



**GOBIERNO
DE ESPAÑA**

**MINISTERIO
DE FOMENTO**

The adjustment of the Spanish Real Estate Sector

January 2012



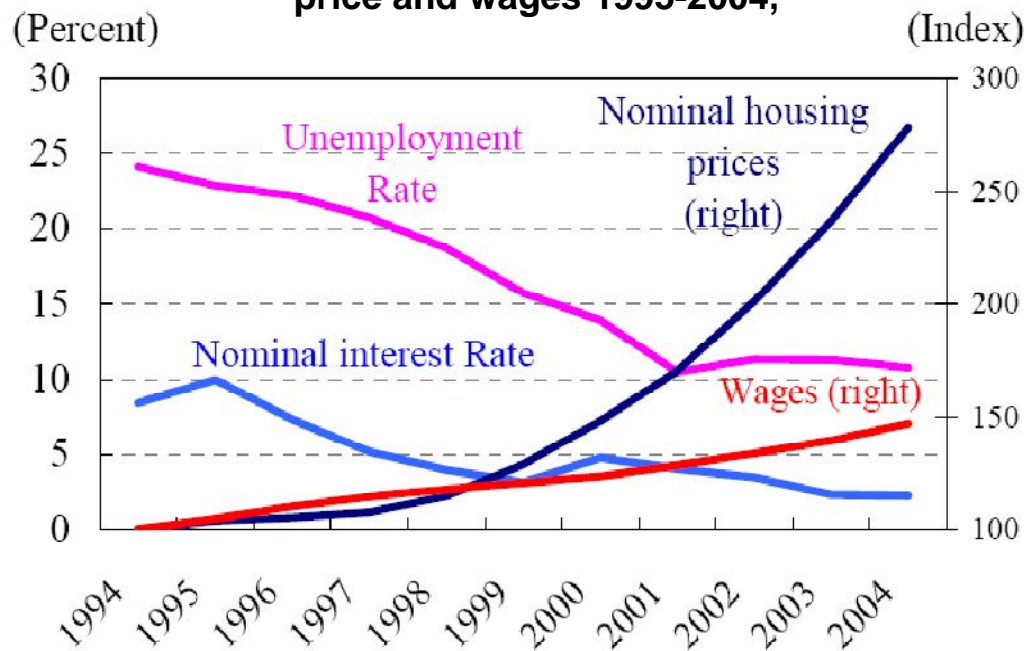
The Spanish housing sector: facts and features



Price increase in Spain 1996-2008: fundamentals

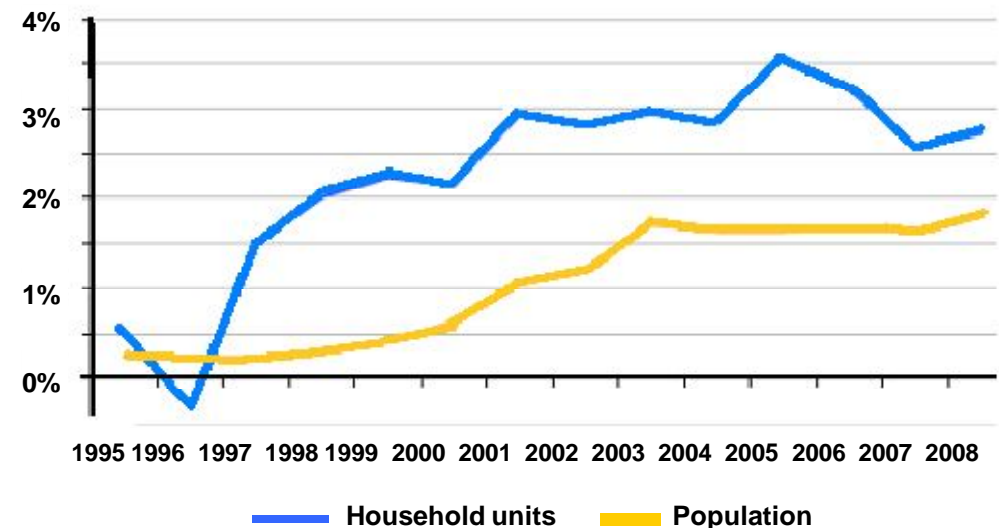
- Favourable macroeconomic environment. GDP growth over EU average
- Substantial population increase and socioeconomic factors (immigration, household formation)
- Permanent real interest rate reduction effect, implying a permanent increase in asset valuations

Macroeconomic performance, housing price and wages 1995-2004,



Source: Bank of Spain

Number of households and population in Spain (Annual growth rates)



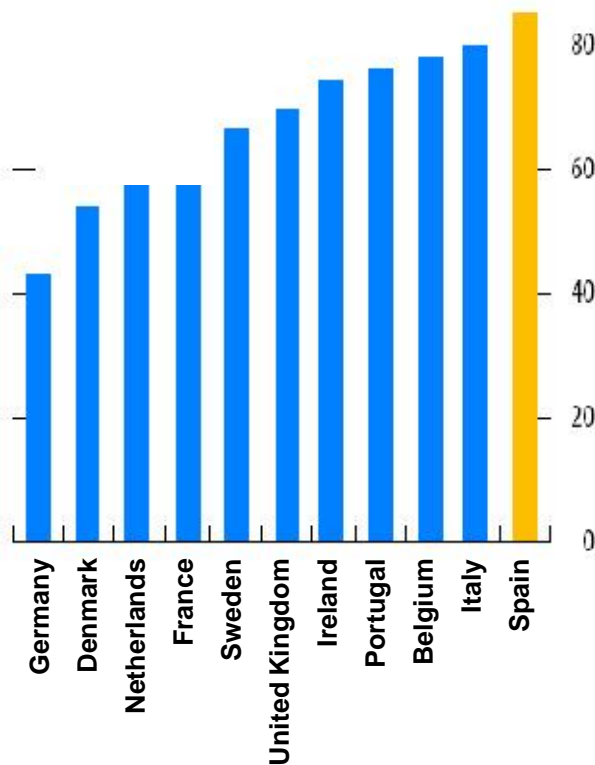
Source: Statistics National Institute



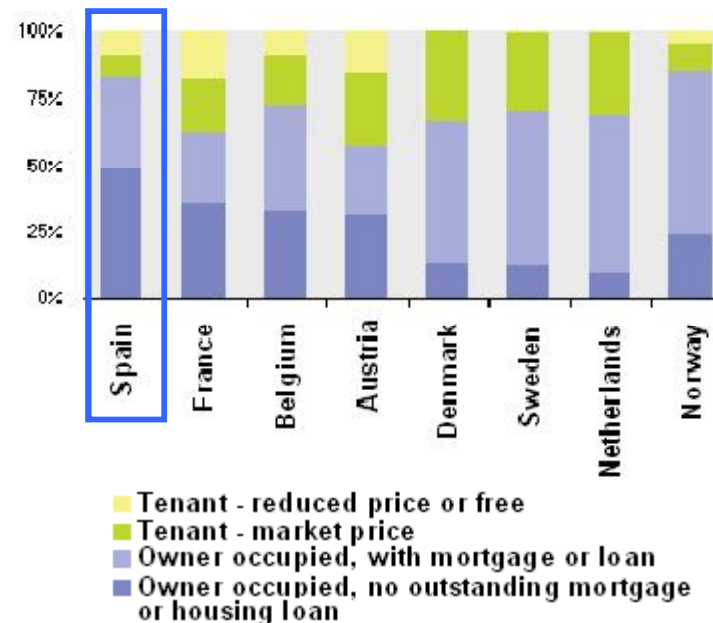
Housing sector in Spain: main features

- High proportion of ownership 81% vs. rent 17%.
- Market duality: main residence 67% vs. vacational housing 33%

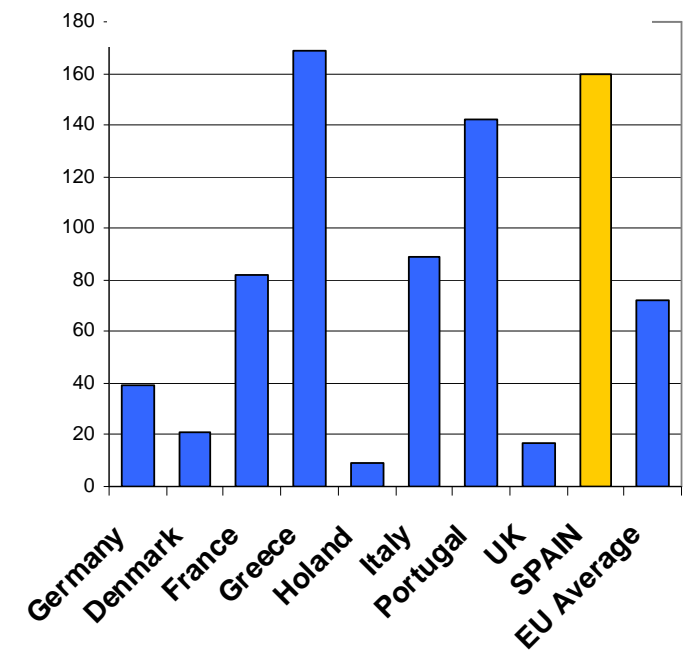
Homeownership rate (%)



Population by tenure status 2009 (%)



Secondary or vacational housing (per 1.000 hab)



Source: Global Financial Stability Report IMF April 2011

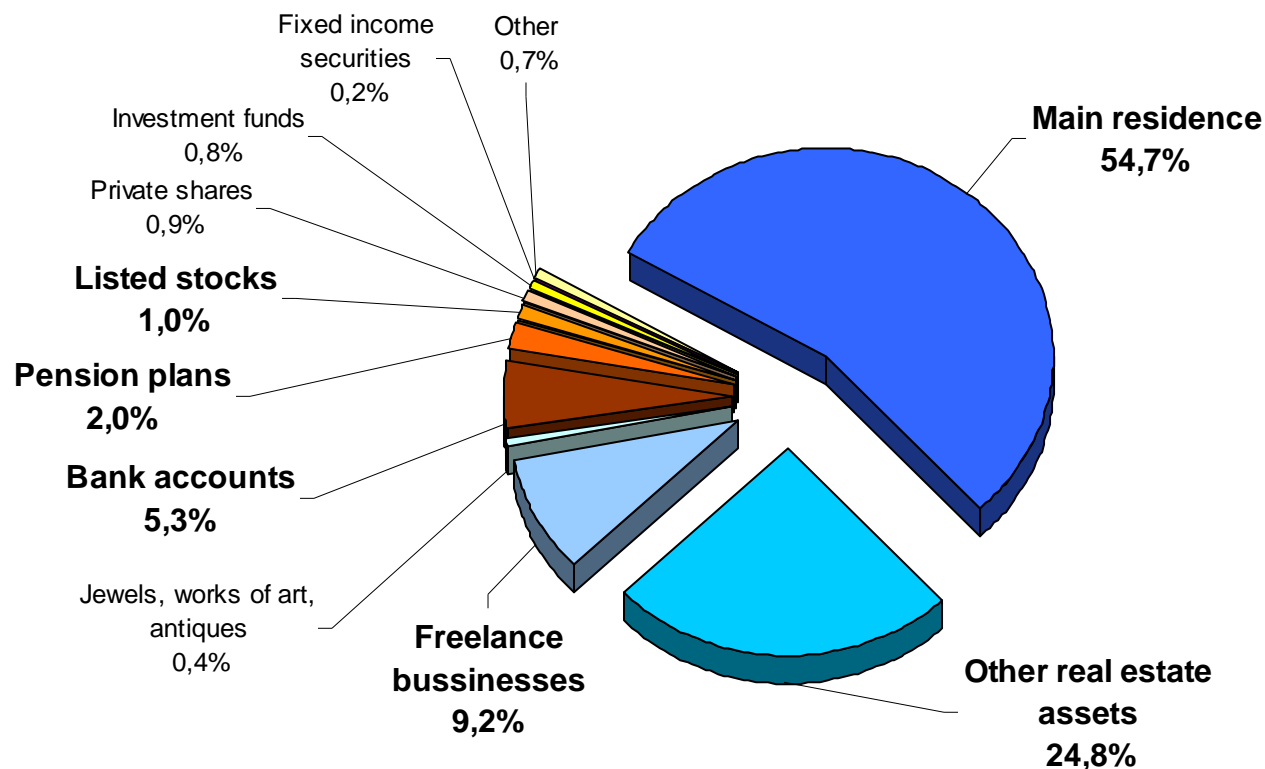
Source: Eurostat 2009

Source: Eurostat 2004

Housing sector in Spain: main features

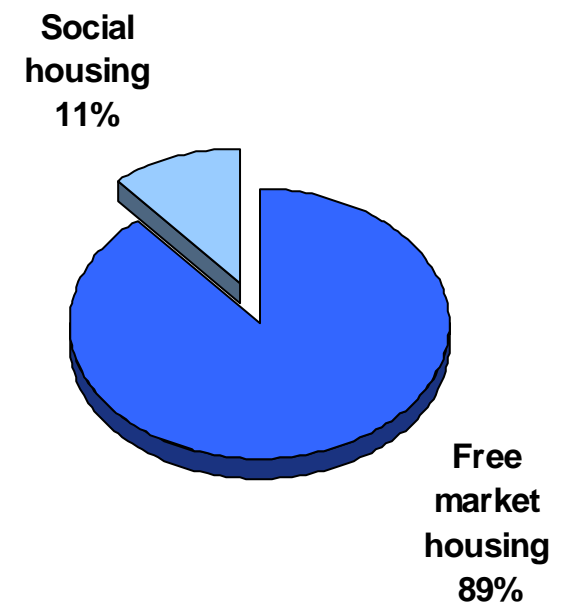
- Preference for real estate assets: 80% of total assets.
- Social housing ratio below EU average : 11% vs 16%

Value distribution of total household assets



Source: Bank of Spain, Family Finance Survey 2008

Proportion of social housing 2008

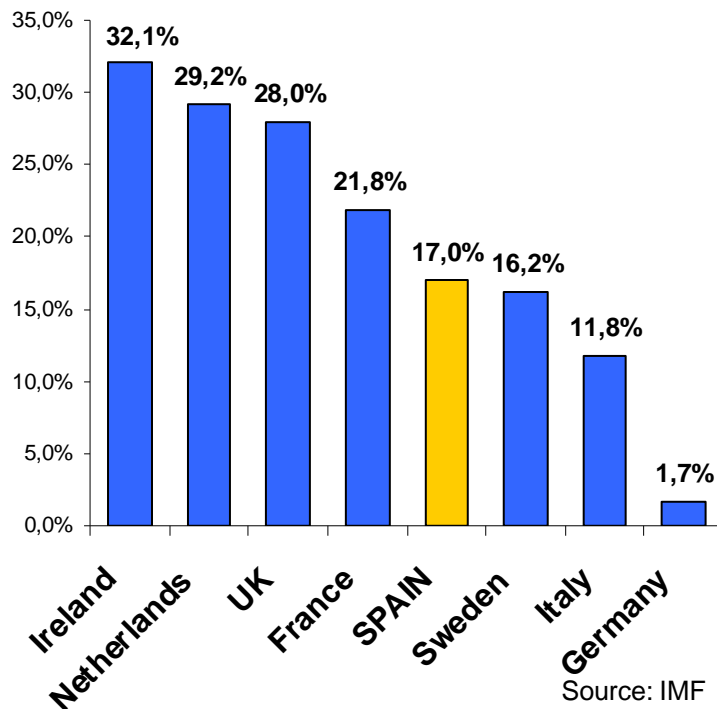


Source: Ministry of Public Works

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%

Source: OECD Economic Surveys: Spain 2010



**The housing sector has
experienced a strong
adjustment**

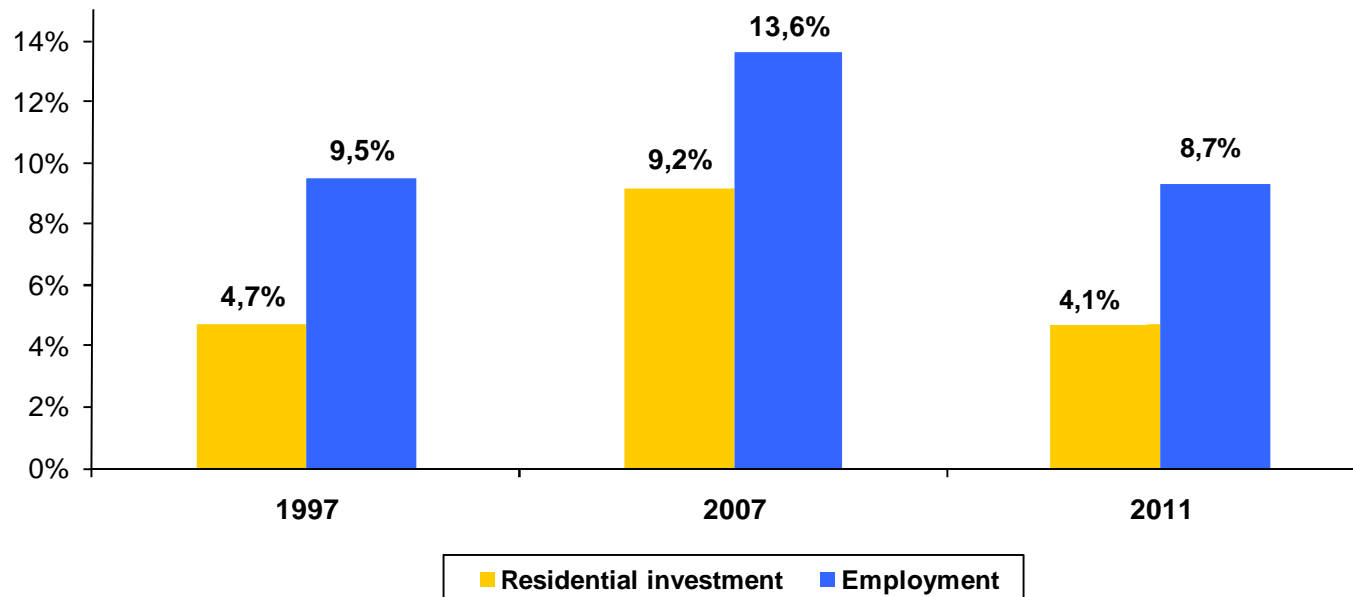


Construction activity shows a correction phase

- Construction activity is still in the process of downward adjustment.
- At the middle of 2011 residential investment reached a 54% cumulative decrease from its maximum.

Relative size of the construction sector

(Employment over total employment and residential investment over GDP)



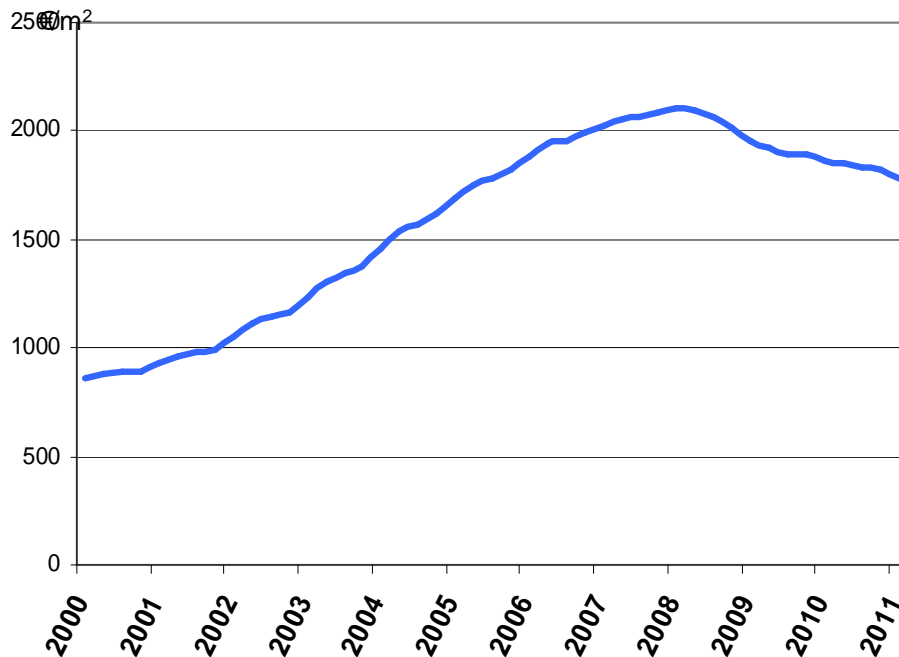
SOURCE: STATISTICS NATIONAL INSTITUTE INE



Price adjustment

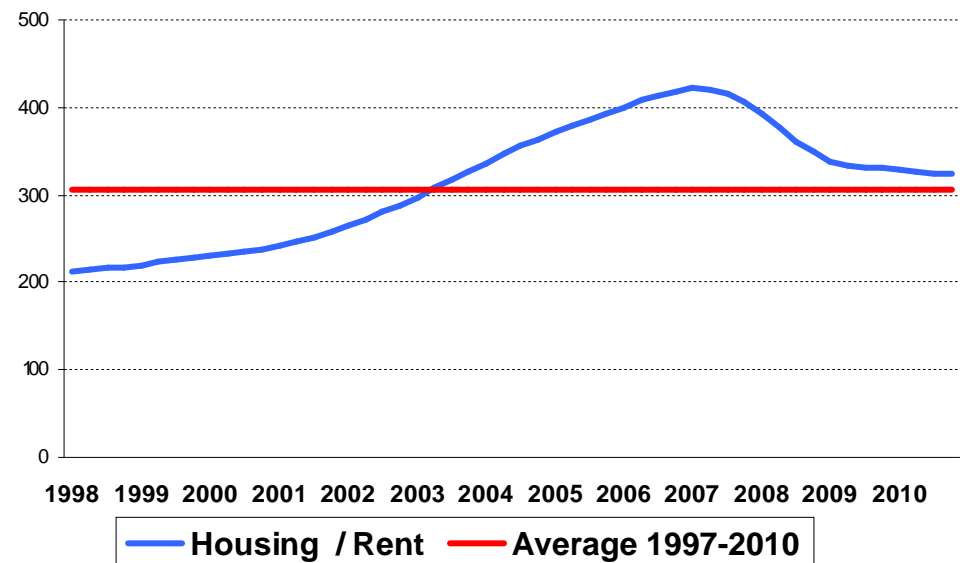
- Housing prices have fallen over 19% from its maximum in the 1st Q 2008, and over 23% in real terms.
- Rent to housing prices ratio shows narrow margin for additional adjustment

Housing price variation (Base 1995)



Source: Ministry of Public Works

Rent to housing prices ratio



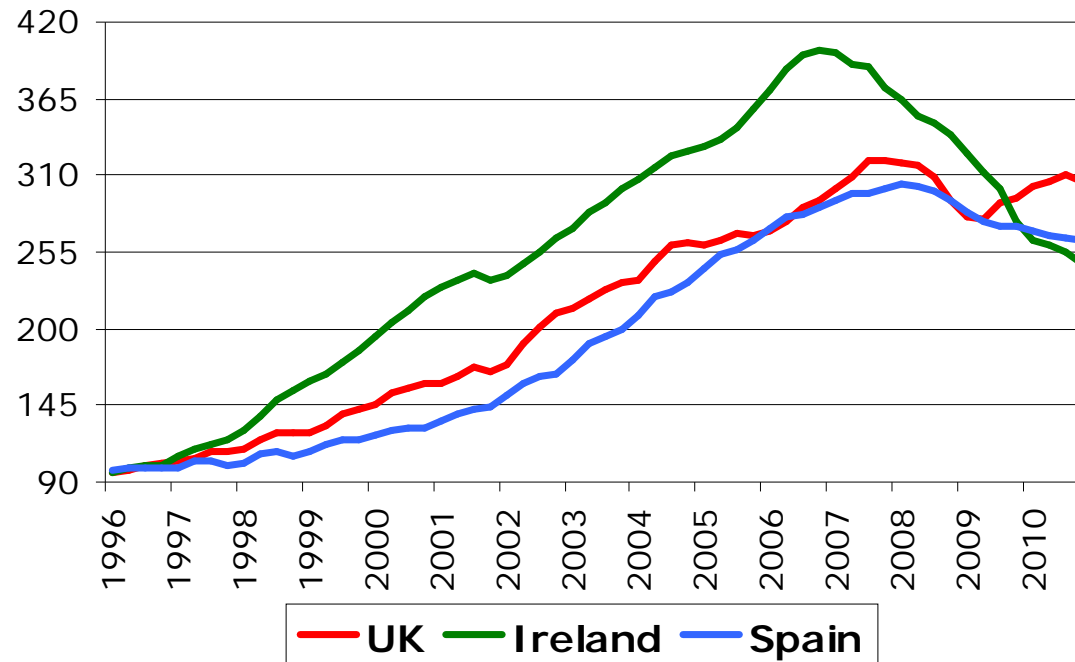
Source: Ministry of Public Works and Ministry of Economy and Finance



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.

New housing price variation (Base 1996)

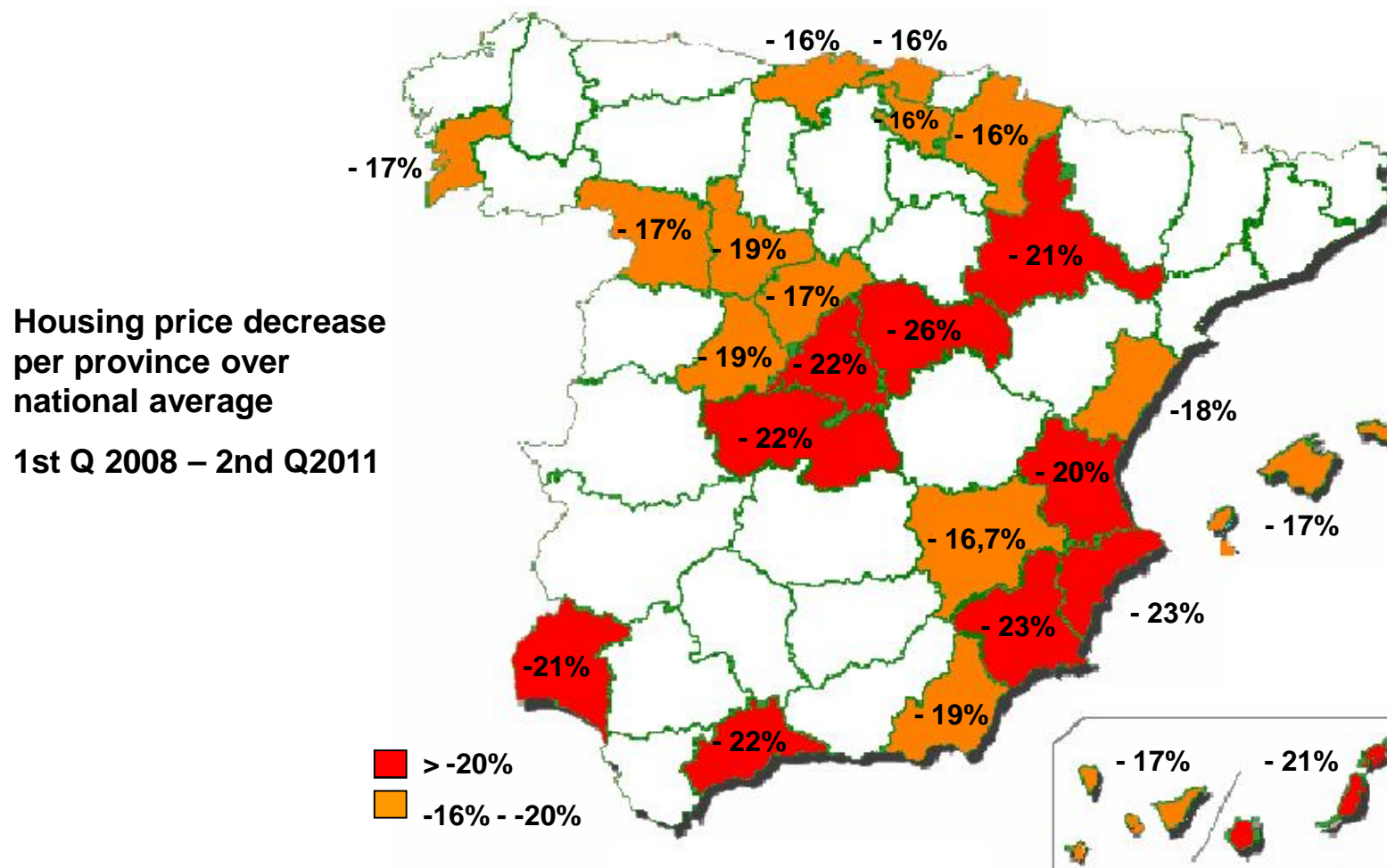


Source: ESRI, Ministerio de Fomento and Department for Communities and Local Government.



Price adjustment: regional analysis

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



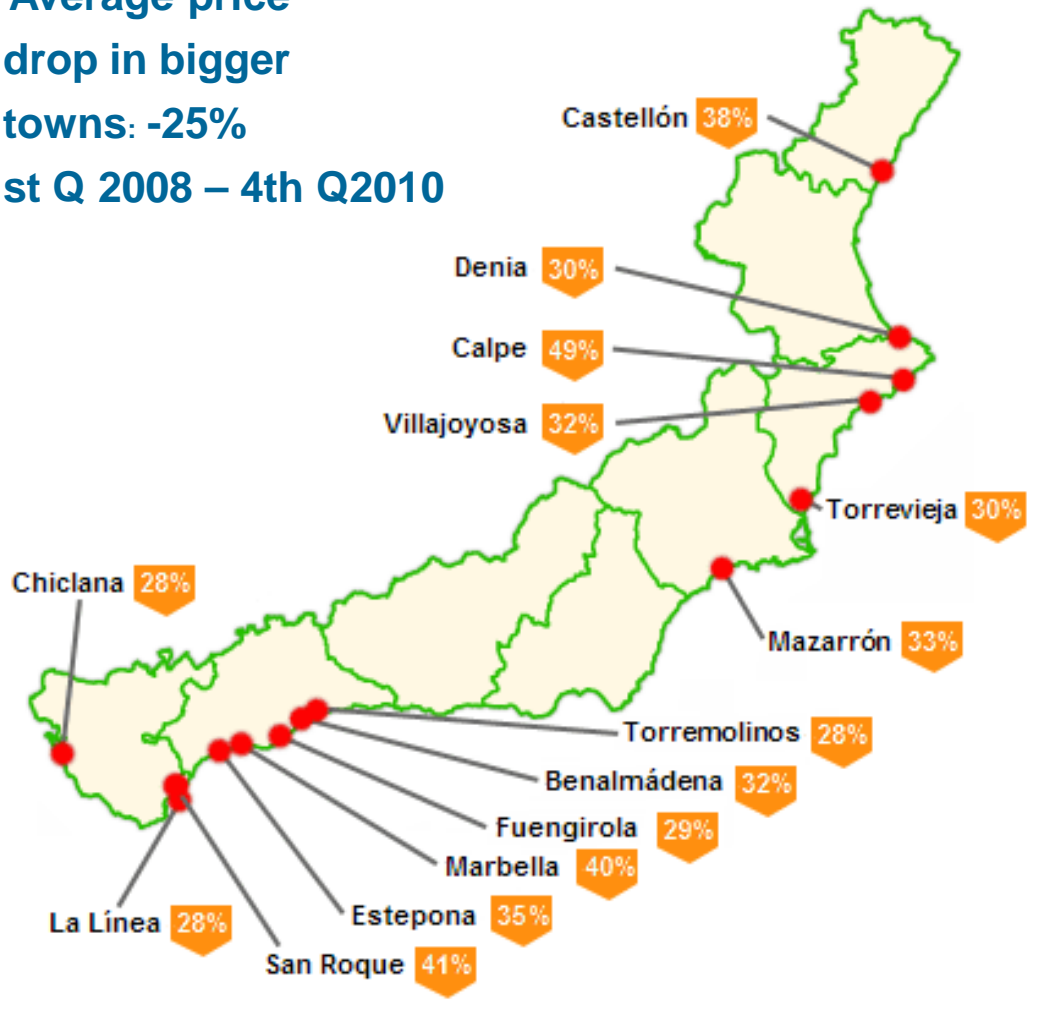
Source: Ministry of Public Works



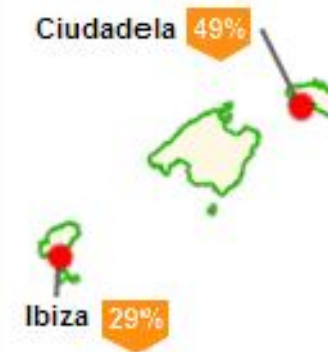
Municipalities over 25.000 hab. with higher new housing price drop

- Average price drop in bigger towns: -25%

1st Q 2008 – 4th Q 2010



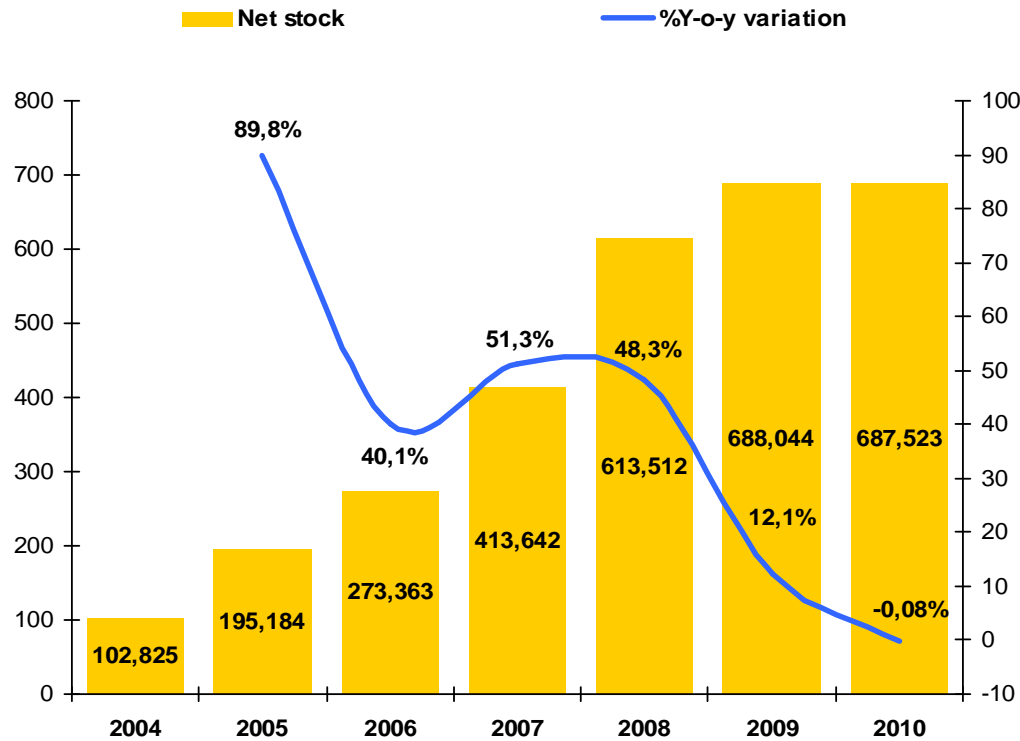
Price drop from the peak



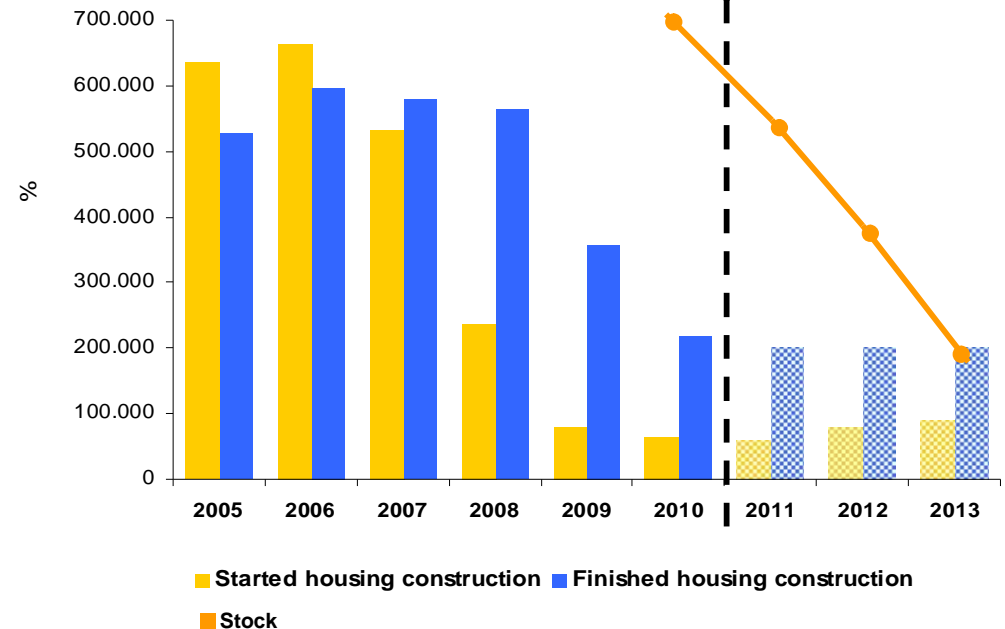
Stock reduction

- Stock of unsold houses has started shrinking in 2010

Net stock and stock variation



Stock reduction path



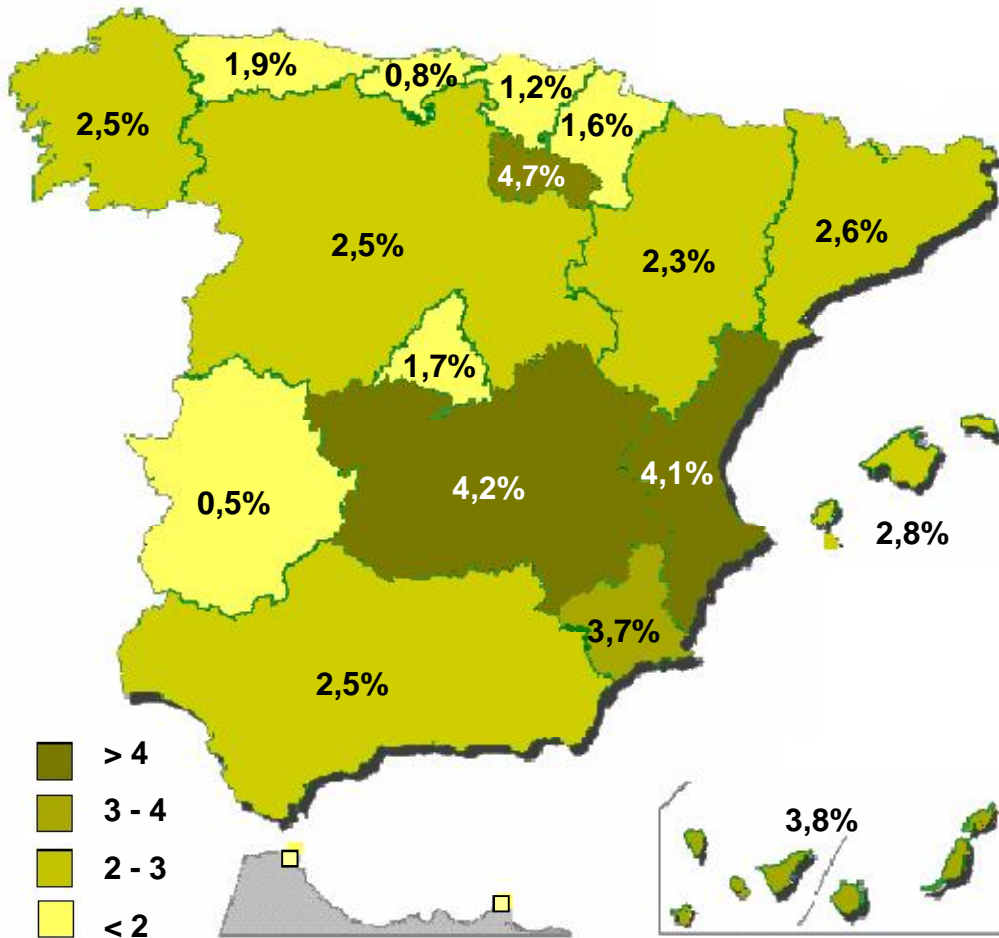
Source: Ministry of Public Works



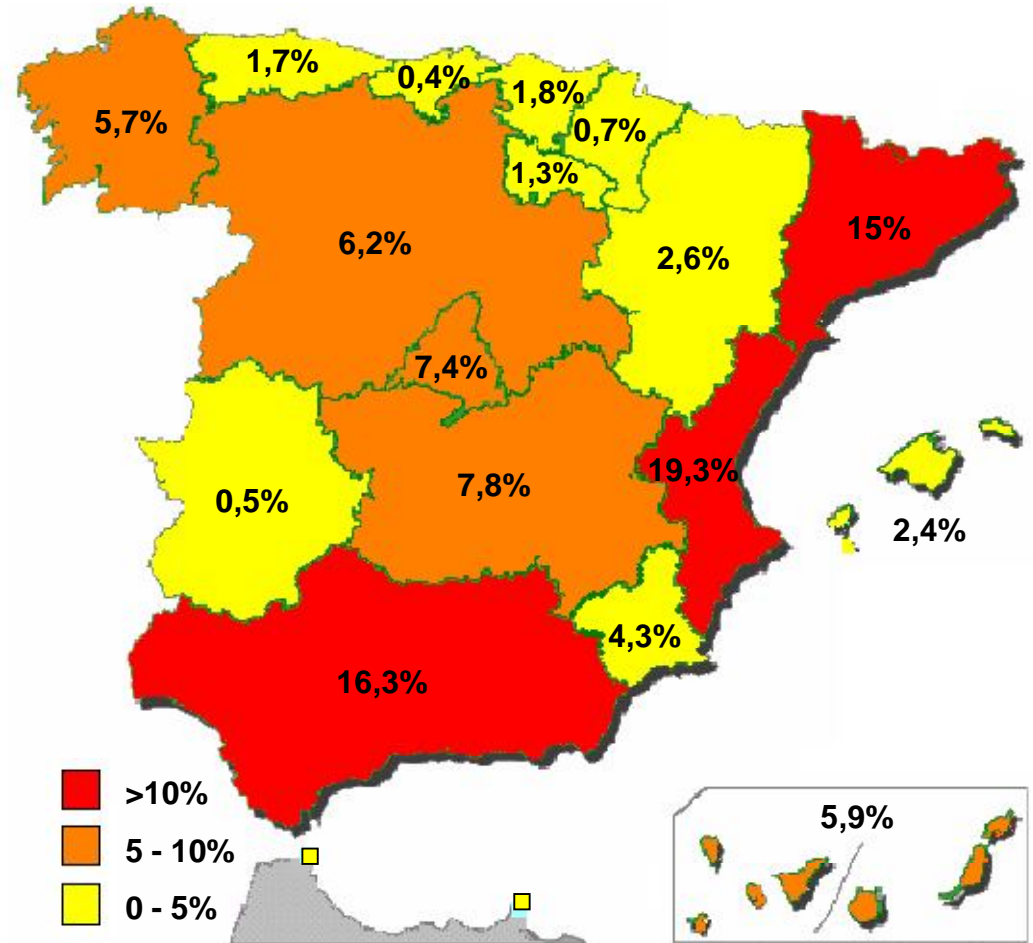


Housing Stock: regional distribution

% stock / number of total houses



% stock / total stock



Source: Ministry of Public Works





Thank you for your attention

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