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Spanish Lending Revives With Housing Prices Hitting Floor

By Sharon Smyth - June 13, 2014

Henar Molinero, a 40-year-old architect from Madrid, traded up to a five-bedroom house in February, two years after her second child was born. She and her husband said they delayed their move until Spain's property market bottomed out and banks started lending again.

"Prices had fallen a great deal, so with a decent deposit and us both working, getting a mortgage and buying a house finally became easier," Molinero said. Several banks offered her a loan, she said.

After the worst housing crisis in the country's history, signs of a recovery are starting to appear. Home sales jumped 48 percent to more than 81,000 in the first quarter, according to data compiled by the Ministry of Public Works and Housing. Mortgage approvals rose in March for the first time since 2010 as the property market starts to stabilize six years after triggering the most severe recession in five decades.

"We have hit the bottom in terms of volumes of new business," said Daragh Quinn, a banking analyst at Nomura International in Madrid. "It's stopped declining and has started to increase again, but it's coming off a very low base."

Spanish banks' lending standards remain tight, with loans going only to the most creditworthy home buyers, said Jesus Encinar, founder of real estate website Idealista.com. The Bank of Spain's survey of first-quarter lending conditions published last month showed banks didn't vary their criteria for granting mortgages even as they relaxed criteria for consumer lending for the first time since 2010.

Rebuilding Business

Banks are, however, taking the first steps to build up their home-loans business again, Encinar said.

"We have started to get calls from banks about advertising mortgage lending on Idealista," he said. "When the crisis started, banks had their books full of mortgages. Now those holdings have diminished a lot, so they need to lend."

While Spain's jobless rate is at 25 percent, the statistics agency INE confirmed that growth accelerated to 0.4 percent in the first quarter, twice as fast as the euro region average. Imports are surging, indicating that Spaniards are spending again after closing their wallets amid the toughest austerity measures in more than 30 years.

Madrid and Barcelona, Spain's largest cities, are emerging from the country's six-year recession in better shape than other areas. Homes in the cities are likely to appreciate at a faster pace.

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Barcelona's Revival

"It's going to be a tale of two cities," Encinar said. "Prices in places where there are jobs and infrastructure will recover more quickly than in other parts of the country."

Home values in Barcelona climbed 1.5 percent in the first quarter from a year earlier, the biggest increase in Spain and the first for the country's most popular holiday destination since the first quarter or 2007. Madrid prices fell 1.9 percent, the smallest decline since the first quarter of 2008, according to Idealista data.

Spain's economy started growing again in the third quarter, fueling consumer demand by creating jobs and allowing the government to ease austerity measures. That's encouraging professionals like Molinero to get back into the property market.

Home prices have fallen by an average of 47 percent from the peak of the last property boom in 2007, according to Juan-Fernandez Aceytuno, head of Spanish home-appraisal organization Sociedad de Tasacion. Values are expected to bottom out around the beginning of next year, Fitch Ratings said in a June 5 report.

Unsold Homes

About 67,000 property developers sprang up in Spain between 1997 and 2006, churning out almost 700,000 houses a year. When demand for homes evaporated, the country was left with 1.7 million new, used and unfinished residential properties, according to Fernando Rodriguez de Acuna, an analyst at Madrid-based real estate consulting firm Acuna & Asociados.

"There are statistics that say Spain has enough housing stock to cover 40 years of demand but what you really have is a lot of nonviable homes," Acuna said.

Acuna estimates that about 40 percent of Spain's unsold properties won't attract buyers in the next five to 10 years because of their undesirable locations, lack of amenities and a high unemployment rate that will exclude a large proportion of Spaniards from the mortgage market. The current jobless rate of 25 percent is the second-highest in the euro zone after Greece.

'No Savings'

Irene Congalves, a 39-year-old native of Coruna in Northern Spain, was forced to return to live with her mother after she lost her job as a clothes shop assistant 18 months ago. She hasn't found work since then. When she was employed, Congalves was a "mil-euristas," a Spanish term for workers who earn around 1,000 euros a month.

"All my money went on food, rent and transport," she said. "There simply wasn't anything left to save at the end of the month.' About 30 percent of workers in Spain earn less than 1,216 euros a month, statistics office data show.

During the peak of the housing boom in 2006 and 2007, Spaniards were buying 900,000 homes per year. Forty-five savings banks competing for market share gave out 45-year mortgages with loan-to-value ratios of 100 percent or more to people who probably shouldn't have been eligible for credit, according to Encinar of Idealista.com.

The lending binge forced Spain to seek a 40-billion euro bailout for its banking industry in 2012 after companies and homeowners defaulted during the economic contraction. The number of savings banks was reduced to seven.

‘Past Sins’

‘‘Fast forward to 2014 where surviving banks, which had to provision heavily for their past sins, are now much more stringent,” Encinar said. “It’s no longer an individual who decides whether they will buy themselves a house; the bank has the final say.”

Molinero took out a 35-year variable-rate mortgage with a loan-to-value ratio of 80 percent at Euribor plus 2.59 with ING Bank.

“We had many offers from many banks but this was the best,” Molinero said.

Banks purged their balance sheets of assets that soured in the real estate crash. They took 86 billion euros of impairment charges in 2012 and transferred about 50 billion euros of loans and properties to the country’s so-called bad-bank, which is jointly owned by the state and private lenders.

Banks now demand that would-be buyers demonstrate they have savings equivalent to 20 percent of a property’s purchase price, and are in stable employment with permanent contracts, Encinar said.

Last year there were 300,000 homes sold in Spain, Encinar said, “This is the new normal.”

Rentals

The housing crisis and a credit freeze left their mark on the Spanish market, which has the highest rate of home ownership in the euro zone after Estonia, Slovakia and Malta and Latvia, according to Eurostat.

“The crisis has made Spaniards change their mentality when it comes to renting versus owning a home,” said David Caraballo, head of sales at Alquiler Seguro, a company dedicated to screening tenants and ensuring that private landlords collect rents.

Spain’s shortfall of professionally managed rental accommodations represents further opportunities for international funds to invest, following in the footsteps of the world’s largest private equity funds such as Blackstone Group LP. They have already purchased blocks of homes to rent in anticipation of a surge in demand, Seguoro said.

“The fallout of developers and mortgage markets is going to provide a further boost for the rental market, which has gone from something like seven percent in 2007 to 20 percent now but is still lagging the European average of 36 percent,” he said.

Large Investors

Rental accommodation, which until now was comprised of dispersed units owned by small landlords, will become more like Germany or Holland, dominated by large international investors who will professionalize the market and even build homes to match supply where there is demand, Seguro said.

“We are seeing investors looking for large blocks of consolidated housing in the largest cities, the problem is that now there aren’t enough blocks of product on the market, so they are now looking to build,” he said.

New York-based Blackstone in July agreed to purchase 18 apartment blocks from the city of Madrid for 125.5 million euros ($171 million). Goldman Sachs Group Inc., based in New York, and Azora Capital SL in August agreed to pay about 20 percent above the asking price for 32 social-housing developments sold by the capital's regional government.

Land Sale

Sareb, the nation's bad bank created in 2012 to absorb 50 billion euros of real estate assets from lenders, last week sold land worth 80 million euros to Castlelake LP, an investment firm.

Investors will need to be selective and focus on Madrid and Barcelona where the rate of unemployment is lower than the national average of 25 percent, Caraballo said.

"In times of crisis people migrate to large cities where there are jobs and opportunities," Caraballo said.

And they should move quickly as prices in prime areas stabilize and rebound, he added.

Molinero, the Madrid homebuyer, agrees.

"We got a great deal, the real estate agent that sold us the house recently called us to say that an identical property in the same street had just sold for 50,000 euros more," she said.

To contact the reporter on this story: Sharon Smyth in Madrid at ssmyth2@bloomberg.net

To contact the editor responsible for this story: Andrew Blackman at ablackman@bloomberg.net Andrew Blackman, Rob Urban