ULI Knowledge Institute

ULI Spain

LIVING RENTAL MARKET

2024Q2 Spanish Market

Confidential

0. INTRO

2024Q2 Spanish Market

0.1 URBAN LAND INSTITUTE – ULI

Urban Land Institute - ULI is the most influential research and educational organization of the built environment. It was established in the United States in 1936 and currently has more than 45,000 Members worldwide. ULI's Mission is to "shape the future of the built environment for transformative impact in communities worldwide”.

ULI Spain is the national chapter of the Urban Land Institute in Spain, which has two forums: ULI Barcelona and ULI Madrid, where we work with our 450+ individual members and our 38+ Corporate Partners to achieve ULI's objectives and priorities in our national council.

0.2 ULI SPAIN LIVING RENTAL TEAM + ULI SPAIN LIVING EXPERTS’ PANEL

Within ULI´s ambition to be the most influential Institute of research and knowledge and to lead on providing solutions to major challenges of our communities in the built world through applied collective experience, ULI Spain has developed the ULI Spain Living Rental Group whose primary goal is to publish accurate, independent and valuable information about the rental housing sub-sector in Spain to contribute to generate a deep debate, based on objective data and verified facts. ULI offers this report as a way of collaboration with public administrations, private sector and Universities (Academia), to seek solutions and address the current challenge of accessing housing in Spain.

ULI Spain here publishes its 3rd **ULI Spain Living Rental Report**, analysing the Spanish rental housing sub-sector through 3 main axis analysis:

- **Supply**
- **Demand**
- **Payment Capacity**

This Report addresses these 3 axis from **2 different angles**:

I. **Quantitative Analysis:** a numerical analysis of some of the most populated cities in Spain (in this edition, the 9 most populated provincial capital municipalities), based on "big data”. In addition, the Report will show certain indices that allow to monitor the dynamics of demand, supply and payment capacity of the residential rental market over time. The Methodology used for the quantitative Analysis has been developed by Big Data Methodologies. Big Data, makes possible to interrelate diverse public data sources with a relevant level of spatial and temporal granularity, so the heterogeneous behaviours of our neighbourhoods and cities can be segmented. This process is necessary to run accurate basic diagnoses, as it is the best approach for a political and social debate in search for solutions, but also for citizens and real-estate decision-making stakeholders.

II. **Qualitative Analysis:** ULI Experts’ Living Panel review the Quantitative Analysis from their vast experience, to put it in context and perspective. In this third edition, the Panel was formed by representatives of the Spanish main entities:

C. Gª Peri · H. Beunza * · M.J. Piccio-Marchetti * · M.A. Peña · D. Botín · F. Pérez · P. Pérez de Acha · C. Olmos · A. Benavides

From ULI Spain, we would like to thank our Experts for their time and wisdom, and for the thought leadership they have contributed, fundamental basis of the Qualitative Analysis in this Report.

We would also like to thank our sponsor AEDAS Homes for making possible the publication of this third edition of this **ULI Spain Living Rental Report,** to be launched on 25th September 2024 (at The District, in Barcelona).

1. DEMAND

2024Q2 Spanish Market

1.1 CITY DYNAMISM INDEX

This **City Dynamism Index** reflects the dynamism and strength of the demand fundamentals in Spain 9 main cities, not specifically referred to the housing market. Compared with the previous semester, great dynamism can be observed in Seville, Alicante and Valencia. And also, considerable momentum in secondary cities.

Demand for rental housing continues to grow in the 9 analysed cities, driven - among other factors - by the growth in the number of households and the increase in Social Security affiliates (at record highs in 8 of the 9 capitals studied).

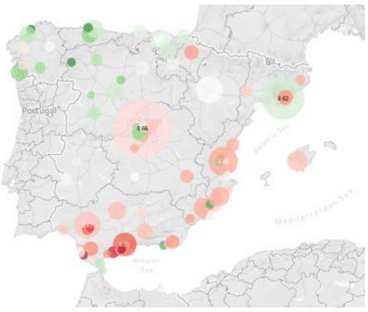

Fig: City Index Main Cities Map.

City comparison

Demand for rental housing is growing faster than Supply and the gap between the two is growing.

In some of the 9 cities, demand is polarising: very different segments coexist - from luxury to affordable to social – each with very different dynamics. Legislative measures aimed at mitigating rising rents in stressed rental areas ("zonas tensionadas") apply indiscriminately to all these different segments, disrupting also rental segments where market rents do not represent a high effort rate for those homes with medium and high net available rent.

Furthermore, the trend of new consumer habits and new ways of living is confirmed: more and more users demand renting short- and medium-term, for personal or professional reasons. This new sub-sector called 'living' or 'flex living' includes short term rentals, holiday homes, student residences, serviced flats, co-living (for young people, professionals or senior citizens), among others.

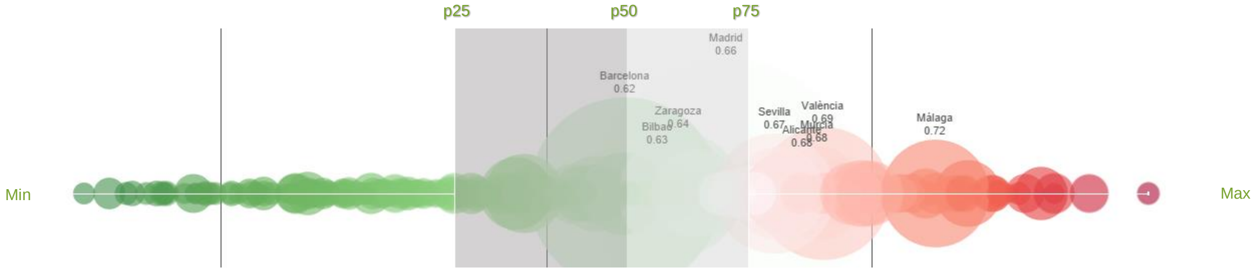

Fig: City Index Main Cities Chart.

1.2 LIVING EXPERTS' PANEL MEMBER ANALYSIS

ULI Experts' Living Panel

The Experts pointed out that the net available income per household has also increased in recent years, and that in some capitals there is upper-middle income immigration, which is also pushing up prices.

Moreover, they recalled that leases that are already in force and are renewed every year do not evolve in the same way as new leases being generated each year. In the former, rents are lower and rent increases have recently been limited by law. In new leases generated each year, rents are higher.

2. SUPPLY

2024Q2 Spanish Market

2.1 SUPPLY & DEMAND INDEX

This matching supply and demand Index compares the existing stock of housing available on the market (both for rent and for sale) in relation to the number of transactions of such housing stock per quarter. It measures the capacity of the market to absorb the current available supply.

According to the Experts, the supply of rental housing in some cities is decreasing because some of this stock is being withdrawn from rental. At the same time, the supply of other 'living' uses is increasing. At the moment there is not enough reliable data to measure how many units this "living" additional supply is adding.

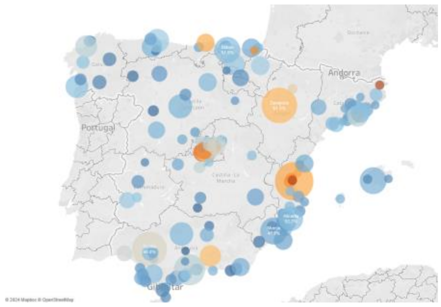

Fig: Supply and demand Index Main Cities Map.

City comparison

The stock of available housing remained stable in 8 of the 9 municipalities studied (no data for Bilbao). This almost-zero growth of stock available for rent should be compared with the substantial growth of the Demand.

The Experts agreed that the growth in Demand indicates that to mitigate the rental housing problem, a package of several measures will be necessary. In their discussions, the Experts' pointed out the importance of substantially increasing the Supply of rental housing, especially affordable and housing with some protection (public housing). The following tools were mentioned: supporting redevelopment and retrofitting (also of empty housing units). Particularly, once the NextGen Funds are invested by mid-end of 2026; Tax streamlining, such as the VAT cost in redevelopment of residential for rent; More and faster generation of ready-to-use land for residential use; Densification; Public housing modules update; etc.

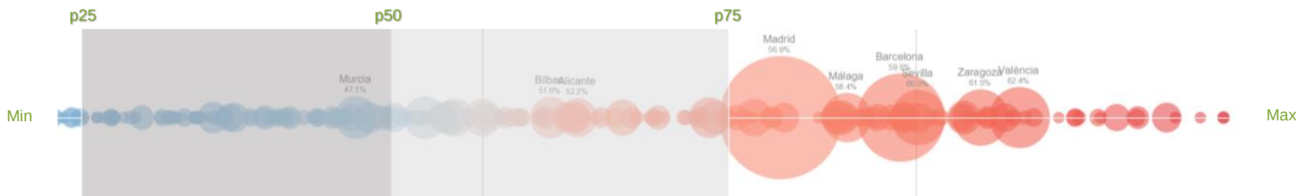

Fig: Supply and demand Index Main Cities chart.

2.2 LIVING EXPERTS' PANEL MEMBER ANALYSIS

ULI Experts' Living Panel

The Experts referred to some of the difficulties encountered by institutional investors, developers and specialized operators in generating more rental housing, such as the rising cost of capital, relatively high interest rates, construction costs, the cost of sustainability and energy efficiency requirements, etc. These costs today make it very difficult to create more rental housing, especially for the affordable and social segments.

The Experts also concurred that there is also a need for greater public-private collaboration, as both sectors need to work together to aim to rehabilitate or build sufficient, sustainable residential solutions at rents that households can afford.

3. PAY CAPACITY

2024Q2 Spanish Market

3.1 AFFORDABLE SUPPLY INDEX

The **Affordable Supply Index** shows the percentage of households in a particular city which we would qualify as affordable: able to rent a home at a cost equal or lower than 35% of the net income of that household. In other words, what percentage of households in a city can rent the existing stock (supply) spending no more than 35% of their net income.

The **Rental Affordability Index** shows net incomes per households' percentage to pay the median annual rental ticket.

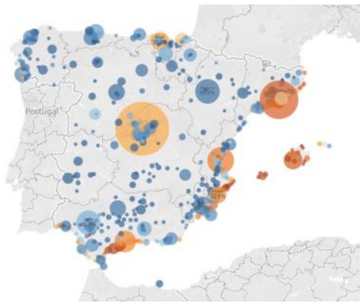

Fig: Affordable Supply Index Main Cities Map.

City comparison

The average rent per square metre per month reported in the quantitative section of this report has increased over the last 12 months in all 9 cities. Rents for tenants who already have a contract and renew it yearly, increased over the last 12 months at a slower pace (CPI, or lower rates imposed by law) compared to market rents for new rentals (which over the last 12 months grew by more than 10% in Barcelona and Valencia, and by between 0.1 and 9.9% in the other 7 capitals.).

Quantitative data show important differences between the 9 cities in terms of the percentage of rental housing supply that can be afforded by the Demand (in view of their Payment Capacity). In Valencia (62.4%), in Zaragoza (61.5%) and in Murcia (47,1%).

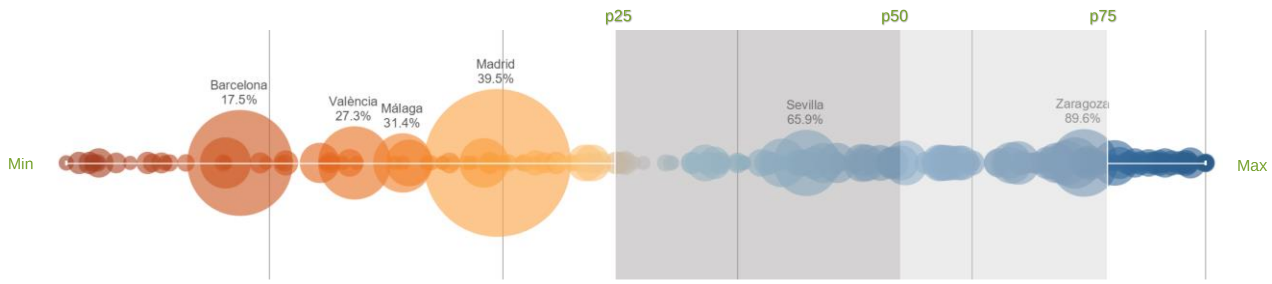

Fig: Affordable Supply Index Main Cities chart.

3.2 LIVING EXPERTS' PANEL MEMBER ANALYSIS

ULI Experts' Living Panel

Some of the Experts commented that tenants' payment capacity (among those with a higher net household income profile) has increased more than the rents of the leases being renewed yearly, and therefore their rate of effort has decreased. However, amongst those tenants with a lower net household income profile, their payment capacity has increased less than the median rent.

In parallel, it has been observed that the 20% of tenants with the higher net disposable income are moving away from the 20% of tenants with the lowest net disposable income, showing that inequality in payment capacity is growing.

ULI Knowledge Institute

ULI Spain

LIVING RENTAL MARKET

2024Q2 Quantitative Executive Summary

Spanish 9 main cities

Confidential

ULI Knowledge Institute

ULI Spain

METHODOLOGY CHANGE NOTICE.

For the 3rd edition, the data on the % of rented and vacant have been extracted from new INE data (as of 2021-2023). The data of the 1st edition were those previously available, also from INE (as of 2011); and

New contracts Rental prices (€/month, and €/m2/month) in the 2nd and 3rd editions reflect the Median (50th percentile). In the 1st edition, they showed the Average of the same. Statistically the Median (50th percentile) is more appropriate and more stable. Due to this change in methodology, we have added another data: the evolution of the last year, to see dynamics.

DISCLAIMER.

This confidential document was prepared by ULI Rental Market Reports, based on the information provided by its partners. Information is compiled from sources deemed reliable but may be subject to errors and omissions. No guarantee, warranty or representation of any kind is made regarding the completeness or accuracy of facts, descriptions or measurements and ULI expressly disclaims any liability in connection therewith. No financial, legal or other professional advice provided.

All rights reserved. Reproduction or use of the whole or any part of the contents of this publication without written permission of the copyright holder is prohibited.