Who stays, who pays?
Local Housing Market Adjustments to Immigration in Spain

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1 Extended Abstract

Spain faces an unprecedented demographic challenge. Declining birth rates and rapid population aging threaten the sustainability of public finances, economic growth, and the efficient allocation of resources. In this context, immigration has emerged as a key driver of population dynamics, with the foreign-born population growing by nearly **48%** between 2014 and 2025. This resurgence in immigration flows — visible in Figure 2, which shows the share of foreign-born population recovering to levels similar to those of earlier years, whose rapid growth was partly driven by the large-scale regularisation of undocumented immigrants in 2005 — has sparked an intense public and political debate about the consequences of immigration, not only for the labour market but also for the housing market. This concern is particularly pressing given that, over the same period, housing supply has remained highly inelastic relative to the construction boom of the early 2000s (Figure 1), leaving local housing markets with limited capacity to absorb demand shocks. In this context, and at a time when the government has announced new regularisation measures for 2026, housing has become a focal point of the social and political agenda.

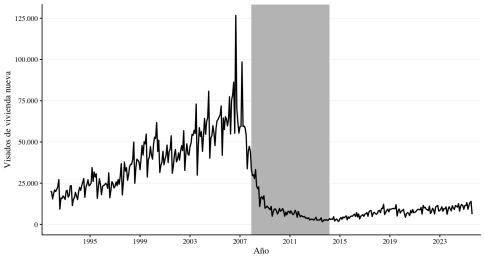

Figure 1: New construction visas (1991–2025)

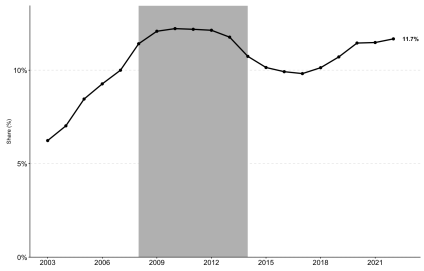

Figure 2: Share of foreign-born population

We study how local housing markets adjust to immigration using a novel municipal-level panel that offers substantially greater spatial detail and measurement accuracy than existing evidence for Spain, which largely operates at the provincial (NUTS 3) level and often relies on listing or appraisal values. Our analysis draws on a balanced panel of 699 municipalities (LAU 2 level)[1], combining administrative population registers (Padrón Continuo) with transaction-level housing data from the Portal Estadístico del Notariado for the period 2014–2025. Housing variables include the average transaction price per square metre and the average transaction price per dwelling.

Since immigrants location choices are endogenous, we instrument municipal immigration changes using a shift–share (Bartik) instrument. A key concern with standard shift–share designs is that national inflows may still reflect demand-pull forces correlated with local economic conditions; we therefore strengthen the exogeneity of the shift component by predicting origin-specific national inflows

[1] We focus on municipalities with more than 10,000 inhabitants, excluding Vasque Country, Navarra, Ceuta and Melilla due to data limitations.

using a gravity model of push factors. The instrument is strongly predictive of municipal immigration changes even in the most demanding specifications, with first-stage F-statistics well above conventional thresholds. We adopt a first-differences model that controls for supply-side factors through changes in the number of construction firms, changes in consolidated urban land, and changes in developable land; demand-side controls include municipal unemployment and a Bartik index capturing changes in local labour demand driven by sector-specific employment shifts. We also include a variable that captures spatial spillover effects from rising immigration in neighbouring municipalities.

Our IV estimates show that a one percentage point increase in the local immigration rate raises housing prices by **0.7%** in the short run, with the effect growing to **2.36%** in the long run. These estimates are robust to the use of alternative price measures, including appraisal values and rental prices, although the effects are smaller in those cases.

We also examine whether immigration triggers internal mobility responses among the native population. To the extent that natives leave high-immigration areas (*native flight*), our estimates would understate the true effect on housing prices. However, the results show that immigration does not significantly affect native mobility across Spanish municipalities, which strengthens the validity of our structural estimates. A further key finding is that our IV estimates show no correlation between immigration and local housing supply expansions, providing evidence of supply inelasticity in high-immigration municipalities.

Finally, we document heterogeneity in our results across municipality types and urban hierarchies. In the short run, the positive effects of immigration on prices are concentrated in large cities, where housing supply is particularly inelastic due to strict planning regulations, high building density, and limited land availability. In the long run, however, these effects moderate in large cities and extend to intermediate-tier municipalities — medium-sized towns, suburban areas, and rural municipalities. We explain this pattern through the internal mobility of both native and immigrant populations, using data on inter-municipal migration flows: intermediate municipalities with high immigration receive notably larger flows of internal migration, and this co-location with the immigrant population drives stronger demand pressure and, consequently, higher housing prices.