



The Catalan Real Estate Market

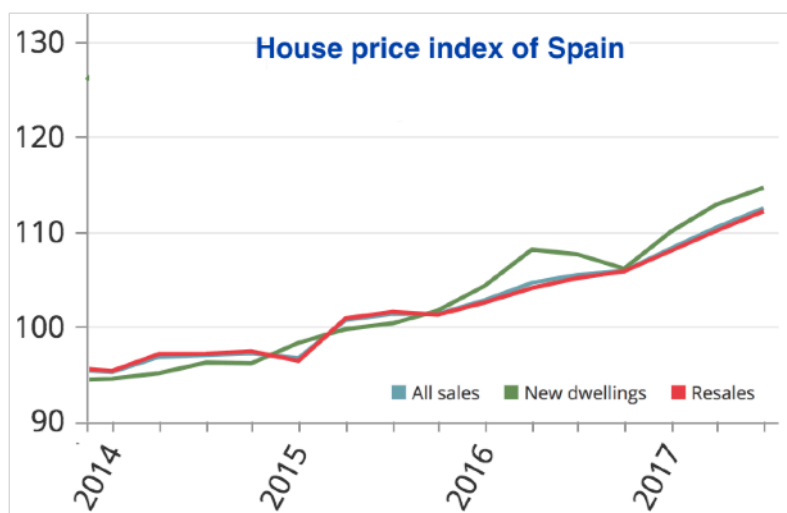
Investment Opportunity

The Spanish and Catalan real estate markets have experienced high growth in recent years because of the boom of tourism demand and foreign investments. Recently, the Catalan independence movement has gained momentum and is causing uncertainty in Catalonia's future, causing a price fall of 20% in the properties in Catalonia. However, we and our contacts in Spain believe that the independence will never happen. Rather, the next 12-18 months will be a good investment opportunity in the undervalued properties before the economy returns to normal.

Spanish Property Market Before the Independence Vote

[Figure 1]

The Spanish property market has had high growth as property prices have been increasing even though sales volumes have been cyclical. In Q3 of 2017, sales prices in Spain has increased by 6.65% annually and that of Catalonia by 9.95% [1].



The boom has been a result of the robust tourism and the high foreign investments in Spain. In 2016, Spain welcomed 76 million visitors and became the 3rd most visited travel destination in the world. The number of Chinese tourist arrivals in Spain, in particular, has increased by 77% from Q3 2016 [2]. A reason is that Spain is a great destination for Chinese investors to invest in through the Golden Visa since the minimum amount of investment required to obtain residency is €500,000 in real estate per applicant [3]. The lifestyle and culture in Spain also attracted the Chinese tourists and investors.

The Catalan Independence Referendum

The Catalan independence referendum took place on the 1st October 2017 despite that it

Source:

[Figure 1] [1] Kyero Data

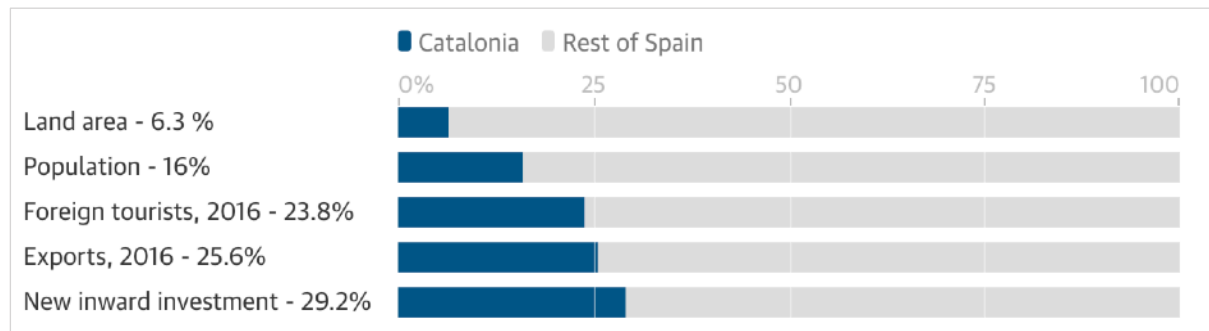
[2] United Nations World Tourism Organisation (UNWTO)

[3] Juwai.com : How will the Catalan Vote Impact Chinese Demand for Spain?

was considered illegal by the Spanish government. According to Catalan authorities, the turnout for the referendum was 43% but 90% of voters voted for independence. As a result, the ex-President of the Generalitat of Catalonia, Carles Puigdemont attempted to reach an agreed solution with the Spanish government to declare independence. However, the Spanish government did not accept the referendum and dismissed the government of Catalonia. Whether Catalonia will become independent remains extremely uncertain.

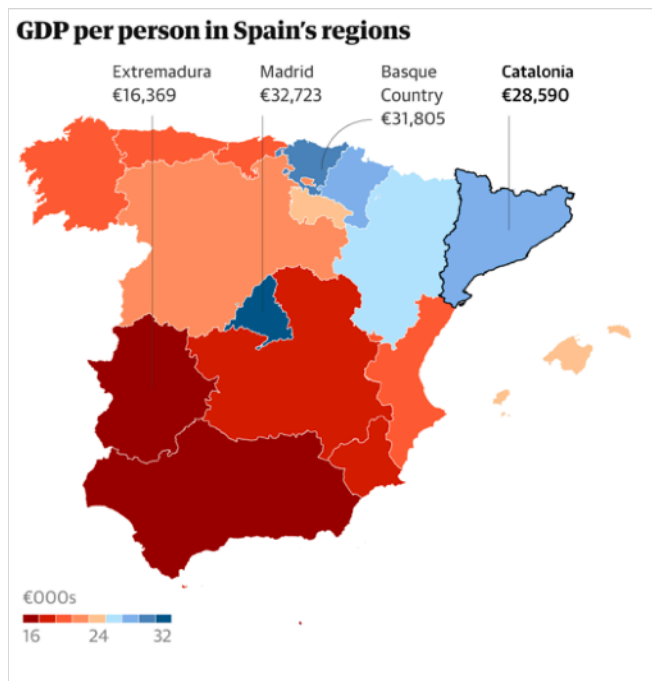
How Important is Catalonia?

[Figure 2]



- It accounts for 16% of Spain's population
- It generates more than 20% of Spain's GDP
- It accounts for more than 25% of Spain's exports
- Foreign investments in Catalonia is more than 25% of the national total

If Catalonia leaves Spain, it will have a huge negative impact on both the economies of Spain and Catalonia.



The Effect

[Figure 3]

The Catalan property market has been affected badly as we have seen a 20% price decrease in the luxury property market already [4]. We believe that the prices will continue to fall in the next 12-18 months because of the high risks and uncertainty of the political situation and its effects on the economy.

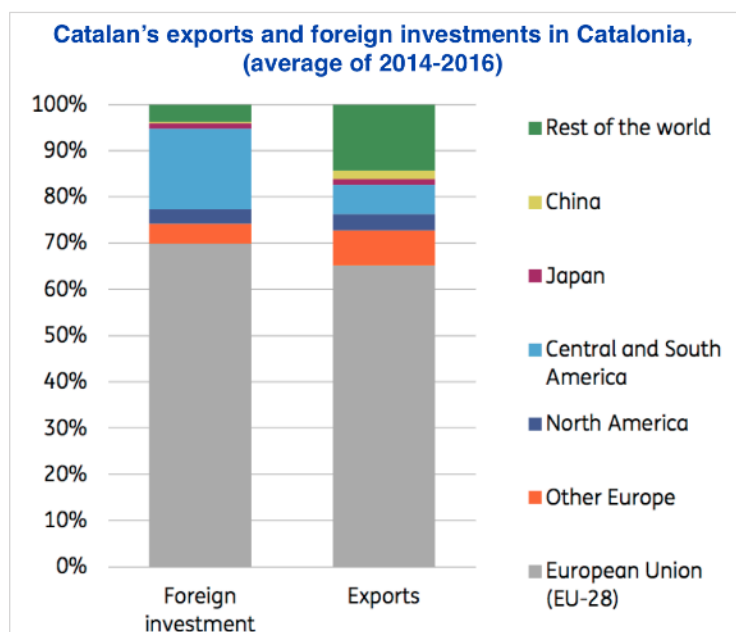
Source:

[Figure 2 & 3] The Guardian : How Important is Catalonia to Spain?

[4] El Mundo : El 'procés' pasa factura a la vivienda en Cataluña

“If the Spanish region of Catalonia breaks away from Spain in a so-called Catalexit, it would plunge the region into a long period of uncertainty and could end up having negative effects that "proportionally exceed" those of Brexit.” [5] -ING

The first effect on Catalonia will be the uncertainty in Catalan consumers. A recent poll conducted by Metroscopia shows that 62% of respondents in Catalonia expressed that they are worried about Catalonia’s future [6]. Since Catalan property buyers account for around 84% of all property transactions in Catalonia in 2017 [7], the Catalan property market might experience a huge decrease in property sales volume, leading to a decrease in property prices.



The second effect is a downturn in Catalonia’s economy. The EU accounts for 65% and 70% of Catalonia’s exports and foreign investment in Catalonia (2014-16) [8]. Catalonia’s portion of exports to the EU is higher than that of the UK, which is around 48% in 2016.

The impact of independence will therefore affect Catalonia’s GDP significantly. However, this will depend on new trade deals and its negotiations with the EU. Therefore, it is uncertain that how its economy will affect its property market.

[Figure 4]

Although the majority of foreign investments in Catalonia is from the EU, it is possible that a post-exit Catalonia will attract global foreign investors because property prices will go down due to the low sales volume. The interest rate and exchange rate could also fall because of the possibility of an expansionary monetary policy. This will make Catalan properties cheaper relative to properties in other countries.

Furthermore, over 1,800 firms have already moved from Catalonia to Madrid. If it becomes likely that Catalonia will be independent, we could expect the number to increase, reducing the demand for commercial properties. Therefore, there are high risks for not only residential properties, but also commercial properties. These effects on the economy will reduce the demand for Catalan properties and drive the prices down. Before the economy recovers, the properties in Catalonia will be undervalued.

Source:

[5][7][8] Business Insider : A Catalan split from Spain could be even worse than Brexit

[Figure 4] Business Insider : A Catalan Split From Spain Could Be Even Worse Than Brexit

[6] Kyero Data

What Now?

Currently (Jan 2018) in self-imposed exile in Belgium, Carles Puigdemont might face up to 30 years in jail if he returns to Spain. He believes that he could become the president again, remotely, through Skype and social media. However, Spanish Prime Minister, Mariano Rajoy, warns that any attempt to inaugurate Puigdemont will lead to the continuation of emergency rule by Madrid [9]. Later, a text message sent by Puigdemont, in which Puigdemont admits his defeat, was leaked, even though he publicly denied that he would give up [10]. With the information provided by our contacts in Spain, we are further assured that the independence will not happen.

The Catalan property market has been influenced by the independent vote since 1st October, leading to a 20% fall in price of Catalan properties. If Catalonia becomes independent, its economy and property market will be affected negatively. As the uncertainty remains, we believe that property prices in Catalonia will continue to fall, representing a good investment opportunity within the next 12-18 months, before the economy recovers.

Source:

[9] BBC News : Catalonia: Can Carles Puigdemont Rule From Belgium?

[10] The Guardian : 'This is over': Puigdemont's Catalan independence doubts caught on camera