

UK Student Accommodation

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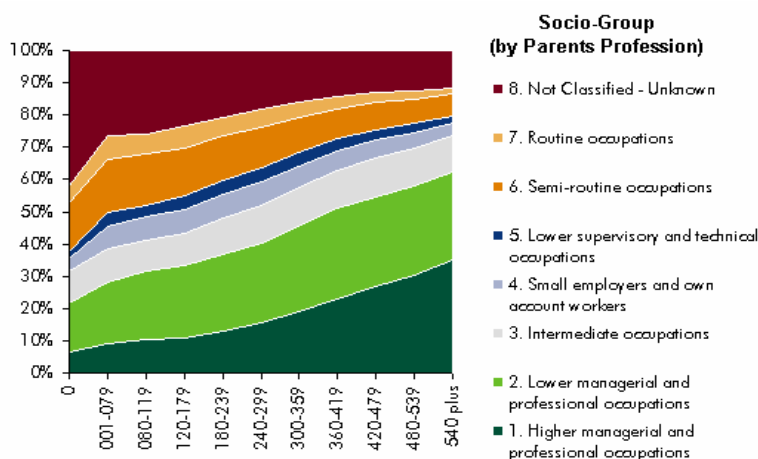
FUNDING CUTS AND FALLING NUMBERS: WHAT DOES THIS MEAN FOR THE SECTOR?

- Funding cuts and caps on student numbers have prompted a torrent of concerned headlines, many stating that potentially 200,000 applicants will miss out on a place this year. In reality, the actual number of places will drop by between 3,000 and 4,000 from 2009/10 numbers, though this is all the more poignant in a climate of climbing demand.
- While there will be a fall in overall student numbers coming through the system, this will be thinly spread across the UK and could therefore have a limited impact on demand for accommodation.
- Funding shortfalls could be met by an increase in tuition fees. This is likely to affect middle-income families and squeeze their accommodation budget, further fuelling the trend of cluster flats selling out before studios.
- In addition to this, of the students coming through the system, a higher proportion will be affluent. Universities are starting to ask for higher entry grades and there is a strong correlation between affluence and grades. With affordability being less of a concern, there will still be demand for good quality accommodation.
- Universities will also be looking to ease funding difficulties by attracting more overseas students. A growth in international student numbers will also put pressure on demand for high-end accommodation.

POORER STUDENTS WILL FEEL THE CUTS DEEPER

Reduced central funding will mean that fewer university places will be available next year, and that there is a greater chance tuition fees are increased again. Universities have already started to up their entry grade requirements, making it harder for students to get in. In reality, the impact will fall hardest on poorer students, reversing the trend of wider participation. Our research shows a strong correlation between the socio-economic status of students (as assessed here by parent's profession) and the number of UCAS points they achieve. Poorer students are more likely to be put off by rising costs and are less likely, statistically, to achieve high grades. The cuts will therefore mean fewer students coming through the system, but on average they will be better off.

Confirmed Places by Socio-Economic Group



Source: UCAS

In terms of demand for student accommodation, it is important to note that although there might be slightly fewer students, they will generally be more affluent. Affordability constraints will therefore not universally discourage students from study or from living in good quality accommodation. Alongside these very affluent students, we would expect those from low and middle-income families to continue to favour cluster flats over studios.

INTERNATIONAL STUDENTS CAN STEM LOSSES

Although levels of UK and EU students are now capped, universities are being encouraged to increase international student numbers. These students are not subsidised by the government and pay nearly three times as much as domestic students; they therefore present a very attractive income stream. A senior academic from a Russell Group University claims;

"We are under pressure to boost overseas numbers, with Asia and North America as prime targets. At the masters level, we need to start designing and running MAs specifically aimed at these audiences."

An increasing volume of international students will have a direct impact on demand for student accommodation; they will all require it. In addition, international students tend to favour high-end accommodation. They are already paying much higher fees and therefore have much higher expectations from their university experience, from teaching through to accommodation. Their preference for high-end accommodation is evidenced by the success of schemes such as Nido at Kings Cross that deliberately aimed its marketing at overseas scholars.

Universities are also targeting 'returnees'; career-changers or career-breakers, or even affluent retired people. These mature students often study away from home (or are from overseas) and will be used to a certain degree of comfort and privacy. This will help support demand for high-end accommodation, particularly studios. It will be important to assess which universities offer courses that appeal to this cohort, particularly internationally. Such subjects are typically general interest; history, military history, archaeology, ornithology, literature, history of art, etc. However, vocational courses are also popular, particularly in business. One lecturer tells us;

'A lot of our mature students are ex-lawyers. The culture of long-working hours persists and therefore good quality, quiet accommodation is sought after so that they can continue studying in their flats'.

The reduction in the number of places at individual universities has not yet been announced and the impact for each location is therefore not yet known. However, we expect that big cities and Russell Group universities will continue to prosper, given their popularity with international students. Besides this, demand for accommodation will be around the universities that respond to current conditions in the most commercial manner; for example, those that switch local-interest courses to ones that are more appealing on an international level. Attracting world-renowned professors, adapting the courses where necessary and running global marketing campaigns should become integral to university strategies. This will help attract more international students, all of whom will require accommodation. The potential for such concentrated growth at certain universities can create a real opportunity for developers of student accommodation.

STUDENT SECTOR INVESTMENT YIELDS

UK		Feb-10 (Oct 2009)	Trending
		Net Initial Yield %	Stronger / Stable / Weaker
LONDON			
Direct let		6.25%(6.50%)	Stronger
University RPI lease (1)		5.75%(5.75%)	Stronger
Nominations Agreement (2)		6.25%(6.25%)	Stronger
TOP TIER REGIONAL UNIVERSITY TOWNS (3)			
Direct Let		6.75%(7.00%)	Stronger
University RPI lease		6.00%(6.00%)	Stronger
Nominations Agreement		6.50%(6.50%)	Stronger
SECOND TIER REGIONAL UNIVERSITY TOWNS (4)			
Direct let		7.50%(7.50%)	Stronger
University RPI lease		6.25%(6.25%)	Stronger
Nominations Agreement		6.75%(6.75%)	Stronger

(1) Lease to a University with at least 20 years unexpired with RPI annual uplifts on FRI basis, well-located.

(2) Marketing/nominations agreement with university, typically with capped rental increases

(3) Mature markets with healthy supply/demand ratio, EG Bristol, Manchester.

(4) Towns with possible oversupply issues, new universities, etc.

Figures in brackets indicate October 2009 yield.

Net Initial Yield = Yield adjusted for purchaser's costs of 5.7625%.

For more information regarding this ViewPoint Report, please contact:

Jennet Siebrits	Jo Winchester	Peter Cooper-Parry	Jim Briscoe	Philip Scott
Head of Residential Research	Director	Executive Director	Senior Director	Director
National Business Team	Valuation Advisory	Capital Markets	Development Consultancy	Planning
jennet.siebrits@cbre.com	joanne.winchester@cbre.com	peter.cooper-parry@cbre.com	jim.briscoe@cbre.com	philip.scott@cbre.com
020 7182 2000	020 7182 2091	020 7182 2476	020 7182 2074	020 7182 2748

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