Contacts

Huw Forrest
Director – Living Capital Markets
Student Housing
+44 (0)20 7087 5189
huw.forrest@eu.jll.com

Rose Denbee
Director – Living Advisory
Student Housing
+44 (0)117 930 5697
rose.denbee@eu.jll.com

Robert Kingham
Director – Living Capital Markets
Higher Education
+44 (0)20 7087 5095
robert.kingham@eu.jll.com

James Kingdom
Associate – Research
+44 (0)20 7087 5154
james.kingdom@eu.jll.com

Image sources:
Page1: Unite, Rushford Court, Durham
Page 2: Watkin Jones, Eleanor Rosa
Page 6: Moorfield, Toy Box
Page 13: Student Roost, Hollis Croft
Page 15: Unite, St Vincent's Place, Sheffield
Page 16: Student Roost, Glasgow St Mungos
Page 19: Moorfield, Hox Park

JLL®

jll.co.uk/living

JLL | Achieve Ambitions

UK Student Housing Report

2019

Contents

Headlines

Amid market uncertainty, investors are seeking assets with defensive qualities. Student housing continues to offer income producing opportunities at scale with experienced operators and asset managers.

Despite a five year decline in domestic 18-year olds, the sector has seen an increase of

114,000

UK full time students over the same period, further compounding the supply side challenge.

JLL predicts there will be a further

500,000

full time students by 2030.

This will be driven by the continued increases in 18-year olds from 2021, a moderate increase to participation rates and demand from international students.

Government policy is now actively supportive of international students with positive changes to remaining in the UK post-study for two years.

There are

650,500

purpose built student accommodation (PBSA) beds in the UK.

For the first time, private owners account for over 50% of all PBSA supply. Houses of multiple occupation (HMOs) are still the most dominant housing solution for students, accounting for over 1 million students.

36%

of university towns have an average direct let PBSA rent below £125 per week, compared to **55%** in 2013/14.

Although this means the majority of new PBSA is in the higher price bands, there are plenty of locations with a narrowing gap between PBSA and HMO weekly rents.

Demand for PBSA outside of the core market of first year and international full time students is increasing. More second and third year students are now wanting to access the market.

A **10%** swing from students in HMOs to PBSA would require an additional **100,000** units.

Construction volumes have fallen by

25% in the last three years and new development faces further pressure. Rising construction costs and associated development factors is limiting the amount of new supply as demand pressures increase.

Faced with the challenge of higher tuition fees and weakening demographics, demand for higher education has shown robust growth.

Although there are a number of near term challenges ahead, the outlook for the sector is positive.

The outlook for PBSA demand is encouraging, thanks to a combination of supportive demographic trends, strong international demand and growing pressure on housing.

Introduction

The UK Purpose Built Student Accommodation (PBSA) property market has been one of the stand out real estate sectors in the UK in recent years.

Investors are targeting sectors underpinned by structural and demographic changes. Strong demand for student housing has helped establish its defensive qualities.

This is demonstrated by Living (student housing, coliving, residential, affordable housing and healthcare) accounting for 25% of all investment in the UK in H1 2019, and is set to show robust increases as a percentage of total volumes and investor requirements. JLL estimates that investors plan £8.8 billion of additional investment into Living sectors over the next two years with 31% of that aimed at student housing. With the weight of capital now targeting the PBSA market, investors must have a strong understanding of the sector at both a macro and micro level.

Since 2012, there has been a period of sustained structural change in the UK's higher education system. Tuition fees increased in 2012 and while overall student numbers have remained stable, the number of full time students has increased by nearly 147,000. The removal of caps on student numbers in 2014 has contributed to this growth, with the higher ranking universities benefiting the most.

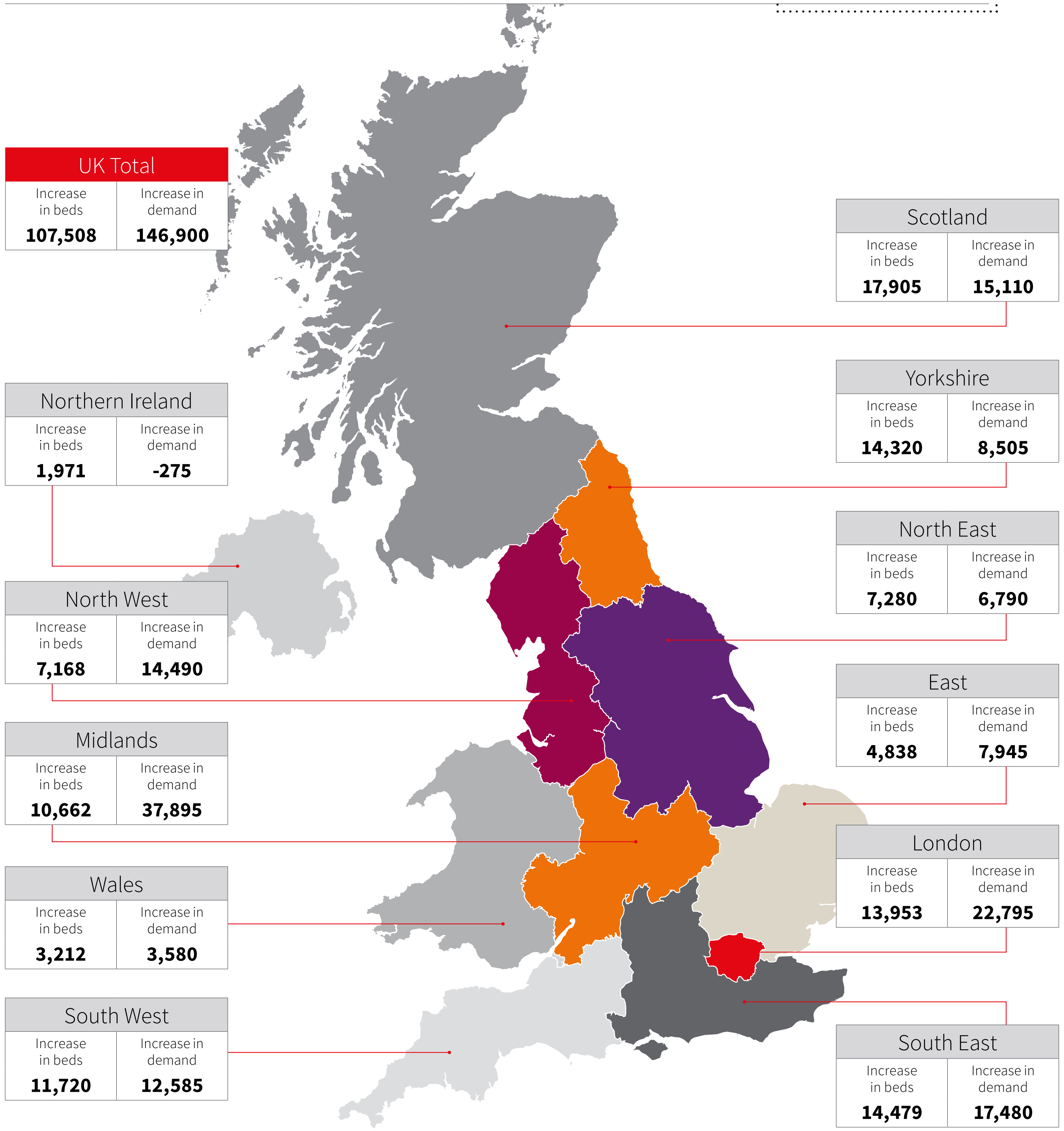
There is a growing pool of students worldwide who are studying overseas. The quality of universities is important in attracting that demand to the UK, but so too are other factors including language, cost, political and cultural benefits. The UK has consistently held its position as the leading destination after the USA. With the global middle class set to almost double to 3.2 billion by 2020, the number of globally mobile students has grown to over 7 million and is set to grow further.

The 2019 JLL UK Student Housing Report looks at how the market has changed since the 2012 fee increase and projections to 2030.

How UK student housing has changed (2014/15 – 2018/19)

This map highlights the increase in full time students for each region in the period of 2014/2015 to 2018/19. At a national level, there has been an increase of 1.4 full time students for every new PBSA bed. In many regions , the ratio is much higher, and demand has outstripped supply by much higher margins in the Midlands, the North West and London. Looking forward to 2030, the anticipated increases in demand combined with a falling development pipeline means that JLL expect the new student to new bed ratio to increase above 3:1, leading to a continued structural undersupply in the sector.

	2000-2014		2014-2018		2019-2030 Forecast	
	beds	demand	beds	demand	beds	demand
Net additional	200,000	511,235	107,508	146,900	140,927	500,000
Ratio new deman to new supply	2.5		1.4		3.5	
Total PBSA penetration rate	30%		35%		34%	



Note: HESA full time student numbers available to 2017/18. Student numbers likely to have increased further at present.
Source: JLL, HESA

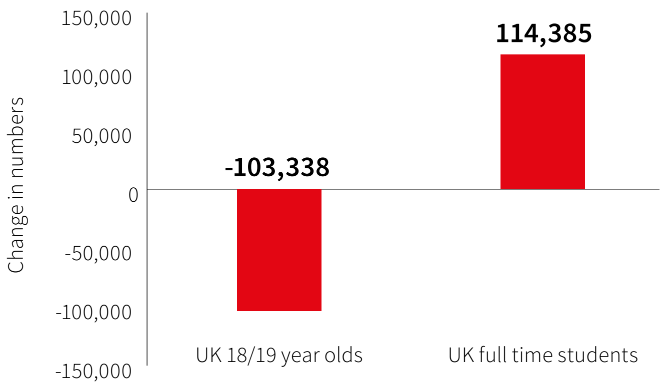
Student demand

Since higher tuition fees were introduced in 2012, the most significant change in student demand in the UK has been the shift towards full time education.

Full time numbers have grown by 7% since 2012/13 to 1.84 million and accounts for 79% of all students. This is the equivalent to 32,500 additional students per annum and forms the core of PBSA demand.

This growth is particularly encouraging when measured against the declining number of UK 18 and 19-year olds over the same period. This demographic has declined by 6.4% since 2012 although over the same period, the number of UK full time acceptances has increased by 16%. With a rebound in this demographic forecast from 2021 for this age group, increasing by 2% per annum, the upside scenario for domestic demand looks encouraging.

Structual change to UK student demand since 2012/13



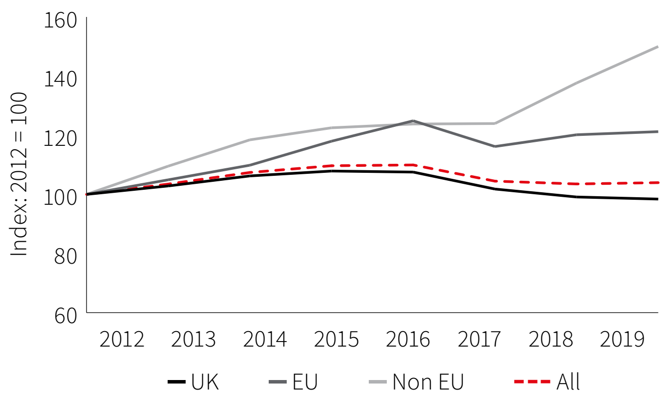
Source: HESA

International student recruitment is a key feature of growth for almost every UK university. Enrolment from this group reached its highest level in 2017/18, thanks to a 3.6% increase year on year, the strongest rate of annual growth in seven years compared to the average growth rate of 1% per annum.

Whilst concerns remain about the outlook for EU demand with Brexit, the latest UCAS applications statistics for January 2019 show that applications from EU students are up by 1% year on year. Student applications from the rest of the world increased significantly by 9%.

Rest of the world (non-EU) students are the largest component of international demand with 319,150 compared to 139,150 EU students in the UK. To put EU demand into context, there are currently 122,880 students from China and Hong Kong in the UK. This group has been increasing by 4% per annum over the last five years and is likely to overtake the EU students in terms of scale by 2023. The UK higher education sector is also best placed to benefit should relations between the US and China worsen over trade.

Applicants by domicile



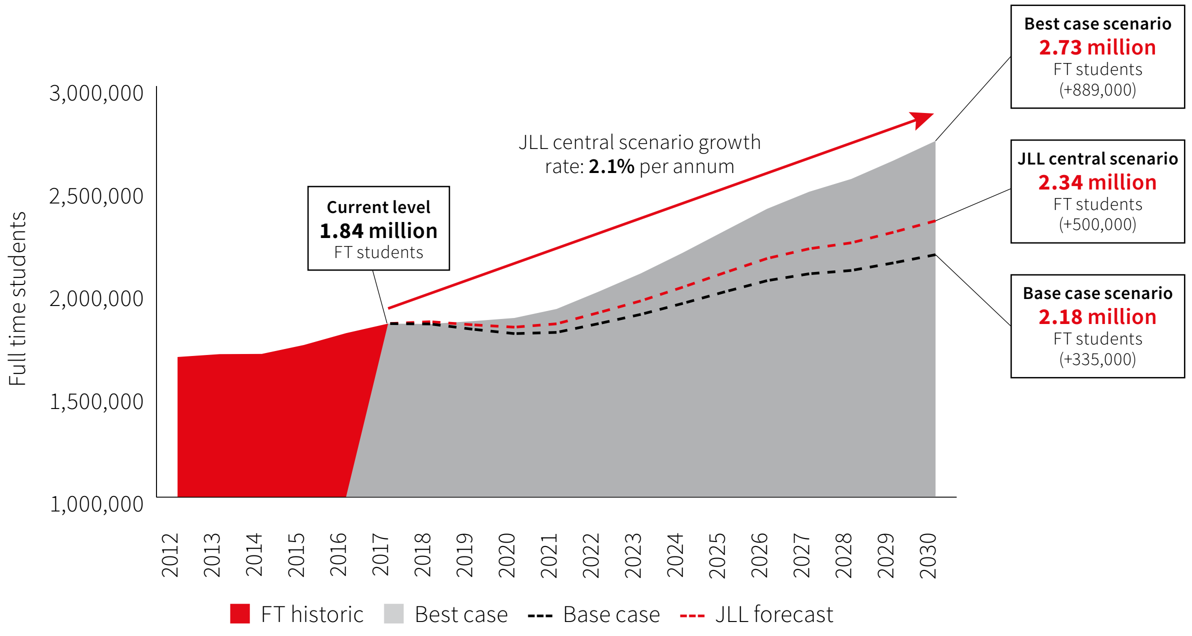
Source: UCAS

The market has welcomed the government's International Education Strategy that plans to increase the total number of international students in the UK to 600,000 by 2030, an increase of 30%. Whilst this projection is a continuation of the growth rate over the last decade, it does illustrate positive support from policy makers for the UK Higher Education sector which already generates an estimated £20 billion GDP, rising to £35 billion in 2030.

This target coincides with a large increase in the number of middle class families in countries such as China, India and Nigeria that are likely to invest heavily in their children's education and are seeking UK qualifications to compete in the globalised market place.

Another potential policy is increasing the cost for EU students from 2021. Higher tuition fees could result in a fall in numbers in the short term. However, the overall impact would be modest as this group accounts for just 6.8% of all full time demand and cost of education is just one of several considerations made by students. Based on current trends, any decline in EU demand would eventually be offset by a combination of stronger non-EU demand, the rebound in UK 18 and 19-year olds and increased participation rates from UK students.

JLL full time student demand forecasts



Source: JLL, ONS, HESA, UCAS

JLL student demand forecast

Using the government's international target and current domestic trends, JLL has forecast several scenarios for future full time student demand to 2030.

Assuming there is no change from current student participation rates (currently 30%) and the ratio of mode of study, then we expect an 18% increase over this period to 2.18 million, or 335,000 additional students. This figure is broadly in line with HEPI's forecast of 350,000 over the same period.

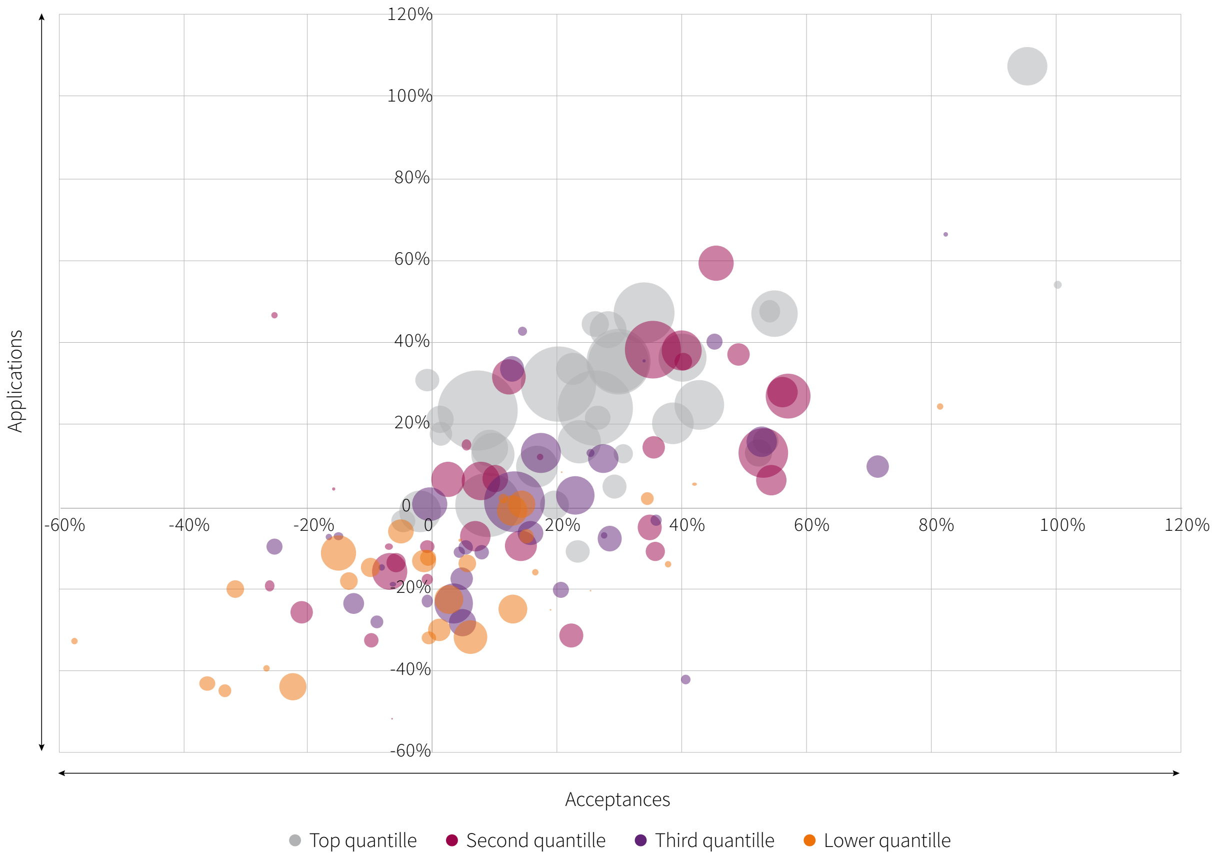
In the most positive scenario, assuming a continuation of the growth in participation rates since the change in tuition fees, demand could increase by 48% – resulting in almost 890,000 additional full time students. While significant, an increase of this scale is unlikely to happen as it would be unsustainable for universities to manage.

JLL's central forecast is for a 27% increase in full time demand, resulting in an extra 500,000 full time students. This represents an average growth rate of 2.1% per annum to 2030.

This increase would require 40,000 new PBSA units per annum to accommodate the increase in student demand, before taking into account any additional demand from from fewer students living in houses in multiple occupation (HMOs).

The government has set a target of **600,000** international students in the UK by 2030.

Changes to university demand since 2012/13



Source: JLL, UCAS

Quartiles are based on the Times 2019 ranking of UK universities. top quartile represents the highest ranking 25% of universities, lower quartile the bottom 25%. Bubble size determined by the number of applicants per university in the 2018/19 academic year.

Perhaps the biggest challenge is identifying where this future demand is likely to study. A result of higher tuition fees has been the flight to quality higher education institutions. This has also coincided with the removal of restrictions placed on universities over how many students they can accept each year.

Since 2012/13, 51% of all universities have recorded an increase in both the number of applications and acceptances, and for Russell Group universities the figure stands at 95%. A further 24% of universities have recorded a fall in applications but acceptances have increased.

At the other end of the spectrum, 23% of universities have recorded falls for acceptances and applications, while 2% have fewer acceptances despite an increase in the number of applications.

In many cases, the fall in applications is a result of a re-balancing of demand after the numbers surge prior to higher fees. Over the last seven years demand has stabilised following rationalisation of strategies and in some instances started to grow again despite historic falls. This report looks in more detail at some of the wider issues facing universities but sustaining demand from a growing number of students is essential.

On this basis, the markets where demand is likely to increase the most are those that have recorded an increase, either in acceptances or applications, or both. However, universities that have refocused strategies following a fall in demand will have the ability to expand based on forecast increases to demand.

51% of universities have recorded an increase in applications and acceptances since the change to tuition fees in 2012/13.

PBSA supply

For the 2019/20 academic year, there are 650,500 purpose built student housing beds in the UK student housing market.

University owned beds now account for less than 50% of all PBSA supply in the UK for the first time. Of the 331,000 privately owned beds, just under 91,000 are leased to universities or have a nomination agreement in place. The remaining 241,000 are direct let.

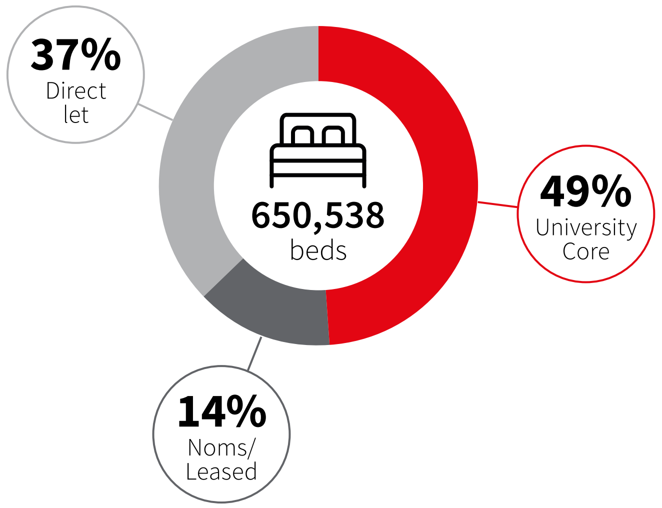
This represents an increase of 148,400 in the total number of beds since the 2014/15 academic year with an average annual growth rate of 5.9%. Direct let beds account for 80% of all new PBSA supply over this period, while beds with a lease or nomination agreement with a university account for a further 14%.

The core components of PBSA demand are first year, international and increasingly postgraduate students. Analysis by JLL shows that 41% of PBSA tenants are international students. On this basis, there is still a shortfall of over 370,000 beds.

With demand for PBSA now growing amongst second and third-year students, we expect the scale of private rented housing to reduce further. This follows the 1% fall in students privately renting in 2017/18 compared to the previous academic year.

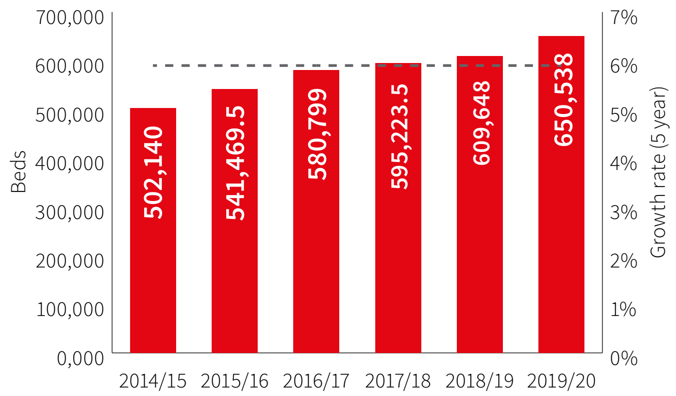
The current development pipeline for 2019/20 shows that there are 26,610 beds under construction, equivalent to 4% of total PBSA supply. In the last three years, the number of beds under construction has fallen by 25%. JLL outlined the increasing development risk and knock-on effect on construction activity in our **2017 London report**.

Structure of UK PBSA supply for 2019/20



Source: JLL

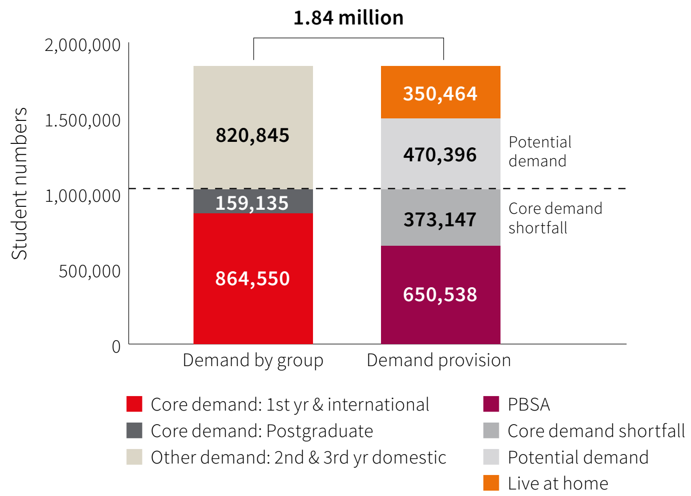
The growth of UK PBSA supply



Source: JLL

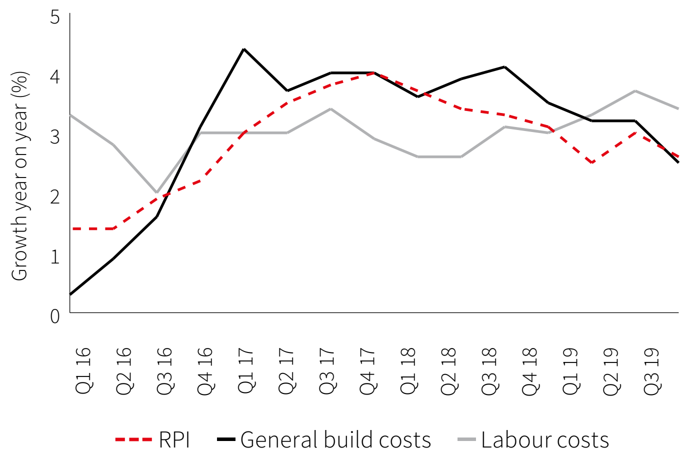
A shift of **10% of students from HMOs to PBSA** would result in demand for a further 100,000 beds – equivalent to over 18% of existing supply.

Scale of PBSA supply/demand imbalance



Source: HESA, JLL

Components of build cost inflation



Source: BCIS

Student housing has already come under pressure from tighter planning requirements, through community infrastructure levy (CIL) payments, the need for university partnerships and a set affordable rent provision. On top of this, developers are now experiencing narrower returns from higher build costs. Labour shortages and building materials are all contributing factors, while post Grenfell, demand for the limited number of cladding specialists is adding further development risk.

Some of the oldest PBSA belongs to universities. Investors and developers looking for assets with strong occupancy levels should consider partnering with universities to either redevelop or deliver new PBSA on campus. Forward funding and income strip transactions will become a more prominent feature of the market as universities focus their efforts on attracting and retaining students.

Rental trends

Rent affordability is a key issue and has come under the spotlight with the draft London plan seeking to establish a 35% requirement for all new PBSA development and a requirement to partner with a university.

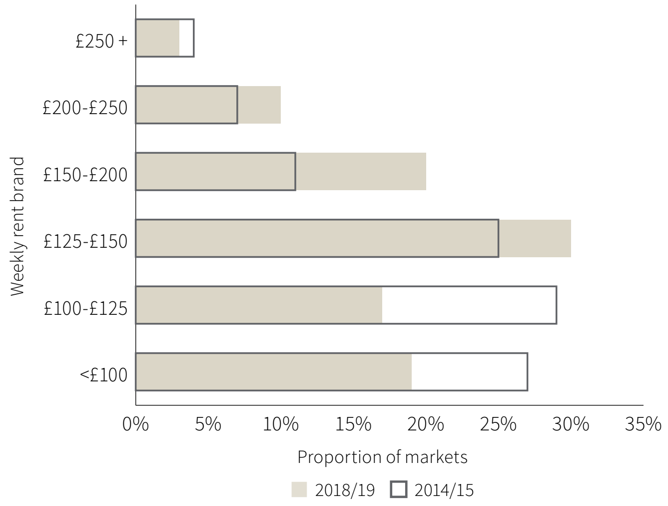
Some aspects of the London plan may soften following publication of the recent Inspectors Report, with nomination agreements encouraged rather than required. However, we can expect other cities with prominent student markets to adapt planning policy to include an element of affordability provision or partnership requirements in the future.

Although the proportion of markets with an average rent above £200 per week has increased to 13% of the overall, 36% are still below £125 per week. This level is important as it is the threshold for affordable rent outside of London based on maintenance grant payments. Five years ago, 55% of all markets had a rent below £125 per week, meaning stock at this price point is shrinking as a proportion of overall supply and is set to continue to do so.

The growth of the higher rental brackets over the last five years will have significantly changed the dynamics of the sector in terms of student demand (occupancy) and the expectations of value for money. But with 66% of all markets with an average rent below £150 per week, investors and developers should be realistic in terms of achievable pricing and the consequences this may have on occupancy and development viability.

There are a limited number of markets that can absorb luxury schemes with high weekly rents. Differentiators within schemes are becoming more important, and the level of rent will be determined by micro location factors. Consequently, operators and investors will need to consider carefully where their schemes sit within the local market relative to changing demand and forecast supply.

Average weekly rents by price band 2018/19 (Private PBSA)



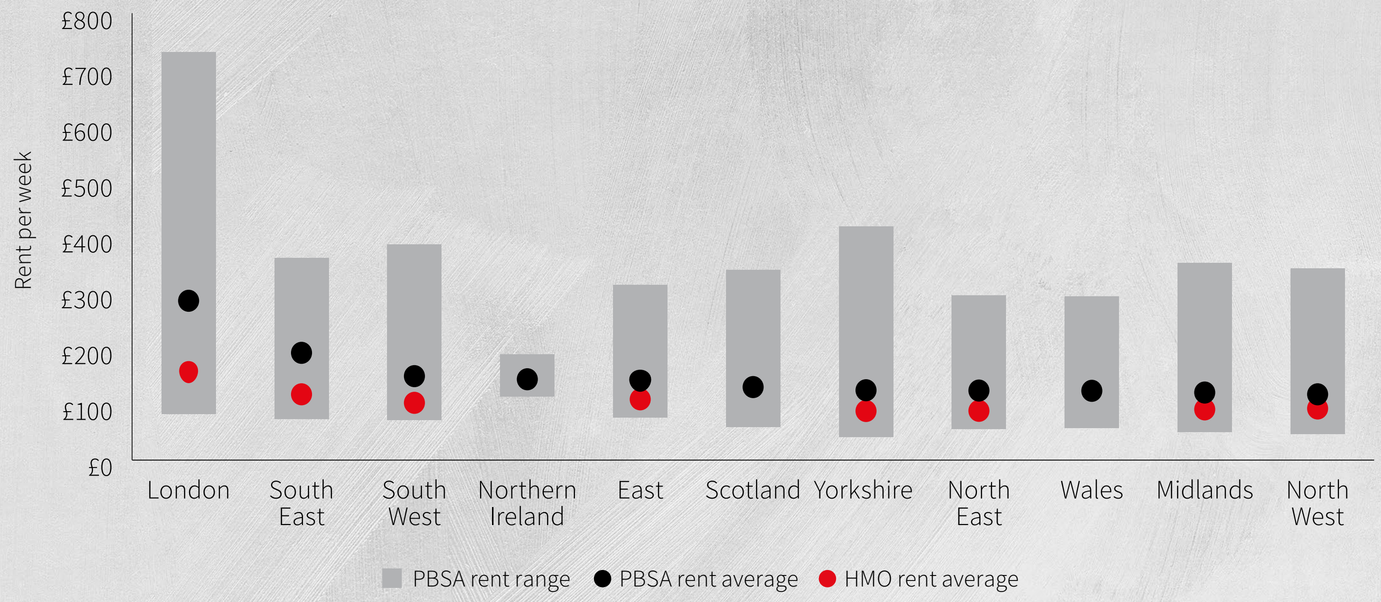
Source: JLL

London, the South East and South West are the only regions with a weekly average rent above £150. However, minimum rents across all regions (apart from Northern Ireland) are below £100 per week. This is a useful benchmark as the national average HMO room rent is £101 per week (excluding bills), highlighting the narrowing gap between the two types of accommodation.

In markets where there is near parity between the cost of PBSA and HMO, we expect demand for PBSA to remain robust. In this instance, access to professionally managed, purpose built accommodation with shared amenities and services provided in a single weekly rent payment will provide more value for money.

PBSA demand has typically relied upon first year and international students. A relatively untapped source comes from second/third year students and postgraduates. Retaining existing students so that they stay in PBSA throughout the course of their studies should be the main objective of the sector.

Private PBSA average rents by region for 2018/19



Source: JLL, VOA (England only)

Higher education key topics

While the UK's departure from the EU continues to dominate the headlines, the direct impact on higher education is mixed.

UK universities have recorded their strongest placement yet in the global QS rankings for 2019, with 18 universities in the top 100. The latest HESA data show an increase in international students in 2017/18 to their highest level on record and application figures from UCAS suggest this trend is unlikely to change.

Clarification is still needed for what will happen if access to over £836 million of EU funding for research programmes was lost. This sum accounts for 14.2% of all research income in the UK and the loss of this would have a major impact on both existing and future research projects if there is no replacement funding provided by the government.

More recently, proposals to align EU student tuition fees with other international students from 2021 have been suggested. This is still not an official policy and the on-going political uncertainty means that it is increasingly difficult to determine the likelihood of this outcome materialising.

Away from Brexit, universities face a number of challenges, not least how to maintain financial sustainability. While the Augar Review is unlikely to be implemented, the scrapping of tuition fees under a Labour government is a distinct possibility.

Participation rates in higher education are at their highest levels on record despite the introduction of higher fees, and the number of students from the lower income households has increased. Meanwhile, the most in-demand universities have been able to increase income further due to the removal of the cap on student numbers.

The Russell Group and higher-ranking universities have been the main beneficiaries of the cap removal and this has led to some accusations that they are aggressively recruiting the most talented students to the detriment of lower and mid ranking institutions.

Most universities appear to be against the idea of removing tuition fees, largely because of the uncertainty this would bring to financing and participation rates. With the demographic bulge expected in a few years, a likely consequence would be the reintroduction of caps and poorer households missing out on places.

Another key consideration at present is pension contributions. The Universities Superannuation Scheme (USS) is increasing employer pension contributions from 18% to 25% by April 2020. At a time when university finances are already under pressure, higher payroll costs could restrict their ability to grow.

UK universities feature prominently in global rankings but face a number of challenges.

Wellbeing

Student wellbeing has now become a high priority for both universities and student housing operators.

Going to university can be a daunting experience for students, with many living away from home for the first time as well as adapting to an independent lifestyle. In an increasingly competitive market, student experience will become a key part of operator success.

It is estimated that a third of students are either depressed or lonely. Key pressures facing students include health, alcohol and drugs, relationships as well as stress from exams and studying, employment, finance and also the quality of accommodation they live in.

The British Property Federation (BPF) recently published **a guide to PBSA providers on wellbeing support for students** which highlights best practice from universities and operators looking to make the student experience more enjoyable.

Measures include training maintenance and support staff to spot for signs of mental health issues, improving how students can meet each other before they move in, to simply organising regular social interaction.

Any provider looking to enter into a nominations agreement or partnership with a university will struggle to do so without a detailed policy in place. With student wellbeing now such a key issue across higher education, direct let providers will also need to engage. Most initiatives require very little expenditure, if any. However, they help go a long way to ensuring that the student experience can be the best it can be for PBSA customers.

Student wellbeing is now a key issue for universities, investors and operators.

Summary

The long-term outlook for student housing in the UK remains positive, despite a growing number of near term challenges.

Since the introduction of higher tuition fees in September 2012, student demand has undergone many changes, with a growing emphasis on full time study and higher participation rates amongst 18 and 19-year olds. Despite a fall in the total number in this age group, total full time numbers continue to increase.

Over half of universities have recorded an increase in demand, with applications and acceptances increasing over the last five years. Higher education is a competitive business, and UK universities are competing both domestically and globally for the ever growing international student market.

The strength of the UK's place in the global university rankings and the country's wider appeal to international students is a key asset. It's encouraging to see that the government has recognised this and the scale of contribution made by higher education by setting a target of 600,000 international students by 2030.

All these underlying factors help set a favourable backdrop for student housing demand. While the pace of new development is slowing and will continue to do so, any increase in student numbers will help to readdress the impact of more than 107,000 beds coming onto the market in the past five years. Even markets that are well supplied will continue to provide sustainable investment opportunities for schemes that are well located and offer value for money.

JLL's rent analysis shows that the largest segment of the market lies within £100 to £150 per week and this is where operators will be looking to add value to draw more demand across to PBSA from the private rented sector.

Investor appetite for student housing remains robust. Scope for further yield compression may be limited in some locations, although the sector still maintains a sizeable spread over other Living markets, such as multifamily. With viability pressures growing in some locations and an increased focus on rent affordability, stability of income will become the main component for returns. This will be more pertinent should capital value growth be affected by weakening sentiment across the rest of the commercial property market.

As political and economic uncertainty continues both at home and overseas, investors will be looking for defensive asset classes which provide stable long-term income and are underpinned by strong demographic trends.

On this basis, the UK student housing market continues to be best placed, especially good quality schemes in strong locations that are already generating an income.

"The PBSA market has developed into one of the most robust offerings for private investors in the Living sector. The overall outlook for student housing in the UK remains positive."

Huw Forrest, Director – Living Capital Markets, Student Housing