

BTR in Spain

Q1 2023

savills

Activity in the residential rental market during 2022 in Spain exceeded €3bn.

Introduction

In an economic context marked by slowdown, the market is still adapting, but investors are seeking new opportunities. At the March meeting, European Central Bank (ECB) raised the interest rate by a further 50 bps to 3.5% (its sixth consecutive increase) and announced further increases.

As a result of the rising interest rates, investors with little or no dependence on external financing (with the capacity to work with full equity) such as Core and Core+ are now the most active in the market. However, other investor profiles, such as value-add investors, are also participating in the market. Financing for projects remains accessible through both national and international banks, albeit on less favourable terms compared to a year ago.

Despite the rising interest rates, increasing financing and construction costs, and the uncertain economic climate, there are still positive expectations for the market in Spain, but these factors may lead to a decline in investment activity.

Investment

The scarcity of available operating properties has driven investment towards the acquisition of future projects. More than 85% of the investment volume recorded in the first quarter of 2023 was allocated to the purchase of projects under development or future projects. The most common have been forward purchase agreements with local developers or the purchase of land for subsequent project development.

The first quarter of 2023 saw an all-time high in BTR investment. The total volume exceeded €850m, 2% more than in the same period of the previous year. However, investment in standing assets (PRS) suffered a significant decline in Q1, barely exceeding €125m.

As usual, investment activity continues to be concentrated in Madrid and Barcelona, accounting for more than 75% of total residential market investment in Spain in 2022. The province of Madrid makes up just over 45% of total investment for the year, while Barcelona is growing considerably, approaching 30%, largely attributed to the €600 million BeCorp portfolio acquisition by German investment fund Patrizia.

During 2022, other areas such as Malaga and Valencia increased their market share by 2% compared to the previous year, now each exceeding 7% of the total investment in Spain.

Investors continue to focus on the purchase and development of large-scale projects. Given the significant imbalance between supply and demand in the market, there remains an urgent need to expand the rental stock. Investors recognise this situation and are simultaneously striving to grow their portfolios rapidly in order to achieve economies of scale and improve net return on investment. In 2022, approximately 90% of investment was either in operating properties or projects involving the development of more than 100 housing units.



DEMAND

The significant imbalance between lack of supply and high demand still persists, resulting in rising rental prices, particularly in areas with low supply.



CONCENTRATION OF INVESTMENT

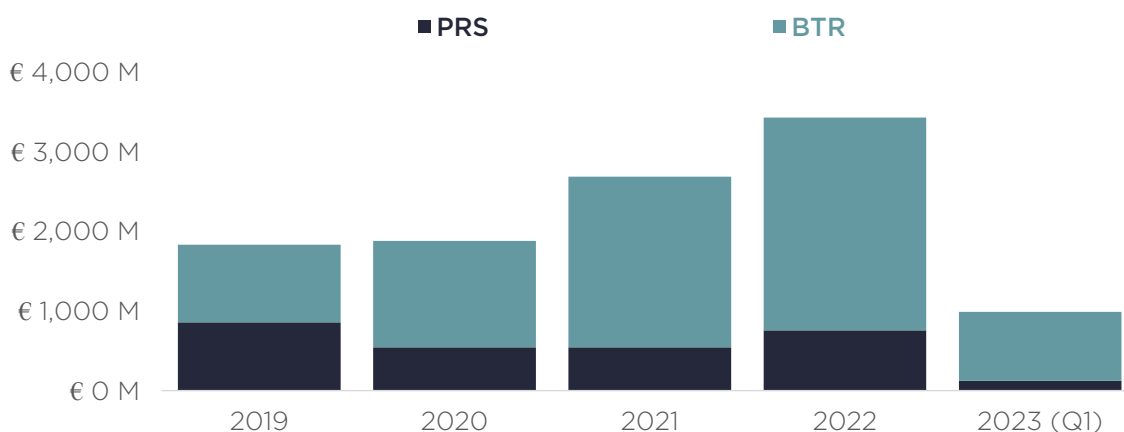
Madrid and Barcelona remain the primary cities for multi-family investments, though other areas such as Malaga and Valencia are becoming increasingly important.



CORRECTION OF YIELDS IN Q1 2023

A correction in yields has been observed over the last 6-9 months with increases between 75 and 100 basis points. Prime yields have reached net levels of 3.75-4% (5% in secondary markets).

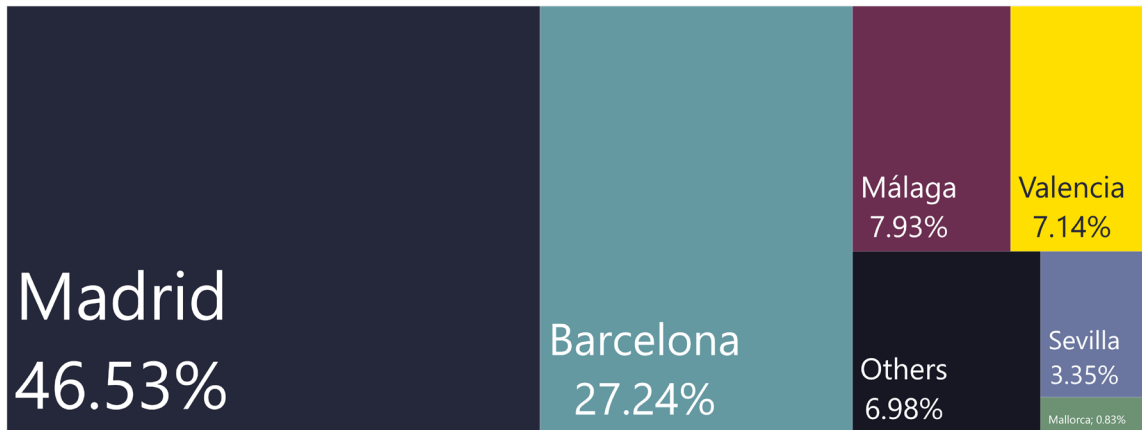
Fig. 1 - Investment PRS + BTR in Spain
comparison as of Q1



Source: Savills Research

“ The primary challenge faced by investors in the Spanish market continues to be the shortage of land available for development ”

Fig. 2 - Multifamily investment in Spain (2022)
by province



Source: Savills Research

Rents and Yields

Following the decline in rental prices during the pandemic, the market is now experiencing an upward trend, recovering to pre-COVID levels. This trend is especially prominent in major cities such as Barcelona and Valencia, which have recorded significant growth in rents (more than 10% year-on-year).

Furthermore, the difficulty in accessing the residential sales market and rising interest rates will push more demand towards the rental market. Taking this into account, as supply remains scarce.

A correction in yields has been observed over the last 6-9 months with increases between 75 and 100 basis points. Prime yields have reached net levels of 3.75-4%, while in secondary markets they have risen to 5% net.

Market trends for 2023

Occupier Market

- Significant imbalance between demand (high) and supply (low).
- Upward trend in rents as a result of the scarce supply in the market.
- Policy measures are reducing supply in the market and increasing rental prices.
- As the first BTR projects enter the market, it becomes possible to evaluate their success (occupancy, operating costs, rents achieved).

Investment Market

- Downward trend in investment activity. Current and anticipated rise in interest rates (inflation, exchange rate) are leading to increased financing costs.
- Upward trend in required yields. Increased pressure from alternative investments (bonds, high yield bonds), while rising rents do not offset yield expansion (decline in capital values)
- Strong interest in yielding assets. Core investors entering with full equity.

- The viability of development activity is complicated (combined costs of land + construction + financing): potential decline in the initiation of new projects.

Political Measures

- Rent increase limit: 2% (effective until 31 December 2023).
- 6-month extension of contracts ending before 30 June 2023 under the same terms.
- Social shield: allows for the suspension of evictions for vulnerable households (effective until June 2023).

Savills team

Please contact us for further information

Natalia Muñoz
Residential & Alternatives
National Director
+34 91 319 13 14
natalia.munoz@savills.es

Pelayo Barroso
Research
National Director
+34 91 319 13 14
pelayo.barroso@savills.es

Gema de la Fuente
Research
National Director
+34 91 319 13 14
gema.fuente@savills.es

Enrique Marraud
Research
Senior Consultant
+34 91 319 13 14
enrique.marraud@savills.es

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