

March 2026

Outlook and profitability of the real estate sector

Key messages. Forecasts

Housing demand fundamentals will remain strong over the current two-year period



Interest rates will remain at relatively low levels. Wage income will continue to rise through both channels, employment growth and wage increases. In addition, net migration (550,000 annually) will keep household formation at around 200,000 units per year. In turn, foreign demand is expected to remain strong, partly supported by geopolitical tensions.

At present, the incentive to buy is stronger than to rent



The share of wage income needed to access rental housing is much higher than that required to buy (once the down payment needed to obtain a mortgage loan has been deducted). In fact, since early 2025 the intention to buy a home has strengthened across all income quartiles, whereas in previous years only the higher-income quartile stood out for its greater intention to buy.

Rising prices will continue to reflect the imbalance between supply and demand

Although various factors will continue to support demand growth, the lack of supply at affordable prices may limit sales growth (-1.6% in 2026 and 1.1% in 2027). New housing construction will grow (12.5% over the two-year period), but not sufficiently to prevent house prices from rising sharply both in 2026 (10.2%) and in 2027 (6.8%). The moderation in the following year would be consistent with the moderation in sales.



Geopolitical tensions could raise production costs and affect demand



As occurred with Russia's invasion of Ukraine in 2022, the conflict in the Middle East could push up the price of construction-related commodities, which could affect the sector's already low profitability and, therefore, the development of new projects. Higher inflation would pose a risk to the recovery of purchasing power and households' ability to buy.

Key messages. Profitability

This report includes an update of a previous analysis on the profitability of the residential construction sector ([here](#)), incorporating 2024 data



In general, the main messages remain unchanged. The profitability of Spanish firms is below the European average in the main sectors of the economy, although the gaps are particularly acute in construction. A greater weight of SMEs than in peer economies is still evident, and these firms are less profitable than large ones.

ROE in the residential construction sector improved in 2024, but remains relatively low



ROE in 2024 showed little change from that of 2023 and remained clearly below what is observed in other European countries. Margins remain broadly in line with what has been seen in recent years, although they showed a slight improvement in 2024. Low profitability continues to be explained mainly by low asset turnover and the high reliance of equity in financing.

Increasing supply requires higher profitability, especially among small firms



Speeding up land development timelines should be a priority. In addition, regulatory improvements are needed, focus on reducing firms' operating costs, and boost productivity. In this regard, the launch of the sovereign fund "Spain Grows" could support the sector's profitability if it enables the release of firms' own resources.

The lack of consensus and coordination across administrations is hindering key reforms to expand housing supply



The absence of political agreements is making it difficult to meet the sector's objectives. In a context of housing shortages, it is a priority to focus efforts on measures that boost housing supply, both for purchase and for rent.

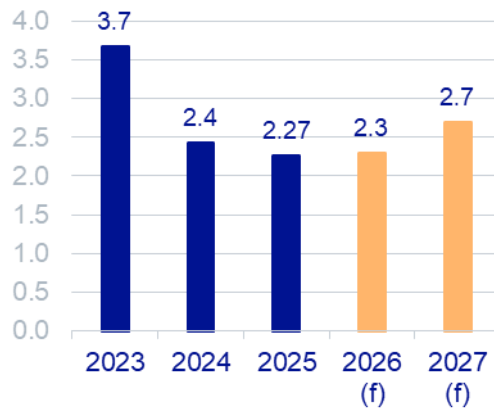
1. The residential construction sector in Spain

Forecasts 2026-2027

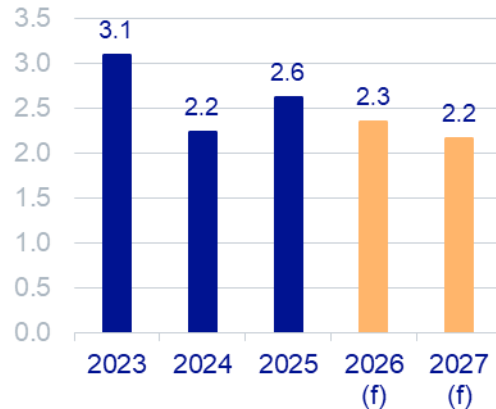
Forecasts

Demand fundamentals remain strong

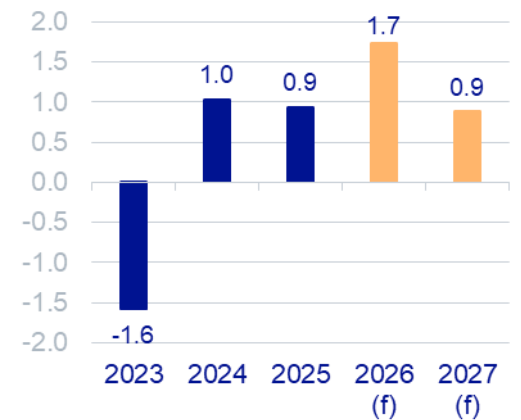
12-MONTH EURIBOR*
(%)



LFS EMPLOYMENT
(%, Y/Y)



REAL COMPENSATION PER
EMPLOYEE (% Y/Y)



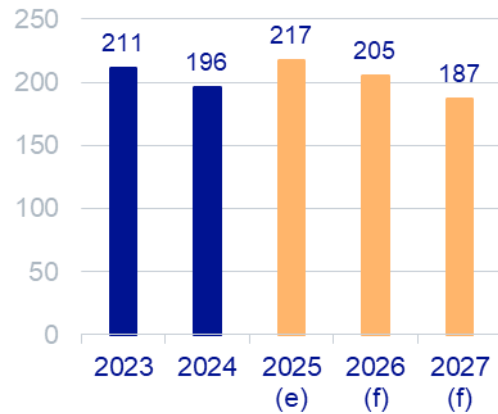
*End of period
Source: BBVA Research based on BDE, MTES, EPA and INE

Although the rate-cutting cycle is expected to have come to an end, interest rates will remain at relatively low levels, which could continue to support new lending. The economy will keep creating jobs and wages will grow above inflation in 2026 and 2027

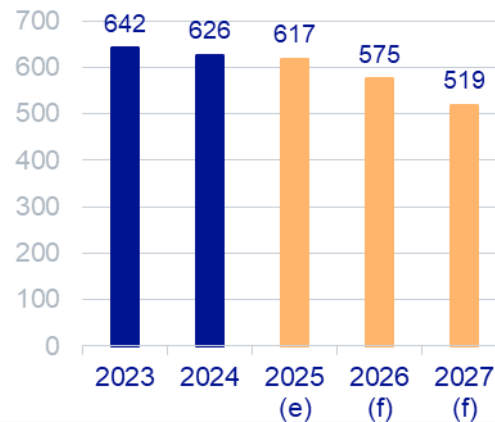
Forecasts

Demand fundamentals remain strong

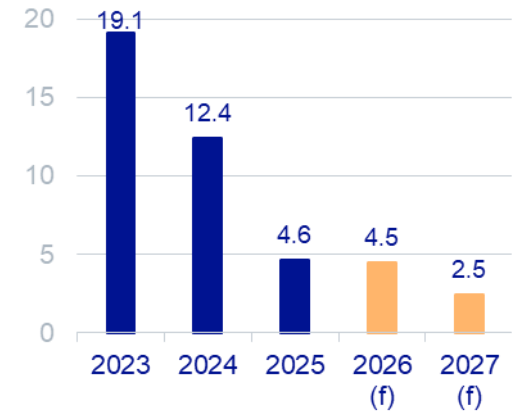
HOUSEHOLD FORMATION
(THOUSANDS OF HOUSEHOLDS)



NET MIGRATION
(THOUSANDS OF PERSONS)



FINAL CONSUMPTION BY NON-RESIDENTS IN SPAIN (% Y/Y)



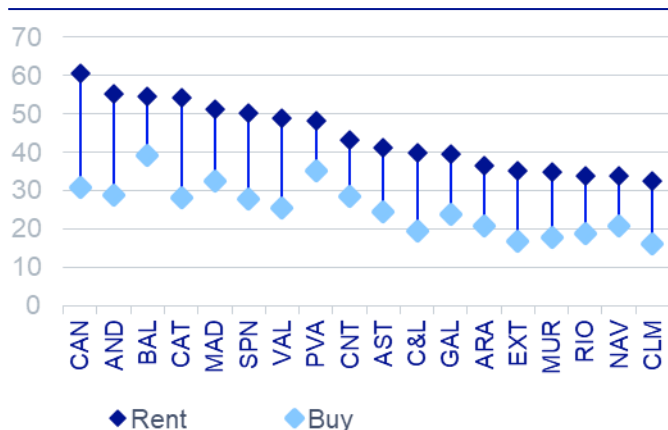
Source: BBVA Research based on INE

Immigration will continue to support household formation and, therefore, housing demand. In addition, home purchases by foreigners may increase as a result of geopolitical tensions

Demand

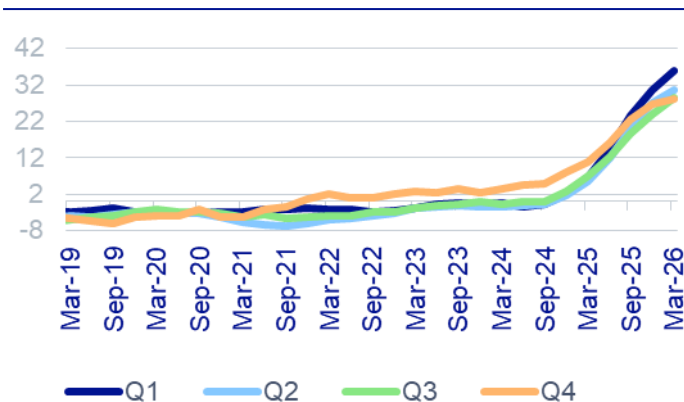
The incentive to buy versus rent is high

HOUSING AFFORDABILITY EFFORT IN 2025
(% OF HOUSEHOLD WAGE INCOME ALLOCATED TO HOUSING PAYMENTS)



Note. Rental affordability effort: % of wage income allocated to paying the rent for a 90 m2 dwelling. Purchase affordability effort: % of wage income allocated to paying the first mortgage installment on an average loan used to purchase an average 94 m2 dwelling. Wage income in Q4 25 has been estimated equal to that of Q3 25, taking the average of the four quarters for the year 2025.
Source: BBVA Research based on Idealista, INE, MIVAU and BdE

INTENTION TO BUY A HOME BY INCOME QUANTILES (SA DATA RELATIVE TO THE HISTORICAL AVERAGE)



Note. The indicator refers to the intention to buy over the next 12 months.
Source: BBVA Research based on European Commission

The share of wage income needed to buy a home is lower than that required to rent, which puts greater pressure on the housing purchase market. According to the European Commission, the intention to buy has increased in recent quarters across the entire population

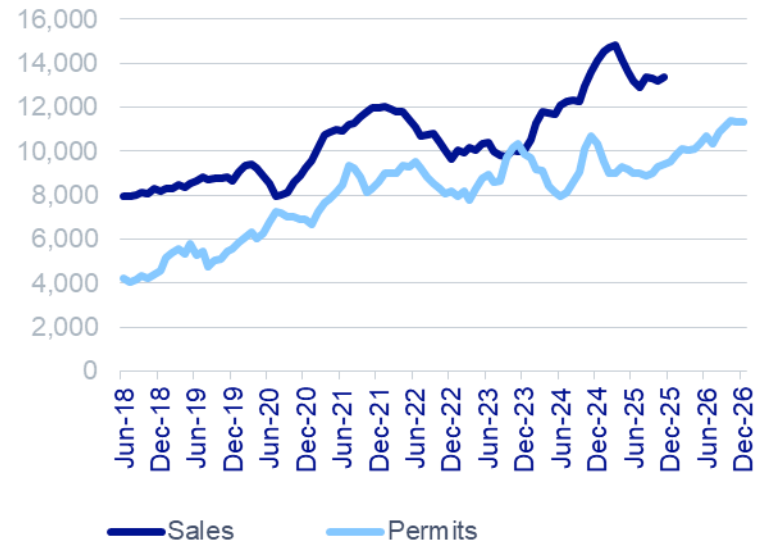
Forecasts

New home sales limited by lack of building permits

- New home sales are closely linked to housing starts (building permits for new residential construction). **The highest correlation between the two occurs with a 25-month lag in permits (the time between the start of construction and the registration of the sale).**
- In recent years, the series for new home sales has persistently remained above the appropriately lagged permit series, partly reflecting the very definition of new housing and the absorption of unsold new housing that may remain in some areas.
- But supply shortages will cause this volume of unsold homes to be depleted and sales of new product to converge with the homes started two years earlier.

NEW HOME SALES AND PERMITS

(SALES IN MONTH T, PERMITS IN T-25, HOMES, SA)

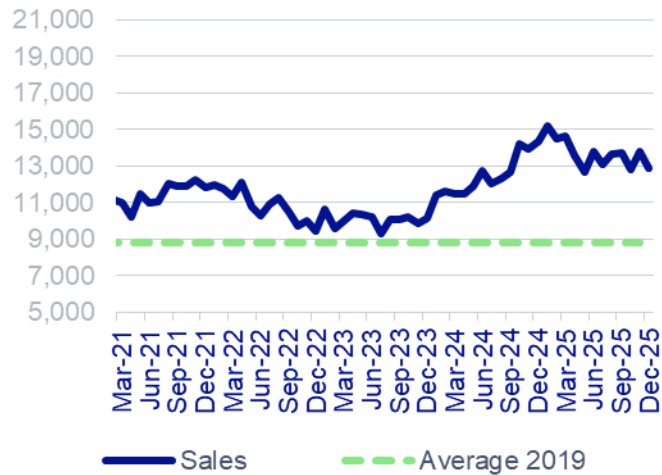


Source: BBVA Research based on CIEN and MITMA

Demand

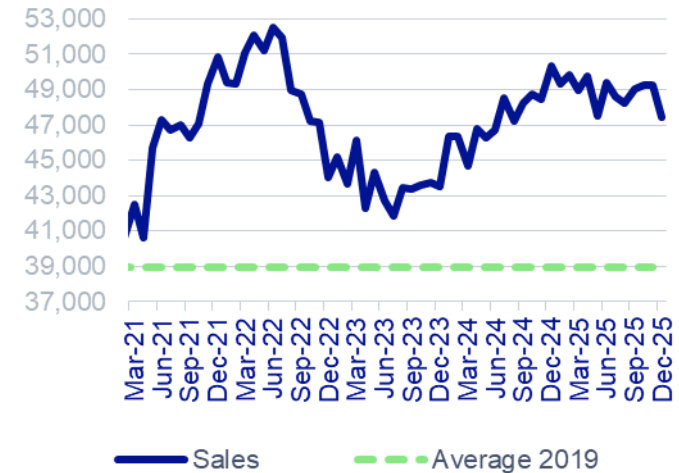
Sales have stagnated in recent months

SPAIN: NEW HOME SALES
(SA DATA)



Source: BBVA Research based on CIEN

SPAIN: EXISTING HOME SALES
(SA DATA)



Source: BBVA Research based on CIEN

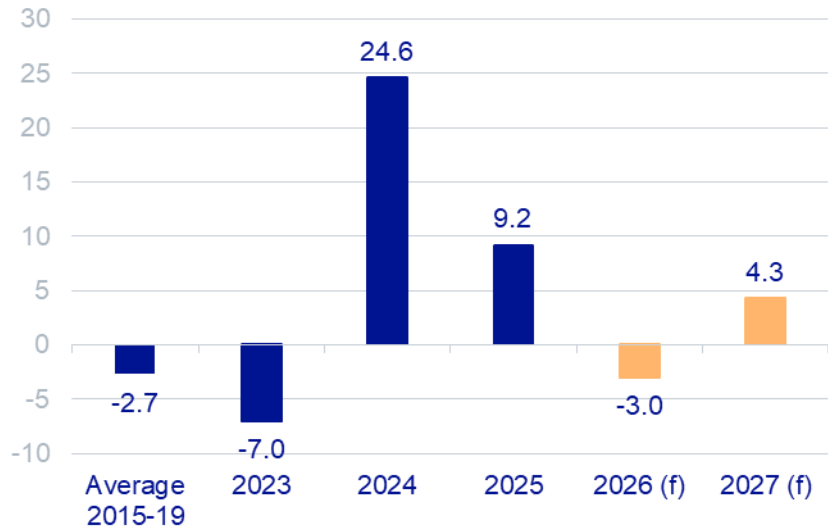
In recent months, new home sales have remained virtually stagnant, as has the existing home market. In 2025, just under 22% of transactions were new homes, in line with the share in 2024 (21%)

Forecasts

New home sales limited by lack of building permits

NEW HOME SALES

(YEAR-ON-YEAR CHANGE, %)



- **New home sales gained momentum in 2024 as a result of lower interest rates.** Some of the homes that stopped being marketed amid the **adverse high-interest-rate environment of 2023** may have been sold that year.
- Insofar as this effect fades and unsold new housing that may exist in some areas is absorbed, **new home sales will have to converge with the homes started two years earlier.**
- **In 2026, homes will gradually converge with the homes permitted in 2024, which would imply a decline of around 3.0% on annual average, and from 2027 onward the increase in new construction will begin to be felt.**

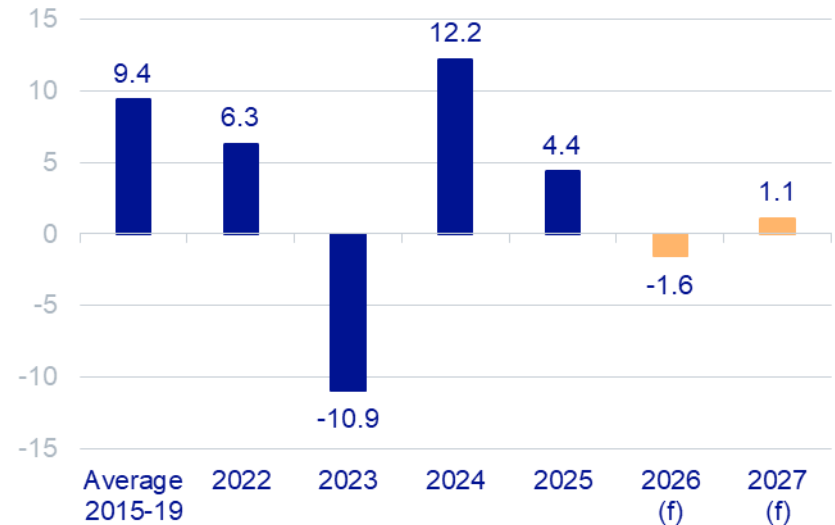
Forecasts

Sales are moderating, but remain high

- **Housing demand fundamentals are positive:** a strong labor market, positive migration flows and relatively low interest rates
- However, **there are factors pointing to a moderation in sales in the coming quarters:** prices have reached relatively high levels in the main demand areas and housing supply is scarce in some areas of interest; all this in a context of moderating economic growth.
- Following the increase in 2024 (12.2%), **growth in home sales moderated substantially in 2025, rising by 4.4%.** In **2026**, supply constraints, particularly in new housing, together with higher prices, **will lead to a slight contraction (-1.6%), followed by a period of stagnation in 2027 (1.1%).**

HOME SALES

(YEAR-ON-YEAR CHANGE, %)



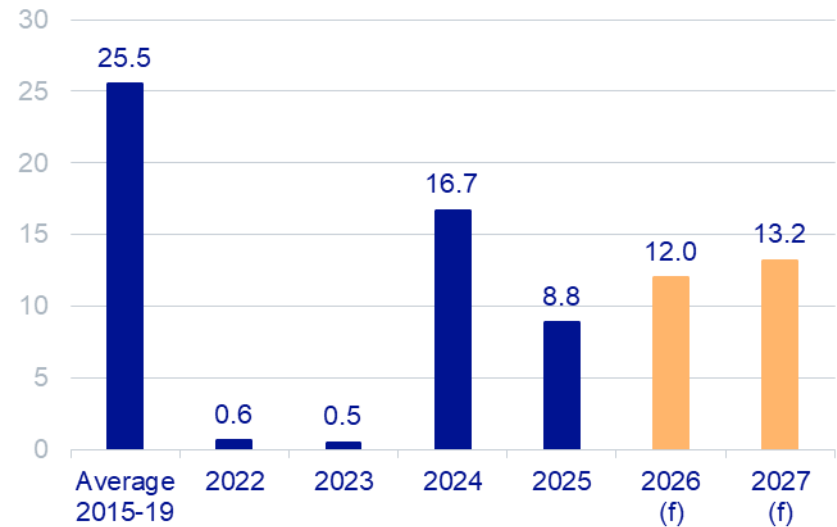
(f): Forecast.
Source: BBVA Research based on CIEN and MIVAU

Forecasts

Permits are on the rise, but volume will still be insufficient

- Several factors will drive an increase in housing construction in the coming quarters: **demand pressure** amid the limited supply of new-build homes and the **interest of public administrations in increasing the supply of affordable housing**.
- However, despite the expected growth, the level of production will be relatively low due to the **shortage of ready-to-develop land, the limited supply of labor, regulatory uncertainty and the sector's low profitability**.
- Thus, building permits are expected to grow by around 12.5% on annual average over the current two-year period. **This would imply permits for around 160,000 homes per year.**

PERMITS FOR NEW RESIDENTIAL CONSTRUCTION
(YEAR-ON-YEAR CHANGE, %)



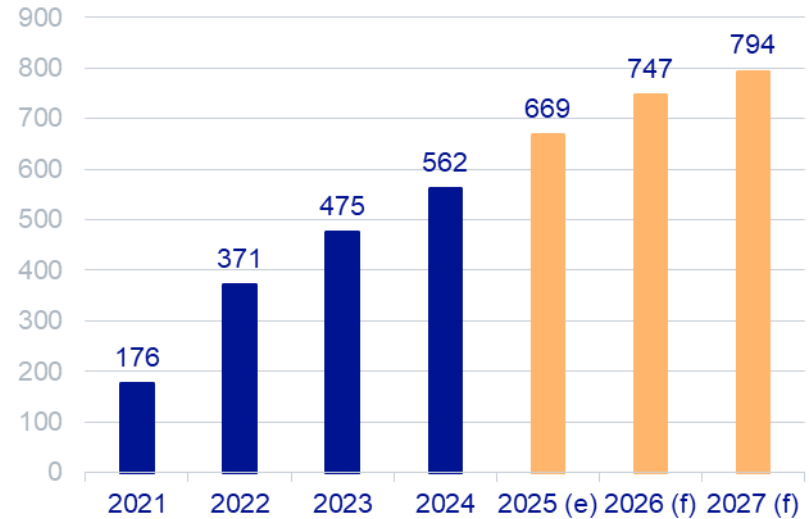
(f): Forecast.
Source: BBVA Research based on MITMA

Forecasts

The housing shortage will continue to widen

- Despite the increase in permits in recent years and a positive growth forecast, **the volume of completed homes will remain insufficient to meet household formation.**
- In a conservative scenario (household formation in 2026 and 2027 would be similar to that estimated for 2025, around 200,000 units), compared with INE forecasts (average growth of around 350,000 households in 2026 and 2027), **the housing deficit is expected to continue widening over the next two years**, albeit at a slower pace.
- **The cumulative housing deficit since 2021 is expected to approach 800,000 units in 2027.** That is, the pace of construction will have met only 48% of newly created households.

HOUSING DEFICIT IN SPAIN
(THOUSANDS OF HOMES)

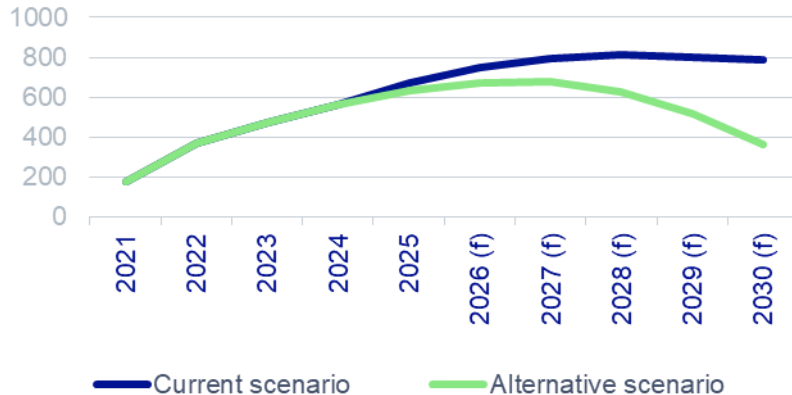


(f): Forecast.
Household formation rates are expected to be similar to those of 2025 in 2026 and 2027.
Source: BBVA Research based on MITMA

Forecasts

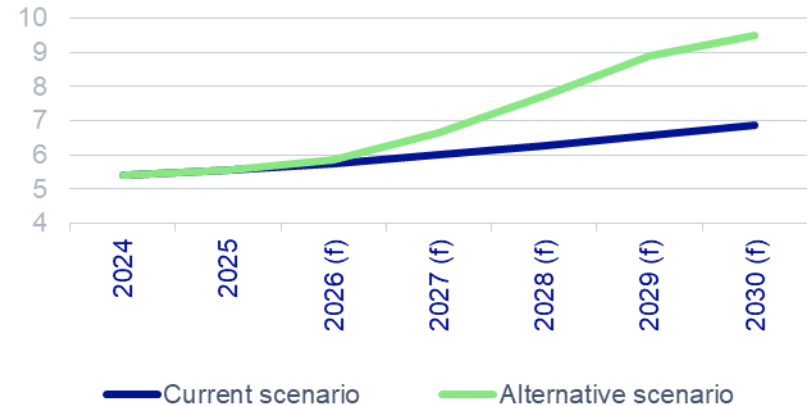
Housing shortages are a source of tension for the economy

HOUSING DEFICIT IN SPAIN (THOUSANDS OF HOMES)



Alternative scenario: required to halve the housing deficit by 2030.
Source: BBVA Research based on INE and MITMA

HOUSING INVESTMENT (% REAL GDP)



Alternative scenario: required to halve the housing deficit by 2030.
Source: BBVA Research based on INE and MITMA

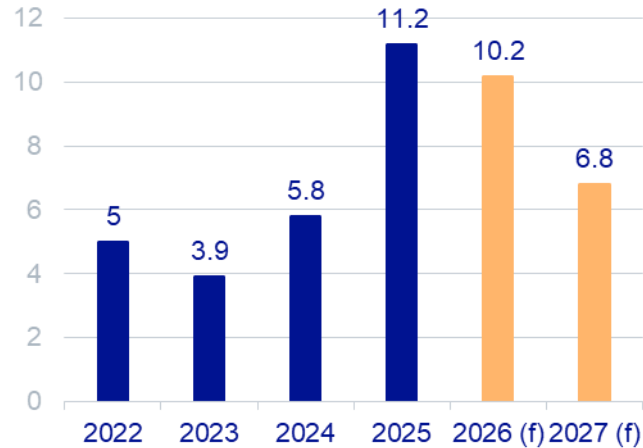
Bringing forward the turning point in reducing the housing deficit and halving it by 2030 would require much higher investment growth rates (an average of 15% between 2027 and 2030). In terms of GDP, this means reaching 10% of GDP in 2030, close to the 2007 peak (11.7%)

Forecasts

The shortage of supply will continue to push prices up

HOUSE PRICES IN NOMINAL TERMS

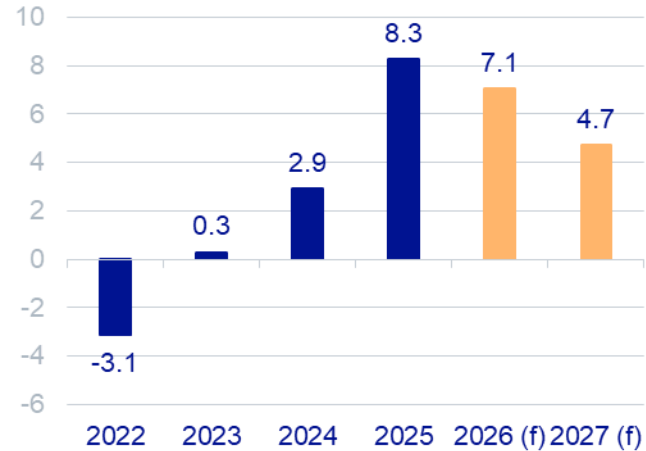
(Y/Y GROWTH, %)



(f): Forecast.
Source: BBVA Research based on MIVAU

HOUSE PRICES IN REAL TERMS

(Y/Y GROWTH, %)



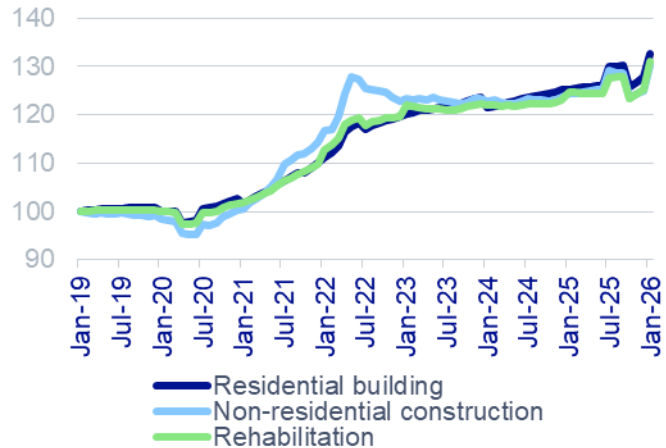
(f): Forecast.
Source: BBVA Research based on MIVAU

The slowdown in demand will not prevent prices from continuing to grow at relatively high rates in the coming quarters due to the shortage of housing supply

Forecasts

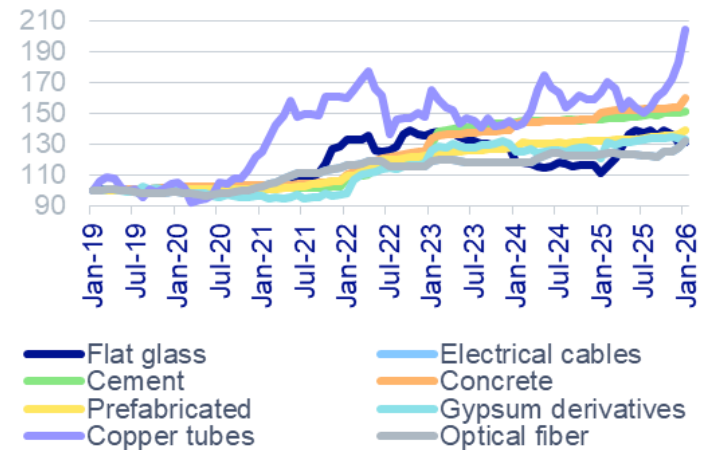
Geopolitical tensions could increase production costs

COST INDEX FOR THE CONSTRUCTION SECTOR (JAN-19 = 100)



Source: BBVA Research based on MITMA

CONSTRUCTION MATERIALS PRICE INDEX (JAN-19 = 100)



Source: BBVA Research based on MITMA

As at the beginning of the Russia-Ukraine conflict (2022), construction material costs could rise again. This increase would renew pressure on sector costs and pose a new obstacle to profitability, which is already relatively low

2. Update. March 2026

The profitability of construction*

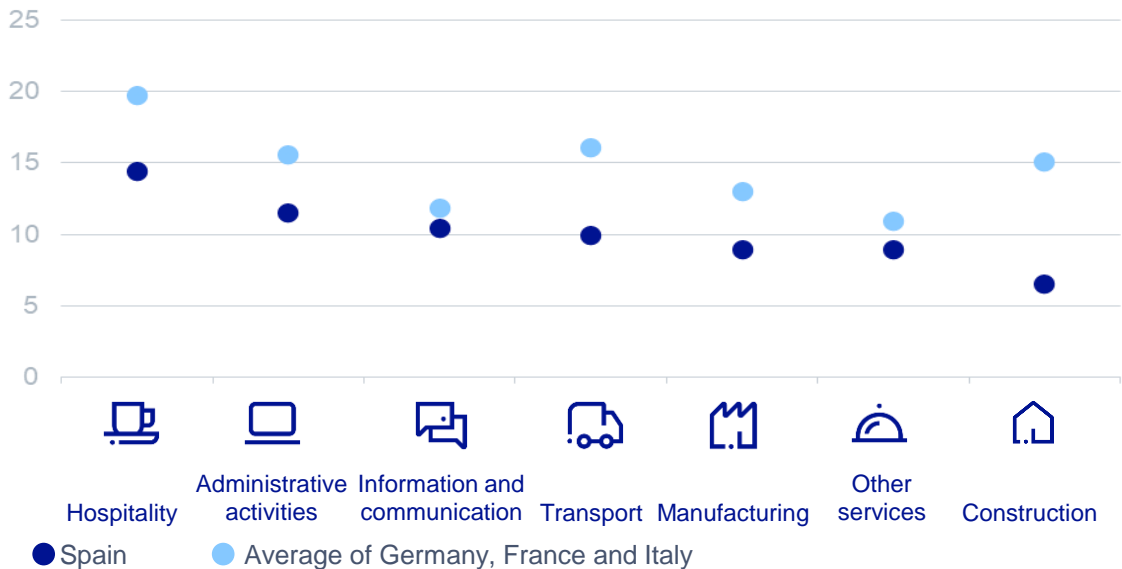
*Update of the analysis of construction profitability presented in Spain | Real Estate Observatory. November 2025.

Profitability

Spanish firms, less profitable than European firms

- The **update of companies' balance sheets** allows the analysis to be extended through 2024.
- In the main sectors of the economy, **Spanish firms show lower profitability rates than European firms.**
- **Economic literature identifies several factors behind the low profitability of Spanish firms,** such as the predominance of SMEs, a greater weight of less productive sectors, lower training and qualification levels among workers and entrepreneurs, and lower investment in innovation.

PROFITABILITY BY PRODUCTIVE SECTOR IN THE EU IN 2024
(ROE IN PERCENTAGE TERMS)



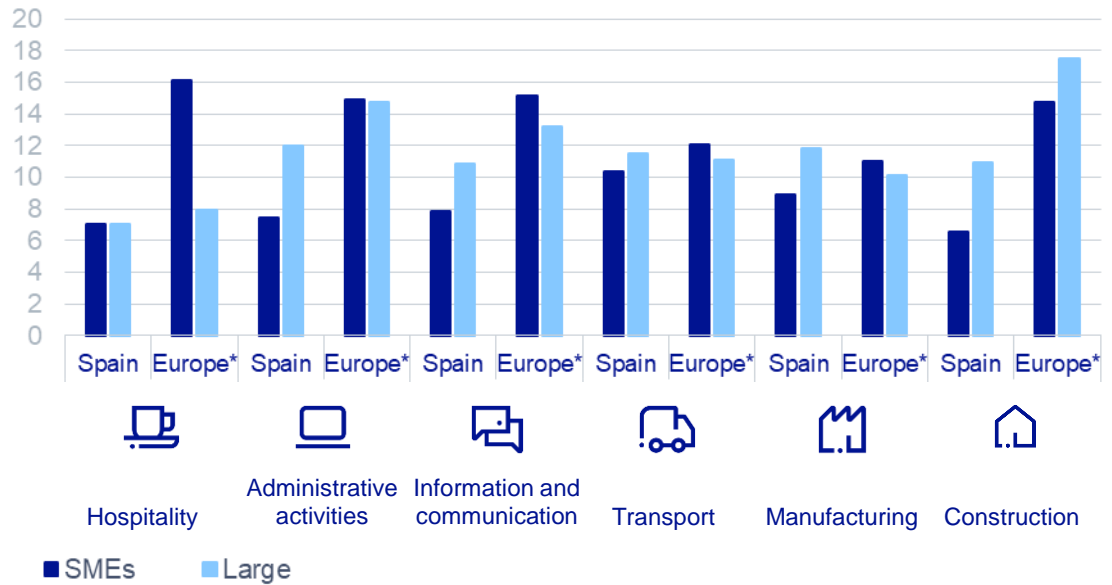
Note: the median ROE (return on equity) of each sector in each country is analyzed.
Source: BBVA Research based on BACH

Profitability

The profitability of SMEs is lower than that of large firms

- In Spain, the profitability of large firms is higher than that of SMEs in most sectors of activity.
- The profitability of European firms is higher than that of Spanish firms regardless of company size.
- However, the profitability of large firms in Spain is closer to that of their European peers. In the case of SMEs, the negative gap is larger.

PROFITABILITY BY PRODUCTIVE SECTOR IN THE EU AND COMPANY SIZE (ROE IN PERCENTAGE TERMS, AVERAGE 2000-2024)



Note: the median ROE (return on equity) of each sector in each of the countries in the sample is analyzed. Size is determined by turnover: less than EUR 50 million is considered an SME; above that threshold, a large firm.

* Europe: average of Germany, France and Italy.

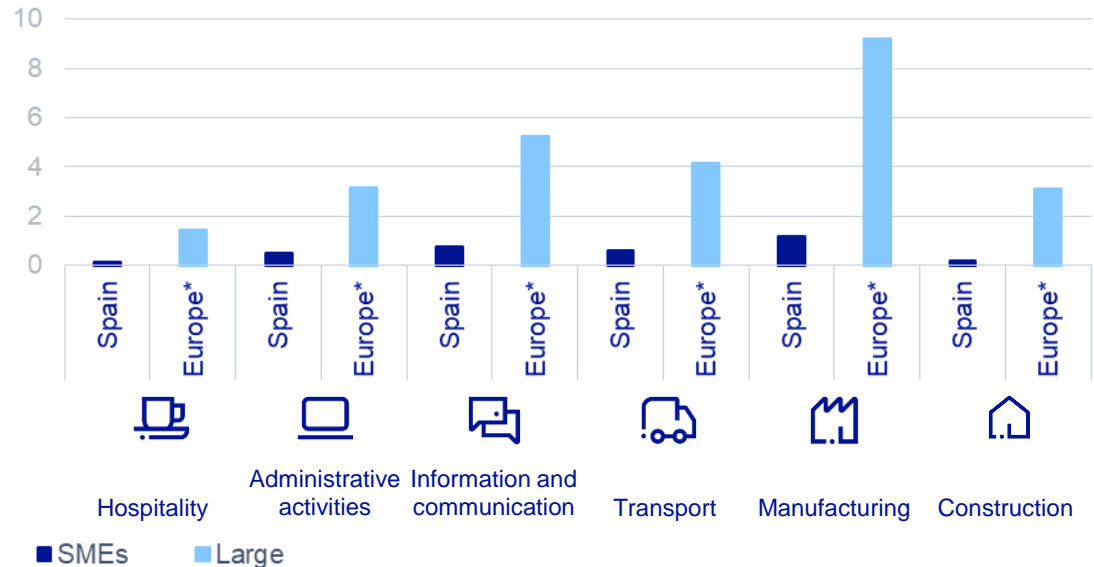
Source: BBVA Research based on BACH

Profitability

Large firms have a smaller share than in Europe

- The Spanish business fabric is characterized by a **greater weight of small and medium-sized enterprises**.
- In all major branches of activity, **the proportion of SMEs in Spain is higher than the European average**.
- Notable differences stand out in manufacturing, where large firms in Europe reach 9% while in Spain they barely reach 1%. In building construction the gap is significant (3% in Europe versus 0.2% in Spain).

WEIGHT OF LARGE FIRMS IN EACH ECONOMIC SECTOR
(% OF THE TOTAL NUMBER OF FIRMS IN EACH SECTOR, AVERAGE 2000-2024)



Size is determined by turnover: less than EUR 50 million is considered an SME; above that threshold, a large firm.

* Europe: average of Germany, France and Italy.

Source: BBVA Research based on BACH

Profitability Analysis through the Du Pont Identity

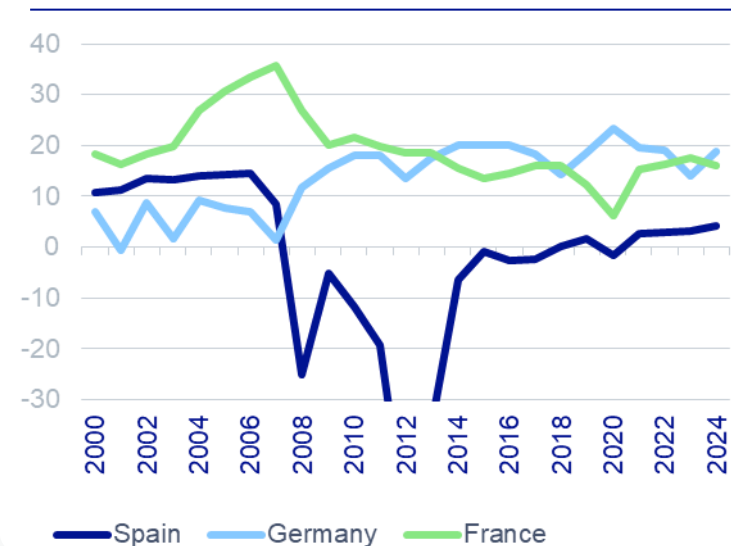


Profitability

Profitability in construction improves little in 2024

- During 2024, profitability in the construction sector improved marginally. ROE rose from 3.1% in 2023 to 4.1% in 2024
- This recovery is also visible in Germany, but not in France. Even so, **profitability in Spain remains well below that of the other countries.**
- **Rising house prices may be supporting profitability in Spain.** However, higher construction costs may be limiting that effect.
- By contrast, **the lack of regulatory progress to streamline construction processes and increase housing supply may be limiting the growth of profitability.**

PROFITABILITY OF THE CONSTRUCTION SECTOR (ROE IN PERCENTAGE TERMS)



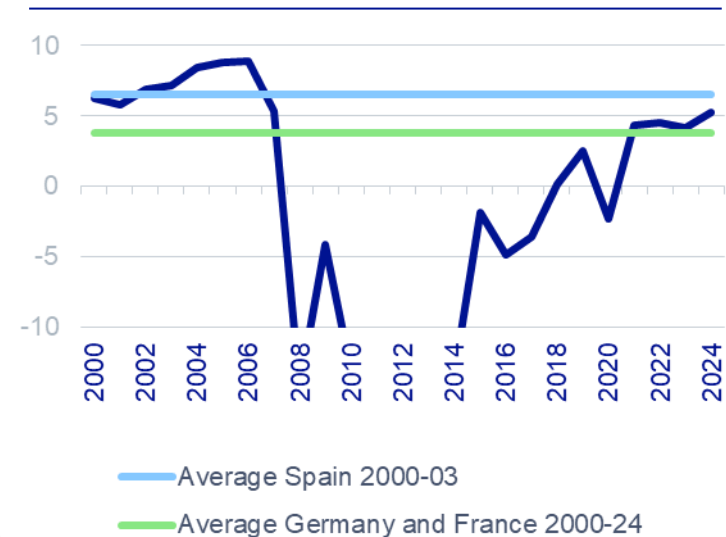
Source: BBVA Research based on BACH

Profitability

The profit margin is lower than at the beginning of the century

- The profit margin of building construction in Spain is 1.3 pp lower than in 2000 - 2003.
- Several factors may negatively affect this ratio. **High material costs, labor shortages, production inefficiencies stemming from regulatory uncertainty**, and the difficulty of passing cost increases on to final prices.
- Among the risks threatening this ratio are **material cost volatility** and **deviations in construction execution timelines**.
- **Industrialization is one of the main strategies for improving profit margins.** Conducting an in-depth analysis of land costs and development charges in each project is also important.

PROFIT MARGIN IN BUILDING CONSTRUCTION
(NET PROFIT / SALES, %)



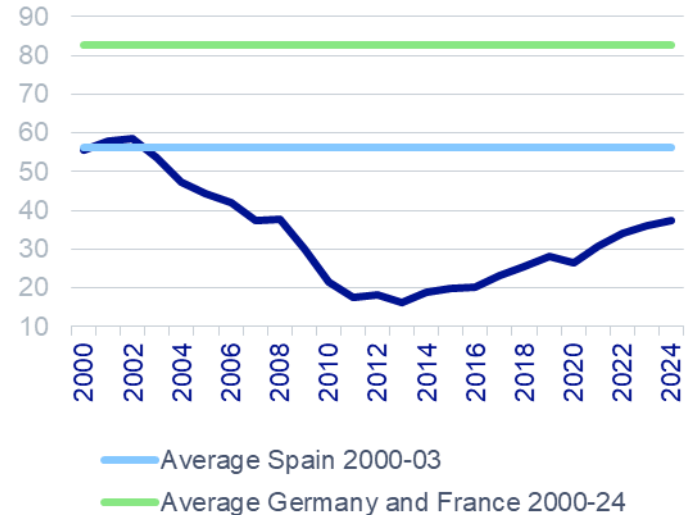
Source: BBVA Research based on BACH

Profitability

Asset turnover, at relatively low levels

- At present, asset turnover in building construction in Spain (which measures operating efficiency) is far below the 2000-2003 average and the historical average recorded in Germany and France.
- This ratio is affected by **construction execution times**, the **level of fixed assets**, especially land, and the **speed of commercialization**.
- The main risks affecting the ratio are **delays in projects** (lengthier licenses and urban planning procedures), which reduce turnover and leads to the **accumulation of idle assets** (land). Long sales cycles are also a risk, but at present they could be ruled out.

ASSET TURNOVER IN BUILDING CONSTRUCTION
(SALES / TOTAL ASSETS, %)



Source: BBVA Research based on BACH

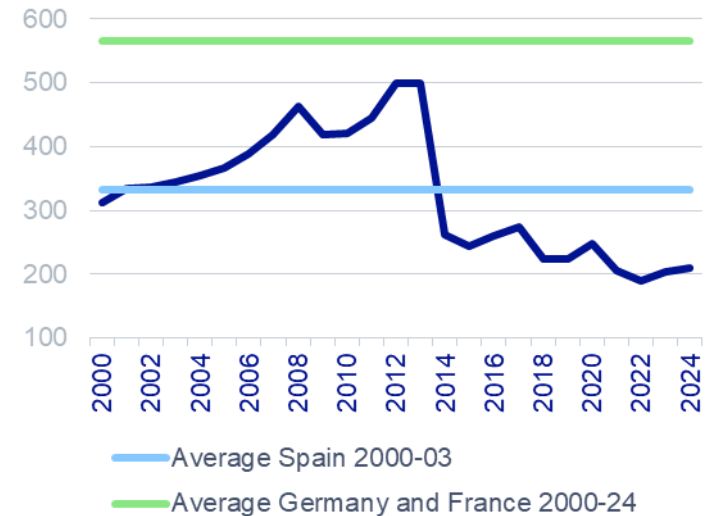
Profitability

High levels of tied-up equity

- **Financial leverage has been trending downward in recent years** and in 2024 it was far below the 2000-2003 average and the historical average for Germany and France.
- **This is in line with the necessary deleveraging process** that the sector underwent after the global financial crisis.
- In recent years, **regulatory uncertainty and the slow pace of land development have been negatively affecting project financing.**

FINANCIAL LEVERAGE OF BUILDING CONSTRUCTION

(TOTAL ASSETS / EQUITY, %)



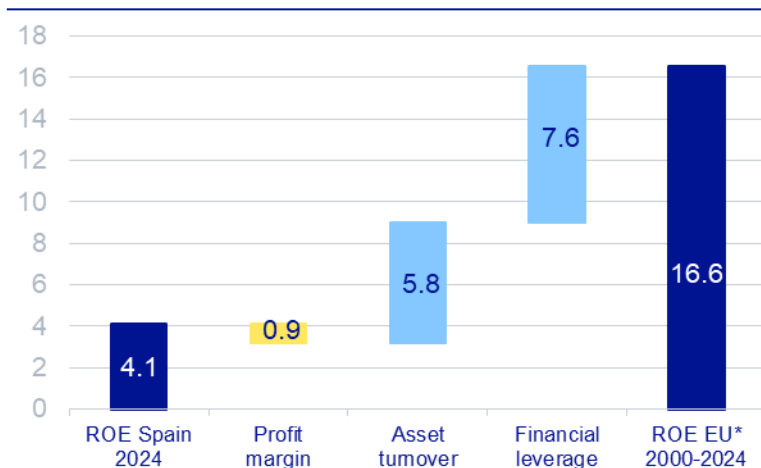
Source: BBVA Research based on BACH

Profitability

Asset rotation and legal certainty are key to increasing ROE and boosting the housing supply

- In 2024, ROE in building construction was 4.1%, around 12.5 pp lower than the historical average in France and Germany.
- Profit margins are fairly similar across the two geographies. Therefore, to reach the average profitability of these countries between 2000 and 2024, building construction would need to **increase asset turnover significantly**. But the **greatest effort should be made to increase financial leverage and free up equity**.
- **Greater certainty and shorter land development** timelines would reduce the risk of financing the activity.

RETURN ON EQUITY IN BUILDING CONSTRUCTION VS GERMANY AND FRANCE
(CONTRIBUTIONS IN PP AND %)




Source: BBVA Research based on BACH

Profitability

Some instruments could favor the growth of profitability

Sovereign fund Spain Grows

 **Objective:** to mobilize **€23 billion** for affordable housing (public and private resources).

 **Target:** start 15,000 homes per year (public-private investment).



**Estimated
impact**

Its success will depend on the extent to which financing and capital constraints are binding for residential construction, as well as on the design of the instrument and its ability to attract private capital.

Limitations



The lack of shovel-ready land, long land development timelines and labor shortages may undermine the effectiveness of the measure. In addition, the construction cycle may last 7 years and the need is urgent.

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