

Market outlook January 2020

Another month passed and we are approaching the end of the year 2019. This time we want to talk about two different angles of investment. The first part will be a general review of the year including our expectation for 2020 and in the latter part we will discuss real estate and the Costa del Sol market in particular.

Review of the year 2019

During this year we encountered multiple disequilibria on a global scale. Trade war between the US and China, lower growth rates in the developed economies and low interest rates all around. Commodities had a good year with Petroleum and Gold keeping their upward path and other commodities as stated by the S&P World Commodity Index increasing in the year by over 21%.

When looking at equity investments the picture is somewhat different. Though the trade conflict between the two Super-Powers US and China is still on going the US economy is strong and financial markets do reflect it. The S&P 500 ascended by 27.31 % during the year. A lot is due to the continued increase of debt of the US government closing at 120% of GDP including State and Local debt.

As stated in earlier articles we are cautious with equity investments given the changes in banking, finance and all the disruptive technologies and environmental concerns.

On the other hand the Bond markets still keep strong and reflect the expectation of lower than expected interest rates in the upcoming years. In line with our view that the future is somewhat overshadowed by aforementioned changes.

Our view on Real Estate (with special emphasis on Costa del Sol, of course)

Real estate markets around the globe are in good shape. People decide to withdraw money from banks paying no interest to put them to work in a higher yielding asset as rental income soars in most cities around the globe. But, one has to be careful: in all countries the mayor cities and their surroundings are favoured with remote areas not being able to follow the development.

Real estate outlook

Our focus is Spain and we have an opinion on the respective regional markets. In Spain the most dynamic markets are historically Madrid and Barcelona and continue to be so today. The most significant change there since the last crises are the high proportion of Cooperatives versus Developers. The example of Valdebebas, an area in proximity to Madrid Airport is illustrative. After the crises individual buyers joined to form Cooperatives and develop by themselves their residential units. Old solutions for new problems of major cities.



At present our main focus is on Costa del Sol and Sierra Nevada. We are located there and have long years of experience in this very particular market.

When looking at the real estate market in the Costa del Sol we will find the following patterns: after year of high investment by final buyers and spurred by the overshooting emergence of new developments, the market has turned to consolidation. There are buyers but the number is constant and not rising as was in 2013. Many developers are retreating due to longer time to market given the excess supply buyers are experiencing. It is a time for review and will undoubtedly lead to a survival of the fittest. Of course the strong price increase in some developments have contributed to the slower sales process.

Why are we still optimistic for the market especially in the mid-term? Survival of the fittest developer, listening to buyers and respect their pockets... There are good reasons for being optimistic. Not so recently the protection of our planet gained new momentum. Unfortunately most of the coastal properties are really not well prepared for it: low energy efficiency ratings meaning more than really needed money goes into cooling or heating. Under floor cooling is still not common at all in the coast. Energy efficient construction in itself is only in the beginning though a standard in Scandinavia or countries such as Germany. There is a lot to do in the future and a lot to do for developers. And, all this will attract new buyers given the prospect of increasing future re-sales prices for the ecologically friendly and of course well-located properties.

Do not get us wrong: there is always a very good reason to buy your property in the Costa del Sol but you should pick wisely and have the right assessment and consultants in place. So, one of the reasons for being optimistic for the market is the change in how developers plan for new projects, more respectful with the environment and better adapted to what people really need. Barrier free living just is one example.

In order to be able to offer investors a possibility to invest in coastal real estate we had to create ICCI REMA an investment platform consisting of legal services, developer, realtor and other related services. We in ICCI REMA have come up with the following: what about living in a Costa del Sol city in an neighbourhood that is authentic and Spanish, no dependence on a car and being able to enjoy all the bars and shops around you. Maybe even in the proximity to a major Department Store offering all you need or want and bringing your shopping home. We are proposing a turn around story for neighbourhoods that have it all but lack comfortable, well priced and technologically efficient apartments. Our approach is buying plots that are well situated and build affordable living space either for own use or for rentals. Given that the rental market in Costa del Sol especially and in Spain generally is very thin and experiencing steeply rising prices during the last years there is an excellent reason to look into this in further detail if you are looking for something really special or just seek protected return for your investment. We would expect annual returns of approximately 5% when rented out.

Now, what about prices that we see in the market? In our view the market resists quite well the more complex environment in Europe and we do not see generalized price reductions. Yes, there is no more a growing number of developments as right now the products coming



to market have to be digested and financing for new projects is more restrictive than it was 2 years ago. Our upcoming projects will address the changes necessary to the way builders constructed in the past and we want to bring people to the authentic Spain, enjoying the local atmosphere that has attracted so many – apart of the sun and the golf, of course.