Student Accommodation: Will Europe Overtake the UK?

Vistra's Onno Bouwmeister examines the state of play in student accommodation across Europe, and questions whether the UK is set to lose its leading role to its continental neighbour

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Depending on your experience, the words 'student accommodation' may conjure up all sorts of memories. For some, it's a small box room in the university's halls of residence; for others it's a six-bed house share with a queue for the bathroom every morning.

These days, however, student accommodation has come to mean something else: large-scale, purpose-built apartment blocks, delivered with corporate sheen (and, in some cases in the US at least, free Starbucks coffee).

It's also a lucrative investment opportunity. Real Capital Analytics says the global volume of student housing investment in 2018 hit $17.1bn, with volumes 425% higher than where they were a decade before.

And in the UK, Europe's largest student accommodation market, the total value of purpose-built student accommodation is expected to reach £50bn this year, according to real estate consultant Knight Frank.

But while this once-niche asset class has made its way into the mainstream, there are signs that the UK, Europe's star student, may be about to lose its seat at the head of the class to its continental counterpart.

Supply vs demand

Several important factors drive the popularity of student accommodation as an investment. For starters, there's vast potential for growth, because supply lags so far behind demand. Student numbers are on the up around the world, and the number of internationally mobile students in particular is striking, having grown by 64% between 2007 and 2017, to over five million, according to UNESCO. That figure is forecast to reach eight million by 2025.

Supply has absolutely failed to keep up. According to Knight Frank, student numbers in the UK outweigh available beds by three-to-one. And universities are outsourcing this aspect of their operation to the private sector. Private developers are expected to provide three-quarters of beds due for completion in the UK by 2020, and 84% of the beds ready for the 2018-19 academic year.

In the eyes of the institutional investor seeking to diversify its real estate portfolio and increase its exposure to alternative assets, this is enticing. Not only is the underlying real estate generally found in central urban locations, but the students tend to be good for their rent, and the returns are strong. Yields on prime student housing in the Netherlands, for example, are 4.75% – compared with less than 1% on Dutch 10-year government bonds.

But the big draw is that student accommodation seems recession-proof – when there's a downturn in the economy, the demand for these beds only goes up. Students are waiting longer before tackling the job market, and those suddenly out of work often choose to return to their studies while they wait for work prospects to improve.

Laying the foundations

None of this was widely considered back in the early 2000s, when GIC, the Singapore sovereign wealth fund, launched into the student accommodation sector in a 70/30 joint venture with Unite, a linchpin of UK development. GIC had clearly done its homework – it saw in student accommodation the promise of defensive cash flows, very attractive yield premiums and a long-term positive outlook, resilient throughout these cycles.

GIC's faith was repaid. Knight Frank says the sector has been one of only a few asset classes to deliver positive rental growth every year for the past decade. In that time, GIC has entered into joint ventures across the globe, and built a strong presence in the UK – in 2016, it teamed up with Dubai-based Global Student Accommodation Group to buy a UK student housing portfolio from Oaktree Capital Management, for an estimated price of £430 million. A year later it sank £227 million into a joint venture buying a student housing complex in Birmingham.

While GIC is still often cited as the world's most active investor, it is no longer in a class of its own. UK deals in 2017 totalled €5bn; the rest of Europe €2.9 billion. Singaporean players alone have invested over £1bn in UK student housing assets since 2016, buying up properties everywhere from Bristol and Brighton to Huddersfield, Sheffield and Leeds.

Brookfield, Greystar, PSP Investments and Allianz are busy too. In 2018, KKR made its first European student housing deal, teaming up with Roundhill Capital to acquire a dilapidated hospital building in Utrecht to convert to student lets. And when the likes of Goldman Sachs have arrived at the table to start building and buying up portfolios, you know it's no longer a niche concern. This is now a mature asset class.

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There's a critical factor in all this – student housing serves as a gateway to further diversification. Many institutional investors are running a longer-term development strategy – to invest in student housing before spreading into other flexible residential assets that are similar in how they're designed and run. And anyone versed in operating these properties can readily move into short-term rentals for ex-pats or the elderly, or run niche co-living and micro-living properties.

So, while there was a time when developers would create their own units and keep them as a long-term investment, that's changed. You now see institutional investors buying these finished developments for their portfolios, as well as building their own.

Challenge to the UK

Yet if all of this seems relentlessly positive, there may be change ahead. Not least in the relative fortunes of the UK and Europe. Currently, EU students don't need a visa to study in the UK, and there are no limits on the number of EU students allowed to enter. Hence the UK is able to play on its legacy of high-quality education – and its omnipotent native language – to draw young people in. And to get them to pay a premium.

That may be about to change. Brexit may play a part, but no one yet knows for sure the impact the cultural and bureaucratic upheaval will come to have on young people's appetite for living in Britain. Indeed, early signs from the Universities and Colleges Admissions Service suggest the number of applications for courses is actually increasing.

But Europe does present other concrete opportunities. The UK market is over-crowded (provision is around 34 percent, compared to only 10 percent in Australia, for example). And when it comes to the all-important supply-demand equation, the European market – which many put as much as 10-12 years behind the UK – seems far more potent. Europe boasts a much larger landmass and population, and students can move fluidly across borders with certainty.

Most importantly, however, European universities have caught on to the value of offering courses taught in English – often at a lower cost than studying in the UK.

Yet even in the over-saturated UK market, the supply-demand ratio remains enticing. The UK needs to bring more beds to the market, just as the vast majority of Europe does. And if these countries are keen to attract international students, which can be more demanding of high standards than domestic students, that opens up scope for stratification and specialisation in the sector, with premium units and longer-term lets for the coveted overseas tenants.

However it plays out, the institutional investors looking to crack a new market would be wise to follow the GIC example – do your homework.

Regions for further study

Specialist student housing isn't just for the main markets of the US, UK and Australia. The investment opportunity has now spread to areas that would have been off the map just a few years ago. Here are three countries that catch the eye.

Japan

There are already three million further education students in Japan, which has seen the highest enrolment growth of any OECD nation. And now the famously insular country is on a mission to internationalise its higher education, with a strong presence at international education fairs. Until relatively recently, however, no one was providing housing that catered to international students. That changed in 2017, when a joint venture between GSA and Star Asia, a boutique investment management group specialising in Japanese real estate, set out to give the country next-level accommodation.

Poland

The number of international students in Poland is flourishing and will hit 100,000 by 2021, according to Statistics Poland. Sixty percent of these come from the country's two nearest eastern neighbours, Ukraine and Belarus. Currently only 15% of Poland's students can be housed in student residences, and many of these are outdated public dormitories – a world away from the comforts that modern students demand.

China

If this is a story of the globalisation of further education, then China, which is synonymous with the growth of the global middle class, has to feature. It's already home to 500,000 international students, with many Western universities building a presence there. Investment in student housing is expected to hit double-digit growth in the next three-to-five years, according to Savills Beijing. The signs are there – GSA recently opened its first offering of managed student housing in China, as part of a deal with Tsinghua University in Beijing.