SPOTLIGHT
Savills Research

European PBSA Investment Barometer Report 2024

Savills in collaboration with The Class Foundation

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Key points

70%

The amount by which our survey respondents expect to increase the size of their European PBSA portfolios over the next 2-5 years, which equates to an additional 92,500 beds and €22 billion of capital.

If all of the private European PBSA increased at a similar rate over the period then this would increase supply by more than 1.7 million beds. But this would still only raise the European provision rate to 17%, from 11% today.

81%

Of respondents are concerned about the effect of interest rate movements on their business, making it the highest ranked issue. Investors are also concerned about construction costs, regulations and housing affordability.

13%

Only 13% of investors are concerned about how the availability of debt for either refinancing stabilised or recently completed assets will change over the next 2-5 years. However, more than 60% are concerned about the availability of equity for development.

25%

The average proportion of respondents' existing portfolios that need to be brought up to higher ESG standards. The majority expect to refurbish the stock to bring it up to requirements.

38%

Of respondents report challenges acquiring both green and brownfield land, with a further c.20% reporting challenges on either brown or green. Location remains the most important factor when looking to bring forward developments, and investors remain keenly aware of costs and complexity.

Regulation on affordability

Is a major concern for investors, with nine out of ten respondents agreeing that regulations on affordability might make it difficult to meet target returns.

Introduction

The Purpose Built Student Accommodation (PBSA) sector continues to grow across Europe. Activity and interest in the sector is driven by the continued rise in the number of students studying across the continent, the growth in international students, and heightened focus on the quality of living experiences.

Investors and operators play a pivotal role in shaping the future evolution of the sector, driving continuous innovation and meeting the needs of the students of tomorrow.

For the second year, The Class Foundation and Savills have undertaken a survey, interviewing key market participants to understand the current state of the sector and the drivers of change in the near term.

Our respondents include institutional investors, fund managers and operators. The majority are equity investors, with some having vertically integrated operating businesses as well.

Existing investor landscape

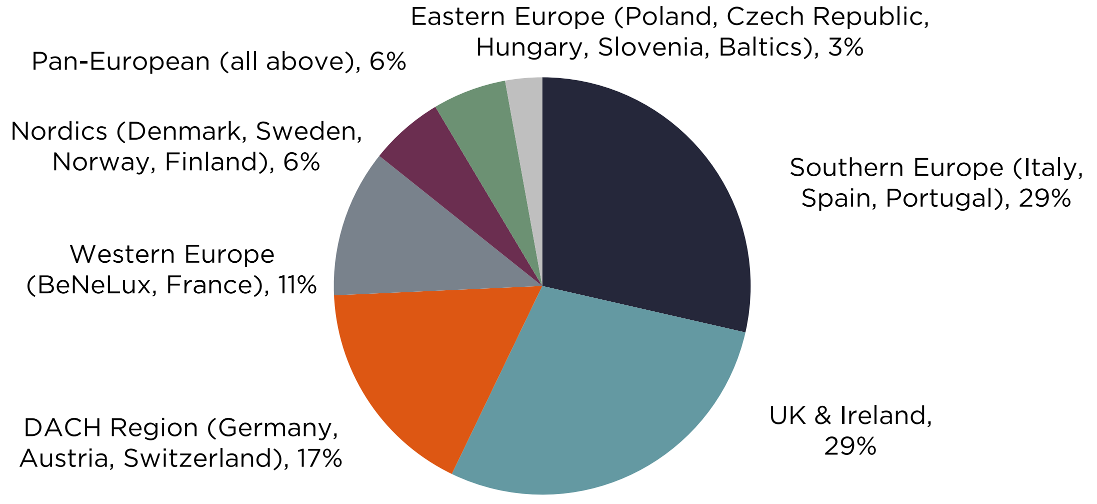
The number of operational PBSA beds continues to rise. According to Savills latest estimate, there are around two million PBSA beds across Europe, including both private and public provision, with about two-fifths owned by private operators.

The level of private provision is lower in many markets, with France, Germany and The Netherlands all having a lower proportion of beds owned and operated by private investors.

This points to significant opportunities for the continued growth of the PBSA sector, including in more mature and established markets. Respondents to our 2024 survey included 16 investors and operators with over 132,000 beds across the continent, equating to c.16% of all private PBSA beds in Europe, with an asset value of c.€25.3 billion.

The most common markets that our respondents have exposure to are the UK & Ireland (29%), Southern Europe (29%) and the DACH Region (17%).

Fig 1: Where are respondents currently operating?



Source: The Class Foundation, Savills

Continued strong growth

The sector is expected to see continued strong growth in the next few years. Savills **European Living Investor Survey 2024** earlier this year found that PBSA was ranked as the second most sought-after Living sector when respondents were asked about their future investment allocations, with 63% of investors targeting the sector. The survey also found that around a quarter of respondents expected to deploy more than €500 million each over the next 3 years.

This Investment Barometer survey mirrors those results from earlier in the year. Respondents expect to increase their number of PBSA beds over the next 2-5 years by 70%, to more than 220,000 – growing their portfolios by c.92,500 beds, and deploying a further €22 billion of capital.

However, even this substantial volume of investment would only increase the current average European PBSA provision rate to 14% from 13%, assuming that student numbers remain at their current level. Even if all private owners aimed to increase their holdings by the same amount, it would only push the overall PBSA provision rate to 17%. This highlights the significant supply-demand gap that remains across the continent, and the scale of the opportunity for investors.

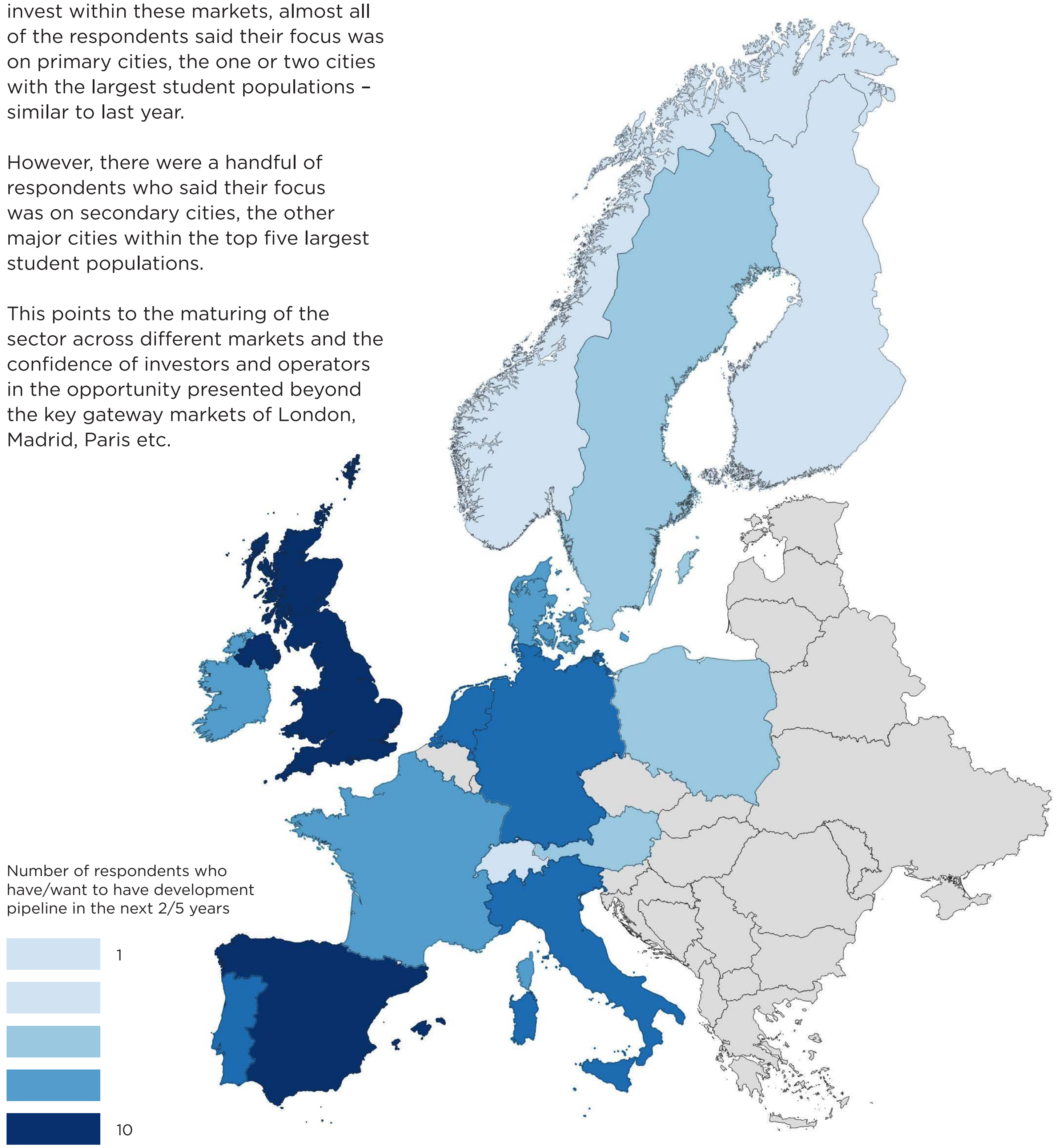
The most sought-after locations amongst survey respondents this year are Spain (14%), UK (14%), Netherlands (11%), Portugal (11%) and Germany (10%). Spain, Portugal and Germany have remained in the most sought-after locations from last year, while the UK and the Netherlands are new entrants. The UK has entered a new development cycle, with a significant opportunity for growth in beds in many of the largest markets fuelling investment, despite the relative maturity of the sector.

Fig 2: Where do investors have, or want to have, a development pipeline in the next 2-5 years?

When asked about where they plan to invest within these markets, almost all of the respondents said their focus was on primary cities, the one or two cities with the largest student populations – similar to last year.

However, there were a handful of respondents who said their focus was on secondary cities, the other major cities within the top five largest student populations.

This points to the maturing of the sector across different markets and the confidence of investors and operators in the opportunity presented beyond the key gateway markets of London, Madrid, Paris etc.



Source: The Class Foundation, Savills

Factors impacting investors

The economic outlook has improved and is less of a concern

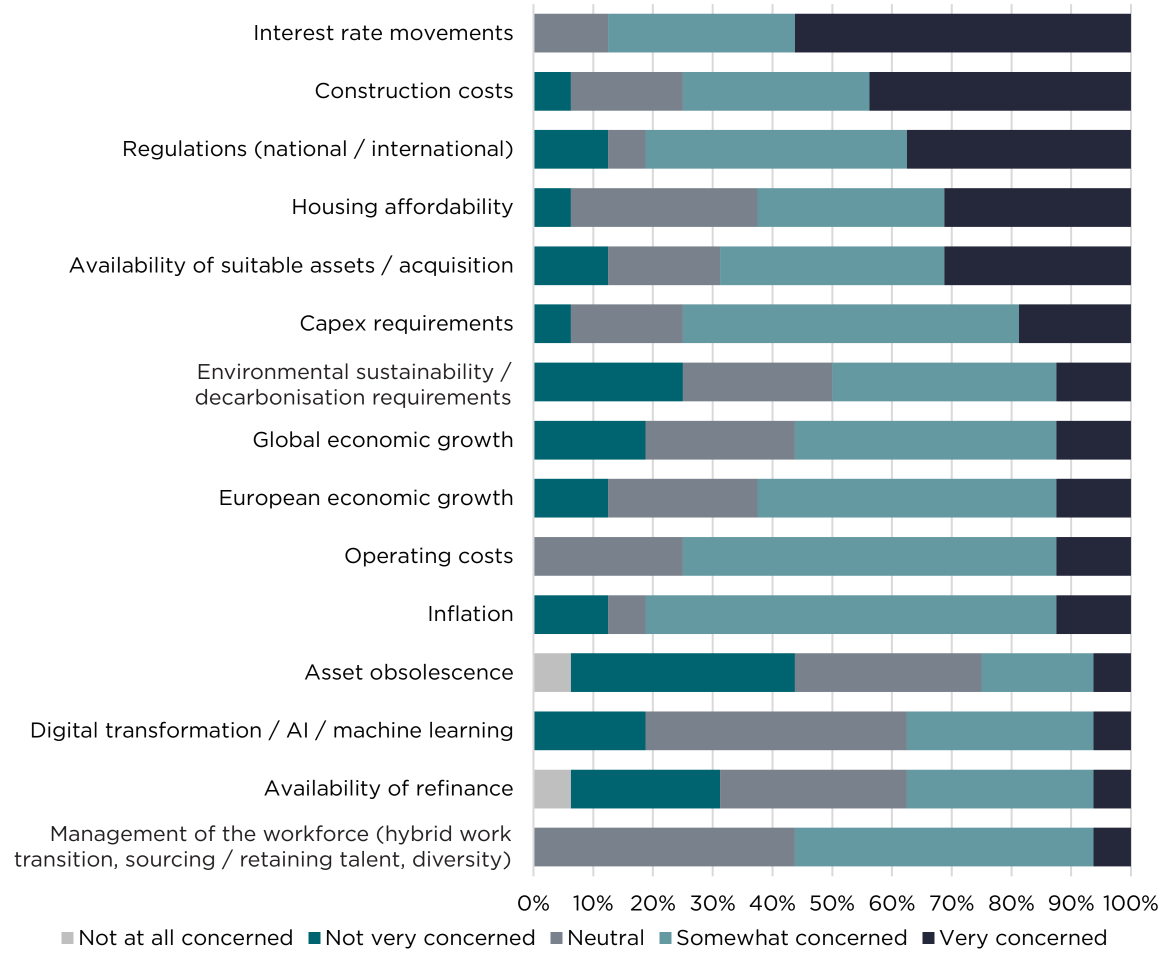
Last year, investors were most concerned about the outlook for economic growth and inflation, coupled with interest rates. This was unsurprising given the gloomy backdrop and Central Bank interest rates being at the highest level in over a decade.

However, fast forward 12 months and inflation has eased, macroeconomic recessions were mostly avoided and the European Central Bank and the Bank of England have both started the rate cutting cycle. This has resulted in a dropping off in terms of concerns around economic growth and inflation, with only 13% of respondents saying they are 'very concerned' about their impact.

Nonetheless, the significant rise in living costs over the past 18 months, in particular food, energy and housing costs, means that financial pressures remain for many students. This likely explains why over 60% of our respondents remain concerned about housing affordability.

Furthermore, despite the improving macroeconomic outlook and recent interest rate cuts, investors remain concerned about future rate movements. It is likely the uncertainty around the pace of cuts and where rates will ultimately end up that is playing on investors' minds.

Fig 3: How concerned are investors regarding the effects of the following factors on their business?



Source: The Class Foundation, Savills

Construction costs, affordability and regulations are of greater concern

Uncertainty around the wider economy has been replaced by concerns about construction costs, regulation and affordability. The cost of construction has risen rapidly in recent years. While cost growth has eased in recent months, to between 1% and 4% in the 12 months to Q2 2024, this follows annual double digit growth through 2022, according to Eurostat.

This has put pressure on the viability and deliverability of some schemes and could curb investor's ambitions to grow their portfolios. This also plays into investor concerns around the availability of suitable assets, which 31% of respondents said they were 'very concerned' about.

The strong rental growth seen across both the PBSA and wider residential sectors in recent years has also put affordability under the spotlight – especially given the wider rise in living costs.

As a result, governments are increasingly looking at regulatory levers that are available to them to placate their constituents. Depending on the form they take, these regulations pose potential issues for investors and operators, which explains why close to two-fifths of respondents said they were 'very concerned' about the impact of regulation on their business.

Obsolescence, technology and workforce are lower down the list of concerns

Mirroring the results we saw last year, investors are less concerned about management, the workforce and digital transformation impacting their businesses.

These are factors that many have been addressing in recent years and so are likely to feel that they have them in hand.

The lower level of concern around the obsolescence of their assets is probably a reflection of many of our respondents owning and operating relatively new assets, which have already been developed with future student needs and ESG features in mind.

Capital availability

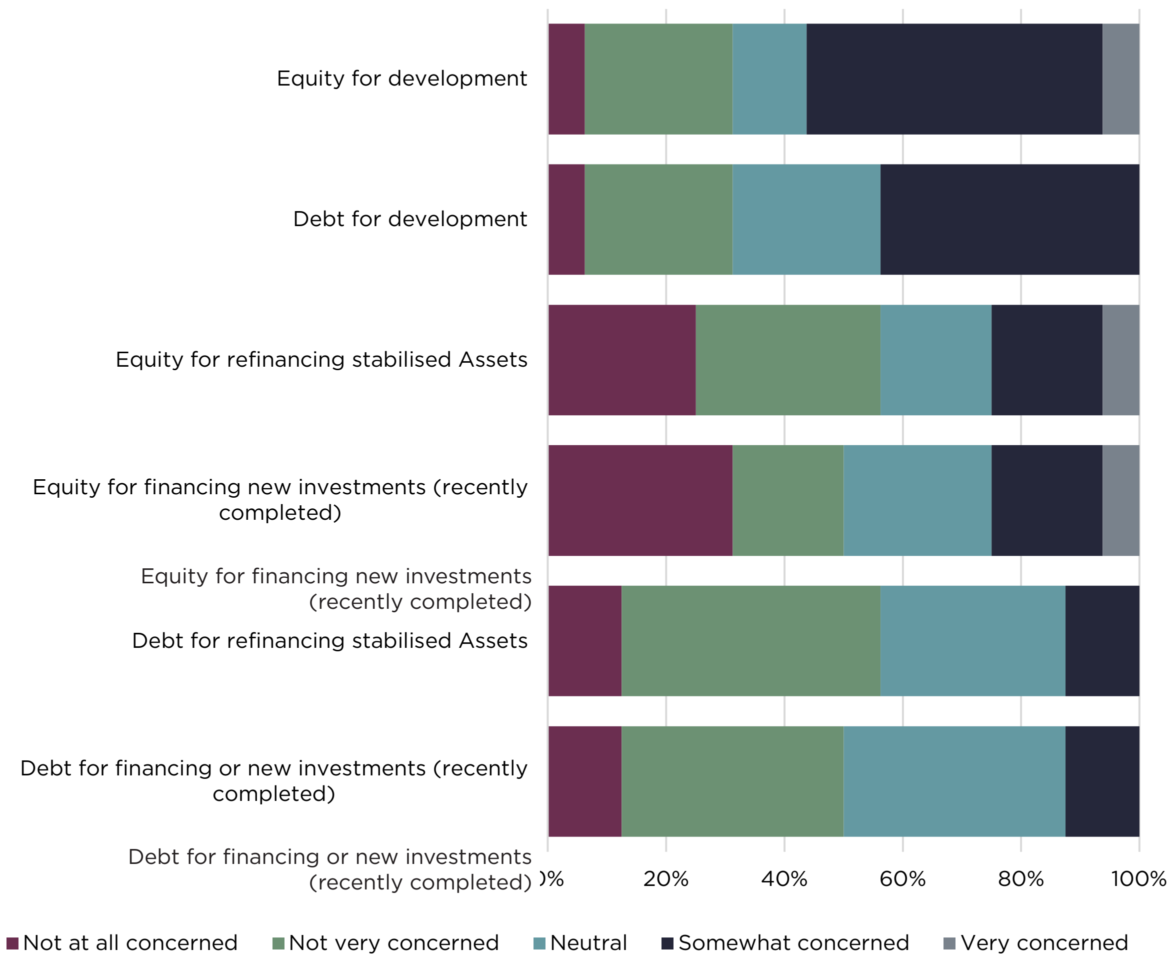
While interest rate movements are a point of concern for investors in terms of the impact on their own business, it is positive to see that the general outlook around capital availability has improved from last year.

In 2023 the majority of our respondents were ‘somewhat or very concerned’ about the availability of both equity and debt for PBSA – be it for development or stabilised assets. However, respondents in 2024 are painting a more positive picture. For debt availability, only 13% of respondents are ‘somewhat concerned’, with at least half saying they are ‘not at all’ or ‘not very concerned’.

This ties in with the broader picture of debt availability in the market, where lenders are increasingly focused on the Living sectors, which is driving up competition and weighing on the margins they are charging.

There remains more concern around the availability of equity. This is particularly the case for new development, where over half of respondents were ‘somewhat’ or ‘very concerned’.

Fig 4: How concerned are investors about how the availability of different forms of capital will change over the next 2-5 years?



Source: The Class Foundation, Savills

Rising global capital in the sector

Respondents also expect to see an influx of global capital into the sector over the next 2 to 5 years. Mirroring the trends seen last year, North America is expected to lead the growth, with over three-quarters of respondents anticipating an increase in capital from the region.

This is followed by the Middle East, which has overtaken Asia Pacific to take the second spot this year. We are already seeing evidence of these trends in the market, with Greystar, Blackstone, GIC, Mapletree Investments and Hines all active across Europe in the past year.

The ESG challenge

The drive towards net zero and improving environmental standards in the built environment remains near the top of the industry's To-Do list. The pace and stringency of tightening rules varies across the continent, but the direction of travel is consistent and investors are having to grapple with what to do with stock that needs improving.

Across the respondents, the proportion of stock that needs to be brought up to ESG standards ranges from 0% to 75%, with an average of 26%. For some investors, this therefore presents a sizable challenge. When asked about what they plan to do with their stock that doesn't meet ESG standards, the majority said that they would refurbish stock.

This is a laudable aim, will ensure that stock remains in the market and shows that investors are thinking about embodied carbon. Although, it is also perhaps indicative of the concerns raised earlier in the report about accessing stock – a challenge that was also raised by respondents to **Savills European Living Survey 2024**.

With that said, there is still a large minority of respondents that would look to sell assets if they aren't up to ESG standards. This will present an opportunity for other investors to acquire aged stock and progress with a "brown to green" strategy, refurbishing and repurposing older stock (as long as the cost of refurbishing isn't prohibitive).

Development difficulties

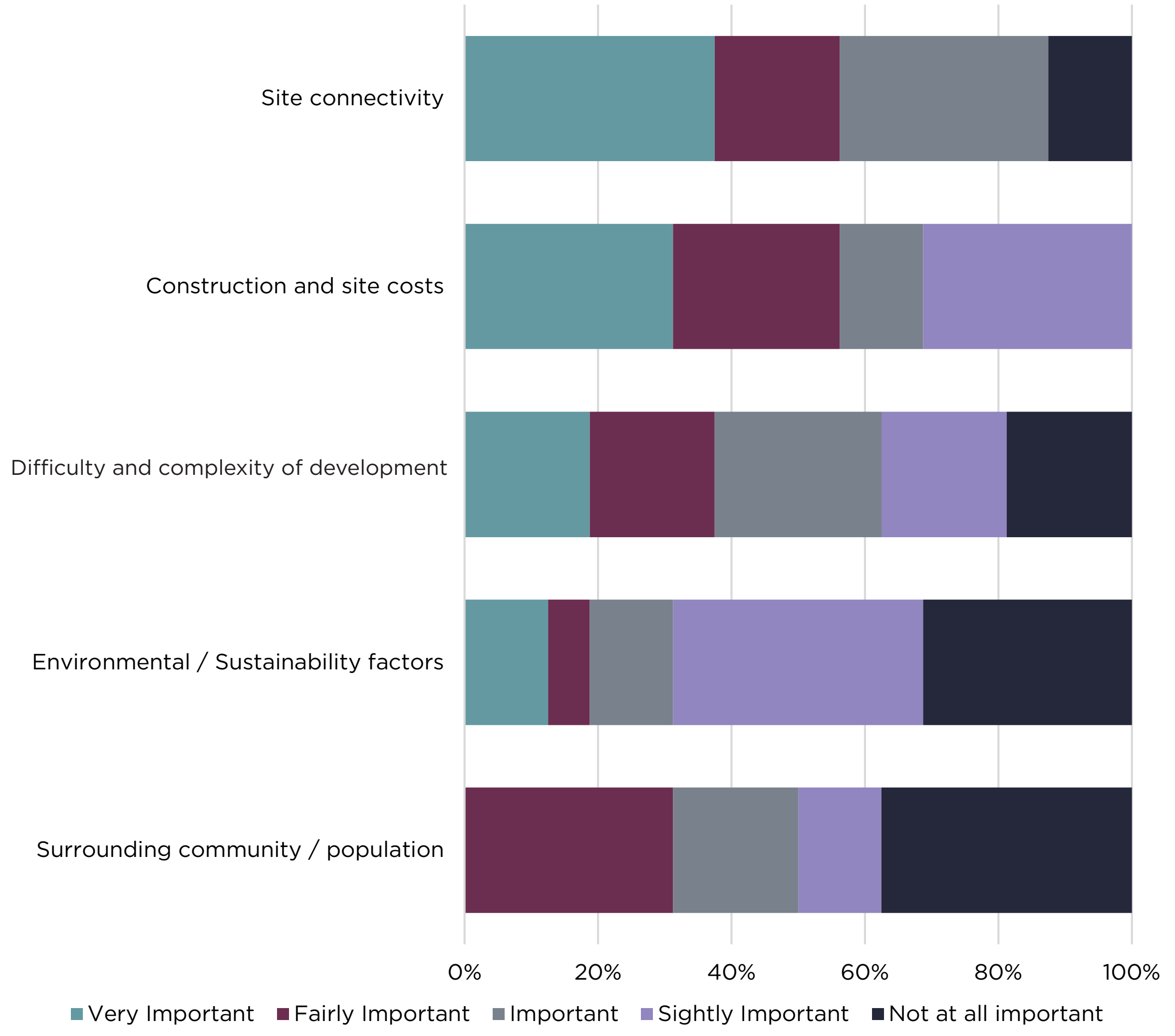
The delivery of new stock is a key challenge for the sector, and essential for its continued growth. Investors are facing difficulties in acquiring land, with close to two-fifths of respondents reporting challenges acquiring both green and brownfield land, and a further c.20% reporting challenges on either brown or green.

When considering where to develop, respondents reported that site connectivity is by far the most important factor, the same as last year.

While location remains the most important factor when looking to bring forward development, investors are also keenly aware of costs and complexity.

This mirrors earlier concerns raised by respondents about the cost of development for the continued growth of their portfolios. These two factors could hamper innovation and the delivery of new schemes if costs become prohibitive.

Fig 5: What factors are important when choosing to build on green or brownfield land?



Source: The Class Foundation, Savills

Regulatory impact

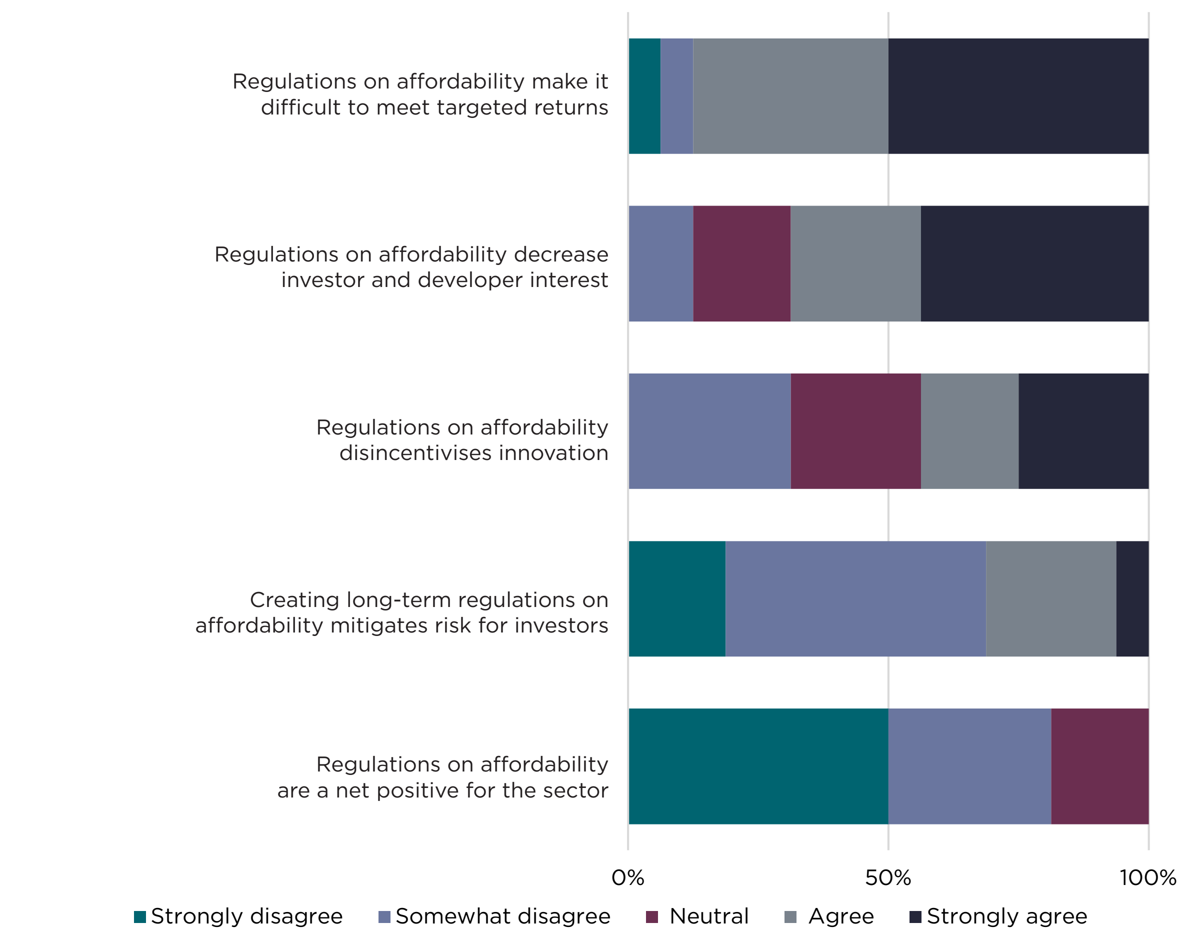
Investors are concerned about the impact of regulation on their business, which interlinks with the wider affordability challenges that are emerging off the back of strong rental growth in recent years. Affordability challenges make some governments consider rental regulations, as a way to be seen to be acting to help their constituents.

However, it is clear that many investors view regulations as a negative for the sector – and a greater proportion of respondents this year are concerned about it than last year. They highlight that regulations could decrease interest in delivering more PBSA, which is already in short supply in many markets, as it would reduce potential investment returns.

Some of our interviewees pointed out that tighter regulation in one market is likely to cause them to move their focus to other markets in Europe. These responses align with the results of Savills European Investor Survey 2024 in March, where respondents flagged rent regulation as the biggest risk to further investment in the Living sectors.

This investor feedback highlights the need for the industry to engage with government to articulate the needs of the sector, as well as its role in helping address wider housing challenges. Making sure the sector is part of the conversation around any potential regulatory changes could help ensure that, if they are brought in, any impacts on the sector are minimised.

Fig 6: Investors' views on affordability regulations



Source: The Class Foundation, Savills

Conclusions

This year's European PBSA Investment Barometer Report reveals:

- **A GROWING PBSA SECTOR IN EUROPE**
- **STRONG FUNDAMENTALS**
- **RESPONDENTS LOOKING TO NEARLY DOUBLE THEIR INVESTMENTS ACROSS THE REGION IN THE NEXT 5 YEARS**
- **EMERGING PBSA MARKETS LIKE SPAIN, ITALY, PORTUGAL AND THE NETHERLANDS BEING INVESTOR TARGETS**
- **A DIVERSIFICATION OF ACTIVE PLAYERS**

Investors remain concerned about interest rate movements, the cost of construction and the availability of suitable assets.

Alongside concerns about the availability of equity for new developments, there are potential challenges in driving significant increases in new stock in the near term and there is a need to strengthen relationships across the development and financing landscape.

The housing affordability challenges facing students have pushed potential regulation further up the political agenda, which is also raising concerns for investors. As regulations surrounding affordability gain traction, collaboration with policymakers will be crucial.

By actively participating in policy discussions, the sector can help shape a balanced regulatory environment that safeguards investor interests while supporting both new and reformed policy decisions. Proactive industry-government dialogue may prevent over-restrictive measures, enabling sustainable growth while addressing the housing needs of students and local communities alike.

Investors who champion ESG initiatives are well-positioned to lead in both sustainability and community engagement, fostering a positive reputation among key stakeholders and enhancing the long-term viability of their assets. By prioritising sustainable development, the PBSA sector not only aligns with regulatory standards but also strengthens the social and environmental resilience of university cities, supporting The Class Foundation's vision of vibrant, sustainable academic communities.

The PBSA sector in Europe stands at a transformative crossroads, where investors wield the power to redefine the very landscape of purpose-built student accommodation.

Their strategic decisions, allocation of resources, and visionary outlook will not only drive the sector's growth but also determine the quality of living experiences for the students of tomorrow.

With an ever-evolving market and a dynamic mix of players, investors must navigate economic challenges, respond to shifting student demographics, and champion environmental sustainability. Their choices, particularly regarding new developments, financing, and adherence to ESG principles, will have a ripple effect across the sector.

As investors assess opportunities, collaborate with educational institutions, and engage with city officials, they are not just making business decisions, they are influencing the educational journeys of countless students. Their actions can bridge the affordability gap, drive innovation, and ensure that the PBSA sector remains a cornerstone of not only real estate investment but also of higher education itself.

Savills Research

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Savills Operational Capital Markets

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