Rothschild & Co
Asset Management

Spanish real estate, an attractive source of diversification

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The real estate sector has benefited from the post-Covid recovery of the Spanish economy, driven in particular by the return of tourists. The investment team travelled to Madrid to take stock of the market, meet the managers of the Iberian real estate companies in which we are invested, and visit their assets.

While the latter should normalize by 2024, growth will be underpinned by buoyant consumer spending and continued investment in the post-Covid European recovery plan, of which Spain is one of the main beneficiaries, up to €75 billion. Only 14% of the plan has actually been paid out and 40% invested[1]. Expected growth of +1.6% in 2024 is one of the most dynamic in Western Europe (+0.6% compared with the European average)[2]. It's worth noting that the construction sector's contribution to Spanish GDP has been halved since the 2008 crisis, and now stands at just 5% over the past decade[1]. Focus on shopping centers. In 2023, Lar España, Klépierre and Unibail Rodamco all posted excellent performances for their Iberian assets, and even the best in relative terms, with increases in rents and retail sales of between +8% and 10% on a like-for-like basis[3]. The investment market remained open, enabling Lar España in particular to complete its debt reduction on good terms, with assets sold at a yield of 6.3%, 24% higher than their acquisition cost in 2016 and in line with appraisal values, and now showing a loan to value (LTV)[4] of 30%[5]. The share price has risen by 45% in 2023, the company has carried out a share buyback program and increased its ordinary distribution by +17%[6]! The stock currently represents 2% of R-co Thematic Real Estate's portfolio[7].

What about offices?

Madrid has around 6.5 million inhabitants and 14 million m² of office space, with a vacancy rate of 4.3% in the center and 13% on the outskirts[8]. The same symptoms can be observed in these assets as in the rest of Europe. The best assets, located in modern city centers, are easy to let. However, their yields, which were too low before the rise in interest rates, are currently undergoing a correction. In the case of secondary assets (not listed), the situation is more delicate. Rents for all assets have yet to return to their 2008 highs, unlike, for example, offices in Paris' central business district. We visited Colonial's biggest current development project: Madnum, an investment of over 300 million euros located in the center of Madrid. This mixed residential/office project has been partly de-risked in terms of the residential component, as the latter has been sold unlet to Bank Inter on the basis of a 6% yield. The offices will be delivered this summer. The pre-marketing rate is still low (10%), but the product seems to be attracting significant interest, to the extent that the real estate company is reportedly reviewing its initially over-cautious rent assumptions[9]. We also visited 50% of the office portfolio of Árima Real Estate SOCIMI, a small "prime" office property company in Madrid, including Botanic, recently leased to Merck, which comprises almost 10,000 sq.m. of fully renovated space and boasts LEED Platinum, WELL Gold and WELL Health & Safety[10] certifications. Since its IPO in 2018, the company has made highly selective acquisitions, resulting in renovations with attractive yields ("yield on cost[11]" of 6.5% for a prime yield in Madrid of 4.7%[10]). The company's low level of debt, with an LTV of 20%, puts it in a good position to sustain its growth[10].

Merlin Properties and data centers

After successfully reducing its debt by 2022, through the sale of its bank branch portfolio for 2 billion euros to BBVA (19% above appraisals)[12], the company is expanding into "Data Centers" and aims to become the leader in Spain. The aim is to develop 60 megawatts by 2025, rising to 200 megawatts by the end of the decade. The company is already looking to raise €1 billion this year to finance these capex-intensive developments. Indeed, 1 megawatt installed requires an investment of 10 million euros, with an expected return of 10% based on net rental income. The Getafe site in Madrid (the object of the visit) has a production capacity of 20 megawatts, representing an investment of 200 million euros for 20,000 m², at around 10,000 euros per m². By raising 1 billion euros in equity, the company will borrow the equivalent in debt to invest 2 billion euros, valued at over 3 billion euros over time[13]. The company represents 4% of R-co Thematic Real Estate's portfolio[7].

In conclusion R-co Thematic Real Estate's diversified positioning in Spain (12% of the portfolio[7]), enables us to take advantage of the good performance of household consumption via retail, to benefit from exposure to "super premium" offices whose valuations are still "discounted" on the stock market and, finally, to benefit from exposure to Data Centers, a variation of the artificial intelligence theme for real estate.

Weitere Infos zu den Fonds

R-co Thematic Real Estate

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[1] Source: BOFA, April 24.
[2] Source: Eurostats, April 2024.
[3] Source: Sociétés, 28/03/2024.
[4] Ratio between the amount of the loan and the value of the asset financed.
[5] Source: Lar España, Rothschild & Co Asset Management, 28/03/2024.
[6] Source: Bloomberg, Lar España, Rothschild & Co Asset Management, 28/03/2024.
[7] Source: Rothschild & Co Asset Management, 28/03/2024.
[8] Source: Savilles, April 2024.
[9] Sources: C&W, Colonial, Rothschild & Co Asset Management, April 2024.
[10] Source: Árima Real Estate SOCIMI, April 2024.
[11] Cost yield: measure of dividend yield calculated by dividing the current dividend on a share by the price initially paid for that share.
[12] Source: Merlin Properties, Rothschild & Co Asset Management, April 2024.
[13] Source: Merlin Properties, April 2024.

Über den Geschäftsbereich Asset Management von Rothschild & Co

Rothschild & Co Asset Management, eine Tochter der Rothschild & Co Gruppe, ist ein unabhängiger Asset Manager, der institutionellen und semi-institutionellen Investoren Investmentlösungen im UCITs Fondsmantel sowie in Spezialmandaten anbietet. Neben einem aktiv gemanagten High-Conviction Ansatz bieten wir unseren Kunden Zugang zu selektiv ausgewählten Investmentlösungen über unsere OpenArchitecture Plattform. Unser Hauptsitz liegt in Paris mit Büros in 10 weiteren europäischen Ländern. Rothschild & Co Asset Management verfügt über ca 200 Mitarbeiter und mehr als 50 Mrd. Euro verwaltetem Vermögen[1].
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(1) Quelle: Rothschild & Co Asset Management, 31/07/2026.

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