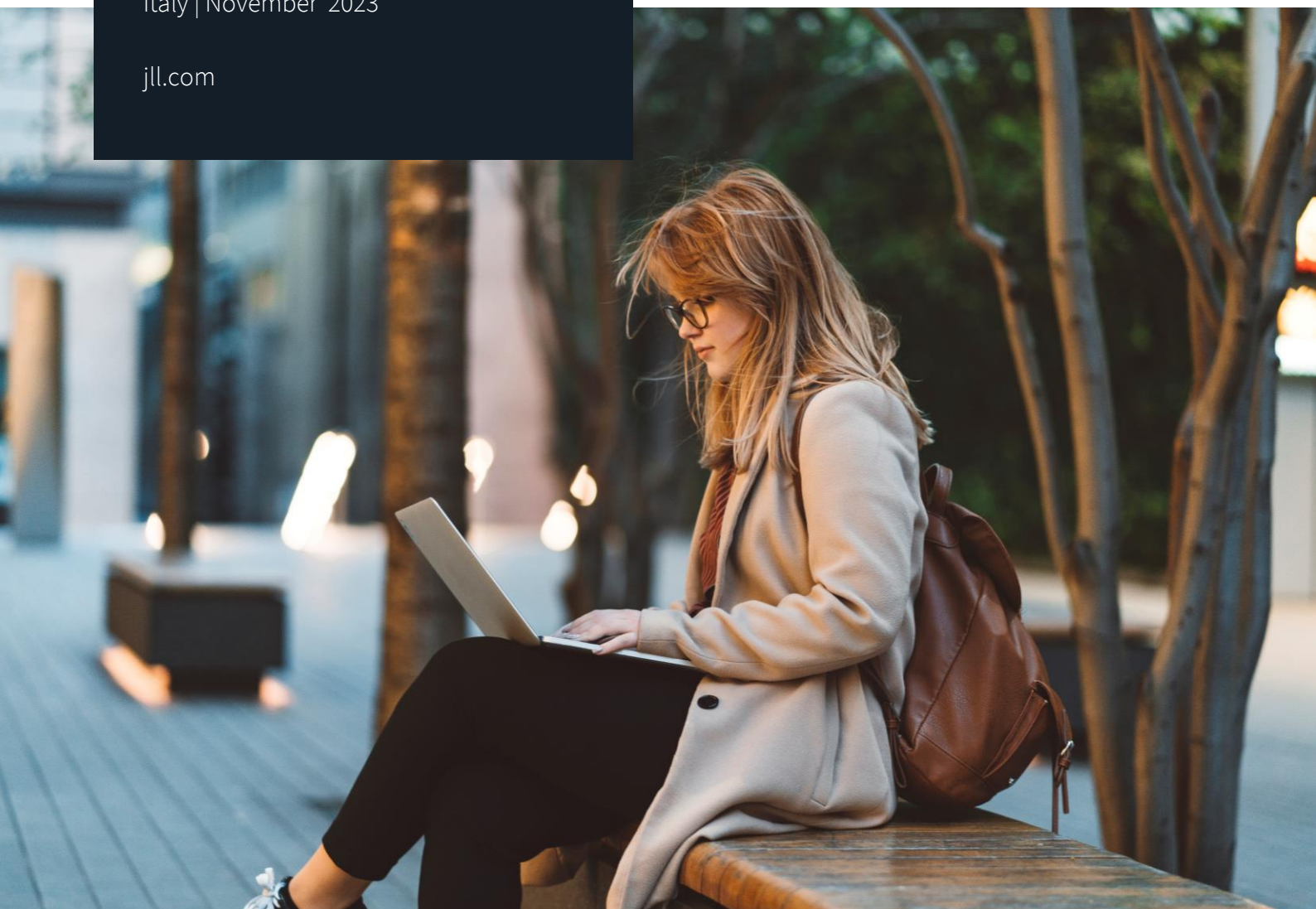


Research

Italy | November 2023

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PBSA snapshot

2023 – Market Overview

Italy

Content List

Our Key Takeaways	3
The Italian Economy	4
The PBSA Capital Markets	6
Demand and Supply	8
Rents and New Trends	11
Pipeline	13
Looking Ahead	17



01 Our Key Takeaways



Student housing is showing intrinsic growth potential

The student housing sector is emerging stronger, showing intrinsic growth potential. Increasing demand from both international and national students leads to rapid changes in rent trends.



International students returning with occupational demand

The OECD predicts that the number of globally mobile students will increase to around 8 million by 2025, compared to 5 million in 2019. The growing middle class is driving demand for goods and services across various sectors, including higher education.

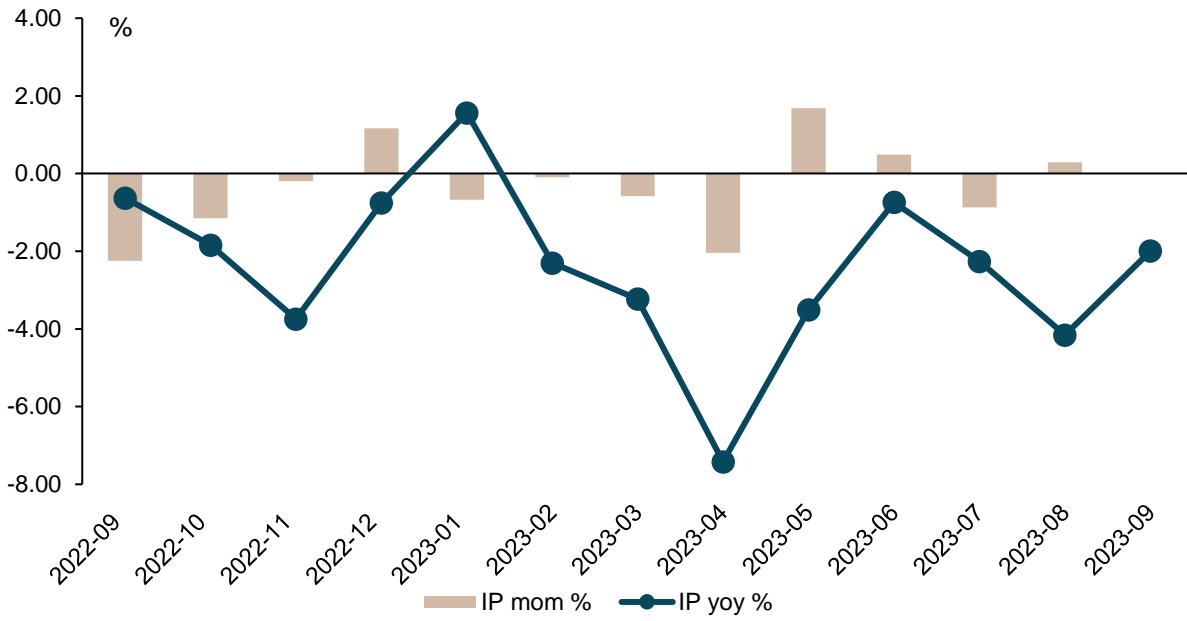


Student accommodation remains an emerging asset class

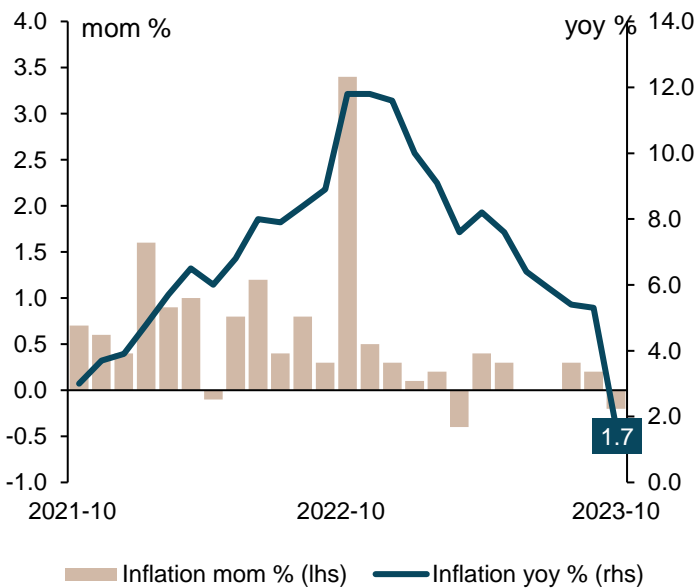
In Italy, PBSA is a developing asset class, with great investment potential and geographic diversification. The supply of student accommodation in Italy falls significantly short (3.8% provision rate) in meeting the escalating demand from students. More mature European markets place themselves well into double digit provision rates.

Industrial production in **September** posted a seasonally-adjusted stabilization **MoM** (-2.0% YoY on a calendar adjusted basis). The change of the average of the last three months with respect to the previous three months was **+0.2%** showing an improvement in the industrial production trend data.

Industrial Production - September 2022 to September 2023



Annualized headline **inflation** (HICP) reached **1.7% in October** (down from 5.3% in September). Looking ahead, headline inflation should continue to slow down throughout the year. Core inflation, however, will take longer before it starts to come down, despite recent developments in the energy market.



Forecasts (Italy)	2023F	2024F
Gross Domestic Product	0.7	0.5
Industrial Production	-2.3	1.0
Consumer Prices (%)	5.9	2.5
Govt Balance (% GDP)	-5.3	-4.5
10yr govt bond yield (% EOP)	4.7	4.3

Source: Oxford economics and Consensus as of November 2023.
Data: annual percentage changes unless specified.

The rise in the overall **prosperity** of the nation, alongside the stability in pricing, leads to an increase in the **purchasing power potential** of households. Among the crucial macroeconomic factors for the **surge** in both **domestic and international scholars** and the growing requirement for student accommodation, lies in the family's investment in a **competitive and ever-expanding global tertiary education**.

02

The Italian Economy

Projections for the Italian economy indicate an average GDP growth of +0.7% in 2023

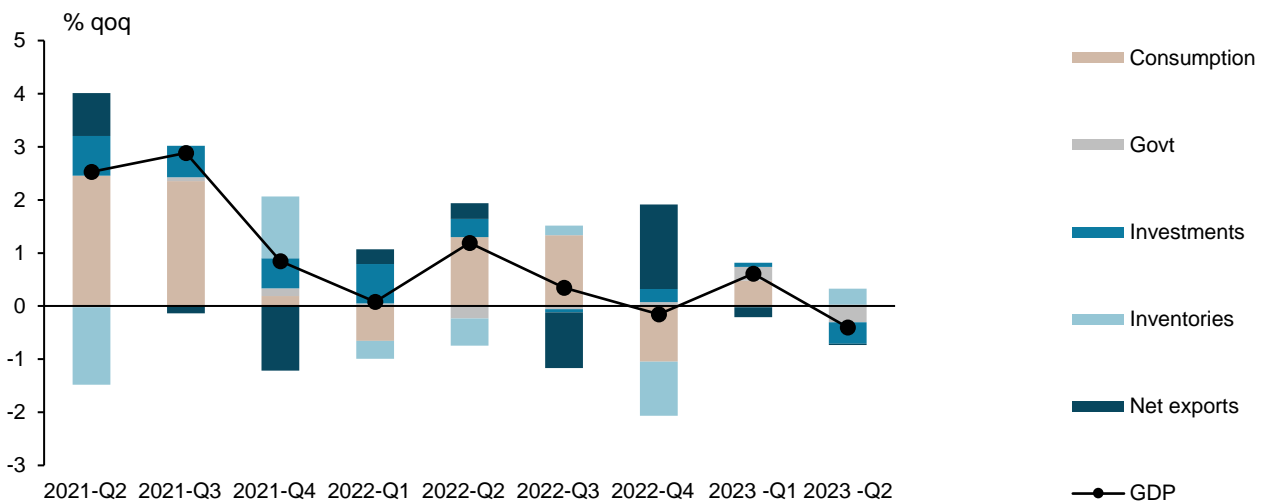
In Q2 2023 the Italian economy posted a GDP decrease of -0.4% QoQ while increased by 0.4% in comparison with the second quarter of 2022. The carry-over annual GDP growth for 2023 is equal to +0.7%.

The impact of higher inflation and interest rates persists, but there are a few signals that, overall, economic conditions are on an improving trend: Inflation remains high by historic standards, but it has peaked and is now falling quickly; commodity prices have fallen, supply chain disruption and costs have eased; **interest rate** tightening cycle is drawing to an end.

Q2 data was impacted by the continued weakness in the manufacturing PMI – Italian industry despite the continued resilience in more service-oriented sectors.

Having said this, latest market projections indicate an average GDP growth of **+0.7%** in 2023.

Contribution to GDP growth QoQ %



03

The PBSA Capital Markets

The OECD predicts that the **number of globally mobile students** will increase to **around 8 million by 2025**, compared to 5 million in 2019. **Higher education** for families, as always, seems to be a priority as the economic uncertainty continues. As specific studies are increasingly required by employers and students alike, and as the propensity to study away from home in the major continental markets intensifies, the **occupational demand for fully furnished, well located, modern student accommodation continues to grow**.

In the **first nine months of 2023**, investments in **PBSA across Continental Europe and the UK** amounted to **€3.6 billion**. This figure represents a 49% decline from the previous year and a 41% decline from the five-year average. Q3 2023, however, has seen an increase compared to last year, with €1.7 billion invested. The UK leads in terms of investment, accounting for 72%, followed by France at 10% and Germany at 6%.

Student housing in Italy is currently in high demand across the investor universe, mainly because of the lack of adequate, modern supply and the consistently rising number of students (domestic and international). As an emerging asset class, it has great investment potential and adds geographic diversification. Among the latest PBSA investments, the key deals in Milan and Turin are mentioned below.

The **Aparto Giovanale in Milan** was sold by Hines to an Italian pension fund for over € 100 M, completing in Q1 2023. The project repositioned an obsolete property through complete refurbishment and is located in an established residential area nearby Bocconi University, providing a new international campus with 600+ high-quality beds, completed in 2022.

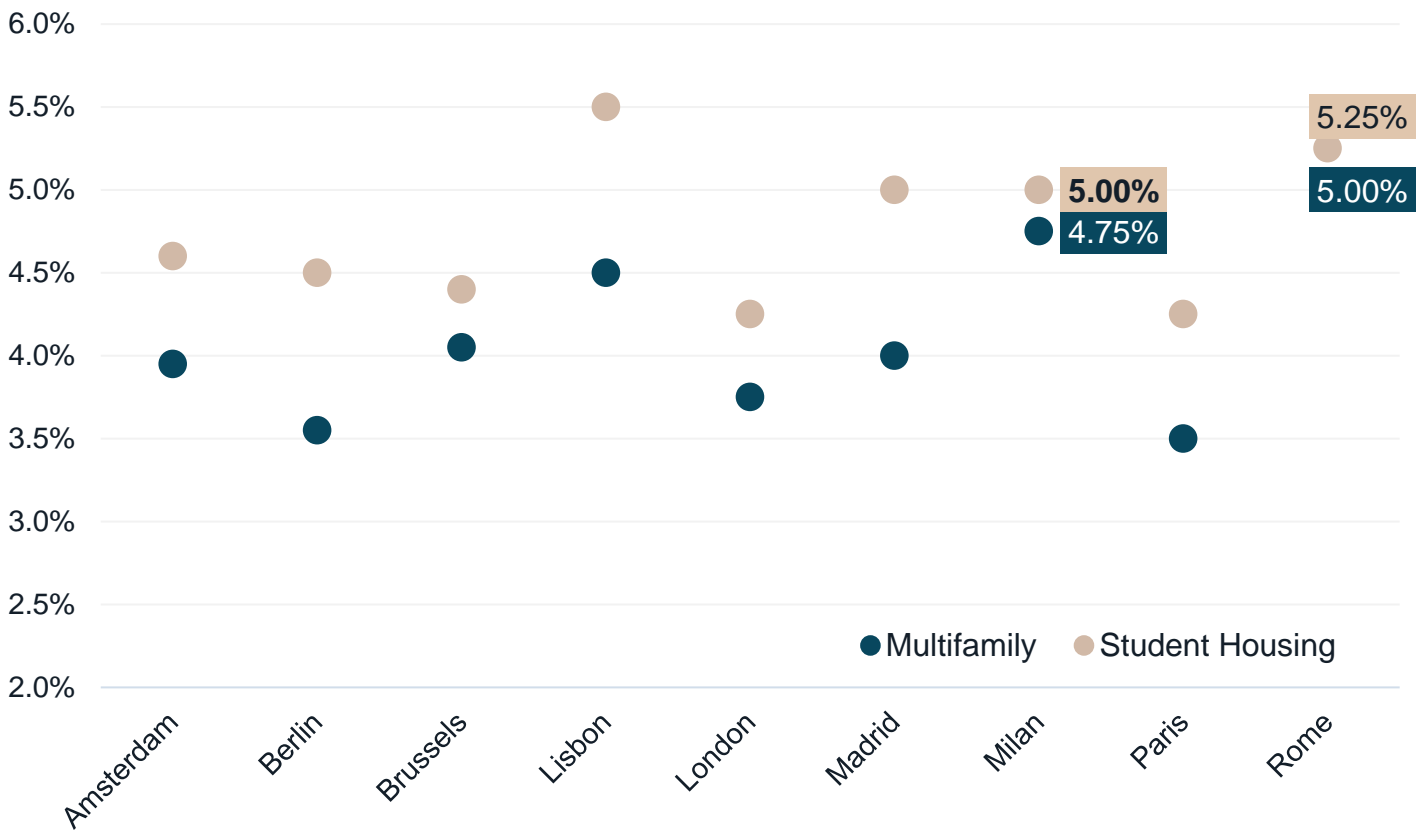
Moreover, in 2022 Patrizia AG invested € 70 M in the forward purchase of a new-build purpose-built student accommodation (PBSA) scheme in **Turin**, strategically located in Via Frejus to the west of the city centre, which is within 1km of Politecnico di Torino, home to c.33,000 students and 3.5km from the University of Turin. The transaction closed as envisioned in 2022 and the asset was inaugurated in September 2023 without the sale conditions changing.

PBSA Snapshot 2023

Even though invested volumes remain low, the appeal of the sector can be seen by the significant interest from operators, investors and developers to secure the best positioned land plots and older, well located office buildings for conversion to PBSA. The **investors** are both domestic and international, such as Brookfield, Enpam, Nuveen, AXA, Patrizia, M&G.

PBSA has seen yield movement later in this cycle compared with other sectors, but market specific dynamics reflect the relative moves outwards against multifamily yields. The PBSA sector is proving to be one of the most resilient real estate asset class in terms of outward yield movement since Q1'22. Decrease in capital values are largely compensated by strong rental growth. The asset class is considered practically "inflation proof" and the rental growth in private PBSA has recorded an above average level which surpasses the standard indexation.

PBSA vs Multifamily NIY spread Q3 2023



Source: JLL Research elaborations



04 Demand and supply

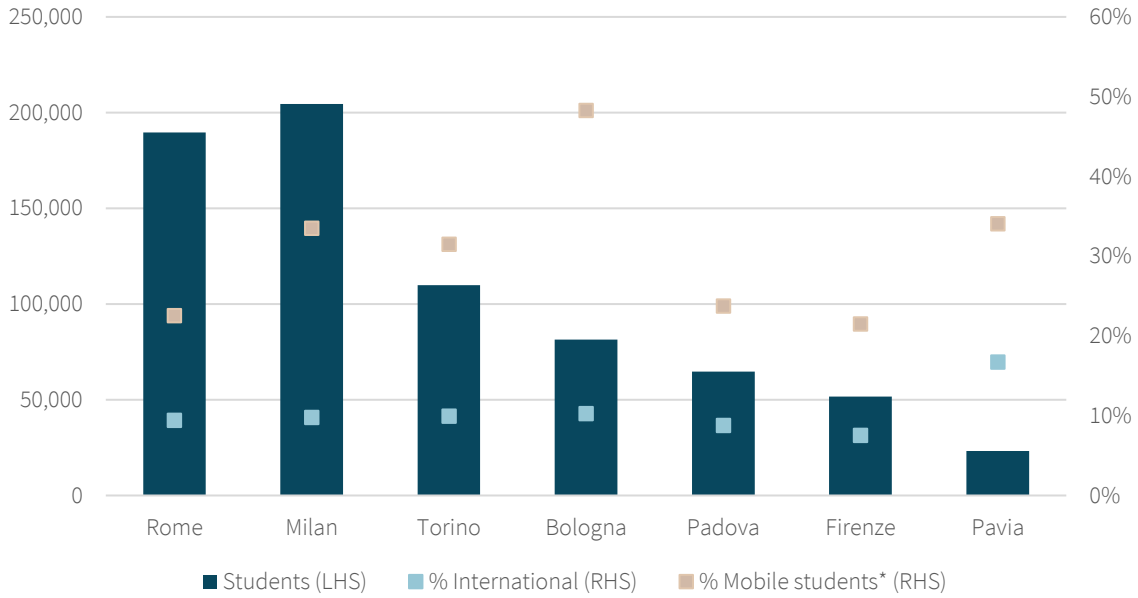
The number of **Italian post-secondary education students** was significant in the 2021/2022 academic year, reaching a total of around **1.7 million*** (+0.6% YoY). International student numbers are also growing significantly, showing an overall +7% YoY, led by Padova (+49%) and Pavia (+11%), highlighting the appeal that these campuses have for domestic and foreign students. Among the main cities, Rome and Milan have the highest number of students, followed by Turin and Bologna. In the same cities we recorded the highest number of **international students** in absolute terms, even if the percentage within the total student populations, is highest for Pavia (11%), Turin, Bologna and Milan (10%) and Rome (9.4%). In addition, 25% of the Students are 'mobile', meaning they are enrolled at a University in a region and live away from home. This is particularly evident in in Bologna where almost 50% of students are mobile students.

The **current bed supply**** in Italy is almost **65,500 units**: most of them (61%) are regional facilities under the DSU (Diritto allo Studio Universitario - Right to University Education), whilst c.20% are managed by private operators, 12% are directly managed by universities, and the remaining 7% are legally recognized private and public student housings (mainly Religious).

**It does not include AFAM (Alta Formazione Artistica e Musicale) students and students enrolled in the Telematic Universities.*

***Does not include Under construction, Under refurbishment and planned student housing schemes.*

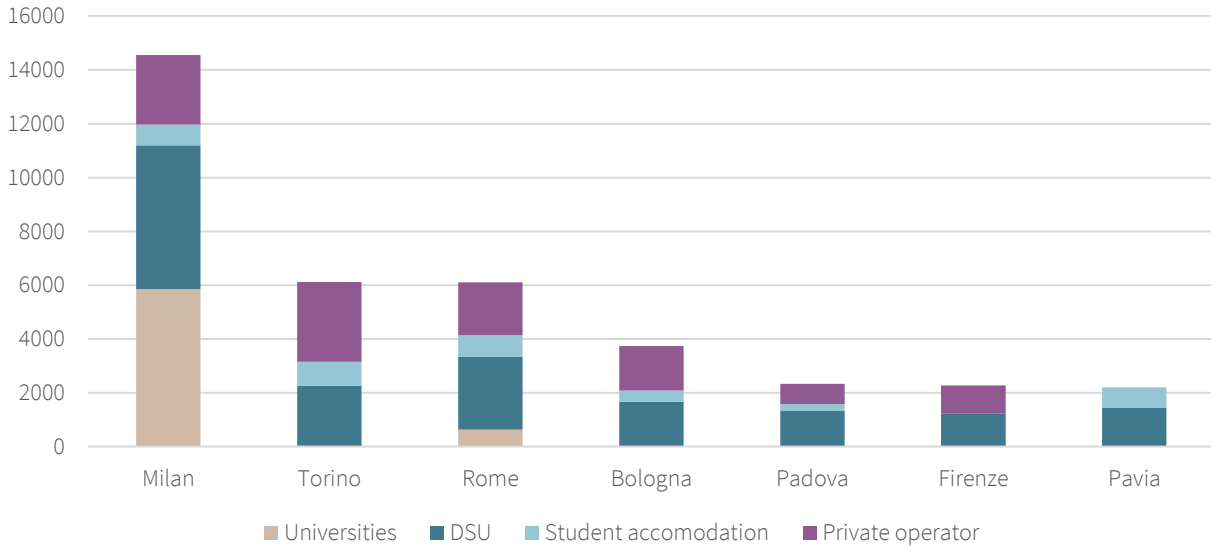
Students



*Italian students enrolled at a University in a region different from the one of residence

Source: JLL Research elaborations on MIUR data

Bed Supply*

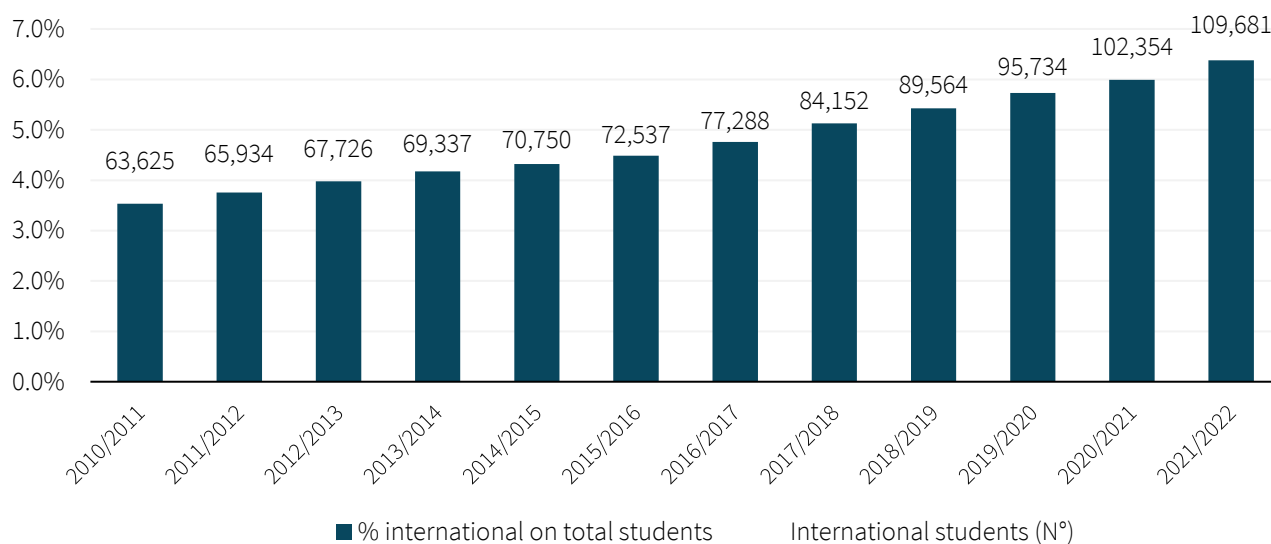


*Does not include Under construction, Under refurbishment and planned student housing schemes

Source: JLL Research elaborations

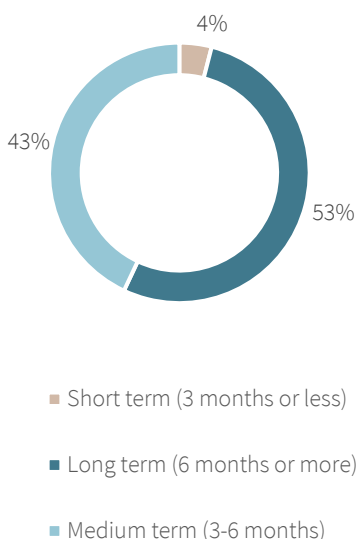
International Students in Italian Universities

International Students Time Series

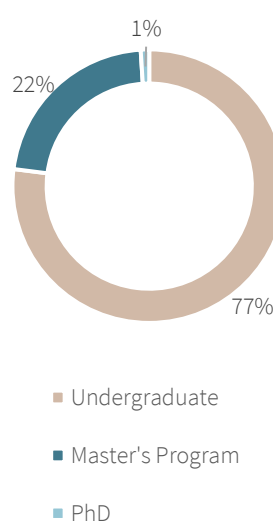


According to recent analysis, international students have increased year on year studying in Italy, the majority (53%) needing accommodation for 6 or more months, usually enrolled on a bachelor's degree program.

Italy, Length of stay of International Students



Italy, Level of Study for International Students



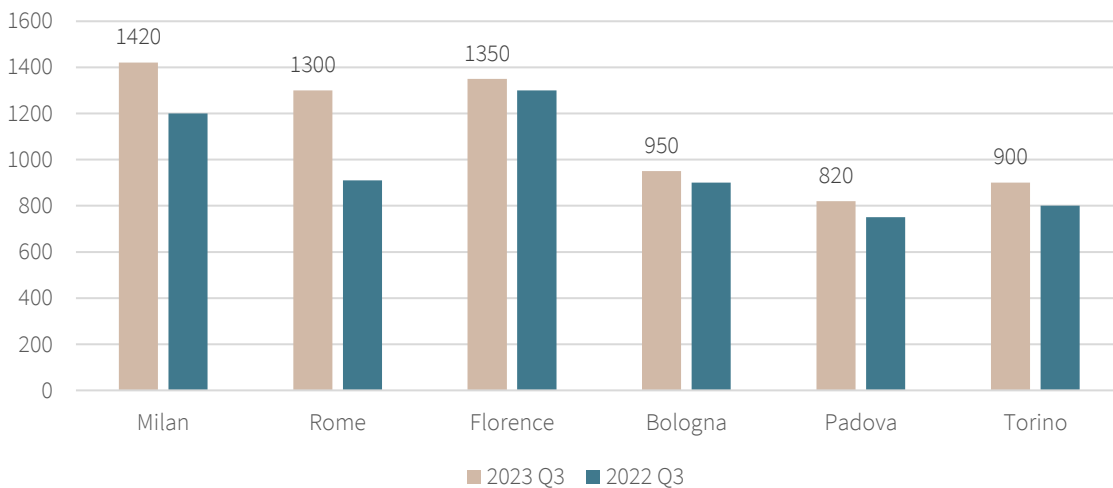
Source: JLL Research elaborations on Miur and Oxford Economics

05

Rents and new trends

The prime rent for student accommodation is highest in Milan (1,420 €/month, max value for a single room) and Florence (1,350 €/month), followed by Rome (1,300 €/month).

Student accommodation
(€/month, single room; maximum value)



The higher priced rooms are significantly more than the city average which breaks back to circa 850 €/bed/month for Milan and Florence, 700 €/bed/month for Rome, followed by Turin and Bologna that are slightly lower. The average prices comprise both Free-Market Rent and Capped Rent rooms. On the private Free-Market Rent, high quality amenities and connectivity to the local University, are currently driving demand leading to strong levels of rental growth.

Source: JLL Research elaborations

New trends in Student Housing



Changing demographics and an expanding middle class, are increasing the need for more advanced/tertiary education, in turn, resulting in a greater demand for purpose –built, prime **student accommodation**. International student enrollment further boosts student housing demand



With the energy crisis and utility expenses rising, together with the convenience of an all-inclusive solution, student housing is rapidly becoming more appealing to students. It provides a fixed, certain rent level rather than a variable rent base, as experienced in conventional, rented housing.



Investors, especially institutional and international investors in the Italian market, are increasingly requiring ESG compliant assets: if LEED or BREEAM certifications criteria are not met, the assets are generally less liquid. Appetite for Capped Rent assets (low-cost rental accommodation) is growing because of its Social Impact and because of virtually guaranteed occupancy. Today, it represents a 30% share of the pipeline market.



Single rooms have always been the most popular accommodation type, and this is even more true after Covid-19: this type is the first to be “sold out” during allocations, followed by double rooms. Those students who live in a double room during their first academic year, usually upgrade to a single room, the next year.



High quality amenities in Student Housings and in Campuses, create a premium on rental levels. The units are highly sought after by students, creating over-demand for prime assets and full occupancy. Incorporating high quality amenities into an asset generally has an overall minimal impact on refurbishment and running costs and can be absorbed relatively fast through cashflows.



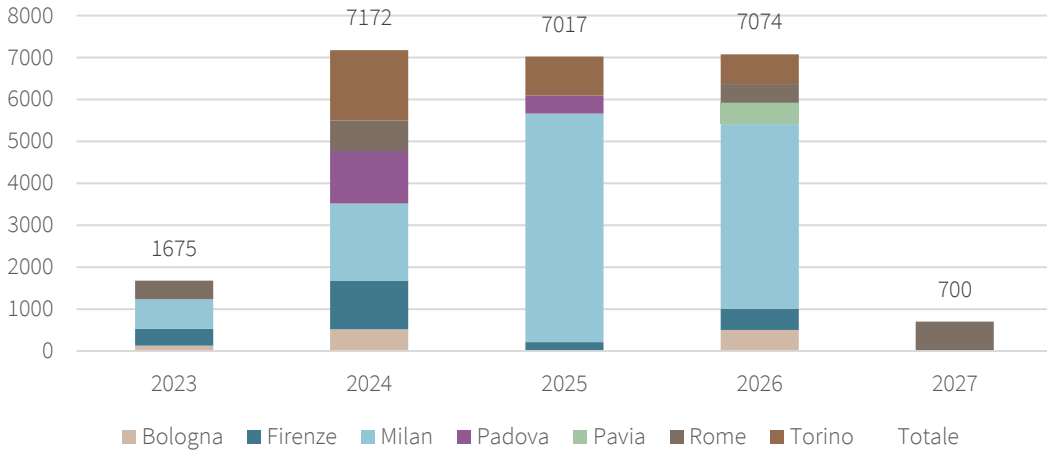
06 Pipeline

The future Student Housing supply in the main Italian cities will see over c.23,600 beds to be completed by 2027.

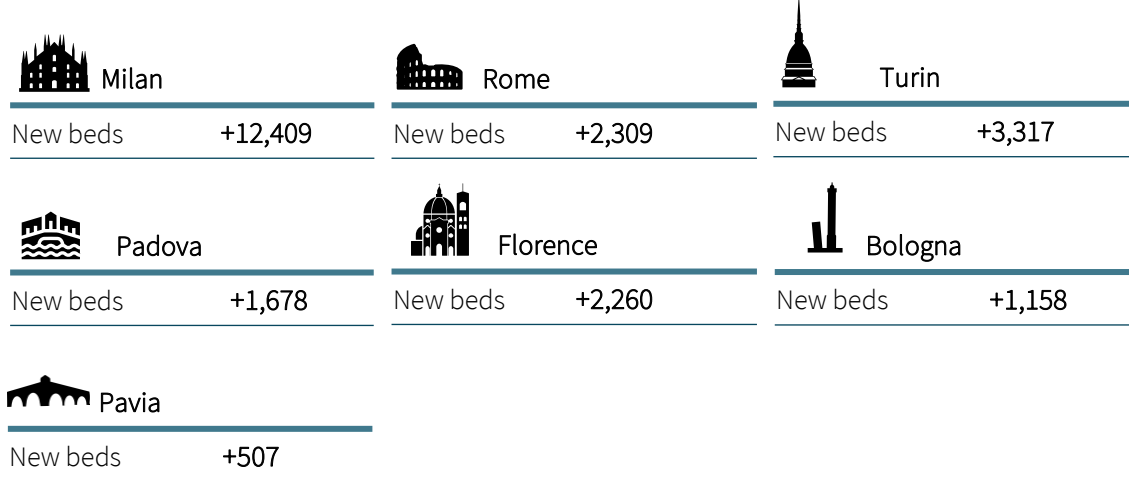
Milan (12,400 beds) and Turin (3,300 beds) record the highest bed completion rate by 2027, followed by Rome (2,300 beds), Florence (around 2,300 beds) and Pavia (507 beds). Of these additional 23,600 beds by 2027, 32% of them are already under construction, and more than half are concentrated in Milan.

The total Student Housing availability by 2027, across the main cities, will total nearly 61,000 beds assuming the planned ones complete as anticipated and construction commences without delay across the pipeline.

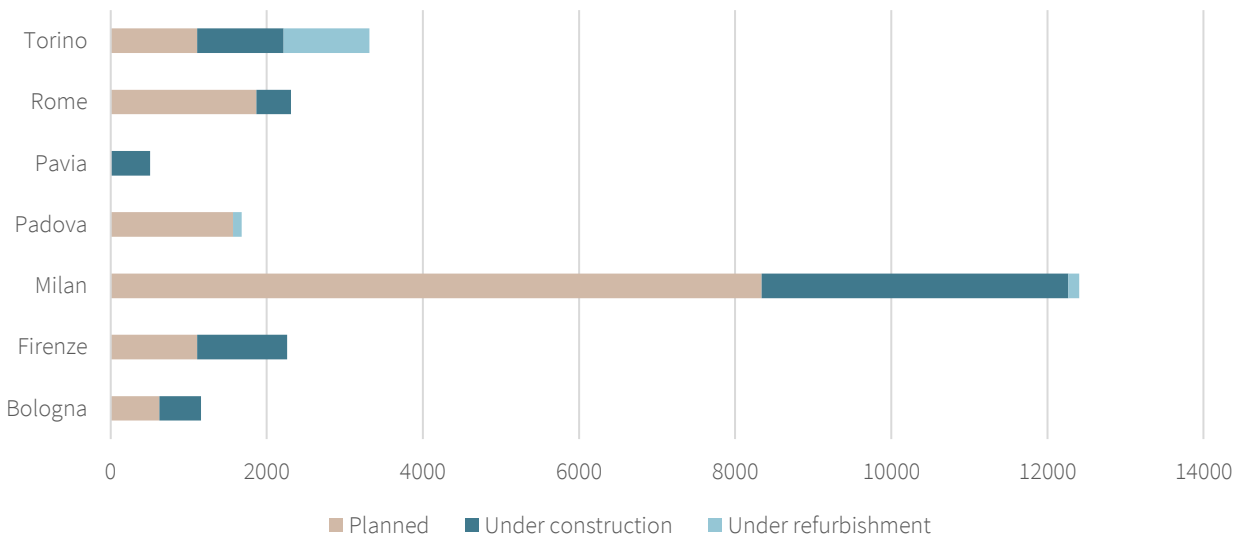
Completions per year – N° of beds



PIPELINE | Estimated beds to be added in the market by 2027



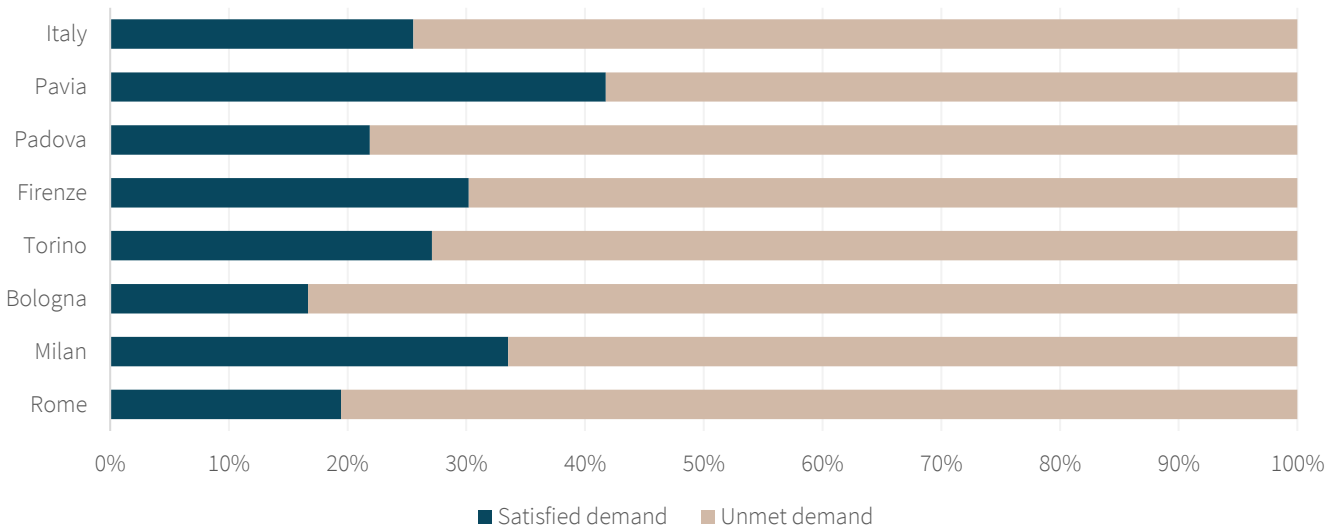
Building status of the pipeline to be completed by 2027



Source: JLL Research elaborations

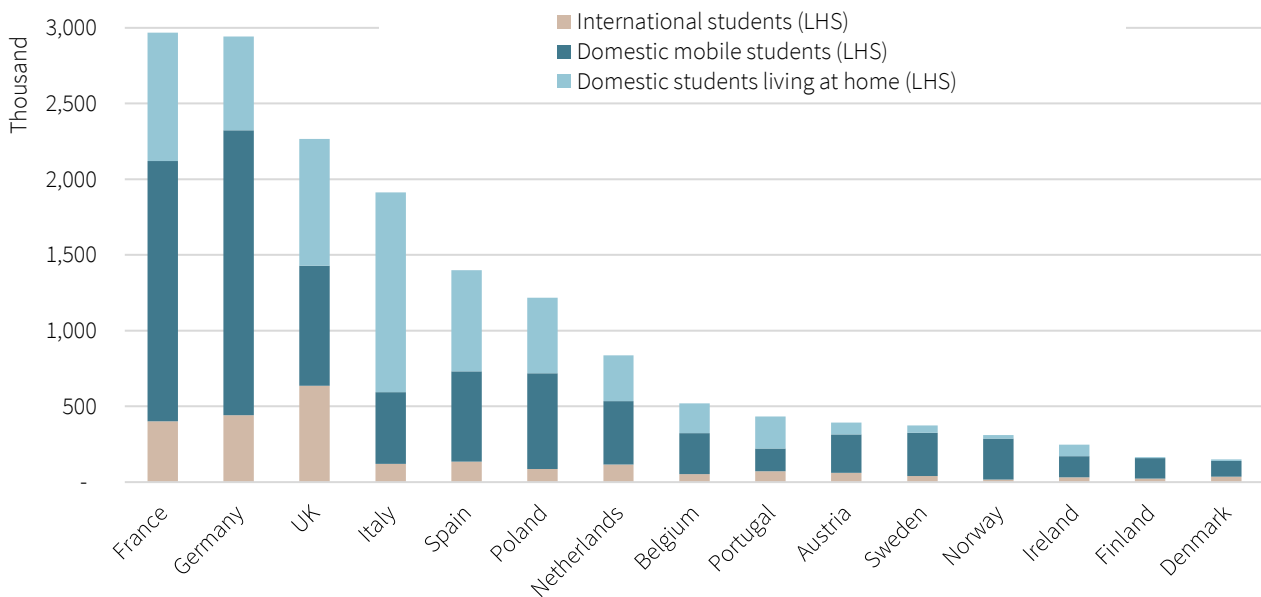
Compared to other EMEA countries, the Italian market is still nascent, with a long timeframe until it can be considered mature. There is significant opportunity for growth to satisfy the unmet demand; the Italian market in its entirety has a 25.5% level of satisfied demand, and still some 74.5% growth potential, to fulfil the unmet demand. At one side of the spectrum, Pavia has the highest satisfied demand ratio (42%), whilst at the other end, Bologna has the lowest fulfilment rate (17%) and Rome (19,5%), even lower than the Italian market average.

Italy: Satisfied demand vs unmet demand by city



- Satisfied demand:** existing beds / 80% of international + 40% mobile domestic students
- Unmet demand:** 80% of international + 40% mobile domestic students - existing beds / 80% of international + 40% mobile domestic students

EMEA: Total student demand and provision rates

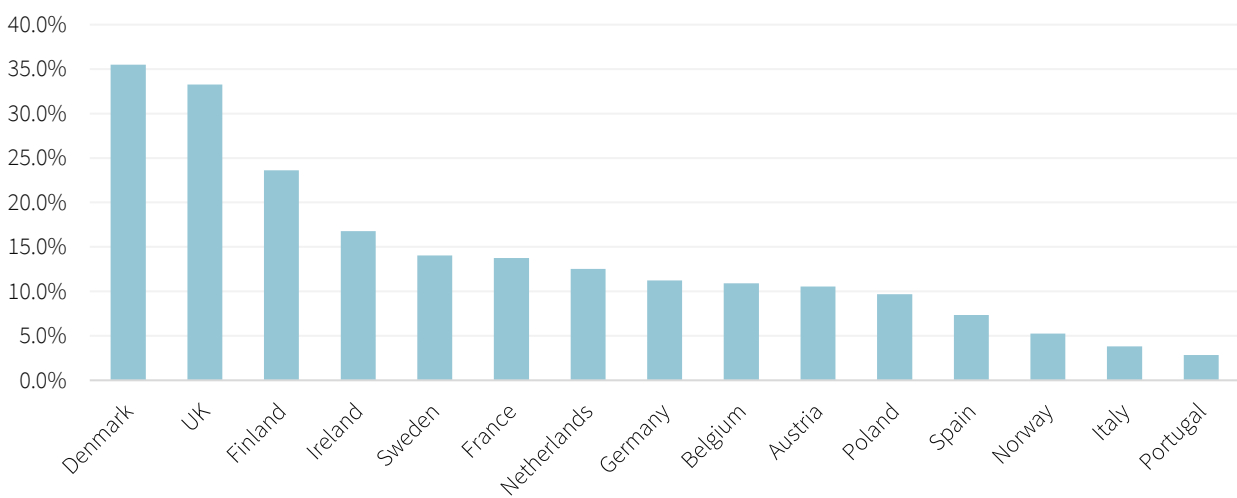


Source: JLL Research elaborations

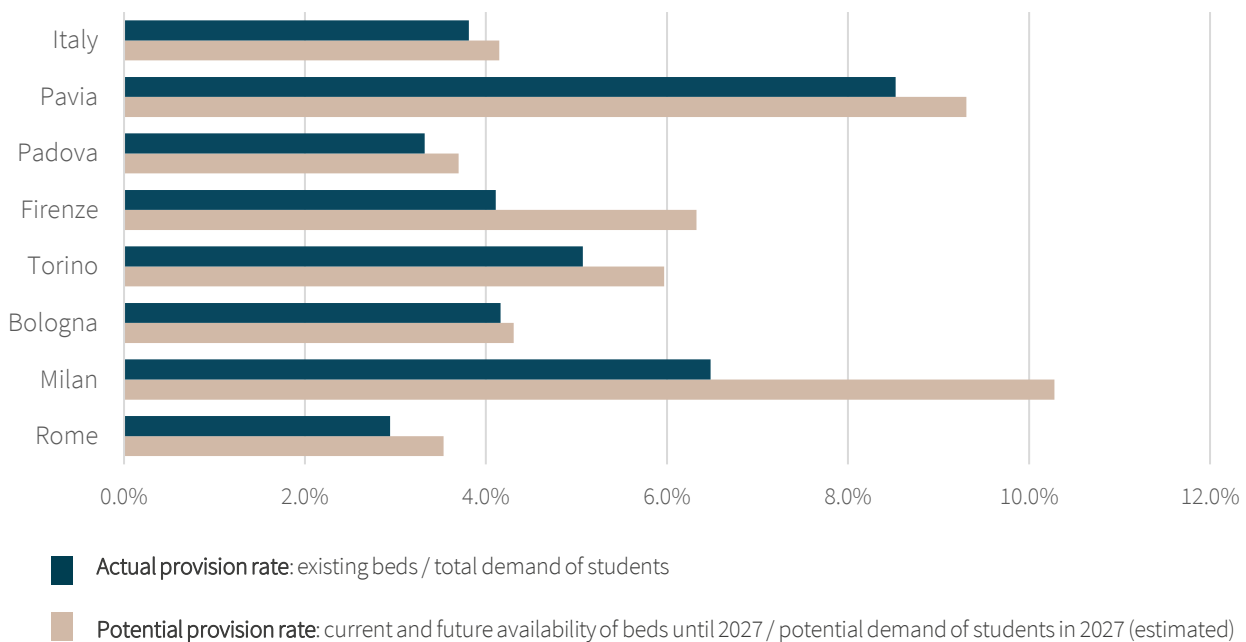
Compared to other EMEA countries, the supply of **student accommodation in Italy** falls significantly **short** in meeting the **escalating demand** from both **international** and **national students**. Italy and Portugal, in comparison to Denmark and the UK, show the most inadequate provision rates with a tenth of the latter's availability. This suggests promising **prospects for investment growth potential** in Italy, to fulfil the rising demand from students pursuing tertiary education outside their home cities and from abroad.

In summary, **Italian** accommodation for students **varies greatly depending on the city**. **Rome** presents significant challenges, as there are few proposals for new developments until 2027. On the contrary, **Milan** aims to reach a provision rate of around 10%, a goal that still falls short of the European standard.

Provision Rate* in Europe



Actual and potential provision rates in the main Italian cities



Source: JLL Research elaborations

7. Looking Ahead

Looking ahead, the **economic environment** remains **challenging**, with the conflict in the Middle East adding to global geopolitical uncertainty.

Inflation is on the way down and is forecast to continue to decline over the coming months. Reduced supply chain disruption, falls in international **energy prices** and commodities prices dropping back to more historically-normal levels, should all help headline inflation to continue declining.

As a result, central banks are believed to be at, or close to, the **end of their rate tightening**.

More stable interest rates (assuming rates have peaked and likely to be held until H2 2024), will provide increased visibility and confidence in underwriting, which will in **turn improve market sentiment and gradually encourage the return of investment and development**.

With this backdrop, **international students** remain a **key component**, as being part of a bigger trend of youth mobility globally and across Europe. As the importance of obtaining a **higher education level** increases in today's competitive job market, a greater number of students are enrolling in universities and colleges around the world. Consequently, there has been a surge in student numbers, leading to a substantial need for appropriate housing provision and options near educational institutions, and consequently, an overall increase in the demand for student housing.

With recent changes in the economy and energy pricing and supply, **PBSA** contracts are showing an emerging trend of capping utilities more frequently. While this may potentially be an addition in future European contracts, mainly in Capped Rent assets, it remains one of the factors that affect students' choices of housing. In addition, the availability of high-quality amenities in assets can and currently is driving **rental growth**.

08

Our Three Scenarios for the Italian Student Housing Market

ECONOMY

Base case

- **Elevating geopolitical uncertainty and softening economic growth conditions**, but with limited wider impact.
- **Headline Inflation is decreasing**, with reduced likelihood of upward risks. Lower energy input costs are driving electricity prices back down, albeit volatility remains.
- **Interest rates have likely peaked**, and will stay high, before being cut in late 2024.
- **Global geopolitical uncertainty** continues to weigh on investment activity. Variation in performance across property types and markets.
- **Prime yields** reach the bottom of their cycle. The cost of debt funding remains high.
- **Rental growth** to soften to more normal trend growth rates, as inflation eases.

CRE

Upside case

- Geopolitical uncertainty will not impact worldwide and a **resilient economy allows confidence to remain stable**.
- **Core inflation decreases**, reducing the risk of elevated inflation persisting. Simultaneously, the labor market remains tight, boosting consumer purchasing power.
- **Interest rates** don't rise any further and are cut sooner as inflation falls quickly.
- **Investments** strengthen as investors gain confidence to start deploying allocated capital. Most markets perform well.
- **Prime yield** decompression stops in the short term and a new compression phase starts.
- **Rents** expected to grow in all markets and submarkets.

Downside case

- The escalation of **geopolitical uncertainty** and the tightening of monetary and financial conditions **negatively impact the macroeconomic outlook**.
- **Influenced by geopolitical tensions, inflation remains stubbornly high**; electricity prices remain very volatile, and higher than their pre-covid levels, leading to both continued uncertainty and continued higher utility costs.
- **Central banks raise interest rates further**, pushing debt costs higher and causing slower growth.
- **Investments** suffer as investors flee to core markets and limit acquisitions. Most markets deteriorate.
- **Prime yield** decompression set to continue for a while before reverting to long run average. **Rental growth** suffers in recession-hit sectors whilst remaining stable or showing moderate growth in resilient segments.

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