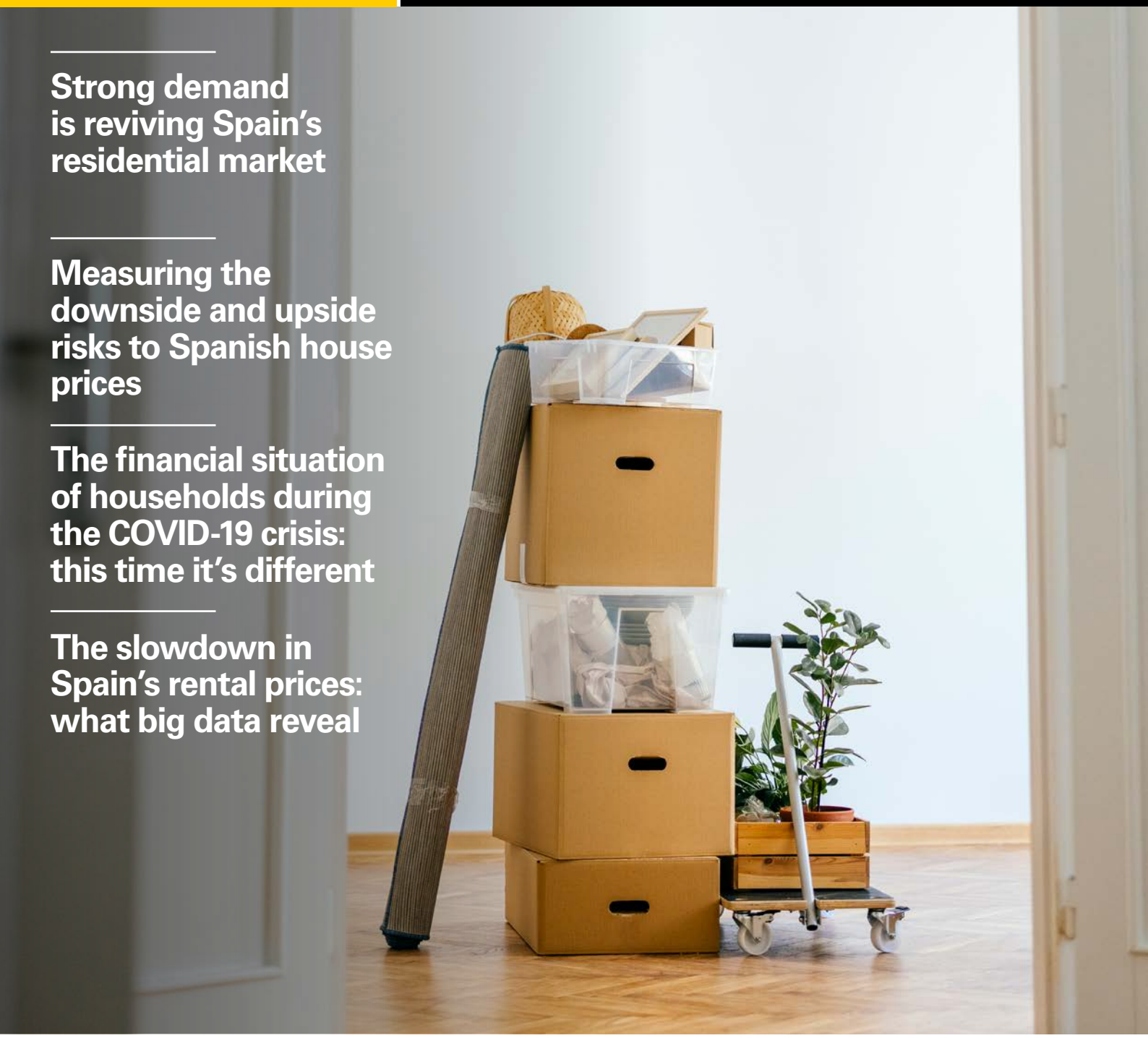
Real Estate

Sector Report

1st Semester 2022

The real estate sector is picking up momentum



Strong demand is reviving Spain's residential market

Measuring the downside and upside risks to Spanish house prices

The financial situation of households during the COVID-19 crisis: this time it's different

The slowdown in Spain's rental prices: what big data reveal

CaixaBank Research

SECTOR REPORT

Real Estate S1 2022 The *Sector Report* is a publication produced by CaixaBank Research

CaixaBank Research

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«The value of your house is the price your neighbour is willing to pay for it»
CONFUCIUS

Real Estate

SPAIN'S REAL ESTATE SECTOR IS PICKING UP MOMENTUM

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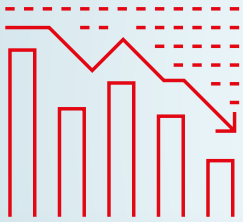
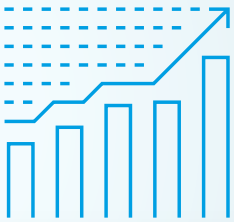
CAIXABANK RESEARCH FORECASTS

	In 2021	In 2022
SALES	**545,000** Strong recovery in demand	**~505,000** Temporary factors are dissipating
NEW BUILDING PERMITS	**105,000** Slower recovery in supply	**110,000** Supply is gradually increasing
HOUSE PRICES	**+1.9%** Prices are going up	**+4%** Transitory spike in prices

HOUSE PRICES IN 2022: According to the House Prices at Risk (HaR) model, both upside and downside risks are contained



If **downside risks** were to materialise, it would be highly unlikely that real house prices would fall by more than **3.9%**



If **upside risks** were to materialise, it would be highly unlikely that real house prices would rise by more than **4.8%**

RENTAL PRICES: According to our big data analysis based on CaixaBank's own data, the downward trend in rental prices is spreading due to the pandemic:

% of municipalities posting a decrease in the price of new rents

2018	2019	2020	2021
15%	35%	32%	55%

ACCESS TO HOUSING: The economic policies implemented during the pandemic have cushioned the impact of the crisis on families' financial situation

17.3% (2019) → **16.3%** (2020)

The percentage of income used to pay off a mortgage has fallen during the pandemic thanks to lower interest rates...

23.3% of low-income households spend more than 40% of their income on mortgage repayments

...but there are still pockets of vulnerability among low-income households

Executive summary

The real estate sector is picking up momentum

In 2021, a milestone was reached that was hard to imagine a year ago: the mass vaccination of a large part of the population in advanced countries. Although new waves of infection are occurring, in those countries where population vaccination levels are higher it is likely that activity and travel restrictions as severe as those that have set the pace of economic development since the outbreak of the pandemic will not have to be reimposed. Within this context of recovery, Spain's real estate sector has performed particularly well, especially in terms of demand. We estimate that house sales could close the year at around 545,000, a figure not posted since 2008. Looking ahead to 2022, a few of the factors stimulating demand recently will lose some momentum, so we expect sales to return to their pre-pandemic levels of around 500,000.

Supply, on the other hand, is lagging behind this strong growth in demand but is also taking part in the recovery. This misalignment between buoyant demand and more sluggish supply has helped to push up house prices, especially for new builds. This upturn may continue in the coming quarters as a result of higher construction costs and the shortage of certain materials, linked to bottlenecks in global supply chains. In addition, favourable financing conditions will continue to support real estate investment. For 2022 we therefore predict an average house price increase of around 4% (appraisal value). However, looking more at the medium term, as new supply enters the market and tensions dissipate regarding the supply of certain raw materials, prices should return to a growth rate that is more in line with the trend in household income.

In this respect, some analysts have warned of the risks of a real estate bubble developing in some European markets. In this report we present an analysis of the upside and downside risks to house prices, using a methodology called House Prices at Risk (HaR), and conclude that the current conditions do not point in this direction for Spain, a conclusion that is largely due to reasonable housing affordability in aggregate terms.

As for the impact of the crisis on the financial situation of households, this time is different compared to past recessions, thanks to the economic measures implemented: fiscal policy has supported household income and monetary policy has kept interest rates low, easing the financial burden on households. In this report, we have carried out a detailed analysis, based on CaixaBank's own internal data, of the effort required by households to pay off their mortgages and we have found that, in general, this burden has lessened for households during the pandemic, although there are still pockets of vulnerability among lower-income households.

We also shine a spotlight on the rental market, a highly topical issue. Although rent growth had already started to moderate in Spain before the emergence of COVID-19, the pandemic has accelerated this trend, as confirmed by the results of the analysis we carried out using CaixaBank's internal data on rent payments. Furthermore, our analysis shows that decreases were particularly marked among the lowest rents and in the most tourist-oriented municipalities.

Situation and outlook

Strong demand is reviving Spain's residential market

In the course of 2021 we have seen that, in the wake of the pandemic, a misalignment has emerged in the real estate sector between a demand that has recovered very quickly and a supply that is more dependent on structural factors and therefore continues to lag behind. As a result of this misalignment, house prices have started an upward trend which may continue to some extent in the coming quarters as a result of higher production costs in the sector and problems with the supply of certain raw materials. Nevertheless, in the medium term, as new supply enters the market and tensions in global supply chains ease, prices should return to a growth rate that is more in line with the trend in household income.

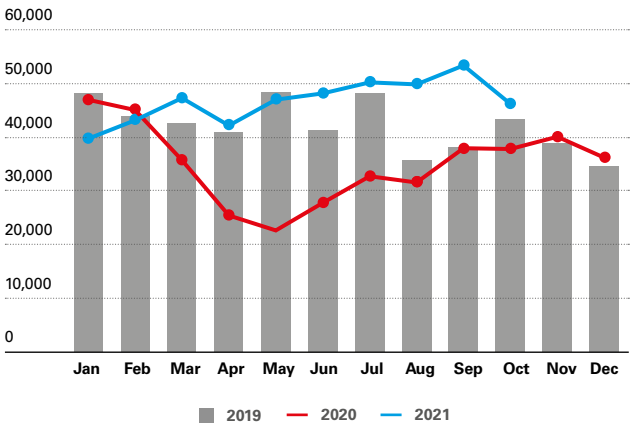
Demand for housing has been one of the most positive surprises of 2021

After the historic shock of the pandemic, the situation of the Spanish economy improved notably throughout 2021. The progress made with vaccinations and the effectiveness of the measures implemented to mitigate the economic and social impact of COVID-19 have enabled activity to recover progressively. We expect this positive trend to improve further in 2022, thanks in part to an additional boost from the NGEU funds. Our forecasts therefore predict that Spain's GDP will accelerate, growing by 4.4% in 2021 and 5.9% in 2022.

Within this context of economic recovery, Spain's real estate market is posting a very positive trend, especially in terms of demand. So much so that the revival in house sales is surprisingly vigorous: 468,000 transactions were completed by October 2021, a growth of 35.9% compared to 2020 and up by 8.3% on 2019. In fact, activity in the residential sector is at its highest level since 2008. A large part of this revival in demand has come from a reduction in pent-up demand and the «forced» savings accumulated during the months of lockdown and severely restricted travel, combined with highly favourable financing conditions, which make it more attractive to buy and invest in real estate assets. The residential sector is therefore on track to close 2021 with **545,000 sales in the year as a whole**.

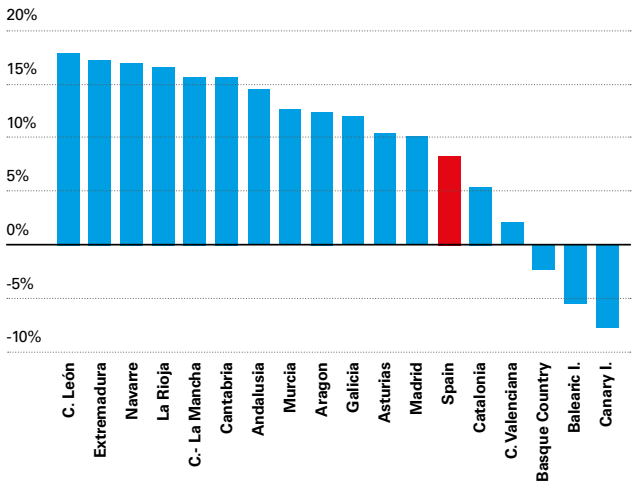
Demand for housing is above its pre-COVID levels but with notable regional differences

Number of monthly sales



House sales by autonomous region

Cumulative change Jan-Oct 2021 vs. Jan-Oct 2019



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

Across the autonomous communities, so far in 2021 we can see that the regions that have yet to regain their level of business in 2019 are those whose economy has suffered most from the consequences of the health crisis. **This is particularly the case of the Canary Islands and Balearic Islands as they depend most on the arrival of tourists, where the number of house sales is more than 5% below pre-pandemic levels.** The Community of Valencia and Basque Country are the other two regions where residential demand is particularly sluggish as they were markedly affected by the severe restrictions resulting from the health crisis due to their dependence on foreign demand (in the case of the former) and the sectoral composition of the region's economy (in the case of the Basque Country).

Demand is surprisingly strong but post-lockdown trends are already beginning to moderate

As the sector evolves towards the new normal, we are starting to see that **some of the main features characterising post-lockdown demand are easing**: (i) not only is there a recovery in the purchase of new builds but used house sales are also growing and are above pre-COVID levels; (ii) the preference for living outside large cities or provincial capitals is moderating (the rise in teleworking and a search for greater social distance led to interest in housing outside large urban centres);[1] (iii) the size of the dwellings purchased, after increasing significantly in 2020, seems to have stagnated in Q1 2021; (iv) the sale of single-family homes (as a percentage of total sales) peaked at the end of 2020, and (v) foreign demand is recovering, much more clearly from the summer of 2021 when the success of the vaccination campaigns in Spain and throughout Europe allowed for a drastic reduction in restrictions on travel with a consequent increase in tourist arrivals.[2]

(1) New, more flexible forms of working are likely to eventually take hold, possibly in a hybrid format, so that a higher proportion of buyers can be expected to choose to live in a location relatively further away from their workplace, or the appeal of owning a second home is likely to increase.

(2) According to the Association of Registrars, foreigners purchased around 16,600 residences in Spain in Q3 2021, 8% more than in Q3 2019 and very close to the quarterly high of 17,300 homes reached in Q2 2018.

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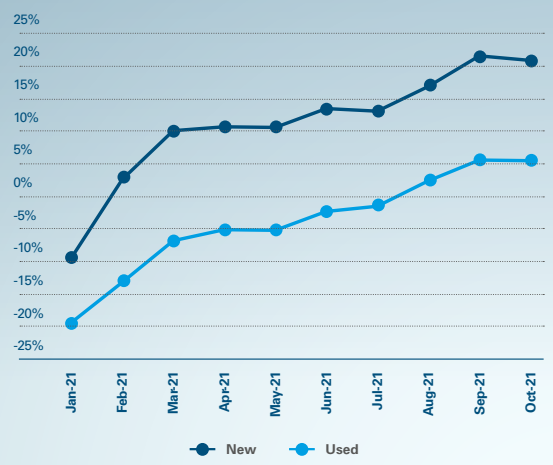
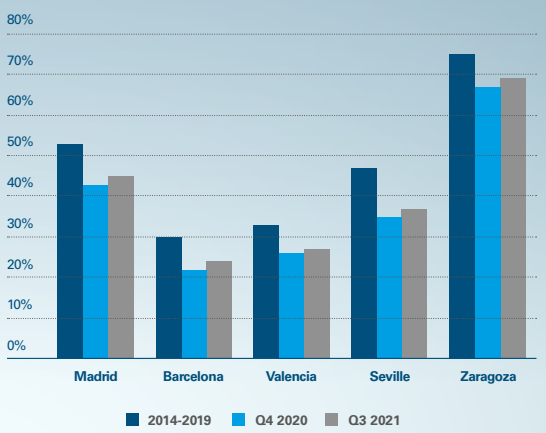
RECENT TREND IN HOUSING DEMAND IN SPAIN

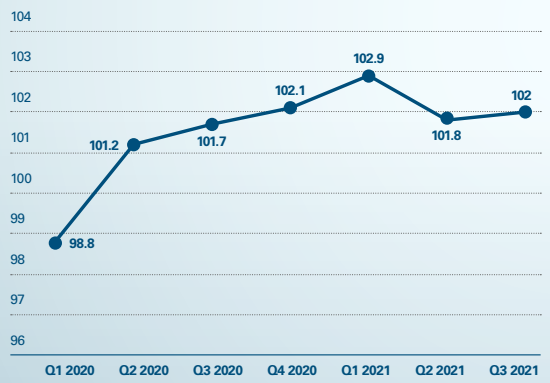
New and used house sales
Cumulative change in the year, compared to the same period in 2019



Sales in the main capital cities
% of total sales in each province



Average property size purchased
Square metres



Sales of condominium and single-family dwellings
% of total sales

House purchases by foreigners
Number (right scale: foreigners)

Source: CaixaBank Research, based on data from the National Statistics Institute and College of Registrars.

POST-LOCKDOWN TRENDS ARE STARTING TO MODERATE

1. Sales of second-hand dwellings are also growing, in addition to the recovery in new builds.

2. The preference for living outside large cities is easing.

3. The size of dwellings for sale has stagnated.

4. The sale of single-family homes (as a percentage of the total) reached its peak at the end of 2020.

5. Foreign demand is picking up.

By 2022, the main drivers of residential demand will continue to support the sector. Firstly, the outlook for the economy as a whole is favourable (we expect GDP to regain its pre-pandemic level by then) and the labour market will maintain a good job creation rate (having reached its pre-COVID levels in 2021). Secondly, household confidence continues to rise and is already at similar levels to those recorded in 2019, according to the European Commission's confidence indicator. Thirdly, household disposable income is already showing clear signs of recovering and a large part of the savings accumulated in recent months will also be allocated to investment in housing. In addition, household formation is picking up after the decline posted during the months of lockdown (124,000 households have been created in the past year up to Q3 2021, a very similar figure to 2019). In turn, foreign demand for housing will continue to recover as tourist arrivals increase.[3] Finally, financing conditions will remain favourable (mortgage interest rates have recorded new lows in 2021) and no interest rate hikes are expected from the ECB next year.[4]

③ CaixaBank Research expects 80% of the international tourist arrivals recorded in 2019 to be regained by 2022.

④ The ECB remains confident that the factors pushing up inflation are temporary and will dissipate over the course of 2022, so monetary policy remains on track and we do not expect any interest rate hikes until 2024.

Household disposable income is already showing clear signs of recovering and a large part of the savings accumulated in recent months will also be used for investment in housing

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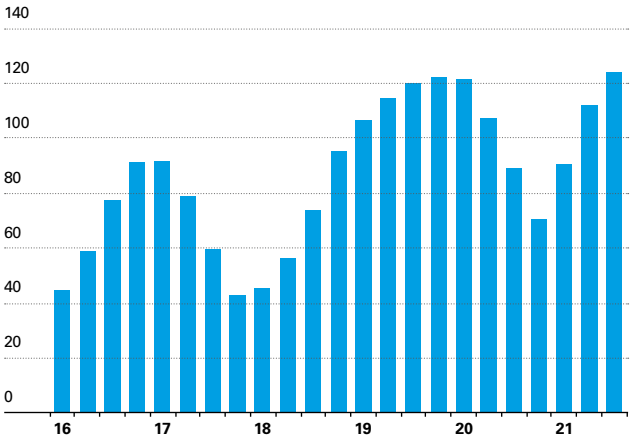
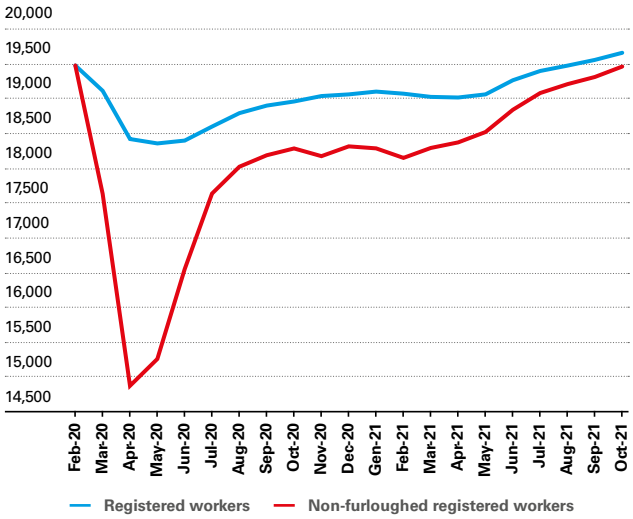
Fundamentals continue to support demand for housing

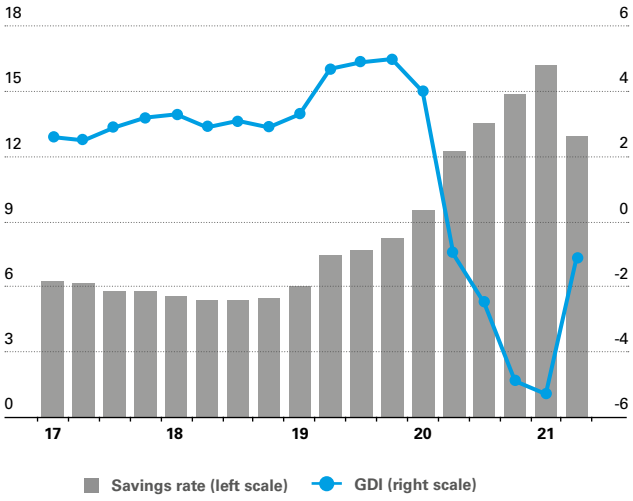
Net creation of households
Thousands



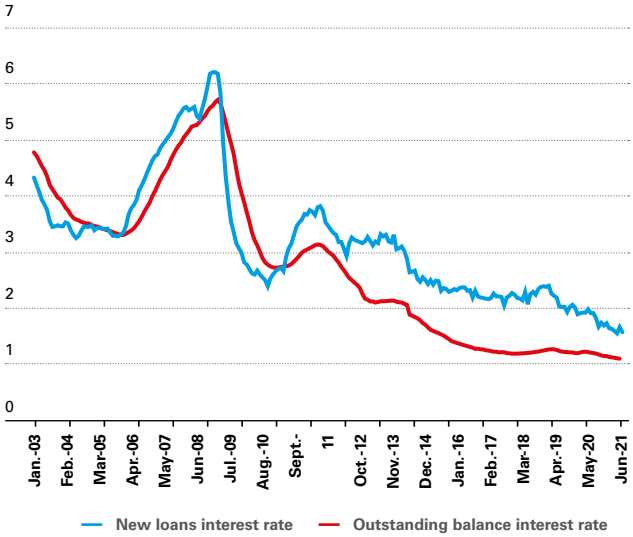
Registered workers affiliated to Social Security
Thousands



Household income and savings
(% of gross disposable income)



Mortgage interest rates
(%)



Source: CaixaBank Research, based on data from Social Security, the National Statistics Institute and Bank of Spain.

While demand factors remain clearly favourable, the temporary factors that have been boosting demand in 2021 will dissipate in 2022, so we expect demand to moderate towards its pre-pandemic levels, slightly above 500,000 transactions per year.

Supply in the sector is recovering but could be hindered by shortages

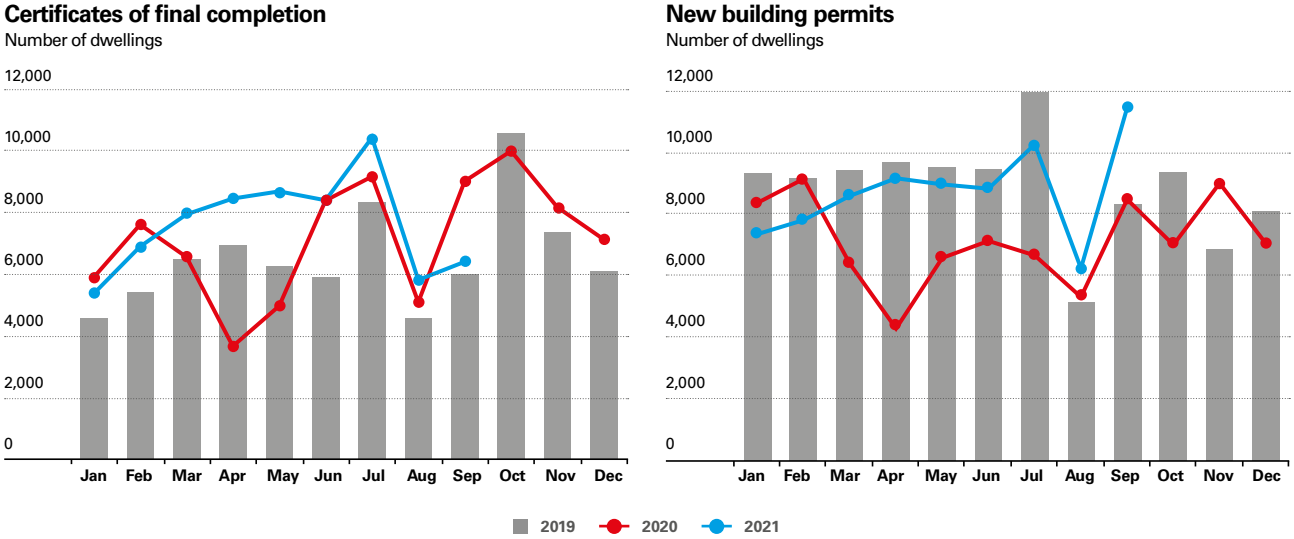
Certificates of final completion (available until September) have kept up the good figures posted in 2020. So far this year, 68,593 homes have been completed, 13% up over last year and 25% over the same period in 2019. In other words, the number of new homes delivered has not only exceeded pre-pandemic levels but is at its highest rate since 2012.

It should be noted that, although positive, these figures do not reflect the current situation of the supply of new builds as they refer to developments which, in many cases, had already been started before the pandemic. On the other hand, the supply of new builds, which is much more dependent on structural factors, continues to lag behind. Between January and September, new building permits rebounded by 26% year-on-year but are still 3.9% below their 2019 level.

> **The misalignment between new supply and demand is a common event at this point in the economic cycle, when uncertainty is high. However, the current situacion is not alarming**

Should the current rate continue, just over 100,000 new building permits will have been issued in 2021 as a whole, very similar to the figure in 2018 and 2019. Moreover, the medium and long-term outlook for supply is still favourable, considering the strength of the factors that are driving demand and the boost provided by the arrival of the European reconstruction funds (NGEU) which, in the area of housing, will be allocated for refurbishment, in line with the ambitious environmental targets underpinning the allocation of these European funds.

Housing developments remain positive but new supply continues to lag behind

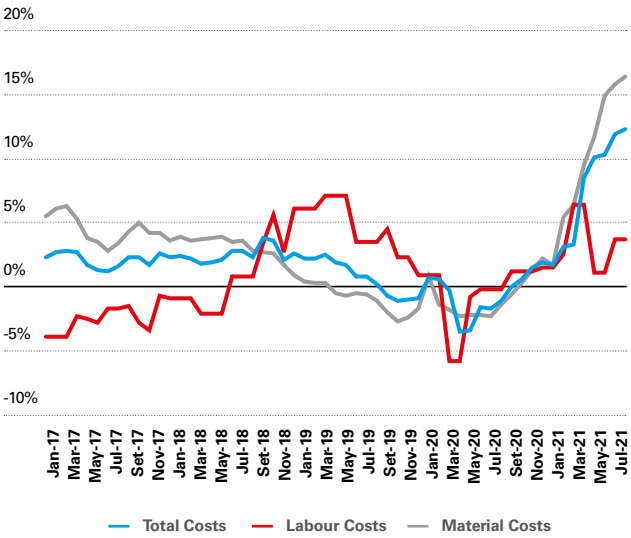


Source: CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda.

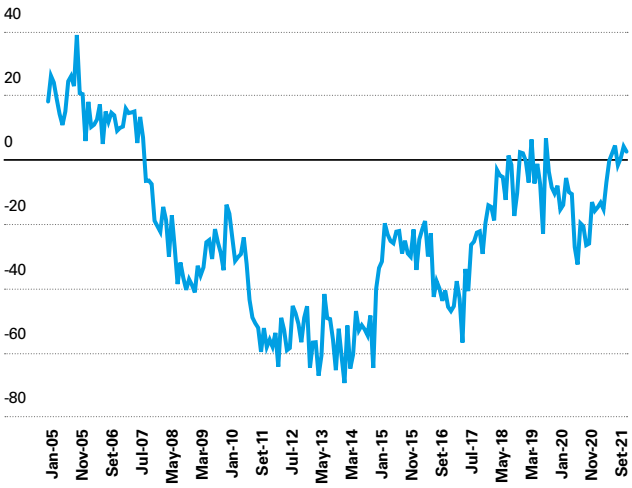
However, in recent months new dark clouds have appeared on the horizon that could hinder the recovery in supply, related to rising raw material prices and the blockages experienced by international trade. According to Eurostat data, the sector's costs are growing by more than 12% per year and the prices of certain supplies by more than 15% (latest available data are from September). In the same vein, a recent survey conducted by the industry's businesses, the National Confederation of Construction (CNC), shows that 75% of companies have suffered some shortage or unusual delay of wood, aluminium or steel, among other materials. Given this situation, the sector is already warning of delays in construction work and is asking for more flexibility in terms of renegotiating contracts, extending deadlines for completing projects without penalties and speeding up tenders for European fund projects.

Industry costs are rising but confidence has recovered

Production costs in the construction industry
Year-on-year change



Confidence in the construction industry
Index



Source: CaixaBank Research, based on data from Eurostat and the European Commission.

House prices are starting an upward trend

The general improvement in demand and the more limited capacity of developers to react and, therefore, the smaller recovery in supply, are causing a certain upward trend in house prices, particularly in the segment of new builds. Since year-on-year rates bottomed out between Q4 2020 and Q1 2021 (depending on the price indicator), prices have been on an upward trajectory throughout 2021.The most recent data available show further recovery in prices in Q3 2021 of 7.4% year-on-year (5.4% in Q2), according to the College of Registrars' quarterly repeat house sales price index; by 4.2% year-on-year (3.3% in Q2) according to the INE's house price index based on transactions, and by 2.6% (2.4% in Q2), according to the appraised value of free housing published by the MITMA. With this increase, house prices exceeded their pre-pandemic level in Q3 2021 (+0.5% compared to Q4 2019). This upward trend can be observed across the autonomous regions as they all posted year-on-year gains in Q3 2021. However, the degree of recovery across regions is disparate (see the chart below). Of note is the strong growth in prices since Q4 2019 observed in the Balearic Islands, Andalusia, Cantabria, Asturias and the Community of Valencia, among others, compared to other regions that have not yet exceeded their pre-pandemic levels (especially Navarre, Aragon and Castilla y León).

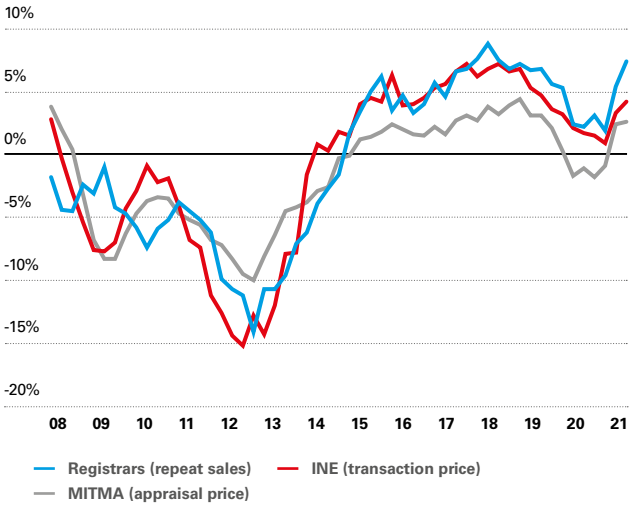
The increase in demand for housing in recent months has caused prices to reverse their trend and start growing

In the short term, the dynamism of demand compared to supply and rising construction costs suggest that house prices will continue to have some upside potential. In addition, favourable financing conditions will go on supporting investment in real estate assets. However, in the medium term, taking into account the absence of structural imbalances in the fundamentals of both demand and supply, we do not expect prices to embark on any worrying upward spiral. In fact, their growth should be more in line with the trend in household income once the «champagne effect» of demand becomes more diluted, supply recovers more significantly and commodity prices moderates.[5]

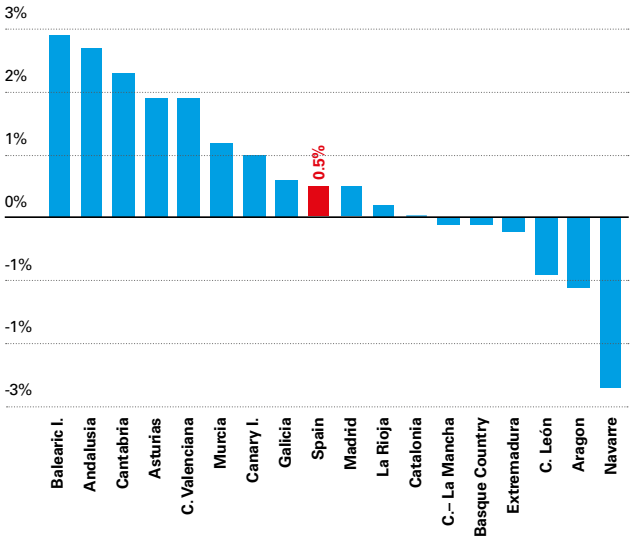
(5) For further analysis of the upside and downside risks to house prices in the Spanish market, see the article «Measuring the downside and upside risks to Spanish house prices» in this report.

House prices are changing trend

House price indices
Year-on-year change



House price by autonomous region*
Change in Q3 2021 vs. Q4 2019



Note: (*) Based on the appraised value of free housing from MITMA.
Source: CaixaBank Research, based on data from the Ministry ofTransport, Mobility and Urban Agenda, National Statistics Institute and College of Registrars.

No price correction in sight

Measuring the tail risks to Spanish house prices

The rapid rise in house prices in many European countries during the pandemic has raised concerns about the possibility of a price correction in the coming quarters. Should we be worried in the case of Spain? Given the current macroeconomic scenario, we argue that there is no need for concern. This conclusion is largely due to the good financial health of households as a whole and to reasonable housing affordability in aggregate terms. Neither do we expect an upward spiral in prices: prices may pick up while the economy moves back to its pre-pandemic levels but, in the medium term, we expect house prices to grow in line with household income. We have confirmed this using CaixaBank Research's new risk model (HaR).

How can we measure tail risks for house prices?

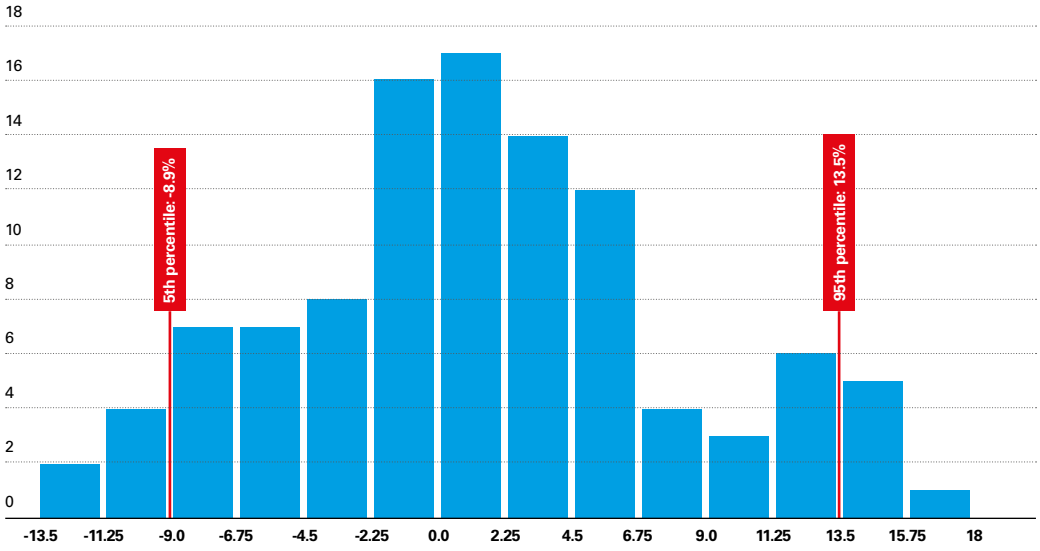
Spain's real estate market is facing both downside and upside risks. The emergence of a new, more contagious and vaccine-resistant variant of the virus or more severe and persistent bottlenecks in global supply chains than we currently anticipate could cause another slump in activity, with the consequent impact on the housing market. Conversely, greater growth in household credit accompanied by sustained high economic growth could lead to larger house price rises. The questions we attempt to answer in this article are the following: how can we quantify these risks and, should the downside (or upside) risks materialise, how much would house prices fall (or rise) next year?

A traditional way of answering these questions is to examine the historic distribution of real house price growth in Spain (see the first chart).[6] Historically, in half the quarters, growth has been equal to or greater than 1.8% (mathematically, this value corresponds to the median of the distribution). If we look at the tails of the distribution, we can see that there has only been a fall in the real price of housing equal to or greater than 8.9% in 5% of the quarters (5th percentile of the distribution), while only in 5% of the quarters is there growth equal to or greater than 13.5% (95th percentile). Assuming this was a typical year, we can conclude that price growth in the following year would most likely be between –8.9% and +13.5%. Depending on which risks materialise, we would move closer to one threshold or the other (and, except in a truly exceptional situation, we would not expect to exceed these boundaries).

6 We have used the appraised value of the total national house price published by the Ministry of Transport, Mobility and Urban Agenda and have deflated the nominal house price using the CPI data provided by the National Statistics Institute.

Distribution of the year-on-year change in real house prices in Spain

(Frequency)



Notes: Data from Q1 1995 to Q2 2021. House prices deflated using the CPI.
Source: CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda and National Statistics Institute.

The main limitation of this approach is that it gives us a very wide range of possible values because it does not take into account the current state of the economy. If we were to use this additional information, we could project a more accurate lower and upper threshold for next year's price growth. In this article, we set out to do just that: using a novel methodology developed by the IMF,[7] we have modelled the distribution of house prices at 1 year and 3 years in the future as a function of various key economic indicators (real GDP growth, household credit growth as a percentage of GDP, and housing affordability). In this way, we can narrow down the most probable house prices for a specific timeframe.

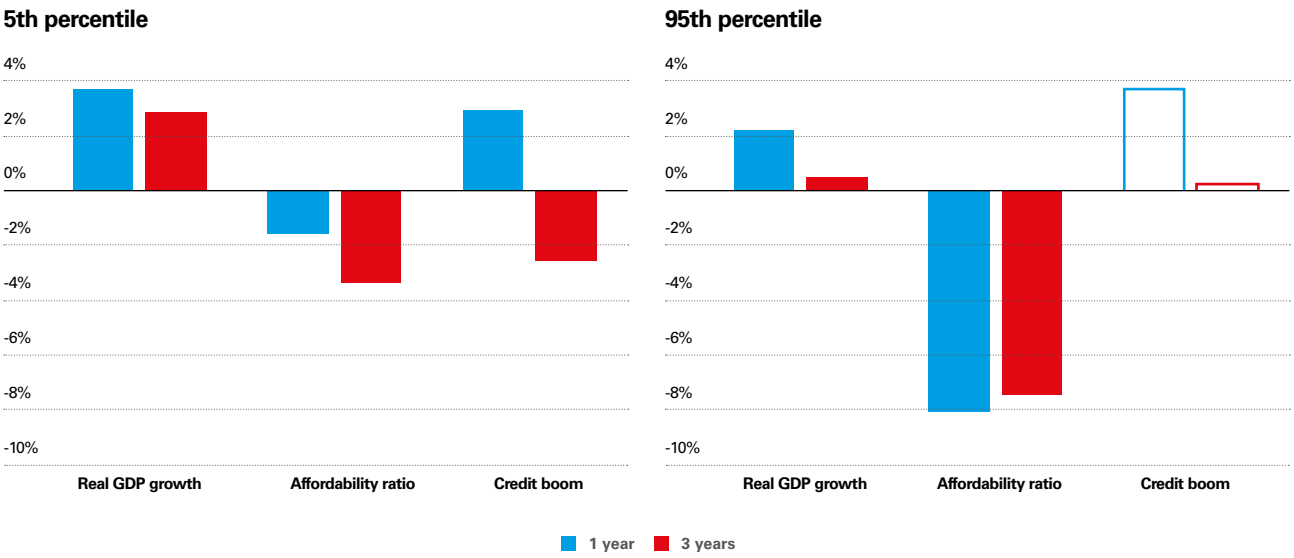
7 See the «Global Financial Stability Report», International Monetary Fund, April 2019.

CaixaBank Research has created a model (HaR) that measures the downside and upside risks for the real estate market according to the projected economic scenario

The HaR model: some details regarding the methodology

CaixaBank Research's HaR (House Prices at Risk) model is based on quantile regressions[8] that enable us to analyse the impact of different factors on the 5th percentile and 95th percentile of the distribution for the real change in house prices in 1 year and in 3 years' time. As explanatory variables, we have included a financial factor (household credit growth as a percentage of GDP),[9] a macroeconomic factor (real GDP growth) and a factor specific to the housing market (housing affordability, defined as the ratio of house prices to the gross income of the median household). This is used to estimate the impact of each factor (the marginal effect) on the distribution of the change in Spanish house prices for a specific percentile and timeframe (see the chart).[10]

The impact of explanatory factors on the tails of the real house price distribution



Note: The chart shows the coefficients of the quantile regressions. A solid bar indicates that the coefficient is significant at 10%. The 5th percentile indicates a drop in price such that we would expect to observe an equal or larger drop only 5% of the time. The 95th percentile indicates an increase in price such that we would expect to see an equal or larger increase only 5% of the time. Model estimated based on quarterly data from Q1 1995 to Q4 2019.
Source: CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda and the National Statistics Institute.

8 The advantage of quantile regressions (compared to traditional methods such as ordinary least squares) is that the marginal effect of factors may differ by quantiles. For example, credit growth may be positively correlated with average house price growth (reflecting the real estate cycle). However, it may have a negative correlation for the 5th percentile; i.e. the fall in price is more severe after a credit boom (the left tail of the distribution moves to the left).

9 This variable enters the regressions in a binary format, being equal to 1 in the case of a credit boom and 0 otherwise. We define a credit boom as a period when the percentage of credit to GDP increases by more than 5 pp in 1 year.

10 We have standardised the explanatory variables so that the coefficients are comparable with each other.

Here are three examples of how these results should be interpreted:

- A one standard deviation increase (equivalent to 1.7 additional years of income to buy an average home) in the affordability ratio is associated with a 1.6 pp decrease in the 5th percentile of real house price growth at 1 year, all other factors remaining constant. In other words, greater tension in the affordability ratio accentuates the future fall in house prices in the case of an adverse scenario.

- A one standard deviation increase (2.3 pp) in real GDP growth is associated with a 2.2 pp increase in the 95th percentile of real house price growth at 1 year, all other factors remaining constant. In other words, if the economy grows much faster than usual, the increase in house prices is also greater in the event of a favourable scenario.

- A credit boom leads to a 2.6 pp decline in the 5th percentile of real house price growth at 3 years compared to not having a credit boom, all other factors remaining constant.

As expected, an increase in real GDP growth is associated with greater house price growth, while a higher housing affordability ratio leads to lower house price growth. An interesting result is that, when there is a boom in household credit to purchase housing, the 5th percentile increases at 1 year but decreases at 3 years. One possible explanation is that an increase in credit affects house prices through two channels. On one hand, in the short term the entire distribution moves to the right: the increased flow in credit boosts demand for housing and pushes up prices. On the other hand, a credit boom increases the likelihood of a real estate bubble (as in the 2008 crisis), which means that, in the medium term and if the bubble bursts in the medium term (adverse scenario), the price correction will be much greater.

A credit boom fuels house price growth in the short term but increases the risk of a further price correction in the medium term, as seen in the 2008 crisis

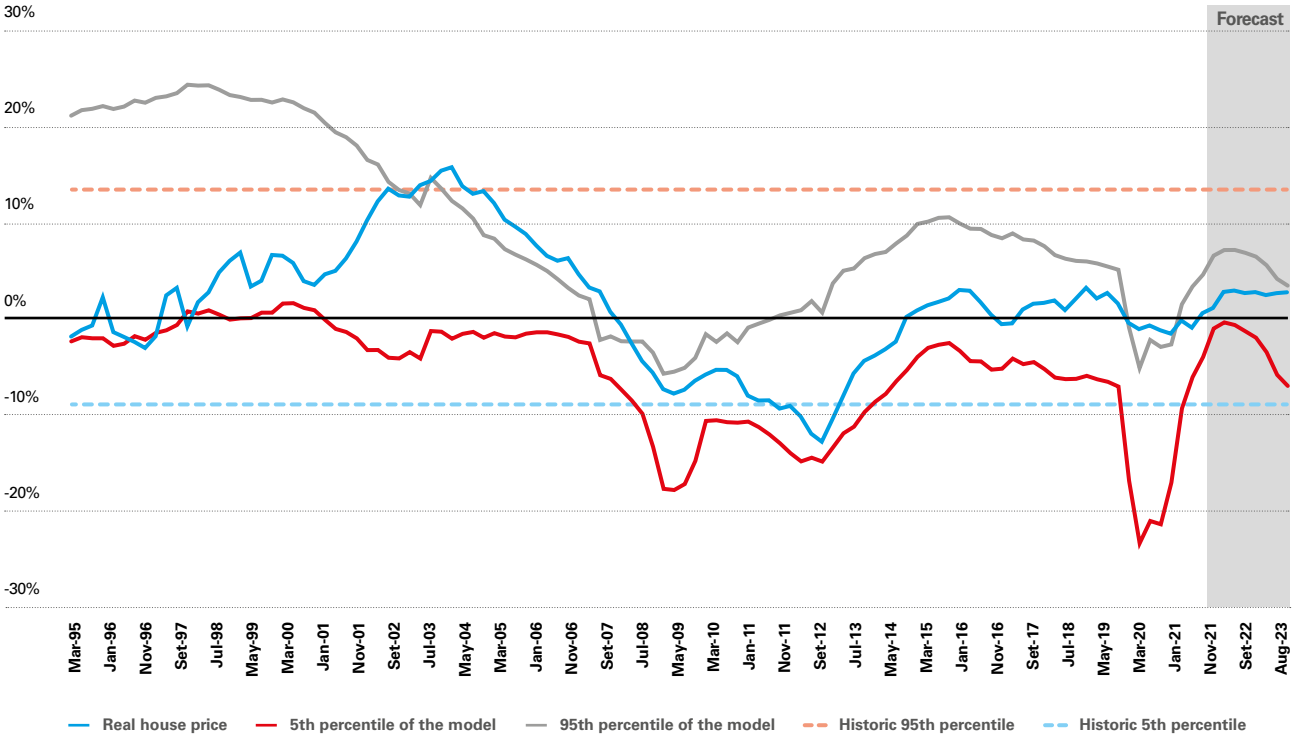
A historical review using the HaR model

The HaR model allows us to see the evolution over time of the 5th percentile and 95th percentile for the distribution of the growth in Spanish house prices at 1 year, conditional on the values of the explanatory factors (economic situation) at each point in time. In the chart below, the grey line and red line mark a range within which we would expect house prices over the coming year to lie.[11]

(11) The results of the model are based on two assumptions: (i) the three factors included in the regressions are the main determinants of the tails of the distribution for Spanish house price growth and (ii) the historic relationships between the variables will remain valid in the future.

Real house prices and 5th and 95th percentiles at 1 year according to the House Prices at Risk (HaR) model

Year-on-year change (%)



Note: The series in the shaded area have been estimated based on CaixaBank Research's central forecast scenario.
Source: CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda and the National Statistics Institute.

Compared to traditional methods, the HaR model provides us with much more accurate ranges within which the following year's prices will oscillate.

Some of the results of the HaR model are striking. Firstly, if we compare the percentiles obtained using the model (grey line and red line) with the historic percentiles (dotted lines), we can see that they differ substantially: the model's percentiles give us a much more precise range within which prices will oscillate over the coming year. For example, during the 2008 crisis, the model tells us that house prices should fall because of the economic situation observed, information not provided by the historic percentiles. Secondly, during the gestation period of the housing bubble prior to the 2008 crisis, the model was continually subject to upside surprises as the economic situation (in particular, the tensions observed in affordability) suggested that growth in prices would moderate. The same thing happens with the COVID-19 crisis: the model found it surprising that house prices were so resilient despite the slump in GDP.

What does the HaR model tell us about the current situation?

The most interesting information comes when we analyse the current situation (with data up to Q4 2021) and the future prospects of the real estate market. The model tells us that, even if the downside risks were to materialise, it would be highly unlikely that real house prices would fall by more than 3.9%. Although this lower threshold would imply a considerable decrease decrease, if compared with the historic lower threshold (8.9%), we can see that the coming year should bring relatively moderate downside risks. On the other hand, even if the upside risks were to materialise, the model tells us that it would be highly unlikely that real house prices would rise by more than 4.8%. Looking ahead, and based on CaixaBank Research's central scenario forecasts, the

model's percentiles indicate that downside risks are contained (the 5th percentile even reaches 0 in 2022) due to the significant GDP growth we expect next year. The upside risks are somewhat greater but limited: as GDP growth returns to normal in 2023, and thanks to the absence of a credit boom (unlike in the pre-crisis period of 2008), price rises should also be moderate.

Given the expected economic situation, neither a severe price correction nor an upward spiral are likely

This result is consistent with the assessment recently issued by the Bank of Spain[12] on the situation of the country's real estate market. In particular, house price imbalance indicators suggest that prices are above but nevertheless very close to their equilibrium levels. This diagnosis for Spain contrasts with the situation of real estate markets in other European economies, as the ECB has noted in its latest stability report.[13] Specifically, the ECB warns that the risks of price corrections in the medium term have increased substantially due to the overvaluation of house prices in some countries and to the fact that credit standards have been relaxed, expressing some concern about the emergence of a debtdriven real estate bubble. Given this situation, the ECB recommends that those countries in which such vulnerabilities are emerging should consider the option of gradually adjusting some of the macroprudential policy instruments at their disposal. However, we believe the situation of the Spanish real estate market does not warrant such instruments to be implemented in our country, at least in the short term.

⑫ «Financial Stability Report», Autumn 2021, Bank of Spain.

⑬ «Financial Stability Report», November 2021, European Central Bank.

The impact of economic policies

The financial situation of households during the COVID-19 crisis: this time it is different

The economic policies implemented during the pandemic have cushioned the impact of the crisis on families' financial situation. On the one hand, a further fall in household income has been avoided while, on the other, the ECB's accommodative monetary policy has led to a reduction in debt interest payments. A detailed analysis of the effort required by households to pay off their mortgages, based on CaixaBank's own internal data, duly reweighted to be representative of the Spanish population, shows that these measures have managed to reduce the mortgage burden during the pandemic for most households, although pockets of vulnerability still remain among low-income households.

Economic policies cushion the impact of the crisis on households

The impact of the COVID-19 crisis on households has been considerable. However, as we will see below, economic policies have played a crucial role in mitigating the adverse economic effects of the pandemic on household finances.

On the fiscal front, a series of measures were activated to support household income, most notably public transfers to workers who had been furloughed. In addition, unemployment benefits were improved, basic supplies were secured, including rent support, and a minimum living wage scheme was put in place. Legal and sectoral moratoriums on both mortgage and consummer loans were also introduced to prevent households in difficulty from defaulting on their financial obligations.[14] These measures together ensured that the annual decrease in gross household disposable income (GDI) was «only» 4.9% in 2020, half the decline in nominal GDP (–9.8%).

In 2021, the rapid progress made in vaccinating the population has led to a remarkable recovery in activity. In this respect, it should be noted that the recovery in employment is more dynamic than in activity (in November 2021 the number of workers effective registered with Social Security was already above pre-pandemic levels, while GDP in Q3 2021 was still 6.6% below its level of Q4 2019). As a result of this labour market dynamism, household GDI grew by 1% in the first half of 2021, albeit remaining below its 2019 level (–3.9%).

(14) These moratoriums have allowed individuals meeting certain requirements to delay the repayment of their loans for a specific period of time. By the end of 2020 there had been almost 1.5 million applications, of which more than 90% were granted. The outstanding amount of loans whose payment had been temporarily suspended due to moratorium programmes totalled almost 56.17 billion euros, equivalent to 8% of the total value of credit granted in loan portfolios eligible for a moratorium.

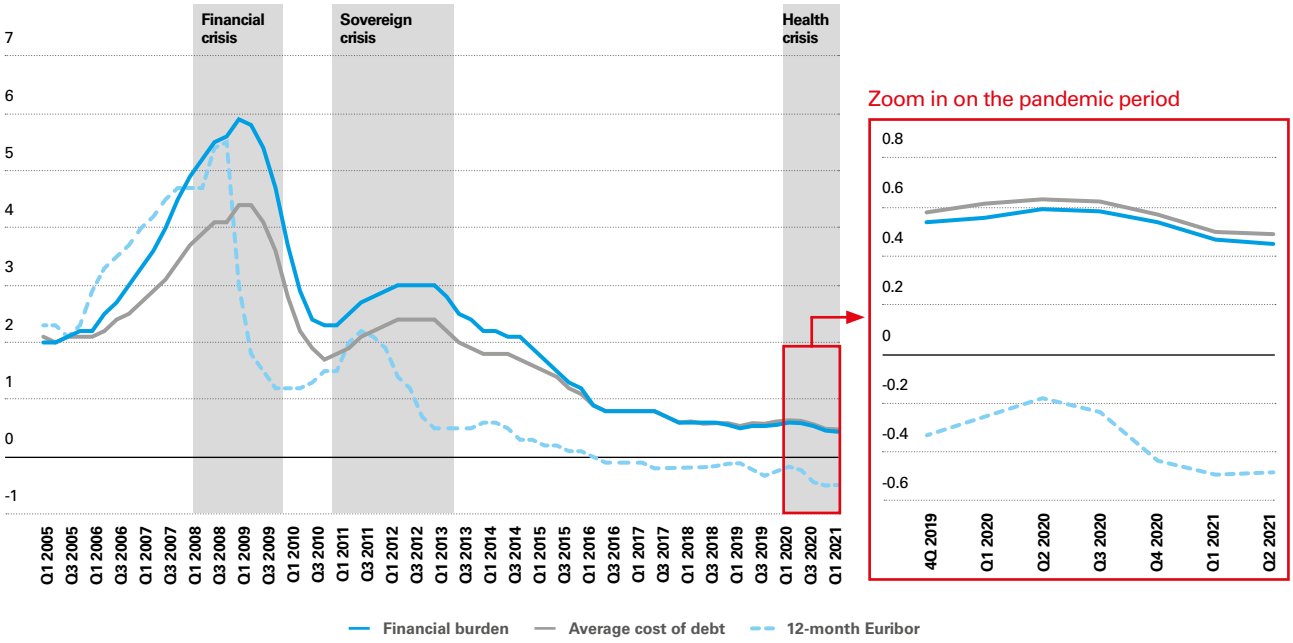
Fiscal policy has cushioned the fall in household income and lower interest rates have eased the financial burden on households as a whole

With regard to monetary policy, the speed and forcefulness of the ECB's actions have enabled very favourable financial conditions to be maintained, helping to reduce the interest payments associated with the debt taken by households. While the household debt ratio would have risen slightly between Q4 2019 and Q2 2021,[15] the financial burden was reduced thanks to the decline in the average cost of debt, which is at an all-time low (see the chart below).

15 The ratio of debt to the gross disposable income (GDI) of households stood at 94.9% in June 2021, 4.2 pp higher than its pre-pandemic level.

The ECB's monetary policy is helping to reduce the average cost of household debt during the pandemic

(%)



Notes: The financial burden corresponds to the interest paid as a percentage of income (GDI).
The average cost of debt is calculated as the interest paid on debt.
Source: CaixaBank Research, based on data from the Bank of Spain.

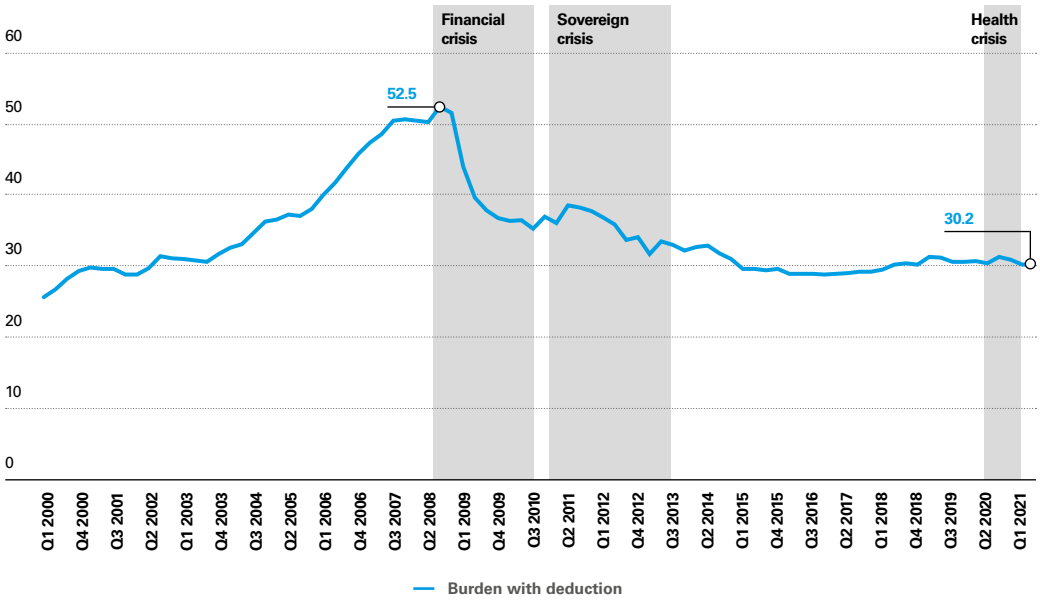
Financial conditions have remained highly favourable during the pandemic and this is likely to have supported the demand for housing and growth in mortgage loans. The theoretical mortgage burden has remained stable at around 30%

Favourable financial conditions have boosted housing demand and this has been reflected in more credit to households for house purchases, especially in 2021, as uncertainty fell and the economic environment improved substantially.[16] Specifically, new loans to purchase a home only shrank by 2.1% during 2020 and recovered by an exceptional 47.8% year-on-year in the cumulative period of January-October 2021 (also by a remarkable 37.5% when compared to the same period in 2019).[17]

In this context, the theoretical mortgage burden[18] has hardly changed, remaining at around 30% during the pandemic, a level of debt that is generally considered to be healthy and similar to the rate recorded before the housing boom in the 2000s (see the chart below). Note that the mortgage burden has remained stable because the fall in interest rates would have offset the decline in GDI and the increase in house prices between Q4 2019 and Q2 2021 (4.5% according to the house price index produced by the National Statistics Institute).

The theoretical mortgage burden remains stable during the pandemic

(% of gross disposable income of the median household)



Note: Amount of repayments to be made by the median household in the first year after buying a typical dwelling financed with a standard loan for 80% of the property's value, as a percentage of the household's annual disposable income.
Source: CaixaBank Research, based on data from the Bank of Spain.

16 For a detailed analysis of the factors that have boosted demand for housing, see the article «Strong demand is reviving Spain's residential market» in this *Sector Report*.

17 Despite this strong upturn in new loans, the outstanding balance of housing credit barely advanced (+0.6% year-on-year in September 2021) due to ordinary and early repayments, an aspect that would be linked to the savings accumulated during the pandemic which some households may have used to reduce their level of debt.

18 The theoretical mortgage burden is a statistic published quarterly by the Bank of Spain and measures the percentage of income that must be allocated by a median household to meet its mortgage repayments in the first year after acquiring a standard home financed via a standard loan for 80% of the value of the property.

An analysis of the mortgage burden by type of household based on internal data

On the whole, the macroeconomic data paint a fairly positive picture of the financial situation of households during the pandemic, thanks largely the economic policies discussed above. However, such data can also obscure vulnerabilities if the different segments of the population are not taken into account. To analyse the impact of the crisis on the different types of household, we have used CaixaBank's internal data, duly anonymised and reweighted to ensure they are representative of the Spanish population.[19] Specifically, we calculated the mortgage burden; i.e. the ratio of mortgage repayments (reflecting the impact of lower interest rates) to household income (reflecting the impact of the income support policy),[20] aggregating the data according to income level,[21] the age of the head of household[22] and the year the mortgage was taken out.

The chart below shows that the median mortgage burden decreased notably in 2020, a reduction that is due to (i) the impact of mortgage moratoriums, allowing those most affected by the pandemic to defer repayment, (ii) lower interest rates, which would have eased the financial burden of mortgage debt, and (iii) a slight increase in the median income of households with mortgage debt.[23] In 2021, based on data up to October, we can see a similar burden ratio to that before the pandemic.

19 Specifically, we have developed an algorithm to calculate the optimal weights to ensure the 2017 results replicate the results of the 2017 Household Financial Survey, published by the Bank of Spain and representative of Spain's population. Subsequently, the algorithm is used to calculate the optimal set of weights for each year. In this respect, the results shown below do not directly reflect the bank's loan portfolio.

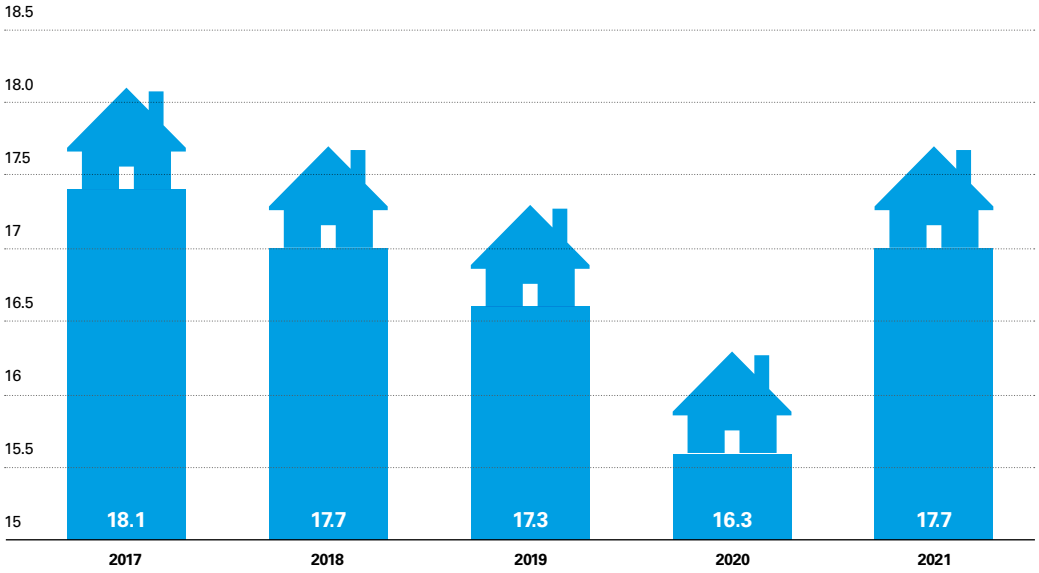
20 This analysis is limited to the share of mortgage loans granted to purchase the main home, only considering households with outstanding mortgage debt.

21 We define household income as income from labour, unemployment benefits and pensions (public and private). To divide households by income quintile, we have used the cut-off points from the Bank of Spain's 2017 Survey of Household Finances.

22 Age of the main breadwinner in the household.

23 Note that the burden calculated using CaixaBank's internal data is significantly lower than the ratio published by the Bank of Spain, since in this calculation we use all mortgage contracts in force while the «theoretical» burden refers to year one mortgage repayments associated with a standard loan for 80% of the current (and not historic) value of the property).

The mortgage burden for households with a mortgage has decreased during the pandemic
(% of household income)



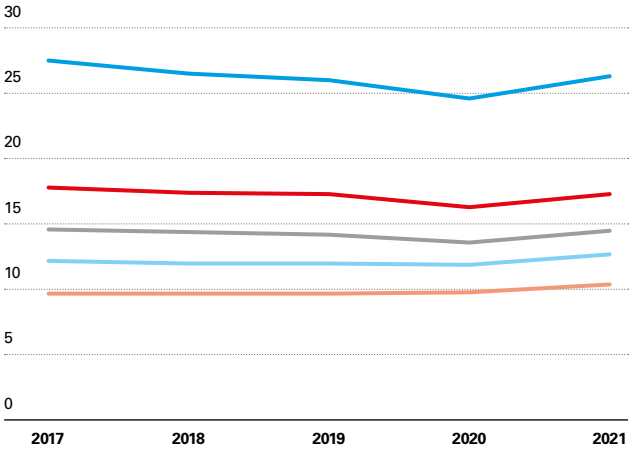
Notes: Internal data, anonymised and reweighted to be representative of Spain's population. Median mortgage burden, calculated as mortgage repayments as a ratio of household income. Data for 2021 up to October.
Source: CaixaBank Research, based on internal CaixaBank data.

When we analyse the trend in mortgage burden by income level (see the chart below), we can see that this decreased for all groups of households and that the largest reduction was experienced by households with the lowest income (–1.4 pp between 2019 and 2020). In addition, the percentage of households with a mortgage burden above 40% (a level often used as a threshold for financial stress) also fell in 2020, especially among low-income households. Despite this improvement, it is important to note that the mortgage burden of low-income households remains significantly higher than that of other households, and that the percentage of low-income households experiencing financial stress is still very high. We can therefore conclude that the measures implemented to tackle the economic crisis have been effective in easing the debt burden of most households, including low-income households. Nevertheless, the vulnerabilities that already existed in some groups before the crisis are still present.

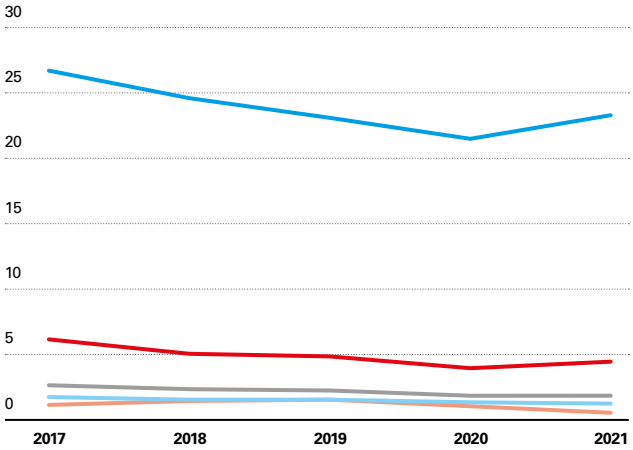
Despite the improvement in financial burden thanks to monetary and fiscal policy measures, low-income households still suffer from a higher concentration of financial vulnerability

Real Estate

Mortgage burden by income bracket
Mortgage / household income ratio (%)



Financial stress by income bracket
Percentage of households with mortgage burden > 40%



Low-income · Low-medium income · Medium-income · High-medium income · High-income

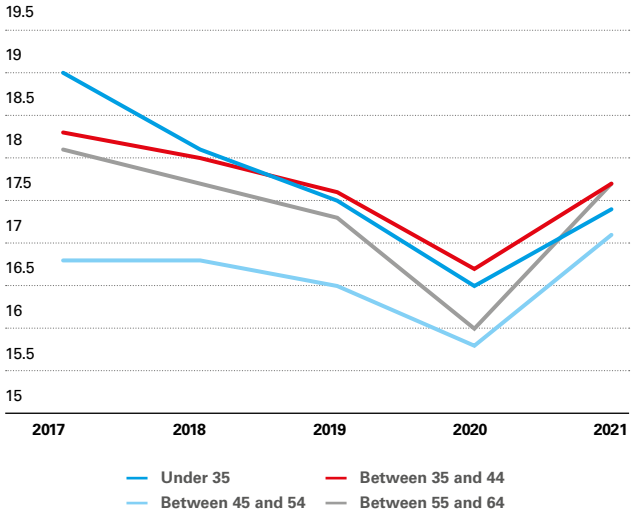
Notes: Internal data, anonymised and reweighted to be representative of Spain's population. Median mortgage burden, calculated as mortgage repayments as a ratio of household income. Low-income refers to the 20% of the population with the lowest income, lower-medium income to the next 20%, medium-income to the next 20% with even more income... and so on.
Source: CaixaBank Research, based on internal CaixaBank data.

All age groups experienced a reduction in mortgage burden in 2020. Young households were already seeing a strong downward trend before the pandemic, a result that can be explained by a larger amount of outstanding mortgage and, consequently, a greater reduction in mortgage repayments due to falling interest rates.[24] Finally, depending on the year when the mortgage was taken out, it can be seen that the greatest decline is concentrated among the mortgages of older cohorts (i.e. mortgages granted between 1996 and 2014, when financial conditions were very different from today), while mortgages granted since 2015, given that these were generally already taken out under more favourable conditions, would not have benefited as much from lower interest rates in the recent stage.

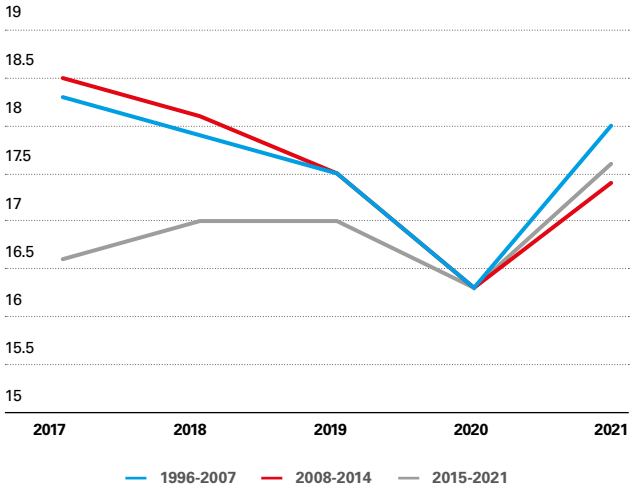
(24) The increase in this group's income has also contributed to the decrease in the burden. While income has fallen for young people during the pandemic, it has been more positive for the subset of young people with mortgage debt.

Mortgage burden

By age of head of household



By vintage (year when mortgage was taken out)



Notes: Internal data, anonymised and reweighted to be representative of Spain's population.
Median mortgage burden, calculated as mortgage repayments as a ratio of household income.
Source: CaixaBank Research, based on internal CaixaBank data.

The support provided by economic policy should not be withdrawn prematurely

Essentially, the implementation of monetary and fiscal policies has limited the negative impact of the pandemic on the financial position of households, although the vulnerabilities that existed before the pandemic are still present and concentrated among low-income households. While the gradual recovery in activity will continue to support the financial situation of households, lower-income households remain dependent on the support of economic policies, so any premature withdrawal of the stimuli should be avoided. Perhaps the most important source of risk is the spike in inflation, going above 5% by the end of 2021 and fuelling expectations that the ECB will bring forward interest rate hikes. However, the ECB has stressed that the current inflationary episode is predominantly temporary in nature and the institution fully expects to continue its current expansionary monetary stance for some time yet. We should also remember that more than 65% of new mortgages are now fixed-rate, limiting the negative impact of a possible rise in interest rates on the ability of households to meet their repayments in the future.

The rental market

The slowdown in rental prices in Spain: what big data reveal

Based on CaixaBank's internal data regarding rent payments, we have constructed indicators for the recent trend in residential rental prices at a provincial level and for the largest municipalities. The results obtained show that there was already a generalised slowdown in rent growth before the pandemic arrived, and that the outbreak of the health crisis extended corrections to most provinces and municipalities, with decreases being especially pronounced among the lowest rents and in the most tourist-oriented municipalities.

The downward trend in rental prices has been accentuated in the wake of the pandemic

The trend towards rental price moderation in Spain began before the onset of COVID-19 and the pandemic merely accelerated it. This has been confirmed by the results of the analysis we have carried out using CaixaBank's internal data on rent payments (duly anonymised and processed in aggregate using big data techniques). Specifically, we select payer-issuer operations that are six months old or less in order to capture the changes in trend occurring in the market, and construct rental price indicators for each province and for the major municipalities in Spain.

Equipped with these indicators, the first chart shows that the year-on-year change in the average for the provinces reached a peak in May 2019 and then began to decelerate markedly in the second half of the year. Specifically, 42% of the provinces and 40% of the municipalities analysed reached their maximum value for new rents before December 2019. Consequently, in many locations we found that **rental prices had peaked before the pandemic, after five years of much higher growth than the increase in household income.**[25]

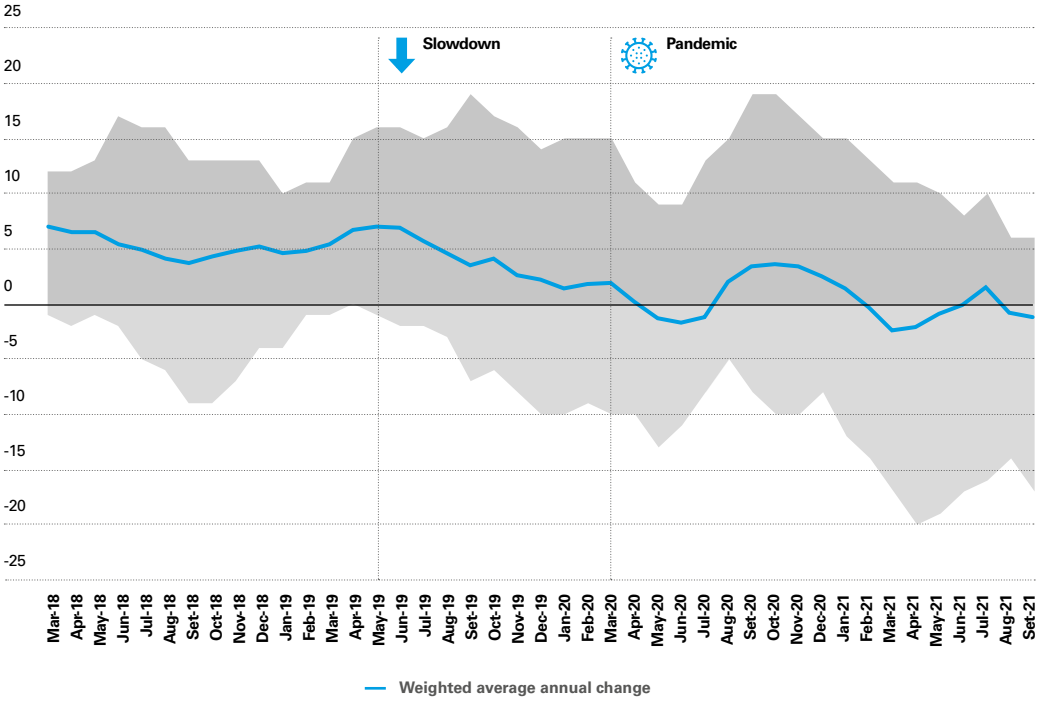
25 For an analysis of the factors that drove rental prices between 2014 and 2019, see «Rent is on the rise Spain», published in the Real Estate Sector Report for the second semester of 2019.

With the arrival of the pandemic, more locations joined the downward trend, which became more pronounced, causing the year-on-year change in the provincial average rental price to reach negative figures from April to July. Several factors probably contributed to this decline, most notably falling household income, which has particularly affected low-income households who tend to live in rented accommodation. For its part, the significant increase in the supply of rented apartments, resulting from the transfer of dwellings intended for tourist rental to the traditional residential market, would also have had an impact on the drop in rental prices in tourist areas, as will be seen below.

Rents were already experiencing a downward trend before the pandemic. The fall in household income and the transfer of properties for tourist rental contributed to this drop in prices

New rental prices started to slow down before the pandemic

Average year-on-year change by province (%)



Notes: For each province and month, we have calculated the average value of new rent payments (rents whose issuer-payer relationship is less than or equal to six months old). The area shaded grey represents the range of values for the year-on-year change in rental price in the different provinces (10th and 90th percentile). The blue line represents the year-on-year change in the population-weighted average for each province.
Source: CaixaBank Research, based on internal rent payment data.

In 2021, growth in rental prices has been in negative figures throughout much of Spain: 65% of the provinces and 55% of the municipalities analysed have lower prices in 2021 (with data up to September) compared to the 2020 average. The latest available data, corresponding to September 2021, show that 46% of the provinces and 42% of the municipalities analysed are still posting a lower average rental price than in December 2019, before the pandemic, so the recovery in the rental market is lagging far behind the sale market.

The trend in rental prices in Madrid and Barcelona

Special mention should be made of the municipalities in Madrid and Barcelona, marked with red and green circles, respectively, in the following chart. In the first case, rents fell sharply in 2020 (–8.3%) although it is true that this decline started from higher growth rates in previous years, and they began to recover in 2021 (+0.6%). In contrast, Barcelona rents experienced a slowdown in 2020 but rental prices resisted adjustment until October 2020, when the law limiting rents in Catalonia's stressed markets came into force.[26]

26 Law 11/2020, of 18 September, of the Catalan government, on urgent measures regarding rent containment in rental lease agreements. Since 1 October 2020, this law has limited rental prices in those Catalan municipalities declared a highprice zone.

The moderation in rental prices has accentuated in the aftermath of the pandemic

Annual change in the average rent by municipality (%)

Notes: Each point on the chart represents a municipality. For each municipality and month, we have calculated the average value of new rent payments (rents whose issuer-payer relationship is less than or equal to six months old). Data for 2021 from January to September. Average weighted by the population of each municipality.
Source: CaixaBank Research, based on internal rent payment data.

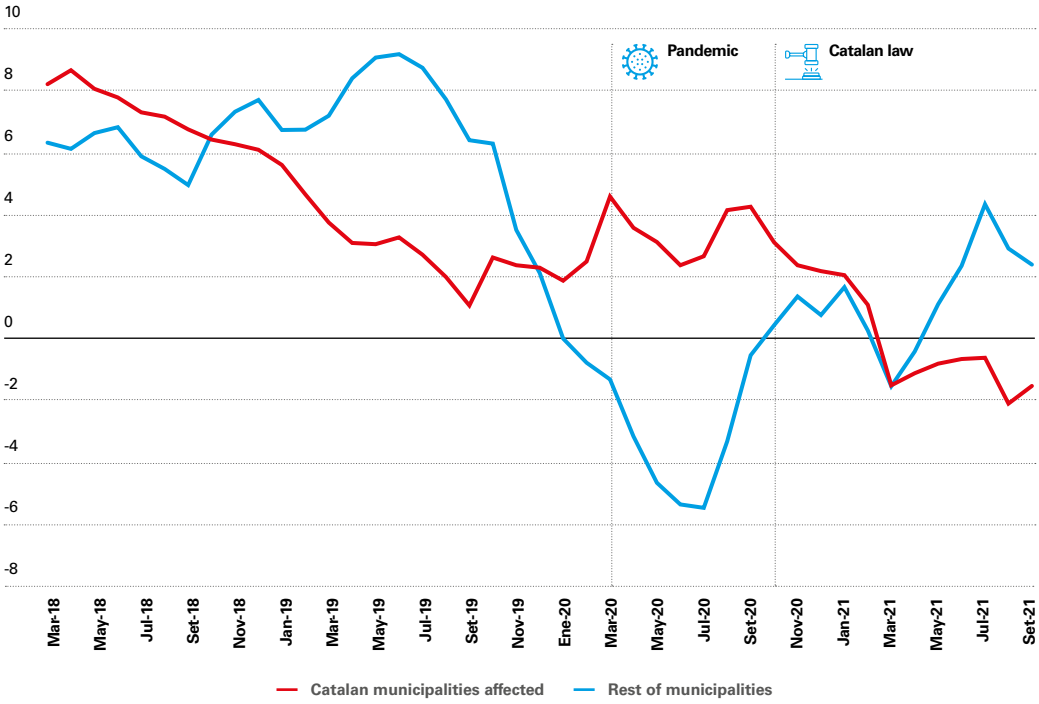
If we compare the trend in rents in the affected Catalan municipalities (where the rental price of new leases cannot exceed the previous price or the benchmark index) before and after this law's entry into force and also compare it with the rest of the municipalities, we can see that, since October 2020, the year-on-year change in rental price would have been marginally lower in the affected Catalan municipalities (around 1 pp).[27] However, the chart below shows that the rental price in the affected Catalan municipalities was somewhat resistant to falling in 2020, before the law came into effect, which could point to a possible reluctance to adjust rental leases to the market situation, anticipating that it will not be possible to raise rents once the new law is in force. However, it is difficult to carry out a rigorous empirical analysis to gauge the impact of this rental law in Catalonia, since it came into force at a time when the market was already adjusting and, in addition, the pandemic has had a different impact on the rental market in each municipality due to a multitude of factors, such as its degree of dependence on tourism, which will be examined below.[28]

27 Methodologically, we carried out a difference-in-differences analysis.

28 Similarly, other analyses show that the Catalan law would have had little impact on rental prices but a negative impact on supply. See «Efectos de la pandemia en el mercado del alquiler: ¿es conveniente una norma de regulación de precios?» EsadeEcPol Insight #27, February 2021, and «La regulación del alquiler en Cataluña apenas incide en los precios, pero destruye la oferta», Idealista, March 2021.

The impact of the Catalan law on the price of new rents

Average year-on-year change (%)



Notes: For each municipality and month, we have calculated the average value of new rent payments (rents whose issuer-payer relationship is less than or equal to six months old). The chart shows the average annual change weighted by the population of each municipality, with the municipalities grouped according to whether they have been declared a high-price zone.
Source: CaixaBank Research, based on internal rent payment data.

What the average hides... and what microdata reveal

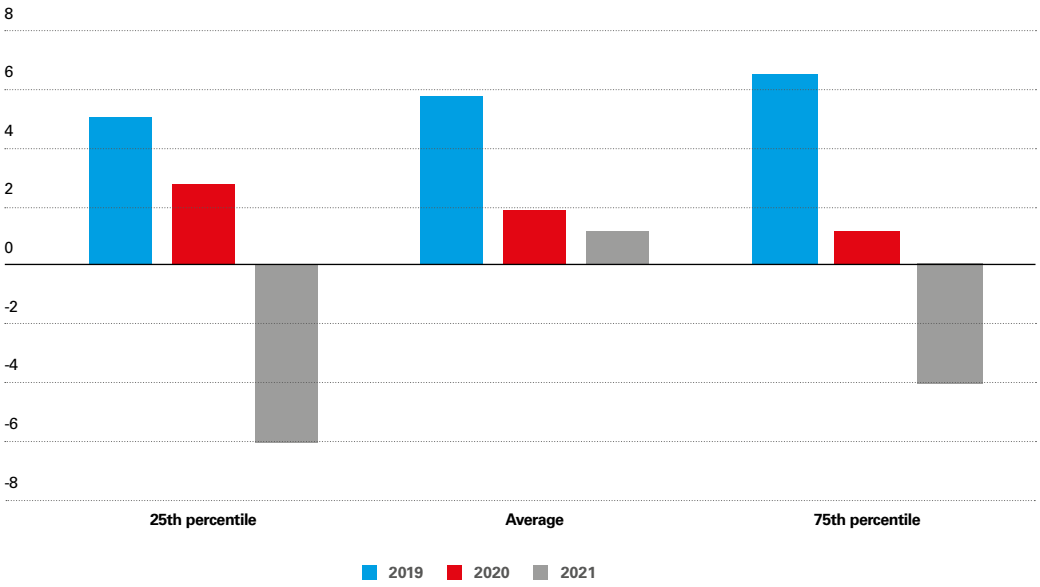
One great advantage of internal rent payment data that they enable us to analyse the distribution of rents within one location. Generally, available rent indicators report the average rental price in a given area. But the truth is that, within the same location, the range of rental prices is relatively wide.[29] Consequently, in order to analyse the trend in rents at different points of the distribution, we has calculated two additional indicators (apart from the average): the 75th percentile indicator (high rents) and the 25th percentile indicator (low rents).[30]

On average, low rents have fallen more than high rents in the provinces

In doing so, we have found that rents at the lower end of the distribution (25th percentile) grew more moderately before the pandemic (up by 5.1% in 2018 versus 5.8% on average) and that their decline in 2021 is more pronounced (–6.1% versus –4.2% on average).[31] In contrast, rents at the upper end of the distribution (75th percentile) grew more vigorously in 2019 (6.5%) and their decline in terms of the provincial average has been more limited in 2021 (–4.1%).[32] This can be seen in the chart below, which shows the average annual change at a provincial level (the results at a municipal level are similar). These results suggest that much of the adjustment in rental prices has occurred among the lowest rents, generally in dwellings occupied by low-income households which have been the most affected by the crisis in terms of job losses and reduced income.

The price of new rents has fallen more in the lower part of the distribution

Average annual change by province (%)



Notes: For each province, three indicators were constructed for the rental price based on the average value, the 25th percentile and the 75th percentile of new rent payments (rents whose issuer-payer relationship is less than or equal to six months old). Data from January to September 2021.
Source: CaixaBank Research, based on internal rent payment data.

29 Generally, the rental price depends on the property's state of repair, its size and other specific factors apart from the area in which the property is located.

30 The 25th percentile indicator (for a given month and location) is the value such that 25% of the rents in that location are below this value (and 75% of the rents are above). The 75th percentile indicator is defined in a similar way and measures the trend in high rents in an area.

31 Moreover, in those provinces where prices have fallen in 2021, low rents have posted a considerable average annual decrease (–14%).

32 Moreover, in those provinces where prices have risen in 2021, the prices seeing the highest growth are high rents (the 75th percentile has posted an average increase of 5.9% in these provinces).

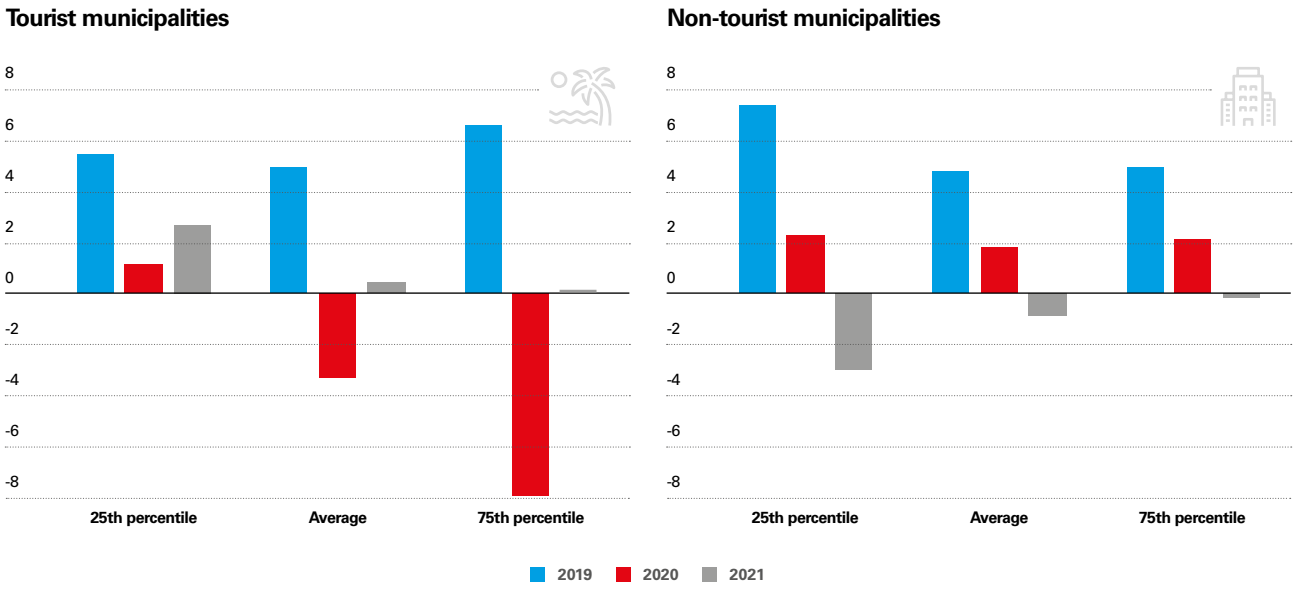
The impact of tourism on rental prices

The pandemic hit international tourism hard, in turn having a direct impact on rental prices in the most tourist-oriented locations: properties that had been destined for tourist rental were shifted to the traditional residential market, increasing the supply and therefore pushing down prices. After classifying the municipalities into tourist and non-tourist (depending on whether spending via foreign cards at CaixaBank POS terminals was more or less than 10% of the total in 2019), we can see that the average rental price fell more sharply in 2020 in tourist-oriented municipalities and that this decline was more pronounced for high rents (75th percentile). We can also see that rental prices in non-tourist municipalities have been slower to adjust (no annual average declines are observed until 2021) and the decline was less sharp than in tourist municipalities and concentrated in the lower part of the distribution (25th percentile).[33]

(33) For an analysis of the impact of international tourism on demand for foreign housing and sale prices in tourist municipalities, see «How has the slump in foreign tourism affected the residential property market?».

Rental prices have fallen more sharply in tourist-oriented municipalities, especially in the upper part of the distribution

Average annual change in new rents (%)



Notes: For each province, three indicators have been constructed for the rental price based on the average value, the 25th percentile and the 75th percentile of the payments for new rents (rents whose issuer-payer relationship is less than or equal to six months). The chart shows the average annual change weighted by the population of each municipality, with the municipalities grouped according to whether they are tourist-oriented or not. A municipality is considered to be tourist (or non-tourist) when the share of payments via CaixaBank POS terminals using foreign cards was higher (or lower) than 10% of the total in 2019. Data from January to September 2021.
Source: CaixaBank Research, based on internal rent payment data.

Final points

The COVID-19 crisis has accentuated and extended the price adjustment which the rental market was already experiencing before the pandemic arrived. In this context, the draft bill for the right to housing presented by the Spanish government in October 2021 introduces a new regulatory instrument so that regional governments and municipal councils can declare highrent zones in order to limit rental prices in these areas. International experience stresses the importance of carefully assessing the effectiveness and impact of such measures since, in certain cases, they can be counterproductive.[34]

(34) See «Public intervention in the rental housing market: a review of international experience» Documentos Ocasionales no. 2002, Bank of Spain, 2020.

Real Estate

Indicators and forecasts

Annual change (%), unless otherwise specified

	Average 2000-2007	Average 2008-2014	Average 2015-2019	Data 2020	Forecast 2021[1]	Forecast 2022[1]	Trend
Economic activity indicators							
Total GDP	3.4	-1.3	2.6	-10.8	4.4	5.9	
GVA construction	3.1	-9.8	3.4	-11.3	-2.0	7.0	
Investment in construction	5.4	-9.4	6.2	-9.6	-2.7	7.5	
Residential investment	5.4	-8.5	10.5	-11.2	-4.4	6.6	
Investment in rest of construction	3.1	-9.8	3.4	-11.3	-0.6	8.5	
New building permits (thousands)	642	94	80	86	105	110	
New building permits	2.8	-28.7	20.9	-19.5	22.8	4.8	
Certificates of final completion (thousands)	482	230	57	86	100	95	
Certificates of final completion	8.3	-34.9	14.9	9.1	16.4	-5.0	
Confidence in the construction sector (level)[5]	13.1	-41.8	-20.7	-18.4	-2.3	-	
Labour market							
Total workers registered with Social Security	3.5	-2.4	3.1	-2.1	2.5	3.3	
Registered workers in construction	6.1	-13.5	5.1	-1.7	4.5	2.7	
Construction of buildings	-	-14.4	7.1	-2.2	5.3	3.3	
Civil engineering	-	-16.4	1.2	-1.6	2.6	3.3	
Specialised construction	-	-8.9	4.3	-1.5	4.0	2.1	
Registered workers in real estate activities	10.3	2.1	6.3	-1.5	2.3	2.2	
Total employees (LFS)	4.1	-2.7	2.6	-2.9	2.9	2.7	
Employees in construction (LFS)	6.7	-14.0	4.5	-2.6	3.0	1.5	
Temporary employment rate in construction (%)[5]	57.6	39.6	41.4	36.7	35.7	-	
Unemployment rate in construction (%)[5]	7.5	22.8	12.4	11.0	9.7	-	
Demand for housing							
Sales[2] (thousands)	886	388	450	420	545	505	
Sales[2]	-0.1	-8.7	9.2	-16.9	29.7	-7.3	
New housing[2,5]	12.1	-13.4	4.8	-10.1	39.3	-	
Second-hand housing[2,5]	-7.8	-5.0	10.3	-18.4	35.1	-	
Foreign sales[3]	-	11.3	5.5	-25.6	36.8	1.7	
Second home sales[4]	-	-8.5	8.5	-20.4	32.2	-2.0	
Prices							
House prices (MITMA)	12.9	-5.7	2.7	-1.1	1.9	4.0	
House prices (INE)	-	-6.8	5.7	2.1	3.6	5.0	
New housing[5]	-	-5.7	6.5	6.5	4.1	-	
Second-hand housing[5]	-	-7.7	5.5	1.4	4.3	-	
Land prices[5]	17.5	-8.7	1.3	-9.4	0.6	3.9	
CPI rent[5]	4.3	0.8	0.8	1.1	0.5	-	
Affordability ratios							
House prices (% gross disposable income)	6.5	7.5	6.6	7.2	7.6	7.7	
Theoretical burden (% gross disposable income)	35.1	37.7	29.6	30.7	30.2	30.4	
Return on rent (%)[5]	4.5	3.5	4.2	3.7	3.7	-	
Financing[5]							
Number of mortgages	5.8	-20.9	10.0	-6.5	23.1	-	
Outstanding balance of credit to purchase housing	14.8	-1.4	-2.2	-1.8	0.7	-	
New loans, housing	17.7	-24.9	12.4	-2.1	47.8	-	
Outstanding balance of credit for property development and construction	23.6	-12.8	-11.0	-5.4	-4.3	-	
NPL ratio of credit for housing (%)	0.5	3.5	4.6	3.4	3.1	-	
NPL ratio of credit for property development and construction (%)	0.5	20.2	20.4	5.8	5.3	-	

Notes: 1. Forecasts at 13 December 2021. 2. The 2000-2007 average for house sales corresponds to the period 2004-2007 and the data come from the Ministry of Transport, Mobility and Urban Agenda (MITMA). The sales figures from the National Statistics Institute (INE) are as from 2007. 3. Foreign sales according to MITMA. 4. Sales of second homes are estimated based on the sales carried out in a different province than the buyer's residence. 5. The data in the column "Forecast 2021" correspond to cumulative data up to the latest data available for 2021.

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

CaixaBank Research

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