

Spain Weighs Home Demolitions as Wrecking Crews on Alert

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Demolition man Daniel Anka had a staff of 450 in Spain preparing for new developments before the property crash. With about a 10th of that workforce left, he's now waiting for a call from the country's bad bank so his trimmed-down crew can start knocking down half-built homes that aren't worth completing.

Anka may not have long to wait as Sareb, the unit holding soured real estate assets from Spain's nationalized banks, orders work to stop on about 160 of the 650 partially-completed building projects on its books and decides which ones are worth completing. A small number of them may be demolished, said two people with knowledge of the matter, who asked not to be identified by name because it isn't public.

"We expect the bad bank will start to seek bids for some demolition projects starting this summer," said Anka, chairman of Madrid-based Anka Demoliciones and vice-chairman of the Spanish Association of Demolition Businesses.

Spain is counting the cost of the collapse of a decade-long property boom that's sent home prices falling about 30 percent since the start of 2008, driven unemployment to 26 percent and burdened banks with mounting bad loans that have made them wary of extending new credit. A decision by Sareb to raze unfinished properties would demonstrate it makes more sense to knock down homes than try to sell them as an economic slump drags into a sixth year, said Fernando Rodriguez de Acuna, a project manager at Madrid-based real estate consultant RR de Acuna & Asociados.

'Positive Sign'

"If demolitions start in sizeable volumes, that could be a positive sign because it would be a recognition that it's impossible to sell these assets under any circumstances," Rodriguez de Acuna said by phone. "At least if you knock them down, the land can be put to some other use."

Spain set up Sareb last year to absorb the souring real estate assets of eight lenders including the Bankia group that took a combined 41 billion euros of state aid as the government sought European funds to help clean up its banking system.

Sareb has taken on about 200,000 assets. This includes 107,000 properties, 76,000 of which are empty homes, Economy Minister Luis de Guindos told Congress in March. The bad bank plans to sell assets with a value of 1.5 billion euros (\$2 billion) this year, he said.

Bids for the first group of properties to be sold, known as "Project Bull," were due by July 18, according to a spokesman for Sareb who asked not to be named in line with its policy. No decision on the sale has been made, the spokesman said.

Halted Projects

About 680 million euros of the 11.4 billion euros of real estate on the bad bank's books represent uncompleted housing developments, according to people with knowledge of the matter. Work has stopped at projects representing about a quarter of that amount, they said.

Sareb hasn't identified any building project for demolition yet and has no plans to knock down finished properties, Sareb said in an e-mailed statement today. It would focus on projects that are at an early stage and may pose a safety risk or are breaking urban planning laws as it decides which ones to demolish.

The bad bank's readiness to consider demolition means it's recognizing the scale of the excess housing supply that was created before the boom turned to bust, Rodriguez de Acuna said.

Net sales of homes, excluding purchases by banks, dropped to 259,000 in 2012 from 736,000 in 2007, according to RR de Acuna's analysis based on data from the National Statistics Institute and the College of Property Registrars.

Population Drop

The volume of properties for sale, combined with an expected drop in the population, will prevent the residential property market from recovering anytime soon. As many as 2.27 million homes may either be on the market already or in the pipeline, including up to 400,000 that are being developed, RR de Acuna estimates.

Home prices have dropped about 35 percent since their peak in 2007, according to RR Acuna estimates based on home valuation data, said Rodriguez de Acuna. Prices may keep falling for at least a further five years, taking total declines from the top of the market to the bottom to 50 percent, he said.

Others are less pessimistic. Banco Santander SA, Spain's biggest bank, believes the property market is close to its lowest point, former Chief Executive Officer Alfredo Saenz said in April. Fitch Ratings said last month that the market won't reach a low-point until the end of next year at the earliest.

Commercial banks in June granted new mortgages at an average rate of 3.24 percent, or 2.73 percentage points above the average euro interbank offered rate, or Euribor, the benchmark for most home loans in Spain. That compares with an extra yield above 1-year Euribor of 0.63 percentage points in June 2007, before the start of the credit crisis.

Ireland's Lead

If Sareb decides to proceed with demolitions, it would be following the lead of Ireland's bad bank, known as NAMA, which last year knocked down one unfinished apartment block in Co. Longford in the country's Midlands region.

"To date, demolition has been the chosen course of action in one site, which was an unfinished apartment block for which there was no demand," NAMA said in a statement. "Demolition will be necessary in a small minority of other cases, but other options will be explored first."

The sight of wrecking crews knocking down buildings would send a powerful psychological message to Spaniards about the state of the property market, said Jose Luis Ruiz Bartolome, author of a 2010 book on the rise and fall of the property market called "Adios Ladrillo Adios," or "Goodbye Bricks Goodbye."

While it may make sense to bulldoze buildings that are partially completed, destroying completed homes would be controversial in a country where increasing evictions of homeowners for non-payment of mortgages has become a sensitive social issue, Ruiz said.

Kazakh Operation

“People would indeed realize that the crisis is very serious and the drop in value is more than they may think,” he said. His previous jobs include Spain development director for French real-estate services firm Nexity SA.

To weather the building slump in Spain, Anka’s demolition firm has sought work in countries like Kazakhstan, where it employs 75 people.

During the Spanish boom, the company had a steady supply of work clearing plots for new building projects, Anka said. These days, about 40 percent of Anka Demoliciones’s machines such as diggers and lifting equipment are idle after the crisis forced the company to sell off less-profitable heavy equipment to buyers in Romania and Morocco, he said.

“It would be really important for the industry, which is at really low levels.”

To contact the reporters on this story: Charles Penty in Madrid at cpenty@bloomberg.net; Esteban Duarte in Madrid at eduarterubia@bloomberg.net

To contact the editors responsible for this story: Frank Connelly at fconnelly@bloomberg.net; James Hertling at jhertling@bloomberg.net; Rob Urban at robprag@bloomberg.net