

MADRID

PRIME RESIDENTIAL **2015**

Serrano 7. Computer generated image, only indicative.

SUPPLY

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KEY FACTORS

Favourable growth prospects have made Madrid the go to city and one of the European cities with the **highest increases in prime residential prices**, well above the European average.

Luxury residential prices in Madrid **have risen by 5.2%**, higher than London and Paris.

According to official sources, the number of prime residential sales (both new-build and resales) has increased by 25% compared to last year.

Of the €700 million of available supply for sale in 2014, the market has dropped to **€500 million**, equating to approximately **30% take-up** compared to the previous year.

The difference between asking and closing prices is now minimal, which demonstrates that we are now at a point where supply and demand are meeting and **sales periods are reducing** significantly.

70% of buyers are searching for product in the **Salamanca, Jerónimos and Chamberí** districts, within a price range of between €1-2 million.

The lack of new-build supply is currently one of the key factors in the sector. We expect approximately **80,000 sq m of new-build and refurbishment projects** to come on to the market.

PRIME RESIDENTIAL PROPERTIES EXCHANGE FOR HIGHER PRICES AND SELL QUICKER

Macro outlook

Macroeconomic fundamentals are favouring Madrid. Its robust GDP, stable prices, the upturn in the job market and its dynamic business sector have placed the capital firmly on the European map and are buoying its growth prospects.

Only the forthcoming December General Elections could temper these prospects, which are creating an air of expectancy until results are finally in. However, given the conviction that we have a pro-business government, there continues to be plenty of activity and this is showing no signs of abating.

This has clearly rubbed off on the real estate sector. What was previously the indisputable driver of the Spanish economy, and based on today's figures, is now back on the up. **The commercial property market continues to break all-time record levels of investment and land is back on the cards for large investors and developers.** So what's the story with residential? The hardest hit market during the crisis is beginning to awaken from its slumber.

However, in this segment it is key to differentiate between products. Prime residential and luxury homes - have not been as affected as conventional homes, hence the level of recovery is not the same.

Status of the Madrid prime residential market

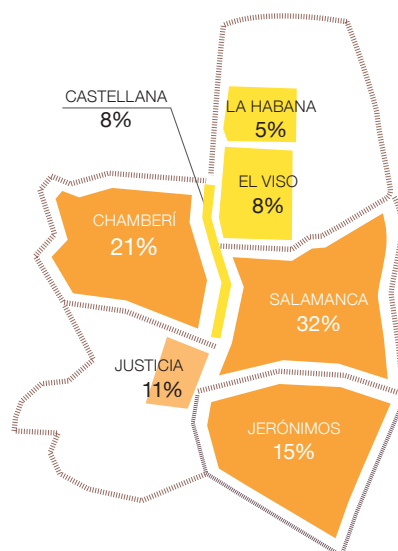
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According to figures from the Spanish Ministry of Development, sales in this segment have **increased by 25% y-o-y** and a **larger number of sales** were recorded in the main districts.

Buyers are looking for properties in the most central areas. 70% of buyers are searching for product in the Salamanca, Jerónimos and Chamberí districts, within a price range of between €1-2 million. However, other areas, such as El Viso are gaining more ground, particularly for purchasing a property for subsequent refurbishment.

FIGURE 1
Heat map

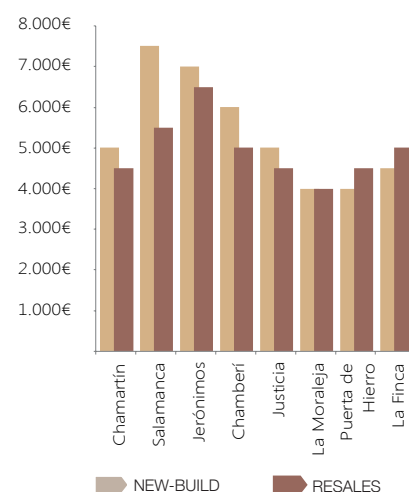
Demand distribution for the prime residential market



Source: Knight Frank/RPS

FIGURE 2
Average price per sq m in prime districts

New-build and resales



Source: Knight Frank/RPS

FIGURE 3
Global prime cities index Q3 2015

Position	City	World Region	Year-on-year % (Sep 14-Sep 15)	6-month % (Mar 15-Sep 15)	3-month % (Jun 15-Sep 15)
1	Vancouver	North America	20.4%	10.5%	5.2%
2	Sydney	Australia	13.7%	9.6%	3.6%
3	Shanghai	Asia	10.7%	6.8%	2.7%
4	Jakarta	Asia	9.4%	1.4%	0.7%
5	Melbourne	Australia	9.4%	6.5%	3.6%
6	Monaco	Europe	9.4%	10.3%	5.0%
7	Bangkok	Asia	8.5%	5.7%	4.6%
8	Seoul	Asia	7.6%	2.9%	1.7%
9	Bangalore	Asia	6.7%	0.0%	0.0%
10	Cape Town	Africa	6.0%	-1.3%	-4.0%
11	Miami	North America	5.9%	2.6%	-0.1%
12	Los Angeles	North America	5.8%	3.0%	0.9%
13	Madrid	Europe	5.2%	2.9%	1.6%
14	Nairobi	Africa	3.5%	1.1%	0.2%
15	Beijing	Asia	2.7%	2.6%	1.4%
16	Tel Aviv	Middle East	2.7%	0.7%	-2.5%
17	Bombay	Asia	2.6%	1.0%	0.5%
18	Edinburgh	Europe	2.5%	0.8%	0.4%
19	New York City	North America	2.0%	1.2%	-0.6%
20	Tokyo	Asia	1.8%	-4.7%	1.2%
21	Delhi	Asia	1.7%	0.0%	0.0%
22	Hong Kong	Asia	1.7%	-2.2%	-2.5%
23	London	Europe	1.3%	1.4%	0.3%

Out of all buyers in the prime area, 70% are Spanish and 30% are foreign. The latter has increased significantly, doubling the figure registered two years ago. Foreign buyers, the majority of which are from Latin America, focus on Madrid and luxury properties, either as investments or as second homes.

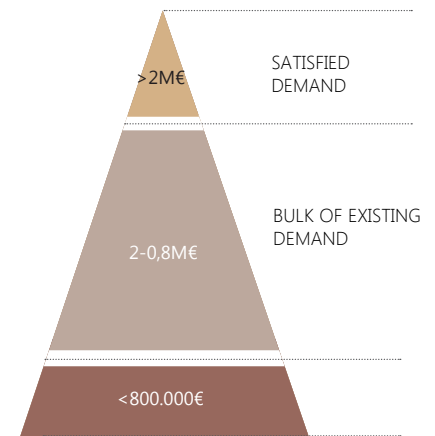
PRICES

Madrid is the European city with the second highest y-o-y growth in prime residential prices (5.2%), which is well above the European average (0.8%) and above cities such as London, Rome and Paris.

The Salamanca and Jerónimos districts head up the price recovery and have achieved a 7% and 8% y-o-y increase for resales. Chamberí registered more subdued growth of circa 3%. Luxury new-build prices have not varied significantly; this is primarily due to the lack of comparables available. Of particular note were the 4% increases in both the Chamberí and Salamanca districts.

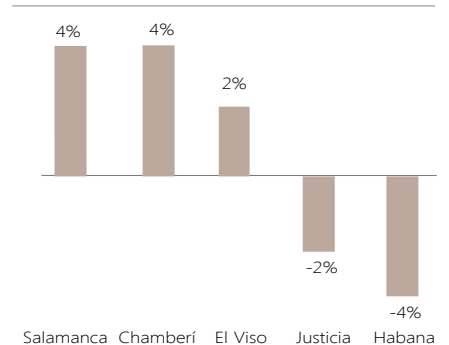
The most notable factor is that prices and sales periods are improving. Closing prices are higher and sales times are shorter. The average sales period used to range between 10 and 12 months, while it now stands at 3-6 months.

FIGURE 4
Demand pyramid



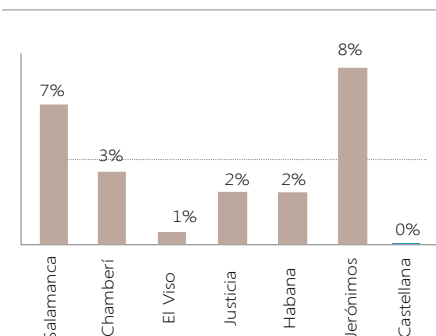
Source: Knight Frank/RPS

FIGURE 5
Difference €/sqm
New-build



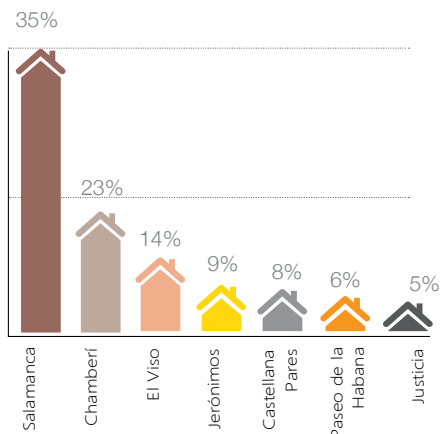
Source: Knight Frank/RPS

FIGURE 6
Difference €/sqm
Resales



Source: Knight Frank/RPS

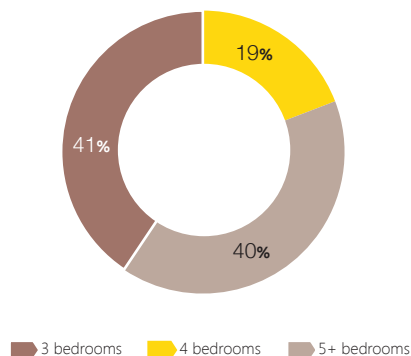
FIGURE 7
Distribution of stock by district
Resales



SUPPLY

The key factor relating to stock is the **lack of available supply in Madrid**. Of the €700 million of available supply for sale in 2014, the market has dropped to €500 million, which equates to **approximately 30% take-up**. The fact that there is virtually no new-build prime supply, coupled with the marked decrease in resale housing stock and buyer appetite is causing a genuine lack of new-build supply and good quality resale supply.

FIGURE 8
Distribution of stock by type
Resales



These figures suggest that a **window of opportunity for the development of new-build luxury homes** and property refurbishments is opening up.

For the **upcoming 18 months, we forecast development of approximately 80,000 sq m**, situated in strategic locations and ranging between land and refurbishment. Recent examples are Edificio España, the Canalejas Complex, José Abascal 48, Juan Bravo 3 and Fernando VI, among others.



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RESEARCH

Ernesto Tarazona

Partner - Residential & Land
Ernesto.Tarazona@es.knightfrank.com
+34 600 919 065

Alberto Costillo

Partner - Luxury Residential
Alberto.Costillo@es.knightfrank.com
+34 600 919 002

Davinia Benito

Research - Residential & Land
Davinia.Benito@es.knightfrank.com
+34 600 919 087

Nuria Serranos

Deputy Manager - Residential & Land
Nuria.Serranos@es.knightfrank.com
+34 600 919 056

Javier Morán

Product Manager - Luxury Residential
Jmoran@es.knightfrank.com
+34 600 919 043

José Gregorio Faría

Senior Manager - Luxury Residential
JoseGregorio.Faria@es.knightfrank.com
+34 600 919 116

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