

Briefing note

Student housing - Part 3: The overbuilding

June 2015

The construction boom in student accommodation is taking place almost exclusively in the high-price segment. The degree of saturation may still be low but this will increase significantly over the coming years. In some cities, this may even result in overbuilding.

Construction of private student apartments is booming ...

As discussed in the second part of our series of publications on student accommodation, the building stock of privately operated student accommodation in the 30 largest university cities has doubled to around 25,000 places over the last five years. Almost 20,000 further places are currently under construction or in planning. The majority of apartments completed in recent years and those that will be added over the coming years have one thing in common. They are fully furnished one-bedroom apartments fitted out to a high standard. And that, literally, has its price.

... particularly in the high-price segment

Of the 25,000 existing places, some 80% are offered at all-inclusive rents of more than €300 per person per month. Around 10,000 places, or 40% of the stock, are even priced at more than €450 per month. The places under construction and in planning are likely to almost exclusively cost more than €350 while around three quarters of these will probably be marketed at monthly rents above €450. Therefore, operators of private student accommodation are clearly targeting students with above-average income. They are operating in a market segment in which the student

associations and other non-profit providers are inactive. Some 85% of the building stock of these market participants is found in the price segment below €300 (see Graph 1).

Only 10% of students spend more than €450 on accommodation

While the building stock of private operators remains quite small, the rapid growth and (increasing) focus on the high-price segment raises the question of how large the demand actually is in this area of the market. Based upon the current rental expenditure of students, this question can be answered as follows. While almost 700,000 students in the 30 largest university cities have monthly rental expenditure including all ancillary costs of less than €300, a further 620,000 students spend between €300 and €450. Only approximately 150,000 students, or 10% of all students, spend more than €450 on rent (see the 'Explanation of methodology' box for the method used to calculate demand).

The high-price segment currently has a supply ratio of 7% ...

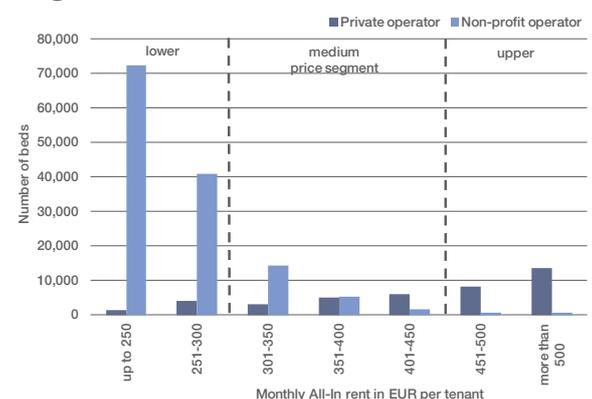
If this distribution of demand is applied to the current total building stock of student apartments, this produces the scenario shown in Graph 2. Demand is largest in the low-price segment. However, owing to the large building

Student housing

Four briefing notes, one issue

- The first two parts of our series of publications on student accommodation discussed the squeezing out of students from the open apartment market and the consequent construction boom in private student apartments.
- This third part considers the issue of whether there is sufficient demand for such generally high-priced student apartments.
- The next and final part of the series examines the imminent change in this market segment.

GRAPH 1
Existing and planned beds by price segments*



Source: Savills / * in the 30 largest university cities

stock of the student associations in this price segment, a supply ratio of 17% is still achieved. In the mid-price segment between €301 and €450, the supply ratio is just 5%. In the high-price segment (above €450), the supply ratio is 7%. Consequently, it can be concluded that supply of purpose-built student accommodation is scarce across all price segments, while the undersupply is most pronounced in the mid-price segment.

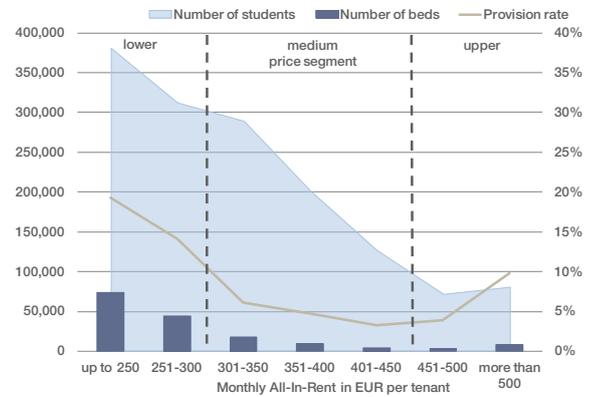
... but this will rise to 15% over the coming years

In a few years time, this undersupply in the mid-price segment is likely to be unchanged. If the units under construction and in planning are

added to the equation, the supply ratio does not change at all in the low-price segment owing to a lack of development and only changes marginally in the mid-price segment. The latter increases from 5% previously to almost 6%. However, there is a significant change in the high-price segment. The supply ratio here almost doubles compared with the current level to reach 15% (Graph 3). The market is, therefore, far from being saturated even in the high-price segment, although there are two points to consider.

Firstly, the degree of saturation in the absolute prime segment is even higher. This stands at 18% in the rental segment above €500 and, in the

GRAPH 2
Current provision rates by price segments*



Source: Savills / * in the 30 largest university cities

Explanation of methodology

Indication of the supply/demand ratio

To calculate the degrees of saturation in each price segment in the 30 largest university cities, the following assumptions were made with regard to demand:

- The most recent nationwide data available for student income and student rental expenditure comes from the 2012 social survey of the German National Association for Student Affairs (Deutsches Studentenwerk). Both values - income and rental expenditure - increased by 6% compared with the previous survey in 2009. In order to be able to use the same reference year (2015) as a basis for analysing supply and demand, it was assumed that incomes and rents also rose by 6% over the past three years.
- Based upon the distribution of students across the individual rental segments indicated in the 2012 survey, and applying the 6% increase in rental expenditure, individual rental expenditure was simulated for each individual student in the 30 university cities. In order to account for local differences in rental levels, appropriate adjustment factors were applied. Example: A student in Frankfurt has 13% higher average housing costs compared with the national average according to the 2012 social survey. Accordingly, the rental expenditure for Frankfurt students was increased by a factor of 1.13 compared with the national average.
- These steps produce an individual distribution of students across the different rental categories for each of the 30 cities. This reflects the local demand. It should be noted that all local students are part of this demand. That is, students living with their parents, for example, were not excluded from the analysis. They are also, in principle, potential sources of demand for the student apartment market.
- The calculated demand for each city was then considered in relation to the current supply of student accommodation places. This produces the location-specific degrees of saturation in the individual rental segments. The same method was used to calculate a degree of saturation taking into account all places under construction and in planning on the supply side in addition to the existing building stock.
- Fundamentally, the results achieved via this method should provide a realistic picture of local demand in the individual rental segments. However, two factors should be borne in mind when interpreting this demand and the calculated degrees of saturation. Firstly, the demand includes all students in a city while the supply side only takes into account explicitly purpose-built student accommodation. Consequently, market saturation is achieved at degrees of saturation significantly below 100% since a certain proportion of students can rent apartments on the open apartment market. Secondly, the demand reflects the current rental expenditure of students and not the amount that they are willing to pay. It is, therefore, conceivable that at least a portion of the demand could move into higher price segments if there is sufficiently attractive supply.

rapidly growing segment from €600, could even exceed 20%. The latter cannot be calculated precisely owing to a lack of data regarding demand. Providers of such student apartments must, therefore, attract more than one in five students whose rent is already at such levels to their accommodation.

Secondly, students able to spend €500 or more per month on living costs have a corresponding amount of options available to them on the apartment market. In other words, not all those who can afford to live in a student apartment wish to do so.

Saturation is foreseeable in Frankfurt's prime segment ...

In addition, the growth in supply is significantly higher in some cities than the average across all 30 cities. Frankfurt is one such example. Following completion of all student accommodation currently under construction and in planning, not only will private providers have a larger building stock than the student association, but this supply will be almost exclusively positioned in the price segment above €450 per month. The supply in this segment will almost triple from around 1,100 places at present to approximately 3,000 places. Consequently, the supply ratio in the high-price segment will increase from a current 13% to 34%. Taking the segment above €500 in isolation, which accounts for by far the largest proportion of supply in Frankfurt, the supply ratio will even rise to 59% (see Graph 4). Based upon the

current rental expenditure of Frankfurt students, providers will have to attract more than one in two potential occupiers to their property, which is indicative of market saturation.

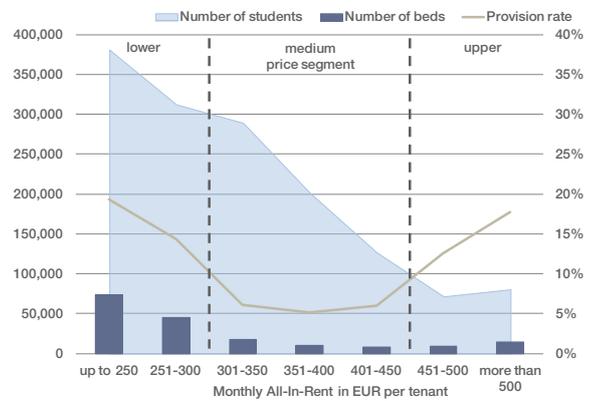
... and supply ratios will soon reach high levels in the high-price segment in other cities too

A number of the other 30 cities analysed will also witness quite high degrees of saturation (see Table 1). By far the highest degree of saturation will be seen in Regensburg with 56%. The figure already stands at 48%, which is significantly higher than in all other cities. Besides Regensburg and Frankfurt, the 30% threshold will also be reached or exceeded over the coming years in Erlangen (39%), Dresden (32%) and Heidelberg (30%). Overall, supply ratios in the high-price segment will increase in 17 of the 30 cities over the coming years.

Students evidently prefer living in shared accommodation to paying more rent

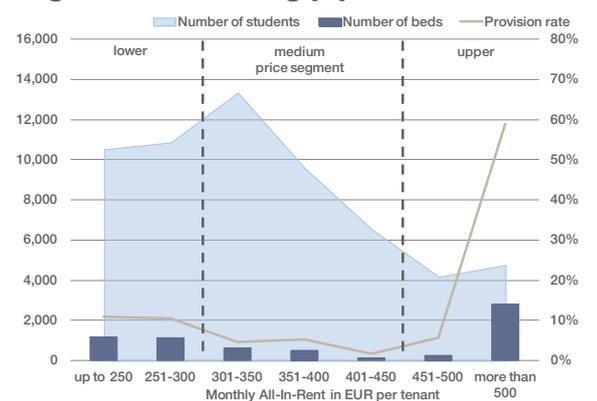
Competition among providers for wealthy students will, therefore, also increase significantly. The extent to which there is overbuilding in each local market depends materially on students' willingness to pay for the apartments offered. The facts show that students' actual rental expenditure including all ancillary costs amounts to an average of 34% of their monthly income, which is somewhat lower than in non-student households with comparable income. The resulting

GRAPH 3 Provision rates by price segments including pipeline*



Source: Savills / * in the 30 largest university cities

GRAPH 4 Provision rates in Frankfurt by price segments including pipeline



Source: Savills

TAB. 1

Supply and demand in the upper price segment in the 30 largest university cities

	Total Demand	Saturation Stock	Saturation incl. Pipeline		Total Demand	Saturation Stock	Saturation incl. Pipeline		Total Demand	Saturation Stock	Saturation incl. Pipeline
Aachen	4,100	0%	7%	Erlangen	1,200	27%	39%	Kiel	2,000	0%	0%
Berlin	18,000	6%	26%	Frankfurt	9,000	13%	34%	Cologne	18,600	2%	5%
Bielefeld	1,400	0%	0%	Freiburg	2,700	8%	21%	Leipzig	700	0%	0%
Bochum	3,300	3%	3%	Gießen	1,600	1%	1%	Mainz	5,000	9%	16%
Bonn	3,200	11%	27%	Göttingen	1,300	0%	0%	Munich	22,300	15%	21%
Bremen	2,700	12%	12%	Hamburg	14,100	2%	12%	Münster	4,400	10%	10%
Darmstadt	5,000	9%	16%	Hanover	3,000	0%	12%	Regensburg	2,000	48%	56%
Dortmund	4,200	0%	0%	Heidelberg	3,600	19%	30%	Stuttgart	3,900	3%	10%
Dresden	800	0%	32%	Karlsruhe	3,100	8%	14%	Tübingen	2,200	1%	1%
Düsseldorf	6,300	0%	0%	Kassel	1,100	0%	0%	Würzburg	1,400	0%	0%

Source: Savills / Reading instruction: In Bonn, 3,200 students pay €450+ monthly all-in rents. This means a current degree of saturation of 11%. Including the pipeline, saturation increases to 27%.

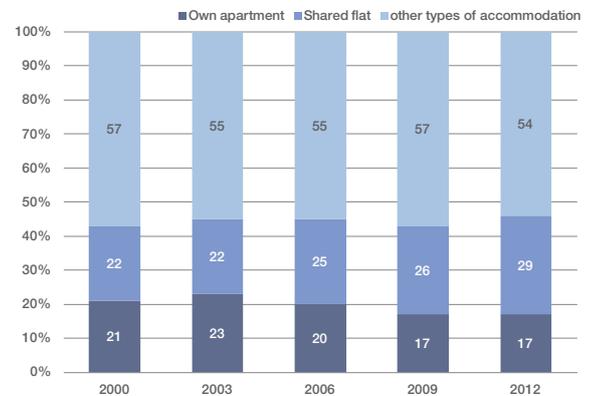
question as to whether students are prepared to spend a higher proportion of their monthly income on housing is more likely to receive a negative than a positive response. This is supported by the fact that the proportion of students living in shared accommodation has risen consistently in recent years, while the proportion of students living alone in apartments has constantly fallen (see Graph 5). In an environment of rising housing costs, students evidently prefer to live in shared accommodation than to increase their rental budget and (continue) to pay more for the privilege of having their own apartment.

Providers are faced with fierce competition

Another factor substantiates the threat of overbuilding at least in some cities. The private operators of student accommodation active in Germany are all still quite small and mostly have no more than a few hundred places. However, the greater the pressure on growth, the more important it will ultimately be for many concepts to establish a national brand and platform. In addition, there are significant economies of scale, such as with costs for purchasing furniture or managing the accommodation. This pressure will become even greater as additional - particularly foreign - participants are about to enter the German market. The student

apartment market in Germany is, therefore, on the brink of radical change as the high-price segment is not sufficiently large for all of these market participants. How this change might look will be considered in the next and final part of our series of briefing notes.

GRAPH 5 Accommodation types of German students



Source: Deutsches Studentenwerk

Key findings

- Private student housing operators are almost exclusively targeting the high-price segment (€450+).
- Since construction activity remains high, the supply ratio in the high-price segment of the 30 largest university cities will increase from 7% to 15%.
- In a few cities, e.g. Frankfurt, provision rates are significantly higher. It might be wise to focus on the still undersupplied mid-price segment in these cities.

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