

# PBSA

## Purpose Built Student Accommodation Market

in Portugal

JULY 2022

**The Purpose Built Student Accommodation (PBSA) market in Portugal has gained an increasing relevance in the real estate investment market but there is still much room for growth both in Lisbon and Oporto as in other cities around the country.**

### Introduction

The living sector across Europe has been gaining remarkable importance in the real estate investment market, almost equaling, last year, the office market for the first time since there are records.

In Portugal, investment in the alternative living sector has also increased significantly over the last 4 years having represented approximately 6% of the total investment in Q1 2022. With some deals in the pipeline, the total value for this year is set to increase.

The growing attractiveness of the alternative living sector for institutional capital is undeniable. Certainly, the way these assets performed during the Covid-19 pandemic was instrumental in proving their resilience, need and expected growth for the next few years.

In Portugal, modern student housing schemes have contributed meaningfully to the increase in investment in the alternative living sector with important institutional capital having been deployed in several assets operating and showing very good performance.



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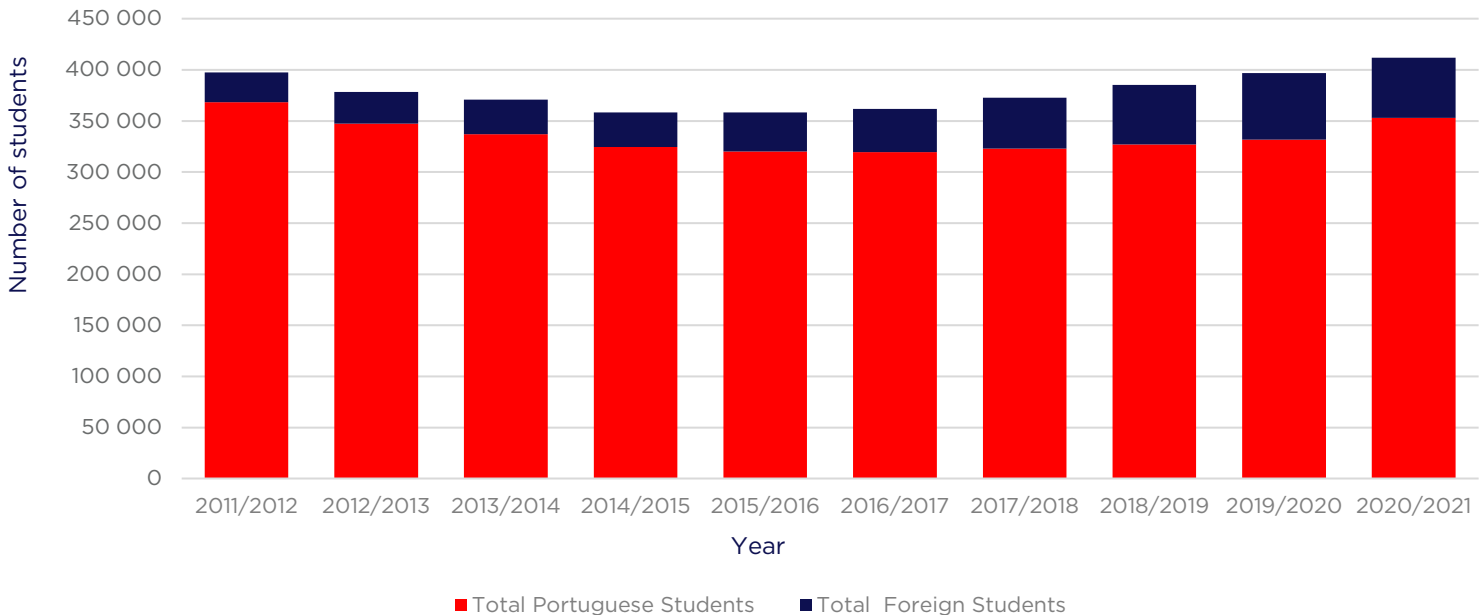
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### Demand

**The total number of students has remained stable in recent years** with c. 380.000 students attending Portuguese universities every year (source: INE). Besides the students, there is also some demand, that is not accounted for in the graph, from young professionals that look for temporary solutions for accommodation.

On the other hand, **the percentage of foreign students has been growing steadily**, contributing significantly for an **increase in the demand for accommodation**. The fundamentals of the country such as the sunny weather, the low cost of living, the excellent levels of safety and the quality and acknowledgement of the Portuguese universities have been leading this growth, with numbers **doubling from 7% in 2011 to 15% in 2020**.

### Evolution of University students in Portugal 2011 - 2021



Within the pool of foreign students, **Portuguese speaking countries such as Brazil and Angola represent the biggest percentage with c. 30%**, followed by European countries and China. The Erasmus student program and some tax benefits conceded to young professionals are also on the top of the list of drivers for foreign students to study or live in Portugal.

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### Supply

**From the Supply point of view**, major steps have been taken in recent years, but there is still room for the market to grow. **Supply is currently supported by 3 types of providers – private, public and religious.**

According to the information available, **the private sector already represents about one third of the number of beds available in Portugal** with a total of about 6,700 beds. However, the market is still controlled by the public sector that historically provides this kind of accommodation to university students, especially covering domestic demand. The prevalence of the **private sector is more relevant in the main cities representing about 60% of the total supply**; the public and religious providers mainly cover the remaining area of the country.

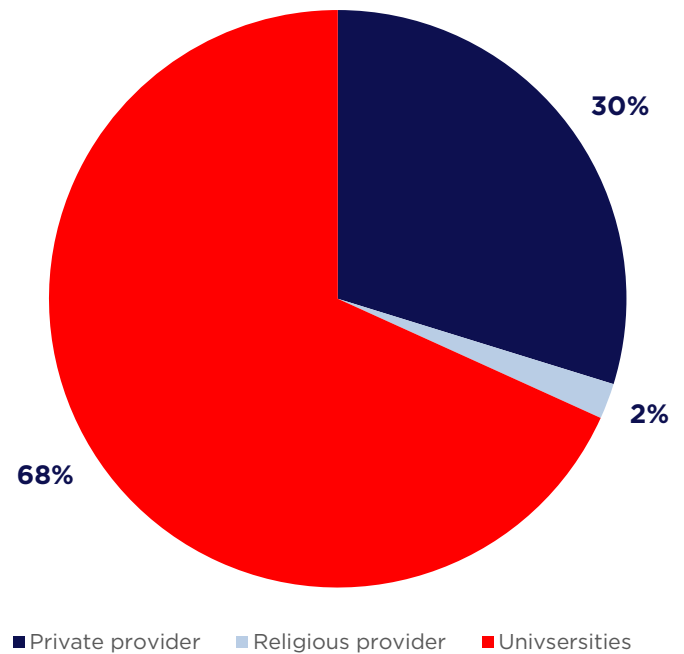
Most of the **public supply is outdated and doesn't offer an attractive option for end-users.**

Another important supply that must be taken into account is the one provided by the private residential rental market that is quite unprofessional and non-regulated and for which **there is no official market data.**

The main drivers for a selection of a specific PBSA scheme are the **location**, the **amenities provided**, and the **cost of rent**. The proximity or easy access to a university or to a major tech or R&D hub is decisive. The availability of retail and different services in the immediate surroundings and the proximity to appealing night life is a huge plus.

**Regarding amenities**, there are some essentials that are standard must haves such as **common kitchens** and **study rooms** or even **chill out lounges**. Other, differentiating amenities that set the difference in the PBSA schemes in Portugal are gyms, a pool or rooftop.

### Providers of PBSA schemes in Portugal



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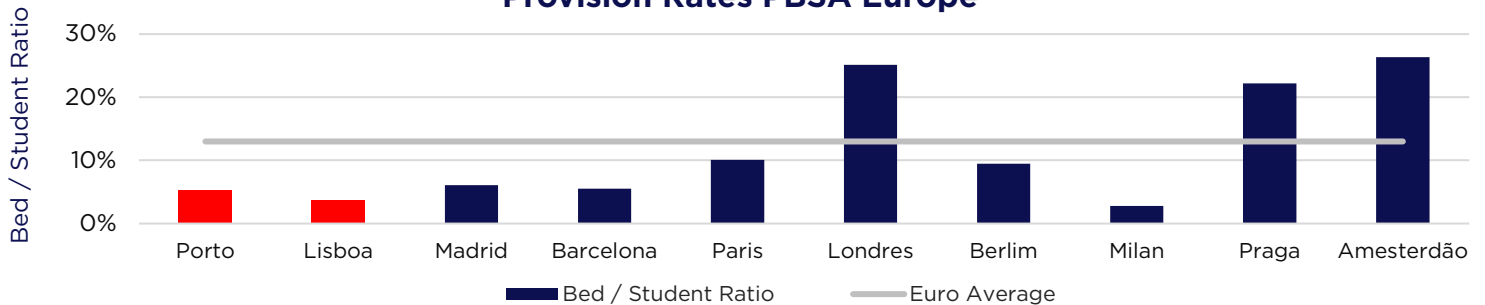
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Aside some projects recently developed, provision rates in Lisbon and Porto are way below the European average. Supply in Lisbon is especially low given the difficulty in identifying good development opportunities at viable prices as these compete directly with the increasingly expensive residential market. Supply in Porto has benefitted from available land zoned for services in and around the main university campus of Asprela.

The existing pipeline of c. 8,000 beds, to enter the Lisbon and Porto markets in the next three years will help to bridge only a part of the demand as current estimations indicate a need of a minimum of 20,000 more beds in these two cities to fulfill growing demand.

**Provision Rates PBSA Europe**



### Investment

There is still much ground to cover in the investment PBSA market in Portugal with only five transactions completed over the last four years, two of which this year – the acquisition of the Milestone Scheme in Carcavelos by Catella and the sale of the Smart Studios Portfolio. Reference yields that serve as a benchmark for the current PBSA market in Portugal sit within the range of 5.40% and 6.00%.

### Key Takeaways

- There is substantial room for growth
- A clear lack of new stock
- Pipeline for the next three years falls short of current demand
- Occupation rates remain historically high
- Growing interest from investors
- Trend for yield compression up to now.

**Watch this space over the coming months for more detailed information on the PBSA market in Portugal.**

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