



PATRIZIA Immobilien AG
PATRIZIA Bürohaus
Fuggerstrasse 26
86150 Augsburg, Germany

Phone +49 821 509 10-000
Fax +49 821 509 10-999
immobilien@patrizia.ag
www.patrizia.ag

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Real estate owners - bound or independent?

Juan and Laura are two young adults who have just visited a notary. They want to pursue every Spanish married couple's dream and finally own a house. Besides, they were lucky. The bank granted them a 100% loan so, together with the money they had already saved, they were able to buy a new car, furnish the house and make some home improvements.

Everything seemed ideal when this happened eleven years ago, in 2005. However, the reality turned out to be rather different. First, their mortgage was linked to the Euribor so it got more expensive and it became a struggle to make ends meet. Also, they didn't take taxes and community costs into account, which were much higher than expected. To make things worse, the housing bubble burst a few years later and Laura lost her job at a construction company. Despite that, our couple was lucky. Juan's salary, some money from the relatives and a renegotiation of lending arrangements eventually allowed them to move forward.

This example reflects what has happened to many Spanish families in recent years. It had such a tremendous impact that it shook one of the most important cultural traditions in the country: a house is supposed to be the best investment you can make. The only thing that would change this tradition would be a surge in the forgotten rental market.

"The crisis has tempered most people's long-term expectations and this has caused the Spanish housing market to shift in favour of renting. The low interest rates are appealing for buyers but, many times, lessons learnt from the crisis delay the decision to buy," explains Guillermo Santos, partner of the family office Icapital.

All this is gradually being reflected in younger generations. A 2010 case study issued by the Centro de Investigaciones Sociológicas (CIS) showed that eight out of ten young adults who wanted to move in the next three years preferred to own their own property. A recent survey by the consumer association Adicae concludes that this figure has now dropped to 58%. What's more, many still believe renting a house is as expensive or even more expensive than paying a mortgage.

There are three key factors to consider when trying to work out whether renting or buying is the best option or to determine how things will develop in Spain in the years to come:

HOUSING PROSPECTS

Spain is currently trying to recover its housing prices. After years of serious crisis in the sector, the market plummeted in 2012-2013 and properties have been steadily increasing in value, though they have never reached the values achieved during the 'golden years'. Furthermore, interest rates are at an historic low. It has never been so affordable to buy a house, except in extreme cases, at either fixed or variable rates.

So Spanish housing investments rose from 2.1% in the second half of 2016 by another 1.4% - that's higher than average over the past 20 years. A sur-

vey carried out by JLL shows that 78% of polled professionals believe prices will remain steady or even increase in the next twelve months. During the first half of 2016, 146,000 new home mortgages were signed, 19% up on the same period in 2015.

This indicates that this is one of the best times to buy a house - to the detriment of renting. However, the same JLL survey shows that "more than 90% of those polled believe the demand for properties to rent will increase over 15% in the long term". The commercial real estate company CBRE adds: "The end of the tax incentives for home-buying introduced in 2013 and the tax exemptions to those tenants younger than 30 favour the growing tendency towards renting". Nevertheless, we are still far from the 50% found in some Central European countries such as Germany, Switzerland or Austria.

In this context, experts give some advice: "Do not rely on the reduced financial cost of the mortgage since the current rates will not last forever - and do not expect a spectacular revaluation in prices because it will take years to reach the prices we got before the crisis," says Juan Jesús Gómez, partner and managing director of Consilio Asesores.

PLANNING

Another factor to take into account is demographic change. When previous generations bought a house they did so because they needed a roof over their heads as one of the few needs after a quality public health system and a safe pension. Nowadays, pensions are more and more uncertain and it is advisable to arrange private investments to complement public benefits. It's all about the numbers. Taking out 30 to 40-year mortgages - when it would be more advantageous to save - makes planning one's retirement more difficult. From a purely financial point of view, renting looks like a good alternative.

However, there is another aspect that speaks in favour of purchasing your own house: the lack of other investment options, especially with interest rates at 0% and volatile stock markets. "The current context of the market places housing as one of the few investment alternatives offering profits higher than inflation in the mid-term," states Bankinter.

INCENTIVES AND SECURITY

One of the greatest obstacles for growth in the rental market has been regulation, which has created insecurity both for owners and tenants. In 2013 the law was modified, but according to experts there are still many things to be done and tax incentives would definitely help. Guillermo Santos: "The most important thing is transparency and that requires a broader market, so tax incentives for both owners and tenants are key to broaden supply and demand."

LESS BUREAUCRACY

Likewise, for tenants, it would also be essential to make paperwork easier if people rent more than one property. "There are many vacant properties in Spain due to the red tape for owners offering a property to rent," explains Santos, from Icapital. "There's no rental culture in Spain, so owners don't know how to address the needs of their tenants properly and this creates conflict," adds Gómez, from Consilio.

Many things have happened since Juan and Laura bought their house in 2005. One of these was the biggest financial, real estate and unemployment crisis in Spain in recent decades. If they could turn back the clock to eleven years ago, the option of renting and not buying would definitely have been laid on the table.

← Jorge Zuloaga

→ JORGE ZULOAGA



Jorge Zuloaga is yet another example of the generation of young adults who gambled on the Spanish housing market just before the bubble burst - although, luckily, it all turned out well for him. An economics journalist for publications such as *Expansión*, *El Economista* and now *Vozpopuli*, Zuloaga applies what he learnt from the crisis not only to his articles but also to his life in general.