



What Went Up, Is Coming Down

Back in July last year, our look at the state of the property market in Spain concluded that the best bet for the seller was to sit it out and weather the storm. Ten months on, Joanna Styles takes another look at the market and sees where it's heading in 2009.

If you're a house seller, estate agent or developer, Spanish property statistics make for gloomy reading. Along with the faltering economy and plunging unemployment, house prices are also on a downward spiral whose last twist is, as yet, firmly out of view. Exactly how much prices have fallen (and have still to fall) depends on who you ask, but most sources are unanimous in citing double figures for 2008.

One of Spain's largest valuation agencies, Tinsa, recently reported a year-on-year drop of 10.1% in January

2009. Christopher Clover, owner and managing director of Panorama Properties in Marbella, believes deflation is even higher and cites falls of between 25% and 40% in off-plan property with resale homes seeing a 15% to 25% drop in their value.

And the picture isn't much prettier in 2009. According to Tinsa, prices will fall by at least 20% throughout Spain this year. Decreases are expected to be even higher in areas with an over-supply of cookie-cut properties (e.g. most Mediterranean resorts), particularly off plan, although according to Clover,

many developers would rather allow banks to repossess properties than drop prices further. David Novi, owner and founding partner of Novi Property Mallorca, believes that property prices generally need to drop to 2003 levels. "This would mean a difference of between 40% and 50% between peak and trough," he says, "and would also bring about no real growth in the property market until 2012."

The Spanish property market is currently stuck fast in a trap of over-supply – estimates of excess housing stock range from 600,000 to 1.4

million units – and lack of demand, the classic hallmark of a burst property bubble. Natural demand for property in Spain is calculated at around 450,000 homes a year – a look at the 745,000 units finished in 2008 (a year when construction slowed down) shows that the current situation of over-supply is here to stay for the short term, with the potential to worsen.

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With plenty to choose from and falling prices, 2009 looks set to be one of opportunity for house hunters. The recent roller coaster of the Euribor, which in six short months has plummeted from a historic high (nearly 5.5% in September last year) to an almost record low (2.17% in February this year), makes now a good time to take out a mortgage. If you can get one. Despite the banks’ continual publicity campaigns claiming they’re willing to lend, obtaining a mortgage now is reportedly akin to getting blood out a stone.



With the property market currently one reserved for those with ready cash, are there any buyers? According to Clover, sales are taking place but they’re “limited to either very sensibly priced properties or to very special properties”. He believes that one of the keys to today’s market is flexibility. “Sales are being made by those willing to trade up or down,” he says. Novi agrees and has noticed sales taking place of properties being marketed at “much more realistic levels”.

In the current situation, the “location, location, location” adage has come into its own, since in this market it’s often only those properties situated in consolidated sought-after areas that are selling. With the almost total disappearance of the speculator from the Spanish property scene – a “very welcome event” for Clover – buying a property for pleasure is now the main reason behind a purchase. “Property should be seen as much as something to enjoy as a way of making money,” says Novi and according to Clover, it is “the end user who is king today”.

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So, 2009 for the vendor looks very similar to 2008 and if negative equity or a very pressing reason means you have to sell, this is the year to drop your asking price to a more realistic level. As Clover says, “sales are being made between reasonable buyers and reasonable sellers”. If selling your home isn’t urgent then sit back and weather the storm, which may last until 2012.

If you’re a buyer, 2009 is definitely the year to buy. Just don’t leave it too long. Clover points out that in some areas some of the best deals have already gone. And although you’re very likely to get a bargain, don’t forget that the high costs associated with property purchase (at least 10% of the price) mean that it could be several years before you recoup your costs, let alone make a profit. In the words of Novi, “a purchase in Spain now must be seen in the five to 10-year horizon”.

Two Exceptions to the Rule



As varied as the Spanish landscape is its property market, and while practically all corners of Spain are deep in a property recession, the outlook is not the same everywhere. Marbella and Mallorca are two exceptions to the rule.

The property recession in Marbella started some time before the rest of Spain was hit, with the city's off-plan market loosing steam back in 2004. The downturn has affected most properties, although it's those under € million that have, according to Christopher Clover of Panorama Properties (www.panorama.es), taken a "real beating" with up to a 30% drop in value. Homes in the € million plus bracket have fared better (15% to 25% decrease) with properties with price tags of over € million relatively unaffected.

Unlike many parts of Spain where house hunters are in danger of extinction, Marbella is, says Clover, still seeing "a very high number of viewings, indicating a lot of people are out there with cash, waiting for

the right moment to buy". Given this interest and the fact that Marbella property has a worldwide market, Clover believes that the city is likely to recover sooner than the rest of Spain. Clover also points out that over-supply in the city isn't a problem – of the 24,000 units estimated to be for sale on the Costa del Sol, Marbella has only 4,000 quality homes currently on the market, and as Clover says, it doesn't take many sales of these to change the market tendency. That said, Clover predicts that Marbella will see the start of recovery in the second half of this year but normality within the market will take at least three years.

Mallorca's property market shares many similarities with Marbella and while Mallorca has not been immune to the property recession, it has fared better than many other popular second home destinations in Spain. According to David Novi of Novi Property Mallorca (www.novipropertymallorca.com), the reason behind this is because the island has certain "defensive qualities". For a start, over-supply isn't so

apparent on the island, although Novi points out that the low to mid-price range (€50,000 to €100,000) has been particularly hard hit. Mallorca was also relatively little touched by the off-plan fever that was so prevalent in many parts of Spain because the island mainly caters for the so-called "lifestyle purchasers" and like Marbella, also has a global clientele.

Novi believes that one of Mallorca's strong points is its quality of property, with unique properties and unique locations in Mallorca being the ones that will withstand the downturn best. Among these unique locations, Novi cites old town Palma, Deia, Formentor and Sóller. However, even here, properties may have to cut a slice from their asking price in order to sell. House hunters are active on Mallorca where Novi says "buying opportunities are starting to emerge". In terms of recovery, Novi believes that the Mallorcan property market will mirror the Spanish, although he expects the island to possibly bottom out earlier and therefore start to recover a little sooner than the rest of Spain.