



2018

JULY

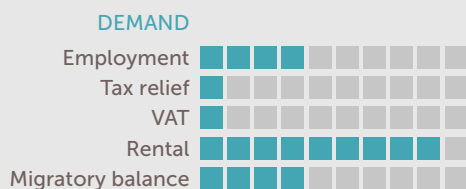
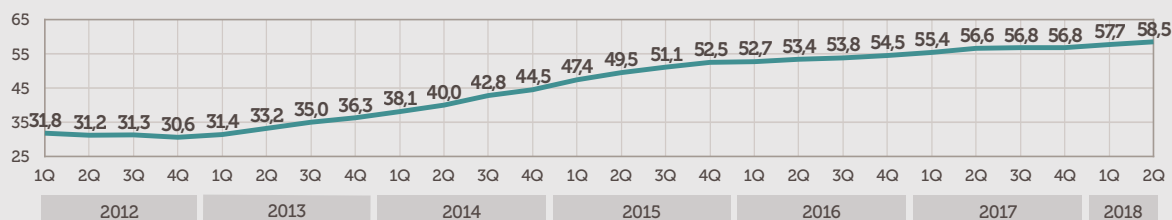
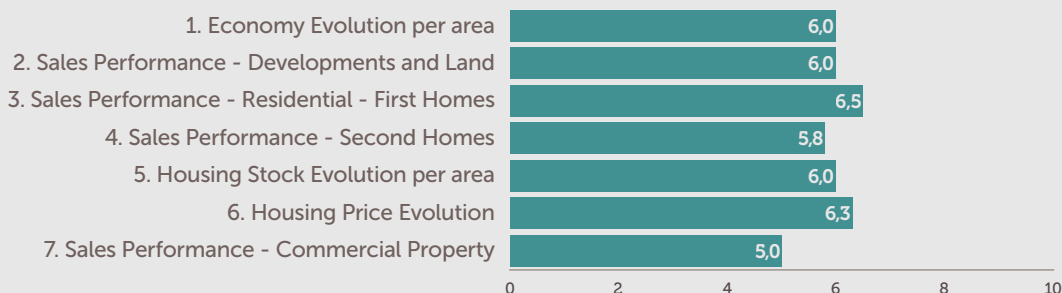
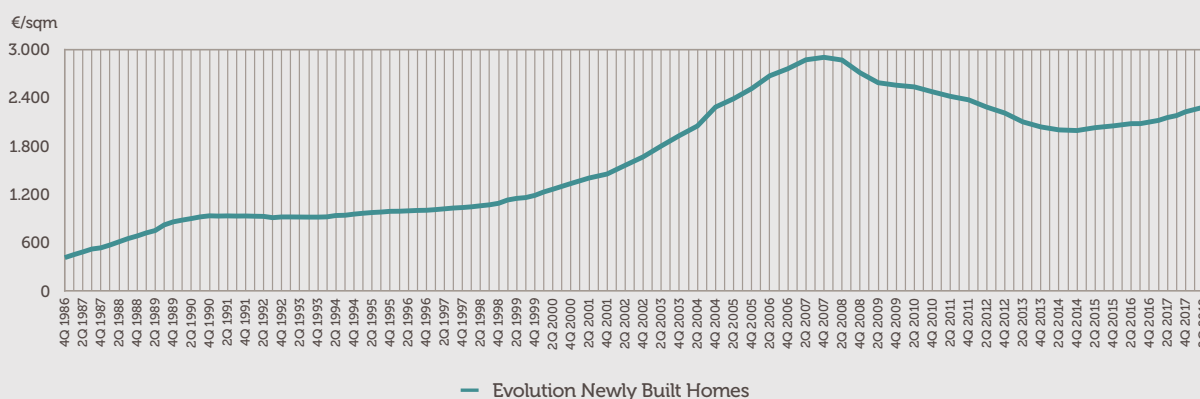
Spanish Residential Real Estate Trends



ST
Sociedad de Tasación

35 ANNIVERSARY

PERSPECTIVE



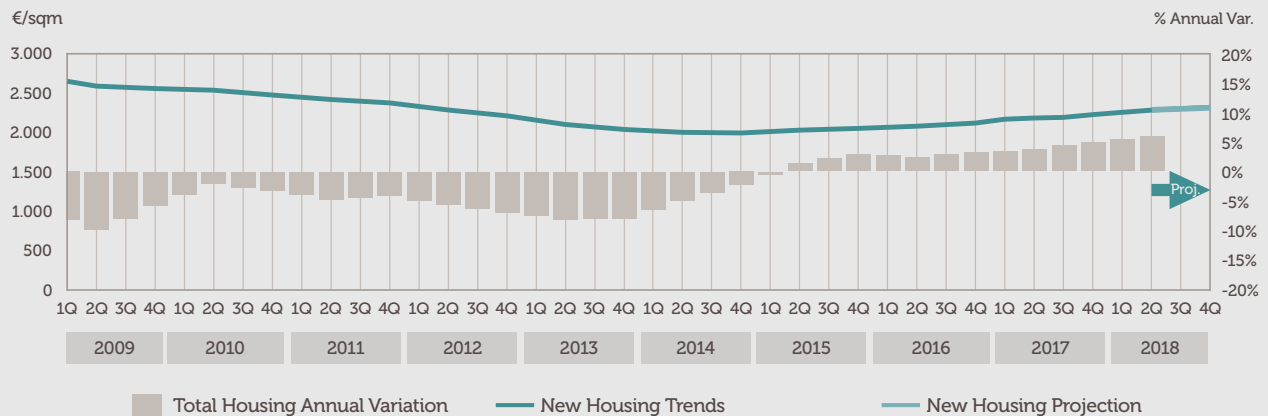
Trends

JULY 2018

PREDICTIONS

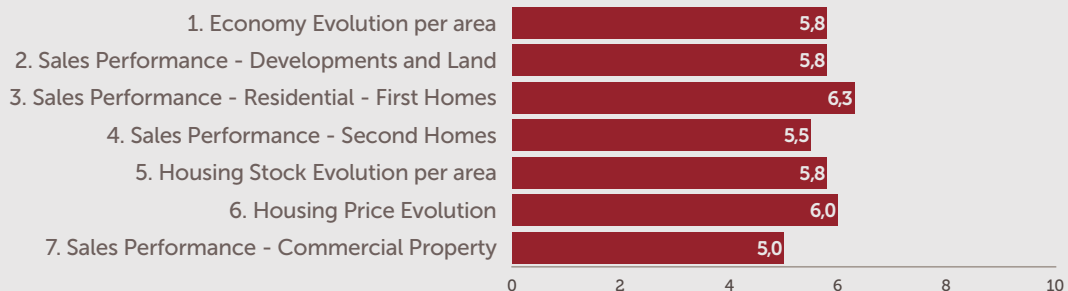
VALUE

Trends & Projections of the Housing Values



PREDICTIONS

Predictions of the Market for the Next 3 Months



CONCLUSIONS

The average price of the new housing in Spain stands at 2,284 €/sqm, and represents an increase of 2,6% since December 2017.

The annual change in prices, since June 2017, stands at 5,9% and confirms the slight increase trend already observed in previous periods.

ST Confidence Index in the evolution of the real estate sector positions at 58.85 points, nearly one point over the one registered in the previous quarter.

ST Real Estate Effort Index continues in 7.6 years of salary for the acquisition of an average house, as in the previous quarter, and 3 tenths above the one registered one year earlier.

ST Affordability Index positions at 102 points in a national level in the current quarter, a figure one point under the one observed in the second quarter of 2017. Although it remains over breakeven point, the index shows a slight decreasing trend observed also in the previous period.

Sociedad de Tasación develops a Confidence Index as a qualitative complement to the housing market studies which develops since 1985.

58,5 points over 100

JULY 2018

Real Estate Confidence Index STi

Methodological note

The result of the survey is obtained from the opinion in economic & real estate aspects of more than 700 professionals about the areas where they develop their professional activity.

Among the 700 technicians that participate in the survey we include all independent professionals (appraisers - surveyors) that usually collaborate with Sociedad de Tasación and ST quality control staff.

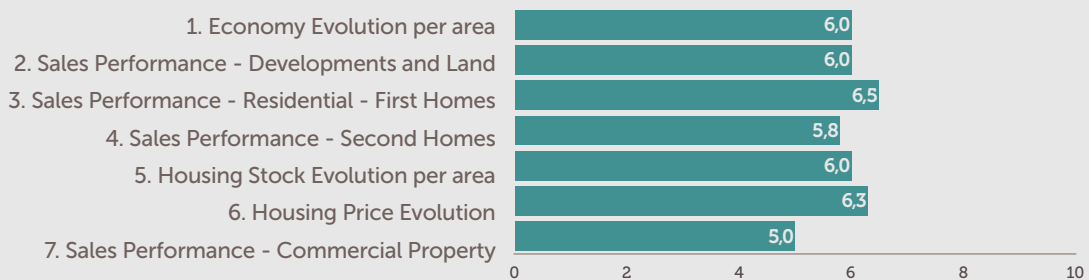
Each participant express their opinions about each of the issues by providing a score within a scale of 1 to 5, according to the following meanings:

- | | |
|----|---|
| 1º | Economy Evolution per area |
| 2º | Sales Performance - Developments and Land |
| 3º | Sales Performance - Residential - First Homes |
| 4º | Sales Performance - Second Homes |
| 5º | Housing Stock Evolution per area |
| 6º | Housing Price Evolution |
| 7º | Sales Performance - Commercial Property |

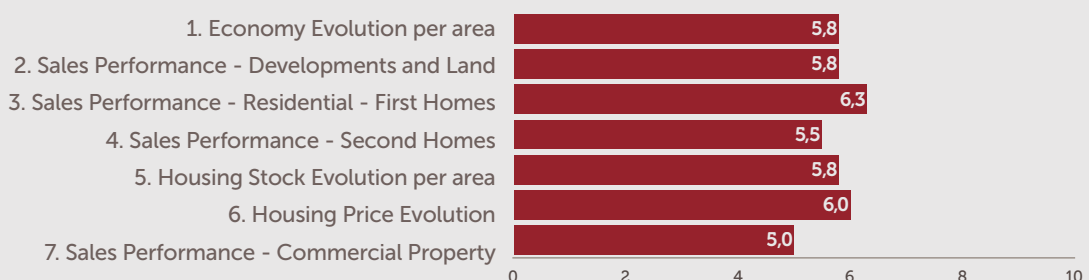
The statistical analysis of the answers of the surveys, brings the qualification of the evaluated concepts in a scale from 0-10.

The ST Real Estate Confidence Index for each quarter is the result of the mathematical combination of the overview and expectation variables.

Overview (in the Last 3 Months)

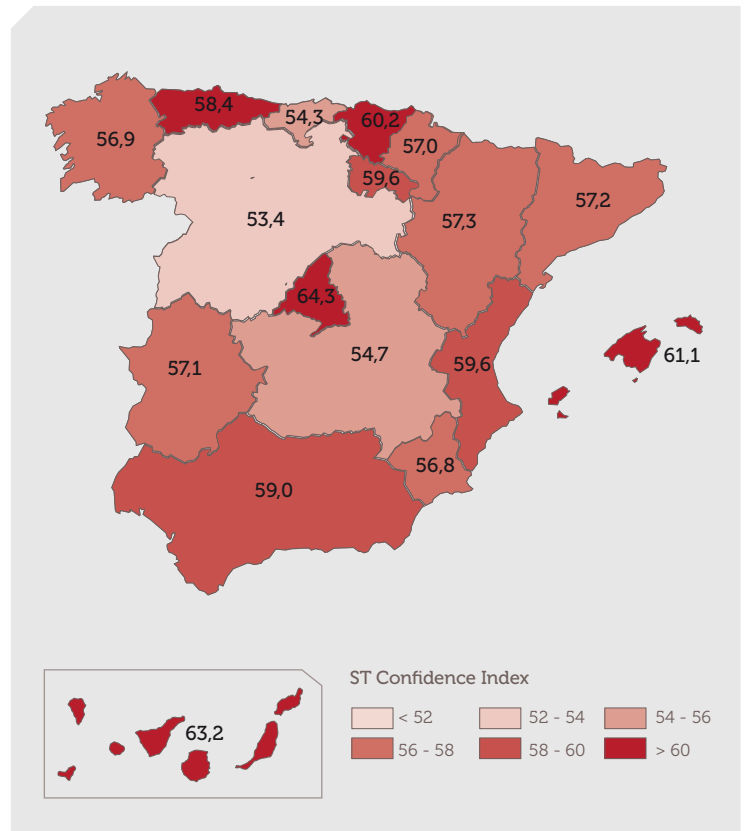


Expectation (in the Next 3 Months)



Autonomous Community Evolution

	4Q 2017	1Q 2018	2Q 2018	3Q 2018
Andalucía	57,2	57,3	57,9	59,0
Aragón	53,1	55,2	55,7	57,3
Asturias	57,9	58,7	60,1	58,4
Baleares	60,6	59,7	61,9	61,1
Canarias	59,5	60,7	62,5	63,2
Cantabria	54,2	54,4	52,4	54,3
Castilla León	52,8	52,6	53,6	53,4
Castilla La Mancha	52,0	52,7	53,3	54,7
Cataluña	58,1	56,2	56,7	57,2
Valencia	56,9	57,7	58,5	59,6
Extremadura	54,8	56,2	57,5	57,1
Galicia	53,4	54,2	56,4	56,9
Madrid	60,9	61,9	63,6	64,3
Murcia	55,2	55,3	56,2	56,8
Navarra	54,7	56,6	57,9	57,0
País Vasco	54,8	55,5	58,0	60,2
La Rioja	56,4	56,3	56,7	59,6
Total Spain	56,8	56,8	57,7	58,5



	Total Spain	Andalucía	Aragón	Asturias	Baleares	Canarias	Cantabria	Castilla León	Castilla La Mancha	Cataluña	Valencia	Extremadura	Galicia	Madrid	Región de Murcia	Navarra	País Vasco	Rioja
1. Economy trends in the area	59,8	59,0	58,9	58,6	63,0	64,1	53,1	51,7	55,7	58,5	62,2	58,7	58,3	66,3	61,0	60,9	61,7	64,4
2. Sales Trends: development sales / land sales	58,3	58,3	58,7	58,5	58,7	59,4	44,7	55,4	53,7	58,4	59,3	54,2	53,8	66,3	55,7	56,1	63,5	53,5
3. Sales trends - main residence	63,2	63,9	61,1	62,9	66,8	67,7	62,5	58,4	61,0	61,5	62,1	65,4	62,5	69,4	62,4	62,4	67,4	66,0
4. Sales trends - second residence coast, mountain	56,1	59,1	51,4	56,7	65,9	66,4	58,8	46,3	49,3	53,2	61,0	51,3	52,9	56,4	56,7	46,4	58,1	51,6
5. Housing stock trends	58,5	58,7	58,5	62,5	55,9	58,5	54,0	58,9	57,3	56,9	60,6	58,9	61,7	62,9	53,7	57,8	56,1	64,8
6. Housing prices trends	62,3	60,9	62,8	57,8	66,9	68,5	58,3	56,6	57,0	63,3	60,4	61,5	58,6	70,7	58,2	63,9	61,9	64,9
7. Sales Performance - Commercial Property	51,3	52,9	49,7	51,8	50,4	57,3	49,0	46,5	49,3	49,0	51,7	50,0	50,7	58,2	50,2	51,6	52,3	52,1

Sociedad de Tasación develops each semester a study of the new housing market, in which analyzes single dwelling residential apartments prices of the most representative populations of the national territory, including all provincial capitals.

2.284

€/Sqm average price

2,6

Nominal Var %
6 months

5,9

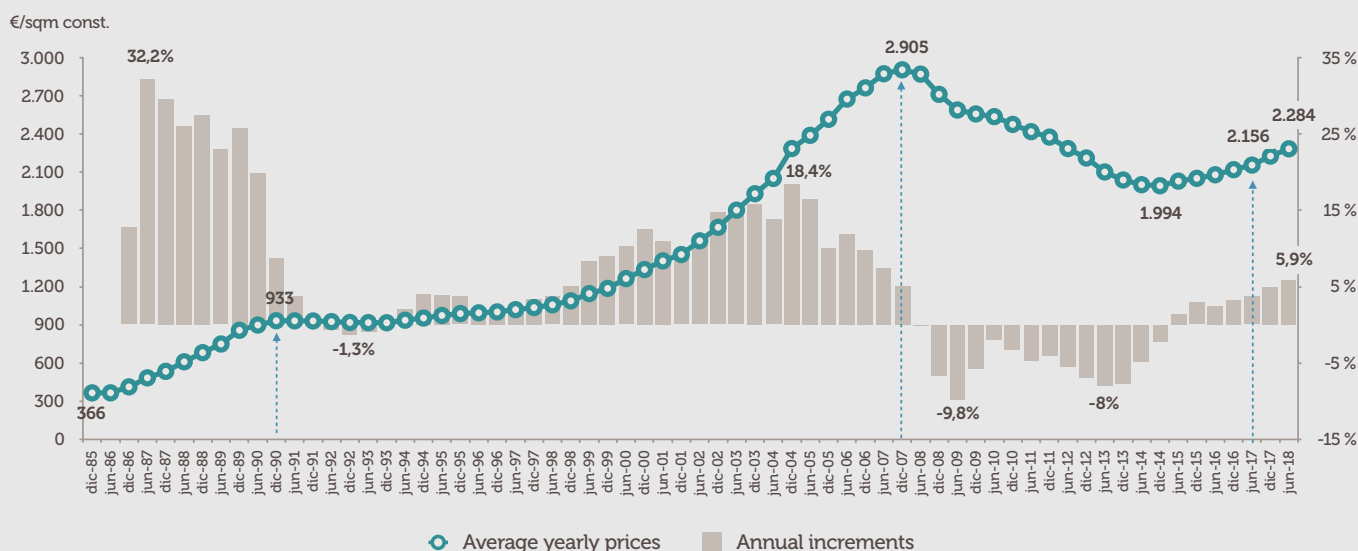
Nominal Var %
12 months

JULY 2018

Evolution of Residential Property Prices

- The **average national price in the provincial capitals** as a whole has increased by 5,9% with respect to the one reached in June 2017 (the variation since December 2017 is 2,6%).
- The average national price in the provincial capitals as a whole was 2,284€/sqm, which means 205,600 euros for an average house of 90 sqm.
- The **ST real estate index** stood at 700,6.1 at 30th June 2018, which represents a 6.2% annual increase in prices since December 1985.
- The **average price of new housing in the rest of the cities** studied that are not provincial capitals has positioned at 1,605€/sqm, which represents an increase of 2,9% compared to June 2017.
- The average price of new housing in cities with a **population of more than 100,000** that are not provincial capitals has reached 1,734€/sqm, representing a yearly variation of 3%.
- The average price of new housing in cities with a **population of more than 50,000** was 1,626€/sqm, which represents an annual variation of 4,2%.
- The average price of new housing in cities with a **population over 25,000** has been 1,512€/sqm, which represents an annual variation of 2,2%.
- The average price of new housing in the cities analyzed with a **population under 25,000** stood at 1,494€/sqm, which represents an annual variation of 1,6%.

Price Evolution and Annual Increments



Trend

The level of production of new housing (data of visas for new developments provided by the Ministry of Public Works) continues the growing trend detected in the immediate previous semesters. Although it is still far below what is considered adequate to the needs of the population, the maintenance of the growing rate can be considered as a positive symptom in the recovery of the sector in comparison with the lower rates recorded five years ago.

Madrid and Barcelona are still the engines of price recovery, keeping the rest of the municipalities at a certain distance. Some capital cities are registering in this semester more important growths than in previous semesters (Palma de Mallorca (5,3%) Granada (4,4%) and Zaragoza (4,6%) Also it is interesting to highlight that from the 50 Spanish capital cities, last year, only 4 showed growths above 3%. Six months ago there were already 10 and now we can observe 15 capital cities above that figure. In a similar scenario, last year we had 15 capital cities with a growth of under 1%, 6 months ago we had 12 and nowadays we have only 10.

According to data from the Ministry of Public Works, the total volume of housing transactions recorded during the first 3 months of 2018 is 8% higher than in the first quarter of 2017. However, if we evaluate the information precisely we can observe that transactions in new homes remain stable since two years ago and the growth in transactions is achieved due to existing homes.

In absolute terms, during the first quarter of 2018, second hand homes transactions multiplied by 11 transactions in existing homes (123.000 and 11.000 respectively).

Mortgage operations on housing in the three months of the year (84,000) have increased compared to the same period last year (79,600), but they are still below the global level of transactions (135,000 and 125,000 respectively).

The supply of housing units held by financial institutions has been considerably reduced, although in those cases prices are still similar to those offered by other professionals in the sector.

The number of homes less than 5 years old, offered directly by individuals, has been reduced, with prices that are very different (upwards or downwards) from those offered by professionals.

In the towns with the highest level of increases, there is a reduction in the purchases made by private individuals for their own use, in benefit of the operations done by national or foreign investors, in many cases for rental purposes.

We can observe the appearance of some new large developers focused in the residential market whose equity comes mainly from large investment funds (often international).

Forecast

The market will continue the recovery trend begun just over two years ago, although it still has a relatively long route ahead to reach the desirable cruising speed. Many factors will contribute to this:

Good profitability provided by the rental market in comparison with other financial products with a similar level of risk.

The corrections in the growth prediction of GDP it is not enough to change the positive trend of the sector.

The positive evolution of employment levels.

The growing interest of new market agents in the residential sector, while recently their activity was focused in other type of real estate assets.

The foreseeable entry into the stock market of the most representative developers, mostly in the hands of large investor groups.

In any case, there are some elements of uncertainty that may affect the development of the sector:

There is still a large part of the population to which the positive macroeconomic factors are not being transferred.

Changes in the taxation of rental housing, which some autonomous communities and municipalities are studying are exploring or have already adopted, and the impact that this may have in transactions.

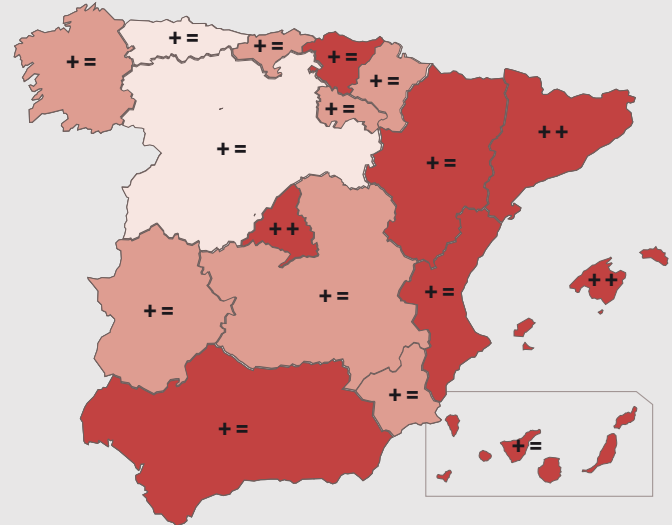
The problem of the shortage of urban land is unsolved in areas with high demand. This factor is putting pressure over the prices of this land. There are no changes expected in this aspect

No shortor medium-term changes are expected in the current market growth model, which, with some exceptions, is more focused in the volume of transactions than on the increase in prices.

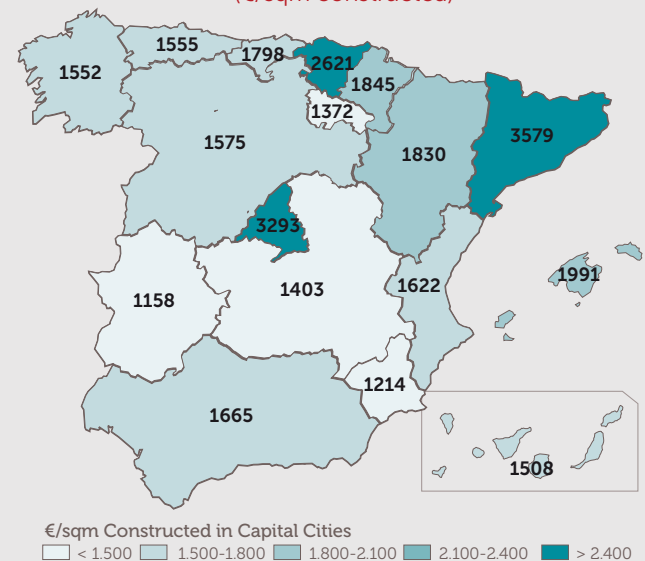
Although there are isolated submarkets clearly identified by characteristics and territorial extension, where phenomena of speculative nature occur that would be convenient to correct, it is not foreseen that this situation will be generalized to the rest of the national territory.

If the current macroeconomic conditions remain, it is unlikely that the upward cycle started almost two years ago will be reversed unless macroeconomic or geopolitical important factors affect the current situation. Prices will remain growth although the slope of growth will probably be soft in most cases.

Average Prices in the Main Capital Cities



Average Prices in the Main Capital Cities (€/sqm constructed)



Conclusion

The price of housing continues the growth trend initiated in 2015.

The recovery of the sector has been consolidated, given that some of the factors that affect it have evolved favorably in the last semesters:

- Significant increase in the number of transactions.
- Generalized rise in prices, although mostly discrete.
- Off plan sales before the start of the works.
- Improvement in the conditions for obtaining mortgage credit and in the most common application types.
- Favorable evolution of the volume of employment, although wage limitations decrease the access to the real estate market.
- Consolidation in the positive evolution of the economy, with high and sustained growth rates.
- Sustained growth of the rental market (in some cases with medium-term purchase option), especially in the segment of the youngest population.

Sociedad de Tasación estimates the investment needed, in terms of years of salary, to buy a property in Spain.

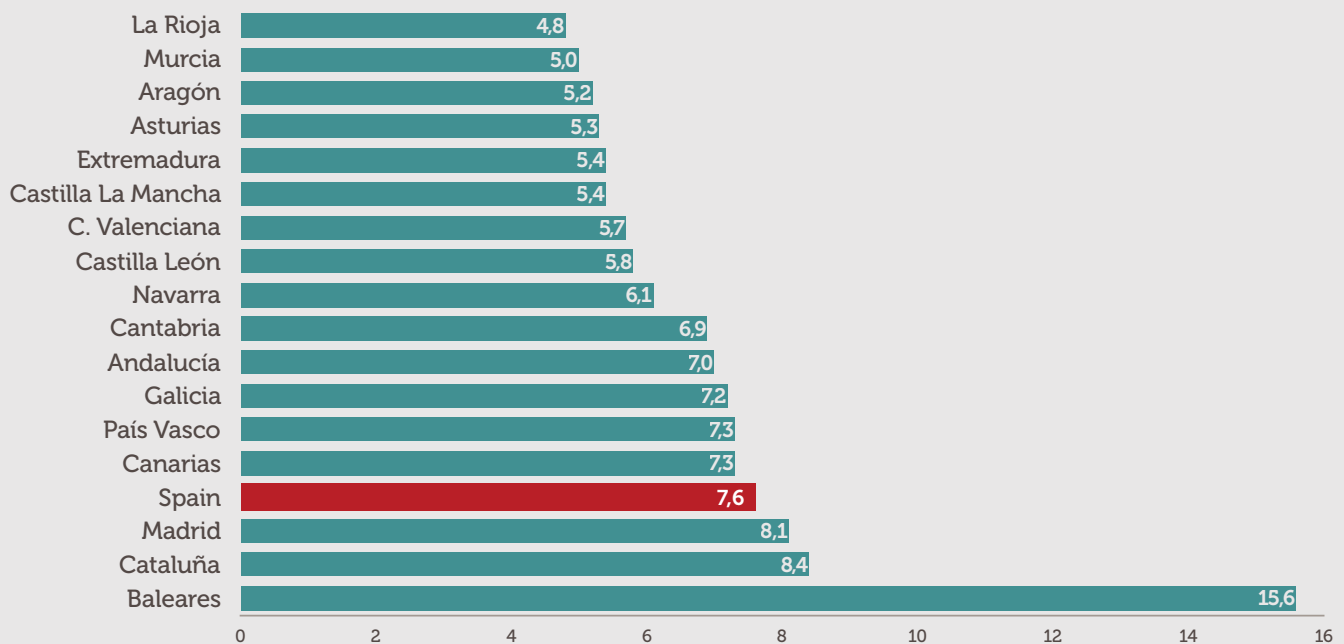
The Real Estate Effort Index is defined as the number of years that an average citizen needs to buy an average property according to the full salary perceived.

The Index is calculated regionally according to property market values and the average level of gross revenues obtained published by the INE (Spanish Statistics Institute) in its annual survey of salary structure in Spain.

JULY 2018

Real Estate Effort Index

Regional Effort

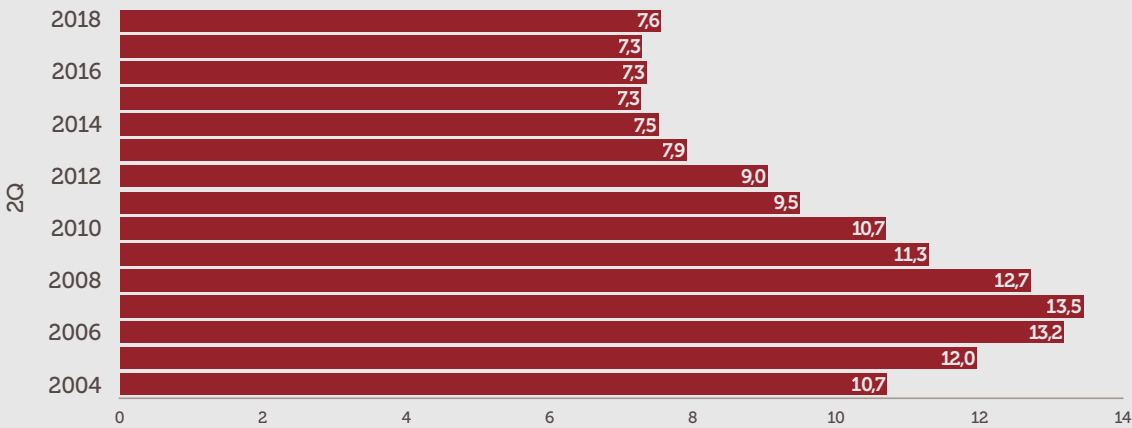


Historic Evolution Autonomous Community

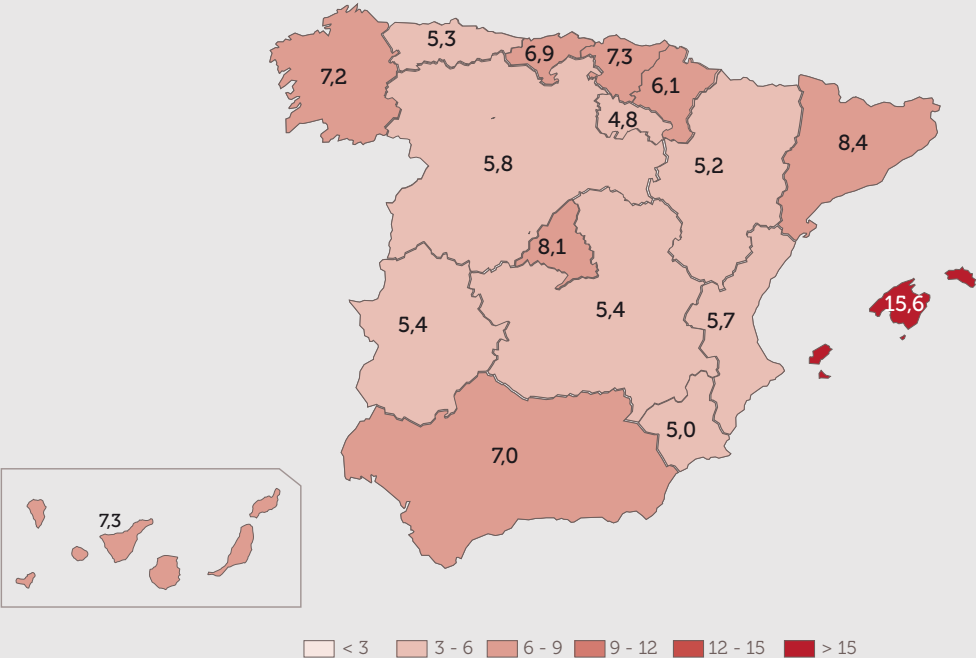
	Maximum	2Q 2016	2Q 2017	2Q 2018
Andalucía	13,0	6,7	6,7	7,0
Aragón	10,1	5,4	5,3	5,2
Asturias	9,5	6,0	5,5	5,3
Baleares	23,5	14,8	15,1	15,6
Canarias	13,0	7,3	7,3	7,3
Cantabria	13,3	8,3	7,4	6,9
Castilla León	11,0	6,2	5,9	5,8
Castilla La Mancha	11,7	5,6	5,4	5,4
Cataluña	15,7	8,1	8,2	8,4

	Maximum	2Q 2016	2Q 2017	2Q 2018
C. Valenciana	11,8	5,7	5,5	5,7
Extremadura	10,1	5,7	5,2	5,4
Galicia	11,1	7,5	7,3	7,2
Madrid	14,9	8,5	8,0	8,1
Murcia	12,1	5,0	4,9	5,0
Navarra	11,2	6,9	6,0	6,1
País Vasco	15,0	8,4	7,6	7,3
La Rioja	11,0	5,3	4,8	4,8
Spain	13,7	7,3	7,3	7,6

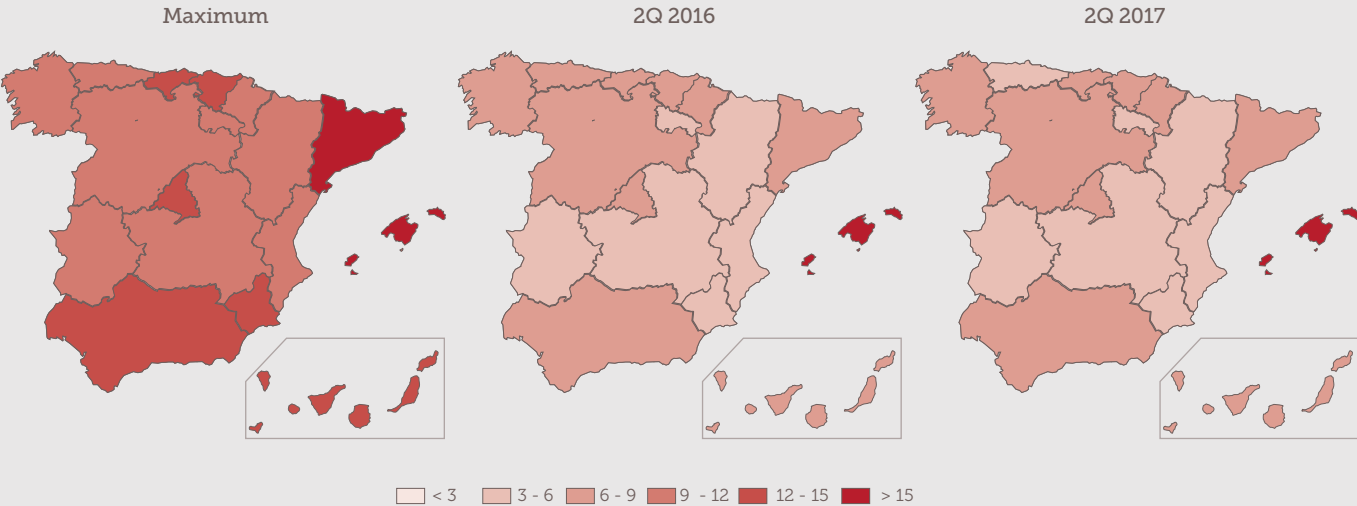
Historic National Evolution



Regional Comparison Map 2Q 2018



Evolution Maps in Previous Periods



Sociedad de Tasación evaluates the possibility of purchasing a standard home through the loan capability of a family with an average income.

The affordability index estimates the relation between the purchasing power of an average citizen, and the one theoretically needed for the acquisition of a property, taking as a base the gross income published by the INE (Spanish Statistics Institute) in its yearly survey about salary structure, from which it is obtained the maximum part of the salary which can be allocated to a mortgage once the applicable IRPF and Social Security taxes are deducted from the salary.

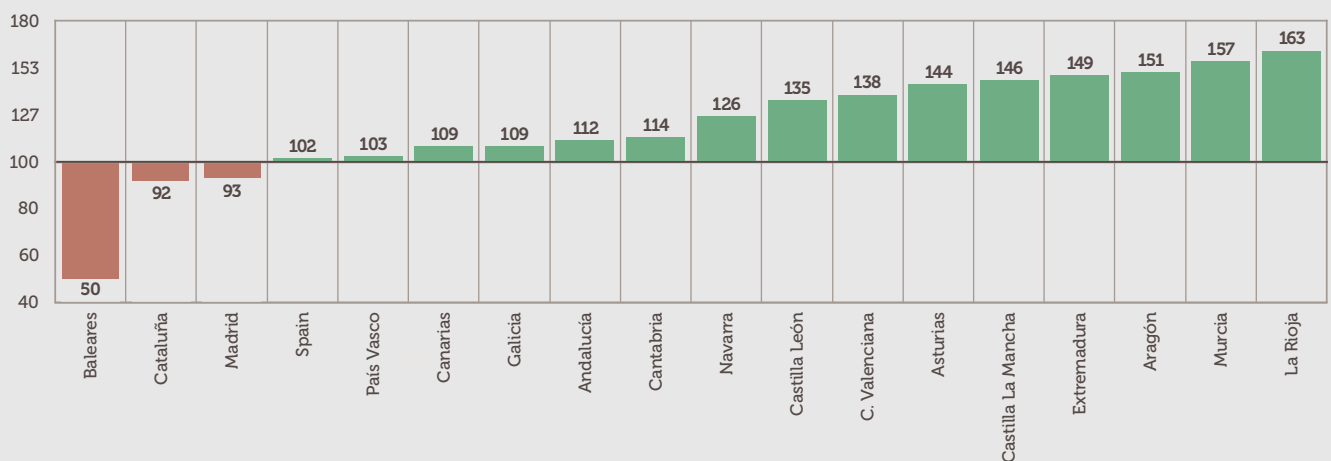
The resulting fee is subject to different mortgage calculation hypothesis, through which the comparison between the real salary published by the INE and the one theoretically needed to buy a home is obtained, according to the market analysis of the area evaluated. The result which base is 100 allows to measure the distance between the real salaries and the theoretical ones which would be the needed ones to acquire a standard home.

102 national index

JULY 2018

Affordability Index

Affordability Index by Autonomous Community

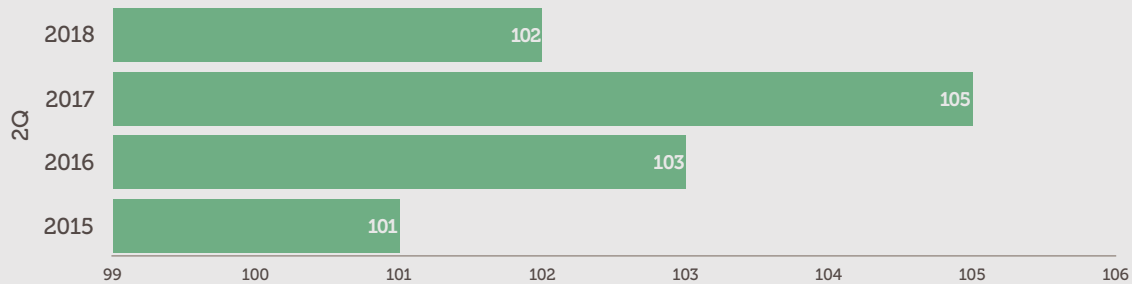


Historic Evolution by Autonomous Community

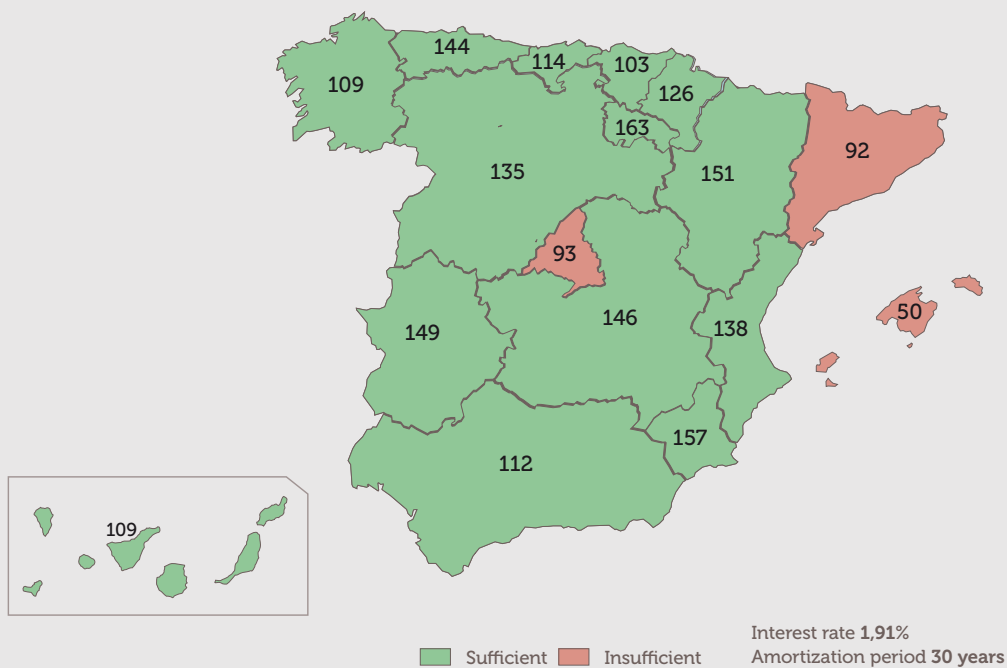
	2Q 2015	2Q 2016	2Q 2017	2Q 2018
Andalucía	104	108	118	112
Aragón	130	135	145	151
Asturias	110	119	136	144
Baleares	48	55	53	50
Canarias	102	109	108	109
Cantabria	87	93	101	114
Castilla León	118	114	128	135
Castilla La Mancha	138	140	152	146
Cataluña	95	95	92	92

	2Q 2015	2Q 2016	2Q 2017	2Q 2018
C. Valenciana	128	126	143	138
Extremadura	129	127	151	149
Galicia	94	99	108	109
Madrid	81	89	93	93
Murcia	143	140	159	157
Navarra	99	99	127	126
País Vasco	84	80	101	103
La Rioja	125	136	161	163
Spain	101	103	105	102

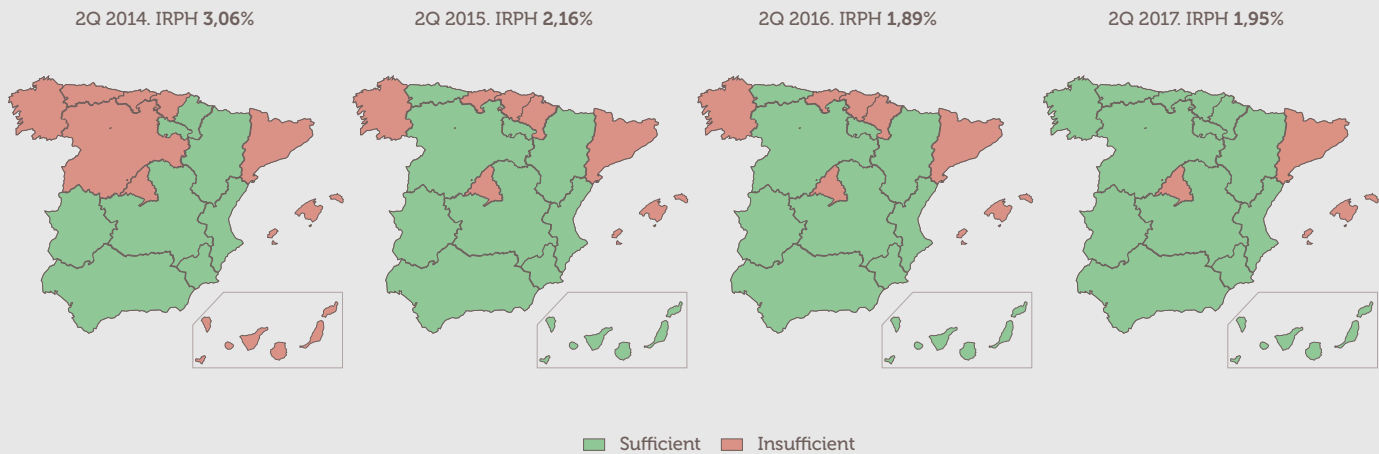
National Historic Evolution



Territory Comparative Map 2Q 2018



Previous Periods Evolution Maps



urbanData Analytics performs an analysis of the residential market to predict trends and highlight provinces which are behaving appropriately for investment purposes.



The gross rent yield at the national level has **increased by 6.39%** since the second quarter of last year. However, on a quarter-on-quarter evolution we observe that it fell more than half a point between the first and the second quarter of 2018. Among the provinces that

achieved the greatest evolution in profitability are **Granada** and **Seville** while Barcelona recorded a negative variation. The safest areas for investment with rental destination are still **Madrid** and **Barcelona** as well as Granada.

7,56%

Gross profitability for rent
National average

6,39% ↑

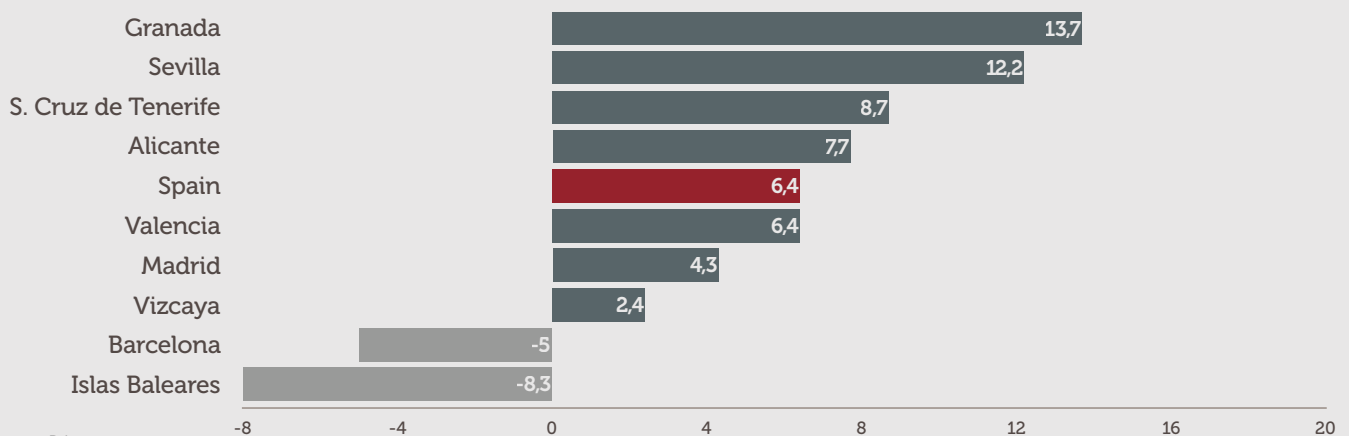
Variation of rental profitability
National average

*2Q-2018

JULY 2018*

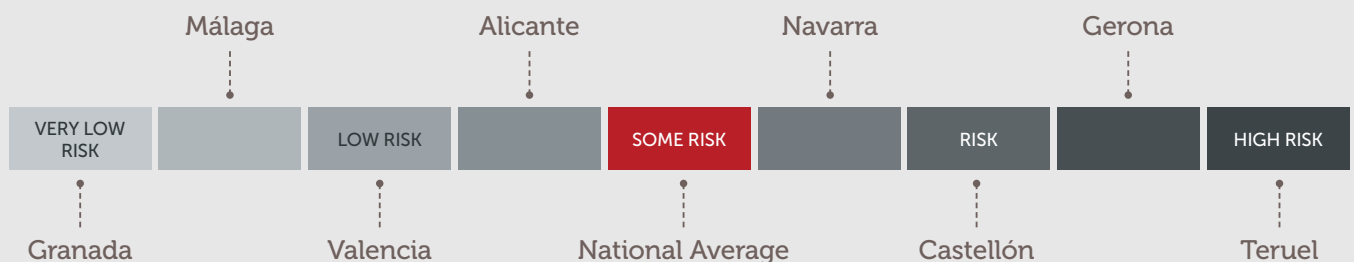
Evolution of gross rental income

Variation between the current gross profitability and that of the same period of the previous year.



Real Estate Risk

A precise tracking of the offer and demand of the real estate market allows to identify which are the provinces with highest and lower investment risk.



Gross rental profitability at a provincial level

We highlight a selection of suitable typologies for investment for rental market. Housing of less than **70 sqm in Valencia** register a profitability almost 3 points above the average of their province (7.61%).

Typologies in Madrid and Barcelona observe very heterogeneous variations, small areas record a negative year on year variation while the largest observe **10% increase in rental profitability**.

Recommended typology

55 m² en SALAMANCA (prov.)

7,1 %
Profitability

11,3 % ↑
Variation

VERY LOW
Risk

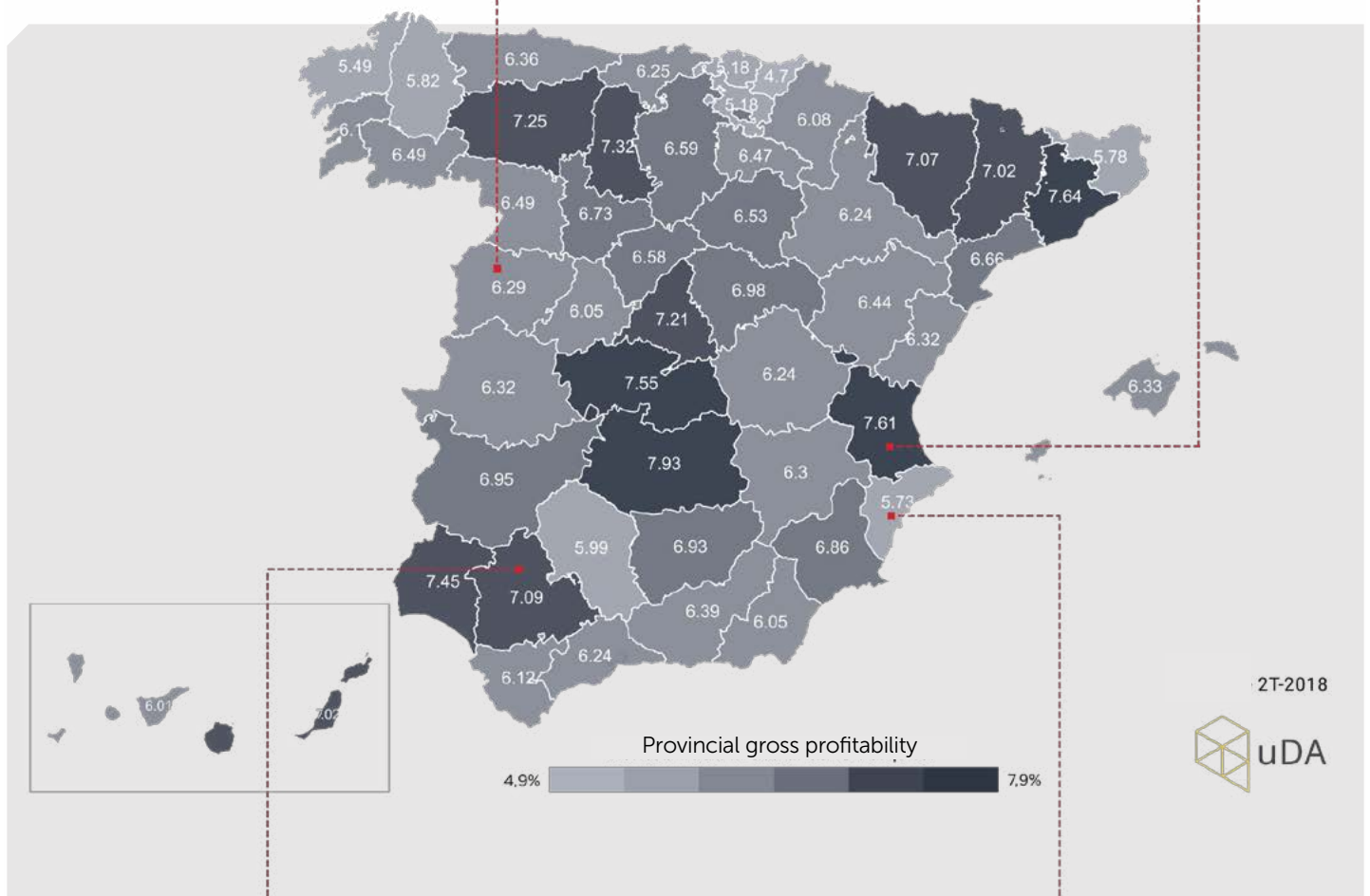
Recommended typology

55 m² en VALENCIA (prov.)

10 %
Profitability

8,9 % ↑
Variation

VERY LOW
Risk



85 m² en SEVILLA (prov.)

7,3 %
Profitability

12,2 % ↑
Variation

VERY LOW
Risk

55 m² en ALICANTE (prov.)

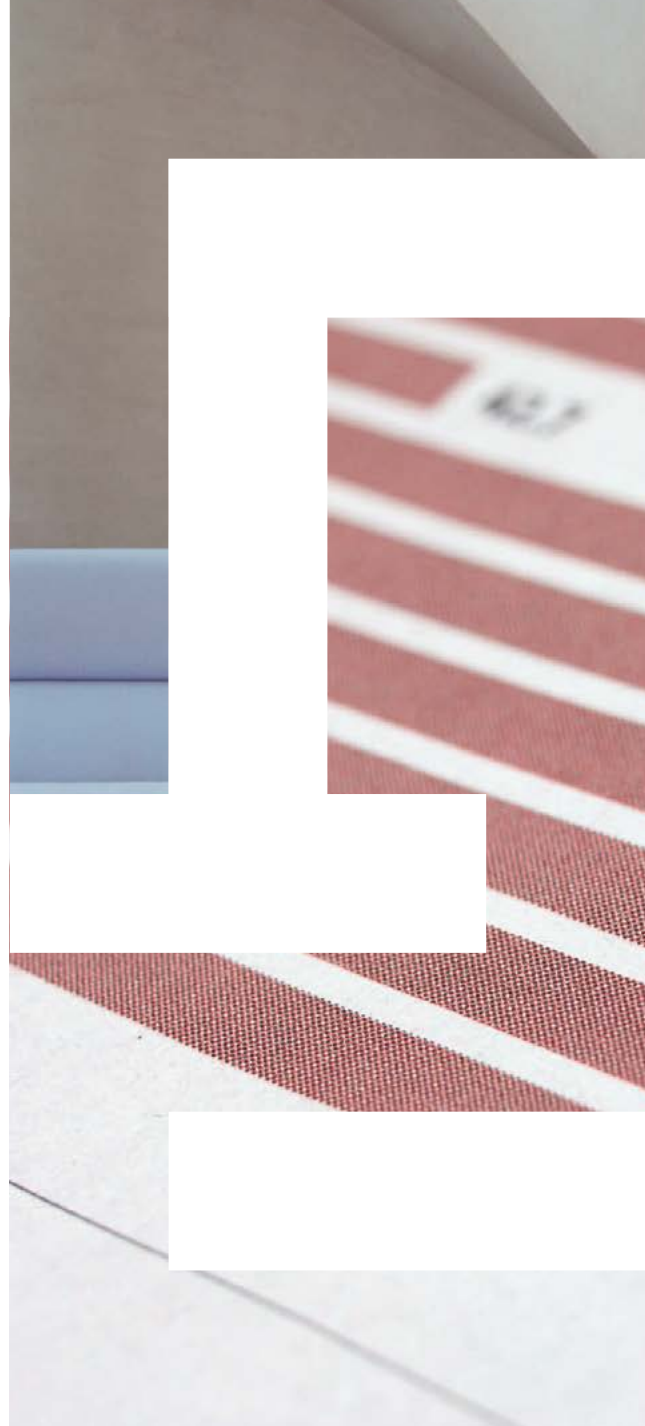
7 %
Profitability

9,8 % ↑
Variation

LOW
Risk

Recommended typology

Recommended typology



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