

Market Study

Residential Market in Spain and the Balearics.



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Residential Market – Spain & Balearics

Overview

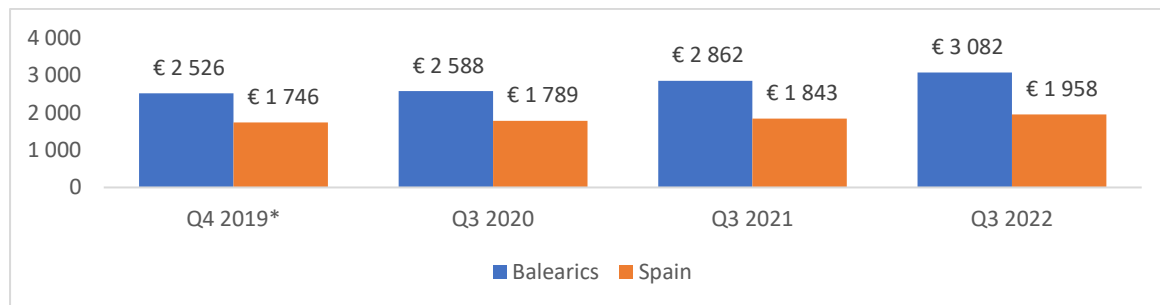
In Spain, 85% of the supply is dedicated to home sales, while the rental market accounts for only 15%. Out of which, the supply of apartments accounts for 65.4% of the total stock, with the remaining 34.6% corresponding to the single-dwelling houses. In terms of surface area, the average apartment for sale has an average of 101 m², compared to 260 m² for the average single-family home. Both apartments and three-bedroom houses are the most in demand.

House price analysis

The average price of housing has slowed down its intensity, with a quarterly increase of 0.1%, well below the 2.4% of the previous quarter, reaching an average amount of 1,958 €/m². The housing price behaviour is best represented with the resale market (having a higher amount of data with the number of transactions recorded) which suffered from a quarterly decrease of -0.3%. The New Build market however rose by 1.7%.

The autonomous communities with the highest average prices were Comunidad de Madrid (3.229 €/m²), Illes Balears (3.082 €/m²), País Vasco (2.891 €/m²), Cataluña (2.431 €/m²) and Canarias (2.306 €/m²). The provinces with the highest average prices were Gipuzkoa (3.367 €/m²), Madrid (3.229 €/m²), Illes Balears (3.082 €/m²), Barcelona (2.769 €/m²) and Bizkaia (2.745 €/m²).

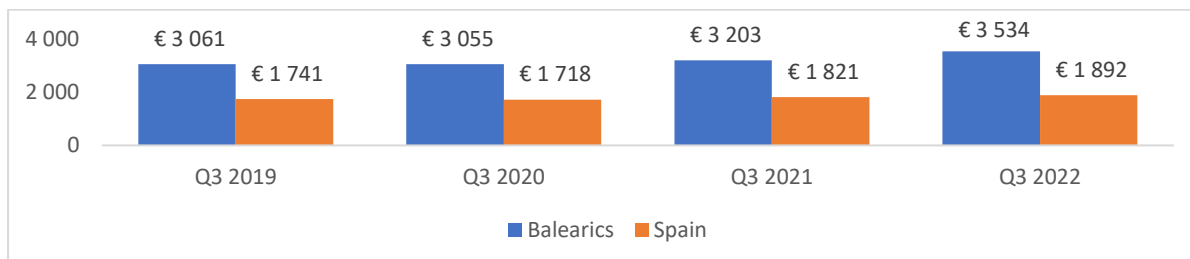
At a provincial level, capitals have been led by San Sebastian (5.082 €/m²), Barcelona (4.352 €/m²), Madrid (3.851 €/m²) and Palma de Mallorca (3.122 €/m²). Quarterly increases were recorded in thirteen autonomous communities, thirty-two provinces and thirty-eight provincial capitals.



* There was no data published for Q3 2019, therefore we adopted Q4 2019 as a "pre-Covid" figure.

Source: Registradores Q4 2019, Q3 2020-2022

Below is a comparative table and graph of the average prices advertised (Asking prices) and how they have been adjusting the pandemic. Prices have remained stable in the Balearics especially for prime properties. The data have shown a slight dent due to Covid 19 complexity in closing deals but the prices have not significantly been affected compare to the rest of the country. It is clear that the evolution of prices have been considerably slower than predicted but still remained positive.



Balearics						
	Jul	Aug	Sep	Average / Q	Y-O-Y	
Q3 2019		3.052	3.071	3.060	3.061	6,60%
Q3 2020		3.057	3.060	3.047	3.055	-0,20%
Q3 2021		3.208	3.196	3.206	3.203	4,84%
Q3 2022		3.494	3.542	3.567	3.534	10,33%

Spain						
	Jul	Aug	Sep	Average / Q	Y-O-Y	
Q3 2019		1.738	1.749	1.735	1.741	4,20%
Q3 2020		1.677	1.735	1.742	1.718	-1,32%
Q3 2021		1.813	1.825	1.826	1.821	6,00%
Q3 2022		1.888	1.896	1.893	1.892	3,90%

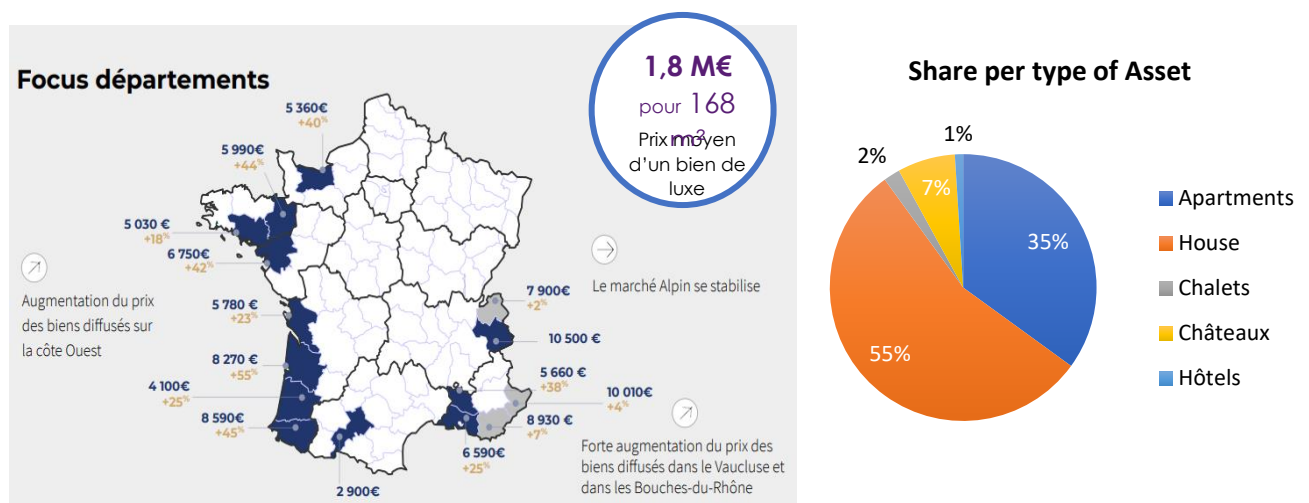
Source: Idealista

Prime and super Prime performance in Europe

From the feedback from our partners who forms part of the European Valuers Alliance, in various European market we have gathered the below on the prime residential market:

France:

- Prime residential market in France are properties considered to be worth more than €3 million for luxury properties in Paris and more than €1 million for luxury properties in the regions.
- The French luxury market is one of the most attractive in the world. However, only 3,500 sales of more than €2 million were signed in 2021 out of a total of 1.2 million sales.
- The vast majority of luxury properties are used as primary residences and 78% of luxury property owners live in France (including 54% in the Paris region and 24% in the PACA region)
- The main networks of agencies specializing in luxury are Barnes, Daniel Féau, Sotheby's International Realty, spread over 315 agencies. Apartment



Paris Prime Market:

- 60% of the French luxury market is located in the Paris region, particularly in the 16th arrondissement of Paris.
- In Paris, unobstructed views of historic monuments are driving up prices: 18.000€/m². for a view of the Sacré Coeur 20.000€/m² for the Eiffel Tower and for Notre-Dame 40.000€/m².
- The Champs-Élysées avenue exceeds 15.000€/m², prices lower than the Saint-Germain-des-Prés district where they exceed 16.000€/m².
- Between 2019 and 2021, sales over 3M€ have more than doubled in Paris and Neuilly-sur-Seine.
- Beyond the view of a monument, wealthy buyers are looking for more outdoor spaces (garden, terraces, etc.), explaining the explosion in sales in the Hauts-de-Seine and Yvelines in 2021.

Source: EVA - BPCE

United Kingdom:

Overview:

The prime London sales market has continued to record robust levels of activity and price growth in the first half of 2022. Meanwhile, the rental market has rebounded from last year's lows and rents have risen above pre-pandemic levels amidst a lack of homes available to rent.

Prices across prime London are still rising although this partly reflects the rapid growth last year. However, we expect annual price growth to slow during the second half of 2022. Meanwhile, activity levels are lower than last year's stamp duty-fuelled boom but still above pre-pandemic levels.

Looking back at last year, 2021 was a bumper year for transactions across prime London. Sales rose 43% compared with 2020 and were 26% higher than the previous five-year (2015 to 2019) average. That said, the first half of the year when stamp duty holiday incentives were in place was busier than the second.

Buyers spent £11.6 billion on prime London property in 2021. This is up 45% on 2020, 37% higher than the five-year (2015 to 2019) average and 1.2% higher than the previous peak of 2014. 53% (£6.1 billion) was spent on houses, a 26% increase on the previous peak spend which was set in 2014. An increase in sales of houses and properties at the top end of the market supported price growth in the final quarter of 2021. Overall prices rose by 7.2%. Prime Central London was the strongest performer, up 6.7% on Q4 2020 followed by Prime London (+4.0%) and Prime Fringe (+3.5%).

Sales market:

The UK continues to battle the cost of living crisis and rising inflation rates across the country, whilst the housing market remains robust, whereby on a national level, prices have risen 12.4% on April 2021, with London seeing prices rise by 7.9% over the same period.

Given the cost of living crisis, couple with rising interest rates, it is anticipated that the second half of 2022 will see the market cooling.

Despite this, the housing market continues in a state of flux as the demands for more space driven by the ability to work from home have led many to reassess their housing needs. The main winners appear to have been areas further afield from city centres and coastal areas within reach of major employment centres.

A tight labour market and savings accumulated during the pandemic could drive a similar pattern over the next two years, as buyers put a greater emphasis on space and living environment over the ease of commute.

Lettings market:

Post-pandemic demand for rental homes has rebounded across prime London and the lack of homes available to rent is a big challenge for prospective tenants. As the impact of the pandemic receded, the return to city centre living has grown.

Prime London This situation has led to a complete reversal in the state of the prime London rental market from last year. In 2021 landlords struggled to let their properties which led to rents falling, the average time to let rising, and growing discounts on asking rents. This year, the opposite is true. The lack of properties available to let means tenants are struggling to find a home and rents are rising rapidly as a result – 28% higher in June than last year and 14% higher than the 2017-19 average.

Source: EVA – MJ Group International (UK) / LonRes

Germany:

According to the *VDP* property price index (Association of German Pfandbrief banks), the purchase prices have fallen across Germany, but also in the Top 7 in Q3 for both houses and apartments (except for apartments in Berlin) although not fully representative being based on averages values.

According to the latest updates, the offer prices of new built apartments are dropping further than those of resale ones, at least in Hamburg, Frankfurt, Cologne and Düsseldorf. In Munich, Stuttgart and Berlin, the prices for new built apartments are remaining quite static.

In term of foreign investment, in Frankfurt, for example, the top prices (in the case of prominent new development of apartments) are often paid by foreigners, who in turn do not finance in Germany, but in their respective countries of origin.

The increased financing costs have, of course, now significantly limited the demand circle, because many simply cannot afford financing (especially against the background of high inflation). To what extent this has an equal impact on the buyers of prime properties, it is not clear yet, since there is a significantly more supply available in this category.

Source: EVA – Kenston

Belgium:

It was reported that the general Belgian residential market is in decline, especially for older, not yet renovated houses.

The time a house stays on the market is generally longer than it was 1 or 2 years ago. It must be noted that the Covid-years 2020 and 2021 were extraordinary in terms of sales and the Belgian real estate market boomed.

Nowadays it appears the Belgian buyers are scared of the energy prices, higher interest rates, rising building costs for renovation and general insecurities.

According to a recent study published in the newspapers shows that Belgium has a significant higher percentage amount of older houses than the rest of western Europe. This means there's a scarcity in newer, durably renovated houses in Belgium and these are, according to our study, still going strong in the current market.

From the survey made to estate agents, the high end and prime assets are still selling really good as long as they are also in a renovated and sustainable state. Older / unrenovated houses in the higher price range would sell at a slower pace.

What we do see in that segment is more cash-buyers, so we make the assumption the higher interest rate plays his role here as loans are becoming more expensive in Belgium (assuming this is also the case in the rest of Europe).

To summarize, the higher segment, high end prime houses/apartments don't seem to feel the recession (yet) as they are still sold relatively easy.

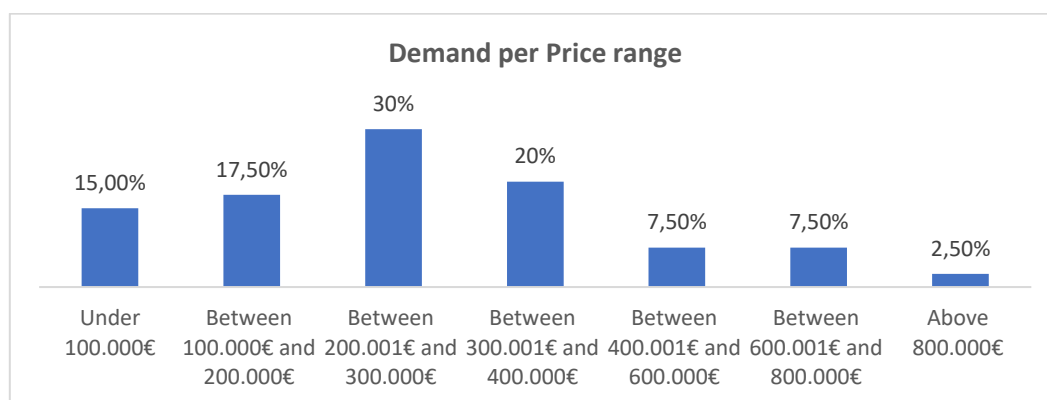
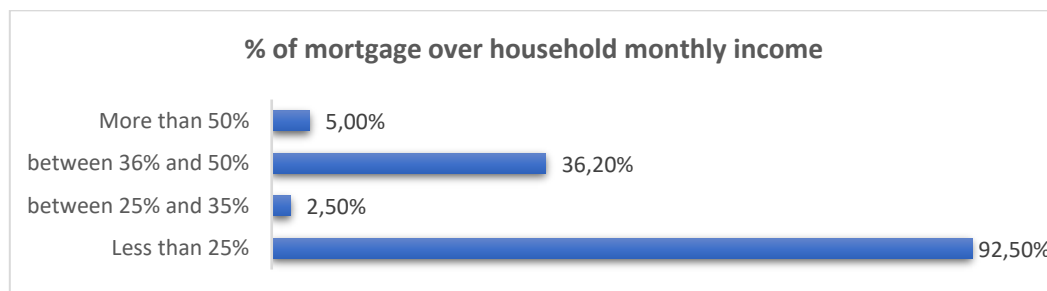
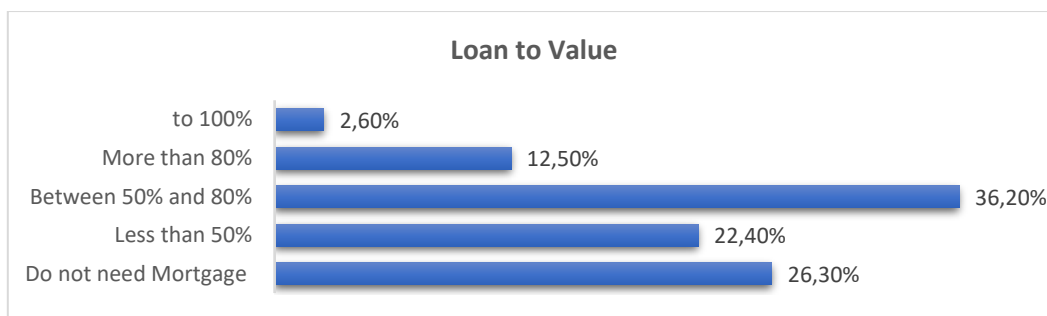
Source: EVA - Stadim

Dependency on bank financing for buyers - Q3 2022 Spain & Balearics

Mortgage indebtedness for housing has increased, although more moderately. The average amount was 144.088 € with a quarterly increase of 0.3%. Eleven autonomous communities recorded quarterly increases. The highest amounts in the second quarter were recorded in the Balearic Islands (222.939€), the Community of Madrid (216.849€), Catalonia (167.412€) and the Basque Country (160.677€). On the other hand, three autonomous communities did not reach 100.000€ corresponding to Extremadura (89.198€), Region of Murcia (91.015€) and Castilla - La Mancha (99.570€).

In the last 12 months, throughout the country, 29% of property purchase was done without a mortgage. As for the Balearics, the latest data for Q3 2022 indicates that 62.1% of property purchases were done on a mortgage leaving 37,9% of cash buyers. There was a total of 2.737 mortgage applications on that same quarter, out of which 93,99% was done through banks and 6,01% through other financial institutions. The later represent a shift of the share of +0,89% from banks to other financial institution this quarter.

Following a survey done by Idealista, we have gathered the below information in relation to the Balearics:



Source: Idealista

MJ GROUP INTERNATIONAL LTD

Calle Monte Esquinza 9, 7 Madrid 28010 Spain

Tel: + 34 917 025 106
E-mail: info@mjconsultoria.com

United Kingdom - Spain - Portugal - Gibraltar
www.mjgroupint.com

Supply-demand balance in the Balearics?

Despite the negative percentage quarter-on-quarter for sales registered in Q3 2022, we can observe that the level of transactions has increased considerably from pre-covid time to the latest available data on new build and resale properties. The level of total transactions in Spain has increased by 28,70% between Q1 2020 and Q3 2022, and the Balearics figures have increased by 25,69% (13,59% for new build stock and 28,39% for resale stock).

Number of sales registered – Q3 2022						
Autonomous Community	Total	% q-o-q	New build	% q-o-q	Resale	% q-o-q
Balearics	4.408	-1,4	727	-5,6	3.681	-0,5
Spain	167.892	+2,4	28.595	+2,6	139.297	+2,4

Number of sales registered – Q1 2020						
Autonomous Community	Total	% q-o-q	New build	% q-o-q	Resale	% q-o-q
Balearics	3.507	+8.71	640	+9.97	2.867	+8.43
Spain	127.357	+8.49	24.525	+10.73	103.105	+7.98

Additionally we can identify a positive recovery or reactivation of the real estate market both at national level and in the Balearics with year-on-year positive changes as seen below:

Number of sales registered – Q3 2021 / Q3 2022						
Autonomous Community	Total	% y-o-y	New build	% y-o-y	Resale	% y-o-y
Balearics	18.443	+41,5	3.071	+37,0	15.372	+42,4
Spain	640.082	+19,8	117.345	+9,8%	522.737	+22,3

Source: Registradores Q1 2020 and Q3 2022.

Micro environment – Mallorca / Balearics:

Selection of prime real estate transactions in Mallorca:

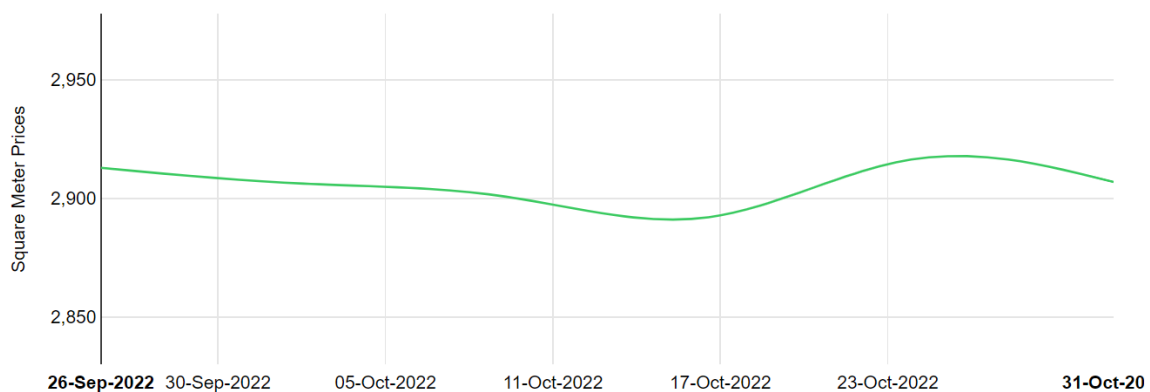
Hereafter is a selection of some transactional evidence of prime residential properties in Mallorca, the price range from 3.650.000€ to 12.000.000€ which equates between 6.800€/m² to 14.500€/m².

Transactions in Mallorca					
Location	Type	Built Area (m ²)	Sold Date	Sold Price (€)	€/ m ²
Port Andratx	Detached Villa	827	Q3 2022	12.000.000	14.510
Costa d'en Blanes	Detached Villa	717	Q3 2022	9.800.000	13.668
Santa Ponsa	Detached Villa	496	Q3 2022	5.950.000	11.996
Santa Ponsa	Detached Villa	833	Q3 2022	9.500.000	11.400
Costa d'en Blanes	Detached Villa	529	Q1 2022	5.700.000	10.775
Costa d'en Blanes	Detached Villa	667	Q4 2021	6.900.000	10.340
Cas Catala	Detached Villa	982	Q4 2021	6.800.000	6.925
Son Vida	Detached Villa	535	Q4 2020	3.650.000	6.822

Source: trovimap – Land registry

Property price trend in the Balearics

The following graphs show the trend in prices over time of all types of residential properties for sale in the Balearics.



Source: trovimap

Current Trends:

Average time on the market

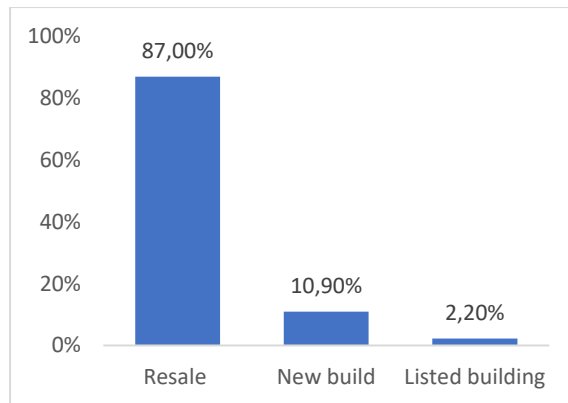
285 days

Discounts being offered versus asking prices

5-15%

New-built stock Vs Resale

Demand per property type.



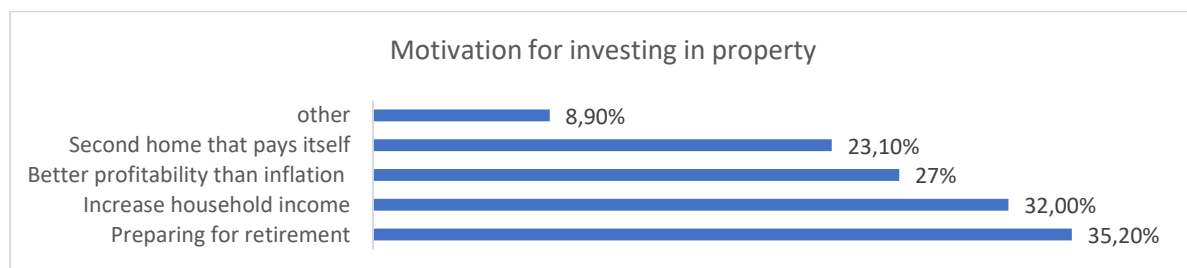
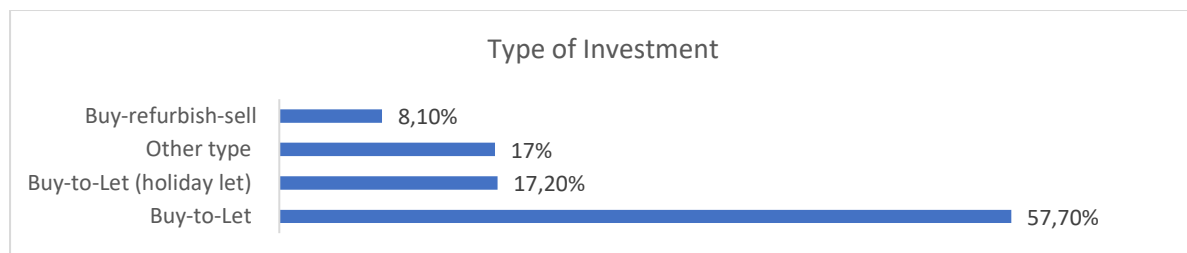
Miscellaneous:

Foreign demand:

The foreign demand in the Balearics is still one of the highest in the country, with 31,41 % of the home purchased done by foreigners in Q3 2022, although it suffered from a -3,19% decrease compared to the last quarter.

Investment – Residential property market:

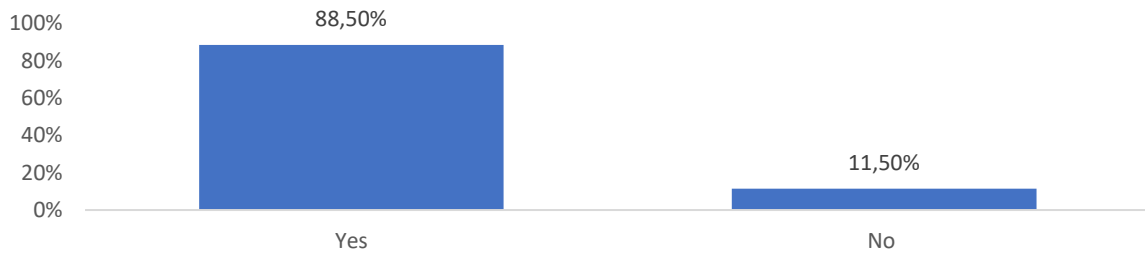
According to a survey undertaken by Idealista, they have identified certain behaviours and motivation behind residential property investment.



Effect of the rental increase capped at 2%



Carrying on searching for a property to invest in?



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MJ GROUP INTERNATIONAL LTD

Calle Monte Esquinza 9, 7 Madrid 28010 Spain



TRULY INDEPENDENT VALUATION AND PROPERTY ADVISORY

MJ GROUP INTERNATIONAL LTD



Calle Monte Esquinza 9, 7 Madrid 28010 Spain

Tel: + 34 917 025 106

E-mail: info@mjconsultoria.com

United Kingdom - Spain - Portugal - Gibraltar

www.mjgroupint.com

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