

Celebrating 10 years of Engel & Völkers - A decade of dramatic change & price increases for the island's residential market

In 1999 Engel & Völkers decided to open its first office outside of its German headquarters in Puerto Andratx, Mallorca, and even though the company knew that the second home residential market was developing it did not anticipate that Mallorca would enter the property “super league” and become an international location for multimillionaire investors and celebrity superstars.

For investors the last 10 years have been extraordinary and average price increases over this period in the Balearics have totalled an average of 167% and more for prime property.**

1. Record 167% Price Increases in the Balearics over 10 Years

Over the last decade house prices have increased by approximately 167% based on average euro/m² prices. When E&V first entered the market the average m² constructed cost was €847 by the year 2000 this had leapt to €1.055, representing an increase of 25%. This price development continued over the next few years and passed the €2,000 mark per m² in 2006. (All figures are quoted as an average for the Balearics).

In 2006/2007 at the peak of the “boom” the Balearics ranked the 5th most expensive area in Spain with price increases averaging 12%*. Mallorca had attained “super league” status within international property market and became attractive to multi-millionaire buyer/investors. In 2003 the most expensive property sold by Engel & Völkers was €4.5 million by 2006 this record had increased to €12.5 million.

Some of the greatest price increases have been recorded in the south west region specifically in the last six years where the average property purchase was €1 million up until 2008. The chart below includes figures of average prices comparing first sea line villa with sea access with fourth line villas with no sea views. Taking into account variations of price depending on location, sun orientation, privacy etc...

South West Average Price Increases 2003 – 2009 (source: Engel Völkers, Mallorca)

		2003-2009	Average increase p.a.
Andratx	Villa	27%	4,48%
	Apt	15%	2,5%
Santa Ponsa	Villa	56%	9,31%
	Apt	37%	6,9%
Son Vida	Villa	31%	5,16%
	Apt	56%	9,38%
Portals	Villa	18%	3,07%
	Apt	17%	2,93%

2. Strategic Location

Mallorca's highly successful tourism industry provided ongoing promotion for people who wanted to live or have a permanent holiday residence abroad. High profile promotional campaigns within the tourism sector in the main feeder markets (UK, Germany and Spain) created ongoing awareness. These factors combined with major investment in the island's sophisticated infrastructure, including the inauguration of Palma's new airport in 1997, represented a turning point in the island's development. In the same year, Easyjet was the first low cost carrier to fly to Palma from the UK and Air Berlin opened the airline's hub at Palma Airport and offering daily routes from main German cities and the Spanish Mainland.

By 1999 other low cost carriers followed their lead increasing accessibility to Mallorca year round. In addition, the proximity of two hours flying time to the island from the main European cities became a major factor in its success. Total passenger movements (in and out) for 1999 were 9.6 million***** in 2008 this figure had increased to 11.4 million demonstrating the improved accessibility to the island and the impact of the new airlines featuring the destination. Now over 80 airlines feature the destination and Palma is Spain's third busiest airport.

3. Financing

Ten years ago the banks started to actively promote their services to foreign buyers and specifically mortgages. This was fuelled by favourable Euribor rates which maintained a level of just over or under 3% from April 2002 through to 2006. Cheap money and co operative banks meant that foreign buyers could now easily obtain a mortgage to fund the purchase of a "dream" home. In the Balearics highs of foreign transactions were attained in 2006 and 2007 when foreign investment accounted for approximately 15-16% of total property transactions **. Around 2002/2003 high spending British buyers came into the market spending an average of €1.5 million on a dream second home. British buyers were the largest single

market to take advantage of their strong sterling buying power and cheap euro mortgages and this opened up the market to a much younger age group and young affluent families. This year, the Euribor rates are at their lowest level in 10 years for 12 Months at 1.254%.

4. New Areas & Prime Locations

Palma is “re-discovered” and becomes a popular European “pied a terre” destination as the historic old town gets a “facelift”. Approximately 10 years ago Palma Town Hall started to invest in the refurbishment of the city’s old town cleaning the old facades and buildings, erecting new antique style lamps, instigating a campaign to clean up the streets and investing in a new underground rubbish collection system.

Foreign buyers started to invest in the old town in general buying up “casas señoriales” or townhouses restoring them back to their former glory or developing apartments in the old style. In 2006 prices per m2 were starting to approach the levels of Madrid and Barcelona of 6,000 – 8,000 €/m2. Areas which became especially popular during this time were La Lonja, Sa Calatrava, Es Baulard and Palma-Cathedral.

Rural Mallorca became more popular as buyers looked for more privacy and the authentic village environment of Mallorca. Furthermore, as coastal properties became more expensive the inland areas offered more value for money. Foreigners started to buy up around towns and villages along the Tramuntana Mountains such as Santa Maria, Orient, Esporlas and Puigpuyent where luxury rural hotels opened including Read’s (Santa Maria), Gran Hotel Son Net (Puigpuyent) and L’Hermitage (Orient).

The completion of the new road system in 2006 dramatically cut down travelling time from Palma Airport to the less accessible areas of the island to the north and along the north east and east coast, which has opened up new possibilities. Coastal properties particularly along the north east offer good value for money and there is an interesting supply of large country “finca” estates coming onto the market in the east providing complete privacy.

5. New Designs & Trends

The millennium brought a new look to the island as architects explored modern design possibilities in the traditional Mallorcan setting. Some of the most visual examples of this include architect, Alberto Rubio’s “sea gull houses”. One of the architect’s earlier projects is the “RockStar” so named for its unique sea front posi-

tion in Puerto Andratx and when it first came onto the market in 2005 its striking design caused a sensation and was sold within months. The property is now back on the market for €12.5 million. In 2008 a British developer launched one of the first contemporary style luxury villas overlooking Formentor Bay, which is currently on the market for €17.5 million. The property features an enormous floor to ceiling window bringing the whole vista of Formentor into the house.

6. Celebrities in Mallorca

The Spanish Royal Family and international celebrities have played an important part in the perception and awareness of Mallorca. Some of the well known names that own property here include; Michael Douglas and Catherine Zeta Jones in Vall-demossa, Lord Lloyd Webber in Deia, singer Annie Lennox in Esporlas, top model Claudia Schiffer in Puerto Andratx, footballer Steve McManaman in Son Vida and Mallorca's own world champion tennis player, Rafael Nadal. The presence of the Spanish Royal Family every summer underlines how safe the island still is and the fact that famous faces can come to the island and enjoy their privacy.

7. Next 10 Years

The island's confidence is underlined by continued investment in infrastructure including AENA's investment of €240 million in Palma Airport's expansion scheduled to increase capacity of up to 28.514 million passenger movements by 2012, the new Congress Palace in Palma and ongoing improvements to road and transport systems.

New investors coming to the island for investment in Palma include: Sa Gerreria, Santa Catalina and Portixol (particularly when Palma's new Congress Palace is finished). In the south west Puerto Adriano is being redeveloped with international designer, Philippe Starck, and will be completed in 2010. Work has already started on Son Vida's planned new access and urbanisation which will further enhance the investment opportunities there.

Inland many rural areas are extremely interesting at present including; Mancor de Valle, Moscardi and Montuiri. Along the east coast Porto Colom, Son Macia and Ses Salines and in the north east Colonia Sant Pedro and Capdepera old town represent good value for first time investors.

Future trends could see a return to the traditional Mediterranean look and even more striking contemporary style properties. A new €21 million project has just been launched in Son Vida; The Chameleon will be the first of its kind on the is-

land so called because of its unique futuristic light system which will literally change the entire look and ambience of the property.

Now is the time to buy...

Talking on behalf of E&V Mallorca, Daniel Chavarria Waschke, Managing Director for E&V South West says; "It is doubtful that we will see the extraordinary level of price increases of the last 10 years again. Our business is the second home residential market focusing on luxury property to the main European feeder markets, especially German and British buyers.

This year, due to the strong euro and difficulties with obtaining mortgages we are missing buyers, specifically British buyers. A more realistic approach to pricing and valuations has meant considerable price adjustments, especially by those owners who want to sell this year. Currently cash buyers dominate the market as banks will not lend more than 50% of a property's value to foreign buyers. No major new property developments mean that the balance of supply and demand on the island will start to push property prices up over the next few years.

Mallorca remains a safe, long term investment and now is the time to buy as prices continue to adjust to the new market conditions".

www.engelvoelkers.com/mallorca

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ends

Background Engel & Völkers Worldwide

Engel & Völkers is a global network of licence partners with 385 offices in 32 countries and on four continents. It is the leading estate agency in Germany and is now one of the leading names in international real estate. To this day, the Puerto de Andratx office continues to outperform any other Engel & Völkers office worldwide outside of Germany.

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Source References:

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