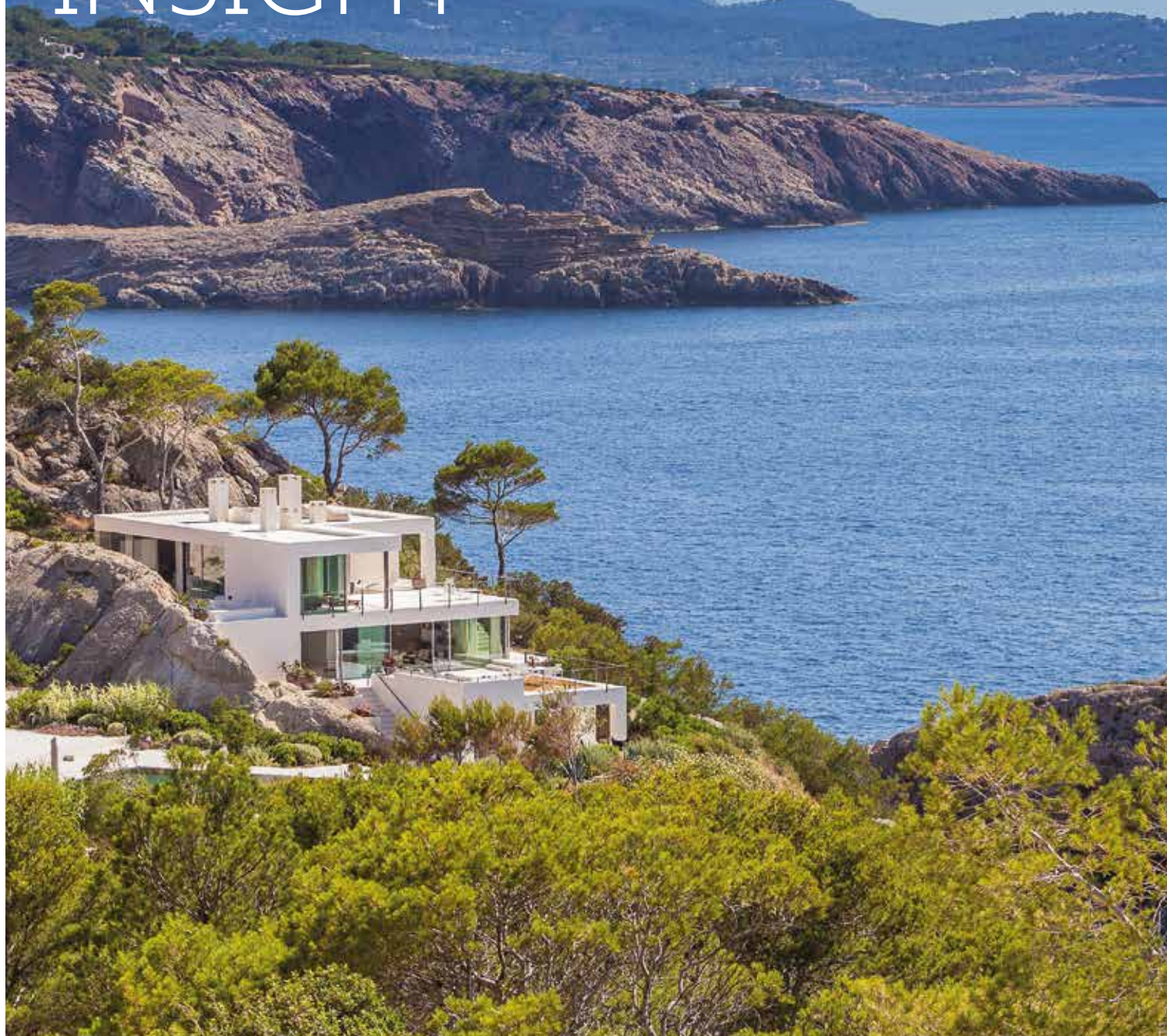


RESIDENTIAL RESEARCH



# SPANISH PRIME RESIDENTIAL INSIGHT



TAKING THE PULSE OF SPAIN'S LUXURY RESIDENTIAL MARKET, ASSESSING WHO'S  
BUYING AND WHERE

## MARKET OVERVIEW

Spain's prime residential markets are recovering with Mallorca, Ibiza and Barcelona leading the way. Kate Everett-Allen looks at the latest trends in Spain's luxury homes market.

### KEY FACTS

**The new 'golden visa' has now been approved by the Spanish Parliament** and will come into effect in October

**Mallorca, Ibiza and Barcelona** are currently Spain's strongest international housing markets

**The IMF cites evidence of improving economic indicators** though Spain's economy remains fragile

**Prices in some luxury markets are c.40% below their peak**, anecdotal evidence points to rising buyer interest as prices hit new lows

**There are more buyers making more offers** at the asking price than 12 months ago



KATE EVERETT-ALLEN  
International Residential Research

*"The recent law granting Spanish residency to non-EU buyers purchasing homes above €500,000 is expected to generate significant interest."*

Spain's prime markets are on a firmer footing with some of its more affluent second home hotspots reporting price growth for the first time since the onset of the global financial crisis. Despite these tentative signs of recovery Spain's economy remains fragile and its mainstream property market recorded an average price fall of 7% in the 12 months to the end of June 2013.

The outlook for Spain's luxury housing market is improving. Both the volume of enquiries and agreed sales have increased in the first half of 2013. These markets are attracting a broader range of international buyers who have the confidence and finance in place to purchase. Buyers previously looking in neighbouring European countries are seeing value in Spain and the Balearics once more.

In terms of the economic landscape, the eurozone emerged from its recession in the second quarter of 2013 posting growth of 0.3%, but Spain's economy is still contracting, falling by 0.1% in the year to June. Unemployment at 26.3% is the second highest in the EU after Greece but there is some optimism.

Spain's "bad bank" Sareb which was established as a condition of the EU bailout, has agreed its first sale of 343 homes to a Miami-based private equity firm. The IMF also reports that strong reform is helping to stabilise the economy and external and fiscal imbalances are correcting rapidly.

Spain's prime market has seen stronger activity in 2013 but Spain's mainstream market remains at a slower pace as credit conditions remain tight. At present foreign buyers have the competitive edge given they are able to access

international mortgages with more favourable loan-to-value terms.

Spanish property sales may have stopped falling but they remain 65% below their June 2007 level. Prime Minister Rajoy has recognised the housing market's importance to Spain's economic recovery by announcing the introduction of a new 'golden visa'. The new law, which has now been approved by the Spanish Parliament, allows non EU buyers purchasing properties above €500,000 to become Spanish residents. It is hoped that investors from Asia and the Middle East in particular will shore up some of Spain's more oversupplied markets as we have witnessed in Portugal.

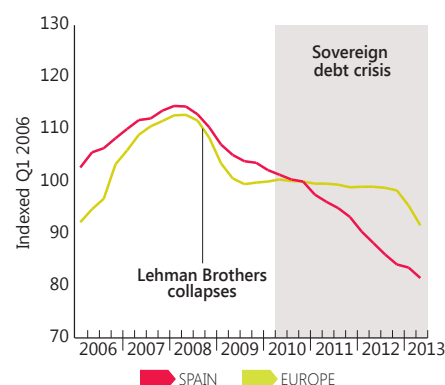
As one of the 26 European members of the Schengen accord, residents of Spain or holders of the 'golden visa' will be permitted to travel within the Schengen area without further visa requirements for a maximum of 90 days every six months. For wealthy buyers from outside the EU Spain's golden visa is expected to generate significant interest.

Spain's new homes market stalled post the credit crunch and activity is unlikely to pick up until the excess number of new homes (mostly priced below €300,000) are absorbed. Barcelona and Madrid have seen stronger levels of new development, particularly at the high end.

Having observed price falls for seven consecutive years, an increasing number of buyers are convinced luxury prices have reached their floor. In some locations prime prices are 40% below their pre-crisis peak and buyers are making serious offers, closer to the asking price than they were 12 months ago with more transactions being achieved.

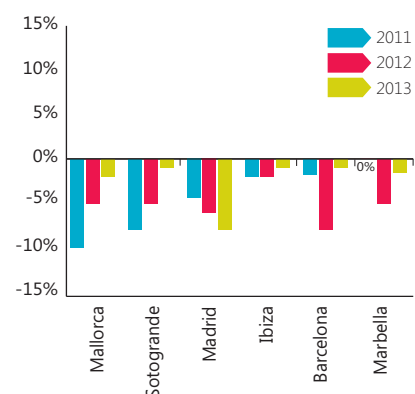
FIGURE 1  
**Time to buy?**

Mainstream residential property price index:  
Spain v Europe



Source: Knight Frank Residential Research, INE, Spanish Ministry of Development

FIGURE 2  
**Prime price change in second home hotspots**  
2011-2013



Source: Knight Frank Residential Research



## 1. Madrid

The Madrid residential market has, until recently, had limited exposure to international buyers with Spanish purchasers accounting for nearly all sales above €2m. In the last five years buyers from the US, Mexico, Colombia, Venezuela, Russia and China have increased.

Around 65% of enquiries relate to properties priced between €1m and €3m and most are located inside the M30 in areas such as Salamanca, El Viso, Castellana and Jerónimos.

For a capital city, Madrid is relatively small meaning its prime residential housing stock is limited, which in turn means prices have not fallen as much as in other parts of Spain. More peripheral areas such as La Moraleja, La Finca, Puerta de Hierro, Mirasierra and Conde Orgaz are expected to emerge as key prime markets in the next 5-10 years.

Luxury prices fell by c.11% in the year to June but are expected to stabilise in 2013-14 as demand strengthens.

## 2. Barcelona

Knight Frank's Associate office in Barcelona recorded more sales in the first half of 2013 than in the whole of 2012. This increase has been almost entirely driven by international buyers. Russian and French buyers are the most active but demand from Swiss buyers has strengthened since early 2012. The remainder of the market is comprised of a mix of northern Europeans (including British and Scandinavians), Chinese, Middle Eastern and US purchasers.

Central Barcelona, Eixample, Barceloneta and Diagonal Mar remain the most popular markets. Enquiries are strongest within the €500,000 to €1.5m price bracket.

We anticipate that the market will continue to improve in the next 2 to 3 years but it will be a few more years before local buyers start returning to the market.

## 3. Mallorca

Buyers are seeing value again in Mallorca. Prices have declined in the last five years but the island has proved better insulated than parts of mainland Spain. This is due to strict building restrictions, a limited supply of homes, many with a high degree of privacy and an increasing number of flights from major European cities.

The recovery is evident across most price bands but particularly below €600,000 and above €2m. Areas performing strongly include the island's main prime locations; from Pollensa to Formentor in the north, from Santa Maria del Cami to Alaro in the centre, and between Andratx and Bendinat on the south western tip. Penthouses in Palma are also popular with international buyers.

The mountainous enclave of Deia remains one of the most desirable locations for wealthy buyers. Here, 80% of buyers are British, with the remainder being primarily German or Scandinavian.



## 4. Ibiza

The island remains firmly on the radar of wealthy second home buyers and demand has strengthened in 2013. Prime prices have remained relatively firm compared to parts of mainland Spain and the strength of the Euro against sterling has helped attract demand to date in 2013.

Top nationalities buying at present are English, Dutch and Belgian, the key difference to five years ago is the strong presence of Dutch buyers. This is reflected in the latest tourist numbers, with Dutch tourists up by 37% in 2013 year-on-year.

The €3-€5m price bracket generates the most interest with the capital Eivissa (Ibiza Town) and the area surrounding Santa Gertrudis which is home to the top English-language school proving popular. We expect the area north of Santa Gertrudis, including San Juan, to emerge as a prime hotspot in future years.

## 5. Marbella

Properties priced between €200,000 and €1.4m are attracting the most enquiries in Marbella. Most international buyers are seeking a home either along the Golden Mile that runs between Marbella Old Town and Puerto Banus, or in the golf valley – Nueva Andalucía. Beachfront homes and gated communities such as La Zagaleta, El Madronal and Guadalmina Baja also attract a premium.

The latest data suggests an improving market in Marbella. Sales in 2012 increased 21.1% year-on-year. Russian buyers have been more active in the last 12 months while Benelux and Scandinavian purchasers continue to have a strong presence. Interest from French buyers strengthened following President Hollande's announcement regarding wealth tax.

## 6. Sotogrande

Prices in Sotogrande hit a low in early 2012, enquiries and sale volumes have increased slightly since. Sotogrande is a second-home location that has long been favoured by Madrid's wealthy and Gibraltar's business community. It has seen the number of Spanish buyers decline in recent years, but they have been replaced instead by Scandinavian and Benelux buyers.

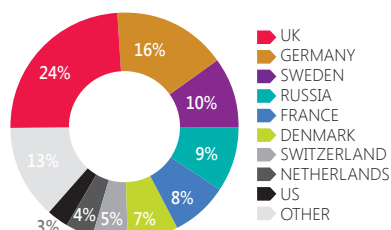
International buyers favour the areas of Sotogrande Costa and the Kings and Queens area, or established areas with large plots and panoramic sea views, in particular the area in relation to Almenara Golf Course.

Enquiry levels are strongest for two bedroom apartments, particularly those around the marina priced between €250,000 and €450,000. Sales volumes remain some way below pre-crisis levels but a gradual improvement is expected in the second half of 2013.

## PRIME MARKET TRENDS

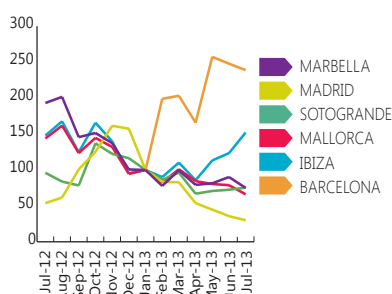
Knight Frank's Global Property Search website is a unique barometer of the demand for prime international property. The following charts highlight the key trends in the prime Spanish market.

FIGURE 3  
**Who is searching for Spanish property? 2013 (%)**



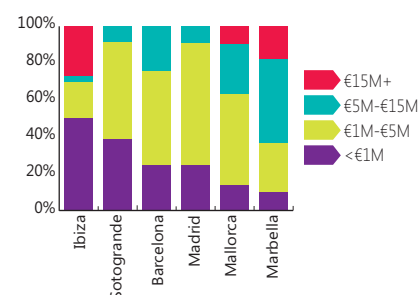
The British still dominate the Spanish luxury homes market but Scandinavian and Benelux buyers are increasing in number. German buyers favour areas such as the west coast of Mallorca and the Marbella to Estepona stretch of coastline. French buyers were more active following President Hollande's wealth tax announcement.

FIGURE 4  
**Online property searches by location**  
Indexed, 100 = Jul 2012



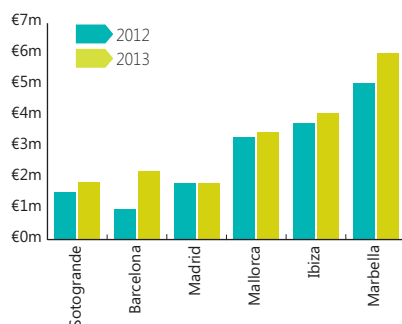
Barcelona's increasing popularity is evident above, online searches for property in the city have increased by 139% since the start of 2013. However, in real terms Mallorca continues to generate the largest number of property searches, almost double that of Ibiza.

FIGURE 5  
**Property searches by region and price bracket 2013**



The search activity reflects the composition of the market. Marbella's searches are the most evenly split across the different price brackets. Ibiza and Marbella have the most searches above €15m while Sotogrande and Madrid have a large proportion of searches in the €1m to €5m category.

FIGURE 6  
**Average price searched by location 2012 v 2013**



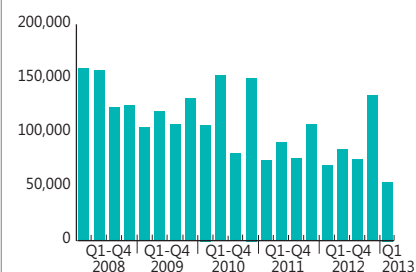
Marbella saw the largest increase in the price of property searches between 2012 and 2013, increasing from €5m to €6m. Sotogrande, Ibiza and Mallorca experienced an increase albeit a smaller rise. Only Madrid saw the price of property searches remain static year-on-year.

FIGURE 7  
**Spain: new homes constructed**  
Jan 2008-Mar 2013



The number of homes completed in the first quarter of 2013 is 93% below the number built in the first quarter of 2008 reducing new supply. Aside from the clear decline in construction it is also interesting to note the dip that occurs each August.

FIGURE 8  
**Number of Spanish property sales**  
2007-2013



Sales in Spain have declined from 230,000 in the first quarter of 2007 to 54,000 in the same period in 2013, a fall of 73%. The final quarter of each year usually sees a spike in activity as buyers look to complete for tax purposes. In 2013 the looming VAT rise added further incentive.

Source: [www.knightfrank.com/search](http://www.knightfrank.com/search), Spanish Ministry of Development

TABLE 1 **Top nationalities buying in Spain's prime markets**

MADRID	BARCELONA	MALLORCA	IBIZA	MARBELLA	SOTOGRADE
<b>Who buys?</b>	<b>Who buys?</b>	<b>Who buys?</b>	<b>Who buys?</b>	<b>Who buys?</b>	<b>Who buys?</b>
1. Spain 2. Mexico 3. Colombia	1. UK 2. US 3. France	1. UK 2. Germany 3. Sweden	1. UK 2. Netherlands 3. Belgium	1. Russia 2. Belgium 3. Sweden	1. UK 2. Belgium 3. Sweden

## SPANISH PROPERTY HIGHLIGHTS

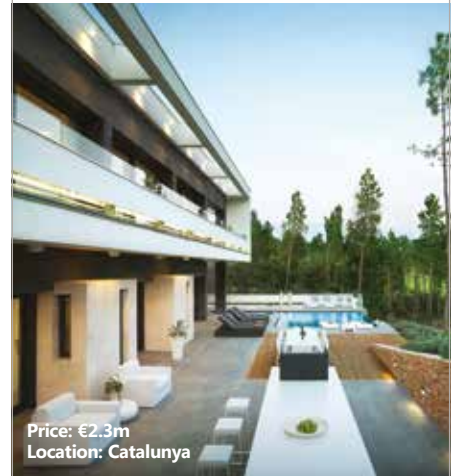
### MADRID



### BARCELONA



### COSTA BRAVA



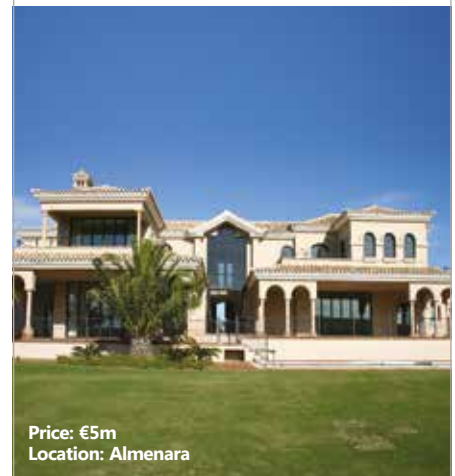
### MARBELLA



### PUERTO BANUS



### SOTOGRANDE



### NORTH MALLORCA



### WEST MALLORCA



### IBIZA





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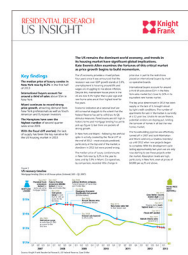
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### RESEARCH & PR

#### Liam Bailey

Global Head of Residential Research  
+44 20 7861 5133  
liam.bailey@knightfrank.com

#### Kate Everett-Allen

International Residential Research  
+44 20 7861 1513  
kate.everett-allen@knightfrank.com

### PRESS OFFICE

#### Bronya Heaver

International PR Manager  
+44 20 7861 1412  
bronya.heaver@knightfrank.com

### SPAIN SALES

#### Christian de Meillac

+44 20 7861 1097  
christian.demeillac@knightfrank.com

### RESIDENTIAL DEVELOPMENT SALES

#### James Price

+44 20 7861 1057  
james.price@knightfrank.com

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