

Coming of age: student accommodation across Europe

The European student accommodation sector is experiencing solid expansion. This surge is driven by rising enrolments and an influx of international students seeking quality accommodation in the UK. Simultaneously, demand in continental Europe is spurred by rising domestic attendance and growing internationalisation, amidst sustained growth in English Language Programmes.



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University students today are not just seeking a bed to crash in; they are in pursuit of affordable, amenitised living spaces that foster a sense of community and enrich their university experience. This trend is reshaping student living to emphasise relationship-building, collaborative study environments and a supportive social framework that extends beyond the traditional confines of a dormitory room.

The purpose-built student accommodation sector (PBSA) has arisen to meet these demands. Previously, in the post-war mass higher education model universities were the primary provider of student accommodation. Today, PBSA provision is increasingly delivered and managed by specialised investors with sophisticated operating platforms and strong links to universities. Starting in the 2000s, UK has been an early mover and is today the most mature market globally, together with the US and continues to see

sustained growth. In 2022 alone, the UK market grew 7.5%, with 717,000 beds in PBSA buildings.

On the demand side, despite an ageing European populace, trends remain favourable for this new sector with the 15-19 aged population still growing in most European countries, especially in UK, Ireland, Sweden and Switzerland where the annual growth in this demographic is projected to be range from 0.8 (Sweden) to 2.1 percent (Ireland).

Conversely, on the supply side, the chronic undersupply of student accommodations, particularly pronounced in Belgium, Germany and Southern Europe is compounded by a development pipeline that fails to meet the shortfall. These factors create a potent mix of opportunities for investing in the PBSA sector.

“Despite all the investment, there is still a dramatic shortfall in accommodation,” says Michael Pryer, Head of International Funds at PATRIZIA. “In the UK in particular, there remains a sustained undersupply of beds.”

Studying the development of PBSA markets

It is a similar story elsewhere in Europe: growing numbers of students are clamouring for accommodation. While the UK is the most mature PBSA market, continental Europe is catching up from a lower base, supported by similar structural tailwinds: growing focus on education in a knowledge-based economy against the backdrop of a globalising world and freedom of movement within the EU.

The expansion of international education has been bolstered by a global rise in the upper and middle classes since the 1990s, largely due to economic globalisation. Countries such as China and India are notable contributors to this trend, accounting for almost 39% of international students in the UK and 53% in the US.

There is also a growing number of English-taught programmes sprouting across continental Europe, the Erasmus+ programme having emerged as a significant catalyst. In 2021 alone, the programme saw 265,000 students move within Europe, with Spain being the premier host. These students, typically engaging in 1-2 semester stints abroad, have become a key demographic for PBSA providers.

Furthermore, post Brexit, there has been a noticeable uptick in student mobility towards other European nations, suggesting a redistribution of demand for quality student living spaces across the continent. For example, the Netherlands has seen impressive annual growth rates in international student enrolment, averaging 12% from 2019 to 2023. The Dutch government even asked universities to limit recruitment for the 2023/24 academic year due to accommodation concerns.

Similarly, Canada seeks to cut its international student population by 35% due to housing affordability concerns linked to increased immigration. This trend reflects broader challenges in housing supply and rising mortgage costs, underscoring the need to expand student accommodation to alleviate pressure on the residential market globally.

“England has not gone short either,” notes Radu Mircea, Head of International Funds Research at PATRIZIA. “While European student numbers fell in the UK after Brexit, an increase from China, India and Hong Kong led to higher overall student numbers and a higher demand for beds.”

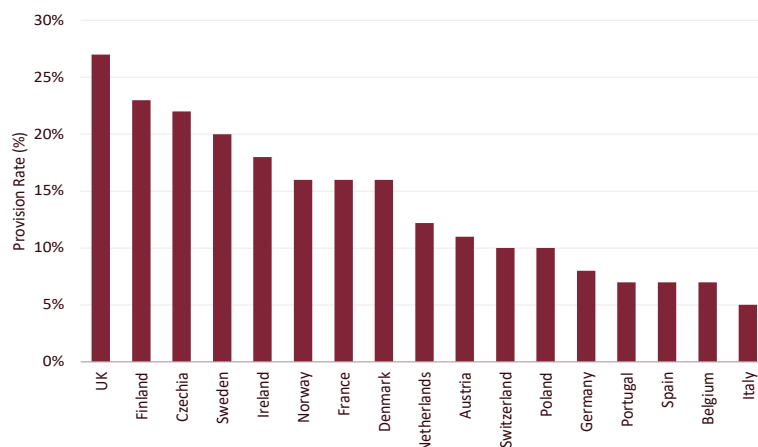
Mircea comments that the PBSA sector is underpinned by hosting English language programs and the strength of the UK’s universities, home to four of the top ten globally ranked universities and 17 in the top 100.

Yet, despite significant investments over the last decades, many UK cities still fall well short of the accommodation needed. For example, London, one of the world’s most popular destinations for higher education, is one of the most undersupplied PBSA cities in the UK, with a provision rate of only 20% compared to the UK average of 27%.

Top of its class

Amidst a challenging macroeconomic environment in Europe, the impact of the demand in cities with a structurally undersupplied residential and student housing market have created the conditions for sustained relative

Figure 1. Low provision rates in continental Europe corroborate the thesis of undersupply in student accommodation.



Source: Latest available data on student accommodation supply (BONARD) and student population (national and international statistical agencies).

outperformance. Indeed, PBSA delivered strong operational performance compared to other real estate sectors in recent years.

According to Bonard, a leading student accommodation data provider, most countries reported occupancy rates exceeding 95%. Furthermore, annual rental growth has remained in the mid-single digit range in most Western European markets over the last two years. In a testament to the sector's strength, Unite Group, the largest PBSA operator in Europe, projects over 99% occupancy and anticipates a rental growth exceeding 7% for the 2023/24 academic year.

A strength of PBSA assets is their defensive features. In Europe, the short duration of tenancies under a direct-let PBSA model allows for more frequent rent adjustments, offering superior inflation-hedging characteristics.

Moreover, the sector enables investors to capitalise on the steady demand for student accommodation while mitigating risks associated with more GDP-sensitive sectors. Research consistently highlights the counter-cyclical nature of higher education, further solidifying the position of PBSA as a good defensive component in real estate portfolios.

Given this, it is no wonder that PBSA is at the top of many investors' buy lists. This surge in interest is supported by the findings of JLL's H2 2023 Survey, which revealed that 41% of investors consider student housing the most resilient sector for the upcoming 12 months.

Michael Pryer says PATRIZIA has long invested in the PBSA market, starting in 2011 in the Elephant and Castle area of London. "Since then, PATRIZIA has invested in Barcelona in Spain, Aarhus and Copenhagen in Denmark, and Turin in Italy. PATRIZIA has student properties in Münster, Germany, and entered the Irish student housing market in 2021, buying two purpose-built student accommodation assets in Dublin."

2024 – entering the mainstream

Investing in European PBSA remains underpinned by major structural trends. Globalisation has fuelled an increase in international student mobility, driving demand for quality higher education worldwide. Moreover, urban living preferences continue to grow, with students increasingly seeking convenient, well-equipped accommodation options in vibrant city centres. Such trends push PBSA up the ladder of best asset classes within the real estate sector.

PATRIZIA's European Residential Market INSIGHT reports indicate that PBSA housing supply will remain inadequate in many markets. High construction costs, rising environmental standards and elevated interest rates are contributing to a shrinking development pipeline. For instance, the UK has seen a drastic drop in planning applications, with new developments in 2023-24 projected to fall by more than 50% across the entire residential sector relative to pre-pandemic years.

While mainland Europe's limited stock of existing stabilised assets has limited liquidity over the previous cycle, the fundamentals are extremely supportive, says Pryer. "One of the key selling points is that it remains undersupplied and also mispriced relative to other sectors and should provide attractive risk-adjusted returns."

With an extensive investment history across Europe, PATRIZIA has demonstrated that early investments can yield significant returns. This was evident with assets in Denmark, acquired in 2016. These generated strong returns, primarily due to active management strategies that capitalised on market rental growth and yield compression. This was enhanced when divesting in a market that had become more institutional over time.

Mircea comments that PATRIZIA views the markets with the strongest growth potential as Germany, Italy, Poland and Spain. "This is due to the scarcity of quality student accommodations in these countries, coupled with their rising student populations."

"As we look towards the next cycle, several trends are emerging," Mircea notes. "First, investor interest in PBSA is focusing on creating core assets as well as growing of best-in-class platforms in individual countries, which can achieve economies of scale. Such platforms will likely attract portfolio premiums upon exit, particularly from investors looking to rebalance or diversify into the living sectors."

Operational expertise and local asset management skills will be crucial for successful investment in the sector at scale. As the sector reaches maturity over the next decade, landscape will feature both winners and losers, emphasising the importance of backing experts and top-tier platforms. In this context, companies like PATRIZIA, recognised as leaders in the European Living sector, are well-positioned to capitalise on these emerging trends.

CASE STUDY

PATRIZIA Sets new PBSA standards in Turin

In 2022, PATRIZIA expanded its presence in the European student housing market with a critical investment in a modern PBSA located at Via Moretta n. 50 in Turin, Italy. The strategically positioned building, spanning 19,000 square meters over six floors, accommodates 582 single-occupancy studio units. Close to the city centre and major educational institutions like the Polytechnic and the University of Turin, the property offers convenient access and a serene view of a public park.

Designed for modern student living, each unit includes a private kitchenette, Wi-Fi, and air conditioning. The building promotes a vibrant social atmosphere through communal spaces, including a gym, study rooms, a cinema room, and four communal kitchens. Committed to environmental sustainability, PATRIZIA achieved LEED Gold certification for the project, emphasising energy-efficient design and eco-friendly features.



The investment in Turin aligns with the city's pressing need for student accommodation, which currently provides only one bed for every 16 students. With Turin hosting Italy's fourth-largest student population and witnessing a steady rise in international students, PATRIZIA's venture addresses a timely and strategic demand for high-quality student housing in a thriving educational hub.



PATRIZIA is Europe's leading residential fund manager:

- Rated #1 independent investment manager of European residential real estate (IPE)
- 40 years of residential real estate investment experience
- More than 200 in-house real estate professionals
- EUR 16.9 billion total living/residential assets under management (AUM)
- Approximately 30% of PATRIZIA's overall AUM are living/residential properties



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