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Property Market Update: Luxury Property Mallorca

Owners who need to sell properties may have to resign themselves to lower prices – though some could benefit from a weak Pound Sterling, says Peter Cluskey.

What price is luxury? That's the question both buyers and sellers of property in Mallorca are going to have to decide in the next few months. Sellers are holding out for the market to improve. Buyers are sitting still, watching as prices continue to fall. It's a battle of nerves.

Governments around the world have taken desperate measures to restore confidence in the war-torn banking system, the financial markets and the real-estate industry. But even so there's little optimism that 2009 will see any improvement in consumer confidence. The prospect of recession has created a bunker mentality.

So for those who need to sell as quickly as possible, it's time to get real and resign themselves to bringing their asking prices down. They say April is "the cruellest month" – and when the property market opens this Easter, that could once again be proved right.
"There's no doubt about it, property owners need to be realistic if they wish to sell in the current climate", Michael Cunnington of estate agents, MJC Associates, who work in association with Savills, told abcMallorca.

"Although it's probably less true in Mallorca than in other parts of the world, what was a sensible price three months ago is likely to have been on the high side at the time – so that today it probably looks way over the top.

"Of course there are many owners who can afford to wait it out until property prices are restored to their former glory. But the reality is that those who are keen to sell should take a deep breath and sharpen their pencils …"

Cunnington is right. You only have to cast an eye over the market on the Spanish mainland to see the extent of the crisis. For instance, the latest property developer to go to the financial wall is Metrovacesa, which, ironically, is being bailed out by the banks.

It has secured a debt-for-equity agreement which will see its creditor banks – among them Santander, BBVA, Caja Madrid, La Caixa, Banco Popular and Banco Popular Espanol – take a 54.75 percent stake in the business to settle a debt of €2.1 billion. Each of those banks has also undertaken to then buy a further 1.78 percent from other unhappy shareholders, bringing their total holdings to 65.4 percent.

Metrovacesa was not just important in Spanish terms. It was once the biggest developers in the eurozone, with assets across the EU worth some € 12 billion. Yet this is what it's come to: before Christmas it sold its largest single asset, the 45-story Canary Wharf headquarters of HSBC in London, back to the bank for £838 million – roughly £250 million less than it bought it for.

"The banks had no choice but to become shareholders to prevent the company's largest investors seeking protection from creditors", observes Juan José Figares, Chief Analyst at Link Securities in Madrid. "They would have created very major problems for Metrovacesa."

Yet there's not much sympathy at the top for troubled developers such as Metrovacesa, who've been given the cold shoulder in comments by Economy Minister, Pedro Solbes.

"We are all aware that we experienced a period of bonanza, perhaps even excess, in the construction sector – and now we are experiencing a return to normality", he declared.

"Companies made a bet – not in bad faith – that things would continue to move in the same direction, and so they took financial risks. As a result, we're seeing difficult situations arising …"

Yet amid all the gloom there's also cause for optimism, argues Michael Cunnington, who points out that the American and European governments and the US Federal Reserve and the European Central Bank have already taken substantial steps to support the international banking system and reassure depositors. "These measures will obviously not filter through with much effect for some months – but nevertheless they are positive moves."

He also points out that there is already something of a bright side for property-owners selling in euros and planning to repatriate the funds to a sterling area. "In that case the fall in the value of the pound against the euro has already made a profit for you, so you should take this into account in your pricing", he advises.

"Not so long ago, a property priced at €1 million was returning £680,000 – today that return will be more than £850,000. That's a cool increase of £170,000, not bad in the current climate."

Of course, luxury costs – and luxury properties are one thing there's no shortage of in Mallorca.

You only have to take a look at the largest database of properties on the island, at www.abc-property.com, to see the extraordinary range of multi-million-euro palaces in which you can live a life of unabashed indulgence - if you're among the handfull of buyers lucky enough to be "liquid" in the current economic climate.

The ABC treasure trove has no fewer than 2,032 properties on the market in the €1 million-plus bracket, 137 at €5 million-plus, and some 23 at €10 million-plus - a remarkable illustration of the type of high-end property market Mallorca has become.

One of the most dramatic mansions for sale at the moment is the quite-spectacular Asian-inspired masterpiece, Zen Vida, which has panoramic views over the ocean at Son Vida. On the books at MJC Associates, it's price on application (POA) - though if you don't have in the region of a cool €15-20 million in your pocket, you could be disappointed.

To describe this as an 800-square-metre five-bedroom front-line villa would be seriously understate the uniqueness of this property, which melds the calm of granite and marble throughout with, to give just one example, an eleborate home office feauring all the latest communications technology. On top of which it's south-facing, is just a few minutes drive from two five-star hotels, and has 24-hour security.

Zen Vida has already attracted hundreds of website hits and has generated more than 900 genuine enquiries, though "some admittedly for lesser-value properties", says Michael Cunnington of MJC. Still though, it gives us all a message hope for 2009 - the luxury market is alive and kicking!

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