Navigating divergence in Europe's student housing market

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Purpose Built Student Accommodation (PBSA) has matured into a recognised institutional asset class over the past decade. Across the UK and increasingly in Europe, the sector's resilience and income stability have attracted long-term capital, underpinned by rising enrolments, global student mobility, and a structural undersupply of appropriate accommodation.

However, as the sector has scaled and capital has flowed in, the factors driving performance have become more nuanced and increasingly location-specific. While these dynamics remain intact, the narrative in 2025 has shifted. What was once a relatively homogenous investment category is now revealing deeper segmentation, as location, institutional quality, and operational performance shape outcomes more sharply.

The 2025 letting cycle has been telling. In markets with globally ranked universities and limited supply, assets have leased strongly, achieving both full occupancy and rental growth. In others, occupancy has slipped into the 60–70% range, a meaningful departure from the consistency that PBSA has historically delivered. This is not a simple demand contraction; rather, it reflects demand reallocation. Students are making more deliberate choices, prioritising academic quality, affordability, and lifestyle factors. In effect, they are becoming more discerning, and the market is responding accordingly.

London continues to stand apart. With its depth of institutions, global connectivity, and chronic undersupply, the city remains insulated from many of the headwinds affecting other locations. It draws consistent international demand, particularly from China and India, and continues to absorb new stock without distorting fundamentals. For this reason, a significant portion of our PBSA lending activity at Maslow Capital, part of Arrow Global, has been concentrated in the capital, reflecting our view that London remains a core market for long-term allocation. Other high-tariff university cities such as Oxford, Cambridge, Bristol, Edinburgh, and Manchester have also demonstrated resilient performance, underpinned by strong institutional reputations and global brand recognition. By contrast, some regional cities with mid- or lower-ranked institutions are showing signs of stress, where post-COVID supply growth has outpaced demand, and affordability pressures are weighing on occupancy and performance.

What's emerging is a structurally bifurcated market. At one end are cities where student demand remains robust, supply is constrained, and PBSA operates as a core, income-generating asset. At the other, performance is more volatile, with uncertain rental trajectories and valuation risk. For investors, the implications are clear: selection criteria must be more rigorous, and assumptions about sector-wide resilience need to be revisited. Local knowledge, data-driven underwriting, and sensitivity to institutional dynamics are no longer optional, they are essential.

The supply side is also shifting. Tighter planning regimes, increased regulation, particularly in the UK, such as Gateway 2, and a more cautious financing environment have slowed the development pipeline considerably. Forward funding structures, once common in the PBSA space, have largely disappeared in the current interest rate environment, with only the strongest schemes continuing to attract capital. While this will likely support rental growth in supply-constrained markets, it offers little relief to cities already facing oversupply, where new development is unlikely to be viable or value-accretive.

In this context, two strategies appear most compelling. One is focused, selective development in cities with enduring demand-supply imbalances, primarily London and a small number of Russell Group locations. These markets continue to offer long-term stability and meet institutional return thresholds. The second strategy involves value-add repositioning, particularly in secondary cities where delivery has slowed, but where demand may begin to reabsorb existing stock. Acquiring PBSA assets below replacement cost, improving operational standards, and aligning pricing with affordability can yield attractive returns. However, execution risk is high, and success depends on location specificity, operational capability, and strong branding.

Operational excellence has therefore become a primary driver of risk-adjusted returns. As students become more discerning, assets supported by strong operating platforms, clear brand positioning, and data-led management are materially outperforming. From an investment and lending perspective, this places greater emphasis on operator capability, not just asset quality or location. Schemes backed by experienced sponsors with integrated operating models, disciplined cost control, and proven student engagement strategies are better positioned to navigate demand volatility and protect income durability. For capital providers, the ability to assess and partner with these operators is increasingly central to successful PBSA allocation.

Looking beyond the UK, our focus is increasingly turning to European markets that display many of the same demand-side fundamentals, but with earlier-cycle characteristics. Italy and Spain, in particular, stand out. Cities like Milan, Rome, and Madrid offer compelling demographics, attractive university ecosystems, and limited institutional-grade student accommodation. These are markets where supply has yet to catch up with rising demand, offering an opportunity to replicate strategic lessons from the UK. While the PBSA sector in Europe remains less mature, this relative immaturity represents a strategic opening for well-capitalised investors with operational expertise.

Overall, we see 2025 as a necessary correction in the trajectory of a sector that experienced accelerated growth in the post-pandemic period. A return to more normalised national rental growth of 2-3% per annum in the UK, over the medium term, should be welcomed as a sign of market discipline. But this average will conceal considerable variance between outperforming and underperforming locations. For institutional investors, the challenge now is to move beyond generalist exposure and focus on sharper, more disciplined allocation frameworks.

PBSA is a compelling asset class but treating it as a uniform one is no longer viable. Success in the next cycle will come from those who embrace market complexity, partner with strong operators, and understand the fundamentals driving student choice. Confidence in the sector remains well placed, but it must now be accompanied by greater selectivity and sharper execution.

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