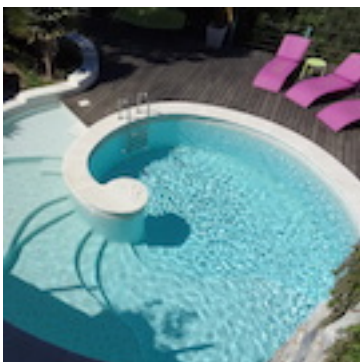




Andalucía Market Report 2021



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Introduction

In normal times I enjoy digging through the property market statistics, both for Spain as a whole and for the autonomous regions. And especially, those that relate to overseas buyers and the health of that sector of the property market. They tell us about what happened in the year just finished and point to trends for the year ahead. But we are not living in normal times and I realise the statistics may be meaningless. Nevertheless, I went ahead as usual with this Andalucía property market report, trying to extrapolate what happened in the first 10 weeks of 2020, until Spain's first lockdown started on March 14th. We all know what happened after that.

However, the statistics from the Notaries, usually my preferred source, were of limited value because they're published half-yearly. Spain's first lockdown started only 10 weeks into the year. As a result, Notaries were operating emergency work only for many weeks. Unfortunately, property completions weren't categorised as emergencies. By the time they reopened for all business, travel restrictions were in place to and from many countries. Therefore, I think it safe to assume that a majority of the overseas buyers counted in their 1st half year figures actually bought in Q1 and only a minority in Q2. So, I decided half-yearly statistics weren't much use and I had to find alternative sources to extrapolate what happened before lockdown started. Therefore, this year I am using statistics from the Ministry of Development (M^o de Fomento) as well.

The Importance of Andalucía in the Property Market

The largest of Spain's autonomous regions, Andalucía is important in the property market as it normally accounts for nearly 1 in 5 of all purchases, not just overseas buyers. That was certainly the case in 2019, the most recent period for which we have full year figures. The results show Andalucía recorded 102,264 of Spain's total for the year of 549,025. or 18.6%. In fact, the partial figures for 2020 show we were on track for a similar ratio or even slightly better. Using only the statistics for Q1, 2020, purchases in Andalucía accounted for 19.3% of the national total. (Source: M^o. de Fomento).

Why Andalucía?

So, a good question to ask is what makes Andalucía such a magnet for buyers from overseas.

Climate

Andalucía really does have something for everyone, with lots of options for property buyers. It's so much more than a sun 'n sand summer destination, everywhere in the Mediterranean is good for that. However, what a lot of foreigners often forget is that only 600kms of Spain's Mediterranean mainland coast faces south and that's all in Andalucía. The remaining 1,000kms is easterly facing and that impacts winter conditions. As a result, much of the Med goes into hibernation outside the main summer months and very few places have a genuine 12-month season. However, the micro-climate areas on Andalucía's southern Mediterranean coast are buzzing all year round. That's where you find the mildest winter temperatures on the European mainland. Meanwhile, on Andalucía's Atlantic coast there are some of the best wind and kite surfing conditions in the world.

Head into the Sierra Nevada for Europe's most southerly and sunniest ski-resort, just 45 minutes from the coast. And it's also one of Europe's highest resorts with slopes between 2,100m and 3,300m above sea-level. These altitudes mean it rarely closes before May. So, with its Mediterranean and Atlantic coasts and inland sierras, Andalucía has the most varied climate of any region in Spain. But this variation means property buyers need to think carefully about the right location for them. It's hot everywhere in summer, but it's a very different story in winter. Even on the coasts, being outside one of the special micro-climate areas can mean a temperature drop of up to 10°C in winter. Inland in the sierras, snow often falls at 800m above sea level, sometimes even lower. Get it wrong and you could freeze.

Sports

For sports enthusiasts Andalucía is a dream location. Horse-riding on the coasts and in the sierras, tennis year-round, scuba diving, wind and kite surfing, rock-climbing, trekking,

walking, cycling and mountain biking, snow skiing. They're all there, with the perfect climate in which to enjoy them.

But for Andalucía the biggest sport of them all is golf.

Golf

Andalucía has 102 golf courses. In fact 25% of all Spain's courses are in this one region and 47 of those are in Málaga province. That's why the Costa del Sol also brands itself the Costa del Golf. Just over the border in Cádiz province there are seven courses in the Sotogrande area. Valderrama is the most famous, probably the best course in Europe and one of the best in the world. Who can forget the Seve Ballesteros Ryder Cup in 1997, played on this course.

Without doubt, golf is the one of the reasons for the 12-month season on the Costa del Sol. The benefit to the economy is that most of the more than half million golfers come between October and May. In comparison, Mediterranean coasts without a thriving golf sector are relatively quiet and many bars, restaurants and businesses close. The golf sector normally generates around €1bn for the Andalucian economy. In fact, the daily spend of golfers is about double that of summer visitors.

Culture

Some of Europe's finest and oldest cities are in Andalucía. Cádiz is thought to be the oldest continuously inhabited city in Europe, settled by the Phoenicians over 3,000 years ago. The annual New York Times list of 52 places to see had Cádiz at number 50 in 2019. In January 2020, The Sunday Times also focused on Cádiz as the perfect weekend break location. By region, Andalucía has the highest number of UNESCO World Heritage sites in Spain. The Medina Azahara just outside Córdoba is the latest addition, making eight in total.

The Sunday Times has also highlighted great things to do in Andalucía that have nothing to do with lying on a beach. For example, some serious hiking <https://www.thetimes.co.uk/article/from-nerja-to-bolonia-a-coast-to-coast-walk-through-andalusia-gzvq0hk0l> or the triangle of iconic cities <https://www.thetimes.co.uk/article/an-insider-guide-to-granada-seville-and-cordoba-lxbx80jqp>. And the project to link the entire Costa del Sol with a coastal path is progressing, in spite of Covid: <https://www.thetimes.co.uk/article/costa-del-sole-my-epic-hike-along-the-malaga-seashore-b9bt3wvsp?shareToken=64b0ecffdd4aa785a6fe5c43ef166c42>. In fact, at the end of 2020 the Marbella town hall announced the start of work to link from Marbella town centre to the Las Chapas beaches.

As with my report on the Spanish Property Market as a whole, which you can read by clicking [here](#) I think it makes sense to do a brief resumé of where we were just prior to the arrival of the virus, specifically the issues of tourism, unemployment and the property market itself.

Where We Were

Unemployment Pre-Covid

Although unemployment had fallen to the lowest level in a decade, 13.2% at the start of 2020, some regions were not doing so well. Unfortunately, Andalucía was one of those regions. In fact, since the 2008 economic meltdown average unemployment has stayed above 20%. At its worst it was about 38%. In some provinces, for example Cádiz, it was, and remains, even higher. Even worse, it was still above 30% for the under 30yrs demographic. With the almost total collapse of the tourism industry, on which so many jobs in Spain depend, early predictions are for the national average to head back over 20%. Andalucía's average is always way above the national average. so it seems likely to be above 30% in the near future. It will not surprise me to see youth unemployment back in 50%+ territory.

Tourism Pre-Covid

Pre-Covid, Spain's tourism industry was continuing its seemingly unstoppable upward trajectory. Andalucía was no exception. 2019 finished with another all-time record of overseas visitors breaking the 12m barrier for the first time. In fact tourism is often called the 'motor' of the Andalucian economy and accounts for 14% of GDP across the region.

However, in Málaga province it's even more important, accounting for more than 30% of GDP.

The Property Market in Andalucía Pre-Covid

Throughout the property market recovery post-2008, 60% of all purchases have occurred in the Mediterranean coastal regions and the islands annually. Obviously, these regions are where most foreign buyers head for. This 60% market share was holding up in Q1 2020 with approximately 70,000 purchases and of those 22,461 happened in Andalucía. That's the highest total of all Spain's autonomous regions.

Where We Are Unemployment

With full-year figures to be finalised, it seems unemployment in Andalucía was already over 25% of the total population by November. It also seems clear that the provinces of highest tourism, that is, those with Mediterranean coastline, are going to fare particularly badly. For example, it's back up to 30% in Málaga, 25% in Granada and 22% in Cádiz and Almería. However, inland away from the coasts it ranges between 18% in Seville, 16% in Córdoba and 10% in the most rural province, Jaén.

Inevitably, as government-funded business support schemes are withdrawn and the scale of business closures becomes clear, it's going to get worse as the year progresses. How this reverberates in the property market in the form of forced sales remains to be seen.

Tourism

With full-year results not due until February, what we know so far is that the record breaking 12m+ overseas visitors seen in 2019 had collapsed by 76.9% at the end of November.

Nevertheless, I see no reason why overseas visitor numbers won't bounce right back when travel restrictions are lifted. However, in spite of that, I can see the 2020 annihilation of Spain's tourist industry having an impact on the property market in 2021, and perhaps longer. That is because of how it is linked to rental income for property owners. Rental yields in Andalucía are among the highest in Spain. As a result, letting a property is an interesting option for many owners. Over the years I have seen many former clients who had no intention of letting their property change their minds once they saw the income potential in Andalucía. And the high rental yields have also attracted buy-to-let investors, in both the long and short-term rental sectors.

Typically, a quality apartment or house in a prime location will generate a higher yield in the short-term holiday market than the same property let long-term, in the region of 3% - 5% better. So, for example, a long term let beachside apartment could generate a 6% gross yield but 8%+ in the short-term sector. At the top of the market, the very best quality large villas in prime beach or golf locations can get 10%+ gross in the tourist rental market. And although not all foreign owners who are part-time landlords rely on rental income to cover essential maintenance, running costs and taxes, many do. I wonder if it is possible that the total loss of 2020 rental income, perhaps followed by a poor 2021 season, may lead to some forced sales, particularly if they have suffered Covid-related loss of business in the home country.

The Property Market in Andalucía

As already mentioned, the Notaries' overseas property market statistics I normally rely on aren't much use for this report. That's because they are compiled half-yearly and the market only operated normally between January 1st 2020 and March 14th. However, by rooting around other statistics compiled quarterly I think it's possible to say around 70% of purchases in Andalucía between January and June 2020 occurred in Q1. These alternative statistics from the Ministry of Development do separate the domestic and overseas sectors. However, they compile by province and municipality and I think there is more room for error. In addition, they do not count by individual nationality, just lump all foreigners together in one block. Nevertheless, I combined these Q1 & Q2 figures and compared them against the half-year totals from the Notaries and they were v very similar.

I've already noted that Andalucía is the most important autonomous region in respect of transaction numbers. In a normal year approximately 20% of all purchases in Spain occur in Andalucía. Using only Q1 returns, the pre-lockdown period shows Andalucía's share of the overall Spanish property market at 19.3% so on track for a normal year. When I included Q2 statistics market share actually increased to 19.5%. This was due to the property market nationwide declining by a bigger % than the Andalusian portion, -32% against -29%. We have a few months to wait for Q3 & Q4 returns and the Notaries 2nd half to get a feel for just how resilient the market in Andalucía was over the full-year.

The Overseas Property Market in Andalucía

In a normal year, overseas market share in Andalucía is approximately 19%, usually slightly above the national average which, in recent years, has been around 18%. However, the 2020 figures published so far seem to show the overseas sector doing slightly better than normal, increasing market share to 20.9%. But Andalucía is a big place. As a result, when it comes to the overseas property market it's better to think about the individual provinces rather than the region as a whole.

In fact, Andalucía is a good example of just how fragmented the property market is in Spain, the domestic and overseas sectors operating more or less independently of each other. Indeed, one of the most striking features of the overseas property sector during Spain's long post-2008 recession was how little it was affected by what was going on during the domestic economic meltdown. It went from strength to strength while the domestic market floundered.

There are eight provinces in Andalucía, four have Mediterranean coastline, four don't. The statistics clearly show that the overseas sector is hugely important in the four that have Mediterranean coasts. On the contrary, it barely registers in the four that don't. For example, foreigners accounted for 57.4% of Q1 2020 transactions just in Málaga province. If the other provinces with Mediterranean coastline, (Almería, Granada and Cádiz) are in the mix, the result is rather astonishing. It turns out that 89.5% of the Q1 foreign buyers in Andalucía bought in just these four provinces. The other side of that statistic is that there were only 398 foreign buyers in total in the other four Andalusian provinces, Huelva, Seville, Jaén and Córdoba. Jaén and Córdoba had the fewest overseas buyers, 55 and 54 respectively, compared with 2,126 in Málaga province.

Andalucía's Prime Locations

The statistics given in the previous section clearly show that Málaga province leads the way in Andalucía. Within the province, the prime areas are the Marbella municipality on the coast and the Benahavís municipality which takes in the hills just behind the coast, heading up the Ronda road. Estepona municipality is also worth a look for apartments, houses and country properties. Just these 3 municipalities accounted for 21.7% of the market in the province. With Málaga city itself added into the mix, that rises to 46.8%. However, there are 208 municipalities in Málaga province and with nearly half of all transactions occurring in just 4 of them, it's clear not much was happening elsewhere.

The Costa Tropical in Granada province is where buyers can find superb panoramic sea views, very close to the water. Some frontline properties even have steps right into the sea. In Cádiz province, Sotogrande is the star turn, with a property range that goes from holiday apartments to the most palatial mansions.

Inland, the prime locations include Iznájar, Ronda, Gaucín, Coín and Alhaurín el Grande. However, after the 2008 crash the rural market returned to more of a niche market, appealing to a certain type of foreign purchaser, perhaps about 5% of the total overseas sector. Typically, they are looking for a country property with some land or a character village house. The figures tell the story. The total number of purchases in Q1 & Q2 in Iznájar were just 10, 117 in Ronda, 6 in Gaucín and 95 in Alhaurín el Grande, 73 in Coín. There is no domestic/overseas split at the municipal level, these numbers are the total. As you can see, the rural market is very small.

The Rental Market in Andalucía

I've already touched on the issue of rental yields in the section on tourism. Overall, Andalucía has some of the best yields and occupancy levels in both the short and long-term sector. In spite of that, until we know if Spain will be open to tourists in summer 2021 I don't see much point in speculating about yields. However, a couple of recent reports caught my eye with some interesting figures that may impact the holiday rental market, at least in the short term.

Spain's Institute of Statistics (INE) published a report concluding that there were 321,000 properties listed for short-term holiday lets across the country. Approximately 57% are located in just 3 regions, Cataluña, the Comunidad Valenciana and Andalucía, which has the most with 67,392. Of these, 34,567 are in Málaga province. We can assume that, wherever located, the 2020 season disappeared almost completely.

However, several property portals, such as Fotocasa and Idealista, announced after the first lockdown, that many short-term listings have been withdrawn. However, at the same time, long-term have increased by around 20%. In Andalucía, the number of long-term rentals on offer doubled. In fact, I have read of some landlords going from short-term to 5 year contracts just to ensure a tenant and some income. Not all will be out of the holiday sector for that long but I suggest a majority will not be able to return in time for the 2021 season, if there is one. If that is the case it is possible that short-term supply will be significantly reduced for at least one season and maybe longer. As a result, if demand rebounds in the meantime, as I expect it will, short-term landlords could see occupancy levels rise.

My predictions for 2021

Throughout 2020 I was surprised by just how well demand held up. In fact, enquiries for our property finding service have been running well ahead of 2019, to the extent that I would now say there is a pent-up demand just waiting to get going. I've no doubt that some buyers have either put their plans on hold or abandoned them altogether. On the other hand, many people I've spoken to during the various lockdowns have opted to bring forward their plans to buy in Spain. It's almost as though the pandemic has focused their minds on future plans. In my view the demand is there.

However, many enquiries indicate buyers are expecting, or perhaps hoping for, steep price falls in 2021, similar to the carnage seen post-2008. I think they will be disappointed. Looking back to the 2008 - 2013 period, it seems to me there were three conditions that amalgamated into a perfect storm. First, there was a complete collapse in demand. It just evaporated, virtually overnight. Secondly, the supply side was awash with unsold property. For years Spain had been building more units per year than the UK, Germany and France combined, speculative development of poor quality and in dodgy locations. And thirdly, the property boom had been fuelled by a credit bubble which included 100% mortgages. The result was that many buyers in the boom were cash-poor and could only buy by borrowing high. As far as I'm concerned, none of these conditions apply today.

When that bubble burst and prices collapsed many owners became forced sellers very quickly. In addition, reckless lending by banks with minimal checks on financial status meant many sellers had little equity in their property. As a result, they did not have the luxury of sitting the crisis out, they just had to divest as quickly as possible. Furthermore, the Spanish mortgage market virtually disappeared as Spanish banks were drowning in toxic debt. As a result, the banking sector went into a full-blown crisis. Only a €100bn bailout from the European Central Bank saved it.

How it is today

I've already mentioned that in our experience the demand is there, just waiting for the lights to go green. As regards the supply side, although building licence approvals did rise between 2015 and 2020, the rate of increase was slowing even before the arrival of Covid. The fact is that Spain's residential building sector is still 90% smaller than it was previously. And in the case of the supply of secondhand properties of top quality and in prime locations, if anything there has been a shortage throughout the recovery period. In addition, overseas buyers can easily access a Spanish mortgage today. However, much larger deposits are

necessary than previously as the typical LTV is 60%-70%. Consequently, most recent buyers have been cash-rich and have substantial equity in their property.

As a result, I am not expecting to see any sharp reversal of prices in 2021, at least not across the board. Of course, there will be some forced and motivated sellers, it's inevitable. However, I think it will be on a case-by-case basis rather than a wholesale dumping of stock. Finding out the reason behind a sale is always part of the research for a property finder. I think it will be an even more important element of our work in 2021. And where prices do fall, I think they are more likely to be in the new-build sector. In my view, new-build prices were already unsustainable and completely out of sync with the overall market and it may be that the pandemic will be a turning point.

New-Build Demand

For reasons I have never quite understood, foreign buyers are like moths to a flame if new-build is available, even when the location is inferior. The fact is there is very little raw building land available in the very best locations, it was built on years ago. Consequently, it follows that much of the new-build activity is not in prime locations.

In addition, once recovery started the supply side of new properties lagged way behind demand. At the height of the building frenzy in 2006 Spain approved building licences for 735,000 units, of which approximately 21,000 were in Málaga province. By 2014, the total of building permits in the province was 798, a fall of 96.2%. In reality, construction industry was more or less wiped out.

Inevitably, this supply side imbalance skewed new-build prices. However, as new project numbers rose every year between 2013 and 2020, there were signs that new-build prices were coming under pressure. Indeed, even before COVID-19 arrived I thought 2020 would give some developers quite a shock. Already, there were rumours circulating of delaying the launch of new phases as sales slowed. However, the supply side of the equation may be further complicated post-Covid by the fact Spain's first lockdown resulted in the freezing of 14,400 units under construction by 184 developers across the country. And that was just by the end of March 2020. Inevitably, that figure will have risen as the pandemic caused repeated lockdowns.

And I fear for those buyers who bought off-plan at inflated prices prior to 2020. In these circumstances even a modest price correction will mean that their property will be worth less than they paid for it by the time they move in. I accept many buyers are not looking to make a huge profit in the short-term, they've made a life-style purchase. However, I've yet to meet one who is happy with the idea of a loss even before they've got the keys. In fact I think some buyers have been paying such inflated prices for new build properties that they may never see a return on their investment no matter how long they hold it.

Resale Demand

In contrast, lack of well-priced, top quality properties in prime locations means buying right is more straightforward. Available stock is more in balance with demand and there can be competition for a good property. And there's no sign that buyers in the resale sector are prepared to pay excessive asking prices. In my experience they are much more likely to walk away than overpay. I estimate pre-Covid resale prices had recovered about 30% of what was lost in the crash. However, that still puts prices as much as 25% below the previous peak in 2007. Look hard and there are still good deals available.

However, I have a problem with many asking prices. I feel sellers assume that just because new-build prices have gone through the roof they can ramp up their asking prices to similar levels. That assumption is incorrect in my view. As I started a search for a client at the beginning of 2020 I noticed that every house under consideration had been reduced from the original asking price. In some cases, reduced several times and by as much as 25%. And I'm talking about top quality in the very best locations.

Interestingly, a report from Tecnocasa, one of the big valuing companies in Spain, suggests asking prices are, on average, at least 20% above the eventual price achieved. When over-optimistic sellers reduce asking prices to more in line with what the market can stand, they sell. And in price per square metre terms that will be way below new-builds prices. However, I am already seeing lots of price reduced properties in my inbox so perhaps Covid-19 will be a turning point, bringing more realistic asking prices.

The Price Conundrum

Marbella, the sixth most expensive town in Spain, is a good example of the new-build versus resale price conundrum. With thorough research it is still possible to identify prime location resale properties for between €2,500 and €4,000 per square metre.

At the start of 2020 a client was negotiating to buy a detached villa. With 5 bedrooms, 200m from the beach, walking distance to town, and with the contemporary look that is so in demand. The asking price was the equivalent to €3,280 per square metre and the negotiation brought it under €3,000 per square metre. So, I am mystified why buyers are paying €6,000 per square metre for villas in a new development close by. The location is inferior in every respect. It is further from the beach and on a main road. The properties are jammed in almost within touching distance of each other and roof terraces are overlooked by nearby apartments several storeys higher. I accept that there is a premium for shiny new stuff but double the price? It doesn't stack up.

Even more reason then for buyers to be very cautious, particularly in the new-build market. It is essential to do the research and compare asking prices for new property with comparables in the resale sector. Look at peak prices prior to the crash and ask yourself if you should be paying even more than that now. Remember that resale prices are still approximately 20% - 30% below that level. Buyers in the new-build sector should be cautious and ignore what an agent friend of mine calls 'candles and cushions' marketing. Lots of soft focus life-style images, very seductive, but better to check the price per square metre and ask if it makes sense.

Getting it Right in 2021

If you buy at the right price, property in Andalucía is still relatively affordable. There's potential for substantial capital growth in the medium term and excellent rental yield potential. The sun continues to shine and the quality of life is rated one of the best in the world. What's not to like?

My advice is always the same. Don't buy anything that is blighted. Roads tend to get busier over time so if it's noisy now it will only get worse. If there is a mobile mast in view assume there will be more as the tendency is for them multiply. High-tension electricity pylons are also a big no-no. We can assume new housing will increase in the medium term. So it's essential to be aware of local planning issues and what might be in the pipeline. Already, in some areas on the coast I can count twenty cranes while standing still. However, if projects freeze as a result of the pandemic, many of those cranes may also be standing still for some time.

And finally, when I am assessing properties for my clients I always ask the following questions. If circumstances change and they need to sell quickly is the price right to enable them to do that? Secondly, is this a property for which there will always be demand irrespective of market conditions? Without doubt, the shambles of recent years taught us a valuable lesson. And that is that there will always be demand for top quality in prime locations. It always has been, still is and always will be about location.

Without doubt 2021 is going to be an interesting year in Andalucía's overseas property market. Personally, I think overseas demand will remain strong in all the traditional prime locations. In addition, in my opinion new-build prices have risen too fast and supply of resale top quality in prime locations is limited. Over-supply of new-build may lead to prices edging downwards. In contrast, lack of quality resales may lead to competition between buyers and firmer prices. Obviously, the impact of Covid-19 and the consequences for the property

market are unknown. However, foreign buyers drove the initial recovery of the property market after the 2008 crash, buying in record numbers and increasing market share from 2013. I suspect they are going to be just as important in the post-Covid recovery.

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