

Spanish housing prices fall

First drop in decade strains economy on brink of recession

By JONATHAN HOUSE

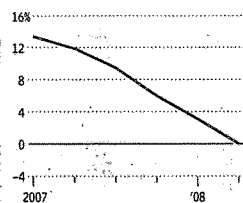
MADRID—Spanish housing prices fell for the first time in a decade in the second quarter, adding new stress to an economy already on the brink of recession.

Data released Wednesday by Spain's National Statistics Institute, or INE, showed second-quarter house prices fell at an annual and a quarterly rate of 0.3%. The data are based on a new methodology designed by Eurostat, the European Union's statistics arm, which is seeking to promote uniform housing data throughout the EU.

Spain's housing boom started to deflate in the first quarter of 2007, when prices reached nearly three times their 1997 levels and after years of overbuilding. The correction was hastened by tougher financing conditions in the aftermath of the U.S. subprime-mort-

First fall in a decade

After several quarters of slowing growth, Spanish house prices declined for the first time in 10 years in the second quarter. House prices in Spain, change from a year earlier:



Source: Spain's National Statistics Institute

gage crisis.

Unlike prices in other countries that have experienced boom-to-bust housing cycles, including the U.S. and the U.K., Spanish prices haven't fallen until now because homeowners and builders have tried to hold on to their properties rather than sell them in a falling market.

"This is an idiosyncrasy of the Spanish market," said José García Montalvo, an economics professor at Universitat Pompeu Fabra. He notes that until this year, Spain's housing-sector adjustment has been more visible in sharp falls in sales transactions and housing starts.

The decline in housing investment has brought the Spanish economy, once one of the euro zone's main engines of economic and employment growth, to the verge of recession. The government now expects the economy to stagnate, and possibly contract, in the second half of this year.

Spain could now start to see greater financial stress if housing prices start to fall below mortgage values, Juan Ramón Quintás, chairman of Spanish savings-bank association CECA, said Wednesday.

"A fall in prices causes a rise in bad debt. ...If someone can't pay their mortgage, and his house is worthless, he might not have the option he had before of selling the house" to cover his debt, Mr. Quintás said.