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A Home-Price Puzzle in Spain

Some Question Accuracy of Government Data on Property Values; Further to Fall?

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By SARA SCHAEFER MUÑOZ

Spain faces a problem as empty homes left over from the housing boom go up for sale: determining just how much the properties are worth.



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Confusion over home prices in Spain has kept some investors out of the market. Above, a listing in Madrid.

Analysts, property-sales representatives and economists said data coming from the government and even some large appraisal companies understate the drop in real-estate prices. That is causing confusion and scaring off some investors who could help banks clear their backlog of homes.

The discrepancies are owed, in part, to a quirk in how some Spanish home-price data are calculated. The data are based not on actual sales prices, but rather on appraisals by private companies, which in a slow market are heavily reliant on asking prices. The result is a variation in estimates of Spanish home values.

The Ministry of Public Works recently said that the price per square meter of homes for sale in Spain has dropped 11% since the market's 2007 peak. But data from Tinsa, a large Spanish appraisal firm recently bought by private-equity firm Advent International, show an 18% drop in the same period.

Meanwhile, many smaller firms that are helping banks sell thousands of property assets said average actual sale prices have fallen between 20% and 30%.

"We don't have an accurate measure, that's the bottom line," said José García Montalvo, chairman of economics and business at the Universitat Pompeu Fabra in Barcelona.

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[Slow Growth Stymies Portugal](#)

Greece this year, and the expected rescue of Ireland, have failed to stem concerns about whether the crisis will spread to other European countries. Investors now worry that Portugal will need aid soon.

After Portugal, Spain is the next concern, and it represents a much bigger potential headache. Spain's housing boom pumped up real-estate prices by more than 100%, according to a study by Luis Garicano, a professor at the London School of Economics. The Spanish market accounted for two-thirds of the housing units built in Europe between 1999 and 2007, the study said.

As the bubble deflates, the variations in the data make it hard to get a handle on the true picture of the housing-price decline, and hence the Spanish economy.

One risk is that the uncertainty about actual property values obscures the amount of potential losses sitting on bank balance sheets. Banks hold about €60 billion (\$82 billion) of real estate, according to the Bank of Spain.

"It could mean that banks will suffer high loan-loss provisions for many quarters yet," said Andrew Lim, a European banking analyst with Matrix Corporate Capital in London.

To be sure, there often is uncertainty about property prices in any country after a boom, because of factors such as unrecorded transfers or seasonality. But observers said it is especially acute in Spain for several reasons.

One factor is that data from Spain's Ministry of Public Works come from an association of real-

The discrepancies are important as investors eye the state of the Spanish economy amid the European financial crisis. The bailout of

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