



Spotlight **UK Student Housing**

2014



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.

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

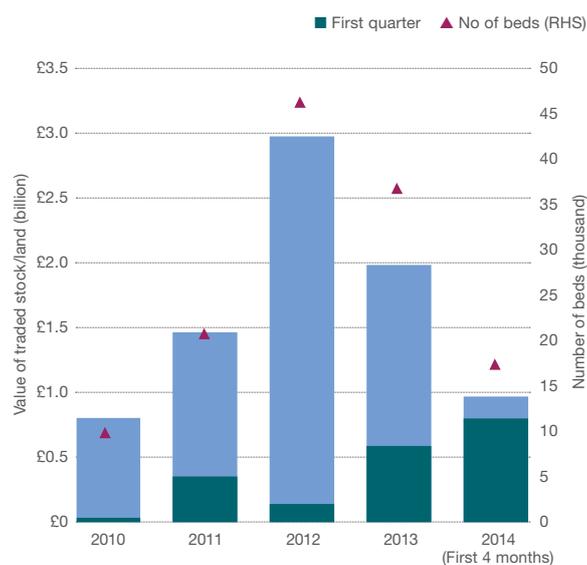
There was £5 billion worth of standing stock and development sites sold in 2012 and 2013, and the early signs for 2014 suggest that we are likely to see high levels of investment activity this year. In the first four months of the year, there have been transactions worth £950 million and this equates to over 17,000 beds.

This is above the level seen in the same period of 2013, it is well above previous years including 2012. With a further £1.4 billion worth of

investments on the market we can expect to see activity in the region of £2.5 billion by the year end. The lower volume of investment activity in 2013 relative to 2012 (33% less) compared to only 18% fewer beds traded reflects an important trend. 2013 saw a substantial increase in the number of deals in prime regional markets (up 76%).

This trend is likely to continue given the attractiveness of the student housing sector to investors, although they will have to bear in mind some of the risks covered later in this document. ■

GRAPH 1
Investment activity



Source: Savills Research

Investment performance in 2013 and looking ahead

Despite increased activity, yields have remained relatively static in 2013

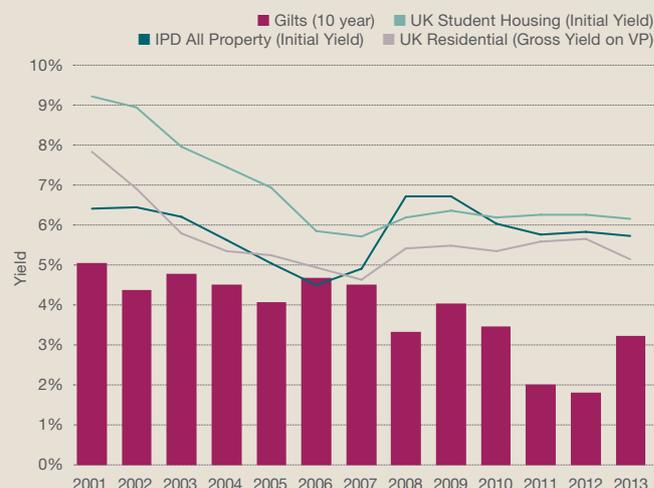
We saw some compression of blended average yields in the sector over the last year, with average initial yields falling slightly to 6.2% (6.3% previously). This reflects the increased competition for investments in prime London and super prime regional markets. Although activity in prime and secondary regional markets increased by 80% last year, yields remained relatively static reflecting the riskier profile of student demand in these markets.

For 2014, we are forecasting total returns of 13.7%. This is comprised of average blended yields compressing to 6.0% and rental growth of 3.5%. We expect yields in 2014 to be at the levels shown in the table below.

	Lease	Nomination Agreement	Direct Let
Prime London	4.50%	5.00%	5.75%
Super Prime Regional	4.75%	5.50%	6.00%
Prime Regional	5.25%	5.75%	6.50%
Secondary Regional	5.75%	6.50%	7.25%

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

GRAPH 2
Blended investment yields



Source: IPD & Savills Research

FLIGHT TO QUALITY OR JUST A BLIP?

With the introduction of university fees of up to £9,000 for UK domiciled undergraduates in the 2012-13 academic year, it is of no surprise that the number of students fell by 7.4%. However, a closer look at the figures shows a much more detailed picture with evidence of a flight to quality emerging.

Students are now faced with the prospect of taking on even larger debts to fund their university education. The scale of debt and forecasts for future earnings growth has led the Institute for Fiscal Studies to estimate only 73% of students will repay their loan in full.

Although employment prospects are now looking up, students are increasingly questioning the value for money they get from their education. This is both in terms of the quality of the teaching they receive but also the employment prospects the course/ university offers.

As Table 1 shows, the falls in student numbers weren't isolated to UK domiciled undergraduates. The only group to actually increase in number were non-EU domiciled undergraduates. However, the data also shows that these falls were much greater amongst part-time students where perhaps the costs of education are more likely to outweigh the benefits for some students.

This trend is further highlighted when we look at student numbers by subject type (Graph 3) or by university ranking (Graph 4). Although UK domiciled undergraduate numbers fell in all categories, the trend is for much larger falls amongst lower ranking institutions. This may reflect

higher instances of part-time education but the trend is clear: lower ranked institutions will struggle to prove their value for money in the new competitive environment. Additionally, the higher ranked institutions generally managed to increase the number of non-EU students studying. This helped to offset some of the falls in UK domiciled students.

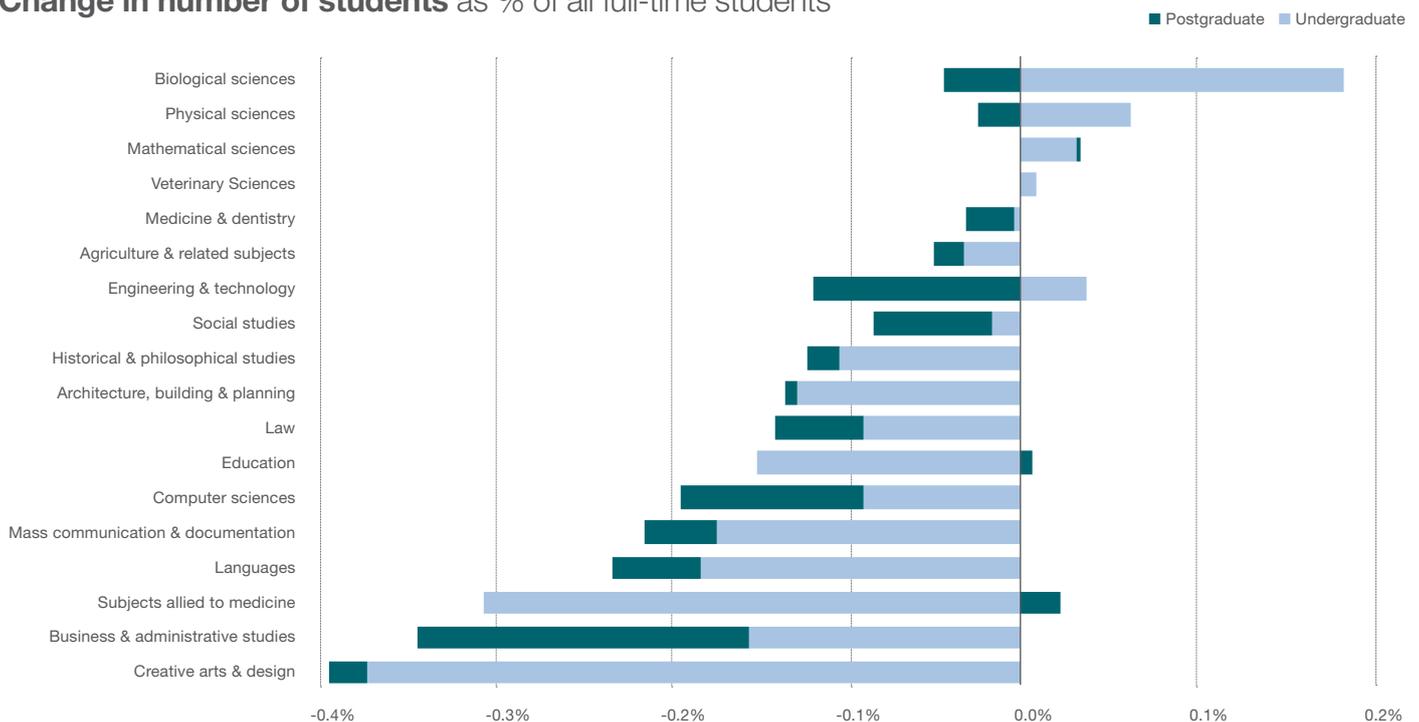
Courses focused on the sciences and engineering, which generally offer higher future earnings potential, have seen increases in undergraduate numbers. Meanwhile, courses focused on the creative arts and design had the largest contribution to the total fall in student numbers.

TABLE 1 **Change in number of students, 2011-12 to 2012-13**

	Undergraduates	Postgraduates	Total
UK	-7.4%	-5.9%	-7.1%
Other EU	-4.4%	-7.3%	-5.5%
Non EU	3.2%	-4.5%	-0.9%
Full-time	-1.9%	-4.2%	-2.3%
Part-time	-19.0%	-7.4%	-15.1%
Total	-6.4%	-5.6%	-6.3%

Source: HESA

GRAPH 3 **Change in number of students as % of all full-time students**



Source: HESA

Looking ahead it does appear that the fall in student numbers was a short-term reaction to the increased fee levels. UCAS application data for the current 2013/14 academic year showed a 3.6% increase and early returns for 2014/15 show total applications are up 3.4% compared to the same period last year.

Based on previous trends, this would leave final application numbers approaching 700,000. This was the peak level seen in 2011/12 prior to the introduction of higher fees. Although the strongest growth is in students from the rest of the world (up 9.1%), applications from UK and other EU students are both up, at 3.2% and 5.1% respectively.

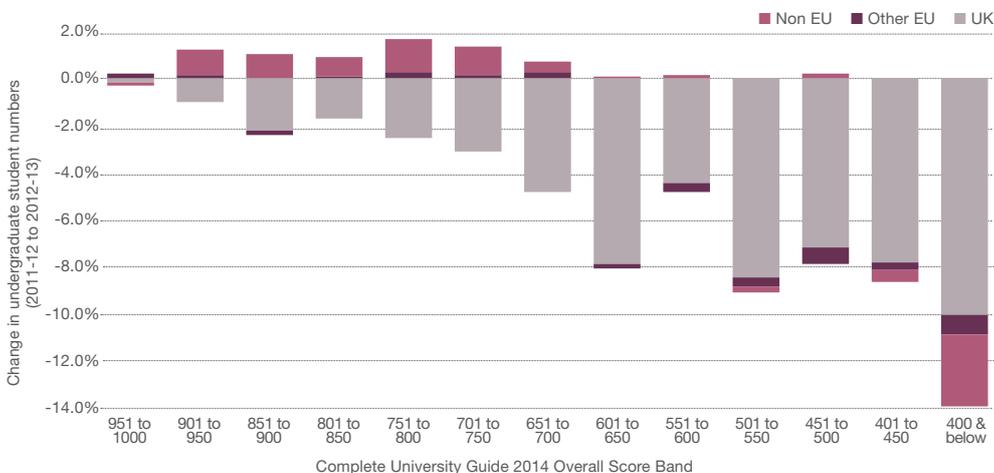
Increased fees may have been the main cause of falling students numbers in the 2012-13 academic year but there are more significant demographic challenges ahead. For the last 15 years the university sector has benefitted from a growing number of young people, their increased participation in university education and a growing international student population. It will be difficult to substantially increase participation rates in the future (ignoring short-term fluctuations such as the recent surge prior to higher fees).

More importantly, we are facing a demographic crunch over the next eight to ten years. The number of people born 18 years previously peaked in 2012 (those born in 1994) at 750,000 and will have declined to 650,000 in 2020 (those born in 2002). This could reduce the potential domestic student population.

However, since 2000 the number of actual eighteen year olds has been in excess of those born in the country 18 years previously. This reflects increased migration of both students for education and families with children. So far this has minimised any impact from the falling birth rate seen 18 years previously. However, it remains to be seen if government policy will have any further impact in this regard.

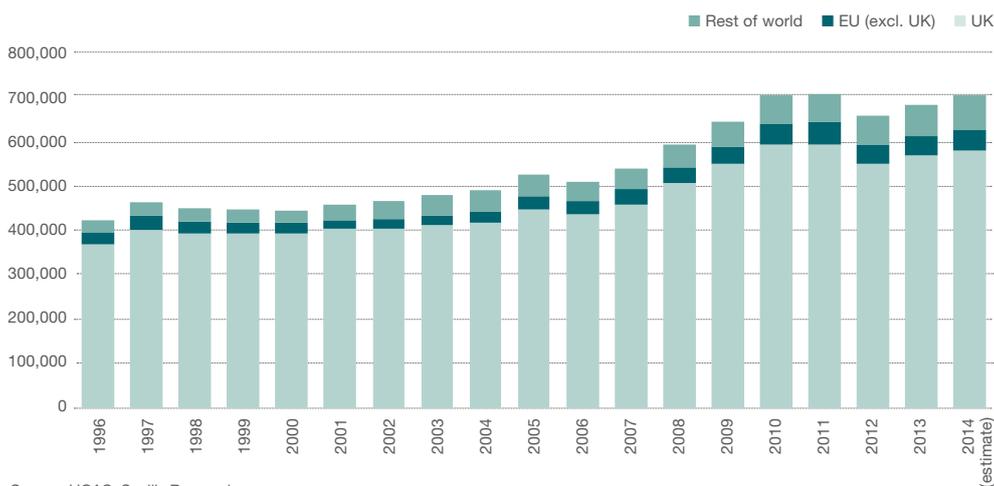
The good news is that by 2020 the demographic crunch will have bottomed out. With 800,000 children born in 2012, the highest since 1991, the demographic crunch will have turned into a boom by the time they turn 18 in 2030. ■

GRAPH 4 Change in undergraduate numbers by domicile and institution rank



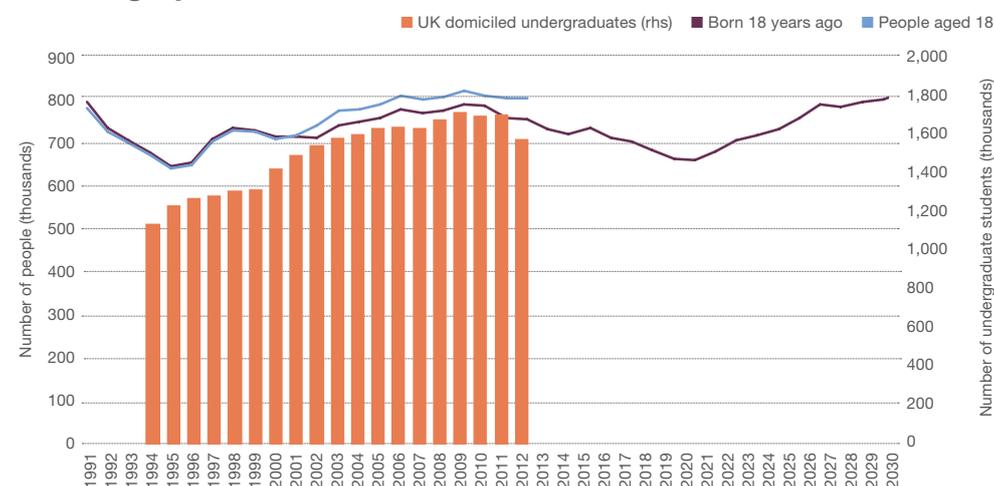
Source: HESA, Complete University Guide

GRAPH 5 UCAS application numbers



Source: UCAS, Savills Research

GRAPH 6 A demographic crunch



Source: ONS, HESA

STUDENTS & THE HOUSING CRISIS

In last year's student housing report (2013), we looked at how the purpose built student accommodation market could play its part in easing the housing crisis. We identified a number of locations across England and Wales where the provision of new purpose built student housing could release 66,000 homes back into the market. This would involve increasing the market share of purpose built student accommodation at the expense of houses in multiple occupation (HMOs).

This year we have expanded our analysis to include Scotland where we have identified an additional 11,000 homes that could be targeted.

The majority of these are found in Glasgow (4,200) and Edinburgh (3,400) but there are significant numbers in Aberdeen (1,900), Dundee (800) and Stirling (400).

To accommodate these students would require the development of an additional 30,000 new student beds. This would equate to doubling the size of the university and privately owned student accommodation market in Scotland.

The purpose built student housing sector has already benefitted from the growth in student numbers. In many markets, the sector has gained market share, with some operators seeing an increase in final year undergraduates returning to halls to focus on their exams.

With the threat of falling demographics, many operators will be tempted to continue their focus on the higher growth overseas student market. However, for those that manage to build a product at a price that is attractive to the more cost-conscious domestic market, there is a potential market for a further 290,000 beds across the country.

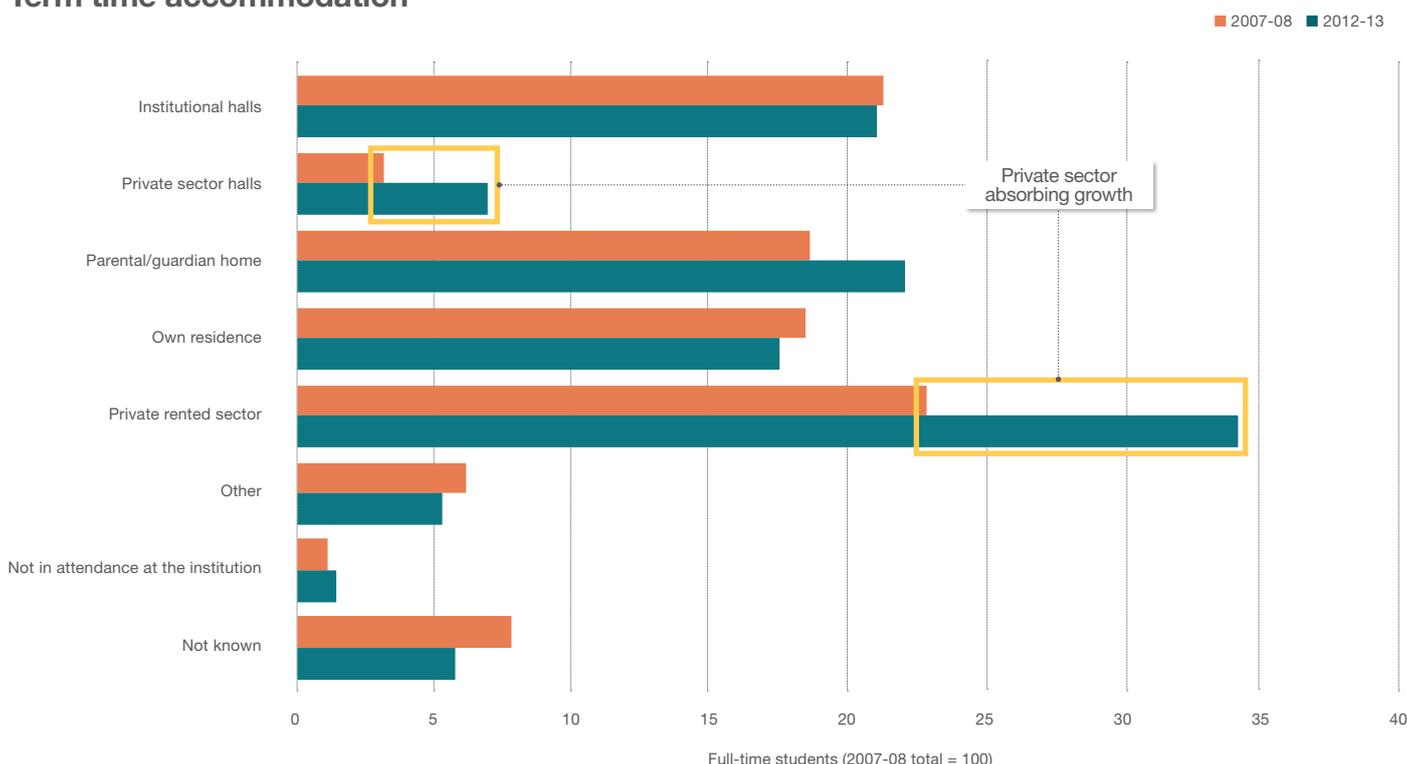
Although the total number of homes (77,000) that could be 'unlocked' is much lower than those regularly announced as targets by political parties, the localised effect of this could make it a useful part of a much broader solution. In many of the largest student markets, the amount of housing that could be released is equal to 2-3 years of recent housing delivery. There is also the additional benefit of the New Homes Bonus boosting local tax revenues.

If developers and operators wish to tap into this market opportunity, then they need to be aware of how they are perceived by local residents and decision makers. They need to present purpose built student accommodation as a solution to problems in the wider housing market rather than creating new ones.

Issues such as car parking, noise and other anti-social behaviour can all be minimised by active management in a purpose built block in a way that HMOs can't. However, the regular appearance of purpose built student blocks on the list of worst looking new buildings is not helpful to the public perception. ■

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 "There is a potential market for a further 290,000 beds across the country"

GRAPH 7
Term time accommodation



Source: HESA

INDEPENDENT SCOTLAND

The upcoming Referendum on 18th September, over whether Scotland should remain part of the UK, has placed a large question mark over the Scottish economy and the student housing market is no exception.

At present, Scottish students and those from other EU member states get free university tuition. However, students from other parts of the UK are currently charged tuition fees. Under European Union law it is possible to discriminate between students from different parts of an individual member state but not to discriminate against those from other parts of the EU.

In the event that Scotland became independent and was a separate member of the EU, either all students would have to pay fees, which could lead to significant falls in student demand from other EU countries. Alternatively, students from the rest of the UK would also have to be offered free tuition fees. This could

lead to Scottish universities being flooded with students from the rest of the UK and a higher education funding shortfall.

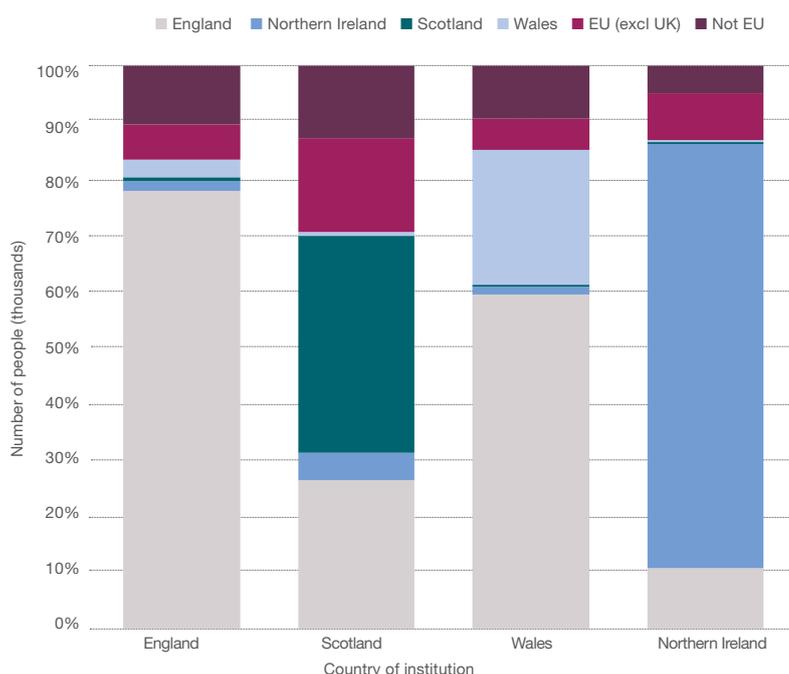
Legal advice sought by Universities Scotland has indicated that it could be possible to continue charging tuition fees to students from the rest of the UK. The system would need to be restructured so that tuition fees were applied equally to all students regardless of nationality but maintenance grants equal to the value of the fees would be awarded to Scottish-domiciled students. Eligibility for the maintenance grants would be on the grounds of residency in Scotland, perhaps for a minimum of five years, rather than nationality.

The Scottish Government has adopted parts of this legal advice in its White Paper on Independence. However, the White Paper's position on whether students from parts of the EU other than the rest of the UK will pay tuition fees is far from certain, stating that they will have the same right of access to education as home students.

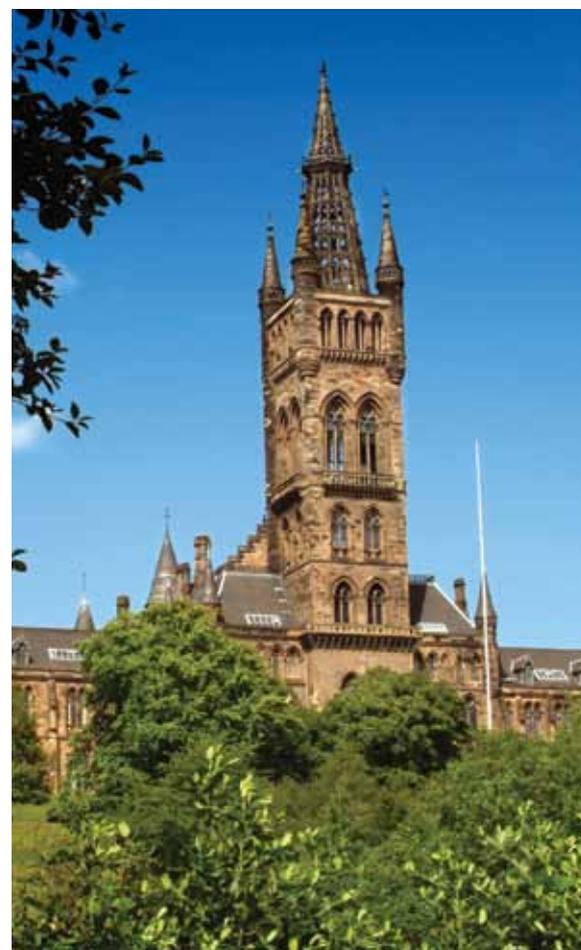
In reality, the assessment of eligibility would have to apply equally to the rest of the UK students and students from other European Union member countries. Crucially, an independent Scottish Government would need to prove that this proposed structure was necessary to prevent the collapse of university education in Scotland. Maintaining the status quo will be a challenge for the Scottish Government post-independence given previous unsuccessful attempts by Austria and Belgium to place similar restrictions on non-national students.

Overall, there is a lack of certainty over the position of tuition fees in an independent Scotland. Although the vote is being held in September 2014, the Scottish Government has marked 24th March 2016 as the date that Scotland would become independent. In the event of a 'Yes' vote, this would result in a further 18 months of doubt while fundamental issues relating to the funding of Scotland's higher education system are debated. ■

GRAPH 8 **University applications by country of institution and applicant**



Source: UCAS



STUDENT HOUSING STOCK

One in every four full-time students lives in purpose built student accommodation. The market has matured significantly in recent years with greater competition from private sector providers through the direct-let market or by providing accommodation on behalf of the university. This has led to an improvement in the quality of the accommodation that universities and operators provide along with all the additional services and amenities they offer.

Despite this increase in competition, our analysis of student housing stock across five cities shows that there is still a substantial amount of stock that is of a lower quality than desirable. Our survey covers the cities of Bristol, Edinburgh, Liverpool, Manchester

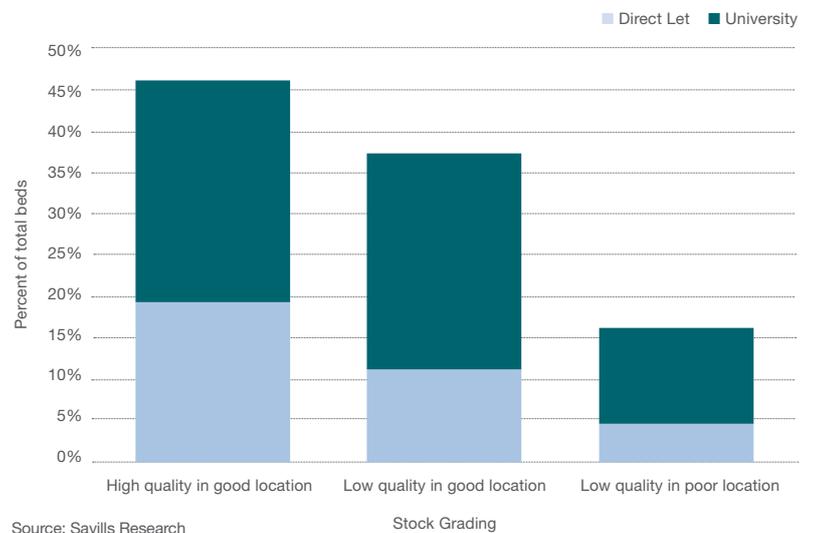
“One in every four full-time students lives in purpose built student accommodation”

and Newcastle and so provides an indicative picture of the wider purpose built student accommodation market. It highlights that over 50% of the beds in these five cities are in lower quality halls of residence. Of these, two-thirds are managed by universities.

This situation offers a significant opportunity for operators in the market. We calculate the majority

of lower quality blocks are in good locations and so could be renovated to a higher standard. However, 16% of all beds are in lower quality blocks in poor locations (this ranges from 5% in one city to 30% in another). For operators looking to expand, the opportunity to take market share from these lower quality and poorly located blocks will be attractive. ■

GRAPH 9 Student housing stock condition survey

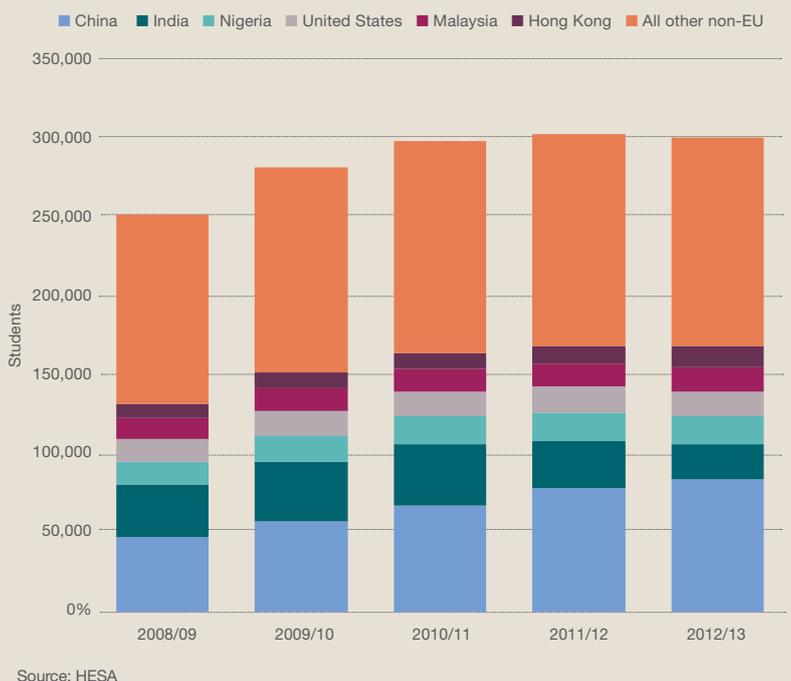


INTERNATIONAL STUDENTS

International students are an incredibly important component of UK universities and hence the wider UK economy. With one-third of international migrants arriving in the UK for ‘formal study’, the current Government’s focus on reducing net migration has caused some concern. The number of people arriving for formal study has fallen by 28% over the last four years. However, the number of Non European Union domiciled students at university has grown over the same period. More recently, total numbers have been fairly static but this compares well to UK and other EU domiciled student numbers.

The breakdown of student numbers by country shows that the number of students from China has continued to rise. They have grown by 78% over the last five years. Conversely, the number of students from India has fallen by 34% over the same period. Analysis of international student flows suggests this may be a global trend with falling numbers of students leaving India rather than a UK based issue.

GRAPH 10 Non EU domiciled students



RANKING

We have updated our rankings of university towns and cities across the country. The ranking system considers the potential for future development in the purpose built student accommodations sector. The matrix can also be used to ascertain the investment potential of each location and a lower ranked town may still be attractive if the potential investment returns are sufficient to account for the extra risk involved.

It is based on a number of factors including current supply and demand, the private rented sector, and future supply and demand.

Current supply & demand

There is a wide variation in provision of existing supply (both private and institutional managed) across the locations we have analysed. The collegiate-based institutions (Oxbridge/Durham) typically have large provisions

of purpose built accommodation. Meanwhile, some of the newer universities may have lower provision of purpose built accommodation but many students may be living in their own or their parents' home (Bolton/Paisley). The growth of the purpose built student-housing sector has significantly added to the provision of beds in many cities such as Sheffield and Leeds. Alongside this, there has been the substantial increase in student numbers, especially from overseas, who have typically been more willing to pay premium rents.

Private Rented Sector

While the number of students living in halls of residence has increased, the majority of the growth in student numbers has been absorbed by the Private Rented Sector (Graph 7). Students are such key players in some local markets that the introduction of Article 4 directives limiting new HMO licences has created two-tier markets: one based on existing HMOs where the potential

rent is much higher and hence capital values. And another one based on what local couples and families can pay which is typically lower. We have looked at recent rental affordability and growth to ascertain the potential to capture market share from the Private Rented Sector as per our analysis on 'unlocking' family homes.

Future supply & demand

As we've shown earlier in the report, there appears to be a flight to quality emerging in light of higher fee levels. Early indications from UCAS applications show that the fall in student numbers will probably be short-lived. However, students will increasingly weigh up the costs and benefits of attending each institution and those that are towards the bottom end of the rankings may struggle. Additionally, funding pressures will continue to press on all institutions, but those with established and internationally renowned research capabilities will be better placed than newer ones. ■

TABLE 2

University town and city ranking

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

Source: Savills Research

LONDON SUPPLY PIPELINE

There are 30,000 purpose built student beds in the future supply pipeline for London. This compares to approximately 70,000 existing beds of which 59% are institutionally managed and the rest privately operated. As Map 1 shows, there are currently over 7,000 beds under construction and most of these are focused on central and inner London boroughs. The longer-term supply pipeline of schemes with planning permission indicates a sizeable number of beds due to be delivered in less central locations.

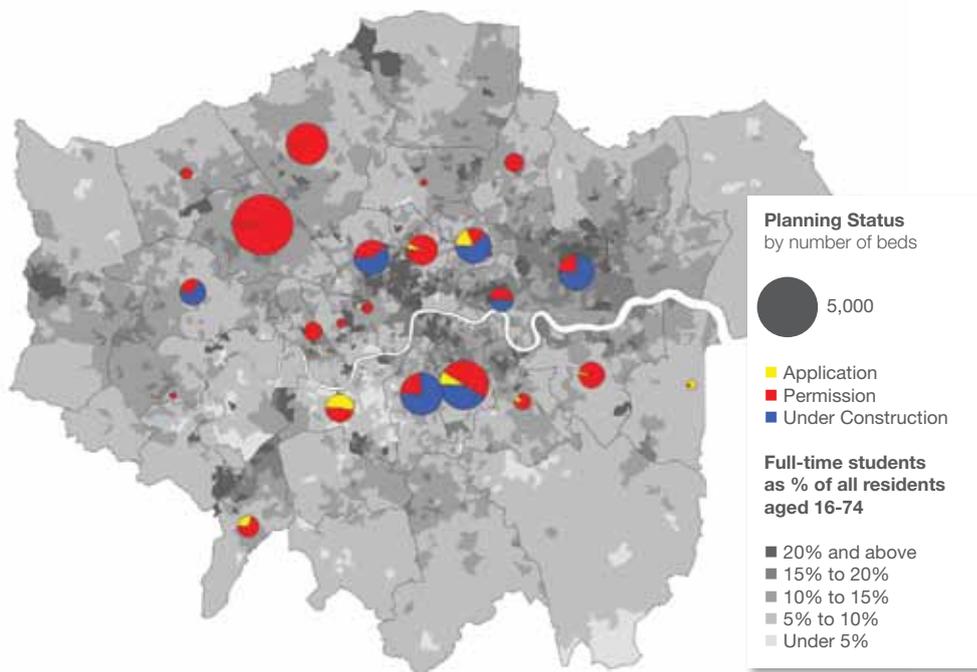
There are some questions over the deliverability of schemes that were granted their existing planning permission a number of years ago. However, our analysis indicates that 80% of the schemes were granted planning permission in the last two and a half years, and so are likely to be delivered.

Given the acute affordability pressures of the London housing market including rising house prices and rents, we will continue to see strong demand for purpose built student accommodation. ■

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 “Our analysis indicates that 80% of beds with planning permission were granted in the last 2.5 years”



MAP 1 London student supply pipeline



Source: ONS, Savills

SUMMARY

The key findings in this document

■ The last two years have witnessed a massive surge in student housing investment activity. There was £5 billion worth of standing stock and development sites sold in 2012 and 2013 and the early signs for 2014 suggest we are likely to see high levels of investment activity this year. We are forecasting total returns of 13.7% for 2014.

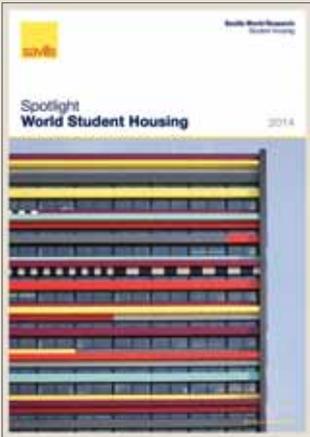
■ The introduction of university fees for UK domiciled undergraduates has led to falling student numbers in the 2012-13 academic year. UCAS application data suggests that numbers are recovering, but a close look at the figures shows evidence of a flight to quality emerging.

■ There is a lack of certainty over the position of tuition fees in the event of Scotland gaining independence. Under EU law it is possible to discriminate against students from other parts of the member state but not those from other parts of the EU. It appears likely that the government would charge all students the same fee but offer Scottish domiciled students a grant equal in value to the fees.

This leaves the future position of other EU students studying for free in Scotland uncertain.

■ We have expanded our analysis of how the purpose built student accommodation sector can play its part in solving the housing crisis. We have identified 77,000 student properties across Great Britain that, with the provision of more purpose built accommodation, could be ‘unlocked’ to provide additional family homes.

■ We have updated our university town and city ranking. This ranking system considers the potential for future development of purpose built student accommodation in each location. This year has seen Aberdeen, Bournemouth, Glasgow, Kingston-upon-Thames and Newcastle join the nine cities that were in the ‘first’ category last year.



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.

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