# Recovery takes hold in real-estate sector

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The data from the first half of the year shows that the Spanish real-estate sector has in fact recovered and will continue to do so over the next few quarters.

For example, the positive house sales trend continues and grew 13.2% year-over-year in the first eight months of the year. Certain upbeat demand trends are driving this performance. Job creation pushes households' gross disposable income higher and makes people less likely to worry about losing their jobs, which makes families more optimistic. Furthermore, the ECB accommodative policy has left interest rates at historically low levels, which spurs the indebtedness of those households that are solvent enough to obtain loans, and demand for housing as an investment due to the lack of assets with higher risk-adjusted returns.

On the supply side, the sector is responding to this rise in demand with an increase in housing starts (building permits increased 37% y-o-y in the first six months of the year). Despite this fact, the number of finished homes continues to decline, as was to be expected given that it usually takes around 24 months to build a house.

Therefore, with demand on the rise an in a context of diminishing inventory, the price of housing rose 2.2% y-o-y in the first half of the year, according to the Ministry of Foment. This revaluation supports both demand and supply, as it reduces uncertainties when it comes to buying and improves the collateral of families and companies when it comes to taking on debt.

In any case, we should point out that the recovery of the real-estate market us quite disparate from region to region, with the areas with greater economic activity showing stronger growth, as are those that benefit the most from tourism. In other words, Madrid, the Mediterranean coast and the two Island communities drove the sector's recovery in Spain.

That brings us up to today, but what about the upcoming quarters? 2016 will close with sales up around 10%, the growth in building permits by around 40% and housing prices should rise by an annual average of around 2.5%. In 2017, the slower economic growth expected (down to 2.3% from around 3% in the last two years), should hinder the improvement of certain demand drivers. However, this will be offset by more upbeat expectations about the sector's future performance, good financing conditions and the fact that many of the imbalances accumulated have been absorbed during the expansion period. In fact, the forecast for next year suggest that investment in housing will be the only aggregate demand component to see its growth intensify. Sales are expected to rise by around 6.5% per year, or around half a million units. Likewise, dynamic sales and the drop in inventory reflect an increase in the average house price of 3.5%. The market will probably respond with around 90,000 units in terms of housing starts.

Therefore, by the end of 2017 home sales and housing starts will have racked up four straight years of growth and prices three. However, taking into account the intensity of the correction seen in the previous recovery period, the sector still has a long way to go and it is not without risk. As for external demand, the drop expected in British demand due to the Brexit will have a negative impact on the sale of houses in regions that are particularly exposed. Domestically, political and regulatory uncertainty, could have an impact on the startup of new residential housing projects.