Identifying opportunity and delivering student accommodation at scale in Europe's most undersupplied markets

Relative value in the living sector

PBSA continues to offer an attractive yield premium compared to the private rental sector, despite offering enhanced growth. Across Europe, there are limited PBSA rental regulations, with average rental growth increasing 11% over the past two years[1]. The rental growth rate is even higher in acutely undersupplied markets such as Lisbon, Madrid and Milan where the number of students has surged and new PBSA stock is just becoming available. On a relative basis, given the combination of enhanced yield (see chart of European prime yields below) and higher growth versus other living sub-asset classes, PBSA is quickly solidifying its position as a key allocation for investors and 'top of the class' within the living sector.

Southern Europe PBSA Market

With investors increasingly focusing on the PBSA sector, Southern Europe is proving to be one of the most attractive destinations to deploy capital in Europe on a relative basis. Provision rates (beds per student), a key indicator of demand / supply dynamics in student accommodation markets, are materially lower across Southern Europe versus more mature markets such as the UK. PBSA provision rates are as low as 3% in Portugal, 4% in Italy and 8% in Spain whilst 13% across continental Europe and 33% in the UK. The unmet demand translates to a shortfall of >840k beds across Southern Europe[2]. Against this backdrop of undersupply, demand continues to grow due to (i) increasing population growth, (ii) increasing demand for education in the knowledge economy, (iii) affordability of degrees and living, and (iv) increasing demand from international students, ranging from those on Erasmus to students from South America. Furthermore, governments are providing further tailwinds to demand, focusing on subsidising education and visa programmes. This acute undersupply and growing demand, positions Southern Europe as one of the most compelling locations to deploy capital in the PBSA sector in Europe. Coupled with the supportive macroeconomic environment, with credit spreads of European sovereign bonds compressing to low levels reflecting the favourable view of Southern Europe's country risk, we see the coming years as an opportune time to invest in the sector.

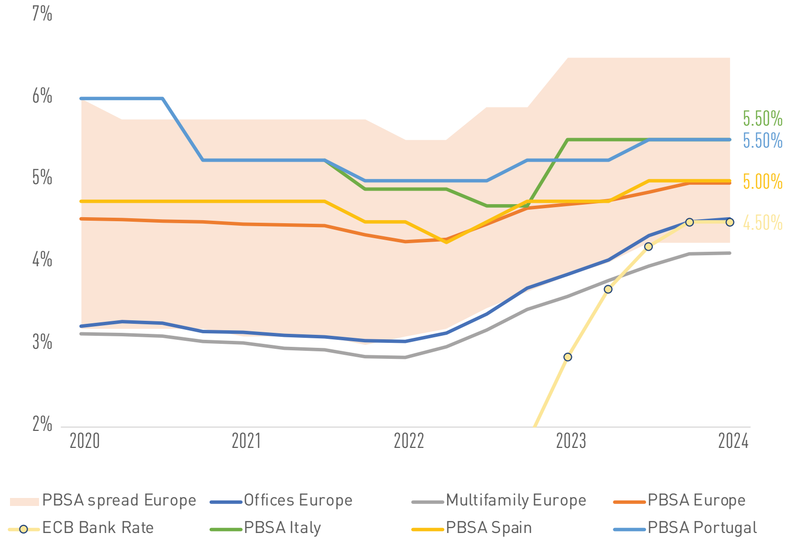
Resilience offering downside protection

Despite rents increasing, occupancy levels across Southern Europe have remained resilient as PBSA beds are typically more competitively priced versus other alternatives for students. Private PBSA offerings in 2023/24 were on average 8% cheaper than the all-inclusive costs of studios on the private-rented market across Europe[3]. This is reflected in the PBSA occupancy rates, which stood at full occupancy across Europe for the 2023/24 academic year . There are a number of factors driving this pricing dynamic, including that in certain jurisdictions students only rent for the academic year period before returning to live rent free at home during the summer months. Additionally, from a new supply perspective the development cost per bed can be lower for PBSA versus PRS for example, supporting more affordable rents. From a construction cost perspective, students demand less space and often don't require parking allowing for the site utilisation to be maximised. These structural factors, specific to PBSA are supporting rent affordability underpinning the income resilience over time. There are multiple other factors re-enforcing this resilience, including consumer tastes (new students derive more value from the connectivity of living with 100+ other students) and the counter-cyclical nature of the demand for education as labour markets slow. This income resilience, particularly the double hedge against both inflation (with annual leasing) and recession (counter-cyclical demand for education) is an important attribute of the PBSA sector.

Challenges for new supply

With these clear tailwinds for accelerating capital deployment, we see challenges entering the sector that slows the development of new supply. These include the increased interest rate environment and costs of construction, making new development more challenging from a viability perspective. Scarcity of land within walking distance of key universities is yet another limiting factor. However, likely the largest impediment, is the importance of achieving sufficient scale in an operationally geared sector like PBSA. Those of size, can leverage economies of scale, such as establishing market leading operating teams and negotiating more favourable utility contracts, ensuring beds are most competitively priced for students. It's key to successfully establishing scale to kick-start the positive feedback loop of the most operationally efficient platform being best placed to grow and create more supply. Unite is case study of how this dynamic unfolded in the more mature UK market – we expect this to be mirrored in Southern Europe where the PBSA sector is in earlier stages of growth.

European prime NIY vs. Southern Europe



European Student Accommodation Core Fund ('ESAF')

In Southern Europe, ESAF is well placed to play this role as the most operationally efficient platform, to support the growth of the PBSA sector in Europe's most undersupplied markets. ESAF held its first close in Mar-23 and has now raised €700m+ from a series of global investors, targeting to raise €2.0bn over time to capitalise on the compelling market opportunity. ESAF is currently the largest core+ PBSA fund in Southern Europe, with over 10,000 beds, operated by the award-winning operator MiCampus, which has been operating student accommodation assets since 2004 and has a team over 250 employees. The fund is targeting core+ returns with a conservative target leverage of 30% LTV. Given the scalability of the strategy and resilience of the sector, ESAF has been structured as an open-ended fund which will support investors seeking long term allocations. ESAF is well placed to continue capitalising on the significant market opportunity, offering investors a vehicle to invest in one of the most attractive markets of one of the most compelling real estate sub-sectors. ESAF's unique size in Southern Europe will allow investors to continue to benefit from economies of scale and diversification. In summary, the opportunity for ESAF is very exciting to help address the deep undersupply across Southern Europe, whilst delivering compelling returns for investors.

ESAF Stoneshield

[1] European PBSA Investing in the Future (JLL, June 24)
[2] JLL Research,
[3] JLL Research
[4] European PBSA Investing in the Future (JLL, June 24)