Key points

Economic growth will moderate in 2023 (1.6%), although recession has been avoided and activity accelerates in the first quarter of the year. This is due to the European economy's capacity to avoid scenarios of restrictions in energy use and the decrease in the cost of generating energy.

The strength of activity has kept inflation relatively high, which has led to a larger increase in interest rates than expected a few months ago, which could push the 12-month Euribor to around 4%. This could reduce GDP growth by around one percentage point in the 2023-2024 two-year period.

Despite all this, growth in 2024 could rise to 2.6%, thanks to greater certainty regarding input costs, the private sector's better position in the face of rising financial burdens, acceleration in the disbursement of NGEU funds and the impact that some reforms, such as that of the labor market, may have.

The effect of the increase in interest rates is having a particularly important effect on the real estate market. In fact, home sales—especially second-hand homes—and mortgages have been declining since the second half of 2022, and prices, although still growing, are growing at slower rates.

Housing starts continue to lag well behind residential sales. The uncertainty surrounding the regulation of the real estate market and the scarcity of developed land in prime areas could be the cause of the delay in some projects and, therefore, of this slower recovery. This is compounded by the rising cost of materials, labor shortages and uncertainty regarding economic policy.
Key points

Housing transactions are expected to fall by around 30% in 2023, affecting mostly used housing, as new housing will hardly be affected. Although the adjustment will be significant, sales will hover just above 500,000, a level similar to the annual average from 2015-2019. This is attributable to slower economic growth—both domestic and foreign—rising interest rates and the depletion of savings accumulated during the pandemic. The lack of new housing supply and the pent-up demand over the last few years account for the differences compared to the expected performance of pre-owned housing.

The number of new housing permits could fall by around 9% in 2023. Factors that will limit the progress of supply include increase in the cost of financing, lack of skilled labor and developable land, still high prices of some inputs, worsening of demand expectations, and regulatory uncertainty. In any case, the shortage of new housing should limit the extent of the impact.

The price is expected to remain practically constant in 2023 (-0.2%), although in real terms the correction would be 3.9%. The drop in sales will have a negative impact on housing prices. However, high inflation and the relative scarcity of supply will partially offset this negative impact.

The sector could begin to revive again in 2024 with moderate increases in demand, supply and prices, in a context of a recovering economy and relatively reduced housing supply. Thus, housing prices are expected to grow by around 2.5%, sales by around 5% and approvals by around 6%. All of this is subject to the main risks facing the sector: additional monetary tightening if inflation continues to rise, shortages of skilled labor and developable land, as well as increased uncertainty surrounding economic policy.
Relevant factors
The Spanish economy has avoided a recession and, in fact, growth seems to have accelerated.

GDP could increase in the first quarter of the year by 0.3% to 0.5% quarter-on-quarter (0.2% in 4Q22), far from a contraction, as expected three months ago. This is due to the European economy's capacity to avoid scenarios of restrictions in energy use and the decrease in the cost of generating energy.

Source: BBVA Research based on INE data.
Lower supply pressures: improvements in bottlenecks and commodities; weather and inventories have contributed to the drop in gas prices

**BBVA RESEARCH BOTTLENECK INDEX**  
(INDEX: AVERAGE SINCE 2003 = 0)

**COMMODITY PRICES**  
(INDEX: 2019 AVERAGE = 100)

Source: BBVA Research based on data from Bloomberg.
The first month of 2023 saw an increase in some materials that had begun to show price declines.

**COST OF CONSTRUCTION MATERIALS IN JAN-23**
(CHANGE VS. DEC-19)

**COST OF CONSTRUCTION MATERIALS**
(MAX. CHANGE 2022 VS. DATA JAN-23)

Source: BBVA Research, based on MITMA data.
Energy costs are revised downward, which will have a positive impact on the overall economy and business investment.

Part of the deterioration in the terms of trade has been corrected, improving the short-term outlook.

The unanticipated decline in costs should add as much as 0.6 pp to GDP growth in 2023, although the price of gas-generated electricity remains at historically high levels.

This should limit the negative impact on industry—particularly the more energy-intensive sectors—and, to the extent that price reductions continue in 2024, drive a recovery in these sectors.

Source: BBVA Research based on INE data.
Total inflation decreases, but core inflation remains high, which will reduce households' purchasing power

The loss of purchasing power is widespread. Reducing inflation to 2% will be difficult and will take time.

This is shown by leading price trend indicators, such as the percentage of goods and services whose annualized monthly inflation is less than or equal to 2% (25%, at lows since the beginning of the pandemic) or above 10% (32%, at highs).

In the absence of further reductions in the cost of energy, or a more intense economic slowdown, total inflation is expected to fall to around 4% on average this year, and core inflation is expected to remain between 5% and 6%, with both dropping to 3% by 2024.

Source: BBVA Research based on INE data.
The oversavings accumulated during the pandemic appears to have been drastically reduced, which will limit the future growth of domestic demand.

Household net financial wealth in real terms shows a decline of almost 9% in 2022, returning to levels similar to those observed in 2019.

Beyond the increase in consumption or investment, inflation was the main culprit behind the drop in household wealth in real terms.

Inflation has reduced the purchasing power of Spanish households

REAL NET FINANCIAL WEALTH* (SWDA DATA, BILLIONS OF EUROS 2015)

- Nominal NFW deflated by the private consumption deflator.
- Source: BBVA Research based on Bank of Spain and INE data.
Interest rates have risen more than initially expected and are putting more strain on housing affordability

- The fight against inflation is forcing monetary authorities to tighten monetary policy.
- The 12-month Euribor continues to rise sharply, standing at around 3.6% in April 2023.
- The increase in risk is reflected in more stringent loan approval criteria, according to the Bank of Spain's Bank Lending Survey. In addition, higher funding costs have tightened the general conditions for loans.

**EURIBOR — 12 MONTHS**
(MONTHLY AVERAGE, %)

Source: BBVA Research based on Bank of Spain and INE data.
Population is showing a positive trend that could continue in the coming years

Population growth in Spain has been increasing since 2016 and, as of July 1, 2022, is recording the largest advance since 2010.

The arrival of immigrant population has been key in the increase of Spain's population, as the population born in Spain has been steadily falling since 2015.

Between 2016 and 2022, without taking 2020 into account, the population of Spain grew at an annual average of 0.44% thanks to the increase in migration.

The countries that contributed most to this growth were: Venezuela, Colombia and Morocco.

CONTRIBUTION TO POPULATION GROWTH IN SPAIN (IN PP AND %)

Population as of July 1.
Source: BBVA Research based on Bank of Spain and INE data.
Housing demand
Home sales have contracted since the summer of 2022

In 2022, 720,000 homes were sold, a growth of 6.2% over the previous year.

The pace of sales has been trending downward since last August. In fact, since October, home sales have been below the pre-pandemic trend.

The rise in interest rates and the resulting slowdown in economic growth would appear to be the main factors of the slowdown in home sales.

The rebound in sales in Jan-23 was not sustained in the month of February.

Source: BBVA Research based on CIEN data.
The slowdown in sales in the second half of the year has affected most of the autonomous communities.

In most Spanish regions, housing sales performed worse in the second half of the year than in the first half. In Spain, while in 1H22 transactions grew at a monthly average of 0.3%, in 2H22 they fell at a rate of 0.7% m/m. Of particular note were the downward corrections in Cantabria, Navarra, the Balearic Islands, La Rioja and the Canary Islands.
Foreign purchases showed greater dynamism than the other demand segments

The growth in home sales in 2022 was mainly due to the contribution of foreign purchases, which accounted for 76% of growth.

These transactions increased by 30.5% compared to 2021 (year when they rose by 44.2%). As a result, the weight of this demand segment rose to 19.4%.

Second home purchases grew by 7.3% (compared to 44.2% in 2021), reaching a weight of 13.1%. Finally, the least dynamic segment was that of primary residences, whose growth slowed to 0.8% (vs. 36.1% in 2021).

Source: BBVA Research, based on MITMA data.
The decline in transactions during 2H22 was widespread across all demand segments

Transactions across all demand segments lost momentum during 2H22. All of them showed a negative performance, with foreign demand recording the smallest difference with respect to 1H22. This is especially relevant for the regions where the weight of this demand segment is more intense: the Balearic Islands, the Canary Islands and Valencia.
The decline in transactions during 2H22 was widespread across all demand segments.

**AVERAGE QUARTERLY CHANGE IN HOME SALES BY SEGMENT IN 2022 (%)**

Sales of primary residences were less dynamic in all regions in 2H22, except in Asturias. Among second homes, there was a notable impact from the decline in CLM in 2H22, where the weight of this segment rose to 27%. Foreign transactions managed to grow in some regions in 2H22, but the declines in BAL and CAN stand out, due to the prominence of the segment in these regions.

Source: BBVA Research, based on MITMA data.
No major changes in the nationality of origin of foreign demand

- Foreigners accounted for 19.4% of total sales in 2022.

- The three main nationalities (United Kingdom, Germany and France) accounted for 27.5% of foreign demand transactions, 1.4pp less than in 2019.

- Germany was the only major nationality to increase its weight compared to 2019 (1.6pp), to 9.5%. The weight of UK transactions decreased 2.9pp, to 11%, and that of France remained at around 7%.

- Of note were increases in demand from the Netherlands and Poland and declines in demand from China and Russia.

Source: BBVA Research based on data from the Association of Property Registrars.
No major changes in the nationality of origin of foreign demand

In the regions with the greatest weight of foreign demand, there is a predominance of demand from northern European citizens (Germany, the United Kingdom, France and Belgium). In the remaining regions, the main countries of origin are Morocco and Romania.
Rising interest rates led to a decrease in mortgages in the second half of 2022.

In 2022, 356,000 mortgages were signed for home purchases, which was up 3.0% compared to 2021. While in 1H22 mortgages grew by 0.4% on a monthly average, in 2H22 they fell by 3.0%. Thus, the tightening of financing conditions has led to a slowdown in the mortgage market.
The rise in interest rates has discouraged fixed-rate mortgage lending

NEW LENDING FOR HOME PURCHASES (%, Y/Y AND BREAKDOWN OF FIXED/VARIABLE RATE)

- New lending for home purchases grew by 9.8% in 2022.
- Rising interest rates have led to a slowdown in new lending transactions. Whereas in 1H22 lending grew at a monthly average of 0.4%, in 2H22 it fell by -1.0%.
- The weight of fixed-rate mortgages fell from 71% in Jun-22 to 57% in Jan-23.
- Along the same lines, there has been an increase in mortgage renegotiations since 4Q22, when mortgage conditions began to be revised upward.

Source: BBVA Research based on Bank of Spain data.
With the rise in interest rates, households have tried to reduce the mortgage burden by increasing repayments.

Rising interest rates have led to an increase in mortgage loan repayments.

With the annual revision of interest rates on variable loans, households have taken advantage of the savings accumulated during the pandemic to reduce the principal of their loans or renegotiate their loans.

Repayments, on a monthly basis, rose from just over 4.5 billion between May and December 2021 to almost 6 billion in the same period in 2022.

Source: BBVA Research based on Bank of Spain data.
03

Housing supply
Housing starts remain below pre-COVID trend despite rebound in recent months

In 2022, permits remained almost stagnant and only grew at a year-on-year rate of 0.5%, to almost 109,000. A lower increase than in 2021 (26.6%).

The uncertainty surrounding the regulation of the real estate market and the scarcity of developed land in prime areas could be the cause of the delay in some projects — and, therefore, of this slower recovery.

The lack of inputs, labor and residential land could be conditioning the development of construction activity.

In Jan-23 housing starts curbed the decline of previous months but did not show a clear recovery.

Source: BBVA Research, based on MITMA data.
The number of building permits signed showed very different performance by autonomous community

While home sales rose in all regions, the approval of new building permits showed a high degree of regional heterogeneity.

Cantabria, the Balearic Islands and La Rioja, which only accounted for 8.1% of the permits signed in Spain, were the regions that recorded the highest increase, above 20%.

In regions with more weight, such as Andalusia (21% of the national total) or Madrid (9.6%), building permits remained practically stagnant with respect to 2021.
The unsold housing stock is no longer a problem for the sector, contrary to what happened during the 2008 crisis.

The combination of low housing starts and rapid recovery in demand has helped to reduce the stock of unsold new homes in recent years.

In 2021, the latest available data, the stock of unsold housing in Spain was 1.7% of the residential housing stock. The oversupply persists in some regions, although it is located in specific areas and corresponds, for the most part, to homes that have lost the interest of the demand, due to their location or characteristics.

The shortage of new housing on the market, together with its low production, could lead to an increase in housing prices.

**STOCK OF UNSOLD NEW HOUSING IN 2021***

*Note: differential with respect to existing stock in 2013. Source: BBVA Research, based on MITMA data.*
04
Price of housing
Housing price growth slowed more sharply in the latter part of 2022

According to MITMA, in 2022, prices grew at a year-on-year rate of 5.0%, much higher than the 2.1% growth in 2021.

According to the INE's Housing Price Index, housing appreciated 7.4% in 2022, almost 4pp more than in the previous year.

As in sales, housing prices were less dynamic in the second half of the year. According to MITMA, in 1H22, housing prices grew at a year-on-year average of 6% in each quarter. In 2H22, this average slowed to 4%.

Source: BBVA Research, based on MITMA and INE data.
Housing prices rose in all the autonomous communities in 2022, although, in most of them, with less intensity in the second half of the year.

Madrid and the Balearic Islands led the price increases in 2022, above 7%, while Extremadura and Asturias recorded the most modest rises. In all regions except Cantabria and Galicia, prices were less dynamic in the second half of the year. Of note is the slowdown of more than 3pp in Valencia, Madrid and Extremadura.

Source: BBVA Research, based on MITMA data.
In all the autonomous communities, prices are above those of 2019 and, in general, are still far from the highs reached around 2008

Housing prices are above 2019 levels in all regions: 12.4% higher in the Balearic Islands and 0.8% higher in C&L. However, in all regions the price is below the high reached in the previous cycle, except in the Balearic Islands, where it is 10.1% higher than in 2008. ARA, MUR and CLM stand out, with levels 30% below those peaks.
In 2022, housing prices remained stable for new homes but advanced at more moderate rates in the second half of the year for second hand homes.

The price of new homes barely slowed down in 2H2022. However, in used housing it grew at a quarterly average of around 4.0% in 2H22, 2.2pp less than in the first half of the year. The scarce supply of new product may be the reason for this downward trend.
In several autonomous communities, the price of new housing rose more in the second half of the year than in the first half.

**PRICE OF NEW HOUSING IN 2022**  
(QUARTERLY AVERAGE YEAR-ON-YEAR GROWTH, %)

**PRICE OF PRE-OWNED HOUSING IN 2022**  
(QUARTERLY AVERAGE YEAR-ON-YEAR GROWTH, %)

Source: BBVA Research, based on MITMA data.

In most regions, the price growth of pre-owned homes slowed in 2H22 (except in CNT and BSQ). However, in most regions, new housing became more expensive in 2H22 than in 1H22: AND, ARA, AST, CNT, C&L, EXT, GAL, MUR, NAV, BSQ and RIO.
In most of the autonomous communities, the price of new housing is below the peak reached around 2008.

In nominal terms, only the Balearic Islands and Madrid would have exceeded the peak price level recorded in 2008. However, in real terms, prices in all regions are below the highs of those years. In fact, in Castilla-La Mancha, Murcia and Castile and Leon, prices are still 40% lower than those levels, once inflation is deducted.
Housing prices are around the level of long-term equilibrium

- In 2022, housing prices are around the level of long-term equilibrium of the factors that determine them.
- In the last two years, housing prices in Spain have displayed a development in sync with that of their determining factors.
- Since its recovery began in 2014, the price of housing has hardly exceeded the equilibrium level, reaching its maximum deviation in 2020, around 4% more.
- In other countries the imbalance is notable in 2022: United Kingdom (21%), Portugal (20%), Netherlands (19%), France (12.5%), Ireland (7.8%) and Germany (4.4%). In Italy (-20%).

**PRICE OF HOUSING**
(CHANGE WITH RESPECT TO LEVEL OF EQUILIBRIUM, %)

Source: BBVA Research based on INE data.
Household income has performed better than housing prices in recent years

In 2022, household GDI, in real terms, was 9% higher than in 2002, while housing prices, in real terms, were only 2% higher than in 2002.

The price of a home in 2022 required spending 4.1 times the average gross disposable household income, which is below the 2002-2022 average (4.3).

Since 2013, the ratio has been below the historical average, although with the price increase in 2022, the growth trend has increased.

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**AVERAGE HOME PRICE OVER AVERAGE GROSS HOUSEHOLD INCOME***

*Note: considering as average a home of 100m2 and considering as income the remuneration of wage earners, property income, other current transfers and social contributions net of taxes and subsidies
Source: BBVA Research, based on MITMA and INE data.
The rise in interest rates has led to an increase in the effort necessary to afford housing in 2022

Throughout 2022, households have had to devote a greater proportion of their income to housing payments. The recovery in household wage income, via higher wages and an increase in the number of people employed per household has not been enough to offset the negative effect of higher housing prices and, above all, the rise in interest rates.
Households and companies are in a better financial position than in the past

CREDIT TO OTHER RESIDENTIAL SECTORS (PERCENTAGE OF GDP)

Source: BBVA Research based on Bank of Spain data.
Special topic: the new housing supply is scarce
Factors that have affected new housing starts

COVID-19. Although construction activity was among those that got underway earlier following the strict lockdown, many projects were delayed due to the uncertainty. In addition, some administrative tasks could not be accomplished, limiting housing starts.

Activity was recovering, and when it began to reach the pre-pandemic growth trend, other circumstances came along that had a major impact on construction activity:

- Preliminary draft of the Housing Law (October 26, 2021): added uncertainty to the sector, and some projects, especially those associated with large holders, were left waiting for further definition of the regulation. Something that has not yet occurred.
- Rising prices of raw materials from the end of 2021, which led developers to delay projects due to the increased uncertainty when setting prices for the homes to be marketed.
- Invasion of Ukraine and outbreak of war. Tightening of bottlenecks.
- Shortage of skilled labor.
The supply of new housing has not been able to keep up with the increase in demand in recent years

While home sales have far exceeded the 2019 level in all regions, the same is not true for building permits, as there are several communities in which permits are below 2019 levels.

Madrid, La Rioja, the Canary Islands and Navarre show worse than average performance in permits and sales.

Murcia, Cantabria, Asturias and Andalusia performed better than average in sales and new housing starts.

Source: BBVA Research, based on MITMA and CIEN data.
In most autonomous communities, construction activity has slowed down compared to pre-pandemic trends

<table>
<thead>
<tr>
<th>Autonomous Community</th>
<th>Impact</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Navarra</td>
<td>40%</td>
<td>BBVA Research, based on MITMA and INE data.</td>
</tr>
<tr>
<td>Canary Islands</td>
<td>40%</td>
<td>BBVA Research, based on MITMA and INE data.</td>
</tr>
<tr>
<td>Madrid</td>
<td>-25%</td>
<td>BBVA Research, based on MITMA and INE data.</td>
</tr>
<tr>
<td>Catalonia</td>
<td>-25%</td>
<td>BBVA Research, based on MITMA and INE data.</td>
</tr>
<tr>
<td>La Rioja</td>
<td>0%</td>
<td>BBVA Research, based on MITMA and INE data.</td>
</tr>
</tbody>
</table>

In Spain, from the beginning of the pandemic to last January 2023, some 95,500 fewer housing units would have been given permits than those shown in the 2016-2019 trend.

The most negative impact is recorded in Navarra and the Canary Islands, where the number of permits is 40% lower than what it would have been if the trend had continued.

In Madrid and Catalonia, the deviation is around -25%. Only in La Rioja did the number of permits signed beat the trend.

Source: BBVA Research, based on MITMA and INE data.
Housing starts are at a relatively low level in recent quarters

In 2021, just over 108,000 new building visas were approved, putting the ratio of new housing starts per new home created at around 0.9, a relatively low figure by historical standards. In 2022, virtually the same number of permits were signed, but permits per home fell to just under 0.6. The recovery in housing investment is not keeping pace with the recovery in demand.

Source: BBVA Research, based on MITMA and INE data.
Housing starts are at relatively low levels in most autonomous communities

In most of the autonomous communities, the number of approvals per new home in the last two years was at levels similar to those during the crisis. The figures for Madrid and the Basque Country are attributable to the fact that the creation of new homes recovered more slowly than in other regions.
Land Registry statistics point to the existence of vacant land in the provinces, but much of this land is not designated for residential use.

**VACANT LAND BY PROVINCE** *(UNDEVELOPED AREA WITH RESPECT TO TOTAL, %)*

Source: BBVA Research based on Land Registry data.

The existence of vacant land in some provinces is significant. However, the finished land, the land prepared to start new housing, may be relatively scarce in some areas.
Land Registry statistics point to the existence of vacant land, but much of this land is not designated for residential use

<table>
<thead>
<tr>
<th>Province Capital</th>
<th>Vacant Land Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cadiz</td>
<td>2%</td>
</tr>
<tr>
<td>Albacete</td>
<td>10%</td>
</tr>
<tr>
<td>Girona</td>
<td>13%</td>
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<tr>
<td>Melilla</td>
<td>17%</td>
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<tr>
<td>Sevilla</td>
<td>21%</td>
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<tr>
<td>Ceuta</td>
<td>22%</td>
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<tr>
<td>Palma</td>
<td>24%</td>
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<tr>
<td>Barcelona</td>
<td>25%</td>
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<tr>
<td>Granada</td>
<td>26%</td>
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<tr>
<td>Logroño</td>
<td>27%</td>
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<tr>
<td>Ourense</td>
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<tr>
<td>Santander</td>
<td>29%</td>
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<tr>
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<td>Palencia</td>
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<td>Castellón</td>
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<td>Coruña (A)</td>
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<td>Valencia</td>
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<td>Alicante</td>
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<td>Jaén</td>
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<td>Las Palmas</td>
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<td>Badajoz</td>
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<tr>
<td>Lugo</td>
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<tr>
<td>Málaga</td>
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<tr>
<td>Tarragona</td>
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<td>Valladolid</td>
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<tr>
<td>Zamora</td>
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<tr>
<td>Pontevedra</td>
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<tr>
<td>Almería</td>
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<tr>
<td>Huelva</td>
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<td>Lleida</td>
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<tr>
<td>Teruel</td>
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<td>León</td>
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<td>Zaragoza</td>
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<td>Segovia</td>
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<td>Burgos</td>
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<td>Huesca</td>
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<td>Cuenca</td>
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<tr>
<td>Soria</td>
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<tr>
<td>Ávila</td>
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<tr>
<td>Madrid</td>
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<tr>
<td>Cáceres</td>
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<tr>
<td>Guadalajara</td>
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<tr>
<td>Oviedo</td>
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<tr>
<td>Salamanca</td>
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<tr>
<td>Murcia</td>
<td>64%</td>
</tr>
<tr>
<td>Ciudad Real</td>
<td>64%</td>
</tr>
</tbody>
</table>

Source: BBVA Research based on Land Registry data.

The percentage of vacant land by provincial capital is very different. Whereas in Barcelona it barely exceeds 20% of the municipality's surface area, in Madrid it is just over 40%. Cadiz is the provincial capital with the lowest proportion of vacant land and Ciudad Real has the highest, almost 60% of its municipal land.
Land Registry statistics point to the existence of vacant land, but much of this land is not designated for residential use

<table>
<thead>
<tr>
<th>City</th>
<th>Vacant Land of Province Located in Its Capital (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cádiz</td>
<td>1.2</td>
</tr>
<tr>
<td>Coruña (A)</td>
<td>0.3</td>
</tr>
<tr>
<td>Pontevedra</td>
<td>0.2</td>
</tr>
<tr>
<td>Girona</td>
<td>0.1</td>
</tr>
<tr>
<td>Ourense</td>
<td>0.1</td>
</tr>
<tr>
<td>Lugo</td>
<td>0.1</td>
</tr>
<tr>
<td>Barcelona</td>
<td>0.3</td>
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<tr>
<td>Castellón</td>
<td>0.3</td>
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<td>Granada</td>
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<td>Valencia</td>
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Source: BBVA Research based on Land Registry data.

In many cases, provincial capitals are home to a small proportion of the vacant land in the province. Barcelona houses just over 5% of the province's vacant land, as do Valencia and Tenerife. In Seville and Malaga, around 11%. In Madrid, a large part of the region's vacant land (30.6%) is in the capital.
The rise in wages in 2022 could point to a shortage of skilled labor in the construction sector

Since the beginning of 2022, the wage cost in the construction sector has performed better than average. In fact, since mid-2021 it reached pre-pandemic levels and is currently trending upward, in contrast to the average for all sectors.
The future in the residential construction sector comes with factors that could limit growth

FACTORS LIMITING NEW HOUSING CONSTRUCTION

- Shortage of land for development
- Legal uncertainty and slow licensing procedures
- Insufficient skilled labor in some stages
- Increased cost and shortage of some construction materials
- Economic slowdown and rising interest rates

It is advisable to foster a greater implementation of digital tools in city councils to speed up and improve deadlines and their traceability, which is starting to become a reality in some cases.
Forecasts
The macroeconomic situation will lead to a drop in housing sales

Home sales will be above 500,000 units in the two-year period, a level similar to the 2016-2019 average. This adjustment will come primarily from pre-owned homes.

Relatively high uncertainty, a higher-than-expected rise in interest rates and sustained high inflation rates will continue to negatively affect household income, progressively draining accumulated savings.

In this context, the drop could be more significant in the second-hand home segments and among foreigners, the latter due to the slowdown in growth in the main European countries.

HOUSING SALES
(NUMBER OF HOMES)

- No. homes (left)
- Year on year change, % (right)

(f): Forecast.
Source: BBVA Research based on CIEN data.
Housing starts will suffer in the coming quarters and begin to recover in 2024

- Housing starts will slow in the current two-year period.
- The greater degree of monetary policy tightening coupled with regulatory uncertainty will be two of the main factors affecting housing starts in 2023.
- The shortage of land available for development in the areas of greatest demand, inflation in construction materials and labor shortages will continue to condition construction activity.
- The low level of building permits suggests that the shortage of new housing will persist and could fuel a more visible recovery in 2024.

NEW HOUSING CONSTRUCTION PERMITS
(NUMBER OF HOMES)

(f): Forecast.
Source: BBVA Research, based on MITMA data.
Investment in the construction sector will experience a boost in 2024, largely thanks to NGEU funds

The performance of housing investment remains unresponsive to the significant growth in housing sales.

The determining factors in the construction sector will lead to a slowdown in housing investment in 2023, reducing its growth to around 1.0%.

Going forward, the arrival of NGEU funds is still expected to positively impact the sector in 2024. So far, of the €6.65 billion approved in the Recovery Plan (between Jan-21 and Feb-23), only €3.167 billion has been transferred to the autonomous communities, of which only €1.5 billion—22.6% of what was approved—has been awarded.

PERFORMANCE OF CONSTRUCTION INVESTMENT SEGMENTS (%, ANNUAL CHANGE)

(f): Forecast.
Source: BBVA Research based on INE data.
No major adjustments in housing prices in nominal terms are expected, in part because of the supply shortage.

After the recovery observed in 2022, prices will contract in 2023.

The shortage of supply and very moderate growth in the previous years, especially when compared to growth in other economies, could support housing prices this year.

Nevertheless, high inflation is pushing prices in real terms into negative territory.

The recovery of the sector in 2024 could be accompanied by an increase in housing prices of around 2%, which would keep the change in real terms negative.

PRICE OF HOUSING (% Y/Y)

- 2021: 2.1 (Nominal), -0.9 (Real)
- 2022: 5.0 (Nominal), 3.1 (Real)
- 2023 (f): -0.2 (Nominal), -3.9 (Real)
- 2024 (f): 2.6 (Nominal), -0.2 (Real)

(f): Forecast.
Source: BBVA Research, based on MITMA data.
Risks: inflation could lead to additional monetary tightening and trigger a recession or even financial instability

**MAIN RISKS**

**EVEN HIGHER INFLATION AND INTEREST RATES:**
- demand pressures (labor markets, stimuli)
- recovery in demand in China
- higher energy prices due to war or another factor
- wage and price spiral

**GLOBAL RECESSION OR STAGFLATION**

**FINANCIAL INSTABILITY**

**KEY UNCERTAINTIES**

**GEOPOLITICAL TENSIONS**

**RIVALRY BETWEEN CHINA & US (DEGLOBALIZATION)**

**ENERGY TRANSITION & CLIMATE CHANGE**

**SOCIAL TENSIONS & POPULISM**
Risks: difficulty finding labor in a context of rising prices

Inflation will continue to be one of the main risks to economic activity. Several indicators suggest that demand pressures are strong and partly account for the recent inflation trend.

The implicit income pact between unions and employers' organizations is in danger of breaking down. Unions and employers' organizations must try to reach an agreement that limits future price growth.

Fiscal policy should contribute to the reduction of inflation in an environment where the unemployment rate is low, NGEU funds will support the progress of investment, there are doubts about the sustainability of revenues and the public deficit remains high.

Source: BBVA Research, based on INE data.
Risks: uncertainty over economic policy

For the time being, the risk premium that the Spanish Government pays for financing itself in international markets remains stable and below its medium-term levels of equilibrium. This is the result of compliance with the commitments undertaken with the rest of Europe and the action of the ECB.

In a context where the ECB is beginning to move toward reducing its balance sheet, and where there is uncertainty about the increase in interest rates necessary to control inflation, measures that reassure investors about the medium-term sustainability of public accounts will be key.

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*Risk premium in Spain (Election month = 100)*

- **Average of previous elections**
- **Apr-19 elections**
- **Nov-19 elections**

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Other risks

The State Law on the Right to Housing is still in the parliamentary process and there is no certainty as to when it will be approved or what changes may occur in the discussion. This situation introduces uncertainty in the sector at all levels: for buyers, producers and investors.

Due to the geopolitical context and the ongoing war in Ukraine, there is still a risk that the price of raw materials will become more expensive, which would have a significant impact on housing investment.

The lack of skilled labor in general, and in the construction sector in particular, may become a bottleneck for companies if no action is taken. It is necessary for the educational system to increase the interaction between students and companies in search of the greatest mutual benefit. Another response may be to encourage delayed retirement, which would require facilitating the possibility of combining work and pensions. It is also necessary to encourage the involvement of older workers in training activities.
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