

Real Estate Strategic Outlook: Iberia

What are the macroeconomic drivers?

Economic growth outpaces Eurozone

The Spanish economy has maintained momentum early in 2024, with GDP expected to grow by 2.2% this year, compared to 0.7% for the Eurozone.¹ Tourism remains a key driver of growth in the services sector for both Spain and Portugal, despite sustained droughts in the key tourist regions of Catalonia and Andalusia. Madrid is a clear outperformer in Iberia, with relatively low municipal taxes and employment opportunities attracting sustained population growth and driving demand for real estate.

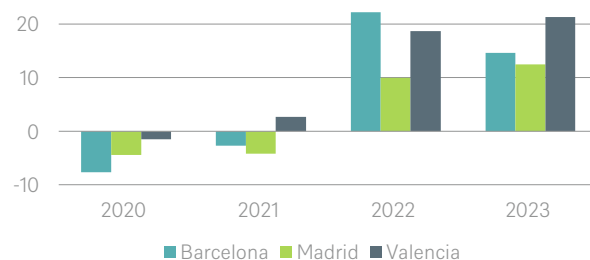
Strategy: what and where?

Regional residential a growing focus

The affordable housing sector in Spain has been a key strategy for some time. Opportunities are increasingly available in regional markets following the precedent in Madrid, whereby land is released at low values for residential development on condition rents are below market for a certain period. The reduced entry price point generally compensates for the lower income stream during the rent-regulated phase.

Pressure is mounting on existing rented stock following the withdrawal of a substantial proportion of supply due to restrictions on rent increases imposed by the national government. Coupled with growing household numbers, this has placed strong upward pressure on rents. Year-on-year growth was over 6% in Seville and over 20% in Valencia in the past year.² In this context, affordability is becoming increasingly strained and there is a pressing need to develop more stock at the more affordable end of the market.

Residential Rental Growth (% change, y-o-y)



Source: DWS, June 2024

Student housing is another segment in need of development. Both Madrid and Barcelona lack sufficient PBSA beds to accommodate the growing number of international students. In addition, tight residential markets in both cities make finding housing in the private rented sector more challenging.

Despite the positive investor sentiment towards student housing, there is still a healthy yield premium over multifamily residential in Spain. This is partly due to the relatively short leases which allow for a break during the summer. Assets in sufficiently central locations may be able to take advantage of this feature of the market and boost income by allowing a proportion of rooms to be let to tourists. However, this is not an option for every asset and some caution is necessary when underwriting summer income.

Shifting opportunities in logistics

While structural barriers to supply are likely to drive long-term outperformance for the Barcelona logistics market, there is some evidence of a slowdown in take-up this year. Higher interest rates are translating into reduced manufacturing activity, which in turn has suppressed demand for new logistics space. There is also some pickup in supply in the Greater Barcelona area, which includes Tarragona, and this is likely to slow rental growth in corridor locations. Upward pressure on rents in the first ring, however, remains strong.

Other attractive logistics markets include Valencia and Lisbon. Similar to Barcelona, new development in Valencia is restricted by topography and rent growth has been strong, particularly in the Eje Centro area close to the city. Lisbon also offers opportunities: the Lisbon area typically accounts for two-thirds of Portuguese take-up, and there is considerable room for growth in e-commerce. Much of the existing supply of space is of poor quality, while supply is highly constrained in prime locations. There is an uptick in completions expected in 2024, which is likely to relieve some of the pressure on rents in the next two years, but the medium-to-long-term picture remains positive.

¹ DWS, May 2024

² Idealista, DWS, May 2024

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