

Is buy-to-let every year a bit more profitable in Madrid?

Summary of several reports and articles about buying property in Madrid

Buy to let in Madrid is every year a bit more profitable. According to an analysis of Fotocasa, in 2016 the profitability in Spain for buy-to-let properties was 5.3%, compared to 5.2% in 2015, 5% in 2014 and 4% in 2013.¹

In 2016 the average profitability for Madrid was 5.6% compared to 5.2% in 2015 and 5% in 2014.²

Comunidades más rentables para comprar una vivienda y ponerla en alquiler (comparativa 2016 vs 2015 vs 2014)

Comunidades Autónomas	Rentabilidad anual 2016	Rentabilidad anual 2015	Rentabilidad anual 2014
Cataluña	6,1%	5,4%	5,0%
Murcia	5,7%	5,1%	4,9%
Canarias	5,6%	5,5%	5,2%
Madrid	5,6%	5,2%	5,0%
Baleares	5,6%	5,2%	4,8%
Castilla-La Mancha	5,5%	5,2%	5,0%
Aragón	5,4%	5,0%	4,8%
Navarra	5,3%	5,0%	4,8%
Comunitat Valenciana	5,3%	4,8%	4,6%
Andalucía	5,1%	5,1%	5,0%
Extremadura	5,0%	4,9%	4,6%
La Rioja	5,0%	4,6%	4,4%
Castilla y León	4,9%	4,7%	4,5%
Asturias	4,8%	4,6%	4,3%
Cantabria	4,8%	4,5%	4,2%
País Vasco	4,6%	4,3%	4,0%
Galicia	4,1%	4,0%	3,9%
ESPAÑA	5,3%	5,2%	5,0%

Source: fotocasa - see footnote 1

¹ <http://www.fotocasa.es/blog/alquiler/donde-mas-rentable-comprar-alquilar>

² Fotocasa indicates it based its analysis on the PER calculation, the Price Earnings Ratio.

According to an analysis of Fotocasa for Expansión dated May 2016³, the districts with a high demand for renting apartments are the City Centre, Carabanchel, Tetuán, Puente de Vallecas and Latina. They offer an average profitability of 6%, compared to the average profitability of 5.3% in Spain. They vary from 7.4% for Puente de Vallecas to 4.9% in the City Centre.

Below you will find an overview of this analysis:

- the average value per m² in Madrid is 2.142 €.
- in all 21 districts of Madrid the price has increased.
- the most sold property has a surface of 81 m² and an average price of 150.188 €.
- the average price for a property of 70 m² is 117.203 €.
- the average price for a property of 90 m² is 184.731 €.
- the average price for a property of 120 m² is 308.056 €.
- in Chamberí the average profitability is 4.5%, with an average price of 3.444 € per m².
- in Salamanca the average profitability is 4.2%, with an average price of 3.597 € per m².
- in Retiro the average profitability is 4.5%, with an average price of 3.270 € per m².

According to an article of 24 January 2017, the gross return in Madrid was 5.9% for 2016.⁴

In February 2017, Expansión published a guide to invest in properties.⁵

According to this guide, there are a few facts or statements that can be relevant for investors. Here's a summary:

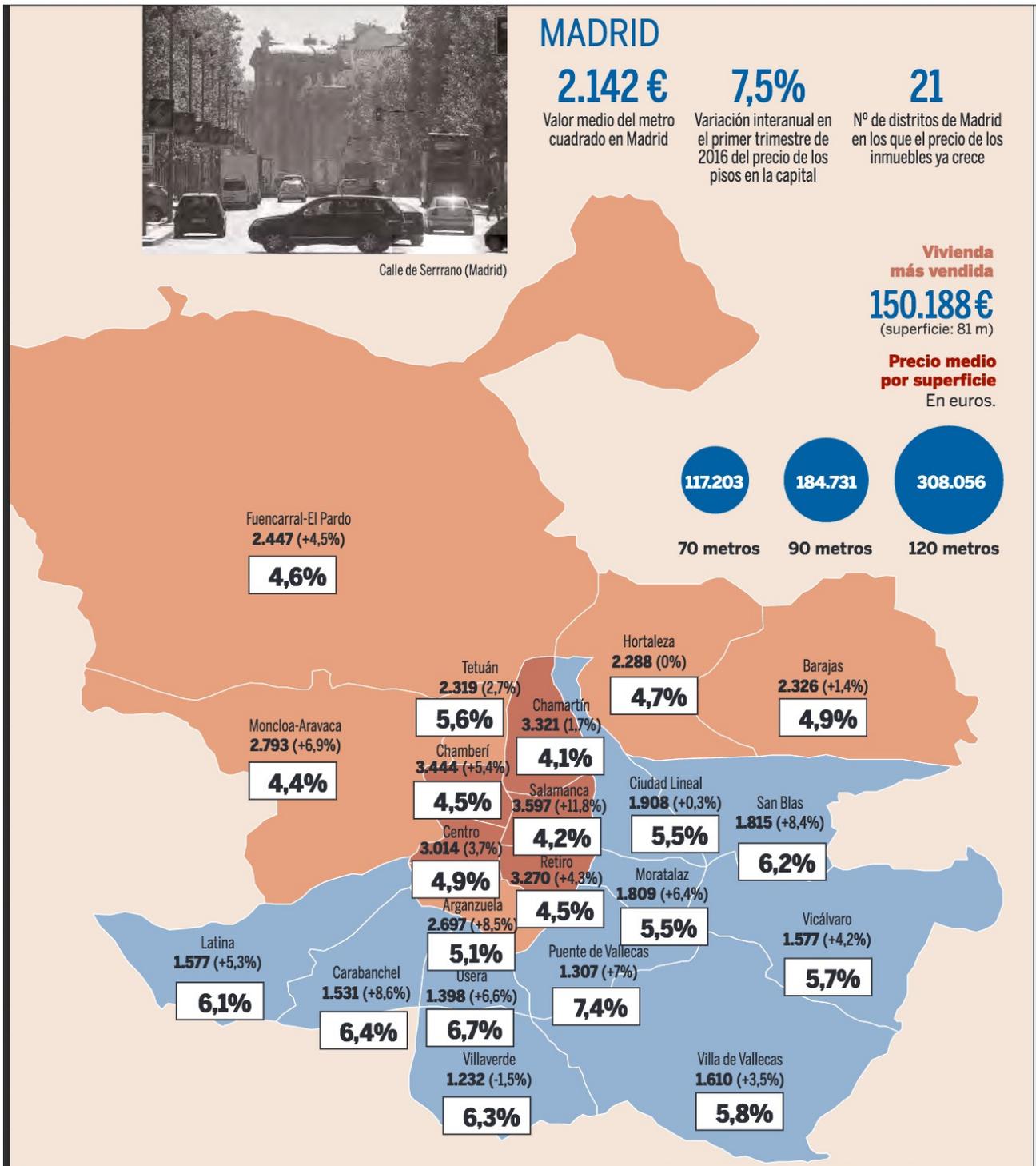
- investing in property should be seen as a long term investment.
- buying an apartment to let (buy-to-let) offers an average annual profitability of 4.4%. If you add the revaluation to this, the number increases to 8.4% (third trimester of 2016). This is the average national number, published by *El Banco de España*.
- in cities like Madrid and Barcelona this percentage is much higher, especially in the central districts, where they can increase by 20%.

3 <http://apcebcn.cat/web2015/wp-content/uploads/2016/05/expansion-280516-hab-los-distritos-mas-rentables-para-invertir-en-vivienda-en-madrid-y-barcelona.pdf>

4 <http://www.expansion.com/economia/2017/01/24/58872806ca4741512d8b463c.html>

5 <http://apcebcn.cat/web2015/wp-content/uploads/2017/02/expansion-180217-hab-guia-para-invertir-en-vivienda.pdf>

- if we take into account the data of the *Colegio de Registradores*, the total profitability increased by 10.1%, because in the last trimester of 2016 the profitability of the rent was another 4.4% and the price increased by 5.7%.
- for 2017 they expect an increase of the profitability of residential properties.
- the most interesting areas to invest in Madrid are in the City Centre, Carabanchel, Tetuán, Puente de Vallecas and Latina.
- these areas offer an average profitability of 6%, the revaluation not included.
- the average profitability in the province of Madrid is 5.9%.
- in Madrid 9 of the 21 districts are more than 10% more expensive. The City Centre with an increase by 16.5% and a rent of 16.90 € per m² and Salamanca 9.8% are even more expensive with 16.10 € per m².
- according to urban Data Analytics (uDA), the neighbourhood of Arganzuela stands out for its high profitability and low risk. The best apartment is situated in Arganzuela with a surface of 47 m² and a profitability of 15%.
- uDA has developed a method to analyse real estate information that enables one to make a reconstruction of the best property to invest in.
- according to an expert of IPE (*Instituto de Práctica Empresarial*), the apartments with the best profitability have a surface of about 70 m², are dedicated to letting to tourists and offer a profitability of more than 20%. This expert also indicates that another option is investing in apartments with two bedrooms in areas with a lot of demand amongst students, for example in the neighbourhood Arguëlles in Madrid. Nevertheless, in general, apartments in areas with good accessibility (public transport or highways) have a secure profitability and low risk.
- the experts mentioned in this document agree in general that it is important to combine risk and profitability. Or otherwise said, it is better to look for maximum profitability, but choose a property in a neighbourhood where there is a lot of demand for renting an apartment.
- according to a manifest of IPE, the price of property in Spain will increase by 8.7% in 2017. This would mean that the average value of property in Spain would increase from 144.973 € to 157.555 €. This is more than most experts state, they are assuming an increase in 2017 by 5%.



Source: el mundo - see footnote 6

According to the *Banco de España*, the profitability in the real estate housing sector has gone up to 8.3%. This percentage is a result of the sum of the exploitation of property by means of letting (4.4%) and its revaluation (3.9%).⁶

⁶ <http://www.elmundo.es/economia/2016/10/28/581219d3ca47418f0b8b4582.html>

In another article⁷ of October 2016, urban Data Analytics (uDA) gives a summary of the three steps to be surveyed to obtain data and trends. Firstly, they look at the number of properties sold. They analyse the areas with the highest increase over a certain period of time. Secondly, they estimate the amount of weeks a property has been effectively for sale. Thirdly, in contrast with the first step, they count the properties for sale that had a decreasing evolution over time. Looking at the data for Madrid, uDA states that the property with the highest profitability is a property between 100 and 139 m², situated in the City Centre, in the neighbourhood Justicia. According to the data they got, this neighbourhood experienced a considerable growth and a 20% shorter sales time compared to the average property in Madrid.

Other interesting districts are the neighbourhood Arcos (in the district San Blas, at the East side of Madrid, outside M30). It has a quite good profitability for properties up to 69 m².

However, the search to the highest profitability also includes a risk. uDA uses big data to minimise this problem and through an 'investment indicator' they combine different factors that influence the risk and profitability. Combining these different factors they conclude that the highest profitability can be found in the district of Usera (south of the City Centre) and then especially the neighbourhood Almendrales. This is an apartment with a size of 56 m², two bedrooms, on the third floor, *exterior*, elevator and in a good condition, with an increase in price by 12% and an average price of 1.739 € per m².

According to a study of Fotocasa in 2016⁸ the districts with the most demand for renting a property are the City Centre, Carabanchel, Tetuán, Puente de Vallecas and Latina. In 2016 the average profitability in these districts are 6%, one percent higher than the average profitability in Spain. From 7.4% in Puente de Vallecas until 4.9% in the city centre.

Fotocasa indicates that the most demanded area is the City Centre, where there has been an increase of 13.8% between the rental price per March 2015 and the price per March 2016.

What kind of apartment is mostly in demand?

The most demanded properties (buying and renting) are apartments situated on the first up to the fourth floor. And yes, there is a small difference in buying and renting. As people like to rent *áticos* (attics) and studios as well.

7 <http://www.elmundo.es/blogs/elmundo/big-data-inmobiliario/2016/10/10/este-es-el-mejor-piso-para-invertir-en.html>

8 <http://prensa.fotocasa.es/los-districtos-mas-demandados-para-alquilar-una-vivienda-en-madrid-ofrecen-una-rentabilidad-media-del-6/>

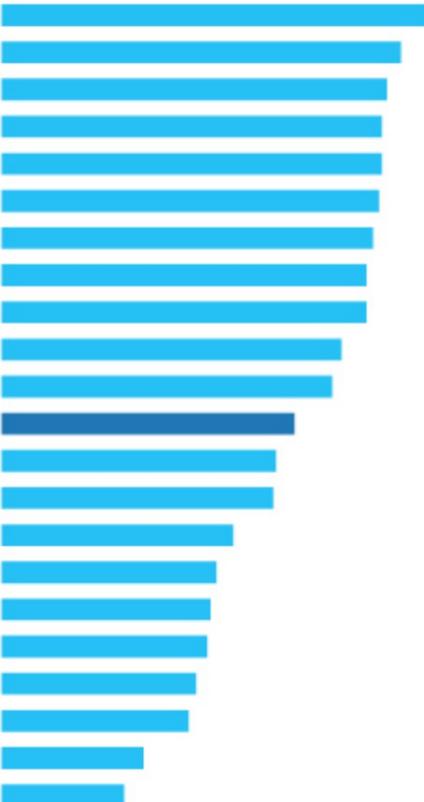
If we are looking at Madrid, there is a difference between renting and buying. People tend to rent smaller apartments, the average is about 57 m² with two bedrooms while buying is focused on a surface of 80 m² with two or three bedrooms.

Here is an overview of urban Data Analytics as found in El Mundo of 28 October 2016:⁹

Por distritos

En % anual

DISTRITO	POR ALQUILER	REVALORIZACIÓN	TOTAL
Villaverde	7,00	4,75	11,75
Retiro	4,59	6,42	11,01
San Blas	5,98	4,65	10,63
Centro	5,28	5,21	10,49
Chamberí	4,48	6,01	10,49
Usera	7,09	-3,32	10,41
Latina	6,16	4,08	10,24
Arganzuela	5,04	5,02	10,06
Chamartín	4,31	5,75	10,06
Salamanca	4,35	5,02	9,37
Tetuán	5,75	3,36	9,11
MEDIA MADRID	5,84	2,24	8,08
P. de Vallecas	7,53	0,03	7,56
Moncloa-Aravaca	4,78	2,71	7,49
Fuencarral-El Pardo	4,54	1,85	6,39
Moratalaz	5,23	0,69	5,92
Villa de Vallecas	5,97	-0,21	5,76
Carabanchel	6,68	-1,01	5,67
Barajas	5,28	0,08	5,36
Ciudad Lineal	5,07	0,08	5,15
Hortaleza	4,66	-0,75	3,91
Vicálvaro	6,39	-3,02	3,37



Fuente: uDA (urban Data Analytics)

Nathalie Onofre / EL MUNDO GRÁFICOS

Source: el mundo - see footnote 9

According to uDA the areas with the highest profitability are situated South and Southeast of Madrid. These are highly profitable districts, though also with higher risks. And bear in mind that properties are for sale for a longer period of time compared to the City Centre

⁹ <http://www.elmundo.es/economia/2016/10/28/581219d3ca47418f0b8b4582.html>

of Madrid. And the *plusvalía*¹⁰ for revaluation is still negative or in most cases zero.

According to uDA, the highest increase in price can be found in Retiro, Chamberí, Chamartín as well as Salamanca although there you have the lowest profitability. However, these districts compensate the lower rental yield with the yearly price increase of properties, that is more than 5%.

According to an article in *Expansión* dated 28 February 2017¹¹, Arganzuela is starting to compete with the City Centre if we are looking at the profile of the buyer. Most of the buyers are Spanish. They know the area and see the value of places like the *parque Madrid Río*, *Matadero*, a former slaughter house, now converted in an attractive art centre or *Madrid*, and *Atocha*, the rail way station that is close to the Retiro Park. Now you see that prices have been increased by 10% in 2016.

In the neighbourhood *Delicias*, there is even an increase of 15%, up to 7.700 € per m², followed by areas like *Imperial*, *Legazpi* and *Acacias* that have reached prices more than 5.000 € per m².

Although the strong and growing demand repositions *Justicia* as the most expensive neighbourhood in the centre with prices reaching 8.332 € per m², but with a lack of supply of houses, especially in the area *Salesa*, investors are looking at other areas. In this respect, the most accessible neighbourhood is *Embajadores*. In 2016, sales of properties showed an increase of 150% and it has become the area of the highest return, indicates this article of February 2017.

In this article it is also stipulated that according to one of the real estate agents, Engel & Völkers, areas like *Fuente del Berro*, *Embajadores*, *Delicias*, *Universidad* or *Ciudad Jardín* are experiencing an increase of 10% or more.

Information on rental prices 2016

According to a report of *Idealista*, Madrid ended 2016 with an increase in the rental price of housing by 15.6%. This puts the price per m² at 14.40 €. ¹²

Most recent statistics (February 2017)

According to *Idealista*¹³, February 2017 shows a slight increase of the price of properties for sale. The average price in January was 2.331 € per m² and for February it is 2.334 € per m².

¹⁰ *Plusvalía* is the tax on the value of the land on which the property stands.

¹¹ <http://www.expansion.com/empresas/inmobiliario/2017/02/28/58b56e6c46163fe1758b45b5.html>

¹² <https://st1.idealista.com/comunicacion/files/informe-de-precios/alquiler-anio-2016.pdf>

¹³ <http://st1.idealista.com/comunicacion/files/informe-de-precios/indice-mensual-de-precios-feb17.pdf>

For more statistics of Idealista you can follow this link: <https://www.idealista.com/informes-precio-vivienda>

Report of Engel & Völkers of 2016

In a report of the real estate agent Engel & Völkers¹⁴ we can find information on the prices per m² for many districts. Below, you will find an overview of Salamanca, Retiro, Chamartín and Chamberí.

District Salamanca

The district Salamanca can be divided into six neighbourhoods: Recoletos, Castellana, Goya, Lista, Guindalera and Fuente del Berro. According to the report, in Guindalera there is a small but interesting area of properties with a surface of 200-250 m² around Parque de las Avenidas with an average price per m² of 2.950 €.

Neighbourhoods /price per m ²	Maximum price per m ²	Minimum price per m ²	Average price per m ²
Recoletos	8,000 €	3,000 €	5,600 €
Castellana	7,500 €	2,900 €	4,900 €
Goya	6,500 €	2,500 €	3,900 €
Lista	6,000 €	2,700 €	4,000 €
Guindalera	3,500 €	2,300 €	2,950 €
Fuente del Berro	3,400 €	2,100 €	2,950 €

Source: Report Engel & Völkers - see footnote 14

District Retiro

Retiro is situated just next to the Retiro Park, also known as the green lungs of Madrid, as it has more than 15.000 trees and a surface of 125 hectare.

The Retiro district can be divided in Pacífico, Adelfas, Estrella, Ibiza, Jerónimos and Niño Jesús.

Retiro, Salamanca and Chamberí are the top 3 districts in the Madrid real estate market. These districts form the preferred high-end areas for Spaniards as well as for foreign buyers and investment funds.

Which one is the most prestigious neighbourhood of Madrid?

According to the report, this is the neighbourhood where Puerta de Alcalá, Plaza de

¹⁴ <http://www.somoschueca.com/wp-content/uploads/2016/03/Informe-Mercado-Madrid-Engel-Volkers-2016.pdf>

Cibeles, Museo del Prado and Palacio de la Bolsa are situated: the neighbourhood Jerónimos. It also means it is one of the most expensive areas. With apartments up to 900 m² and prices that may reach 10.000 € per m².

There is a lot of demand for apartments between 50 m² and 150 m² with prices up to 500.000 €. In the neighbourhoods La Estrella and Niño Jesús the most sought properties range from 600.000 and 1.000.000 €, almost five times as the price you find in some areas like Pacífico and Adelfas.

Because of its good location, Jerónimo is one of the most demanded area for families.

Neighbourhoods /price per m ²	Maximum price per m ²	Minimum price per m ²	Average price per m ²
Jerónimos	10,000 €	2,700 €	5,300 €
Estrella	5,300 €	2,000 €	3,300 €
Niño Jesús	5,600 €	2,100 €	3,600 €
Ibiza	6,800 €	2,500 €	4,000 €
Pacífico	4,100 €	1,800 €	3,100 €
Adelfas	5,200 €	1,900 €	3,100 €

Source: Report Engel & Völkers - see footnote 14

Chamartín

The district Chamartín can be divided in the neighbourhoods El Viso, Nueva España, Hispanoamérica, Castilla, Prosperidad y Ciudad Jardín. Below you will find the prices per m² for properties for sale.

Neighbourhoods /price per m ²	Maximum price per m ²	Minimum price per m ²	Average price per m ²
El Viso	10,000 €	3,000 €	5,600 €
Nueva España	8,000 €	3,000 €	4,800 €
Hispanoamérica	8,000 €	2,000 €	4,200 €
Castilla	7,000 €	2,000 €	3,500 €
Prosperidad	4,500 €	2,000 €	3,200 €
Ciudad Jardín	6,500 €	2,300 €	3,500 €

Source: Report Engel & Völkers - see footnote 14

District Chamberí

This district can be divided in the following neighbourhoods: Trafalgar, Arapiles, Gaztambide, Vallehermoso, Ríos Rosas and Almagro. It is very Spanish, *castizo*.

In the centuries XIX and XX it was chosen by the aristocracy as the residential area. This is why in this area the most *palacios* of Madrid can be found. Here you can find many unique buildings from an architectural point of view.

Calle Zurbano (situated in Almagro) has some beautiful buildings. This is an example of an authentic street in plain Almagro. Prices in Almagro are quite high, at least 8.000 € per m².

According to this report, many young couples opt for buying property in Trafalgar and Arapiles. Families buy most of the time in Vallehermoso and Ríos Rosas. National and international investors opt frequently for buying property in Gaxtambide and Almagro.

Chamberí /price per m ²	Maximum price per m ²	Minimum price per m ²	Average price per m ²
Almagro	8,287 €	2,959 €	4,674 €
Arapiles	4,583 €	2,636 €	3,440 €
Gaxtambide	4,875 €	2,760 €	3,116 €
Ríos Rosas	6,518 €	2,500 €	3,635 €
Trafalgar	5,769 €	2,328 €	3,183 €
Vallehermoso	6,116 €	2,528 €	3,469 €

Source: Report Engel & Völkers - see footnote 14

Conclusions of the Engel & Völkers report

The prices of some districts in Madrid, such as Salamanca, Chamberí and Retiro have gone through an increase in price many years ago. As a result, the profitability is lower. However, these districts remain popular as areas to live in and are still seen as a stable investment.

This also applies to other neighbourhoods that belong to the City Centre, such as Palacio.

For some years a few popular cultural districts arise, such as Justicia (Malasaña, Chueca, neighbourhoods that belong to the City Centre). Prices have increased considerably in these neighbourhoods.

Now there is an increasing interest among Spaniards for areas adjacent to the City Centre, especially in the South and East side of the City Centre of Madrid, such as Arganzuela or Fuente del Berro. Fuente del Berro was in the sixties a haven for artists and writers and has lots of light and spacious houses, for example houses that are located behind Calle O'Donnell and Calle Doctor Esquerdo. In 2016 here has already been an increase by 7% and it is expected to increase another 15% in 2017 for certain properties whose price is already around 1.000.000 euros.

Overview Fotocasa highest prices

Here's an overview of Fotocasa where you can find the districts with the highest prices in

Madrid:¹⁵

Distritos de Madrid con mayor precio

Zona	€/m2
1. Salamanca	4.321
2. Chamberí	4.122
3. Chamartín	4.042
4. Centro	4.042
5. Retiro	3.499
6. Moncloa	3.435
7. Arganzuela	3.073
8. Hortaleza	2.892

Source: Fotocasa - see footnote 15

Map of Madrid of Metro stops with average prices per m² for sale and for rent

In this document you'll find a map created by Idealista.¹⁶

Using this map you will get to know the average price per m² for sale and for rent of properties close to several metro stops in Madrid. If you will click on the link and go to the original article, you can click on every metro stop and you will see the price in a radius of 500 m².

Here are some examples of the average prices for sale and for rent in a scheme derived from the statistics as mentioned in this article:

15 http://www.fotocasa.es/indice-inmobiliario_fotocasa.aspx

16 <http://www.idealista.com/news/estadisticas/precio-linea-metro/madrid>

Metro station	Sale - price in € per m²	Rent - price in € per m²
Serrano (Salamanca)	5.889	16.1
Velázquez (Salamanca)	5.514	16.2
Príncipe de Vergara (Salamanca)	5.086	15.9
Goya (Salamanca)	4.505	15.4
Lista (Salamanca)	4.345	15.1
Nuñez de Bilbao (Salamanca)	4.931	15.1
Rubén Darío (Chamberí)	5.263	15.9
Colón (Chamberí)	5.916	16.3
Alonso Martínez (Chamberí)	4.644	16.1
Bilbao (Chamberí)	4.170	15.8
Retiro (Retiro)	5.787	16.1
Ibiza (Retiro)	4.590	15.6