PBSA rents soar across Europe as the sector feels the impact of rising inflation

Rents in the PBSA sector are climbing, driven by significant growth in Central and Eastern Europe. New research by BONARD looks at the reasons behind this trend.

The Purpose-Built Student Accommodation (PBSA) sector emerged from the Covid crisis relatively unscathed, with solid demand levels and occupation rates.

But a new trend has now become evident in the sector: rents keep increasing. In some regions, they are rising at a much higher pace than previously observed. Rent levels have been rising steadily in the last few years in the private PBSA sector, by around 1%–3% on average.

However, new research conducted by the rented residential specialist BONARD shows that, on average, rents increased by 9.7% (970 BPS) in the academic year September 2021–September 2022, with some particularly significant spikes in Central and Eastern Europe.

WHAT IS DRIVING THIS NEW TREND IN THE SECTOR?

According to BONARD research – which included an analysis of rents charged from 172 private PBSA providers across Europe and one-on-one discussions with industry players – the reasons behind this trend are shaped by the interplay between increased demand and rising inflation and interest rates.

On the one hand, climbing rents may be the product of the sector's own success: with high occupancy rates and ever-growing demand, the sector can comfortably set higher rents. New, higher-quality PBSA products are also entering the market, boosting the average rent value.

PBSA Rent change

source: BONARD, 2022 (n=172)

BONARD

Rising inflation and interest rates are creating the conditions to sustain a high level of demand for PBSA.

"In this unfavourable economic climate, fewer people will be capable of buying a property. At the same time, increased economic migration is likely," Julia Momotiuk, BONARD's Head of Rented Residential, commented.

"Both these trends will increase demand for private rental properties from the general public, pushing more students out of the private rental market and into PBSA."

On the other hand, rising inflation and interest rates are creating substantial challenges for the sector.

Due to rising inflation, both existing PBSA operators and developers have seen costs climb: staff, utility, maintenance and construction costs have all been impacted, as well as operation costs for non-hedged contracts. Rising interest rates are also making debt obligations more challenging for some developers to sustain.

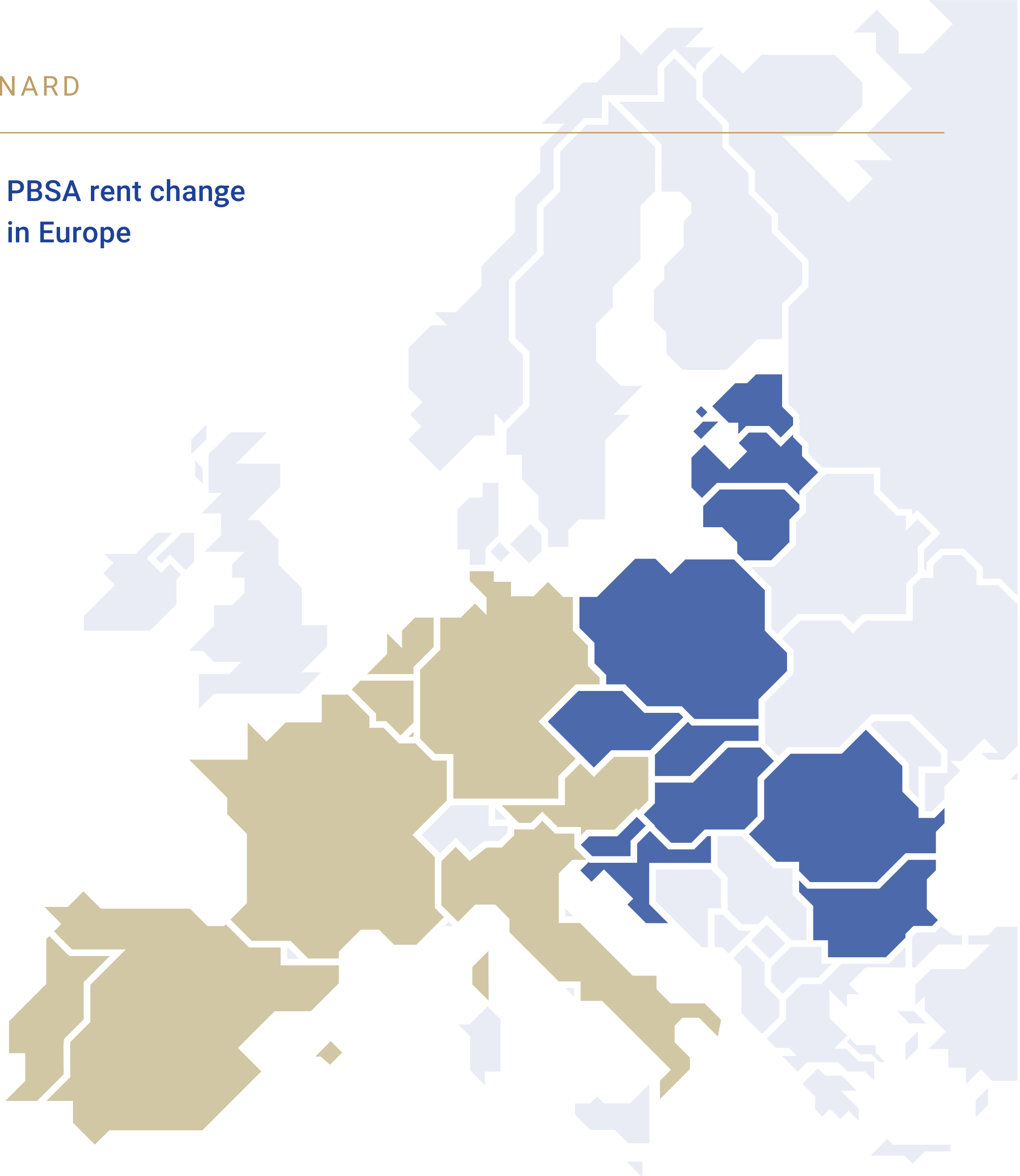
"Our research, and the feedback we gathered from key players in the industry, shows that high student demand will allow private PBSA providers to continue increasing rents. This will help offset the effect of growing costs," Momotiuk said.

"Currently, the student housing market in Europe is facing numerous challenges, and confronting them successfully is crucial to the further development of this industry."

GEOGRAPHICAL DIFFERENCES

Beyond the general upward trend common to the whole of Europe, a much more interesting story emerges once geographical differences are considered.

PBSA rent change in Europe



SOURCE: BONARD, 2022 (n=172)

Comparing local trends across the continent, it is clear that Central and Eastern Europe is experiencing much steeper rent increases than Western Europe. In Central and Eastern Europe, the increase in rates reached an average of 17.4% (1740 BPS), dwarfing the 3.1% (or 310 BPS) rise seen in Western Europe.

BONARD surveyed 141 establishments in Western Europe and 31 in other European countries.

Lithuania experienced the sharpest rent increase: 44% (4400 BPS). The second most significant change was observed in Latvia (19.6%, or 1960 BPS), followed by Poland and the Czech Republic (13.6% and 13.5%, or 1360 and 1350 BPS, respectively).

At the other end of the scale, Portugal and Germany showed only a modest 1.2% and 1.9% (120 and 190 BPS) increase.

The reasons behind these trends are complex, but differences in provision rates between Eastern and Western Europe play a key role, with providers in Western Europe limited in their ability to increase rents by a much larger competitor base.

"In less saturated markets, such as Eastern and Central Europe, there is more room to increase rents," Momotiuk observes.

"The private provision rate is much higher in the more developed and mature markets of Western Europe, where it averages 21%. In other European countries, this is just above 11.2%. This means that providers in Central and Eastern Europe can adjust rents to adapt to the inflation rate and keep their margins at the desired level, without being limited by their competitors' pricing."

In addition, some operators in Western Europe have relatively stable expenditures that have not yet been impacted by inflation, having hedged their costs via long-term contracts with service and materials suppliers. This will allow them to keep rents lower for the moment.

The war in Ukraine is also having a substantial impact on the rental market in Central and Eastern Europe.

Increased mobility of people and businesses, not only out of Ukraine but from Belarus and Russia as well, is resulting in a large influx of renters, which is putting pressure on the region's comparatively limited supply and will potentially change the dynamics of the local market in the years to come.

While it is difficult to make predictions, it is fair to assume that some people and businesses will decide to relocate permanently, creating a high level of demand that will persist to some extent after the end of the conflict.

THE OUTLOOK

With growing demand and high occupancy rates, the sector has been able to offset some of the costs associated with the current economic trends by raising rents. It is still unclear how this trend will continue into next year, but inflation is unlikely to return to pre-Covid levels in 2023/24.

"Operating in these turbulent economic times, PBSA operators, as well as other sectors and businesses, are currently in the waiting game," Momotiuk explained.

However, PBSA is a resilient and profitable asset class even in unfavourable economic conditions, as investors are not as exposed to inflation as they are in other sectors. Unlike in retail or office rentals, for example, rents in PBSA change every year, if not more frequently, and can be adjusted to rise above inflation.

"This feature of the PBSA sector will prove crucial to its continued success, especially as we move into a period which will most likely be characterised by persistently higher inflation rates compared to those the market was used to in the 2010s after the Great Recession."

"OUR RESEARCH, AND THE FEEDBACK WE GATHERED FROM KEY PLAYERS IN THE INDUSTRY, SHOWS THAT HIGH DEMAND FROM STUDENTS WILL ALLOW PRIVATE PBSA PROVIDERS TO CONTINUE INCREASING RENTS. THIS WILL HELP OFFSET THE EFFECT OF GROWING COSTS."

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