

REAL ESTATE ACTIVITY

The housing sector recovery continues to make progress

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Housing sales growth moderated in February while the mortgage market regains dynamism. On the other hand, the upturn in construction activity was mirrored in the land market, with an increase in transaction numbers and a mild rise in the price of urban plots.

Housing sales growth moderated in February

In February, the General Council of Notaries registered sales of 26,562 homes. After adjusting for the seasonality typical of the month, we are seeing a slowdown in sales growth relative to recent months, and in February transactions were up 1.4% compared to January (Figure 1).

The demand fundamentals continue to exhibit growth, with employment still on the rise and unemployment again down. Both the figures for those registered with Social Security in March and from the first quarter Labour Force Survey (EPA) again showed progress in the labour market. This, together with further gains made in restoring consumer confidence in March, means that demand is on a sounder footing than it was a few months ago.

The mortgage market is picking up

The better situation for demand, combined with a fall in the cost of borrowing, is boosting mortgage market activity. The volume of credit for new home-purchase transactions again rose in February, as illustrated in Figure 2. This also translates into an increase in the number of mortgages for home-buying, which amounted to 19% YoY in February.

Interest rates continue to respond to monetary policy, as is reflected in the further fall for 12-month Euribor for March, which closed at 0.21% or 0.04pp down on the previous month. The mortgage rate associated with new transactions is therefore expected to remain on a downward path, having fallen to 2.53% in February, which is 0.05pp below the January figure.

Construction activity continues its recovery

The figures on construction activity tell us that recovery in the residential segment is forging ahead. First, notable progress is still being made by the labour market, with employment in the sector posting an above-average performance in March, growing 0.8% compared to the previous month (Figure 3). Moreover, unemployment in the sector also came down more than on average. This showing was also endorsed by the Labour Force Survey data, which revealed 12.6% growth YoY for construction employment in the first quarter of the year.

Cement consumption added another month of growth and the volume used in March rose to a YoY rate of 8.2%. Along the same lines, the residential construction climate indicator ticked up again in March, with order levels up and an improved employment trend, which meant increases in the output level and the number of days of guaranteed work.

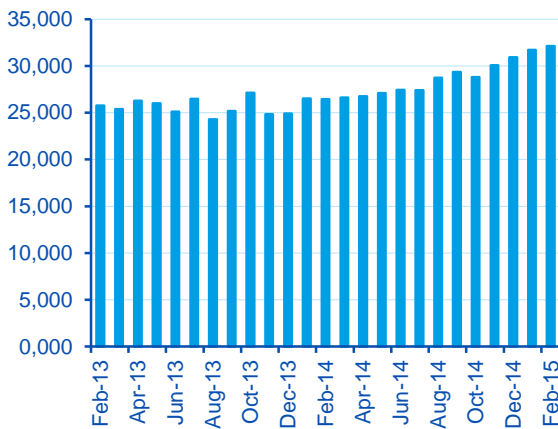
All in all, in February the number of permits signed for new housing construction (4,203 units) again surprised on the high side, following the major rise registered for the previous month. Thus new home starts for the first two months of the year posted a YoY increase of 48%.

Land market prospects are turning positive

The improvement in the demand for residential assets is also feeding through into the urban land market. Thus in 2014, urban land sales totalled 15,900 transactions (Figure 4), a rise of 9.2% over 2013 sales, according to the figures from the Ministry of Public Works. This increased demand for plots basically emerged among populations of over 10,000 inhabitants, where sales grew 26.3% YoY. In general, land markets are showing more activity in those regions that are more tourism-oriented, whereas they are at a relative standstill among those lying inland.

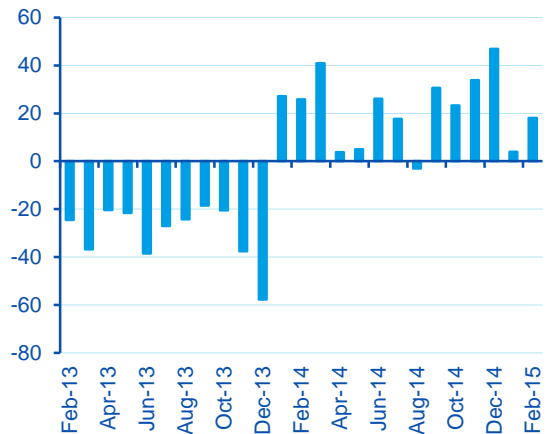
After the 45% correction from highs, urban land prices have begun to stabilise, so the increased demand has been reflected in a slight rise in land prices, which came up by 5.2% in 2014, nationwide. From a regional standpoint, the higher land prices focussed on certain markets in Andalusia, Madrid, Catalonia, Galicia and the Basque Country, whereas in the other regions prices are still undergoing an adjustment.

Figure 1
Spain: housing sales (swda figures)



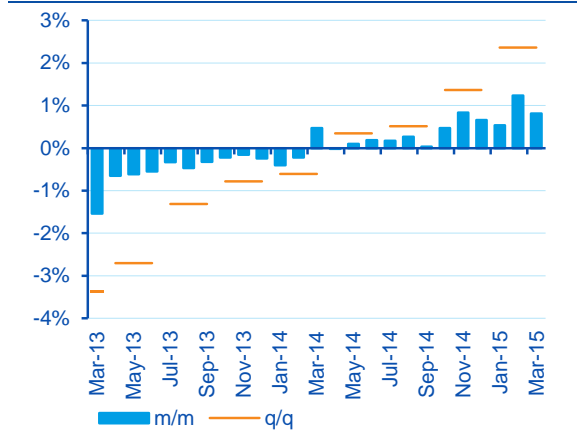
Source: BBVA Research based on CIEN

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



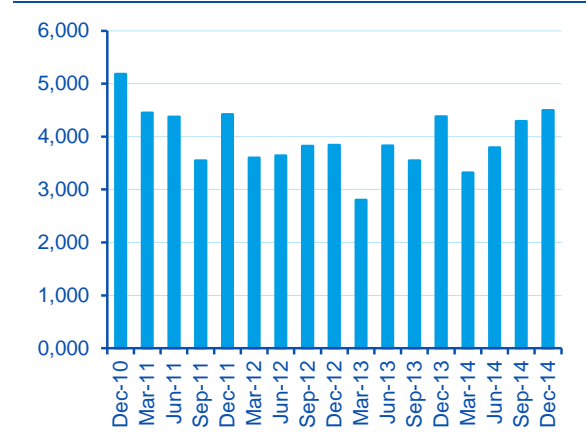
Source: BBVA Research based on central bank figures

Figure 3
Spain: Social Security affiliation in construction, monthly average (swda data)



Source: BBVA Research based on MESS

Figure 4
Spain: urban land transactions (YoY)



Source: BBVA Research based on MFOM

Table 1
Spain: real estate sector indicators

	Apr 14	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 14	Feb 15	Mar 15
Demand variables												
Sales (% MoM swda)	0.6	1.2	1.4	-0.1	4.9	2.1	-1.9	4.4	2.8	2.5	1.4	
Affiliations to the S.S. (% MoM swda)	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.4	0.3	0.3	0.4	0.5
Unemployment (% MoM swda)	-0.9	-0.5	-0.3	0.1	-0.4	-0.6	-0.5	-0.8	-0.4	-0.9	-1.0	-1.2
Employment LFS (% QoQ swda)			1.0			0.4			0.9			0.7
Unemployment rate (% Labour force)			24.5			23.7			23.7			23.8
Interest rate of new operations (%)	3.03	3.01	3.11	2.94	2.93	2.96	2.87	2.72	2.56	2.58	2.53	
New loan for house purchase (% YoY)	3.8	5.0	26.1	17.7	-3.0	30.7	23.3	33.8	46.9	3.9	18.0	
Gross disp. income (% YoY)			0.6			2.8			3.5			
Consumer confidence (index)	3.6	7.7	5.6	3.6	9.5	5.6	3.7	-1.3	5.8	11.6	14.4	16.1
Affordability (% household income)			36.5			35.5			34.8			
Supply variables												
Permits (% MoM swda)	-1.2	0.8	-8.0	11.3	-3.6	0.6	-4.5	-17.8	-9.0	84.1	6.2	
Cement consumption (% MoM swda)	-0.9	0.3	-1.7	4.0	-2.1	0.7	2.3	-0.5	1.0	-0.4	-0.4	0.3
Affiliations to the S.S. in const. (% MoM swda)	0.0	0.1	0.2	0.2	0.3	0.0	0.5	0.8	0.7	0.5	1.2	0.8
Unemployment in const. (% MoM swda)	-1.6	-1.8	-1.7	-1.5	-1.4	-1.5	-1.7	-1.7	-1.0	-2.1	-2.2	-1.7
Business climate in construction (index)	-68.7	-53.6	-73.5	-44.2	-44.5	-33.3	-44.3	-45.5	-44.0	-42.1	-37.4	-26.7
Land sales (% YoY)			-0.9			21.0			2.7			
Price												
Housing price (% YoY MFOM)			-2.9			-2.6			-0.3			
Housing price (% QoQ MFOM)			-0.2			-0.2			0.5			
Housing price index (% YoY INE)			0.8			0.3			1.8			
Housing price index (% QoQ INE)			0.5			-0.2			0.0			

Source: BBVA Research based on national data bases

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