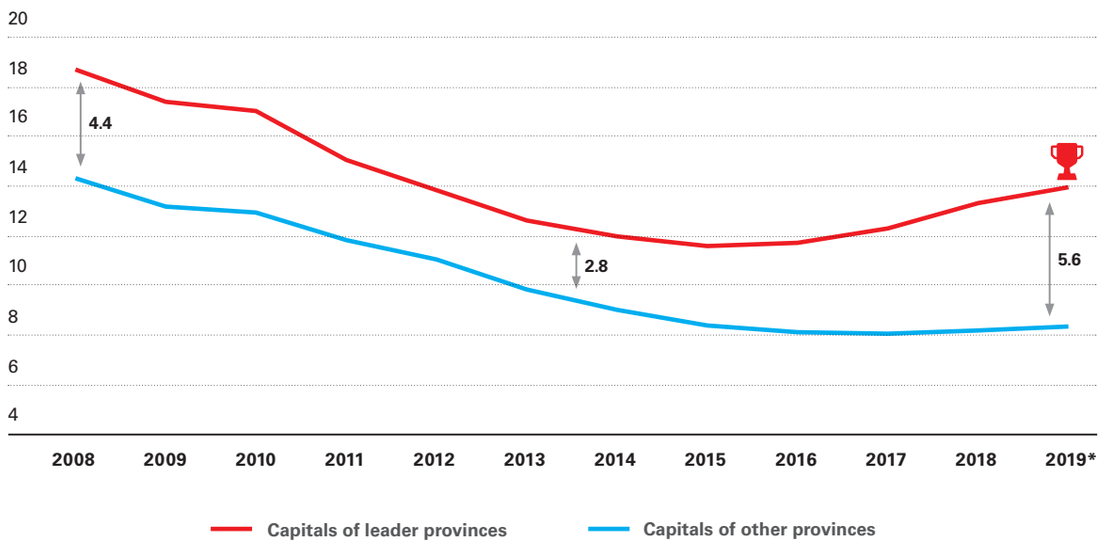
This increase in the affordability ratio, more pronounced in those cities that were already relatively unaffordable, has reopened debate on whether prices reflect the fundamental value of housing or whether, on the contrary, the market is overvalued (the article «What is happening in the European real estate market?» in this *Sector Report*, examines the trend in house prices and affordability ratios in European cities).

**The sharp rise in real estate prices in cities has pushed up housing affordability ratios; a Madrid household needs twice as many years of income to buy a home compared to household in Granada**

[8] We have calculated the affordability ratios for housing in provincial capitals as the price per square metre provided by the Ministry of Public Works multiplied by 93.75 $m^2$ (average surface area of housing according to the Bank of Spain) divided by the median household income. Income by city has been taken from CaixaBank's own data and takes into account wages, pensions and unemployment benefit.

## Affordability ratio in provincial capitals

(years of median household income)




**Notes:** Leader provinces are those with the highest increase in house prices since 2014 (Madrid, Barcelona, Balearic Islands, Las Palmas, Santa Cruz de Tenerife and Malaga). *The figure for 2019 corresponds to the first three quarters.
**Source:** CaixaBank Research, based on data from the Ministry of Public Works and internal data.



IS Inmobiliario 2020 ENG.indd 29 7/1/20 17:16

# Real Estate

### Is housing overvalued in Spain?

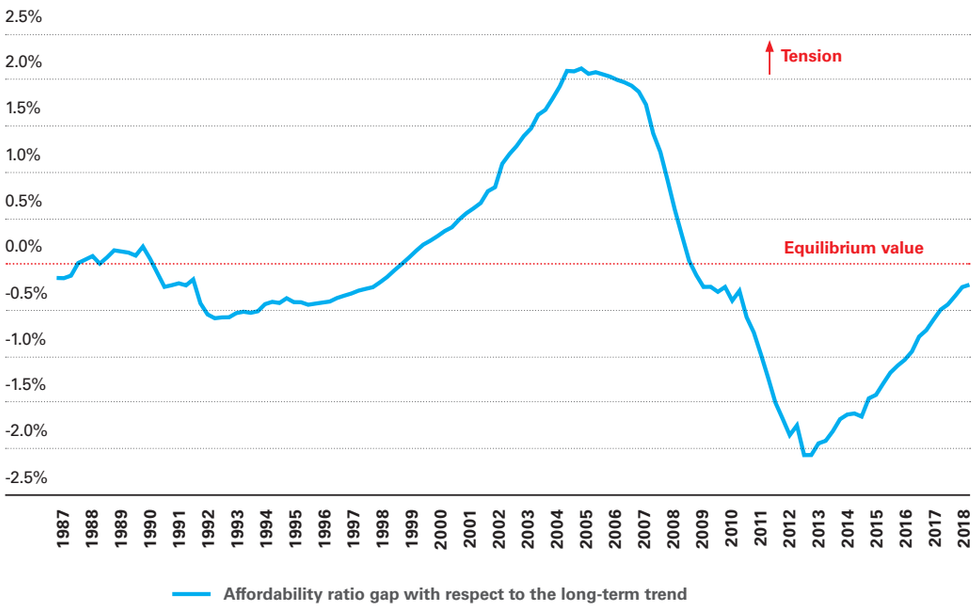
In order to assess whether housing is overpriced, the Bank of Spain has developed several indicators and models which, despite being based on aggregate data and subject to a high degree of uncertainty, serve as an indication to monitor the possible deviation of house prices with respect to values that could be considered equilibrium. Specifically, the Bank of Spain uses four indicators of imbalance. Two of these are gaps calculated as the difference between the value of the interest rate variable in each period and its long-term trend for (i) house prices in real terms and (ii) the ratio of house prices to household disposable income. The other two indicators are based on somewhat more complex econometric models.[9] Note that these indicators use the disposable income of households resident in Spain and therefore take into account the purchasing power of the local population. This point will be discussed later.

Accordingto the Bank of Spain's own estimates, **the price of housing at a national level is currently close to equilibrium**. In fact, some of the components of the house price equilibrium indicator already scored slightly positive values in the first half of 2019, although the average remained very close to the equilibrium.[10] In this article, we use the second of the aforementioned indicators, based on the affordability ratio gap. The trend in this indicator, which can be seen in the following chart, shows that the price of housing in Spain as a whole is effectively approaching its equilibrium value.

**Housing is not overvalued at a national level but in Barcelona, Madrid and the Balearic Islands the price is above equilibrium**

### The national affordability ratio is close to equilibrium

(pps)




**Notes:** The affordability ratio is the price of a property in relation to the disposable income of a median household. The gap is the difference between the affordability ratio and its long-term trend. The long-term trend is calculated using a Hodrick-Prescott filter from a tail with a smoothing parameter equal to 400,000.
**Source:** CaixaBank Research, based on data from the Bank of Spain.

(9) In particular, the third indicator of imbalance is based on a regression of house prices, in real terms, related to household disposable income and mortgage interest rates. The fourth is based on an error correction model in which, in the long term, house prices in real terms depend on household disposable income and mortgage interest rates. Long-term trends are obtained using a Hodrick-Prescott filter from a tail with a smoothing parameter equal to 400,000. See the «Financial Stability Report» from Autumn 2019 for more details.

(10) Other estimates, such as that of the European Central Bank or the Federal Reserve in Dallas, also suggest that house prices in Spain are close to their equilibrium value, with some indicators already showing slight overvaluation.

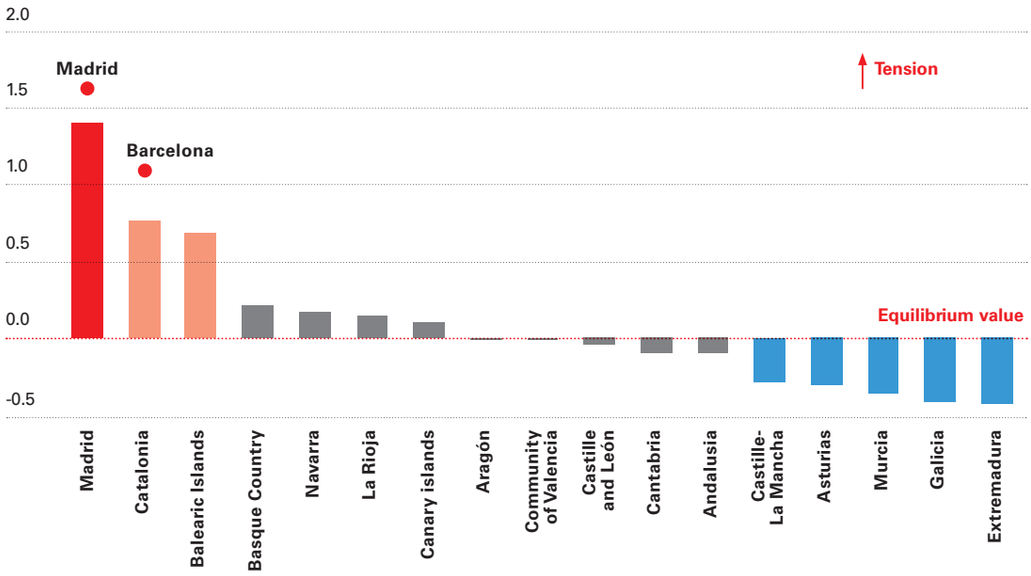


IS Inmobiliario 2020 ENG.indd 30 7/1/20 17:16

If we apply the methodology developed by the Bank of Spain in our estimates of the affordability ratio at the level of autonomous community, we find that only three (Madrid, Catalonia and the Balearic Islands) have figures higher than the equilibrium value and four other communities (Basque Country, Navarre, La Rioja and the Canary Islands) would be slightly above their equilibrium value. At a municipal level, we can only reconstruct a sufficiently long historical series of house prices for the cities of Madrid and Barcelona. In both cases these estimates suggest that house prices have become decoupled from the trend in household income, resulting in **notable tension in affordability ratios for the local population**.

## Gap between the domestic affordability ratio compared with its long-term trend in autonomous communities

(pps)




**Notes:** Data from Q2 2009. The gap is the difference between the affordability ratio and its long-term trend. The long-term trend is calculated using a Hodrick-Prescott filter from a tail with a smoothing parameter equal to 400,000. The affordability ratio is calculated as the price per square metre multiplied by 93.75 (average surface area of the property according to the Bank of Spain) divided by the median household income. The price of housing comes from linking the series by the Ministry of Public Works with that of the INE (available from 2007). The median wage comes from the salary structure survey (available up to 2017) while the values for 2018 and 2019 have been extrapolated from wage costs (ETCL). For the cities of Barcelona and Madrid, house prices before 2005 have been obtained from municipal sources, while the median municipal wage comes from internal CaixaBank data.
**Source:** CaixaBank Research, based on data from the Ministry of Public Works, National Statistics Institute and internal data.

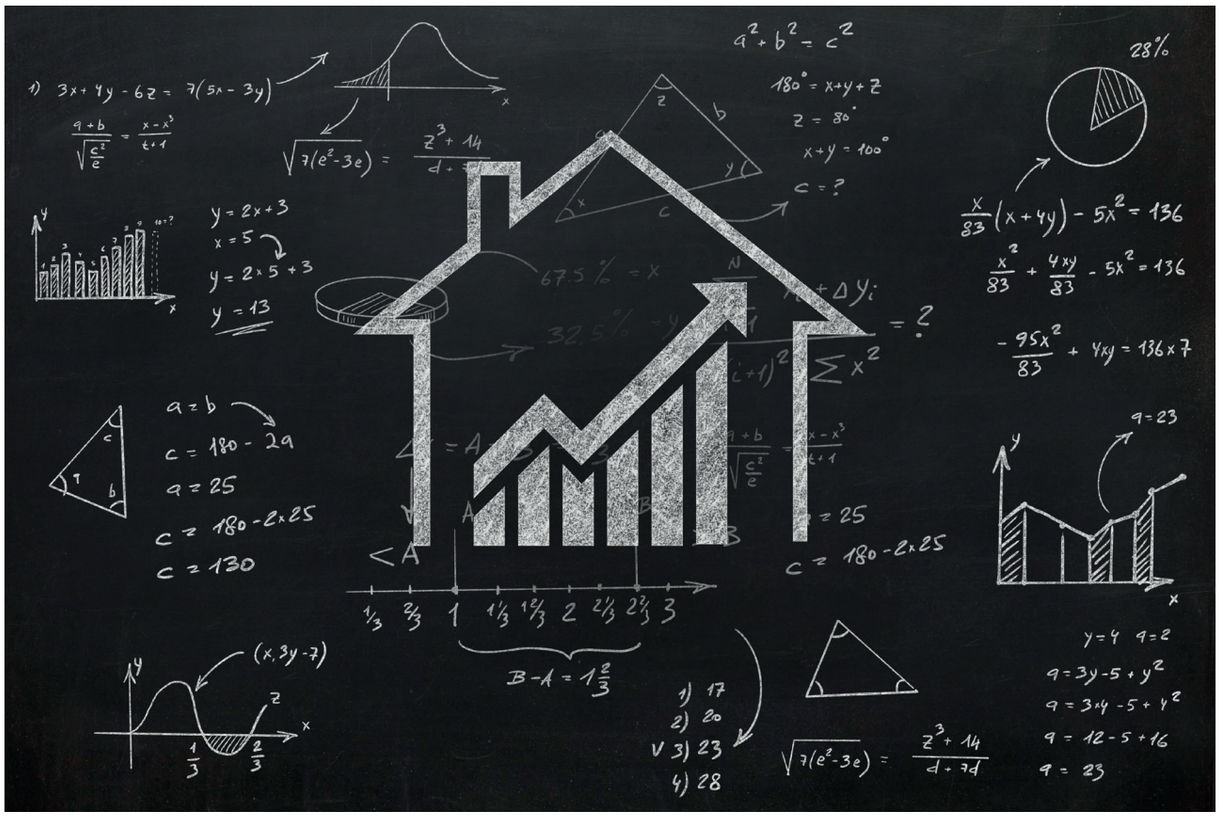
## In large cities there are signs of house prices decoupling from local income

These findings may give rise to some uncertainty about the possibility of price correction in the most stressed areas. However, it is important to remember that, as already mentioned, affordability ratios only take into account the purchasing power of domestic demand. In those cases where other types of demand for housing are significant (foreigners, investors, etc.), buyers which, in many cases, have a greater purchasing power than the average local population, it is possible that the affordability indicators for domestic housing may be above their equilibrium value. In this respect,



IS Inmobiliario 2020 ENG.indd 31 7/1/20 17:16

# Real Estate




whether prices in the most stressed areas can be corrected will depend partly on the trend in non-domestic demand. **The main forecasting scenario of CaixaBank Research predicts a moderation in the growth rate of house prices but no abrupt price adjustment is expected in large cities**. In particular, forecasts for the trend in real estate at a municipal level[11] point to the current expansion continuing, supported by increasing urbanisation which will continue to attract talent to the most dynamic cities, and also by these cities remaining very attractive for international investors.

(11) Forecasts based on a hierarchical model that combines an ARIMA model to capture trends over time and a GBM model to capture demographic dynamics, population movements, economic activity and tourism.



IS Inmobiliario 2020 ENG.indd 32 7/1/20 17:16

## Indicators and forecasts

Annual change (%), unless otherwise specified

| | Average 2000-2007 | Average 2008-2014 | Average 2015-2017 | Data 2018 | Forecast 2019[1] | Forecast 2020[1] | Trend |
|---|---|---|---|---|---|---|---|
| ***Economic activity indicators*** | | | | | | | |
| Total GDP | 3.4 | -1.3 | 3.0 | 2.4 | 1.9 | 1.5 | |
| GVA construction | 3.1 | -9.8 | 4.4 | 5.7 | 3.7 | 1.7 | |
| Investment in construction | 5.4 | -9.4 | 3.7 | 6.6 | 1.4 | 1.1 | |
| Investment in housing | 5.4 | -8.5 | 10.2 | 7.7 | 2.9 | 2.1 | |
| Investment in rest of construction | 3.1 | -9.8 | 4.4 | 5.7 | -0.4 | -0.2 | |
| New building permits (thousands) | 642 | 94 | 65 | 101 | 110 | 115 | |
| New building permits | 2.8 | -28.7 | 27.5 | 24.7 | 9.2 | 4.5 | |
| Certificates of final completion (thousands) | 482 | 230 | 47 | 64 | 90 | 105 | |
| Certificates of final completion | 8.3 | -34.9 | 10.0 | 17.8 | 39.9 | 16.7 | |
| Synthetic indicator for construction[5] | 3.1 | -7.9 | 5.2 | 7.6 | 3.6 | - | |
| Confidence in the construction sector (level)[5] | 13.1 | -41.8 | -30.6 | -4.6 | -6.4 | - | |
| ***Labour market*** | | | | | | | |
| Total workers registered with Social Security | 3.5 | -2.4 | 3.3 | 3.1 | 2.6 | 2.0 | |
| Registered workers in construction | 6.1 | -13.5 | 4.4 | 6.7 | 5.2 | 2.7 | |
| Construction of buildings | - | -14.4 | 6.1 | 9.2 | 6.9 | 3.0 | |
| Civil engineering | - | -16.4 | -0.8 | 3.1 | 3.5 | 1.9 | |
| Specialised construction | - | -8.9 | 3.8 | 5.5 | 4.2 | 2.4 | |
| Registered workers in real estate activities | 10.3 | 2.1 | 6.1 | 7.0 | 6.0 | 1.9 | |
| Total employees (LFS) | 4.1 | -2.7 | 2.6 | 2.7 | 2.3 | 1.4 | |
| Employees in construction (LFS) | 6.7 | -14.0 | 2.5 | 8.3 | 5.0 | 1.5 | |
| Temporary employment rate in construction (%) | 57.6 | 39.6 | 42.0 | 40.7 | 40.0 | 40.0 | |
| Unemployment rate in construction (%) | 7.5 | 22.8 | 14.2 | 10.0 | 9.6 | 9.0 | |
| ***Demand for housing*** | | | | | | | |
| Sales[2] (thousands) | 886 | 388 | 410 | 518 | 515 | 526 | |
| Sales[2] | -0.1 | -8.7 | 14.7 | 10.8 | -0.5 | 2.0 | |
| New housing[2,5] | 12.1 | -13.4 | 4.0 | 10.2 | 1.4 | - | |
| Second-hand housing[2,5] | -7.8 | -5.0 | 17.5 | 10.9 | -4.2 | - | |
| Foreign sales[3] | -22.1 | 6.7 | 13.5 | 4.6 | 1.8 | 2.0 | |
| Second home sales[4] | -7.6 | -7.6 | 11.4 | 12.0 | -0.4 | 1.3 | |
| ***Prices*** | | | | | | | |
| House prices (Min. Public Works) | 12.9 | -5.7 | 2.1 | 3.4 | 3.2 | 3.0 | |
| House prices (INE) | - | -6.8 | 5.4 | 6.7 | 5.2 | 3.5 | |
| Land prices | 17.5 | -8.7 | 3.0 | -1.6 | 1.0 | 1.7 | |
| CPI rent[5] | 4.3 | 0.8 | 0.2 | 1.3 | 1.6 | - | |
| ***Affordability ratios*** | | | | | | | |
| House prices (% gross disposable income) | 6.5 | 7.4 | 6.8 | 7.4 | 7.5 | 7.4 | |
| Theoretical burden (% gross disposable income) | 35.1 | 37.5 | 30.5 | 32.3 | 33.0 | 32.5 | |
| Return on rent (%)[5] | 4.5 | 3.5 | 4.4 | 4.1 | 3.9 | - | |
| ***Financing [(5)]*** | | | | | | | |
| Number of mortgages | 5.8 | -20.9 | 12.6 | 11.3 | 4.9 | - | |
| Outstanding balance of credit to purchase housing | 14.8 | -1.4 | -3.2 | -1.9 | -1.3 | - | |
| New loans housing | 8.9 | -17.7 | 4.3 | 10.8 | -2.5 | - | |
| Outstanding balance of credit for property development | 23.6 | -12.8 | -10.0 | -17.1 | -14.3 | - | |
| NPL ratio of credit for housing (%) | 0.5 | 3.5 | 4.9 | 4.4 | 3.9 | - | |
| NPL ratio of credit for property development (%) | 0.4 | 20.0 | 26.2 | 10.9 | 7.7 | - | |

**Notes:** 1. Forecasts at November 30, 2019. 2. The 2000-2007 average for house sales corresponds to the period 2004-2007 and the data come from the Ministry of Public Works. National Statistics Institute's sales figures as from 2007. 3. Foreign sales according to the Ministry of Public Works. 4. Sales of second homes are estimated based on the sales carried out in a province other than the buyer's residence. 5. The data in the «Forecast 2019» column correspond to cumulative data up to the latest data available for 2019.

**Source:** CaixaBank Research, based on data from the National Statistics Institute (INE), Ministry of Public Works, Ministry of Employment and Social Security and Bank of Spain



IS Inmobiliario 2020 ENG.indd 33 7/1/20 17:16

# Real Estate

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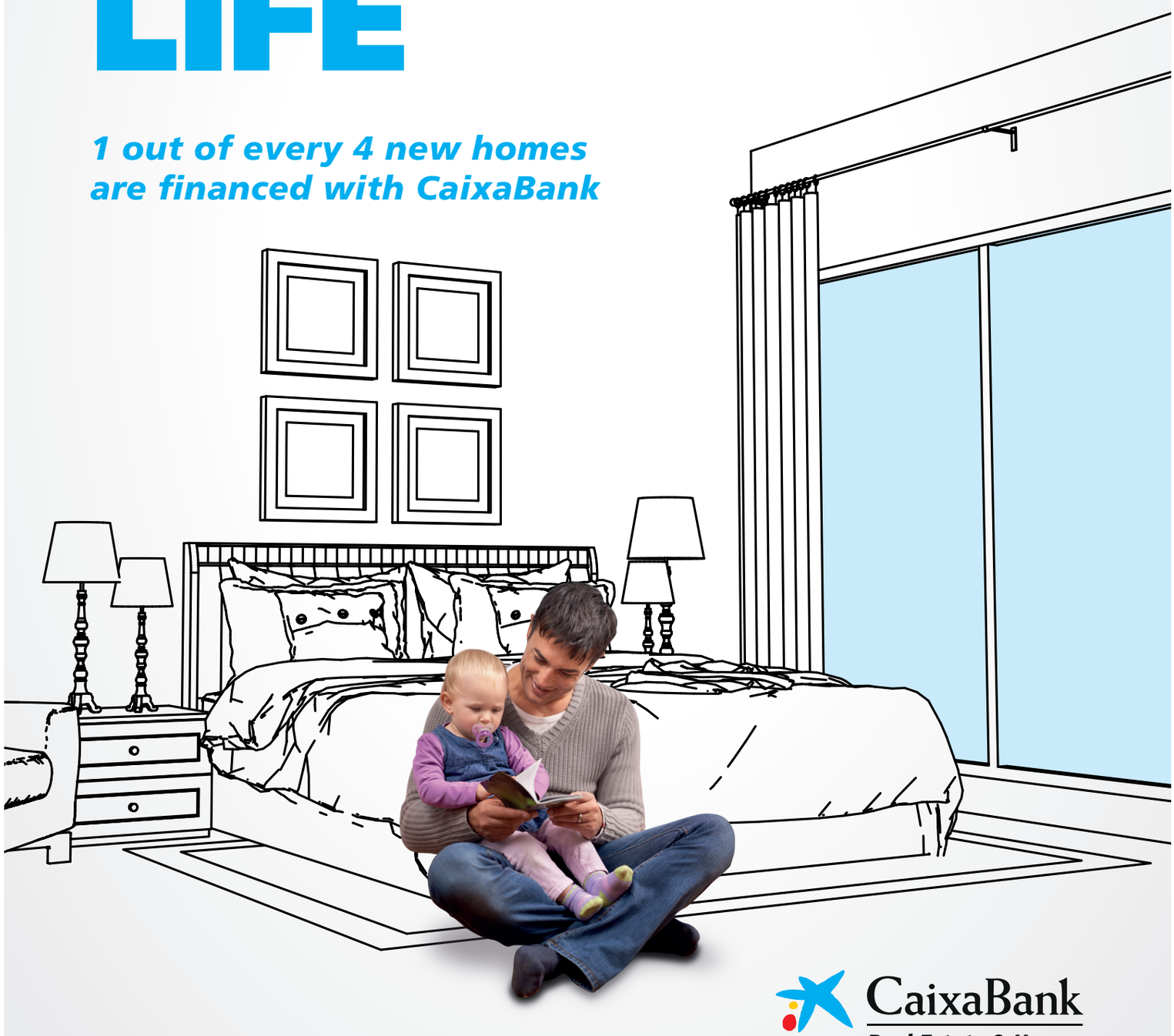

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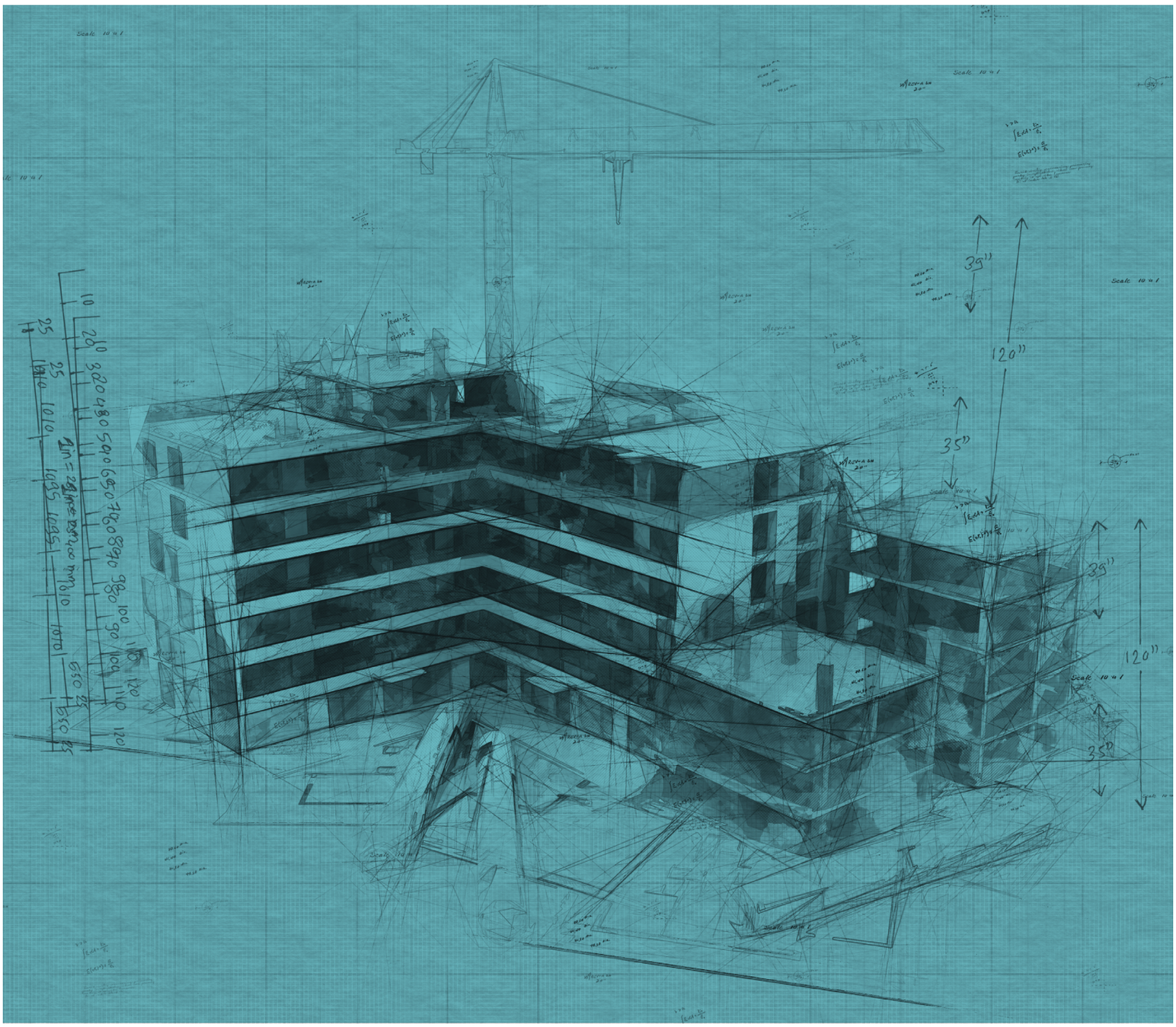

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