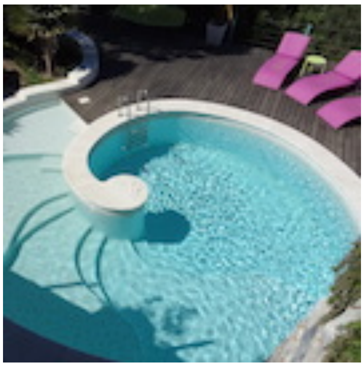


thepropertyfinders

Spanish Market Report

2020



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Introduction

Without doubt an important factor in the recovery of the Spanish property market since the 2008 meltdown has been the growth of the overseas sector. Compared with 2007, the foreign market is already 77% bigger, 102,252 foreign buyers in 2019 against 57,674 in 2007. International buyer numbers hit bottom in 2008 with only 34,712 over the whole year. In addition, international market share is now much bigger than previously. In 2007 it represented 7.88% of the total market but this had grown to 18.7% at the end of 2019. Consequently, overseas buyers are a very important part of Spain's property market and any decline is worrying.

We now have the 2019 full-year statistics and, for the first time since 2011, the notarial figures show a reduction in the number of foreign buyers year-on-year, down 1.39%. This equated to 1,425 fewer international buyers. However, although the first half of 2019 was -3.2% compared with the same period in 2018, the second half actually showed a small rise of 0.5%. The question is, were we seeing a slowdown in the overseas market even before Covid-19 appeared? Is it just a blip after five years of continuous growth or is it something more serious, made much worse by the pandemic?

Interestingly, the domestic market also declined in 2019 and by a bigger margin, down 2.71%. However, this sector has performed very differently since the 2008 crash. From 824,905 purchases in 2006, it went off a cliff to a low in 2013 of 247,208, a fall of 70%. By this time, however, the overseas market was already two years into recovery. In addition, the domestic market is still about 40% smaller than it was in 2007 whereas, as already mentioned, the overseas sector is 77% larger.

This report looks at who is buying what and where mainly from the perspective of the overseas market. I will show that market activity is patchy, concentrated in just a few regions. I will look at prices and my concerns about the amount of new construction in the pipeline. It seems that it's either feast or famine in Spain's property market. Supply in the new-build sector has gone from just a trickle a couple of years ago to a flood in 2019. The taps have been turned full-on and I think this is a worrying trend in the market. In addition, I will also cover factors that may impact the Spanish domestic market in 2020. I cite statistics and opinions from a variety of sources published throughout the year. These include official INE figures (Spain's Institute of Statistics) and opinions from analysts and valuers.

Where the numbers come from

The Notaries produce the most reliable property market statistics. Consequently, I use those and ignore the Property Registries. Unfortunately, the INE and many commentators and analysts use both. As a result it can be confusing if you don't know which you are looking at.

There are discrepancies between the two for the simple reason they are not counting the same thing. The Notaries' returns count when a transaction actually happens, the date on which a purchase completes. On the other hand, the figures from the Property Registries reflect when that same purchase is inscribed in the registry. And that may be weeks, or even months, later. A purchase completed in a November or December may not make it into the registry until the following year. Consequently, Q1 and Q4 totals can be very distorted. In addition, Q2 and Q3 can be affected by delays over the summer holidays.

And we are not talking a few percentage points out of sync. The Notaries counted 549,025 transactions in 2019 while, for the same period, Property Registries inscribed 453,572 purchases. That's a discrepancy of 21%. And all because Notaries count when a deal is done and Registries count inscriptions. So, unless otherwise stated, the property statistics quoted in this report are those from the Notaries.

I also post news on social media as it becomes available so follow The Property Finders on Twitter and Facebook. And as statistics are published in early 2020 to reflect full year results for 2019 I will update this report regularly .

The Good News in Spain

Overall, unemployment in Spain was continuing to fall. It finished 2019 on 13.2%, that's the lowest in a decade. Youth unemployment was down to just over 32%. Interest rates were low. Euribor, which sets the interest rate for the majority of Spanish mortgages, registered an historic low in August 2019 but ended the year slightly better at -0.263%. Just as the coronavirus hit in March 2020 it had averaged -0.270% through the month. In addition, all autonomous regions registered property price increases at some point during 2019, although there were fluctuations.

But there are always buts
However, the fact is that, in spite of minor improvements, not that much changed in 2019. Yes, unemployment was down. Nevertheless, at 13.2% it was still the second highest in the Eurozone, only in Greece was it worse. Meanwhile, in Germany it was 3%. Moreover,13% has to be viewed against the Eurozone's average of 7.5% and the OECD average of 5.2%. And in some Spanish regions, Andalucía, Extremadura and the Canary Islands for example, unemployment was still struggling to get below 20% and stay there. Overall, Spain had five of the ten worst unemployment black spots in the EU. (Source: Eurostat)

Yes, youth unemployment was down but was still an average 32% nationally, and much higher in some regions. In fact, one third of the under 30s age group in Spain has never had a job. Meanwhile, in Germany the unemployment rate for the same demographic is an average 6.3%..

Yes, 600,000 new jobs in a year is impressive. However, seasonal, temporary and part-time contracts still outnumber permanent ones by a big margin. For example, of the 16.7 million job contracts (new and renewals) signed in the Q1 - Q3 of 2019 only 9.5% were for long-term employment. This 90/10 ratio seems to have become the new norm in the Spanish labour market. Even worse, long-term doesn't necessarily equate to full-time, about 40% of permanent contracts were for part-time positions. One of the reasons for these figures is that tourism is currently the biggest source of employment in Spain in 2019, with 14.6% of the total workforce, about 2.8m jobs. Unfortunately, jobs in tourism tend to be low-skilled, low paid, temporary and seasonal.

The intractable problem
In 2017 The Organisation for Economic Cooperation and Development (OECD) published one of its periodic in-depth reports on Spain. While noting improvements in the economy since the previous report in 2014 it highlighted persistent structural problems hindering sustained recovery. It seems not much has changed. They were the same issues mentioned in the 2014 report, above all the dire unemployment figures.

The reality is that Spain has never been close to full employment even for adults. For example, when it was the fastest growing economy in the Eurozone in 2007 average unemployment was 8%. That's a figure most developed countries would consider high in a recession and a catastrophe in a boom. Depressingly, 2019 Q4 statistics seemed to indicate job creation was slowing as Spain's manufacturing sector contracted.

However, it's so much worse for young people. Between 1986 and 2019 the average youth unemployment rate was 34.65%, more or less where it is today. Even in 2007 at the height of the boom it was 17.2% and rose to peak of 55.9% in 2013. (Source: Eurostat) So, in spite of several boom periods in that timeline, Spain has made little progress in improving job prospects for young people. Poor job prospects and unemployment at the start of a person's working life have lifelong repercussions on income potential. Inevitably, such insecurity spills over into the housing market.

Falling incomes and the property market
A recent report from the Bank of Spain suggests the domestic housing market will remain relatively weak for years to come. The Bank's governor, Hernández de Cos, noted that those born in 1987 and with low educational attainment are now earning an average of 20% less than those in the same age bracket a decade ago.

According to this report the average Spaniard is 13% less wealthy than if the recession had not occurred and growth had continued at the same rate as during the 1995-2006 period. Instead, Spaniards have actually returned to income levels of the year 2000. And even worse, the wages of low-skilled youths have retreated further, to late 1990 levels. Now, at age 30, they earn less than 30-year-olds did 10 years, ago and almost the same as 30-year-olds earned 20 years ago. In effect, two decades of purchasing power have been lost. In addition, there has been a similar regression regarding the salaries of skilled workers. A highly qualified 40-year-old will earn around 20% less than someone in that demographic earned 10 years ago. (Source: Bank of Spain)

These findings indicate there is still a long way to go before Spain's housing market is on firmer ground. Indeed, reports from analysts CBRE and the research division of BBVA both pointed to market slowdown in the year ahead. And the signs have been there for a while. In December 2018 the International Monetary Fund issued a warning about early signs of a 'slight overvaluation' in property prices. And then the virus arrived.

Post-Covid - 19 Unemployment
As the figures already quoted show, at the end of 2019 Spain was still a long way behind most of the E.U. in in reducing unemployment after the 2008 global crash. The early predictions for 2020 are that most of the progress achieved in the last 5 years will unravel. As a result, adult unemployment is likely heading back over 20% while in the under-30 age group it could easily be double that.

The Overseas - Domestic Split
One of the most striking features of the overseas property sector during Spain's long recession was how little it was affected by what was going on during the domestic economic meltdown. It's true that the overseas market fell by about 75% after 2007. And it would have been even worse but for the fact that many buyers were already locked into off-plan purchases made before the crash. But the decline hit bottom in the second half of 2010 as foreign bargain hunters emerged. And the number of overseas buyers has increased every year until 2019. Meanwhile, the domestic property market was still falling in 2013. When the first upturn was registered in 2014, it was fully four years behind the overseas sector. That's why any analysis of Spain's property market has to treat the overseas market separately.

The Overseas Property Market - Why Spain?
For lifestyle Spain is hard to beat, it's relaxed and easy-going, safe and child-friendly. Life expectancy rose by ten years between 1970 and 2015. At 80yrs for men and 85yrs for women Spaniards have the highest life expectancy in the EU and third worldwide. Only Japan and Switzerland do better although only by a few months. The climate suits all tastes. It ranges from four seasons with a proper winter and lots of snow in the north to the sub-tropical south. The micro-climate zones on the Mediterranean coasts of Andalucía have the best winter temperatures on the European mainland. In addition, The Canary Islands is often referred to as Europe's Caribbean. Spain's beaches and marinas have more Blue Flags than any other country in the world, a total of 669 in 2019. In fact, Spain has occupied the top spot ever the scheme began in 1987.

For the cultural tourist Spain has some of the oldest cities in the world and 47 UNESCO World Heritage sites. This puts it in third place globally, behind Italy (54) and China (53). Within Spain, Andalucía is the region with the highest number (8) of recognised sites. The latest one to be be awarded UNESCO status was the Medina Azahara near Córdoba in 2018.

Living well is affordable with food and drink prices below the E.U. average according to Eurostat. Spanish cuisine is world-class. Spain has three restaurants listed in the top ten restaurants in the world, more than any other country. And there's a total of six in the top fifty. Sports and outdoor enthusiasts are spoilt for choice. Golf, tennis, equestrianism, skiing, wind & kitesurfing, mountain biking, rock-climbing, hiking, fishing - the list goes on and on. The result is that Spain has a quality of life that's hard to beat.

Where is the Action?
I said in the introduction to this report that, in spite of lots more good news, the market is still patchy. This really stands out when you look at the variation between Spain's 17 autonomous regions. Way out in front is the Comunidad Valenciana with 29,125 foreign buyers and Andalucía second with 18,415. In contrast, regions not located in the Mediterranean hotspots don't fare so well. Cantabria welcomed just 452 buyers from overseas in this period while Extremadura was the lowest with 333.

The reality is that 60% of all Spain's property sales occur in Mediterranean coastal regions on the mainland and in the Balearics and the Canary Islands. Remember, foreign buyers account for almost 20% of the total market. Then ask where the majority of those overseas purchasers buy for the explanation. And when you add the Madrid region to the mix, the market share rises to 75%, making it easy to see how uneven the market is. Fully 75% of all property transactions in Spain take place in 7 autonomous regions, leaving the other 10 with just 25% between them.

Regional Variations
And the same patchy recovery pattern occurs within regions as well. Andalucía, Spain's largest autonomous region, is a good example of this. About 20% of all property transactions in Spain take place in Andalucía. However, Andalucía has eight provinces and approximately 30% of all transactions occur in just one province, Málaga. Moreover, the city itself, plus

Marbella, account for 34% of all purchases. Add Estepona, Benahavís and Mijas to the mix and that rises to 53% of all transactions in the province. So, one third of Andalucían purchases occur in just one province while more than half of purchases in that province occur in 5 municipalities.

And the same holds true for other regions as well. For example, 70% of all purchases in Cataluña occur in the province of Barcelona and 25% of those take place in the city itself. The consequence is that there’s lots of activity in just a few places but not much going on elsewhere.

The Top 6

The 6 main destinations in Spain for overseas buyers are Andalucía, Cataluña, Murcia and the Comunidad Valenciana (comprising Castellón, Alicante and Valencia provinces) on the mainland, plus the Canary and Balearic Islands. Together they account for 63% of the overseas market and 14% of the total Spanish property market. In addition, several of them have overseas buyer market share way above the national average of 18.7%. For example, 37.1% of buyers in the Balearics were foreign, 34% in the Comunidad Valenciana, 30.2% in the Canaries and 29% in Murcia. Nevertheless, 4 regions saw a fall in the number of overseas buyers in 2019; -2.65% in Andalucía, -3.59% in the Comunidad Valenciana, -6.98% in the Balearics and -15.6% in the Canaries. Murcia saw a 5.07% increase while Cataluña saw 6.24% more.

So, it seems the political instability in Cataluña is not having a long-lasting effect and the losses of 2018 have been recovered. The big fall in the Canary Islands may be explained by the weakness of the GBP£ as the Brits make up more than 30% of all foreign buyers. However, that is also true in Andalucía and the fall there was more modest.

The decline in the Balearics is a bit more puzzling. One reason might be high prices. On average, foreigners have to pay €3,113 per square metre for a property in the Balearics. That’s well over double the price paid in the Comunidad Valenciana (€1,363 pm2) and 75% more than in Andalucía (€1,784). Also, Mallorca, the main market of the Balearics, has introduced very restrictive tourist rental laws and these may be responsible for the fall in overseas buyers. Although not buy-to-let investors as such, many overseas buyers are keen to cover running costs via rentals when not in residence. In parts of Mallorca that’s now very difficult to do.

Who is Buying

Surprise, surprise, it's still the Brits in the lead. In spite of so much negativity on the part of many commentators and market analysts, almost willing the British market to collapse to back-up their argument, it is proving remarkably resilient. I wasn’t one of the doom and gloom brigade, I looked at the figures rather than speculate.

The Ups and Downs

The 2019 notarial returns show the Brits, as ever, heading the nationality league table. And that's in spite of an exchange rate about 20% weaker against the Euro since the Brexit referendum. In total, British buyers purchased 13,358 properties In Spain in 2019, 38% more than the French who were in 2nd place with 8,342. The Germans were in 3rd place with 7,663. In market share terms the British made up 13.2% of the overseas market, compared with 14.7% for 2018. Nevertheless, the British alone bought more properties that all non-EU buyers combined.

However, there were 12.3% fewer buyers from the UK and the German number was down 3.18% Nevertheless, there was strong growth elsewhere. For example, buyers from Morocco were up 19.6%, from Ecuador 17.8%, Denmark 11.7% and US buyers increased by 7.8%.

Although there were fewer buyers from overseas spending per square metre was up in the most numerous nationalities. Furthermore, overseas buyers demonstrate greater purchasing power. The average spend per square metre nationally was €1,502 against overseas buyers €1,765, a 17.5% difference. For example, the Germans spent €2,275 per square metre on average, 5% more than in 2018. The British increased their spend by 4.2% to €1,704 per square metre but the real big spenders in 2019 were from the US. They purchased at an average price per square metre of €2,473, more than any other nationality, an increase of 4.6%.

The Big Questions

So, is the overseas market in Spain slowing down? Is demand falling? Is the supply side getting too big? Have prices risen too fast? Lots of questions and several answers, I think.

In the case of the British, I think currency weakness is partly to blame. When the date of the Brexit referendum was announced in February 2016 the exchange rate was €1.29/£. Sterling fell 5% on the result in June 2016 and has declined steadily during the 3 years since. It bottomed out in August 2019 at €1.06/£, a 17.82% decline. Consequently, a British buyer with £400,000 to spend on a property in Spain at the start of 2016 had the equivalent of €520,000. However, by August 2019 their sterling only bought €430,000. That's a huge loss of buying power and must be part of the explanation for fewer British buyers. Heading into 2020, 50% of the currency loss had been recovered. If sterling strengthens throughout 2020 I think British buyer numbers will increase once again.

However, I think there are other factors at play in the overseas market. Personally, I don't think it is simply an issue of falling demand. In fact, I would go so far as to say that demand held up very well throughout 2019, lots of people still wanting to buy a property in Spain. In my view, it's more about the supply side and price levels.

What's in Demand - New Build

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.

Nevertheless, the appetite for new-build properties has seemed unstoppable, with contemporary and minimalist architecture at the top of everyone's list. However, since the recovery started the supply side of new apartments and houses lagged way behind demand. Inevitably, this imbalance skewed new-build prices, to an extent I believe was unsustainable. New may be nice but is it worth paying double, or even more, per square metre than a resale? I don't believe it is but overseas buyers have been doing it.

However, as more new-build projects come on stream, and the signs are that the pace is picking up, I think new-build prices will come under pressure. In fact, I have already seen reductions on developers' price lists. I predict buyers who purchased in early phases of some new developments will find their property is worth less than they paid by the time they get the keys. I can accept that 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 moved in. In fact I think some buyers are 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.

The Supply Side

At the height of the building frenzy in 2006 Spain approved building licences for 735,000 units. This figure was more than the UK, France and Germany combined. As Spain's population is 46m and the UK, France and Germany account for 214m in total, it was clearly not sustainable. As a result, when the crash came it devastated Spain's construction sector which shrank by approximately 97% to a 2013 low of 31,200 units. In reality, the construction industry was more or less wiped out.

Nevertheless, building licence approvals have grown year-on-year since 2013. The final total for 2019 was for 106,266 units, a year-on-year increase of 5.5%. However, this was the smallest annual increase since 2015 as there was double-digit growth in each of the previous four years. Perhaps another sign, even before coronavirus, of a slowing down after years of growth.

I've already mentioned the top 6 destinations for overseas buyers. So, it will come as no surprise that the 52.7% (56,000) of all new permits are in precisely those locations favoured by foreigners. So the cranes are not spread evenly across Spain but are clustered in just a few regions and in just a few places within those regions. The same regional imbalances I highlighted earlier with regard to transaction numbers are duplicated in the construction sector. For example, Andalucía's total of 21,128 represented one in five of all Spain's building permits in 2019. Moreover, 51% of Andalucía's total were for projects in just one province:

Málaga. In contrast, just 5% were in Jaén province. It's a similar story in Cataluña, with 75% of building licence approvals in 2019 in just one province; Barcelona.

As the supply side improves one would expect prices rises to moderate even if demand holds steady. On the other hand, if demand is actually falling, then new-build prices will be under serious pressure. One thing for sure, no developer goes into a project expecting prices to fall during construction. The assumption is always that prices will rise phase by phase. Even before COVID-19 arrived I thought 2020 would give some of them quite a shock. Already, there were rumours circulating of developers delaying the launch of new phases as sales slow.

In my opinion, it's more likely that demand for over-priced new-builds will start to fall. Many aren't that well-located or of particularly high quality and it's hard to justify the asking prices.

What's in Demand - Resales

Lack of well-priced, top quality properties in prime locations is also a feature of the current resale market. However, available stock is more in balance with demand. 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 prices have recovered about 25% of what was lost in the crash. However, that still puts prices as much as 30% 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.

The Price Per Square Metre 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.

Also at the beginning of 2020 I located a 2 bedroom townhouse, fully renovated to the highest of standards. In addition, it was front line to one of the coast's best golf courses and priced at €3,535 per square metre. A similar property, in very good condition but with a bit still to do to get it to the same level, sold for the equivalent of €2,930 in December 2019. However, it too had reduced from the original asking price before a buyer emerged For the same clients, I have just added a beachfront apartment to the short list. Top quality finishes and in an unbeatable location, the asking price equates to €3,890 per square metre. When I am researching the market for my clients I always do the price per square metre calculation to help me come to a conclusion about the asking price.

Location is Key

However, during 2019 I spoke to a buyer who committed to an off-plan purchase in 2016, paying €5,000 per square metre in an inferior, high density location, 30kms away from real prime territory. Now, he's wondering if that was sensible and wanted my advice. I told him it was a bit late for that, the time for price comparisons was in 2016, not 2019. Given its location and when purchased, I would have put the right price at €2,500 per square metre maximum, even allowing for a new-build premium. The fact is, shiny new stuff never trumps location. I genuinely believe the apartment in question is already worth less that he paid for it and when he spoke to me he hadn't even moved in. Seems the developer has licence problems. Plus ça change.

The fact is that at the pre-crash peak €6,000 per square metre bought the very best locations and quality. In my view, 2020 resale prices should be at least 25% below pre-crash levels to secure a sale. However, buyers are already paying more than that per square metre just to get their hands on a new property. In some cases the new-build premium is as much as 50% above the equivalent resale price. I've worked in the Spanish property market for many years and been through a few high/low cycles and I can't remember such a discrepancy between new and resale prices. As I've already mentioned, an increase in new-build supply should shrink the discrepancy. However, in my view that will be because new-build prices retreat, not because resale prices increase markedly.

Rental Yields

There is a close link between rental yields in Spain and the health of the Spanish tourism sector. Currently, Spain is the second most visited country in the world. According to Ministry of Tourism statistics about 35% of Spain's 82m+ tourists do not stay in hotels. Obviously, some will have their own homes, or stay with family and friends, but that leaves a serious number of overseas visitors renting privately. As a result, rental yields make letting a property in Spain an interesting option. And not just for the buy-to-let investor but also as a way to cover a property's running costs. Across the board, top quality, prime located properties were 100% occupied in high season in 2019.

There is high demand for both long and short term rentals. However, it is absolutely essential that the location is the best and the property must be in 5* condition. What used to be considered luxury items, such as free wifi, flat screen t.v. & satellite, high quality interiors and equipment, are now standard requirements. It doesn't have to be a grand detached villa. There is just as much demand for smart two bedroom apartments in the right location.

I thought property price rises would squeeze yields. However, demand is so outstripping supply that doesn't seem to be happening. In general, an apartment or townhouse can achieve 8% gross yield if available for short term lets throughout the year. A similar property let long term can achieve 5%-6%. At the top of the market a detached beachside property can gross 10%+ in the short term market. In all cases, location and interior finishes are key. The property I mentioned earlier, the 5 bedroom beachside villa I located for a client, definitely falls into the 10%+ gross yield category.

Tourism numbers

It seems likely that demand for short-term holiday rentals is only going to increase. In 2007, just prior to the global meltdown, there were 59m overseas visitors, an all-time record. At the end of 2009, the annual total had fallen to 52.5m. However, a decade later the 2019 statistics show the 83m barrier broken for the first time. In fact, at 83.7m it wasn't far short of 84m so without the virus it was likely 2020 would have improved on that, to another all-time record. This year is now meaningless, 2021 will be the real test.

There are also signs that improved marketing to pitch Spain as a year-round destination is paying off. In 2019 the three winter months, January through March, showed the biggest monthly increases while the three summer months were either flat or decreased slightly. This indicates there is improving rental potential throughout the year and not just in the traditional high season summer months.

Analysis of the tourism statistics indicates that the decline of foreign tourists in high season was the result of the recovery in cheaper package-holiday destinations such as Tunisia, Morocco and Egypt rather than fewer high-end tourists. And the very high demand for the most expensive rental properties seems to bear this out. The most important thing, in my view, is that there are no losses at the top of the market. It is vital that the quality sector continues to grow.

Important for Yields

When I am working for a client whose brief requires reliable rental income I target certain areas and ignore others. In addition, I search for a type of property and reject others. It has to have 'the look'. Get the location wrong, even by just a few kilometres and income may be halved. As well as pinpointing the right location in a particular area you need to be in the right region because some have legislated against short term holiday lettings, pressured by the powerful hotel lobby and disgruntled locals. This is particularly true in city centres, such as Barcelona and Madrid, Valencia, Palma and Málaga where tourist lettings have overrun some districts. So, if rental income is a requirement of your buying plan then check the legislation in that autonomous region because there are differences.

Nevertheless, many property owners in Spain like the idea of covering running costs and don't want the property empty for long periods of time. But the days of leaving a set of keys at the local bar and crossing fingers that no emergencies will arise are over. You need to be 'rental ready'.

Spanish Fixed Rate Mortgages
It's a fact that the majority of all overseas buyers in Spain since the property crash have been cash-rich. Obviously, the principle reason for this is that Spanish banks were drowning in bad debts and new mortgages were scarce. Only a massive bail-out from the European Central Bank prevented widespread collapse. And even when a foreigner passed the status checks the amount a bank offered dropped from 100% to 60% of the value. As a result the buyer needed a much bigger deposit than previously and overseas buyers who actually needed a mortgage to purchase struggled to get approval.

In contrast, the banks are very keen indeed to lend to international buyers who don't require a mortgage. One of the first questions I ask potential clients is whether they they are cash buyers or if they need finance. I do this because I believe it is better to get an indication of borrowing potential before I start a property search. When the answer comes back that they are cash buyers I always ask if they are aware of the fixed rate mortgages currently available in Spain. Most are not. However, once they knew all my recent clients who had intended to buy with cash have opted to take the maximum they could borrow. The typical response has been 'where do I sign'?

Euribor is the interest rate which fixes most Spanish mortgages and it has been in negative territory since February 2016. After falling month on month throughout 2019 it closed the year slightly up from the historic low of -0.356% in August. It now stands at -0.263%. In the recession fixed rate mortgages disappeared from the market. Now over 40% of all new Spanish mortgages are fixed rate loans. Indeed, the majority of international buyers are opting for fixed rate over variable rate loans. My advice to cash buyers, irrespective of the currency, is to protect their capital and take a Spanish mortgage.

Spoilt for Choice
There are many products to chose from with fixed terms from 5 - 25 years, interest rates from 2.5% and up to 70% LTV. There are a lot of variables, such as country of residency, amount required, location of purchase. However, there are no restrictions on nationality or purchase price. A good broker is essential. Status is scrutinised very carefully but in general the process is straightforward and quick. In the case of some of my clients we have even had banks competing for the business.

Spanish Property Market 2020 - Conclusions
In December 2018 the International Monetary Fund issued a warning about early signs of a 'slight overvaluation' in property prices. It noted that Spanish banks are highly exposed to real estate sector developments and may underestimate the speed at which house prices and relaxed lending criteria can gain traction.

Also in December 2018, I noted warnings from valuers about the spectre of overvaluations creeping back into the market. Given that most banks currently offer maximum loans of 80% LTV, those without a large deposit are effectively excluded from the market. In reality, it's been more than a tendency, most banks have been ordering valuers to be conservative. The loan is then offered on whichever is lower, the valuation or the property price. Unsurprisingly, it's always the valuation.

So, the IMF comments about 'slight overvaluation' in prices or the possibility of deliberate mortgage overvaluations were a bit worrying. They may be only a warning flag but they may also be the first signs of something more serious. Moreover, as I have already mentioned analysts such as CBRE and BBVA Research published reports in 2019 with similar warnings about price rises and lower demand.

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
However, if you buy at the right price, Spanish property 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?

The lack of high-quality inventory at the right price in prime locations will be an issue throughout 2020. As I’ve shown in this report the recovery has been restricted to the very prime locations in a handful of regions. As far as the overseas market is concerned that means the Mediterranean coasts, the Balearics and the Canaries.

My advice to buyers in 2020 is do not obsess about new-builds, especially if not located in prime positions. Many are not. Consider equivalent resales, calculate the price per sq.m. to include any renovation if it’s needed. Then you can take an informed view on what makes the best financial sense. The result will almost certainly be a lower price, a bigger property and, most important of all, a superior location. A thorough search can still uncover some real deals although they will be harder to find in 2020. Nevertheless, there will always be some sellers more motivated and realistic than others.

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. 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 I can count twenty cranes while standing still. If there is vacant land nearby find out with absolute certainty what, if anything, can be constructed. The selling agent saying it is green zone is just not good enough. Why risk losing a fabulous view?

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.