

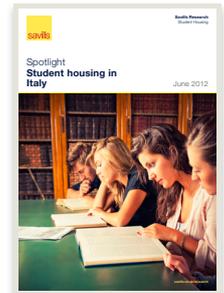
savills

Spotlight Student Housing in Italy

Summer 2012



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“There is a demand and supply imbalance of student accommodation in Italy and new development initiatives are limited.”

Marcus Roberts, Student Housing

Economy

The euro-area sovereign-debt crisis has had a significant negative impact on the Italian economy. The sharp increase in government-bond yields, particularly in the final months of 2011 translated into higher financing costs for Italian banks. As credit conditions for firms tightened and business and consumer confidence deteriorated, domestic demand dropped considerably.

In April, the government revised its growth assumptions and currently expects the economy to contract 1.2% this year, down from an earlier projection of a 0.4% contraction. Spending and investment plans of consumers and firms will be held back by poor labour market prospects and still-high uncertainty in financial markets. Economic authorities left their projections for next year unchanged, when the economy is expected to expand 0.3%.

Student registrations

Over the last three decades, the percentage of the population with a university degree has doubled, especially for the female population. Over the last decade, the number of students has continued to increase. However, growth peaked in the period between 2003 and 2004. Since that time new student registrations have been in steady, albeit limited, decline, with the number of new students falling by an annual average of 2% between 2004 and 2010 and the total number of students remaining virtually stable (the total number of students in academic year 2009-2010 was circa 1.8 m). It is currently unclear, however, whether this may form part of a longer term trend

into the future, or merely coincides with difficult economic conditions and will be reversed (therefore with new growth in student numbers) as and when economic conditions improve. What is predicted is a continuing fall in the number of new undergraduates joining the university system in the short term future at least.

The total number of foreign students has been growing by an average of 10% pa over the past decade to about 60,000 students in 2009/10, which corresponds to about 3.3% of the total student population. In the academic year 2009-2010 new foreign students accounted for 4.2% of the total number of new undergraduates entering university, exceeding 12,000 students. Over half (54%) of the new foreign undergraduates joining the University system in 2009 were from non-Euro countries, including over 10% from Romania and almost 17% →

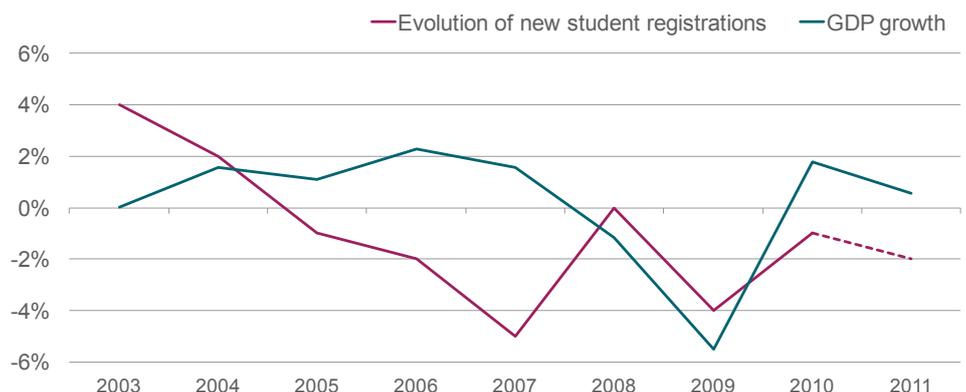
SUMMARY

Student housing in short supply

- Over the last three decades, the percentage of the population with a university degree has doubled, especially for the female population, and this has unquestionably led to an increase in demand for all types of space associated with such establishments, from educational purposes to accommodation.
- The total number of foreign students studying in Italy has been growing by an average of 10% pa over the past decade.
- Demand for student accommodation is driven by intraregional and international students which accounted for about 20% and 3.3% of the total student registrations last year respectively.
- Overall, 65% of the number of student halls are located in Lombardy, Emilia Romagna, Tuscany and Piedmont, which altogether concentrate 33% of the largest universities in the country.
- The existing stock of accommodation for students supplies around 50,000 places throughout Italy. This corresponds broadly to about 3% of the total student population.

GRAPH 1

GDP growth vs new student registrations growth Irregular correlation of economic conditions and demand for higher education



Graph sources: Focus Economics, Ministero dell'Istruzione, dell'Università e della Ricerca (MIUR), Savills estimates

→ from Albania. Also worthy of note is the percentage of foreign students arriving from China (almost 9% of all foreign students in 2009). We expect a growth in student population from this and other growing economies to contribute a greater proportion of the total over the coming years.

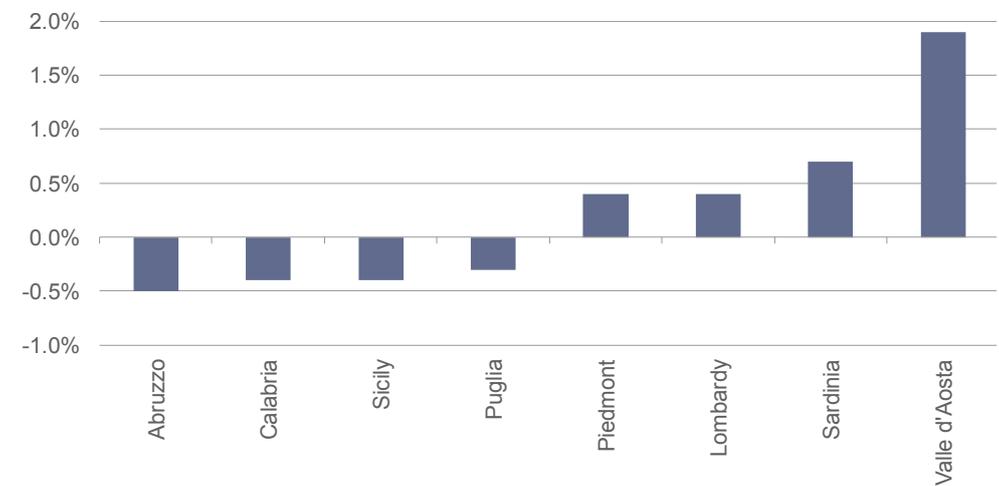
The very significant majority of all university students study in the regions of Lombardy and Lazio, followed by Campania, reflecting the higher concentration of universities in these regions as well as their reputation, in some cases.

Demand characteristics

In the academic year 2009-2010 57% of the total student population were female and 43% male. Moreover, since the start of the 2000's the growth in the female student population has been significantly greater (+5%) with respect to the growth in male students (+0.9%), while the total rise in new undergraduates over the decade was 3.2%. An analysis of the demographic composition reveals that this trend does not reflect any overall trend in the male-female balance within the population, which has remained fundamentally unvaried over the last decade. This suggests that the variation in the ratio of male-female new undergraduates is driven by non-demographic features. The greater number of women students may be a reflection of an ongoing tendency for men to be the main 'bread-winner' in a family, leading to more male school-leavers entering employment immediately when some females

GRAPH 2

2004-2010 intra-regional student mobility growth (top and bottom four) Regions with new and most reputable universities are still growing



Graph source: MIUR

“There are more than 60,000 foreign students and the number of new entrants is rising, supporting demand for student housing.” Eri Mitsostergiou, Savills Research Europe

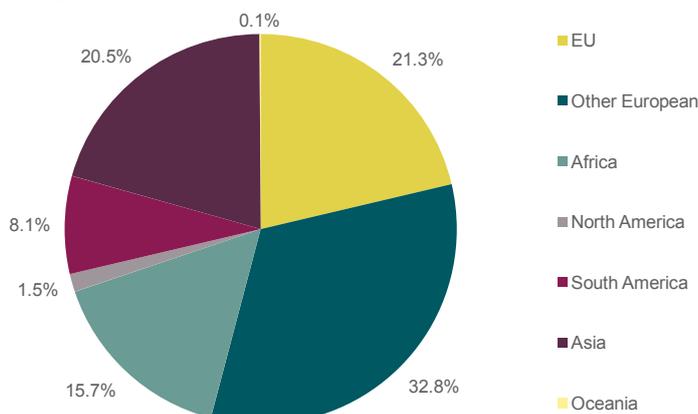
continue into higher education before entering the employment market.

The greatest percentage of new university students each year continues to be those aged 19, suggesting that the majority of university students tend to arrive directly from high school. Regarding

the age structure of all university students (not just the new students joining the system), almost half (47%) of the total student population falls within 19-22 age group. Moreover almost 15% of the total is older than 29 years, which reflects the greater length of studies in the Italian higher education system, compared with other European countries.

GRAPH 3

New foreign student registrations 2009-2010 Half of the foreign students are Europeans and 20% Asians



Graph source: MIUR

In 2009-2010, about 58,000 new students moved between regions for their university studies, which is about 20% of the total new registrations. The share of intra-regional students (new registrations) has remained fairly constant over the past five years. However, data over the last few years suggest that there are currently fewer students moving to a different region to study, in line with the declining number of new student registrations. As with overall graduate levels, however, and aggravated by a lack of constant historic data, it is unclear whether this is a wider general trend, or perhaps the effect of recent economic conditions.

About 65% of the Italian students

continue to live with their parents and to study in universities of their home region. This is one of the highest shares in Europe, reflecting the family-centric culture of the country. According to 'Eurostudent' survey less than 5% of the student population lives in student halls, while the rest find accommodation (in most cases shared) in the open market.

Supply

The suppliers of students halls are mainly the Universities (public or private), the Regional authorities and to a lesser extent Religious bodies. Private supply of student accommodation is very limited. Since 2006 the number of places in student halls managed by Regional authorities has increased by 14%. In total we estimate that the total stock of accommodation for students supplies ca 50,000 places throughout Italy (excluding religious bodies due to the lack of available data). More than 80% of these places are in student halls managed by Regional authorities, while about 7% is provided by public universities and 10% by private colleges.

Almost a quarter of the total number of student halls is located in the region of Lombardy, which also accounts for 15% of the total number of students in the country. Overall, 65% of the number of student halls is located in Lombardy, Emilia Romagna, Tuscany and Piedmont, which altogether concentrate almost 40% of the number of students in the country. The most evident disparity between

TABLE 1

Student housing portfolio of Fondo Aristotele

The only specialised fund in the student housing sector

Name	Location	Number of beds	Management
CampusX Bari	Bari (Terra di Puglia)	600	Siram Si S.p.A.
Villaggio Universitario Chieti	Chieti (Chieti Scalo)	600	Siram Si S.p.A.
Università Milano Bicocca	Milan (Sesto San Giovanni)	200	'Università Milano Bicocca'
CampusX Rome, Tor Vergata	Rome (Tor Vergata)	1,500	Siram Si S.p.A.

Graph source: Fondo Aristotele / Fabrica Immobiliare

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 “The supply of student housing satisfies less than three-quarters of the theoretical demand.” Susan Trevor-Briscoe, Savills Research Italy

number of universities and number of student halls is in the region of Lazio, which although it accounts for 14% of the total number of universities in the country it only accounts for 3% of the total supply of student accommodation.

The average student housing provision rate is 3% (total available places over total student registrations) demonstrating the short supply of student accommodation in the market. Based on the number of intra-regional students and foreign students in the country, who represent the theoretical

demand for affordable student accommodation, overall the current stock satisfies less than three-quarters of this, assuming that the remaining students seek flat-sharing solutions in the open residential market.

Even if we were to assume increased supply to reflect additional church-managed accommodation and, on the demand size, assume a fall in the mobile student population, we are of the opinion that the gap between supply and demand would remain significant.

Rental levels

The average monthly cost stands at ca €270 per bed per month. Monthly costs vary greatly, from a minimum of €60 to a maximum of €1,100 per bed per month. Variations to a large extent reflect location (also reflecting therefore wider market dynamics) and the type of premises offered (eg. a bed in a triple room will be cheaper than a single room with an independent bathroom).

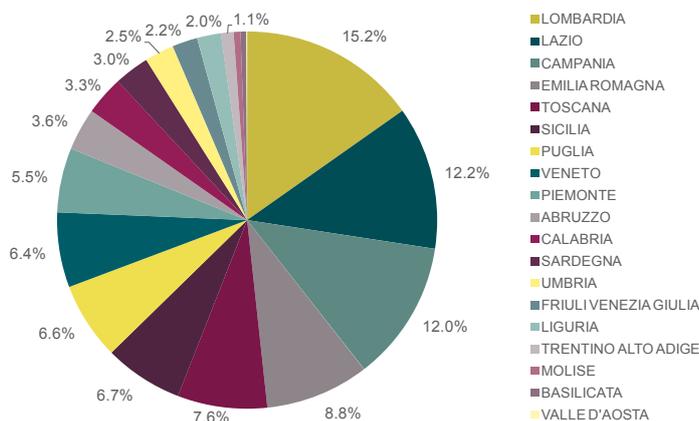
Niche for investors

Property investment activity in Italy remains focused on the traditional office and retail markets, as well as the logistics market to a very limited extent. There is also interest in the residential market but there is no focus yet on the student housing market. Private investor involvement in the

GRAPH 4

Number of students per region

More than half of the total number of students study in the five major regions



Graph source: alloggi studenti.eu

student housing market is very limited, and the development and ownership of assets is mainly in the hands of universities and regional authorities.

So far the only specialised fund in the sector is 'Fondo Aristotele' (managed by Fabbrica Immobiliare SGR SpA), which focuses on 'social' investments, which in practice involve mainly:

- Student residences
- University development
- Research laboratories (private and public) and specialist medical structures
- Senior housing

Due to the lack of significant transaction volume in the sector, the local investment market tends to categorise Student Housing and Senior Housing (known as 'RSA') under the same market segment. Therefore a yield analysis can draw on the RSA sector. With such properties, investor interest is to a great extent linked to the lease duration to the potential operator. Whilst for office properties the minimum (and standard) lease

duration is six years, sometimes with an earlier tenant break clause, for RSA and Student Housing leases it will need to have a much longer minimum duration, perhaps nine or even 12 years without a break, to render them of potential investor interest. Based on this assumption we believe that achievable gross yields for prime premises are in the region of 7%.

There is still no market evidence regarding secondary yields and we believe that investor and developer interest will focus on prime investment opportunities. Secondary assets remain in the ownership of Universities and Regional authorities. ■

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 "The volume of transaction activity is still low but the potential of the sector should attract more investor interest." William Gould, Savills Investment Italy

OUTLOOK

Supply does not meet demand

■ The number of new student registrations is declining slightly and we do not expect this trend to change considerably in the short term. However, foreign student registrations are on the rise and we expect students from growing economies (eg. China) in particular to contribute more to the total over the coming years. Some of the major universities' intention to become more attractive for international students by introducing courses in English should support this trend.

■ The current supply of student housing satisfies less than three-quarters of the demand from intra-regional and foreign students for accommodation. Although we may see a decline in intraregional mobility of students due to tighter family budgets, we are of the opinion that the gap between supply and demand will remain significant.

■ The suppliers of student halls in Italy are mainly the Universities (public or private) and the Regional authorities. Private supply of student accommodation is still low. Due to worsening public finances we do not expect any significant new supply to come from the public sector in the near future.

■ Student housing is emerging as an attractive alternative property investment opportunity, although private investor involvement in the sector is still very limited. Therefore we expect yields to remain attractive compared to the other sectors in the market.

Savills teams

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