# Canadian PBSA
# A sector with plenty of room for growth

**With ambitious immigration and international education policies, Canada faces an unprecedented demand for student housing.**

**BONARD experts, together with key stakeholders in the PBSA space, discuss how the sector can attract the capital it needs to reach its full potential and serve communities across the country**

In the summer of 2010, the University of British Columbia had a waitlist of 3,200 students for its student residences. Over 5,500 beds have been added since then, but now the waitlist exceeds 8,000 students.

*"Demand is outstripping supply and the gap is growing,"* explains Andrew Parr, Associate Vice-President, Student Housing and Community Services at The University of British Columbia.

*"Our waitlist has grown by the same number of beds we have added."* This is a country-wide issue. With 800,000 student visas issued in 2022, demand is *"extremely high and not expected to fall,"* states Aly Damji, Managing Partner, Real Estate, at Forum Asset Management.

However, despite ambitious immigration and international education policies, the Purpose-Built Student Accommodation (PBSA) sector in Canada is underdeveloped.

Jonathan Turnbull, Managing Director at Harrison Street, explains that this situation leaves students with fewer options;

*"Our schools are unable to provide the needed beds. And our private sector has not built the needed product,"* he says.

While the PBSA supply and demand gap is a problem in other study destinations, it is particularly pronounced in Canada.

An extensive study conducted by BONARD assessed the development of the sector in 24 student cities in Canada. In the cities surveyed, 856 PBSA assets are currently offering a total of 165,762 beds, but only 46 new assets with 16,735 beds are in the pipeline, a figure dwarfed by the impressive rise in international student numbers [see graph: Future of the Market].

BONARD data shows that the total provision rate is 10.3% (16% in the off-campus/private sector) while half of all student cities have a provision rate of less than 10%.

*"The provision rate in Canada is one of the lowest in the world,"* comments Veronica Green, Vice President of Development at Slate Asset Management.

Julia Momotiuk, BONARD's Rented Residential Director, adds:

*"The provision for off-campus options is lower than the national average even in extremely popular student destinations such as Vancouver and Toronto."*

The supply and demand gap is even more challenging for colleges. Paul Ertzly, Senior Director Business Property Finance at Bank of Montreal, explains: *"The industry is strong, but the focus is on universities and not colleges."*

This could be a growth opportunity, he explains, because there is a large influx of international students starting to attend colleges instead of universities due to cost.

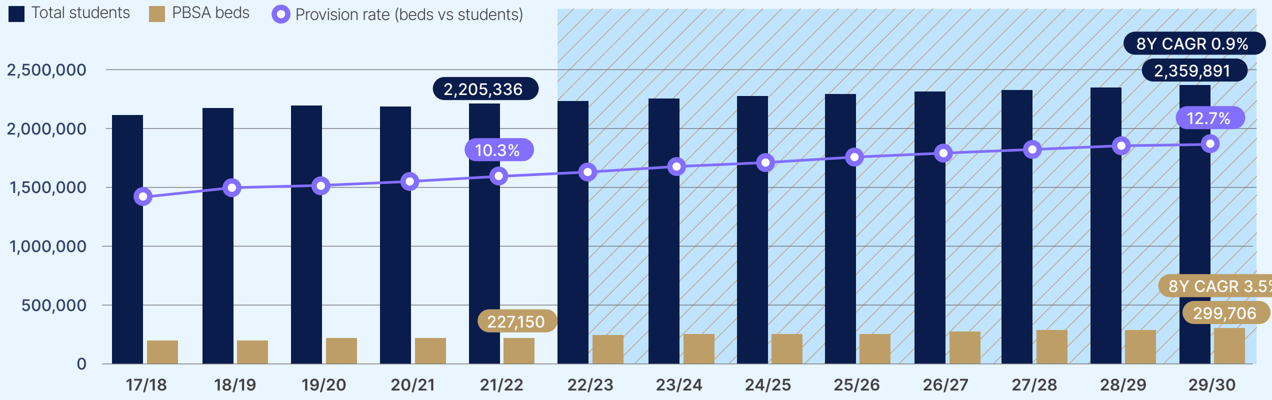
However, he adds: *"Colleges don't have the same level of land availability for building on campus and historically, PBSA has not been developed for colleges to the same level as universities."*

CONTINUE READING THE ARTICLE ON NEXT PAGE

**"Accurate, timely and in-depth data is crucial for the development of the sector, as it gives evidence-based and actionable insights to all stakeholders involved: federal and local government, developers, investors and institutions."**

**Julia Momotiuk, MRICS**
Rented Residential Director, BONARD

## Future of the Market




SOURCE: BONARD, 2023

CASE STUDY – WATERLOO

## The Canadian capital of PBSA

The city of Waterloo is the Canadian capital of PBSA, observes Tanja Curic, Senior Policy Planner Community Planning for the City of Waterloo.

The city, she explains, designated a series of zones to allow higher-density development in recognition of the need to accommodate an increasing population, with several of those zones in proximity to the city's three post-secondary institutions and near-campus neighbourhoods. One of these, Northdale, has seen more than 5,000 units (over 8,000 beds) and 400,000 square feet of non-residential and commercial space built since 2012.

Curic sees growth opportunities in on-campus bed construction and public-private partnerships, and suggests that institutions should be mandated to share their 5- to 10-year enrolment plans with municipalities for better planning.

Among the main obstacles to the development of private PBSA in Canada, beyond costs, lack of funding and lack of access to financing, she points to a lack of student housing data;

*"The city does not, nor can it, label housing through its zoning bylaw or licensing by-law as 'student housing,' because under the laws of Ontario, students, similar to any other group, are free to reside in any housing type in any neighbourhood,"* she explains. *"This is the reason why the Waterloo Town and Gown Committee produces a Student Accommodations Report that focuses on supply, demand, and the results of a student housing survey in order to drive informed action by its members."*

*"This is a commendable initiative,"* Momotiuk observes. *"Accurate, timely and in-depth data is crucial for the development of the sector, as it gives evidence-based and actionable insights to all stakeholders involved: federal and local government, developers, investors and institutions.*

*"The Rented Residential team at BONARD is proud to support the sector with dedicated country-wide statistics. Our latest survey monitored PBSA establishments catering for students from 192 universities and colleges across 24 student cities in Canada."*

## The diverse needs of the education sector

The situation is consistent across the country, with only Waterloo standing out with a surge in PBSA development thanks to policies designed to support and fast-track new developments (see more in the box Case study – Waterloo).

The message is simple, Varga explains. Canada needs more PBSA assets, but building more is not enough: there needs to be a more differentiated product as well.

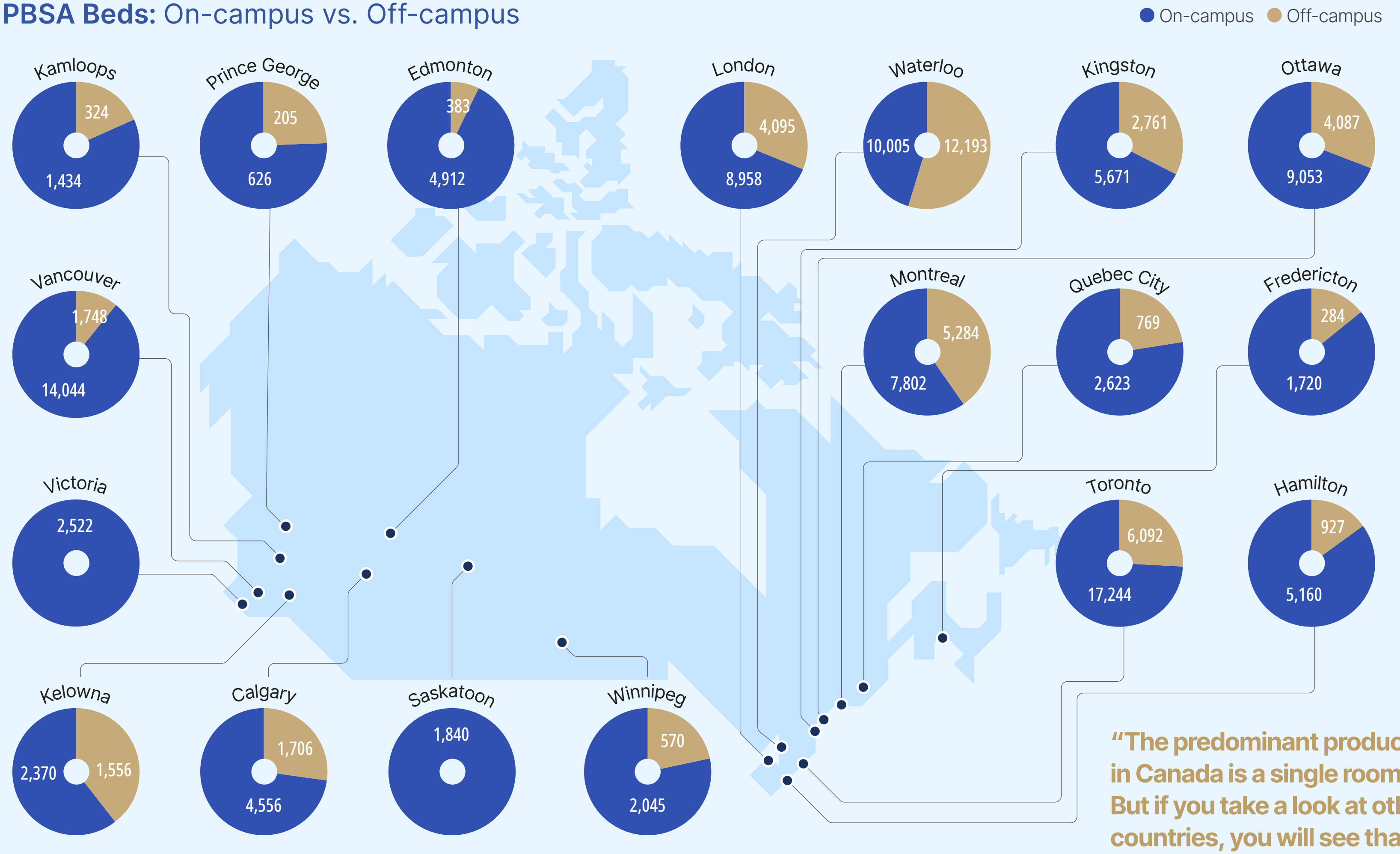
*"The predominant product in Canada is a single room. But if you take a look at other countries, you will see that single studios are one of the most popular products,"* he explains.

Beyond product diversification, developing different options for students is also crucial. Brent Brownlee, Director, Campus Services at Algonquin College, explains that Canada needs affordable student housing. Inflationary pressures on rent have made traditional residences unaffordable for many students, and international students, the target area of growth for many institutions, are looking for alternative options;

*"We need to look at traditional residences, but also we need to understand that many of the international students that are coming to our province [Ontario] are not looking for that type of offering,"* he explains. *"In a market where we are trying to grow the number of international students in Canada, it's important to find ways to provide inventory in all those categories."*

The disconnect between what students can or expect to pay for housing compared to the cost of feasibly developing new housing is a key factor further complicating the PBSA sector supply gap, Jack Federer, Partner at Tilbury Capital, explains. He adds: *"Without a shift in market dynamics, housing affordability for students in Canada will remain a challenge for the foreseeable future."*

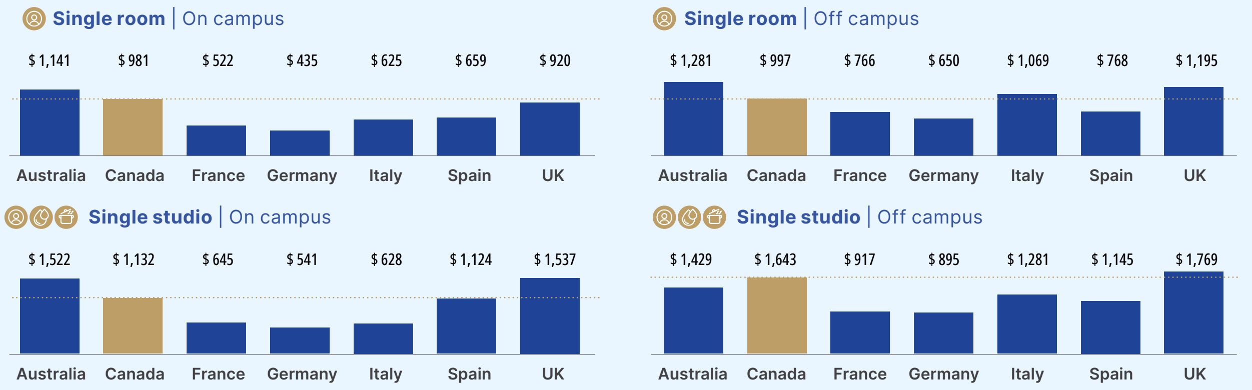
## PBSA Beds: On-campus vs. Off-campus




**"The predominant product in Canada is a single room. But if you take a look at other countries, you will see that single studios are one of the most popular products."**

**Martin Varga,**
Real Estate Business Development Director, BONARD

## Rent Levels: Monthly Rent per Person




SOURCE: BONARD, 2023 NOTE: Average monthly rents in selected cities per room per person, adjusted to include VAT and utilities, exclude meal plans, reference year 2023.

Top 10 cities by the monthly PBSA rent level (single room)

| | Total | Off-Campus | On-Campus |
|---|---|---|---|
| Vancouver | $1,170 | $1,567 | $1,002 |
| Toronto | $1,146 | $1,467 | $1,116 |
| Ottawa | $1,038 | $916 | $1,068 |
| Hamilton | $1,038 | $800 | $1,184 |
| Guelph | $1,027 | $743 | $1,043 |
| Halifax | $1,020 | $1,067 | $1,015 |
| Edmonton | $1,000 | $794 | $1,019 |
| Kingston | $990 | $936 | $1,088 |
| Montreal | $901 | $970 | $876 |
| Kelowna | $879 | $1,086 | $793 |

## A unique opportunity

The lack of private and public investment has been one of the main barriers to the development of the PBSA market, and this is why the education sector's diverse needs are still unmet.

Institutional investment would be the single most significant and helpful driver of change, according to all stakeholders.

*"The public investment in new beds at our top-tier schools has not kept up with new enrolment, and the beds shortfall has been increasing across the country,"* Turnbull explains.

*"Also, the early-stage nature of the private PBSA industry in Canada has made it difficult to attract traditional equity capital sources to the sector compared to other more established real estate investment categories."*

In other countries, investment – especially from private investment groups – had a key role to play in the development of the sector, Varga explains;

*"As we can observe in more mature markets, such as Australia or Europe, more investments from private stakeholders and investors enabled the off-campus sector to develop faster, as well as to diversify, and create a portfolio of targeted products that offer students a significantly better experience,"* he comments.

But while the relative youth of the Canadian PBSA sector could be seen as unfavourable by some investors, the opportunity in Canada is unique, combining the room for expansion of a developing market with the rent levels typical of countries with a more mature PBSA sector.

According to BONARD data, rents for the two most popular PBSA options, a single room or a single studio, stand at CA$906 and CA$1602 on average.

*"Canada's rent levels can be directly compared to those in more mature markets such as the UK. It should be noted that the sector in Canada has reached much higher rents than other markets such as Italy and Spain,"* Varga explains.

## Supporting the sector's success

Developers, investment firms and institutions are focused on improving the PBSA sector's ability to cater for the education sector's needs.

Public–private partnerships could be a promising growth opportunity, and stakeholders report that interest in third-party partnerships is on the rise.

Damji observes relationships with universities and colleges as the largest opportunity for growth in the PBSA space, as many institutions have a strong voice in their community and can have a meaningful impact on the ability to develop in a timely manner.

However, he warns: *"A unique skill set is required for developers to manage these third-party relationships."*

Intermediaries who know the sector and are able to manage the schools' expectations are needed, as Henry Morton, President at Campus Suites, explains.

For investment management firms, the sector is very attractive: its current supply and demand gap is forecast to widen as demand is growing much faster than supply.

**"More investments from private stakeholders and investors enabled the off-campus sector to develop faster, as well as to diversify, and create a portfolio of targeted products that offer students a significantly better experience."**

Martin Varga,
Real Estate Business Development Director, BONARD

To channel investment into PBSA, firms are promoting the sector's visibility worldwide and educating investors about the opportunities it can offer.

## New channels for investment

Some barriers are preventing the sector from attracting the capital it deserves.

While there has been an increase in the focus of global institutional capital on the Canadian market, Turnbull explains, there haven't been many new entrants committing to the market, possibly due to increased construction and debt costs driven by the macroeconomic conditions of the past two years.

Wolff Wied, Founder at Veda Living, observes: *"Compared to the previous years, there are more big players entering the market, but there is still no true Canada-wide player."*

The government, Green comments, needs to provide further support to sustain institutional interest;

*"Implementing continuous programs through the Canada Mortgage and Housing Corporation (CMHC) that promote high-density developments and streamline bureaucratic processes, fast-tracking applications for building permits, and encouraging the construction of energy-efficient buildings are three critical steps that can ease the PBSA development process,"* she explains.

Land leases on campus would also be a key factor to enable the sector to develop more student housing stock in the next 3–5 years, adds Sandy Harrington, Managing Director, Real Estate Finance at CMLS Financial.

A mindset shift, Parr states, is also needed in the education sector. *"Post-secondary institutions and other schools that invite international students to Canada need to shift their thinking about housing – it needs to become part of a school's responsibility."*

CONTINUE READING
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## Helping to alleviate the housing crisis

**The PBSA shortage is part of a bigger housing crisis in Canada. *"The national vacancy rate for all housing in Canada is below 2%, the lowest in decades – it is even lower in major urban centres and university towns,"* Damji explains.**

*"All this has led to a roughly 455,000 bed shortfall in PBSA in Canada."*

As students don't have enough options in PBSA, they have to rely on the already undersupplied private rental market. Therefore, there is a role to play for a more developed PBSA sector to alleviate Canada's housing shortage.

Of the international students enrolled at UBC, Parr explains, 41% live in a residence, while the others live elsewhere, most renting privately.

*"By not being able to live on campus, they are taking a unit away from a non-student tenant,"* he says.

Furthermore, the private rental market can be more expensive for students than PBSA.

Damji explains: *"Rising costs and a scarcity of affordable rental options are a result of the housing crisis, posing significant challenges to students trying to study and afford basic necessities.*

*"PBSA will be part of the solution to this housing crisis, alleviating some of the pressures facing students. PBSA presents one of the only affordable rental options for students, and this is a major theme impacting our investment and development strategy."*

Government red tape, cost of land and cost of construction are three barriers to investment that need to be tackled, Parr comments;

*"The government should facilitate investment in student housing by allowing public sector institutions to borrow from the marketplace,"* he explains.

**"Despite the challenges of the macroeconomic environment in recent years and the relatively young status of the sector, Canadian PBSA still offers a unique opportunity to investors."**

*"Introducing new and effective investment models will greatly help to create channels for investment and will help post-secondary institutions make their own investments as well. There is lots of room in this marketplace for both private and public institutions."*

## Recognizing the potential of the PBSA sector

Despite the challenges of the macroeconomic environment in recent years and the relatively young status of the sector, Canadian PBSA still offers a unique opportunity to investors.

The market is in a state of transition, Morton observes. While there are objective challenges given the current economic circumstances and not many acquisitions are being transacted on an annual basis, it is a uniquely attractive time to invest.

Bernard Luttmer, Managing Director at Podium Development, adds: *"Growth in our sector is inevitable; the unprecedented demand in Canada is obvious and eventually more comps will be available to support the development. Those investors that move in first will be rewarded."*

Developers also maintain their optimism about Canada's student housing market, Green says;

*"It's essential that we recognize the untapped potential the PBSA sector holds,"* she adds.

*"With the right combination of government support, private-sector partnerships, and individual efforts, Canada's PBSA sector can thrive and continue to attract both domestic and international investors."*

Watch our **latest webinar** focused on **Canadian PBSA**


**The BONARD team would like to thank all the experts and stakeholders who contributed their time and expertise to this research paper**

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- **Henry Morton,** President, Campus Suites
- **Jack Federer** Partner at Tilbury Capital
- **Jonathan Turnbull** Managing Director, Harrison Street
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