Spotlight on…

Student Housing: Scotland, Wales & Northern Ireland

While planned rises in tuition fees may have a negative impact on the student rental market, some institutions are flourishing, with purpose-built property in high demand

Policy change

The controversial policy decision to allow universities across England to raise tuition fees to up to £9,000 per annum from the 2012 academic year has created far-reaching implications for institutions, investors and developers in Scotland, Wales and Northern Ireland. These fee changes were made in response to the Browne Review and occur alongside significant financial cuts to institutions' budgets across the UK.

The higher education sector is now experiencing rapid change and increased uncertainty; in particular, from 2012/13 the funding model will be radically different to what has gone before, as detailed in individual White Papers. From 2012, universities in Scotland, Wales and Northern Ireland will also be able to raise their fees, but their home-domiciled students will not be affected. This will increase the need for these institutions to attract inward financial investment.

While the fees do not apply to home-domiciled students, or students from within the EU (a contentious issue which was legally challenged under EU law but subsequently dismissed), there are fears that changing policy will lead to further elitism among universities.

Those universities that do not charge the highest fees could appear 'inferior' and may struggle to attract students. This will impact on finances and accommodation demand. Conversely, there is a risk that higher education students from the rest of the UK, and from outside of the EU, may become less numerous as they are priced out of education by fees being raised to the maximum permitted.

It is important for developers, investors and those who fund purpose-built student accommodation in Scotland, Wales and Northern Ireland to understand the changes affecting universities. The impacts will be felt not only at the level of individual institutions, but also the rental markets in those towns and cities.

TABLE 1

Table showing proposed 2012/13 annual tuition fee pricing

To study in...	Home domiciled & EU students	Rest of UK domiciled & Non-EU students	Additional information
Scotland	£0	Up to £9,000 (for courses lasting four years. Certain universities will offer a free year to remain competitive)	The Scottish Government does not charge Scottish students fees to study within its borders
Wales	£3,465	Up to £9,000	The Welsh Government will pay fee costs above £3,465 a year for Welsh students studying at any UK university
Northern Ireland	£3,645	Not capped, "but are not expected to exceed £9,000"	Tuition fee levels will rise in line with inflation for home-domiciled students for the next four years

Table source: Savills Research

→ Degrees of separation

Savills Research Department has analysed the main universities and HE colleges (34 in total) across Scotland, Wales and Northern Ireland, looking at the prospects for growth in purpose-built student accommodation serving institutions across the three countries.

The analysis is based on the ability of institutions to attract and maintain positive growth of full-time, non-EU and postgraduate students respectively. Our analysis, alongside university rankings and average UCAS entry scores for new students, shows there is a distinct difference between prospects for purpose-built student accommodation at institutions across Scotland, Wales and Northern Ireland.

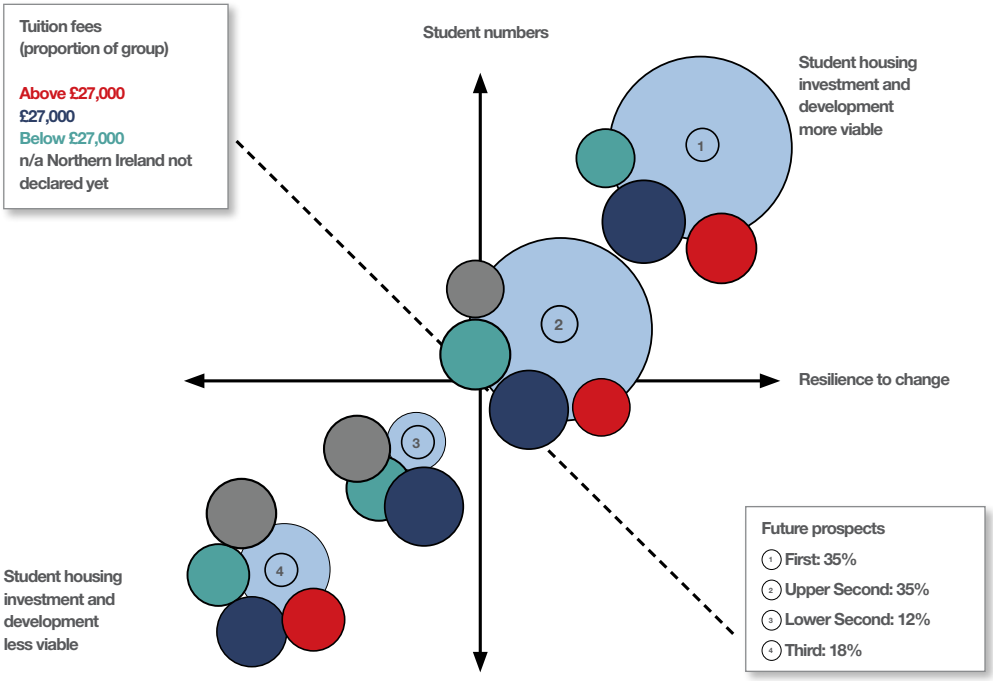
We have identified 24 institutions which have been classified as 'First' and 'Upper Second' class institutions, which we believe will continue to flourish and attract students in light of recent amendments to higher education funding and policy.

These institutions already boast high proportions of full-time, non-EU and postgraduate students, combined with increasing levels of the above student groupings. They are institutions with international appeal and reputations for academic excellence. They attract and funnel the large majority of tuition fees from the rest of the UK students.

The universities that fall into this category include Edinburgh, Glasgow, Cardiff, St Andrews, Aberdeen, Belfast and Stirling.

GRAPH 1

Future performance indicator: Proportion of institutions' ability to succeed in light of funding and policy changes



Graph source: Savills Research

Impact of fees

Three quarters of these 'First' and 'Upper Second' class universities have set fees of £27,000-plus for a three or four-year course. Nonetheless, demand from international and UK students for places is expected to continue to be strong for the reasons set out above. Investors, developers and funders should align themselves with the student accommodation demand connected to these universities.

More caution is needed when dealing with those universities and colleges that our analysis characterises as 'Lower Second' and 'Third' class institutions, which could, as a result of the new way of funding higher education, find themselves locked into a downward spiral of reduced funding, negative student demand, decreasing inward investment and declining academic quality.

These are the institutions where the proportion of higher fee paying students are either declining or showing limited growth, and are relatively low down the university rankings – for example Paisley, Abertay and Ulster.

Opportunities for development and investment in purpose-built student accommodation associated with these institutions may still exist but would need to be focused on the best locations, or offer high initial yields and returns, because future growth potential is more limited. ■

DEVELOPMENT AND INVESTMENT FOCUS: EDINBURGH

Market opportunities, investor appetite and strong demand indicates a buoyant market

Real estate activity remains subdued across the UK as the industry continues to deal with heavily restrained lending. The student accommodation sector has remained resilient in comparison to private and public residential development and investment.

Despite current economic woes and difficult financial conditions, investment activity in purpose-built student accommodation (PBSA) across Edinburgh has been positive.

Savills Research has recorded eight major transactions over the past 18 months amounting to over £90 million, with six of these transactions being investment deals for completed stock. These deals reflected a net investment yield averaging around 6.2%.

Rental uplift

The market is diverse with new entrants (Crosslane), established institutional investors (Aviva, Rockspring and Cordea Savills) and national student housing operators (Mansion Group), all capturing a segment of the growing market. Our analysis shows rental values for the most basic accommodation unit increased by 2.4% across the city to £114 per week.

Although the PBSA market appears to be robust, operators are cautious as top end rents have slightly decreased since the previous academic year.

Development market

Residential housing starts in the city of Edinburgh declined to their lowest levels for at least 15 years during the 2010/11 financial year, and now stand at 29% of their 10 year average, down from 77% in 2009/10.

The financial crisis has made residential developers and housebuilders across Scotland extremely risk averse. Large scale development in Edinburgh has retreated, as prospective home buyers struggle to raise enough finance to purchase. By contrast, development of PBSA continues to expand.

Three new PBSA schemes were completed ready for 2011/12 occupation (adding c.485 student beds across central Edinburgh). This takes estimated student bed spaces to 10,100 across the city. The largest of these new completions was BeaverbankOne, operated by Fresh Student Living.

University involvement

There are two notable student accommodation deals in the market with university involvement. West Fountainbridge, an Edinburgh Napier University backed scheme for 778 en-suite beds was put out to the market earlier this year as a pre-let forward funding opportunities, on a 22 year FRI lease with RPI uplifts of 1.5 to 3.5%. The site received consent in July 2011 and the development is currently under offer, with no price disclosed, to be delivered in September 2013.

The University of Edinburgh issued a tender in April 2011 for a developer/operator to design, build, finance and operate c.1,150 beds of student accommodation on two sites owned by the University in Holyrood. The University is offering a lease of up to 50 years on the land. The process is currently at the shortlist stage and the scheme is likely to be delivered in September 2014.

Increasing demand

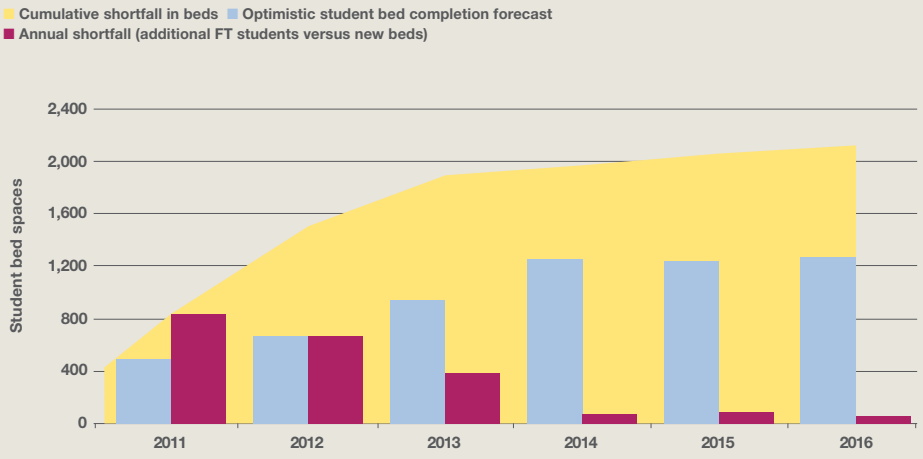
The city of Edinburgh is home to approximately 47,000 full-time students according to HESA 2009/10 statistics. Strong growth in full-time students – averaging 5% over the last two academic intakes – has increased the pressure on the delivery of student accommodation, increasing the shortfall of bed spaces across the city.

Based on the average annual number of extra full-time students over the last three years, we estimate that there will be an additional cumulative shortfall in student bed spaces (above the current shortage) of 2,100 by the start of the 2015/16 academic year.

As funding for large, complex, residential developments is limited, this presents an opportunity for equity investors to diversify and take advantage of proven, attractive returns from student accommodation. However, site availability, rental ceilings and rising tuition fees suggest that there are possible risks to the future development of purpose-built student accommodation in Edinburgh.

GRAPH 2

PBSA shortfall favours investors and developers



Graph source: Savills Research

SUMMARY AND OUTLOOK

Key findings in this document

■ From 2012, universities in Scotland, Wales and Northern Ireland will be able to raise their tuition fees, but their home-domiciled students will not be affected.

■ A number of policy changes and financial cuts means that the higher education sector is currently experiencing rapid change and increasing uncertainty.

■ Student numbers at universities in Scotland, Wales and Northern Ireland may not be as hard hit as institutions in England by rising tuition fees, as demand from within the region will continue to be high. Meanwhile, the best institutions will also compete to attract the higher fee-paying English, international and postgraduate students.

■ Recent higher educational reform will have an impact on the ability of institutions to improve academic performance, with some institutions winning and others becoming more vulnerable. An understanding of these tensions is essential when making investment in purpose-built student accommodation.

■ Our analysis has shown that, at one extreme, the best institutions continue to endure a severe shortage of purpose-built student accommodation, while continuing to grow and attract new students. At the other extreme, some institutions are facing the prospect of a decreasing cycle of fewer students, less funding and academic decline.

■ Ultimately, there will come a point when the price of a degree course will reflect market supply and demand. Those universities which we have described as 'First' and 'Upper Second' class will no doubt continue to attract demand, while charging maximum fees. This will maintain the competitiveness of the teaching on

offer at these institutions compared to the rest of the UK. It is in these locations where funders, developers and investors in student accommodation will probably want to target future portfolio investment.

■ Investment is possible in most locations but target initial returns have to be significantly adjusted in view of future growth prospects for different towns and cities.

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