

Spotlight Student Housing in the Netherlands

An asset class in its own right

June 2017

2016 was a dynamic year for the student housing sector in the Netherlands, with investment transactions reaching an unprecedented volume of €425m. The number of international students continued to grow strongly as did demand for self-contained housing.

As the quality of residences improves, the size of investment products increases and operators grow and become more established, student housing is quickly becoming an attractive asset class for institutional investors.

These factors combined highlight that the Dutch student housing market has become an asset class in its own right.

Growing student population

The introduction of the student loan system in 2015 caused a temporary dip in enrolments. However, as anticipated in our Spotlight report last year, enrolments at research universities bounced back in the 2016/2017 academic year. According to the "Referentieraming 2016" of the Dutch Ministry of Education, Culture and Science, there were 63,000 new enrolments at research universities for the academic year 2016/2017, an increase of 2.4% compared to the previous year and the highest number ever recorded in the Netherlands. This brings the total number of students at research universities to 249,400. This number is expected to peak in 2024/2025 at 273,400 (+9.6%).

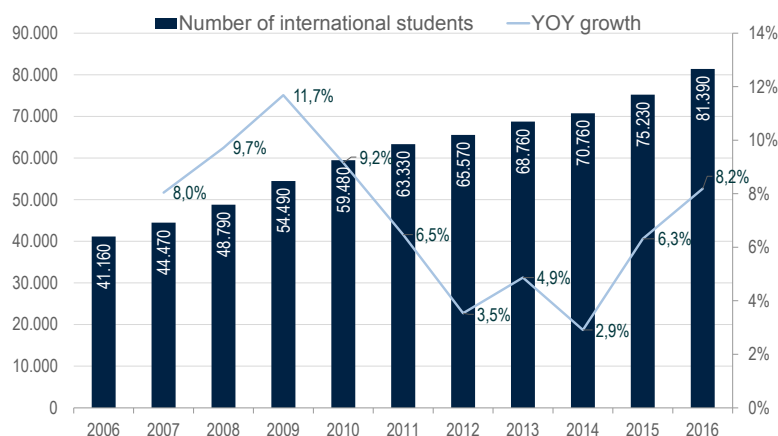
The number of new enrolments at universities of applied sciences has also increased by 8.7% (to 99,700) compared to previous year. The total number of students at a university of applied science is slightly lower than in the past, but remains relatively high with a total of 428,200.

Internationalisation

While the number of research university students is increasing, the number of international students is rising even faster. In 2016 the number of international students reached a new peak of almost 81,400, 8.2% above the previous year before and the highest increase since 2010 (graph 1). International students currently make up 11.4% of the total student population in the Netherlands.

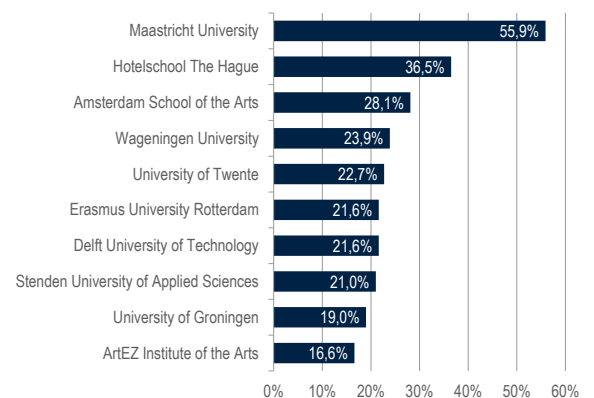
Most international students study at a research university, where they account for 18.0% of all students currently. This represents a significant increase over the last 10 years when the proportion of international students was only 8.2%. The share of international students at universities of applied science remains stable at 7.5% (compared to 6.6% ten years ago).

GRAPH 1
Growth international students in higher education



Source: Nuffic, 2017

GRAPH 2
Universities (2,000+ students) with the highest share of international students



Source: Nuffic, 2017

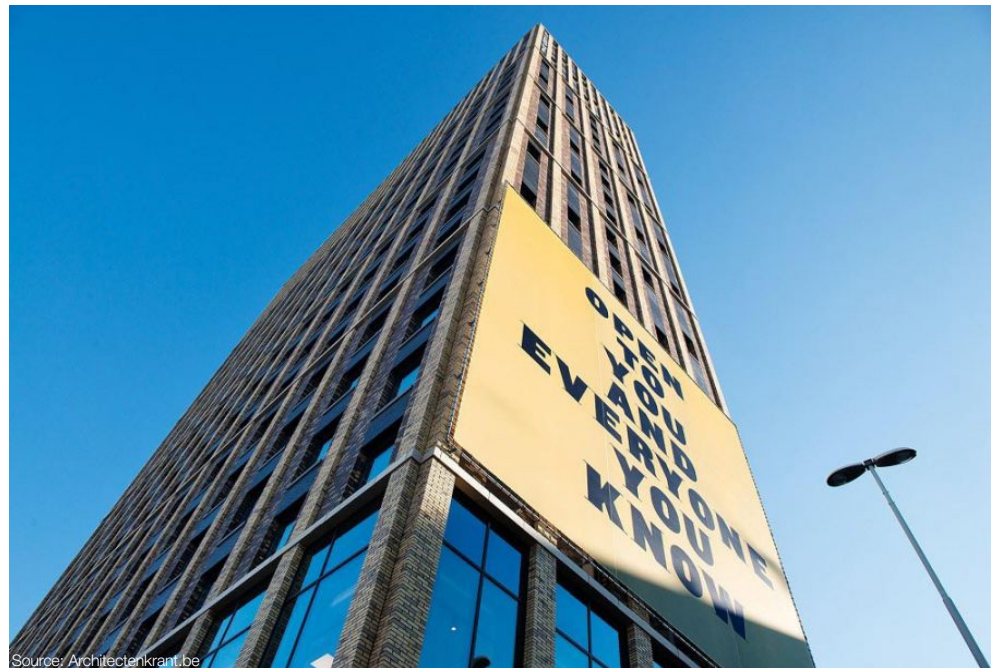
Of the larger universities, Maastricht University has by far the largest share of international students (graph 2). This university has been very active on promoting the university abroad and offers (amongst others) various scholarships, the UM Guesthouse helping to facilitate housing for students and studies are 100% English taught.

Demand vs. supply

While the student loan system for Dutch students had only a temporary effect on enrolments, it did however have an impact on housing preferences of new students. Data from the 'Landelijke Monitor Studentenhuisvesting' shows that of the new bachelor students 87% stayed at their parents home in their first year of study. This reflects an increase of over 20% compared to the previous year. For students at research universities this impact was even higher (84% vs. 54%).

According to the 'Landelijke Monitor Studentenhuisvesting' there still is a potential demand for 21,600 self-contained rooms and 30,400 fully independent student units yet there is a surplus of 11,600 rooms with shared facilities. These numbers however are based upon a questionnaire and reveal what students want, but not necessarily what they actually will do.

Developers have not ignored the growing demand for modern purpose built student accommodation and approximately 21,400 new student units are projected for the period 2017-2019 (graph 3), many of them catering to the need for modern self-contained units.



Source: Architectenkrant.be

Due to the large number of recent deliveries (5,500 in 2014, 10,300 in 2015, 4,000 in 2016) and the projected deliveries, it is important for developers to be selective. With the right location (especially in the major university cities) and the right branding strong opportunities exist.

Next to this, there is also discussion within the government about the rent allowance. This is a national policy initiated to lower the cost for student housing for students (<23 years old) by means of a personal subsidy to students. As this allowance is a policy it might change when the political tide shifts. Developers may benefit from being flexible and opening their residences to both students and young professionals.

Rents

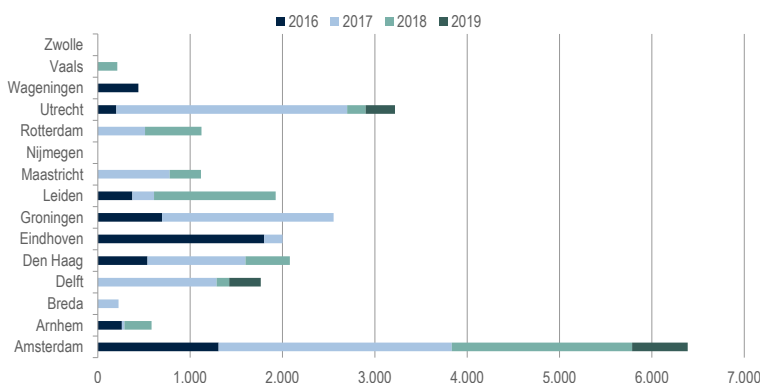
According to data collected by Savills from kamernet.nl the average rent within the 12 largest cities with a research university is €394 a month, which is 7.6% higher than last year. This includes both furnished and non-furnished rooms, but excludes apartments and studios. The rents for these are much higher, but can in many cases be shared.

Amsterdam commands the highest rents: €594 per month per room, followed by Rotterdam (€443 per month), The Hague (€437 per month) and Utrecht (€428 per month). The average price in the cities investigated grew with a maximum of 5% compared to previous year and ranges between €20 and €27 per sqm per month. The only exception is Amsterdam, where the average price per sqm is €44 (+10%). Large increases can be explained by the fact that in many cases rents asked by private landlords are above the legal threshold, as defined in the WWS or point system. This is especially the case in cities with a large undersupply, like Amsterdam, Utrecht and Leiden. Here, private landlords assume students are willing to pay premiums in order to get a room.

Value drivers for rent

Student housing operators are becoming more professional and are gaining a better understanding of student needs and are offering more tailored services.

GRAPH 3 Deliveries PBSAs 2016 - 2019



Source: Savills Research

In order to improve returns and offer better services, Savills sees an overall trend where self-contained units are offered furnished instead of unfurnished PBSA.

Investment market

2016 was a record year for the student housing investment market and total investment volumes reached about €425m; circa 24% higher than last year and over two times the 2014 volume (graph 4). Both Dutch and foreign investors capitalised on the opportunities in the sector whereas the market previously was dominated by specialist housing associations like DUWO and SSH. A notable new entrant is Xior Student Housing, investing circa €138m, which accounts for roughly a third of the total investment activity.

Another notable transaction was the acquisition of a share in The Student Hotel of the Carlyle Group by The Student Hotel itself. This transaction had a volume of approximately €165m. However, since it concerns a deal in shares, this figure is not included in our total investment volume.

In 2017YTD two deals have taken place, with a total volume of €79.5m. In Groningen a portfolio of around €47m was brought to the market and eventually bought by one of the

shareholders. Another major transaction concerned Xior Student Housing purchasing a redevelopment project in Amstelveen for €30m.

Savills expects the total investments volume for 2017 to reach about the same volume as 2016.

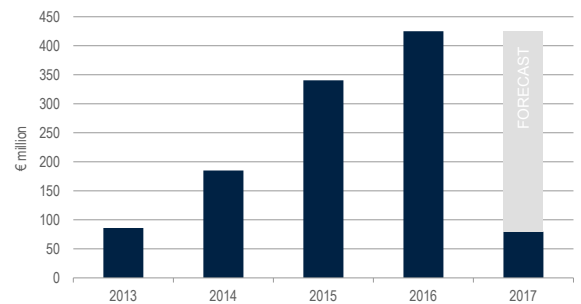
Yields

The gap between net yields for direct let and head lease currently ranges between 50 and 100 basis points, depending on the quality of residence, on the quality of the operator and on the agreements in the contract between owner and operator. As more of the risks are mitigated towards the operator, the resulting yield will accordingly be lower.

As anticipated last year, prime net initial yield have remained fairly stable. Net yields for commercial student accommodations with a long head lease agreement currently stand at around 4.9% (-10 bps compared to last year). For direct let prime net initial yields will start at around 5.6% (-15 bps compared to last year).

For the remainder of 2017 and 2018 we forecast yields to contract slightly further. Demand by investors exceeds available supply and is expected to remain higher than the supply for the years to come.

GRAPH 4 Investment volumes student housing



Source: Savills Research

The increasing professionalism of operators is also having a direct impact on pricing as investors have shown a willingness to pay more for residences managed by more established operators.

"The current pipeline of tailor made PBSA that will be operated by professional and internationally known operators is a sign that the student housing market has matured. And moreover, the strong investment appetite shows that student housing in the Netherlands now is an asset class in its own right."

Bas Wilberts, Netherlands Investments

TABLE 1 Major investment transactions over the past 12 months

Quarter	City	Property name	Units	Purchase price (mln)	Purchaser	Vendor	Type of development
17Q2	Amstelveen		300	€ 30.0	Xior Student Housing		Redevelopment
17Q1	Groningen		496	€ 47.0	Private Investor		Existing
16Q4	Amsterdam, Rotterdam, The Hague	The Student Hotel	1,500	€ 165.0	The Student Hotel	Carlyle Group	Existing
16Q4	Amsterdam	Laan van Spartaan	361	€ 32.9	IC Campus		New development
16Q4	Breda	Study Studio Park	224		QX Real Estate	BVR Bouw and SSPBA	New development
16Q4	Breda	Tramsingel	122	€ 10.6	Xior Student Housing	ARCM Management	Existing
16Q4	Amsterdam	Paasheuvelweg 17	232		Camelot	Nemowij	Redevelopment + New development
16Q3	Eindhoven	The Spot	95	€ 10.4	Xior Student Housing	Bakker / Hommen Waerdevest	Existing
16Q3	Maastricht	Carre	143	€ 23.2	Xior Student Housing	LIFE	Existing
16Q3	Delft		108	€ 12.4	Xior Student Housing		Existing
16Q3	Delft	TNO building	289	€ 4.5	Camelot	Crosslane	Redevelopment
16Q3	The Hague	Former Ministry of Justice	170	€ 43.9	Rabobank Pensioenfonds	Heijmans Vastgoed	Redevelopment
16Q3	The Hague	Former WZH Zuiderpark	155	€ 7.4	SP Fund	UrbanTTP	Redevelopment

Source: Savills Research

CONCLUSIONS & FORECAST

As competition is increasing, location and product become even more important

- The introduction of the student loan system in 2015 caused a temporary dip in enrolments. As expected in our Spotlight report last year, enrolments at research universities bounced back in the 2016/2017 academic year.
- In 2016 the number of international students studying in the Netherlands reached a new peak of almost 81,400. This is 8.2% higher than the year before, the highest increase since 2010.
- According to the 'Landelijke Monitor Studentenhuisvesting' there still is a potential demand for 21,600 self-contained rooms and 30,400 fully independent student units. Yet there is a surplus of 11,600 rooms with shared facilities.
- As new developments arise just over 21,000 units in the period 2017 - 2019, competition between operators is increasing. Picking the right locations, providing for a well-balanced product and branding are increasingly important. Part of the outdated existing stock will need to be upgraded in order to remain competitive.
- We see opportunities for new PBSA, especially in Amsterdam, Utrecht, Groningen and Maastricht.
- Investor demand remains high and over the past years investment volumes have grown rapidly. An increasing share of the purchases concerns existing accommodations, which reveals the growing maturity of the market.
- Investors have been educated on investing in student housing in the Netherlands and are ready to deploy capital into the market. Investment activity will depend on the availability of product, and scale.
- We expect that the investment volume for 2017 will most likely equal the €425m investment volume of 2016. Whether this number will be outbeat depends on new schemes or portfolios that will be brought to the market.
- Net yields for commercial student accommodations with a long head lease agreement currently stand at around 4.9% (-10 bps compared to last year). For direct let prime net initial yields will start at around 5.6% (-15 bps compared to last year). For the remainder of 2017 and 2018 we forecast that yields will contract slightly further.

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