

If it's any consolation, Spain is in recession too. The Spanish housing market is crashing, unemployment is soaring, and consumer spending is falling off a cliff. People going there on holidays over the next couple of months might be wondering if it's a good time to pick up a bargain holiday home.

Agents selling overseas properties will tell you that there's fantastic value to be had in Spain. "There's no time like now to buy" one agent told the Irish Independent last week. Isn't it funny how you never hear an estate agent advising people to wait?

Yet, to wait is almost certainly the best thing to do. Spain's housing market looks set for a hard crash – probably even harder than here.

Real (that is, adjusted for inflation) house prices in Spain soared by 120 per cent over the past decade. Vested interests claimed that the boom was justified by the fundamentals. They argued that Spain was becoming the Florida of Europe, attracting people of retirement age from all over Europe to retire on the Spanish coast.

But these claims always struck me as bogus. Much of the new construction during the boom was of poor quality. Rich retirees don't buy substandard homes.

Traditional measures of housing valuation such as price-to-rent and price-to-income ratios have been signalling overheating since 2002. Homebuilding doubled its share in GDP, leaving an enormous surplus of unwanted properties.

Moreover, growth in the Spanish economy has been driven by domestic spending, fuelled by excessive borrowing from abroad. The Spanish have been living beyond their means, big time. Unlike Ireland, productivity growth in Spain has been dismal.

All told, prospects for the Spanish economy and housing market look grim. If you're looking for a bargain in the sun, your best bet is to wait.