



**GOBIERNO  
DE ESPAÑA**

**MINISTERIO  
DE FOMENTO**

# **The adjustment of the Spanish Real Estate Sector**

**May 2011**



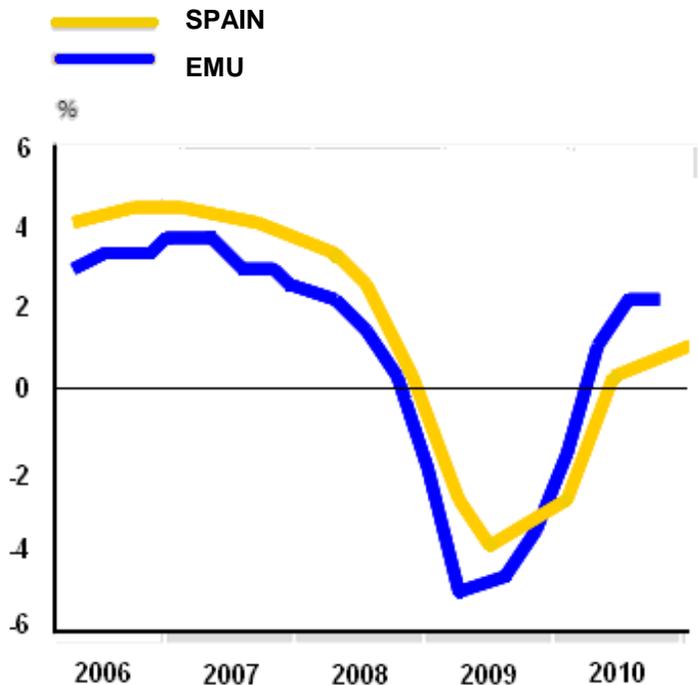
**Although struck by the crisis,  
Spain is a solid economy,  
showing signs of recovery**



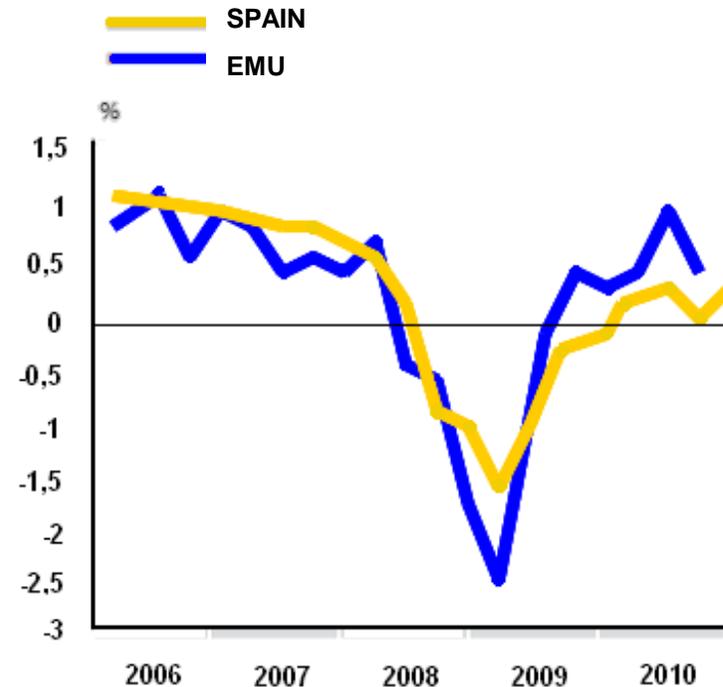
# Spain resumes an upward trend

In the closing months of 2010, the Spanish economy came back on track for recovery, with a q-o-q GDP increase of 0.2%, that sums up for a y-o-y increase of 0.6 %.

Year on year Variation



Quarter on quarter Variation



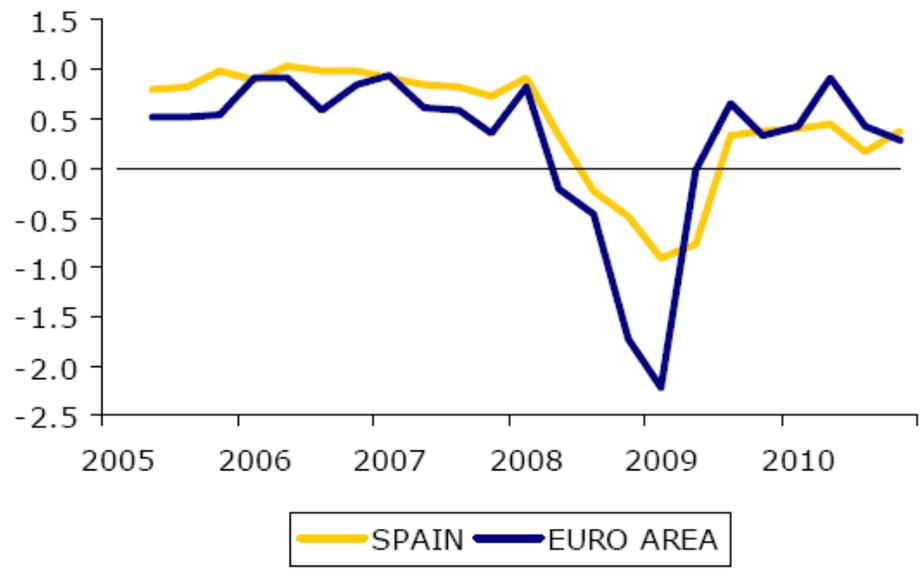
Source: Central European Bank, Statistics National Institute, and Bank of Spain



# Sustained growth path for the future

- Excluding construction, the demand is recovering: Private consumption grew in 2010 at an average of 1.2% (from -4.3% in 2009), investment in equipment grew on average 1.8% (from -24.8% in 2009), and external demand rose up to 1.1%.
- GDP forecasts confirm a positive evolution, in line with other European economies.

GDP volume measures excluding construction  
Q-o-q growth rates



Source: Eurostat

GDP Forecasts

	2011		
	OECD	EC	IMF
<b>Spain</b>	<b>0,9</b>	<b>0,8</b>	<b>0,8</b>
Italy	1,3	1.1	1
France	1,6	1.6	1,6
Germany	2,5	2.2	2,2
<b>Euro area</b>	<b>1,7</b>	<b>1,5</b>	<b>1,5</b>

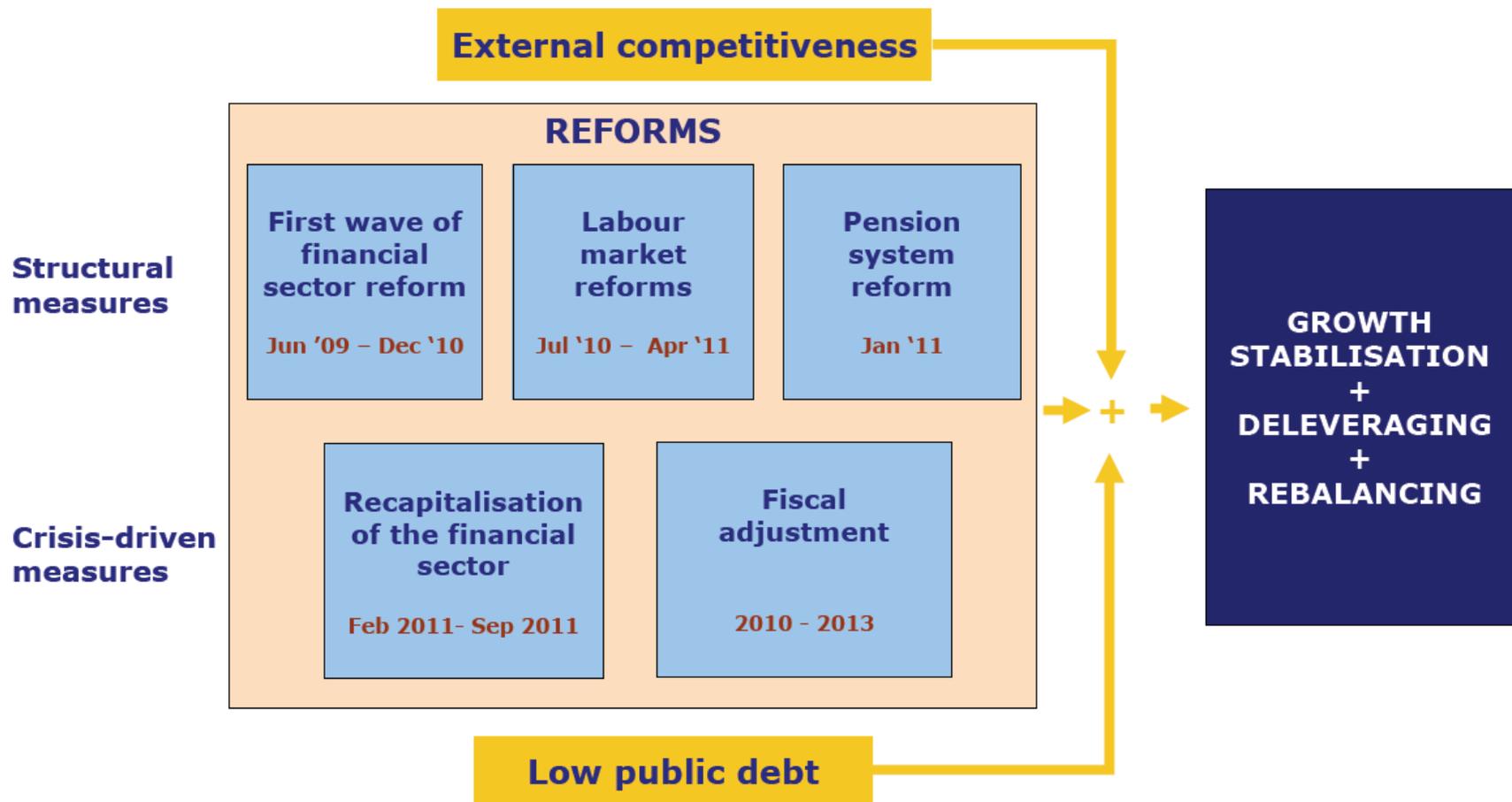
	2012		
	OECD	EC	IMF
<b>Spain</b>	<b>1,8</b>	<b>1,7</b>	<b>1,6</b>
Italy	2,0	1.4	1,3
France	2,0	1.8	1,8
Germany	2,2	2.0	2
<b>Euro area</b>	<b>2,0</b>	<b>1,8</b>	<b>1,7</b>

Source: IMF, OECD, European Commission



# Strengths and political steps

- Economic strengths and reforms lay the foundations of a sound and rebalanced growth for the Spanish economy.



# Competitiveness

- **Infrastructures:**

- Spain has the biggest highway net in Europe and is the first European country and second in the world, behind China, in high speed railway line miles
- 47 airports in which 250 airlines operate

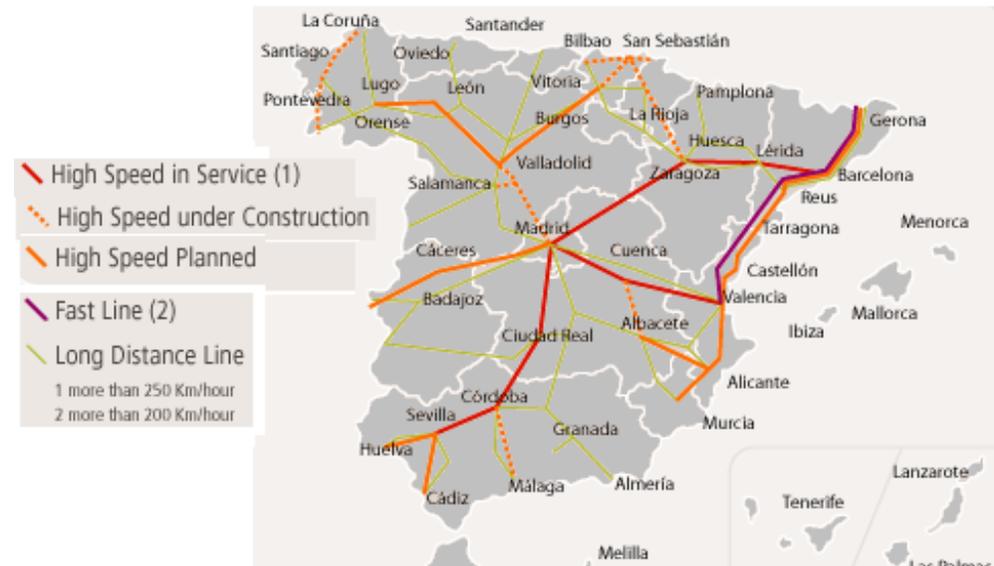
- **Quality:**

- First European country with the highest standard of living for expatriates
- 2nd most valued health system in Europe (HSBC Expat Explorer Survey)

- **Performance:**

- 2nd tourist destination in the world by revenue and 3rd for passenger arrivals

- **Business leadership**





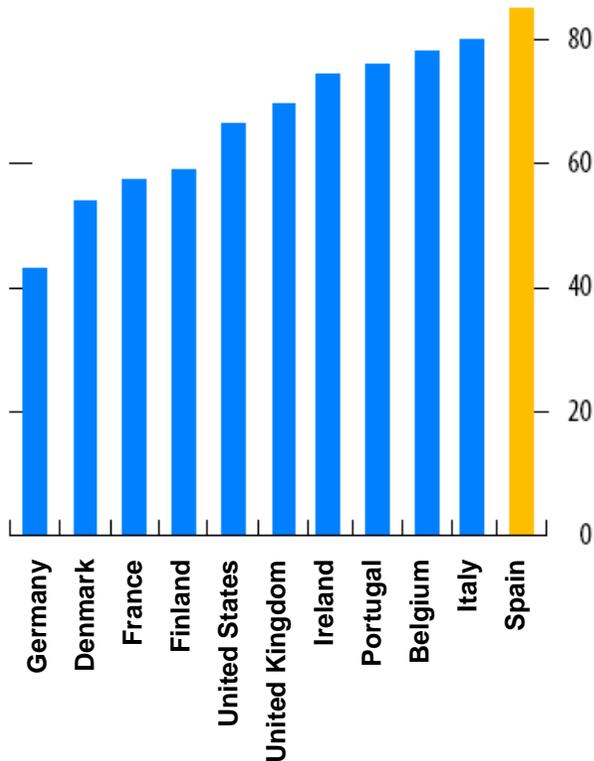
# The Spanish housing sector: facts and features



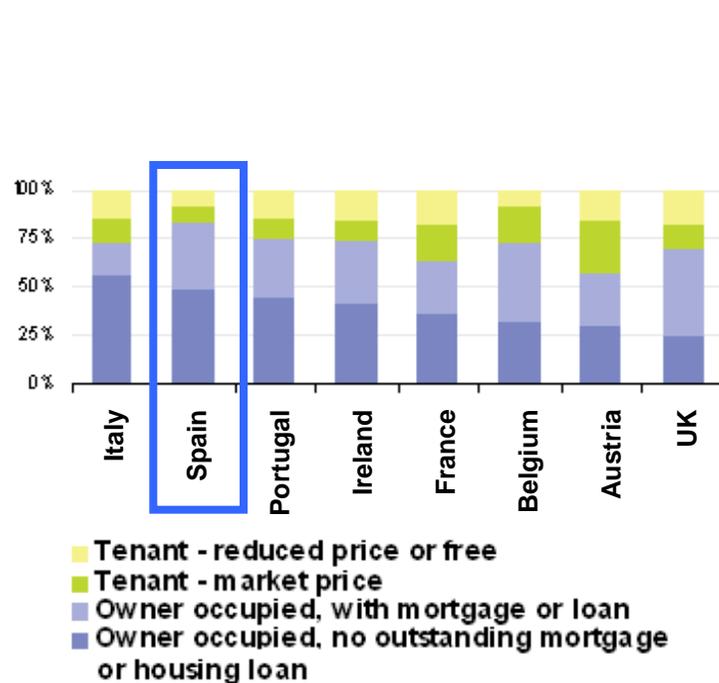
# Housing sector in Spain: main features

- High proportion of ownership 85% vs. rent 13%.
- Market duality: main residence 67% vs. vacational housing 33%

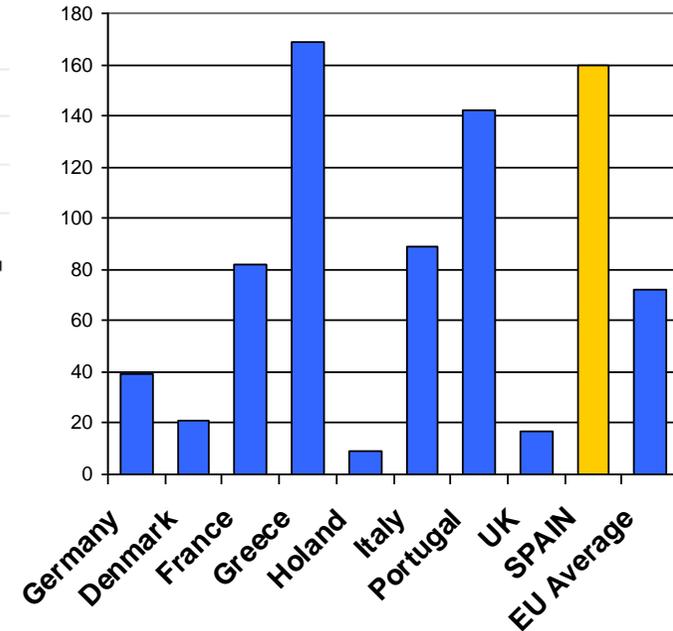
Homeownership rate (%)



Population by tenure status 2009 (%)



Empty or secondary housing (per 1.000 hab)



Source: Global Financial Stability Report IMF April 2011

Source: Eurostat 2009

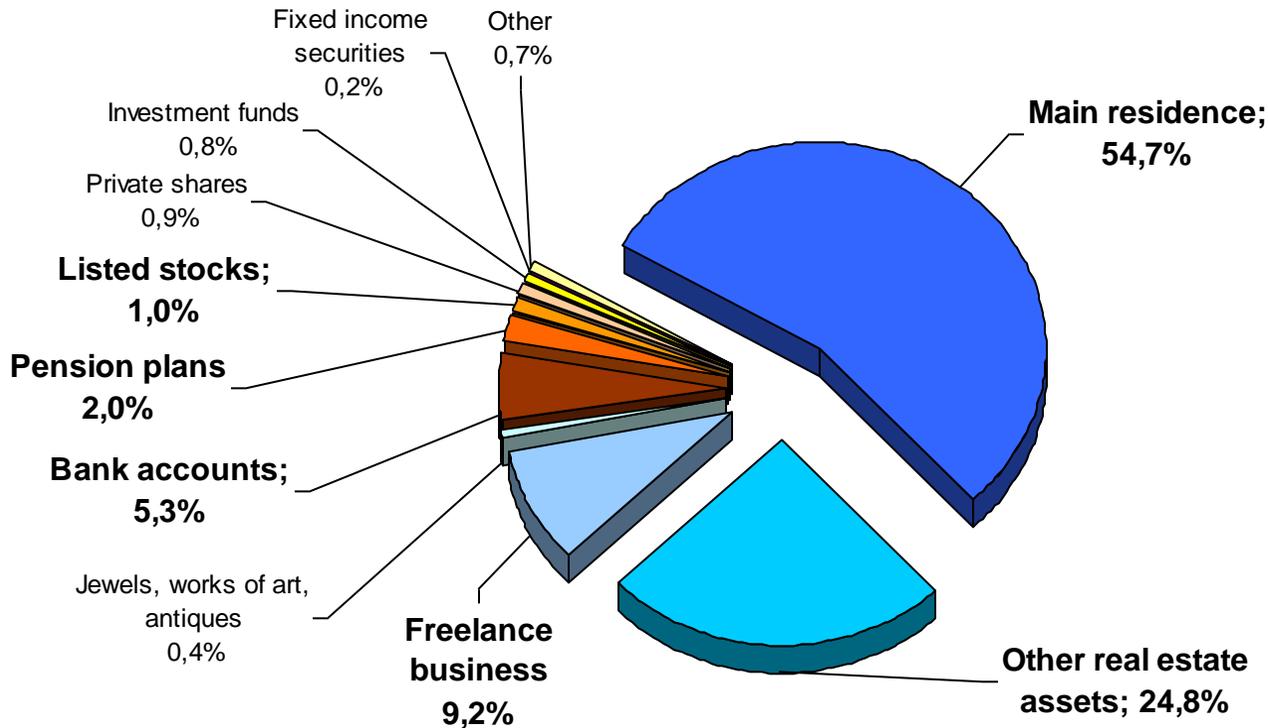
Source: Eurostat 2004



# Housing sector in Spain: main features

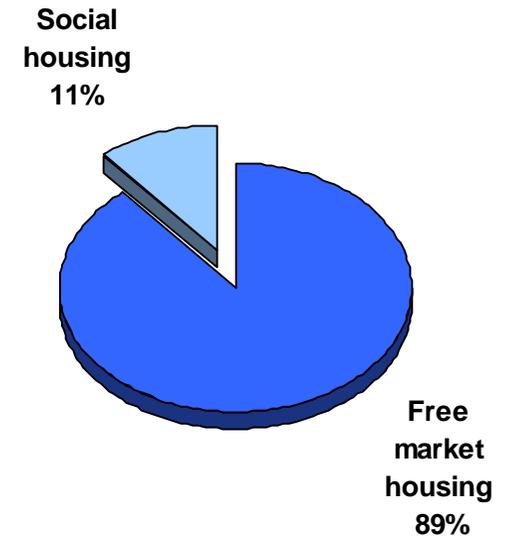
- Preference for real estate assets: 80% of total assets.
- Social housing ratio below EU average : 11% vs 16%

Value distribution of total household assets



Source: Bank of Spain, Family Finance Survey 2008

Proportion of social housing 2008



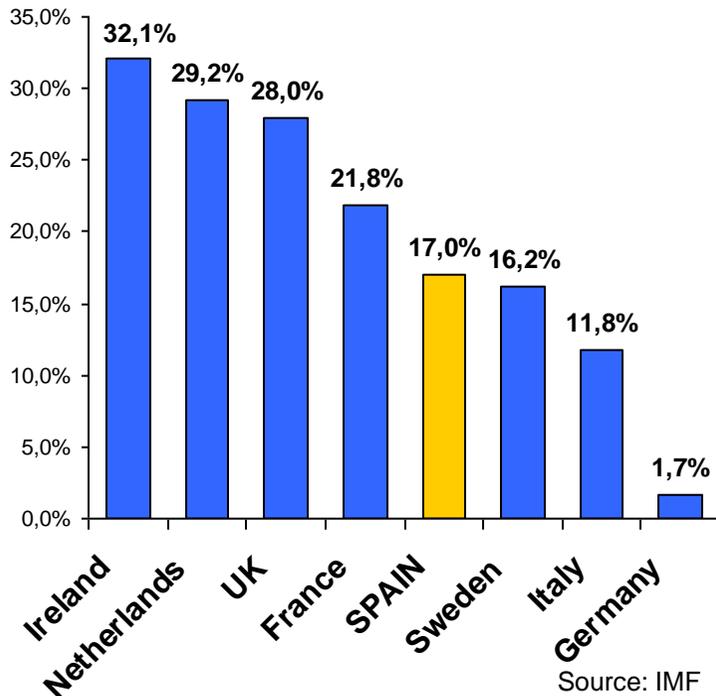
Source: Ministry of Public Works



# Price overvaluation

- Economic literature available estimates a range of overvaluation degree between 13% to 30%
- Following IMF World Economic Outlook (April 2008), the growth of house prices in Spain showed a lower overvaluation component than in other countries, and was largely based on fundamentals:
  - ✓ Demographic and socioeconomic factors (immigration, household formation)
  - ✓ Permanent real interest rate reduction effect, implying a permanent increase in asset valuations

House price gaps IMF (2008),



Studies estimating the price overvaluation in the Spanish housing market

Author and year	Year of estimation	Estimated overvaluation
BBVA - Balmaseda <i>et al.</i> (2002)	2002	28%
Bank of Spain - Ayuso and Restoy (2003)	2002	20%
Bank of Spain - Martínez-Pagés and Maza (2003)	2002	8-17%
IMF (2004)	2003	20%
IMF (2005)	2004	20-30%
OECD (2005)	2004	13%
ECB (2006)	2004	30%
Ayuso and Restoy (2006)	2004	29%
IMF (2008)	2007	20%
FEDEA - Sosvilla (2008)	2007	7-15%



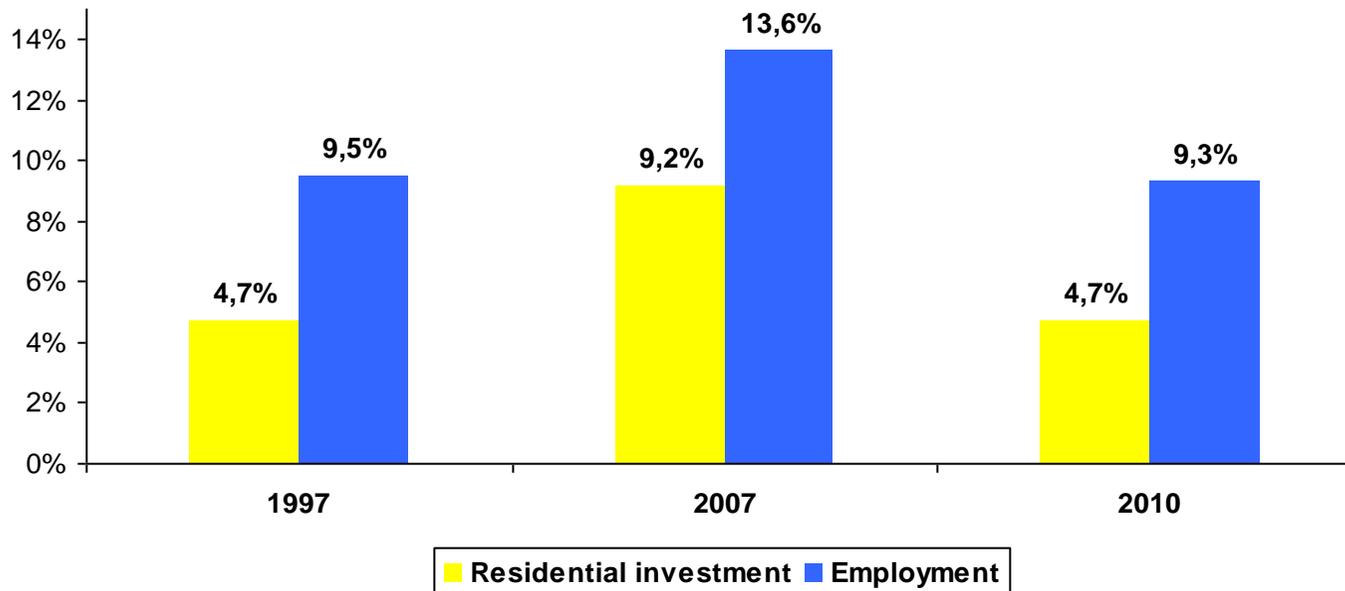
**The housing sector has  
already got through most  
part of the adjustment**



# Construction activity shows a correction phase

- Construction activity is still in the process of downward adjustment.
- At the end of 2010 residential investment reached a 45% cumulative decrease from its maximum.

Relative size of the construction sector  
(Employment over total employment and residential investment over GDP)

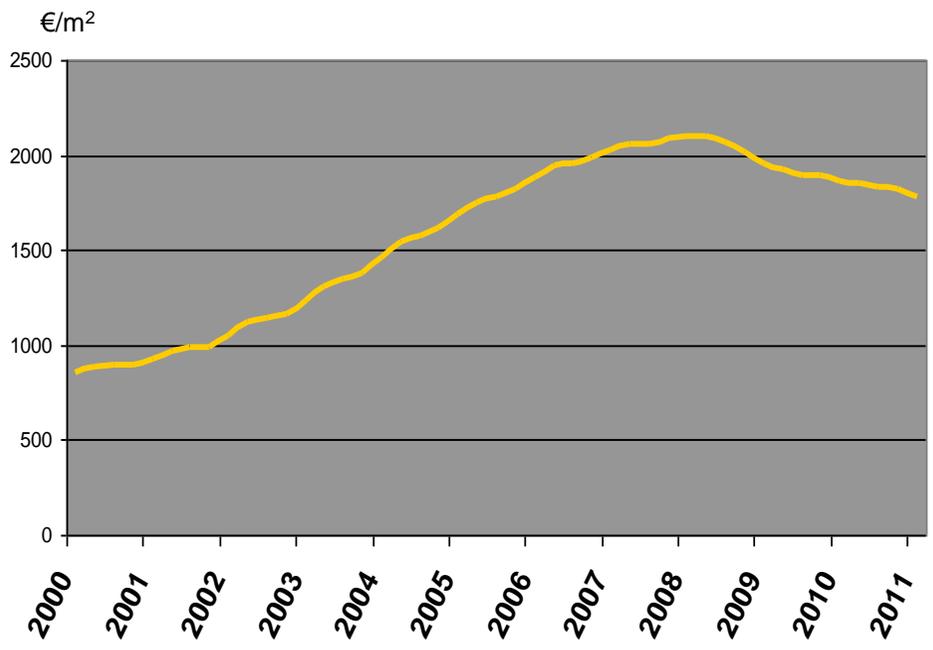


# Price adjustment

Housing prices have fallen over 15.4% from its maximum in the 1st Q 2008, and over 20% in real terms.

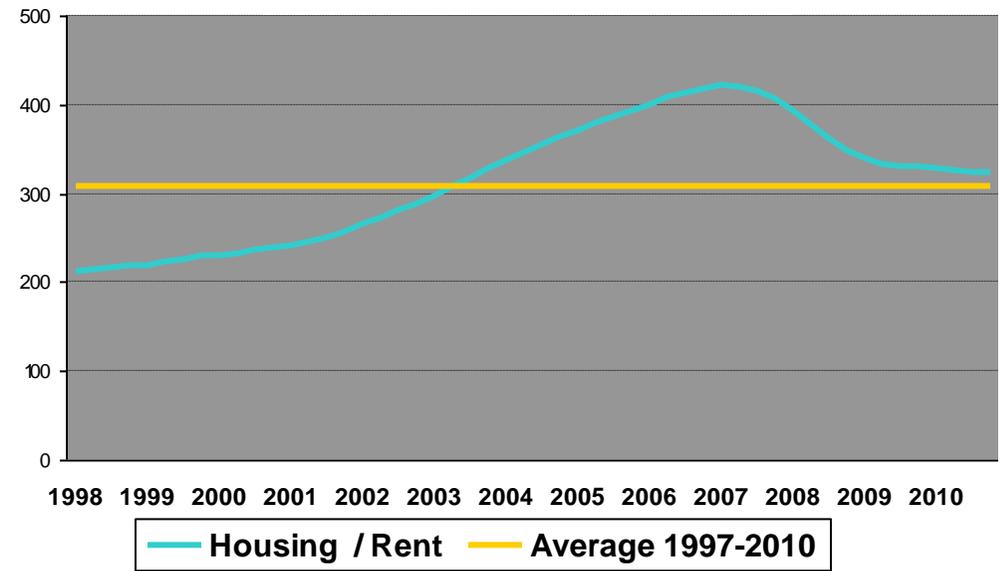
Rent to housing prices ratio shows narrow margin for additional adjustment (3% to 7%)

Housing price variation (Base 1995)



Source: Ministry of Public Works

Rent to housing prices ratio

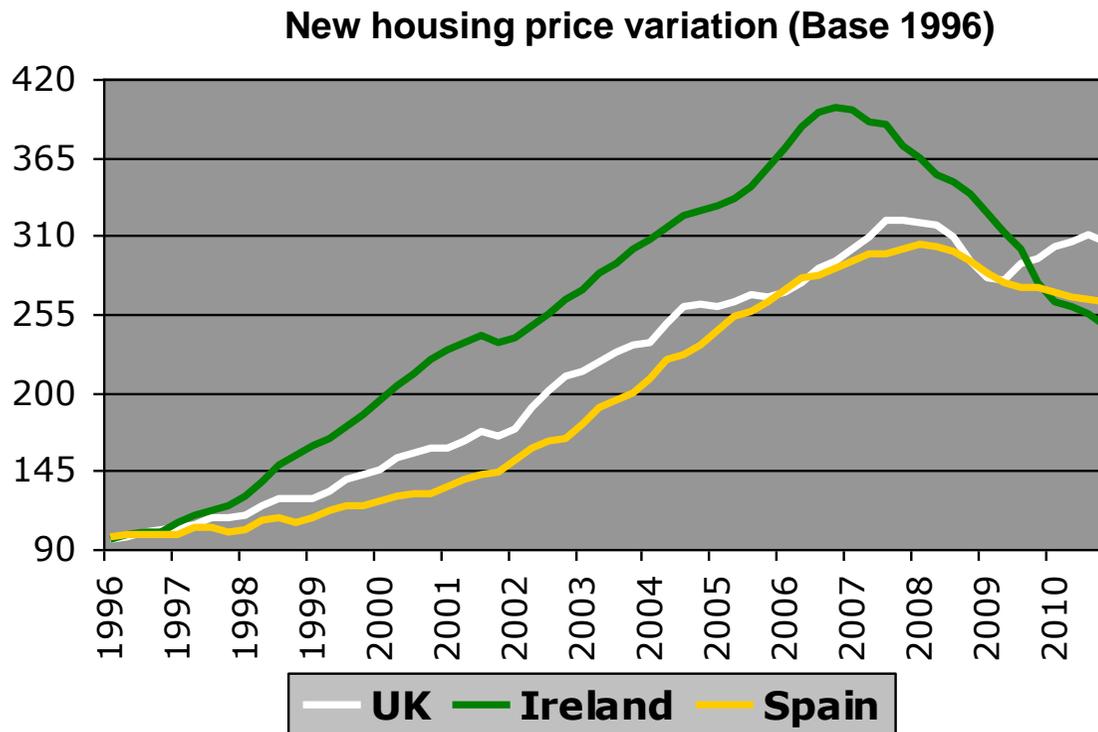


Source: Ministry of Public Works and Ministry of Economy and Finance



# International comparison: deeper adjustment in Spain

- House prices rose less in Spain than in other countries, but the difference in the decrease from the peaks reached is smaller.
- Thus, comparatively, the degree of the adjustment in Spain is being harder than in other countries.

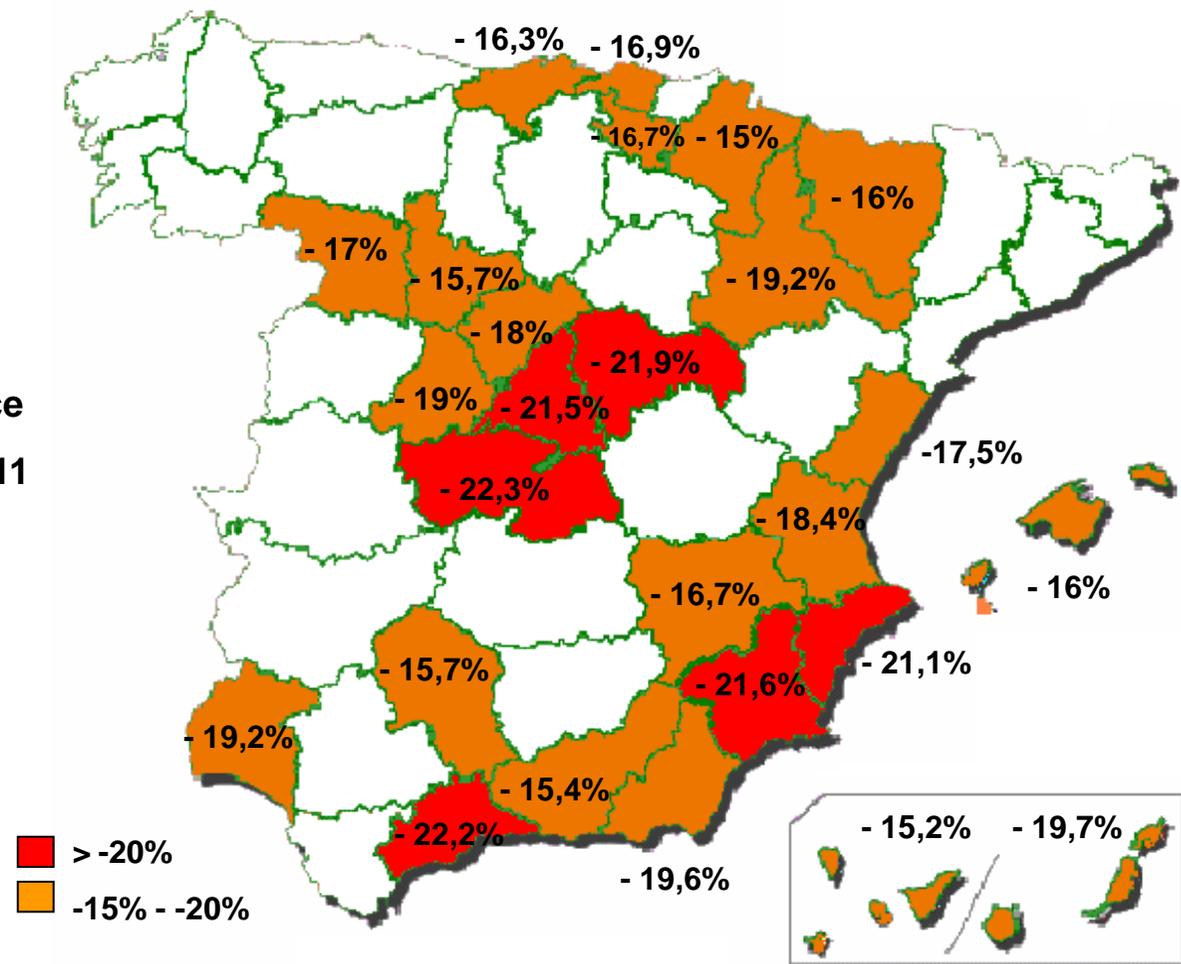


Source: ESRI, Ministry of Public Works and Department for Communities and Local Government.

# Price adjustment: regional analysis

- The national average may not be noteworthy, as housing market requires regional analysis

**Housing price decrease per province**  
**1st Q 2008 – 1st Q 2011**



Source: Ministry of Public Works

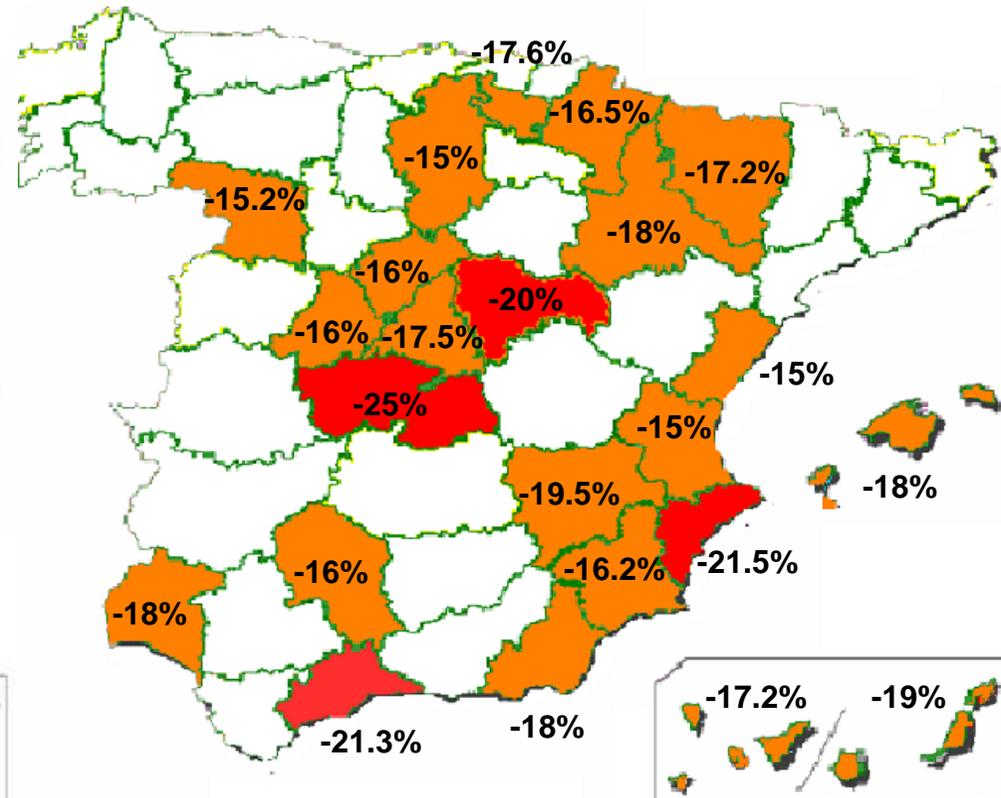
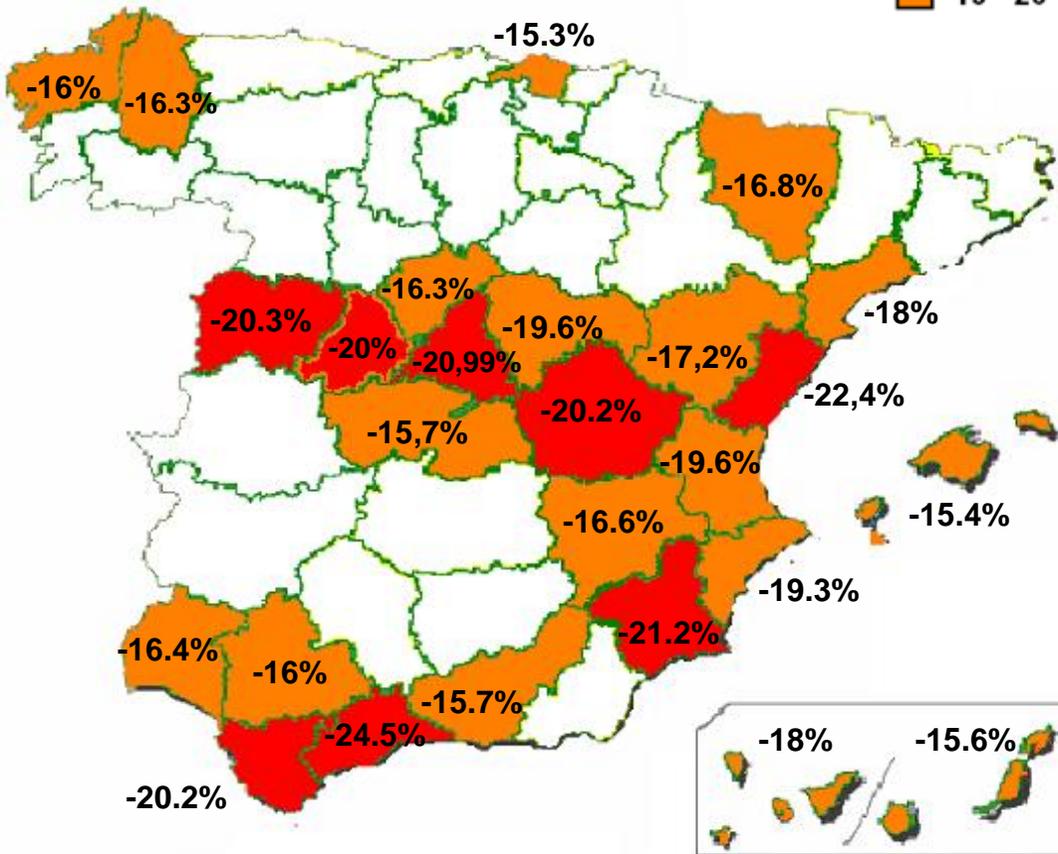


## Provinces where price drop from the peak is above the average

Price adjustment: new housing  
(1st Q 2008 – 4th Q 2010)

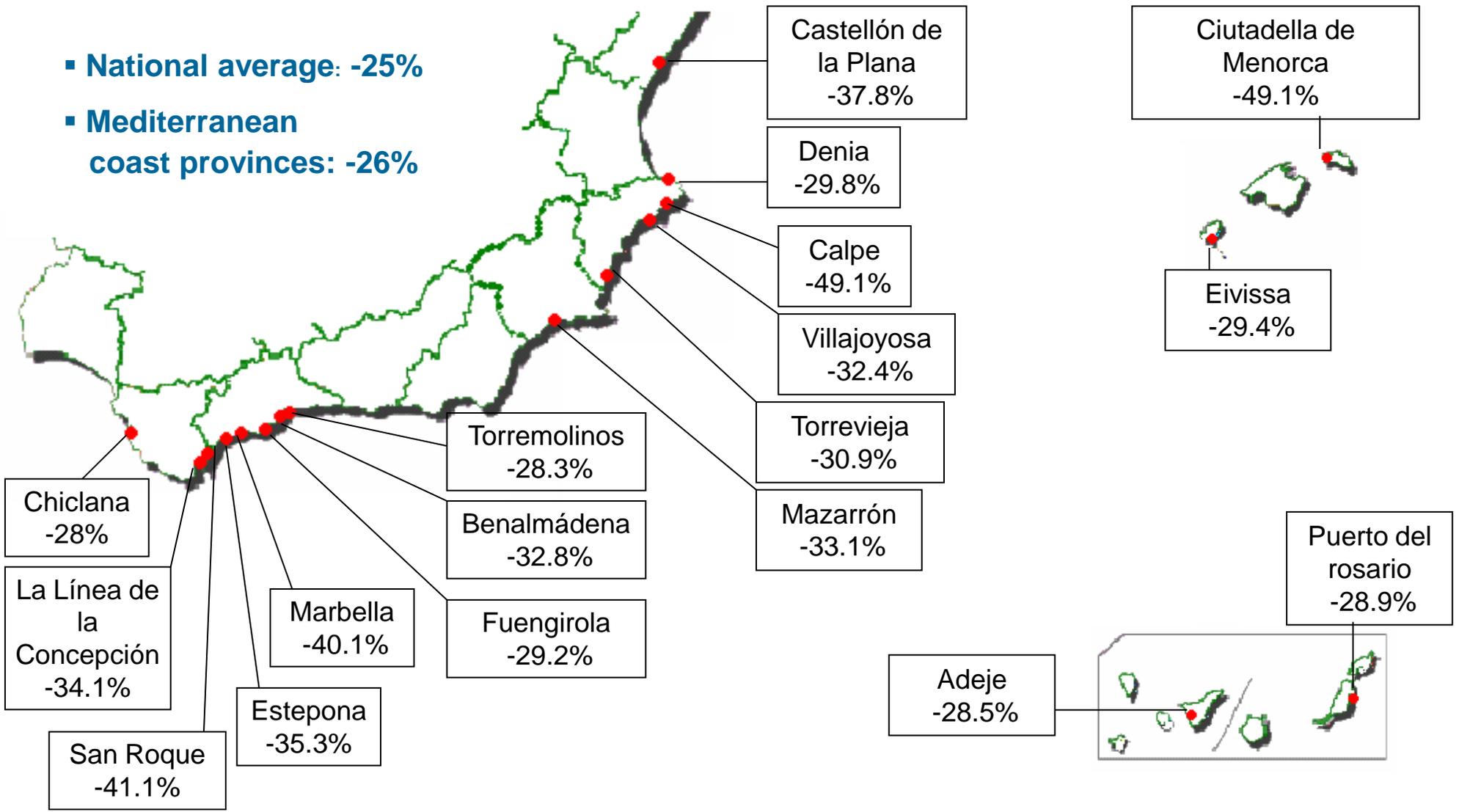


Price adjustment: second-hand housing  
(1st Q 2008 – 4th Q 2010)



# Municipalities over 25,000 hab. with higher new housing price drop

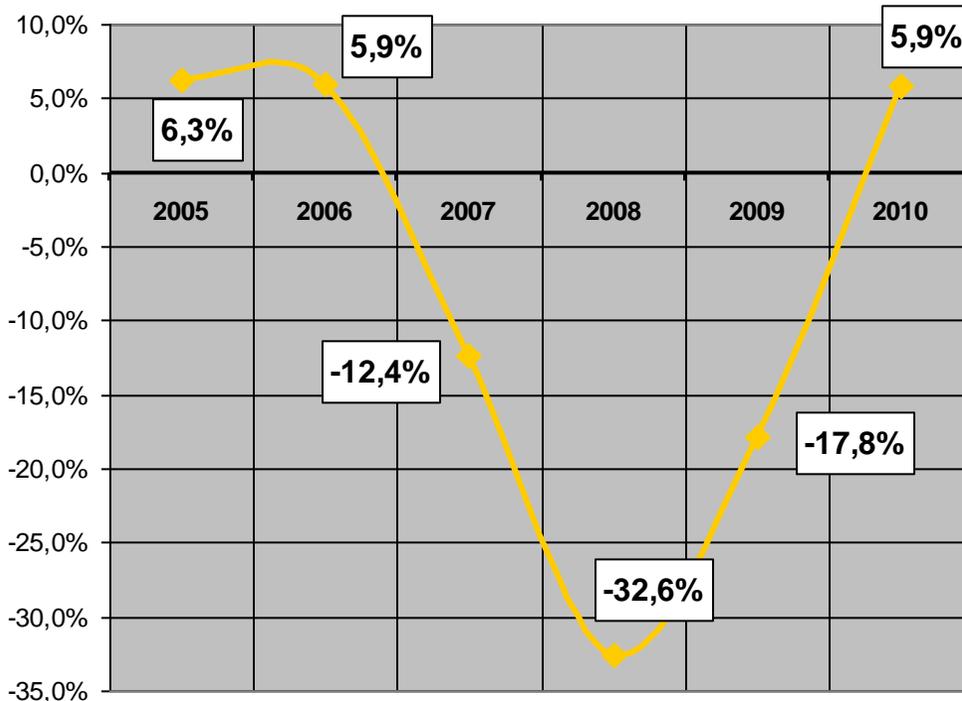
- National average: -25%
- Mediterranean coast provinces: -26%



# Housing market tends to stabilization

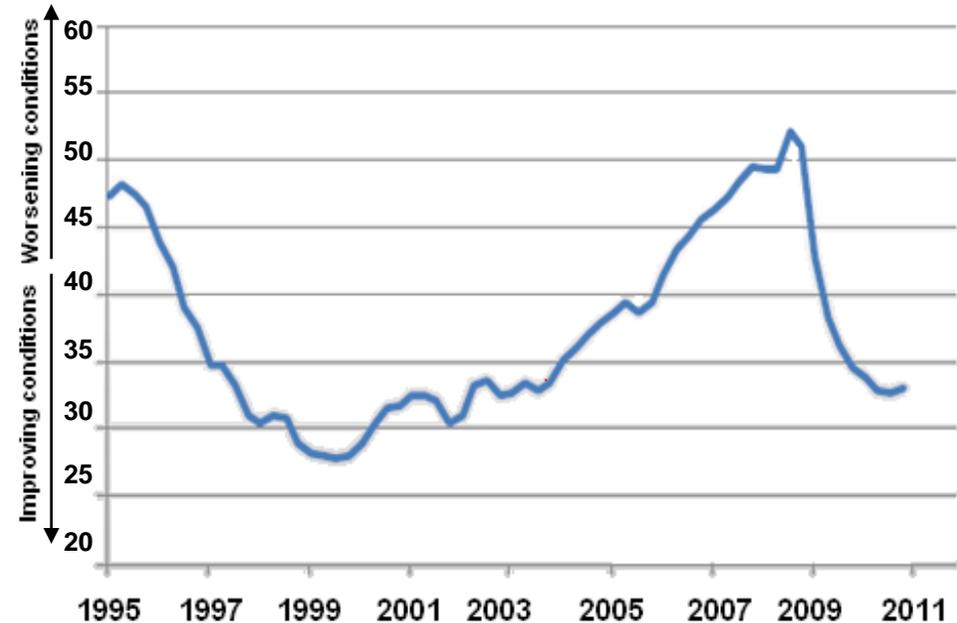
- The number of housing transactions (491,000) tends to recovery, partly due to fiscal incentives, partly because affordability indicators are once again at historically low levels.
- Foreign demand is starting to react to price signals:  $\Delta$  20% acquisition by expats resident in Spain in 2010.

Y-o-y housing transactions variation (% Base 1996)



Source: Ministry of Public Works

Affordability indicator (% of disposable income)



Source: Bank of Spain

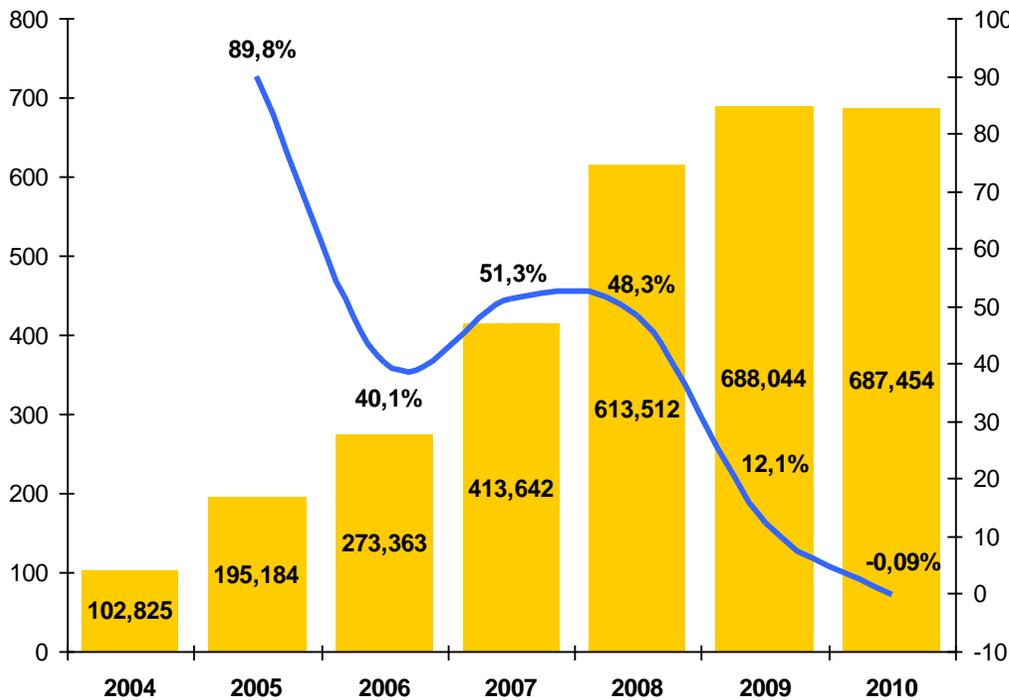


# Stock reduction

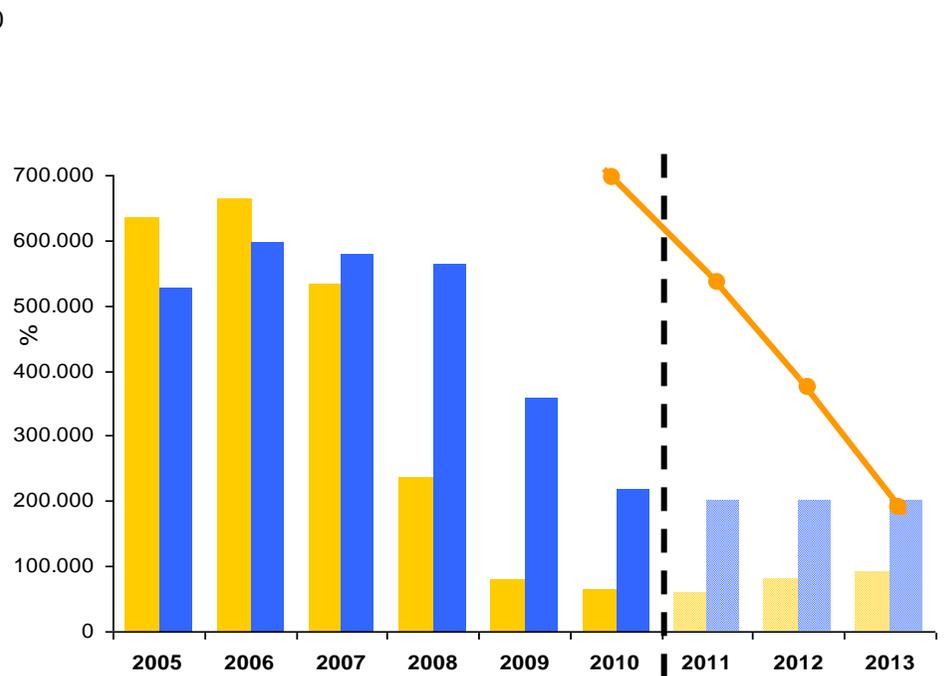
- Stock of unsold houses has started shrinking in 2010

Net stock and stock variation

■ Net stock      — %Y-o-y variation



Stock reduction path



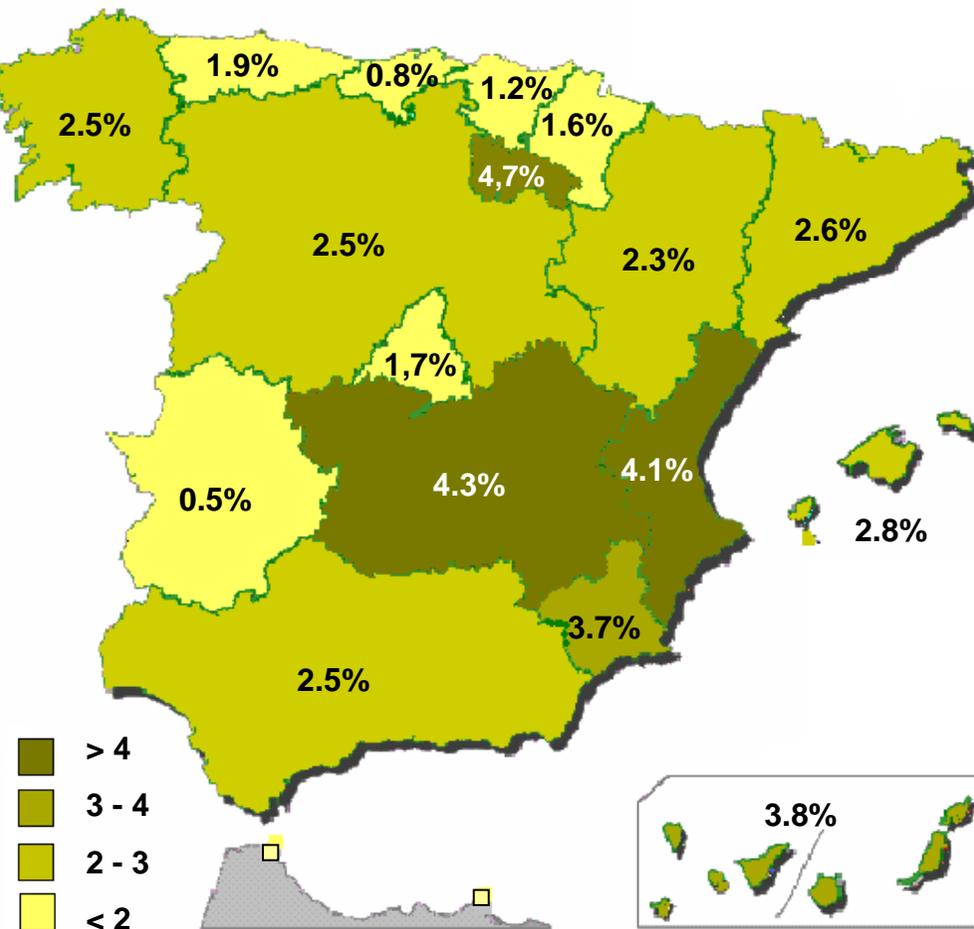
■ Started housing construction    ■ Finished housing construction    — Stock

Source: Ministry of Public Works

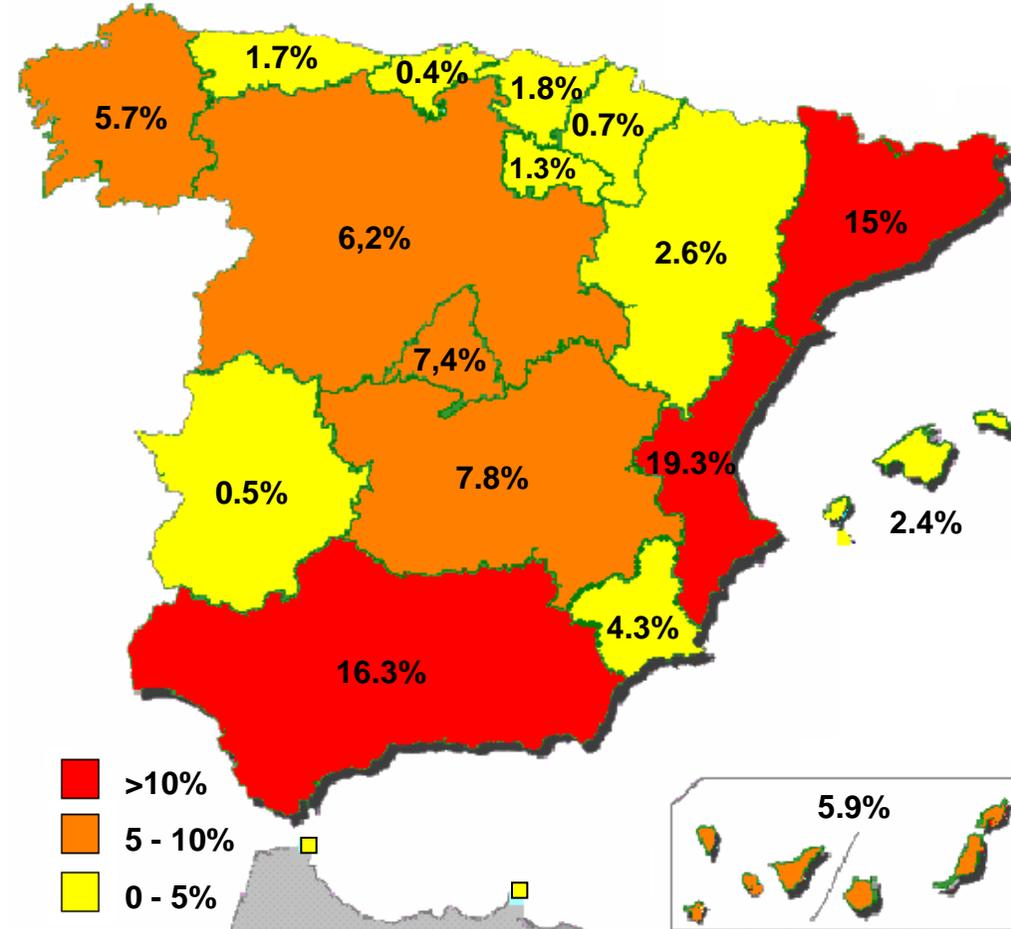


# Housing Stock: regional distribution

% stock / number of total houses



% stock / total stock



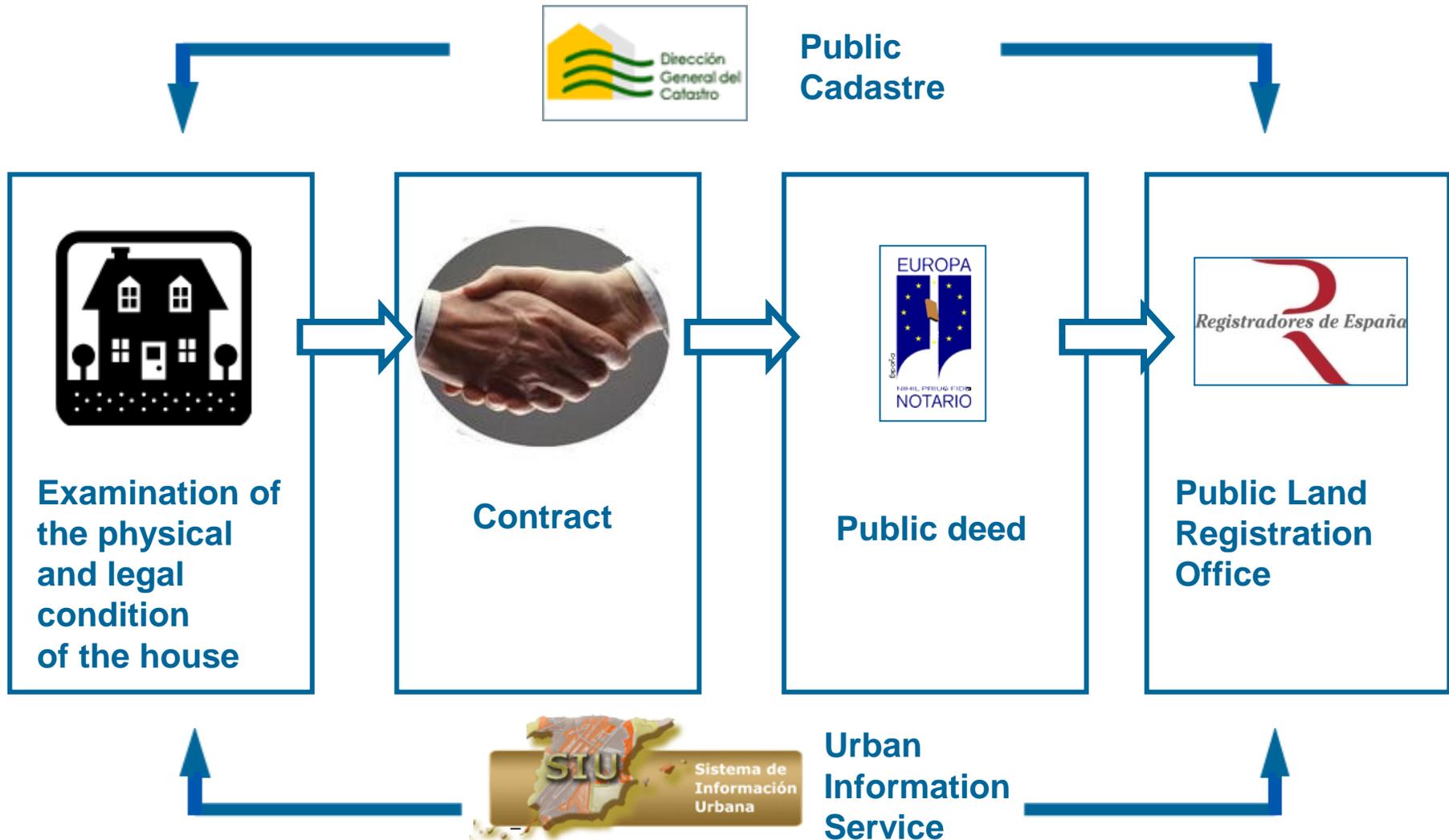
Source: Ministry of Public Works



# Investing in spanish real estate sector is safe



# Strong legal and institutional framework





# Legal security

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- **Additional measures to consolidate legal security:**
  - **Compulsory town planning information provided by the Public Land Registration Office**
  - **Public access to property information in English language through UK embassy in Spain**
  - **Creation of the figure of the Town Planning and Environment Public Prosecutor**
  - **Creation of specific police departments against urban development delinquency**
  - **Land Use Act to fight against urban development corruption**
  - **Penal Code reform to prosecute urban development corruption**





# Thank you for your attention

[www.fomento.gob.es/spanishrealestate](http://www.fomento.gob.es/spanishrealestate)

