

Spanish real estate sector: 2022 recap and 2023 outlook

As we look back on 2022, we see a year in which the demand for housing exceeded all expectations, with around 650,000 sales (+14.7%), the highest figure since 2007. The start of the ECB’s cycle of rate hikes in the summer of 2022 barely made a dent in the rate of transactions in the latter part of the year, with over 150,000 sales registered in the final quarter.¹ Nevertheless, we can expect that the rise in interest rates, coupled with the slower growth in households’ real gross disposable income, will continue to weaken housing demand. Investment demand, meanwhile, is adopting a wait-and-see stance. In this context, we foresee a decline in the number of sales to 480,000 homes in 2023, significantly fewer than in 2022 but still higher than the historical average since 2007 (460,000).

By segment, we expect the decline in home sales to be concentrated in second-hand housing. Sales of new homes, on the other hand, will remain buoyant thanks to the high percentage of pre-sales of the developments currently under construction and the relative scarcity of this type of housing. In fact, the sharp upturn in the number of sales in 2022 was entirely due to the second-hand market: 17.7% more second-hand homes were sold than in 2021 (532,000 homes, 82% of the total). In contrast, the number of sales of new homes remained in a similar range to the previous year (117,000 homes, 2.6% more than in 2021).

Foreign demand, meanwhile, experienced exceptional growth in 2022: foreigners bought around 90,000 homes in Spain, which far exceeds the pre-pandemic levels and represents 13.75% of the total sales in the year. By nationality, the British once again topped the ranking, with some 9,800 purchases, followed by the Germans (8,400) and the French (6,200). The indicators of intent to buy, based on Google searches for «buying property in Spain» conducted from the various countries of origin of these buyers, suggest that this upward trend may moderate in 2023 (there is a slight decrease in the popularity of these searches compared to the high levels registered in 2022). Germany and Sweden are the nationalities whose indicators remain at very high levels.

The geographical distribution of foreign demand is highly uneven, as it is concentrated around the Mediterranean arc and the archipelagos. The Balearic Islands are the autonomous community where foreign sales make up the largest portion of the total, at 34.4% of all home sales in the region. This represents a 5-pp increase compared to before the pandemic (29.4% in 2019).

1. In December, there was a year-on-year decrease in the number of sales according to the National Statistics Institute (-10.2%), but in January the trend returned to positive territory (6.6% year-on-year).

Spain: home sales

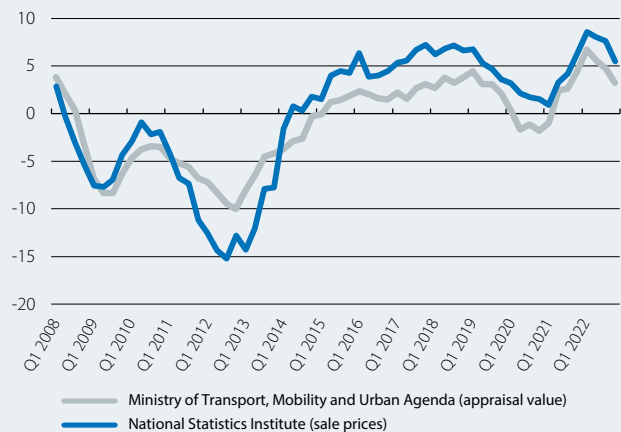
(Number of sale transactions)



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

Spain: slowdown in home prices

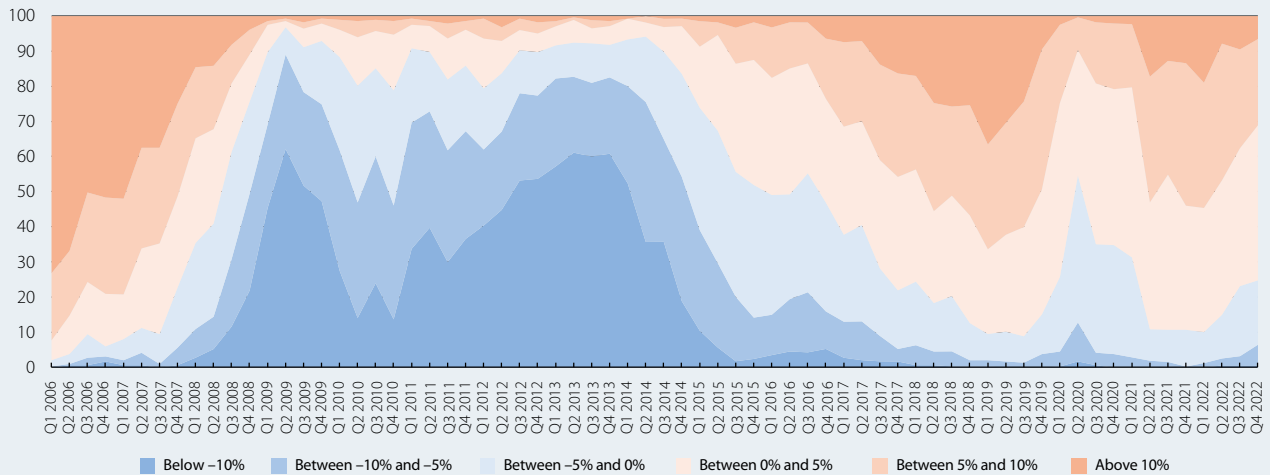
Year-on-year change (%)



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

The supply of housing remains very limited and insufficient to meet housing needs given the demographic trends. Specifically, the number of planning permission licences granted for new constructions (109,000 homes in 2022) fell well short of net household creation (210,000), a situation already observed in 2020 and 2021. One factor which could help supply to recover is the recent moderation in the rise in construction costs. These costs surged in the first half of 2022 (peaking at a year-on-year increase of 19.5% in May). Since then, the pace of growth has been somewhat more contained (10.3% year-on-year in December 2022) and going forward we expect the cost pressures to moderate in view of recent developments in the price of energy and industrial metals in international markets, which have fallen sharply since mid-2022 despite the recent increase due to China’s reopening.

Spain: distribution of municipalities according to the year-on-year change in home prices
(% of municipalities)



Note: In each quarter, the municipalities are classified according to whether the year-on-year change in home prices is below -10%, between -10% and -5%, etc.
Source: CaixaBank Research, based on data from the Ministry of Transport, Mobility and Urban Agenda.

Home prices registered significant growth in 2022 (5.0% according to the Ministry of Transport, Mobility and Urban Agenda, and 7.4% according to the National Statistics Institute), but there was also a marked slowdown in year-on-year terms over the course of the year. In particular, having grown by 6.7% in Q1, by Q4 the growth rate had dropped to 3.3% according to the home appraisal value data published by the Ministry of Transport, Mobility and Urban Agenda (according to the National Statistics Institute’s price index, which is based on sale prices, the growth rate decreased from 8.5% year-on-year in Q1 2022 to 5.5% in Q4).

In all autonomous community regions, home prices experienced a slowdown during 2022 but recorded positive growth at the end of the year, with Murcia being the only exception (-0.1% year-on-year in Q4 2022). Among all the autonomous community regions, the Balearic Islands registered the biggest increase in home prices in 2022, at 7.8% (compared to 5% for the nation as a whole). In fact, it is the only region where home prices in nominal terms now exceed the peak registered before the bursting of the real estate bubble in 2008 (specifically, in Q4 2022 home prices were 11% higher than the previous peak, while for the country as a whole they still remained 17% below).

The evolution of homes prices in municipalities with more than 25,000 inhabitants also slowed in 2022: 25% of municipalities registered a negative year-on-year rate of change in Q4 2022 (compared to just over 10% at the beginning of the year). In contrast, just 6.5% of municipalities registered an increase in home prices exceeding 10% in Q4 2022 (versus a peak of 19% in Q1 2022).

In the coming quarters, the Spanish economy will continue to face an adverse context marked by

geopolitical uncertainty and rising interest rates.² Against this demanding economic backdrop, we expect that the trajectory of slowing home prices will continue, with prices remaining virtually stagnant in 2023. The trend will be more positive in locations with the highest demand, such as major city centres and tourist areas. As for the type of housing, we foresee a differentiated trend: second-hand housing will be the most affected, while we expect to see a better performance in the case of new housing, due to its relative scarcity and high demand.

This relatively positive outlook for the Spanish real estate sector rests on a series of hypotheses which constitute CaixaBank Research’s baseline scenario. Financial market turbulences experienced since mid-March serve as a warning of the risks that could emerge in a context of rapid interest rate rises. Indeed, if these turbulences were to persist or worsen – neither of which is anticipated in our baseline scenario – this could have an impact on the economic outlook and on the real estate sector. However, it is important to note that the real estate sector is now in a much stronger starting position in order to weather the storm than it was in the previous cycle: there is currently no oversupply, no excessive growth in credit, and there has been no easing of credit standards.³ In addition, households have healthier balance sheets and banks have large capital and liquidity buffers.

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2. There will also be some elements that will support activity growth in the Spanish economy, such as the acceleration of the deployment of NGEU funds and the recovery of tourism. We anticipate GDP growth of 1.3% in 2023.

3. See the article «[The real estate sector is cooling down](#)», published in the *Real Estate Sector Report 1S 2023*, for a comparative analysis of different variables in the two most recent expansive cycles of the Spanish real estate market (1999-2007 and 2014-2022).