

Housing demand: Quo vadis?

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One of the major issues of political and social discussion in Catalonia and Spain in recent years has been the malfunctioning of the housing market. Using the case of Catalonia, I suggest that there are several explanations of demographic origin for this. First, there is a growing mismatch between the demographic demand for housing and the new supply available. I estimate that in the period 2014-2020 the Catalan household stock increased by 222 thousand units to 3.1 million, while only 50 thousand dwellings were completed. In 2019, the deficit of new housing, measured as the difference between net household growth

and completed dwellings, was 35 thousand. Second, demographic demand is no longer stable but cyclical and uncertain. In 2013 some 9 thousand households were added to the stock and, in 2019, 45 thousand. Similar mismatches are happening in Spain as a whole.

In this issue of *Perspectives Demogràfiques*, I show how the distribution of the demographic components of demand has changed, tending to a greater weight of less stable factors like immigration, which accounted for 93% of net household growth in 2019, or the evolution of household structure, which explained more than 10 thousand additional households per year in the early 2000s. Next, I draw attention to the growing housing supply-demand mismatch. Finally, I suggest that one of the main challenges of applied demography is how to contribute towards new housing policies that consider the cyclical impact of conjunctures, non-linearity of trends, and uncertainty.

The new demographic foundation of housing demand

How is the new demographic base of housing demand developing? This base is constituted by growth in the number of households, a volatile figure. While 20-40,000 households are now being added annually, in the early

2000s the figure was almost 80,000 households. Four factors explain the variation in the number of households: the number of adults in relation with past natural increase, their age distribution, foreign immigration of mainly adults, and the dynamics of household formation (leaving home, divorce and stepfamilies, and residential autonomy of the elderly). The importance of each factor depends on the stage of demographic evolution.

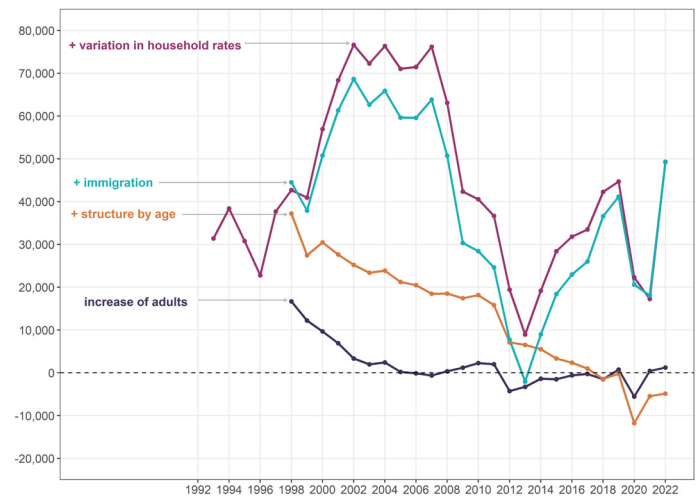


Figure 1. Breakdown of the recent change in new households into its main demographic components. Catalonia

Source: Author, using Estadística de Població and EPA. Variation in household rates / Immigration / Structure by age / Increase of adults.

During the Demographic Transition, fertility was the predominant factor driving changes in the number of households, as it determined the influx of adults reaching the age of household formation. It encompasses a stable and foreseeable element in shaping household dynamics, and was the main quantitative factor explaining housing needs. In post-transitional populations, particularly those with a significantly low fertility rate like ours, the influence of fertility as a driver of household variation diminishes, as the number of native adults tends to decline. Fertility reduction and ageing, however, caused in Catalonia a momentum of young adults that fed into household formation for a while. Subsequently, as members of empty cohorts joined the adult ages, the flow of new young households diminished and mortality related dissolutions increased as the full cohorts reached the oldest ages. As a result, the net balance of new households declined over a few decades. This evolution of the number and age structure of native adults was tendential and, therefore, easily predictable.

demand and supply. In a report for CaixaBank Research, Montoriol (2023) identifies a growing gap between demand and supply in Spain and points to metropolitan Barcelona as one of the areas most affected by the shortage of supply. She mentions structural, economic, and bureaucratic factors that hinder supply from matching demand in several Western countries. Myers et al. (2021) also identify a deficit of new construction in the United States that limits stock turnover (especially rental), housing demand and geographic mobility.

Availability would join affordability as a pressing housing concern. The mismatch between insufficient supply and unmet demand will have to be resolved either by a downward adjustment in demand (reduced immigration, further delay in leaving home calendars), or by the emergence of housing arrangements outside formal or traditional channels. Ideally, public initiatives could ensure a planned and sustainable increase in new construction for achieving a necessary rebalancing.

Forecasting and managing an uncertain and cyclical demand

Housing policy, along with applied demography, faces the challenge of incorporating uncertainty and demographic cycles into the analysis and management of the relationship between housing supply and demand (Paris, Frey, 2018). Ensuring the supply of housing in the long term is essential, in accordance with the net growth of households and the ageing of the existing housing stock.

In the future, changes and fluctuations of different intensities and speeds will continue to shape developments, with immigration playing a crucial role. Figure 3 illustrates the recent cyclical evolution of the variation in the number of households as an expression of residential demand, also depicting imagined demand cycles in the future, and contrasting both with the horizontal and inertial evolution of household growth projected in recent years by public statistics offices.

Irregular and unpredictable cycles, as evidenced by the outbreak of the Ukrainian war during the recovery from the Covid-19 crisis, may become the prevailing pattern. If housing supply does not promptly respond to increased demand triggered by a major immigration event, public intervention must ensure swift alignment of new supply with demand, potentially compensating for cyclical fluctuations. To address this, public housing policies need a decisive renewal, enabling collaboration with the private sector in line with public interests or through public development initiatives. The details of how to achieve this are beyond the scope of this paper, as are the most appropriate tenancy typologies. However, it can be said that public action will require improved data and more accurate forecasting. And this is a task for demographers.

To date, demand forecasts based on official household projections have predominantly relied on linear and trend

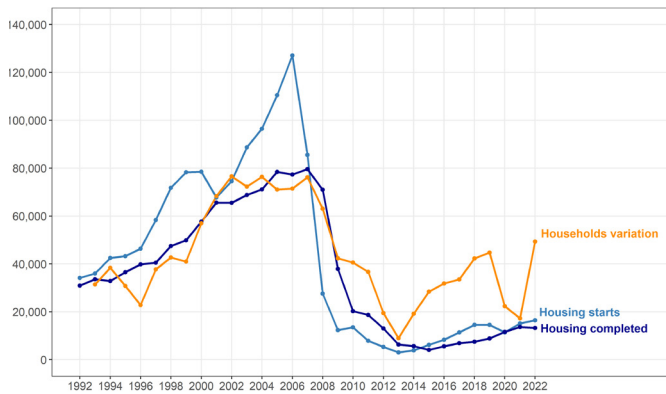


Figure 2. Evolution of housing construction and household stock change. Catalonia

Source: Author, using Estadística de Població and EPA. Housing starts / Housing completed / Homes variation.

The data confirm that supply and demand (Figure 2) are currently decoupled. Aggregate demographic demand seems to fluctuate systematically according to economic and migratory cycles as the endogenous net demand is negligible or negative. Furthermore, it is structurally constrained due to the high age of leaving home. This cyclical configuration is uncertain. And, this is the main point, it does not seem to stimulate construction, which does not follow the same cyclical pattern as demand. Figure 2 shows a pattern of new supply that matches demand only at its cyclical low-points. Might it be that change in the demographic foundations of housing demand has impacted the demographic stimuli for developers and builders, both public and private? Is it the case that a demand system based on immigration does not influence supply in the same way as one based on endogenous demand among the young? These are questions that merit further study.

The Covid-19 pandemic sparked the crisis that followed in the demand side of this new system after the GFC. The subsequent recovery again widened the gap between demand and supply. If this divergence-convergence cyclical pattern settles, housing deficits will accumulate and overall unmet housing needs will emerge for the first time in 50 years.

