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Foreclosed Homes May Flood Spanish Market as Banks Offload Unwanted Assets

By Sharon Smyth - Nov 25, 2010

The number of foreclosed homes for sale in Spain may triple next year as new accounting rules prompt lenders to dump their depreciating assets, according to the co-founder of a website that advertises repossessed properties.

About 100,000 houses and apartments owned by banks are now on the market, Fernando Acuna said in an interview. A quarter of them are listed on the website operated by his Madrid-based company, Pisos Embargados de Bancos, on behalf of 25 banks.

Spanish lenders have a total of 181 billion euros ($242 billion) in “troubled” construction and real estate loans, theBank of Spain said last month. Since Sept. 30, the banks have been required to account for falling property values more quickly, encouraging them to shed assets without waiting for the market to recover from a three-year decline.

“Lenders took on an immense amount of property from developers and homeowners and now they’re being forced to offload the deadwood,” Acuna said.

About 2,600 real-estate and construction companies have gone out of business in the past two years, according to credit insurer Credito y Caucion, while unemployment has more than doubled to almost 20 percent since 2007. The cost of cleaning up the banking industry’s books has so far been about 70 billion euros in the form of government bailout funds, asset writedowns and use of reserves, according to the Bank of Spain.

Price Reductions

“By changing the rules on provisions, the central bank has really put a shotgun to their heads,” said Fernando Rodriguez y Rodriguez de Acuna, founder of Madrid-based property adviser R.R. de Acuna & Asociados. “The banks will have to cut their price expectations more aggressively to reduce their stock of homes.”

Property values will fall 20 percent over the next five years, Rodriguez y Rodriguez de Acuna estimates. Most of the declines will come in 2011, he said. Since the Spanish market’s peak in April 2007, home prices have dropped 22.5 percent, according to a survey by real-estate website Fotocasa.es and IESE Business School.

Under the changes introduced by the Bank of Spain in September, lenders must take account of a drop in value of at least 30 percent if they keep the assets for more than two years. They must also make provisions for bad loans after 12 months, rather than as long as 72 months.

The new rules will lead to an average increase in provisions for 2010 of 2 percent, the central bank said in May. They will also knock off an average of 10 percent from the pretax profit that lenders generate from their Spanish businesses, the Bank of Spain said.

Missed Target

Banco Santander SA, the biggest Spanish bank, said on Oct. 28 that it set aside 472 million euros to account for impaired assets and will miss its 2010 earnings goal because of the changes.

“Banks are in a delicate position,” said Fernando Encinar, co-founder of Idealista.com, Spain’s largest property website. “They’ve realized that it’s probably better to get rid of their real estate rather than prolong the problem.”

Idealista currently advertises 29,334 bank-owned homes in Spain. In 2008 it didn’t list any.

About 280,000 people in Spain will lose their homes this year, according to Spanish consumer protection association ADICAE.

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