

Real Estate Strategic Outlook: Iberia

Economic Outlook

Economic outlook positive despite fading tailwinds

The Iberian economy has benefited from recent tailwinds, including a tourism rebound, EU fund deployment, and immigration. While the contribution of some of these drivers to GDP growth is likely to diminish over time, the outlook for the coming years remains positive. Strong private consumption, supported by continued employment growth, rising real wages, and government transfers that bolster household incomes, despite inflationary pressures, are likely to support continued economic outperformance.

Strategic Opportunities for Iberia

Living sectors remain a key strategy

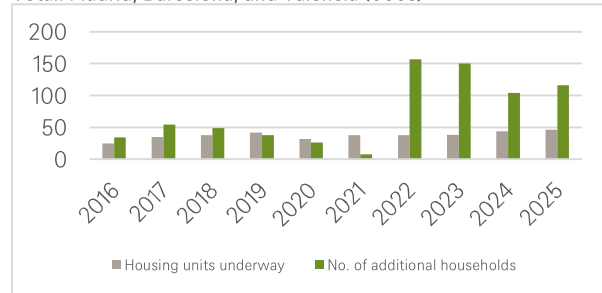
The residential sector in Spain is under strain at present, after several years of household growth outpacing supply. With rents in Madrid and Barcelona now over 40% above pre-pandemic levels,¹ affordability is increasingly an issue. Future rental growth may not be as exceptional as in recent years, so greater selectivity is required to achieve outperformance. Investing in the affordable housing sector in partnership with local municipalities could allow for entry at a relatively attractive pricing point with sustainable, if slightly below market, rental growth.

PBSA is one sub-sector where conditions are supportive of strong income growth. Demand is being boosted by growing levels of educational attainment in important Spanish-speaking student export countries in South America, while the supply of PBSA is still catching up. The shorter lease lengths for PBSA in Spain mean that a summer strategy is necessary to achieve year-round income, and only the most central locations generally can tap into tourist demand, particularly in Madrid which is less of a summer destination than Barcelona.

Flex-living concepts are developing from a low base, mainly in the key gateway cities of Madrid, Barcelona, and Lisbon, where there is a demand pool for short-term accommodation for both business and private purposes. The operational requirements in the sector combined with the fact that most opportunities are forward-funding mean entry yields are often at around a 100 basis point premium to standard residential, providing some scope for yield compression during asset stabilisation.

Iberia Housing Starts vs Household Growth

Total: Madrid, Barcelona, and Valencia (000s)



Source: Ministerio de Transportes y Movilidad Sostenible, Oxford Economics, April 2026

Logistics continues to shine

Elevated levels of consumer spending have supported solid demand for logistics warehousing since the outset of the pandemic. While rental growth seems to be abating slightly, we still expect pressure on prime rents in Madrid and Barcelona due to a lack of quality space in the right locations. Caution is required in asset selection in Madrid given the pockets of elevated vacancy around the 3rd ring.

In regional markets, we see opportunity in Valencia. Valencia port handles over a third of Spain's container traffic and serves as a redistribution hub for cargo destined across the Mediterranean basin and North Africa. There is scope for strong rental growth in this market, given the lower starting point, and tight supply, with availability just over 3%.² A slight yield premium at entry combined with likely rental outperformance makes this market a strategic focus for logistics.

Growing retail park footprint in Iberia

While development in the retail sector has generally stalled, retail parks are an exception. Regional Iberia is currently an attractive market for retail developers given lower competition from both e-commerce and physical retail. In addition, urban sprawl around Madrid is boosting demand in the suburbs. Modern retail park stock can offer units tailor-made for retailers looking to fulfil last-mile logistics deliveries as well as click-and-collect and return requirements. We favour parks with a food anchor tenant which provide reliable footfall throughout the year, and it is increasingly common to find newer retail parks anchored by a discount supermarket, which have been expanding rapidly in Southern Europe in recent years.

¹ DWS, April 2026

² Colliers, April 2026

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