

FOCUS · Demand for housing: uneven growth

The recovery in the real estate market is getting stronger by the month. This can be seen in the number of house sales, which have enjoyed double-digit growth for the last year and a half. This sharp increase is being supported by underlying factors that are shared throughout the country, pushing up demand for housing in general, but there are also other factors that affect each region differently, with the result that the recovery is particularly strong in some zones (see the first graph).

Among the most important factors boosting demand for housing throughout the country are the improvement in financial conditions and the recovery in economic activity. More solvent banks and the ECB's accommodative monetary policy have helped to improve credit conditions. This can be seen in the rise in new mortgage loans granted, 13% in the cumulative figure for the year up to August (24.4% if we exclude refinancing loans), and also in the drop in mortgage interest rates, close to 0.9 pps in the last two years. A more dynamic labour market is also helping to improve the disposable income of households.

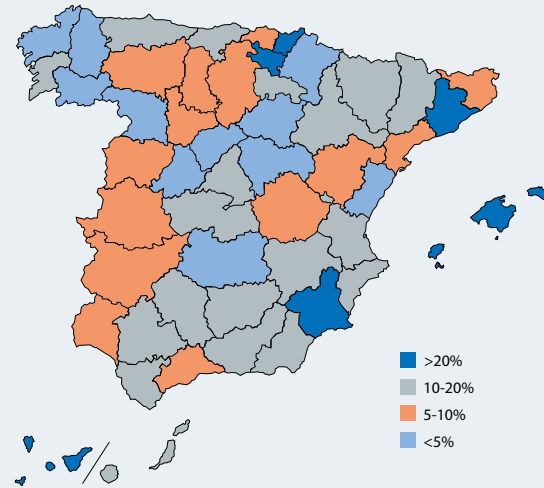
At the same time, more localised factors are pushing up demand for housing in certain zones, and particularly foreign demand. Foreigners buying second homes lie behind a large proportion of the sales recorded on the Mediterranean coast and Canary Islands. Specifically, these account for more than 30% of the total purchases made in the Balearic Islands, the Canary Islands, Malaga and Murcia (as shown by the third graph). The purchase of housing as a means of investment is also becoming more significant given its attractive return compared with other alternatives,¹ already accounting for 20% of all sales.² This phenomenon is particularly significant in large cities, which also attract international investors.³

The combination of these factors, both common and local, is responsible for the uneven growth in sales recorded in the current expansionary cycle. This heterogeneity in demand is passed on to prices, whose trends have also differed throughout Spain. The extent of the recovery comes down to each region.

1. In 2016 Q2 the return on housing, defined as the average annual rental per m² divided by the average price per m² 12 months previously, was 4.4%.
2. See Servihabitat Trends (2016), «Mercado residencial en España».
3. For example, in PWC (2016), «Emerging Trends in Real Estate», Madrid is the fourth most attractive city in Europe for investment and Barcelona the 12th.

House sales in 2016 Q2

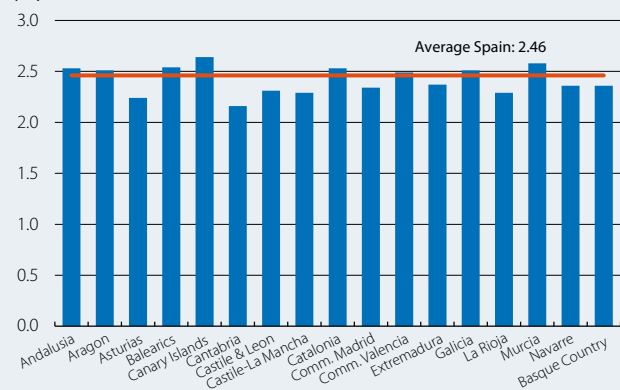
Cumulative change over four quarters (%)



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

Interest rate on new mortgages granted in 2016 Q2

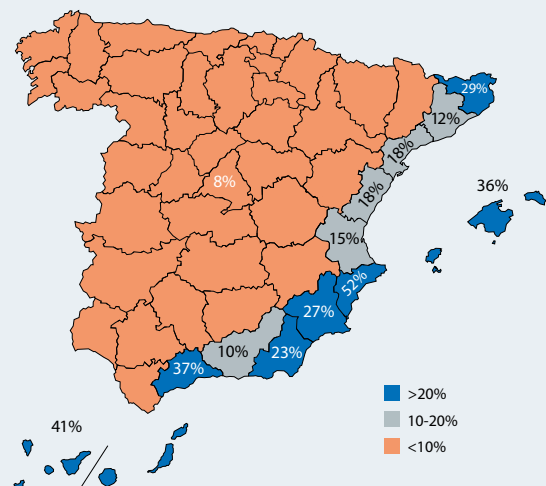
(%)



Source: CaixaBank Research, based on data from the Colegio de Registradores de la Propiedad, Mercantiles y Bienes Muebles de España.

House purchases by foreigners in 2016 Q2

(% of total sales)



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