1. Editorial

The real estate market consolidated its recovery in 2016, but its evolution shows a large geographic heterogeneity. The recovery is clearly being led by Madrid, much of the Mediterranean axis and the two island communities. As the recovery of the economy continues, more territories will be joining the recovery of the housing market.

The evolution of the economy has been accompanied by favourable financial conditions. The growth of household income and new progress in the households’ deleveraging process has given them greater solvency which has resulted in an increase in new home purchase loan transactions. All this is occurring in an environment of positive expectations in which housing remains an attractive investment alternative.

In this context, 2016 ended with the sale of nearly 460,000 homes, 13.5% more than in the previous year. Throughout the year, the evolution of sales started to fall away and in the last part of the year a slowdown in its growth was observed. Positive expectations of appreciation, albeit still incipient, could explain this. As could the slowdown in foreign demand which, despite showing good signs, grew slightly less than in the previous year due in part to the effects that Brexit might be having on British demand.

The industry again responded to the boost in demand. Building permits for new homes rose nearly 30% in 2016, rising to more than 64,000. However, the growth seen in building permits in the last three years has not yet materialised in finished works, which remain stuck at minimal levels. As a result, the inventory level continues to fall, which also confirms the evolution of housing prices.

The increase in sales in a context of inventory reduction has resulted in a new rise in housing prices. Although the moderation in sales has also been reflected in the evolution of prices, the year ended with a new appreciation of 1.9% as a year-on-year average, somewhat more pronounced among new homes, which would underscore the shortage in the supply of new construction in some areas of the country.

Expectations are positive for 2017. With a more moderate economic growth of around 2.7% and some positive, albeit contained, expectations of appreciation, it is expected that residential sales will grow about 7%. Prices will continue to recover and an annual average increase of 2.5% is expected. In turn, building will continue to respond positively to developments in demand and prices. Thus, in 2017 the real estate industry will bring growth to the economy, with expectations of an annual increase in housing investment of 3.2%.

Despite everything, the scenario is not without risks A possible bringing forward of the interest rate hike by the ECB, an increase in uncertainty about economic policy resulting from unexpected regulatory changes or multiple geopolitical risks could affect the evolution of the property market.
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