

4. Prospects

Looking forward it is expected that 2017 will be another year of real estate expansion. For now, the economy is expected to grow around 2.7% in 2017, with some upward bias appearing in this forecast, such as better-than-expected performance in the first months of the year. Thus, the expectation is that with this rate of growth the economy will create employment, around 450,000 new jobs, which will reduce the unemployment rate by just over 2 pp, to 17.5%. In addition, consumer expectations continue to show optimism and the proportion of households which think that the economic situation will improve within twelve months continues to increase. All of this is occurring in a context where financial conditions remain favourable for borrowing, with restrained interest rates. In addition, maintaining the growth prospects of the European economy, around 1.6% in 2017, suggests that the housing demand of foreigners will remain significant for the Spanish property market.

2017 outlook for housing demand is positive. After an increase in sales of 13.5% in 2016, it is expected that by 2017 transactions will grow around 7% annually, which would result in the sale of just over 490,000 homes. Domestic demand, supported by job creation, and improving household wage income, will continue to be primarily responsible for this increase. Nevertheless, the restraint that has been observed in the fundamentals of demand and some expectations which, although positive, remain contained, are the reasons for a lower rate of growth in housing sales.

A good performance by mortgage lending in the coming quarters will also support the growth in residential demand during 2017. The improvement in disposable income of families in an environment of low financing costs will continue to stimulate growth in loans for the purchase of housing. Recent comments made by the ECB Governing Council suggest that the expansionary monetary policy will continue in the coming months and that current spikes in the inflation rate are due more to a base effect of energy products than to a rebound in core inflation. With this, BBVA Research estimates that the first official interest rate hike will not occur until the end of 2018, which augurs an environment of low interest rates throughout 2017.

The growth in demand will continue to encourage construction. Meanwhile, the low construction activity in recent years will continue to be felt in the market, and the number of completed homes will remain scarce. This trend is favouring the absorption of unsold new homes. In fact, in areas with increased economic activity, a shortage of new housing supply can be observed, which corroborates the evolution of the price of new housing, which in some regions is reaching appreciations of 9%. As a result, it is expected that next year housing starts will again grow at high rates of around 24%. The level of building permits remains at historic lows so the environment of increasing demand and reduction of inventory suggests that growth in construction activity will continue to grow at relatively high rates. It is expected that about 80,000 new homes will be given building permits in 2017.

In this scenario of rising demand and reduction of inventory, a new appreciation of housing prices is expected throughout the country. Job creation and the maintaining of interest rates at very low levels throughout the year in progress point to a rise in housing prices of around 2.5% in 2017.

As has been occurring in recent years, the recovery is expected to show high geographical heterogeneity. As has been seen throughout the report, while in some areas the recovery is fully consolidated, in others it has yet to arrive. It is hoped that, as long as the economy keeps growing and creating jobs, the real estate market will continue to re-emerge in more municipalities. All in all, in 2017 the real estate industry will bring growth to the economy. In particular, it is expected that housing investment will grow in the year in progress at a rate of 3.2%, which would be the fourth consecutive year of growth. Thus, this item of investment will become responsible for 0.14 pp of growth in the GDP of the economy (2.7%), which corresponds to growth of 5.2% in the year.

However, the evolution of the sector is not without risks. Firstly, improvements in the global economy could dampen the expansionary stance of monetary policy, thereby pressing interest rates and financing costs upward. On the other hand, unexpected regulatory changes could lead to an increase in uncertainty about economic policy that could have an impact on the decisions of stakeholders in the sector. Finally, geopolitical risks could influence the evolution of the economic fundamentals. For example, uncertainty related to the outcome of Brexit persists and, therefore, also on its impact on the real estate sector, especially in regions with greater exposure to British demand: Murcia, Canarias and Baleares, where in 2015 more than 8% of homes sold in each region in 2015 were acquired by British people.

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