

REAL ESTATE ACTIVITY

Sector recovery still going strong

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Housing prices stabilised in 2014, even starting to show some timid rises in the autonomous regions with the highest exposure to tourism. In January housing sales softened slightly, which can be explained by seasonal factors. Building activity continues to grow.

Housing sales are still improving their performance

According to the latest figures from the General Council of Notaries, 21,230 homes were sold in January 2015. Sales continue to show the growth trend they have enjoyed for the last few months, if we bear in mind seasonal factors. Specifically, in January the number of operations grew by 2.4% compared to December (Figure 1).

At the same time, mortgage activity grew again in YoY (year-on-year) terms in January. Thus, both the number of new operations and their associated credit volume have expanded since January last year (Figure 2).

Demand fundamentals are still positive

Employment, one of the key fundamentals behind residential demand, continues on an upward path. Thus, in February the number of people contributing to Social Security rose again, while official unemployment fell for another month. Consumer expectations for the economic outlook recovered again, posting at record highs. All this is in a context of continued recovery in gross disposable household income: in the last quarter of last year, the increases in both unearned income and wages pushed up household wealth by 3.5% YoY.

Monetary policy guidelines continue to favour the reduction in the cost of financing. So it was that in January the mortgage rate for new purchasing transactions fell again to 2.58%. Furthermore, a further shaving of the 12-month Euribor rate in February to 0.255% suggests that there will be additional cuts in mortgage rates over the next few months.

Corroboration of stability in housing prices

The latest housing price figures published by the National Statistics Institute (INE) ratify the stabilisation of residential prices in 2014, that has also been reflected by the remaining price indicators, such as the valuation figures published by the Ministry of Development. Specifically, in March the INE published the figures for the Housing Prices Index for the last quarter of 2014, which corroborated the trend shown previously by the Ministry of Development's valuation figures. According to the INE, the price of housing in the fourth quarter of the year grew YoY by 1.8%. After seasonal adjustments, the price remained stable compared to the preceding quarter (Figure 3). All in all, in 2014 the price of housing grew by an average of 0.3% a year over 2013, according to the INE.

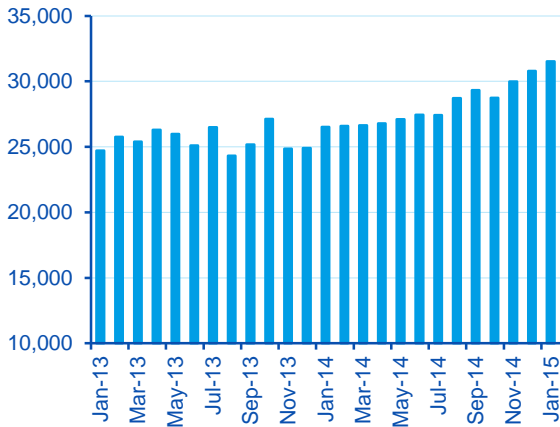
The data are highly heterogeneous by region. Once adjusted for seasonal variations, we can see QoQ (quarter-on-quarter) price growth in Andalucía, the Balearic Islands, Cantabria, Castile Leon, Catalonia, Extremadura and the Madrid region. In median annual terms, in 2014 housing became more expensive in the Balearic Islands, Cantabria, Catalonia, Valencian Community and the region of Madrid. In Murcia and Andalucía the price was virtually unchanged.

New home starts are recovering after a transitory adjustment

Housing starts returned to the path of growth which they had appeared to abandon in the three closing months of 2014. In January, housing starts were 34.8% up on December, back to the rate they had reached in September (Figure 4). Thus, as also seen in other supply variables, the transitory nature of the activity adjustment, seen in the building permit data from 4Q14, was corroborated.

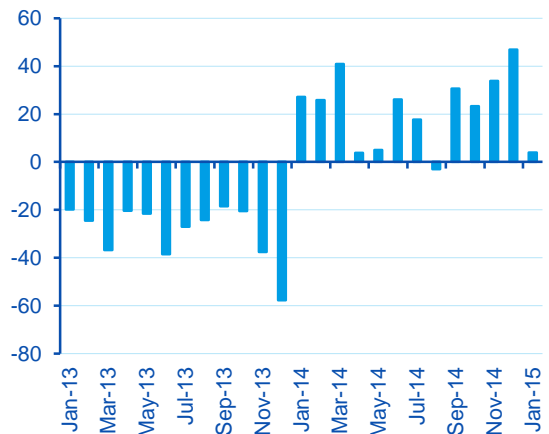
The figures for construction workers making their Social Security contributions confirmed the trend of recovery, and in February they intensified their expansion, up to a MoM (month-on-month) rate of 1.3%. However, the consumption of cement once again remained unchanged in February, although, in YoY terms, the accumulated figure for the first two months of 2015 revealed growth of 6.6%. Furthermore, expectations among business people in the residential segment of construction improved again in February, increasing the order book and, as such, the number of days of guaranteed work.

Figure 1
Spain: housing sales (swda figures)



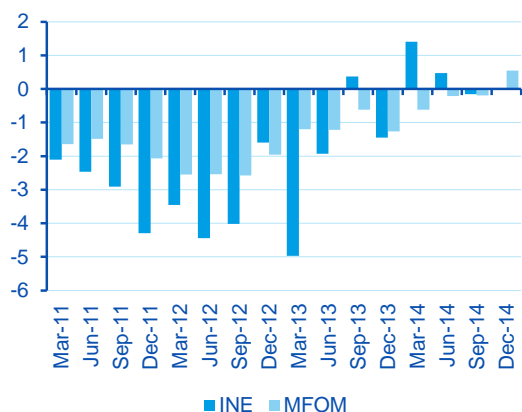
Source: BBVA Research based on CIEN

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



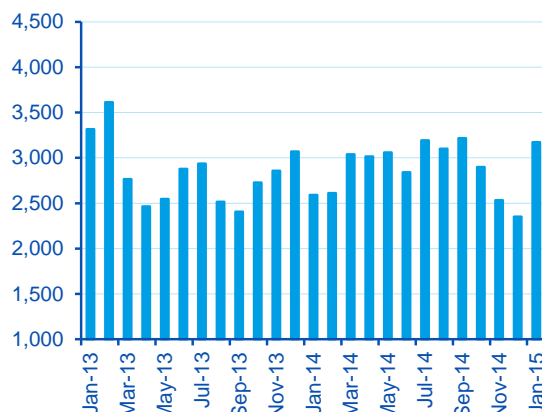
Source: BBVA Research based on central bank

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



Source: BBVA Research based on INE and MFOM

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



Source: BBVA Research based on MFOM

Table 1
Spain: real estate sector indicators

	Mar 14	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15
Demand variables												
Sales (% MoM swda)	0.2	0.5	1.2	1.3	-0.2	4.8	2.1	-2.0	4.3	2.7	2.4	
Affiliations to the S.S. (% MoM swda)	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.4	0.3	0.3	0.4
Unemployment (% MoM swda)	-0.4	-0.9	-0.5	-0.3	0.1	-0.4	-0.6	-0.5	-0.8	-0.3	-0.9	-0.9
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 (%)	3.13	3.03	3.01	3.11	2.94	2.93	2.96	2.87	2.72	2.61	2.58	
New loan for house purchase (% YoY)	40.9	3.8	5.0	26.1	17.7	-3.0	30.7	23.3	33.8	46.9	3.9	
Gross disp. income (% YoY)	-1.3			0.6			2.8			3.5		
Consumer confidence (index)	4.7	3.6	7.7	5.6	3.6	9.5	5.6	3.7	-1.3	5.8	11.6	14.4
Affordability (% household income)	36.0			36.5			35.5			34.8		
Supply variables												
Permits (% MoM swda)	16.4	-0.8	1.5	-7.2	12.4	-2.9	3.7	-9.9	-12.6	-7.1	34.8	
Cement consumption (% MoM swda)	4.9	-0.9	0.3	-1.7	4.0	-2.1	0.7	2.3	-0.5	1.0	-0.4	-0.4
Affiliations to the S.S. in const. (% MoM swda)	0.4	0.0	0.1	0.2	0.2	0.3	0.1	0.5	0.9	0.7	0.6	1.3
Unemployment in const. (% MoM swda)	-1.9	-1.6	-1.8	-1.7	-1.5	-1.4	-1.5	-1.7	-1.7	-1.1	-2.2	-2.3
Business climate in construction (index)	-62.4	-68.7	-53.6	-73.5	-44.2	-44.5	-33.3	-44.3	-45.5	-44.0	-42.1	-37.4
Land sales (% YoY)	18.5			-0.9			21.0			2.7		
Price												
Housing price (% YoY MFOM)	-3.8			-2.9			-2.6			-0.3		
Housing price (% QoQ MFOM)	-0.6			-0.2			-0.2			0.5		
Housing price index (% YoY INE)	-1.6			0.8			0.3			1.8		
Housing price index (% QoQ INE)	1.4			0.5			-0.2			0.0		

Source: BBVA Research based on national data bases

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