

## KEYNOTE INTERVIEW

# Shaping transatlantic housing markets



*Residential demand is resulting in growth opportunities across subsectors in the US and Europe, explain **Eric Shepsman** and **Henrik Orrbeck** at Partners Group*

While both the US and European residential real estate markets grapple with supply challenges, the drivers of demand tell different stories in each region. Eric Shepsman and Henrik Orrbeck, co-heads of Partners Group's real estate divisions in the Americas and Europe, respectively, note that there are distinct risks and opportunities that these differences create for investors.

**Q** How do supply-demand imbalances in US and European residential markets compare? Are there shared drivers of housing shortages, or are the challenges distinct?

---

SPONSOR  
**PARTNERS GROUP**

---

**Eric Shepsman:** There are some common challenges, namely planning or municipal approval restrictions that limit housing supply, as well as the viability of new construction, which effectively governs housing starts.

Focusing on the US, depending on how you bifurcate it or who is doing the study, you generally see about a five million unit housing shortage on a national basis. Despite excess demand at a macro level, the big constraint on supply comes down to approval challenges

and the issue of economic viability: without better policy management, it is just not practical to capitalize new construction in some situations.

**Henrik Orrbeck:** Demand for housing in Europe is partly driven by population growth, but that is not the main factor. What is really driving it is urbanization – people moving to gateway cities – and household formation growth.

We have significantly smaller households today, and significantly more single-person households. That creates a need for a different type of housing. We need smaller or more

## Q Which regions in the US and Europe are emerging as the most attractive markets for residential investment?

**ES:** We look at it in a multi-pronged approach. For new development, we target areas with high barriers to entry and limited supply, focusing on affordable products in supply-constrained markets. That is related to planning restrictions, which limit supply. Certain markets, like high-cost gateway metros, have been a focus for us.

On the value-add acquisition side, we focus on macro trends, such as population growth, which is often tied to metro area job growth, and identify submarkets with limited supply where we see potential for outsized revenue growth. We are particularly focused on the US Sun Belt markets, where household formation and job growth have been significant over the past decade and are expected to continue.

**HO:** The drivers are similar in Europe. Residential demand is largely driven by job growth. Strong economies and job opportunities pull people into regions. We have been very focused on Southern Europe over the past 12 to 18 months, particularly in Madrid, Barcelona and Milan. We have also been investing in Berlin.

We have a very targeted, city-oriented strategy, targeting winning cities with superior job growth and population growth, and where we believe there is a trajectory for positive rental movement.



space-efficient living solutions.

As in the US, the main challenges sit on the supply side. First, across Europe, it is very hard to make new developments viable from a financial perspective – to make the yield-on-cost calculations attractive enough. Second, the planning regime: it takes a lot of time to secure permits, and that process is attached to a lot of uncertainty. New

regulatory requirements around fire, light and safety are also making buildings more expensive and less viable.

## Q How are demographic shifts – such as aging populations, urbanization and migration – influencing demand patterns in residential markets across the US and Europe?

**ES:** There are pockets within the residential market with very strong demand. When we talk about aging populations, migration trends and urbanization, we are identifying nodes that have not been oversupplied – places where job creation and household formation are driving robust demand growth.

Much of the new supply over the past five years has been concentrated in high-density, small-format housing. But we see excess demand for larger-format units suited for young professionals and early family formation, which has not been as heavily supplied. We focus our efforts where that micro supply-demand dynamic supports rental growth, by providing products that meet the market's needs.

**HO:** The US has a mature multifamily market, while in Europe, it is still emerging. Still, demand is increasing across Europe, driven by urbanization and, importantly, affordability. Young people are struggling to buy homes, so they are renting longer, creating a need for more affordable rental solutions.

Another key element – where I think Europe still has a lot to learn from the US in how you do build-to-rent and multifamily – is that there is a very large cohort who rent out of choice. They often have an urban lifestyle, move frequently and value the flexibility renting offers over ownership. But to meet their needs – which are higher than what older, traditional stock provides – you need to develop properties that cater to that slightly more advanced taste.

## Q Which residential subsectors, such as student housing or senior living, are seeing the strongest performance in both regions?

**HO:** Europe is less advanced when it comes to dissecting the different living subsectors, but one that has become well-established is student housing. This sector's growth is driven by a

combination of factors. One is the growing age group of people attending university, and the number of people from that age cohort attending university is expanding. Additionally, the existing stock is, to a large extent, technically obsolete.

We are also seeing changing preferences, with students today being significantly more focused on academic results. They expect an environment that supports academic excellence. In addition, Europe offers high-quality university institutions that remain relatively affordable, combined with a highly attractive cultural environment, which continues to drive demand from international students.

**ES:** We have seen stronger performance in adjacent subsectors like purpose-built seniors housing, student housing and single-family rental (SFR) compared to conventional housing from a rent growth perspective. As Henrik mentioned, the US is further ahead in terms of institutionalization and the adoption of a for-rent model. Some of these adjacent subsectors are still a bit more fragmented, and there is an opportunity to aggregate an institutionalized product.

### **Q** What's driving stronger rent growth in these subsectors across the US?

**ES:** There is increasing demand in these types of subsectors. Take student housing, for example. Historically, much of the demand was met through shadow inventory – students living off-campus in cheap apartments. In the US, we have seen an increase in the supply of purpose-built student housing, which has been well absorbed as students increasingly value the safety, social environment and academic benefits of living in high-quality, purpose-built student housing.

On the seniors housing side, a large aging demographic has historically lacked access to product built for their needs. Many are now aging out of their

primary residences after their children have left home. We have seen outsized rental rate growth in our active adult portfolio tied to meeting that undersupplied component of the market.

For SFR, much of the supply has been in high-density, small-format, urban housing, whereas the SFR sector is playing to a larger format, more suburban for-rent housing that had traditionally been dominated by owner-occupied housing. As homeownership becomes less affordable and the average age of first-time buyers rises, demand is growing for purpose-built rentals that bridge the gap between young professionals and suburban homeowners in the US.

*“The US has a mature multifamily market, while in Europe, it is still emerging”*

**HENRIK ORRBECK**

*“We have seen stronger performance in adjacent subsectors”*

**ERIC SHEPSMAN**

### **Q** What are the biggest risks and challenges facing residential investors in the US and European markets?

**ES:** There's a lot of economic uncertainty in the world today. We spend a lot of time within the residential space looking at regulation and local regulatory risk. Many municipalities are discussing varying levels of rent control or other regulations, and that is constantly evolving.

So, there are risks and challenges, and it is important to invest the right way, at the right levels, in the right markets. But overall – and given the housing shortage in the US on a macro level – we see continued growth in the for-rent housing sector.

**HO:** In addition to the uncertainties Eric mentioned, what we highlight in Europe is fragmentation. Europe is not the United States of Europe. It is a highly fragmented market, where each country has its own set of rules – how you build it, how you lease it. There is a whole suite of rent regulations to navigate.

But that is where the opportunity lies for an investor like Partners Group, with a long-standing track record across these jurisdictions, a large on-the-ground team in Europe and a relative value approach that allows us to compare, contrast and allocate capital to the market offering attractive risk-adjusted returns.

As we discussed, Europe is still less institutionalized than the US when it comes to residential. Even within Europe, the differences are massive: around 2 percent of the rental stock in the UK is institutionally owned, whereas in Sweden it is closer to 70 percent. London operates largely on market rents, while Sweden is heavily rent regulated.

So, the biggest challenge for institutional investors looking to increase exposure in European residential is finding the right partners and managers to unlock local opportunities. ■