Angst and denial as Spain's property boom ends

By Andrew Hay
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On a street corner in Tetuan, a working-class area of Madrid, hand-written "for sale" notices have faded to yellow as owners hold out months for their asking prices, refusing to believe that a nine-year property boom is over.

Having gained 190 percent since 1998, one of the world's hottest property markets has finally succumbed to high lending rates, oversupply of a million homes in the past four years and prices that are up to 30 percent overvalued.

Real estate agent Angel Velazquez says some homeowners in Tetuan have cut prices by up to 25 percent to try to attract a buyer, while small property agencies have gone under after months without a sale.

"It's taking time for people to realize the boom is over, they think they can still make lots of money, but it's finished," Velazquez said.

The government's national figures have not registered a decline, reporting a 5.8 percent increase in prices for the second quarter over a year earlier.

And Prime Minister Jose Luis Rodriguez Zapatero, who faces an election next year, assures Spaniards and foreign holiday home owners the property market will have a soft landing, unlike previous meltdowns in the 1990s and 1980s.

Spain's economy is robust, with

thousands of construction workers could lose jobs as residential construction slows. That could cut Spanish growth by a percentage point in 2008 and end Spain's long outperformance of euro zone peers, economists warn.

"If we're lucky, we're entering a period of house price stagnation around the level of inflation, which will include price falls," said Fernando Encinar, a director of Idealista.com, Spain's biggest online property advertising site.

Price declines could be sharper, and drag on longer, if firms continue to flood the market with new homes. Stock market investors remain jittery as the global credit crunch puts extra pressure on over-leveraged Spanish real estate firms.

"There is potential for panic," says economist Susanna Garcia at Deutsche Bank in London.

SPANISH SPRAWL

Nearly a third of all concrete and asphalt covering Spain was laid in the last 14 years, as the former European economic backwater built homes and infrastructure and took per capita income to a level now close to the EU average.Ranks of identical ochre and beige brick apartment blocks have marched out over plains and farmland around cities like Madrid and Valencia.

A symbol of the boom is Sanchinarro, a higher-end neighborhood on the sprawling northern edge of the capital.

Forget the Spain of cafe-lined streets and noisy plazas.

The only sounds in Sanchinarro are the whir of air conditioners and muffled shouts of children splashing in gated, communal swimming pools.

Wealthier Spaniards sick of crowded, noisy inner city living moved out to its blocks and now shop at nearby malls and hypermarkets. Others went to out-of-town housing estates served by wide new highways built on EU development funds. Immigrants moved into their homes.

On Spain's Mediterranean, holiday villas have mushroomed as hundreds of thousands of Britons and Germans bought property in the sun on easy credit.

Spanish families paid for their homes with cheap loans and tripled household debt to 130 percent of disposable income in a decade.

Over 80 percent of Spaniards' wealth is tied up in property, the highest level in Europe. Only 40 percent of Spanish home owners have a mortgage, but over 90 percent of the loans are on variable rates, making Spaniards more exposed to rising interest rates than other Europeans.

Spain's coastal market has seen double digit price declines. Existing homes in second city Barcelona lost 1.3 percent of their value during the second quarter, according to Idealista.com. Madrid, Spain's largest market, will determine how low nationwide prices can go, analysts say.

INVESTOR EXIT

Only a year ago, ultra-modern, 70 square meter apartments in Sanchinarro would have been

snapped up at 450,000 euros ($615,200) before they were even built as Spaniards saw only one direction for house prices.

Today, completed apartments stand empty as Madrid homes take an average 200 days to sell compared with 100 this time last year. Prices are expected to fall across all areas of the city next year, with lower income neighborhoods and isolated, new developments on the outskirts hit hardest.

Many Spaniards who bought houses as investments are heading for the exits. Guillermo Brincones hopes to sell his 120 square meter rooftop apartment in Madrid's new Las Tablas neighborhood.

"You're starting to see assets that are much more attractive investments than property," says Brincones, a 35-year-old civil engineer.

Spain has plenty of potential buyers from the arrival of 4 million immigrants since 2000, a 1970s baby boom, a rising divorce rate and higher employment among the young and women.

The problem is that many are now priced out of the market.

A sure way to increase accessibility is house price deflation, says economist Angel Laborda.

"It shouldn't scare anyone for house prices to comfortably fall between 5 and 10 percent, nothing would happen," says Laborda, head of research at savings bank think tank FUNCAS.