ECO FLASH

N°22-08

29 April 2022

SPANISH HOUSING MARKET: CAUTIOUS OPTIMISM

Guillaume Derrien

The Spanish housing market is building momentum again after its deep correction between 2008 and 2013, which erased part of the excesses created over the early 2000s.

In 2021, transaction volumes hit their highest level for twelve years. House prices have been growing at an average of 5% per year over the past six years.

Housing activity is now benefiting from multiple sources of support: the post-Covid economic recovery, higher levels of household savings, growth in employment, low borrowing rates.

Rising housing prices are driven by limits on housing supply, which are likely to persist, given rising construction costs as a result of higher materials expenses.

A tightening of lending conditions would be less problematic than in 2008: household indebtedness and debt service have fallen significantly over recent years.

However, these price increases are contributing to the rise in inequality in the country.

The "right to housing law" bill, currently in discussion at the parliament, seeks to regulate various areas of the real estate market (better access to housing, regulation of evictions, increase in social housing supply, rent controls), but this will only partly address the problem of a shortfall in building.

HOUSE PRICES AND HOUSING TRANSACTIONS

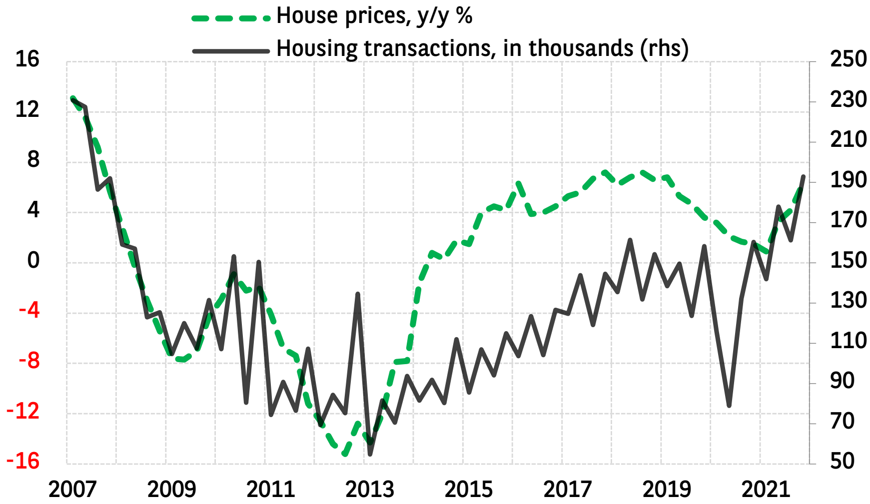


CHART 1

SOURCE: HOUSING MINISTRY, INE

A NOTABLE RECOVERY IN 2021

Real estate market activity in Spain recovered spectacularly in 2021, after collapsing in 2020 due to the lockdown measures introduced to tackle the Covid-19 epidemic. Nearly 670,000 real estate transactions took place last year, a level not seen since 2007[1] (see chart 1). According to INE, housing prices rose by 3.7% in 2021, continuing the strong pace of the last six years (average yearly increase of 4.9% between 2015 and 2020). Although housing prices are still 10% below their peak in summer 2007, price growth is accelerating. Figures from Tinsa show that this trend continued in the first quarter of 2022, with a 6.8% year-on-year increase in March. This indicator is well correlated with the INE quarterly index.

However, these figures hide significant differences between regions. In the Madrid area and tourist and/or densely populated regions (Balearic Islands, Melilla, Ceuta), real estate prices have recorded rapid growth since 2015; indeed prices in some regions are now higher than they were in 2007/2008. Conversely, in rural and more sparsely populated regions (Extremadura, Castile and León, Navarre, Aragon), prices are fluctuating at least 20% below their levels of fifteen years ago. This said, the number of real estate transactions in most of these areas has also started to rise, suggesting that price increases could be more rapid this year.

1 Source: Spanish Ministry of Development

MULTIPLE SOURCES OF SUPPORT

The Spanish housing market has benefited from many sources of support, notably on the demand side. First, over the course of 2019 and 2020, Spanish households increased their savings considerably; Eurostat figures suggest an increase of nearly EUR70 billion. This increase was particularly strong in 2020 (EUR46.2 billion) as consumption plummeted due to periods of lockdown and the closure of many stores. Surplus savings have mainly been held in sight deposits, which means that households can now withdraw a greater sum than before as they look to finance a house purchase.

The improvement in the labour market is another significant source of indirect support to property purchases: the unemployment rate has dropped below the 13% mark this year, a level that had not been seen since 2008. By improving household solvency, this helps increase both the demand for credit and the chances of being granted a loan. The prospect of an increase in interest rates this year has also probably encouraged individuals to invest in real estate now. Mortgage rates remain historically low (2.52% on average, across all loan terms, in February according to INE), but are likely to start rising in 2022, as high inflation persists and European monetary policy becomes less accommodating.

There are also structural factors affecting both supply and demand in the housing market. On the demand side, these include in particular the increase in the number of households in the country, which is itself linked to growth in the population (although this is slowing) and the rising number of family separations and single-parent households[2] .

Strong demand is meeting increasingly limited supply. The number of building permits granted has plunged since 2007 (see chart 2). Although this collapse was initially a reaction to the bursting of the speculative real estate bubble, there has been no real recovery since, even though we have observed a modest pick-up since 2015. Without going as far as to talk of a housing shortage, there is nevertheless a growing imbalance between supply and demand, which has tended to increase year after year.

Under these conditions it is likely that housing price increases will continue, for this year at least, particularly as the construction sector is facing rising materials costs as a result of global economic conditions, which could feed through into higher sales prices and/or restrict the supply of new houses.

SHOULD WE START TO WORRY ABOUT RISING PRICES?

Although prices have now exceeded (or are approaching) their 2008 level in some regions, there are few similarities between then and now. During the previous period of rising prices (2000 to 2008), household indebtedness doubled, from 65% of gross disposable income (GDI) in 2000 to a peak of around 135% in 2008. Since the real estate sector returned to growth in 2013, household indebtedness has fallen pretty much continuously, dropping from 126% of GDI to 93.7% of GDI by the middle of 2021 (see chart 3). Indebtedness levels rose again during the health crisis of 2020, but this was short lived; the curve started to trend lower again in 2021. At the same time, the sharp reduction in interest rates, which are now at historically low levels, has helped reduce the debt servicing costs, which fell from 11.4% of household disposable income in 2008 to 6.2% in the autumn of 2021. Spanish households have thus moved from being amongst the most heavily indebted in Europe in 2010 back to the European Union average (see chart 4).

2 The total number of single-person and single-parent households increased by 12% between 2013 and 2020, from 6.12 million to 6.83 million. This represented 36.4% of households in 2020, from 33.6% seven years previously (source: INE)

RESIDENTIAL BUILDING PERMITS

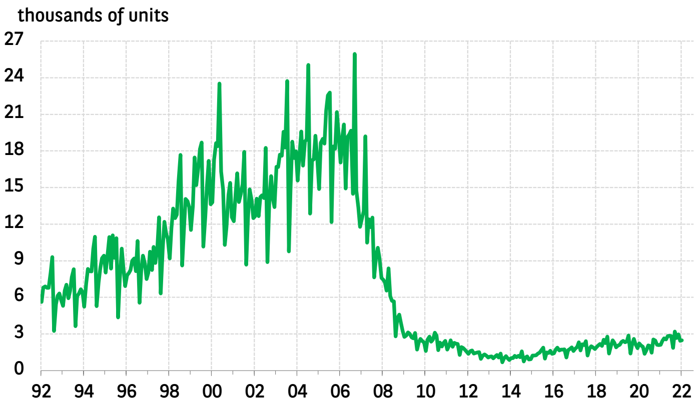


CHART 2
SOURCE: MINISTRY OF DEVELOPMENT

HOUSEHOLD DEBT AND DEBT SERVICES (% GROSS DISPOSABLE INCOME)

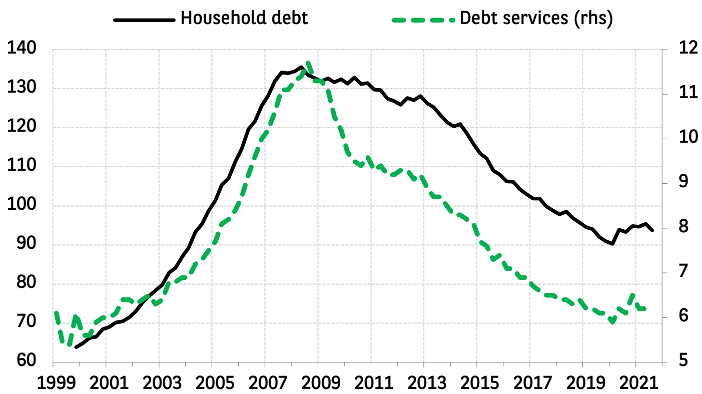


CHART 3
SOURCE: BIS, BNP PARIBAS

HOUSEHOLD DEBT (% GDP)

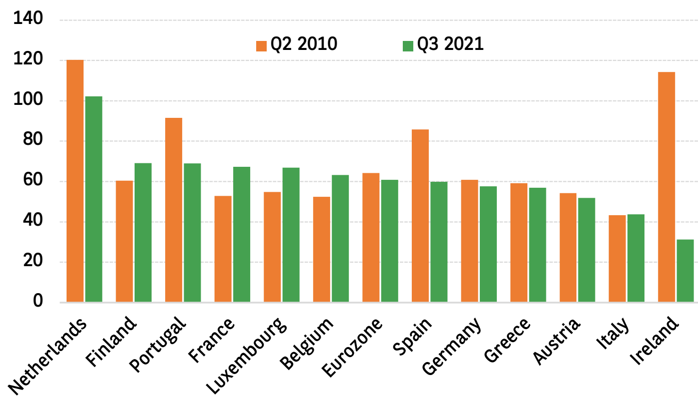


CHART 4
SOURCE: BIS, BNP PARIBAS

This period of deleveraging has been due primarily to the restriction in supply of credit that began with the Global Financial Crisis of 2008-2009 and continued through to the middle of last year (see chart 5). In an indication of the improved solidity of the banking sector, the ratio of loans to deposits, which doubled during the economic cycle of the early 2000s, has now fallen to its lowest level since 1997 (start of the current statistics).

Furthermore, the composition of mortgage loans has also changed profoundly, with a gradual shift from floating-rate to fixed-rate loans (see chart 6). The latter, which accounted for less than 5% of mortgages in 2011, made up 70% of total outstanding loans in January 2022. Households took advantage of the period of low interest rates to borrow at, and lock in, more advantageous and stable conditions, which will give them greater protection against a tightening in lending conditions. The Spanish economy is thus more robust overall against an increase in interest rates that is now a likely scenario. The systemic risks from the real estate sector are, at present, much smaller than during the economic cycle of the early 2000s.

However, the increase in house prices has social repercussions. It increases inequalities between homeowners (whose wealth increases in line with prices) and first-time buyers. A house purchase requires a greater financial effort, including for existing owners (see chart 7), with disposable income in particular not rising as fast as real estate prices, even though lower interest rates have helped offset the effect of higher prices. Given current price trends – the 2007 peak could soon be exceeded, according to the INE figures – this source of inequality could get worse. As discussed above, these pressures are not on the same scale across the whole country. They particularly affect major cities and coastal regions, which are also the places where a large share of the population lives.

One repercussion is that demand for rented accommodation, and its share of the total residential base, have increased[3] , which has had the effect of driving up rents[4]. This has led to growing private investor interest in build-to-rent construction, which in turn has amplified the demand for housing and price rises.

To tackle this housing precarity the government brought forward its "right to housing law" bill in March (*Ley por el Derecho a Vivienda*), which is now being debated in the country's parliament. This bill would introduce a series of measures to better regulate various areas, such as support for access to housing, restriction on evictions, the creation of affordable housing and rent controls in "stressed" areas. The government is also considering a temporary freeze on landlords' ability to include a lease clause indexing rent to the consumer price index. Although these measures are steps in the right direction, they only partly address the underlying problem in the real estate market, namely the lack of new housing construction in some regions where the market is under considerable pressure. Although, at the aggregate level, the Spanish housing market does not currently pose any systemic threat, the increase in prices and growing squeeze on housing supply in certain densely populated regions represents a significant source of fragility, particularly given the current context of pressure on purchasing power.

Guillaume Derrien
guillaume.a.derrien@bnpparibas.com

3 In Spain, rented housing accounted for 18.3% of the total housing stock in 2019, before dropping to 17.3% in 2020. It was only 16.1% in 2013 and 11.4% in 2001 (source: INE).
4 As another consequence of this eviction phenomenon, the share of young adults living with their parents has increased significantly, climbing from 48.5% in 2013 to 55.0% in 2020 for those aged 25 to 29, and from 20.5% to 25.6% for those aged 30 to 34. Paradoxically, this increase has come against the background of a gradual fall in youth unemployment in the country, albeit with income growth lagging far behind increases in real estate prices.

GROWTH IN MORTGAGE LOANS

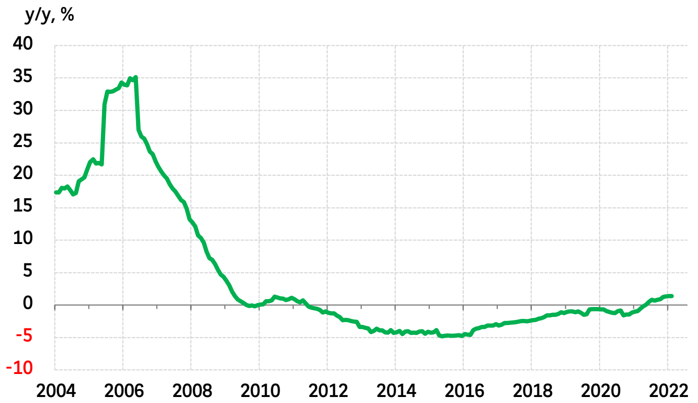


CHART 5
SOURCE: BANK OF SPAIN, BNP PARIBAS

SHARE OF MORTGAGES UNDER FIXED AND FLOATING RATES (% OF THE TOTAL)

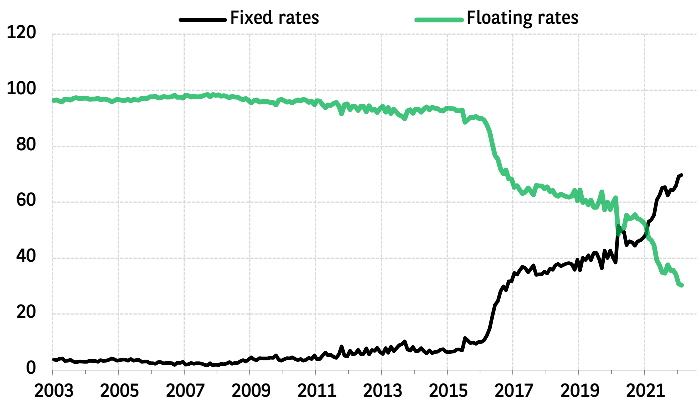


CHART 6
SOURCE: INE, BNP PARIBAS

HOUSE-PRICE-TO-DISPOSABLE-INCOME RATIO (IN YEARS)

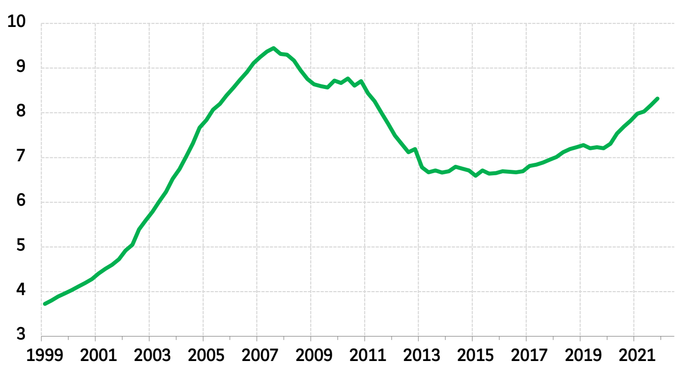


CHART 7
SOURCE: BANK OF SPAIN, BNP PARIBAS

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon Head - Eurozone, Germany - Climate	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Felix Berte United States, United Kingdom	+33 1 40 14 01 42	felix.berte@bnpparibas.com
Stéphane Colliac France	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Southern Europe, Japan - International trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Veary Bou, Patrick Capeillère, Tarik Rharrab Statistics		

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina, Turkey – Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam – Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Perrine Guérin South Africa & English/Portuguese-speaking African countries	+33 1 42 98 43 86	perrine.guerin@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries		cynthia.kalasopatan@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com

CONJONCTURE

Structural or thematic topics.

EMERGING

Analyses and forecasts for a selection of emerging economies.

PERSPECTIVES

Analyses and forecasts with a focus on developed countries.

ECOFLASH

Data releases, major economic events.

ECOWEEK

Recent economic and policy developments, data comments, economic calendar, forecasts.

ECOTV

A monthly video with interviews of our economists.

ECOTV WEEK

A weekly video discussing the main event of the week.

MACROWAVES

Our economic podcast.

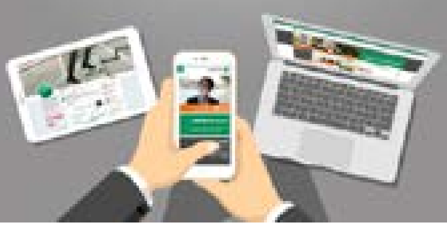
HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the Economic Research website

&

FOLLOW US ON LINKEDIN
see the Economic Research linkedin page

OR TWITTER
see the Economic Research Twitter page



Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens – 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas.com - www.economic-research.bnpparibas.com
Head of publication : Jean Lemierre / Chief editor: William De Vijlder