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## Time for a New House? Not in Spain!

By Paul Gibson



Most young people here in Spain are torn between the eternal question, "Should I rent or should I buy?" with regards to buying or renting a house. Indeed, the question is by no means an open and shut case of 'do's and 'don't's.'

What is going on in the Spanish Real Estate market? Some of the key performance indicators (KPIs) of any sector are the evolution of prices in the past decade, the laws of supply & demand, and more importantly, government regulation.

The evolution of housing prices in Spain is no secret. We are literally talking about the biggest price gains in the entire EURO zone. Interest rates have been considerably lower in Spain than in many European countries as part of government policies intended to slow down the astronomical growth of inflation.<sup>1</sup> Just yesterday, the Spanish government announced that the interannual growth of housing prices in Spain has reached 17.18% (average price per square meter). If you are thinking about buying a house, you may want to keep the following facts in mind as well: cities where housing is most expensive are Madrid & Valencia - (Madrid - increase of 18,35%; Valencia +19.39%). Housing in autonomous regions such as Asturias has not grown as much and especially in the case of Asturias, housing prices have gone from +14.6% to a mere +1.3%, with respect to the previous year.<sup>2</sup> What is most disturbing though about this situation is that economists

and governments alike, seem to avoid reality when analyzing the consequences or economic impact that these prices have on the Spanish economy.

So how can you tell that prices have gone up? Imagine our university years or maybe even our last few years before entering the European Union. In places where housing is more likely to be expensive such as Barcelona, Madrid, Valencia, the average flat cost you maybe 80.000 pesetas. This is exactly 479.04€ (nominal euros). If we discount this average price using the annual interest rate of 3% , this would be approximately 493€. Nowadays, we all have friends that would literally kill to get their hands on a flat for this price. Most flats are in the 800-900€ range in places like Madrid, Barcelona, Valencia. Why are we talking about these three cities? Because incidentally they also happen to be the major cities with lower rates of unemployment, so young couples are most likely to use this as a reference when making their decision to rent or buy a house.

Ah yes, we can not forget one major factor that a lot of analysts also discard. INHERITANCE! Just fifty years ago, 50% of the Spanish population lived in houses that were rented out. Of course, times have changed, and now we are confronted with a startling figure: 90% of all potential real estate buyers choose to buy property rather than rent a flat or apartment: "64.6% utilize their property as their primary residence and 16.5% use it as their secondary residence. 4.4% rent out their property, and another 6% admits to leaving their property unoccupied - the rest is considered investments."<sup>3</sup> So it is safe to say that only 10-11% of all property is rented out here in Spain in one form or another and in many cases this number is extremely optimistic.

So now what is our dilemma? Yes, it's true that 90% of potential buyers purchase properties directly from the contractor, but this situation is simply unreal and unsustainable. Some economists comment on this as some type of justification for the lofty housing prices. They say that this demand is maintaining the real estate prices at their current level. What they will not tell you is that 90% "of potential buyers"... today in Spain could represent an extremely small number of people in comparison with 5 years ago. People will now hold off on their decision to buy or rent and simply stay at home (their family's home) in many cases. But there will come a time when every single real estate company in Spain will have to render account for this unprecedented and unethical pricing policy, and I say that time is NOW!

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<sup>1</sup> Property News, The Economist Newspaper and The Economist Group.  
June 4, 2003

<sup>2</sup> Cinco Dias, R. Díaz Guijarro / MADRID (Nov-11-2004)

<sup>3</sup> R. Díaz Guijarro / MADRID November 11, 2004  
Cinco Dias Translation, Paul Gibson Nov. 23, 2004