

ICCI CAPITAL research N^o 7: **Market outlook: Corona times and then, what?**

The ones who studies economic crises, being caused by whatsoever evil force, will have the found the following pattern: Human mind is quite likely to adopt positions swinging from one extreme to the other. Depression will be followed by euphoria – just dependent on the “visible” future expectation. Example: vaccine around the corner leads to euphoria, though nobody has seen the vaccine yet and leads to depression once the vaccine delays. Such is human mind. Now, there is one thing for sure: humans do not change really. If the Costa del Sol was for decades one of the most favoured places for luxury living and holidays, its going to still be that or even more after the pandemic has gone. Time is only a delaying factor. So, this article will focus on what is most probably going to happen during the Corona times and then elaborate on what we believe is the future in respect of real estate on the Costa del Sol.

Now, lets turn our attention to real estate. The Corona crisis will have an impact on the rents and property prices. The reason is the much lower number of foreign visitors and thus renters or potential buyers. Even an end to the three-year real estate boom in Costa del Sol would be conceivable if the crisis dragged on for months and people's everyday lives remained severely restricted. This would give air to tenants and property buyers after the rapid increases in recent years.

With Google searches for buying, renting or living, declines can already be observed and brokers of home finance have also recently seen a decline in customer inquiries as bank officials in-private admit.

Property prices will to stagnate or see a decline with an market temporarily poised for illiquidity. The main doubt is if the ambitious prices that were asked for especially in new buildings and on plan developments proposed can currently still be achieved." The real estate market cannot escape a slump in the economy, as economists predict. All property cycles have ended in recession in the past decades.

The potential for rent increases is also limited, because incomes are likely to rise less than before the crisis and the time for the end to Corona restrictions in business is still unclear. In addition, new regulations on tenant protection in the event of late payment also put a strain on landlords: they may no longer terminate tenants if they cannot pay the rent due to the Corona crisis.

The rosy times for landlords are over and especially the seasonal holiday market is wiped out. Many who were reluctant to rent out for long-term contract now have the bitter taste of being left with nothing. Many landlords should only be happy if they don't lose reliable tenants.

If you don't have to, you won't buy real estate in the crisis or postpone moving to a larger apartment. An increase in unemployment and short-time work reduces the financial scope that households have for renting. Some contracts could be too expensive for tenants.



In the case of property buyers, people with equity assets had lost a lot of money in the recent stock market crash - this is now missing for buying a home. The pressure on property prices is growing. Real estate remained attractive for large investors that tend to invest on a long term basis with decision making being driven by strategic plans rather than ad hoc decisions. One example is Warren Buffet's Berkshire Hathaway Home Services, the mayor real estate chain of the US, who acquired in the middle of the Corona crises Value Added Property (VA Property) in Marbella in order to be fully present and operational in the Costa del Sol luxury market – a clear vote for the future of the Costa del Sol and especially its .

Now the good news:

The factors supporting the market are twofold: Even lower to be expected interest rates for financing, many people with large fortunes or high fixed transfer incomes, especially from the north of Europe. With interest rate cuts and injections of vast amounts of liquidity in the Corona crisis, central banks have recently cemented low interest rates for the long term.

One counter intuitive lesson from crises is that once factored in the cost of the distortion the opposite tends to occur of what is generally expected. If for example Britons moved even more to Spain since the emergence of Brexit and with the experience of the stay-home summer of 2020 we would not be surprised if it accelerated even further once the pandemic is under control.

Having said that, no change quick change is to be expected regarding the real estate industry in the coast. Compared to the financial crises the way developers and construction companies are financed is completely different. The absence of pure bank financing and a high percentage of buyer commitments atomizes the lenders positions compared to the one stop one shop model that led banks and real estate businesses into turmoil during the financial crises. The Corona crisis also affects the construction industry in a very direct sense.

But having said that this may be another ingredient in the contrarian scenario you are hearing all around: Financing pressure will lead to better offers in money terms, more comfort to be available in the properties in order to make it more attractive. One catalyst is the policy adopted versus Spain from other European governments. Though understandable from a pure infected numbers perspective, it will undoubtedly in our view lead to the opposite development. Those not yet owning a property will have learned their lesson and for the next time try to buy some place. You can go and stay even if government is saying no to travel or imposes some kind of quarantine without the threat of paying extra to hotels or rental agencies.

So putting those two things together we get an upcoming demand increase with less new built product available and the resale market slowly drying out. We all know what it means: prices will spike in the next years to come and those who come late will be reminded by their purse.....so, get going!

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