

Real Estate

Sector Report

S2 2024

Strong demand and short supply shape the sector

The mismatch between supply and demand determines the behaviour of the real estate market

The challenge of increasing the supply of affordable housing in Spain

What does big data tell us about foreigners who spend long periods in Spain?

How is climate change impacting the real estate sector?



SECTOR REPORT

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S2 2024



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«Good architecture is open – open to life, open to enhance the freedom of anyone.»

ANNE LACATON



Real Estate

CAIXABANK RESEARCH FORECASTS FOR SPAIN'S REAL ESTATE SECTOR



	2022	2023	2024	2025
Sales (thousands)	650	585	564	566
New building permits (thousands)	109	109	115	125
Home prices - MIVAU* (% change)	5.0	3.9	4.4	2.8
Home prices - INE* (% change)	7.4	4.0	5.0	2.8

Source: CaixaBank Research.

Strong demand and short supply shape Spain's real estate sector



Factors underpinning housing demand:

- Job creation
- Falling inflation
- Population growth
- Falling interest rates



Factors limiting the growth of supply:

- Lack of land earmarked for development
- Labour shortages
- High, albeit stable, construction costs



UPWARD PRESSURE ON HOME PRICES



The challenge of housing affordability for young people in Spain

65.9% of young people aged between 18 and 34 were still living with their parents in 2022

Only 32% of young people who have moved out are homeowners

30% allocate more than 40% of their income to housing-related payments

Snapshot of foreigners who spend long periods in Spain, according to our big data

They are concentrated in **tourist areas and major urban areas**, such as Barcelona and Madrid

They usually own a **second home** in Spain

The French, British and Americans are the main nationalities

THE RISKS POSED BY CLIMATE CHANGE FOR THE REAL ESTATE SECTOR

PHYSICAL RISKS



Reduction of the value of buildings

Invest to mitigate the impact of extreme weather events

TRANSITION RISKS



Goal to decarbonise the housing stock by 2050



Executive summary

Strong demand and short supply shape Spain's real estate sector

The first half of 2024 has been marked by rapid increases in both demand and prices in Spain's real estate market, with a somewhat more timid increase in supply. **This greater than expected buoyancy has led us to revise upwards our forecasts for Spain's real estate sector for 2024 and 2025.** At CaixaBank Research, we predict that the number of sales will reach around 565,000 units per year and that home prices will rise by around 5.0% in 2024, followed by a slightly more contained growth rate of 2.8% in 2025 (forecasts from the previous *Real Estate Sector Report* of February 2024: 2.7% and 2.5%, respectively). In the first article of this report we set out this new forecast scenario in greater detail.

The production of new housing will continue to be weighed down by a number of structural factors, such as the lack of land earmarked for development and the shortage of skilled labour, which are holding back the housing supply in a context of high demand. In particular, we expect around 115,000 planning permission applications to be granted in 2024, gradually rising to 125,000 in 2025. These figures fall far short of the new projections just published by the National Statistics Institute for the number of households: 330,000 net households are expected to be created each year in the period 2024-2028, compared to previous projections of around 220,000 households in the same period. In the absence of a significant increase in the housing supply in the coming years, the gap between supply and demand will steadily widen, and this could apply further pressure on home prices, especially in areas that are experiencing more rapid demographic growth.

These dynamics in the housing market are exacerbating the housing affordability problems that

are affecting certain groups, such as young people.

We analyse this issue in the second article of this report. Solving the affordability issue is no easy task and requires action to be taken on multiple fronts and over an extended time horizon. Public-private collaboration is essential for boosting the supply of affordable housing, and industrialised construction shows promise as a new way to help overcome the major challenges that the sector is facing.

In the third article we carry out an in-depth analysis of foreigners who visit Spain for relatively long periods, using data on payments made with foreign cards recorded on CaixaBank POS terminals. We observe that these visitors are concentrated in the provinces where foreigners tend to buy second homes in Spain, such as Alicante, the Balearic Islands, the Canary Islands and Malaga, although they are also found in the country's major urban areas such as Barcelona and Madrid.

In the last article of this *Sector Report*, we focus on the risks that climate change poses to the housing market. These include extreme weather events, referred to as physical risks (floods, forest fires or more gradual changes in the climate, such as sea level rise), which could lead to a significant reduction in the value of buildings. On the other hand, the real estate sector is also being affected by the need to adapt to stricter regulations in order to mitigate and adapt to climate change, collectively referred to as transition risks. The role of public policies is crucial for encouraging the conversion of the housing stock in order to cut greenhouse gas emissions and mitigate the impact of physical risks, especially among the most vulnerable groups in society, in order to ensure an efficient and fair climate transition.



Situation and outlook

The mismatch between supply and demand determines the behaviour of Spain's real estate market

Housing demand in Spain remains very high, driven by the buoyancy of the economy, the strength of the labour market, population growth and foreign demand. Supply, however, remains rigid, affected by production costs and especially by the structural problems in the sector. Although the number of new construction permits has picked up in the opening months of 2024, the gap with respect to net household creation is significant. Moreover, the new projections for household creation published by the National Statistics Institute indicate that this gap will continue to widen in the coming years if supply does not react. The combination of rapid population growth and the gradual decline in interest rates, coupled with the lack of supply, is driving up home prices, particularly in the new housing market and in the most buoyant regions, as well as in those that are most popular with tourists.

Housing demand remains at historically high levels in 2024

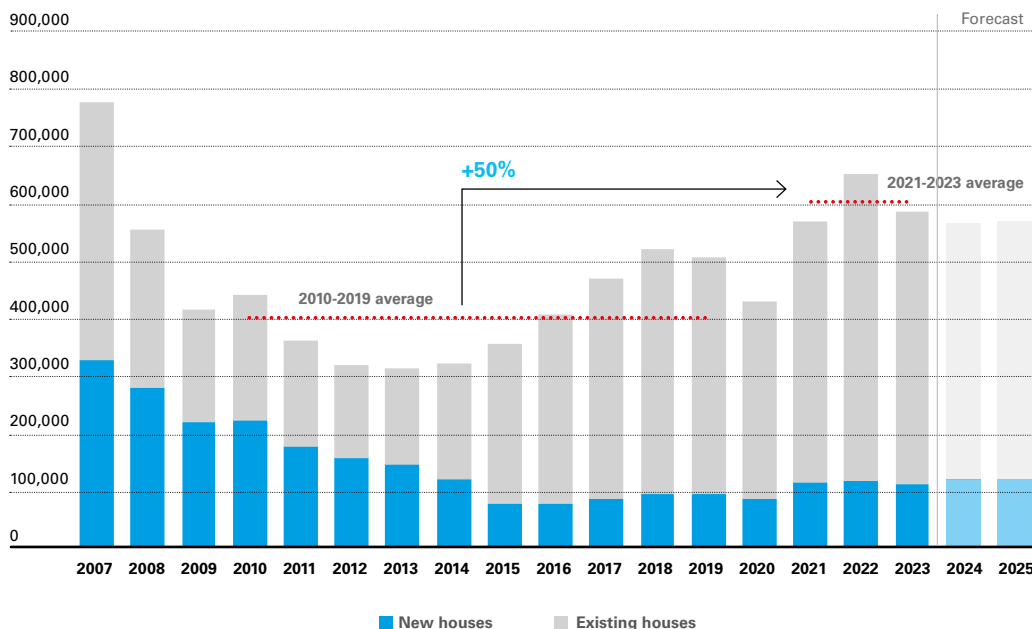
The real estate market continues to show significant strength in 2024. The number of home sales in the opening months of the year declined slightly compared to the same period last year, down 4.1% year-on-year in the cumulative period from January to May.¹ This nevertheless exceeds the average number of sales recorded in the pre-COVID decade (2010-2019) by 43%. In addition, all segments of residential demand are showing resilience, although new housing continues to enjoy particular appeal and the strength of foreign demand stands out, especially among residents in our country.

¹ In 2023, home sales declined by 10% (to 585,000 units), due to the impact of the interest rate hikes and a correction after the exceptional figures of 2021-2022 which followed the pandemic. This decline was concentrated in the second half of the year.

The number of home sales in the first few months of the year has remained high, with a 4.1% decline year-on-year

House sales stabilise at high levels

Number of houses



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

The demand for new homes remains high, despite having experienced a higher price increase than existing homes.² Specifically, new home sales stand at around 110,000. This is a similar level to the average number of new construction permits granted in the last three years, suggesting that the market is easily absorbing all the production that is completed. However, new home sales remain below the average for the decade 2010-2019, limited by the shortage of new developments. On the other hand, the volume of activity in the existing home market remains well above the historical average. This is due to the high demand for housing, which cannot be satisfied by new builds, as well as the lower prices in this market segment (on average, prices are 16% cheaper than among new homes, according to data from the Ministry of Housing and Urban Agenda, MIVAU).

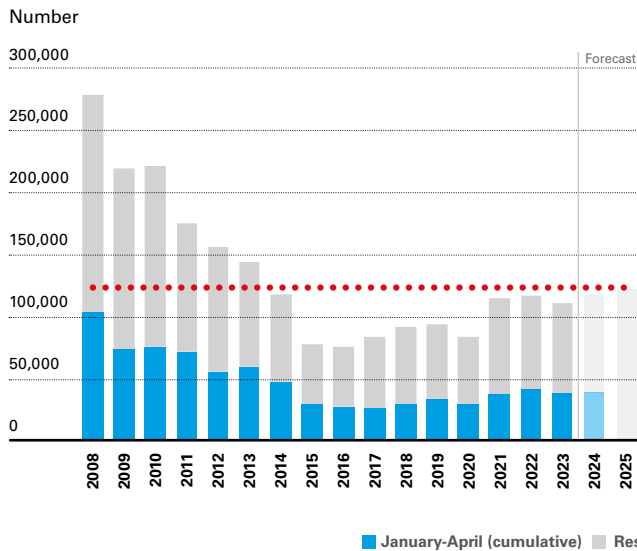
² Between Q1 2020 and Q1 2024, the price of new homes (per the INE) grew by 31.4% in nominal terms, while that of existing homes increased by 18.6%.

The demand for new homes remains high despite the increase in prices. However, the available supply limits the number of sales

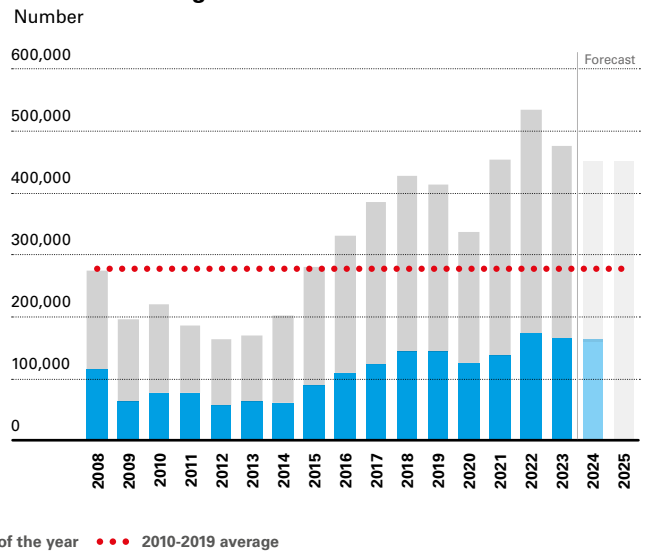


New houses show the greatest appeal, but sales are limited by the lack of supply

Sales of new houses



Sales of existing houses



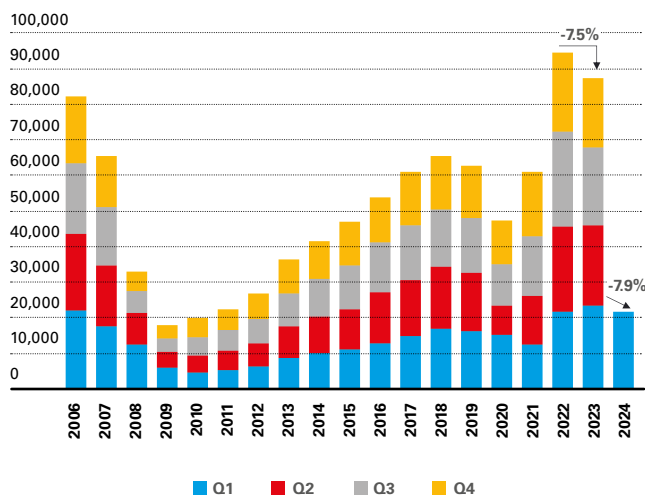
Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE).

Sales involving foreign buyers, including both residents (thanks to immigration flows) and non-residents (thanks to the international appeal of our country), remain a key factor in the resilience of the housing market. Although it is moderating compared to the peaks recorded in 2022, sales activity remains historically high. In the period 2021-2022, sales to foreign buyers made an exceptional contribution to the increase in the total number of sales in Spain, especially in the most buoyant areas (Madrid and Catalonia) and the most touristy ones (the Mediterranean coast and the island regions). An analysis of the most recent quarters reveals, on the one hand, that the decrease in sales to foreign buyers has occurred in the non-resident segment (international second-home buyers) and, on the other, that the rate of decline has been steadily moderating. The new population projections produced by the National Statistics Institute point to a significant increase in the foreign population residing in Spain (780,000 people per year in 2024-2025), suggesting that we will see continuity in the buoyancy of housing demand among foreign residents.

Sales involving foreign buyers, including both residents and non-residents, remain a key driver of housing demand in Spain

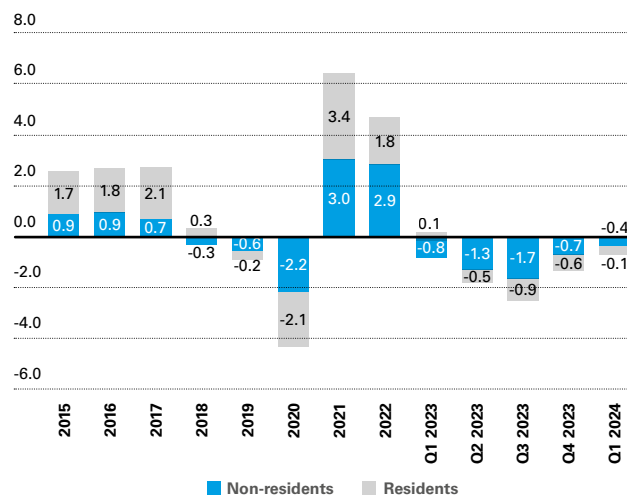
The sale of houses to foreign buyers remains a key factor

Sales to foreign buyers in each quarter



Source: CaixaBank Research, based on data from the Association of Property Registrars.

Contribution to the total annual growth of sales involving foreign buyers (pps)



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

Despite the fact that across Spain as a whole the number of home sales in the first four months of 2024 remained at similar levels to those of the same period in 2023 (-4.1% year-on-year in the cumulative period from January to May), an analysis by province reveals that home sales are declining in some of the country's major housing markets. In the following table we can see that 15 out of the 16 largest provinces in terms of the number of transactions³ experienced a decrease in the number of sales in the first five months of 2024.

③ These 16 provinces contribute 70% of the total number of sales.

The sharpest falls were recorded in the Balearic Islands (-13.8%), Almeria (-12%), Seville (-10.7%), Girona (-10.2%), Malaga (-9.2%), Cádiz (-8.6%) and Madrid (-8.1%). These declines are in addition to those recorded in 2023, which generally speaking were already in excess of 10% of the national total. The cases of Barcelona and Las Palmas are also noteworthy, as despite registering moderate declines in the first five months of 2024 they had experienced a sharp fall in 2023. In contrast, in the rest of the provinces, the number of sales decreased more moderately in 2023 (-7.2% versus -10% for the national total) and 2024 is also bringing more favourable results (2.1% year-on-year increase in the cumulative total from January to May). The ability of these more secondary markets to sustain the demand for housing is limited, so we expect to see some moderation in activity in the second half of the year.

Home sales have fallen in 15 out of the 16 largest housing markets



Sales in Spain's largest residential markets

	January-May 2024 Year-on-year change (%)	2023 Year-on-year change (%)	Relative weight in 2023 (%)
Madrid	-8.1	-16.2	12.0
Barcelona	-5.0	-12.6	10.0
Alicante	-3.5	-3.5	8.3
Valencia	-7.7	-5.4	6.3
Malaga	-9.2	-17.7	5.9
Murcia	-1.3	-5.5	3.7
Seville	-10.7	-11.4	3.6
Cádiz	-8.6	-13.8	2.6
Tarragona	-6.3	-7.7	2.5
Almeria	-12.0	-6.0	2.4
Balearic Islands	-13.8	-20.3	2.4
Girona	-10.2	-8.2	2.4
Granada	-3.6	-9.1	2.2
Las Palmas	-0.6	-12.7	2.1
Asturias	0.8	6.1	2.1
Santa Cruz de Tenerife	-7.5	-16.8	1.9
Other provinces	2.1	-7.2	29.7
National average	-4.1	-10.0	100.0

Note: The red shading indicates values below the national average.

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

Outlook for housing demand in Spain

The outlook for housing demand over the coming quarters is favourable, as most of the factors that have been supporting the sector will remain present: economic buoyancy, high job creation that favours an increase in real disposable income in a context of falling inflation, and sturdy household finances. In addition, according to the new population projections by the National Statistics Institute, the boost provided by demographics could increase, while we must also consider the interest rate cuts that the ECB has begun to implement. In June, the central bank introduced the first cut of 25 bps in its benchmark interest rates (placing the refi rate at 4.25% and the depo rate at 3.75%), and the financial markets are anticipating two further rate cuts in the second half of 2024. This decline in benchmark interest rates is gradually translating to market interest rates: the 12-month Euribor stood at 3.65% in June 2024, some 0.36 points down on the value of a year ago, and the financial markets expect it to fall to around 3.25% by the end of 2024.⁴

⁴ For an analysis of our monetary policy expectations in the euro area, see the Central Bank Observatory on the CaixaBank Research website.



The strong demand witnessed in the early months of the year and the fact that the short and medium term outlook remains favourable have led us to raise our forecast relative to the previous report we published at the beginning of the year. Specifically, we now expect the volume of sales to reach around 565,000 homes per year in the period 2024-2025 (versus the previous estimate of 550,000).

The supply of new housing is beginning to grow, but it remains insufficient

Despite the granting of new construction permits showing some dynamism in the first four months of 2024 (+14.4% year-on-year, reaching 114,700 homes in the last 12 months), the supply of new housing remains insufficient considering the fact that in 2023 some 208,000 new households were created, according to the Continuous Population Statistics produced by the National Statistics Institute.⁵ In addition to the structural factors that have weighed down the sector in recent years (shortage of land earmarked for development, difficulties in finding skilled labour, etc.), there are other more cyclical factors, such as high construction costs (despite stabilising in 2024, they remain 29% above 2019 levels) and regulatory uncertainty, among others. In spite of the need to drastically increase the supply of housing, the outlook is one of moderate increases in the coming quarters, since these factors are unlikely to be resolved within the current forecast horizon. In particular, we expect around 115,000 new construction permits to be granted in 2024 as a whole, gradually rising to 125,000 in 2025.

⁵ According to the Labour Force Survey, net household creation stood at 265,000 in 2023.

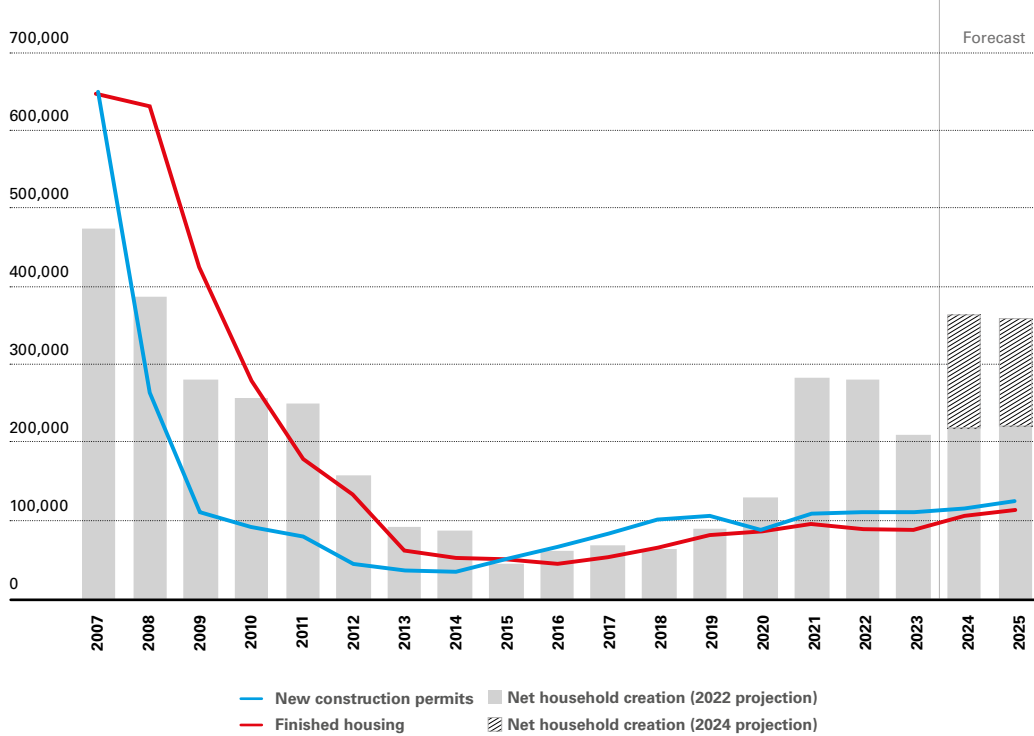


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The new population projections indicate that the housing needs of the Spanish population will continue to grow

Supply of new housing and net household creation

Number



Notes: The grey bars with diagonal stripes indicate the upward revision in the projection of net household creation by the National Statistics Institute in 2024 compared to its previous projection in 2022. Some 135,000 more households are now expected to be created each year in 2024-2025. The historical data for net household creation come from the Labour Force Survey (up to 2013), the Continuous Household Survey in 2014-2020 and the Continuous Population Statistics in 2021-2023.

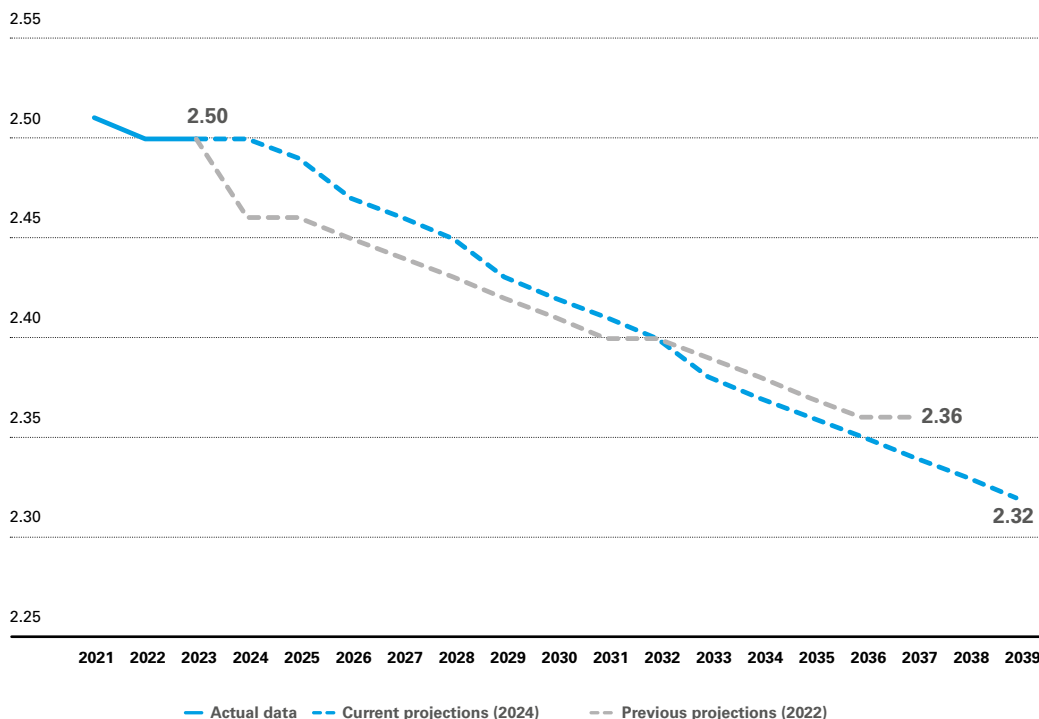
Source: CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda (MIVAU) and the National Statistics Institute (INE).

The National Statistics Institute's recent update to its population and household projections for the next 25 years reveals that the country's housing needs will be greater than previously estimated. On the one hand, net household creation of around 330,000 households per year is now anticipated in the period 2024-2028, compared to a figure of 215,000 households according to the previous projections for the same period. On the other hand, the average household size will continue to shrink in the coming years, and even more sharply than according to the previous projections. The combination of smaller households and a growing population means greater housing needs in the medium term.

The average household size will continue to shrink in the coming years. The combination of smaller households and a growing population means greater housing needs

Average household size in Spain

Number of people per household



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

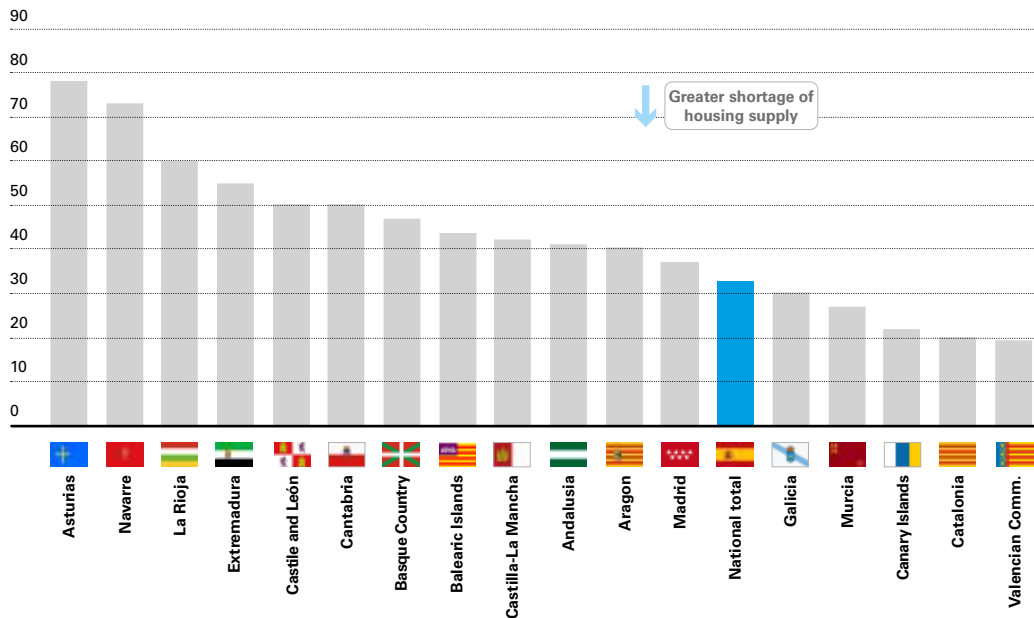
It should be noted that there is significant variation from region to region in terms of the mismatch between supply and demand. The chart on the following page shows the number of new homes completed in the period 2022-2023 (the supply of new housing) in each region in proportion to net household creation (the demand for housing under either ownership or rental). In some regions, the number of new homes completed in the last two years falls far short of the demand, since it covers less than 30% of the households created (notably in the Valencian Community, Catalonia, the Canary Islands, Murcia and Galicia). This is a key factor in explaining the rise in property prices, as well as rental prices.⁶ Indeed, the rental price indicators produced by the main real estate portals (offer prices of new contracts) show considerable increases (6.3% year-on-year on average between January and May according to Fotocasa, and 12.7% year-on-year on average between January and June according to Idealista) and with an upward trend. The sharp price rises in new rental contracts is aggravating the housing affordability problems, an aspect which we analyse in detail in the article «The challenge of increasing the supply of affordable housing in Spain» in this same report. However, it should be recalled that in 2024 the update of rental prices in existing contracts is limited to 3%, in the absence of any other agreement between the parties. In fact, the rental component of the CPI, which encompasses the evolution of all rents (both new and existing contracts) shows much more contained increases of 2.2% year-on-year in June 2024.

⁶ For an in-depth analysis of the relationship between population and home prices, see the article «Population and home prices in Spain: a close relationship» in the *Real Estate Sector Report of S1 2024*.



Completed houses relative to net household creation in 2022-2023

(%)



Note: This ratio reflects what percentage of net household creation is covered by finished homes that are available for sale. The data used are cumulative for 2022 and 2023.

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

The increase in home prices has accelerated in recent quarters

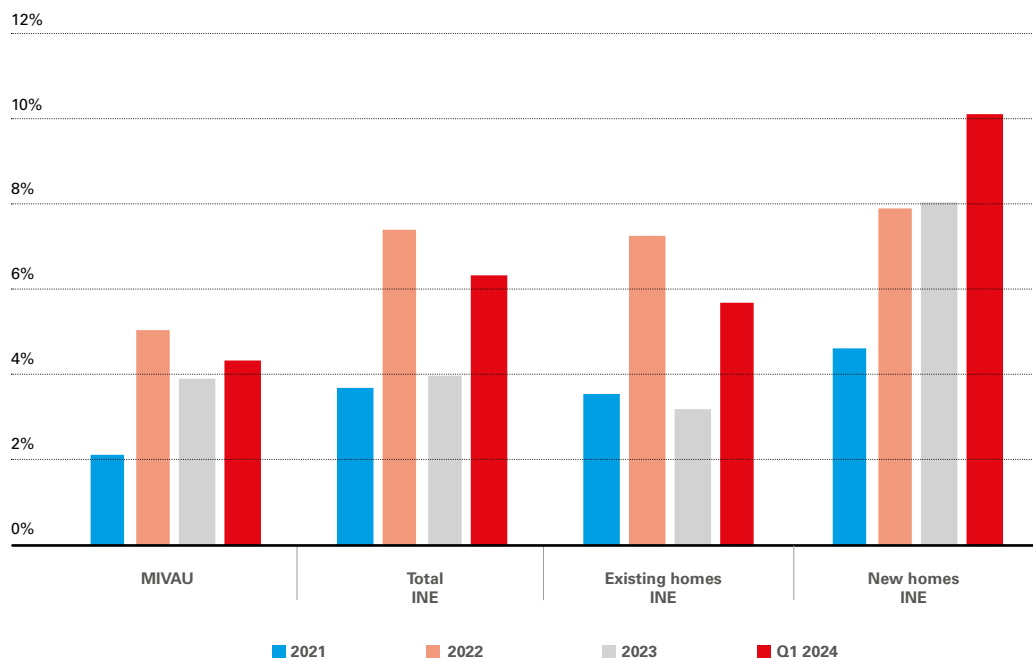
The combination of a slight moderation in demand (although it is holding up better than expected) and the failure of supply to really take off is driving up home prices. We saw a moderation in 2023 due to the impact of the rise in interest rates, with advances of around 4% both according to the home price index produced by the National Statistics Institute (INE), which is based on transaction prices, and according to the appraised value of unsubsidised housing published by the Ministry of Housing and Urban Agenda (MIVAU). However, prices accelerated in the second half of 2023 and rose further still in Q1 2024 relative to the average recorded in 2023 (in year-on-year terms). The increase was particularly pronounced in the case of new housing (+10.1% year-on-year).

In the coming quarters we expect that falling interest rates and the mismatch between supply and demand will continue to support the growth of home prices. As a result of all of the above, we have increased our forecast: we now expect home prices (according to the INE index) to grow by 5.0% in 2024 (3.5% estimated previously) and by 2.8% in 2025 (2.5% previously).

In the coming quarters we expect that falling interest rates and the mismatch between supply and demand will continue to support the growth of home prices

Home prices moderated in 2023, but rebounded in Q1 2024

Year-on-year change (%)



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

There is an important revaluation in the case of new housing, which is 35% above the 2007 maximum in nominal terms

If we take a broader historical perspective on the pattern of home prices, and we place the benchmark at the peak reached during the real estate boom (Q3 2007), we see that the National Statistics Institute's home price index in Q1 2024 stood 0.6% above the previous peak in nominal terms. However, in real terms, it is well below the levels of 2008, specifically 27% below. In any case, what we do observe is a significant rise in the value of new housing, which is 35% above the 2007 peak in nominal terms and just 1.8% below in real terms. This trend is no surprise given the high demand for this type of housing, which better satisfies buyers' preferences due to its standards, location and greater energy efficiency, among other factors, as well as due to the greater impact of the increase in construction costs in this segment.

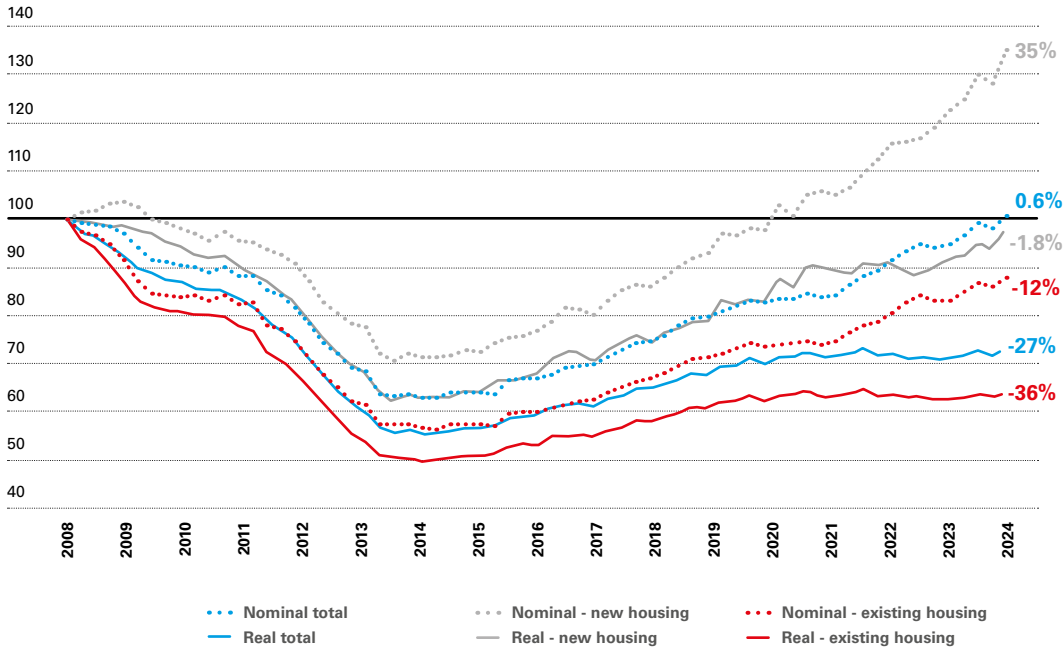


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Home prices are far from the peak of 2007 in real terms

Home price index

(100 = previous peak in Q3 2007)



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

CaixaBank Research forecasts for Spain's real estate sector

	2022	2023	2024	2025
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Home prices - INE (% change)	7.4	4.0	5.0	2.8

Source: CaixaBank Research.

Housing affordability

The challenge of increasing the supply of affordable housing in Spain

The problem of housing affordability, both rental and ownership, has worsened in recent years and is particularly affecting certain groups such as young people. Solving this issue is no easy task and requires action to be taken on multiple fronts and over an extended time horizon. Public-private collaboration is essential for boosting the supply of affordable housing, and industrialised construction shows promise as a new way to help overcome the major challenges that the sector is facing, such as attracting skilled and female labour, while promoting more digital and sustainable construction methods.

Housing affordability problems: an issue that particularly affects young people

Concern about housing affordability has surged into second place in the list of concerns among Spaniards, according to the CIS barometer published in June 2024, climbing four positions relative to the one published in May. This reflects the increasing difficulties people are experiencing in being able to afford housing, whether under ownership or rental, particularly in the case of certain groups and across an increasing range of geographical areas.⁷

Young people are one of the groups that face the greatest obstacles in being able to afford housing, and this manifests itself in the ever-increasing age at which people move out from their parents' home, or «flee the nest». In 2022, 65.9% of young people between 18 and 34 years of age had not yet done so, compared to 53% in 2008 (an increase of around 13 pps). Although several socio-demographic factors can influence the delay in the decision to flee the nest (changes in preferences, the delay of key decisions, etc.), it is clear that economic factors also play a role. These include, among others, young people's situation in the labour market (high unemployment and temporary employment, and a relatively low average wage), as well as developments in the real estate market, where home prices have outpaced young people's wages.

⁷ For a detailed analysis of how housing affordability problems are affecting different groups and geographical areas, see «The Spanish housing market: recent changes, risks and affordability problems», *Annual Report 2023*, Chapter 4, Bank of Spain.

The delay in the age at which young people flee the nest in Spain suggests a growing housing affordability issue for this group of the population



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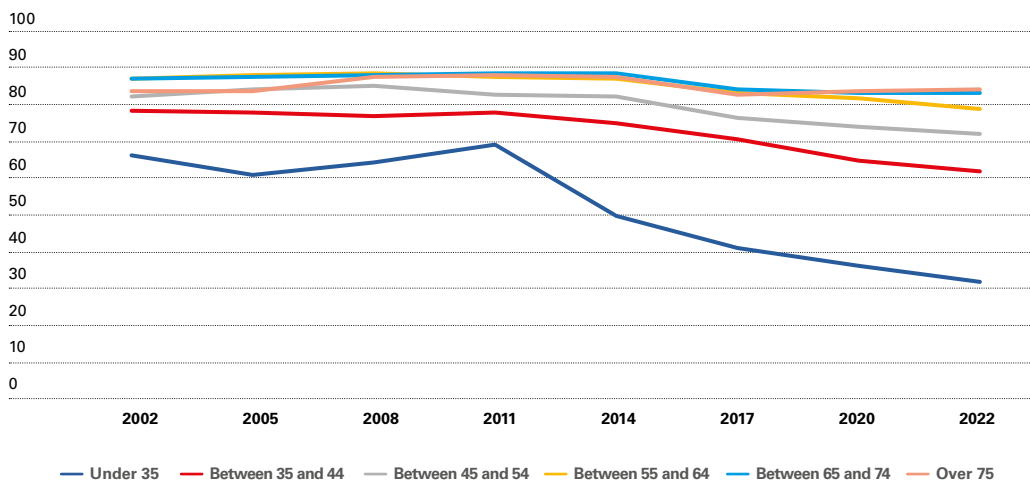
Among young people living independently of their parents, there is a marked decline in the proportion who are homeowners, having fallen from 66% in 2002 to 31.8% in 2022.⁸ Furthermore, among those who have managed to get on the property ladder, the median value of their main home has fallen significantly in the last 8 years and to a greater extent than in the case of other age groups. This suggests that young people today generally buy properties that are smaller and located in lower-priced areas than was the case a few years ago, and this has significant implications for the financial situation of these new generations: the lower rate of home-ownership coupled with this lower-value housing is widening the generational gap in terms of wealth accumulation throughout the life cycle.⁹

⁸ Data from the Bank of Spain's Survey of Household Finances.

⁹ See the article «Survey of Household Finances: Spain is not a country for the young» in the *Monthly Report* of June 2024.

The percentage of young households who own their home has fallen sharply

Households who own their main home by age group (%)



Source: CaixaBank Research, based on data from the Survey of Household Finances (Bank of Spain).

In any event, it should be noted that households with a mortgage, including young people, do not generally appear to be overburdened in meeting their mortgage payments and other housing-related expenses.¹⁰ In particular, 4.4% of Spanish households who own a home with a mortgage are overburdened, which is slightly below the 5.6% for the EU as a whole.¹¹ However, among young mortgaged households, the overburdened rate is slightly higher than that of all Spanish households, specifically 1.4 points higher.¹²

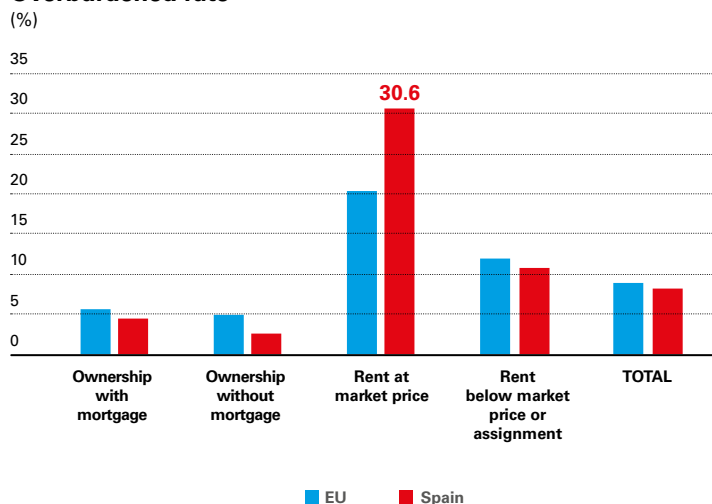
¹⁰ The overburdened rate is defined as the proportion of households that have to allocate more than 40% of their income to covering their housing-related expenses (mortgage or rent, plus utility bills).

¹¹ Data from the Eurostat Living Conditions Survey (2023).

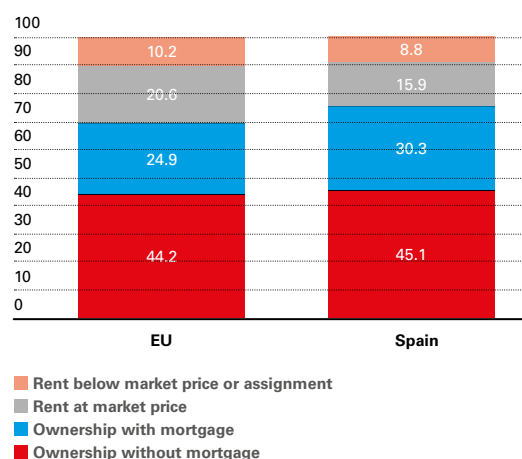
¹² Internal calculations based on micro-data from the National Statistics Institute's own Living Conditions Survey (2023).

Households who rent face greater financial challenges in meeting their housing payments

Overburdened rate



Distribution of households by tenure of their main home (%)



Notes: The overburdened rate is the percentage of households that allocate more than 40% of their income to housing-related payments. Data for 2023.

Source: CaixaBank Research, based on data from Eurostat (SILC).

In the rental market, things are different.¹³ This is due to the lower average income level among households who rent, as well as the sharp increase in rental prices in recent years, having risen by 16% between 2014 and 2022 across Spain as a whole according to the National Statistics Institute's rental price indicator. In fact, the rise in rental prices has been so significant that the overburdened rate among households who rent at market rates has become very high in Spain, at 30.6%, which is well above the EU average of 20.3%. Among specifically young people who rent at market rates, the overburdened rate is very similar to the average for the population as a whole.¹⁴

¹³ For a detailed analysis of the evolution of rental prices and the burden they represent by province, see the article «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 S2 2023*.

¹⁴ Internal calculations based on micro-data from the National Statistics Institute's Living Conditions Survey (2023).

30% of households who rent have to allocate more than 40% of their income to housing-related expenses. In contrast, households who own their home are generally not overburdened, including in the case of young people

Housing affordability problems can have adverse economic and social effects. In particular, the excess effort related to rental payments makes it difficult for these households to save, and this limits their ability to buy a home in the future. In turn, this situation can affect other vital decisions such as birth rates, workers' geographical mobility and the accumulation of human capital. In order to reverse this situation, public policies must be adopted to improve the affordability of housing, in terms of both rental and ownership, especially for the groups hardest hit (young people,



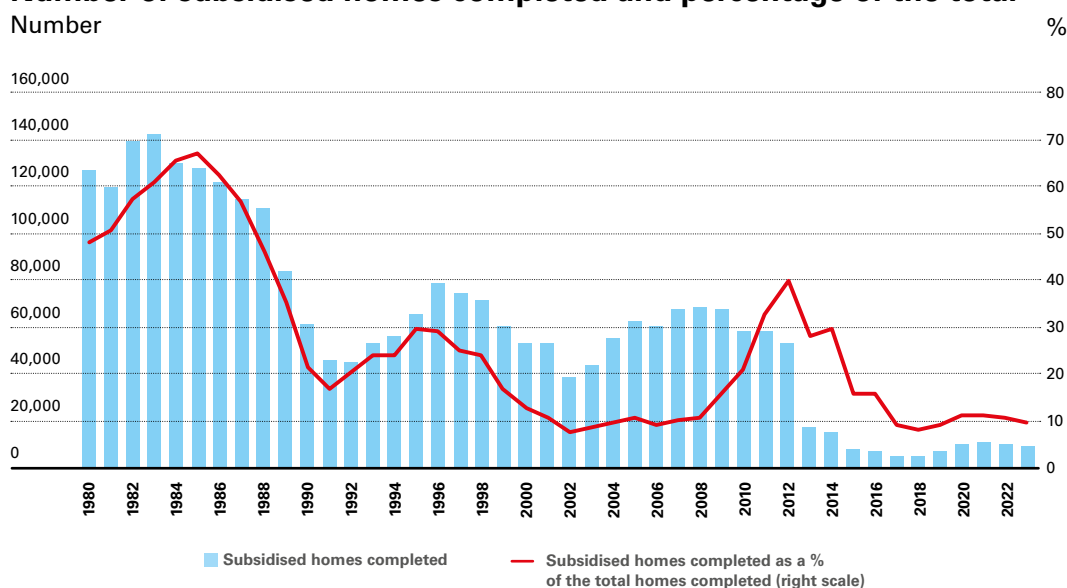
immigrants and households in the lowest income quintiles) and in geographical areas with the most acute problems (major cities and their areas of influence, and tourist areas). In this regard, the government has recently approved a line of ICO guarantees for an amount of 2.5 billion euros to support the granting of mortgages of up to 100% of the value of the home for young people and families with children who meet certain requirements.¹⁵ Such demand-side measures may help to make buying a home more attainable for a portion of the population that has sufficient payment capacity but insufficient savings. Supply-side policies are also needed; that is, policies that help to boost the supply of housing, especially affordable rental and social housing, in order to stimulate an existing stock that is insufficient to meet the needs of the population.

An insufficient supply of affordable housing

The current stock of affordable rental housing in Spain is insufficient to cover the growing demand. The latest data are not particularly encouraging: in 2023, 8,646 subsidised homes were completed. This is a similar figure to the average over the last 10 years, but well below the 60,000 a year completed during the previous decade, as we will see in detail below. In terms of tenure, 52% of the subsidised homes completed in 2023 were allocated for ownership. In other words, just over half of them were put on sale. While this falls far short of the figure of 80% recorded in 2014, it is still high in view of the shift in housing policy towards a greater emphasis on rentals. That is precisely one of the main reasons why the stock of affordable housing in Spain is so limited: historically, there has been an emphasis on subsidised housing for ownership, and this has prevented the accumulation of a significant stock of housing for rent.

¹⁵ See the website on ICO guarantees available to support young people and households with dependent minors in purchasing a home.

Number of subsidised homes completed and percentage of the total



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

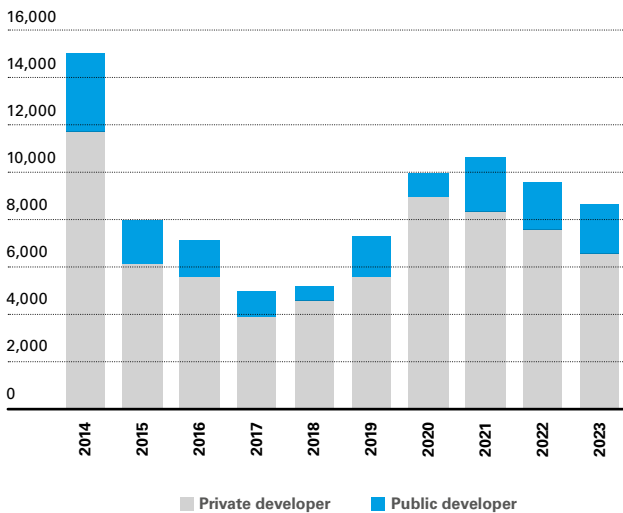
The current stock of affordable rental housing is insufficient to cover the needs of the population. Public-private collaboration is essential in order to boost supply

Since 2010, the government budget allocated to housing has been very limited. In fact, it is the private sector that develops the majority of subsidised housing (76% in 2023). This highlights how public-private collaboration is essential in a context in which the government is unable to meet the challenge of substantially increasing the number of affordable homes by itself, due to both budgetary constraints and its finite capacity to manage and execute projects. Thus, private sector involvement is essential in order to substantially boost the supply of affordable housing and, therefore, the government must establish the necessary instruments and conditions to ensure the financial viability of such operations. For instance, it could make more land available to the market for the development of affordable rental housing through concessions or land rights, it could cut planning permission processing times, increase the budget allocations for public housing policies, facilitate the conversion of buildings for housing (e.g. offices in areas of low tertiary demand and high residential demand), or increase the amount of building that is permitted in areas with high demand and a shortage of land, etc.

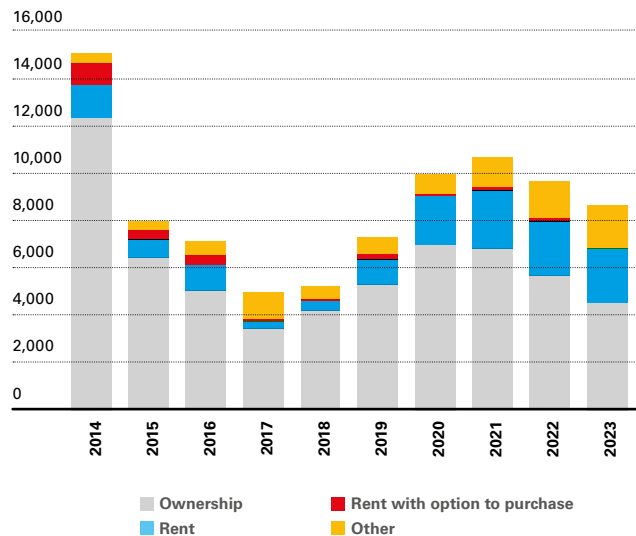


Subsidised housing (final qualifications)

By type of developer



By type of tenure

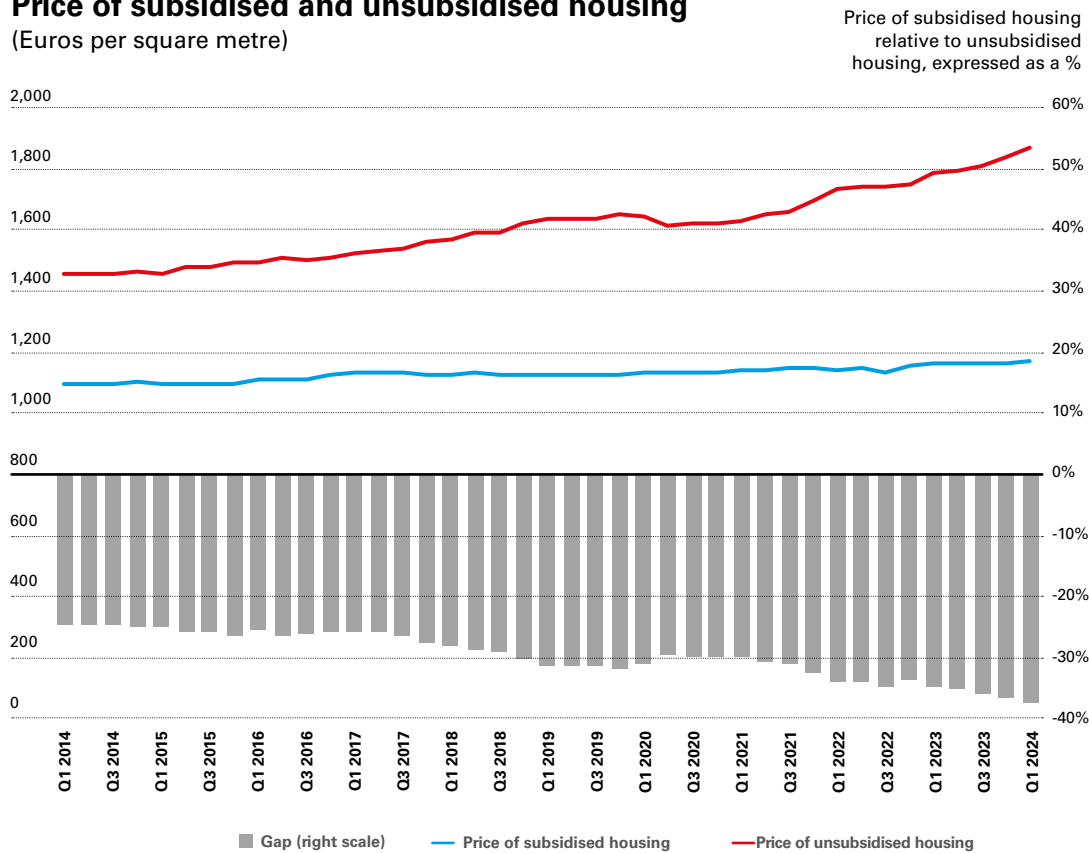


Source: CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda (MIVAU).

In affordable housing developments intended for sale, one aspect that should be taken into account to ensure their viability is to update the maximum sale price (in the case of social housing, known as VPO). In Q1 2024, the national average price of subsidised housing is around 37% below that of unsubsidised housing (vs. -25% in 2017). This gap has widened significantly in recent years due to the growth in the price of unsubsidised housing (+25% between 2014 and Q1 2024), unlike the price of subsidised housing, which has stagnated (+6.1%). Updating the maximum sale price of subsidised housing in a context marked by a sharp rise in construction costs, as several autonomous community regions such as Madrid and Cantabria have recently done, would incentivise an increase in supply.

Updating the maximum sale price of subsidised housing in a context marked by a sharp rise in construction costs, as several autonomous community regions such as Madrid and Cantabria have done, would incentivise an increase in supply.

Price of subsidised and unsubsidised housing (Euros per square metre)



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

Industrialised construction shows promise as an important ally for affordable housing

One aspect that is gaining ever greater prominence among new developments in Spain is industrialised construction. This construction method, which is based on modules that are built in a factory before being assembled on site, was originally developed almost exclusively for building detached houses. Recently, however, industrialised construction is enjoying rapid growth and it is now being applied to blocks of flats. The most common industrialised elements include façades, cladding, etc. as well as complete units such as bathrooms or kitchens.

Industrialised construction makes it possible to attract skilled and female labour to the sector, while promoting more digital and sustainable construction systems



Real Estate

Industrialised construction offers many benefits, including shorter execution times, minimised cost deviations, the generation of less waste, lower water and energy consumption in the construction process, and quality standardisation. In addition, it has been presented as the main solution to the problem of a lack of labour in the sector, with factories incorporating new, higher-skilled professional profiles (engineers, ICT specialists, etc.), while also facilitating the incorporation of women into what is a highly male-dominated sector.

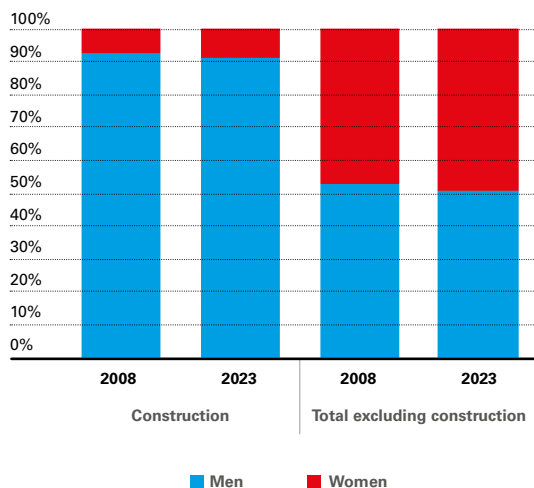
Industrialised construction also addresses the need to build in a more sustainable way, reducing the environmental impact and the consumption of energy, water and natural resources in the construction process. Moreover, the design and construction of buildings that can be dismantled prevents most of the materials that make up the building from becoming waste when they are eventually demolished; on the contrary, they can be transformed into banks of materials for future construction.

Thus, industrialised construction may be the solution that allows the sector to maintain and increase the production levels that are required to meet the current housing demand, attract young people, incorporate women into the sector, improve the working conditions of the various trades involved in the construction process and improve the sustainability of construction.

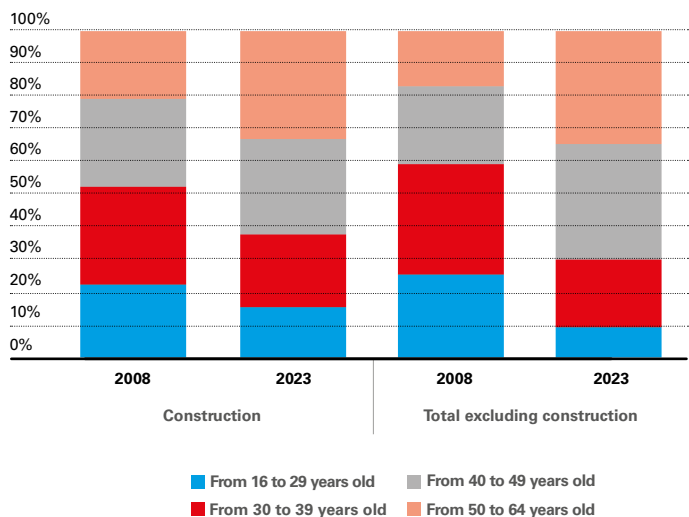
The labour force in the construction sector is highly male-dominated and ageing, although it shares the same demographic pattern with the rest of the sectors

Distribution relative to the total number of people in employment (%)

Gender



Age



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

In conclusion, solving the issue of housing affordability is no easy task and requires action to be taken on multiple fronts and over an extended time horizon. Public-private collaboration and innovation in construction methods will be key in overcoming the limitations which the sector suffers in order to substantially increase the supply of affordable housing in the coming years.

Foreign demand

What does big data tell us about foreigners who spend long periods in Spain?

Foreign visitors who stay in Spain for long periods of time are an important group of the population for the real estate market since they usually stay in second homes, seasonal rental homes or specialised accommodation (student residences or new forms of housing such as flex living or co-living), which are segments that are experiencing rising demand in Spain. In order to characterise their spending patterns and the areas they tend to frequent, we have analysed data on foreign card payments recorded on CaixaBank POS terminals, identifying international tourists who visited Spain in 2023 for a relatively long period of time, specifically between 3 and 11 months. Their contribution to total foreign card spending is very significant and has grown rapidly in recent years.

Characteristics of foreigners who visit Spain for relatively long periods

Spain's major cities and some tourist areas are transforming with the arrival of foreigners who visit Spain for extended periods of time, whether they own a second home or they come to work (digital nomads, displaced workers), to study or to pursue other activities. There has been significant growth in these types of visitors in recent years, especially since the pandemic, and this is having a significant impact on the housing market in the areas where they are concentrated.

The arrival of long-term foreign visitors is having a significant impact on the housing market



In order to analyse the differentiated behaviour of this group of foreigners and where they are located, we use data on foreign card payments recorded on CaixaBank POS terminals and identify cards with expenditure in at least 30 days over a minimum of 3 different months and a maximum of 11 months in a calendar year.¹⁶ In 2023, 1% of foreign cards meet this definition, and we will refer to them «foreigners with local ties».¹⁷ The remaining 99% of foreign cards correspond to tourists who had a shorter stay in Spain, or «sporadic foreign visitors» (visits lasting less than 3 months and/or with payments in fewer than 30 days throughout the year).

Although international visitors with local ties account for a small percentage of all foreign cards, their contribution to the total expenditure made by such cards is very high, at 8.8% in 2023. Moreover, this contribution has grown significantly since 2019, when they accounted for 0.8% of the number of cards and contributed 6.9% of the total expenditure carried out with foreign cards. The arrival of foreigners has been encouraged by favourable regulation and taxation.¹⁸

In the following chart, we can see that the spending of foreigners with local ties is distributed fairly evenly throughout the year, showing a lower seasonality than foreign cards associated with short-stay visitors. The difference is particularly pronounced during the summer months.

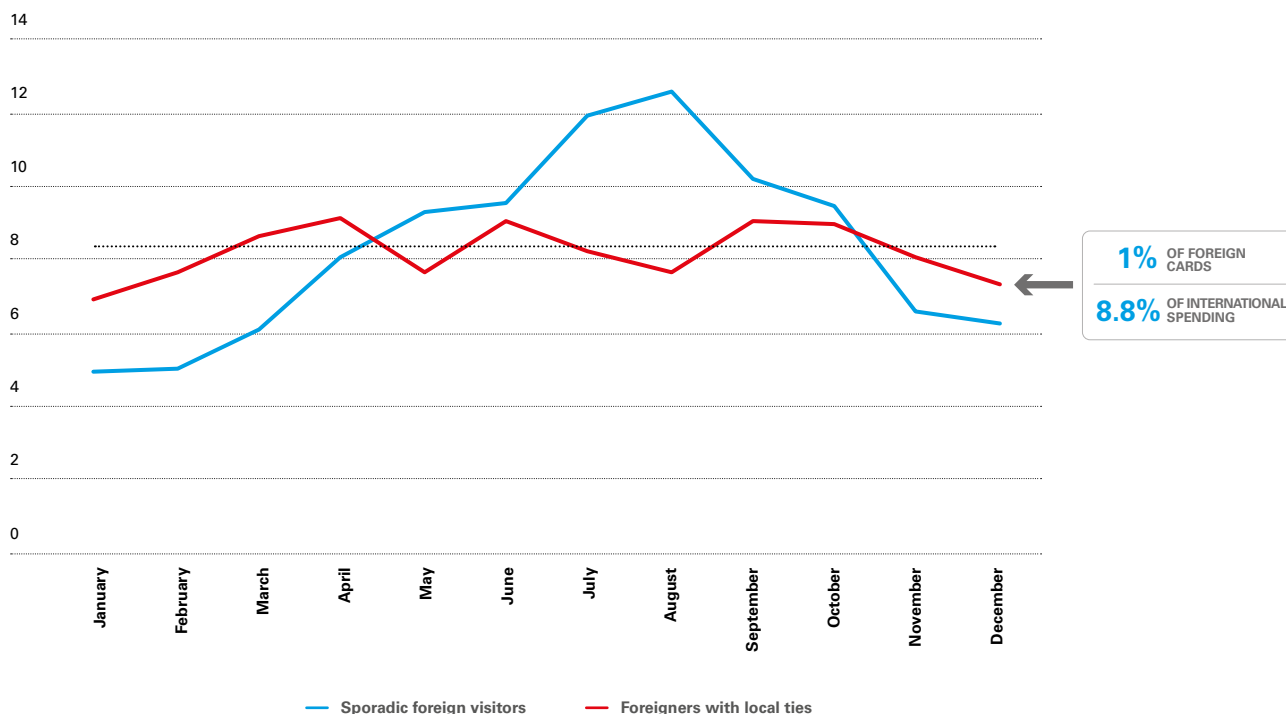
¹⁶ We do not consider foreign cards that are observed in all 12 months of the year, in order to exclude foreigners who may have a more permanent residential link to Spain. The available data (payment transactions) do not allow us to distinguish between residents and non-residents in Spain. For tax purposes, a person is considered to be resident if they spend more than 183 days in Spain during the calendar year.

¹⁷ Although this definition does not correspond to that of the Spanish National Statistics Institute (INE), conceptually we are seeking to identify the population with local ties (or the «transient population»), which according to the INE is defined as the set of people who have some kind of connection with a given municipality because they either reside there, work or study there, or tend to spend certain times of the year there (holidays, weekends, etc.). Informally they are often referred to as expats, to describe foreigners who migrate out of choice, rather than fleeing hardship in their country, and who are generally highly qualified and have a high purchasing power.

¹⁸ E.g. tax benefits under the so-called Beckham Law (special tax regime for expats), the granting of Golden Visas for real estate investors (currently being eliminated), visas for digital nomads (international teleworkers) or those for foreign investors through the so-called Startups Act.

Foreigners with local ties show less seasonality

(% of cards observed in each month relative to the total)



Notes: Data for 2023. Foreigners with local ties are defined as foreign cards with expenditure in at least 30 days and during between 3 and 11 different months throughout the year. The rest are considered sporadic foreign visitors. Cards that are observed in all 12 months of the year are excluded.

Source: CaixaBank Research, based on internal data on payments made with foreign cards on CaixaBank POS terminals.

International visitors with local ties make much longer stays (48 days on average versus 2.8 days in the case of sporadic tourists). Although their daily expenditure is lower than that of short-stay foreign tourists (35 euros per day compared to 64 for sporadic tourists),¹⁹ their total expenditure per card is substantially higher (1,729 euros vs. 180 euros). It is important to note that these figures, which are based on all the transactions observed, should be interpreted as an approximation of the total expenditure and of the duration of the entire stay. For instance, foreigners also make purchases on POS terminals of other banks, they may use several cards or have cards issued by another Spanish bank, and there may be days when they are in Spain but do not make any payments on CaixaBank POS terminals. On the other hand, there may be permanent residents in Spain or people with Spanish nationality who possess foreign cards and use them sporadically.

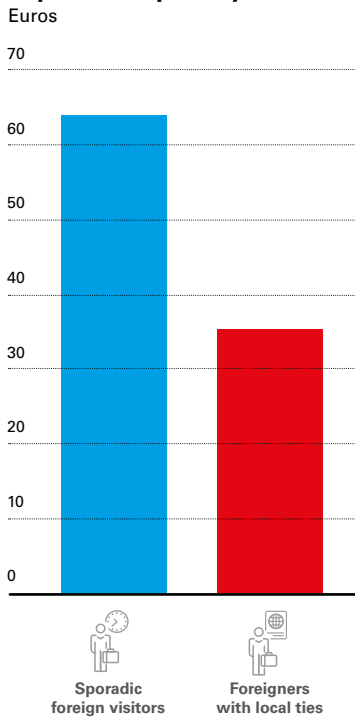
¹⁹ Aggregate expenditure data per card. The length of the stay of each card is defined based on the number of days on which transactions with that card are observed.

Although the daily expenditure of international visitors with local ties is lower than that of short-stay tourists, their total expenditure per card is substantially higher

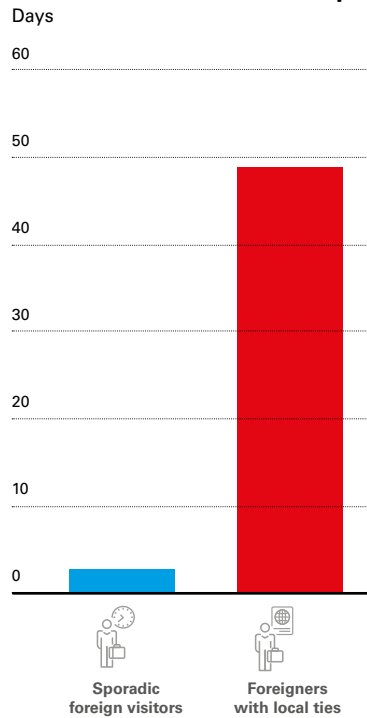


Foreigners with local ties have a high total expenditure due to the longer duration of their stays

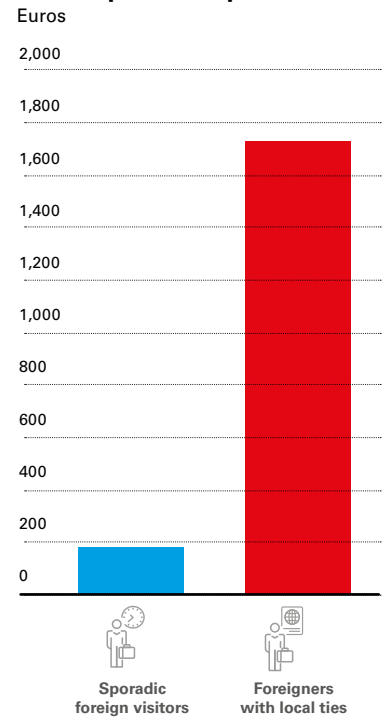
Expenditure per day



Observed duration of the trip



Total expenditure per card



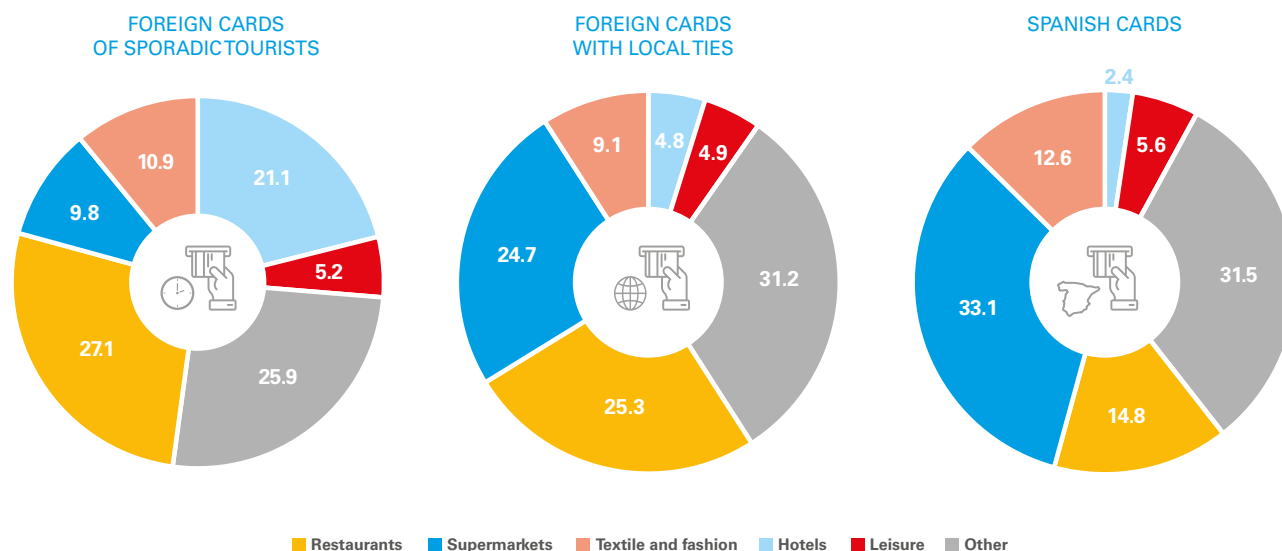
Notes: Data for 2023. Foreigners with local ties are defined as foreign cards with expenditure in at least 30 days and during between 3 and 11 different months throughout the year. The rest are considered sporadic foreign visitors. Cards that are observed in all 12 months of the year are excluded.
Source: CaixaBank Research, based on internal data on payments made with foreign cards on CaixaBank POS terminals.

If we analyse the composition of the spending recorded by each type of card, we note that foreigners with local ties spend a lot in supermarkets (25% of the total). This is a similar level to Spanish cards (33%) and much higher than that of sporadic foreign visitors (10%). In contrast, their spending at catering establishments (25% of the total) is more similar to that of sporadic foreign visitors (27%) than to that of Spaniards (15%). On the other hand, the relative weight of hotel spending (5%) is much lower than it is for sporadic tourists (27%), but it is still twice that of Spaniards (2.4%). These statistics allow us to build a profile of these types of visitors who spend relatively long periods in Spain: they show a similar level of spending on essential products to that of Spaniards, but a greater willingness to travel and, above all, to enjoy gastronomy during their stay.

Visitors who stay longer show a similar level of spending on essential products to that of Spaniards, but a greater willingness to travel and, above all, to enjoy gastronomy during their stay

Foreigners with local ties show a high level of expenditure in supermarkets and restaurants

Distribution of expenditure by type of card (% of total expenditure)



Notes: Data for 2023. Foreigners with local ties are defined as foreign cards with expenditure in at least 30 days and during between 3 and 11 different months throughout the year. The rest are considered sporadic foreign visitors. Cards that are observed in all 12 months of the year are excluded.
Source: CaixaBank Research, based on internal data on payments made with foreign cards on CaixaBank POS terminals.

It comes as no surprise that the ranking of linked foreigners is headed by French, British and American, a list very similar to that of foreign home buyers in Spain

Which nationalities tend to spend relatively long periods in Spain?

By nationality, the French, British and Americans lead the ranking of foreigners with local ties. It comes as no surprise that this list is very similar to that of foreign home buyers in Spain, which corroborates the hypothesis that many of these cards correspond to foreigners who own a second home in the country. If we look at the weight of foreign cards with local ties relative to the total number of cards (remember, this percentage increased from 0.8% in 2019 to 1.0% in 2023), we see that some nationalities account for an above-average portion and that that portion has grown significantly between 2019 and 2023. Ukraine is the nationality that stands out the most, for obvious reasons linked to the movements triggered by Russia's invasion (5.7% of Ukrainian cards are classified as having local ties and they account for 32% of the expenditure made with cards issued by this country in 2023, whereas in 2019 their presence was negligible). Also noteworthy are certain Latin American nationalities such as Mexico, Colombia and Argentina, whose presence in Spain has increased substantially since the pandemic.



Real Estate

Main nationalities of foreigners with local ties

COUNTRY OF THE CARD	NUMBER		EXPENDITURE		NUMBER		EXPENDITURE	
	(% of the total foreign cards with local ties)		(% of the total number of foreign cards)		(% of the total expenditure with foreign cards)			
	2023	2023	2019	2023	2019	2023	2019	2023
France	12.4	11.6	0.7	0.8	6.4	6.7		
United Kingdom	9.8	11.0	0.7	0.5	6.0	6.1		
United States	9.6	11.0	0.8	1.3	7.0	10.1		
Germany	9.0	10.5	0.6	1.0	5.4	9.1		
Italy	7.1	4.9	0.9	1.2	6.9	9.5		
Netherlands	5.4	5.7	0.8	0.9	7.6	8.8		
Ukraine	4.4	3.2	0.0	5.7	0.0	31.9		
Belgium	3.3	3.6	0.8	1.0	7.1	8.8		
Ireland	3.1	2.8	1.1	0.9	9.4	7.8		
Mexico	2.2	1.9	1.6	2.3	9.9	13.7		
Portugal	2.2	1.7	0.6	0.8	5.8	7.4		
Sweden	2.1	2.0	0.0	1.0	0.0	8.6		
Poland	1.7	1.4	0.9	1.0	7.5	10.5		
Norway	1.6	1.6	0.7	0.9	6.3	7.2		
Switzerland	1.5	2.7	0.5	0.7	5.6	7.4		
Finland	1.2	0.9	1.0	1.3	9.7	10.7		
Romania	1.0	0.9	1.4	1.5	11.8	13.5		
Colombia	1.0	0.7	0.6	2.0	4.4	12.0		
Argentina	1.0	0.6	1.2	1.3	8.6	9.1		
Austria	0.8	0.8	0.6	0.8	4.9	7.4		
Total	100.0	100.0	0.8	1.0	6.9	8.8		

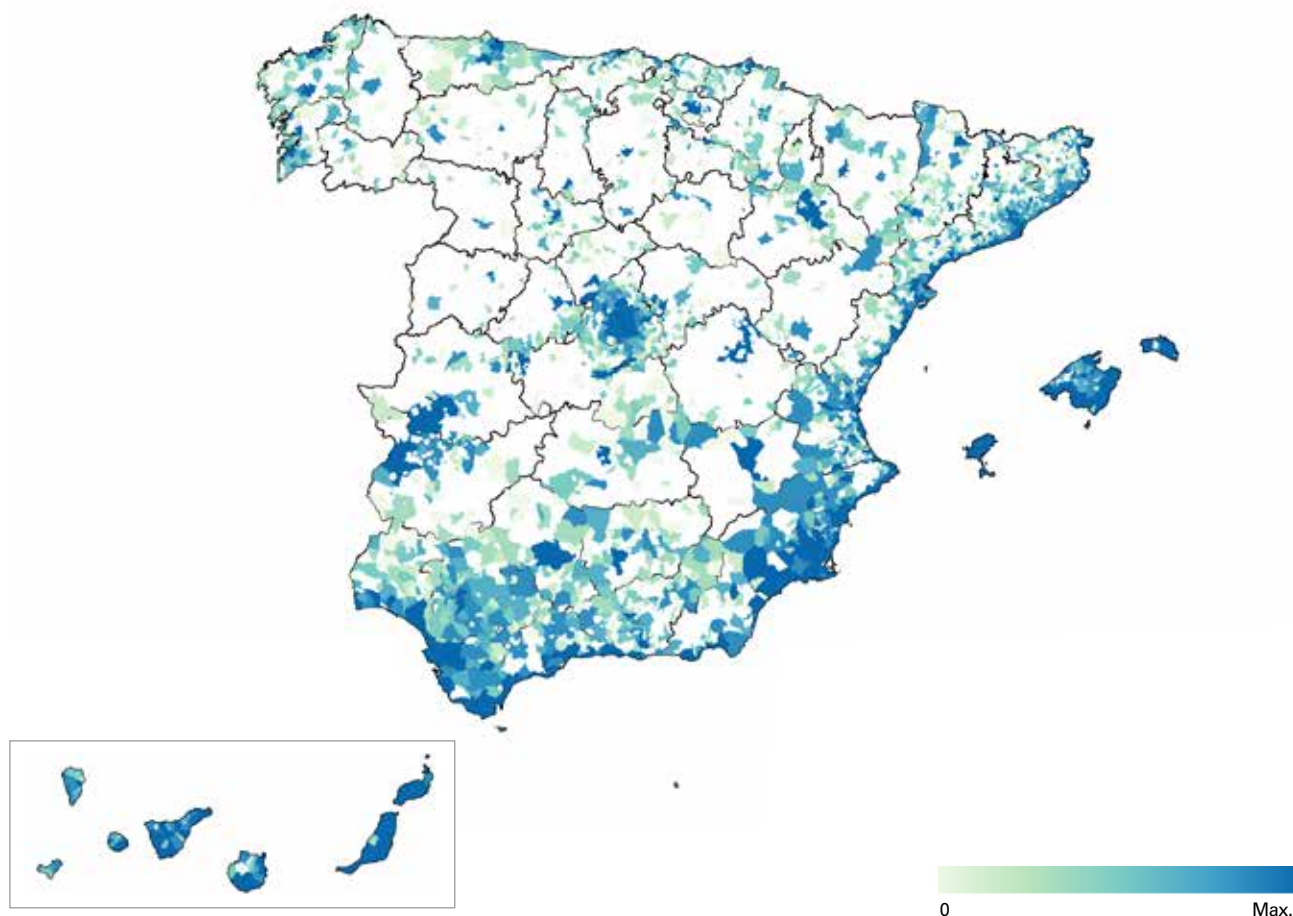
Notes: The table shows the ranking of nationalities according to the number of foreign cards with local ties in 2023. Foreigners with local ties are defined as foreign cards with expenditure in at least 30 days and during between 3 and 11 different months throughout the year. The rest are considered sporadic foreign visitors. Cards that are observed in all 12 months of the year are excluded. The cells highlighted in green and yellow indicate an above-average value.

Source: CaixaBank Research, based on internal data on payments made with foreign cards on CaixaBank POS terminals.

Where are foreigners who spend relatively long periods in Spain concentrated?

As can be seen in the map, foreigners with local ties are concentrated on the islands, along the Mediterranean coast, especially in Alicante (the province with the highest percentage of property sales involving foreign buyers) and Murcia, in some of the major urban areas such as Madrid, Barcelona, Zaragoza and Seville, as well as other provincial capitals such as Córdoba, Cáceres, Badajoz and Gijón, among others.

Distribution of foreigners with local ties in Spain by municipality



Notes: Data for 2023. Foreigners with local ties are defined as foreign cards with expenditure in at least 30 days and during between 3 and 11 different months throughout the year.

Source: CaixaBank Research, based on internal data on payments made with foreign cards on CaixaBank POS terminals.

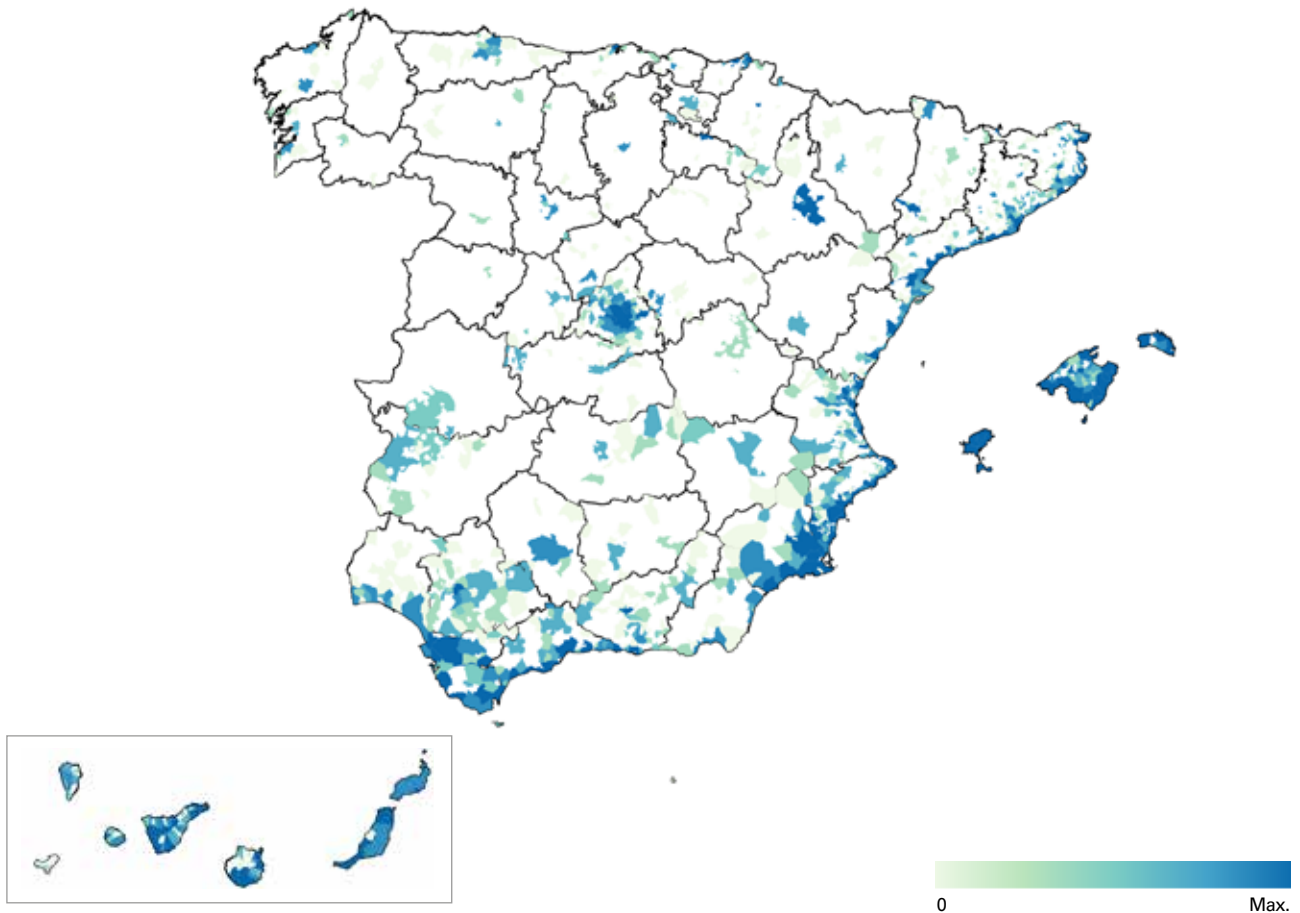
What about foreigners with local ties who have a high purchasing power?

Some of the foreigners who visit our country for relatively long periods have a significantly higher purchasing power than the Spanish average. These foreigners usually choose to buy high-value homes, a segment that is attracting significant interest in certain locations such as Madrid, the Balearic Islands, Malaga and Barcelona.²⁰ To analyse this market segment, we selected the 5% of foreign cards with local ties that had the highest level of aggregate spending. The map on the next page shows the municipalities in which the spending with these cards is recorded. The granularity of the data allows us to identify where the largest number of high-expenditure cards are concentrated. This list is topped by Ibiza town, the neighbourhood of Salamanca in Madrid, three districts in the centre of Palma de Mallorca, Sant Gervasi-La Bonanova in Barcelona, and Jávea and Orihuela in Alicante.

²⁰ According to several real estate consulting firms, the luxury housing market is enjoying a boom in Spain, attracting the interest of investors, developers and clients. Within this market, branded residences (generally associated with a hotel, offering exceptional services in unique locations) are the flagship product.



Distribution of foreigners with local ties in Spain and high purchasing power, by municipality



Notes: Data for 2023. Municipalities where the spending by foreigners with local ties and high expenditure levels (top 5%) is recorded. Se consideran Foreigners with local ties are defined as foreign cards with expenditure in at least 30 days and during between 3 and 11 different months throughout the year.

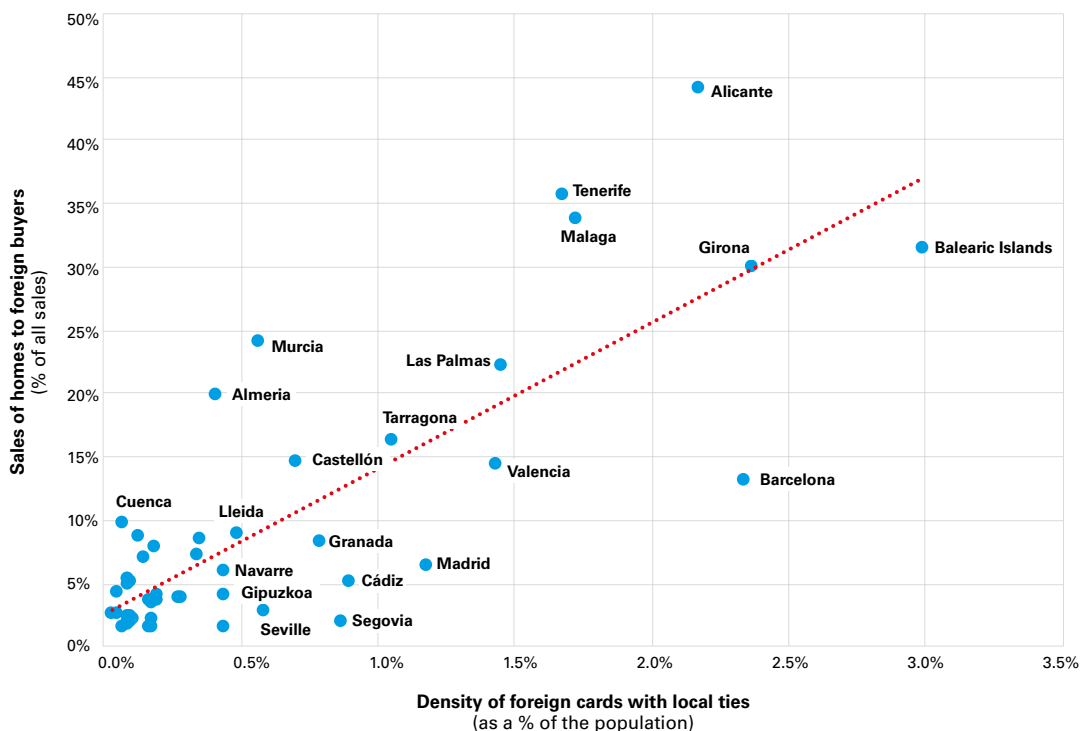
Source: CaixaBank Research, based on internal data on payments made with foreign cards on CaixaBank POS terminals.

Foreigners with local ties and second homes in Spain

Unfortunately, the available card transaction data do not allow us to determine in what type of accommodation the foreigners with local ties we have analysed stay in. However, it is to be expected that a significant proportion of them will do so in their second homes in Spain. In the chart on the following page, we show a positive and very close relationship between the percentage of sales involving foreign buyers (as a percentage of all sales in the province) and the density of foreign cards with local ties (as a percentage of the population of the province) in 2023. Unsurprisingly, the most touristic provinces have high values in both metrics.

The available data do not allow us to determine in what type of accommodation the foreigners with local ties stay in, but it is to be expected that a significant portion of them will do so in their second homes

The provinces with the highest proportion of sales involving foreign buyers also have a greater presence of foreigners with local ties



Note: Data for 2023.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE, Rental Housing Price Index) and internal data on payments made with foreign cards on CaixaBank POS terminals.

The rise of flex living

On the other hand, for foreigners with local ties who do not own a second home, a new type of specialised accommodation is emerging to cover temporary accommodation needs. On the one hand, we find segments such as student residences, which are usually linked to universities themselves and remain in short supply despite the recent growth.²¹ On the other hand, we find new forms of accommodation such as flex living and co-living which also tend to offer temporary rentals. This is a hybrid concept between a hotel and a residential building, which is managed professionally and offers access to services (common areas, gym, barbecue, etc.) and belongs to a community of residents. This segment is currently experiencing rapid growth in Spain due to high demand, since it is well suited to meet emerging needs and new realities in society, as well as growing supply thanks to the appetite shown by investors for this type of property.²²

²¹ See «Tendencias CBRE en Living 2024» and «The Flex living market in Spain», JLL, May 2024.

²² According to the real estate consulting firm CBRE, the stock of flex living accommodation has increased four-fold since 2020 and is expected to reach 23,000 beds by 2026. According to JLL, Madrid is the Spanish city with the largest offer of flex living, with 6,000 beds available and an expected future supply of 16,000. It is followed by Barcelona, with around 2,300 beds today and some 2,600 in the pipeline.



Sustainability

How is climate change impacting the real estate sector?

Climate change poses risks for the real estate sector that constitute a crucial challenge not only to the sector itself, but to the whole of the Spanish economy. Risks associated with extreme weather events can have an impact on property values and home insurance premiums, as is already happening in certain regions. Furthermore, the sector will have to adapt to stricter regulations that will allow it to become carbon neutral by 2050. To address the magnitude of the challenges associated with climate change, public policies must act in a variety of areas. These could range from improving the information available for economic agents to make informed decisions, to facilitating the conversion of the housing stock to cut greenhouse gas emissions, and encouraging the investments needed to mitigate the impact of physical risks. It is also imperative that these transitional measures be accompanied by mechanisms to mitigate their impact on the most vulnerable households, ensuring an efficient and fair climate transition.

Climate change poses significant risks to the real estate sector, in the form of both physical and transition risks. These risks are a crucial challenge not only for the real estate sector, but also for the entire Spanish economy, given the important role that real estate assets play in households' wealth and on financial institutions' balance sheets.²³ Understanding and managing these risks will be essential for achieving a successful climate transition in the sector, as well as for minimising the costs and risks to financial stability and to the wider economy.

The physical risks of climate change and their impact on the real estate sector

The physical risks associated with climate change refer to the economic costs and financial losses resulting from the increasing severity and frequency of climate or weather events related to climate change.²⁴ They are considered to be acute when triggered by extreme weather events such as heat waves, landslides, floods, wildfires and storms; and chronic when they arise from more gradual and long-term climate changes, such as variations in precipitation levels, ocean acidification, or rising sea levels and average temperatures.

²³ 75.7% of Spanish households' total wealth is held in real estate (based on data from Q4 2023), and the outstanding balance of mortgage loans represented 31.2% of GDP in Q1 2024, according to the Bank of Spain (Summary Indicators).

²⁴ Definition according to the Basel Committee on Banking Supervision (BCBS), which coincides with that of the Task Force for Climate Related Financial Disclosures (TCFD).

Extreme climate events are usually associated with a decrease in the value of the homes affected by such events

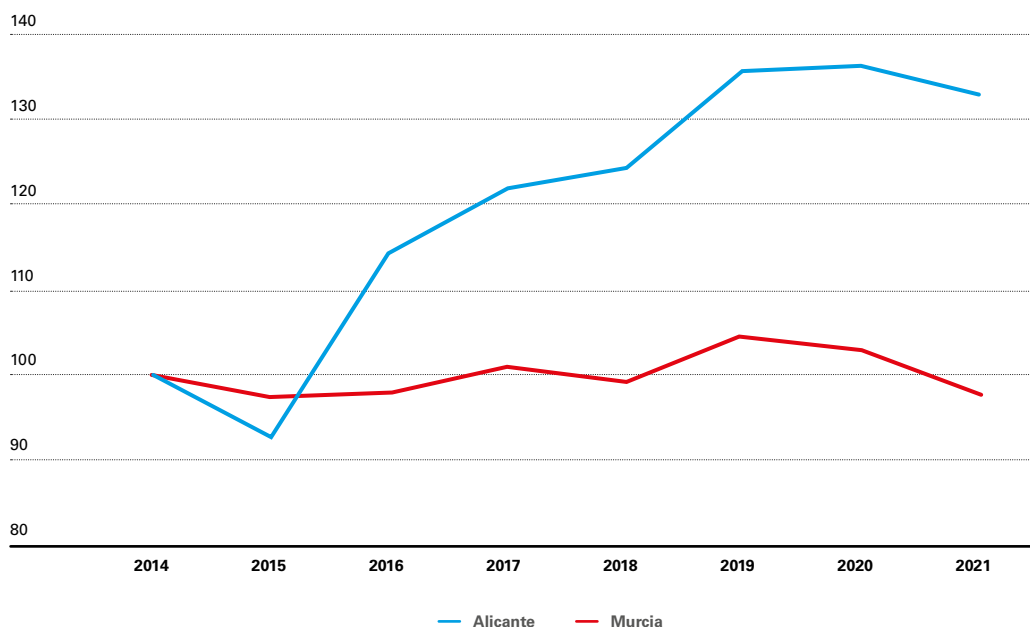
Several studies show that the materialisation of physical risks can significantly reduce the value of homes, either because of direct damage or due to the emigration of the population from the affected areas after an event. In Spain, recent reports have analysed the economic impact of the ecological degradation of the lagoon known as the Mar Menor in the Murcia region,²⁵ which according to the Bank of Spain has caused losses in the value of the homes in the affected area amounting to 4.15 billion euros over a period of six years (2016-2021).²⁶ As can be seen in the chart, since 2016 there has been a negative impact on the change in prices per square metre of homes sold in the vicinity of the Mar Menor in relation to unaffected areas in southern Alicante, which equates to a 45% loss of increase in value in the affected area.

²⁵ Although the ecological degradation of the Mar Menor cannot be considered a direct consequence of climate change, analysing the economic impact of environmental disasters is a useful way to approximate the potential impact that extreme weather events can have.

²⁶ M. Lamas Rodríguez, M.L. García Lorenzo, M. Medina Magro et al. «Impact of climate risk materialization and ecological deterioration on house prices in Mar Menor, Spain». *Sci Rep* 13, 11772 (2023).

Median price per square metre of housing in post codes affected (Murcia) and unaffected (Alicante) by the ecological catastrophe in the Mar Menor

Index (100 = 2014)



Source: Bank of Spain.

In the home insurance market, the risks posed by climate change are beginning to materialise



Although the materialisation of physical risks can significantly reduce the value of homes, the literature suggests that these risks are not fully reflected in market prices prior to their occurrence.²⁷ This market failure can lead to sub-optimal decisions, such as encouraging investment in areas with a high exposure to climate risks (areas susceptible to flooding, developments close to large forest masses, etc.), which could amplify the economic value of such losses. In this regard, public policies ought to be directed towards generating high-quality and highly granular information on the climate risks affecting each area,²⁸ thus allowing agents involved in the housing market to make more informed decisions and to manage these risks more efficiently. Increasing the quantity and improving the quality of information is particularly important in this area due to cognitive biases related to climate events. In particular, individuals tend to underestimate low-probability, high-impact events, and this can lead to suboptimal decision-making when it comes to buying or valuing properties.²⁹

Increased physical risks can also lead to higher home insurance premiums. In more extreme cases, there are even areas where homes have become uninsurable. A prime example is that of the US, where in states such as California and Florida a growing number of homes cannot get insurance in the private market, leading the government to intervene as a last-resort insurer. In these two states as a whole, the value of the homes insured by the public sector has increased from 160 billion to 633 billion between 2017 and 2024.³⁰ Although home insurance is crucial for ensuring that households are resilient to climate risks, this policy of providing public insurance in areas that are highly exposed to climate change not only burdens governments with significant risks, but it could also push households to assume more climate-related risks than if they were to internalise the costs involved. In this regard, it is very important that public sector interventions are geared towards mitigating climate risks and that incentives which can lead to excessive risk-taking are avoided.

²⁷ Gourevitch *et al.* «Unpriced climate risk and the potential consequences of overvaluation in US housing markets». *Nature Climate Change*, 2023.

²⁸ For example, creating accessible and up-to-date databases on climate risks by region or adapting the regulations on property appraisals so that climate risks can be taken into account more explicitly when making valuations.

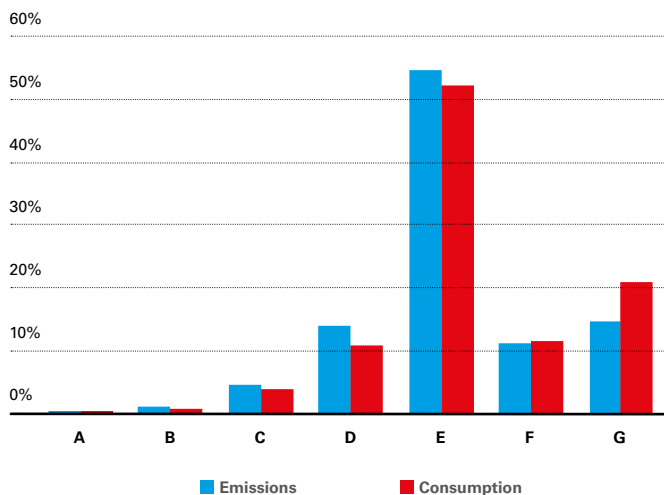
²⁹ See Haines *et al.* «Explaining the description-experience gap in risky decision-making: learning and memory retention during experience as causal mechanisms», *Cognitive, Affective, & Behavioral Neuroscience*, 2023, and Barron and Ursino «Underweighting rare events in experience based decisions: Beyond sample error», *Journal of Economic Psychology*, 2013.

³⁰ Sum of the assets insured by Citizens Property Insurance Corporation and the California FAIR plan in early 2024. See «The next housing disaster», *The Economist*, April 2024.

Spain's housing stock is not energy efficient and housing refurbishments have not taken off

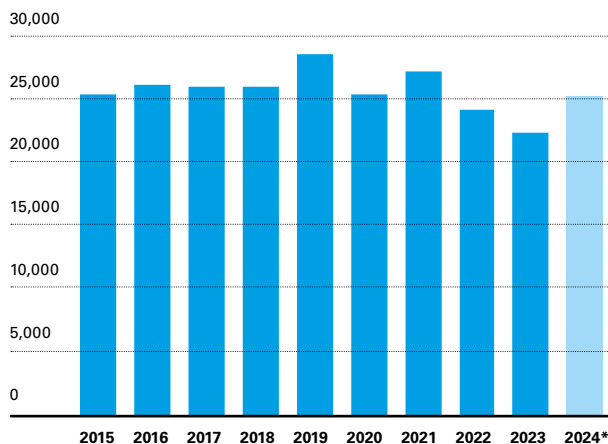
Homes classified according to their energy performance certificate in 2022

(% of all homes)



Source: CaixaBank Research, based on data from the Institute for the Diversification and Saving of Energy (IDAE) and the Ministry for the Ecological Transition and the Demographic Challenge.

Number of home refurbishment permits granted



Note: *The figure for 2024 is estimated by extrapolating the growth experienced between January and April (13.0%) across the whole year.
Source: CaixaBank Research, based on data from the Ministry of Housing and Urban Agenda (MIVAU).

The transition risks of climate change and their impact on the real estate sector

Transition risks relate to the costs associated with adapting to a low-carbon economy. They range from regulatory, legal and technological risks (a new technology displaces old technology, causing disruptions) to market risks (changes in the supply and demand of commodities, etc.) and reputational risks. For the housing market, the most relevant transition risks are the implementation of stricter regulations aimed at reducing greenhouse gas emissions and the need to adapt homes to new energy standards.

In 2023, the European Commission approved a revised Energy Performance of Buildings Directive (EPBD) with the aim of ensuring that the housing sector contributes to achieving climate neutrality by 2050 and to cutting CO₂ emissions by 55% by 2030. The housing sector is key to reducing emissions, since, according to the same directive, European buildings consume 40% of all energy in the EU and produce 36% of the bloc's emissions. This directive requires the primary energy consumption of residential buildings to be reduced by at least 16% by 2030 and by between 20% and 22% at least by 2035. Meeting these goals will require both renovating the existing housing stock and ensuring the energy efficiency of newly built housing, which according to the same directive will have to be entirely zero emissions by 2030. Although the directive does not specify sanctions, it is the responsibility of each Member State to take actions in order to achieve the objectives that have been set.



Complying with this directive will require a major effort, as the current housing stock has a very low level of energy efficiency. Today, 25.6% of dwellings have an F or G rating for emissions, and only 19% have a D rating or higher. Despite the imperative need to renovate the housing stock in Spain, this process is currently stagnant at around 25,000 homes per year, according to the home refurbishment permits granted by the Ministry of Housing and Urban Agenda (MIVAU). In this regard, the disbursement of NGEU funds available for the economic and social recovery programme in residential settings ought to be accelerated. According to the AIReF³¹ Recovery, Transformation and Resilience Plan (RTRP) Observatory, only 18% of the 6.187 billion euros allocated to renovations and urban regeneration (component 2 of the RTRP) had been formalised by April 2024.³²

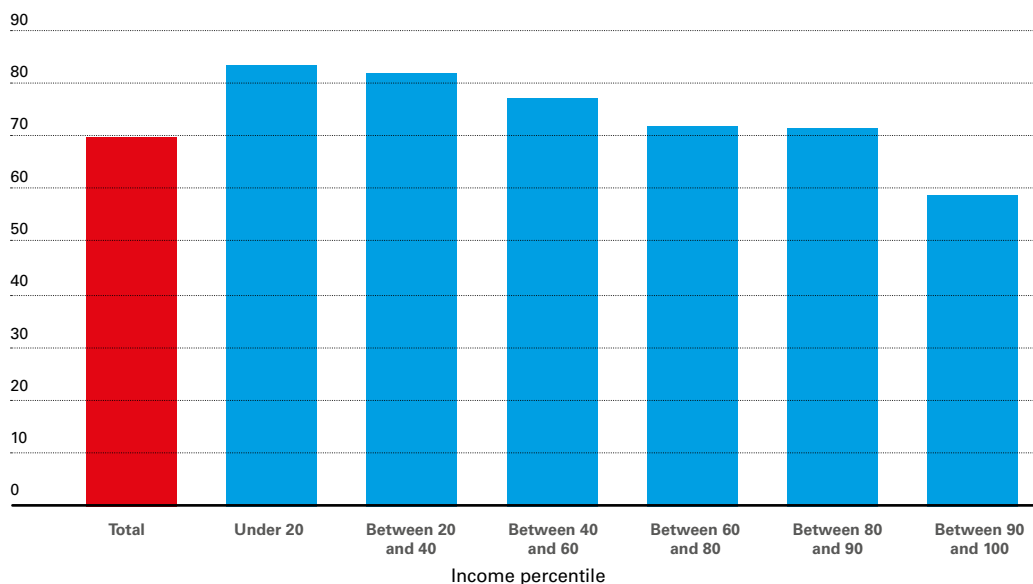
³¹ AIReF, RTRP Observatory.

³² According to the General Comptroller of the State Administration (IGAE), payments made under the category «C02. I01 Renovation and economic and social recovery of residential environments» amount to 676.6 million euros in 2022, 384.3 million in 2023 and 150 million in January-April 2024.

The climate transition in the real estate sector must be managed taking into account the significant wealth distributional implications that it entails: the most humble households are the ones most vulnerable to climate change

It is important to note that low-income households are more affected by the risks posed by climate change. On the one hand, housing accounts for a higher percentage of their gross wealth: 83.5% of their gross wealth is held in real estate assets, compared to 58.7% among households in the top income decile. On the other hand, as stated in Directive 2024/1275 on the energy efficiency of buildings, the most modest households tend to live in homes that are in poorer condition and have lower energy performance ratings.

Spanish households' wealth held in real estate assets by income level (% of total assets)



Source: CaixaBank Research, based on data from the Bank of Spain's Survey of Household Finances (2022).

From an economic policy perspective, subsidising investments for adapting to climate change is desirable for two key reasons. The first is that increasing a home's energy efficiency has positive effects for wider society. The second is that investments to improve energy efficiency can be unaffordable for households on more modest incomes. Therefore, transitional measures should be accompanied by a mechanism of grants or subsidies that facilitates them and mitigates their impact on the most vulnerable households.



Indicators and forecasts

Annual change (%), unless expressly indicated

	2000-2007 average	2008-2014 average	2015-2021 average	2022	2023	2024 forecast ¹	2025 forecast ¹	Trend
Activity indicators								
Total GDP	3.7	-0.9	1.2	5.8	2.5	2.4	2.3	☀️
GVA in construction	3.3	-8.6	0.1	3.2	2.3	2.7	3.1	☀️
Investment in construction	5.6	-8.9	2.4	2.6	2.3	2.9	3.1	☀️
Investment in housing	7.4	-8.5	3.8	1.4	0.6	1.4	3.3	☀️
Investment in other construction	3.3	-8.6	0.1	3.2	2.3	4.8	3.0	☀️
Construction permits granted (thousands)	642	94	85	109	109	115	125	☁️
Construction permits granted	3.0	-34.2	17.6	0.6	0.5	5.0	8.7	☀️
Works completion certificates (thousands)	482	230	66	89	88	105	113	☀️
Works completion certificates	9.0	-31.2	10.0	-2.5	-1.7	19.9	7.1	☁️
Confidence in the construction sector (level) ⁵	13.1	-41.7	-17.7	8.9	8.7	7.6	-	☀️
Labour market								
Total registered workers	3.5	-2.1	2.3	3.9	2.7	2.5	2.1	☁️
Registered workers in construction	6.1	-13.5	3.9	3.5	3.8	3.7	3.2	☀️
Construction of buildings	-	-14.4	5.2	4.3	4.2	4.0	3.6	☁️
Civil engineering	-	-16.4	1.0	4.9	7.4	7.3	6.8	☀️
Specialist construction act.	-	-8.9	3.3	2.9	3.5	3.3	2.9	☁️
Registered workers in real estate act.	10.3	-12.3	4.9	5.5	3.8	3.7	3.2	☀️
Total people in employment (LFS)	4.3	-2.4	1.9	3.6	3.1	2.4	2.0	☁️
People employed in construction (LFS)	7.0	-13.5	4.1	3.0	3.2	2.5	2.1	☀️
Temporary employment rate in construction (%) ⁵	57.6	39.6	39.8	25.8	18.0	15.6	-	☀️
Unemployment rate in construction (%) ⁵	7.5	22.8	11.8	7.6	7.1	8.3	-	☀️
Housing demand								
Sales ² (thousands)	775	388	463	650	585	564	566	☁️
Sales ²	-0.1	-8.7	8.1	14.8	-10.0	-3.6	0.3	☀️
New homes ^{2,5}	12.1	-13.4	6.8	2.1	-4.3	9.0	-	☀️
Existing homes ^{2,5}	-7.8	-5.0	8.4	18.0	-10.4	-1.3	-	☀️
Sales to foreign buyers ³	-	2.0	6.0	30.7	-8.5	0.0	0.3	☀️
Sales to buyers for second homes ⁴	-	-10.5	7.1	6.5	-7.1	-9.2	2.5	☀️
Prices								
Home prices (MITMA)	12.3	-4.8	1.8	5.0	3.9	4.4	2.8	☀️
Home prices (INE)	0.0	-6.1	4.6	7.4	4.0	5.0	2.8	☁️
New home prices ⁵	-	-4.4	6.0	7.9	8.0	10.1	-	☀️
Existing home prices ⁵	-	-7.5	4.3	7.3	3.2	5.7	-	☁️
Price of land	18.8	-8.8	0.5	5.0	-2.8	4.0	2.5	☁️
CPI for rent ⁵	4.3	1.3	0.6	1.3	2.0	2.1	-	☀️
Affordability ratios								
Cost of housing (% of gross disposable income)	6.7	7.9	6.9	7.5	7.3	7.0	6.9	☀️
Theoretical effort (% of gross disposable income)	37.8	38.7	30.2	31.8	37.2	34.8	33.3	☀️
Rental yield (%) ⁵	4.5	3.5	4.1	3.6	3.4	3.4	-	☀️
Financing⁵								
Number of mortgages	5.8	-22.7	10.8	11.0	-18.0	-1.1	-	☁️
Outstanding balance of home loans	21.9	-0.3	-2.1	0.8	-2.7	-2.5	-	☁️
New home loans	17.7	-26.7	15.6	9.8	-18.6	13.1	-	☁️
Outstanding balance of developer and construction loans	37.3	-10.1	-9.6	-6.7	-5.6	-5.8	-	☁️
Home loan default rate (%)	0.5	3.5	4.2	2.7	2.5	2.7	-	☀️
Developer and construction loan default rate (%)	0.5	20.2	16.1	4.8	4.0	3.7	-	☀️

Notes: 1. Forecasts as of 30 June 2024. 2. The 2000-2007 average for home sales corresponds to the period 2004-2007 and the data are obtained from the Ministry of Housing and Urban Agenda (MIVAU). From 2007 onwards, sales data obtained from the Spanish National Statistics Institute (INE). 3. Sales to foreign buyers according to the Ministry of Housing and Urban Agenda (MIVAU). 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 «2024 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 Housing and Urban Agenda (MIVAU), the Ministry of Employment and Social Security and the Bank of Spain.

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