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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.



Agence France-Press/Getty Images

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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estate appraisal companies. These companies look at factors such as sale prices of comparable properties. But in many cases, they take into account the asking prices, which haven't fallen as much as in other cases.

The companies also consider other factors, such as location, property type and the cost of construction, said a spokesman for the society.

The appraisal companies also have drawn criticism about a potential lack of independence, because many are owned by banks. Sivasa is owned by Banco Santander SA, while CMS is part of Cajasol, the Seville lender.

Representatives for Spain's Ministry of Development and Atasa, the trade group of the appraisers, said the appraisal methods meet European standards, and the companies' independence is regulated by an updated law passed in 2007.

Another official home-price index, from the Spanish National Office of Statistics, is based on notary documents of sales. It shows that prices fell from their high in 2007 to the first quarter of 2010 by 11%, and then bounced back by two percentage points in the second quarter, the most recent available.

However, economists, sales agents and some officials say notary prices often don't capture the true sale prices, because it is common for under-the-table money to change hands during transactions. This can result in lower-than-actual prices being recorded, to minimize tax. But the precise amount of such transactions on an annual basis is unknown, making year-to-year price comparisons unreliable, they say.

Spanish Prime Minister José Luis Zapatero said in an interview on U.S. news channel CNBC in September that prices had hit bottom and were on their way back up. But statistics from the Ministry of Development that were released this month showed otherwise, though their quarterly rate of decline had slowed.

Mark Stucklin, who runs Spanish Property Insight, a website that sells homes and provides information about buying in Spain, said there is "a gulf between official figures and reality."

He said the average sales price he has seen in the vacation-home market, a sector that accounted for a significant portion of Spain's housing bubble, has fallen between 20% and 30% from the peak, with sale prices off as much as 50% from the peak. Other companies that record price data report similar drops.

He and other real-estate agents and economists said prices are likely to fall further in 2011 as the Bank of Spain ramps up pressure on the banking sector to sell properties.

They also said the lack of clarity about housing prices scares off potential investors who could provide a clearing price for assets, allowing the housing market to start to recover.

"Ultimately, the vulture funds have a social function, they come in and buy and begin halting the fall in prices," said Rafael Valderrábano, founder of Básico Homes, which helps banks sell distressed properties. "This is largely not happening yet in Spain."

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