



Spanish Market Report 2021



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Introduction

In normal times, my annual report on the Spanish Property Market takes a detailed look at the statistics for the year just finishing. Usually, it's possible to spot the important trends and make predictions about the year ahead. But we aren't living in normal times. Therefore, as I wrote this report I had to think hard about how much to focus on statistics that, for the most part, might be meaningless.

Where the numbers come from

Even the statistics from the Notaries, always my preferred source, were of limited value because they are published half-yearly. However, Spain's first lockdown started on March 14th 2020, with Notaries only allowed to oversee emergency work for several 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. So, can the January - June 2020 totals of overseas buyers tell us anything useful? What happens if we assume a majority of the overseas buyers counted in the 1st half year figures actually bought in Q1 and only a minority in Q2?

So, in addition to analysing the Notarial returns I have had to look elsewhere for quarterly statistics to make sense of what was happening before the pandemic started. I wanted to know what was going on between January and mid-March 2020. 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 and compared them against the half-year totals from the Notaries. They were a couple of % points adrift but I think they're close enough to be useful.

As usual, the stats from the Property Registries are best ignored as they count when a property is inscribed in the registry, not when it completed in front of the notary. Even in normal times inscriptions may be weeks or even months after completions. As a result, the Notaries and Property Registry statistics always differ and not by a little. They are usually out of sync by 20% - 25%. In spite of this, I have already seen one blog claiming that foreign demand rose in Q3 compared with Q2, indicating the market recovered lost ground. It doesn't mean any such thing. Rather it means deals done earlier in the year were finally being registered in Q3.

In my view the only statistics to have any meaning in 2020 are those relating to Q1, excluding those from the Registries and as will include some transactions completed in Q4, 2019. And even the Q1 figures may be a bit dodgy. I personally know of two purchases scheduled for completion in early March. Lockdown put paid to that. One finally completed in June, the other not until December.

I'm sure I will be updating this report regularly throughout the year when, with luck, travel restrictions loosen to allow Spain's property market to start recovery. Figures until the end of October 2020 seem to show 100,000+ transactions have gone missing over the period. Of these approximately 20,000 will be attributable to foreign buyers. If that trend continues to year-end then the property market will be back at 2015 levels in transactions numbers. In other words, five years of growth has disappeared during the course of the year.

I also blog and post on social media with news and views so make sure to follow us.

Where We Were

Thinking about some of the issues I cover in this report, a brief resumé of where we were just prior to the pandemic might be useful.

The Property Market

Full year figures for 2019 showed buyers from overseas made up 19% of the overall market. With a total of 102,252 foreign buyers this sector was 77% bigger in numbers when compared with just before the 2008 global recession. In contrast, the domestic market was

much slower to recover from that shock and at the beginning of 2020 was still 40% smaller than in 2007. So when the virus hit, the overseas market was in growth, perhaps slowing slightly, while the domestic market was still relatively sluggish.

Unemployment

Unemployment in Spain had reduced, starting 2020 on 13.2% nationally, the lowest in a decade. However, compared with a Eurozone average of 7.5% and the OECD average of 5.2% these were still dire figures and the second highest in the the Eurozone. Only Greece was worse while in Germany it was only 3%. 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)

In addition, in the under 30 age group nationally the figure was much worse at 32%, albeit down from around 50% at the peak of the recession. In fact, one third of the under 30s age group in Spain has never had a job. In contrast, the figure for youth unemployment in Germany was 6.3%.

Tourism

Pre-Covid, Spain's tourism industry was continuing its seemingly unstoppable upward trajectory. 2019 finished with another all-time record of 83.7m overseas visitors, making it once again the 2nd most-visited country in the world. Tourism contributed about 14.5% to Spain's GDP in 2019 although in some regions it was much higher than the national average. Inevitably, Mediterranean regions and the islands depend even more on a healthy tourism sector. For example, the 45% of GDP generated by tourism in the Balearics makes it the most dependent, and vulnerable, region, followed by the Canary Islands, Andalucía, Murcia, the Comunidad Valenciana and Cataluña.

Where We Are

So, with all but ten weeks of 2020 disrupted by the coronavirus and with 2021 ahead where are we?

Tourism

The final figures for 2020 will be available in February. In the meantime, what we know so far is that the 83.7m logged in 2019 had collapsed to 18.3m overseas visitors at the end of November 2020. That's a 76.9% fall nationally.

However, I see no reason why overseas visitor numbers won't bounce right back when travel restrictions are lifted. 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.

According to Ministry of Tourism statistics about 35% of Spain's overseas visitors 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 people 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.

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. And although not all foreign owners are also part-time landlords, many are and rely on rental income to cover essential maintenance and running costs and taxes. 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 Rental Market in Spain

I've already touched on the issue of rental yields in the section on tourism above. However, until we know whether Spain will be open to tourists in summer 2021 I don't see much point

in speculating about yields. Nevertheless, 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. 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. At the same time, long-term listings 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 many 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.

Unemployment

As the figures already quoted above show, at the end of 2019 Spain was still a long way behind most of the E.U. and Eurozone in reducing unemployment after the 2008 global crash. The early predictions for the post-Covid labour market 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. Inevitably, this will have implications for the domestic property market. The unemployed and those in job insecurity don't buy property. And, as with the collapse of tourism, forced sales may increase as unemployment rises.

The intractable problem

A real tragedy for Spain is that it seems likely to fall back into a period of very high unemployment. 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.

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 in 2021. Even in 2007 at the height of the boom it was 17.2% and rose to peak of 55.9% in 2013. (Source: Eurostat) It is quite possible that it could return to a similar level post-Covid. 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.

Unfortunately, seasonal, temporary and part-time contracts outnumber permanent ones by a big margin. A ratio of 90/10 in favour of temporary and part-time contracts seems to have become the new normal in the Spanish labour market. And long-term doesn't necessarily equate to full-time, about 40% of permanent contracts are for part-time positions. One of the reasons for these figures is that tourism is one of the biggest employers in Spain, accounting for about 3m jobs and 15% of the workforce. Unfortunately, jobs in tourism tend to be low-skilled, low paid, temporary and seasonal. It really is a vicious circle.

Already, the powers that be in Brussels are making noises about linking post-Covid financial assistance to fundamental structural changes in the labour market of the kind noted by the OECD. However, I seem to remember the same demands being made in connection with the European Central Bank bailout of Spain's collapsing banking sector in the aftermath of the 2008 meltdown. What I don't remember is anything much changing.

The Property Market in Spain in 2020

For what they are worth, the Notaries published the statistics relating to the overseas property market in Spain in the 1st half of 2020 as normal in November. The figures for the 2nd half-year come out in May 2021. Accordingly, we can see that 32,395 international buyers purchased a property in Spain between January and June. That's a fall of 37.4% compared to the same period in 2019 and back to a level last seen in the 1st half of 2014 (32,822). However, what these figures don't tell us is how many occurred between January 1st and March 14th, when lockdown started.

So, I looked at other sources for quarterly returns which make a count of foreign buyers in municipalities rather than nationally. As a result, I think it is safe to assume that two-thirds of that total, approximately 21,100 transactions, occurred in the first 10 weeks of the year. (Source: M^o de Fomento). I conclude from this that the overseas sector of the property market was on course for an excellent first-half in 2020. Had Q2 replicated the results of Q1 then transactions would have been higher than in the same period of the previous year. Then the virus arrived.

The Importance of the Overseas Market

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. Indeed, foreign buyers drove the initial recovery of the property market, 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.

Overall, foreign buyers were 17% of the total Spanish market in 2020. Worth remembering that even at the peak of the property boom before the 2008 crash, foreign buyers never had more than 8% market share. However, when you look at the Mediterranean coastal regions and the islands where the majority of foreigners buy, it is a different story. In 2020 the foreign element was 34.8% in the Canary Islands and 34% in the Balearics. On the mainland, 32.5% of buyers in the Comunidad Valenciana were from overseas while in Murcia it was 26.3%.

In contrast, the figure for Andalucía was 17%, the same as the national average. However, that changes dramatically when you analyse by province. Then the overseas element is way above the national average and beats all other regions. For example, foreigners accounted for 57.4% of Q1 transactions in Málaga province. If the other provinces with Mediterranean coastline, that is, 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. (Source: M^o de Fomento)

Foreign Spending Power

And it's not just the numbers that make foreign buyers so important to the Spanish property market. They spend more too. On average an overseas buyer spent €1,791 per square metre according to the Notaries' first-half figures, an increase of 3.6%. In contrast, the national average at year-end was €1,351 according to the valuers TINSA.

However, the spending power of foreign buyers is further underlined when you look by nationality. For example, Swiss nationals spent €2,661 per square metre, double the national average. They were 2020's big spenders, taking over from US buyers, the previous year's winners. They dropped to second place with an average spend of €2,428 pm², followed by the Germans (€2,334), Norwegians (€2,331) and Danes (€2,328)

The Nationality League Table

The league table of buyers by nationality had a familiar look to it. In spite of Brexit and a rubbish exchange rate, the British, as ever, were the most numerous with a total of 3,917 purchases. That represented 12.09% of the total foreign market, a slightly lower proportion than in 2019. However, they bought 79% of the total for German and French purchases added together and only 0.8% fewer the combined total of all non-EU buyers.

In addition, when you consider the regions most popular with foreign buyers the British took a much bigger share of the overseas market. For example, 24% of foreign buyers in Andalucía were British, and over 50% in both Murcia and the Comunidad Valenciana.

The Germans and French switched places in the league table as they do on a regular basis. So, in the 2020 figures, the French were in second place with 2,522 and the Germans third on 2,391. The British, French and Germans are an important trio; together they accounted for 27.3% of the total overseas market.

The Property Market in Spain in 2021

The big question is, of course, where do we go from here? Assuming vaccination programmes roll-out across the world and international travel can resume how likely is it that the Spanish property market will bounce back. So an important question is why do so many international buyers choose Spain?

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 and then 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 are 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 692, 23 more than in 2019. And in fact, Spain has occupied the top spot ever since 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 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 spoiled 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, appealing to both foreign second home owners and permanent residents. None of what has persuaded millions of foreign buyers to choose Spain in the past has changed. The sun is definitely still shining.

My predictions for 2021

Throughout 2020 I was encouraged 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 and there seems to be a 'let's get on with it, why wait' attitude.

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 that 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 those 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 and 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. And thirdly, overseas buyers can easily access a Spanish mortgage today although much larger deposits are necessary as the typical LTV is 60%-70%. Consequently, most recent buyers have been cash-rich and have a lot of 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 will be an important part 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, since the recovery started the supply side of new apartments and houses lagged way behind demand. 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. And that was just by the end of March 2020. Inevitably, that figure will have risen as the pandemic continued.

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 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 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. However, 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 prices 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.

Spanish Fixed Rate Mortgages

I mentioned earlier that, in general, Spanish banks are now keen to lend to foreign buyers. However, it's a fact that the majority of all overseas buyers in Spain since the property crash have been cash buyers. They needed to be; the Spanish mortgage market barely existed for several years. Certainly, the majority of our recent clients haven't needed a loan in order to buy.

In spite of having sufficient funds to buy without a loan, many decided to take a mortgage due to the availability of long-term, fixed-rate Spanish mortgages. This type of loan disappeared completely during the banking crisis but the extended period of negative Euribor means over 40% of Spanish mortgages are now fixed-rate and not variable.

Euribor is the interest rate which fixes most Spanish mortgages and it has been in negative territory since February 2016. After rallying very slightly in 2019, although still negative, we are back to historic lows. Euribor ended 2020 at -0.495%

Buying Right in 2021

My advice to potential buyers in Spain is the same as always. The location must always be key. Shiny new stuff, whether is a house or an apartment, something on the coast or in the country, never trumps location.

The fact is that at the pre-2008 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 were already paying more than that per square metre pre-Covid just to get their hands on a new property. In some cases the new-build premium has been as much as 50% above the equivalent resale price. Now, I've worked in the Spanish property market for many years and been through a few high/low cycles. The fact is that I can't remember such a discrepancy between new and resale prices. As I've already mentioned that I consider new-build prices more vulnerable to downturn because they were already inflated. Perhaps that will shrink the discrepancy between new-build and resale

prices pm2. However, that will be because new-build prices retreat, not because resale prices increase markedly.

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 continue to be an issue. As I've shown in this report most activity by overseas buyers occurs in a handful of locations. 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. In normal times together they account for 65% of the overseas market and 14% of the total Spanish property market.

My advice to buyers in 2021 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.

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 long term. So it's essential to be aware of local planning issues and what might be in the pipeline. Already, in some areas I could 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? One thing is certain; there will always be demand for top quality in prime locations. It always has been, still is and always will be about location and that will be more important than ever after the disruption of 2020.

Without doubt 2021 is going to be an interesting year in Spain'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, under-supply of quality resales may lead to competition between buyers and former 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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