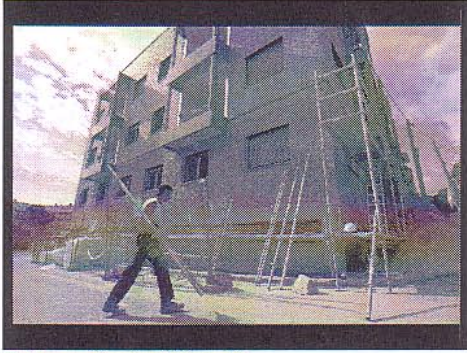




## Spain's Sinking Property Market May Reverberate Through Europe

By Ben Sills



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Dec. 12 (Bloomberg) -- Julia Gavin sold more than a house a week as the Spanish real-estate boom peaked last year. Now that business is drying up, she's sharing leads with competitors, reckoning a partial commission is better than none at all.

``We're up to our ears with work, but no sales," says Gavin, 52, who works near Madrid. ``It's horrible."

Spain is suffering collateral damage from the collapse of the U.S. market for mortgages to the riskiest borrowers and the swoon in U.S. real estate. Spanish banks have exceeded their

European peers in tightening lending standards, prompting a plea from Prime Minister Jose Luis Rodriguez Zapatero not to strangle growth.

Nowhere in Europe are the stakes higher. The country in the past two years has produced a third of the new jobs in the 13 nations that use the euro, adding 22 percent of the region's new demand, according to calculations by Lombard Street Research Ltd. in London. That's more than Germany, whose economy is about triple Spain's size.

``The end of Spain's `fat' years will hit the whole region," said Ralph Solveen, an economist at Commerzbank AG in Frankfurt.

Spanish economic growth is in the process of outpacing the euro region for the 13th year, as soaring property prices spurred a spending boom. Consumer debt surged to 130 percent of incomes in June, from about 70 percent in 2000, and with home values rising by 176 percent over the same period, construction has accounted for one in every five new jobs. The current-account deficit demands 2 billion euros a week to finance.

### Slowing Growth

The International Monetary Fund in October cut its growth forecast for Spain to 2.7 percent next year, the slowest pace since 2002, from 3.4 percent. It forecasts an expansion of 3.7 percent this year.

Spain's economy is facing ``a prolonged period of weak growth," said Stephane Deo, chief European economist at UBS AG in London. ``They need to clean up the balance sheet and reduce the size of the construction sector."

Others aren't as downbeat, saying immigration will spur demand for new housing while increased corporate investment will boost productivity. Spain's largest companies will also be shielded from any domestic slowdown by their expansion overseas.

Spain's benchmark Ibx-35 stock index hit a record 16,040.40 last month. The index is up 12 percent this year -- making it the second-best performer in Europe's 10 largest markets this year, behind Germany's DAX index -- thanks to gains from investments in Latin America. Companies such as Madrid-based Telefonica SA, Europe's second-biggest telephone company, which gets almost two-third of its earnings outside of Spain, helped lead the advance.

'An Important Difference'

``There's now an important difference between what the Spanish economy does and how Spanish



stocks perform," said Jordi Padilla, head of equities at Atlas Capital in Madrid.

At home, Spanish policy makers and executives are girding for a slowdown. Banks have four times the provisions of their rivals across the European Union to cushion against defaults, according to Banco Bilbao Vizcaya Argentaria SA. While that may succeed in protecting capital, the cash hoarding is squeezing credit.

Three-quarters of Spain's 60,000 property companies may end up bankrupt, according to Fernando Rodriguez de Acuna M., an analyst at R. R. de Acuna & Asociados, a real-estate research firm in Madrid. ``They've been caught by the two things at once, the demand problem and the liquidity problem," he says. ``Everyone is going to have problems."

#### Banks' Curbs

A third of Spanish banks curbed financing in the third quarter, compared with 4 percent across the whole euro area, according to a Bank of Spain survey of lenders.

With the credit shortage threatening economic growth and a general election looming in March, Zapatero on Oct. 15 called on banks to keep the funds flowing.

``The strength of the economic system should encourage financial institutions, while maintaining their caution, to continue providing a reasonable amount of credit for our country, especially for the real-estate sector," he said.

It may not help. Spanish banks' own borrowing costs are rising -- when they can borrow at all.

Banco Bilbao Vizcaya Argentaria SA, Spain's second-largest bank, was able to sell just a quarter of a 6.3 billion euro (\$9.3 billion) bond issue backed by mortgages and corporate loans, a person familiar with the deals said Nov. 28. Bankinter SA pulled a sale of at least 500 million euros of mortgage-backed notes Nov. 23.

#### Interest Payments

Banco Santander SA, the euro-region's biggest bank, faces an extra 1.7 million euros a year in interest payments on a similar-sized sale made Oct. 30. That was the first such issue by a Spanish lender in three months.

Gavin and her clients are paying the price. In one case last month, she says, she thought she had a sale after three months of negotiations among buyer, seller and mortgage lender. Then Ibercaja SA, a Spanish savings bank, refused her client a loan covering the 168,000-euro (\$247,000) purchase price. The bank said it had concluded the client was overpaying for the property in El Escorial, near Madrid.

``The banks are coming up with a million excuses not to give loans," Gavin said. ``They don't want to take any risks."

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