

Homes Razed by Spain Stun Foreigners as Slump Deepens

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April 30 (Bloomberg) -- Leo Levett-Smith and his wife, Jean, thought they did everything right when they bought their retirement home in Spain. They used a registered real estate agent, a Spanish notary and obtained their mortgage through one of the country's largest savings banks.

Then in January they received a demolition order saying the house had been built without a permit.

"We really believed we had taken all the necessary precautions," says Levett-Smith, a 65-year-old retired traffic policeman from Cheshire, England, as he sits on the porch of the russet-colored villa in Catral, 42 kilometers (26 miles) southwest of Alicante. "I mean, where else have you heard of this happening?"



Over the past decade, developers built about 100,000 illegal homes in Spain, and consumer advocates say thousands of those are now threatened with demolition as regional governments try to deter clandestine construction. The crusade may discourage the foreign buyers who fueled Spain's housing boom, deepening a slump that began last year.

"The problem is very serious," says Rafael Pampillon, an economics professor at the Instituto Empresa in Madrid. "When a country has a system or set of institutions that allow illegal houses to be built and corruption to exist then evidently foreign investment is going to flee."

At least one house has already been bulldozed.

In January, Len and Helen Prior lost their three-bedroom villa in Almeria. The 63-year-olds from Berkshire, England, paid 350,000 pounds (\$694,155) for the house in 2003.

Local Decisions

Each of Spain's 8,111 town halls has the authority to make planning decisions and issue building permits with little oversight from the regional or national governments. As property prices soared, some local officials were drawn into schemes to profit from new home construction.

The former head of urban planning in Marbella has been charged with money laundering and accepting bribes to issue building permits. When Juan Antonio Roca was arrested in March 2006, police seized 2.4 billion euros (\$3.8 billion) of assets, including two hotels, sports cars and 103 horses. Roca denies any wrongdoing.

"When everyone is making money, for example the real estate agent, the town hall and the administration, everyone turns a blind eye," says Bernardo del Rosal, former ombudsman for the Valencia region. "The system as a whole fails and the law is worthless when that happens."

'Abysmal Light'

The local governments with the largest concentration of new housing, including Valencia, Alicante and Marbella, declined to say how many homes may be destroyed in their communities. Andres Lara, a spokesman for Spain's Housing Ministry, and officials at each of the 17 regional governments referred questions to the municipalities.

Government officials won't provide figures because it puts them in an "abysmal light," says Bernardo Hernandez Bataller, a Spanish lawyer and president of a European Union committee that advises on financial services and consumer protection.

"It's safe to say the demolition orders could run into thousands," Bataller says.

Home prices almost doubled in the eight years through 2006, as buyers took advantage of a booming economy, stable employment and low borrowing costs. About 2 million foreigners own property in the country, according to Ciudadanos Europeos, which works to protect the interests of Europeans in Spain.

Economic Ripples

Spanish residential property prices fell in real terms for the first in more than a decade during the first quarter, as interest rates rose and banks tightened lending because of the global credit shortage. The number of foreigners and non-residents buying homes in Spain fell 42 percent last year, according to the Housing Ministry.

The slowdown in Spain's housing market, which represents 9 percent of gross domestic product, is rippling through the economy. GDP will expand 1.8 percent in 2008, less than half last year's pace, and unemployment will rise for the first time in more than a decade, the International Monetary Fund says.

"The bad press and examples of corruption have done nothing to help raise the confidence of international investors," says Miguel Martin Rabadan, general director of PricewaterhouseCoopers LLP in Spain.

The Levett-Smith's story is a parable for how exuberance and greed drove corruption in the Spanish housing market. The couple moved to Spain seven years ago, initially settling in a village near Torrevieja on the Mediterranean coast. When the area became too crowded, they decided to move inland. Family Connections In 2005, the Levett-Smiths bought their three-bedroom house in Catral, paying 220,000 euros to Country Life Properties SL. The property is one of the 1,270 homes in the community that were built with insufficient permits issued during the 12 years that Jose Manuel Rodríguez Leal was the town's mayor. Some 160 homes in Catral have been served with demolition orders.

Among the companies that built the homes was Grufade SL, a developer registered in the name of Maria Angeles Rodriguez Leal, the former mayor's sister, according to a complaint filed by the European Association for the Protection of Urban Consumers. Grufade's sales rose to 1.7 million euros in 2006 from 3,900 euros two years earlier, according to filings at Alicante's mercantile register.

Rodriguez Leal resigned in January 2007, and his party was defeated in local elections the following May. A court in Alicante is investigating corruption charges against Rodriguez Leal. According to newspaper 20minutos.es there are 93 similar investigations in Spain.

'Sheds and Shelters'

Leal Rodriguez denies any wrongdoing. He says the blame lies with his brother-in-law, a builder by trade.

"Permits to build sheds and shelters were authorized, but when I realized they were being used to build houses I tried to stop them," Leal Rodriguez says. "But they wouldn't, and I was powerless."

Maria Angeles Rodriguez Leal and her husband declined to comment, according to a woman who answered the phone at Grufade's offices in Catral.

The Levett-Smiths tried to avoid the pitfalls of Spain's property market by hiring a Spanish notary to oversee their transaction, getting a 130,000-euro mortgage from Spanish savings bank Caja de Ahorros del Mediterraneo, and paying 300 euros for an independent survey. No one informed the couple that the building permits were illegal, the Levett-Smiths say.

Solving a 'Mighty Problem'

Antonio Bellido, Catral's new urban planning counselor, is trying to stop the bulldozers. He has proposed charging owners of illegal homes 5 euros per square meter to have their houses legalized. That could raise 15 million euros for Catral based on Bellido's estimate that the illegal houses occupy 3 million square meters of land. "Right now, Catral is infamous for its illegal houses," Bellido says. If the regional government approves the plan, "Catral will become famous for being the town in Spain that found a solution to a mighty problem."

If the Levett-Smiths lose their home they'll have to return to the U.K. and live with their daughter. "No one in their right mind would give us a mortgage at our age to start again," says Leo Levett-Smith.

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