

Presentation of report entitled *Real Estate Watch*

BBVA's Economic Research Department forecasts that excess supply of new homes will ease from 2010

- The BBVA Economic Research Department believes that the Spanish residential sector is significantly over-supplied. With demand sluggish, this excess should begin to decline starting in the second quarter of 2010
- Housing prices will fall over the next few years, with the cumulative drop outstripping levels of previous cycles
- The ECB's official interest rate, which will fall to 1% in the first half of 2009, will ease the financial burden on families and make access to housing easier
- The Economic Research Department's report also assesses the state of the job market in the construction sector. In spite of greater job destruction in the sector, only a third of these workers will be unemployed
- According to BBVA's Economic Research Department, renting is becoming a more attractive option

BBVA's Economic Research Department confirms that supply has outstripped demand in the Spanish construction sector during the recent years of the property boom and that available housing stock has increased rapidly, possibly faster than justified by the corresponding growth in key determinants. The Department estimates there are currently between 800,000 and 1,400,000 unsold new homes and that this excess will begin to fall from 2010. These are some of the conclusions of the *Real Estate Watch* report presented today by the BBVA Group's chief economist, José Luis Escrivá, and Ana Rubio, Chief Economist of Sector Analysis of BBVA's Economic Research Department.

The report analyses the performance of the Spanish housing sector, focusing on supply and demand trends. It also contains an estimate of unsold housing stock, future price trends and potential industry supports.

Sector recovery

The Spanish property sector is undergoing a period of significant adjustment – possibly the most far-reaching on record. While the sector was expanding, investment in housing grew massively, and supply adjusted to rising demand with great elasticity. Assuming that supply and demand were balanced in 1997, it is estimated that there are now between 0.8 and 1.4 million unsold new homes on the market. The Economic Research Department forecasts that the gap between supply and demand will continue to grow until the end of 2009 and demand will begin to catch up with supply in the first quarter of 2010.

These assumptions imply downward pressure on prices. Given current macro-economic and financial scenarios, a slight nominal contraction is expected for 2008. Prices are expected to drop further from next year, by around 5% in 2009 and 8% in 2010 in nominal terms, producing a cumulative decline of around 15%. These forecasts are strongly influenced by the levels of excess supply in the market, making the adjustment process even more marked.

Support for families

Households' financial burden, which has risen to 17% of disposable income, will level out at more sustainable levels from next year, at around 14%. Various factors will help to reduce the financial burden, e.g. falling interest rates and a slowdown in lending. These trends should help provide support for housing demand in the midst of so many uncertainties.

Meanwhile, employment trends are badly affecting disposable income levels. The sharp decline in job numbers in the construction sector, which began to lay people off at the end of last year, has intensified, falling by 3.4% in November 2008. The year-on-year probability of remaining employed in the sector has fallen dramatically in the past three months, more than in other sectors of the economy.

Although workers in the construction sector are increasingly likely to lose their job, more are finding work in other sectors.

Construction workers have traditionally been able to find alternative employment in extractive industries, retail, hotels and catering, and business services. Not all construction workers are equally employable in other sectors. Education insulates workers against unemployment and makes it easier to move between sectors, while foreign workers the more threatened by unemployment.

The current state of the Spanish real estate market makes renting an economically viable option for obtaining housing. In the current scenario of zero or negative house price growth in Spain, the most profitable option would be to rent. And growth in the rental market could speed up absorption of unsold housing stock on the market and increase

the geographic mobility of the Spanish labour market. In any case, the lack of supply makes a housing policy that will increase the rental stock essential.