Real Estate Watch Spain

Economic Research Department
November 2005

Construction remains buoyant
Fewer housing transactions
Housing prices gradually adjust
An increasingly financial global real estate market

Index

Closing date: 1 November 2005

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Editorial

With the GDP and employment growing at rates of over 3% in the Spanish economy, the construction sector continues to be extremely buoyant. In the first half of the year, the sector's activity indicators showed faster growth than in 2004. In this respect, the figures indicate that housing starts will once again exceed 750,000 in 2005, a year when development of property for non-residential purposes, especially for commercial uses, has also been rising.

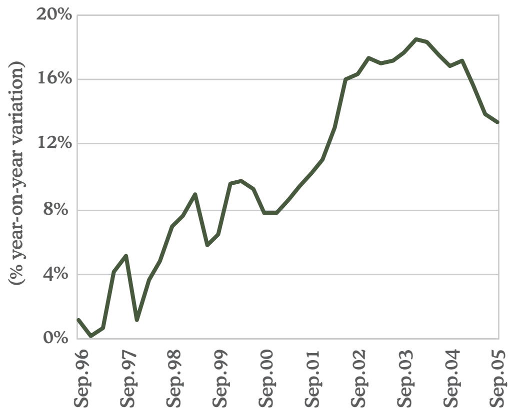
This high degree of development and the good level of backlog orders in hand at the companies in the sector are helping to put the confidence indicators in the most optimistic range, even though sector costs are rising above inflation. Both employment and cement consumption are at record highs.

In the market, this increase in housing supply in 2005 is taking place in a context of slower demand, which means there is less pressure on prices. The gentle slowing in the pace of sales and the lower volume of foreign investment in the sector are a clear reflection of the change in trend which is occurring in the market. In terms of housing prices, their tendential growth rate is five points down on the figure registered at the end of 2003. This slowdown has taken place over about eight quarters and could be interpreted as the start of a new stage in the market, characterized by a gradual adjustment in prices. When the behaviour of prices is analyzed spatially in a disaggregated manner, this trend is found to be generalized and the degree of deceleration tends to be directly related to the time which has passed since the start of the strong expansion of the real estate market. This "soft landing" trend for housing prices is expected to continue in 2006 in a context where the main factors which have contributed to underpin the current phase of expansion –very low interest rates and very dynamic employment- will continue to perform relatively well.

Thanks to the low mortgage rates, mortgage financing is growing apace, with growth rates remaining higher than for other types of lending. In Spain, where growth rates double the increase in Europe, mortgages continue to gain importance in the financial system. This sharp increase in mortgages at the moment is partly the result of the time lag between the purchase and delivery of a home, especially when the home is bought on plans or when it is being built. Thus, the notable increase which will be seen in the number of homes completed in 2005 and 2006 will allow mortgage growth to remain strong in the coming quarters in a scenario of gentle slowing in the real estate market.

The Topic of the Quarter analyzes the behaviour of housing prices in developed economies in the past few decades and focuses on the factors which have underpinned the trends observed in the different countries. In more recent years, the downturn in the yields on different financial assets has made investment in housing more attractive for the economic agents, boosting demand and prices in the majority of developed countries.

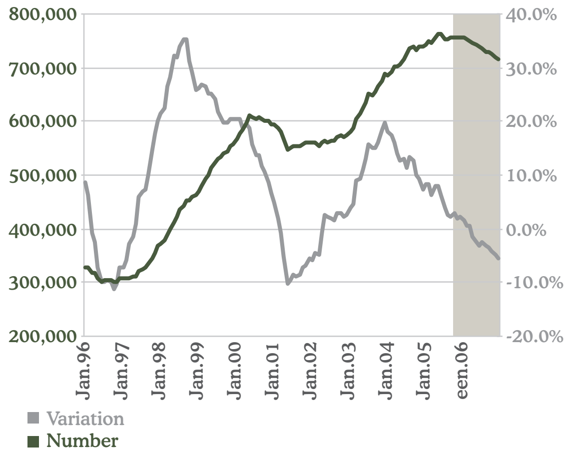
Open-market housing prices in Spain



Source: Ministry of Housing

Housing endorsed. Accumulated over 12 months

Number and annual variation (%)



Source: Ministry of Public Works and BBVA

1. Economic environment

Favourable international environment, but with risks

The outlook for world growth in 2005 and 2006 continues to be positive. The productivity gains linked to technological innovation, the increasing globalization of production and saving, furthered by market liberalization, the increase in capital flows, the strength of both the financial and non-financial business sector, and the greater credibility won by central banks are working in favour of strong world growth with moderate inflation. This, in turn, gives the central banks more room for manoeuvre in terms of boosting growth or looking after financial stability.

Consequently, while in countries like the USA, where the degree of utilization of resources is high, official rates can be expected to continue on an upward path, in others, such as EMU, the monetary authority will take things more gently, thus giving rise to an interest rate spread will serve to support the dollar against the euro. In this way, the dollar-euro exchange rate, which is once again mainly weighting fundamentals against the USA's funding problems, is expected to be in the range of 1.17-1.25. In this scenario, long rates may not have much upside potential, bearing in mind the increasing financial global globalization, the growth of world saving, the low expectations for world inflation and the scant volatility of inflation, which has led to a reduction in risk premiums by maturity.

Despite the good growth outlook, the risks for the world scenario are downward. The main cause for concern is the sharp increase in energy prices and, specifically, in oil prices, which have been partially pushed up by emerging countries' greater participation in world growth. Oil prices stood at USD 11/barrel in 1999, but are now over USD 60 and the doubts about how far oil supply will be able to meet the increase in demand will keep prices at these levels until the end of this year, to finish up slightly below USD 50 at the end of 2006. So far, their impact on the world economy has been moderate, thanks to greater energy efficiency, the less important role played by wage-indexing mechanisms and the only gradual increase in prices, which has permitted the adjustment of agents' expectations. In reality, together with the oil shock, a process of globalization is taking place which at least partially offsets this shock. However, a close eye must be kept on expectations, both in order to prevent price increases being passed through to inflation and to stop a serious deterioration in confidence which could lead to a brusque slowdown, especially in those economies where household indebtedness is really high.

EMU, recovery is on the way

In EMU, the growth outlook for 2005 and 2006 is also positive. After the slump of the second quarter, the latest figures point to an improvement in expectations and a certain upturn in production and spending indicators. The good world growth prospects and the dynamism of financial and commercial transactions are one of the main supporting factors for activity in EMU, in an environment where both financial and non-financial companies are very healthy, with efficiency

Table 1.1. Growth forecasts

	2003	2004	2005	2006
OECD	1.9	3.3	2.6	2.8
USA	2.7	4.2	3.6	3.2
EMU	0.7	1.8	1.3	2.0
Japan	1.4	2.7	2.0	2.5
Non-OECD countries	6.3	7.2	6.3	5.9
Latin America	1.7	5.9	4.4	3.5
WORLD	4.0	5.1	4.2	4.1

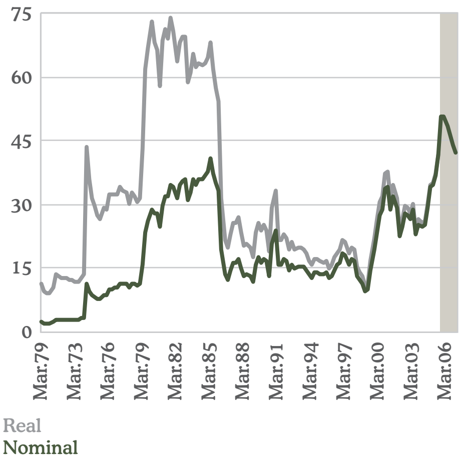
Source: IMF and BBVA

Table 1.2. Summary table of forecasts
(averages)

Financial scenario			
Official interest rates	1/11/05	2005	2006
USA	4.00	3.25	4.70
EMU	2.00	2.00	2.30
10-year interest rates	1/11/05	2005	2006
USA	4.6	4.3	4.9
EMU	3.4	3.4	3.8
Exchange rate	1/11/05	2005	2006
Dollar-euro	1.20	1.25	1.21

Source: BBVA

Chart 1.1.
Price of the barrel of Brent in euros



Source: BBVA

gains and high margins and profits. In addition, monetary and financial conditions continue to be very favourable for growth, with real interest rates and credit spreads at minimum levels, an increase in stock market yields and the gradual easing of lending conditions. This is further accompanied by the depreciation of the exchange rate, which will give additional support to exports. In an environment such as this, activity in EMU is expected to gradually increase and could grow by 1.3% in 2005 and 2.0% in 2006.

Despite the increase in oil prices, European inflation will remain under control during this period (2.2% in 2005 and 2.0% in 2006[1]). In recent months, it has risen substantially to the highest level of the last four years, but this increase is largely attributable to the pressure from energy prices and no tensions have so far been detected in core inflation, which remains at around 1.5%. In a context of a negative output gap and intense globalization, the pass-through is expected to be limited, leaving room for the ECB to be assured of the soundness of the recovery before starting to put interest rates up. Thus, in the most likely scenario, the central bank should not start to bring interest rates back to normal until the first half of 2006. Long rates will remain relatively low, consistent with the outlook for monetary policy and the factors which are pushing yields down worldwide. The German 10-year bond could end 2006 at 4.0%, with a spread with the USA of around 100 basis points.

But, as in the world scenario, the risks for the EMU growth scenario are downwards. Firstly, there are the risks associated with oil prices mentioned earlier, and with the impact of a possible sharp adjustment in countries like the USA, which would produce an environment of lower interest rates and a slightly more depreciated dollar, in the range of 1.25-1.33. But also in Europe's case, there is the risk that political and institutional uncertainty may once again cut short expectations of a recovery that has only just started.

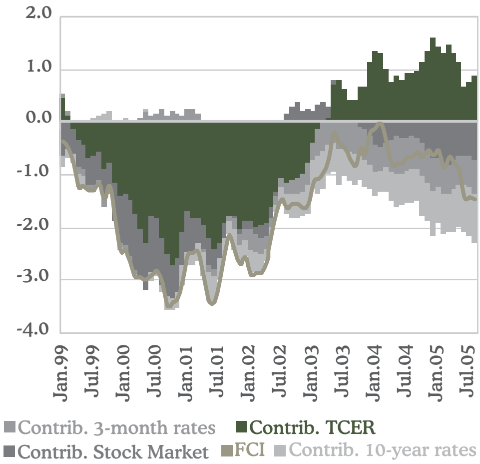
Spain, sustained growth of over 3% in 2005 y 2006

In a European context of cyclical recovery which will not be consolidated until 2006 and with anchored inflation expectations, as the second round of increases in energy prices has had no effects, interest rates in EMU as a whole will maintain their expansive tone for the Spanish economy. Moreover, this year's depreciation of the euro against the dollar and the stability expected in 2006 will maintain the relaxed monetary tone of the monetary conditions that Spain will be working with in the coming quarters. Lastly, as an exogenous factor, the current oil price shock is expected to be reversed as from the first quarter of 2006, although the barrel of Brent is unlikely to fall below USD 50 before the end of 2006.

In this very supportive environment for company and household spending, growth in Spain will remain above its potential in 2005 and 2006 for the third and fourth year in succession, at forecast rates of 3.4% and 3.1% respectively. Household spending on consumption and

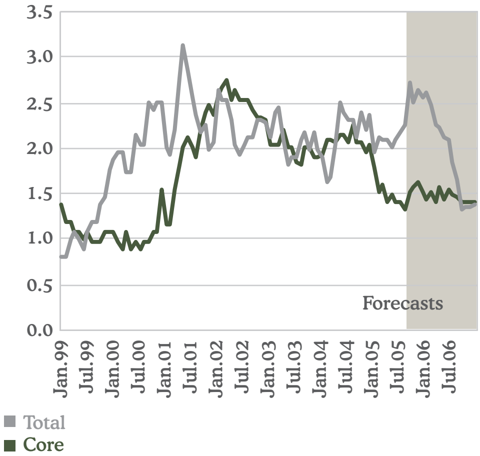
[1] The 2.0% forecast does not include the impact of healthcare reform in Holland, which could detract 3 p.p. from EMU inflation.

Chart 1.2.
EMU: Monetary and Financial Conditions Index (MFCI) and contributions



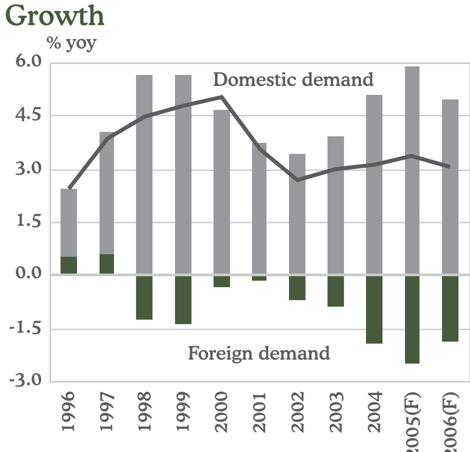
Source: BBVA

Chart 1.3.
EMU: HCPI
Year-on-year variation



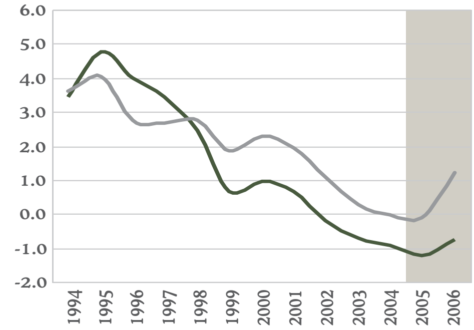
Source: BBVA

Chart 1.4.
Growth



Source: INE and BBVA

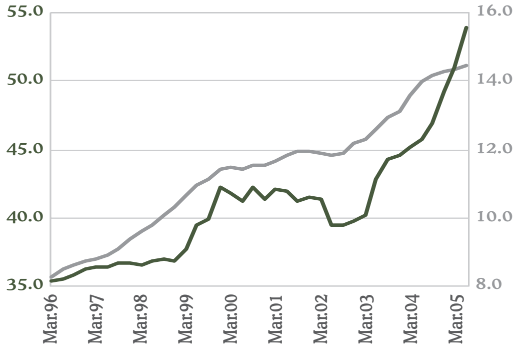
Chart 1.5.
Real short rates



■ EMU
■ Spain

Source: BBVA

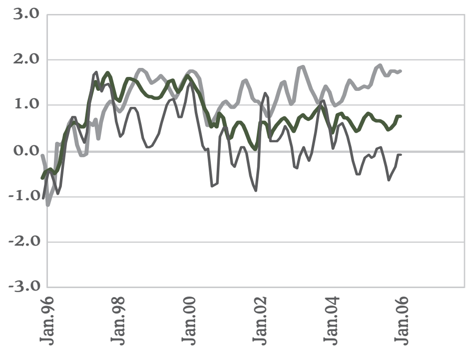
Chart 1.6.
Weight of goods imports in household spending



■ Household consumption, right
■ Investment in capital goods, left

Source: INE and BBVA

Chart 1.7.
BBVA - AI



■ Construction
■ Total
■ Production

Source: BBVA

investment in housing will continue to be the main support for domestic demand, although this is now starting to be accompanied by more dynamic corporate investment, encouraged by the better expectations for foreign activity and the good financing conditions. Nevertheless, the increase in spending, especially on investment in capital goods, is increasingly feeding more off imports than off domestic production. Import growth, stemming from the combination of buoyant Spanish demand, the deterioration accumulated in relative prices and the strong euro, will keep the foreign sector's detraction from growth at relatively high figures, of around 2% in 2006, despite the recovery in exports. Lastly, although liquidity conditions will continue to underpin demand, 2006 will see the first increase in ex-post real short rates since 2000.

Economic situation

In respect of the Spanish economic situation in the third quarter of 2005, the BBVA–AI[2] fell from its previous levels, largely as a result of the deterioration in the variables representing industrial production. In contrast, the group of variables linked to construction rose once again, preventing the deterioration of the BBVA-AI as a whole in the third quarter of 2005. Worth a special mention amongst the different indicators for the construction sector are the ones related to expectations for business activity, such as backlog orders and the outlook for housing production and public works. This expansion is reflected in Quarterly National Accounting, which shows higher and higher year-on-year growth rates for investment in construction since the beginning of 2005 and this will foreseeably continue in the second half of 2005. In the longer term, in a scenario where interest rates no longer help to improve housing affordability indicators, activity rates in the residential construction sector will gradually start to slow in the face of less buoyant household demand. The end of the acceleration in housing prices is already a sign of weaker pressure from demand.

Household consumer spending is now growing at an annual rate of nearly 5%, the highest since 2000, backed by the increase in the number of households, disposable income per household and their wealth. In respect of the indicators for household consumption, the slower profile of the indicators for expenditure on goods, both autos and all of those

[2] This reflects the state of the Spanish economy through the analysis of information provided by different indicators of activity, spending, expectations, construction and employment.

Table 1.3. Gross domestic product

yoy rates	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06	2003	2004	2005	2006
Household consumption	4.7	4.8	4.8	4.8	4.6	4.4	4.3	4.2	4.1	4.0	2.6	4.4	4.6	4.2
Public Admin. consump.	6.7	6.4	5.5	4.6	4.6	4.5	4.5	4.5	4.5	4.5	4.8	6.0	4.8	4.5
GFCF	5.0	6.1	7.0	7.5	7.9	7.1	6.6	6.2	5.3	4.3	5.6	4.9	7.6	5.6
Capital goods	1.1	8.8	10.0	10.4	9.2	8.3	7.5	7.0	6.3	5.4	2.5	3.7	9.5	6.6
Construction	6.1	5.1	5.7	5.8	7.3	6.8	6.3	5.5	4.5	3.5	6.3	5.5	6.6	5.0
Other Products	6.6	5.9	7.3	8.7	8.0	6.0	6.5	7.0	6.0	5.0	7.7	4.4	7.5	6.1
Var. stocks (*)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic demand (*)	5.5	5.9	6.0	6.0	5.9	5.6	5.3	5.1	4.9	4.5	3.9	5.1	5.9	5.0
Exports	3.7	2.3	-1.9	1.9	2.0	1.5	2.5	2.9	3.8	3.8	3.6	3.3	1.3	3.2
Imports	10.4	10.2	5.6	8.0	8.0	7.8	7.6	7.7	7.6	7.7	6.0	9.3	7.3	7.7
Foreign balance (*)	-2.4	-2.7	-2.7	-2.6	-2.3	-2.4	-2.0	-2.0	-1.8	-1.9	-0.9	-2.0	-2.5	-1.9
GDP mp	3.1	3.2	3.3	3.4	3.5	3.2	3.3	3.2	3.1	2.7	3.0	3.1	3.4	3.1

(*) Contributions to growth, 2001-2003, BBVA estimates
Source: INE and BBVA forecasts

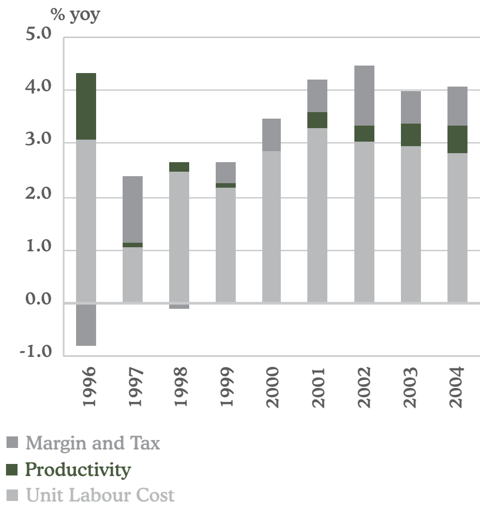
on the Retail Trade Index, is maintained. However, spending on services, reflected by indicators such overnight hotel stays and transport, still have a rising profile in the period available in 2005. In the coming quarters, consumer spending will continue to increase by over 4%, as employment will continue to grow at relatively high figures, due to sustained immigration flows and moderate wage rises. Thus, remuneration per wage-earner and unit labour costs will not present any significant tensions, with continuous variations below inflation since 1999. Nevertheless, some indicators such as the INE's Quarterly Labour Cost Index were rising in the middle of this year. If this were to continue in the future, the present model of growth in employment and activity would run into difficulty in an environment of low productivity gains.

In any event, scant pressure on wages is contributing to the moderation of inflation expectations. Thus, average inflation will be of 3.3% in 2005, falling to 2.9% as a result of the contribution of the expected downturn in oil prices. Tendential inflation should remain below 3%, reflecting the deflationary boost from the globalization of the production and distribution of manufactured goods, which accentuates the duality of inflation amongst the sectors which are more and less exposed to competition. Consequently, while inflation in the services sector has remained steady at between 3.6% and 3.8% since the mid-nineties, the prices of industrial manufactured goods are on a strong downward trend which has led their inflation rate to fall to nearly a third of the 2002 figure.

Chart 1.8.
Employment

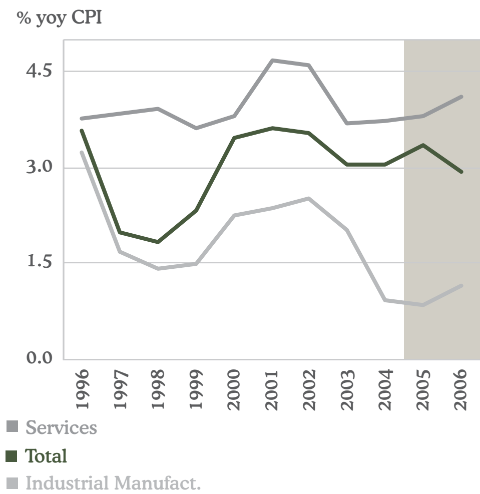
Source: INE

Chart 1.9.
Increase in prices



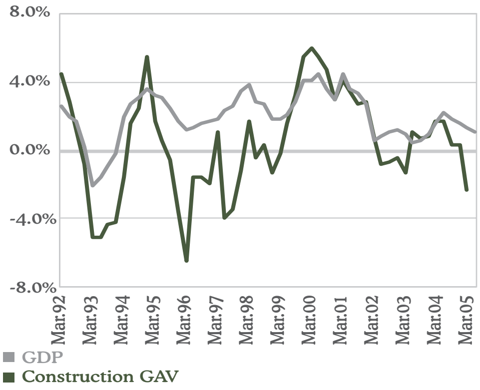
Source: INE and BBVA

Chart 1.10.
Inflation



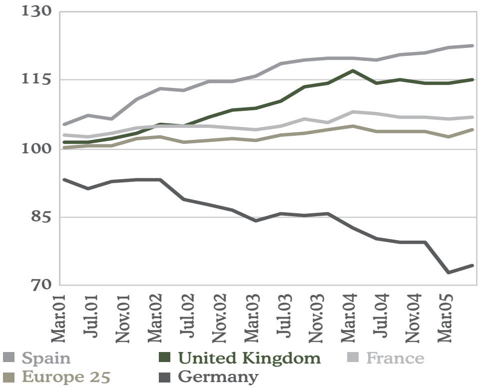
Source: INE and BBVA

Chart 2.1.
Europe: GDP and Construction GAV
Annual variation (%)



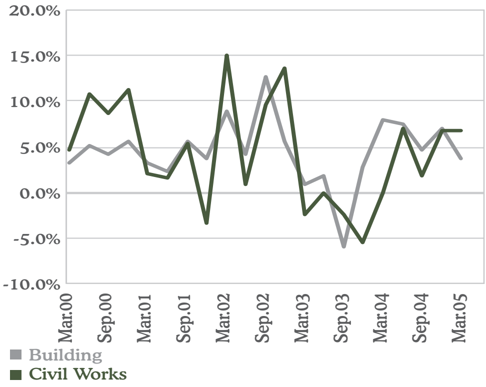
Source: Eurostat

Chart 2.2.
Construction. Activity
Index 2000 = 100



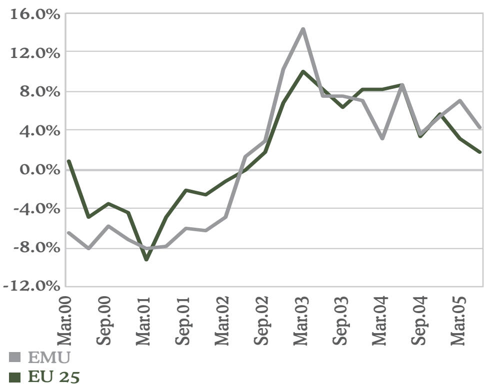
Source: Eurostat

Chart 2.3.
Construction in Europe: Backlog Orders
Annual variation



Source: Eurostat

Chart 2.4.
Europe: Building Permits
Annual variation



Source: Eurostat

2. Activity in construction

In Europe activity in the construction sector fell more sharply in the early months of 2005, both in the civil works segment and in building. The increase in building permits indicates that residential investment will increase in 2006.

The low growth rate for the European economy as a whole in the past few quarters has not served as an incentive to construction, where the activity level was low in first half of 2005, both in the building segment and in civil engineering. In the first quarter of 2005, the added value of construction fell at year-on-year rates of 2.3% in real terms.

The forecasts are pointing to a slight recovery in the sector as from the second quarter of the year. The stronger growth foreseen for 2005 and the expected recovery of the European economy in the course of 2006 will be positively reflected in sector performance, which could return to the upward path in the second half of 2005, to start a gentle recovery in 2006.

The downturn in investments in civil engineering works and sluggish residential demand have led construction to slump in Germany and the countries in its area of influence since the start of the decade. In this respect, the figures for 2005 highlight the slight improvement in construction activity in Germany, putting an end to over four years of continuous falls. However, in other major economies in the European Union, sector production has slowed, delaying the signs of recovery; thus, in Italy, France and the United Kingdom, the sector has registered slight drop-backs in 2005.

Although the level of activity is still low, the improvement in construction companies' backlog orders since the middle of 2004 will mean more activity in the medium term, as the work contracted is executed. According to entrepreneurs' opinions, the improvement in orders started in the middle of last year, in both civil works and the residential segment.

The need to continue to tighten up public spending in the main EU economies is leading to a reduction in public investment in civil engineering works, especially in Germany. This has also been accompanied by a downturn in the civil works executed in the United Kingdom. The need to contain public spending in the short and medium term implies a very moderate level of public investment and, consequently, the outlook for this segment in the Union's major economies points to stagnation in the coming quarters.

However, the gentle boost which has occurred in residential demand, stimulated by low real interest rates, is producing an increase in residential construction projects, which have been presenting positive growth rates since the third quarter of 2004, especially in France, Spain and some Central European countries.

In Spain this year, construction is returning to the upward path and is growing at year-on-year rates of over 6%. The forecasts are pointing to an average growth rate of 6.6% in 2005, to be followed by a degree of moderation in 2006.

In the first two quarters of 2005, activity in the construction sector once again presented increasing rates and the forecasts suggest that the trend will continue in the second half of the year to reach an annual growth rate of 6.6%. In 2006 an average increase of 5.0% is expected, outstripping the growth of the economy as a whole by a couple of points. The lower growth of the sector as a whole next year will be the result of the slower pace of housing starts and the smaller increase anticipated in the execution of civil engineering works.

In the early months of 2005, the sector's activity indicators presented a faster growth rate, bearing out the renewed dynamism of construction this year. The new boom in the residential sector will lead to a 6.4% increase in production this year, while the rest of the sector will grow at an average rate of 6.8%.

The good moment for the sector is being clearly reflected in the confidence indicators, which are once again in the range where opinions are the most optimistic. This improvement in agents' opinions was founded on the good level of backlog orders at companies in the sector, since these guarantee a higher level of activity in the coming quarters.

Supporting this trend, the figures for the first half of 2005 for both employment in construction and cement consumption present higher growth rates than in 2004, reflecting more buoyant construction. Both the level of employment in the sector, in excess of 2.3 million jobs, and the volume of cement consumed, around 4.6 million tonnes per month, are at record highs. Performance in the second quarter of the year grew sharply, in terms of both the consumption of own materials and employment, and the forecasts indicate that their rising trends will continue through 2005.

Up until the end of 2004, construction costs generally remained very much under control, with increases below inflation since the beginning of this decade. However, the new momentum in the sector has pushed the prices of building materials up sharply, taking the increase in the sector's total costs up above inflation. In 2005 the increases in costs have been higher in the civil engineering segment, which is more intensive in the use of materials, while they have been more contained in building, since it is a more labour-intensive segment and its cost is increasing at rates of below 3%. While at the beginning of the decade its weight was 11.1%, today 12.4% of workers with jobs are employed in the construction segment.

The amounts going to irrigation and water supply are increasing in an environment of fewer public works tenders. Public administration spending on infrastructure work for communications has fallen.

Chart 2.5.
Spain: GDP and Construction
Annual variations

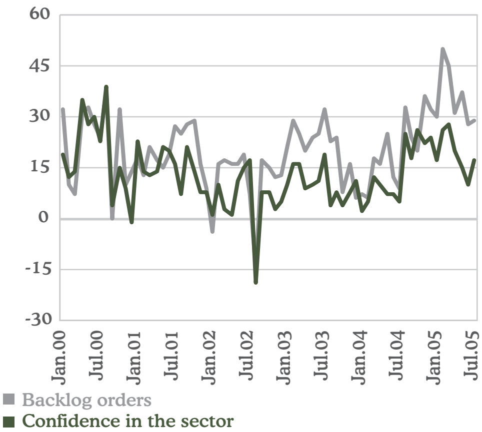
Source: INE and BBVA

Table 2.1. Construction
Annual variations

	2003	2004	2005	2006
GFCFc	6.2	5.5	6.6	5.0
Residential	9.5	6.0	6.4	4.5
Other construction	3.5	5.1	6.8	5.4

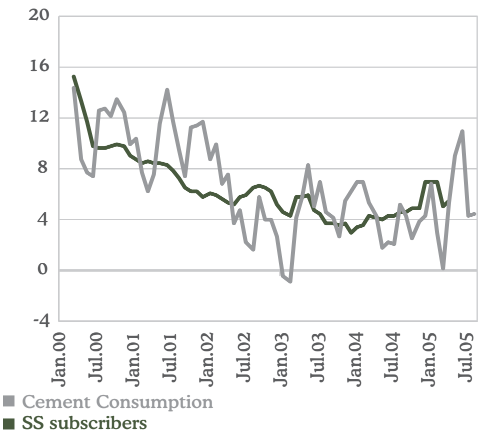
Source: INE and BBVA

Chart 2.6.
Construction: Confidence
Difference in answers



Source: Ministry of Economy and Finance

Chart 2.7.
Construction: Indicators
Year-on-year variation (%)

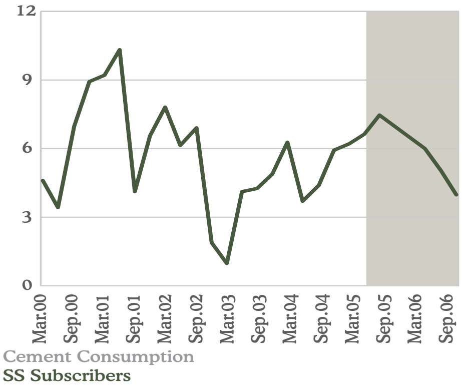


Source: Oficemen and Ministry of Economy and Finance

Chart 2.8.

Non-residential construction. Volume of production

Annual variations



Source: INE and BBVA

Table 2.2. Official Tenders. Civil engineering

Millions of euros

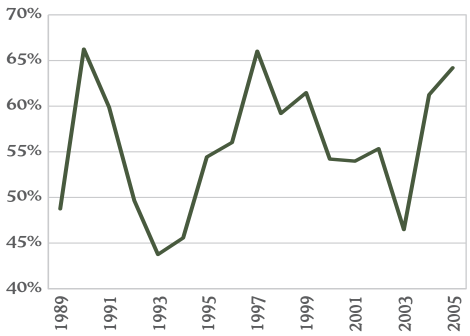
	Total	Railways, Roads and Urban Thoroughfares	Ports and Airports	Irrigation, Water Supply and Sanitation	Other
2000	11,740	7,578	508	1,488	2,166
2001	16,341	9,612	835	1,895	3,998
2002	19,611	13,472	459	2,014	3,665
2003	16,706	9,666	1,086	2,516	3,439
2004	20,769	12,910	2,164	2,241	3,454
2005*	13,175	8,474	730	1,928	2,043

* Figures to July
Source: Ministry of Public Works

Chart 2.9.

Regional Governments and Town Councils: Civil Works Tendered

% share in the total

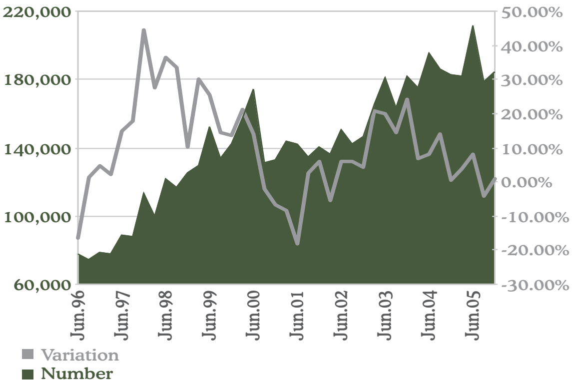


Source: Ministry of Public Works and BBVA

Chart 2.10.

Housing endorsed. Quarterly figures

Number and annual variation (%)



Source: Ministry of Public Works and BBVA

In the first half of 2005, investment in civil works was lower than in the previous quarter in real terms and similar to in the first half of 2004, according to the figures published in the Construction Situation Survey. After works execution fell in the last quarters of 2004 in year-on-year terms, in the first two quarters of 2005 investment in civil engineering returned to the upward path and everything is suggesting that the year will end with positive rates.

In the first seven months of 2005, civil works contracts tendered by the whole set of public administrations and regional bodies amounted to a volume of euros 13,175 million, which was a 6.2% downturn on the volume tendered in the same months in 2004. The hefty reduction in investment in roads and urban thoroughfares and the downturn in work on ports and airports explain the smaller direct investments made by the administrations. As a result of the low rainfall, the amounts going to irrigation and water supply increased by 142% to reach a volume of euros 1.9 trillion. This item accounts for 14.6% of the total tendered, up nearly five points with respect to its weight in 2002.

The need to top up the investments covered by European Funds in the field of civil works guarantees that public works tenders will remain at a good level. How these develop will depend on the performance of public accounts and the municipal elections in the medium term, amongst other factors. In this respect, in 2005 tenders from local administrations have increased. Thus, the volume of work put out for bids from regional governments and local councils overall grew in the first half of the year and accounted for 2 of every 3 euros tendered. In contrast, the volume of work tendered directly by the Central Administration fell by 25% while the work tendered by Independent State Bodies increased by 51.6%.

Housing starts reached a record high up until July and everything suggests that 750,000 homes will be started in 2005. Longer sales periods for the developments could hold back the start of new projects.

Since the middle of 2002, real estate development has again become more dynamic and this implies that, in 2005, a total of 750,000 homes are being started. This high volume of housing production aims to meet both the demand stemming from demographic factors -the formation of new households and immigration- and from second homes, which goes to show the major role Spain is playing as the destination for demand from way beyond national frontiers. For this reason, the production of new housing is still concentrated in the provinces with the strongest demand for holiday homes.

In the first seven months of 2005, the projects endorsed put the number of homes to be started at 472,000, a year-on-year increase of 3.0%. The boost to the segment mainly occurred in large cities, where housing starts increased at a rate of 5.9% and in more popular tourist areas, where the new projects contemplated a 4.7% increase in the number of homes to be built. During the year as a whole, there will be more than 750,000 housing starts, of which over 55% will be in the most popular tourist provinces on the coast and 7% in large cities.

In the first three quarters of 2005, the pace of sales continued to slow in some markets, which could lead to a downturn of around 5% in the number of housing starts in 2006 if the downward trend which started at the beginning of 2004 continues, after reaching year-on-year growth rates of 20%.

In respect of works completion certificates, in 2005 over 520,000 homes will be completed, a 5% increase on the work finished in 2004. Nearly all of this housing was developed by the private sector, while the weight of public development has fallen to 1.5% of total housing completed.

In 2005 the development of the housing plan has meant that 176,000 housing projects were approved between January and July. Of this total, nearly 82,500 corresponded to subsidized housing, both for sale and rental, and over 54,000 to refurbishment.

Non-residential development grows, especially buildings for commercial purposes. In 2005 over 23 million square metres will be built.

In non-residential development, in 2005 over 23.0 million square metres of non-residential space will start to be built, a year-on-year increase of 13.5% in the area to be built in this segment. Development of commercial space has grown in 2005, which is a change in the trend started in 2004. In addition, an increasing number of projects have been endorsed for offices and for other uses. The two factors have led to a larger number of square metres to be built in this segment.

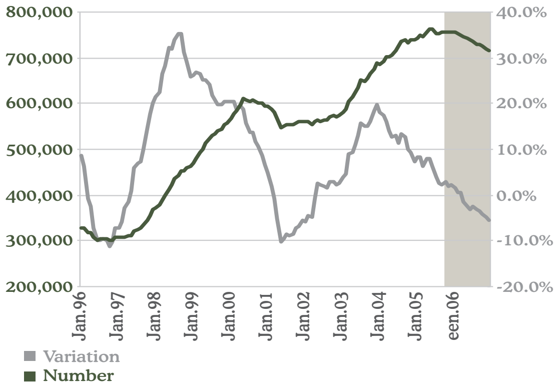
Up until July 2005, a total of 13.8 million square metres of non-residential space was endorsed, a 13% increase on the figures for 2004. The good performance of private consumption this year and the more aggressive policy for opening shopping areas followed by companies in the sector are having a positive effect on the pace of development of commercial space. The reduction in the vacancy rate in office supply has encouraged the development of new projects, which has led to an increase in projects endorsed for office space in Madrid and Barcelona this year.

Table 2.3. Housing starts in Spain

	Total Spain no.	Large Cities no.	Cities/ Total (%)	Resort Coast no.	Coast/ Total (%)
2000	594,820	58,060	9.8%	333,231	56.0%
2001	561,186	59,958	10.7%	312,857	55.7%
2002	575,546	62,748	10.9%	310,517	54.0%
2003	690,207	64,814	9.4%	377,832	54.7%
2004	739,658	50,461	6.8%	399,012	53.9%
2005 (*)	754,000	52,500	7.0%	417,000	55.3%
2006 (*)	715,000	50,000	7.0%	400,000	55.9%

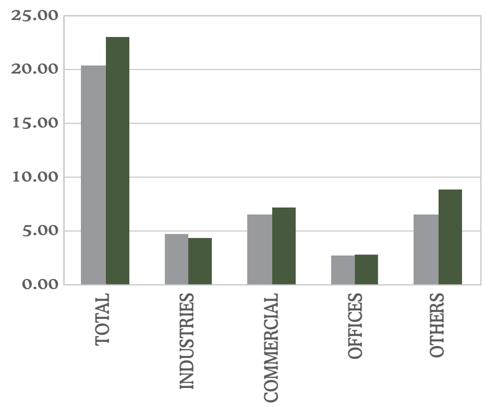
(*) The figures for the whole of 2005 and 2006 are estimates based on data to July 2005.
Source: Colegio de Aparejadores and BBVA
Coast: Mediterranean, Canaries, Cadiz, Huelva
Large Cities: Madrid, Barcelona, Valencia, Seville, Zaragoza and Malaga

Chart 2.11.
Housing endorsed. Accumulated over 12 months
Number and annual variation (%)



Source: Ministry of Public Works and BBVA

Chart 2.12.
Non-residential space
Millions of m² to be built



Source: INE and BBVA

The new 2005-2008 Housing Plan

Royal Decree 801/2005, of 1 July (Official State Gazette 13 July) approved the 2005-2008 State Plan, aimed at facilitating citizens' access to housing. To finance its annual programmes, at its meeting on 29 July, the Council of Ministers passed a maximum figure of euros 33,473,113,109, which will be distributed by the Ministry of Housing in annual programmes. These programmes will, in turn, be distributed amongst the 15 self-governing regions and the cities of Ceuta and Melilla which are taking part in the Plan.

As is usually the case in housing plans, the projects under the new plan will be funded by financial institutions which are selected by the Ministry of Housing and which sign the corresponding agreements. Although at the time of writing this, the Ministerial Order regulating the selection of banks and other aspects related to the agreements had not yet been published, one of the main novelties in the draft which has been submitted by the Ministry is as follows. It is not necessary to present the Ministry with "competitive bids" to take part in the new 2005-2008 Plan. This implies that the process which has commonly been called a bid "auction" will not take place; in other words, the Ministry is not demanding an undertaking to finance a minimum amount pre-established in the Agreement. Now, it is sufficient for the bank to express its intention of taking part in the qualified financing and of signing the agreement with the Ministry. There is no quota for each entity that would restrict its participation, except for the limits resulting from the distribution by self-governing region, which are logically enough applicable to all the entities.

Home-buyers with annual income of up to a maximum of 6.5 times the *IPREM* (public income indicator with multiple effects) can apply for qualified financing. The maximum income established is equivalent to euros 42,748.1 per annum in the case of the acquisition of subsidized housing at an agreed price. The sale and adjudication of the housing subject to this Royal Decree must be to applicants entered in the public registers created for this purpose. Moreover, the legislation establishes that the self-governing regions may have pre-emptive rights over the housing qualified for sale and the right of repurchase in their favour (in favour of the public bodies they designate).

Consistent with the trend observed in open-market financing in recent years, the maturity periods are longer than in previous plans, and are generally established at 25 years (five more than in the previous plan).

In contrast, the duration of the subsidized housing regime is tightened up, since the housing under these regimes which avails itself of the financing measures established in Royal Decree 801/2005 will not have the possibility of voluntary disqualification, and the regime will last throughout the useful life of the home. This useful life is considered to be a period of 30 years, starting from the home's definitive qualification, although regional governments may establish a longer period. This is important in terms of any future sale of the home; if the disqualification cannot be obtained, the house will have to be sold at a maximum legal price and not at the market price.

The regulation of the prohibitions and limitations to disposal is similar to in previous plans (housing may not be transmitted «inter vivos», or its use transferred, for a minimum period of ten years), although there are more exceptions to this prohibition and these are described in greater detail: besides the case of legal foreclosure of the loan and a change in the place of residence, exceptions are foreseen for large families and people of over 65 years of age who wish to make their permanent home elsewhere; for disabled people, for the victims of gender violence or terrorism who want to move to accommodation more suited to their specific needs, and for people who, for justified personal reasons, need to move into a smaller permanent home.

Likewise, there are some novelties in the section on aid to groups with special difficulties. Thus, disabled people and people over 65 can receive up to euros 3,100 to improve affordability conditions; the victims of gender violence and terrorism can obtain direct aid of up to euros 2,880 per annum; and large families have access to aid of up to euros 600 per annum (on average) to pay for the loan instalment (for 5 or 10 years, according to their income).

A major novelty in the new plan is that it does not view the financing -through a loan agreed with the financial institution- of land development (and acquisition) for immediate building as protected action. In this case, the aid is in the form of capital grants for every subsidized home to be built: a general grant of euros 1,300 per home, plus an additional subsidy of euros 500 for a home with a maximum area of 70 m2.

Lastly, the Plan includes a housing programme for young people, with specific aid for both purchase and rental, where the size of the home is between 30 and 45 sq. metres (including, where relevant, the area for communal services).

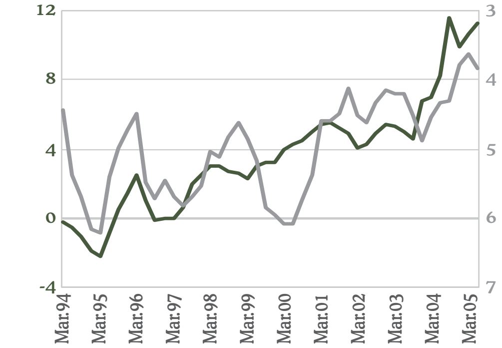
Rafael Sanz Company
Legal Department, BBVA Banca Hipotecaria

2005-2008 Plan	2002-2005 Plan
The unit of measurement to determine income and aid is the *IPREM* (public income indicator with multiple effects) in the annual amount: euros 6,577.20 p.a.	Royal Decree 1721/2004, which amended the 2001-2004 Plan, already established the *IPREM* to replace the minimum wage
Regional Governments will weight income by applying a "Territorial framework for top maximum price" coefficient: one or two municipalities, including intra-urban areas.	"Special municipalities"
Three types of new homes: - special regime - general price - agreed price	- Special regime - General regime
Housing for rental: - Basic Rent - Agreed Rent	No distinction is made between types of housing.
Financed housing: No voluntary disqualification in 30 years. (Regional governments can extend the period)	No voluntary disqualification in 15 years
Prohibition of disposal: The exceptions are extended to include people of over 65 years of age, disabled people, victims of gender violence and terrorism; the need for a smaller home.	These cases are not expressly mentioned.
Sale and adjudication: To applicants entered in public registers	This restriction does not exist.
Housing for sale: Possibility of establishing pre-emptive or repurchase rights in favour of regional governments	Not foreseen
Interest rate on loans: 91.75% of the average level of the THREE latest banking sector indices	91.75% of average level of the TWO latest banking sector indices
Grace period for developer: 3 years, extendible for another year	3 years, with no extension foreseen
Repayment period for buyers: 25 years (extendible by a further two for unemployment in initial access)	20 years (extendible by a further two for unemployment in initial access). Nothing is established in this respect.
Refunds: If AEDE, none in the first 5 years. Partial: minimum €1,500.	Partial; minimum €1,000
Development for rental: If the loan is 10-year, the housing continues to be subsidized (except with agreed rent for 30 years). If it is 25-year, after 10 years 50% can be offered for sale to those who meet the requirements for buying second-hand subsidized homes	End of subsidized regime after 10 years. If it is for 25 years, after 10 years, 50% can be offered for sale to tenants who have occupied the homes for at least 5 years.
Land development (and acquisition): There is no financing via loans. Only capital grants for each subsidized home to be built.	Possibility of qualified loans, subsidization and subsidies.
Housing for young people: Housing for rental with an area of between 30 and 45 sq. metres, including communal services.	Minimum area of 40 sq. metres including communal services

Source: BBVA

Chart 3.1.

Housing prices and mortgage rates in U.S.A. (CPI deflated)

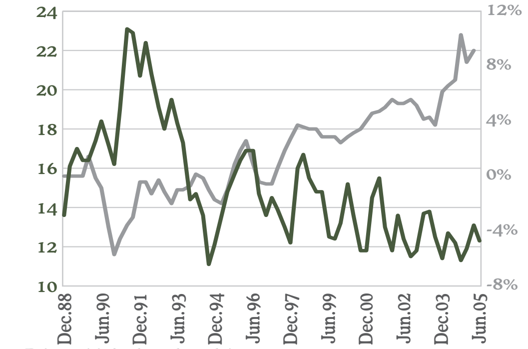


■ Mortgage rates (right-hand inverse scale)
■ Housing prices (left-hand scale)

Source: OFHEO

Chart 3.2.

U.S.A.: Housing prices and median of months for sale

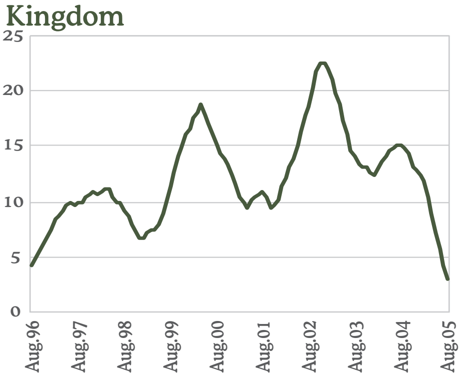


■ Prices (right-hand scale)
■ Months

Source: U.S. Department of Commerce

Chart 3.3.

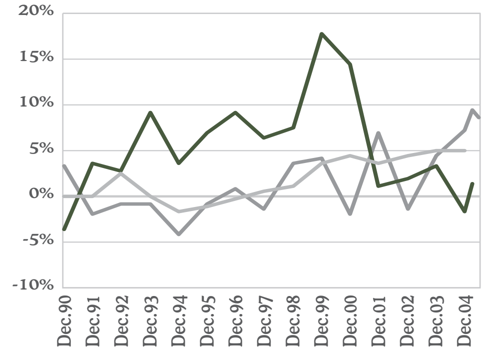
Increase in housing prices in the United Kingdom



Source: FT

Chart 3.4.

Increase in housing prices in real terms in EMU



■ France
■ Netherlands
■ EMU

Source: Bank of Spain

3. The real estate market

In 2005 the performance of the real estate market on a global scale is reflecting the different tones of monetary policy, except in the United States

Housing prices continued to rise notably in the first half of 2005 in the main economic regions. However, the trends varied substantially from one area to another. Thus, while in the USA and Mediterranean countries the market continued to be very buoyant, housing prices slowed sharply in countries like the United Kingdom and, to an even greater extent, Australia.

The tightening-up of monetary policy in the United Kingdom and Australia led property prices to slow substantially. In the U.K. the growth rate fell by 10 percentage points to 3% in August this year, while in Australia some drop-backs were even observed. However, in both cases, the impact on the economy and on the financial system is very limited.

In contrast, in the United States, despite the continuous rises in official interest rates, which are already 2.5 points higher than in the middle of 2004, the market has remained very strong, with appreciation of 13.4% in the second quarter with respect to the previous year. Apart from the positive economic situation, the low mortgage rates and the changes in lending conditions, with formulae such as “interest-only” are encouraging households to continue to increasingly invest in the residential market.

Thus, housing demand is still buoyant in the United States, as is illustrated by the good rates of property sales. It still takes about 12 months to sell a new development from the time it has been completed.

In continental Europe, where increases in interest rates have been put back until the second half of 2006, residential demand remained very dynamic in the first half of 2005, although no clear recovery in economic activity has been observed in the region and neither has net job creation speeded up. Generally speaking, housing prices continued on the trend of previous years and rose at rates above inflation in Europe as a whole, although significant regional differences persist.

In Germany and the countries in its economic environment, residential demand continued sluggish, held back by the scant dynamism of their labour markets and the uncertainty generated by economic recovery taking its time. In contrast, in Mediterranean countries real estate demand is still very strong, pushing prices up, with double-digit growth rates in the majority of cases.

In 2006, economic recovery in EMU and the foreseeable change in the interest rate trend could have effects contrary to the present situation. In other words, the housing market in Germanic countries can be expected to start to recover as the economic situation improves, while Mediterranean countries will start to feel the effects of the increase in interest rates and prices will rise more slowly.

In Spain gradual market cooling is being confirmed and this should continue in the coming quarters

The market is starting to show signs of moderation, albeit slowly. The increase in supply of both new and second-hand housing and relatively weaker demand are leading to a longer sales period for real estate developments and price tensions are diminishing. Thus, in the third quarter of 2005, housing prices continued to slow, to reach a year-on-year growth rate of 13.4%, according to the Ministry of Housing's latest figures.

Despite the slowdown of three and half a percentage points since the end of 2004, on analyzing the deseasonalized evolution of the series, we find that quarter-on-quarter growth rates remained at around 3%, with a cumulative rate of 10% in the first nine months of the year.

This deceleration in housing prices stems from more moderate demand, as is shown by the performance of the number of appraisals, which fell by 4% in the first nine months of this year with respect to 2004.

Supporting demand is the fact that expectations of an increase in interest rates in the euro zone have been put back to the end of next year. This implies that financing conditions are still very relaxed and this continues to boost household consumption of durable goods.

Part of the moderation of demand could be explained by purchases by non-residents. Thus, in 2005 the inflow of foreign investment in property has continued to slow significantly. At the end of July, the annual sum of entries was down 16% on the figure for the same period last year. Consequently, the volume of entries was similar to at the end of 2002. This mainly affects the second-home market, especially in the regions more oriented towards European tourism. However, home-buying by non-residents still accounts for a very large part of property demand.

Another factor which points to less pressure from housing demand is the performance of the returns on other investments. Thus, in the second quarter of the year, the yield on the Spanish stock market was four percentage points higher than on housing. If this trend continues in the coming quarters, some of the incentives to put money into the residential market would diminish.

Moreover, the moderation in prices is becoming generalized. Thus, while the dynamics of price growth was mixed in the previous quarter, with acceleration in half the self-governing regions and deceleration in the other half, in the third quarter the growth rate was only higher in two regions (La Rioja and Asturias).

On the islands and in nearly all the provinces on the Mediterranean coast, prices rose at rates similar to or above the national average, with the region of Valencia registering rises of 16% since the beginning of the year. However, the prices slowed to the greatest extent in the region of Murcia and in Malaga. In Murcia they were increasing by 26% a year ago while now they are rising at an annual rate of 13%. In Malaga, in just one year, prices have gone from increasing by over 30% to remaining stable.

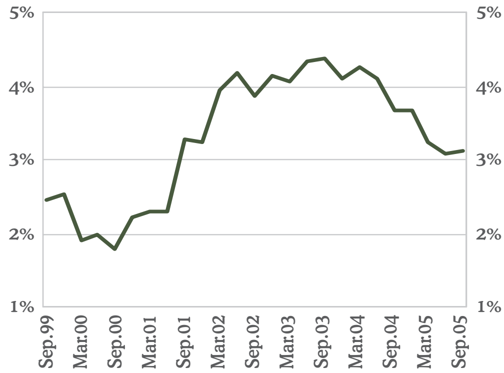
Chart 3.5.

Price of open-market housing in Spain

Source: Ministry of Housing

Chart 3.6.

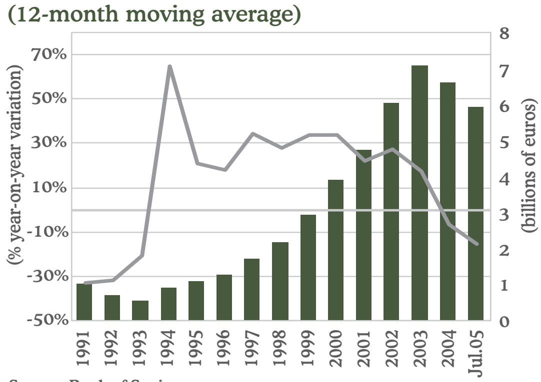
Deseasonalized quarterly increase in the price of open-market housing



Source: BBVA, based on Ministry of Housing data

Chart 3.7.

Foreign investment in property (12-month moving average)



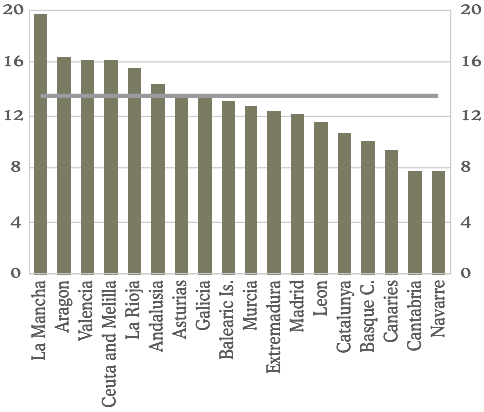
Source: Bank of Spain

Chart 3.8.

Annual yield

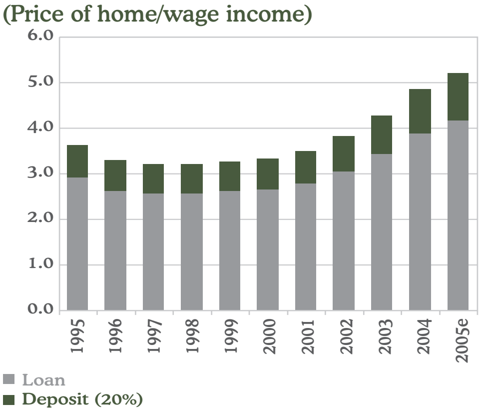
Source: Bank of Spain

Chart 3.9.
Increase in the price of open-market housing
(3rd quarter)



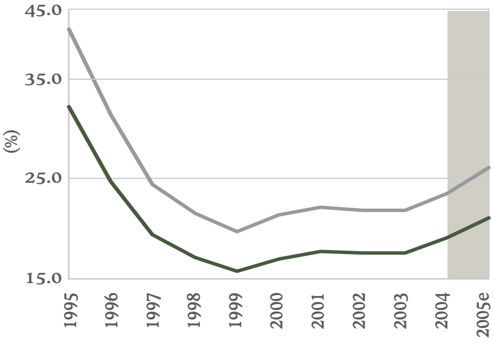
Source: Ministry of Housing

Chart 3.10.
Housing affordability
(Price of home/wage income)



Source: BBVA

Chart 3.11.
Housing affordability in Spain
Effort to Weighted Income



Source: BBVA

Since the end of 2004, housing prices in the regions of Madrid and Catalunya have been clearly slowing, and this lasted until the third quarter of the year, when prices rose at rates of 12% and 11% respectively.

Forecasts for the end of 2005 indicate that housing prices will continue to rise more moderately and could end the year with an increase of around 12%. They also suggest that the moderation will be greater in the areas more orientated towards European tourism, where the average time for selling developments is growing longer, and is even longer than the time taken to build them. For 2006 the trend shows more intense moderation in prices whose growth rates would also remain above inflation, at around 5% at the end of the year.

Although household financing capacity has increased notably as a result of the increase in household income and the improvement in financing conditions, affordability ratios continued to worsen in response to the increase in housing prices

Besides the growth of household income as a result of the increase in the number of employed people per household and in wages, financing conditions continue to boost Spanish households' purchasing capacity since average mortgage repayment periods are still getting longer, even though interest rates have stabilized. Thus, according to statistics from registrars of deeds, the average maturity period increased by 8 months in the first half of the year to reach 25.1 years. In addition, this trend will continue in the coming quarters, judging by the fact that banks have lengthened the period to a generalized 30 years.

In this respect, in the first half of 2005, household borrowing capacity hit a new record high. In households with more than one wage-earner, where an average of 1.6 members work, purchasing capacity is still higher than the prices observed in the market. Thus, although BBVA's affordability indicator, which relates the average open-market home with household purchasing capacity, deteriorated by 3% in the first six months of the year, it reached 1.33.

However, this does not mean that housing affordability conditions have not become much tougher. Thus, as can be seen in the adjoining chart, an additional two years of household wages are required to be able to afford a home, due to the increase in prices in the last four years. Moreover, although the improvements in financing give access to larger loans, the increase in housing prices also affects the saving required to pay the initial deposit. The typical deposit (20% of the value of the home) with respect to household wage income has increased by 75% in the last five years, rising to represent over one year of gross household wages, which implies that households moving into the market have to save a much larger amount.

In terms of financial effort, according to average figures for 2005, the monthly payments of the loan for buying an average home were equivalent to 25% of an average family's total gross income, a figure that falls to 19.4% when tax deductions are taken into account. These ratios show that, despite the hefty increases in housing prices, the monthly cost of home-buying has not risen in the same proportion, since the repayment periods were lengthened in years when interest rates fell sharply, as was mentioned earlier.

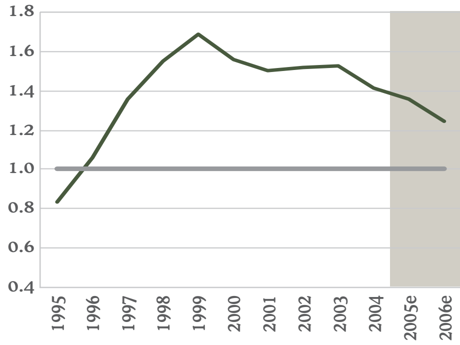
The deterioration in affordability ratios will continue in the coming quarters, as prices are expected to rise faster than income and the foreseeable increases in interest rates will reduce household borrowing capacity somewhat, narrowing the positive spread existing between the financing capacity of demand and current market prices.

This will have a negative effect on housing demand and will be accompanied by less pressure from foreign and investor demand and financing conditions that will tend to become tougher as from the second half of next year. Thus, this year the figure of one million two hundred thousand transactions that were signed and sealed last year is unlikely to be repeated and this slowdown will probably be more intense in 2006.

Consequently, although the structural demand existing in the medium term is quite high, the pace of housing starts should start to slow significantly in an environment of more moderate demand.

Chart 3.12.

BBVA affordability indicator



Source: BBVA

Table 3.1. Affordability indicators

		Wage-earners by household	Household wage income	Price of a 90m² home (1)	Price/ Wages	Loan: Interest rate	Loan: Maturity	Loan instalment/ Household wage income	Affordable home (€)* (2)	BBVA indicator (2)/(1)
Average	1995-1999	1.4	19,916	65,710	3.30	7.7%	18	27.5	86,493	1.3
2000		1.51	23,835	79,220	3.32	5.8%	22	21.4	123,426	1.6
2001		1.54	25,038	87,030	3.48	5.8%	23	22.2	130,467	1.5
2002		1.58	26,548	100,719	3.79	4.9%	23	21.9	153,130	1.5
2003		1.58	27,740	118,465	4.27	3.7%	24	21.9	180,374	1.5
2004		1.59	28,801	139,136	4.83	3.4%	24	23.6	196,764	1.4
2005(e)		1.63	30,458	158,217	5.19	3.4%	25	26.2	214,602	1.4

* The home that could be aspired to is estimated by considering that one third of wage income goes to paying the instalment of a loan for 80% of the value of the home in the market conditions prevailing at each moment in time.
Source: BBVA

The new methodology for housing prices

Methodological changes in the calculation of housing prices

The Ministry of Housing has re-estimated the housing price series between 1995 and the present day using the new methodology established at the beginning of the year (Base 2005). In comparison with the previous methodology, the main differences in the method of calculating the aggregated price are: i) the province is used as the unit of analysis instead of the municipality; ii) housing is grouped according to its price bracket instead of postcodes; and lastly, iii) the number of appraisals is used as weighting rather than the stock of homes in the census, which was used in Base 2001. This change in weightings increases the importance of the main markets: while Andalusia, Madrid, Catalunya and the region of Valencia accounted for 57% of the total 2004 sample on base 2001, they now represent 66% of the total with the new base 2005.

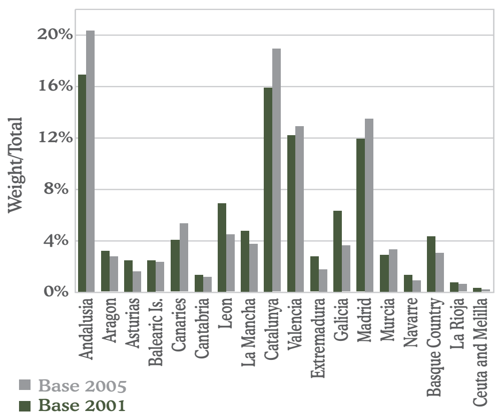
In addition, some changes have been made to the selection of data. Thus, housing with a value of over one million euros is eliminated, which reduces the price level by 6%. The values which define the brackets the sample is divided into are not adjusted with time, which changes the breakdown of the sample as time goes by.

Despite the above limitations, the methodological changes mentioned aim to paint a more reliable picture of the behaviour of prices nationwide. However, when it comes to analyzing them with the new base, it must be remembered that the new series adds a seasonal component, probably due to the new way of weighting the aggregate. In other words, the quarterly increases in prices are higher in some quarters than in others. In addition, this component seems to have evolved in the past two years, moving the seasonality of the minimums from December to September. At the disaggregated level, we find that, with the exception of Cantabria, Extremadura, Madrid, Murcia and the Basque Country, the prices also present seasonal performance in the other regions.

The revision significantly reduces the appreciation of housing.

The historical revision of the series, based on the new methodology, has altered both the level of housing prices and their evolution over time. Thus, starting from an index 100 in 1995 for the two bases and comparing the levels at the end of 2004, it turns out that the appreciation of prices in the last decade on a national scale is 33 percentage points (p.p.) lower with the new base. These changes in the price level have not affected all the different self-governing regions equally; in fact, in four of them the prices are higher while in the others they are lower. In the first group, in Canaries and Asturias the price revision has pushed appreciation up by over 40 p.p., while in the Balearic Islands and Extremadura, the increase was of 10 p.p. In the second group, it is worth highlighting the reductions in Madrid and Catalunya, which were of over 50 p.p., and in Murcia and Navarre, where they were around 40 p.p.

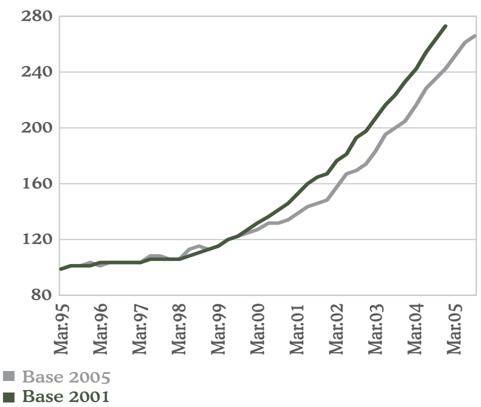
Change in the weighting by self-governing region in 2004



Source: INE and Ministry of Housing

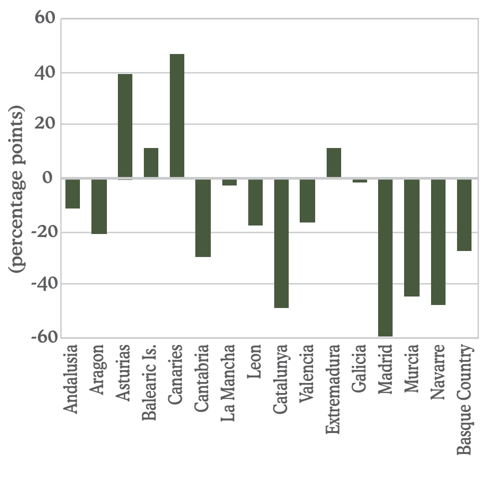
Housing prices

(1995=100)



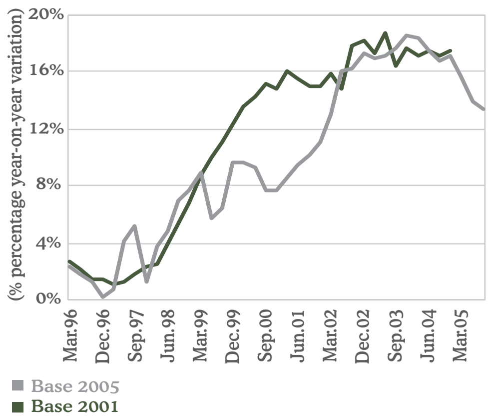
Source: Ministry of Housing

Variation in the appreciation of the last decade due to the change in base



Source: Ministry of Housing

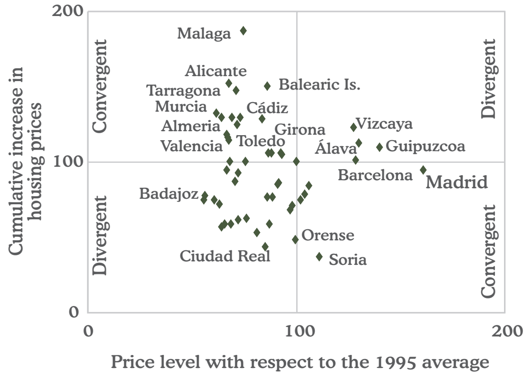
Open-market housing prices



Source: Ministry of Housing

Price performance in relation to the aggregate

Spain =100



Source: INE, Ministry of Housing and BBVA

Apart from these changes in level, there are significant changes in the profiles of the series. The greatest difference is observed in the period between June 1999 and March 2002 when, according to the new Base 2005, housing prices were growing at an average rate of 9%, while on the previous base they were increasing by 14%. However, since the middle of 2002, the two series present similar performance.

Prices on the coast converge

Generally speaking, the level of housing prices is related to the level of household income. In the case of Spain, the new figures show that, on a provincial level, housing prices have reflected the population's per capita income relatively well from a historical perspective. In the past few years, however, the evolution of prices has also reflected the effect of demand from tourists, with greater purchasing power, and has pushed the prices in some provinces up to higher levels than correspond to the income of the resident population.

Overall, the new figures show that a degree of convergence is occurring between real estate prices in coastal provinces and the national average price level. The provinces adjoining Madrid, with levels generally below the average in the nineties, are moving towards average prices, while in inland provinces and in Cantabria they are moving away from the relative positions they had in 1995.

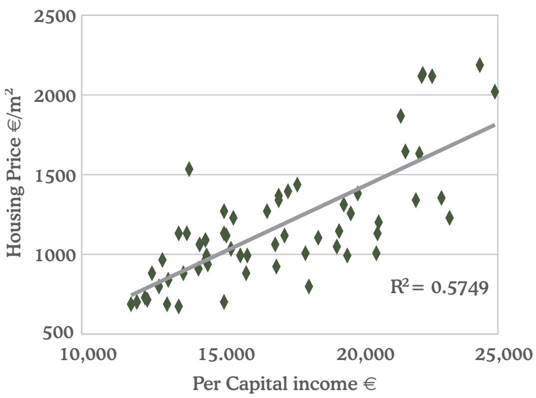
All of this shows the increasing importance of the real estate markets on the Mediterranean coast and in the large cities in comparison with the less dynamic markets inland and in the north of the peninsula.

Affordability indicators change

This data revision has also clearly affected the evolution of housing affordability indicators and has changed their profile significantly. With the new data and lower price levels than before, the affordability indicators present more positive ratios, from the standpoint of both financial effort, which is a couple of percentage points lower, and purchasing capacity, which presents a wider spread with average prices. The BBVA affordability indicator, which combines purchasing capacity with average prices, also presents better levels. These new affordability ratios help to more effectively explain the intensity of real estate demand in the past few years.

Housing prices and per capital income

Provincial relation. 2003



Source: INE, Ministry of Housing and BBVA

BBVA affordability indicador

Source: BBVA

Housing prices gradually adjust

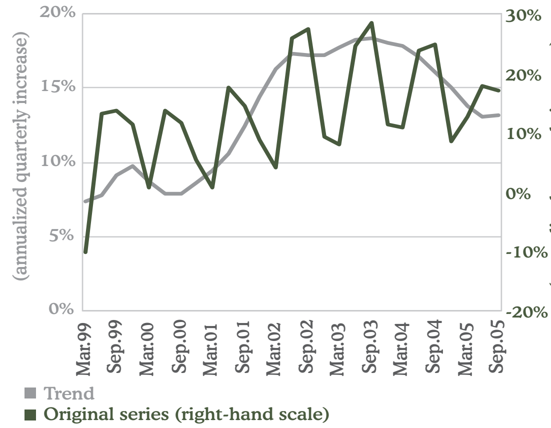
Since the end of 2003 Spanish housing prices have been decelerating moderately, as can be deduced from the in-depth analysis of the new price series drawn up by the Ministry of Housing. Thus, in annualized terms, eliminating seasonality and the irregular elements existing in the new data, we find that the housing price trend is currently rising at a rate of 13.1%, while it was increasing by over 18% at the end of 2003. This reduction of five percentage points in eight quarters implies that a new trend is starting in the housing market, marked by a gradual adjustment in prices.

The more moderate increase in housing prices is currently underpinned by the fact that the elements which supported the development of this market in past years will perform favourably in the short and medium term; thus, real household income will continue to grow in Spain, employment will increase at rates of over 2% and the net inflow of immigrants will be positive. All of this in a more dynamic economic environment than at present, where the financial conditions will continue to be favourable, which will hold up housing demand from both residents and non-residents. In this respect, the trend is pointing to an increase in prices of around 12% at the end of this year, which will fall to 5% at the end of 2006.

This gradual slowing in prices is much more obvious in the regions with large urban markets, such as Madrid and Catalunya, and in the regions more highly orientated towards foreign tourism, such as the islands, where the start of the slowdown came several quarters sooner, and Andalusia. In other regions, such as Extremadura, Castilla-León and Murcia, the new series are already showing an incipient downward trend, while in the case of Asturias and Galicia the trend has still not been defined, which may be explained by the lesser buoyancy of these markets.

Housing prices in Spain

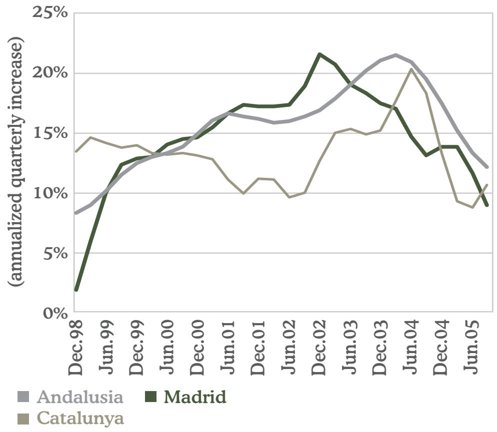
Original Series and Trend



Source: BBVA

Housing prices

Evolution of the trend



Source: BBVA

Quarterly increase in the housing price trend in Spain and self-governing regions

	September '95	High	No. of quarters since high	Spread between last and high
Spain	3.1%	4.3%	8	-1.2%
Andalusia	2.9%	5.0%	6	-2.1%
Aragon	3.7%	4.3%	6	-0.6%
Asturias	3.3%	3.3%	7	-0.1%
Balearic Is.	2.7%	6.6%	24	-3.9%
Canaries	1.6%	3.6%	21	-2.1%
Cantabria	0.7%	4.7%	18	-3.9%
La Mancha	4.2%	5.3%	3	-1.2%
Leon	2.6%	3.7%	5	-1.1%
Catalunya	2.6%	4.7%	5	-2.2%
Valencia	3.7%	4.5%	2	-0.7%
Extremadura	1.6%	4.2%	3	-2.7%
Galicia	3.4%	3.4%	1	0.0%
Madrid	2.2%	5.0%	11	-2.9%
Murcia	3.4%	6.1%	6	-2.7%
Navarre	1.5%	4.0%	23	-2.5%
Basque Country	2.0%	5.3%	22	-3.3%
La Rioja	3.4%	4.1%	17	-0.7%

Source: Ministry of Housing and BBVA

4. Real estate financing

Low interest rates boost mortgage financing in Europe, which is still growing faster than other types of loans

In the first half of the year the growth of lending to the private sector in EMU was around 8.5%, with a softer acceleration profile than in the same period the previous year.

As has occurred in the past few years, the increase in financing for homes maintained a spread of around two percentage points with lending to the private sector and grew by 10.5% in the first half of the year. No major differences were observed in the different countries' contribution to the aggregate with respect to the previous year, which means that very uneven performance was still seen amongst the different countries.

In an environment of slow economic growth, this gentle acceleration in lending can largely be explained by interest rates remaining low and the prospects of them rising becoming more remote in time. Thus, the average interest rate on loans for home-buying was of 4% in the first half, 30 basis points lower than in the same period the previous year and the outlook for the second half is not pointing to any significant changes.

Moreover, according to the latest survey on bank loans, in the third quarter the banks kept their lending standards unchanged for home-buying and they forecast a slight easing in this quarter, in line with what was observed last year.

In respect of the balance of loans on EMU bank balance sheets, in June the growth rate of the outstanding balance of loans rose slightly faster. However, this was mainly due to the reclassification of the loan portfolio in Spain, as the Bank of Spain's new circular 04/2004 on "Public and reserved financial information regulations and models for financial statements" came into effect. This obliged some banks to reactivate loans which they had previously written off by securitizing them.

Consequently, excluding loans for housing on Spanish banks' balance sheets, the growth of the aggregated European balance would have remained stable (Chart 4.4).

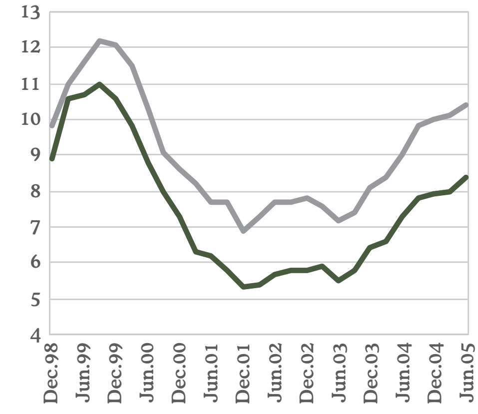
As the ECB itself recognized in its September monthly bulletin, this shows the increasing importance loan securitization is acquiring in EMU[1], not only because with current figures the growth rate of lending is underestimated by half a percentage point but also because there are leaps in the series that are exclusively due to securitization and not to the performance of the lending aggregate.

[1] For more information,. See "The impact of MFI loan securitization on monetary analysis in the euro area", ECB Monthly Bulletin. September 2005.

Chart 4.1.

Lending growth in EMU

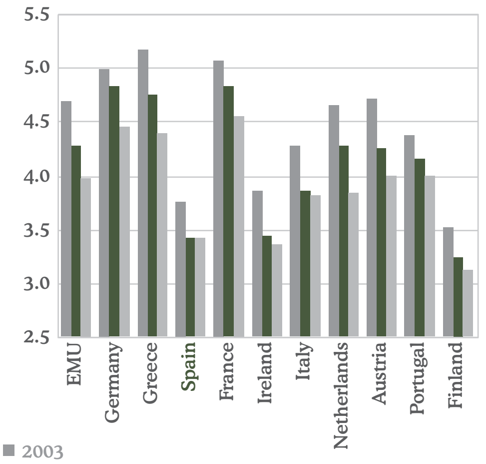
% year-on-yaer variation



Source:ECB

Chart 4.2.

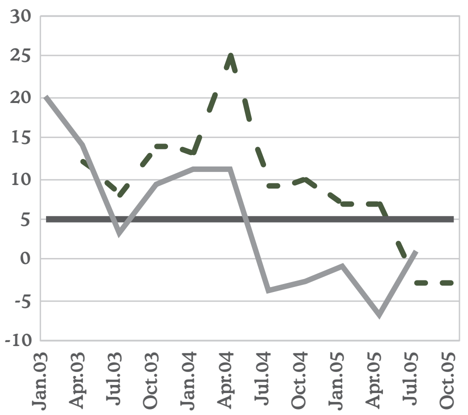
APR on new lending transactions for housing



Source: Eurostat

Chart 4.3.

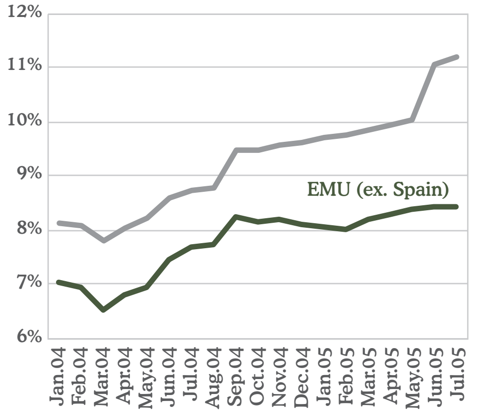
Lending standards for home-buying



Source: ECB

Chart 4.4.

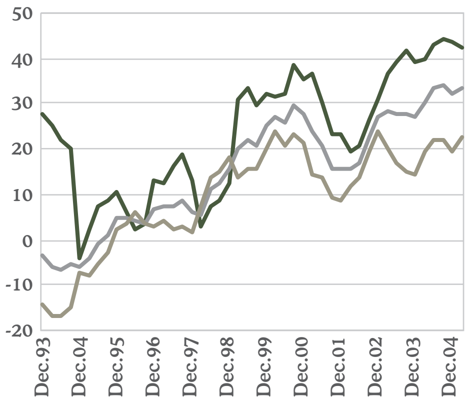
Growth of loans for home-buying on bank balance sheets in EMU



Source: ECB and Bank of Spain

Chart 4.5.

Lending to the real estate sector
(construction + development)



Source: Bank of Spain

Chart 4.6.

Lending growth in Spain

Source: Bank of Spain

In 2005 the Spanish real estate market is characterized by all-time low interest rates and annual increases in the balance of around 24%.

In Spain, lending to the private sector continued to speed up in the first half of 2005, registering year-on-year increases of 18.5% when securitization is included. This is an increase of 130 basis points on the preceding year.

The increase in lending in Spain continues to be led by funding related to the real estate market. On the one hand, in the first half of the year financing for housing development and construction grew at similar rates to in 2004, at over 30%. This reflects the strength of the sector in 2005, which was also observed in the activity figures for the second quarter and in the leading indicators. In respect of financing for home-buying, the balance of loans granted remained very strong in the first half, with growth rates of nearly 24%.

As is true in EMU, a good part of the lending growth stems from the fact that interest rates remain at all-time lows and the change in the bias of monetary policy has been put back to the middle of next year. In Spain, mortgage rates have fallen less than the average for EMU.

Thus, interest rates on new loan transactions for home-buying in Spain remained stable in the first half of the year, contrasting with the downturn in EMU mentioned above. According to the latest survey on bank loans, to a moderate extent banks tightened up lending standards for funding home-buying in the first half and no major changes were foreseen in the third quarter. As the adjoining chart shows, the interest rate spread on new loan transactions for housing rose slightly in the second quarter of the year, although it is still way below the average for recent years, which is 1.5 percentage points.

Slower demand in the real estate market, with a slight drop in transactions and the gentle deceleration in prices, is not yet being reflected in the growth or in the pace of mortgages granted. In fact, according to INE statistics, in the first half of the year 630 thousand mortgages were granted for home-buying, for an average amount of euros 120 thousand. This implies an increase of 11% in the number of mortgages with respect to the same period last year, for an amount 12% higher.

This increase in mortgages at a time of more moderate demand is due to the time lag observed in new housing (about 50% of the market) between purchasing the home and signing the mortgage, which is estimated to take between 18 and 24 months on average. Consequently, a good part of the mortgages signed this year are a reflection of the strength of the market in previous years.

Consequently, the notable increase in finished homes that will come into the market in 2005 and 2006 implies that, in the coming quarters, ongoing strong mortgage growth is compatible with a scenario of gentle slowing in the mortgage market.

Lending growth obliges banks to diversify their sources of liquidity

As was mentioned earlier, when Bank of Spain Circular 04/2004 came into effect in June this year, banks had to reactivate a good part of the loans they had written off their balance sheets through loan securitization. According to the new regulation, only the loans which are really no longer a risk for the financial institution can be charged off, while in nearly all the securitization fund issues, the banks kept the subordinated part where the greater part of the risk of securitized loans is passed through.

Thus, nearly all the loans which were written off through securitization fund issues between 2004 and 2005 have had to be reactivated. As a result, the outstanding balance of securitization funds fell by 38% in June, at the same time producing an increase in lending on bank balance sheets of some euros 30 billion.

One of the main advantages of securitization is that credit risk is spread amongst different players and is also distributed geographically. However, in Spain to date access to low-cost liquidity has been the main driver of securitization, as is shown by the spectacular growth of issues of mortgage-bond securitization funds in the past three years.

The liquidity requirements stemming from the strong growth of mortgages has led to the diversification of the sources of financing them. Thus, as can be observed in the chart, a quarter of 2004 lending was financed with market resources, thus notably reducing the importance of deposits in financing.

However, a reduction in the importance of financial institutions as holders of securitization funds is observed. Consequently, according to the information published by the Bank of Spain, we find that although banks bought half of the securitization funds in 2001, in 2004 they only acquired a quarter of them, while foreign investors became the main holders of these types of assets. It is essential to have a wide base of demanders for this type of security to guarantee the development and future stability of these sorts of issues.

In the first half of the year, recourse to the fixed income market to acquire liquidity continued to grow notably. Thus, the outstanding balance of bonds increased by 50% in the first half with respect to the previous year, while the total outstanding balance of securitization funds grew by 48%.

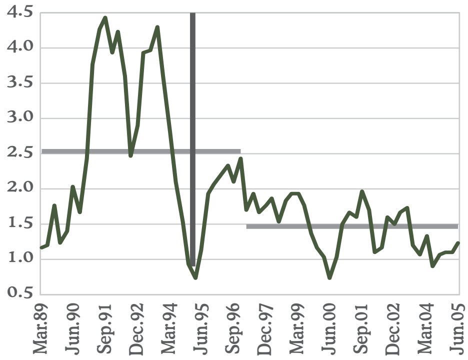
Few changes in the short term

In view of the economic and financial outlook for the coming quarters, no significant changes are to be expected in the growth of demand for lending or in banks' increased recourse to market financing.

The moderation in the real estate market will gradually be passed on to demand for lending. However, as was mentioned earlier, the strength of the market in the last two years will serve to support the growth of financing. In the medium term, as the start of increases in interest rates – foreseen in the second half of 2006- draws nearer, lending growth will start to become substantially more moderate.

Chart 4.7.

Interest rate spread for loans for home-buying



Source: BBVA

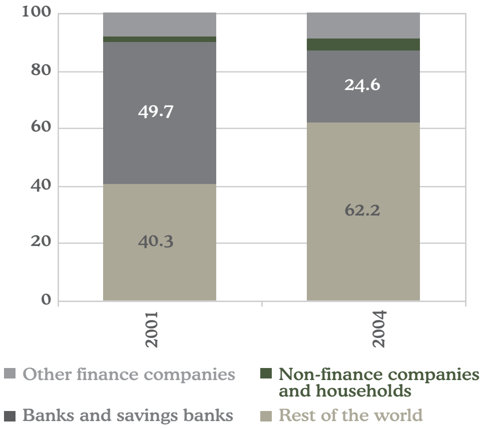
Chart 4.8.

Securitization funds

Source: Bank of Spain

Chart 4.9.

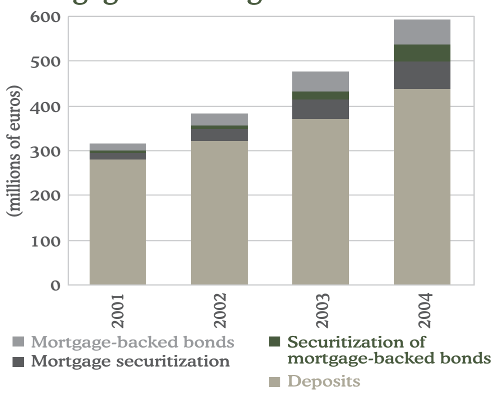
Holders of securitization bonds issued by Spanish funds



Source: Bank of Spain

Chart 4.10.

Mortgage financing



Source: Bank of Spain

The European mortgage market: less regulation for more integration

The mortgage market is one of the main challenges for European financial integration. In fact, the introduction of the euro has not brought any significant changes to the infrastructure of a market that is still very fragmented. This contrasts with the potential benefits integration would bring. A recent study by *London Economics* calculated that this could push economic growth up by 0.9 p.p. in the period 2005-2015[1] . The European authorities had so far paid scant attention to the mortgage world. The Financial Services Action Plan failed to include any specific measure for the sector. The main initiative in this respect crystallized in the so-called Voluntary Mortgage Code of Conduct which was negotiated and signed by the industry and consumer associations and came into effect in 2001. The aim of this Code is for financial institutions to provide transparent information on the different mortgage offers which is comparable between countries to facilitate cross-border competition. However, the absence of greater foreign banking activity restricts the usual mortgage customer's possibilities of making comparisons between banks from different countries and this means that this measure alone is not enough for more substantial progress to be made. Moreover, in some cases, such as Spain, the legislation in the field goes further than the requisites imposed by the Code.

In these circumstances, the EU authorities have focused on the reforms that need to be made to achieve greater market integration. Debate on the subject started with the publication last July of the Green Book on mortgages in the EU. This document is being submitted to consultation until the end of November and the Commission is to publish the White Book with its final recommendations in 2006.

The target of integration is very ambitious. The divergences between procedures and the characteristics of the loans for housing show a series of conditioning factors of different types which are deeply ingrained in each member state. First are the socio-cultural factors, which mean that in some countries people prefer to own a home and in others to rent one; this is very much influenced by housing policies and taxation, amongst other things. Second, the fact that the legislation applicable is logically that of the country where the collateral -in this case the home- is located, gives the mortgage infrastructure a national component that is difficult to harmonize. Lastly, the characteristics of the products marketed in the member states sometimes stem from the financing models of each country's banking systems. Thus, within the EU, systems where the markets are the exclusive vehicle for banks to finance the mortgages they grant (Denmark) live side by side, while in other cases, such as Spain, banks finance the bulk of the mortgage portfolio with the deposits they attract from their customers.

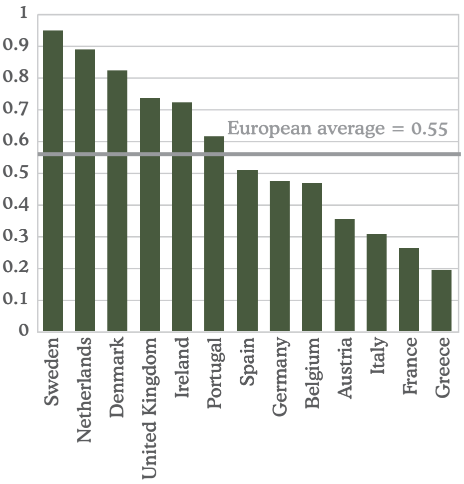
[1] "The Costs and Benefits of Integration of EU Mortgage Markets". London Economics. August 2005.

Given this starting point, it is unlikely that there will be any profound changes in the short term. However, this does not mean that there is no room for progress in some aspects, or that it is impossible to reach a consensus about good practices that would work towards greater standardization.

The establishment of foreign banks is one of the most immediate mechanisms for moving ahead in the exportation of new mortgage products. It is paradoxical that, even after the adoption of the euro, cross-border lending to the private sector and Public Administrations granted by EMU banks still only accounts for less than 5% of internal lending in the euro zone. Consequently, a first point to consider is the elimination of possible entry barriers to foreign entities in European countries, thus favouring effective competition.

Opening-up and deregulation are lines that should inspire possible reform, since the evidence shows that the market has developed to a greater extent in mortgage systems where the infrastructure is less rigid. To illustrate this point, BBVA has drawn up an indicator of the degree of flexibility of

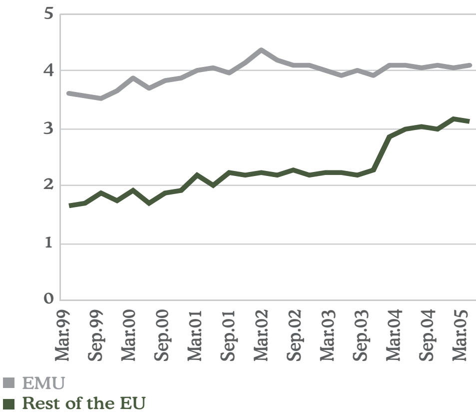
BBVA mortgage flexibility indicator



Source: BBVA

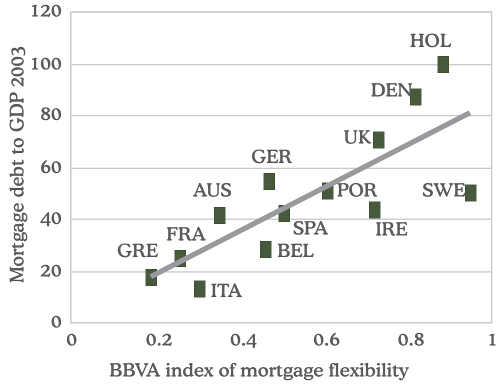
Cross-border lending to the non-banking sector in EMU

(% internal lending)



Source: BBVA on the basis of the European Central Bank data

BBVA index of mortgage flexibility and the development of the mortgage market



Source: BBVA

mortgage systems in the different countries using four variables: (i) product diversity on the basis of the indicator drawn up by *London Economics* (2005), (ii) the loan to value ratio, (iii) the loan maturity, and (iv) the possibility of disposal of the real estate wealth through mortgages for ends other than home-buying (DRI). These four variables can be made into a scale of 0 to 1 where 1 represents the greatest flexibility (greater product availability, loan-to-value ratio and maturity and extensive use of DRI) and the average is used as a synthetic indicator. The country ranking organized through the variable built in this way can be seen in the chart above. The countries with flexibility above the European average would be represented first (Sweden, Netherlands, Denmark, United Kingdom, Ireland and Portugal). The countries characterized by average flexibility (0.4 or higher on the scale of 0 to 1) would come in second place, where Spain, Germany and Belgium would be found. Lastly, the other European countries present relatively low development, with Italy, France and Greece in the bottom positions.

Besides putting the diversification of mortgage infrastructures in context, the positive correlation between the degree of flexibility and the ratio of mortgage debt to GDP for the countries considered (see chart) show that a more flexible environment goes hand in hand with stronger mortgage growth.

In respect of product variety, the present fragmentation could be seen as an opportunity. On the basis of the current diversity of mortgage products, Europe has the chance of being one of the most complete and diversified markets in the world. In this sense, setting up a single mortgage model based on strict regulation would be one of the least desirable options as regards future reform, since it would inhibit banks' innovation capacity and reduce the possibilities of some segments of the population of obtaining a mortgage.

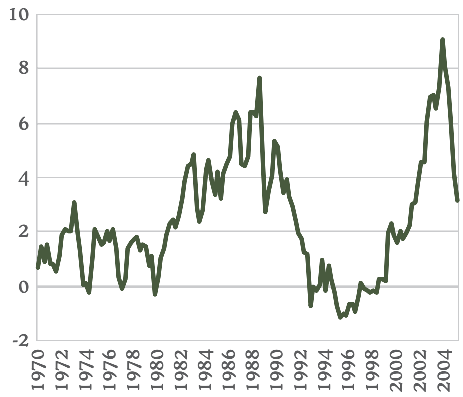
Another aspect where progress could be made in the shorter term is in extending the formulae aimed at households being able to dispose of their real estate wealth through mortgages. The disposability of real estate wealth (DRI) gives a more stable pattern for household consumption than in economies where households are limited by short liquidity and the non-divisibility of their property assets. Moreover, this practice means that property appreciation leads to increases in private consumption to a greater extent, taking pressure off demand in the residential market. In this way, real estate appreciations extend more widely to the economy as a whole, limiting the possible spiralling of property prices.

The development of this type of mechanism also has a great advantage from the standpoint of economic policy, since it increases the sensitivity of economies towards monetary stimuli, a very positive aspect in the current context of apathy in the main European countries. The evidence available for the United Kingdom is pointing to the gradual extension of this practice after financial liberalization in the eighties. Since then, not only did an increasing correlation start to be observed between the increase in the disposal of real estate wealth and property appreciation, but also the response of consumption to monetary policy shocks increased by 14%[2].

While these mechanisms have spread in Anglo-Saxon countries, countries in continental Europe make little use of this practice. According to the ECB, it is only used in a relatively extensive manner in five EU countries. Although European regulations, with the exception of Greece, do not prevent the use of the DRI, the transaction costs associated with mortgages are holding back the development of these systems. Thus, reducing these costs through greater deregulation should be another area to attack.

[2] Aoki et al (2004): House prices, consumption and monetary policy: a financial accelerator approach. Journal of Financial Intermediation 13 414-435

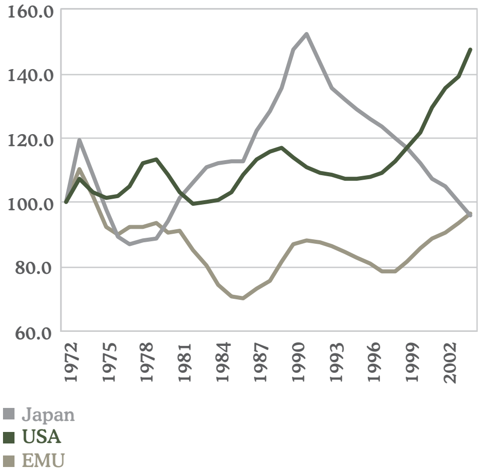
Disposability of real estate wealth to disposable income in the United Kingdom



Source: Bank of England

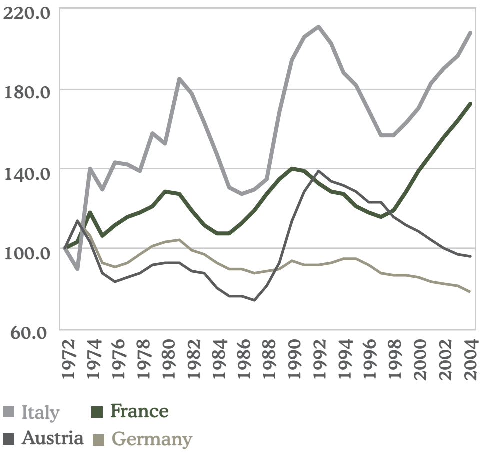
Carmen Hernansanz, Chief Economist Sector Research
BBVA Economic Research Department

Chart 5.1.
Housing prices
Evolution in relation to the CPI 1972=100



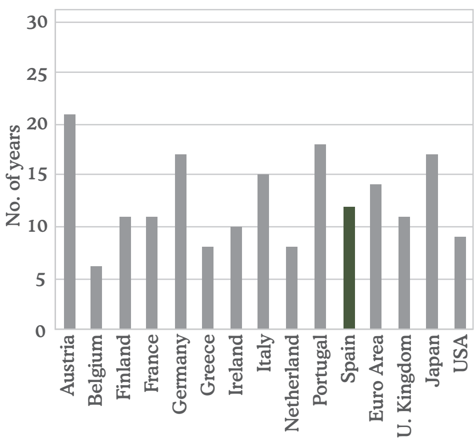
Source: BIS and BBVA

Chart 5.2.
Housing prices
Evolution in relation to the CPI 1972=100



Source: BIS and BBVA

Chart 5.3.
No. years with a real downturn in housing prices
1973-2004



Source: BBVA

5. Topic of the quarter: Housing prices in developed economies: evolution and important factors

Julián Cubero and Ignacio San Martín
BBVA Economic Research Department

5.1. Introduction

The recent behaviour of housing prices in developed countries seems to be increasingly supported by financial factors rather than demographic factors or disposable income, which is different to what happened in past cycles. The lower yields on different financial assets have made investment in housing more attractive for the economic agents, boosting demand and prices in the majority of developed countries.

Given the large volume of resources that have gone to real estate investment in recent years, it is important to know the factors that influence this market. Thus, the evolution of housing prices in the most developed economies is described, together with the main factors that interact in this market[1] .

5.2. Housing prices: evolution in the last 30 years

In the past three decades, housing prices have appreciated above inflation at an annual rate of 2.3% on average in the three main economic regions: USA, Japan and the European Union. The performance of real estate assets presents some differences in terms of space and time, and three stages can be distinguished in the period: the first stage would run up until the end of the seventies, giving way to a second stage that lasted until the mid-nineties, to end with the third which runs up to the present day.

In this last stage, housing has appreciated at an annual average of 3.8% and 3.0% above inflation in the USA and EMU respectively, while it has fallen by an average of 3.2% in real terms in Japan. These rates contrast with the annual average rises of 0.4% and 2.1% which were observed in the period 1975-1995 in the USA and Japan respectively.

In the case of the European Union, the behaviour of housing prices has been uneven, with big differences between the different member countries: while in Germany and Austria residential prices have risen below inflation since the beginning of the eighties, in Mediterranean countries and in Ireland and the United Kingdom, the variations in relative housing prices have been positive. The highest appreciation in the period analyzed occurred in Spain, where the prices are 4.2 times higher in relation to inflation than they were at the beginning of the seventies.

Sometimes, housing prices fall…

Generally speaking, in the last thirty years, there have been three periods when property prices in real terms fell worldwide: the first could be situated at the end of the seventies and beginning of the eighties, the second at the beginning of the nineties and the third, albeit not so

[1] We start from the housing prices for the period 1970-2004 in Japan, USA and the main EU economies given by the BIS and updated by BBVA Economic Research Department.

generalized, would coincide with the end of the last decade and the early years of this one.

In the group of 14 countries in the sample, housing prices rose below inflation in 12 of the 31 years between 1973 and 2004, i.e. 40% of the periods. There is some volatility amongst the different countries, with the extreme cases of Austria, where prices fell on 68% of occasions, and Belgium where they only rose below inflation in 19% of years. Spain was at the average, with 40% of years when prices fell in real terms, 6% on average.

In contrast, it is in Ireland and the USA where the price adjustments have been the lowest in these last thirty years. Thus, in Ireland, there were three periods of downturns, each one lasting for three years and an annual average drop of 3.4%, which implies that the adjustment was of 12% by period. Although the USA had the same number of periods of falls of the same length as in Ireland, because each average fall was smaller, at 2.7%, the average
downturn was of just over 8% by period.

Moreover, the decreases in housing prices in real terms lasted an average of just over four years, with an average downturn of 5.4% for the whole of the sample. In short, the periods when real estate prices rose below inflation gave a downturn nearly 25% in their level. Of the 14 countries in the sample, the largest falls occurred in Finland and Holland: in Finland, there were three periods of price adjustment, with an average duration of four years and with an annual average decrease in prices of 8.8%, which means that the adjustment was of around 33% in real terms; in Holland, two periods of falling real estate prices have been observed since 1973, with an average duration of four years and an average downturn of 7% in real terms, so that each adjustment has implied a cumulative reduction of nearly 30% in the price level.
.

... but they rise more and for longer

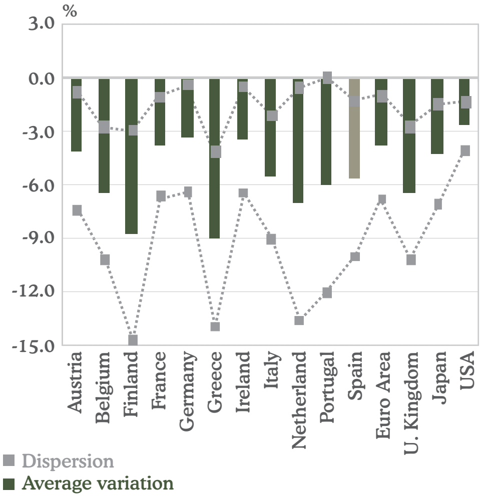
However, in the last three decades, housing prices have risen above inflation in 19 of the 31 years, i.e. in 60% of the periods. Moreover, generally speaking, the increases in prices were larger than the decreases, with average growth rates of 7.5%, and lasted a little longer -7 years- than the downturns, but not in every country.

It has been in countries in the south of Europe where the rises have been the largest, with real appreciation rates of over 10% on average, while in the USA and Germany the increases have been smaller, with appreciation of no more than an annual average of 3%. In Spain, the periods with increases in housing prices above inflation have lasted an average of seven years, with an annual growth rate of 7.5%. Although the figures for the last thirty years show that housing prices have a rising trend, there is no clear certainty that housing prices have a positive yield in the long term. Indeed, from a perspective of over a hundred years, R. Schiller (*Irrational Exuberance*, 2nd ed.) claims that relative housing prices fluctuate around a constant level.

5.3. Housing prices and socioeconomic variables

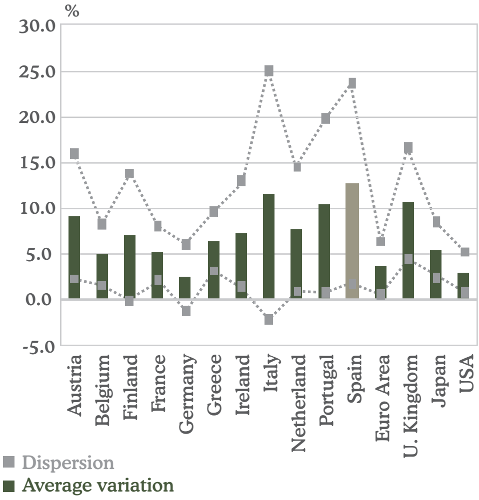
Although it seems clear that there is some harmony in the behaviour of real estate prices on an international scale, there is no single set of variables that can explain, to a greater or lesser extent, the evolution of

Chart 5.4.
Housing prices, average annual real decrease
1973-2004



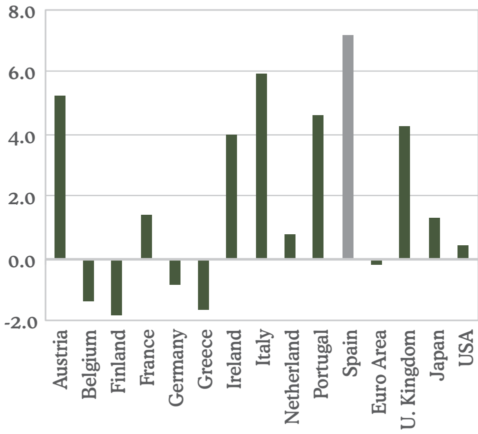
Source: BBVA

Chart 5.5.
Housing prices, average annual real rise
1973-2004



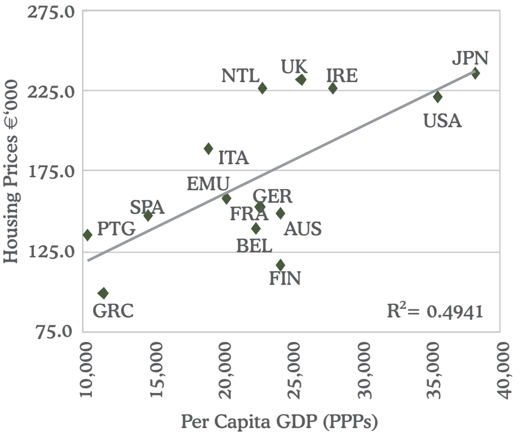
Source: BBVA

Chart 5.6.
Housing prices: annual variation Average
1973-2004



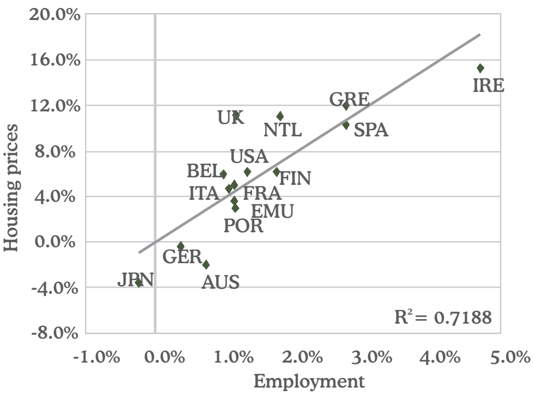
Source: BBVA

Chart 5.7.
Housing prices and per capital GDP
2003 levels



Source: Eurostat, IMF and BBVA

Chart 5.8.
Housing prices and employment
Year-on-year change. Average 1994-2004



Source: Eurostat, IMF and BBVA

Chart 5.9.
USA. Employment and housing prices
Real variations

Source: IMF and OECD

prices in all the countries throughout the period analyzed. This could be due to the fact that there are some domestic factors which affect the real estate market in each country or that the contribution of factors common to all the countries changes over time.

Generally speaking, a country's housing price levels are related, to a greater or lesser extent, to real household income. Thus, in this decade, the highest housing prices continue to be in Japan and the USA, where per capita income is higher, while prices are lower in Greece and Portugal where income is lower.

Demographic factors and housing prices

Although, in the long term, investment in housing is very closely linked to demographic factors, their influence in the short and medium term is limited in terms of conditioning property prices. In the majority of developed economies, the pace of household formation is still increasing, which allows potentially increasing demand to be maintained for these reasons. However, although the number of homes has grown over time, the evolution of housing prices shows scant correlation with this. For the new households which have been formed to be able to access a home and thus turn into effective demand, they need to have a certain income level, appropriate financing conditions and supply at affordable prices, which implies that the economic variables filter through to the demographic variables.

In Spain, there is no clear relationship between the behaviour of the demographic variables and the evolution of housing prices. Indeed, up until the year 2000, the behaviour of housing prices was more closely associated with the performance of employment than with the evolution of demographic variables. Increases in housing prices were observed in years when employment increased and downturns were seen in years of job destruction.

Employment and housing prices

Historically, variations in housing prices have been associated with the performance of employment. In the last 30 years, housing prices and employment, in both the USA and Japan, and in different EU countries, have performed almost in parallel: periods of job creation have been associated with periods of higher housing prices, while in the years when greater or lesser job destruction occurred, housing prices slowed or even fell.

In the last ten years, housing prices have risen the most in the countries where employment has grown the most, as is the case of Ireland, Greece and Spain, and have stagnated or fallen where employment was sluggish or where there was net job destruction, as is the case of Germany, Austria and Japan. In some countries, like Holland and the United Kingdom, the rises in these last ten years were much higher than the increases in employment.

In the case of the USA, up until 1995 housing prices and employment performed in a very similar manner, although there was a degree of dissociation as from the second half of the nineties, when strong job creation was not followed by proportional appreciation in residential properties, which, on the contrary, started to rise sharply in years when there was some job destruction. This performance in the last ten years suggests that the important factors in this market have changed and that, in the last few years, the evolution of monetary conditions has played a more important role in housing demand.

In Japan, however, the scant dynamism of the labour market in the nineties had a powerful effect on the residential market, where prices have continued to rise below inflation since the beginning of the nineties. Despite the good monetary conditions existing in recent years, with negative real interest rates, the residential market in Japan has still not taken off. If the incipient increase in employment is consolidated and financial conditions remain as favourable as they are at present, the real estate market could pick up in Japan in the medium term.

In Europe, similar performance of housing prices and employment can be observed in the different EU countries, as is illustrated by the figures for the United Kingdom, France and Germany. Here it should be said that the great differences observed between EU housing markets does not mean that the factors affecting the behaviour of property prices are not similar.

As from the year 2001, however, in some Western economies, property prices started to speed up at a time when unemployment was rising. Thus, there are factors other than labour which have been having a significant impact on the behaviour of prices in recent years.

Financing conditions and housing prices

The conditions existing for financing real estate are also a factor that affects both demand and supply and, with it, the evolution of housing prices. This relationship between financing conditions and housing prices, however, has not always been so clear. The availability of sufficient funds, maturity periods and, lastly, mortgage rates are the three sides to the financing condition coin.

A feature common to the three large economic regions is that, after opening up their financial systems, the volume of funds going to housing in developed countries has not been subject to any significant restrictions since the mid-eighties. In fact, since the beginning of this decade there has been a high degree of liquidity in the economic system which, for the first time, has not led to increases in the prices of consumer goods and which is pushing yields down, making real estate investment more attractive, increasing mortgage debt and boosting demand.

In the past few decades, after discounting inflation, the evolution of mortgage rates has presented a similar trend in the most developed economies: rising until the mid-eighties and falling since then. Moreover, the interest rate cuts are permitting mortgage maturity periods to be lengthened, thus amplifying the effects of the lower interest rates on household financing capacity. This increase in household financing capacity has been particularly intense in Ireland and Spain, where the interest rate cuts have been accompanied by a large increase in real household income so that household financial capacity has been trebled.

Chart 5.10.

Japan: Employment and housing prices

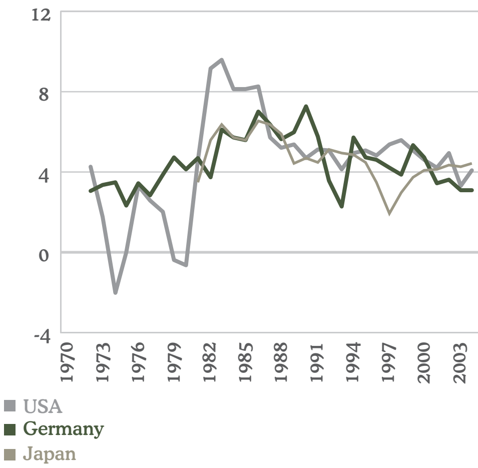
Real variations

Source: IMF and OECD

Chart 5.11.

Mortgage rates

Inflation discounted

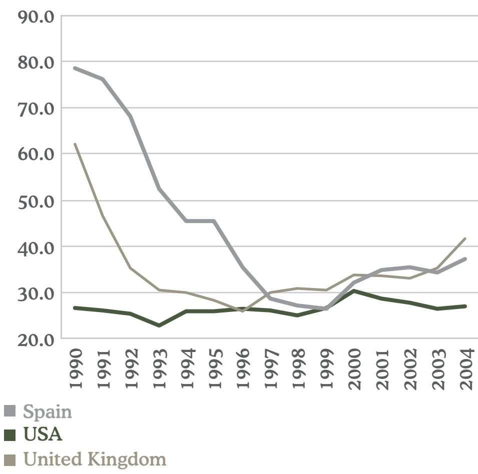


Source: BBVA

Chart 5.12.

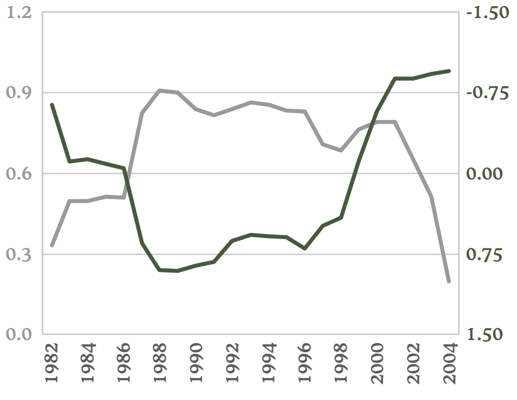
Home affordability

Effort to Gross Wage



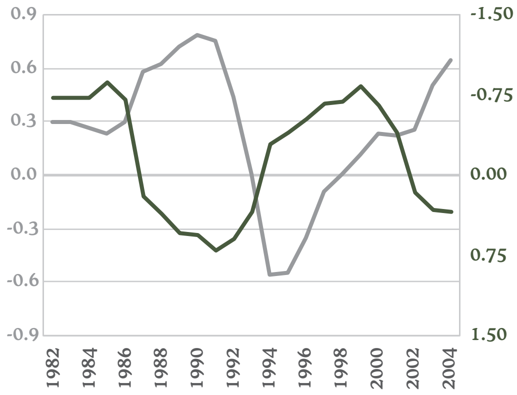
Source: BBVA

Chart 5.13.
Spain: moving 10-year correlations with housing prices



Source: BBVA

Chart 5.14.
Netherland: moving 10-year correlations with housing prices



Source: BBVA

In general, except in Japan, since the end of the last decade, significant improvements in mortgage financing conditions have been observed and this has made it easier for households to buy a home. In historical terms, since the mid-nineties, the effort made by households to buy an average home, in relation to their income, has been at relatively low percentages, especially in European countries.

5.4. The (partial) change in paradigm in this decade

Although in the last decade employment was the factor with the greatest correlation with the evolution of housing prices in the majority of developed countries, in this decade it is the evolution of financing conditions which is having the greatest influence on them.

With the exception of Japan and Germany, countries where both employment and their respective real estate markets have been stagnant since the mid-nineties, in the other economies, where certain economic buoyancy has been observed, the downturn in employment at the beginning of this decade has had no significant impact on the property markets. Quite the contrary, since the beginning of this decade housing has appreciated substantially, and more intensely so where financing conditions have been eased to the greatest extent.

As is summarized in Table 5.1., in Europe the factors explaining the evolution of prices since the beginning of the decade are related to employment (as is the case of Portugal and Holland where the job destruction of the last few years has led to a downturn in property prices), to wages (like in the United Kingdom) or to interest rates and the volume of loans (like in Italy, France and the United Kingdom).

Thus, a change in the present financing conditions would have a greater impact on the different developed real estate markets than in the past. This impact has started to be obvious in the economies in the area of the pound sterling, where real estate prices have slowed and even fallen in some places, after their Central Banks pushed up intervention rates.

Table 5.1. Evolution of housing prices

	1991-1997		1998-2004	
	Price profile	Factor with highest coincidence*	Price profile	Factor with highest coincidence*
Spain	Decline and recovery	Employment	Acceleration and stabilisation at around 14%	Interest rates and lending
Portugal	Oscillation of around 0% (-3%, max. decline)	Employment	Deceleration and decline close to 3%	Employment
Italy	Declines close to 7%	Employment	Acceleration (7%) and stabilisation (4%)	Employment, interest rates and lending
France	Decline (-4%) and recovery	Employment	Acceleration (8% in 2000) and stagnation at 6%	Interest rates and lending
United Kingdom	Decline and recovery	Employment	Acceleration (15%)	Wages, interest rates and lending
Netherlands	Acceleration	Employment	Acceleration (17% in 2000), sharp deceleration and stagnation at 0%	Employment

* Degree of correlation between the variation in relative housing prices and the variation in the variable.
Source: BBVA

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