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Spain Record Home Price Drop Seen With Bank Pressure

By Sharon Smyth - Apr 2, 2012

Spanish [home prices](#) are poised to fall the most on record this year, leaving one in four homeowners owing more than their properties are worth, as the government forces banks to sell real-estate holdings.

Home prices will decline 12 percent to 14 percent, according to research and advisory company R.R. de Acuna & Asociados, after Economy Minister Luis de Guindos in February gave lenders two years to make 50 billion euros (\$67 billion) of additional provisions and capital charges for losses linked to real estate. That's the most since the National Statistics Institute started tracking values in 2007. [Standard & Poor's](#) forecasts borrowers with negative equity may rise to 25 percent this year from 8 percent in 2010, based on an analysis of 800,000 mortgages.

"There will be more serious price drops this year because of the government decree," said Fernando Rodriguez de Acuna Martinez, a partner at the Madrid-based firm. "Banks are now prepared to incur big losses on real estate to shift all they can."

Spain's Prime Minister [Mariano Rajoy](#) and his [People's Party](#) are betting the overhaul will help bolster confidence in the country's banks without undermining a drive to tackle its budget deficit that's threatening to reignite [Europe's](#) debt crisis. The move is likely to force banks to sell assets cheaply, accelerating a four-year decline in residential property prices that are already 30 percent below the peak.

Government Decree

The government's Feb. 2 decree on real-estate provisions is already leading to reduced sales prices. In the week after the plan was announced, more than 10,000 homeowners who use Idealista.com, [Spain's](#) largest property website, lowered their asking prices. That's 30 percent more than the weekly average during the previous month.

[Banco Santander SA \(SAN\)](#), Spain's largest lender, and [CaixaBank SA \(CABK\)](#), the fourth-largest, are offering homes at discounts of as much as 50 percent on their Altamira and Servihabitat property websites. [Bankia SA \(BKIA\)](#), the No. 3 bank, went even further on March 15 by announcing that the company aimed to sell 9,000 properties this year at discounts of as much as 60 percent.

Spain's IBEX 35 benchmark index, which fell as much as 1.8 percent in intraday trading today, closed up 0.4 percent. Shares of Santander rose 0.2 percent to 5.78 euros, erasing an earlier 3 percent drop. [Banco Bilbao Vizcaya Argentaria SA \(BBVA\)](#), the country's second-largest lender, rose 0.1 percent.

Spanish banks account for five of the top six worst-performing stocks on the 48-member [Euro Stoxx 600 Banks Index \(SX7P\)](#) this year.

‘Can’t Compete’

Theresa Legarra, a 33-year-old sales manager from [Madrid](#), said she can’t compete with the banks when it comes to selling real estate. She and her ex-husband bought an 85 square-meter (915 square-foot), two-bedroom home in Pozuelo de Alarcon, one of Madrid’s most affluent suburbs, in 2006 for 385,000 euros. To pay for the property, they took out a mortgage with [Caja Madrid](#) for 85 percent of the purchase price. Caja Madrid is one of the seven Spanish savings banks that merged to form Bankia in 2010.

Six months ago, the apartment was put on the market for 350,000 euros, about 20,000 euros more than the outstanding mortgage on the property.

“The telephone hasn’t rung once,” Legarra said during an interview in Madrid. “Three separate real-estate agents say I need cut the price to 300,000 euros to have a hope of selling.”

About 20 percent of Spanish mortgage borrowers owe more on their loan than their property is worth, up from about 8 percent in October 2010, according to a study by Andrew South, the London-based head of European structured finance research at S&P.

‘Negative Equity’

“If [house prices](#) were to continue to decline at their current rate this year, the number of borrowers in negative equity by the end of 2012 could be closer to 25 percent,” he said in an e-mail.

The S&P study was based on an analysis of 800,000 Spanish mortgages, two thirds of which were granted between 2006 and 2008, and includes loans predating 2000. In January, [residential mortgages](#) fell 41 percent from a year earlier, the 21st straight decline, according to the National Statistics Institute.

Asking prices have fallen by an average of almost 30 percent from their high in April 2007, according to a March 1 report by Fotocasa.es, a real-estate website, and the IESE business School.

Spanish [home prices](#) fell 11.2 percent in the fourth quarter from a year earlier, the most on record, the National Statistics Institute in Madrid said on March 15. By their measure prices are down about 22 percent from the market’s peak in the third quarter of 2007. Home prices in [Ireland \(IHPINARP\)](#) and the [U.S. \(SPCSUSA\)](#) have fallen 49 percent and 34 percent respectively from their highs.

‘Delayed Declines’

“We suspect house prices have fallen by more than 30 percent since the peak, but accept that some of the downward price adjustment may have been delayed by banks hoarding large portfolios of repossessed properties,” [Raj Badiani](#), an economist at IHS Global Insight Inc. in [London](#), said in a March 15 note.

Financial institutions have foreclosed on 328,720 homes since 2007, according to Plataforma de los Afectados por la Hipoteca, a group known as PAH that campaigns against evictions. That number may balloon to as many as 600,000 in the years ahead as unemployment increases, Taurus Iberica Asset Management estimates. The Madrid-based company manages 35,000 foreclosed properties for 25 lenders.

Banks have also acquired properties from developers to cancel debt and may have as many as 900,000 finished, unfinished and foreclosed homes on their books, according to Borja Mateo, author of “The Truth About the Spanish Real Estate Market”

Aversion to Risk

In Spain, which has euro region's fourth-largest [budget deficit](#), bond yields have surged and [banking stocks](#) have plunged as investors shun risk. According to [Fernando Encinar](#), co-founder of Idealista.com, the biggest problem is that investors distrust the valuation of real-estate assets held by banks and the government has offered a solution by pushing them to sell assets at market price.

Spanish 10-year borrowing costs have jumped 44 basis points to 5.33 percent since March 2, when Rajoy raised the country's budget deficit target for this year defying his European Union Allies.

He's struggled to cut the funding gap since he was elected in December and his government faced its first general strike on March 29. [Mario Monti](#), Rayoy's Italian counterpart, said on March 24 that Spain could reignite the European debt crisis if the country's fails to control its finances. Its gross domestic product fell 0.3 percent in the fourth quarter, as the country suffers its second recession since 2009.

Reduce the Deficit

Budget Minister Cristobal Montoro presented the 2012 budget on March 30. The government aims to reduce the deficit to 5.3 percent of gross domestic product from 8.5 percent last year even as the economy contracts.

Investor confidence in the 182 billion euros of bonds tied to Spanish residential-mortgage backed securities trails securities from [Italy](#), the Netherlands and U.K., including that's country's version of subprime home loans.

The extra yield investors demand to hold Spanish RMBS above benchmarks has held at 500 basis points since the end of February, 155 basis points higher than a year ago, according to JPMorgan Chase & Co. data. A basis point is 0.01 percentage point.

Spanish banks' average net borrowings from the [European Central Bank](#) surged in February to a record 152.4 billion euros from 76 billion euros in October as the central bank stepped up its emergency lending to avert a credit crunch, according to data published by the Bank of Spain.

'Bring Transparency'

The extra yield investors demand to hold bonds from Spanish financial companies is 483 basis points, almost twice the 242 basis points average for the U.S. and 257 basis points globally, according to Bank of America Merrill Lynch index data.

"This will bring transparency," Encinar said by phone. Spanish banks will be able to absorb the losses better than individual homeowners, he said.

Rajoy's efforts to shrink the banking industry will be helped by CaixaBank SA's plan, announced on March 27, to buy Banca Civica SA, a group of former savings banks, for 977 million euros. That will be the industry's biggest transaction since three of Banco Pastor SA's largest shareholders accepted a 1.35 billion-euro bid from [Banco Popular Espanol SA. \(POP\)](#)

The word "mortgage" originates from Law French and literally means "death contract," or a pledge that ends when either the obligation is fulfilled or the property is taken through foreclosure.

<http://www.bloomberg.com/news/2012-04-01/mortgage-column.html>

For Legarra, who can't sell her home to start a new life in another property or move back to her birthplace in Pamplona, the word's meaning is significant. "It definitely feels like a hefty sentence for me."

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