

Spotlight Student Housing in The Netherlands

Summer 2014



SUMMARY

Current undersupply is large, but new legislation will likely impact demand

■ According to the latest national forecast the number of students is estimated to increase by around 45,000 in the period till 2025.

■ New legislation, currently being discussed in the House of Representatives, is however likely to impact the future growth of students as it turns the current state grant into a loan. This will increase the costs of studying and is likely to have a negative impact, at least in the short term, on the total number of students and their housing preferences.

■ The growth of foreign students spending part of their curriculum in the Netherlands is likely to continue,

among others due to the low tuition fees and the large amount of English taught programmes. Currently there are around 73,450 foreign students in the Netherlands, a 3.9% y-o-y increase.

■ Around 17,000 new beds within purpose built student accommodation are planned to be realised in the coming years, reducing the undersupply of student housing.

■ However, not taking into account the new legislation of which long-term effects are still difficult to assess, in the period till 2025 a shortage of at least 70,000 beds remains. In this figure the current shortage, the projected growth

of both national and international students and the projected new developments are all included.

■ This keeps interest from national and international investors for the Dutch student housing market high, reflected in stable yields starting at 5.75%.

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“Savills witnesses increased interest from (inter)national investors to enter the Dutch student housing market.”

Sebastian Zwart, Netherlands Investment
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Spotlight Student Housing in The Netherlands 2014



“Till 2025 a shortage of 70,000 beds is estimated, this is however without taking the effects of the new student loan system into account.” Jeroen Jansen, Netherlands Research

Economic upswing might influence future number of students

As shown in the previous 2013 Spotlight there is a clear correlation between the economic life cycle and the number of students. In downturns getting a job is harder which increases new student enrollment and it makes students prolongue their studies in order to obtain further knowledge and skills and thus be able to better compete in the job market. Second, more qualitative relation between the economy and studies, concerns universities noticing students increasingly choosing hard science and applied sciences (agriculture, business, computer sciences, etc.) over social sciences and humanities.

Despite the Q1 2014 drop in GDP most of the Dutch key economic indicators showed further strengthening in recent months and economic forecasts predict a 0.6% GDP growth in 2014. Still, unemployment remains high and will reach its peak in the course of 2014. The short term future for students thus remains challenging.

Student registrations are growing, but at a lower pace

Data from CBS lists a total of 690,300 students enrolled at the start of the current 2013/2014 academic year, a 4.1% increase compared to the previous year. Provisional data for the coming academic year points towards an increase in freshmen numbers as already 66,000 students, almost 5% higher than last year, enrolled. Every year the 'Referentieraming' is updated resulting in new estimates regarding the number of students at

all school levels. The latest forecast, called "Referentieraming 2013", envisions a lower growth in the number of students, especially at the universities of applied sciences (Dutch: HBO-instellingen).

In the new estimates the student population is expected to increase by around 45,000 up till 2025, or 7.1%. Partly due to a 0.9% increase in the population aged 18-25, but mainly due to a forecasted increase in the share of this age group choosing higher education: from 38.6% in 2013 to 41.0% in 2025. The difference with the 2012 forecast, which projected a growth of 104,000 students (+15.7%), is large and the result of the combined effects of a number of corrections within the model, including higher drop-out rates, lower shares of students stacking studies and a lower number of part-time students. The number of full-time students,

LEGISLATION

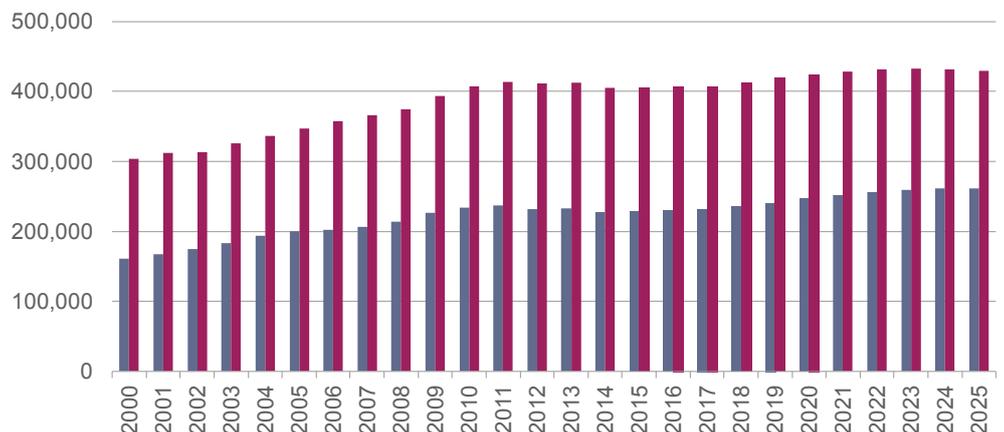
Legislation plays an important role within the student housing market. It influences the inflow and outflow of students and it sets strict regulations for housing associations as well as private investors in providing for student housing. Think for the latter of the point system setting maximum asking rents and the housing subsidies.

While writing this report the Dutch House of Representatives is deciding upon the student loan system. Currently all students are entitled to a basic grant, while students from lower income households can apply for an extra grant. In the new proposals the grant will become a loan, although it looks like students from lower income households will still get some compensation, in order to make sure that higher education remains accessible for all.

The legislation still has to be finalised and then approved by the Senate, so amendments can still be made.

This kind of new legislation could have severe short term effects on the number of students as previous legislative changes, like the fine for students using up too much time, indicate. The size and duration of the effects are however difficult to assess.

GRAPH 1 **Number of students** The total number of students is expected to rise by 45,000 till 2025



Graph sources: Referentieraming 2013

→ most important for estimating the need for student housing, is therefore increasing faster than the average number: +31,700 (+8.7%) at universities of applied sciences and +30,500 (+13.4%) at research universities. Again, the new regulation, of which the effects are still unclear, is not taken into account, but will likely limit the growth.

International students

The large and increasing share of English taught programmes combined with low tuition fees remain valuable assets in attracting international students. Data from Nuffic shows a further increase from 70,700 to 73,450 students (+3.9%) over the past year. Within the research universities the share of international students is currently 12.2% (up from 8.6% in 2008) and within universities of applied sciences the share stands at 6.9% (up from 6.2% in 2008).

The ongoing internationalisation makes it highly likely that the number of foreign students will remain growing in the coming years, thus increasing demand for student housing for international students.

Stock

In total around 45% of the students live with their parents. The remaining share is divided over students renting rooms from private landlords, students occupying dwellings in the regular housing market or students living in purpose-built student accommodation (PBSA). The latter are mainly owned by housing associations, but increasingly private investors enter this specific asset class.

An assessment by Savills of existing student housing projects throughout the major university cities in The Netherlands totals around 17,000 projected new PBSA units in the period till 2019. These developments will reduce the undersupply of student housing. However, the shortage of beds totals around 90,000 beds in the period till 2025, so

GRAPH 2 Student rooms by rent Largest supply in range between €250 - €350 per month, Amsterdam exception



Graph source: Data Kamernet 2014, edited by Savills

even if all plans were to follow through a deficit of over 70,000 beds remains. This shortage is assessed by using data from the Referentieraming 2013, providing figures on the growing number of Dutch students, while data from Nuffic can be used to extrapolate the growth of foreign students. An analysis from Kences provides us with an estimation of the current shortage, while Savills identified all major new student housing developments.

It has to be noted that there are a number of assumptions underlying this calculation. We for instance assume the number of foreign students to increase with the same rate as the past

Cities with the largest undersupply are Amsterdam, Utrecht, Groningen, The Hague and Nijmegen. Relative less, but still substantial undersupply can be found in Rotterdam, Tilburg, Leiden, Delft, Enschede, Leeuwarden, Maastricht and Wageningen.

Rents

The rental market for student housing consists of the social housing market, of the rooms for letting by private landlords and of the purpose-built commercial market stock. In this paragraph Kamernet data for rooms in the private market is used, since they provide for the largest source of information. The social

“New legislation regarding students loans is currently being decided upon and, when introduced, is likely to have a negative effect on student numbers.”

René Tim, Netherlands Research

years and the share of students living away from home to remains at 55%. And most of all: we did not incorporate potential effects of forthcoming new legislation. The grey box on the second page shows that these effects can be substantial. The coming two years will show the impact this new legislation has on the number of students and their housing preferences.

Our analysis also concludes that the majority of the student cities still deal with a substantial lack of student housing, let alone a lack of good quality student housing.

housing market has strict regulations regarding the maximum rent levels plus indexation and is therefore not taken into account.

The average rental price for rooms in the Netherlands is €421, slightly higher than the €415 of last year. Amsterdam has the highest average rental price with €539 per room or €23.70 per sqm. With €310 per month Tilburg has the lowest average rent. However, since average price levels only tell part of the story graph 2 gives insight in the spread of the rent levels per city.

At the higher end of the spectrum are the Campus Diemen Zuid, a new 1,000 →

beds student campus offering non-furnished rooms for around €500 per month, excluding service fees, and the Student Hotel, offering fully-furnished rooms starting at €650 per month. Campus Diemen Zuid is aiming at first-year students, while the Student Hotel is much more focused on international students. Both provide for high standards of service and a large set of amenities.

Student housing investments

Over the past years commercial investor interest for student housing in the Netherlands increased further and multiple Dutch and international investors are actively looking for opportunities. The very recent €150m agreement between German based International Campus with Dutch student housing association DUWO to build and manage 2,250 student houses in The Netherlands, clearly underlines this interest. It also indicates the potential for housing associations to attract private funding, which makes it possible to increase investments.

Other recent concrete steps were taken by Bouwfonds, buying a 9,000 sqm office in Amsterdam to redevelop into student housing for their European Student Housing Fund as well as a new €54m and 456 units The Hague development at the Holland Spoor location as part of their European

Residential Fund. At this specific site The Student Hotel made a €24m investment for a 322 unit project as part of a larger development where also Duwo (over 1,400 units), Staedion (189 units) and the Geste Group (56 units) are investing.

Redevelopments of empty offices is a major theme in this segment, as it addresses two problems at the same time: vacancy in the office market and large demand in the student housing market. Further recent redevelopments include among others the Rijkswaterstaattoren in Arnhem (500 units) and a 9,000 sqm office next to the Student Hotel in Rotterdam which will be added to the existing hotel and offer another 232 rooms.

Yields

The increasing interest and activity of (specialised) institutional investors and the increase in quality of the product itself, finally turns the market for student housing into a stand-alone asset class. The expected prime net initial yields for commercial student accommodation ranges from 5.75% to 7.0%, depending on the city, the location and the quality of the asset.

OUTLOOK

- The student housing market is undersupplied and previous estimates foresee an increasing number of students. This leaves potential for a substantial number of new developments, preferably aiming at different target groups.
- The new legislation concerning the student loan system however, is likely to have a negative impact on the number of students and potentially also on their housing situation. The coming period will make clear how large these effects turn out to be.
- A further redevelopment of empty office buildings towards student housing is expected, addressing two problems at the same time. Especially in combination with the campus model, in which students are offered a number of facilities on site this provides for an attractive product.
- While housing associations remain an important force in the development of student housing, commercial investors will take a larger share and are likely to form project based JVs with the associations.
- The increasing interest and activity of (specialised) institutional investors finally turns the market for student housing into a stand-alone asset class.

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 “The stable yields, starting at 5.75%, indicate that interest from investors in this asset class remains solid.” Jan de Quay, Netherlands Investment

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