Trends in the Real-Estate Market

No. 2 - MAY 2019

Building Value

Calle Eucalipto, 33
28016 Madrid
Tel.: +34 917 372 198
www.gloval.es

Gt rends

SITUATION

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Key aspects of the quarter

MACROECONOMIC ENVIRONMENT. The preliminary report of the Quarterly Spanish Accounts published by the Spanish Statistics Institute (INE) shows an increase in the GDP YoY variation for 1Q2019 with a 2.4% rate. Therefore, the Spanish economy gains speed compared to the previous quarter and, in terms of demand, we see a greater investment in capital goods.

HOUSING SEGMENT. House prices on the free market rallied once again in 4Q18 and broke the €1,600/m2 barrier for the first time since 2012, according to the Ministry of Public Works data. They ended 2018 with a YoY 3.4% rate. The provinces registering the sharpest growth were Madrid, Granada, Lugo, Valencia and Zaragoza.

Housing sales ended 2018 with a 9.3% increase compared to the previous year. The percentage of new build properties out of the total houses sold remains at 10%, which is similar to the last four years. The number of new planning permissions for homes grew dramatically (20.2% in 2018), far above Final Certificates and new build sales.

LOGISTICS/INDUSTRIAL SEGMENT: Investors continue to show an appetite for finished or under construction properties for storage and cross-docking facilities, but also for the renovation of prime-location premises to adapt them as urban delivery warehouses in the main markets. Rents continue their upward trend in Madrid and Barcelona. PRIME areas go from 5-5.6 €/m2/month in Madrid to 5.6-6.7 €/m2/month. On the other hand, the warehouse market is still weak.

OFFICE SEGMENT: Very active segment given the demand in Madrid and Barcelona, especially in the Services sector, with over 30% of total rents YTD. Cap rates in the financial districts of Madrid and Barcelona have plummeted to historic lows, between 3% and 3.8%.

RETAIL SEGMENT: In 2018, the sale of Shopping Centres and Retail Parks rose to 45,500 million euros according to the AECC, which was a 2.9% higher than in 2017. Specialised operators and investors have shown a growing interest in flagship properties as a product with attractive yields. High-street retail properties in prime areas are priced at about €290 €/m2/month in Madrid and 285 €/m2/month in Barcelona.

HOTEL SEGMENT: We continue to see strategic movements by private investors and chains. The outlook for this year is still positive according to the latest data on the foreign tourist inflow with an incoming 8.6 million tourists in the 2 first months of the year, 3% higher than in 2018.

Gloval's View

AREA OF RICS VALUATIONS

Our company, as leaders in providing integrated real-estate appraisal services, aims to maximise the value of our client's operations and has therefore strengthened one of its strategic departments:

The Appraisal division, under the standards set by the well-known Royal Institution of Chartered Surveyors (RICS) in its Red Book.

In an ever-changing globalised market that is increasingly complex, Spanish and foreign clients seek reliability, independence, professionalism and integrity in the services ordered in this area. Our RICS valuation reports follow the same pattern worldwide to ensure they all meet the same standards.

Our decision to strengthen this area relies on a broad and experienced team of RICS-RV members who are spread out around the main cities in Spain and Portugal to cover national and international needs.

General environment

Gloval's View

	Data
Macroeconomic environment 4Q18	
GDP (YoY)*	2.4%
People registered in Social Security (YoY)*	2.9%
Unemployment Rate (%)*	14.7%
New loan interest rate (mortgage)*	2.1%
12-month Euribor	-0.1%
Spread	2.2%
Consumer Price Index (CPI) (YoY)*	1.1%
Synthetic Index of Activity (Base 100 = 2010)*	117
Housing Affordability (years GDHI)	7.4
Housing Affordability (% GDHI)	32.3%
Real-estate environment	
House prices in free market (YoY)	3.9%
Price-to-Income Ratio (Base 100=1Q01)	103
New planning permissions (YoY)	
Residential	8.4%
Non-Residential	17.5%
Final certificates (YoY)	12.5%
Mortgage loans (YoY)	8.4%
Property Sales (YoY)	
Residential	5.9%
Retail premises	7.9%
Industrial warehouses	6.8%
Offices	14.7%

YoY: YoY variation. GDHI: Gross disposable household income.
•Data from 1Q19.

Chart 1: Evolution of GDP and People registered in Social Security in Spain. (YoY variation in %)

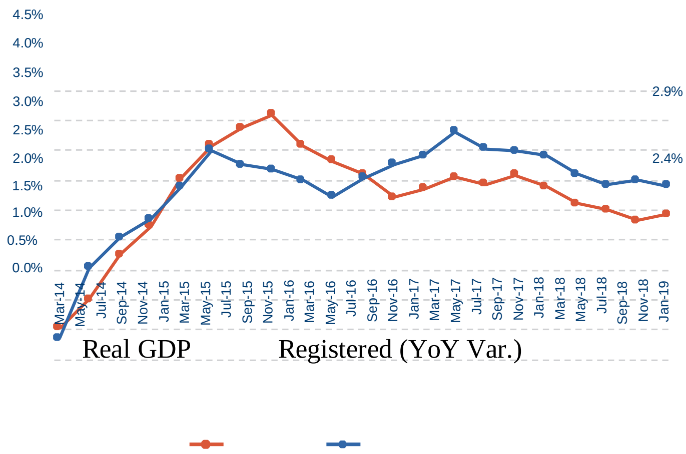
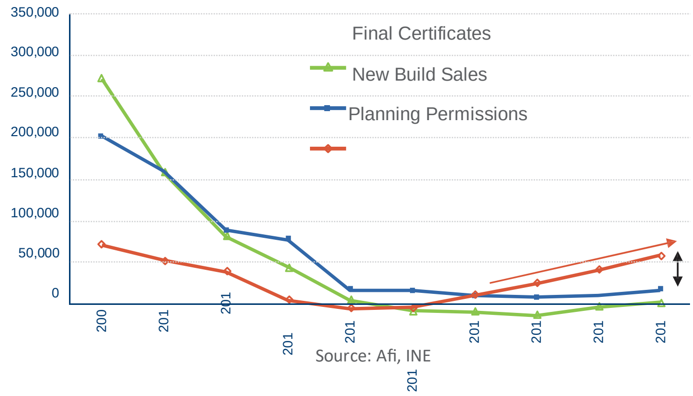
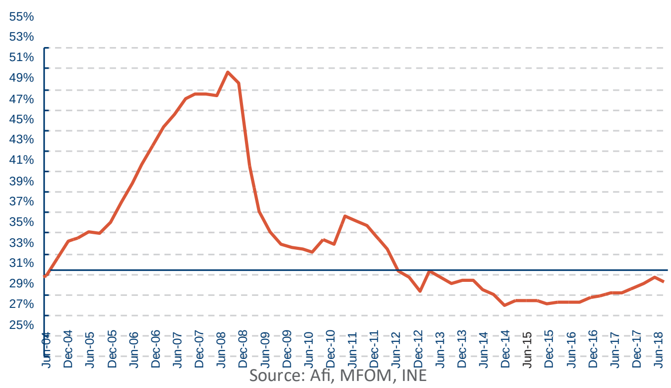


Chart 2: Planning permissions, Final Certificates and New Build Sales (Units, 2014-2018)



Source: Afi, INE

Chart 3: Housing affordability
(Mortgage share / GDHI; %)



Source: Afi, MFOM, INE

Valuations as an indicator of the real-estate sector

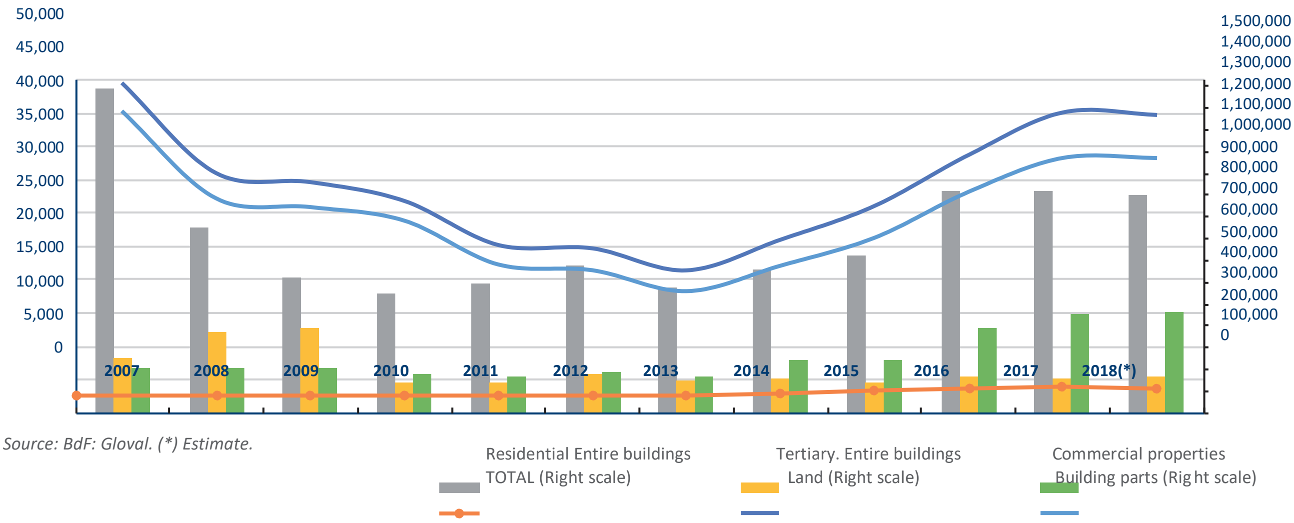
The trend in the number of valuations conducted in Spain by BoS-approved companies, shows the rally experienced since 2008 in the different real-estate segments. In 2018, based on the data for September, valuations are estimated at about 1.36 million, with an estimated value of approximately 440 billion euros.

The total number of valuations completed had showed negative YoY rates since 2007 but 2013 was a turning point when the YoY rates finally entered positive figures and have remained there ever since. It is worth mentioning that for 2018 –pending final data–, the number of valuations was higher but slightly lower than in 2017.

By towns, Madrid and Barcelona made up nearly 9% of the total valuations. The rest were divided between towns with over 500 thousand inhabitants, 5%, towns with 500-100 thousand inhabitants, 24%, and towns with less than 100 thousand inhabitants, 62%.

By segments, lands and building parts were the most active in terms of valuations, followed by residential buildings and commercial properties.

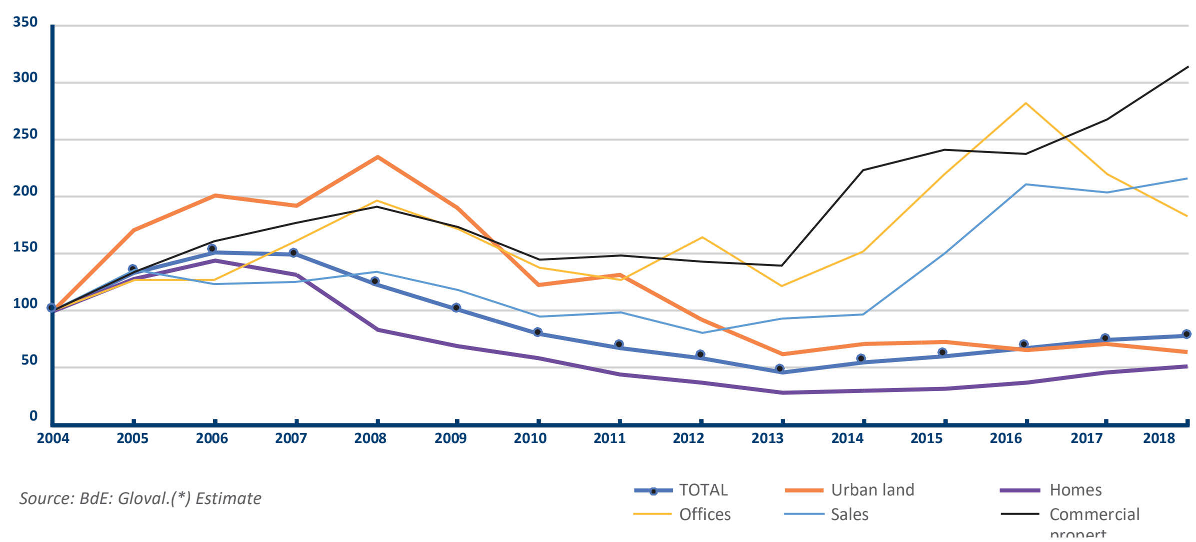
Chart 3. Number of valuations per segments. Thousands



Source: BdF: Gloval. (*) Estimate.

Considering the volume of valuations for the main areas in the sector expressed as indexes, and taking 2004 as the base reference, it is worth pointing out that except for Offices, Retail and Commercial properties, all other types of properties remain below 2004 figures.

Chart 4. Volume of valuations by segments. Base index 2004=100



Source: BdE: Gloval.(*) Estimate

The new mortgage law offers more legal security but the expense hasn't yet been estimated

New mortgage loans on homes have been rising non-stop since 2013 after they touched rock bottom with only 100,000 loans granted. Ever since, they have shown an average yearly growth rate of 21.7% according the data from the Notary Public General Council until 2013.

There are several reasons for this: firstly, the growth in the number of homes and, especially, household purchasing power with the economic recovery has stimulated housing demand. Thanks to this, the real-estate sector continues to normalise its activity in terms of started and completed houses. Also, the recovery also improved the credit terms of housing mortgage loans, as shown in the Poll on Bank Loans conducted by the Bank of Spain every quarter. Since 2013, the conditions have improved for both supply and demand.

All this despite several regulatory changes that have retroactively altered contractual elements (e.g. floor clauses, prime rates, Stamp Duty or payment in kind). The mortgage market in Spain has always been known for a moderate yield, which makes it especially sensitive to regulatory changes and other court decisions that alter the contractual conditions of loans.

The entry into force of a new Real-Estate Credit Law (LCI) announced in the Spanish Official Gazette of 16 March 2019 (adopting Directive 2014/17/EU), aims to provide more legal stability to benefit the borrower –in terms of more social coverage– and the lender –in terms of more contractual stability. However, this greater legal security may entail banking expenses that the consumer will end up paying through the mortgage interest rate.

Key changes in the real-estate credit law
Pre-contract stage: documents available 10 days earlier and right to advice from Notary Public at the lender's expense.
Entity's duty to assess the solvency of potential borrowers.
The entity's staff must be suitably trained and their remuneration can't be linked to the volume of loans granted.
Linked sales are forbidden and combined sales are limited.
Right to convert foreign currency loans into another currency.
Floor clauses (minimum floor limit on the interest rate) are forbidden.
Limited fee for early repayment. Variable rate: 0.15% (first 5 years) or 0.25% (three first years.) Fixed rate: 2% (first 10 years) and 1.5% (remaining years)
Early maturity in the event of default. 12 missed payments or 3% of principal during the first half of the loan. 15 missed payments or 7% of principal during the second half of the loan.
Limited default interest: loan interest rate + 3%.
Expenses and stamp duty to be paid by the lender, except for the valuation.

The new Real-Estate Credit Law could have a negative impact on the sector and, as a result, on the volume and number of mortgages granted. Firstly, the longer pre-repossession period could involve a higher cost to make up for the greater risk or a smaller volume granted to people with lower income and less payment capacity. Also, not being able to compensate the modest yield of the mortgage with the sale of other bank products makes it far more likely that the lender will increase the interest rates on loans. This will be even more likely when we consider that all the expenses from the process, except for the valuation, are to be paid by the lender.

Finally, the limited fees on early repayment of the mortgage loan could also discourage lenders from granting them at a fixed rate as the lender would face a financial loss with no gains if the interest rates were to drop.

We have yet to see the impact of these measures on the volume and number of loans granted and, especially, if they will affect the interest rates applied to them.

Service Station environment

GLOVAL's valuation activity for Service Stations

Service Stations in Spain have seen their turnovers increase dramatically in the last three years. The turnover for the entire country is estimated at about 30 billion euros. This increase is largely due to a rise in oil prices, along with the healthy progress of the economy and the boost in tourism, which has encouraged longer journeys across the Spanish territory.

Gloval Group conducts a large volume of specialised valuations/appraisals in this segment, in "Oil" and "Non-Oil", for large operators and individuals.

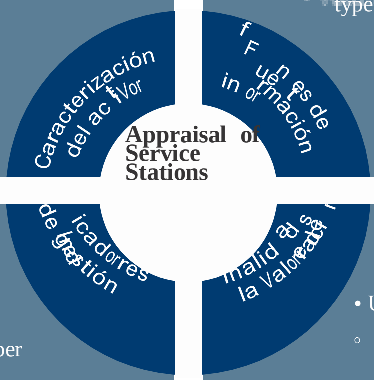
Starting with our proposal to the client, Gloval experts analyse the different sources and characteristics of the Service Stations to provide an excellent job that will cover the client's needs.

Distinguishing variables of service stations:

- **Location:** Urban, highways, etc.
- **Supply:** service area, low cost, etc.
- **Type of management:** free, branded or company
- **Type of contracts:** with leases, rights surface area, industrial lease, etc.
- Type of use: public or private use

The main source with quarterly data from the **Spanish Ministry of Industry and Energy**

- **Average prices** per village/town and region of each type of fuel
- **Monthly volume of consumption** by village/town, region, type of fuel, etc.



- **Type of contract:** analysis of the right appraised and the perspective it is appraised from

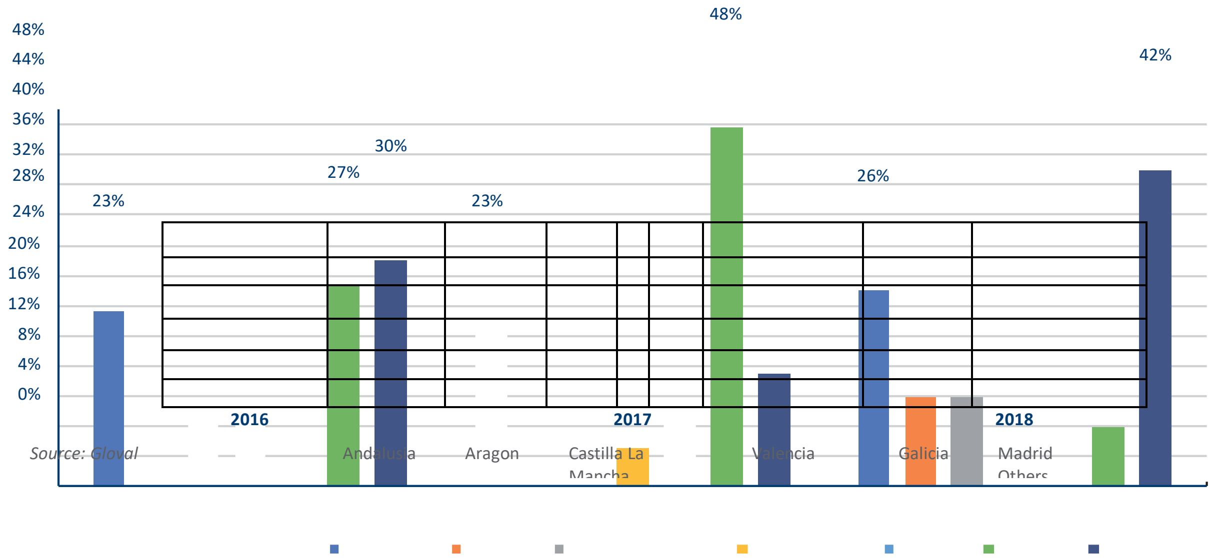
Financial variables:

- **Volume:** litres per type of fuel
- **Price:** margins per type of product, sales of car-wash per litre, sales of shop per litre
- **Terms:** analysis of age and type of assets and maturity dates of agreements
- Service station facilities

- Under the **ECO standards:**
  - Mortgage Guarantee
  - Market values
- Under the **RICS standards:**
  - Market value, investment value, fair value
  - Accountancy purposes, mortgage purposes, etc.

Out of all the jobs delivered in the last the last three years, this graph shows the areas we have most worked in.

Regions with highest number of service stations appraised.



Source: Gloval