

REAL ESTATE ACTIVITY

Real estate is steadying on solid foundations

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Demand for housing closed in positive territory in 1Q15, buoyed by a livelier mortgage market and the stabilisation of home prices. The more sluggish construction activity in March failed to hold back growth over the quarter, while the real estate sector's recovery is also extending to the non-residential segment.

The boost to housing sales in March wrapped up a positive quarter

34,736 homes were sold in Spain in March 2015, according to the latest figures from the General Council of Notaries. After adjusting for the seasonality typical of the month, sharper growth can be detected in sales, rising to a MoM rate of 2.9% (Figure 1). The first quarter of 2015 thus closed positively on balance, posting YoY growth of 2.3%.

The demand fundamentals show no great change and remain on the path of growth of recent months, with the labour market continuing to improve. After closing 1Q15 with the strongest growth rate since the crisis began, the figures for those registered with the Social Security system for April pointed to a rise of 0.5% with respect to March and a MoM drop in unemployment of 1.1%. Meanwhile, consumer confidence about the future economic situation again advanced in April.

The mortgage market has responded to reinvigorated demand

Mortgage market growth moved up a gear in March, encouraged by more buoyant demand and mortgage rates which are still holding at low levels. The growth of new lending volume for home-buying thus surged ahead to 20.4% YoY (Figure 2), which led to 1Q15 concluding at a growth rate of 13% compared to the same period in 2014. On the other hand, the number of mortgages granted in the first three months of the year reported a YoY increase of 22%, making this the fifth consecutive rise.

Monetary policy means interest rates are being held at a historical low, and 12-month Euribor actually came down again in April by 3bp relative to the previous month, reaching 0.18%. The progressive lowering of the main benchmark rate was once more reflected in a drop in the mortgage rate, which arrived at 2.35% in March, touching a new low for the last few years.

Construction activity ends a rising quarter

Although the data on permits for new home builds showed a braking movement in March, housing starts ended 1Q15 with YoY growth of 23% (Figure 3). The fine progress made by the other supply-side indicators could represent proof that the correction seen in the permits figures for the third month of the year is only temporary.

A highlight has been the encouraging trend again displayed by Social Security-registered workers in the construction industry in April, with this figure up by 0.4% compared to March, while unemployment in the sector again came down at an above-average pace. Cement consumption was another of the supply-side variables which grew again in April, doing so at 13.3% YoY.

Meanwhile, in April the residential construction climate indicator reversed the progress it had made in March but, even so, this indicator is marking a higher level than it was a year ago, and stands at a historical high since 2010.

Housing prices held stable in 1Q15

Home prices began the year holding virtually steady. According to the Ministry of Public Works, in the first quarter of 2015 housing was priced at EUR1,457.9/m², which means a variation of -0.1% QoQ after seasonal adjustments in the quarter, as shown in Figure 3. The YoY progress offers an identical variation, as the price level of housing in 1Q15 was 0.1% down on the same period in the previous year. Owing to movements in inflation, the YoY growth rate for the price in real terms was positive (1.0%).

As has become the norm, the prices continued to reflect a high level of geographical divergence: during the first quarter of the year housing became more expensive in six regions. On this occasion there were notable rises in average prices in the Canary Islands and Aragon, of over 1% QoQ, especially because these also rose in the previous quarter. Conversely, the average price over the quarter came down the most in Cantabria, Murcia and Asturias. On the other hand, while there are regions where prices have experienced growth for several months in a row (in the Canary Islands the average price has climbed over the four last months, while in Madrid it has done so in three of the last four, and in eight other regions it rose in at least two of the last four quarters), in others (namely Asturias, Castile and Leon, and Navarre) the price still has not posted any quarterly growth.

The real estate sector's recovery is also extending to the non-residential segment

The greater dynamism in residential real estate activity is also being reflected in commercial assets. According to the latest statistics from the Notaries Association, commercial asset sales rose from 32,577 units in 2013 to 40,370 in 2014, which implies a YoY increase of 24%. Moreover, transaction volume in 1Q15 was 3% up on the same months in 2014 (Figure 5).

The demand factors driving the residential sector are also providing a stimulus for the commercial sector. In 2014, employment which most closely affects the demand for office space rose by over 200,000 workers and the improvement in consumer confidence is proving a major boost to demand for commercial space (Figure 6).

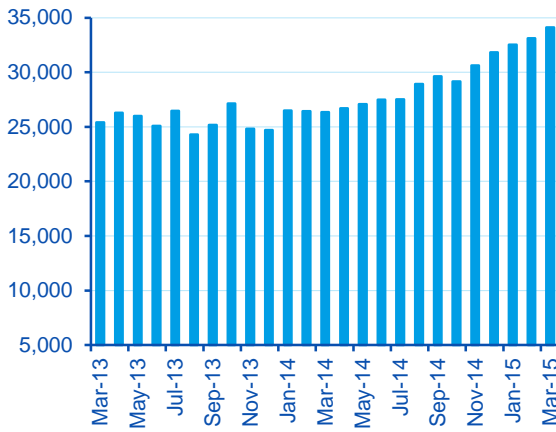
Investors are acting ahead of an improvement in effective rents and returns, and thus investment rallied strongly in 2014. According to data published by JLL (Global Market Perspective, 03/2015), direct investment in Spanish commercial assets increased by 189% YoY, reaching USD9.8bn in 2014.

The effective rents of the different sectors already showed the first positive signs in 2014, and they are expected to continue to recover as the economy gains a firmer footing and boosts commercial asset rentals. Meanwhile, the returns on these assets have also gradually improved over the last year, although far more significant yield compression is expected on account of the risk premium correction and the economic recovery (Table 1).

The improvements in demand, effective rents and yields are leading to price recovery in some of the more attractive prime zones. This should be passed on, little by little, to other, more peripheral, markets (Figure 7).

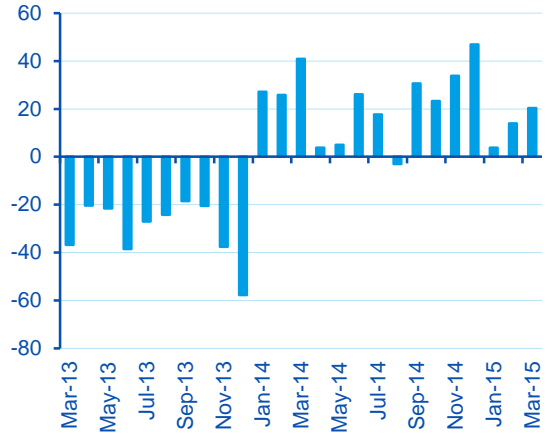
Of the different segments, that for commercial premises is the one which has shown, and is showing, the most vigour, while the industrial sector has been left the furthest behind in the recovery. This might be explained because investments in prime locations, both in commercial premises and offices, in the major Spanish cities are of a more defensive nature, given that they are less pro-cyclical assets. As the economy gets off the ground, those assets most tied in with the cycle, such as industrial assets, will gradually gain in traction.

Figure 1
Spain: housing sales (swda figures)



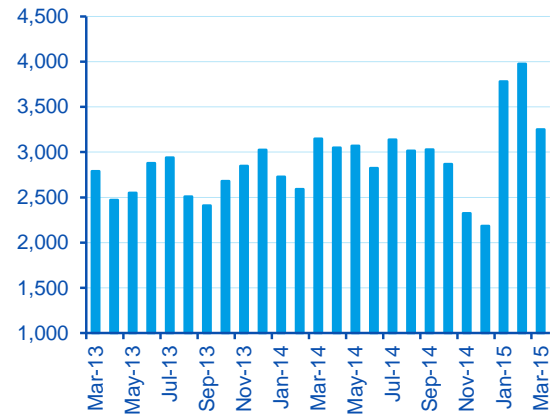
Source: BBVA Research based on CIEN

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



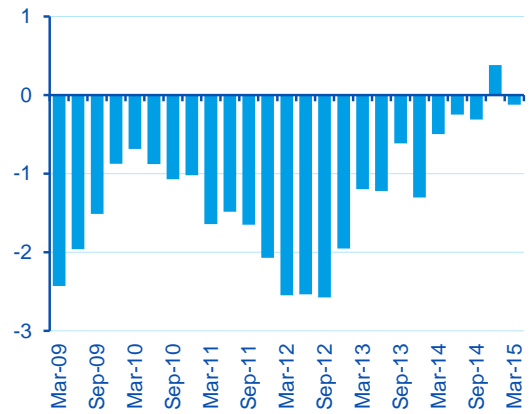
Source: BBVA Research based on central bank figures

Figure 3
Spain: new housing construction permits (swda figures)



Source: BBVA Research based on MFOM

Figure 4
Spain: housing price (% quarterly growth swda)



Source: BBVA Research based on MFOM

Figure 5
Spain: sale of non-residential property (Thousand)



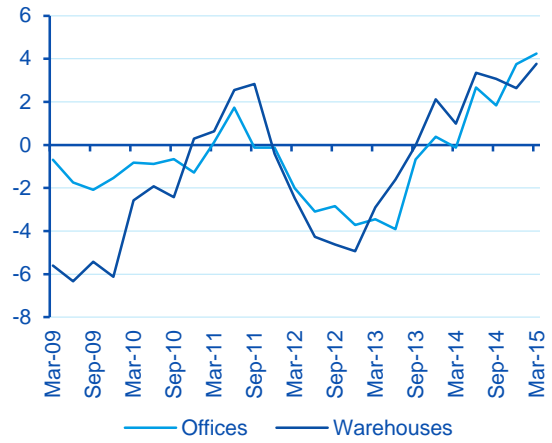
Source: BBVA RE based on CIEN

Table 1
Sapin: effective rents and Yields of non-residential property

	Effective Rents €/m ² /year				
	Mar-15 (e)	Mar-14	Mar-13	Δ14-15 (%)	Δ13-14 (%)
Offices	34.70	32.38	32.90	7.16%	-1.57%
Prime Offices	227.10	211.89	215.54	7.18%	-1.69%
Retail	328.65	319.95	322.75	2.72%	-0.87%
Wareh.	8.00	7.90	7.90	1.27%	0.00%
	Yields				
	Mar-15 (e)	Mar-14	Mar-13	Δ14-15 (bps)	Δ13-14 (bps)
Offices	7.87%	7.97%	8.03%	-10.00	-6.46
Prime Offices	5.63%	6.06%	6.26%	-43.23	-19.99
Retail	4.65%	5.05%	5.30%	-40.00	-25.00
Wareh.	8.05%	8.20%	8.35%	-15.00	-15.00

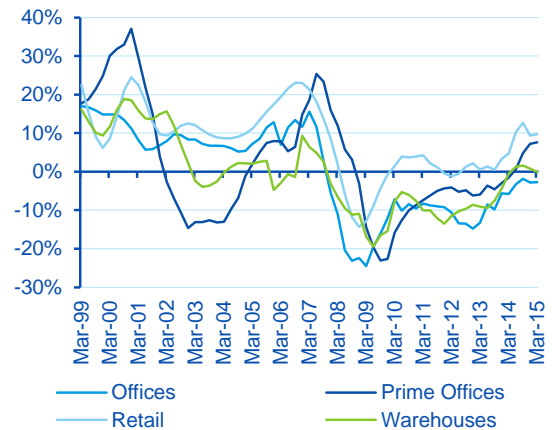
Note. (e): estimated data
Source: BBVA RE based on PPR

Figure 6
Spain: employment in offices and warehouses 1Q15 (% YoY)



Source: BBVA RE based on Haver

Figure 7
Sapin: price of non-residential property (YoY)



Source: BBVA RE based on PPR

Table 2

Spain: real estate sector indicators

	May 14	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 14	Feb 15	Mar 15	Apr 15
Demand variables												
Sales (% MoM swda)	1.4	1.5	0.2	5.1	2.4	-1.6	5.0	3.9	2.3	1.8	2.9	
Affiliations to the S.S. (% MoM swda)	0.2	0.1	0.1	0.1	0.2	0.2	0.4	0.3	0.3	0.4	0.5	0.5
Unemployment (% MoM swda)	-0.5	-0.3	0.1	-0.4	-0.6	-0.5	-0.8	-0.4	-0.9	-1.0	-1.2	-1.1
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 (%)	3.01	3.11	2.94	2.93	2.96	2.87	2.72	2.56	2.58	2.49	2.35	
New loan for house purchase (% YoY)	5.0	26.1	17.7	-3.0	30.7	23.3	33.8	46.9	3.8	13.9	20.4	
Gross disp. income (% YoY)		0.6			2.8			3.5				
Consumer confidence (index)	7.7	5.6	3.6	9.5	5.6	3.7	-1.3	5.8	11.6	14.4	16.1	18.4
Affordability (% household income)		36.5			35.5			34.8				
Supply variables												
Permits (% MoM swda)	0.6	-8.1	11.1	-3.9	0.4	-5.2	-19.0	-6.0	73.0	5.2	-18.3	
Cement consumption (% MoM swda)	1.0	-1.7	4.0	-2.0	0.8	2.5	-0.3	1.2	-0.3	-0.3	1.7	1.2
Affiliations to the S.S. in const. (% MoM swda)	0.1	0.2	0.2	0.3	0.0	0.4	0.8	0.6	0.5	1.2	0.7	0.4
Unemployment in const. (% MoM swda)	-1.7	-1.6	-1.5	-1.4	-1.5	-1.8	-1.8	-1.1	-2.3	-2.3	-1.9	-2.7
Business climate in construction (index)	-53.6	-73.5	-44.2	-44.5	-33.3	-44.3	-45.5	-44.0	-42.1	-37.4	-26.7	-30.7
Land sales (% YoY)		-0.9			21.0			2.7				
Price												
Housing price (% YoY MFOM)		-2.9			-2.6			-0.3			-0.1	
Housing price (% QoQ MFOM)		-0.2			-0.3			0.4			-0.1	
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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