



the**property**finders

Spanish Market Report

2023



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Introduction

When I update our Spanish Property Market reports at the start of a new year there is always the disadvantage of not having full year statistics to hand. For some issues, such as unemployment and tourism, they filter through in the first couple of months of the year but the key numbers for the overseas sector of the property market are a long time coming. In fact, it won't be until late April 2023 that we find out how many overseas buyers there were in total during 2022. When I wrote the report for 2022 I said the way in which overseas purchasers continued buying property in Spain in 2021 allowed for a degree of optimism for 2022, in spite of the disruption due to the pandemic. My optimism was not misplaced. In the event, when the statistics were released for overseas buyer numbers in the 1st half of 2022 they were better than good, they were record-breaking all-time highs.

During the 1st half of 2022 there were 72,987 overseas buyers in Spain. To put that in context, the previous best 1st half was 53,427 in 2018, so the 2022 figure was up on that by 36.6%. I think there are several reasons for the increase. Firstly, there has been a surge of overseas buyers coming through since the removal of pandemic-related travel restrictions. For last year's report I calculated about 30,000 overseas buyers went missing between March 2020 and December 2021. I think 2023 will show us if that surge has now washed through the market and if normal new demand has returned to pre-pandemic levels. But I also think the post-pandemic period has brought changes to how people want to live their lives; working from home and working from abroad are examples. As a consequence, the overseas sector of the Spanish Property Market seems to be benefiting from these changes.

Where The Numbers Come From

The Notaries are my preferred source for a straightforward count of transactions numbers, with breakdowns by nationality, autonomous regions and prices per square metre. These started in 2007 so they give an interesting overview of the Spanish Property Market just before, during and after the 2008 market meltdown. These are published half-yearly. We get the 1st half year results in October of the same year and the 2nd half in April of the following year. That's why we have the wait I referred to in my introduction. So, in October 2022 we saw the figures that confirmed 1st half of the year was record-breaking.

In addition, I analyse Ministry of Development (Ministerio de Fomento) statistics for breakdown by province and municipality. At these levels it is easy to spot market hotspots. Some provinces and municipalities account for a large proportion of transactions in a region with very little happening elsewhere. However, they do not count by nationality, foreign buyers are counted as a block.

In my view, stats from the Property Registries can be 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 contrast, the Notaries' returns count when a transaction actually happens, the date on which a purchase completes.

I update this report regularly throughout the year and I also blog and post on social media with news and views so do make sure to follow us.

To understand where the property market is it helps to know where it's come from so I'll start with a brief resumé.

Where We Were

At the peak of the Spanish Property Market bubble which burst as a result of the 2008 global financial crash the highest market share attributed to overseas buyers was 8.9%. For several years prior to the crash Spain had constructed over 800,000 new units per year, more than the UK, France and Germany combined. The market was fuelled by cheap credit and speculation and the bubble was always going to burst at some stage. The global meltdown just helped it on its way.

Growth in the overseas sector got going again in 2012 and numbers have increased every year since. In contrast, the domestic market continued to shrink until 2014, by which time it was 60% smaller in transaction terms than at the peak.

However, after 8 years of sustained growth by the end of 2019 overseas buyer market share had more than doubled to 19% of the overall market. Indeed, it had been hovering around the 20% level for several years. Furthermore, in terms of overseas buyer numbers this sector of the market was 77% bigger than at the pre-2008 peak. In contrast, the domestic market experienced a much slower recovery over the same period. When Covid-19 arrived Spain's domestic property sector was still 40% smaller than it was a decade before.

The Spanish Property Market Needs Overseas Buyers

So, whether you look at transaction numbers or market share it's clear international buyers are an important part of the overall Spanish Property Market. For the three years prior to the pandemic the number of overseas buyers had topped 100,000. That barrier was broken in 2017 (100,116), the all-time record of 103,677 occurred in 2018 before falling back slightly in 2019 to 102,264. However, the 2nd half of 2019 was the best 2nd half year on

record with 50,534 foreign buyers so the overseas sector was looking good going into 2020. And indeed, Q1 of 2020 was very active. Then the pandemic arrived.

Before starting to dig into the statistics and apply them to the property market and related issues it's perhaps worth taking a look at why Spain is such a draw for so many overseas buyers.

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 are 3rd 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. Spain's beaches, marinas and tourist boats have more Blue Flags than any other country in the world, a total of 729 in 2022, an all-time high. And in fact, Spain has occupied the top spot every year since the scheme began in 1987.

For the cultural tourist Spain has some of the oldest cities in the world and 49 UNESCO World Heritage sites. This puts it in third place globally, behind Italy (58) and China (56). Within Spain, Andalucía is the region with the highest number (8) of recognised sites.

Living well is affordable with food and drink prices below the E.U. average. (Source: Eurostat 2022) Spanish cuisine is world-class. Currently Spain has 2 restaurants listed in the top 10 in the world and 5 in the top 20, more than any other country. 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, appealing to both foreign second home owners and permanent residents from overseas. None of what has persuaded millions of foreign property buyers to choose Spain in the past has changed. The sun is definitely still shining.

The Pandemic's Missing Overseas Buyers

I've already mentioned the missing overseas buyers due to the pandemic. To calculate what that number might be I took a count of overseas buyers in each of the three years before the pandemic arrived and compared it to the 77,496 who bought in 2020. It showed that about 25,000 foreigners who could reasonably have been expected to buy in 2020 didn't. Travel restrictions

continued for the 1st half of 2021 and the statistics from the notaries for that period means we can estimate about 30,000 overseas buyers went missing between March 2020 and December 2021. This covers the period when lockdowns and travel restrictions were at their peak.

When I wrote last year's report at the start of 2022 I predicted a surge of overseas buyers between June and December 2021 as travel restrictions eased. However, because 2nd half stats aren't published by the notaries until April each year it was no more than my best guess. Turns out it wasn't a bad one. In fact, the surge was so strong 2021 was an all-time record year for overseas buyers. The final total was 111,743, up 8% on the previous best in 2018.

However, what that figure did not tell us was how many were some of the 30,000 missing buyers and how many were just normal levels of demand from new buyers entering the market. Without knowing what the split was it was impossible to say whether the very active market conditions were going to calm down once the 'missing' buyers had bought or if it was the new normal.

Missing Buyers? Not Any More

Given the surge that happened once all travel restrictions were removed took the overseas property market to an all-time high in 2021, I thought the numbers for the 1st half of 2022 would be good. However, I certainly wasn't expecting them to be so good and in the event, they exceeded all expectations. When the statistics were released in October 2022, the notaries had counted 72,987 transactions by overseas buyers in the first six months of the year. This is 36.6% more than the previous highest 1st half number in 2018. The overseas sector represented 20.03% market share equalling the previous 1st half high in 2015. And all the Mediterranean mainland coastal regions, plus the Balearic and Canary Islands, recorded the highest transaction numbers ever by foreigners for a 1st half year.

Typically, 2nd half figures are slightly weaker than 1st half. Nevertheless, they averaged over 50,000 foreign buyers in the three best years on record before the pandemic, that is, 2017, 2018 & 2019 so it's clear that something catastrophic will have to happen to prevent 2022 easily beating 2021 and by quite a margin. Problem is we won't know for sure until April 2023. My prediction is that the number of overseas buyers will be lower in the 2nd half of 2022 than in the 1st half. However, that won't necessarily mean demand fell. One effect of the post-pandemic surge is we have a market with a serious lack of supply, above all in the resale sector, and people can't buy what isn't there.

Even before Covid-19 arrived there was a supply side deficit in the quality resale sector in prime locations. If we compare the 18 month period of 2021 and the 1st half of 2022 with the three best years prior to the pandemic we can

count approximately 30,000 additional purchases by overseas buyers. That's a lot of demand entering the market in a short time period and that's bound to create supply shortages. Apart from those playing pandemic 'catch up', in my opinion the market is also showing signs of higher than normal new demand. Some buyers tell us they are bringing forward their plans to buy in Spain. And while some are looking for a second home we are also seeing buyers looking at a Spanish property as a possible 'work from home' base.

I think a key question for 2023 and beyond is whether this post-pandemic surge still has a way to run and just how strong is normal new demand. With such high numbers, surely it can't be long before more sellers are tempted into the market by higher prices, which will go some way to easing the supply-side crisis.

The Nationality League Table

Remembering we only have the 1st half 2022 figures to analyse right now, the British held on to 1st place but only just, with 7,793 purchases. The Germans nearly matched that with 7,457 and I will be surprised if the British hold on to 1st place for the full year, a position they've always held in the nationality league table. If we add the French, who came 3rd, into the mix then just these three nationalities account 30% of the total overseas market.

However, it's not so much that British numbers are declining, rather there are many more German & French buyers. In reality, the British total of 7,793 is the 3rd highest for a 1st half in the 15 years the notaries have been publishing the nationality breakdown. For some perspective on the change, in the 1st half of 2007, just before the market meltdown, there were 10,723 British buyers but only 444 Germans and 860 French. In addition, buyer numbers from the U.S., the Scandinavian countries and most other E.U. countries were up on 2021.

Foreign Spending Power in The Spanish Property Market

And it's not just the numbers that make foreign buyers so important to the Spanish Property market. They spend more too. Typically, foreign buyers pay more per square metre than the average for domestic buyers. For example, the average spend by a foreign buyer in 2021 was €1,939 per m², almost 30% higher than the domestic average of €1,503.

So it's encouraging that these latest statistics show this trend continued in 2022. In terms of overseas buyer spending power the overseas buyer hotspots saw substantial increases in the average amount paid by foreigners per square metre. In the case of Andalucía it was up 9.7% to €2,125 pm², the first time it has broken through the €2,000 barrier. All the other regions enjoyed

double digit increases. The Balearics was up 27.5% to €3,894 pm², Cataluña up 10,4% to €2,249 and the Canaries up 13.1% to €2,195.

By nationality, the biggest spenders were the Danish on an average €2,870 pm², followed closely by buyers from the USA on €2,837. Joint 3rd were Norwegians and Swedes on €2,701. In contrast, the average price per square metre paid by domestic buyers in Spain was approximately €1,500.

The Overseas Buyer Hotspots

I think these statistics clearly demonstrate how much the Spanish Property Market needs a healthy overseas sector. However, they also show that overseas buyers have even more clout in just a few locations.

I've already mentioned that foreign buyers accounted for 20.03% market share in the 1st half of 2022. However, when you look more closely at the statistics for the locations that are right at the top of overseas buyers preferred destinations the national average is well-beaten. For example, in the Balearics foreign buyer share in the 1st half of 2022 was 35%. Meanwhile in Málaga province, the biggest market for overseas buyers in Andalucía, foreigners accounted for 40% of the market in the same period and on the Costa Blanca it was 35%.

The hotspots are so dominant that the 2022 statistics we have so far show that 83% of overseas buyers bought in just six regions; the Balearic and Canary Islands plus the Mediterranean coasts of Cataluña, the Comunidad Valenciana (the Costa Blanca), Murcia and Andalucía on the mainland.

The Regional Hotspots

A good example of this is Andalucía. Not only is it Spain's largest autonomous region it is one of the most varied. It has both Mediterranean and Atlantic coasts, a huge, mountainous interior and 5 of Spain's most historic cities; Cádiz, Málaga, Seville, Granada and Córdoba. In addition, this one region accounts for 20% of all property transactions in Spain. So, in property terms it really has something for everyone but foreign sector activity is far from evenly spread. In reality it is actually concentrated in just a handful of locations.

Andalucía has eight provinces and it turns out that 30% of all transactions in the 2022 1st half occurred in just one province, Málaga, which really means the Costa del Sol. And when you drill down to the municipal level it gets even more unbalanced. Although there are 208 municipalities in Málaga province, just four (Málaga, Marbella, Estepona & Benahavís) account for 45% of all transactions so far in 2022. And of the 23,303 property transactions in the 1st

half of 2022 that occurred in Málaga province, 9,317 were by foreign buyers, that's a 40% market share.

The dominance of just one province is even more extreme in Cataluña with 64.5% of all 2022 1st half purchases in the autonomous region occurring in just one province, Barcelona. And looking at the Comunidad Valenciana, 70% of all foreign buyers in this region bought in just one province: Alicante. (Source: M^o de Fomento)

Tourism and Rental Demand

Pre-Covid, Spain's tourism industry was continuing its seemingly unstoppable upward trajectory. 2019 finished with another all-time record of overseas visitors at 83.7m, 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.

There is a link between visitor numbers and the property market and that's due to rental demand from the approximately 35% of Spain's foreign visitors who do not stay in hotels. And, of course, property buyers in Spain have usually been tourists for years before they decide to purchase. So, it's good to see that there's been something of a rebound in overseas tourism numbers, not quite to pre-Covid levels, but getting there.

The final total for 2022 was 71,6m overseas visitors compared with 83.5m in 2019, the last full year before the pandemic, and about 16% lower than that record-breaking year. However, there were differences between regions. For example, the Balearics recovered almost to pre-pandemic levels, only 3.5% down on 2019 while Cataluña was 23.6% behind its 2019 figure. As ever, the British were by far the most numerous of Spain's tourists in 2022, some 15.1m, about 19% lower than in 2019. However, in terms of tourist market share the British made up 21% of all tourists, the same as in 2019.

As a result of these visitor numbers, rental yields make letting a property in Spain an interesting option. And not just for the buy-to-let investor because although not all foreign owners are part-time landlords many are. They look for rental income to cover essential maintenance and running costs and taxes. Obviously there a lot of variables but the best gross yields can be as high as 10% and sometimes even higher for a large, top quality detached house in a prime location. Apartments and townhouses near the beach can return 6% - 8% gross, assuming a luxury interior. Typically, a quality property 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.

However, there are always exceptions to the rule and growing demand for long-term rentals at the top end of the market can produce a gross yield similar to the short term yield. One of The Property Finders clients is seeing a 2019 purchase generating a gross yield of 8% for a one-year let. Just as the highest activity levels are at the top end of the property market so it is in the rental sector. Properties priced at €10,000 - €20,000 and up per week had no trouble finding takers in 2022 and high season weeks were fully occupied.

Who Is Buying What - New Build v Resale

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, plots and constructed square metres are being squeezed in comparison with resale product.

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. The fact is that I have never seen such a discrepancy between new-build and resales prices as exists in the current market.

In contrast, there is a serious lack of well-priced, top quality resale properties in prime locations. This sector is, of course, still the largest in the Spanish property market, and by quite a margin. The ratio is about 10:1 in favour of resales across the whole market, with some variability between regions. Given rising demand, there is often competition between buyers for a good property in the right location. In addition, whereas in 2019 I would have said buyers were more likely to walk away from a purchase than overpay lack of stock is ramping up the pressure on buyers to compete.

Having said that, I do think some asking prices are excessive and a report from Tecnocasa, one of the big valuing companies in Spain, suggests resale asking prices are, on average, at least 20% above the eventual price achieved. In fact, in 2022, clients of The Property Finders bought a frontline golf course house, detached with five bedroom suites and lots of extras, with a 14% reduction from the original asking price. That had been way too much but an interim reduction brought it into the frame and we still got another 8% off.

Buying Right in 2023

My advice to potential buyers in Spain is the same as ever. The location must always be key. Shiny new stuff, whether is a house or an apartment, something on the coast, the city or in the country, never trumps location. Always get the location right and then do the best with the available budget even if that means adjusting expectations. For example, several recent clients of The Property Finders have chosen a semi-detached property in order to stay in a really prime location. In my view, that is always the best decision. If they had stuck with their preference for detached they needed to accept an inferior location to stay in budget. Never compromise on location.

My advice to buyers in 2023 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. When I am assessing the right price for my clients I prefer to work with prices per square metre and pay less attention to asking prices. It's then much easier to make comparisons between similar properties.

In the case of new properties, in the period before the pandemic the new-build premium per square metre was as much as 50% above the resale price of an equivalent property. And almost certainly, the resale property would have been better located. 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. However, my sense is that this discrepancy is narrowing. For example, I was able to find top quality resale detached villas for clients in 2022 in a range between €4,000 pm² and €5,000 pm². However, in the case of new-build the most expensive properties I shortlisted for clients in 2022 were around €6,500 pm².

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 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? 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 the pandemic.

Conclusions

The notion that the Spanish property market would experience a post-pandemic meltdown, similar to the market crash of 2008, was well and truly put to sleep in 2022. In contrast, it experienced a surge of interest and not just from long-established markets of British, Scandinavian and other European nationalities but from all over the world. In the most prime locations overseas demand is pushing market share way beyond the national average of 20%, to as much as 35% in the Balearics and 40% in Málaga province. The Spanish property market would certainly be in a very different place without overseas buyers.

From our experience during 2022, the property market is most active at the higher price levels and, as I write, does not seem to be unduly affected by global inflation, higher energy prices and interest rates. If anything, I would say there is a sense that Spain is seen as something of a safe haven for property investment at the present time. Interestingly, tourist boards and property developers in southern Spain recently started marketing campaigns focusing on the region as a warm winter location with the potential for lower energy costs.

The domestic and overseas property markets in Spain have always been disconnected. This became even more evident during post-2008 recovery. The overseas sector was already growing again while the domestic sector was still declining. The near-collapse of the Spanish banking system and consequent mortgage drought brought the domestic market to a virtual standstill. In contrast, overseas buyers were cash-rich and no bank was going to lend to them anyway.

I see this disconnect will differentiate between the two sectors in 2023. Spanish buyers are more mortgage dependent and therefore, exposed to higher interest rates. Foreign buyers at the upper levels of the market rarely need a mortgage. It's true that many opted for a fixed-rate, long term loan in recent years but not because they needed it. They were just such good deals and made financial sense. However, for the time being, the higher Euribor interest rate, around 3% at the end of 2022 in contrast to being negative since 2015, make them less attractive. In addition, Spanish banks are currently less keen on lending to borrowers whose earnings are not in Euros.

And as to prices in 2023, I can't remember being as uncertain about their direction. Half the time I can't believe they will go on rising and the other half I

can't see them stopping while demand is so high with the supply side in deficit. According to a report from Spain's Institute of Statistics (INE) in December 2022, prices were within 5% of the highs last seen just prior to the 2008 meltdown. The report was referring to national averages and not the overseas sector. In many of the prime locations where most foreigners buy, prices have long since topped pre-2008 levels, above all in the new build sector.

As I've already mentioned I consider new-build prices more vulnerable to downturn as the supply side has improved. In contrast, lack of prime located quality properties in the resale sector is putting upward pressure on prices and I think that pressure may increase during 2023, at least in the 1st half of the year. My hope is that the higher prices being achieved in the resale market will tempt more sellers into the market in 2023, alleviating the supply-side deficit somewhat.

Nevertheless, if you buy at the right price in a prime location, 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. And there's no doubt in my mind that with the WFH and WFA options becoming a reality for many more people post-Covid, that home will be in Spain.

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