

## Spanish house price growth bucks general eurozone trend

Despite a decline in the fourth quarter of 2023, Spanish house prices grew by an average of 4.2% over the full year. Spain goes against the trend of many eurozone countries where average house price growth was negative last year due to rising interest rates



House prices in Spain are bucking a general eurozone trend. Pictured: a development in Bilbao

### Spain's house prices up by 4.2% in 2023

Earlier today, Spain's statistical office unveiled the house price index for the fourth quarter. Spanish house prices fell in the last three months of the year, following strong price rises earlier in 2023. They fell by 1.1% quarter-on-quarter, bringing the average growth rate for all of 2023 to 4.2%. Despite the correction in the fourth quarter, Spanish house prices showed a surprising resilience last year. While average house prices fell under pressure from rising interest rates in many eurozone countries, Spanish house prices continued to grow solidly until the last months of 2023.

The further rise in house prices despite higher interest rates has contributed to the overvaluation of the Spanish housing market. According to the latest European Central Bank (ECB) estimate, the Spanish property market was overvalued by 11% in the third quarter of 2023. Remarkably, the ECB's overvaluation measurement has started a consistent upward trend and crossed the 10% threshold again for the first time since 2010. Currently, escalating overvaluation remains a concern, albeit not yet critical. The decline in house prices during the fourth quarter is expected to

lead to a slight fall in the overvaluation estimate. On top of that, house prices in most other eurozone countries are estimated to be even more overvalued.

## House prices for new-build homes are softening

The latest house price figures indicate the upward trend in new-build house prices is softening. While house prices for new-build homes rose 11% year-on-year in the third quarter, that growth has slowed to 7.5% y-o-y in the last quarter of 2023. Although the cost of many construction materials remains stubbornly high, prices of many building materials have stabilised or even declined slightly over the past six months. As a result, there is less upward pressure to raise new construction prices further. Thus, the era of exceptionally strong price increases for new construction seems to be behind us.

## No revival in the mortgage market yet

Spain's statistics office INE recently reported a significant drop in mortgage lending by 2023. Over the whole year, the number of home mortgages fell by 17.8%. A sharp turnaround is not yet in the figures. December usually sees a slight drop in mortgage lending, but the drop was more pronounced this year than in previous years. Interestingly, despite rising house prices, the average amount borrowed in 2023 was 2% lower than in 2022. This indicates an increase in the average contribution. Higher interest rates and a continued rise in house prices have made home ownership less affordable, leading many first-time buyers to postpone their plans. Those who managed to buy a home were those who had already accumulated some savings.

## Spain's house price growth easing slightly to 3% in 2024

Expected house price growth for this year is expected to soften slightly to 3% from 4.2% in 2023. Factors that fueled growth, such as the catch-up effect among foreign investors following the pandemic, are now waning. Moreover, we expect more modest price increases for new-build homes as the prices of many building materials are stabilising or even slightly falling. Also, first-time buyers' affordability problems are expected to moderate house prices. However, there is room for further price increases due to falling variable interest rates, especially if the ECB starts cutting interest rates later this year. In addition, a growing number of Spanish households will also contribute to tightness in certain regions, which will support house price growth this year.

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