



DOSSIER// ISSUE: TOP IBERIAN DEALS

ESG IS THE NEW KEY FEATURE IN REAL ESTATE INVESTMENT

Today, sustainability has also become a top priority in the world of real estate investment and, as such, the focus on ESG criteria (Environmental, Social and Corporate Governance) plays an increasingly central role for investors when the time comes to define their strategies to allocate capital in Iberia.

This assertion was made by the investors themselves who, in discussions with Iberian Property, explained how the exponential growth of their concerns about issues related to ESG is reflected in the creation of more sustainable real estate assets, while emphasising the innovation and energy rehabilitation of existing portfolios.

In other words, these players state that, although location remains an essential feature in the decision-making process of investors interested in Iberia, in this new market cycle, the success of capital markets will be increasingly connected to a focus on assets that are modern, flexible and top quality, and which, above all, comply with the new ESG sustainability criteria.

Furthermore, investors are also increasingly committed to developing physical spaces that are equipped to address the new challenges of the digital economy, focusing heavily on sectors where active value creation is possible at the operational level.

And, while there is no doubt that real estate will continue to be a core asset for institutional investors, the sector expects 2022 and 2023 to be years with substantial volumes of investment in Iberia, and for the residential and industrial segments to keep gaining increasing predominance in this 'game'.

These are the principal conclusions taken from the latest opinion barometer carried out by Iberian Property which, in this edition, challenged a pool of 25 investors to answer the following question: «Looking ahead, how will your company invest in Iberian capital markets in the post-pandemic era: location or features – what is likely to most influence your strategy?». Find out the answers in the pages ahead.





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Going forward, Merlin's investment and capex efforts will focus on developing physical spaces for a digital economy. Within Offices, we will continue to improve the quality of our portfolio, investing in spaces designed to foster productivity and creativity. Furthermore, the services provided, including flexible spaces, will become increasingly important. Regarding Shopping Centers, omnichannel strategies and user experience will become the key factors for success. Foreseeing that retail assets will no longer be merely shopping destinations, Merlin designed the Flagship plan that was completed in 2021, enabling the company to close the year with the highest occupancy levels ever. As for Logistics assets, Merlin will continue to develop state-of-the-art warehouses to support the growth in e-commerce, while also offering reverse logistics and last mile solutions.



Inés Arellano

**MERLIN
PROPERTIES**
Director

Furthermore, in order to support the digital transformation of the economy, in 2022 Merlin will launch the construction of cutting-edge Data Centers that meet the exponentially increasing storage needs arising from secular trends such as streaming services, connected cars, IoT or working from home.

Finally, Merlin is also a strategic investor in DCN, the developer of Madrid Nuevo Norte, the largest urban regeneration project in Europe, designed to embrace the highest standards of sustainability and employee wellbeing.

«Merlin's investment and capex efforts will focus on developing physical spaces for a digital economy»





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**Cristina Garcia-Peri****AZORA**

Senior Partner and
Head of Strategy
and Corporate
Development

We believe that the pandemic hasn't substantially altered the real estate landscape, but rather accelerated certain trends which were already present pre-Covid. The evolution of the office space, the work-from-home push, online/omnichannel retail, rent vs. buy in the residential segment and ESG, all create challenges for existing portfolios but are also bringing forward new investment opportunities.

Where Covid has had an indirect impact on our sector is through the influence of central banks and governments. Initially, this played out through lower-for-longer rates and extensive direct government support (with the concurrent rise in debt burdens), but has since helped fuel the current inflationary tensions, driving construction costs and higher rate expectations. All of this has impacted the way we look at our portfolios and how we position new strategies.

We continue to favour operational sectors where value can be created actively at the operational level. This type of real estate is a good way of reducing the overall duration of income streams, allowing for regular adjustment to inflationary pressures and therefore preserving value in an environment where cap rates may go up. Within those sectors, we are looking at both value-add and development opportunities that will allow us to create assets that cater to the evolving needs of our tenants and are in the right locations.

We are optimistic about the future as we see valuations starting to reflect the real capex needs of existing assets, as well as the quality of updated assets and, on the rental growth side, we are starting to see tenants willing to pay a premium for quality, efficiency, impact and functionality. There is significant appetite for asset modernisation, and we look forward to continuing to play a key role in this evolution.

Like in 2020, 2021 continued to be marked by the Covid-19 pandemic. The need to contain the spread of the virus led governments across the world to impose strict health and safety measures that substantially reduced citizens' mobility and commercial activity for all non-essential services. Those restrictions had a direct impact on the real estate industry, although at different intensities depending on the asset class. As a result, some of the trends that were already observed before the outbreak of Covid-19 were consolidated, influencing the preferences of investors and managers in relation to future capital allocation.

In this sense, it is important to mention the recent Investment Intentions Survey published by INREV, which confirms that industrial/logistics and residential remain the top choice of investors in terms of target sectors for investment in 2022. The recent good performance of the logistics sector in Iberia (as is the case of our CBRE IM investment in Montepino) and the strong fundamentals supporting the residential market, make it clear that these two sectors will also drive investor demand during 2022.

Within CBRE IM, we will continue to explore opportunities to develop new build logistics warehouses in selected sub-markets, which has proven to be a strategy where we can create most value for our clients. In relation to residential, our European Residential Impact Fund is also targeting Iberia and we expect to execute investments in the affordable segment soon.

Finally, it is also worth noting that although retail remains the least popular sector for new investment, the sentiment is starting to improve compared with a few months ago. Considering our track record and management capabilities in this sector, we will study new investment opportunities as the market recovers.

**Antonio
Simontalero**

**CBRE INVESTMENT
MANAGEMENT**
Country Manager
Iberia Fund
Manager



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Hernán San Pedro
LAR ESPAÑA REAL ESTATE
Head of Investor Relations and Corporate Communication

At Lar España we firmly believe that quality will be the key factor that makes the difference when deciding to invest. The location of the asset is no longer enough; it is essential that the highest quality prevails since, to a large extent, this is the characteristic that will mark the future profitability of the asset. In this sense, dominance plays a key role, namely the capacity to cover a large and highly populated area commercially and exclusively. But these are not the only relevant factors to ensure an investment's success. It is essential to also have a serious and rigorous corporate strategy in ESG-related matters. Sustainability is an undeniable priority in the investment world, and for Lar España it is a strategic priority. More and more investors and agents are analysing environmental, ecological and energy efficiency features down to the last millimetre. The ability to offer differentiated experiences will also make a difference, which entails a commitment to innovation and technology, as well as the diversification of services, accompanied by a highly qualified retail mix.

«More and more investors and agents are analysing environmental, ecological and energy efficiency features down to the last millimetre»



Omar Khan
CASTELLANA PROPERTIES
Chief Investment Officer

At Castellana Properties we have been able to follow the recovery of our shopping centres in real time, a recovery that has been strengthening month by month and has surpassed pre-pandemic levels. We have exploited this data from our own portfolio to aid our investment decision-making.

Furthermore, we are seeing strong evidence of physical retail playing a critical role in the new omnichannel world, particularly in secondary cities in Spain where we continuously collaborate with our tenants and customers to better meet their needs.

Retail has become an intensive operational asset class where it is critical to have both a large dominant platform and an expert management team, as is the case at Castellana Properties, which enables us to build better relationships with our tenants and consistently add value to our centres. We are also launching a number of innovative projects, such as Solar PV and community initiatives that benefit the communities where we operate.

Good quality, dominant shopping centres continue to offer a compelling story to investors by providing strong, stable and predictable income streams at yields that are far more attractive than other real estate sectors. Furthermore, retail parks offer exceptionally well-located large format boxes that offer both an attractive sales and showroom platform, as well as a last mile logistics hub.

Castellana continues to invest in dominant retail assets where we can add value. In essence, we continue to invest in retail, both in our existing portfolio and in new opportunities that meet our investment criteria, while also investing in innovation and ESG projects.



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Marta Cladera de Codina

NUVEEN REAL ESTATE
Managing Director
for Iberia

One of the tried-and tested mantras in the real estate market has been "*location, location, location*". But the time has come to move beyond this simplistic maxim and factor in other variables that are increasingly important.

Technology has had a major impact as a disruptor that can change how locations are used. Imagine, for example, the use of drones paving the way for the development of logistics assets in areas besides Madrid's traditional logistics corridors, the A2 or A4 motorways, or in Lisbon's Azambuja. Technology fosters dislocation and relocation.

Technology also has an impact on conversion projects. In the case of retail, for example, there is not a large pipeline of new, extensive shopping centre developments in Iberia, whilst there are some very well-located shopping complexes that would benefit from conversion to other uses. We need to adapt spaces to the most optimal use within their particular location. This is when we start talking about mixed-use properties, which is not a simple endeavour if

planning permission hasn't been secured, in which case it could take between three and four years to receive the permits and complete the work. At completion, it is possible that the original project as envisaged no longer makes sense because market trends change so rapidly.

Building new features into any real estate product is absolutely key and doing so in new developments should be easier – planning restrictions aside – than in operating assets. But, at the same time, there is an opportunity to acquire antiquated buildings and convert them. These buildings, if they are not converted and adapted to new uses and market trends, are at risk of a questionable future.

Furthermore, real estate businesses need to have a higher purpose than making money. Sustainability and social responsibility are very high on the agenda, and impact funds are a type of real estate product that will be more important, becoming part of our companies' DNA and which will have to tie into our need to provide returns to our clients.

Location will continue to be a key factor in the investment decision. The pandemic has accelerated several trends and one of them is sustainability. Indeed, when buying a property for our clients, as investment managers, Catella Asset Management Iberia takes into account what features can make a property more energy-efficient and reduce CO2 emissions. The challenge is to know now how much it will cost to get a building down to zero carbon by 2050, and how to fund this.

For residential in particular, we face the social challenge of unaffordability as a consequence of the big supply-demand imbalance between homes and families, so we will continue to add good quality, affordable homes in growing capital cities in Spain and hopefully in Portugal.

Like in residential, there is an opportunity for the private sector to cater to increasing student numbers with purpose-built student accommodation. Supply has failed to keep up with

demand in Spain. Domestic student numbers have soared as a result of growth of the young population and a lack of opportunities in the employment market. International students have more than doubled in the last ten years, creating a gap between current offer and real demand estimated at 400,000 beds. The challenge here is to offer the right product at the right rents, taking into account location, demand features and residential supply. Though there are general trends such self-catered and studios, each university city has its own dynamic.

In offices there are good opportunities to create value for our investors and tenants by improving quality, sustainability and flexibility. We are starting to see increasing demand from corporations for large, good quality spaces.

The rent gap between Class A buildings and those with significant shortcomings in sustainability, welfare, safety and health, will be wider than before the pandemic.



Eduardo Guardiola

CATELLA AM IBERIA
Director & Partner



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**Gilles Emond****GRUPO AGEAS
PORTUGAL**

Head of Real Estate

As an institutional investor, Grupo Ageas Portugal intends to acquire and manage a core/core+ real estate portfolio in Portugal. The unclear macro-economic scenario (inflation, interest rates, political risks...) could influence volume and risk appetite but, in any case, real estate remains a key asset class for us.

The office market has shown resilience during the pandemic and the business scenario remains positive: we see very strong demand from occupiers and limited future supply. This is not going to evolve in the short term because of licensing delays and increasing construction costs. Additionally, tenant requirements are evolving: in a post-pandemic context "New ways of working" become the norm and top quality is a must, and this is a challenge considering the current stock! With investors raising the ESG bar, only a few properties meet expectations. Competition for good assets will increase.

With the delivery of our new headquarters this year, our current office portfolio is qualitative and has sufficient size. In 2022, we will mainly optimise it, but do not exclude some new transactions.

Operational assets for long-term leases to good operators is our main growth area for this year. It could be student residences or nursing homes. These are critical for the development of the country and we want to support this. Due to limited stock, we may consider forward funding acquisitions. Committing at an early stage is also a good way to introduce our sustainability criteria.

Shopping centres are recovering, with room for improvement. They need to be more sustainable and well-connected with the local community. Our focus for 2022 is to optimise the performance of existing assets.

2021 was a good year for the Iberian property market, and we expect 2022 to be even better. Although we have not returned to pre-Covid levels yet and are still suffering some regulatory restrictions affecting the activity of several commercial asset classes, we are initiating a new post-pandemic era.

The current inflationary environment is affecting real economic growth. However, this should also help drive real estate in the short term in countries like Spain and Portugal, where rents and salaries are linked to the Consumer Price Index (CPI), especially compared to other asset classes such as Fixed Income.

In this scenario, we are considering expanding our presence in Spain and Portugal. The Iberian region remains an attractive location in terms of fundamentals and potential growth, offering better valuations than Northern Europe, with a very reasonable risk-return profile.

Our strategy is to favour the living and logistics sectors, which are expected to outperform other asset classes. Build-To-Rent and the Private Rented Sector are segments

with significant room to grow in light of the housing shortage and imbalances between demand and quality supply. Opportunities are provided by the professionalisation of the sector, with the entry of institutional investors like M&G Real Estate. Senior living and student accommodation are also relevant in our allocation strategy.

Logistics is underpinned by the accelerated double-digit growth of e-commerce, which requires new XXL warehouses in second and third crowns, and last-mile sheds in the first ring and urban locations even beyond Madrid, Barcelona and Lisbon, in cities like Valencia, Zaragoza, Porto, Seville and Malaga. We continue to see new quality stock with strong ESG credentials. Our strategy is to be very selective and cautious due to the rise in prices, with a rigorous selection of high quality and strategically located assets.

We will continue to monitor the market and stay open to other sectors, such as offices and some defensive retail activity like supermarkets or hypermarkets.

**Federico Bros****M&G REAL ESTATE**
Head of Investment
and Asset
Management for
Iberia



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Fernando Olaso
ALTAMARCAM
Co-Head of real
Assets

AltamarCAM has invested more than 750 million euros in Spain during the last four years around the *"living"* sector, including multifamily, senior housing, high-end development and student housing. Most of these investments required intensive hands-on value creation that helped create institutional quality platforms, some of which have subsequently been sold to top notch international investors.

Going forward, during the next few years we plan to continue deploying capital in the Spanish real estate sector, where we believe there is a tremendous opportunity to help reshape the sector in line with trends that are consolidating internationally. We are lucky to witness first-hand and invest in those new trends, as we are also relevant investors globally through our indirect investment business, along with some of the best real estate managers worldwide.

At AltamarCAM we believe that sector selection and the right execution are two essential ingredients for the success of our real estate investment projects. We focus on sectors that we believe benefit from strong tail winds driven mainly by demographics and technology. We are currently analysing

projects in sectors that include different forms of *"living"*, as well as healthcare; sectors and projects that we believe will perform well even under stressed macro scenarios, as the future is uncertain, especially now.

As we have done in recent years, we will continue to favour projects that are management intensive. Real estate in general is shifting away from *"rent and wait"* business models. Even the more traditional sectors such as offices or residential rental are experiencing important changes in tenant profile and user demand, and owners need to adjust rapidly to this new environment.

We prefer vibrant cities with a growing number of homes and significant student population, as some companies want to be close to those *"knowledge centres"*. Cities that also benefit from high immigration and tourism (this is Spain!) are high on our preference list, depending on different sectors.

Finally, we will continue to place great emphasis on creating sustainable assets, not only because this is *"the right thing to do"*, but also because they have the potential to deliver better returns and attract the interest of the best international core buyers.

Due to high demand, residential rental is currently a safe-haven asset for investors and a booming sector. After the pandemic, we believe the real estate sector in Spain will continue to play a leading role in cities such as Madrid and Barcelona. In our case, we have also included other cities of great interest and potential in our expansion plans, such as Malaga, Valencia, Bilbao and Seville, where we can also offer rental properties.

Over the next three years, we plan to double in size and set up investment vehicles to reach a target of more than 1 billion euros in residential rental assets under management, with top-level institutional investors.

As for the type of housing, in addition to traditional residential rental properties, other possibilities are also gaining ground

in Spain, such as co-living which, along with high performance homes, offers other types of services and the option of living with residents who share similar interests. From our perspective, we see great demand for this type of housing, since we have a 100% occupancy rate and a waiting list.

Moreover, after the pandemic, the priorities and needs of users have changed and now they are looking for homes with other characteristics, giving greater importance to common areas, a terrace and natural light, among others. Consumers also demand more sustainable homes. At Elix we are committed to ESG principles with an emphasis on innovation and energy rehabilitation to create efficient and sustainable buildings. In this regard, we have incorporated a methodology to measure the CO2 emissions generated by each of Elix's assets.



Teresa Marzo
ELIX
CEO



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Mazabi advocates a flexible investment strategy: one that rides the waves of changing trends and adapts to underlying market conditions. As a multi-family office real estate advisor/investor, we naturally have our own bread-and-butter strategy of wealth preservation, focusing on good locations that attract solvent tenants and deliver stable cash flows but, equally important to our investors, our value-add strategy embraces all types of deals that we consider to be *"opportunities in the moment"*. During the pandemic this meant directing our strategy towards hotels, retail parks and luxury residential development which, throughout 2021, despite the ongoing crisis, exceeded expectations in occupancy, opportunity and sales (respectively). Now, two years into the pandemic, our strategy is being shaped by macroeconomic uncertainties, the increasing cost of uninvested capital and emerging trends such as technology and sustainability.

We foresee that 2022 and 2023 will be years of substantial investment driven by the weight of capital chasing stable returns. Mazabi's intention is to adopt a targeted approach: targeting hotels in neglected sub-segments (hostels/boutique/super luxury); entering into operations that differentiate due to their structure (joint ventures with operators/buy-back options); investing in residential refurbishment projects with flexible business plans; and looking for institutional investors to accompany us in larger deals. Cash-on-cash is also becoming an important criteria and we aim to provide these opportunities by earmarking stable, financeable, core product.

Our objective is to diversify our portfolio by sector, location, strategy and structure.



Lucy C. Smith
MAZABI GESTION DE PATRIMONIOS
Director, Head of Investments

MRICS
MA Cantab



João Tenreiro Gonçalves

BEDROCK CAPITAL PARTNERS
Executive Partner

The pandemic played an important role in making us rethink our investment strategies, as we identified new opportunities arising from the acceleration of ongoing trends. The sudden increase in e-commerce in Portugal, which had been one of Europe's biggest laggards, led us to set up a JV with Europi Property Group to aggregate a portfolio of logistics warehouses in the country.

In addition, the shortage of housing supply in Lisbon, coupled with growing demand for larger apartments and external areas, motivated us to launch a strategy to acquire plots in the Greater Lisbon area to develop quality residential projects targeting the middle/upper middle class. Although we remain active across all segments in Portugal, these two investment themes have been playing a central role in our investment activity.

Location remains an essential criterion in our investment decisions and we don't expect that to change in the near future. But the success of real estate investments is increasingly

linked to the investor's ability to develop a product that caters to end users, who are becoming increasingly demanding.

And features are no longer limited to views, parking, external areas or quality construction materials. End users now seek innovative spaces that include services, amenities and green areas, and which are environmentally friendly. Recognising this, we have introduced these elements in our ALLO (Alcântara Lisbon Offices) project to develop a product that can attract workers back to the office.

Finally, we highlight ESG as a new key *'feature'* in real estate. Driven by a push both from target users and from our partner investors, this is taking central stage in everything we do. We have introduced in our ALLO project distinctive features such as LEED, WELL and WIREDSCORE certifications, light mobility parking or electric chargers for all parking spaces, while defining a specific ESG focus for our logistics JV, which we have duly named *'Ecologis'*.



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Arvi Luoma
BLACKBROOK
Co-Founder and
CEO

Spain and Portugal were among our first investments. We view them as interesting vibrant markets with great long-term potential. Our strategy is centred around investing in future-proof supply chain infrastructure. What this means is a focus on high quality, modern, ESG-certified industrial assets, as well as last-mile delivery and convenience retail assets. We tend to look for real estate situated in attractive long-term locations with fundamental underlying value, as well as an element of mission-criticality for the occupier. We will also be investing in the development of new facilities in micro-locations that we believe are supply-constrained in quality industrial & logistics assets, particularly in and around major urban conurbations such as Madrid, Lisbon, Barcelona, Porto, and other top 10 cities. This strategy will support the development of e-commerce and efficient supply chain networks in the region. We look forward to building on our existing portfolio in Iberia in 2022 and beyond.

«Our strategy is centred around investing in future-proof supply chain infrastructure»



Raj Kotecha
AMRO PARTNERS
Founder and
Managing Director

Amro's business strategy is to consolidate our position as a market leading investor, developer and operator of purpose-built student housing in selected geographies within Iberia. Our portfolio stands at approximately 2,500 beds and, following our success in 2021, when we acquired new projects in Pamplona, Porto, Madrid, Lisbon and Salamanca, we aim to reach 5,000 beds in the next couple of years with all projects operated under our Amro Estudiantes brand.

Taking advantage of our experience in creating exclusive student schemes, Amro's intention is to deliver a best-in-class design with a wide mix of rooms (ensuites, twodios, doubles, studios) with maximum flexibility in catered and accommodation-only packages, as well as unrivalled common spaces and amenities that include clusters, canteen, pool, gym and study rooms, among others.

Our strategy is underpinned by three key trends: increasing urbanisation, a desire for high quality, flexible and sustainable rental homes, and growing global demand for higher education.

Following our Net Zero Carbon 2030 pledge, we apply a 'fabric first' approach to prioritise sustainability and apply whole-life carbon impact assessments to evaluate our projects. Amro's portfolio is being developed with leading ESG credentials in the market, with all projects designed under the BREEAM Outstanding rating, producing ultra-low carbon emissions, while aiming to be among the most sustainable buildings in Europe at completion.

Last year we became the first developer in Iberia to achieve the BREEAM Outstanding rating for three different projects, in addition to the highest possible standards for Fitwell (3*) and Wiredscore (Platinum), so sustainability will continue to be a core focus across our business operations going forward.