

Spain on the wane?

Despite the recent doom and gloom, Spain has much to offer, says Clare Nessling

If some of the recent headlines are to be believed, you shouldn't touch the Spanish property market with a bargepole. Dogged by scandals, oversupply and plunging prices, you'd wonder if anyone could really still be interested. However, a lot of the negative media coverage about the Spanish property market is overstated. There's no doubt that problems exist, but it's important to look at the bigger picture.

It's true that cases of corruption leading to illegal building have made buyers nervous. No-one wants to invest in a property which could have been built without the proper planning permission and may be at risk of being demolished. It's true as well that there is an oversupply of new build properties, especially on the Costa del Sol, and this has made many potential buyers think twice. And, of course, there's the credit crunch, which means British buyers are less willing to invest in another property, but banks too are less willing to allow them to release equity from their homes to do so. Add to this the strength of the euro, which has resulted in property and euro mortgages becoming more expensive, and you may well wonder if there is any upside to the Spanish property market at all.

Anyone interested in buying a property in Spain shouldn't panic. Enquiries about the Spanish market indicate that things are still strong and it certainly remains a top destination. It appears that celebrities are still buying there too and you may have read recent media reports about Kylie Minogue purchasing a villa in Tossa de Mar on the Costa Brava.

There's no doubt, however, that people are becoming choosier. Demand in some areas, notably the more traditional Costas has declined, but increased in many others. Current hot spots include areas around the big cities like Barcelona, Madrid, Seville and Valencia. The appeal of the Balearics and the Canary Islands is also increasing, especially the more exclusive resorts. This is good news - attractive developments in desirable locations should consolidate their position in the current market, as buyers become more selective, and emerge even stronger when the market comes up again.

Bargain time

Despite rising costs, buyers are in a strong position due to the volume of properties on offer. There are many motivated sellers out there who are willing to discount their property well below market value, so your chances of negotiating a price reduction are also much higher. Some of the best bargains are properties which have already been repossessed, with many being discounted by up to 50 per cent.

But it pays to be selective - many so-called bargains are being offered at knock-down prices because they are of poor quality and in undesirable locations. It may be wise to look at re-sales, where you can get references from

previous buyers and check any other re-sales being offered on the same development. As a result, you'll get a much better idea of the property's true market value.

While the credit crunch takes its toll in the UK and US, things are different in Spain, which has never been heavily involved in the sub-prime lending market, and families have not stretched their incomes as much. It has been at the forefront of the overseas property market for a long time, so it has incredibly strong foundations. While some Spanish financial institutions have reviewed their terms over the last year, they still have a strong appetite to lend to non-residents and you can still generally borrow up to 70 per cent of the value of the property.

Arranging finance

If you're paying for your Spanish property with a mortgage, your exposure to currency fluctuations is much lower than if you're paying by cash, as you'll only have to exchange the money for your deposit and fees for now. Over recent years, many buyers have opted for a euro mortgage rather than a Sterling one, because it has been cheaper. However, following the recent series of interest rate cuts in the UK, the Sterling options are looking equally as good. In fact, interest rates on offer this year for Spanish property are the lowest seen for some time.

When deciding whether to take out a euro or Sterling mortgage, think about how you intend to use the property. If you're going to rent it out through an agent in Spain, the rental income will be in euros. It makes sense to take out a euro mortgage, as the rent received can be held in a Spanish bank account to service monthly mortgage payments, thus avoiding potential fluctuations in currency. If the property is to be used solely for personal use, a Sterling mortgage could provide a more stable solution.

One of the biggest advantages of taking out a mortgage is that the lender, similar to those in the UK, will do its own checks on the property, ensuring that a proper legal title exists, that the property is registered in the buyer's name and that a valuation of the property takes place. Banks will also check other issues such as planning permissions and building licences - fundamentally important if you're buying in Spain.

You should always go through the same process that you would follow if you were buying a property in the UK. Take independent advice from an English-speaking lawyer who is not connected to your seller, estate agent or property developer. Among other things, you need to ensure that your property doesn't have any unpaid debts against it, as you could be liable for them. Don't take advice from any lawyer who is recommended to you by a developer - it's highly unlikely that they'll admit to any problems.

Obtaining an approval in principle (AIP) will

tell you exactly how much you can borrow and what price range you can realistically consider when conducting your property search. And any seller, given a choice, will prefer a purchaser who can demonstrate that they have their finance in place, rather than somebody who has yet to consider how to fund their dream purchase. Buyers with an AIP could also be better placed to negotiate price. It's tangible evidence that you can take along when house hunting and it can also lead to your application being fast-tracked once you've chosen your dream home. What's more, it costs nothing.

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The process

The application process for a Spanish mortgage takes an average of four to six weeks, at which stage you should have received an offer. Spanish lenders won't allow completion without having all the registration documents in place, which provides you with a level of protection, but this can sometimes be a lengthy process and you must be prepared for this.

As a yardstick, you should allow between 10 per cent and 14 per cent on top of the agreed purchase price for the various fees that must be paid. If the property is located within a complex, there may well be maintenance charges.

One of the easiest ways of obtaining a mortgage to buy in Spain is to use a specialist UK broker. They will know the exact mortgage application requirements for each lender and can source the best possible deal for you. It can also put you in touch with specialists in Spain, to ensure that you comply fully with planning and legal conditions, and can also assist with currency exchange.

The Spanish property market is well established and should be viewed as a long-term investment. It will continue to experience problems in areas that have been exposed to corrupt licensing laws and where there are 'land grab' issues. But for many people buying property in Spain, it's a lifestyle choice, and they're attracted by the climate, amenities and culture, rather than earning a prospective fortune on a home there. If people enjoy what Spain has to offer, property can be snapped up there on better terms than have been seen for years. Most markets go through corrections and as long as you treat your property in Spain as an investment over the long term, you can still buy with confidence, if you buy prudently. ■

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