



Center for Real Estate Studies
Steinbeis-Hochschule Berlin (SHB)
CRES Deutsche Immobilien-Akademie (DIA)

Mallorca holiday estate market study 2019

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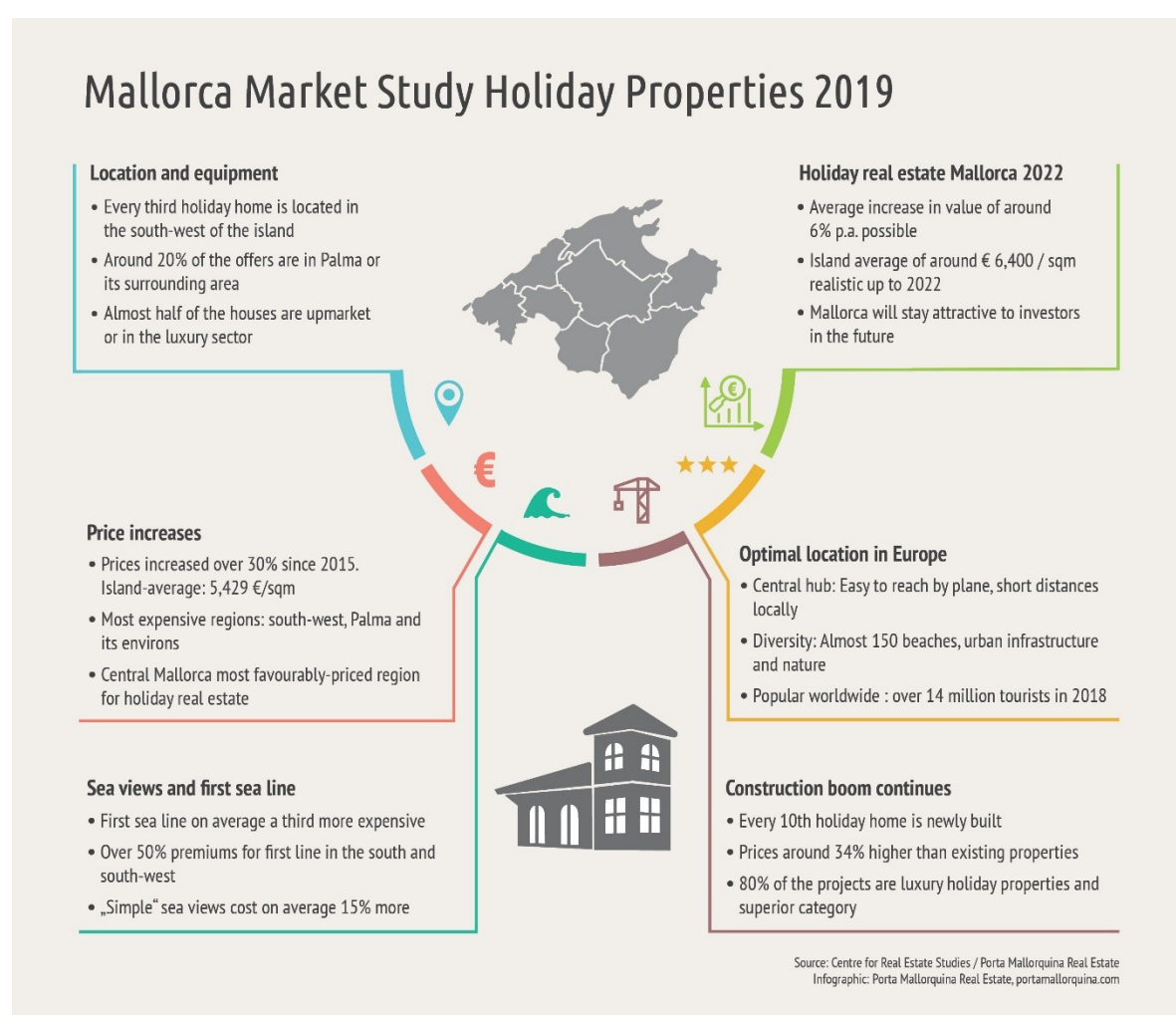
Client: Porta Mallorquina Real Estate



Market Study Holiday Real Estate Market Majorca Results 2019

Contracting authority: Porta Mallorquina Real Estate S.L.U., Mallorca
<https://www.portamallorquina.com>
As of: January 2019

The highlights at a glance

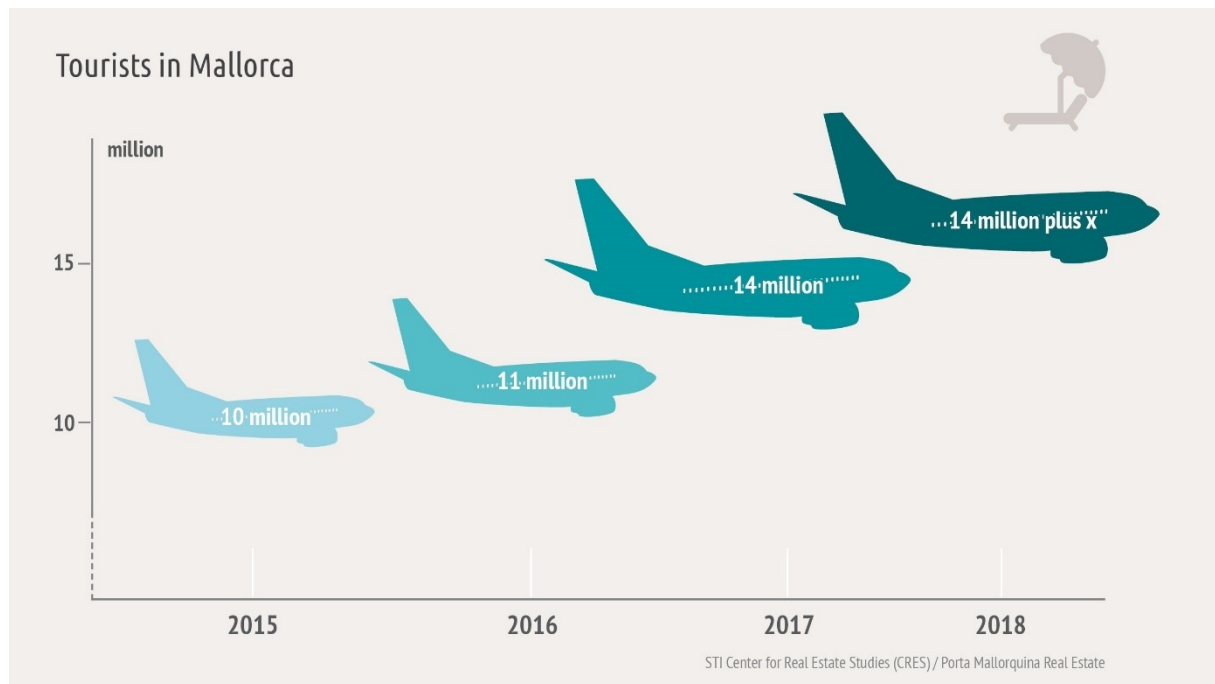


Since 2015, the Steinbeis Transfer Institute (STI) Centre for Real Estate Studies (CRES) for the Homes & Holiday Group has regularly conducted market surveys of selected holiday destinations. In the foreground of this study, which is already being conducted for the fifth time, holiday properties are available for sale in Majorca on behalf of the subsidiary Porta Mallorquina Real Estate.



Tourist records in Majorca

As in previous years, Majorca is and remains one of the leading holiday destinations in Europe.



In 2015, around 10 million tourists visited the holiday island, in 2016 there were 11 million. Between 2016 and 2017, the number of overnight guests increased by a further 3 million, so that in 2017 a new visitor record with almost 14 million overnight guests was recorded. According to figures from Majorca's Association of Hotels FEHM, this trend continued in 2018, between June and September 2018 around one percent more holidaymakers were registered in Majorca than in the same period last year.

This sets Majorca apart from its sister islands, as the number of overnight guests in Menorca, Ibiza and Formentera decreased by around 7% between summer 2017 and 2018.

The remarkable development that began in the 60s with less than 400,000 tourists, can be explained by several factors: first, the island displays a touristically ideal mixture of long sandy beaches and extensive landscapes that are well developed structurally. Images of luxuriously appointed villas, Majorcan fincas and modern penthouses right next to the harbour attract investors from all over the world - not just searching for their own holiday home in Majorca.



Secondly, the island is easily accessible with manageable flight times from almost everywhere in Europe. Even in off-peak tourist seasons, most airports have direct connections to the island several times a day.

An increasingly important third element, however, is a factor that is usually taken for granted: stability. While regular terrorist reports have made their way into the public eye and the oppressive fate of the refugees has dominated, Mallorca appears to be a haven of stability among tourist destinations. The tourism tax introduced in 2016 is very positive in this respect, as it bears witness to the clear interest in preserving the values achieved.

This market study aims to provide a current overview and can be used in a long-term comparison to examine the value of one's own investments. In addition to the "emotional return" of having found the right property, rational considerations on "monetary returns" are becoming increasingly important in times of low interest rates. This raises the question of current price drivers, usual prices in regions and market segments, but also in the premium segment in particular of the price of luxury objects or square metre prices in very upscale sub-regions.

Scope and objective

This study examines the **market for properties for sale in Majorca**, with the aim of providing a **representative overview** of the level and structure of the existing offer of holiday properties. Both the quantitative offer (number of properties) and the qualitative offer (location, furnishing standard, sea view) are examined in order to be able to allocate them to the various price levels determined. In selected areas, the information collected is also broken down into micro-locations in order to be able to respond more specifically to sub-regions.

When analysing the data, it should be noted that not every property offered on Majorca qualifies for purchase as a holiday property. Not every property may be bought or rented as a holiday property. In addition, there are further legal details: even if the legal systems are structured in a similar way, details can still be decisive, especially in the land register. Alleged bargains could require subsequent legalisation and potential buyers and owners could need professional support from local market experts.

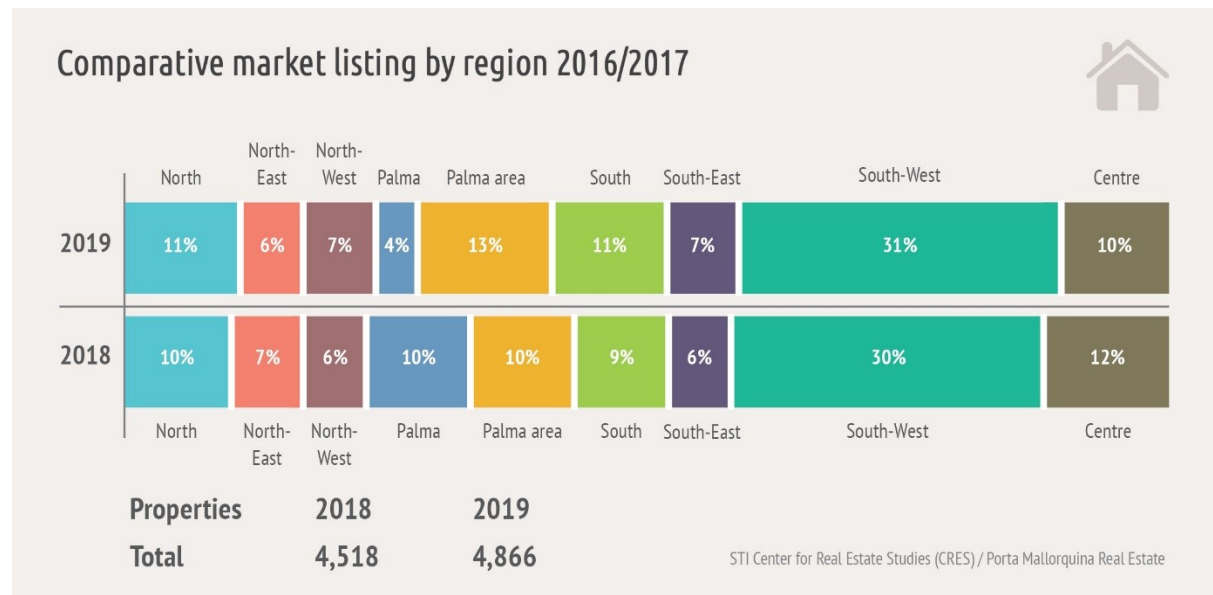


Therefore, several filters are used to select the data. In addition, the purely quantitative supply of properties can easily be overestimated if the quantities of different brokers are added together using rough estimates. In the multi-broker market of Majorca it can be the case that the same property is managed by several brokers - sometimes even with different information. In order to exclude such distorting effects, individual property data of the five market-leading brokers was collected and compared by correcting implausible values and double counts (see data basis starting on page 17).

After correction by statistical outlier values, a data set with **4,866 properties** remains, the equipment standard and locations of which are described in the next section.

Market volume, location and equipment

At the beginning of 2019, around 4,900 properties of different categories are for sale in Majorca. Compared to the previous year, the **supply on the island has increased by about 8%**. As can be seen in the following figure, the number of properties is distributed completely differently and not according to regional area size.



Like last year, around one-third of the island's southwestern coast is home to most properties. The second largest concentration of supply is traditionally found in Palma (city) and the surrounding area. In 2018, the supply in both regions was 20%, and in 2019 it was similarly high at 17%. Compared to 2018, supply in Palma City fell by six percentage points, while supply in the area surrounding the city rose from 10% to 13%.

The south of the island also recorded an increase. Between 2018 and 2019, the number of properties offered there increased by almost a fifth from 9% to 11%. The number of properties in inland areas (centre) fell slightly from 12% in 2018 to the current 10%. However, this slight decline is hardly surprising given that this region saw an increase in supply of around 70% between 2017 and 2018.

The numbers suggest a normalisation rather than a decline in popularity. Real estate, which appeals more to lovers of rustic, rural Majorca outside the coastal locations, is thus still in high demand. These properties are especially interesting for the increasing number of sports tourists such as cyclists or hikers.

Market supply in accordance with features

Majorca is characterised mainly by real estate of the upscale or luxurious class of property. However, in order not to expose themselves to any risk of exaggeration, the descriptions on the homepages of the suppliers under analysis were intensively checked and provided with plausibility checks. Here it was possible to draw on the experiences of the previous years (further information in the last section on data collection starting on page 17).

The evaluations show that only around 14% of the properties are simply equipped or cannot be clearly allocated due to the lack of further photographs of the property. However, around **one in seven holiday** properties can be found in the **luxury sector** with average square metre prices above € 7,800. As a rule, these properties also have a larger than average pool and fantastic sea view. Upscale holiday properties make up a good third of the island's supply, while the middle category accounts for 41% and only 14% for the basic category.



The following illustration of the regional distribution of supply by standard shows that, as in previous years, there are large regional differences.

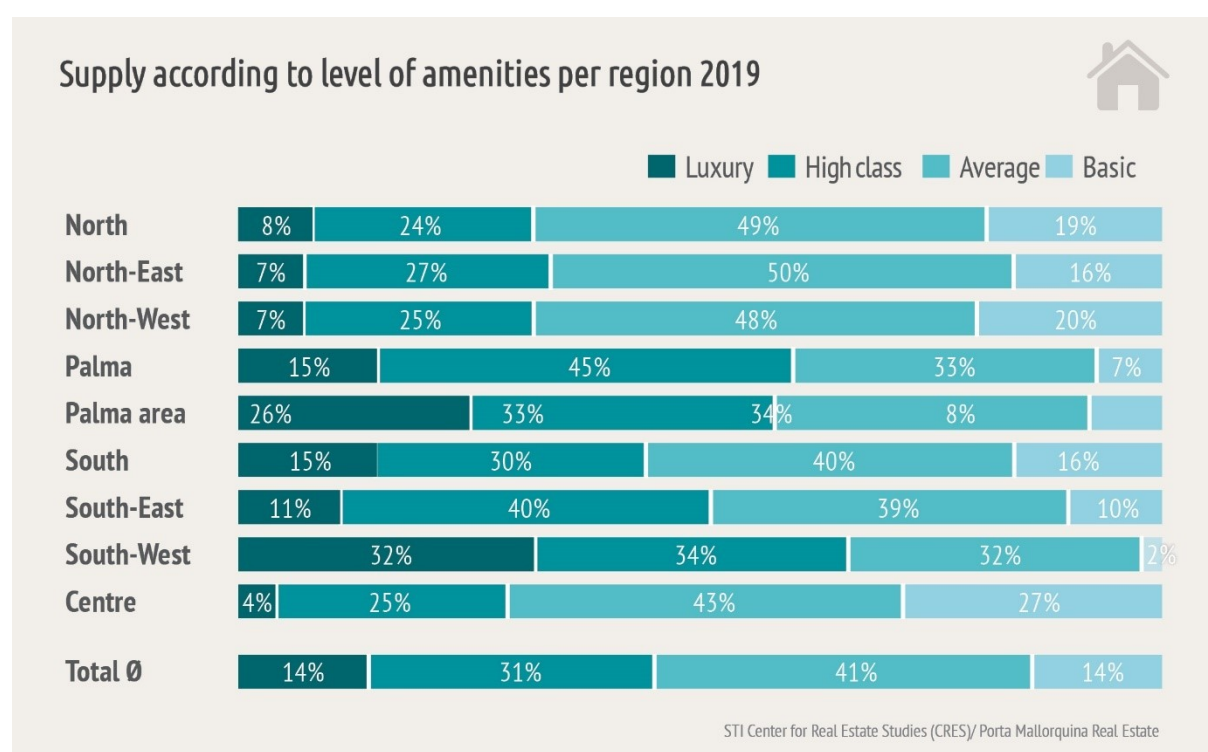


In the **south** and **southwest**, as well as in the two **Palma** regions, the supply of luxury real estate is above average with 15% (south) and 32% (southwest) or with 15% (Palma) and 26% (Palma surrounding areas). In these regions, high-end properties also account for almost half of the supply.

In the **north**, **southeast** and the **centre**, however, there are also many properties in the middle category, which offers an opportunity for low entry prices.

In contrast to the other regions, luxury properties are rather rare in the centre and north of the island. In the **centre** and **northeast** of the island, the supply of luxury properties narrowed even further from 5% to 4% (centre) and from 8% to 7% (northeast).

By contrast, supply in the **northern region** increased from 5% to 8% between 2018 and 2019 and from 4% to 7% in the northwest.

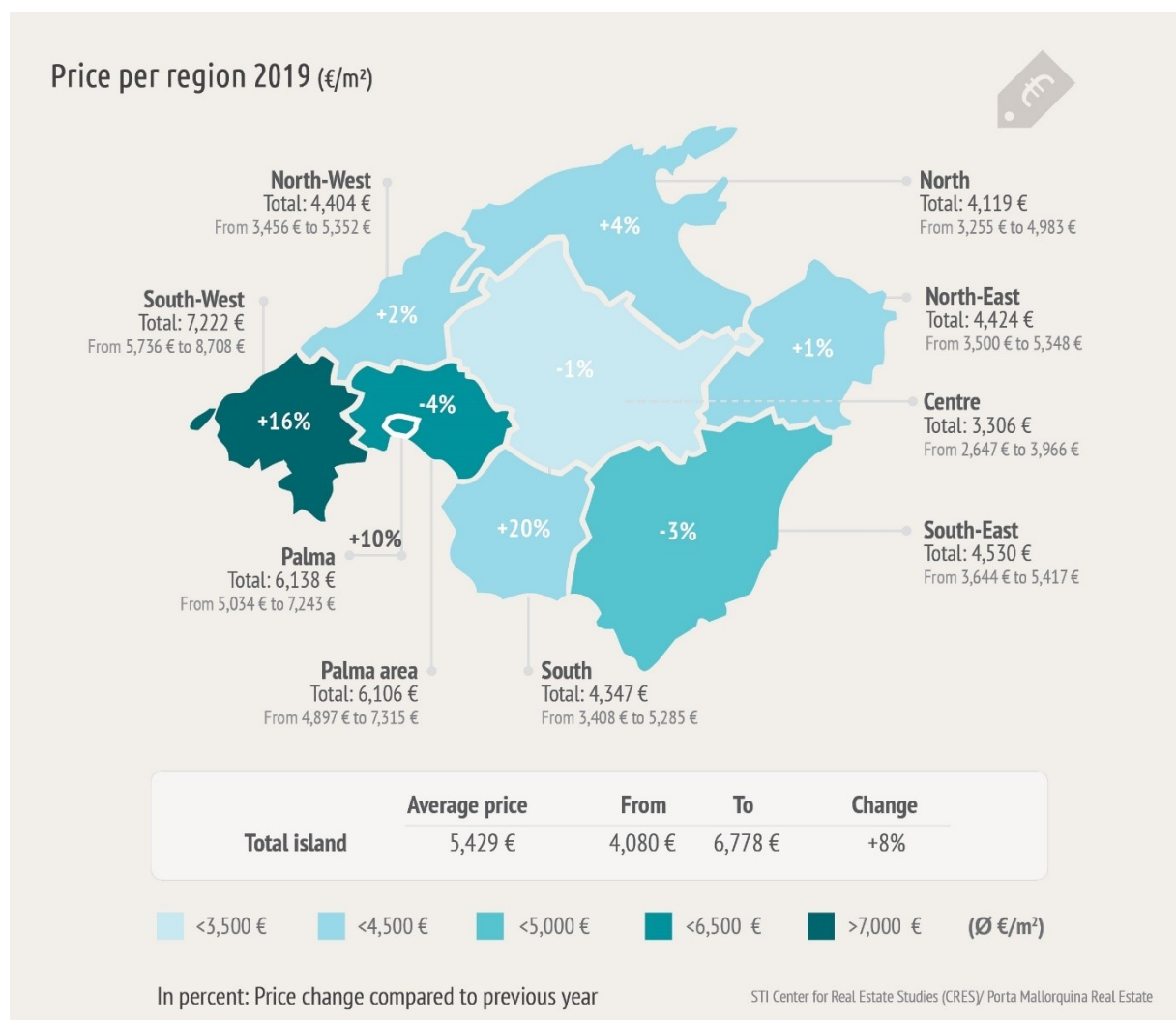


Pricing level

The trend of rising real estate prices in Majorca is also continuing in 2019. Between 2017 and 2018, prices rose by 9% across all regions, increasing by a further 8% between 2018 and 2019.

Compared with 2018, prices rose the most in the south (+20%) and south-west (+16%) on the island and in Palma (+10%). All three regions recorded double-digit growth rates. Prices fell slightly in the regions of Palma (-4%), southeast (-3%) and centre (-1%). But the slight decline in the areas surrounding Palma should not be overstated. Between 2017 and 2018, prices in this region rose by a staggering 36%. This is significantly more than in the southeast, which recorded the second strongest price increase of 16% in the same period.

The low single-digit price consolidations thus correspond more to a correction back to the long-term growth trend than to a real fall in value.



With a price increase of 16% between 2018 and 2019, the **southwest** will live up to its traditional role as one of the **most desirable regions of the island** again this year. With an average of € 7,222 per square metre, the highest prices are achieved by all regions. Rarely can you find properties in this region with a price below € 6,000 per square metre. Properties with a price per square metre of € 8,000 or more, on the other hand, are the rule rather than the exception.

Similarly high square metre prices, as found in the southwest of the island, are still reached with more than 6,000 € in **Palma** (6,138 €) and **its surrounding areas** (6,106 €).

Lower entry-level prices can be found at around 4,000 to 4,500 € per square metre in the northern half of the island as well as in the south and southeast regions.

Prospective buyers get the most square metres for their money in the **centre**, where on average only **3,306 € per square metre** must be paid.

Changes of average prices per square meter per Region 2016/2017



Square meter prices per region

Change

| Region | 2017 | 2018 | 2019 | 2017-2018 | 2018-2019 |
|------------|---------|---------|---------|-----------|-----------|
| North | 3,710 € | 3,946 € | 4,119 € | +6% | +4% |
| North-East | 4,070 € | 4,386 € | 4,424 € | +8% | +1% |
| North-West | 4,300 € | 4,300 € | 4,404 € | +/-0% | +2% |
| Palma | 4,770 € | 5,592 € | 6,138 € | +17% | +10% |
| Palma area | 4,670 € | 6,332 € | 6,106 € | +36% | -4% |
| South | 3,250 € | 3,610 € | 4,347 € | +11% | +20% |
| South-East | 4,050 € | 4,684 € | 4,530 € | +16% | -3% |
| South-West | 5,800 € | 6,236 € | 7,222 € | +8% | +16% |
| Centre | 3,070 € | 3,337 € | 3,306 € | +9% | -1% |
| Total Ø | 4,601 € | 5,031 € | 5,429 € | +9% | +8% |

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Is being in first line of the sea worth it?

A core question of each evaluation is the sea view, a well-equipped pool or even a location in the first sea line.

If you compare the average price with and without a pool across the whole island, the difference in price is around 20%. A rule of thumb that has been proven in recent years and shows how important a pool is even in new buildings.

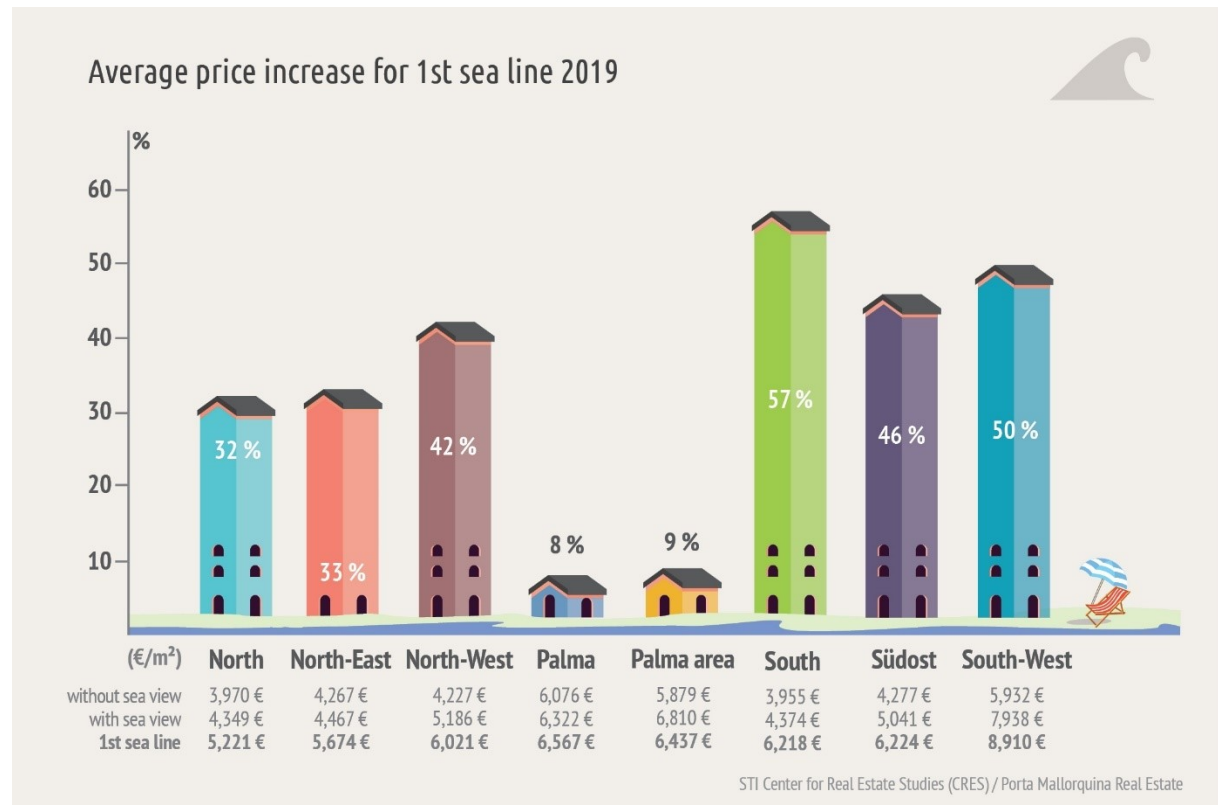


If the **pool** is outstandingly equipped, which can mean, for example, with a jacuzzi, counter-current system or hot tub or complex water slides, this surcharge doubles to 44%. From the perspective of investors and in terms of their value, it is also worthwhile acquiring properties that offer expansion potential or that can be retrofitted.

The same is true for the two levels of **sea view** examined. Throughout the island, the premium for a good sea view (direct view and not the silver lining on the horizon) is 15%. If a holiday home is **located directly by the sea**, an average of 35% is required, more than twice as much.

As with the other features studied, there are also significant differences between the regions in terms of sea views. The lowest premium for the first line of the sea is 8% in Palma. In the northwest, a location by the sea increases the value of the holiday home by an average of 42%.

A similar high value is reached with 46% in the **southeast**. The strongest impact is direct access to the sea in the **south**. Properties primarily achieve an average of 57% higher price than off-shore properties.

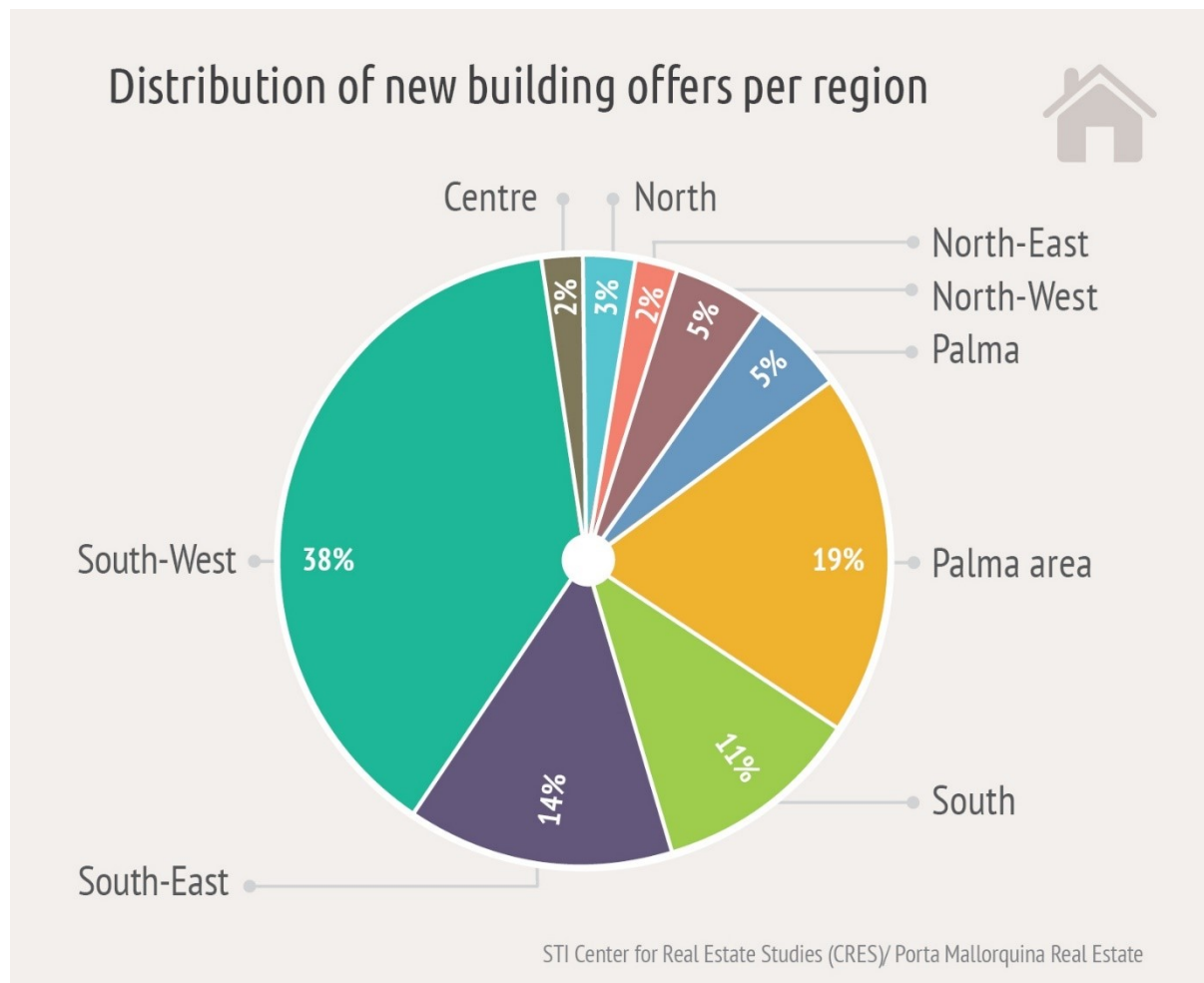


Focus topic - new buildings

For the second time since the beginning of the analyses, a special focus has been placed on **new buildings**. With around 11% of the total market, new buildings make up about **one in ten holiday** properties. The average price in this sector, at € 7,026 per square metre, is around 34% higher than the value of existing properties.

Most **new buildings** are listed in the **southwest**. As in the past year, new buildings account for 38% of all holiday properties offered there.

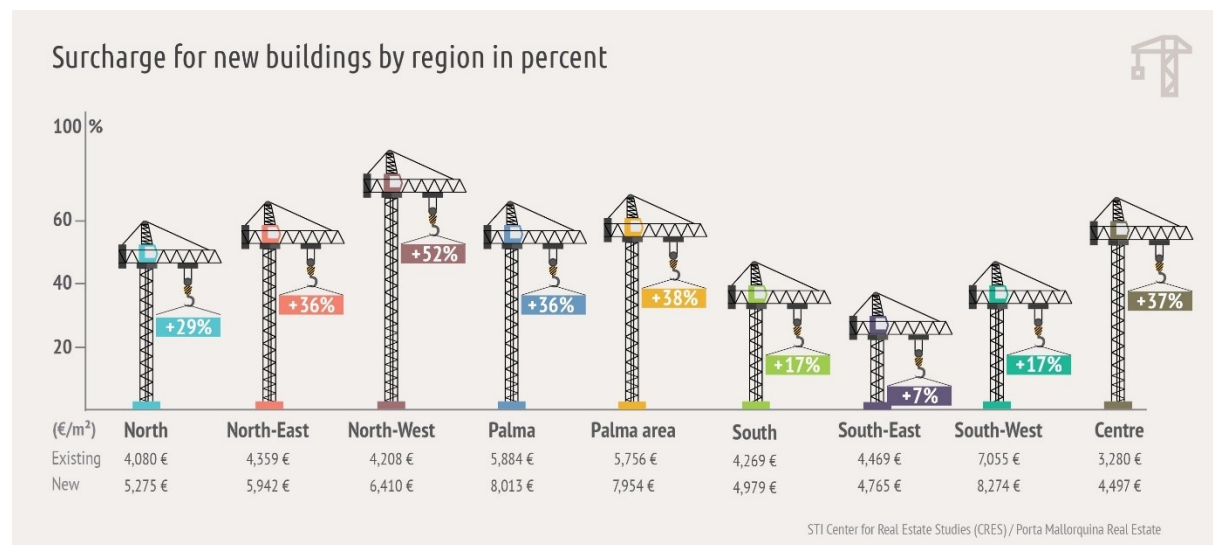
Similarly high values are recorded in the vicinity of Palma (19%), in the southeast (14%) and in the south (11%). A significantly lower proportion of all holiday real estate has new buildings in Palma (5%), the northwest (5%), the northeast (2%) and the north (3%) of the island.



The highest **surcharges for new buildings** compared to existing properties are paid with 52% in the **northwest** of the island, the second highest with 38% in the **surrounding area of Palma**. Similarly high surcharges are also realised in the centre (37%), northeast (36%) and in Palma (36%).

The surcharges in the regions northwest, centre, northeast and Palma can probably be explained by the low supply of new buildings. Because of this, such properties in these regions are coveted accordingly. The reverse case applies to the **surrounding area of Palma**. Because despite a large supply of 19% new buildings, surcharges of an average of 38% are realised in this region - certainly an **indication of the attractiveness of the region** in general.

The lowest price increases are for new buildings in the southeast. New properties cost on average only 7% more than existing properties.



Summary:

The Balearic Islands and Majorca in particular remain attractive **for investment in holiday homes**. In addition to an emotional analysis and a rental return, this year's survey again shows a clear upward **price trend**.

Only 3 out of 9 regions recorded no price increase compared to the previous year. The prices fell the most with 4% in the surrounding area of Palma. This slight decline is not surprising. Between 2017 and 2018, prices there have risen by a staggering 36%, so that we can refer to a normalisation rather than a real decline.

Prices rose most in the south of the island (+20%). Double-digit growth rates were also recorded in the southwest (+16%) and Palma (+10%) regions.



This year too, the **southwest** plays a special role among existing properties and this year's focus topic of "New buildings" . Every third property offered here is newly built. Once again the **highest prices per square metre are measured** here. It is noteworthy that luxury and higher categories pay off. Around 80% of all new properties are created in these categories.

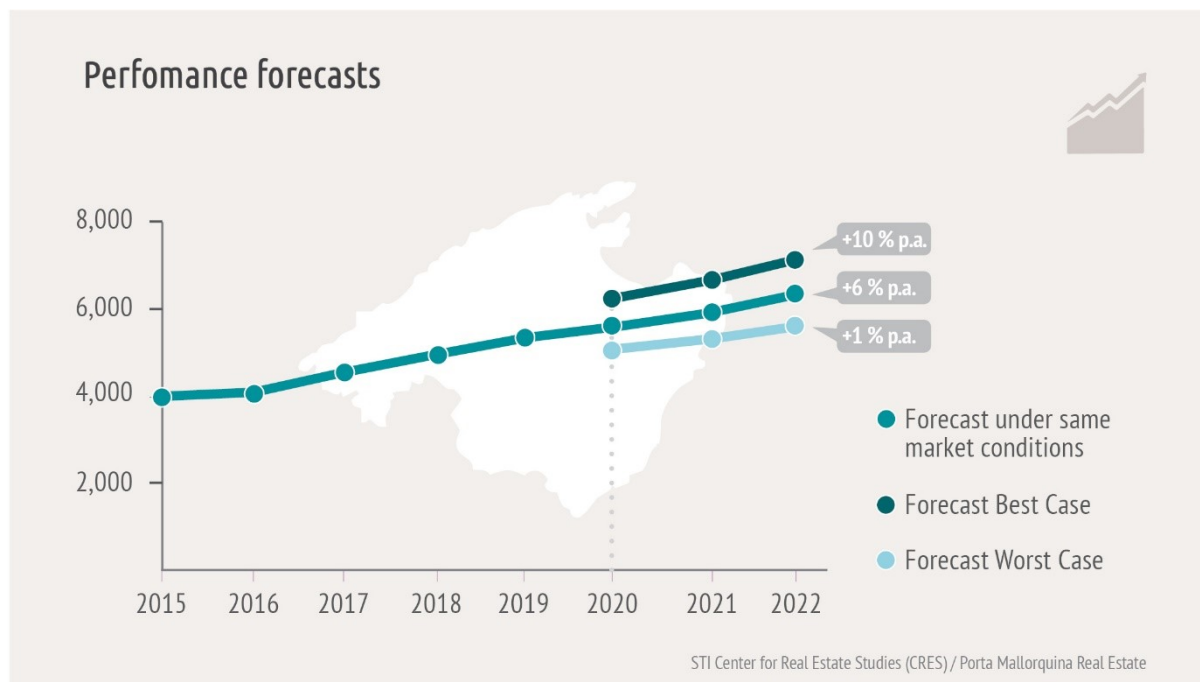
Since the first market study conducted on Majorca in 2015, prices on the Balearic Island are only going in one direction: upwards. In 2015, an average of 4,052 € per square metre had to be paid. Since then, the average price per square metre has steadily increased to a current € 5,429. This corresponds to an **increase of 34% since 2015** and an average of around 8% per year.

Based on the price development in recent years, statistical **forecasting** techniques can be used to estimate how prices are expected to develop in the foreseeable future.

The models carried out by the CRES come to the conclusion in the baseline scenario that the **positive price trend will continue over the next three years** and that in 2022 prices of € 6,412 per square metre will be achievable.

In less optimistic conditions, the underlying 2022 model assumes prices close to € 5,616, which is still about 3% higher than in 2019.

If the market develops more positively than assumed in the base scenario, prices of € 7,208 per square metre could even be achieved in three years' time. In short: Holiday real estate in Majorca is likely to be an **attractive investment opportunity** in the years to come.



Data information

Source and copyright protection

The results of this market study may be used in the following conditions:

- Editorial, non-commercial use
- Reference to the client Porta Mallorquina Real Estate
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Macrosituation and infrastructure in Majorca

Mallorca is the centre and the largest island of the Balearic Islands. With around 3,600 square kilometres, Mallorca is more than six times the size of neighbouring Ibiza. Due to its geographical location in the western Mediterranean, Mallorca, with acceptable flight times of less than 3 hours, is easily accessible from Central and Northern Europe and has also developed into a medium-haul hub for international airlines.

The economy thrives on tourism - especially because of the Mediterranean climate. Even in the winter months, the average temperature is around 10 degrees Celsius, while peak temperatures of over 30 degrees Celsius are not uncommon in the summer months. Lured by the attractive climate and the diverse landscape, nearly 14 million tourists visited the island in 2018. Just over one in three tourists in Majorca comes from Germany, followed by the British at just under 20%. Of the approx. 560 km long coastline, at least 50 km are designated as beaches and offer enough space for bathers in the main season. However, Mallorca is by no means only known as a destination for mass tourism and beach holidays. Sports such as hiking or golf (24 courses) also appeal to a broad target group. The restrictive building regulations favour the value of existing properties and protect the existing nature.

Data basis and data collection period

Around 7,000 individual properties (no plots of land), properties in need of renovation and double listings were available for analysis, these were listed on the homepages of the real estate marketing companies Porta Mallorquina Real Estate, Engel & Völkers, First Mallorca, Kühn & Partner and Minkner & Partner. The data collection was carried out on an individual property basis in the period from 01.11.2018 to 15.12.2018. It can be assumed that between 90% and 95% of the holiday homes currently available on Majorca were recorded within this database, which is why the survey is a neutral reflection of the overall market.

Regional breakdown

In order to ensure that the properties were marketable in the region and to facilitate comparison with the client's data, the properties surveyed were divided into nine regions. The names of the regions are as follows: north, northeast, northwest, Palma, Palma environs, south, southeast, southwest, centre.

Equipment standard

On the basis of the textual property information provided by the suppliers and the photographic material provided, the properties included were assigned to four furnishing standards (simple, medium, upscale, luxury). In case of doubt, the information from the property images was treated with priority over possibly very positive textual formulations. The classification was based on the normal building costs used in the valuation of residential properties and the current standards for the valuation of residential properties.

Area information

The term "total area" or "construction area" is not uniformly defined. This is due in particular to the fact that in Spain, all built-up areas - including cellar rooms, balconies or terraces - are integrated into the construction area. In case of doubtful statements or problems, telephone inquiries were made to the respective providers in order to correct the data for the evaluation accordingly.

Quality control

In order to collect the data, each property was examined individually in order to record the homepage information of the various suppliers on a comparable basis and to check its plausibility.

For example, it was noticed that properties with sea views were recorded in the central region of the island. Corresponding information has either been removed or entered into the data record in a corrected version. Properties that were listed with completely implausible information were completely removed from the record. Properties that were managed by several suppliers were also only entered once in the data record in order to avoid double counting. In the case of these duplicates, contradictory statements may have been made by the various suppliers. Here, too, corrections were made on an individual basis.

In order to make it comparable with the common practice of property evaluation that only properties that have been inspected can be assessed under load, the present study excluded properties that were only photographed from the outside. In these cases, it is not possible to make reliable statements about the equipment standard. A verification of the number of rooms is also not possible. The use of these properties could have distorted the results.

In the previously corrected data set, all extreme values were used to calculate the averages and surcharges according to standard statistical practice. Specifically, the upper and lower 5% of the distribution were disregarded in the calculations.

Property classification

On the homepages of the respective suppliers assignments to the respective property classes are also indicated, these are sometimes filled, however, with implausible values. For example, plots of land were sometimes found in search results for apartments and vice versa. In addition, the classifications of the registrations of the different brokers may also differ from one another, so that a separate classification according to dwellings and with different property sizes was made for the present study.

Duplicates

In Mallorca, the so-called multi-brokerage system prevails, in which a property is often offered by several real estate agents. Properties that were listed in the data set by different suppliers with identical or slightly different prices were therefore examined in more detail. If it was obviously the same property, the second listing was removed. In addition to price information, individual comparisons were also carried out in regions or on partial data records using only a small number of properties, independent of the price information.

Random sample

Total data set after a manual check for duplicates: 5,470

Corrections due to incorrect or missing price and area information, remainder: 5,468

Mathematical check of duplicates, remainder: 5,415

Removal of outliers at the local level (upper and lower 5% of the distribution), remainder: 4,866

Audit report

The collection, quality control, and calculations of the data in the survey were carried out without the participation of or special weighting given to the client's properties.

Freiburg, January 2019



Prof. Dr. Marco Wölflé
Scientific Director
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Information on Porta Mallorquina Real Estate S. L. U.

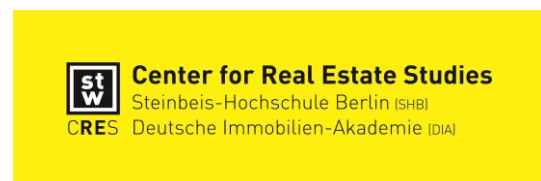
Porta Mallorquina Real Estate S. L. was founded in 2005 in Artà, Mallorca by Joachim Semrau. Today Porta Mallorquina Real Estate is a subsidiary of the stock market listed Homes & Holiday AG, Munich. Together with its sister company Porta Holiday, Porta Mallorquina is the first island-wide real estate company to offer one-stop shopping, long-term rentals and holiday rentals.



With ten locations in Mallorca and a portfolio of more than 1,500 properties, Porta Mallorquina is one of the largest real estate agents on the island. The multi-language real estate website <https://www.portamallorquina.com/> is one of the leading real estate websites for Mallorca properties. In Mallorca, Porta Mallorquina gives franchise licences to independent real estate entrepreneurs.

Information on CRES

The CRES (Center for Real Estate Studies) is one of the leading institutes for dual and part-time courses of study in the real estate sector. It was founded on the initiative of the Deutsche Immobilien-Akademie (DIA) at the Steinbeis-Hochschule Berlin (SHB).



In addition to part-time and dual courses of study leading to a Bachelor's degree in Real Estate Management and Real Estate Valuation, a part-time Master's programme is offered. Another focus of the CRES is scientific research. Current practice-relevant questions are examined here using scientific methods and instruments in order to transfer new findings into practice on the one hand and to keep

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Scientific Leadership



Prof. Dr. Heinz Rehkugler studied business administration at the University of Munich. After graduating in 1970, he worked there as a scientific assistant at the Institute for Industrial Management and Industrial Accounting. In 1975 he interrupted his university career, founded and managed a management consultancy firm. In 1977, however, he was appointed to the Chair of Financing at the University of Bremen. Later he was appointed to the University of Bamberg in 1988 and then to the University of Freiburg, where he held the Chair of Finance and Banking from 1994 to 2009. He is now the scientific director of the Center for Real Estate Studies (CRES).



Prof. Dr. Marco Wölflé scientific director of the Steinbeis Transfer Institutes Applied Statistics and Economics, Center for Real Estate Studies (CRES), VWA Business School and Centre for Economic and Administrative Sciences (WVZ). He studied and obtained his doctorate at the Albert Ludwigs University of Freiburg, which awarded him the "Constantin von Dietze Research Prize" for his achievements as part of his doctorate. In teaching, Prof. Wölflé mainly represents quantitative and qualitative research methods, economics, financial markets and business accounting.

Research Assistance



René Petilliot is a research associate at the Research Centre for Generational Contracts and the Institute for Public Finance and Social Policy of the Albert-Ludwigs-University in Freiburg. He is also involved in studies at the Centre for Real Estate Studies (CRES). Mr. Petilliot studied economics in Mannheim, Louvain-la-Neuve and Heidelberg. Since 2018 he has been a certified expert (DIA) for the valuation of developed and undeveloped land, for rent and leases.

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