

REAL ESTATE ACTIVITY

The return of credit is bolstering real estate sector recovery

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The rise in the volume of credit is underpinning a revitalisation of housing sales, which put on cumulative growth of 3.1% YoY over the first four months of the year. The fine progress made by demand is encouraging a recovery of construction activity and contributing to price stabilisation at levels above lows.

Housing sales have risen over the first four months of the year

A total of 30,758 housing units were sold in April, which represented a YoY increase of 1.9% according to the latest figures from the General Council of Notaries. With respect to March, and after seasonal adjusting, it can be seen that sales came down by 2.4% (Figure 1). Nevertheless, the cumulative volume for the first four months of the year reveals a 3.1% increase in sales compared to the same period the previous year.

The positive trends which demand fundamentals have displayed lends weight to the contention that the April correction in sales was of a transitory nature. Specifically, on the one hand, the economy continued to see intense job creation, given that figures for those registered with the Social Security system in May showed a 0.4% increase in numbers relative to April, and unemployment came down by 0.9% in the same period. On the other hand, consumer confidence about future economic prospects made a return to positive territory, marking a higher level than it did a year ago, although this was slightly down on the previous month.

A new round of growth in credit and numbers of mortgages for home-buyers

The mortgage market is benefiting from a new rate cut and greater liquidity within the financial system. To be precise, the number of housing mortgages arranged in April registered a YoY increase of 15.1%, showing a level of buoyancy ahead of the figure for home sales. Compared to March, the seasonally-adjusted data indicate a mild setback, while the cumulative figures reveal that the volume of mortgages signed before a notary in the first four months of the year rose by a YoY rate of 21.9%.

In terms of the volume of lending for house-buying, this grew 22.5% YoY in April (Figure 2), apparently due not only to the rise in mortgage numbers, but also to the fact that these are for larger amounts, given that people are buying more expensive homes (because they are either bigger or better-located) and, to a lesser extent, to the stabilisation and take-off of housing prices in zones where there is more vigorous economic activity.

Interest rates moved down again in April, and 12-month Euribor retreated further, to 0.17%. On the other hand, the mortgage rate recorded a new low in April, reaching 2.28%. This meant a further cut in the mortgage rate of 0.8pp, which, for an average mortgage of EUR120,000 over 22 years, is the equivalent of a reduction of around 7% in the first mortgage instalment.

The improvement in activity has manifested itself in a rise in housing starts

The increase in permits for new home builds in April provided the positive face of improvement in construction activity, showing a reading of around 20% MoM. This means that, in the first four months of the year, housing starts put on growth of 30% with respect to the same period the previous year (Figure 3).

The other indicators with regard to the housing supply made positive progress. On the one hand, Social Security registration in the construction sector in May was 0.6% above the figure for April, while unemployment again fell within this segment. Furthermore, although it did so to a lesser extent than it had done in the previous two months, cement consumption rose again in May, meaning that over the first five months it was 8.7% higher than in the same period a year earlier. On the other hand, a slight decline is noticeable in the residential construction climate indicator in May, even though in terms of both the order book and employment trends it stands at levels a long way above those of a year ago.

The land market remains lively

The path of recovery being traced by residential demand continues to filter through to the land market, and for the first three months of the year land transactions rose 4.4% compared to the first quarter the previous year, reaching almost 3,500 in number, according to the figures from the Ministry of Public Works (Figure 4). For the quarter in question, the largest increase in YoY terms in transaction numbers occurred in municipalities of under 10,000 inhabitants, while, in those of a medium size, sales slipped back a little, and in the larger ones they held practically steady with respect to 1Q14.

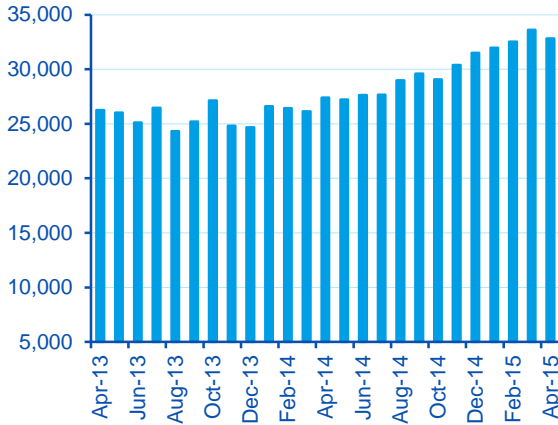
The rise in transactions was reflected in the price, which climbed by 5.9% YoY in 1Q15, while for the larger municipalities this increase rose to approaching 38% relative to 1Q14.

Housing price stability was sustained in 1Q15

The latest data confirm that housing prices have stabilised in a departure from the corrective trend into which they had collectively sunk only recently. According to the figures provided by the House Price Index (IPV) for 1Q15, house prices showed a QoQ increase of 0.7%, as is illustrated in Figure 5. On the other hand, the YoY figure for these revealed a rise of 1.5%, which represents growth of 2.6% if we take out the inflation effect. By category, new homes have put together a larger rise than existing housing and, in specific terms, from the low reached in 2Q13 new home prices climbed by roughly 6% up to 1Q15, while prices for existing housing they rose by about 2% from 4Q13 to 1Q15 (Figure 6).

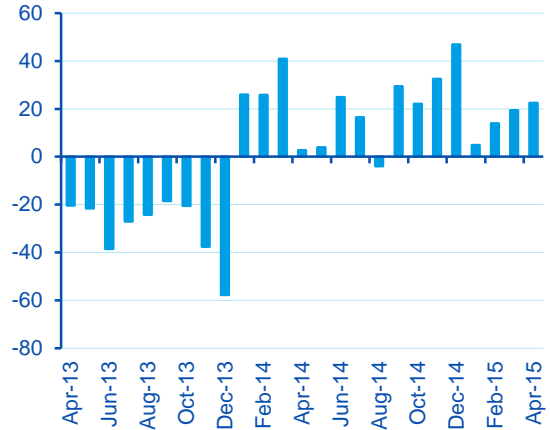
Unevenness continues to be the watchword for house price trends across Spain's various regions. In any case though, as Figure 6 shows, house prices seem to have risen above their lows in all of the regions. In fact, except for patches of volatility at around the level of lows that could have been associated with episodes of uncertainty which still afflict the sector, house prices across the different regions are expected to continue to move clear of their lows in the coming quarters. By way of illustration, house prices in the Balearic Islands hit their low in 2Q13, one quarter before they did in Madrid, and for the two regions the rises in prices have been 3.6% and 5.4% respectively since then. On the other hand, Asturias and La Rioja are where house prices have made the least progress since hitting their lows.

Figure 1
Spain: housing sales (swda data)



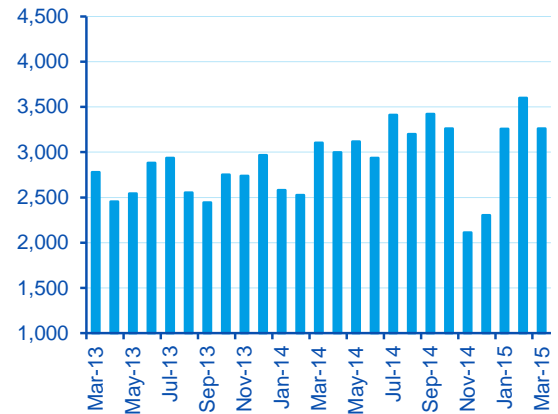
Source: BBVA Research based on CIEN

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



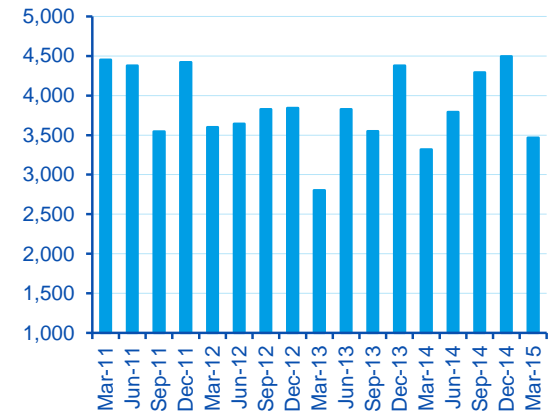
Source: BBVA Research based on the Banco de España

Figure 3
Spain: new home permits (swda data)



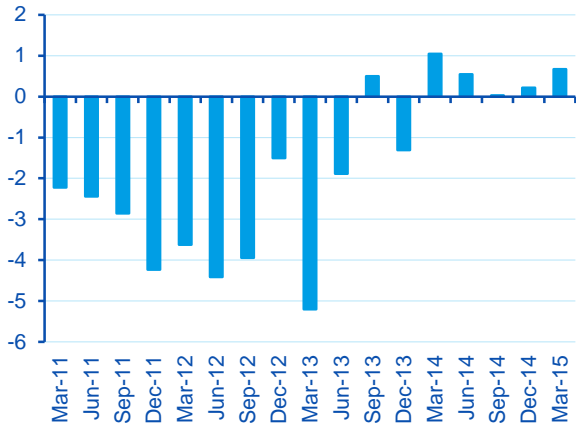
Source: BBVA Research based on MFOM

Figure 4
Spain: total number of land transactions



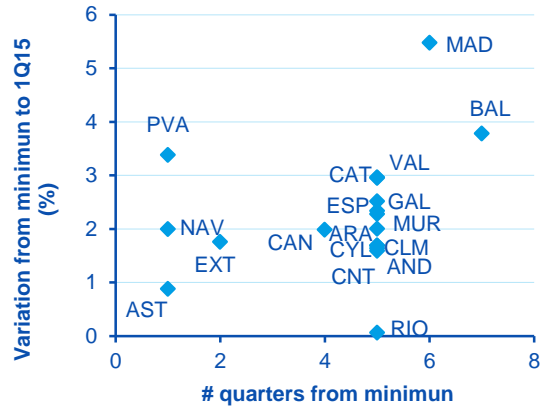
Source: BBVA Research based on MFOM

Figure 5
Spain: free market house price index
 (% QoQ, swda)



Source: BBVA Research based on the INE

Figure 6
Spain: house price index relative to its low and
 number of quarters (swda)



Source: BBVA Research based on the INE

Table 1

Spain: real estate sector indicators

	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 14	Feb 15	Mar 15	Apr 15	May 15
Demand variables												
Sales (% MoM swda)	1.4	0.1	4.8	2.2	-1.8	4.6	3.6	1.4	1.7	3.3	-2.4	
Affiliations to the S.S. (% MoM swda)	0.2	0.1	0.2	0.2	0.2	0.4	0.3	0.3	0.4	0.5	0.4	0.4
Unemployment (% MoM swda)	-0.3	0.1	-0.4	-0.6	-0.5	-0.8	-0.3	-0.9	-1.0	-1.2	-1.1	-0.9
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 (%)	3.11	2.94	2.93	2.96	2.87	2.72	2.56	2.58	2.49	2.34	2.28	
New loan for house purchase (% YoY)	24.9	16.5	-3.9	29.4	22.1	32.5	46.9	4.8	13.9	19.4	22.5	
Gross disp. income (% YoY)	0.6			2.8			3.5					
Consumer confidence (index)	5.6	3.6	9.5	5.6	3.7	-1.3	5.8	11.6	14.4	16.1	18.4	17.6
Affordability (% household income)	36.5			35.5			34.8			32.5		
Supply variables												
Permits (% MoM swda)	-5.9	16.2	-6.2	7.0	-4.7	-35.2	9.2	41.4	10.5	-9.5	19.9	
Cement consumption (% MoM swda)	-1.1	4.0	-1.9	0.9	2.5	-0.2	1.3	-0.2	-0.2	1.7	1.2	0.9
Affiliations to the S.S. in const. (% MoM swda)	0.2	0.2	0.3	0.0	0.4	0.8	0.6	0.5	1.1	0.7	0.4	0.6
Unemployment in const. (% MoM swda)	-1.7	-1.5	-1.4	-1.5	-1.7	-1.7	-1.0	-2.2	-2.2	-1.8	-2.6	-1.8
Business climate in construction (index)	73.5	-44.2	-44.5	-33.3	-44.3	-45.5	-44.0	-42.1	-37.4	-26.7	-30.7	-37.9
Land sales (% YoY)	-0.9			21.0			2.7			4.4		
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			1.5		
Housing price index (% QoQ INE)	0.5			-0.2			0.0			0.7		

Source: BBVA Research based on national data bases

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