

## FOCUS · House prices are on the rise

The real estate sector continues to enjoy a tailwind, as can be seen in the most recently published data for the sector: in June house sales grew by 14.7% (cumulative over 12 months) while prices increased by 2.4% in 2016 Q1 in year-on-year terms.<sup>1</sup> Activity is also progressing at a healthy rate, as shown by the permits granted for new builds which have enjoyed double-digit growth for the last 15 months,<sup>2</sup> although these still represent just one tenth of the permits recorded in 2003.

The economic recovery, increasing the disposable income and wealth of households and raising consumer confidence, together with the continuation of favourable financial conditions, will carry on boosting sales over the coming years. This trend, combined with the still incipient recovery in supply, will push up house prices. Specifically, we estimate that house prices will grow by around 3% this year and that this rate will increase, reaching 5.5% by 2018.

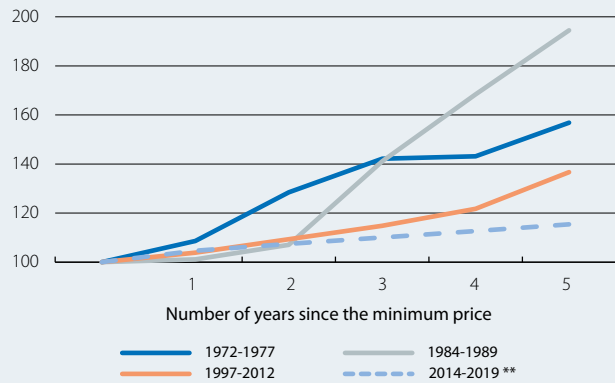
These forecasts may seem high after the adjustment undergone by the sector but it should be noted that the real estate sector is extremely cyclical. An analysis of the expansionary phases of the last few real estate cycles in Spain shows that prices in real terms grew by more than 5% for 6 consecutive years on average (see the first graph). At the same time, this expected growth in prices over the coming years is conservative when compared with the trend seen in countries also undergoing a drastic correction in recent times, such as Ireland, the US and United Kingdom (see the second graph).

Given that we expect this increase in house prices to occur within a favourable economic environment, we believe that, for the population as a whole, housing affordability will remain at similar levels to the present. The third graph shows the expected trend in two benchmark indicators: the ratio between house prices and gross disposable income per household and the ratio between the mortgage payments required to finance a property during the first year and the annual disposable income of an average household. After a considerable correction in these indicators since the peak reached in 2007, in the coming years we expect a gentle upward trend to begin, although the continued improvement in household disposable income will keep housing affordability far below the peaks reached between 2006 and 2008.

1. House prices published by the Ministry of Public Works based on the valuation.  
2. Cumulative growth over 12 months.

### Spain: house prices in expansionary cycles \*

Index (100 = minimum)

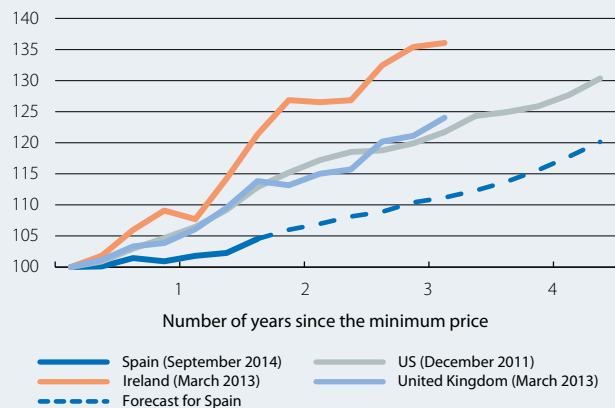


Notes: \* Price in real terms. \*\* Projected data as from 2016.

Source: CaixaBank Research, based on data from the Ministry of Public Works and the Bank for International Settlements.

### International comparison of house prices

Index (100 = minimum)

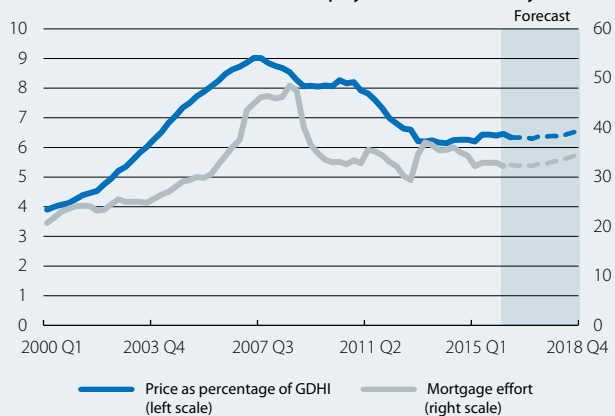


Source: CaixaBank Research, based on data from the INE and the Bank for International Settlements.

### Spain: affordability ratios

House price as percentage of GDHI (ratio)

GDHI allocated to mortgage payments in the first year (%)



Note: GDHI is the gross disposable household income.

Source: CaixaBank Research, based on data from the Bank of Spain.