

## REAL ESTATE ACTIVITY

## The real estate sector begins a year of growth supported by positive economic forecasts

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**Growth in housing sales in December raised total transactions in 2014 to 364,600, 19% more than the year before. By the close of 2014, the price of housing had experienced its first quarter of growth since the beginning of the crisis, at the same time as housing starts closed the year with positive figures. All in all, the economic growth outlook for this year and the favourable lending conditions are preparing the way for another increase in sales in 2015, which will be accompanied by a moderate price increase and further expansion in construction activity.**

### Solid performance in December raises housing sales to 364,600 in 2014

Housing sales in December last year came to a total of 43,901 operations, representing a year-on-year (YoY) increase of 27.7%, the strongest in the last eight months. This figure rounds off a year in which demand has edged up every month, closing the year with 364,600 homes sold, 19.1% more than in 2013 and the first solid growth since the beginning of the crisis (Figure 1).

Expanded December sales have passed through into another boost in credit origination for purchasing new homes, which grew at 47.1% YoY, the largest rise of the year. The rise brought this credit item, which has been at relatively low levels, up to 24% over the year. This is the first increase since 2007 and is a sign of the new momentum in the mortgage market (Figure 2).

### The price of housing grew in the last quarter of 2014

One consequence of the positive performance of demand can be seen in the impact on housing prices. According to the Ministry for Development, in the fourth quarter housing prices went up by 0.5% QoQ, after seasonal adjustments (swda). This meant that housing prices closed the year at EUR1,463.10m<sup>2</sup>, similar to prices at the end of 2013 (Figure 3). By housing type, whereas existing housing stock rose 0.7% from the previous quarter, new housing was practically unchanged.

The price of housing continues to be highly heterogeneous across geographies, although on this occasion were more regions where housing prices rose: in 3Q14 only three showed a quarterly increase in housing prices, but by the last quarter housing was dearer in eleven regions. Of all of them, the largest price hikes were in the Valencian Community and the Community of Madrid, at 1.7% and 1.4% QoQ respectively. Furthermore, there are several regions whose prices have moved up from their floors: the Balearic Islands and Cantabria have both accumulated rises of around 4.0% since they bottomed out in 4Q13, while in the Canary Islands prices have been rising for three consecutive quarters, representing an expansion of 2.2% from their troughs. On the contrary, prices fell more steeply in Castile-La Mancha and Castile León.

### Construction activity grew in 2014 despite the correction in construction permits in December

Housing starts corrected again in December, visible in the 9.6% contraction of new home building permits in November (Figure 4). Despite the adjustment in the last quarter, the issue of permits concluded the year in with a 1.7% expansion over 2013, breaking with seven consecutive years of falls, making 2014 the turning point for construction activity.

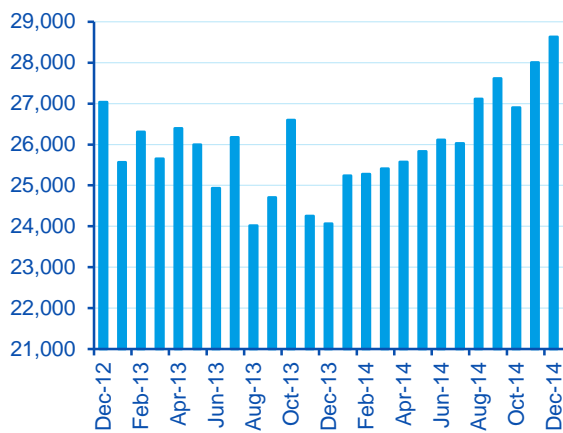
The remaining supply-side variables continued to reflect this improvement in activity. On the one hand, registered workers with the Social Security in the construction sector grew again in the final part of 2014 and in January 2015, with unemployment in the sector falling more intensely than the average. On the other, the consumption of cement also increased at the tail end of last year, although it remained stagnant in January. Altogether, business expectations in residential construction in January continued to make progress, carried along by the trend of recovery at the end of 2014.

**Positive outlook for 2015**

Last year can be defined as the year in which the real estate sector began to recover. The return to economic growth, the recovery of the labour market, with the creation of around 425,000 jobs, in an environment of financial stability and relatively favourable borrowing conditions, all encourage consumer confidence and, with it, growth in housing sales. As a result, the price of housing showed its first quarterly growth since the crisis began, just about attaining stability and, for the first time since the onset of the crisis, new home building permits finished the year with a positive balance.

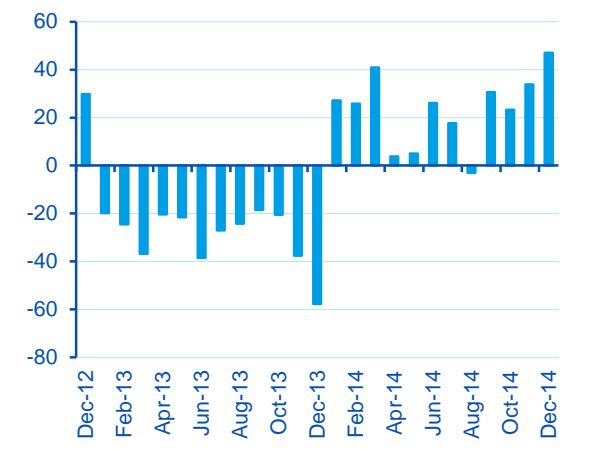
This recovery will take hold in 2015. The forecast for economic growth this year is for 2.7%, the number of people in work is expected to grow by around half a million, and interest rates should remain nearly unchanged against a stable backdrop. All these factors suggest another increase in housing sales, to which prices and construction activity will respond by expanding.

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



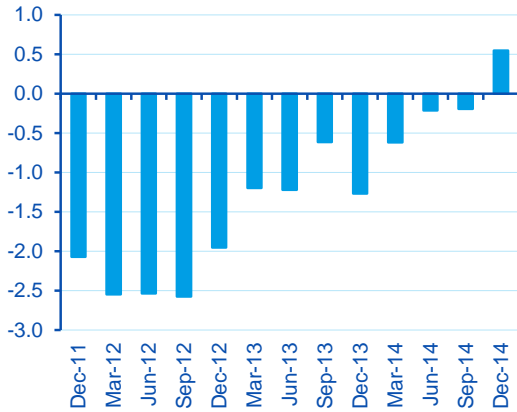
Source: BBVA Research based on CIEN

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



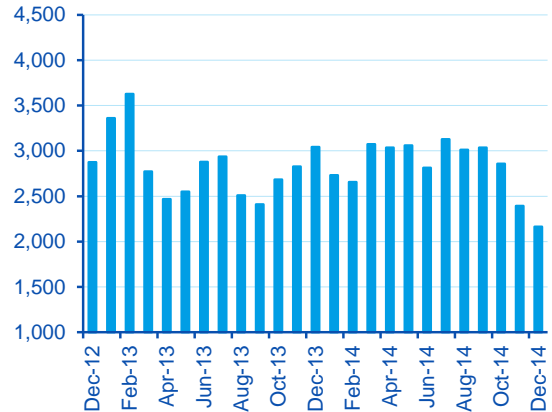
Source: BBVA Research based on central bank

Figure 3  
Spain: housing price (% quarterly growth swda)



Source: BBVA Research based on MFOM

Figure 4  
Spain: new housing construction permits (swda figures)



Source: BBVA Research based on MFOM

Table 1  
Spain: real estate sector indicators

	Feb 14	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15
<b>Demand variables</b>												
Sales (% MoM swda)	0.2	0.5	0.7	1.0	1.1	-0.3	4.2	1.8	-2.6	4.1	2.2	
Affiliations to the S.S. (% MoM swda)	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.4	0.3	0.2
Unemployment (% MoM swda)	-0.9	-0.4	-0.9	-0.5	-0.3	0.1	-0.4	-0.6	-0.5	-0.8	-0.3	-0.8
Employment LFS (% QoQ swda)		0.1			1.0			0.4			1.0	
Unemployment rate (% Labour force)		25.9			24.5			23.7			23.7	
Interest rate of new operations (%)	3.12	3.13	3.03	3.01	3.11	2.94	2.93	2.96	2.87	2.72	2.61	
New loan for house purchase (% YoY)	25.8	40.9	3.8	5.0	26.1	17.7	-3.0	30.7	23.3	33.8	47.1	
Gross disp. income (% YoY)		-1.3			0.4			0.7				
Consumer confidence (index)	0.9	4.7	3.6	7.7	5.6	3.6	9.5	5.6	3.7	-1.3	5.8	11.6
Affordability (% household income)		35.8			36.2			35.0				
<b>Supply variables</b>												
Permits (% MoM swda)	-2.8	15.7	-1.3	0.8	-8.0	11.2	-3.8	0.8	-5.9	-16.3	-9.6	
Cement consumption (% MoM swda)	0.6	5.2	-0.9	0.3	-1.6	4.0	-2.0	0.7	2.4	-0.4	1.1	-0.3
Affiliations to the S.S. in const. (% MoM swda)	0.0	0.4	0.0	0.1	0.2	0.2	0.2	0.0	0.4	0.8	0.6	0.5
Unemployment in const. (% MoM swda)	-1.8	-2.0	-1.6	-1.8	-1.7	-1.5	-1.3	-1.4	-1.7	-1.6	-0.9	-2.1
Business climate in construction (index)	-65.5	-62.4	-68.7	-53.6	-73.5	-44.2	-44.5	-33.3	-44.3	-45.5	-44.0	-42.1
Land sales (% YoY)		18.5			-0.9			21.0				
<b>Price</b>												
Housing price (% YoY MFOM)		-3.8			-2.9			-2.6			-0.3	
Housing price (% QoQ MFOM)		-0.7			-0.5			-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

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