Spain

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IN A NUTSHELL

- → New government guarantees for young people and families with children, up to 100% of the cost of the home.
- → Remortgaging increased due to rising rates and Royal Decree-Law 19/2022.
- → Outstanding mortgage loans fell.
- → 1 to 10 years fixed mortgages increased.
- → On average, prices rose by 4%, more in certain major cities and tourist regions.

MACROECONOMIC OVERVIEW

The economy performed better than expected despite geopolitical uncertainty, rising interest rates and inflation. The economy grew by 2.5% (compared to the Eurozone average of 0.5%).

This was mainly due to domestic consumption as energy costs fell (1.8% of annual contribution), external demand (0.8%) and public consumption (0.8%). Investments fell (-0.1% of annual contribution).
The return of European fiscal rules in 2024, which were suspended in 2020, may reduce public spending as the government will cut the deficit below 3%, (from 3.6% in 2023). Additionally, efforts should be made to gradually reduce total debt to 60% from 108% at the end of 2023.

Despite the positive trends in the labour market in recent years, particularly in 2023, when over 500,000 jobs were created and nearly 21 mn workers (a historical high), ongoing aging of the population remains a challenge for public expenditure.

The economy is expected to be supported by planned deployment of Next Generation EU (NGEU) funds and the expected rebound in private consumption as households regain their purchasing power. In early 2024 the economy has shown encouraging signs, and business confidence has improved. This will be supported by the ECB's planned monetary policy easing.

Given these fundamentals, a softening of credit standards and demand increasing as interest rates stabilise, the demand for real estate appears favourable. However, supply is insufficient for to meet the increased demand. This will predominantly impact first-time buyers and lower-income households with limited borrowing capacity and often encountering difficulties renting. Consequently, prices are expected to continue to increase in both purchasing and rental sectors.

HOUSING MARKETS

Due to a sharp increase in interest rates demand fell by 11%, to 638,500 transactions. This remains robust, above pre-pandemic levels. As credit conditions tightened cash transactions have increased, indicating a shift towards financially stable individuals seeking secondary residences or investment assets, partially foreign buyers, who since 2022, have represented approximately one-fifth of all transactions. Their influence is particularly pronounced in major provincial capitals and tourist areas along the Mediterranean coast and the archipelagos, where they sometimes comprise up to half of all transactions.

As has been the trend in recent years, with limited supply, existing properties account for 90% of sales. The production of new housing, at 108,000 units (based on building permits), remains similar to the previous two years and continues to be insufficient mainly due to the scarcity of developable land, low availability of qualified labour force, and the lengthy duration of land development and transformation. Regions with larger populations and higher economic activity are where a significant portion of demand is concentrated, such as Madrid, Catalonia, or Valencia, among others. Over the next five years, net creation of 220,000 households per year is estimated, with a significant portion from immigrants.

The imbalance between supply and demand has caused a widespread increase in prices since 2015, nominal prices have increased by 23%, 4% in the last year. In some tourist areas, such as Málaga or the Balearic Islands, and urban areas like Madrid, the rise has been as high as 45%. However, in the case of Madrid, this has moderated in the past year.

MORTGAGE MARKETS

Following the historically high levels of 2022, the mortgage market slowed down, with significant declines gradually moderating towards year end in line with developments in the real estate market. Loans totalling nearly EUR 56.24 bn were granted a 14% annual decrease but still 30% above pre-pandemic levels. Amid this period of market stagnation, it is important to emphasise the activity seen in remortgaging volumes: EUR 4.7 bn in 2023 compared to EUR 1.9 bn the previous year, of which 8% of gross lending activity.

Particularly against the backdrop of the significant rise in the Euribor, Commission for switching from variable to fixed rates was temporarily removed under Royal Decree-Law 19/2022 of November 22, boosting such transactions.

Financial institutions continued to maintain prudent credit standards in loan granting. Despite the rise in property prices, average debt did not increase, leading to a progressive reduction in the LTV ratio, which averaged 62% annually. Moreover, there was a noticeable decrease in the percentage of loans exceeding 80% financing, suggesting that the market has leaned towards higher-income segments that require less financing.

Reduced new credit, and increased early repayments resulted in a fall 3.2% in outstanding debt, the largest decline since 2015, although expectations for 2024 are less negative. Since late 2021, average interest rates have increased by 250 bps, to 3.71% by year end. Loans fixed from 1 to 10 years have gained market share since 2015, more significantly last year, but 70% of the outstanding loas are still floating rate, primarily linked to 12-month Euribor. Despite this, delinquency rates remained reasonably steady. Households have demonstrated greater resilience to rate increases than expected with NPLs increased by just 0.3% to 2.6%. Overall, financial institutions face 2024 with favourable prospects in terms of solvency, profitability, and activity levels in response to the anticipated easing in monetary policy and contained risk costs.

Royal Decree-Law 19/2022, enacted at the end of 2022, remained in effect. This decree established a new Code of Good Practices (CBP) to mitigate higher rates for borrowers at risk of vulnerability. Moreover, the eligibility criteria for vulnerability were broadened to encompass some excluded from the former CBP in effect since 2012. Additionally, supplementary measures were introduced to facilitate conversion from variable to fixed-rate loans. The initiatives implemented under both CBPs primarily involved extending loan durations and offering grace periods for capital repayment. The adoption of these measures has been limited, demonstrating the robust resilience of loan portfolios and the firm commitment of borrowers to their payment obligations, resulting in low delinquency rates. According to data from the Bank of Spain, around 7,900 operations were authorized under these two CBPs in 2023.

In mid-2023, the government approved Royal Decree-Law 5/2023 which provided guarantees covering loans exceeding 75% or 80% of the collateral value, subject to energy efficiency criteria. Its objective is to facilitate the acquisition of primary residences by young individuals or families with dependent children without sufficient savings. With a budget allocation of EUR 2.5 bn, this scheme sets income thresholds and property values limits depending on the autonomous region. It is expected that financial institutions will adhere to this guarantee program along 2024.

The controversial Housing Law was approved in 2023, introducing regulations that impose restrictions on rental prices and protection measures against evictions.

MORTGAGE FUNDING

According to Bank of Spain, debt issuance in the financial sector grew across all sectors in 2023 due to reduced reliance on TLTRO. Total covered bonds outstanding (EUR 190 bn) grew by just 0.1%, with more than a half still retained by the issuer for ECB repo operations. Meanwhile, outstanding mortgage-backed securitisations increased by 15% to EUR 84 bn, consolidating the growth in 2022 after several years of shrinkage.

The cost of funding increased mainly due to banks deposits. The loan-to-deposit (LTD) ratio is at an all-time low, below 85%, as a result of the deleveraging of the private economy. Over the year, there has been significant changes, with term deposits and temporary asset transfers growing substantially. However, demand deposits are still 84% of the total.

GREEN FUNDING

Following the recent approval of the Energy Performance of Buildings Directive (EPBD), the financial sector will be awaiting its subsequent transposition into our legal system, to consider sustainability standards, regulatory treatment, and practical application.

	SPAIN 2022	SPAIN 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	5.8	2.5	0.4
Unemployment Rate (LSF), annual average (%) (1)	12.9	12.2	6.1
HICP inflation (%) (1)	8.3	3.4	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	76.0	75.3	69.2
Gross Fixed Investment in Housing (annual change) (1)	1.4	0.6	-3.1
Building Permits (2015=100) (2)	219.2	217.2	94.0
House Price Index - country (2015=100) (2)	118.0	122.6	170.2*
House Price Index - capital (2015=100) (2)	138.7	145.1	165.1*
Nominal house price growth (%) (2)	5.0	3.9	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	486,890	471,915	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	10,265	9,814	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	58.5	51.1	71.3
Gross residential lending, annual growth (%) (2)	9.8	-13.8	-26.6
Typical mortgage rate, annual average (%) (2)	2.0	3.8	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:
(1) Eurostat.
(2) European Mortgage Federation - Hypostat 2024, Statistical Tables.

SPAIN FACT TABLE

Which entities can issue mortgage loans in your country?	In Spain, mortgage lending is always provided by financial institutions. Banks, savings banks, credit cooperatives, and financial credit establishments are the institutions allowed by law to grant mortgage loans and issue securities. It is worth mentioning that saving banks were especially affected by the financial crisis due to the high exposure to the real estate sector. Several saving banks disappeared through liquidation or acquisition, and most of the remaining were transformed into banks after Law 26/2013 of 27 December was passed. Since then, only small and regional saving banks operate in the market.
What is the market share of new mortgage issuances between these entities?	More than 85% of the total volume of new mortgage loans was granted by banks. Other financial institutions, like credit cooperatives and financial credit establishments, represented the remaining 15%.
Which entities hold what proportion of outstanding mortgage loans in your country?	Banks and former saving banks stand for a major part of the market, representing around 90% of total outstanding mortgage lending. The remaining 10% is covered by credit cooperatives and financial credit establishments.
What is the typical LTV ratio on residential mortgage loans in your country?	On average, in 2023, the LTV ratio on new residential mortgage loans stood at 62% (according to Bank of Spain statistics). However, the most common LTV for FTB is 80%, while for second houses the maximum level is normally 70%.
How is the distinction made between loans for residential and non-residential purposes in your country?	Residential loans include loans granted to households for housing purchase.
What is/are the most common mortgage product(s) in your country?	The most common mortgage loan product in Spain was the variable rate mortgage loan reviewable every 6 or 12 months with a French amortisation system. In variable-rate mortgage loans, the interest rate is linked to an official reference index (the most common the Euribor 12m). Since 2015, initial-fixed interest rate mortgage loans have gained momentum, representing more than 80% of gross residential lending in 2023.
What is the typical/average maturity for a mortgage in your country?	According to Bank of Spain statistics, the average maturity for new mortgage loans in Spain stood at around 24 years and a half, with the most typical term for FTB being 30 years. As usual, the real amortisation period is usually lower, around 15 years on average.
What is/are the most common ways to fund mortgage lending in your country?	Covered bonds, RMBS/CMBS, and deposits.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	The main transactions cost associated with house purchase are VAT for new housing, which represents 10% of the value of the house, and the Tax on property transfer for second-hand dwellings (with a rate normally between 6-10%, depending on the geographical area). As of 2019, after the *Law 5/2019 regulating Real Estate Credit Contracts* was passed, all costs linked with the constitution of the mortgage must be covered by the bank (Mortgage Stamp Duty – “AJD” Tax; notary, registry, and agency fees), except the cost of the valuation of the property and the notarial copies requested by the client, which are responsibility of the borrower. Another cost that is compulsory for the borrower when taking out a mortgage is the cost of fire insurance.
What is the level (if any) of government subsidies for house purchases in your country?	In 2013, the tax deduction that had been in force for years aimed at aiding homebuyers came to an end, remaining exclusively for those homebuyers who had purchased a property before that date. In 2018, a new State Housing Plan for the 2018-2021 period (recently extended until 2025) came into force, which seeks to facilitate access to housing property for vulnerable young people under 35 years old, whilst trying at the same time to boost the regeneration of urban and rural areas affected by depopulation. Eligible beneficiaries must buy a home in a municipality with less than 10,000 inhabitants and the amount granted under this scheme shall not exceed EUR 10,800 per dwelling, limited to 20% of the purchase price. In 2023, a public line of guarantees was approved through Royal Decree-Law 5/2023 to partially cover the loan for the acquisition of a primary residence for young people or families with dependent children. The guarantee has a duration of 10 years and covers up to 20% of the principal, although it can be extended to 25% if the property has a minimum energy rating of D.