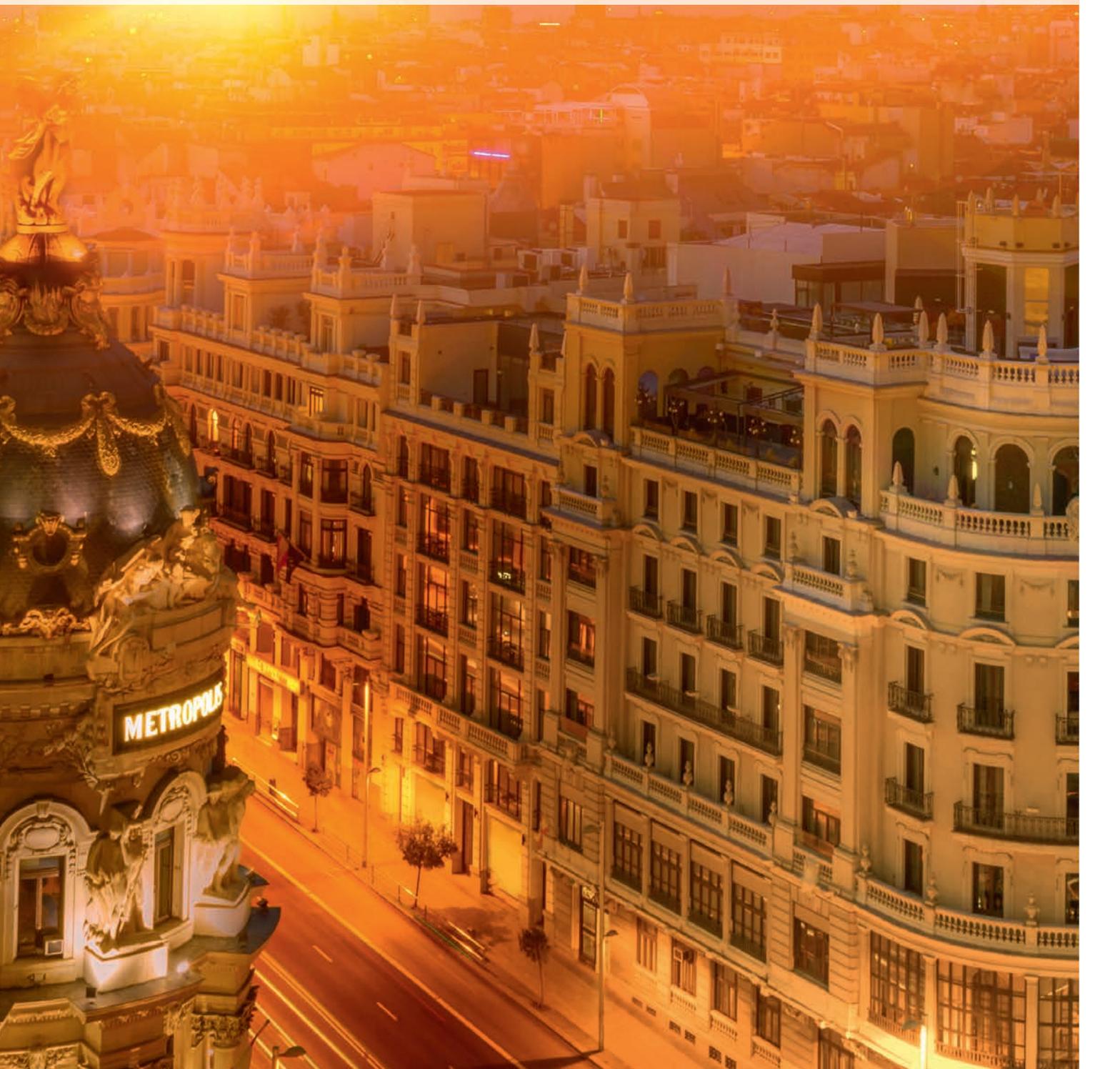


REPORT

Savills Research

World Research - 2019

Spain Residential



Definition of prime property This market consists of the most desirable and aspirational property by location, aesthetics, standards of accommodation and value. Typically, it comprises properties in the top 5% of the market by house price.

A brighter future

Spain is the second most-visited country in the world after France. From its wonderful food and climate to its vibrant cities, culture and history, there are many reasons why people move to Spain for a more permanent stake in the country.

The hardships faced by Spain following the Global Financial Crisis are now in the past. The future looks bright as the country's property market registers increasing numbers of transactions, steadily growing prices and more construction.

Following nearly a decade when practically no residential homes were built, construction activity is increasing. This is mainly in the key cities, but also across the country. This is forecast to increase as more residential permits are granted.

There is growing interest from international buyers, especially from countries in Latin America that share cultural and historical links with Spain.

In a global context, Spain's prime city markets offer value

for money and more growth potential than other world cities.

The country's status as a top visitor destination, coupled with the high quality life and low cost of living it offers, will continue to attract buyers and underpins Spain's lasting appeal.



Sophie Chick
Head of Department
World Research
+44 (0)20 7535 3336
sophie.chick@
savills.com

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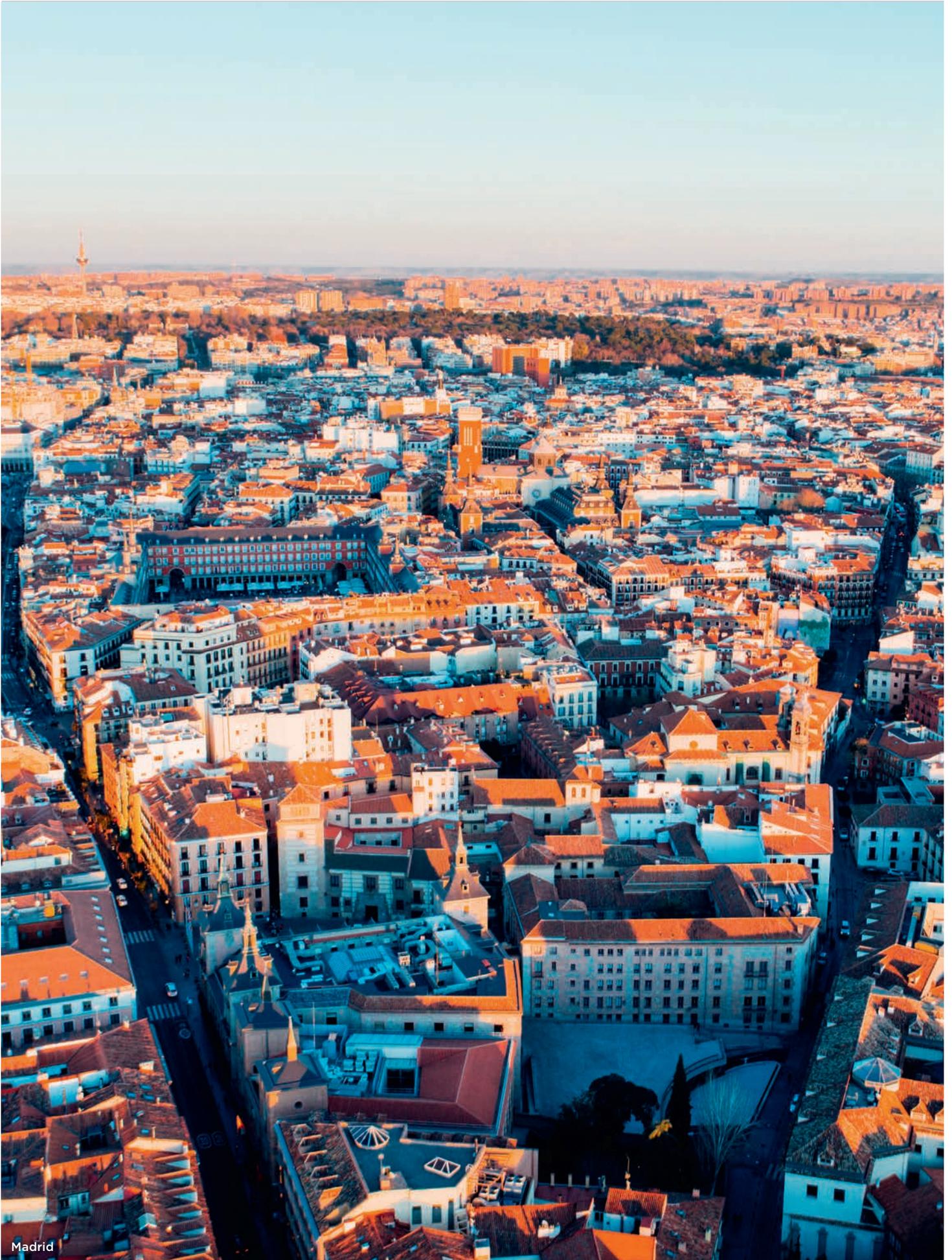
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Madrid



In 2019, Spain's economy is expected to expand by 2.3%, slightly less than in 2018, but higher than growth predictions for France (1.4%), the UK (1.3%) and Germany (1%)

Bucking the trend

With an improving economy, Spain's property market is seeing an increase in residential sales, steady price growth and more construction activity

The Spanish housing market faced a number of headwinds during the years following the Global Financial Crisis (GFC), but has been moving in a positive direction since mid-2014 and looks set to continue this upward trend.

An economy in recovery

Spain was one of the worst-hit European countries during the GFC. The economy contracted by 8.9% between 2008 and 2013, while the Eurozone's GDP as a whole fell by just 1.9% over the same period. Meanwhile, unemployment rose to 25.8% in 2012, with youth unemployment (aged 15-24) estimated to have reached a peak of 55% in 2013.

Since 2014, the situation has reversed and Spain is one of the strongest-performing economies in the region, despite economic growth slowing from 3.0% in 2017 to 2.5% in 2018. In 2019, Spain's economy is expected to expand by 2.3%, slightly less than in 2018, but still significantly higher than growth predictions for France (1.4%), the UK (1.3%) and Germany (1.0%).

The strong economic growth in Spain has been helped by a tourism boom. Spain welcomed close to 83 million international

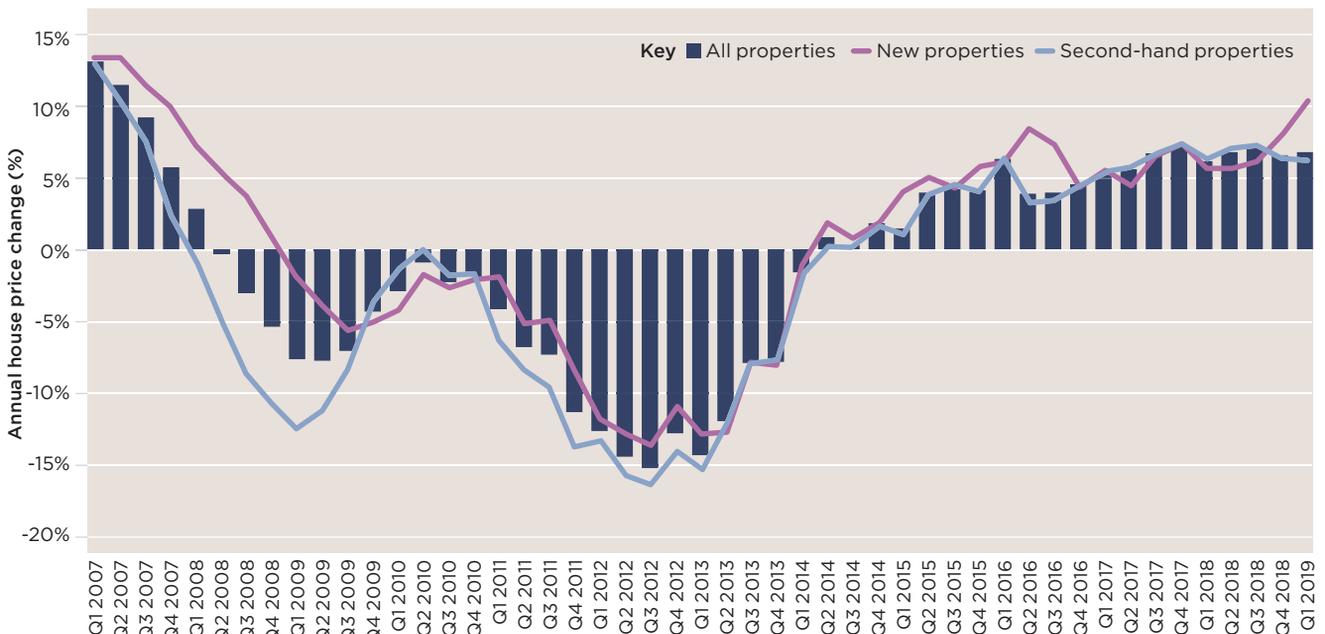
visitors in 2018, a record number, that was a marginal increase from 2017 and up from 75 million in 2016. This places Spain as the second most-visited country in the world behind France. Tourist numbers have remained high in 2019 and the sector is expected to continue strengthening the Spanish economy and creating employment.

The unemployment rate in Spain has fallen by at least 2% annually since 2014, and stood at 14.5% in 2018. Despite this decrease, which has continued in 2019, unemployment remains the second-highest in the European Union behind Greece. There are lower rates of unemployment in the more industrial north of Spain and in Madrid. Unemployment remains higher in the south.

National housing market

Prior to the GFC in 2008, Spain's housing market boomed and residential construction, transactions and prices all experienced substantial growth. This was followed by six years of price falls until 2014, when prices began to recover, driven by economic growth, low interest rates, low property prices, attractive mortgage packages and an increase in international buyers. >

National house prices Since 2014, economic growth has driven a recovery in values



Source Savills Research using The National Statistics Institute

“Although the market has been in recovery for a number of years, much of the progress has been recovering old ground, rather than fresh growth”



The market is yet to return to the levels seen prior to the downturn, suggesting there is room for growth. The average sale price for a residential property stood at €151,000 for Q1 2019, still 20.7% below the €190,000 reached in the Q4 2007.

In the year to March 2019, house prices across Spain increased by 6.8%, while prices of new properties increased 10.4% over the same period. This indicates that supply and demand is levelling out and confidence is returning to the new build market.

Transaction activity

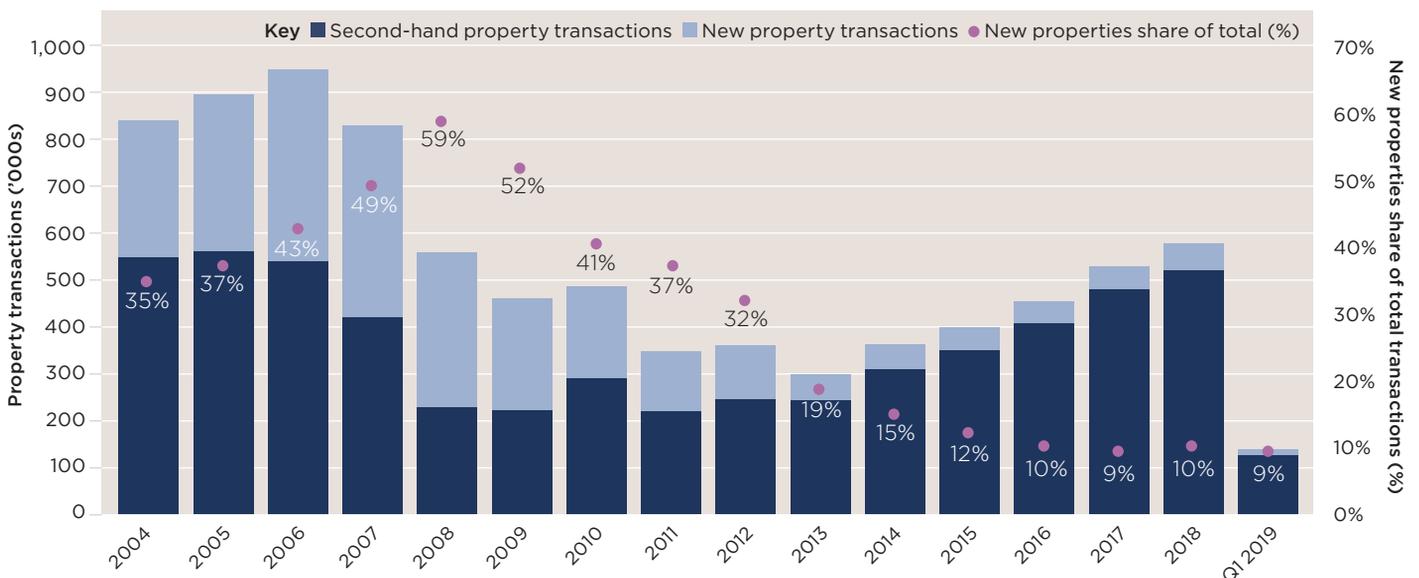
Transaction numbers have been increasing steadily since 2013, but the number of properties sold in 2018 was still 39.0% below the 2006 peak. However, there has been a significant difference in the performance of the new build versus second-hand market.

In 2008, new properties accounted for nearly 60% of all sales, but numbers declined rapidly and they now make up less than 10% of the market. The second-hand market has been steadier. Although transaction numbers fell following the GFC, the number of sales in 2018 was just 6.8% below the peak in 2005.

Development

Supply of new residential properties has been one of the key hindrances in the market. After the boom in construction prior to the GFC, there has not been enough demand to meet supply, resulting in an oversupplied market, particularly in the south of the country.

Transactions The sale of new properties has declined while the second-hand market is less volatile



Source Savills Research using Ministry of Development, Spain

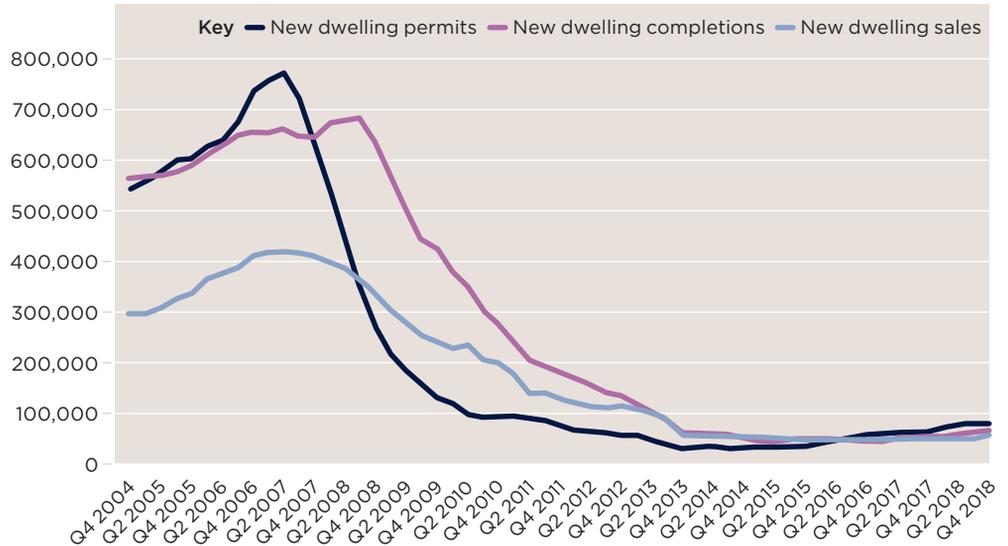
Since 2007, however, the dramatic fall in construction activity has resulted in the overhang of stock being steadily sold and the market is becoming more balanced. In mid-2007, new property permits reached 750,000 for the year compared with just 30,000 in 2014.

There are signs that construction of new homes is picking up as developers return to the market. A total of 78,000 new dwellings were granted permits across the country in 2018, an increase of 23.1% from 2017.

Outlook

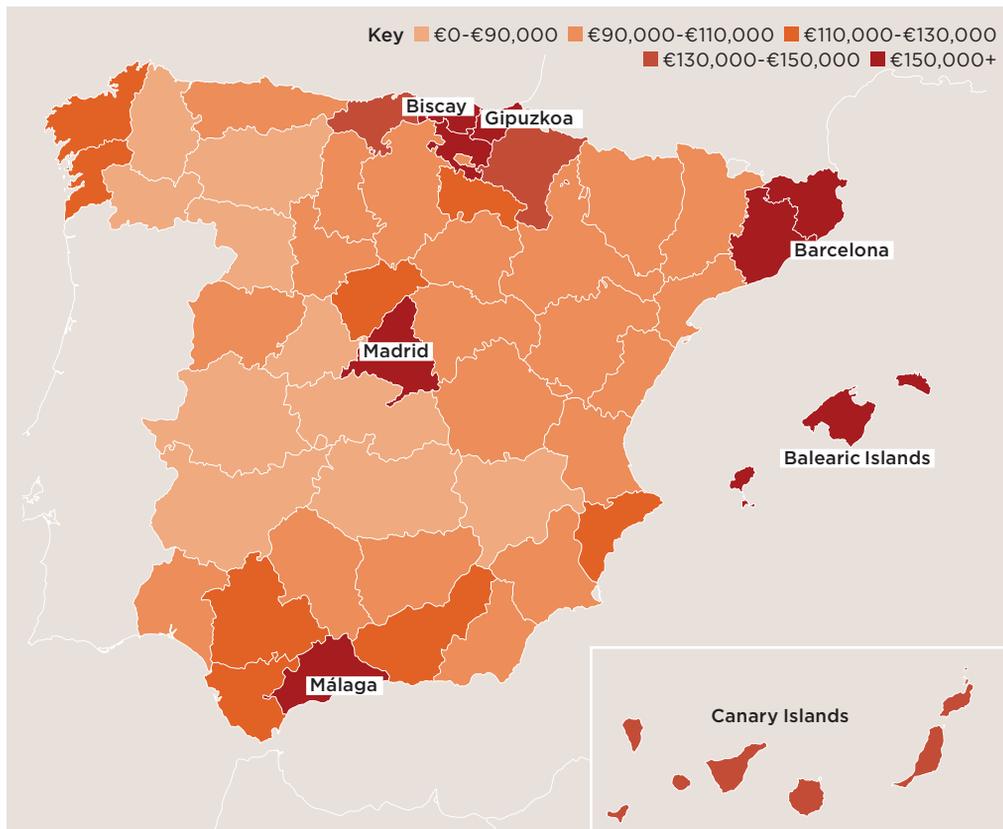
Although the Spanish property market has been in recovery for a number of years, much of the progress has been recovering old ground, rather than fresh growth. The market is expected to continue growing, but there are likely to be regional differences, with the larger and second-tier cities seeing higher rises compared with rural and less-populated areas.

Residential construction activity First signs of the market picking up



Source Savills Research using Ministry of Development Spain

Average national transaction values (to Q1 2019)



Source Savills Research using The National Statistics Institute

How prices vary across Spain

Property in Madrid is the most expensive in Spain, with an average price of €235,000, 56% more expensive than the national average. The capital is closely followed by the Balearic Islands at €230,000, then Gipuzkoa, with its capital Donostia-San Sebastián. Barcelona is in fourth place, with average values 12% lower than Madrid and Biscay, with its capital Bilbao, completing the top five.

On the flip side, Cáceres, Jaén and Ciudad Real all have an average value of around €75,000, a 50% discount compared with the national average.



At €5,000 per sq m, prime property in Valencia is the most affordable of Spain's three largest cities

Vibrant value

Spain's residential markets offer iconic style and culture. They are also home to some of the best value prime property in the world

Globally, prime residential market values are slowing, as a combination of government policy, the cost of money, increasing supply and global economic uncertainty impact sentiment. The Savills World Cities Prime Residential Index recorded a growth of just 0.4% over the first six months of 2019, taking the annual growth to 0.7%. This compares with an annual increase of 5.1% in the year to June 2018.

Spain's prime markets

Madrid has proved relatively resilient to global headwinds. It slightly outperformed the index average, with prime residential values increasing by 0.9% during the year to June 2019. However, over the longer term, prices are still 11.3% lower than a decade ago compared with an average growth of 82.3% across the index.

In a global context, Spain's prime markets offer value for money. Madrid has the most expensive prime property in Spain, with an average value of €7,000 per sq m. This represents a discount of 23.1% compared with Berlin, 60.5% with London and 84.6% with Hong Kong, the most expensive city in the world for prime residential property.

In Barcelona, prime values are 11.4% cheaper than in Madrid, standing at €6,200 per sq m. This leaves prices 8.8% more expensive than Dubai and 24.0% higher than Valencia, which, at €5,000 per sq m, is the most affordable of Spain's three largest cities. In both Madrid and Barcelona, prime values can reach €15,000 per sq m for the highest-quality new build apartments.

As for Spain's resort locations, average prices on a per square metre basis in the Costa del Sol are nearly 50% higher than in the Costa Brava. At a local level, Marbella is 50% more expensive than Malaga.

International buyers

Spain remains a popular destination for visitors, investors and those looking to relocate to the country. It is a safe and stable country with a rich cultural tradition,

👁️ **Madrid has the most expensive prime property in Spain, with an average value of €7,000 per sq m** 📈

Prime residential values in Madrid compared with the global index



Source Savills Research

Prime residential values

Prime markets in Spanish cities represent value in a global context



Note Values refer to the average price of prime residential properties in established and emerging markets **Source** Savills Research



and benefits from a favourable climate, beautiful beaches and a relaxed lifestyle.

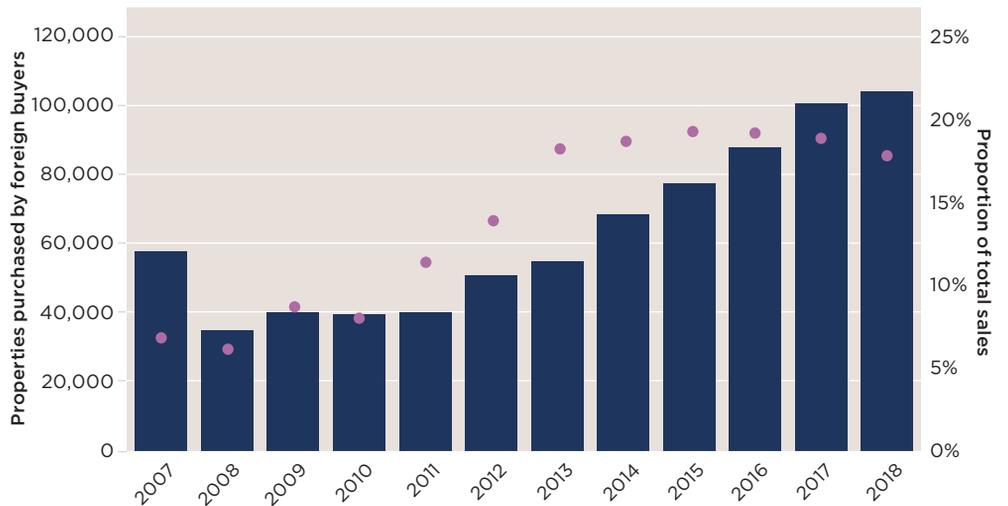
International interest from buyers both inside and outside of the EU is increasing. In 2018, just over 100,000 homes were purchased by overseas buyers, accounting for nearly one-fifth of all sales.

British buyers continue to make up the largest group of foreign nationals buying property in Spain. They accounted for 14.8%

of purchases in 2018, followed by French and German buyers at 7.9% and 7.6% respectively (see chart p10). This indicates that the uncertainty leading up to Britain leaving the EU has not deterred buyers from investing in or relocating to Spain.

During the past five years, the number of international buyers has nearly doubled. This increase coincides with the introduction of Spain's golden visa scheme. This allows >

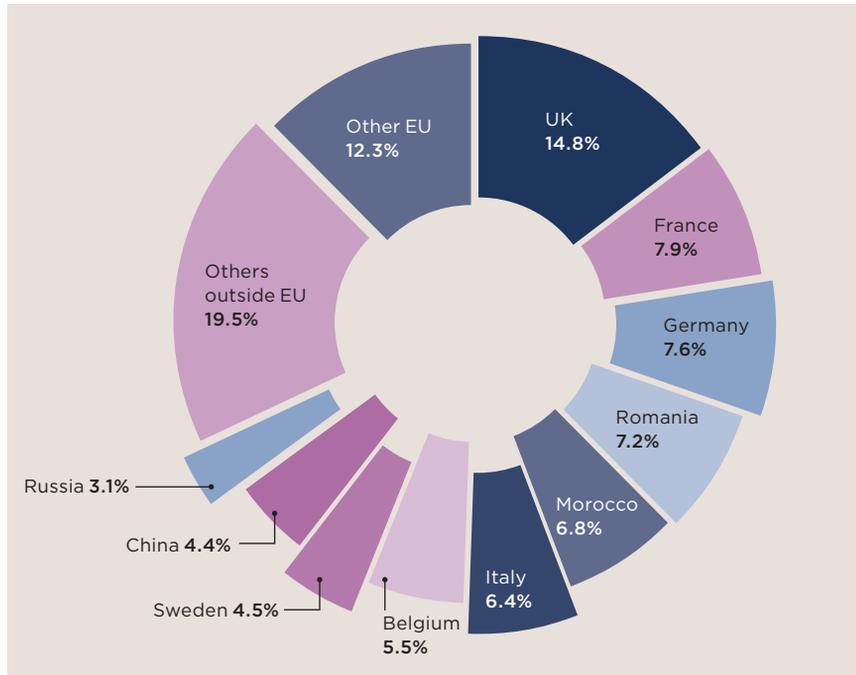
Overseas buyers Interest from international buyers is increasing



Source Savills Research using Spanish General Council of Notaries

“Wealthy Latin American buyers relocate for economic and political stability. Domestic demand will be driven by wealth generation as the economy grows”

International buyers of Spanish property in 2018



Source Savills Research using Spanish General Council of Notaries

non-EU nationals to obtain residency in Spain if they invest half a million euros or more into real estate.

The scheme has driven foreign buyers to the Spanish prime markets, particularly from Morocco, China and Russia. There is also rising demand from Spanish-speaking South America. Some of the largest growth over the past five years has come from buyers in Ecuador and Argentina, with numbers rising by 270% and 150% respectively.

Prime spot for branded residences

It is testament to Spain’s prime residential market recovery and its appeal among international high-net-worth individuals that its first branded residential projects will be completed in the next few years.

As many top-tier world cities look fully valued, operators and developers of branded residential product are looking to alternative urban centres and resort locations for new opportunities and growth, and Spain is part of that story.

There are several branded residential projects planned or under construction in Spain. Some of the top hotel and hospitality brands, such as Four Seasons, Mandarin Oriental, Six Senses and W,

are targeting the key business hubs and tourist destinations, including Madrid, Barcelona, Ibiza and Marbella. The Mandarin Oriental Residences, Barcelona, at Passeig de Gràcia 111, has set new price records for the residential market in the city.

Prime residential outlook

Demand for luxury real estate remains high across Spain. Wealthy Latin American buyers continue to relocate for economic and political stability, particularly to Madrid. Domestic demand, however, will be driven by wealth generation as the economy grows.

The strong interest is expected to lead to continued price increases. New product is needed to meet the demand, as illustrated by the emergence of branded residences.



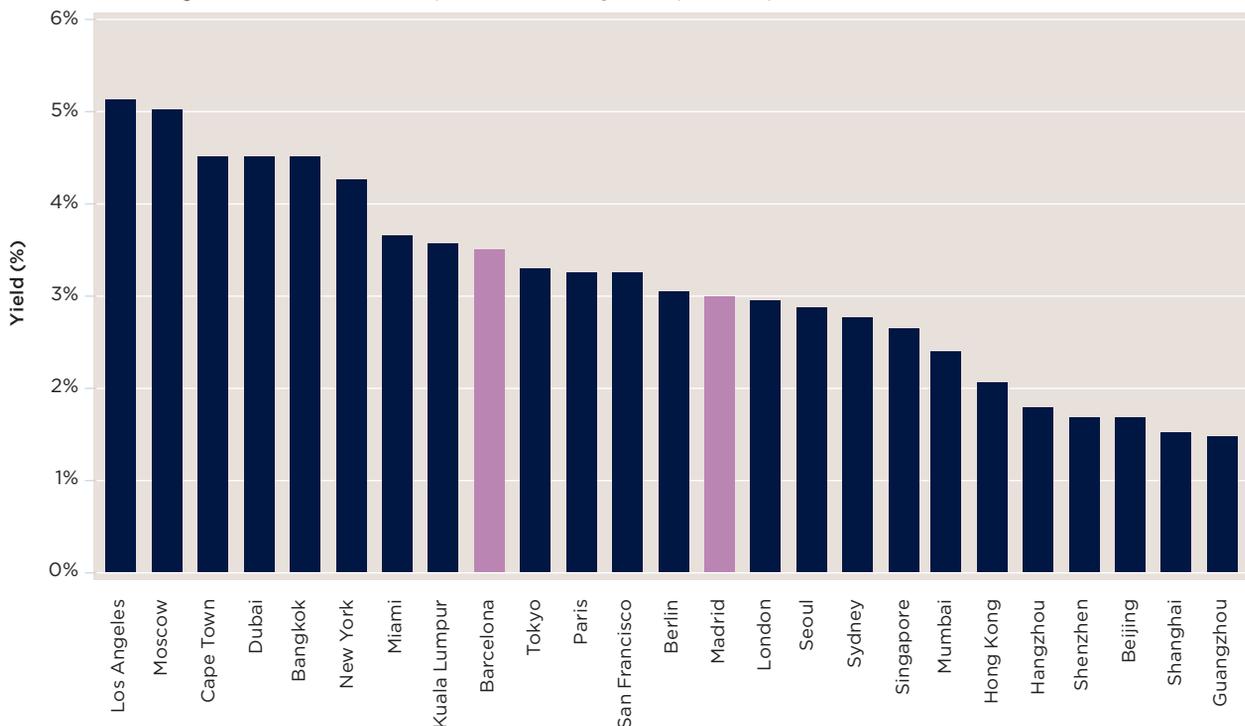
The Mandarin Oriental Residences, Barcelona, at Passeig de Gràcia 111

PRIME RESIDENTIAL YIELDS

The average rental yield for prime residential properties in Madrid and Barcelona sit at 3.0% and 3.5% respectively. Barcelona's more competitive returns for property owners is a result of the lower capital values.

Barcelona ranks above its European peers, Paris (3.3%) and Berlin (3.1%), while both Barcelona and Madrid offer a higher average rental yield than London (2.9%).

Prime yields Barcelona outperforms many European top-tier cities



Source Savills Research



13%

The percentage increase in permits for new residential dwellings in Madrid in 2018 compared with 2017



Cities in the spotlight

As house prices and transaction activity increase, these five cities are giving potential buyers a new sense of confidence, alongside a high-quality lifestyle

Madrid

Spain's capital city, well known for its vibrant culture and football clubs, has also gained a reputation as a key global business centre. Residential property in Madrid is the most expensive in the country.

Values in Madrid increased 9.7% during the year to March 2019, and are 50.1% higher than five years ago. This is the strongest growth of any region in Spain, and demonstrates the high demand across the city.

Transaction activity has also been strong and sales numbers are now just 23.6% below their peak in 2006. This compares with an average of 39.0% across the country.

New residential projects are being built and the increase in construction looks set

to be maintained. The number of permits for new residential dwellings in the city increased 13.0% in 2018 compared to the previous year.

The high demand for properties in Madrid is expected to continue and, although prices may not increase at the rate seen over the past few years, values are forecast to rise.

Barcelona

Barcelona offers the best of both worlds, city and beach life, which attracts a wide range of tourists and buyers.

The vibrant startup scene and its growing reputation as a fintech hub has led to strong demand from young, affluent buyers. Amazon, Facebook and Microsoft all now have a base in Barcelona.

“Values in Catalonia increased 7.6% during the year to March 2019, taking the five-year growth to 40.5%. Transactions doubled during the same period”



Although price growth has slowed slightly, values in the region of Catalonia increased 7.6% during the year to March 2019, taking the five-year growth to 40.5%. This is the second highest after Madrid. During the same period, transactions have doubled and the number of development permits has increased 523.9%, demonstrating the renewed activity in the market.

In 2018, the number of residential permits granted was 50.8% higher than in 2017. However, the mayor's new social housing quota has slowed the number of planning applications for larger developments this year.

Despite the political tensions between Spain and the region of Catalonia, the variety, tech opportunities and unrivalled lifestyle are expected to continue to attract buyers from within Spain and further afield.

Valencia

Valencia is Spain's third largest city, the home of paella, famous for its beautiful beaches and buildings, and just an hour and 40 minutes by high-speed train to Madrid.

Residential property prices are significantly lower than those in Madrid and Barcelona, which serves to attract investors looking for good rental returns.

Price growth has been slower than some other regions of Spain, with values rising 17.5%

during the past five years. Yet, transaction numbers have doubled, indicating an active market. Residential development activity is increasing, a sign that confidence has returned to the market. New building permits being granted suggest this trend will continue. >





Málaga

Málaga has undergone a transformation in recent years. The city is no longer just considered as a gateway to Marbella and other popular places along the Costa del Sol, but a destination in its own right.

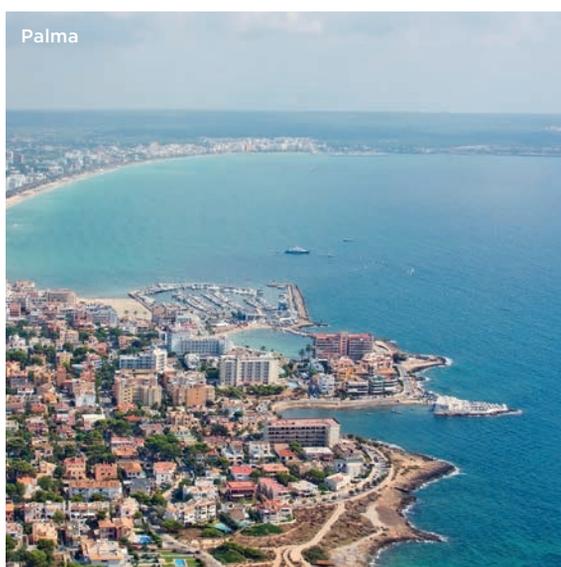
The average sale price for residential properties in the city in Q1 2019 was 9.9% higher than the average sale price in the same period a year before.

The city's revival, year-round tourism and new residential developments are contributing to Málaga's reputation as an attractive buying opportunity. Prices, transactions and construction activity are all expected to continue to grow.

Palma

The lively capital of Mallorca has become a high-end destination with new Michelin-starred restaurants and five-star hotels opening.

Across the Balearic Islands, although the average sale price is increasing (growing 7.3% over the year to Q1 2019), the number of sales has slowed due to a lack of good stock. Annual residential transactions fell 6.3% from Q1 2018 to Q1 2019. However, the city continues to attract a range of buyers.



RESORT MARKETS

In general, residential properties in Spain's traditional resort markets have not shown the same level of recovery as Madrid and Barcelona over the past five years. However, prices have started to grow during the past year, demonstrating market confidence and presenting an opportunity for buyers.

The Balearic Islands have bucked the trend somewhat with price growth of 37% over the past five years, behind only Madrid and Catalonia in terms of growth. Mallorca is the tourism powerhouse of the islands, with a well-developed infrastructure supporting visitors year round. Ibiza, on the other hand, is considered the most fashionable island of the Balearics.

The Costa del Sol includes the upmarket resort of Marbella as well as Spain's sixth largest city, Málaga (see left).

The coastal region of Costa Brava lies north of Barcelona where the foothills of the Pyrenees meet the Mediterranean Sea. In the province of Girona, the average sale in Q1 2019 increased by 8.9% compared with the average sale price the previous year.



Savills World Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of global property.

World Research

Sophie Chick

Head of Department
+44 (0)20 7535 3336
sophie.chick@savills.com

Sean Hyett

Analyst
+44 (0)20 7409 8017
sean.hyett@savills.com

Global Residential

Hugo Thistlethwayte

Head of Operations,
Global Residential
+44 (0)20 7409 8876
hthistlethwayte
@savills.com

Jelena Cvjetkovic

Director, Global
Residential Network
+44 (0)20 7016 3754
jcvjetkovic@savills.com



LUCAS FOX
INTERNATIONAL PROPERTIES

Savills Aguirre Newman

Arturo Díaz Nieto

Executive Director,
Residential
+34 93 439 54 54
arturo.diaz@savills-
aguirrenewman.es

Victoria Contreras

Director, Residential
+34 91 319 13 14
victoria.contreras@savills
-aguirrenewman.es

Lucas Fox

Alexander Vaughan

Founding Partner
+34 933 562 989
alex@lucasfox.com

Rod Jamieson

Managing Director
and Partner
+34 637 987 021
rod@lucasfox.com



33 Margaret Street
London W1G 0JD
+44 (0)20 7499 8644

