

Student Housing Market





+/- 2%

The number of first-year students at universities was 2% lower year on year in the 2021/22 winter semester. In contrast, universities of applied sciences witnessed a 2% increase.

From the pioneering phase to maturity

Text: Matti Schenk

Student numbers are showing signs of reversal

The number of students in Germany rose to a new record high during the COVID-19 pandemic. According to preliminary figures, there were around 2.97 million students enrolled at German universities in the 2021/22 winter semester. The primary reason for this increase is the low number of course completions. Conversely, the number of first-year students decreased in both years of the pandemic. This was approximately 7% lower in the 2021 academic year than in 2019 (Graph 1). While the number of domestic first-year students is declining, the number of those from abroad is rising. This trend, which has been established for many years, was only interrupted in the first year of the pandemic, resulting in opposing trends in 2020.

Overall, there is an emerging trend reversal in student numbers. After the upward trend of the last 20 years, a moderate decline in student numbers is expected over the coming years. Even if the number of international first-year students rose, this could not offset the demographically-driven decline in domestic freshmen. At the same time, more students are expected to complete their degrees. While an increasing enrolment rate may support student numbers, this has actually been in moderate decline in recent years. Personnel shortages already visible in traditional occupations requiring formal training may mean that apprenticeships become more attractive or receive greater support from the government. This could have a negative long-term impact on the number of first-year students. Another influencing factor is the current debate surrounding the introduction of compulsory military service or civilian service. Such a development would have a one-off negative effect on the number of first-year students.

Will fewer students live in their place of study going forward?

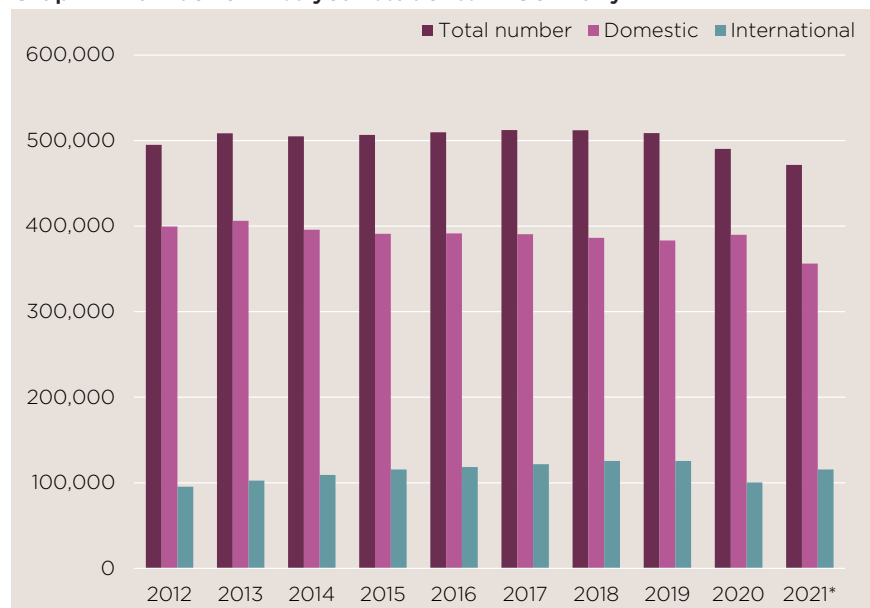
Besides changes in student numbers, the nature of studying and hence student

accommodation may also change going forward. During the pandemic, teaching took place almost exclusively online. However, purely online courses are likely to remain the exception in Germany. The German university association is calling for in-person learning to remain the standard form of study. A scientific study by the DZHW came to the conclusion that students particularly missed the personal contact with fellow students and lecturers. On-site study time and personal contact is, therefore, likely to be indispensable for most students going forward. However, the DZHW study also showed that digital learning formats made sense for some students during the pandemic. It is highly probable that virtual study offerings will play a greater role as an addition to in-person learning going forward – a view also shared by the German University Lecturers’ Association.

The digitisation of teaching and extensive online offerings could influence where students live during their studies. It may be that they only travel to their place of study

by the day or at particular points in their studies. How many students would opt for this type of hybrid studying cannot currently be estimated. However, this target group may also demand types of accommodation with greater flexibility. Consequently, a part of the student housing market may merge with serviced apartments. It also remains to be seen whether renowned foreign universities will offer purely online courses going forward, which could capture a portion of demand. Even if the digitisation of university teaching has not measurably impacted the living preferences of students to date, the risk of structural changes in demand is greater now than prior to the pandemic.

Graph 1: Number of first-year students in Germany



Source Federal Statistical Office / * preliminary figures

“In contrast with previous years, availability of housing for students is not likely to fall further over the coming years”

The signs in the residential market are also changing

The supply and demand ratio in the residential markets is also showing signs of a trend reversal. While the 30 largest university cities are far from seeing a relief to the strain in their residential markets, the vacancy rate did not fall further in 2020 for the first time in years (Graph 2). It can be assumed that a cyclical turning point has been reached, with the vacancy rate rising moderately in 2021. Rents continue to show an upward trend, albeit with a lower rate of growth. A glance at the rising housing completion numbers in many German cities and the recent decrease in immigration shows that the supply and demand relationship appears set to [shift in favour of tenants](#) over the coming years. Should the number of first-year students fall, this would bring additional relief to the residential markets in university cities. Hence, in contrast with previous years, availability of housing for students is not likely to fall further over the coming years.

Competition is likely to intensify

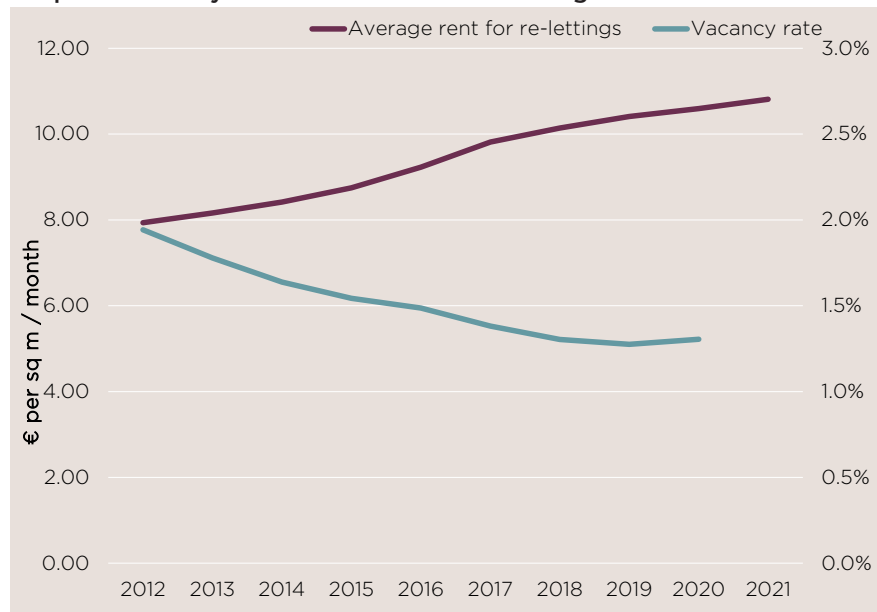
For investors in student housing, this means that the phase of almost perfect conditions for student housing providers is gradually drawing to a close after years of rising student numbers and an increasingly challenging housing supply in the open apartment markets. At the same time, the supply in the top 30 university cities will grow further. At the end of 2021, there were around 66,100 beds in private student housing properties in the 30 largest university cities. Hence, the private supply has almost quadrupled in the last ten years (Graph 3). Approximately 16,300 beds are likely to be added over the next three years.

In addition to private providers, student unions ('Studentenwerk') and other non-profit providers have also been building student accommodation in recent years. In 2021, the provision rate across the top 30 university cities stood averaged 14.2%. According to the [Initiative Micro-Living](#) the occupancy rate of student and micro-living properties averaged 86% in October 2021. This was seven percentage points lower than in January 2020. The market is likely to recover quickly from the short-term external shock of the COVID-19 pandemic. However, the emerging trend reversal on the demand side combined with a growing supply will result in

the supply and demand ratio shifting further in favour of students in the long term. This is likely to result in more intensive competition between properties. In view of the sustained high student numbers by long-term comparison, the constant supply shortage in the housing market and the current base level of the provision rate, we do not expect any widespread significant occupancy problems

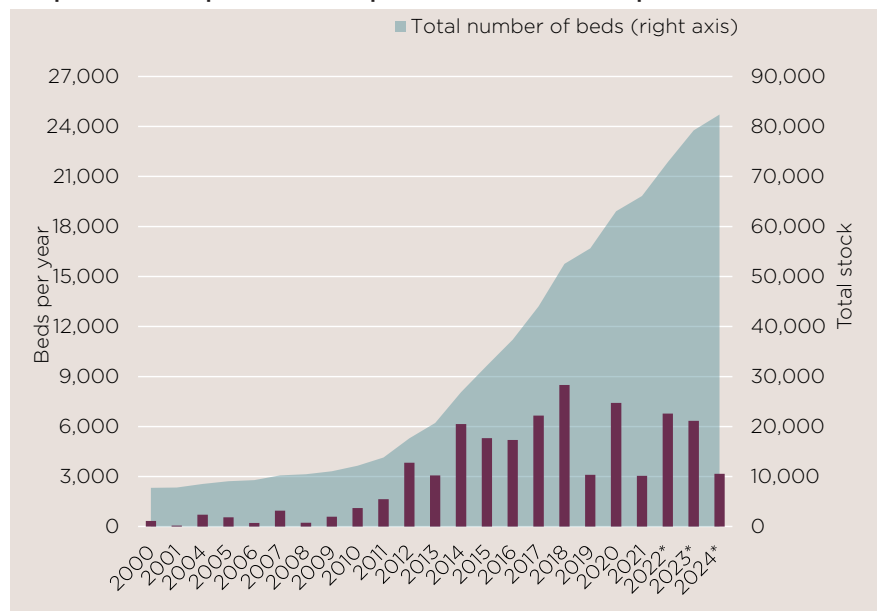
in student housing properties. For properties with deficits in terms of location or price-performance quality that have predominantly benefited from the significant surplus demand to date, on the other hand, it may be challenging to achieve the desired occupancy levels or corresponding rents going forward.

Graph 2: Vacancy rate and rents on the housing markets*



Source Bulwiengesa, CBRE- empirica / * unweighted average of the 30 largest university cities

Graph 3: Development of the private stock in the top 30 cities



Source Savills / * forecast



€41 m

Student housing transactions in 2021 had a median volume of approximately €41m. The average transaction size was for 199 apartments.

High transaction volume and yield compression

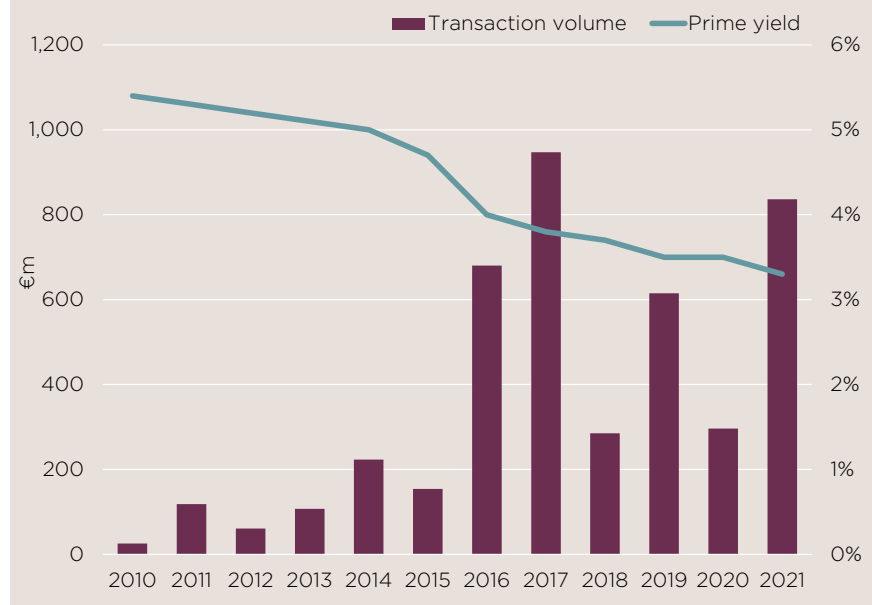
As the supply of private student housing properties increases, the investable stock for real estate investors also continues to grow. Following the collapse in transaction volume in 2020 owing to the pandemic, the market recovered significantly last year. The investment volume of approximately 840 million euros was the second highest total on record (Graph 4).

It is noteworthy that the transaction volume was highly concentrated in terms of investors, with just two investors accounting for more than two thirds of the acquisition volume last year. Overall, there were purchases from twelve investors, which was broadly in line with 2018 and 2019. Last year's purchasers included five investors making their first entry into the German investment market for student housing. There were also five new players on the purchaser side in 2020. At the same time, there were almost a dozen investors who invested a total of more than 10 million euros in student housing in the pre-crisis years of 2018 and 2019 who were not active as purchasers over the last two years. Many investors are unlikely to have reached their desired target volume while the new players in the market have contributed to more intensive bidding processes for well-positioned properties. Accordingly, the prime yield hardened to 3.3% last year. Even lower yields were achieved on properties with head tenants from the public sector, although such properties changed hands very rarely. Overall, we expect further moderate yield compression on prime properties.

The details are becoming more important

Our verdict: the German market for student housing is transitioning into maturity following a multi-year boom. This is also likely to result in more intensive competition. The reasons for this are the negative trend in the number of first-year students, a certain easing of the situation on the open apartment

Graph 4: Transaction volume and prime yields



Source Savills

markets and a growing supply of purpose-built student accommodation. Against this background, a detailed analysis of cities and micro-locations is becoming increasingly important. One possible approach here would be to focus on universities with a rising number of first-year students, such as RWTH Aachen. A stronger focus on universities of applied sciences and their students also appears worthwhile in view of the current sustained growth trend. In the investment market, large volumes of capital are likely to continue to flow into residential property. Student housing is likely to remain a sought-after alternative to multi-family properties owing to its advantageous yields. The potentially (moderately) increasing risks may well result in greater reticence among some very risk-averse investors. Existing properties already established in the market may benefit from growing risk aversion compared with development projects.

[Download the charts and raw data here](#) ↓



8,600 beds

With approx. 8,600 beds, Berlin has Germany's largest private stock.



Provision rate

Kassel, Dortmund and Cologne have the lowest provision rates among the top 30 cities, each coming in under 8%.



81%

German purchasers accounted for 81% of the transaction volume in 2021. The average over the previous five years stood at just 50%.

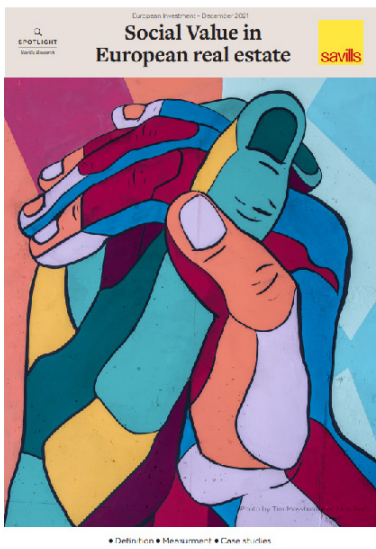
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