

REAL ESTATE ACTIVITY

Improved demand is driving construction activity

Spain Unit

The information available in November on the real estate sector confirms a turning point in demand, with two-digit growth rates, in a context of progress towards price stability. The slight increase in the number of building permits during the summer months suggests that the sector has already bottomed out, in terms of building activity, and that 2015 may mark the beginning of a moderate recovery in residential developments.

The improvement in housing sales continues

The latest housing sales figures, for September, demonstrate the improvement throughout 2014: sales that month leapt at a year-on-year (YoY) rate of 20.7% (Figure 1). This improvement in sales is underpinned by the recovery in residential demand fundamentals: employment grew again and, in its turn, consumer confidence continued to show an upward trend. Furthermore, all this is taking place in an environment of financial stability which the reduction in funding costs continues to encourage. All in all, aggregate housing sales between January and September revealed growth of 18% over the same period the year before, which corroborates our forecast that 2014 will mark the turning point in operations.

This improved stance in sales is also having a positive impact on the mortgage markets, where the performance of credit for new home purchases by households also grew: specifically, in September the trend on the part of credit showed YoY growth of 16.1% (Figure 2).

The recovery in construction activity persists

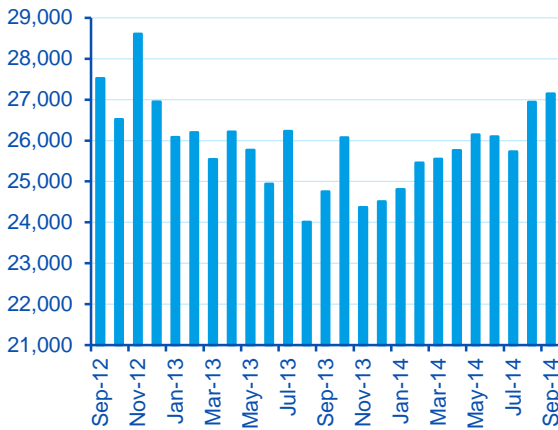
The latest figures on the property industry herald the recovery of activity in the residential building segment: new-build housing construction permits are already showing a path of growth and, up to the third quarter of 2014, have enjoyed five consecutive quarters of growth, the longest period of progress since the crisis began. For the moment, the aggregate for the first nine months of the year shows a 5.7% increase in permits over the same period the year before (Figure 3). All this is ratified by the figures from the Quarterly National Accounts for 3Q published last Thursday by INE, the National Statistics Institute, in which, for the first time in seven years, investment in housing showed a positive growth rate (1.3% in quarter-on-quarter rates).

Furthermore, businesses are feeling less negative about the future outlook for the sector, reflected in the timid recovery in the industrial sentiment indexes in all construction segments. This improvement in activity has also spread to the labour market, where all the employment indicators show a positive movement in the building segment. Unemployment in the sector fell by nearly 9,500 workers in October.

Housing prices continue moving towards stability

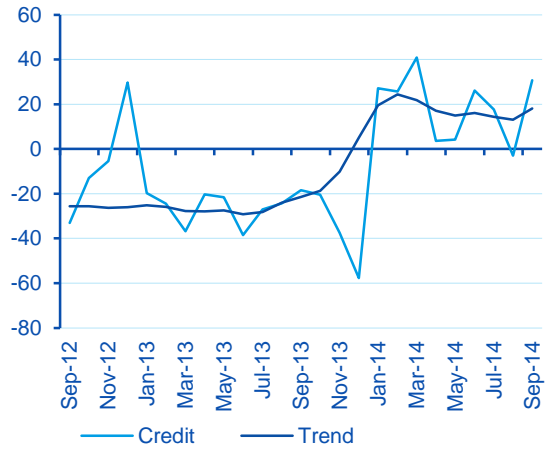
The moderation in the housing price correction, which began a few months ago, continues: according to data from the Ministry of Development, in the third quarter the YoY adjustment was 2.6%, that is, 0.3pp less than the previous quarter. Even so, since they peaked, housing prices have accumulated a drop of 30.7%, which is the equivalent, after discounting the effect of inflation, of 37.5% in real terms. Between the regions, the change in housing prices continues to show major differences: the price has remained relatively stable, for example, in a group of regions which make up two-thirds of the country's economy (Figure 4).

Figure 1
Spain: housing sales (swda figures)



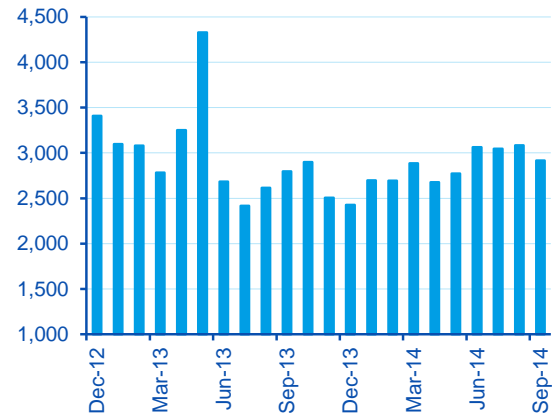
Source: BBVA Research based on CIEN

Figure 2
Spain: lending for new home purchase transactions (% YoY)



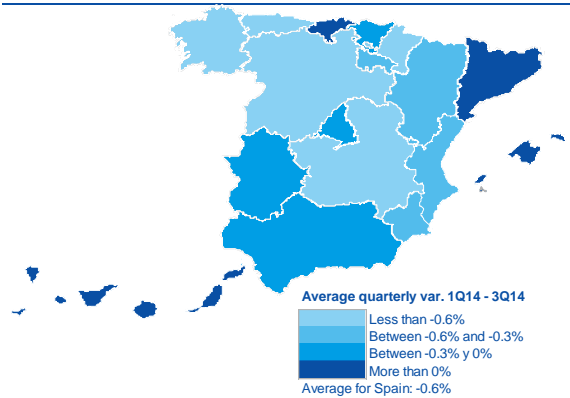
Source: BBVA Research based on Bank of Spain

Figure 3
Spain: housing permits (swda figures)



Source: BBVA Research based on Ministry of Development

Figure 4
Spain: housing price (average quarterly var. between 1Q14 and 3Q14)



Source: BBVA Research based on Ministry of Development

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