

Real Estate Watch Colombia

Economic Research Department
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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

After the strong recession experienced at the end of the last decade, the building sector has managed to recover, becoming one of the most dynamic sectors of the Colombian economy. Within the construction sector, the building activity played a major role, since it has been an important engine of the economic growth in the country, it showed expansion rates above two digits and became a significant employment generation tool, mainly for non-skilled workforce.

This recovery in the building activity was the result of a general recovery in the economy, together with an increase in consumers and businessmen's confidence, which led to the strengthening of the labour market. Important progress has been observed in terms of employment, as unemployment rates have decreased from around 20% at the beginning of this decade to the current level of 12%. Macroeconomic stability, together with achievements in reducing inflation allowed Colombians to have access to better financing conditions, since terms for mortgages have been extended and interest rates have been reduced.

However, in the last months a slowdown of the real estate activity has started to be noticed. Both supply and demand indicators show a less dynamic activity. Thus, building permits have withdrawn the peak levels reached in the recent past, and a lower level of new residential building is also shown. Besides, sale of real estate developments is taking longer than before.

The adjustment that is beginning to take place in the real estate sector is a process consistent with the reduction of the purchasing power of Colombian households. Continuous increments in prices of real estate assets experienced in the last years have exceeded increases in families' income. Additionally, sporadic outbreaks of inflation have forced the Banco de la República (BP) to adopt a restrictive monetary policy, increasing its reference rate since April 2006, and making the reserve system for financial system deposits stricter. These two facts explain the lower families' demand.

Even though the activity faces a gradual adjustment in the short term, there are some factors that support the activity in the future. Good demographic prospects imply a continuous generation of households that, together with the existing housing deficit, will entail a secular demand for housing in the next years. In addition, the real estate activity currently shows a low leverage level in the financial system, making the activity remain based on a more extensive use of mortgage financing. Similarly, the Colombian macroeconomic environment is expected to remain favourable, keeping an economic growth close to 4.5%, and to be able to return to an inflation reduction process, without generating job destruction.

However, the real estate activity faces legal impediments that hinder a higher growth. From the financial point of view, limits on rate interests and low protection to creditors preclude the possibility of an increasing number of people having access to mortgages. On the other hand, the complex regulatory framework generates high costs for the building companies that discourage the development of housing solutions for middle and low-income levels of the population. If these obstacles could be overcome, there might be a more promising future for the sector.

1. HOUSING SUPPLY

The construction activity (buildings and civil works) has shown a strong dynamic activity in the last years, becoming one of the engines of the Colombian growth and reaching an average expansion rate between 2002 and 2007 close to 13%. Besides, buildings have been an important instrument, achieving an average growth in this same period of 17.8%, and managed to recover from the strong crisis experienced at the end of the nineties.

Building construction increased its share in the total GDP of the economy, reaching 3.5% in 2007 (a similar level to the average observed in the last 14 years, which totals 3.2%). Within the construction sector, buildings represent about 55% of the GDP, a percentage that has been reduced due to the boost given to civil works.

After this recovery period of 5-6 years, the real estate activity in the country is starting to show slowdown signals. In 2007, the buildings PDG have seen reduced its growth rate to 3.2%, while in 2006 it reached 13.3%.

Recently, the National Administrative Statistics Department (*Departamento Administrativo Nacional de Estadística*, DANE) has changed the way in which it measured national accounts, going from 1994 to 2000 base prices. With this new measurement methodology, buildings showed a growth rate between 2002 and 2007 of an average 14.3%. Furthermore, in the 2000 base national accounts, buildings lost their significance in the construction sector, since their share was reduced to about 39%, giving more importance within the sector to civil works. For the first quarter 2008, the 2000 base construction GDP showed a decline of 5.7%, produced by the 24.5% drop in civil works.

For the first quarter 2008, the 2000 base construction GDP showed a decline of 5.7%, produced by the 24.5% drop in civil works. On the other hand, buildings picked up growing 25.4%. In spite of this recent information on building acceleration, there has been no change in expectations towards a moderation in the real estate sector for the rest of the year.

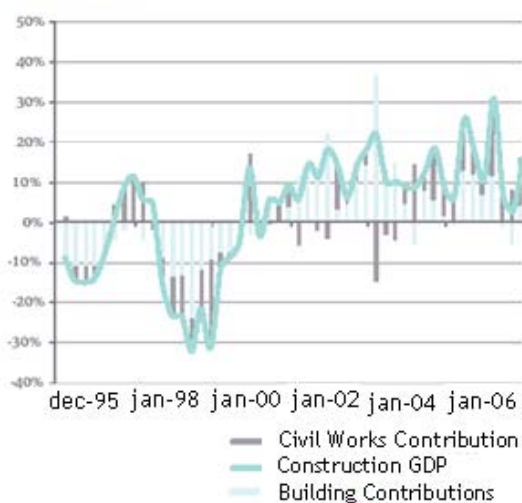
Factors explaining the recent behaviour and medium-term prospects for housing supply are reviewed below.

Buildings cycle

Historically in Colombia, the sector cycles have lasted between 5 and 6 years. The period that started in the nineties and lasted 12 years was completely unusual. Moreover, the extent of this period is the longest observed since 1965. During such term, the building activity reached expansion and decline levels never observed in the Colombian economy before.

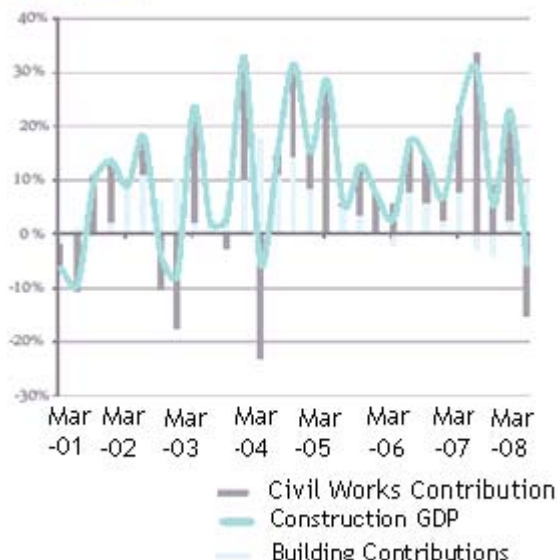
The length and extent of the cycle are the result of the excessive increase in property price beyond its balance level, associated with a relaxed monetary policy with the purpose of defending a basis for the nominal exchange rate (established for an exchange rate band) in a context of significant entry of foreign capital into the economy. Thus, the M3 monetary aggregate turned from 23% of the GDP in 1990 to 38% in 1999. At the same time, there was a strong increase in the credit activity, where the credit-M3 ratio went over 100% during the 1994-1998 period.

1994 Base Construction GDP
(y-o-y var.)



Source: DANE

2000 Base Construction GDP
(y-o-y var.)



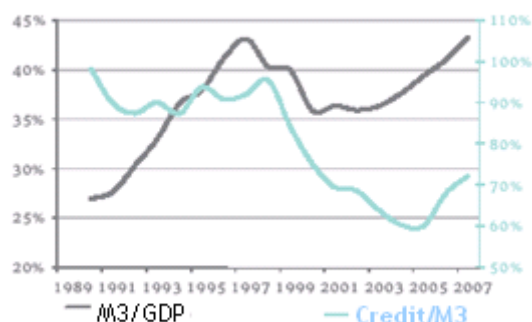
Source: DANE

FBKF (Gross Formation of Fixed Capital)
Cycle in Buildings
(Deviation against trend)



Source: DANE-ERD-BBVA

Monetary Aggregates Measures



Source: DANE - Banco de la República

Later, at the time of the Russian debt crisis that produced a dramatic change in the monetary policy position, the modification of property prices led to default in payment of mortgage debts, affecting the financial system and dragging the whole economy to the worst recession in recent history.

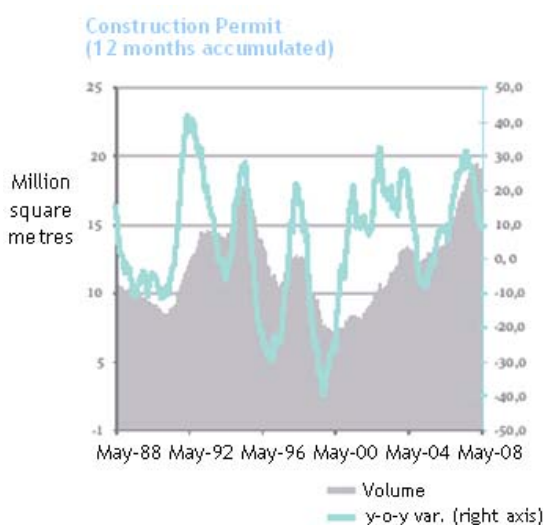
The length of the current real estate cycle, which started between 2003 and 2004, has been reduced again to a period of 5-6 years. This appears to be more organized than the previous one, as no excessive increases in property prices have been observed; thus, the low phase of the cycle is expected to be less noticeable.

Anticipated indicators of supply for the current cycle

Disposition of building companies to initiate new projects led supply indicators of the sector to historical peaks. Thus, building permits approved exceeded levels observed during 1995, reaching 19,385,067 square metres accumulated in twelve months in January 2008. This volume has decreased in the months reported in 2008, but they have remained close to 19,000,000 square metres (in May 2008, the 12 months accumulated reached 18,917,946 square metres). This is a fairly good indicator of the activity, since virtually the whole area approved means new works with a delay that ranges between 0 and 2 quarters. As regards cities, Bogotá is the main urban centre of the country: it concentrates 33% of approved permits. As to their purpose, residential housing concentrates about 70% of the total licensed area. Similarly, within these, the broadest share is that of housing intended for NO VIS¹, which represents about 80% of the total metres approved for housing. However, when reviewing the proportion per number of properties, share of permits for VIS housing increases to 36% of the total number of properties licensed. The lower share of VIS per square metres approved may be due to the smaller area allocated to the building of a VIS-type property, which is smaller than a NO VIS.

The license dynamics has been slowing down, particularly, for residential purposes, being it more noticeable in the VIS-type property. Besides, permits for non-residential purposes (Warehouses, Shops and Offices) maintain high growth rates.

Decrease in VIS supply is based on a costs problem, which affects project profitability due to flaws in regulations. The legislation establishes the basic salary as an updating mechanism to determine the price of one of these properties.



Source: DANE

Construction Permits Growth according to Purpose (12 months accumulated)



Source: DANE

¹ The National Government has two different classifications for housing, Social Interest Housing (*Vivienda de Interés Social*, VIS), and the one not included in the previous group (NO VIS). For the VIS classification, it may have a maximum price of 135 Effective Legal Basic Salaries (*Salarios Mínimos Legales Vigentes*, SMLV), which will be equivalent to a property with a maximum price of \$COP 62,302,500 (USD 36,664) in 2008.

However, absence of land for building development has led to an increase in the price of land higher than such criterion; therefore, the limits established by law to define a property as social interest housing do not match the market current situation. Moreover, other costs of the sector, such as workforce and materials, have also shown significant increases. As a result, this type of projects are less attractive, making the construction of these buildings equivalent to the minimum percentages required to building companies by the National Government².

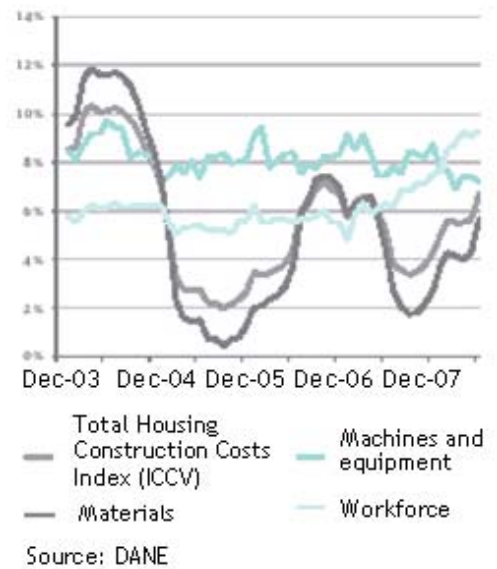
The results of the last quarters of the DANE building census show the slowdown of the sector. Although the works being built have continued growing at very dynamic rates, this has not resulted in completed works, since this type of works have been reduced in the last year, evidencing an increase in the projects performance term. Thus, in the first quarter of 2008, works under building process increased by 44% compared to the previous year, while completed works dropped by 7,1%. This increase in the length of the building construction process is related to the fact that the sales stage is taking longer. However, it must be emphasized that although completion of works is taking longer, this has not implied an increase in frozen construction works, which show an ongoing reduction. Additionally, in the last two quarters, the census shows a decrease in the commencement of new works, which foresees a lower dynamic activity in the near future.

Sector companies performance

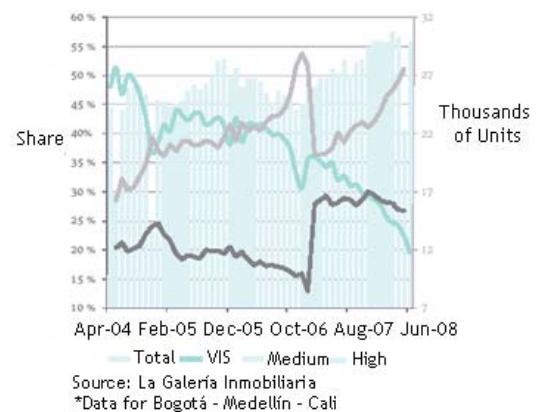
Companies devoted to the construction of buildings show a sound situation, associated with planning improvements they implemented based on lessons learned from the last crisis.

Unlike what happened in the nineties, the sector is currently better supported by experienced companies, and has adopted better financial and economic planning, which makes them stronger to face construction cycles. In addition, the pre-sales scheme through real estate trusts applied within the country has significantly reduced the risks of building companies, purchasers and financial backers. Thus, projects go into the construction phase only when a financial balance is achieved, which guarantees completion of the project. In this way, pre-sales prevents building companies from experiencing situations like the one they faced in the last decade, in which they borrowed money to carry out a real estate project, with the risk that upon completion they could not sell it, generating default in payment of their financial system liabilities.

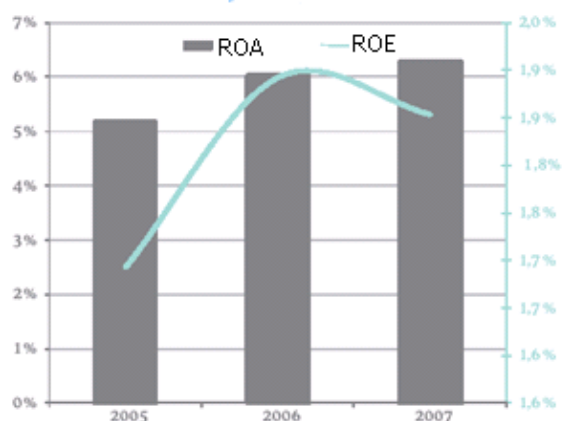
At the end of 2007, the sector comprised 739 companies, fewer than in 2005 and 2006. Concentration is high where few companies support the bulk of the activity. It can be noticed that a low percentage of companies (about 19%) concentrates 80% of operational revenues of the sector. High concentration is also evidenced by level of assets and profits.



Available Supply and Share per Price Levels



Sector Profitability Indicators



² Minimum percentages required amount to 25% of the usable area for VIS and 15% for Priority Interest Housing (Vivienda de Interés Prioritario, VIP), whose maximum value reaches 70 SMVL, equivalent to COP\$ 32,305,500). These percentages may be combined and rolled over according to equivalence formulae established by the Environmental, Housing and Territorial Development Ministry.

Profitability indicators of the sector show satisfactory levels. In 2007, the return on equity (ROE) reached 6.3%, experiencing an increase compared to 5.2% observed in 2005. Similarly, the return on assets (ROA) increased from 1.7% to 1.9% in the same period.

2. DEMAND FOR HOUSING

Colombia's favourable economic situation in the last years, in which a general recovery of employment and an increase in families' income could be observed, enabled reactivation of demand for housing. Additionally, the consumer's confidence levels reached top positions and financial conditions became again favourable for mortgage borrowing.

However, these favourable factors have been changing in the last months. Although employment maintains a positive dynamic activity, consumers' confidence and the perception of being a good time to purchase a property are nearing a turning point. As a consequence, reliability indicators have started to hold back compared to the levels observed in 2006 and 2007, suggesting a less dynamic future for the sector.

Recent slowdown

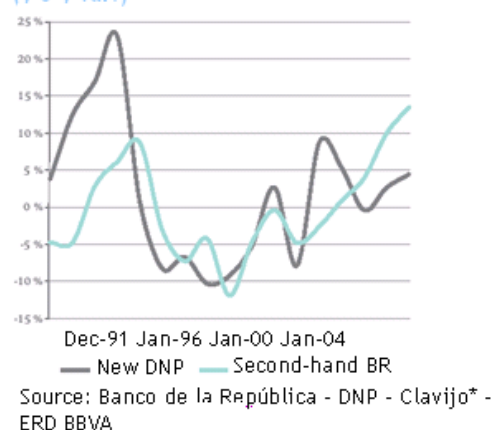
Prices of real estate assets have had a higher value than families' income in the last years. This increase started to discourage the purchase of properties, because it has reduced the households' purchasing power. Thus, the price of new properties as measured by the National Department of Planning (Departamento Nacional de Planeación, DNP) has had an actual annual average increase of 4.1% between 2002 and 2007, while second-hand properties as measured by the Banco de la República have had an actual annual average increase of 5.0% in the same period. In contrast, in these years, the actual salary rates of the sector and the legal basic salary have had an actual annual average increase of 1.1%³. In that way, due to the effect of housing prices, an average Colombian family that could buy a property of 56.19 square metres in September 2004, could buy a property of 39.30 metres in December 2007⁴. Considering that the average Colombian family is composed of 3.9 individuals, this reduction of purchasable area makes a large number of households postpone their decision to buy a property.

In spite of this significance increase in prices, when looking at actual levels we observe that the appreciation of real estate assets has been more controlled and organized than in the nineties. The value of properties is quite below values reached in 1996. Thus, it is perfectly possible that the problem of the real estate bubble is not being experienced in the current cycle.

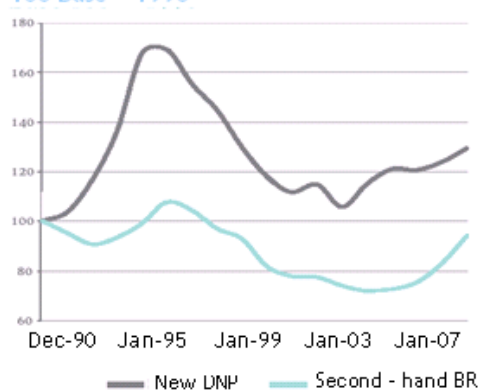
Labour Market and Consumer Confidence to Purchase Property



Housing Real Prices (y-o-y var.)



Housing Prices Index
100 Base = 1990



* Clavijo, S., Janna, M. y Muñoz, S. (2004) "La Vivienda en Colombia: Sus Determinantes Socio-Económicos y Financieros". Borradores en Economía. ["Housing in Colombia: Determining socio-economic and financial factors" - Economy Drafts] Banco de la República

³ The basic salary is used as a reference for the salary increase of a large number of workers in the country.

⁴ This estimation has been made assuming a 15 year-term for financing the mortgage, and maintaining a constant mortgage interest rate in both periods. As a variable of families' income, the secondary distribution of national accounts revenues is considered, and this is divided by the number of households to obtain the average income per household. Additionally, the monthly instalment of the credit represents the 30% of the families' income, and 70% of the property value is financed.

Another factor that has affected reduction in demand is the less comfortable financial conditions and the inflationary pressures⁵. Since April 2006, the Banco de la República has initiated an adjustment in its monetary policy position. Furthermore, there have been inflationary pressures across the country, which have increased the levels of inflation from the minimum rates observed in the middle of 2006.

Consequently, the maximum credit amount families could finance in September, 2004, was COP \$31,772,535⁶, which increased to COP \$47,714,786 in January 2007, to be reduced later to \$42,942,949 in the first months of 2008.

These two factors have generated a slowdown of housing sales. The restraint has been applied in general according to price levels, although it is more evident in the middle level and the VIS. On the other hand, rotation in high-price property sales (units sold in a month as compared to units available for sale) has decreased reflecting the longer term now needed to sell this type of projects.

In the next years, the most dynamic market segment is expected to be that of middle and low-income levels, taking into account that most Colombian households belong to this segment and, besides, these are the sectors in which the highest housing deficit can be observed.

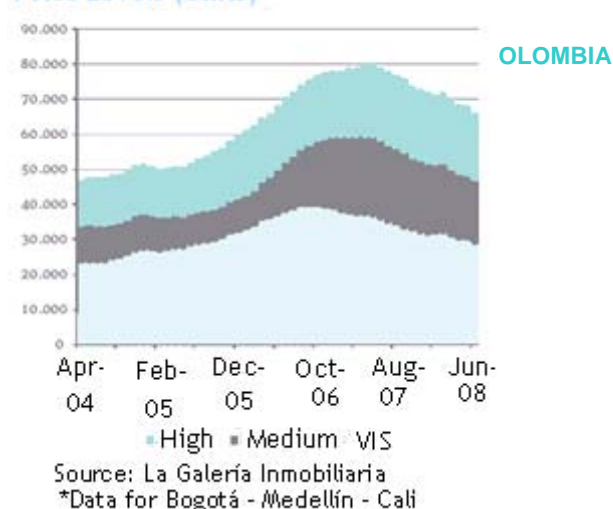
3. SUPPORT TO SECTOR EXPANSION

Favourable macroeconomic environment

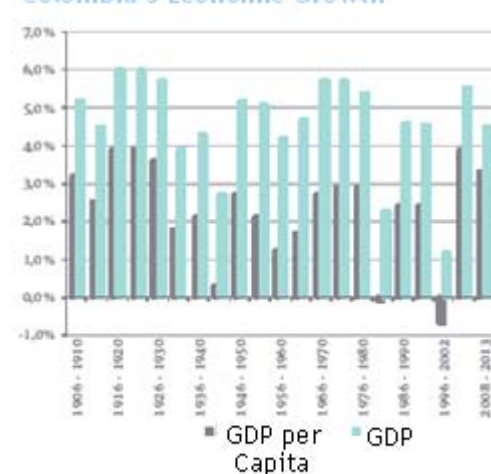
Colombian economy shows good prospects for the upcoming years. The possibility of achieving a sustainable rate of economic growth, together with a lower increase of population, would enable families to see their income increase, measured as GDP per person. The favourable economic activity would prevent job destruction, as it occurred in the crisis of the late nineties, generating work stability for families, which would ensure active demand for housing.

Although at present there exist inflationary pressures, this variable is expected to return to its downward path in the next years until it reaches the long-term level established by the Banco de la República (2%-4%). This would enable the normalization of the monetary policy. A stable macroeconomic environment helps families have access to better funding conditions. In fact, a steady recovery in households' purchasing power has been observed since 1993, due to the reduction in mortgage interest rates and longer financing terms, caused by low and controlled inflation levels.

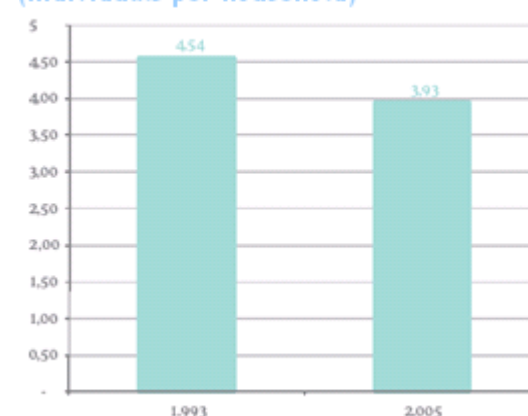
Sale of Properties according to Price Levels (Units)



Colombia's Economic Growth



Households Size (Individuals per household)

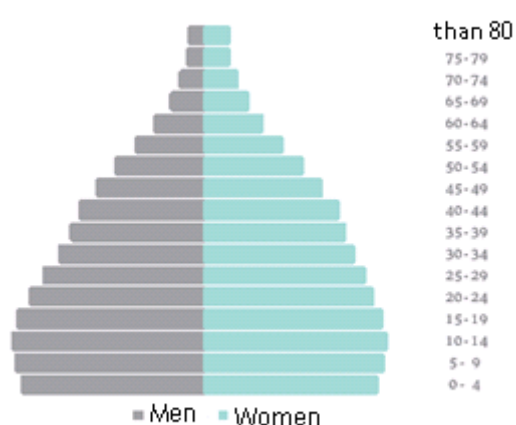


⁵ In Colombia, the floating interest rate for housing credit is directly linked to the inflation evolution. In the case of fixed interest rates, inflation has an indirect effect, because it is the main macroeconomic variable affecting long-term financing.

⁶ The calculation of the maximum financed amount is made in the same way as the calculation of the square metres a person can purchase, but the mortgage interest rate varies according to market observation over time.

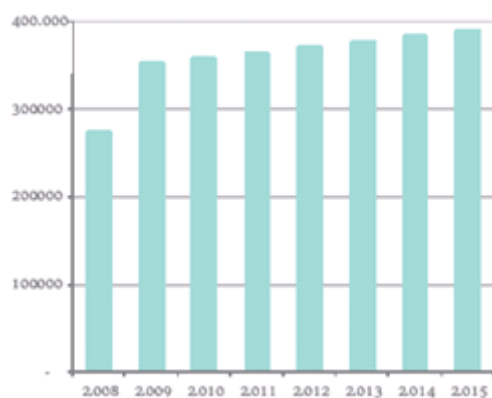
Demographic factors in demand for housing

Population Pyramid 2008



Source: CELADE

Creation of Households



Source: CELADE - DANE - ERD BBVA

There is a worldwide trend to reduce household size, which entails a more accelerated growth of households than population. Colombia has not been alien to this trend. Households have grown at an annual rate of 3.4% between 1993 and 2005, while population has grown at a rate of 2.2%. Thus, the size of households has shrunk during this period from 4.5 people to 3.9. The number of people setting up households is expected to continue going down in the upcoming years, which will imply a demand for secular housing. On the other hand, Colombia has a demographic dividend, because it has a young population that in the near future will potentially demand for housing as they set up new households. In the next years, it is estimated that the population between 20 and 40 years old will be the segment with the greatest share in the total population.

Given the estimates of the future composition of the population and the trend to reduce households' size, the needs for housing would be expected to be in the next five-year period of around 350,000 new properties per year. In addition, according to the last population census conducted in Colombia, there is a housing deficit of 3,828,055, distributed between 1,307,757 as quantitative deficit and 2,520,298 as qualitative deficit⁷. These demographic trends, associated with the existing housing deficit generate positive expectations for demand for housing in Colombia over the next years.

Public promotion

The National Government, through the Environmental, Housing and Territorial Development Ministry, is putting forward some plans to grant housing financing subsidies in order to generate housing solutions for the poorest sector of the population⁸. Furthermore, it has been established by law that family benefit funds are bind to grant housing financing subsidies to their poorest members towards the tax-related contributions they receive.

⁷ The quantitative deficit implies that the family do not have a place to live, that more than a family live in a property or that they live under non-relievable overcrowding conditions. On the other hand, the qualitative deficit involves families living in properties in poor conditions regarding materials and utilities, as well as under relievable overcrowding.

⁸ National Government subsidies are assigned to the population enrolled in the Identification System of Social Programmes Potential Beneficiaries (Sistema de Identificación de Potenciales Beneficiarios de Programas Sociales, Sisben), which benefits the population that does not have a formal job, and therefore it is not covered by the Health and Social Security system.

During the 2006-2010 four-year period, the National Government aims to fund 828,433 VIS housing solutions, by means of subsidies and credit. If they achieve this goal, they would be covering 50% of the new generation of households per year. In this connection, the Ministry has been executing agreements with multilateral organizations and banking entities to achieve these goals.

In addition, 8 megaprojects for VIS solutions have been identified. These range from the granting of operational permits for big extensions of land for building development up to the construction of housing solutions for the 1% of households existing in the municipality where the project is carried out.

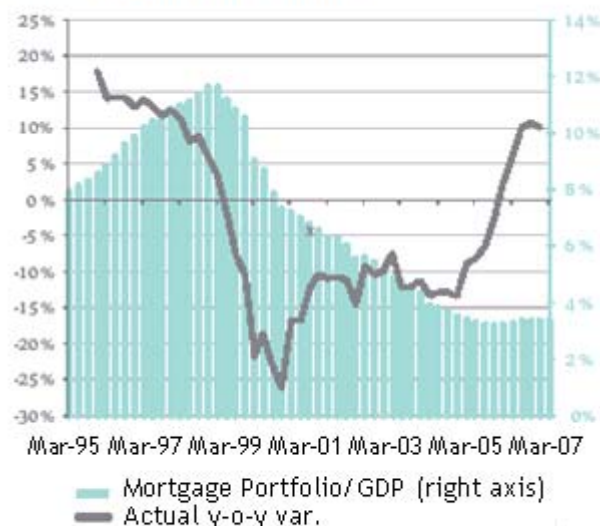
Although public policies have attempted to promote demand for housing in the lowest-income population, there have been some problems in supply that have prevented a successful result. In many cases, the subsidies approved are being lost due to the absence of VIS supply. In this regard, the Government should promote the possibility to generate land for building development so that VIS projects may look attractive for building companies.

4. FINANCING

In Colombia, mortgage financing as a mechanism to purchase property seems to have lost importance. According to a survey conducted by La Galería Inmobiliaria in 2007, just 35% of the value of the property is funded, while own resources are allotted to the 63% and subsidies and other sources to the 2%. The current real estate cycle shows a low leverage in the mortgage, because the disbursements-real estate transactions ratio only reached 6.8%, in the peak part of the cycle (2004). The pre-sales mechanism of new real estate projects has generated an alternate form of funding for families, since monthly contributions are made to a fiduciary assignment before and during the construction of the property, which may be compared to the first instalments of a credit and the down payment.

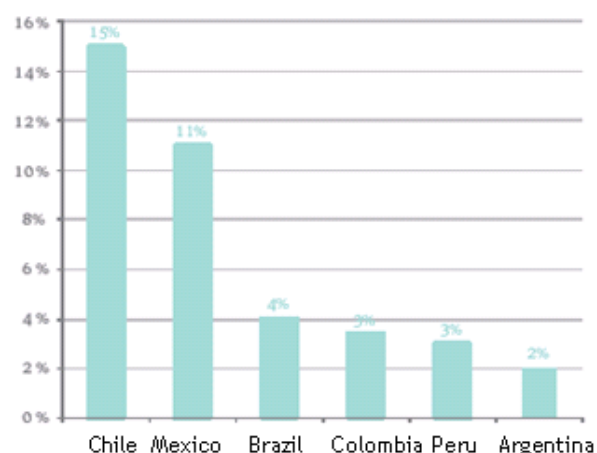
After the financial crisis in the late nineties, Colombians are reluctant to take a mortgage. Thus, this type of credit was significantly affected and it could only grow again at the end of 2006 (two years and a half delay with respect to the total credit recovery). However, the mortgage has become dynamic and, at present, it is the type of credit less affected by the current restrictive monetary policy. Moreover, the ratio between mortgage payments and real estate transactions has been increasing, reaching a 12.1% in the first quarter of this year. This shows that families have searched for leverage in the financial sector again. This is the desirable situation for the sustainability of the sector, since it is nearly impossible to think that in a country with a large percentage of the population with middle or low-income as Colombia, purchase of housing could be made without funding.

Crédito Hipotecario: Mortgage



Sources: Financial Superintendency - Titularizadora Colombiana - DANE

Mortgage/GDP



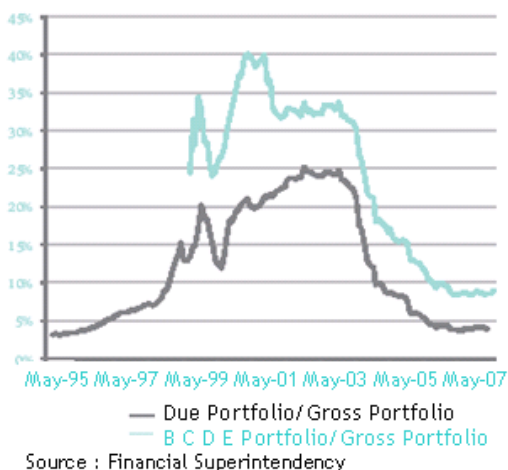
Source: Financial Superintendency - Titularizadora Colombiana - DANE - FELABAN

Actual Mortgage Interest Rates



Source: Financial Superintendency - ERD BBVA

Quality of Mortgage Portfolio



REAL ESTATE WATCH – COLOMBIA

The increase in the mortgage portfolio, measured as a percentage of the GDP, has experienced a fragile recovery in the last year, obtaining 0.2 p.p., to reach 3.4% in 2007. Even with this light increase, the rate is low when compared to rates reached throughout the nineties (in 1998 it reached 11.7%). Besides, compared to other countries the proportion is also low. Colombia is quite delayed with respect to levels observed in Chile and Mexico, where the increase is above 10%, and in relation to developed countries, where this rate is above 50%.

Currently, the Colombian financial system permits financing by means of a fixed or floating rate (linked to inflation performance). Since fixed rate financing came into effect, this type of financing has become more popular. This is because the increase in mortgage instalments that gave rise to the financial crisis of the nineties was mainly caused by an excessive increase in the floating mortgage rate reference.

On the other hand, the mortgage portfolio's quality has significantly improved, showing a downward trend in the past due portfolio-gross portfolio ratio. This behaviour can also be observed in the best-rated portfolio ratio, since the mortgage portfolio with an A rate has increased in the last years. As a result, the B, C, D, E portfolio indicators have fallen as compared with the total portfolio. These improvements are highlighted in a context in which other types of portfolios have depreciated.

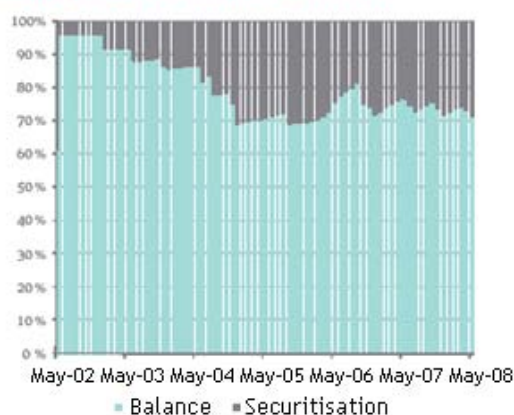
The low level of actual usage of financing for real estate transactions, together with historically good quality levels of mortgage portfolio, would allow the activity to expand further in the future based on a higher financial leverage. Besides, the mortgage market has a big potential due to the low level of usage of banking services (according to the Bancarización de Asobancaria report issued in December 2007, only 1.82% of the population of legal age has a mortgage). Additionally, although mortgage interest rates have increased, these remain in low levels compared to the ones experienced in the past.

Capital markets and mortgage financing

Act 546 enacted in 1999 enabled the financial system to securitize the mortgage portfolio. However, this methodology is very rarely used. In principle, this option was used by mortgage banks to subtract a portfolio amount from the balance and obtain tax benefits, reduce provisions and increase their credit capacity. However, the securities features have affected their liquidity. Thus, the securitised portfolio only reaches the 27% of the whole mortgage portfolio.

A wider use of this securitisation methodology would imply a higher allocation of resources for housing financing, apart from generating tax benefits for mortgage banks. Besides, portfolio securitisation of certain types of VIS housing is supported by the National Government, reducing the risk of payment delinquency.

Composition of Mortgage Portfolio



5. SECTOR CHALLENGES

One of the main challenges the sector faces is the absence of land for building development, which generates high costs for building companies that are ultimately rolled over the property prices. This entails a lack of VIS projects supply, since they are not profitable due to the price limits applied

to this type of properties. Furthermore, the situation gets even more complex with the confusing current regulatory framework and besides, the national, departmental and municipal jurisdiction to regulate the use of land is not clear enough. On the other hand, property registration and notarial proceedings are slow, increasing conveyance costs in the real estate activity.

As to financial matters, the existence of mortgage interest rate limits generates distortions in the market for the granting of the credit. Failure to update such limits and a rise in the cost of resources due to the Banco de la República rate increases have caused the mortgage financing cost to come close to these ceilings, thus making difficult assistance to the potentially more risky segments of the population.

Likewise, the Colombian legislation does not help population access to credit, due to the poor protection given to creditors. In terms of time needed to carry out a summary proceeding, Colombia is in an adverse situation, since these proceedings may take over three years and a half, while average Latin American processes are settled in less than 2 years. In this connection, the implementation of Special Courts secured in Peru and in other countries has significantly reduced the time needed to settle this type of conflicts; thus, this kind of courts may be a good example to follow.

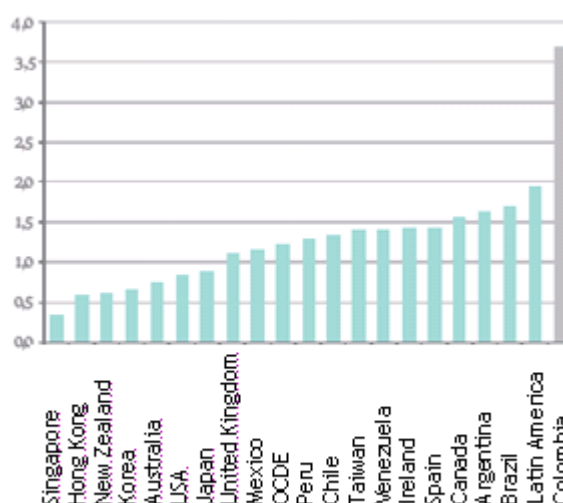
On the other hand, within the sector, there is a low technological development applied to constructing processes, which increases project expenses. Building companies have managed to be successful in the VIS segment, they could create effective production chains that operate like a manufacturing company. Thus, they managed to obtain attractive profits in these segments, in which a little variation in costs may prevent the successful development and completion of the project.

The sector also faces problems related to the low level of training of human resources. In this respect, the Colombian Building Association (Cámara Colombiana de la Construcción), through its different commissions, has been working to develop plans to achieve the standardization of products and training programmes for the personnel employed in the sector.

Limit on Mortgage Interest Rate		
	No VIS	VIS
Dec-05	Real 13.1%	Real 11%
Dec-06	Real 12.7%	Real 11%

Source: Banco de la República

Executive Proceedings Implementation Time



Source: Doing Business - World Bank

FINAL REMARKS

The real estate activity has maintained a sustainable growth due to the good performance of the Colombian economy in the last years, the increase in household income and, in general, the higher level of Colombians' confidence. Even though it has not been a widely leveraged cycle, financing conditions have also improved enabling families to have access to credits for the purchase of housing easier to pay. These factors made the buildings GDP reach an average growth of 17.8%, in the 2002-2007 period, 1994 base, and 14.3%, 2000 base.

In spite of this, the cycle seems to be starting its slowdown phase, due to an increase in real estate prices in a context of general slowdown in the Colombian economy and higher interest rates. However, this cycle shows signs of being more restricted and shorter than the one gone through in the nineties; thus, it might be expected that the sector recovery would not take as long as the previous period.

Moderation in housing prices growth is considered a favourable factor to avoid bubbles in the value of assets that may lead to a crisis as the one experienced a decade before. Besides, slowdown of sales promotes systematic adjustments that are beneficial for the sector. In any case, building companies are better prepared to face economic cycles, because they have learned from the previous crisis and they have today a better planning capacity. Medium-term prospects for the sector are favourable. The country economic context will remain positive and the economy is expected to go on growing at sustainable rates, although lower than those experienced in prior years. Thus, families will maintain favourable employment and income conditions that will let them have a demand for housing. Besides, the country demographic prospects indicate that the generation of households will continue growing. This results in a natural demand for housing, which together with the existing housing deficit creates a potential market.

In addition, there is a potential in the housing financing market, due to the low level of leverage experienced in the near past and the option of securitisation of the mortgage portfolio. A wider use of the financial system to satisfy the demand for housing would enable a higher sustainable growth of the real estate market in the medium-term. However, there are legal factors (limits in interest rates and poor protection of creditors' rights) that hinder the growth of the sector.

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