

RESIDENTIAL RESEARCH

SPAIN & PORTUGAL INSIGHT

Knight Frank



Key findings Nov 2012

Prime markets have not escaped the economic turbulence but buyers from new markets, including Latin America, are helping to shore up demand

Prime buyers are lifestyle-driven and focused on long-term investment potential

The first half of 2012 saw enquiries strengthen in line with a weakening euro

Due to currency movements some foreign buyers can benefit from sizeable discounts on top of the price corrections seen since 2008

Spain may follow in the footsteps of Portugal in requesting a bailout from the ECB but this will mean surrendering some control over taxes and spending

Tax update

Spain: September's Budget announced that wealth tax – temporarily re-instated during 2011 and 2012 – will apply for another year into 2013 at rates ranging from 0.2% to 2.5%. Allowances for residents remain unchanged. IVA (VAT) on new homes will rise from 4% to 10% from 1 January 2013.

Portugal: Since 2009 residents can benefit from a new tax regime during the first ten years of their residency. This exempts them from Portuguese tax on income which comes from countries that have a double tax treaty with Portugal. There is currently no wealth tax in Portugal.

"The prime markets of Madrid and Barcelona, which were almost exclusively Spanish-driven prior to the recession, now consider foreign demand as critical to future growth."



Kate Everett-Allen, International Residential Research

The economies of Spain and Portugal face testing times, few of their prime residential markets have escaped the downturn but market confidence is improving and sales activity is strengthening. Kate Everett-Allen assesses what shape Iberia's luxury markets are really in.

Spain and Portugal's economies are under strain but steps are being taken to balance the books. In 2011, Spain and Portugal's government deficits stood at 8.5% and 4.2% of GDP respectively but both governments are committed to ensuring their deficits are in line with the EU's 3% target by 2014.

Spain's banks require €59bn to put them back on a firm footing and Portugal's banks owe a similar amount to the EU as a result of its 2011 bailout.

Spain is expected to follow in the footsteps of Greece, Ireland and Portugal in requesting a bailout from the EU. However, it will mean surrendering some control over tax rises and spending cuts.

Mainstream markets

House prices rose 44% between 2004 and 2008 in Spain. Portugal's boom was not only less-pronounced but more short-lived. The Costas (Spain) and the Algarve (Portugal) saw the strongest price growth driven primarily by speculative investment.

Finance was cheap, foreign demand was on the increase and wages and affordability were improving for domestic buyers too.

Since Q1 2008, mainstream prices in Spain and Portugal are reported to have fallen by 23% and 15% respectively, although most analysts consider these to be highly conservative estimates. An estimated million properties remain unsold in Spain and 90% of these are understood to be priced between €100,000 and €200,000.

Due to currency movements since 2008 some foreign buyers can take advantage of further

sizeable discounts. Based on average price changes the real discount for Swiss buyers for example since 2008, due to the strength of the Swiss franc, is closer to 41% in Spain and 35% in Portugal (figure 2).

Prime markets

Spain and Portugal's prime locations – from Mallorca to the Algarve's Golden Triangle – have proved better insulated than both country's mainstream housing markets. That said, most luxury markets have seen price corrections since 2007.

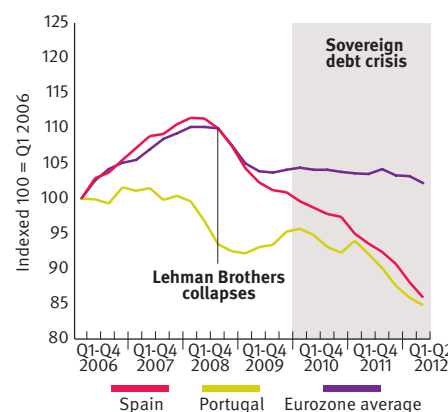
The majority of prime purchases in Spain and Portugal are now lifestyle-driven and focused on long-term investment potential.

Agents in the prime markets of Madrid and Barcelona, which were almost exclusively Spanish-driven prior to the recession, now consider foreign demand as critical to future growth – be it in the form of Latin American buyers looking to invest in Madrid or Swiss and Russian demand in Barcelona.

British and Irish buyers, the mainstay of foreign demand in areas such as the Algarve and Marbella prior to the recession, although still present, are not the force they once were. Scandinavian, German and Benelux nationals – and in some markets Arab and MENA buyers – are now more evident.

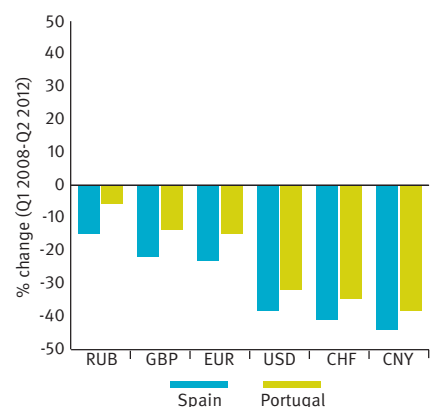
Most prime market agents report a gradual improvement in activity since 2011. The first half of 2012 has seen enquiries strengthen in line with a weakening euro.

Figure 1
Mainstream house price performance
Spain and Portugal versus Eurozone average



Source: Knight Frank Residential Research, INE, Spanish Ministry of Development

Figure 2
Currency impact
Effective change in mainstream Spanish and Portuguese house prices, June 2012 compared to March 2008, due to price and currency movements



Source: Knight Frank Residential Research

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Prime market snapshot

1. Madrid

Madrid's prime market is largely focused on seven areas; Salamanca, Chamberí, El Viso, Jerónimos, Paseo de la Habana, Paseo de la Castellana and Justicia. Prime prices here have fallen by 20% on average since their peak in 2007. The typical prime buyer's requirement is for a 3-bedroom 200 sq m apartment close to the Retiro Park priced around €1.2m.

Around 90% of buyers at the top-end of the market are Spanish; the majority originate from Madrid or the Basque Country. Foreign buyers account for less than 10% of demand but their number is increasing with Russian and Latin Americans the most prominent.

Growing demand from the emerging markets of Latin America is expected to shore up prices in the short to medium-term.

2. Barcelona

Prime prices have fallen by 15-20% since their peak in 2007 but there was a further sudden drop in early 2012 as vendors, mindful of the continuing Eurozone crisis, lowered their asking prices.

Spanish buyers have retreated from Barcelona's prime market but foreign purchasers, in particular Swiss and Russians, have filled the void. For international buyers the areas of Passeig de Gràcia, Túro Park, Pedralbes and Sitges remain the most popular.

The market is now more evenly split between those seeking a second home and those looking to relocate to the city permanently.

3. Balearic Islands

Prices in Mallorca's exclusive enclave of Deià have remained relatively flat in 2012 but sales activity has picked up. In 2009, around 75% of Deià's buyers were British, in 2012 they account for around 55%. Interest is strongest between €700,000 and €2m.

South West Mallorca continues to experience a high level of activity. Andratx, Son Vida and waterfront properties remain the key focus. Prices have slipped by about 10% with buyers from Scandinavia, Germany and the UK taking advantage of the increased opportunities.

Ibiza has bucked the trend since 2008 and prices have proved highly resilient. The south west of the island continues to attract strong demand from wealthy British buyers looking for homes between €800,000 and €3m. Demand from Dutch buyers has increased significantly.



4. Western Algarve

Prime prices in and around Lagos and Praia da Luz have fallen 30% from their peak in 2007. Sales volumes remain weak but there are a few vendors who, tired of waiting for an economic recovery, are being realistic on price and securing sales.

In 2012 the €250,000 to €750,000 market has been the busiest and nearly all properties have been purchased by those in the 60+ age bracket. Young professionals or families, reliant on mortgage finance, are largely absent.

The uncertainty amongst buyers is directly attributable to the Eurozone debt crisis. With steps being taken to address the debt issue, we expect the demand to continue in the sub €1m region from lifestyle-focussed buyers.

5. Central Algarve

Prices in the region's key resorts of Quinta do Lago and Vale do Lobo have softened slightly since the financial crisis hit but have outperformed the rest of the Algarve. Neighbouring areas in the Golden Triangle have also benefitted including Goldra, Santa Bárbara de Nexe and Loulé.

Sales activity is strongest below €750,000 and within the €1.5-€2.5m price bracket. Tax incentives by the Portuguese government are attracting more permanent relocations, not just second home buyers.

In 2012 British buyers account for around 50% of sales, the Irish are absent but Dutch, Belgian, German and Russian buyers are on the increase, along with Brazilians and Angolans.

6. Marbella & Sotogrande

Prime prices in Marbella have fallen by around 30% since the start of the global recession, yet over the past 18 months have shown signs of stability. British, Russian, Benelux and Scandinavian buyers represent the key purchaser nationalities but interest from Arab and MENA countries is growing.

Despite the debt crisis, the scale of infrastructure projects taking place across the region – much of it with foreign backing – including a new airport terminal, marina and university faculty – suggests confidence in Marbella's future development.

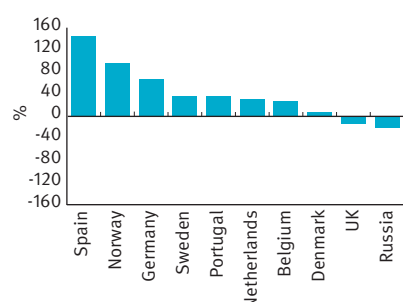
Along the coast at Sotogrande, the Kings & Queens as well as the immediate area surrounding the Almenara Hotel are considered the most desirable. Some buyers are opting for smaller more affordable property (cash purchase) rather than pursuing their original plan of a €2-3m villa (with mortgage finance).



Prime market trends

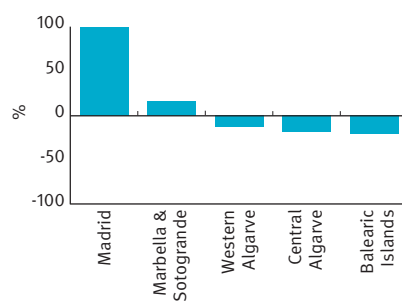
Knight Frank's Global Property Search website (GPS) receives up to 700,000 hits per month making it a unique barometer of the demand for prime international property. The following charts highlight the key trends in the prime Spanish and Portuguese market.

Figure 3
Who is searching for Spanish and Portuguese property?
% change Jan-Sep 2012 versus Jan-Sep 2011



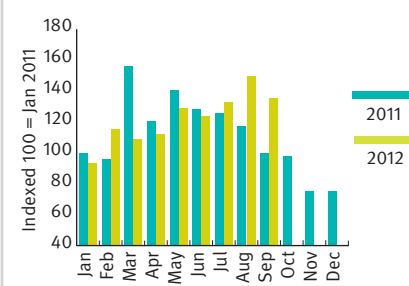
The Spanish were responsible for the largest increase in online searches between January and September 2012 compared to the same period in 2011. Activity amongst northern Europeans also increased strongly. In real terms British and Russian buyers undertake the largest number of online property searches.

Figure 4
Change in search volumes by region
% change Jan-Sep 2012 versus Jan-Sep 2011



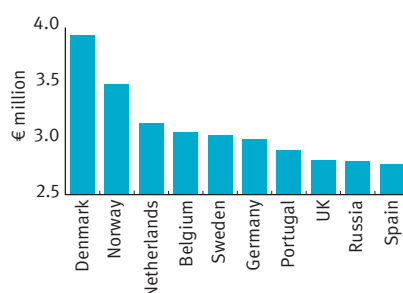
Madrid saw a strong increase in searches in the first nine months of 2012 compared to the same period in 2011. Despite a fall in searches year-on-year the Balearics accounted for 42% of searches between January and September 2012.

Figure 5
Monthly activity
Volume of property searches Jan 2011-Sep 2012



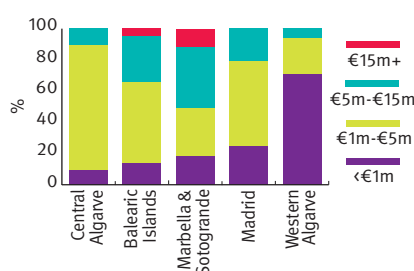
The seasonal trends in online searches for Spanish and Portuguese properties were markedly different in 2012 compared to 2011. In 2011 search volumes peaked in March before declining over the remainder of the year. This compares with 2012 which saw activity improve from June onwards, peaking in August.

Figure 6
Average price searched by key nationalities
Jan to Sep 2012



Scandinavian and Benelux nationals are searching for the most expensive properties in Spain and Portugal. Danish buyers searched, on average, for properties priced around €3.9m, whilst Spanish buyers sought properties closer to €2.8m on average.

Figure 7
Property searches by region and price bracket
Jan to Sep 2012



In the western Algarve 71% of property searched related to properties below €1m, in the central Algarve area the comparable figure was 9.5%. Spain and Portugal's €15m+ market is largely confined to Marbella, Sotogrande and the Balearics.

Table 1
Where are the Spanish and Portuguese looking to buy?
Rank of top prime property search locations for people based in Spain and Portugal, Jan to Sept 2012

Rank	Country	Year-on-year change
1	United Kingdom	16% ▲
2	Spain	100%+ ▲
3	United States	100%+ ▲
4	France	58% ▲
5	Portugal	31% ▲
6	Italy	34% ▲
7	Ireland	96% ▲
8	Switzerland	100%+ ▲
9	Monaco	100%+ ▲
10	Barbados	100%+ ▲

Source: www.knightfrank.com/search

Table 2
Top nationalities buying prime property by city/region

Rank	Madrid	Barcelona	Balearic Islands	Western Algarve	Central Algarve	Marbella & Sotogrande
1	Spain	Spain	UK	UK	UK	UK
2	Colombia	Switzerland	Sweden	Netherlands	Netherlands	Belgium
3	Mexico	Russia	Norway	Belgium	Belgium	Netherlands
4	Venezuela	France	Denmark	Portugal	Germany	Russia
5	Russia	UK	Germany	Scandinavia	Russia	Saudi Arabia

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Instructions

MADRID



Asking price: €1.75m
Location: Salamanca

What's in demand:

Property type: 3-bed apartment near Retiro Park
Price band: €1.5m-€2.5m
Area: Salamanca

Local knowledge:

Up and coming area: Paseo de la Habana
Who buys: Spaniards or Latin Americans wanting a city base
Closest airports: Madrid-Barajas

BARCELONA



Asking price: €250,000-€2.3m
Location: PGA Catalunya Resort, Girona

What's in demand:

Property type: 4-bed apartment with terrace
Price band: €2m-€3m
Area: Pedralbes, Turo Parc, Passeig de Gracia

Local knowledge:

Up and coming area: Costa Maresme
Who buys: Couples seeking a city with a beach culture for weekends and potentially retirement
Closest airports: Barcelona

BALEARIC ISLANDS



Asking price: €3.5m
Location: Sóller

What's in demand:

Property type: Villa close to Deià or Ibiza Town
Price band: €1m-€3m and €6m+
Area: Andratx, Son Vida, Deià, Ibiza Town

Local knowledge:

Up and coming area: Sóller (Mallorca)
Who buys: Musical and artistic enthusiasts as well as families seeking a summer base
Closest airport: Palma de Mallorca, Ibiza

WESTERN ALGARVE



Asking price: €2.5m
Location: Penina

What's in demand:

Property type: 3 or 4-bed villa
Price band: €300,000 - €1.5m
Area: Praia da Luz, Lagos, Penina

Local knowledge:

Up and coming area: Meia Praia, Lagos
Who buys: Sixty-somethings seeking a base for semi-retirement and to enjoy with family
Closest airports: Faro

CENTRAL ALGARVE



Asking price: €2.69m-€3.76m
Location: Quinta do Lago

What's in demand:

Property type: Golf resort or frontline beach villa
Price band: €2m-3m
Area: Quinta do Lago, Vale do Lobo, Vilamoura

Local knowledge:

Up and coming area: Goldra
Who buys: Mostly northern European families seeking privacy and quality golf resorts
Closest airports: Faro

MARBELLA & SOTOGRANDE



Asking price: €5.95m
Location: La Zagaleta

What's in demand:

Property type: Beachfront or mountain villa
Price band: €3-€5m
Area: Puerto Banus, Sotogrande (Alto & Costa)

Local knowledge:

Up and coming area: Marbella East
Who buys: Families seeking an accessible resort with good sport and leisure facilities
Closest airport: Malaga or Gibraltar

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