Research

Italy | November, 2022

PBSA Snapshot Q1-Q3 2022

Purpose Built Student Accomodation

JLL SEE A BRIGHTER WAY

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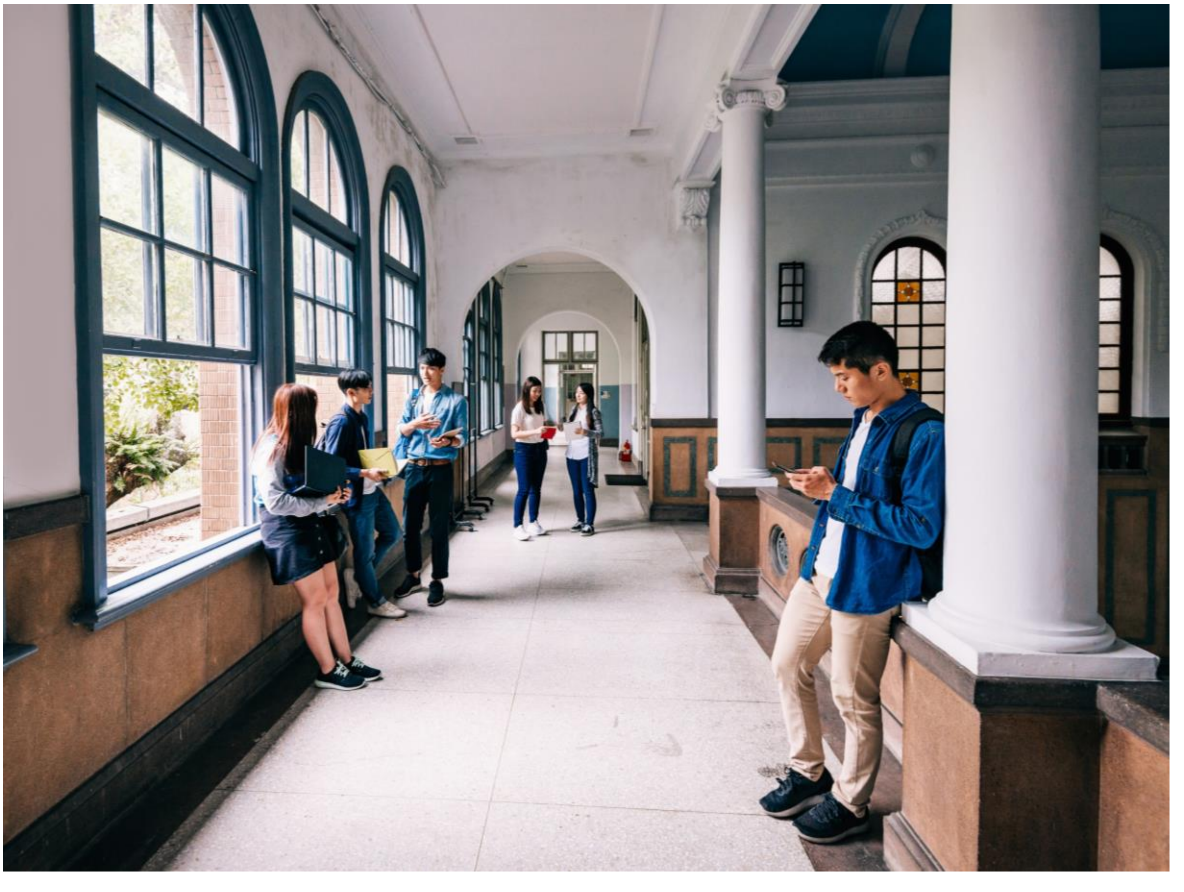


1. Our Key Takeaways

1

Student housing is showing intrinsic growth potential

The student housing sector was one of the most hit by the global pandemic, but it is emerging stronger, showing intrinsic growth potential.

2

International students returning with occupational demand

Global travel restrictions may have stunted international students' growth in 2020 and 2021, but recent evidence suggests enrolment bounce-back.

3

Student accommodations remain an emerging asset class

In Italy, PBSA is a developing asset class, with great investment potential and geographic diversification. Although invested volumes are still low, the great appeal of the sector can be gauged by the number of operators, developers and players that are planning to develop new structures.

2. The Italian Economy

Although the Italian economy decelerated since the start of 2022 amid higher geopolitical uncertainty, GDP growth in Q2 surprised on the upside, largely supported by consumption and investments.

The latest release by the Italian National Statistics Office (ISTAT) highlights a GDP growth of **+1.1%** in **Q2 2022**, mainly driven by consumption (+1.5%) and investments (+0.4%), while govt expenditure, net exports and inventories were all negative drivers.

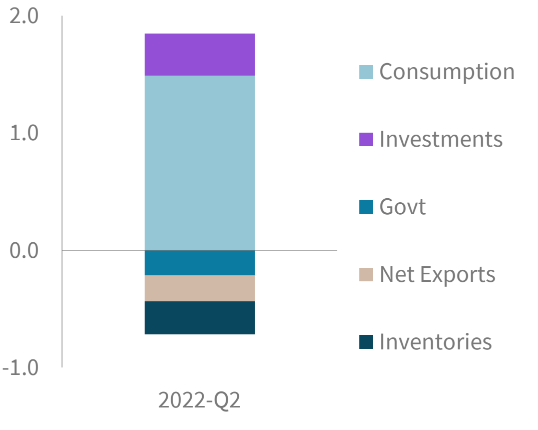
On the consumption front:

- The **end** of the **pandemic restrictions** and the re-opening of **international tourism** surely provided an uplift to growth.

On the investment front:

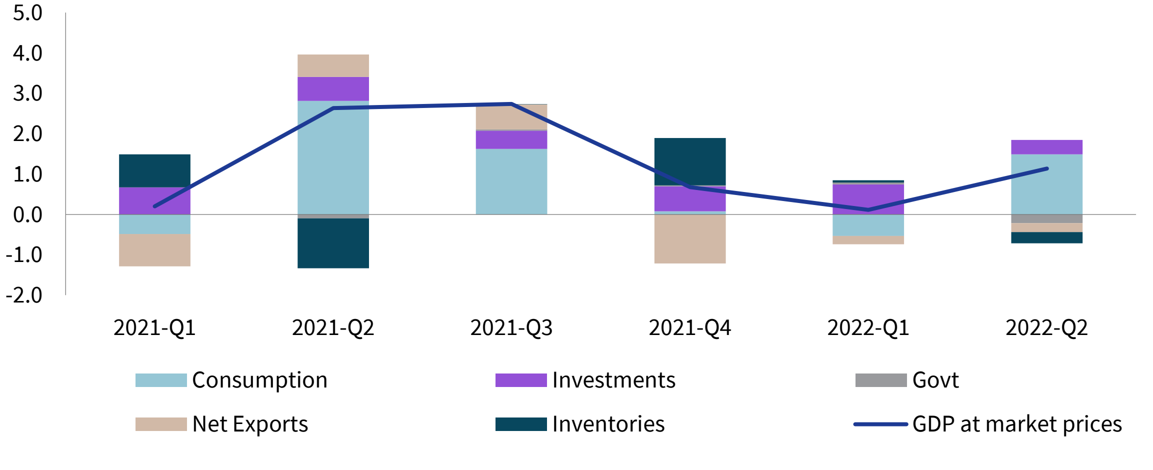
- Firstly, **Italy's Recovery and Resilience Plan** (EUR 235bn) may be feeding through to GDP.
- Secondly, firms may be allocating more capital in response to challenges on **global supply chains**.

Contribution to GDP growth Q2 2022 QoQ %



Source: JLL Research elaborations on ISTAT data

Contribution to GDP growth QoQ %

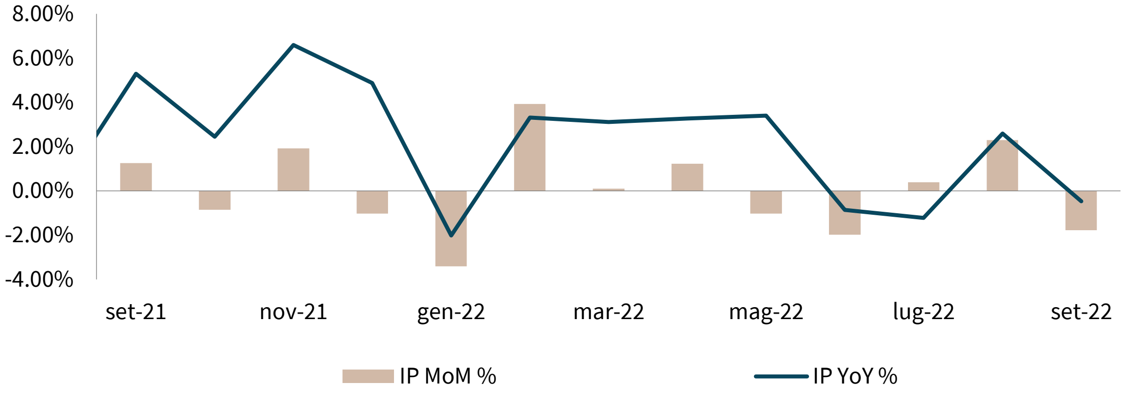


Source: JLL Research elaborations on ISTAT data

Latest seasonally-adjusted **industrial production** data in **September** decreased by **-1.8% MoM** (-0.5% on a calendar-adjusted year-on-year basis)**.**

The change of the average industrial production over the last three months versus the previous three months remains in contraction territory around -0.4%.

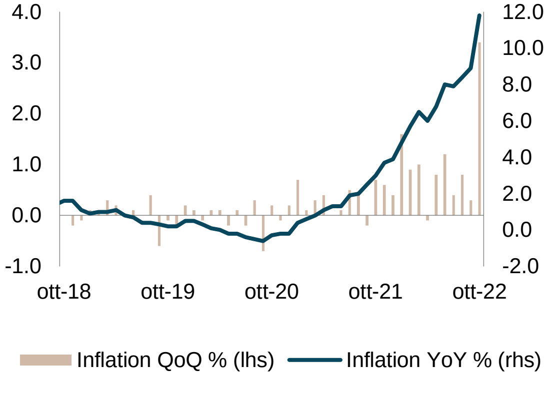
Industrial Production - Sep 2021 to Sep 2022



Source: JLL Research elaborations on ISTAT data

Annualized headline **inflation** (HICP) reached **11.8% in October** (up from 8.9% in September). According to market consensus, inflation will remain elevated throughout the rest of the year and will only start to decrease in 2023.

Inflation - Oct 2018 to Oct 2022



Source: JLL elaborations on ISTAT data.

Macro Forecasts (Italy)	2022F	2023F
Gross Domestic Product	3.4	-0.3
Industrial Production	0.1	0.2
Consumer Prices (%)	7.9	4.5
Govt Balance (% GDP)	-5.3	-4.4
10yr govt bond yield (% EOP)	4.3	3.8

Source: Oxford Economics as of 18th Oct 2022.
Data: annual percentage changes unless specified.

3. Student Housing Capital Markets

PBSA remains an emerging asset class, showing resilience in the post pandemics

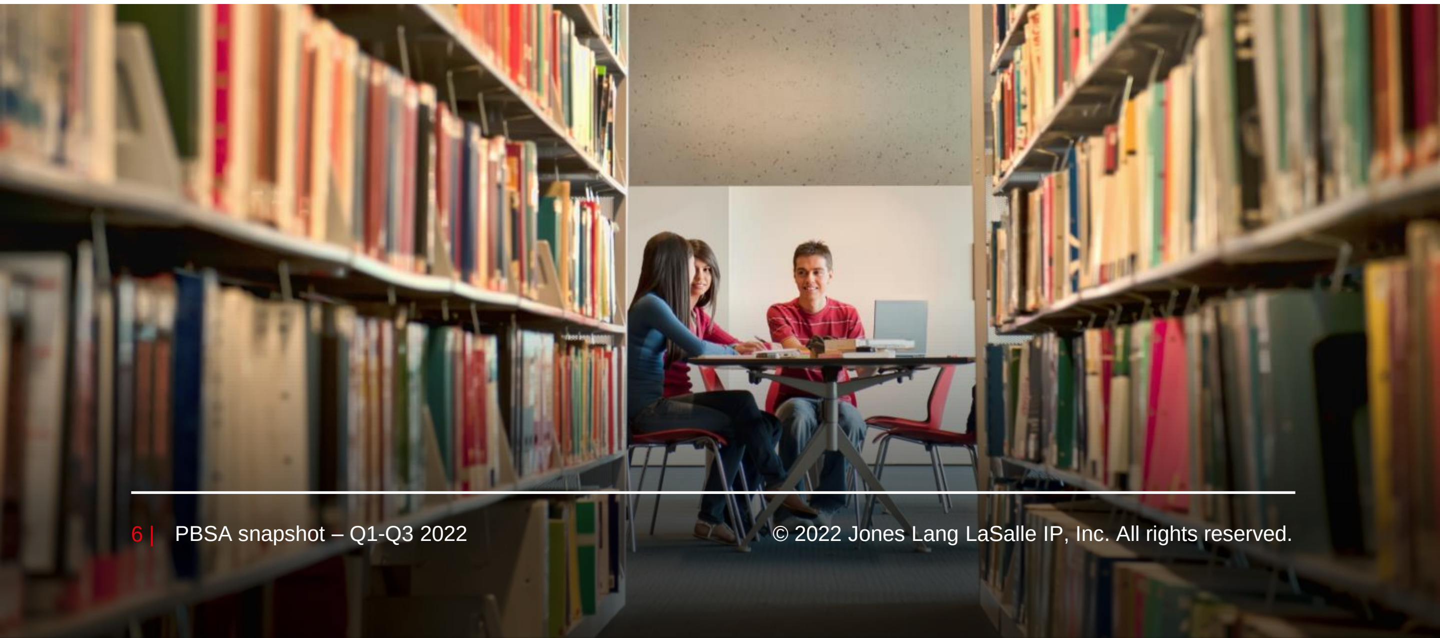
Global travel restrictions may have stunted the growth of international student numbers during the past two years, but recent evidence suggests enrolment bounce-back. Moreover, there is an increased propensity to study away from home in the major continental markets of Germany, Spain, Italy, France, and the Netherlands – which in turn intensifies the occupational demand for fully specified, well located, modern student accommodations.

The positive momentum of the sector is reflected by the **investment volumes** activity: the first nine months of 2022 recorded **€7.1 bn in Continental Europe and UK*** in PBSA, a figure 10% higher than the same period last year. UK confirmed to be the country with most investments (49%), followed by Spain (18%) and Denmark (12%).

In **Italy**, the student accommodation sector is a **developing asset class**, with great investment potential and geographic diversification. In the last years the sector attracted investment flows in Milan, Rome, and Florence. In Q3 2022 investors like Patrizia initiated a forward purchase deal of around €70mln (incl. capex) in Turin too. The project includes the development of a modern campus with 582 apartments.

Student housing in Italy is currently in high demand across investors mainly because of the **lack of adequate supply** nearby large universities and the constant increase of students (domestic and international).

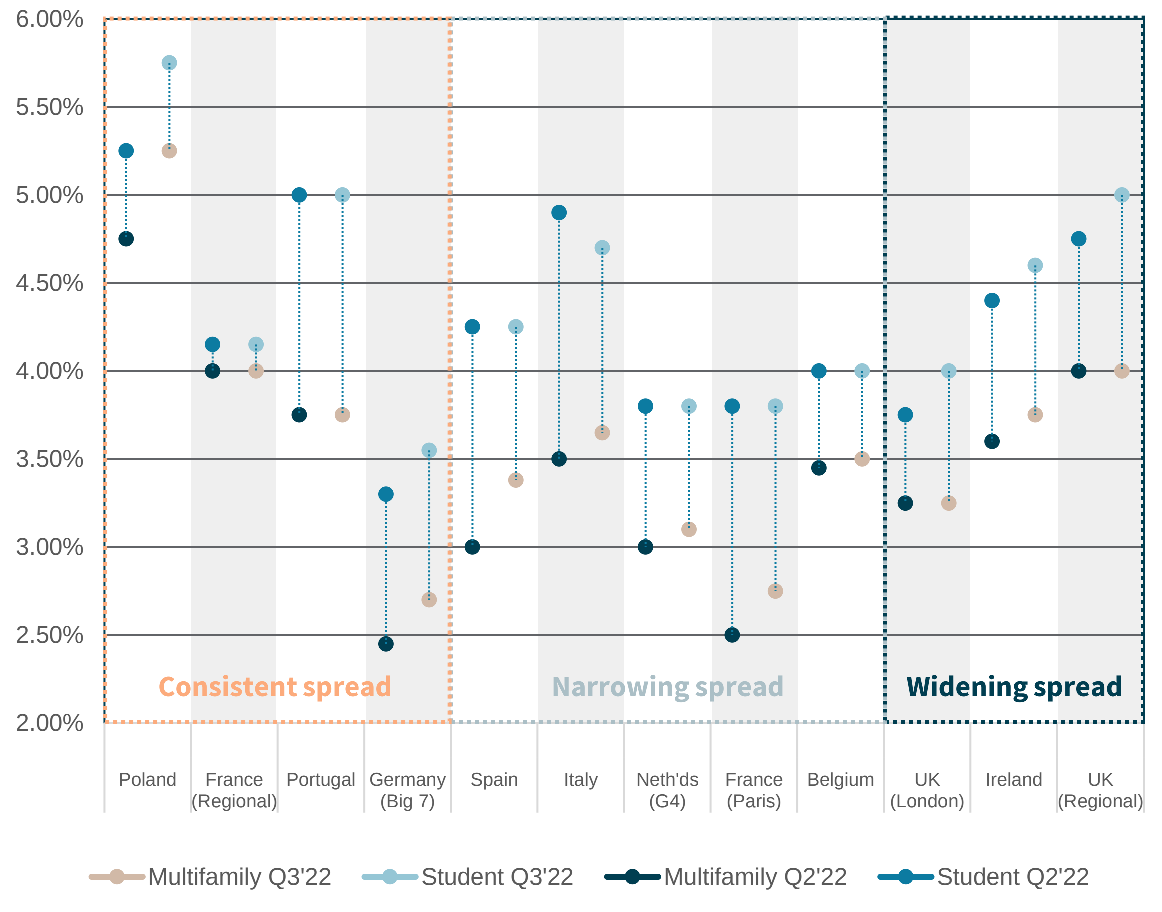
**The £3bn+ Student Roost deal was not considered, as this deal is pending approval by the Competition and Markets Authority. Moreover, M&A transactions below GBP 3bn threshold were included in investment volumes.*



Even though invested volumes remain low, the great appeal of the sector can be gauged by the number of operators, developers and players that are planning to develop new structures. The players are both domestic and international, such as the Value One, Camplus, Collegiate, The social hub, Campus X, CRM, Aparto, Stonehill.

PBSA has seen yield movement later than other sectors, but market specific dynamics reflect the relative moves outwards against multifamily yields.

EMEA - PBSA vs Multifamily NIY (min and max)



The high appeal of the sector in the Italian scenario led to prime net yields compression, especially in Milan where they reached the bottom value of 4.70% (-20 bps QoQ, -55 bps YoY) and Rome with 5.00% (-25 bps QoQ, -75 bps YoY), while Florence seems to be on the rise with 5.90% (+50 bps QoQ, +40 bps YoY).

Source: JLL Research elaborations

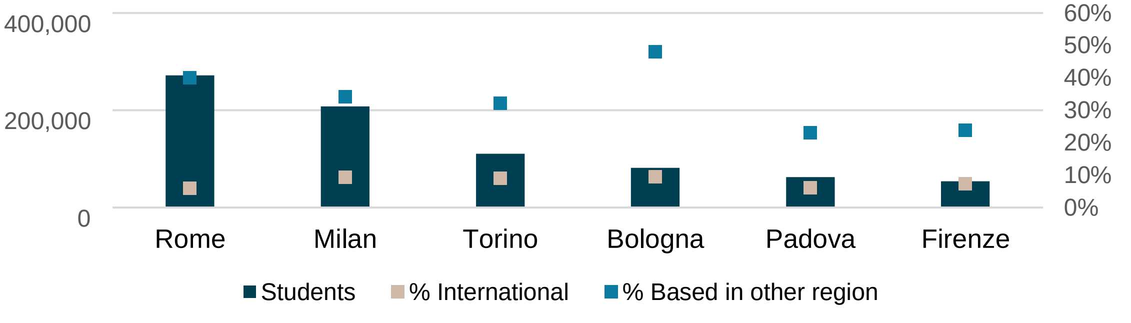
4. Demand and supply

International students' numbers have been on the rise in the past year and expected to grow even further while Europe will continue to have an attractive demographic profile

The number of Italian post-secondary education students was significant in the 2020/2021 academic year, reaching a total of around 1.8 million; the rise was due to the new enrolments, increased by 4% YoY with the return to campus in the post Covid era. International students are also growing significantly, showing a +7% YoY, and especially in Padova (+17%) and Rome (+8%), confirming the appeal that campuses still have.

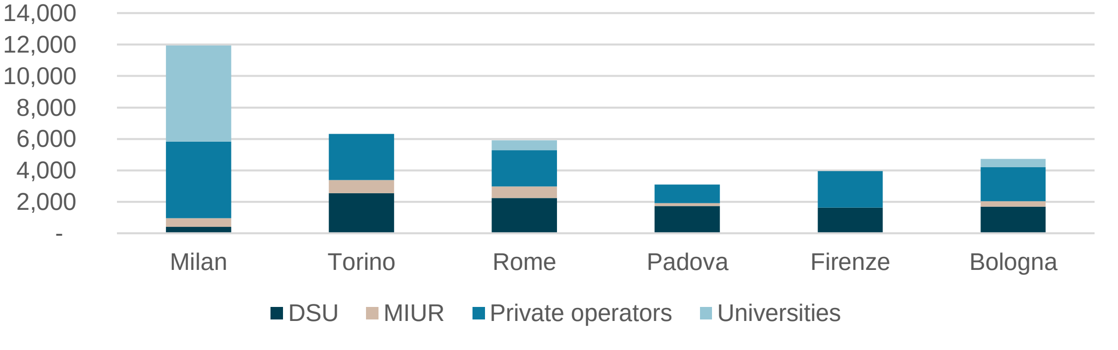
Among the main cities Rome and Milan have the highest number of students, followed by Turin and Bologna. In the same cities we record the highest number of international students in absolute terms, even if the percentage on the total students is highest for Milan with Turin and Bologna (9%) and Rome (6%). Bologna also has the highest percentage of students based in other regions, almost half of total.

Students – 2020/2021



The current bed supply in Italy is over 62,000 units: most of them (66%) are regional facilities under the DSU (Diritto allo Studio Universitario - Right to University Education), 15% are managed by private operators, 11% are directly managed by universities, while the remaining 8% are legally recognised private and public student housings.

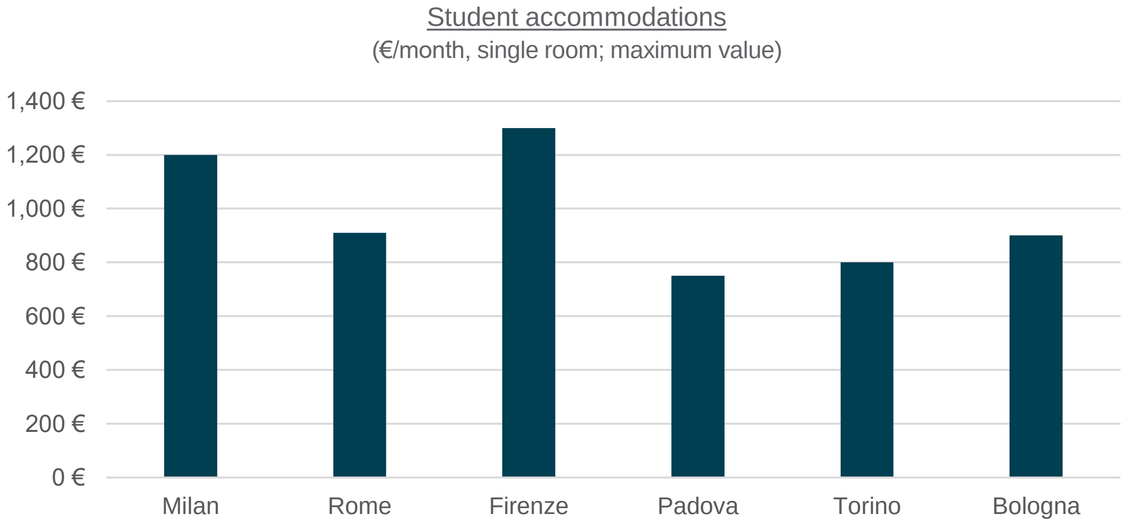
Bed supply



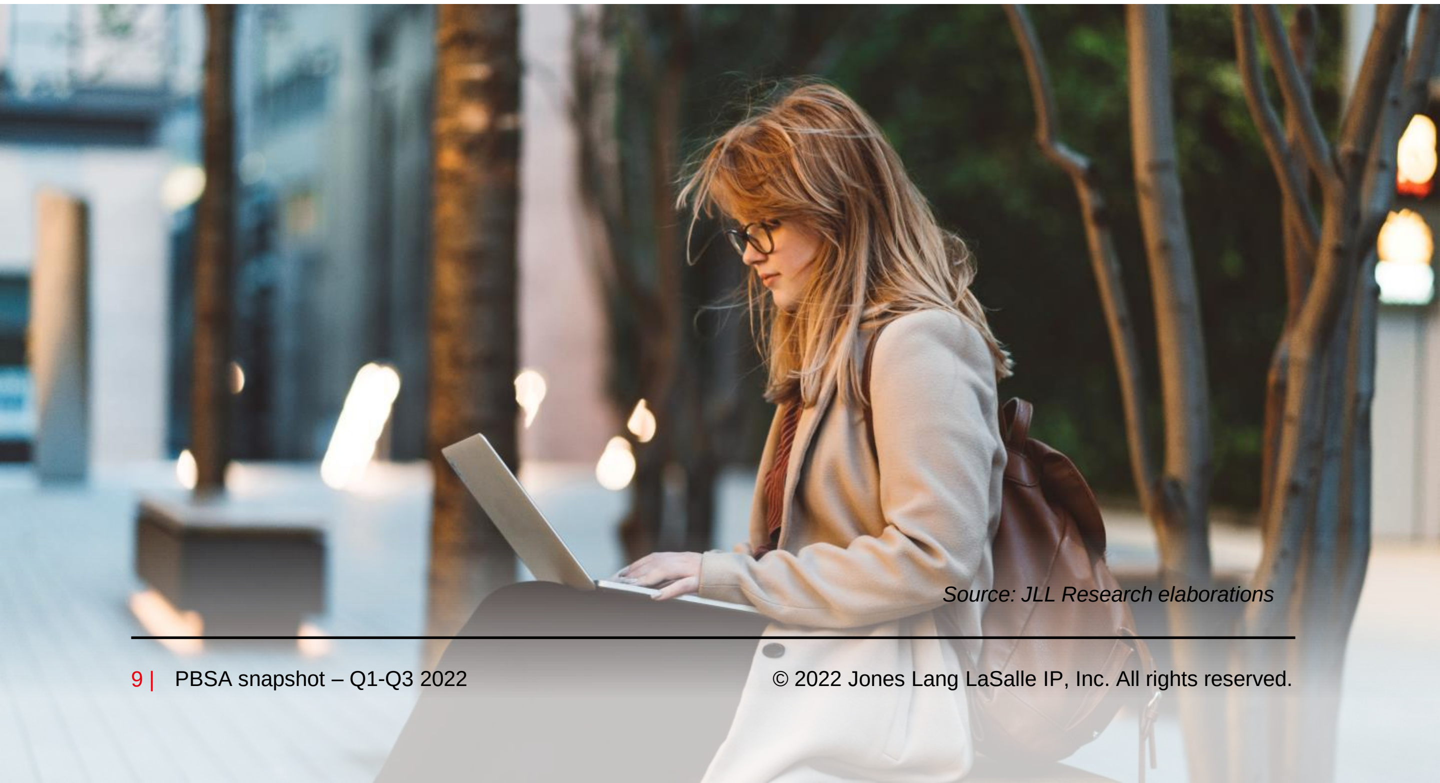
Source: JLL Research estimates and MIUR (DSU) data

5. Rents

The prime rent for student accommodation is higher in Florence (1,300 €/month, max value for a single room) and Milan (1,200), followed by Rome (910).



With recent changes in economy, and energy pricing and supply, PBSA contracts are seeing an emerging trend where **utilities are being capped more regularly.** Although this might be an addition in future European contracts, it is still one of the factors affecting students' housing choice, along with high quality amenities availability in a campus, which can and currently is driving rental growth.

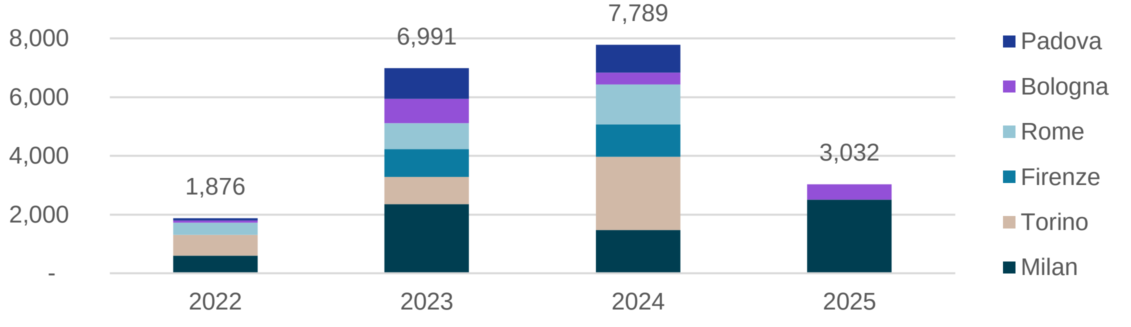


Source: JLL Research elaborations

6. Future availability and completions

The future Student Housing in the main Italian cities supply will see almost 19,700 beds to be completed by 2025.

Completions per year – N° of beds



Milan (7,000 beds) and Turin (4,100 beds) record the highest bed completion rate by 2025, followed by Rome (2,670) and Florence (around 2,050). Of these 19,700 to be added on the market by 2025, 34% of them already under construction, and more than half concentrated in Milan and Bologna.

PIPELINE | Estimated beds to be added in the market by 2025

Milan

New beds **+6,950**

Rome

New beds **+2,700**

Turin

New beds **+4,100**

Padova

New beds **+2,100**

Florence

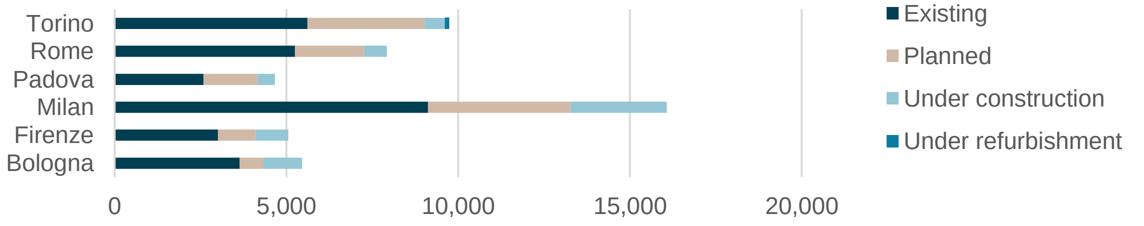
New beds **+2,050**

Bologna

New beds **+1,800**

The future Student Housing availability by 2025 in the main cities will be of almost 49,000 beds: around 60% is existing units, 26% planned, 14% under construction and a small portion under refurbishment.

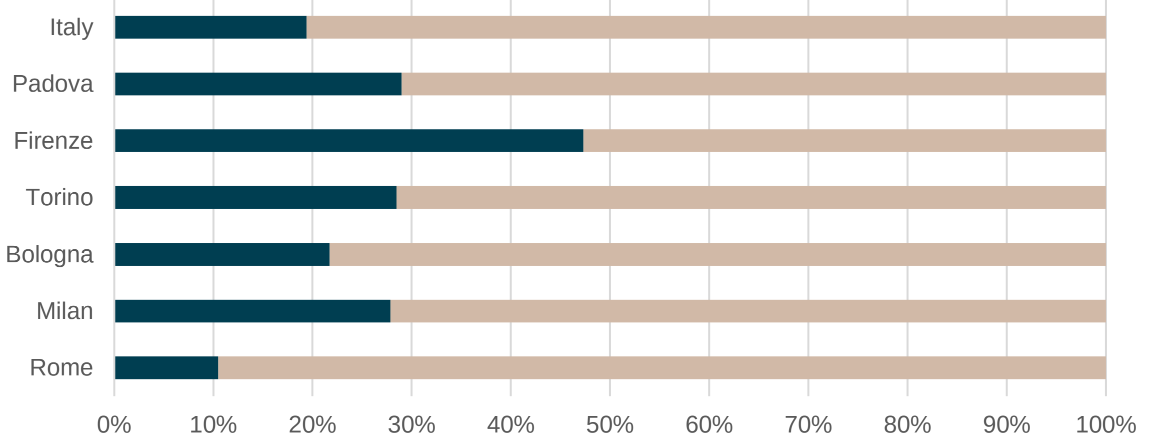
Future estimated bed availability - 2025



Source: JLL Research elaborations

Compared to other EMEA Countries, the Italian market is still young and has a long way ahead, with much space to grow: comparing satisfied with unmet demand, the Italian market in its entirety has a 20% of unmet demand, and still an 80% headroom to grow to fill the unmet demand. On one side of the spectrum we have Florence, with the highest satisfied demand ratio (47%), and on the other there's Rome, with the lowest rate (10.5%), even lower than the Italian market.

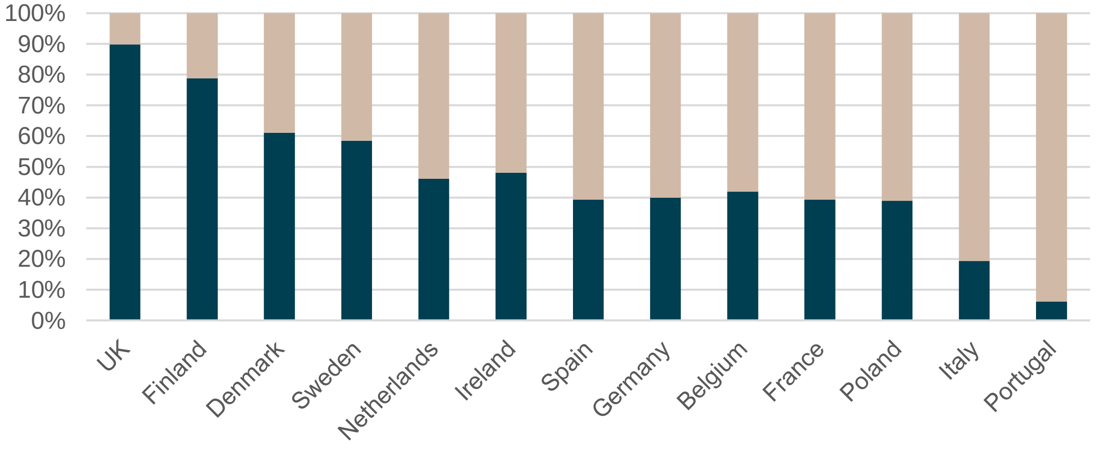
Italy: Satisfied demand vs unmet demand by city



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: Satisfied demand vs unmet demand by country



While UK has almost the same number of students as Italy, its PBSA market is well enstablished: almost 90% of its demand is satisfied, while Italy is one of the last EMEA Countries for satisfied demand.

Source: JLL Research elaborations

New trends in Student Housing

With life going back to normal after the Covid-19 stop on mobility, universities are seeing students not only return to campus, but also **increasing the number of enrolments.**

With the energy crisis and utilities expenses raising, **student housing is rapidly becoming more appealing** to students in order to cut some of their expenses.

In the US, PBSA contracts are seeing an emerging trend, where **utilities are being capped more regularly.** This might be an addition in future European contracts.

Investors in the Italian market are **increasingly requiring ESG compliant assets**: if LEED or BREEAM certifications criteria are not met the asset is harder to sell.

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 get “sold out” during allocations, followed by double rooms. Those who get a double room on their first academic year usually upgrade to a single room the next.

High quality amenities in Student Housings and in Campuses create a premium on rents: they’re very sought after by students, hence by investors wanting to buy performing assets. Incorporating such amenities into an asset has a **minimal impact on running costs** and on building or refurbishment costs for investors and can be absorbed quite fast.

7. Looking ahead

Long-term growth prospects remain above the pre-covid period

After decades of economic stagnation, Italy found its way back to growth in the aftermath of the post-pandemic crisis. Annual average GDP growth from 2011 to 2020 has been generally disappointing, but things are gradually changing. So far, the combination of fiscal and monetary policy easing certainly helped the country to escape economic stagnation.

On the **capital markets** front, the student housing sector is still in its infancy, although we expect investors' demand to ramp up over the coming months, not least because it can withstand higher inflation and it is less pro-cyclical than other real estate asset classes.

The **gap** between **demand** and **supply** remains large. Nonetheless, its growth is extremely important for the market as it would provide a cushion at times of financial market distress because of its more defensive nature.

But the balance of risks remains skewed to the downside

High inflation, tightening financial conditions, the continuation of the **Ukraine** conflict and the uncertain development of the pandemic crisis suggests further uncertainty in the coming months.

Rising consumer prices will squeeze **real incomes** and businesses will continue to suffer **high input costs** due to rising energy prices and disruptions in global supply chains.

Government bond yields have been rising with the 10Y reaching 3.56% on average in Q3 2022, mainly due to a combination of higher market volatility, rising inflation and monetary policy tightening. Therefore, financing costs increased too.

Our Three Scenarios for the Italian Student Housing 2022/2023

Name	Scenario assumptions	Macro Implications	Market Implications
The goldilocks ▷▷	The **Russia-Ukraine** war reaches a solution that ends hostilities. **Energy prices fall** as supply to Europe is re-established. **Confidence recovers** as uncertainty diminishes.	**Inflation pulls back**, therefore central banks limit the increase in interest rates. Both domestic demand and labour market conditions improve, spilling over to the housing market. **Govt bond** yields decrease as inflation pulls back.	**Investments** ramp up as the economic environment improves. **Yield compression** continues as deployed capital increase while the sector consolidates. **Rents** expected to grow as economic conditions improve and development activity to increases. Strong ERV growth.
Muddling-through ▷	The **Ukraine** war **rumbles on** without escalation nor resolution. **Uncertainty** remains **high** but bounded. Market conditions stabilise. **Energy prices** remain **elevated** and government supply and demand policies remain in place.	**Inflation rises** but central banks keep it under control, at the expense of lower growth. Labour market not as tight as the goldilocks scenario. **Govt bond** yields increase as inflation rises and central banks raise benchmark rates.	**Investments** start to consolidate as demand remains supported and investors prefer defensive asset classes. **Yields** stay flat across the board as deployed capital continue and the sector consolidates. **Rents** improve as demand shifts towards assets with stable rental income and rebased rents due to inflation. Solid ERV growth.
Stagnation ▯▯	The **Ukraine conflict escalates** and drives continued financial market volatility. The **energy crisis continues**, pushing prices higher, boosting inflation and **damaging growth**. Costly government intervention is ramped up.	**Inflation rises even more** but domestic demand and labour market conditions deteriorate. Central banks act too little too late and they are forced to increase interest rates drastically, with the economy sliding into **recession**. Risk premia embedded in **govt bonds** is higher than the other two scenarios.	**Investments** fail to increase as the broader economic outlook deteriorates. Rising costs to discourage/delay new development pipeline. **Yields** should de-compress as investors assume a more defensive stance. **Rental growth** remains high as inflation peaks. Moderate ERV growth.

Source: JLL Research

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