

## ECONOMIC VIEWPOINT

# Opportunities and Challenges of Investing in Purpose-Built Student Housing in Canada

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### HIGHLIGHTS

- ▶ Student housing in Canada has been woefully undersupplied for far too long, contributing to skyrocketing rents across the country. More purpose-built student accommodation (PBSA) needs to be made available to improve affordability for students and all Canadians.
- ▶ PBSA has proven itself an attractive investment globally for institutional investors with long-term stable capital, including Canadian pension funds, due to its predictable revenue stream.
- ▶ Canada's nascent PBSA market is ripe for investment. But barriers to investment have led to a lack of market information, low provision rate of off-campus beds, significant market fragmentation, modest deal sizes and few portfolio investment opportunities. Governments need to reduce these barriers to attract the needed private capital to help improve affordability in Canadian campuses and communities.

The supply of student housing in Canada has not kept pace with demand. As we highlighted in a [companion report](#), this gap has remained unaddressed for so long that Canada has now fallen well behind its international peers in providing purpose-built student accommodation (PBSA). This has led to unintended pressure on rents in other types housing as students have taken up shelter in the broader community in ever increasing numbers. To promote a broader stabilization in rents while meeting the needs of post-secondary students, much more student housing needs to be built.

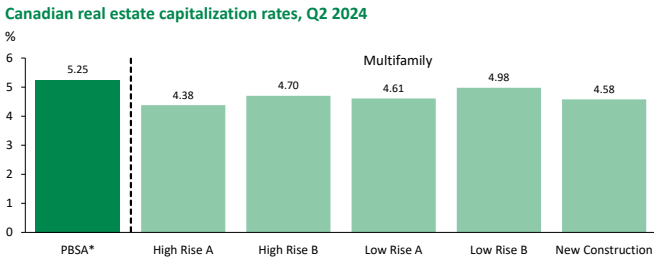
### Why Is Student Housing a Good Investment?

PBSA has many positive attributes that can make it attractive to investors. Student housing provides a predictable income stream relative to other asset types. Long-term land leases with post-secondary institutions (PSIs) can ensure reliable and steady revenues. Meanwhile, off-campus PBSA are often able to adjust rents to current conditions more frequently than in the rental apartment market as turnover is generally higher. As such, revenues can better reflect underlying costs and market conditions.

These benefits are reflected in the capitalization rate (cap rate) of PBSA, which is a profitability metric used to determine the return on investment of a real estate property.<sup>1</sup> According to [Real Capital Analytics \(2024\)](#), the average cap rate for student housing in the US in 2023 was 5.89% versus 5.50% for multifamily. Similarly, the cap rate on PBSA in Canada ranged from 5.00% to 5.50% in Q2 2024 according to Bonard, an international student housing consultancy (graph 1 on page 2). That is up to one percentage point higher than the current cap rate on multifamily housing, depending on type ([CBRE, 2024](#)). And while the spread may be smaller for highly unaffordable cities like Toronto, the conclusion is broadly the same. However, it should be noted that the cap rate on real estate changes through time along with market conditions, and PBSA doesn't always have a higher cap rate than multifamily. Further, other types of real estate like senior housing and hotels may have higher cap rates than either multifamily or PBSA.

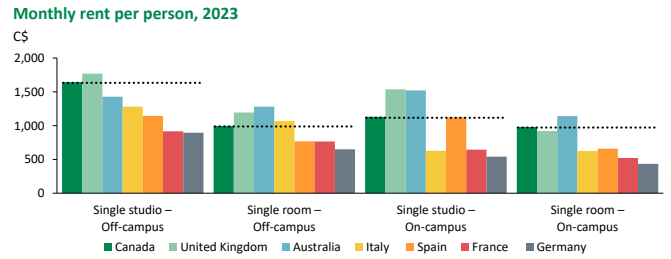
<sup>1</sup> The capitalization rate is calculated as net operating income divided by the current market value of the asset. ([Corporate Finance Institute, 2024](#))

**Graph 1**  
**Cap Rates on PBSA are Currently Greater than on Multifamily**



PBSA: Purpose-built student accommodation; \* Midpoint of the range from 5.00% to 5.50%.  
 Bonard, CBRE and Desjardins Economic Studies

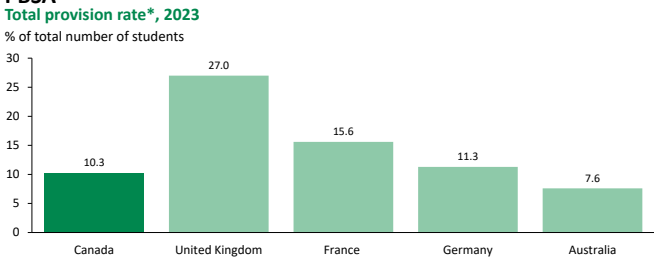
**Graph 3**  
**Canada's PBSA Rents Are Generally among the Highest**



PBSA: Purpose-built student accommodation  
 Bonard and Desjardins Economic Studies

PBSA occupancy was close to 100% in Canadian cities last year, according to Bonard. But in the 2021–22 academic year, the most recent year for which data is available, PBSA beds were available for only 10.3% of Canadian students. That pales in comparison to the United Kingdom and France, for example (graph 2). That may be because in countries that have the most PBSA beds available to meet student demand, the private sector tends to play a much larger role in the provision of student housing than in Canada.

**Graph 2**  
**Canada Lags behind Other Major Economies in the Provision of PBSA**

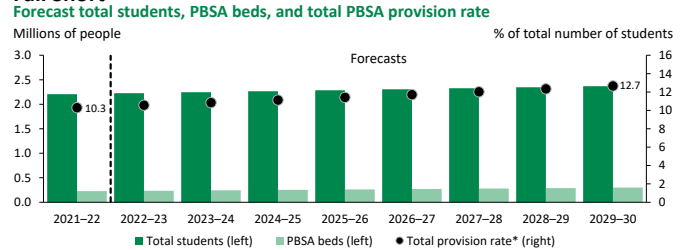


PBSA: Purpose-built student accommodation; \* Total number of PBSA beds (public and private combined) divided by the total number of students (domestic and international combined).  
 Bonard and Desjardins Economic Studies

Given Canada's poor PBSA provision rate, it's no surprise that monthly rents for single studios and rooms are typically above average when compared with other advanced economies (graph 3). Vancouver and Toronto are the most expensive, with off-campus PBSA costing as much as 50% or more than on-campus student housing. By contrast, off-campus PBSA tends to be more affordable in smaller cities. This also speaks to the role that local rental market conditions play in driving rents.

Looking ahead, Bonard forecasts that the number of PBSA beds currently in the pipeline will increase at an annual average rate of 3.5% through the 2029–30 academic year (graph 4). Assuming the number of students will advance by a much more modest 0.9% annually over that period, that would lead to a provision rate—beds per student—of 12.3% by the end of the decade.

**Graph 4**  
**Even If PBSA Stock Outpaces Growth in Students, Canada Will Still Fall Short**

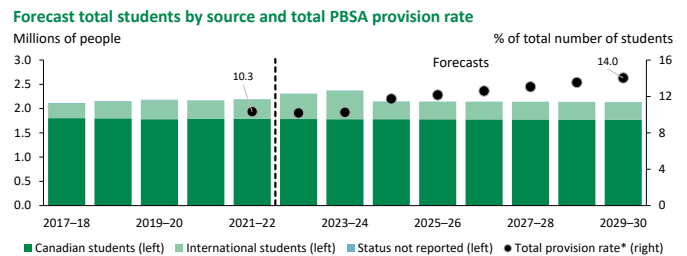


PBSA: Purpose-built student accommodation; \* Total number of PBSA beds (public and private combined) divided by the total number of students (domestic and international combined).  
 Bonard and Desjardins Economic Studies

While an improvement from today's level, that would still keep Canada near the back of the advanced economy pack and suggests there is plenty of opportunity for future investment.

However, there is a risk that growth in Canada's student population could be even weaker. That's because the federal government plans to limit the number of international student permits approved in 2024 to 360,000—35% below the 2023 level (graph 5). The cap for 2025 will be decided by the end of this year. This is further exacerbated by stagnant numbers of Canadian students attending PSIs. But even with this potential decline in Canada's post-secondary student population from

**Graph 5**  
**Even with Fewer Foreign Students, the Provision Rate Will Be Low**



PBSA: Purpose-built student accommodation; \* Total number of PBSA beds (public and private combined) divided by the total number of students (domestic and international combined).  
 Immigration, Refugees and Citizenship Canada, Statistics Canada, Bonard and Desjardins Economic Studies

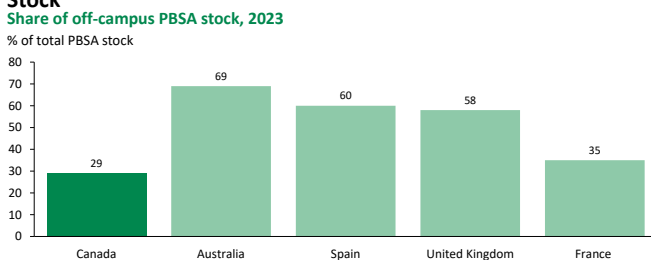
current levels, the number of PBSA beds in the pipeline is still insufficient to meet expected demand. Indeed, in this downside student population scenario, Canada's total PBSA provision rate in 2029–30 would remain below those of the UK (27%) and France (15.6%) last year. To match the 2023 provision rate of the UK by the end of the decade, the number of PBSA beds in Canada would need to nearly double relative to what is currently expected.

### Attracting Investment in Student Housing

The Canadian private PBSA market is relatively nascent compared to other advanced economies, and hence does not yet have some of the characteristics of a more mature market. This is reflected in the lack of available market data, low provision of off-campus PBSA beds, significant market fragmentation, modest deal sizes and few portfolio investment opportunities.

Starting with the provision of off-campus PBSA beds, Canada lags well behind other similar countries (graph 6). This suggests Canada has plenty of room for growth in the off-campus sector generally.

**Graph 6**  
There's a Lot of Room for Growth in Canada's Off-Campus PBSA Stock



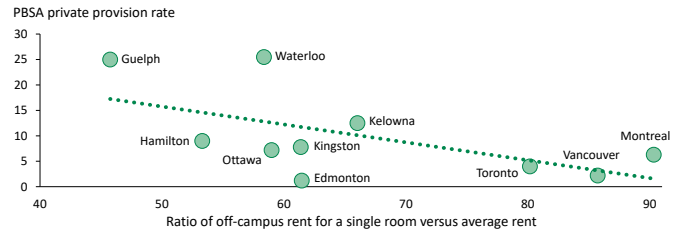
PBSA: Purpose-built student accommodation  
Bonard and Desjardins Economic Studies

However, there are communities that have bucked this trend. Waterloo, ON, is a truly stand-out [example](#), with more than half of its PBSA being off campus. Not surprisingly, Waterloo also has the highest provision rate for PBSA of any major center in Canada, at more than 35% in 2023. At 25.5%, it also has the highest private provision rate of PBSA. It is therefore not only possible to increase student housing through greater private investment in off-campus PBSA, but Waterloo have demonstrated that it can practically be done right here in Canada. And there is a clear relationship between higher private provision rates of PBSA and greater affordability (graph 7). That said, despite its success, the [City of Waterloo](#) has estimated that it still has a shortage of nearly 5,000 PBSA beds.

Looking to market concentration, the Canadian PBSA market is much more fragmented than in other countries. According to [Bonard](#), in 2023, “the largest nine brands made up 51%

**Graph 7**  
The Higher the Private Provision of PBSA, the Lower the Rent

PBSA private provision rate and off-campus rent for a single room\*, 2023



PBSA: Purpose-built student accommodation; \* Off-campus rent for a single room has been adjusted for rent in the overall market.  
Bonard and Desjardins Economic Studies

of non-campus beds in Canada.” The largest of these, Canadian Student Living, made up just 10% of the market at that time. Looking at portfolio operators, the largest in 2024 is Campus Living Centers, with 26,774 beds across different brands or around 15% of the total market. In contrast, PBSA in other countries is much less fragmented, allowing for greater deal size and public investment opportunities. For example, there were 54 private portfolios in Canada in 2024, versus 347 in Europe.<sup>2</sup>

In markets with many players, individual investment opportunities tend to be smaller and information on market dynamics less readily available. This makes attracting private capital more challenging. For Canadian institutional investors, particularly public pension plans, deal size matters. Take the [Canadian Pension Plan Investment Board \(CPPIB\)](#), which in 2021 entered a joint venture targeting standing PBSA assets and developments in Europe in excess of \$1B. This sort of scale is not available for PBSA in Canada. Hence, the lack of long-term, stable investment in the sector from Canadian institutional investors. This at a time when former Bank of Canada Governor, Stephen Poloz, was tasked in Budget 2024 with exploring “how to catalyze greater domestic investment opportunities for Canadian pension funds.”

The lack of market concentration is also reflected in the lack of opportunity for portfolio investment in Canada. While there are currently publicly traded real estate investment trusts (REITs) providing opportunities to invest in multi-family residential, senior living, industrial, retail and office real estate in Canada, there is nothing of the kind yet for student housing. However, some private REITs, such as Alignvest Student Housing REIT, are providing opportunities for accredited investors to invest in the asset class. The public investment opportunities will no doubt grow along with investment in the sector.

<sup>2</sup> A portfolio is defined here as the stock of two or more PBSA schemes managed by the same operator.

### Barriers to Building Student Housing in Canada

PSIs in Canada differ from those of other countries in that they fall under the jurisdiction of the provinces. As a result, the constraints on borrowing for capital investment by PSIs differ somewhat across the country. Further to that, universities and colleges are often treated differently, with universities generally having more autonomy over capital investment decisions. Finally, there is the process of building itself, which can be subject to varying treatment depending on the location and ownership structure of an asset. All of this adds uncertainty into the investment process.

#### Constraints on Borrowing by PSIs

Looking first at raising capital for investment in PBSA, universities have significant flexibility in taking on loans, issuing debentures, and collaborating with private-sector partners. Colleges, on the other hand, are generally subject to much more stringent rules. In Ontario, for example, colleges are prevented from borrowing from any other source than the provincial government unless very specific conditions are met, including the Canada Mortgage and Housing Corporation's [Apartment Construction Loan Program](#).

As a result of these constraints, investment in PBSA has been increasingly funded from surpluses generated through the admission of international students. However, that source of funding is expected to slow considerably going forward due to fewer international students. (For more information on the implications of fewer international students for PSI funding and government revenues in Ontario, see [our research](#) on the topic).

#### Disincentives to Partnering with Investors

Turning to the building process itself, PSIs are subject to different provincial and municipal regulations depending on whether a PBSA asset is wholly owned by a PSI and to be built on land owned by a PSI. Again, take the example of Ontario.

- In the case of a PBSA asset which is wholly owned by a PSI and built on its land, construction is often subject to no, or dramatically reduced development charges and zoning requirements as well as property taxes. This allows PBSA to be built quicker and cheaper, thereby bringing down the cost of providing accommodation to students. However, the significant constraints on borrowing for capital investment mean these advantages have gone underutilized, resulting in the supply of PBSA falling short of demand.
- In contrast, PBSA which is off campus and entirely privately owned is generally subject to the same development charges, zoning requirements and property taxes that any other private real estate asset would be. Given the greater cost of building and operating the PBSA, this

leads to higher rents and/or reduced margins, in some cases deterring investment altogether. This type of PBSA is increasingly more common around universities, which are purported to generally attract more affluent students. In contrast, college students are often considered to be more price sensitive.

- The challenges get murkier when PSIs look to partner with the private sector to build PBSA. For instance, some or all the reduced development charges, property taxes and zoning requirements granted to PSIs are reversed when ownership is shared with a private partner. That increased cost could negate the benefit of partnering with investors.

#### Policy Recommendations

These obstacles to building student housing in Canada are not insurmountable. If PSIs were able to get access to adequate capital for investment in PBSA from provincial governments, they would benefit from a low cost of capital as well as lower fees and charges than the private sector is subject to.

In the absence of dramatically increased funding from provincial governments for capital investment, private sector partners may need to be counted on to build sufficient PBSA. But private ownership to that extent is penalized currently. As such, provinces and municipalities should extend some or all the advantages that are currently in place for PBSA that is wholly owned by PSIs to partnerships between PSIs and private investors. In exchange, long-term agreements can be made which pass some of these cost savings on to students. Countries where partnerships between PSIs and private investors are commonplace, such as the United Kingdom, have been particularly successful in providing student housing to a much greater extent than in Canada.

But the private sector isn't the only alternative to government investment. In Quebec, non-profit developers like [Utile](#) have facilitated a preponderance of PBSA beds affiliated with but independent of PSIs. While uncommon in the broader Canadian landscape of PBSA, this social mandate has helped to build more student housing and keep living costs down for students.

Regardless of the investment partner, PSIs and municipalities also have a role to play in sharing and collaborating on plans to support the development of student housing to meet growing demand. Again, the City of Waterloo is a standout example in Canada from a planning and partnership perspective. Provincial governments can also play a convening role in bringing the various players to the table to get more PBSA built, even in the absence of new funding. A national framework for capital investment in PBSA could also be helpful, with sufficient

flexibility to accommodate provincial-specific considerations. Finally, PSIs should recognize that their expertise is not in developing and operating PBSA, and therefore look to establish professional real estate investment vehicles like the [York University Development Corporation](#).

### **Conclusion**

The sustained underinvestment in student housing in Canada has meant higher rents for students and the broader community. Governments have it within their authority to bring down the cost of financing and building PBSA, in part by allowing private investors to play a more active role. A more active PBSA market will allow for more insight into market dynamics and greater opportunity for large domestic and foreign investors to participate. This is particularly true of Canada's largest pension funds. Taken together, these developments would go a long way to improving housing affordability as well as student finances, academic performance, and many other areas of student and community life.