Newsletter (22) - Student Housing

(1) Introduction

Over the past decade, student housing has emerged as one of the fastest-growing segments in real estate. From being a fringe asset class, it is increasingly prevalent in institutional portfolios, as investors take part in its structural growth. Student housing is, however, unique in its characteristics and continues to change as it expands. Understanding these underlying forces is essential for investors assessing its long-term potential and risk.

(2) Key Characteristics

Student housing is a type of residential real estate intended to act as accommodation for pupils of a university. The market size is currently around $13 billion globally with segments expected to grow over 70% in the next 2 to 5 years according to Savills. The asset class falls under alternative real estate, meaning that there are key features which distinguish it from other traditional forms of residential.

Firstly, it's an amenity-heavy product as it is intended to aid in the productivity as well as the comfort of the tenants, combining elements of residential and office real estate. Next, furnished apartments are standard, tenant demographics are homogeneous and many accommodations use a per-bed leasing model. Finally, the industry largely relies on short-term leases that align with their local academic calendars which range from as short as a few months for schools that have a large exchange community to a couple of years. This allows for faster rent repricing relative to traditional residential assets and creates a predictable occupancy cycle with a high turnover, which has advantages such as being able to target marketing or renovation to a period of low occupancy. However, these periods also result in low cash flow as student accommodations are almost exclusively rental properties. The industry addresses this issue by requiring 12-month leases, limiting summer vacancy.

Properties in the sector range from more institutional developments to fragmented assets held by private landlords. An example of an institutional development would be on-campus housing which is usually constructed by the university, examples include dormitories and residence halls, where on average ~15% of students stay. A second type of accommodation is purpose-built student accommodation (PBSA) also known as built to suit student housing. PBSA is built by a private developer and professionally managed, they usually include studio-style apartments with communal amenities such as common areas, gym, laundry or study rooms. Finally, there are private rentals and shared housing, which are forms of regular residential housing used for student accommodation. Examples include Houses in Multiple Occupations (HMO) which are commonly seen in areas with less institutional development such as the Netherlands.

(3) Global Demand

As previously mentioned, Savills predicts up to 70% growth over the next couple of years in the sector, demonstrating a pattern of global growth largely attributed to a worldwide growth of 25 million students since the start of the decade, according to UNESCO. Within the trend of generally increasing students, there has been a 176% increase over the past 20 years in the number of international students, according to the Migration Data Portal. This is the segment most relevant to the student housing market, as pupils who go to school within their home regions usually reside at their childhood residence based on data aggregated from PBS and the French government. Therefore, they do not impact the market for student accommodations. International students, on the other hand, typically require new accommodation, leading them to some sort of student housing.

Beyond an increasing number of nominal international students, there is an increasing student concentration in big cities, which causes outsized growth in demand within already strained markets. This is partly due to the fact that top universities, located in central hubs, usually attract more international students. In London, this can be seen as UCL, Imperial College and LSE have an average of around 60% international students, whilst the national average is around 25%. Furthermore, both international students and domestic students require an ever-improving living standard and social life, which student housing can provide through amenities and social connections with fellow students. A recent survey done by Knight Frank, a UK-based real estate agency, for example, shows that more than 60% of students think that quality of furniture and living with other first years is “very” or “extremely” important, whilst for amenities, it is 80%. Moreover, a larger quantity of students have been pursuing graduate education schemes since the 2000s, as job markets have become more competitive; and technology has added new elements, resulting in higher educational requirements. Students enrolled in these programs therefore demonstrate a higher interest for private accommodations as they have increased household incomes or families/partners.

(4) Supply Bottlenecks

While the demand is clearly on the rise, there is a bottleneck in supply. This shortage is mainly caused by a lag in on-campus housing constructed by universities due to higher costs and increased regulatory pressure, like that in the Netherlands, leading to very few institutions providing this product. Furthermore, it has become a standard in continental Europe that the universities which offer student accommodations tend to only allow the first year students to reside there. Some prominent examples are Bocconi in Milan and Erasmus in Rotterdam; however, even in these institutions only a fraction actually find a spot. Beyond increasing labour costs, which in the EU construction field is growing 4.7% year-on-year according to the EU Commission, the large costs for universities also stem from property prices having increased in all but 5 EU nations in the past year, especially in urban areas. In combination with the fact that universities have been facing financial pressure due to tuition caps and increased operating expenses, many institutions have decided that investing in student accommodation isn’t an appropriate use of their strained resources.

One would expect that in a shortage, the private market would step up and fill the gap in supply, however, there have been factors preventing this from occurring. New developments are expensive for the exact same reasons universities face and interest remains above pre-pandemic levels with the Bank of England setting them 3.6% higher than those seen in 2019. Consequently, the cost of borrowing remains high dissuading many potential developers from getting a mortgage. Finally, there have been limitations put on rent due to laws such as the Affordable Rent Act in the Netherlands, or Denmark, which has no less than 5 separate schemes. As a result of the lower returns on investment combined with higher costs to initially invest many landlords have decided not to invest into the sector and those who already had properties have decided to sell them while property prices are high.

(5) Key Sectoral Risks

Despite considerable growth in the student housing sector, it is essential to understand the financial and operational risks. More broadly, financing conditions remain a concern for investors and developers. In the UK, ambiguity around inflation, including the possibility of it rebounding toward 5%, has raised speculation that interest rates could stay elevated or increase further. Higher borrowing costs make financing and refinancing more expensive, reducing yield margins and making development more difficult. A portion of existing sector debt is expected to mature in the coming years, and refinancing may occur under less favorable conditions. Lenders may also become more cautious, making it harder to secure financing and complete transactions.

On the supply side, high construction costs combined with elevated financing expenses continue to constrain new project starts. Planning restrictions and land scarcity in major university cities further limit development, keeping pipelines below previous peak levels. However, certain urban pockets have seen rapid additions of PBSA, which could increase short-term competition and place downward pressure on rent and occupancy if demand softens. This means the market faces both long-term supply shortages and short-term oversupply in certain areas.

Demand presents its own challenges. Changes in visa regulations and international mobility can significantly influence housing demand in UK university markets. Tier 2 institutions may feel the impact of enrollment fluctuations more intensely. Rapid rent growth in some cities has also raised affordability concerns, potentially pushing students toward lower-cost alternatives. Beyond cyclical enrollment changes, the role of higher education itself is increasingly debated. As artificial intelligence reshapes parts of the labor market, some degrees may face greater scrutiny. While top institutions may remain more resilient, unpredictability surrounding the evolving role of university education could influence future enrollment patterns. Overall, these risks span financing conditions, supply dynamics, and demand variability, and must be assessed alongside the sector's underlying growth drivers.

(6) Current Trends

The student housing sector is increasingly defined by market segmentation, evolving amenity offerings, and greater institutional participation. Performance has become more concentrated in Tier 1 university markets, where large flagship institutions and strong international enrollment continue to support leasing activity and rental resilience. On the other hand, certain Tier 2 markets face slower leasing activity and more sensitivity to enrollment shifts. This difference has influenced capital allocation, with investors prioritizing prime and supply-constrained locations.

At the same time, modern PBSA has expanded its amenity offerings to include study lounges, fitness centers, co-working spaces, and community-focused initiatives, which indicates an increasing emphasis on the overall living experience. Although these enhanced amenities increase development costs, they also support rent premiums while remaining competitive. Institutional participation is significant, with investors accounting for a large share of transaction volume and increasingly categorizing the sector as "core-plus" or an alternative asset class. Large transactions, such as Blackstone's acquisition of iQ Student Accommodation in the U.K., demonstrate sustained confidence in the sector's long-term performance. Capital activity remains steady, but investment decisions are progressively concentrated in prime university markets where limited land and regulatory constraints restrict new supply.

(7) Conclusion

Student housing’s transformation into an institutional asset class has been driven by durable demand and constrained supply in major university markets. Yet rising costs, regulatory pressures, and geographic divergence suggest that future returns will depend on selectivity rather than sector-wide growth. As the asset class continues to mature, understanding these structural dynamics remains essential.