RESIDENTIAL MARKET IN THE CITY OF BARCELONA

MARCH 2019
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INTRODUCTION AND MACROECONOMIC SITUATION

QUALITY OF LIFE THAT’S DIFFICULT TO BEAT
The city of Barcelona has a population of 1,628,936 inhabitants. The total population, including its metropolitan area, is 3,239,337 inhabitants, making it the second most populous city in Spain after Madrid.

Barcelona has a strategic geographical location which, together with its excellent climate and transport network, contributes to the economic development of the city and its whole sphere of influence. All of these factors make Barcelona one of the best cities to live in. According to a study by the US consulting firm Resonance, Barcelona is ranked at number 8 in the world, only behind cities such as London, Paris or Moscow.

The city’s overall appeal has a direct impact on the residential market. Interest and demand is very high, thanks to both national buyers and a large number of foreign buyers.

MACROECONOMIC SITUATION
According to the latest available figures from the main economic organisations, GDP in Catalonia is continuing to grow steadily. After growth of 3.3% in 2017, it stood at 2.5% in 2018 and an increase of 2.3% is forecast for the year 2019. This positive momentum of the economy has been maintained by factors such as an increase in exports and a decrease in the level of uncertainty seen in previous months. This has helped domestic demand in terms of both private consumption and investment in machinery and capital goods.

Particularly noteworthy is the consolidation of the construction sector, the recovery of which is now a tangible reality. It is also set to be one of the key sectors with regard to the creation of jobs over the next two years. Increased demand, along with a rise in housing prices and favourable financing conditions, has boosted investment in new residential projects.

The unemployment rate in Catalonia at the end of 2018 (4th quarter) was 11.75%, almost three points below the national average (14.45%). Employment in 2018 increased by 2.26% compared with the same period for the previous year and the number of employed people has decreased by 5.82% over the last twelve months, according to the Spanish Statistics Office. As far as the next two years are concerned, it is expected that 130,000 net new jobs will be created and that the unemployment rate will go down to 9.5% by the year 2020.
STOCK EVOLUTION
The housing stock in Catalonia as at 31 December 2017 (latest figures published by the Spanish Statistics Office) was 3,915,370, which represents 15.2% of the national total and 10% of the province of Barcelona.

According to figures from the Spanish Statistics Office, in January 2018 the province of Barcelona had 2,635,092 houses, 67% of the total for Catalonia.

Over the period 2002-2010, the housing pool in the province of Barcelona grew by 14.56% as a result of the property boom.

UNSOLD HOUSING STOCK
The unsold new housing stock in Catalonia amounted to 75,780 units in 2017, representing 15.89% of the national total.

According to figures from the Ministry of Public Works, at the end of 2017 the province of Barcelona had 39,479 unsold new houses, 8.28% of the national total and 52% of the total in Catalonia.

EVOlUTION OF NEW BUILDING PERMITS
The number of new building permits decreased by 92.3% in Catalonia over the period 2007-2013, going from 29,305 permits in 2006 to 1,470 in 2013, but recovered over the period 2013-2018.

Property development activity in Catalonia went up in 2018, with an increase of 9.2% in new building permits. In the province of Barcelona, 30,862 building permit applications were made in 2018.
Following an analysis of the supply of new building developments in Barcelona for multi-family, free-market housing, the main conclusions on the market are as follows:

- 19% of the current supply is concentrated in the district of Horta-Guinardó, with 13 developments being marketed. Also particularly noteworthy is the high level of development activity being carried out in the districts of Eixample and Ciutat Vella, with 11 developments in each area.

- However, in the districts of Les Corts, Nou Barris and Sarrià-Sant Gervasi, there is a very low supply of developments, primarily due to the lack of available land, the increase in land prices and legal uncertainty.

- The developments analysed in the city of Barcelona have an average size of 17 houses. In the districts furthest from the centre, the average size of the developments increases slightly.
ANALYSIS OF NEW BUILDING PRICES

The average price of new building developments for multi-family, free-market housing analysed in the city of Barcelona was €5,150/m² as of January 2019, the highest figure in recent years.

If the price levels of the different districts are analysed, it can be seen that there are significant differences between them. The most expensive districts compared with the city average are as follows: L’Eixample, with average prices of €7,551/m², representing an increase of 47% over the city average. The district of Sarrià-Sant Gervasi is next (44% above the average), with an average price of €7,411/m².

In the district of Ciutat Vella the average price is €6,925/m². However, a high level of dispersion can be seen in the prices among the different neighbourhoods: the highest prices are located in the exclusive areas of Sant Pere and the Gothic District, whereas in El Raval the prices are lower than the district average.

The district of Les Corts is the fourth most exclusive district in the city, with an average price of €6,513/m². The fact that no developments are currently being marketed in the area of Pedralbes means that the average price in Les Corts is lower.

However, the district with the lowest prices in Barcelona is Sant Andreu, at €3,605/m² (30% less than the city average). The developments located nearest Avenida Meridiana have prices above the district average. It is expected that the development of La Sagrera and the future high-speed train station will contribute to the consolidation of the area and generate increased interest and demand.

Finally, the districts of Nou Barris and Horta Guinardó have average prices of €4,312/m² and €4,339/m², respectively, as the supply of developments in Horta Guinardó is much higher.
ANALYSIS OF THE POPULATION

Since 2015 the population has slightly increased by almost 20,000 inhabitants.

The districts with the biggest populations in the city of Barcelona, and therefore with the biggest weight as far as demand is concerned, are as follows: Eixample (8% of the total), Sant Martí (7%) and Sants-Montjuic (6%).

By analysing the population pyramid, it can be seen that the biggest part of the pyramid is comprised of the population aged 30 to 59, who tend to be natural property buyers.

Furthermore, a high percentage of foreign buyers set up their home in Barcelona, attracted by the quality of life that it offers.
By analysing the behaviour of demand for the property developments currently being marketed, it can be seen that the sale rates are very positive, with all the units in the developments being sold during the construction phase.

Factors such as the type of product to be developed, its location and price are crucial in determining how quickly the houses sell. The districts with the most dynamic demand, which has resulted in high sale rates, are Horta-Guinardó and Sant Martín (Poble Nou).

**INTERNATIONAL PROPERTY BUYERS IN BARCELONA**

After a drop in international demand in the city, as a result of the terrorist attack in August 2017 and political uncertainty, foreign buyers once again have a significant presence in the market.

Within the international demand, the French, Chinese and Italians are the most dynamic, followed by the British, Germans, Russians and Americans, in that order.
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PRICE EVOLUTION

AVERAGE PRICE EVOLUTION

As can be seen in the diagram, the price of housing has been on an upward trend since 2014, both in the new building and second-hand market.

The price of new building housing in the city of Barcelona ended the year 2018 at €4,105/m², according to the figures published by the Ministry of Public Works. Since 2013 it has increased by 39.1% and the last year saw a rise of 9.4% (4Q 2018 vs 4Q 2017).

The trend in the prices of second-hand houses has been very similar to that of new-build housing. The average price increased by 10.1% in 2018 (4Q 2018 vs 4Q 2017), reaching average levels of €3,357/m² in the fourth quarter of 2018.

The difference between the prices of houses in the new building and second-hand markets was almost 20% in the 4th quarter of 2018.

The price of housing remains on an upward trend and this will continue in 2019 due to the levels of demand being higher than the current supply. However, the increase will be less than that seen in the last three years, as we believe that the most important price movement has already taken place.
RENTAL MARKET

RENTAL MARKET

Barcelona is the Spanish city with the highest rental prices, reaching average levels of €17.3/m²/month at the end of 2018. A year earlier the highest figures in the historical series were reached, at €18.3/m²/month. This represented an increase of 61.1% over the lows seen in 2013.

The top diagram shows the average rental prices of the districts in Barcelona and the gross return on them, taking into account the average sale prices. The most expensive districts in which to rent housing are Ciutat Vella, Sant Martí and Eixample, with rents 7% above the city average, at more than €18/m²/month. Sant Andreu, Nou Barris and Horta-Guinardó are the three districts with the lowest rents, at around €13/m²/month, a difference of 20% against the average.

THE RENTAL MARKET IN BARCELONA

The improved employment situation, the impact of tourism and the arrival of residents with higher purchasing power has put a high level of pressure on rental prices in Barcelona.

Source: BNP Paribas Real Estate
The table below shows the percentage of houses for rent according to the number of bedrooms, average rental (€/m²/month), average second-hand sale price (€/m²) and the gross returns offered by each type of housing in the district.

<table>
<thead>
<tr>
<th>District</th>
<th>1 BEDROOM</th>
<th>2 BEDROOMS</th>
<th>3 BEDROOMS</th>
<th>4 OR MORE BEDROOMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SANTS MONTJUÏC</td>
<td>23%*</td>
<td>37%*</td>
<td>33%*</td>
<td>7%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>13.61</td>
<td>16.88</td>
<td>15.07</td>
<td>13.23</td>
</tr>
<tr>
<td>€/m²</td>
<td>4.575</td>
<td>4.620</td>
<td>3.699</td>
<td>3.479</td>
</tr>
<tr>
<td>Return (%)</td>
<td>5.14%</td>
<td>4.38%</td>
<td>4.93%</td>
<td>4.56%</td>
</tr>
<tr>
<td>CIUTAT VELLA</td>
<td>42%*</td>
<td>40%*</td>
<td>14%*</td>
<td>4%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>21.89</td>
<td>20.1</td>
<td>18.62</td>
<td>17.57</td>
</tr>
<tr>
<td>€/m²</td>
<td>6.806</td>
<td>5.371</td>
<td>4.603</td>
<td>4.437</td>
</tr>
<tr>
<td>Return (%)</td>
<td>3.86%</td>
<td>4.49%</td>
<td>4.85%</td>
<td>4.75%</td>
</tr>
<tr>
<td>EIXAMPLE</td>
<td>15%*</td>
<td>36%*</td>
<td>33%*</td>
<td>16%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>24.7</td>
<td>21.19</td>
<td>19.46</td>
<td>15.41</td>
</tr>
<tr>
<td>€/m²</td>
<td>6.445</td>
<td>5.738</td>
<td>5.703</td>
<td>5.003</td>
</tr>
<tr>
<td>Return (%)</td>
<td>4.60%</td>
<td>4.43%</td>
<td>4.09%</td>
<td>3.70%</td>
</tr>
<tr>
<td>LES CORTS</td>
<td>68%*</td>
<td>17%*</td>
<td>36%*</td>
<td>41%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>20.59</td>
<td>18.18</td>
<td>15.84</td>
<td>16.52</td>
</tr>
<tr>
<td>€/m²</td>
<td>4.978</td>
<td>5.441</td>
<td>5.446</td>
<td>5.188</td>
</tr>
<tr>
<td>Return (%)</td>
<td>4.97%</td>
<td>4.01%</td>
<td>3.49%</td>
<td>3.55%</td>
</tr>
<tr>
<td>GRÀCIA</td>
<td>21%*</td>
<td>36%*</td>
<td>31%*</td>
<td>11%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>20.44</td>
<td>18.86</td>
<td>15.87</td>
<td>14.09</td>
</tr>
<tr>
<td>€/m²</td>
<td>5.023</td>
<td>5.349</td>
<td>4.607</td>
<td>4.633</td>
</tr>
<tr>
<td>Return (%)</td>
<td>4.88%</td>
<td>4.23%</td>
<td>4.13%</td>
<td>3.65%</td>
</tr>
<tr>
<td>SARRIÀ-SANT GERVASI</td>
<td>15%*</td>
<td>25%*</td>
<td>30%*</td>
<td>29%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>21.03</td>
<td>19.88</td>
<td>19.85</td>
<td>16.98</td>
</tr>
<tr>
<td>€/m²</td>
<td>5.923</td>
<td>6.571</td>
<td>6.514</td>
<td>5.372</td>
</tr>
<tr>
<td>Return (%)</td>
<td>4.26%</td>
<td>3.83%</td>
<td>3.66%</td>
<td>3.79%</td>
</tr>
<tr>
<td>HORTA-GUINARDÒ</td>
<td>85%*</td>
<td>30%*</td>
<td>51%*</td>
<td>11%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>17.19</td>
<td>14.87</td>
<td>13.51</td>
<td>12.72</td>
</tr>
<tr>
<td>€/m²</td>
<td>3.094</td>
<td>3.486</td>
<td>3.329</td>
<td>3.278</td>
</tr>
<tr>
<td>Return (%)</td>
<td>6.67%</td>
<td>5.12%</td>
<td>4.87%</td>
<td>4.60%</td>
</tr>
<tr>
<td>NOU BARRIS</td>
<td>17%*</td>
<td>33%*</td>
<td>48%*</td>
<td>4%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>13.67</td>
<td>14.75</td>
<td>13.14</td>
<td>11.25</td>
</tr>
<tr>
<td>€/m²</td>
<td>2.458</td>
<td>2.572</td>
<td>2.706</td>
<td>2.703</td>
</tr>
<tr>
<td>Return (%)</td>
<td>6.67%</td>
<td>6.88%</td>
<td>5.83%</td>
<td>4.99%</td>
</tr>
<tr>
<td>SANT ANDREU</td>
<td>11%*</td>
<td>27%*</td>
<td>49%*</td>
<td>14%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>17.46</td>
<td>15.78</td>
<td>12.96</td>
<td>12.92</td>
</tr>
<tr>
<td>€/m²</td>
<td>3.541</td>
<td>3.326</td>
<td>3.276</td>
<td>3.384</td>
</tr>
<tr>
<td>Return (%)</td>
<td>5.92%</td>
<td>5.69%</td>
<td>4.75%</td>
<td>4.58%</td>
</tr>
<tr>
<td>SANT MARTÍ</td>
<td>15%*</td>
<td>23%*</td>
<td>48%*</td>
<td>15%*</td>
</tr>
<tr>
<td>€/m²/month</td>
<td>20.81</td>
<td>19.57</td>
<td>19.76</td>
<td>22.05</td>
</tr>
<tr>
<td>€/m²</td>
<td>4.510</td>
<td>4.542</td>
<td>4.517</td>
<td>4.885</td>
</tr>
<tr>
<td>Return (%)</td>
<td>5.53%</td>
<td>5.17%</td>
<td>5.25%</td>
<td>5.42%</td>
</tr>
</tbody>
</table>

The average return for the city of Barcelona is 4.75%. However, depending on the district in question and the type of house, it may increase considerably.

The district of Nou Barris offers an average return of 6.17%, which is the highest figure, followed by Sant Martí and Sant Andreu. If the return is analysed according to the number of bedrooms, it can be seen that the 1 and 2-bedroom types are the most profitable.
Last summer, when preparation began on the procedures for this new regulation, there was a flood of permit applications aimed at avoiding it. Between June and September 2018, a total of 591 permits to build new properties in Barcelona were requested. According to municipal figures, in 2017 there were a total of 206 usage applications, which are required before the building permit is granted. However, since the start of the year, the demand for new permits has practically ground to a halt.

The entry into force of this new regulation has resulted in developers moving to the metropolitan areas of Barcelona, such as Hospitalet de Llobregat and Sant Cugat del Vallés, where property development activity was already high and has increased significantly in recent months.

In the short term this measure may result in a slump in the completion of new projects, leading to upward price pressure on sales and rentals as a result of the lack of new projects being marketed.

In the medium to long term, the flood of licence applications seen between June and September 2018 could result in an increase in the supply of new projects within 18-24 months, in a market context quite different from the current situation, with a longer time to market.

As far as construction costs are concerned, the total amount will not change as the specifications are very similar in free-market and social housing. The main costs of the developments, such as the foundations, structure and facade, are common to all housing. These costs are charged to the total number of houses, and in order to maintain the profit margins on social housing, a higher percentage of the costs will then be passed on to the price of free-market houses, making them considerably more expensive.
The increase in demand for housing in the city of Barcelona has generated a high level of investor interest in the residential segment.

Accordingly, the “Build to rent” or “turnkey” model will have an increasing presence, with investors buying properties in order to place them on the rental market. Factors such as generational changes, limits on mortgage credit and workforce mobility have resulted in many developers affiliating themselves with funds specialising in house rentals.

The high level of entrepreneurial dynamism, the arrival of new companies in the city of Barcelona and the city’s great appeal have created a dynamic environment for investment and development in the residential market.

Barcelona has the highest rentals in Spain and corporate investors, property managers and private investors will continue to look to the city.

On a corporate level, there is a high level of interest but it is difficult to find product which is of the right size to attract these players, and they are turning their attention to the inner metropolitan ring and turnkey projects.

With regard to the turnkey projects, following the implementation of the 30% social housing regulation in the city, numerous developments with a permit are being negotiated for sale to investors, even though they were originally designed to be sold on a unit basis. Other factors that will boost the residential investment market include the sale of assets by “value added” investors who bought in previous years, as well as the expected rotation of assets by SOCIMIS (real estate investment companies) and other investment vehicles.

The residential sector in the city of Barcelona has a great many factors that are highly appealing to national and international buyers who will continue to have a significant presence, drawn by the quality of life and attractive prices in comparison with other European cities.

The fact that the economy is doing well, the improved employment situation and the growth of the office market in the city will continue to generate an increase in residential demand.

Although prices appear to be stabilising, factors such as the deployment of technology companies and the growth of other sectors have resulted in the creation of employment and ensured that talent is being attracted to the city. If we then consider the fact that Barcelona has one of the highest levels of quality of life in Europe, then it is clear that the city has a highly dynamic residential rental market.
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A 360°vision

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