

## Spain's housing market is contracting, but a soft landing remains likely

The Spanish housing market has experienced a notable decline recently. However, despite the sharp rise in interest rates, there are enough mitigating factors that make a soft-landing scenario likely. We forecast 1% average price growth this year and 0% next year



### Spanish housing market sees 21% drop in sales in April

The Spanish housing market has entered a clear slowdown recently, with several factors contributing to reduced demand for property. Rising interest rates, tighter credit conditions and global economic uncertainties, including geopolitical instability, have all dampened housing demand. In April, mortgage demand fell below its five-year average for the first time and the number of transactions also showed a clear downward trend in the first few months of this year. The latest figures from notaries, which are usually ahead of the official figures, suggest that this downturn is likely to continue in the coming months. According to the General Council of Notaries, home sales fell 21% in April compared to the same period last year, while the number of mortgage loans to buy a home fell by 32% year-on-year.

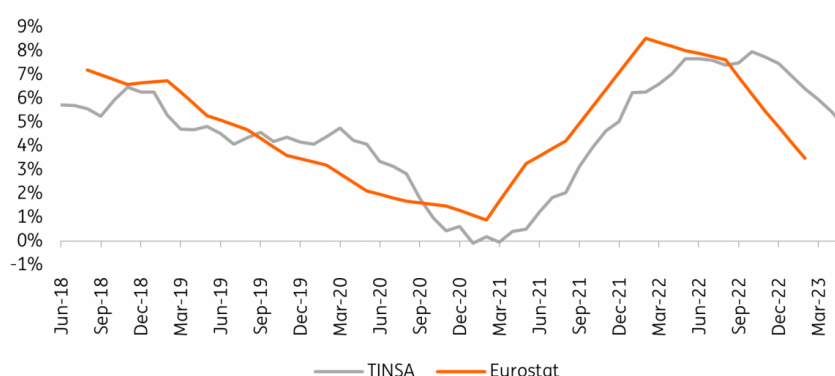
However, the downturn is much less severe than in other countries, where mortgage demand has fallen even more sharply. This can partly be attributed to increased interest from foreign buyers

following the relaxation of Covid restrictions in 2020 and 2021. Property scarcity also remains a persistent problem. Demand has exceeded supply in recent years, slowing the downturn in demand. Moreover, Spain's economy has performed better than the eurozone average, helped by a rebound in tourism, which has also supported the housing market.

## House price growth comes to a halt

Due to declining demand in the Spanish property market, there has been a marked slowdown in price growth. With a reduced number of potential buyers, sellers face fiercer competition, resulting in reduced pricing power. While house price growth peaked at 8.5% year-on-year in the first quarter of 2022, according to Eurostat, it fell to 3.5% in the first quarter of this year. Other price trackers such as TINSA also show a clear downward movement.

### Spanish house prices, in % YoY



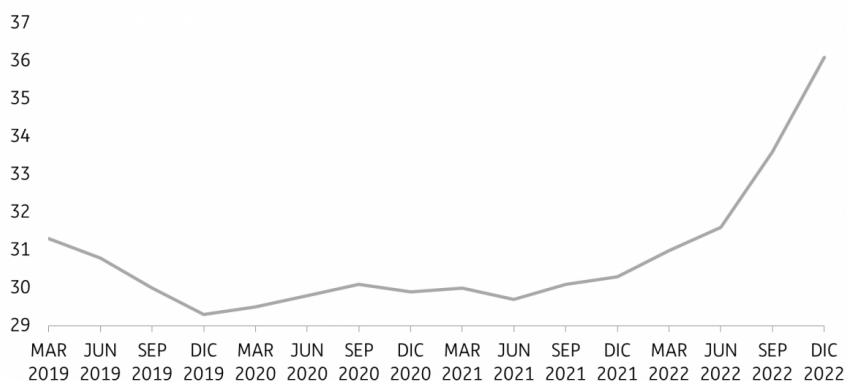
Source: Eurostat, TINSA

## Rising interest rates pose challenge to housing market affordability

Over the past year, the sharp increase in interest rates has put significant pressure on the buying power of potential homebuyers, making it challenging for prospective buyers to buy a home or to qualify for a mortgage loan at current price levels. According to calculations by the National Bank of Spain, affordability has dropped significantly over the past year. The bank regularly assesses the percentage of income an average household would have to spend if they bought a house with an 80% loan. These calculations show a remarkable deterioration in property affordability. At the beginning of 2022, households only needed to spend 30% of their income to repay loans, but by the fourth quarter of that year, this percentage had risen to more than 36%.

Although wages are picking up, interest rates rose further in the first half of 2023, which has likely worsened housing affordability. Affordability will continue to be under strong pressure in the second half of the year due to further increases in interest rates.

## Housing affordability has significantly worsened over the past year



Source: Bank of Spain

Gross monthly mortgage payments as a percentage of disposable annual income for an average household in the first year after purchasing a home with a standard loan of 80% of the home's value

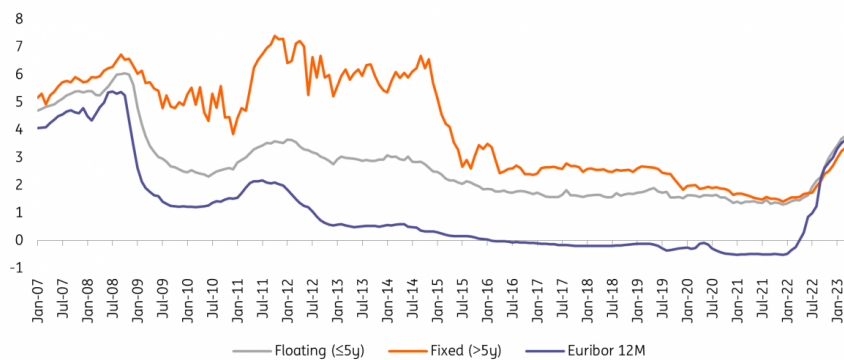
## Based on current trends, it appears that interest rates have not yet reached their peak

In the coming months, we expect more increases in interest rates, which could put further pressure on affordability. The 12-month Euribor benchmark interest rate, which guides mortgage rates, is expected to rise further, although interest rates are believed to be close to their peak. The European Central Bank (ECB) has already hinted at a 25 basis point rate hike at its upcoming meeting in July. Recent hawkish statements by some ECB members seem to indicate that one or more rate hikes will follow after the summer. This will put additional upward pressure on the Euribor. On top of that, mortgage rates have yet to catch up after the rapid rise in Euribor.

Based on current trends, mortgage rates will continue to rise in the coming months. We expect the average variable rate (with a fixed-rate period of up to five years) for mortgages to potentially peak at 5% in the second half of this year. This projection reflects a significant increase from the rate of 3.9% recorded in April 2023.

The upside potential for fixed interest rates is even bigger. Currently, there is an atypical scenario where floating rates are higher than fixed rates. This suggests that fixed interest rates have even more room to rise and again exceed floating rates.

## Evolution of interest rates on mortgage loans and Euribor 12M



Source: Bank of Spain, calculations ING

### An abrupt market crash seems ruled out

All indicators point to a substantial slowdown in the housing market this year. A further rise in interest rates will continue to put pressure on affordability and further dampen demand for mortgages later this year. While a marked slowdown is expected, several factors are also reducing the likelihood of a severe price correction or abrupt market crash.

First, the drop in energy costs reduces uncertainty for households and frees up additional budget that can be spent on monthly mortgage payments. Second, incomes will continue to rise. Nominal wage growth will pick up after the sharp drop in real purchasing power in 2022. In addition, low unemployment ensures steady growth in gross national income. The combination of rising nominal incomes and a tight labour market will provide some support to the demand side of the real estate market.

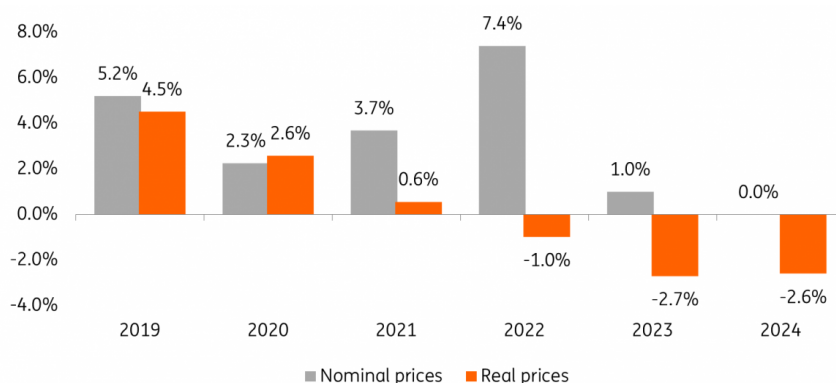
Finally, despite this current temporary dip, demand will continue to grow structurally in the coming years. Slower supply growth will create scarcity in the market, which will put upward pressure on prices.

### Weak price growth in 2023 and 2024

We have updated our forecast for the current year and now assume price growth of 1%, which is an upward revision from our earlier estimate of 0%. This revision is due to the continued house price growth at the beginning of the year, albeit at a slower pace. Our price forecast assumes a slight decline in prices in the second half of this year. For 2024, we have revised our forecast downwards to 0% from our earlier estimate of 1% as we expect the continued rise in interest rates will dampen any recovery in the property market next year.

Overall, this scenario forecasts a soft landing for the Spanish housing market. Although there is a risk of a slight drop in prices in the second half of this year, the overall price correction will remain modest in nominal terms. However, it is important to note that the correction in real terms will be significantly higher due to the impact of high inflation. Inflation-adjusted prices fell slightly last year and we expect further declines of around 2.5% to 3% in 2023 and 2024. Over a three-year period, the cumulative real price adjustment is expected to exceed 6%.

## Evolution of Spanish house prices, including ING forecast



Source: Eurostat, INE, ING forecast

### Author

#### Alissa Lefebre

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

#### Deepali Bhargava

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

#### Ruben Dewitte

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

#### Kinga Havasi

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

#### Marten van Garderen

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

#### David Havrlant

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

#### Sander Burgers

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

#### Lynn Song

Chief Economist, Greater China  
[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**  
Senior European Rates Strategist  
[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**  
Senior Economist, Poland  
[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**  
Economist, Romania  
[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**  
Senior Sector Strategist, Real Estate  
[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**  
Research Assistant, Energy Transition  
[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**  
Sector Economist, TMT & Healthcare  
[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**  
Sector Economist  
[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**  
Sector Strategist, Financials  
[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**  
Commodities Strategist  
[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)



**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klokk**

Senior Economist, Netherlands

[marcel.klokk@ing.com](mailto:marcel.klokk@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Germany, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist  
+44 20 7767 6405  
[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**  
Global Head of Editorial Content  
+44 (0) 207 767 5331  
[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**  
Chief Economist, Netherlands  
[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**  
Chief Economist, Belgium, Luxembourg, Eurozone  
[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**  
Senior Rates Strategist  
[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**  
Global Head of Markets and Regional Head of Research for UK & CEE  
[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**  
Chief Economist, LATAM  
+1 646 424 6464  
[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**  
Economist, Digital Finance  
+44 20 7767 5306  
[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)