Spain Residential: Growth and Opportunity

Strategic Growth Across Core, Affordable, and Value-Add Residential Assets

IN A NUTSHELL

- Spain has seen a surge in residential investment in recent years, driven by rising rental demand, demographic shifts, and a recovering economy. This is attracting both domestic and international capital.
- Compared to other major European markets, Spain's rental housing sector remains under-institutionalised, creating clear potential for scalable, professionally managed residential platforms and innovative formats.
- We believe there may be opportunities in value-add and build-to-rent (BTR) strategies, with growing traction in flex living and co-living formats. Madrid, Valencia and Málaga remain key primary markets, while Seville, Zaragoza, and Bilbao offer secondary opportunities with potential for yield and growth potential.

PART I: Spain and the New Urban Living Paradigm

Spain's Living Sector Investment Surge

The European residential sector is undergoing a structural shift, driven by growing investor interest, demographic tailwinds, persistent housing shortages, and changing lifestyle patterns. This is fueling demand across living sub-sectors such as private rented sector (PRS), purpose-built student accommodation (PBSA), co-living, and affordable housing. 2024 was marked by a resurgence in capital deployment, with major institutional investors re-entering core Western European markets and selectively expanding into Southern Europe. Total investment into European residential reached approximately €46 billion, a 29% y/y jump[1] that made it the region's largest property class. Yield compression in traditional commercial sectors and the resilience of rental demand further supported allocations into the living segment. Furthermore, regulatory clarity on rent caps, ongoing urbanisation, and the rise of flexible living further strengthened the sector's appeal as a potential defensive, scalable asset class.

Spain has emerged as a standout market. In 2024, CBRE reported €4.3 billion invested in the Spanish residential sector, a 40% y/y increase. Multifamily (BTR/PRS) and Flex Living accounted for 74% of total activity, whilst PBSA made up 23% of sector volumes.[1] Momentum continued into the first quarter of 2025, with €1.1 billion transacted, three times the volume seen during the same period last year - accounting for 35% of all real estate investment.[1] Madrid led activity, with volumes reaching more than half the total. Strong urban population growth, driven in part by increased immigration, along with rising rental demand and investor-friendly policies, underpin ongoing market momentum. This report explores current trends driving the Spanish market and suggests value-add strategies that we believe may offer attractive potential across residential sub-segments.

[1] CBRE as of March 2025

CHART 1: Total Investment Volumes in the Spanish Living Sector By Sub-Segment (2013-Q1 2025)

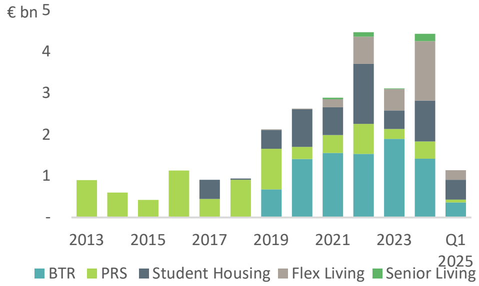
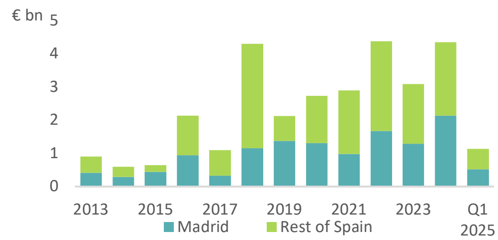


CHART 2: Total Investment Volumes in the Spanish Living Sector Madrid vs. Rest of Spain (2013-Q1 2025)



Source: CBRE as of March 2025

Affordability Challenges Reshape Housing Demand

Spain has historically been an ownership-driven market (c. 80% ownership rate). However, rising house prices, stricter mortgage conditions, and evolving preferences have made renting more necessary and desirable, especially among younger demographics and migrants. Eurostat reports renters increased from 19% in 2007 to nearly 25% by the end of 2020, reflecting a clear structural shift. As a result, rental prices have surged over the past five years. Whilst rental affordability was improving until 2021, it has worsened sharply since then, especially in Barcelona. House prices have also increased in recent years, significantly outpacing the eurozone average. In Q1 2025 alone, prices rose 1.8% q/q a deceleration from the previous quarter, yet still well above the EU average of 0.8%. On an annual basis, Spain posted an 11.4% increase, more than double the EU average.[2]

CHART 3: House prices and rents – Spain Index levels, Q1 2010-Q4 2024 (2010=100)

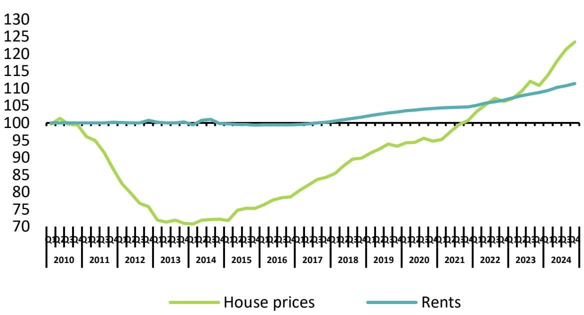
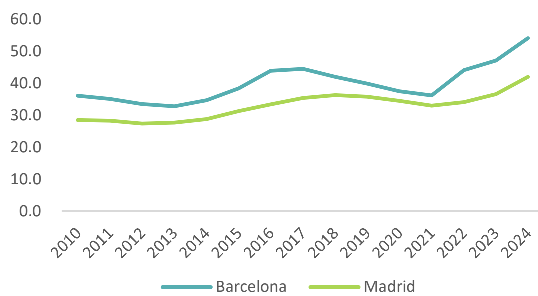


CHART 4: Affordability Ratio, Madrid vs. Barcelona Rent as % of Household Income Ratio



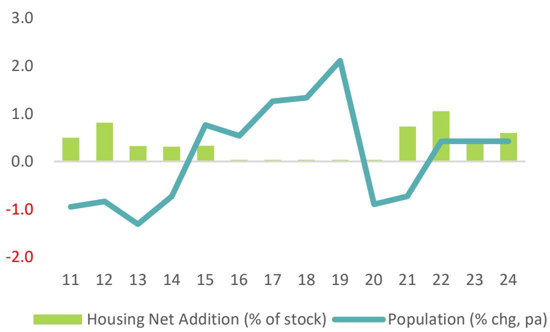
Source: Eurostat as of March 2025

It is worth pointing out that construction activity in Spain has remained historically low since the 2008 financial crisis. Official data shows Spain has one of the lowest per capita rates of new housing starts in Europe, with significantly fewer homes built than new households formed. This supply shortfall has contributed to a housing deficit estimated at 600,000 units by INE (Spanish National Statistics Institute), driving the sharp increases in property prices and rents especially in major cities like Madrid and Barcelona. In 2024, Spain issued 127,721 building permits, a 71% increase from the previous year and the highest growth rate in 16 years. Residential permits led the rise, with multi-family units up 20% and single-family homes increasing by 5%.[3] It is perhaps worth pointing out that the decrease in household size in both Barcelona and Madrid has contributed to this increase, with the decline occurring more rapidly in Barcelona.

[2] Eurostat as of June 2025
[3] INE as of June 2025

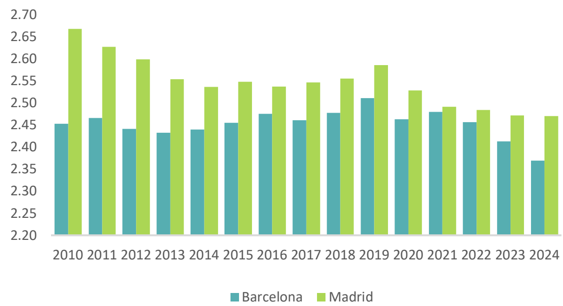
Despite this progress, construction still falls short of meeting demand in major cities due to limited land availability, material and labour shortages, and ongoing regulatory uncertainties. In fact, Spain's building permit and construction process is governed by complex regulations enforced at local and regional levels. These rules vary significantly across municipalities, creating uncertainty for developers and owners. Lengthy approval times, different interpretations of regulations, and stringent compliance requirements can lead to costly project delays and increased risk. And for tenants, evolving rent control measures and housing policies add another layer of complexity to the market.

CHART 5: Housing Net Addition (% of stock)
Population (% chg, pa) & Housing Net Additions (% of stock)



Source: INE as of April 2025

CHART 6: Household size (persons)
Barcelona vs. Madrid



Source: INE as of April 2025

Why Spain, Why Now? A Strategic Entry Point for Living Investors

In urban hubs like Madrid, Barcelona and Valencia, demand for residential space continues to outpace supply due to urbanisation, affordability constraints, and demographic pressure. Migration is a key driver. In 2024, Spain received 167,000 asylum applications - a national record. Furthermore, net migration reached approximately 190,000, with the largest inflows into Madrid, Catalonia, Valencia and Málaga.[4] Spain remains a top destination for Latin American and North African migrants, broadening the tenant base. Despite these tailwinds, Spain's rental housing stock is still under-institutionalised. This opens opportunities in BTR, PBSA, and affordable formats, where institutional-grade stock remains scarce. Improved regulatory clarity and favourable macro trends could support this case. Spain's economic outlook also reinforces demand: GDP growth, job creation, and consumption currently outpace much of Europe, which may contribute towards the evolution of urban rental markets.

[4] European Council on Refugees and Exiles (ECRE) as of June 2025

Part II: Residential Sub-Segments and Investment Strategies

Spain's residential market is diverse and increasingly segmented. Below is a breakdown of the key living formats most common in Spain, their demand drivers, and investment considerations.

Table 1: Key Residential Sub-Segments in Spain and Associated Strategies

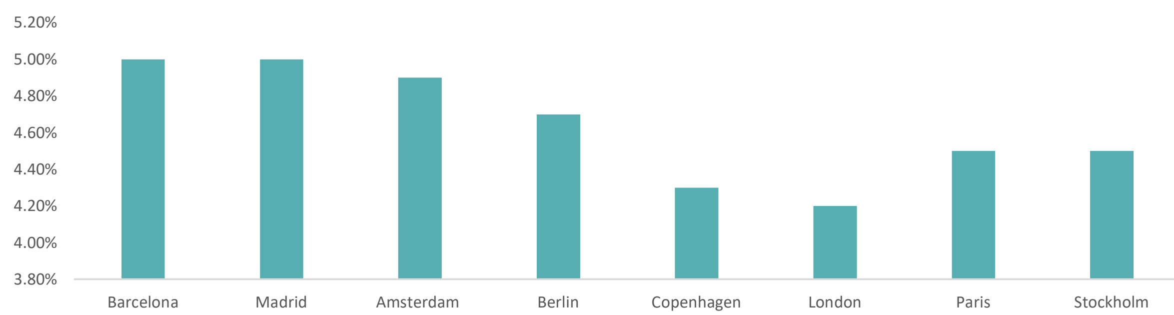
Sub-Segment	Description	Investor Perspective
1.Build-to-Rent (BTR)	Built for long-term rental, BTR targets tenants priced out of ownership or prioritising flexibility. Demand is strongest in Madrid and increasingly Valencia, where supply cannot meet demand. Projects often incorporate value-add levers: operational efficiency, tenant services, and premium amenities.	Potential for Inflation-linked income, active management benefits, long-term resilience.
2. Build-to-Sell (BTS)	This is the dominant model in Spain, particularly in expanding suburban zones. Some BTR projects may pivot to BTS depending on market dynamics.	May offer potential Sales-driven returns through phased delivery.
3. Flex Living	Fully furnished, short-to-medium term rental units with shared or private amenities. Designed for mobility and convenience, targeting professionals. Often located in urban cores.	Rising appeal due to housing affordability issues and changing lifestyle preferences. May offer potential for higher yields, operational flexibility, and quicker lease-up. Value-add potential.
4. Purpose-Built-Student Accommodation (PBSA)	Professionally managed student housing offering private rooms/studios and shared amenities (i.e. study areas, gyms). Serves domestic and international students. Strong presence in university hubs like Madrid, Barcelona, Valencia and Seville.	Defensive, counter-cyclical asset class with high demand-supply imbalance. Limited public provision, ageing private rental stock. Income stability may be influenced by academic cycles. Certain markets have shown a yield premium over multifamily, though results vary by location and strategy.
5. Co-Living	Shared housing model where residents share common spaces such as kitchens and lounges. Growing in popularity in major cities like Madrid and Barcelona, it is viewed as a potential response to the high cost of living and shortage of affordable housing.	May offer operational scale and potential value-add upside through adaptive reuse of underutilised assets.
6. Senior Housing	Age-appropriate, service-enriched residential communities catering to older adults. Includes independent living, assisted living, and integrated healthcare models. Concentrated in Mediterranean coastal areas (Aliante, Málaga, Valencia) and urban hubs like Madrid and Barcelona.	Demand may grow due to demographic shifts, rising life expectancy, and evolving preference for active, community-focused living over traditional care homes. As an early-stage market BTR may offer growth potential as Spain's population ages.

Part III: Strategic Outlook and Key Investor Takeaways

Spain's residential market continues to evolve rapidly, potentially presenting a broad spectrum of opportunity across the living sector. We believe that Build-to-Rent (BTR) remains particularly compelling due to high levels of migration, the growing renting culture among young professionals in Spain, especially in large cities like Madrid and Valencia, and the persistent gap between demand and available stock. Whilst Barcelona remains a key urban market with strong rental demand, restrictive regulatory measures - particularly around rent controls and permitting - have dampened investor appetite in the BTR segment.

We also see a growing investor appetite for Purpose-Built Student Accommodation (PBSA), where demand continues to outpace supply. Indeed, the PBSA provision rate is approximately 8% and 7% in Madrid and Barcelona respectively, compared to 18% in Paris and London and 23% in Amsterdam. The remaining students either live at home, in private rentals, or other types of accommodation. The urbanisation of Spain's university hubs and rising international enrolment are driving sustained occupancy and rental growth. Indeed, Spain's affordability and lifestyle on offer, coupled with the growing number of English-language business schools in the country (two of the top ten European business schools are in Spain, according to the European business school rankings from the Financial Times), are making it more of a market for international students. The sector may offer a healthy yield premium over traditional multifamily and has demonstrated resilience in the face of interest rate volatility. Interestingly, Barcelona and Madrid currently have higher student yields than other markets. As institutional participation deepens, we expect this yield spread could compress, particularly in well-connected commuter zones. Forward funding and forward purchase strategies may be considered prudent approaches to help secure pipeline and potentially support long-term returns.

CHART 5: Student Housing Yields (%)
PBSA yields in Barcelona and Madrid vs. other Major European Markets



Source: CBRE as of March 2025

Beyond core strategies, we believe the ext wave of value lies in targeted value-add approaches that seek to reposition underutilised or obsolete assets. These include ageing residential stock, obsolete office buildings, or legacy PBSA in prime or transitional locations. Repositioning these into modern, ESG-compliant rental formats - such as BTR, co-living, or flex-living – could offer a capital-efficient way to help address urban demand while potentially improving housing quality.

Furthermore, Spain's regulatory push for energy efficiency, supported by EU-funding mechanisms, may enhance the opportunity for refurbishment-led strategies. While operational and regulatory complexities persist, particularly around permitting, rent controls, and fragmented ownership, these barriers to entry may favour well-capitalised, locally connected investors with medium-term conviction. Strategic focus should remain on high-demand urban corridors and mid-income segments where affordability constraints are most acute and institutional-grade rental stock remains limited. Ultimately, investors who combine deep local insight with an active value-add approach may be positioned to capitalise on Spain's evolving residential market. As the sector continues to institutionalise, investors with the right local insight and active management may be positioned to harness Spain's residential evolution for potential sustainable, long-term growth.

Key Investor Takeaways:

- **Local Knowledge is critical:** Successfully navigating planning processes, zoning, and licensing frameworks requires experienced local teams or trusted partners with a strong on-the-ground presence.

- **Value may lie in repositioning**: Underutilised assets – including obsolete office space, ageing residential stock, or disused student housing may offer significant conversion potential aligned with BTR, flex-living or co-living strategies. In 2024, approximately €900 million was invested in Spain to acquire assets for change of use, up from €300 million in 2023.[5] Madrid leads this trend, accounting for 60% of change-of-use transactions, with notable activity in the Centro district (33%) and Chamberí (20%). Secondary locations are also gaining momentum.

- **Target urban hotspots with structural demand:** Cities like Madrid, Barcelona, Valencia and Málaga continue to face acute supply shortages, which may support underpinning long-term rental demand and pricing resilience across segments.

- **Balance yield and execution risk:** While sub-segments like PBSA and BTR may provide stable, inflation-linked income, BTS and flex-living may reflect market trends, albeit with increased delivery risk.

- **Sustainability and ESG:** Compliance with evolving environmental regulations (i.e. CTE standards) is increasingly more than a risk-mitigation measure and may enhance asset liquidity, tenant appeal, and long-term value.

- **Affordability Focus:** Ongoing affordability pressures are sustaining strong rental demand in urban hubs such as Madrid and Valencia. The structural demand/supply imbalance may drive investor interest in build-to-rent (BTR) properties, particularly those in locations with favourable regulations.

For investors willing to embrace complexity, Spain may offer a rare combination of strong long-term fundamentals, rising institutional appetite, and multiple entry points across the residential value chain.

[5] CBRE as of June 2025

City-Specific Trends and Focus

Spain's residential market is highly segmented at the city level, with distinct urban centres emerging as focal points for specific living formats. These patterns are shaped by local demand profiles, regulatory conditions, and economic fundamentals. The following map illustrates where key sub-segments, such as Build-to-Rent, Flexible and Co-Living, and Purpose-Built Student Accommodation are most active. These concentrations not only reflect current occupier needs but also highlight where targeted value-add strategies may be most effectively deployed. We also highlight the cities which may offer favorable conditions for value-add strategies, whether through refurbishment potential, possible rental uplift, or market entry opportunities.

BTR (Madrid & Valencia): Madrid and Valencia lead Spain's Build-to-Rent (BTR) sector, with Madrid commanding the largest share of development, supported by high population density, strong rental demand & institutional investor interest. However, stringent zoning regulations and evolving rent control policies in certain cities – particularly in Barcelona – require careful navigation.

Flex Living & Co-Living (Madrid, Barcelona, Málaga, Zaragoza, Bilbao): These markets are seeing increasing demand for Flexible Living & Co-Living models, driven by affordability challenges and younger demographics seeking adaptable housing solutions. Lower regulatory hurdles in these areas may provide attractive entry points for value-add investors.

Senior Housing (Madrid, Barcelona, Valencia, Málaga): Senior Housing is gaining traction in Spain, driven by an ageing population and limited supply. Demand is particularly strong for integrated living models and assisted living formats. focus includes cities (i.e. Madrid/Barcelona), as well as coastal retirement hubs (i.e. Málaga).

PBSA (Madrid, Barcelona, Valencia & Seville): Rapidly growing university cities where Purpose-Built Student Accommodation **(PBSA)** is expanding fast, buoyed by rising domestic and international student populations. These markets may offer potential opportunities in student housing, benefitting from somewhat more flexible planning frameworks than Madrid or Barcelona.

Where might value-add opportunities exist?

Madrid: Strong demand for rental housing & institutional-grade stock; may offer opportunities in repositioning older multifamily assets.
Valencia: Undersupplied rental market with student and young professional demand; opportunities in PBSA and multi-family.
Málaga: Fast-growing tech and tourism hub; scope for Flex Living and Co-Living in central and fringe locations.

Primary Target Market

Secondary Target Market

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Source: DWS International GmbH.

Real Estate Research Team

Office Locations

Frankfurt
Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: +49 69 71909 0

London
45 Cannon Street
London, EC4m 5SB
United Kingdom
Tel: +44 20 754 58000

New York
875 Third Avenue
26th Floor
New York
NY 10022-6225
United States
Tel: +1 212 454 3414

San Francisco
101 California Street
24th Floor
San Francisco
CA 94111
United States
Tel: +1 415 781 3300

Singapore
One Raffles Quay
South Tower
15th Floor
Singapore 048583
Tel: +65 6538 7011

Tokyo
Azabudai Hills Mori JP Tower
1-3-1 Azabudai
Minato-ku
16th Floor
Tokyo
Japan
Tel: +81 3 6730 1300

Sydney
Level 16, Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000
Australia
Tel: +61 2 8258 1234

Teams

Global

Kevin White, CFA
Global Co-Head of Real Estate Research

Simon Wallace
Global Co-Head of Real Estate Research

Americas

Brooks Wells
Head of Research, Americas

Liliana Diaconu, CFA
Office & Retail Research

Ross Adams
Industrial Research

Sharim Sohail
Self-Storage Research

Europe

Ruben Bos, CFA
Head of Real Estate Investment Strategy, Europe

Tom Francis
Property Market Research

Siena Golan
Property Market Research

Rosie Hunt
Property Market Research

Carsten Lieser
Property Market Research

Martin Lippmann
Head of Real Estate Research, Europe

Asia Pacific

Koichiro Obu
Head of Real Estate Research, Asia Pacific

Seng-Hong Teng
Property Market Research

Hyunwoo Kim
Property Market Research

Matthew Persson
Property Market Research

AUTHORS

Karine Woodford
Research Analyst
karine.woodford@dws.com

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