

Spain Real Estate Outlook

MARCH 2017 | SPAIN AND PORTUGAL UNIT & REAL ESTATE UNIT



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Madrid, the Mediterranean axis and the islands are leading the recovery

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Positive expectations for 2017 with a more moderate tone

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Closing date: 17 March 2017

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.

2. The economy continues to recover more moderately and with more risks

The Spanish economy will continue to recover strongly, albeit less so than in previous years, and will be exposed to risks with potentially negative consequences if they materialise. Both the trend in recent activity indicators and the expected continuation of most of the different measures that have supported the recovery so far point to GDP growth remaining at around 2.7% in 2017 and 2018. This will be in spite of the deterioration observed in some of the key factors behind the improvement in private sector domestic demand over the past two years, and in spite of the heightened worldwide uncertainty about economic policy.

The global economy is improving in an environment of high uncertainty

Despite the acceleration experienced by the global economy in the latter part of 2016, the outlook for 2017 and 2018 is fraught with uncertainty. This is principally related with the economic policy of the new US administration, the direction of which remains largely to be seen.

The magnitude of inflationary pressures is another unknown factor opening up at a global level. The rising prices of raw materials along with the base effects of energy prices are pushing up expectations of inflation in the long term. This, coupled with quantitative easing programme and the prospects of fiscal stimulus, means that the deflation risks of a few quarters ago have been replaced by inflationary pressures, raising questions about monetary policy.

The rise in inflation is putting pressure on monetary policy

In principle, the Federal Reserve is maintaining a cautious attitude and is continuing to aim at a relatively slow normalisation of rates, forecasting two rate hikes this year and another two in 2018. Furthermore, the pressures by the ECB to bring forward the normalisation of monetary policy have already begun with increasing prices in Germany, and may well intensify in the coming months when inflation in the Eurozone approaches 2% owing to the effects of energy prices. Given the above, the ECB is expected to decide on the first interest rate hike at the end of that year.

The global scenario is not without risks

Overall, growth projections for 2017 are subject to greater uncertainty than usual. The base effect of increased growth at the end of 2016 and its inertial effect, together with the fiscal stimulus packages expected in the US, mean we need to revise the forecasts moderately upward for the US and Europe, and slightly more so for China, while the forecasts for Latin-American countries are being revised downward, principally due to idiosyncratic factors. The risks are mainly on the downside and are dominated by the aforementioned uncertainty associated with US economic policy. Also, an unexpected rise

in inflation could lead to the tightening of monetary policy by the main central banks, with global consequences. In the long term, the risks of the accumulation of imbalances in China, together with the lack of structural reforms, could have an impact on its capital flows and currency and lead to a sudden slow-down in growth. Europe is subject to substantial political risks, in a year that is packed with elections, and where certain increasingly popular parties propose rolling back on structural reforms or measures to quit the euro zone or the European Union. And for their part, geopolitical risks remain significant.

Continued growth of the Spanish economy but at more moderate rates

In the next biennium, growth is expected to remain at around 2.7%.

The trend in the latest data points to GDP growth in the first quarter of this year coming in at around 0.8% QoQ. This, together with the continuation of a positive environment for the Spanish economy,

means there is even a warning of a moderate upward bias in this figure. In particular, the uptick in worldwide activity, oil prices still below the average for the last three years, the expansive tone of monetary policy, the cyclical impulse we are seeing, and the effects of the reforms carried out in the past few years should be sufficient to continue reducing the imbalances that still remain in the Spanish economy. Even so, this increase in activity will be sufficient to create nearly 920,000 jobs over the two-year period and reduce the unemployment rate to around 15.8% in 2018. However, the expected dynamism in the labour market will not be enough to return to pre-crisis levels (Figure 2.1).

The Spanish economy will grow by 2.7% in 2017.

Nonetheless, the past few months have seen the accumulation of a number of risk factors that could be limiting the extent and speed of the recovery. In the first place, uncertainty persists regarding the final outcome of Brexit and its effect on the various sectors and regions exposed to changes in UK demand. Added to this is the possible effect of the change of administration in the US on public policies, particularly on trade. Secondly, the cost of energy has risen considerably in the past few months, and this could have a negative effect on the evolution of household and business spending. Thirdly, although part of the increase in inflation is temporary and explained by increased energy costs, the next few months will give some idea of the extent to which price setting in the Spanish economy still reflects the evolution of the general index as opposed to the particular situation of businesses, consumers or the labour market.

No rate hikes are expected until 2018

The increase in inflation in the EMU may lead to a turning point in monetary policy, which would be of particular significance for an economy such as Spain's, which still has high levels of external and public sector indebtedness. The ECB is expected to continue its asset purchase programme during 2017, but from the beginning of 2018 the stimulus measures will be tapered off, and this could lead to an increase in interest rates in the last quarter of 2018. The increase in the cost of financing may be particularly negative for the Spanish economy. For example the ECB's asset purchase programme is estimated to have reduced the risk premium on Spain's ten-year sovereign bonds by between 50 and 70 bps approximately. In the past, prolonged increases of this kind have reduced Spain's GDP in the same proportion (between 0.5 and 0.7 pp). On the other hand, fiscal policy will go from expansive to neutral, and attaining objectives will depend on what impact the announced measures have on revenues. Thus, given the

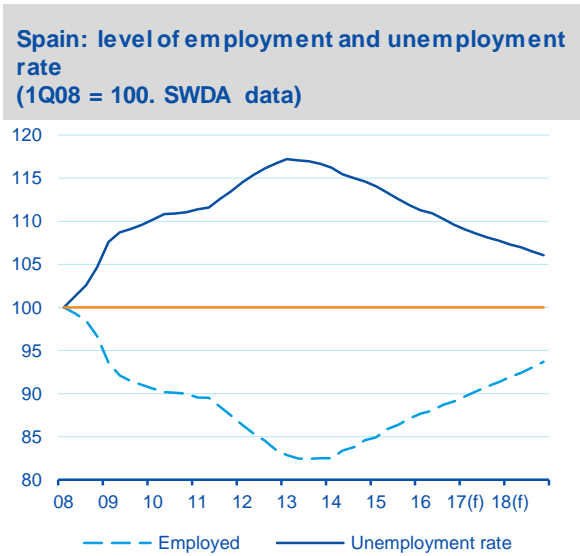
policies announced so far, the deficit would be reduced to around 3.1% of GDP in 2017 and 2.2% of GDP in 2018, in line with the stability objectives required by the European Commission.

External and internal risks remain. On the external front, uncertainty remains about the possible protectionist measures that could curtail the incipient recovery in world trade. In this regard, we still do not know what shape US foreign trade policy will take or how the negotiations on the UK leaving the EU will progress and what the end result will be. Apart from this, upcoming elections in some of the euro zone's main economies (France in April and Germany in September) are additional unknown factors in the foreign panorama.

The scenario is not without risks

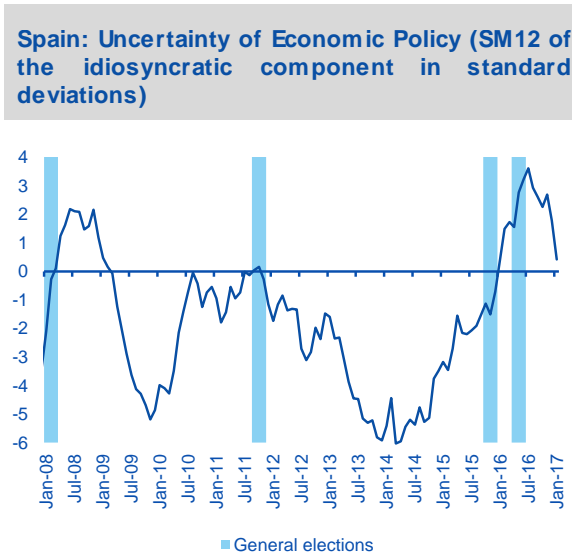
Uncertainty regarding economic policy remains high, and geopolitical events only add to this uncertainty (Figure 2.2). Moreover, in Spain, recent tax changes (based on corporation tax), legal uncertainty that could arise from different legal decisions, doubts about the approval of the State's 2017 Budget and on the path of reforms provide sources of economic insecurity that could adversely affect investment and job creation. The reforms carried out in the past few years seem to have increased the Spanish economy's capacity for growth. Maintaining this evolution will require a continued process of improvements that help to raise productivity and reduce unemployment.

Figure 2.1



Source: BBVA Research based on INE figures

Figure 2.2



Source: BBVA Research

3. The housing market recovery is consolidated in 2016

The performance of the property market in 2016 shows that it is already in a full growth phase, consolidating the recovery that began modestly in 2014. From a standpoint of the economic cycle, the sector is progressing through the expansion phase, which will continue to experience relatively high rates of growth. Moreover, forecasts indicate that there is still room for upward movement in this phase, especially considering the significant correction suffered in the years of the crisis. During that period, the price of housing shrank about 38% in real terms, according to the appraisal values of the Ministry of Public Works; home sales fell from 955,186 in 2006 to just over 300,000 in 2013; and the new housing starts contracted more than 96% between 2006 and 2013. This was a global correction that had never been seen in the recent history of the property market. Thus, following the severity of the correction, the sector is at very low levels, which means that small increases can lead to very significant growth rates. Still, the recovery is being somewhat slower than was initially expected. With the advancement of the cycle, and the gradual normalisation of the construction industry, growth rates will moderate in line with the macroeconomic scenario.

Housing sales in 2016 recorded better-than-expected growth earlier in the year

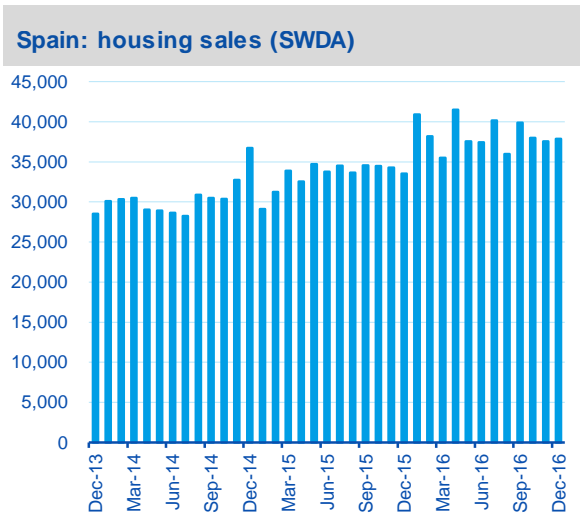
Residential transactions grew for the third consecutive year. The tone of the demand fundamentals has supported the completion of housing purchases as part of a level of demand that is increasingly more confident that the change in the residential cycle is a reality. Employment growth and the consequent increase in household income, the reduction in the level of household debt, the greater optimism of households regarding the future evolution of the economy in the coming quarters and low financing costs underpinned the strong performance by the residential market in 2016.

According to data from the Notarial Statistical Information Centre (CIEN), there was an upward trend in housing sales in 2016. After the significant increase shown by sales in the first months of the year, by the end they showed certain stability. Thus, in the first half, transactions grew at a month-on-month rate of 2.6% once the

**Housing sales increased
by 13.5% year-on-year in
2016**

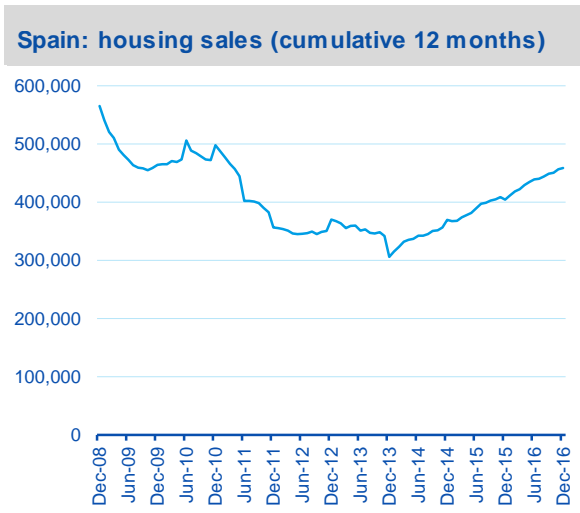
series was seasonally adjusted, well above the 0.4% average monthly increase recorded in the second half of the year (Figure 3.1). Nevertheless, housing sales in 2016 exceeded those of 2015 by 13.5%, reaching the figure of 458,781 transactions (Figure 3.2). This is higher growth than the previous year (9.9%) and slightly higher than was expected at the beginning of the year, when an increase in sales of around 10% was predicted. This difference could be explained partly by the improved performance finally shown by the Spanish economy.

Figure 3.1



Source: BBVA RE Research based on CIEN data

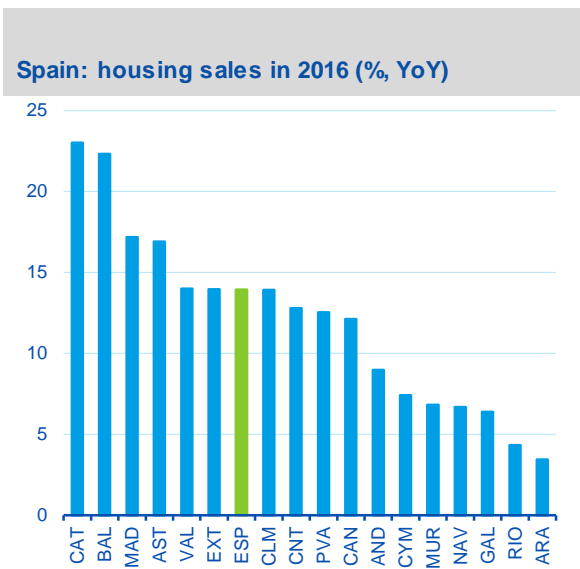
Figure 3.2



Source: BBVA RE Research based on CIEN data

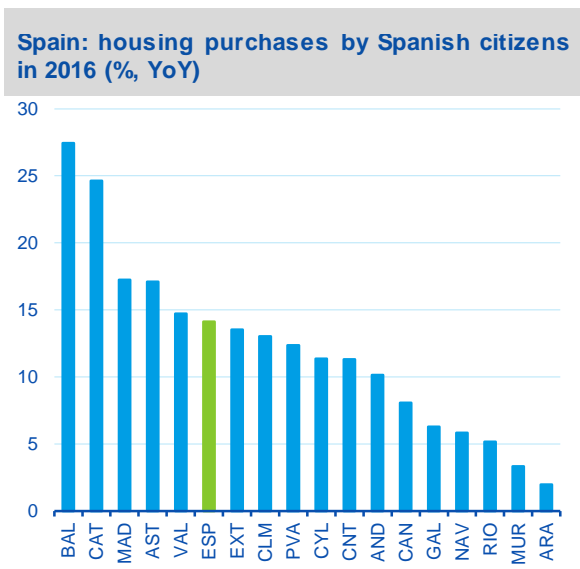
By regions, housing sales showed a highly differentiated trend, although all of them saw an increase in residential sales. The trend in Catalonia and the Balearic Islands stands out above the rest, with an increase of 23.0% and 22.3% respectively. Madrid and Asturias were next, with a similar increase of around 17.1%. By contrast, in La Rioja and Aragon housing sales in 2016 grew by 4.3% and 3.4%, respectively (see Figure 3.3).

Figure 3.3



Source: BBVA RE Research based on MFOM data

Figure 3.4



Source: BBVA RE Research based on MFOM data

Domestic demand is supported by increased job creation

Domestic demand, defined as homes purchased by Spanish citizens, gained momentum over the previous year. Thus, while in 2015 it grew by 9.4%, in 2016 it grew at a rate of 14.1%. Further disaggregation indicates that the transactions carried out by those buying a home in their region of residence grew by 16.2% compared to 11.0% in 2015. For their part, those who bought a home in a region other than their region of residence rose by 0.6% after falling by 0.9% in 2015. By regions, those which showed significant domestic demand were the Balearic Islands, Catalonia and Madrid; conversely La Rioja, Murcia and Aragon were those which recorded slower growth (see Figure 3.4). The positive evolution of employment, household confidence, favourable financing conditions and good expectations for the sector are some of the determining factors causing this evolution.

Employment in Spain grew more than expected at the beginning of the year. In early 2016, growth of 2.7% was expected for the economy as a whole. The smooth running of the national economy, the greater traction of exports resulting from the recovery of the global economy, lower oil prices, the expansionary stance of fiscal policy and the fruit of some of the reforms carried out previously caused an upward revision in the growth forecast to 3.2%, a rate that in the end came to pass. This further growth led to an upward revision of employment in Spain. Finally, in 2016 the number of people in employment increased by more than 413,000, 2.3% more than in 2015. Thus, since the low point was reached in late 2013, the number of people in employment has grown by nearly 1.5 million, according to figures from the Economically Active Population Survey (Figure 3.5).

With improving employment there has been increased household income

With more people in employment, there has been a recovery in disposable household income. While remuneration per employee is virtually stagnant, the increase in the average number of employed persons per household has allowed household income to recover in 2016. The latest figures available, from 3Q16, indicate that gross household income grew in the YTD by 1.9% year-on-year. In turn, the net wealth of households stood at 827.6% of the gross disposable income in 3Q16. All this in a context where households are reducing their debt at relatively high rates; in particular in 3Q16 household debt was 103.2% of gross disposable income, a level similar to the first quarter of 2005 (Figure 3.6).

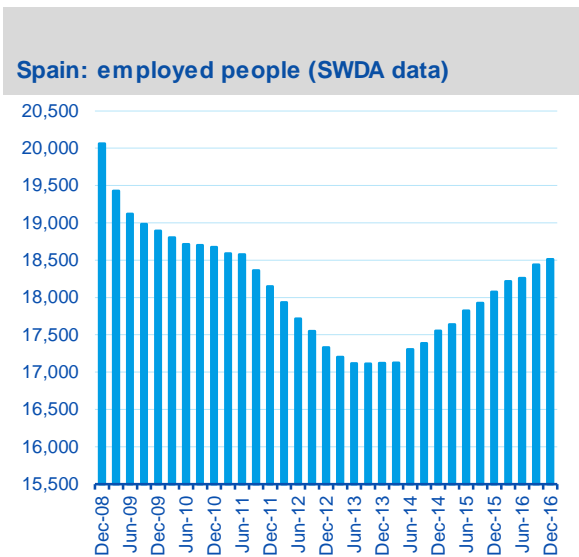
In turn, the financial restructuring of households favours, for solvent investment projects, the expansion in the volume of new loans for housing purchases, all in a favourable financial environment. The expansionary stance of monetary policy and high competition among financial institutions have managed to keep mortgage rate at low levels throughout the year of around 2.3%. This low cost of financing is supporting the growth of mortgage lending with significant momentum in fixed rate mortgages.

The mortgage rate has remained at levels around 2.3% in 2016

The employment recovery is positively affecting household confidence, which remains at relatively high levels which are comparable to the situation prior to the crisis. However, in recent months there has been a moderation derived from internal factors: the worsening expectations on savings and on the financial

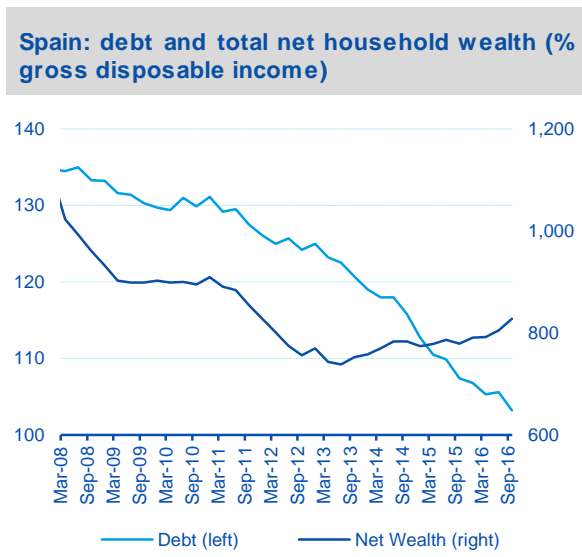
situation was partly offset by improved expectations of the general economic situation and the positive developments in the labour market.

Figure 3.5



Source: BBVA Research based on EPA (INE)

Figure 3.6



Source: BBVA Research RE based on Banco de España data

Expectations of appreciation remain positive

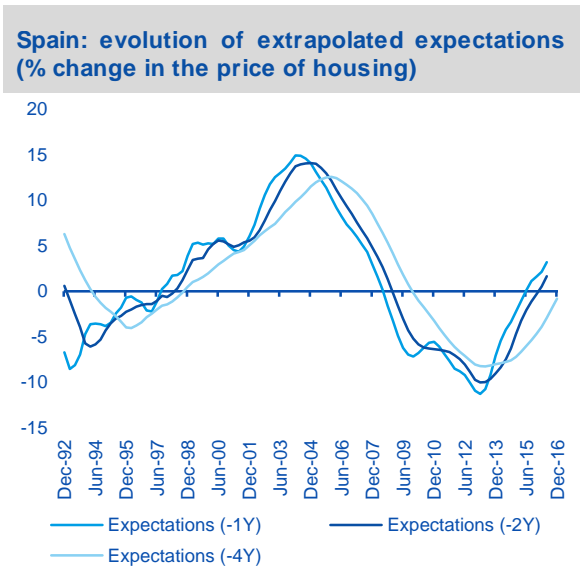
Finally, as discussed in the previous issue of this publication, household expectations about the evolution in the sector remain positive. This can still be observed in three ways. The first, based on the Bank Lending Survey of the Banco de España, reveals a slight improvement in demand for bank lending for house purchases, increased competition between financial institutions and a better perspective for the behaviour of the residential market. The second is through the evolution of residential construction: as discussed below, approval of new building permits continued to rise in the second half of the year, suggesting that developers are expecting to have demand for the housing under construction and also to have a profit margin. Finally, considering the extrapolated expectations, which indicate that the past performance of housing prices is a good predictor of future expectations, the growth of prices in the last two quarters of 2016 extends the time window for the turnaround in house prices: this trend changed 17 quarters ago, of which in the last seven positive annual growth has been recorded (see Figure 3.7).

Amid rising price expectations in the coming quarters, housing remains an attractive investment alternative. In fact, Banco de España indicates that the rental yield stood at around 4.5% throughout 2016, well above that associated with 10 year government bonds (about 1.2%), term deposits (0.2%) or the return on the Ibex 35 stock index (-2%). In addition, all this at a time when the rental market seems to be growing: according to the Survey of Living Conditions (INE), the proportion of residents' main dwellings rented in 2015 rose to 15.6% of the total, up from 14.9% the previous year.

The rental yield in Spain stood at 4.5% in 2016

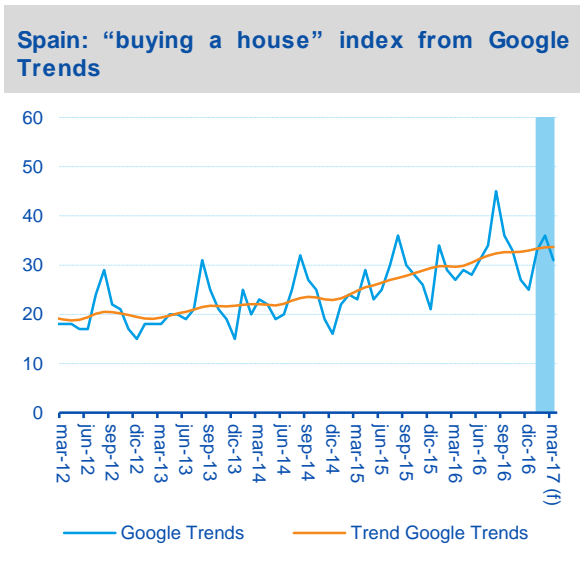
Looking forward, the “buying a house” index in Google Trends¹ anticipates a slowdown in sales in the first quarter of 2017. The coexistence of positive but still moderate expectations for the evolution of housing prices along with lower economic growth in 2017 than that obtained in 2016 could be reasons for this trend in sales (see Figure 3.8).

Figure 3.7



Source: BBVA RE Research based on MFOM data

Figure 3.8



Source: BBVA RE Research, based on Google

Foreign demand remains a key segment in the evolution of the property market in Spain

In 2016, purchases by foreigners made up 17.2% of the total

Contrary to what happened with domestic demand, foreign demand in 2016 was somewhat less dynamic than in the previous year, yet the weight of this segment of demand is still highly significant for the Spanish market. Data from the Ministry of Public Works indicate that 78,382 foreigners bought homes in Spain in 2016, representing an annual growth of 13.0%, 0.4 pp less than the increase achieved in 2015. Even so, foreign purchases accounted for 17.2% of the total, a very similar proportion to the figure of 17.3% recorded the previous year.

The relevance of foreign demand in each of the regions was very uneven in 2016. Thus, while in Canarias, Baleares and Comunidad Valenciana, foreign purchases account for more than 30% of the total, in others such as Extremadura, Galicia and País Vasco it does not even reach 3%. Thus, although in some regions the growth of foreign purchases was very significant, the small size of this segment of demand meant that its transfer to overall growth was limited. Such is the case of Extremadura, where purchases by foreigners grew by 39.5% to 159 operations throughout the year, an increase that only amounted to 0.7 pp of the 13.9% growth in sales in the region in 2016. This is the case in other regions such as Cantabria, Castilla y Leon and Asturias, among others. By contrast, in Islas Canarias and Murcia foreign demand accounted for more

1: For more information on the development of this indicator see page 26 in the Real Estate Outlook magazine for the second half of 2016 (October 2016). https://www.bbvaesearch.com/wp-content/uploads/2016/10/Situacion_Inmo_oct16.pdf

than half of the sales growth in 2016, in Baleares and Valencia the contribution to the market by foreigners was also significant (see Table 3.1).

By nationality, the British were again the foreigners who most bought homes in Spain during 2016. Thus, in the year as a whole, 18.9% of the purchases by foreigners were made by British buyers, a high percentage but one which declined throughout the year: while in 1Q16 it reached a weight of 21.9%, by 4Q16 was 16.4%. This reduction could be due to two circumstances related to Brexit: the depreciation of the pound experienced in the aftermath of the referendum result and the uncertainty associated with the process as a whole, which may have conditioned the completion of some transactions. In second place is France, which brought together 8.1% of purchases by foreigners, followed by Germany, with a weight of 7.7% (see Table 3.2).

Table 3.1

Spain: housing sales to foreigners in 2016				
	YoY growth (%)	Weight (%total sales)	Contribution to total growth (pp)	Total sales growth (%)
CNT	42.9	3.8	1.3	12.8
EXT	39.5	2.2	0.7	13.9
CYL	34.7	3.2	0.9	11.9
CLM	27.4	6.7	1.7	13.9
ARA	24.8	9.0	1.8	3.4
NAV	23.5	6.2	1.3	6.7
AST	19.7	3.3	0.6	16.9
CAN	18.5	39.4	6.9	12.1
PVA	17.9	2.9	0.5	12.5
MUR	17.4	25.5	4.0	6.8
MAD	17.3	8.7	1.5	17.2
CAT	16.0	15.8	2.7	23.0
BAL	14.8	37.0	5.9	22.3
ESP	13.0	17.2	2.2	14.0
VAL	12.3	33.5	4.2	14.0
GAL	9.7	2.5	0.2	6.4
AND	3.1	17.8	0.6	9.0
RIO	-7.6	7.1	-0.6	4.3

Source: BBVA Research based on MFOM

Table 3.2

Nationality of foreign purchasers of housing in Spain (% total foreigners)				
	1Q16	2Q16	3Q16	4Q16
UK	21.9	19.7	17.7	16.4
France	7.9	7.1	8.9	8.5
Germany	6.9	7.4	7.3	9.2
Russia	2.8	3.0	2.7	2.9
Italy	4.5	6.0	5.4	5.7
Sweedeen	6.3	7.0	7.1	6.4
Norway	2.4	2.3	2.2	2.4
Belgium	6.1	5.6	6.2	6.3
China	4.2	3.9	4.3	4.2
Netherlands	2.4	2.3	2.4	2.7
Rumania	4.2	4.8	4.6	4.5
Morocco	3.0	3.5	3.1	3.4
Switzerland	1.4	1.2	1.1	1.5
Denmark			1.1	1.0
Argelia	1.6	1.5	1.3	1.4
Findland	1.0	1.0		
Irleand	1.3	1.0	1.3	1.3
Ukrania	1.8	1.7	1.8	1.5
Others	20.4	21.1	21.4	20.8

Source: BBVA RE Research based on Association of Registrars data

Mortgages close a good year despite the moderation in recent months

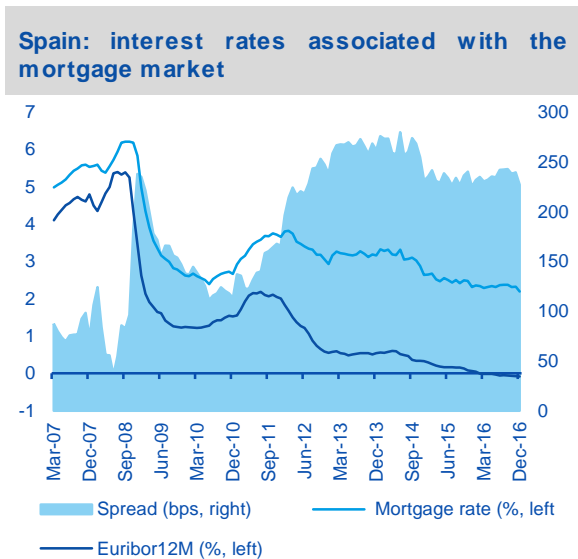
The continuity of the expansionary monetary policy of the European Central Bank, along with the gradual deleveraging of families and the improved prospects for the mortgage market, continue to allow mortgage financing costs to remain at historically

Financing costs remain at historically low levels

low levels. In this regard, during the last quarter of 2016 financing costs were further reduced and interest rates on loans for house purchases stood at 2.19% in December (see Figure 3.9). Disaggregating the mortgage rate between one benchmark, the Euribor 12 months, and an interest rate differential, it can be seen that the reduction in financing costs is channelled through ECB policy. Thus, the Euribor 12 months in December stood at -0.08%, while the spread between the benchmark rate and the mortgage rate stood at

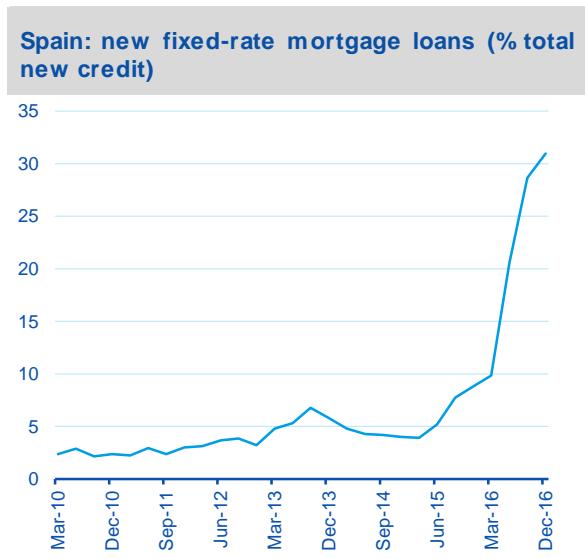
227 basis points, a level that remains relatively high since the sovereign risk crisis broke out early in the decade. This lower resistance of the differential in an environment of higher economic growth and lower risks may be caused by two factors: one would be the significant increase in fixed-rate mortgages in the past year (see Figure 3.10). At the end of 2016, the percentage of fixed-rate mortgages over the total was 31%, while in late 2015 it only accounted for 9%. The other could be derived from the current environment of very low interest rates, which makes the net interest income per unit of assets in the Spanish financial sector to be positioned near historic lows.

Figure 3.9



Source: BBVA Research RE based on Banco de España data

Figure 3.10



Source: BBVA RE Research based on Association of Registrars data

Low interest rates, stimulus for mortgage lending

The revival of mortgage lending in recent years is helping the growth in residential demand (see Figure 3.11). In this regard, the amount of new credit operations to households for home purchases increased again in 2016, reaching €37.5 billion, which represented an increase of 5% over the previous year. The increase is less than that of 2015, when new loans increased by 32%. This is due to the great impact that floor clauses had on mortgage refinancing during 2015. In that year, mortgages amounting to €9.25 billion were refinanced, while in 2016 the value of refinancing was €6.4 billion, 31% less. Thus, if this effect is removed, new mortgage lending operations grew by 17.4% in 2016. This increase is in line with the data provided by the General Council of Notaries indicating that the number of new loans for home purchases in 2016 amounted to about 198,000, which represented an increase of 20% over the previous year.

The data also shows that during 4Q16, the rate of growth of new mortgage lending slowed. Data from both the General Council of Notaries and the Banco de España show that the average annual rate of new

credit growth moderated to 7.0% and 5.2%, respectively. Moderation is also reflected in the latest Bank Lending Survey of January 2017. According to the institutions surveyed, the demand for financing for house purchases hardly changed in the last quarter of the year, although this is expected to change in the first quarter of 2017 with further increases in demand for financing. This is in line with data published in January

In January 2017, new mortgage loans rose by 34.4%

by the Banco de España which show that new home loans, excluding renegotiations, increased by 34.4% compared to the same month last year (see Figure 3.12). The survey also notes that in the last quarter of 2016 the approval criteria for loans to households for home purchases tightened slightly, and this trend is expected to continue in the first quarter of 2017. This fact, if it materialises, could counterbalance the expected growth in new mortgage lending.

Figure 3.11

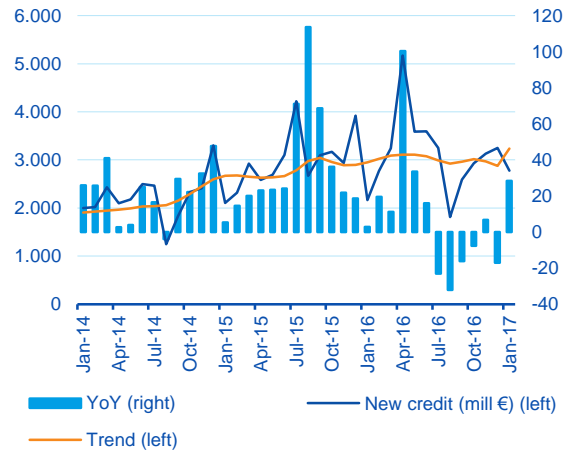
Spain: relationship between sales and new mortgage lending per 1,000 habitants. (quarterly data 2009-2016)



Source: BBVA RE Research based on Banco de España and CIEN data

Figure 3.12

Spain: granting of credit for new home purchase transactions

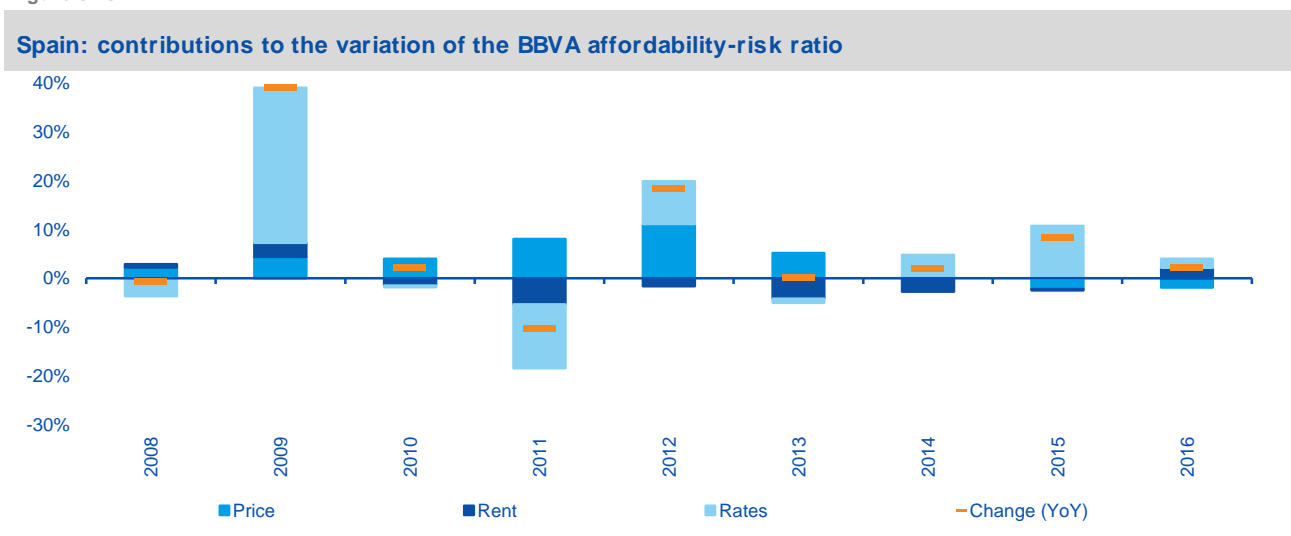


Source: BBVA RE Research based on Banco de España data

Meanwhile, the affordability-risk² ratio continues at record highs and in the last quarter of 2016, the average capacity of a family to buy a home stood 30% above the average price of housing in the same period. Growth in housing prices in 2016 was offset by lower financing costs and improved gross disposable income of Spanish households (see Figure 3.13). By region the situation is similar: all show affordability ratios which are at record highs or very close to them, but there is a lot of heterogeneity between regions. The regions with lower ratios are Baleares, País Vasco and Madrid, precisely those where either the price of housing has recovered more strongly, or where the price correction during the crisis was much lower, as is the case in País Vasco. Meanwhile, the regions with a higher affordability-risk ratio would be Aragón, Castilla-La Mancha and Extremadura (see Table 3.3).

2: The affordability-risk ratio by BBVA is calculated as the ratio of the financial capacity of an average family and the price of an average home of 100 m2. The financial capacity is calculated from the gross disposable income of households, mortgage market rates and a repayment term of 30 years. The mortgage payment is 33% of household income.

Figure 3.13



Source: BBVA Research based on INE and Banco de España data

Table 3.3

BBVA affordability-risk ratio Aut. Com. (%)

	2016				Average 2003-2016	Min		Max	
	4Q2013	4Q2014	4Q2015	4Q2016		Ratio	Year	Ratio	Year
España	119	121	129	131	104	66	2008	131	2016
Andalucía	121	119	125	130	105	67	2008	130	2016
Aragón	163	168	186	192	128	74	2008	192	2016
Asturias	125	136	148	155	117	78	2008	155	2016
Baleares	92	95	100	100	89	56	2008	102	2012
Canarias	113	113	124	123	101	65	2008	124	2016
Cantabria	109	108	129	132	102	70	2008	132	2016
Castilla y León	154	159	170	179	131	84	2008	179	2016
Castilla-La Mancha	160	171	181	189	137	83	2007	189	2016
Cataluña	119	123	131	130	100	62	2008	132	2015
Comunidad Valenciana	134	133	142	146	118	73	2008	146	2016
Extremadura	161	153	178	185	147	98	2008	185	2016
Galicia	140	149	159	164	125	79	2008	164	2016
Madrid	105	105	109	108	88	55	2007	112	2012
Murcia	149	144	159	169	129	80	2007	169	2016
Navarra	164	171	182	193	148	94	2008	193	2016
País Vasco	92	96	102	107	85	58	2008	107	2016
La Rioja	153	170	179	184	131	84	2008	187	2016

Source: BBVA RE Research, INE and Banco de España

Residential construction continues to progress at high rates

In 2016, 64,000 homes were given building permits...

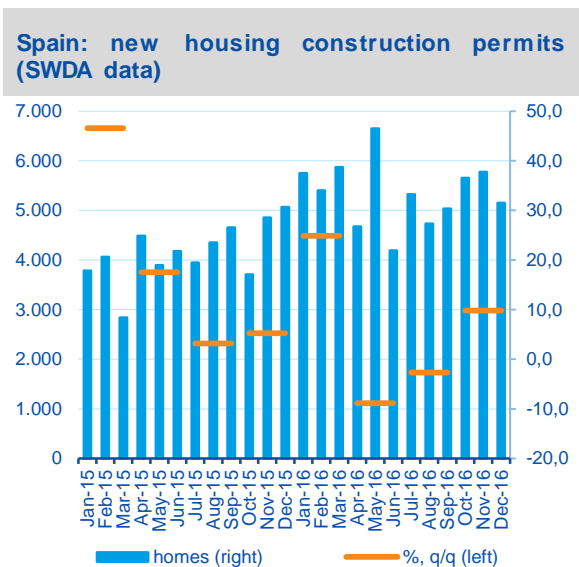
The boost in demand and positive expectations for the sector continue to be felt in construction activity. Thus, in 2016 more than 64,000 new housing construction permits were signed, 28.9% more than in 2015, marking the third consecutive year of recovery. The dynamics of building permits throughout the year was marked by the strong performance in

1Q16, the decline in 2Q16 and recovery in the latter part of the year (see Figure 3.14). In terms of growth since 2013, when the lowest number of building permits in history were issued (34,288), building permit approval has recovered by 86.8%. A notable rate of growth consistent with a recovery following a correction as significant as that undergone by the construction industry between 2006 and 2013, when the approval of building permits fell by 96%. However, the level has still remained at minimal levels: the permits approved in 2016 represent only 20% of those approved in the 1990s, or 12% of those approved between 2000 and 2009.

However, the growth in building permits in the last two years is not yet being translated into an increase in finished homes. In fact, during 2016 the number of certificates of completion of works fell by 11.2% annually, to just over 40,100 homes. This is the lowest level in the historical series (see Figure 3.15), and the number of new homes being incorporated into the housing stock accounted for only 16% of those which, on average, were incorporated in the 1990s or just over 8% of those which did so in the first decade of the present century. Thus, in an environment of increasing demand in which the completion of homes continues to fall, the process of digestion of oversupply of new housing construction continues. In fact, there are more and more autonomous communities in which the volume of unsold new homes approaches frictional stock³ and even some in which it is lower.

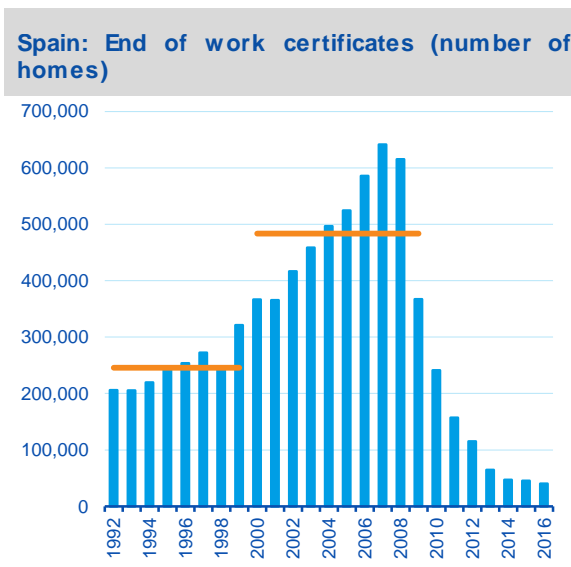
...and 40,100 homes were completed

Figure 3.14



Source: BBVA RE Research based on MFOM data

Figure 3.15



Source: BBVA RE Research based on MFOM data

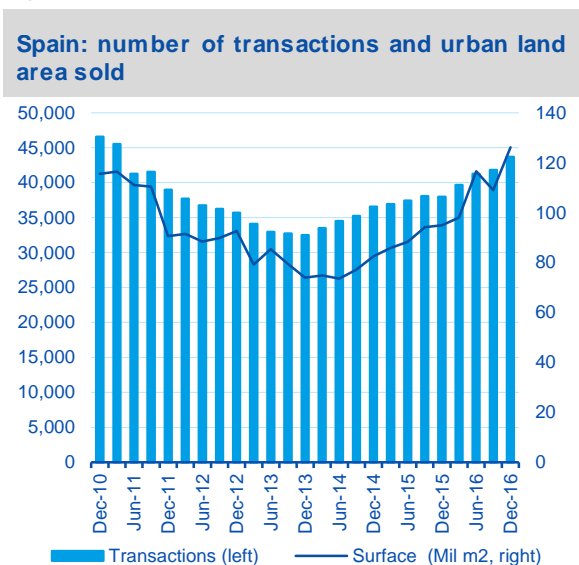
But it is not only building permits that indicate that building activity is trending upward. Thus, in a scenario where the bidding for public works has had two consecutive years of decline (-28.3% in 2015 and -0.8% in 2016), employment in construction grew by 2.0% in 2016 according to EPA data. With this, from when the lowest point was reached in 1Q14, the number of people employed in the sector increased by 14.6% up to 4Q16, above the increase of 9.2% in total employment.

3: Frictional stock is that volume of housing required by the market so that it can function properly. The consensus is around 1.5% of the housing stock

Urban land surface sold in 2016 grew by 33%

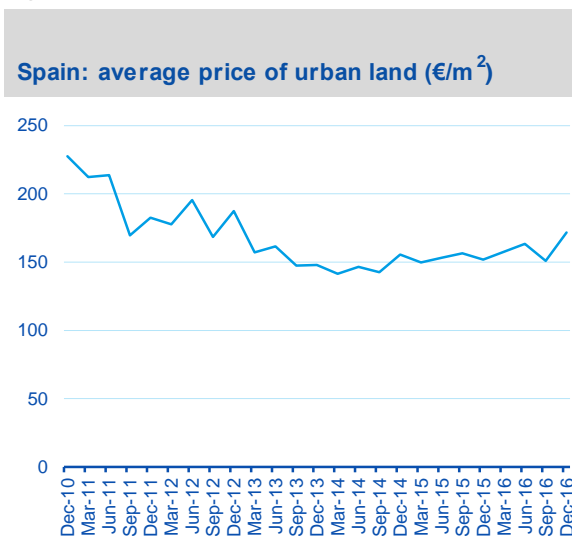
In turn, the land market is gradually gaining traction. According to CIEN data, transactions in urban land grew by 14.9% compared to those made in 2015. However, this increase entailed a much higher figure of the total gross land area sold, which grew by 33.0% in 2016 (see Figure 3.16). Furthermore, it is appreciated that the significance of the transactions performed by corporations is steadily gaining ground on those undertaken by natural persons: between January and September 2016, 31.1% of the transacted area was acquired by natural persons and 68.9% by corporations, while in 2010 these percentages were 73.5% and 23.5%, respectively. This means that, increasingly, companies are the main stakeholders in the land market. In addition, the price of land continues to show an upward trend. According to the Ministry of Development, in 2016, the average price of urban land increased by 5.3%, equivalent to an increase in the price of land for the second consecutive year (see Figure 3.17).

Figure 3.16



Source: BBVA RE Research based on CIEN data

Figure 3.17



Source: BBVA RE Research based on MFOM data

The increased activity in the land market is acting, to a certain degree, as a guarantee for construction activity in the coming quarters, especially when there is evidence that new product is beginning to dwindle in the areas with the greatest economic activity.

New appreciation of prices in the residential sector in 2016

The good performance of demand with a progressive reduction of inventory during 2016 is continuing to be transferred to housing prices, and the various sources that compile the evolution of housing prices have observed an appreciation in 2016. According to data compiled by the Ministry of Public Works from real estate appraisals, in December 2016 the price of housing in Spain appreciated by 1.5% over the same month in the previous year (see Figure 3.18), and stood at €1,512/m². With these data, the annual average growth reached 1.9%, 0.1 pp below forecasts

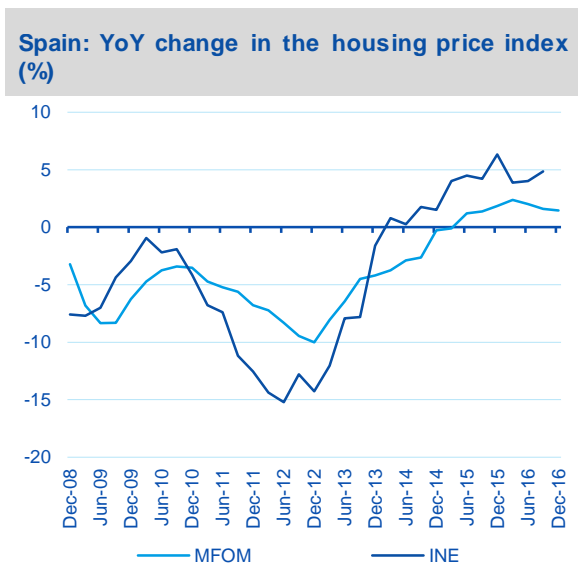
The growth in demand is translated into price increases

for 2016 by BBVA RE Research. Meanwhile, the Housing Price Index (IPV), prepared by the INE from notarised housing sales data, also closed 2016 with an increase of 4.5% and confirms the positive trend from Ministry of Public Works data.

Both sources show similar trends in the evolution of housing prices, and from mid-2015 show that growth rates have stabilised. They are at about 4.5% in the case of INE, and 2% in that of the Ministry of Public Works. Several reasons could explain this moderation. On the one hand, despite industry expectations being positive, these are still moderate and forecast mild rates of appreciation. On the other, the demand for housing on the existing supply is still not high enough to make prices to grow at a faster pace. For example, in 2007, a year in which, according to Ministry of Public Works data, housing prices grew about 6%, the volume of demand was around 840,000 units while the frictional supply stood at 365,000 homes, resulting in a ratio of 2.3 applicants per home. In 2016, that same ratio was 1.1.

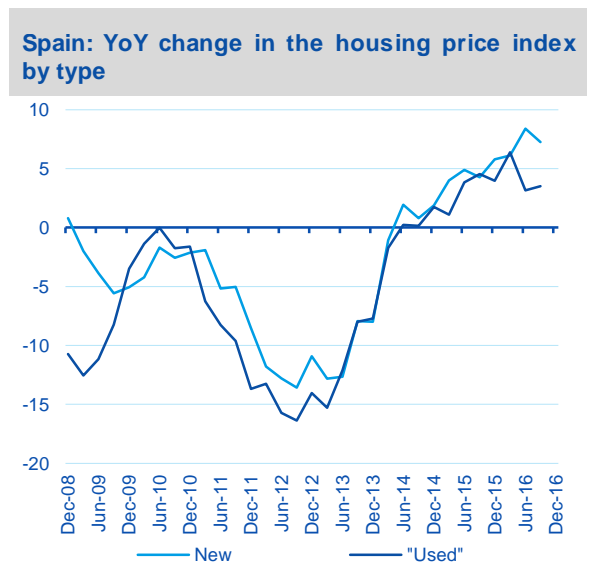
By type of housing, according to INE data, new construction closed 2016 with an annual gain of 4.3% while used homes rose by 4.5% (see Figure 3.19). Although both types ended the year with a similar appreciation, the growth rate of new housing is becoming more intense. During 2016, the price of new housing grew each quarter by a year-on-year average of 6.5%, while for used housing the figure was 4.4%. This difference in the rate of growth could be caused by a lower supply of new build homes.

Figure 3.18



Source: BBVA RE Research based on MFOM and INE data

Figure 3.19



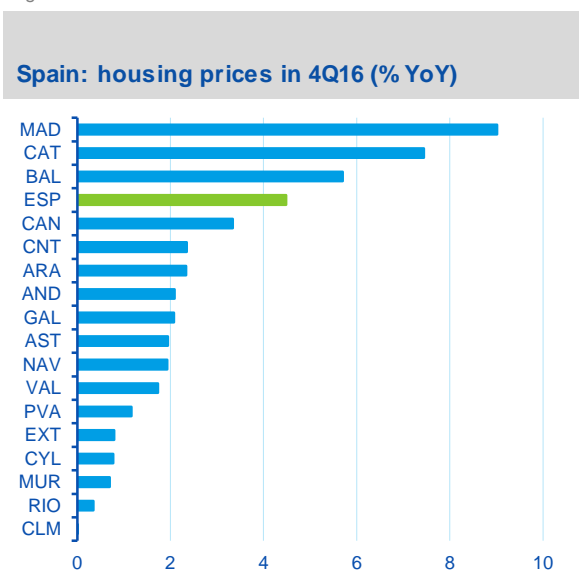
Source: BBVA RE Research based on INE data

Prices rose in all regions except in Castilla-La Mancha

By region, prices rose in 2016 in all regions with the exception of Castilla-La Mancha, although growth rates in each region were very diverse. According to the INE, the regions that grew above the national average were Madrid, Catalonia and Baleares, with year-on-year rates of change in 4Q16 of 9%, 7.5% and 5.7% respectively. Meanwhile the regions with the lowest appreciations were Castilla-La Mancha and La Rioja with year-on-year growth rates of 0% and 0.4% respectively (see Figure 3.20).

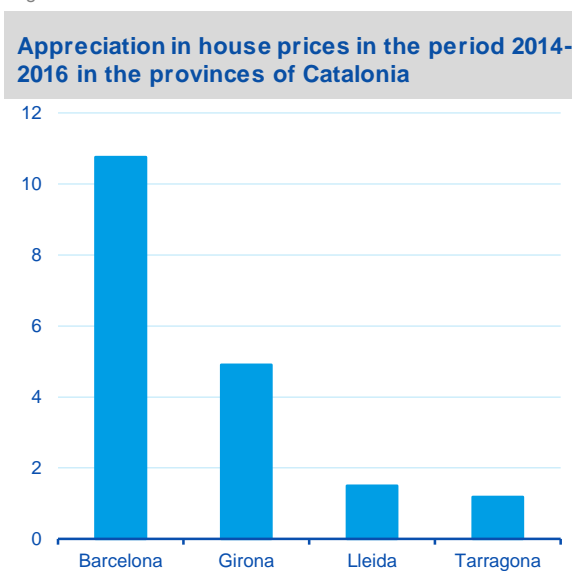
The disparity in price growth was also observed within the regions themselves. Thus, for example, in Catalonia, where prices grew above average, a wide disparity was observed at provincial level (see Figure 3.21). According to data provided by the Ministry of Public Works at the end of 2016, prices in the province of Barcelona have appreciated by nearly 11%, while the figure for Tarragona is only 1%. These same regional disparities could also be observed at municipal level, and while prices in Barcelona have appreciated by 13.8% from their lowest point in early 2014, those in Lleida have yet to show any appreciation. Therefore, it is generally observed that it is in those regions or municipalities where there is greater economic dynamism (capital cities and areas with high exposure to the tourism sector) and an oversupply of housing where prices tend to grow at a faster pace.

Figure 3.20



Source: BBVA RE Research based on INE data

Figure 3.21



Source: BBVA RE Research based on MFOM data

The recovery of the sector shows a high geographical disparity

The aggregate figures clearly indicate that the recovery in the housing sector in Spain is a reality. However, when it comes down to regional or provincial level it can be seen that, while in some areas the recovery is advanced and consolidated, in others it is only just starting or has not yet begun.

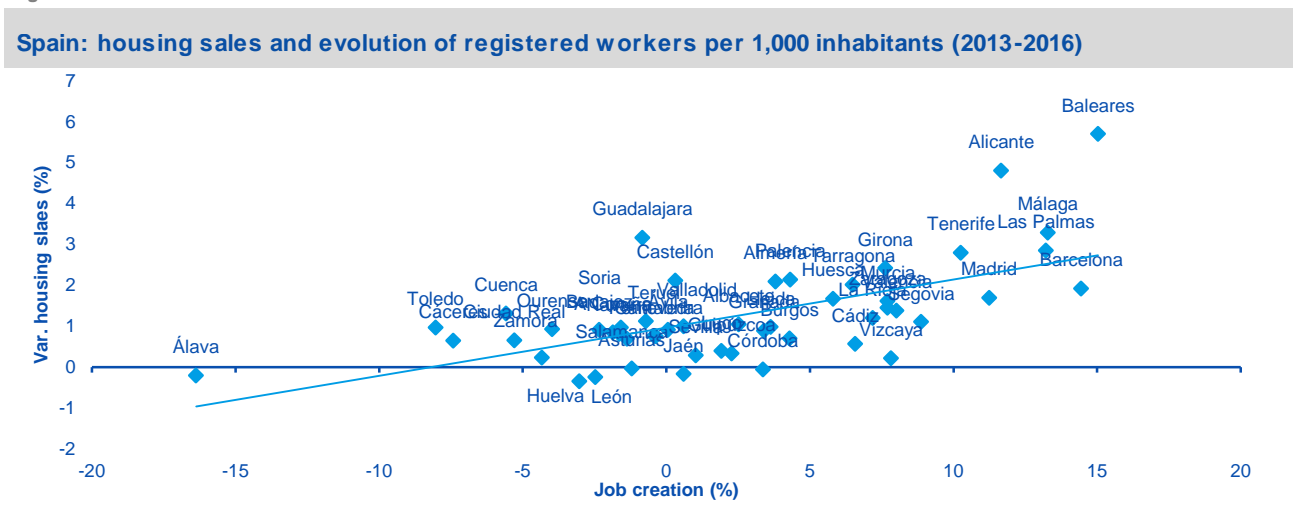
At regional scale, home sales grew in all regions over the past three years. Only Castilla-La Mancha recorded a small decline in 2015. However, not all the regions joined equally in the average annual increase of 15.1% between 2014 and 2016. Catalonia, Madrid, Andalusia and Valencia are the four regions that have contributed the most to the recovery of sales, being responsible for 64.8% of the recovery. Conversely, Cantabria, Extremadura, Navarra and La Rioja have made the smallest contribution to the increase in sales in the past three years (4.3%, i.e. 0.7 pp of the average annual increase of 15.1%). However, even within each region the market shows deferential behaviour that in some cases, may be marked.

Sales are recovering
in all the regions

The recovery of demand is very closely linked to employment

The recovery in residential demand is very closely linked to economic growth and job creation. Thus, the provinces where the highest number of people registered their employment saw greater buoyancy in their housing sales. Such is the case of Baleares, Alicante, Málaga, Barcelona, Madrid, Tenerife and Las Palmas, the provinces which mostly led job creation in the early years of economic recovery, largely based on the momentum of tourism. By contrast, in provinces where employment hardly rose, such as Jaén, Huelva and León, sales did not take off either (see Figure 3.22).

Figure 3.22



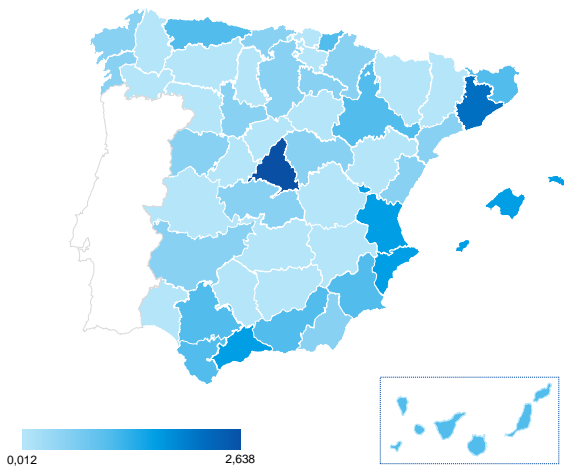
Source: BBVA RE Research based on MFOM and INE data

Exposure to tourism accelerates housing sales

The provinces with the highest contribution to the recovery of home sales were Madrid, Barcelona, Málaga, Valencia, Alicante, Baleares, Vizcaya, Cádiz, Las Palmas and Murcia, to which we can attribute 65.3% of the increase in total sales between 2014 and 2016. On the opposite end of the scale are Zamora, Ciudad Real, Lugo, Teruel and Soria, provinces with low sales growth which barely contributed to the national growth (see Map 3.1). The growth in sales, in terms of population, was more intense in the provinces with high exposure to the tourism sector (which led to a growth of the housing stock without a growth in population) and those which include the largest Spanish cities –Madrid and Barcelona– which are poles of attraction for population via job creation and the search for opportunities (see Figure 3.23).

Map 3.1

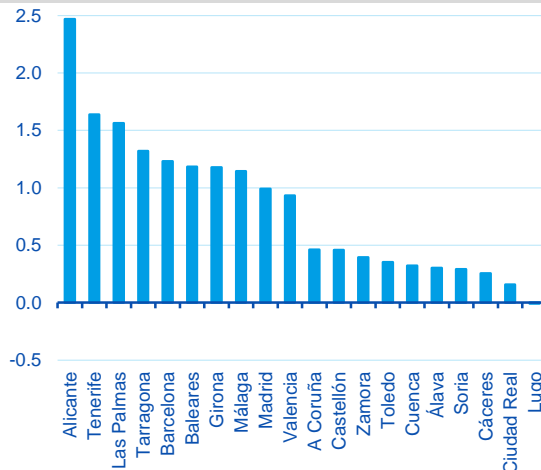
Spain: contribution to the growth of housing sales (annual average 2013-2016)



Source: BBVA RE Research based on MFOM data

Figure 3.23

Spain: variation in sales per 1,000 inhabitants. (annual average 2014-2106)*



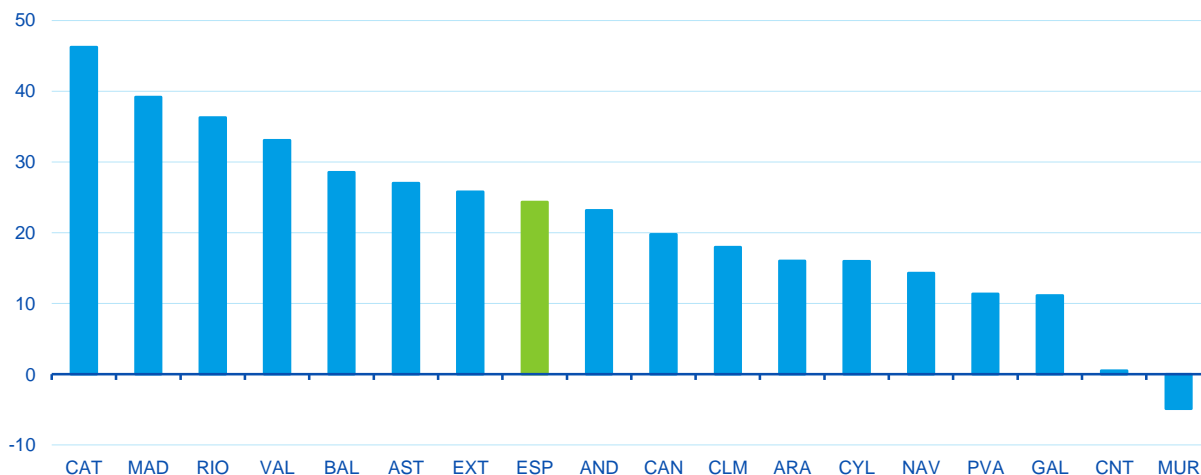
*Note: Averages adjusted for volatility of the period. Top ten and bottom ten municipalities.
Source: BBVA RE Research based on MFOM and INE data

From the point of view of construction, Madrid and the Mediterranean communities are also perceived as those that have shown greater activity. The number of new housing construction permits has been growing since 2014 at national aggregate level, and from then until 2016 grew at an annual average of 24.3%. Above this average are Catalonia, Madrid, Valencia, Baleares (thanks to the extraordinary increase in 2015), La Rioja, Asturias and Extremadura. In the three year period, a negative trend in building permits can only be seen in Murcia, while in Cantabria they were practically stagnant (see Figure 3.24).

Madrid and the Mediterranean regions lead in new housing starts

Figure 3.24

Spain: evolution of new housing building permits (annual average 2014-2016)



Source: BBVA RE Research based on MFOM data

The provinces that contributed most to the national increase in building permits were Madrid, Barcelona, Alicante, Malaga and Vizcaya. These five account for 71.9% of the increase in building permits in the last three years (see Table 3.4). These are all provinces that, as discussed above, are showing a relatively strong recovery in demand. However, the ones which experienced the most growth in building permits between 2014 and 2016 were not those that have contributed most to national growth.

The provinces that recorded the highest growth in building permits between 2014 and 2016 were Guadalajara, Valladolid and Las Palmas. It is surprising that the high growth in some of them barely contributed to national growth. This is because the huge correction suffered during the crisis has placed housing starts at an extremely low level, resulting in an important base effect which results in large shifts in the rates of change from small variations in their levels. For example, Guadalajara, where building permits during the crisis suffered more than the average, falling by 98% in that period, was the Spanish province where building permits grew the most between 2014 and 2016 (65.3%), but despite this only it contributed 0.3 pp to the average growth in Spain. This can also be seen in the province of Castellón where building permits grew at an annual average of 42.0% in the last three years, but where there were just 0.8 housing starts per 1,000 households, the result of the reduction of 99.3% undergone by building permits between 2006 and 2015. At the other end of the scale are the provinces of Avila, Murcia, Santa Cruz de Tenerife, Zamora and Teruel, where the approval of building permits fell in annual average terms between 2013 and 2016.

Table 3.4

Spain: contribution to national growth of housing construction permits by provinces (2013-2016)											
	Var. annual average 2014-2016 (%)	Building permits per 1,000 homes from the housing stock	Contrib. to var. in annual average 2014-2016 (pp)		Var. annual average 2014-2016 (%)	Building permits per 1,000 homes from the housing stock	Contrib. to var. in annual average 2014-2016 (pp)		Var. annual average 2014-2016 (%)	Building permits per 1,000 homes from the housing stock	Contrib. to var. in annual average 2014-2016 (pp)
TOTAL	24.3	1.9	24.3	Granada	23.0	1.4	0.3	Pontevedra	14.4	0.7	0.1
Madrid	39.2	4.0	8.4	Navarra	14.3	3.5	0.3	Álava	22.2	2.0	0.1
Barcelona	55.8	1.6	3.6	Cáceres	32.0	1.6	0.3	Soria	14.1	2.5	0.1
Alicante	35.5	3.0	2.5	Tarragona	31.8	0.7	0.2	Salamanca	13.9	1.4	0.1
Málaga	54.8	3.0	2.2	Guipúzcoa	15.2	4.9	0.2	Cuenca	9.0	1.7	0.0
Vizcaya	20.5	3.8	0.8	Jaén	17.1	1.6	0.2	Segovia	13.7	2.6	0.0
Baleares	28.5	2.3	0.6	C. Real	15.5	1.9	0.2	Lugo	14.3	1.3	0.0
Zaragoza	28.5	2.3	0.6	Burgos	20.6	1.7	0.2	Palencia	7.9	1.0	0.0
Las Palmas	60.9	1.1	0.5	Castellón	42.0	0.8	0.2	Ávila	-0.1	1.2	0.0
Cádiz	41.2	1.2	0.5	Badajoz	22.4	1.4	0.2	Albacete	6.2	1.8	0.0
Valencia	31.5	0.6	0.4	A Coruña	13.9	1.4	0.2	Zamora	-8.0	1.0	0.0
Asturias	27.0	1.4	0.4	Huesca	46.7	2.2	0.2	Cantabria	0.5	1.3	-0.1
Córdoba	40.1	1.7	0.4	León	24.1	1.0	0.2	Murcia	-4.9	1.4	-0.2
Valladolid	62.3	1.7	0.4	Lleida	37.0	1.4	0.1	Teruel	-13.5	1.6	-0.2
Toledo	26.0	1.9	0.4	La Rioja	36.3	1.7	0.1	Almería	39.3	1.7	-0.2
Girona	27.9	1.3	0.3	Huelva	20.7	1.1	0.1	Tenerife	-6.2	1.0	-0.3
Guadalajara	65.3	2.3	0.3	Ourense	40.1	0.8	0.1	Sevilla	0.4	1.3	-0.5

Source: BBVA RE Research based on MFOM data

Baleares, Barcelona y Málaga, those which appreciated the most

In terms of housing prices, data from the Ministry of Public Works, which provides provincial data, shows that many of the provinces with the most dynamic demand registered the highest growth in prices. Thus, Baleares, Barcelona, Malaga, Madrid and Las Palmas recorded growth in prices above the national average in the period 2014-2016 (see Table 3.5). However, in other provinces where demand performed well in the same period, the evolution of prices was more modest than the average. Such is the case of Almeria, where between 2014 and 2016 the ratio of homes sold per 1,000 homes from the housing stock stood at 19.3, above the national average (15.8). Despite the greater impetus of demand, the price of housing in the province fell by an annual average of 0.4% over the same three years, a trend that could be caused by a high level of inventory. By contrast, there are provinces where housing prices have been corrected in the last three years and which have an underactive demand. This can be observed in Soria and Cuenca where the decline in prices was accompanied by weak demand, as is revealed by the ratio of transactions per 1,000 homes from the housing stock and the evolution of purchases in the last three years which, although they showed a slight recovery in both cases, were much lower than the national average.

Another notable case comes from the Basque provinces of Guipuzcoa and Vizcaya. In both, certain robustness in demand can be seen. The ratio of housing sales over housing stock is situated in the first quartile of the distribution, higher than the national average, while sales between 2014 and 2016 grew faster than the Spanish average in an environment where excess supply does not seem to be a problem. However, housing prices show a significant correction, according to the Ministry of Public Works. This is something which is not observed in the INE, where the Housing Price Index shows a significant increase in the price of housing in the Basque Country for the same period.

Also significant is the case of Asturias and Burgos. These are two of the ten provinces where the price has fallen over the last three years. Nevertheless, the growth in sales has been significant, 19% and 19.5% annually on average, respectively. However, this increase comes at a rock bottom level, where the ratio of sales per 1,000 homes from the housing stock was 10.7 and 12.8, in each case, well below the national average (15.8).

Finally, as long as the economy keeps growing and creating jobs, the recovery in real estate will continue seeping into more parts of the territory. In provinces like La Rioja, where demand has momentum and sales are beginning to reach a significant volume relative to the housing stock in an environment of rising prices, the recovery of the sector could be settling in. In Cádiz, demand shows certain momentum but prices are not responding. To the extent the inventory is absorbed, the market could be close to recovery, largely as a result of foreign demand (see Table 3.5).

The recovery will be extended further with job creation

Table 3.5

Spain: Evolution of prices and residential demand. Provincial ranking by quartiles

	Home prices		Demanda residencial			
	Average growth, % (YoY 2014-2016)	Quartile	Sales per 1,000 homes of housing stock	Quartile	Average growth, % (YoY 2014-2016)	Quartile
Baleares	3.5	1	21.8	1	22.31	1
Barcelona	3.3	1	16.2	1	21.80	1
Málaga	3.1	1	28.4	1	14.46	2
Madrid	2.9	1	19.6	1	16.96	1
Las Palmas	2.9	1	19.5	1	11.83	3
Tenerife	2.4	1	18.2	1	11.31	3
Zaragoza	1.3	1	15.1	2	20.07	1
España	1.0	1	15.8	2	14.04	2
Girona	1.0	1	17.6	1	10.19	3
Cáceres	0.8	1	8.5	4	5.32	4
Alicante	0.7	1	25.0	1	9.70	3
Valencia	0.7	1	14.8	2	14.82	2
Valladolid	0.5	1	12.8	3	15.58	1
Salamanca	0.4	2	10.6	3	17.3	1
Albacete	0.4	2	10.7	3	14.1	2
Cantabria	0.2	2	12.6	3	17.5	1
Ourense	0.2	2	5.9	4	11.2	3
La Rioja	0.2	2	15.2	2	13.6	2
Jaén	0.2	2	10.5	3	18.1	1
Badajoz	0.2	2	11.0	3	15.1	2
Lleida	0.1	2	12.6	3	14.4	2
Lugo	-0.1	2	10.4	4	-0.4	4
A Coruña	-0.1	2	9.7	4	9.6	3
Zamora	-0.3	2	8.4	4	5.7	4
Almería	-0.4	2	19.3	1	6.8	4
Ávila	-0.4	2	8.5	4	10.5	3
Tarragona	-0.4	3	15.9	1	8.2	4
Palencia	-0.5	3	11.0	3	10.5	3
Córdoba	-0.5	3	11.8	3	12.8	2
Ciudad Real	-0.6	3	10.3	4	1.6	4
Cádiz	-0.6	3	15.7	2	17.7	1
León	-0.9	3	9.1	4	11.7	3
Pontevedra	-0.9	3	9.0	4	11.9	2
Granada	-1.0	3	14.6	2	12.8	2
Castellón	-1.1	3	14.5	2	6.4	4
Teruel	-1.1	3	9.7	4	9.3	4
Vizcaya	-1.2	3	16.0	1	21.7	1
Murcia	-1.2	3	15.9	1	11.4	3
Toledo	-1.5	3	12.9	2	8.2	4
Toledo	-1.5	3	12.9	2	8.2	4
Guipúzcoa	-1.5	4	16.3	1	19.2	1
Sevilla	-1.6	4	14.6	2	9.7	3
Navarra	-1.6	4	14.3	2	12.1	2
Cuenca	-1.7	4	7.9	4	7.6	4
Asturias	-1.8	4	10.7	3	19.0	1
Guadalajara	-2.1	4	15.3	2	11.3	3
Huesca	-2.4	4	13.9	2	13.4	2
Burgos	-2.7	4	12.8	3	19.5	1
Huelva	-2.7	4	14.3	2	7.0	4
Álava	-3.1	4	12.0	3	9.5	3
Soria	-3.3	4	9.8	4	4.5	4
Segovia	-3.9	4	10.8	3	15.3	2

Source: BBVA RE Research based on MFOM data

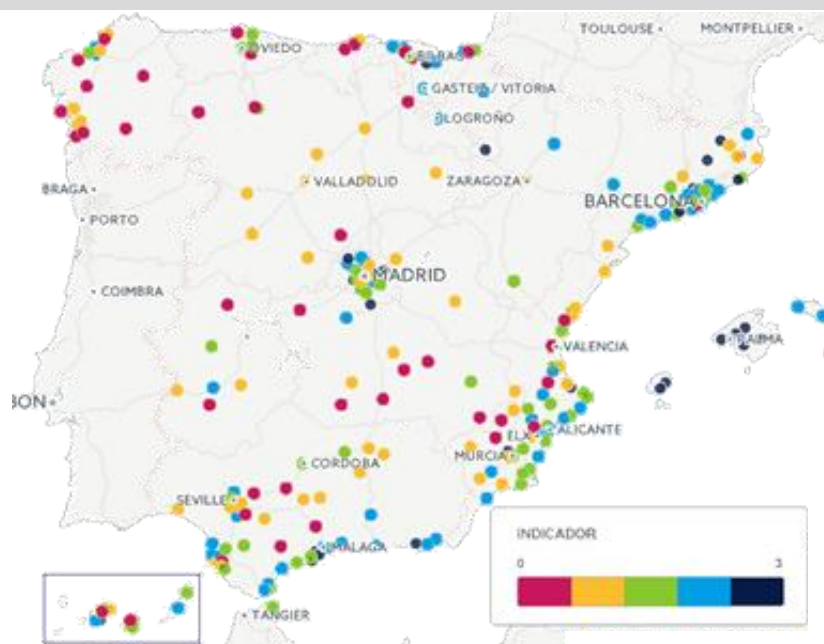
At municipal level, the analysis of the cities with over 25,000 inhabitants, 284 in all, also indicates that the sector's recovery is mainly located on the Mediterranean axis, the island regions and Madrid. To identify which municipalities have a more attractive real estate market, a model has been developed that allows a ranking of municipalities to be made. This system gives a weighting to variables such as demand, supply and prices for each city. Thus, for example, in order to study demand, the sales in each municipality are analysed both in terms of their evolution in recent quarters and their levels in relation to the population of the municipality. Variables are also included associated with the potential demand such as population trends, paying particular attention to the cohorts which would potentially have more demand for housing (between 25 and 50 years), or wealth per household and regional productivity. Overall, a value between 0 (lowest value) and 3 (highest value) is assigned to each municipality. For example, municipalities with favourable pricing momentum, with strong demand and scarce supply receive a value close to 3, while those with the opposite situation tend towards 0. For all other combinations, municipalities are placed in intermediate ranges.

Madrid, the islands and the Mediterranean axis are the most active markets

The result of the classification has been placed on a map (see Map 3.2). Again it can be observed that it is in the Mediterranean arc (except for Castellón and Tarragona), both island groups and Madrid where the municipalities with the most dynamic and attractive real estate market (green to dark blue) are concentrated, while in the interior and northern part of the peninsula the attractiveness of the municipal markets is reduced (red to green), except for some cities in País Vasco that appear well positioned in the classification.

Map 3.2

Municipal classification. Appeal of the real estate market in municipalities with more than 25,000 inhabitants



Source: BBVA RE Research based on several data sources

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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