



” Investing in residential real estate in Spain - is it a good idea?

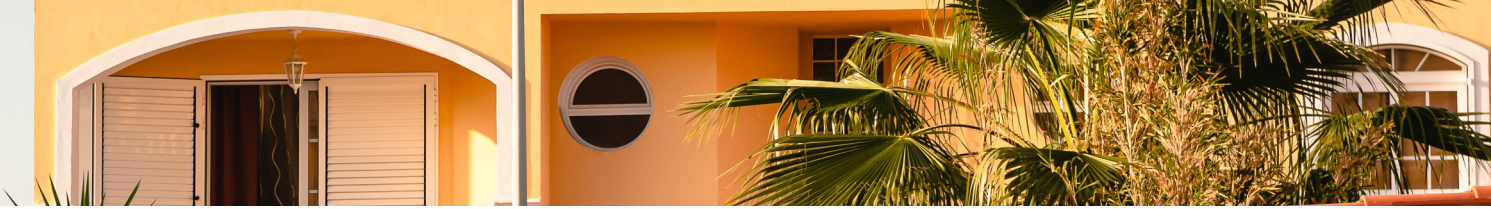
Jerzy Ptaszyński

Research and Market Service Director

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High housing prices and declining rental investment profitability in Poland, along with the desire to secure capital or a potential place of emigration in politically uncertain times, are prompting more and more Poles to look for real estate abroad. Among the countries most often chosen by Polish buyers are Southern European countries - Italy, Portugal and Spain. According to Registradores de España data, last year Poles purchased 3 118 properties in Spain, slightly more than in 2022, when there were 2 973 transactions concluded. In the first quarter of this year, there were already about 800, indicating at least a maintained pace of purchases from the previous two years. Moreover, Poles have also been among the nationalities allocating increasingly larger sums to investments, with a year-on-year increase (2023/2022) of nearly 18%.

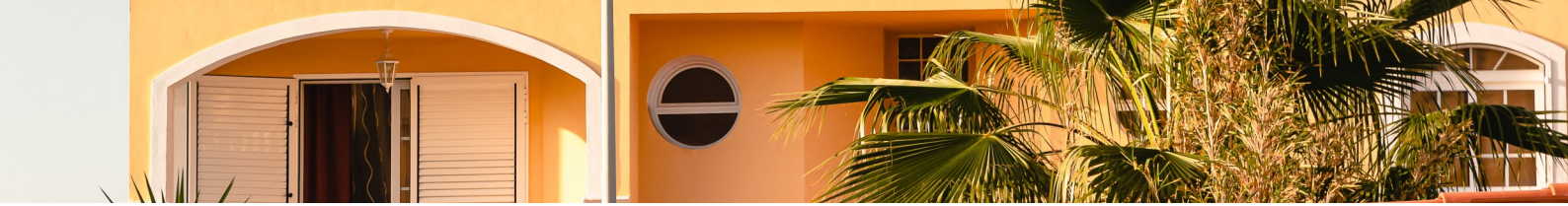
Despite rising prices and high interest rates, in 2023 the Spanish real estate market performed much better than expected. Although the number of transactions was about 10% lower than in the record year of 2022 (650 000), the result was significantly better than forecasts. This was mainly due to the sustained high level of interest from foreign buyers and investors. In recent years, foreign buyers have accounted for approx. 14% of all property buyers on the Spanish real estate market. The largest group of buyers in Spain for years has been the British, who in 2023 purchased nearly 10% of all properties bought by foreigners. Significant groups of buyers also included Germans, French and Romanians, as well as investors from outside Europe, including Moroccans, Chinese and a considerable group of investors from South America. Poles accounted for about 4-5% of purchases made by non-residents in 2023.

The Valencian Community attracts the most interest from foreign investors – in 2023, foreigners acquired 18 919 properties there, which accounted for nearly 30% of all transactions involving foreign buyers. Andalusia and Catalonia, as well as Madrid and the archipelagos - the Canary Islands and the Balearic Islands, also remain popular. The northern region of Asturias is becoming increasingly fashionable among foreign buyers, where last year, for the first time, over 700 transactions were recorded by non-Spanish buyers.

Demand forecasts for the coming years indicate its possible increase due to the expected decline in interest rates and, consequently, easier access to mortgage loans. There is also a high level of interest in Spanish real estate among foreign investors. The current price level is still attractive. In the second half of 2023, foreigners paid an average of EUR 2 715 per square meter of property, comparable to or even lower than the prices of apartments in the largest Polish cities. This amount was 6.1% higher than the average price recorded a year earlier. Despite this increase, investors are attracted by the high return on rental investment, especially short-term vacation rentals. However, the Spanish real estate market is significantly regionally diversified. Besides Madrid and the largest cities, the highest prices are usually noted in regions, where properties are attractive both to tourists and investors seeking rental returns.

On the supply side, the number of new investments is declining rapidly. In recent years, approx. 100 000 new homes were delivered annually. However, in 2023 there were only 80 000 and the forecast for 2024 is just 60 000. Spain is currently one of the European countries building the fewest homes per 1 000 inhabitants. Real estate price forecasts for 2024 predict a further 10% decline in the number of transactions, but the average purchase price is expected to rise by 1% to 3%, with new forecasts predicting a 4.1% increase in primary market prices in the first half of this year.

¹ Estadística Registral Inmobiliaria - <https://www.registradores.org>



The rental market has also seen significant changes recently due to the Housing Law (Ley de la Vivienda) introduced in May 2023. The new regulations aimed primarily at effective rent control, particularly in high-demand areas, increasing tenant protection against eviction, and supporting landlords renting their properties at controlled rates through tax breaks and financial support programs. The law also introduced measures to reduce the number of vacant properties, including penalties for owners who do not rent their properties for extended periods. So far, the effects of the new regulations are far from the intended goals. The new rules have led to a 12% decrease in rental housing supply and nearly a 10% increase in rent levels.

Forecasts for the Spanish real estate market in 2024 and the following years seem to be quite optimistic. Stable economic growth, the prospect of falling interest rates and easier access to mortgage loans, limited property supply, and rental rates offering satisfactory returns - these factors currently create favourable conditions for foreign buyers and investors.

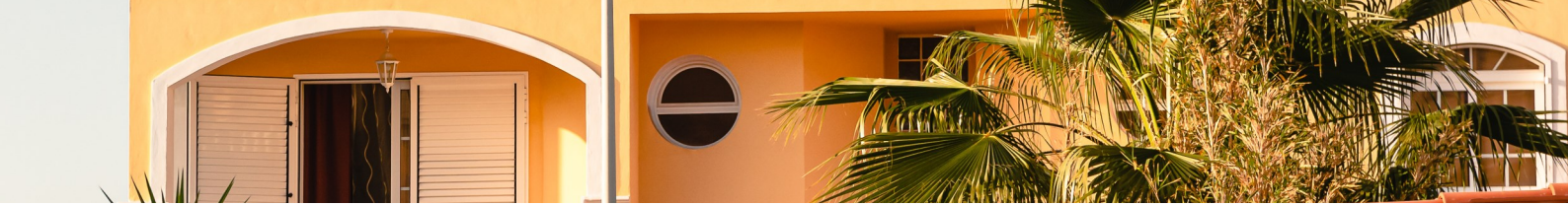
Purchasing real estate in Spain, despite its attractiveness, also involves certain potential risks and challenges. Spain has a complex legal and tax system, and regulations can vary by region. This is the case, for example, with the taxes due on real estate purchases, which are the largest additional cost a property buyer must bear. Their amount varies depending on the type of property, region, price or market type (primary/secondary).

On the secondary market, the basic ITP tax rate is 7% and progressive rates depending on the property value can range from 8% to 10%. In reality, tax rates range from 6% in Madrid to 10% in Catalonia or the Valencian Community. On the primary market, two taxes are due for property purchases: IVA (VAT) and AJD (documented legal acts tax). The IVA tax rate is 10%, while AJD tax rates are set locally and range from 0.5% to 1.5%.

Other significant property acquisition costs include notary fees and registration fees. The property sale deed is prepared by a notary, and notary service costs depend on the property value and usually account for up to few percent of the purchase price. The registration fee depends on the property value and usually amounts to several hundred euros. In addition to these fees, one must also consider fees for intermediaries or lawyers assisting in the transaction.

The main risks and challenges associated with acquiring real estate in Spain include ensuring proper property management after purchase and verifying the property's legality.

Investors not residing permanently in Spain may face difficulties with managing properties remotely. Renting, maintaining the property and resolving legal and technical issues are challenges that will be difficult to meet without adequate support from local specialists. This, of course, means additional costs or risks that need to be considered when making investment decisions. A phenomenon that a potential investor should particularly pay attention to is the "okupa" - the occupation of a property, usually a vacant one, by illegal tenants without the owner's consent. This phenomenon is mainly rooted in the limited availability of affordable housing, especially for young people, and a significant number of unoccupied properties further creates opportunities for potential "okupas." It is estimated that across the country, as many as 150 000 properties may be illegally occupied (estimations as for 2021). Spanish law provides procedures for removing illegal tenants, but their implementation can be both costly and time-consuming, and removing unwanted tenants can be challenging.



Another significant risk to consider is the legality of the property you intend to purchase. The property may be built without a building permit or may not be intended for habitation. In some regions, the number of "illegal" properties may exceed 10%. This problem particularly affects properties located in tourist-attractive regions intended for rental. An investor seeking such properties should first verify that the property has all the necessary documents, including a habitation permit.

Other risks associated with acquiring real estate in Spain do not significantly differ from the risks faced by buyers on other European markets. Political risk, legal risk, currency risk and risks related to property value changes are types of risks that investors encounter on every real estate market.

Therefore, both the current market situation and the rather optimistic prospects for its development in the coming years suggest that purchasing real estate in Spain could be a good idea for capital investment and achieving satisfactory returns. The Spanish real estate market offers many different opportunities, including investing in the well-developed segment of vacation properties. However, a potential buyer should conduct a thorough analysis, including not only the market situation or current price levels, but also tax issues, property maintenance costs and risks specific to the Spanish real estate market, which are practically non-existent in the Polish market.



JERZY PTASIŃSKI
Research and Market Service Director
e-mail: jerzy.ptaszynski@amron.pl

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