Residential rental market in Spain

SERVIHABITAT TRENDS

Second half of 2018

Servihabitat

COMMITMENT, TEAMWORK AND LEADERSHIP

The indicators of the residential rental market still show a **positive progress, although it foresees a stabilization period** in this segment of the market

1. ANALYSIS OF THE RESIDENTIAL MARKET IN SPAIN FOR 2018

THE MAIN INDICATORS OF THE SECTOR PRESENT A POSITIVE EVOLUTION TO CONSOLIDATE THE PROGRESS OF THE RESIDENTIAL MARKET

STARTED HOMES

2017E		2018F
80,787	+17.0%	94,551

SOLD HOMES

2017		2018F
509,847	+18.7%	605,416

COMPLETED HOMES

2017		2018F
53,791	+16.8%	62,835

SALE TIME

First home	Holiday home
6.1 months	7.2 months

NEW CONSTRUCTION STOCK

2017		2018F
479,838	-3.2%	464,591

HOUSING PRICE

2017	2018F
+6.2%	+5.8%

Note: E (estimate), F (forecast)

2. EVOLUTION OF THE RENTAL MARKET IN SPAIN

THE POPULATION LIVING IN RENTED HOMES CONTINUE TO INCREASE, ESPECIALLY AMONG YOUNG PEOPLE

22.9%

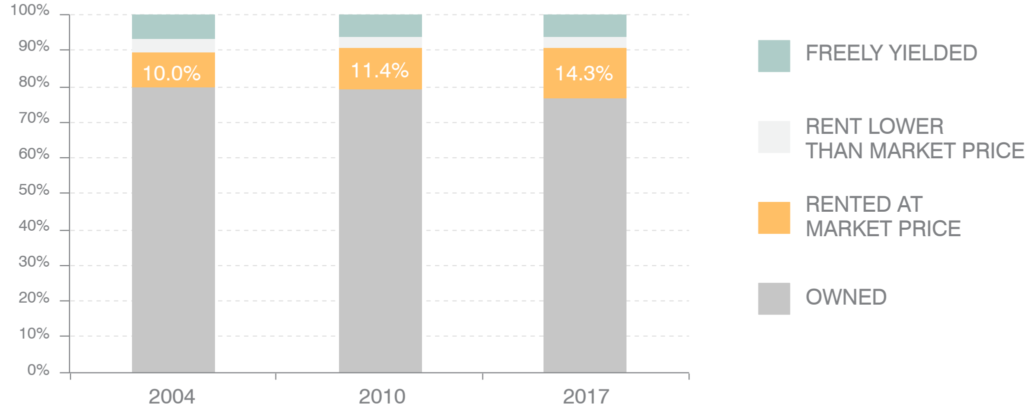
of the population in Spain lives in **rented homes**

Source: Eurostat (data from 2017)

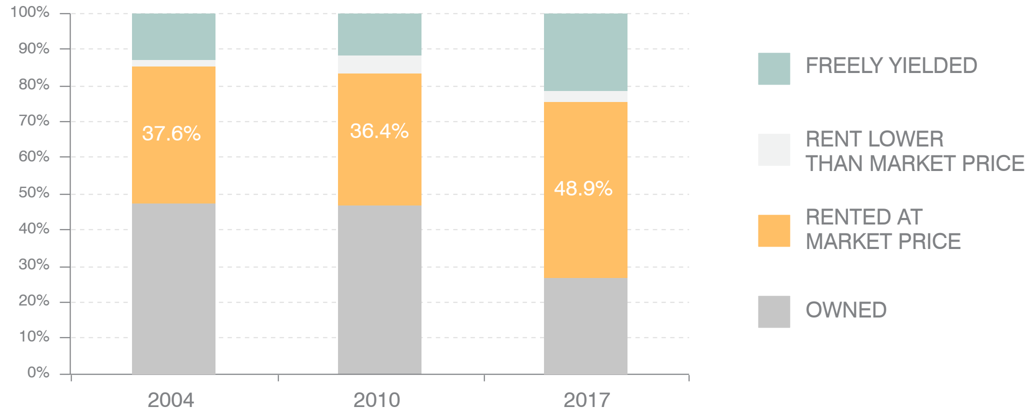
The new results show that the **increasing trend of people living in rental homes** has continued in 2017.

It must be noted that younger people are increasingly choosing rental homes to live in. According to the data of the Living Conditions Survey, almost half of the households between **16 and 29 years old** live in market-price rental homes, from 47.8% in 2016 to **48.9%** currently.

HOMES BY TENURE STATUS: DOMESTIC TOTAL



HOMES BY TENURE STATUS: 16 TO 29 YEARS OF AGE



Source: INE. Survey on Living Conditions. Homes by tenure status

3. CHARACTERISTICS OF RENTAL HOMES IN SPAIN

INCREASE OF PRIMARY HOUSES RENTED, BOTH MULTI-FAMILIES AND SINGLE-FAMILIES

More than **27%** of primary **multi-family** homes in Spain are rented

For **single-family** homes, the rent is the **13.8%**

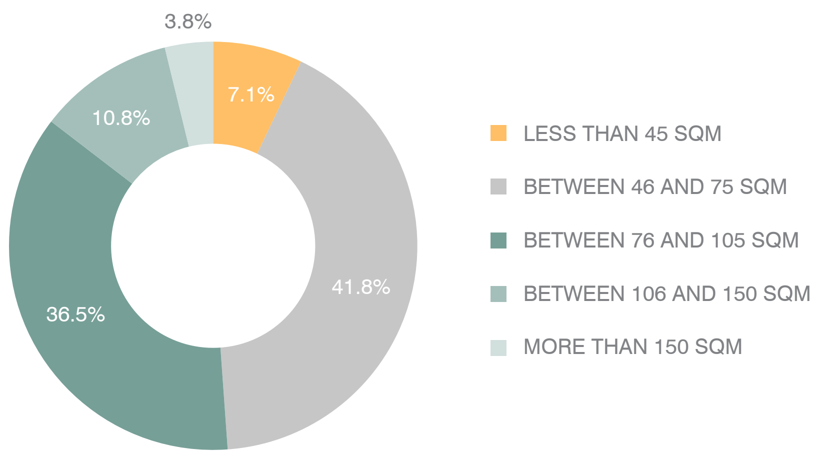
PRIMARY HOMES RENTED/OWNED IN SPAIN BY BUILDING CATEGORY

	2013	2014	2015	2016	2017
Multi-family owned	74.4%	73.6%	73.0%	73.0%	72.4%
Multi-family rented	25.6%	26.4%	27.0%	27.0%	27.6%
Single-family owned	88.5%	87.1%	86.1%	87.1%	86.2%
Single-family rented	11.5%	12.9%	13.9%	12.9%	13.8%

Source: National Institute of Statistics (INE). Continuous Household Survey (CHS).
Data about the mean value of the period

48.9% of the rented homes have a surface area **under 75 sqm**

PRIMARY RENTED HOMES BY USABLE LIVING SPACE

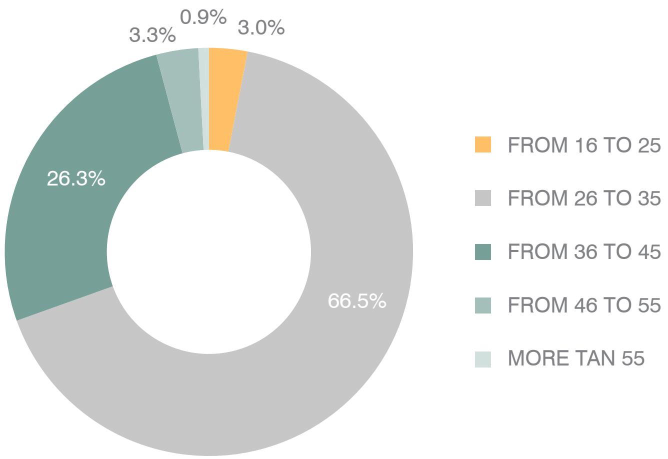


Source: National Institute of Statistics (INE). Continuous Household Survey (CHS)

4. PROFILE OF THE HOUSEHOLDS LIVING IN RENTAL HOMES IN SPAIN

THE AVERAGE AGE OF RENTAL HOUSING SEEKERS HAS INCREASED

AGE OF RENTAL HOME SEEKERS



According to the Servihabitat's Network of Partner Agents (APIs), there has been a slight increase in the average age of people seeking rental homes. While **the percentage of people under 35** was 73.6% in March this year, this value **has gone down** to 69.5%. Therefore, **the percentage of people between 36 and 45 years old increases** by 2.5 percentage points.

Source: Servihabitat

Renting is still the **predominant choice of households with a foreign member** (both mixed and exclusively foreign households)

NUMBER OF HOUSEHOLDS ACCORDING TO NATIONALITY AND HOME TENURE STATUS (2017)

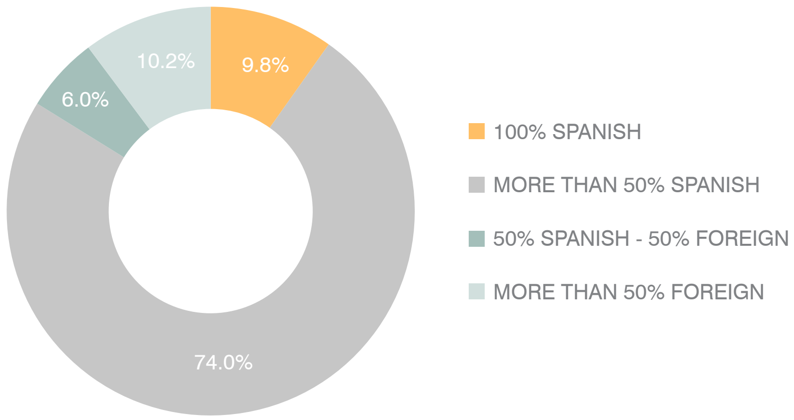
	OWNED	RENTED	FREELY YIELDED OR LOW PRICE
Household consisting exclusively of Spaniards	81.9%	12.7%	5.4%
Combined household (Spaniards and foreigners)	46.1%	49.3%	4.6%
Household consisting exclusively of foreigners with all members of the same nationality	27.9%	68.4%	3.7%
Household consisting exclusively of foreigners with members of different nationalities	27.8%	69.5%	2.7%

Source: National Institute of Statistics (INE). Continuous Household Survey (CHS).
Data about the mean value of the period

4. PROFILE OF THE HOUSEHOLDS LIVING IN RENTAL HOMES IN SPAIN

INCREASE OF HOUSING RENTED WHERE MOST OF ITS MEMBERS ARE SPANISH

DISTRIBUTION OF HOMES RENTED BY SPANIARDS AND FOREIGNERS ACCORDING TO APIs SURVEYED



According to the Network of Partner Agents (APIs), **demand from predominantly Spanish households has increased** from 79.7% to 83.8%.

The most relevant increase has been the number of agents who believe that all members of the households looking for a home are Spanish. This group has risen by 3,6 percentage points.

Source: Servihabitat

Single-member and **single-parent households** are still more prone to live in rental homes, with a value close to **20%**

NUMBER OF HOUSEHOLDS BY HOME CATEGORY AND HOME TENURE STATUS (2017)

	OWNED	RENTED	FREELY YIELDED OR LOW PRICE
Single-member household	73.1%	18.6%	8.3%
Single-parent household	75.3%	19.3%	5.4%
Couple without children living in the home	81.0%	15.4%	3.6%
Couple with children living in the home	79.8%	16.0%	4.2%

Source: National Institute of Statistics (INE). Continuous Household Survey (CHS).
Data about the mean value of the period

5. DEMAND

THE AVERAGE TIME TO RENT A HOME INCREASES, EXCEPT IN CATALONIA AND THE COMMUNITY OF MADRID

914 partner agents (APIs) insights

HOMES WITH THE HIGHEST DEMAND

FLAT/ APARTMENT:
2 bedrooms
52.6%

TERRACED SINGLE-FAMILY HOME:
3 bedrooms
66.1%

DETACHED SINGLE-FAMILY HOME
4 bedrooms
52.2%

AVERAGE NUMBER OF MONTHS NEEDED TO RENT A HOME

	mar-17	sep-17	mar-18	sep-18
Spain	2.13	1.71	1.67	**1.77**
Andalusia	2.41	1.8	1.74	**1.87**
Catalonia	1.68	1.47	1.51	**1.44**
Community of Madrid	1.73	1.5	1.43	**1.41**
Community of Valencia	2	1.8	1.67	**1.86**
Rest	2.23	1.73	1.74	**1.88**

The number of months to rent a home (average value) in Spain has increased slightly compared to the two previous analysis.

This change has not reached **the Community of Madrid and Catalonia**, in which the average time to rent a home **keeps decreasing**.

Source: Servihabitat

6. OFFER

CHANGE OF TREND IN THE AVAILABLE OFFER WITH A YEAR-ON-YEAR INCREASE

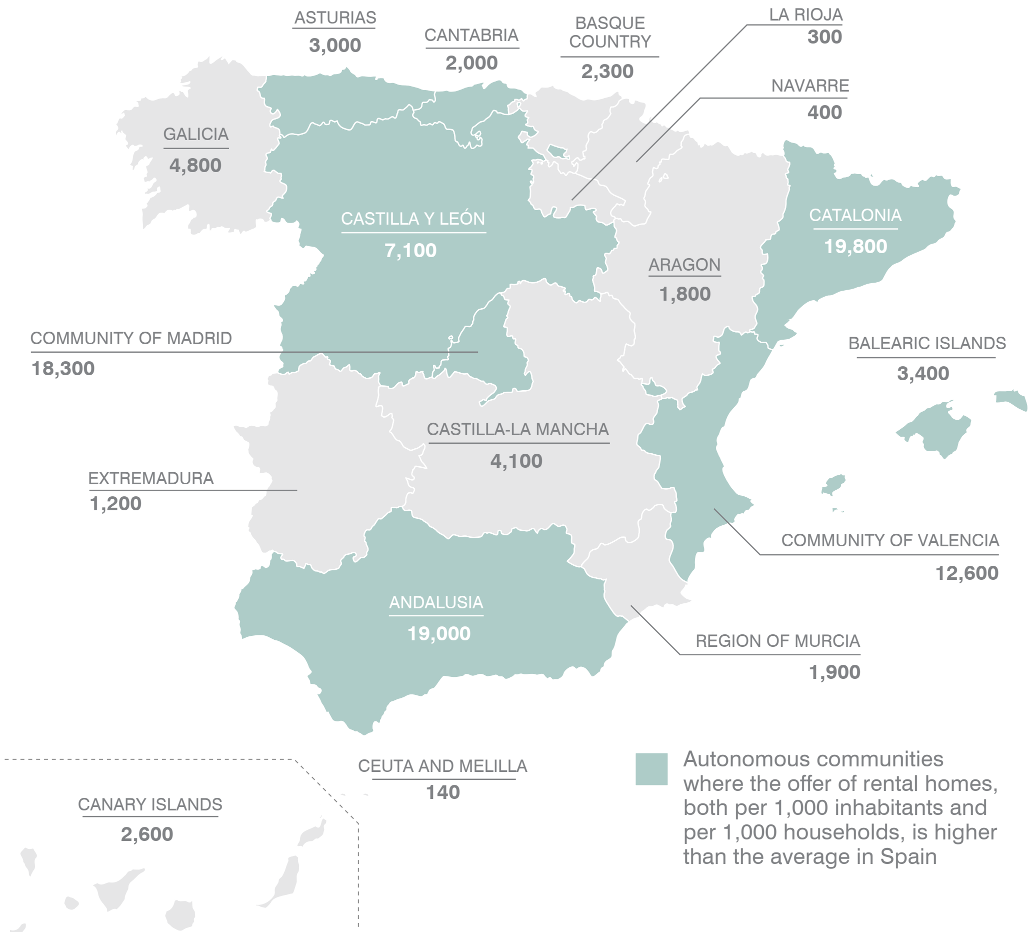
≈105,000
homes for rent
available in Spain
+16.4% FROM THE OFFER
AVAILABLE IN MARCH 2018

Data from available market offer in September 2018

The **available offer has experienced** a year-on-year increase of 7%. Although this increase is not relevant given the total estimated figures it is **a trend shift**. The regions where this increase from the estimated figures one year ago stand out are, in this order: Balearic Islands, Catalonia, Community of Madrid and Canary Islands.

In Spain, there are 2.2 homes in offer for every 1,000 inhabitants and 5.7 for every 1,000 households

RENTAL HOUSING OFFER IN SPAIN
No. of homes



Source: Servihabitat

7. PRICE

CONTINUES THE INCREASING TREND IN RENTAL PRICES BUT WITH MORE MODERATE GROWTH DURING THE NEXT SEMESTER

710€
average rental price
in Spain for a home of
80 - 90 sqm

The **upward trend in rental prices will continue**, but **the growth is expected to be lower** than the values recorded so far.

In general terms, the communities that will show a stable trend in prices are Aragon, Balearic Islands, Cantabria, Castilla y León, Castilla-La Mancha, Extremadura, Basque Country and the two autonomous cities. In the others, the trend expected for the next few months is still upwards.

The average price increase during the next six months is expected to be **1.5% - 2%**, still hinging on the markets of large cities and their metropolitan areas, along with the major coastal markets.

914 partner agents (APIs) insights

One of the indicators of this stable trend in rental prices is that almost **55% of the APIs expect stability**, while **40% of them think the prices will keep rising**

AVERAGE HOME RENTAL PRICE AND
EXPECTED TREND IN THE FORTHCOMING SEMESTER
Price in € for a home of 80 - 90 sqm

Source: Servihabitat

8. PROFITABILITY

PROFITABILITY REMAINS IN VERY SIMILAR SCALES

5.6%
gross average profitability
in Spain for a rented home
VS 5,7% IN RELATION TO THE LAST SEMESTER

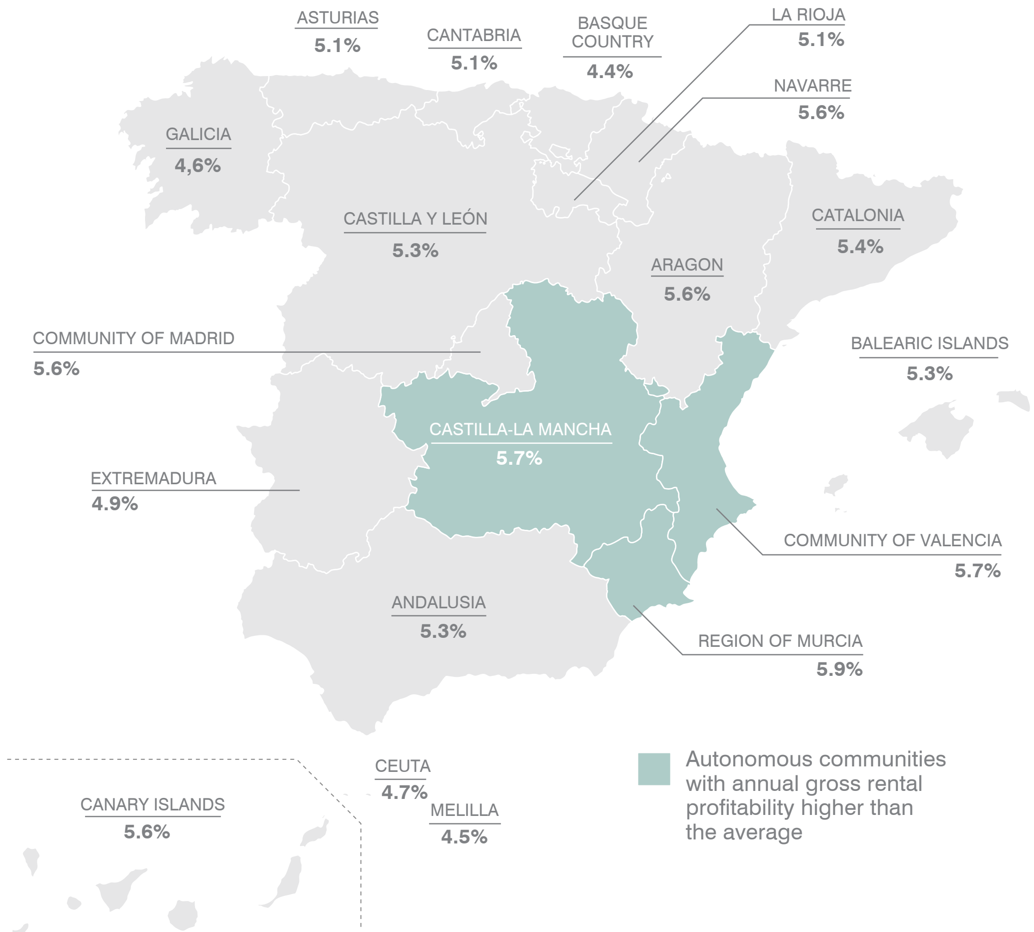
> Huelva, Las Palmas and Valencia maintain profitability values higher than the national average, along with Soria, Ciudad Real, Toledo and Murcia.

> The Community of Madrid, Basque Country, Balearic Islands, Canary Islands and Ceuta show prices higher than the average, but with profitability lower than or equal to the national average.

> The communities of Aragon, Castilla-La Mancha, Canary Islands, Community of Valencia, Community of Madrid, Region of Murcia and Navarre have a profitability value equal to or higher than the national average.

> Castilla-La Mancha, the Community of Valencia and the Region of Murcia have more affordable prices, but with noteworthy gross profitability values (between 5.7% and 5.9%).

AVERAGE PROFITABILITY OF HOME RENTALS IN SPAIN



Source: Servihabitat

9. MAIN CONCLUSIONS

The indicators that provide information about the development of the rental market in Spain still show good values, however, after several semesters of continuous expectations of growth in almost all of them, some of these are starting to show signs of depletion.

> There are **several reasons** that can explain the **change in trend** seen in the offer volume. On the one hand, the fact that **home owners do not retain the product as much as they used to** and they immediately release it to the market. Moreover, it has been seen that **the distance between the price at which the owner is willing to lease their property and the amount for which the tenant is willing to pay has increased slightly** compared to previous semesters so, the period of permanence of the property in the market is slightly higher. This also causes an increase in the offer volume detected in static analysis.

> The **price of rental homes** has been growing constantly for three years. From now on, **the increase in the next semester is expected to be lower** and remain around 1.5% - 2%. The increase in rental prices is creating more tension in the market, so **the tenants are less willing to increase their financial effort** and thus the marketing time increases.

One of the consequences of the rise in rental prices is seen in the **displacement of the population** from more expensive places in the center of large cities to more economical ones in their **metropolitan areas**.

> **Profitability stays within a similar range** to the previous two semesters, with some variations between the provinces with higher profitability values, which correspond to the specific moment where the calculations were performed. **The Community of Madrid, Basque Country, Catalonia, Balearic Islands and Ceuta have prices higher than the average but with equal or lower profitability.**

22.9%
of the population in Spain lives in **rented homes**

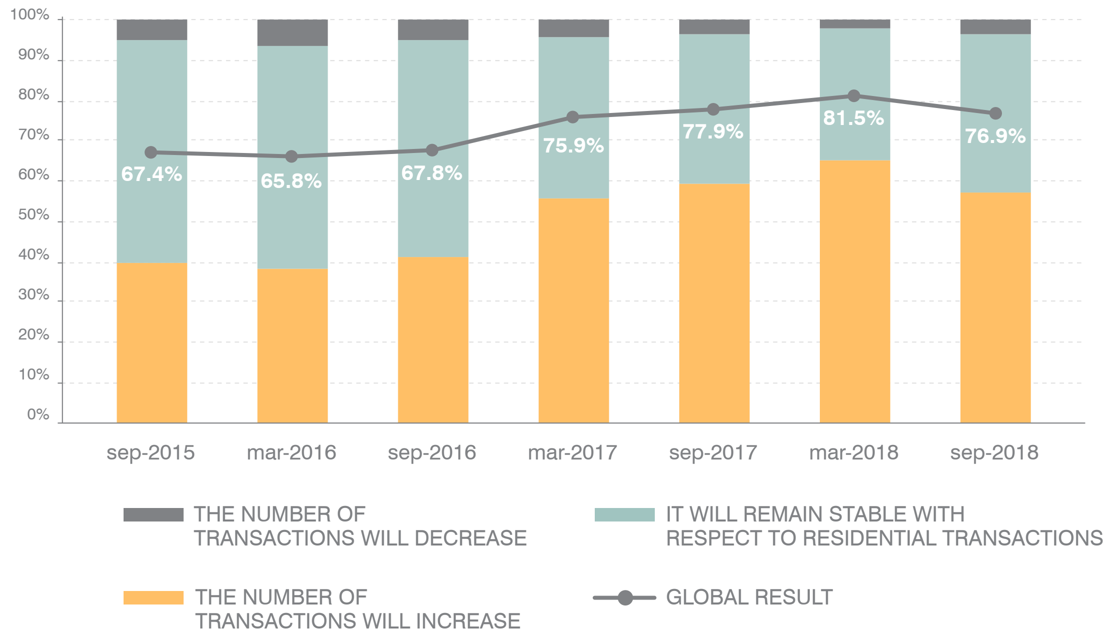
≈105,000
homes for rent **available** in Spain

710€
average rental price in Spain for a home of 80 - 90 sqm

5.6%
gross average profitability in Spain for a rented home

9. MAIN CONCLUSIONS

EVOLUTION OF THE RENTAL MARKET COMPARED TO SALES



The expectations of the APIs are slightly less optimistic in relation to the future activity volume compared to the buying and selling market, with the index having similar values to the previous year, but lower than the ones expected in March.

By autonomous communities, the result shows a decrease in the Servihabitat Index in all of them, with a lesser impact on Andalusia and the Community of Madrid, which maintain levels much higher than other regions. In the Community of Valencia and Catalonia, respectively, the results show stabilization regarding the next quarter, with a higher increase of the agents that think that the current situation is going to continue against those who expect an increase in the volume of rental transactions.

Source: Servihabitat and Network of partner agents (APIs)

According to the data analyzed, we could be witnessing the start of a **stabilization** period of the rental market, particularly regarding **price increase**. **Demand is still really high** and the property owners release the product to the market, maintaining **high dynamism**. However, the slight **increase in marketing times** and the **stable trend in the volume of operations** along with **the increased effort made by households** to live in a rental home **point towards moderation**.

10. METHODOLOGY

The information that appears in this document has been drawn from official sources, figures from the portfolio of rental assets managed by Servihabitat and the leading real estate portals offering rental homes.

SURVEYS OF SERVIHABITAT'S NETWORK OF PARTNER AGENTS (APIs)

To take the pulse of the evolution of residential market according to the opinion of the commercial agents in Servihabitat's Network of partner agents (APIs), we decided to conduct a survey. To do so, we drew up a structured questionnaire designed with this purpose in mind.

The questions were asked according to the geographic region where each agent works, as well as the most important demand market which they target: primary residences, second residences or both.

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