

## REAL ESTATE ACTIVITY

## Sales jump, thanks to solid demand

Spain Unit

**Housing sales rose in November, with the result that nearly 350,000 units will have been sold by the end of 2014. The variation in employment, which grew more than expected according to LFS figures, together with another drop in interest rates, is continuing to support the recovery of demand fundamentals. More home building permits have been issued than the year before and the sector is once again creating jobs.**

### November sales recover the ground lost the month before

Housing sales increased in November, recovering the ground lost the month before. Over the month, sales topped 31,500 transactions, with the aggregate for the first 11 months coming to nearly 320,000 homes sold, a 17.5% increase over the same period in 2013. Specifically, in November, transactions accelerated at an annual rate of 14%, proving that demand is solid (Figure 1).

This greater dynamism in sales is also showing in mortgage lending, as evidenced in the changes in loan origination for new operations for home purchases in November, which grew at a year-on-year (YoY) rate of 34% (Figure 2). In the first 11 months of the year, the number of loans granted for home purchases increased by 45% YoY, which suggests a clear change in the trend of mortgage lending.

### The fundamentals of residential demand continue to improve

The recovery in demand is demonstrated by the positive change in the fundamentals. Note the improvement in the job market, as shown by the figures, both for Social Security affiliations and the Labour Force Survey (LFS): specifically, in the last quarter of 2014, the active population grew by 1.0%, after seasonal adjustments, over the previous quarter, while at the same time unemployment fell again, for the seventh quarter in a row. Thus, at the end of 2014 there were 425,000 more people working in the Spanish economy than at the end of 2013 (Figure 3). As well as the improvement in employment, consumer confidence also increased in December, revealing a higher proportion of consumers who believe that the economic outlook will improve over the next twelve months.

Figures for the third quarter of 2014 show an increase in gross household income, for the second consecutive quarter. Furthermore, the expansionary tone of monetary policy is still being reflected in a reduction in the cost of financing: in November, the mortgage rate for new purchase operations was 2.72%, 0.15pp less than the month before, and nearly 1pp less than at the beginning of 2012, the most recent high. The changes in both factors, in a context of stagnating prices, mean that the financial effort required to buy a home has decreased.

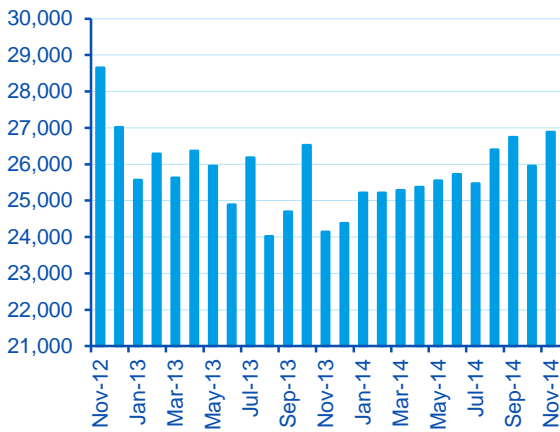
### New building permits make a temporary adjustment

In the area of construction, the latest new building permits data show that building starts contracted in November, but this has not prevented building permits for 2014 as a whole from outperforming the year before (Figure 4). However, this is thought to be a transitory correction, given that the remaining supply-side variables continue to show an expansive trend.

Jobs have performed well in the sector, with both the numbers of people registering with Social Security and sector unemployment showing better results than the month before. The Labour Force Survey shows that, if one compares 4Q14 with 4Q13, employment in construction increased by around 40,000, the first rise since 2008.

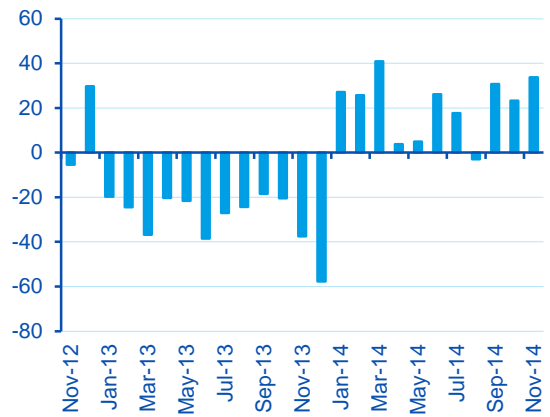
Business people's expectations in the residential construction segment have improved slightly: in December the residential construction sentiment index recovered the ground lost the month before and, in year on year terms, the index has closed the year with a 17.2 point lead over the end of 2013, growing in all its components, particularly in the trend in employment and in production, as well as in the number of guaranteed days of work, which increased by 65 days.

Figure 1  
**Spain: housing sales (swda data)**



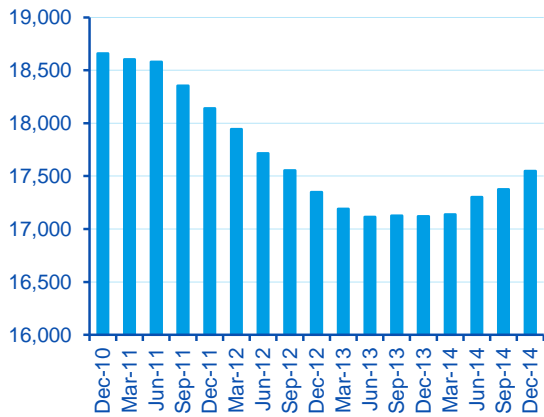
Source: BBVA Research based on CIEN

Figure 2  
**Spain: credit for new housing purchase operations (% YoY)**



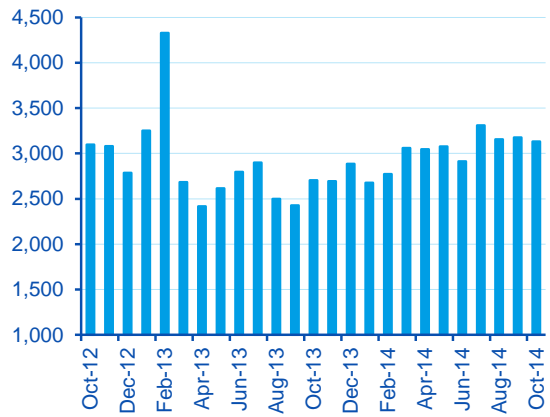
Source: BBVA Research based on central bank

Figure 3  
**Spain: LFS employment ('000, swda data)**



Source: BBVA Research based on SEPE

Figure 4  
**Spain: housing permits (swda data)**



Source: BBVA Research based on MFOM

Table 1

**Spain: real estate sector indicators**

	Jan 14	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
Sales (% MoM swda)	3.4	0.0	0.3	0.3	0.7	0.7	-1.0	3.7	1.3	-3.0	3.6	
Affiliations to the S.S. (% MoM swda)	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.4	0.4
Unemployment (% MoM swda)	-0.4	-0.9	-0.4	-0.9	-0.5	-0.3	0.1	-0.3	-0.5	-0.4	-0.7	-0.2
Employment LFS (% QoQ swda)			-0.1			1.4			0.4			0.8
Unemployment rate (% Labour force)			25.9			24.5			23.7			23.7
Interest rate of new operations (%)	3.15	3.12	3.13	3.03	3.01	3.11	2.94	2.93	2.96	2.87	2.72	
New loan for house purchase (% YoY)	27.2	25.8	40.9	3.8	5.0	26.1	17.7	-3.0	30.7	23.3	33.8	
Gross disp. income (% YoY)			-1.3			-0.4			0.7			
Consumer confidence (index)			35.8			36.2			35.0			
Affordability (% household income)	0.6	0.9	4.7	3.6	7.7	5.6	3.6	9.5	5.6	3.7	-1.3	5.8
Permits (% MoM swda)	-7.9	-2.4	16.1	-0.8	1.4	-7.3	11.9	-1.9	-2.2	-3.1	-14.7	
Cement consumption (% MoM swda)	-2.0	-0.1	5.2	-0.9	0.3	-1.7	4.0	-2.1	0.7	2.3	-0.4	
Affiliations to the S.S. in const. (% MoM swda)	-0.5	0.0	0.4	0.0	0.1	0.2	0.2	0.3	0.0	0.5	0.8	0.4
Unemployment in const. (% MoM swda)	-1.8	-1.9	-2.0	-1.6	-1.8	-1.6	-1.4	-1.2	-1.3	-1.5	-1.4	-0.7
Business climate in construction (index)	-54.6	-65.5	-62.4	-68.7	-53.6	-73.5	-44.2	-44.5	-33.3	-44.3	-45.5	-44.0
Land sales (% YoY)			18.5			-0.9			21.0			
Housing price (% YoY MFOM)			-3.8			-2.9			-2.6			
Housing price (% QoQ MFOM)			-0.7			-0.5			-0.5			
Housing price index (% YoY INE)			-1.6			0.8			0.3			
Housing price index (% QoQ INE)			1.4			0.3			-0.3			

Source: BBVA Research based on national data bases

**DISCLAIMER**

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.