

# Briefing note

## Student housing - Part 2: The construction boom

June 2015

The building stock of private operators of student accommodation has doubled over the last five years. And it is already foreseeable that this figure will double again. Such developers have been building and continue to build small apartments that are lacking on the open apartment market.

### Widening supply gap in the open apartment market ...

As discussed in the first part of our series of publications on student accommodation, the fact that rental growth in many university cities is outstripping increases in student income means that apartments affordable to students are (inevitably) becoming increasingly smaller. Owing to a lack of such small apartments on the open apartment market, students are increasingly being squeezed out of the apartment market. This trend offers investors an opportunity to fill the resulting supply gap with small, purpose-built apartments for students. Indeed, in the interest of clarity, this is already happening at an increasing rate.

### ... that cannot be filled by the student associations

This supply gap cannot be filled by the semi-public student associations (Studentenwerke). Traditionally the largest providers of student accommodation, they are scarcely able to create any additional supply owing to financial restrictions, among other reasons, despite the significant rise in student numbers. Consequently, the supply ratio of places in publicly-funded student accommodation has fallen consistently in recent years and currently stands at less than 10%.

### A private market for student apartments is emerging ...

With students increasingly being squeezed out of the open apartment market and unable to find a place in student associations' halls of residence, there was also a lack of adequate alternatives until a few years ago. Privately operated student accommodation scarcely existed. In 2010, there were just 12,000 places from private landlords in the thirty largest German university cities. This compared with more than 1.2 million students, equating to a supply ratio of less than 1%. Since then, the private stock has doubled to around 25,000 places (see Graph 1), increasing the supply ratio to 1.7%.

### ... and growing at an increasing rate, ...

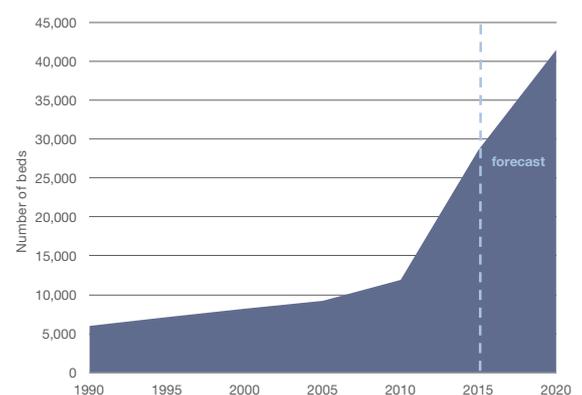
And it is already foreseeable that this figure will double again. Taking into account all properties currently under construction and in planning, the stock is expected to grow to at least 41,000 places by 2020. As part of this trend, the market share of private operators is growing significantly. While such providers accounted for only around 6% of all student accommodation in the 30 largest university cities in 2000, this has now risen to approximately 16%. By 2020, this proportion is expected to reach around 22%.

## Student housing

### Four briefing notes, one issue

- In the first issue of our publication series on student housing, we analysed the squeeze-out of students of the open apartment market (download).
- This second part focuses on the rapid expansion of purpose-built student accommodation by private operators.
- In the next papers (Part 3 - Overbuilding, Part 4 - Change) we address the consequences of this construction boom.

GRAPH 1  
Development of private purpose-built student accommodation\*



Source: Savills / \* in the 30 largest university cities

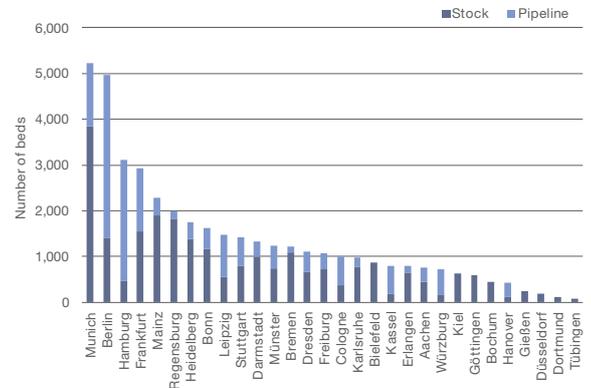
**... particularly in the more expensive cities**

However, as illustrated by Graph 2, not all university cities are equally high on the agenda for private operators. The largest supply of private accommodation is found in cities with particularly strained housing markets, such as Frankfurt and Munich. In these cities, the budgets of students wanting to live alone can scarcely cover even the smallest apartments available on the market. In any case, such apartments are far too few in number. This is the supply gap that private investors are filling. Providers such as GBI, International Campus and MPC are building student accommodation typically comprising one-bedroom apartments of 20 sq m to 25 sq m. There are also some two-bedroom apartments and a smaller number of other accommodation types. Such accommodation is mostly fully furnished and fitted out to a high standard. The majority of apartments also have bathrooms and kitchenettes. These characteristics reflect the fact that this new accommodation has little in common with the offering of the student associations. Rather, a new market segment is emerging that targets a quite different group of students.

**Supply is multiplying in many cities - is there sufficient demand?**

The rapid growth of this market segment in many cities is exemplified by Berlin. The number of places currently under construction and in planning exceeds the existing stock by a factor of 2.5. In Hamburg, the ratio is almost 6:1. In both cities, the supply will have multiplied by the time all ongoing projects are complete. A similar trend can be observed in many other cities. Whether this enormous increase in supply is met by sufficient demand, and in which cities, will be analysed in the next part of this series of publications.

**GRAPH 2**  
**Private stock in 30 largest university cities\***



Source: Savills / \* by number of students

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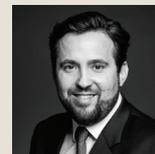
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