



# MY 10 PREDICTIONS FOR THE SPANISH PROPERTY MARKET IN 2019

BY RAF JACOBS

# ABOUT RAF JACOBS

Raf is an economist, passionate about real estate, Board Member of the Spanish Associations for Buyer Agents, ex management consultant, and is the Founder & CEO of Inspire Boutique Apartments, an innovative real estate investment advisory firm. Originally from Belgium, he lives in Barcelona since 17 years.



*"Banks today are low-cost engine to help become wealthier, but this won't last forever."*

It's already February! With the celebrations of the start of the new year behind us, most of us have settled back into normal mode and that is a perfect moment to reflect on the future. In this article, a first in a **series on real estate**, I share my observations and opinion for the property market in Spain for this year; a topic that is relevant for many people thinking of buying in Spain.

Going forward I will also bring real-life cases that exemplify situations that expose buyers to risks, problems and often irresponsible practices, **so that you can identify potential issues before they hit you**. I aim to **provide you with everything you need to make a smart investment decision and ensure an optimal purchase process**.

# 5 FACTORS THAT DETERMINE THE REAL ESTATE MARKET IN SPAIN

A residential property market is fundamentally driven by the overall health of a country's economy, and by the level of the interest rates (the cost of borrowing money). At very local levels in Spain, we can even speak about true expat-driven markets.

1

**Spain is in an expansive economic cycle** and a good economy means employment, increasing incomes, optimism & confidence, moderate inflation, etc. The FMI predicts the Spanish economy will grow stronger than the Eurozone: Spain +2,2% vs Eurozone +1,6% in 2019. That's by the way also better than Germany, France (and the U.K.).

2

**Interest rates are historically low** in Spain. It has never been cheaper to borrow money from the bank. This is of enormous help for many buyers to access their dream property, and for investors to increase their financial returns (you use the bank's money as a low-cost engine to create money for you). Watch out, interest rates won't stay this low forever!

3

Additionally, there are **poor alternatives for your savings**. No need to say that bank deposits, investment funds, bonds and stock markets have greatly disappointed. The Central Bank of Spain forecasts +11,2% return on residential properties in Spain for 2019. Compare that to the interest you get on your bank deposit! You can borrow money at 1,5-2,8% and make 11,2% returns. It's really worth having that strategy talk.

4

The **expat-dimension**: foreign buyers, often with higher available incomes than locals, make lifestyle choices with a property or properties in Spain. This is a very local effect, mainly in coastal areas and in parts of Barcelona and Madrid. This creates micro-markets that behave differently from similar markets without expat buying activity. Detailed local knowledge of these areas is vital to understand the implications and opportunities for you

5

**Spanish property is cheap** compared to many other countries, and Spain offers an unbeatable lifestyle and cost of living.

# 10 THINGS YOU CAN EXPECT FOR 2019

**1** The real estate market continues to be in an **expansive cycle** and will offer **attractive opportunities** in 2019. The number of purchase transactions and the property prices will continue a growth path overall. However the market will evolve very **heterogeneously** across the country and a one-approach-fits-all strategy doesn't exist. The very centres Madrid and Barcelona will slow down, tier-2 cities will fuel the market (e.g. Alicante, Gerona, Malaga, Zaragoza, etc), and the Costas will grow at a rather slow steady pace.

**2** **Rental prices** have gone up strongly in the last years and will likely normalise, stabilise in the next years and probably slightly decrease in some of the hot areas.



# 10-15%

3 Investing your savings in the right area will give you double digit (10-15%) returns in the next years. Investors will need to adjust their strategies more than ever and will have to go outside their comfort zone and take expert advice to materialise the new opportunities.

## PROPTTECH

4 There is a lot of buzz about this. I see significant overpromises, and think many of today's proptech initiatives will disappear, while many new ideas will be launched. Adding services to pure technology is in my view a critical way to create differentiated value and to convince customers to pay.



5

People who rent, will be able to buy their own property and have a **monthly mortgage payback that is equal to and possible lower than what they have been paying as monthly rent**. Without a need for large upfront down payments. Hundreds of thousands (and possibly up to 1 million) Spanish households are expected to switch from renting to buying in the next 3-4 years. This generates demand in areas that today still have not picked up much, and specifically close to those cities with strong economic activities/employment. This trend is expected to be a key driver for overall housing market growth across Spain. At the same time, a lot of rental properties will become free and this might in some areas cause downward pressure on the rental prices.

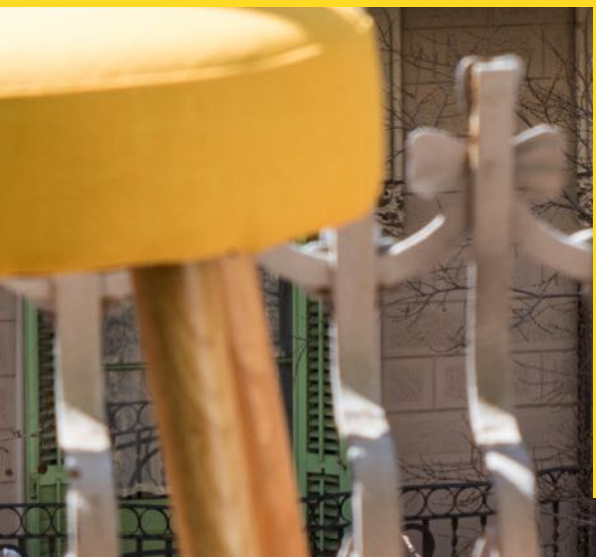
6

The **political tension between Spain and Catalonia** did initially create worries with investors. However investors look at returns, probabilities and risks, and they see that the probabilities for a bad outcome are very low. And second home or **expat buyers tend to care more about the lifestyle, and that won't change by political debates**.



7

The government (national and regional) is evaluating options to **"control" the market**. However, these measures seem to be rather based on easy populist slogans and clearly lack a sound economic foundation. **I see it very likely that these measures will produce the opposite effect: higher rental prices and higher buying prices in the areas where the government would exactly like to achieve the opposite.**



9

**Mortgage conditions will change.** Banks will try to compensate their additional costs imposed from recent regulatory changes with incremental charges to buyers. Watch out for new hidden costs. Additionally, for the second part of the year a slight increase in the interest rates wouldn't be a surprise.

8

**Brexit** continues to make U.K. (potential) buyers worry. Nobody can predict what the impact will be, but what is clear that, independent from the outcome of the Brexit, it generates uncertainty. And in uncertain times, people get interested in properties above any other type of investment. We receive more questions than ever before from U.K. buyers that are preparing their scenarios. The U.K. buyers are still the largest nationality buying in Spain.

10

**Second homes in the coastal areas will remain very attractively priced.** Prices have not seen considerable recovery yet (except for some very specific areas) and great opportunities exist.

*"The Central Bank of Spain forecasts +11,2% return on residential properties in Spain. How does that compare to the interest you get on your bank deposit?"*

# CONCLUSIONS


- ✓ 2019 offers opportunities that won't last forever.
- ✓ Define your goals and then develop the best strategy. The property market will evolve very heterogeneously across the country. There is no one-strategy-fits-all for Spain.
- ✓ If you plan to buy home (first or second residence), be mindful of the market changes. Your reference points from the past might no longer be a good compass.
- ✓ Investing your savings in the right area can give you double-digit returns in the next years. Don't buy where you would have bought two years ago.
- ✓ If you buy, think financially smart and leverage the bank. There are more options than you might think.



## A VISION FOR A BETTER FUTURE

At INSPIRE our mission is to make the real estate sector more transparent and provide buyers with everything they need to make a smart investment decision and ensure an optimal purchase process.

We firmly believe that buying in Spain can be a complex journey through a minefield and requires expert navigations skills to complete a purchase unscathed, specifically for international buyers. This can be done better, and that's what we do: truly help buyers & investors.

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