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Steinbeis-Hochschule Berlin (SHB)  
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# **Market Study Holiday Property Market Mallorca Results 2017**

Prof. Dr. Marco Wölfle

# Market Study Holiday Property Market

## Mallorca Results

**Client:** Porta Mallorquina Real Estate S.L.U. <http://www.porta-mallorquina.de>

**Last update:** February 2017

In 2017, the market studies on vacation properties will go into its third edition. In the past, the STI Center for Real Estate Studies (CRES) was commissioned by the Porta Mondial Group to analyze various holiday property markets. In addition to the regular focus on Mallorca, analyses on the other Balearic Islands have already been made and as a unique special topic a view of the top holiday resorts of Switzerland has been made.

Mallorca is one of the most important holiday property markets in Europe. As early as 2015, over 10 million tourists visited the largest Balearic island and in 2016 this record was broken with around 11 million overnight guests. In 2017 again hotels, vacation rental agencies and tour operators expect similarly high booking numbers. The remarkable development that began with less than 400,000 tourists in the 1960s can be explained by several factors: Firstly, the island shows a touristically ideal mixture of long sandy beaches and extensive landscapes which are structurally well developed, and pictures of, for example, luxuriously equipped villas, Mallorcan fincas and modern penthouses in harbour locations attract investors from all over the world, and not only for the purchase of their own holiday home in Mallorca.

There is, however, a second factor - the island is easy to reach and regularly connected from almost all over Europe with manageable flight times. Even in the low seasons most airports offer daily direct flights to the island. An increasingly important third element, however, is a factor which is mostly taken for granted - stability. While regular reports of terrorism and the depressing fate of the refugees dominate public perception, Mallorca appears to be a haven of stability among the tourist destinations. The tourist tax introduced in 2016 should be very positively rated as it shows a very clear interest in maintaining the values and standards achieved.

The present market study aims at an up-to-date overview and can serve as a long-term comparison to assess the value of investments. In addition to the "emotional profit" achieved in having found the right property, rational considerations about the "monetary return" are becoming increasingly important in times of low interest rates. Questions arise, therefore, about current price boosters, normal prices in various regions and market segments, but particularly in the premium sector about the price of luxury objects or square-metre prices in very upmarket subregions.

The following study of the STI Center for Real Estate Studies, also compared to the previous year's survey, provides an analysis of the underlying structural components. It presents the property offers in terms of quantity and price, differentiated according to region and equipment level.

### ***Subject and objective***

The present study examines the market for properties in Mallorca with the aim of providing a representative overview of the level and structure of the existing holiday property offers. The quantitative offer (number of objects) as well as the qualitative offer (location, equipment standard, sea view) are examined in order to finally be able to assign them to the various price levels determined. In selected areas, the collected information is also broken down into micro locations in order to enlarge upon specific regions.

When analysing the data it should be noted that not every property offered in Mallorca also qualifies for purchase as a holiday property as not every property can be bought or rented as a holiday property. In addition there are other legal details. Even if the legal systems are similar, details, particularly in the land register, can be decisive. Presumed bargains could require a subsequent legalization and require professional support from local market experts.

A number of filters are, therefore, applied when selecting the data. The purely quantitative range of objects can also be easily over-estimated if the quantities offered by different brokers are counted together. On the multi-broker market in Mallorca it can happen that the same object is managed by several brokers - sometimes even with different information. In order to exclude such distorting effects, individual property data from the five market-leading brokers were collected and validated by correcting implausible values and double counting (see annex to the data base). After correcting for statistical outlier values a data record with 4,711 objects resulted, whose equipment standard is more closely examined in the next section.

### ***Market volume, location and equipment***

In Mallorca around 4,700 objects of different categories were available for sale in early 2017. As the following figure shows, the object numbers are distributed completely differently and not according to the regional area size.

As in previous years more than half of the offers are concentrated in the three top regions "south-west", "north" and "Palma" with 35%, 11% and 10% respectively. The distribution is also very stable with respect to the other regions. The shift does not exceed 2% in any region.

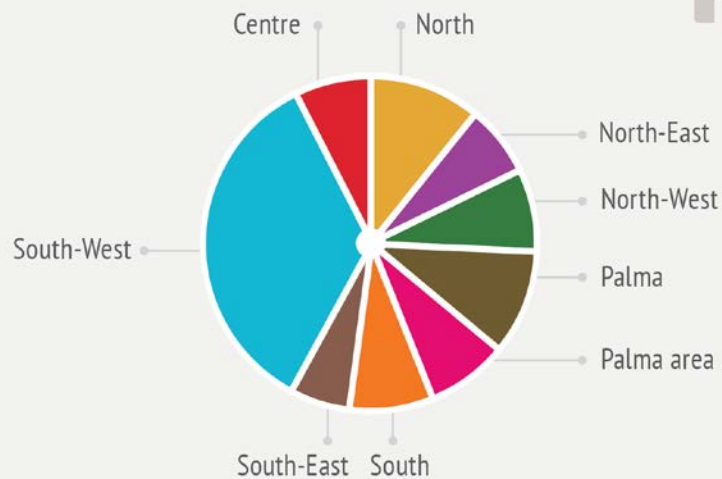
Furthermore, the south-west is particularly noticeable and more than one third of the properties are located in this spatially smaller region. In contrast the south-east, the largest region of the island, has the smallest share with 6%.

## Supply according to region 2017



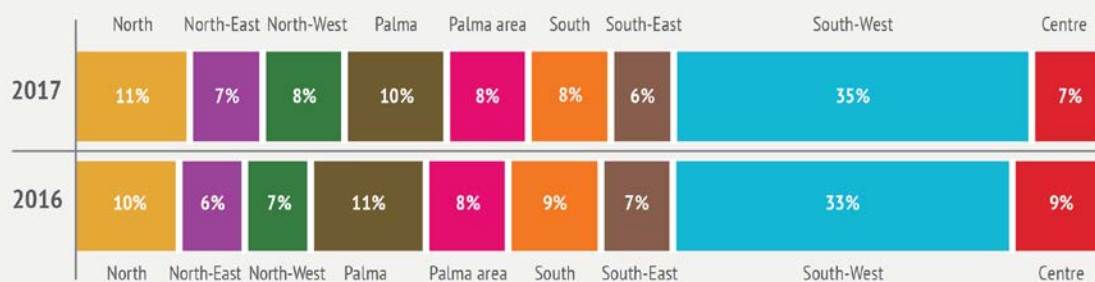
4.711 Properties

North	11%
North-East	7%
North-West	8%
Palma	10%
Palma area	8%
South	8%
South-East	6%
South-West	35%
Centre	7%



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## Comparative market listing by region 2016/2017



Properties	2017	2016		2017	2016
North	525	481	South	376	433
North-East	324	289	South-East	282	337
North-West	365	337	South-West	1642	1587
Palma	467	529	Centre	346	431
Palma area	384	385	Total	4711	4809

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Even though the share is only marginally shifting, the trend from the previous year continues. The property offers are increasingly concentrated in the west, while in the centre

of the island the number of properties is stagnating.

### **Market offers according to equipment features**

Mallorca, due to its high level of tourism, is characterized by properties in the exclusive or luxury segment. In order to avoid any risk of exaggeration, however, the descriptions in the exposé texts on the homepages of the brokers researched were examined intensively and checked for plausibility. Here the experience gained in previous years was used. In addition, a stronger differentiation was made in the most important feature - the view of the sea - which also affects the object classification (further information in the last section on data collection).

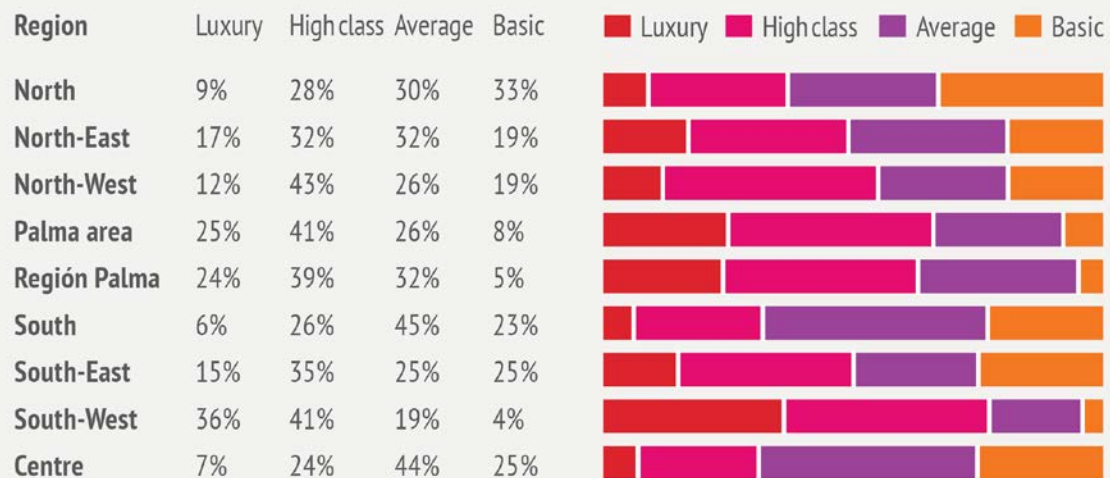
Depending on the preferred region the proportion of luxury properties in the upper 10% range varies somewhat, with a higher proportion of about a quarter in both "Palma regions" and particularly in the "south-west" which, with 36%, has more than double the frequency of luxury objects and seems to be predestined for the more valuable properties in this segment.

The above-mentioned average values, however, do not exclude the fact that with increasing demand more luxury objects will be found in other regions. With reference to around 4,700 properties even the central region, with only a 7% share, can also offer sufficient opportunities if this is the area the buyer prefers. Since the previous years have shown that allocation to the luxury category is very closely related to the number of rooms, large pool and appropriate sea access, the very small share is hardly surprising.

The three further equipment categories show a larger spectrum. The three regions mentioned are also strongly represented in the upper segment and show under 10% with plainer objects. In the upper segment 43% of the properties are also found in the north-west, with most of the medium-classified objects are to be found in the "south" and the "centre".

By comparison many of the plainer objects can be found in the "north" and "south-east". For those with a limited budget there are opportunities to buy in these regions.

## Supply according to level of amenities per region 2017

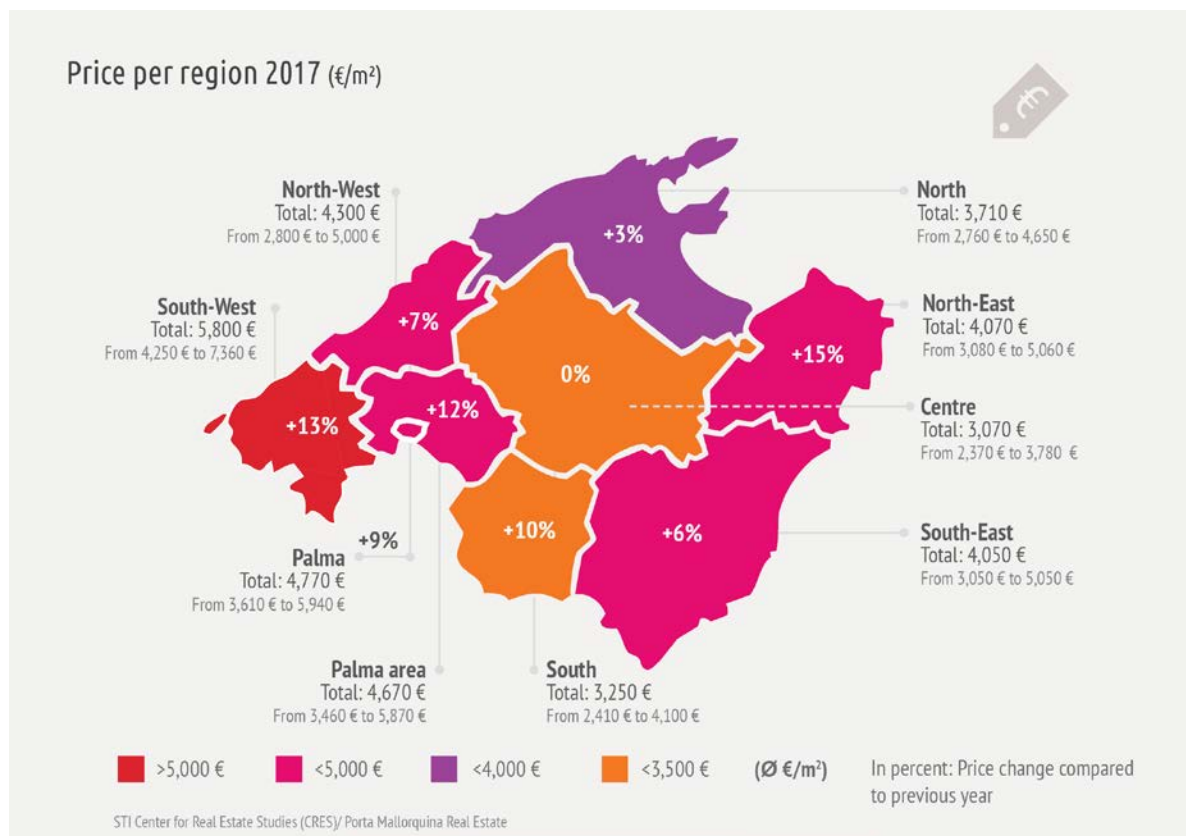


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## Price level

On a regular basis the theme of property prices is also addressed by the local media and its current perception of rising purchase prices is confirmed by the available survey. 8 out of 9 regions recorded an increase compared with the previous year - half of them even in a double-figure percentage range. Not surprisingly the "south-west" is again showing the second highest price increase of 13%, followed by "Palma surrounds" and the "south" with 12% and 10%.

At first glance the very strong price rise in the "north-east" seems paradoxical. On one hand, however, this could be explained by a "catching-up" and on the other hand by the simple fact that with lower prices a rise in price leads to a bigger increase in percentage.



The "south-west" is the top region of the island by far and shows an increase in the average square metre price from 5,150 € in 2016 to 5,800 € in 2017. This also increases the price difference to the two following regions "Palma" and "Palma surroundings" for the first time to more than € 1,000 per square meter and a triple division in the data record. While the above-mentioned regions command the area well above € 4,000 per square metre, the "north", "north-east", "north-west" and the "south-east" rank around € 4,000. Last are the "south" and the centre of the island with a square metre purchase price of just over 3,000 €.

When comparing the categories from "plain" to "luxury", however, the 'square metre' price of a region should not be the only factor. This is because in the data record "Palma" properties below € 3,700 per square metre can be found, while values in the central region can be higher than this figure. In order to be able to represent the range of prices in the data record, the graphic shows the usual dispersion of the average values which are representative for the regions. If these values are compared with each another wide differentials are found particularly in the "north-west" and "south-west". In the latter region, comparatively favourable properties are just over € 4,000 per square metre, while in the luxury segment prices over € 7,000 can be achieved and for selected individual properties prices of more than € 8,000 can be found in the data record. In order to be able to depict particularly these effects an individual comparison is used.

## Changes of average prices per square meter per Region 2016/2017



Region	2016	2017	Change
North	3,610 €	3,710 €	+3%
North-East	3,530 €	4,070 €	+15%
North-West	4,030 €	4,300 €	+7%
Palma	4,390 €	4,770 €	+9%
Palma area	4,180 €	4,670 €	+12%
South	2,960 €	3,250 €	+10%
South-East	3,810 €	4,050 €	+6%
South-West	5,150 €	5,800 €	+13%
Centre	3,070 €	3,070 €	-

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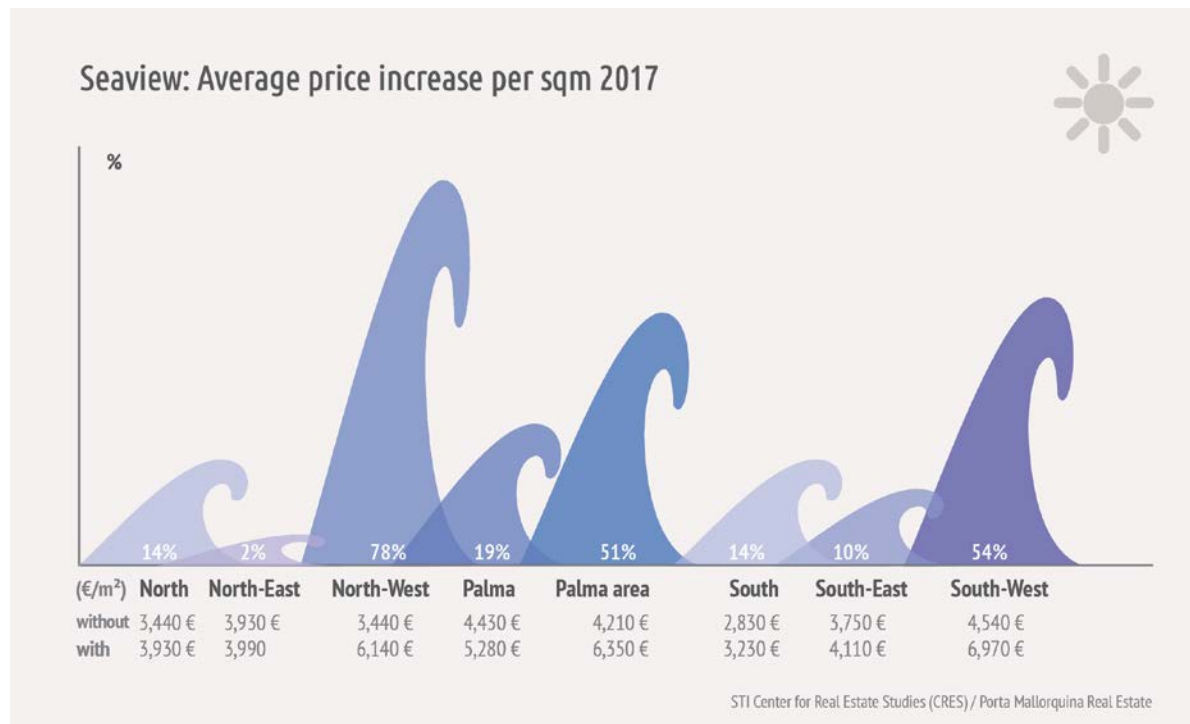
### ***What is the cost of sea views?***

Since sea access and sea views play a central role for holiday properties, a fact which was confirmed last year by significant price increases for properties with this feature, in the area of holiday rentals a differentiated evaluation has been taking place this year parallel to the usual calculation tools.

The stronger distinction between "sea views" and "first sea line" showed that the values generally move around the average of the previous years, but also that the surcharges according to regions vary between 10% and 50%. Direct access on the first sea line, however, generally leads to a doubling of the surcharges.

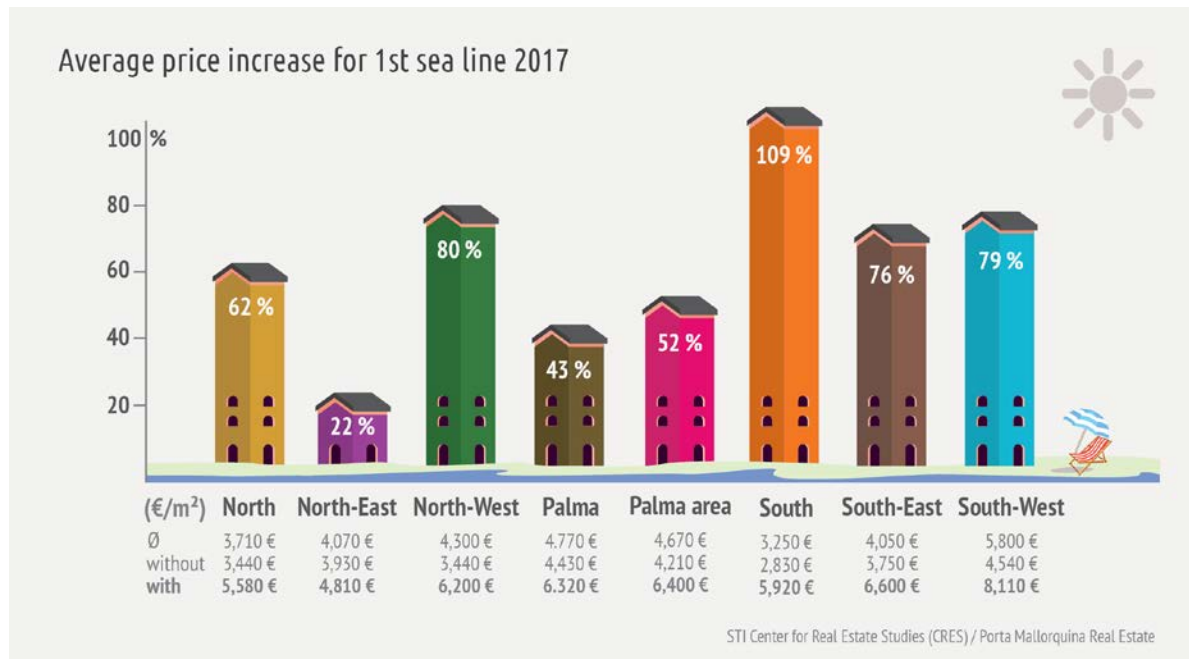


## Sea view surcharges



Whereas last year the effect of the sea view divided two groups which were very close together, a positive effect is shown by the more accurate evaluation in 2017. If the whole island is considered the surcharge is about 30% for a "normal" sea view while the extra cost for the "first sea line" represents a double leap in value of 63%.

At a regional level, however, there are big differences. Regions which already have high surcharges for simple views of the sea show only moderate increases for the first sea line. Thus, the jump in prices between the two levels in the "north-west" and "Palma surrounds" is on average less than 10%. But especially in the "north", "south" and "south-east" regions with their more moderate prices the first sea line can be an important feature of price differentiation for investors because here a "simple" sea view already seems to be a normal market expectation. The price increases hardly exceed 10% whereas on the first sea line, the mark-ups are 62%, 109% and 76%.

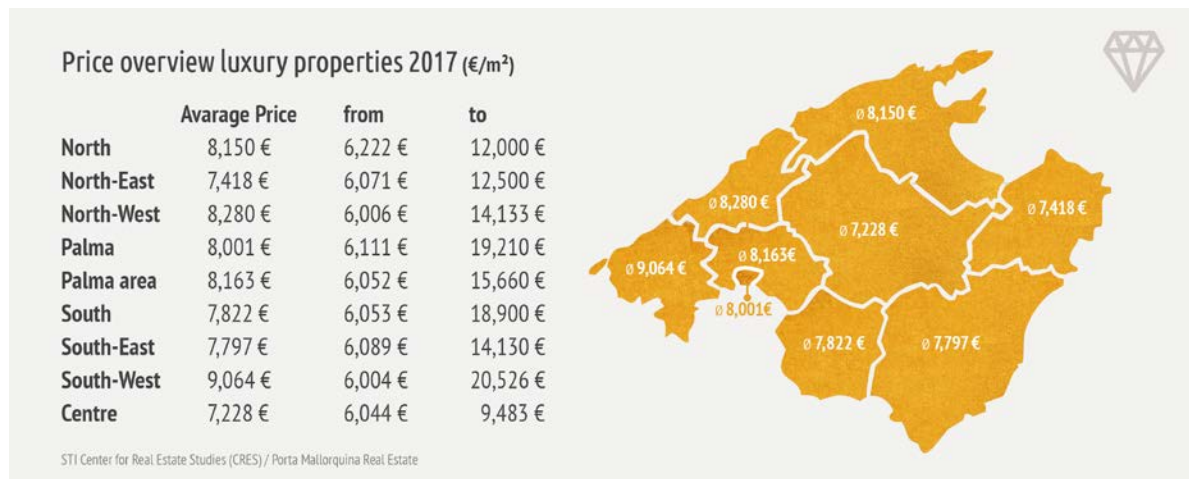


Also in the top region "south-west" the division in the sea view plays a decisive role. The average square metre price without sea view is €4,540 and rises to €6,970 (+ 54%) for a "simple" sea view, or €8110 (+ 79%) for the first sea line.

The "north-east" and "central" regions: in the centre of the island there is no differentiated evaluation for a sea view, which means that there is no distinction for investors. Perhaps the decrease of the offers in the centre of the island and the stagnating prices can be connected to the high surcharges for sea views. The "north-east" recorded the lowest price increases for sea views in the previous year (2016: + 17%). The differentiation in 2017 now shows + 2% for a simple sea view and + 22% for the first sea line. Therefore, if potentially higher property value is required a surcharge would be most likely possible on the first sea line.

## Luxury real estate

The high proportion of premium offers has shown that a specific evaluation in the area of luxury objects makes sense. Although most properties in the luxury sector start at prices of € 6,000 per square metre, the average values show that in the more favourable regions over € 7,000 and in the other regions more than € 8,000 per square metre are realistic.



Once again, the "South West" stands out as a top region with over € 9,000 per square metre. It is also apparent on consideration of the price margins that here in particular there are some very highly-priced objects. If the focus is placed on individual places within the regions, however, the "Palma surrounds" also show up strongly. In terms of investment and intrinsic value, however, price differences in regions are also of particular importance. Here again, the south-west shows very stable values. If in the "south-west" the difference between the most expensive and the third most expensive location is just over € 1,000, a price difference of more than € 5,000 applies in other regions.

The specific analysis shows, however, that the price structure in the luxury segment is different to that of the general average because the prices of luxury properties are, in the "north" and "north-west", in the higher price levels rather than in the generally average lower thirds.

## **Conclusion:**

The Balearic Islands, and Mallorca in particular remain attractive for investments in holiday real estate. In addition to an emotional and a rental return this year's survey shows a clear upward trend. 7 out of 9 regions are experiencing significant price increases, with up to double-figure percentage changes in 3 regions.

Even stronger than in the previous year's surveys, the "south- west" shows itself as the top region, both in terms of price development and the selection of offers - more than a third of all objects are located here. The proportion of luxurious properties is twice as high as in the rest of the island and consequently the average price is more than € 1,000 in front of the second placed regions. The sea views are particularly crucial here and even a simple view of the sea justifies price increases by up to 50%, while a first sea-line location price is 80% higher than with no sea view. But also the micro-locations in "Palma" and "Palma surroundings" show high prices and price increases in 2017. Here are some of the most expensive places.

Regionally the offers shift a little to the west and show slightly fewer objects in the "south-east", "south" and the "centre". The stronger differentiation of the sea views between a simple sea view and a first sea-line location shows a more precise price differential than in previous years. Those who are satisfied with a "simple" sea view can find objects in the "north" or "north-west", but especially in the "south" bargain prices are available. For luxury properties and direct sea access in the top locations and particularly in the south prices are expected to be over € 8,000 per square metre. The significant increases recorded in the previous years are also expected to lead to a positive investment development in the future.

Perhaps in the future, in addition to the local market conditions, economic conditions will also play a central role for investors:

- Political and economic stability compared to touristic regions which have an increased risk of terrorism
- Favorable financing situation in Germany (largest tourist group)
- Good economic situation
- Fewer alternative value and yield-stable investment opportunities

## Data information

### ***Macro location and infrastructure on Mallorca***

Mallorca is the centre and also the largest of the Balearic Islands. With some 3,600 square kilometres, Mallorca is more than six times the size of neighbouring Ibiza. Due to its geographical position in the western Mediterranean, Mallorca is easy to reach with acceptable flight times of less than 3 hours from central and northern Europe and has thus also developed into a medium-range hub for international airlines.

The economy lives - especially because of the southern climate - from tourism. Even in the winter months the average temperatures are about 10 degrees, while in the summer months peak temperatures of more than 30 degrees are not uncommon. Attracted by the attractive climate and varied landscape, more than 11 million tourists visited the island in 2016. One out of every three Mallorca vacationers comes from Germany, followed by the British with almost 20%. Of the approx. 560 km of coast line, at least 50 km are designated as a beach and offer sufficient space for the guests in the main season. Mallorca is, however, by no means only a destination for mass tourism and beach holidays. Also sports like hiking or golf (24 golf courses) appeal to a wide target group. The restrictive building codes favour the intrinsic value of existing properties and protect the local nature.

### ***Data base and survey period***

For the analysis some 9,200 individual properties including building plots and properties for renovation were available, listed on the homepages of the real estate marketing companies Porta Mallorquina Real Estate, Engel & Völkers, First Mallorca, Kühn & Partner and Minkner & Partner. Data collection was carried out on a single-object basis in the period from 01.12.2016 to 31.01.2017. It is to be assumed that this data collection included between 90% and 95% of the existing portfolio of holiday properties on Mallorca, which is why the survey is a neutral image of the overall market.

### ***Regional structure***

In line with a market-oriented regional demarcation and comparability with the data of the client, the recorded objects were divided into nine regions. The names of the regions are: north, north-east, north-west, Palma, Palma surroundings, south, south-east, south-west and centre.

### ***Equipment standard***

On the basis of the textual object information of the brokers and the photographic materials available the objects were assigned to four equipment standards (plain, medium, high,

luxury). In case of doubt, the information in the object pictures took precedence over possibly very positive textual formulations. The basis for the classification were the normal production costs for real estate valuation of residential properties and the normal standards for the valuation of residential properties.

### ***Area data***

The definition of the total area or construction area is not uniformly defined. This is due, in particular, to the current local practice that in Spain all constructed areas - including cellars, balconies or terraces – are considered constructed area. In the case of doubtful data or problems, telephone enquiries were made to the respective brokers in order to accordingly correct the data for the evaluation.

### ***Quality control***

In order to collect the data, each object was viewed individually in order to record the homepage information of the various providers on a comparable basis and to check for plausibility.

For example, it was noticeable that the island's central region had objects with a sea view. Corresponding information has either been removed or entered into the data record in a corrected form. Objects that were listed with completely implausible information were completely removed from the record. Objects which were offered by several brokers were also recorded only once in the data record to avoid multiple counting. In the case of these duplicates, contradictory statements could possibly occur from the various providers. Here too, corrections were made on a one-off basis.

For comparability with the usual practice of object assessment where only objects which are viewed can be objectively assessed, properties which were photographed only from the outside were excluded. In these cases no objective statements on the equipment standard would have been possible and the verification of the number of rooms would not have been feasible. The use of these objects could have led to a distortion of the results.

In the previously corrected data record all extreme values, whose deviation was too great (variation of 5% or more from local levels with a typical random sample) were removed according to the usual statistical probability practice for the calculation of averages.

### ***Object classification***

On the homepages of the respective brokers objects are sometimes assigned to classes with implausible values. For example, in the search results for building plots apartments appear, or vice versa. In addition, the assignments of the object registrations of various brokers may be different, so that for the present study a separate classification, according to homes and plot size was made.

### ***Duplicates***

In Mallorca there is the so-called multi-broker system, in which the same property is frequently offered by several real estate brokers. Objects, which were kept in the data set at different suppliers with identical or slightly deviating prices, were therefore examined more closely. If the object was apparently the same, the second listing were not considered. In addition to the price information, individual comparisons were made in regions or partial data records with only a small number of objects, regardless of the price information.

**Attestation**

Survey, quality control and calculations of the data in the investigation were carried out without involvement or special consideration of the objects of the contracting entity.

*Freiburg, im Februar 2017*



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Prof. Dr. Marco Wölfle, Wissenschaftlicher Leiter



### Information about CRES

The CRES (Center for Real Estate Studies) is one of the leading institutes for dual and business-accompanying studies in the real estate sector. It was founded on the initiative of the Deutsche Immobilien-Akademie (DIA) at the Steinbeis-Hochschule Berlin (SHB).



In addition to a business-accompanying and dual course of studies in the field of real estate business and management, a master's degree program is also offered.

A further focus of the CRES is scientific research. Current research-relevant questions are examined here using scientific methods and instruments in order to transfer new insights into practice and, on the other hand, to keep the contents of the study programs up-to-date and to develop further.

### Information about Porta Mallorquina Real Estate

Porta Mallorquina Real Estate S.L. Was founded in 2005 and has been the Master Franchise Partner of the German Porta Mondial AG since 2008. Together with its sister company Porta Holiday, Porta Mallorquina is the first island-wide real estate company to offer purchase, long-term rental and holiday rental.



With eight locations in Mallorca and a portfolio of more than 2,000 properties, Porta Mallorquina is one of the largest brokerage companies on the island. The four-pronged property portfolio portamallorquina.com is one of the most popular real estate websites for Mallorca properties, with up to 100,000 visits a month. In Mallorca, Porta Mallorquina grants franchise licenses to independent entrepreneurs.

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