A tale of two cities

PropertyEU travelled to Malaga and Madrid to discover both cities are expanding fast and in urgent need of more housing

CITY TOUR PART I
MALAGA

BY **ROBIN MARRIOTT**

On a sunny day in Malaga, there is surely only one place to fully enjoy a café con leche – the beachfront. It is a quiet day here in late January (which is supposed to be the coldest month of the year), and the coffee shops are just beginning to open.

My tour guide for the day from Spanish developer, Neinor Homes, has just pointed out the Malaga Towers development opposite the beach, which looks every inch the luxury residential development it is billed to be.

Previously called Picasso Towers after Malaga's most famous son, apparently most of the buyers for this Miami-style project guarded by palm trees are international. The units are mostly sold out, going for between €1 mln and €3 mln for the very best.

Foreign buyers are the main customers. In the old days, the main buyers in the Costa del Sol would be British, German or Russian. But nowadays, it is much more diversified as Eastern European citizens from the likes of Poland, the Czech Republic and Ukraine are buying, plus elsewhere such as from Belgium and the Nordics.

Malaga is clearly having its 'moment in the sun' when it comes to real estate development. Some say the luxury residential market has appeared when no one saw it coming. The Malaga Towers project is being built by Metrovacesa, one of Spain's biggest developers. Next to it is the Sierra Blanca Tower, another high-rise, chic design apartment building with 69 apartments and two duplex penthouses developed by high-end specialists, Sierra Blanca Estates, which is a family-run business.

Many others are investing down here on this part of the southern Spanish coast too.

Property agent Savills says the region is one of the main residential markets in the whole of Spain. The market for land is flourishing. Last year saw a 10% increase in the amount of residential land transacted compared to 2022. In the last 12 months, land that has been sold will provide for another 3,500 dwellings, the firm says.

All types of residential property are being built to meet demand, not just the luxury end. And foreigners are a very important target market. So many properties for sale in the city above €3 mln are being sold to overseas buyers. Across the board for all types of accommodation, Savills says some 35% of buyers in Malaga in 2023 were foreign.

Government statistics from May this year show that demand for housing in Malaga is by no means slacking off, and prices are close to where they were in 2008 before Spain's economic crisis. In Q1 this year, prices in Malaga were 8.1% above those of the previous year – that is the 4th highest increase in Spain behind Teruel, Santa Cruz de Tenerife and the Balearic Islands.

Malaga is expected to see a 7.1% population increase in 2027 according to the Instituto Nacional de Estadistica (against 6.6% for Madrid). Forbes magazine recently listed Malaga as the Number One city out of 49 worldwide for foreigners to live and work in. The InterNations survey took in views from 12,000 people around the world who live in 181 different countries.

NEW MARINA

Towards the end of the beach boulevard in Malaga, there is also a site where Qatar's Al Alfia is planning a €54 mln marina called San Adres with enough space for 506 boats and two berths for yachts up to 30 metres in length. It is set to become the most modern marina on the Costa del Sol in addition to the famous one at Puerto Banus further along the coast. Restaurants, offices, a gym, spa, nursery, cafes, VIP dining, sailing school, storage and car parking will be added.

Malaga is a province of Andalusia, which boasts 160 km of coastline. As history buffs will know, it used to be under Muslim control in the 8th century. It has a port, its airport is the fourth busiest in Spain, and one main bus station provides links to the rest of the country. It takes between two-and-a-half to three hours to reach Madrid by high-speed train.

> 'Considering the prices that private housing is reaching in the city, it is essential to boost the social and affordable housing stock'

No wonder prices are going up, which is bringing its own challenges and opportunities. Savills' report warns: 'Considering the prices that private housing is reaching in the city, it is essential to boost the social and affordable housing stock.' After all, the average price of new multi-family housing in the city stands at €3,969 per m², which is 18% higher than in 2022. There is a shortage of new development from both the free market and subsidised sector.

International developers and investors all have projects here. For example, German developer, AQ Acentor, is creating two skyscrapers of 29 floors to be called AQ Urban Sky on the site of a former Sunday market to the north of the city centre. As well as residential it will comprise a hotel.

There is also the very long running project at Rojas Santa Tecla where Santander's land developer, LandCo, has announced it will build 335 homes. A total of 2,847 multi-family homes are earmarked for this new macro-urbanisation area that will also get an 8-hole golf course.

Our guide pulls up a map on his device showing land transactions in Malaga between 2021 and 2023. Neinor is on there, as is Azora Group, in addition to smaller and local developers.

Over the past five years, Neinor has completed over 1,614 homes in Malaga. We pass a site it bought in 2021 from a family. The plot is still just rubble, but 200 units are planned here. Construction has just started, and sales are apparently 'phenomenal'. Around 30% of the development has been pre-sold, and this is something like the fifteenth project for Neinor in the city.

CORPORATE INFLUX

It is not just residential projects attracting investment. With remote working taking off, infrastructure improving, and the ever-present good climate, corporates have been moving in such as Vodafone, Google and Citibank. Merlin Properties and Grupo Insur are among those with office projects here.

Vodafone opened its new R&D centre in Malaga to centralise European operations with an investment of €225 mln. Citibank set up its Malaga office in 2022. The decision made headlines as Citi opted to lure young bankers to the sun, offering shorter working days but for less pay than elsewhere with the upside being a better work-life balance.

Left: Malaga in southern Spain is attracting residential developers as the city becomes more than just a holiday stop along the Costa del Sol. Right: Malaga Towers is a Miami-style luxury residential development being built by Spanish real estate company, Metrovacesa. The developer says it has contributed 160,000 tonnes of sand to Malaga's beach over five years by recovering sand from the earthworks at this project and another in Malaga called Torre del Rio. Buyers are mainly international

This barren landscape in Malaga is a site that Neinor acquired late last year, mainly with the capital of its equity partner, Orion Capital Managers. The site is located in the Cortijo Merino neighbourhood of Malaga, a 15-minute drive to the west of the city centre, and is destined to be a Build to Sell development close to another Malaga site where Neinor has delivered 300 units for sale and 146 for rent

Next on the tour, we travel north to see two sites in Malaga: public land that was used for exhibition space and the other for industrial use. Many opportunities are from family-owned plots. In the past, the whole of Spain saw wealthy families get involved in buying land for development. Sadly, much corruption existed but nowadays it is much less of a black market.

We eventually come to a huge plot of land that Neinor bought with Orion Capital Managers last year. It is a former industrial plant with mountains as an attractive feature in the background. Eventually, homes developed here will be sold for €3,700 per m².

MARBELLA'S URBANISATION

Developments do not stop at the city limits. Further west along the coast, about 40 minutes from Malaga towards Mijas and closer to Marbella, the company also has projects. At one site, it is getting partial approval for around 400 units. It will be a big urbanisation project given it is 100,000 m² in total. Neinor owns 80% of the land plot, while a municipality plus others own the remainder. The site came from Aliseda Inmobiliaria, formerly Santander.

Further along towards Marbella, the company has another development, an unusual one for the business. Typically, Neinor sells its homes for €350,000 per unit but at the Marbella project homes will cost four times as much. Here, Neinor is providing 104 units for the second half of 2025. It is projected to make a €30 mln profit, potentially making it the single most profitable project for the company. Work started last August and completion is targeted for the end of 2025.

Our guide says lessons from the market which led to Spain's financial crisis between 2008 and 2014 have been learned. Before 2028, high leverage was embedded in the system. Developers would go to a bank to finance construction, and ordinary people would in turn buy apartments at 100% loan to value. The whole country almost collapsed when things went wrong. Nowadays, Spain has a vastly reduced number of banks and the use of leverage has completed changed. A bank loan to a residential developer can only be agreed with a certain level of presales. Moreover, homebuyers need to present 30% of the purchase price in equity.

> 'Lessons from the market which led to Spain's financial crisis between 2008 and 2014 have been learned'

As a consequence, many people who wanted to buy apartments were suddenly unable to. Spain's home ownership model started to falter, although it is still higher than in many other European cities. It did, however, usher in a new Build-to-Rent asset class.

As we leave Neinor's developments for the next leg of the tour, it is clear Malaga is on a journey itself, and the outlook is positive. ■

This under-construction site called Evergreen Homes – El Chaparral is at Mijas, a 40-minute drive from Malaga. It will offer 80 townhouses of 3 and 4 bedrooms right next to the El Chaparral golf course. It was acquired from Kronos in 2018 and construction started last year. It is aimed at foreign buyers

Santa Clara Homes on the outskirts of Marbella, where Neinor is building 104 units. It is expected to make a €30 mln profit, potentially making it the company's single most profitable project. Work started last August and completion is targeted for the end of 2025

National growth engine

With its dynamic business climate which is attracting an increasing number of start-ups, and a surging population, Madrid faces a formidable housing challenge

Madrid's Cuatro Torres Business Area is home to the four tallest skyscrapers in Spain

CITY TOUR PART II MADRID

BY **ROBIN MARRIOTT**

Together, Madrid and Malaga represent about 65% of everything Neinor owns, so both are important markets. But the cites are not rivals.

Usually, Madrid and Barcelona are considered the big Spanish rivals economically, socially, in sports and everything else.

And there is much to note. In CBRE's latest European Investor Intentions Survey, both Madrid and Barcelona made it into the top 10 most attractive cities. But while Barcelona stayed put at 7th, Madrid climbed to 3rd place. Its ascendancy also mirrors this season's football performance as Real Madrid won not only La Liga but also the Champions League.

Celso Luis Gómez Labrador, director of analysis and strategy at homebuilder Culmia backed by Oaktree Capital Management, is a Madrid native who has seen the changes taking place. 'I would say the feeling is that, from an institutional perspective, both Madrid and Barcelona have strong market fundamentals with population increase, lack of new product, and great tourism performance. However, Madrid has created a very attractive and safe environment from a political point of view, while Barcelona has been applying controversial measures. For example, the cap on rental housing prices or the forcing of 30% social housing on new developments have slowed down investment levels achieved in the past.'

At a property conference in May, the mayor of Madrid, José Luis Martínez-Almeida Navasqüés, described the city's real estate market as 'healthy', adding: 'This is the best moment in the history of the city.'

Some 71% of Foreign Direct Investment (FDI) into Spain is coming to Madrid amid job creation, quality of life, and public and private initiatives, the mayor said. 'No other major capital can compete with the quality-of-life balance.' He claimed tax cuts had saved €800 mln for residents since 2020, while major projects are under way, not least to increase the housing supply. He criticised past 'misguided' policies that had reduced supply and led to price increases.

POPULATION SURGE

Madrid and its wider region is expected to grow by 1 million people to 7.8 million by 2037, according to the Spanish statistics office INE, due to foreign and domestic migratory movement. It means Madrid needs to build homes for 573,738 new households over the next 14 years and increase the current housing stock from 2.6 million recorded in December 2022 to 3.3 million homes by December 2037.

Some €10 bn has been ringfenced to develop land in and around the city. But developers say the licensing and permit process needs to be streamlined to unlock land, while prices need to be kept affordable for the young. Estimates are that Madrid needs more than 40,000 homes per year, which is triple what it currently manages.

OFFICE CONVERSIONS

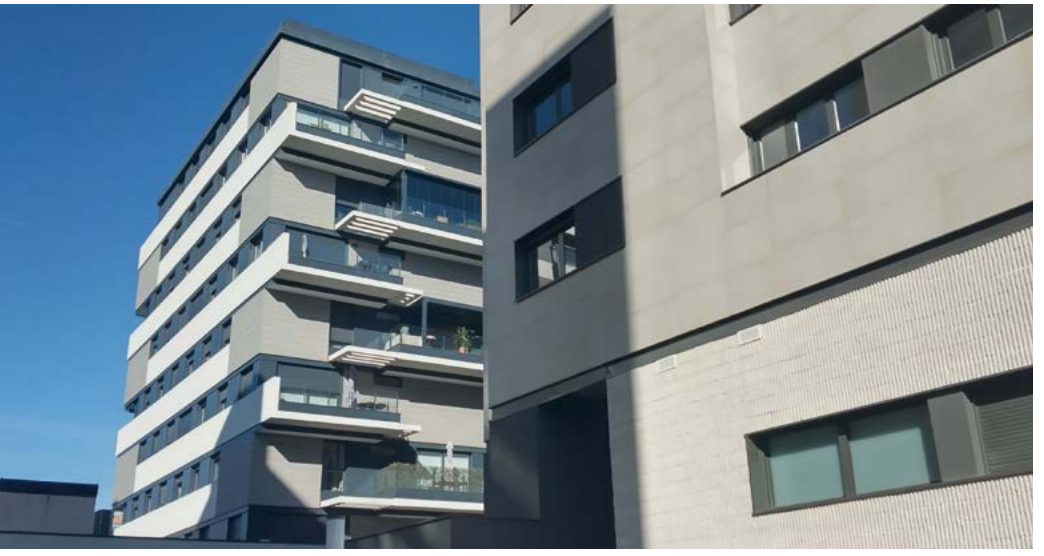
One proposal is to make it easier to convert underused office buildings for residential use, which could add 20,000 flats. Key developments under way include the long-awaited Madrid Nuevo Norte, to be developed on 20 hectares of covered railway tracks. Here, there will be a central park, 1.6 million m² of office space, a modernised Chamartin Station, and 10,500 homes in an area of northern Madrid which historically has low housing availability. Affordable housing will make up 20% of the total, double the component required by law. The development, which may take up to 40 years to complete, involves BBVA, Merlin Properties and the San Jose Group. The consortium broke ground in January this year, fully three decades after the project was first discussed.
Together with the office skyscrapers at Madrid Nuevo Norte, the project should complement the city's famous Quattro Torres Business Area with its unmissable skyline of four towers – the Foster Tower, PwC Tower, Torre Cristal, and Torre Emperador Castellana which got completed during the last decade. A fifth tower of 35 levels called Caleido has since been added.

> 'The dynamism of the Madrid region as an engine of national growth has led to an increase in population – a challenge we have not yet managed to meet in terms of housing production'

At Mipim in March, the Association of Real Estate Developers of Madrid (Asprima) held a conference that highlighted Madrid's momentum and the challenge of creating more housing. It has produced a huge document full of facts and figures about Madrid, including details of major housing supply projects – Los Berrocales, Los Anijones, Valdecarros, Los Cerros, and the Madrid Nuevo Norte.
Asprima said: 'As we have seen, the dynamism of the Madrid region as an engine of national growth and an opportunity generator has led to an increase in population – 70,000 people a year – a challenge we have not yet managed to meet in terms of housing production. The future does not look better in terms of population growth.'
Our guide from Neinor takes us up to the northern part of Madrid, including the site of Neinor's JV with AXA IM Alts. Here two 17-storey buildings with amenities including swimming pool and co-working space will be ready for occupation in two stages during 2026 and 2027. AXA IM Alts owns a 90% stake in the JV, and Neinor 10%. Around 250 units will be built at this BTR project, located between Puerto de Hierro and Mirasierra. Neinor and AXA IM Alts' site is close to Madrid's M-30 road that many use to reach the city's financial district, the Ciudad Universitaria and Real Madrid's Santiago Bernabéu stadium, for example.
In a district further north in the municipality of San Sebastián de los Reyes (colloquially called 'Sanse'), we visit a 146-unit Build-to-Rent development which Neinor completed in Q2 2023 and subsequently sold to Harrison Street and DeA Capital. Neinor retained the management for the subsequent year. It was built as Europa Homes and got rebranded Soto Rental.
Neinor's second biggest shareholder is also developing in the north. Stoneshield Capital has plans for the largest flexible living operation and has bought a plot of land in Valdebebas for a €500 mln project including thou-

Neinor has acquired this site in Madrid with capital from AXA IM Alts for a BTR project. Around 250 units will be built here in two 17-storey buildings

Much new construction is taking place north of Madrid, in a district called Alcobendas, where Neinor is also active with this development among others



A 146-unit BTR development in San Sebastian de los Reyes which Neinor completed in Q2 2023 and sold to Harrison Street and DeA Capital. Neinor retained the management for the subsequent year

sands of apartments and student residences. Nido Living is among others who have already landed. Its most recent project announced in May is for a 636-bed property called Nido Principe Pio. 'Madrid offers great opportunities for growth in the flex living sector because of the large number of students moving from their home city within the country and is one of the preferred destinations for international and Erasmus students,' says Nido CEO Darren Gardner.

Greystar International's Spanish brand, BeCasa, has short and long stay co-living assets in Madrid, including one that just got new financing from Germany's Aareal Bank.

Meanwhile, Azora is trying to lure top corporate occupiers to its ML28 Madrid Urban Hub in what it describes as the first urban campus in downtown Madrid aimed at top-level companies seeking to differentiate themselves in order to attract and retain talent. Jose Mittelbrum, a Madrid-based senior director at CBRE Spain, said: 'Projects such as ML28 Madrid Urban Hub are set to revolutionise the office market in the capital, at a time when companies are finding in their workspaces an ally to attract and retain talent.'

Madrid's tech status is also growing. Some even go so far as to suggest Madrid could become the Startup City for the next 10 years, eclipsing Barcelona. According to data from EU-startups.com, Barcelona has received about $5.4 bn in new VC funding since 2015 (up until 2022), while Madrid lags slightly at $4.4 bn.

Miguel Arias, a start-up operator, noted how 15 years ago, there was little entrepreneurial activity in Madrid, but that this changed in 2015 with the opening of the Google Campus which 'brought us a breath of international air'. He said: 'Madrid already has second- and third-time entrepreneurs with contacts and ambition, consolidated peer networks and professionals with scaling experience in all business areas. And because it has, it can be proud to have already established unicorns.'

Madrid's local and regional government are also betting big on sporting events. Real Madrid's home stadium will host the World Cup Final in 2030, and the city will have a new circuit for Formula One racing from 2026 onwards, taking it from Barcelona.

New hotel project investments are springing up to cater to the increased visitor demand this is expected to generate as Madrid becomes the new Miami. Luxury branded residences are a growing niche, with wealthy Mexicans emerging as big buyers – a trend playing out both in Madrid and places such as Malaga and Marbella. ■

New Champions of Europe

Taylor Swift might not make it into a European property magazine very often, but the US pop icon held a concert at Real Madrid's Bernabeu stadium in May for 65,000 fans in the first performance to be staged at the new Champions of Europe's home since it completed a seven-year, €1.2 bn renovation into an entertainment venue.

Ideally, the 80,000-capacity stadium conceived in 1944 would have been demolished to make way for a brand-new venue, but local and regional regulations did not allow that. That forced the club into an expensive overhaul designed to increase the club's revenues 2.5 times its best-ever year via initiatives such as concerts, sports events and the sale of more VIP seats, which have gone from 4,500 to 7,500.

The game changer is the retractable pitch. Taking just five hours, the pitch can now be stacked away in a 28-metre-deep 'underground greenhouse' in vertical layers enabling year-round concerts and other events such as gala dinners or other sports such as American Football or tennis. A retractable roof helps with bad weather.

PropertyEU understands that not everyone is happy. Despite a futuristic-looking stainless steel façade designed to keep concert noise within its walls, not reflect sun into neighbours' eyes, and regulate the inside temperature due to its open slats, some nearby residents are seeking to group together and sell their homes for fear of values going down.

Spain's 'most profitable' developer

Neinor Homes' CIO Mario Lapiedra Vivanco explains why the firm has changed its strategy as it pursues an 'equity-efficient' growth plan

BY **ROBIN MARRIOTT**

Madrid-based residential developer, Neinor Homes, has generated pretty impressive figures over recent years, yet its efforts have gone unrewarded by the stock exchange given the large discount to net asset value that pervades the listed sector.

It has completed more than 8,670 homes since 2019 and generated over €650 mln of EDITDA in five years, but in recognition of its bad share price the company changed course last year when it announced a 2023-2027 strategic plan to return €600 mln to shareholders via a massive dividend policy and also to finance some new developments with third-party capital.

Neinor is now the real estate company with one of the highest dividend yields in Europe. It will pay a 36% cumulative dividend yield over 2024-25. The firm wants to deploy €1 bn of direct investment and co-investment over the next five years. So far, it has raised €300 mln of a €500 mln target from private partners to make these profitable developments.

Chief investment officer, Mario Lapiedra Vivanco, explains the company has three business lines – Build to Rent, Build to Sell, and its latest platform, Retirement Living in the mid-high light-care/non-medical segment. Neinor is proposing a for-rental retirement living concept to help solve the nation's 'loneliness' issue, he says, and the company is exploring the best operating partner to deliver 1- and 2-bedroom units in key locations. It is estimated that in Spain, over 4 million people over 60 years old live alone and 95% have their home fully paid off. In 2022 19% of the population was aged over 65, but that is projected to grow to 26% in 2040, according to CBRE.

> 'Spain has had very low housing production because of the bottlenecks in fully permitted land. That puts us in a good position because we are the main producer of homes in the country'

INVESTOR OFFENSIVE

Neinor and its top executives have been travelling around the world to drum up interest in the company and says investors have been receptive. 'We have found more interest than we expected,' notes Vivanco.

Spain has sorted out the structural problems which became evident during its financial crisis from 2008 to 2014. The country had a huge household debt to GDP ratio of almost 90% versus 50%, now below Germany. After 2013, house prices started to go up, but less rapidly than elsewhere, even marking the country out for having a 'boringly stable' housing market in contrast to the past.

Recently, however, prices have been going up, according to data from the national statistics office INE. Its House Price Index showed a +11% total for new builds and 3.2% for existing stock. In Spain, the housing production deficit keeps compounding and is set to reach over 900,000 by December 2025. The annual rate of change of the House Price Index was up almost one point to 4.5% at the end of last year. This is the highest annual rate in the last 16 years. Lack of supply is the fundamental issue.

Says Vivanco: 'You see every day people complaining in Germany and the UK that there is very little housing supply and that these countries are not producing enough. Well, Spain is producing less! This cannot be ignored. Low supply levels mean you have less risk in terms of pricing.'

Whereas there were 15 housing units per 1,000 inhabitants in Spain in 2007, now the supply is just two for every 1,000 – some 90% lower. A lack of fully permitted land, lack of dispersion of developers, and conservative financing are contributing factors to why production is limited.

Meanwhile, Spain's GDP grew 2.5% in 2023, outperforming the 0.5% EU average. In 2024, GDP growth is projected at 2.1% according to Bloomberg consensus, again better than the EU average.

And on the demand side, Spain is attracting people due to a lower cost of living, good weather, and being far from conflicts. It sees immigration from Latin America as another positive by further fuelling housing demand.

Neinor is one of the big three listed Spanish developers (together with Metrovacesa and Aedas Homes) and the leading residential

"There is clearly a demand for senior living – potentially 10 million. We feel very comfortable with the concept, which is why we launched this business line last year after almost a year of analysis'

one with a landbank of 15,500 units. It makes annual net profits of around €100 mln.

SHORTAGES ALL ROUND

Vivanco says there is a great imbalance in all three of its sectors. For example, in BTR, there is a 12x lower production than demand for the next five years, and it is even greater at 17x for senior living. There is a concentration of demand for housing in Madrid, the Basque Country, Catalonia, Barcelona, Valencia, and Malaga. Around 50% of Spain's population is said to be living in these six areas – and those are the markets Neinor is in. The same six regions are projected to see population growth of 14-20%, while the rest of the country will lose that amount.

'This is where we are developing, and yet we have been trading at a very big discount to NAV,' says Vivanco.

He adds: 'If you are trading at a discount to NAV, it means that the market doesn't believe in your external valuations from appraisal companies. Implicitly, the market says the GAV value of your assets will go down in the next two or three years. We told investors we have been realising approximately 1% more on the deliveries than appraisers forecast. No matter what price we bought land for, investors are not considering or assuming we will make a profit from them.'

After Spain's crisis, Neinor was the first mover in the Build to Sell sector. It established the business in 2017-18. Then it started a BTR operating company in 2019.

Mario Lapiedra Vivanco, CIO of Neinor Homes

SENIOR LIVING

At some point during 2020 and 2021, the company stared rotating equity, doing bilateral deals with good margins and good divestments. Then 18 months ago it started thinking about the next megatrend – senior living. 'There is clearly a demand for senior living – potentially 10 million. We feel very comfortable with the concept. That is why we launched this business line last year after almost a year of analysis,' comments Vivanco.

Against this background, Neinor presented a plan to the market in March 2023. For two years, it said it would scale back land acquisition from the balance sheet and scale up co-investment vehicles. Of €1 bn of new investment, 50% is with new partners, and 50% is from its own equity.

Vivanco summarises: 'Investors feel comfortable that Spain has not had the run other countries had. Spain has had a very conservative financing policy because of the previous crisis, and it has had very low production because of the bottlenecks in fully permitted land. That puts us in a good position, because we are the main producer of homes in the country. Things are looking up. Shares have risen 20% in 2024 and are trading at their lowest discount to NAV since 2018. The only thing we needed was to capture capital in a different way to the listed side in order to keep growing. This is what we have implemented.' ■