

The Netherlands - Spring 2019



# Student housing: from niche specialism to full-fledged segment





**Question** is the student housing market becoming fully integrated into the regular housing market? And where is this market likely to go in the next few years?

**Introduction** The market for student housing in the Netherlands is a niche market, but one that is nevertheless growing in popularity. It is also a segment that has been reaching maturity quickly in recent years. After an expected fall in investment volume in 2017, prompted by a shortage of supply, investment began to rise sharply again in 2018, by more than 50% to over €420 million. Ever-compressing initial yields, which are increasingly matching those in the regular residential market, provide further confirmation of a maturing market.

But the boundaries between student housing and regular housing are not only becoming blurred in relation to investment. Increasingly, complexes are no longer being rented out to students exclusively, but also to other target groups, such as Young Professionals (YPs). The new-build figures with regard to student accommodation bear testament to this. While in 2018 64% of new-build developments were aimed exclusively at students, this percentage has now fallen to 55%. Does this mean that the student housing market is now becoming fully integrated into the regular housing market? And where is this market likely to go in the next few years?

**Table** Student numbers continue to grow in the university cities and The Hague

		year '17-'18	year '18-'19	growth last year	year '25-'26	change forecast
<b>Wageningen</b>	Uni	11,000	11,700	6.4%	14,742	26%
<b>Delft</b>	Uni	25,900	27,100	4.6%	32,791	21%
<b>Leiden</b>	Uni	32,100	32,900	2.5%	37,177	13%
<b>Maastricht</b>	Uni	20,400	21,500	5.4%	23,435	9%
<b>Amsterdam</b>	Uni	105,500	107,800	2.2%	116,424	8%
<b>Rotterdam</b>	Uni	62,700	65,300	4.1%	68,565	5%
<b>Utrecht</b>	Uni	61,500	62,200	1.1%	65,310	5%
<b>Tilburg</b>	Uni	25,800	26,800	3.9%	27,872	4%
<b>Enschede</b>	Uni	24,900	25,700	3.2%	26,471	3%
<b>The Hague</b>	UAS	28,900	29,900	3.5%	30,797	3%
<b>Groningen</b>	Uni	54,100	55,900	3.3%	56,459	1%
<b>Eindhoven</b>	Uni	30,800	31,400	1.9%	31,714	1%
<b>Nijmegen</b>	Uni	40,000	41,500	3.8%	41,500	0%
<b>Leeuwarden</b>	UAS	19,900	19,600	-1.5%	19,404	-1%
<b>Arnhem</b>	UAS	11,600	11,800	1.7%	10,974	-7%
<b>Zwolle</b>	UAS	18,700	19,200	2.7%	17,280	-10%
<b>Breda</b>	UAS	20,300	20,200	-0.5%	17,978	-11%
<b>Den Bosch</b>	UAS	15,100	15,900	5.3%	13,515	-15%

# Student Housing

The student population continues to grow, but this growth will likely start to level off

The student population has grown again over the past year. There are currently almost 707,000 students enrolled in the Netherlands (+2.5%). This growth has been caused entirely by an increase in the number of students enrolled at Dutch universities, which in turn is a result of a continuing influx of international students. The number of international students grew by more than 10% to nearly 90,000.

The student population will continue to grow in the years to come, and by the 2025-26 academic year it will be 3.3% larger than at present. However, there continue to be significant differences between cities. Wageningen and Delft are leading the pack, with growth forecasts of +26% and +21%, respectively. At

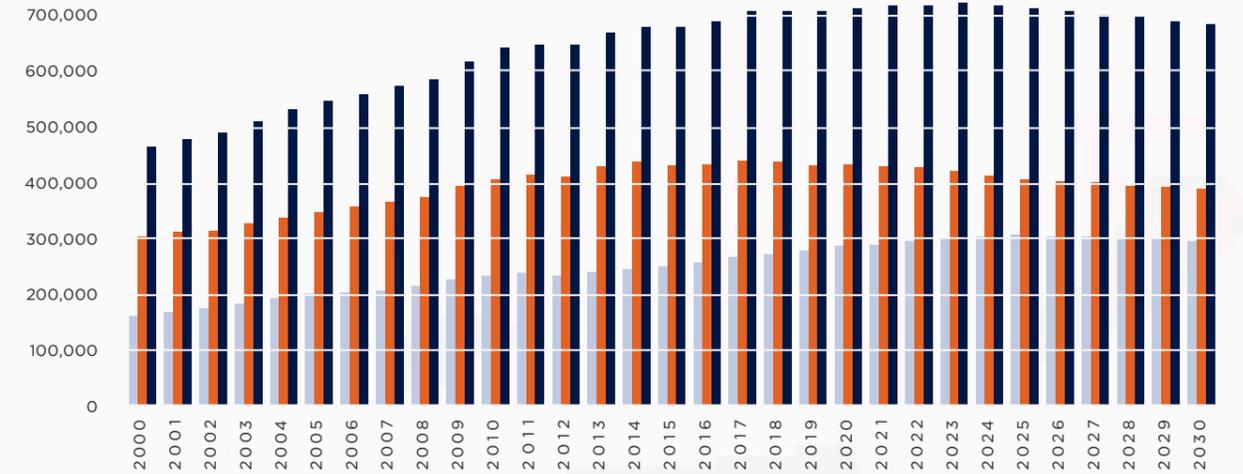
the same time, the population of students in cities with universities of applied science (HBO's in Dutch) will actually fall by up to -15% (Den Bosch) in the next few years. The Hague is one city that is bucking this trend, however, despite lacking its own university. Its strong international profile and the presence of, for example, a Leiden University campus in The Hague, mean that the city's student population is expected to grow.

As a result of the decrease in the number of UAS students, the growth in the total number of students is levelling off. Consequently, the student population as a whole is expected to decline slightly from 2024 onwards. But this does not mean that the demand for student accommodation will fall too. On

the contrary, the proportion of international students continues to grow, and this group does not have the option of living 'at home with mum and dad'.

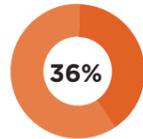
**707,000**  
There are currently almost 707,000 students enrolled in the Netherlands.

“The student population will continue to grow in the years to come”



**Graph** Growth in the number of students will level off, starting in 2024

University UAS Total



380,000 starters (or 35.7% of starters) are currently looking for a new home.



## Blurring boundary between student housing and regular housing market

In addition to pressure from new international students, the limited supply in the starter market is also sustaining the demand for student housing. It is becoming increasingly difficult for starters to buy or rent their first home, and so new entrants to the housing market are increasingly staying in their student homes for longer.

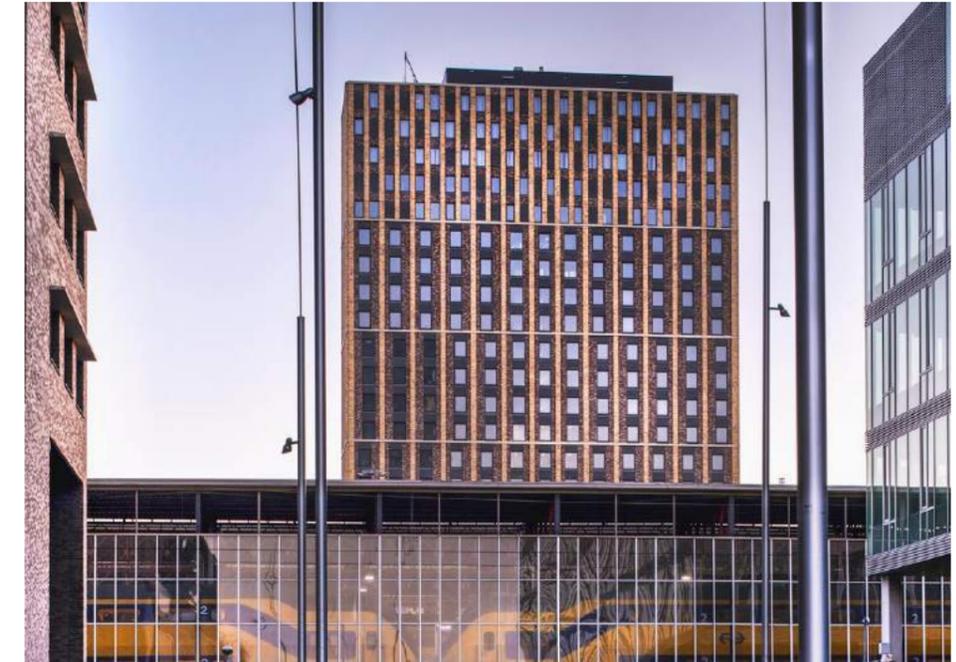
Due to the growing number of millennials in Dutch society – by 2024 75% of the working population will be millennials – the nature of the demand for housing is also changing significantly. Starters are the largest group of people likely to seek a new home in the Netherlands.

No fewer than 380,000 starters (or 35.7% of starters) are currently looking for a suitable new home. This share has grown by almost one third in the past six years, due to changing preferences and rising rents and purchase prices. Almost 50% of this group are looking for a rented apartment or something similar. In the past, starters wanted a studio or a small apartment. Partly due to

the introduction of the ‘sharing economy’, however, starters are now often looking for living space with shared facilities, flexibility, services and comfort. This way of living resembles student housing quite closely, and as a result, the line between student housing and regular housing is slowly becoming blurred. This is helping to maintain the demand for student housing.

“Potentially increasing investment risks, due to the fall in student numbers from 2024, are more than offset by the blurring line between the student and starter market”

“A diversification in the target group – from students to starters in the residential market – is clearly taking place”



## Investment market

Investment market is responsive to trends in the user market

It is clear that investors are responding to the blurring of the distinction between the market for student housing and the regular housing market. Almost half of all planned student accommodation developments involve a combination of student accommodation with regular living space. These developments are focusing particularly on the target groups of students and Young Professionals (YPs). But the shift is not confined to new developments. While ‘traditional’ investors have neglected the student housing market, there is now increasing interest in this type of product from these investors. Parties such as Commerz Real, Aberdeen Standard and Union Investment have established internationally oriented funds that focus on the market for student housing in combination with YPs. There are several reasons why more and more investors are interested in this segment:

- The supply of regular housing has become scarce, so alternatives are needed.
- Because preferences among students and YPs have converged, the risks for investors have decreased accordingly. After all, the same types of units can be let to both students and YPs. It is likely that the demand for student accommodation will stabilise somewhat, from 2024 onwards. If

this happens, homes that were previously let to students could easily be let to YPs instead.

- The market for student housing has been further professionalised, making the risks more transparent.

Although interest among traditional investors has increased, in 2018 the market was still dominated by investors such as Xior and Camelot, which have been active in the student housing market for many years. This type of investor accounted for 73% of all transactions. In 2018, there was a clear trend among the investors who have historically invested primarily in student housing to move into the market for starters, too, in the form of ‘micro-homes’. Micro-homes are homes with a maximum size of 40 sq m.

The steady growth in interest means that initial yields for student accommodation in the Netherlands compressed last year. At the same time, initial yields for regular homes have stabilised. This means that investors are increasingly assessing student accommodation in terms of the same risk profile as regular housing products. Because the gross-net trajectory for student accommodation is less favourable, in relative terms, the net initial yields for regular residential products and student accommodation are even closer together.

### NET/GROSS REGULAR HOUSING STUDENT HOUSING

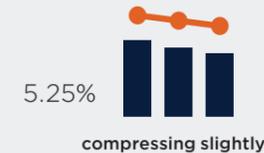
Gross initial yield (GIY) prime residential



Net initial yield (NIY) prime residential



Gross initial yield (GIY) prime student housing



Net initial yield (NIY) prime student housing



**Future demand** Ambitious goals are not being achieved: the production of new homes is lagging a long way behind demand.

In order to address the shortage of homes, municipalities are making considerable efforts to facilitate the supply of new micro-homes for students and YPs. But despite these efforts and the market opportunities outlined above, construction continues to lag behind demand. In 2016 and 2017 6,344 and 8,403 units were delivered in the Netherlands' 18 largest cities, and in 2018 this number fell to 4,588 (-45%). The pipeline for the coming years has hardly grown either. Across the nation, the pipeline has only grown by 1,000 units (5%) since last year to around 19,000. This number is far too low to accommodate current and future demand.

Based partly on differences between the policies of local government, investors and developers are more active in some cities than in others. In cities such as Leiden and Rotterdam, the number of units planned has increased substantially over the past year, by 51% and 30% respectively. In other cities, significantly fewer new construction projects materialize. For example, the pipeline in Enschede and Wageningen fell last year by 62% and 43% respectively. In Wageningen this trend is particularly serious. After all, the student population in Wageningen is set to rise by over 25% in the next seven years. Additional new-build stock will be required to accommodate these students.

## Investors' interest

Rental growth and additional earnings models are drawing investors' interest

It is not just the high demand for and limited supply of housing for students and YPs that is responsible for stimulating interest among investors.

In terms of earnings models, the market for micro-homes for students and YPs is also a lucrative alternative. Micro-dwellings can be attractive both in terms of direct return and in terms of supplementary earnings models.

Over the past five years, rents have risen sharply above inflation every year, which is positive for investors' direct returns. In 2018, growth seemed to be levelling off (at 'just' 2.2%), but in 2019 rents rose sharply again by 6.7% on average, as in the years preceding 2018. This percentage is considerably higher than the rent increase for regular houses (2.3% to 4.9%).

In addition to stable and rising rental incomes, higher initial yields can also be obtained from the sale of additional services, such as fitness facilities. These facilities are often offered as part of an all-in package and branded under a label - a concept known as 'branded living'. This is now common practice in the hotel sector and players such as Marriott market their facilities

under a range of different brands (Marriott Residence Inn, Element, etc.). Within the hotel sector, revenues from additional services regularly account for up to 50% of total revenues. We are now seeing this phenomenon in the market for micro-homes aimed at students and YPs too (FIZZ, Student Experience etc.).

Globally, over 400 brands are now known to offer 'branded living' in the housing sector in several different countries. In addition to basic services, such as the use of shared facilities (fitness, bar and restaurant), 24/7 security, valet parking and the presence of a caretaker, an increasing proportion of revenue is generated from 'on-demand services'. This can include:

- Home dining services
- Personal shopping
- Personal training
- Childcare and dog-walking services
- Meeting rooms
- Use of office facilities

With respect to the last two services mentioned in particular, the market is slowly shifting further towards the market for flexible offices, and, in general, the trend towards the more flexible and efficient use of real estate. These types of services offer investors,

including in the micro-homes market, the ability to achieve higher returns than simply renting out the building alone. A good Dutch example of such a 'mixed use development' is Crossover, in the South Axis district of Amsterdam.

This building combines living and working, and seeks to make the most of likely future shifts in demand. So the current market situation is already interesting for investors, but how will it develop in the years to come?

**400+**  
Over 400 brands worldwide offer branded living concepts. A trend that works with additional and on-demand services.

**Graph** Rents appeared to level off in 2018, but have risen sharply again in 2019



“An analysis by Savills has shown that branded-living concepts can generate, on average, 31% higher prices than real estate without a clear brand identity”



Campus Den Haag Universiteit Leiden Foto: Peter de Ruig

**TOP 5** Cities with the largest expected shortfalls: Delft, The Hague, Utrecht, Eindhoven & Rotterdam



Campus Den Haag Universiteit Leiden Foto: Peter de Ruig

## Large shortfalls in university cities

The largest shortfalls, at more than 5,000 units, are in Amsterdam, Rotterdam and Utrecht. Remarkably, The Hague is now one of the top 5 cities with the largest expected shortfalls.

The main reason for this is that more and more students who are formally studying at Leiden University are now actually studying in The Hague, where Leiden University has a campus, and are now officially registered in The Hague as such. This was not included in the national student figures for last year.

It is also striking that shortfalls are expected in all the university cities, but that the shortfalls in the cities with universities of applied sciences (excluding The Hague) will remain more limited, and in some cases there may even be surplus housing. Among the cities with large shortfalls, the university city of Groningen is an exception. There, the demand for replacement and renovation

dominates. Historically, Groningen has had a large number of traditional shared student houses, but these are becoming increasingly outdated.

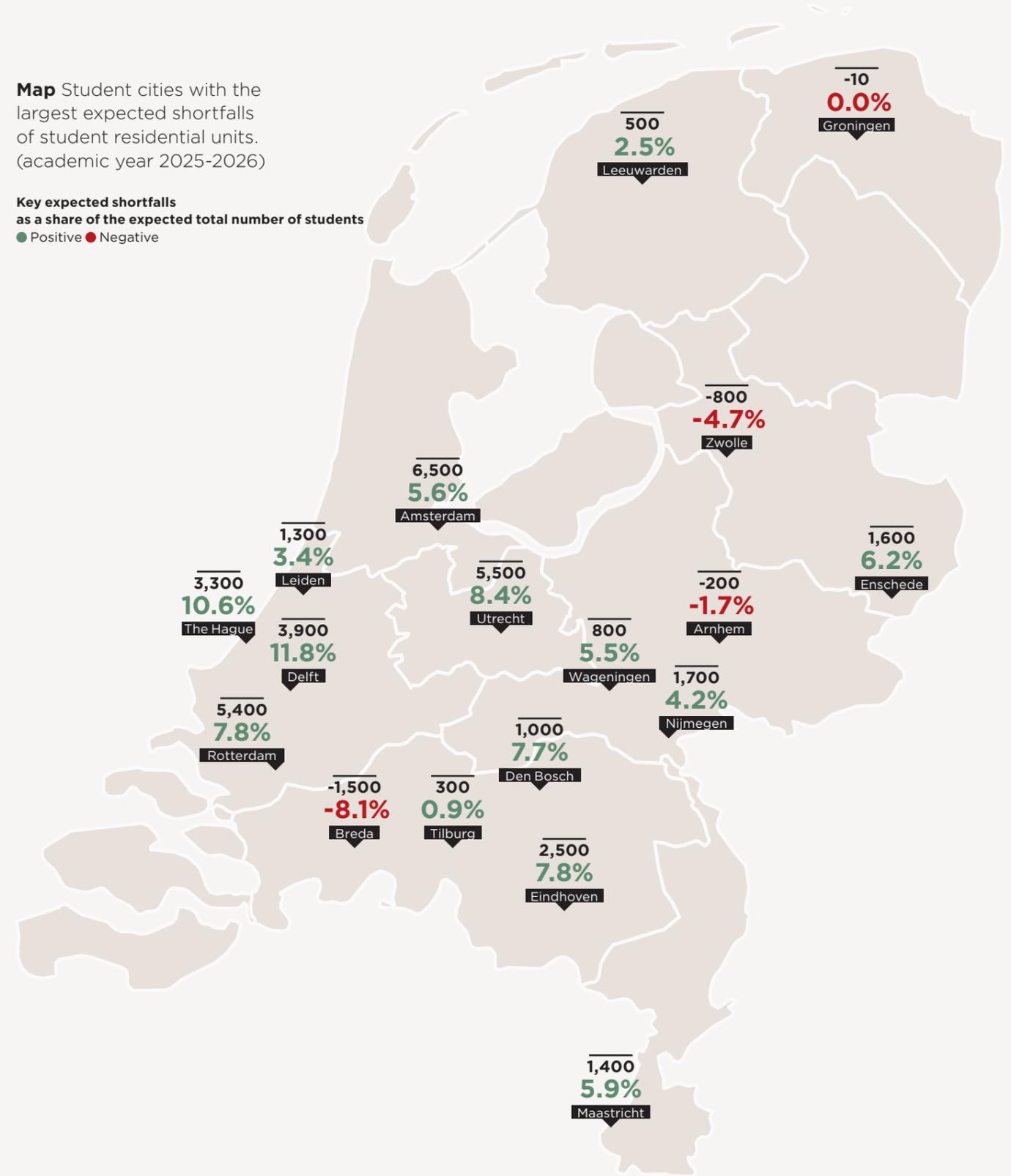
A shortfall in absolute terms is certainly not the whole story, however. The expected shortfall, as a share of the expected total number of students, provides a better indication of where the shortfall is likely

to increase further in the coming years. Amsterdam, Rotterdam and Utrecht score high on this basis, but without substantial new developments, Delft and The Hague will see the largest shortage of student housing by the 2025-2026 academic year, in relative terms. The municipality of The Hague has already indicated that it wants to promote the construction of 3,000 extra student residential units to address its shortfall.

“The expected shortfall as a share of the expected total number of students provides a better indication of where the shortfall is likely to increase further in the coming years”

**Map** Student cities with the largest expected shortfalls of student residential units. (academic year 2025-2026)

**Key expected shortfalls as a share of the expected total number of students**  
 ● Positive ● Negative



“Rents are rising due to the shortage on the market, but also because ever more furniture and other facilities and services are being rented”

## Student residential units

**In a general sense, any mismatch between supply and demand will have an effect on price. This principle also applies here.**

Rents have risen on average in 16 of the 18 cities surveyed. The average rent for a student residential unit in the Netherlands is now €427 per month (+6.7%). These rent increases are driven, on the one hand, by the shortage of student housing; but at the same time, ever more units are being let as a package that includes additional facilities or services, and this is also driving up rents.

For example, rents in the city of Rotterdam have risen by over 16% in the past year. At the same time, only 9% of all homes in Rotterdam are rented without additional facilities ('basic rent'). In Amsterdam that percentage is only 8%. This confirms that renting out student housing is now a matter of more than just renting out bricks and mortar.

In absolute terms, average rents are the highest in Amsterdam (€678) and The Hague (over €700).

### Supply & Demand

Sustained demand and limited supply are leading to increasing shortages.

Based on the existing shortfall in supply and planned developments in the pipeline, the overall shortfall in the Netherlands is expected to rise to at least 33,000 units by the 2025-2026 academic year. One year ago, a shortfall of 31,000 units was calculated (+6.5%). In addition to this quantitative shortfall, there is also a demand for replacing outdated student housing, and the pressure in the market for micro-homes and traditional student accommodation will only increase further in the coming years, due to the large number of new entrants seeking homes. These starters will increasingly have to make use of units that are also suitable as student housing.

# Effect on rents

“ In 2019, The Hague is at the top of the ranking, mainly due to the large increase in the number of students of Leiden University who are studying at its campus in The Hague ”

# Savills Student Housing Ranking

For investors: Rising rents, expected shortages and improving earnings models in the student housing market all mean that there are opportunities for investors.

To be able to compare these opportunities from city to city, Savills has produced its Student Housing Ranking for Investors once again this year. To highlight the opportunities, we look at changes in the pipeline, the current and future shortfall per student, and the pipeline in relation to the number of students. This year an additional assessment criteria has been added: changes in rents.

### Notable ranking changes

In 2019, The Hague is at the top of the ranking, while Eindhoven (previously number one) has slipped to the sixth position. This is due mainly to the large increase in the number of students of Leiden University who are studying at its campus in The Hague. The other cities in the top three are Enschede and Utrecht. This means a significant change in the ranking compared to last year. Last year, all three of these cities were well outside the top ten. These changes indicate that local policies on student housing are having much more impact in some cities than in others.

Enschede owes its top three position in particular to the fact that the pipeline of new developments has fallen sharply over the past year. The high position of The Hague and Utrecht is mainly due to the increasing shortfalls that are predicted in the years to come, which will create opportunities for investors. Another factor in The Hague and Utrecht is that rents have risen sharply and above average over the past year.

Cities such as Eindhoven and Delft have had a good year and the shortage of student housing is being managed more effectively there. They occupied the number one and number three positions last year, respectively, and are now in positions six and seven. Shortages have been reduced in those cities, and the pipeline in both cities has grown. Indeed, the pipeline in Delft actually increased by 16%, one of the largest jumps. Despite the increase in the number of planned developments, Eindhoven and Delft remain interesting markets for investors. In the years to come, the number of students in these cities will rise sharply, resulting in shortages.

Figure Major shifts in the ranking can be seen.

	Rank 2019	Rank 2018	Ranking difference
Zwolle	18	8	-10
Breda	17	13	-4
Groningen	16	16	0
Leiden	15	2	-13
Wageningen	14	11	-3
Leeuwarden	13	18	5
Maastricht	12	5	-7
Tilburg	11	10	-1
Nijmegen	10	7	-3
Amsterdam	9	6	-3
Arnhem	8	12	4
Delft	7	3	-4
Eindhoven	6	1	-5
Den Bosch	5	9	4
Rotterdam	4	4	0
Utrecht	3	14	11
Enschede	2	17	15
The Hague	1	15	14

Source Savills Research

“ Despite the increase in the number of planned developments, Eindhoven and Delft remain interesting markets for investors ”

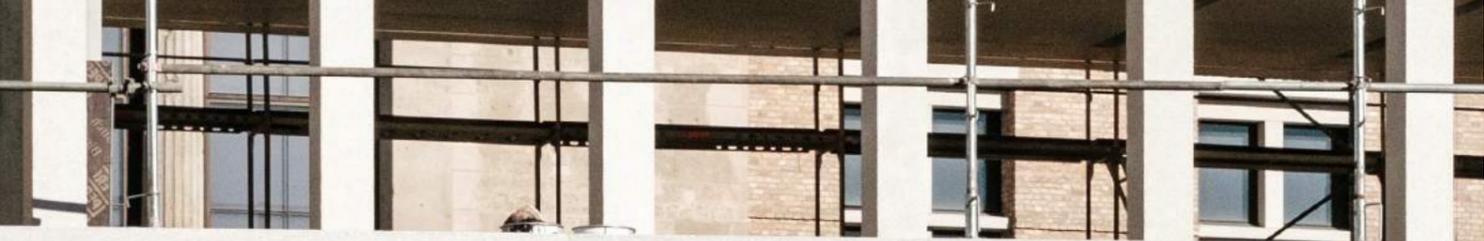
# What's next Living as a service

The market for student housing in the Netherlands is continuing to evolve quickly.

Because student housing is increasingly coming to resemble regular housing, it is attracting an ever larger group of investors. New-build projects are increasingly targeting a wider group (young starters), which means that the risk profile for investors is decreasing. If the student housing market were to dry up unexpectedly, student housing units could easily be let to other types of starters. As a result, people are talking less about 'student housing' and more about 'micro housing'.

In addition to an attractive risk profile, the branded-living concept ensures that returns can be optimised further. Such concepts provide additional revenue models by offering additional services. This, in turn, requires other specialisms: investors

become operators as well as investors. They may choose to operate a complex themselves, but they may equally outsource this task to an external operator. This means that, in addition to the student housing market becoming more like the regular housing market, it also seems to be assuming some of the characteristics of the hotel market. In that sector, separating the investment in bricks and mortar from the running of the hotel (by an operator) is common sense. As such, it is likely that hotel operators in the Netherlands may also enter the branded-living market for students in combination with YPs. In an international context, we can already see that hotel operators are active in such markets and are branding their residential products and additional services under different labels.



# Key findings

## Supply and demand

Based on the current mismatch between supply and planned developments in the pipeline, the overall shortfall in the Netherlands is expected to rise to at least 33,000 units by the 2025-2026 academic year (+6.5% relative to last year).

## Branded living

In 2018, 64% of new-build developments were aimed exclusively at students, but this percentage has now fallen to 55%. A shift is taking place here from student units to micro-homes, which are increasingly being provided as branded-living complexes.

## Blurring the line between student housing and regular housing

Because the student housing market is increasingly becoming part of the market for regular housing, demand from 'regular' new entrants to the housing market will increase.

## High demand for high quality

In addition, there is a significant demand for higher quality due to the large number of

starters seeking a home. Research shows that 35% of all starters would like to move house in the short term, but cannot find suitable housing. This share has grown by almost one third in the past six years, due to changing preferences and rising rents and purchase prices.

## Investor interest

Ever more traditional investors are showing an interest in the market for micro-housing, partly because rents continue to rise above the rate of inflation (last year the average rise was 6.7%) and partly because new earnings models can provide additional returns, in many cases through a branded living concept.

## Benefits of branded living

Over and above these additional revenues, it appears that branded living concepts generally command a market price 31% higher than unbranded housing.

## Local opportunities

In the Savills Student Housing Ranking for Investors, significant changes have occurred recently. These changes indicate that local policies on student housing are having much more impact in some cities than in others.

## Investor opportunities in The Hague

The Hague now tops the list and Enschede and Utrecht complete the top three. The higher the ranking, the more opportunities for investors there are.



“A shift is taking place here from student units to micro-homes, which are increasingly being provided as branded-living complexes.”



Source: LSVb, Landelijke Monitor Studentenhuisvesting 2017, Kences, CBS, Kamernet, Pararius, WoonOnderzoek Nederland 2018 (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties), Gemeente Den Haag



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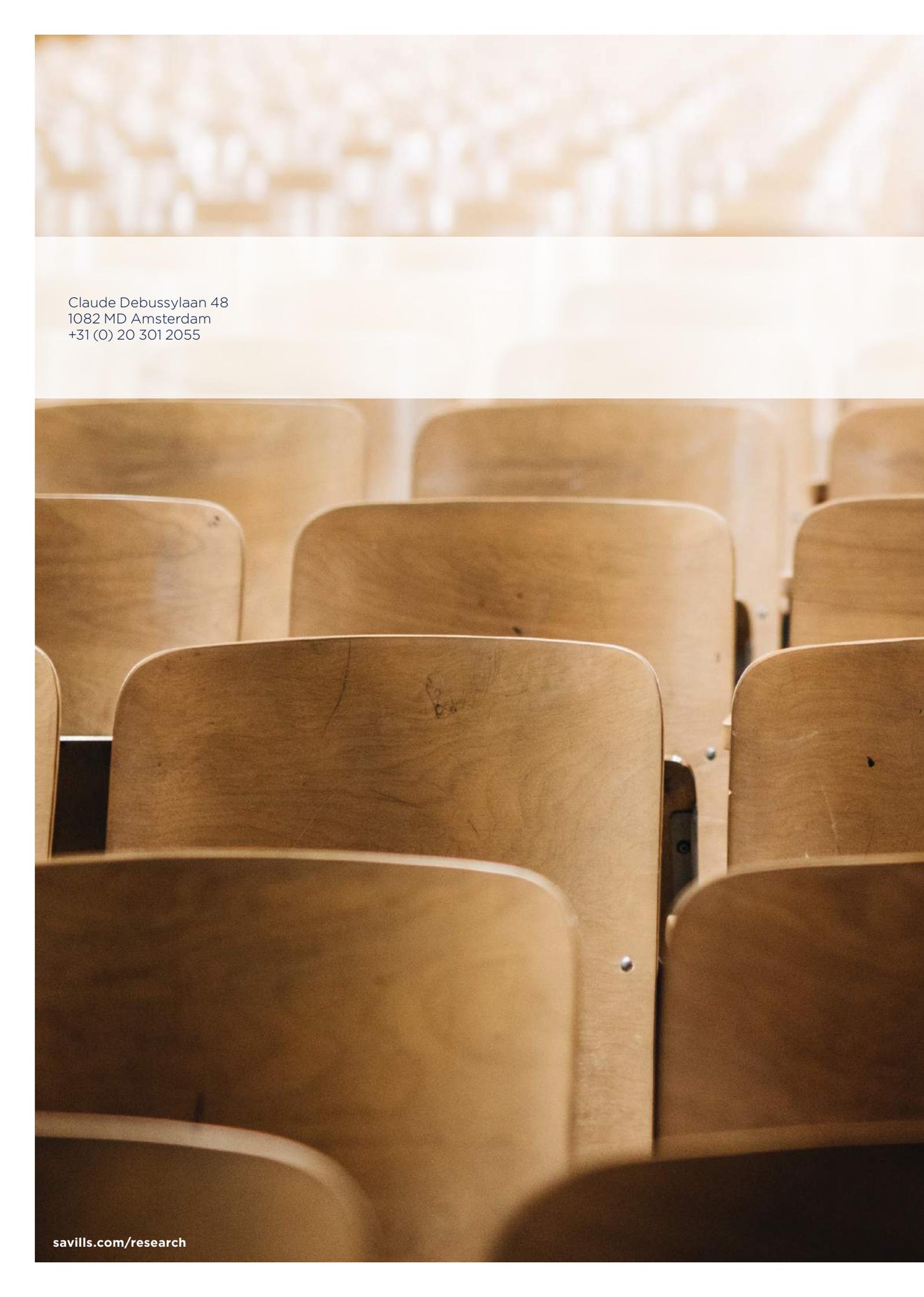


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