



Photographs: Craig Hastings

What goes up...

With a prices slump and surplus property going begging, it's all doom and gloom on the housing front. But as they say here, *no hay mal que por bien no venga* (every cloud has a silver lining).

Joanna Styles tries to look on the bright side.

The length and breadth of their pristine façades, new apartment blocks in Spain are festooned with 'se vende' boards, all flapping hopefully in the breeze. But with hardly a day passing without yet another headline reporting the latest in the gloomy property statistics, it looks as if the signs are here to stay. The news certainly makes sober reading – thousands of construction workers are being made redundant as Spain's largest developers

reported a massive 75% drop in sales in the first quarter of 2008. Estate agents throughout Spain have closed down, including one of the country's biggest, Don Piso, whose 120 offices shut in May. On the costas, large chains (mostly British) have disappeared off the property scene or are busy selling homes anywhere in the world – except Spain. And homeowners simply cannot sell, even when they drop their price.

But turn the clock back a few years and this scenario is almost impossible to imagine. Just three years ago, Spain found itself in the midst of its biggest property boom ever. House prices seemed unstoppable and with everyone keen to get in on the act, Spain's skyline filled with cranes. Vast tracts of countryside were bulldozed to make way for the nearly two million homes that have been built since 2005. In 2006 alone, 800,000 new homes were built, more than in Britain, France and Germany put together. Spanish – and foreign – developers, builders, estate agents and property investors had never had it better with developments selling out in days and shrewd off-plan buyers reporting returns of at least 50%. Previously small towns grew almost overnight

– Benalmádena on the Costa del Sol and Torrevieja in southern Costa Blanca have been transformed from manageable resorts into concrete jungles – and in some places, whole new residential areas have sprung up from nowhere such as Seseña, close to Toledo.

But few good things in life last forever and in early 2006, the second-home market on the costa showed distinct signs of slowing down. By early 2007, things were decidedly worse – would-be sellers found they couldn't take down their 'se vende' sign and developers began to drop prices and throw in extras such as furnishings or a car. Then in mid-2007, the rise of the Euribor interest rates and the US sub-prime disaster finally precipitated the crisis, and Spain now finds itself in the midst of a full-blown property crash.

For those who find solace in others' misfortunes, it might help to discover that Spain isn't going through this alone. Ireland has already seen five quarters of decreases in property prices; the US lies immersed in its worst property crisis ever. In the UK, year-on-year house price growth in April 2008 was negative for the first time since 1996. Not to

mention Japan, whose property market has seen house prices fall by nearly 45% over the past 16 years. However, this is perhaps little comfort for the thousands of homeowners in Spain currently hoping to bin that fading 'se vende' sign.

FROM BUST TO BOOM TO BUST

This isn't Spain's first property recession – 1989 to 1996 was the last.

Between 2000-2004 house prices rose by at least 20% a year in most of Spain.

2006 was a record year for new-builds – over 800,000 units were built.

Prices rose by 12.6% in 2005, 10.4% in 2006 and 5.8% in 2007.

Around 2 million properties (including off-plan) are currently for sale in Spain.

But whether you're selling – maybe you're getting desperate because you can no longer pay your mortgage or the recent strength of the euro means you need a cash injection to compensate your falling pension – or you're buying and just biding your time waiting for that bargain home, the question on everyone's lips is the same: how long is this going to last?

Property analysts generally agree that the time scale involves at least the rest of 2008 and 2009. The more optimistic point to a general improvement in the second half of 2009, the more pessimistic prefer early (or even late) 2010. Much depends on the ups and downs of the Euribor, the economy in other countries – the eventual consequences of the UK credit crunch may have huge knock-on effects in the Spanish second-home market – and the ability of Spain's huge construction industry to adapt to changed circumstances. In any case, most experts agree that the price adjustment will hover around a drop of 20% – great news for the investor. After an absence of over a decade, the art of bottom fishing has re-entered the Spanish property market and there are promising signs that within the next six to nine months, those in search of a real bargain will be more than spoilt for choice.

However, this is small consolation for the seller and if your 'se vende' sign looks set to stay, what can you do? Spain is now a market



for buyers and there aren't many of them, but they haven't gone away altogether and some (Eastern Europeans, for example) have money to spend. You just need to persuade them to spend it on your house. The biggest convincing factor is price and your property's wow factor is also important – only immaculate homes are going to attract the buyer in this market. Or –

and this is both the easy and the hard option – sit it out and weather the storm. After all, what goes down must come up and in a world of cyclical economies, it won't be long before things turn around. And on the bright side, if you bought your home before 2005, the chances are that you're making a profit anyway and at least it's not cold and grey outside.

THE THREE MAIN PROBLEMS

House prices are inflated (although in the International Monetary Fund's list of countries with over-priced property, Spain ranked ninth, behind the UK, Ireland and Holland).

Excess housing stock – the problem is worst in the Comunidad Valenciana (home to the Costa Blanca) with nearly 52% unsold and in Murcia (home to the Mar Menor and the Costa Cálida) with 50%.

Mortgage interest rates are at their highest since 2000 – in June, the Euribor broke through the psychological barrier of 5%.