

RESEARCH



Residential

2019 | NEW DEVELOPMENT MADRID



Amara Homes, promoted by Neinor Homes

ECONOMIC BACKDROP

SUPPLY

DEMAND

PRICES

The Spanish housing market

“

"The housing market is currently thriving thanks to economic growth, job creation and a market that is regaining the confidence lost following the financial crisis"

As the Spanish economy improves and the unemployment rate falls – ending 2018 at 14.5%, the lowest figure since early 2009 – consumer confidence is picking up, and this is being reflected in a rising number of housing purchases.

According to official data, Spain recorded 560,000 housing transactions in 2018, up 9% y-o-y, which broken down by property type equates to a 13% increase in new-build transactions and a 9% rise in resales.

Residential investment demand and resales will continue to play an important role in how the market plays out in 2019.

For investors this is largely due to the unattractive yields offered by low-risk financial assets, rising house prices and the increased confidence in the residential sector.

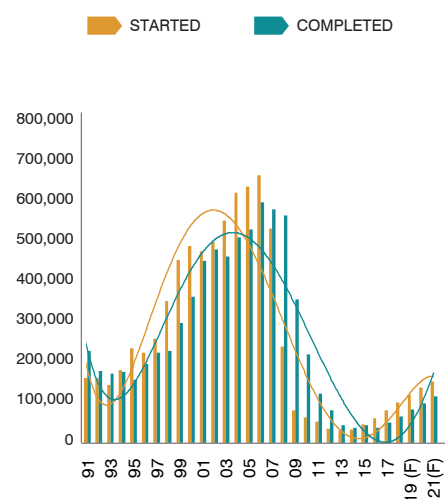
In 2018, resales accounted for over 90% of all transactions. The main reasons for this

include the more abundant supply of this type of housing on the market, the fact that it is both generally easier to find buyers for older homes and that resale prices tend to be more affordable than new-build prices, the potential value uplift that can be achieved on the purchase price – provided the property was not acquired when the market peaked – and the fact that buyers once again have access to bridging loans, among others.

2019 could see an increased number of first-time buyers, as families move out of their rental properties and into their own homes, driven mainly by rising rents in certain provinces, more available financing, increased family income and improved economic prospects for the future.

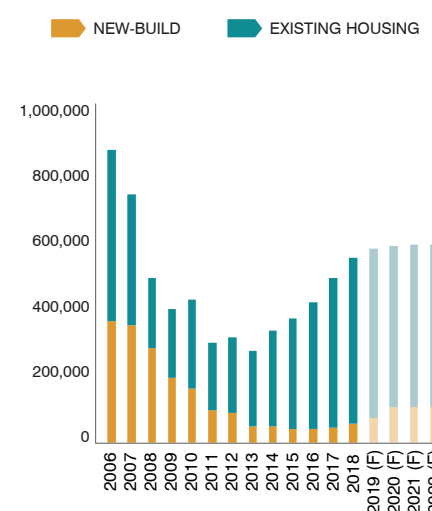
Housing prices have continued to rise over the past year, climbing 4% y-o-y on the back of spiralling demand and stunted supply growth.

GRAPH 1
Housing starts and completions
1991 - 2021 (F)



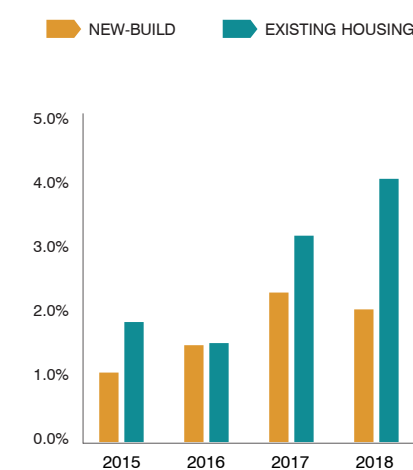
Source: Ministry of Public Works |
Knight Frank Valuations Department

GRAPH 2
No. of housing sales
2006 - 2022 (F)



Source: Ministry of Public Works |
Knight Frank Valuations Department

GRAPH 3
Annual variation in housing prices
2015 - 2018

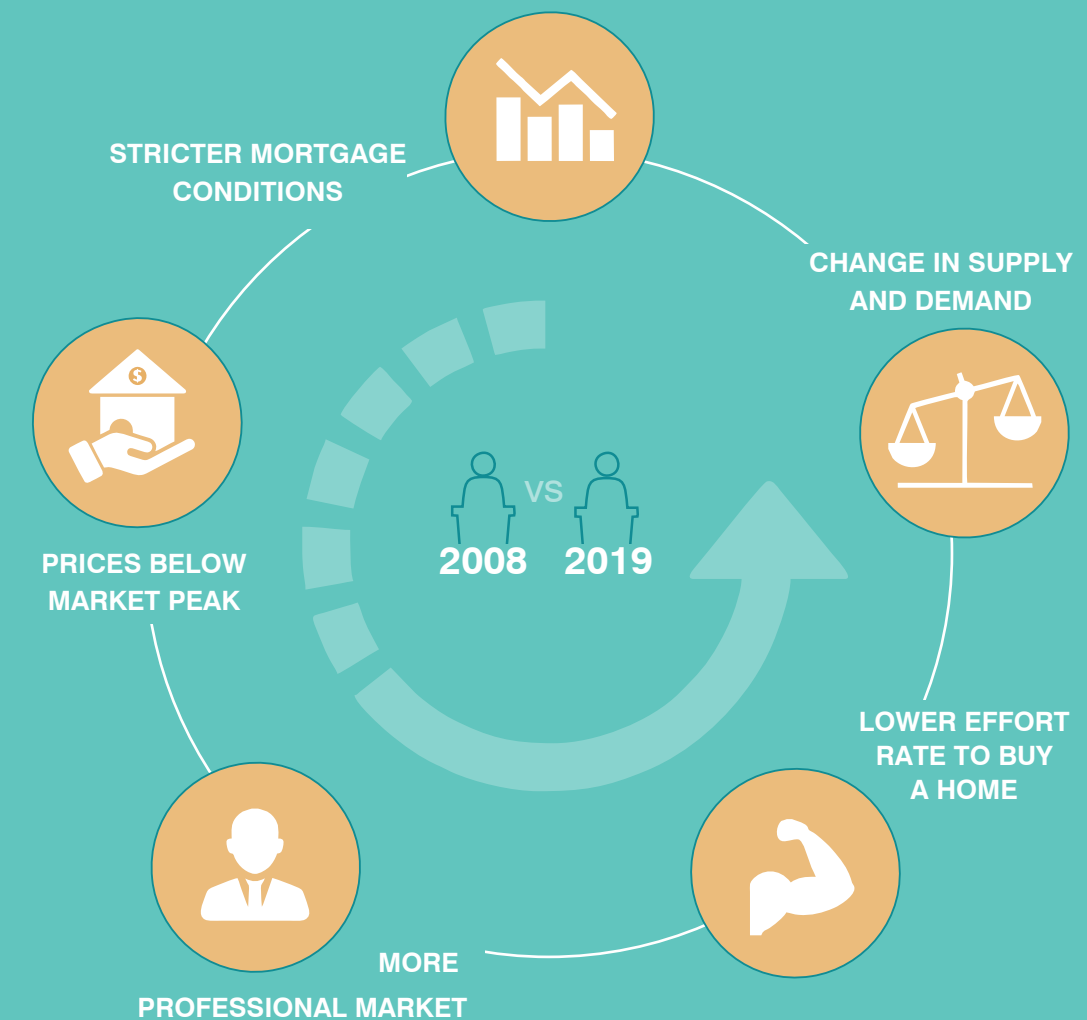


Source: Ministry of Public Works

How does this property cycle differ to the previous one?

The strong performance of the real estate sector - especially major cities, such as Madrid and Barcelona - has set alarm bells ringing about the possibility of a new property bubble. However, there are several differences between the current cycle and that of 2008.

GRAPH 4
Key residential market takeaways
2008 - 2019



Source: Knight Frank Research

Mortgage lenders now take a stricter and more cautious approach

One of the main differences is that prior to the crisis, too many mortgages were issued, some even above the value of the home. Now, financial institutions are more thorough and impose much stricter terms and conditions, lending a maximum of 80% of financing of the sale or valuation value, whichever one is lowest. In 2018, 74% fewer mortgages were signed compared to 2006, when a record number were granted.

Another major difference – and one that has boosted consumer security – is the increased financial control that borrowers now have for up to 30 years, meaning mortgages are no longer dependent on Euribor fluctuations, thereby reducing the risk of defaults and arrears.

Developers: more risk averse and an ever more professionalised sector

The sector has undergone a sea change,

and nowhere is this more evident than in the role of developers. Prior to the crisis, frenetic levels of demand led to an exponential increase in the supply of new developments.

As a result, some of the developments that were brought to market during the years leading up to the crisis, no longer make the grade and fail to offer a real alternative for today's buyers.

Developers are therefore now taking on projects that are able to meet the expectations and needs of today's most demanding buyers, using high-quality sustainable materials and technology.

Lower effort rate to buy a home

It currently takes an average of 7.4 years of gross household annual income for a family to purchase a home, a number that has been steadily climbing since 2014 – largely due to the fact that property prices have been rising faster than salaries. Although the effort rate has grown considerably, it is a far cry from 2007, when it took nine years to buy a house.

Prices below market peak

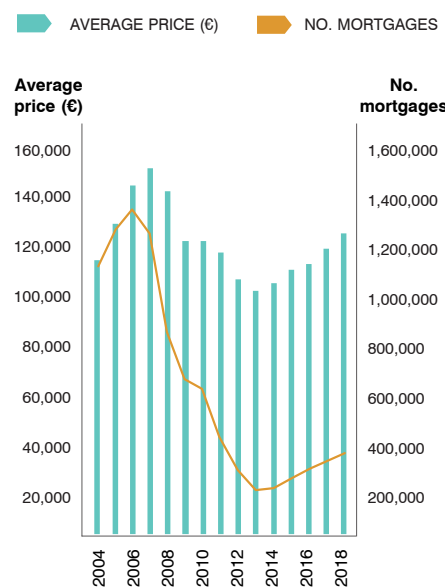
Housing prices started to climb in 2014. Last year, prices for new-build housing rose by an average of 2.3%, while resale prices climbed by an average 4% for Spain as a whole. However, this growth has not been uniform across the board. While some areas of Madrid and Barcelona have seen double-digit price growth that has almost marked record highs, other provinces are still considerably lagging prices recorded a decade ago.

Housing supply and demand

During 2018, just over 560,000 open-market homes were sold, well below the 900,000 recorded in 2006. This demonstrates that although the market is very active, levels remain a far cry from the previous market peak.

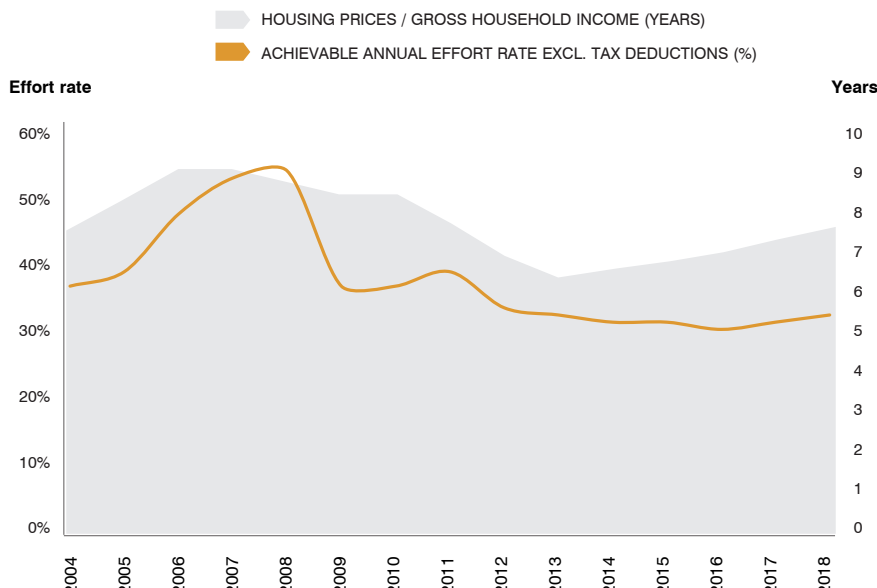
Resales continue to top the board, accounting for 90% of all housing sales, compared to 10% for new builds – with the market is still lacking in new-build developments that offer a real alternative for buyers.

GRAPH 5
Mortgages over time
2004 - 2018



Source: INE

GRAPH 6
Achievable annual effort rate (%)
2004 - 2018



Source: Bank of Spain | Knight Frank Valuations Department

Proptech

Digital transformation poses the greatest challenge for companies today, who must strive to stand out from the competition.

Technology is our greatest ally when it comes to making our day-to-day lives more efficient. The concept behind Proptech is the application of technology to any area of

the real estate sector. This includes companies who use technology to change and improve the way we buy, let, sell, design, build and manage residential and commercial properties.

The word originates from the joining of "prop" from property and "tech" from technology, to describe companies in the real estate industry with a high tech component. This new concept – a key force in the technological revolution – is rapidly catching on, with companies increasingly moving into the world of Proptech as they

begin to appreciate the increased efficiency and productivity that it offers. Technology can be used in many different areas of the real estate market to create value. Proptech is a new term that can be applied to all kinds of areas, from marketplaces, software companies and data analytics firms, right through to the latest real estate investment market trends.

The application of this technology to the residential real estate market has digitally transformed the sector, creating an end-to-end service tailored to meet current demand.



Big Data

Big Data provides companies with information, compiling a vast amount of data from a wide range of sources, which are processed as quickly as possible and divided up into three different categories:

1. Collection of information about clients, dates, images, video and audio.
2. Detailed information about commercial activities.
3. Social interactions.

Efficient and orderly data analysis enables us to respond to consumers and adapt to their needs, making it easier to make strategic decisions.

In the future, a profile will be constructed for each buyer's lifestyle, using data from their social media and preferences gleaned from their online activity.

This will help experts to offer increasingly demanding clients the product that they both want and need.

Against this new backdrop, collaboration between organisations who can compile data, experts who can analyse it and market experts, will be crucial.



Crowdfunding y crowdlending

Crowdfunding and crowdlending are alternative forms of investment to traditional project financing channels, which would otherwise only usually be accessible to funds or institutional investors.

Crowdfunding allows investors to be involved in all aspects of a project – not just the financial side – and achieve returns that are proportionate to the project's success. Crowdlending only covers the financial side and will always generate a previously agreed lower fixed return, except if the project goes into bankruptcy.

In 2016, Housers launched the first residential project to be financed via a crowdfunding campaign. The project comprised the full-scale refurbishment of a building in Tetuán, creating eight homes for a total cost of over €1 million. Real estate firm Forcadell recently took an innovative step by launching its "myFunding" tool, as a way of sourcing funds to purchase an office building in Barcelona and turn it into luxury apartments. In 2018, the Proptech firm Civislend used crowdlending to finance a 20 apartment residential project in Brunete.



Blockchain

Blockchain is one of the key aspects of the current digital transformation of the economy, as it allows a large amount of data to be collected from all parties in the network without the need to centralise any information. It is ideal for situations where growing quantities of data need to be stored in real time.

Generally speaking, blockchain allows transactions to be carried out securely, cutting out the third party. Buyers and sellers will connect via a platform, which will allow them to buy or let homes.

In practice, blockchain has been used to guarantee the security and development of digital money, or cryptocurrency (Bitcoin, Ethereum). There have already been properties that have gone on sale in Spain with bitcoin accepted as a payment method. However, its advantages go far beyond this, the fact that blockchain allows real-time access to data relating to transactions, prices and owners, will provide the market with greater transparency and security, enabling transactions to be carried out more efficiently.

Use of technology in the sales process

With the development of new technology and media, there are now a range of techniques that can help speed up sales processes in the real estate sector. These techniques have proven advantageous for both house buyers and sellers.

The application of new technology in the property sales process helps to improve the way agents identify the needs of their clients prior to carrying out a property viewing. It also makes the process more efficient, as potential buyers are provided with access to more information at any stage in the sales process.

A good example of this is the real estate firm Neinor Homes. Aware of how technology can help them to better understand their clients, they are turning their traditional sales offices into Neinor Stores. These technological spaces are equipped with the latest tools, which provide an enhanced buyer experience that combines both the physical and the digital, providing clients with tailored information about the best product for them. This intuitive process allows clients to immediately find exactly what they are looking for.

Virtual reality

Virtual reality allows users to carry out virtual viewings and visual renders of a property. Many real estate companies already use this tool, offering potential buyers the chance to go on a virtual tour of their properties.

This high-impact technology considerably improves the customer experience.

360° vision

This new technology almost reproduces human vision, offering the most realistic experience of the virtual world. In contrast to the conventional static photos and plans, 360° images offer us a much clearer overview of a property, providing a panoramic view and giving clients a realistic look at the space.

Virtual home staging

The concept of home staging consists of a range of techniques used to virtually furnish and decorate empty rooms, making them more appealing and boosting the chances of finding a buyer or tenant quickly and thereby maximising returns. Home Staging makes a property stand out above the rest.

Drones

Technology is changing the way that homes are sold, and drones have become an incredible way of driving housing sales and lettings. Drones provide a much bigger picture than what we see at street level, such as views, heights, nearby services and green spaces, road access and more.

3D printing

Developments in 3D printing are also revolutionising the real estate sector. They are helping to make model construction much



more affordable, helping clients to make decisions and allowing for more efficient creation of customised prototypes. This technology has already been used to build a home in just 24 hours.

Beacons

These small devices use a Bluetooth signal to locate smartphones that have the app in order to send promotions to potential homebuyers who are within close vicinity of a billboard advertising a property, offering them the possibility to view images of the property. This technological advance helps estate agents, as it reduces the amount of physical meetings that they have to hold with clients, thereby speeding up the sales process.

The added value of architecture

Buyers are increasingly influenced by the architect behind the property they are considering buying. While a sound and efficiently executed design allows a property to gain recognition and stand out from the competition, a strong brand is also a key component.

These factors provide added value, which

is reflected in the price of the property.

Every architect provides their own intangible mark on each property development - a mark known as its "design value". This value makes a development stand out in the same way as other factors, such as location, materials and price.

"A good design can boost the value of a property by up to 25%, thanks to the ability of architecture to stand out and form its own brand"



WORLD-RENOWNED ARCHITECTURE FIRMS IN THE RESIDENTIAL SECTOR

Cano y Escario

The firm Cano y Escario was founded in 1988 by the architects Benjamin Cano and Diego Escario. They have won a variety of accolades at national tenders, taken part in Architecture Biennials and had their work displayed in multiple guides on 20th century Spanish architecture. According to Idealista, the firm's refurbishment of Calle Recoletos 8, made it 2017's most sought-after property.

Rafael Robledo

Rafael Robledo architecture studio is renowned throughout Spain, and particularly in Madrid for specialising in developing exclusive residential projects, particularly in the Salamanca neighbourhood. One of its most notable projects was the full-scale refurbishment of a building located at Calle Serrano 7, which included the addition of two new upper floors, as well as a basement.



Serrano 7

Lamela

Estudio Lamela is a prestigious architecture firm founded in 1954 by Antonio Lamela, which has developed almost 2,000 projects. The Lamela Studio - with offices in Madrid, Warsaw, Mexico City and Rotterdam - has worked on iconic buildings such as the Colón Towers and the Santiago Bernabéu Stadium to its name.

The studio is currently immersed in carrying out one of Madrid's most important projects, the Centro Canalejas Madrid and Four Seasons Private Residences Madrid (FSPRM). This project consists of the refurbishment of seven period properties in Madrid, creating a 50,000 sqm mixed-use complex. The finished product will include a luxury 200-room hotel, operated by the Four Seasons chain, a 15,000 sqm shopping arcade, 22 luxury homes and 400 parking spaces.



Centro Canalejas Madrid

Touza

The Touza Arquitectos studio, founded in 1975 by architect and planning mastermind Julio Touza, operates across all architectural fields, as well as interior design and urban planning. Over the past 40 years, it has carried out more than 2,000 projects of all shapes and sizes. José Abascal 48 is one of its largest developments located in one of the most sought-after residential areas of Madrid.

Rafael de La-Hoz

Rafael de La-Hoz is an internationally-renowned architecture studio headquartered in Madrid. Founded in 1920, its vast team of professionals boasts extensive experience and know-how, carrying out projects across the globe. Its Lagasca 99 project is a new residential concept, a sustainable property located right in the heart of Madrid's historic Salamanca district.



Lagasca 99

New technology is affecting every aspect of our lives, driving the smart home and building concept and broadening its possibilities.

Features of today's new homes

Smart Home

IT experts and designers are working closely to create prototypes of new technology that will help to make our homes more efficient. The concept of smart homes is beginning to take off.

Smart homes came about as a result of the ever-greater presence of smartphones in our lives. The term refers to the ability to control practically all technological elements of our homes via our mobile phones. Connected homes make daily tasks much easier and are also able to anticipate any potential faults and try to prevent them. Smart homes can optimise water and electricity costs, automatically adjust climate control, connect to smart electrical appliances - even helping to prepare your shopping list - and they can also directly contact the police or fire services in the event of a break-in or a fire. New smart buildings and homes go far beyond mere home automation systems. They are sustainable and efficient, with facilities and systems (climate control, lighting, electricity, security, telecoms, multimedia, access control, etc.) that enable an automated and fully integrated control of the home. "Smart Living Plat" is the leading tech platform in Spain for the residential sector and smart buildings, focusing on expanding research, development and innovation in this area.

The European Union has set 2020 as the target date for countries to comply with regulations regarding energy efficiency, in order to reduce energy consumption.

Internet of Things (IoT) and hyperconnected homes

The Internet of Things is the extension of Internet connectivity into physical devices and everyday objects, allowing machines

and electrical appliances to connect to each other and be controlled via a smartphone. With the arrival of 5G, this process will become much more powerful.

Vodafone has already teamed up with Samsung to launch a "Safety Starter Kit", an easy-to-use system that connects and synchronises smart devices, allowing users to monitor their home in real time and also receive relevant offers. Other systems are under development that allow all of these elements to be connected via voice control, such as Google Home. The Internet of Things will also analyse the way that machines operate, in order to anticipate any faults or future requirements, helping to predict when maintenance needs to be carried out.

Passive House, or Passivhaus

These buildings provide their inhabitants with a range of financial and health-related benefits. They consist of bioclimatic homes, where the air temperature and conditions are maintained at healthy levels for residents, and energy consumption is lower than in most other standard homes.

These homes offer a wide range of benefits, with very low energy consumption enabled by a smart climate control system, providing residents with a comfortable ambient temperature. Natural outdoor air is used for the indoor ventilation, allowing for better control of humidity than in most conventional homes.

A passive house is defined as a building that is practically self-sufficient in terms of climate control, health and electricity. They are primarily heated via solar power, built with materials that reduce heat loss, and are well sound-proofed.

How technology has advanced



Text messages



Internet access



Text messages



Internet access



Ultra HD and video 3D



Text messages



Internet access



Ultra HD and video 3D



Smart homes

Smart Home



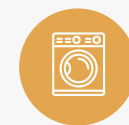
Security



Lighting



Climate control

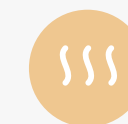


Smart home appliances

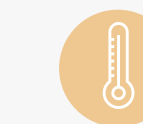
Passivhaus



Soundproofing



Ventilation



Climate control



Humidity control



Madrid's residential market is one of the first in Spain to see the recovery of the real estate sector really take hold"

GRAPH 7
Approvals and final works certificates. Region of Madrid.
2007 - 2018



Source: Ministry of Public Works

Madrid residential market

2018 saw an increase in approvals for new-build construction permits and works completion certificates, which rose by 17% and circa 25% y-o-y respectively.

This growth in housing stock increased the number of new-build sales, which rose by more than 20%, reaching a total of 9,500 in 2018.

The average price of new-build homes in Madrid stands at over €2,700 per sqm, close to the market peak in the last property boom, but still 0.8% below the figure for 2008.

There are currently around 3,500 new-build open-market homes available in Madrid. Just over 21% of these are located inside the M-30, primarily due to lack of serviced urban land (*suelo finalista*).

Since 2017, most of this stock has been located outside the M-40 and in Urban Development Areas (PAUs).

PAUs are new urban developments, generally located on the outskirts of the city, where there is more land available for development. These areas are becoming new neighbourhoods with all of the necessary amenities and facilities to meet residents' needs. To-date, PAUs have accounted for the highest percentage of take-up, with 80% of their new homes sold since 2017, equating to 24% of the total sales figure for Madrid.

This is primarily due to their more affordable prices and the larger number of buyers that can afford this type of home, compared to the areas inside the M-30, where limited supply is pushing prices higher and

squeezing take-up.

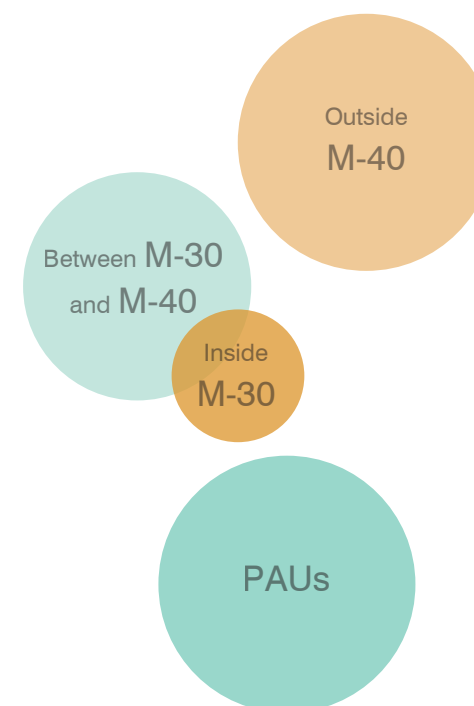
The most common property type is three bedrooms, accounting for 43% of all homes in Madrid, except for the area inside the M-30, where two-bed properties are virtually just as common.

Inside the M-30 there are a large number of studios and one-bed apartments, while in the PAUs these are virtually unheard of.

There is a higher density of four-bed homes outside of the M-30 ring road.

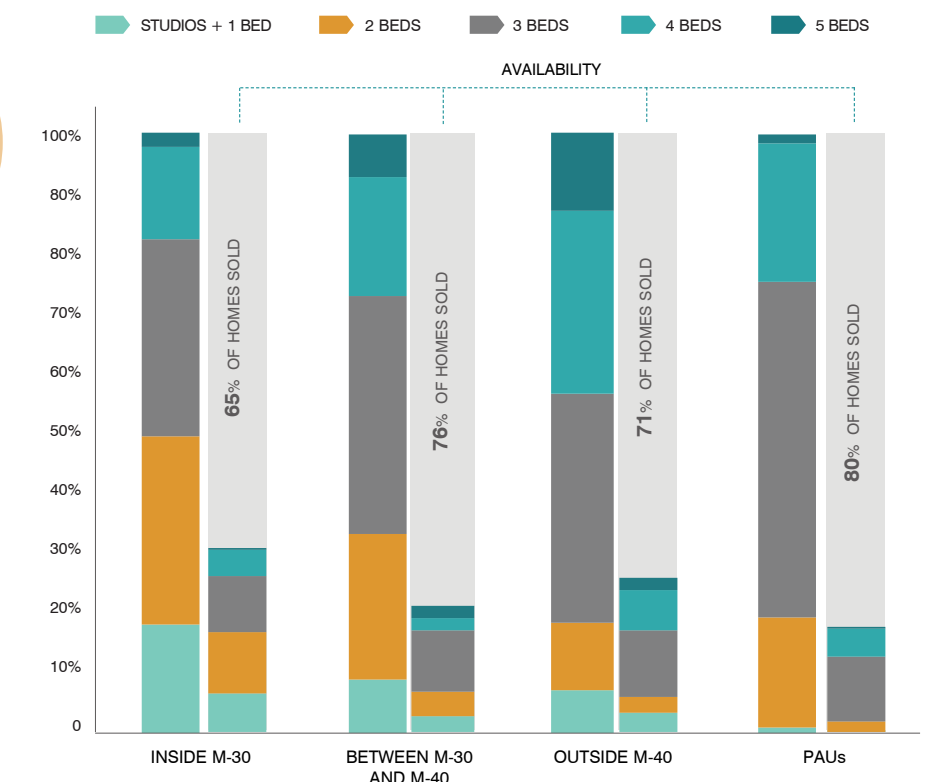
This data suggests that the most common buyers in PAUs are families looking for a larger home with services, whereas in the more central areas, there is greater demand from single buyers and young couples who prioritise living close to the centre or in more high-profile buildings.

GRAPH 8
Volume of future homes forecast by area in Madrid. 2017 - Q1 2019



Source: Knight Frank Research

GRAPH 9
Future homes forecast and availability by area in Madrid and property type 2017 - Q1 2019



Source: Knight Frank Research

The sales rate can rise or fall depending on a variety of factors, including house prices, the variety of property types within a development, confidence in a developer and location.

Another important point to consider is that the sales rate goes through different phases. Sales are high when a project is first marketed and works begin, then they fall during the construction phase. If there are still homes available at completion, the

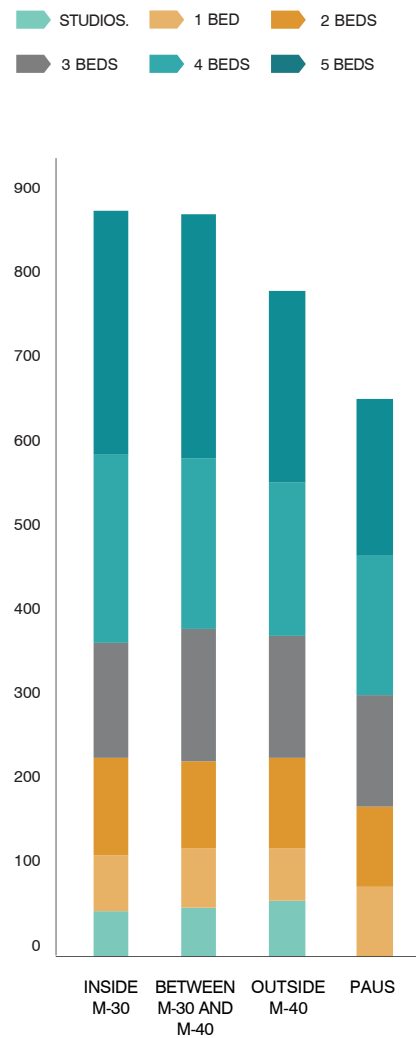
The highest sales rate in 2018 was in Valdebebas - in the Hortaleza district - followed by El Montecillo in Las Rozas.

sales rate then picks up again, as buyers are able to physically view the properties.

The highest sales rate during 2018 was recorded in the PAUs, with an average of over 10 homes sold per month in each area.

In terms of average floor space in the homes for sale, the regular construction pattern is continuing, with the sizes of each property depending on the number of rooms.

GRAPH 10
Average size of a forecast free-market new housing by property type in Madrid. 2017 - Q1 2019



Source: Knight Frank Research

GRAPH 11
Top sales rates by neighbourhood. 2017 - Q1 2019



Source: Knight Frank Research

One-bed and two-bed properties are very similar in size across all of the areas studied – around 65 sqm for one-bed homes and 100 sqm for two-bed homes. However, three-bed and four-bed properties in PAUs are up to 35% smaller than in other areas of Madrid.

In terms of five-bed properties, the closer you get to the city centre, the higher the average area tends to be.

It is possible to find five-bed single-family homes in PAUs, but there are no five-bed apartments in these areas. In the remaining areas, five-bed properties account for 5% of total apartment supply.



"The most sought-after areas of Madrid are where the real estate recovery has been most palpable. The lack of available housing supply in the capital has pushed prices upwards, and this trend is expected to continue, although at a somewhat more moderate pace in 2019"

Inside the M-30



1. ARGANZUELA

The main appeal of this district is its good rail links to Atocha train station, close proximity to the M-30, as well as the large number of green spaces in the area. The average price stands at between €3,500 and €5,300 per sqm.

2. CENTRE

The Centre is one of the most appealing districts for investors. The lack of land in the area has prompted a rise in the number of refurbishment projects in period buildings. Sales prices vary considerably in this area and depend on the location, ranging from €4,000 per sqm in the Embajadores neighbourhood to €8,500 per sqm in Justicia and Cortes.

3. CHAMARTÍN

This is one of the most sought-after residential areas in the capital, although

prices vary considerably depending on the neighbourhood. The current average price of new-build homes ranges between €4,300 per sqm in Castilla, Prosperidad and Nueva España, up to €7,900 per sqm for the most exclusive developments in Hispanoamérica.

4. CHAMBERÍ

This is the go-to area for buyers looking to buy or invest in a luxury apartment. There is very little supply of new-build homes in this district and the price per sqm is above €7,000 per sqm. Its crown jewel is the Almagro neighbourhood, home to fully refurbished properties featuring spacious homes, boasting high-end specifications and communal areas.

5. RETIRO

Supply is very limited, with prices ranging from €4,000 to €5,000 per sqm in the Adelfas neighbourhood - where most of the district's new-build supply is located - and

reach as high as €8,700 per sqm for prime developments in the Ibiza and Jerónimos neighbourhoods.

6. SALAMANCA

Salamanca continues to be one of the districts with the highest number of developments underway. Prices vary dramatically, from €4,700 per sqm in Guindalera - the most affordable area of the district - to around €10,300 per sqm in Castellana and Recoletos. The lion's share of supply in this district is situated in these exclusive neighbourhoods.

7. TETUÁN

Many young couples have taken the plunge and bought their first home in this district, thanks to the financial upsides of buying property here. It is home to the largest number of developments for sale inside the M-30, accounting for 24% of the total. Prices vary between €2,200 per sqm in Valdeacederas and €5,100 per sqm in Cuatro Caminos.



The most common type of apartment in this district is two or three beds, which account for over 60% of total supply inside the M-30, followed by studios and one-bed properties. The most common type of home in new-build developments in this area are three-bed apartments, comprising 160 sqm on average.

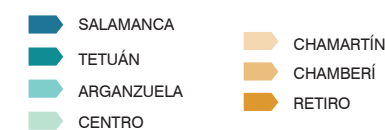
Most of these homes are found in the Salamanca, Chamartín and Arganzuela districts, while two-bed apartments - comprising

around 100 sqm - are more common in Tetuán, Retiro, Chamberí and the Centre.

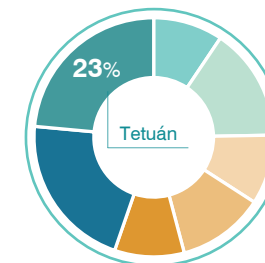
Tetuán also boasts a range of studios and one-bed apartments, which account for close to 30% of the district's supply, closely followed by the Central District.

A smaller proportion of the homes in this area have four bedrooms, most of which are located in the Arganzuela, Salamanca and Chamartín districts.

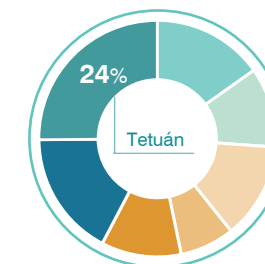
GRAPH 12
Forecast free-market new housing
by district
2017 - Q1 2019



No. of developments (%)

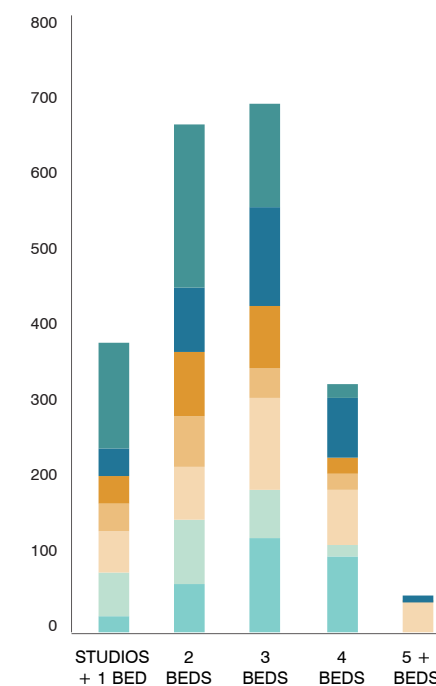
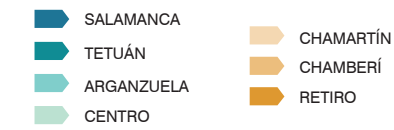


No. of future homes forecast (%)



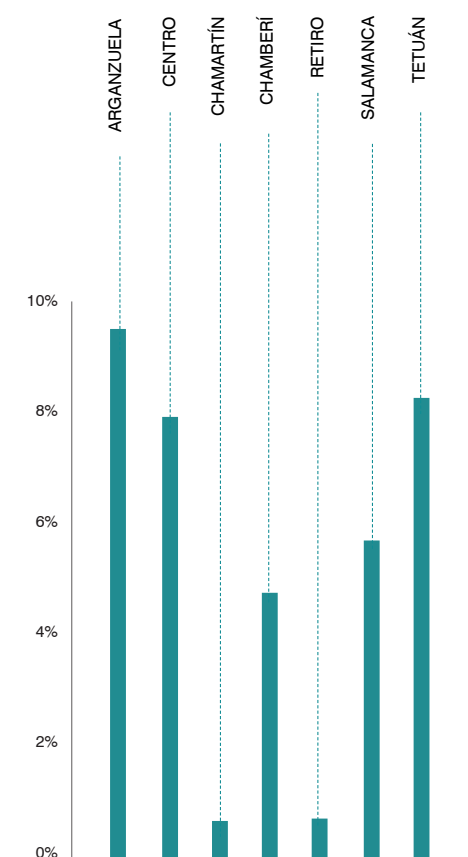
Source: Knight Frank Research

GRAPH 13
Forecast free-market new housing
supply by district and property type
2017 - Q1 2019



Source: Knight Frank Research

GRAPH 14
Forecast population
growth
2018 - 2031

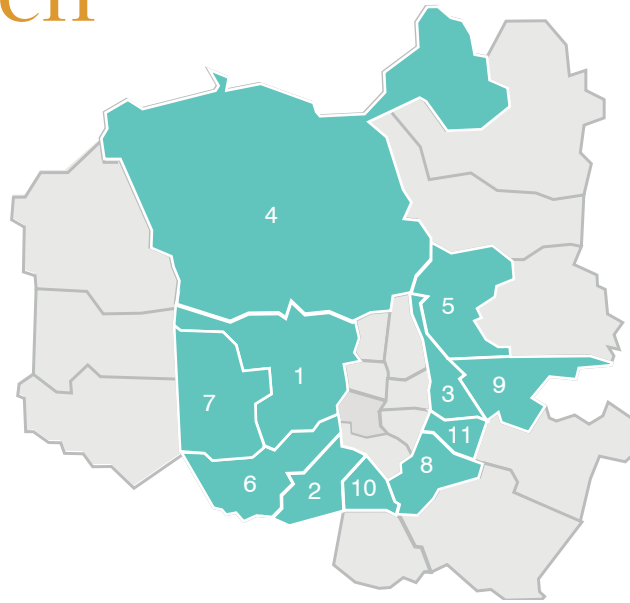


Source: Knight Frank Research

“

Rising prices in the city centre are forcing buyers to look further afield in more out-of-town areas"

Between M-30 and M-40



1. MONCLOA - ARAVACA

This is one of the most prestigious and sought-after residential areas. Prices range from €3,500 per sqm in some areas of Aravaca to €7,500 per sqm in the most exclusive developments in the Argüelles neighbourhood. Moncloa-Aravaca accounts for 16% of all homes under construction between the M-30 and M-40.

2. CARABANCHEL

This is one of the most affordable districts of the city, where housing prices have increased at a slower pace. Prices are fairly consistent for developments in this district, ranging from €2,100 per sqm to €3,000 per sqm. The lion's share of supply in this district is situated in the areas Puerta Bonita, Opañel and Buenavista.

3. CIUDAD LINEAL

This district features a lower supply of new builds. The majority of new developments are priced at around €3,400 per sqm, except for the Costillares and Colina areas, where prices stand at over €6,000 per sqm.

4. FUENCARRAL - EL PARDO

The number of single-family homes in this district outweighs the number of high-rise

apartment blocks. New-build developments in the most affluent areas of this district are priced at over €4,500 per sqm.

5. HORTALEZA

This is one of the areas with the lowest housing supply, where prices stand at around €3,500 per sqm, although in some new developments in Piovera and Palomas, prices exceed €5,000 per sqm.

6. LATINA

Latina is the second most populous district in Madrid. It is one of the most affordable areas and, much like Carabanchel, it has a consistent range of prices for new-build developments. The failure of Operación Campamento a few years ago has limited the area's growth potential. Prices currently stand at €3,000 per sqm.

7. POZUELO DE ALARCÓN

The town of Pozuelo de Alarcón, on the outskirts of Madrid, features a large amount of new-build supply. While the lion's share of developments on the market are located in Somosaguas and Zona Pueblo, the highest prices are found in La Finca, with an average price of €5,000 per sqm.

8. PUENTE DE VALLECAS

Along with Usera, Carabanchel and Latina, this district boasts some of the most affordable prices in Madrid, between €2,300 and €3,500 per sqm. It features one of the lowest supplies of new-build developments on the outskirts of Madrid.

9. SAN BLAS

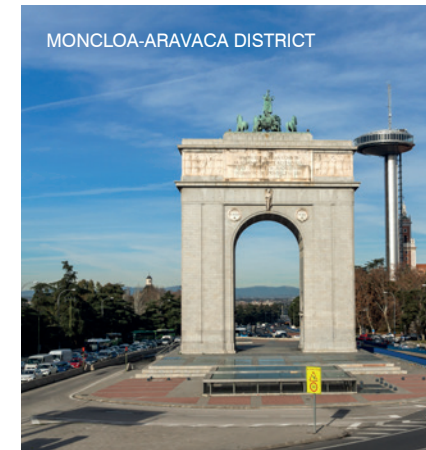
One of the most notable areas in San Blas is Las Rosas, which has been expanding since the Wanda Metropolitano stadium opened. The amount of available land here means there is still good potential for future property developments. Prices here range from €3,000 to €4,000 per sqm.

10. USERA

Most new developments in this district are located in the Pradolongo and Almendrales areas. Generally speaking, prices stand at around €2,500 per sqm, except in the area closest to the Manzanares river, where prices can reach as high as €4,500 per sqm.

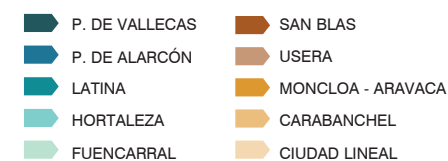
11. MORATALAZ

According to official statistics, the average age in this district has risen in recent years, with population figures remaining practically unchanged since 2015. There is currently no new-build supply here.

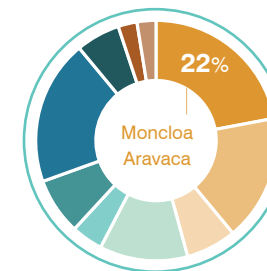


GRAPH 15

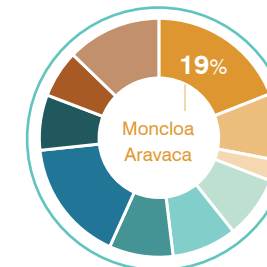
Forecast free-market new housing supply by district
2017 - Q1 2019



No. of developments (%)



No. of future homes forecast (%)



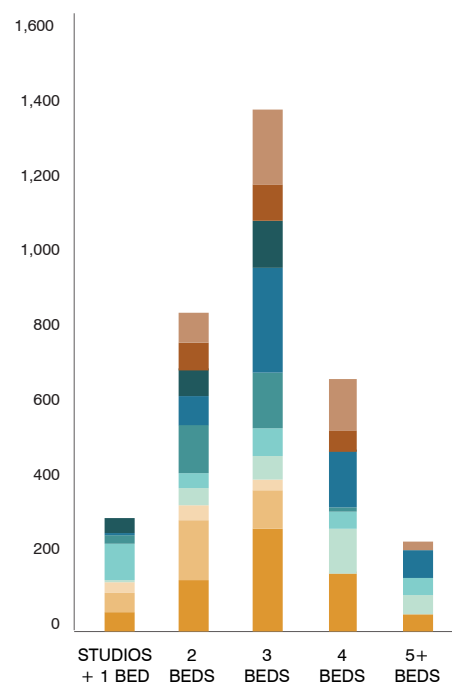
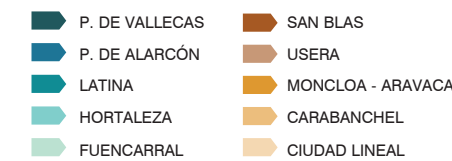
Source: Knight Frank Research

In terms of property type, most homes have two or three bedrooms, accounting for 65% of total supply between the M-30 and the M-40. This figure rises to 70% and 90% in the southernmost districts (Carabanchel, Ciudad Lineal, Latina, Puente de Vallecas, San Blas and Usera).

Studios and one-bed apartments account for 9% of overall supply in the out-of-town area, a lower figure than inside the M-30. There are more of these property types in the Hortaleza district, primarily aimed at single buyers and investors. Most four-bed properties can be found in Pozuelo and Moncloa-Aravaca.

GRAPH 16

Forecast free-market new housing supply by property type
2017 - Q1 2019



Source: Knight Frank Research

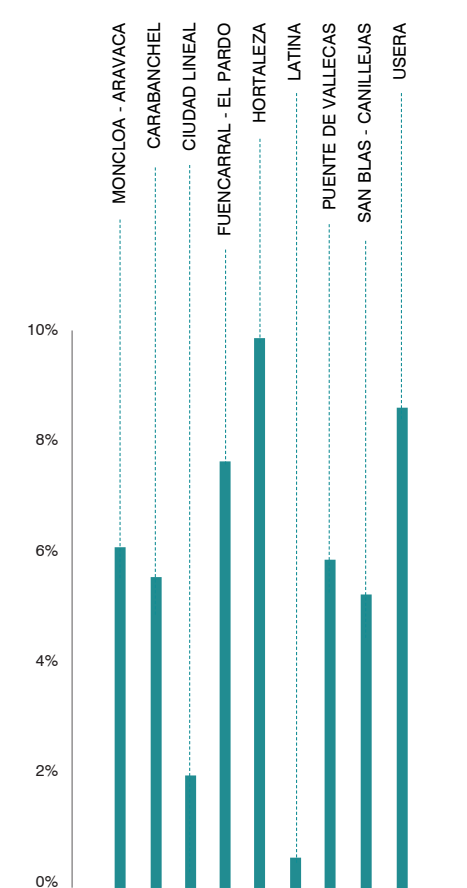
However, there are a handful of developments in Fuencarral featuring this property type, mostly single-family homes with an average price of €3,300 per sqm.

Homes with five or more bedrooms - as with other areas - are only found in certain districts, such as Fuencarral, Moncloa-Aravaca, Hortaleza and Pozuelo de Alarcón, where purchasing power is higher.

We would highlight the case of Pozuelo, where there are more single-family homes under development than apartments, with the Somosaguas area accounting for the highest number of these developments.

GRAPH 17

Forecast population growth
2018 - 2031

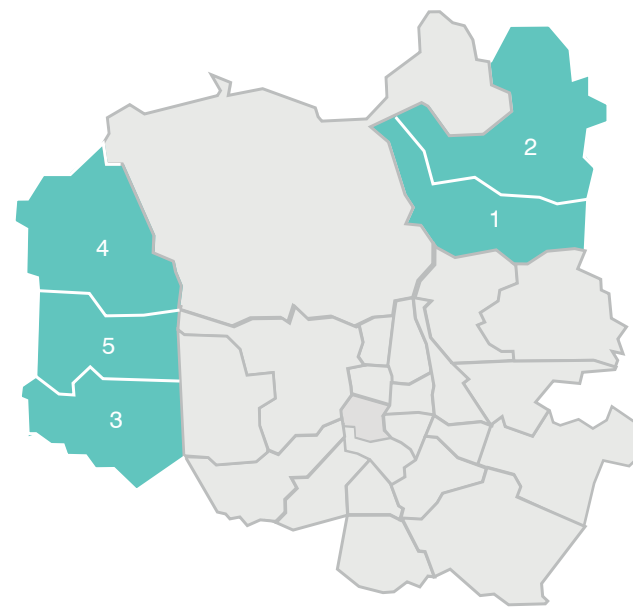


Source: Knight Frank Research

"The towns to the northwest of Madrid are experiencing heightened levels of development activity due to the lack of land inside the M-30, coupled with high residential demand in the greenest areas

”

Outside of the M-40



NORTH

1. ALCOBENDAS

As a result of the new-build developments underway in La Moraleja, prices are rising in this town to the north of Madrid and now stand at close to €5,000 sqm in some locations. In other areas of Alcobendas, prices stand at an average of €2,800 per sqm.

2. SAN SEBASTIÁN DE LOS REYES

Next door to Alcobendas, but somewhat more affordable, is San Sebastián de los Reyes, where the average price stands at €2,700 per sqm.

Some of the biggest new-build developments in the province of Madrid are located in this town.

It features more high-rise apartment blocks than many other towns in the area, where single-family home supply is more predominant.

NORTH WEST

3. BOADILLA DEL MONTE

This area has undergone a large amount of development in recent years. We would highlight the large amount of developments currently on the market, most of which are single-family homes with an average price of €2,700 per sqm. Apartment prices range from €2,000 to €3,200 per sqm.

4. LAS ROZAS

Close to 50% of new-build supply here is found in the La Marazuela area. Prices range from €2,700 per sqm in La Marazuela to €3,900 per sqm in Las Rozas Centro.

5. MAJADAHONDA

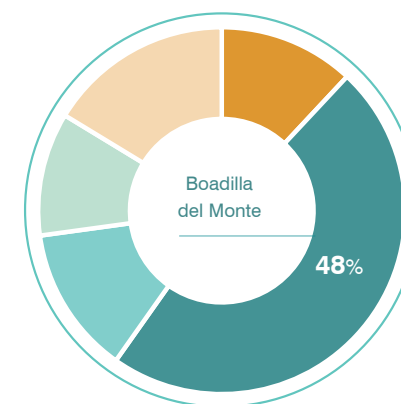
The majority of new-build supply in this area comprises single-family homes, most of which are located in the Roza Martín area. Most high-rise apartment blocks are located in El Carralero, where the average price stands at €3,500 per sqm.



GRAPH 18

Forecast free-market new housing supply by areas outside the M-40
2017 - Q1 2019

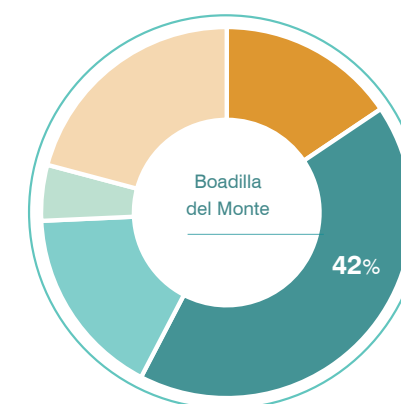
No. of developments (%)



SAN SEBASTIÁN DE LOS REYES ALCOBENDAS LAS ROZAS BOADILLA DEL MONTE MAJADAHONDA

Source Knight Frank Research

No. of future homes forecast (%)



SAN SEBASTIÁN DE LOS REYES ALCOBENDAS LAS ROZAS BOADILLA DEL MONTE MAJADAHONDA

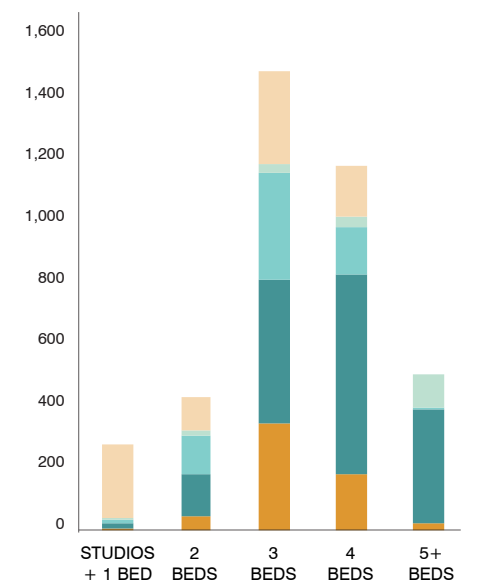
The majority of four-bed apartments are located outside of the M-40, although the most common type in this area is three-beds.

The further you go from the city, the harder it is to find studios and one-bed apartments, and the easier it is to find single-family homes with five or more bedrooms, especially in the towns to the northwest, areas which are in high demand by families with strong purchasing power.

GRAPH 19

Forecast free-market new housing supply by property type. 2017 - Q1 2019

SAN SEBASTIÁN DE LOS REYES ALCOBENDAS LAS ROZAS BOADILLA DEL MONTE MAJADAHONDA

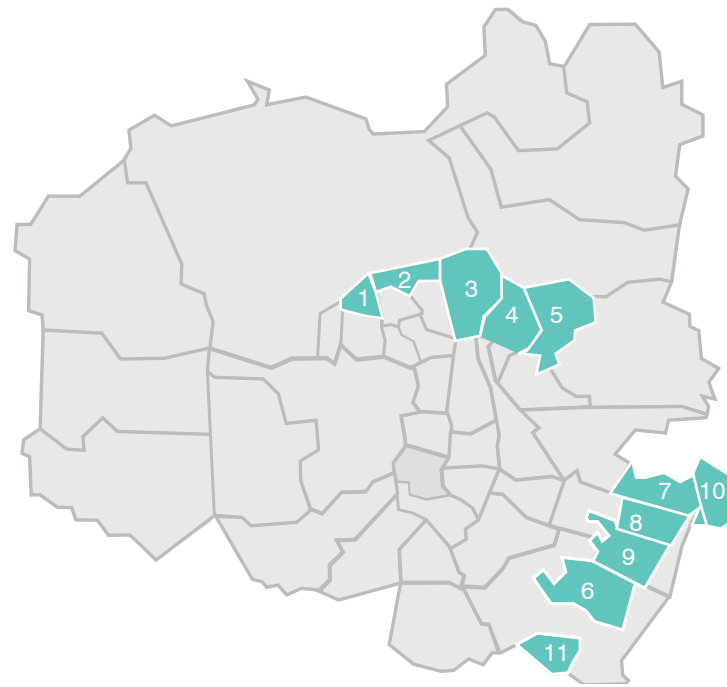


Source: Knight Frank Research

“

Growing demand in PAUs is prompting new development, sometimes clashing with the City Council's strategic plans, which is hindering the progress of some of the developments in these areas"

PAUS



FUENCARRAL (1. Arroyofresno, 2. Montecarmelo, 3. Las Tablas)

These residential neighbourhoods to the north of Madrid are the most sought-after spots for couples and young families, as they boast excellent transport links with the most established office areas in the A-1 hub. Residents can also enjoy the peace and quiet of their spacious avenues and numerous green spaces. Supply is currently limited and mostly found in Montecarmelo, which also features the highest prices for a PAU in Madrid. Average prices here stand at circa €3,700 per sqm.

HORTALEZA (4. Valdebebas, 5. Sanchinarro)

Sanchinarro was the first PAU to be developed and is now one of the best and most-consolidated neighbourhoods in northern Madrid, where supply of serviced development land is practically non-existent. Valdebebas currently has the greatest development potential, with similar prices to Montecarmelo. After months of inactivity, the City Council has started to grant construction permits again, which will lead to a significant increase in new developments for sale in the area.

6. ENSANCHE DE VALLECAS

This is one of the most established PAUs in Madrid, due to the significant amount of growth during the last residential property boom. The inactivity at several property developments such as Ahijones and Valdecarros are causing prices to grow in the area, where the average price stands at between €2,000 and €2,800 per sqm.

DEVELOPMENTS IN THE SOUTH EAST (7. Cañaveral, 8. Los Ahijones, 9. Los Berrocales, 10. Los Cerros, 11. Valdecarros)

The Cañaveral PAU is the largest residential development area, with the highest number of developments for sale. There is a healthy supply of cooperative managed developments and social housing, making it one of the most affordable areas at the moment. Open-market homes, with an average price of €2,000 per sqm, have the best development prospects and value upside potential.

The Los Berrocales PAU could see its first construction works begin in 2020.



The greatest number of developments (close to 55%) are located in the new development areas to the south and southeast.

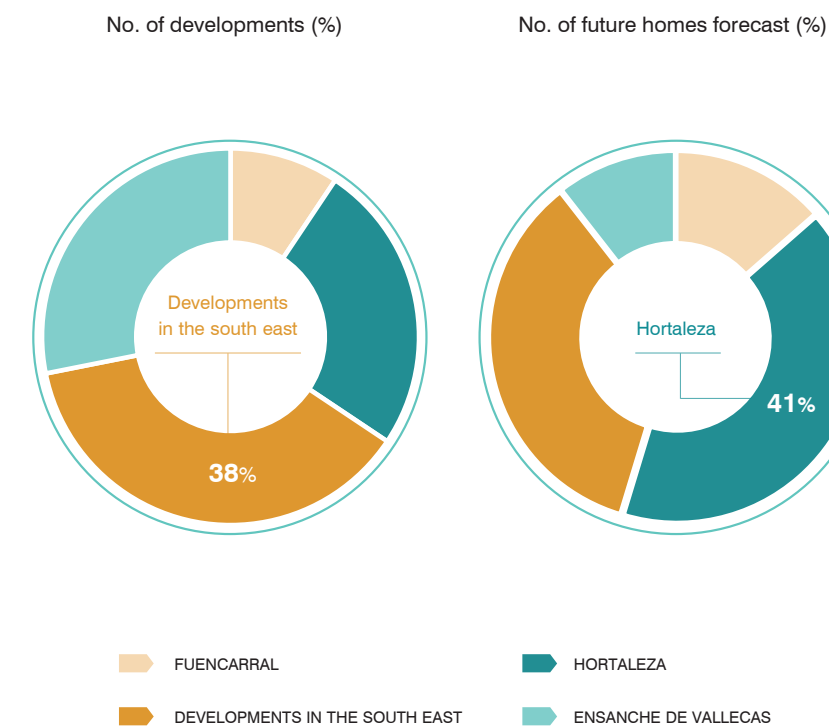
Around 60% of the forecast property supply in PAUs and development areas are three bed homes, aimed at families and young couples.

With the exception of Ensanche de Vallecas - where two and three-bed homes account for three quarters of the supply - four-bed homes are also prominent in the other locations, comprising 20% of the total forecast supply in these areas.

Studios and one-bed homes are not as common, given that buyers in this area are mostly families looking to relocate to a larger home.

GRAPH 20

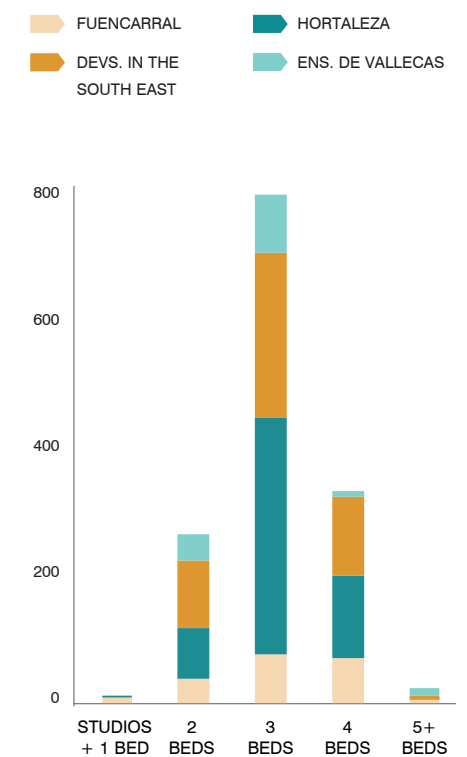
Forecast free-market new housing supply by area in Madrid's PAUs 2017 - Q1 2019



Source: Knight Frank Research

GRAPH 21

Forecast free-market new housing supply by property type in PAUs. 2017 - Q1 2019



Source: Knight Frank Research

2019 IS SET TO BE A KEY YEAR FOR REAL ESTATE DEVELOPMENT IN THE REGION OF MADRID.

MANY RESIDENTIAL PLANNING APPLICATIONS AND REFURBISHMENT PLANS HAVE ALREADY BEEN APPROVED AND ARE NOW UNDERWAY TO CREATE NEW RESIDENTIAL DEVELOPMENTS.

MOST OF THESE PROJECTS ARE LOCATED INSIDE THE M-30 (TETUÁN, ARGANZUELA, CHAMARTÍN AND CHAMBERÍ) AND TO THE NORTH EAST OF MADRID'S METROPOLITAN AREA (POZUELO DE ALARCÓN).



Outlook

1. Paseo de la Dirección

The Local Government has given the green light for the Paseo de la Dirección project in the Tetuán district.

Comprising 165,991 sqm, the space will add new plots of land to the municipal land bank for developing social housing and increasing floor area for civic plots.

2. Mahou – Calderón

Initially approved by the Madrid City Council, this Detailed Sectoral Interior Reform Plan (PERI) comprises 33,339 sqm of land with a buildable area of 132,344 sqm, 13,234 sqm of which will be allocated to social housing, equating to 11% of the total residential space.

This development will result in close to 1,300 new-build homes.

3. Madrid Nuevo Norte

Comprising a total buildable area of 2.3 million sqm, this new version of Operación Chamartín will result in the construction of 10,500 homes - 4,000 of which will be social housing - and an office building with an area of 1 million sqm. Featuring 70 floors, making it the tallest tower in Spain. This project will redefine the north of Madrid and add a new element to the city's skyline.

4. Taller de Artillería

A building featuring 350 homes will be constructed on the former artillery workshop (Taller de Artillería) on Calle de Raimundo Fernández Villaverde, alongside the Paseo de la Castellana. The plot comprises an area of 14,500 sqm, with a buildable area of 54,225 sqm. The initial plan is to build a complex of one to five-bed open market homes, as a gated development with a swimming pool, communal areas and retail units.

5. Cocheras de Cuatro Caminos

The City Council has approved a local level plan by the cooperative Residencial Metropolitano, to convert this 40,000 sqm space into 443 homes.

The development will comprise six buildings ranging from five to eight floors, as well as a 31-storey tower.

6. ARPO

This is the largest development due to be built in Pozuelo de Alarcón and will comprise 5,500 homes, featuring open-market, social, low-density residential and single-family properties.

The buildings will not exceed three floors, with property types depending on their size and classification.



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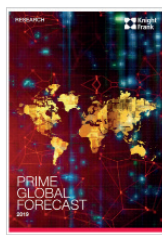
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