20 YEARS

BMI GROUP
ESTATE AGENTS

Property Outlook & Market Update
GIBRALTAR

2017/2018

IN BRIEF:

Having experienced an unprecedented and unexpected growth in sales since June 2016 (Brexit), our thoughts and expectations for 2017/18 were somewhat undecided and wholly open to the market. Instinct, gut, logic, suggested that the market would be wary given the uncertainties surrounding our economy, considering a looming Brexit and the invoking of Article 50 in March of 2017.

As we entered the new year, we quickly realised it would begin much like we had left it in 2016, strong, bullish and with a greater number of forecasted sales in terms of volume. This remained consistent throughout the year, no peaks and troughs and consistency also with regards to sales across all four tiers in the market which, from our perspective, showed a solid outlook and a great deal of confidence, particularly from our international clientele.

Why the confidence?

Whereas one couldn't have been blamed for being cautious with any expectations (and still can't), there seemed to be a driving force of interest and investment in Gibraltar, underpinned primarily by our Finance Centre, our strength in regulating our financial services and importantly, the fact that we speak English and are subject to British Law. I have referred to these attributes on many occasions in the past, and I will not tire in re-stating that the value of these factors is huge and will, in our view, continue to be the firm basis of our success in the future.

Summary

2017 was in fact a hugely successful year across the board, with numerous high value sales and a consistent volume of mid-range sales which further underpinned the market in all four tiers.

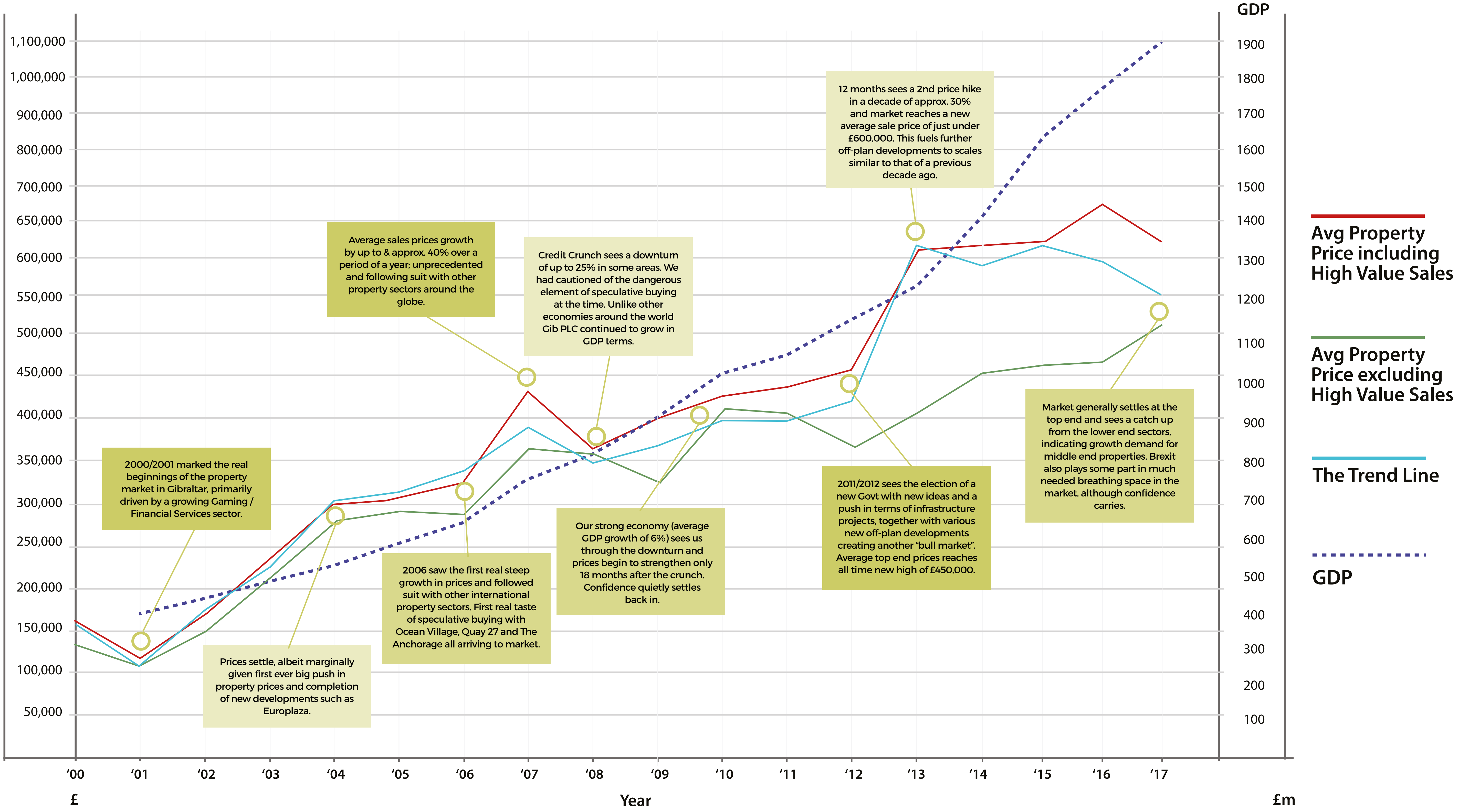
The graph on pages 4 & 5 shows a clear growth in prices across the mid end region (green line) principally the £300,000 to £700,000 price ranges, which we had expected and has seen an **increase in this sector of approx. 9% to an average of £510,000**. Just by way of example, properties in areas such as Montagu Gardens, Vineyards and other lower / mid end developments experienced above normal growth, reaching price **levels of up to £340,000 or rates of up to £3,700/sqm**.

Our overall average on prices (red line) shows a slight decline; this is due to a levelling off in prices at the 4th tier (upper high end) where the rate of top end sales has decreased slightly. This therefore shows a t**otal average price level of approx. £625,000 or approx. 5%** which is in our view consistent with what we had expected and had forecasted. This was mainly driven by the **middle end market** performing in a far stronger manner during 2017.

We continue to take the view that the upper 4th tier in the market has a great deal more to offer, but uncertainties surrounding Brexit negotiations will no doubt impact any immediate growth and further increases at prices ranges above £1,750,000.

Market Update 2017/2018

Graphic illustration of average property prices/trend line since the year 2000.



The data set out in the attached graphic are based solely on BMI's own sales and are, therefore, to be treated as only indicative of trends in the wider Gibraltar market.

The data in respect of "average house price excluding high value properties" were generated by excluding the highest valued 10 per cent of properties sold by BMI in each respective year.

NB. Note that the GDP graphic has no direct bearing or correlation to the information provided on average property prices and is purely an indicator with regards to trends.

WHAT'S IN STORE FOR 2018/19?

SALES / RESIDENTIAL:

Portfolio

Our portfolio remains one of the largest and most updated on the Rock.

THIS YEAR WE FORECAST AN INCREASE IN STOCK LEVELS, WITH THE COMPLETION OF VARIOUS NEW DEVELOPMENTS COMING TO FRUITION AND SOME WITH SPECULATIVE STOCK STILL TO BE SOLD.

We will also continue to see increased off-plan stock for re-sale driven by pending developments set to complete in 2019 / 2020. This will be primarily influenced by the volume of speculators wanting to flip their investment.

Existing stock may also be influenced by the arrival of new developments as well as the release of ex-Mod (now GOG) stock. Our current availability has increased slightly from last year, but we expect this to grow further towards the end of 2018. Our portfolio is at approx. 145.

(Please note that we do not include off-plan sales which are "under offer" directly from developers, as this would adversely over inflate and misrepresent the real position; we do however include re-sale off-plans units as they near completion.)

Prices

2017 as shown on our graph (page 2) shows a mixed bag and we have developed the information further this year by adding our thoughts and comments (see boxes).

Prices in the middle tiers or upper low end to mid-end of the market have seen increases across the board of approximately 9% (significant in some cases). There has been a great deal more movement in these mid-end sectors and we believe this is fundamentally due to the continued strength in the economy and a new wave of buyers both local (1st time) and ex-pat clients now moving from the rental space into the property ladder.

The upper end and **4th tier, as shown on the graph, has seen a slight lapse and settling compared to previous years**. We take the view that high value clients will no doubt keep a cautious eye on the upper end of the market before committing themselves to the £1.5m market, owing to the uncertainties around Brexit. The last quarter of 2017 was exceptional and for the second year in a row – following the Brexit referendum – we saw significant sales in the middle to upper end markets, with properties selling at the full asking price, significantly increasing the value of properties forecasted.

As this update goes to print we are delighted to confirm that the first two months of 2018 have been busy with a similar trend to that experienced in the final months of 2017.

(Please see section under "Economy" for our thoughts on the market ahead and the impact on prices)

Off-plan sales

In total, there **are approx. 500+ units under construction over various developments.** The first large scale scheme to be completed will be Midtown phase 1 which is scheduled for May 2018 followed by Ocean Spa during late 2018 and Quay 29 circa Feb 2019. Others will follow during 2019 / 20.

The position with respect to re-sales so far is positive and in particular with Midtown where we have seen approx. 15% of the 1st phase of the development re-sold to mainly owner occupier buyers at profit ranging up to **15% increases on sales values and up to 50% on the instalments paid by initial option holders.** This is a strong indicator of a growing market is a strong indicator of a growing confident market so far. We of course keep a watchful eye in this sector.

We are also impressed by developments such as **Prince Edwards Gate,** a small scheme of 13 middle to high end units where more than 50% of the development has been re-sold with significant profits to original purchasers. **Ocean Village "Spa" and "Imperial"** are also seeing re-sales, although from our own perspective the margins tend to be tighter, possibly due to original pricing being high (from a rate / sqm perspective) or the fact that quite a number of them were purchased by speculators.

New proposed Off-plan developments

There are a number of new proposed schemes / projects undergoing planning in the pipe line. These proposals will possibly amount to an overall increase in stock upwards of 500+ units, not including the ex-MoD stock that GoG have announced for tender. We will not at this stage comment on these projects given that some are very much at concept stages.

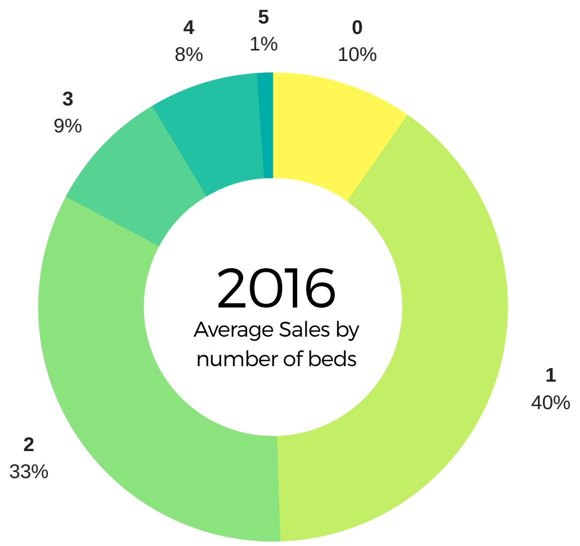
Our perspective on this may not exactly meet with, or comply with thoughts of others in the sector, but our view in these matters has always been **steady as she goes**. There are significant numbers of units being developed at present and as stated too, there are a large number of re-sale units available to purchase already.

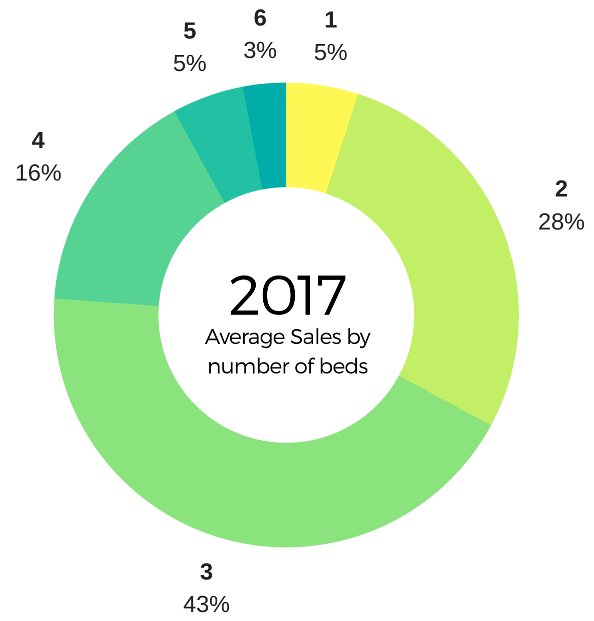
The next 2 years will be crucial following the Brexit negotiations and the impact this may have on how the market may develop. Off-plan developments should be driven by that fundamental market known as the "owner occupier market", without it there is no market and the sector falls prey to speculation. We cannot stress enough that serious guidance and advice in these matters is sought if you are considering investing in property on the Rock.

We are concerned with proposals primed solely at the investors market and offering only one product such as the studio / small one bed unit with high rates / sqm. This product not only represents high rates per sqm by default, but the fact that it is aimed at only one market (speculative / investor) and that volumes are therefore high, is concerning.

Historically, the safer investments will feature mixed distributions of 1 – 4 bedroom layouts, these owner occupier developments have consistently rewarded investors because they (by default) reduce exposure to just one market and increase percentages of owner occupiers who tend to seek 3 - 4-bedroom properties, thereby reducing risks by splitting markets up and attracting varied profiles.

Average sales by number of beds:





FORECAST:

We believe that the forecast for 2018/19 remains uncertain as was the case in 2017/18, given external affairs relating to Brexit and the impact that this may have on **Gibraltar from a political and economic perspective**. The fact that we have continued to see growth over the period since June 2016 indicates that Gibraltar could benefit from the uncertainties in European economies. **We are also encouraged by recent news with respect to Gibraltar and confirmation that the UK Government will guarantee continued access to the UK financial services / online gaming markets.**

Certainty and stability are crucial and despite concerns we continue to position ourselves favourably against the odds.

High value clients (Cat 2 / Hepps) and other applicants relocating to the Rock continue to represent a significant part of our business and growth in the property sector. We are seeing new start ups in the gaming industry, with substantial investments which suggest a long-term presence in Gibraltar; the DLT sector and the Finance Centres' foresight in regulating the industry at technology level is already proving to be hugely successful and has the makings of developing similarly to the online gaming sector, which has, over two decades been responsible for substantial growth.

We believe that there are numerous fundamentals surrounding our economy which will underpin further consistent growth. We therefore remain cautiously optimistic and side on a real prospect that prices will hold at current levels and may see further **growth in certain sectors similar to 2017 of circa 5%+ (average of all four tiers).**

Off-plan re-sales continue to be a good indicator of confidence or lack of and our focus will be on assessing whether the market has over-exposed itself to weak speculators, and which developments may be more adversely affected by this. As mentioned above we have already seen a strong indicator that re-sales in certain developments are seeing significant growth margins. As has been the case in so many of our previous updates, we place a great deal of importance on the impact of off-plan sales and the quality / profile of buyers; we do not tire in repeating simple logic, **"owner occupiers" will always drive the sector - "let the market drive the market"!** (Please contact us for further information on this).

A sensible 4 tier market

Our thoughts on a **developing 4 tier market (low, mid, high, ultra-high)** as described over the past 48 months are now firmly accepted. We believe that this more than serves as a positive indicator of the potential that the market continues to enjoy. The very fact that we are attracting a new ultra-high segment is the clearest sign of confidence from a new emerging market.

Gibraltar has a healthy property sector, split sensibly amongst four tiers. Few Finance Centres / Financial Services jurisdictions can boast such a cross section of market catering an array of demands from various profiles, this in our view once again shows the maturity of the market.

RATES PER SQM ACROSS THE BOARD ARE IDENTIFIED IN OUR TABLE BELOW:

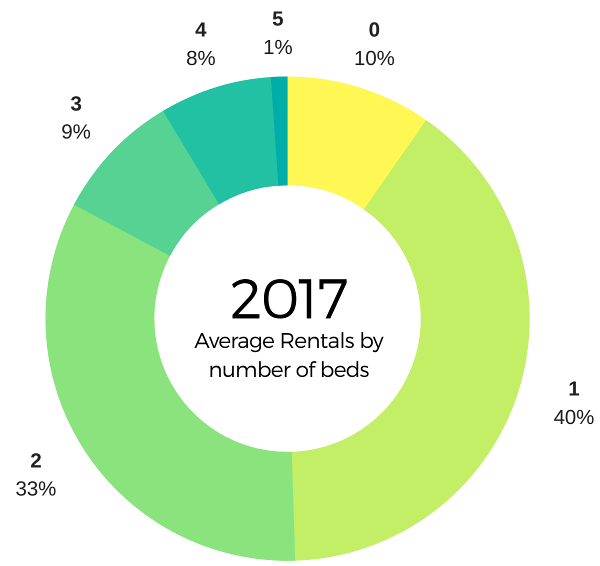
Lower end market	**£2,200/sqm - £3,200/sqm**
Middle end market	**£3,300/sqm - £4,500/sqm**
High end market	**£4,600/sqm - £5,700/sqm**
Upper High end market	**£5,600/sqm - £7,500/sqm**

LETTINGS:

Our property management portfolio continues to expand, with well over 120 properties under management and increasing year on year; this reflects a near 300% growth for BMI since 2009. In 2016 and in particular Q3/4 we saw exceptional volumes of lettings and huge demand in terms of volumes of properties let, thereby rendering the market to the lowest point in supply since 2000.

During 2017 we witnessed no halt in this trend and we are delighted with the fact that last year saw us break our previous two-year records both in management fees and introductory fees.

Average rentals by number of beds:



A buoyant lettings market is an indicator (in part) to a prelude in rising prices as was the case in 2000 (due to the huge growth in new gaming entrants at the time) and we believe that existing new letting entrants, will continue to translate into new purchaser applicants, thereby adding to the prospect of growth.

Increases in lettings prices (as has been the case) are driven by demand, but are also good indicators of economic activity. Due to the delivery of new developments and a supply of properties onto the market over the period 2018 into 2019 we expect to see a possible softening in recent letting price increases and take a view that rental prices are more likely to remain settled, certainly leading up to the completion of the recent new “off-plan” schemes. **We had expected 2017 to show a levelling off in prices, this was not the case due to delay in completions of some developments now due for completion in 2018.**
(Please contact us for further information on this).

LANDLORDS WILL NO DOUBT BE PLEASED TO SEE THEIR EXISTING ROI DOING WELL ACROSS THE BOARD AND GROSS YIELDS GENERALLY RANGING BETWEEN 4.5%-6.0%.

We expect this to remain the case over the next 12 - 18 months. Some of our portfolio Landlords are achieving up to 7.5% yields and continue to invest sensibly in the market.

COMMERCIAL:

World Trade Centre was delivered to market very much on time and has been a huge success adding a new dimension to Grade A office space in Gibraltar. The development is well over 95% occupied and has been welcomed massively by the market. More news to come on a possible WTC II.

Midtown Commercial is scheduled for completion during Quarter 2 2018 and is already fully subscribed, and provides a Grade A office environment in the heart of Gibraltar, with immediate access to **Midtown Residential** a high value residential scheme (fully sold out) and **Midtown Retail** which completes this high end mixed use development.

We also continue to see the re-development of various Freehold Town Centre buildings converted and re-fitted into HQ offices for users. BMI Group has been active in this sector having assisted PWC with their relocation into their refurbished office development on Main Street. We have also advised and assisted the developers of a new 2,000sqm Grade A office building at the entrance to Main Street now housing Robus Insurance and Abacus. **During 2018 we will be launching the re-development of a further project of approx. 1,000sqm in Main Street. (Please contact us for further information on this).**

Demand has clearly increased with the additional pressure of there being no new build in this sector for nearly a decade. Our views (last year) on whether there is real demand to meet the forecasted sqm being proposed were met with an element of caution given the substantial schemes in the pipeline. **Completion of WTC has very clearly underpinned the fact the market has indeed welcomed this Grade A office project.**

It is fair to say, however, that over the past 36 months there has been a clear demand and outcry by the various economic sectors, namely Gaming, Insurance and Financial Services and the general market, for new **upgraded 21st century office accommodation**. These demands will most certainly be met.

With respect to current availability / stock, it is safe to say that there are options in various locations, but particularly so in older commercial developments. The offering is generally lower quality and in certain areas, compromised in terms of layout flexibility and sizes.

Moving forward, there is no question that there will be an element of decanting from the older commercial properties into the newer and better designed office schemes.

Worthy of note is the fact that letting rates/sqm have not been compromised at the higher end due to the decanting, in fact quite the opposite; applicants are prepared to pay high end prices for high end specs. This creates an **opportunity for landlords** with older (decanted) buildings, to upgrade and provide the market with improved offerings to market.

New modern office options will only serve to improve the commercial offerings in the market and will generate new business steered by new expectation which once again serve to underpin the positive future for Gib Inc.

CURRENT MARKET RATES:

Europort	Europort	High value - Comm	**£355 - £390/sqm**
Leisure Island	Ocean Village	Complex	**£360 - £440/sqm**
Regal House	Queensway	High value - good	**£250 - £300/sqm**
Eurotowers	Europort	Amenities	**£240 - £275/sqm**
Leanse Place	Town (South)	Mid end	**£240 - £275/sqm**
Hadfield House	Town (Centre)	Mid end	**£230 - £250/sqm**
World Trade Centre*	Marina Bay	High value - Comm	**£430 - £480/sqm (lease)**

N.B These rates are indictictive only and are to be taken as average price ranges in the respective properties. Please note that the above prices may be subject to condition of units let and whether or not they are internally finished (to high standard & spec) and kitted out for immediate use.

*World Trade Centre completed early 2017 with current rates comparable to our forecasted figures.

CURRENT FORECASTED RATES / MIDTOWN:

Midtown	£360/sqm (lease)	**£4,500/sqm (For Sale)**

Note that the above are based on existing sales and committed leases at both developments and where figures are given as an average.

NEW DEVELOPMENTS:

Owner Occupier or Speculator?

West One, The Arches, Midtown, Quay29, Ocean Spa, Imperial Ocean, Quay31 and Buena Vista Park all amount to approx. 700 units under construction and coming to market over the next 12 to 36 months. Most are underpinned by the owner occupier market which in our opinion drives the market, most have apt mixes that are spacious and are balanced between 1 – 4 bedroom layouts, reducing risk of over-exposure to one segment.

Various new projects have been launched and sold off-plan recently, with a further few to be released. **The Hub, Marina Club and Eurocity** are the latest to have been launched this year and all are geared to the "buy to let / speculative investor" markets. In total there are approx. 600 units being constructed / proposed with delivery dates from mid-2020 onwards.

We have always maintained that a mix of owner occupiers, seasoned investors and a small measure of speculators is healthy. An overdose of the latter and you run the risk of exposing the market to an oversupply trend and in turn a property bubble.

Without wishing to be alarmist, we believe that investing in this segment of the market should be considered with some caution.

We reserve our position on how we see this speculative segment evolving and will comment further as we see the market trend.

Our thoughts remain bullish in the real owner occupier segment, where we are seeing growth and good volume of sales. In addition we do not believe the market in these segments is over heated in any way and the delivery of the developments set to complete over this year and next **(The Arches, Midtown, Quay 29, Ocean Spa)** are already being well received with numerous re-sales in play. Once again, it is our firm view that the owner occupier market is what drives the sector.

To learn more about our thoughts on the varying segments of the market, please feel free to call in at our offices.

ECONOMY:

Owner Occupier or Speculator?

Although we prefer to refrain from commenting on economic activity, we have found it useful to refer to the GDP figures (blue dotted line on graph) in order to indicate economic strength or weakness, which is a main driver in property values. 2017 continued with much the same progress as the previous year and a projected growth of +7.5%. Brexit remains very much on all our minds and muddies the waters with regards to any forecasting on how the economy will unfold over the coming 12 - 24 months.

KEY FACTORS OF NOTE:

- **Our lettings portfolio today stands at an average of 12 units, a marginal increase from last year and very low comparably from an all-time high of 40 units 8 years ago. Demand is high – supply is low! We believe this will improve with "New Developments" coming on stream.**

- **Our sales portfolio is at an average of 150 units for sale from an all-time high of 240 units 8 years ago. This relates only to real properties ready to move into and some re-sale off-plan" units close to completion.**

- **Our annual sales volume (not including off-plan sales) increased in 2015/2016 by 10% with a further increase last year by 5% indicating a positive buoyant market.**

- **High value market sales have levelled slightly and likely to stay in the long term, underpinning the top end of the market and building confidence from applicants in this sector. Sales at Buena Vista Park, Admirals Place and The Sanctuary are evidence of this.**

- **New Developments (residential) launched from 2014/2015 amount to approx. 450 units (not including Govt housing schemes) with forecasted completions of 2017 – 2019.**

- **GDP growth (forecasted figure) for 2016 is +7.5%.**

KEY RELATED ECONOMIC FACTORS:

- **There continue to be NO bank repossessions.**
- **Unemployment remains below 1.5%.**
- **Finance Centre industry is growing from within with new sectors arriving on shore.**
- **Gibraltar remains the only highly regulated, low tax, English speaking centre in Europe.**

The current climate however – if one can ignore the Brexit factor – continues to be very positive and likely to grow sensibly. For approx 7 years we have witnessed the market harden up and prices consistently grow; 2013 underpinned this further with a marked increase in "high value" sales which, as seen on the graph marks the beginning of the fourth tier sector in the market which we have referred to in the tables above.

Property values as indicated are growing sensibly in most sectors, although these increases have not mirrored GDP growth as in the past; **it would be unrealistic to expect as much.** Our take for the future very much depends on **new business** for Gibraltar, but more importantly the ability for our economy and financial services sector to continue to strive, compete and attract new entrants from other jurisdictions. **The DLT Crypto sector** is clearly a new area where Gibraltar (as was the case with Gaming) is leading the way in Technology Regulation; in doing so will place itself at the forefront of what is a global game changer. We also believe that the **private client** space will feature highly over the next few years as we see high value clients looking for jurisdictions that can afford them a safe, proactive, low tax and regulated environment.

In summary, we conclude this update with the words expressed by a long standing private client of ours who on 24 June 2016 (the day after Brexit) wrote the following to me:

> "MY BELIEF IN GIBRALTAR'S STRENGTH, ESPECIALLY IN ITS ENTREPRENEURSHIP AND GOVERNMENT CONVINCES ME THAT AS SOON AS WE SHAKE OFF THE INEVITABLE SENSE OF DISAPPOINTMENT WE WILL START TO SEE THAT THERE IS NO SHORTAGE OF OPPORTUNITIES FOR THIS SMALL BUT DYNAMIC COUNTRY".

It would be fair to state, that at the time, we received this message of support and optimism with some scepticism.

It is now nearly two years since Brexit and there is no better way to summarise Gibraltar's position and prospects ahead.

For further information on the Gibraltar property market, please do not hesitate to contact our offices and request a meeting with one of our consultants.

This market update has been prepared by **Louis C. Montegriffo**, Founder and Managing Director of BMI Group.

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If you are looking at buying
or investing in property,
take the time to seek serious advice.

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