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The PATRIZIA Playbook of Residential Investing

Navigating the ever more diversifying residential
sector



- **Residential is no longer one-size-fits-all**

The sector has expanded beyond traditional multi-family housing including a wide array of living formats tailored to diverse demographics and lifestyles.

- **National housing markets reflect cultural and political nuances**

Each country's housing landscape is shaped by its unique socio-political history, regulatory environment, and financial systems, shaping both the structure of the market as well as the opportunities available.

- **Social impact is re-shaping investments**

ESG considerations are becoming central to residential investment strategies, with concepts like affordable and attainable housing offering both social value and financial viability, though inconsistent terminology can obscure their true impact.

Over the past two decades, the institutional residential sector has evolved from a focus on traditional multi-family housing or apartments, to a diverse group of sub-sectors catering to growing and shifting demographic and economic needs. Today the “living sector” covers a wide range of offerings. And despite challenging geopolitical and economic conditions, the long-term positive fundamentals for the living sector continue to drive growth in investments. Investors are attracted to the sector by the steady income stream offered and the resilience shown in time of crisis.

The living sector has been, is and will be experiencing profound shifts that are reshaping the future of housing. Urbanisation, technological advancements, sustainability, shifting demographics, and incomes are creating new opportunities and are altering the traditional investment landscape. People will always require housing. Therefore, the living sector can and will continue to provide investors with resilient investments resulting in stable income streams,

which are only weakly related to economic swings. The resulting ability to diversify portfolios and capitalise on social and demographic trends adds further value to investing in the living sector.

Focusing on Europe, one needs to understand the historical developments seen across countries to judge the status of the living sector in each country. Especially since the global financial crisis, there have been structural changes under way, fundamentally altering the residential markets across Europe, stopping, or even reversing trends that have been shaping developments since World War II.

After WWII until the millennium, ownership rates in most European countries continuously increased, more than doubling in some countries during this period, making owning the dominant tenure in nearly all European countries. Institutional investors withdrew from most of these markets in connection with this development. The progressive dilution of private rental markets in the EU was

driven to a large extent by the alignment of market and policy incentives favouring ownership as the best option to meet accommodation needs (taxation benefits, easing of financing conditions, rental market regulation, etc.). Only a few countries were able to escape this development, the most prominent example of which is Germany.

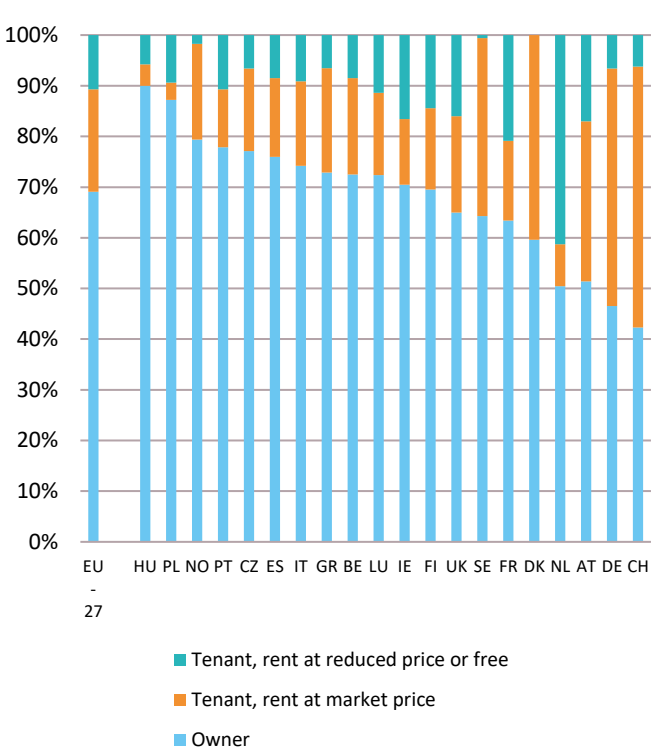
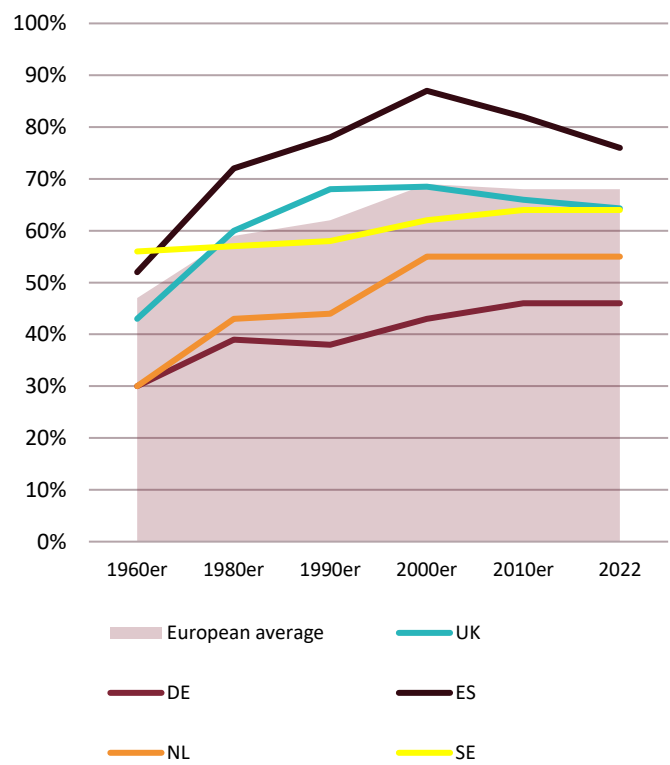
Since the outbreak of the financial crisis in 2007, a fundamental change is underway, best seen in the southern European countries, Ireland, and the UK. The attitude towards home owning among parts of the population and especially in the political environment has changed. Consequently, subsidies for owner-occupier housing have been frozen or reduced. At the same time, political initiatives are channelling more institutional capital into the rental segment as a way of dealing with the housing shortages evident in nearly all European conurbations. Finally, today's banking sector is less generous when it comes to granting housing loans to young or low-income households due to changed regulations and capital requirements. Renting is now, due to voluntary selection or

financial constraints, a more accepted tenure than it has been in the past.

As housing preferences of households are changing, the supply side of the residential markets begins to adapt, creating new or reviving old investment options for institutional investors. Institutional investors are responding to the growing demand from 'generation rent'. In many markets, the increased interest, involvement and investing of institutional investors, often called financialisation of housing, means that along the renting spectrum households today have a much broader and more targeted offering compared with one or two decades ago.

As a result, we have an increasingly diverse market with a variety of investment options for institutional investors. Product innovation in new and/or existing stock results in an offering that can be better tailored to meet the needs of increased demand for rental units in the urban centres and the spillover from unmet demand from other forms of tenure,

Development of owner-occupancy rates and housing tenure in Europe



Source: PATRIZIA, Eurostat, national statistical agencies

Share of tenants 2020 and change last 10 years



Source: PATRIZIA, Eurostat

*UK = 2018

particularly for middle-income households. The residential sector has diversified, new concepts and names are popping up, which are often nothing else than old concepts with new wording, but sometimes also completely new niches, in search of viability. There are a range of definitions and wordings being used by investment managers to form and execute their investment plans, making them look modern and target group focused. But this plurality in terminology and wording is often confusing, making the sector looking much more complex than it is, holding back investors as they struggle to understand the complexity of the market.

But a country's housing market outcome is not only shaped by the options within the renting spectrum and its demographics. A country's socio-political culture defines the role of housing policies across a spectrum of 'housing as a basic need' through to 'housing as a market good'. This context

determines to the same extent the available options and their attractiveness for public and private capital. European housing markets are therefore a reflection of the social preferences and economic opportunities in the respective country as well as the regulatory frameworks and government support. Each country has its own culture, demographics, policies, housing finance systems shaping the evolution of housing markets over time.

Consequently, the legal framework guiding the tenant landlord relationship, its history and change overtime, is an equally important element to understand the housing market structure. It creates the mixture of regulated and non-regulated market segments which form the opportunity set for (institutional) investing. In addition to the two dimensions of services/equipment provided and the length of the stay.

Characteristics of the different concepts within the renting spectrum compared

		Student Housing	Co-Living / Flex Living	PRS	BTR / Multi-family	Serviced Apartments	Hostel / Boarding House	Senior Living	Hotels
Lease Details	Individual leases	Yes	Yes	Sometimes	Sometimes	Yes	Yes	Rarely	Yes
	Leasing seasonality	Yes	No	No	No	Yes	Yes	No	Yes
	All-inclusive rent/fee	Sometimes	Yes	No	Sometimes	Yes	Sometimes	Sometimes	Yes
	Flexible rental terms	Rarely	Yes	No	No	Yes	Yes	No	Yes
Amenities	Furnished	Yes	Yes	Sometimes	Yes	Yes	Yes	Often	Yes
	Resident-led services	Rarely	Yes	No	Rarely	No	No	Sometimes	No
	Community manager	Sometimes	Yes	No	Sometimes	No	No	Sometimes	No
	Extensive amenity	Sometimes	Yes	No	Sometimes	Rarely	Rarely	Sometimes	Rarely
Other Characteristics	(Central) urban	Rarely	Often	Sometimes	Often	Often	Sometimes	Rarely	Sometimes
	Purpose built	Yes	Often	No	Yes	Sometimes	Yes	Yes	Yes
	Defined use class	Yes	No	Yes	Yes	Sometimes	Sometimes	Often	Yes
	Institutional owner	Sometimes	Yes	No	Yes	Sometimes	No	Sometimes	Sometimes
	Limited demographic	Yes	No	No	No	No	Rarely	Yes	No

Source: PATRIZIA, The ULI and JLL European Coliving Best Practice Guide.

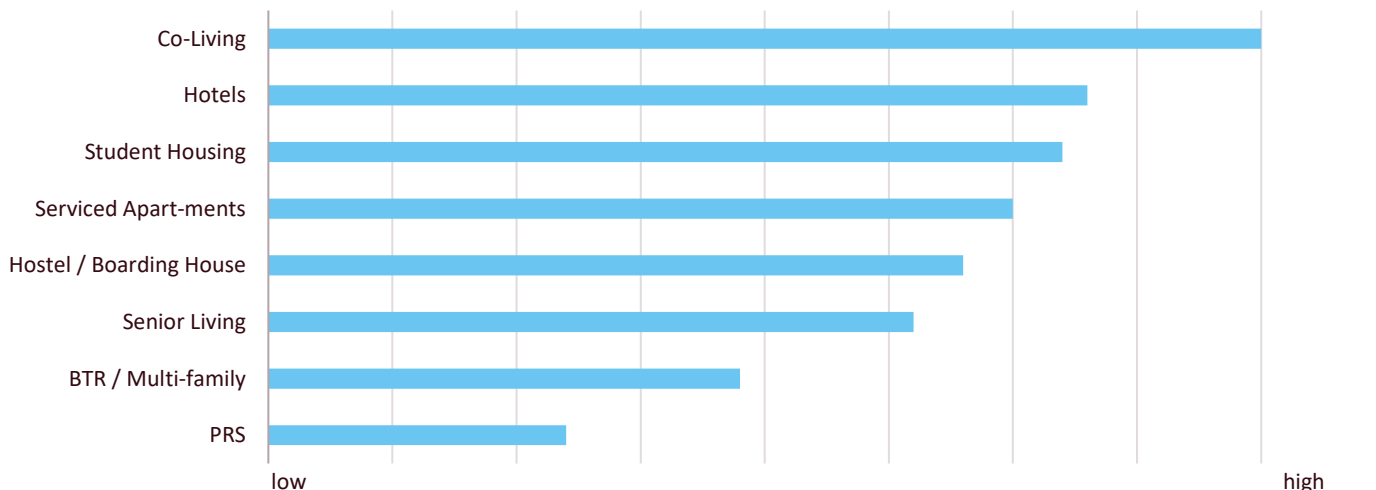
Renting spectrum

Age Band / Concept	15-24	25-34	35-44	45-54	55-64	65-74	75-84	85+
Student Housing, Purpose Built Student Accommodation (PBSA)								
Micro-living, Co-Living, Large scale purpose built shared living (LSPBSL)								
Serviced apartments								
Private rented sector (PRS), Multi-family housing (MFH), Built to rent (BTR), Built to let (BTL)								
Shared ownership								
Single-Family Rental (SFR)								
Senior Living								
Hotel								

Source: PATRIZIA, Colliers

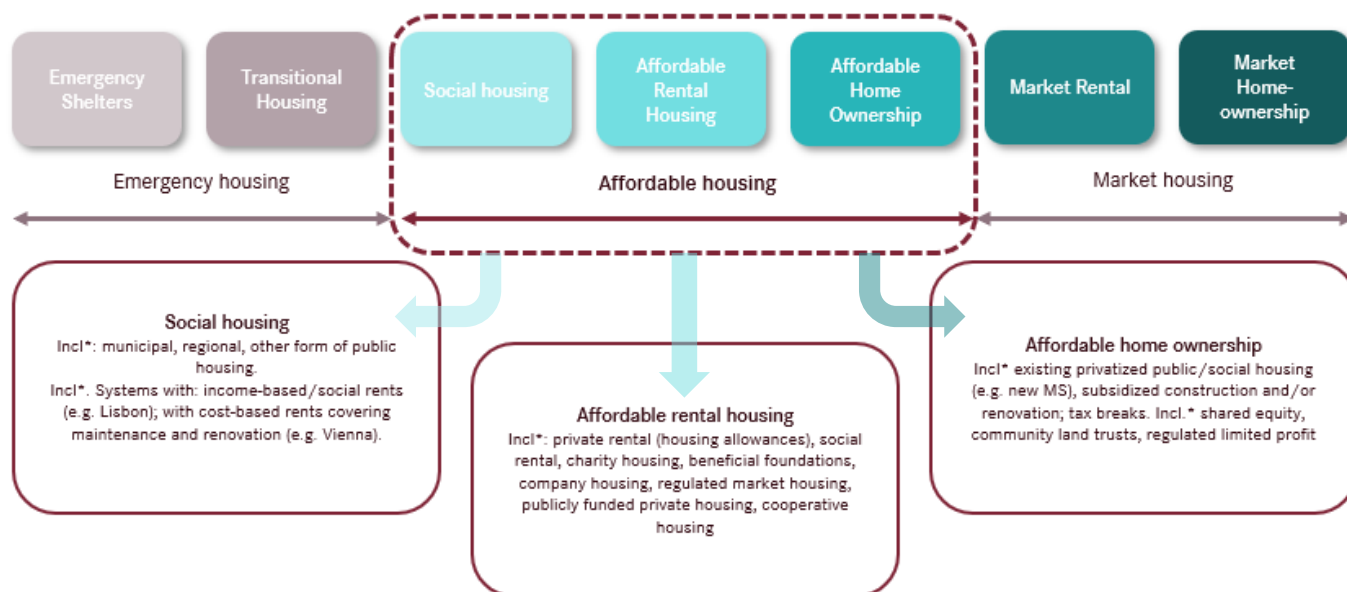
But it is not only the regulation of the housing markets that needs to be understood. In a world in which environmental and social objectives play an increasing role in the decision making of (institutional) investors, ESG considerations play an additional role for market activities and opportunities. There are a variety of approaches to invest in living products when looking at the housing spectrum, based on ESG considerations, especially when focusing on the “S” in ESG.

Concepts like affordable housing, attainable housing or intermediary housing are examples of opportunities for investors who want to create social impetus with their investments. But similarities in wording and target groups can be confusing for investors, if they are not familiar with all the details, because there are distinct differences between the concepts.

Complexity Index from an institutional Investors viewpoint

Source: PATRIZIA

Housing continuum



Source: PATRIZIA, Eurostat

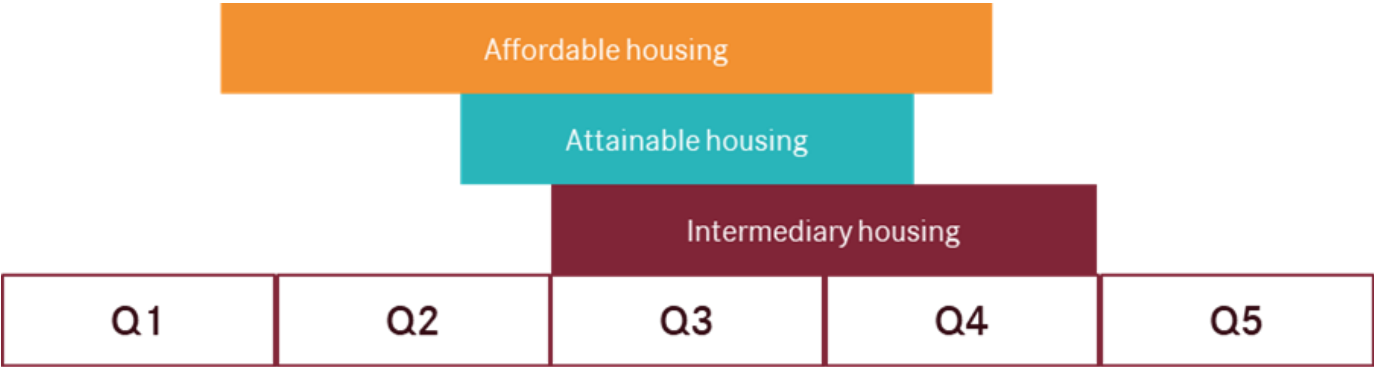
Affordable housing, the most widely used expression, looks at the housing market with a focus on the provision of housing at certain rent levels which are related to predetermined segments of the income distribution. It is an umbrella term which refers to housing that is within the financial means of its occupants. In most cases these are households from the income quintiles 1 to 3 or a subgroup thereof, as it should address the housing needs of the lower- or middle-income households.

The housing continuum shows that there is no universal answer to what constitutes affordable housing as it consists of three subgroups (affordable home ownership, affordable rental housing, and social housing), which each target different household groups within the bottom three quintiles of the income distribution. The best way to describe affordable housing in practice is to explain exactly what quality of housing one talks about and which income range within the income

quintiles is targeted. Based on the latter and using the median or average income of that target group in combination with an affordability measure, a rent or price level can be calculated at which this housing should be offered.

Due to the strict relation of affordable housing to the income distribution and the challenging information situation regarding the detailed income distribution in a given city or region, attainable housing has become a 'catch all' phase, especially in North America, to capture a variety of housing types for moderate- or middle-income households with incomes ranging between 80 – 120% of the median income of an area/region/city. This population segment is often also referred to as the 'Missing Middle'. Many attainable housing income earners which may include teachers, healthcare providers, public safety personnel, armed service members, resort workers, etc. typically are also the target group of affordable Housing, as the

“S” relevant housing options along the income distribution



Source: PATRIZIA

overlap between the two concepts is generally very large. Depending on the shape to the income distribution, attainable housing can in some cases also be a subgroup of affordable housing.

Very similar or in some cases even identical to attainable housing is the concept intermediary housing lately used by INREV in the analysis of the challenges of the European housing markets. According to INREV the goal of this concept is the delivery of housing with an affordable rent for middle income (3rd and 4th quintile) tenants. Such rent may equate to market rent or be at a discount to market rent.

Income Quintiles



Source: PATRIZIA



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