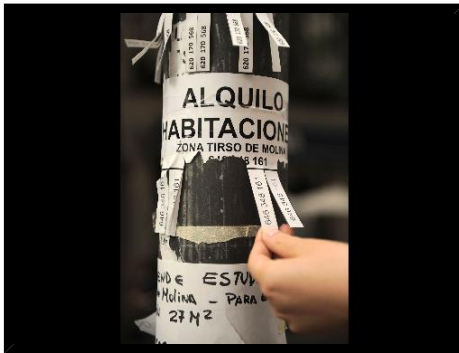


Bloomberg.com

Spanish Rents Fall in Worst Housing Glut Since 1950s (Update1)

[Share](#) | [Email](#) | [Print](#) | [A A A](#)

By Sharon Smyth



July 22 (Bloomberg) -- Arancha Ibarra considers herself one of the lucky victims of Spain's housing collapse.

After struggling to find a buyer for her renovated two-bedroom apartment in Madrid for two years, Ibarra found a tenant for 750 euros (\$1,066) a month, becoming one of the [1.5 million](#) second-home owners thrust onto the country's rental market.

The number of properties for rent in Spain climbed 55 percent in the past two years to 3.3 million, the highest since the [Ministry of Housing](#) started collecting the data in 2004.

Rents in cities, including Madrid and Barcelona, are falling for the first time in seven years with declines of as much as 8 percent, according to Madrid-based property research firm [Idealista.com](#).

"Those who need to sell but can't are being forced to lease," said Fernando Encinar, co-founder and head of research at [Idealista.com](#), Spain's largest real estate Web site with 308,000 listings for rent and purchase. "We haven't seen this number of properties for rent since the 1950s."

Spain built about 29 percent of new homes in the European Union from 2001 to 2007, even as it represented just [9 percent](#) of the population. The resulting glut of 1.5 million unsold houses and apartments sparked the end of a decade-long real estate and construction boom that accounted for about [20 percent of the country's gross domestic product](#) in 2007.

Sales Slump

The ensuing housing slump has tipped the economy into the worst [recession](#) in 60 years with the unemployment rate climbing to 19 percent, the highest in the EU. Home sales fell by more than a third in the 12 months through May, the latest government data show.

Rents in Madrid and Barcelona jumped 28 percent and 56 percent, respectively, in the five years to 2008, driven by a jump in house values. Home prices rose 120 percent from 1997 to 2007, pricing many Spaniards out of the market.

This year rents declined 4.2 percent to 12.3 euros a square meter in Madrid and 8 percent to 12.6 euros in Barcelona, [Idealista](#) reported.

Guillermo Bruzon, a researcher at the [IESE](#) business school in Madrid, said rentals will continue to fall in coming years. "Price deflation is fundamental to ensure that people have access to housing, whether it be rented or purchased," he said during a telephone interview. Prices and rents as a proportion of incomes has become "unsustainable," he said.

One Offer

After two years of trying to sell her 70 square meter (753 square foot) air-conditioned apartment in Madrid, Ibarra rented it after receiving just one offer of 162,273 euros, 33 percent below her asking price.

"The rent barely covers the mortgage, but doesn't pay the council tax and maintenance," she said during an interview in Madrid. "It was the best price I could get and I can't afford to sell at a loss or

leave it empty.”

Owners of vacant homes also have to pay a yearly tax that's equal to 1 percent to 2 percent of the property's value.

Spaniards aren't the only ones saddled with empty homes. The nation's banks lent about 318 billion euros to domestic real estate companies and also were forced to accept billions of euros of real estate assets in exchange for canceling debt with insolvent developers, according to Fernando Rodriguez de Acuna, president of R.R. de Acuna & Asociados, a Madrid-based industry research company founded in 1980.

'Sterile' Assets

“Those assets are sterile, or constantly falling in value, so the banks have to get them off of their books or else they will damage their balance sheets in coming years,” Acuna said.

[Banco Santander SA](#), Spain's biggest bank, together with its consumer unit Banco Espanol de Credito SA, has 4.1 billion euros of property assets after taking real estate from failing developers.

Santander put 1,800 homes up for sale in January and sold 500 of them as of May, a company spokesman said. He declined to provide a breakdown of the bank's residential and commercial real estate assets.

[Banco Bilbao Vizcaya Argentaria SA](#), the Spanish lender that bought 490 million euros of real estate in the first quarter, forecasts that will climb to 1 billion euros by the end of the year. Caja Madrid, the country's second largest savings bank, has about 600 homes for rent and is offering as many as 1,500 for sale at discounts of as much as 40 percent.

Prolonged Recession

Acuna estimates the slump in the Spanish residential property market will last seven years, prolonging the recession until 2013.

“Recovery is going to depend on when people can purchase homes again, which in turn depends on employment,” Acuna said during an interview at his office in Madrid.

Acuna estimates [the economy](#) will contract by 4 percent in 2009 and 2010, by 2 percent in 2011, and 1 percent in 2012. Growth will be zero or minimal in 2013, he said.

The Spanish government has forecast that the economy will shrink by 3.6 percent this year and 0.3 percent in 2010, and then grow 1.8 percent and 2.7 percent in 2011 and 2012.

[Joblessness in Spain](#) may reach 20.5 percent by the end of 2010, according to estimates from the European Commission.

“Redundancy is having a huge impact on home sales, hence many people are turning to renting,” said [Ben May](#), an economist at [Capital Economics Ltd.](#) in London. “Even people who still have jobs are clearly going to be worried and those that are in a position to buy are waiting for prices to fall.”

Sliding Prices

The International Monetary Fund expects Spanish property prices to drop 30 percent from their peak in 2006. They've already declined 7 percent, analysts at Citigroup Inc. estimate.

[Irene Garcia](#) is among about 2 million Spaniards who have joined the ranks of the unemployed in the past year. The 33-year-old ex-production assistant gets 700 euros a month in unemployment benefits and pays 400 euros a month to rent a room in a shared apartment. The good news is her rent is about to drop 50 percent.

Garcia, a native of Galicia who moved to Madrid three years ago, found a room in an apartment in the city center. It was empty for six months, prompting the owner to cut the rent to 200 euros per month.

“I'm getting the same living space in the same area and saving 50 percent,” Garcia said. “I don't know when the crisis will end or how long I will be unemployed, but this gives me a lifeline of six months.”

Ibarra knows she'll have to wait much longer than that for the market to recover and to be able to sell her home.

"It's crystal clear that in its current state the market is going to take at least five years before we see things pick up again," she said.

To contact the reporter on this story: [Sharon Smyth](#) in Madrid at ssmyth2@bloomberg.net.

Last Updated: July 22, 2009 08:37 EDT



[Terms of Service](#) | [Privacy Policy](#) | [Trademarks](#)