

The housing market continued on the path to recovery that started in early 2014 both regarding prices and house purchases, and new residential project starts, following the sharp correction observed during the previous seven years. This box revises the main characteristics of recent developments.

Between 2014 Q4 and 2017 Q3 investment in housing increased on average around 1.5% quarter-on-quarter, a pace higher than that recorded for construction as a whole (1% on average). Accordingly, housing gained weight in construction investment during this period, to stand at approximately 50% of the total, in line with the average for the last two decades (see Chart 1). Recent changes reflect, among other factors, the favourable performance of the labour market and of the financing conditions applied both to house purchases by households and to housing development and construction by firms in this sector. In terms of GDP, the weight of this investment component stood slightly above 4.5% in 2017, rising from a low of 4.1% in 2013, similar to the average for other European countries and very far from the 12% reached in 2007, the peak of the expansionary phase posted

by the sector before the crisis (see Chart 2). Compared with this peak, the level of this demand component accumulated a fall of around 65% until 2013, having recorded an increase of slightly over 20% since then.

House prices, which dropped by 37% in nominal terms (45% in real terms) from their all-time high in 2007 Q3 to their minimum in 2014 Q1, have been on a growth path since then, recording an accumulated increase of 16% (see Chart 3), with very uneven rates of growth across regions, Madrid, Catalonia and the Balearic Islands being the autonomous regions where price growth was highest. By housing type, the growth of new home prices since the minimum reached in 2014 was slightly higher than that of second-hand homes, although this difference has decreased in recent quarters.

Housing transactions have also been on an upward trend since 2014. Specifically, approximately 455,000 housing purchases were recorded in 2016, 14% more than in 2015 which, however, is equivalent to only slightly above 50% of the annual average

Chart 1  
COMPOSITION OF CONSTRUCTION INVESTMENT (a)

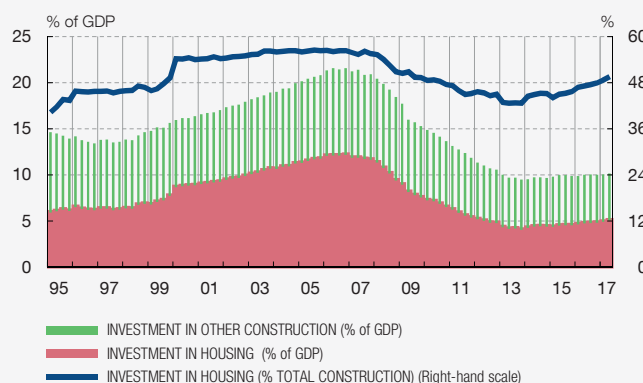


Chart 2  
INVESTMENT IN HOUSING (% OF GDP). INTERNATIONAL COMPARISON (b)

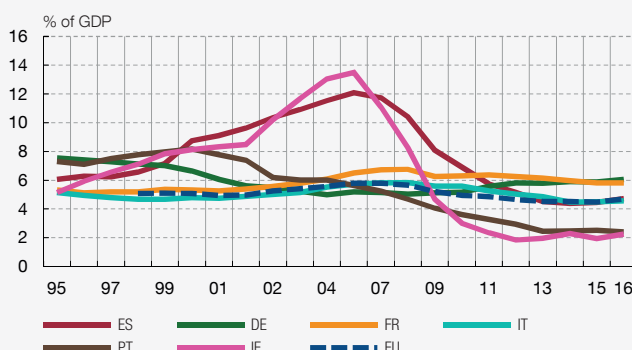


Chart 3  
CHANGES IN HOUSING PRICES FROM THEIR PEAK IN NOMINAL TERMS (2007 Q3) (a)

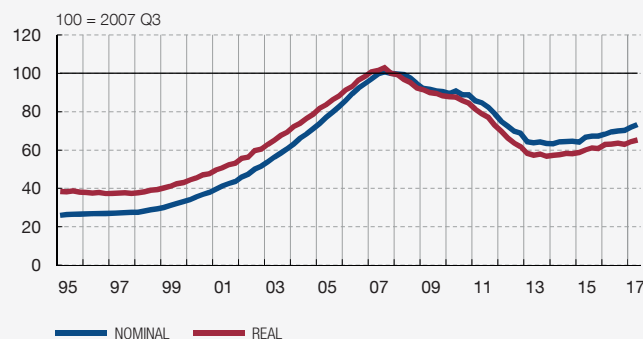


Chart 4  
NUMBER OF HOUSING TRANSACTIONS (c)



SOURCES: See notes.

- a INE.
- b EUROSTAT.
- c Ministerio de Fomento.

purchases carried out between 2004 and 2007 (around 885,000).<sup>1</sup> Housing transactions are mainly sustained by the second-hand home segment, whereas new home purchases maintain a slightly downward trajectory (see Chart 4). Likewise, the increase in housing sales is seen both in purchases by foreigners (around 17% of the total in the last three quarters vis-à-vis an average of 10% during the period 2006-2013) and in purchases by Spanish residents (see Chart 5).

The better tone of sales is also reflected, albeit to a lesser degree, in the mortgage market, with a moderate increase since early 2015 in the number of new mortgages, against a backdrop of gradually declining household debt at aggregate level (see Chart 6). In terms of balances, a year-on-year contraction of loans for house purchase persists, meaning that new loans granted for house purchase are not sufficient to offset the loan repayments. As regards loan terms, an increase has been observed since the market began to recover in the proportion of housing loans with an

initial interest rate fixation period of between one and five years and, starting in 2016, with a fixed interest rate at more than ten years.<sup>2</sup>

On the supply side, residential housing starts have also improved, although with a certain delay,<sup>3</sup> in part owing to the high stock of unsold dwellings resulting from the previous expansionary phase. In any event, the level of housing starts is still low and well under that recorded during the early phases of recovery in the sector following the early- 1990s crisis (see Chart 7).

The process of absorbing the ample stock of unsold dwellings is moving slowly, against a backdrop of a relatively small volume of new house purchases, which acts as a factor limiting the degree of recovery of residential construction. In any event, the market shows a high degree of heterogeneity by geographical area, such

1 2004 is the first item of the series that is available.

2 See Box 6 of the “Quarterly report on the Spanish economy”, 2017 Q1.

3 The building permits published by the Ministry of Public Works are used as a leading indicator of housing construction.

Chart 5  
NUMBER OF HOUSE PURCHASES BY SPANISH NATIONALS AND FOREIGNERS (d)

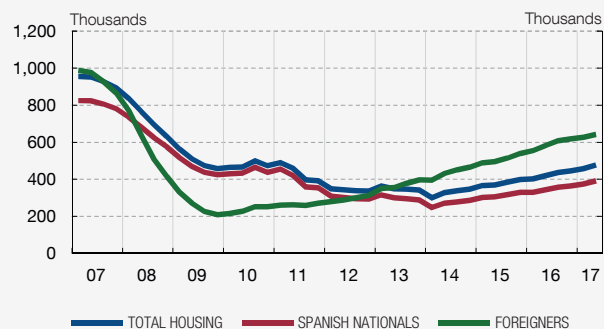


Chart 6  
NEW HOUSING MORTGAGES AND CHANGES IN THE BALANCE OF LOANS FOR HOUSE PURCHASE (e)

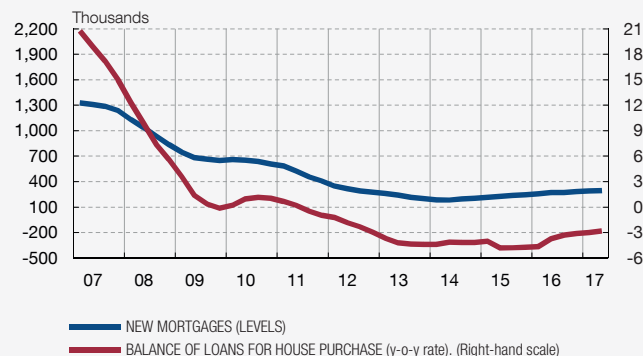


Chart 7  
NUMBER OF HOUSING APPROVALS (d)

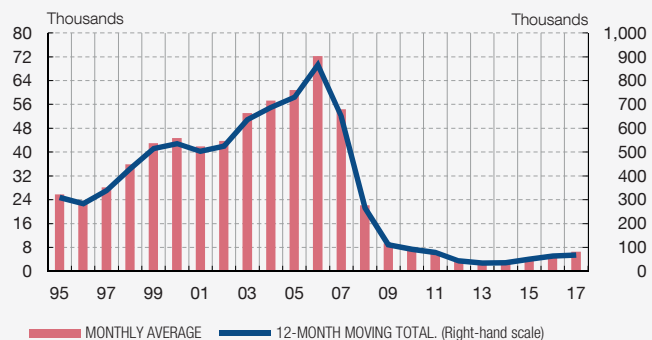
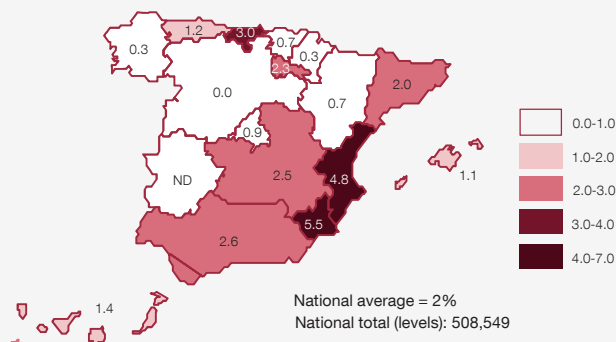


Chart 8  
ESTIMATE OF STOCK OF UNSOLD HOUSING (2017 Q1) (f)  
Housing stock as a proportion of the total in 2016



SOURCES: See notes.

d Ministerio de Fomento.

e INE and Banco de España.

f Banco de España estimates based on data from the Ministerio de Fomento.

that demand is concentrated in areas not necessarily coinciding with those where the unsold houses are located, which is also giving rise to very uneven price performance. In this connection, from a geographical perspective, the autonomous regions that continue to have a larger volume of unsold housing relative to the stock of houses are mainly located in coastal areas, where the property boom prior to the crisis was especially intense (see Chart 8).

At medium and long term the performance of the housing market is driven by demographic factors, among others. Given the current projections of a moderate decline in Spain's population in the medium term,<sup>4</sup> residential demand growth may be expected

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4 See P. Cuadrado (2017), "Population of Spain: latest developments and projections", *Economic Notes*, 19 January 2017, Banco de España.

to be more subdued than during the previous expansionary cycle that started in the late 20th century, when this variable was buoyant.<sup>5</sup> This factor could be mitigated in a shorter time horizon insofar as the crisis may have delayed the decision to form a household by the cohorts of younger individuals, an element which would now be reversing as a result of the improvement in employment.

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5 Conditioned by the ample margins of uncertainty shown by population projections at medium and long term, the estimates available indicate that the potential demand for main residences would be much lower than the number of finished dwellings during the upturn in the previous real estate cycle. See M.<sup>a</sup> L.I. Matea Rosa and M.<sup>a</sup> C. Sánchez Carretero (2015), "Household formation and the need for new primary dwellings in the medium term", *Economic Bulletin*, October 2015, Banco de España, and Á. L. Gómez and M.<sup>a</sup> C. Sánchez (2017), "Indicadores para el seguimiento y previsión de la inversión en construcción", *Documentos Ocasionales*, No. 1705, Banco de España.