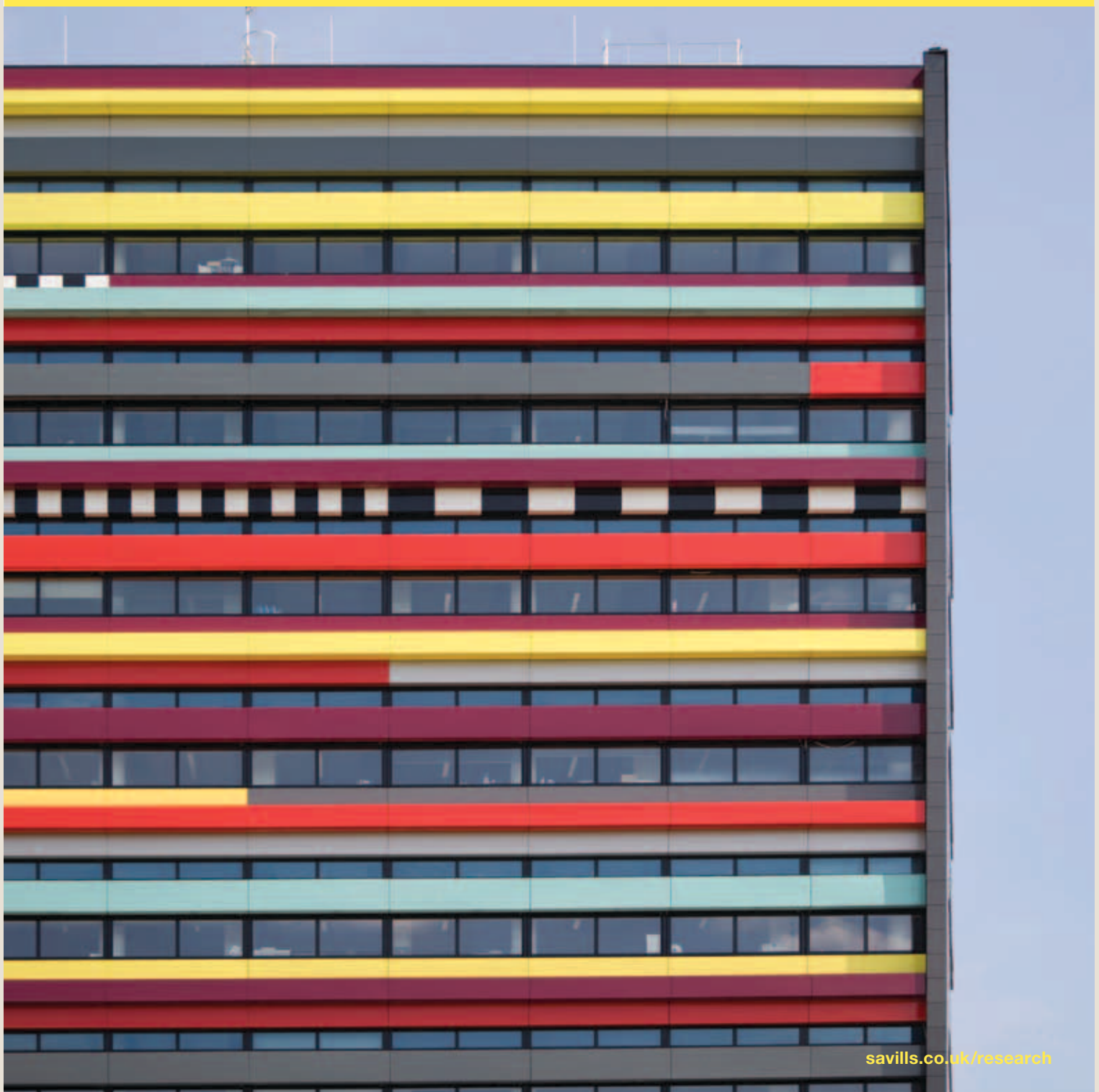




Spotlight **World Student Housing**

2014





Spotlight WORLD STUDENT HOUSING

With reliable rental income flows and significant scope for growth, student housing has the potential to become an established asset class

International education is increasingly conducted in the English language. English-speaking nations also tend to contain some of the world's most sophisticated and transparent real-estate markets which are internationally invested. It is not surprising then that the business of providing purpose-built, professionally rented student accommodation has become a significant business in the USA and is maturing fast in the UK.

Student housing has the potential to become a significant and established asset class because of the enduring nature of the institutions that it serves. Student housing produces reliable rental income flows which, although derived from short tenancies, is secured by depth and stability of demand, often matched by low levels of competing supply. This also makes student housing a natural subject for securitisation, increasingly in the form of REITs.

In this report, we take a global view of this emerging, but fast growing asset class. It examines the underlying demand patterns that arise from the international movement of students from country to country and how this is set to grow in the future. It demonstrates how, in many countries, this demand is met by low levels of supply and immature markets.

While growth in student numbers has been significant during the last decade and recession, even lower rates of growth will still enlarge the market significantly, as will the potential for the markets to mature and supply to become more sophisticated. There is still significant scope for growth of this sector and for new entrants in it.

This report provides some pointers as to where these high-performing markets might be and indicates in what direction they might mature in coming decades. ■



CONTENTS

- 04 Evolution of the Sector
- 07 Case study: United States
- 10 Maturity of the Markets
- 12 Drivers of Demand
- 16 Flows of Students
- 18 New Frontiers
- 19 Germany
- 20 France
- 21 Netherlands
- 22 Outlook

SUMMARY

Key findings

- Student housing was one of the best performing sectors during the global economic downturn, expanding from \$3.4bn investment globally in 2007 to a new high of \$7.2bn in 2013.
- Investment into UK student housing exceeded that into the US for the first time in 2013. The growth of the UK sector has been driven by the consolidation of portfolios, funded by cross border investment, which accounted for 72% of activity by volume in 2013.
- While institutional investors have dominated cross border investment to date (57% of deals by volume) we expect private wealth to come to the fore where student housing is still an emerging sector.
- An increasingly mobile global student market seeking high quality, purpose-built student housing has fuelled growth in the sector, and will underpin demand in markets that have historically catered mainly to the domestic market.
- Large, fast growing student source markets include Hong Kong, Thailand, Malaysia and Saudi Arabia. English speaking countries are the biggest recipients, but mainland European countries, South Korea and Japan are rapidly growing.
- Mainland Europe would appear to offer investor opportunity because of its historically under-provisioned student housing market and much lower tuition fee environment. Many countries here are actively attracting more international students by offering courses in English.
- Paris, Lille, Berlin and Utrecht are all large student markets with relatively low supply of purpose built student housing. They pose investment opportunities, but all have their own unique market conditions and challenges.
- Student accommodation yields are relatively high at a global level, although we expect to see yield compression as markets mature. As a consequence, we foresee high capital growth to come in key, successful markets.

This publication
This document was published in May 2014. 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. We have used a standard set of notes and abbreviations throughout the document.

Market overview

THE EVOLUTION OF THE STUDENT HOUSING SECTOR

Student housing has consistently been one of the best performing sectors during the global downturn, is this performance set to continue?

FIRST CLASS

What makes student housing investment appealing?

- Stable income and rental growth
- Less cyclical than other sectors
- Low void rates
- Solid demand base



The student housing market came of age during the global economic downturn. There was a surge in student numbers across continents as jobs became scarce and the recessionary tendency for workers to up-skill took hold. This, in turn, increased demand for student accommodation, which in many cases has significantly outpaced supply. Supply has been relatively suppressed by recessionary-low levels of development funding (despite the fact that student housing has often been able to attract more than its fair share of this).

At the same time as the West has been riding out recession, the creation of new wealth in Asia has fuelled the international student market. More Asian students have been seeking an English-language education. New levels of Asian wealth have meant that they have been seeking higher standards of accommodation. This 'perfect storm' of both 'pushed' and 'pulled' demand (albeit at opposite ends of the budget spectrum), coupled with low levels of supply, has prompted more investors into what looks like a distinctly counter-cyclical sector. Student housing has consistently been one of the best performing sectors during the global economic downturn. The world student housing sector expanded rapidly from a 2009 low of \$0.8bn investment globally, to a high of \$7.2bn in 2013 (see Graph 1).


Integral to the expansion of investment volumes has been an increasingly mobile global student market seeking high quality, purpose-built student housing. English speaking countries, chiefly the US and the UK, have been the biggest recipients of these students (see p16),

and have led the way in the provision of accommodation to meet the growing demand. Consequently, they have become the most developed of all the global student housing markets – despite still not being fully supplied.

The US stands out as the most mature student housing market. Private operators emerged there during the early 1990s. One sign of the USA market's maturity is the number of student housing real estate investment trusts (REITs) that are now traded. American REITs are among the biggest investors in the sector today (see p8).

The next most mature market is the UK. This market expanded rapidly during the noughties and has even maintained momentum during recession, as cash-strapped universities partnered with private providers to upgrade their aging stock. Major players such as Nido and UNITE have carved niches which offer quality off and on-campus products but these are not traded in REIT form as they might be in the US.

Together, the US and UK markets have pushed global investment in student housing to new heights, increasing 780% since 2009. Volumes are up 114% on 2007 levels, reaching a new high of \$7.2bn in 2013. This comes at a time when real estate investment globally remains suppressed; world office investment volumes, although orders of magnitude larger than student


The world student housing sector reached a high of \$7.2 billion of investment in 2013

housing investment volumes, are still 43% down on their 2007 peak, and retail property investment remains 20% from its 2007 peak.

Market structure

The composition of the global student housing investment environment has been changing. Looking at deals larger than \$7.5m and excluding land sales, investment into UK student housing exceeded that into the US for the first time in 2013 (Graph 1). The growth of the UK sector has been driven by the consolidation of portfolios, funded by cross border investment, which accounted for 72% of investment activity by volume in 2013. The

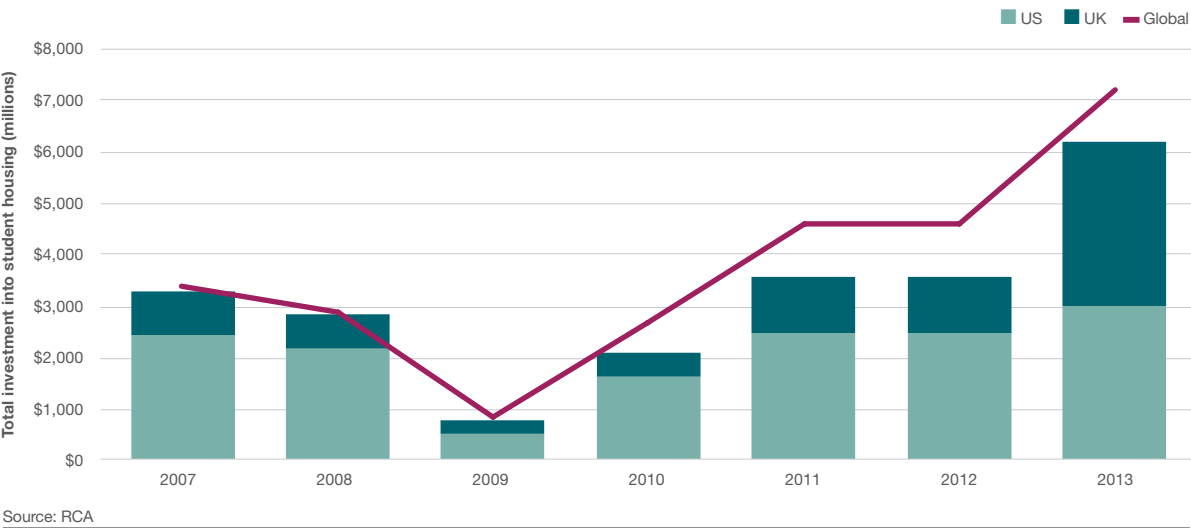
majority of this capital originated from the United States, the country with the longest track record in the sector. The Americas contribute 54% of all cross-border investment outside their home country globally, with Asia and EMEA equally sharing the rest.

Strong transactional activity in mature markets has put downward pressure on yields as capital values have risen on the back of this strong demand and short supply. Yields have moved in from a peak of close to 7% in 2009 to 6.3% in Q1 2014. However, income returns in the sector still exceed the residential investment market as a whole. Global residential

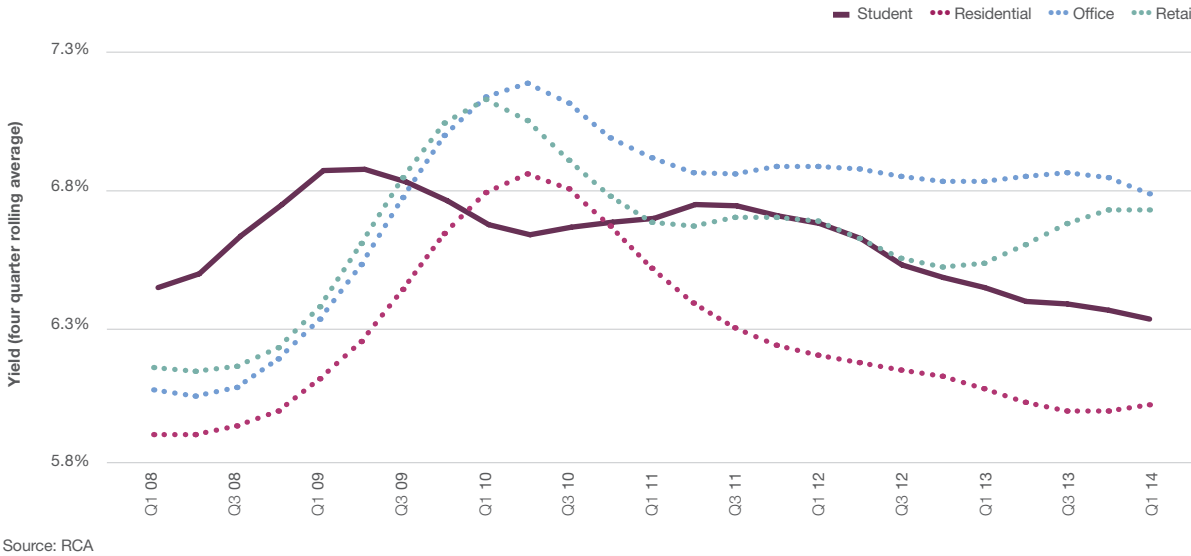
yields stood at 6% in Q1 2014 and many internationally invested major world conurbations see rental returns considerably lower than that.

The potential for further downward yield adjustment is highlighted by the fact that the student housing sector is significantly less volatile than its residential counterpart (Graph 2). This downward yield movement suggests that there has been a re-assessment of risk in this emerging asset class and also highlights the counter-cyclical potential of the sector which has shown strong performance in otherwise difficult economic conditions. ➔

GRAPH 1
Global investment into student housing (deals greater than \$7.5m)



GRAPH 2
Global yield comparison





→ Opportunities

The US and UK are home to the most mature markets but still offer potential through consolidation, new development and acquisition. Other countries are earlier on the investment curve and offer investors new opportunities with potentially greater returns. Australia, for example, benefits from English language and its proximity to fast-growing Asian economies. It has seen its student housing sector expand rapidly in the last decade. The shortage of quality accommodation there has kept vacancy rates extremely low and forced up rents.

Continental Europe is a highly diverse market, but gaining investor attention. This is particularly the case as more institutions offer courses in English, at significantly lower cost to students than their US or UK counterparts.

“Private investment into cross-border student housing already accounts for 39% of all investment in the sector globally”
Yolande Barnes, Savills Research

Student housing markets in Germany, France and the Netherlands are all at an early stage of development with very limited quantities of purpose-built student housing provision, particularly in relation to growing overseas student numbers. Consequently, they offer a wealth of opportunity to early entrants – although each market poses its own unique conditions and challenges (see p18).

While institutional investors have dominated cross border investment to date, accounting for 57% of deals by volume, they have been drawn primarily to mature markets. We expect private wealth to come to the fore in the countries where student housing is still an emerging sector. Private investment into cross-border student housing already accounts for a 39% of all investment in the sector globally (which is a higher rate than private-wealth local investment), and is poised to drive expansion in new territories.

At the same time, we see more potential for growth in indirect investment vehicles as established markets mature further. We anticipate that indirect entry to the sector, via private funds, syndicates and REITS will become increasingly important to

the UK market, for example. Further maturation of the market is to be expected as more entry points to the sector will broaden investor activity.

The direct entry model will remain important, particularly in newer markets where the development of a building is needed prior to investment or where a large number of educational institutions are seeking to upgrade their existing stock. Public-private partnerships (such as nomination agreements), joint ventures with an owner operator or master-lease schemes are all routes into markets where student housing is still dominated by university ownership.

We believe there is significant potential for the student housing sector to grow as a global asset class. Annual investment into the US student housing market is now at \$2.6bn on average. This market is still yet to fully mature but, based on its size in relation to student numbers, we foresee the major emerging student housing markets of the Netherlands, France and Germany combined eventually being worth three quarters of a billion dollars per annum within the next 20 years. ■

United States

LEARNING FROM A MATURE STUDENT HOUSING MARKET

The US has led the way in the private, purpose-built, student housing market since its emergence in the early 1990s. The sector was developed in response to outdated on-campus accommodation, coupled with growing demand from domestic and international students seeking superior living space.

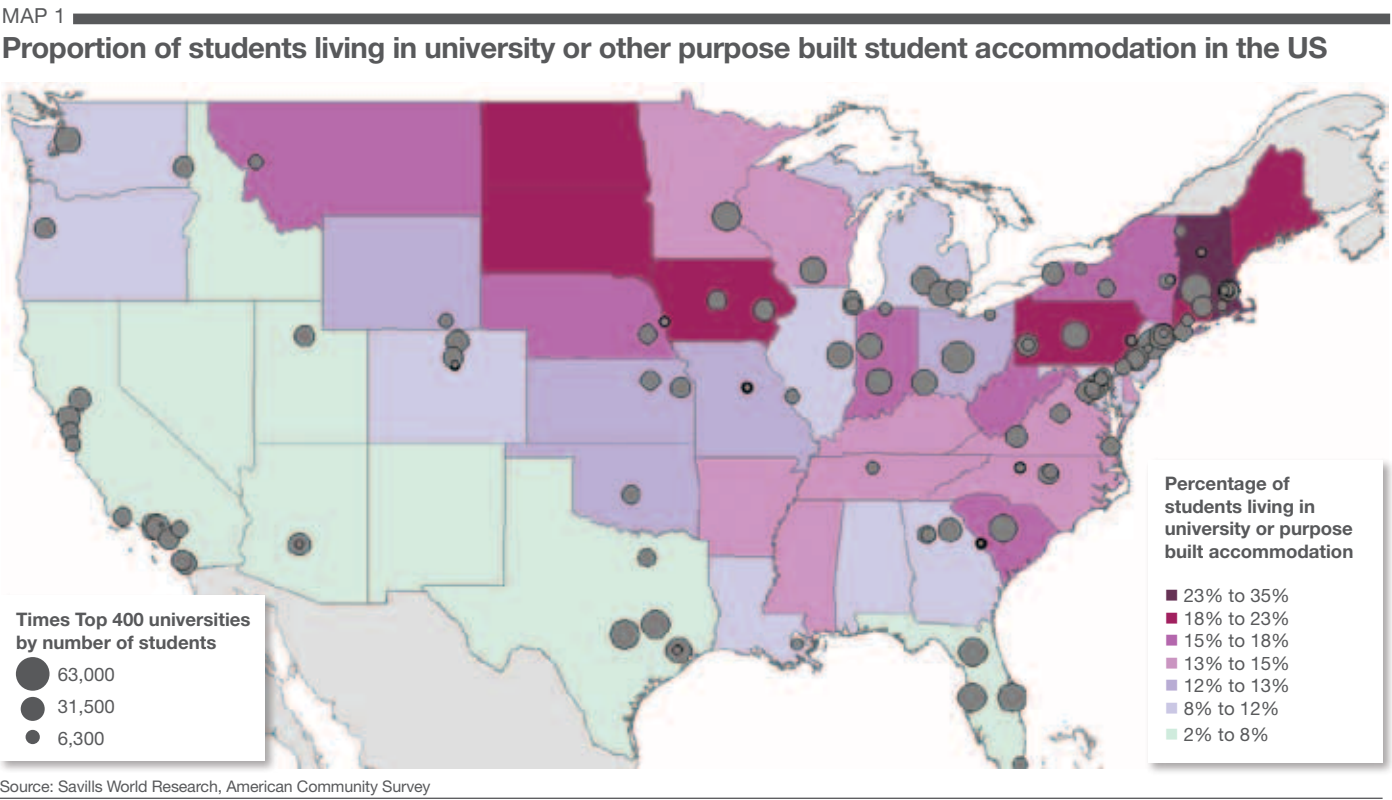
University-owned halls of residence, primarily for first year undergraduates (typically shared rooms in older buildings) still account for the bulk of the US purpose-built student housing market, but more recently built stock has departed significantly from this model. The expansion of the private student accommodation sector has seen an increase in

higher-quality, single student rooms in purpose-built residences, both on and off campus. These have often been delivered in partnership with universities but bear the hallmark of a new era. Although targeted at all students, these schemes rent at a price premium to their earlier university-provided counterparts. The premium is justified by higher quality accommodation and a wide range of amenities that can include fitness centres, games rooms and ‘resort style’ swimming pools.

At a US level, 12% of students live in college housing or other purpose built accommodation, according to the American Community Survey. Of the remainder, 25% live in other private accommodation (rented houses of multiple occupation, for

example), and 63% live with parents or relatives. The latter reflects the high propensity for domestic student to study at a ‘home’ university.

The north east US has the highest levels of purpose built student housing (college or private), led by Vermont (34%) and Washington DC (33%). Although California has the highest number of students residing in purpose built accommodation, by proportion, it has among the lowest (just 6% of all students live in purpose built units). Given that the state is home to the highest number of Times Top 400 institutions in the country (12 colleges with more than 300,000 students between them), this would suggest that the California market still has significant growth potential. ➔



➔ New supply has been growing fastest in Arizona – a market that has been historically under served but is now offering more significant opportunities for investors, and accommodation for its students.

The popularity of the US higher education sector among international students has been fundamental to the expansion of the student accommodation sector in the country, in terms of both size and quality. The US has by far the most high-quality institutions (as ranked by the Times World University rankings). The US contained 109 of the top 400 world universities in 2013/14, or 27% of the world total. (The UK is in second place by number – though far more per head of population – with 49 institutions or 12% of the total in the top 400).

The strong reputation of the US higher education sector coupled with tuition in English remains a major draw to students from across the globe. This is in spite of the extremely

high tuition fees in the US, which vary between \$11,000 – \$63,000 per year for international students.

Asians account for the bulk of international students in the US, mainly originating from China (29%). Other major source countries are India (12%), South Korea (9%), Saudi Arabia (6%), and closer to home, Canada (4%). Different nationalities favour different disciplines; the Chinese are most likely to study business, while those from India tend to favour engineering, for example.

The number of students overall has been growing in the US, increasing 11% between 2001 and 2011, with the number of international students increasing at an even faster rate: 19% over the same period.

US investment sector

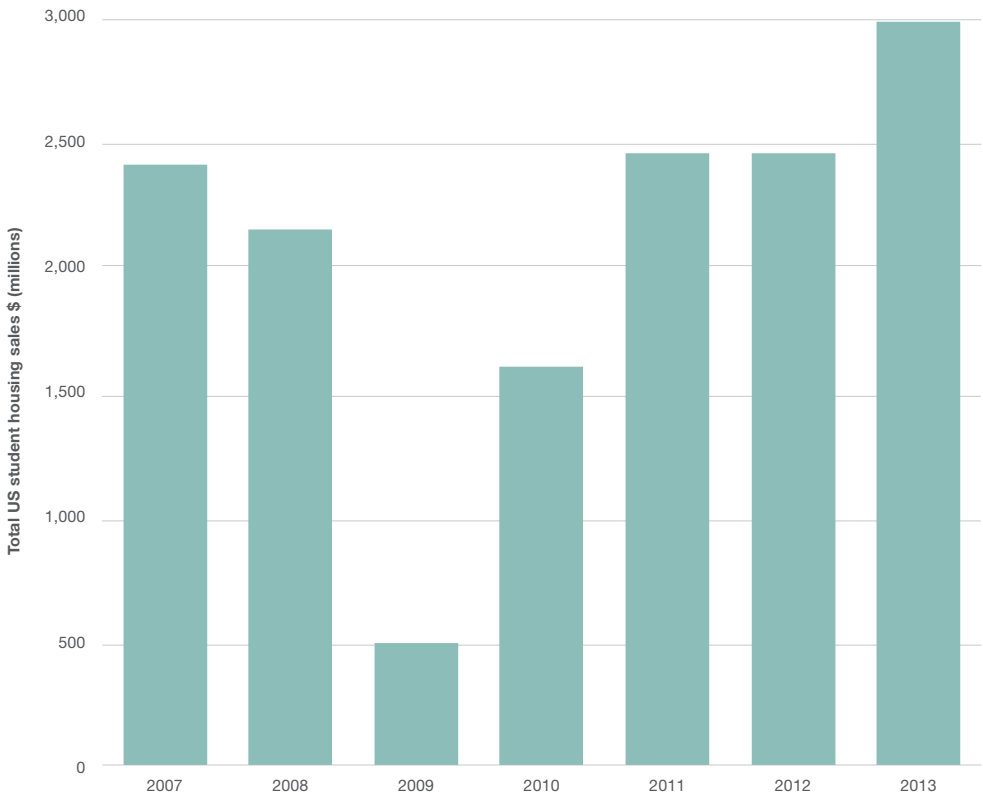
Investment in US student housing fell during the global recession, but volumes recovered quickly and by 2013 investment reached nearly \$3bn, 22% above 2007 volumes

(Graph 3). In common with other asset classes in the US, domestic investors dominate, and inward cross border investment represents only a small portion of the market, just 2% in 2012, rising to 6% in 2013.

Private investors, chiefly developers and owner-operators dominate the US purpose built student housing market but dedicated student real estate investment trusts (REITs) have grown rapidly. Their growth in importance in the US market reflects the maturity of the sector and its ability to attract money from the realm of indirect investment.

Student REITs were the dominant purchaser in the US market, purchasing \$2.3bn of assets in the 24 months to Q1 2014, the vast majority by American Campus Communities (see panel). By contrast, the major sellers over the period were developer/owner/operators, who sold more than \$2.5bn of assets over the same period, among the top 20 (Graph 4).

GRAPH 3
Volume of investment into US student market



Source: RCA



29% of international students to the US in 2012/13 were from China



The US possessed 109 of the top 400 world universities in 2013/14



The number of international students in the US increased by 19% between 2001 and 2011

The major US REITs reported weaker performance in 2013 (Graph 5), the result of concern among investors over rising tuition fees and the worry that, in turn, there would be a tendency for students to seek out cheaper accommodation. While few of these concerns have been borne out in reality, this is a good example of how investor sentiment can turn indirect markets, regardless of occupancy and returns in the real world or the capability of operators to ameliorate the effects through management.

As such, it is an example of one of the drawbacks of REITs and other similar vehicles over direct investment. This is an especially important consideration in view of the perhaps counter-cyclical characteristics of direct student housing investment and its potential use as a portfolio diversifier from equities and bonds.

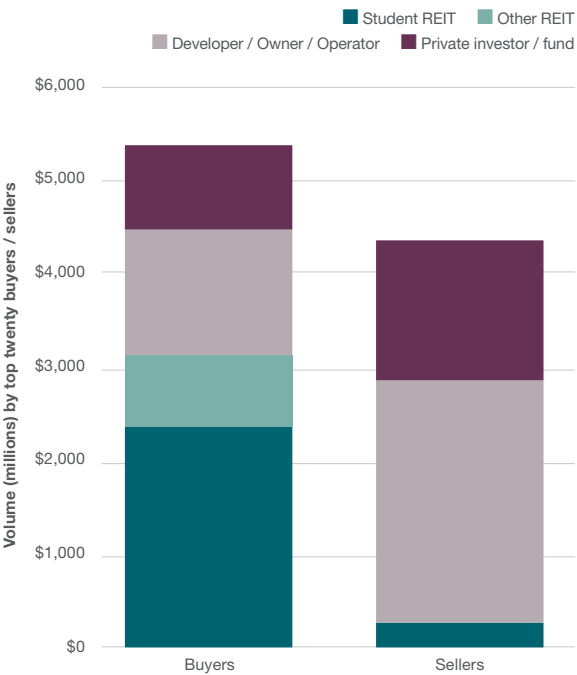
Talk of tapering and a generally strong equities market has caused bond yields to start moving outwards.

This can also affect other income-producing investments, including REITs, and may therefore start suppressing capital values of this type of student housing vehicle in advance of capital value suppression in direct property.

With interest rate rises generally on the horizon, this is perceived as a potential headwind in direct property generally and in the student housing sector particularly – because of its relatively small investor base.

Additional worries have been generated by the possible impact of technology in education. As more institutions offer online courses, the need to live by or on campus is reduced (see p22), and this is being perceived as another risk to the sector. Nonetheless, student housing REITs are likely to outperform the rest of the market in the next year, because of recovery from possible current underpricing and a recent resurgence in investor demand for income-producing equities.

GRAPH 4
Top 20 buyers & sellers by type in the US
24 months to March 2014



Source: RCA

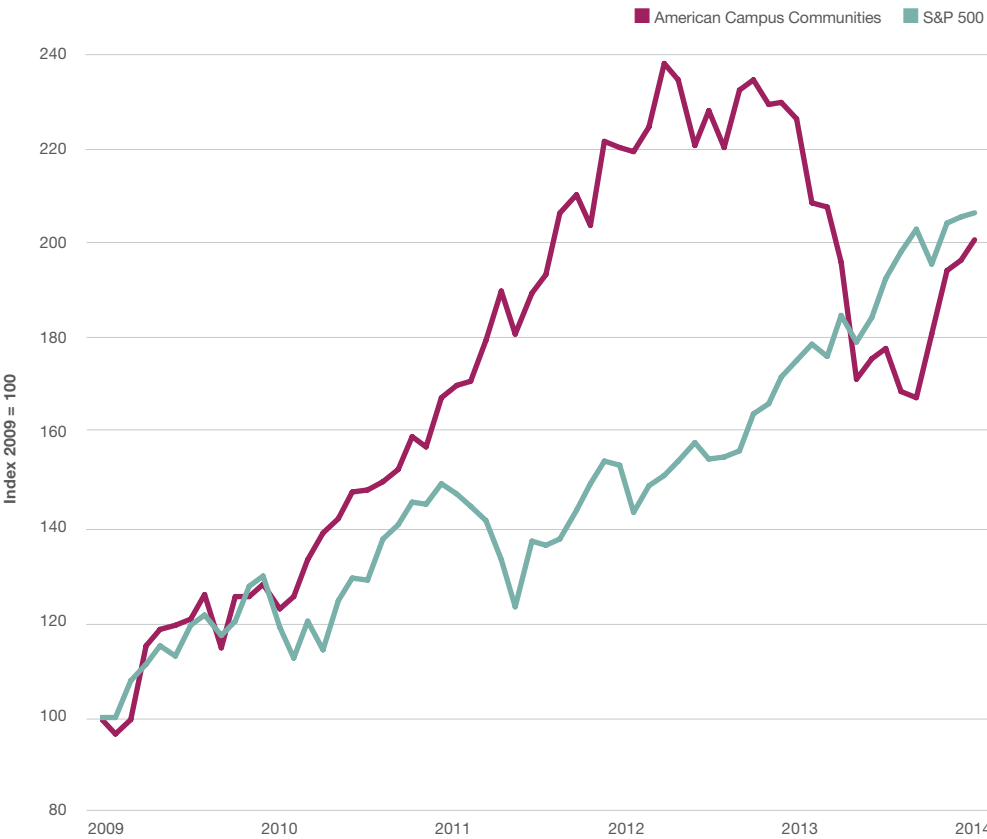
American Campus Communities

The largest and most active of US student housing REITs is American Campus Communities. Established in 1993, American Campus Communities launched the first student housing REIT to become publicly traded, in 2004, and today manages 145 properties with more than 92,000 beds.

Average occupancy across its wholly-owned properties stood at 97% in 2013 and goes a long way to explaining its attraction as an income-producing and distribution vehicle.

In the 24 months to Q1 2014 American Campus Communities purchased over \$2bn in assets, more than the rest of the top ten buyers active in the United States combined.

GRAPH 5
Stock performance, American Campus Communities vs S&P 500

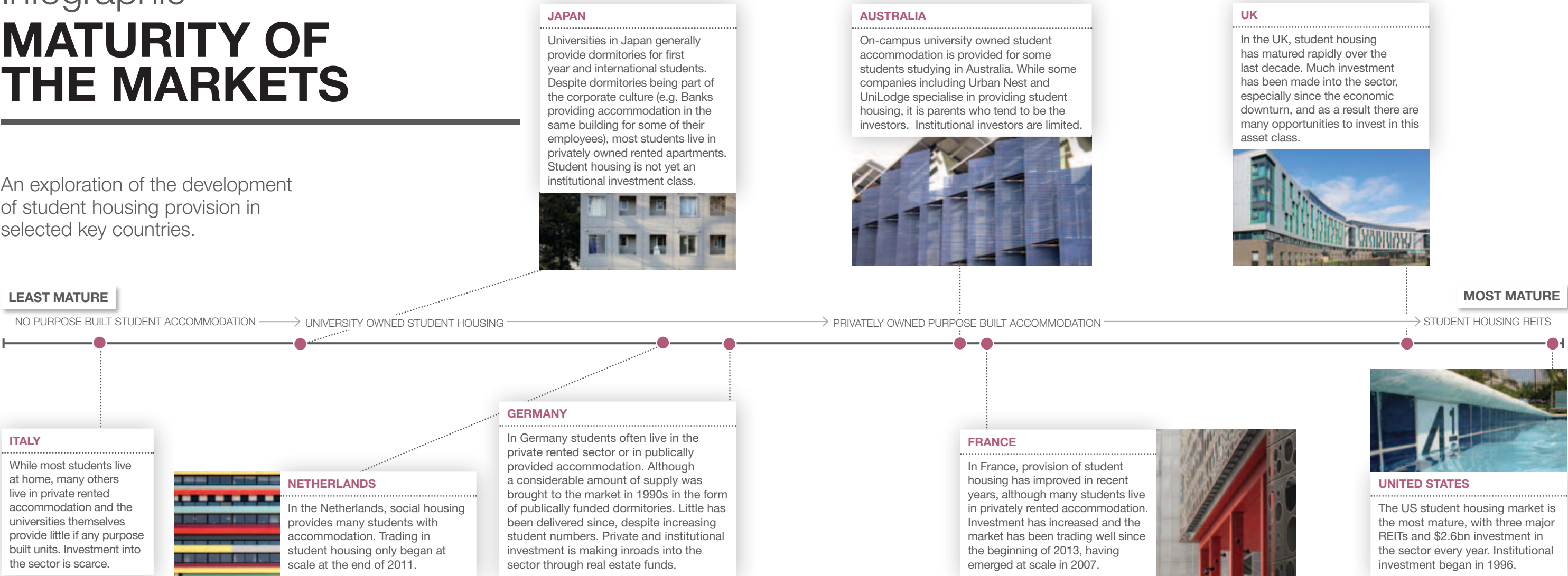


Source: NASDAQ

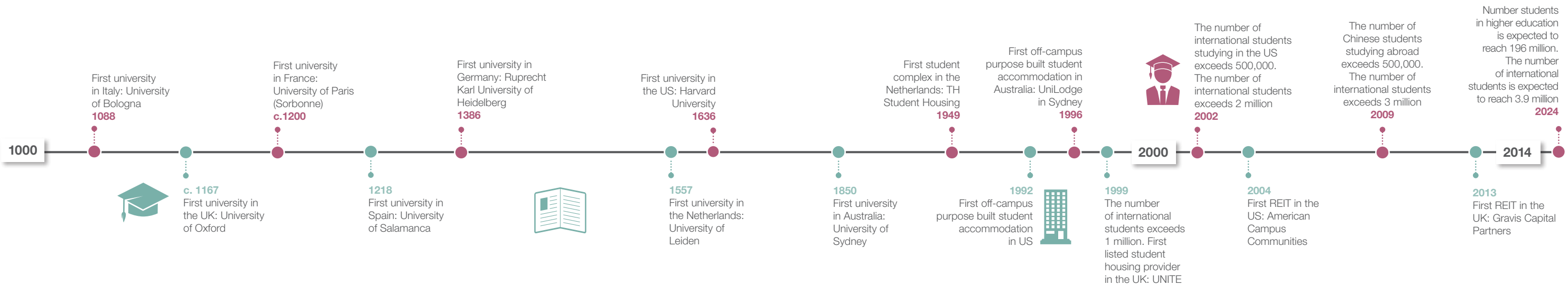
Infographic

MATURITY OF THE MARKETS

An exploration of the development of student housing provision in selected key countries.



Key dates in the evolution of the student housing sector



Source: UNESCO, OECD

Market dynamics

WHAT ARE THE DRIVERS OF DEMAND?

International mobile students are driving demand for purpose built accommodation. Investors need to tailor their offer to appeal to this market

A growing, internationally-mobile student population has fuelled demand for purpose-built student accommodation in the markets that have been the biggest recipients of these students to date. Private student housing operators provide a one-stop-shop for secure, quality accommodation so have found themselves with a commercial edge in this sub-sector. Many of them have actively tailored their offer to appeal to this market.

International students contribute to a local economy as well as bottom line and diversity of a university. International students typically pay higher fees, spend more on both accommodation and living, and bring new insights and cultural perspectives to a country. This is particularly the case if they stay on to work in the country after graduation and take their newly acquired, but overseas paid-for, skills into local businesses. More institutions, and countries, are recognising this value and are targeting overseas students. This is being done by offering English courses, visas and, importantly, higher quantity and standards of student accommodation.

The examination of sources and trends of these mobile students reveals how some countries are actively seeking more students while others see these student numbers stagnate. Countries that attract international students from all over the world tend to have stronger links for language, cultural or accessibility reasons, as this section will explore.

Global student flows
Enrolment in higher education stands at 164 million students globally, and is forecast to grow by a further 32 million by 2024. Of this, the number of students enrolled in tertiary education abroad reached 3 million in 2011, having grown from 2 million in 2000, according to the latest UIS data. It is forecast to reach 3.9 million by 2024.

China is the biggest source market for internationally mobile higher education students, with around 650,000 students studying abroad. Its domestic student market is also the world's largest (with more than 31 million students) and has seen the number of students at its own universities double in the last decade. Internationally mobile students from China grew by 89% between 2007 and 2011 alone, and are the biggest foreign

student group in the US, UK, Germany, Japan and Australia (see p17).

After China, India has the largest number, with 196,000 mobile students, who are particularly prevalent in the US and UK. Canada is increasing its share of overseas students, as it actively seeks to attract them from India with its 'Student Partners Program', a direct visa scheme launched in 2011. Students from South Korea are next, with 128,000, who favour Japan and the US.

Large, fast growing source markets include Hong Kong (internationally mobile student numbers up 186% between 2007 and 2011), Thailand (up 136%), Malaysia (108%) and Saudi Arabia (97%). Recession-hit European countries such as Spain also saw a spike in students studying abroad, up 94% between 2007 and 2011.

New horizons
Turkey has benefited by opening up its student market, doubling the number of international students it hosts between 2005 and 2012. The country benefits from the Erasmus scheme which brings EU students to

its universities. Because of its position at the nexus of Europe and Asia, it has also attracted students from Azerbaijan and Turkmenistan, as well as Europeans. The Erasmus scheme is poised to become more significant throughout Europe, with a 40% boost in funding approved between 2014 and 2020, providing opportunities for over 4 million Europeans to study, train, gain work experience and volunteer abroad.

Brazil is another major growth market, now with a larger economy than the UK, it has a rapidly expanding, increasingly outward-looking middle class. To date, the majority of students originating from Brazil go to study in the US, followed by France and Portugal. We believe this market, along with other growing South American nations, is poised to make a much bigger impact on the European markets in the coming decades. This will particularly affect cities in Spain and Portugal with a large number of high ranking institutions, such as Madrid, Barcelona and Lisbon.

Outposts or campuses of well-known universities, especially western ones,

achieve two things. First, they enable students from the home market to study in a new country to home standards. Second they enable those in the host country to study at a respected university without having to live abroad. These schemes have met with varying success. In Japan, for example, only Temple University, Japan, remains after several western university outposts set up in the 1980s have closed.

In contrast, Dubai has seen the creation of 21 outposts in the last decade. Student numbers have increased and investment into student accommodation has been managed by DIAC (Dubai International Academic City). Given Japan's experience, however, this type of investment must be viewed with more caution by investors. ➔

.....
"Universities are providing more courses in English, the language of global business"
Lucy Greenwood Savills Research
.....



Enrolment in higher education currently stands at 164 million globally



Student enrolment numbers are set to increase by a further 32 million by 2024



Internationally mobile students from China grew by 89% between 2007 and 2011

TABLE 1
Top international student source and destination markets

Top three sources (proportion of all international students)	Top three destinations (proportion of all international students)
China (18%)	United States (19%)
India (6%)	United Kingdom (11%)
Republic of Korea (4%)	Australia (7%)

Source: UNESCO



TABLE 2
Top ten most affordable student cities

Affordability Rank	City
1	Kuala Lumpur
2	Mexico City
3	Taipei
4	Berlin
5	Munich
6	Shanghai
7	Lyon
8	Brussels
9	Helsinki
10	Hong Kong

Source: QS

➔ Cost of living

In spite of being by far the most expensive place in which to study globally, the US receives the largest number of foreign students, in excess of 700,000, followed by the UK with more than 400,000. However, the choice for students studying abroad continues to grow, particularly as more institutions offer courses in English, the favoured language of study for most. The very high cost of study in the US, and to a lesser extent the UK, has made other countries look increasingly appealing. Generally though, the lower cost locations tend to be less renowned for their educational institutions.

According to the QS student affordability ranking, Kuala Lumpur, Mexico City and Taipei are the top three most affordable student cities in 2014. From a student housing investment perspective, these cities are very early on the investment curve, but European cities feature too. Berlin and Munich are ranked fourth and fifth respectively, primarily due to the low or zero-cost tuition for both domestic and

international students. As explored on p19, Germany is also among Europe's most under provisioned market for purpose built student accommodation.

Language matters

Given the importance of the English language to global business and academia in general, more institutions in non-English speaking countries have been offering courses in English in order to improve their international standing. English is the preferred language for scientific research and it is important for all high ranking institutions. Spanish and French are also major languages of study.

The Netherlands was the first European country to move towards English language tuition, and offered the largest number of English taught masters programmes in mainland Europe in 2013. Other European countries have seen their English course offer expand rapidly from a low base.

Sweden and Denmark have recently converted all masters courses to

be taught in English, while larger European markets such as France and Germany have also seen rapid expansion in their English teaching offer. This is significant because it is likely to start attracting increased numbers of international students to universities that can do this well.

Further afield, Asian countries have had varying success at attracting international students through the provision of English courses. Japan has introduced a 'Global 30' programme offering 364 courses in English which has attracted 21,000 students to date. It aims to attract 300,000 international students by 2020.

South Korea has also increased the number of English courses on offer, primarily to benefit domestic students. Results have been mixed, however, given poor levels of spoken English among native lecturers and domestic students.

Visas

For most students, a higher education is a route to a better job

with improved prospects. Therefore, the attitude towards foreign students after the completion of their education in the host country is of increasing importance. Germany allows students to stay on for an additional 18 months after they have graduated in order to find a job.

In Australia a temporary graduate visa is available to international students on completion of their studies. Government data shows that 15% of visas issued to those who previously held a student visa in Australia were subsequently granted temporary graduate visas in 2012/13.

This raises the question as to whether the student housing model can also be extended in these countries and elsewhere to a 'graduate housing' model. This would provide professionally-operated accommodation similar to student housing, perhaps with some shared facilities, for university leavers and first jobbers. In the fast-developing world of student accommodation, new innovations, niches and practices can be expected as the sector matures. ■



There are 946 English taught masters in the Netherlands

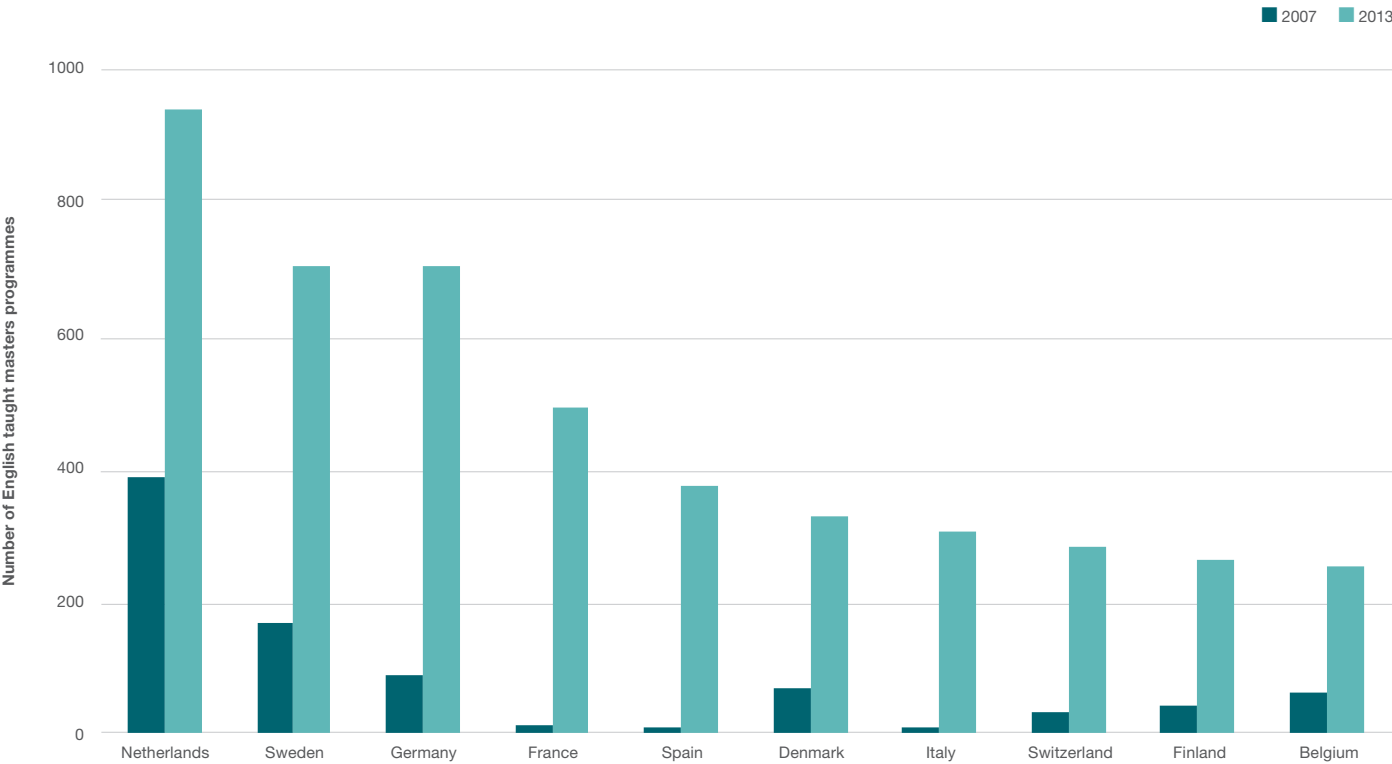


Berlin is the most affordable student city in Europe



15% of international students awarded temporary graduate visas in Australia

GRAPH 6
English taught masters programmes in mainland Europe



Source: mastersportal.eu



Global hotspots

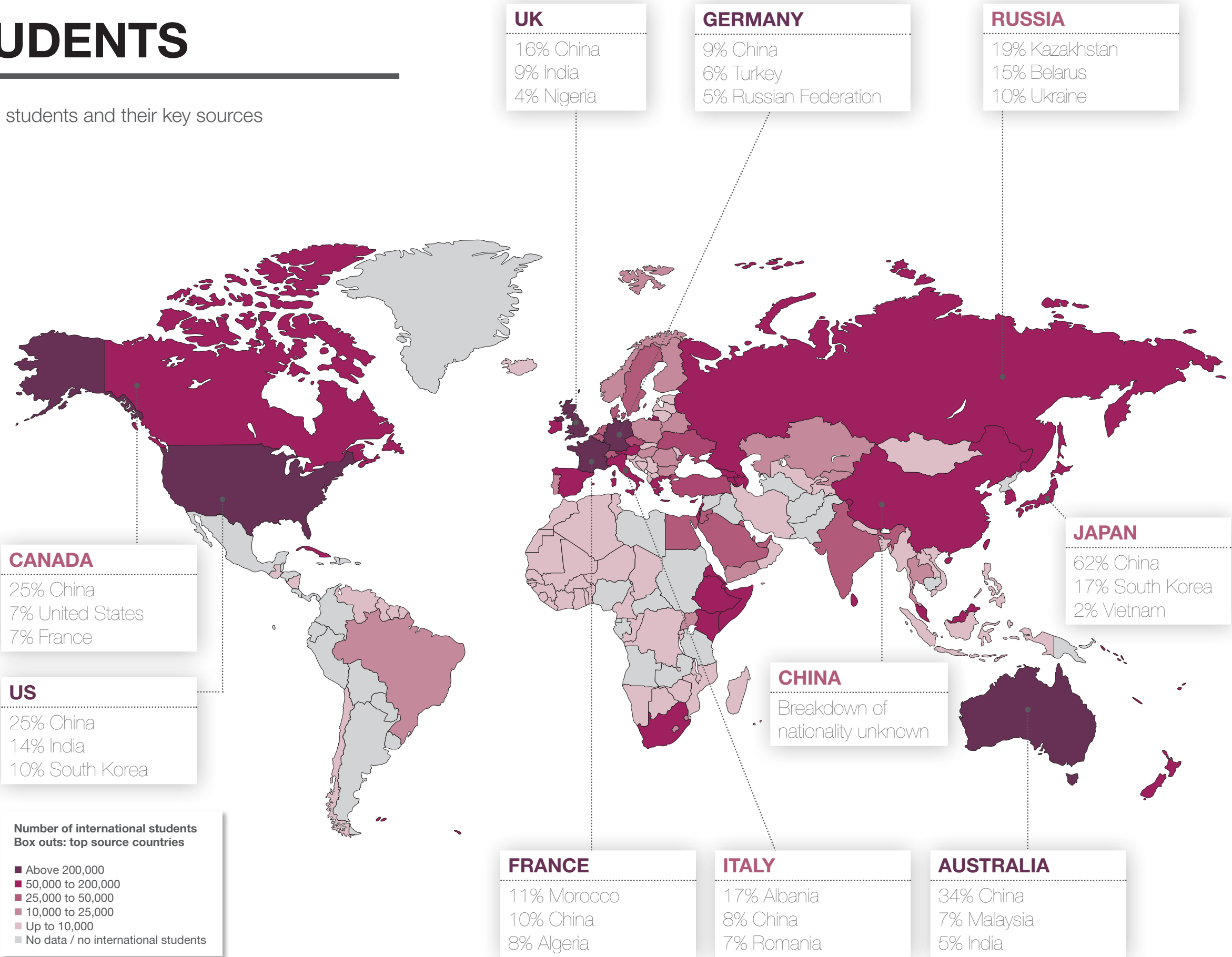
FLOWS OF STUDENTS

Identifying the hotspots for international students and their key sources

TABLE 3
Biggest international flow of students

Flow	Number of students	Percentage of international students into country
China ➔ United States	178,890	25%
India ➔ United States	101,909	14%
China ➔ Japan	94,382	62%
China ➔ Australia	90,175	34%
South Korea ➔ United States	71,949	10%
China ➔ United Kingdom	65,906	16%
India ➔ United Kingdom	38,677	9%
Morocco ➔ France	28,463	11%
Germany ➔ Austria	27,753	39%
Canada ➔ United States	27,019	4%
China ➔ Canada	26,298	25%
South Korea ➔ Japan	25,961	17%
China ➔ France	25,923	10%
Kazakhstan ➔ Russia	24,772	19%
Slovak Republic ➔ Czech Republic	24,544	65%
Saudi Arabia ➔ United States	22,270	3%
Algeria ➔ France	21,052	8%
Japan ➔ United States	20,883	3%
Belarus ➔ Russia	20,063	15%
Germany ➔ Netherlands	20,022	52%

Source: UNESCO



European markets

OPENING UP NEW FRONTIERS

Can the investment model in the US and the UK be replicated successfully across Europe?

Maturing markets in the US and UK, coupled with concerns over high tuition-fees have led investors to seek new frontiers. Mainland Europe would appear to offer opportunity because of its historically under-provisioned student housing market and much lower tuition fee environment. The question is whether the investment model successfully used in the US and UK can be replicated across Europe.

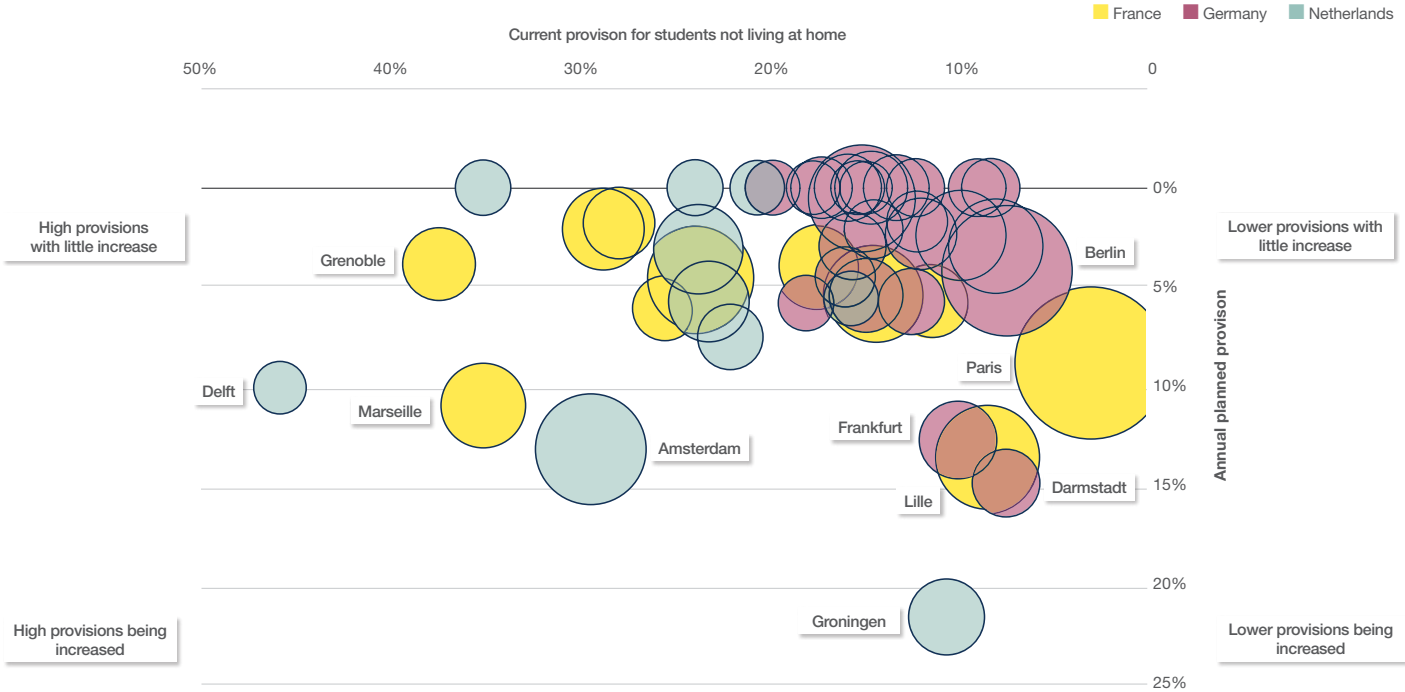
We have examined the prospects for three of the larger mainland European markets: Germany, France and the Netherlands. The fundamentals of these three markets are, on the face of it, solid. Europe is one of the biggest recipients of international students, and institutions in these countries are actively attracting more by offering courses in English. Importantly, tuition fees are a fraction of those in the major English speaking markets.

However, different locations within these countries can have very different prospects. Investor focus needs to be concentrated on cities, with particular reference to higher education institutions, rather than countries as a whole. In most cities in these countries,

the private sector is already well organised to accommodate students, and organisations are in place to act as intermediaries between student and private landlord. Where private, purpose built student accommodation comes into its own is its ability to offer a one stop shop for secure, quality accommodation suited to the needs of international students.

We have analysed current purpose built student housing provision, and development pipeline, in the top student cities of France, Germany and the Netherlands. We set this against the total student population not living with parents in each city in order to identify potential investment sweet spots. So, where do the opportunities for investors lie? ■

GRAPH 7
Current and planned student housing provision in selected cities



Source: Savills World Research Note: 25,000 students or more, selected markets in France, Germany and the Netherlands

GERMANY



With 26 institutions in the Times World Top 400, Germany has a student population of 2.6 million, 11.5% of which are international. Most accommodation is provided by Studentenwerk, a semi-governmental institution providing a range of services to college and university students. It is affordable by European standards, accommodation averaging just €220 per month. Wider private-sector investment has been relatively limited to date, and has tended to offer apartments rather than traditional student style residences.

Public institutions have been unable to satisfy demand for student accommodation, and the bed shortfall across Germany is estimated at 100,000. Despite rapid growth in the country's student population, little accommodation has been developed since the 1990s when a slew of publically-funded properties were built.

Investor interest in the German market has been growing, and the sector saw \$185m of big-ticket deals in 2013 according to RCA. Over the next two years 7,600 units are planned in key cities, although this still only represents an addition of 5.8% to existing stock. Frankfurt is set to see the most additional units, adding 25% to its stock in the next two years.

The number of students in Germany rose from 1.87 million in 2001 to 2.38 million in 2011, an increase of 26%. At the same time, international student numbers grew from 117,000 to 132,000. The reduction in tuition fees across nearly the whole of Germany to make almost all university courses free will continue to attract more international students as they become more cost aware.

The majority of German towns have exceptionally low provision rates, coupled with very low forecast levels of delivery. The average purpose built

student housing provision rate among the top ranking German university cities is 13%. With the exception of Frankfurt and Darmstadt, the annual planned provision in all these cities is under 10%, and the majority are expected to see less than 5% added to their stock on an annual basis.

Berlin stands out as a very low provision market in a market set against one of the largest student populations in Europe, with little forecast delivery (just 4% of existing stock annual). Rents have increased by more than 25% in the past five years and vacancy rates have declined to below 2%. ■



There is an estimated shortfall of 100,000 beds across Germany

FRANCE



France now offers 700 university courses in English which has helped to broaden the country's global reach. International students are drawn to France from around the world, although French speaking countries such as Morocco are a major force (see p16). Its international student population is anticipated to rise from 12% to 30% of all students by 2020.

Studying at a home university is extremely common in France, and as a consequence between 34% and 81% of domestic students live with their parents during their degree studies.

Students in France pay rents averaging between €395 (Limoges) and €894 (Paris) per month. Provision of student housing across France is relatively limited, in the major student cities there are 10 students per purpose built student unit.

Paris has twice as many students as the next largest student centres of Lyon and Lille. The city has a relatively under-developed purpose-built student accommodation sector. In spite of having the largest number of international students in the country, just 9% are catered for with purpose built accommodation.

The Paris market poses opportunities, but entry is difficult. Central sites in close proximity to quality institutions are extremely difficult to come by, and are also in strong demand from other use classes. A mature private rental sector geared up to the student market in inner areas of the city makes purpose built blocks outside the core less appealing to prospective students.

Approximately 22,700 purpose built student units are planned to be delivered in the top 20 university cities in France over the next four years, which will add 24% to total

stock. Lyon, Lille, and Marseille have the most units planned, which will add between 5% and 10% to existing stocks. ■



Approximately 22,700 purpose built units are planned to be delivered over the next four years



Provision of student housing is limited. There are approximately 10 students per purpose built student unit

NETHERLANDS



The Netherlands spearheaded English tuition courses as a means to attract international students. This, coupled with low tuition fees and an open and multi-cultural environment has resulted in rapid growth in its student population, with the international student population growing 40% between 2007 and 2011 alone, one of the highest growth rates in the world.

Amsterdam has the country's largest student population, of which 5% are foreign. Maastricht has the highest number and proportion of international students in the Netherlands; 7,500 students account for 38% of its total student population due to its location, strong international exchange agreements, international themed study programmes and fully bilingual status.

About 45% of students in the Netherlands live at home, while a

significant share of others live in social housing accommodation provided for students. Due to rent controls, rents in the Netherlands are relatively consistent across the country, averaging €415 per month, of which Amsterdam has the highest rents, at €498.

As a means to bypass these controls and other student housing restrictions, the 'student hotel' model has been successfully developed in Amsterdam, which offers serviced accommodation for students, and can also offer space for tourists outside of term time.

New student accommodation is being planned and built across the country, with a total of at least 12,000 beds in the pipeline until 2016. Amsterdam has the largest pipeline for student housing while Groningen and Delft are also expecting nearly 2000 units in the next two years. This will add 26%, 43% and 20% to existing stock levels, respectively in these three markets.

The prospects for the Netherlands are positive: the number of students is expected to grow by 7.1% over the next 12 years. English language tuition and low fees will continue to attract foreign students. Amsterdam has seen a slew of new deals and developments since 2011, before which the market was almost entirely dominated by the social housing sector and private landlords, and is now one of the most active mainland European student housing markets. Tens of thousands of new beds are needed to accommodate (international) students across the Netherlands by 2025. ■



The number of students in the Netherlands is expected to grow by 7.1% over the next 12 years

OUTLOOK

The future of student housing as an assets class remains strong

■ Today's globalised and increasingly mobile student population has changed the face of the global student accommodation sector. Students have ever higher expectations of accommodation, and the private sector has made inroads to supplying it in the most mature markets.

■ It isn't only the students that are internationally mobile. Capital, too, is flowing across borders as it seeks out new investment opportunities. The US market is now well established, and represents the fullest potential of the global sector. Institutional investors are increasingly important to the UK market, and investors are now seeking opportunities in mainland Europe.

■ We expect private wealth to become increasingly important as a source of international capital in the sector, particularly in less established markets hitherto deemed too risky for institutional money. It also echoes the global search for income, and student housing as an

income-producing asset, will come into its own here.

■ The origin of recent waves of student demand tells us much about the likely sources of future demand and the future potential of certain markets. China, already the largest source market for international students, is only going to grow and will likely be aimed at the US, Japan, South Korea and the UK, but will also make increasing inroads into Europe. Brazil is poised to be another major exporter of students, and is poised to make bigger inroads in Portugal.

■ There are risks to the sector. Tuition fees are on the rise globally, as institutions look to secure the funding to stay competitive. In mainland Europe, where tuition fees are currently extremely low, there is increasing talk of tuition fee rises, particularly in those countries hit by austerity.

■ Technology is rapidly revolutionising higher education teaching, with electronic

learning rapidly changing the classroom experience. Several institutions have taken this a stage further, offering online-only courses – often for a fraction of the cost of a full-residential based course, or in some cases for free. The uptake of such courses will clearly impact the need for accommodation, although we are still a long way off any structural shifts in the sector.

■ The future of student housing relies on demand from the student population. The number of students across the globe is forecast to increase by an additional 32 million by 2024. International students are also forecast to increase in number rising from 3 million in 2011 to 3.9 million in 2024.

■ Whether or not this materialises there is sufficient shortfall in many university cities to justify significant further investment. Growth in student numbers will be 'icing on the cake'. Growing international student numbers will secure the market for premium product. ■



Spotlight: UK Student Housing
The student housing market sector continues to be attractive to investors and has witnessed a surge of activity over the past two years.
www.savills.co.uk/research

Please contact us for further information

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