

Presentation of *Real Estate Watch* report

BBVA's Economic Research Department believes that real estate market needs more time to stabilize

- **BBVA's Economic Research Department believes that the slow pace of economic recovery and the scale of job losses are causing people to put off long term investment decisions, curtailing demand for housing**
- **The Spanish real estate sector, unlike most other European nations, is significantly out of balance in terms of volumes, and less so on price**
- **According to BBVA's Economic Research Department, the housing stock could begin to trend downwards from 1Q10 to reach 2005 levels by the end of 2012**
- **BBVA's Economic Research Department forecasts point to property price corrections of around 10% in 2009 and 12% in 2010 in nominal terms. In all, prices are expected to decline by around 30% from highs**
- **The rental market is key to the absorption of unsold housing developments**
- **According to BBVA's Economic Research Department, the measures put in place by the Spanish government, such as the announced tax deduction on housing purchases, could prove a significant and effective counter-cyclical measure**
- **Globally, despite the raft of measures being put in place by governments, the lack of precedents for measures of this scale makes it hard to pinpoint a potential recovery in 2010**
- **Lower inflation and interest rates and government-sponsored stimulus measures are helping household finances. This, together with falling housing prices, should breathe some life into demand for housing, in the opinion of BBVA's Economic Research Department**

BBVA's Economic Research Department says that virtually all developed economies' real estate markets are registering significant price and volume corrections and believes that despite the correction already evidenced, it will take some time for the market to regain its stride. The slow pace of economic recovery and the scale of job losses are causing buyers to postpone house purchase decisions. In Spain, the real estate sector, unlike most other European nations, is significantly out of balance in terms of volumes, and less so on price, according to BBVA's Economic Research Department. These are some of the conclusions reached in the *Real Estate Watch* report presented today by Mayte Ledo, chief economist for economic and financial scenarios, and Ana Rubio, chief economist for sector research at BBVA's Economic Research Department.

The global economic scenario continues to deteriorate, due primarily to the credit crunch and fresh declines in economic activity, although some recent indicators show signs that the pace of contraction is slowing.

Meanwhile, the world's governments have continued to roll out new measures to tackle the crisis, relying on public-private investment programs, mortgage bond buyback schemes, non-conventional monetary policy, sizeable fiscal stimulus measures, etc.

Although these measures could have a positive impact on the economy, according to BBVA's Economic Research Department, the lack of precedents for measures of this scale generates uncertainty when trying to pinpoint a potential recovery in 2010

Real estate correction

Focusing on the real estate sector, the most recent figures indicate that demand for housing continues to shrink at a rapid pace. Housing transaction figures reported by the Spanish statistics bureau reveal sales of just over 34,000 houses in 1Q09, down 34% on 1Q08 and down 54% on 1Q07.

The quickening pace of contraction in demand is contributing to the growing number of unsold houses. According to BBVA's Economic Research Department, this stock could begin to trend downwards from 1Q10 to reach 2005 levels by the end of 2012.

Meanwhile, the existing surplus housing supply, not expected to revert meaningfully over the coming months, combined with the expectation that houses will come to market at heavy discounts, continues to exert downward pressure on prices.

BBVA's Economic Research Department's forecasts point to property price corrections of around 10% in 2009 and 12% in 2010 in nominal terms. In all, prices are expected to decline by around 30% from highs.

Counter-cyclical measures

Since the onset of the crisis, the monetary authorities both sides of the Atlantic have been quick to react, slashing benchmark rates and directly injecting liquidity into the system.

In addition to the measures designed to stabilize the financial markets, specific plans targeting the real estate sector are being rolled out in many European nations and in the US: programs to help the most vulnerable households, measures targeted at first home-buyers, promotion of government-sponsored housing using rental formulae, etc.

In addition to these direct measures, countries are introducing fiscal stimulus measures designed to boost home buying or rental activity.

In Spain, the recent government measures stand out, notably the tax breaks on house purchases from 1 January 2011. According to BBVA's Economic Research Department, this could prove a significant and effective counter-cyclical measure.

The Latin American real estate market

The *Real Estate Watch* report also assesses the real estate market in Latin America, which has notched up sustained growth over the past decade.

The report finds that this is the result of stronger macroeconomics, namely inflation rates at all-time lows, more stable GDP growth rates and more favorable financing terms. In addition, the housing markets in the region have benefitted from the positive effects of monetary policies designed to keep a lid on inflation and stabilize economic growth.

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