

Market Insight

STUDENT LIVING

EXPLORING REAL ESTATE OPPORTUNITIES

In October 2023 ASK hosted a roundtable discussion forum for key players in student living real estate, including developers, operators, funders and valuers. The group debated current appetite and opportunities in the sector and also its future shape and growth potential. The following is a summary of what was discussed



RESILIENCE & GROWTH

How has PBSA fared in the current market?

Overall, the group were very positive about the sector which was said to be very strong and an attractive investment opportunity, based on significant growth. The sector hasn't had to grapple with changes in occupational demand and big cities, including the large university towns, have seen double digit rental growth. However, an element of this was attributed to Covid bounce back and this significant growth is not expected year on year.

The theme of flight to quality was said to have been seen on the occupier side for some time but the group consider that the investment side was now starting to chase quality too.

"Big cities and large university towns have seen double-digit rental growth"

Regional yields were said to be currently trading at 5-5.50%, with London probably closer to 4-4.50% for prime, which certainly doesn't reflect a softening of liquidity, the bulk of which is pursuing prime assets in top locations. The majority of liquidity was said to be from American Private Equity Funds and Far East Sovereign Funds with strong rental growth justifying the lower yield basis.

Where are the difficulties?

There are currently 2.5bn beds of stock on the market. Some feared where the exit would be for the mid-level stock and the secondary locations. There's no evidence for pricing. A large portfolio, currently on the market, was said to have received multiple offers at sub 5% but all agreed it would be interesting to see if ultimately it trades at 6%.

Is the growth sustainable?

With these prices below base rate, the underwrite for these assets is purely on rental growth. But some questioned, who is funding all the growth? And when do the beds become too expensive for the students?

Operators in the room said that university rent was a short-term scenario that students' families have planned for, so most just have to accept it. It was pointed out that the all-inclusive element, absorbing utility bills, may have distorted growth rates. As utility rates flatten, it was expected we could see a plateau in rents. The average available income for students was said to be £485 per month, this is not just from bank of mum and dad but student loans and income from part time jobs. All agreed that this figure certainly makes growth appear unsustainable.

Who is going for the premium products?

It was said that 150,000 Chinese students a year have been coming to study in the UK, yet there are only 40,000 5-star beds. However, all agreed there had actually been a tail off in Chinese demand. One firm's biggest growth had been in Wembley and this was overseas students looking for value and not prepared to pay a premium for an upgrade in location, preferring a good product with excellent transport links. All agreed that not all overseas students wanted a premium product. For example, Nigerian and Indian students look for value. Interestingly, Saudi, Kuwaiti and Egyptian students were said to be the emerging market with the biggest budgets.

"The biggest growth has been in Wembley where overseas students are looking for value"

CREATIVE STRATEGIES

Can we be more creative in what we offer?

The group discussed using space more creatively. For example, second year students were said to not worry about having en suite bathrooms, therefore cluster flats could be an option. Gyms were said to be a valued amenity but cinema rooms were not, so they could provide space for more apartments. However, many thought it was difficult to justify narrowing down your target market and that planners would not allow amenities to be reduced.

Twin rooms were said to be very popular in the US and Spain mainly because it is what is expected. Yet the market for American and Spanish students here is too slim for it to be viable. All agreed that for twin rooms to be popular in the UK we needed to change the culture and expectation.

Can we get around un-used amenities?

All agreed that the size of the bike stores they were required to put in was totally out of kilter with usage. One operator had been monitoring usage and said it was only around 20%. All agreed that it would be helpful if this data could be used to present a case for repurposing the space. One company had been successful at bedding bike stores into the dead space in the core.



112 single-occupancy studio apartments in a PBSA scheme in Falmouth, co-financed by ASK and OakNorth Bank

How flexible can we be with tenancy agreements?

Most companies said that they did not insist on a 51-week agreement. Many offered the option for students to move out for the summer and receive their rent back for that period. Some left it to the student to find a tenant for the summer but gave them support and contacts with language schools. Many found that lots of students didn't want to move out over the summer as they got part time jobs. Planners were also said to be trying to stop summer lets.

How are bookings and figures for this year and the 2024/2025 academic year looking?

Most companies had been operating waiting lists for months, for the next academic year. All agreed that bookings were getting earlier. However, one firm had had a 200% higher cancellation rate than the year before. Another had found that Glasgow had experienced lots of cancellations last year. Many felt that people were now taking options in different cities or different buildings. In the past, deals were offered post-Covid which students were waiting for but no one is offering deals any more so this year bookings have come in very early. International agencies were also said to make block bookings and then cancel if they couldn't fill them. Indian and Nigerian bookings were said to be coming through.

One company had just launched for Sept '24, initially to existing tenants. The company had booked £1m in the first day. They had marketed on average at £30 to £40 a week more than last year which represented an average growth of around 9.5% across all locations. Manchester, Birmingham and Glasgow had seen c. 9 % and Bristol around 15% rental growth.

"Cities tend to follow cycles of demand, often reflected by league tables"

VIABILITY

Which locations stack up?

One delegate shared that cities seemed to have a cycle. Cardiff was used as an example, where they had built a scheme there a number of years ago and had struggled to fill it. However, they are building a new scheme there again because they have found good sites at the right price, there are no HMOs and more people are going to Cardiff to study.

All agreed that university league tables will reflect demand. Generally, all felt that it was hard to find sites that stack up.

What are the current build costs?

All agreed that costs have rocketed. Build costs were said to have been £75k per bed not long ago and were now around £110k. This varies with location and one company said London was an exceptional challenge.

"Bookings are coming in early but cancellation rates are higher"



ASK financed the replanning of a site in Southwark into a PBSA-led mixed-use scheme with 444-beds

STRATEGIES

Can we unlock planning issues?

It was said that the biggest issue at the moment was that planners did not want to lose their affordable housing contribution and this therefore discouraged them from approving PBSAs. This meant that a lot of sites were currently frozen, which with rising debt costs was not viable. One delegate suggested that as planning creates segmentation, maybe in the future we could segment buildings.

"Co-living and PBSA can work alongside each other"

Does student living blend well with other offerings?

A question was asked whether student living blended well with private for sale and/or light industrial? One attendee thought that senior living and student living could be compatible and suggested that student tenants could help around the building in return for discounted rent. The group felt that planners readily said that different groups were not compatible because students were considered anti-social from a cohabitation point of view.

"Co-living is very contingent on the right location"

What about co-living?

One firm said they had a co-living scheme and a PBSA next to each other and had found some positive synergies. Students had moved from their accommodation into the co-living scheme after graduation. In terms of demographics, the scheme had elderly tenants who enjoyed living alongside graduates, with both parties benefitting in situations such as dog walking during the day in return for shopping or odd jobs. The same company had found there was huge demand for co-living but this was contingent on the right location, with maybe only four cities in the UK that worked. The delegate also shared that 24sqm was a good minimum size, compared to 18sqm for student accommodation, below that was considered a challenge. Dynamic tenancies were also said to work for co-living and the company offered 3, 6, 9 and 12-month contracts.



ASK financed the acquisition of this site in Woolwich with planning permission for a 298-bed PBSA scheme.

PREDICTIONS

What does the next year hold for firms?

All firms present were still pursuing the sector strongly, with acquisition strategies that were very city and micro-location driven. All agreed that student living had always been a good sector but it looked even better now that others were struggling. It has proven its ability to remain anti-cyclical with yields holding strong between 4.5 – 5.5% compared to a difference of between 4 and 7% in the office sector. Some of the firms in the room were newly active in the student living space having made fairly recent strategic decisions to change from other sectors based on the strong growth potential.

It was discussed that developers were struggling with achieving development exit at the right price, given the cost of refinance with a traditional lender and the interest coverage requirements. ASK has recently launched a product in response to these difficulties. One company had managed to recently sell some buildings and got back the cost of improvements and planning.

What new approaches might we see?

One firm was now setting up its own fund rather than using private equity companies, especially as deals now were more often than not, forward fund or joint venture. It was predicted that we might see more hotel consent schemes; the success of The Collection at Canary Wharf was mentioned. One delegate was hoping to set up a special purpose lobbying group incorporating all parties including universities, councils and developers, to lobby government on key challenges for the sector and get everyone aligned towards some positive outcomes.

"There is a lack of education in the UK around co-living."

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