

Spain: Is the party over?

Over the years, Spain has been one of the top-selling countries for foreign property buyers, especially Brits. It's a short flight away, offers a sunny climate and has proved to be the ideal spot for a new home in the sun or a rental property. But could the good old faithful relationship with Spain have had its day?

Demand for property on Spain's costas, such as Costa del Sol and Costa Blanca, has been high. People are attracted by the lure of over 300 days of sunshine a year, clean sandy beaches and the familiar culture and lifestyle. Access has been aided considerably by the numerous cheap flights available from regional airports across the UK, resulting in quick and easy flights to Spain. It's not only been popular with property buyers, but tourists too, who flock in their millions each year. This has been the perfect situation for buyers, as it's meant there's been a good chance of making money from rental properties.

Over £6 billion has been invested in Spanish property, according to the Office of National Statistics, with 27% of that from British investors. But, as with all good things, many property markets don't retain their top-of-the-league title forever. Figures from the Bank of Spain indicate that foreign property investment in the country has fallen over the last few years, and by the end of October 2006 it was down to 12.1%.

Part of the reason falls down to Spain being the victim of its own success. Whilst it used to be possible to bag a bargain in the popular areas of Spain, as demand for property has risen, so too have prices. Recent figures released by Kyer.com reveal that 45% of potential buyers searching for property in Spain have a budget of €50,000–150,000. This is based on searches carried out on their website between 2004 and 2006. Yet the national average for properties in Spain is now €245,000 – way over the budget of many prospective buyers.

By Rachel Newcombe



Farrell's facts

Population:

40,397,842

Political structure:

Parliamentary monarchy

GDP per capita: €24,147 (£16,428)

Inflation: 3.5%

Interest rate: 3.75%

Unemployment: 8.6%

Foreign Direct Investment (FDI):

€18.5bn (2006)

Tourist arrivals: 43 million (2006)

Tourist expenditure: €7.2bn (2006)

Taxation:

Income tax: 15% to 45% on taxable income between €4,000 and €45,000

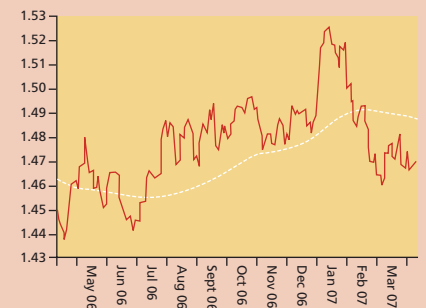
Corporation tax: 35%, with 30% on the first €90,000 for companies who turn over less than €5m

Capital gains tax: 18%

Value added tax (VAT): 16%

Currency

Daily Exchange Rates: European Euros per British pound



Climate:

The average temperatures are around 11°C in winter and 23°C in summer.

Carriers:

Murcia: Jet2, Ryanair, easyJet, XL, Monarch (scheduled), Flybe

With newer property investment spots coming into the limelight and buyers becoming more adventurous and prepared to travel further, some buyers looking to bag a bargain have been turning their eyes further afield to newer market regions.

Not surprisingly, it's the coastal regions and beach resorts that have been a big draw in the past. But as well as increasing prices, there are other factors affecting buyers. A study commissioned by the Spanish Environment Ministry found that

“It may not provide the returns that it used to but Spain still has so much to offer”

sea levels in Spain are rising by 2.5mm a year. It may sound like a tiny increase, but predictions suggest that, if this continues at the same pace, the beaches in Spain may be pushed back by an average of 15 metres by the year 2050. This could have a devastating effect on both the property and tourist industries, and some hotel owners in the Costa del Sol are already taking it seriously by seeking permission to bring in extra sand.

Looking to Murcia and Inland

Despite a fall in the market in the previously popular areas of Spain, one area where prospects are still good is Murcia in the south-east. “The region of Murcia still attracts a lot of tourists,” says Franck Jeannotot, business development manager at Jet-to-Let Investments, and tourists are a winning factor that goes hand-in-hand with property letting.

Murcia boasts a fantastic climate, with balmy temperatures, a low rainfall and hours and hours of sunshine. It's got 250km of coastline, but unlike other areas of the country, it's not been developed as widely and is only just coming into its own now. There are several new developments cropping up, with more in the offing, and there's a lot of potential for rental management. With two international airports, it's easy to get to, and further work is going on to improve other areas of the infrastructure. All in all, these are great signs for property investors.

The coast has timeless appeal and properties near the sea will always sell, but it's also worth turning your sights to

properties inland throughout Spain and Murcia. “It's clear that buyers are looking to find their ideal home in Spain at a bargain price,” says Martin Dell, managing director of Kyero.com. “For those looking for a spacious property for a maximum of €150,000, I'd suggest looking at inland provinces. For example, Cuenca or Jaen, those to the north such as Asturias and areas experiencing tourist growth such as Cordoba or Teruel.”

There are some great communities in Spain, inland and on the coast, and if

you're seeking to be a part of a more traditional way of life, some of the areas untouched by large developments can be a good bet. As Terry Lucas from 1 Casa says, “Spain still has so much more to offer. The developed infrastructure, widely spoken English, low cost of living, established legal system and, of course, the climate, all appeal to purchasers.”

In addition, if you're on a tight budget, looking at older properties, rather than new builds, may work out well. “It's worth considering buying a property in need of renovation,” Martin suggests, “as you can increase the value of your property over time whilst making it your ideal home.” It's still possible to find great quality older properties in need of work, from those requiring a complete renovation and refit to homes requiring smaller amounts of work.

If a renovation job is on the cards, as with any purchase, it's important to ensure you know what you're buying from the outset, how much work is likely to be involved, have a good idea about the likely costs and have a team of builders lined up ready to start work (or are ready to pitch in yourself!).

Despite the rise in property in some areas and the declining potential for fantastic returns on investments, Spain will always retain its place in the hearts of many British buyers. It may not provide the returns that it used to or be the place for pure investors to turn to, but if investment potential isn't the primary reason for your purchase and you're after a great quality of life in the sun and only two hours away from Britain, Spain may still tick the right boxes. ▶

Farrell's view

Property prices in Spain have performed extremely well over a sustained period with average figures being quoted of 170% increase from 1988 to 2005. Indeed, property has outperformed the country's stockmarket:

"The Banco de España stated that from 1988 to 2003, the average return on property was 13.5%. This was higher than the stock market investments at 9% measured on the basis of the IBEX-35 index over the same period." (OECD 2005)

Is the party over? There is evidence that oversupply of property, particularly on the costas, is putting downward pressure on prices and rents. The rapid growth of the past is set to cool.

But I want to make a clear distinction here between 'pure' investing and 'lifestyle' investing. The pure investor has left Spain already for countries that are at a less mature stage in the property market cycle. Spain has experienced a classic 'substitution effect', which has benefited countries such as Bulgaria, Poland, Cyprus, Dubai and further afield in Panama and Brazil. The pure investor is looking for the maximum return on cash and on that basis Spain is now not the most profitable investment.

However, Spain will always be one of the preferred destinations for the lifestyle investor, that is someone who wishes to use the property and then let it during times it is not occupied. Spain and

France will always maintain this position with many buyers, not just from the UK, but Ireland, Germany and Scandinavia and elsewhere.

I went to Malaga on a business meeting and the flight with easyJet from Liverpool John Lennon airport was a couple of hours and far less than the price of a train ticket to London. On arrival I had to take my jacket off because it was a lovely spring day. The food was fantastic, prices were inexpensive and the people courteous and friendly.

That's the appeal of Spain for the lifestyle investor.

Renting the property when you are not there in order to provide income will take a little setting up, but a good management company can take most of the strain for you. Think about your circle of family, friends and work colleagues who would enjoy a holiday in your lovely Spanish home for a week or two at a discounted rent!

Currency

Sterling is presently strong against the euro with the 180-day moving average rising from August 2006. Although down from the January 2007 high, taken over a two-year period (previous page), now is a good time to invest. The outlook for the currencies will depend largely on the prospects for interest rate rises in the UK and the Eurozone.

Mortgages

Rate: 70–80% of Loan-to-Value (LTV); interest-only mortgages also available

Interest Rate: 6.5%

Term: Up to 40 years for repayment; up to 15 years for interest-only

Indicative property prices for Murcia

- 1 bedroom apartment – from £65,000 (€96,047)
- 2 bedroom apartment – from £86,000 (€127,077)
- 3 bedroom apartment – from £121,000 (€178,817)



Farrell's verdict

I like Spain and can understand the many advantages that have drawn people from all over the world, not just the UK and Ireland. Lifestyle investors will continue to flock in their droves and a carefully chosen property in a good location will bear dividends in the years ahead. It came as no surprise to me that Spain is the second most popular choice for readers of this magazine, if our 3,000 sample is indicative of the total number of subscribers.

Call now for details of investment opportunities in Spain. Please register by filling in the form at www.jet-to-let-investments.com or by telephoning 08000 277 336.

