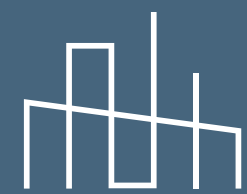




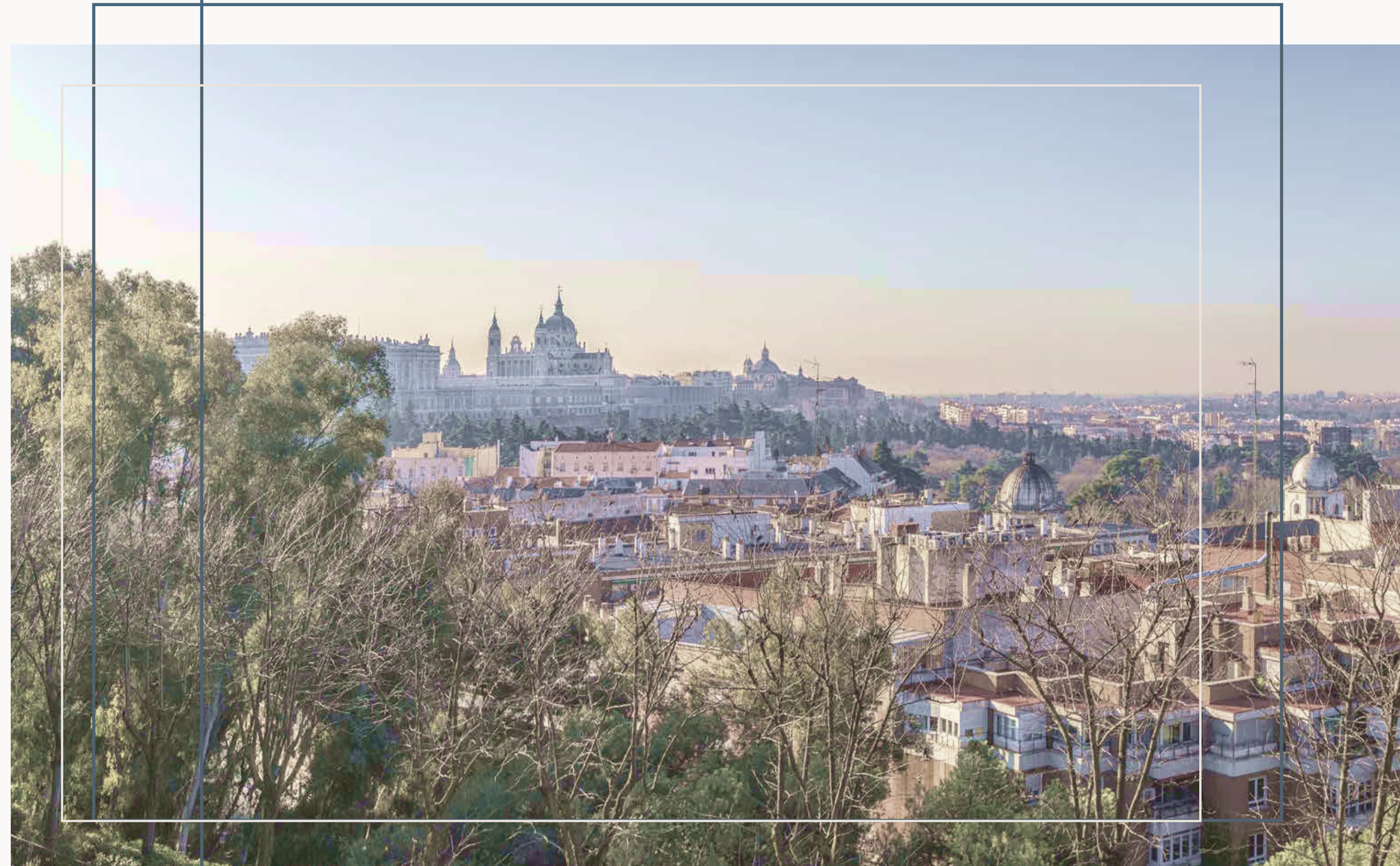
# MADRID REPORT



REINA

## OVERVIEW

Madrid is a center of attraction, the largest urban agglomeration on the Iberian Peninsula and a decisive engine of the Spanish economy with a lot of social dynamism. The city is not only the traditional political centre of Spain, with parks and boulevards, but also a true metropolis in terms of culture, entertainment, sports, business and gastronomy. For example, it is home to two of the best soccer teams in the world.



R E I N A



"The residential property market in Madrid is currently seeing very positive growth, despite geopolitical tensions. With inflation rates rising, real estate is perceived as a crisis-proof investment that promises price stability, and Madrid is positioning itself as an attractive city with a high quality of life."

– KENSINGTON PROPERTIES INTERNATIONAL

**NUMBERS**

6.8 MILLION  
INHABITANTS

IN THE MADRID REGION

3RD MOST  
POPULOUS

REGION IN SPAIN

500,000  
COMPANIES

REGISTERED IN MADRID

4TH CITY  
OF THE EU

BY NUMBER OF OPERATIONAL  
HEADQUARTERS OF  
MULTINATIONAL COMPANIES

27%  
GROWTH

IN RESIDENTIAL  
TRANSACTIONS

6 MILLION  
TOURISTS

VISIT MADRID EACH YEAR



According to Knight Frank's The Wealth Report 2023, Spain is amongst the top four worldwide locations for purchasing homes, with one of the country's primary draws is its capital city: **Madrid**.

Although the current situation of interest rate hikes and high inflation is creating a situation of general uncertainty, the average price of prime housing in the city has been much less affected, having closed the year with a 6% growth; and expecting 2023 to also be a good year for the sector with a 4% increase.

From a more general view of the real estate sector, it's expected that among the most resilient sectors for the coming year will be Build to Rent, as it has ample

demand and a lack of supply, so the developer sector and investors will continue to focus on it.

While for 2023, due to the economic situation, it is expected that, in general, Real Estate investment figures will be more contained with operations in which prices can be adjusted and in which opportunistic investors will play a large role in the market.

Among the challenges facing the residential sector are the decline in household savings, as well as rising mortgage financing costs. Thanks to the idiosyncrasy of potential prime housing buyers, the aforementioned situations would not significantly affect investment in this type of asset.

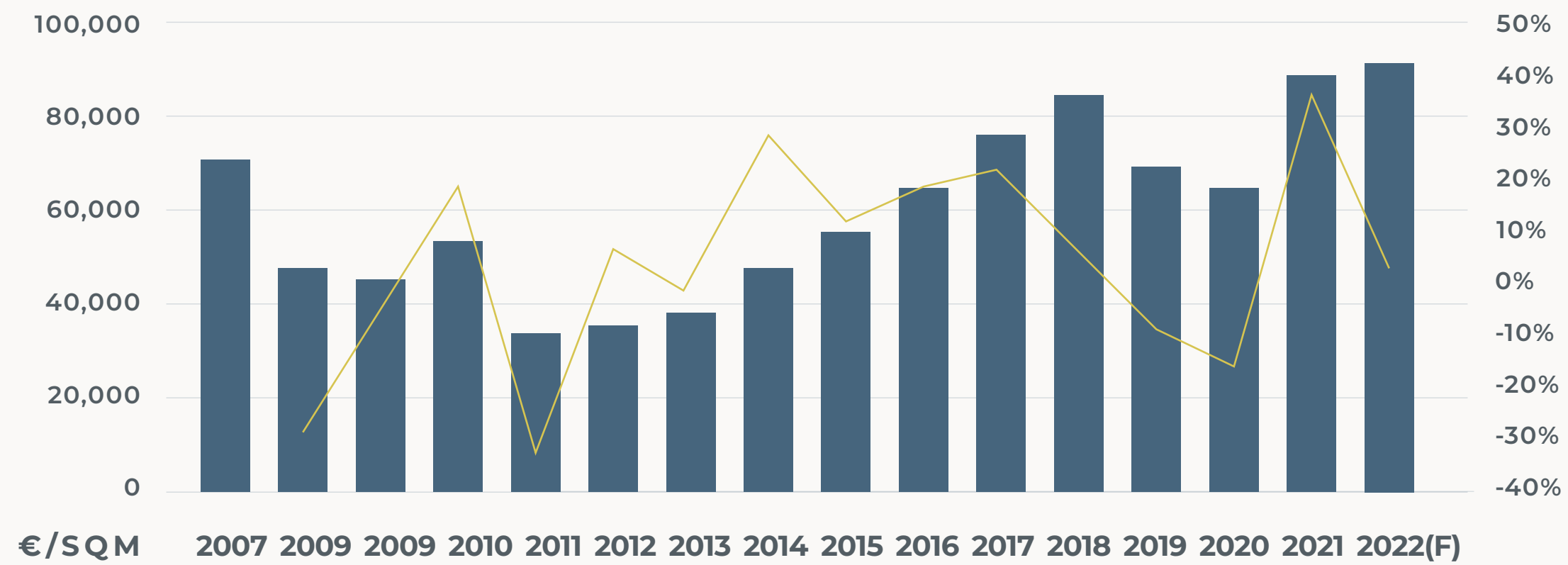
## TRENDS

## HOUSE PRICES

Although currently rising interest rates make it more difficult conditions to be able to purchase a home, 2022 has closed with positive figures for both the country and the capital, which a growth of 2.7% in Madrid compared to the previous year and well above previous years, for example, almost 20% if compared with the pre-pandemic era (year 2019).

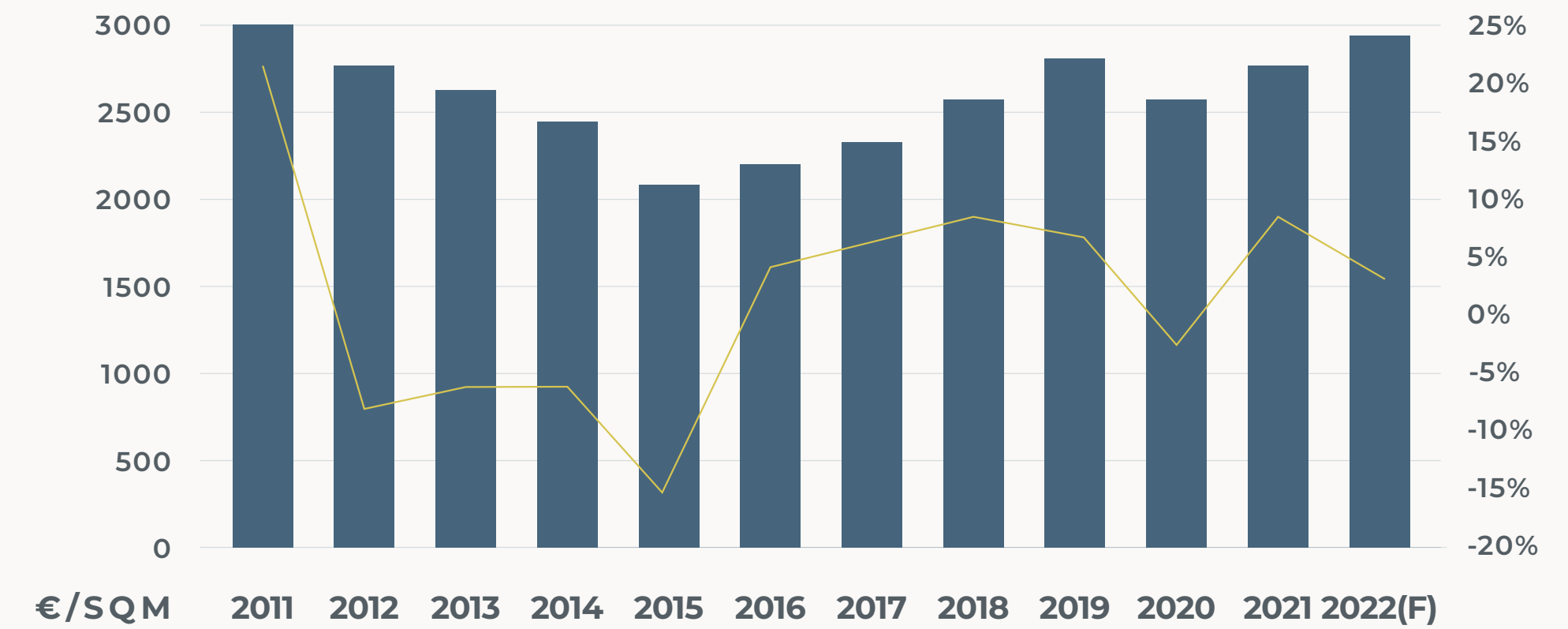
### RESIDENTIAL SALES TRANSACTIONS

Madrid: €/sqm 2007 – 2022 (F)



### AVERAGE RESIDENTIAL SALES PRICE

Madrid: €/sqm 2011 – 2022 (F)





## DEMAND

The needs and buying criteria of prospective buyers in Madrid vary very strongly. Demand in central locations tends to focus on spacious apartments with at least 150 square metres of living space, and a terrace. Overall, the pandemic has led to an increase in the desire for larger-sized homes and outdoor space. In line with this trend, the highest demand on the outskirts of the city is for detached houses of at least 450 square metres in size, with five bedrooms and a garden. In this segment, up to 3.5 million euros are being fetched for top properties in prime locations.

The high level of demand means that buyer focus is now also increasingly shifting towards the region surrounding Madrid. Pozuelo de Alarcón, Majadahonda and Las Rozas remain the most expensive municipalities, with average prices per square metre of between 2,438 and 3,223 euros. Towns such as San Lorenzo del Escorial, Collado Villalba, Guadarrama, Alpedrete and Collado Mediano near Madrid are becoming increasingly popular too, with significant year-on-year price rises here of up to 9 percent - reaching between 1,960 and 2,143 euros per square metre on average.

# PRIME MARKET



R E I N A

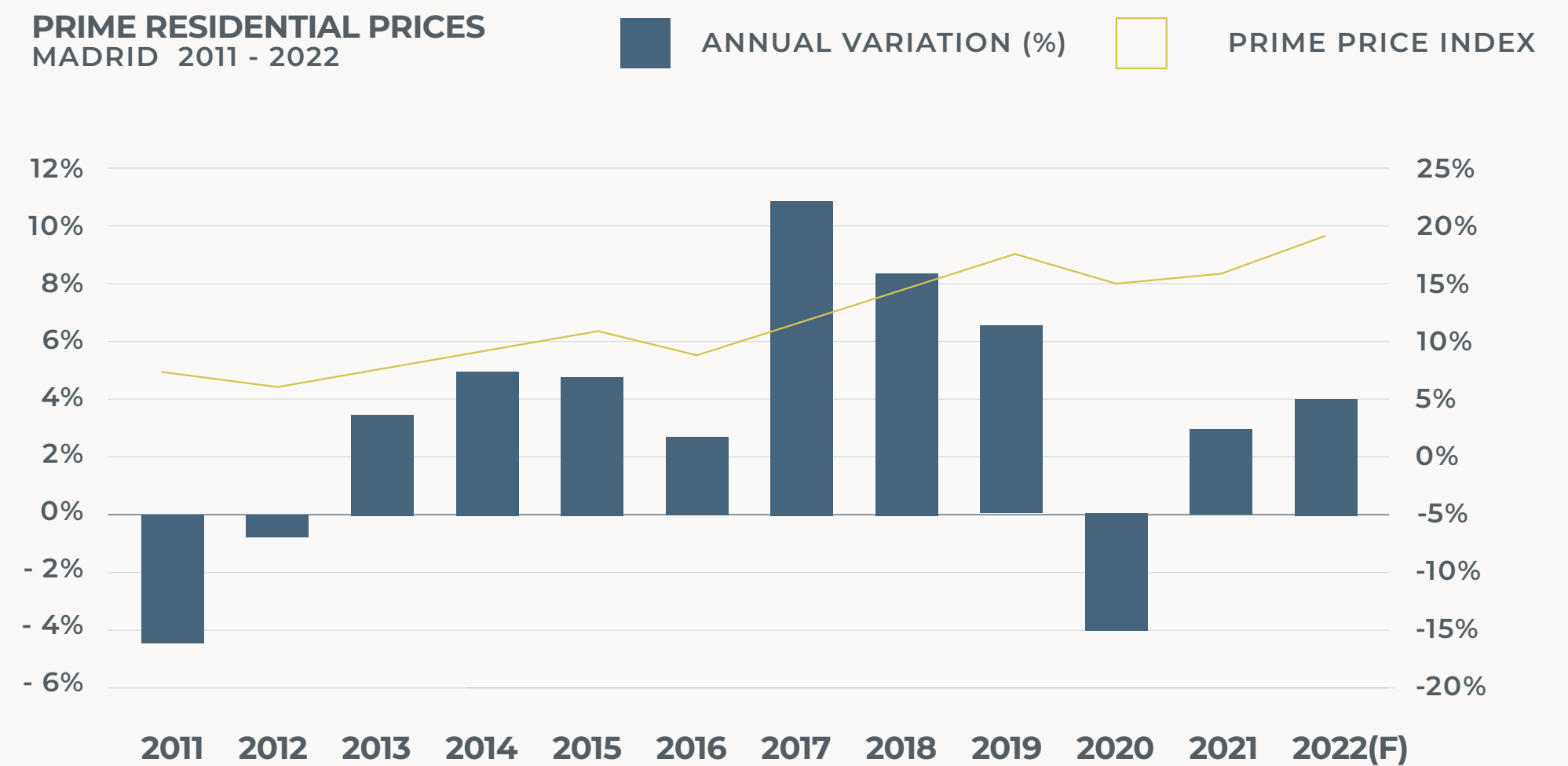
## PRIME MARKET

The growth registered by prime residential prices in the capital during 2022 has been the most pronounced since 2018, which reinforces the good situation in which the market finds itself, as well as its resilience in the face of situations of economic uncertainty such as the one currently experienced. Prime residential prices in Madrid have increased by 6% during 2022 and forecasts for the coming year are also positive as prices are expected to continue to increase, with a growth of 4%.

According to forecasts prepared by Knight Frank and published in The Wealth Report 2023, this increase places the capital city in sixth place among the fastest growing cities.

The most exclusive addresses are in the east/northwest area of the city center, between the Justicia district, the Bernábeu stadium and the Retiro park. The most expensive district is Salamanca, with prices per squaremeter ranging from 7,500 to 11,000 Euros. It is followed by Chamberí and Chamartín. Luxury

real estate is in high demand, especially among Spaniards (approximately 80% share in the luxury segment). The city center and villa areas in the north and north-west of the city are the traditional residences of the Spanish upper class. Wealthy Latin Americans are the second largest buyer group (approximately 20%). Mexicans and Venezuelans, in particular, buy luxury properties.



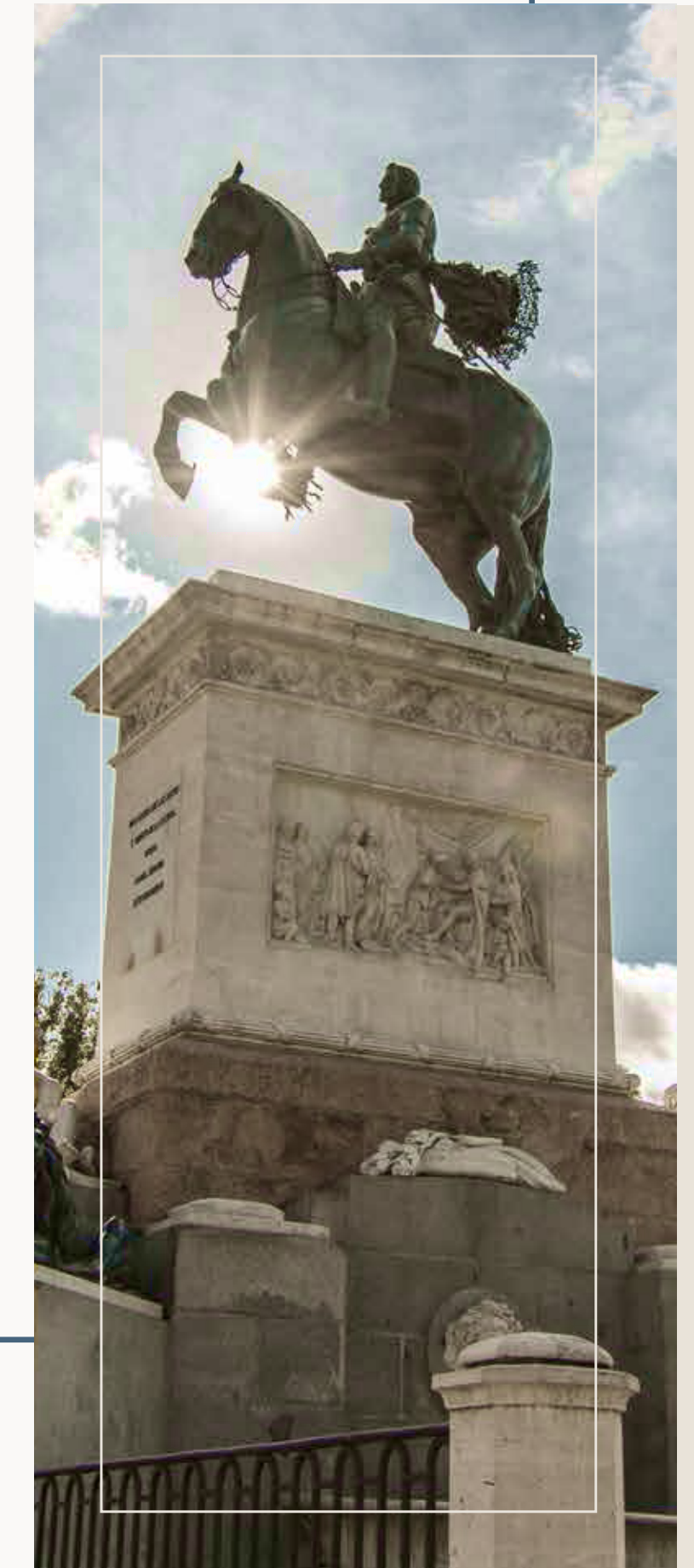
## HAZARDS

The economy is facing a complicated situation with runaway inflation, a sharp upturn in borrowing costs and an impending slump in consumer spending. The war in Ukraine is stretching out and generating major uncertainties at the global level, not just from a geopolitical standpoint but also on the economic front, especially in energy and financial markets. This conflict has dashed all previous GDP growth projection, which have been cut again in Spain all previous GDP growth projections - 4.5% 2022 and 1.4% in 2023.

The immediate consequence of these monetary policies has been the rapid rise in the Euribor and in the cost of mortgages. The Euribor reached 2.6% in September, marking an increase of 300 basis points in just nine months, and is expected to continue going up in the coming months. The average home mortgage rate rose to 3.0% (+150 bps).

This brought the loan-to-value (LTV) ratio to 65.1%. Only 9% of new loans were made with LTV higher than 80%, in line with the trend of 2020 and 2021, but below 2019 (12.1%) and 2018 (14.8%). This shows that Spanish banks are exercising great prudence; in fact, in this last quarter borrowing terms tightened and the loan offering dropped.

Mixing the spike in interest rates and loss of consumer confidence, this could only lead the drop in the demand for loans seen during the third quarter. In addition, both credit supply and demand are expected to continue shrinking in the coming months. Borrowing conditions have also become stricter, as indicated by the survey of bank lending published by the Bank of Spain, reflecting the darkening prospects for the economy and the housing market, deteriorating credit quality of borrowers, smaller risk tolerance, higher funding costs and lessened availability of funds.







## SUMMARY

Demand for housing has remained strong in 2022 with the first half of the year was the best in the entire historical series since 2007. Nearly 48,300 homes were sold, 6.7% more than in the same period of the previous year. The market for new builds saw demand slump by -20% with only 5,633 homes. Sales of new builds accounted for 11.7%, less than one year earlier (15.5%). The mortgages recorded in the first six months of 2022 amply surpassed the number seen in the first half of the

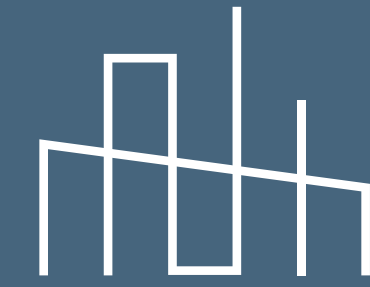
previous year, going from 35,890 mortgages in H1 2021 to 40,939 in H1 2022, an increase of 14.1%. Development activity remained strong in the first half of 2022, maintaining its momentum from 2021. A total of 10,170 units were issued permits (+26%), housing starts came in at 8,560 (-11%) and 7,134 units were delivered (-8.2%). The drop in the number of housing starts reflects the uncertainties regarding construction costs seen in Q2, and the decline in homes delivered is due to the

slowdown in activity in 2020 brought on by the pandemic. The percentage of housing starts relative to permits issued was 84.2%. Absorption was weak, with a rate of 70.6% in the first half, mainly due to the drop in demand. The momentum is expected to continue, but it's expected to be a major contraction in all variables in the residential market as a result of the sharp rise in borrowing costs and more stringent conditions for obtaining credit.



“EVEN WITH SUCH A SEEMINGLY LARGE FIGURE OF 145,000 NEW APARTMENTS CAN BE OCCUPIED IN MADRID IN 2022, DEMAND STILL EXCEEDS SUPPLY BY FAR. IN OUR VIEW, THIS TREND IS CERTAINLY HERE TO STAY FOR NOW, AND WE EXPECT THE LOW NUMBER OF PROPERTY LISTINGS TO PUT INCREASED PRESSURE ON PRICES”.

**GONZALO BERNADOS,  
ENGEL & VÖLKERS MARKET  
REPORT FOR SPAIN AND ANDORRA**



REINA

**THANK YOU**