

## FOCUS · Real estate is starting to pick up again

The recovery in the real estate sector is evident when we look at the trend in house prices (up by 4.0% year-on-year in 2016 Q3)<sup>1</sup> or in housing demand, which has been growing by more than 10% for several months now. Nevertheless, *a priori* this picture is less conclusive when we look at the activity indicators for real estate.

The sector seems to be having trouble in adapting to the new environment of economic growth, as shown by completion certificates for buildings, which specifically posted a negative growth rate in September of -13% year-on-year in cumulative terms over 12 months. Such figures are not encouraging but we must remember that it takes time to complete a building. Thus, the number of finished residences today reflects the sector's expectations at the end of 2014, a time when prices had bottomed out.

The figures for new building permits provide a much more dynamic picture. Although the number of new residences being built is still small, the rate of increase has been very strong for some months now. Specifically, in September the growth rate reached 40% year-on-year in Spain (cumulative over 12 months). Improved financial conditions and the recovery in economic activity are boosting this recovery in the real estate sector throughout Spain but it should be noted that the growth rate is highly disparate between regions: in September 2016 new building permits increased by more than 60% year-on-year in 13 provinces while they were still decreasing in another 13.<sup>2</sup>

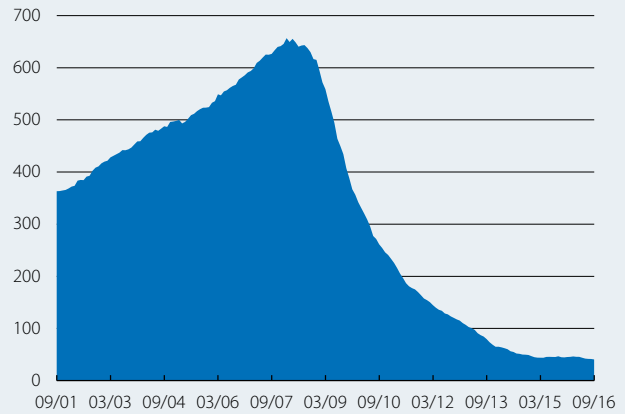
This great disparity is partly due to demand factors, such as the strong growth in tourism and the entrance of foreign investors in some regions,<sup>3</sup> but supply factors are also significant. The sector's recovery is concentrated in those provinces where the number of new residences available for sale is smaller while provinces such as Toledo or Ciudad Real, where this figure is still high, are posting levels of new building permits which are far below their historical average. In fact, it comes as no surprise that, in such provinces, new building permits are still declining.

In summary, the real estate revival is gradually adjusting to the new economic cycle. The recovery has already started in those regions and cities where demand is growing more strongly and there is a smaller number of residences available for sale and this is likely to spread, slowly but surely, to the rest of Spain.

1. According to INE data, based on the transaction price.  
 2. Cumulative figures over 12 months.  
 3. See the Focus «Demand for housing: uneven growth» in MR11/2016 for a more detailed look at the heterogeneous nature of housing demand in Spain.

### Completion certificates

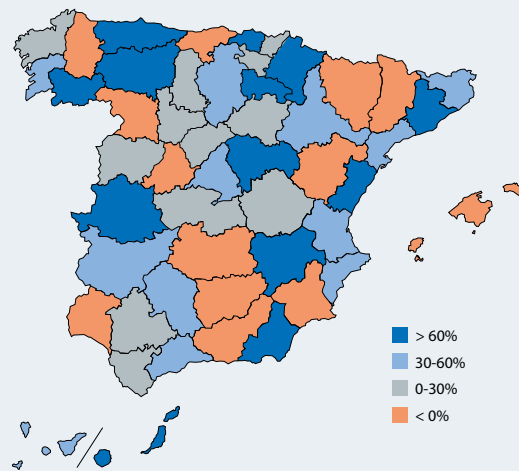
Cumulative figures over 12 months (thousands)



Source: CaixaBank Research, based on data from the Ministry of Public Works.

### New building permits

Cumulative figures over 12 months, annual change (%)

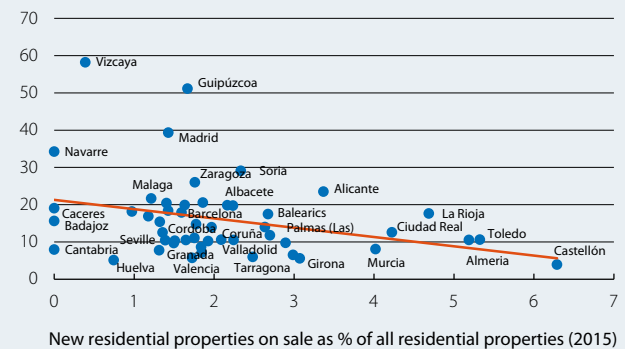


Note: Data up to September 2016.

Source: CaixaBank Research, based on data from the Ministry of Public Works.

### New residential properties on sale and number of new building permits

New building permits as % of the historical average \*



Note: \* Cumulative figures over 12 months up to September.

Historical average calculated between 1992-2015.

Source: CaixaBank Research, based on data from the Ministry of Public Works.