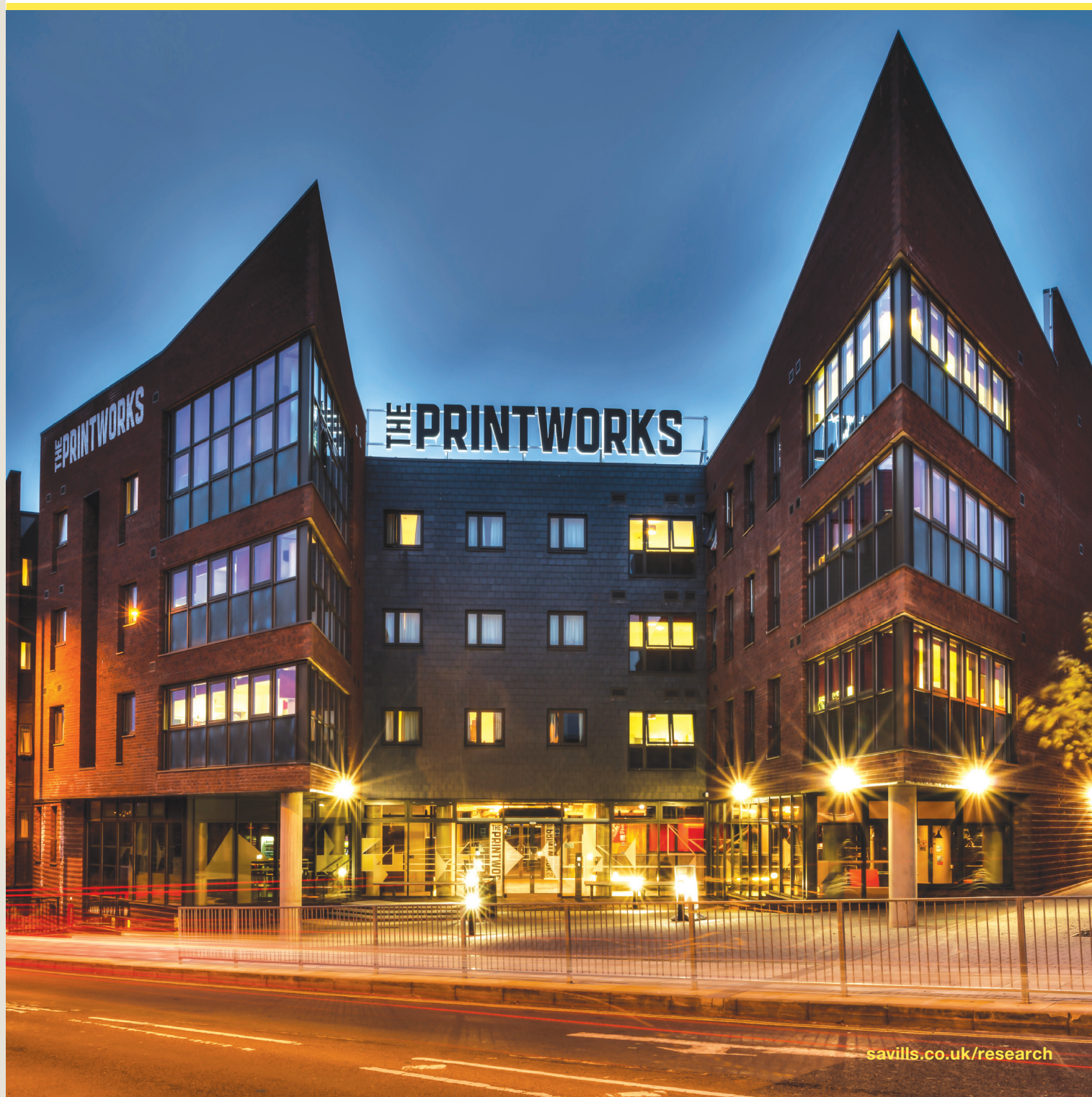


# Spotlight UK Student Housing

2015





# Spotlight UK Student Housing

The UK student housing sector has evolved into a mature and globally recognised investment



**T**he purpose built student accommodation sector enjoyed a robust recession. Student numbers increased to record-breaking levels as the poor employment market encouraged more people to seek higher education and to stay on for postgraduate study. With strong demand, income returns and occupancy rates were high. Although new investment into the

market was limited owing to the effects of the credit crunch, the sector had proved its resilience. Since then, there have been some tests for the sector. Student numbers were hit by the introduction of higher fees but are now recovering and look set to expand further with the removal of the cap on numbers. The report looks at how these changes are affecting student numbers at

different institutions and whether the “flight to quality” we identified last year has continued. With a proven track record of returns and strong demand from students, the first five months of 2015 have seen record investment into the sector from across the globe. The report looks at how this marks the ongoing evolution of the sector into a mature and globally recognised asset class. ■

## INVESTMENT PERFORMANCE

2015 is witnessing record levels of investment

Investment into the purpose built student accommodation market only just fell short of our forecast for last year with £2.45bn of assets traded, a 23% increase on 2013 levels. This figure has already been surpassed in the first five months of 2015 with £4.2bn invested (on both a standing investment and site acquisition basis), a record high that is already 70% above last year's level and 40% above the previous peak in 2012.

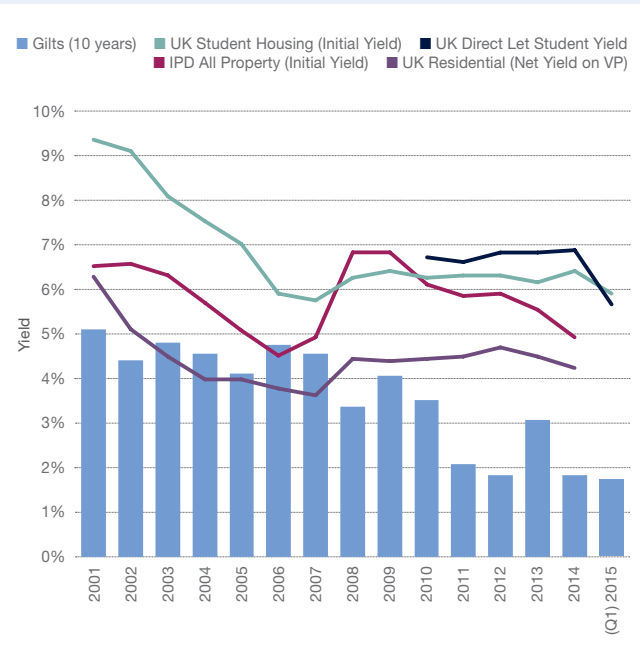
With increased investment activity, we have seen yield compression across all sub-markets. This has particularly been the case for investments in prime London where direct let net initial yields are now below 5%. For 2015, we forecast total returns of 14%. This is comprised of average blended yields compressing by 25 basis points and rental growth of 3.5%. Current 2015 yields are at the levels shown in the table below.

FIGURE 1  
2015 Yields

	Lease	Nomination Agreement	Direct Let
Prime London	3.75%	4.50%	4.75%
Super Prime Regional	4.25%	4.75%	5.50%
Prime Regional	4.50%	5.25%	6.00%
Secondary Regional	5.00%	5.75%	6.75%

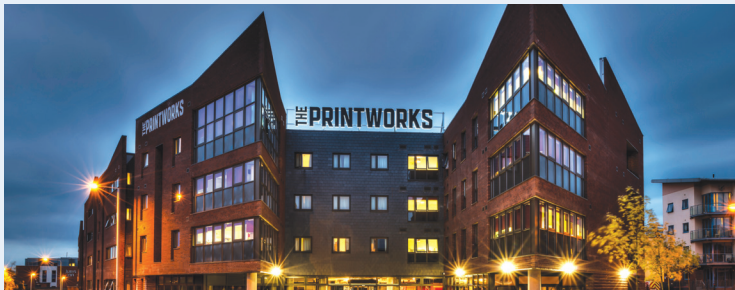
Lease: 25 year lease to institutional grade university covenant on annual RPI linked increases with a cap and collar. Nomination Agreement: 15 years+ nomination agreement to institutional grade university covenant on annual RPI linked increases with a cap and collar

FIGURE 2  
Investment yields



Source: IPD & Savills Research

### SAVILLS CASE STUDIES



#### THE PRINTWORKS, EXETER

- Savills were retained by Blackrock UK Property Fund to acquire this prime, high specification student accommodation scheme in Exeter comprising 492 bedrooms.
- The scheme was developed by Campus Development Management and Moorfield and opened in September 2013.
- The Printworks was acquired for £40m which equates to a 6.10% net initial yield.



#### CORDEA SAVILLS STUDENT HALLS FUND

- Savills were instructed by Cordea Savills to dispose of their 'Student Halls Fund' JPUT which comprised 9 assets across the UK.
- The 2,904 bedrooms were located in Edinburgh, Preston, Birmingham, Bath, Bradford, Leeds, Loughborough, Bristol and Portsmouth.
- The portfolio was successfully sold to USAF for £137m which equates to a 6.00% net initial yield.



#### EMPIRIC STUDENT PROPERTY PLC

- The Empiric Student Property PLC REIT successfully listed on the London Stock Exchange in June 2014.
- Savills has acquired ten of ESP's assets and continues to provide agency services on both their development pipeline and acquisitions to assist portfolio growth.
- Savills also provided consultancy advice on the IPO prospectus and launch.

## EXECUTIVE SUMMARY



Purpose built student accommodation sector has transformed the state of student housing over the last 25 years  
See pages 4/5



With student numbers stabilising, is this the beginning of the recovery or just the continuance of current levels?  
See pages 6/7



There is a wide range in the scale of new purpose built student housing supply expected in local markets  
See page 8



London will continue to be an attractive city for students from across the UK and around the world  
See page 9



Higher education continues to be an important contributor to many local economies  
See page 10

#### Notes about the publication

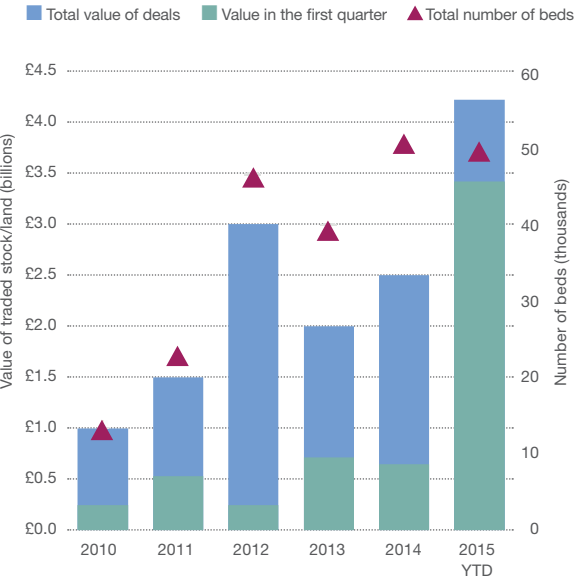
This document was published in June 2015. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts.

## A MATURE AND GLOBAL MARKET

The ongoing expansion of the purpose built student accommodation sector has vastly transformed the state of student housing over the last 25 years. The days of bedsits and squats may have been over-stated in popular culture but was not that distant from reality. In today's market, students have a range of purpose built options to choose from that offer all the benefits of an institutionally managed product. The investment market for student accommodation has also matured. It has grown from its roots in the Business Expansion Scheme of the late 1980s to the listing of Student REITs on the London Stock Exchange.

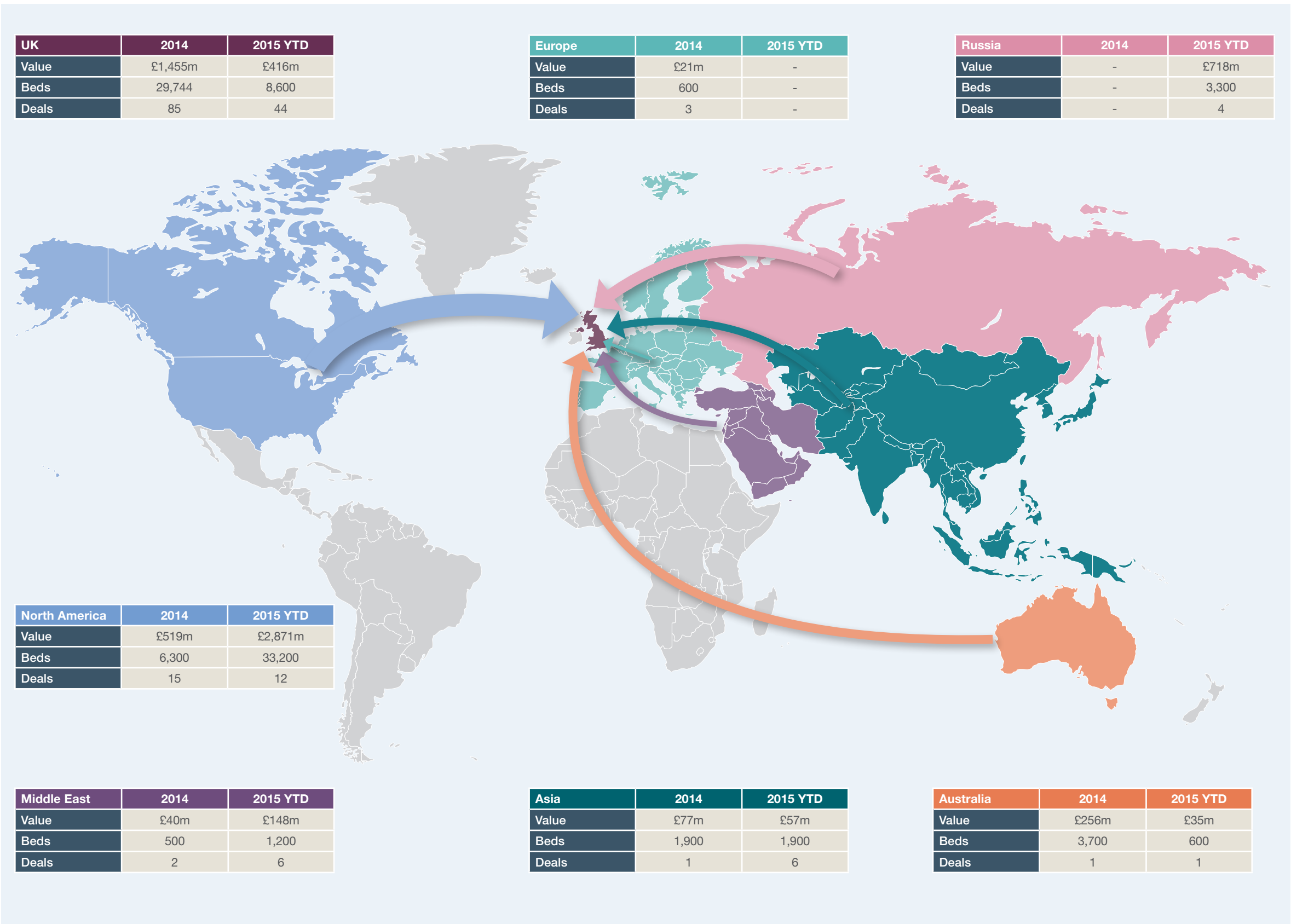
Growth has been met by an increase in investment activity. The value of assets and land traded during the first five months of 2015 was £4.2billion and higher than any previous full year. We forecast total investment of £5.5bn in 2015. The last couple of years have also seen an increase in investment from overseas. As the sector has matured, it has seen the bulk of investment activity shift from UK owner-operators to UK based private equity and institutions, and now to global institutional investors. Figure 4 highlights the trends in actual and potential global investment into the sector. ■

FIGURE 3 Investment Activity



Source: Savills Research

FIGURE 4 Global Investment into UK Student Housing



Source: Savills Research



FIGURE 5  
Change in Number of Students  
2012-13 to 2013-14

	Under-graduates	Post-graduates	Total
UK	-3.1% ↓	-0.7% ↓	-2.7% ↓
Other EU	-0.8% ↓	1.4% ↑	0.0% →
Non EU	3.7% ↑	3.1% ↑	3.4% ↑
Full-time	0.4% ↑	2.7% ↑	0.8% ↑
Part-time	-11.9% ↓	-2.1% ↓	-8.3% ↓
Total	-2.4% ↓	0.6% ↑	-1.7% ↓

Source: HESA

ARE WE PAST  
THE WORST?

Overall student numbers may have fallen again (-1.7%) for the 2013/14 academic year according to HESA, but the falls were smaller than the previous year (-6.3%). Although there were falls in part-time student numbers, there were encouraging signs in the other figures. Full-time students, the key metric of student accommodation demand, increased again, while students from non-EU countries continued to rise. The big question for

the higher education sector is whether this is the beginning of the recovery or just stabilisation at current levels.

As usual, the HESA data comes with a warning in that it is backwards looking. The data is based on the previous academic year and so does not tell us what has happened this current year and what could happen next year. For that we need to delve into the UCAS data on applications and acceptances. The news is positive. Overall applications and acceptances for the current academic year are up 3.4% and 3.3% respectively. This equates to 16,800 more acceptances than the previous year and brings the total to over half a million for the first time.

The good news provided by the UCAS data continues. Acceptances by UK domiciled students increased by 3.2%, EU students by 7.6% and from other countries by 5.7%. Initial numbers for applications this year and so for students starting next year points to a further 2% increase. This should easily take application numbers above their previous 2011 peak. Although growth rates are below those seen during the late 2000s, they point to a return to the trend prior to 2007.

The biggest unknown is what impact the lifting of the cap on student numbers will have. Government figures point to 60,000 extra spaces per year and so, assuming an average three year degree, that could increase total student numbers by 180,000. However, this figure is a government estimate based on the number of qualified students who are unplaced.

The Browne Review gave a revised and lower estimate for the increase of 20,000 to 30,000 students per annum. This would appear a more realistic figure but the actual increase will depend on the approach from individual institutions as well as any oversight from Government to ensure quality is maintained.

3.4%  
Increase in the number of applications for the current academic year

“The good news provided by the UCAS data continues”  
Savills Research

In a continuation of our analysis from last year, the introduction of higher fees appears to have continued to drive a flight to quality. The decline in student numbers between the 2011/12 and 2012/13 academic years was severe but lower ranking institutions were disproportionately impacted. They generally had large falls in both domestic and international student numbers. Although the fall in domestic student numbers was felt across all ranking groups, the impact on higher ranked institutions was lower and slightly counterbalanced by rises in international student numbers.

The total fall in student numbers for the following academic year (2013/14) was less severe but the distorted effect across institutions has followed a similar trend. Our analysis in Figure 7 shows continued falls in numbers towards the lower end of the rankings with both declining domestic and international students.

Meanwhile, higher ranking universities have generally seen an increase in domestic students for the 2013/14 academic year and a continued rise in foreign students. An exception is the second highest ranking group with a decline in domestic students due to a fall in the number of part-time students at The University of Warwick.

We would expect this scenario to continue with the lifting of the cap on student numbers. The attractiveness of universities in terms of the quality of the education they provide, their value for money, employment prospects and even the student lifestyle offered by the town or city will continue to play an important role in where prospective students choose to go. Universities towards the lower end of the rankings will struggle to differentiate themselves on these factors and will therefore struggle to attract students both domestically and from overseas.

INTERNATIONAL STUDENTS

An important role to play in university funding

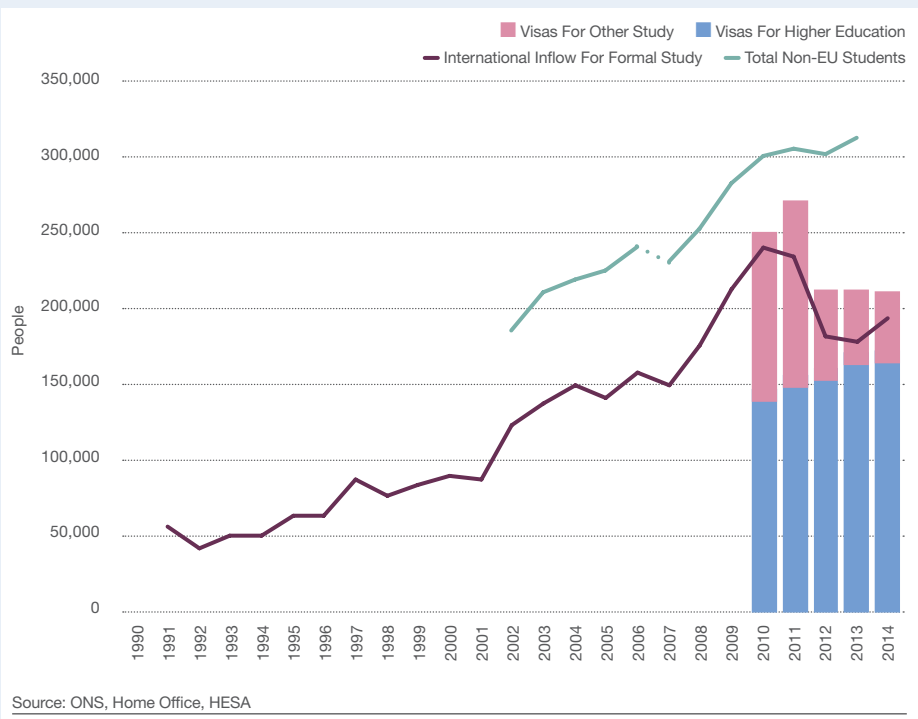
With a Conservative majority Government newly elected, calls for limits to international migration have become louder with a commitment to cap numbers. Around 34% of international migrants coming to the UK do so for formal study and it is essential that we recognise the important role they play in university funding and the wider economy.

The impact of tighter migration controls on the number of international students is evident over the period of the previous government. The number of people coming to the UK for study fell from a peak of 238,000 in 2010 to 192,000 in the year to Q3 2014. However,

analysis of sponsored visa applications from the Home Office shows that this fall has been contained in sectors other than Higher Education. These have actually increased slightly during the same period.

Although the number of international students appears to be relatively unaffected by tighter immigration control, it is essential that we ensure that the UK remains an attractive place to study and we do not send out contrary messages. Surely it would also be beneficial if we made it easier for the best and brightest to continuing working in the UK once they have finished their studies?

FIGURE 8  
International Student Indicators



Source: ONS, Home Office, HESA

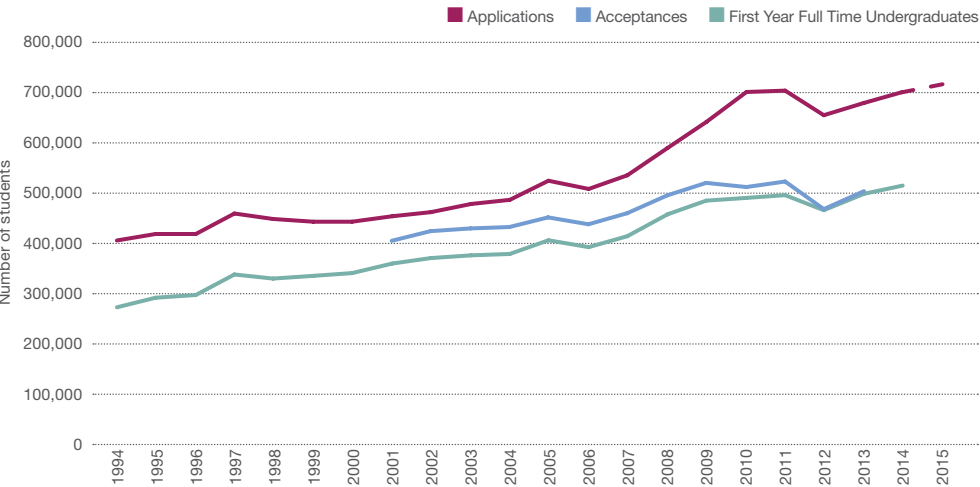
34%

Percentage of international migrants to the UK who arrive for formal study

192k

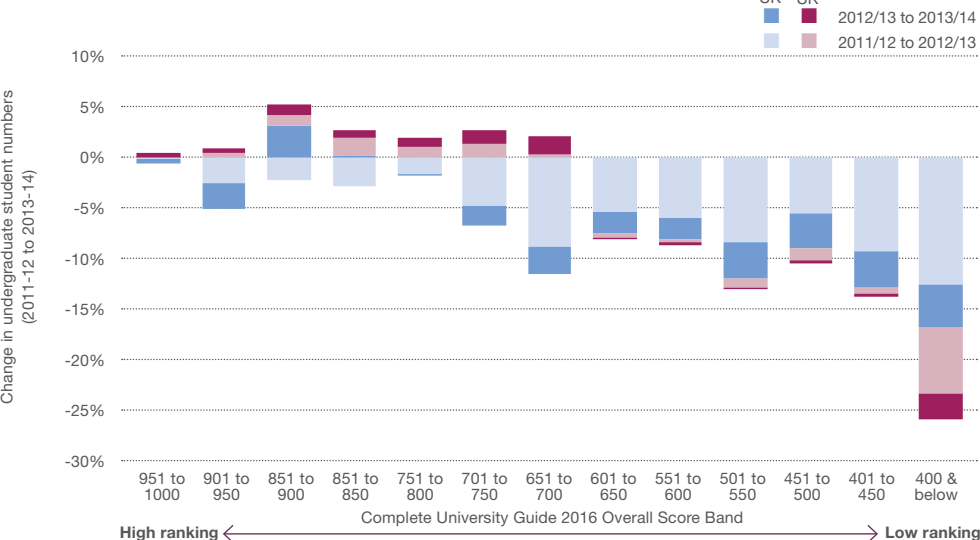
Number of international students in the UK in the year to Q3 2014

FIGURE 6  
Applications, Acceptances and First Years



Source: UCAS, HESA

FIGURE 7  
Change in Undergraduate Students Since 2011/12



Source: HESA, Complete University Guide

UK SUPPLY

The balance between supply & demand within the UK student housing sector is more easily measured than in the wider housing market. Demand is contained within one town or city and determined by the number of students attending local institutions. However, this does not mean it is easier for developers and investors to get it right. It is essential to understand the profile of local student demand and the state of current and future supply to ensure the product being delivered is successful.

On the demand side, the traditional mix of first years and international students living in purpose built accommodation are increasingly being joined by third year returners. Premium products have been successful in attracting wealthy international students but could be at risk of over-supply in some local markets.

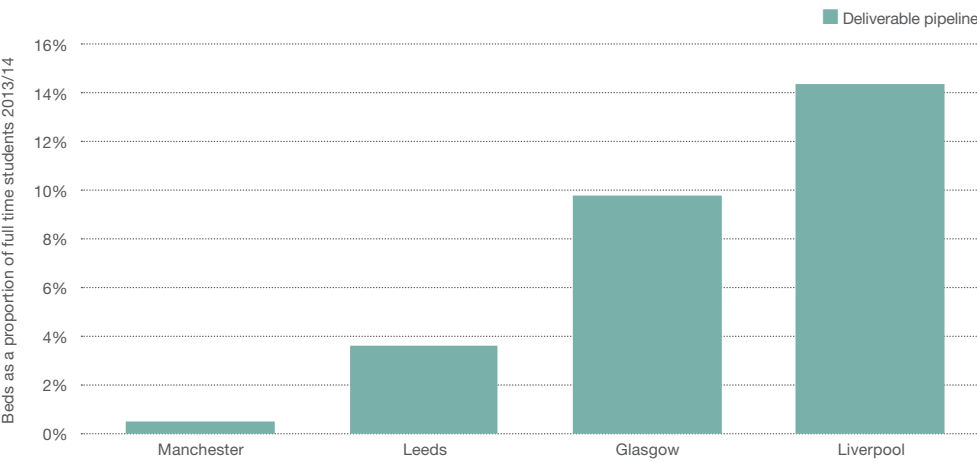
Rising rents in the private rented sector may encourage some domestic students to live in purpose built accommodation but could also drive others away from the most unaffordable towns and cities.

The supply required will be determined by scale of demand but also by the quality and quantity of existing competition. The introduction of the Energy Act 2011 requiring an EPC rating of E or better to let-out Homes of Multiple Occupation (HMO) or Halls from 2018 could reduce the level of existing supply in markets with lower quality stock.

There is a wide range in the scale of new purpose built student housing supply expected in local markets. We have looked at the supply pipeline in four cities to give a flavour of the issues facing each market. With supply limited by a difficult planning environment, the Manchester market is ideally placed for more development, provided the developer has support from the universities. This is reflected in our Town and City League Table on p11.

The level of expected supply in Leeds, Glasgow and Liverpool also reflects their position in our League Table. Expected deliverable supply in Liverpool is the equivalent of 14% of full-time student numbers. With a larger proportion of students living in their own or parents' home than other large university cities and a weaker housing market, the ability to absorb this amount of supply while maintaining rents and minimising voids will be tested and so choosing the right location will be crucial.

FIGURE 9 Indicative Supply Pipeline Selected Cities



Source: Savills

FIGURE 10 UK students and where they live 2013-14



Source: HESA

LONDON SUPPLY

There were approximately 367,000 students studying in London during the 2013/14 academic year according to HESA data. Of those, 77% were studying full time, 28% were from overseas and the majority of full-time students (75%) lived either at home or in the private rented sector. This figure was slightly down on the previous academic year (378,000) but by a similar percent as student numbers across the UK (-1.7%).

Looking ahead, it is likely that London will continue to be an attractive city for students from across the UK and around the world. However, there is the risk that prospective students will be put off by the cost of living in the capital.

The pressure on London's housing stock is particularly acute. New housing supply has failed to meet required levels and so the pressure on living costs has continued to build post recession. House prices have risen by 46% and private sector rents by 19% over the last five years according to the ONS.

Other measures put rental growth even higher. With increased competition in the private rented sector from other household groups, purpose built student housing plays an important and growing role in London's housing market.

With 70,000 purpose built beds in the capital (40,000 university managed and 30,000 privately managed), the sector houses around a quarter of London's full-time students. With the pressure on London's housing market expected to continue and student numbers likely to increase, the sector should be well placed to expand further. The current future supply pipeline



There are 70,000 purpose built beds in London

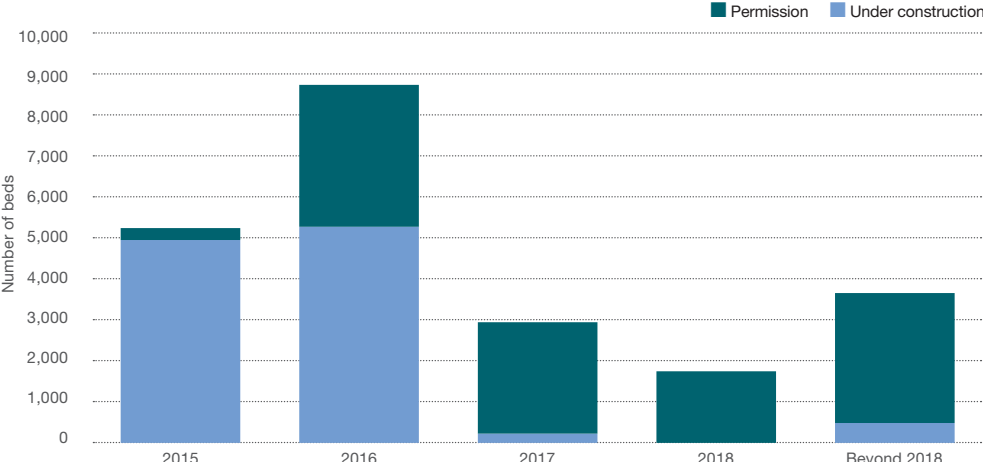
contains over 20,000 beds with 10,000 currently under construction and expected to be completed this year and next. However, the number of beds expected to be completed post 2016 is much lower and it remains to be seen whether this reflects a lack of new development or a lag in sites coming through the planning system.

Perhaps the biggest challenge for the sector in London is its capacity to expand beyond its current market. It predominately caters for first year and overseas

students. Many recent developments have targeted premium rents and our analysis of the rental value distribution in the sector broadly compares to private rents for studios and one-bed flats.

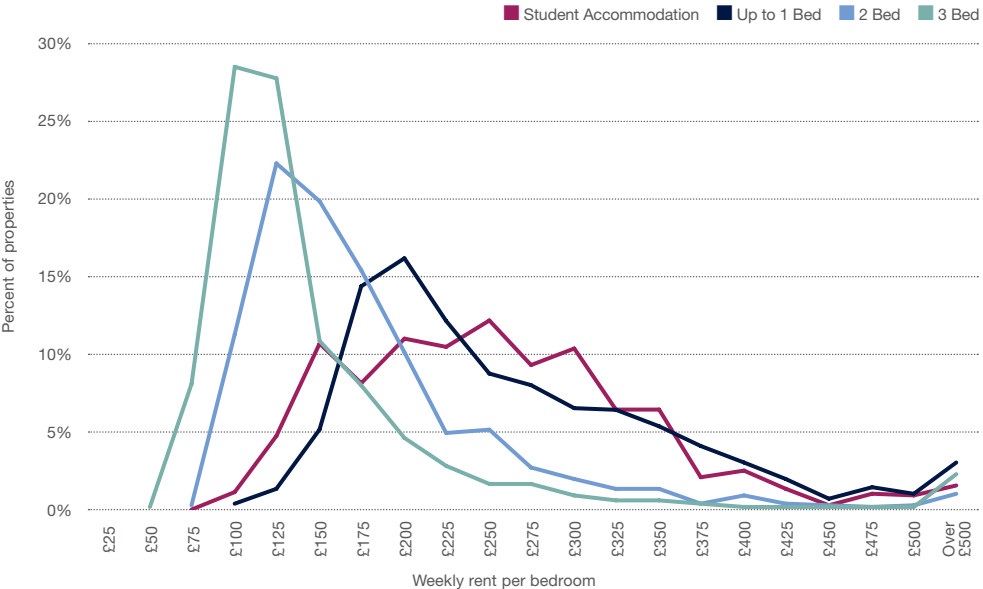
As the distribution for other property sizes indicates, there is a substantial opportunity for the sector to expand into lower value markets and compete against the HMO sector. However, it will be an uphill struggle given the current values required to viably compete against other use classes.

FIGURE 11 London Supply Pipeline



Source: Savills

FIGURE 12 London Rental Distribution Per Bed Per Week



Source: Savills & Rightmove

## HIGHER EDUCATION'S CONTRIBUTION

Higher education is an important contributor to many local economies. Nationally the sector contributes £40 billion to Gross Domestic Product, and students are a key component of population growth and housing demand in many locations. Both central and local decision makers therefore need to carefully consider the financial and housing implications of any policies relating to higher education.

We have analysed all local authorities in Great Britain and selected a subset of 76 that have a significant student population. Within this subset, we have calculated that the average contribution of higher education to local economies, as measured by gross value added (GVA), is 6% of the total.

The traditional university powerhouses of Oxford and Cambridge put their corresponding local authorities in the top two spots, with higher education contributing an estimated 21% and 17% respectively. Elsewhere in the top 10 are Canterbury (University of Kent), Ceredigion (Aberystwyth University), Lancaster (Lancaster University) and Bath and North East Somerset (University of Bath and Bath Spa University), all large universities in otherwise small local economies.

Alongside their contribution to economic growth, students also have an impact on local population growth and the housing market. In some areas, students have been a large proportion of population growth and even counterbalanced population declines in two areas. Ceredigion is one of those areas, with its student age population growing by over 1,600 between 2001 and 2011, more than offsetting a fall of 600 residents of other ages. Dundee City (home to the University of Dundee and Abertay

University) behaved similarly, with the student age population growing sufficiently to offset a fall in other age groups.

Bath and Lancaster also rank highly on this measure. Two-thirds of the population growth in Bath and North East Somerset over the 10-year period can be attributed to an increase in the student-aged population.

In previous years we have shown how purpose-built student housing could help ease the housing crisis. Across Britain, the creation of more student beds could help unlock 77,000 family homes. This may not contribute much at a national level but is a substantial number for some local areas.

This analysis highlights the need for both local and national government to recognise the important contribution this sector makes to local economies and the role that purpose built student accommodation can play in tackling the housing crisis. ■

## DEVELOPMENT LEAGUE TABLE

We have updated our league table of university towns and cities across the country. The league table is specifically designed to consider the potential for future development of direct let purpose built student accommodation. It is however worth noting that a lower ranked town or city may still be attractive for investment if existing supply and demand are balanced and the potential investment returns are appropriate for the risk involved. The rankings are based on a number of factors covering current and future supply and demand alongside our in-house knowledge of local student development markets.

### The results

Aberdeen and Glasgow's stay in the top flight was short lived following promotion last year. This year,

along with Cambridge, they fall into the Upper Second league as their development markets remain attractive but have become more competitive. Manchester is promoted into the First league, reflecting both strong demand and a need for more supply. The challenge for developers will be in getting support from the University during the planning process.

Belfast and Chester both move up one place into the Upper Second league while Leeds and Winchester continue their rise from last year and also move the Upper Second league. There is the opportunity for development in these markets but supply and demand is not as unbalanced as those cities in the First league.

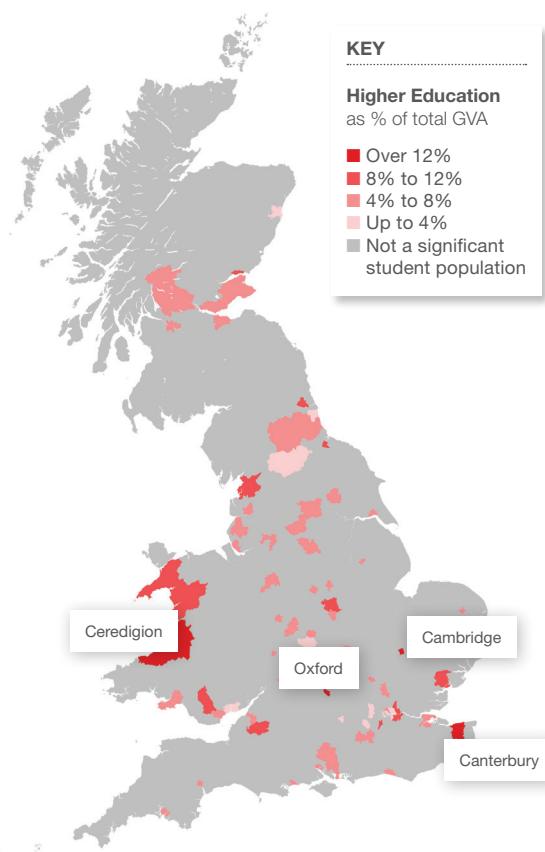
Meanwhile, Bangor falls back into the Lower Second after promotion last year and is followed down by Liverpool, Newcastle and Southampton. The potential for development in the towns and cities in the Lower Second league is more

constrained than higher leagues and should be limited to better located sites in order to minimise any risk. Loughborough and Stoke on Trent are both relegated into the Third league following promotion last year. Aberystwyth and Colchester also move down one league into Third. Chelmsford, Derby and Falmouth are promoted into the Third league.

For towns and cities in the Third league, the need for more supply is very limited and development should only be undertaken on the most prime sites. There are no relegations into the Pass league where speculative development remains risky and student demand may be weaker. ■

.....  
“Manchester is promoted into the First league, reflecting both strong demand and a need for more supply”  
.....

FIGURE 13  
Higher Education  
Economic Contribution



Source: Savills Research

FIGURE 14  
Population Growth

Local Authority	Total Population Growth	Population Growth Without Students	Student Contribution to Change
Ceredigion	1.3%	-0.9%	Over 100%
Dundee City	1.1%	-0.1%	Over 100%
Oadby and Wigston	0.7%	0.0%	97%
Newcastle-under-Lyme	1.5%	0.3%	77%
Bath and NE Somerset	4.1%	1.4%	67%
West Lancashire	2.1%	0.8%	63%
Newcastle upon Tyne	8.0%	4.0%	50%
Lincoln	9.3%	4.8%	49%
Lancaster	3.3%	1.8%	46%
Exeter	6.0%	3.4%	43%
Gwynedd	4.3%	2.5%	43%
Glasgow City	2.7%	1.6%	41%
Middlesbrough	2.6%	1.6%	39%
Liverpool	6.1%	3.7%	39%
Canterbury	11.7%	7.2%	39%
Plymouth	6.5%	4.1%	37%
Sheffield	7.7%	4.9%	36%
Portsmouth	9.8%	6.3%	36%
Nottingham	14.5%	9.5%	34%
Preston	8.2%	5.5%	33%

Source: Savills Research

FIGURE 15  
Development League Table

FIRST	UPPER SECOND	LOWER SECOND	THIRD	PASS
Bath →	Aberdeen ↓	Bangor ↓	Aberystwyth ↓	Bolton →
Bournemouth →	Belfast ↑	Buckingham →	Chelmsford ↑	Bradford →
Brighton →	Birmingham →	Egham →	Cheltenham →	Carlisle →
Bristol →	Cambridge ↓	Guildford →	Colchester ↓	Chislehurst →
Cardiff →	Canterbury →	Hatfield →	Derby ↑	Cirencester →
Edinburgh →	Chester ↑	Huddersfield →	Dundee →	Coleraine →
Kingston-upon-Thames →	Chichester →	Leicester →	Falmouth ↑	Cranfield →
London →	Coventry →	Liverpool ↓	Farnham →	Hull →
Manchester ↑	Durham →	Newcastle upon Tyne ↓	High Wycombe →	Ipswich →
Oxford →	Exeter →	Northampton →	Inverness →	Middlesbrough →
St Andrews →	Glasgow ↓	Norwich →	Lampeter →	Newport →
	Leeds ↑	Nottingham →	Lancaster →	Paisley →
	Plymouth →	Reading →	Lincoln →	Preston →
	Portsmouth →	Stirling ↑	Loughborough ↓	Sunderland →
	Sheffield →	Southampton ↓	Luton →	Uxbridge →
	Winchester ↑	Twickenham ↑	Ormskirk →	Wolverhampton →
	York →		Pontypridd →	Wrexham →
			Salford →	
			Sidcup →	
			Stoke on Trent ↓	
			Swansea →	
			Telford →	
			Worcester →	

Source: Savills Research



## OUTLOOK

### Investment into the sector looks set to continue

■ The purpose built student accommodation sector looks set to continue its strong growth. Student numbers are recovering and are set to increase further with the removal of the cap. With increased numbers, there is the need for more supply. The level of supply required will vary by town and city depending on the strength and type of demand. It will also depend on the quality, location and price of existing supply. We expect the 'flight to quality' to continue

with higher ranking institutions benefiting most (subject to their expansion plans).

■ Investment into the sector has increased substantially this year and looks set to continue. Perhaps the biggest barrier to its continuation will be sourcing opportunities for investment. As competition increases with more actual and potential investors from across the globe looking at the sector, it is likely that we will see further compression in yields.

■ The biggest risks to the sector are political. The rhetoric around migration is unhelpful and the risks arising from an EU referendum are apparent. Policy makers should acknowledge the important role that higher education students play in both local and national economies. Students also have a major impact on local housing markets. The provision of more student accommodation can play a role in solving the housing crisis and should be considered as part of a larger solution.

## Please contact us for further information

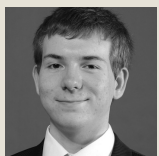
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