



Chesterton's Overseas Research  
and Lifestyle (CORAL)

*Focus on Spain/Balearics/Gibraltar*

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Dear Reader

Welcome to the latest edition of CORAL, our quarterly report on international luxury residential property markets. As the UK's economic recovery gathers momentum and confidence rebuilds, thoughts are turning once again to second homes abroad whether for lifestyle or investment reasons.

This issue focuses on the Spanish market, which after languishing in the wake of the global recession for many years is at last showing some signs of recovery. Values are increasing in the coastal areas traditionally favoured by overseas buyers and major cities like Barcelona but remain some way below their market peak and there are some interesting opportunities in the quality segment of the market. The new build sector is also starting to re-emerge in Marbella which has seen a return to strong off-plan sales on several developments during the past year.

The combination of available properties at favourable prices and the feeling that the market is bottoming out is attracting a fresh wave of purchasers from northern Europe, Russia, the Middle East and the UK, the latter being the most active foreign buyers according to the Spanish Society of Property Registrars. For British buyers, the strengthening pound against the euro offers the additional attraction of an effective discount on asking price.

Coinciding with the upturn in the core second home locations in Andalucia, we are pleased to announce the launch of our new office in Marbella, details of which together with our other international offices can be found at the back of this report. We would be happy to welcome prospective buyers to discuss potential opportunities either to our international department in London or to our offices in Marbella.

In the meantime, I hope you enjoy reading our report and wish you good fortune in finding your dream overseas home wherever it may be.

*Head of International*  
*Neville Page*

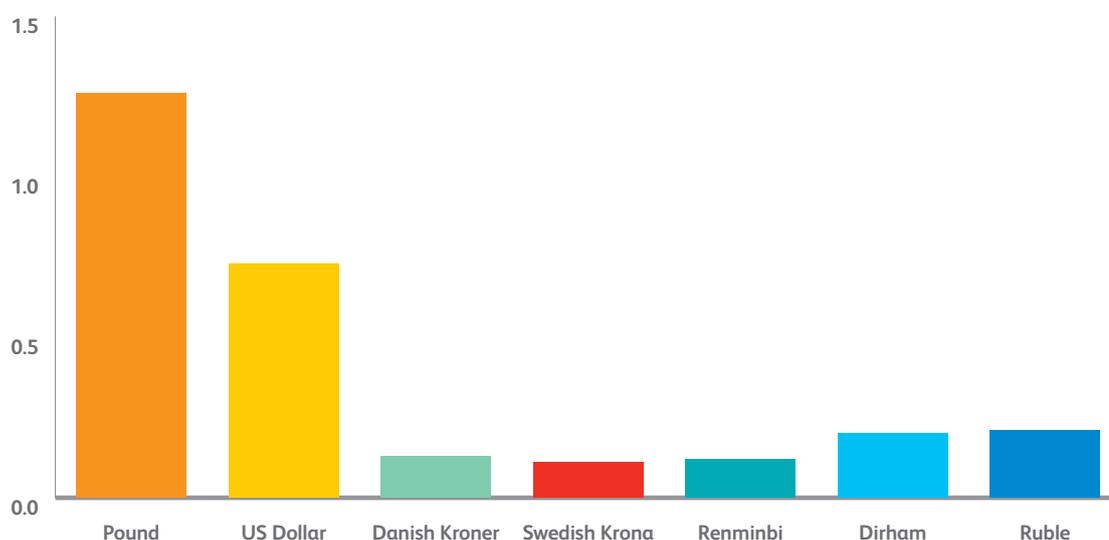
## Introduction

There are signs of life starting to re-appear in the Spanish economy; figures from the National Statistics Institute (INE) show that in Q1 this year the economy expanded by 0.4%, marking the third consecutive quarter of growth. Meanwhile, growth for this year is forecast at 1.2% to be followed by 1.8% in 2015. Furthermore, a consumer confidence index published by the Centre for Sociological Research (CIS) increased 4.4 points in June to reach levels similar to those before the recession, boosted by inflation of just 0.1%. However, there is still a long way to go before a recovery can be considered; unemployment, which stands at 25.1%, is the second highest in the Eurozone while youth unemployment is currently 54%. In regards to the property market there are two very different markets functioning, with prices rising in prime coastal areas and large cities but still falling in less desirable areas. In June, Sociedad de Tasación reported a 2.5% fall in house prices across Spain, although this does mark a noticeable improvement on the 15% fall a year earlier. Real estate construction fell 2.1% in the first three months of 2014 but away from the prime locations thousands of new homes and unfinished projects lie dormant.

Last October the Spanish government passed a law to allow non-EU citizens to apply for residency if they buy a home in Spain. The Golden-Visa scheme applies to all buyers outside of the EU who purchase a property worth a minimum of €500,000. While the first €500,000 can only be paid in cash mortgage finance can be used on the remaining value of the property. Buyers can also spread their investment over more than one property provided the accumulative value exceeds the half a million Euros threshold.

Whether it be for investment or lifestyle purposes conditions in Spain are currently favourable for overseas buyers. House prices in the most desirable locations are starting to recover with prime coastal resorts such as Marbella and Port Andratx performing particularly well. While across Spain the average house price is still around a third below the pre-recession peak, house price growth in and around prime coastal resorts is forecast to continue on an upward trajectory. Lending from Spanish banks remains tight but lenders have started to offer mortgages again with more choice, while the European Central Bank has cut its benchmark interest rate to just 0.15% which is expected to weaken the Euro against other currencies. Over the last 12 months the pound has increased from 1.16 to 1.26 against the Euro. With bargains to be had, interest rates low and a strengthening pound, Spain is potentially an attractive option for British buyers.

Figure 1: Exchange rates against the Euro (mid-July 2014)



Source: XE.com

## Marbella

Having boomed during the 1960s and 1970s as an international tourist destination, Marbella suffered at the hands of corrupt mayors during the 1990s and early 2000s. However, the resort is firmly back in vogue amongst high-net-worth individuals as a holiday and second home destination. Marbella is one of the greenest towns in Europe and has a low-rise skyline unlike the over-development in nearby Malaga. With a beautiful coastline meeting stunning mountain scenery, akin to Monaco in the south of France, year round sunshine, fine restaurants and bars, high-end shopping and luxury hotels, Marbella is now one of the premier destinations in Europe.

Due to Marbella's appeal to foreign buyers', property prices have started to recover faster than in most parts of Spain, with Tinsa reporting growth of 4.8% in the last three months of 2013 followed by a 4.9% uplift in prices in Q1 this year. The graph below (figure 2) shows the average price of certain property types and size in Marbella.

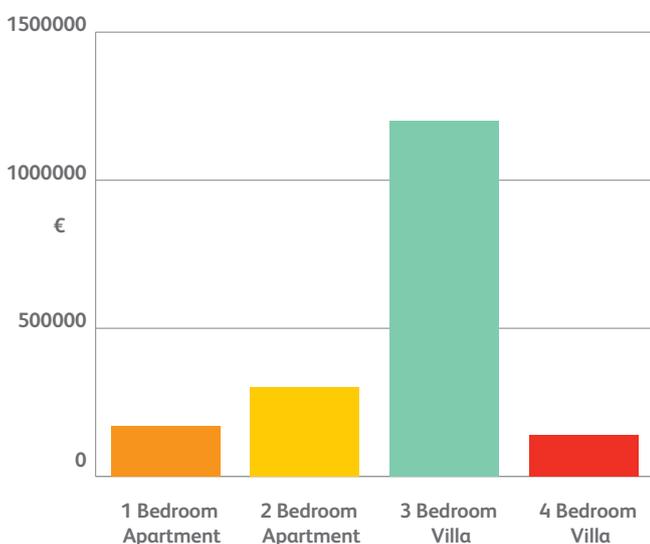
Marbella boasts a mixture of large family villas and modern apartments stretching along the "Golden Mile" from Puerto Banus to the heart of Marbella. Over the last 12 to 18 months little plots of land have been developed along this exclusive stretch of coastline, mainly in the form of three and four bedroom villas. Properties by the beach front can easily command price premiums of 35% over those of a similar size away from the sought after stretch of coastline. Therefore, a two bedroom beach front apartment is likely to cost on average €405,000 and a four bedroom villa will easily command an offer of at least €2 million.

The most popular locations away from the Golden Mile include Nueva Andalucia, San Pedro, Elviria Hills and Estepona.

Last year saw developers breaking ground for the first time since 2008 and selling apartments off plan. Taylor Wimpey Espana launched Los Arqueros beach in Marbella last summer and within three months of launching 60% of the 164 unit development had sold off plan, while their La Floresta de la Mairena development has also sold out. Due to the re-emergence of high-quality developments in Marbella prices of new-build homes have started to increase and have been selling at a higher price than resale properties of a similar size and specification.

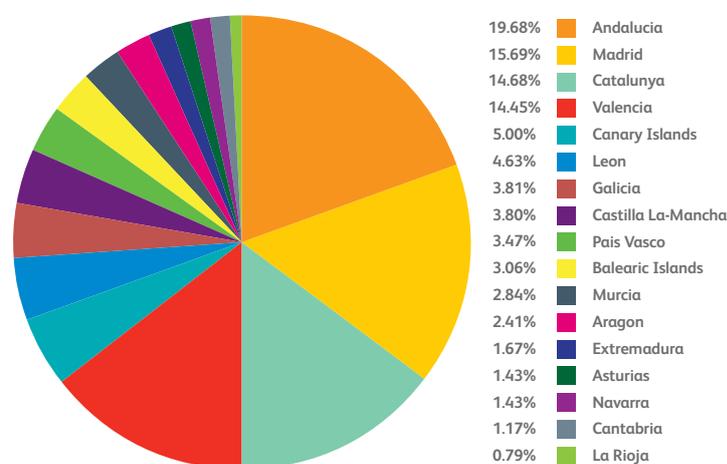
Within the Marbella area the supply of property is still exceeding demand although the €500,000 to €700,000 segment is proving particularly popular among non-resident buyers. The Bank of Sareb, known as Spain's "bad bank", was set up in November 2012 to start to sell off the huge oversupply of property owned by banks, along with re-possession from owners unable to afford their mortgage payments and distress sales from buyers looking to cut their losses. As a result substantial savings at the middle and lower end of the market have been, and still are, available. For example, a 2 bedroom repossessed property valued at €650,000 was recently sold for €460,000, emphasising that genuinely good investments can be found. Due to the number of repossession and distress sales in Andalucia more properties were sold in the region than any other part of Spain in the first three months of this year, accounting for 19.68% of the market according to the Spanish Registradores.

Figure 2: Average house price in Marbella by property type and size



Source: Chestertons International/Affinity, Spain

Figure 3: Number of property sales by region Q1 2014



Source: Spanish Registradores

## Marbella – continued

However, because of the price reductions in place on repossessed sales and distress sales prospective buyers have to be willing to pay the asking price, otherwise they will not be considered a suitable buyer. This is also the case at the top end of the market although for a very different reason. With supply levels low and demand high, villas and brand new-high specification apartments are highly sought after in Marbella, particularly those on the beach front.

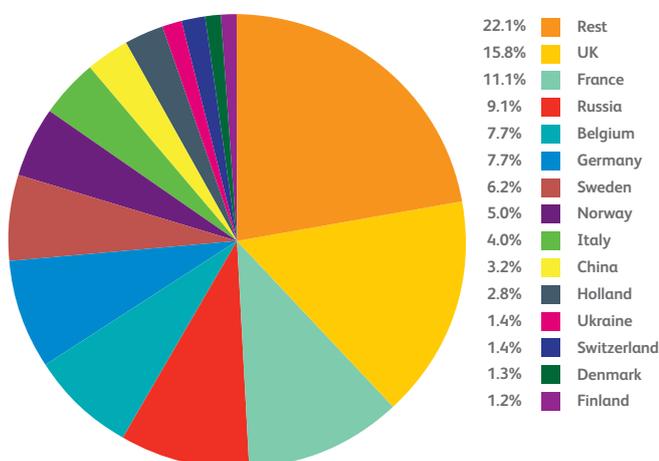
The latest population figures for Marbella show that around 142,000 people live in the area, with 28% of residents from overseas made up predominantly of British expats. The number of foreign property buyers in Marbella increased by 58% in 2013 according to the Spanish Department of Housing. Foreign buyers continue to play a significant role in the Spanish property market with data from the General Council of Notaries showing demand from foreign buyers growing 27.2% in the first quarter of this year compared to the same period in 2013. British buyers remain the biggest group of international buyers accounting for 13.8% of the market, followed by the French with 10.5%, Russian buyers with 8.4%, Germans at 7.5% and Belgians at 6.9%.

The majority of foreign property buyers in Marbella are looking for property as either a lifestyle purchase or as a permanent family home to start a new life. However, the number of buyers renting out their property while not using it is on the increase. Tourism increased by 5% in 2013 and this figure is expected to grow this year with more flights serving the Costa del Sol. As a result the demand for holiday lettings is high and, unlike other parts of

Spain, laws on rental properties are less punitive. Income tax on rental property is set at 25% and is payable on net income.

Feeding off the resurgence of Marbella the luxury goods sector has thrived since the downturn in 2008. The sector in Spain saw revenues increase 7% last year according to Exceltur while the Spanish Association of Luxury found that Marbella accounted for 25% of all luxury good sales. This in turn is helping to grow businesses with new restaurants and bars opening up along the coast and new shops benefiting from Marbella being added to the list of cities in Spain able to open for business on Sundays and certain public holidays.

Figure 4: Foreign buyers of Spanish property Q1 2014



Source: Spanish Registradores

## Marbella – continued



**5-bed villa in La Quinta, Benahavis, Marbella (Price: €2,950,000)**

Marbella is well served by transport links with Malaga Airport just over a half an hour drive away and Gibraltar Airport a little over an hour away. British Airways launched a service to Granada last July from London City Airport while flights restarted from London Heathrow to Malaga earlier this year. This means that Malaga is now one of the few destinations in the world that is served by all five London airports. The proposed high speed AVE rail line from Granada to Malaga has been delayed and is now scheduled to open next year, while at the end of last year a Barcelona to Paris service was launched. Therefore, it is now possible to travel from London to Malaga on high speed trains with changes at Paris and Barcelona.

Since 2011 there have been plans to re-develop and expand Marbella's La Bajadilla port to provide a new marina for the area. The €400 million proposal which was awarded to a consortium lead by a Qatari sheikh includes plans for new restaurants, bars

and shops around the Dubai-style marina as well as berths and piers for mega-yachts and cruise ships to attract the world's elite into the heart of Marbella. However, due to a series of delays and complications the plans remain on hold while an application to build a 150m skyscraper has been met by a wave of local opposition.

If you are looking to move to Marbella permanently with your family the city is generously served by a number of international schools. In September the Colegio Bilingue Atalaya will open just to the west of Marbella. The campus will include sports and cultural facilities and high quality tuition for children from the age of three to 18 looking for a bilingual education. Marbella offers a range of schools for children of all ages such as the Mayfair Academy as well as private girls and boys' schools. The American College of Marbella gives students the opportunity to study at a range of top universities in the USA, Canada and the UK.

## Acquisition costs

### Transfer tax:

- €0 - €400,000 = 8%
- €400,001 - €700,000 = 9%
- Above €700,000 = 10%

### Registration fee:

- €6,000 (can be higher for homes over €1 million)

### Legal fees:

- 1%

### Notary fees:

- 1%

## Sotogrande



### 9-bed Cortijo Style Villa, Sotogrande (Price: €5,200,000)

Sotogrande is the largest privately owned residential development in Andalusia and has grown to become one of the largest sporting resorts in Europe. The resort is home to a wide range of renowned sporting facilities containing seven golf courses, including Valderrama which until recently was a regular fixture on the European Tour and hosted the 1997 Ryder Cup. On top of this there are also 11 world prominent polo fields owned by the Santa Maria and Ayala Polo Clubs, along with a busy marina which plays host to many yachts throughout the year.

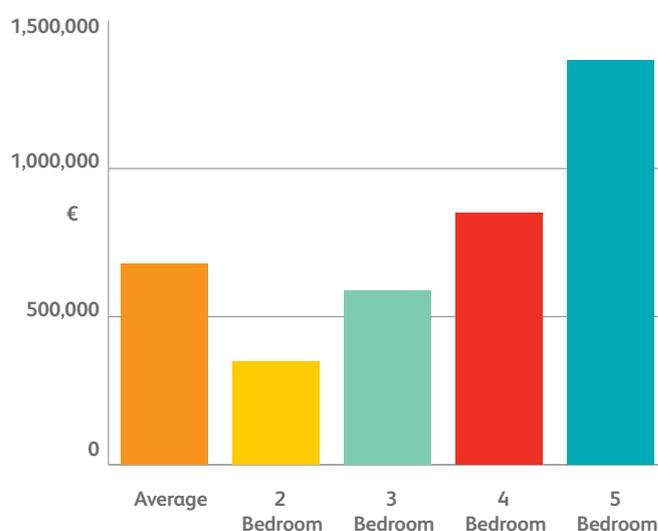
The resort occupies a quiet and relaxing enclave with secluded beaches that are well maintained. Just a half an hour drive to the east and you can be within Marbella and enjoying the shopping, fine dining and night life that are on offer in abundance. The area is well served in regards to air travel with Gibraltar Airport just 20 minutes away and Malaga Airport a little over an hour away and servicing flights to over 120 destinations worldwide.

Although house prices within Sotogrande come with a significant price premium of around 30% to comparable property away from the resort, prices are still around a third down on the peak of 2005 and have not started to recover in the same way as Marbella, Ibiza and Mallorca. However, confidence is growing in the market and sales have increased this year boosted by distress sales from owners of second homes who bought before the market peak in '05 and haven't seen the price falls of those buying around and just after the peak. The graph below gives the average price of properties by bedroom size, but it is worth bearing in mind that large family villas can exceed €5 million. Foreign ownership in Sotogrande is made up predominantly of British, Swiss and French

buyers as well as those from the Benelux countries. Non-EU buyers from China and Russia prefer the night life and shopping available in Marbella as opposed to the relaxed atmosphere in Sotogrande.

For buying costs in Sotogrande, see Marbella section on page 6.

Figure 6: Average house price by property size



\*Not enough data available for 1 bedroom properties

Source: Kyero

## Balearic Islands (Mallorca & Ibiza)



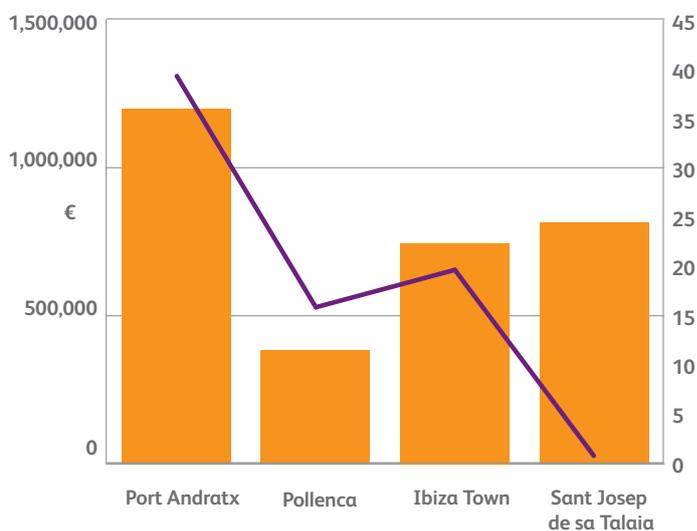
### 5-bed country house, Calvia, Mallorca (Price: €1,895,000)

The Balearic Islands property market has performed beyond all expectations in the last 12 to 18 months as supply has been outstripped by demand, driven by foreign buyers. In the first quarter of this year data from the Spanish Notaries highlighted that the number of sales above 1 million Euros have almost tripled from 17 in Q1 2013 to 50 in the first quarter of this year. In addition, sales above 1 million Euros in the Balearics accounted for a third of all sales in Spain above 1 million Euros in the first three months of this year, a startling statistic considering the size of the islands in comparison with mainland Spain. Over the first quarter of this year the average price per square metre in the Balearic Islands averaged €5,491/m<sup>2</sup>, a 25% increase on the €4,378/m<sup>2</sup> recorded in the same period last year. Emphasising the buoyant nature of the market in the first part of this year data from the INE shows sales in March were up 71% on an annual basis, the largest increase in the country.

In the prime locations of Mallorca and Ibiza the strength of the property market is evidenced by figures from Kyero showing considerable house price growth, particularly in Mallorca. In Port Andratx the average property value increased by a staggering 39% in Q2 compared to a year earlier to an average of €1,197,000. Meanwhile, over the same period in Pollenca at the north end of the island prices were up 15.8% to an average of €383,000. In neighbouring Ibiza house prices in Ibiza town moved up 19.6% to €745,000 while in Sant Josep de sa Talaia house prices only increased by 0.7%, but at an average of €813,000 values are still higher than its more popular counterpart.

The popularity of the islands is clear: Spanish travel operator Aena reported that 2.5 million passengers travelled to Mallorca in May, a record high for the second successive month. Meanwhile, the number of passengers at Ibiza Airport was up 10.4% on an annual basis, boosted by a 14% increase from international passengers with the biggest increase from Swiss, Dutch and Belgian arrivals. Furthermore, Palma Airport announced earlier this year that the number of seats available to the islands this summer would total 34 million, a 9% increase on last year with the number of passengers from the UK up 10% to 7.7 million.

Figure 5: Average house price and annual change



Source: Kyero

■ Average house price

□ Annual change

## Barcelona



**4-bed villa, Girona, Catalonia (Prices: from €950,000-€2,200,000)**

Optimism in the Spanish property market is starting to grow, albeit tentatively, as coastal areas and large cities such as Barcelona have started to see house prices increase. Annual sales in Catalonia were 43.4% higher in March than a year earlier according to the Spanish National Institute of Statistics, with Barcelona itself accounting for two thirds of all sales. However, a divergent market is apparent in Barcelona as the differential in prices from the most and least expensive districts is widening. Data from property portal Idealista shows that in the district of Les Corts, the most expensive part of the Catalan capital, the average price per square metre of €4,265 is 146% higher than the average in the cheapest zone of Nou Barris, where the price per square metre averages €1,732.

Prices in Barcelona are thought to have fallen by around a third since the pre-recession peak, with the most expensive areas of Les Corts and Sarria Sant Gervasi experiencing price falls of 24.6% and 33.8% respectively. However at the lower end of the market prices have fallen by more than 50%. For buyers, particularly those looking for a buy-to-let investment, prices in Spanish cities at the lower end of the market have fallen by a greater percentage than similar properties in popular coastal areas. Therefore, investors can find better deals and the potential of higher rental yields. Land buyers are also targeting Spain's biggest cities as Property Registrar data revealed urban land sales jumped 18.5% in the first quarter of this year, with a 37% jump in the largest cities. In Barcelona prices were the strongest in the country at €355 per square metre, compared to a national average of €220.

## Acquisition costs

### Transfer tax:

- 10%

### Registration fee:

- 0.2%

### Legal fees:

- 1%

### Notary fees:

- 0.2% - 0.4%

## Gibraltar



### 7-bed house, Europa Road, Gibraltar (Price: €10,900,000)

For buyers looking for a home from home feel Gibraltar can offer the perfect balance between the fine Mediterranean weather and reminders of British life throughout the territory. Despite the economic plight in Spain over the last six years Gibraltar has never gone into recession, has a very low unemployment rate, strong economic growth projection and a housing market that has remained relatively stable during the post-economic crisis years. Previously a tax haven Gibraltar is now fully OECD compliant and white listed by the IMF as a low tax environment which has no inheritance tax, wealth tax, capital gains tax and has income tax ranging from 0% to a maximum margin rate of 25% which decreases even further at higher income levels. Furthermore, there is no tax on interest or on dividends from quoted shares whilst tax on certain pension income varies between 0% and 2.5%. The British territory also boasts one of the most favourable high-net-worth tax systems in Europe. Category 2 residents (with assets above £2 million) are liable to tax only on the first £80,000 of their assessable income, as long as they have acquired a qualifying certificate. In order to gain one, Category 2 applicants must apply to the government with two references, one of which should be from a bank showing assets of more than £2 million.

The housing stock in Gibraltar has evolved in recent years as more lifestyle and style-conscious buyers have been attracted to the area, branching away from the traditional housing for employees of companies based on the peninsula. As a result house prices have increased significantly in the last 10 years, with the average property price ranging from £300,000 to £500,000. However, at the top end of the market prices go far beyond the £1 million barrier. Three bed penthouse apartments in the sought after areas of Ocean Village and Queensway Quay range from £1.5 million to £2 million, while four to five bedroom houses across the territory can achieve prices from £2 million up to £11 million.

Visitor numbers to Gibraltar have been rising steadily in recent years while more Brits have been moving to the territory as their main residence, attracted by the favourable tax system along with the high standards of education and healthcare. Further to this, Gibraltar offers a low crime rate, a friendly environment, a fascinating history and a unique geology. Within an hour's drive are 60 golf courses, a variety of Mediterranean and Atlantic beaches and the lifestyle resorts of Marbella and Puerto Banus. The Rock is likely to see a continuing increase in visitors following the opening last year of a new £70 million airport terminal.

## Acquisition costs

### Stamp duty:

- £0 - £200,000 = 0%
- £200,001 - £350,000 = 2% on first £250,000. 5.5% above £250,000
- Above £350,000 = 3.5%

### Registration fee:

- £300 (but can vary)

### Legal fees:

- Up to 0.5%

## Contact

Chestertons is one of London's largest estate agencies and has a network of nearly 30 offices offering sales and lettings services across London, in addition to an international network of offices and associates including Dubai, Abu Dhabi, Moscow, France, Mallorca, Italy, Barbados, South Africa and Australia.

Chestertons International division have significant experience helping buyers find their ideal overseas property, whether it's for a permanent move overseas, a holiday home or a real estate investment opportunity. With 72 offices covering 12 different countries, we have a wide range of properties to choose from.

Should you have any questions regarding this report or wish for any other information concerning the international property market please do not hesitate to contact a member of the team.

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