

LAND AND CRE MARKET IMPLICATIONS OF COVID-19 – SERVIHABITAT TRENDS

The growth of purchase intent and relative resilience of new-build prices will act as stabilizing factors for the land and development sector

- *In the last two years, purchase intent has gone from 5% to 9%.*
- *This year, we expect to see between 11,000 and 13,000 completed land transactions, with Covid-19 having a relatively low impact on prices, standing at around -8%*
- *The logistics segment has proved more resilient to the health crisis than other segments and is expected to end the year in a stable position or with slight growth*

Barcelona, October 8, 2020. - The health crisis has had a direct effect on all economic sectors in Spain. Even with that in mind, the real estate market may be one of the least affected sectors thanks to its current strength and recovery, as outlined in our previous report on the *Residential Market & Domestic Investors*.

Our new report on the *Land and CRE Market*, produced by the Servihabitat Trends platform, outlines how the land and development sector will consistently withstand the coming months thanks to its stability and the lesser impact of contingency measures on the construction industry. In terms of the CRE market, logistics products stand out for their better end of year forecasts, whilst offices recover in the second half of the year. Retail will be the slowest segment to recover.

Iheb Nafaa, CEO of Servihabitat, predicts that “land this year, and property developments in the coming fiscal years, will experience reductions in the number of transactions and shifts in price dynamics”. But even still, he forecasts a recovery of these indicators “if and when the rapid recovery forecast for the sector comes to light”. He also highlights the need for “initiatives that strengthen the connection between the private sector and local government to maintain stability in the market”. Ernesto Tarazona, Chief Executive of REOs (Real Estate Sales) and Wholesale Development, states that finance will be a challenge, for both the land and development and CRE markets. Plus, says Tarazona, regarding the latter “investors are seeing medium and long term investment potential in this product”.

A rapid recovery in the completion of works is expected in 2021

The number of projects completed has been on the rise, now standing at over 70,000 units (annualized figure) in the first quarter of 2020, a figure that may reduce slightly by the close of this fiscal year given that works in development have been relatively unaffected by the slowdown in activity.

Completed homes will recover easily in 2021, whilst commenced and approved homes will maintain a downward trend due to pressures on finance and pre-marketing terms. More than 40% of APIs surveyed think that new projects commenced will fall between 0% and 10% from now to the end of the year, depending on geographical location.

The new build market is not showing any signs of impact, thanks to high levels of pre-marketing of developments, although setbacks in projects due to start at the end of this year or into the start of next year are a possibility.

The reduction in stock together with an increase in purchase intent - which has gone from 5% to 9% in recent years - forecasts this being a good time to continue production this fiscal year, a trend that should continue into 2021. Furthermore, the price of new-builds will decrease less than the price of second-hand homes, helping to maintain the interest and profitability of the developer sector.

Land prices will drop by 8% in 2020, and are expected to remain that way in the coming year

Land prices have been stable since 2018. Following the health crisis, this indicator is expected to close the fiscal year recording a drop by 8%. This slight fall will help sustain interest in real estate development. Prices are forecast to remain the same in the coming year.

Land transactions drop 40% in 2020 but will recover in 2021 with increases of up to 11%

There has been a stark drop in the number of units sold in recent months given that it was extremely complicated to get transactions through for almost three months. Between 11,000 and 13,000 land market transactions are forecast to go ahead by the close of the fiscal year, representing a 40% drop on the previous year. These figures are expected to improve for 2021, settling at 11%.

When surveyed for our report, more than 40% of API (our network of partner agents) specialists working in this market segment think the number of transactions will remain the same in the coming months, whereas just over 37% believe there will be a fall.

Logistics is the segment least affected by the crisis

In terms of the CRE market, we can see a diversity in performance depending on the product being analyzed. The logistics segment has resisted the impact of the health crisis the best, and is expected to end the year stable or with slight growth. The offices market is experiencing a recovery in activity, after both rentals and new leases suffered in the second half of the year. The retail sector is expected to feel the biggest impact, with assets in less sought-after locations seeing shifts in rents and new transaction volumes.

CRE market transactions show signs of recovery in May

Both the number of new approvals and new transactions decreased in the first months of lockdown, given the near impossibility of getting transactions through in that period. Even so, as early as May, the number of approvals grew by 14.9%, and the volume of transactions, by 14.7% - a shift in dynamic that is expected to strengthen in the coming months, enabling a return to pre-COVID figures.

Industrial units, a thriving product type in the wake of the health crisis

According to the Servihabitat network of partner agents (APIs), industrial units are the most requested asset type in the CRE market. Of those surveyed, 36.9% believe this demand will continue, whilst 12.5% predict growth: figures that reinforce logistics' strong performance. In contrast we have the offices market, more damaged than logistics due to the boost in remote working in recent months and the fact that office leasing is inextricably linked with growth in the economy and employment.

In terms of location, the center accounts for almost half of demand, followed by the metropolitan area and more remote zones. It is worth highlighting that increased demand for industrial units will help periphery areas gain ground in the coming months.

New trends in the CRE market

The health crisis has also led to a shift in certain trends in this market segment. For example, almost a quarter of APIs surveyed were aware of changing uses of premises, given that the market is unable to absorb a lot of supply as commercial activity has been so gravely affected. In this regard, more than 25% of professionals have experienced an increase in demand for industrial units and a reduction in premises.

Finally, collaborating Servihabitat agents (APIs) believe that following the health crisis, a lack of finance, combined with limited supply and adapting spaces to respond to demand are the main obstacles to overcome to offload assets in the CRE sector.

Access the full analysis of the current land and CRE market outlook following the health crisis here:

- [The Land and CRE Market Report](#)

About Servihabitat

Servihabitat is the leading multi-client and multi-product servicer provider for the comprehensive management of mortgage and developer portfolios, as well as real estate assets. The company's thirty years of market experience and the high volume of assets under its management consolidate its position at the forefront of the sector.

A multidisciplinary and highly qualified professional team, management excellence, marketing power, technological innovation, and a quality service tailored to the needs of each client all unite to make Servihabitat a strategic partner capable of providing diverse solutions throughout the asset management cycle.

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