

Italy Student Housing

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Key real estate investors and developers explore the opportunities and challenges within the Italian student housing market

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INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports present the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled following an exclusive and intimate roundtable in Milan, which gathered leading regional investors and other key market players to discuss opportunities and challenges in the Italian Student Housing sector.



OPPORTUNITIES & OBSTACLES

Major Italian cities such as Milan and Rome are seeing a substantial demand for Purpose-Built Student Accommodation (PBSA), driven by the large student populations creating a robust market for PBSA developments.

Meanwhile, the supply of student housing remains inadequate. In fact, discussions addressed research that revealed Italy's student housing provision rate to be approximately 4%, amid a European average of 12%. Aims among developers are to improve the pipeline of developments to increase that rate closer to 8-9%.

Several challenges hinder the market's ability to meet this high demand. These include planning issues, remediation requirements, and high price expectations, all of which contribute to the slow progress of development projects. Participants reported that many initiatives started in 2017-2018 are still ongoing, illustrating the bureaucratic and logistical hurdles developers face.

The COVID-19 pandemic was reported to have also impacted the progress of student housing developments, and delayed potential advancements in the market. Belief among participants suggested that, if not for the pandemic, Italy may be further ahead in PBSA development.

» **Market Potential**

Participants in the discussion shared a strong belief in the Italian student housing market's potential for growth. The opportunity is considered enormous, with attention coming from both Italian and international players.

Comparisons were made with more developed European markets such as Spain and the UK, which underscored Italy's untapped potential, suggesting that if the existing challenges are addressed, Italy could follow a similar growth trajectory.

Although cautious, institutional investors also show significant interest in the Italian student housing market. The involvement of wealthy institutional capital in some projects indicates a long-term vision and commitment to the market, despite the slow progress and high initial risks.

Developers and investors are not merely focusing on single developments but are looking to build portfolios of student housing facilities across various Italian cities. This strategy aims to create a more stable and attractive investment proposition.

Beyond the major cities of Milan and Rome, other university cities in Italy, such as Padova and Pisa, have significant student populations but lack adequate student housing facilities, representing additional market potential for PBSA developments. Padova, a small city with a university population of nearly 80,000 students, was highlighted for its current lack of any existing PBSA facilities, indicating a ripe opportunity for development.

» **Challenges in Development**

Developing student housing in Italy faces challenges including in the realms of planning, regulatory compliance, and finance.

One of the primary obstacles is the lengthy planning process, including securing the necessary approvals and navigating Italy's regulatory landscape, which takes significantly longer compared to other markets.

This is aggravated further by municipal interference, more specifically, frequently changing requirements and bureaucratic hurdles. Additionally, many development sites require extensive remediation before construction can begin, including addressing environmental contamination and ensuring sites meet health and safety standards. This is both time-consuming and costly.

This highlights the cruciality of having a strong local presence and partnerships with Italian entities in order to realise successful development in Italy. International developers cannot rely solely on remote management; they need to establish a local footprint to navigate the market effectively and engage with local stakeholders.

» **Financial Challenges**

Financial challenges play a significant role, as rising costs of construction and labour pose a substantial challenge. In an environment of rising interest rates and cost inflation, financing new projects becomes more expensive, squeezing margins for developers.

Planning and cost management before and during construction must be meticulous and detailed in order to make projects feasible. Developers must manage every aspect of the project, from procurement to on-site execution, to avoid cost overruns and delays.

Securing sites for development is a particular hurdle for developers, often resulting in them using their own capital to acquire land or partnering with local entities, a process complicated by the need for long-term commitments and the challenges associated with unconditional site purchases, which may not be developed within the expected timeline due to long planning periods, ultimately adding to the cost due to prolonged holding times and financing costs.

The high-risk nature of student housing development in Italy demands a careful balance of risk and reward. Developers need to manage risks effectively to make the investment attractive to potential financiers, demonstrating a thorough risk management strategy, and the long-term viability and profitability of projects despite high initial costs and regulatory challenges.

» **Construction Cost Management**

Among the strategies discussed for managing construction costs was the early involvement of contractors, allowing for better planning and optimisation of construction choices, which can significantly reduce costs. Another was the approach of collaborative contracting, allowing for the collation of experience of various general contractors, architects, and other stakeholders, and allows a close working relationship right from the design phase, once again optimising construction to ensure a smoother project execution and reduce costs.

The use of off-site construction methods, particularly prefabrication, was also highlighted during discussions. Using prefab structures like premade walls, columns, and façade elements was reported to achieve a reduction in construction time by 20% to 25% compared to traditional methods, while maintaining similar costs. These methods also minimise on-site labour, reducing the risk of delays and unexpected costs due to weather or other site-specific issues.

The matter of innovation also arose during discussions, with participants emphasising the need for integration of new technologies in order to improve efficiency and manage costs. More specifically, technologies such as Building Information Modeling (BIM) and other digital tools can enhance project planning and execution.

» **Managing Stakeholders**

Building strong relationships with local authorities, universities, and other stakeholders is essential for successful project development, ensuring that student housing developments align with the needs and expectations of the local community.

Local Community

Engaging and addressing the concerns of the local community, particularly local residents, helps build trust and acceptance for student housing projects, fostering a positive relationship that supports the project's success. Without community buy-in, projects may face resistance and delays, making community engagement a strategic priority.

Community concerns often revolve around issues such as increased traffic, noise, and changes in neighbourhood dynamics. Developers need to proactively address these concerns through transparent communication and by implementing measures that mitigate negative impacts.

It is important that this engagement with the community is nurtured in the long-term for the sustained success of student housing projects. Developers should continue to involve community members in discussions about maintenance, improvements, and future developments.

Universities

Universities are key stakeholders in student housing projects. Collaborating with universities can ensure that developments align with the needs and expectations of students, leading to higher occupancy rates and better integration with campus life.

Universities benefit from having high-quality, nearby housing options for their students, which can improve student satisfaction and retention. Developers, in turn, benefit from a stable and predictable tenant base. These mutually beneficial outcomes can lead to joint initiatives and drive projects' success.

Establishing these strong, lasting relationships with universities and other institutions can also provide a foundation for future collaboration and expansion. As trends and needs in student housing evolve, these relationships maintain developers informed and facilitate access to new opportunities.

Municipalities

Engaging with municipalities and regulatory bodies is essential for navigating the complex planning and approval processes in Italy. Developers need to work closely with these entities to ensure compliance and to expedite project timelines.

Municipal interference can pose significant challenges in this regard, suggesting that proactive engagement and forming public-private partnerships (PPPs) can help mitigate these issues by addressing funding gaps, streamlining approvals, and leveraging public land or facilities for development.

MARKET INSIGHTS & ECONOMIC REALITIES

Today, parents are increasingly financing the accommodation of students, and willing to substantially invest in their children's education and housing, which significantly influences the affordability equation.

Student housing is framed as an essential good, emphasising its necessity for students and their families. This perspective can justify certain price levels, especially if the accommodations offer significant value in terms of location, amenities, and quality.

However, while there is a market for luxury student accommodations, there is also a critical need to provide more affordable options to cater to a broader student demographic.

» **Market Positioning: Luxury vs. Budget**

Developers with a long-term view may be more inclined to invest in affordable housing as part of a broader portfolio strategy. By providing a mix of affordable and premium options, they can ensure stable occupancy rates and sustained demand over time.

Creating a platform with multiple student housing developments can help manage risks and improve affordability. By spreading costs and investments across several projects, developers can achieve economies of scale that benefit both premium and affordable segments. This strategy not only stabilises the market but also enhances the overall attractiveness of student housing investments.

Collaboration with universities and government bodies can assist with affordable housing solutions, involving subsidies, grants, or other financial incentives to lower the overall cost for students.

In some cases, municipalities may even impose requirements for developers to include a certain percentage of affordable housing within their projects. This ensures that developments contribute to the social fabric of the community and provide options for students from various economic backgrounds.

Meanwhile, smaller university cities and secondary markets often offer lower land and construction costs, making them ideal for developing affordable student housing that meets local demand.

» International Comparisons

Participants drew on experiences from other markets, such as the UK and Spain, providing valuable insights for developing student housing in Italy.

The UK, particularly in cities like London and Edinburgh, serves as a benchmark due to its well-developed infrastructure and high penetration rates of PBSA. Spain also demonstrates significant developments in student housing, highlighting the importance of overcoming initial market entry challenges to establish a successful PBSA sector.

In markets like the UK and Spain, early adopters of PBSA were often international students, which helped establish demand and viability before expanding to local students. In contrast, Italy has seen many early adopters of student housing being Italian nationals, indicating a strong local demand from the start.

International investors bring valuable experience from other markets, and learning from the regulatory environments of more mature markets can help Italian developers streamline planning processes and manage municipal interactions more effectively.

However, Italy presents unique challenges that international experience alone cannot overcome. These include lengthy planning processes, high remediation costs, and municipal interference. International developers must adapt to the local context, including the specific economic constraints of Italian students and their families, which require tailored strategies, differing from the international trend where initial demand was driven by international students.

Image: GRI Club / Midjourney



PROPTech IN STUDENT HOUSING

The possibilities for proptech solutions in student housing are abundant. These solutions now enable the integration of various building systems to provide comprehensive management tools, including integrating energy management systems with heating, ventilation, and air conditioning (HVAC) systems.

These smart building systems provide real-time data on building performance, helping managers make informed decisions and quickly address any issues. Using sensors and data analytics, proptech can enable predictive maintenance, identifying potential issues before they become major problems. This proactive approach reduces downtime, extends the lifespan of building systems, and lowers maintenance costs.

Student Experience

These solutions can also provide control to the tenants themselves, allowing students to control room settings, report maintenance issues, and access building amenities, ultimately enhancing the student living experience.

These solutions also go one step further, with the implementation of high-speed internet and smart home technologies, such as keyless entry and automated lighting, making student housing more appealing to tech-savvy students.

Energy Optimisation

Perhaps more interesting to investors is the energy optimisation and cost reductions that these solutions can provide. Energy management, in particular, is a significant cost factor in student housing due to high occupancy and energy intensity, making the incorporation of proptech solutions to monitor and reduce energy consumption essential.

Building Management Systems (BMS) and other smart technologies optimise energy use and lower operational costs, making housing more sustainable and attractive to both environmentally conscious investors and tenants.

As real estate's commitment to environmental responsibility gains priority among market players, tools which allow for strategic sustainability reporting, including reports on energy usage, carbon footprint, and other sustainability metrics, provide a competitive edge in the market, particularly among ESG-focused investors.

Operational Management

Other operational aspects of student housing management can also benefit from proptech solutions, including automated systems for booking, billing, and maintenance requests, reducing administrative burdens and improving efficiency.

These technologies help manage properties serving both students and short-term guests, making it easier to switch between different operational models and enabling the potential for mixed-use models within properties.

Risk Mitigation

Fire safety has always been an important aspect in densely occupied student housing. With the rise of electric vehicles, and the associated risks with lithium ion batteries, this aspect is gaining even more importance, and advanced fire detection systems are crucial.

Adapting to these new risks requires continuous evolution of technology and proptech solutions. Demonstrating how technology mitigates risks related to fire safety, energy costs, and maintenance, builds investor confidence and makes student housing developments more attractive to potential investors.

Implementation Costs and Management

While proptech offers many benefits, the initial costs of implementation can be high. Developers need to weigh these costs against the long-term savings and value enhancements that these technologies bring.

Funding and financial planning are crucial to ensure that investment in proptech yields positive returns without straining the project's budget. Integrating new technologies with existing systems can be complex and requires careful planning and execution.

Ongoing management and updates are necessary to keep these systems running smoothly and effectively. Training for staff and clear protocols for technology use are essential to maximise the benefits of proptech solutions.

Image: GRI Club / Midjourney



SHORT-TERM RENTALS & MIXED-USE STRATEGIES

Operators in the student housing market are increasingly exploring short-term rentals during off-peak periods to maximise revenue. Renting out rooms to tourists or short-term visitors during summer months or holiday breaks can optimise property use and enhance profitability. These mixed-use models can provide flexibility in pricing and occupancy management.

This model of revenue maximisation through short-term rentals during off-peak periods has been successfully implemented in cities with high tourist traffic. These models capitalise on robust demand for short-term stays, particularly in urban centres. However, the effectiveness of this model varies significantly on local market dynamics, and markets with less tourist traffic may not benefit to the extent that justifies the increased operational challenges.

These mixed-use models pose significant risks to student community cohesion, operational efficiency, and long-term viability. Developers need to adopt a balanced approach, weighing the short-term financial benefits against the potential long-term impacts on their brand and property value.

Financial gains must not come at the expense of the core mission, and many developers focused on providing high-quality student accommodation may find that prioritising a stable and supportive environment is more beneficial in the long run than pursuing short-term profits.

By maintaining a clear distinction between student housing and hospitality services, properties can position themselves as dedicated student residences, which helps attract long-term tenants and secure institutional support.

Student Community

Integrating short-term rentals into student housing requires careful management to avoid disrupting the student community and negatively impacting long-term tenants. This dual-use approach demands a delicate balance to ensure that the introduction of transient guests does not undermine the stability and sense of belonging that are crucial for student well-being.

Furthermore, students may feel uncomfortable or unsafe sharing common areas with strangers, which can negatively impact their overall living experience. This can lead to students being less likely to use common areas such as lounges, study rooms, and kitchens, and also discourage them from participating in communal activities, which are essential for their social and academic development.

Engaging with key stakeholders - students, universities, and local authorities - is essential in pursuing this type of dual-use integration. Their feedback and collaboration can offer valuable insights into maintaining community standards and meeting regulatory requirements.

Operational Challenges

Managing a dual-use property that serves both long-term students and short-term guests is operationally complex, requiring additional services such as cleaning, laundry, and security to cater to the needs of short-term tenants, increasing operational costs.

The frequent turnover associated with short-term rentals can also lead to increased wear and tear on the property, contributing to higher maintenance costs and more rapid deterioration of the premises. Buildings designed primarily for student use might not withstand the high turnover and intensive use typical of short-term rentals, leading to additional refurbishment needs.



LONG TERM VISION & MARKET MATURATION

Despite the significant challenges faced, discussions recognised the substantial demand and opportunity in the Italian student housing sector, with developers and investors focusing on the long-term vision for significant growth in the market, committed to establishing a presence and seeing through long-term projects.

Learning from the slow initial uptake and subsequent growth in other markets can inform a strategic vision for Italy, including fostering partnerships with local entities and leveraging international best practices to accelerate development.

Central to this vision is the creation of a comprehensive portfolio of student housing facilities across various Italian cities, mirroring successful strategies in markets like the UK. This strategy aims to spread risk, leverage economies of scale, and meet diverse market needs. Building a presence in secondary markets can diversify the portfolio and tap into untapped demand, contributing to the overall growth and maturation of the market.

Furthermore, by developing multiple properties, developers can create a more stable and attractive investment proposition, ensuring consistent revenue streams and higher asset valuation. A key aspect of this vision is ensuring that student housing developments are of a high quality and incorporate sustainability, ESG principles, and modern amenities and technologies, both to attract institutional investors and to meet regulatory expectations.

The market maturation process is expected to be gradual, with developers learning from each project and progressively improving their strategies. This iterative approach allows for continuous adaptation to local conditions and evolving market dynamics. Experiences from initial projects will provide valuable insights that can be applied to future developments, helping to refine planning, execution, and management practices.

Engaging with regulatory bodies and institutions is crucial for market maturation. Developers need to work closely with local authorities to streamline planning and regulatory processes, while also building strong relationships with universities and other educational institutions to support occupancy rates and community integration.

The Italian market remains unique, and a deep understanding of local conditions is vital, meaning an on-the-ground presence and partnerships with Italian entities are essential.

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