That no market is ready for this break is clear, but ... What will happen next? What are the effects of the pandemic in the real estate sector?

CONSEQUENCES COVID-19 IN REAL ESTATE

MARCH 2020

GLOVAL
ANALYTICS

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introduction

The place where we put our experience at your disposal.

The economic and real estate situation before the pandemic was preceded by a stagnation in the sale of homes. Gross Domestic Product (GDP) growth was slowing down, with a feeling of stagnation in house prices and some drops in some municipalities.
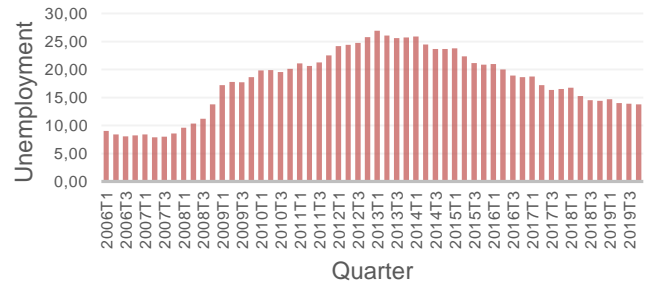
Background and economic variables

ANNUAL GDP
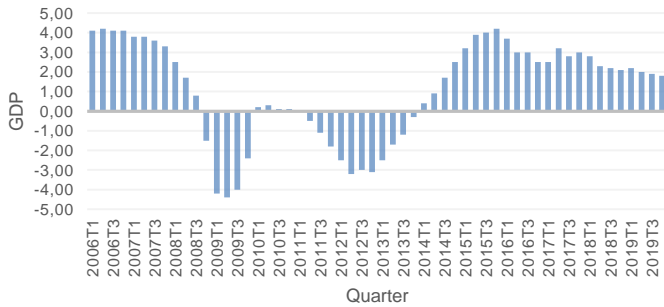
GDP: The economic and real estate situation before the pandemic was preceded by a stagnation in the sale of homes. Gross Domestic Product growth was slowing down and was low, with a feeling of stagnation in house prices and some drops in some municipalities.

UNEMPLOYMENT RATE: Job reductions and / or massive layoffs are expected, which leades to a decrease in income are expected. This means that a greater effort has to be made and as a consequence an overvaluation of the properties stressing the rent. Risk of defaults in areas with % salary destined to the mortgage payment or high rent.

UNEMPLOYMENT RATE

GDP

1,80%

(4T-2019)

UNEMPLOYMENT

13,78%

(4T-2019)

Background and economic variables

DEMAND

The drop in current demand is a reality due to the impossibility of making visits to the properties. Job insecurity in the face of fear of layoffs or job reductions along with a shortage of financing are not good indicators of growth in the medium term.
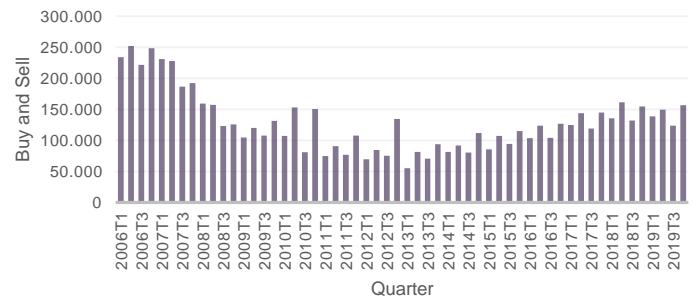
BUY AND SELL

The slowdown in the current sale is evident with the stoppage of signatures by notaries and registrars except for urgent causes. Changing priorities makes buying a home secondary. Furthermore, a drop in property sales to foreigners is expected. The state of alarm situation presents legal uncertainty.
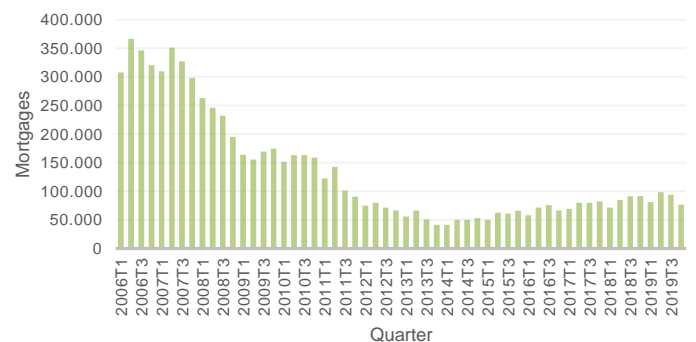
BUY AND SELL

NO. OF MORTGAGES

The difficulty in carrying out tasks in bank branches along with the partial closure of several of these branches influences their formalization. The future conditions of developer loans will be reviewed.

MORTGAGES

BUY AND SELL

1,80%
(4T-2019)

## MORTGAGES

-16,65%
(4T-2019)

Background and economic variables

OFFER

The supply of second-hand homes remains stable, although there is a slowdown in the start of new construction in the last quarter.

No. NEW HOUSING HOUSES

New construction promotions slow sales and some are suspending quotas for their buyers. This situation can cause slight falls in value in new construction, although to a greater degree as second-hand ones have less demand. Offers of tourist flats that are transferred to long-term rentals due to low demand, which will mean an increase in supply and can lead to a decrease in rents.

HOUSING VISAS
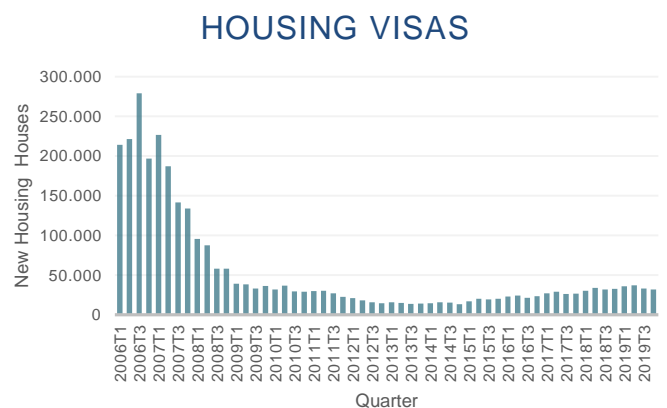
REAL ESTATE MARKET

It is clear that the scope will depend on how long the situation lasts. Moratoriums on rent payments from owners who do not want defaults will cause little liquidity. Although construction is not closed, there is a shortage of materials. This situation supposes a paralysis of the sector.
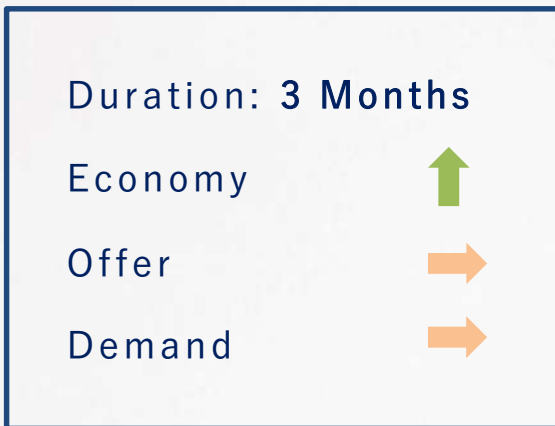
## NEW CONSTRUCTION

-2,97%

(4T-2019)

Scenario Generation

V Scenario:

Duration: **3 Months**

Economy ⬆

Offer ➡

Demand ➡

Short term drop both in PIB as well as sector variabes. Unemployment will increase durint the short crisis management period, but it will snap back to pre-crisis level. Low interest rates and scarce profitable alternative assets on short to mid term periods will prompt a fast recovery of the real state sector.

U Scenario:

Duration: **9 Months**

Economy ➡

Offer ➡

Demand ⬇
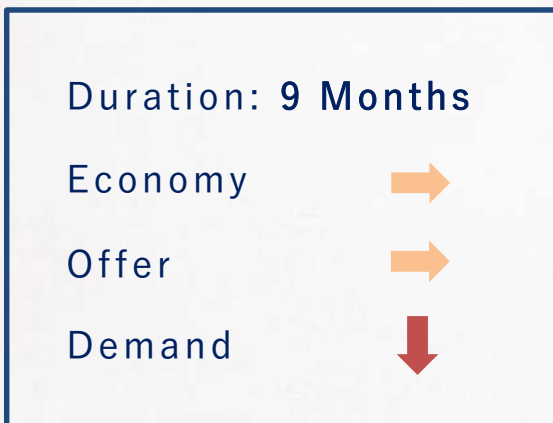
Unemployment rate will suffer due to low over-time production. This will affect real state negatively. Variables will follow a similar path as the early 2008 crisis for three quarters. Then, they follow a similar path as the economic recovery during 2014.

L Scenario:

Duration: **18 Months**

Economy ⬇

Offer ➡

Demand ⬇
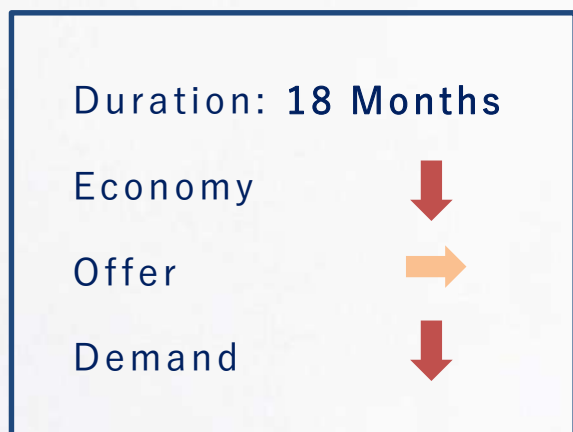
Sustained low production low production and international and the international situation creates a strong shock. This is represented by economic variables following the 2008. A negative feedback loop gets induced, and the economic situation worsens overtime. Pre-crisis growth levels are not attained back in our study period.

Three possible scenarios

More data, better decisions.

The agreement between the analysts takes into account three scenarios on the economic evolution in the coronavirus crisis:

- **Scenario V:** Fast recovery.

  The shock is temporary and the economic situation recovers after a quarter of economic slowdown during the management of the virus.

- **Scenario U:** Slow recovery.

  The crisis management lasts for three quarters with its respective economic slowdown. But the economy recovers its previous situation after the crisis.

- **Scenario L:** Structural shock.

  The effects of the crisis have a lasting negative effect on the economy.

Scenario Generation

In order to quantitatively assess the tree previous scenarios' impact on the Spanish housing market, forecasts under each scenario are computed using a VARX model (vector autoregressive with exogenous variables). Best case scenario, housing preces will maintain their current moderate trend. However, worst case scenario, the situation will be as experienced during the 2008 fiancial crisis.
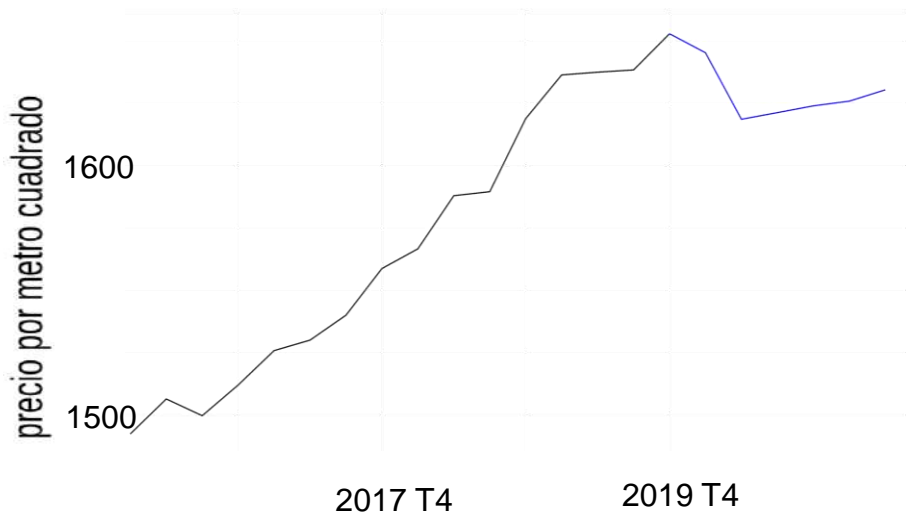
The table below showcases growth rates for each scenario three and 6 quarters ahead.
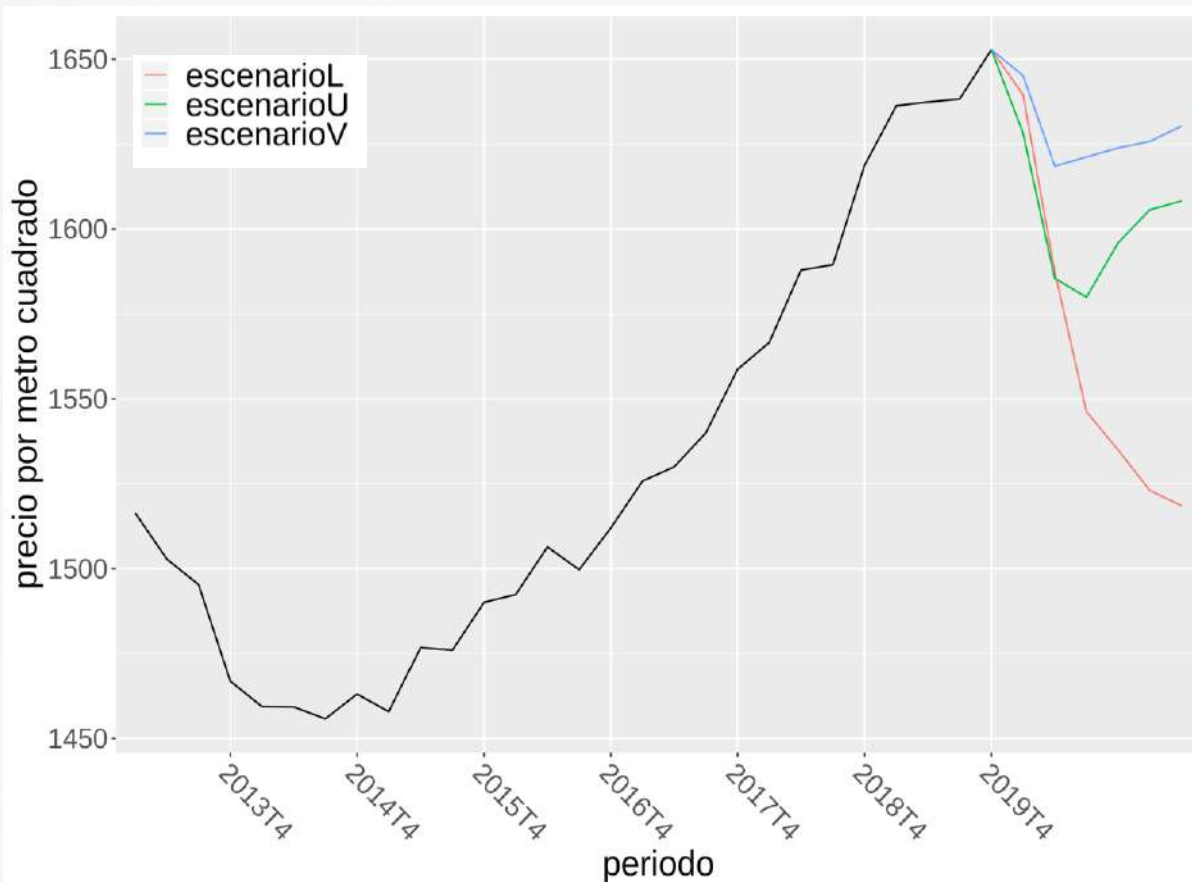
Scenario	V	U	L
3 quarters	-1.94%	-4.42%	-6.47%
6 quarters	-1.39%	-2.72%	-8.11%

V Scenario

Alarm state has a limited duration. This yields a transistent shock to economic variables and the real state sector will recover quickly.

precio por metro cuadrado

1600

1500

2017 T4   2019 T4

Duration: **3 Months**

Economy

Offer

Demand

Forecast: The unemployment rate increase will be mostly caused by short term economic stop caused by the crisis management. By the end of the quarter unemployment rate will return to pre crisis levels.
Low interest rates and scarce profitable alternative assets on short to mid term periods will prompt a fast recovery of the real state sector.
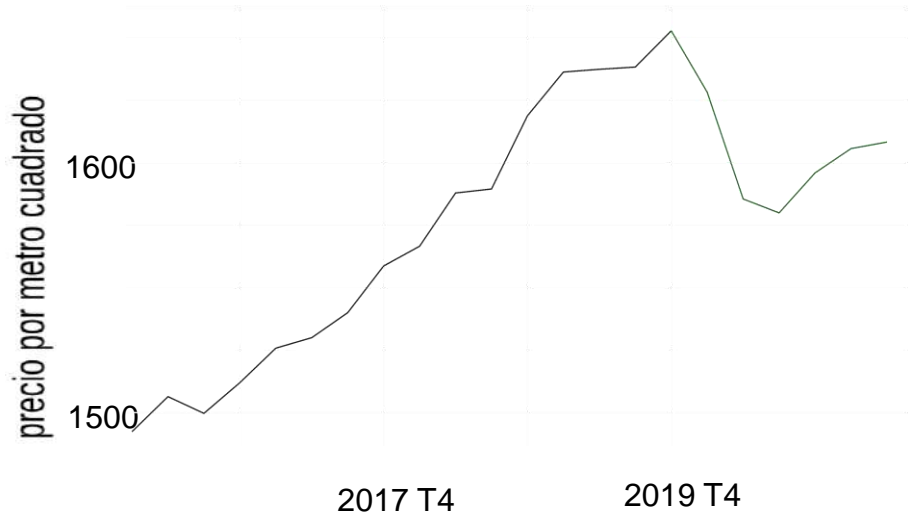
Growth Rate

-1.94%   -1.39%

3 quarters   6 quarters

U Scenario

Sector variables get affected by a long alarm state. Mortages are not issued due to growing unemployment. The sector depends of economic tides turning to recover their previous levels.

precio por metro cuadrado

1600

1500

2017 T4   2019 T4

Duration: **9 Months**

Economy   ➡️

Offer   ➡️

Demand   ⬇️

Forecast: After a three quarter drop in GDP and unemployment rate, growth rates return to pre-crisis levels. Low economic activity during a prolonged period of time have negative consecuences on employment and the real state sector.
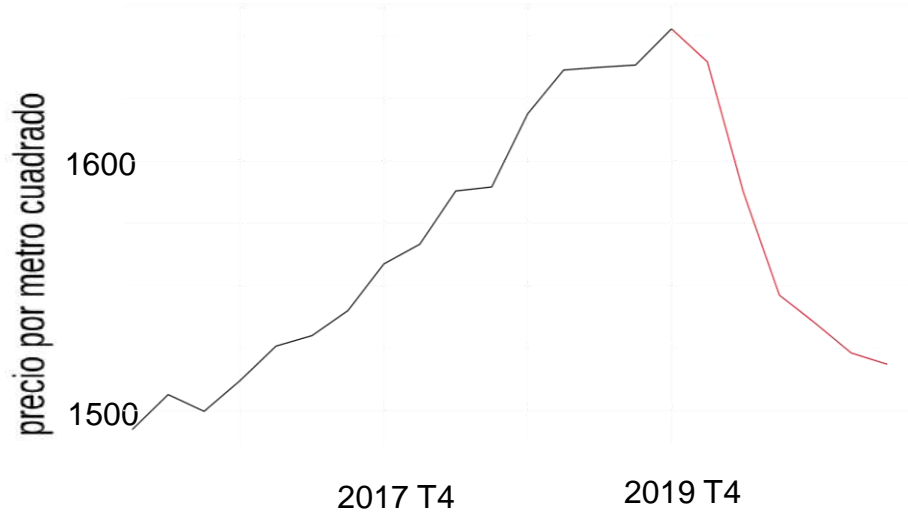
Growth rate

-4,42%   -2,72%

3 Trimestres   6 Trimestres

L Scenario

Entramos en recesión y el empleo cae con fuerza, el efecto del parón económico de la pandemia a nivel mundial, provoca una paralización del sector inmobiliario.

precio por metro cuadrado

1600

1500

2017 T4   2019 T4

Duration: **18 Months**

Economy

Offer

Demand

Forecasts: Housing sales will drop as demand dwindles. Worse case scenario, demand could drop 80% due to lack of international buyers and investors. It is hard to quantify the extent of the shock, as the Spanish economy is highly dependent on tourism and the closeness to summer as the crisis unfolds. Offer will maintain, as sellers need liquidity and new buildings will not be sold until economic recovery and financing is available.

Growth Rate

-6.47% -8.11%

3 Quarters   6 Quarters

Contact

Dr. Carlos Gómez Castro
Chief Data & Analytics Officer

info@analyticsgloval.com