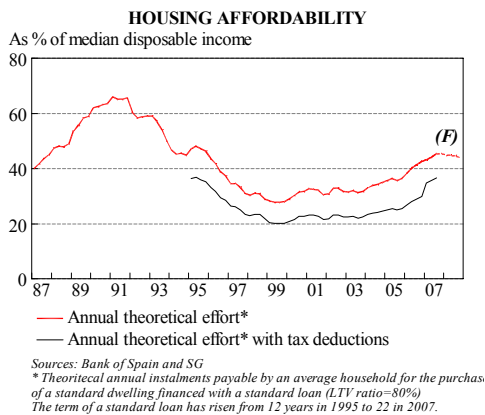


CHANCES OF A HARD LANDING FOR THE SPANISH HOUSING MARKET ARE GROWING

- In Spain, demand for housing and mortgages is weakening significantly and existing home sales are declining.
- Given the context, the fall in prices is taking root and supply is beginning to adjust. Housing starts could drop from 760,000 units in 2006 to some 500,000 in 2008 and as average time to delivery is two years, the impact on housing stock growth won't be fully felt until 2009.
- The chances of a hard landing grew this summer, with the US subprime crisis having a knock-on effect on the interbank credit market and especially on emissions of mortgage-backed securities (MBS) which Spanish credit institutions have been using increasingly in recent years.

Demand for housing is weakening...

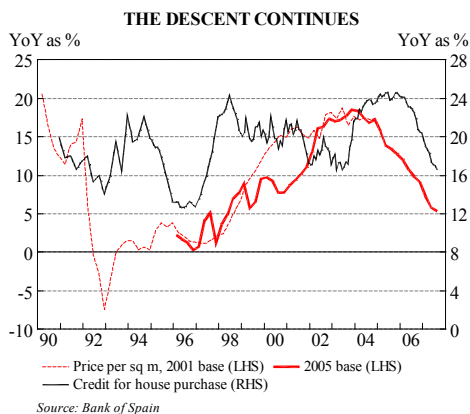
According to the latest figures, the Spanish housing market is continuing its downward trend. The combined rise in prices and short-term interest rates has considerably reduced demand. For a typical household, the theoretical effort required to buy a house has substantially grown: in two years, the burden of the annual repayment has risen from 35.7% to 45.4% of the disposable income (from 25% to 36.5% taking tax deductions into account).



Furthermore, demographic factors that have previously boosted demand are waning. The number of households formed thus dropped to 417,000 over a year in the 2nd quarter of 2007, vs. almost 500,000 on average in 2006 and 540,000 in 2005. The positive impact that waves of immigration have had on demography is no doubt subsiding. Lastly, families will be "undoubling" less and less since the 25-35 age band will account for an increasingly smaller proportion of the population in years to come.

This slowing of demand for housing can be seen from the falling existing home sales and stagnating new home sales. Lastly, we are seeing a clear reduction in demand for loans for house purchase, as confirmed by the latest survey on bank loans published by the Bank of Spain.

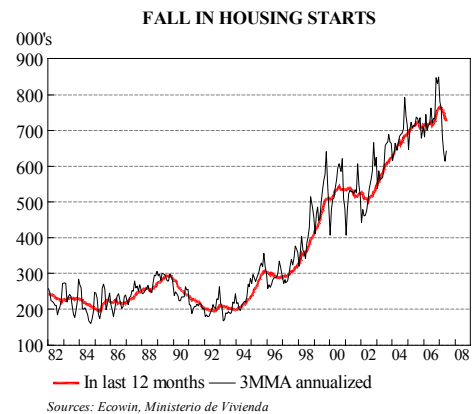
... prices and supply are adjusting



Against this backdrop, the rate of the price increase, which has been slackening since mid 2004, slowed further in the 3rd quarter: it currently stands at only 5.3%, down from 9.8% a year before. On average, we predict a 5.5% rise in 2007 and stagnation in 2008.

What is new is that, after increasing for several years at a rate much higher than presumed, supply is now showing signs of weakening. The data are, however, difficult to interpret, as building permits and housing starts have been affected by the gradual introduction of a new technical construction act brought in in September 2006 and March 2007.

As the act is more restrictive, permit numbers rocketed in the run-up to the two key dates then dropped back immediately afterwards. In raw data, the number of housing starts was 760,000 in 2006 and could fall to around 630,000 in 2007 and to 500,000 in 2008¹.



Such a slowdown in construction could eventually cost almost 400,000 jobs (the building industry strictly speaking currently employs some 2.7 million Spaniards), with nearly 100,000 being lost in 2008 alone. Such job losses will have an adverse impact on household consumption (read our scenario on pages 32-33).

A harder landing is not ruled out

A harder landing than the one we are outlining must not be ruled out either. In Europe, Spanish credit institutions rank second behind the British in use of RMBS to finance the expansion of their mortgage loan portfolio. And there is reason to fear that, unlike the covered bond market, the mortgage-backed securities market will suffer over the long term (drop in emissions, rise in yield demanded by investors). Some Spanish banks would therefore be forced to limit access to loans by applying more stringent selection criteria to credit seekers. Property financing would inevitably be hit and the adjustment on prices and supply even more noticeable.

Tanguy SIMON + 33 1 42 14 29 72

¹ Without the effect of the act, the number of housing starts would have been close to 720,000 in 2006 and to 675,000 in 2007.

All opinions and estimations included in the report represent the judgment of the sole Economics Department of Société Générale and do not necessarily reflect the opinion of the Société Générale itself or any of its subsidiaries and affiliates. These opinions are subject to change without notice. It does not constitute a commercial solicitation, a personal recommendation or take into account the particular investment objectives, financial situations.

Although the information in this report has been obtained from sources which are known to be reliable, we do not guarantee its accuracy or completeness. Neither Société Générale nor its subsidiaries/affiliates accept any responsibility for liability arising from the use of all or any part of this document.

Société Générale may both act as a market maker or a broker, and may trade securities issued by issuers mentioned in this report, as well as derivatives based thereon, for its own account. Société Générale, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any issuer mentioned in this report.

Additional note to readers outside France : The securities that may be discussed in this report, as well as the material itself, may not be available in every country or to every category of investors.

