STOCKS & SHARES

Bank stampede keeps Spanish real estate on the ropes

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By Sonya Dowsett

MADRID (Reuters) - When Jose Morales travelled up from Granada in southern Spain in February to look at a new apartment in the Madrid satellite town of Sesena, he was greeted by long queues of mostly young people outside the sales office.

"When the door opened, there was a stampede to get in, like a department store sale, and some were even injured in the dash," said Morales.

The apartments were selling so fast, unseen by the buyers in many cases, that he missed out on the one he wanted.

Such extraordinary scenes are, paradoxically, evidence of the desperate weakness of Spain's property market after the crash of 2008.

Banks trying to offload billions of euros of property left on their hands by bankrupt developers are selling new apartments at rock-bottom prices with bargain-basement mortgage deals.

Santander (SAN.MC), the euro zone's largest bank, was responsible for the frenzy in Sesena. It offered two-bedroom apartments around a communal swimming pool for 65,000 euros (54,100 pounds), with 100 percent mortgages over 40 years, costing as little as 242 euros a month to service, about a sixth of the average Spaniard's monthly income.

At the peak of the decade-long property boom that preceded the crash, similar apartments would have sold for at least twice that, and for properties it isn't selling, a Santander mortgage would cover 80 percent of the property price over 25 years.

NovaCaixaGalicia and Caja de Ahorros del Mediterraneo (CAM), two unlisted savings banks that have both received state funds, also have properties for sale in Sesena.

CAM offers "heavenly discounts" on its own property website, advertising a rent-to-buy option with a 370 euro per month payment for a 107,900 euro two-bedroom apartment.

"What is leading to sales is not so much the price, as the monthly mortgage cost," said Carlos Ferrer-Bonsoms, at real estate agent Jones Lang LaSalle. "Many promotions that we see are advertising what the cost of the mortgage will be per month, not the price of the property."

Banks have become Spain's biggest real estate agents, while private sellers have all but given up, unable to compete.

Mortgage lending is a quarter of what it was in 2007 because banks are clamping down on lending for non-bank-owned property, determined to cut their exposure to real estate.

Like Santander, most banks offer 100 percent financing over 40 years at interest well below the market rate to get rid of the homes that sit on their balance sheets, eating up capital in provisions and costing money in taxes and maintenance.

"It saves you costs and helps you get back some income," said the head of risk at one Spanish savings bank who asked to remain anonymous.

BUSINESS OR PROBLEM

"An apartment on a bank's balance sheet is a problem. A sold apartment with a client paying a mortgage is a business," says Jorge Perez-Curto Menendez of real estate broker Colliers International, who sells properties on behalf of banks.

The interest rate on Santander's Sesena mortgages is 1.25 percentage points over 12-month Euribor. It declined to say what rate would apply to a non-bank-owned property, saying deals varied according to the client's profile.

Banks surveyed by Reuters, including Santander's majority-owned domestic bank Banesto (BTO.MC), offered rates from Euribor plus 2 to 4.5 percentage points for the first year of a standard mortgage, falling to Euribor plus 0.45 to 1.5 percentage points for bank-owned homes.

Banks' huge exposure to the property crash is a key concern for policymakers trying to contain Spain's debt levels and eager to avoid pumping more money into the banking system.

Spain's deficit is under intense scrutiny from Brussels as it attempts to bring debt into line with strict European Union guidelines. The sovereign's borrowing costs have risen sharply since Madrid said it would miss a 2012 deficit target.

The centre-right government has forced banks to write down 50 billion euros in losses related to property. Banks hold about 176 billion euros worth of troubled real estate assets - equivalent to 18 percent of Spain's economic output - including repossessed property and soured loans to housebuilders.

FURTHER TO FALL

With the pressure on to conserve capital, many banks are merging to cut costs. The future of some, like Bankia (BKIA.MC), is in question due to their massive exposure to real estate.

Bankia, created from the merger of seven regional savings banks last year, is writing down losses of 3.4 billion euros on its property assets. That's 11 times its 2011 net profit.

The bank has put 1,400 homes up for sale with discounts of more than 50 percent and mortgage deals with monthly interest payments of Euribor plus 0.9 percent. It's Euribor plus 2 percent for non-bank properties.

It aims to sell 9,000 homes this year, more than twice what it sold in 2011.

Houses prices have fallen 22 percent since their 2007 peak, the sharpest fall in modern history, with four consecutive years of decline, the Bank of Spain says.

And as Spain enters its second recession in three years with the highest unemployment rate in the European Union, property is expected to remain in the doldrums.

Economists at Fitch estimate prices will fall 30 to 35 percent from their peak, while Exane BNP Paribas says they are still 20 to 30 percent overvalued.

The volume of sales of residential housing in 2011 was around half what it was in 2007, and the downward trend is steepening; sales in January were down 28 percent on the same month last year.

Banks are also looking at selling bundles of distressed assets and bad loans to private equity firms.

Santander was in negotiations with Morgan Stanley and a joint venture between Goldman Sachs and U.S. private equity group Cerberus last summer for the sale of 3.2 billion euros of property assets, sources close to the negotiations said.

Investment funds interested in the assets wanted Santander to give the same lowball mortgages to the distressed properties when they sold them on, one source said.

Ultimately the deal was scuppered by price and regulatory uncertainty in the run-up to the November general election.

Neither the banks nor Cerberus would comment on the matter.

UNFAIR ADVANTAGE?

Holding both property and credit gives banks an unfair advantage over others in the market, critics say, but it's entirely legal, says Alfonso Fernandez-Puebla, property lawyer at Spanish law firm Gomez-Acebo & Pombo who advises banks.

Madrid-based developer Carolina Roca, the third generation of a building family that specialises in low-cost housing, is struggling to sell the last six flats in a block of 132 units in another Madrid satellite town, Torrejon de Ardoz.

The grey and white brick building with open-air pool is surrounded by similar blocks in a neighbourhood of low-to-middle income workers such as policemen and shop owners.

The two-bedroom properties are marketed for 156,000 euros, with an 80 percent mortgage from the bank that helped finance the building costs, resulting in a monthly payment of around 450 euros. Potential buyers are having trouble finding a deposit.

At another development Roca is planning at Getafe, in Madrid's commuter belt, she has negotiated with four banks, but none has agreed to provide mortgages for her development, even when she offered to move her business account to the bank.

"They don't want to have anything to do with real estate," she said.

Official data on mortgages and house sales do not break down what proportion is related to bank-owned property.

"I would say it must be nearly all, simply because it's impossible for a private seller to match the banks' deals," said Fernando Rodriguez y Rodriguez de Acuna, of property consultants RR de Acuna and Associates.

(Editing by Will Waterman)