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Builder in Spain Crashes, Founder Keeps New York Pad (Update1)

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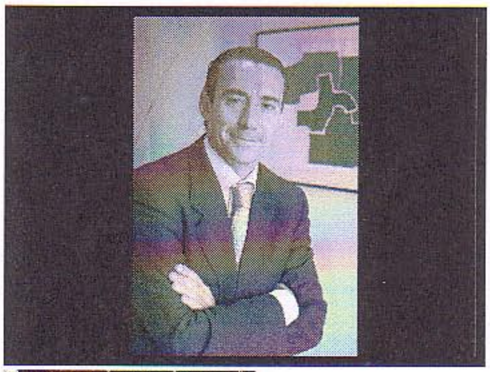

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Aug. 22 (Bloomberg) -- From the looks of things at the newly built Aparta Hotel Residencia, you'd never know that it's the high summer tourist season in Canet d'En Berenguer, a town of 5,000 just north of Valencia on Spain's Mediterranean coast.

The compound's 308 apartments, completed this spring, are all unoccupied. Grass has started to sprout between the red terra-cotta tiles that lead to the empty, peanut-shaped swimming pool.

The residence is just one of a trail of buildings dotting the sandy coastline constructed by Enrique Banuelos as he amassed a fortune of more than 4 billion euros ($5.4 billion) over the past 15 years. Banuelos lost much of that money -- and shareholders' -- as the stock market punished the firm he founded, Astroc Mediterraneo SA, amid a rapid cooling of Spain's housing market.

Astroc shares lost 89 percent from their Feb. 26 peak of 72.60 euros on the Madrid Stock Exchange, when the company had an implied value of 8.8 billion euros, to their July 24 low. On July 26, when Banuelos resigned as chairman, shares rose 39 percent. He'd already given up day-to-day management.

A new chief executive officer, backed by the company's investors -- including Amancio Ortega, Spain's richest man and founder of the Zara clothing chain -- is trying to pick up the pieces by arranging a merger between Astroc and three other Spanish real estate firms.

`Turned to Dust'

``His credibility has turned to dust,'' says the CEO, Juan Antonio Alcaraz, former head of corporate banking at Barcelona- based Banco Sabadell SA, in which Banuelos held a stake. On Aug. 10, Astroc reported a net loss of 65.7 million euros for the first half of 2007. Banuelos is now facing a shareholder lawsuit alleging that he attempted to improperly influence the company's stock price -- a charge he denies.

Astroc's decline tells a cautionary tale about what was once Europe's fastest-growing real estate market. Spanish house prices have surged since the 1990s, fueled by a drop in interest rates, increasing incomes and a boom in vacation home purchases by Germans, Britons and other Northern Europeans.

Real estate accounted for almost 18 percent of Spain's gross domestic product last year, contributing to 3.6 percent annual growth -- almost twice the rate in the rest of the 13-nation euro area.

``Spain was pulling much more than its weight because of the construction boom,'' says Charles Dumas, international director at Lombard Street Research Ltd., a consulting firm in London.

Rising Rates

Like overheated markets in the U.S. and elsewhere in Europe, Spain's building boom came tumbling down once interest rates rose. ING Direct Bank's rate on a 25-year mortgage for 200,000 euros jumped to 4.88 percent in August from 3.11 percent in December 2005, says Sonia Cuevas, a mortgage broker at the bank in Madrid.

Most Spaniards have variable-rate home loans, and the increase boosted defaults. Standard & Poor's Spanish mortgage delinquency index increased to 1.75 percent in the first quarter from 0.7 percent three years earlier.

Meanwhile, about 700,000 new housing units will go on sale across Spain this year, 300,000 more than projected demand, says Fernando Rodriguez de Acuna, president of R. R. de Acuna & Asociados, a real estate research firm in Madrid.

Astroc and two other Spanish real estate companies, Madrid- based Metrovacesa SA and La Coruna-based Fadesa Inmobiliaria SA, had together lost 9.1 billion euros in market value this year. ``There are about 60,000 real estate firms in Spain, and 75 percent of them are disasters that will vanish,'' Rodriguez de Acuna says.

Astroc itself will vanish, too, Alcaraz, 45, says. He plans to merge it with three other Spanish real estate companies by the end of this year and rename the combined group Landscape. ``The company is trying to distance itself completely from Banuelos,'' says Francisco Salvador, a director of Venture Finanzas Sociedad de Valores SA, a fund manager in Madrid that doesn't own Astroc shares.

Manhattan Apartment

Banuelos, 41, who divides his time between an $8.6 million apartment in the Mandarin Oriental Hotel at New York's Time Warner Center and a home in Valencia, declined to be interviewed for this article. Banuelos retains a 31.4 percent stake in the company, worth 375.6 million euros based on today's closing price of 9.87 euros, a gain of 49 cents, or 5.2 percent. ``I will give my total support to management,'' he said in a statement the day he resigned.

Alcaraz says Banuelos withdrew from managing the company last year. Meanwhile, he was throwing lavish parties in New York, including a soiree at the Frick Collection and a paella meal for 20,000. In June, Alcaraz fired or demoted all nine senior managers who served Banuelos. All the same, Alcaraz says Banuelos was a successful property developer before this year's real estate slowdown.

As he created a multibillion-dollar real estate empire, Banuelos hewed to his roots in Valencia, the region that takes its name from Spain's third-most-populous city.

Paella and Beaches

Valencia, known for its fragrant, saffron-laced paella rice dishes, is the capital of a region that runs along the Mediterranean coast for 518 kilometers (322 miles) and includes some of Spain's best-known beaches.

Banuelos was raised in one of the few Valencian coastal towns that makes most of its living from industry. Sagunto, 15 miles north of the capital city of Valencia, includes the shipbuilding yard where Banuelos's father was a laborer, according to a company biography.

When Banuelos was nine, his father was killed in a shipyard accident, the biography says. Banuelos and his sister were raised by their mother, for whom Astroc is named. (Astroc is an anagram of her maiden name, Castro.)

Sagunto, with 66,000 inhabitants, is ringed with industrial parks, including one where Astroc's human resources and legal departments have an office opposite a tire repair shop.

Studied Law

Banuelos attended Valencia University, where he earned a law degree. In 1993, when he was 27, Banuelos started his first land development company, Circulo Omega SL. Banuelos and his partner, José Antonio Molina, a Sagunto industrialist who was 52 at the time, each contributed half of the startup capital of 1 million pesetas ($9,610), according to corporate filings in Valencia's mercantile registry.

Molina, who couldn't be located for comment, sold his stake to Banuelos at the end of 1994, the filings say.

Circulo Omega was based on the ground floor of a gray concrete building close to Sagunto's dockyards. Banuelos lived in a modern apartment building on the same street, according to the records.

A year after Omega's creation, the regional government passed a law that helped make Banuelos's fortune. Until 1994, the Valencia government classified much of the region's land as rural -- meaning it couldn't be developed.

Birth of a Boom

The law let real estate investors buy small parcels of land from individual landowners or cash-strapped town halls and consolidate them into a single large plot that the government would then reclassify as suitable for development. Banuelos and other developers could then build holiday homes, hotels and golf courses or sell the large parcels at a profit to another developer.

The law was supposed to release protected land for socially beneficial projects such as schools and cheap housing, says Bernardo del Rosal, Valencia's elected ombudsman from 2001 to '05. Instead, it helped create a real estate boom at a time when many Spaniards and expatriate Europeans came to Valencia's Costa Blanca to buy second homes as investments or as vacation or retirement properties.

``All the cautionary measures put in place under the law to stop abuse, which are weak, haven't been exercised at all by the town halls,'' he says. As ombudsman, Del Rosal investigated complaints and mediated settlements on behalf of voters. He declined to say whether he received complaints about Banuelos.

From 1994 to this year, Banuelos bought rural land parcels for more than 50 real estate developments. He either sold the reclassified land to other real estate firms or developed the sites himself.

Multiple Projects

At times, he had as many as 20 projects under way simultaneously. Most of the developments were marketed to increasingly affluent middle-class Spaniards who wanted to buy or rent vacation homes on the coast, from small seaside apartments to more-expensive homes in golf resorts.

The building boom coincided with rates that made mortgages on vacation homes more affordable for average Spaniards as well as foreign buyers. ``Three years ago, almost 100 percent of the residential units would be sold before a construction project was finished,'' says Stan Dickens, chairman of the Spanish division of the U.K.'s Royal Institution of Chartered Surveyors.

As demand soared, the average price of a Spanish home roughly doubled. In 1998, housing cost an average of 589 euros per square meter (10.8 square feet) in Spain; by 2006, the cost was 1,163 euros, according to Sociedad de Tasacion SA, a Madrid-based real estate research firm.

Foundation Created

As the boom filled Astroc's coffers, Banuelos set up the Astroc Foundation, a charity whose Web site says it supports environmental and medical research in Spain and abroad and also promotes Valencian culture.

In an effort to promote the region's most famous dish, the charity set up the Valencia Paella Institute behind the Aparta Hotel Residencia in Canet, with 307 stoves. Jose Vicente Aguilar, the site's construction manager, says the institute held a cooking event for local people in April. In June, the gray stone building is deserted, apart from a black cat dozing in a walkway between the stoves.

Astroc Mediterraneo bought three historic properties from 2002 to '04 as offices for the foundation, according to the company. These included El Castillo de Bendinat in Majorca, a 19th-century castle built in a medieval style, and Madrid's El Palacio del Marques de Salamanca, a mansion built for a Spanish aristocrat.

During 2005, just before the European Central Bank began increasing its benchmark lending rate, Banuelos combined 34 separate management companies into Astroc Mediterraneo, a real estate development firm he founded in 1999.

IPO Planned

His wholly owned private investment company, CV Capital --the successor to Circulo Omega --retained control of 17 others, as well as Astroc. These private companies include Astroc Inmuebles SL, which owns the Aparta Hotel development in Canet.

With most of his real estate now under the wing of Astroc, and his charity arm ensconced in two of Spain's most historic buildings, Banuelos announced plans in mid-May 2006 to take his flagship company public.

On May 23, 2006, Astroc sold 30.3 million shares on the Madrid Stock Exchange for 6.40 euros apiece. That amounted to 25 percent of the company and raised 194 million euros for Banuelos.

Among the buyers was Ortega, chairman of La Coruna-based Inditex SA, the clothing group that owns the Zara fashion retail chain. Ortega, who owns 5.01 percent of Astroc, declined to be interviewed. Carmen Godia Bull, another leading Spanish investor who's vice chairwoman of Barcelona-based Abertis Infraestructuras SA, owns 5.78 percent of the shares.

Shares Soar

As Spain's housing boom continued, Astroc shares surged. By Feb. 26, they had reached a peak of 72.60 euros each. Following further share sales after the initial public offering, that peak price gave Banuelos's remaining 51.4 percent stake in the company an implied value of 4.3 billion euros.

The newly minted billionaire ventured outside Spain. In New York, where in 2004 he'd bought the $8.6 million apartment in the Time Warner Center, Banuelos opened a branch of the Astroc Foundation.

He feted the move with a gala dinner for more than 50 guests at the Frick Collection, which houses works by Spanish artists such as El Greco, Goya and Velazquez. Some of the guests, the women wearing fringed shawls and other traditional Valencian costumes, arrived in horse-drawn carriages at the museum's Fifth Avenue entrance.

The following day, Banuelos hosted a party on Central Park's Rumsey Playfield, for which he flew in 50 chefs from Valencia to prepare 20,000 servings of paella, according to the charity's 2006 yearbook.

International Expansion

Banuelos's U.S. ambitions went beyond charity. He also wanted to expand Astroc Mediterraneo into the U.S., where the real estate market had recently started a downturn, and other overseas property markets.

On Feb. 13, he announced plans to raise 2 billion euros from Astroc's shareholders through a capital increase to finance expansion in Brazil, Mexico and the U.S.

Two weeks later, Astroc's shares began a nosedive, losing 38 percent of their value in three days. The decline came as the company reported a 51 percent increase in annual profit, to 93.4 million euros from 61.7 million euros. Investors were worried about oversupply in Spain's real estate market and an increase in mortgage defaults.

Europe's benchmark lending rate had almost doubled to 3.75 percent, stretching Spanish homeowners, almost all of whom have variable-rate mortgages. Defaults reached their highest level in Spain for four years in the first quarter of 2007, Standard & Poor's analysts Susana Romero and Chiara Sardelli wrote in a May 29 report.

Stock Tumbles

From April 18 to 23, Banuelos increased his stake by about 2 percent, to 53.8 percent, according to corporate filings with the Comision Nacional del Mercado de Valores, Spain's financial markets regulator. On April 18, when Astroc's shares fell 43 percent, Banuelos bought about 8.5 million euros of Astroc stock through CV Capital. From April 19 to 23, he purchased a further 1.5 million shares.

In May, with Astroc shares down almost 80 percent since their February peak, Banuelos gave up day-to-day management, handing the reins to Alcaraz. The company also abandoned the capital increase and put plans to expand on hold.

The only development the company now owns outside Spain is the Astroc Fortaleza Resort, a 12 million-square-meter (129 million- square-foot) site in northern Brazil, Alcaraz says.

In late June, Banuelos faced angry shareholders in Valencia's Palacio de la Musica concert hall at Astroc's annual general meeting.

`Infamous and Ruinous'

``The cause of this infamous and ruinous situation has a name,'' shareholder Felipe Izquierdo said at the annual meeting. ``And that name is Banuelos.'' None of the other Astroc directors present defended Banuelos.

Izquierdo has filed a lawsuit alleging that Banuelos committed a criminal offense in 2006 consisting of actions aimed at artificially altering Astroc's share price. The lawsuit alleges that Banuelos inflated Astroc's revenue by selling assets to CV Capital, his private holding company, and thus improperly influenced Astroc's share price.

The lawsuit doesn't mention Banuelos's April share purchases. On Aug. 6, the First Instance Criminal Court of Madrid ruled that the lawsuit could proceed. Banuelos, who denies all the allegations, and Izquierdo were scheduled to appear before the judge on Sept. 3.

Beachfront Development

Though Banuelos no longer has a management role at Astroc, he's left his imprint on Spain's Mediterranean coast.

On the narrow road heading out of Canet d'En Berenguer, construction trucks squeeze past workmen laying power lines to connect to the most-recent tourist developments. The town center is lined with yellow-and-gray concrete apartment buildings developed by Banuelos. A mile away is Villa Marina, a complex of single-story sandstone and red-tile houses completed by Astroc in 2003.

On the beachfront, Astroc owns Playa Almenara, a 39,000- square-meter site where 524 identical 60-square-meter holiday apartments are being built.

Aguilar, the construction site manager, says another real estate company will soon break ground on a development in front of Playa Almenara, partially blocking its ocean view. All of the apartments have already been sold, says Aguilar, 35, who bought one himself as an investment. He says he hopes to sell it as soon as he can.

Alcaraz says he wants to decrease the company's dependence on Valencia. He hopes to conclude talks with two Barcelona-based real estate companies, Landscape Promociones SL and Grupo Aisa, and with Rayet Promocion SL, a real estate firm in Madrid, by the end of September.

The proposed merger, which would be funded by an 800 million euro capital increase from shareholders, will give Astroc the size and geographic diversity to help it survive the industry shakeout, Alcaraz says.

The combined group would have more than 8.3 million square meters of land ready for development in Spain and a net asset value of 2.8 billion euros, Grupo Aisa said in a statement.

Size may not be enough if Spain's real estate slowdown turns into a full-blown recession, as Alberto Espelosin, chief analyst at Ibercaja Gestion SA, a Zaragoza, Spain-based investment firm, predicts. ``Banuelos wasn't a poor manager; he was a victim of the bursting of Spain's real estate bubble,'' he says.

The building is continuing in Vallecas, on Madrid's eastern outskirts, on a huge tract of land next to the city's ring road. More than 50 new and half-finished apartment buildings stand empty near billboards displaying artist renderings of the completed projects. Among the builders is Astroc Mediterraneo.

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