



Preparation of studies and  
reports for the Basque Housing  
Observatory

# The real estate market in the BAC 2016

Synthesis report

**1** General  
economic context

**2** Building activity and  
housing supply in the BAC

**3** The needs and demand  
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# 1. General economic context

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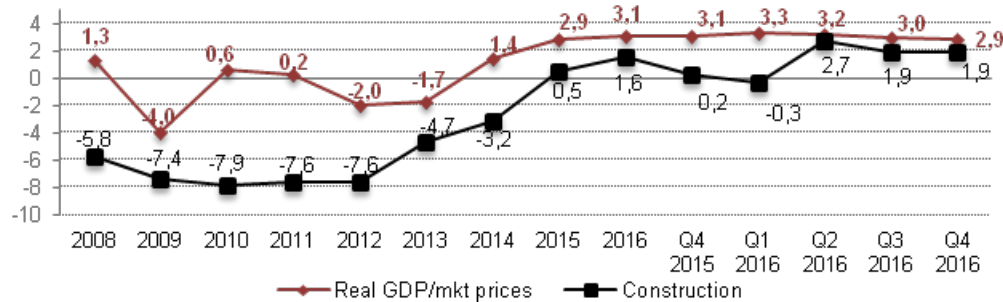
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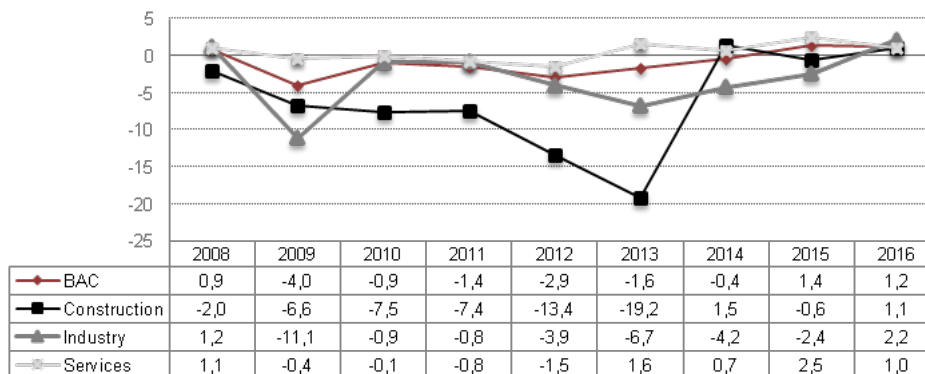
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Comparative evolution of real GDP with market prices in the BAC and the added value of the construction sector 2008-2016. (Year-on-year variation rates)



Source: Eustat

Variation in the employed population 2008-2016 (Year-on-year variation rates)



Source: P.R.A. Eustat

- In 2016, the Basque economy consolidated the recovery process that began in 2014. GDP increased by 3.1% during 2016. In this way, the growth rate of the Basque economy was maintained, and even increased by two tenths of a percentage point compared to the growth rate recorded in 2015.
- One of the most noteworthy developments in 2016 was the significant increase in activity in the construction sector after more than six years of sharp falls in production, and weak growth in 2015. In 2016, a growth rate of 1.6% was recorded for the sector, three times higher than the 0.5% observed in 2015. Nonetheless, despite this improvement, the growth rate of the construction sector in 2016 still does not match the intensity seen in the industrial sector (+3.3%) and the tertiary sector (+3.2%).
- In line with this positive dynamic, in 2016 the Basque economy continued to follow a path of job creation that was clearly positive (+1.2%), at a rate similar to that of 2015 (+1.4%). Additionally, the construction sector has created employment at a significant rate, with a 1.1% increase in net employment generated in 2016, compared to the loss of employment recorded in 2015 (-0.6%).
- Viewed with a long-term perspective, the result of the 2008 crisis continues to be very negative for the Basque construction sector, as shown in a recent report published by the Basque Housing Observatory, which provides a detailed analysis of the construction

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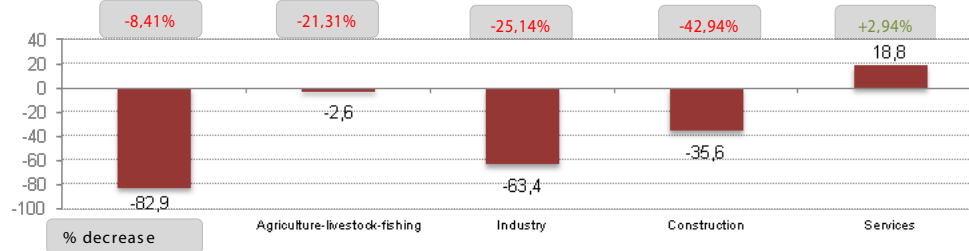
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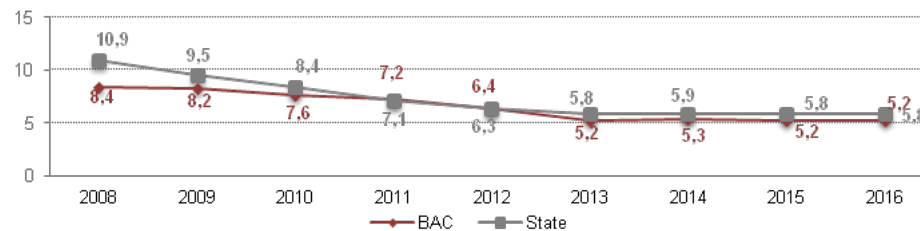


**Net change in the employed population of the construction sector and of the economy of the BAC 2008-2016 (thousands of employed people and cumulative variation rates)**



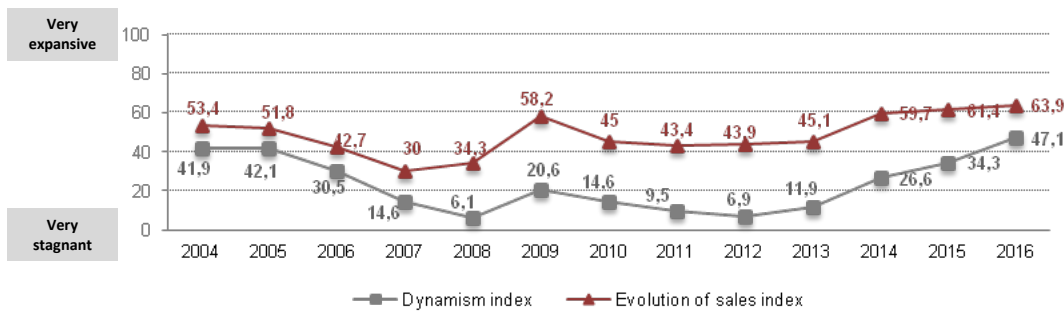
Source: PRA (Population in Relation to Activity Survey) Eustat

**Evolution of the relative weight of the construction sector in the BAC and the State. 2008-2016**



Source: PRA Eustat, EPA (Active Population Survey), INE (National Institute of Statistics)

**Evolution of the dynamism index of the real estate market. 2004-2016<sup>1</sup>**



Source: Real Estate Supply. Dept. of Environment, Land Use Planning and Housing (Basque Government)

sector during the period of the crisis. Between 2008 and 2016 a total of 35,600 jobs were lost in the sector, representing 40% of the total net job destruction in the Basque economy as a whole from 2008 to 2016.

- The forecasts for the construction sector for the coming years are positive. This is indicated by the Basque Government's Real Estate Supply Statistics, confirming the improvement of the prospects for the Basque construction sector agents. The general dynamism index for the real estate market, on a scale of 0 (very stagnant) to 100 (very expansive), shows an improvement compared to 2015 of more than 12 points, reaching a value of over 47 on that scale, with the sector's sales index for the next year also increasing.

1. Data corresponding to the fourth quarter of each year.

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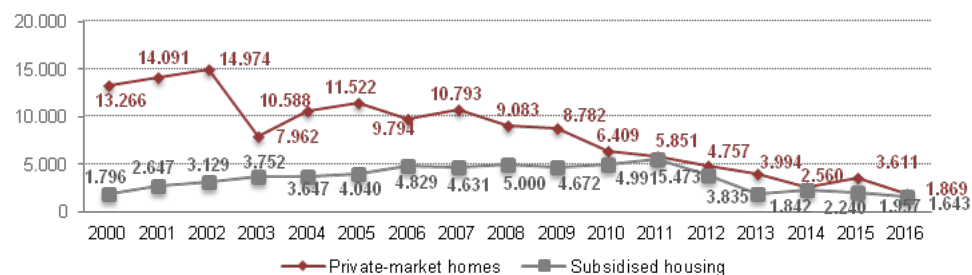
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Evolution of completed homes by housing type. 2000-2016



Source: Spanish Ministry of Public Works

Evolution of completed homes by housing type. 2000-2016

Year	Completed homes				Year-on-year variation
	Private-market homes	Subsidised homes	Total homes	% subsidised homes/Total	
2000	13.266	1.796	15.062	11,9	//
2001	14.091	2.647	16.738	15,8	11,1
2002	14.974	3.129	18.103	17,3	8,2
2003	7.962	3.752	11.714	32,0	-35,3
2004	10.588	3.647	14.235	25,6	21,5
2005	11.522	4.040	15.562	26,0	9,3
2006	9.794	4.829	14.623	33,0	-6,0
2007	10.793	4.631	15.424	30,0	5,5
2008	9.083	5.000	14.083	35,5	-8,7
2009	8.782	4.672	13.454	34,7	-4,5
2010	6.409	4.991	11.400	43,8	-15,3
2011	5.851	5.473	11.324	48,3	-0,7
2012	4.757	3.835	8.592	44,6	-24,1
2013	3.994	1.772	5.766	30,7	-32,9
2014	2.560	2.239	4.799	46,7	-16,8
2015	3.611	1.925	5.536	34,8	15,4
2016	1.869	1.643	3.512	46,8	-36,9

Source: Statistics for Housing Initiated and Completed. Basque Government

Construction of new housing and prices of housing for sale and lease.

### 2.1. The construction of housing in the BAC and the stock of unsold new homes

- In 2016, a total of 3,512 homes were completed in the BAC. During 2016 there was a notable decrease in building activity in terms of the number of finished homes (-36.9%), which contrasts with the positive evolution observed in 2015 (+11.4%).
- The 3,512 homes completed in 2016 represent the lowest annual total since 2000. The rate of construction of completed houses in this last year represents barely a fifth of the average for the past decade.
- The sharp fall in the construction of private market housing in 2016 (-48%) largely explains the decrease in activity in the sector, while the amount of subsidised housing completed in 2016 shows a more moderate decrease in relation to 2015 (-16%).
- In any case, the construction of both types of housing represents a record low since 2000. Thus, the 1,879 private market homes completed in 2016 make up an eighth of the homes completed in the year 2002, which saw record highs (14,974 homes), while the 1,643 subsidised homes completed in 2016 represent 30% of the record high reached in 2011 (5,473 homes) .
- The differences in the evolution of the number of homes completed by province are considerable:
  - In Biscay, an intense slowdown of new housing construction activity can be observed, such that the number of private market homes completed falls by 58% compared to 2015, and the number of subsidised homes falls by 32%. This negative trend contrasts with the notable reactivation of the building activity observed in 2015 (when there were growth rates of 69.5% and 62%, respectively).

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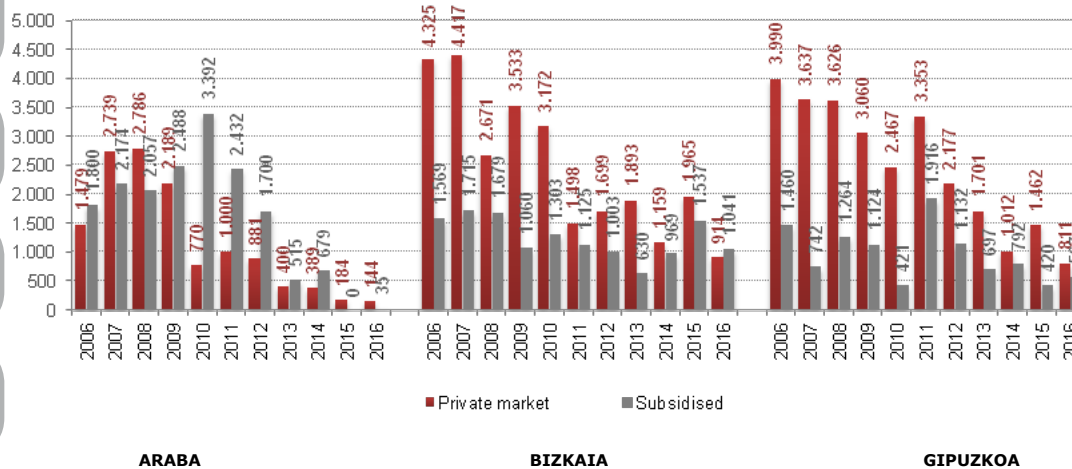
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### Evolution of the stock of unsold new housing for 2015-2016 and relative weight within the housing stock in the BAC and the State

	2016 No. houses	2015 No. houses	% variation 2016/2015	% housing stock
Álava	2,140	2,297	-6.84%	1.33%
Gipuzkoa	4,397	5,632	-21.93%	1.30%
Biscay	58	2,123	-97.27%	0.01%
BAC	6,595	10,053	-34.3%	0.63%
State	491,693	513,848	-4.31%	1.92%

Source: Stock of unsold new housing. Spanish Ministry of Public Works

### Evolution of private market and subsidised housing completed by province. 2006-2016



Source: Spanish Ministry of Public Works

- Gipuzkoa is the only territory of the BAC in which there is positive development in the case of subsidised housing (+35%). However, the construction of private market housing also decreases appreciably although at a somewhat lower rate than that observed in Biscay (-37%).
- Building activity in Álava shows a pronounced decrease in 2016, as was the case in 2015, with 144 new private market homes and 35 subsidised homes.

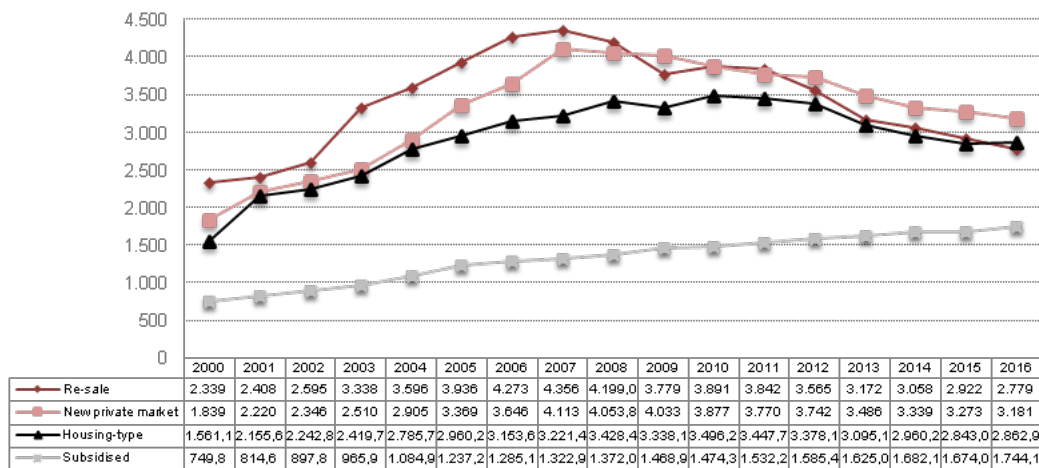
- The sharp drop in the production of private market housing means that the relative weight of the construction of subsidised housing reaches 46% of the total of homes completed in 2016, a ratio that is at the highest levels within the available historical records.
- Finally, it is worth mentioning the large fall in the stock of new private market housing that was observed in 2016. It seems that the housing market in the BAC has absorbed a large part of the stock of unsold new housing generated during the recession. Thus, the stock of unsold new housing decreased by 35% in 2016, much higher than the reduction rate for the Spanish State (-4.3%). After this dramatic reduction, the stock of new housing in the BAC represents 0.6% of the housing stock, a ratio three times lower than that for the State.

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Evolution of the price per usable m2 according to the type of housing in the BAC 2000-2016



Source: Real Estate Supply. Dept. of Environment, Land Use Planning and Housing (Basque Government)

Price per usable m<sup>2</sup> of housing by province. 2007-2016

	Re-sale housing		
	Álava	Biscay	Gipuzkoa
2007	3.834,6	4.490,9	4.847,1
2008	3.591,2	4.393,7	4.809,0
2009	3.550,0	3.581,7	4.686,4
2010	3.368,2	3.752,3	4.685,5
2011	3.232,8	3.766,4	4.395,3
2012	2.960,7	3.600,3	3.966,0
2013	2.713,2	3.243,3	3.420,7
2014	2.611,6	3.165,4	3.192,6
2015	2.527,2	3.017,9	3.111,5
2016	2.417,9	2.900,7	2.879,0
Diff. 2015-2016	-4,3	-3,9	-7,5
Diff. 2008-2016	-32,7	-34,0	-40,1

	New private market housing		
	Álava	Biscay	Gipuzkoa
2007	3.834,6	4.490,9	4.847,1
2008	3.591,2	4.393,7	4.809,0
2009	3.550,0	3.581,7	4.686,4
2010	3.368,2	3.752,3	4.685,5
2011	3.232,8	3.766,4	4.395,3
2012	2.960,7	3.600,3	3.966,0
2013	2.713,2	3.243,3	3.420,7
2014	2.611,6	3.165,4	3.192,6
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2016	2.417,9	2.900,7	2.879,0
Diff. 2015-2016	-4,3	-3,9	-7,5
Diff. 2008-2016	-32,7	-34,0	-40,1

Source: Real Estate Supply. Dept. of Environment, Land Use Planning and Housing (Basque Government)

### 2.2. Prices of the real estate supply

- The price of the housing supply in the BAC continued to decrease during 2016 according to the information provided by the Basque Government's Real Estate Supply Statistics, such that the average price per usable square metre of re-sale housing on offer has fallen by 4.9% during 2016. The rate of decrease in the price per usable square metre of new private market housing on offer was slightly more moderate (-2.8%).
- The cumulative fall in the price of housing on offer since 2008 is notable, being considerably greater in re-sale housing than in the new private market housing:
  - In the case of re-sale housing, the average price per usable square metre on offer has fell by 33.8% from 2008 to 2016, to reach an average of 2,862 euros.
  - The average price per usable square metre of new private market housing on offer has fallen by 21.5% since 2008 and now stands at 3,180 euros.
- In contrast, the average price per usable square metre of subsidised housing (government-subsidised housing/VPO and social housing) increased moderately in 2016 (+4.2%), reaching 1,744 euros.
- Despite the still significant difference between the average price per square metre of subsidised and private market housing throughout the BAC, the price of re-sale housing has been progressively approaching the price of subsidised housing in some territorial areas and municipalities, especially in smaller municipalities and those that do not belong to the metropolitan areas of the Basque capitals. This was analysed in detail in a recent report by the Basque Housing Observatory.

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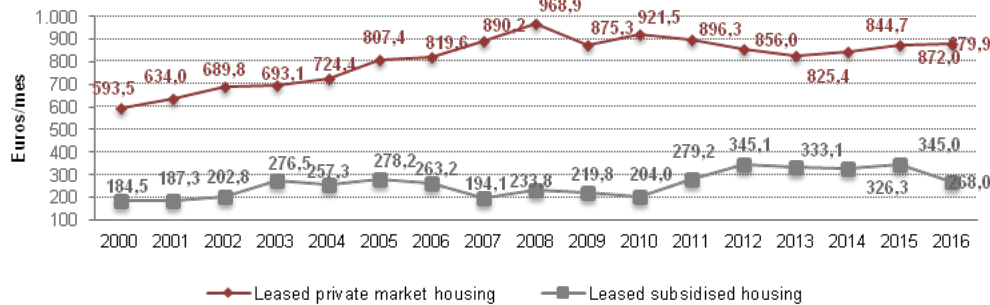
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### Evolution of the monthly rents for private market and subsidised leased housing. 2000-2016<sup>1</sup> (euros)



Source: Real Estate Supply. Dept. of Environment, Land Use Planning and Housing (Basque Government)

### Price per usable m2 of housing by province. 2007-2016

	Álava	Year-on-year var.	Biscay	Year-on-year var.	Gipuzkoa	Year-on-year var.
2007	908,5	4,8	875,4	10	901,5	12,3
2008	895	-1,5	968,8	10,7	1.086,50	20,5
2009	836,7	-6,5	881	-9,1	941,1	-13,4
2010	827,6	-1,1	923,8	4,9	1.004,90	6,8
2011	830,7	0,4	882,3	-4,5	993,8	-1,1
2012	790,3	-4,9	865,8	-1,9	879,7	-11,5
2013	743,9	-5,9	838,8	-3,1	821,6	-6,6
2014	729,4	-1,9	861	2,6	818,5	-0,4
2015	740,4	1,5	880,1	2,2	911,5	11,4
2016	773,8	4,5	889,4	1,1	868,6	-4,7
Var acumulada 2008-2016	-13,5		-8,2		-20,1	

Source: Real Estate Supply. Dept. of Environment, Land Use Planning and Housing (Basque Government)

- The territorial analysis shows how the average price per usable square metre of re-sale housing on offer continued to decrease significantly in 2016 in the three provinces, with a particularly noticeable decrease observed in Gipuzkoa (-7.5%), where there has been a cumulative fall of more than 40% since 2008. In Biscay the price has fell by 3.9% in 2016, and in Álava by 4.3%. The cumulative rate of decrease since 2008 in the two territories is 34% and 32.7%, respectively.
- Similarly, the price per usable square metre of private market new housing on offer fell by 7.8% in 2016 in Álava and by 4.1% in Gipuzkoa, while in Biscay there was only a slight decrease (-1.1%).
- In recent years, the evolution of the leasing market has been significantly different to that of the buying market due to the low supply and the growing pressure of demand on this method of access to housing. Thus, since 2013 the average rent of the housing on offer in the BAC has shown an upward trend, with an increase of 0.9% in 2016 compared to 2015. In cumulative terms, the fall in the average rent for leased housing since 2008 barely reaches 9% in the BAC, well below the falls observed in housing for sale.

1. The rent for subsidised leased housing varies according to the income of the people allocated the housing. The prices are estimated based on the average income of households seeking leased housing.

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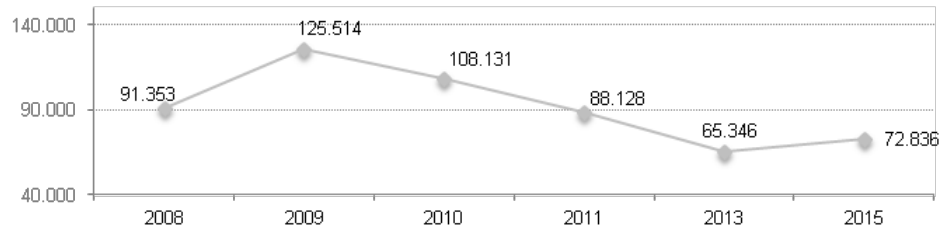
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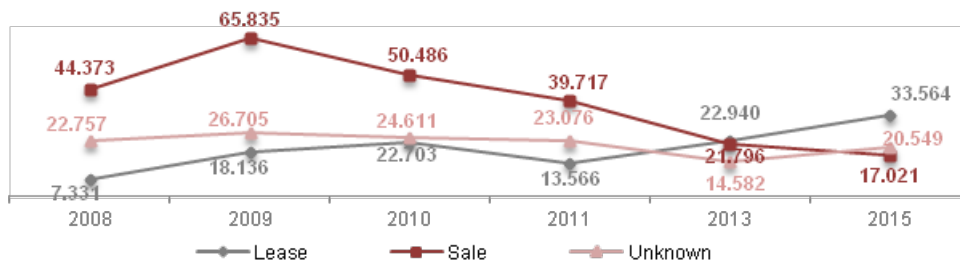


People between 18 and 44 years old with housing needs. 2008-2015



Source: Dept. of Environment, Land Use Planning and Housing Housing Needs and Demand Survey (ENDV)

Demand for housing according to the tenancy regime. 2008-2015



Source: Dept. of Environment, Land Use Planning and Housing (Basque Government)

#### 3.1. Need for access to a first home

- The information provided by the Housing Needs and Demand Survey (ENDV) by the Basque Government points to the existence of a series of structural trends in the needs and demand for housing in the BAC:
  - The effective demand of people who need access to a first home and have some type of income enabling them to address this need is very weak. Only 15,000 people in the entire BAC in 2015 corresponded to this profile, which represents an estimated demand of 13,338 homes in the short and medium term (over a period of 4 years).
  - Thus, 80% of the 72,836 people who in 2015 expressed the need to access their first home in the BAC did not have sufficient income to do so.
  - The demand for short-term housing is especially low: 1-year demand was observed for 1,745 homes in 2015 (practically one third of the 1-year demand in 2013).
- Consistent with this weakness in effective demand, in recent years there has been a clear trend towards greater demand for access on a lease basis compared to buying.



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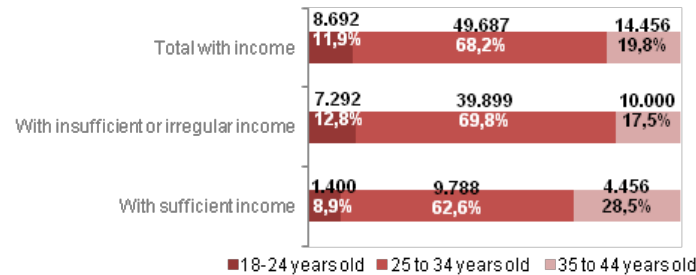
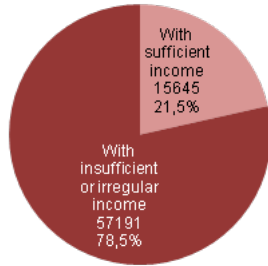
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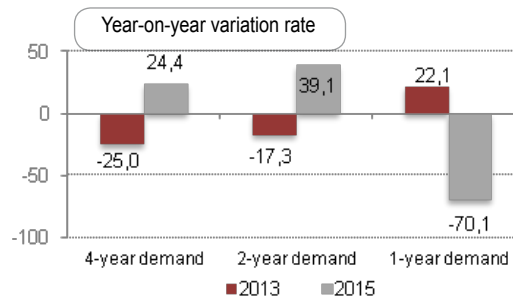
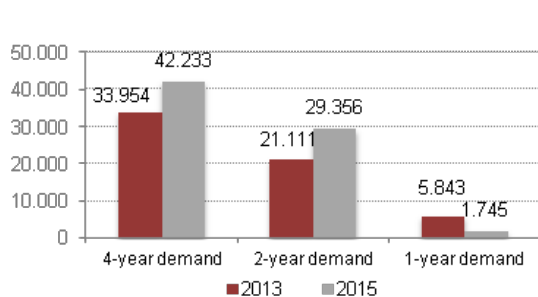
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#### Socio-demographic characteristics of the people in need of access to a first home, in accordance with the availability of income or individual earnings. 2015



Source: Dept. of Environment, Land Use Planning and Housing (Basque Government)

#### Evolution of the demand for access to a first home in the BAC. 2013-2015



Source: Dept. of Environment, Land Use Planning and Housing Housing Needs and Demand Survey (ENDV) 2015

- Thus, in 2015 more than half of the people requiring access to a first home opted for leased property (52.2%), increasing this group by 13.5 percentage points compared to 2013. In 2015, only 26.5% of people with housing needs opted for buying, 40 percentage points less than at the beginning of the recession in 2008.

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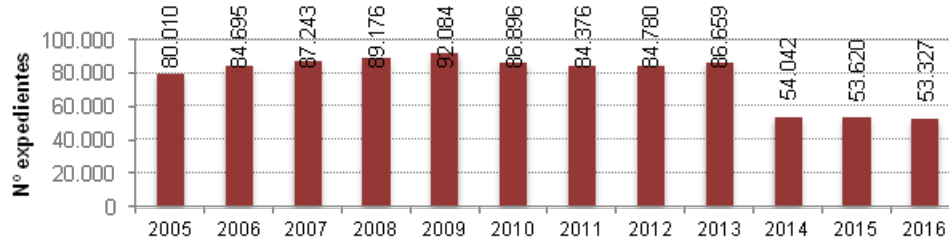
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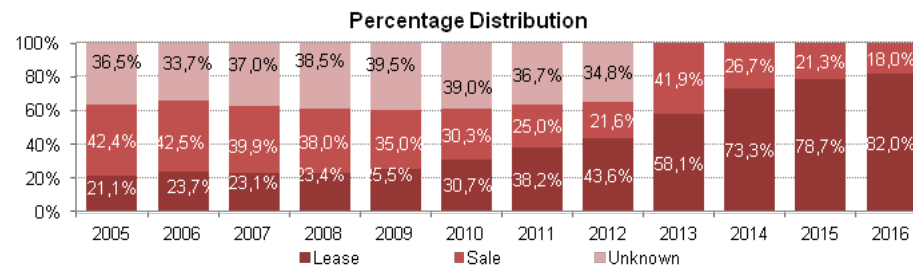
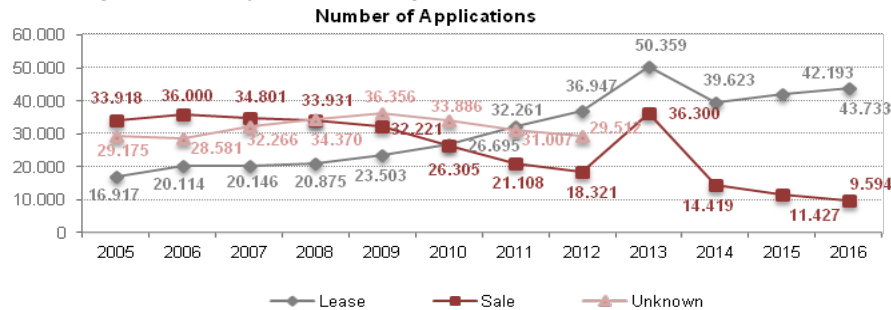


Demand for subsidised housing recorded in Etxebide (application files). Evolution 2005-2016



Note: Since 2005, the tenants registered in the VPO Registry, the tenants of housing in the Bizigune Programme and those selected in VPO lotteries have been deleted from the applications for housing in Etxebide.

Type of housing requested by the people registered in Etxebide. Evolution 2005-2016



Note: Since 2013, the people registered in Etxebide must choose between the offer of housing for lease or for sale.  
Source: Etxebide, Vice-Department of Housing, Basque Government

### 3.2. The demand for subsidised housing

- In 2016 there was a slight decrease in the number of applications for subsidised housing in Etxebide (the Basque Housing Service) compared to the previous year. In December 2016 a total of 53,327 applications for subsidised housing were recorded in Etxebide, while in the same month of 2015 the number of applications had been 53,620.
- This moderate decrease in the total number of applications is the result of a very different evolution of the leased housing demand compared to the demand for purchase:
  - The number of applications for subsidised housing under the lease regime continued to increase in 2016 at a significant rate (+3.6% compared to 2015). In 2015, the increase in this type of application was 6.5%.
  - In contrast, the demand for the purchase of subsidised housing continued a downward trend, decreasing again in 2016 (-16%) after a very considerable decrease (-20.8%) in 2015.
- The demand for the purchase of subsidised housing has again hit a record low, being below 10,000 applications in the entire BAC for the first time, which represents barely 18% of the total demand.
- In the years prior to the recession, the demand for housing for sale rose to 30,000 applications throughout the BAC -something-, which proves the dramatic change in the level of demand for subsidised housing that has occurred in recent years.

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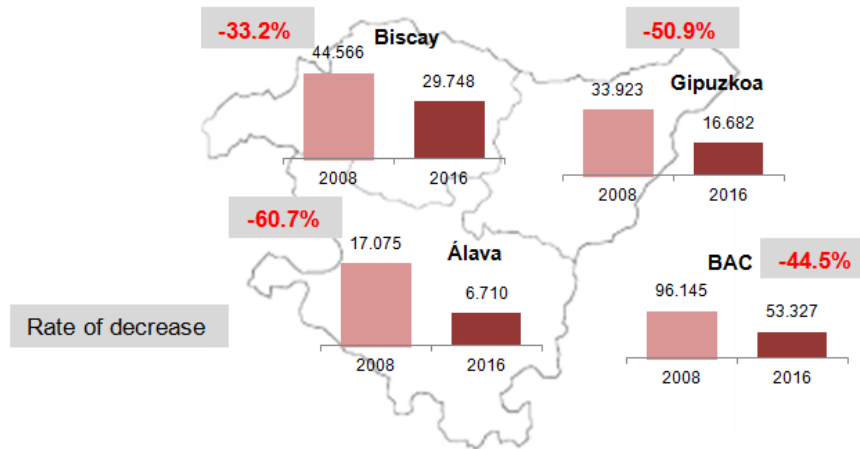
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#### Evolution of the applications for subsidised housing in Etxebide in 2015 and 2016 by province and tenure regime

	2015		2016		2015-2016	
	Lease	Sale	Lease	Sale	Lease	Sale
Araba	6.158	291	6.468	232	5,03%	-20,27%
Biscay	24.057	6.336	24.732	5.213	2,81%	-17,72%
Gipuzkoa	11.978	4.800	12.533	4.149	4,63%	-13,56%
<b>BAC</b>	<b>42.193</b>	<b>11.427</b>	<b>43.733</b>	<b>9.594</b>	<b>3,65%</b>	<b>-16,04%</b>

Source: Etxebide, Vice-Department of Housing, Basque Government  
For 2016, there are 217 cases where the province does not appear

#### Evolution of the demand for subsidised housing by province. 2008-2016 (number of applications)



Source: Basque Housing Observatory

- The number of applications for housing for lease already accounted for 82% of the total number of applications to Etxebide in 2016, exceeding 43,700 applications in the BAC as a whole.
- When analysing the demand for subsidised housing, it should be noted that a significant group of those who have registered are now independent on a lease basis. According to a recent report by the Basque Housing Observatory, 60% of the population registered in Etxebide are independent, in many cases in the private housing market, which receives an important contribution from the Basque Government's aid and benefits system and its housing mobilisation programmes -programmes which have been maintained in spite of the budget crisis. In the years prior to the crisis, the group of registered people who were independent was barely 40% of the total.
- With regard to the territorial analysis, the most notable phenomenon is the very low current level of demand for subsidised housing in Álava. Also, in terms of the type of housing regime sought, the fall in the demand for housing for sale in the three territories (with rates of decrease exceeding 13% in each case) is particularly striking, in contrast to the growing demand for subsidised housing for lease.

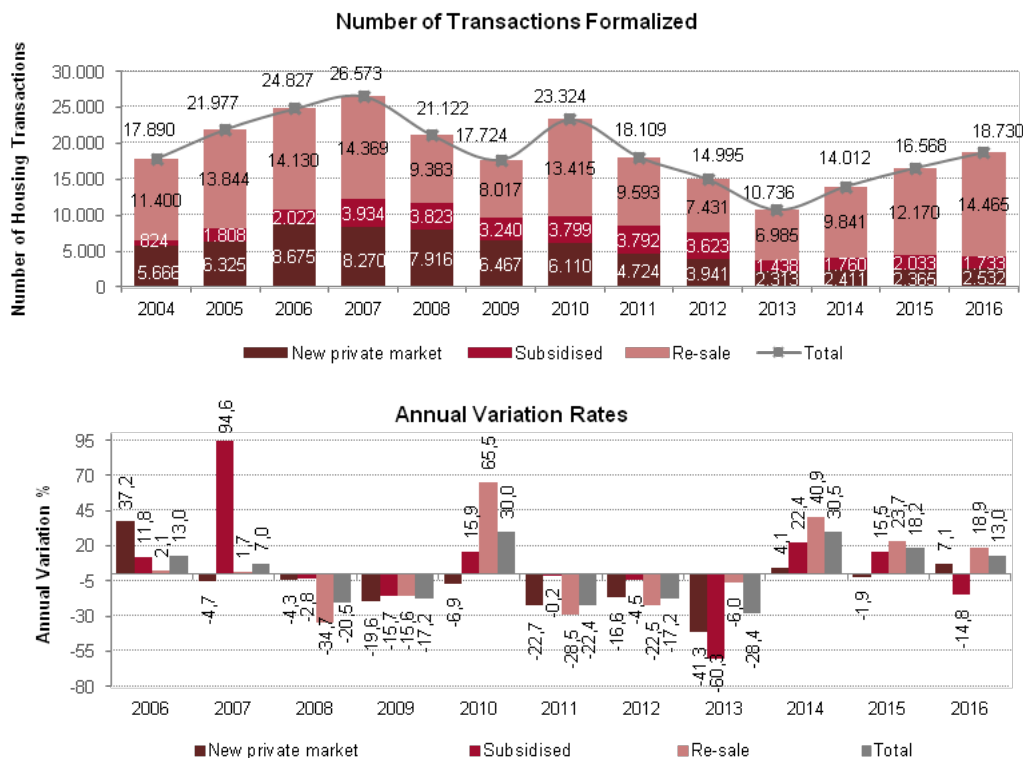
## 4. The real estate and mortgage market activity in the BAC

transactions  
BAC | State

price  
private market

mortgage  
activity

Evolution of the buying and selling of housing by type of housing. BAC. 2004-2016



Source: Real estate transaction statistics from the Ministry of Public Works

Main indicators for the evolution of buying and selling and prices of housing in the BAC and comparison with the State, and the mortgage market in 2016

### 4.1. Evolution of the buying and selling of housing in the BAC and the State

- In 2016, for the third consecutive year, the number of house sales in the BAC continued to grow at a considerable rate (+13.0%), to reach a total of 18,730 transactions. This growth rate is very similar to that observed in the Spanish market as a whole (+13.9%).
- However, the intensity of growth in 2016 represents a certain slowdown in relation to the notable increases recorded in 2015 (+18%) and 2014 (+30%). The growth of activity in the housing market was especially intense in the Álava market (+26%), which contrasts with the moderate growth recorded in 2015 in this province (+8.2%).
- In contrast, in Biscay and Gipuzkoa, more moderate rates of increase in the number of sales were observed (around +11%). In this regard, the lower growth rate of activity in the Biscay market is noteworthy, given that in 2015 the number of sales increased by 30%, while in Gipuzkoa the growth rate was stable and similar to previous years (+11% in 2015).

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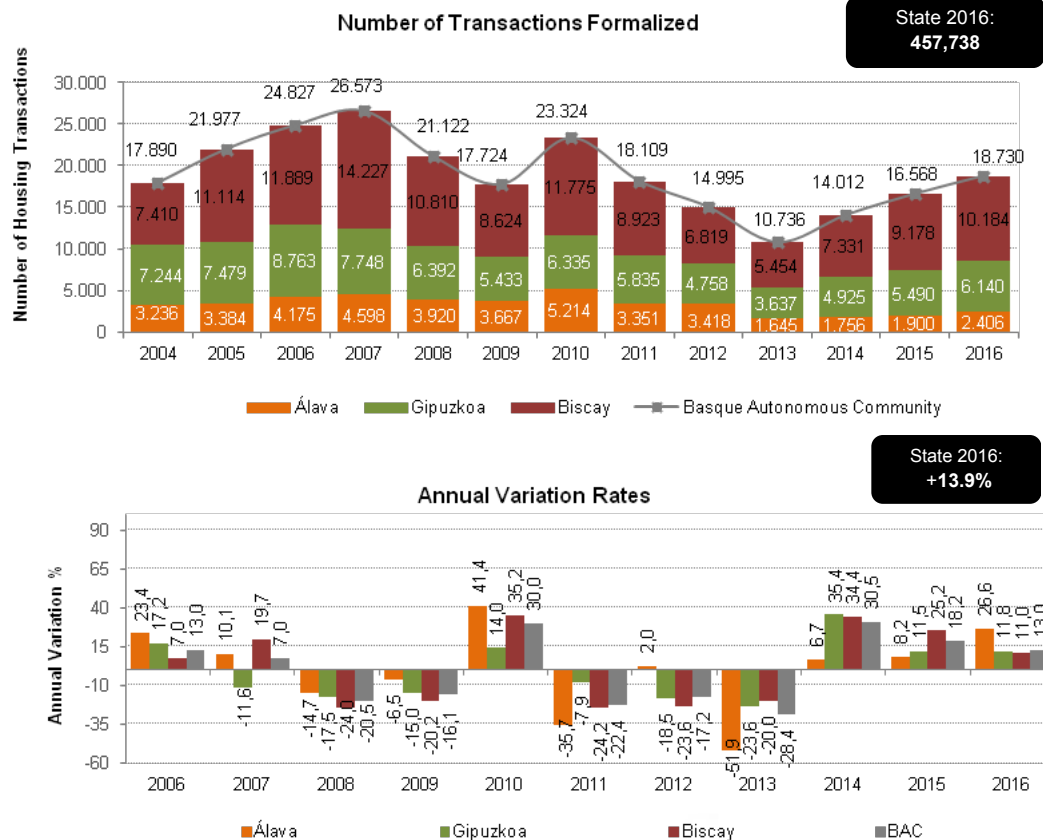
## 4. The real estate and mortgage market activity in the BAC

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Evolution of completed housing transactions by province 2004-2016



Source: Real estate transaction statistics from the Ministry of Public Works

The re-sale housing market continued to be the real estate market that, in 2016, maintained a growth rate in the BAC that is at the same level as in previous years. The sales of this type of housing accounted for 78% of the total number of transactions in the market in 2016:

- The number of re-sale housing sales increased by 18.9% in 2016, only slightly below the rate observed in 2015 (+23.7%),
- Meanwhile, activity in the new private housing market increased by 7.1%, which is a moderate improvement over the rate observed in 2015 (+4.1%).
- Sales of subsidised housing also showed considerable growth (+14.8%), so the positive trend already observed in 2015 (+15.5%) was maintained with a similar intensity.
- The market activity in the case of re-sale housing in 2016 (14,465 transactions) exceeded the sales levels recorded in the years prior to the crisis, which highlights the special dynamism of the market in this type of housing and contrasts with the scarce activity of the new private housing market.
- In contrast, the number of sales of new private market homes in 2016 (2,532 transactions) represented only a third of the more than 8,000 transactions recorded in 2006 and 2007.

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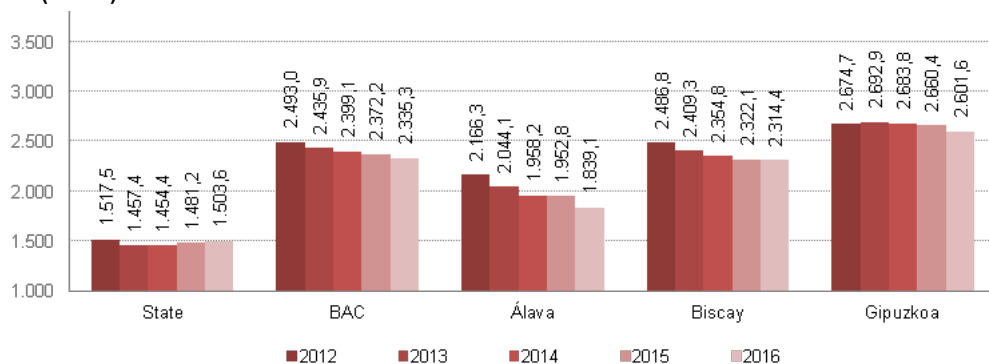
## 4. The real estate and mortgage market activity in the BAC

transactions  
BAC | State

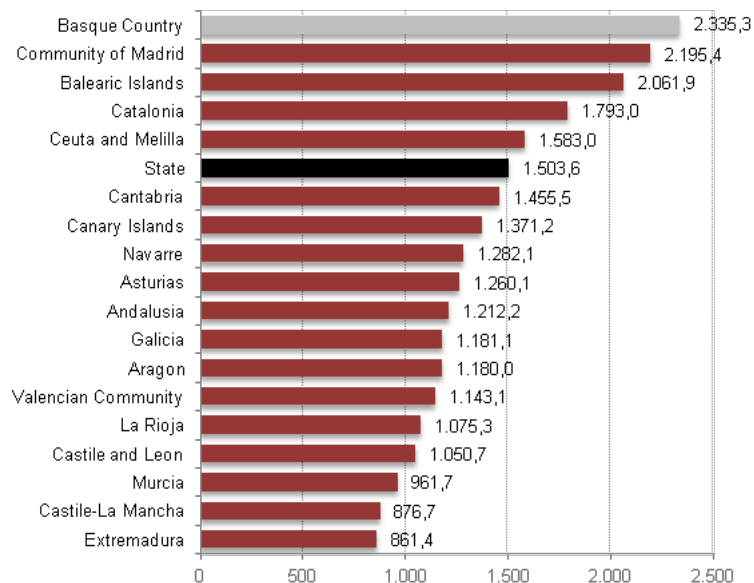
price  
private market

mortgage  
activity

Evolution of the price per constructed square metre of re-sale housing BAC and State 2012-2016 (euros)



Ranking of average prices per constructed square metre of re-sale housing in the autonomous communities 2016 (euros)



Source: Housing price statistics from the Ministry of Public Works

### 4.2. Evolution of the price of private market housing in the BAC and in the State

- The sharp increase in activity in the re-sale housing market in the BAC was accompanied by a moderate reduction in the price of housing, according to the information in the Price Statistics from the Ministry of Public Works, in a way that coincides with that observed in the Basque Government's Real Estate Supply Statistics.
- Thus, the price per constructed square metre for this type of housing decreased slightly (-1.6%) from the fourth quarter of 2015 (2,372 euros) to stand at 2,335 euros in the same quarter of 2016. In 2015, the rate of decrease was somewhat more moderate (-1.1%).
- Nonetheless, despite this slight decrease in the price of re-sale housing, the BAC continues to lead the Spanish autonomous communities in the ranking of the average price of re-sale housing, well above the State average in 2016 (+55%).
- It is the price of re-sale housing in Biscay (2,314 euros per constructed square metre) and, even more so, in Gipuzkoa (2,601 euros per constructed square metre) which explains the higher cost of housing in the BAC. In contrast, the price of re-sale housing in Álava is just 20% above the state average.

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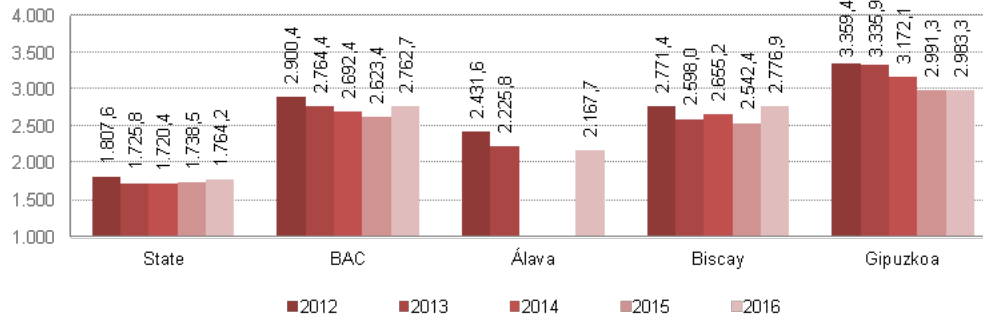
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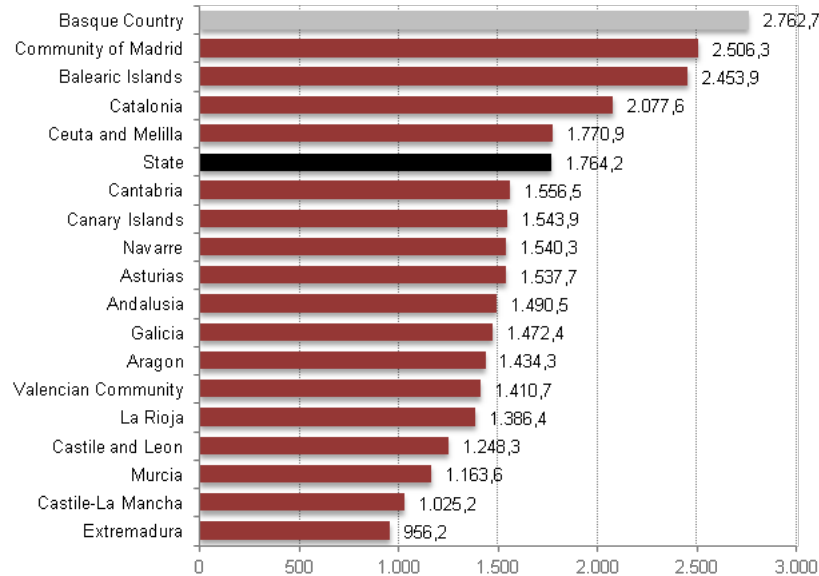


### Evolution of the price per constructed square metre of new private market housing BAC and State 2012-2016



\* The statistics from the Ministry of Public Works do not provide data for Álava in 2014 and 2015  
Source: Housing price statistics from the Ministry of Public Works

### Ranking of average prices per constructed square metre of new private market housing in the different autonomous communities 2016 (euros)



Source: Housing price statistics from the Ministry of Public Works

- In contrast to the situation with regard to re-sale housing, the average price per constructed square metre of new private market housing increased by 5% in 2016, standing at 2,762 euros, which contrasts with the decrease of 2.6% observed in 2015. The increase recorded in 2016 represents an important change in trends, after the continuous decreases observed since 2012.
- The price of new private market housing in the BAC is also at the top of the national ranking, exceeding the State average by 56%.

## 4. The real estate and mortgage market activity in the BAC

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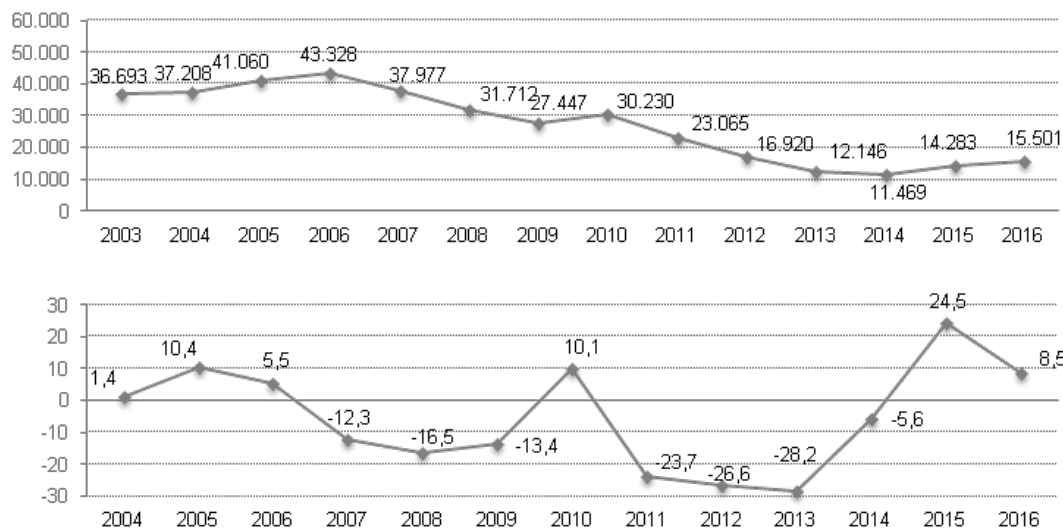
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Evolution of the mortgages taken out in the BAC. 2003-2016. Absolute values and year-on-year variation rates



Source: INE

### 4.3. Mortgage activity in the BAC and the State

- In 2016, a total of 15,501 mortgages were taken out in the BAC, representing an increase of 7.5% in relation to the 14,283 mortgages taken out in 2015. The dynamism of the Basque mortgage market therefore continued in 2016, although at a more moderate pace than in 2015 (when the number of mortgages grew by 24%, this being the first increase recorded since 2006).
- In terms of comparison with the State as a whole, the growth rate of mortgage activity in the BAC was more moderate in 2016. In the State, as a whole, the number of mortgages taken out has increased by 14.2%, to reach a total of 281,832 mortgages.
- Despite this dynamic growth, mortgage activity in 2016 is still far from the levels achieved in the years prior to the crisis when 40,000 mortgages were taken out in the BAC in a single year. Thus, the number of mortgages signed in 2016 represents just over a third of the levels of mortgage activity prior to the crisis.
- Mortgage credit is therefore being utilised considerably less in this period of recovery than in the years of the real estate boom.



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BAC | State

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private market

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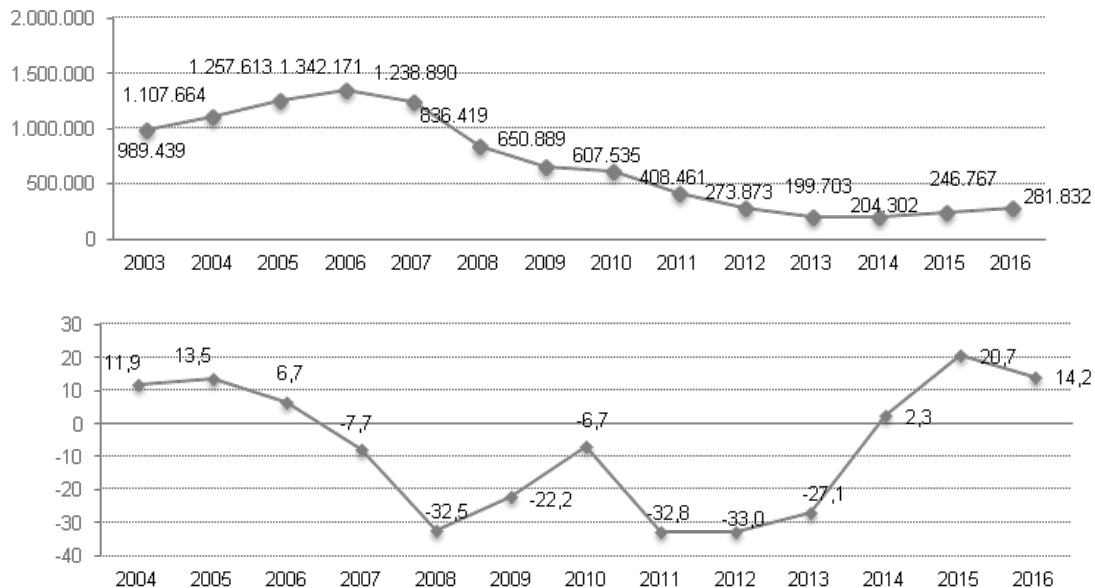
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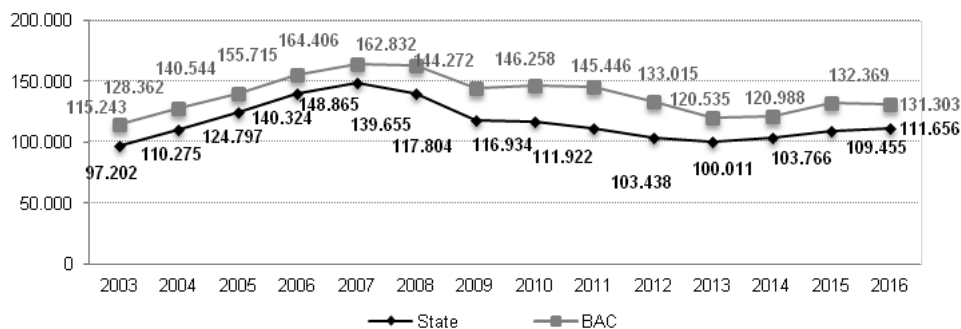


Evolution of the number of mortgages taken out in the State. 2003-2016. Absolute values and year-on-year variation rates



Source: INE

Evolution of the average amount (euros) of mortgages on homes. BAC and State. 2003-2016



Source: Association of Property and Mercantile Registrars of Spain. Real Estate Registry Statistics

- The average indebtedness per household in the mortgages taken out in 2016 has decreased very slightly with respect to 2015, to stand at just over 131,000 euros per mortgage. Thus, the year 2016 is the first since 2013 in which a trend of moderate increases in the average amount of mortgages in the BAC was interrupted, and this contrasts with the high levels of indebtedness in the mortgages taken out in the years prior to the crisis, which exceeded 160,000 euros per mortgage.
- However, the average amount of the mortgages taken out in the BAC in 2016 continues to significantly exceed the State average (+18%), although the difference has decreased compared to 2015 (+21%).

## 5. The rehabilitation of housing

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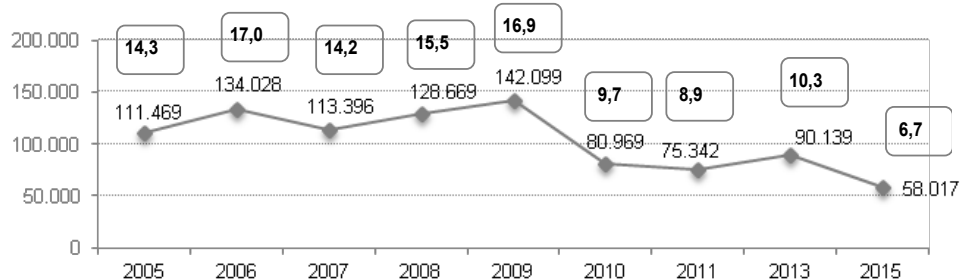
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### Quantification of the need for housing rehabilitation by province. BAC. 2005-2015



Source: Housing Needs and Demand Survey. Dept. of Environment, Land Use Planning and Housing 2015

### Quantification of the need for housing rehabilitation according to demand horizon. Comparison 2011-2015

	2011		2013		2015	
	No. hse.	%	No. hse.	%	No. hse.	%
Need*	75.342	8,9	90.139	10,3	58.017	6,7
4-year demand(**)	44.026	58,4	45.286	50,2	39.227	67,6
2-year demand(**)	40.485	53,7	33.958	37,7	34.129	58,8
1-year demand(**)	24.274	32,2	17.047	18,9	15.562	26,8

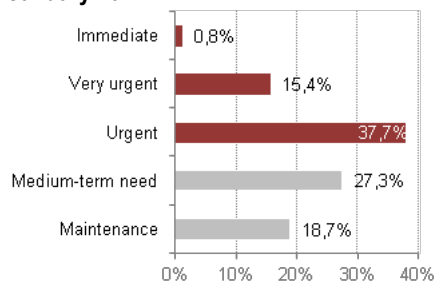
(\*) % of total homes

(\*\*) % of homes with need

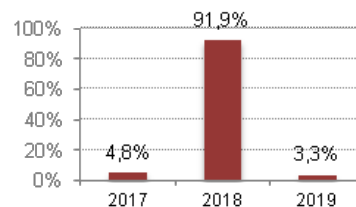
The demand figures for each time frame include the demand indicated for shorter time periods. That is, the two-year demand includes the one-year home demand and, in the case of four years, this includes the one- and two-year home demand.

Source: . Dept. of Environment, Land Use Planning and Housing. Housing Needs and Demand Survey (ENDV)

### Final result of the ITEs carried out up to January 2017



### 75,000 ITEs planned within a horizon of 3 years: distribution by year of completion



Basque homes that demonstrate some type of need for intervention linked to the reforms and aid promoted within the framework of housing rehabilitation in the BAC.

### 5.1. Quantification of rehabilitation needs in the BAC

- The latest available information associated with the quantification of the rehabilitation demand in the BAC comes from the ENDV, which provides information related to the 2015 financial year. At that time, a total of 58,017 homes (6.7% of Basque homes) were identified as requiring rehabilitation within a period of 4 years.
- While waiting for more up-to-date information, it is worth noting that the increasing implementation of the regulations associated with the ITEs (Technical Inspection of Buildings) is having a clear impact on the processes of rehabilitation of the oldest buildings. Thus, up to January 2017, a total of 8,238 ITEs had been recorded in the BAC, with the impact being very considerable (44% of the cases) in terms of carrying out urgent work in the short term (1 year) as a result of these inspections.
- The foreseeable impact of the implementation of the ITEs for 2017-2019 will be even more significant, thus, the Basque Housing Observatory predicts the carrying out of a total of 75,000 ITEs, most of these during the year 2018.

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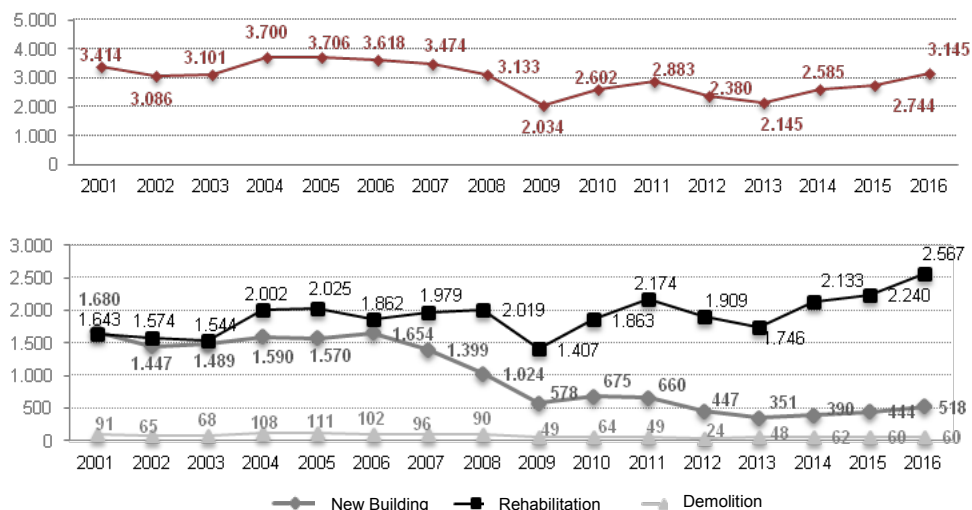
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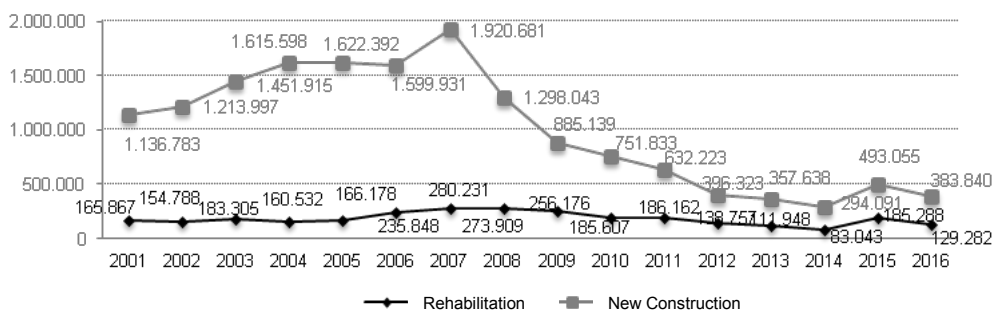


Evolution of the permits for major works accordance with type of work in the BAC. 2001-2016



Source: EDYVI. Basque Government

Evolution of the budget for physical construction in work management approvals in the BAC (thousands of euros). 2001-2016



Source: Spanish Ministry of Public Works

### 5.2. Evolution of the activity in the sector: permits related to new building vs rehabilitation

- The positive evolution in the number of building permits in 2016 points to an improvement in the activity of the construction sector in the short term, if we follow the dynamics demonstrated by the number of building permits issued according to the Basque Government Building and Housing Statistics (EDYVI). In 2016, a total of 3,145 building permits were recorded in the BAC, 14.6% more than in 2015, increasing the growth rate observed in 2015 (+6.3%).
- This positive trend is particularly consistent, occurring both in the permits for new buildings (+16.6%) and in the case of rehabilitation permits (+14.5%) and exceeding the growth rate observed in 2015 in both cases (+13.8% and +5%, respectively).
- Rehabilitation activity in particular is contributing positively to this greater dynamism of the construction sector, with record highs in recent years in the number of building permits being recorded, far exceeding the numbers achieved in the years prior to the crisis. In this context, the number of building permits associated with rehabilitation works represents 81.6% of the total number of building permits in 2016.
- However, despite the considerable increase associated with rehabilitation activity, the economic impact on the sector is not particularly beneficial, as shown by the decrease observed in the execution budget associated with this type of permit in relation to 2015.

## 6. The impact of the financial crisis

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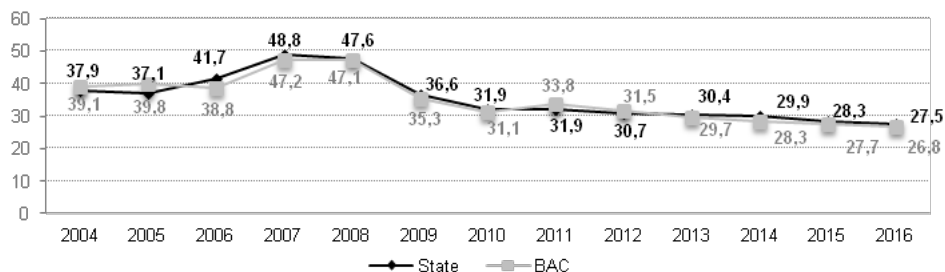
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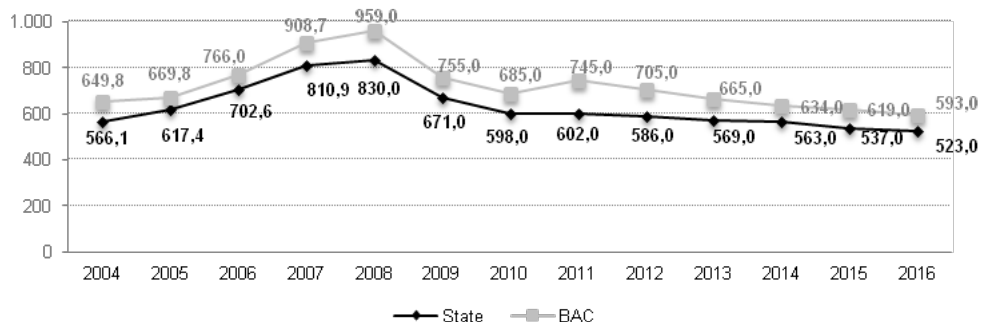


Evolution of the mortgage repayments for the mortgages taken out in relation to salary (financial commitment). BAC and State. 2004-2016



Source: Association of Property and Mercantile Registrars of Spain. Real Estate Registry Statistics

Evolution of the mortgage repayments for the mortgages taken out. BAC and State. 2004-2016



Source: Association of Property and Mercantile Registrars of Spain. Real Estate Registry Statistics

Main indicators regarding mortgages taken out, household indebtedness, foreclosures and evictions in the BAC and comparison with the State.

### 6.1. The financial commitment and indebtedness of households

- According to the information provided by the Real Estate Registry Statistics of the Association of Registrars, the situation of households that have become indebted in recent years is considerably more favourable than that of those who signed a mortgage in the years of the real estate boom. This improvement is explained to a large extent by the sharp drop in the price of housing during the crisis.
- In this regard, the financial commitment of households that signed a mortgage loan in 2016 is 20 percentage points lower than what would have been taken on at the end of the last decade by households that required access to a mortgage loan to finance the purchase of their home:
  - The average for mortgage repayments taken out in 2016 in the BAC is 593 euros, which represents a reduction of 4.2% compared to 619 euros per month in 2015. In relation to the State average, the average repayment for mortgages signed in the BAC in 2016 is 70 euros per month higher.
  - In comparison with the years of the real estate boom, the average mortgage repayment for new mortgages signed has decreased by 360 euros per month in the BAC.
  - The financial commitment placed on households to make this repayment in 2016 (measured in terms of the ratio between average monthly mortgage repayment and salary) is somewhat lower in the BAC (26.8%) than in the State (27.5%), due to the higher average salary level of the Basque salaried population, having fallen by 1.2 percentage points with respect to 2015.

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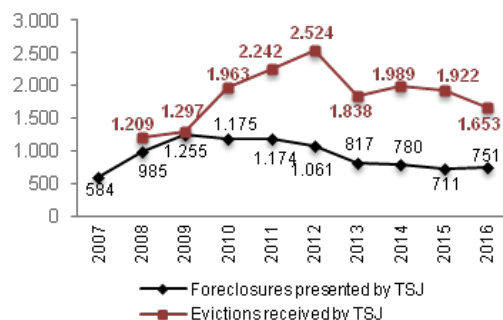
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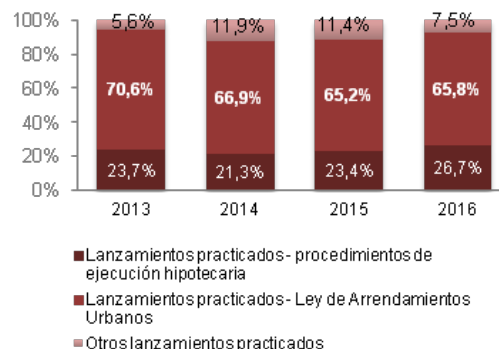
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Evolution of evictions and foreclosures in the BAC. 2007-2016

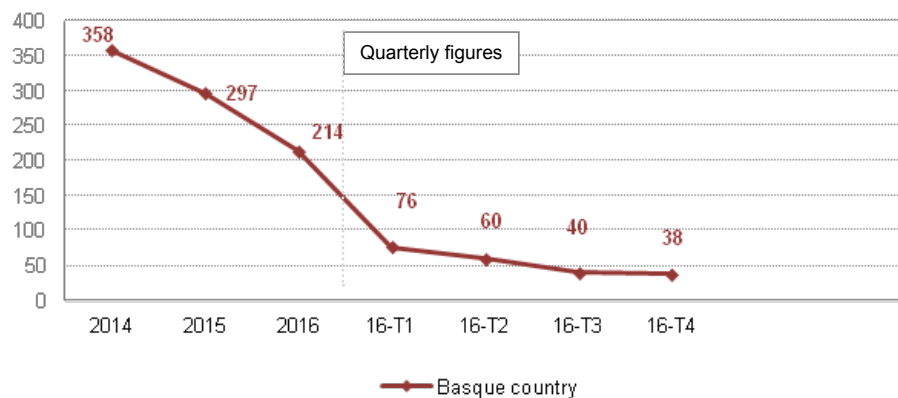


Source: General Counsel of the Judiciary statistics

Evolution of evictions carried out by cause. 2013-2016



Evolution of foreclosures of homes in the BAC 2014-2016 according to the INE



Source: INE

### 6.2. The impact of the crisis: foreclosures and evictions

- For the first time since 2009, the number of foreclosures registered by the Courts of First Instance in the BAC has increased, according to the information provided by the General Counsel of the Judiciary on the impact of the crisis. In 2016, 751 foreclosures were recorded in the entire BAC, 5.3% more than in 2015. However, the INE statistics published since 2014, and which focus exclusively on foreclosures of homes, point to a significant reduction in this type of foreclosure in the BAC in 2016.
- This increase in the number of foreclosures in the BAC contrasts with the positive trend that continues to be observed in the State as a whole, where the number decreases very sharply in 2016, from 68,135 foreclosures in 2015 to 48,410 foreclosures in 2016, which represents a fall of 21%.
- However, the relative incidence of these foreclosure processes continues to be much lower in the BAC compared to the State. Thus, in the BAC a total of 35 foreclosures per 100,000 inhabitants were recorded in 2016, while in the State this ratio is three times higher and stands at 104 foreclosures per 100,000 inhabitants.
- With regard to the evolution of the number of evictions, 2016 was particularly positive, such that a total of 1,653 evictions were recorded in the entire BAC, which represents a decrease of 14% compared to 2015.

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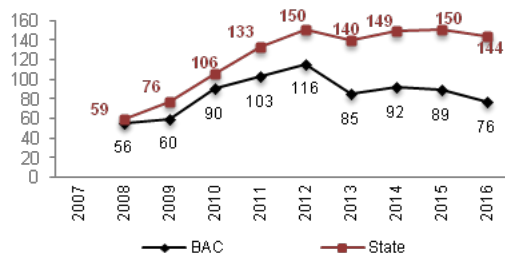
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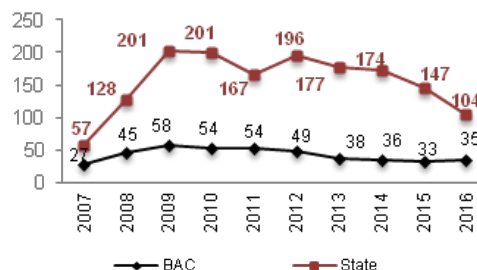
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Evictions received TSJ (High Court of Justice)/100,000 inhab. 2008-2016

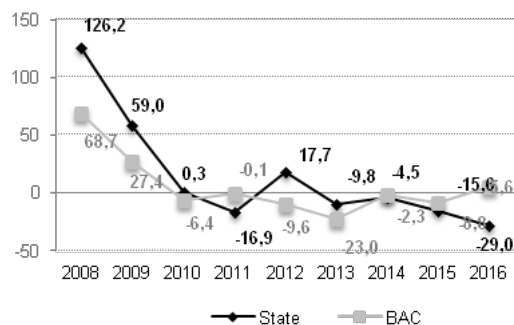


Foreclosures presented TSJ/100,000 inhab. 2007-2016

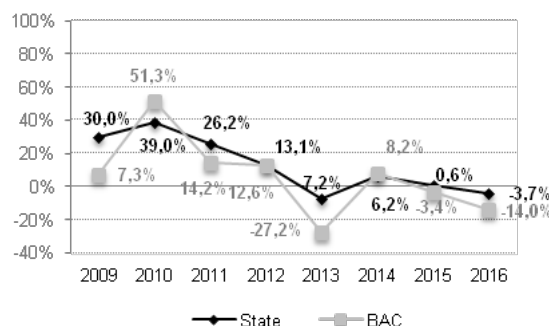


Fuente: Elaboración propia a partir de INE y Estadística del Consejo General del Poder Judicial

Evolution of the number of foreclosures in the BAC and the State. 2008-2016 (year-on-year variation rates)



Evolution of evictions in the BAC and the State. 2008-2016 (year-on-year variation rates)



- In this way, the evolution of the number of evictions was more favourable in the BAC than in the State, where they decreased by 3.7%. Similarly, the relative incidence of evictions is also considerably lower in the BAC than in the State, such that in 2016 there was a ratio of 76 evictions per 100,000 inhabitants, half of that in the State (144 evictions/100,000 inhabitants).
- As in previous years, two of every three evictions in the BAC (65%) have to do with the Urban Leasing Law, while a considerably lower proportion of them (26%) are associated with foreclosure procedures.
- Finally, it should be noted that in 2016 a total of 94 "dations in payment" were made in the BAC, 9.3% more than in 2015. This growth contrasts with the sharp falls in the number dations in payment observed in most of the autonomous communities compared to 2015. The BAC is the autonomous community that had the lowest incidence of dations in payment in 2016 in relation to its population (4.3 dations per 100,000 inhabitants), well below the State average (8.4 dations/100,000 inhabitants). Other autonomous communities such as Valencia, Catalonia or Andalusia have a ratio as much as 6 times higher than the Basque.

1. "Dation in payment" means handing over the mortgaged house to the creditor as a form of total payment of the amount due, the debtors being released from their debt. This transfer is agreed between debtor and creditor and undertaken by public deed which is then recorded in the Land Registry.

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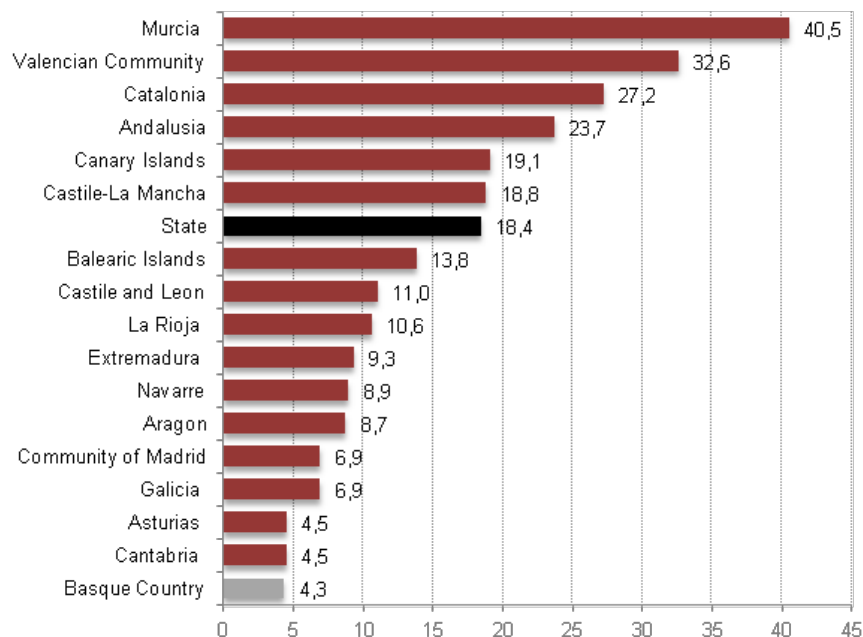


Evolution of datons in payment in the BAC and by autonomous community. 2015-2016

	2015	2016	2015-2016
Cantabria	39	26	-33,3%
La Rioja	52	33	-36,5%
Asturias	63	47	-25,4%
Extremadura	66	100	51,5%
Basque Country	86	94	9,3%
Navarre	172	57	-66,9%
Galicia	268	186	-30,6%
Balearic Islands	290	159	-45,2%
Castile and Leon	291	267	-8,2%
Aragon	315	114	-63,8%
Castile-La Mancha	387	384	-0,8%
Canary Islands	481	411	-14,6%
Community of Madrid	571	444	-22,2%
Murcia	928	597	-35,7%
Valencian Community	2.118	1.611	-23,9%
Andalusia	3.136	1.997	-36,3%
Catalonia	3.351	2.022	-39,7%
State	12.614	8.549	-32,2%

Source: Association of Property and Mercantile Registrars of Spain. Real Estate Registry Statistics

Incidence of datons in payment in the BAC and by autonomous community. 2016 (Number of datons/100,000 inhabitants)



Source: Association of Property and Mercantile Registrars of Spain. Real Estate Registry Statistics

## 7. Main indicators for housing policy in 2016

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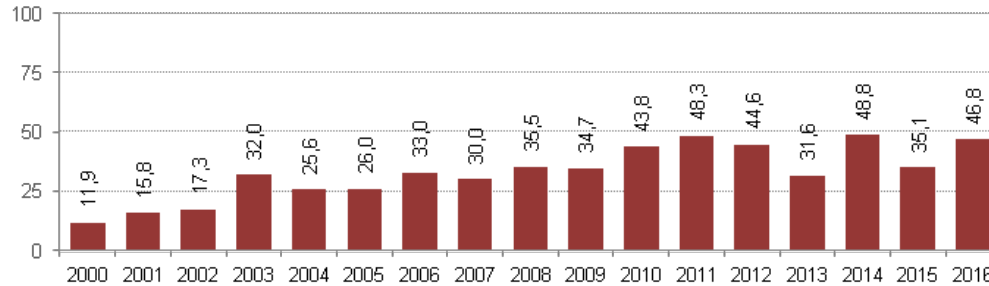
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Evolution of completed homes by housing type. 2000-2016



Source: Dept. of Environment, Land Use Planning and Housing (Basque Government) and Ministry of Public Works

Relative sizes of the leased subsidised housing stock in the BAC. 2001-2016

Year	Leased subsidised housing stock*	Total subsidised housing stock	Share of stock for lease (%)
2001	740	36.029	2,1
2005	7.660	49.679	15,4
2010	19.595	63.103	31,1
2011	20.513	70.067	29,3
2012*	18.445	74.019	24,9
2013*	18.129	74.480	24,3
2014*	17.770	77.468	22,9
2015*	17.504	77.399	22,6
2016	17.801	76.330	23,3

\*These figures include all the subsidised housing and VPO for lease, and also the housing of Bizigune  
Source: Department of Environment, Land Use Planning and Housing. Basque Government

- The relative weight of subsidised housing as a percentage of new housing built in 2016 was at a level that was close to the record high. Of the total homes completed in 2016, 46% were subsidised housing. This high level is largely associated with the low level of construction of private market housing in 2016.
- In a complex economic and social context, the Basque Public Administrations have aimed to maintain the commitment to the promotion of leasing, such that, in 2016, 40% of the leased housing stock in the BAC involved intervention in terms of subsidised housing, as well as through the significant aid and benefits system:
  - More than 76,000 homes make up the subsidised housing stock in the BAC, 23% on a lease basis, and 17,800 households are able to benefit from access to the BAC leased subsidised housing stock, by paying a subsidised rent.
  - The system of social assistance for leasing is fundamental in supporting those households with the greatest difficulties, and represents a benchmark at State level, having made it possible to contribute to the payment of leased housing for more than 44,000 beneficiaries, with a budget of over 100 million euros earmarked for this purpose.
- Finally, with regard to the other major aspect of the housing policy, which is the promotion of the rehabilitation of the housing stock in the BAC, it should be noted that during 2016 a total of 12,655 homes received aid amounting to a total of 15.8 million euros for the carrying out of rehabilitation work on shared and privative areas, which represents a moderate growth with respect to the scope of the aid provided in 2015.



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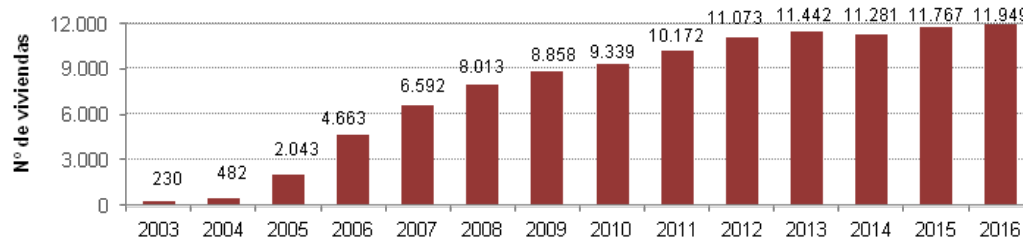
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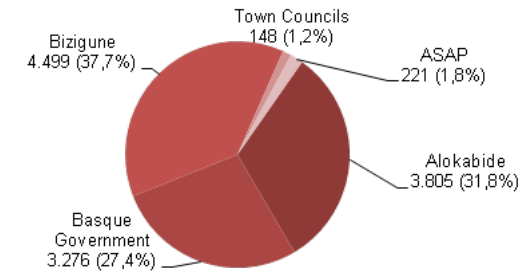
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Evolution of the housing stock managed by Alokabide. 2003-2016



Source: Department of Environment, Land Use Planning and Housing. Basque Government

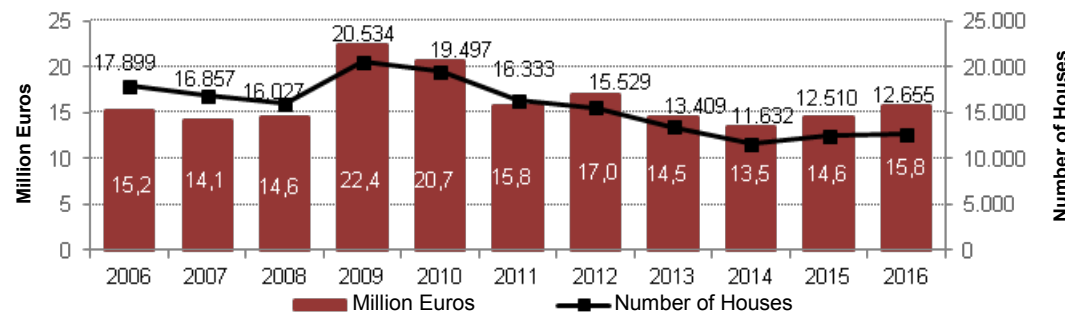


Estimate of the percentage of the subsidised leased housing stock in the BAC, by type of aid and as a percentage of total expenditure. 2016

	Recipients/Aid	% of total leased housing stock	Total cost (euros)
Basic Income Support	192	0,2	346.773
Complementary Housing Benefit	35.493	32,6	90.971.252
Social Emergency Benefit	8.469	7,8	11.665.663
Housing Benefit	22	--	38.000
<b>Total</b>	<b>44.176</b>	<b>40,6</b>	<b>102.983.688</b>

Source: Department of Environment, Land Use Planning and Housing. Basque Government

Evolution of the number of rehabilitated houses and of the total amount of subsidies for rehabilitation. 2006-2016



Source: Department of Environment, Land Use Planning and Housing. Basque Government

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- In 2016, the process of recovery of the Basque economy which began in 2014 after the recession of 2008, was consolidated. GDP increased by 3.1%, two tenths of a point higher than in 2015, while employment also grew significantly by 1.2%, although at a somewhat lower rate than in 2015 (+1.4%).
- The improvement observed in the Basque construction sector during 2016 was especially positive, -after six years of decline and only a weak recovery in 2015. In 2016, production activity in the BAC increased by 1.6% with respect to 2015, which was three times more than the growth rate of the previous year, generating a 1.1% increase in employment in the sector. Additionally, the forecasts of the agents in the sector continue to improve, as they have since 2012 according to the Basque Government's Real Estate Supply Statistics.
- However, construction activity involving new building has not quite got off the ground in the BAC, considerably undermining the recovery potential of the Basque construction sector. Thus, 2016 saw a record low since 2000 for new housing production in the BAC, with 3,512 completed homes, 36.9% less than in 2015.
- This sharp drop in construction activity involving new housing reverses the improvement that was seen in 2015, when a total of 5,536 homes were completed in the BAC, 15.4% more than were built in 2014.
- The construction of private market housing showed the worst performance in 2016 (-48%), while the number of subsidised homes completed in 2016 decreased by 16%. In the province of Biscay there was a sharper fall in building activity in 2016, while in Gipuzkoa the dynamics observed were more moderate, with the increase in completed subsidised housing observed in this territory being particularly significant (+35% ).
- Although the construction of subsidised housing continues to decrease, the fall was lower than that recorded in private market housing, thus, the relative weight of subsidised housing activity increased in 2016 to reach 46% of the total homes completed in 2016.
- In parallel with the sharp decline in building activity, the stock of unsold new housing decreased particularly sharply in 2016 in the BAC (-34%), an acceleration on the rate of decrease in 2015 (-14.5%). In December 2016, the relative weight of the unsold new housing stock was 0.6% of the Basque housing stock, well below that at the State level (1.9%).
- The prospects for the construction sector are positive. In 2016, the number of building permits in the BAC increased by 14.6%, higher than the 6.3% increase in 2015. This positive evolution is seen both in the number of permits for new buildings (+16.6%) and in the case of rehabilitation permits (+14.5%). However, it is the rehabilitation activity that is contributing in a more positive way to this greater dynamism in the sector, with record highs in recent years for the number of building permits associated with this type of activity.



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- In this context, the number of building permits associated with rehabilitation works represents 81.6% of the total number of building permits in 2016. However, the economic contribution to the income statement of companies is more limited given the considerably lower value of this type of work. The implementation of the ITEs is generating a positive impact on the activity in the sector, with a considerable increase forecast for the coming years given the high number of buildings for which these must be carried out (75,000 buildings).
- According to the Basque Government's Real Estate Supply Statistics, both the average price per usable square metre of the re-sale housing on offer and the new private market housing have continued the downward trend during 2016. In contrast, the average lease price has rebounded in recent years.
  - The average price per usable square metre of re-sale homes decreased by 4.9% in 2016 (slightly more than the -4.4% in 2015), while that of new private market housing fell at a more moderate rate (-2.8%, compared to -2.2% in 2015).
  - The average rent of private market housing available for lease increased by 0.9% to 879 euros, continuing the increase recorded in 2015 (+3.2%), when it reached 872 euros per month.
- In spite of the falls in prices, the BAC continues to be the autonomous community with the most expensive housing in the State in 2016, as shown by the housing price statistics from the Ministry of Public Works. Thus, the average price per constructed square metre exceeds the State average by 55% for re-sale housing and by 56% in the case of new private market housing.
- The process of adjustment in the price of housing during the recession contributed to the recovery of activity in the Basque property market, leading to 18,730 transactions in 2016, 13% more than in 2015. However, this recovery was based, to a large extent, on the major growth of the re-sale housing market:
  - In 2016, 14,465 sales of re-sale homes were completed in the BAC, 18% more than in 2015, surpassing the record high recorded in 2007 (14,369 sales).
  - Despite the 7.1% increase in the number of sales of new private market housing, the number of transactions in 2016 (2,532) was still at levels that represent only one third of the number of transactions that were recorded in the years prior to the crisis.
- In this context of recovery of the real estate market, the activity of the mortgage market continues to increase in 2016, such that the number of mortgages taken out in the BAC reached the figure of 15,201, 7.5% more than in 2015. This growth consolidated the sharp increase recorded in 2015 (+24.5%) that put an end to a decreasing trend (between 2006 and 2014 the number of mortgages signed in the BAC only grew in 2010). However, the activity in the mortgage market continued to be far lower than in the years prior to the crisis, when it exceeded 40,000 mortgages/year.



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- The weakness of the effective demand for access to a first home continues to be very noticeable and, to a large extent explains the growing importance of the demand for leased housing.
  - According to the Housing Needs and Demand Survey (ENDV) of 2015, the demand for access to a first home, within a horizon of 4 years and by people who have some type of income enabling them to address this need, is estimated at around 13,000 homes. According to the options indicated by the people that express this need, most of this demand would be channelled through leasing.
  - The demand for subsidised housing in Etxebide is directed towards leasing in 8 out of 10 applications. It should be noted that a considerable percentage of these cases involve people who are now independent on a lease basis.
  - Most of the 72,000 people in need of access to a first home included in the ENDV figures in 2015 did not even have a minimum level of income for this purpose, which underscores the significant impact of the crisis on groups with special difficulties in accessing employment, such as dependent young people.
- To this end, the severe impact of the crisis continued to affect significant population groups in the BAC in 2016. One of the most extreme repercussions of this impact is evident in terms of foreclosures and evictions:
  - In 2016 there were 751 foreclosures in the BAC, 40 more than in 2015 (+5.3%), while the number of evictions that occurred (1,653) decreased by 14%, with two out of three cases linked to the Urban Leasing Law. However, the relative incidence in relation to the population was considerably lower in the BAC than in the State. Additionally, INE data on foreclosures relating to housing in the BAC actually reflected a considerable fall between 2015 and 2016.
  - Similarly, in 2016 there were 94 dations in payment in the BAC, 9.3% more than in 2015. The BAC has the lowest incidence of dations in payment per 100,000 inhabitants within the State.
- Faced with this complex situation, the Basque Public Administrations have played an important role in trying to alleviate the consequences of the crisis among the groups that have become most disadvantaged as a result, as well as in facilitating their access to housing. Although the rate of production of subsidised housing has been affected by the economic and budgetary crisis, it is worth noting the very important role played by the Basque benefit and social assistance system in its attempts to alleviate this situation, benefiting more than 44,000 people in 2016.

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- Comparative evolution of real GDP with market prices in the BAC and the added value of the construction sector 2008-2016. (Year-on-year variation rates)
- Variation in the employed population 2008-2016 (Year-on-year variation rates)
- Net change in the employed population of the construction sector and of the economy of the BAC 2008-2016 (thousands of employed people and cumulative variation rates)
- Evolution of the relative weight of the construction sector in the BAC and the State. 2008-2016
- Evolution of the dynamism index of the real estate market. 2004-2016

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- Evolution of completed homes by housing type. 2000-2016
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- Price per usable m2 of housing by province. 2007-2016
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- Evolution of the demand for access to a first home in the BAC. 2013-2015
- Demand for subsidised housing recorded in Etxebide (application files). Evolution 2005-2016
- Type of housing requested by the people registered in Etxebide. Evolution 2005-2016
- Evolución de las solicitudes de vivienda protegida en Etxebide 2015 y 2016 según Territorio Histórico y régimen de tenencia
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- Evolution of the buying and selling of housing by type of housing. BAC. 2004-2016
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- Ranking of average prices per constructed square metre of re-sale housing in the autonomous communities 2016 (euros)
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Housing rehabilitation

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- Quantification of the need for housing rehabilitation according to demand horizon. Comparison 2011-2015
- Final result of the ITEs carried out up to January 2017
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