Research

Student Housing Review

Autumn 2016

gva.co.uk

Front cover: University Locks, Birmingham

This page: Former Southwark Town Hall

Both schemes developed by Alumno Developments Ltd

Introduction

Universities under pressure to provide sufficient student housing

The recent growth of the student housing sector in the UK has been driven by the rise in the number of full-time students, returning to levels seen before the government's tuition fees hike in 2011/12.

According to Universities UK, there were 1.7 million full-time students studying in the UK in 2014/15. While most UK universities guarantee accommodation to first year students, they have been unable to meet growing demand from returning second and third years. As institutions face increasing pressure to provide sufficient student housing, a significant proportion of their existing residential stock is in need of capital expenditure to update facilities.

The private sector is responding to these demands by developing purpose-built student accommodation (PBSA) aligned with student needs. The main alternative accommodation option for many students is the private rental market, which is often unaffordable for students, particularly in places where leading universities are located, such as London, Oxford, Cambridge and Manchester.

The supply of PBSA has increased in recent years, driven by strong student and investment demand. Between Q1 and Q3 this year, student housing investment totalled almost £2 billion with over 30,000 beds sold, although this was down on the record total of £4.3 billion (40,000 beds) over the same period last year.

With the uncertainty created by the EU referendum, it is unsurprising that investment volumes have dipped from last year. However, Brexit has not discouraged new entrants to the market, such as Singaporean investor Mapletree, which made its first acquisition of student housing assets earlier this year, and US-based developer Hines acquiring 1,000 beds from McLaren Property. The changing wider economic environment post-referendum could serve to invite more entrants into the UK's student property sector, encouraged by weak Sterling.

The fundamental benefits of investing in UK student accommodation have not been altered by the referendum result, which include its recession-hedge characteristics, steady rental growth, ability to deliver a stable income and the long-term demand associated with it. The uncertainty created by Brexit also makes a 'safe asset' such as student housing look more attractive to investors.

"While most UK universities guarantee accommodation to first year students, they have been unable to meet growing demand from returning second and third years"

Student numbers

Over 520,000 undergraduate students accepted to UK universities in 2016

Acceptances to start undergraduate university courses in England in the 2016/17 entry year were up by 1% to 439,380; up 5% in Northern Ireland to 10,410; up 4% in Scotland to 46,380 and up 3% in Wales to 25,350, according to UCAS' interim report which was taken four weeks after A Level results day.

There were 2.3 million undergraduate and postgraduate students in 2014/15, which is unchanged from last year. However, student numbers are still below the 2011/12 record of 2.5 million, when students tried to beat the new fee structure – when fees trebled to £9,000 – creating a surge of applications.

Earlier this year, the government announced its plan to allow tuition fees in England to be raised to £9,250 from 2017. Increases will be linked to evidence of high quality teaching, which will be decided by a new mechanism called the Teaching Excellence Framework (TEF). Universities that reach the necessary quality threshold will be able to charge the new upper limit.

Full-time international acceptances increased by 1.9% to 39,000, while the number of full-time EU undergraduate students placed at a UK university increased to 29,300, up 11% this year, the highest number recorded for this group.

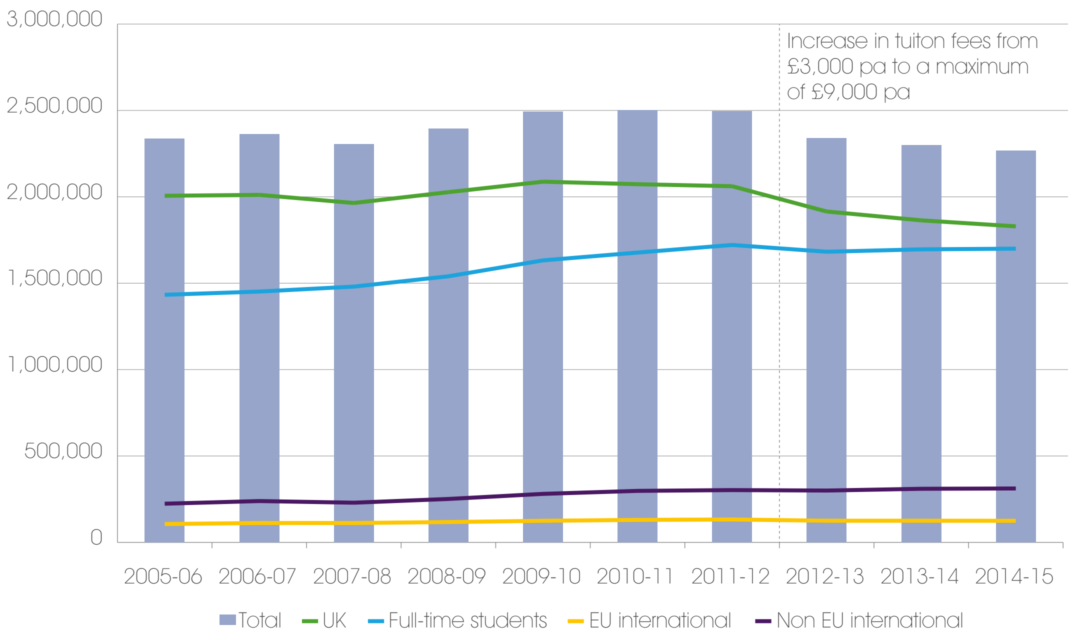
The non-EU international market is vital for universities as they can charge above the current limit of £9,000 tuition fees. In total, there were 391,930 full-time overseas students in the UK in 2014/15. According to Universities UK, almost 125,000 of these were from the EU, of which students from Germany, France and Ireland comprised 29%.

In October, Home Secretary Amber Rudd announced plans to link student immigration to the 'quality' of colleges and courses, as well as reduce the number of overseas students from outside Europe as part of pre-Brexit immigration cuts.

A previous crackdown on student visas has already hit the student intake from some countries, particularly India where student numbers are down 18% from 2012/13. However, this has been partly offset by an influx from China: there are over 105,000 Chinese students in the UK, by far the biggest overseas contingent. Despite lobbying by universities, the government has said students will form part of the immigration targets it is considering.

Figure 1: Number of students studying in the UK

Source: HESA, Universities UK



University Locks, Birmingham

How will Brexit affect EU students in the UK?

The number of EU students placed at UK universities has increased to 26,800 – the highest number recorded – reflecting an 11% increase on the same period last year, according to UCAS.

However preliminary figures from UCAS for 2017/18 entry to Oxford and Cambridge and medicine, dentistry and veterinary courses elsewhere, are showing a fall of 9%. This fall in applications has in part been attributed to the uncertainty surrounding the funding of these courses post-referendum, and raises concern that Brexit could take its toll on the number of EU students studying at UK higher education institutions.

The right for students to reside, study and work in the UK remains as long as the UK is a member of the EU which will be for at least another two years. The UK Council for International Student Affairs (UK CISA) said that a number of universities are guaranteeing that fee status will not be reassessed during the duration of the course for those students starting in 2016/17. The government has confirmed that even if the UK leaves the EU before their course ends, students will continue to be charged the home/EU rate rather than the significantly higher non-EU rate.

Any fall in EU students is more than likely to be offset by increases in the numbers of overseas students. The fall in the value of Sterling following the referendum vote is likely to see a significant increase in the number of overseas students wishing to study in the UK as the effective cost of courses has reduced by approximately 20%.

There remains some uncertainty around the government's policy towards overseas students on immigration post-referendum. In our view this represents the greatest threat to the sector. Subject to the UK policy on student visas not changing significantly, we believe the impact of Brexit will potentially result in an increase in the overall number of students from outside the UK studying at UK universities, especially following the depreciation of Sterling. However, with competition from the USA, Canada, Australia and Europe, there is no room for complacency.

125,000
EU STUDENTS
STUDYING AT **UK**
UNIVERSITIES

5% OF ENTIRE STUDENT BODY

Student accommodation trends

Supply fails to keep pace with demand

There is a structural shortfall of PBSA in most of the UK. The supply of private student accommodation has failed to keep pace with the increasing demand. The private rented sector has become subject to greater local authority and government legislation for houses in multiple occupancy (HMO), while the recovery of the residential property market over the last few years has increased land values, and increased pressure on the private rented sector to house tenants over students who are willing to pay higher rents.

Our data, analysing purpose-built accommodation in 34 of the main student cities and towns, shows that there were 230,701 beds in university-owned student accommodation, compared with 200,809 beds in privately-owned accommodation.

Interestingly, if we exclude Cambridge and Oxford, university-owned accommodation accounted for 196,483 beds in 2016, while privately-owned accommodation accounted for 197,157 beds, a market share of 50% each.

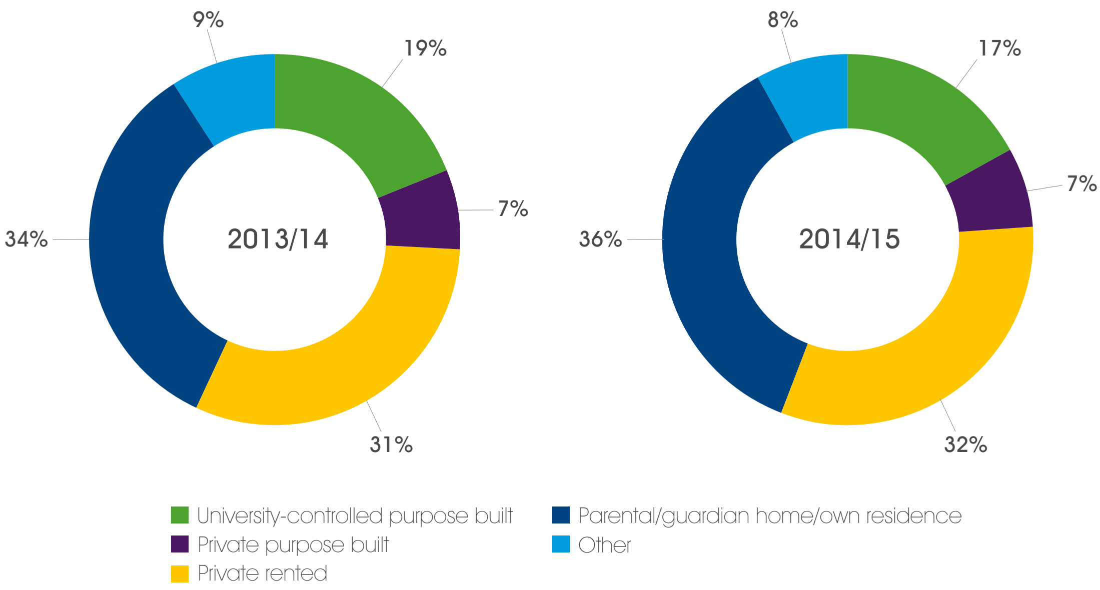
According to the Higher Education Statistics Agency (HESA), 17% of students lived in university-controlled accommodation in 2014/15, which was slightly down from 19% the previous year. Meanwhile, 7% of students chose to live in private purpose-built accommodation, which was the same as last year.

The increased costs of higher education, with tuition fees to rise to £9,250 at some universities in England next year, means more students are choosing to live at home. HESA data showed 36% of students chose to live at home/or in their own residence in 2014/15. This was up from 34% on the previous academic year.

The private rented sector had a market share of 32% of students in 2014/15, which was marginally up on the same period last year. The sector is popular with second year students, as it provides a chance for them to live together with chosen friends and offers them a greater degree of independence.

Figure 2: Term-time accommodation for full-time and sandwich students

Source: HESA



Ownership

Structure of the student housing sector in the UK

Our report examines the ownership of purpose-built student accommodation in the main student towns and cities across the UK, covering over 70 universities. Our data shows bed numbers and average weekly rents in each of the key centres for 2016/17.

We have covered over 430,000 beds in over 1,000 schemes across the UK. University-owned accommodation accounts for over 230,000 beds, equivalent to 53% of total purpose-built stock and ensures that universities remain a key player within the student accommodation sector.

The private sector-owned accommodation accounted for over 200,000 beds in 2016, equivalent to 47% of purpose-built stock. This compares to a 55/45 split between University-owned and private sector owned accommodation in 2015, reflecting the continuing trend of greater private sector development and ownership.

For this report we have updated the data on bed numbers in our chosen locations to include all purpose-built stock available for the 2016/17 academic year. Our data also includes the number of full-time students in each town and city, in order to compare supply and total demand for each location.

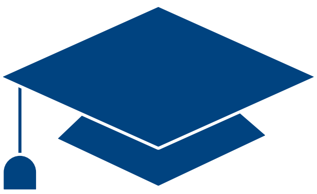
Oxford and Cambridge have the highest share of purpose-built beds at 58% each, thanks largely to the collegiate system at both universities.

Reading also has a purpose-built share higher than 50%, which is unsurprising as private rented housing costs are particularly high in this market, discouraging many students from private renting. Over a quarter of the markets analysed in this report have a share of 40% or higher for purpose-built beds.

The highest concentration of beds is in London with over 57,000 beds, of which 24,006 are university-owned. We estimate that the average weekly rent for purpose-built accommodation in London is £221 per week in 2016/17, which is the same as last year.

The average weekly rent for purpose-built accommodation outside of London is £147 per week, up from £141 in 2015/16. Based on our research, there were 4 locations (Leicester, Portsmouth, Sheffield and Swansea) where the average starting price for weekly rents is below £130 per week.

Cities with large full-time student populations, but a relatively small number of purpose-built beds, such as Cardiff, Norwich and Brighton, are also stand out locations for developers and investors to target. Central London and the neighbouring markets of Greenwich and Kingston also remain under developed in terms of student demand. However, there are concerns about the potential schemes in the pipeline for some of these locations.



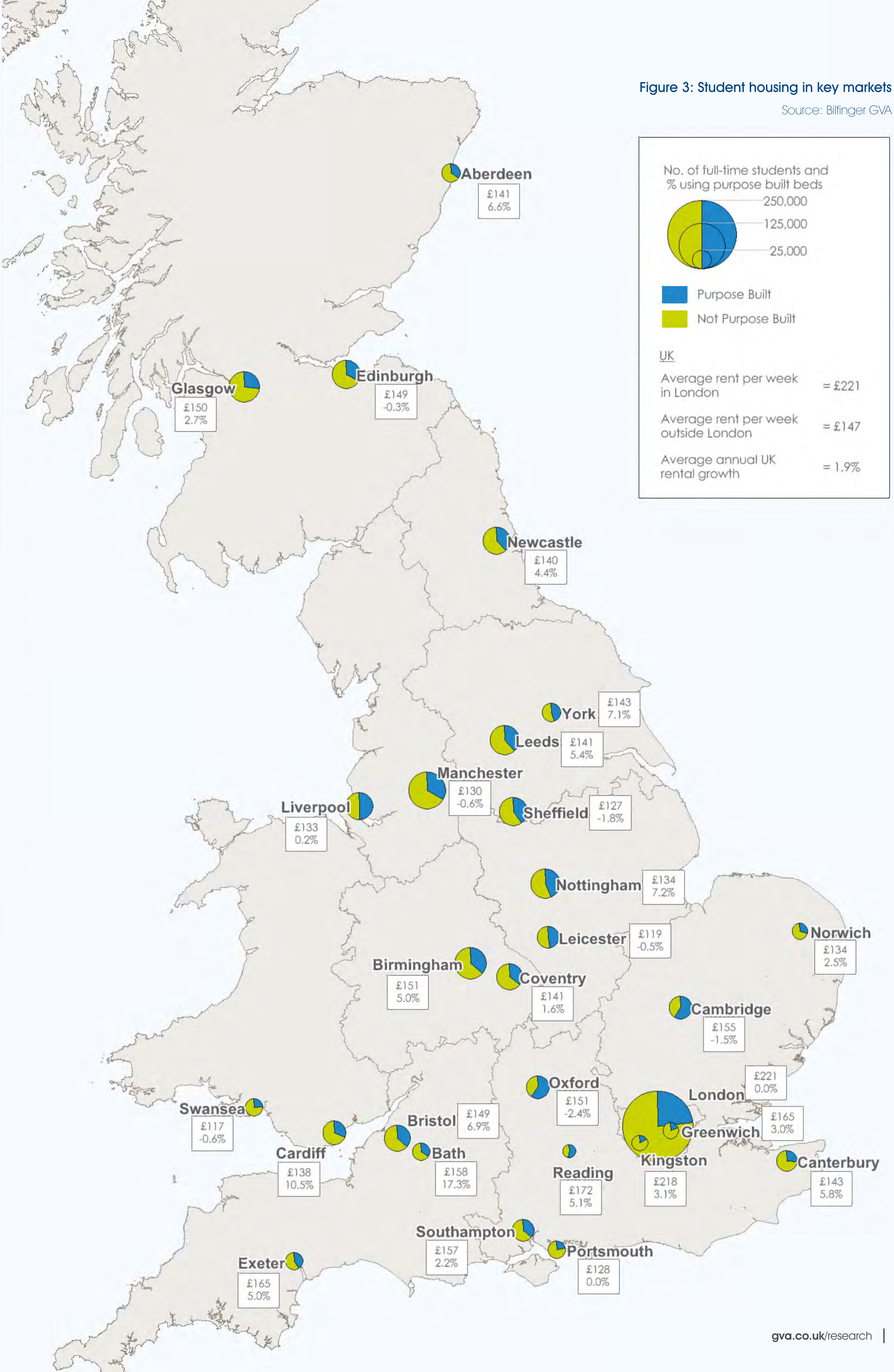
230,000
UNIVERSITY-OWNED BEDS, **53%** OF TOTAL PBSA STOCK

200,000
PRIVATELY-OWNED BEDS, **47%** OF TOTAL PBSA STOCK

*Data is based on a GVA survey of 34 locations.

Figure 3: Student housing in key markets

Source: Bilfinger GVA



Development outlook

Construction confidence rebounds

Uncertainty over Brexit could see student housing developers delay plans until our new relationship with the EU is made clear.

The UK's construction industry remained firmly in growth mode in October, having bounced back from uncertainty over the summer caused by the Brexit vote. The Purchasing Managers' Index (PMI) for the UK construction industry edged up to 52.6 in October from 52.3 in September, when it had jumped above the crucial 50 mark for the first time since May. Any reading above 50 suggests growth.

Before the vote to leave the EU, the pace of UK economic growth was slowing. While services were still expanding robustly, construction and manufacturing was struggling. We expect a marked slowdown in growth of the UK economy, with consensus forecasts showing growth of just 1.0% for 2017, compared with the 2.1% previously expected (well below the long-term average of circa 2.6% pa).

According to BCIS, annual tender price rises have been slowing since mid-2014 when annual growth peaked at around 10%. This slowdown could be the result of contractors coming to terms with the strong increase in workload, combined with slower rates of input cost increases. Tender price growth is expected to fall to 3% pa by December, before falling into negative territory in 2017. These trends are illustrated in Figure 4.

We expect occupier demand to continue to grow as UK universities lead the world. Oxford came top of the Times Higher Education world university rankings, and was one of three UK universities to make the top 10. UK universities will remain attractive to both domestic and international students, especially following the depreciation of Sterling. There are already several projects underway across the UK to deliver more student accommodation.

Student housing developer Empiric has set its sights on more affordable living options for second and third year undergraduates in the UK, after doubling the value of its portfolio in a year. The majority of the company's portfolio was studio flats aimed at postgraduate and international students, but the company is now looking to diversify into other accommodation for undergraduates.

Empiric had 7,400 beds agreed at the end of this year, 6,000 of which will be in use this academic year. We can expect to see more developers focusing on delivering an affordable option in future years.

As part of its latest development pipeline, Unite Group is set to bring nearly 7,000 new beds to the market by 2018, including over 1,500 beds in London, 1,300 in Portsmouth and 1,000 in Aberdeen. The University of St Andrews confirmed it would invest £70 million in new student residences and refurbishment to provide an extra 900 student beds.

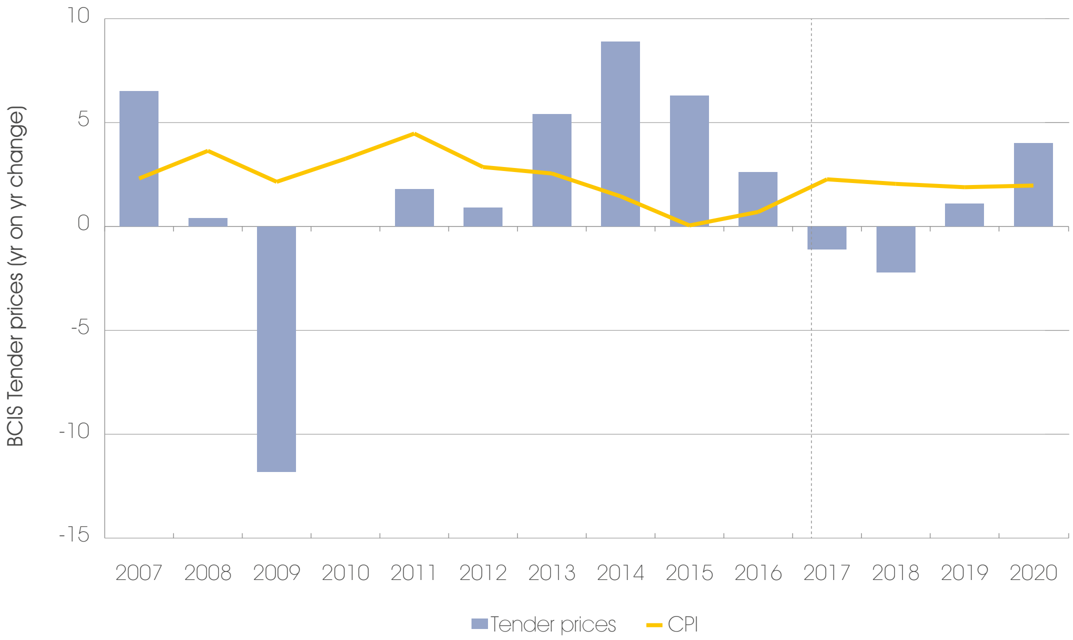
Despite the positive prospects for the student housing sector generally, the development market will not be immune to the economic uncertainties following the Brexit decision. Although funds and lenders are increasingly averse to risk, we expect the development market to remain strong within the core university locations, especially at Russell Group Universities.

However, we anticipate that the number of new development schemes in secondary university cities and locations will decline in the short to medium term. In a number of these locations rents will not be strong enough for development to be economically viable.

> "We expect the development market to remain strong within the core university locations, especially at Russell Group Universities"

Figure 4: Tender prices

Source: BCIS, ONS



Investment

Investor confidence driven by resilient student sector

The UK commercial investment market has experienced unpredictable conditions during 2016, largely as a result of the uncertainty caused by the EU referendum. The nature and underlying fundamentals of the UK's PBSA sector have meant the market has remained resilient with continued confidence from both overseas and domestic investors.

There has been over £2 billion transacted in the first three quarters of the year, with portfolios accounting for the largest proportion. The foremost portfolio deals have included GSA and GIC's joint purchase of the 7,150 bed Threesixty Portfolio for £430 million in September 2016, which included 3,516 development beds to be delivered over the next 30 months. Additionally, Mapletree made their first foray into the UK PBSA market and purchased the Ardent (Mansion) Portfolio for £417 million with almost all of the assets located in cities with two or more universities and over a third of the portfolio situated in London.

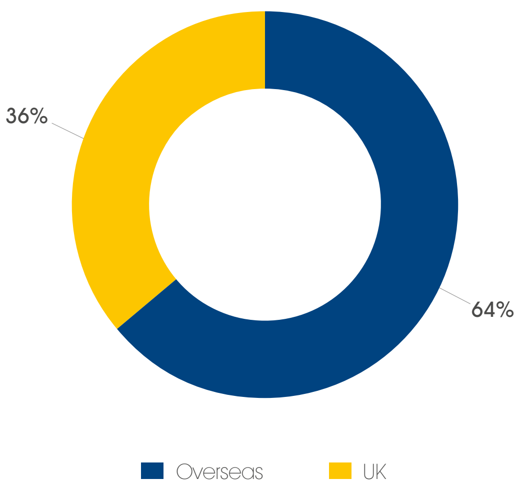
This year has seen the largest single asset to ever come to the market. Aston Student Village in Birmingham, a 3,067 bed direct let scheme situated on the Aston University campus in the city centre. Offers in excess of £200 million were quoted and although details have been kept confidential we understand the property is under offer at well in excess of the quoting price with completion expected shortly.

Overseas investors have accounted for the largest share (64%) in 2016 with a growing number of Far East and North American investors seeking exposure to the UK PBSA market. In addition to those mentioned above, other significant overseas investors this year include Hines, Arlington and Centurion.

The traditional UK institutional investors have largely been absent from the commercial property investment market in 2016. However they have remained active in the student accommodation sector with notable acquisitions from L&G, Standard Life and Blackrock. There has been a flight to quality and a renewed interest in indexed linked long leases as demonstrated by L&G's purchases of the 437 bed forward funding opportunity in Stratford, East London for £63 million and Queens Road Student Village in Winchester for £31 million, both transacting at circa 4% NIY.

There has been continued activity from UK REITs in 2016, particularly Empiric, who are now seemingly expanding their portfolio from small studio schemes focused at postgraduates to larger

Figure 5: Investor type in 2016 Source: Property Data



"There has been over £2 billion transacted in the first three quarters of the year, with portfolios accounting for the largest proportion" schemes targeting the undergraduate market as shown by the acquisitions of Victoria Point in Manchester and Europa House in Portsmouth, both of which contain a high proportion of en-suite cluster flats. This demonstrates their continued confidence in the student market as a whole. Curlew and GSP continue to have a strong appetite for opportunities and Unite is expected to form a fourth REIT in 2017. Additionally, Unite will be developing a circa 1,000 bed scheme in the centre of Liverpool, which shows there continues to be investor interest in prime sites located in towns and cities with significant competition.

Prime yields for university leased accommodation have arguably hardened during 2016 as these assets become rarer given the growing reluctance from universities to sign up to long leases. Whilst there has also been compression in the direct let market for prime assets, operational direct let yields have largely stabilised at 6% – 6.25%. Even in a Brexit environment, universities continue to attract a growing student demand from the UK, EU and overseas. Notable direct let deals include St James House and St James Point, Newcastle (6%), Victoria Point, Manchester (5.5%) and Saxon Court, Reading (6%).

Forward funding has remained a difficult environment in 2016 with investors taking a more cautious approach to these transactions, particularly in cities with only one main university and in locations that have a significant pipeline of consented beds. There has been a noticeable increase in the number of direct let funding opportunities this year, which has allowed investors to be more selective and has enhanced their purchasing power.

“Investors took a more cautious approach to forward funding deals”

The student housing sector’s cash generating characteristics and its reputation as a ‘safe asset’ will be its key attraction to investors and the reason why, despite an uncertain market, following the EU referendum and US presidential election, purpose built student accommodation will continue to have a growing presence in the UK’s built market.

London
Birmingham
Bristol
Cardiff
Dublin
Edinburgh
Glasgow
Leeds
Liverpool
Manchester
Newcastle

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