

Intelligent Investment

European student housing: The growing demand for PBSA in a constrained market

REPORT

CBRE RESEARCH
NOVEMBER 2024



Executive summary

Occupier market



Student growth

- Increase of highly-skilled workers and heightened educational levels have spurred demand for quality higher education.
- Europe has been well-positioned in recent years to attract students looking for accredited educational institutions and high standards of living.



Increased PBSA reliance

- The shortage of housing in European cities and subsequent high rents are especially challenging for students.
- As professionals are usually preferred by landlords and students often have smaller budgets, the Private Rented Sector (PRS) is becoming more inaccessible to them.
- Demand will hence likely shift more towards PBSA (Purpose-Built Student Accommodation), which caters to the needs of students.



Undersupply

- Despite substantial additions to the PBSA stock in the past decade, the growth in student numbers in cities has far outpaced supply.
- The limited availability of student beds across Europe is creating a severe demand-supply imbalance, displayed by the high occupancy rates and extensive waiting lists for many PBSA assets.
- The outlook for rental growth and returns in this sector of the Living market looks strong.

Investment market



Significant investment activity

- Investment activity in PBSA is picking up quickly as rates have decreased following three cuts by the ECB in 2024.
- The sub-sector is therefore showing a relatively rapid recovery from the market downturn in 2022-2023, especially compared to multifamily housing.
- PBSA is well-positioned to attract the core-plus and value-add capital that is currently most active.



Consolidation of sector

- Across Europe, PBSA is increasingly evolving into a sizeable sub-sector within Living.
- In recent years, there have been more opportunities coming to market, and a wider range of investors becoming active in the sector – or seeking to do so.
- Significant amount of platform opportunities underscore the maturing of the sub-sector.

Executive summary

PBSA SECTOR HUGELY UNDERSUPPLIED, CREATING OPPORTUNITIES FOR INVESTORS

Driven by increased levels of education globally and the increasing need for highly-skilled workers across developed countries, student numbers in Europe have surged over the past decade. However, while this has increased demand for small, rental units across cities in Europe, housing markets have been unable to increase supply to cater to the rising demand – thereby creating shortages in the rental segment. Consequently, regular rental housing is becoming less of an affordable and available alternative to students.

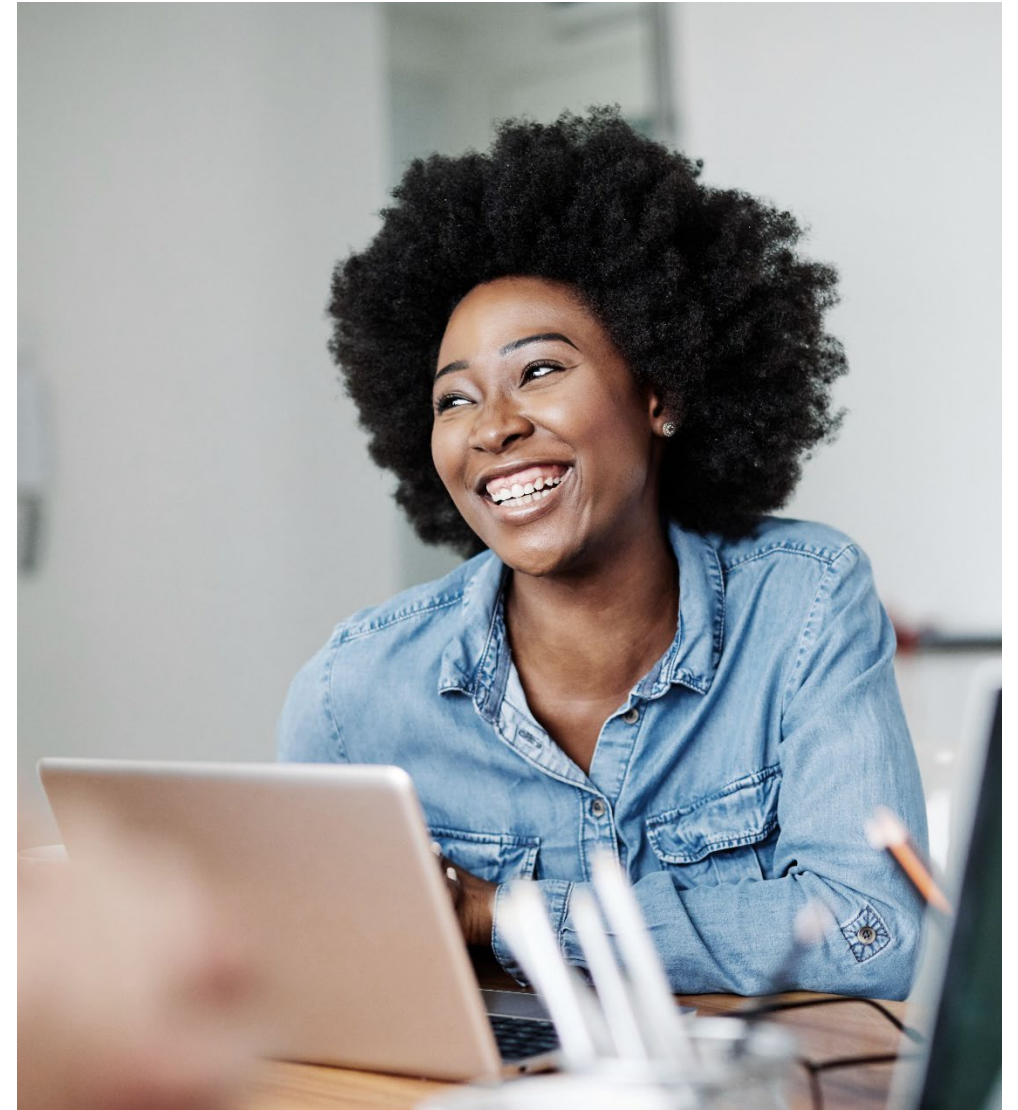
Additionally, the demand for student housing is characterised by the need for flexibility and a certain level of amenities and services. This necessitates a purpose-built solution that caters to the specific needs and preferences of students. Therefore, the professionalisation and scaling of PBSA across Europe will be essential in meeting demand and restoring the severe demand-supply imbalance within the student housing sector.



Growing
imbalance
between
appropriate
student housing
stock and demand
from students

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01

Drivers of student housing demand

Attractive study and living conditions have led to a significant influx of students to European cities, thereby increasing demand

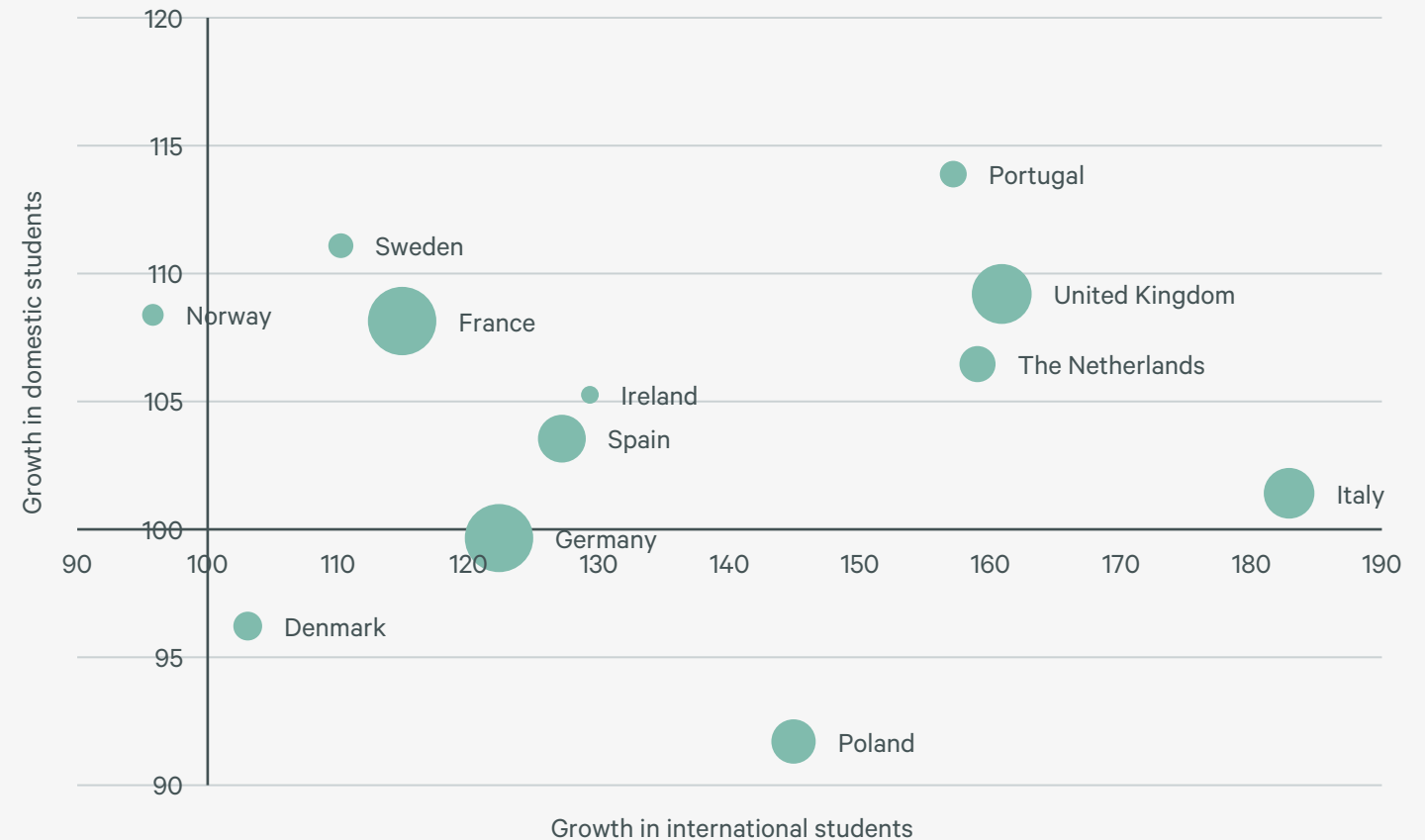
Rapid increase in international students, yet supply of quality – PBSA has not kept pace

In addition to an increase in domestic students in most countries, the high standards of education and living in many European countries have attracted students from abroad. Rising educational levels globally and increased mobility among students have also added to the demand for higher education. In the past decade, European countries have been particularly keen to attract foreign students, especially those from outside the European Entrepreneurial Region (EER). These students pay significantly higher tuition fees than domestic students, which has helped universities mitigate budget cuts and reduced government funding. Additionally, an increase in English taught programmes, for example in Germany and the Netherlands, has increased accessibility for international students.

Over the past five years, the increase in international students across European countries has been remarkable. Most countries, except for Denmark and Norway, have seen growth in international students, ranging from 10-80% during this period. In Europe, most of this growth in student numbers is driven by the influx of foreign students, rather than an increase of domestic students.

- Europe remains a well-reputed and relatively affordable destination for students.
- With more Asian economies on the rise, demand for foreign educational degrees is likely to persist as individuals seek to enhance their skills and credentials to compete in more knowledge-intensive job markets.
- Increasing restrictions towards international students by other global study destinations such as Australia and the U.S. will likely revert demand towards Europe.

FIGURE 1: Growth of domestic vs. international students 2017-2018 vs. 2022-2023 academic year

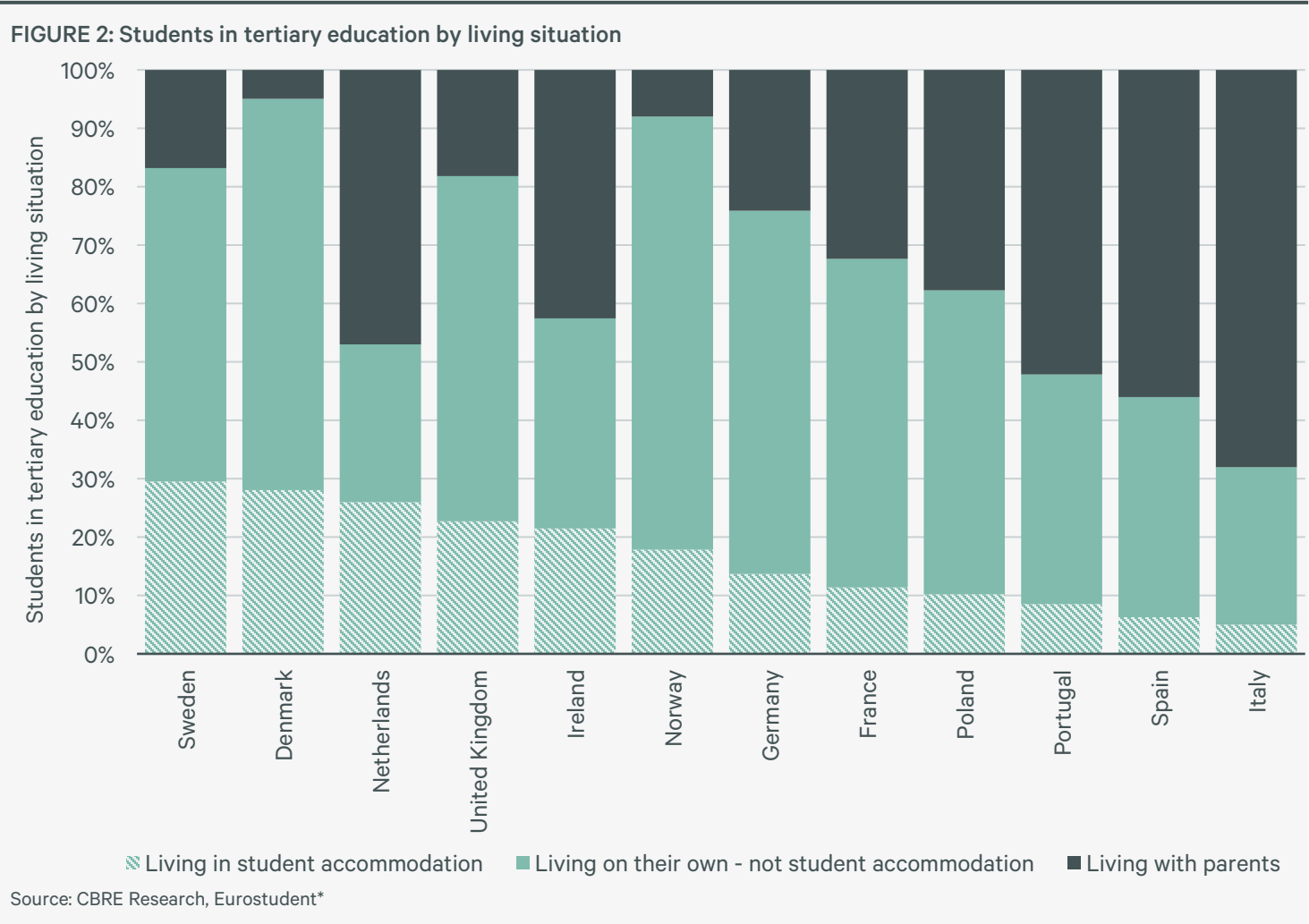


Note: Size of bubble refers to number of students in 2022-2023

Source: CBRE Research

Large proportion of students have no access to student housing – and the alternatives on the regular rental market are disappearing

The rising number of students, particularly international ones who require housing more urgently than domestic students, has led to a steady increase in demand for housing in European countries. This increased demand has put additional pressure on already constrained rental markets. Especially in markets where it is common for students to live in regular rental units, students have been squeezed amidst the heightened competition for available units and soaring rents. Moreover, a closer look at the housing situation of students reveals that in a lot of countries, there is still a limited proportion of students living in PBSA, as opposed to 'regular' rental units, or living at home with their parents. Hence, the severity of the imbalance between supply and demand of student housing and the subsequent need for PBSA are very dependent on the housing situation of students and the current structure of the (student) housing supply.



*Italian data from previous Eurostudent survey round (VII), international student info missing Dutch data is based on the 2023 Kences survey and CBRE's own data UK data is a compilation of the HESA Student Records 2021-2022

Large proportion of students have no access to student housing – and the alternatives on the regular rental market are disappearing

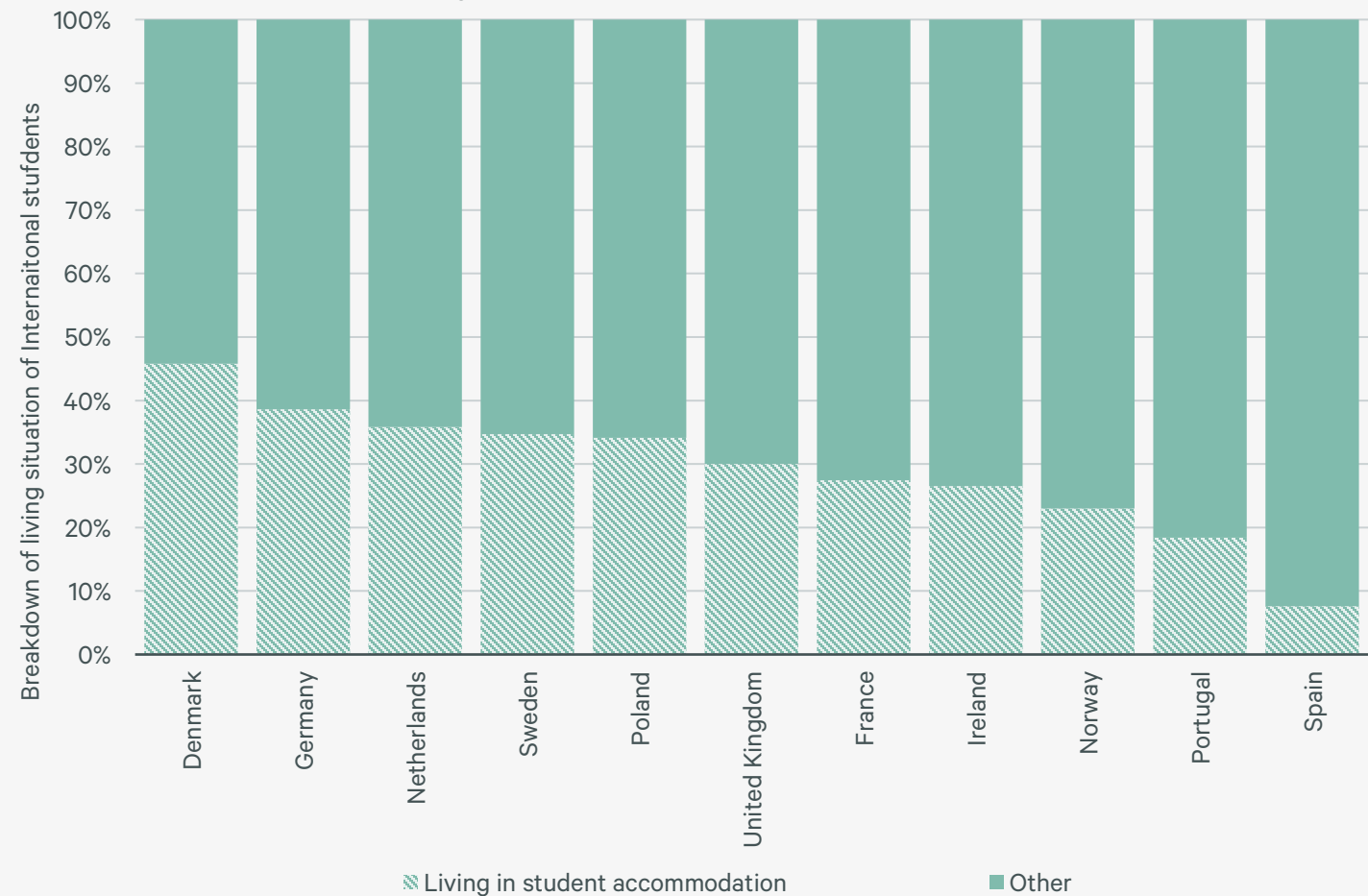
INTERNATIONAL STUDENTS DEPEND ON STEADY AND ACCESSIBLE SUPPLY OF PBSA

Notably, however, international students, who are far more dependent on a secure supply of rentals than domestic students, still heavily rely on non-PBSA housing, which often poses administrative hurdles and complicated processes. A larger supply of student accommodation would hence particularly benefit international students, who struggle most to find immediate housing in competitive markets without knowledge of local laws and requirements.

Yet, as more demand from households overall is [shifting towards renting](#), affordability challenges in many cities further hinder students’ access to the regular rental market.

*Italian data from previous Eurostudent survey round (VII), international student info missing Dutch data is based on the 2023 Kences survey and CBRE’s own data UK data is a compilation of the HESA Student Records 2021-2022

FIGURE 3: International students by living situation



Source: CBRE Research, Eurostudent*

02

Insufficient number of suitable student beds in light of increasing student numbers

Supply of appropriate student housing lags far behind student number growth

Current provision rates of student accommodation remain low across Europe

Despite the growing need for student-specific housing, provision rates remain critically insufficient to meet growing demand. An analysis of provision rates of student accommodation indicates that in many European countries, the percentage of students accommodated in PBSA is very low. For instance, Italy and Spain have provision rates below 10%, while countries like Norway and France fare slightly better but still fall short of adequately meeting demand. Even in the Netherlands, where the provision rate is relatively higher due to a large public stock, the rapid growth in international student numbers continues to outpace the availability of PBSA.

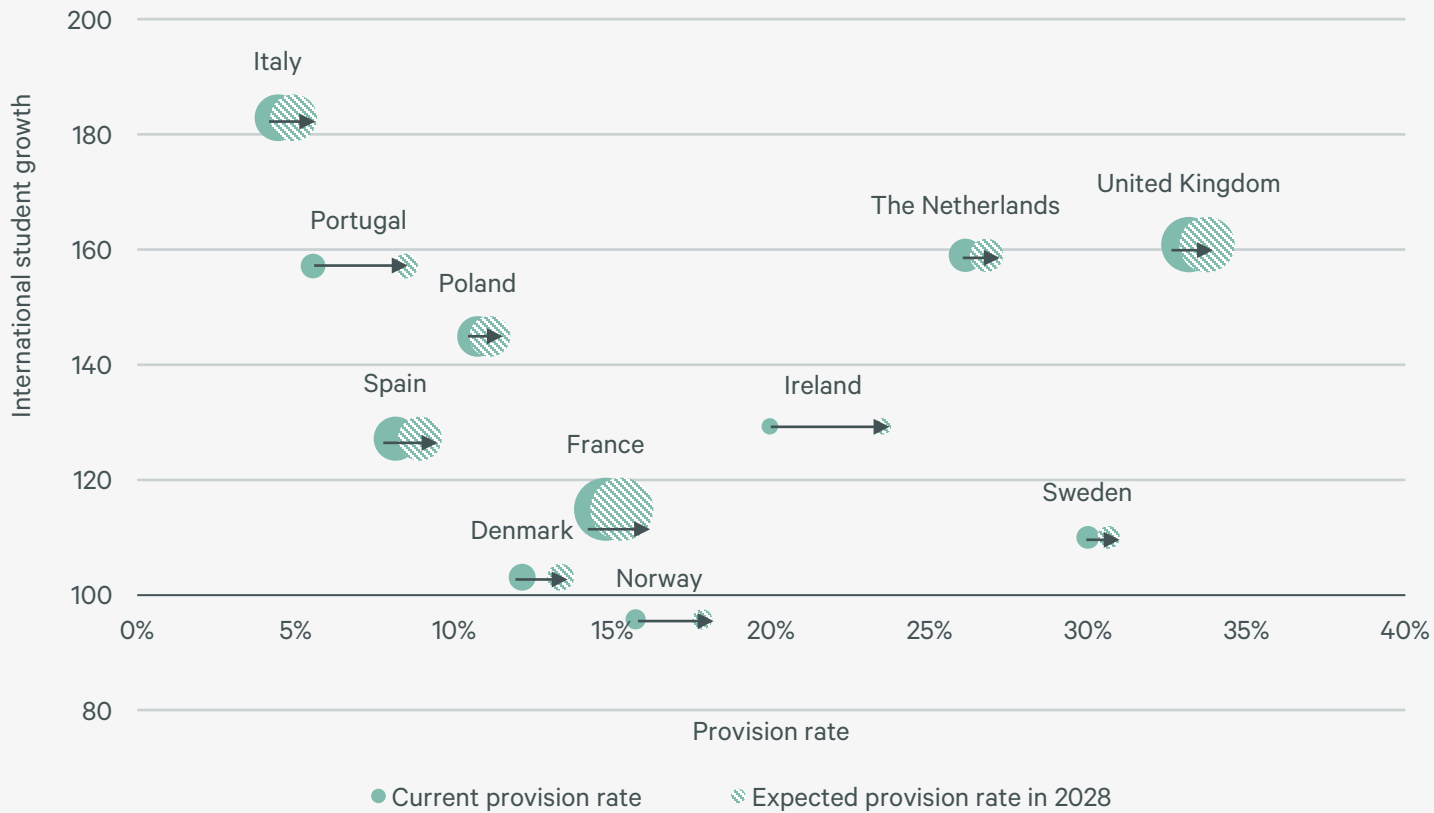
This is particularly concerning as countries experiencing higher international student growth, such as Italy and the Netherlands, face even greater pressure to increase their housing provision rates to accommodate these students. Consequently, the limited availability of PBSA exacerbates the housing challenges faced by students.

EXISTING PIPELINE HIGHLY INSUFFICIENT TO FULFIL CURRENT AND FUTURE DEMAND

Even without factoring in potential future growth of the student population in European countries, the existing pipeline for student accommodation falls far short of significantly increasing provision rates. While some countries, such as Portugal and Denmark, will be able to slightly raise their provision rates, other countries' pipelines will only see a marginal increase. Considering that the regular rental market is becoming increasingly inaccessible, it is essential to significantly boost the future pipeline across all featured countries to ensure an adequate supply of available beds for students.

*Provision rate refers to the percentage of students who are accommodated in purpose-built student accommodation (PBSA), both owned by public and private landlords, relative to the total student population. The provision rate in 2028 is calculated as the current PBSA stock + expected pipeline until 2028, divided by the total student number of academic year 2022-23. Germany does not have a pipeline estimate and is hence excluded. The public pipeline in Portugal concerns a stated goal by the Government rather than concrete developments, hence a margin of uncertainty has been applied to the number of public beds.

FIGURE 4: Current and future provision rates of countries and international student growth 2017-2018 vs. 2022-2023 academic year



Note: Size of bubble refers to number of students in 2022-2023

Source: CBRE Research*

03

Regulation risks influx of international students and availability of rental stock

Dissatisfaction with housing availability and affordability evokes policy response by governments

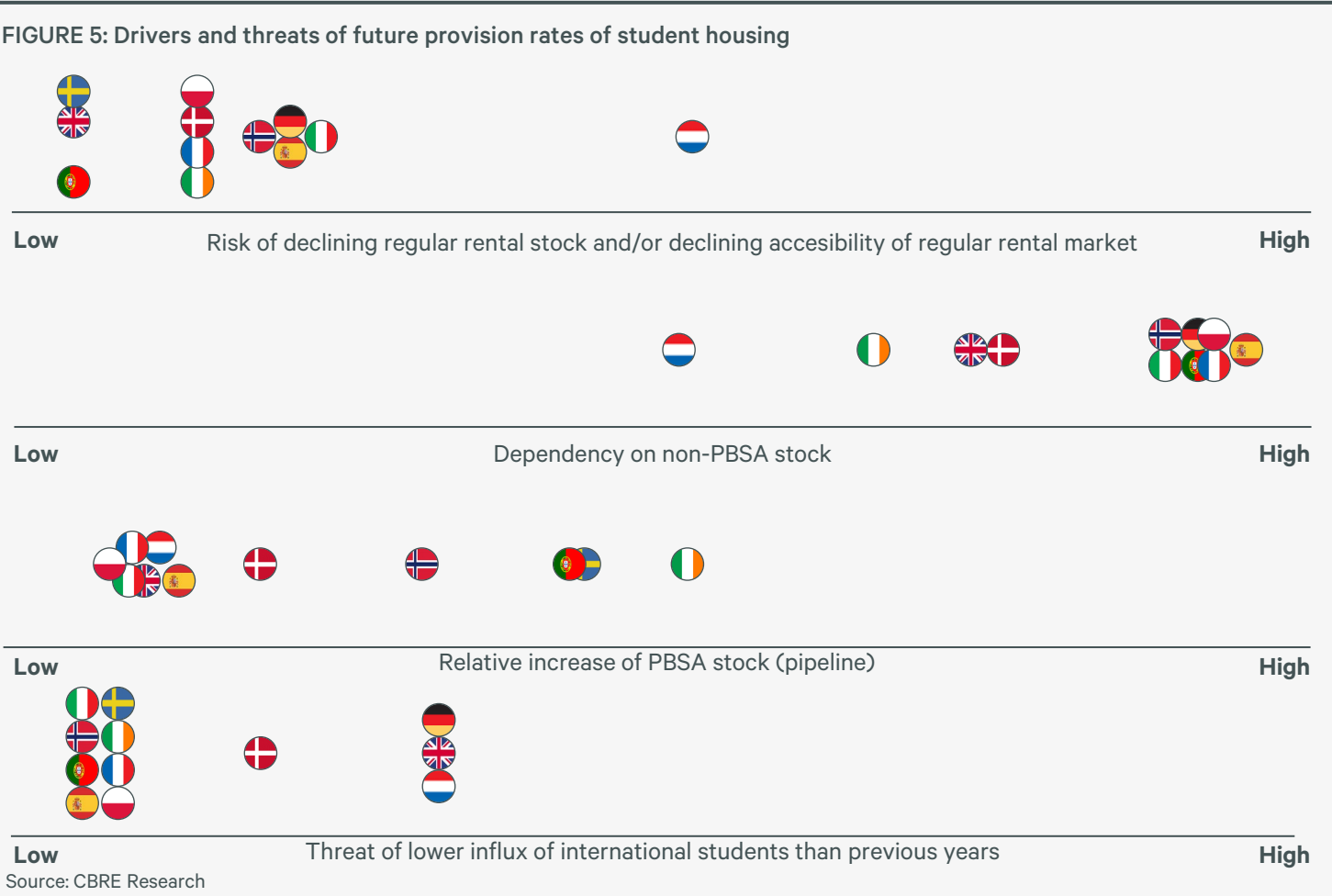
Policy response to housing shortages increases demand in the already strained PBSA sector

In response to both overall housing shortages and the housing issues faced by students, governments have enforced several policies aimed at correcting the supply and demand imbalance in student housing. For example, in the Netherlands, Norway, and Catalonia, rent regulations have diminished the number of available offers in the regular rental market, prompting more students to opt for PBSA instead of regular housing. Furthermore, some governments are now considering curbing demand for housing by (indirectly) restricting the influx of international students, although earlier measures by Denmark have been reinvoked due to unfavourable consequences.

IMPEDING INTERNATIONAL STUDENTS MIGHT DISADVANTAGE EUROPEAN ECONOMIES IN THE LONG-TERM

While the demand for student housing might be weakened slightly by such measures, the current provision rates are insufficient to such an extent, that this will not resolve shortages by any means. Furthermore, the developments that restrict the supply of rental stock in many countries often have a more severe impact on student housing shortages and may, in fact, exacerbate the situation. This is particularly concerning given that a significant portion of the student population currently lives in 'regular' rental housing. Therefore, the addition of new PBSA beds might not be able to offset the loss of beds in the rental stock where students currently reside. Furthermore, measures to curb demand, may work against economic interests in the long-term, as there is a strong labour shortage of highly skilled people in nearly every European country.

- Accessibility of regular rental stock declining due to regulation and rent increases.
- Dependency – and therefore demand – on student housing increases.



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Attraction and
fostering of
international
talent is crucial for
European economies

04

Investor interest is increasing

Improved relative risk profile and strong fundamentals
of student housing are purporting the sector

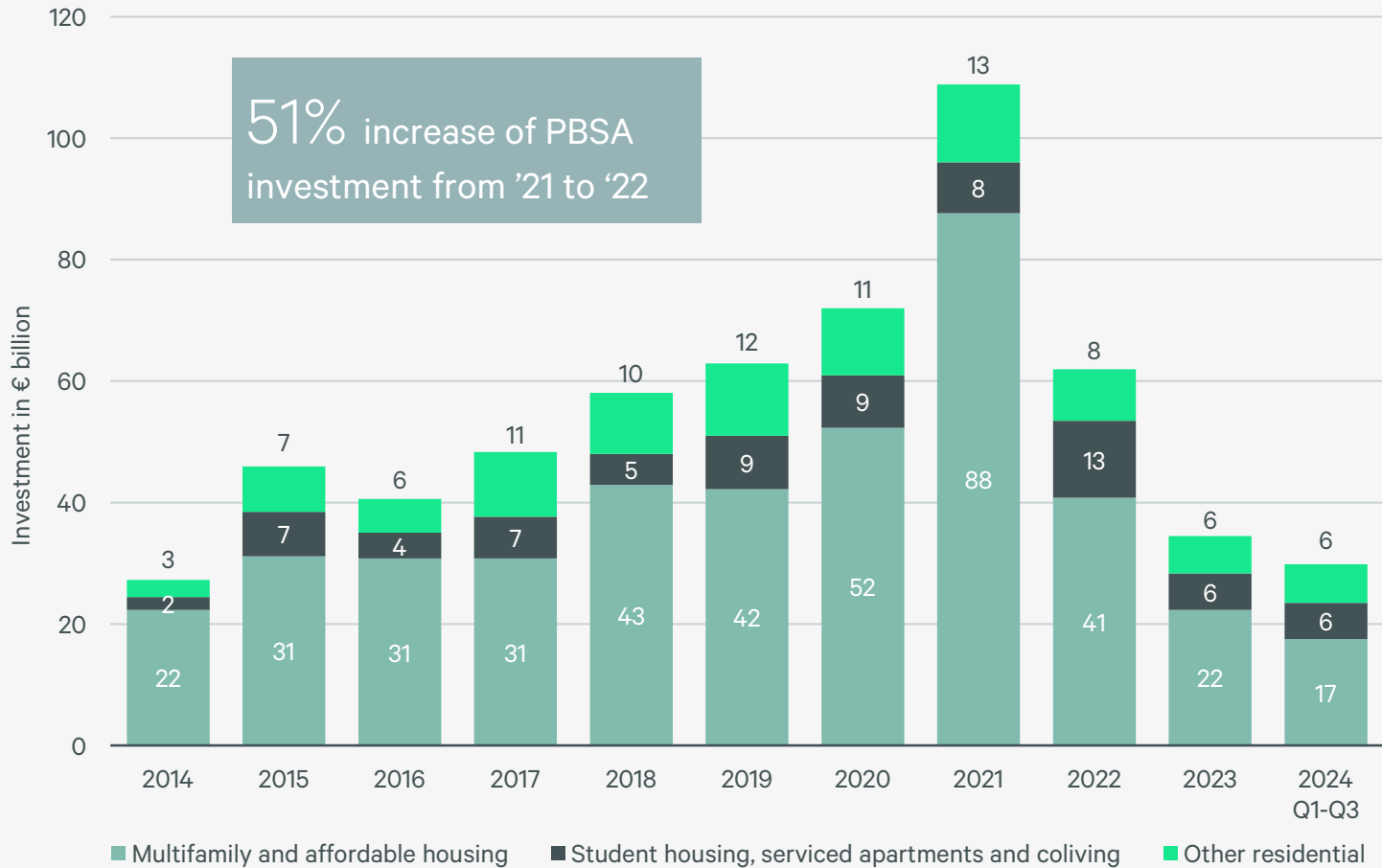
Increased investor appetite indicates a fast recovery of PBSA investment volumes

Over the past decade, PBSA has evolved into an attractive sub-sector within the broader living sector. From 2014 to 2022, investment volumes in PBSA consistently rose, reflecting growing confidence and interest among investors. Despite a challenging year for the Living sector in 2023, marked by a general decline in investment activity, the first three quarters of 2024 have already shown a significant rebound in student housing investments. Looking ahead, the outlook for PBSA investment remains extremely positive considering the overall recovery of the European real estate investment market.

STUDENT HOUSING INVESTMENT VOLUME Q1-Q3 2024 ALREADY MET TOTAL 2023 INVESTMENT VOLUME

Several factors have contributed to this resilience and continued investor interest in PBSA. Firstly, the sector’s strong fundamentals, including consistent demand driven by increasing student enrolments and a shortage of quality student housing, provide a promising investment environment. Additionally, PBSA is perceived as having an increasingly more favourable risk profile compared to other living sector investments, such as multifamily housing. This perception is bolstered by the sector’s ability to maintain relatively stable occupancy rates, even during economic downturns. Furthermore, in many European countries the outlook for rental growth is strong due to yearly contracts and upward pressure on market rents.

FIGURE 6: Investment in Living by sub-sector, 2014-2024 (Q1-Q3)



Source: CBRE Research

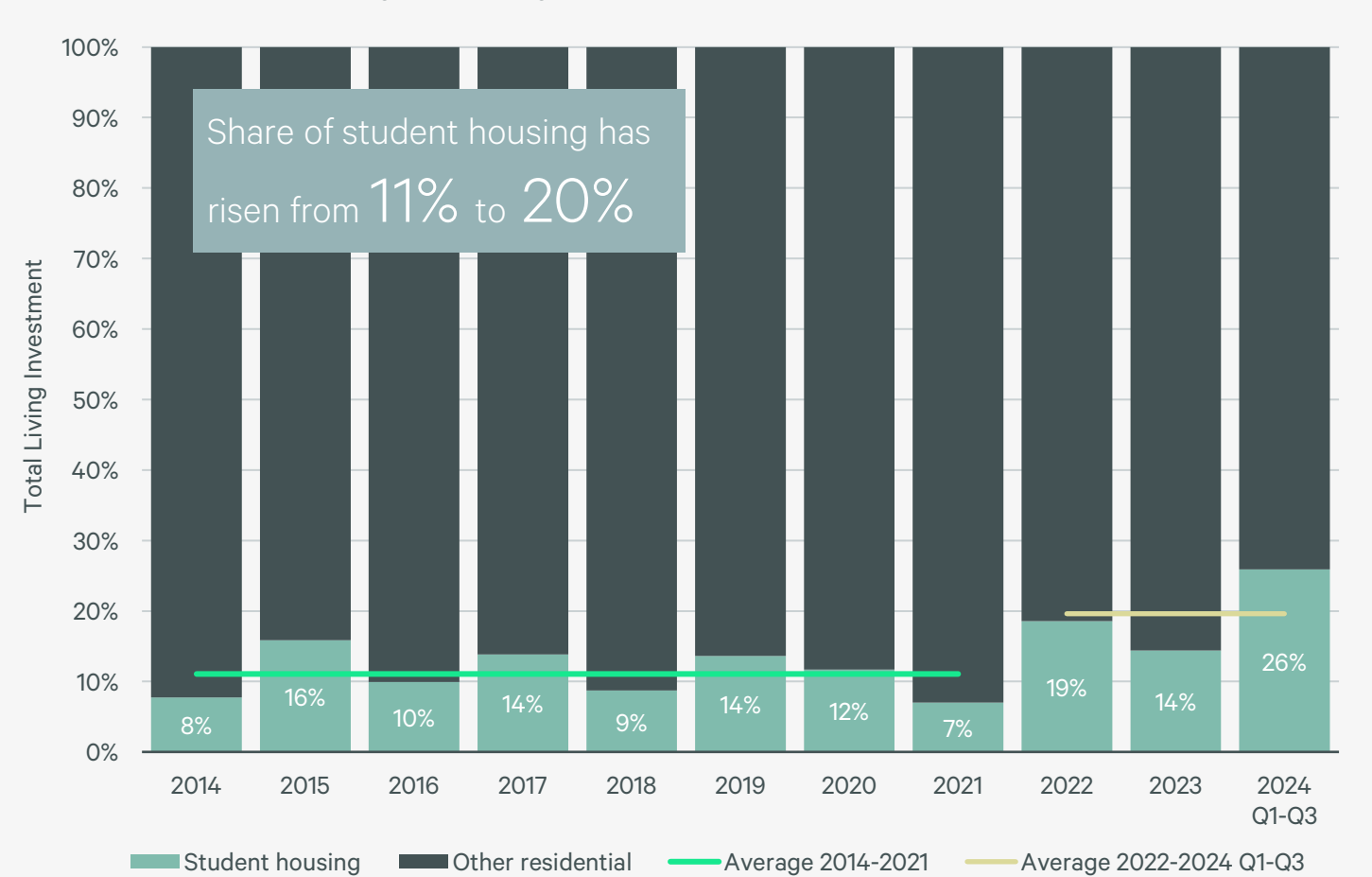
Student housing sector is consolidating

Furthermore, PBSA is gaining traction as a sizeable sub-sector, and has increasingly gained additional share in the total Living investment volume. Recently, more and more investments from private equity investors are coming to the end of their investment cycle. This has caused a significant number of opportunities to come to market, including sizeable platforms upward of €1bn. Hence, for investors looking to deploy considerable capital within the Living sector, PBSA is currently providing the most suitable option, by also offering more attractive returns than regular multifamily investment.

PBSA SECTOR IN EUROPEAN MARKETS IS RAPIDLY MATURING – AND THEREFORE GAINING INTEREST FROM WIDE RANGE OF INVESTORS

According to CBRE’s Investor Intentions Survey 2024, PBSA emerged as the most preferred alternative sub-sector among investors. This preference is likely driven by the sector’s robust performance metrics and its potential for long-term capital appreciation. The survey highlights that investors are increasingly recognising the value of diversifying their Living portfolios with assets that offer both stability and growth potential as regular multifamily assets are under greater regulatory risk. As Europe remains a prime destination for higher education, the demand for high-quality PBSA will likely remain strong, providing a solid foundation for sustained investment growth.

FIGURE 7: Share of student housing in total Living investment volume 2014-2024 (Q1-Q3)



Source: CBRE Research

#1

PBSA is the most
preferred residential sub-
sector among investors



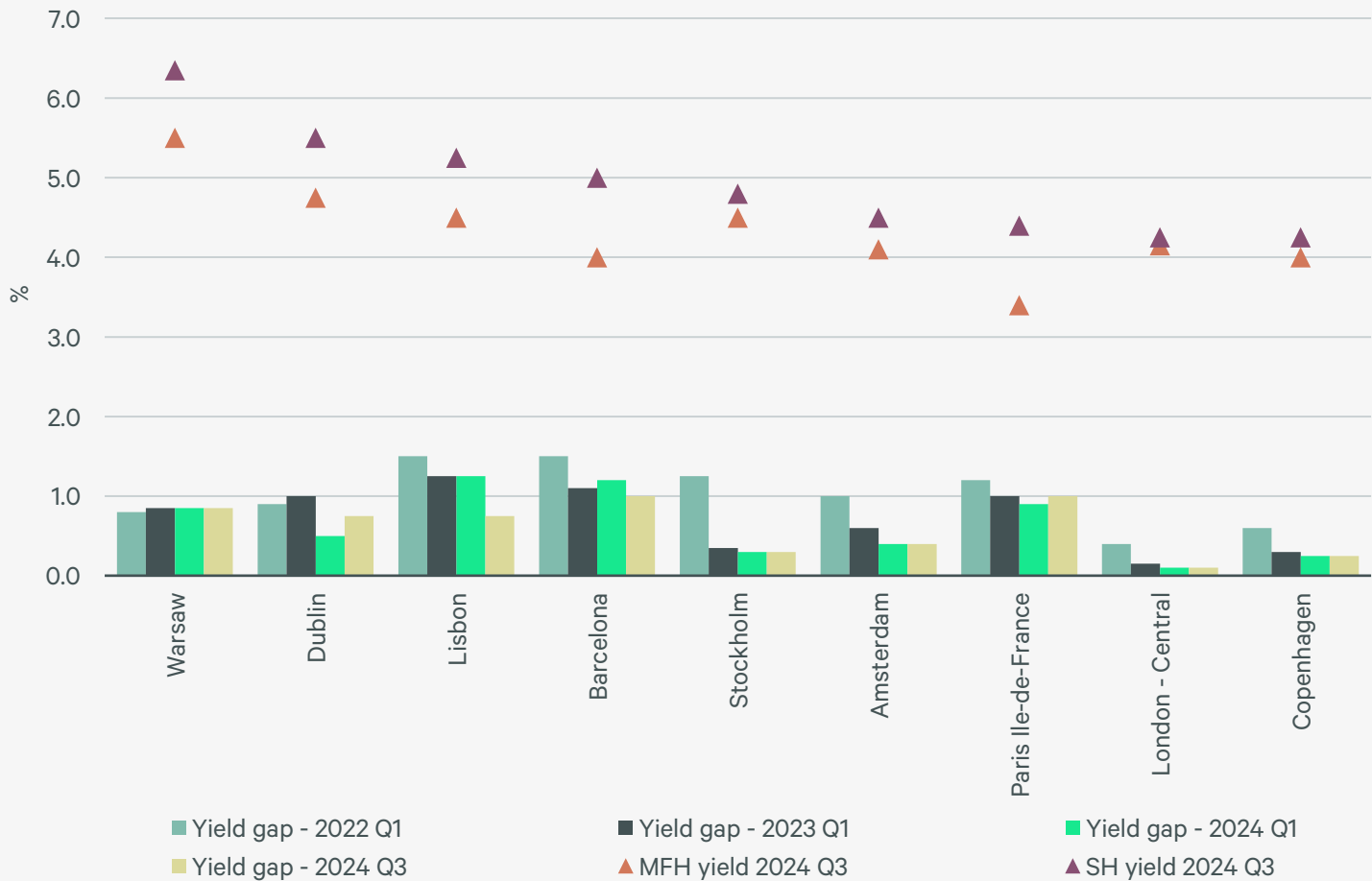
Policy response to housing shortages increases demand in the already strained PBSA sector

Since interest rate hikes started in mid-2022, yields for regular multifamily housing have steadily increased across Europe. Yields for student housing have followed suit, but to a far lesser extent than regular housing stock. Heightened regulatory risk for multifamily rentals on the one hand and strong fundamentals for PBSA on the other, have narrowed the yield gap in various European jurisdictions. In London and Copenhagen, for example, the difference in risk perception has fallen to close to zero, but overall, there remains an attractive yield gap versus traditional residential across in continental Europe. High occupancy rates, steady future demand, and more limited regulatory risk combined with a higher return profile will only increase appetite for PBSA among investors.

After a period of lower investment activity, there are now a growing number of PBSA platforms and larger portfolios being offered for sale. This facilitates the expanding pool of capital to enter the European PBSA market via a more diverse route of deal structures and at scale. The opportunity that PBSA provides to capture attractive future rental growth, as well as the possibility to generate additional platform value through active operational strategies, supports an enhanced risk-adjusted return profile for the PBSA sector.

- Risk perception of student housing has eased compared to regular MFH.
- Investors actively seeking to acquire platforms of scale and routes to capture enhanced operational returns.

FIGURE 8: Prime multifamily and student housing yields and yield spread development



Source: CBRE Research

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