



Spotlight Student housing in France

May 2015



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Growing numbers

According to the MENESR (Ministry of Education) 2.47 million students entered higher education in September last year of which 63% applied for universities. This is 38,100 additional students compared to 2013, reflecting an increase of 1.5% compared to 1.8% and 1.5% in 2013 and 2012 respectively (Graph1). In spite of the slow recovery of the economy and most surprisingly in spite of the ageing population affecting the size of the younger age cohorts (18-25 years old), the number of student enrolments in higher education has been increasing steadily over the past four years. This cannot be attributed to the influx of international student as the number of new domestic applicants increased in line with their foreign counterparts. How can it be explained?

New student generations and knowledge-based economy

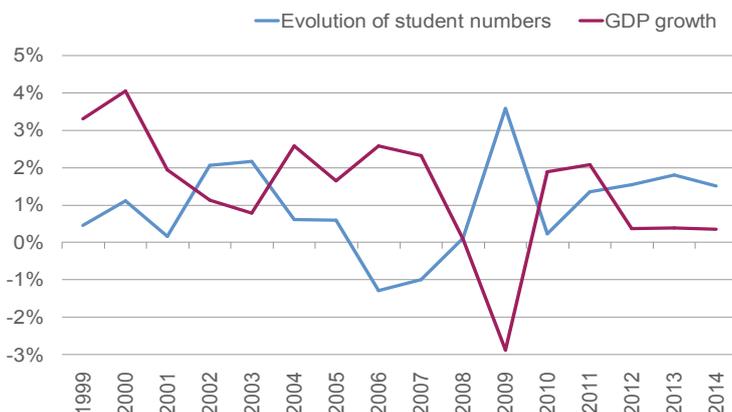
Generated and educated by a generation X household who came of age during a recession and survived the dot-com bust of 2000 and the global finance crisis in 2008, the new student generations

(Millennial) have seen their parents struggling in a tough job market throughout their working lives. Since the beginning of the global financial crisis, the number of children living in jobless households has soared. In France the share of children aged 0-17 who are living in households where no-one works increased from 8.3% in 2008 to 10.7% in 2013. Additionally the Millennial student generation is maturing in a world of rapid change and shifting labour markets with more jobs demanding advanced skills to support a more innovative knowledge-based economy. Both these demographic and economic changes drive an intrinsic motivation to succeed amongst the young population.

According to the first estimates from the MENESR, 710,600 candidates applied to sit the baccalaureate degree in 2014, nearly 5% more than in 2013. Of which, 624,700 succeeded, thus the baccalaureate pass rate reached 87.9%, 110 bps above the level recorded the previous year. Finally, the rate of eligible students who enrolled in higher education is also on the rise from 63.9% in 2012 to 67.3% in 2013.



GRAPH 1 **GDP growth vs student applications** Steady growth of student number



Graph source: Focus Economics, INSEE

SUMMARY

Student housing has the wind in its sails

- 38,100 new students entered higher school in September last year, reflecting an increase of 1.5% compared to the previous academic year.
- France hosted 295,084 international students in 2013, a 2% growth compared to the previous year. This means that 12% of the student population hails from abroad.
- In order to improve the attractiveness of the French universities a new immigration law for foreigners has been enforced in July last year.
- Student housing provision is currently an estimated total of 375,000 rooms. The average student housing provision rate is currently 15.4% compared to 11.2% in 2012.
- Investment activity is mainly driven by new developments and forward funding schemes; the lack of which can restrain the number of investment opportunities.
- The growing investor interest combined with the limited available supply on the market have put downward pressure on prime yields.



“Recent changes to the visa system have made France a more appealing choice for international students as well as having some of the lowest tuition fees in Europe.” Lydia Brissy, Savills European Research

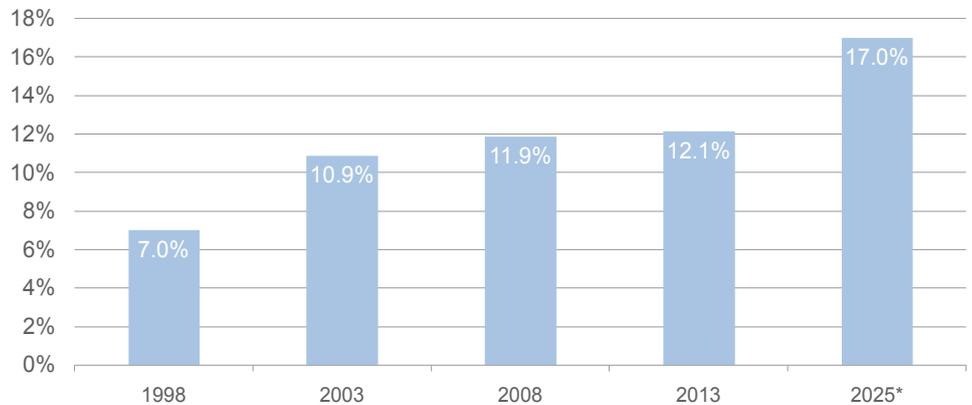
➔ **Worldwide student mobility and student profile**

The rise of the middle class in developing countries notably from China and India combined with the globalisation brought about a growing need for recognised qualifications around the world. According to UNESCO, in 2012, at least 4 million students went abroad to study, up from 2 million in 2000, representing 1.8% of all tertiary enrolments. Nearly half of international students choose their overseas study from five major countries; the United States (hosting 18%), the United Kingdom (11%), France (7%), Australia (6%), and Germany (5%). However the top five also saw their share of international enrolment declined from 55% in 2000 to 47% in 2012.

According to the MENESR, France hosted 295,084 international students in 2013, a 2% growth compared to the previous year. This means that 12% of the student population hails from abroad, compared to 7% in 1998 (Graph 2). According to the latest projection from the OECD, by 2025 the number of international students in France will increase by 52% and represent 17% of the total student population.

In 2013, Moroccans remained the biggest foreign population (33,899) followed closely by Chinese students (30,176), then by Algerian, Tunisian and Italian students. However, over the 2011-2012 and 2012-2013 academic years the presence of students from the African continent increased by 1% against only 9% for students coming from Asia. In one or two years the number of Chinese studying in France will exceed Moroccans. We

GRAPH 2 **Share of international students** Rising notably thanks to the growing number of Chinese applicants



Graph source: MENESR, OCDE

expect these fundamental adjustments in population growth and economic change will shift the geo strategic weight away from African applicants towards recruiting more students from Asia. This will imply adapting student accommodation accordingly.

France & Paris: top student destinations

France is the third most popular study destination in the world, and Paris is ranked as the first student city in the world according to QS ranking 2015. In order to improve the attractiveness of French universities, a new immigration law, for foreign students proposed by the senator Dominique Gillot was enforced in July 2014. Amongst the main changes were firstly the length of the foreign students' resident permit which has been

extended and adapted to the duration of their studies. Second, graduates from a French Masters are entitled to a 3-year working permit as long as the job position is related to the studied speciality.

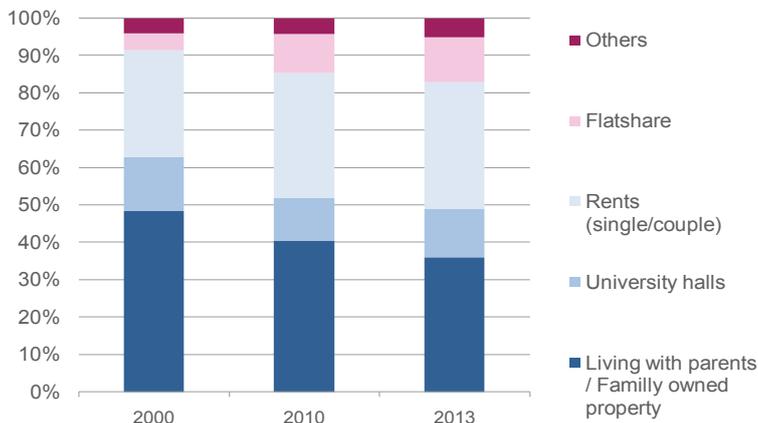
Tuition fees in France are relatively low compared to other European countries. The large majority of higher education institutions in France are state-funded, meaning there is only a nominal tuition fee depending on the level of studies (€188 for undergraduate students, €259 for post-graduate students, €393 for PHD students and €611 for students of engineering schools). However, the cost of enrolling in private institutions is higher, particularly in the case of business schools, ranging from €3,000 to €10,000. Although discussions are at an early stage, the government is considering increasing the tuition fees for non EU students.

Finally, many universities now offer either bilingual programs or programs taught entirely in English, which is of particular appeal for those wanting to learn or improve their French while specialising in another academic discipline. ➔

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 "There is a clear potential in the sector for strong returns."

Marcus Roberts, Savills Student Housing

GRAPH 3 **Student types of accommodation** The share of students relying on their parents is decreasing



Graph source: OVE

Undersupplied market situation

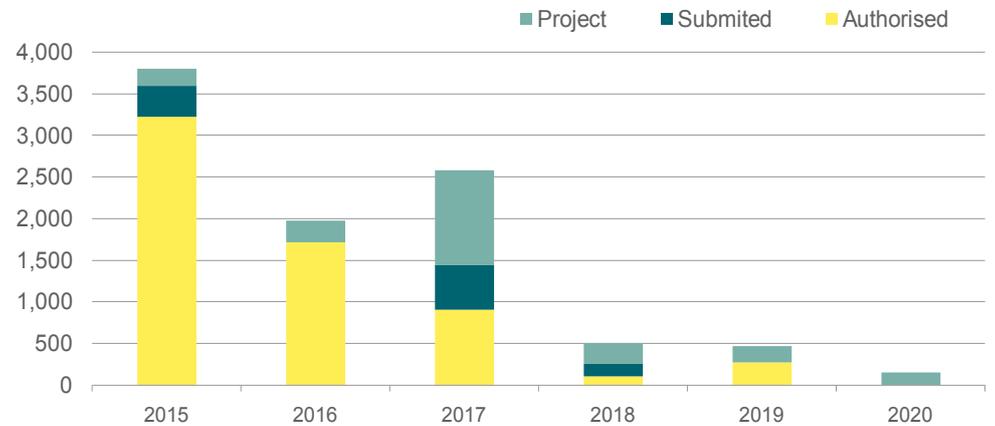
Student housing provision is currently an estimated total of 375,000 rooms, of which approximately 58% are public student accommodations managed by the CROUS. Thus an insufficient supply compared to the 1.6 million students who wish to live independently.

In France the average student housing provision rate is currently 15.4% (Graph 6) compared to 11.2% in 2012 (our last issue). This average is hiding large differences between cities, from 2.6% in Paris, which accounts for nearly 13% of the total postgraduates, and 19.3% of the total foreign students, followed by 9.8% in Lille to 19% in Grenoble, the best equipped city followed by 16.4% in Aix-Marseille.

The overall improvement of the provision rate is due to the strong increase of development starts since 2012. Nevertheless, the number of projects planned is slowing down. In total 9,332 student rooms are planned over the next five years of which, 3,800 are due for completion in 2015. Of the total future supply approximately 67% of projects have been authorised, 11% are still waiting for planning consent and the rest remains at a project stage. The Ile-de-France represents 32% of authorised student housing schemes. Projects to be built in the Moselle region (Metz) represent 16% of the projects, the two other key locations that attracts developers and investors are Toulouse (12%) and Marseille (13%).

GRAPH 4

In the pipeline Only 9,332 student rooms are planned over the next five years



Graph source: Explore

Additionally, the government launched in 2014 a project named "40,000" with the aim to develop 40,000 public student housing until 2017, of which about 50% will be located within the Ile-de-France. Other targeted regions include Aquitaine, PACA, Midi-Pyrénées, Rhone-Alpes and Nord-Pas-de-Calais. Eventually the stock of the CROUS will rise by 25%. One-fourth of the project has already been developed.

The national average occupation rate is approximately 94% ranging from 91% to 100% depending on the location and the quality of the property.

Rental growth from 2% to 3%

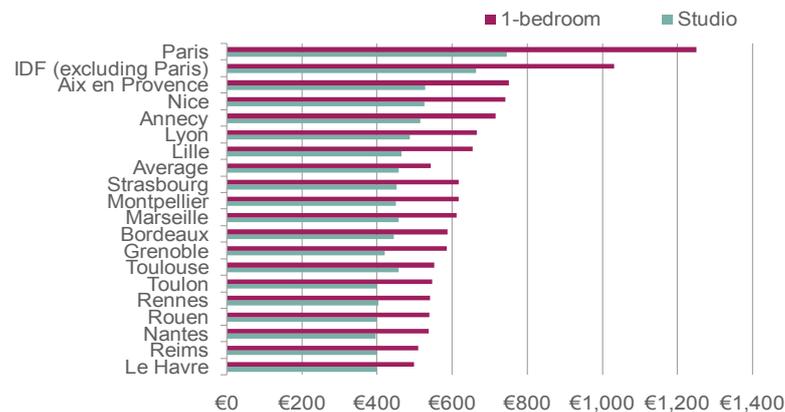
The average national student housing

rent ranges from €457 per month (including service charges) for a studio and €542 per month for a 1-bedroom apartment (Graph 5). Over the past 12 months rents have increased by 3% on average in Ile de France and by 2% in regional markets according to the latest survey from the OVE (Student Life Watchdog Agency).

Since the law "Loi ALUR" changed last year, rental growth has been relatively limited. Indeed, the initial law enforced in 2012 aimed at capping rental growth for lease renewals in 28 cities exceeding 50,000 inhabitants. The law has now been extended to new leases for which the asking rent should range between -30% and +20% of the recorded median rent.

GRAPH 5

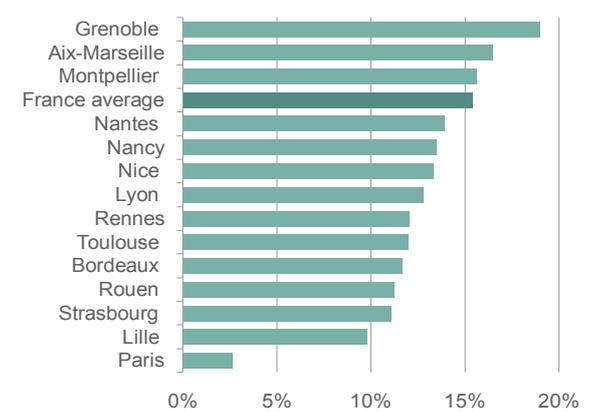
Rental level in private residences €457 on average for a studio and €542 for a 1-bedroom apartment / month



Graph source: Location etudiant

GRAPH 6

Student housing provision rate* the national average is hiding differences



Graph source: CROUS, Adele, Savills / *Number of rooms divided by number of students

Investment activity mainly driven by developments

Although the share of student housing investment remains marginal out of the total commercial volume and requires a degree of specialism, there is clear potential in the sector. The shortage of supply while demand is on the rise offers good investment opportunities. Student housing provides long income streams with low risks of bad debt as parents often act as financial guarantors and the French government offers relatively good level of subsidies (APL). Additionally, as the student lease length is 9 months, it offers more opportunities to adjust the rent compared to the traditional residential market. Finally, student housing offers investors diversification and counter-cyclical strategies to balance portfolio.

On the downside, the student housing investment market is less transparent and less liquid than any other commercial non alternative assets. Additionally, based on a market survey we conducted in few specific cities we can assume that between 60% and 70% of the existing student housing stock belongs to private investors or occupiers in split ownership structure which is less accessible to institutional and property companies. Consequently, investment activity in general is mainly driven by new developments and forward funding schemes; the lack of which can restrain the number of investment opportunities.

This is the explanation behind the low student housing investment volume achieved last year where the high volume

recorded in 2013 followed strong levels of development completions and project pipeline (Graph 7). Although the French student housing market remains mainly driven by domestic investors, representing 72% of all acquisitions recorded in the past three years, it is slowly opening to international investors, notably coming from the Netherlands (16%), the UK (7%) and Germany (4%).

Since the "LRU" law was enforced in August 2007, - which allow the privatisation of universities under certain conditions - only nine universities applied for privatisation in 2009 and only three universities (Toulouse 1 Capitole, Clermont 1 and Poitiers) obtained the government consent. However we believe that limited government funding may push more universities to become privatised in the midterm. The French university assets total 18.6 million sq m on a total of 14.7 acres of land on which, there are 5.2 million sq m of properties owned by the government, 450,000 sq m owned by universities and 2.95 million sq owned by local authorities. Additionally, the French university portfolio includes 347,185 sq m of student housing.

Yields under downward pressure

The growing investor interest combined with the limited available supply on the market have put downward pressure on prime yields. The expected net yields for student residences range between 5.3% and 6.7%, depending on the location and the quality of the asset (Graph 8). This is above achievable yields in the traditional residential and commercial sectors. ■

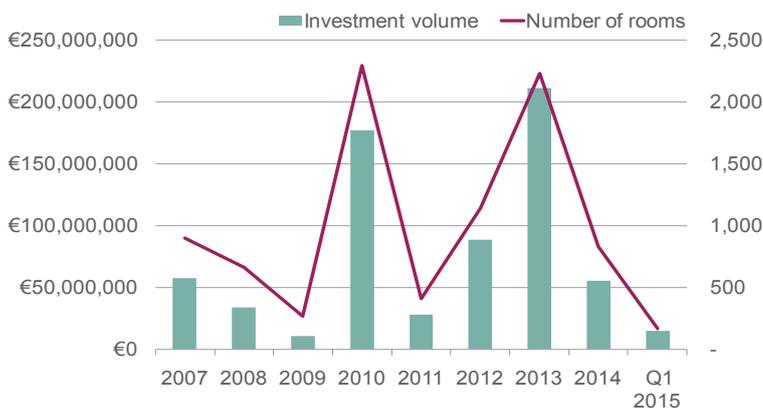
TABLE 1 Major operators two operators run 41% of the student housing market

Group	Brand	Date	Type	Market share
Nexity	Studéa	1987	Developer / Manager	23%
Groupe Reside Etudes	Les Estudines	1989	Developer / Manager	18%
Le Club Etudiant	OSE	1989	Manager	9%
BNP real estate	Studélites	1990	Manager	8%
Arpej UniverCity	UniverCity	1989	Manager	8%
Gécina	Campuséa	2007	Owner / Manager	8%
FAC habitat	-	1985	Manager	6%
Dom'Ville services	-	1997	Manager	5%
Espacil Habitat	-	1964	Developer / Manager	4%
Park&Suites Etudes	Suit'Etudes	2011	Manager	4%

Table source: Savills

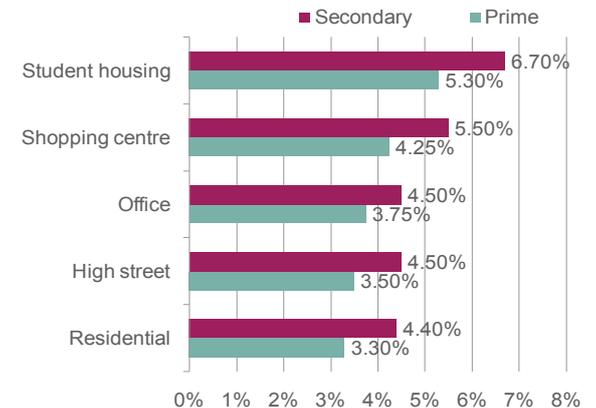
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 "Whilst the lack of supply is helping to put downward pressure on yields it may also hinder the growth potential of the sector." Lydia Brissy, Savills Research

GRAPH 7 Number of student units acquired we expect good levels of activity in 2015



Graph source: Savills

GRAPH 8 Yields moving in but remain above all traditional sectors

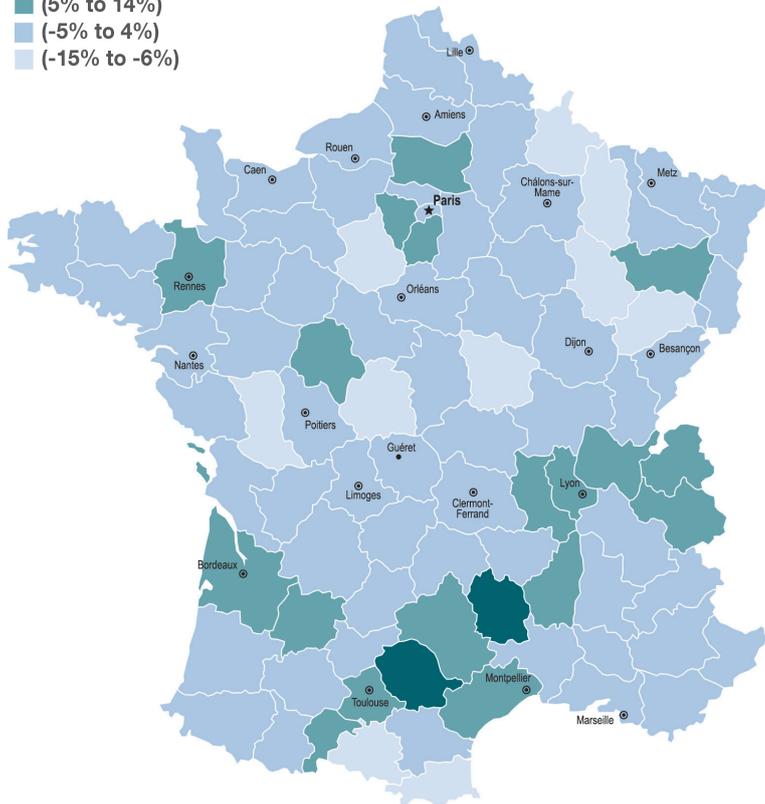


Graph source: Savills

MAP 1

Student population growth over the past three years

- (15% to 25%)
- (5% to 14%)
- (-5% to 4%)
- (-15% to -6%)



Map source: Savills

OUTLOOK

Bright prospects

- The number of student applications should increase by 9% in the next 10 years, according to the latest projection from the INSEE. This will bring the total number of students to 2.65m.
- According to the latest projection from the OCDE, by 2025 the number of international students in France will increase by 52% and represent 17% of the total student population. We expect the number of Chinese studying in France will exceed Moroccans in a couple of years.
- About 30,000 CROUS student units should be built by 2017. Additionally 9,332 student rooms are planned over the next five years.
- Nevertheless, based on these numbers and on the expected growing student population we anticipate the average national provision rate to grow only slightly to reach approximately 15% in 2017 (currently 14.4%).
- We expect the national occupation rate to remain high especially in cities undersupplied or in well located and high quality properties.
- Student housing will remain an attractive asset class for investors looking for diversification and counter-cyclical strategies to balance their portfolio. We expect the LRU law on university privatisation to provide more opportunities on the market.
- Increasing investor competition for a limited number of opportunities will continue to put downward pressure on yields.

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