Research

Madrid Insight
2024

Latest analysis of the capital's most exclusive €1m+ residential market, focusing on prime locations.

KEY FINDINGS

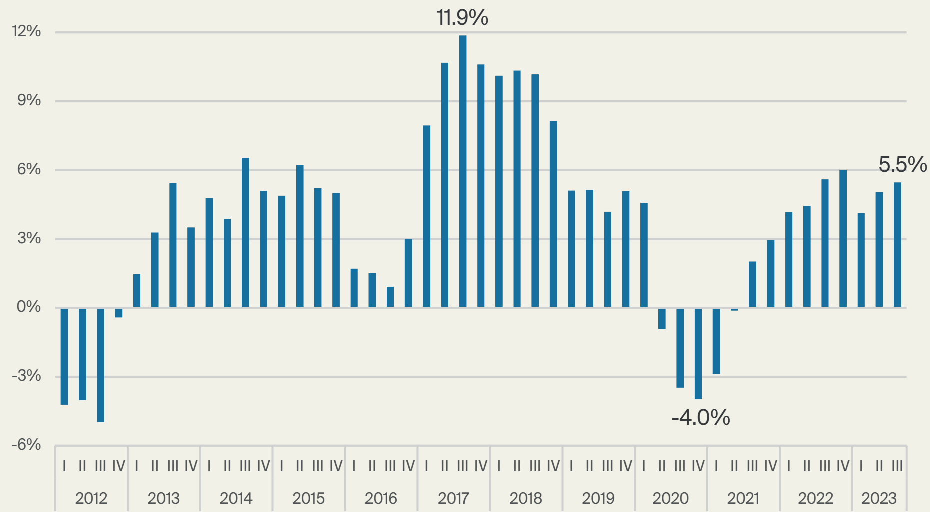
All over the world, price tags for prime homes continue to rise.

And in Europe, nowhere is the *prime* market growing faster than in Madrid.

The number of high-net-worth individuals has increased – and this is expected to continue to be the case over the coming years.

The average price of a *prime* home in Madrid will rise by 6.5% in 2023, outperforming forecasts released in the early part of the year, with further growth of 5% in 2024.

Figure 1. Annual average prime price variation in Madrid



Source: Knight Frank Research

As a global trend, average prices for premium homes are pushing ever higher. Specifically, the average price per sqm rose 2.1% in the last 12 months*, the fastest growth rate since Q3 2022.

It points to a stabilisation in the real estate markets, echoing the findings of Knight Frank's Prime Global Index — despite the economic uncertainty still hanging over the world. Indeed, 67% of the 46 cities studied saw year-on-year growth.

Even so, higher interest rates are having a dampening effect, holding the rate of increase at 2% in the last three months (July–September 2023).

Madrid saw the fastest growth in prime housing prices of any city in Europe in Q3 2023, ahead of Paris, London and Frankfurt. This market is expected to continue to see strong growth over the next few years, thanks to Madrid's good economic performance and the confidence offered to both local and international investors, as well as the more challenging outlook facing other parts of Europe.

Over the last 12 months*, the average price of prime residential property in Madrid has increased by 5.5% per sqm — outmatched only by Dubai, Shanghai and Manila, according to Knight Frank's Prime Global Index (Figure 1).

This growth has largely been driven by the large number of national and international investors with substantial funds at their disposal.

Q3 2023's performance did not come out of the blue. Rather, it reflects a longer-term trend that has been taking shape since Q3 2021. Since that point, year-on-year growth has hovered between 2% and 6% in every new quarter.

The average for 2013 to 2019 — before COVID-19 — stood at 5.8%.

Some of the latest trends shaping the market include:

1. Continued strong demand for prime residential property

At the global level, a growing influx of new high-net-worth buyers will continue to drive up demand for prime homes over the coming years.

In Madrid's case, by 2027 the number of individuals with a net worth of $1 million or more is set to rise by 30% compared with the end of 2022.

Meanwhile, by 2027 the number of people with a net worth of $30 million+ will expand its membership by another 10% compared with the end of 2022.

Madrid's prime housing market is sufficiently mature that potential buyers are raising the bar, demanding ever-higher standards of quality and finish as well as

**Period: from September 2022 to September 2023* sweeping views, impressive ceiling heights and an extensive range of amenities.

2. Madrid: appealing and competitive

The Spanish capital has two major competitive advantages: a prime housing market with solid fundamentals and the promise of much more for your money: a million dollars will get you three times more prime space in Madrid than it will in London. In terms of price per sqm, Madrid is currently ranked 17th out of 46 global cities featured in Knight Frank's Prime Global Cities report (Figure 2).

3. Lighter burden of rising interest rates on prime residential demand

Most prime buyers have no need to seek financing to purchase this type of property, and those that do finance part of the price rarely require a substantial LTV.
This explains why soaring interest rates have not cast a pall over demand for luxury housing, and nor is this likely to change. What's more, the current mortgage market is looking relatively relaxed; for a prime buyer, accessing finance is no great hurdle. At the close of Q2 2023, around 57% of housing purchases were mortgage-financed — far from the feverish heights of 2007–2008, before the financial crisis, when more mortgages were granted than homes ultimately sold (Figure 3).

4. Compelling offer of Madrid's upmarket hotels, restaurants and high-street shopping

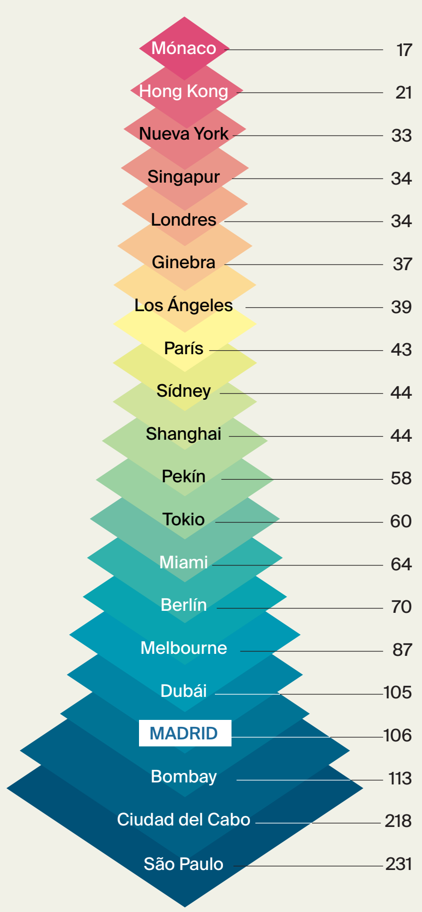
In the last five years alone (2018– H1 2023), eight new five-star hotels were opened in Madrid, adding more than 2,000 new beds to the luxury segment (+20% compared to 2018).

At Knight Frank Research, we view growth in high-end hotels as an early indicator of future international demand for prime residential property — the reasoning being that luxury hotels largely cater to international tourists.

Fine dining is also flourishing in the capital. Three new Madrid restaurants won spots in the Michelin Guide in 2023. Word-

Figure 2.

How much *prime* space will $1m buy in each of the selected cities?



Source: Knight Frank Wealth Report

class cuisine is just one more ace up the capital's sleeve when it comes to appealing to the high-net-worth market.

Meanwhile, luxury on the high street proved fairly resilient during the pandemic. Since the end of 2022, there has been a certain upward pressure on prime rents in Madrid's major shopping streets, primarily driven by the luxury segment.

5. Upwardly mobile prices in Madrid's prime zones

All of Madrid's prime zones recorded price growth of over 5% by the close of Q3 2023, with the sole exception of El Viso (Chamartín), where values have held steady since 2022. It was the central neighbourhood of Justicia that saw the steepest price rise, with the average price per sqm climbing by 8%. Almagro (Chamberí) and Jerónimos (Retiro) were close behind on 7%, followed by Recoletos and Castellana (Salamanca) on 5%. When we look at the picture five years ago, it is clear that certain areas have appreciated faster than others: prices in Salamanca are up more than 22% since 2018, Chamberí and Retiro around 13%, Chamartín a little over 6% and Centro approximately 4% (Figure 4).

6. Branded residences

Knight Frank's 2023 Global Branded Residences report highlights our prediction that the global market for branded residences — housing developments with hotel-style services, mainly operated by international luxury hotel chains — will be 55% bigger by 2026. Our analysis identifies 186 such developments in cities around the world, with another 32 expected to open later this year. By region, this model has made the greatest inroads in North America (40% of the total), followed by Asia-Pacific and Europe. In terms of market share, Ritz-Carlton and Four Seasons are currently the dominant names in this segment.

Luxury hotels are a major growth sector in Spain, particularly in Madrid, Mallorca and Malaga: beloved by international luxury brands. Many operators are readying to launch their own versions, keen to mirror their previous success in other regions of the world.

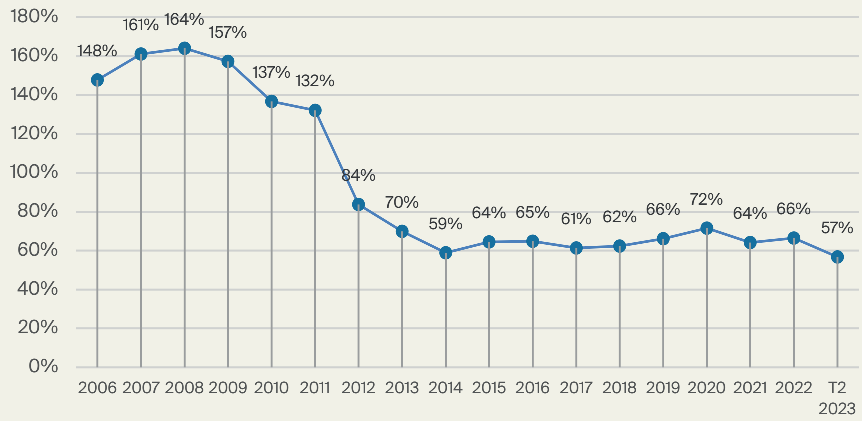
Madrid's branded residences market is flourishing, following the success of Four Seasons Private Residences Madrid, launched in 2020 with 22 private residential apartments and an average price of €15,500 per sqm. Another three projects are currently in development: Mandarin Oriental (Hermosilla 47), Sagasta 27 and Infantas 40. Overall, the capital is set to receive around 80 apartments in this format, uniquely interpreted by every brand. Average prices can be expected to range from around €12,000 per sqm to €20,000 per sqm. Demand for these kinds of properties is likely to hold up well over the longer term,

braced by wealth creation, tourism and solid investment fundamentals. We are therefore likely to see further growth in this sector in the years to come.

7. Prime new-builds: strong demand hampered by low supply

In the first nine months of 2023, the volume of prime new-build housing launched to the Madrid market fell by approximately 30% compared with the same period of 2020.
There are three main factors behind this dip:
- Rising construction costs:
Essential materials used in housing construction, including steel, concrete and wood, have become more costly since 2022. Forecasts indicate that prices will not return to the kinds of levels seen in early 2019.
- Higher interest rates:
While prime home buyers are not particularly reliant on bank financing, developers are.
After successive interest rate hikes, the cost of financing has driven up overall construction costs.
- Lack of serviced development land:
Between the 2008 financial crisis and the 2014 recovery, land management and urban planning were not treated as priorities by local government. Consequently, developers have had to move at a slower pace with their new build projects.

Figure 3. Mortgages/transactions ratio



Source: Spanish Development Ministry | INE

8. The most well-off households have increased their net wealth by 29%

In the first half of 2023, household net wealth in Spain grew by 29% compared with the average for the five years immediately preceding the COVID-19 pandemic (Figure 5).
Net wealth is the difference between the total value of a household's assets (property and financial) and its liabilities and loans (debts).

At Knight Frank Research, we use this indicator as a proxy for the country's highest net-worth families. According to the National Institute of Statistics:
"It is worth stressing that this measure has a high number of wealthy households in the sample. Asset distribution is highly asymmetrical, and certain assets are concentrated in the hands of a very few.

Investment in certain asset types is restricted to a small fraction of the population, generally those households with the greatest wealth."

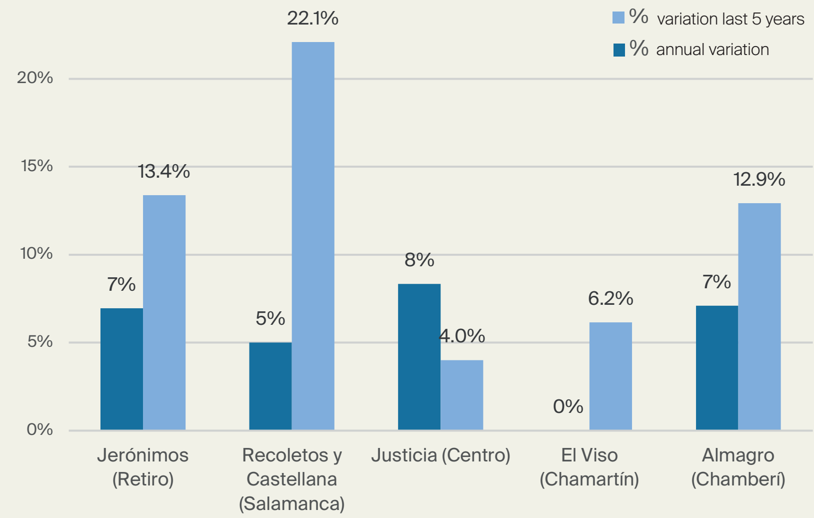
9. Buyer diversification

Madrid's prime housing market now carries increasing international prestige, and the range of nationalities among potential buyers has broadened in recent years. These buyers are drawn to the city's superior quality of life and world-class leisure, sporting and cultural opportunities.

The bulk of demand remains domestic in origin, but the share of Spanish buyers dropped from 70% in 2018 to 60% in 2023.

While North American buyers were rare in this market in 2018, they now make up 2% of the total.
Latin America accounted for 18% of demand five years ago, but 22% in 2023. Buyers from

Figure 4. Prime housing prices in prime Madrid locations over time.



Source: Knight Frank Research. Figures to Q3 2023.

countries like Mexico, Venezuela, Colombia and Peru have also grown in number; others, like Argentina and Chile, are starting to appear.

European buyers (excluding Spain) grew from 11% of the total in 2018 to 13% in 2023.

Finally, there has been a slight rise in the numbers of potential buyers from Africa (1% of the total) and the Middle East (up from 1% to 2%).

10. Forecast for year-end 2023 and 2024

Price projections for the residential sector are sharply polarised between mainstream and prime markets.

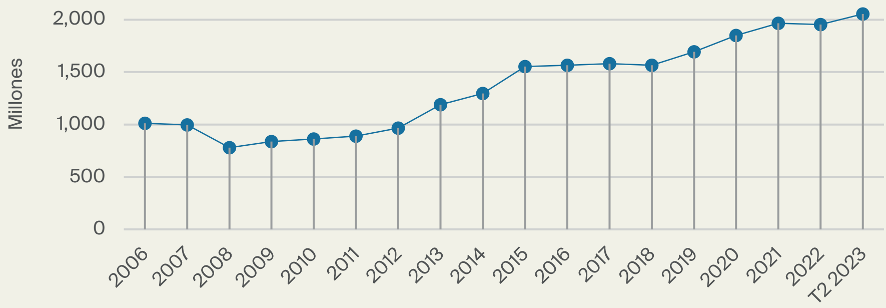
The mainstream market is feeling the bite of rising interest rates, although, in Spain at least, average prices are now expected to fare better than predicted in 2023, with projected growth of 1.2%. However, experts are warning of a 2% contraction over the course of 2024, according to Bankinter's forecasts.

Meanwhile, the prime segment seems as resilient as ever and impervious to Spain's ongoing political and economic challenges. As 2023 draws to a close, the average price in the prime market is anticipated to have risen by around 6.5% year on year; just a few months ago, forecasts were pointing to 4%. What has changed? Quite simply, the feared recession — which seemed like a real possibility until quite recently, casting a shadow of uncertainty over the market — failed to materialise over the course of 2023.

Forecasts for 2024 remain encouraging, indicating annual growth of 5% (Figure 6).

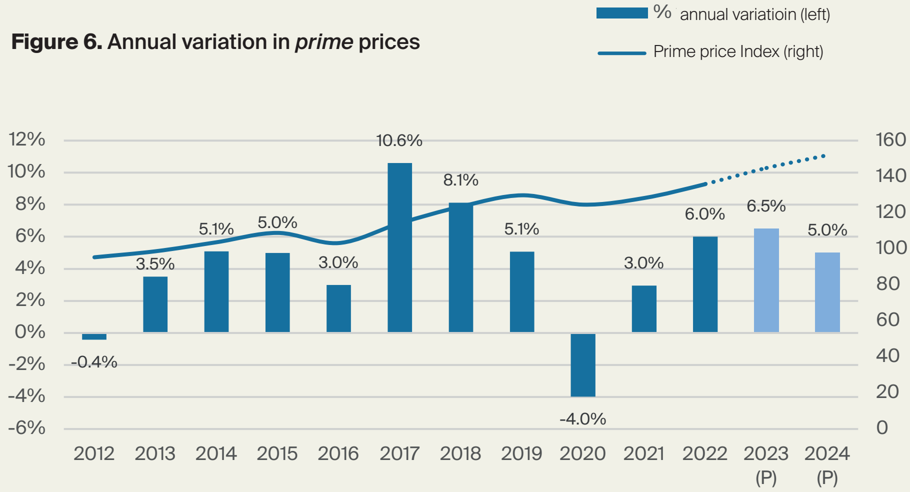
This improved outlook, assuming continued price progression in the prime segment over the next few years, is endorsed by a rise in the number of high-net-worth individuals entering the arena — itself a reflection of the sound fundamentals of prime areas in the capital. These areas have risen to the challenge of a demand profile in constant flux, continuously adapting their cultural, retail and dining offer to evermore sophisticated tastes. Their proven agility has helped keep Madrid firmly on the radar of high-net-worth buyers.

Figure 5. Net household wealth (€ million)
Madrid



Source: Bank of Spain

Figure 6. Annual variation in *prime* prices



Source: Knight Frank Prime Global Cities Index. Figures at year-end. Base 100= Q2 2016

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