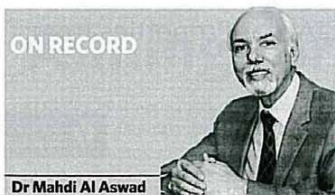


SPANISH PROPERTY LOSING ITS CHARM?

■ A luxurious and expensive villa on the Costa del Sol in Spain



ON RECORD

Dr Mahdi Al Aswad

IF THERE is one dinner party topic outdoing the Dubai property conversation at the moment it has to be the 'Spanish question'. There is no denying that Spanish property market has been subject to some bad press of late.

So, what's the story? According to figures released by the Spanish housing ministry, average property prices rose by 9.1

per cent during 2006, down from 12.8 per cent in 2005 and from the almost 20 per cent annual growth in the few years before that.

So, a market that was heating up a couple of years ago is now lukewarm. Spanish Land Register figures reveal that overall house transactions fell by 7.5 per cent in 2006 and, for two or three years now, subjective evidence suggesting stagnant or falling markets in some of the areas popular with global buyers has been plentiful.

The problem

I have been a developer/investor in the Spanish territories for more than 20 years and the biggest problem that I've encountered, and a problem that still exists today, is connected to regulations or more par-

ticularly to the masterplan administrators. There have been promises made which have never seen the light.

At a time when the market was flooded with buyers and times were booming, investors and developers got greedy. The infrastructure in the developed areas was never properly laid.

Couple that with a change in administrators every two to four years and anything that is decided can often be revised or even undone by new administrators taking over who have a change of heart. Are you starting to get the picture?

You also have to take into account the abundance of properties available after the bullish building trend of the past few years. According to experts, this is the main problem affecting the market today.



At a time when the market was flooded with buyers and times were booming, investors and developers in Spain got greedy

No fewer than 800,000 new homes were built in 2006. This growth was fuelled by low interest rates, the exponential growth in the Spanish economy, and an endless demand for new properties amongst Spaniards, immigrants and tourists. And investors have seen some handsome returns with people buying off-plan and then selling them on completion for a significant profit.

However, a saturation of properties in certain areas has resulted in unsold properties and prices stagnating.

Location, location, location

And so with the good times apparently over, what does this mean if you own a holiday home in Spain, or if you want to buy one? Without a doubt the biggest losers are short-term speculators who

overextended to buy off-plan in the final years of the boom, thinking they could still 'flip' and make a profit out of it. In the same boat are those who have bought an average property in an over-developed area in the past three years, and anyone who did not do their homework and paid over the odds.

Spain is not a bad place to invest, a buyer who bought an attractive property in a good area five years ago or more should not worry. Good capital growth means these properties should still fetch a reasonable return were you to sell now. If you are really willing to do your homework, the market correction could actually be a good time to hunt for a property at the right price. Look at whether or not a property represents value for money, not just how cheap it is and involving location, location, location.

Of course, losses may become more widespread if Spain goes into a construction-led recession. Not impossible, given the extent to which its economic growth depends on the housing sector.

A recession would hit domestic demand for holiday homes hard, pushing prices down. That said good-quality properties with foreign appeal would probably be ok and, as with most markets, it would recover eventually. People will always want to go to Spain — the climate is hard to beat, after all.

Similarity chimes

You can probably guess the next question at the dinner table? Doesn't all this talk of a glut of properties, lack of regulation, et al, ring a few bells? People are concerned that the same thing could happen here and my reply to that concern is that the government and the powers that be will simply not let it happen.

We were all worried about property transfer and real estate deeds at one point, but the government came through with the law. And as for regulation and consistency, this is something we have a great deal of here.

The UAE having started from scratch has learnt from the mistakes that a place like Spain has made. Everything that is wrong with Spain now simply will not happen here. Of course there are bound to be some bad seeds and we are likely to see a correction in the market.

But talk of a crash is definitely premature. In Spain prices will suffer because the people have lost confidence in the market. In the UAE confidence is at an all-time high, regulation is second to none, and negligence is a word the government has never heard of.

Dr Mahdi Al Aswad is the Managing Director of Halcon Real Estate