

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.

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.

This report has been produced by the Spain Unit:

Chief Economist for Developed Economies

Rafael Doménech
+34 91 537 36 72
r.domenech@bbva.com

España

Miguel Cardoso
miguel.cardoso@bbva.com
+34 91 374 39 61

Ignacio Archondo
ignacio.archondo@bbva.com
+34 91 757 52 78

Joseba Barandiaran
joseba.barandiaran@bbva.com
+34 94 487 67 39

Alvaro Flores
alvaro.flores.alonso@bbva.com
+34 91 757 52 78

Juan Ramón García
juanramon.gl@bbva.com
+34 91 374 33 39

Félix Lores
felix.lores@bbva.com
+34 91 374 01 82

Antonio Marín
antonio.marin.campos@bbva.com
+34 648 600 596

Myriam Montañez
miriam.montanez@bbva.com
+34 638 80 85 04

Matías José Pacce
matias.pacce@bbva.com
+34 647 392 673

Virginia Pou
virginia.pou@bbva.com
+34 91 537 77 23

Juan Ruiz
juan.ruiz2@bbva.com
+34 646 825 405

Pep Ruiz
ruiz.aguirre@bbva.com
+34 91 537 55 67

Camilo Andrés Ulloa
camiloandres.ulloa@bbva.com
+34 91 537 84 73

BBVA Research

Group Chief Economist

Jorge Sicilia Serrano

Developed Economies Area

Rafael Doménech
r.domenech@bbva.com

Spain

Miguel Cardoso
miguel.cardoso@bbva.com

Europe

Miguel Jiménez
mjimenezg@bbva.com

US

Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area

Cross-Country Emerging Markets Analysis

Alvaro Ortiz
alvaro.ortiz@bbva.com

Asia

Le Xia
le.xia@bbva.com

Mexico

Carlos Serrano
carlos.serrano@bbva.com

Turkey

Alvaro Ortiz
alvaro.ortiz@bbva.com

LATAM Coordination

Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina

Gloria Sorensen
gsorensen@bbva.com

Chile

Jorge Selaive
jselaive@bbva.com

Colombia

Juana Téllez
juana.tellez@bbva.com

Peru

Hugo Perea
hperea@bbva.com

Venezuela

Julio Pineda
juliocesar.pineda@bbva.com

Financial Systems and Regulation Area

Santiago Fernández de Lis
sf.fernandezdelis@bbva.com

Financial Systems

Ana Rubio
arubio@bbva.com

Financial Inclusion

David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy

María Abascal
maria.abascal@bbva.com

Digital Regulation

Álvaro Martín
alvaro.martin@bbva.com

Global Areas

Economic Scenarios

Julián Cubero
juan.cubero@bbva.com

Financial Scenarios

Sonsoles Castillo
s.castillo@bbva.com

Innovation & Processes

Oscar de las Peñas
oscar.delaspenas@bbva.com

Contact details:

BBVA Research

Azul Street, 4
La Vela Building - 4 and 5 floor
28050 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.co