



HOUSESIN**IBIZA**



The HOUSES IN IBIZA Prime Real Estate Market

SUMMER 2015 REPORT



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The Ibiza Real Estate Market 2015

by Clive Heathcote/Houses in Ibiza
August 2015

Why am I bullish on prime Ibiza real estate?

I can hear the grass growing!

As the summer slowly winds down and 1st semester data starts to emerge, I think it is probably a good time to step back from the madding crowds, get in the shade, and try and assess what is happening to the **prime real estate market** here on the island, and more importantly where is it going.

My forecast is that prices of **prime properties** in Ibiza will increase by **at least 40%** within the next 5 years and I hope to explain why I think so in this article.

Prime, finished, real estate is currently concentrated in the €6000-€8000/m² range and my forecast is that it will exceed the €8500-€11000/m² range by 2021, still at lower prices than its peers in the Mediterranean today.

Rental yields are currently around 5% just on seasonal rentals, providing a further incentive for owning property in Ibiza.

Let me give you a quick snapshot of the island before we get into the market

Some 140,000 people are island residents, of which 40,000 are foreigners, making the island a very cosmopolitan place.

Ibiza is a small island with around 570 km² of very diverse morphological terrain, with over 50 beaches with pristine waters over a coastline of 210 km, and with over 300 days of sunshine per year.

This island is a rough diamond with wonderful, non judgmental and tolerant people, a unique and vibrant energy, gifted by the nature gods, drenched in sunshine for most of the year, and it is in constant motion.

But remember there is nothing as constant as change! And I cannot think of a better place to live!

The island has now consolidated itself as a prime destination on the international circuit and offers a very diverse and high quality set of propositions in the leisure, entertainment, sport, culinary and hospitality area.

Ibiza is fast becoming "the place" and seems to have left San Tropez and the Costa Smeralda behind!

Who can blame them?



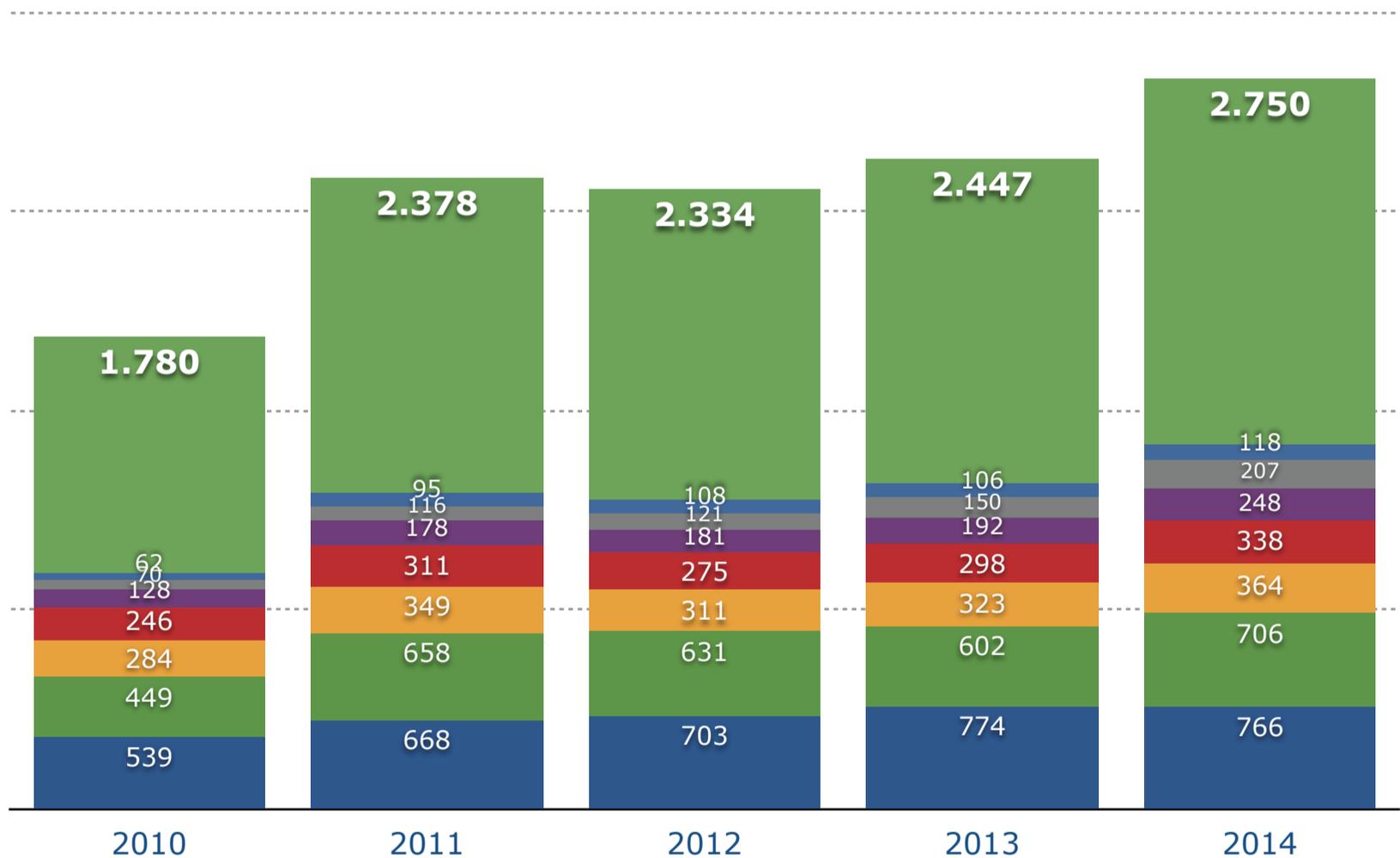
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I want to have a look at a few factors that can affect real estate prices; tourist inflows and how much they spend on accommodation and especially house rentals, and population growth on the island.

First, let's look at tourist inflows

■ UK ■ Spain ■ Italy ■ Germany ■ Others ■ Benelux ■ France ■ Total

Total tourist /nationality thousands



Source Aena/Ibestat

This is a 54% increase in just 5 years!

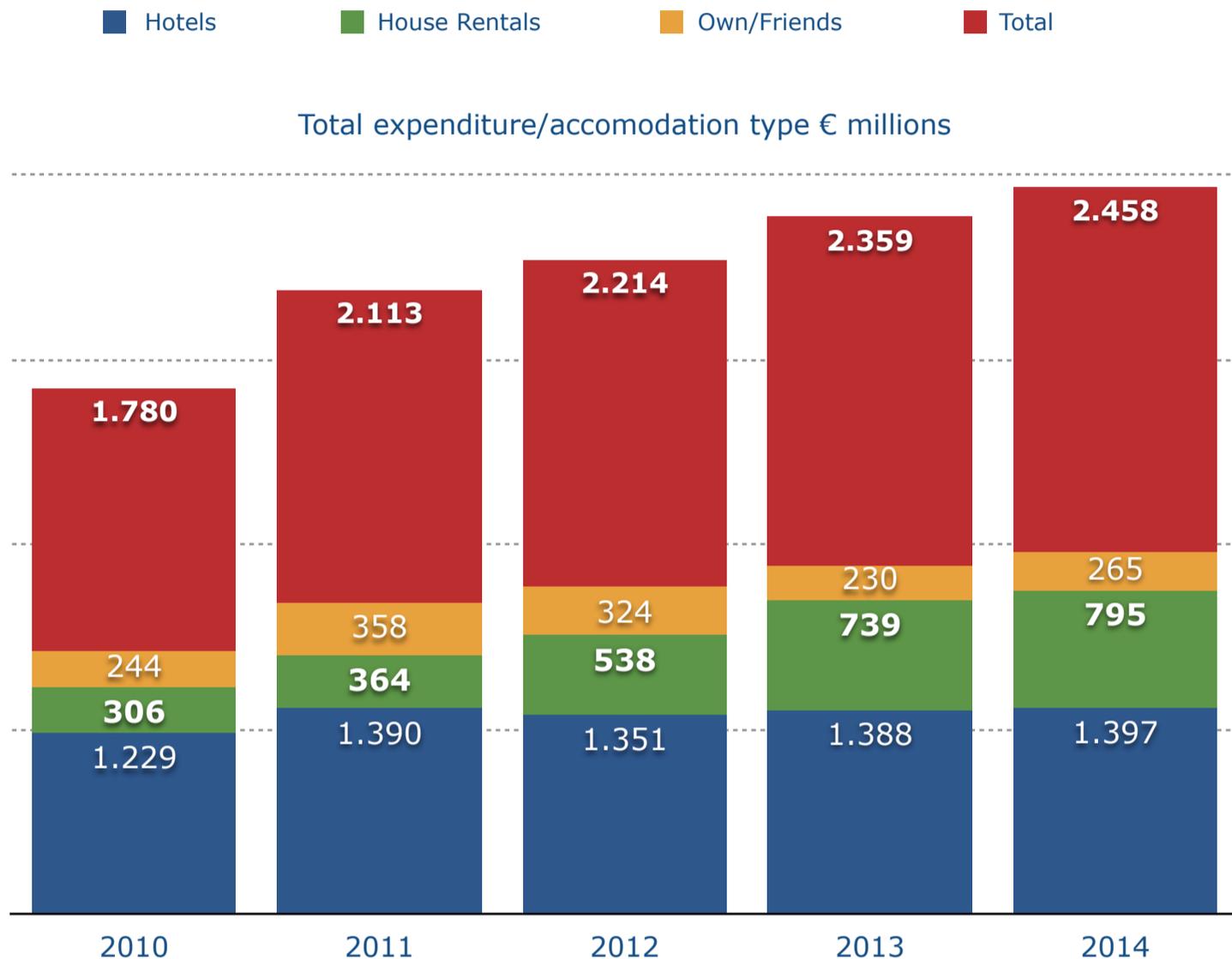
During the summer the population nearly triples to close to 400,000 which add up to over 3,000,000 visitors a year. In peak period the airport handles 45,000 passengers on 350 flights a day.



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And now lets look at where they stay and how much is being spent!

Total expenditure up 39% in 5 years



Source Ibestat

Expenditure on house rentals has increased 160% in 5 years!

The island has some 548 hotels offering close to 90,000 beds. The average age of the visitor is steadily increasing, and tend to stay on average 8 days.

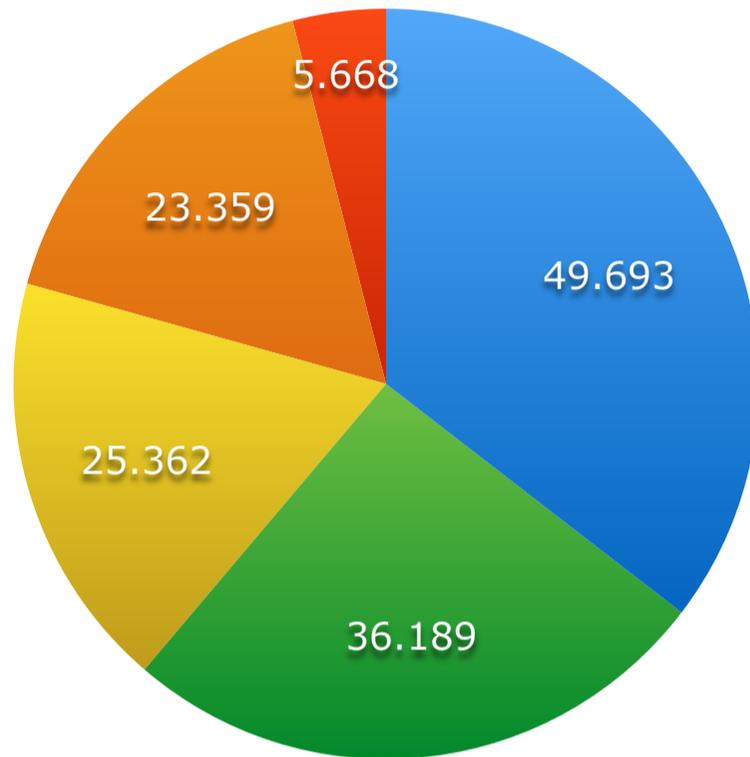
Hotel occupancy is 74% on the year which means over summer we approach 90% with an ADR of over €100 and REVPAR of €67. The island manages over 21 million overnight stays.

Revenues in 2014 from tourism was € 2450 million. With 140,000 residents that means over €160,000 per head! With less than 5500 people unemployed, giving us a rate of less than 5%, many economists would call that full employment. This is beginning to sound like Singapore but with great beaches, less people and much cheaper real estate!



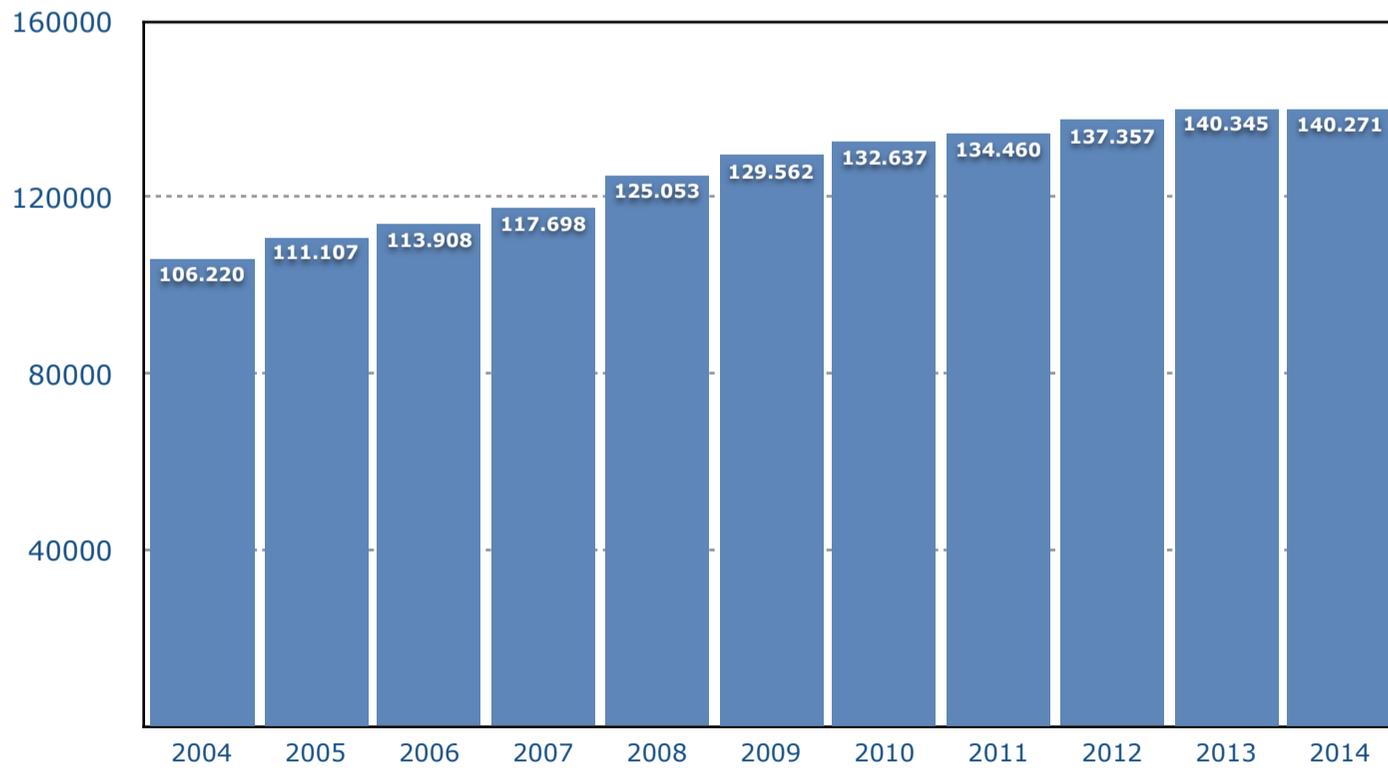
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Population 140,271-2014



● Eivissa ● Santa Eularia ● San Josep ● San Antoni ● San Joan

■ Island Population



Source Ibestat

Population has increased 32% in the past decade!



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The Ibiza Real Estate Market 2015

What about the real estate market?

Where do we come from?

As just about everybody knows, Spain has gone through a very painful real estate adjustment in the past 7 years which sent house prices tumbling an average of 35% off its frothy highs.

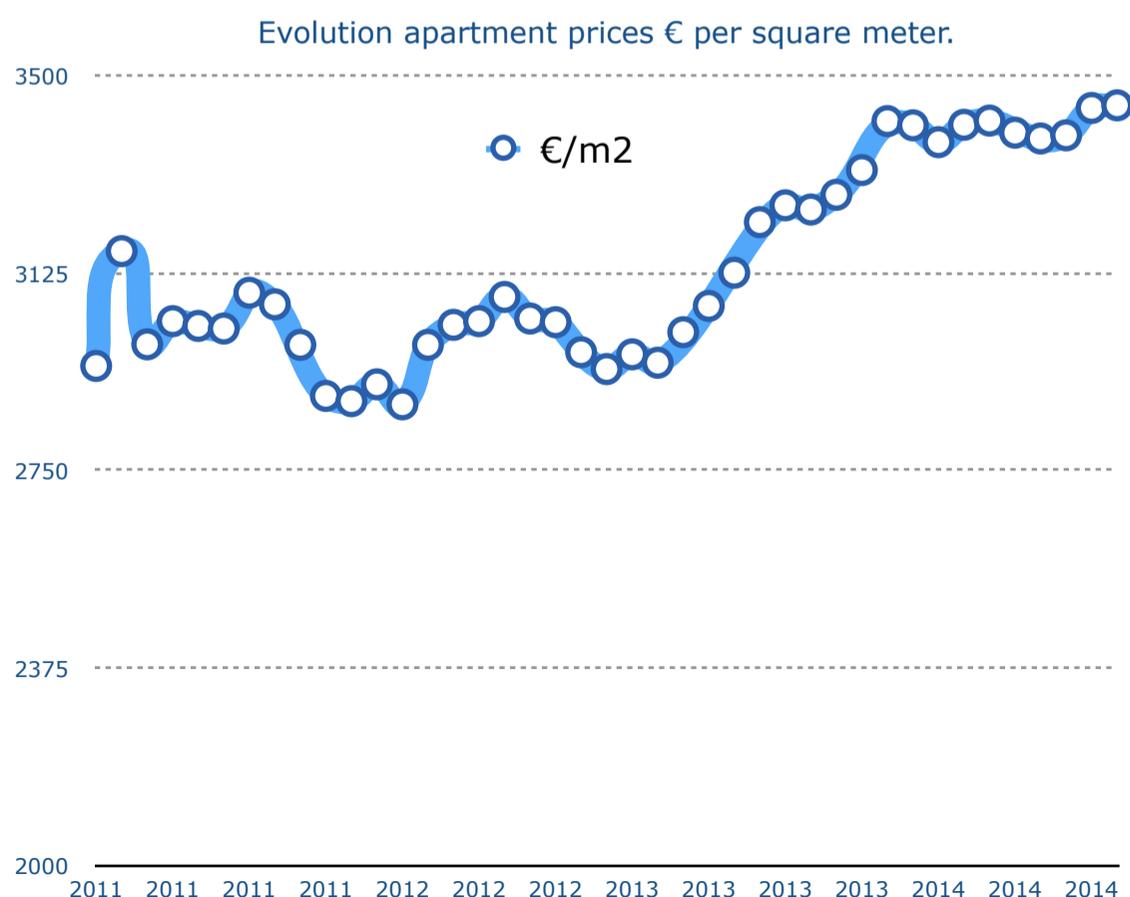
There are now signs of recovery in the market in Spain and prices will probably see a reasonable tailwind develop over the coming years and are expected to gently rise.

But Ibiza is not Spain

Prices on the island indeed stagnated over the recent years. Some properties perhaps lost marginal value, transactions slowed, housing starts dropped, and sure, some highly leveraged developments soured and after the loans were called in and collateralised by the banks, were let out onto the market at discounts and quickly absorbed, but prime property prices did not drop significantly, if at all.

So, where are we?

Prices in Ibiza are beginning to move, in the past 18 months prime real estate has increased by an average of some 15%.





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Average prices per m2 (amongst the highest in the country) are around €4000/ m2 for houses and € 3400/m2 on apartments.

Average price for a house is a little over €1,000,000 and for an apartment is around € 400,000.

Currently there some 700 houses for sale with an average price €4153/m2 and 1000 apartments at an average of € 3124/m2 (total for sale is a little over 2 % of the total stock)

Planning permission and zoning laws very strict on the island.

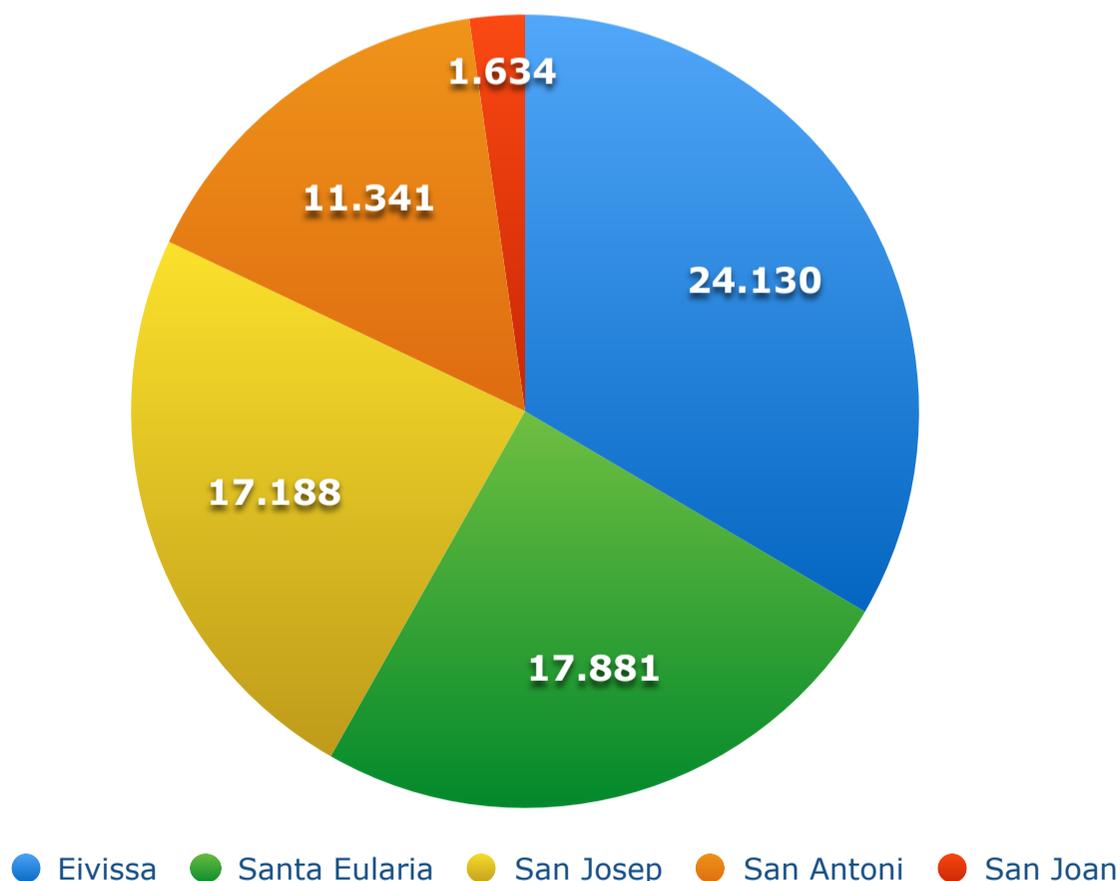
Building costs, for prime, are between €2000 and €2500 per square meter

We are seeing an increase in foreign buyers acquiring property in the upper segment of the market, usually cash buyers.

In recent years we have seen a large increase in the vacation rental market which has exploded on the back of internet and which now represents over 40% of stays, which together with an increased professionalism in this industry, enables property owners to obtain very attractive rentals yields on their properties.

The island has a current housing stock of some 70,000 homes.

Housing Stock 72,174 -2015



Source Ibestat



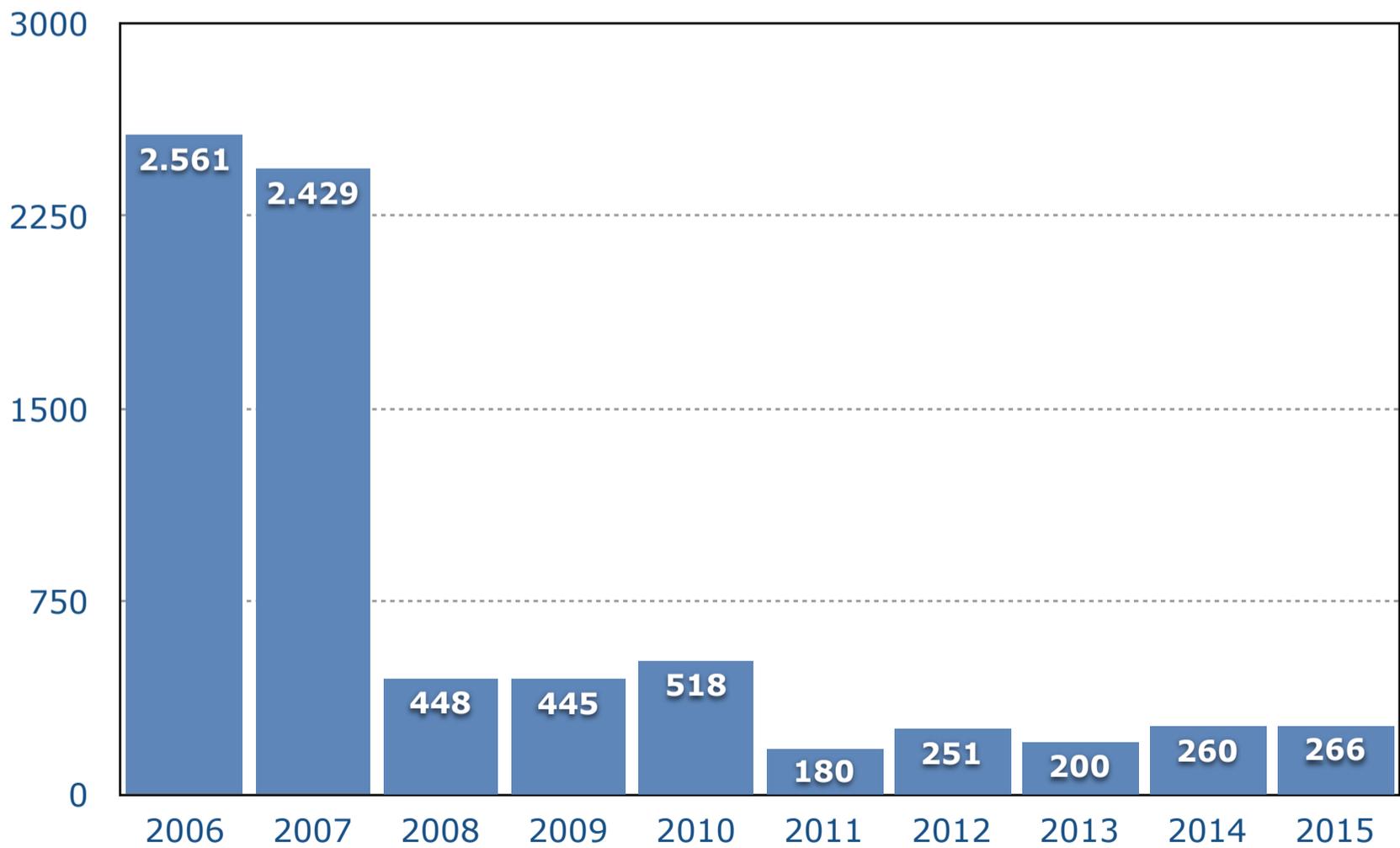
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Now, let me show you some more charts about what is happening here.

Housing starts look like they are doubling vs 2014, house spending looks like it will exceed pre bubble levels and transactions are up 47% in 2014.

(2015 figures are June year to date)

■ Housing Starts

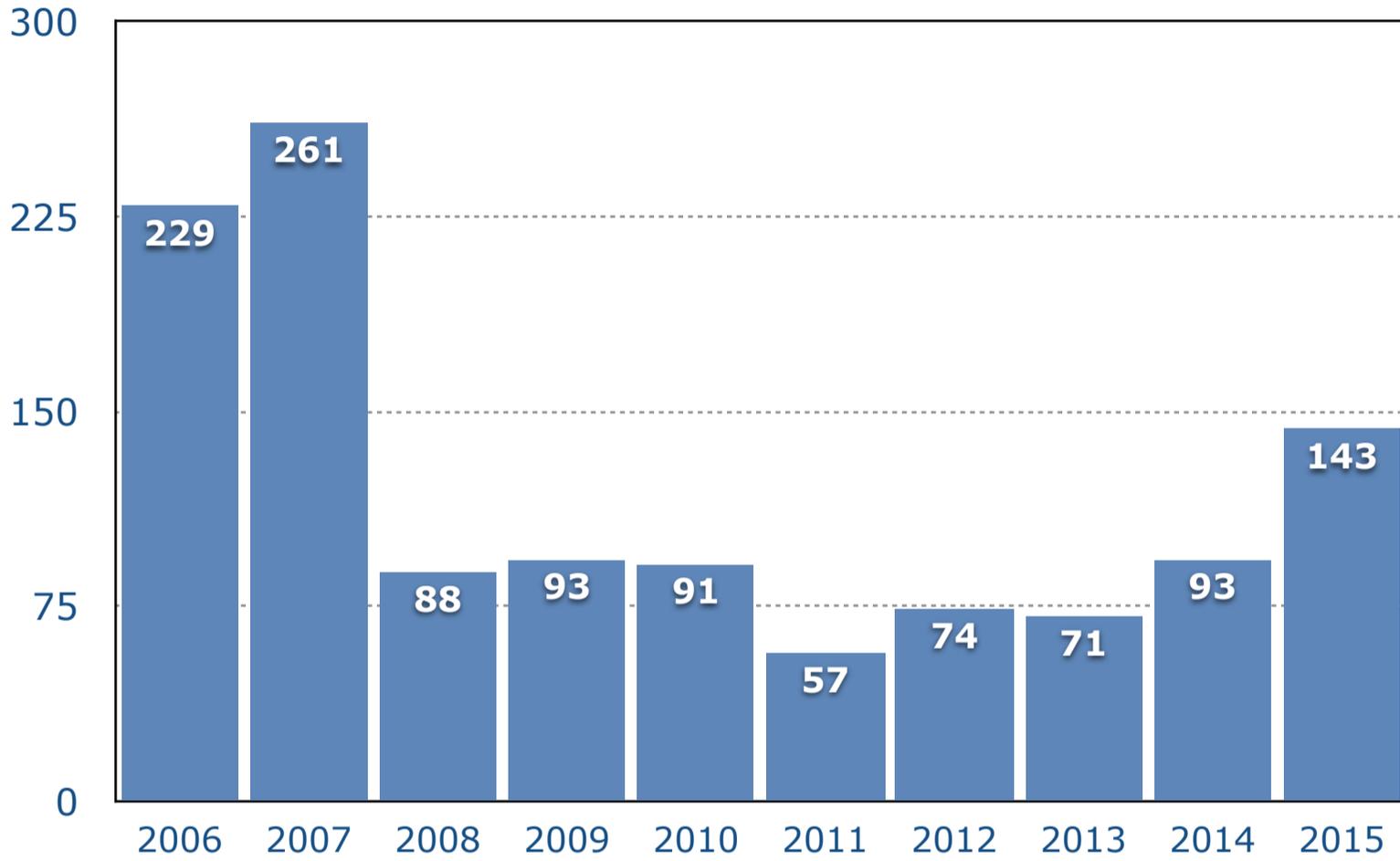


Source Ibestat

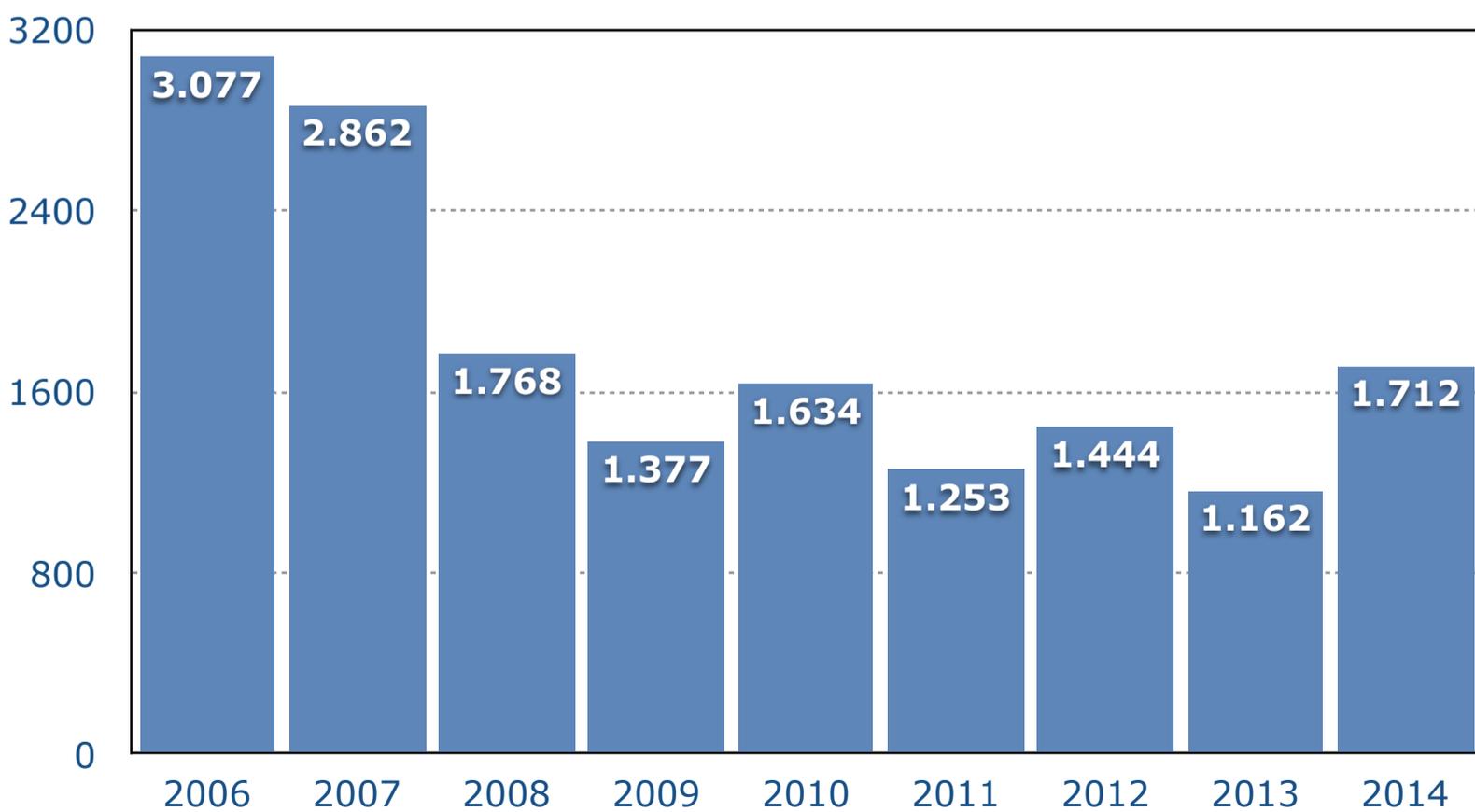


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■ Housing starts spend € mm



■ Purchase Transactions Units





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What are people looking to buy in prime?

- 1- Farmhouses with a good plot size (+15,000 m²) in the countryside to be done up or already done.
- 2- Houses with a sea view (new build, 2nd hand and to re do).
- 3- Land to be developed (+ 30,000 m²).
- 4- Luxury apartments.

1-Farmhouses in the countryside (Fincas)

that have been redone with a build of 450-500 m² on a plot 30-80,000 m² are currently priced at between **€ 2.5 million and €4 million.**

Farmhouses in the countryside to be redone with a projected build of 450-500 m² on a plot 30-80,000 m² are currently priced at between **€1.5 million and €2 million** with constructions budgets of **€1-1.5 million**

These properties are scarce and demand is growing consistently.

Consolidated Santa Gertrudis San Lorenzo
Emerging San Mateo Santa Agnes San Joan

2-Houses with seas view

close to the sea, with builds 350-600 m² and whose plots generally tend to be smaller ranging 2.000 to 5.000 m².

Mostly redone or new build, with prices in the upper segment of the market between **€ 3 million and € 5 million.**

Consolidated Roca Llisa Vista Alegre Cala Jondal
Emerging San Miguel Es Cubells San Joan

3-Land to be developed

is sought particularly by island residents or people who have island experience. Planning permission can be cumbersome and the process can take up to 18 months.

Building can take another 18-24 months and while the quality on the island is high materials tend to cost more and requires constant monitoring and assume €2500/m² for prime quality.

Prices for plots vary significantly depending on many factors but most plots, that have a license to build or the possibility of permission with a decent size (+30,000 m²) sell for **€1.2- €1.8 million** with permission to build 450-500m².

Consolidated Santa Gertrudis San Lorenzo San Josep
Emerging San Mateo Santa Agnes San Joan San Miguel

4-Apartments

Luxury apartments around the Paseo Maritimo/Botafoch area in Ibiza

Prices here range in the € 8000 /m² for the up market apartments with a view on the Dalt Vila. Prices here for an attic with views range **€1.5 to €3 million.**

Consolidated Paseo Maritimo/Botafoch
Frontier Playa Den Bossa



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So let's have a look at prime demand...

The new profile of buyer of prime real estate has emerged in recent times...

-**Affluent cosmopolitan cash buyers** typically professionals 35+ looking for a premium holiday home.

-**Professionals** buying into the island as a base for family, with professions that enable them to work offsite and commute a few times a month, and looking for a significant jump in quality of life.

-**The semi retired and retired** who are regulars, with a high net worth, and looking to spend a significant part of their retirement here attracted to the high quality of life on the island which continues to increase.

-**Buy to let private investors.** A new industry is consolidating rapidly, the vacation rental market is strong on the island and agencies are fast becoming serious, regulated and professional, enabling investors and property owners to extract attractive rental yields on their properties. Net yields can be over 4% a year on season rentals only.

-Ibiza also attracts **the glitterati** (be it fashion, sport or entertainment stars) as well as the successful business owners and money market titans, wanting to own a property on the island. Just a few pointers; over 100 jets land a day in summer and over 1300 yachts are moored in our marinas, and often securing a reservation for a table at the top place is no mean feat!

-**Institutional investors.** These investment inflows are new entries to the market. A number of investments in recent times such as the Livingstone brothers of **London & Regional** whom acquired a stake in the ME Ibiza hotel including the Nikki Beach club as well as the Playa Real Hotel in Talamanca Beach. The Reuben brothers from London, through **Aldergate Investments**, purchased 148 hectares of beachfront in Cala Comte for £25 million. **KKH Capital** bought the historic Cines Serra in prime Ibiza town which will be converted into a luxury 5 star urban hotel. This has triggered interest from overseas investors who now have Ibiza on their radar screen

-**Residents on the island have grown** from 106,000 to 140,000 in a decade (+32%) higher than Mumbai (+20%) Rio (+10%) and just behind to Shanghai (+34%). This must mean something!

-**The government has an incentive** for foreigners on the purchase of property with a value of over €500,000 granting buyers automatic residency in Spain.

Just a thought ; if only 0.05% of our yearly visitors would buy a home the entire existing home inventory for sale would disappear! Or how about population increases by 10% in 5 years, another 14,000 people and let's say 20% want to be home owners!



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Let's look at supply...

Supply is limited by strict planning permission which fortunately ensures the islands habitat.

There is currently **some 2% of the island stock on sale**, and most of which is not considered prime. My estimate is that there is no more than 200 prime properties on sale.

Farmhouses are evermore scarce and as with houses with sea views, are limited by protected zones and permission to build on land is limited and cumbersome. **There is a scarcity of quality product.**

There are **very few quality luxury apartments** with a view available, in the prime Paseo Maritimo / Botafoch area it is probably as little as single digit number.

There is very little selling pressure as the island is mostly wealthy, leverage is very low, the few bad debts have been flushed out and the local islanders all value property and sell reluctantly, if at all.

All this keeps a peg on supply.

But there are some challenges ahead!

All this is fine but there are caveats, the island and especially the authorities have an immediate, steep hill to climb regarding infrastructures.

Managing over 3 million visitors a year (up 50% in a decade, most of them packed into a 4 month period) and the increase in island residents (up 30% in a decade) means there are significant constraints on water, waste management and transportation as well as on the environment both land and sea habitat.

These issues need to be thought out, efficiently planned and seriously addressed and soon!

Sharp Improvements in infrastructure and sustainable preservation are very necessary to the island, preserves our treasure, improves life quality and of course means higher house prices.



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So, these would be my conclusions...

**Affluent buyers are coming to the island in numbers.*

**Supply is limited and the island has strict zoning laws.*

**Robust summer rental market offering attractive yields.*

**Consolidated premium destination with upmarket tourism growing strongly.*

**Island Population is growing.*

**Low interest rates and weaker Euro vs \$ £ and Swiss Franc attracting buyers from the UK , the Dollar bloc and Switzerland.*

**The government has incentives for home purchases over €500,000 for foreigners granting them Spanish residency.*

**Institutional investors are buying prime locations.*

**The island is appealing as a cosmopolitan, high quality lifestyle option for living.*

Houses in Ibiza is a dedicated property manager focused on generating attractive returns for property owners through vacation rentals providing a professional, competitive and transparent service, coherent and dynamic pricing and offers its customers an enjoyable, relaxed and easy island accommodation experience.

Houses in Ibiza is a registered trademark owned by **White Island Realty**.

Clive Heathcote is the co founder of Houses in Ibiza, with over 30 years of experience in Real Estate and Investment Banking and a permanent resident in Ibiza for the past 5 years.

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