Key Points

€11.7 BN
invested in PBSA across Europe during the first three quarters of 2022

30%
of deals are now forward fundings

4.15%
average prime yield across Europe

22%
rental growth in Warsaw

11%
increase in international students in the Netherlands

302,000
increase is forecast in young population across Europe by 2027

This represents a 130% increase on the same period in 2021. The strong level of investment has been driven by major portfolio transactions across the continent.

Around a third of deals in 2022 have been forward funding transactions, which have been more prevalent in newer markets where there is limited institutional-grade stock.

This ranges from 3.5% in Copenhagen to 6.0% in Sevilla. Yields have remained stable over the past 12 months.

Rising demand and limited supply have driven rental growth across Europe. The strongest growth over the past 12 months has been in Poland, where cities have seen growth of between 16% and 22%.

The majority of European markets have seen growth of international students over the past year, with Netherlands seeing the strongest growth at 11%.

The southern European cities, and Dublin, will lead the demographic growth in this age group: e.g. Barcelona 2.3%, Madrid 2.0%, Valencia 1.5%, Malaga 1.4%, Dublin 1.3% Lisbon and Milan 1.1%.

Introduction

There is continued strong investor interest in Purpose Built Student Accommodation (PBSA) across Europe, driven by rising total numbers of students attending university and a strong growth in international student numbers.

We expect this trend to continue over the coming years, as the number of young people (15-19 year-olds) is forecast to rise by 6% by 2027. At the same time, many European markets are facing a significant undersupply of PBSA stock, which is resulting in strong rental growth.

These factors are driving investment in the sector, which has risen by 16% in 2022 (until Q3) compared with 2021. The average provision rate across European cities is currently 12.5%, down from last year’s 13% figure. Across the European cities Savills monitors, approximately 14,600 PBSA new beds were delivered in 2022 - yet this was still not enough to meet the increase in student numbers.

On average across Europe, the public student housing market represents 65% of total PBSA beds, meaning the vast majority of existing stock is outdated and of relatively poor quality compared to private stock.
Economic Overview

As we enter the fourth quarter of 2022, global events continue to impact the economic environment in Europe. With the rate of inflation forecast to keep rising for the remainder of the year, and after a period of economic slowdown over the last quarter, a weaker market landscape is expected until 2023.

In terms of GDP, the EU annual growth rate is 3.5% for 2022 year to date, with a lower growth rate of 2.1% forecast in 2023. The countries expected to perform the strongest next year are Ireland and Spain, with annual growth rates of 1.2% and 1% respectively. The biggest slowdown is expected to be in Germany, with a negative growth rate of -0.7%.

The Russian invasion of Ukraine has continued to drive up energy prices, with nearly half of euro-zone inflation directly linked to oil and gas. Countries such as Germany and the Netherlands have made efforts to tackle the impacts of the energy crisis, with German students receiving a one-time fee of €200 to support them with their energy bills. In the Netherlands, the government announced a price cap on electricity starting in January 2023, restricting the price of electricity to the average price from January 2022.

Nonetheless, rising inflation rates across Europe pose challenges for PBSA, as they do for all real estate sectors. Currently at 4.5% in the Euro Area, the cost of living has increased significantly. With PBSA rents generally moving in line with the overall residential market (mostly being index-linked), landlords will need to pay attention to how much they can raise rents before they become unaffordable for students. Finally, rising energy prices present a challenge for operators in countries where all-in-rents include utility bills.

Demographic Overview

Currently, the cities with the highest proportion of student-aged population include Copenhagen (24.8%), Manchester (24.4%), London (24.4%), Amsterdam (24.6%) and Munich (24.8%) whilst the lowest share (below 10%) are in the Polish cities as well as Rome and Prague.

According to Oxford Economics, the young population (15-19) in the major European cities is forecast to rise on average by 5.8% over the next five years (compared to a decline of 0.7% from 2017-2022), reversing the declining trend of the beginning of the century, with numbers forecast to steadily rise in most European cities (Fig 1). This trend is due to the rising European fertility rate linked to oil and gas. Countries such as Germany and the Netherlands have made efforts to tackle the impacts of the energy crisis, with German students receiving a one-time fee of €200 to support them with their energy bills.

The positive trend will be seen in the majority of European cities, but mostly in Southern Europe as well as in Ireland. The cities expected to see the steepest five-year average annual growth are Prague (5.7%), Warsaw (3.5%), Wrocław (3.4%), Krakow (3.3%), Berlin (2.6%), Malmo (2.6%) and London (2.5%). On the other hand, as Fig 2 shows, the student-aged population is expected to decline in some markets in Porto (4.2%) and Utrecht (0.4%).

Currently, the cities with the highest share of young population (15-19) includes Lille (6.8%), Lyon (6.7%), Manchester (4.9%), Dublin (4.2%), whilst the lowest share (below 4%) are in the Polish cities as well as Munich.

Fig 1: Population aged 15-19 years old in key European cities

Fig 2: Average annual five-year growth of the young population (15-19)

These figures represent predictions for the next five years, however for the population aged 15 years old this can be seen for 10 years. In the Polish cities, the student-aged population will decline for the next 5 years, then it will start rising.

As domestic students are also increasingly mobile, moving forwards there will be an opportunities for PBSA expansion in a number of cities containing several university options.
Student Numbers

The total number of students who enrolled in the last academic year (2021-2022) continued to increase in many European countries. On average, across the countries shown in Fig 3, student numbers increased by 1.0% compared to the previous academic year. Whilst this is lower than in the 2020-2021 academic year (which saw an increase of 6.4% YoY), with large numbers of students enrolling due to the pandemic), this year’s statistics fall back in line with average growth rates.

The rise in student numbers is uneven across Europe; France recorded the highest growth of student numbers in 2021-2022 (4.6% YoY), followed by the Czech Republic (3.3%) and The Netherlands (1.4%). By contrast, Sweden recorded an 11% YoY drop in the total number of students, although this can be attributed to the exceptional amount of students that enrolled during the previous academic year.

At a city level, large increases and decreases have been observed at both ends: Lille (9.1%), Lyon (4.6%) and Stockholm (12.0%) recorded steep rises in total student numbers, while Copenhagen (-6.7%), Malmo (-20.2%) and Porto (-3.7%) saw the largest declines.

Based on the positive demographic forecast for the student-aged population group and the slowing economy, which is expected to affect the labour market in 2023, we anticipate the overall student numbers will continue to grow in the next three years.

Fig 3: Increase in total student numbers

Occupational Market

As total student numbers increase, notably international students who often maintain higher budgets and are less familiar with local housing, we expect to see a rise in demand for purpose built student housing. Current annual average occupancy rates are high across Europe, ranging from 95% to 98%, unchanged from last year.

The average provision rate (total number of beds / total number of students) across European cities is currently at 12.5%, down from nearly 13% last year. Whilst approximately 145,000 PBSA beds were delivered in the various European cities we monitor, it was not enough to meet the increase in student numbers.

The cities which recorded the largest drops in provision rate between 2021 and 2022, are mainly located in France and the Netherlands: Lyon (-5.7 percentage points), Lille (-4.5), The Hague (-4.0), Amsterdam (-4.7) and Utrecht (-4.0).

In approximately one-third of the cities we monitor, the provision of PBSA beds increased, particularly in the case of Copenhagen (+4.3 percentage points to 19.4%), Porto (+1.1% to 10.5%), Wroclaw (+1.1% to 12.4%), Krakow (+1% to 14.3%) and Munich (+1.6% to 16.5%). In Copenhagen, Porto and Wroclaw, the higher provision rate mainly resulted from their lower number of students. Whereas Fig 5 indicates that in Krakow and Munich, the new PBSA schemes have been delivered, providing the cities with 1,107 and 1,167 new beds respectively.

It is important to add that the provision is calculated based on the total number of beds available in each market and that, on average across Europe, private student housing represents approximately 3% of the total PBSA offer. This means that the vast majority of existing stock is outdated and of poor quality.

Across the European cities that have released their 2022 data, prime PBSA rents have increased by 6% annually on average, with approximately half of the cities recording some rental growth, whilst rents remained stable in the other half. Polish cities have seen the most notable annual rental growth, with Warsaw (34.3%), Trinity (29.6%), Wroclaw (8%) and Poznan (36.0%) recording double-digit growth.

The reasons behind this strong growth are firstly, a surge of demand in the residential rental market. Interest rates in Poland are now at 6.75% hence people can no longer afford to buy apartments so they rent them. This strong demand was also fuelled by the large number of Ukrainian refugees who cross the Polish border following the war. Second, some new high-standard PBSA schemes have been delivered recently on the market pushing prime rents upwards.

As we anticipated in our previous report, covering the 2020-21 academic year, Spanish cities have also seen high rental growth where the student housing provision rate was its lowest. The rental growth in Malaga (9.6%), Valencia (4.6%), Seville (4.0%) and Madrid (3.5%) all correlate to the comparatively low provision rates in these cities.

With several developments pushed back due to the pandemic, and the already high levels of occupancy and student numbers, we expect this supply and demand imbalance will continue to put upward pressure on prime PBSA rents in the coming years.

Fig 5: Student housing provisioning rate*
According to Eurostat, energy inflation is the highest it has been since the first publication of the Harmonized Index of Consumer Prices (HICP) in 1997. Fig 7 shows how energy prices have risen sharply throughout 2022, with gas price inflation at a new record high of 74% across Europe. With Europe being previously highly dependent on Russia for gas, countries are now looking elsewhere, but that increased demand for gas is driving prices to record highs.

With rising utility bills weighing on operators’ costs, we may see utilities being put outside of rents and being made directly rechargeable to students. This is increasingly the case in the Netherlands and Germany, with 2023 likely to see more schemes in Ireland also doing the same.

The other option for landlords looking to offset these additional costs would be to increase rents. But they will need to approach rental increases with caution, as students are often in less of a position to absorb the increases. In some rare cases, we may even see governments stepping in to protect students from sharp rental increases.

On average across the major European university locations, PBSA rent costs equate to approximately 27% of an average household income, up from 23% last year. As many students partially or fully depend on their parent’s income to support their university studies, such significant increases in PBSA rents could present households with significant challenges.

All-in rents are the most common for student housing tenants, providing them with more certainty around their monthly outgoings. Such rents typically include water, electricity, heating and Wi-Fi, with some including additional amenities (Fig 6). These added amenities elevate student satisfaction levels and attract students to the PBSA model. Amenities generally include well-designed communal spaces that enable socialising within the building, 24-hour security, a laundry service and catering onsite, amongst other features: all added perks that support the attraction of PBSA housing.

Fig 6: Typical PBSA lease conditions across European countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Student lease length</th>
<th>Rent includes</th>
<th>Admin fee</th>
<th>Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>6 months</td>
<td>Water, electricity, heating and Wi-Fi</td>
<td>Depending on the operator, a booking fee may be applied to guarantee the reservation</td>
<td>1 to 3 months</td>
</tr>
<tr>
<td>Netherlands</td>
<td>12 months</td>
<td>Water, electricity, heating and Wi-Fi</td>
<td>There is often a service fee which is roughly 20% of the monthly rent.</td>
<td>2 to 3 months</td>
</tr>
<tr>
<td>France</td>
<td>9 months</td>
<td>Water, electricity, heating and Wi-Fi (for most residences)</td>
<td>There is sometime a service fee which can range from 50 to 200 euros.</td>
<td>1 to 2 months</td>
</tr>
<tr>
<td>Italy</td>
<td>10/11 months</td>
<td>Water, electricity, heating Wi-Fi, cleaning, change of bed linen</td>
<td>New PBSA schemes usually do not have admission fees.</td>
<td>1 month (with 3 months advance payment)</td>
</tr>
<tr>
<td>Spain</td>
<td>9/10 months</td>
<td>Water, electricity, heating, Wi-Fi, room cleaning one per week</td>
<td>25% of the monthly rent to guarantee reservation. Applies afterwards as part of the deposit.</td>
<td>1 month</td>
</tr>
<tr>
<td>UK</td>
<td>10 months</td>
<td>All utility bills included, Wi-Fi</td>
<td>No charge/fee</td>
<td>None</td>
</tr>
<tr>
<td>Austria</td>
<td>12 months</td>
<td>Water, electricity, heating and Wi-Fi, often (in new residences, cleaning and use of amenities such as fitness room, are also included)</td>
<td>Sometimes a service fee of between 100 and 200 euros.</td>
<td>1 to 3 months</td>
</tr>
<tr>
<td>Germany</td>
<td>6 months</td>
<td>Water, electricity, heating and Wi-Fi</td>
<td>There is sometimes a small booking fee (usually approx. €50)</td>
<td>Up to 3 monthly (all-in) rents</td>
</tr>
<tr>
<td>Denmark</td>
<td>Rolling with 1 month break</td>
<td>Water, electricity, heating and Wi-Fi</td>
<td>No charge/fee</td>
<td>1 to 3 months</td>
</tr>
<tr>
<td>Sweden</td>
<td>NA</td>
<td>Water, electricity, heating and Wi-Fi</td>
<td>No charge/fee</td>
<td>None</td>
</tr>
<tr>
<td>Ireland</td>
<td>8 months</td>
<td>Water, electricity, heating and Wi-Fi</td>
<td>Usually a non-refundable application fee of €50.</td>
<td>€500</td>
</tr>
</tbody>
</table>

Source: Eurostat
Investment Market

A number of large PBSA transactions have taken place this year, and investment volumes remain high in the sector. The total investment volume reached €12.7 billion in the first three quarters of 2022, a 130% increase on the same period in 2021 and a record high.

The UK has seen the largest portion of this investment, which was particularly high due to the Student Root portfolio being sold to Greystar and GIC for €3.9 billion in Q3 2022, the second-largest deal on record. In 2021, both the UK and Germany dominated investment volumes.

Fig 8: Q1 – Q3 investment volumes

Significant deals across the rest of Europe have also bolstered investment volumes. For example, Round Hill Capital closed on a €60 million Smart Studio acquisition earlier this year, the largest PBSA investment in Portugal in 2022, which will add a further 2,013 beds to the market.

In June, it was announced that Singaporean sovereign wealth group GIC and Dutch pension fund manager APG would take a majority stake in The Student Hotel, valuing the European student accommodation and hotel group at €1.2 billion. In May, Xior student housing signed a deal to acquire Basecamp's student accommodation and hotel group at €2.1 billion. In a majority stake in The Student Hotel, valuing the European group GIC and Dutch pension fund manager APG would take a €200 million Smart Studio acquisition earlier this year, the largest PBSA investment in Portugal in 2022, which will add a further 2,013 beds to the market.

The share of forward-funding deals as a percentage of total investment has been steadily rising over the past five years, accounting for 30% of total volume in 2022. Forward-funding deals are typical in countries with developing PBSA markets and account for 30% of total volume in 2022. Forward-funding investment has been steadily rising over the past five years, particularly in countries with developing PBSA markets and accounting for 30% of total volume in 2022.

PBSA investors are increasingly aware of the need to adhere to ESG standards and efforts have been made to improve the overall quality of PBSA in Europe. The €70 million scheme Patrizia has forward purchased in Turin is set to be built with the highest quality environmental credentials, designed to achieve LEED Gold certification by improving energy efficiency, lower carbon emissions, and enhancing environmental quality.

Earlier this year, The Student Hotel secured €44 million in “social and environmental impact” funding from UniCredit for Rome and Florence with the loan agreement specifying terms for the achievement of a BREEAM “Very Good” rating. Such commitments to sustainability and positive social impacts will future-proof the sector and uphold the attractiveness of student housing for investors (as well as students, who are notably ESG-conscious).

Prime PBSA yields currently sit at an average of 4.13% across Europe, ranging from 3.5% in Copenhagen to 6.0% in Seville. On average they moved by +4bps across the last 12 months. Madrid (+5 bps), Dublin (+5 bps) and Barcelona (+4 bps), Copenhagen (+3 bps), Valencia and Malaga (both +3 bps) have both been to the sector in significantly since Q4 2021. Whilst at the other end of the spectrum, prime yields moved out in Gothenburg (-4 bps), Malmo (-3 bps), Paris region (-3 bps), The Hague (-2 bps) and Prague (-2 bps). Over time, the spread between prime multifamily and PBSA has steadily been rising and currently sits at 95bps in 2022 from 100bps last year.

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The PBSA sector has continued to show that it is counter-cyclical and a good opportunity for investors to balance their portfolios in times of economic downturn. It represents a strong asset class and the positive sentiment in this sector demonstrates the confidence investors have in its resilience and ability to provide secure returns.”

Marcus Roberts, Head of Europe - Savills Operational Capital Markets
Conclusions

PBSA is one of the only real estate sectors to have seen a positive increase in total investment volume in 2022.

The sector has continued to show that it is counter-cyclical, with large numbers of young people entering higher education during challenging macroeconomic periods (likely linked to their perceptions of a weakening job market and so employment prospects).

As a result, PBSA represents a good opportunity for investors to balance their portfolios, with strong demand feeding through to high occupancy levels and resilient income streams.

Nevertheless, challenges remain due to the current macro-economic landscape, and in particular developers and operators may face some issues from rising build costs and energy prices, threatening development viability and narrowing their operating margins.

This is arguably balanced out by the fact that, with a historic shortage of high-quality stock, a slowdown in new building completions may insulate the values of existing assets.

Ultimately, investment in the European PBSA sector is fuelled by strong fundamental drivers: growing student age populations in many markets, continued strong enrolment in higher education, demand for highly-amenitised, purpose built student accommodation and a lack of sufficient high quality stock.

As European cities continue to be globally competitive, innovative and better connected, demand amongst international students will also continue to grow.
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