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The European housing crisis
as an investment opportunity

The European housing market is facing a perfect storm. Housing supply is stagnating, while demand continues to rise. The result is a structural housing shortage that is putting housing affordability under pressure across virtually all European metropolitan areas and limiting residential mobility. Despite this shortage, the European rental housing market has not yet recovered from the significant price correction since the end of 2022, primarily due to higher interest rates.

For institutional investors, this dynamic creates opportunities to expand and modernise the housing stock, allowing societal impact to go hand in hand with financial returns. At the same time, the range of investment products focused on the residential sector has expanded significantly in recent years, enabling investors to allocate capital efficiently and in a diversified manner.

These products range from strategies focused on specific subsectors or regions, or on active value-add approaches with higher return potential, to broadly diversified pan-European portfolios with a relatively low risk profile. A stable investment climate with predictable government policy remains a key prerequisite for long-term investment.

Supply stagnation and demand pressure in the European housing market

The European housing shortage is primarily driven by stagnating supply. Contributing factors include high construction and financing costs, labour market tightness, increasing regulation and lengthy decision-making procedures. Regionally, additional constraints may exacerbate the situation, such as grid congestion and nitrogen regulation in the Netherlands. On the demand side, continued urbanisation¹ and demographic developments – such as ageing populations and younger and older people living independently for longer – are increasing pressure, particularly in urban areas. In addition, parts of the existing housing stock are increasingly misaligned with changing housing needs, while limited market mobility leads to inefficient use of space¹.

For existing investors in highly urbanised markets, the housing shortage results in high occupancy rates, rising market rents and increasing house prices. For new entrants, the current market environment offers attractive opportunities, provided they have a clear understanding of the available strategies and their associated risks.

Segment focused solutions: Investing in PBSA and senior living

Subsectors within the residential market, such as student housing (Purpose Built Student Accommodation, PBSA) and senior housing, contribute to alleviating the housing shortage and address growing demand from expanding demographic groups. In many countries, these segments are (partly) outside regular housing policy, making them an attractive complement to investments in the traditional residential sector. Growth prospects and regulatory frameworks differ significantly by region, underlining the importance of specialist knowledge and experience when selecting investments in these sectors.

PBSA complexes are primarily located in major university cities and typically offer a wide range of amenities, including food and beverage outlets, social spaces and sports facilities. Specialised and efficient management – including leasing – is essential to meet the specific needs of this tenant group and to manage the high turnover resulting from short-term contracts linked to the academic calendar. Ongoing consolidation among operators within this market is driving further professionalisation and offers investors opportunities to limit operational risk, provided they partner with experienced operators.

In regions where PBSA supply still lags substantially behind demand – such as Spain – investors can address shortages by delivering new supply through development or by repositioning existing assets. In contrast, other regions, such as the United Kingdom, have seen a sharp increase in supply in recent years, potentially leading to greater competition and pressure on rental levels.

¹ Source: One roof, many realities: Europe's complex housing crisis. ART, Council of the European Union



Senior housing takes various forms but, in the European context, typically consists of residential complexes that allow residents to live independently for extended periods. These assets are generally let under master lease agreements to specialised operators that manage the properties and bear the full operational risk.

While master lease structures can be attractive to investors with a lower risk appetite due to relatively stable rental income, rental growth to full market levels is often only achievable over the longer term, which may constrain returns. In addition, the credit quality of the lessee represents a key risk. For investors with higher return targets, development strategies in this segment may therefore be more attractive, supported by structurally strong demand driven by continued population ageing.

Targeted allocation: How regional differences create value

At a regional level, Europe exhibits significant variation in demographic and economic outlooks. Above average population growth is expected in countries such as Sweden, the United Kingdom, the Netherlands, Spain and France². At the same time, ongoing urbanisation implies further population growth at city level across most major European metropolitan areas.

Investors with higher return targets may increase allocations to specific regions to benefit from stronger growth prospects. However, the resulting concentration risk may warrant higher required returns. Depending on risk appetite, more active strategies – such as the modernisation of existing housing stock in cities like Berlin or Stockholm – may also be attractive. These investments typically have a medium term horizon and require hands on asset management and deep local expertise, particularly given complex regulatory environments.

In countries where the vacant possession value of residential properties exceeds their investment value – such as the Netherlands – investors may create value through privatisation strategies. This typically involves acquiring residential portfolios that generate stable rental income alongside potential capital gains upon sale. Here too, local expertise is essential, as investment horizons are difficult to predict and depend heavily on tenant turnover rates. Moreover, investors may face unforeseen maintenance costs due to local regulation.

2 Eurostat: Short-term population projections (2023-2050)

Pan-European funds as a stable building block in the portfolio

In addition to specialised strategies, investors may opt for pan-European residential funds, where international diversification helps mitigate country specific policy risks. This can be achieved through investments in existing portfolios with a low risk profile and limited development exposure, or through more active strategies focused primarily on (re)development.

Pan-European funds with a core risk profile and an open ended structure offer investors rapid access to broadly diversified portfolios of modern, sustainable and affordable residential assets. These portfolios are often expanded through forward funding structures, which limit development risk. Larger funds also benefit from economies of scale and more efficient fund structures, typically leading to lower overall costs.

Beyond dedicated residential funds, investors can also increase residential exposure through diversified European ODCE funds. Many of these funds have increased their weighting towards residential assets in recent years, partly as other sectors – such as offices – have become less attractive.

Conclusion: From housing shortages to a balanced allocation

The European residential sector is under significant pressure due to a structural shortage of affordable housing. For institutional investors, this creates opportunities to invest in rental housing where financial returns align with societal impact. Investors can choose between lower risk investment solutions and partnerships with specialised managers targeting specific markets and strategies with higher return potential. The growing breadth of available investment products makes it increasingly possible to combine complementary risk profiles to achieve a well balanced allocation.

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