



## Spanish Housing Slump 'Unthinkable,' Taguas Says (Update3)

By Ben Sills



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Sept. 18 (Bloomberg) -- A residential real estate slump in Spain, where prices have almost tripled since 1997, is "unthinkable," the top economic adviser of Prime Minister Jose Luis Rodriguez Zapatero said.

The solvency of the banking system and of real estate developers, as well as the unmet demand for new homes, will prevent any meaningful price erosion, David Taguas, head of the prime minister's economic research unit, said in an interview yesterday at his office at the presidential palace in Madrid.

"To talk about severe adjustments or a meltdown in prices is ridiculous," Taguas said in response to reports pointing to an end of the Spanish real estate boom. "That sort of crisis is unthinkable."

The gains in house prices are already slowing and excess supply may lead to a decline, predicted Gonzalo Bernardos, an economics professor at the University of Barcelona, who expects a 20 percent drop by 2009. Home prices rose 5.8 percent in the second quarter from the year-earlier period, the smallest increase in at least three years.

Shares of Metrovacesa SA, Spain's biggest real estate company, rose 1.05 euros, or 1.3 percent, to 79.65 euros in Madrid. Actividades de Construcciones y Servicios SA, the country's biggest builder, added 1.89 euros, or 5.7 percent, to 34.81 euros.

### Northern Rock

The Spanish banking system is also solid enough to withstand rising financing costs triggered by the fallout from the surge in defaults in U.S. subprime mortgages, Taguas said. A run on mortgage lenders such as Newcastle, U.K.-based Northern Rock Plc or funding difficulties like those at Countrywide Financial Corp. in the U.S. is "unthinkable" in Spain, Taguas said.

Such a situation "is completely out of the question" in Spain, Taguas said. "We have the good fortune to have one of the most efficient financial systems in the world. That's insurance in times of turbulence."

Housing demand has been sustained until now by an economic expansion that has outpaced that of the euro region for more than a decade and pushed unemployment to the lowest in almost 30 years. The European Commission predicted on Sept. 11 that the Spanish economy will grow 3.7 percent this year compared with the 2.5 percent rate for the euro region.

### Borrowing Costs

Still, borrowing costs are rising for both new and existing mortgages. The European Central Bank has doubled its benchmark rate to 4 percent since December 2005 as the euro-region economy grew the most since 2000. The fallout from the U.S. housing market, where prices are set to post the first annual decline since the 1930s this year, has pushed up the money markets rates that determine mortgage payments. More than 90 percent of Spanish mortgages are variable-rate loans linked to market rates.

"Spain is like the U.S. on speed when it comes to the housing market," Diana Choyleva, an economist at Lombard Street Research in London, said. "It's highly likely that there will be falls in

nominal prices."

Bank of Spain Governor and European Central Bank council member Miguel Angel Fernandez Ordonez said today that the Spanish economy and the nation's banks are well positioned to weather the current turmoil.

"The Spanish economy couldn't be better prepared to confront this crisis," he said in testimony to parliament in Madrid. "The Spanish economic system is immensely solid."

For now, the biggest threat to the Spanish housing market comes from excess supply. About 700,000 new housing units will go on sale 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.

Taguas, who estimates demand for new homes at around 500,000 a year, argues that supply will likely contract, averting a decline in prices. Home starts dropped 21 percent in May.

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