

## Executive summary

# The expansive cycle takes hold

The Spanish real estate market accelerated in 2024, supported by the easing of financial conditions and the strength of the country's economy, which grew by a significant 3.2%. We all witnessed how the sector's indicators steadily gathered pace as the year went on: housing demand regained momentum after registering a setback in 2023, thanks to the reduction in interest rates, job creation, significant migration flows and strong foreign demand; house prices, meanwhile, also gained strength throughout the year, recording advances of 7%-8% compared to 4% in the previous year.

However, this strength of demand and prices is occurring in a context of an acute shortage of housing supply, this being the main imbalance that the real estate sector faces, both in the sales market and, above all, in the rental market. Moreover, this situation is combined with the absence of any other imbalances related either to excessive growth of credit for mortgages or developers, or to the relaxation of standards for obtaining credit. All this is raising fears of a sharp correction like the one that followed the previous expansive cycle between 2000 and 2007, which had dire consequences for the real estate and banking sector, as well as for the wider economy. In this regard, the possible risks to financial stability are low, although the social repercussions of this lack of housing are palpable and could end up holding back the Spanish economy's growth potential.

There is broad consensus on the need to increase the supply of housing, especially social and affordable housing. Although producing new housing is a long and slow process, in 2024 signs of a change of trend could be seen in the main indicators of the construction sector, suggesting a higher rate of housing production. Nevertheless, the number of social homes completed remains clearly insufficient to meet the needs of the population that struggles the most to afford housing.

In the first article of this report, we set out the **new forecast scenario in greater detail**. We expect that

demand will remain very strong and, although supply will continue to gradually increase, the housing deficit accumulated in recent years will sustain significant price growth at levels similar to the current ones. In addition, we anticipate that the current boom will spread to more geographical areas. The sharp rise in house prices in the major cities is causing a **shift in housing demand towards more affordable peripheral areas**. This pattern – colloquially referred to as the «oil stain» effect – is common as the expansive cycle in the residential market takes hold and we analyse it in the second article. At the provincial level, temperature appears to be a relevant factor: sales are growing more rapidly in the cooler regions of the Northwest of the peninsula, while the traditional tourist areas are experiencing a more gradual increase in demand.

In the third article of this report, **we investigate how European real estate markets have responded to the easing of financial conditions**. In some EU countries, including Portugal, there has been a sharp appreciation of house prices, while in others, such as Germany and France, a certain correction is taking place following the post-pandemic rally. Despite differences between countries, generally speaking the rapid growth in house prices in the euro area is a source of concern, as an overvaluation is detected in 80% of residential markets in the region.

**In the final article of this *Real Estate Sector Report S1 2025*, we focus on the commercial real estate market**. After registering sharp declines in 2023 and experiencing a slight revival in 2024, both investment and the number of transactions are expected to continue to recover, supported by the consolidation of the cycle of interest rate cuts. Spain is positioning itself as one of the most attractive of the main European economies for international investment in commercial real estate, thanks to solid macroeconomic fundamentals, especially in the residential, hotel and logistics segments.