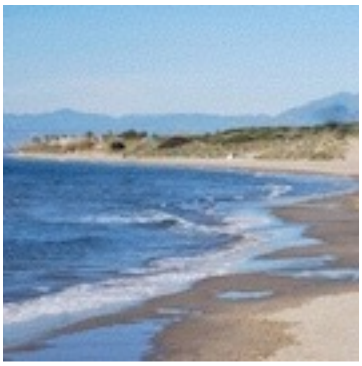
  

Spanish Market Report

2016

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For many Spain watchers 2015 will probably be remembered as the year when most things started to look as though they were getting better, or at least not getting any worse. Some economic data was very positive, with exports rising month on month and tourism breaking records, and the IMF raised its 2015 growth forecast twice in three months to 3.1%, putting Spain well ahead of the E.U. average of 1.5%. However, in the same report the IMF highlighted what it called 'deep structural problems' in the Spanish economy and in spite of the creation of more than one million jobs in the last two years unemployment is still a huge problem; remember than two million jobs were lost in the construction sector alone as the recession took hold. Although it is edging downwards at last it is moving at a glacial pace and it's not surprising that figures from Spain's National Statistics Institute (INE) showed that in the first half of 2015 there were still more Spaniards emigrating to find work, 50,844, than were returning, 23,078. If that first half year emigration number is duplicated in the second half more Spaniards will have left the country in 2015 than in 2014, not a good trend.

In the property sector it was no different; upbeat statistics about sales, mortgage approvals, construction starts and future projects in some areas were contradicted by flatlining or negative ones in others. So, in the end, 2015 was really no different from previous years during the recession; how you view what's happening in the Spanish economy in general and the Spanish property market in particular depends on what issues you look at and, perhaps even more importantly, where you look. And though the forecast for 2016 is better it's important to take into account the severity of Spain's economic downturn; in 2007 it was the fastest growing economy in the Eurozone at 3.5% with a budget surplus. Five years later it had the highest unemployment rate in the developed world and a banking sector, rated as solid by the OECD in 2010, close to meltdown. In the property sector, although 2015 Q3 transactions numbers look much healthier, up 16.3% at 93,743 sales, when compared with the same quarter in 2006 when 251,600 transactions were recorded the true scale of the catastrophe that hit Spain's property market can be seen. Even though it is improving, the property market at the end of 2015 was 63% smaller than at the peak. I'm not for one moment suggesting a return to the frenzy of the pre-crash years would be a good thing but there's still a long way to go even to get back to some sort of equilibrium.

What I aim to do in this report is bring together the many statistics and opinions from various sources published throughout the year and try to give a coherent overview of what happened in 2015 and a look ahead to 2016. I'll look at how Spain's property market is fragmented into domestic and international sectors, highlight who is buying, what they are going for and where, and take a look at what the banks are doing, particularly Spain's bad bank and I'll cover the ramifications of the annulment of Marbella's planning regulations. Most of the data is general to Spain but I also deal with figures specific to my particular area of interest, Andalucía.

When I wrote this at the end of 2015 the most recent statistics available were for Q3 2015 and full year statistics won't start trickling through until Q1 and Q2 of 2016. Whenever possible I cite statistics issued by the INE as they are the most accurate but even it sometimes come up with contradictory numbers, explained by the fact that it uses returns from both the Notaries and the Property Registry and they can differ due to time delays in a purchase completion in the notary being registered.

I update the report as new data becomes available so do check back for up-to-date information and follow me on Twitter for daily news about the market as it is announced.

Economic Bright Spots
In the first three quarters of 2015 exports were up 4.4%, to an all-time record high for the period of €186.26 million. And tourism from overseas, so important to the Spanish economy, had recovered all the losses incurred during the downturn and forged ahead to new record levels. The pre-crash high of 59 million tourists fell back to 55 million in the worst of the slump but had recovered to 65 million at the end of 2014. By the end of November 2015 64.6m had already been recorded so the full year expectation is that

2015 will turn out to have been another record-breaking year and the Ministry of Tourism predicts the final total will be in the region of 68 million, ranking Spain the third most visited country in the world for the third consecutive year. These figures are important for the property market because international buyers start out as tourists. The tourism sector accounted for 15.3% of employment and 15.2% of GDP and both these percentages are higher than the peak year of 2007, underlining just how important tourism is for the Spanish economy.

Increased demand for office space, shops and commercial units is a good indicator of growing economic confidence and in Madrid and other city centres demand in prime locations is matching the pre-crash peak in 2008 although some of the demand may be coming from a rather unexpected source. Using Mercantile Registry data an estimated 3,000 business have left Cataluña since 2012, perhaps rattled by the uncertainty about the region breaking away from Spain and becoming independent. Madrid has attracted 1,500 of those relocations, with Valencia and Andalucía the next two most popular destinations, accounting for another 750. However unlikely secession seems, if there's one thing business doesn't like it's uncertainty.

Through 2015 business start-ups were running slightly ahead of the 2014 total of 120,000, a six year high; by region the highest numbers were in Madrid, Cataluña and Andalucía. At the end of Q2 2015, The European Job Index put Spain ahead of all other E.U. countries in terms of job offers, up 21% over the year. In the real estate sector the increase was a mind-boggling 340%, reflecting the surge in new estate agents opening.

With so many tourism-related jobs the end of summer is not the most obvious time for a big drop in jobless figures but after a bit of a wobble in October the fall of 27,071 in November made it the largest November drop on record. The biggest reduction, 17,900, was in Andalucía, followed by Valencia, 9,807 and Madrid, 4,678, with new jobs in construction, agriculture and fishing, industry and services but the picture remains patchy with some regions seeing rises. In number terms, 2015 saw unemployment fall to below 5 million people nationally, as a percentage it fell below 25% overall and was just below 50% in the case of the under 25s.

The Not So Bright Spots

While the IMF was raising its growth forecast for Spain the Organisation for Economic Cooperation and Development (OECD) issued a report about employment issues which highlighted some of the 'deep structural problems' referred to by the IMF, particularly as they affect the young. According to this report about 33% of young Spaniards are not in education, training or employment and it takes an average of six years to find the first job, compared with two years in Denmark. Spain also has the highest proportion of under 25s who are on temporary contracts, 71%, and young people make up 22% of all part-time workers in Spain, which is more than double the E.U. average of 9.9% and more than quadruple the OECD average of 5.8%. Against a developed world average of 13%, 23% of Spanish graduates are jobless. Even as more Spaniards are finding work the trend towards temporary and part-time jobs continues; of the nearly 4 million registered labour contracts in Andalucía at the end of 2015 only 4% were long-term indefinite contracts. And in some regions unemployment rates are still much higher than the national average; in Málaga it's 28% and in Cádiz it's even worse, around 40% with youth unemployment running at about 60%.

Such poor job prospects inevitably led to an exodus of Spaniards in search of work overseas, to such an extent that it's been called a national crisis. Of course, Spain has seen large-scale emigration before, most notably in the 1960s & 70s, but back then it was the least educated, low-skilled and blue collar workers who left to work in factories, hotels and catering in northern Europe. The difference this time is that it's mainly young, educated and well-qualified people leaving, not just for other E.U. countries but also further afield to China, Brazil, the U.S., & South America. Spain has lost medical professionals, lawyers, architects, IT professionals, engineers, entrepreneurs etc., in the tens of thousands and the prediction from the INE is that the population will shrink further, by as much as 5% in the next decade and a further 5% by 2050, reducing the population to 40m.

So it's against a background of continued job insecurity, high unemployment, emigration and long-term population decline that the Spanish property market has to be viewed and in 2015 it was still the case that there were two strands to the market, unconnected and independent of each other; a domestic market inextricably linked to internal economic circumstances and an international sector that seemed to be operating in a parallel world. In my view, it will be the same in 2016.

Spain's Several Property Markets
Q: What would the property market in Spain look like without international buyers?
A: Smaller
Q3 2015 statistics from Spain's Property Registry confirmed that 62% of all property transactions took place in mainland Mediterranean coastal regions and the Islands, precisely the locations overseas buyers head for. Looking only at the Spanish mainland the three regions with the highest transaction numbers were Andalucía, Valencia & Cataluña, in that order and with Andalucía in first place every month. Within the various regions the data further underlined the major role overseas buyers are playing in Spain's property market. For example, foreign buyers made up 33% of purchasers in the Balearics and it was similar in the Canaries. On the mainland, Alicante had the highest proportion of all regions at 50%, in Málaga province it was 40% and in Marbella, one of the most active prime locations in Spain, 60% of buyers were from outside Spain. Taking resident and non-resident foreigners together as one group, overseas market share was 17% of the total market.

The majority of overseas buyers have cash so the international sector has not been affected by the six year mortgage drought which paralysed the domestic market. At the start of 2015 statistics from the notaries showed 80% of foreign buyers did so without a mortgage and I expect year-end figures to be similar; in Marbella Q3 2015 statistics indicated 70% of purchases were cash. If the final 2015 figure does show more mortgages being taken by foreigners I believe this will be more to do with interest rates falling throughout the year and, in the case of the British and buyers with US$, much improved exchange rates against the Euro, and many will view a loan as a financial choice rather than a financial necessity. And even in those cases where an overseas buyer does need a mortgage to be able to purchase they will still have to find a substantial deposit of 40% or 50%. Although the banks are once again very keen to lend to international purchasers my advice is to budget for 60% LTV at best and expect a conservative valuation and detailed scrutiny of status. It's true that some banks may offer you 70% LTV but then come in with such a low valuation that the loan offer is, in reality, no more than 50% or 60% of the price paid. I came across several instances during 2015 in which properties I thought were off the market suddenly became available again and in each cases it was due to the foreign purchaser failing to get their mortgage. In one case, clients of mine were able to step in and secured the property 20% below the previous agreed price.

Property prices in the principle overseas destinations have been off the floor since Q1 2014 and continued rising throughout 2015, with end of year estimates suggesting the market was up around 4% on the Mediterranean coasts and 7% in Mallorca, although I expect full year confirmed figures will be even better in the very best locations. I also expect upward pressure on prices to continue in 2016 as increased demand from international buyers comes up against lack of good quality inventory in prime areas.

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However, in my view there is a portion of the overseas market that is in the same poor shape as the domestic one. I'm referring to the mortgage-dependent strand of the international market, the buyers looking for 80% -100% loans for the typical 2 bedroom

2 bathroom holiday apartment, easy to achieve in the boom but impossible now. This type of product made up the majority of bank repossessions on the Mediterranean coasts and the best that can be said about it is that most of it isn't very pleasant. The fact is that the overwhelming majority of 2015 transactions by overseas buyers happened in a handful of prime places and they gave a wide berth to secondary locations and poor quality properties. Away from the prime locations over-supply is still a big issue so there is no upward pressure on prices.

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Turning to the domestic market, buyers are more likely to be mortgage dependent and the inability of banks to lend, drowning as they were in toxic loans, effectively paralysed the Spanish property market post-2008. Mortgage approvals fell for 57 consecutive months until mid-2014 but since then there have been 17 straight months of improved lending figures. Euribor, the interest rate used to calculate repayments for the majority of Spanish mortgages, fell throughout 2015 from one historic low to another, ending the year on 0.059%, down 80% over the year, and this should have been a real boost for the domestic market. But, as already mentioned, Spain is still dealing with big-scale unemployment and the predominance of temporary work contracts leaves many of those in work without long-term job security and people without jobs and those fearing unemployment don't buy property. So while the banks are lending again, prices are as much as 60% lower and interest rates are historically low, few Spaniards have been able to benefit from these more favourable conditions and even those who can face much more scrutiny by the lender and have to find a big deposit; end of Q3 2015 data from the notaries showed the average loan at 77% of the valuation. But the signs are that mortgaged purchases are increasing as a share of the overall market. In 2014 about 70% of all transactions were cash and this had fallen to 57% at the end of 2015.

As with the secondary overseas sector there is still too much supply in the pipeline for there to be an upturn in prices in the foreseeable future in the internal market. Opinion is divided as to exactly how much unsold stock still exists but a fundamental problem seems to be that so much of it is either not what people want or where they want it and often both. The most pessimistic opinion came from analysts Acuña Associates who, in September 2015, suggested 1.6 million unsold units of which about 40% are so badly located they are effectively unsaleable. Of stock completed since the bubble burst in 2008, 25% remains empty, about 390,000 units. A more optimistic view from the government is that about 535,000 new homes remain unsold and the number will fall about 25% during 2016. The ratings agency Fitch reckons the new build unsold number to be 600,000, of which 25% is as good as unsaleable. Frankly, I don't think anyone really knows the true figure and I doubt they are taking into account the unsold stock held by SAREB, the bad bank, more of which later in this report.

Nevertheless, three indicators of improvement in the property market - transaction numbers, mortgage approvals and prices - all moved in the right direction during 2015 for the first time since the bubble burst although not always in a upwards straight line, more a wavy one with monthly ups and downs. In respect of prices, 2015 started with continuing falls in some regions, keeping the national average in negative territory even as many Mediterranean regions moved into positive figures. But finally, Q3 2015 INE statistics registered price rises in all regions, ranging from an almost imperceptible 0.8% annual rise in La Rioja to 8.4% in the Balearics, although several regions, including the Canaries and Valencia, saw growth slowing in comparison with Q2. As might be expected with bank lending restrictions easing, more mortgage approvals has led to a rise in transaction numbers for 14 consecutive months and I expect the total will be not far short of 400,000 units at year-end, up 26% on the year. However, mortgage approvals and transaction totals also both registered a slowdown in October but without access to full-year data it's impossible to say if this was just a blip or a sign that the recovery was running out of steam. For example, transaction numbers rose only 2.7% in October against 13.8% in September. Certainly, the ratings agency Fitch, while claiming that the market has now bottomed out, also said that the recovery would be slow and uneven while financial analysts KMPG were very cautious about referring to market recovery, bearing in mind the shrinking population and several more years of high levels of unemployment.

So, as far as the lower end of the international market and the domestic sector are concerned, it seems reasonable to say that the statistics indicate the property market did touch bottom in 2015 and although it remains fragile it's possible to be optimistic that it is unlikely to get worse in 2016 although it may not get much better. In the case of the affluent and cash-rich international strand of the market demand will continue to rise and the only blot on the horizon that may slow things down is the lack of quality stock in the right places.

The Who, What, Where and Why of the Overseas Market

The Who

According to the world's leading commercial property and real estate services adviser, CBRE, Spain has re-entered the top 10 countries in terms of real estate investment, 6th at the end of 2015, up from 16th in 2013 and 11th in 2014, with 31% coming from overseas. At the corporate level a feature of recent years was inward investment from institutional investors and private equity funds focusing on the purchase of blocks of finished apartments from local authorities and the banks but by the end of 2014 there were comments about the lack of finished quality product in good locations at the right price. So it's no surprise that 2015 saw fewer headline deals of this type and as 2015 progressed there were signs that institutional investors, among them Rialto, Harver, Kennedy Wilson, were moving into joint venture partnerships in development and construction rather than finished product. In December 2015 Hong Kong based Platinum Estates completed the purchase of beachfront land on the best beach in Marbella on which to develop a 5* hotel and villa resort, an investment totalling €200 million.

In the case of private individuals 2015 was more or less a rerun of 2014. Buyers from the E.U. made up more than 60% of all purchases by buyers from outside Spain and once again the British were the largest single group, edging towards 25% market share by year-end. That's more than double second place France and the trend looks likely to continue as analysis of Property Registry data over Q1- Q3 2015 showed the British input growing at more than twice the rate of other nationalities as the year progressed. In contrast, the Russian market, edging towards 10% market share and second place as recently as 2013, continued its decline in each quarter in 2015 and now represents no more than 3% of overseas market share. In both these examples currency exchange rates is likely to have played a big part; on the one hand GBP£ had a good year, ending 2015 just about where it started, at £1/€1.35, while the Russian rouble didn't. As well as a declining share in the property market tourism from Russia more than halved in 2015. As I said earlier, overseas property buyers generally start out as tourists and there were very big increases in the tourist numbers from certain countries; in July tourism from the U.S. was up 40.5%, an increase no doubt linked to the strength of the US$, Asian markets, most notably from Japan and China were up 30%+, lured in particular by golf tourism, and other European countries, e.g., Austria, Poland, Hungary registered double digit growth, indicating that the pool of nationalities buying property in Spain will widen further in the future.

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The What

The overwhelming majority of properties sold in 2015 were secondhand resales although when I say secondhand this does include new properties taken from developers and now being sold by a bank because the repossession is registered as the first sale. The ratio of resales against new properties being sold for the first time was running about 4:1 in favour of resales at the end of 2015. However, as already mentioned, the typical overseas buyer active in the market now is a cash-rich investor looking for quality product in prime locations and not the least interested in the majority of the unsold new stock, whether it's secondhand from a bank or direct from the original developer. This is essentially the problem leftover from the Spanish property bubble because the fact is that the decade-long building frenzy which collapsed in 2008 was never about top quality in the most desirable locations but predominately about high density projects in secondary coastal locations or satellite suburbs of the cities. As already reported, some analysts believe a significant proportion of unsold new housing stock will never find a buyer and when you see that much of it is no more than concrete slabs with windows, in locations that lack basic infrastructure such as transport links, shops and schools, it is irrelevant that prices might be €50,000 or less.

The other factor that makes the current market so weighted towards resales is that in the prime areas of overseas activity that's really all there is; any half-way decent new product sold years ago and since then new stock coming though has been more or less at zero. The highest number of building licences approved was for 865,561 units in 2006 the lowest, in 2013, was 34,873, representing a fall of 96%. By the end of October 2015 approvals had recovered to 39,871 nationally, split roughly 3:1 in favour of apartments in blocks against individual houses. The key point to take from these figures is that licences granted in 2015, particularly in the case of apartment projects, are unlikely to be at sales-office stage until late 2016 or even 2017 so nothing will change in the immediate short term, new builds will remain limited. Consider the situation in Málaga province, one of Spain's most active locations for overseas property purchase. At the peak of the market licences were approved for about 20,000 units annually over several years. In Q1 - Q3 2015 a total of 1,797 units were approved, 70% for apartments and 30% for new build houses. Even so, that's quite an improvement on 2014 when in the same period the figure was just 584, and this lack of new stock coming through over a period of several years helps explain why the ratio of resales to new builds in 2015 sales was way above the national average, 90% of all purchases in Málaga province being resales.

So, the market in 2015 was all about resales and that will still be the case in 2016 and, in my opinion, that's the way it should be. The fact is that the best positions in prime locations have had property on them for years and my advice to my clients is that it makes better financial sense to go for a resale and not be deterred if it needs some updating or even, in the case of a detached house, tearing down, as building costs are still very competitive. You almost certainly will have a finished product at a better price per square metre than new build and in the case of apartments and townhouses they will be more spacious and better located than new or recent builds.

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The Where

I've already described how the majority of property transactions in Spain in 2015 occurred in Mediterranean coastal regions, the Balearics and the Canaries and within those regions overseas buyers made up anything between 30% and 60% of all purchasers. However, not everywhere is moving at the same pace within those regions, while some are very buoyant and growth is strong, others are flat and even still falling so it's important that buyers entering the property market in Spain in 2016 really understand where's prime and where is not. It will make a huge difference to the price paid, potential for rental income and future capital growth.

This unevenness of activity becomes clear when you look more closely at statistics within a particular location. Based on notary figures, which I always rate as the most accurate reflection of what is happening, in the year to September 2015 36% of all sales in Málaga province occurred in just two municipalities, Málaga city itself and Marbella, split roughly 50/50 between the two town halls so that means nearly 1 in 5 of all sales in the province took place in just one town, Marbella. This represents an annual 18.6% increase but interestingly, the rise in Málaga city was even more pronounced, up 28% on the year and as it's safe to assume that most of the city activity involved domestic buyers I take this as evidence that this sector of the market is improving. However, figures for some municipalities in the province were either very flat, e.g., Benalmádena up 0.3%, or even down as in Torremolinos, -10.5% so even within an area that attracts oversea purchasers activity levels in the property market are not the same everywhere.

As regards my particular area of interest, where's prime in Andalucía, the top region in Spain for transactions numbers throughout 2015? The answer is that nothing has changed since last year and it will be the same in 2016. I think most people are familiar with the term The Golden Mile in respect of the coastal strip between Marbella and Puerto Banús but perhaps The Golden Triangle more accurately describes the 5* area of the municipality; the stretch on the coast between Los Monteros and Guadalmina and inland to Benahavis. Join the dots and you have a triangular area which incorporates Marbella and San Pedro de Alcántara, Nueva Andalucía and Puerto Banús, all the best golf courses and the prime beachside locations, as well as the most luxurious developments in the hills behind the coast. Outside the triangle the only other development on the Costa del Sol of similar prestige is Sotogrande, about 40 kms to the west, but it is some distance away from the micro-climate that The Golden Triangle enjoys and is noticeably cooler and quieter in winter. And for those whose budgets don't stretch to the Golden Triangle, Estepona is a good alternative but the price must reflect the fact that it is outside the Marbella municipality.

If I'm advising clients looking for spectacular sea views and an authentic Spanish environment I always recommend heading to the east of Málaga city, to a small stretch of the Costa Tropical between La Herradura and Salobreña. While it's true that there are great sea-views to be had in the Marbella area, if you are not in a super-expensive front line position then the best views of the Mediterranean are from the hills several kilometres inland. But, with the mountains coming right down to the coast between La Herradura and Salobreña, panoramic sea views can be had while being just metres from the coast. This area enjoys exactly the same micro-climate as Marbella, on south facing bays and with the mountains behind giving protection from winter winds. There's only a couple of golf courses so it's not really an option for the manic golfer but there is year-round scuba diving at Marina del Este and great access to the ski resort at Granada, plus excellent hiking, rock-climbing and mountain biking, and good horse riding in the Sierra. And the sea views are as good as you can find anywhere in the Mediterranean.

The only other prime coastal areas are on the Atlantic Costa de la Luz; Tarifa is rated of the world's top ten wind and kite surfing destinations and the Atlantic beaches are superb. However, legal properties are at a premium on this coast and buyers need to proceed with care. Obviously, as the climate is influenced by the Atlantic it is not the ideal choice if you are looking for a warm winter location and most resorts are all but abandoned out of the main summer months.

There area prime locations inland too; places such as Ronda and Gaucín, Antequera and Iznájar, and the Ojén, Coín and Alhaurín area but the rural market is not what it used to be and in my view, shows no signs of returning to anything other than a niche market. That's what it was before the boom years, a tiny part of the market for a certain type of buyer who wanted nothing to do with the coast. Then it became mainstream, as those priced out of markets on the coast took the only other option – head inland, not by choice but out of necessity. In addition, as planning regulations are now very strictly enforced in rural areas the 'buy a ruin' option is no longer in demand and those who are actually seeking a lifestyle purchase inland represent a very small segment, perhaps 2% – 3%, of the total overseas market. And in the best places it was never a cheap option; a good country property in the locations mentioned will be a similar price to an equivalent one on the coast.

For those with smaller budgets and not committed to Andalucía, the area to the north and south of Valencia is a possible option and in November 2015 my colleague there found clients a property 100m from Denia beach under €200,000. There's a golden triangle on that coast as well, taking in Javea, Denia and Moraira and the recent opening of Castellón airport, to which flights from London Stansted and Bristol are already operational, makes the coast north of Valencia and pretty town such as Peñíscola, Alcossebre and Orpresa easy to get to. If more airlines start operating into Castellón this could be a very good time to take a look at this area as better access normally makes prices rise.

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The Why
For lifestyle Spain is hard to beat, relaxed and easy-going, safe and child-friendly. The climate suits all tastes, ranging from one of four seasons with a proper winter and lots of snow in the north to the sub-tropical south where the micro-climate zones on the Mediterranean coast of Andalucía have the best winter temperatures on the European mainland. Spain's beaches and marinas have more Blue Flags than any other northern hemisphere country with a total of 681 of which 98 are in Andalucía. For the cultural tourist Spain has 44 UNESCO World Heritage sites, with a 45th, the megalithic burial mounds at Antequera, pending approval, putting it in third place globally, behind only Italy (51) and China (47). By region, Andalucía has the highest number with 6, hopefully rising to 7 soon.

Living well is affordable with food and drink prices below the E.U. average according to Eurostat and the cuisine is world-class. In the last 10 years a Spanish restaurant has been placed first in the list of the world's top 50 restaurants 6 times, in 2015 the top spot went to El Celler de Can Roca in Girona and with a total of 7 in the top 50 in 2015, Spain had 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; the climate, the good food and outdoor lifestyle mean Spaniards have the longest life expectancy in Europe and are second worldwide, just behind the Japanese.

From an investment point of view, the fact that prices are off the floor in the prime locations has to be set against price falls from peak to trough of around 40%, even in the best places, so, in my view, there is still potential for capital growth of up to 30% in the relative short term before prices are back to where they were, from which point, no doubt, they will move on upwards. Rental yields had another strong year in 2015. Across the board, owners of top-quality, luxuriously furnished properties in prime costal locations enjoyed 100% high season occupancy which is easy to understand when you look at a breakdown of the booming tourism figures showing where all these millions stay. According to the Tourism Ministry, 63.5% stay in hotels, 36.5% don't. Obviously, some of these will stay with family and friends and some will own their own property but that still leaves a very big number interested in renting privately. As a rough guide a ±4% gross yield is achievable if all high season weeks are occupied by short term holiday lets and it will be similar in the case of a year-round long term rental.

The key to achieving an even higher yield is to focus on a mix of short term holiday lets and some longer lets at other times of the year in the few areas with a genuine 12-month season, and in the case of Spain that means heading for the mildest climate and golf. And I don't mean areas with one or two golf courses within 30 minutes, I mean the area that attracts the serious golfer between October and June, that is the Costa del Sol, which also markets itself as the Costa del Golf, and specifically, the prime stretch between Marbella and San Pedro. A gross yield of 8%+ is achievable in this area, with about 4% coming in the high season weeks and the other 4% spread through the mid and low season weeks, mostly short term but there's also demand for winter lets of up to three months. With demand outstripping the supply of quality rental properties in prime locations yields should hold up even though property prices are rising as rental prices are also on the increase and it goes without saying that free wifi, flat screen t.v. & satellite, high quality interiors and equipment are considered standard requirements by tenants.

When I am working for a client whose brief requires reliable rental income I target certain areas and ignore others, I look for a type of property and reject others. Get the location wrong, even by just a few kilometres and income may be halved. As well as 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 Barcelona where some localities are overrun with holiday lettings. In Andalucía, which is where some of the highest yields can be achieved, legislation is pending but it looks likely to introduce a licensing system before summer 2016. But if rental income is a requirement of your buying plan then check the legislation in that autonomous region because there are differences.

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Other News
The Golden Visa
Starting at the end of 2013, somewhat behind most other countries with similar schemes, Spain began offering residency visas to non E.U. nationals to encourage investment in Spain. There were several routes an investor could take but the least expensive one was to buy property with a minimum value of €500,000 and I think it was assumed there would be major interest from Russians and Chinese as that had been the experience of other Mediterranean countries whose schemes were already up and running, such as Cyprus, Malta and Portugal. However, no sooner had the Spanish scheme started the Russian market went over the cliff and there was little sign of the Chinese, at least not in the numbers expected.

In reality, the initial take-up was dismal from all nationalities, particularly in comparison to the Portuguese scheme which was posting much better results even though the minimum entry level was the same. So in summer 2015 the Spanish government announced that the visa would now additionally cover common law partners, adult children over 18 and parents of the visa holder, together with the right to seek employment, giving access to the health and education system. Unlike some countries' schemes, there is no requirement to spend a minimum number of days in Spain each year and renewals can be done from outside Spain, suiting those not intending to take up permanent residency in the short term but are buying a rental investment or a safe haven if needed.

Government statistics show €2,173m had been injected into the Spanish economy by August 2015, with 34% of that figure coming from property purchase. Time will tell if the changes made to the scheme will attract more interest but until there is a relaxation of currency export regulations in China I doubt there will be a surge of Chinese buyers in the near future. Under current export rules, much more strictly enforced than before as part of Chinese President Xi Jinping's crackdown on corruption and money laundering, the Chinese are limited to purchasing US$50,000 per year although once they have their RMB in US$ they can export up to $50,000 per day. Clearly, either Chinese buyers already need to have foreign currency outside China or they have to find a way around the system. President Xi did indicate recently that currency export limits may be relaxed from 2017 and 2015 Q3 figures for overseas purchasers by nationality did show a 26% increase in Chinese buyers on Q2. In the meantime, my colleague for the Asian markets, Pei Ching Eh, spoke with the Bank of China in Beijing and Shanghai and the official line is still negative about currency export for property purchase outside China.

Anecdotally, it was said that the Bank of Spain was keeping a very close eye on where funds were coming from so Spain was seen by Chinese buyers as 'unfriendly'. Maybe the Bank of Portugal was being more relaxed which could explain why a country with a tiny property market compared with Spain seemed to be doing so much better. It could also help explain why, in July 2015, the Portuguese visa scheme was suddenly suspended pending further legislation and prosecutors announced they planned to charge both the former interior minister and the former head of border police with money-laundering relating to visas. Of the 2,420 visas issued prior to suspension of the scheme the Chinese, Brazilians and Russians were top of the list of recipients. Perhaps Spain wasn't doing so badly after all.

SAREB the multi tasking Bad Bank
Spain's bad bank, SAREB, set up in December 2012 with a mandate to operate for 15 years, has approximately €65billion of property assets to dispose of, ranging from big villas to plots of land, from unfinished developments to single garage units. It stated at the outset that the intention was to sell the best first, to get the cash flowing, and in 2014 it exceeded its sales target of 11,000 units. However, things didn't go so well in 2015 and based on first half results of 5,400 sales, it failed by some distance to meet the year-end target of 15,000 and at the start of 2016 it was still holding some 85% of the inventory at start-up. It seems that, having sold the best first, the rest will be something of a struggle and as already mentioned several analysts believe that hundreds of thousands of empty properties are unsaleable and without doubt, many of these are in the SAREB portfolio. SAREB admitted as much when they stated in 2013 that there would be demolitions but not before 2016 and they've allocated €100m for the purpose. So, as we've arrived at 2016 maybe this is the year they start to knock down some of the problem properties.

However, in 2014 the bank allocated another €100m to complete and bring to the market 3,000 properties in 130 unfinished developments, leaving another 520 unfinished projects to be dealt with in 2015 and beyond. Inevitably, the vast majority of these properties are in precisely the locations where there is no clear sign of market recovery, i.e., the secondary Mediterranean coastal regions and city suburbs. So, while there might be a reduction in stock as sales increase at one end of the conveyor belt inventory is increasing at the other end and some of this stock won't be of the best quality or in the right place, that's why it got into difficulties in the first place. If it didn't find a buyer in market conditions where almost anything, anywhere, was flying off the shelves I fail to see how it will do so in the current situation.

Then in November 2015 SAREB announced it was becoming a developer, with plans to build on 13 sites in its portfolio, in Madrid, Barcelona, Málaga, Pontevedra, Seville and Valencia, amounting to an investment of €110m for 783 apartments and 1,200 garages. So, 2016 may turn out to be a year in which SAREB is selling finished properties, completing unfinished developments and starting new ones while at the same time demolishing others.

The Marbella U-turn
Certainly, I never imagined I would need to write about this topic again and for readers who don't know the background it goes like this.

In 1991 the voters in Marbella elected Jesús Gil y Gil as Mayor. He had an interesting background as a property developer which included being sentenced to 5 years in prison in 1969 after a building he had built in Segovia collapsed, killing 58 people and injuring many more. The subsequent investigation found that the project had been built without the assistance of plans, surveyors and architects and the cement was dodgy. The fact that he was pardoned after only 18 months by General Franco is an indication of the type of company he kept. He became President of Atlético Madrid football club in 1987 so was already a high-profile individual when he became Marbella's mayor. At that time Marbella was just another Mediterranean resort, busy in summer, very quiet in winter, with the beginnings of an overseas property market for a small number of mainly British buyers. He set out to put it on the international map as a destination of choice for the international jet-set and clean up corruption.

That didn't turn out well, something akin to opening the door to the chicken coop and inviting the fox to help himself. Gil took municipal corruption to a new level and on an industrial scale. Over the next 15 years building licences flew out of the town hall like confetti at a wedding and the fact that many of these licences did not conform to the planning regulations valid at the time was ignored by architects, lawyers, planners and agents. The problem as Gil saw it was that conforming to the existing 1986 planning regulations would restrict his money printing machine so his town hall ignored it and granted licences for projects on land that was scheduled to be urbanised at some future date, but without agreement as to what would be built. In a few cases, there were even licences granted for projects on green zone land on which all construction was prohibited. Gil was banking on retrospective planning consent when revised planning regulations had been ratified but this never happened; several attempts failed, the revisions being turned down at local council level and by the regional government in Seville on the grounds that the amount of construction planned was excessive. Never mind, Gil continued as before, re-elected twice before being ousted in 2002 halfway through his 3rd term, briefly imprisoned and banned from holding public office for 28 years. He died in 2004. At the town hall things continued as before, the administration now being run by his cronies and no doubt would have gone on uninterrupted, except for a bit of bad luck.

During an investigation in 2005 into a drug-related money laundering racket originating in France the investigating magistrate gave Spanish police permission to tap suspects' phones and when recordings revealed that the Marbella Town Hall also knew rather a lot about money laundering a separate investigation into bribery and corruption was launched. Within a year the town council had been dissolved and placed in administration and 18,000 properties were classified as illegal because they did not comply with the 1986 planning regulations. The subsequent police enquiries uncovered the extraordinary scale of backhanders than first Gil, then his successors Julián Muñoz and Juan Antonio Roca, had been accumulating in return for building licences, including racehorses, mansions, a private jet, vintage cars and art works by Picasso, Dali and Miró and much, much more. Roca, who had arrived in Marbella as an unemployed builder, explained away €200 million in cash by claiming he had won the lottery 80 times during his life. When the court case finally opened in 2010 there were 95 people in the dock and when it finished in 2013 lengthy jail terms plus massive fines were handed down to 53 of the accused.

Then in 2010 a newly-elected administration and the Junta de Andalucía in Seville agreed a revised Plan General de Ordenación Urbanística (PGOU) which would control what was allowed over the next decade at least and, at the same time, retrospectively legalising 16,500 of the 18,000 illegal builds. Of the balance there were a few token demolitions while others remained in limbo, most notably Banana Beach on the east of Marbella and Casablanca in San Pedro, because no one could think of a formula to include them, they were just plain illegal and always would be as they occupied green zone. We all thought the problem was over and once the recovery was underway Marbella would move on a better, less corrupt future. That was the plan, at least until September 2015 when the Supreme Court of Appeal in Madrid sat in judgement on three appeals, one from a community of owners and two from constructors; in all three cases the judgement was in favour of the appellants and ordered the annulment of the 2010 PGOU, thereby reinstating the 1986 plan and creating uncertainty about the status of the 16,500 properties that had been granted retrospective planning approval. The reasons given were:

- The town planners did not have the legal capacity to legalise illegal properties.
- The required environmental impact analysis was not done.
- The required assessment of economic viability was not carried out.
- The planners did not have the right to alter the designation of consolidated urban land.
- The system of compensation was illegal.
- The plan freed owners of illegal properties from any obligations and assigned it to developers and in the opinion of the Court no obligations can be imposed on someone who is not an owner.

So, there it is, back to where we were six years ago and the 1986 planning regulations have been reinstated as valid. Of course, the overwhelming majority of properties in the municipality are not affected and not everyone is unhappy. Some developers didn't like 2010 revision including Ricardo Arranz, who heads up the National Association of Developers and is on record as very pleased with the outcome. Many in the industry felt the 2010 plan was rushed and poorly thought through but after four year's wrangling everyone just wanted it to be over. Some land classified for development under the 1986 planning laws lost that designation as part of the 2010 negotiations so those owners probably fall into the happy camp as well, as they may now develop it if they wish. The current mayor, José Bernal, has made it quite clear 2018 is the the earliest we can expect a resolution, which was the date pencilled in for the next update anyway. So not only will the parties involved be looking behind them to find the right way to resolve the issues raised by the annulment but also forward, as whatever they come up with will need to take account of Marbella's development over the next decade as well.

The bottom line is that right now Marbella's planning regulations are 30 years old, drawn up at a time when the town bore not the slightest resemblance to what it is today, a 5* internationally known tourism and property hotspot, one of the few genuine year-round resorts in the Mediterranean. And the irony is that Marbella's profile rose in no small measure because of the amount of investment attracted during the Gil era. My own view is that the individual purchaser will be relatively unaffected but those buying now should make sure they know the planning status of any property under consideration. But don't assume that all properties built between 1991 and 2005 were illegal, that's far from the case. There may be issues for people wanting to renovate an affected property until the next PGOU is finalised but it is relatively easy to get answers from the town hall as extra advisors have been brought in to cope with the fallout. This is an issue that will run right through 2016 and I will update this section on a regular basis as well as tweeting news as it happens.

The most affected, in my opinion, will be developers and promotors who are in the planning phase of new projects but yet to start construction as it is extremely unlikely that they will get the green light to commence until ratification of a new plan, unless, of course, the project complies with the 1986 plan. For this group the financial implications could be severe, with substantial costs already incurred and no start date in sight and I can see compensation claims already in the mail. It was encouraging, therefore, to see Platinum Estates go ahead with the land purchase I mentioned earlier, in a location affected by the annulment, i.e., the land was zoned for a hotel and houses under the 2010 plan but not under the reinstated 1986 one. It is reported that the group sought assurances from the town hall and were confident enough with the response to go ahead.

Conclusions

Throughout this report I've emphasised the separation between the domestic and overseas property sectors, which to all intents and purposes, were two distinct markets throughout 2015 and I don't expect any change to that in 2016. As far as the internal sector is concerned as well as the issues that depressed the market in 2015 and are still factors in 2016 - high unemployment, job insecurity, emigration and a declining population, too much unsold stock, tight lending criteria - we can add another one, political uncertainty. After the inconclusive General Election in December 2015 the options seem to be several more weeks of wrangling before a minority government is formed, several more weeks of wrangling before a majority government is cobbled together, but made up of so many parties with divergent agendas it is difficult to see it holding together, or several more weeks of wrangling before new elections are called which may again fail to produce a conclusive result.

End result, uncertainty and markets hate uncertainty. So I can see why some commentators are suggesting a negative impact on the property market and as far as the domestic sector is concerned they may have a point. However, taking account of Spain's system of devolved government to autonomous regions many policy decisions are taken independently of Madrid and with regional governments at the start of new 4-year terms after May's local elections I'm not so sure, and, in the case of the overseas market I don't think it will be affected at all. If international property buyers weren't put off buying in Spain while the economy was in meltdown in recent years I don't see why the lack of a central government for a few months should be a deterrent. With prices still relatively low, even in areas where they are rising they are still at levels no better than in 2004, and unrest in other parts of the world I predict buyers from overseas will be coming in increasing numbers in 2016. The sun still shines, the food is superb, the quality of life is one of the best in the world, what's not to like?

So what do buyers need to be aware of in 2016, to make sure they make a sound investment in the right locations? I think the lack of high-quality inventory in the prime locations at the right price is set to be one of the big issues in lots of regions in the coming year and I have already seen evidence of prices being ramped up by developers of those scarce new build projects that are coming through the system and also in developments moth-balled in the downturn but recently relaunched, pretending to be new. And buyers are paying them

For example, a new build development on the beach in San Pedro de Alcántara sold out the first phase off-plan at prices from €4,800 per sq.m. and up and prices are even higher for the second phase. These are small apartments, the 2 bedrooms are only 85sq.m, 3 bedrooms 110 sq.m., average quality finish and third line to the beach while 100 metres away, in an existing development of much higher quality and frontline to the beach, it was possible in 2015 to find 2 bedroom resale apartments of 120 sq.m for €2,900 per sq.m. Then, just at the end of 2015 I found a frontline golf apartment for a client who paid the equivalent of €1,950 per sq.m. It helped that the seller had serious financial problems but even when the cost of renovation is added the price per sq.m. only goes to €2,275. In June 2015 I discovered a beachside townhouse for clients, again a urgent sale was required due to ill-health, and the price came in at €2,250 per sq.m. And right now I know of a beachfront penthouse in the Marbella municipality, with 350sq.m terrace with private pool and panoramic sea views, and the fully furnished asking price equates to €2,800 per sq.m.

The top price paid in the Marbella municipality at the very peak of the market was between €6,000 and €7,000 per sq.m. and, as the examples given above show, it's still possible to buy in prime beach and golf positions for less than half that. Although I don't rule out moderate upward pressure during 2016 we are still a long way off peak levels. So when I see properties priced between €5,000 and €9,500 per sq.m., just because they are new or nearly new, in not such good locations and in areas where the price differential should be 15% -25% lower than in the most prime location in the region, I see a market starting to feel very unbalanced, again. So, in my view, buyers are paying too much if they are spending more per sq.m. in a secondary location than in the very best location particularly in a market only in the early stages of recovery. During the frenzy of the boom the lines between prime and secondary areas became blurred and the fact that prices have fallen much more in some areas reflects that lack of distinction. So when prices dropped in Marbella by 40% they needed to fall back by much more, and in some locations it has been up to 60%, to reestablish the differential. A property in a secondary location will never be comparable to a property in a prime one - it always has been, still is and always will be about location.

Although I use the example of Marbella the same reasoning can be applied to any region; calculate the current market price per sq.m. for the most prime location and reduce it as you move further away from that location. People buying now at the right price should expect substantial capital growth in the medium term, say 2 - 5 years but in the case of those paying inflated new-build prices, artificially inflated because of lack of stock, I'm not sure I can see them breaking even in the foreseeable future and some may never go into profit. The key issue is that new-build prices have shot up because the supply/demand equation is out of balance but building licence approvals are increasing and the supply side will improve over time.

So my advice to buyers in 2016 is not to obsess about new-builds, especially if they are not located in prime positions, and look at equivalent resales first, calculate the price per sq.m. to include any renovation if it's needed, and then see what makes financial sense. As I said earlier in the report 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 and although they are harder to find 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 you can assume there will be more as the tendency is for them to mate and multiply. Electricity pylons are also a big no-no. Make sure any property gets good winter sun and if there is vacant land nearby, which, if built on, would block a wonderful view then find out with absolute certainty what can be constructed. The selling agent saying it is green zone is just not good enough. When I am assessing properties for my clients I always ask the question: if circumstances change and they need to sell quickly and at a profit is the price right to enable them to do that and is this a property for which there will always be demand irrespective of market conditions? If we've learnt one thing from the shambles of the last eight years it is that there are properties and locations for which there will always be demand, irrespective of market conditions. Just make sure that's what you buy and not one of the other ones.