

# EXECUTIVE SUMMARY



# **1. Current situation of the City of Madrid**

## **1.1. Economic environment and outlook**

In the eurozone, the macroeconomic data for the first quarter reveal that the region remains in recession. Among the major economies, only Germany managed to grow this quarter, although at a slower rate. Once again, domestic demand led the contraction in activity with private consumption and investment falling by 1.2% and 5.5% respectively. The slowdown in other major economic regions is not helping the recovery in exports, which advanced only 0.7% YoY.

With regard to the Spanish economy, during the first quarter there was a fall in activity (2.0% YoY), although there have been some significant changes that merit attention. Among these are aspects such as the weakness in domestic demand, the recovery in exports of goods (accompanied, however, by a poor performance in foreign sales of tourist services and, especially, of non-tourist services). The most positive signs continue to come from industries linked to exports. If this trend continues in the coming quarters, the Spanish economy could record positive GDP growth in the run-up to year end.

In the Madrid Region, GDP, after ending 2012 with a fall of 0.2%, recorded a YoY decline of 1.4% in the first quarter of 2013, 0.3 percentage points worse than the result of the previous quarter. As in previous quarters, the major declines in GVA were observed in the sectors of industry and construction, with YoY falls of 5.0% and 3.1% respectively, while the decline in the services sector was limited to 0.9%.

The latest forecasts for the Spanish economy published by CEPREDE continue to postpone the recovery until 2014, when production could grow by 0.9%. With respect to 2013, the end-year forecast has improved, with a YoY fall of 1.3% in GDP expected, which would be an improvement of 0.3 percentage points compared with 2012. The forecasts for the city of Madrid are for GDP to fall by 1.2% in 2013. For 2014, however, an improvement is expected, which could lead to GDP growth of 1.3%.

## 1.2. Economic sectors

### INDUSTRY

The latest data available on industrial activity in the Madrid Region reflect a certain softening of the renewed decline evident since late 2011. Indeed, the average annual fall in the region's Industrial Production Index (IPI) stood at 11.1% in May compared to declines of around 13% in previous months. The index corresponding to the national aggregate seen similar movements, though with milder falls than its counterpart in Madrid, with an average annual fall of 4.8% in May.

In terms of employment, Social Security enrolment continues to show declines in the number of workers registered in industrial activities in the city of Madrid. At the end of the first quarter of 2013, this figure stood at 74,371, a YoY decline of 7.6%, slightly less than the previous quarter (7.9%). All told, the fall in industry is nearly five percentage points higher than the corresponding decrease in total enrolments in the city of Madrid.

### CONSTRUCTION AND REAL ESTATE MARKET

The fall in construction activity that marked the start of 2013 has deepened, registering uninterrupted monthly falls in the average annual rate of planning permissions granted - reaching 48% in the month of May. In absolute terms, this implies a decline of 3,189 licenses with respect to the same month in 2012.

New-build licenses have experienced a significant reduction in both types of housing, with falls of 49.7% in subsidized housing, and 43.1% in the case of free-market dwellings. The decline in the latter increases slightly if those granted by the District councils are included, rising to 44.5%. In numerical terms, the reduction in free-market housing licenses granted by the Town Planning and Housing department was 995, an amount far outweighed by the fall in subsidized housing licenses, down by 2,194.

### SERVICES

#### Financial System

The Madrid Region's financial system indicators continue to show the difficulties in which the sector finds itself immersed. The variation in deposits suggests that savings are growing timidly, but credit to the private sector, a vital link in the productive system, added another quarter to its run of negative growth, increasing the difficulties faced by companies and families in their access to funding.

The volume of credit channelled to the private sector has reduced steadily in recent months, further evidence of the depth of the financial crisis and the difficulties impeding a full revival of economic activity. The high bad debt rate, capital constraints and the high degree of uncertainty play a key role in the granting of loans, which in

the city of Madrid stood at €376.1 billion, €53.4 billion less than a year before. The average annual growth rate fell by 2.7 percentage points compared to the fourth quarter of 2012, to -7.4%. Trends in Spain as a whole showed similar tendencies, with a slightly larger fall in the average annual growth rate of credit to the private sector, at -8.1%.

### **Tourism**

The main tourism indicators for the city of Madrid registered negative YoY growth during the period from March to May, with the exception of the average length of stay, which is little changed with respect to the same period last year. The detailed analysis of each of these indicators shows, for example, that the number of visitors staying in the city's hotels during the March-May period fell below two million to 1,941,789, a YoY decline of 7.9%. Overnight stays showed a similar trend, down 7.9% on the same period last year. In both cases, the key factor was the behaviour of domestic tourism, which led the main falls (9.8% in the number of visitors and 11.1% in number of overnight stays), though the trend in foreign tourism has not been positive either, with YoY falls of more than 5% in both the number of visitors and overnight stays.

The most recent data available on hotel capacity in the city of Madrid, corresponding to May 2013, show an increase in the number of beds, which stands at a total of 81,820. Revenue per room stood at €46.40 in May 2013, a fall of almost 13% over the same period last year. The strategy of lowering prices, implemented by the city's hotels during the past few months, appears to be consolidating.

### **Transport**

Air traffic has continued to decline in the city of Madrid. The reduction in domestic traffic remains the key determinant of this trend, with a YoY decline of 20.7% in the first five months of 2013, compared to the 11.7% fall in international traffic. One of the main factors behind the declines observed in air traffic at Madrid-Barajas is the difficult economic situation affecting both Spain and other European countries.

With regard to the city's urban transport systems, the number of passenger journeys on the services of the EMT bus company, the Metro and local trains totalled 556.5 million, a fall of 5.7% compared with the same period last year. The biggest fall in journeys was on the Metro, where demand fell by 9.4%.

## **1.3. Business trends**

Madrid's economy is seeing slow progress in the net creation of companies (i.e. the net result of subtracting companies closed from those created), a figure that serves as an indicator or pulse reading of

the city's entrepreneurial dynamism, which is in a phase of obvious stagnation. Even though the balance is positive with respect to the first quarter of 2012, with an average 677 companies created each month during the last year, the net creation of companies has fallen by more than three percentage points. However, during the first quarter of 2013, the number of companies formed increased by 11.6% with respect to the final quarter of 2012.

The business climate is still dominated by the scepticism evident since the first quarter of 2012, with this indicator improving very slightly in the first quarter of this year. This means that levels of marked pessimism, near the -30 points threshold, have already been maintained for six consecutive quarters.

## 1.4. Demand

Retail sales in the Madrid Region have continued to decline, as is shown by the latest data available on the general index of retail trade. Average annual retail sales fell in the month of May by 8.8%, a moderate slowdown compared to the fall of 9.8% observed at the end of the first quarter. On the other hand, the Consumer Confidence Index in the city of Madrid for the second quarter of 2013 stood at 22.1 points, a deterioration of three points compared to the level recorded by the index during the same quarter last year. The negative trend in retail sales during the early months of 2013 continues to impact employment in this sector. Thus, the employment index of the retail trade in the Madrid Region in May recorded a YoY fall of 2.9%, in line with the variation observed during the same period the previous year.

Productive investment, although still recording negative average annual growth, shows signs of reversing its recent trend. The average annual capital goods investment in the Madrid Region has moderated its fall slightly, as the falls recorded in February and March (13.2% and 13.1% respectively) moderated to 10% in May.

With regard to the external sector, the incipient recovery of exports from the Madrid Region, which began at the beginning of the year, has been maintained during the early months of 2013.

## 1.5. Prices and wages

In the second quarter of 2013, the rate of inflation has continued to moderate significantly, with prices rising at around 1.6%, 0.4 percentage points less than the same quarter of 2012, and 0.9 less than the first quarter of this year.

Core inflation was higher than headline inflation in the months of April and May, due to the lower prices of energy products pushing down overall inflation. However, the general tonic is one of

moderation (remaining below 2%) and this situation is expected to prevail for the next few months - assuming no disturbances in the fundamentals or changes in tax rates - with variations of around 1%. In this respect, forecasts for the next six months show the two indices aligning, although a differential, with higher inflation in the general index that will extend into 2014, will open again with a maximum of 0.7 percentage points in April.

The breakdown by economic sectors of the YoY change in the CPI for May 2013 shows the increase occurring across the board, except for Housing and Communications, with the latter experiencing a significant fall of 4.1% in the YoY rate. The categories driving the increase in the general level of prices of Madrid's economy are essentially Schooling and Medicine, with increases of over ten percentage points, followed by alcoholic beverages and tobacco, the rise of the latter being due to the increase in excise duties.

With regard to Madrid's industrial sector, half way through 2013, the Industrial Price Index (PPI) has seen a slight rise in the first quarter, offset by a subsequent decline in May, confirming the moderation of price increases that started in the middle of 2012. On the other hand, the prices of new housing in the city continue to decline significantly, despite the fact that the YoY rate of fall has moderated compared to the first quarter of 2012, falling by 12.6%, half as much as in the last quarter of 2012. Lastly, the average labour cost per worker continues to decline in annual terms, as has happened in Spain as a whole, although at the end of March the fall in the Madrid Region was slightly higher.

## 1.6. Labour market

During the first quarter of 2013, the city of Madrid's labour force saw a YoY decline of 3.4%, which in absolute terms meant a fall of 56,600 over the same period last year. Thus, the labour force remains at levels similar to those seen in the first quarter of 2006.

Employment in the city recorded a YoY decline of 5.3% in the first quarter of 2013, to 1.29 million. In absolute terms, this meant a fall of 72,000. The trends in different sectors show that industry continues to record the largest relative decreases, with a YoY decline of 19.9% in the first quarter, more pronounced than in the previous quarter. However, the services sector registered the largest fall in absolute terms, down 52,200 over the same period of last year.

In terms of Social Security enrolment, in May 2013 the city of Madrid had 1,655,504 contributors, 40,589 fewer than the same period last year. This figure was only slightly better than the historical low registered only the previous month (April's enrolment figure stood at 1,654,173). The pace of job losses, measured in terms of the annual average decline in the last twelve months, was 2.3%, with the data still showing no signs of a slowdown in this negative trend. The labour force survey (EPA) for the first quarter of 2013 was negative with regard to the number of unemployed in the city of Madrid, where

the unemployment rate increased by 1.6 percentage points with regard to the same quarter of 2012. In absolute terms, the number of unemployed reached 309,000, a new historical high.

Despite the negative YoY trend in enrolment in the city during the last quarter of 2012 and the first two quarters of 2013, the forecasts for the third quarter point to a slowdown in the rate of decline of this key labour market indicator. Thus, the YoY rate of decline in the number of enrolments in the city could fall to 2.5%, 0.9 percentage points below the rate observed the previous quarter.

The forecasts for registered unemployment in the third quarter of 2013 indicate that its increase could moderate slightly, to rates of 3.3%, 3.0% and 2.3% in July, August and September respectively. However, the average number of unemployed could be around 252,000 in the third quarter.



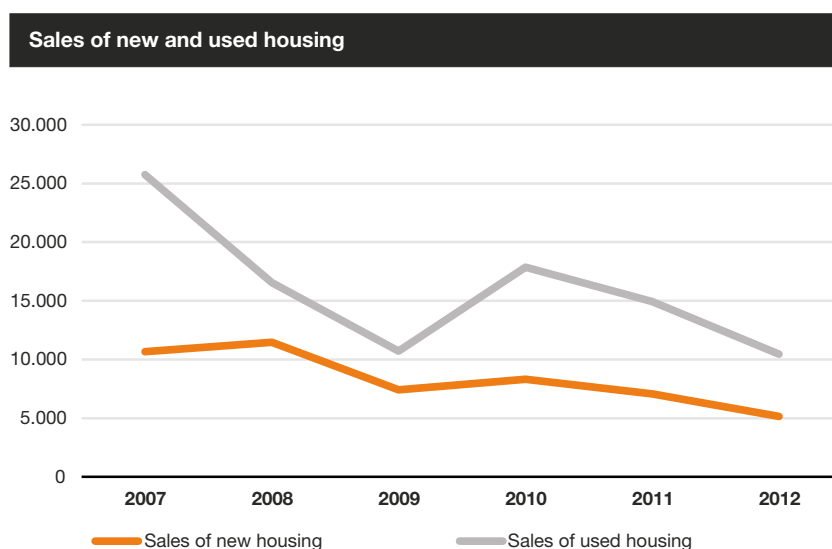
## 2. Monographic report

### ANALYSIS OF THE MADRID RESIDENTIAL REAL ESTATE MARKET: A REVIEW OF THE 1997-2013 REAL ESTATE CYCLE AND THE DEVELOPMENT OF THE 1997 GENERAL URBAN DEVELOPMENT PLAN<sup>1</sup>

Madrid's 1997 General Urban Development Plan (PG) in practice proposed the development of all vacant land in the municipality, with a cap on residential property of about 418,063 new homes, with 16,456 hectares classified as urban, 4,487 hectares as suitable for development and 16,688 hectares as General Systems (public infrastructure and facilities). Compared to the 1985 PG, this meant a total increase of 10,108 hectares (36.7%) of developed land, at the expense of a symmetrical reduction in non-developable land.

From this point on, during the economic growth phase from 1997 to 2007, a total of 192,549 development licenses were awarded in the city, while in the 2008-2012 recession this was limited to 23,123. During the entire 1997-2012 period, the districts with the highest number of housing construction licenses were the large Urban Development Zones or PAUs (Fuencarral El Pardo, Villa de Vallecas, Hortaleza, Carabanchel) and two old industrial districts undergoing renovation (Arganzuela and San Blas).

With regard to the types of housing available in the City of Madrid, of the 215,672 licenses granted during the period analyzed, 65.9% corresponded to new-build licenses for free-market housing. The average surface area per dwelling was 104.7m<sup>2</sup>, while there was an absolute predominance of multi-unit housing blocks over single-unit



Source: Spanish Association of Land and Business Registrars.

<sup>1</sup> Eduardo De Santiago Rodríguez. *Phd in Architecture*.  
Isabel González García. *Phd in Architecture*.

schemes, given that in the whole of the city of Madrid and over the entire period the latter accounted for only 2.6% of the total: 5,239 licenses for single-unit housing compared to 193,734 for multi-unit blocks. With regard to prices, the average price of a square meter of new housing in the city rose by 113.45%, from €1,704/m<sup>2</sup> in December 1999 to €3,978/m<sup>2</sup> at its peak in June 2007, since when it began to decline, falling to €2,982/m<sup>2</sup> in December 2012, a fall of 25.04%.

After the turn in the real estate cycle in 2007, the number of housing transactions has fallen by 57.15%, from 36,408 that year to 15,600 in 2012, with a total of 146,321 transactions over the whole of the recent recession.

The second-hand market continues to be the more important, as evidenced by the fact that in the 2007-2012 period, used housing transactions were 1.9 times those in new housing; this was even more clearly the case in the more consolidated central districts, where there is practically no new housing on the market. The evolution of the average price per square meter of used housing by districts between 2000 and 2013 clearly reflects the most recent real estate cycle: during the rising phase, the average price in the municipality of Madrid increased by 133.37%, from €1,849/m<sup>2</sup> in 2000 to €4,315/m<sup>2</sup> in the second quarter of 2007, only to fall by 27% after the bubble burst, reaching €3,150/m<sup>2</sup> in the first quarter of 2013.

During the boom, the more humble districts joined in the general rise in prices, but once the bubble burst, their markets readjusted with heavy falls, bigger than those suffered by the high and mid-range areas.

For the future, the city's real estate market faces significant challenges. With respect to land classified for development, the scarcity of effective demand for these projects makes the outlook bleak, at least while the current critical economic situation endures. With regard to the consolidated areas of the city, the question is how to launch a new model oriented to the restoration of the urban fabric where it presents the greatest deficiencies, and which will improve the quality of life and residential conditions for the majority of the inhabitants.

## THE CREATIVE ECONOMY IN THE CITY OF MADRID<sup>1</sup>

The creative economy concept responds to the need to achieve smarter growth, based on economic development models which are more knowledge-intensive and less vulnerable to risks such as off-shoring, and are capable of generating quality employment for qualified workers. The creative economy is understood to mean one that is "based on the production of symbolic goods, dependent on property rights and aimed at the broadest possible market", according to UNCTAD's definition. It is a set of industrial activities and services linked to culture, growth and inventiveness.

This focus of economic stimulus and generation of new competitive advantages is attracting the attention of different urban areas; in cities such as Madrid, it is giving rise to multiple initiatives and investments, causing a radical transformation in this sphere and converting Madrid into one of the leading cultural cities at a global level. The presence of creative professionals is notable for its capacity to generate added value, renew the city's image and for its ability to attract certain types of professional and cultural tourism, which is increasingly important.

Spain is ranked fifth among European Union member states in terms of the employment generated in this sector (3.8% of the country's jobs). With regard to cultural interaction, a ranking that measures the cultural attraction exerted by cities' creative economies, Madrid is in eighth position at the global level, and fourth at the European level in terms of the contribution of its creative and cultural industries, mainly through employment. Looking at specific sectors, Madrid plays a prominent role at European level in radio and television (2nd position) and advertising (3rd position), and around fifth place in other sectors.

Within Spain, the city of Madrid accounts for more than 1 out of every 5 jobs in the country's creative economy (far ahead of other urban areas) and 9% of the city's employment is provided by the creative economy. On the other hand, the Madrid Region represents no less than 31% of all creative economy jobs in Spain. Employment in the creative economy is concentrated in architecture (2.47%), R&D (2.22%), advertising (1.44%) and publishing (1.19%).

This workforce is characterized by a concentration of highly qualified workers (43% have a university or upper secondary qualification, compared with 20% in other sectors, and the proportion is even higher in sectors such as R&D and architecture), with the ability to generate innovations, and is younger than in other sectors (average age of 39 compared to 41 in other sectors). In addition, there is an observable tendency to spatial concentration, to the extent of giving rise to creative districts. Its appearance has been possible due to the existence of an active cultural environment, skilled labour (university campus) and other factors, related to the symbolic nature of some areas, such as Matadero Madrid. This phenomenon is reflected in the

<sup>1</sup> Simón Sánchez Moral, (*Universidad Complutense de Madrid*).  
Ricardo Méndez Gutiérrez del Valle, (*Consejo Superior de Investigaciones Científicas - National*

concentration of the creative economy in three districts, accounting for almost 4 of every 10 workers: Chamartin (15.52%), Moncloa-Aravaca (13.14%) and Chamberi (11.04%).

Notable examples of promotional strategies carried out in Madrid include spaces for culture, such as museums and theatres, initiated in the 1990s and consolidated in the last decade by Madrid City Council; they include the Paseo del Arte, a focal point for many of the city's cultural icons or the case of Matadero Madrid, defined as the "centre of contemporary creation" and covering activities such as music, theatre, cinema and publishing.

On the other hand, we find the promotion of cultural activities and events, such as the Book Fair, the International Contemporary Art Fair (ARCO), and La Noche en Blanco (an all-night cultural festival), of creative companies and clusters, with the initiatives carried out by "Madrid Emprende" (an agency supporting entrepreneurs), and lastly spaces (*hubs*) for creative professionals and companies in areas such as Centre district, where we find *Hub Madrid* and *Utopic\_US*.