

RESIDENTIAL RESEARCH



# MADRID

PRIME RESIDENTIAL **2015**

Serrano 7. Computer generated image, only indicative.

SUPPLY

DEMAND

PRICES

## 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.

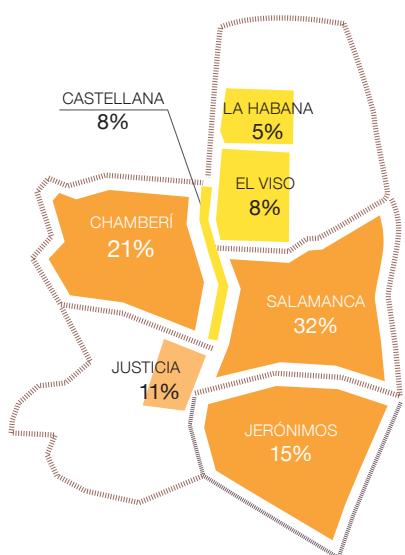
### Status of the Madrid prime residential market

#### DEMAND

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.

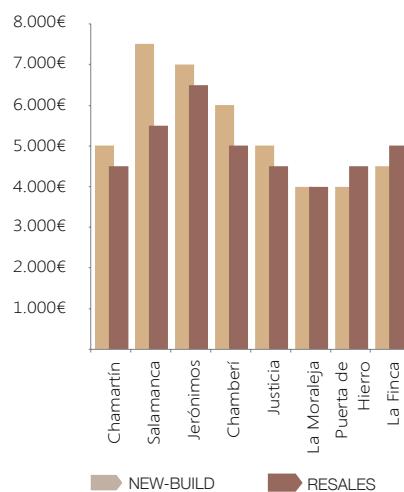
Buyers are looking for properties in the most central areas. 70% of buyers are searching for product in the Salamanca, Jerónimos and Chamberí districts, within a price range of between €1-2 million. However, other areas, such as El Viso are gaining more ground, particularly for purchasing a property 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 %<br>(Sep 14-Sep 15) | 6-month %<br>(Mar 15-Sep 15) | 3-month %<br>(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.

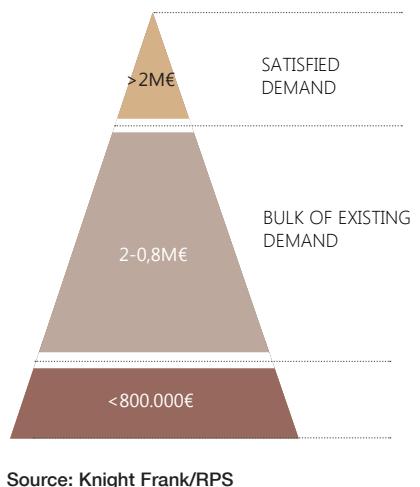
## PRICES

**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.

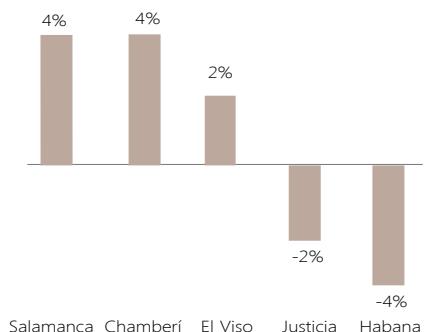
**The most notable factor is that prices and sales periods are improving.** Closing prices are higher and sales times are shorter. The average sales period used to range between 10 and 12 months, while it now stands at 3-6 months.

**FIGURE 4**  
**Demand pyramid**



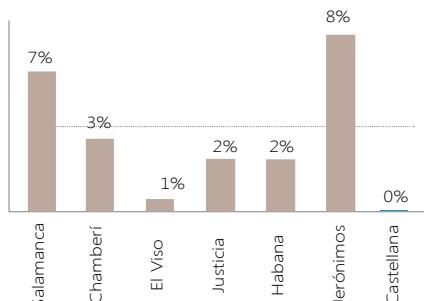
Source: Knight Frank/RPS

**FIGURE 5**  
**Difference €/sqm**  
New-build



Source: Knight Frank/RPS

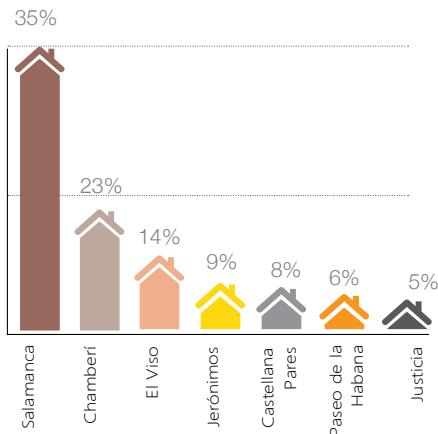
**FIGURE 6**  
**Difference €/sqm**  
Resales



Source: Knight Frank/RPS

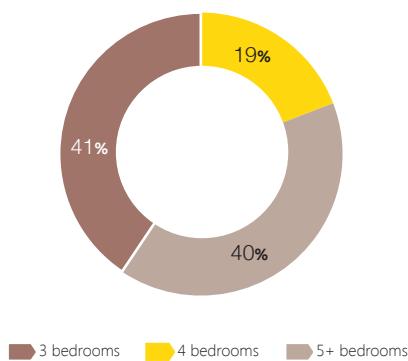
**FIGURE 7**  
**Distribution of stock by district**

Resales



**FIGURE 8**  
**Distribution of stock by type**

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.

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.



## 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 Faria

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

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