

Paper: Banks are Selling Spanish Coast

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It has been dubbed the "Costa Catastrophe". Hundreds of thousands of unsold new homes litter Spain's coastal provinces – and now the banks are finally pulling the plug on developers and selling off their stock for whatever they can get, reads London daily "The Guardian". All the major Spanish banks have opened real estate websites (each translated into English to appeal to British buyers) to offload the new and repossessed homes on their books, promising discounts of as much as 60% off asking prices. But many experts think that prices in Spain still have further to fall and that asking prices remain a long way from reality.

Servihabitat, the site for properties owned by La Caixa bank, tells buyers "you set the price ... we'll give you an answer in 24 hours". If reports from property agents in Spain are true, buyers should put in silly offers and see if the bank bites. Bankia, a collection of seven failed banks which recently sought a €19bn government bailout, sells its repossessed properties through BankiaHabitat. Currently it is running an "andando a la playa" (walk to the beach) promotion offering hundreds of beachside flats and apartments starting at €39,050.

At the height of the boom in 2006, Spain built more than 760,000 homes, five times the level of housebuilding in the UK. Housing starts have since collapsed by 90% and the struggling banks can no longer "extend and pretend" the unpaid interest on the colossal loans advanced to developers.

The banks know that as they bring the property to market, prices will fall even further, so many offer 95% or even 100% loans at low interest rates so long as the buyer is willing to pay the original, inflated price. It's a gambit few believe will find many takers.

Official statistics mask the scale of price falls. The Bank of Spain says prices are 25%-30% below their peak, but estate agents say falls of 40%-50% are common in some areas. Idealista, Spain's equivalent to Rightmove.co.uk, says prices have fallen most in Lleida, the coastal province south of Barcelona. Meanwhile, many analysts reckon prices remain far too high and could fall substantially this year. SocGen's Michala Marcussen expects prices to fall 15% this year, while Citi's Willem Buiter believes Spain is only halfway through its price declines.

There are reports of bargain hunters flocking to Spain to buy at knockdown prices, lured by scores of websites promising ultra-cheap properties and loans. But Clare Nessling, director at Conti, an overseas mortgage specialist, warns: "Bitter experience has taught thousands of overseas property buyers that scrimping on independent legal advice can effectively cost them their holiday home. And ensure an independent valuation of the property is carried out, even if you're buying with cash. This should point out any problems – subsidence, damp, wiring defects – and could also highlight possible boundary disputes." Many developments were built cheaply and shoddily, with frequent reports of breaches of planning rules and licences. Buyers should also factor in high fees – typically 10% – when purchasing in Spain.

"Be very selective. Many so-called bargains are being offered at bargain basement prices because they are of poor quality and in undesirable locations," says Nessling.

"It's very easy to be pulled in by descriptions of 'cheap' or 'knockdown' prices, but you really don't want to end up with a toxic asset simply because you didn't do your homework or tried to cut corners."