



Mallorca holiday estate market study 2018

CRES Discussion Paper - No. 19

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Client: Porta Mallorquina Real Estate



Market Study Holiday Real Estate Market Mallorca Results 2018

Client:	Porta Mallorquina Real Estate SLU http://www.portamallorquina.com
As of:	February 2018

Since 2015, the Steinbeis Transfer Institute (STI) Center for Real Estate Studies (CRES) has regularly carried out market studies on selected holiday destinations on behalf of the Porta Mondial Group. In the foreground of this study, which is already being conducted for the fourth time, are holiday properties for sale in Mallorca.

What already applied in the previous editions is even more true now. Mallorca is a leading holiday destination in Europe and shows strong and steadily increasing visitor numbers. While around 10 million tourists visited the holiday island in 2015, a record of 11 million overnight guests was reached in 2016, which was exceeded shortly after mid-2017, so that the Spanish statistics agency INE had already counted 13.5 million tourists by the end of November. On the one hand, these growth rates, which are several times double-digit, give hope that 2018 will continue to develop well, but on the other hand, this will be reflected regionally in significant increases in value in recent years.

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

Secondly, the island is easily accessible with manageable flight times, from almost all over Europe. Even in tourist times, most airports - even after the closure of Air Berlin - 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

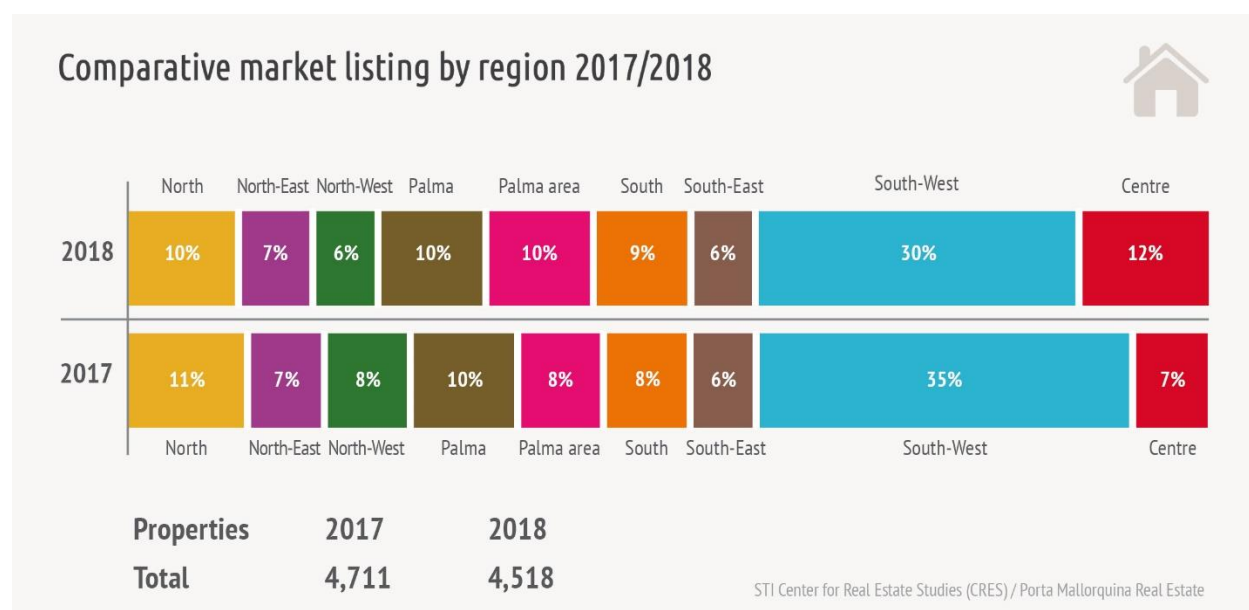
This study examines the market for properties for sale in Mallorca with the aim of providing a representative overview of the level and structure of the existing offer of holiday properties. Both the quantitative offer (number of objects) and the qualitative offer (location, furnishing standard, sea view) are examined in order to be able to allocate it 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 specifically to sub-regions.

When analysing the data, it should be noted that not every property offered on Mallorca 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 similarly structured, details can still be decisive, especially in the land register. Supposed bargains could require subsequent legalisation and potential buyers and owners 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 by rough estimates. In the multi-broker market of Mallorca it can happen that the same property is managed by several brokers - sometimes even with different information. In order to exclude such distorting effects, individual object data of the five market-leading brokers was collected and compared by correcting implausible values and double counts (see data basis starting on page 12) k. After correction by statistical outlier values, a data set with **4,518 property** results, the equipment standard and locations of which are described in the next section.

Market volume, location and equipment

At the beginning of 2018, around 4,500 properties of different categories are for sale in Mallorca. The attractive framework conditions appear to cause a slight shortage of supply. In the previous year, the supply had increased by around 4%. As can be seen in the following figure, the number of properties is distributed completely differently and not according to regional area size.



Around one third of the properties are regularly offered in the "southwest". This year 30% of the holiday homes are located in this region. This is around 5% less than in the previous year. The second largest concentration of supply is traditionally found in Palma and the surrounding area. In each case, 10% of the properties can be found here this year, which corresponds to a one percent increase over the previous year.

While the other regions are also close to the previous year's figures, the supply figures in the centre of the island ("centre") are up by a substantial 5% and almost double. While the other regions are also close to the previous year's figures, the offers in the centre of the island ("Centre") are rising by a substantial 5% and almost doubling. The figures suggest that properties that appeal more to lovers of rural Mallorca's out-of-coastal areas have also found a market again. The increasing number of sports tourists such as cyclists or hikers seems to be driving the growing demand in this region.

Market supply by equipment features

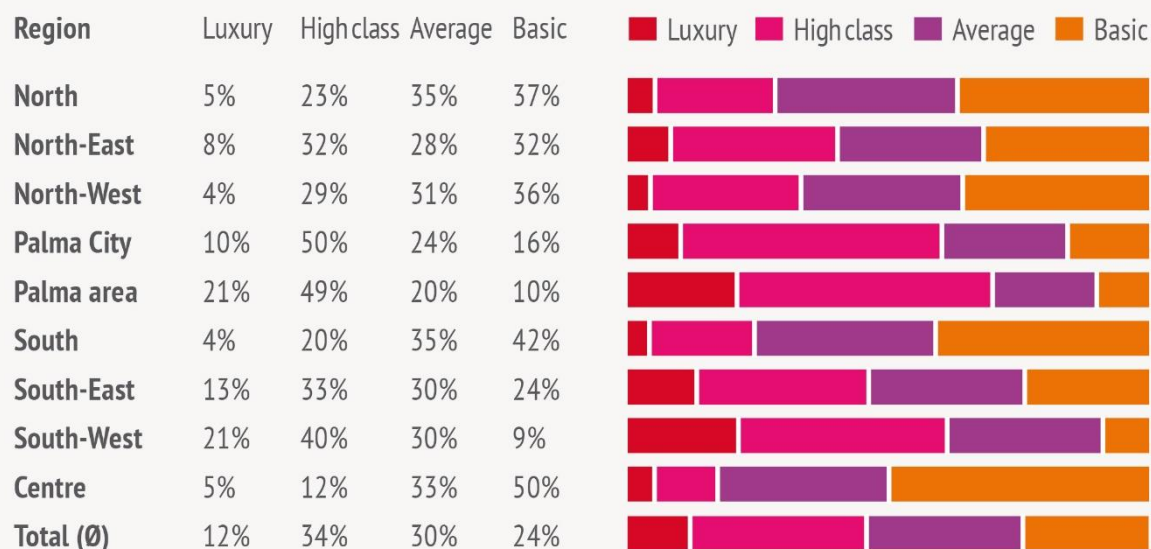
Majorca is characterised, due to the high volume of tourism, by properties of the upper and luxury property class. However, in order not to expose themselves to any risk of exaggeration, the descriptions in exposé texts on the homepages of the suppliers under investigation were intensively checked and provided with plausibility checks. Here, the experience of previous years could be drawn on. From the previous year, the stronger differentiation in the characteristic sea view has distinguished itself in order to be able to distinguish luxury objects. (Further information can be found in the last section on data collection starting on page 12).

The evaluations show that only about a quarter of the properties are simply equipped or cannot be clearly allocated due to the lack of further property photographs. More than one in ten holiday homes, on the other hand, can be found in the luxury standard and is characterised by a price per square metre above 6,000 €, as well as a good pool and top class sea view. High-end holiday homes make up a good third of the island's supply.

The following illustration of the regional distribution of supply by standard shows two things: as in previous years, there are large regional differences. In the southwest, southeast and the two Palma regions, the range of luxury properties is above average, with 21%, 13%, 21% and 10% respectively. In these regions, high-end properties also account for almost half of the supply. In the centre, north and south, on the other hand, there are many mid-range properties, offering the opportunity for lower entry prices. In the centre and in the south, especially luxury properties are very rare.

A particularly strong trend from the past two years seems to be continuing here. This is because the supply in these regions has once again become scarce in the luxury segment and the up-market standard. If one nevertheless acquires in these regions, in the categories mentioned, this could be an indication of value stability.

Supply according to level of amenities per region 2018



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Pricing level

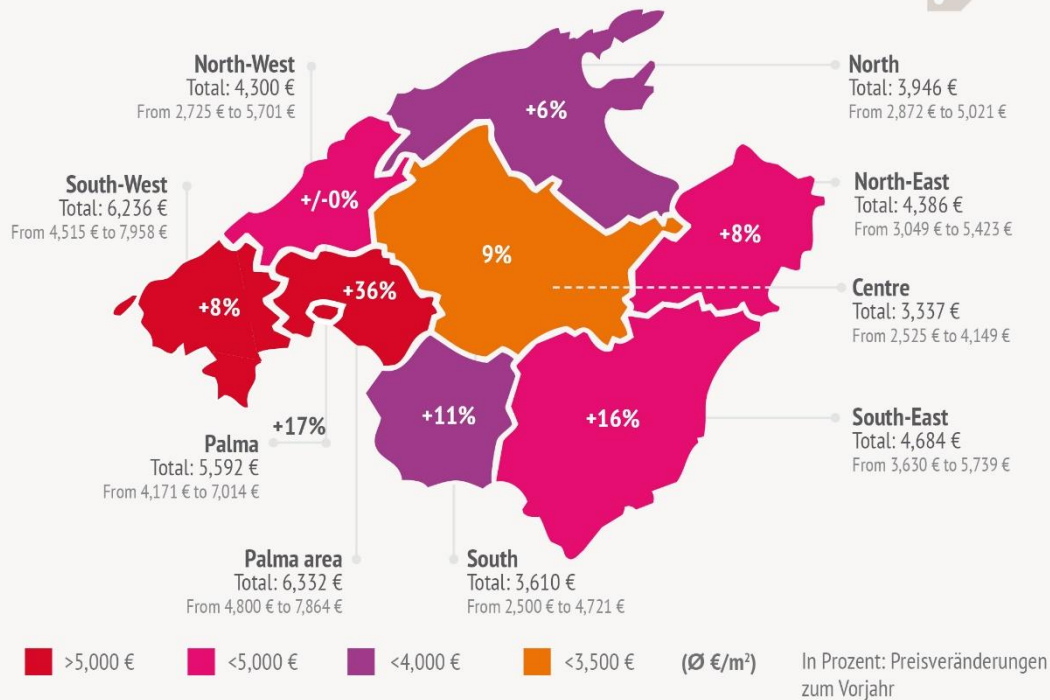
As in the previous year, the trend of rising property prices in Mallorca continues. Across all regions, prices have risen by around 12%. While 8 out of 9 regions again recorded an increase over the previous year, half of them even achieved double-digit percentage increases.

While the southwest has traditionally been one of the more desirable regions, this year's price increases are particularly pronounced in Palma's surrounding area. In both regions, the usual property prices are around € 6,300 per square metre. Only rarely can you find holiday homes under 4.500 € / m² and prices, which reach 8.000 € per square meter, are not far away.

About half of these prices are paid - also with a strong upward trend in the south and in the centre of the island. Usual prices per square metre are in the middle of the 3,000 € range and even reach over 4,000 €.



Price per region 2018 (€/m²)



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Particularly significant price increases can be seen in the Palma regions with +36% (surrounding area) and +17% (city). In the southeast and south, however, prices are also increasing by 16% and 11% in the double-digit range. Compared to 2017, not only have prices increased, but so have their growth. For the surrounding area of Palma, the sharp rise in prices over and above the general trend could be explained by the fact that the share of simple and medium equipment categories is lower this year, possibly sold out, which leads to a higher weighting of properties in the upper and luxury categories in average prices.

Changes of average prices per square meter per Region 2017/2018

Region	2017	2018	Change
North	3,710 €	3,946 €	+6%
North-East	4,070 €	4,386 €	+8%
North-West	4,300 €	4,300 €	+/- 0%
Palma	4,770 €	5,592 €	+17%
Palma area	4,670 €	6,332 €	+36%
South	3,250 €	3,610 €	+11%
South-East	4,050 €	4,684 €	+16%
South-West	5,800 €	6,236 €	+8%
Centre	3,070 €	3,337 €	+9%

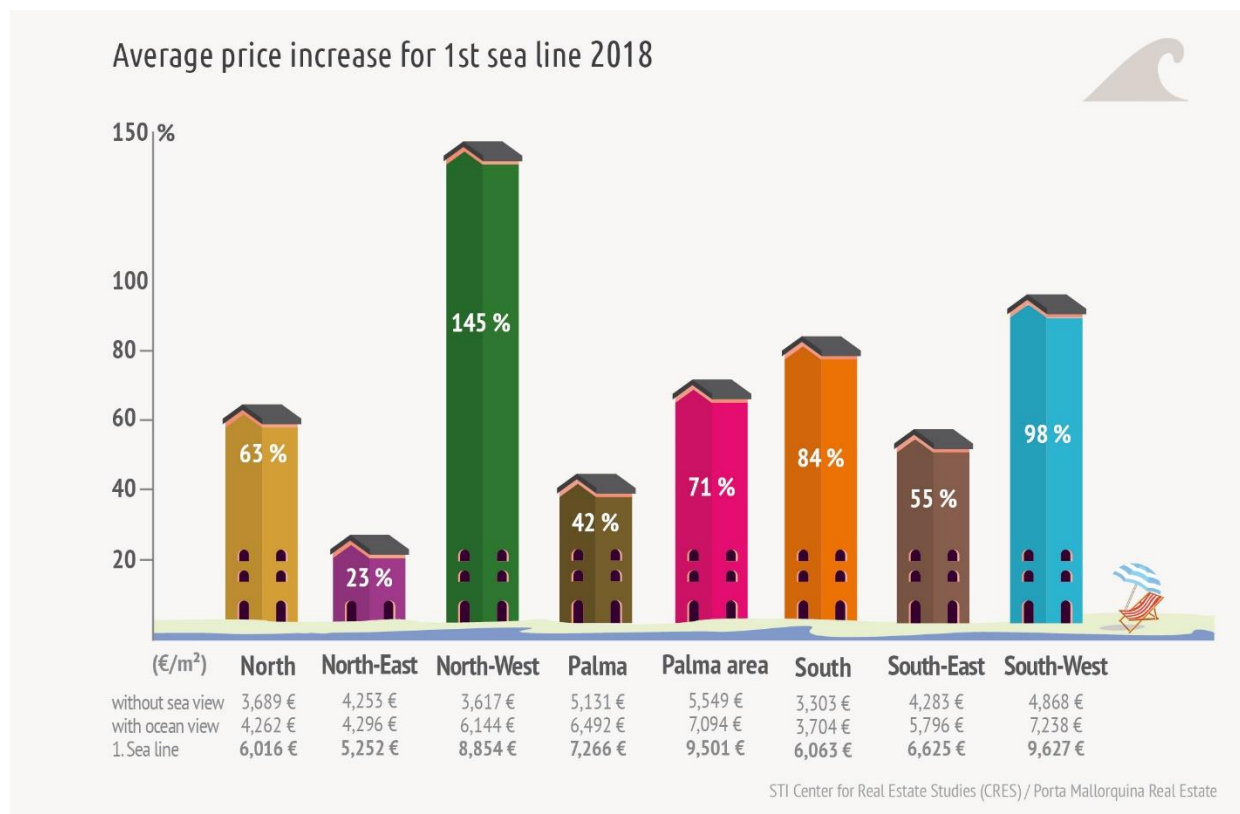
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Is the first line to the sea worthwhile?

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%. If the pool is clearly equipped above average, which can be the case, for example, due to jacuzzi, counter current or whirl facilities or complex water slides, this surcharge doubles to 44%.

The same is true for the two stages of the sea view. Throughout the island, the premium for a good sea view (direct view and not the silver lining on the horizon) is 43%. However, if a holiday property to be considered lies directly in the first sea line, 93% more is required.

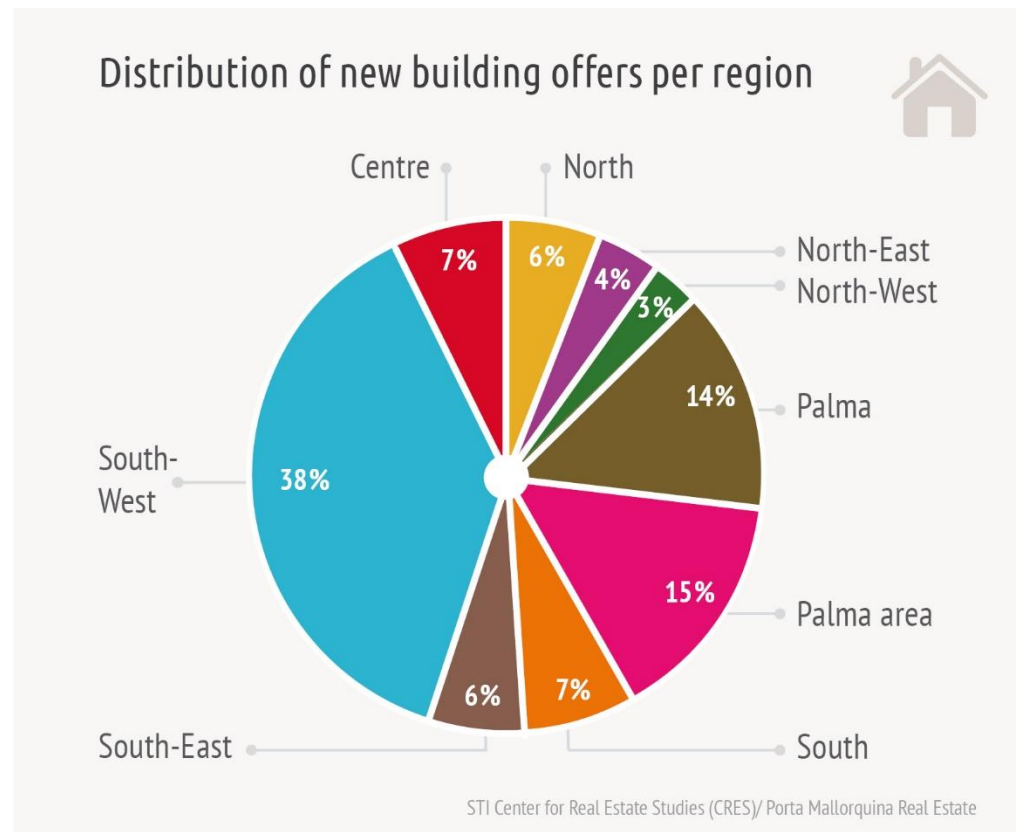
As with the other characteristics examined, there are also strong differences between the regions. The premium for the first sea line ranges from 23% in the northeast to 98% in the southwest and even 145% in the northwest. In a time comparison, the sea view seems to have become more important here; especially the first sea line seems to stand out in special locations, because the highest value, which was reached in 2017 in the south with 109%, is clearly surpassed by the 145% in the northwest in 2018.



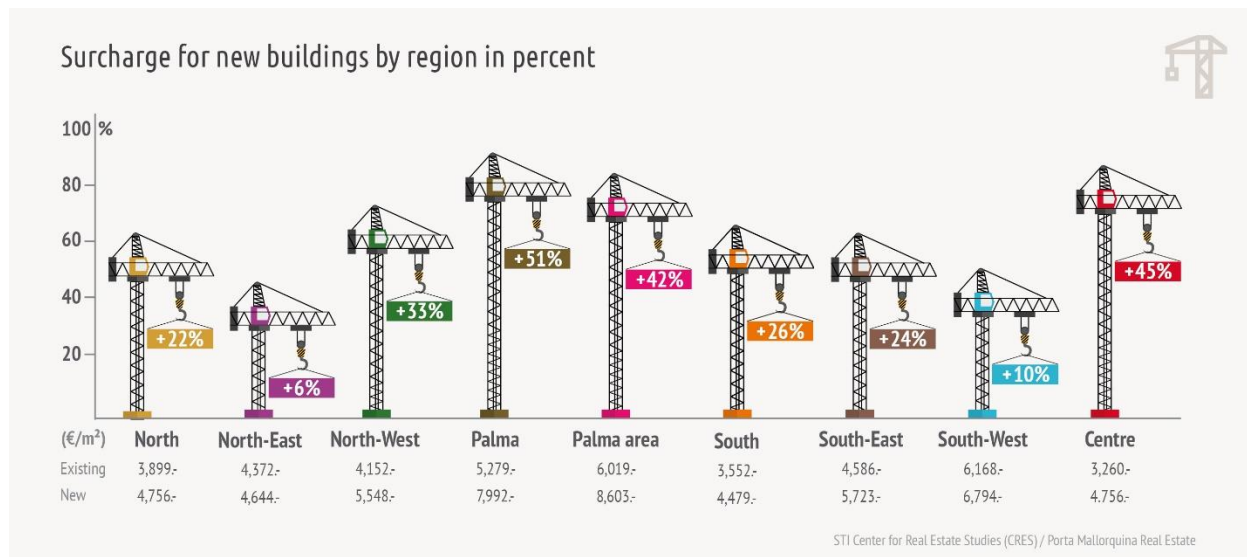
Focus Topic - New Buildings

This year, a special focus was placed on new buildings. With a share of 8.5% of the total market, new-build properties account for almost one in ten holiday homes. At € 6,607 per square metre, the average price in this segment is around 35% higher than that of comparable portfolio properties.

Here, too, there are very strong regional differences and an even stronger focus on the top regions, especially the southwest. This is because more than one-third of all new-build properties are located in this region than in existing properties.



If the figures are compared with the total supply presented in the introductory presentation, a second trend can be observed. The current market supply in the city centre and the regions with single-digit percentages is more likely to come from the inventory sector. This is particularly evident in the centre of the island. Especially in the centre, with a large number of existing properties, new buildings are in great demand and reach the second highest markup of 45% per square meter. Similarly high markups are only achieved in the two Palma regions.



In order to assess the markups, however, it must be borne in mind that the focus of new construction is on properties in the upper equipment categories. 80% of all new holiday homes are designed as luxury properties or with sophisticated furnishings.

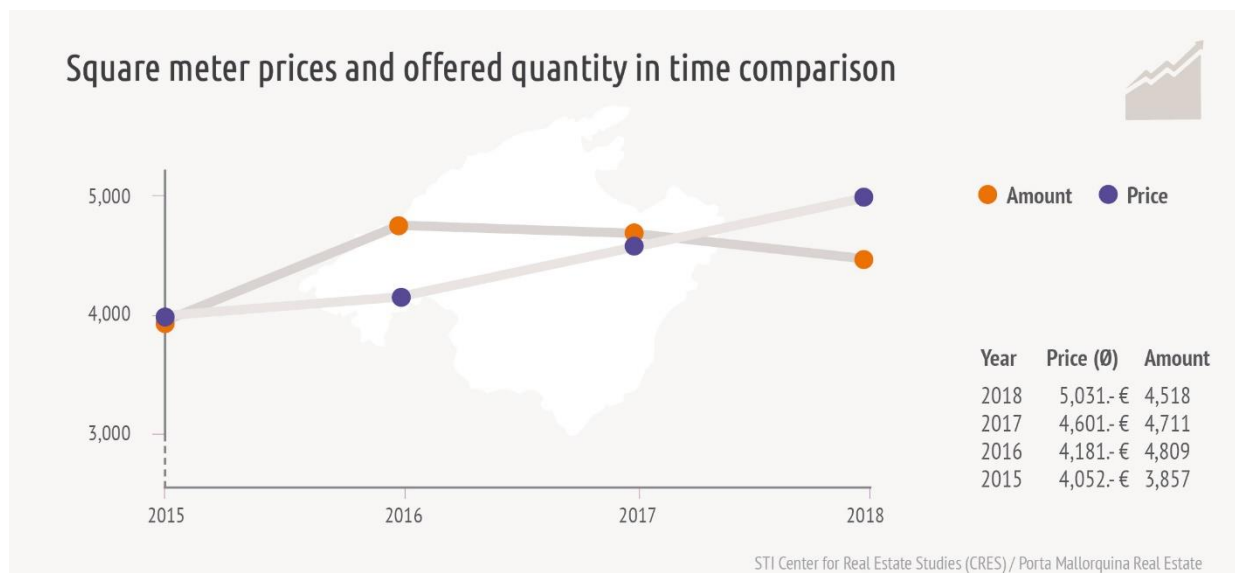
Summary:

The Balearic Islands and Mallorca 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. In addition, 8 out of 9 regions continue to record significant price increases, which have accelerated considerably compared to the previous year's report.

Fears of property price bubbles are often instilled very quickly against the background of strong rises. A differentiated analysis of these facts usually requires a much more intensive statistical analysis and can be determined beyond doubt only after the bursting or absence of a bubble. On the basis of the current data, however, it can be seen that the price development is indeed within the justifiable range of statistical development, even though it is strong. The current average price is still well within the range of long-term development.

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

This year, the supply of existing properties in the "Centre" increased particularly strongly. This is where Mallorca's tourist suitability, which goes beyond a mere bathing holiday, may be noticeable.



The long-term development shows that attractively priced properties, the "bargains", have become somewhat scarcer in the last two years. This may explain the simultaneous price increase. In addition, there are, of course, special characteristics and equipment criteria, such as an above-average pool, which is particularly important in the central region, or location in the first sea line, which leads to more than twice the price markups than would be the case with a good sea view anyway.

From the above-mentioned developments, further assumptions can be made about the market situation. Usually, seller's markets are characterised by dwindling supply and rising prices; similar to the situation above.

Data information

Macro situation and infrastructure in Mallorca

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. Attracted by the attractive climate and the varied landscape, more than 13 million tourists visited the island in 2017. Just over one in three tourists from Mallorca 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 9,000 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 15.11.2017 to 31.12.2017. It can be assumed that between 90% and 95% of the holiday homes currently available on Mallorca 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 object information provided by the suppliers and the photographic material provided, the properties included were assigned to four furnishing standards (simple, medium, elevated, 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 production costs for 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 removed according to common statistical practice for the calculation of averages and mark-ups, whose deviation at the local level is so large that, according to statistical probability, they occur less frequently than in 5% of all cases in a typical sample.

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 can be found in the search results for apartments or 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.

Sample

Total data set after visual single duplicate check: 5,284

Corrections due to incorrect or missing price and area information, remaining: 5,108

Mathematical check of duplicates, remaining: 4,966

Removal of outliers at local level (statistical confidence interval: 95%), remaining: 4,518

Audit report

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

Freiburg, February 2018



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Information on Porta Mallorquina Real Estate S. L. U.

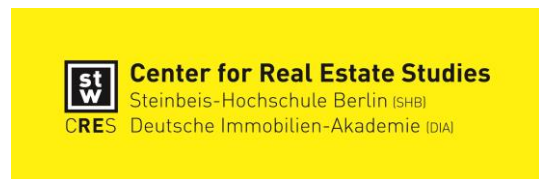
Porta Mallorquina Real Estate S. L. was founded in 2005 and has been a master franchise partner of the German Porta Mondial AG since 2008. Together with its sister company Porta Holiday, Porta Mallorquina is the first island-wide real estate company to offer one-stop shopping, long-term rentals and holiday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



With nine 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 four-language real estate website <http://www.portamallorquina.com> is the leading real estate agency website 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 the contents of the study programmes always up to date and to further develop them, on the other.



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 Wölfle 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. Wölfle mainly represents quantitative and qualitative research methods, economics, financial markets and business accounting.

Previously published publications/discussion papers:

- Owner survey (No. 3)
- Noise and real estate value (No. 4)
- Holiday home market in the Balearic Islands (No. 5)
- Corporate Benchmark of the Real Estate Industry (No. 6)
- Real estate market in the Alps (No. 7)
- Adjustment of the reference period to determine the standard local comparative rent from 4 to 10 years or 4 to 8 years (No. 8 and 8a)
- Holiday home market in Mallorca (No. 9)
- Human Resources Guide of the IVD (No. 10)
- Hamburg Housing Market Survey (No. 11)
- Price bubbles in real estate markets (No. 12)
- Academic studies in the real estate industry (No. 13)
- Holiday home market Mallorca (No. 14)
- Service charge report 2017 (No. 15)
- Owner-occupied residential property (No. 16)
- Cost structure of real estate marketing (No. 17)
- Vacation rentals in Mallorca - Results 2017 (No. 18)
- Market Study Holiday Real Estate Market Mallorca 2018 (No. 19)

All previously published discussion papers are available online and free of charge at: <http://www.steinbeis-cres.de/de/453/Forschung>

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