

Real Estate

Sector Report

S1 2024

Improved outlook for
Spain's real estate sector

Spain's real estate market
ends 2023 in better shape
than expected

Population and home
prices in Spain: a close
relationship

Advanced-economy real
estate markets: home price
resilience and supply
shortages

Will we see a revival in
Spain's commercial real
estate sector in 2024?





SECTOR REPORT

Real Estate S1 (First Semester) 2024 The *Sector Report* is a publication produced by CaixaBank Research

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JIM ROHN



Real Estate

CAIXABANK RESEARCH FORECASTS FOR SPAIN'S REAL ESTATE SECTOR



	2021	2022	2023	2024	2025
Compraventas (miles)	566	650	587	550	552
New construction permits (thousands)	108	109	110	115	125
Home prices - MIVAU* (% change)	2.1	5.0	3.9	2.7	2.5
Home prices - INE** (% change)	3.7	7.4	4.3	3.5	2.5

Notes: *Ministry of Housing and Urban Agenda (MIVAU). **National Statistics Institute (INE).
Source: CaixaBank Research.

2023 ASSESSMENT

The real estate sector has withstood the rise in interest rates better than expected



1. Strong **job** creation (783,000 more people in employment in 2023)
2. Significant **immigration** flows (around 600,000 people)
3. **Household finances** held up better than expected
4. Resilience of **sales to foreign buyers**
5. Stabilisation of **construction costs**



These are the five **supporting factors** that have sustained housing demand and mitigated the negative impact of the rise in interest rates on home prices

Good outlook for 2024 and 2025



1. Strong **fundamentals** of the Spanish market
2. Improved **economic outlook** for 2024
3. Expectation of lower interest rates



Three points that have led us to **improve our forecasts** for Spain's real estate sector

In addition, in this report we analyse how:

- Home prices are **growing more in the Spanish provinces and municipalities** that have experienced greater population growth

- Home prices in global markets **have seen their rally truncated**, but the declines have generally been moderate due to housing shortages

- The commercial real estate market is expected to recover **as interest rates come down**, after investment suffered significant setbacks in 2023

Executive summary

Improved outlook for Spain's real estate sector

Since the previous issue of the *Real Estate Sector Report* was published in July 2023, there have been several developments in the economic sphere that allow us to be more optimistic about the outlook for Spain's real estate sector in 2024. On the one hand, the fall in inflation in the euro area since last autumn has led to a major shift in the anticipated trajectory of interest rates, and the ECB is expected to start lowering them before the summer. On the other hand, the Spanish economy has performed substantially better than predicted: Spain's GDP grew by 2.5% in 2023, whereas at the beginning of the year we were anticipating an advance of 1%.

The real estate market has also had a better 2023 than previously forecast. Although the number of home sales fell by around 10%, the decline was less sharp than anticipated and the year actually ended up being the second best in 15 years (the best was 2022, with 650,000 sales). The price of housing also slowed in the first half of 2023, but in the second half its growth rate accelerated, reaching 5.3% year-on-year in Q4 2023. On the supply side, the stabilisation of construction costs allowed the year to end with a similar number of new home construction permits to that of previous years (around 110,000 homes).

For the first half of the year, we expect this gentle slowdown to continue, as interest rates remain high and the economic environment continues to show signs of relative weakness. However, **in the second half of 2024, as the downward path of interest rates takes hold and economic activity gains traction, we expect the real estate market to regain vigour and record new growth.** Thus, 2024 will be a year of transition in anticipation of 2025, when we expect the real estate sector to expand once again. Here at CaixaBank Research, we have improved our forecasts for Spain's real estate market for 2024-2025: we anticipate an increase in home prices of 2.7% and 2.5%, respectively, and sales of around 550,000 units per year. In the first

article of this report, we set out this new forecast scenario in greater detail.

The good performance of Spain's real estate market is largely explained by the resilience of demand despite the difficult economic context. In the second article of this report, **we analyse one of the main factors that has driven the demand for housing in Spain in the last two years: population growth.** Between 2022 and 2023, migration flows have been very significant and Spain's population has increased by around 1 million people, a level not recorded since the migration boom of the first decade of the 21st century. The areas where home prices have grown the most are the provinces and municipalities that have experienced the greatest population growth, such as tourist areas, and large cities and their urban areas of influence. Meanwhile, prices remain stagnant in areas suffering depopulation.

In the third article of this report, **we investigate how real estate markets in the major advanced economies have responded to the tightening of financial conditions.** Overall, despite significant differences between countries, for now home prices have withstood the rise in interest rates relatively well. The shortage of new housing in major developed markets accounts for much of the downward resistance shown by home prices. Regulatory restrictions to increasing supply and a lack of public investment in the vast majority of OECD countries will be exacerbating the housing affordability problems in locations that are experiencing higher demand, such as large cities.

In the last article of this *Sector Report*, we focus on Spain's commercial real estate market. After registering sharp declines in investment in 2023, we expect to see a revival as 2024 progresses, thanks to the anticipated fall in interest rates and an improvement in the fundamentals that determine the behaviour of the different segments.



Situation and outlook

Spain's real estate market ends 2023 in better shape than expected

Spain's real estate market slowed in 2023, but more gently than anticipated. Despite the sharp rise in interest rates, several factors have supported the sector, including a resilient labour market, significant immigration flows, the imbalance between the short supply of new housing and the high demand, and the improvement in household finances. On the supply side, the stabilisation of construction costs has allowed 2023 to end with a similar number of new home construction permits to that of previous years. In the first half of 2024, we expect this gentle slowdown to continue, as interest rates remain high and the economic environment continues to show signs of relative weakness; however, in the second half, as the downward path of interest rates takes hold and economic activity gains traction, we expect the real estate market to regain more vigour.

2023 assessment: the real estate market holds up well despite the rise in interest rates

Spain's real estate market slowed during the course of 2023, but the pattern was much more positive than had been anticipated at the beginning of the year. A year on, we can say that **the real estate market has held up much better than predicted in an environment of high interest rates**. This resilience can be attributed to several supporting factors, which we outline below.

Firstly, it should be noted that the performance of the Spanish economy as a whole in 2023 has also been much better than expected. GDP grew by 2.5% for the year as a whole, a significant figure and well above what had been anticipated at the end of 2022 (1.0%). This positive surprise is mainly explained by the faster than expected fading of the energy crisis, as well as the strength of Spain's foreign sector, which is closely linked to both tourism and non-tourism services.



The buoyancy of the Spanish economy has been reflected in **excellent figures in the labour market in 2023**: the number of people in employment grew by 783,000 and the unemployment rate fell by more than 1 pp to 11.8% in Q4 2023 (versus 12.9% at the end of 2022). The temporary employment rate has also fallen dramatically in recent years (16.5% in Q4 2023 compared to 26.3% in 2019), and this will encourage people to buy a home, since workers on permanent contracts tend to have better access to mortgages than those on temporary contracts. Remuneration per employee has also improved, with wage rises of around 4% according to CaixaBank Research's wage indicator.¹ Household income thus rose significantly (11.4% year-on-year in the first three quarters of 2023), exceeding inflation in this period (3.6%).

¹ Available on the CaixaBank Research Real-Time Economics portal.

The demand for housing has been favoured by the growth of household income, driven by job creation and rising wages

The strength of the labour market has attracted significant immigration flows. In 2023, the foreign population residing in Spain grew by 544,000 people (709,000 if we include those with dual nationality); such high figures had not been recorded since the real estate boom that culminated in 2008. This population tends to be located in areas of greater economic activity, such as large cities and tourist areas, driving up the demand for housing in these locations, as we will see in the second article of this report, «Population and home prices in Spain: a close relationship».



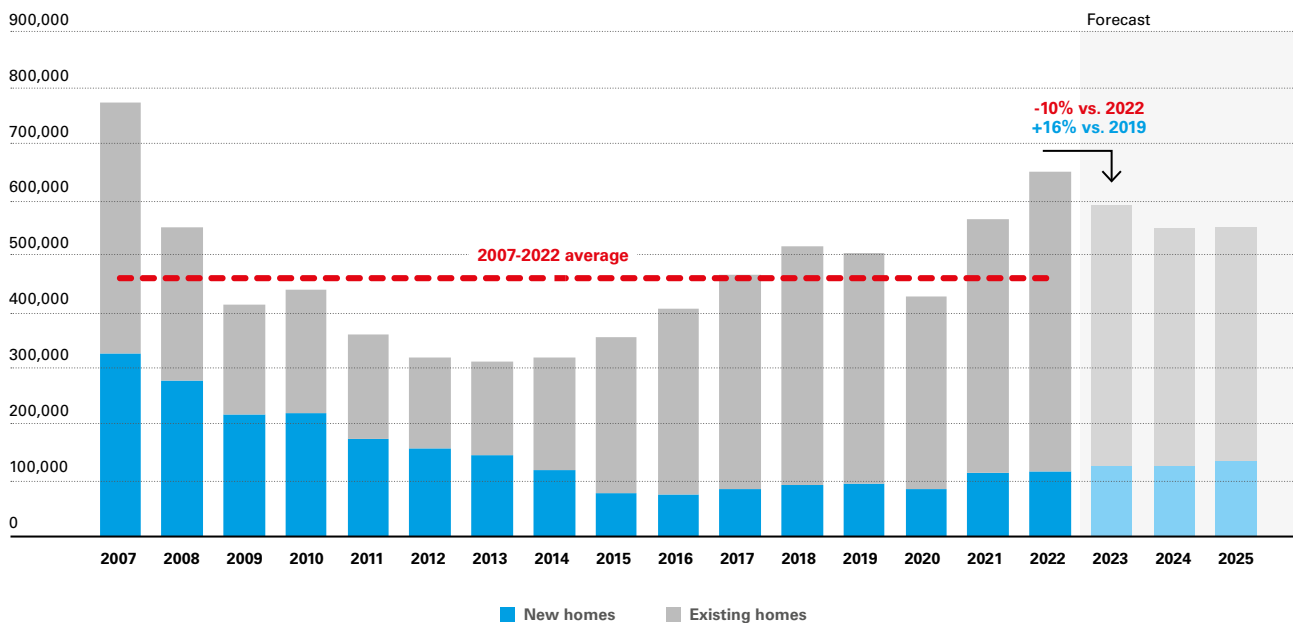
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Another factor that has sustained the real estate market is the fact that **household finances have been under less stress than expected**. In particular, the household indebtedness ratio fell to 76.5% of gross disposable income (GDI) in Q3 2023, its lowest level since 2002 and 12 pps below the EU average (89%). The lower household indebtedness, the high percentage of fixed-rate mortgages in recent years (71% in 2022) and the buoyancy of incomes have limited the impact of the rise in interest rates on households: the interest burden increased by just 0.5 pps of GDI between Q4 2021 and Q3 2023, standing at 1.7%.² However, households with variable-rate loans and those that have borrowed recently have had to bear higher interest costs, although it is expected that they will fall during the course of this year as benchmark interest rates for variable-rate loans come down.³

② The interest burden is calculated as net interest payments (income minus payments), before the allocation of financial brokerage services (SIFMI), over GDI. Four-quarter cumulative data.

Sales fall relative to the 2022 peak, but remain above pre-pandemic levels

Number of sales



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

These factors have sustained the demand for housing and mitigated the negative impact of rising interest rates. Therefore, despite the fact that home sales fell by 9.7% in 2023 to 587,000 units, they remain above both pre-pandemic levels (+16.1% versus 2019) and the historical average (470,000). By segment, the biggest drop is found in sales of existing homes (-10.8% in 2023 compared to -4.8% for new home sales). In 2023, sales of new homes represented 17.9% of all transactions (20.1% in 2022).

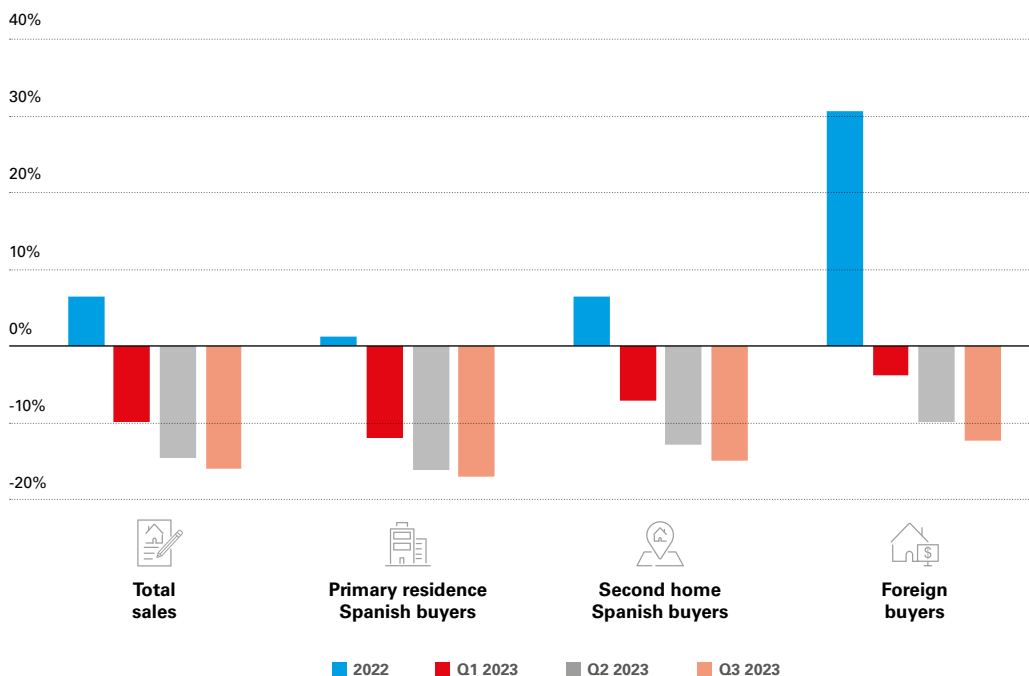
③ See «Report on the financial situation of households and firms, second half of 2023», Bank of Spain, January 2024.

Sales made to foreign buyers, which rose sharply in 2022 to record levels (94,500 homes according to the Association of Registrars), are declining at a slower rate than sales made to Spaniards buying primary residences and second homes. According to sales data from the Ministry of Housing and Urban Agenda (MIVAU, formerly MITMA), the number of purchases made by foreigners fell by 8.7% year-on-year in the first three quarters of 2023, compared to declines of purchases by Spaniards of -11.8% in the case of second homes and -15.0% for primary residences. This better relative performance among foreign buyers has led to their share of the total number of transactions significantly increasing (20.2% according to the MIVAU and 15.4% according to the Association of Registrars in Q3 2023).⁴

④ See the article «Buying a home in Spain and taking out a mortgage as a foreigner» in the *Real Estate Sector Report S2/2023*.

Sales to foreign buyers are declining at a slower rate

Change in home sales, split by buyer



Source: CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda (MIVAU).

The impact of higher interest rates on the mortgage market has been somewhat greater.

The number of mortgages fell by 17.8% in 2023, and new loans granted to households for home purchases, by 18.6% in the same period, although both indicators remain above 2019 levels. Thus, the decrease in mortgage credit is greater than that of sales, which reflects a change in the nature of home buyers, as those buying replacement homes, foreign buyers and investors, who tend to have the resources to fund the purchase themselves, assume a more prominent role. Thus, the ratio of the number of mortgages to the number of sales has fallen significantly (65.0% in 2023 compared to 71.4% in 2022).

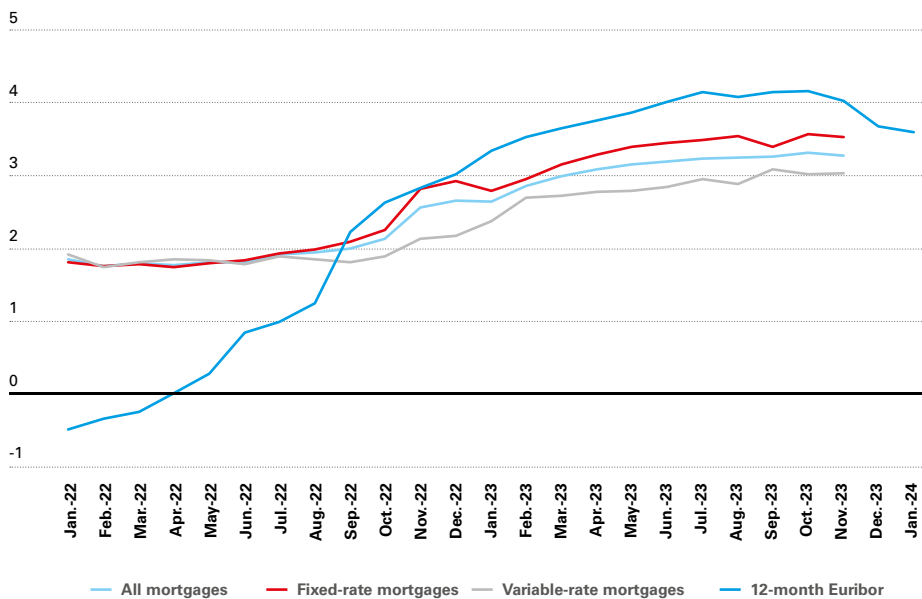


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In the mortgage market, interest rates on new mortgages have remained relatively restrained despite the increase in official interest rates and market benchmark rates, such as the 12-month Euribor. Fixed-rate mortgages, for example, were granted at an average rate of 3.5% in the second half of 2023, while the Euribor exceeded 4% in this period.

Average interest rate at the start of new mortgages granted and 12-month Euribor

(%)



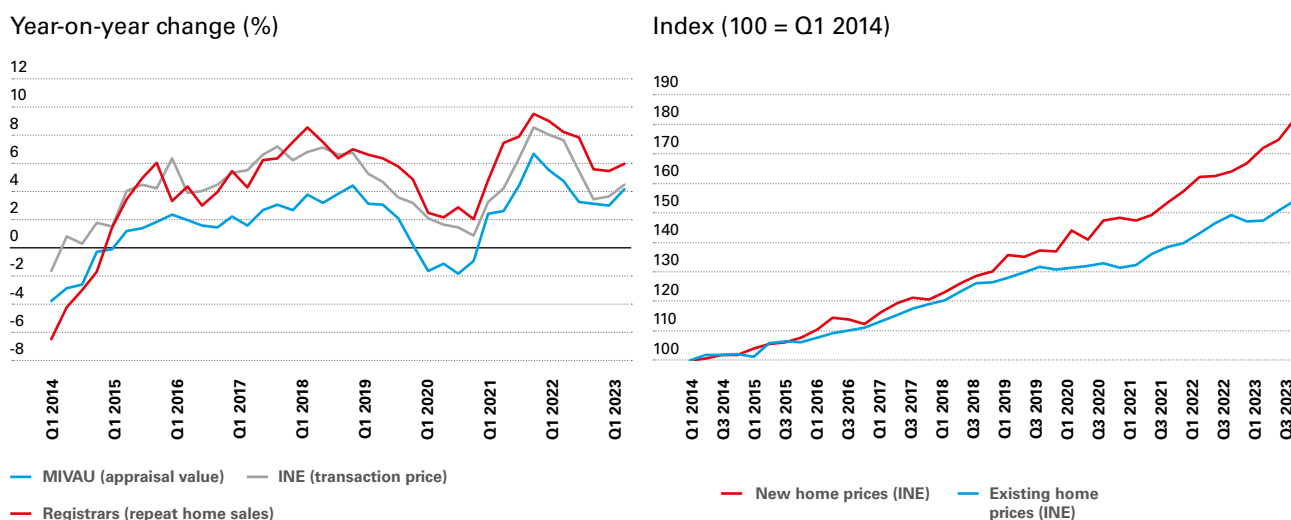
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and the Bank of Spain.

Home prices show significant downward resistance

In mid-2022, when the ECB began the new cycle of interest rate hikes, home prices began to slow down and continued to do so until the first half of 2023. However, in the second half the growth rate increased again. Specifically, the appraisal value of unsubsidised housing (per MIVAU) increased by 1.1% quarter-on-quarter in Q4 (versus 0.3% in Q2 and 1.1% in Q3) and the year-on-year change accelerated from 4.2% in Q3 to 5.3% in Q4. The home price index published by the National Statistics Institute (based on sale transaction prices) followed a similar pattern: significant growth in Q3 (2.5% quarter-on-quarter versus 2.1% in Q2) and an acceleration of the year-on-year change (from 3.6% in Q2 to 4.5% in Q3). The resilience of housing demand (which despite declining remains high) and the limited supply of new housing are the main factors behind the resistance of home prices in nominal terms. In real terms, the reduction in home prices has been considerable (-2.8% in 2022-2023).

By segment, the price of new homes is growing much more rapidly (11% year-on-year in Q3) compared to existing homes (3.2%). This is due to the relative short supply of new homes, a greater preference for this type of housing and the fact that residential construction costs have consolidated at high levels (up 3.7% in 2023 after increasing by 20% in 2021-2022).

Home prices accelerate in Q3 2023, especially for new homes



Source: CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda (MIVAU), the Spanish National Statistics Institute (INE) and the Association of Registrars.

Despite the sustained growth in home prices, it should be noted that **there are no clear signs that Spain's real estate market is overvalued**. According to the Bank of Spain's Financial Stability Report published in autumn 2023, indicators for imbalances in home prices are close to the neutral level. Indeed, the level of alert regarding the real estate sector signalled in previous reports was lowered. In fact, for the economy as a whole, home prices are increasing slower than the median household income, such that the affordability ratio has decreased slightly in 2023 (from 7.83 in Q4 2022 to 7.54 in Q3 2023). However, it should be noted that in certain locations, such as tourist areas and urban centres, housing affordability is a challenge for domestic residents. Recently, the European Systemic Risk Board (ESRB) has published a follow-up report on vulnerabilities in the residential real estate sectors of European countries⁵ in which it is mentioned that home prices are moderately overvalued in Spain. However, it considers that the level of vulnerabilities accumulated is low, so it is deemed that no macroprudential measures are required for the time being.

⁵ «Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries», ESRB, February 2024.

Housing supply is growing slowly

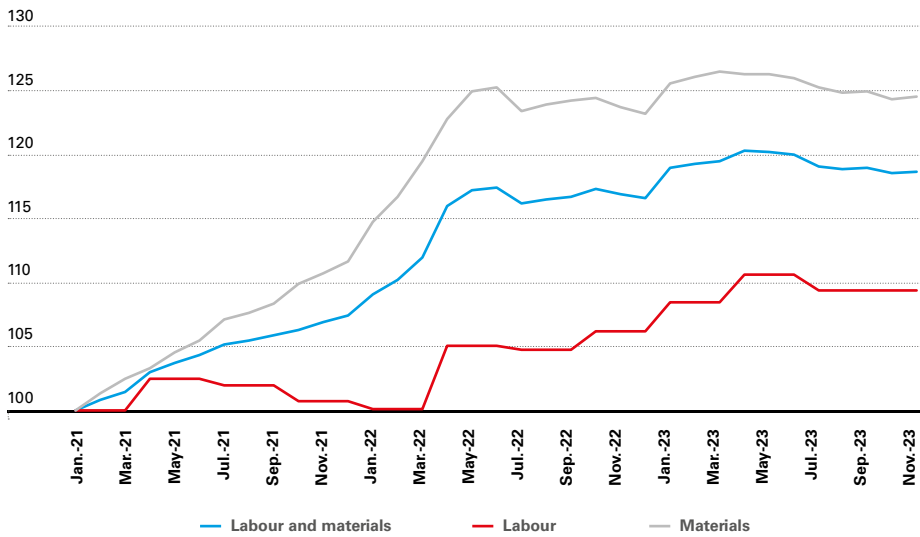
The number of new construction permits is practically stagnant (-0.2% year-on-year between January and November 2023, placing it at 109,000 homes in the last 12 months). This is actually a very encouraging figure, given the unfavourable context for new housing production: construction costs have remained high, financing costs have increased and there was some uncertainty about the resilience of demand to the sharp rise in interest rates. However, supply remains well below structural demand due to demographic trends (the net creation of 287,000 households in 2023, according to the LFS, due to the significant increase in migration flows), an aspect which we analyse in the article «Advanced-economy real estate markets: home price resilience and supply shortages» in this same *Sector Report*.



The stabilisation of construction costs has allowed 2023 to end with a similar number of new home construction permits to that of previous years, despite the increase in financing costs

Residential construction costs stabilise at high levels

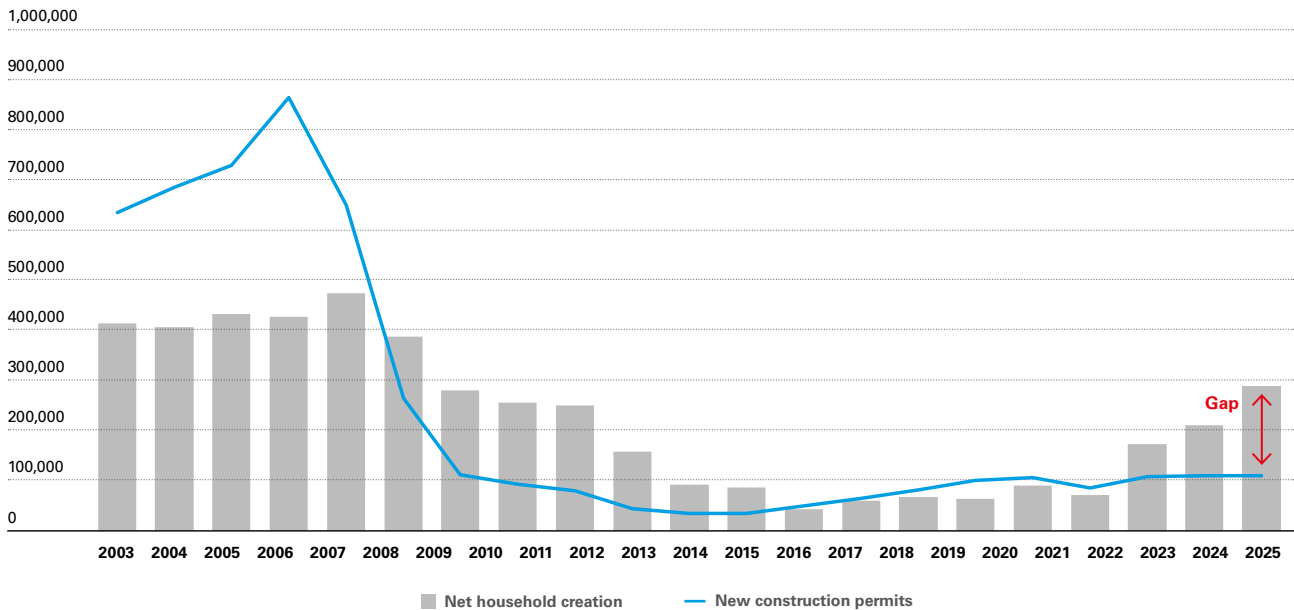
Index (100 = January 2021)



Source: CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda (MIVAU).

The gap between new housing production and net household creation has been expanding

Number of homes



Note: The data on the number of households come from the Labour Force Survey (LFS), except for the period 2014-2019 (Continuous Household Survey). Source: CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda (MIVAU) and the Spanish National Statistics Institute (INE).



Good outlook for Spain's real estate market in 2024 and 2025

At CaixaBank Research, we have improved our forecasts for Spain's real estate market in 2024-2025 due to the resilience of the real estate market in 2023, the improvement of the economic outlook for 2024 and the prospect that the ECB could begin to lower interest rates before the summer.

In fact, the expectation that official interest rates in the euro area will fall during 2024 has already begun to be reflected in market interest rates: the 12-month Euribor fell to 3.6% in January 2024, having reached the peak of this cycle in October 2023 (4.16%). The financial markets are assigning a high probability to the first interest rate cuts occurring in April and are anticipating between 5 and 6 cuts during 2024 as a whole. However, at its meeting on 25 January, the ECB reiterated that further progress is needed in the disinflationary process and, before taking steps, it wants greater assurance that inflation is indeed returning to the target. Therefore, at CaixaBank Research we think it is more likely that interest rates will begin to fall in the middle of the year.⁶ In any event, current expectations suggest that interest rates will remain notably above the levels of 2021, before the monetary tightening cycle.

⁶ See the Brief Note «El BCE ante la llamada de los mercados» by CaixaBank Research (content available in Spanish).

In addition to the fall in interest rates, the economic factors that have supported the real estate sector in 2023 will remain present in 2024, although they will lose some intensity. The Spanish economy will continue to enjoy significant growth, although it will slow down relative to the 2.5% registered in 2023. This economic activity growth will lead to job creation, but at a more moderate pace than in 2023. Wage increases will remain strong, slightly above inflation, allowing households to regain the purchasing power lost in recent years. Finally, household finances will continue to be favourable, in a context in which the reduction in interest rates will begin to ease the interest burden on families.







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Taking all these factors into account, at CaixaBank Research we anticipate that the number of sale transactions will maintain the current trend of gradual decline, ending up at around 550,000 homes in 2024. This is below the estimated figure for 2023 (590,000) but significantly higher than the previous forecast (510,000). Also, we expect home prices to slow from the 3.9% for 2023 to 2.7% in 2024, although in any case it will be a much more modest slowdown compared to the previous forecast (1.1%). Finally, the housing supply will continue to experience very moderate growth, from the estimated 110,000 construction permits for 2023 to 115,000 in 2024, given that the current factors that are preventing a further revival of supply will remain present (high construction and financing costs, although they are likely to descend). Looking ahead to 2025, we believe that housing production could increase somewhat more steadily if the right conditions are in place – a matter of vital importance for responding to the growing demand.

We anticipate that the number of sale transactions will maintain the current trend of gradual decline, ending up at around 550,000 homes in 2024, but higher than the previous forecast of 510,000

CaixaBank Research forecasts for Spain's real estate sector

	2021	2022	2023	2024	2025
 Sales (thousands)	566	650	587	550	552
 New construction permits (thousands)	108	109	110	115	125
 Home prices - MIVAU (% change)	2.1	5.0	3.9	2.7	2.5
 Home prices - INE (% change)	3.7	7.4	4.3	3.5	2.5

Source: CaixaBank Research.

Demographics

Population and home prices in Spain: a close relationship

Population growth has been one of the main factors that has driven the demand for housing in Spain in recent quarters and has played a fundamental role in sustaining home prices in a context of tightening financing conditions. In this article, we analyse the relationship between population growth and the evolution of home prices in the last two years. Population flows have been concentrated in large urban areas and tourist areas, and have caused a wide dispersion in the growth of home prices between the most buoyant areas of the country and those suffering depopulation.

Spain is once again a net recipient of foreign immigration

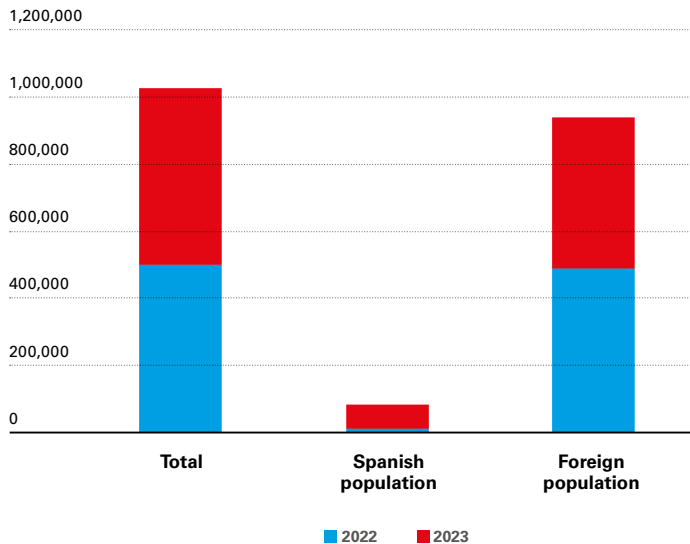
The resident population in Spain grew by just over 1 million people in the biennial 2022-2023, reaching 48.45 million people in October 2023 according to the National Statistics Institute's Continuous Population Survey. This increase is explained by very significant immigration flows (+939,000 foreign nationals), since the Spanish population is practically stagnant (+86,000).





Increase in the resident population in Spain by nationality in 2022-2023

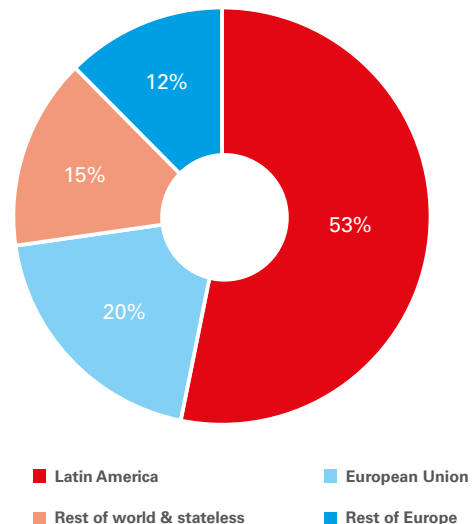
Number of people



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE, Continuous Population Survey).

Increase in foreign employed persons in 2022-2023 by origin

(% of the total increase in foreign employed persons)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE, Labour Force Survey).

Migration flows in 2022 and 2023 have been very significant: such high figures had not been recorded since the migration boom of the first decade of the 21st century

The population that has arrived in Spain is of an age, educational profile and origin that has facilitated their rapid incorporation into the labour market.⁷ Thus, the number of foreign people in employment increased by 574,000 between Q4 2021 and Q4 2023, representing 54% of the total increase in the number of employed persons in this period.⁸ These workers come predominantly from Latin America (53%), although the flows from European countries are also significant (20% from the European Union and 15% from the rest of Europe). With regard to the level of education of the immigrant population, it is worth noting that it is higher than people tend to imagine: 62% of the increase in the foreign population in 2022-2023 had secondary education and 23% had higher education. Only 15% had a low level of education (primary education or less), a similar percentage to that of the Spanish population aged 16 years and over.⁹

⑦ Foreign nationals have a much higher activity rate than nationals (69.4% on average in 2022-2023) compared to 56.6% on average in 2022-2023).

⑧ The percentage of foreign workers relative to the total number of people in employment has increased by more than 2 pps, from 12.1% in Q4 2021 to 14.2% in Q4 2023, according to the LFS.

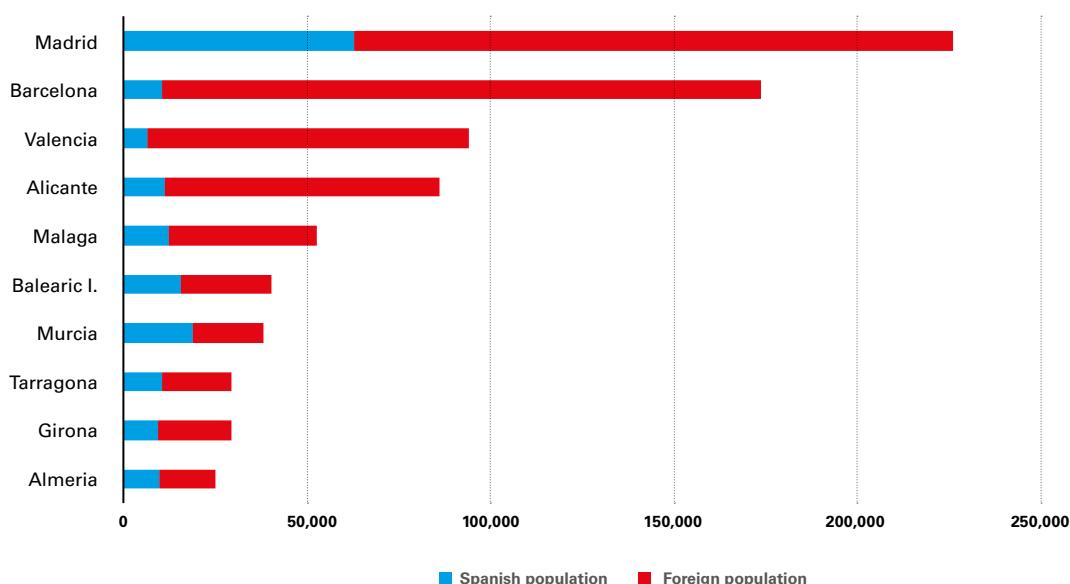
⑨ For further details, see the article «The changing composition of the immigrant population in recent years» in our *Monthly Report* of July-August 2023.

The Spanish provinces with large capitals and the most touristic areas are the ones that attract the greatest population

Not surprisingly, it is the country's two major metropolitan areas that have been the epicentre of this population growth. The Community of Madrid, with an influx of 226,000 people, or 22.1% of the total, tops the ranking of recipient regions, both in terms of foreign population (+163,500) and Spanish nationals (+62,700). It is followed by the province of Barcelona, with 16.9% of the total population increase. The flows of foreigners in Barcelona (+163,000) are practically identical to those in the Community of Madrid, but the increase in the population of Spanish nationals is lower (+10,500).

Population growth in the two-year period 2022-2023 is concentrated in the most urban and touristic provinces

Number of people



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE, Continuous Population Survey).

The strong rebound of the tourism sector after the pandemic and the significant job creation in the sector explain the very favourable demographic trends in tourist areas

Next in the ranking of population increase, we find provinces in which tourism plays an important role: Valencia (+94,000), Alicante (+86,000), Malaga (+52,000) and the Balearic Islands (+40,000).¹⁰ In percentage terms, Alicante is the province that has experienced the biggest population increase in the biennium 2022-2023 (4.5%), followed by Guadalajara (4.0%) and Castellón (3.9%). In fact, Alicante is the province with the highest foreign population relative to the total (23% of the total population in October 2023, compared to a national average of 13.2%) and it is also the province in which the sale of homes to foreign buyers is most prominent (43.8% of total sales in Q3 2023, compared to 15.4% for Spain as a whole).

¹⁰ At the opposite end of the ranking are 10 provinces that have lost population in the biennium 2022-2023, with Jaén (-5,400), Córdoba (-3,660) and León (-2,830) registering the biggest decreases.



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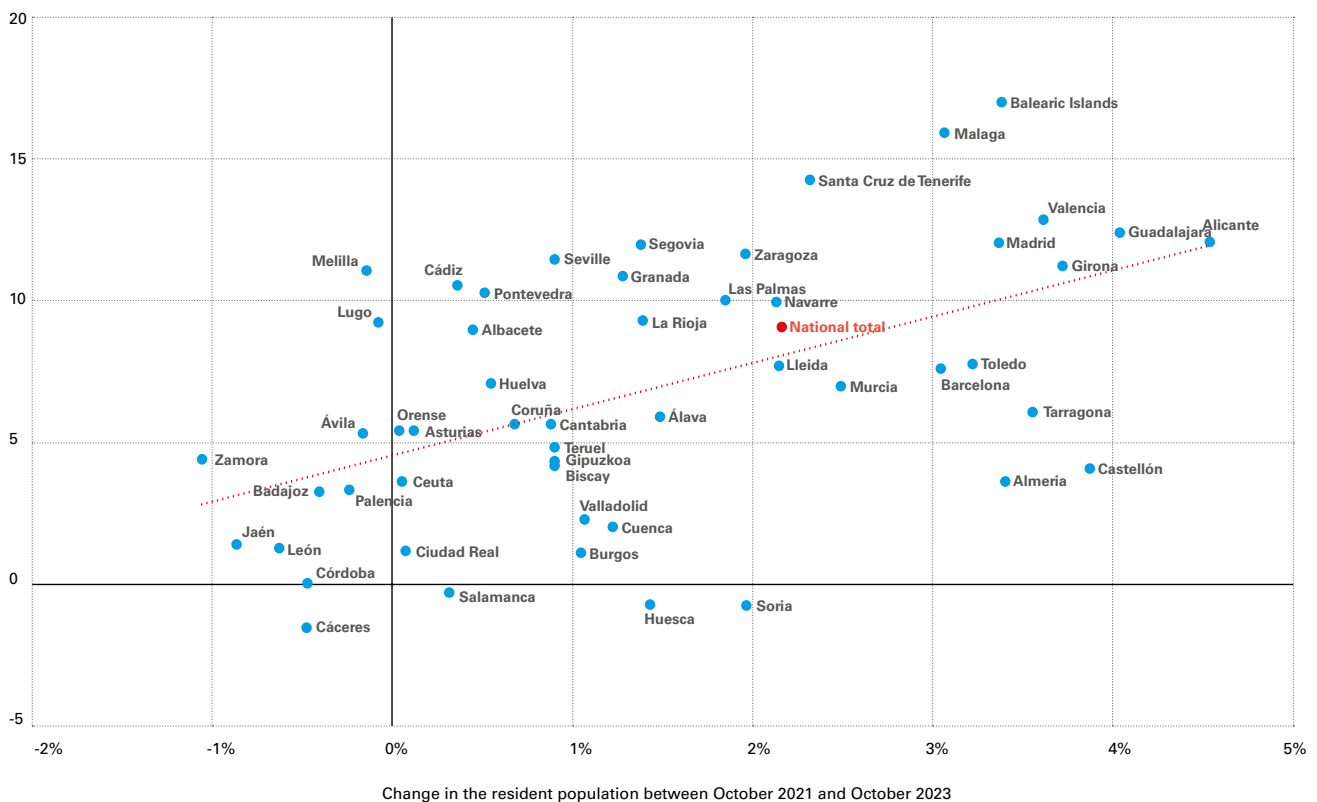
What is the pattern of home prices in the provinces and municipalities experiencing population growth?

The increase in population has been very uneven from region to region and this has profound implications for the real estate market. **Home prices in Spain have grown more vigorously in the provinces where the population has increased the most**, as shown in the chart below. This relationship is not surprising, since demand is the main factor that determines homes prices in a market where supply is rigid in the short term.¹¹ In any case, the strong positive correlation between these two variables confirms that demographic dynamics are a key factor determining home prices in the current real estate cycle¹² (see «Spain’s real estate market ends 2023 in better shape than expected» in this same report for a more detailed analysis of the various factors that are determining the evolution of the real estate market).

¹¹ The production of new housing in Spain is currently insufficient to meet the needs of the population, an aspect which we discuss in the article «Advanced-economy real estate markets: home price resilience and supply shortages» in this same *Sector Report*.

Home prices are growing more in the provinces experiencing greater population growth

Change in home prices between Q3 2021 and Q3 2023 (%)



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

The chart above also highlights that the rate of growth in home prices is very uneven across the various regional real estate markets. The vast majority of provinces show positive changes in home prices between Q3 2021 and Q3 2023, and only four registered declines: Huesca, Soria, Salamanca and Cáceres. On the other hand, the most touristic provinces are the ones that recorded the highest growth rates in home prices: Balearic Islands (17.0%), Malaga (15.9%) and Santa Cruz de Tenerife (11.7%).

¹² This positive correlation is consistent with studies on the impact of immigration on home prices during the migration boom of the first decade of this century; see Rosa Sanchis-Guarnier, «Decomposing the impact of immigration on house prices», *Regional Science and Urban Economics*, 2023.



Home prices are growing more rapidly in the provinces (and municipalities) that have experienced greater population growth, with the Balearic Islands, Malaga and Santa Cruz de Tenerife topping the list

If we carry out a similar analysis by municipality, grouping them according to their population growth between 2021 and 2023 and observing the pattern of home prices in that period,¹³ we find that Madrid, Barcelona, Valencia, Alicante and L'Hospitalet de Llobregat are the top 5 municipalities that recorded the biggest population increases in absolute terms. There, the population grew by 2.7% on average, while home prices rose by an annual average of 6.4% between Q3 2021 and Q3 2023, as can be seen in the chart on the following page.

The second group of municipalities by population growth comprises 11 areas where the population increased by between 5,000 and 10,000 people. Among them are capitals of major provinces (Malaga, Murcia and Palma de Mallorca), urban centres located within Madrid's area of influence (Rivas-Vaciamadrid, Boadilla del Monte) and coastal cities (Roquetas de Mar, Marbella, El Ejido, Torrevieja, Benalmádena and Estepona), with an average population in 2023 of around 200,000 people. In these places, the population increased sharply in percentage terms (5.8% on average) and they are also where home prices rose the most: by 7.3% per year on average in 2022-2023.

In a third, considerably more numerous group (47 in total), we find the municipalities that experienced a population increase of between 2,000 and 5,000 people. In these places, which are still sizeable with an average population of 129,000 people, home prices climbed 5.5% on average. Finally, we find the majority of municipalities, which experienced either limited population growth (183 municipalities) or population decline (60 municipalities). The average growth in home prices in these municipalities has been more modest (4.6% and 3.4%, respectively).

¹³ The population data by municipality come from the census and are only available for 1 January each year. Given that the latest available data corresponds to 1 January 2023, we are unable to analyse the rapid population growth experienced in 2023. Home prices are available for municipalities with over 25,000 inhabitants (306 municipalities that account for 64% of the population of Spain).

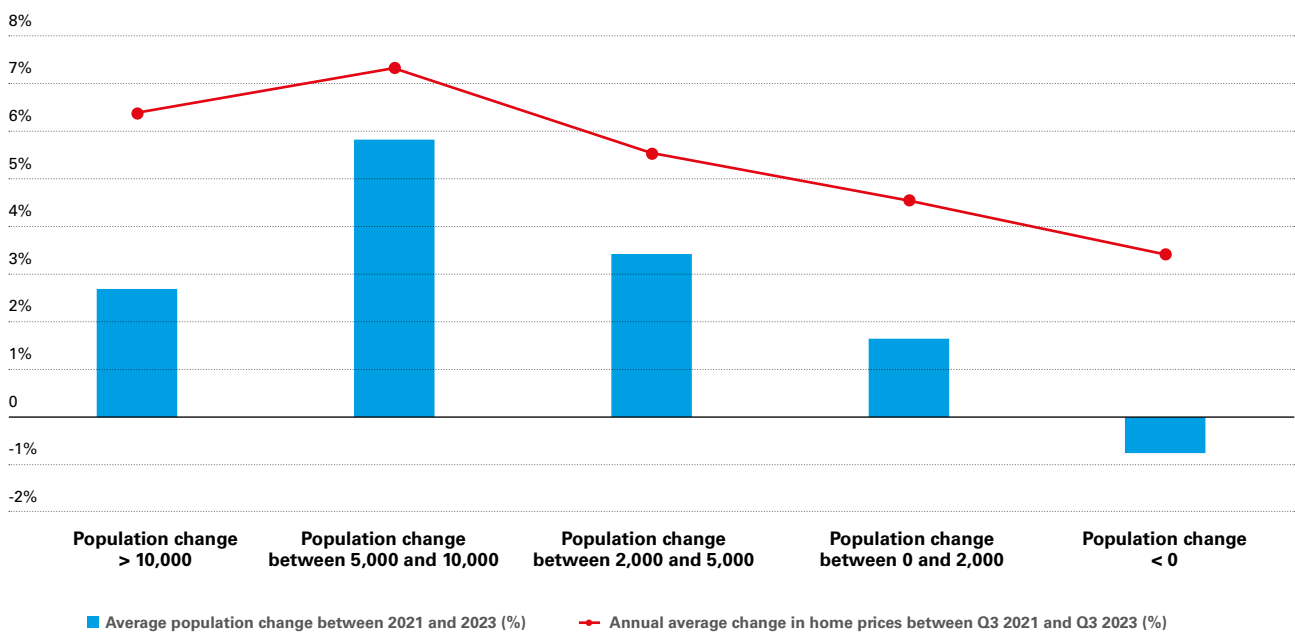


Real Estate

Home prices are growing more rapidly in the more expensive and populated municipalities, which continue to attract new people, thus increasing the dispersion of prices between locations. Madrid, Barcelona and Valencia top the list

Change in home prices by municipality according to the population change between 2021 and 2023

(%)



Municipalities grouped by population increase:	Number of municipalities	Average population per municipality in 2023	Average population change per municipality between 2021 and 2023	Average home price in Q3 2023*
More than 10,000 people	5	1,285,494	25,969	€3,315
Between 5,000 and 10,000 people	11	204,040	6,630	€2,121
Between 2,000 and 5,000 people	47	129,088	2,853	€1,815
Between 0 and 2,000 people	183	59,956	704	€1,708
Population decrease	60	85,594	-516	€1,708
Total	306	100,806	1,421	€1,886

Note: (*) Average home price of the municipalities in each group, weighted according to their population.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and the Ministry of Housing and Urban Agenda (MIVAU).

The recent migration boom has only intensified the wide dispersion that was already found in home prices across Spain's municipalities, a pattern that has been observed since 2014.¹⁴ Home prices have increased more in municipalities with higher home prices, which only widens the price gap between the most buoyant municipalities, in terms of activity and population, and the most deprived areas which continue to suffer depopulation.

¹⁴ See «The widening gap between Spain's house prices» in the CaixaBank Research Real Estate Sector Report S1 2020.

International real estate markets

Advanced-economy real estate markets: home price resilience and supply shortages

The tightening of financial conditions between 2022 and 2023 truncated the rally in home prices in the vast majority of residential markets of the major advanced economies. Despite significant differences between countries, overall home prices have withstood the tightening of financial conditions relatively well, taking into account the speed and intensity of the interest rate hikes. This better-than-expected resilience not only shows the strength of the demand for housing, but also reveals the scarcity of supply at this point in the cycle. Regulatory restrictions to increasing supply and a lack of public investment in the vast majority of OECD countries will be exacerbating the housing affordability problems in markets that are experiencing higher demand, such as large cities.

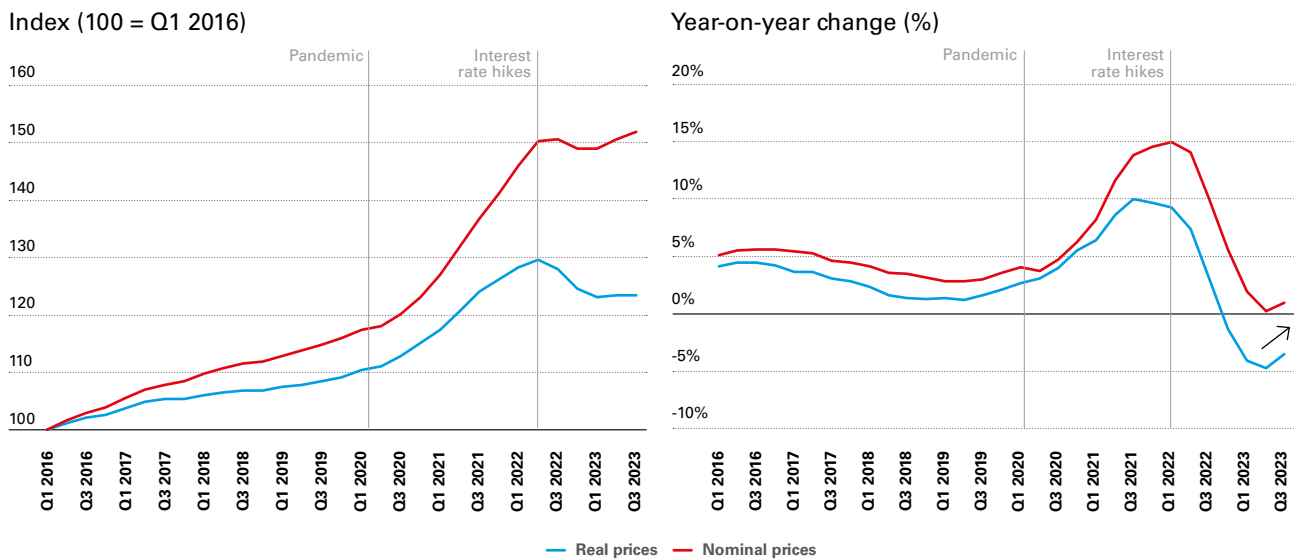
Home prices in advanced economies are slowing down

Home prices in the vast majority of advanced countries have held up better than expected during the recent cycle of interest rate hikes that began in 2022. While it is true that the tightening of financial conditions truncated the rally in home prices that followed the pandemic, overall the decline they have experienced since mid-2022 has been fairly moderate. Aggregate home prices in the major advanced economies¹⁵ fell by 4.8% between Q2 2022 and Q2 2023 in real terms, but in Q3 2023 (latest available data) they stabilised. Despite this decline, **aggregate home prices in real terms are 13.2% above the level of Q4 2019** (31.1% in nominal terms).

¹⁵ Global home price indicator built with data from 25 advanced countries. See the International Housing Observatory.



Global home prices rebound in Q3 2023



Note: Aggregate price of 25 countries with dynamic relative weighting.

Source: CaixaBank Research, based on the database of the International Housing Observatory, described in Mack and Martínez-García (2011).

This aggregate figure, however, hides significant differences between countries. In the US, home prices slowed in 2023 but did not fall, and they continue to reach new peaks (accumulating growth of 27.1% in real terms and 47.5% in nominal terms since Q4 2019).

The intensity of home price corrections is very different among advanced countries. In the US, home prices are setting new highs, while in Germany and Finland the corrections are very significant

The countries that experienced the greatest appreciation of home prices after the pandemic (Canada, New Zealand, Australia and the Netherlands) have suffered a notable setback from their post-pandemic highs (in New Zealand, for example, prices have fallen as much as 22% from their peak in real terms). However, despite these corrections, home prices remain significantly higher than in Q4 2019 (10.2% in New Zealand and 28.6% in Canada in real terms).

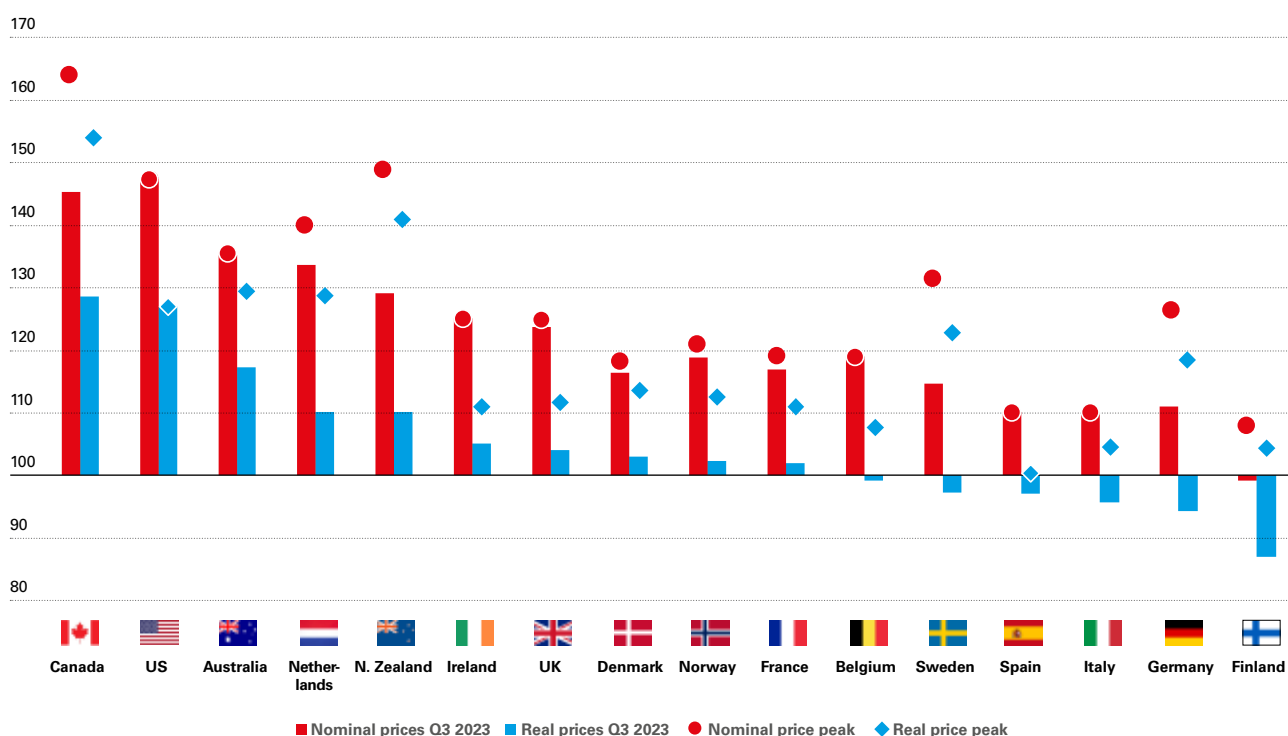
Germany and Sweden also experienced a marked increase in home prices after the pandemic (around 20% in real terms), but in both cases they are experiencing significant corrections and the latest data still show no signs of stabilisation. The country with the biggest price drop compared to Q4 2019 is Finland, despite not having experienced any significant appreciation before or after the pandemic.

In the intermediate zone we find countries such as Ireland, the United Kingdom, Denmark, Norway and France. In these countries, home prices rose by around 10% in real terms after the pandemic, and despite having fallen from their peaks, prices remain slightly above the levels of Q4 2019.

Spain's residential market is in the lower band of this ranking (home prices in real terms have fallen around 3% from their peak). In fact, Spain, together with Italy, stands out for the relative stability of its home prices during this period, in contrast to the high volatility observed in many advanced countries.

Home prices have fallen from their peak

Index (100 = Q4 2019)



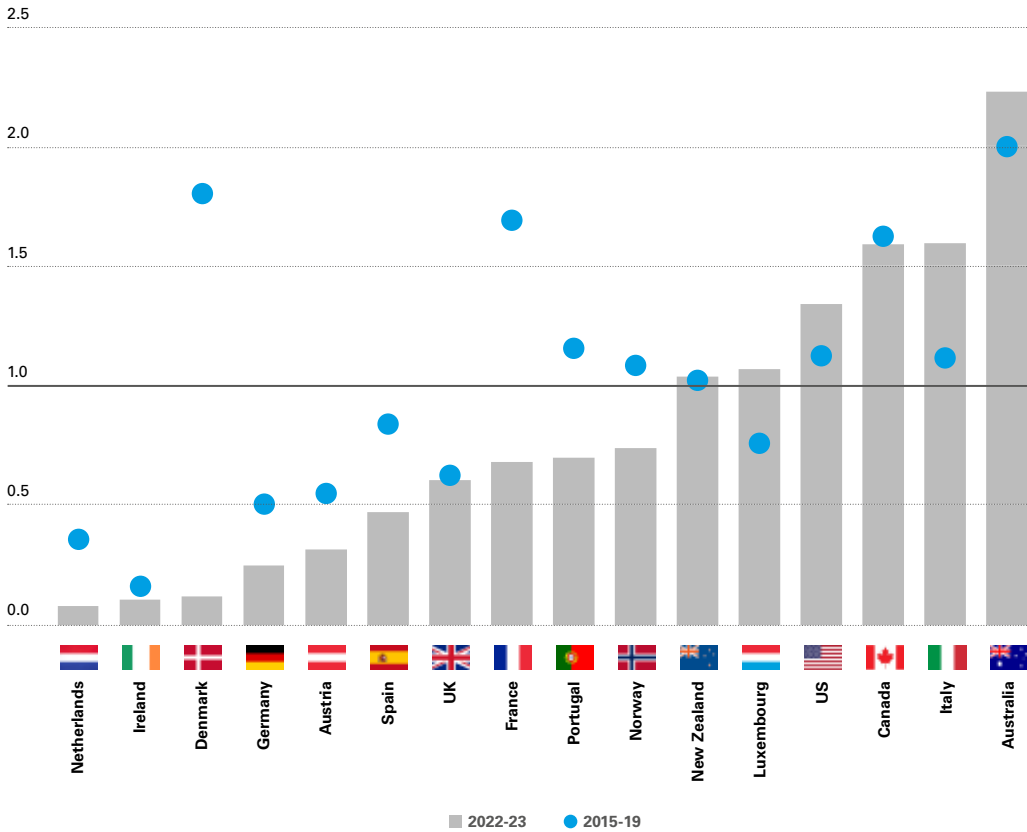
Source: CaixaBank Research, based on the database of the International Housing Observatory, described in Mack and Martínez-García (2011).

The shortage of new housing in the major developed markets

A phenomenon that is being observed in many advanced-economy real estate markets is the shortage in the supply of new housing in recent years. This limited supply is unable to meet the persistently strong demand, above all given the recent demographic momentum observed in these countries, especially in large cities. The chart on the following page shows the supply of new housing in proportion to net household creation, and compares the recent situation (2022-2023) with the pre-pandemic period (2015-2019). We can see that in the vast majority of countries this ratio is below 1, indicating that the construction of new housing is insufficient to meet the demand generated by demographic trends. The shortage is particularly stark in the Netherlands, Ireland, Denmark, Germany, Austria and Spain, among others.



New home construction permits relative to net household creation



Source: CaixaBank Research, based on data from Refinitiv, the Spanish National Statistics Institute (INE) and other national statistics offices.

Following the initial impact of the pandemic, demand for home ownership in the major advanced economies has rapidly recovered, while supply has been very rigid in the short term

Supply tends to adjust slowly in the face of a demand-side shock, as it takes time to plan and build new developments.¹⁶ Lower supply elasticity is often associated with greater price pressures and leads to more volatile prices. The rigidity of supply can be caused by natural and geographical obstacles (mountains or sea, for example), as well as by restrictions linked to land use regulations and other related policies (such as zoning), which make it difficult to develop new housing. In this regard, the OECD¹⁷ points to the fact that regulatory supply restrictions play an important role in many OECD countries and limit the capacity of the housing supply to respond to growing demand, which contributes to the increase in prices and reduces the affordability of housing.¹⁸ These limitations are particularly binding in metropolitan areas that are already highly urbanised, where the population density is high and real estate market regulations are more prevalent.

¹⁶ The capacity of supply to respond to changes in housing demand varies considerably from country to country. See Caldera Sánchez and Johansson (2011) and Cavalleri, Courmède and Özsögüt (2019).

¹⁷ See chapter 1 in «Housing Taxation in OECD Countries», OECD, July 2022.

¹⁸ Manuel Béтин and Volker Ziemann, 2019. «How responsive are housing markets in the OECD? Regional level estimates», OECD Economics Department Working Papers 1590.

The rigidity of supply is mainly due to structural factors that require major reforms in order to increase it

Other factors limiting supply growth include higher construction costs and a lack of labour in the sector. Construction costs have increased by 20% between Q1 2021 and Q3 2023 in the EU, due to higher material and energy costs following the outbreak of the war in Ukraine, and this has contributed to the increase in the price of new homes. In addition, factors of a more structural nature, such as environmental and energy efficiency regulations, also contribute to the increase in construction costs. With regard to the lack of labour, industrialised construction methods are seen as a potential solution in order to attract young talent and facilitate the incorporation of women into what is a highly male-dominated sector, while also cutting build times and improving product quality and standardisation.

Finally, another factor that has limited supply is the lack of public investment in housing construction. According to the OECD, over the past two decades, transfers to non-public-sector organisations for the development of housing decreased by more than 50% on average in OECD countries, while direct government investment in developments fell by 80%.¹⁹ This lower public investment is reflected in the decline of social housing relative to the total housing stock in OECD countries, further exacerbating the affordability issue, particularly for low-income households.²⁰

To reverse this situation, it is necessary to boost the creation of new housing supply by taking action on multiple fronts: promoting the creation of land allocated for development, reducing the time it takes to grant construction permits, increasing the budget allocated to public housing policies, facilitating changes of use in existing buildings (e.g. offices in areas with low tertiary demand and high residential demand), increasing the development potential of land in areas with high demand and a shortage of space, boosting public-private collaboration to enable the construction of affordable rental housing (e.g. through concessions and land rights), making advances in industrialised housing construction methods and facilitating access to financing under favourable conditions. These measures would help to ensure that the supply of housing is sufficiently elastic so as to respond to housing needs more quickly when demand increases, without generating excessive price pressures.

¹⁹ OECD (2020), «Social housing: A key part of past and future housing policy».

²⁰ OECD (2021), «Brick by Brick: Building Better Housing Policies».



Commercial real estate

Will we see a revival in Spain's commercial real estate sector in 2024?

Investment in the commercial real estate market fell sharply in 2023 as a result of the rise in interest rates. However, as 2024 progresses we can expect to see a revival in transactions, thanks to the anticipated fall in interest rates and an improvement in the fundamentals that determine the behaviour of the different segments. On the one hand, greater buoyancy in consumption will support the retail segment and the continued penetration of e-commerce will continue to require investments in the logistics segment. On the other hand, housing will consolidate its position as the segment attracting the most investment, and the hotel sector will continue to improve thanks to the strength of tourism in Spain. Finally, offices will continue to adapt to the new demands in terms of sustainability and the new forms of work that emerged after the pandemic.

The tightening of financial conditions caused a slowdown in investment in 2023

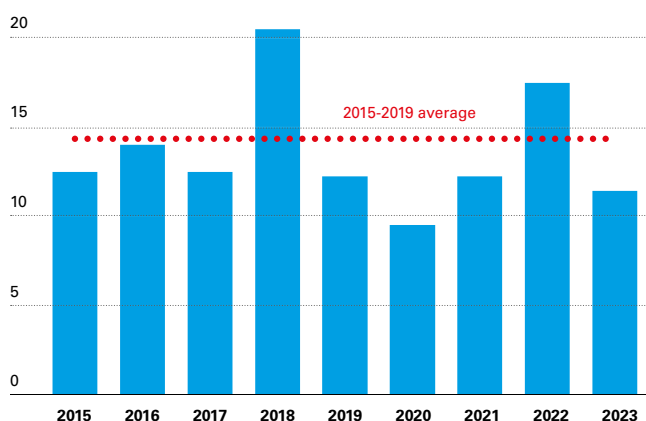
The commercial real estate market went through a difficult phase between 2022 and 2023 as a result of the sharp increase in interest rates. The tightening of financial conditions has a direct impact on investment in real estate assets in the commercial segment, since high interest rates make investment in this type of asset less attractive than alternative, risk-free investments (the Spanish 10-year bond exceeded 4% at the beginning of Q4 2023). The slowdown was evident in 2023: investment in commercial real estate fell by 35% compared to 2022, a year in which activity was particularly strong, as investments postponed during the pandemic finally materialised. However, when we compare the 2023 figure with pre-pandemic levels, the decline remains significant, as it stands 20% below the average investment during the period 2015-2019.²¹ Obviously, since the factor that weighed down investment was common throughout Europe, the decline in investment was similar across the region's various economies, although the Spanish market was relatively less affected, whereas the declines in France and Germany were particularly severe.

²¹ «Spain Real Estate Investment Volumes Q4 2023», CBRE, January 2024. The decline of around 35% includes investment in hotels, an asset that performed particularly well in 2023. Excluding this segment, the fall would be 50% compared to 2022.

In 2023, the rise in interest rates slowed investment in the commercial real estate sector and asset prices stagnated

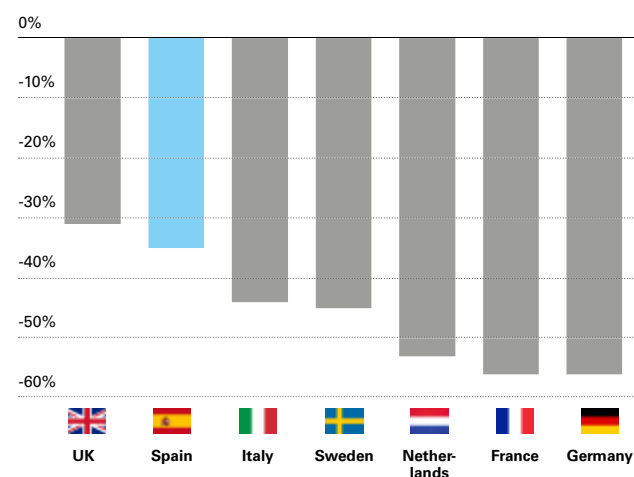
Investment in commercial real estate in Spain

EUR billions



Investment in commercial real estate in Europe

Annual change in 2023



Source: CaixaBank Research, based on data from CBRE.

In contrast, the reduction in valuations was modest in 2023, down just 1.1% year-on-year in the cumulative period of the first three quarters of the year, according to the commercial real estate index published by the Bank of Spain.²² In other words, despite the collapse in investment, asset prices remained fairly stable, reflecting the difficulties encountered in 2023 in achieving a balance between supply and demand in a context in which the cycle of reference interest rate hikes was both rapid and steep (cumulative increase of 450 bps between July 2022 and September 2023).

Expectations of interest rate cuts in 2024 will support investment in the commercial real estate sector

At the end of 2023, however, the decline in inflation in developed economies was consolidated, fuelling expectations of interest rate cuts during 2024.²³ Furthermore, the abundant liquidity and the interest that Spain's real estate market continues to arouse should allow investment to recover as the year progresses. In any case, expectations for the various market segments differ, so below we review how the different asset categories have performed in 2023 and assess their outlook for 2024.

²² The behaviour of this price index varied widely among the different asset types: whereas the price of offices and industrial buildings rose moderately (2.7% and 2.4% year-on-year), the price of commercial premises fell by 2.3% year-on-year in the first three quarters of 2023, according to the Bank of Spain.

²³ Following the ECB's meeting on 25 January 2024, the financial markets doubled down on their expectations of rate reductions, anticipating between 5 and 6 benchmark interest rate cuts in the euro area in 2024.



Real Estate

Retail: the recovery of consumption will support this segment

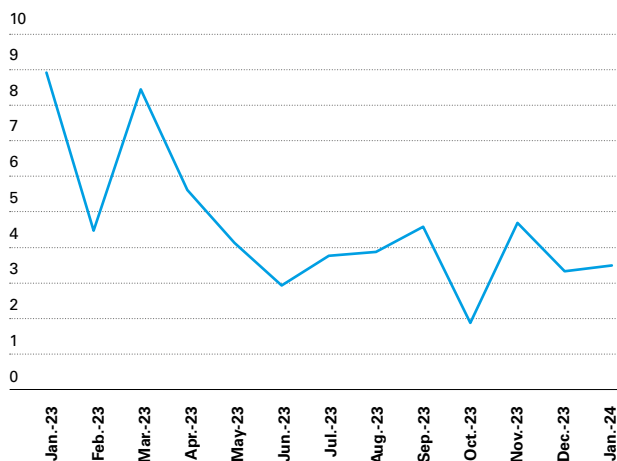
The retail segment was the worst performing segment of all during 2023, with investment falling by an annual rate of 70%.²⁴ The tightening of financing conditions and, above all, the upturn in inflation led to a moderation in household spending between 2022 and the first half of 2023. According to CaixaBank Research's real-time consumption indicator, in-person card spending went from growing at rates of 9% year-on-year in Q1 2023 to moderating to rates of 2% in October, before regaining some vigour beginning in the final quarter of the year.²⁵ By distribution channel, single-premises shops and small chains have been the hardest hit in the post-pandemic period, while sales in department stores and, above all, large chains have exceeded pre-pandemic levels.

²⁴ The retail segment includes commercial premises, shopping centres and retail parks.

²⁵ Data from the consumption indicator available on the CaixaBank Research Real-Time Economics portal.

CaixaBank Research consumption indicator

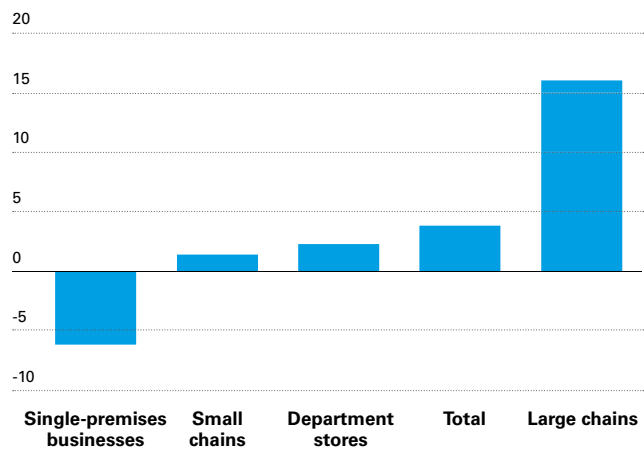
Year-on-year change (%)



Source: CaixaBank Research, based on data from the Real-Time Economics portal.

Retail sales by distribution channel

Change between January 2020 and the 2023 average (%)



Notes: Retail sales at constant prices. Excludes service stations. Data for 2023 up to October.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and the Real-Time Economics portal.

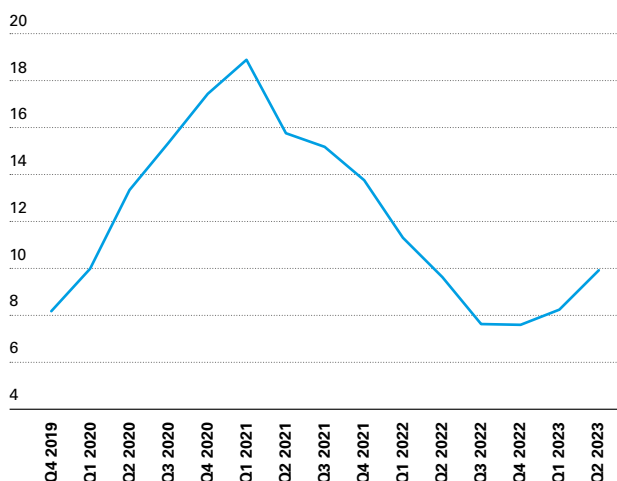
The 2024 outlook for this segment is favourable. At CaixaBank Research, we expect there will be a revival of consumption in 2024 and that it will grow at above 2% in real terms, thanks to the decline in inflation, job creation, buoyant wage rises (around 3%-4%) and a decrease in the savings rate to levels close to the historical average following the upturn in 2023.

Household consumption will undergo a revival in 2024 thanks to the gradual recovery of purchasing power, which should support the recovery of investment in the retail sector

Improved outlook for household spending

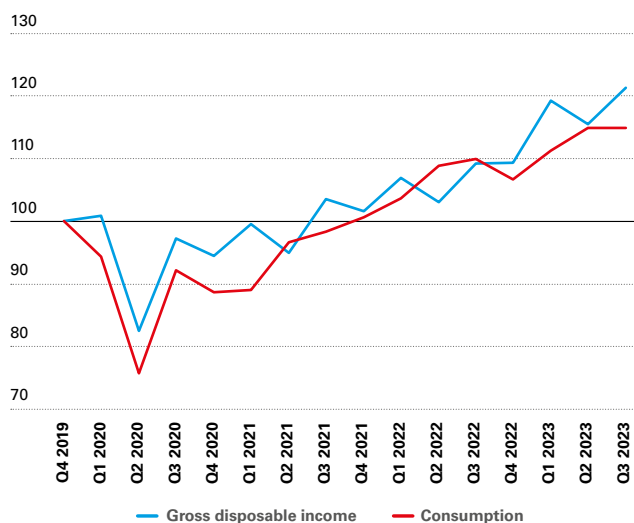
Savings rate

(% of gross disposable income)



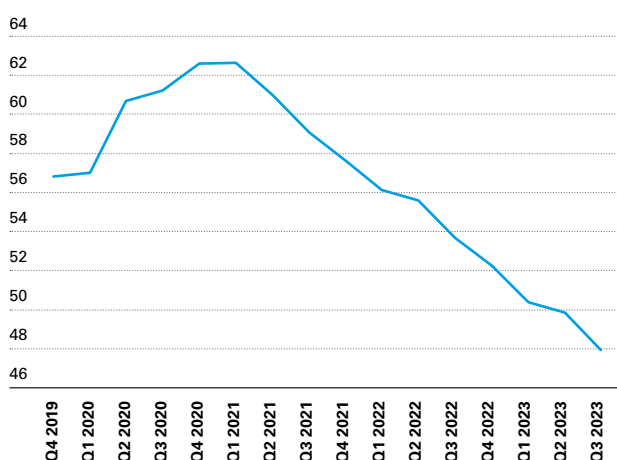
Consumption and gross disposable income

Index (100 = Q4 2019)



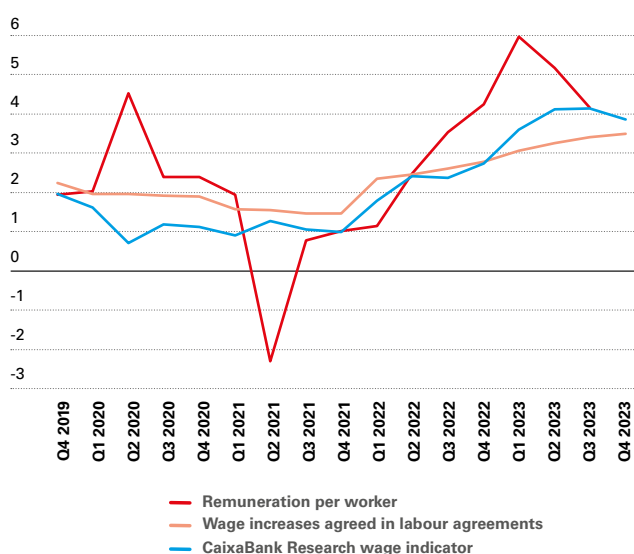
Household debt

(% of GDP)



Wages

Year-on-year change (%)



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and internal data.

With regard to commercial premises, in-person consumption is key, so the major factor that could determine this segment's evolution in the medium term is the greater penetration of e-commerce. The pandemic triggered a sharp rise in the proportion of purchases made online, although since the lockdowns were eased that penetration has stabilised. Based on anonymised internal data on purchases carried out using CaixaBank cards, we can see that e-commerce has gone from representing an average of 20% of total consumption in 2018 to almost 28% in 2023.²⁶ According to Eurostat data, around 55% of Spain's population made at least one online purchase in 2022,

²⁶ See «We are increasingly shopping online, not only during Black Friday», published in the *Monthly Report* of November 2023.

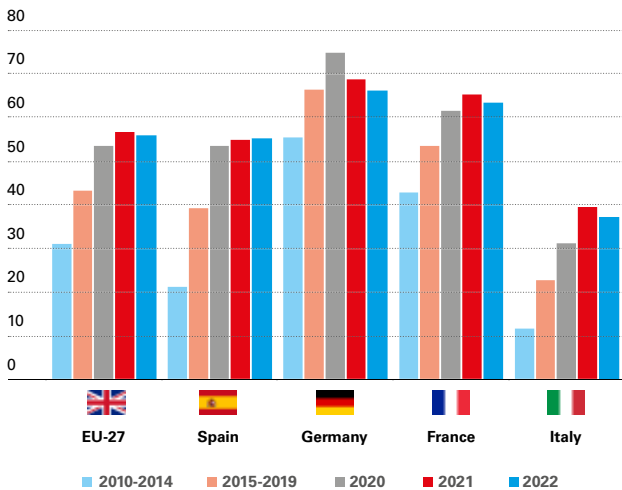


Real Estate

compared to 20% in 2010, while a comparison with other European economies suggests that there is room for further growth (albeit at more modest rates). It should also be noted that the development of e-commerce is not even across all retail sectors, but rather is concentrated more clearly in the fashion sector.

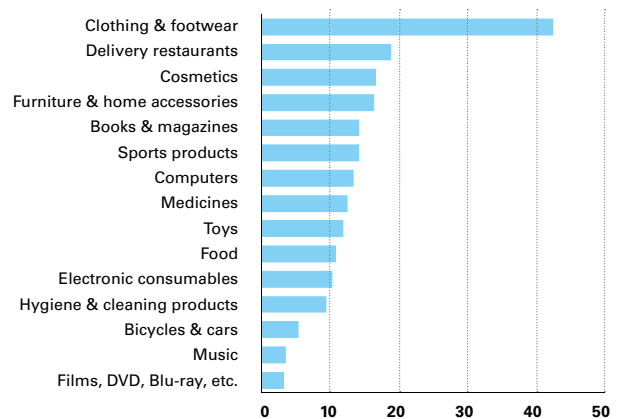
Retail will remain eminently face-to-face, but new omni-channel trends suggest the need for investment in more flexible and agile spaces

Population that has bought online in the last 3 months
(% of the total population)



Online purchases by product (2022)

Population that made online purchases in the last 3 months (%)



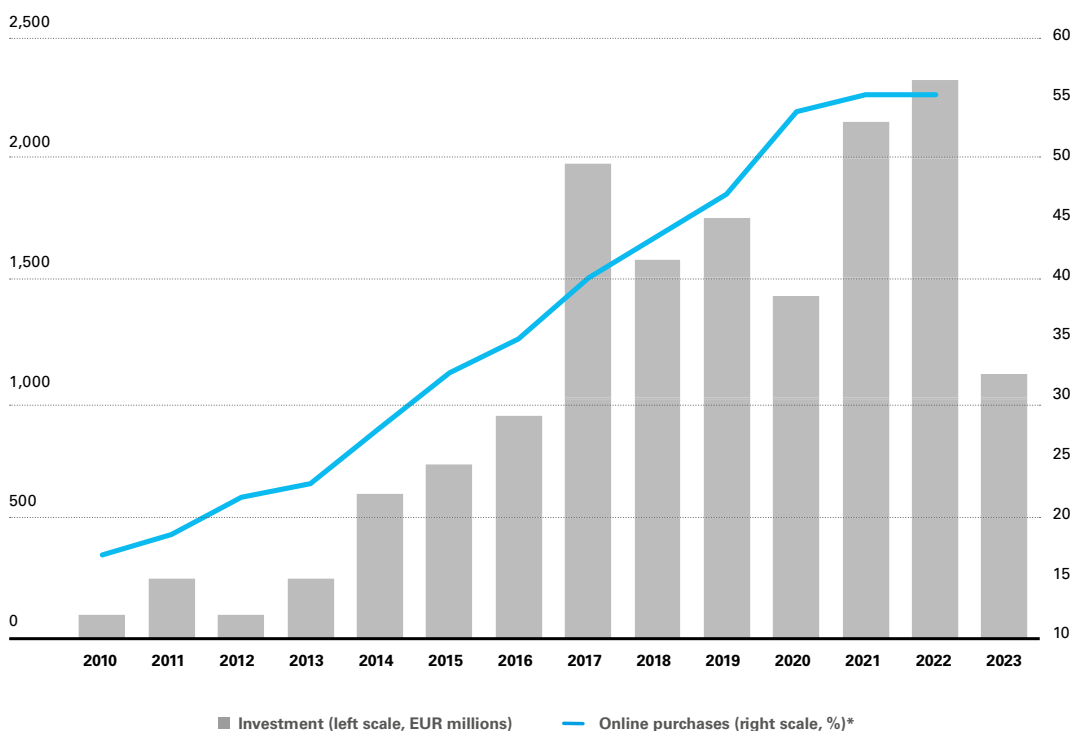
Source: CaixaBank Research, based on data from Eurostat.

In any case, with the pandemic now definitively behind us and with the recovery of tourism, most retail consumption remains face-to-face. In fact, more and more digital native brands are opting to open physical stores in prime locations. This forces us to promote hybrid, more flexible premises that offer customers dynamic spaces, where physical shopping is combined with e-commerce. This need to adapt to new trends suggests that investment in refurbishments and asset improvements will be key in the coming years.

The logistics sector has not lost its appeal

The evolution of the industrial and logistics segment, which has generated some of the greatest interest in recent years, is closely linked to that of e-commerce. Having also been affected by the interest rate hikes and very high rental costs following the rally in recent years (investment fell by 50%, following the record highs reached in 2022), investment in this segment will continue to be a focus of attention in the coming quarters, bearing in mind the steady rise of e-commerce and the scarce supply of this type of real estate asset in Spain. In addition, given the economic context of recent years, characterised by significant geopolitical uncertainty and the reconfiguration of global value chains, the need to accumulate stocks in order to prevent potential breakdowns in the supply chain has become increasingly clear.

Volume of investment in logistics assets



Note: (*) Online purchases refers to the percentage of the total population that has bought a product or service online in the last 3 months.

Source: CaixaBank Research, based on data from CBRE and Eurostat.

Investment in hotels is the category that has best withstood the rise in interest rates

The definitive overcoming of the pandemic, the end of restrictions on international mobility and the change in consumption patterns, with a surge in spending associated with social interaction, allowed the tourism sector, and the hotel sector in particular, to recover the activity levels of 2019 in 2023.²⁷ In this very favourable context, the hotel segment has maintained the same positive trend in terms of investment volumes as it enjoyed in 2021-2022. Indeed, it is the only commercial asset category in which investment grew in 2023, specifically by 30%, exceeding the long-term average. In addition, Spain attracted more investment to this asset category in 2023 than any other European country.

²⁷ For a more exhaustive analysis of the state of the tourism sector in the current economic context, refer to the *Tourism SR* of January 2024.

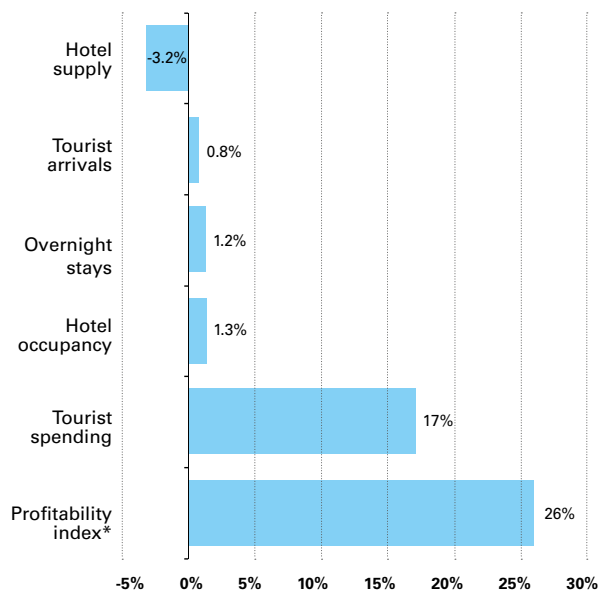


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The 2024 outlook for this segment remains very positive, as a result of the enormous popularity that our country continues to enjoy among tourists, thanks to the perception of geopolitical stability relative to other competing destinations and the increase in disposable income both in Spain and in the main countries of origin of tourists.

Activity indicators for the hotel sector

Change between 2019 and 2023 (%)



Note: (*) RevPAR (Revenue Per Available Room) index, which provides a measure of hotel profitability.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), the Tourist Information Office (OIT) and internal forecasts.

International tourist arrivals

	Arrivals in 2019 (millions)	Projection for 2023 arrivals (millions)	Change versus 2019 (%)
Spain	83.5	85.1	1.9%
France	90.9	81.5	-10.4%
US	79.4	62.8	-20.9%
Italy	64.5	57.4	-11.0%
Turkey	51.2	49.3	-3.7%
Mexico	45.0	42.3	-6.0%
UK	39.4	37.5	-4.8%
Germany	39.6	34.1	-14.6%
Greece	31.3	32.1	2.6%
Thailand	39.9	27.7	-30.5%
Portugal	24.5	27.2	11.0%
Japan	31.4	24.7	-21.3%
China	65.7	8.0	-87.8%

Source: CaixaBank Research, based on data from the Tourist Information Office (OIT) and internal forecasts.

Offices: adapting to the new working environment after the pandemic

Investment in offices has been severely penalised after the pandemic due to uncertainty about how the new forms of work will reconfigure the office of the future. In 2023, the volume of investment in this segment plummeted (down 55% from 2022 levels, which were already depressed), although there are significant differences depending on the location and type of asset. In this regard, investment in Central Business Districts (CBDs) continues to enjoy strong growth, with high rental incomes and occupancy rates. Less prime locations further away from CBDs, meanwhile, have performed worse and a trend is even beginning to emerge to convert these assets for residential use. In any case, given the improvement in the segment's fundamentals, we expect transactions to recover over the course of 2024.

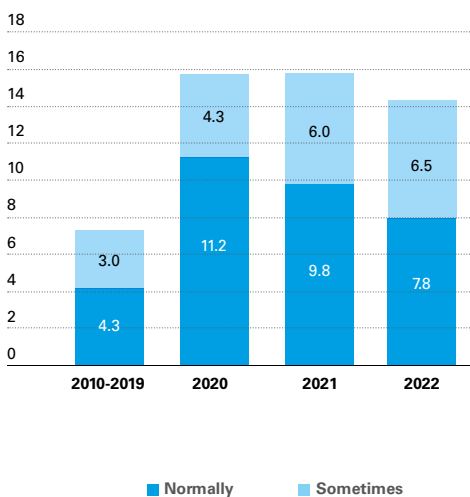
The office segment should benefit from the strength of the labour market and the need for more flexible spaces that reflect the new reality of hybrid work

The most determining factor for this asset is the penetration of teleworking in the labour market. It is striking that, even at the height of the lockdowns, around 84% of Spanish workers in employment never worked remotely. In 2020, only 11.2% worked normally from home and an additional 4.3% sometimes did so – modest percentages compared to other European countries (see chart below). In this regard, it seems that a new form of hybrid work is now being consolidated, but with in-office work still playing an important role.²⁸

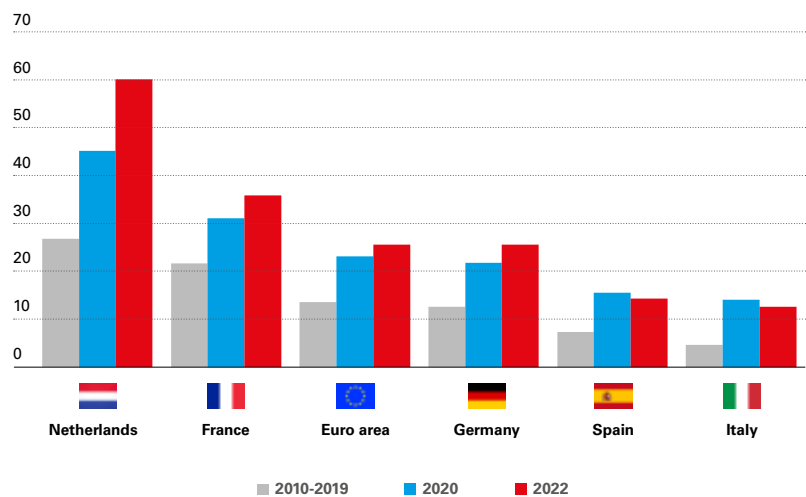
²⁸ According to a CBRE survey, current trends show an average of 2.4 days of teleworking per week in Spain, i.e. the model adopted is much more office-centric than those adopted globally, or at the European level, where the average number of remote working days is 3.2.

Penetration of teleworking in European labour markets

Percentage of employees in Spain who work from home (%)



Percentage of employees who normally or sometimes work from home (%)



Source: CaixaBank Research, based on data from Eurostat.

As with commercial premises, in the office market there is a great need for the conversion of assets, in order to adapt them to meet energy sustainability criteria and to make them more attractive to employees, with more flexible and higher-quality spaces that invite collaboration and teamwork.

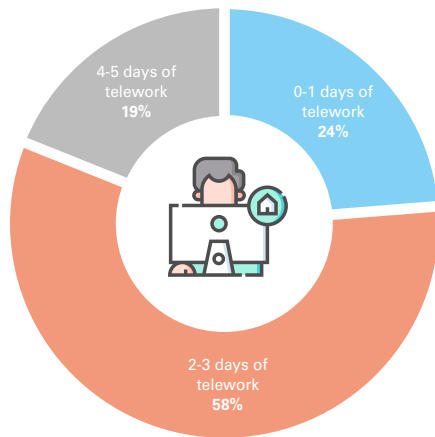
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Real Estate

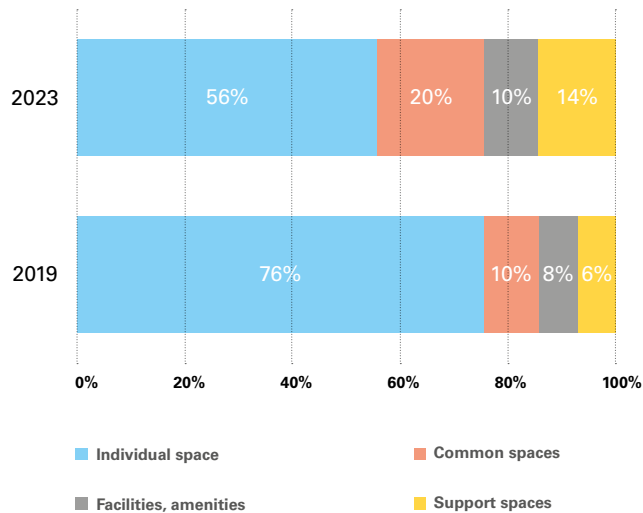
Telework policy

(% of the total number of companies surveyed)



Types of spaces in the office segment

(% of the office's useful surface area)



Source: CBRE Office Occupancy Report, 2023.

The residential segment gains prominence

Investment in the commercial residential segment fell by 30% in 2023, although it remains one of the segments that arouses the most interest among investors, having increased its share of the total more than any other segment in recent years (it accounts for around 30% of total investment in the Spanish market, only surpassed in 2023 by the exceptional performance of hotels). This segment includes the subsectors of multi-household rentals, student residences and rental housing for the third age (senior living). These sectors share a fairly limited available supply and a good outlook on the demand side, taking into account changes in lifestyle preferences and population projections.

In the rental market, the build to rent (BTR) segment began to take off in Spain in 2021-2022 in response to the growing demand for rental housing and an insufficient supply.²⁹ In 2023, however, investment has been held back by rising financing costs and legislative changes, which have reduced the profitability of such promotions. In any case, the significant imbalance between the high demand for rental housing and the low supply suggests that this type of development will continue to gain momentum when the financial conditions are relaxed.

The demand for student residences is clearly on the rise and is closely linked to the growing popularity of university education (degrees and vocational training, master's and doctorates). The population projections between now and 2030 are favourable, as they reflect an increase in the university-age population of some 600,000 additional students, a trend not seen in other European economies.³⁰ If we assume that around 40% of this cohort enrolls in these types of studies, there would be an additional 200,000 university students by 2030.

²⁹ For an analysis of the recent evolution of the rental market, see «Renting a home in Spain: on rising rental prices and the need to increase the supply of affordable rented accommodation», published in the *Real Estate Sector Report of July 2023*.

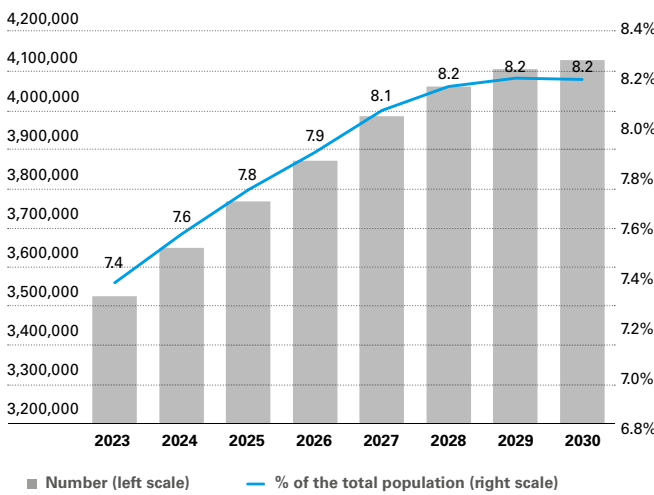
³⁰ From 2030 onwards, the university-age generation will also begin to decline in Spain.

In addition, the increasing appearance of some Spanish universities in very prominent positions in the international rankings has boosted interest among international students for studying in Spain.³¹ Indeed, their numbers have increased by 43% between 2015 and 2022, representing some 40,500 additional students. As these types of students do not normally reside in our country, the resulting housing needs are evident. It should also be noted that universities themselves have been generating a steadily increasing demand for office space in CBDs in recent years. This demand is concentrated in the provinces where the main universities are located, such as Madrid, Barcelona, Valencia, Granada and Seville (see chart below).

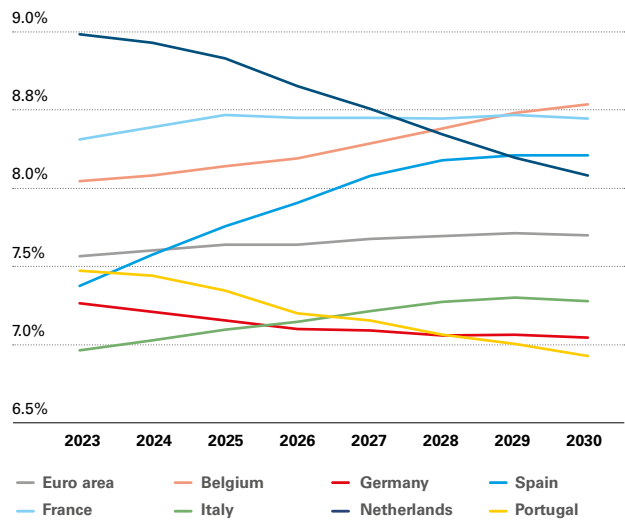
³¹ According to the 2023 Shanghai ranking, Spain has nine universities among the 500 best in the world, based on a series of homogeneous indicators on education quality, research proficiency, scientific publications and academic performance, among others.

Demographic fundamentals for student residences

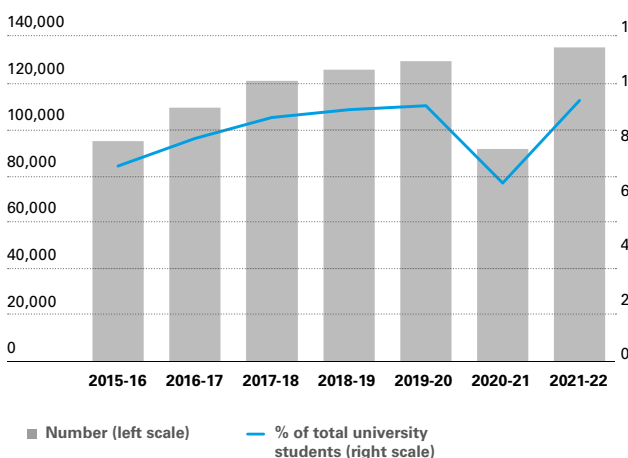
Population in Spain between 18 and 24 years of age



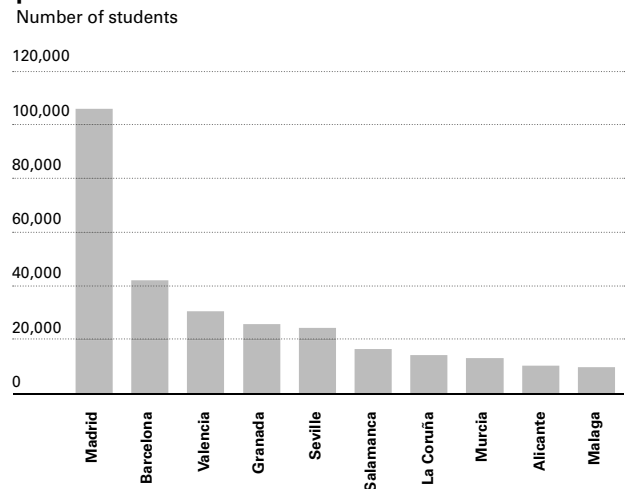
Population aged 18 to 24 by country (% of the total population)



International students entering the Spanish university system



10 main provinces receiving students from other provinces



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE), Eurostat and the Ministry of Universities.

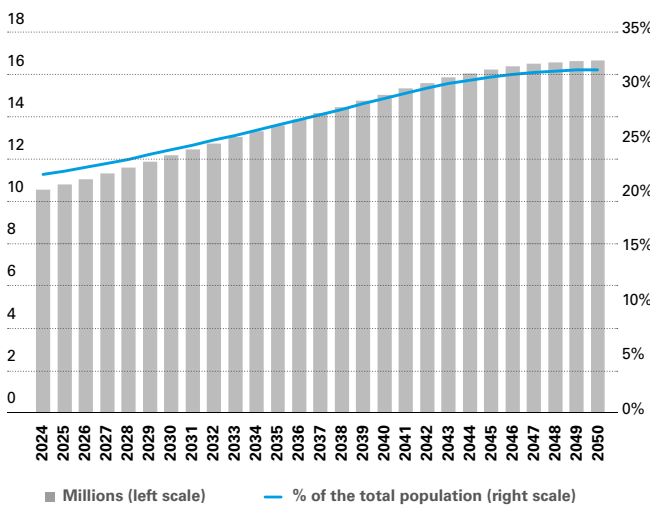


Senior living is a segment that has been receiving increasing attention from investors in recent years. In this case, the potential demand is on the rise, taking into account the gradual ageing of the population, which has been evident for years but which will accelerate in the coming decades. Currently, the population aged 65 years and over exceeds 10 million inhabitants, that is, 22% of Spain's population; but the retirement of the numerous baby-boomer generation in the next decade³² will lead to the population aged 65 and over exceeding 16.7 million and representing just over 30% of the total population. This trend is also widespread across the euro area, and is even more pronounced in the cases of Portugal and Italy. At the same time, it should be noted that the income of the senior population is increasing: according to the Spanish National Statistics Institute's Living Conditions Survey, the average gross income of those over 65 years of age has grown by 20% in the last decade, reaching 22,347 euros in 2022. In addition, almost 20% of the senior population is concentrated in high-income percentiles (see charts below), compared to less than 15% a decade earlier, reflecting the fact that this age group accounts for an increasingly larger share of total incomes.

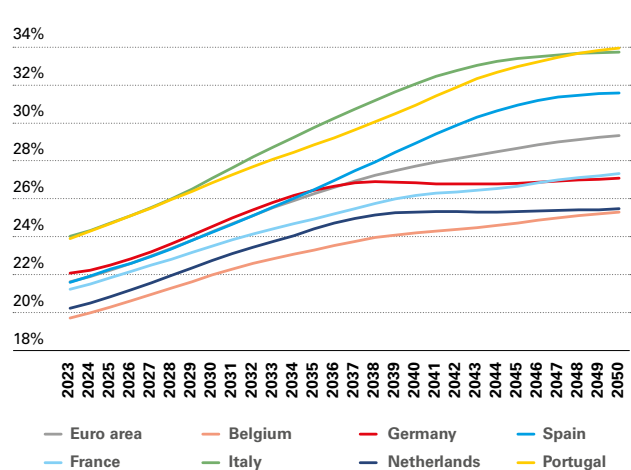
[See the article «Baby boomers: who they are and how they are facing retirement» in the *Monthly Report* of June 2023.](#)

Demographic fundamentals for the senior living segment

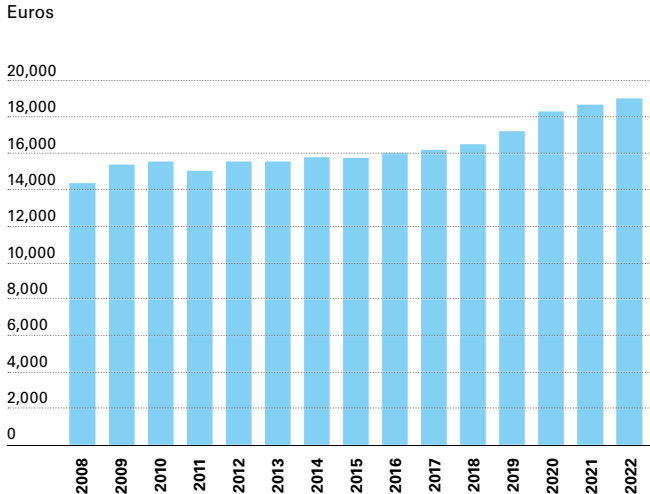
Population aged 65 and over in Spain



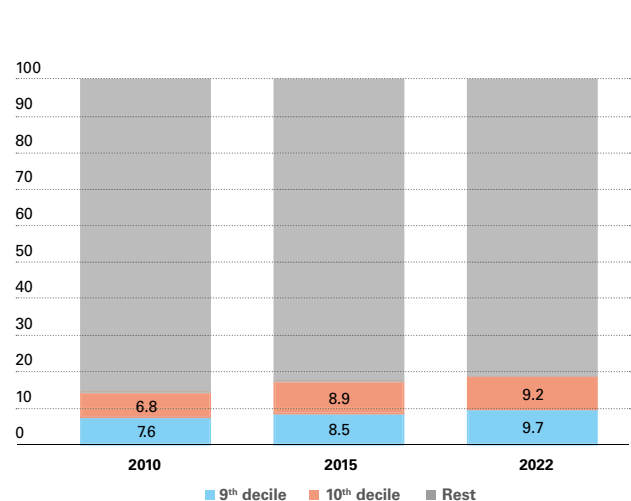
Senior population in Europe (% of the total population)



Average annual income of the senior population



Senior population by income decile



Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and Eurostat.

Indicators and forecasts

Annual change (%), unless expressly indicated

	2000-2007 average	2008-2014 average	2015-2021 average	2022	2023 forecast ¹	2024 forecast ¹	2025 forecast ¹	Trend
Activity indicators:								
Total GDP	3.4	-1.2	0.8	5.8	2.5	1.4	2.0	☀️
GVA in construction	3.1	-9.8	-0.7	3.2	1.9	2.0	2.0	☀️
Investment in construction	5.4	-9.4	2.5	2.6	2.2	2.4	3.0	☁️
Investment in housing	5.4	-8.5	5.0	1.4	0.3	2.5	3.1	☁️
Investment in other construction	3.1	-9.8	-0.7	3.2	4.4	2.3	2.9	☁️
Construction permits granted (thousands)	642	94	85	109	110	115	125	☁️
Construction permits granted	2.8	-28.7	13.9	0.6	1.0	4.5	8.7	☁️
Works completion certificates (thousands)	482	230	66	89	90	105	113	☁️
Works completion certificates	8.3	-34.9	12.5	-2.5	1.0	1.0	16.7	☁️
Confidence in the construction sector (level) ⁵	13.1	-41.7	-17.7	8.9	8.7	2.0	-	☀️
Labour market								
Total registered workers	3.5	-2.4	2.1	3.9	2.7	1.6	1.4	☀️
Registered workers in construction	6.1	-13.5	3.9	3.5	3.8	2.0	1.6	☀️
Construction of buildings	-	-14.4	5.2	4.3	4.2	-	-	
Civil engineering	-	-16.4	1.0	4.9	7.4	-	-	
Specialist construction act.	-	-8.9	3.3	2.9	3.5	-	-	
Registered workers in real estate act.	10.3	2.1	4.3	5.5	3.8	-	-	
Total people in employment (LFS)	4.1	-2.7	1.7	3.1	3.0	1.9	1.4	☀️
People employed in construction (LFS)	6.7	-14.0	3.1	2.3	3.0	2.0	1.5	☀️
Temporary employment rate in construction (%) ⁵	57.6	39.6	41.4	36.7	16.2	-	-	☁️
Unemployment rate in construction (%) ⁵	7.5	22.8	12.4	11.0	6.4	-	-	☀️
Housing demand								
Sales ² (thousands)	775	388	463	650	587	550	552	☀️
Sales ²	-0.1	-8.7	8.1	14.8	-9.7	-7.0	0.3	☁️
New homes ^{2,5}	12.1	-13.4	6.8	2.1	-4.8	-	-	
Existing homes ^{2,5}	-7.8	-5.0	8.4	18.0	-10.8	-	-	
Sales to foreign buyers ³	-	11.3	4.8	30.7	-8.3	-1.6	0.3	☀️
Sales to buyers for second homes ⁴	-	-8.5	8.1	6.5	-12.5	-4.9	2.5	☁️
Prices								
Home prices (MITMA)	12.9	-5.7	2.0	5.0	3.9	2.7	2.5	☁️
Home prices (INE)	-	-6.8	4.7	7.4	4.3	3.5	2.5	☁️
New home prices ⁵	-	-5.7	6.2	7.9	7.5	-	-	
Existing home prices ⁵	-	-7.7	4.5	7.3	2.9	-	-	
Price of land	17.5	-8.7	-0.2	5.0	-2.0	2.9	2.2	☁️
CPI for rent ⁵	4.3	0.8	0.8	1.3	2.1	-	-	☁️
Affordability ratios								
Cost of housing (% of gross disposable income)	6.7	7.9	7.0	7.8	7.6	7.3	7.2	☁️
Theoretical effort (% of gross disposable income)	37.8	38.8	30.8	33.1	38.8	37.1	35.3	☁️
Rental yield (%) ⁵	4.5	3.5	4.0	3.6	3.4	-	-	
Financing⁵								
Number of mortgages	5.8	-20.9	9.2	11.0	-17.8	-	-	☁️
Outstanding balance of home loans	14.1	-1.6	-1.7	0.8	-3.2	-	-	☁️
New home loans	17.7	-24.9	13.9	9.8	-18.6	-	-	☁️
Outstanding balance of developer and construction loans	23.6	-12.8	-8.9	-6.7	-7.7	-	-	☁️
Home loan default rate (%)	0.5	3.5	4.2	2.7	2.6	-	-	☀️
Developer and construction loan default rate (%)	0.5	20.2	16.1	4.8	3.9	-	-	☀️

Notes: 1. Forecasts as of February 2024. 2. The 2000-2007 average for home sales corresponds to the period 2004-2007 and the data are obtained from the Ministry of Transport, Mobility and Urban Agenda (MITMA). From 2007 onwards, sales data obtained from the Spanish National Statistics Institute (INE). 3. Sales to foreign buyers according to the Ministry of Transport, Mobility and Urban Agenda (MITMA). 4. Purchases of second homes are estimated on the basis of purchases made in a province that differs from the buyer's province of residence. 5. The «2023 forecast» column corresponds to the cumulative amounts up until the latest available data in the year.

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

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