When Housing Costs Rise: Economic and Social Effects Across Spanish Households

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The residential market in Spain has suffered a significant changed in the last twenty years. Before the economic crisis in 2008, the Spanish residential market was characterized by a significant share of households as owners of residential dwellings with a small share renting compared to other European Countries. In the period 2004-2011, the share of householdsâ€™ owners was around 79%, but since then, it started a progressive reduction until reaching 73.6% in 2024 (INE, 2026). In particular, there was a reduction on the percentage of owners with mortgage, which were around 31.3% in 2010 and they are 24.7% in 2024 (INE, 2026). This percentage captures the effects derived from the economic recession started in 2008 and that still shapes the market today. The recent phenomenon of gentrification, scarcity and the increase of renting prices together with the presence of structural imbalances explain the current situation of the household market.
CGE models have been used to evaluate different housing policies along time. Berkovec and Fullerton (1992) applied a static disaggregated general equilibrium model that includes owner-occupied and rental housing demand as risky assets, as well as endogenous consumption and investment decisions. Feltenstein et al. 2017, evaluated a proposal that reduces by half the taxes on homesteaded properties and replaces the lost revenue by increasing the base and rate of the state sales tax in Georgia (USA). They conclude that such a policy has no effect on the distribution of consumption by income class but increases the percentage of owner-occupied housing relative to rental housing by 20 percent in the aggregate. Kim et al. (2022) using a CGE model showed that it would be more effective to increase the property tax rate than the acquisition tax to stabilize housing prices with a moderate increase in housing demand. Using a CGE model, Ã•lvarez-MartÃnez et al (2024) evaluated the impact of increasing the price of buying new residential houses in AndalucÃa using a CGE model. However, none of these studies evaluate the effects of direct increases of prices on housing rentals and the distributive effects of subsidizing these costs.
Our paper pretends to fulfill this gap in the literature and, using a CGE model for Spain calibrated with a SAM for 2022 elaborated by the authors, we evaluate the effects o increasing housing rents in 10%, 20% and 30% and subsidizing these costs with subsidies of 25%,50% and 75%. In the model we assume that investment is fixed in the short run and it does not react to changes in savings. The preliminary results show that increases in rental housing prices have quite negative effects on total output, particularly in the Real State Sector with suffers reductions on its value added and domestic production of around 4 to 11%, depending on the simulation. These effects are translated other sectors and to employment and unemployment, with significant changes depending on the skill level. The negative effects are also reflected in public accounts, with reductions of tax revenues as percentage of GDP, as the Other taxes net of subsidies on production and Social Security Contributions. The only tax that has significant positive effects, as a percentage of GDP, are the revenues from Corporate taxation, since we are assuming that the revenues from higher rental prices go to the corporate sector, an assumption that will be relaxed in future simulations and sensitive analysis. The model also captures the effects on households by level of income, with more negative effects on poor households than in medium income households. The effects of subsidies help to mitigate these negative effects and reduce the negative impact on the main macroeconomic variables affected.