REPORT Q2 2025

SPAIN LIVING ASSETS OUTLOOK H2 2025

Navigating affordability, cost inflation, and regulatory challenges to unlock Spain's residential housing potential

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Introduction

Since 1998, the GRI Institute's exclusive gatherings have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Institute reports present the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report captures the key insights exchanged at **España GRI 2025**, where we hosted top global investors, lenders, developers, and asset managers for an opportunity to explore the outlook for the **Living Sector in Spain's real estate market**.

CHECK OUT ALL THE PHOTOS FROM ESPAÑA GRI 2025

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Residential for Sale

» The supply gap remains stark

As conversations among the industry leaders at España GRI 2025 the gathering confirmed, Spain continues to register one of Europe's lowest housing output rates per capita, and the mismatch is particularly acute in Madrid and Barcelona.

This imbalance, participants noted, should - in theory - bolster investor confidence. However, the question therefore arises: is this demand truly solvent?

As one attendee observed, "There is strong demand, but not all of it can pay market prices." In many cases, developers are building for a segment that is shrinking under the weight of rising costs. As a result, affordability risks becoming more aspirational than achievable.

» Construction and land costs

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Discussions also highlighted the outsized impact of build cost inflation. The industry is seeing a continued squeeze from elevated input prices, tight labour availability and rising energy expenses.

One participant noted, “In just a few years, we’ve seen build costs escalate by 20 to 30%.”

This trend presents both potential and challenges: while the need for housing is urgent, the current cost structure threatens to render many projects unviable.

Modular construction and industrialised housing methods were brought to the table during the meeting, with observations that these could lower costs, yet their application remains limited, and scaling remains a challenge.

» Land, permits, and viability hurdles

Most importantly, cost pressures stemming from land acquisition and construction continue to pose a significant challenge for residential developers.

In many cases, the difficulty is not the absence of land, but rather the inability to activate it under current planning regimes.

Given this situation, several attendees voiced concerns about fragmented permitting procedures, opaque local guidelines and politically sensitive zoning rules.

At the same time, construction costs, although stabilising, remain a hurdle. With such inflationary pressures on materials and labour, the industry is seeing a reconfiguration of delivery models, including renewed interest in industrialised building and modular construction.

An illustrative point is the emerging use of prefabrication techniques, which offer shorter timelines and potentially lower costs. However, these innovations will only scale if regulation adapts accordingly.

» Financing under pressure

The shift from low-cost capital to a more conservative lending environment has complicated the residential equation.

Discussions at the event suggested that while equity interest persists, especially for ESG-aligned or affordable projects, debt funding is increasingly conditional.

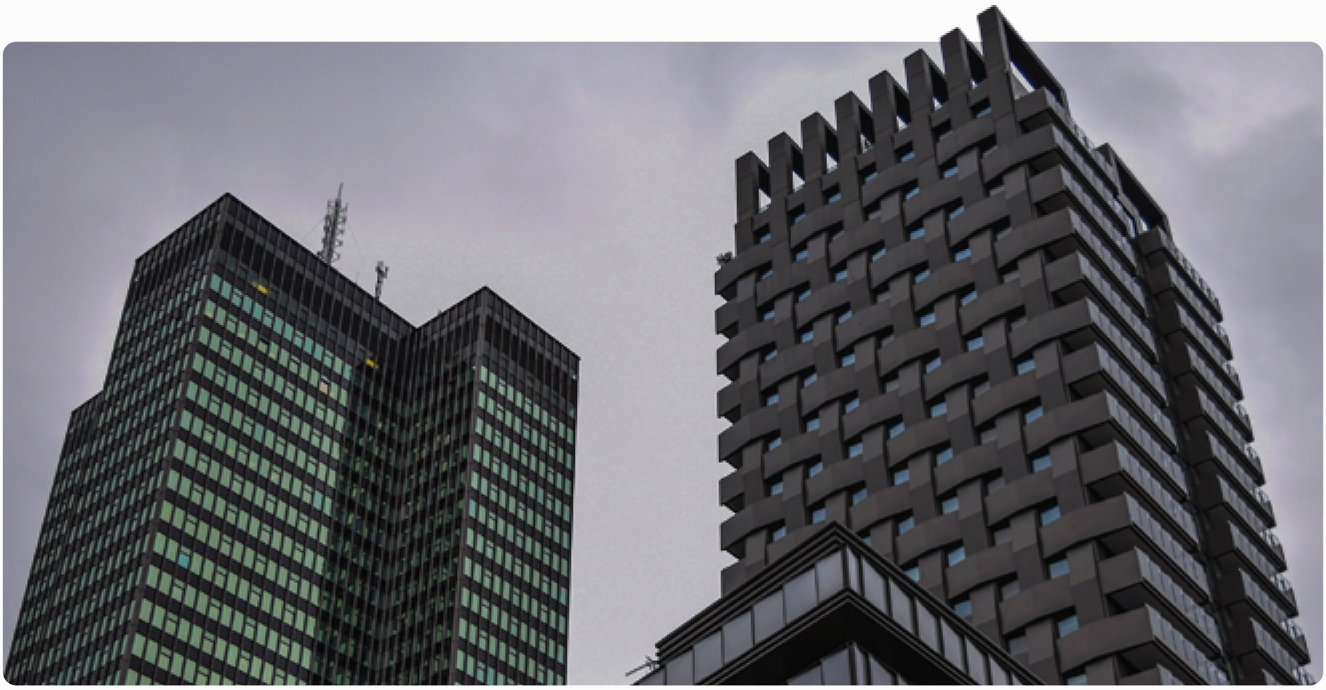
It was observed that banks are imposing stricter terms, including lower loan-to-cost ratios and higher pre-sale thresholds. In response, some developers are exploring alternative lenders, yet the cost of capital from these sources may not align with mid-market housing goals.

Given this situation, it is essential to develop more innovative financial structures or risk leaving viable projects on the drawing board.

From a capital perspective, this is not a market lacking interest, but rather one seeking alignment between risk, return and delivery certainty.

The question of whether current leverage levels can meet investor appetite was raised repeatedly. For mid-income or affordable for-sale products, high debt costs risk undermining already thin margins.

Consensus posits that blended capital stacks, involving equity, institutional partners and public land concessions, will be essential.



Credit: Freepik / EyeEm

» Regulatory ambiguity

Regulation also poses a significant challenge for private sector actors, with uncertainties around Spain's new housing law raising questions on rent caps, return limitations and the role of public land.

Conversely, while the legal framework remains in flux, there are signs of increasing collaboration between local governments and developers.

Madrid's recent engagement with private actors on concession models and build-to-sell projects was cited as a potentially replicable solution.

In response, the private sector is calling for regulatory clarity and continuity, without which long-term planning remains unfeasible.

The ability to develop mid-market housing at scale will depend not only on land availability, but on the predictability of the investment environment.

» A path forward through partnership

Looking ahead, it becomes vital to answer the question of how stakeholders can deliver affordability without compromising viability.

Attendees agreed that new forms of collaboration are required, with the goal being to blend social outcomes with investment rationale, particularly through large-scale, integrated urban regeneration schemes such as **the Madrid Nuevo Norte project.**

These initiatives, which combine infrastructure, housing and public services, were viewed as blueprints for the future.

One strategy is to increase the use of public land through competitive concessions, while encouraging sustainability and long-term affordability.

Discussions also highlighted the need for fiscal incentives and accelerated permitting to reduce delivery risk.

» Delivery capacity

Ultimately, the question is not whether demand exists, but whether the sector can deliver the right product at the right price. Market leaders reiterated the need for better coordination between policy, land and capital.

Paradoxically, while Spain has both investor interest and household demand, it still struggles to mobilise those forces effectively.

One strategy is to adopt a multi-stakeholder model, combining public land release with private sector execution and blended financing tools.

There is potential to streamline permitting, industrialise construction and de-risk lending through guarantees or co-investment platforms.

» Residential outlook

Despite widespread concerns about affordability and cost, the overall outlook for Spain's residential for sale market remains constructive.

The reconfiguration of supply chains, combined with demographic resilience and latent demand, presents a long-term opportunity.

That said, the ability to execute at scale, under shifting macro and regulatory conditions, will be essential. As discussions suggested, investors must now pair capital with creativity, and planning with pragmatism.

In the end, this sector presents both potential and challenge in equal measure. If the right frameworks are activated, Spain's housing market could enter a new era of accessible, investable growth. If not, it risks repeating the cycle of unmet expectations.

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Build-To-Rent (BTR)

» Demand is no longer in question

Discussions among the executives in attendance highlighted that the primary driver of investor confidence remains the ongoing and increasingly contentious supply-demand imbalance in Spanish housing markets.

Urbanisation trends, shifting lifestyles, and a structurally undersupplied rental market provide long-term ballast to the BTR opportunity. Most importantly, institutional players increasingly see BTR as a core, not cyclical, strategy.

This perception is driven by strong fundamentals in cities like Madrid and Barcelona, where younger, mobile tenants favour flexibility and quality.

» Sharper constraints

While the demand story remains clear, attendees agreed that development viability is being tested by surging construction costs and restricted access to financing.

Given this situation, the pipeline is thinning, and projects are subject to greater scrutiny by both lenders and equity partners.

An illustrative point is that, despite widespread concerns about rising interest rates, it was observed that projects with strong ESG credentials and professionalised operations still attract capital.

However, discussions at the event suggested that lenders have grown more selective, often favouring experienced operators with a track record of delivery.

The key question is therefore: can the sector scale sustainably under current economic conditions?

To resolve this issue, it was deemed to be essential for the sector to rethink its approach to design, procurement, and financing.

Credit: Freepik / EyeEm

» Asset reconversion

As new developments face pressure, the reconfiguration of obsolete office or retail assets emerged as a viable alternative. This trend presents both potential and challenges for developers and municipalities alike.

From a sustainability perspective, reconversion offers a path to align with increasingly ambitious energy performance targets, while also adding much-needed residential stock.

This has brought new life to otherwise stranded assets, particularly in urban centres where demand is high and land is scarce.

In terms of execution, though, it also depends on local permitting regimes, with observations that administrative delays remain a critical bottleneck in many jurisdictions.

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» Regulatory impacts

Regulatory uncertainty was another future focus brought to the table during the meeting. While there is growing political attention on the housing crisis the prevailing view among participants is that policy remains fragmented and, at times, counterproductive.

Measures such as rent caps or mandatory affordability quotas have been met with scepticism, particularly from institutional investors seeking long-term certainty.

» Quality is the new battleground

Given the cost inflation and heightened competition, discussions also highlighted a decisive shift in priorities. The focus is no longer on being the first mover, but rather on offering the best-designed, most operationally efficient product.

Market leaders reiterated the importance of tenant experience, ESG compliance, and long-term value creation.

Looking ahead, the broader outlook for BTR remains cautiously optimistic. The fundamentals are intact, and institutional appetite persists. But the pathway to scale will require innovation, regulatory alignment, and a disciplined focus on execution.

In the end, BTR in Spain is no longer an experiment. It is a strategic pillar in the portfolios of many investors, but one that must now prove its resilience under tighter conditions.

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Flex Living

» Obstacles and opportunities

In the midst of a housing market increasingly characterised by strained affordability and heightened transience, discussions underscored that the flexible living model is gaining ground amid shifting appetites for hybrid residential formats that combine adaptability with professionalised operations.

The prevailing sentiment is that the model, spanning co-living, serviced apartments and long-stay hospitality, could unlock latent urban value, but only if its operational and regulatory complexities are effectively managed.

» Constrained supply

The lack of housing stock across major urban centres was a recurring topic. Consensus posits that supply-demand imbalances, combined with elevated pricing in both ownership and traditional rentals, are creating a clear entry point for new models.

This perception is driven by changing tenant profiles: increasingly mobile, experience-driven, and focused on lifestyle flexibility over long-term lease commitments.

Considering this, flex living aligns naturally with the expectations of young professionals, students, and digital workers.

As reported by one attendee, “the demand is obvious and rising”, particularly in gateway cities such as Madrid, Barcelona, and Paris, where affordability continues to deteriorate.

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» Operational sophistication is not optional

As conversations at the gathering confirmed, delivering a successful flex living operation is fundamentally different from traditional residential leasing.

It was observed that investors must now contend with rising construction and energy costs while simultaneously meeting heightened tenant expectations. Within the context of these pressures, quality, location, and efficiency remain non-negotiables.

Discussions also highlighted the operational complexity of offering hotel-like experiences within a rental framework.

Market leaders reiterated that the ability to design purpose-built spaces, rather than retrofit existing assets, is increasingly vital.

The shift from conversion-led strategies to integrated development models reflects a growing awareness of how space planning, communal areas, and digital services need to be considered from inception.

» Vertical integration gains traction

A clear distinction in investor approaches emerged around the question of operational control, with discussions at the event suggesting that owning the full value chain - from development to brand to operations - presents both upsides and challenges.

For some, it allows for better alignment, brand coherence, and margin protection. For others, it increases exposure and operational risk.

An illustrative point is the emergence of developer-operators who see value in controlling the tenant experience end-to-end.

That said, many investors continue to prefer partnerships with seasoned operators, particularly when entering unfamiliar markets with one possible strategy being to co-develop with platform partners, thereby gaining scale while managing downside risk.

This returns to the idea of experience as a value driver: consistent service quality and brand-led design are now considered essential differentiators in the sector.

» Regulatory frameworks

Uncertainties around regulation were another concern brought to the table during the meeting. Flex living often exists in a legal grey zone, straddling residential and hospitality classifications.

In Spain, for example, city-by-city variation continues to hinder uniform deployment. While some jurisdictions are becoming more permissive, others remain cautious, associating flex formats with transient tourism rather than stable tenancy.

In many cases, governments are beginning to recognise the potential of flex models to address urgent housing shortages, particularly for medium-term stays, and attendees agreed that greater regulatory clarity could unlock institutional capital and facilitate faster development cycles.

In response, some operators are proactively engaging with local authorities, seeking to define standards that ensure consumer protection while allowing commercial viability.

Although unified classification, neither strictly residential nor fully hospitality, could legitimise the sector and enable more targeted policy incentives, uncertainties around legal definitions and tax treatment will continue to pose barriers to entry until this is implemented.

Credit: Freepik / ArthurHidden

» Looking ahead

While the sector remains in flux, it has clearly outgrown its experimental phase. Investors are no longer questioning whether flex can work, but rather where, how, and with whom it will work best.

From a macro perspective, the fundamentals are supportive: urbanisation, housing scarcity, and changing lifestyles continue to push demand towards more flexible, well-serviced living solutions.

However, the model's durability will depend on its ability to deliver not just occupancy, but satisfaction - both consistently and at scale.

To succeed in this new landscape, investors will need to blend real estate fundamentals with hospitality thinking, technology integration, and a nuanced understanding of local regulation.

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Student Housing

» Undersupply drives investor confidence

In the midst of a housing market increasingly characterised by strained affordability and heightened transience, discussions underscored that the flexible living model is gaining ground amid shifting appetites for hybrid residential formats that combine adaptability with professionalised operations.

The prevailing sentiment is that the model, spanning co-living, serviced apartments and long-stay hospitality, could unlock latent urban value, but only if its operational and regulatory complexities are effectively managed.

The imbalance between supply and demand is not just localised to Spain but evident across European markets. As discussions suggested, investors must capitalise on this structural gap, though not blindly.

From a capital allocation perspective, although it was confirmed that student housing continues to rank highly in core and core-plus strategies, investors must remain highly attuned to the shifting macroeconomic environment. High interest rates, inflationary pressures and persistent development costs are softening returns in some cases.

Despite broader economic uncertainties, the sector's counter-cyclical appeal remains intact. Many pointed to the relative resilience shown during COVID-19, and more recently, the inflationary environment, where index-linked rental contracts provided an embedded hedge.

» Rental growth and capital deployment

Rental growth has been robust, and participants generally agreed this trend will likely persist, at least in the near term.

With such limited competition and few new schemes coming online due to permitting bottlenecks and construction delays, landlords continue to benefit from a favourable pricing environment.

However, the sustainability of these returns came under scrutiny. With new players increasingly eyeing the segment, the risk of eventual oversupply particularly in certain over-penetrated micro-markets was flagged.

Discussions at the event suggested that while current fundamentals justify capital inflows, blindspots may arise if future developments fail to align with real student demand.

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This returns to the idea of location: prime zones like central Barcelona or Madrid offer demand security but also face fierce competition for land, while secondary cities, such as Valencia, Zaragoza or Seville, might offer yield enhancement opportunities if approached with precision, but also present greater risk.

This situation raises the question of whether investors should stay anchored to prime zones, or if there is more merit in exploring underserved secondary cities with strong university demand and less land pressure.

Some investors appeared increasingly open to the latter, particularly if backed by clear visibility on university growth and transport infrastructure.

» Operational complexity

Operational expertise was another focal point. Attendees agreed that delivering stable returns depends as much on managing the asset as it does on acquiring it.

Several speakers stressed that strong operational partners can make or break a PBSA investment. Not only in running the asset but also in engaging with universities, city authorities, and students themselves.

This reflected a broader consensus that while capital interest is high, platform and partner quality often become the bottleneck for deployment, as well as highlighting the role of data and pricing transparency in further professionalising the sector.

Compared to the UK or US, continental Europe still lacks standardisation and benchmarking on the operational side, an issue that complicates underwriting and long-term forecasting.

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» Barriers to development

Despite offering distinct opportunities, the impacts of macroeconomic headwinds and geopolitical instability on the sector cannot be ignored.

Construction costs, although stabilising, are still elevated, and while equity appetite persists, financing remains selective and the cost of debt has forced some investors to reconsider pipeline feasibility or adjust return expectations.

In response, some investors are turning to forward-funding or hybrid models to share risk more effectively.

Permitting delays also pose a significant challenge for developers. Lengthy approval timelines are not only pushing out delivery schedules but also creating uncertainty in underwriting assumptions.

Given this situation, institutional investors are becoming increasingly selective, favouring shovel-ready projects or those backed by experienced local platforms.

Credit: Freepik / jcomp

» The ESG imperative

Looking ahead, ESG considerations are becoming increasingly material. Students are very sensitive to sustainability, particularly emphasizing the need for energy efficiency, waste management, and community engagement in both the design and operational phases.

These factors are no longer peripheral, they are integral to brand perception, occupancy rates, and regulatory compliance.

From a reputational and operational standpoint, aligning with sustainability standards will be essential. The ability to deliver greener, community-oriented assets is expected to become a key differentiator in the coming investment cycle.

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Senior Living

» Demographics vs deliverables

Europe’s ageing population is expanding rapidly, particularly in Spain, where over-65s are expected to account for nearly a third of the population within the next two decades. This demographic reality is pushing senior living ever higher on the radar for institutional capital.

Most importantly, this demographic tailwind is not merely theoretical. Attendees agreed that the demand is real and rising, but noted that demand alone does not equal investability.

One specialist observed that this is a sector “which has to be built,” noting its relative immaturity compared to more established asset classes.

» Capital and cap rates

The overall outlook for cap rates remains conservative. Investors acknowledged that yields are currently tight, and while there is growing interest, actual transactions remain limited.

The lack of large-scale, stabilised portfolios continues to hinder the establishment of benchmark pricing.

Given this situation, a major concern revolves around development risk. It was observed that cost inflation, combined with the operational complexity of senior living, creates a challenging proposition for developers.

In this context, consolidation was mentioned repeatedly as both a necessity and an opportunity. Yet the question of whether operators can scale without sacrificing quality remains open.

» Hospitality, Healthcare, or Hybrid?

An illustrative point is the sector's lack of standardisation. One of the key differentiators between senior living models is the inherent mix of hospitality and healthcare components.

In Spain and Portugal, the boundaries between these models remain blurry. As discussions suggested, investors must navigate between "residences with services" and "senior resorts," each carrying distinct cost structures and operational implications.

There is a growing belief that the most successful models will be those that offer independence while integrating optional care services, a hybrid concept more aligned with hospitality than institutional healthcare.

However, one attendee questioned the feasibility of simply importing models from the US or northern Europe due to significantly differing cultural expectations, climate, and family dynamics in Iberia.

For example, while Northern European retirees may seek active lifestyle communities, local seniors often prefer to age closer to family networks. This cultural nuance significantly influences product design and site selection.

» The operational puzzle

The operational dimension of senior living remains a point of friction. Despite widespread concerns about operator quality, many investors are still hesitant to embrace the operational side fully.

The industry is seeing a shift from pure development plays toward integrated operating models, but the pace is slow.

Consensus posits that finding the right operational partner is essential, with a recurring topic in many of the panels being the need for operators to be more transparent and financially robust.

It was also deemed to be essential for the sector to professionalise. As a result, attendees agreed that partnerships between institutional investors and seasoned hospitality players, or specialised healthcare providers, may offer a path forward.

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Upcoming Events

26TH JUNE
SOFITEL LONDON ST JAMES, LONDON

GRI LIVING ASSETS EUROPE 2025

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10 - 11 SEPTEMBER
INTERCONTINENTAL PARIS
LE GRAND, PARIS, FRANCE

EUROPE GRI 2025

SUMMER EDITION

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Founded in 1998 in London, the GRI Institute currently brings together **more than 19,000 senior executives spread across 100 countries**, operating in both real estate and infrastructure markets.

GRI Institute's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking and business generation.

GRI Institute Members also have access to our exclusive online platform to learn more about other members and their companies, correspond and schedule meetings, and receive unrestricted access to all GRI Institute content.

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