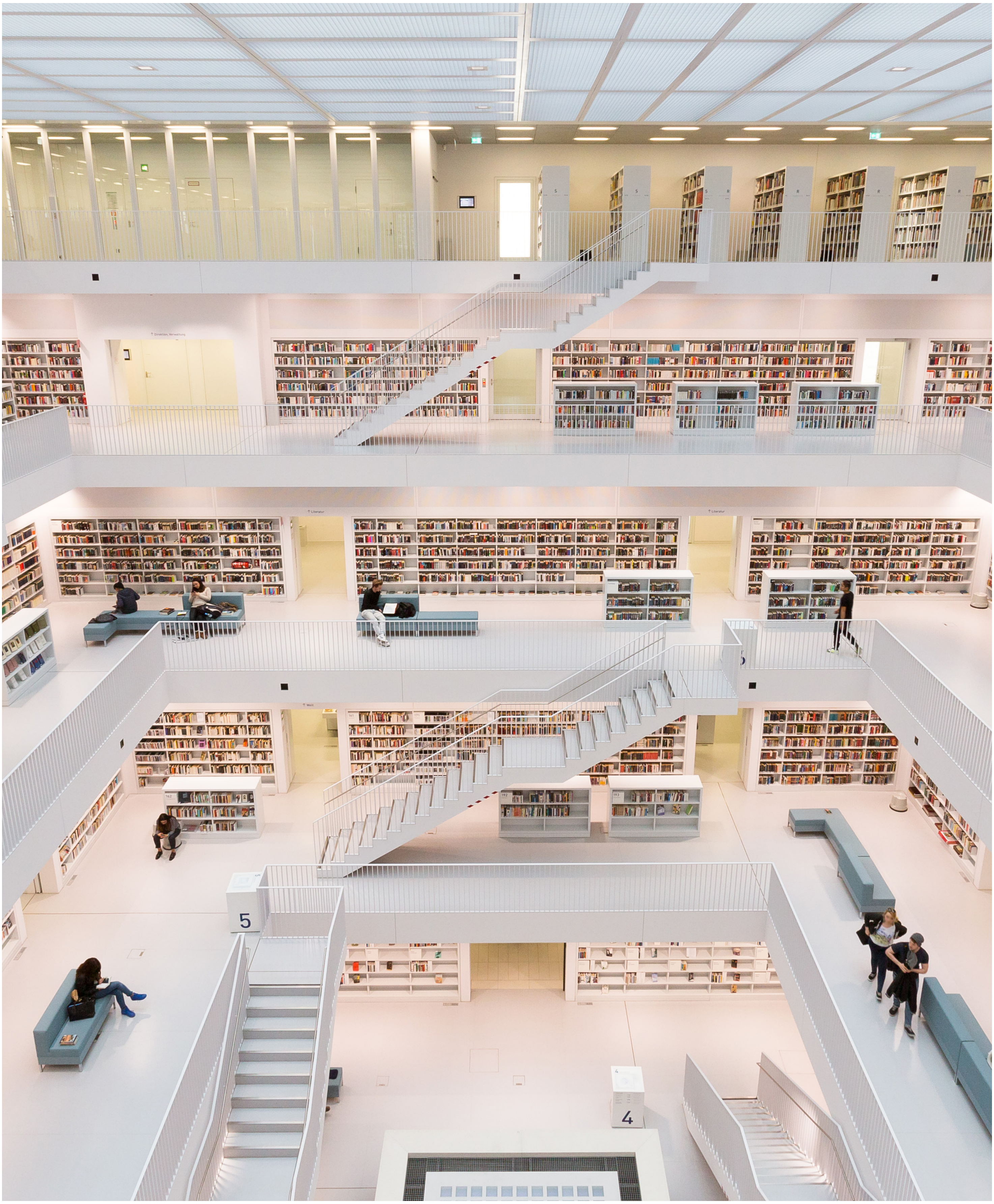
Student Housing Germany - December 2019

SPOTLIGHT
Savills Research

A market overview



Slower growth in supply ● Market volume of almost €9bn ● Market is fragmented

Is Student housing a niche market?

In the thirty largest German university cities, there are 238 universities with a combined total of approximately 1.6 million students. On average, more than one in six inhabitants in the top 30 cities is a student. This underlines that student housing is indeed a niche segment but, in many locations, the target group has a significant impact on the apartment market.

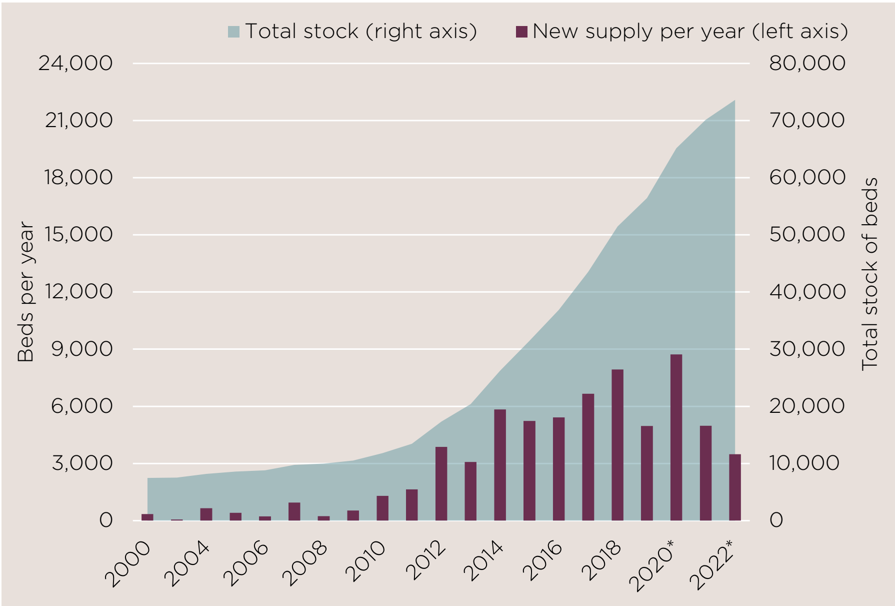
The market for student housing has expanded in recent years. Never have there been so many students in the thirty largest university cities and never have private providers offered so many beds. Here, we take a look at the current and planned supply. We also consider the size of the investable stock and which cities have the greatest potential for investment. Lastly, we analyse provision rates in detail.

Text: Matti Schenk

Slower growth in the private supply

A glance at the growth of the private supply in the student apartment market in recent years shows only one direction: upwards! In the thirty largest German university cities (measured by student numbers), private providers have completed more than 45,000 beds since 2010, more than quadrupling their supply (Graph 1). By mid-2019, private providers had more than 51,500 beds, accounting for more than a quarter (27%) of the overall supply. A further 21,800 private beds are expected to be completed by the end of 2022 (as of mid-2019). During the same period, non-profit providers and public bodies will probably only complete around 11,000 beds, which is likely to mean an increase in the market share of private providers to a third.

Graph 1 Development of private stock in top 30 cities



Source Savills / * forecast

The new-build activity of private providers reached new record levels in 2017 and 2018, with a total of approximately 14,600 new beds coming to the market in these two years alone. In 2020, more than 8,700 beds are scheduled for completion. However, the corresponding figures for the following years are significantly lower. Consequently, the market is soon likely to enter a phase of slower growth.

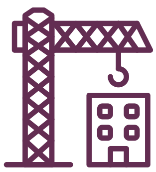
In some cities, the new-build pipeline is larger than the existing stock

When looking at the regional distribution of this supply, it is clear that private providers have predominantly focused on the largest university cities to date. Their stock in Berlin and Munich alone totals 12,600 beds, accounting for a quarter of the private supply in the top 30 cities (Graph 2).

While construction activity in Berlin remains buoyant, momentum in Munich is declining. The largest pipelines after Berlin can be found in the cities of Hamburg, Aachen and Dortmund, where a further 5,900 beds are planned by the end of 2022. Hamburg stands out from this pack with almost 2,750 new beds. If the pipeline is compared with the existing private stock, the supply will increase the most in Dortmund, Düsseldorf and Hanover. The high level of new-build activity in cities such as Aachen, Dortmund and Hanover demonstrates that private providers are now becoming increasingly involved outside of the major cities. However, with more than 50,000 students in some of these cities, these are also key locations in the German university landscape.

Berlin stands out
The largest private supply is found in Berlin. Private providers have a combined stock of almost 6,400 beds in the capital. There are more than 4,000 beds in pipeline.

Kassel shows the highest market share
In Kassel, private providers account for 47% of all existing beds. This is the highest market share in the top 30 cities.



Booming Dortmund
Private providers are expected to complete around 1,550 new beds in Dortmund by the end of 2022, increasing the private supply more than ninefold.

92% one-bedroom apartments

92% of beds under construction and in planning by private providers are expected to be one-bedroom apartments. One-bedroom apartments also account for 67% of existing stock. Around 8% of beds are attributable to unfurnished apartments and 7% to two-bedroom apartments. Rooms in shared apartments account for only around 18% of the existing private stock.

Graph 2 Private stock in top 30 cities

Source Savills / * till end of 2022

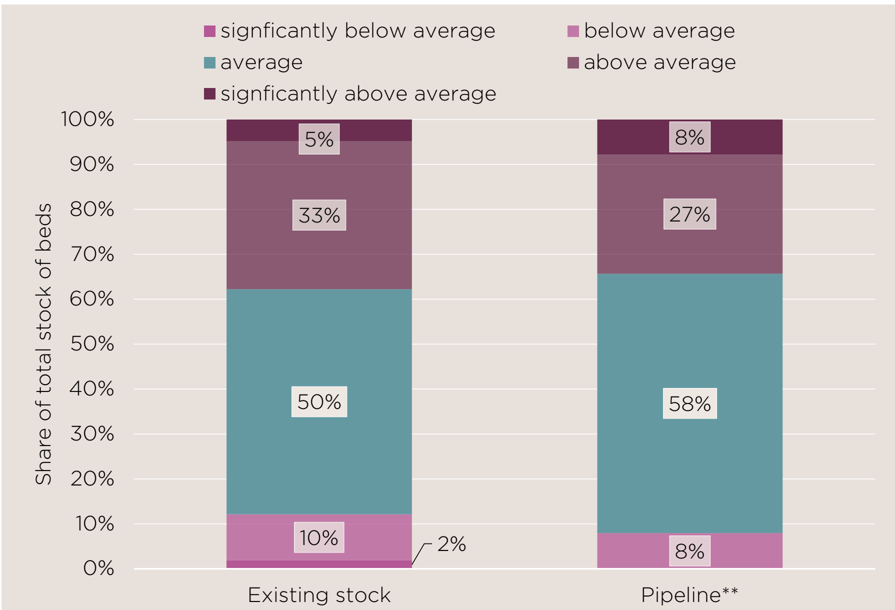
No shift to poorer locations despite the shortage of sites

In the major cities and most other top 30 university cities, however, investors are likely to be faced with difficulty in acquiring suitable development sites. Since many appropriate sites are also attractive to developers of condominiums, competition among bidders for the sites is correspondingly intensive. However, there is no indication of a shift to poorer micro-locations. While around 12% of beds in existing stock are in residential locations of below-average attractiveness (measured by the average asking rent compared with the city average), this is expected to compare with only around 8% of beds under construction and in planning (Graph 3). The proportion of beds in significantly above-average locations is even likely to increase. Compared with the existing stock, the future supply is particularly being developed more frequently in locations of average quality.

What is being built? Smaller apartments in larger properties

New-build student accommodation remains almost exclusively comprised of fully-furnished one-bedroom apartments. Of all the private stock under construction and in planning, 92% of places are expected to be one-bedroom apartments. Among the existing stock, one-bedroom apartments account for approximately two thirds of the private supply. Since 2016, apartments have become smaller as an overall trend. The average size of new-build apartments between 2016 and 2019 declined by almost 18% to 22.2 sq m. There has been no clearly observable trend with regard to the size of properties over the last five years. However, the figures suggest that the average property size will increase going forward. While student housing properties completed over the last five years comprised an average of around 185 apartments, properties under construction and in planning are expected to contain an average of 223 apartments.

Graph 3 Private stock* by quality of residential location



Source Savills / * in the 30 largest university cities; ** till end of 2022

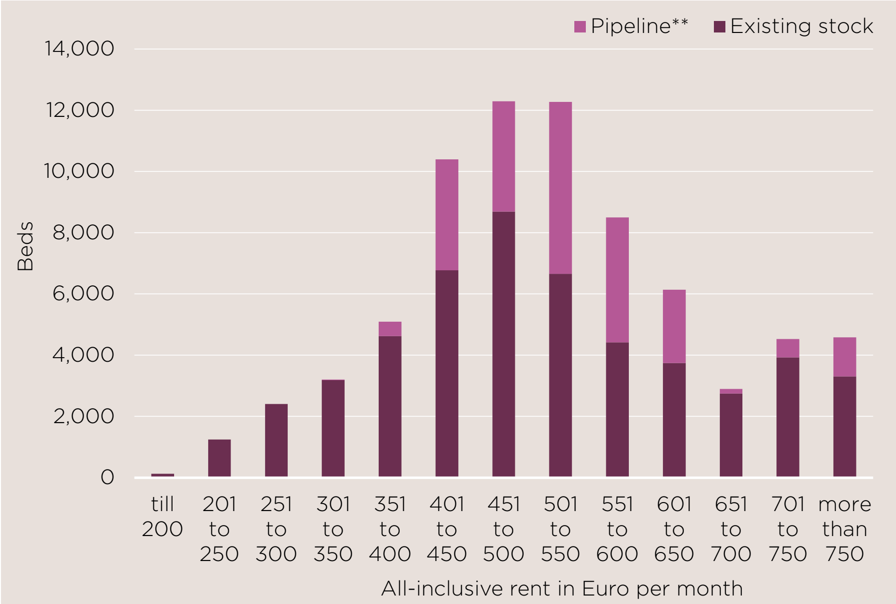
> **Around two thirds of beds under construction and in planning are likely to be offered at all-inclusive rents of more than 500 euros. In view of rising construction and site costs, it appears unlikely that there will be a larger private supply available at lower rents going forward. The sustained focus on one-bedroom apartments also opposes this.**

Little activity in the rental segment below 450 euros

To date, the stock of private providers has been approximately equally divided between places at all-inclusive rents of more than 500 euros per month per bed and those costing no more than 500 euros. Around a quarter (26%) of the stock costs more than 600 euros per month (Graph 4).

We estimate that around two thirds of beds under construction and in planning will be offered at all-inclusive rents of more than 500 euros per month. Only 19% of planned beds are expected to cost 450 euros or less. We expect places with relatively low all-inclusive rents to be primarily completed in cities such as Bochum and Dortmund, where achievable rents are lower than in other cities owing to local market conditions. This price segment will also include subsidised beds, such as those planned under the SMARTments student brand. In view of the rising site and construction costs, it appears unlikely that there will be a larger proportion of the private supply in the lower price segments going forward.

Graph 4 Private stock* by rental level



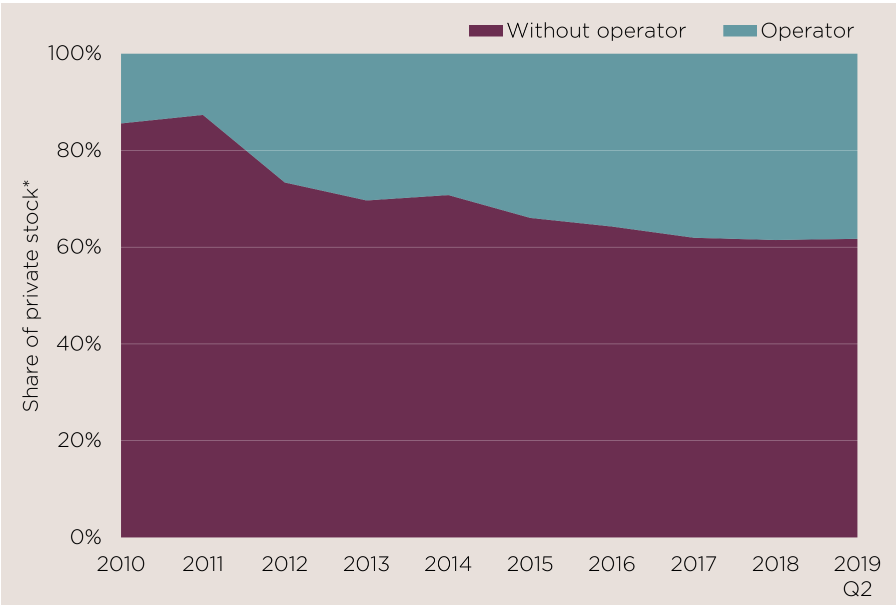
Source Savills / * in the 30 largest university cities; ** till end of 2022

Market share of operators is stagnating but likely to increase

The provider structure in the student housing market is relatively strongly fragmented. In mid-2019, operator-managed properties accounted for approximately 38% of all private beds, or around 19,800 beds (see Graph 5). The remaining beds are attributable to properties managed without an operator. While the operators active nationwide (e.g. Youniq, THE FIZZ, Uninest, SMARTments student and Staytoo) have particularly increased their market shares since 2011, their share of the private stock has not risen any further since 2017.

The ten largest operators have a combined existing stock of approximately 13,700 beds in the top 30 cities. The five largest operators are Corestate with its Youniq brand, GSA with its Uninest brand, International Campus with its THE FIZZ brand, FDS gemeinnützige Stiftung with its SMARTments student

Graph 5 Market share of operators



Source Savills / * in the 30 largest university cities

18% **The five largest operators hold around 18% of the entire private stock in the top 30 cities.**

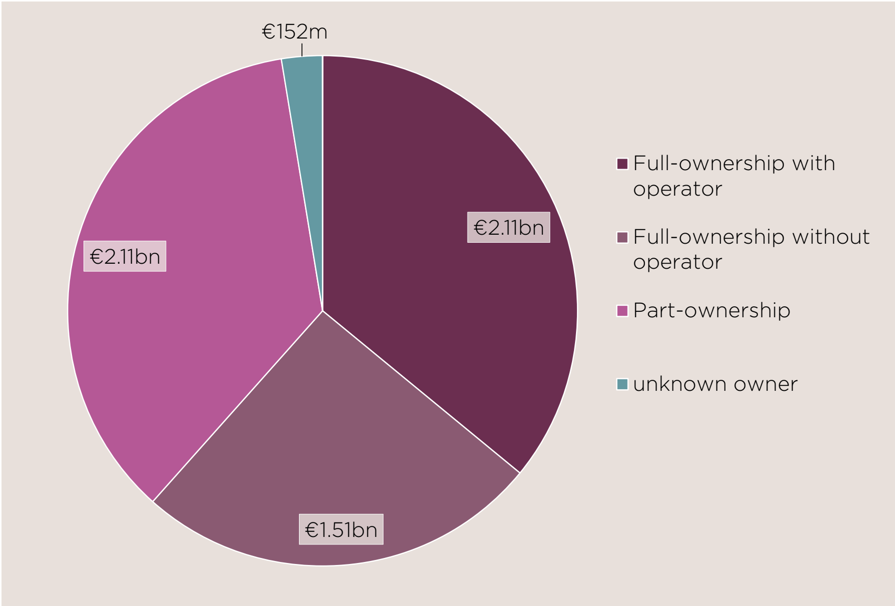
36% in part-ownership

More than a third of the market volume for private existing properties is attributable to properties in part-ownership, meaning a significant portion of the stock is de facto incapable of being acquired by institutional investors.

brand and Campus Viva operating under its own name. These have around 9,200 beds in existing stock combined, representing 18% of the private supply. This figure, too, illustrates the fragmentation of the supply. By way of comparison, in Great Britain, the five largest operators account for more than 52% of the overall stock (see also [UK Operational Real Estate – The Sky`s The Limit?]).

In terms of accommodation under construction and in planning, operators are expected to account for 43% of places, or approximately 9,360 beds. However, acquisitions by investors with their own operator platform could drive this percentage higher. It appears likely, therefore, that operators will gain further market share over the next three years.

Graph 6 Market volume of the private stock in top 30 cities*



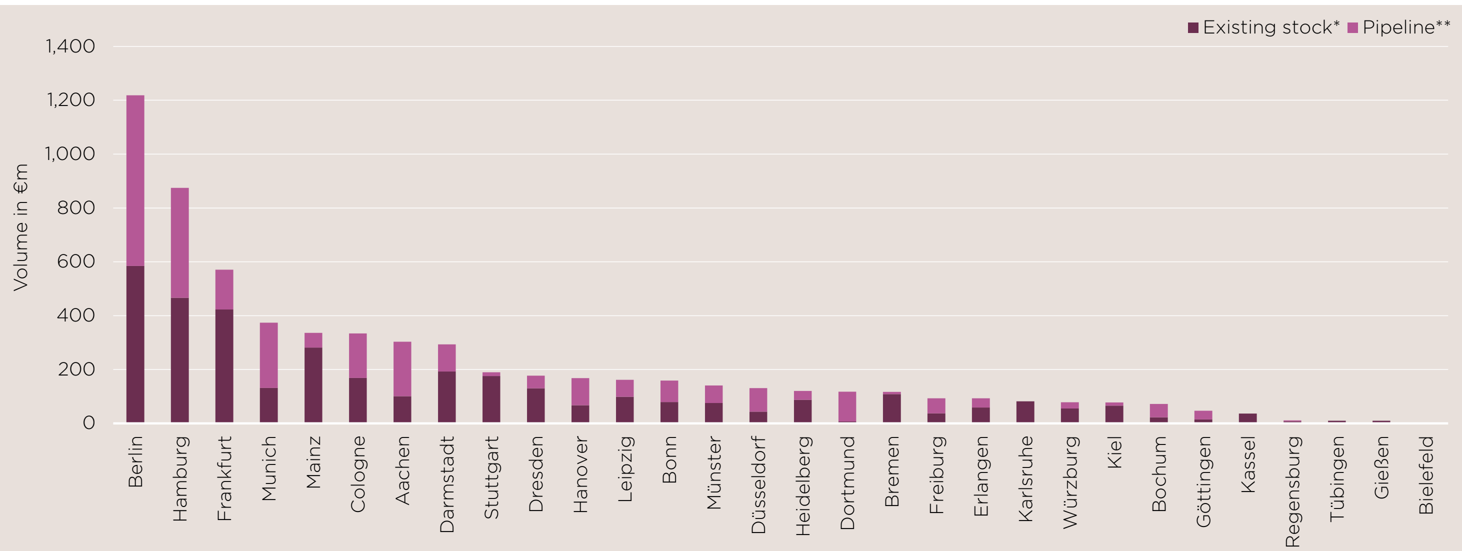
Source Savills / * without pipeline

Market volume of almost nine billion euros but not everything is accessible

The relatively strong fragmentation of the provider structure means that investors in Germany rarely have the opportunity to acquire high-value portfolios or a share of a platform. Hence, larger property portfolios will likely have to be accumulated through a variety of individual transactions. To estimate how much capital can be invested in student housing, we have taken a closer look at the size and structure of the investable stock. We estimate that all private student housing properties, including both existing properties and those under construction and in planning, in the top 30 cities have a current market volume of approximately €8.7bn, with the existing stock having a value of approximately €5.9bn. Approximately €2.1bn of this is attributable to properties in part-ownership (Graph 6), which are generally excluded from being acquired by institutional investors.

The volume of properties in full-ownership totals around €3.6bn, of which 57% is attributable to properties with an operator. The average volume per place is 41% higher in operator-managed properties than in properties with no operator. This is attributable, on the one hand, to the fact that operators concentrate on the large and normally expensive university cities and, on the other hand, to the better location quality

Graph 7 Relevant market volume for institutional investors in top 30 cities



Source Savills / * only existing properties in full-ownership; ** till end of 2022

> **Some 45% of existing operator-managed properties are situated in residential locations of above-average attractiveness compared with only around 31% of properties without an operator.**

of their properties. Some 45% of existing operator-managed properties are situated in residential locations of above-average attractiveness compared with only around 31% of properties without an operator (both figures relate to properties in full-ownership only).

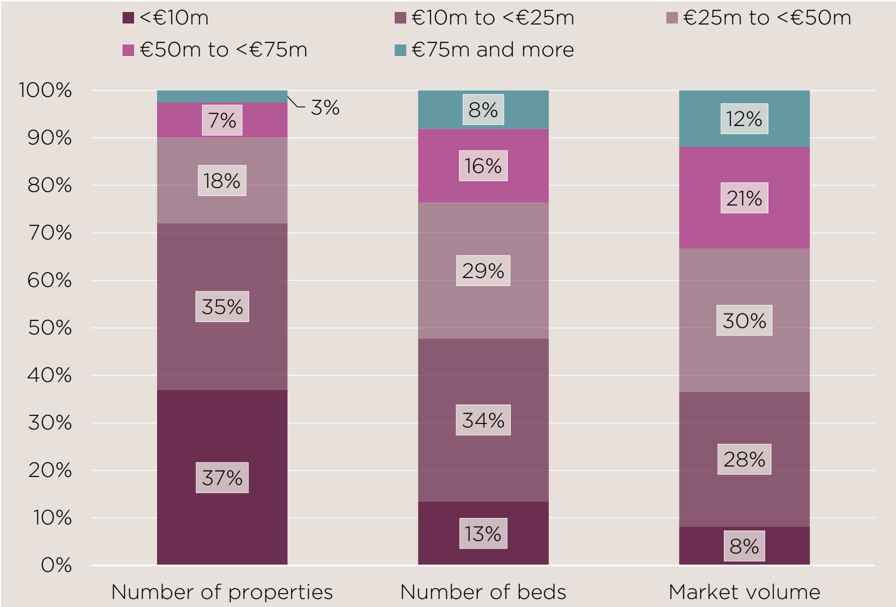
Properties under construction and in planning are likely to have a total volume of approximately €2.8bn. The majority of these properties are likely to be intended for outright sale, taking the market volume relevant for institutional investors to an estimated €6.4bn.

Berlin and Hamburg offer institutional investors the largest market volume

The market volume is even more strongly concentrated in a few cities than the number of beds. Berlin and Hamburg offer by far the largest market volumes for institutional investors. Existing properties in these cities have an estimated combined market volume of €1.05bn. Properties under construction and in planning are expected to have a volume of approximately €1.04bn. Hence, the two largest German cities are responsible for around a third of the market volume relevant for institutional investors across all top 30 cities (Graph 7).

In Frankfurt am Main, the investable market is likely to total around €570m. This is followed by Munich, Cologne, Mainz, Aachen and Darmstadt, where volumes range from €290m to €370m. While Munich currently has the largest private stock with more than 6,300 beds, the market relevant for institutional investors is relatively small since 84% of all beds are attributable to properties in part-ownership. Only Regensburg exceeds this figure with 93%. With regard to properties under construction and in planning in Munich, we assume that the majority of these will also be sold in part-ownership.

Graph 8 Market split by volume of properties*



Source Savills / * only existing properties in full-ownership and pipeline till end of 2022

Few high-value properties but many lower-value assets

The investable market is not only concentrated on a small number of cities but also on relatively few properties. There are only around 30 private properties with a volume of at least €50m. However, these account for around a third of the volume (Graph 8). At the same time, there are around 115 properties with a volume of less than €10m. Existing properties in full ownership and properties in the pipeline have a median volume of €14.2m, with the range extending from the low single-digit millions to more than €120m.

Who owns what?

Some properties appropriate for institutional investors are already held by end investors. The ten largest owners of existing properties in the top 30 cities account for a total of 14,600 beds. The largest owners include GSA, Catella, Corestate, a joint venture between Allianz and CBRE Global Investors and a joint venture between TPG Real Estate Partners and Round Hill Capital. We have been able to identify a total of 35 owners with a portfolio of existing property comprising at least 200 beds. Only seven investors have been able to build a portfolio of at least 1,000 beds to date to our knowledge.

Of the beds under construction and in planning, around 6,900 beds are in the hands of end investors. Prominent examples include Base Camp, which develops properties for its own funds, and Commerz Real. Both of these players are owners of a four-figure number of beds under construction and in planning. End investors that have already secured a portion of the pipeline via forward transactions include Corestate, Axa Investment Managers, Catella, Patrizia, Mondial, Union Investment, KanAM Grund and DWS. The selection of players underlines that the niche segment of student housing has undergone institutionalisation and is attracting the interest of many large institutional investors.

Overall, student housing in the German real estate investment market has changed hands for a total of around €2.94bn over the last ten years. Approximately €2.49bn of this, or 85% of the volume, is attributable to properties in

14.2 million The median volume of a student housing property owned by a private provider in the top 30 cities is €14.2m.

14.8%
In the 2018/19 winter term, the average proportion of foreign students in the top 30 cities stood at 14.8%. Hence, their relative significance increased for the eighth time in succession.

the top 30 cities.

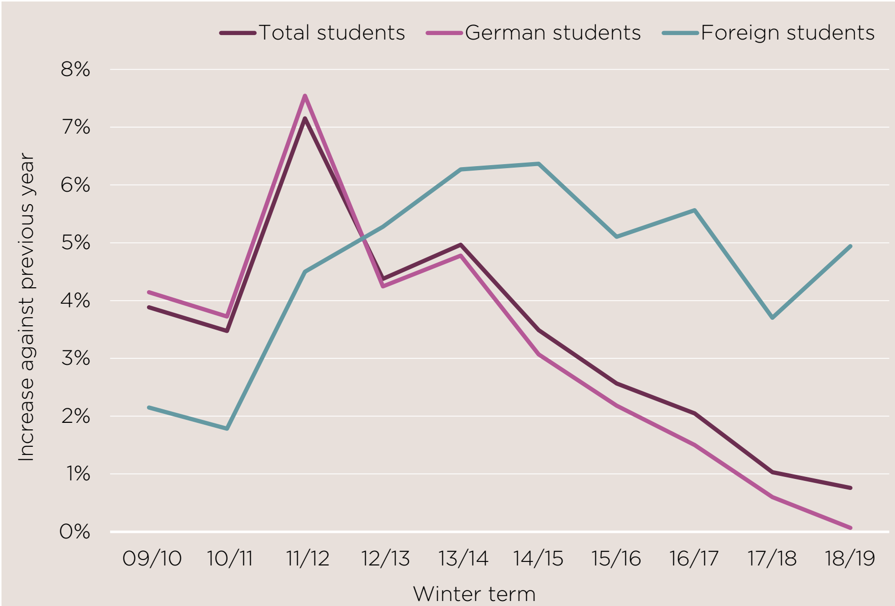
The supply continues to grow but what about demand?

The significant interest of institutional investors is likely to originate not only from the growth in the investable stock but also from the attractive fundamental data from an owner's perspective. While the private supply in the top 30 university cities has grown by around 45,000 beds over the last ten years, the number of students has risen by almost 406,000 during the same period. Hence, demand for student housing is likely to be higher than ever. In the 2018/19 winter term, there were around 1.6 million students in the thirty cities, which was 0.8% more than in the previous year. However, in the preceding five years, annual growth averaged just 2.5% (Graph 9).

The growth is being driven almost exclusively by foreign students. While the number of German students is now stagnating (+0.1% or 904 students compared with the 2017/18 winter term), the number of foreign students has continued to rise (+4.9% or 11,165 students). Over the coming years, the trend for German students is likely to shift from stagnation to decline. Since this effect will probably only be partially offset by the increase in foreign students, we expect the growth in student numbers to cease over the coming years.

However, there are clear differences between the university cities in terms of growth in student numbers. While student numbers in Bonn, Düsseldorf and Hanover rose once again year on year, figures in Dortmund, Erlangen, Freiburg, Heidelberg and Karlsruhe have already started to decline (Table 1).

Graph 9 Growth of student numbers in top 30 cities



Source Federal Statistical Office

Where are the lowest provision rates?

Although growth in student numbers is slowing and the supply is increasing, the average provision rate across the top 30 cities will only rise modestly in the medium term. If the stock of all providers of student accommodation, i.e. private, non-profit and other providers, is compared with current student numbers, the provision rate in the top 30 cities currently stands at 11.9%. Following completion of the pipeline and assuming a constant number of students, this is likely to increase to 14% going forward. The highest provision rates in the medium term will be found in Heidelberg (23%), Mainz (21%) and Stuttgart (21%) (Graph 10). Conversely, the supply rate is likely to remain lowest in Kassel (6%), Düsseldorf (approx. 8%) and Cologne (approx. 8%).

For most private providers, however, only a portion of students represent potential tenants. More than two third of existing and planned beds will be offered at all-inclusive rents of at least 450 euros per month. According to the results of the 21st social survey, students spent an average of 35% of their income on housing costs.

On the assumption that students are quite willing to spend a higher proportion of their income on housing, or are forced to do so owing to the shortage of apartments, students with a monthly income of at least 1,000 euros are likely to be the core target group of private providers. The proportion of students with such an income varies strongly by region and has been estimated by us for each of the top 30 university cities using the results of the last social survey and local income levels. On average, around a third of students probably have this level of income across the top 30 cities.

If this number of students is compared with existing and planned beds in the price segment from 450 euros, the average calculated provision rate across the top 30 cities is likely to stand at approximately 11% in the medium term. As illustrated by Graph 10, we assume that the provision in the price segment from 450 euros will increase to at least 20% in three cities. Leipzig, Mainz and Dresden show a relatively large provision

56% in the Top 30
The thirty largest university cities had a total of approx. 1.6 million students in the 2018/19 winter term. This represents around 56% of all students in Germany.

More than a fifth
Foreign students account for at least a fifth of all students in three of the top 30 cities. These cities are Aachen, Munich and Berlin.

At least 1,000 euros
According to our estimates, at least half of students in Düsseldorf and Munich are likely to have incomes of 1,000 euros or more.

14 out of 30 In almost half of the top 30 cities, the provision rate in the price segment from 450 euros all-inclusive is likely to remain below 10%.

competing for the relevant students. In Freiburg and Heidelberg, too, the provision rate will rise to a relatively high level of almost 20%.

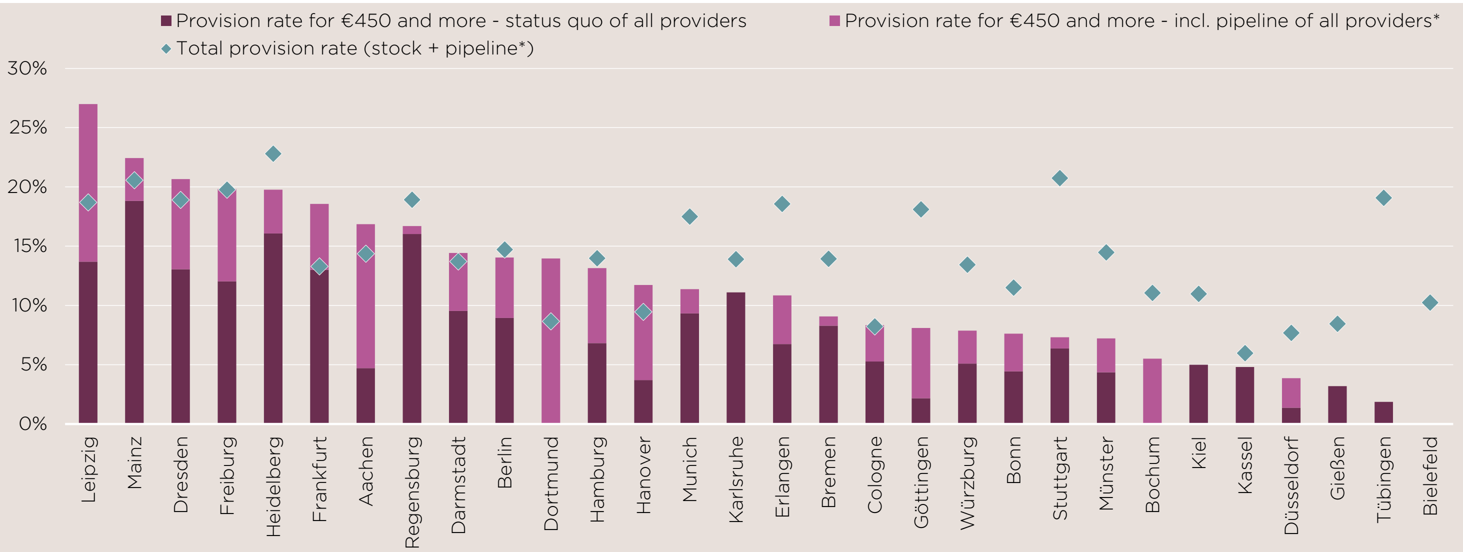
In 14 cities, on the other hand, the estimated provision rate will be less than 10% even after completion of the pipeline. These include cities with relatively low rental levels in the traditional apartment market, such as Bochum and Bielefeld. Consequently, it is easier for students in these cities to find an affordable apartment than in other university cities. As a result, private providers are likely to have difficulties in achieving all-inclusive rents of 450 euros or higher. However, the 14 cities also include Bonn, Düsseldorf, Cologne, Münster and Stuttgart. These cities are likely to have an above-average number of students with incomes above 1,000 euros and also have strained apartment markets. At first glance, therefore, the supply shortage in these cities appears relatively large.

Table 1 Development of student numbers in top 30 cities

City	Number of students			City	Number of students		
	2018/19	Δ y-o-y	Δ last 5 years		2018/19	Δ y-o-y	Δ last 5 years
Aachen	58,115	+0.9%	+10.2%	Göttingen	35,606	-0.2%	+10.1%
Berlin	188,031	+1.8%	+9.8%	Hamburg	84,650	+1.2%	+5.5%
Bielefeld	38,110	-0.2%	+9.3%	Hanover	49,377	+3.2%	+13.0%
Bochum	58,804	+1.1%	+4.6%	Heidel-berg	34,442	-1.9%	-3.9%
Bonn	59,824	+7.5%	+38.0%	Karlsruhe	40,846	-2.0%	-1.5%
Bremen	33,546	-1.0%	+3.5%	Kassel	31,380	+2.9%	+14.2%
Cologne	101,831	+0.5%	+5.3%	Kiel	35,440	+1.6%	+8.2%
Darmstadt	40,702	-0.1%	+2.4%	Leipzig	38,550	+0.1%	+7.4%
Dortmund	51,708	-3.5%	+4.4%	Mainz	37,231	+0.1%	-5.5%
Dresden	39,011	+0.2%	-13.0%	Munich	114,099	+1.3%	+1.6%
Düssel-dorf	58,396	+4.8%	+28.1%	Münster	60,945	+1.4%	+11.2%
Erlangen	28,538	-1.7%	-1.6%	Regens-burg	31,998	-0.7%	+2.3%
Frankfurt	67,586	+/-0.0%	+8.5%	Stuttgart	48,345	-1.3%	+7.0%
Freiburg	32,123	-1.9%	-1.4%	Tübingen	27,205	-0.4%	-3.1%
Gießen	40,055	-0.1%	+8.0%	Würzburg	34,388	-1.1%	+2.3%

Source Federal Statistical Office

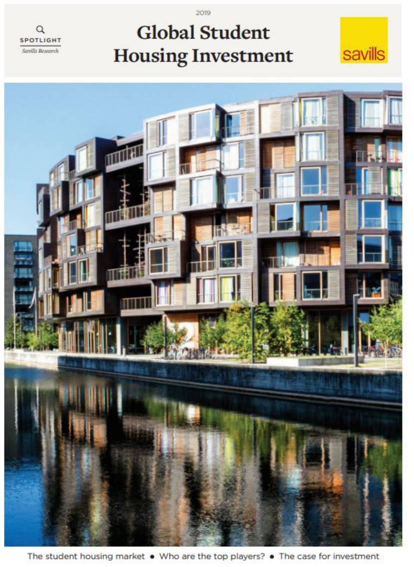
Graph 10 Provision rate for all-in rents of €450 and more



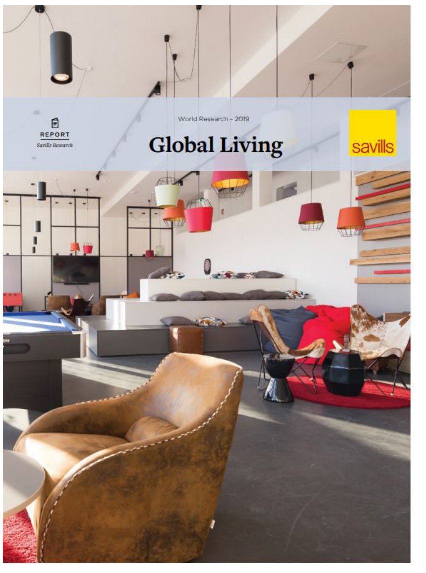
Source Savills / * till end of 2022

You can also read from us:

Temporary Living - Short-term, small and expensive?



Global Student Housing Investment



Global Living

Branded Residences

Savills Team

Please contact us for further information

Marcus Lemli
CEO Germany
+49 (0) 69 273 000 12
mlemli@savills.de

Michael Gail
Investment
+49 (0) 89 427 292 213
mgail@savills.de

Draženko Grahovac
Corp. Finance - Valuation
+49 (0) 30 726 165 140
dgrahovac@savills.de

Karsten Nemecek
Corp. Finance - Valuation
+49 (0) 30 726 165 138
knemecek@savills.de

Matti Schenk
Research
+49 (0) 30 726 165 128
mschenk@savills.de

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East with more than 39,000 employees worldwide.. Savills is present in Germany with around 200 employees with seven offices in the most important estate sites Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart. This bulletin is for general informative purposes only. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The bulletin is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.
© Savills December 2019