The Telegraph

Spain's house prices to fall another 30pc as glut keeps growing

Spain's property slump will deepen for much of the next decade, and tracts of buildings along the Mediterannean coast will have to be demolished, the country's top consultants have warned.

The Spanish government says the housing market has already 'touched bottom' after falling 30pc since 2008 Photo: AFP

By Ambrose Evans-Pritchard

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RR de Acuña & Asociados expects home prices in Madrid, Barcelona and other major cities to fall a further 30pc in a relentless slide until 2018, but it may be even worse in sunbelt regions where 400,000 Britons either live or own homes.

Fresh losses could reach 50pc and drag on for 10 to 15 years in those places where construction ran wild during the bubble, bringing the total decline from peak to trough towards 75pc.

"The market is broken," said Fernando Rodríguez de Acuña, the group's vice-president. "We calculate that there are almost 2m properties waiting to be sold. We have made no progress at all over the past five years in clearing the stock," he said.

"There are 800,000 used homes on the market. Developers are sitting on a further 700,00 completed units. Another 300,000 have been foreclosed and 150,000 are in foreclosure proceedings, and there are another 250,000 still under construction. It's crazy."

The overhang is vast for a country with 48m inhabitants and annual demand near 200,000. It is coupled with an outflow of workers and the start of an aging population crisis.

http://www.telegraph.co.uk/finance/financialcrisis/9768067/Spains-house-prices-to-fall-another-30pc-as-glut-keeps-growing.html

The government says the housing market has already "touched bottom" after falling 30pc since 2008, even though premier Mariano Rajoy admits that there will no economic recovery until 2014.

The International Monetary Fund forecasts contraction of 1.3pc next year, while Citigroup and Nomura both expect the depression to continue into 2014. The unemployment rate is 26.2pc and rising.

As a member of the eurozone, Spain no longer has the monetary levers to engineer a soft landing for "nominal" house prices. This makes it much harder to break the vicious cycle of debt-deflation. The property sector and the banks are each dragging the other down. The share price of nationalised Bankia fell 14pc on Thursday after the authorities said the lender is worthless, with "negative value " of -€4.2bn (-£3.5bn).

Bankia will need a further €13.5bn of taxpayer funds, taking the total to €18bn. Some 350,000 small investors - many talked into buying Bankia's preferred shares as a form of saving - have lost their money.

Banco de Valencia fell to €0.09 after state rescue fund (FROB) said it would seize 99.9pc of the company before selling it on to CaixaBank, a total wipe-out for shareholders.

El Confidencial reported that bank rescue costs will push the budget deficit to 9pc of GDP for 2012, far above the orginal EU target of 4.5pc, later modified to 6.3pc.

There has been scant improvement since 2009, when the deficit peaked at 11.2pc. The IMF says the deficit is still stuck at 7pc even if bank costs are stripped out.

It warns against austerity overkill, arguing that too much fiscal tightening can be self-defeating in a regional slump without offsetting monetary stimulus. New research by the Fund suggests that Spain's "fiscal multiplier" may be three times higher than originally assumed.

Mr Rodríguez de Acuña said Spain's property crisis varies enormously by region, with the worst damage on the Club Med belt. Even so, recent firesales in the inland city of Toledo have shocked analysts.

Santander recently slashed prices by 60pc to clear a backlog of properties. When Banco Sabadel followed shortly after, it had to offer haircuts of 70pc. Another large bank suspended its Toledo sales two weeks ago after prices went into meltdown.

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"We think prices will recover in the traditional coastal areas like the Canaries or Malaga within five to eight years, but for now banks are offering huge discounts and nobody is calling. Marbella has already fallen by 50pc and prices are going down and down," Mr Rodríguez de Acuña said.

"In places like Castellon [near Valencia] where over-development was mad, banks are not financing anything and there is a high probability that these properties will never be sold. They will have to be knocked down," he said.

Spain's bank rescue from the EU bail-out fund (ESM) is bringing the crisis to a head quickly, and brutally. Brussels insists that Madrid crystallise the losses in the portfolios of the rescued banks, ending the "extend and pretend" policy that has concealed the full gravity of the crisis until now.

The big trio of healthy banks - Santander, BBVA, and Caixa - have all rushed to sell their backlog before the state's "bad bank" unloads its holdings. They have already written down 95pc of the value of their land portfolio. "There is little more to lose," said Mr Rodrigues de Acuña.

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