# The CaixaBank Research real estate clock: slowdown in sight

Rising interest rates have put the real estate market in the spotlight. The ECB has embarked on a new cycle of interest rate hikes aimed at curbing inflation, and this is raising questions about how the real estate sector will behave in the face of the rising price of money. Indeed, rising interest rates tend to lead to a cooling in demand due to the greater mortgage burden for households wishing to buy a home.[1, 2]

A visual way of showing where the housing market currently lies in the cycle is to use the CaixaBank Research real estate clock, which shows how house prices and sales in Spain evolve over the course of the cycle. Generally speaking, a weakness in the housing market begins to manifest itself with an increase in the time it takes to sell a home and a decrease in the number of sales (deceleration zone), which then translates into a moderation or even a drop in prices after a few quarters (contraction zone). The more imbalances that have accumulated during the preceding expansionary phase, the deeper and longer-lasting this phase of adjustment in the market tends to be. For this reason, the recessive phase from 2009 to 2013 was particularly long and intense: the clock was in contraction for five years and shifted a long way from the coordinate origin. In contrast, in 2020 the real estate sector suffered a temporary adjustment due to the mobility restrictions associated with the pandemic.[3]

**What will the current real estate cycle look like?**

The current economic context and market dynamics are very different from those which prevailed during the real estate crash of 2008. The strength of demand is largely being driven by changes in post-pandemic preferences and the fact that some of the savings accumulated during the pandemic are being channelled into the real estate sector. Moreover, the balance sheets of both households and the financial sector are now much healthier, and there is no excess supply.[4] The slowdown we expect in the real estate market comes in an environment marked by high inflation, which is eroding households' purchasing power and forcing central banks to tighten financial conditions. For 2023, however, we expect inflation will begin to moderate, and this should allow interest rates to remain contained in historical terms. All this should help to ensure that the adjustment in the Spanish real estate market will be limited. Thus, we expect the clock to return to close to the starting point, without passing through the contractionary zone. In particular, we anticipate that the number of sale transactions will fall by just over 10% in 2023, while home prices will register a significant slowdown but maintain a positive growth rate.

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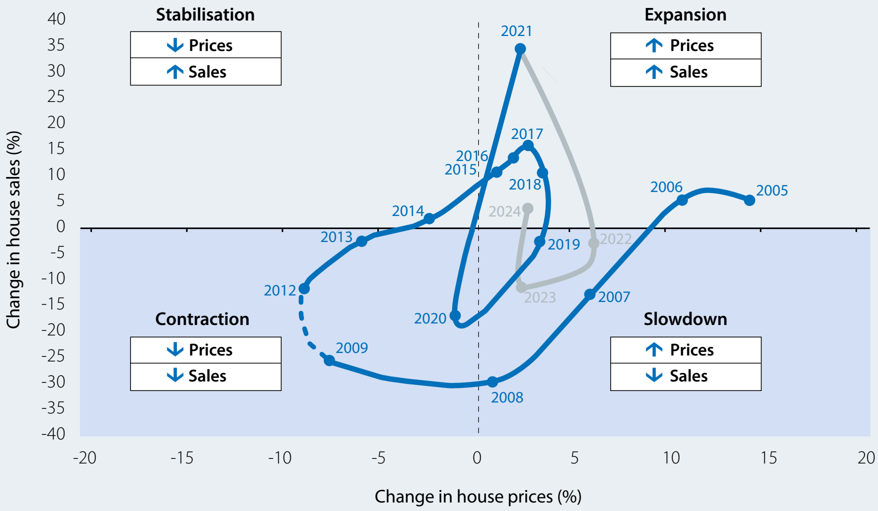
***CaixaBank Research real estate clock for Spain***




***Note:*** *The period 2010-2011 is excluded due to the effect of tax incentives.*
***Source:*** *CaixaBank Research, based on data from the National Statistics Institute, the Ministry of Transport, Mobility and Urban Agenda and CaixaBank Research forecasts.*

1. According to our scenario (with the 12-month Euribor climbing to 1.8% in Q4 2023), the mortgage burden ratio in Spain will increase from 34.3% in Q1 2022 (latest available figure) to 38.6% in Q4 2023. See the article «How long can the real estate sector's upward trend last?» in the 2nd Semester 2022 *Real Estate Sector Report*.
2. On the other hand, the increase in financing costs for the property development and construction sector could also reduce the supply of housing.
3. Sales in Spain in 2020 plummeted (–16.9%), while in 2021 they bounced back (34.7%). Such sudden movements in sales are unusual and are explained by the very nature of the pandemic.
4. For an analysis of the risk of a bubble in the Spanish real estate market, see the article «Assessing the risk of a real estate bubble in developed markets» in the 2nd Semester 2022 *Real Estate Sector Report*.