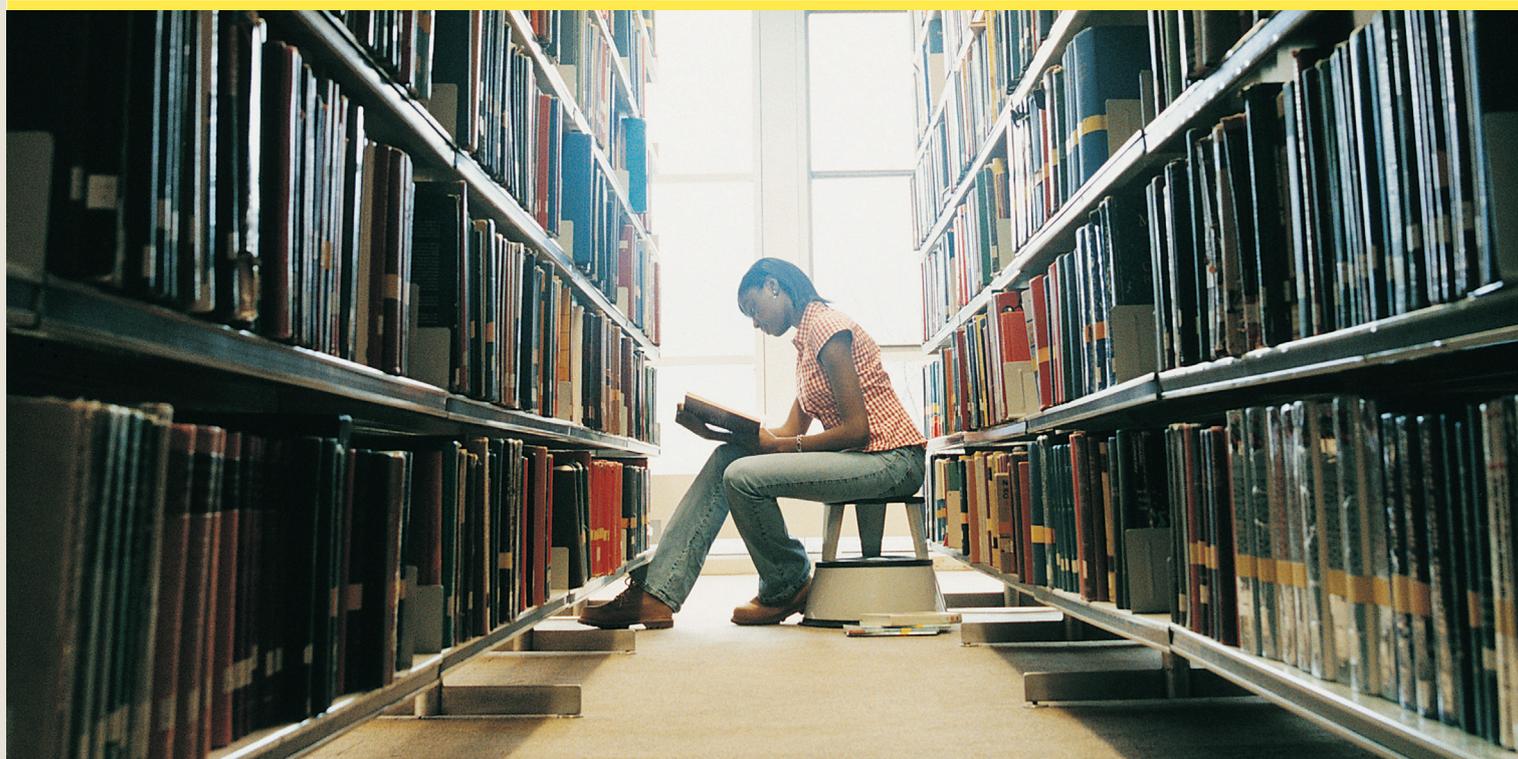


# Spotlight Student housing Germany

July 2015



## Summary

### Student housing market in brief

■ German universities have registered a significant increase in student numbers in recent years. Almost 2.7 million students were enrolled in Germany during the 2014/15 winter semester. However, certain cities have already started to witness a decline in student numbers.

■ Since there is a lack of affordable small residential units, students are being squeezed out of the rental apartment market.

■ Private investors take advantage of that lack of supply and are building new properties on a large scale.

■ The stock is characterised by a dichotomy. While Studentenwerke are dominating the market at the lower price segment, private operators are focused on the high price segment.

■ With the increasing investable stock, the transaction activity is also gaining momentum. For the first time, student housing properties for more than €200m changed hands last year.

„The market for student housing has seen a construction boom over the last years. While the investors almost exclusively focused on the high-price segment in the past, some of them start to target lower price segments.” Matthias Pink, Research Germany

## Development of demand

### Student numbers in Germany are rising sharply ...

German universities have registered a significant increase in student numbers in recent years. Almost 2.7 million students were enrolled at more than 740 universities in Germany during the 2014/15 winter semester (Graph 1); an increase of 36% over the previous decade. The number of domestic students has particularly burgeoned owing to two specific factors. Firstly, compulsory military service was abolished in 2011, allowing significantly more young people than usual to commence their studies that year. Secondly, the shortening of school education from 13 to 12 years in 11 of the 16 federal states resulted in a double cohort of highschool graduates. Consequently, a disproportionately high number of students passed their university entrance qualification during this period, resulting in a correspondingly high volume of university entrants.

### ... partly due to record amounts of foreign students

However, to attribute the increase in student numbers in recent years to these two factors alone would be inaccurate. There has also been a general rising trend in the number of those wishing to pursue higher education. In addition, Germany has evidently become more attractive as a destination for foreign students. While domestic student numbers have risen over the last ten years, more and more foreign students have also travelled to Germany to take up their studies. Indeed, the number of foreign students has risen by 29% over the same period. During the 2014/15 winter semester, some 320,000 foreign students attended a German university. Thus, almost 12% of all students in Germany come from abroad. The most common home nations are Turkey, China and Russia (see Graph 2).

### The number of students will remain high in the medium term

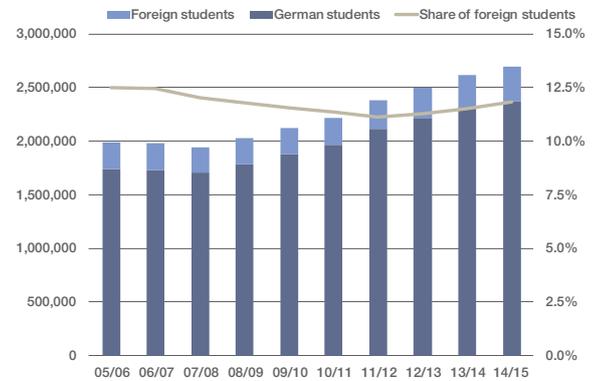
However, in the long term, even the influx in foreign students will not be able to mask demographic developments in Germany. According

to the latest forecasts of the German Standing Conference of the Ministers of Education and Cultural Affairs, the number of university entrants will slowly decline over the coming years. A projected 465,000 young people will commence their university studies in 2025; approximately 7% less than last year. Over the coming five years, student numbers are expected to remain at current levels before slowly beginning to decline around 2020.

### However, certain cities are already witnessing a decline in student numbers

Certain cities have already started to witness a decline in student numbers. In Jena, for example, the student population has been in decline since the 2010/11 winter semester. The number of students enrolled at universities in Jena was some 11% lower in the 2014/15 winter semester than four years earlier. Greifswald has also witnessed a downward trend over the last four years, with the student population falling by almost 10%. In both cities, the declines are attributable to a sharp fall in the number of German students owing to the local age structure, whereas the number of foreign students has actually risen. This underlines that analysing local conditions and the attractiveness of the university landscape in the area is of vital importance for investors in order to be able to evaluate location-specific opportunities and risks. A location analysis of the individual cities is also essential in view of the decentralised structure of the German higher education landscape. Universities are not concentrated in a few major centres but are distributed across numerous cities. Some 61 German university cities have a population of more than 10,000 students. Eight of these cities have more than 50,000 students.

GRAPH 1 **Student numbers** Increase to almost 2.7 million students



Source: Statistisches Bundesamt

## Excellence Initiative

### Germany's best universities

While only a few German universities feature in the international university rankings, there has been a federal initiative since 2005 to promote outstanding research at universities around the country. The so-called Excellence Initiative provides additional funding to selected elite universities.

■ The Excellence Initiative of the German government and federal states funds outstanding work and concepts in the area of research. Acceptance into the Excellence Initiative can be seen as an indicator of outstanding reputation for a university.

■ The Excellence Initiative is divided into three lines of funding: "Future concepts" (development of the entire university), "Excellence clusters" (research of a particular topic) and "Graduate schools" (funding for doctorates in a broad scientific field).

■ Since 2012, the following institutions have held the title of elite university:

- RWTH Aachen
- Freie Universität Berlin
- Humboldt Universität Berlin
- Universität Bremen
- TU Dresden
- Universität Heidelberg
- Universität Konstanz
- Universität Köln
- LMU München
- TU München
- Universität Tübingen

■ In addition to awards and funding under the Excellence Initiative, the following rankings are among the other indicators of a university's attractiveness:

- DFG ranking for research funding
- CHE University Ranking
- University rankings of Wirtschaftswoche magazine

## Development of supply

### Students prefer their own apartments but these are increasingly difficult to find

According to the German National Association for Student Affairs (Deutsches Studentenwerk), German students have a clear preference when it comes to accommodation. The association's findings show that 57% of students would prefer their own apartment or a shared apartment with a partner. However, for students in many university cities, it is becoming increasingly difficult to find such an apartment on the open apartment market. In many university cities, recent strong rental growth and ongoing increases in rents mean that there is an increasingly small number of apartments affordable to students on a limited budget of on average approximately €900 per month. There is a lack of sufficiently small apartments on the open apartment market and students are increasingly being squeezed out of the apartment market.

### The student accommodation market is dominated by the student associations, ...

Outside of the open apartment market, student accommodation has been almost exclusively dominated by halls of residence of the semi-public student associations (Studentenwerke) as well as other non-profit institutions up to a few years ago. This publicly funded building stock currently comprises some 234,000 places with a further 11,300 under construction or in planning. However, the marginal growth in such places in recent years has seen the nationwide supply ratio of publicly funded student accommodation fall consistently to a current level of below 10%.

### ... but private providers are increasingly gaining ground

With students increasingly being squeezed out of the open apartment market and unable to find a place in publicly funded halls of residence, there was also a lack of adequate alternatives until a few years ago. Private student accommodation scarcely existed. In 2010, there

were just 12,000 places from private landlords in the 30 largest German university cities. This compared with more than 1.2 million students, equating to a supply ratio of less than 1%. Since then, the private stock in these cities has doubled to around 25,000 places (see Graph 3), increasing the supply ratio to 1.7%. And it is already foreseeable that this figure will double again. Taking into account all properties under construction and in planning, the stock is expected to grow to around 41,000 places until 2020. This will significantly increase the market share of private operators in terms of overall student accommodation in Germany. While such providers accounted for only around 6% of all student accommodation in the 30 largest university cities in 2000, this has now risen to approximately 16%. By 2020, this proportion is expected to reach around 22%.

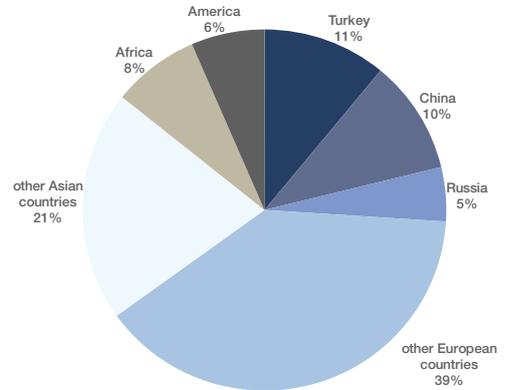
### Private landlords targeting strained housing markets for expansion

Large university cities with particularly strained housing markets, such as Frankfurt and Munich, are high on the agenda for private landlords (see Graph 4). In these cities, the budgets of students wanting to live alone can scarcely cover even the smallest apartments available on the market. In any case, such apartments are far too few in number. This is the supply gap that private investors are filling. Providers such as GBI, International Campus and MPC are building student accommodation typically comprising one-bedroom apartments of 20 sq m to 25 sq m. There are also some two-bedroom apartments and a smaller number of other accommodation types.

### Previously dominant shared apartments increasingly giving way to one-bedroom apartments

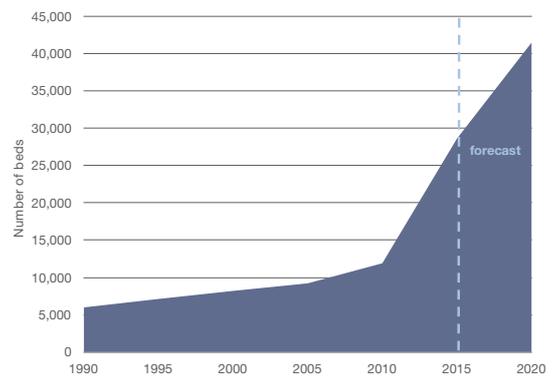
Analysing the current building stock across all providers in the top 30 university cities by accommodation type, single rooms in shared apartments and corridors with shared facilities are the predominant type with 58% of all places. This high proportion

GRAPH 2 Foreign students Most important regions of origin



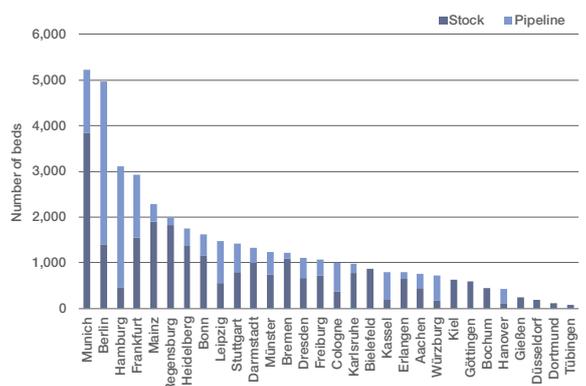
Source: Deutsches Studentenwerk

GRAPH 3 Private student apartments Boom of new constructions since 2010



Source: Savills / \* in the 30 largest university cities

GRAPH 4 Private stock in 30 largest university cities\* Focus on strained markets



Source: Savills / \* by number of students

## Development of supply

reflects the dominant role of the student associations and other non-profit providers, whose primarily older building stock is approximately 65% comprised of these accommodation types. Around 30% of all places are one-bedroom apartments; small, furnished apartments with their own bathroom and kitchenette. This illustrates the clear focus of private providers on this accommodation type. Approximately 63% of their places are one-bedroom apartments. Of the private accommodation under construction and in planning, more than 80% is comprised of one-bedroom apartments. The average size of such one-bedroom apartments is just over 21 sq m. Two-bedroom apartments have an average size of 40 sq m, while single rooms in shared apartments and corridors with shared facilities average 16 sq m (excluding communal areas). Regardless of the accommodation type, 82% of all existing places are furnished.

### Clear dichotomy in the pricing structure of the market

The different qualities of property and accommodation offered by private and non-profit providers is also reflected in the pricing structure. While the student associations primarily provide inexpensive accommodation owing to their service mandate, private providers operate almost exclusively in the high price segment. The latter offer their student apartments at all-inclusive rents of at least €400 and the majority are priced at more than €500 per month. There are currently more than 14,000 places in this price category in the 30 largest university cities taking into account all properties under construction and in planning. In contrast, there are only around 12,000 places available at rents of less than €400 per month, the least expensive of which are priced at around €165 per month. This has created a dichotomy in the market between the low-priced offering of the student associations and other nonprofit providers on the one hand and the predominantly high-priced supply from private providers on the other hand (see Graph 6).

### Freiburg, Frankfurt and Munich are the most expensive cities

In terms of average all-inclusive rents for private one-bedroom apartments, the highest rents are charged in Freiburg (average €650), Frankfurt (average €637) and Munich (average €563). The lowest rents among the top 30 cities are found in Dresden (average €329) and Kassel (average €370). However, in the high-end segment, prime rents are significantly higher. In Frankfurt, the largest one-bedroom apartments (40 sq m to 45 sq m) command rents of around €950 while in Munich, units measuring 26 sq m are offered for up to €890.

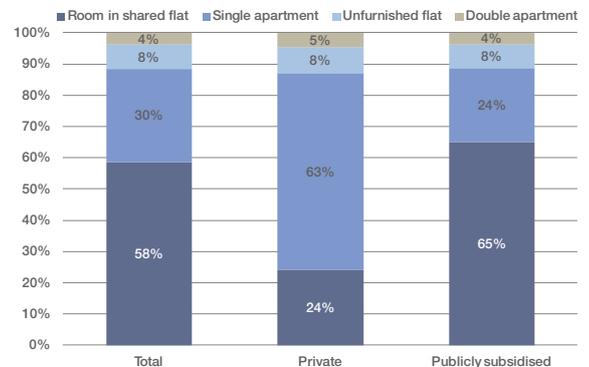
### The majority of private accommodation is new-build ...

These high all-inclusive rents are also explained by the fact that the privately-operated accommodation is predominantly new-build property. Some 65% of all private accommodation was built or last refurbished after 2005. A further 12% was built or last refurbished between 1990 and 2005 while just 23% of accommodation was built or last refurbished prior to 1990.

### ... and situated in average residential locations

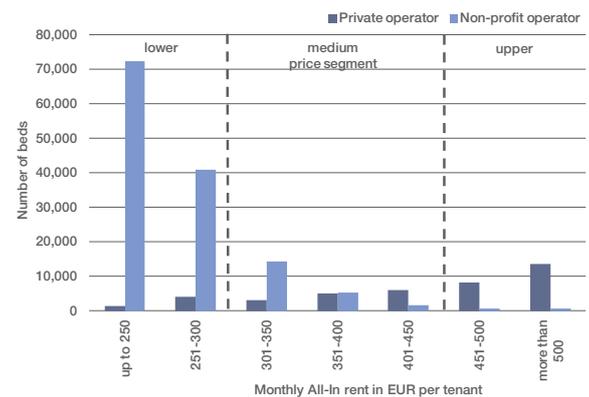
Looking at the micro-locations of private properties, around half of all places are situated in average residential locations. Some 21% of accommodation is in below-average residential locations while 23% of places are situated in above-average residential locations. Significantly above or below-average residential locations are the exception (see Graph 7). Therefore, properties of private providers are no different from those of the student associations and other non-profit providers in terms of location.

GRAPH 5 Stock in 30 largest university cities\* Private operators focused on apartments



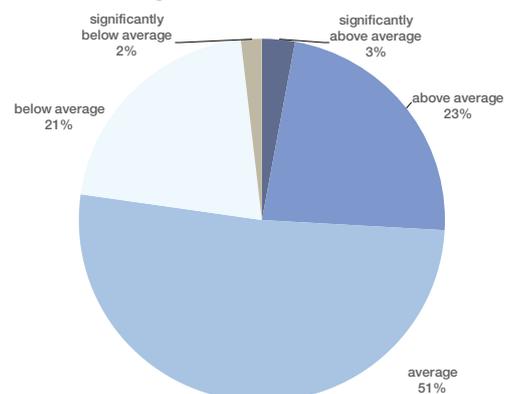
Source: Savills

GRAPH 6 Student housing stock by rental level\* Dichotomy of the market



Source: Savills / \* in the 30 largest university cities

GRAPH 7 Private stock in 30 largest university cities\* Average quality of residential areas



Source: Savills

## Investment market

### The investment market for student accommodation is also increasingly gaining momentum ...

The transaction volume in the student accommodation sector has previously been quite low, primarily due to the small amount of investable building stock. However, this is now changing. Last year, student accommodation changed hands for more than €220 million; more than twice the volume in the previous year. In the first half of 2015, more than €60m was invested in German student housing properties. Since there are many assets on the market, an above-average transaction volume is expectable for the whole year 2015. The majority of transaction activity took place in the German A-cities and B-cities. In accordance with the busy development pipeline, investment was dominated by forward deals, which accounted for almost 90% of the transaction volume. This is also reflected in the average prices paid, which range between €3,000 and €5,000 per sq m of living space. The average gross initial yield achieved on student accommodation with a head lease ranges between approximately 5.5% and 6.5%. Properties with individual leases, on the other hand, can achieve 7% and above.

### ... and new players are entering the market

As per the transaction volume, the number of investors in the sector in Germany has also previously been limited. This, too, is increasingly changing. Last year, insurance companies and pension funds appeared as purchasers for the first time (Graph 9). This reflects the fact that the student accommodation sector in Germany is increasingly appearing on the radar of institutional investors. In the first half of 2015, asset managers were mainly active on the buyers side. However, also other groups of institutional investors show

strong interest in German student housing properties.

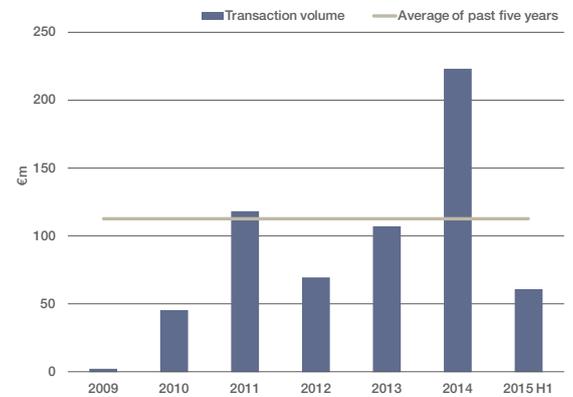
### Domestic purchasers continue to dominate but international investors are entering the market

Previously, the investment market has been predominantly characterised by domestic purchasers (Graph 10). These accounted for almost three quarters of the transaction volume last year. Only a few foreign investors, such as Crosslane, were active in the market. However, numerous additional players are poised to enter the German market. Furthermore, some domestic investors are being financed with international funds. International Campus, for instance, has investors from Dubai among its backers while Hamburg-based MPC-Gruppe invests in the development of student accommodation in conjunction with Denmark's Sparinvest. The growing stock of student accommodation is constantly creating new supply, for which there is demand from an increasingly large amount of primarily foreign investors. Against this background, it appears highly probable that the transaction volume over the coming years will be significantly higher than in the past.

„The busy development pipeline will increase liquidity on the German investment market and will push future transaction volume”

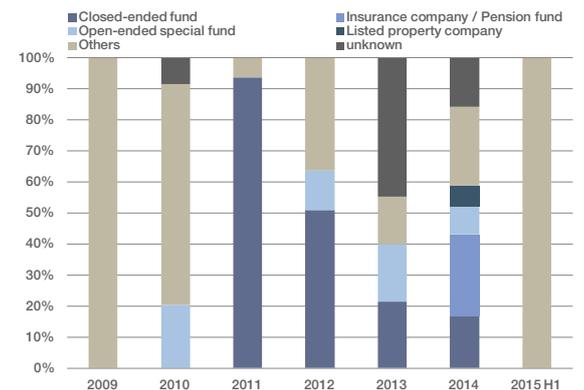
Marcus Roberts, Student Investment

GRAPH 8 Transaction volume Significant increase in 2014



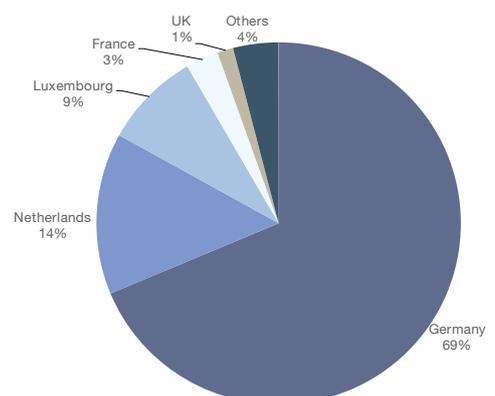
Source: Savills

GRAPH 9 Transaction volume by type of investor New groups of buyers are active



Source: Savills

GRAPH 10 Transaction volume by origin of investor \* Germans dominate



Source: Savills / \* Transactions 2009 to 2015 H1

## Future political conditions

### Higher incomes via student assistance increases (BAföG)

The German government has passed an increase in funding rates under the Federal Training Assistance Act (Bundesausbildungsförderungsgesetz - BAföG) for 2016. This will mean a rise in income for a large proportion of students.

Under BAföG, the state provides financial support to students in need of assistance to fund their education. Half of this is provided in the form of an interest-free loan while the other half is a non-repayable grant. The amount of assistance is based upon a range of factors, such as parental income. In 2013, around 666,000 students received support via BAföG assistance - around one in four students. The average amount of assistance was €446 per month. For 2016, the government has announced a 7% increase in BAföG support. In addition, the housing allowance for students who do not live with their parents will increase from €224 to €250. This will increase the maximum BAföG assistance level from €670 to €735. The tax-free allowance for parental income will also rise, increasing the number of students entitled to BAföG support.

Consequently, under the new BAföG guidelines, a significant proportion of students will have more money available to them from next year.

### New support programme for student housing

In order to support the development of purpose built student accommodation, the federal department of constructions is currently working on a support programme called "Pilot projects for sustainable living for students and apprentices". As from autumn this year, innovative projects, which are suitable to increase the supply with low costs, are planned to be supported with in total 120 million euro. Applications are possible for all types of investors - both Studentenwerke and other non-profit organisations, as well as private investors. By that support programme, investors not only have the opportunity to get additional capital for their projects, but also the possibility to implement new and innovative concepts. Moreover, student housing is better placed on the agenda of politics and society, whereby the student housing market is likely to attract further attention going forward.

## Market profiles

### Analyses of top 30 towns

For the 30 largest university towns in Germany, we analysed the conditions of the student housing markets. From the results we created profiles for each of the cities. These include the following:

■ **Socio-demographics and residential market:**

Forecasts of population and number of households, rental level and development

■ **Higher education landscape:** Development of student numbers, profiles of the most important universities incl. rankings

■ **Student accommodation stock:** Existing stock by rental level, type of rooms and quality of residential area, pipeline

■ **Provision rate:** Provision rate including pipeline by rental classes, comparison with the average of top 30

■ **SWOT-Analysis:** Strengths, weaknesses, opportunities and threats from an investor's perspective

**You want to know more?** Then please take a look at our [profile template incl. order sheet](#).

## Savills Team

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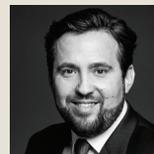
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