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SPAIN

Spain’s rental dilemma: protecting tenants won’t fix the housing shortage

Spain s housing crisis has become a defining political issue and will dominate the 29 November election. While rent controls can protect existing tenants, they cannot fix a market where more than two new households have been formed for every home completed since 2021



Demonstrators march through central Madrid to demand measures to address Spain's housing crisis

Rejected housing measures send Spain to the polls

Spain heads to the polls on 29 November, months ahead of schedule, with a deepening housing crisis the main reason for the snap election.

On 2 October, parliament rejected two emergency housing decrees. The first contained a broad package of measures, including stronger eviction protection, limits on rent increases and tighter regulation of temporary and room rentals. The second dealt specifically with leases reaching the end of their protection, making renewal for another five or seven years the default unless one party gives notice and generally requiring compensation of about one year's worth of rent where the landlord decides not to renew. Three days later, Prime Minister Pedro Sánchez called a snap election.

The political trigger was the eviction of an 87-year-old tenant in Madrid, after which protests

spread around the country. But pressure has been building for years. Housing has become one of Spain's most politically sensitive issues, particularly for younger households that cannot afford to buy and struggle to find a reasonably priced rental.

The election debate will centre on whether stronger tenant protections can make renting affordable again. They can help, but they cannot solve the problem on their own.

Getting a new lease is becoming much more expensive

Spain's rental market is increasingly split in two: those with existing contracts and those trying to secure one.

For contracts signed after 26 May 2023, annual rent updates are limited by the IRAV, a reference index published by the Spanish statistics office, INE. It takes the lowest of three measures: headline inflation, core inflation and an adjusted average based on those two inflation rates. The index is designed to prevent unusually large annual increases in existing contracts and is less volatile than headline inflation. In August 2026, the IRAV stood at 2.47%.

For older contracts, the applicable update depends on the contract and the legislation in force. Where the contract provides for an update in line with consumer prices, August's inflation rate of 4.3% could be relevant. The existence of either index does not automatically entitle a landlord to increase the rent: the contract must allow for an annual update, and the applicable rules depend on when it was signed.

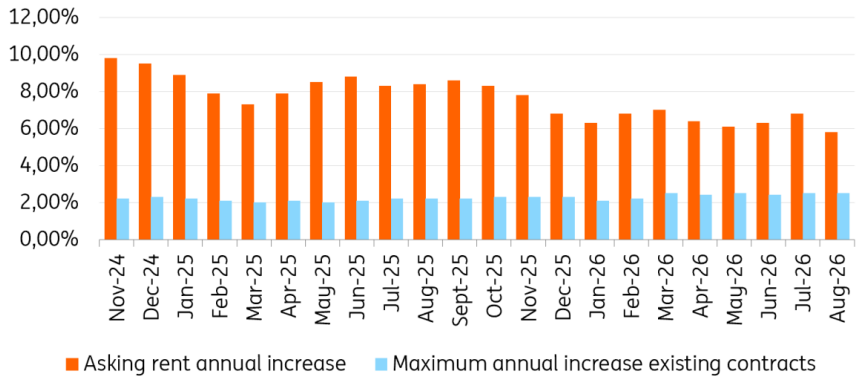
Newcomers face a different price. Advertised rents on Idealista, Spain's largest property portal, rose by around 6% year-on-year during the summer, after recording growth of close to 10% in late 2024. Growth has slowed, but the gap between regulated increases on existing contracts and the price of entering the market remains substantial.

The measures are not directly comparable. Asking rents are advertised prices for properties currently on the market. The IRAV governs annual updates for relevant contracts already running. But that is precisely the point: the price of getting in has decoupled from the price of staying.

Other evidence points in the same direction. CaixaBank Research, using anonymised rent-payment data, found that rent increases remained below 3% where the tenant-landlord relationship did not change. By contrast, increases in new rental relationships exceeded 10% at the end of 2025.

Young people leaving home, recent migrants, separating couples and workers moving to expanding employment centres are most exposed to the open market. Existing tenants may be protected against sharp annual increases, while households looking for a new property compete for a limited pool of available homes.

Asking rents are rising faster than permitted contract updates



Source: Idealista, INE, ING Research

Annual change in advertised asking rents (Idealista) and the maximum update for existing contracts (IRAV).

2026 puts contract security in the spotlight

Standard residential leases provide a minimum term of five years when the landlord is an individual and seven years when the landlord is a company. This can be followed by annual extensions for up to three more years. Under the existing system, tenants therefore lose their guarantee of continued occupancy after eight or 10 years.

The proposed automatic-renewal decree was aimed at reducing that uncertainty. The original decree argued that contract expiry had become an important channel through which market rent increases are passed on to households after eight or 10 years of tenancy protection.

Extending a contract can prevent displacement and give a household greater security. But it also illustrates the limitation of tenant protection: an extension keeps one tenant inside the protected market for longer, without creating an additional home for the next household.

Regulation can also change market behaviour. Some landlords may seek higher rents at the beginning of a tenancy, move towards temporary or room contracts, or sell the property. Spanish evidence on the scale of these effects remains mixed. But the government's decision to tighten the rules around temporary and room rentals shows that policymakers regard such shifts as a material risk. The broader October decree required a genuine and verifiable reason for temporary letting and sought to prevent landlords from using repeated short contracts to avoid ordinary tenancy protections.

Homebuilding never recovered from the financial crisis

Spain's housing shortage did not appear overnight. Residential construction collapsed following the financial crisis and remained exceptionally weak throughout much of the next decade. The

country moved from building too much before 2008 to delivering relatively few new homes afterwards.

For several years, this was less visible because household growth was also subdued. But household formation began to pull away from housing delivery around 2016 and 2017. Since then, demographic demand has increased while completed housing has responded only gradually.

Immigration is an important part of this shift. Ahead of the upcoming snap election, far-right Vox has drawn a link between migration and housing shortages. But the number of households is also affected by changes in how people live. When adults leave the parental home, couples separate, or more people live alone, the number of households can rise faster than the overall population.

The problem is no longer a lack of demand for new homes. It is the speed and capacity with which supply can respond. Housing development in Spain involves several layers of national, regional and municipal administration. A shortage of ready-to-build land, lengthy permitting processes, infrastructure constraints, high construction costs and labour shortages can all delay delivery.

The European Commission's 2026 housing assessment for Spain recommends reducing permitting times, removing administrative bottlenecks, addressing construction labour shortages and increasing the provision of social and affordable housing.

The consequences are increasingly visible in purchase prices as well as rents. Spain's national house price index rose by 12.2% year-on-year in the second quarter of 2026, following increases of 12.9% in both the first quarter and the final quarter of 2025. That is a marked acceleration from annual growth of just 3.5% at the beginning of 2023. The latest figure is only slightly below the 13.1% recorded at the beginning of 2007, shortly before the previous housing downturn.

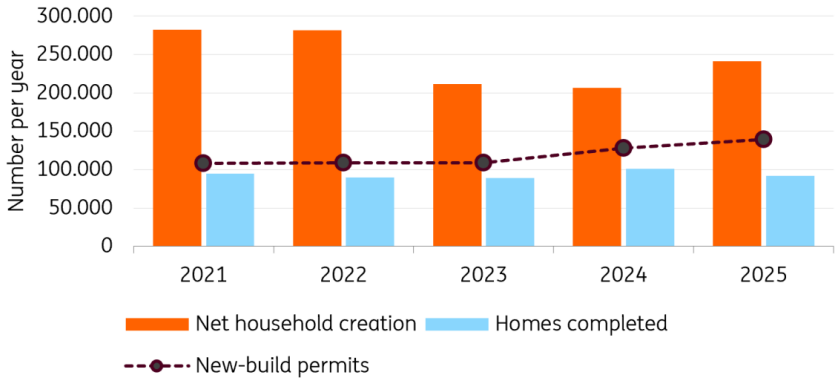
Household growth has overtaken housing delivery

Between 2021 and 2025, Spain added approximately 1.22 million households but completed only around 466,000 homes. That amounts to 2.6 additional households for every completed dwelling and leaves a cumulative gap of roughly 756,000 homes, according to our calculations using INE and Housing Ministry data. Much of the imbalance is concentrated in large and fast-growing housing markets such as Madrid, Barcelona, Valencia, Alicante and Murcia.

The figures should not be interpreted as a precise estimate of the number of homes Spain is "missing". In fact, this may be an underestimation of the gap, as some newly completed properties are second homes, tourist accommodation or purchases by non-residents. Completions also do not account for demolitions or conversions.

The pipeline is improving, but only slowly. Around 139,000 new-build dwellings received permits in 2025, while approximately 92,000 homes were completed. Permits are a leading indicator and generally take years to become finished properties. Some authorised projects may never be delivered. Even if every permit issued in 2025 eventually became a home, the number would still be well below that year's net household creation.

Household formation has increasingly outpaced housing delivery



Source: INE, Ministry of Housing and Urban Agenda, ING Research

What the election can and cannot change

Spain's political blocs agree that there is a housing crisis, but they disagree on the cure.

The left emphasises rent caps, contract extensions and eviction protection. The centre-right Popular Party argues that stronger regulation risks discouraging the investment needed to expand supply, and instead promises faster planning and more construction.

Each side holds part of the answer. Tenant protection has clear social value. Without it, households that have paid reliably for years can face sudden displacement when a contract expires. Regulation can smooth rent increases and provide greater security, particularly when open-market rents rise much faster than incomes.

But protection primarily determines how an existing shortage is distributed. It cannot, on its own, increase the number of homes. Expanding supply is therefore indispensable, but that requires more than ambitious construction targets. Spain needs additional ready-to-build land, faster and more predictable planning, sufficient infrastructure and construction capacity, and a much larger stock of social and affordable rental housing. Even then, the results will be slow. Closing the accumulated gap would require several times the current level of completions.

No government elected in November can close such a gap within one term. With housing supply likely to remain constrained, upward pressure on new-contract rents is unlikely to

disappear quickly, regardless of the election outcome.

Spain's next government should therefore be judged on two outcomes: how much tenants pay and how many people can find a home at all.

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