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Mallorca Property Partners
Property search and advice

Mallorca Property Partners 4th Quarter Update 2010: do prices have further to fall?

We are asked this question more than any other: should I buy now or do prices have further to fall?

Our latest update continues in the vein of our previous reports, giving an on-the-ground perspective intended to be of practical use to people considering buying a property in Mallorca. I have commented on the Euro crises too as this has reared its ugly head again in recent weeks.

With continuing economic instability very much in the headlines, it's hardly surprising people are still asking this same question. Prices have fallen and it's a buyer's market, but nobody wants to buy now and find they might have bought for less six months down the line.

A recent report, the Knight Frank 2011 Global Residential Market Forecast, predicts that Spanish property prices will have declined by 4% in 2010 and that there will be a further decline in 2011. However, the report sees prices coming back to sustainable levels, so the decline will be less at 2%.

The October 2011 IMIE report from TINSA, a leading Spanish property valuation consultancy, shows that year-on-year to October 2010, prices in the Balearics and Canaries fell by 5.5%, one of the highest declines of any region in Spain (see: http://www.tinsa.es/down/IMIE/2010/IMIE_10_2010.pdf).

TINSA do not predict what will happen in 2011, but it seems likely the comparable figures will reflect Knight Frank's predictions for Spain as a whole. I.e. average prices in the Balearics and Canaries will continue to fall but to a lesser extent than in 2010.

Going by these reports many would judge it prudent to wait a while before buying. However, while market statistics have their role to play, they can be misleading. Most importantly, all the available statistics show averages across different types of location and properties with very different price dynamics.

A report averaging statistics across both the Balearics and Canaries includes properties in the domestic sector as well as the ex-pat/holiday home sector, with prices ranging from under 100,000 Euros to 20 million or more. Within Mallorca itself, package holiday resorts such as Cala Millor and Cala Romantica on the east coast have fundamentally different market dynamics to sought-after locations such as Portixol. Categorising them together is of little use to a prospective property buyer.

The same is true of the way property trends are reported in the UK. Recent reports state prices to be falling across much of the country while London is said to be bucking the trend.

The real picture is different; there are many central London locations where prices are supported by wealthy foreign buyers. In the most prestigious such as Kensington

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and Nottinghill, the price of good properties has been rising. However, prices in other parts of London are still under pressure the same as in other parts of the country.

If you dig around you can find statistics to this level of detail in London whereas they are not available in Mallorca. A more detailed understanding of the market here can be built only through on-the-ground experience.

Our own view on the market is drawn from the enquiries we receive and regular discussions with estate agents, lawyers and other property professionals across the island. The picture this paints ties in with the predictions made in our 1st QTR 2010 update (see: http://www.mallorcapropertypartners.com/mallorca-news/feb-mar-10-mallorca-property-market-update.htm).

This outlined how, during a downturn, prices of prime properties tend to decline later and at a slower rate than for non prime properties. They also start rising sooner and at a faster rate when the economy turns around.

While the global economic recovery is currently shaky at best, recently there have been more hi-end sales in Mallorca and the indications are that more sales of mid-range properties are beginning to filter through.

This is not evident at the lower end of the international market, nor in the domestic sector, and it seems likely that these could take longer to recover. The less expensive resorts for example formed a large portion of sales in Mallorca. Typically purchasers were buying 2 bed holiday apartments, often with 90%, 100% or even 120% loan-to-value mortgages. Such excessive loans are no longer available, so a significant part of the demand for these properties has gone and will not return in the forseeable future.

In short, it looks like prime properties in Mallorca have more-or-less reached a "market bottom" whereas non prime properties have not. Currently this is most evident at the very top end of the market and the indications are that the same trend will become evident in mid-range properties in the international sector of the market. Average prices of properties outside of these sectors most likely have further to fall, albeit at a slower rate as noted above.

This does not necessarily mean you should only buy in a prime locations at present. It means that if you are not buying in a prime location you should be confident you are getting a deal that gives you some leeway if prices do indeed fall further.

Our advice though is that the prime locations offer the most secure investment opportunities and have the greatest future potential. The difference in the prospects between prime and non prime properties is more significant in the current environment than it would be in a "normal" economic environment.

Our definition of "prime" in the context of Mallorca means locations and property types for which there is a strong international demand.

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Following on from this, you need to drill down to street level within the prime areas. You need also to look out for the most sought-after features such as sea and mountain views, proximity to the beach and so-on.

And you need to be confident you are getting a good price. This is often difficult to judge as there can be a lot of variance in the asking prices of similar properties. The reason for this is the high proportion of properties in Mallorca that are second homes or investments, a factor which exaggerates some asking prices higher and others lower. By way of illustration:

- A person who wants to sell their holiday home but is under no pressure to do so, may stick with a price that would have been more realistic before the recession. They are relaxed about waiting for the "right buyer". If that does not happen in the short-term they are happy to wait for the market to improve. The property is not their main home so there is no practical requirement for them to move and if they wish, they can rent the property out to cover its costs. This keeps some prices above what would be considered realistic in the current market.

- Conversely, if a person is under financial pressure, the fact that the property is not their main home means they can get some cash in quickly by accepting a price below even current market values in order to generate a quick "opportunist" sale. This pushes some prices below what would be considered realistic in the current market.

This means the owners circumstance is a far greater influence on price in the current market than it would usually be. Furthermore, property owners do not operate by one uniform code. Some will set high asking prices because they expect to negotiate. Some will set lower asking prices but be less prepared to negotiate.

On this basis, the answer to the question posed in the title deserves a more detailed response:

- Prices of lower-end properties in Mallorca most likely have further to fall and some locations will take longer than others to recover.
- Prices of high-end properties are bottoming out and the indications are that mid-range properties in prime locations will follow the same trend over the coming year.
- In all instances, buyers need to research locations and property options in detail in order to sift out the best investment opportunities.
- Ultimately, being successful in this buyer's market is dependant on how you go about it, as much as it is about timing.

There are two other price related topics I'd like to mention.

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REPOSSESSIONS

Repossessions can be a red herring. If you reflect on the fact that many properties were bought on excessive loan-to-value ratios as mentioned above, you realise the banks would need to sell these properties over their current market values to recoup their capital.

While the banks are discounting properties in an attempt to sell them, the reductions have been too small and too slow in coming to make many of their properties competitive.

Furthermore, repossessions tend to be focussed in the less good locations. This is a generalisation, but more often than not you will find better deals on higher quality properties in the main resale market.

THE EUROZONE CRISIS

When the Euro weakens, the cost of properties in the Eurozone becomes less in other currencies. By the same token, the value of properties already bought by people from non Euro countries also reduces in their home currency. The uncertain future of the Euro is, therefore, a concern to anyone from outside of the Eurozone thinking of investing in Mallorca.

Ultimately however, the price of prime properties in Mallorca is set by market forces balancing the available supply with a level of demand that is set internationally across different currencies. This is only relevant to properties in the international sector of the market. With very little further construction going on, the supply of such prime properties is based largely on what is here already and could readily be soaked up with just a small increase in demand.

This brings us to the end of this update. Hopefully the key point that comes across is that successfully taking advantage of this buyers market means understanding the locations and market dynamics in some detail.

MPP has 11 years of on-the-ground experience in Mallorca that can be applied on your behalf. Please contact us at info@mppsearch.com to find out more.

Our next quarterly update will be in March 2011. In the meantime our bi-weekly newsletter includes ad-hoc market insights and buying advice as well as some of the more interesting property opportunities. You can see past issues and subscribe here: MPP Newsletter (http://us1.campaign-archive.com/home/?u=c0ad78f228698db50edf202ab&id=1c0433765f).