

### STRUCTURE OF HOUSING INDUSTRY

#### GOVERNMENT HOUSING POLICY

##### Social Housing

Currently, national housing policy is focused on:

- ▶ The strong difficulties of access to house ownership for a significant proportion of the population as a result of a long period of rising house prices.
- ▶ The contraction of both demand and supply of housing due to the current severe economic scenario.

Hence, the Ministry of Housing has created a National Plan for housing and renovation with both structural and cyclical measures for the next few years (*Plan Estatal de Vivienda y Rehabilitación 2009-2012*).

The purpose of the plan is ease the conditions of access to housing for Spanish households, that is the relation between the market prices – of both purchase and rent - and the economic capacity of households. This would ensure the social aim of the government housing policy, stated in the Spanish Constitution, which is to create the necessary conditions for a decent and suitable home to live for everyone, which is a right especially for those citizens with economic difficulties and lower-income groups (young people, people older than 65 years, large families, disabled collectives, etc.).

##### Taxation

A VAT rate of 8% is charged for the first purchase of new dwellings, and of 4% for new dwellings of state-subsidised housing.

However, as a temporary measure to boost housing demand, the VAT rate for the purchase of new dwellings has been lowered to 4% until the 31/12/2012.

A tax on capital transfers (TPO) of 6 to 7% is charged for second and subsequent purchases of dwellings.

In the case of non state-subsidised housing, the mortgage contract is subject to the legal tax or stamp duty established by the Spanish law (Public Deed). The tax differs between regions ranging from 0 to 1%.

##### Subsidies

As far as the purchase of a dwelling (main residence) is concerned, there are three main categories to which tax deductions can be applied:

1. Dwelling purchase or its renovation (it includes taxes and mortgage loan payments in terms of interest, capital repayment and other associated loan costs); and
2. Dwelling construction or enlargement; and
3. Amounts deposited in a Building Account (*Cuenta Ahorro Vivienda*). Building accounts are special saving accounts which are opened for the purpose of saving money for the purchase of a main dwelling in the subsequent years.

For all of these categories, the annual maximum base for deduction is of EUR 9,015, applying a 7.5% tax deduction on the amount invested in housing during the course of the fiscal year (i.e. tax deduction can amount to a maximum of EUR 1,352 per year).

##### EMF Links

[Study on Cost of Housing 2010](#)

##### External Links

Structural Factors in the EU Housing markets, March 2003 at [www.ecb.int](http://www.ecb.int)

## HOUSING STOCK and TENURE

### Trends

According to latest available data from the Ministry of Public Works (*Ministerio de Fomento*) total housing stock at the end of 2010 amounted to 25,837,108 dwellings, which represented a slight increase (of 1%) compared to 2009 levels.

On the basis of the evolution of housing completions and transactions, it is estimated that around 689,849 new dwellings of the total housing stock are still unsold.

Around a 69% of total housing stock is classified as “main residence” and only 7.7% corresponds to rental houses.

Over recent years, the Spanish Government has made an important effort in order to boost the rental market by providing developers with qualified financial support and both landlords and tenants with tax benefits. However, the rental market in Spain is still one of the least developed of the EU, with insufficient public rental housing and an undeveloped professional rental market (most of the tenancy agreements are agreed between private individuals).

### Data

*Total Dwelling Stock*  
*Owner Occupation Rate*

<b>EMF Links</b>	<a href="#">Hypostat Tables</a>
<b>National Links</b>	Ministry of Public Works (Ministerio de Fomento): <a href="http://www.fomento.es">www.fomento.es</a> National Statistics Institute (Instituto Nacional de Estadística): <a href="http://www.ine.es">www.ine.es</a> (Survey on living conditions 2009)
<b>External Links</b>	Income and living conditions at: <a href="http://www.epp.eurostat.ec.europa.eu">www.epp.eurostat.ec.europa.eu</a>

## DEMOGRAPHY

### Trends

At the end of 2010, the population in Spain was over 46 million inhabitants.

As a consequence of the decrease in the number of births, there has been a gradual decrease in the size of private households coupled with an increase in the number of households with 2 or 3 residents. However, the ageing of population and the perspectives of lower migration inflows as a result of the continuing economic crisis may impact households' formation in the next couple of years and could lead to negative effects on housing demand.

### Data

*Population*

<b>EMF Links</b>	<a href="#">Hypostat Tables</a>
<b>National Links</b>	National Statistics Institute ( <i>Instituto Nacional de Estadística</i> ): <a href="http://www.ine.es">www.ine.es</a>
<b>External Links</b>	Population and social condition at <a href="http://www.epp.eurostat.ec.europa.eu">www.epp.eurostat.ec.europa.eu</a>

## HOUSING SUPPLY

### Trends

During 2010 and 2011 the downward adjustment in real estate activity has continued. On an annual basis, in 2010 91,662 dwellings were started, which is equal to only 11% of 2006 levels. Available data for 2011 signals that this trend continued, recording an additional decrease of 13% in housing starts.

The high levels of indebtedness of both the construction and developer sectors made the funding of new projects considerably difficult. As a consequence, the number of new projects developed directly by final owners - in regime of self-promotion or cooperatives - significantly increased.

As regards housing completions, the decreasing trend which had started at the end of 2008 continued. Since its peak, the number of housing completions has fallen by 71% on an annual basis, as it went from more than 600,000 completed dwelling units in 2007 down to less than 200,000 in 2011.

### Data

*Housing Starts*  
*Housing Completions*  
*Building Permits*  
*Residential Investment*

<b>EMF Links</b>	<a href="#">Hypostat Tables</a>
<b>National Links</b>	Ministry of Public Works (Ministerio de Fomento): <a href="http://www.fomento.es">www.fomento.es</a>

## HOUSE PRICES

### Trends

From the end of the 1990s to the first half of 2008, house prices in Spain showed very positive growth rates, reaching their peak in the period from 2002 to 2005 (16.6%) as the good performance of the whole economy and employment, as well as decreasing mortgage rates, fostered housing demand. After 2005, house prices started to grow at a slower rate due to a drop in housing demand resulting from the combination of both accessibility problems (due to the high levels of house prices) and the increase in interest rates.

However, the burst of the crisis in 2007 prompted a sharp adjustment in house prices. According to the figures published by the Ministry of Public Works (Ministerio de Fomento), housing prices recorded its first annual decrease at the end of 2008, falling by 3.2%. Since then, the cumulated decrease in housing prices in September 2011 has been 18%.

### Data

*Annual Percentage Change in Nominal House Prices*

<b>EMF Links</b>	<a href="#">Hypostat Tables</a> <a href="#">Quarterly Review Statistics</a>
<b>National Links</b>	Ministry of Public Works (Ministerio de Fomento): <a href="http://www.fomento.es">www.fomento.es</a>

## TRANSACTIONS

### Transaction Costs

The costs related to the house purchase represent the biggest part of total transaction costs.

The most significant of these costs is the property tax, which may amount to 9% of the purchase value.

### Trends

The number of housing transactions recorded its peak in 2006 (955,186). In early 2007, the number of transactions started to decrease progressively, recording negative growth rates both on quarterly and yearly basis.

In 2010, some signs of reactivation of the housing market were observed, anticipating the future removal in 2011 of some tax incentives and the increase of the VAT rate.

Housing transactions in 2010 grew by 5.9% compared to 2009 and reached 491,287 units. However, during 2011 the housing market cooled-off, reflecting the severe economic background and transactions decreased by 29% on an annual basis.

### Data

*Number of Transactions*

<b>EMF Links</b>	<a href="#">Study on Cost of Housing 2010</a>	<a href="#">Hypostat Tables</a>
<b>National Links</b>		Ministry of Public Works (Ministerio de Fomento): <a href="http://www.fomento.es">www.fomento.es</a>

# STRUCTURE OF MORTGAGE MARKET

## SIZE AND GROWTH

### Trends and Interest Rates

#### **Trends:**

Total outstanding mortgage market in Spain amounts to EUR 1,044 billion, 64.3% of which is residential mortgage lending.

In terms of ratio to GDP, at the end of June 2011 total mortgage lending outstanding amounted to 97% of Spanish GDP.

Mortgage activity has been sharply affected by the adverse economic scenario since the onset of the crisis in 2007. Many factors, such as the worsening sovereign debt turmoil in the euro area, persistently high levels of unemployment and strong economic uncertainty hit both credit demand and supply.

In 2007, total mortgage outstanding decreased on annual basis by 2.1% for the first time on record. During 2011 this trend continued and in September 2011 the cumulative decrease since December was 4.3%.

#### **Interest rates:**

In Spain most mortgage loans are subscribed at variable rates referenced to 12-month Euribor rate which is strongly linked to the ECB's overnight rate.

The expansionary monetary policy adopted by the ECB since the end of 2008 led to a considerable decrease in mortgage interest rates, which have remained at record lows since 2009.

Without a doubt, the low level of interest rates helped reduce mortgage debt servicing costs for borrowers and containing borrowers' defaults.

### Data

*Total Outstanding Residential Loans*

*Gross lending*

*Net lending*

*Representative Interest Rates on New Mortgage Loans*

EMF  
Links

[Hypostat Tables](#)  
[Quarterly Review Statistics](#)

National  
Links

Spanish Mortgage Association (*Asociación Hipotecaria Española*):  
[www.ahe.es](http://www.ahe.es)  
Bank of Spain (*Banco de España*): [www.bde.es](http://www.bde.es)

## INDUSTRY STRUCTURE

Type of Lenders	Top 5 Lenders	Regulation	Distribution Channels
<p>In Spain, mortgage lending is always provided by financial institutions. These are mainly commercial banks (whose mortgage outstanding market share in September 2011 was 38%), saving banks (54%) and cooperative banks (7%).</p> <p>There are also other financial credit institutions that are non-deposit taking lenders regulated by the Bank of Spain, which also provide mortgage lending (2%).</p> <p>The onset of the crisis in 2007 reflected some structural constraints in the saving banks sector that are associated with their legal nature. In June 2009, a restructuring process of savings banks was started, aiming to reduce the number of institutions from 45 to 18 two years later. The concentration process has increased saving banks' efficiency, by addressing the problem of oversized networks in the sector, reinforcing solvency and making their governance structure more flexible.</p>	<p>Data is based on March 2011 mortgage outstanding balances:</p> <ol style="list-style-type: none"><li>1) Bankia (with a market share of 12.4%)</li><li>2) La Caixa (10.8%)</li><li>3) BBVA (9.6%)</li><li>4) Banco Santander (9.5%)</li><li>5) Banca Cívica (3.8%)</li></ol>	<p>The authorities in charge of financial regulation are mainly the Bank of Spain and the Ministry of Economy (Treasury)</p>	<p>Most of mortgage loans in Spain are distributed by bank branches (direct channel).</p> <p>There are other different channels available in the market (indirect channels) like real estate developers or real estate agencies who act as contact agents between borrowers and lenders or independent intermediaries. However, due to the crisis, their participation in the market has decreased significantly and nearly all the distribution is held by bank branches.</p>

### National Links

Bank of Spain (Banco de España):  
[www.bde.es](http://www.bde.es)

## PRODUCT TYPES

### Mortgage Products

Despite the great variety of mortgage products, the Spanish mortgage offer is mainly composed of:

- a) Variable-rate mortgages, referenced to an index (mainly to the 12-month Euribor index), which is usually reviewed every 6-12 months; and
- b) Mortgages set at fixed rates for the entire duration of the mortgage contract; and
- c) Initial fixed-period mortgages, whereby the fixed rate is revised at a given frequency (above one year); and
- d) Combined mortgages, with a part of the mortgage at floating rate and another part being a fully fixed-rate mortgage.

The most popular mortgage product in Spain is the variable rate (referenced) mortgage. It accounted for 81.3% of gross residential lending in 2011 and more than 97% of total outstanding mortgage lending at the end of 2009. However, since 2010 consumers' preference have gradually shifted towards initial fixed-rate mortgages, especially from 2 to 5 years.

Mortgages set at fixed rates are available on the market but are less popular due to restrictions on prepayment fees leading to higher nominal interest rates and borrower preferences.

### Interest-Rate Types as a Percentage of Mortgage Lending

Data is up to October 2011:

- ▶ 81.3% of transactions were subscribed at a rate referenced to one year or less; and
- ▶ 17.8% of loans were at a mixed rate with an initial 2-3 year period with a fixed rate and referenced to 6 months or one year Euribor for the remaining term of the loan; and
- ▶ Only 0.9% of mortgage transactions were at fixed rate.

### Breakdown by Loan Maturity Type

The average maturity of new mortgage loans in 2010 and 2011 was 25 years.

### National Links

Bank of Spain (Banco de España): [www.bde.es](http://www.bde.es)  
Land Registers (Registadores de la Propiedad): [www.registradores.org](http://www.registradores.org)

## FUNDING

### Funding Methods and Trends

#### Funding Methods

Since most mortgage credit institutions in the Spanish market are universal banks operating in a number of different fields, funding methods encompass different funding sources: retail deposits, wholesale market, covered bonds and mortgage-backed securities (MBS).

#### Trends

During 2011, the ongoing sovereign debt crisis and its impact on consumer confidence, coupled with concerns of a double-dip recession in the EU and the restructuring process of the financial sector, made funding activity notably more difficult for credit institutions.

However, despite this severe background, the issuance of mortgage bonds and MBS increased by 24% in September 2011 compared to the same period of 2010. It is worth noting that Spanish covered bonds performed relatively better, as the covered bond market remained active throughout the year. Covered bonds represented 78% of total issuance of mortgage securities.

At the end of September 2011, Spanish covered bonds (*cédulas hipotecarias*) and MBS released by Spanish financial institutions financed more than 78% of total outstanding residential lending. The volume of outstanding mortgage bonds and MBS was worth EUR 532 billion, which in relative terms represented a growth of 2.4% compared to September 2010.

Besides, financial institutions have gradually reduced their dependence on wholesale funding by increasing the raising of retail deposits.

### Data

*Total Covered Bonds Outstanding (backed by mortgages)*

*Total Covered Bonds Issuance (backed by mortgages)*

*Total RMBS Issues*

<b>EMF Links</b>	<a href="#">Hypostat Tables</a>
<b>National Links</b>	Spanish Mortgage Association ( <i>Asociación Hipotecaria Española</i> ): <a href="http://www.ahe.es">www.ahe.es</a> AIAF: <a href="http://www.aiaf.com">www.aiaf.com</a> Bank of Spain ( <i>Banco de España</i> ): <a href="http://www.bde.es">www.bde.es</a>

## DEFAULTS

### Safety Nets

Mortgage borrowers can subscribe to different mortgage payment insurances, i.e. covering unemployment, death, invalidity or illness. However, this cannot be considered a general common practice in the market.

### Repossessions

The evolution of non-performing loans has been widely affected by the deteriorating macroeconomic environment, especially in terms of unemployment.

Despite this severe scenario, the increase in the volume of doubtful mortgage loans moderated and even decreased since 2010 for some types of credit such as residential lending for households.

In June 2011 the ratio of doubtful loans for residential lending to households was 2.47% compared to 2.57% in June 2010 and 2.97% in June 2009. This positive development was the consequence, on one hand, of the low level of mortgage interest rates and, on the other hand, of the efforts made by financial institutions in order to restrain the growth of arrears.

As regards repossessions, the number of foreclosure procedures recorded in Courts sharply increased from 2008 to 2010 and remained stagnant in 2011. However, repossessions still remain at relative low levels. The number of properties taken into possession in the period 2008-June 2011 amounted to 140,485 which nearly represents 1% of the total number of households.

<b>National Links</b>	Spanish Mortgage Association ( <i>Asociación Hipotecaria Española</i> ): <a href="http://www.ahe.es">www.ahe.es</a> Bank of Spain ( <i>Banco de España</i> ): <a href="http://www.bde.es">www.bde.es</a>
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## AFFORDABILITY

### Loan to Value Ratios

The average LTV ratio in 2010 on new loans was 57.4% and only 11.9% of total new loans were granted with an LTV above 80%.

The average LTV ratio of the residential mortgage portfolio in Spain is 62%.

### Debt Servicing Costs

Debt servicing cost notably decreased from 2008 to 2011 as a consequence of the positive developments of the average mortgage loan, house prices and mortgage interest rates. Loan maturity remained relatively unchanged on average terms, i.e. around 25 years.

### House Price to Income Multiple

(Average house price/Average disposable income per worker)

The house price to income ratio has progressively decreased since 2007 as a result of the adjustment recorded in house prices. As regards the income per worker, it slightly increased by 0.7% in 2010 and remained relatively stable in 2011.

House Price to income ratio decreased from 7.4 in 2007 down to 6.4 in September 2011.

EMF Links	<a href="#">Study on Cost of Housing in Europe 2010</a>	
National Links	Spanish Mortgage Association ( <i>Asociación Hipotecaria Española</i> ): <a href="http://www.ahe.es">www.ahe.es</a> Bank of Spain ( <i>Banco de España</i> ): <a href="http://www.bde.es">www.bde.es</a>	
External Links	Structural Factors in the EU Housing Markets, March 2003 at <a href="http://www.ecb.int">www.ecb.int</a>	

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