

Market Commentary

Gibraltar Q2 2023



This market report has been compiled by Chartered Surveyors of MJ (Gibraltar) Ltd.

The basis of the report is provided by data from recent valuations, which have been analysed centrally, along with publicly accessible information. MJ (Gibraltar) Ltd collected the evidence from these sources, evaluated it and presented the results of its analysis in the market report. It provides the reader with a general overview of the situation in the residential, office, retail, hotel and industrial markets in Gibraltar.

Residential Market

The tone of this market report is similar to that of the previous quarter. Economic conditions remain challenging, with high inflation, rising interest rates, and banking sector distress. Uncertainty and increased borrowing costs are impacting investor sentiment and transaction markets. In response, market players are taking defensive approaches, which has significantly constrained discretionary spending and dampened buyer sentiment.

In Q2 2023, MJ Gibraltar recorded an 18% decrease in the volume of instructions compared to the previous quarter. There has also been an increase in the number of properties available and the length of time products stay on the market. Despite these factors, there has been an overall positive movement across various bands, indicating that market growth has continued, although at a much slower rate than the levels recorded in previous quarters.

As such, various sources have highlighted that current market dynamics have granted buyers increased bargaining power, resulting in negotiated prices falling below the asking price. This trend continues from the previous quarter, with sellers having to adjust prices down in Q2 2023 as they adapt to the challenging market. Our analysis suggests that some sellers may have set their asking prices too high, which were not aligned with market values.

It is now important that sellers consider their accurate pricing strategy to effectively navigate the market conditions and capture buyer interest.

Despite price shorting, it is imperative to recognise that this situation has a double-edged effect. Potential buyers are increasingly impacted by higher mortgage rates, which in turn are affecting affordability and lending volumes.

Historically, homeowners in Gibraltar have been exposed to tracker mortgages rather than fixed rates products. The consequence of this is that as base rates increase, so do monthly repayments. Mortgage affordability has become a concern and is the main contributor to the reduction in the number of transactions.

Overall, there are indications of positive movement and resilience in the market which can provide comfort, such as more realistic pricing expectations and available cash buyers ready to purchase. Although the rate of growth has been edging down across the board in recent quarters, the market is still showing signs of development and overall positive momentum.

Despite some softening in buyer demand, house prices have continued to rise gradually, both in private and affordable housing sectors during the second quarter. However, from the data reviewed by MJ, Gibraltar experienced sharp reductions in levels of growth in the second quarter of 2023 compared to the previous quarter with the increase up on average 1.51% compared to the previous quarter growth 15.59% within the private sector. Similarly, in the affordable housing sector we have seen a moderate growth of 0.31% compared to the previous quarter of 7.25%, reaching £4,475 / sqm

During the second quarter of 2023, the price for private developments averaged approximately £8,400 / sqm. Prices in prime locations, including Ocean Village and Queensway Quay, have continued to perform well, with average prices reaching circa £9,500 / sqm.

As borrowing costs continue to rise, the Bank of England (BoE) has implemented its 12th consecutive increase in interest rates since December 2021, bringing it to 5% as of June 2023. This marks the highest level since the 2008 financial crisis and some experts predict that rates could peak at 6.5% by the end of the year, however we await further notice from the BoE.

According to MJ data, demand in the property market has shown resilience, with new prospective buyers continuing to enter the owner occupier market. These buyers are displaying a particular interest in off plan property (and prices). However, the buy-to-let market has experienced challenges as a result of the higher interest rates.

Despite the economic uncertainties, the Gibraltar property market is displaying overall positive performance. Demand is reasonable, resulting in slight price increases. However, the market supply has caught up, helping to stabilise the imbalance between supply and demand. Average rates per square meter have softened, especially in the mid to high price ranges. This slight level of growth is supported by an increasing number of High Net Worth Individuals choosing to reside in Gibraltar, contributing to the market's upward trajectory.

The Government has recently presented Gibraltar's annual budget which confirms that Gibraltar continues to operate with a deficit, aligning with previous estimates. There were overall positive trends which can serve as an optimistic insight into future growth. Inflation in Gibraltar is at 6.2%, reflecting a reduction from the 7.9% recorded in January 2023. The ongoing trend of rising prices has led to a growing acceptance within the community that the increased cost of living has become the new normal. This is particularly evident in the prices of food and household goods. Here are some noteworthy statistics and changes:

- Forecast for GDP year 22/23 is £2.74 bn, a 7.5% y-o-y growth;
- Gross debt 39% of GDP, 61% lower than that of the UK;
- Third highest GDP per capita worldwide, at \$103,000;
- 31,150 occupied jobs, a record high and an increase of 2.5% y-o-y;
- No stamp duty allowance for first-time buyers has increased to properties purchased to £300,000;
- Property sales above £800,000 will pay a stamp duty of 4.5%, up by 1%;
- And a review is underway on the consideration of stamp duty on the assignment of off-plan purchase agreements.

Negotiations for a Treaty between Gibraltar and Spain have stalled, causing uncertainty. The Spanish Minister of Foreign Affairs, Jose Manuel Albares, has expressed optimism about reaching an agreement between Gibraltar, the UK and Spain that promotes shared prosperity for Gibraltar and the Campo de Gibraltar. Despite extensive political discourse in London regarding the upcoming Spanish election and its potential impact on a Gibraltar Treaty, all parties involved, including Chief Minister Fabian Picardo, remain dedicated to finding a resolution. Discussions have focused on controversial issues such as the management of the airport, sovereignty, and the role of Spanish police in Gibraltar. One proposed solution involves Frontex managing the border on behalf of the EU, overseen by Spanish officials.

The upcoming general election and uncertainties surrounding the Schengen Deal have created an atmosphere of unease and unpredictability in the property market. These unprecedented events introduce uncertainty, affecting market dynamics and buyer sentiment. It is essential for property market participants to be conservative and adapt to the landscape.

On another note, the real estate industry recognises that it must adapt and respond responsibly to long-term changes and wider issues related to the environment, sustainability and governance to address the current market disruptions. In turn, resale restrictions on certain local residency properties in Gibraltar have been lifted this quarter at the benefit of property owners and potential buyers. If the owner has owned the property for at least 10 years and the underlease was granted 30 years prior to the proposed sale, the restrictions no longer apply. This change allows owners to freely sell their properties and provides increased flexibility and market opportunities for buyers.

Several approved planning decisions by the DPC this quarter reflect positive activity for Gibraltar's future economy. These approved developments have the potential to further stimulate the property market and contribute to further movement in property prices. Here are some notable proposed developments that have received approval:

- The CitiHomes apartments development situated between Filomena House and the multi-storey car park on Devils Tower Road. The development will comprise an 11 storey building containing 238 studio, 1 bedroom and 2 bedroom leased apartment units.
- One Bayside development gained unanimous approval for a 13 storey building containing 65 residential units with 87 car parking spaces situated on Bayside Road.
- A new major private development at the Rooke site on Queensway Road. Subject to various conditions, the mixed-use development will include residential and commercial units, along with extensive green areas at podium level.
- The redevelopment of Fortress House, which will transform the historical building into a vibrant cultural and social hub.
- The building previously occupying Coviran supermarket on Devils Tower Road received full planning permission for a mixed-use development offering 153 residential units.

From the data collected by MJ, the following headline numbers were noted this quarter:

- Harbour Views has seen a marked increase in both sales figures and volume this quarter. There has been an average of 5.35% increase in Q2 2023. This was driven by various transactions reaching plus £4,500 / sqm.
- Europlaza witnessed a positive hurdle in sales figures this quarter which was supported by the sale of a high floor 4 bedroom apartment at £1,140,000 which equates to plus £7,725 / sqm.
- There has been good amounts of movement and an average of 8.18% increase in Q2 2023 across the south district. These statistics reflect an impressive volume of transactions completed in the high-end market.
- Significant reduction in the Town area private sector with a quarter rate of -13.59% in comparison to the previous quarter (12.82%). The decrease relates to sufficient evidence to indicate that buyers are purchasing neglected properties in order to carry out renovations and sell or for own use.
- The Carrara building in the Eurocity development completed this quarter and has been received well by the market, achieving resales in excess of £9,000 / sqm. The Carrara building is arranged over 21 floors and provides 136 apartments.
- This quarter witnessed a negative performance from Eurotowers with prices decreasing by 6.96% this quarter. It would be reasonable to suggest that the recent completion of Eurocity have reduced the attractiveness and interest in its older counterpart, Eurotowers. Also, there was some distortion in the figures created by the sale of a penthouse in Q1.
- The rental market in Gibraltar has shown robust growth, with a shortage of supply reported by many agents. The market has seen an increase in studio and 1 bedroom apartments, which have been met with strong demand. However, there is a growing need for rental units

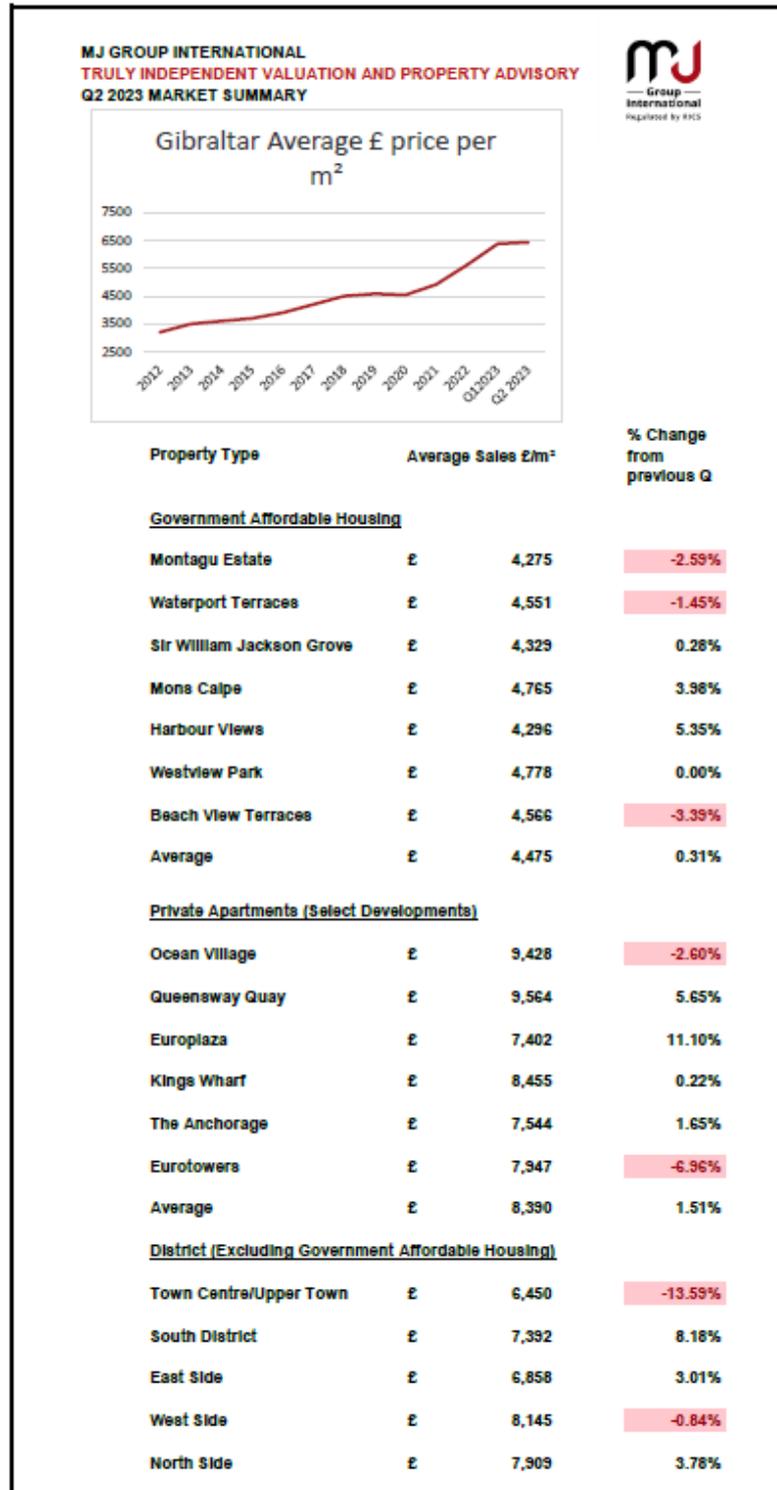
with two, three and four bedrooms. It is anticipated that the demand for studio and 1 bedroom apartments may decrease once the Treaty is agreed. Overall, the property market has experienced good levels of lettings, indicating reasonable demand and the increasing significance of short-term lets in Gibraltar's economy.

- Within the current developments there is circa 650 apartments that will enter the market. These schemes include Eurocity, Marina Club and The Reserve.
- It's important to note that the majority of new developments are sold off-plan and most owner occupiers / renters are waiting to move. We expect to see an increase in resale stock as the new developments approach completion and free up buyers in existing accommodation.

To conclude, Gibraltar's property market has remained resilient despite economic challenges. The rental sector has seen high levels of lettings, reflecting strong demand created by a preference to rent rather than buy, as mortgage affordability bites.

Prices have increased slightly in both private and affordable housing sectors, although the level of growth has declined significantly. Interest rate increases has caused a slowdown in volume movement, and buyers now have increased bargaining power. The upcoming general election in Spain and uncertainties surrounding the Treaty negotiations add complexity to the market. Nonetheless, the lifting of resale restrictions and approval of significant developments are positive indicators. Market participants should remain adaptable and cautious in navigating the evolving landscape.

Based on the current uncertainty surrounding the Treaty, we anticipate that a more comprehensive analysis of its potential impact on the market will be feasible once it is presented to the public. However, at present, the situation remains too unclear to make any dependable assessments.



Source: MJ (Gibraltar) Ltd

Commercial Market

During the second quarter of 2023, there has been limited activity in the commercial real estate market. We have noticed a specific reduction in terms of office rents (-6.98%) and sales (-4.71%) which can be attributed to the availability of larger office spaces, resulting in adjusted rates. Leasing velocity has experienced a decline over the past six months, with few significant transactions being finalized as companies navigate the uncertain business landscape. Forecasts regarding market relief are mixed; however, real estate developers maintain a cautious optimism and continue to plan and design mixed-use developments.

A notable trend in the industry is the repurposing of aging buildings, which is gaining traction among potential tenants. The growing awareness of climate change and its impacts has been a significant driving force behind investors, developers, and tenants gradually embracing this approach. By repositioning underutilized buildings, they can be revitalised and given a new lease on life. The possibilities for adaptive reuse are extensive, incorporating various forms such as converting industrial space into retail or office, like we have seen at the Dockyard by Bassadone, or transforming office buildings into residential properties.

The repurposing of aged buildings will undoubtedly be a prominent and widely discussed topic within the real estate industry over the next decade. How landlords, developers, and banks address this challenge will require careful consideration and innovative strategies.

Businesses are increasingly seeking high-quality offices with modern features and amenities. The emphasis on Environmental Sustainability and Governance (ESG) considerations has further fuelled the demand for office units that prioritize sustainability and environmental friendliness. Additionally, the rise of hybrid working has led to a preference for office spaces that support virtual work and provide flexible working arrangements.

The retail industry has remained consistent with rental values declining by just 0.20%. There is optimism for the industry in 2023, as retailers focus on improving the customer journey through seamless experiences and hybrid shopping. Retailers are adapting to the new normal by leveraging social media, improving store design, and embracing sustainability.

Despite these developments, the challenging macro environment continues to impact retail markets, with rental values declining by 3.85% in the last quarter due to lower consumer confidence. Cost of living and price inflations continue to pose a threat to the retail sector. In response, many retailers in Gibraltar are adopting the e-commerce trend, combining physical retail spaces with online shopping to remain competitive on the high street.

Despite challenging economic conditions, the industrial real estate market in Q2 2023 has performed well. Strong demand from commercial enterprises and low vacancy levels have led to a 0.30% increase in rental values compared to the previous quarter. Additionally, sale values have risen by 1.21%, demonstrating growth in the face of rising inflation and interest rates. The sector's resilience and sustained demand highlight its attractiveness for businesses and investors.

On a positive note, the tourism sector is witnessing a resurgence, with tourists returning in significant numbers. This resurgence has led to increased hotel performance indicating a favourable market for investors and developers in the hospitality industry. The hotel sector started the year with optimism and according to the latest figures published by the GoG, we have seen an increase in tourist arrivals in Q2 2023 to that of pre-COVID 19 levels.

On a sector basis we have noted the following:

- In terms of occupancy in Gibraltar, we have seen an increase in the amount of space available to let, suggesting higher levels of vacancy. In World Trade Centre a 502 sqm office is available to rent at £210,840 pa.
- Across most sectors, gross leasing volumes have decreased in Q2 and total transactions are similar when compared to Q1 2023. Levels remain below pre-covid levels.
- With reduced demand for office space, rents have decreased by 6.98% from the previous quarter. There have been low volumes of activity this quarter and also a shortage of space available to purchase which suggests landlords are retaining assets with a view that the market will start to move once the Treaty is agreed.
- Since the pandemic, home working which has been utilised by many companies and we have witnessed increased demand in hybrid working and flexible lease terms.
- Gibraltar is one of the World's first to regulate the blockchain space and it could expect more businesses of all sizes to migrate to Gibraltar. This could potentially act as a strong driver of growth in the market moving forward.
- Although recovering, the retail market remains relatively static with performance indicators suggesting negative rental growth (-0.20%) and sale (-3.85%) values this quarter in comparison to the previous quarter.
- Cruise ships have returned which has allowed for improved footfall along Main Street. March 2023 statistics extracted from the GoG website indicate that total yacht arrival numbers were up 83% in comparison to March 2017.
- Visitor numbers in Main Street and other retail locations have already significantly improved, as tourists and especially cruise ships return.
- Sale values for industrial space has increased by 1.21% in Q2 2023 – supported by solid demand. The driver remains the shortage of supply in this sector.

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Q2 2023 MARKET SUMMARY					
<u>Average Commercial Rents and Sales</u>					
Property Type		Average		% Change from previous Q	
Office Rent (£/m ² pax)	£	280.10		-6.98%	
Office Sale (£/m ²)	£	4,167.51		-4.71%	
Retail Rent (£/m ² pax)	£	439.56		-0.20%	
Retail Sale (£/m ²)	£	4,866.75		-3.85%	
Industrial Rent (£/m ² pax)	£	196.21		0.30%	
Industrial Sale (£/m ²)	£	2,340.69		1.21%	

Source: MJ (Gibraltar) Ltd

Disclaimer

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