Residential Market Report | Q1 2023

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With its proprietary data, CASAFARI is uniquely positioned to observe the key property market trends across Europe and particularly its principal cities. In this brief snapshot, we note some notable observations of the secondary residential market, using the 0-3 bed asking prices of used apartment sector as a proxy, as it tends to be the most liquid sub sector of the market.

Snapshot as of March-23

	# Sale listings	# Rent listings	Avg. Sale Asking Price	Avg. Rent Price	Gross Yield
Madrid	22,024	15,619	4,062€/sqm	17€/sqm	4.9%
Barcelona	11,786	8,398	4,120€/sqm	22€/sqm	6.5%
Paris	19,861	7,017	12,707€/sqm	41€/sqm	3.8%
Milan	13,237	5,387	4,969€/sqm	23€/sqm	5.5%
Lisbon	12,346	2,630	5,149€/sqm	23€/sqm	5.3%

Source: Casafari data extraction 15 Mar. 23

There are good reasons to be cautiously optimistic. The 2023 economy began generally pessimistic and the real estate market was no exception. Many funds and sophisticated investors have adopted a "wait-and-see" approach, however, after the three months of the year, there are signs that the worries for Eurozone economy are not as severe as initially anticipated. Nevertheless, recent US and European banking crisis have renewed wider contagion concerns. Unemployment remains under control and economic growth prospects are improving, but inflation continues to be a significant concern particularly in Europe. The European Commission forecasts a 2023 growth rate of +1.0%, with Spain expected to grow by +1.4%, Portugal +1.0%, Italy +0.8% and France +0.6%. In the US, the Fed continues to be focused on its top priority to tame inflation and has again raised interest rates by 25 bps in March.

Despite this environment, demand for housing remains very strong in the studied cities. In Spain, the Institute of National Statistics (INE) reported that residential sales increased +30.0% between Dec-22 and Jan-23 (+6.6% YoY*), indicating strong buyer confidence and a robust market. While Western European countries like Germany and The Netherlands are seeing softening resi sale prices, that has not trickled down south, where general prices are stable and continue to grow modestly.

*Year over Year

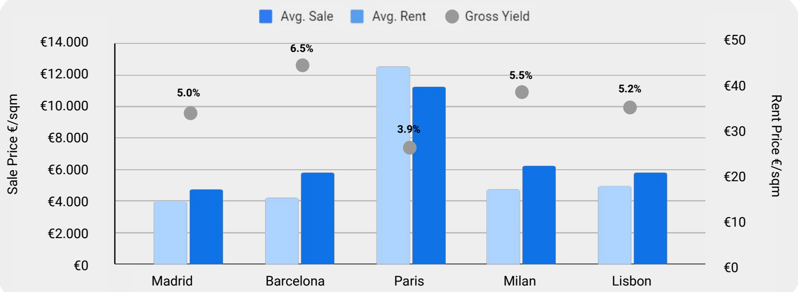
Prices keep growing for sale & for rent. During the TTM*, sale prices in these five cities have increased +5.2% on average. The only city which witnessed a price decrease is Paris at -0.3% whilst the biggest increase is in Lisbon with a +9.8% uptick. In Q1, all these cities experienced growing sale prices, on average 1.1% with Lisbon again leading the pack up +3.4%, with Barcelona being relatively flat, up by +0.1%. While there are no citywide price decreases, some less desired neighbourhoods, saw slight decreases.

Similar to for-sale price trends, the rental market has remained relatively stable growing on average 1.0% QoQ** but up +18.3% YoY in these cities. The average price per sqm for rent increased across the board during the last quarter, except in Madrid, where prices decreased -6.7%, but is still up YoY at +6.4%. The strongest growth trajectory is in Lisbon where rents have increased +5.3% QoQ and an astounding +40.2% YoY. Barcelona and Milan reached similar YoY growth of +22.4% and +21.5% respectively. These trends clearly point to a supply crunch and the continued desirability of city living.

Against high interest rate backdrop, yields are expanding. TTM residential yields in the selected cities expanded on average +12.3%, driven by a stronger increase in rent prices (+18.3% YoY) vs sale prices (+5.2% YoY). Lisbon saw an impressive expansion of +27.7%, while Barcelona Yields expanded by +19.3%. This can be attributed to soaring rent prices as a result of supply shortage and increasing demand. However, Madrid was the only city to experience a decrease in average Yields TTM by -2.4%, due to the faster growth rate on the sale prices (+9.0% YoY) vs rent prices (+6.4% YoY). Over the long term yields are evidently increasing. However QoQ, yields demonstrated an average decrease of -0.3%, with Madrid declining the greatest at -8.2%, and Milan growing +3.6%.

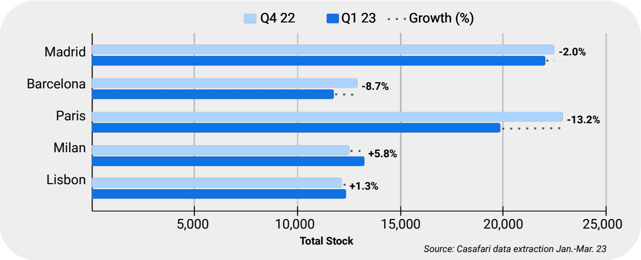
*Trailing Twelve Months
**Quarter over Quarter

Average Rent / Sale Price Q4 2022

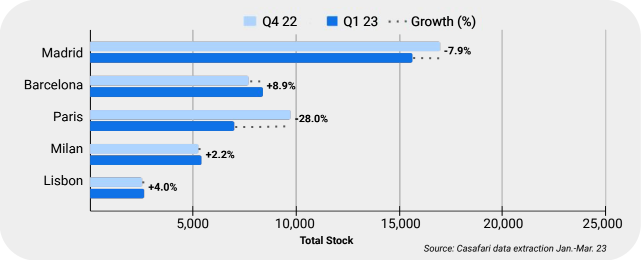


Source: Casafari data extraction Jan.-Mar. 23

QoQ Sale Stock Comparison Q4 2022 - Q1 2023



QoQ Rent Stock Comparison Q4 2022 - Q1 2023



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The for-sale supply contracted in the first months of 2023. In the Q4-22 report we mentioned that for-sale supply increased and that rental housing decreased in 2022 compared to 2021. By the end of Q1-23, the number of for-sale properties in the studied cities decreased by -0.2% YoY. Specifically, in Barcelona and Madrid the number of for-sale properties dropped -16.6% and -11.6% respectively during the TTM. This trend continued in the QoQ comparison, with the number of properties in these two cities decreasing by -2.0% and -8.7% respectively. In Paris, this is even more pronounced where stock shrunk by -13.2%. In contrast, Milan and Lisbon witnessed an increase in for-sale stock during the last first quarter, with growth rates of +5.8% and +1.3% respectively.

The for-rent supply continues to be constrained in the first months of 2023. Rental housing supply has experienced a significant contraction during the TTM, decreasing by -38.1% on average. Among the cities studied, Milan led the rental supply contraction trend with a decline of -51.3%, followed by Lisbon and Madrid with contractions of -47.2% and -26.0% respectively. The decreasing rental stock trend continued in the first quarter of 2023, with an average QoQ reduction of -4.2% across the five cities. Paris experienced the largest decline in rental listings, with a cutback of -28.0%, followed by Madrid with a decrease of -7.9%. In contrast, Barcelona added +8.9% to its rental stock and Lisbon did the same increasing the rental properties +3.99%.

"Given the prevailing high interest rates, many investors are pursuing yield maximisation strategies within the real estate market. Simultaneously, there are others with long-term investment horizons in mind who continue to adopt a conservative approach, who prefer to hold low-risk tangible assets as a safe haven from traditional banking instruments, financial products, or stocks."

Gianluigi Nigro, Vice President Investments at Casafari Asset Management.

We anticipate delivering our forthcoming report in July 2023, which will provide insightful and relevant information of the European residential real estate markets at the end of Q2 2023 for those interested in seeking in-depth insights into this market.

Want to know more? Visit our webpage https://www.casafari.com/portfolio-solutions/ or contact us:

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OUR METHODOLOGY: We reserve the right to continuously update and improve our algorithms which can have retrospective impact on historical listing data. 1. Our inhouse artificial intelligence and machine learning algorithms, allowed us to unify redundant duplicate listings (the same offers of the same apartment), in order to have a clear view on the unique properties that enter or leave the market. Only unique (unified) properties were considered for this analysis. 2. We analyzed the asking price for unique properties and calculated: Price per square meter for each location and number of bedrooms. 3. Properties considered for analysis were residential apartments (e.g. studios, duplex, flats, penthouses) with 0 to 3 bedrooms. No new developments were included in this analysis. 4. Locations considered for analysis were Madrid Ciudad, Barcelona Ciudad, Paris Département, Milano Comune and Lisbon Concelho. 5. We analyzed data from January 2021 to December 2022. 6. We calculated "price per sq.m." using "price/Built area", if available, otherwise "price/living area". 7. For this analysis, outliers in prices were identified separately for each location. Data points below the 5th and above the 95th percentile were removed from the dataset. However, a separate analysis with outliers showed little to no impact on the interpretation of the end result.