

Housing in Spain

Presented by:
Ignacio Romero



- 1. A snapshot of the housing market in Spain.**
- 2. Macro environment.**
- 3. Demographics.**
- 4. A housing deficit.**
- 5. Transaction and prices.**
- 6. Identifying the causes of the lack of supply.**
- 7. Increasing supply is the key.**



1. A snapshot of the housing market in Spain.

Size and type of housing.

- Approx. 27 M dwellings (of which 70% primary).
- **Apartment** buildings (66% of the population lives in flats).
- **Small** size: median size is 76-90 sqm.
- **Ageing** housing stock (c. 43 years).

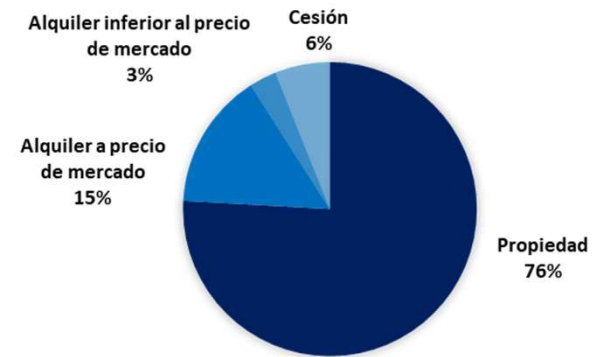
Tenure regime.

- **Home ownership** is 76% (European average is 70%).
- Downward ownership trends since GFC.
- **Renting**: high penetration among younger people and foreigners (>60% foreign households; >50% young people under 29 years old).

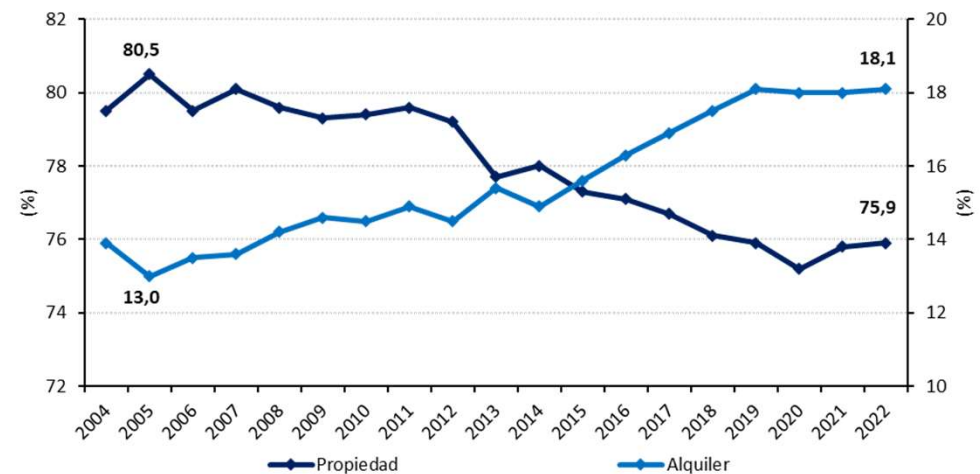
Property seen as an element of wealth and investment.

- Property accounts for about 70% of the value of total household assets.

Households by tenure (2022)



% of households owning/renting in Spain (2004-2022)



2. Macro environment.

Economic growth and employment.

- Employment and economic growth support demand.
- Consensus 2024 GDP estimates up from 1,3% in January to 2,6% now, well above the EU average.
- 2025 GDP growth also well above EU average.
- Employment is concentrated in main cities and tourist areas.

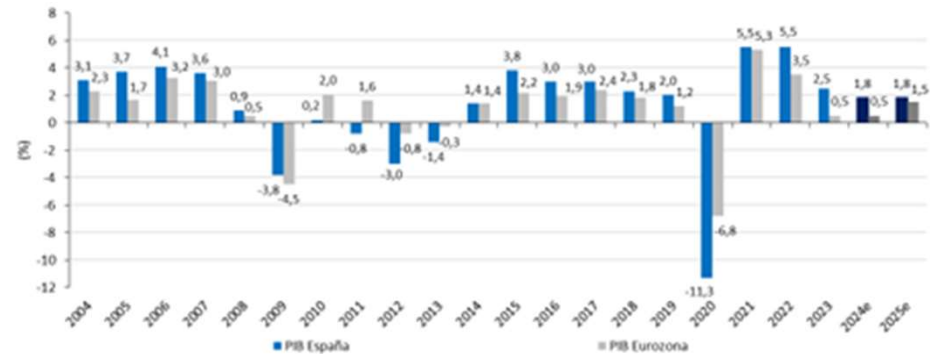
Inflation and rates.

- Inflation now seems under control in Spain, but looking forward loose monetary policy might overheat the economy.
- Mortgage prices went from 1.4% to 4.0% in just 2 years.
- But rates are now going down again.

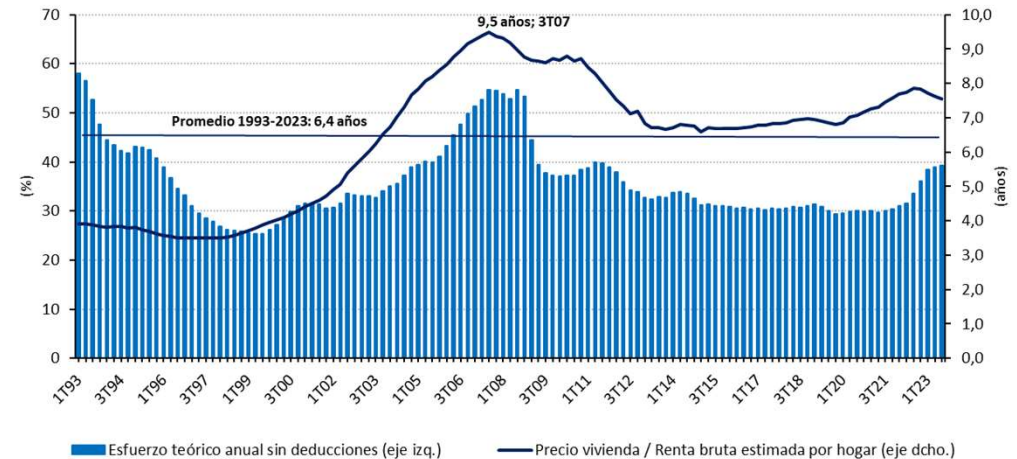
Implications.

- 5 (out of 17) regions generate >70% of new employment.
- Increased demand for housing in these areas (tensioned).
- Lower leverage buyer profile.
- Increased effort rates but still well below peak.

GDP growth is above the EU average.



Evolution of household effort for house purchase.



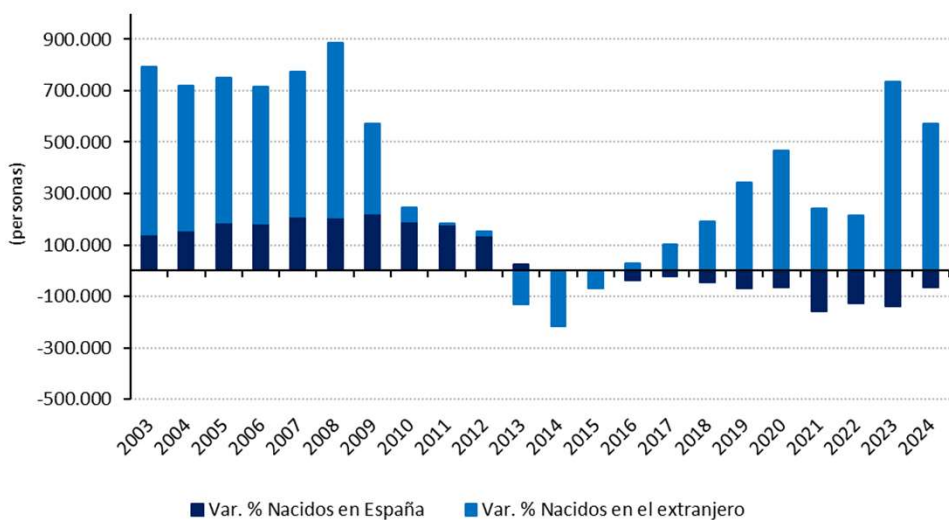
3. Demographics.

Growth is dependent of immigration and concentrated in a few provinces

Negative vegetative growth.

- Since 2015, Spain has experienced negative vegetative rates.
- Demographic growth is dependent on immigration.
- Large swaths of Spain are losing population - “Empty Spain”

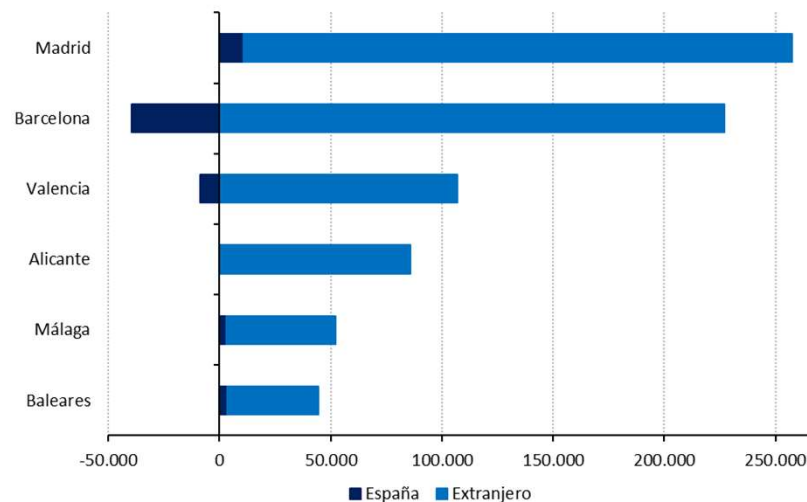
Annual change in the Spanish resident population.



Immigration and its geographical concentration.

- Employment hotspots (possible rent tensions).
- Coastal areas (possible price tensions).
- **2/3 of population** growth is accounted for by 6 provinces (out of 50).

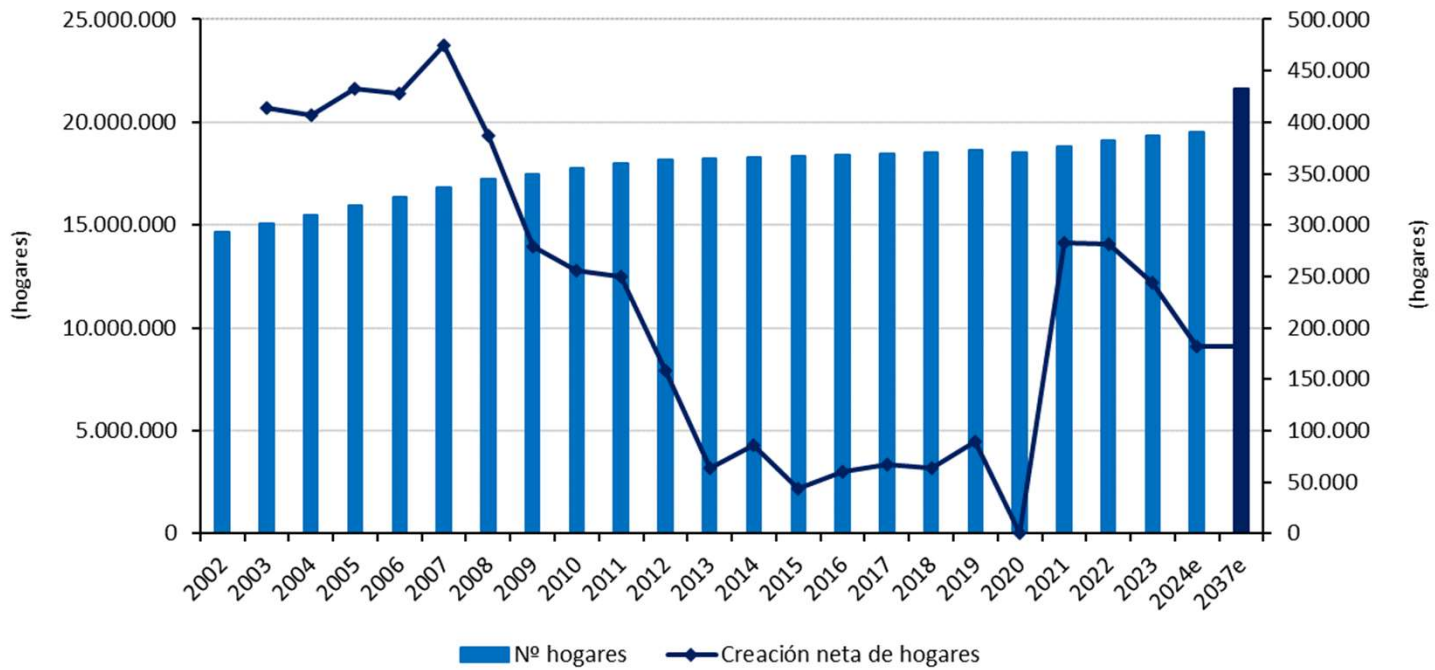
Provinces with the highest population growth (2022-24) by place of birth.



3. Demographics.

INE estimates an increase of 2,7 M households (+14.5%) between 2022 and 2037, c.182 k new households per year

Number and net creation of households.



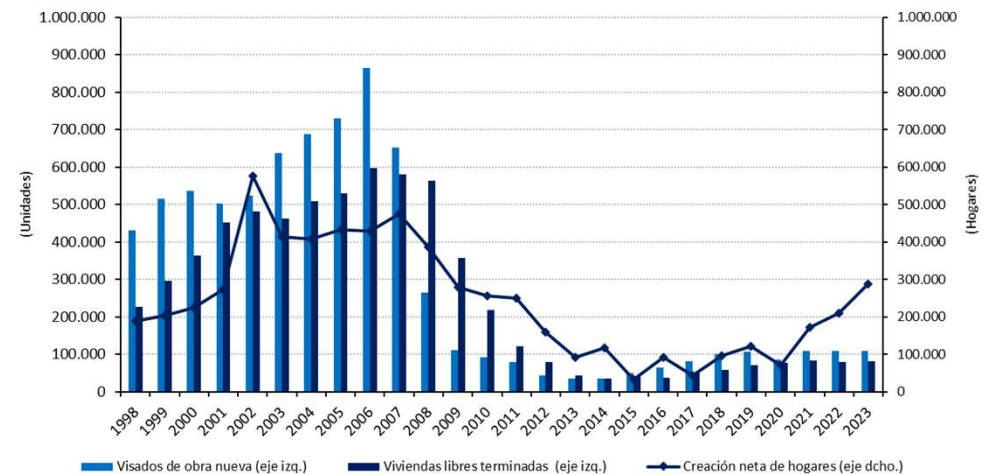
But the estimate is based on current trends (volatility)

4. A housing deficit.

Supply shortage.

- Current supply does not meet an increasing demand due to household and economic growth.
- Less than 100.000 units have been completed annually in Spain since 2011.
- After the pandemic, more than 200,000 households were created each year in Spain.
- Going forward >182,000 K per year are expected with c.50% of growth concentrated on the 4 largest regions.

New Building Permits, Completed Units and Net Household creation (1998-2023).



5. Transaction and prices.

Transactions have been moderating since an extraordinary 2022.

- **Less leveraged demand profile.**
- High proportion of **international demand** (1 out of every 5 homes transacted is bought by a foreigner).
- **Ratio of new housing / total transactions at historic lows** (9.4% of total in 2023; historic 25.6%).
- Madrid, Barcelona, Alicante, Valencia, Malaga, Seville and both archipelagos **represented more than 50% of all housing transactions** in Spain for past several years.

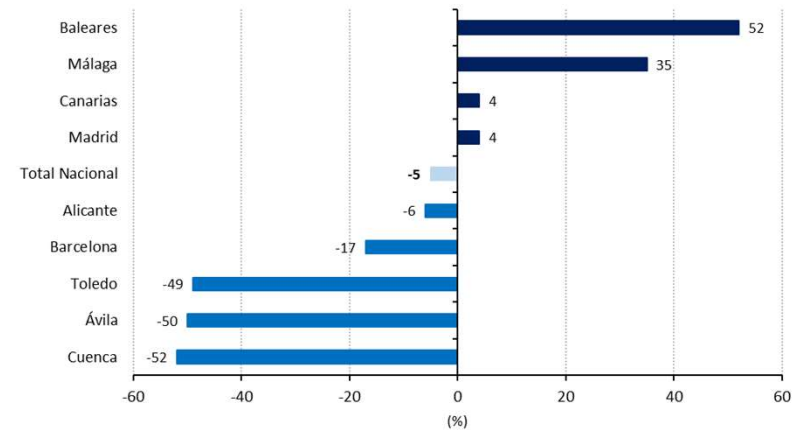
Prices are rising moderately.

- **Existing homes prices still below 2007 peaks** (-5%).
- Big differences between regions.
- Balearic Islands, Malaga, Canary Islands and Madrid above.

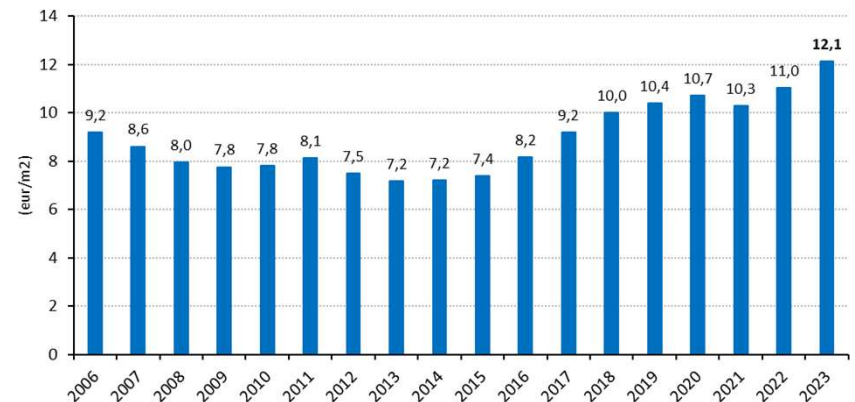
Rentals prices at record highs.

- **Lack of supply** driving rentals prices.
- **Stock at lows** (0.67% in 2023).

House prices (%): 4Q'23 vs 2007-2008 peak.



Evolution of the average price of rented housing at national level.



6. Identifying the causes of the lack of supply.

The main causes:

- **Lack of ready-to-build-land** (in the most demanded areas) and obstacles to investing in the sector.
- **Overregulation**: housing law is shared by the local, regional and, increasingly, national governments.
- **High regulatory/political risk** upon a change in government.
- There is also **significant legal risk**, as in Spain is very easy to challenge an urbanistic law in court (generates delays).
- Local municipalities are also **slow granting building permits**.
- The above makes for a **very complex and slow zoning process**, and a higher execution risk premium that is **a drag on Investment**.
- The market is quite fragmented, with the top 5 home builder having a relatively low combined market share.
- Access to financing has been limited, although it is improving, for the smaller home builders.
- Covid-19 and the spike in building materials costs have also affected production numbers in the last 4 years.



7. Increasing supply is the key.

Increasing supply is the obvious solution to the current housing shortage.

- **Streamlining and simplification of bureaucratic procedures** to reduce land and housing production times.
- Create an environment of **legal certainty** for all market players.
- **De-risk the generation of ready to build land.** The above-mentioned measures should **reduce the risk premium of investing** in the early phases of the development cycle.
- **Support the construction of affordable housing.**
- Need to strengthen and **improve public-private partnerships** (Plan Vive, a successful example).
- Facilitate the **conversion of** office buildings and commercial space into housing (Atlas RE estimates the real potential in Madrid, Barcelona, Malaga and Valencia at around 93,000 units).
- **Other measures on the fiscal side** (tax relief).



The end

