

Real Estate

Sector Report

2nd Semester 2020

Spain's real estate sector
after the shock of COVID-19



Executive
summary of the
sector's outlook



COVID-19 SPECIAL:
the post-shock
figures

To buy or to rent?
A question of income
but particularly of
savings capacity





SECTOR REPORT

Real Estate Second Semester 2020

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

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TO BUY OR TO RENT?

A novel approach to study the potential of Spanish renters who could afford to buy their own home. It is estimated that, in Spain, around 49% of renters have a sufficiently high income to buy a home, although only 13% have the necessary savings.

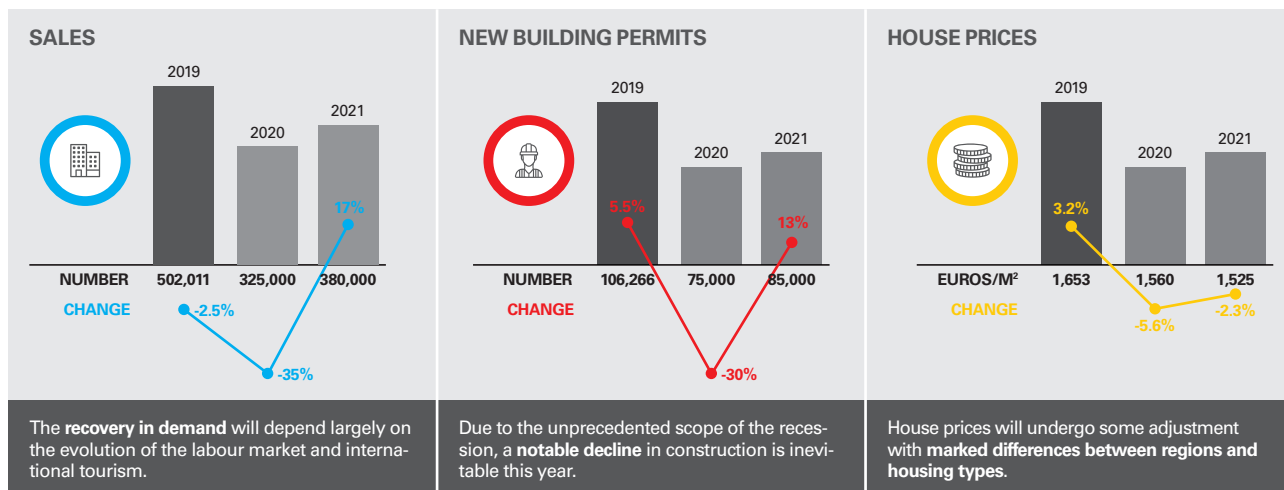
«In times of crisis, only imagination is more important than knowledge».

ALBERT EINSTEIN







Real Estate

CAIXABANK RESEARCH FORECASTS FOR SPAIN'S REAL ESTATE SECTOR



THE FUNDAMENTALS OF THE REAL ESTATE SECTOR ARE MUCH STRONGER NOW THAN IN THE PREVIOUS CRISIS

	Households have less debt	2008	2019
	Debt ⁽¹⁾	128.8	91.2
	Financial costs ⁽¹⁾	5.8	0.6
	Affordability ratio	8.6	7.0
	Construction firms are more financially solid	2008	2018
	Financial costs ⁽²⁾	15.6	3.5
	Equity ⁽³⁾	20.9	36.3
	Short-term debt ⁽³⁾	54.1	42.9
	Medium and long-term debt ⁽³⁾	6.1	2.0
	There is no surplus of new housing	2006	2018
	New building permits	865,561	106,266
	Net creation of households	427,700	134,176
	Ratio (permits divided by households)	2.0	0.8
	Banks are less exposed to the real estate sector	2008	2019
	Credit to developers and construction firms ⁽⁴⁾	23.6	8.8
	NPL ratio for credit to developers and construction firms (%)	38.6 ⁽⁵⁾	6.1

Notes: (1) As a percentage of gross disposable income. (2) As a percentage of gross economic profit/loss. (3) As a percentage of total assets and liabilities. (4) As a percentage of total outstanding credit balance. (5) Data from 2013 (maximum value).

Source: CaixaBank Research, based on data from the National Statistics Institute, Ministry of Transport, Mobility and Urban Agenda and the Bank of Spain.

To buy or to rent?
A question of income but particularly of savings capacity

49%

of renters in Spain have enough income to buy a home

13%

also have the savings required to buy one

Executive summary

Spain's real estate sector after the shock of COVID-19

The COVID-19 pandemic is severely impacting economic activity and the real estate sector is also feeling the effects, albeit not as much as other sectors. Specifically, at CaixaBank Research we expect GDP to fall by between 13% and 15% in 2020 and not to return to pre-crisis levels until the end of 2023. However, despite the seriousness of the situation and the high uncertainty regarding how the pandemic will develop, it is important to note that the sector is supported by a much **stronger foundation than in the previous crisis of 2008**.

Before the outbreak of the coronavirus, the financial situation of Spanish households and companies in the sector was generally healthier than it was 12 years ago. Moreover, the number of new properties being built was not excessive in relation to the demographic trend. Banks also have much better solvency and liquidity ratios. **All these factors make us more confident in the sector's ability to weather the current crisis.**

Nevertheless, the scope of the economic impact of COVID-19 will significantly affect the labour market and, consequently, the demand for housing. **House sales fell by 39.2% year-on-year in April and we expect a drop of between 30% and 40% for 2020** (with a gradual recovery in 2021). Household income is being eroded and uncertainty about future employment prospects may lead to an increase in precautionary saving by households and the postponement of long-term investment decisions. **House sales to foreigners, who accounted for 12.5% of the total in 2019, will be particularly affected.**

Construction activity was directly hit during the state of emergency but resumed relatively quickly

as restrictions were lifted. All the same, a significant slowdown in the initiation of new building projects is highly likely due to the uncertain climate. **New building permits could decline by 20% to 40% by 2020.**

Given the drop in demand, **house prices will undergo a significant adjustment and, by the end of 2021, could be 6% to 9% below their pre-crisis levels in Spain as a whole.** Nevertheless, there will be considerable differences, both geographical and in the type of housing, with all the evidence pointing to tourist areas and second-hand properties suffering the biggest decline.

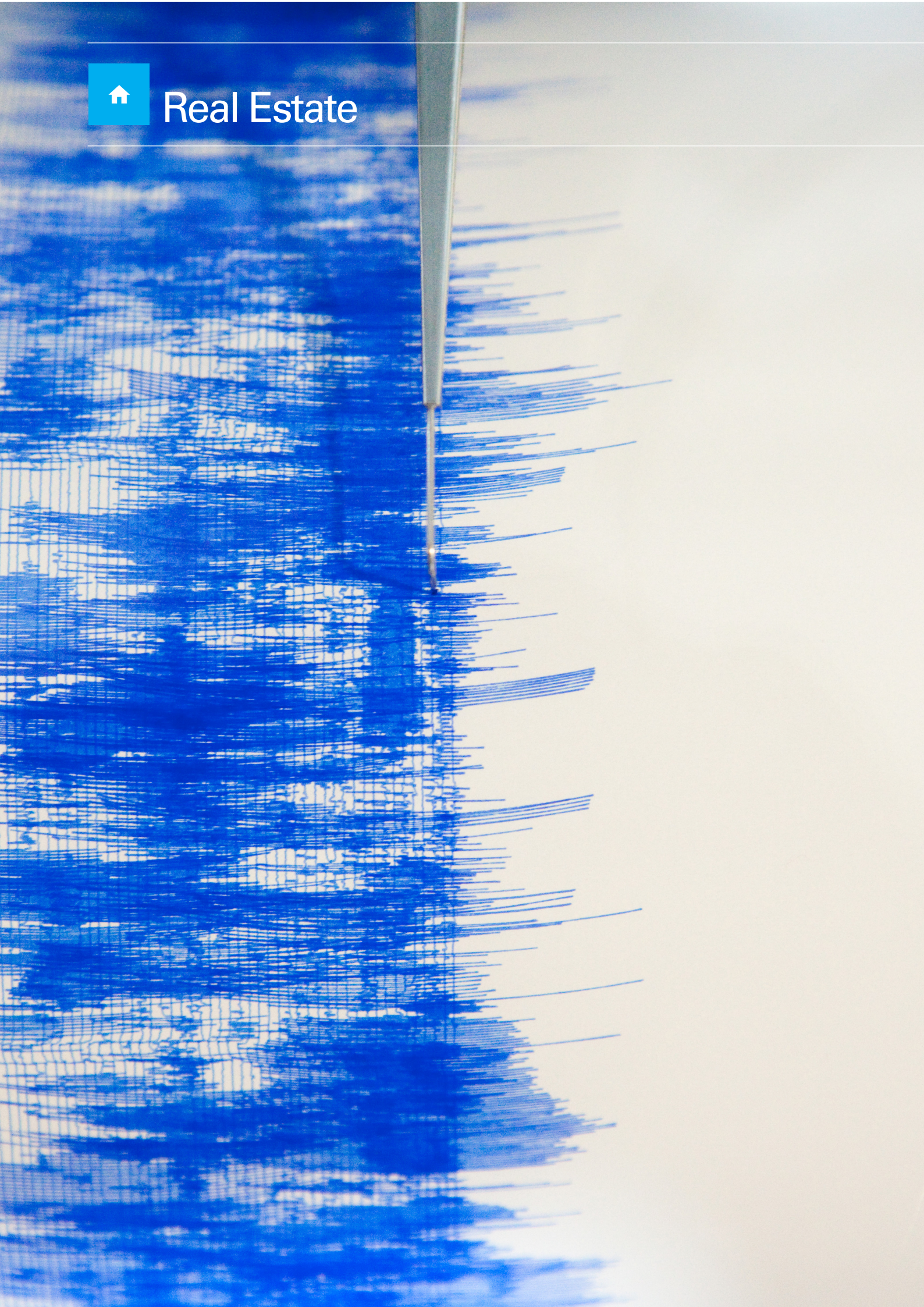
The **rental market is likely to be less affected** as it is supported by higher demand given the difficulties faced by households to buy a home. In fact, we have devoted the article «To buy or to rent? A question of income but particularly of savings capacity» in this Sector Report to an analysis of housing affordability for renters.

Finally, we should also note that the current crisis is triggering changes in many different aspects of our lives, a large number of them related to our residential preferences (never have we spent so much time in our homes!). The pandemic could also accelerate some changes in areas such as the modernisation of homes, which would support the transition to a more sustainable economy.

Once the peak of the epidemic is over, we must focus all our efforts on recovery. The resulting economic and social changes may be far-reaching and will entail a transformation of the real estate market. Given this situation, we must be able to turn the challenges into opportunities. Only then will we *#ComeOutStronger*.



Real Estate



The post-shock figures

An analysis of the economic outlook, demand, supply and price of housing and the structural changes in Spain's real estate sector within the context of the coronavirus crisis



ECONOMIC OUTLOOK

An unprecedented global economic recession

The spread of the coronavirus throughout the world has come as an unprecedented shock to the global economy. The Spanish economy has been particularly hard hit, partly because of its greater dependence on international tourism. In the second half of the year, we expect the economic recovery to take hold thanks to the easing of social distancing measures and the boost provided by the wide range of fiscal and monetary measures adopted. However, we believe the economy will continue to operate below potential over the next few years.

At the beginning of the year, the forecasts pointed to Spain's real estate sector continuing to expand in 2020, albeit at a more moderate rate than in previous years. However, these scenarios were soon overtaken by the global spread of the coronavirus. Although it is still very difficult to calculate the precise economic consequences of this crisis (uncertainty remains very high), they will most probably be of an unprecedented nature, both for the world and for the Spanish economy and, specifically, for the real estate sector.

Global activity will fall sharply in 2020 (by around 4%), a far greater decline than the slump experienced during the Great Recession of 2009, due to the economic effects of the social distancing measures implemented by most countries to counteract the spread of the virus. To cope with this severe economic shock, a battery of fiscal and monetary measures of extraordinary scope and depth have been rapidly deployed, with the aim of protecting the balance sheets of both households and businesses. The major central banks are also acting quickly and decisively, ensuring abundant liquidity and easier access to credit, as well as anchoring a low interest rate environment. These measures will help to boost economic recovery as from the second half of 2020, a process that should culminate in strong growth in 2021 which could exceed 6% globally.

The global and Spanish economy are contracting dramatically, a slump that will affect the real estate sector in 2020. The economic measures being implemented will support the recovery in activity

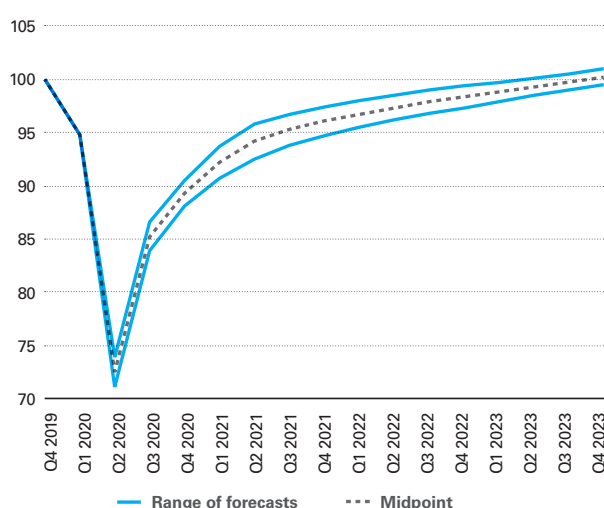
The Spanish economy is one of the developed economies with the largest decline in activity in the first half of 2020 due to the severe impact of the pandemic and the country's greater dependence on tourism, a sector that has been seriously affected by the crisis as a result of restrictions on the international movement of people. Consequently, after plummeting by 5.2% quarter-on-quarter (-4.1% year-on-year) in the first quarter of the year (the biggest quarter-on-quarter drop since the National Statistics Institute's historical series began in 1995), all available indicators suggest that, in Q2, economic activity suffered a much bigger decline as more weeks were affected by the restrictions associated with the state of emergency. However, from May onwards the initial phases of the lifting of the lockdown helped to gradually reactivate economic activity, as shown by indicators such as electricity consumption and card spending.

Economic activity will continue to pick up in the second half of 2020. Nevertheless, the uncertainty surrounding the forecast scenario is exceptionally high, especially because it is not clear how the pandemic will evolve in the future. We have therefore chosen to present a central range of forecasts. One of the key assumptions is that social distancing measures will have to be maintained well into 2021, until an effective vaccine or treatment for COVID-19 is discovered. During this time, it is likely that further outbreaks of infection will occur but it is assumed these will be localised and temporary, and that another full lockdown will not be necessary. All this will hinder the economy's ability to recover which, although we expect to see a significant rebound in 2021, will be unlikely to return to pre-crisis activity levels before 2023.¹

① For a detailed description of this scenario's assumptions and the complete macroeconomic picture, see the article "Economic activity begins to gradually reactivate as the lockdown is lifted", available at <https://www.caixabankresearch.com/en/economics-markets/recent-developments/economic-activity-begins-gradually-reactivate-lockdown-lifted>.

Trend in GDP

(100 = Q4 2019)



Higher range	2020	2021
GDP	-13.0	10.9
Unemployment rate	19.0	18.7
Unemployment rate + ERTE	28.4	19.2
House prices	-4.8	-1.6

Lower range	2020	2021
GDP	-15.0	10.1
Unemployment rate	19.7	20.3
Unemployment rate + ERTE	29.4	21.3
House prices	-6.4	-2.9

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



DEMAND FOR HOUSING

Foreign demand for housing, key to the sector's recovery

The COVID-19 crisis is severely affecting house purchases. Once the slump in transactions during the lockdown has been overcome, the evolution in demand will largely depend on the recovery of the labour market and international tourism over the coming months. Our forecast scenario predicts a gradual recovery in demand, although the more than half a million transactions recorded in 2019 will not be repeated, even in 2021.

House sales were severely hit by the coronavirus crisis in the first half of 2020.

During the weeks the state of emergency was in place, the buying and selling of property was in hibernation. Restrictions on non-essential movements and the temporary closure of physical real estate agencies and notary offices except for urgent, pressing cases paralysed new real estate transactions. According to figures from the National Statistics Institute, in April sales slumped by 39.2% year-on-year while credit to purchase housing was down by 51.0% year-on-year. Similarly, national accounting data show that residential investment fell by 9.0% quarter-on-quarter in Q1 2020, a drop of around 50% in the second half of March if we assume that residential investment had remained stable until 14 March.

Despite these very large figures, **thanks to digital technologies the sector has remained operational throughout the state of emergency.** According to the information published on several real estate portals, online property searches increased significantly during the weeks of lockdown (especially related to homes with more outdoor space, pointing to changes in demand preferences) and real estate agencies have continued to offer their services online (with virtual visits to apartments, etc.). With regard to **new builds**, market data indicate that the rate of deliveries has followed the planned schedule except for some occasional delays (at present, houses are being delivered whose purchase decision was made approximately 18 months ago), although the sale deadlines for new developments are being extended.



Once this first stage of hibernation has been overcome and the economy adapts to the «new normal», one question comes to the fore: **how will housing demand evolve in the medium term?** To answer this question, we will examine the main factors that determine demand for housing: the gross disposable income of households, the formation of new households, financial conditions, foreign demand and the demand for second homes.

1. Gross disposable household income

The COVID-19 crisis is having an unprecedented impact on the labour market. Social Security registration data showed a decrease of almost 950,000 workers between 12 March and 30 April (the period with the greatest restrictions on activity), most of these workers being on temporary contracts (approximately 70% of the total). This figure does not include employees affected by Spain's furlough measures or ERTE (around 3.4 million in April)² as they are still registered as employees with Social Security even though they are not working, nor the self-employed whose work has been interrupted (1.3 million in April). In other words, if we take into account the workers leaving the Social Security registration system, those affected by furlough measures and self-employed workers who have requested the extraordinary allowance for business interruption, we calculate that more than 30% of workers were unable to work on 30 April.

However, as economic activity returns to normal, furloughed workers are gradually starting to return to their jobs and employment is being created again (in May, Social Security registration increased by 188,000 and the number of furloughed employees fell to just under 3 million). We expect this improvement to continue in the second half of the year, although 2020 could still end with an increase in unemployment of between 1.7 million and 1.9 million compared to Q4 2019.³ The unemployment rate would rise in Q3 2020 to an interval of 21.5% to 22.7%, falling again in 2021 (between 18.1% and 19.8% by the end of 2021).

② Workers affected by furlough measures (ERTE) tend to be on a permanent contract.

③ These forecasts assume that, in Q4 2020, approximately 15% of workers affected by furlough measures or by their business closing will become unemployed.



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The bleak outlook for the labour market has had a severe impact on household income. The various social and economic support measures adopted by the government aim to offset part of these losses by, for example, relaxing the conditions to receive unemployment benefit, providing assistance for the self-employed and specific allowances for temporary workers who are not entitled to unemployment benefit, as well as approving a minimum living wage and other measures, such as guaranteeing basic supplies and the moratorium on mortgages and consumer loans for vulnerable families.⁴ The banking sector has also taken the initiative to complement several of these measures, for instance by extending the mortgage moratorium from 3 to 12 months.⁵ Moreover, the property development sector has implemented supportive measures such as moratoriums on the payment of deposits normally put down before a property is delivered.

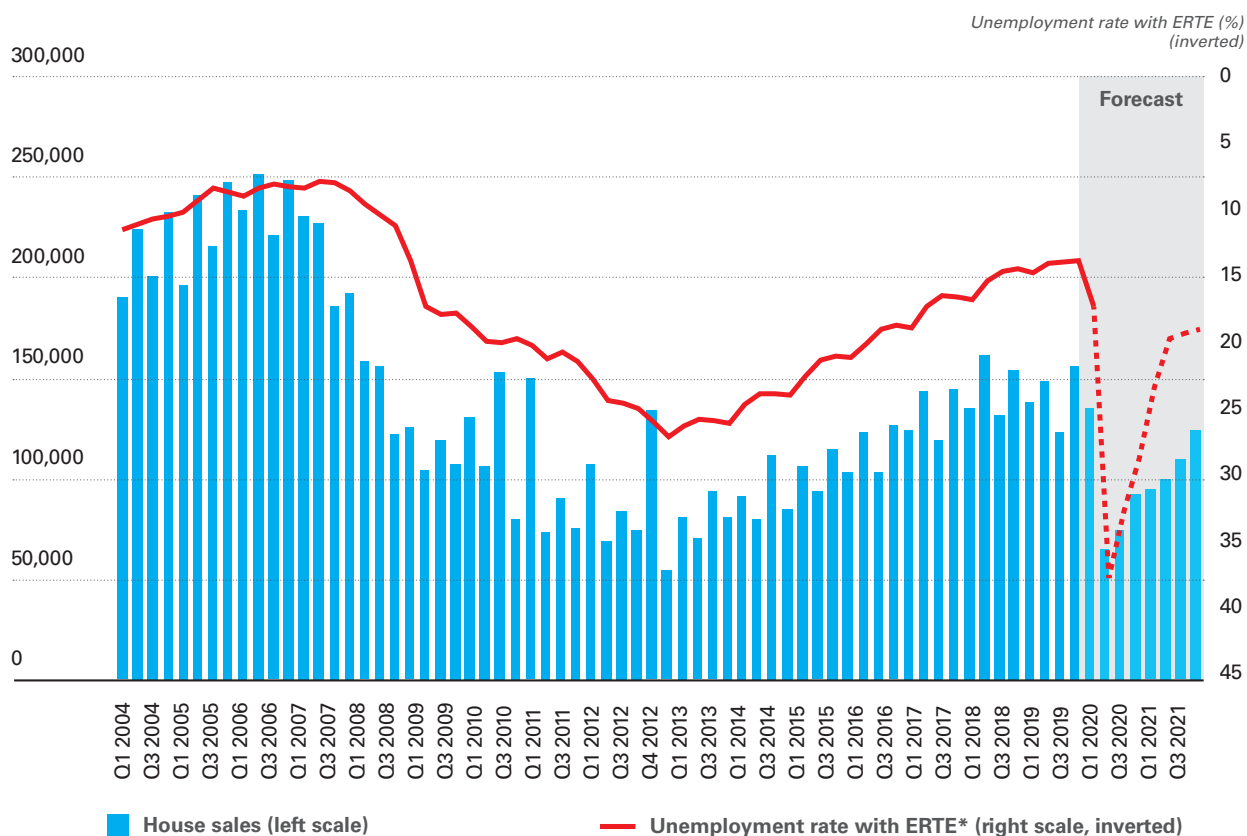
Increased uncertainty about the economic and employment outlook is likely to affect housing demand over the coming quarters. Generally speaking, in economic crises consumers tend to increase their precautionary savings and **postpone their consumption of durables and long-term investments**, such as buying a home. This is being borne out by the available data: investment in residential housing construction fell by 9.0% in Q1 2020, the largest decline since the series started in 1995. Furthermore, European Commission data for Q2 2020 show that the percentage of households intending to buy a home in the next 12 months is very close to its historical minimum.

④ For more details, see the article "Economic measures to counteract the impact of COVID-19 in Spain", available at: <https://www.caixabankresearch.com/en/economics-markets/labour-market-demographics/economic-measures-counteract-impact-covid-19-spain>.

⑤ See the communiqué (in Spanish) by the Spanish Banking Association at: <https://www.aebanca.es/noticias/comunicados/los-beneficiarios-de-la-moratoria-aprobada-por-el-gobierno-podran-complementar-la-con-la-moratoria-sectorial/>.

Demand for housing is very sensitive to labour market trends

Number of sales



Note: (*) Number of unemployed and furloughed workers (ERTE) out of the total labour force.

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

Job losses among the younger population and the decline in immigration will slow down the formation of households and consequently the demand for a main residence

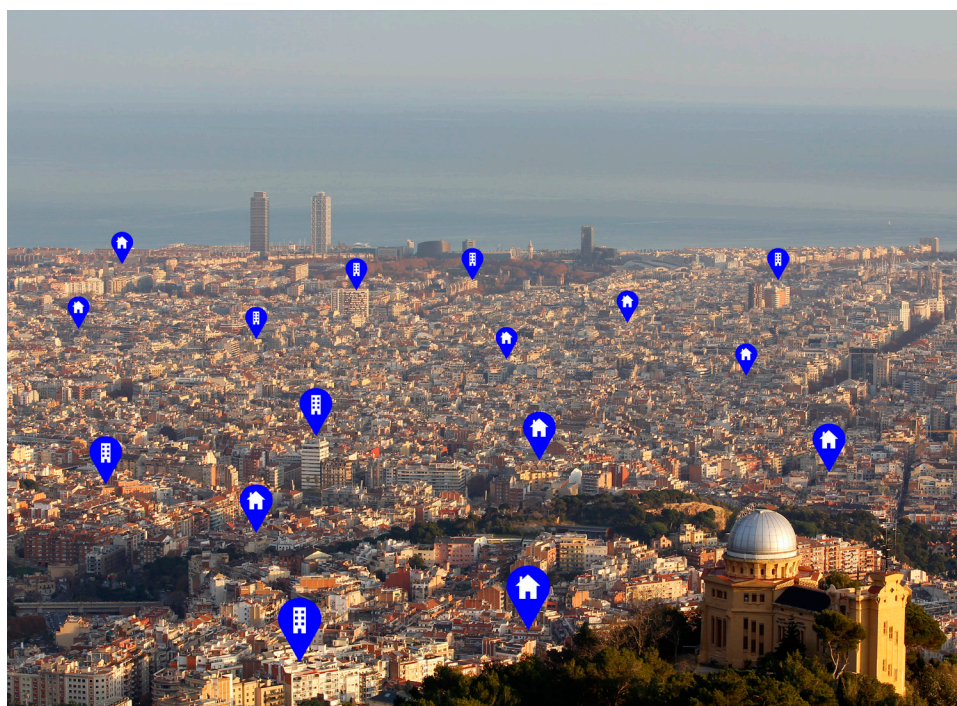
2. Creation of households

Household formation will most likely slow down during the crisis. On the one hand, the deteriorating employment situation of young people, who are more affected by job losses since many of them are often on temporary contracts, may lead them to postpone the decision to form their own household. On the other hand, it is very likely that the restrictions on international movements established by many countries as a result of COVID-19 will curb the number of immigrants entering Spain in 2020. It should be noted that, since 2015, Spain has once again become a net recipient of immigrants after years of crisis in which there were many more immigrants departing than arriving.⁶ Indeed, of the 322,600 new households that have been formed in the past five years,⁷ a large share include foreign nationals (76% of the total), either exclusively or in mixed households. In fact, in the past two years (2018 and 2019), households made up solely of Spanish nationals have decreased, highlighting the importance of immigration in maintaining Spain's population dynamics.

The composition of households in terms of nationality is relevant to the housing market, as the **propensity to rent is much higher among foreigners**: 65.6% rented their main residence compared with 12.5% of households comprised exclusively of Spaniards. Despite lower immigration inflows, demand for rental housing is expected to continue to rise as increased uncertainty about job prospects may affect the decision to buy, as already mentioned.

⑥ See the article «The return of immigration to Spain» available at <https://www.caixabankresearch.com/en/economics-markets/labour-market-demographics/return-immigration-spain>.

⑦ Figures from the continuous household survey (ECH). The data from the Labour Force Survey (EPA) show a slightly higher increase in the number of households between 2014 and 2019, of 384,900. We have used the ECH data because it provides a breakdown by nationality of household members and whether the main residence is rented or owned.



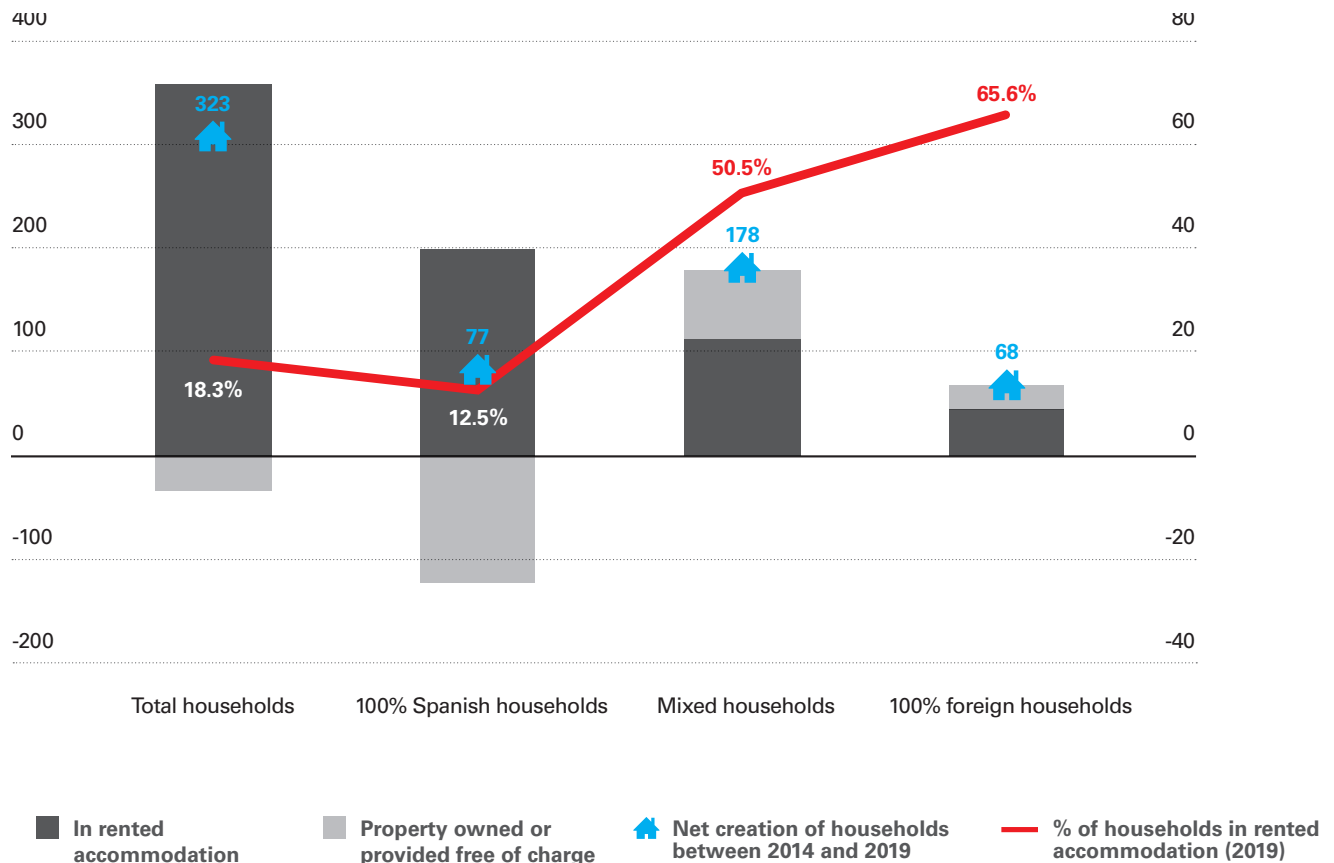


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In the past 5 years, households made up of foreign nationals have increased, these being more likely to rent

Net creation of households between 2014 and 2019 (thousands)

Households in rented accommodation (%)



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

3. Financial conditions

The COVID-19 crisis initially led to global financial conditions becoming notably tougher due to marked volatility in financial markets and risk aversion on the part of investors. The major central banks were quick to respond, however, acting rapidly and decisively. The ECB adopted a package of extraordinary measures in March, extended in April and June, aimed at ensuring abundant liquidity, easing credit conditions for households and businesses and anchoring a low interest rate environment.⁸

The low interest rate environment provides an important breathing space for families since it helps to ensure the financial burden borne by households due to debt interest payments remains very low (0.6% of gross disposable income in 2019).⁹ Benchmark interest rates are expected to remain around their current level for several years.

⁸ The measures adopted by the ECB include a series of Pandemic Emergency Longer-term Refinancing Operations (PELTRO), reducing the cost of TLTROs and increasing their volume, relaxing the various regulatory requirements on the financial sector, broadening the universe of assets accepted as collateral in liquidity injections in several markets and expanding the asset purchases planned for 2020.

Part of the decline in demand, related to tourism and foreigners, will last longer. However, demand for second homes by Spaniards might be less affected in relative terms

4. Foreign demand

In recent years, purchases by foreigners have been fundamental in boosting Spain's real estate sector, especially in large cities and tourist areas. In 2019, foreigners bought almost 63,000 homes in Spain, accounting for 12.5% of total purchases according to the College of Registrars. The geographical distribution is very uneven: while foreigners are barely present in some provinces, in other, more tourist-related provinces their share is highly significant, as in the case of Alicante with more than 40%.

As expected, COVID-19 has had a severe impact on foreign purchases. The global nature of the pandemic has meant that many countries have imposed restrictions on people's movements. In particular, the countries that tend to buy most Spanish properties (UK and France) have taken steps similar to Spain. We can therefore observe that Q1 sales to foreigners totalled 14,850, down by 6.4% year-on-year. The decline in property purchases by UK citizens (-14%) is particularly large, accentuating a downward trend that was already noticeable. On the other hand, French and German buyers, the second and third largest nationalities, held up fairly well in the first quarter, although the closing of borders and paralysis of the real estate market in the second quarter will slow down the trend for this variable.

⑨ The financial burden of debt has also been reduced, albeit to a lesser extent, by the decline in household debt: this represented 91% of gross household disposable income in 2019, slightly below the average household debt in the euro area and far below the peak reached in 2009 (132%).

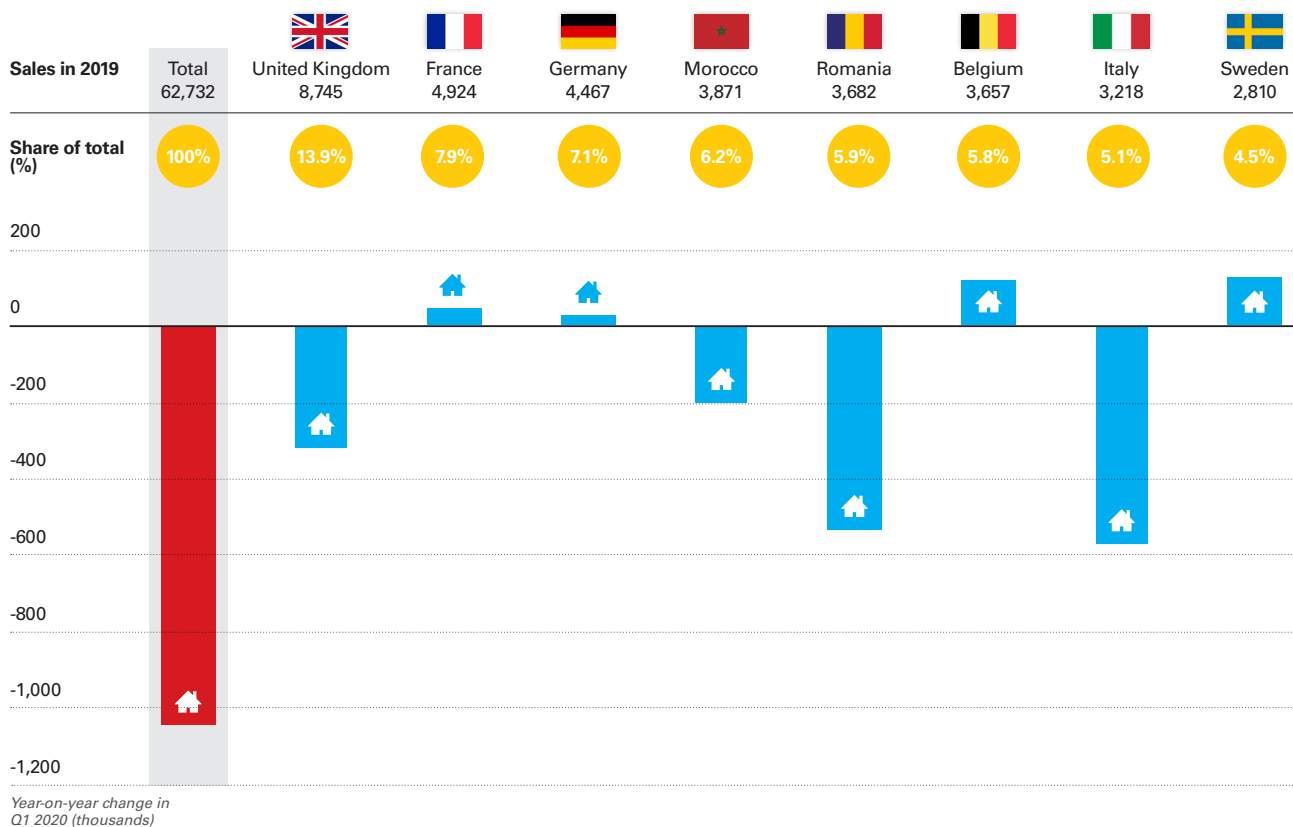




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Given the gradual recovery expected for international flows of people, the decline in foreign demand for housing (in many cases for holiday purposes or investment in tourist rental accommodation) will probably be more persistent and take considerably longer to recover. Nevertheless, in May and June GoogleTrends data show an increase in the popularity of searches for «property Spain» in the United Kingdom, «acheter maison Espagne» in France and «Haus Spanien» in Germany, suggesting international buyers are still interested. In addition, the low interest rate environment and volatile financial markets increase the attractiveness of the real estate sector compared with other investment alternatives. In this respect, domestic and international investors continue to show an interest in the Spanish market.

Sales to foreigners decline in Q1 2020



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

5. Demand for second homes

Second homes have a significant weight in the Spanish real estate market: they represent 14.6% of the stock of housing and in 2019 accounted for 13.6% of all sales (about 75,000).¹⁰ During the state of emergency, second homes unfortunately made the headlines because of unauthorised travel to these properties and the risk this posed by spreading the virus to less affected regions and populations. But it also highlighted the fact that owning a second home is a widespread practice in Spain.

¹⁰ Sales of second homes are estimated based on the sales carried out in a province other than the buyer's residence.



A household's age and economic situation are the main factors that influence the decision to acquire a second home.¹¹ Despite the fact that the crisis is affecting all households to a greater or lesser extent, the population aged over 40 with a medium-high income level, who are the potential buyers of second homes, are suffering less from its consequences. It is therefore to be expected that second home sales will decline less than sales overall, a pattern already observed in the previous recession: the share of second home sales increased from 13.4% in 2006 to 17.3% on average between 2008 and 2013.

¹¹ See the article «Second homes in Spain: seaside or sierra?» available at: <https://www.caixabankresearch.com/en/sector-analysis/real-estate/second-homes-spain-seaside-or-sierra>.

Outlook for house sales in 2020-2021

The following are the prospects and main aspects regarding the real estate sector in 2020-2021 according to CaixaBank Research, with the proviso that forecasts are subject to a much higher degree of uncertainty than usual:

- Job losses among the younger population and the decline in the number of immigrants moving to Spain will slow down the formation of households and, consequently, the purchase of main residences. Rented accommodation might be boosted by this situation.
- Higher uncertainty could increase precautionary savings and delay long-term investment decisions. However, financial conditions will support the recovery in demand.
- Part of the decline in demand, related to tourism and the foreign market, will be more persistent. On the other hand, demand for second homes by Spaniards might be less affected in relative terms.
- The combination of these factors leads us to estimate that real estate sales could fall by 30% to 40%, totalling 300,000 to 350,000 properties in 2020. The uncertainty is even higher in 2021 and we have therefore projected an interval of 310,000 to 450,000 properties.



SUPPLY OF HOUSING

A severe blow for a well-positioned sector

It is inevitable that the property development and construction sectors, which are very sensitive to economic conditions and confidence levels, will contract significantly this year. We expect a notable decline in new building permits and a severe impact on employment in the construction industry. However, the nature of the shock and the state of the sector before the appearance of COVID-19, much more favourable than a decade ago, suggest it should be able to recover.

Construction activity was directly affected throughout the state of emergency, especially during the two weeks when all non-essential work was restricted. The slump in cement consumption in April, -50% year-on-year, bears witness to this. However, as restrictions on economic activity have been lifted, construction work that was already underway has resumed relatively quickly and, despite some supply chain disruptions, no significant delays are expected in the delivery of new housing in 2020. The latest data available on **completion certificates**, for March, show that 81,700 homes were finished in the past 12 months (+17.6% year-on-year). Given that more than 100,000 homes were granted permits in 2019, we predict that between 80,000 and 100,000 could be completed this year.

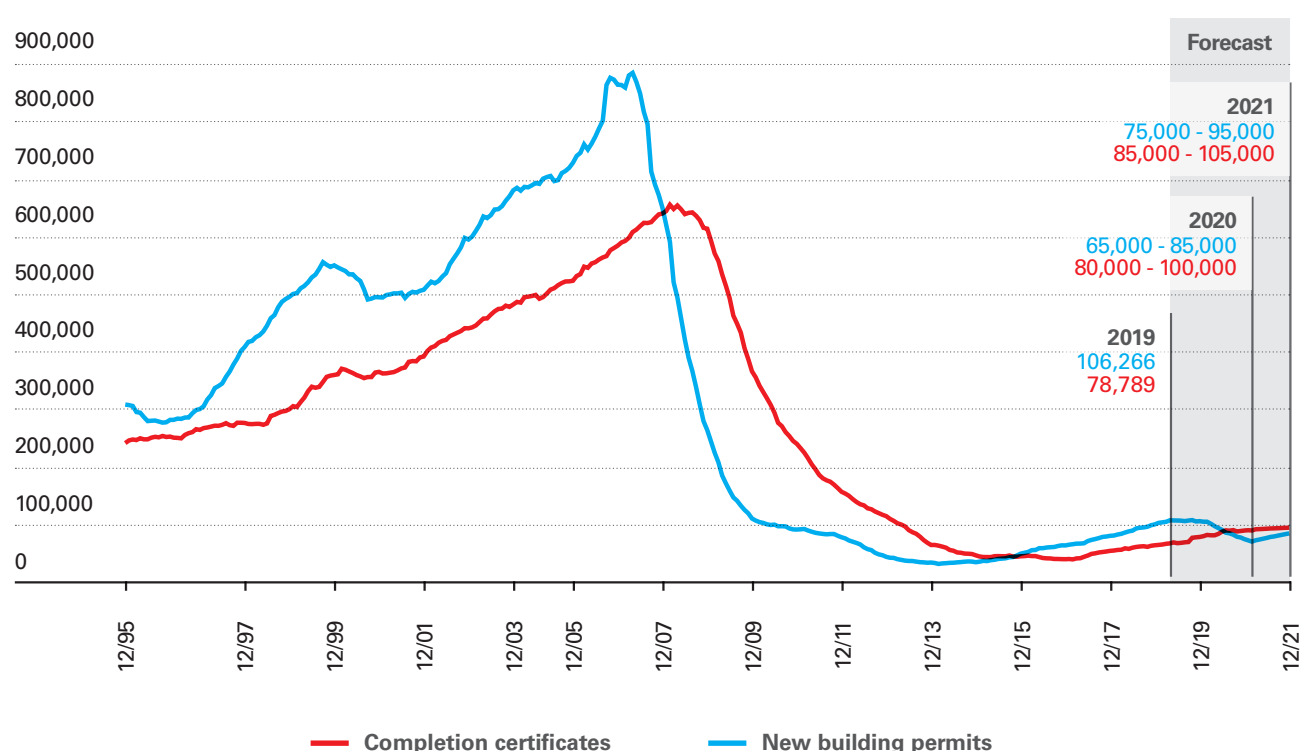
The uncertain climate will affect the rate at which new real estate projects are started

On the other hand, it is very likely that **the start of new building projects will slow down this year due to the uncertain climate and greater risk aversion**, which would affect the number of homes completed in 2021. New building permits fell by 37% year-on-year in March compared to an increase of 5.5% in 2019. The impact COVID-19 may have on new construction will largely depend on expectations regarding the persistence of the economic shock. Real estate development is a long-term business and requires an environment of relative price stability to ensure the development returns a profit within two years. In this respect, the decrease in the construction sector's economic sentiment index to -32.4 points in May (compared to an average of -7 points in 2019) points to further declines in activity over the coming months.

We therefore expect **the number of new building permits to fall significantly in 2020**. Uncertainty is very high and this is reflected in a relatively wide range of forecasts: we predict a decline of between 40% and 20%; i.e. 65,000 to 85,000 new building permits. 2021 should see a gradual recovery in new building permits thanks to less economic uncertainty and developments in the pandemic (between 75,000 and 95,000 homes).

New housing: severe impact in the short term, high inertia in the medium term

Number of homes (cumulative over 12 months)



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

The labour market has been hard hit by the pandemic. Between 11 March and 31 May, the number of workers registered with Social Security as employed in the construction sector fell by 5.9% (-75,000).¹² In addition, 93,400 construction workers were affected by furlough measures and 168,647 self-employed persons had applied for the extraordinary allowance due to business interruption as of 31 May. Therefore, 26.4% of the sector's registered workers at 11 March were not working by the end of May. This high percentage, however, is lower than the average for the economy as a whole (29.1%), since there are sectors such as hospitality (79.7%) and retail (36%) that have been much harder hit by the crisis (see the following chart). Real estate activities, on the other hand, have suffered relatively less in terms of Social Security registered workers (-6,700 workers between 11 March and 31 May, -4.5%) although a large number of workers have been furloughed (16.7%) and 43% of self-employed workers in the sector have requested the extraordinary allowance for business interruption.

¹² Construction lost 157,000 registered workers in the second half of March, although the figures for April and May were more positive and showed a notable recovery in the jobs lost.

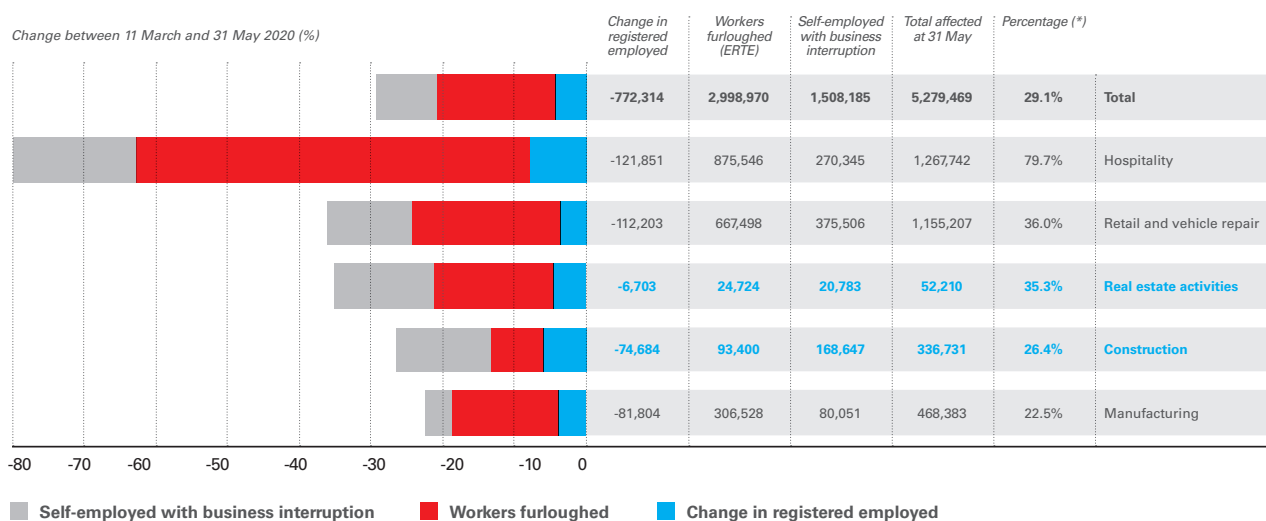


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Over the coming months, the expected number of jobs to be created by firms in the construction industry is not encouraging. In May, the European Commission's indicator for the sector's recruitment prospects stood at -30 points, 10 points better than the minimum reached in April (-40 points) but well below the average of -7 points recorded in the 12 pre-crisis months.

The big job losses seen in construction are due to the sector's typical employment system and company structure. Specifically, the larger number of jobs lost in an economic shock can be partly explained by a high degree of temporary employment (40% of workers in the construction sector were on a temporary contract in 2019), by a high proportion of self-employed workers (30% of the total) and by small companies (55% of construction companies in Spain have no employees and an additional 40% have fewer than 10). This situation highlights the sector's structural problems, which become more visible at times of crisis. In this respect, the strategy followed to exit the recession should promote company growth and human capital management, for instance via measures to retain skilled labour and invest in personnel training and education.

Unprecedented impact of COVID-19 on the labour market






Note: The graph covers a selection of economic activities. (*) Percentage of total registered employed at 11 March.
Source: CaixaBank Research, based on data from the Ministry of Inclusion, Social Security and Migration.

The current economic shock is of a very different nature than the one causing the previous recession, as it has not originated in the real estate sector. The starting point for economic agents is much more solid than in 2008

However, it is also very important to stress that **the sector's starting point is much more solid than when the previous crisis erupted in 2008**, suggesting it might recover more readily:

- **Construction companies and developers** have significantly improved their financial position. The considerable **reduction in the share of short-term debt** on company balance sheets is a determining factor in preventing liquidity problems from leading to solvency problems.
- **The production of new builds does not seem excessive** in relation to the structural need for housing. In 2019, new building permits totalled 106,266 homes (one eighth of the permits in 2006) compared to the 134,176 new homes created last year according to the EAP. In addition, new homes are being built in areas with proven high demand and a more dynamic demographic profile.
- **Banks are less exposed to the development and construction sector.** The share of credit for the real estate sector on bank balance sheets has been significantly reduced. Moreover, the non-performing loan ratio for bank loans to the sector has fallen dramatically since 2013 (the peak) and, in general, banking's solvency and liquidity situation is more robust and comfortable.

The supply factors underpinning the real estate sector are much stronger than they were a decade ago

	Construction firms and developers	2008	2018
	Financial costs ⁽¹⁾	15.6	3.5
	Equity ⁽²⁾	20.9	36.3
	Short-term debt ⁽²⁾	54.1	42.9
	Medium and long-term debt ⁽²⁾	6.1	2.0
	Supply of new housing	2006	2019
	New building permits	865,561	106,266
	Net creation of household	427,700	134,176
	Ratio (permits divided by households)	2.0	0.8
	Bank exposure to the real estate sector	2008	2019
	Credit to developers and construction firms ⁽³⁾	23.6	8.8
	NPL ratio for credit to developers and construction firms (%)	38.6 ⁽⁴⁾	6.1

Notes: (1) As a percentage of gross economic profit/loss. (2) As a percentage of total assets and liabilities.

(3) As a percentage of total outstanding credit balance. (4) Data from 2013 (maximum value).

Source: CaixaBank Research, based on data from the National Statistics Institute, Ministry of Transport, Mobility and Urban Agenda and the Bank of Spain.



HOUSE PRICES

House prices will be affected by the crisis but with notable differences depending on the geographical location and type of property

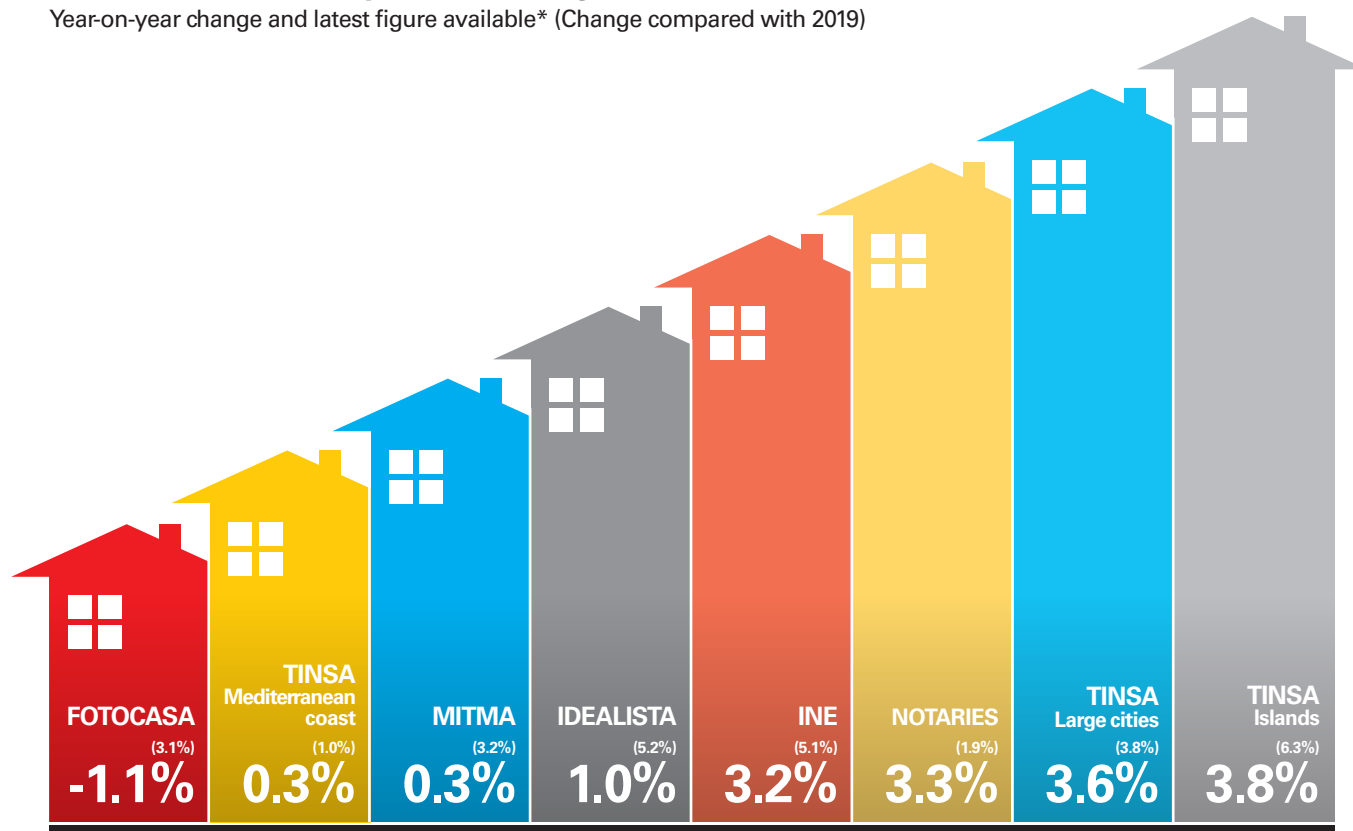
Given the dramatic decline in demand, house prices are likely to undergo some adjustment in the period 2020-2021, although there will be significant differences depending on the property's location and type. Specifically, we expect house prices to fall more sharply in the second-hand market and tourist areas, which have been severely affected by the restrictions on international travel.

House prices were already slowing down before the COVID-19 shock. According to data published by the Ministry of Transport, Mobility and Urban Agenda (based on valuations), house prices fell by 0.8% quarter-on-quarter in Q1 2020. In year-on-year terms, progress was still positive with a slight increase of 0.3%, albeit a marked slowdown compared with the 2.1% year-on-year growth recorded in Q4 2019. The house price data published by the National Statistics Institute (based on transaction prices) also posted a slowdown to 3.2% year-on-year in Q1 2020 compared with an increase of 3.6% in Q4 2020. This deceleration was caused by lower growth in the price of second-hand housing (0.4% quarter-on-quarter), while **new builds recorded a significant rise** (5.1% quarter-on-quarter).

House price indicators from different **real estate portals** (based on the sale prices on offer), which are published more frequently and with less time lag, are gradually starting to reflect the impact of the crisis. For example, the Fotocasa index, which reflects the trend in the price per square metre of second-hand housing, fell by 1.1% year-on-year in May, while the Tinsa index showed a tiny increase on the Mediterranean coast (0.3%). However, significant growth is still being recorded in large cities (3.6%) and the Balearic and Canary Islands (3.8%), although in both cases a slowdown can be observed compared with the growth posted in 2019. Lower prices are also starting to be seen in apartments offered for sale on real estate portals, although the impact on transaction prices is still small, for the time being.

Recent trend in house prices according to various indicators

Year-on-year change and latest figure available* (Change compared with 2019)



Note: (*) The latest figure available corresponds to May, except for Notaries (April), Ministry of Transport, Mobility and Urban Agenda (Q1 2020) and the National Statistics Institute (Q1 2020).

Source: CaixaBank Research, based on data from the National Statistics Institute, the Ministry of Transport and various real estate portals.

In the second half of the year, the negative trend in house prices is expected to increase. Typically, after a significant drop in sales, prices tend to adjust a few months later. On this occasion the decline in sales has been very sharp due to the lockdown measures restricting people's mobility. It is therefore to be expected that house prices will gradually react to the new environment.

There is considerable uncertainty regarding the extent of the adjustment in house prices during this recession. We believe it very unlikely that prices will adjust as much as they did during the previous recessionary period and the price adjustment period is also likely to be significantly shorter. As already mentioned in the previous article, the real estate sector is not the cause of the current shock nor has it accumulated imbalances that would require price adjustment mechanisms to be implemented to regulate and control the system. In particular, real estate was not overpriced in general before COVID-19.¹³ All this has led us to produce scenarios in which the adjustment in house prices will be more contained than in the last crisis. Specifically, **we predict that house prices could fall by between 6% and 9% during the 2020-2021 period in Spain as a whole.** While house prices would start to show positive growth rates in the second half of 2021, we do not expect them to return to the pre-crisis level before 2024.

¹³ See the article «The widening gap between Spain's house prices» available at: <https://www.caixabankresearch.com/en/sector-analysis/real-estate/widening-gap-between-spains-house-prices>.



Real Estate

In 2020-2021, house prices will adjust to some extent, this correction being larger in tourist areas and for second-hand housing

The trend in price will vary greatly depending on the location of the property. Those markets that already had more price tension, such as the centre of big cities and tourist areas, will see a bigger adjustment. The size of the adjustment will partly depend on how investor interest in these areas evolves because, in recent years, such investments have contributed to the increased dynamism of these markets.¹⁴ Changes in residential preferences in terms of where and how to live, encouraged by, for instance, the greater prevalence of working from home in the «new normal», may reduce pressure on residential prices in the most congested cities and shift some of the demand to conurbations with the best connections to workplaces.

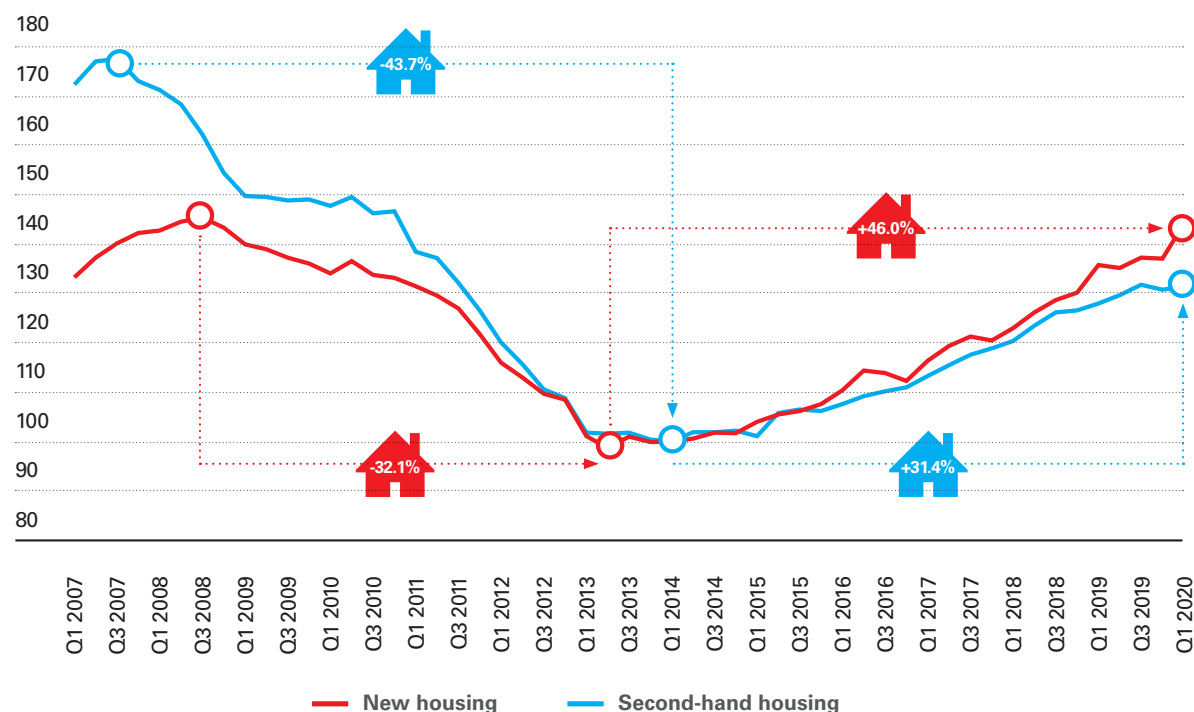
On the other hand, the house price trend in tourist areas will be highly dependent on the recovery in international travel. Although restrictions were partially lifted at the end of June, the recovery in tourist flows is expected to be incomplete as long as there is no vaccine or effective treatment against the disease.

¹⁴ See Álvarez, L, Blanco, R. and García-Posada, M. (2020), «La inversión extranjera en el mercado inmobiliario residencial español entre 2007 y 2019», Boletín Económico del Banco de España 2/2020.



Trend in prices for new and second-hand housing

(100 = Q1 2014)



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

There may also be significant differences in price trends by housing type. The decline in house prices is likely to be greater in the second-hand market, which accounts for the bulk of transactions (over 80% in 2019), since this is usually more sensitive to the economic cycle. The decline in the price of new housing will be smaller as supply is more limited in this segment. This dichotomy in the evolution of the price of new and used housing was also observed in the previous recession: from its peak in 2008 to its lowest point in 2013, the price of new housing fell by 32% in cumulative terms while second-hand housing saw a much bigger cumulative drop of 43.7%. Moreover, this pattern was observed in all the autonomous regions.



STRUCTURAL CHANGES

The COVID-19 crisis will speed up the transformation of the real estate sector

The current crisis is triggering changes in many aspects of our lives, a large number of them related to our residential preferences. For example, working from home can transform how and where we live. The pandemic has also boosted the digitisation of the real estate sector and could speed up certain changes in other areas such as house modernisation, supporting the transition to a more sustainable economy.

Beyond a short-term analysis of how the economy and real estate sector will evolve this year and next, it is important to ask whether, once this pandemic is over, we will return to a situation similar to before the shock or whether there will be substantial changes in our society and in the way we live and relate to each other. These changes can permanently affect our consumer habits and preferences and cover a wide spectrum, from how we are educated or work to how we shop and play sports, for example. Although it is difficult to provide any definitive answers to this question, some transformations were already underway before the pandemic which may have been speeded up by the crisis and precipitate a permanent change.¹⁵

The crisis has boosted working from home. During the pandemic, those with the opportunity to do so have preferred to work from home to enable social distancing and avoid unnecessary travel. However, even before the pandemic an increasing number of companies were encouraging their employees to work from home by creating the necessary infrastructure for remote connections, providing workers with mobile devices and offering them the necessary training in digital tools. A recent study by CaixaBank Research estimates that, at present, 32.6% of all employees in Spain could potentially carry out their work remotely, a percentage similar to that of most advanced economies.¹⁶ In this respect, it is very likely that working from home was one of the changes that were already taking place and will accelerate as a result of the crisis.

The increase in remote working has important implications for the real estate market as it directly affects buyer preferences regarding the location of the property (people can live further away from their workplace if they have to commute fewer days a week) **and the size and layout of the home** (with demand for larger, more versatile homes, with different uses of the space, for instance).¹⁷ This transformation has an impact that goes beyond the real estate sector itself, seeing as urban, transport and public service planning will also have to adapt to the new situation.

¹⁵ See the Dossier «The world after COVID-19» in MR05/2020 available at <https://www.caixabankresearch.com/en/monthly-report/445/may-2020/world-after-covid-19>, which comments on the changes the pandemic will bring to the economy and society.

¹⁶ See the article «La COVID-19 outbreak boosts remote working» available at <https://www.caixabankresearch.com/en/economics-markets/labour-market-demographics/covid-19-outbreak-boosts-remote-working>. And Dingel, J. and Neiman, B. (2020), «How many jobs can be done at home?». NBER Working Papers.

¹⁷ Likewise, the long lockdown has made consumers more appreciative of having a terrace or some outdoor space for private use, although it is not yet clear whether this change in preference is temporary or a more persistent phenomenon, should it be necessary to reintroduce some lockdown measures due to outbreaks, for example.



Changes in the way we work will affect our way of life and can help to speed up **the economic transition to a more sustainable, environmentally friendly system**. Buyers are increasingly paying attention to issues related to the sustainability of homes and their energy efficiency, a change that was already taking place but may accelerate in the wake of the pandemic. The crisis has also exposed the shortcomings in some housing that does not meet the minimum health requirements. In this respect, **the modernisation of existing housing** may become more important, as such properties tended to be built based on very different sustainability standards to those now required for new builds.

The crisis has also shown that the most digitised companies are coming out stronger. Firms that had already invested in adopting new digital technologies have been able to continue offering their services remotely, for example through virtual tours of properties. Potential buyers have also been offered better conditions, for instance by being able to book an apartment for longer than usual during the state of emergency and with no cancellation charge. In many cases, the client's experience may have improved. Once the pandemic is over, this could lead to further client demands for greater flexibility and more personalised services.

Another aspect the coronavirus crisis has exposed is the huge difficulty of building houses while complying with social distancing measures on site. This is partly due to the very nature of the activity. But it also highlights the fact that the **construction sector is lagging behind in adopting new digital technologies and robotisation**. For example, the number of workers could be reduced on sites with more industrialised production processes, where many of the specialised jobs are more automated and performed at another location.



The crisis has also brought about **changes in the rental market**. In recent years the number of flats used for short-term tourist rental has grown exponentially. With the collapse of tourism, these properties have become vacant and many private investors have decided to transfer them to conventional rentals. This process is likely to alter as international tourism recovers but it may not be completely reversed if investors perceive greater risk in the short-term market (e.g. more volatile returns).

On a more negative note, the crisis has also exposed **problems of housing affordability**, especially among the most vulnerable people who tend to live in rented accommodation.¹⁸ The government has adopted several **measures to support renters** in the face of the COVID-19 crisis, such as suspending evictions until the end of the year, the automatic renewal of six-month rental contracts and the provision of micro-credit to cover rent payments. Such measures will help to address the current social emergency. However, **the rental market suffers from structural problems** which require stable regulations that encourage investment. One of the priorities in this respect should be the creation of a significant amount of accommodation at affordable rents.

In short, COVID-19 has not only brought us a profound economic crisis. Once we get over this calamity, and we will, the resulting economic and social changes may be far-reaching with a huge impact on the real estate market in the long term. There's no turning back.

¹⁸ The next article «To buy or to rent? A question of income but particularly of savings capacity» in this *Sector Report* analyses to what extent those renting a property can afford to buy.



Housing affordability

To buy or to rent? A question of income but particularly of savings capacity

In this article we use a novel approach to analyse the potential of Spanish renters who could afford to buy a property. For Spain as a whole, we estimate that around 49% of renters have a high enough income to purchase a home. However, only 13% have the necessary savings. While there are significant differences between provinces and municipalities, in all regions it is clear that insufficient savings capacity is the main constraint faced by renters to buying their own home.

The sharp increase in rents in recent years has led many renters to consider buying a property.¹ The decision to rent is less attractive when an amount similar to the monthly rent can be paid to buy an equivalent home. But in addition to the income needed to meet monthly mortgage repayments, the purchase of a home also requires considerable savings at the time of purchase.² In general, it is necessary to save at least 20% of the property's value as a mortgage is usually granted for 80% of the price. Given these conditions, **can Spanish renters afford to buy a home?**

The most common way of measuring whether someone can buy a property is by means of the affordability index, which is simply the ratio between the price of a representative dwelling and the gross disposable income of an average household. According to data published by the Bank of Spain, this ratio stood at 7.0 in 2019; i.e. **the average Spanish household must allocate 7 years of its entire income to buy an average home.**³ However, this simple measure does not reflect the reality of many households, especially those living in rented accommodation which are precisely the main potential buyers of housing. Firstly, the index is calculated using the median income of all households, including those that already own a home which tend to have higher incomes than renters. Secondly, it uses the price of an average home, which may not be representative of the price in different locations. Even within the same market there is a wide variety of homes (in terms of size and other characteristics) with prices that can vary greatly. Finally, this highly generalised calculation does not take into account whether households have the necessary savings to purchase a home.

① According to the indicators available from real estate portals, based on the prices offered, in the past 5 years rent has increased by around 50% in Spain as a whole, although the most recent data suggest the trend is moderating, which may be accentuated by the COVID-19 crisis.

② In this article, savings refers to the stock of resources (total balance of savings products).

③ The Bank of Spain calculates the average house price from the price per square metre (based on the National Statistics Institute's house price index) multiplied by 93.75 m² (average surface area for homes).



While the affordability index is calculated from the median gross household disposable income, the HARI takes into account the distribution of renters' income to calculate their potential to buy a home

Therefore, in order to answer our initial question about whether those living in rented accommodation can afford to buy a home, we present a different approach to the classic affordability index. Specifically, we use the methodology developed by Goldman, Li and Zhu,⁴ that consists of calculating the HARI (Housing Affordability for Renters Index), which takes into account whether renters' current income is enough to become homebuyers. We have also extended this index to take into account whether the savings of these renters are enough to buy a home (HARI-Savings).

Some details regarding the methodology

The HARI measures the share of renters with enough income to buy a home. This index is calculated by comparing the income distribution of households renting their accommodation with the income distribution of those recently purchasing their first home using a mortgage. In other words, we consider that a renter could buy a certain property if their income level is the same or higher than the income of this property's buyer.⁵ Note that, in order to carry out this calculation, we do not need to define the price of an average home as the highly heterogeneous nature of house prices is implicitly taken into account through the variability of income of the buyers.⁶

⁴ Goodman, Laurie, Wei Li and Jun Zhu, «Housing affordability. Local and national perspectives». Research Report Urban Institute (2018).

⁵ We consider income from salaries and unemployment benefits or allowances allocated to the first holder of each account. The comparison of distributions has been produced using income intervals of 500 euros.

⁶ The HARI has some limitations as it only takes into account the level of income of the household (or the balance of resources in its extended version) while other criteria are also relevant for a mortgage to be granted, such as the type of employment contract (people on a permanent contract usually find it easier to get a mortgage) or the age of the person.

We have extended the HARI by adding the factor of savings as this is a key element that determines the ability to purchase a home, apart from income

We have also added the factor of savings to the index because, as we have already mentioned, this is a vital factor in the ability to buy a home. Specifically, **the HARI-Savings measures the share of renters with sufficient income and savings** to buy a home. In other words, this extended index not only takes income into account but also considers whether a renter could buy a certain property if he or she has the same or higher level of resources as the actual buyer of that property.⁷ Note that the difference between the HARI and the HARI-Savings indicates the share of renters with enough income to buy a home but insufficient savings.

⑦ This is calculated based on the median income of home buyers in the month prior to taking out the mortgage in each income interval.

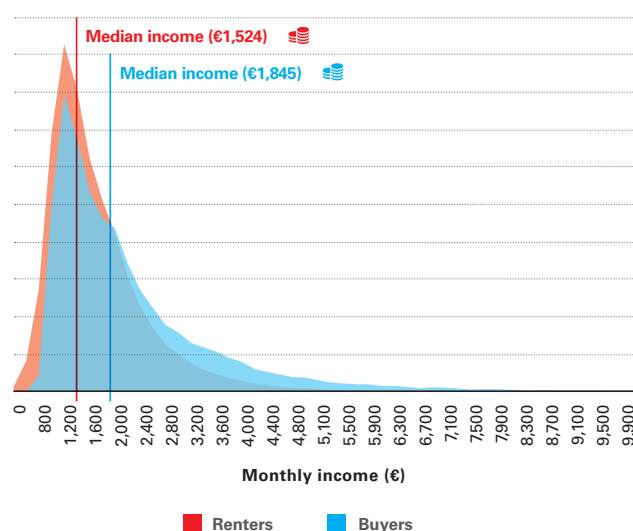
National results

Using the methodology defined above, we are able to answer the question regarding the potential of Spanish renters to become homeowners. First, however, it is important to look at the following chart, which shows the income (left) and savings (right) of home buyers and renters in 2019 for Spain as a whole, produced from internal CaixaBank data.⁸ Clearly renters tend to have a lower income level than buyers (the renter distribution curve is more to the left) but the differences are much more marked in the case of savings.

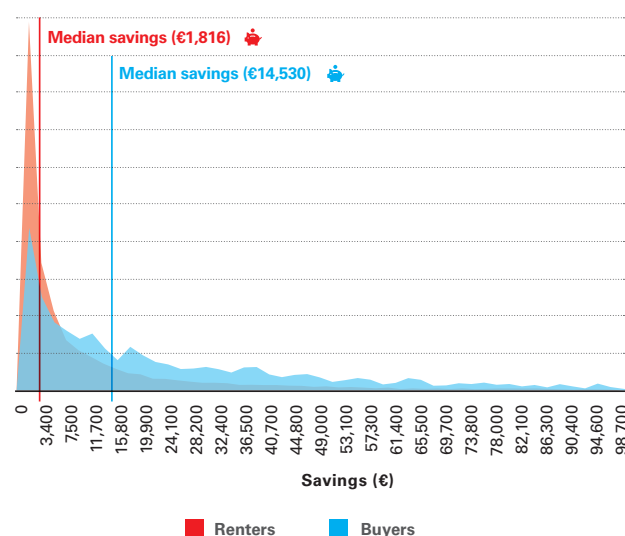
⑧ Buyers are defined as those who took out a mortgage to buy their first home in 2019 and never had a mortgage before. Renters are identified from recurring transfers issued from the bank account of individuals to the same destination account during the first seven days of the month and for an approximately constant amount over time.

Breakdown of income and savings of home buyers and renters

Income (probability)



Savings (probability)



Source: CaixaBank Research from internal data (data from 2019).



Real Estate

From the income distribution, we get a national HARI of 49%. This means that **approximately half of Spain's renters have sufficient income to buy a home**. This figure is relatively high compared to the 27% obtained by Goldman, Li and Zhu for the United States. Therefore, it would seem that a large proportion of Spanish renters are in a good position to buy a house when we take their income into account. But do they have enough savings to make the purchase?

Including the distribution of savings, we obtain the HARI-Savings with a much lower value of 13%. In other words, we estimate that **only 13% of Spanish renters would be able to buy a property given their financial situation**. This means that 36% of renters would have enough income to buy a home but do not have sufficient savings capacity. This share rises to 41% for young people (aged 18 to 35), a group with the greatest difficulty in becoming homeowners due to their inability to save.

Insufficient savings capacity is the main limitation faced by renters in terms of home ownership, especially young people. 49% of renters have enough income to buy a home but only 13% have the necessary savings

Note that the results at a national level assume full geographical mobility. In other words, we are comparing buyers and renters irrespective of where they live: we are comparing, for example, the financial situation of renters in Madrid with buyers anywhere in Spain. However, the real mobility of renters is not so extensive. For this reason we have also carried out the same exercise at a provincial level and for large cities.

Results by province and large cities

To take into account the fact that the geographical mobility of potential buyers may be limited to areas smaller than the whole of Spain, we calculated the HARI and HARI-Savings at a provincial level and for the 10 most populated cities in Spain. The following maps and charts show the results.

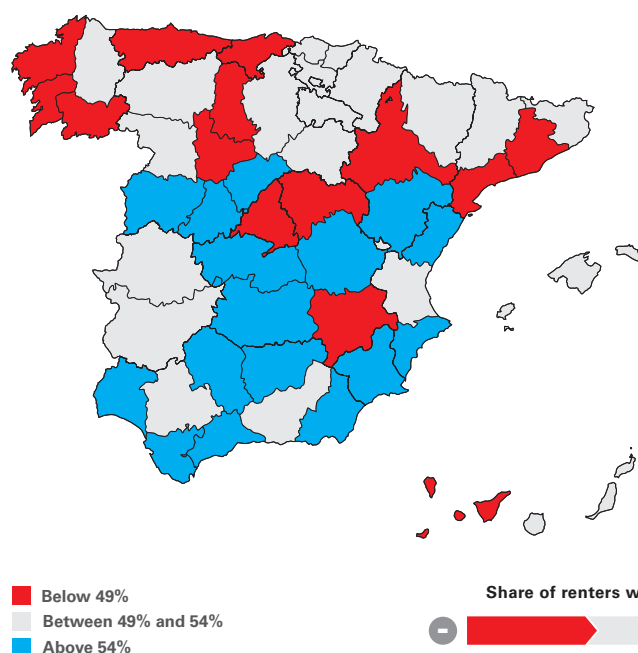
At a provincial level, we can see that **there are significant regional differences in terms of potential home ownership for renters**. This can be seen in the wide range of HARI values, from 40% in Valladolid to 65% in Segovia. The map on the left shows that the rate is usually lower in the northern provinces. The Community of Madrid has a relatively low HARI (44%), while most of the surrounding provinces have higher affordability indexes.

The HARI-Savings also shows marked regional differences, albeit to a lesser extent. In this case, the index lies in a somewhat narrower band: around 5% in Huesca and Zaragoza to values close to 25% in Segovia and Ciudad Real. While there is a positive correlation between the two indexes, comparing the two maps we can see significant variations in affordability when savings are taken into account: for example, Asturias has a HARI of 46% (below average) but a HARI-Savings of 18%, in the high band.

One important conclusion from this analysis is that **a lack of savings is the main limitation faced by renters in terms of home ownership in all provinces**. This is evidenced by the fact that the HARI-Savings is significantly lower than the HARI in all provinces, with a difference of at least 30 percentage points. The case of Cuenca stands out in particular, a province where about 65% of renters have enough income to buy a home but only 13% have the necessary resources. Ávila, Toledo and Castellón would be similar cases.

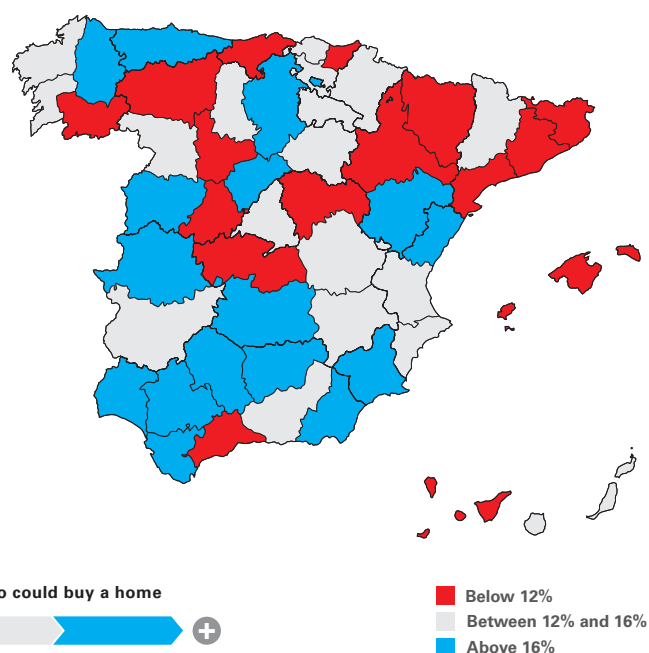
HARI

Share of renters who could buy a home according to their income level



HARI-Savings

Share of renters who could buy a home according to their income and savings level



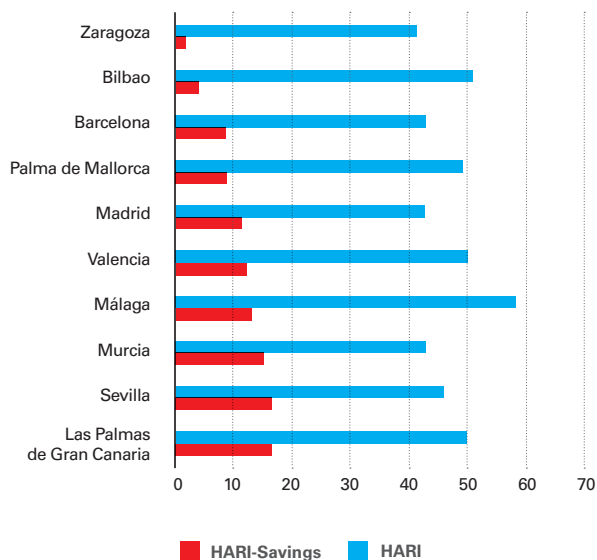
Note: Three province groups are defined on each map according to the 33 and 66 percentile of the provincial distribution of the HARI and HARI-Savings, respectively.

Source: CaixaBank Research from internal data (data from 2019).

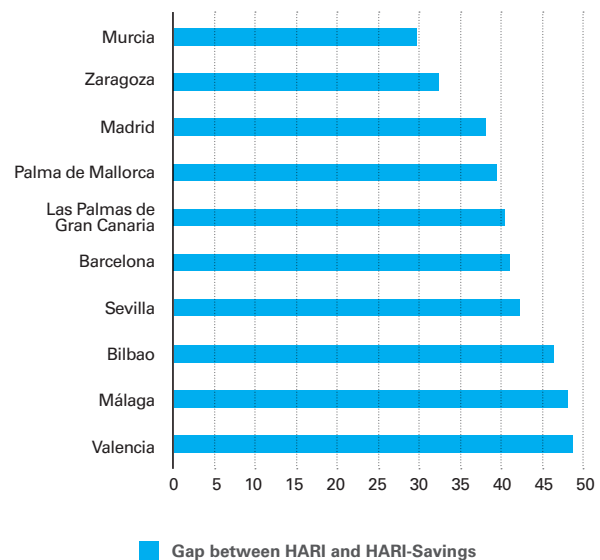


Real Estate

Housing affordability index for renters (%)



Share of young renters (18-35 years) who could buy a home according to their income level but do not have the necessary savings



Notes: HARI: share of renters who could buy a home according to their income level. HARI-Savings: share of renters who could buy a home according to their income and savings level.

Source: CaixaBank Research from internal data (data from 2019).

In our analysis of the 10 most populated cities in Spain, these indexes show that it is particularly difficult for renters to become homeowners in some large cities because of a low capacity to save (no doubt partly related to the high rents). We have therefore estimated that fewer than 10% of renters could buy a home given their level of income and savings in cities such as Zaragoza, Bilbao, Barcelona and Palma de Mallorca (see the bar chart on the left).

According to the HARI-Savings, fewer than 10% of renters could buy a home in large cities such as Zaragoza, Bilbao, Barcelona and Palma de Mallorca

Finally, one recurring finding, at both a provincial and municipal level, should also be noted; namely that, among the younger population (under 35), the main limitation to buying a home is a lack of savings capacity. Although the gap in income levels between young buyers and young renters is not so large, the difference between the two groups lies in their savings. For instance, in the cities of Bilbao, Malaga and Valencia, more than 45% of young renters have a high enough income to buy a home but do not have the necessary savings (see the bar chart on the right).



In designing a strategy for the recovery of the real estate sector after the severe blow dealt by COVID-19, one of the proposals being considered is to set up a programme to guarantee loans for first-time buyers similar to the UK's Help to Buy scheme, so as to reduce the initial amount the buyer needs to contribute in order to purchase a home. Such a scheme could stimulate the demand for housing since, as we have seen in this article, a lack of savings is the main limitation faced by renters when buying a home. However, given the current situation, the ability to stimulate demand will be mitigated by rising unemployment, which is more concentrated among the younger population, as well as the greater uncertainty regarding their ability to secure a stable income in the future. It is also important to stress that a scheme to promote the supply of affordable rental accommodation would not only help people access rented properties but also improve the savings capacity of households and thereby their ability to buy their own home after a few years.



Real Estate

Indicators and forecasts

Annual change (%), unless otherwise specified

	Average 2000-2007	Average 2008-2014	Average 2015-2018	Data 2019	Forecast 2020 ¹	Forecast 2021 ¹
Economic activity indicators						
Total GDP	3.4	-1.3	2.8	2.0	-14.0	10.5
GVA construction	3.1	-9.8	4.8	3.5	-15.8	11.5
Investment in construction	5.4	-9.4	4.7	0.9	-32.5	25.6
Investment in housing	5.4	-8.5	9.4	2.9	-34.3	25.7
Investment in rest of construction	3.1	-9.8	4.8	3.5	-30.1	25.5
New building permits (thousands)	642	94	74	106	75	85
New building permits	2.8	-28.7	26.6	5.5	-29.4	13.3
Certificates of final completion (thousands)	482	230	51	79	90	95
Certificates of final completion	8.3	-34.9	12.5	22.4	14.2	5.6
Synthetic indicator for construction ⁵	2.9	-7.5	5.8	3.2	-8.4	-
Confidence in the construction sector (level) ⁵	13.1	-41.8	-24.1	-7.0	-13.2	-

Labour market

Total workers registered with Social Security	3.5	-2.4	3.2	2.6	-3.8	-0.5
Registered workers in construction	6.1	-13.5	5.2	5.1	-4.0	0.5
Construction of buildings	-	-14.4	7.1	6.8	-4.5	1.1
Civil engineering	-	-16.4	0.5	3.4	-3.2	-0.2
Specialised construction	-	-8.9	4.4	4.1	-3.8	0.2
Registered workers in real estate activities	10.3	2.1	6.4	5.8	-3.5	0.9
Total employees (LFS)	4.1	-2.7	2.7	2.3	-6.0	0.8
Employees in construction (LFS)	6.7	-14.0	4.4	4.6	-6.2	1.1
Temporary employment rate in construction (%)	57.6	39.6	41.7	40.2	39.0	40.0
Unemployment rate in construction (%)	7.5	22.8	13.1	9.7	22.0	20.0

Demand for housing

Sales ² (thousands)	886	388	437	502	325	380
Sales ²	-0.1	-8.7	13.4	-3.0	-35.3	16.9
New housing ^{2,5}	12.1	-13.4	6.0	1.1	-16.5	-
Second-hand housing ^{2,5}	-7.8	-5.0	15.2	-24.3	-13.9	-
Foreign sales ³	-22.1	6.7	10.4	0.8	-68.7	133.8
Second home sales ⁴	-7.6	-7.6	11.6	-2.6	-30.9	21.0

Prices

House prices (Min. Public Works)	12.9	-5.7	2.5	3.2	-5.6	-2.3
House prices (INE)	-	-6.8	5.8	5.1	-4.5	-1.9
Land prices	17.5	-8.7	1.5	1.5	-9.1	5.3
CPI rent ⁵	4.3	0.8	0.5	1.5	1.3	-

Affordability ratios

House prices (% gross disposable income)	6.5	7.5	6.5	7.0	6.8	7.0
Theoretical burden (% gross disposable income)	35.2	37.7	29.4	30.6	30.6	31.2
Return on rent (%)	4.5	3.5	4.3	3.9	3.9	3.8

Financing ⁽⁵⁾

Number of mortgages	5.8	-20.9	12.2	2.9	-2.1	-
Outstanding balance of credit to purchase housing	14.8	-1.4	-2.5	-1.3	-1.7	-
New loans for housing	17.7	-24.9	16.0	2.3	-17.4	-
Outstanding balance of credit for property development and construction	23.6	-12.8	-10.8	-11.8	-5.7	-
NPL ratio of credit for housing (%)	0.5	3.5	4.8	3.8	3.5	-
NPL ratio of credit for property development and construction (%)	0.5	20.2	23.6	7.7	6.0	-

Notes: 1. Forecasts at 30 June 2020. 2. The 2000-2007 average for house sales corresponds to the period 2004-2007 and the data come from the Ministry of Public Works. The National Statistics Institute's sales figures are 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 2020» column correspond to cumulative data up to the latest data available for 2020.

Source: CaixaBank Research, based on data from the National Statistics Institute, Ministry of Transport, Ministry of Work and Social Economy, Ministry of Inclusion, Social Security and Migrations and the Bank of Spain.

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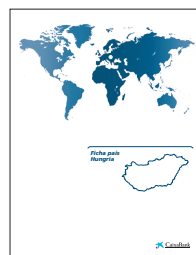
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