

Message from Bloomberg

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Spain's Illegal Homes Overshadow Minister's U.K. Sales Pitch



Spain's development minister Jose Blanco. Photographer: Pedro Armestre/AFP/Getty Images



May 4 (Bloomberg) -- David "Danny" Blanchflower, a professor of economics at Dartmouth College and a former policy maker at the Bank of England, talks about the European sovereign-debt crisis. Portugal reached an agreement with officials preparing its European Union-led bailout that will provide as much as 78 billion euros (\$116 billion) in aid and allow more time to reduce the country's budget deficit. Blanchflower speaks with Susan Li on Bloomberg Television's "First Up." (Source: Bloomberg)



A crane towers over an empty construction site near the coast of Alicante. Photographer: Julio Aracil/Bloomberg

Jose Blanco, Spain's development minister, tried to persuade U.K. investors today to purchase unsold vacation homes in a country where more than 50,000 home buyers have lost the legal rights to their properties.

"This is an ideal time to invest in Spanish real estate," Blanco, 49, told reporters after his presentation. "There has been a significant drop in prices, while all the competitive advantages we offer still exist," the minister said. He will deliver the same message to investors in [France](#), Germany, [Switzerland](#), the Netherlands and [Russia](#).

The campaign follows renewed calls from European Parliament members including Marta Andreasen, [Roger Helmer](#) and [Michael Cashman](#) to freeze some of the funds the European Union gives Spain until it resolves legal shortcomings that have stripped once-legal buyers of ownership rights. A non-binding 2009 [report](#) by the parliament's [petitions committee](#) criticized the country for applying restrictions on coastal property retroactively and showing "judicial laxity" toward corruption and speculation.

"It's inconceivable that anyone would want to invest in property in a country that has shown itself to be lawless when it comes to property rights," Andreasen, a member of the U.K. Independence Party, said in a telephone interview. "Andalusia has 300,000 illegal homes alone. If we extrapolate that to the rest of [Spain](#), a million homes is a conservative number."

Andalusian Properties

[Andalusia](#), a popular tourist destination in southern Spain, is one of the worst affected areas, according to the committee's report. A spokesman for Andalusia's regional government, who asked not to be cited by name, said an inventory of illegal properties in the region is being compiled. So far, 25,000 have been identified, he said.

Marisa del Valle, a spokeswoman for the public prosecutor responsible for cases involving town planning and the environment, said there's no way of knowing how many homes have been built illegally in Spain. Eva Santiago, a spokeswoman for the [Ministry for Transport and Development](#), said her department doesn't have an estimate.

About 50,000 owners of beachside properties have lost rights to their homes after Spain's coastal law was amended and applied retroactively, according to [PNALC](#), a group representing owners affected by the coastal law. As many as 500,000 could eventually be affected by the law, the organization said.

Maria Jose Cejas, a spokeswoman for the Ministry for the Environment, said that fewer than 2,000 home owners have lost their property rights under the new coastal law.

British Buyers

British nationals account for about 31 percent of all foreign-owned homes in Spain, the transport and development ministry estimates.

Each of [Spain's](#) 8,116 town halls has the authority to make planning decisions and issue building permits with little oversight from the regional or national governments. At the [peak](#) of the housing market in 2007, municipal governments collected 40 billion euros (\$59 billion) from real estate activities such as building permits and land sales in that year alone, according to Jose Antonio Perez, a professor who teaches about real estate at the [Instituto de Practica Empresarial](#) in Malaga.

As property prices more than doubled in the 12 years to 2007, some local officials found unlawful ways of profiting from [home construction](#). There are now 340 cases under investigation of officials and politicians suspected of crimes, according to Jesus Sanchez Lambas, head of the Spanish office of [Transparency International](#), an organization that documents corruption.

In some cases, developers were given permission to build on unclassified land or were allowed to proceed without the appropriate permits, in return for cash or other incentives.

'Isolated Cases'

A spokesman for the Spanish Federation of Municipalities and Provinces, who declined to be named in line with policy, said "isolated cases of irregularities" don't detract from the work carried out by local government officials. The federation has a good governance code that aims to improve transparency and fight corruption, he said.

The national government set up a [website](#) in 2009 to enable buyers to see the development plans of more than 900 cities to check whether a property has been built within legally approved areas, Santiago said. It has also increased the number of investigators focusing on real estate corruption and imposed harsher penalties for civil servants who break the law.

Leo Levett-Smith, a 68-year-old retired traffic policeman from Cheshire, [England](#), and his wife were told that the three-bedroom retirement home they bought in 2005 in Catral near Alicante for 220,000 euros was illegal three years after the transaction was completed.

'Legal Limbo'

The couple made the purchase through a registered real estate broker, hired a Spanish notary to oversee the deal and got a 130,000-euro mortgage from a Spanish savings bank. They also paid 300 euros for an independent survey on the property.

“We left no legal stone unturned and paid property tax to the local government to buy the place,” Levett-Smith said. “Three years later, I was told it had been built without a sufficient permit. I’ve spent three years living in a legal limbo and the Spanish authorities have done nothing to address the issue.”

Spain built 675,000 homes a year from 1997 to 2006, more than France, [Germany](#) and the U.K. combined, according to [a report](#) by a unit of Spanish savings bank Cajamar.

Falling Prices

Spanish residential property prices fell in real terms for the first time in more than a decade during the first quarter of 2008 and have dropped by an average of 20 percent since then, the Transport and Development Ministry said in a report today. In large coastal towns, prices have fallen by as much as 40 percent, according to the report, which was distributed in [London](#) before Blanco’s presentation.

The housing boom that ended in 2008 left Spanish banks with 315.8 billion euros in loans related to real estate activities in the fourth quarter of 2010, according to the [Bank of Spain](#). That’s after they were forced to take on properties and land in return for canceling debt to bankrupt developers.

Over the past two years, more than 2,600 real estate and construction companies went out of business, according to credit insurer [Credito y Caucion](#), pushing unemployment to 21.3 percent, the euro region’s highest.

The country has a surplus of more than 1 million empty homes, both new and existing, according to [RR de Acuna & Asociados](#), a Madrid-based research company. The Development Ministry said in today’s report that there are fewer than 700,000 unsold homes in Spain. About 61 percent of those are in Coastal areas, the ministry said.

Building Restrictions

In 1988, the country increased restrictions on coastal development and applied the [law](#) retroactively to properties that were already built. Owners of those homes can apply to extend their stay in the property for as much as 60 years, though they can’t sell it or pass it on to children. The concession can be rescinded at anytime by the authorities if deemed to be in the public interest.

Cliff Carter, a 62-year-old former engineer from northern England and his Spanish wife, Maria, a retired teacher, say investors should steer clear of Spanish property, after they lost the rights to a 200 square-meter home on the coast of Valencia that has been owned by their family for 40 years.

The Carters sold their home in the U.K. in 2003 to retire to Spain assuming they had equity in the Spanish house, which was built in 1970 and handed down by Maria's late mother in 1998. In 2008, they were informed that it had been awarded to the public domain after amended coastal law shifted the boundaries of where development was banned.

Rights Lost

"We've been awarded a concession to live here for 30 years and then they throw us out," Carter said in an interview. "I can't sell the property and my children can't inherit it."

[Diana Wallis](#), vice president of the European Parliament, said that no member state should be allowed to apply laws affecting property rights retroactively or arbitrarily.

"I'd like to ask Mr. Blanco how he thinks that anyone can buy property in Spain and have peace of mind," Wallis said. "On the basis of what I have seen, it's a minefield and frankly I would say 'do not touch.'"

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