

RESEARCH



# MADRID

PRIME RESIDENTIAL

AUTUMN 2017



MACROVIEW

SUPPLY

DEMAND

PRICES

# MACROVIEW

Spanish economic growth outstrips the Eurozone average, and after regaining the positive trend seen in previous months, consumer confidence is rising.

The Spanish economic recovery remains in full swing, up 3% in Q2 2017, with consumption, investment and foreign trade all making a more balanced contribution to growth than in pre-crisis years. The International Monetary Fund has indicated that Spain has made great progress in terms of its economic recovery, with growth forecast to outstrip the Eurozone average, and the country well-poised to tackle the remaining challenges, such as reducing structural unemployment and public debt and increasing productivity.

Despite the fact that the country is firmly fixed on the road to recovery and that the deflation risk has been mitigated, inflation is yet to reach the European Central Bank's target of 2%. This, coupled with the euro's strength against the dollar is delaying the ECB from making any decisions regarding the withdrawal of its monetary stimulus.

2017, with the percentage rising to 5.8% for existing housing.

Although prices are rising across the entire country, there are still marked contrasts between the Autonomous Regions. In Madrid and Catalonia, new-build housing prices rose by 7.6% and 7.8% respectively over the past 12 months, whilst the price of existing homes climbed even more, up 9.5% y-o-y in Catalonia and 11.4% y-o-y in the Region of Madrid.

New-build housing prices in the Region of Madrid have grown by 39% since they bottomed out in mid-2013, with existing residential prices also growing by 30.2% since the end of 2013. However, current average prices are still unable to break above levels last seen in 2011 for both existing and new-build properties.



“Cities such as Madrid, Berlin, Paris and Dublin have all seen prices for existing prime residential properties rise in recent months. However, with y-o-y growth of almost 11% in Q2, Madrid particularly stands out from its European counterparts”

CARLOS ZAMORA  
Head of Residential

## Spanish residential market

In the current climate of favourable financing terms and conditions and low interest rates, property investment is one of the most profitable options for investors. This is therefore also driving residential sales and putting upward pressure on residential market prices.

Sales marketing periods are decreasing and Q2 2017 saw the total number of residential transactions exceed 141,000, up 14.7% y-o-y, although this is still considerably down on the record 251,000 transactions registered in Q2 2006.

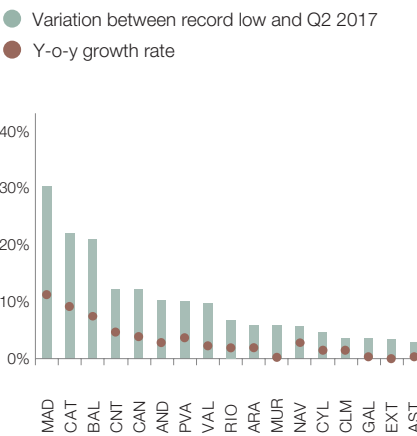
According to the latest data released by the INE for the whole of Spain, new-build housing prices grew by 4.4% y-o-y in Q2

GRAPH 1  
New-build housing prices  
(by Autonomous Region)



Source: Knight Frank Research | INE

GRAPH 2  
Existing housing prices  
(by Autonomous Region)



## Prime residential market

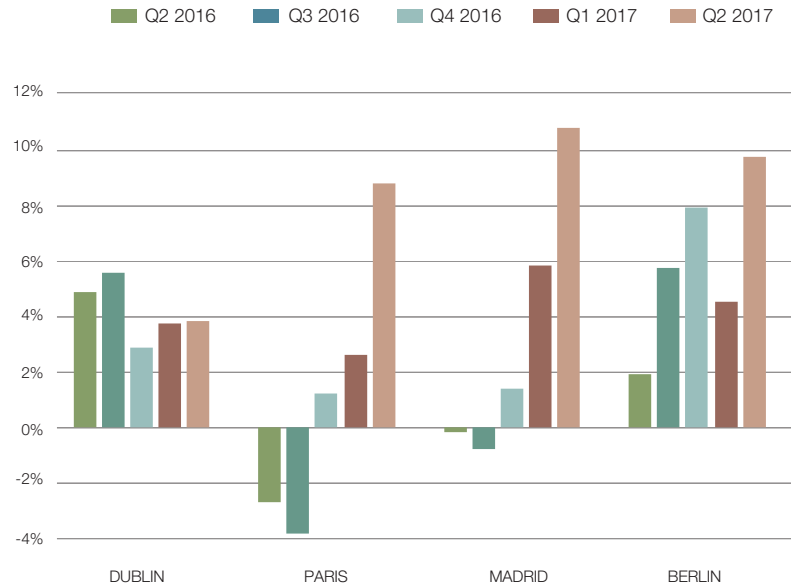
Although prime residential property prices were not hit so hard during the crisis, only now are prices starting to climb. Cities such as Madrid (10.7%), Berlin (9.7%), Paris (8.8%) and Dublin (3.8%), have all seen residential property prices tick up in recent months.

Madrid particularly stands out, registering close to 11% growth in Q2. Its high quality of life, infrastructure, physical and legal assurance, as well as its rich leisure, cultural and educational offering, make it the ideal setting for new projects and put it on a par with any other major city in the world. It also offers highly competitive tax and property maintenance advantages for international buyers.

In light of the macro data presented above, we can safely say that rather than another housing bubble, Spain is in the midst of a post-crisis expansive cycle, in which we expect to see sustained growth, albeit at a more moderate pace over the next year.

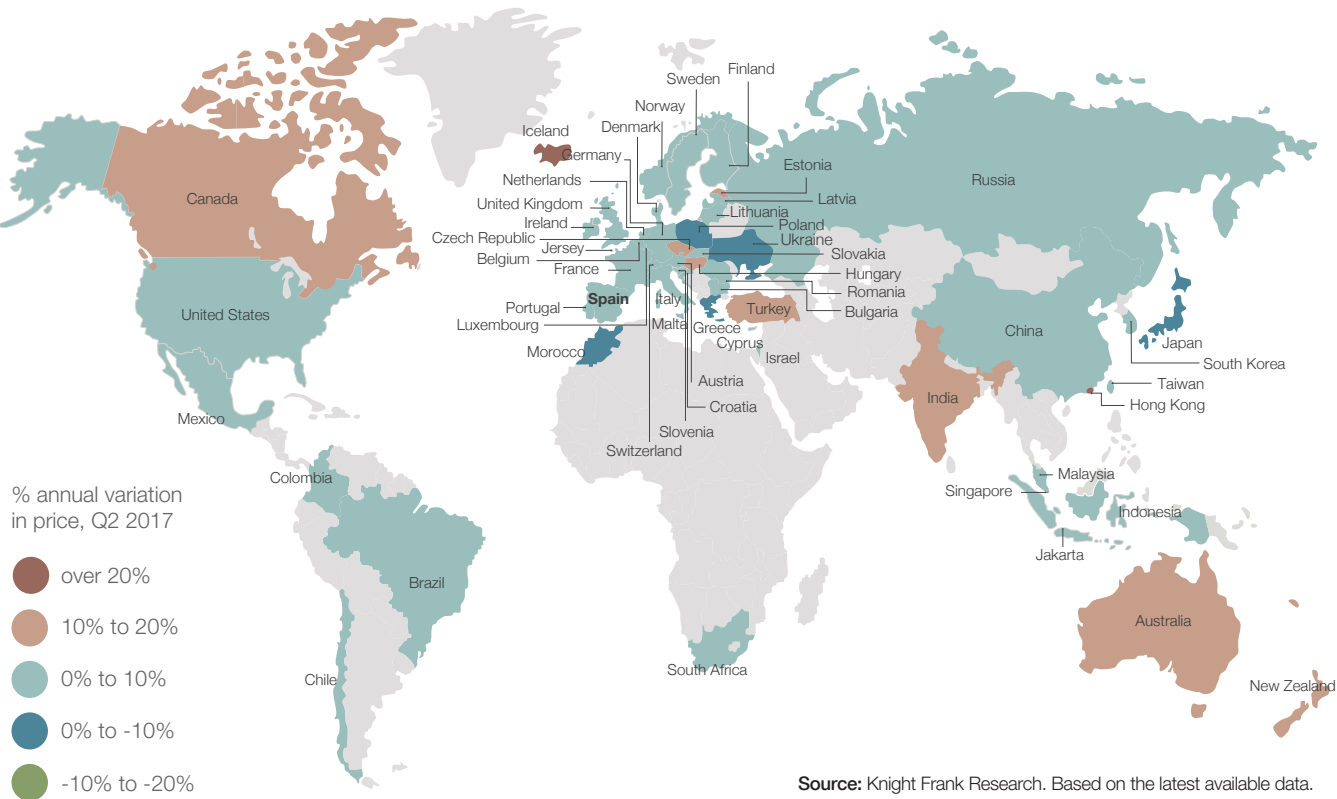
GRAPH 4  
Europe on the up?

Annual variation in prime residential property prices (%)



Source: Knight Frank Research

GRAPH 3  
Index of global residential property prices  
55 countries tracked in Q2 2017 (%)

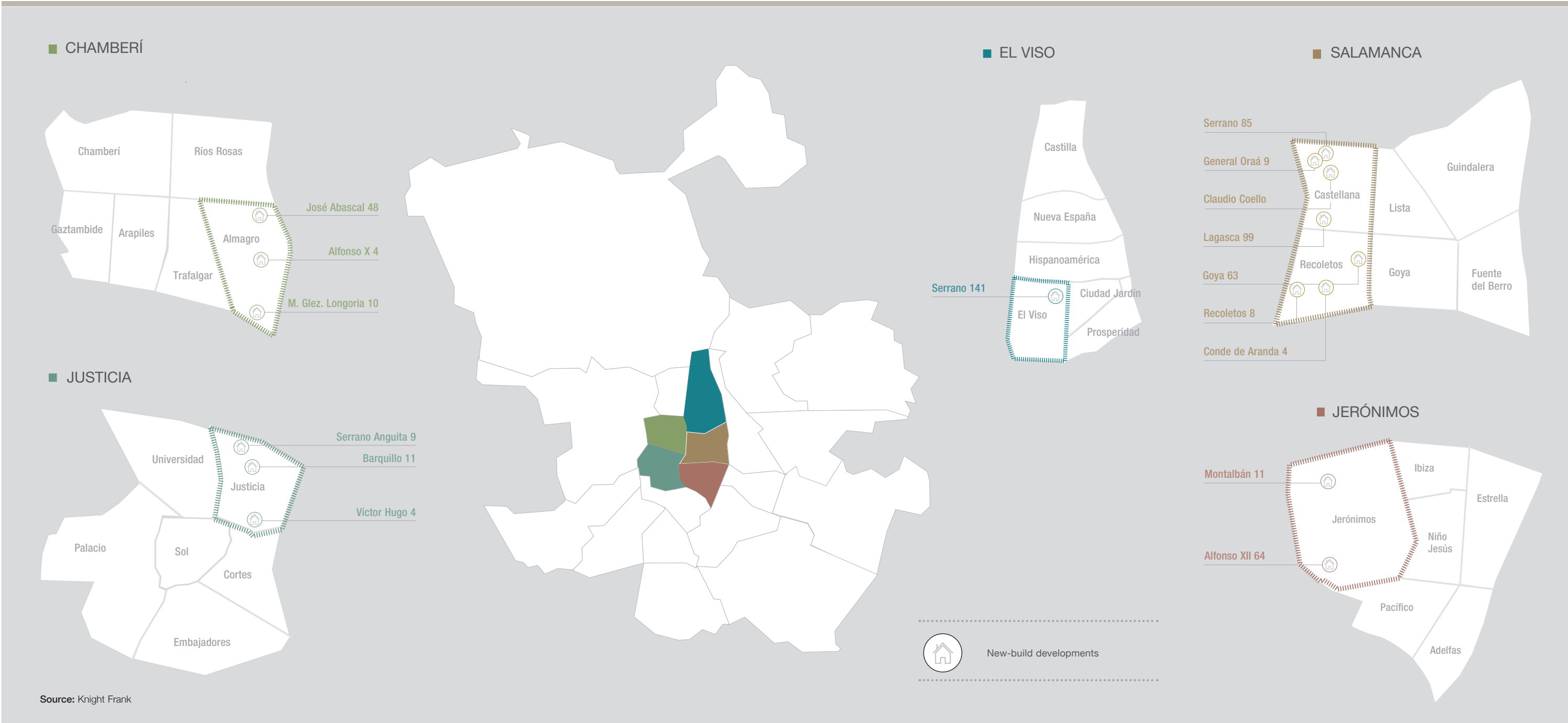


Source: Knight Frank Research. Based on the latest available data.



MAP OF PRIME AREAS

AVAILABLE STOCK New-build: 12.1% | Existing housing: 87.9%



CHAMBERÍ

AVAILABLE STOCK:  
NEW-BUILD: 11.3%  
EXISTING HOUSING: 88.7%

Area (Ha): 93.79  
Population (1-1-2016): 19,701  
Density (people/Ha): 210  
% from overseas: 12.2  
Number of households: 7,942  
Units fronting onto the street: 1,046

JUSTICIA

AVAILABLE STOCK:  
NEW-BUILD: 30.0%  
EXISTING HOUSING: 70.0%

Area (Ha): 73.94  
Population (1-1-2016): 16,420  
Density (people/Ha): 222  
% from overseas: 18.5  
Number of households: 8,326  
Units fronting onto the street: 1,712

EL VISO

AVAILABLE STOCK:  
NEW-BUILD: 2.2%  
EXISTING HOUSING: 97.8%

Area (Ha): 170.92  
Population (1-1-2016): 17,018  
Density (people/Ha): 100  
% from overseas: 11.1  
Number of households: 6,005  
Units fronting onto the street: 845

SALAMANCA

AVAILABLE STOCK: NEW-BUILD: 11.9% | EXISTING HOUSING: 88.1%

RECOLETOS

Area (Ha): 87.31  
Population (1-1-2016): 15,484  
Density (people/Ha): 177  
% from overseas: 13.7  
Number of households: 6,533  
Units fronting onto the street: 1,382

CASTELLANA

Area (Ha): 77.34  
Population (1-1-2016): 16,842  
Density (people/Ha): 218  
% from overseas: 14.6  
Number of households: 6,820  
Units fronting onto the street: 959

JERÓNIMOS

AVAILABLE STOCK:  
NEW-BUILD: 32.6%  
EXISTING HOUSING: 67.4%

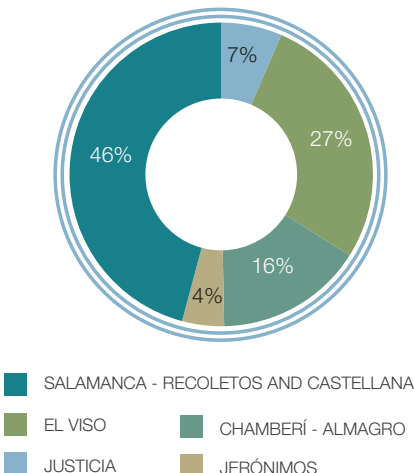
Area (Ha): 190.64  
Population (1-1-2016): 7,031  
Density (people/Ha): 37  
% from overseas: 9.3  
Number of households: 2,776  
Units fronting onto the street: 304

# PRIME SUPPLY

“The high percentage of prestigious period buildings in Jerónimos and Justicia is spurring the number of new full-scale refurbishment projects”

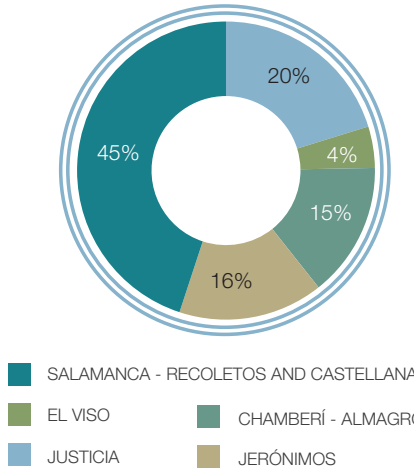


GRAPH 5  
Existing housing stock available at Q2 2017 (%)



Source: Knight Frank Research

GRAPH 6  
New-build available supply, Q2 2017 (%)



Source: Knight Frank Research

The super prime districts of Salamanca, Recoletos and Castellana account for almost 50% of total prime supply, owing both to their size and their demographic. El Viso accounts for the second-largest share and features a wealth of single-family properties, which represent a quarter of the neighbourhood's total available stock. Chamberí accounting for 15% and Justicia, 8% follow in third and fourth place. Jerónimos comes in last, with a very limited supply.

In these main prime areas, the distribution of existing housing by area is similar to the overall distribution, given that existing housing accounts for nearly 90% of supply.

Some districts, however, such as Justicia and Jerónimos feature more new-build housing than the other areas, accounting

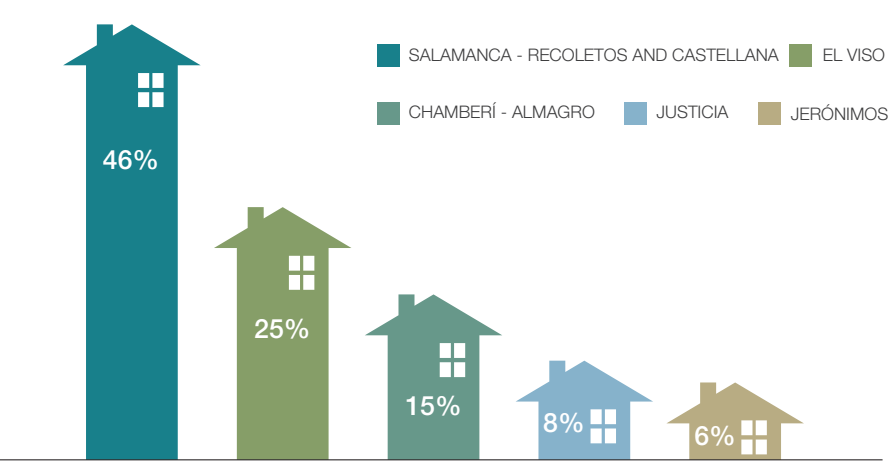
for almost a third of the total supply in Jerónimos and 30% in Justicia.

This growing amount of new-build housing can be attributed to the demand for refurbishment projects in these areas, as well as the lack of available existing housing.

In fact, whilst together both areas account for just 11% of total available existing housing, they account for 36% of the new-build market. In the Almagro area, new-build and existing housing account for similar percentages of the total supply.

The area with the greatest number of new-build luxury developments is Salamanca. Here, there are currently 7 prime developments with available supply, which account for 45% of the total new-build stock.

GRAPH 7  
Distribution of available supply by area, Q2 2017. Existing and new-build housing. (%)



Source: Knight Frank Research

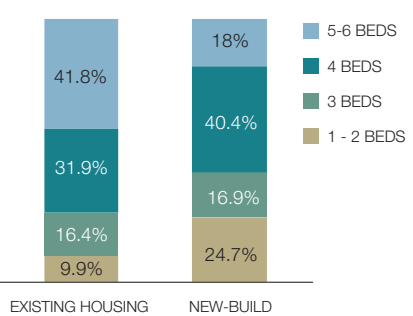
The fact that prime residential properties offer between 200 and 600 sqm of living space, allows for a higher number of bedrooms per home.

In fact, 4-bed properties have now replaced 3-bed homes as the most common residential property type.

The number of bedrooms differs for new-build and existing housing. Whereas 5 and 6 bed-homes account for over 40% of the total existing housing supply, they account for just 18% of new-build home supply. However, 4-bed prime residential properties are more commonly found in new-build developments than in existing supply. 1 and 2 bed properties account for almost 25% of total prime new-build supply, a similar percentage to the combined total for 1, 2 and 3 bed properties in the existing homes category.

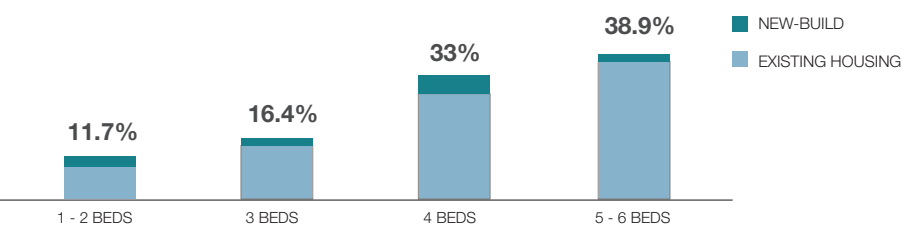


GRAPH 8  
Available stock by property type (Existing and new-build housing)



Source: Knight Frank Research

GRAPH 9  
Available supply by number of bedrooms (Existing housing and new-build)



Source: Knight Frank Research



“El Viso, with a wealth of single-family properties, accounts for 25% of total available supply”

JOSÉ FARÍA  
Head of Prime Residential





## NEW PROJECT TRENDS

In recent years, prime residential properties have been taken to the next level. As well as basic features such as 24-hour security, multiple parking spaces per home, extensive landscaped areas, open-air courts for padel and other sports, gyms complete with spas and/or infinity swimming pools, the new projects include additional features that are revolutionising the residential market, creating innovative spaces that strongly appeal to the upper classes and more sophisticated international buyers.

### KEY FEATURES OF NEW PRIME RESIDENTIAL PROPERTY



#### Location

This is a major lifestyle-defining factor. Vibrant areas are the most sought-after.



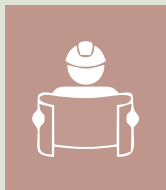
#### Exclusivity

Unique and bespoke homes. From the choice of layout to the finer details of the materials used.



#### Energy certificates

LEED, BREEAM and the recently introduced *Nearly Zero Energy Buildings*, which will become compulsory in the EU as of 2020.



#### Architecture prestigious

Period buildings with listed façades or unique architectural features. Designed by renowned architects.



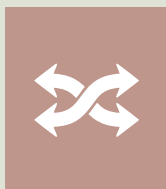
#### Technology

State-of-the-art systems to ensure maximum comfort in the home: full control of lighting, temperature, self-cleaning systems, etc.



#### Security

Installation of more efficient access systems such as facial and fingerprint recognition.



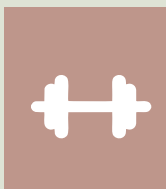
#### Merging concepts

Integrating art with architecture, or 5\* hotel services in private residences, creates unique experiences.



#### Landscaped spaces

Gardens and courtyards featuring exotic plants, which instils a sense of well-being for anyone passing through them.



#### Communal areas

Spacious gyms equipped with the latest in sports technology, cinemas, gourmet rooms, wine cellars and nurseries are some examples.



GUISANDO 25

Option for a bespoke interior design



FSPRM

Four Seasons hotel services provided in the 22 exclusive apartments



MONTALBÁN 11

Art and architecture are effortlessly combined via the *Chromatic Ambience* created by the acclaimed French-Venezuelan artist Carlos Cruz-Diez. The only initiative of its kind in Spain to date.



SERRANO141

Designed by the acclaimed architect Rafael Robledo



SERRANO 85

Fully refurbished *art-decô* building



# TRANSACTIONS

Salamanca remains the city's most sought-after area, accounting for over 60% of the prime existing residential property transactions in the last year. El Viso is ranked second ahead of Almagro and Jerónimos. Lastly, Justicia accounts for just 3% of the total prime residential property transactions.

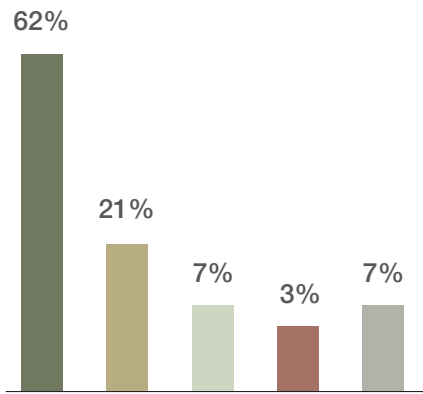
Domestic buyers account for two thirds of Madrid's prime residential property transactions, with a considerable increase being seen in the number of buyers from other provinces, the latter also benefitting from the Region's tax deductions. However, there are a growing number of international buyers, especially from Latin America and other European countries, who account for 18% and 11% of demand respectively.

The cultural and historical ties that Spain shares with Latin Americans and the proximity and similarity in institutional frameworks with other European countries are both factors that increase Spain's appeal as an investment options for these markets.

As these new market players know, it is paramount that they understand today's buyers' needs so that new developments meet their requirements in terms of rooms and spacious layouts, high-end specifications, exclusive projects offering state-of-the-art technology that affords the home with maximum comfort and energy efficiency.

“The prime residential property market has seen an influx of international buyers, especially Latin Americans, who are being increasingly drawn to Madrid thanks to everything it has to offer”

GRAPH 10  
Distribution of transactions by area.  
2017. (%)



Source: Knight Frank Research



# WHO BUYS PRIME RESIDENTIAL PROPERTY?



Source: Knight Frank Research

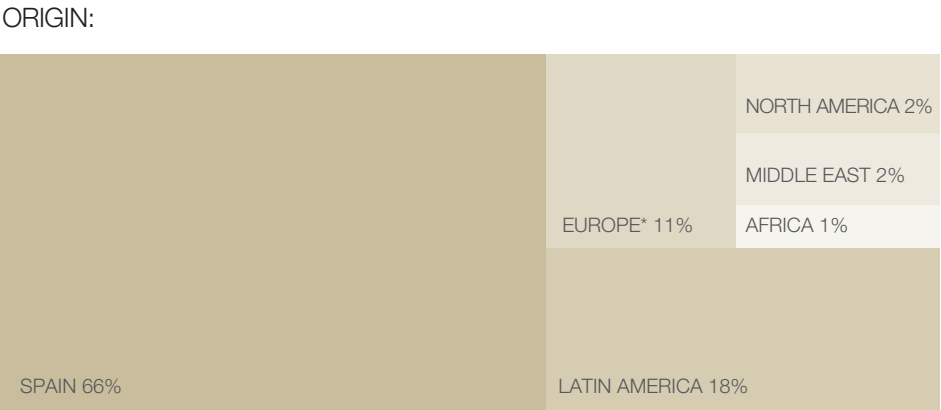
**CHAMBERÍ**  
Spanish families for owner occupation and investors to let out to students and young people from overseas.  
They are interested in 2-4 bed apartments, between 100 and 250 sqm that are within striking distance of the en-vogue areas that boast rich cultural and leisure offerings.

**EL VISO**  
European families with children that require large apartments or houses.  
They are interested in homes of more than 250 sqm that also offer generous outdoor spaces.  
Foreign diplomats stationed in the city.  
They select the location based on its proximity to the area with the largest number of embassies.

**JERÓNIMOS**  
Spanish and Latin American families.  
They are interested in homes larger than 200 sqm, period properties in quiet areas that are close to parks and areas of cultural interest.

**JUSTICIA**  
Young professionals, executives and investors.  
They are interested in 2-bed apartments in the region of 100 sqm that are located a short distance from the city's top leisure areas.

**SALAMANCA**  
Spanish, other Europeans and Latin Americans.  
They are interested in homes of between 200 and 250 sqm that are located in quiet residential areas, but close to the city's most prestigious shopping areas.



Key buyers: Venezuela, Mexico, Switzerland and France.

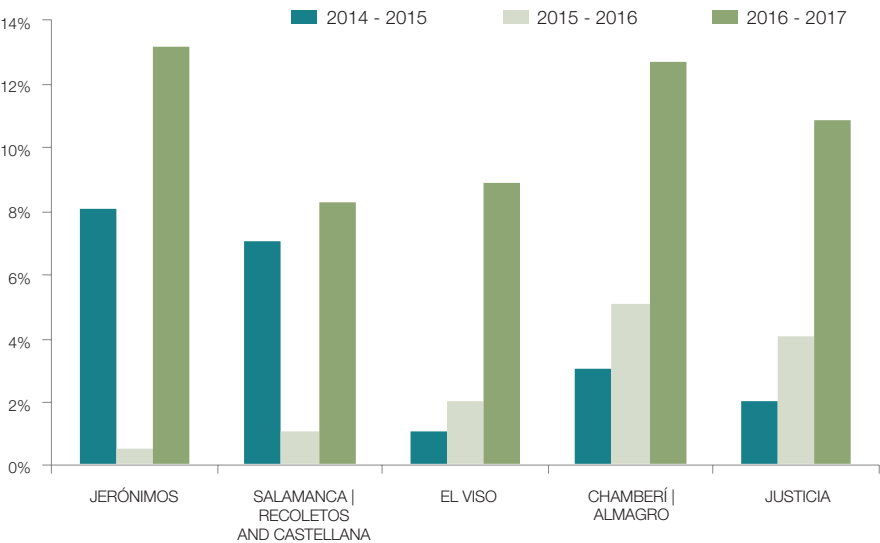
\*Excluding Spain

# PRICE ANALYSIS

After remaining stable for a year, existing residential property prices have now started to climb at a far higher rate than in previous years in all of Madrid's prime areas.

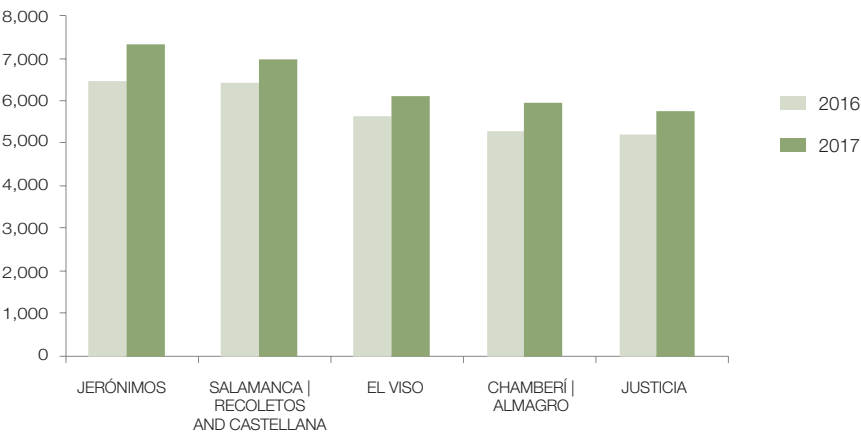
We would particularly highlight Jerónimos. Here, prices remained largely flat last year, nudging up just 0.5%, mainly due to the political instability, after rising 8% in 2014 and compared to the spike of over 13% seen so far this year. We would also highlight the increase in price per sqm in the Almagro neighbourhood, where the best properties have reached €6,000 per sqm versus €5,300 per sqm last year. Prime residential properties in the remaining areas have registered average price increases of €500 - 550 per sqm, up by between 8.2% in Salamanca and 10.8% in Justicia.

GRAPH 11  
Average prices in prime neighbourhoods. Existing\*.  
Annual variation (%)



Source: Knight Frank Research

GRAPH 12  
Average closing price. 2016 vs 2017. Existing\*.  
(€/sqm)



Source: Knight Frank Research

\* Closing prices for prime new-build homes are not included, as the reduced size of the sample would skew the results of the study.

The luxury residential market also continues to trend upwards across the rest of the country. As well as Madrid, some areas of Ibiza, Mallorca, Marbella and Barcelona continue to register some of the highest prices for prime residential properties out of all Spanish cities.

The Es Cubells area in Ibiza holds the number one spot, where €1 million can buy 133 sqm. Madrid's Jerónimos comes in a close second, with the same amount buying 136 sqm, on a par with the price per sqm in other areas of the Balearic Islands such as Port d'Andratx, Son Vida and Palma, in Mallorca, and the centre of Ibiza. The second most expensive area is the Salamanca district where on average 143 sqm of prime residential property can be bought for €1 million, however, in specific areas such as Recoletos, this area drops to 139 sqm.

Barcelona's most expensive area ranks at 10th in the Spanish city ranking.

In L'Eixample, a 161 sqm home can be bought for €1 million, this rises to 169 sqm in Sarrià and up to 183 sqm in Barcelona's old town.

Regarding other European markets, Monaco still holds the top spot in terms of price per sqm, with average prices ranging between €48,600 and €59,300 per sqm. London follows at number 2, with prices ranging between €27,500 and €33,600 per sqm, with Geneva's €20,200 to €24,700 per sqm coming in third.

The price per sqm for prime residential properties in Madrid stands at between €6,400 and €7,800 per sqm, less than half compared to cities such as Vienna, Paris and Zurich. This price gap with other European cities, and the forecast uplift potential over the coming years, makes prime residential properties in Madrid extremely appealing to international investors.

“Spain offers excellent prime residential investment opportunities and is especially attractive given the current low interest rates. Its unrivalled international transport links make it the ideal country to invest in compared to other European cities”

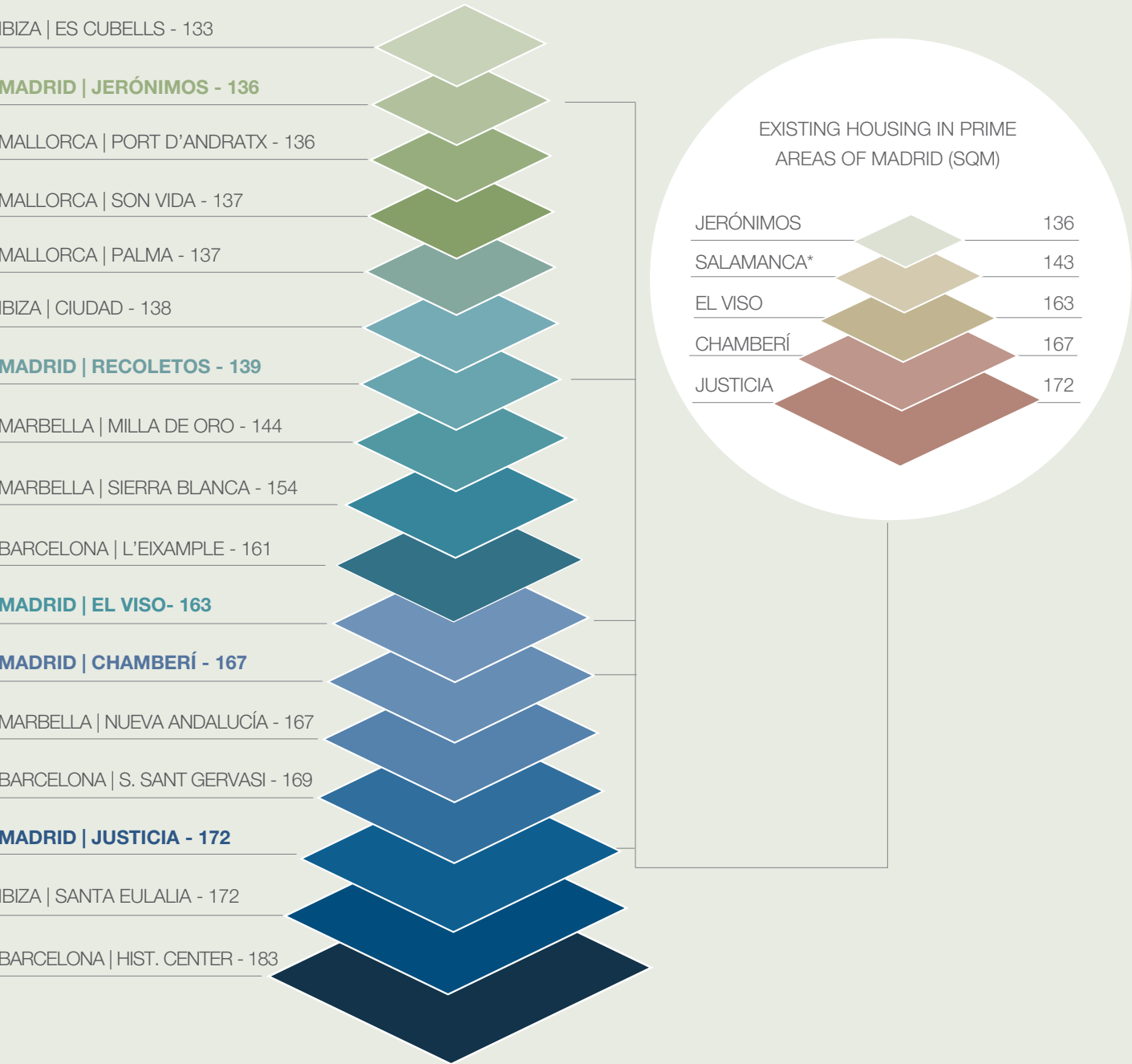




PRICE ANALYSIS

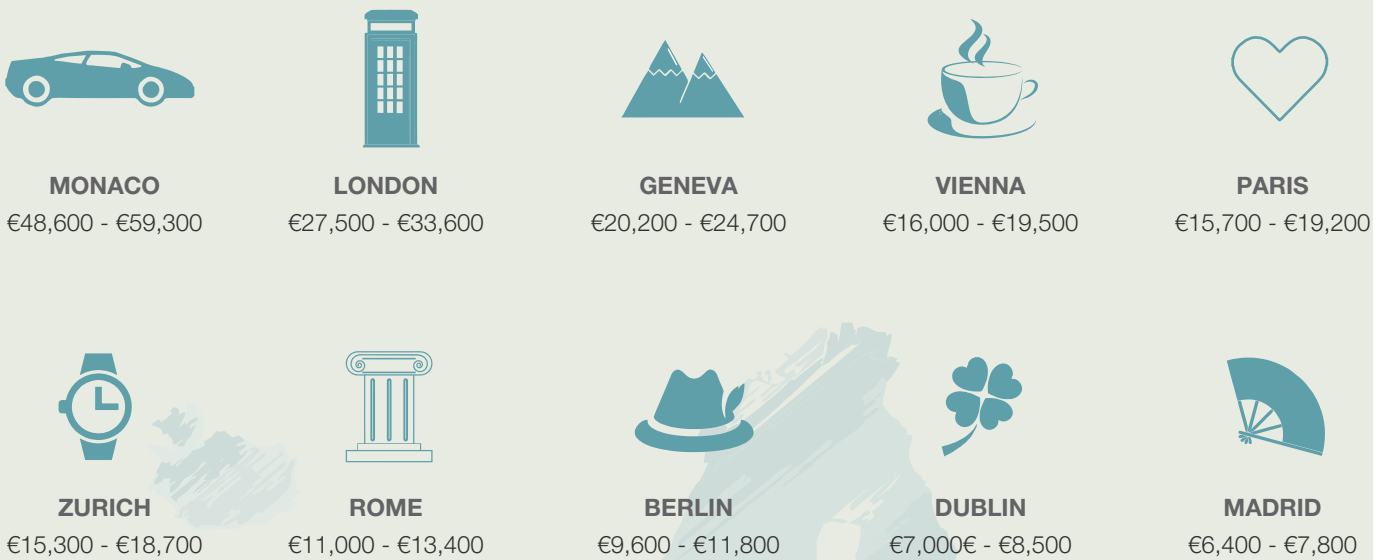
GRAPH 13  
How many sqm can I buy with €1 million?  
(sqm)

PRIME AREA INDEX  
TOP NEIGHBOURHOODS IN SPAIN



Source: Knight Frank Research  
Analysis based on prestigious properties in each area.  
\* In the Salamanca district, the Recoletos and Castellana neighbourhoods have been studied.

GRAPH 14  
Luxury residential prices - Top European cities  
(€/sqm)



Source: Knight Frank Research



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