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Spanish Home Sales Drop 17.7 Percent as Deadline For Tax Rebate Approaches

By Emma Ross-Thomas - Dec 13, 2010

Spanish home sales decreased for a second month in October to the lowest level on record as a year- end deadline for buyers to lock in tax benefits approached.

Home transactions fell 17.7 percent from a year earlier, after a 4.1 percent decline the previous month, the National Statistics Institute said today in an e-mailed statement in Madrid. There were 27,198 home sales in the month, the lowest level since the data was first compiled in 2007, INE said.

Sales increased through the first eight months of the year before the abolition of a universal tax rebate on mortgage payments on Jan. 1. By scrapping the rebate, worth as much as 1,352 euros ($1,788) a year, the government aimed to encourage Spaniards to buy homes and secure the fiscal advantages after the collapse of a debt-fueled construction boom left more than 1 million properties unsold.

Spain's economy stagnated in the third quarter, leaving the unemployment rate at the highest in Europe at more than 20 percent. The economic recovery may be further undermined by the deepest austerity measures in at least three decades as the government has cut public salaries and raised taxes to stem a surge in borrowing costs.

The gap between Spanish and German 10-year borrowing costs was unchanged at 245 basis points today, compared with a euro-era high of 283 basis points on Nov. 30.

Fitch Ratings predicted in June that Spanish home prices would fall 30 percent from 2008 before bottoming out in 2012. Madrid-based property adviser R.R. de Acuna & Asociados sees a 20 percent decline in the next five years and estimates Spain has 1.5 million vacant homes that may take six years to sell.

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.

To contact the reporter on this story: Emma Ross-Thomas in Madrid at erossthomas@bloomberg.net

To contact the editor responsible for this story: John Fraher at jfraher@bloomberg.net