



### *Weekly Report 30.03.07*

## **Devastating report from the 3<sup>rd</sup> Investigating Commission of the European Parliament**

The President of the Petitions Committee in the European Parliament, Martin Libicki (Conservative, Poland) and First Vice-President Michael Cashman (Labour, UK) have submitted a report on the recent visit of a 3<sup>rd</sup> Investigating Commission on urban abuses in Spain, that was introduced to the Committee this week. The revised version should be presented formally for discussion and decision on 11<sup>th</sup> April.

Certain PP-representatives in the European Parliament tried to stop the visit of the investigating commission. They and representatives of the Valencia Regional Government attacked the members of the commission personally, stating that they represented the interests of countries competing with Spain in the tourist market and that they squandered tax payers money. These attacks and insults unfortunately continued throughout the visit, and in particular during and after the large meeting between the fact finding mission and the Counsellor for Territory and the Environment, Esteban Gonzales Pons who was accompanied by selected representatives of the promoters, constructors and tourist associations. Leaders of the PP group in the European Parliament subsequently considered they had to apologise for the rude behaviour and base slander directed against the visitors on the part of some of their own party members.

We shall return to the conclusions of the Petitions Committee of the EU Parliament after the discussion of the report is concluded in a few weeks. Meanwhile in the following we reprint the summary introduction to the report. We also ask all members to give their opinion on the preliminary statement of Ciudadanos Europeos on the situation. See proposal at the end of this report.

#### **"Introduction:**

The Petitions Committee remains concerned and deeply troubled as a result of the persistent and long-standing denial of the legitimate rights of many European citizens in Spain, most notably in the Valencian Region, with regard to their land and homes. They have become the collateral victims of many rampant urbanisation programmes founded upon legislation which provides privilege and wealth for the developer and which denies individuals their very integrity.

In a large number of documented cases town councils have concocted urban development plans not because of their real requirements related to population growth and tourism but because of what often appears as their greed and avarice. Hardly a day goes by without news of another mayor, or town councillor, being investigated or charged concerning allegations of corruption related to urbanisation

programmes. How many urbanising agents are related in one way or another to those controlling the municipalities which in turn bring them massive profit from land conversion deals and the transformation of rustic land to urban land; the transformation of property owners' arbitrarily imposed costs to the urbaniser's benefit?

What is spreading along the Spanish coastal region of the Mediterranean is not so much the programmed, sustainable development of local communities – although such developments do exist; it is all too often the spoliation of community and culture, the concretisation of the coastline, the destruction of the fragile flora and fauna and the massive enrichment of a small minority at the expense of the majority. Hill sides are invaded by a cancer of identikit dwellings not because they are needed but because they provide a profit for the developer and the builder, for the architect and the lawyer.

During the past twenty years or so there has been a growing tendency for people to acquire property in the welcoming climate of the Spanish Mediterranean, either to begin new lives or to spend their retirement years. Spanish people have also been leaving the cities to set up their homes in the beautiful rural areas. New land laws accompanied this trend purporting to provide for a rational development process. There has been an unprecedented economic bonanza in the building industry as rural property has been urbanised. How many owners of Spanish building companies are now to be found in the Forbes Top One Hundred or on the list of the world's wealthiest people?

Many chose to buy property in smaller village communities; buying older rural dwellings left vacant and sold by former farming families in order to restore them, dwellings which were acquired perfectly legally and legitimately. Property rights once legally acquired should normally remain, except perhaps in cases of justified and properly defined public interest when proper compensation should be provided. However, buildings constructed and renovated on rural land are precisely those which are the most vulnerable to the sort of housing developments generated by Spain's new housing laws which have created situations where a family home may be no more solid than a castle built of sand.

As has been reported before, legitimate property owners have become the victims of the land grab, of laws such as the LRAU and now the LUV in Valencia, which oblige them to give up 10% of their land to the town without compensation, ostensibly for very ill defined social purposes, and then make an arbitrary financial charge to be paid in cash or kind for the new infrastructure decided upon by the property developer without consultation of those who own the land. In practical terms, this means the owners may be forced to cede up to 50% of their property, (plus the 10%) and pay high and arbitrary infrastructure costs set by the developer.

The local authority in some cases even claim to be unaware of the detail of the proposed developments which are to be built on land the councils have designated for urbanisation and which will drive roads through peoples' rural homes or build new homes in peoples' back gardens. They may in some cases do no more than provide the proverbial rubber stamp. Moreover, many victims may not even be aware that their homes are jeopardised until the earth movers arrive. Victims of the land grab are counted in tens of thousands.

Village residents suddenly find that the size and population of their rural community is suddenly to be multiplied out of all proportion as a result of the ambitions of small-time mayors attracted by the siren calls of property developers. But they will not be receiving any real compensation for their troubles, or their investment. The

developers will. The impact upon the environment, the availability of water and energy supply, the requirements of the building programme itself in terms of long-term disruption are often no more than secondary considerations to those who stand to reap the rewards and who will never have to live in the urban developments they create, whether or not a golf course is added as the biggest of marketing attractions.

In addition, another worrying phenomenon has emerged as more and more European citizens are buying property in good faith only to learn that, having paid their lawyers, their estate agents and their builders, not to mention their taxes, their homes are branded as illegal and that they have become the victims of the ruthless town halls which knowingly approve new construction on land which was not officially certified for that purpose. The citizen becomes the culprit; the municipal authority a passive go-between, the regional government has no responsibility and the national authorities claim they cannot interfere in spite of EU law and Treaty obligations. This is the Europe of freedom of movement, freedom of goods and services, freedom to exploit with impunity."



**We propose to the members that the comment of Ciudadanos Europeos on the situation be the following:**

*" The Association Ciudadanos Europeos (that has as its aim to inform and defend the Europeans intending to buy a property in Spain, and those that have already done so) has always recommended foreigners to buy a home in this country. However, the development on the Spanish property market over the past years, correctly reflected in the reports of the investigating commissions of the European Parliament, and the arrogant answers by the Valencian Government, the main perpetrator and defender of the urbanistic abuses against foreign and*

*Spanish owners, forces us to say the following:*

***In the present situation we cannot recommend anyone, foreigner or Spaniard, to purchase a property in the Valencia Region until its abusive property laws have been profoundly changed, as proposed by the European Parliament."***

If you agree with this statement, send us an e-mail saying: *Yes, I agree!*

If you disagree, send us a mail saying: *No, I do not agree!*

(No names will be disclosed)

## **"Housing market in early stage of free fall"**

**We have asked Charles Svoboda about the work of the AUN, the reactions of the Valencia Government and the situation on the housing market. Here are his frank answers:**

Now that the third fact finding mission's report has been made public, I hope that

soon the next step in the Commission's action to the European Court of Justice will be taken. However, I have it from a reliable source in Brussels that the Spanish representatives to the EU there - in this case rarely coinciding with Valencia's reps - are putting very heavy pressure on the higher echelons of the Commission to stall the proceedings, "sine die" - that is indefinitely, or at least until after the Regional elections on May 27. The authorities, even as they argue amongst themselves, here seem more eager to blame undefined and dark outside conspiracies for problems largely of their own making and lash out harshly at any criticism of their policies or practices, however well justified.

Given the Valencian Gov't has recently announced, contrary to its earlier commitments, that it intends to change nothing in the land laws until told to do so by the Court (again betraying a lack of understanding as to how things work at the EU level) if these pressures are successful, any long delay in getting to the Court of Justice could be a serious blow not only to our efforts, but more so to the moral authority of the Parliament itself.

Notwithstanding efforts to persuade would be buyers and equity holders to the contrary, a key message is starting to emerge through the fog, that (to quote a real estate agent I know) "the housing market here is already in the early stage of a free fall". That is more or less as Standard and Poor, the Economist, the ECB, the Financial Times, Bloomberg and Forbes have been saying or predicting for the last year or more. The only real liquidity is in the hands of banks and speculators: the former are already getting nervous about being stuck with assets that are worth less than the loans extended on over-valued land.

The speculators (and developers) having made their fortunes here have been looking abroad to park their money in large-scale ventures mainly outside the Euro zone. If the property held here - especially the large numbers of unsold dwellings, starts to look shaky, a lot of this will probably be dumped onto the market for lower, if not distress prices, or be put up for rent. Either way this will further depress the market, and that would be quickly evident.

In short, only those, such as estate agents, promoters and governments who have an interest in talking up the market are doing so, in order to persuade buyers that if they wait, the purchase price will only go up - albeit they meekly admit somewhat less rapidly as before. This is rubbish. The opposite increasingly looks to be the case.

Facts (or factoids) that support this contention, according to the media include:

- : There are 600,000 empty dwellings in Valencia alone (over three million in Spain) and more being built than are being sold, so the law of supply and demand is starting to reveal itself;
- : Purchases by foreign buyers are down by at least 30% (some claim 70%) for a variety of reasons;
- : Interest rates are up, and probably going higher, so most Spaniards (and many foreigners) can't afford to cover existing debts (which have doubled over the past year) let alone buy into more;
- : There is probably more "sub prime" lending here than in the USA- look what happened recently with the stock and housing markets when it was revealed that about 13% of sub prime borrowers could not - or would not make mortgage payments. The easy entry variable rate mortgages extended here about two years ago at low rates will now be facing very stiff hikes, hundreds of Euros per month- while salaries have gone up much less. Banks, which have extended this easy credit now fear a negative mortgage situation, where the property they hold could be

worth less than the money owed them-so they are now tightening their lending policies;

: Neither labour costs nor construction materials are much higher than last year-or the year before;

: There is a huge amount of land already approved for construction, but not yet built. This reduces the speculative value of such holdings and the need for more to be acquired;

: In the second hand (pre-owned) market, it is taking about three years to sell (32 months plus -up by several from last year) and only then usually after the buyer accepts a huge cut in the asking price. And many small realtors already have simply shut their doors because they can't cover rental and staff costs.

: A lot of the "smart" money in the hands of Spanish banks and large enterprises (as well as their inflated shares) is going out of Spain and the Euro area to buy up British assets (such as Abbey Bank and Scottish power) and others in the USA, including land, plus going to fund development schemes in North Africa and Eastern Europe. That means this money won't be here to prop up the local housing market if it starts to drop rapidly-if anything the flow may be the other way, if buyers can be found at lower levels;

: Most of the increase in population reported in the media of late derives from immigration and that from countries that are better known for providing cheaper labour than bringing any form of investment. There may be demands for rental accommodation, but not the sorts of dwellings that are now empty or that this area is best known for building. Indeed this demographic shift is causing some concern amongst some of the "foreigners" already here, who sense a growing security problem and are starting to bail out. There are other related reasons too - infrastructure, educational and medical facilities are already straining under the new demands.

: Notice is being taken of the various "grass roots" complaints against excessive urbanization, inter alia, by environmental and nationalist groups - not a weekend passes without another public manifestation, and this discourages sales more rapidly than construction. The National Tourist Board has also complained about the threat to tourism, due to the destruction of some of the prime tourist destinations, due to massive overbuilding. A drop in tourism will result in a further loss in sales.

: In the same vein, reports in the Spanish and international media concerning the application of predatory "land grab" laws, poor services and quality, widespread corruption and increasing crime in the most attractive coastal areas are making potential buyers ever more wary. Property investments in other countries with mild climates and a more secure situation have begun to appear more desirable.

#### Some Conclusions:

Thus, who can legitimately claim that housing prices really have recently gone, or will continue to go, up? I believe a lot of the "official statistics" to support this are custom made to suit the situation to calm nerves and the markets. In effect, this is whistling in the graveyard. If it is ever admitted that purchase prices are likely to decline, a lot of the already diminished number of potential buyers will hold out awaiting a bargain. Indeed, I expect there will be many within a few years in fact, but getting there won't be at all pretty. The lack of social safety nets will be keenly felt if there is a depressed real estate market-and thousands of construction workers, legal and otherwise are thrown out of employment, with no other options.

What's the eventual outcome? Short to medium term, a sharp drop in property values and realistic asking prices. Longer term, hard to say, but emerging from the probable gloomier period ahead there are some positive features from our

perspective, given our principal motives being the protection of the rights of small property owners and the environment. Even though the land grab hitherto has had an asset building dynamic of its own, quite apart from the businesses of constructing and selling, the repercussions of a dropping market would probably stop a lot of the land grabbers in their tracks, mainly for market, rather than legal or moral reasons. Any really necessary development would probably revert to the town halls, where it should have been all along. All this would probably have much greater effect in terms of protecting the rights of small property owners-and the environment-than any kind of legal action.

The way European demographic trends are unfolding, and other markets are emerging, in a fairly short period of time, there won't be anything like the number of better off foreigners or Spaniards looking for retirement in the sun here such as the Valencia Government bravely, if foolishly, predicts. That is, a two year brake on what has been going on, may be nearly fatal for the big time land grab agents of the looming disaster. Not to say anything good about all the new land laws, regional and national, but they will complicate things for developers and constructors to the extent that a lot of them will either look for other work or give up.

While the social consequences may be truly terrible, I expect they are inevitable anyway, sooner or (not much) later. But if there is an identifiable crack in the market before the regional and local elections in only two months' time, then voters will have a better idea of what the parties plan to do about these emergent problems, so the public would have a more informed choice. I'm sure any questions raised now, without the harsh facts, will be met with "we don't deal with hypothetical questions" and comments that the housing market will doubtless go up forever-like balloons. The blame will be cast falsely on the messengers of bad tidings rather than those who drafted and approved the poor laws, encouraged the predatory practices we have witnessed and allowed the unchecked urbanization processes to run rampant, ruining so many lives and so much of this beautiful region.