



**Date:** 09.09.2013  
**Topic:** UK  
**Source:** BusinessWeek (United Kingdom)  
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## Red Flags Over Madrid Sign of Spanish Crisis Easing: Mortgages

[Online article](#)

In the upmarket Madrid neighborhood of Arroyo del Fresno, red flags bearing the insignia of Banco Santander (SAN) SA flutter atop a building site nestled between a medical center and a metro station. Instead of caution, they may signal that Spain's six-year property crisis is receding.

Workmen last week were busy assembling a sales office at the plot to market "Gardens of the Countess," a planned 84-unit complex with mountain views where a two-bedroom apartment will sell for as much as 393,000 euros (\$517,000). It's one of about 120 projects Spain's largest bank has begun the process of developing, mostly in the country's biggest cities.

Lenders including Santander and Banco Sabadell SA, which is also developing 59 plots, are looking to accelerate efforts to sell real estate that piled up on their balance sheets during Spain's crash. It demonstrates the country's slump may be easing in some areas as banks press on with the task of finding buyers for their property, said Ricardo Wehrhahn, a Madrid-based partner at **Roland Berger Strategy Consultants**, which carried out stress tests on Spanish banks last year.

"It's a positive trend because it shows Santander thinks it can sell this property, is willing to offer mortgages on it and thinks it will get repaid," said Wehrhahn. "It's a step change because they are doing something they haven't been willing or confident to do in the last five years."  
Slow Recovery

Any sign of life returning to a real estate industry devastated by a crash that caused prices to fall more than 30 percent since the start of 2008 would boost an economy that may be starting a slow recovery. Spain sold bonds last week at the lowest yields in three years and the county's banks have helped lead gains in European finance stocks since the end of the second quarter. Banco Popular Espanol SA (POP) has returned 65 percent over the period making it the best-performer in the 44-member Bloomberg Europe Banks and Financial Services Index.

"For building activity to restart someone has to show that it can be profitable in the right circumstances," said Joan Bertran, head of Banco Sabadell's (SAB) real estate investment division. "At the moment, the only ones who can do that are banks."

Data on mortgages and home prices show demand for housing remains weak, meaning it's premature to say Spain's real estate crisis has touched bottom, said Fernando Encinar, co-founder and head of research at Idealista.com, the country's biggest property website.

The number of home mortgages fell 42 percent in June from the same month a year earlier, ac-

ording to the National Statistics Institute, while residential building starts are down 94 percent from their 2006 peak.  
Bad Bank

The bad bank that Spain set up to absorb 50 billion euros of real estate assets turned over to it by state-aided lenders, has barely started the process of selling off the 107,000 properties it now owns. Unemployment (SPUNEMPR), meanwhile, is at 26 percent, the second-highest in the euro region, after Greece.

"It is still an error to think that the crisis in Spain is at an end," said Encinar. "Prices for the majority of homes in Spain are still too high given the ability of people to buy and restrictions on credit."

Even so, the sight of buildings rising on bank-owned land shows the property market is starting to revive in some areas where there is clear demand, Encinar said in a phone interview.

"Perceptions have changed so that people have gone from saying that land can't be built on for decades to the understanding that you can develop it and money can be made if the conditions are right," said Encinar. "What banks like Santander are doing will underline the fact that while house prices are generally too high in Spain, some regional markets are starting to recover."  
Mountain Views

"Gardens of the Countess" in Arroyo del Fresno, 5 miles (8 kilometers) north of the center of Madrid will have two to five-bedroom apartments. Views include the Sierra de Guadarrama mountain range and a clinic where King Juan Carlos' grandchildren were born and Penelope Cruz gave birth to her second child by fellow actor Javier Bardem in July.

Santander Chief Executive Officer Javier Marin told reporters in July the bank would only begin construction on building plots if 30 percent of the planned homes had already been sold "off-plan." A 99 square-meter (1,066 square-foot) 2-bedroom apartment at the development that's due to be built by the end of 2015 by the Madrid-based builder Pryconsa costs 393,000 euros, or about 3,970 euros per square meter.

### No Supply

The average price in Montecarmelo-Cantoblanco, a neighborhood comprising many recently-built apartments adjoining Arroyo del Fresno, was about 3,600 euros per square meter in August, according to Fotocasa.es, another property website. Prices in the region were more than 4,200 euros per square meter in 2009.

"There are some areas in Spain where there is loads of supply and others where there's almost none, such as Arroyo del Fresno," said Carlos

Ferrer-Bonsoms, head of the residential real estate department at Jones Lang Lasalle in Madrid. "Land on its own doesn't produce anything and, depending on the zone, it can be an interesting proposition for the banks for development with caution as prices are still falling."

Banks becoming property developers isn't necessarily a trend to be welcomed, given the existing supply of homes in Spain and state of the country's economy, said Benjie Creelan-Sandford, an analyst at Macquarie Bank Ltd. in London.

"It might look like a good idea for the banks because they can avoid having to assign a lower value to these assets," said Creelan-Sandford in a phone interview. "The risk is that it's going to add to the over-supply problem in Spain and it's not clear there will be demand for these new properties."  
Wealthier Areas

Building projects could be viable in wealthier areas of big cities such as Madrid or Barcelona where there may well be pent-up housing demand, he said. "Obviously it all depends where they're being built," said Creelan-Sandford.

Net sales of homes, excluding purchases by banks, dropped to 259,000 in 2012 from 736,000 in 2007, according to analysis by Madrid-based real estate consultants RR de Acuna & Asociados, using data from the National Statistics Institute and the College of Property Registrars.

The volume of properties for sale, combined with an expected drop in the population, will prevent the residential property market from recovering anytime soon. As many as 2.27 million homes may either be on the market already or in the pipeline, including up to 400,000 that are being developed, RR de Acuna estimates.  
Mini-Markets

"From a supply perspective, Spain remains an oversized property market," Ignacio Cerezo and Andrea Unzueta, banking analysts at Credit Suisse Group AG, wrote in a Sept. 5 report. "While we are aware of the existence of many 'mini-markets' within Spain with different supply dynamics, in overall terms it looks too early to call for the resumption of building activity."

Banks may conclude it makes sense to develop building plots if they decide demand is strong enough, said Wehrhahn. Prices in Montecarmelo-Cantoblanco have risen from a low-point of 3,500 euros per square meter, according to Fotocasa.es.

Developers starting projects can also benefit from lower expenses, with an index of construction costs compiled by the public works ministry falling 4.4 percent since a 2008 peak.

"They have to assume the risk of construction and be sure that they're building something they can sell," said Fernando Acuna, project manager at RR Acuna in a phone interview. "It's a good sign because it may show that in some areas at least, the worst phase of the crisis may have passed."