

Spanish developer sinks with the cooling housing market

By Richard Tomlinson and Sharon Smyth
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LONDON: From the looks of things at the newly built Aparta Hotel Residencia, you would never know that it was the high summer tourist season in Canet d'En Berenguer, a town of 5,000 just north of Valencia on the Mediterranean coast to Spain.

The 308 apartments in the compound, 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 that were constructed by Enrique Bañuelos as he amassed a fortune of more than €4 billion, or \$5.4 billion, over the past 15 years. Bañuelos lost much of that money - and that of shareholders - as the stock market punished the firm he had founded, Astroc Mediterraneo, as the housing market in Spain cooled rapidly.

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

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

"His credibility has turned to dust," said Juan Antonio Alcaraz, the chief executive and former head of corporate banking at the Barcelona-based Banco Sabadell, speaking of Bañuelos. Bañuelos had held a stake in Banco Sabadell. On Aug. 10, Astroc reported a net loss of €65.7 million for the first half of 2007. Bañuelos is now facing a shareholder lawsuit alleging that he attempted to influence the company's stock price improperly, a charge he denies.

Bañuelos, 41, who divides his time between an \$8.6 million apartment in the Mandarin Oriental Hotel in New York and a home in Valencia, declined to be interviewed for this article. He retains a 31.4 percent stake in the company, worth €354.8 million. "I will give my total support to management," he said in a statement the day he resigned.

Astroc's decline tells a cautionary tale about what was once the fastest-growing real estate market in Europe. 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 the Spanish gross domestic product in 2006, contributing to annual growth of 3.6 percent, 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," said Charles Dumas, international director at Lombard Street Research, a consulting company in London.

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

Most Spaniards have variable-rate home loans, and the increase brought 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, said 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, Metrovacesa and Fadesa Inmobiliaria, together lost €9.1 billion 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 said.

Astroc itself will vanish, too, Alcaraz said. 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 Bañuelos," said Francisco Salvador, a director of Venture Finanzas Sociedad de Valores, a fund manager in Madrid that does not own Astroc shares.

Sharon Smyth reported from Madrid.

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