

## Real Estate Strategic Outlook: Iberia

### What are the macroeconomic drivers?

#### Continued outperformance

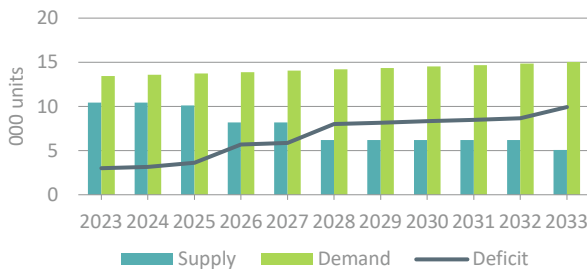
Growth continues to outperform the European average as a strong rebound in tourism fuels spending on services. However, the higher interest rate environment seems to be cooling economic activity and we expect a slowdown later in 2023 and into 2024. Despite the conservative Popular Party winning the most votes in the Spanish elections in July, they did not receive enough to form a government. Political uncertainty is therefore likely to continue for the foreseeable future.

### Strategy: what and where?

#### Pivot to affordable residential

The National Housing Bill passed earlier in Spain in 2023 poses a risk to returns and liquidity for privately rented housing. Recently passed regulation in Portugal aimed at boosting supply also poses a risk in potentially triggering significant new development. Our focus in this sector is therefore on regulated housing, where rental growth is more limited but there is a significant ongoing supply/demand imbalance. In working with local municipalities, who grant land concessions for a specified number of years (usually 50-70), it may be possible to realise attractive returns. The best prospects for demand growth are in Madrid, where the supply of regulated housing is also expanding in the Northern suburbs and regional commuter towns such as Mostoles, providing investment opportunities.

### Residential supply lags demand in Madrid



Source: DWS, August 2023

The student housing sector remains undersupplied in both Portugal and Spain, although development in recent years has somewhat corrected the imbalance. Madrid and Barcelona currently offer the greatest quality and quantity of educational options and attract the largest number of international students, the most likely group to require purpose-built student accommodation, by a significant margin. There may also be select opportunities in some regional markets such as Valencia where provision rates are particularly low.

#### Logistics back on the radar

Prospects for rental growth in the logistics sector in Spain are positive, with vacancy below 5% on average in Barcelona and Madrid and demand remaining elevated. It will be important to focus on supply-protected micro locations (mainly around Barcelona) as zones such as Illescas and Torrejón de Ardoz in Madrid have a full supply pipeline of speculative space completing in the next two years.

There may also be opportunity for logistics in Portugal, where modern stock is in short supply. Our main target would be in 'last hour' locations such as Azambuja which can serve direct to consumer and are supply protected from larger logistics hubs in Spain.

#### Refocus on Madrid offices

With vacancy in Barcelona back in double-digit territory, our strategy favours office refurbishments in Madrid. Demand is strong and well-diversified, and the current supply generally falls short of occupier requirements. Despite the emergence of new office hubs in locations such as Méndez Álvaro, we retain a focus on more central locations which appear to be most in demand from occupiers seeking high-quality space with the best transport connections. Asset size and ease of division are increasingly important factors to examine as occupiers are generally looking for smaller floorplates than pre-pandemic.

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