



## **Market Study of the Majorca Holiday Real Estate Market**

### **Findings**

**Client:** Porta Mallorquina Real Estate S.L.  
**As at:** January 2015

Inviting landscapes or shots of imposing fincas, luxuriously appointed villas or modern penthouses in the heart of Palma also make investments in holiday real estate in Majorca appear financially attractive. Nonetheless, investors will ultimately decide on the basis of potential returns. For them to do so, it is important that they have information about the market structure and how well their investment will retain its value.

Are large mark-ups for special location features or a great sea view worthwhile today? How sure can one be of re-selling, and how many other properties will be up for sale in future? A first analysis of the underlying structural elements is provided by the following study by the STI Center for Real Estate Studies which presents details of the volume and prices of available real estate, broken down by region and fit-out standard.

#### ***Subject and objective of the study***

The present study examines the property market in Majorca with the objective of providing as representative an overview as possible with regard to the standard and structure of the available holiday real estate for sale whereby both the quantity (number of properties) and quality (location, fit-out standard, sea view) of the properties is examined, enabling these properties to be assigned to the various established price brackets.

One should remember that, if a rough addition of the numbers provided by the different brokers is undertaken, the number of properties for sale can be easily overestimated. In Majorca's multi-broker market, it may be the case that one and the same property is being handled by several brokers, sometimes even using different information. In order to rule out such distortions, individual property data from the leading brokers was collated and compared, whereby implausible values and duplications (see annex on the data basis) were corrected. After correction of the statistical outliers, the result is a dataset of **3,857 properties**, the fit-out standards of which are examined in the next section but one.

#### ***Majorca: macro-location and infrastructure***

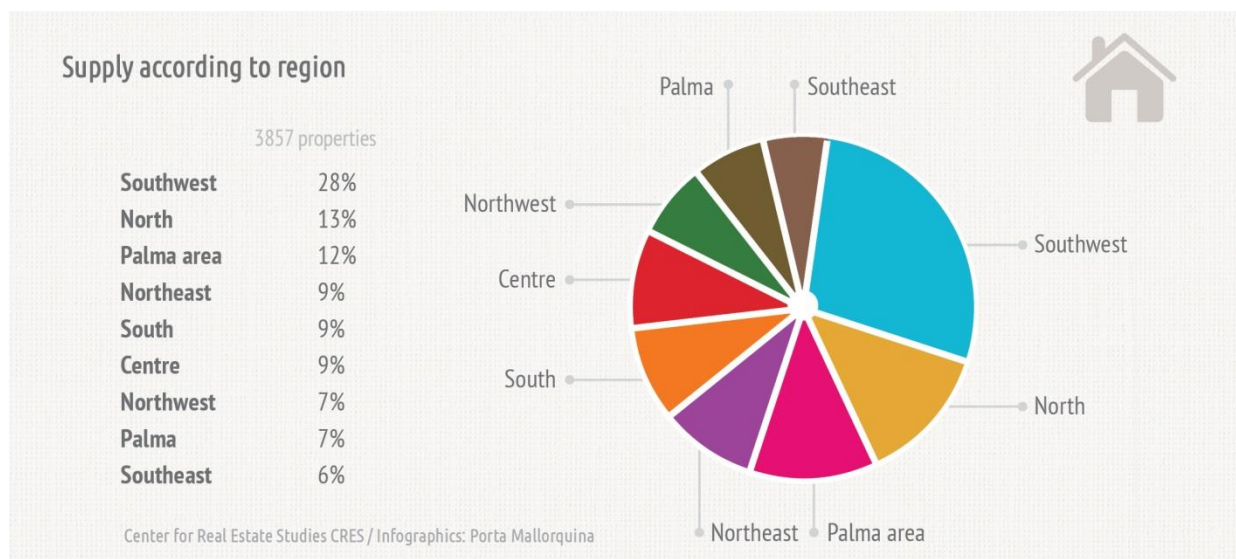
Majorca is the centre of the Balearics and also the biggest island. With an area of 3,600 square kilometres, Majorca is more than six times the size of neighbouring Ibiza. Thanks to its geographic location in the western Mediterranean, Majorca is easy to reach with flights from Germany taking less than 3 hours, and it has thus developed into a stopover hub for international airlines.



The economy is based on tourism – largely due to the Mediterranean climate. In the winter months too, the average temperature is around 10°C, while top temperatures of over 30°C are not unusual in summer. Attracted by the pleasant climate and the varied landscape, around 10 million tourists visit the island every year. Around 23% of these are German, closely followed by the British who account for a good 21%. At least 50 km of the approx. 560 km of coastline are designated as beaches and, even in the high season, provide plenty of space for bathers. However, Majorca is by no means only a mass tourism and beach destination. Sports such as trekking or golf (24 golf courses) appeal to a broad target group. The island's restrictive building regulations favour the value retention of existing properties, and help to conserve nature.

### ***Market volume, location and fit-out***

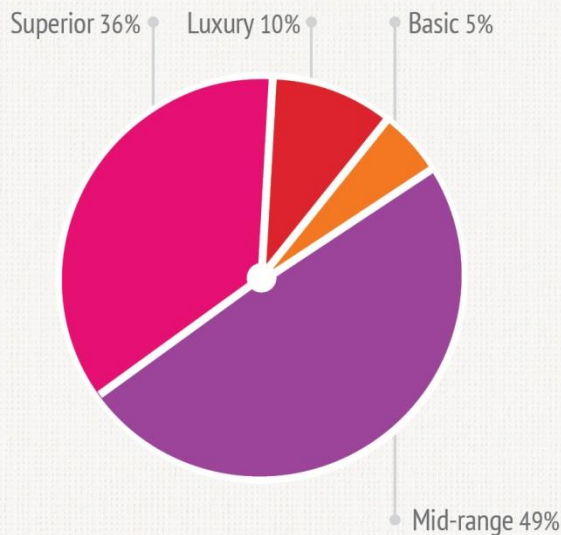
At the beginning of 2015 around 4,000 properties in different categories are for sale. The following chart shows that the number of properties varies greatly, and does not correspond with the areas of the respective regions. More than half of the available property is concentrated in the top three regions of Southwest, North and Greater Palma with 28%, 13% and 12% respectively. The Southwest stands out, in particular, as this comparatively small region accounts for more than one-quarter of all property for sale. In comparison, the large Southeast region appears at the bottom of the list. Accounting for 6%, only just over one-twentieth of properties for sale are in this region.



As expected, the island has a comparatively high standard. 10% of all properties are in the luxury segment, and superior properties also account for over one-third (36%). Only one-twentieth of properties are of a basic fit-out standard.



## Properties for sale by fit-out standard



### Properties for sale

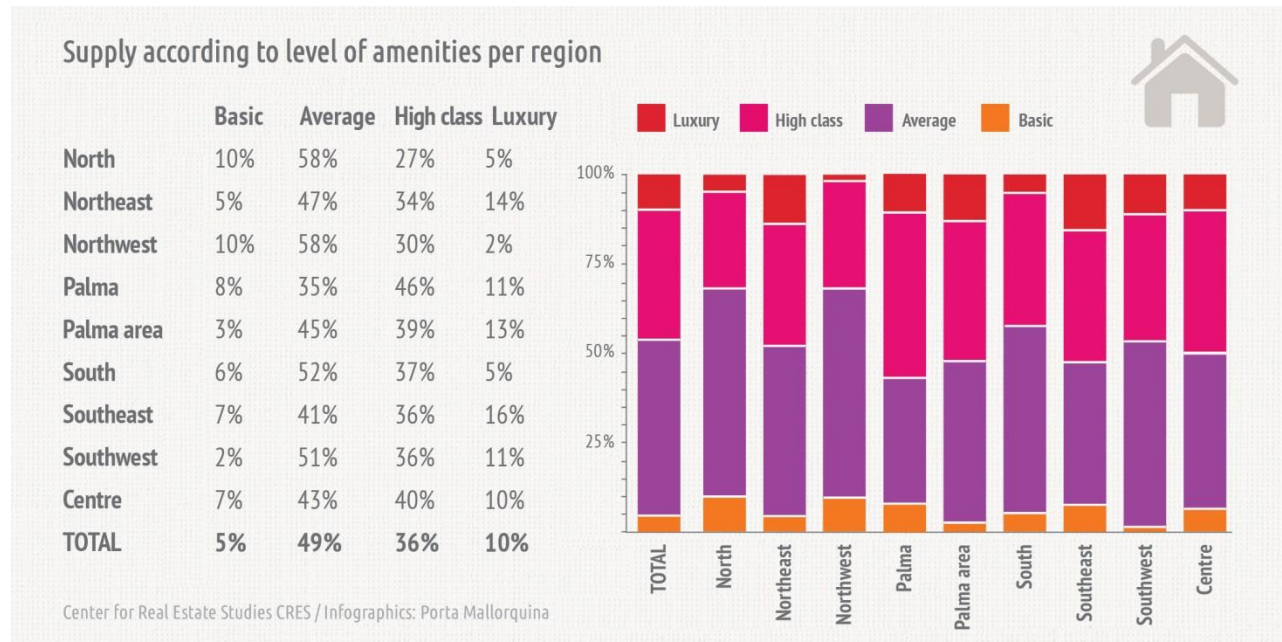
3857 properties	Basic	Medium	Superior	Luxury
North	10%	58%	27%	5%
Northeast	5%	47%	34%	14%
Northwest	10%	58%	30%	2%
Palma	8%	35%	46%	11%
Palma area	3%	45%	39%	13%
South	6%	52%	37%	5%
Southeast	7%	41%	36%	16%
Southwest	2%	51%	36%	11%
Centre	7%	43%	40%	10%
TOTAL	5%	49%	36%	10%

Center for Real Estate Studies, CRES / Infographics: Porta Mallorquina

Regional trends can be discerned, particularly with regard to fit-out standards. Thus the greatest proportion of luxury properties (16%) is in the Southeast, a region in which a comparatively small number of properties are for sale (231). There is an above-average number of basic and mid-range properties in the North and Northwest. These two quality standards account for over two-thirds of property for sale, potentially offering investors affordable entry to the market.



## Properties by fit-out features



## Price levels

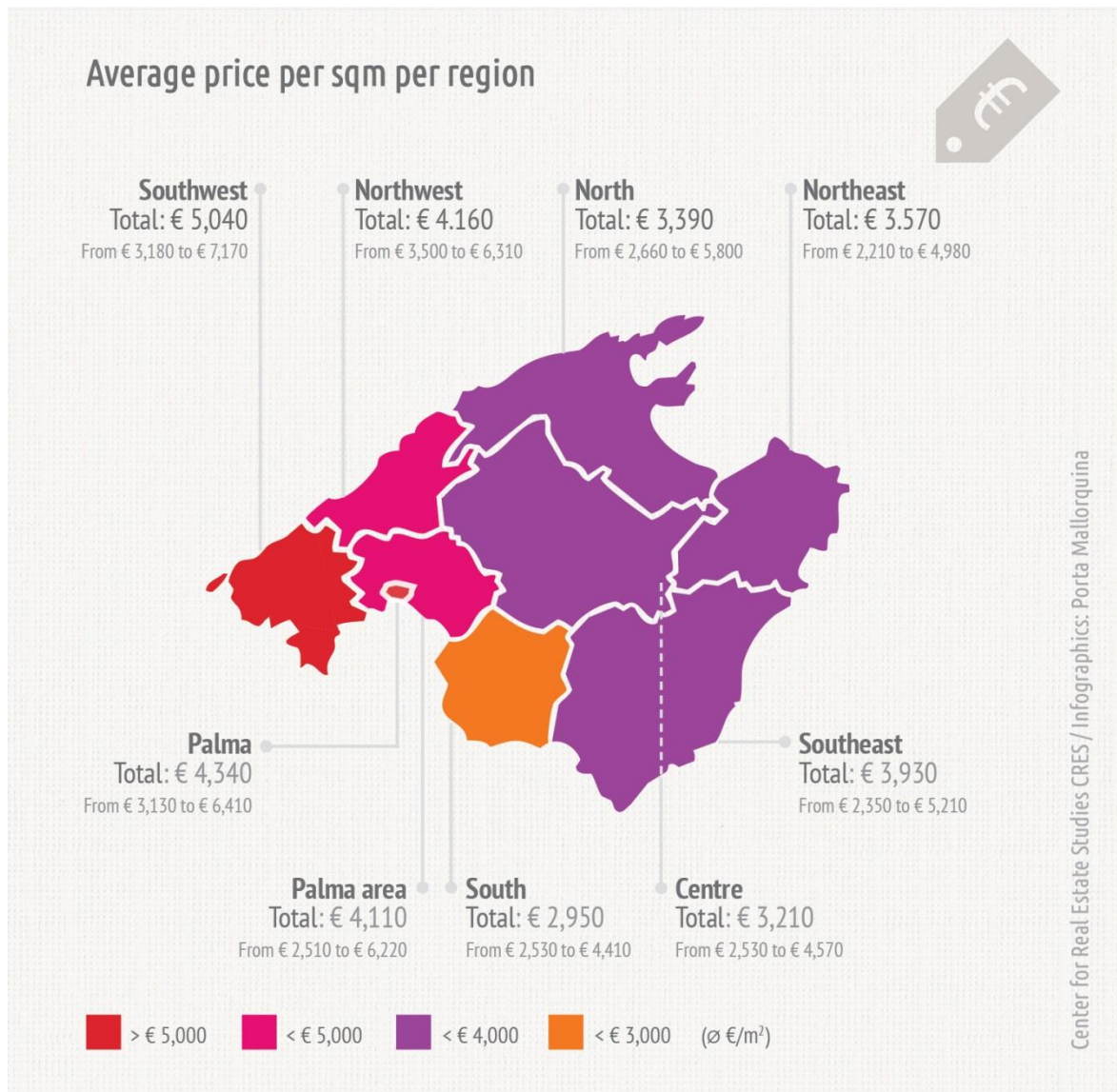
Prices vary between the various regions, but also significantly within the regions, depending on fit-out standard and special property features.

Average price per sqm

	Total	from	to
Southwest	€ 5,040	€ 3,180	€ 7,170
Palma	€ 4,340	€ 3,130	€ 6,410
Northwest	€ 4,160	€ 3,500	€ 6,310
Palma area	€ 4,110	€ 2,510	€ 6,220
Southeast	€ 3,930	€ 2,350	€ 5,210
Northeast	€ 3,570	€ 2,210	€ 4,980
North	€ 3,390	€ 2,660	€ 5,800
Centre	€ 3,210	€ 2,530	€ 4,570
South	€ 2,950	€ 2,530	€ 4,410

Center for Real Estate Studies CRES / Porta Mallorquina





At around € 5,040 average square metre prices are more than two-thirds more expensive in the Southwest than in the South, where the average square metre price is € 2,950. Alongside the Southwest, Palma, Greater Palma and the Northwest also number among the top regions. Average prices here range from € 4,110 to € 4,340 per square metre.

The additionally stated price range “from” (basic fit-out) “to” (luxury fit-out) however shows that “bargains” are also available in the top regions and that high prices can still be achieved for special properties in the more affordable regions. If one is prepared to buy a property in the Southwest with a basic fit-out standard, the average price is € 3,180 per square metre. For the same type of property in the Northwest, the buyer would have to spend around € 320 more per square metre.

As a rule, the premium properties in a given region are more than twice as expensive as those with a basic fit-out. This is particularly evident in the top four regions where entry prices range from € 2,150 per square metre in Greater Palma up to € 7,170 per square metre in the South-

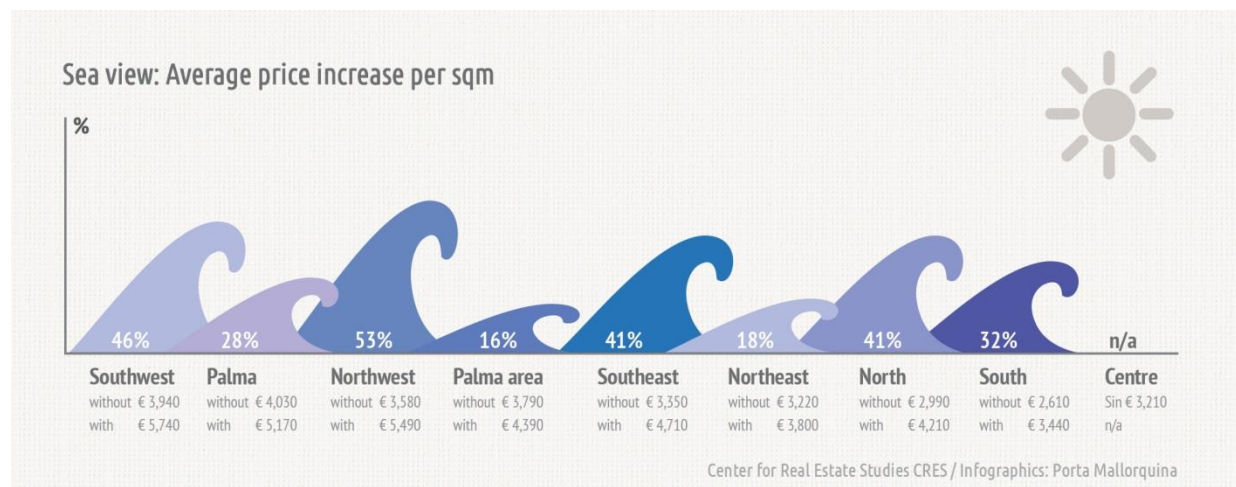


west. For investors, these heavy mark-ups for investments of a higher standard can be interesting, given that they also exist in other regions. In the comparatively affordable North, average prices range from €2,660 for basic to € 5,800 for a luxury property, corresponding with a price mark-up of around 120%.

### ***How much does a sea view cost?***

A sea view is a special mark of quality – particularly against the backdrop of investment in holiday real estate. How much are investors currently spending on a sea view? The two columns in the following table give an indication of average prices, broken down into properties with and without a sea view.

#### **Price mark-ups for sea view**



It may be seen that, not infrequently, a sea view merits price mark-ups of over 20%. In Palma, for instance, square metre prices for properties without a sea view are € 4,030 on average, while investors pay an average of € 5,170/m<sup>2</sup> for real estate with a sea view. The percentage mark-up is even higher in the premium Northwest region, but the same is also the case in the more affordable North region: in both, the price mark-up per square metre is over € 1,200.

Comparing average prices for properties with and without sea view, the biggest mark-ups of up to 53% are achieved in the Northwest, while in Greater Palma or the Northeast, mark-ups of only 16% and 18% respectively can be obtained.



### ***Perspective for investors: prices by property category***

From an investor's perspective, a breakdown by property category should also be explored, as contradictory trends can be discerned. Essentially the principle applies that built plots should be more expensive than unbuilt ones, solely because of the higher material outlay.

This effect on the two last columns is shown particularly clearly in the following table by comparing properties with a plot size of 1,001 m<sup>2</sup> to 10,000 m<sup>2</sup> with properties with larger plots. The average square metre price for properties with larger plots is always lower than that for properties with smaller plots.

Why is this effect not apparent in the premium locations and when comparing apartments and properties with plots of under 1,000 m<sup>2</sup>? In the premium locations, the market in this property category has less liquidity, so available properties are fewer. Special effects and higher prices paid by must-have buyers can have a major impact on the average price. This category contains more properties with a superior to luxury fit-out, both proportionately and in comparison with the other categories.

With regard to large plots, terrace houses do not feature at all, but it is terrace houses and apartments specifically that demonstrate cost distribution effects owing to mutually used infrastructure and, from a user perspective, they do not possess the same degree of autonomy as detached properties. Both effects justify a reduction of average prices in both categories and ultimately explain the trend shown in the table which, reading line by line from left to right, indicate firstly rising and then declining average prices in the respective regions.

### ***Overview of square metre prices per region by property type and plot size***

Average price per sqm per plot size				
	Apartments	Houses		
		< 1.000 m <sup>2</sup>	< 10.000 m <sup>2</sup>	> 10.000 m <sup>2</sup>
Southwest	€ 4,610	€ 5,240	€ 6,650	€ 8,450
Palma	€ 4,610	€ 3,890	€ 5,300	n/a
Northwest	€ 3,280	€ 3,660	€ 4,180	€ 5,430
Palma area	€ 3,890	€ 3,140	€ 5,240	€ 4,600
Southeast	€ 3,590	€ 3,820	€ 4,720	€ 4,020
Northeast	€ 2,920	€ 2,800	€ 4,110	€ 4,380
North	€ 3,250	€ 3,140	€ 4,050	€ 4,280
Centre	€ 1,770	€ 2,160	€ 3,170	€ 3,570
South	€ 2,430	€ 2,820	€ 3,910	€ 2,630

Center for Real Estate Studies CRES / Porta Mallorquina





It is in the premium Southwest locations in particular that investors are willing to pay sums for prestigious properties that are disproportionately high, even for these places. Thus a location directly on the seafront and in well-known places and communities are hugely important with regard to prices for these kinds of properties.

In the top group of the most expensive properties, the three communities of Portals Nous, Port Andratx and Son Vida are most striking with regard to square metre prices, so that these are considered to be particularly desirable. If prices and demand for these locations remain stable and high, investors with a high level of liquidity may also find properties at the current top prices in these premium locations that will retain their value. A selection of the current top properties in the various categories is provided in the following table.

### Sample prices for desirable locations

Portals Nous	m <sup>2</sup> *	Price	m <sup>2</sup> price	Source
Apartment	210	€ 1,600,000	€ 7,619	Minkner & Partner
House: plot up to 1,000 m <sup>2</sup>	452	€ 1,900,000	€ 4,204	First Mallorca
House: plot up to 10,000 m <sup>2</sup>	470	€ 2,900,000	€ 6,170	Engel & Völkers
Port Andratx	m <sup>2</sup>	Price	m <sup>2</sup> price	Source
Apartment	298	€ 2,500,000	€ 8,389	Porta Mallorquina
House: plot up to 1,000 m <sup>2</sup>	320	€ 4,200,000	€ 13,125	Porta Mallorquina
House: plot up to 10,000 m <sup>2</sup>	1.000	€ 17,000,000	€ 17,000	Engel & Völkers
House: plot over 10,000 m <sup>2</sup>	700	€ 13,800,000	€ 19,714	First Mallorca
Son Vida	m <sup>2</sup>	Price	m <sup>2</sup> price	Source
Apartment	200	€ 1,400,000	€ 7,000	Engel & Völkers
House: plot up to 1,000 m <sup>2</sup>	364	€ 2,200,000	€ 6,044	Engel & Völkers
House: plot up to 10,000 m <sup>2</sup>	2.500	€ 14,500,000	€ 145,800	Porta Mallorquina

\*Apartment and/or plot size

Source: Center for Real Estate Studies





## **Summary:**

Majorca remains attractive for investors. On closer scrutiny of different regions, fit-outs and price levels, one sees a wide range of options for larger or smaller investments.

The high prices and mark-ups for sea views in the best-known regions such as Palma, or the entire Southwest, come as no surprise. However, a closer look at individual properties reveals that here too, one may find affordable entry prices, just as very highly priced investments can be made outside these regions. The Northeast, for instance, is in the medium price range, even though this region contains the second-highest proportion of luxury properties. The respective age of the building plays an important role here: properties which were built only recently may tend to have a better fit-out standard. In this instance, prices are lower in regions with older properties.

The key question at the heart of any serious investment consideration is that of value retention and this greatly depends on the individual property on the one hand, and on general economic trends, on the other. The latter, for their part, are dominated by tourism and are thus influenced by economic developments in the tourism source countries (Germany and the UK), as well as by the local framework conditions.

## **Data information**

### **Data basis and survey period**

Around 6,000 individual properties (no plots) listed on the homepages of the four leading real estate marketing companies, Porta Mallorquina, Engel & Völkers, First Mallorca and Minkner & Partner, were made available for analysis. The data was gathered during the period from 01.12.2014 to 22.12.2014 on an individual property basis. It may be assumed that this database contains 85%–90% of all property currently for sale in Majorca so that the study provides a neutral depiction of the market as a whole.

### **Regional breakdown**

Oriented to a market-driven regional demarcation, and for the sake of comparability with the client's data, the properties considered were broken down into nine regions. The names of the regions are: North, Northeast, Northwest, Palma, Greater Palma, South, Southeast, Southwest and Centre.

### **Fit-out standard**

The properties considered were allocated to one of four fit-out standards (basic, mid-range, superior and luxury) based on written property information from the providers, and on the photographic material provided. In case of doubt, details from the property photos were prioritised over what were, in some cases, highly positive written descriptions. Current normal construction costs used for the valuation of properties served as the basis for classification.

## **Area details**



There is no standard definition of the terms “total area” and “built area”. This is primarily due to the local practice in Spain of counting all built areas – including cellars, balconies or terraces – as part of the total built area. Where the details provided gave rise to questions or problems, a phone call was made to the respective providers to correct the data accordingly for the evaluation.

### **Quality control**

To gather the data, each property was considered individually in order to collate the homepage information of the various providers on a comparable basis, and to check its plausibility.

It was noticed, for example, that in the Centre region of the island, properties with a sea view were included. The corresponding entries were either removed or a corrected version entered into the database. Properties which were listed with entirely implausible details were completely removed from the database. Properties that were being offered by several providers were only listed once in the database, to avoid duplications. In this case, duplications could have led to contradictory information about the same property from the different providers. Here too, corrections were undertaken on an individual basis.

For the sake of comparability with the standard property evaluation practice that only properties that have actually been seen can be authoritatively evaluated, those properties which were only photographed from the outside were excluded from the present study. In these cases, no authoritative statements can be made about the fit-out standard. The inclusion of these properties could have caused a distortion of the results.

Using the database as corrected up to that point, in accordance with standard statistical practice for calculating averages and mark-ups, all extreme values with a divergence so great that their statistical probability is less than 5% of all cases in a typical random test, were removed.

### **Property classification**

Properties are also allocated to given property classifications on the homepages of the respective providers, but these sometimes contain implausible values. For example, plots may appear in the search results for apartments, and vice versa. Furthermore, the way in which the various brokers have classified properties may vary, so that the authors have undertaken their own classification by residential unit and by different plot size, specially for this study.

### **Duplicates**

A multi-broker system operates in Majorca which means that a given property may often be for sale with several different estate agents. Properties shown in the database with different agents with identical or slightly varying prices were therefore subjected to closer consideration. Where it appeared that the same property was shown twice, the second listing was removed. Apart from the price information, in regional and/or partial datasets with only a low number of properties, individual comparisons irrespective of price information were carried out.



**Center for Real Estate Studies**

Steinbeis-Hochschule Berlin (SHB)

CRES Deutsche Immobilien-Akademie (DIA)

Commissioned by:



### **Attestation**

Collation, quality control and calculation of the data used in the study were undertaken without the involvement of the client or special weighting of the client's properties.

*Freiburg, January 2015*

Academic Director Prof. Dr. Marco Wölflé

### **About CRES**

CRES (Center for Real Estate Studies) is one of the leading institutes for dual and part-time study in the area of real estate. Its establishment at the Steinbeis University Berlin (SHB) resulted out of an initiative by the DIA (German Real Estate Academy).

Alongside part-time and dual study for a Bachelor's degree in Real Estate, a part-time course of study for a Master's degree is also offered.

Another core area of CRES's activities is academic research. Current practical issues are examined here using scientific methods and instruments to transfer new findings into practice on the one hand and, on the other, to consistently keep the content of study courses up to date and develop them further.

### **About Porta Mallorquina**

Porta Mallorquina Real Estate S.L. was founded in 2005 and has been the master franchise partner of the German company Porta Mondial AG since 2008. Together with its sister company Porta Holiday, Porta Mallorquina is the first island-wide real estate provider to operate as a one-stop shop for purchase, long-term lettings and holiday rentals.

With eight offices in Majorca and a portfolio of over 2,000 properties, Porta Mallorquina is one of the biggest real estate companies on the island. With up to 100,000 hits per month, the four-language real estate website [portamallorquina.com](http://portamallorquina.com) is one of the most popular real estate websites for Majorca property. In Majorca Porta Mallorquina awards franchise licences to self-employed real estate entrepreneurs.