20 Ocean Village Promenade
Gibraltar
GX11 1AA

Gibraltar
Residential Market

2018

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ROCK SOLID INVESTMENT OPPORTUNITY

Property investment in Gibraltar has shown year on year growth consistently since the turn of the century, an enviable statistic for property owners.

There has been no boom and no bust. Slow steady sure year on year price growth is the hallmark of the property market, underpinned by rising demand across the price spectrum.

Before examining why this is the case, let's look at the basics.

THE BASICS

Land tenure in Gibraltar follows UK principles with leasehold property being the normal basis for ownership (the ultimate owner of the land being the UK Crown). Leases tend to start at 150 years with minimal ground rents being payable to government. This is also the case for Eurocity. Property law is also broadly based on the UK system.

Gibraltar has two residential property markets: i) government owned and / or funded (local market) where purchase and occupancy eligibility is restricted in line with the government's social housing policy and ii) privately owned and / or funded (open market) where there are no restrictions on foreign nationals purchasing property in Gibraltar.

The open market properties trade at significantly higher prices (up to 100% on a like for like basis) than the local market due to the lack of restrictive usage clauses. The open market provides a greater choice and generally higher quality specifications and amenities (for example communal pools).

EuroCity is an open market development allowing anyone to purchase a unit.

We estimate that there are some 13,000 residential units in Gibraltar of which around one half are in the open market.

ECONOMIC GROWTH UNDERPINNING DEMAND

In 2002 there were 14,000 jobs in Gibraltar. Today, the number of jobs is some 27,500, a near doubling in employment levels in sixteen years. Gaming, insurance, financial services and now fintech / crypto have driven and continue to drive this growth.

In the same period the population has grown from 28,500 to 33,500, an increase of 5,000.

A significant number of jobs are fulfilled by non-Gibraltarian workers who are effectively forced to live in Spain due to the scarcity of available property in Gibraltar. Some 13,000 workers cross the border with Spain each day to work in Gibraltar. It is generally accepted that a large proportion of these workers would live in Gibraltar if there was suitable property and/or more affordable property.

Also in the same period, the economy has grown from a GDP of £507m to £1.8bn.

The growth in demand for property, year on year in the last decade, is a direct result of Gibraltar's successful economy which has grown every year since the turn of the century.

WHY NO BOOM AND BUST?

Geographically Gibraltar's housing market is closest to Spain whilst economically it is closest to the UK. Both of these markets have faced a 'boom and bust' since the year 2000. But Gibraltar hasn't. Why?

A property boom is usually fuelled by cheap debt flowing to developers who build speculatively, perhaps selling a small percentage of the development prior to start of construction and with deposits of just 10% from purchasers. Too many properties are built and there is insufficient demand on completion. Prices fall. Purchasers walk away without completing.

In Gibraltar, there has never been a flow of cheap debt. Just two banks have traditionally funded property development and it is the norm for banks to request a high level of pre-sales before making funding available. Furthermore, developers tend to request 25% - 30% purchase deposits during the build process which deters the riskier speculators with minimal funds.

As a result, the developments which get off the ground are well funded and predominantly pre-purchased by committed purchasers with capital. Thus historically the financing structure has created a natural brake on a boom and a prevention of a bust.

RETURNS

Investors are typically achieving gross yields of 5.5% - 6.25% in the core buy to let market. Higher yields will be achieved on riskier properties or those requiring refurbishment. Lower yields generally attach to above £1m properties which are outside the mainstream buy to let market. Costs of ownership and letting fees reduce the gross yield by c 1% so net yields of 4.5% - 5.25% are typical.

Capital growth has been achieving 2% - 5% per annum for the last ten years.

Hence property investment in Gibraltar has rewarded investors well.

If the rate of job growth continues at c 250–500 per annum, which is quite possible, then these new employees (and their families where relevant), most of whom will come from outside of Gibraltar, will also have to live somewhere.

Mike Nicholls FCA
Managing Director, Chestertons