

Three Million Unsold Properties In Spain?

by Global Economy Matters - Spain Economy Matters

Posted on Sep 21, 2009

Yes, three million. That was the conclusion reached in the 2009 annual report on the Spanish property market prepared by Madrid-based real estate analysts R. R. de Acuña & Asociados. The report is described by Sunday Times Spanish Property Doctor columnist [Mark Stucklin](#) as one of the most influential annual reports on the sector, so the conclusions are hardly to be sneezed at, indeed the assumptions made in the calculations appear on the surface to be entirely plausible. In fact, having read the summary of the report [in this article here](#), Variant Perception's Jonthan Tepper wrote to me to ask whether I thought we were being "dire enough". Yep. Sufficient unto the day is the direness thereof.

According to the estimates of R. R. de Acuña & Asociados - [as outlined in the Expansion article](#) - there are currently 1.67 million flats and houses on the market and looking for a buyer in Spain. To this number need to be added the 327,350 pro-perties under construction but still unfinished, together with the 1.098 million for which planning permission has been granted and which now have two years - by law - to be completed. No half measures here. Whatsmore, the 1.098 million with planning permission have already been allocated a credit line of 52.947 billion euros by the Spanish banking sector. So adding everything up between them Spanish estate agents, banks, savings banks and private investors are now holding a grand total of something like 3.1 million properties, all of them looking for that ever so elusive buyer.

Another interesting conclusion is that 75% of existing builders will simply go out of business in the next five years. Mark Stucklin - [on his Spanish property buff blog](#) - gives us what he calls a "bulleted summary" of the main points in the report. Personally I would only add two further points of my own.

Firstly the estimate of 25% unemployment by the end of next year contained in the report may well be on the low side, especially if the Spanish government is running out of funding for the stimulus programmes. Spanish INEM employment department officials have already leaked estimates that if the Plan E type projects are not renewed, then we could see something like 700,000 additional unemployed in October and November of this year alone. If these warnings turn out to be realistic then my feeling is that we will hit 25% unemployment around Easter, and then start heading up towards 30%. We should break through the 30%

level around the turn of 2010/11 or by the spring of 2011, depending on a lot of factors which are still hard to see at this point. And where will we stop? No idea at all, since this simply depends on when the Spanish citizenry decide they have had enough and a package of emergency measures are put in place. It is hard, given the way the eurosystem works, to see how a "short sharp shock" may be administered, but something of the kind will be needed, or the patient will simply arrive moribund on the operating table.

My second observation is merely anecdotal, but the Acuña & Asociados report places a lot of emphasis on the coastal situation, which has, to some extent, already been "factored in" by most participants, however quite by chance I have talked with a number of people in recent days who have stressed with me just how serious the situation is in the satellite towns around Madrid, built as they have been for Ecuadorians who never arrived, or Romanians who have already left. I think this element is yet awaiting a proper accounting, and the cost is unlikely to be small.

Summary by Mark Stucklin of R. R. de Acuña & Asociados 2009 Annual Report On The Spanish Property Market

"There are no green shoots around here," said Fernando Rodríguez y Rodríguez de Acuña, president of the company, describing the state of the Spanish property market during a press conference introducing the report.

At end of 2008 the supply of property for sale or under construction was 1,623,042, of which roughly 580,000 were resales, 500,000 newly built but unsold, and 470,000 under construction and nearing completion.

Annual demand estimated as follows: 233,000 in 2008, and 218,000 in 2009.

That means there are some 1,6 million homes on the market, whilst demand in the next few years is expected to run at around 220,000 homes. At current levels of demand it will take 6 to 7 years for the real estate sector to recover. So it could take until 2016 for the market to digest the current property glut.

Looking at the market for holiday homes on the coast, local demand was estimated at 42,000 in 2008, expected to fall to 40,000 in 2009, whilst

foreign demand for holiday homes on the coast was 21,000 in 2008, falling to 20,000 in 2009.

The report singles out the coast as one of the areas with the biggest glut of property, and therefore the biggest problem that will take the longest to resolve.

Higher priced market segments are also a problem; more expensive market segments are expected to take more than 6 years to clear, compared to 3 years or less at the cheaper end.

The only way developers and banks will get rid of the glut of property in the medium term is selling at a loss.

After falling 1.83% in 2008, overall prices will fall 9.55% in 2009, 9.32% in 2010, and 4.81% in 2011, a cumulative fall of just under 25.5% in nominal terms.

After falling 3.32% in 2008, coastal prices will fall 11.28% in 2009, 7.98% in 2010, and 4.31% in 2011, a cumulative fall of 27% in nominal terms.

Housing starts will fall to between 50,000 and 75,000 a year in the next few years, down from more than 700,000 in 2005. "The market situation doesn't justify more building, and anyway the banks won't lend money to build something that won't sell," said Fernando Rodríguez y Rodríguez de Acuña.

Thanks to long lead times in the construction business, the full economic impact of the collapse in residential construction is yet to be felt. The darkest hour for the Spanish economy will come in the second half of 2010, when unemployment could reach 25%.

Developers will go out of business in greatest numbers during 2010 and 2011. "It gets increasingly harder for developers to refinance with assets they either can't sell or which are already mortgaged, and are increasingly devalued," said Fernando Rodríguez y Rodríguez de Acuña, who predicts that 75% of developers will be wiped out in the next 5 years by a combination of too much debt, the market slump, and "bad management".

Recovery won't come until 2013, by which time the sector will be just half the size it used to be, if that.