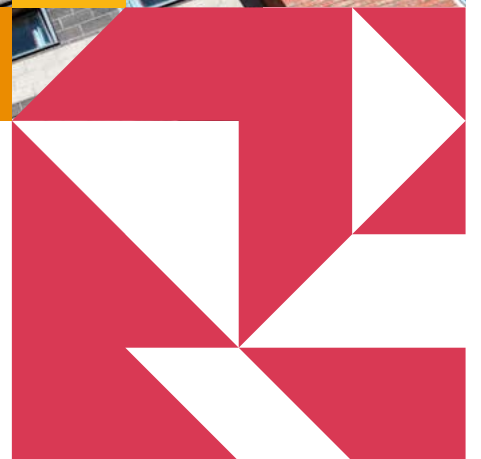


Industry in Focus

# Student accommodation: Availability and rental growth trends

July 2023



  
“

Accommodation is a crucial part of the university experience for many students, and universities recognise the potential effect that housing can have on their education and wellbeing. It is crucial that sector bodies work together on this.

This data, from PwC and StudentCrowd, will provide helpful tools and evidence for the sector to work together to address problem areas in accommodation, and will further provide focus and clarity on this issue for universities, local governments, and anyone else involved in the housing of student populations.”

**Universities UK**

July 2023

# Foreword

**Images of students sleeping on pavements in queues outside letting agencies, alongside reports of students commuting to university from another city, demonstrate how intense demand is for student accommodation. It raises questions around how widespread these shortages are, how local demand and supply dynamics are playing out in the booking cycles for the future and to what extent demand is driving rental price growth.**

While demand outstripping supply creates an investment opportunity, particularly for private capital, it also represents a challenge for both universities and students. If left unresolved, it is likely to adversely impact affordability of accommodation, the student experience, university reputation and, ultimately, future recruitment of students. With students facing rising costs of living, without a corresponding increase in maintenance loan levels, the cost of accommodation will, for some, become a prohibitive factor in higher education (HE) participation, impacting those from under-represented groups the most.

Using the latest data from StudentCrowd, a student review and HE sector insight tool platform, this report explores the current trends in the booking cycle and rent increases for privately-owned Purpose Built Student Accommodation (PBSA) at both a UK level and across a number of university cities.

The report covers the following:

- **An overview of the PBSA market in the UK**
- **The drivers impacting demand and supply for PBSA**
- **Booking behaviour and availability for the 2023/24 academic year (AY)**
- **Rental increases between January 2022 and July 2023**
- **The impact of availability and rent increases on both students and universities**
- **Opportunities to address the prevailing market challenges**

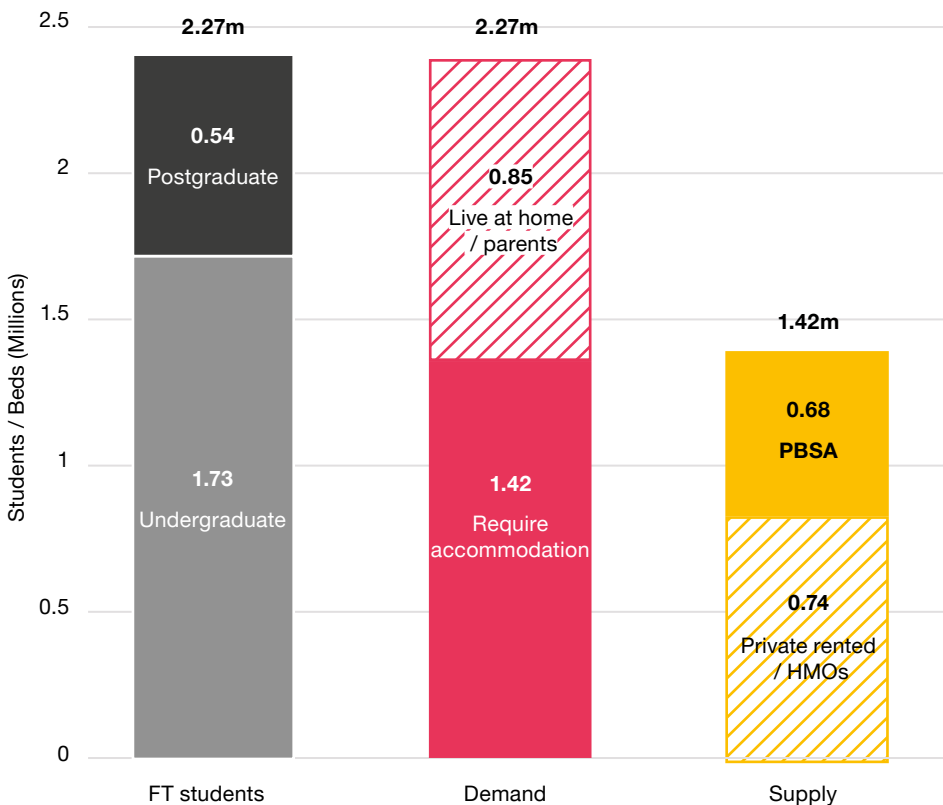


# Overview of the UK's PBSA market

## What is PBSA?

- PBSA is residential accommodation that is specifically built for occupation by students.
- PBSA can either be privately operated or operated by a university.

## What is the demand for and supply of PBSA?



Source: HESA full-time students 2021/22 (undergraduate, postgraduate, UK and non-UK students) / HESA full-time students accommodation 2021/22 / StudentCrowd UK PBSA beds Q2 2023

## 2.27 million

In the 2021/22 AY there were 2.27 million full-time (FT) students in the UK

## 1.42 million

Approximately 37% of these lived in their own or parental / guardian home and therefore c.1.42 million students required accommodation

Demand for accommodation was met through either PBSA or the private rented market, typically Houses in Multiple Occupancy (HMOs)

## 30%

Based on the 2021/22 AY, we estimate approximately 30% of the UK's total FT student population currently live in PBSA

Typically, first year undergraduate (UG) students tend to live in PBSA at a far higher rate than undergraduates in their second year, later years or than postgraduates (PG)

## 48%

of demand is able to be met by PBSA.

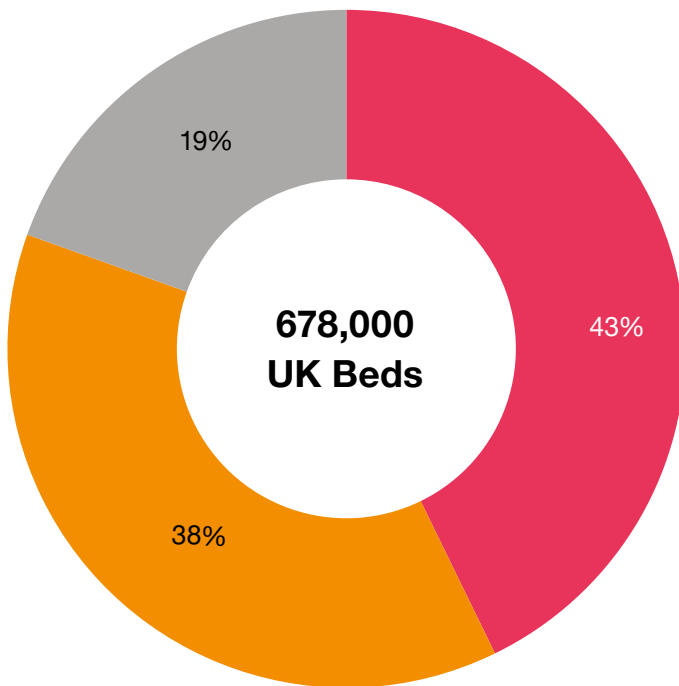
### What are the rental models for privately-owned PBSA beds?

**Direct let:** beds are let directly to the student. Marketing and management of the PBSA building will be undertaken by a PBSA operator, which may be through a contracted arrangement or where it has the in-house capability, by the PBSA owner itself. The PBSA owner / operator has full control over rent-setting.

**Nominations agreement:** a contract between the PBSA owner / operator and a university where the university commits to letting a minimum number of beds per annum for a fixed number of years. As part of the agreement, the university typically has some level of control over the operational service and rent setting, often through a cap and collar mechanism (although this can change depending on the style of nomination agreement in place).

### What is the breakdown of PBSA beds?

#### PBSA by ownership



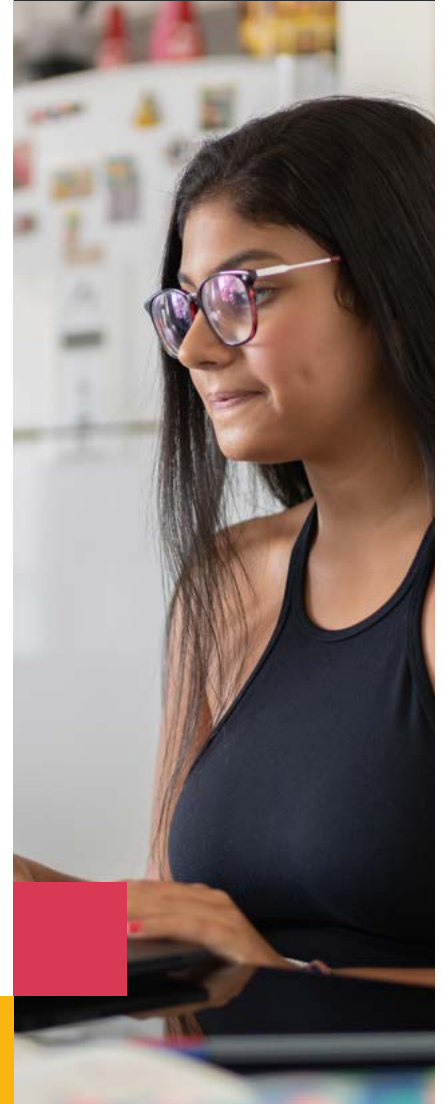
- University owned / operated
- Direct let
- Nominated / part nominated

Source: StudentCrowd UK PBSA beds Q2 2023



**57%**

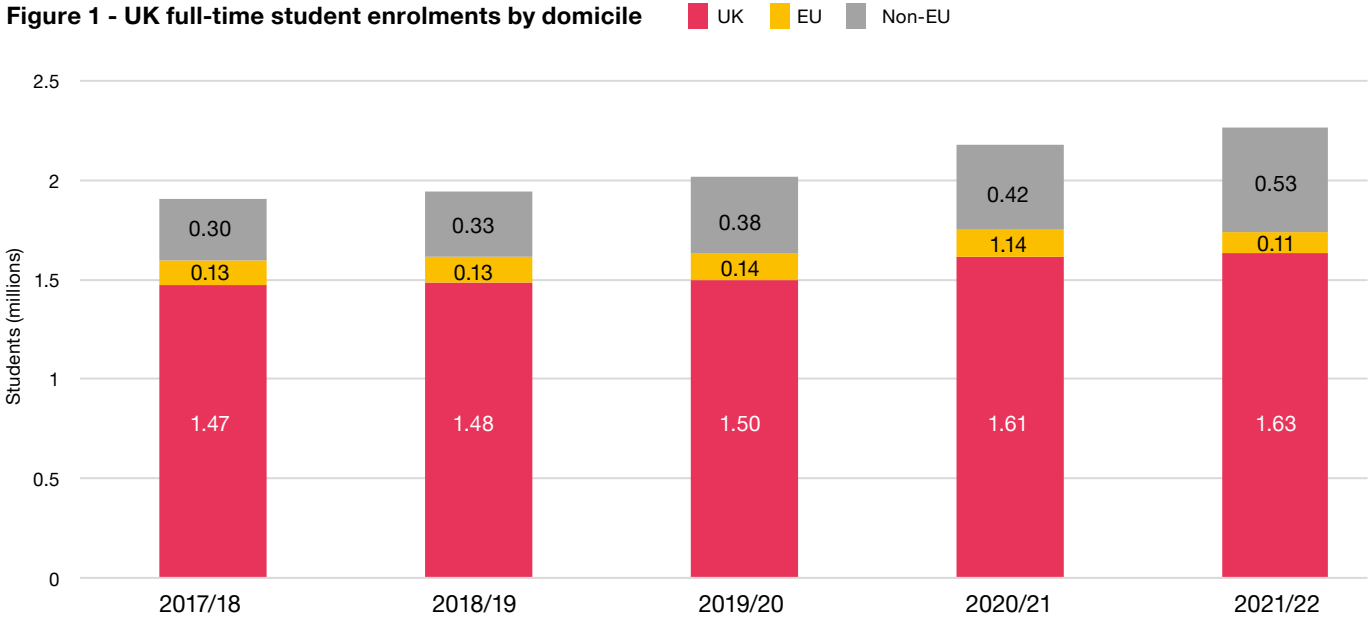
Privately-owned and operated direct let beds (including those nominated or part nominated by universities) account for 57% of the total PBSA market in the UK.



# Drivers for PBSA demand

## Strong and sustained growth in student numbers

Figure 1 - UK full-time student enrolments by domicile



Source: HESA, publications archive, full-time students (all levels of study)

The UK HE sector has strong market fundamentals that have driven sustained and resilient growth in student demand. The growth in FT student numbers since the 2017/18 AY as shown in Figure 1 can be attributed to:

- 1) Non-EU international Students
- 2) Domestic participation
- 3) Domestic demographics



**Non-EU international students** - The UK has seen an increase of c. 77% in non-EU international FT students since the 2017/18 AY, which continued to grow in 2021/22 AY despite concerns and restrictions related to the pandemic. The top three source countries for international students to the UK were India, China and Nigeria respectively. The number of Indian students coming to study in the UK saw the most significant growth between the 2017/18 and 2021/22 AYs, particularly at postgraduate level, which increased by 6.75x (c. 89,000 students).

**Looking ahead:** We can expect to see continued growth in the numbers of international students given the strength of these markets. Many institutions will also see this growth as an important mitigation to the financial pressures caused by the freeze on the domestic fee cap at a time of significant inflationary pressure on cost base. The recruitment of international students will therefore offer the opportunity to deliver improved margins needed to subsidise domestic teaching and research activity.

From January 2024, visa restrictions are to be introduced which will prevent international students (with the exception of research-focused postgraduates) from bringing dependents with them to the UK.

Just under three quarters of the total dependents of sponsored study visas in 2022 were issued to Nigerian and Indian nationals.<sup>1</sup> While the university sector will expect a drop in the number of applications from Nigeria and India due to these visa restrictions, the PBSA sector will be less impacted given students with dependents are more likely to be living in the private rented market / HMOs. This will be further impacted by HE markets such as Australia re-opening to international students post-COVID.

<sup>1</sup> National statistics. Why do people come to the UK? To study, published 23 February 2023



**Domestic participation** - HE participation rates in England have steadily increased over the past 15 years. The latest statistics from the Department for Education show that in 2020/21 AY, 45.9% of 20 year olds in England participated in HE. Compared to 2006/7 AY, this figure was materially lower at 33.6% of 20 year olds.

**Looking ahead:** Recent UCAS entry data indicates growth in participation rates is slowing, though the impact of the pandemic makes this a complex picture. The UK-wide entry rate was 37.5% in 2022, down from its 2021 record of 38.3%, but around 10% higher than a decade earlier.<sup>2</sup> Signs of a slowdown in domestic participation are also seen in UCAS' January 2023 application deadline data, with domestic applicants 3.5% lower than those at the January 2022 deadline.<sup>3</sup> While there will be a wide range of factors contributing to this, anecdotal evidence suggests cost of living pressures (for both students and parents), combined with increasingly attractive alternative routes (such as further education, apprenticeships, corporate school leaver recruitment) are influencing choices.



**Domestic demographics** - The declining number of 18 year olds in England, Wales, Scotland and Northern Ireland dipped to a low in 2019 prior to a rebound in 2020. There will therefore have been an uplift, albeit relatively small, in the number of domestic undergraduates entering HE from 2019/20.

**Looking ahead:** The number of 18 year olds will continue to rise until 2030 (England and Wales) and 2026 (Scotland and Northern Ireland). After 2030, a marked decline in the number of 18 year olds is forecast in England and by 2036 will return to the current (2023) levels. A decline is also forecast after 2026 in both Scotland and Northern Ireland, falling back to the current (2023) levels by 2034 and 2036 respectively.<sup>4</sup>

While offset by the increases described above, it is worth noting the reduction in European Union (EU) students in 2021/22 AY. This was a consequence of EU students no longer being eligible for home fee status post-Brexit and with the requirement to charge higher international fees, the numbers have dropped.

## Growth in student numbers not felt equally

The UK-wide increase in student numbers described above has not been equally distributed across all universities and cities and this has been particularly evident since 2019/20 AY. The collateral effect of the pandemic (including but not limited to the more generous teacher-assessed grades), as well as an increase in marketing and recruitment activity from some universities, has resulted in a swell of student numbers in certain cities. For example, student enrolments in Glasgow (across all universities) has increased by c.18,500 students since 2019/20 AY, with increases of c.10,500 and c.10,000 students in Bristol and Manchester respectively. In some cases universities have been oversubscribed but committed to accepting all students with an offer. This in turn has led to greater pressure on accommodation provision in some cities at a far quicker rate than others.

**Looking ahead:** Over the next two to three academic cycles we are likely to see the market readjust for this, with high-tariff universities returning to much more selective behaviour and students on the borderline of entry requirements seeking opportunities at an increasingly broad set of providers. Use of an insurance choice will become the norm again, as will applying to high quality medium-tariff and lower-tariff universities. Over time, this is likely to redistribute students across a wider set of locations and HE providers. This will therefore increase the pressure on other locations that are not yet quite at crisis point, impacting providers and operators in a wider set of locations.

## Contraction in the Houses in Multiple Occupancy (HMOs) market

HMOs have traditionally been a popular choice for students, accounting for c.33% of FT students.<sup>5</sup> However, the total number of HMOs in England decreased by 4% or c.19,000 between 2019/20 and 2021/22, which could result in a loss of HMOs beds ranging from 57,000 to 95,000.<sup>6</sup>

This fall was driven by increased regulations (such as additional licensing and more stringent building regulations) and tax burden on landlords.

**Looking ahead:** This trend is likely to continue given the impending minimum Energy Performance Certificate (EPC) requirements and plans to replace fixed-term tenancies with rolling tenancies through the Renters Reform Bill. In response to this reduction and the shortage of well-maintained and affordable HMOs, an increase in consolidation, retrofitting and professionalisation of HMOs by private investors is likely.

<sup>2</sup> Higher education student numbers, House of Commons Library, Research Briefing by Paul Bolton, 21 February 2023.

<sup>3</sup> 2023 cycle applicant figures – 25 January deadline

<sup>4</sup> Demand for Higher Education to 2035, HEPI

<sup>5</sup> StuRents, HESA, PwC Analysis

<sup>6</sup> The Department for Levelling Up, Housing and Communities 2019/20 and 2021/22

# Constraints on PBSA supply

**The PBSA supply constraints are numerous and all play into the economics of taking a site or building forward to develop or retrofit.**

While strong demand for premium PBSA beds continues, PBSA investors and developers are faced with challenges in balancing rent, which needs to be set at a level that the local market can sustain, with the rising cost of site acquisition and sustained build cost inflation impacting development. The costs and viability of bringing forward a PBSA scheme are being directly impacted by:



## **A) More stringent planning requirements:**

While local planning authorities adopt different approaches on a city-by-city basis and also across the devolved nations, there is a general consensus that securing planning is becoming increasingly more onerous, complex and time consuming. For example, the supply of beds in London has reduced significantly since the introduction of the London Plan 2021,<sup>7</sup> with its requirement for schemes to deliver 35% affordable<sup>8</sup> student rooms in order to be fast tracked, and for the majority of beds in a building to be secured through a nomination agreement with a university.



## **B) Soaring costs of construction:**

The first half of 2021 saw an exponential increase in the cost of materials, which, alongside the shortage of labour in the construction industry, significantly increased build costs. This is compounded by high land prices that have been slow to readjust to the current macro-economic environment. Long term inflation projections remain consistently anchored around the 3% mark, which is in line with Gardiner & Theobald's (G&T) tender price forecast showing the UK Tender Price Inflation (TPI) average forecast of 2.5% for 2027.<sup>9</sup>



## **C) A higher bar for safety and sustainability:**

Increasing regulations and requirements, particularly in relation to cladding and fire safety in the wake of the Grenfell Tower disaster. As well as the focus on improving energy performance and making the journey to net zero, all result in the escalation of development costs for both new student accommodation buildings as well as the ongoing refurbishment of existing buildings in order to bring them up to the required, or in some cases desired, standard.



## **D) Rising debt service costs:**

Recent inflationary pressures, macroeconomic readjustments and government spending plans have resulted in higher costs of borrowing. This is predominantly due to base rate increases, albeit lender margins have also been increasing, to a lesser extent. At the time of writing, base rates are predicted to stabilise around c. 3.5% - 4% in the longer term, but in the next 18 months markets now expect that the rate will peak at around 6%. Given these market conditions, taking on debt is unlikely to have a positive impact on the viability or profitability of a PBSA scheme in the short term. From an investment perspective, bid-ask spreads have been widening with bidders unable to secure the level of PBSA yields from around 12 months ago given they are less attractive at the current debt pricing, leading to a lower volume of transactions.

<sup>7</sup> London Plan 2021

<sup>8</sup> The definition of affordable student accommodation is a PBSA bedroom that is provided at a rental cost for the academic year equal to or below 55 per cent of the maximum income that a new full-time student studying in London and living away from home could receive from the Government's maintenance loan.

<sup>9</sup> G&T Tender Price Inflation

The confluence of both the overall growth in demand, exacerbated in certain locations, and the significant constraints on supply is creating real problems for students needing to access accommodation at university.



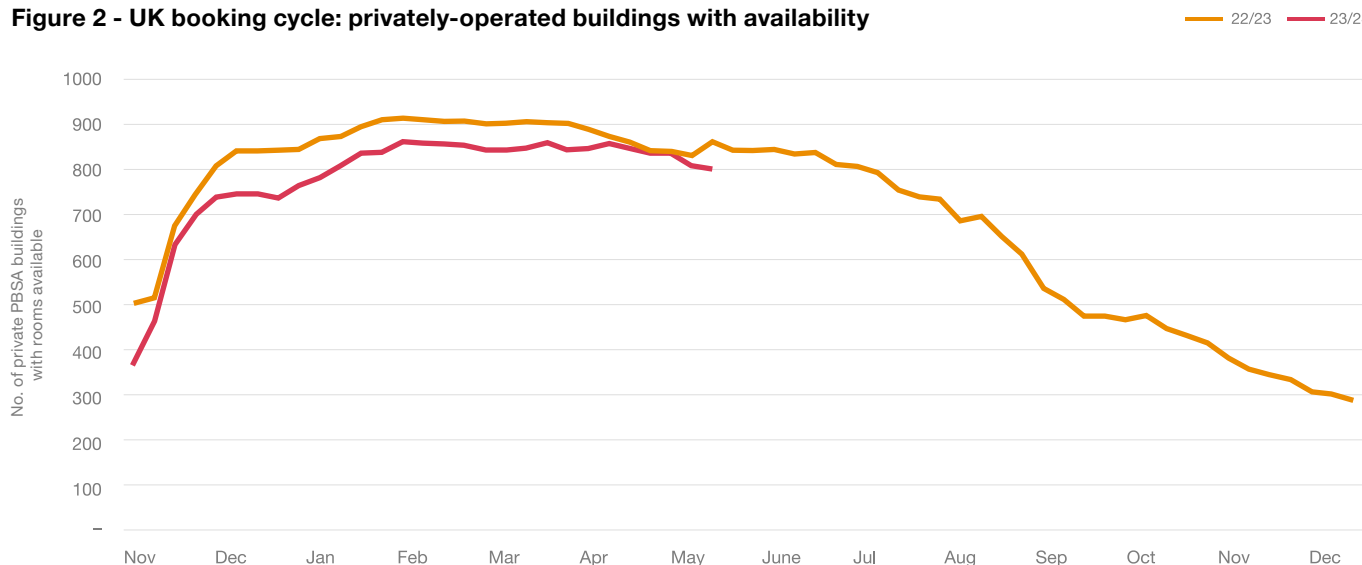
# Booking behaviour and availability for the 2023/24 academic year

Against a backdrop of a widening supply-demand imbalance, it was no surprise that major cracks were beginning to show in certain locations by the early 2022/23 AY. As shown later in the report, buildings in cities such as Bristol, Glasgow, Durham and Bath were almost or completely unavailable by the end of October 2022 for 2022/23 AY and, in some cases, students were housed in hotels or other cities up to an hour away from campus. While most new students will have secured accommodation in time for the start of the academic year, others, such as

those who have gone through clearing or are joining from abroad may still be searching for housing as late as September or October.

While there are many, examples include first year students at the University of the West of England, Bristol, who were living in Newport (around 30 miles away) as they were unable to secure accommodation in Bristol<sup>10</sup> and Manchester Metropolitan University students who were offered accommodation in Liverpool<sup>11</sup> (around 35 miles away).

**Figure 2 - UK booking cycle: privately-operated buildings with availability**



Source: StudentCrowd. For the purpose of this analysis, 1 November is assumed to be the start of a booking cycle. From this date, tracking is undertaken on a weekly basis (until 21 May 2023) to show the number of privately-operated PBSA buildings that have at least one room available that students can book for the following academic year.

There are numerous factors impacting the number of buildings with availability, including

- The number of students that require accommodation,
- The number of buildings,
- The timing of beds being released to the market, and
- The pace at which students commit to leasing a room.

Despite those factors, building availability trends can be an indication of supply-demand imbalances and price sensitivity, both at a national and local level. On a national basis, Figure 2 shows that bookings for 2023/24 AY were ahead of those for 2022/23 AY, with the exception of a few weeks around May 2023 when levels were comparable to the same time last year.

While the national position tells an interesting story of broad consistency, if a little accelerated, there is merit in understanding the differences felt on a city-by-city basis.



Student perspective

If you were a student seeking accommodation for the next AY, the following graphics show the choice of buildings available in each location throughout the booking cycle.

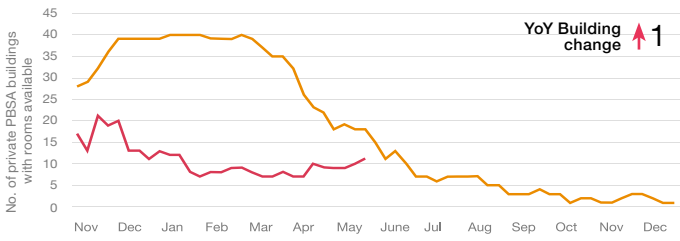
<sup>10</sup> [How student accommodation became a disaster zone for both landlords and tenants](#)

<sup>11</sup> [Manchester students offered halls in Liverpool and Huddersfield - BBC News](#)

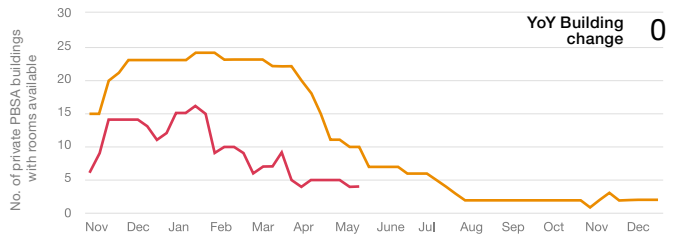
**Fewer buildings available to book than last year**

— 22/23 — 23/24

**Glasgow (Fig. 3)**

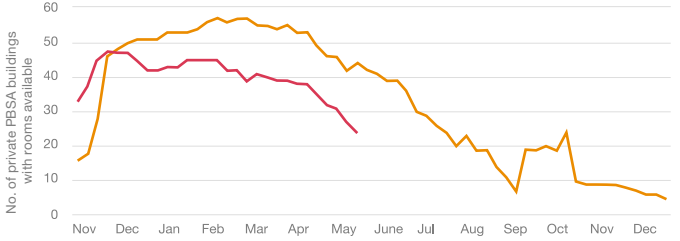


**Southampton (Fig. 4)**



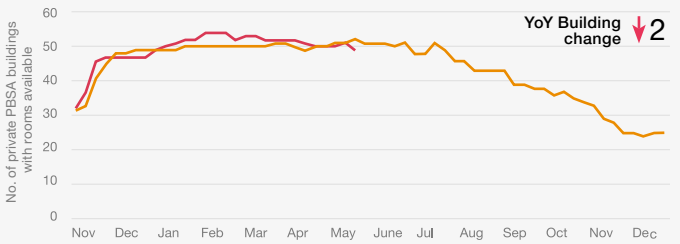
The variance for Glasgow is substantial even though the number of buildings has slightly increased. The red line shows the number of properties available has been slightly increasing since February 2023, suggesting private operators stagger the release of beds or blocks allowing them to release beds on to the market at a later date. The number of buildings in Glasgow have increased marginally with buildings in Southampton decreasing slightly. All three graphs show a material divergence between the number of buildings available for 2022/23 and 2023/24, suggesting that students have been booking earlier to secure a room in those cities that had severe shortages of PBSA for 2022/23 AY.

**Manchester (Fig. 5)**

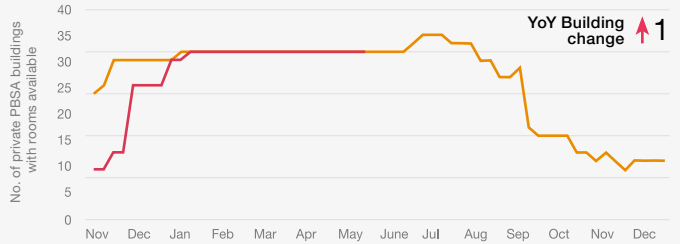


**Availability levels similar to previous year**

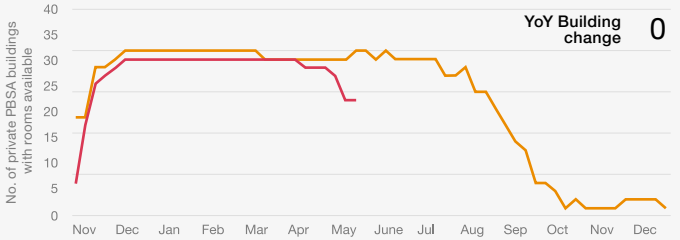
**Sheffield (Fig. 6)**



**Aberdeen (Fig. 7)**



**Cardiff (Fig. 8)**

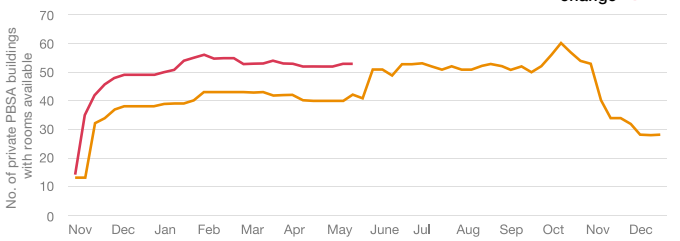


Figures 6, 7 and 8 for Sheffield, Aberdeen and Cardiff show availability levels for 2023/24 AY are tracking relatively close to 2022/23 AY, suggesting limited pressure on securing a bed for the upcoming AY. The number of buildings in Cardiff was stable across both time frames. The number in Aberdeen grew marginally in 2023/24 AY, whereas the number of buildings in Sheffield dropped slightly in 2023/24 AY.

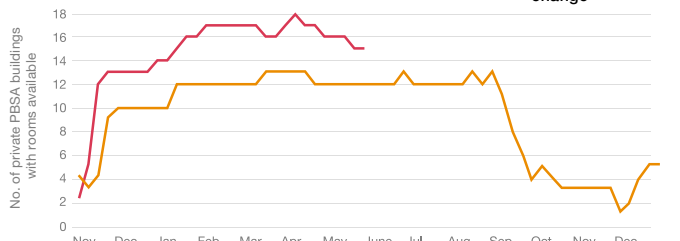
**More buildings available to book than last year**

— 22/23 — 23/24

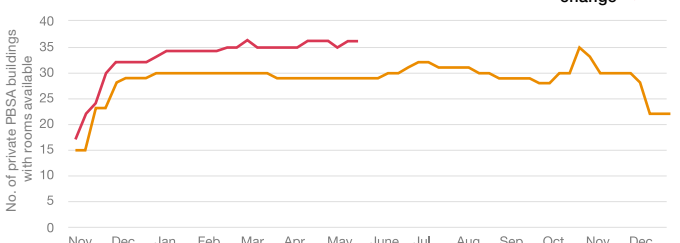
**Leicester (Fig. 9)**



**Plymouth (Fig. 10)**



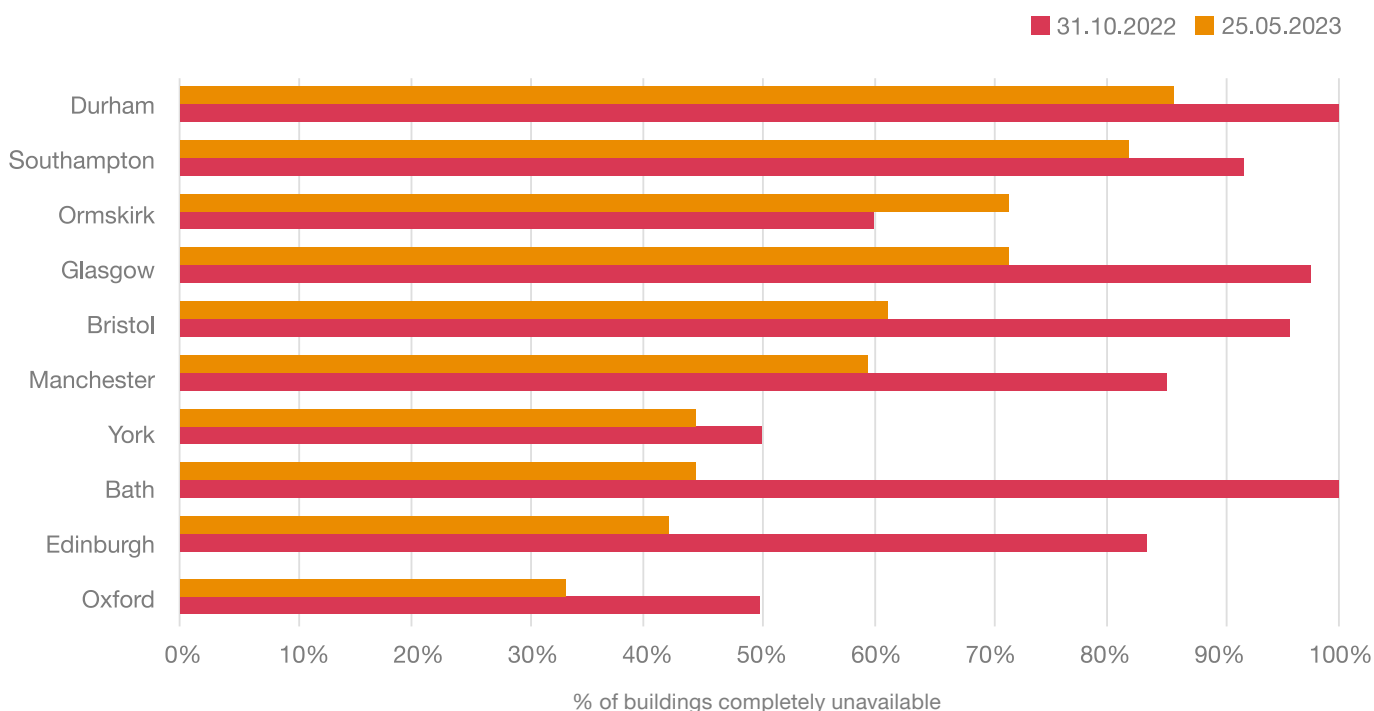
**Coventry (Fig. 11)**



To date, the levels of availability for 2023/24 AY in Leicester, Plymouth and Coventry (as shown in Figures 9,10 and 11) appear to be higher than for 2022/23 AY. There has been a slight reduction of buildings in most markets for 2023/24 AY, indicating there is less pressure on securing a bed in these locations than this time last year.

(Figures 3 - 11) - Source: StudentCrowd. For the purpose of this analysis, 1 November is assumed to be the start of a booking cycle. From this date, tracking is undertaken on a weekly basis (until 21 May 2023) to show the number of privately-operated PBSA buildings that have at least one room available that students can book for the following academic year.

**Figure 12 - The 10 cities with the least availability for 2023/24 as at 25 May 2023 compared with 31 October 2022 (excluding London)**



Source: StudentCrowd.

The graph above shows the percentage of buildings completely unavailable in each city for 2023 as at 25 May 2023, compared with their availability levels at the end of the booking cycle for 2022/23 AY (31 October 2022). A building is counted as available if it has at least one room available to book for the following AY during a specific week. Excludes cities that had five private PBSA buildings or less. Compared to October 2022, all cities except for Ormskirk have seen a reduction in available PBSA buildings.

While the lack of availability is not being experienced universally, it is being felt acutely in certain locations, creating a barrier for some students in accessing accommodation at their university of choice. Rental price growth is simultaneously becoming a preventative factor for some students.



**Student perspective**

If you were a student accepting a place late in the cycle and were looking to book private accommodation in Durham on 31 October 2022 (for the 2022/23 AY), there would have been nothing left to book as no buildings had any available rooms. On 25 May 2023, Durham only had 14% of buildings with availability for 2023/24 AY. This means that from a total of seven private PBSA in Durham, only one building had at least one room available.



# The drivers and impacts of rent increases in private PBSA

Lack of availability is just one of several factors driving up rental costs. Other factors stem from positive change: operators have been investing in the quality and efficacy of their offering. And yet more factors stem from universal pressures such as utilities costs and inflation, as well as catching up from COVID (where a number of rents dropped or remained flat). These have put enormous pressure on the sector across the board and accommodation has not been exempt from that.

Key drivers include:

1. Stubborn operating cost inflation
2. Expanded and improved facilities offering
3. Supply demand imbalance

## Stubborn operating cost inflation

Student accommodation operators have experienced large increases in operating costs, most notably with respect to energy but also with cleaning and security. In some cases, energy costs have increased by more than 50% to £600 per bed per annum, which puts energy costs at 30% to 35% of total operating costs.<sup>12</sup> The primary cause is the stubborn inflationary pressure that has been experienced over the past 18 months. This is especially acute for PBSA since utility costs have experienced very high inflation levels, and represent a much higher proportion of the cost base for PBSA.

Alongside this, there is continued pressure on costs as a result of the labour market, with recruiting and retaining quality operating staff becoming more challenging and therefore competitive. Labour can represent around 30% to 35% of total operating costs.<sup>13</sup>

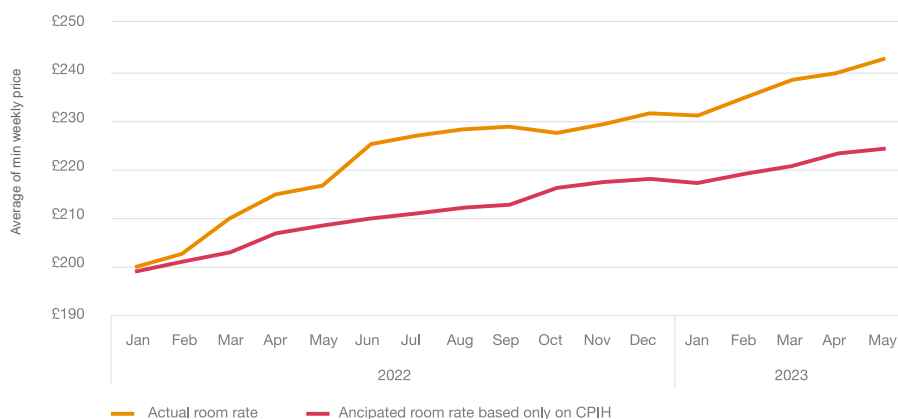
## Expanded and improved facilities offering

Over the course of the last few cycles, private PBSA operators have been responding to highly-competitive markets and student requirements by expanding the strength and breadth of facilities on offer. This has taken various forms; from repurposing spaces to make better use of them, to introducing materially new and improved features to a building. These key investments in the quality of the offering have had a related impact on the rental price.

## Supply-demand imbalance

Locations experiencing substantial demand for private PBSA which cannot be met through the adequate supply of beds are, in general, experiencing an uplift in rental prices. This is illustrated by the fact that a number of the locations experiencing some of the highest price rises (see Figure 14) are also the locations with the lowest levels of available buildings (Figure 12 above), such as Glasgow and Manchester.

**Figure 13 - Price rises as seen against CPIH at a UK-wide level for private accommodation only as at Jan 2022 - April 2023**



Source: StudentCrowd, Office for National Statistics (ONS).

The graph above looks at private sector rent increases compared to general inflation. Analysis undertaken on a UK-wide basis demonstrates that for the period from January 2022 to May 2023, the average minimum price for a privately-owned PBSA bed has been increasing at a significantly higher rate than CPIH<sup>14</sup> over the same period.

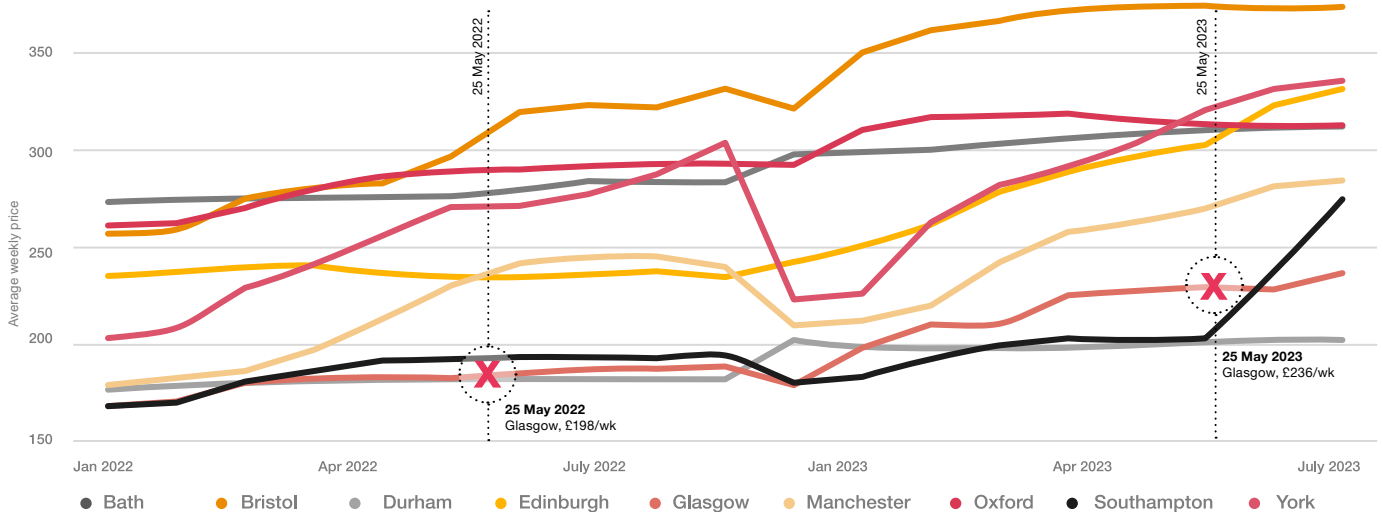
<sup>12, 13</sup> Homes for Students input into Cushman & Wakefield's student accommodation report

<sup>14</sup> CPIH: Consumer Prices Index including owner occupiers' housing costs.

## Have all cities seen the same levels of rent increases?

While we have established that there are significant differences in the levels of availability across some key student locations in the UK, is the same true of rent increases?

**Figure 14 - Average weekly rents for selected cities - Jan 2022 to Jul 2023**



Source: StudentCrowd.

Bringing to light the above graph, below are illustrative examples of the rental increases experienced by some of the select cities:

- Manchester's rental increases are at the upper end of the scale as the average price at May 2022 (for the 2022/23 AY) was c.£220 per week compared with the average price at May 2023 (for the AY 2023/24) of c.£266 per week (21% year on year increase).
- Glasgow: The average price at May 2022 (for the 2022/23 AY) was c.£197 per week compared with the average price at May 2023 (for the AY 2023/24) of c.£234 per week (19% year on year increase).
- Oxford has experienced more modest rental increases year on year compared to Manchester and Glasgow. Oxford's average price at May 2022 (for the 2022/23 AY) was c.£279 per week compared with the average price at May 2023 (for the AY 2023/24) of c.£301 per week (8% year on year increase).

The select cities in the graph above on the whole show a high increase in rents and not all cities across the UK will have increased to the same extent. It is also worth highlighting that prices may be being pushed up by new builds within this graph.

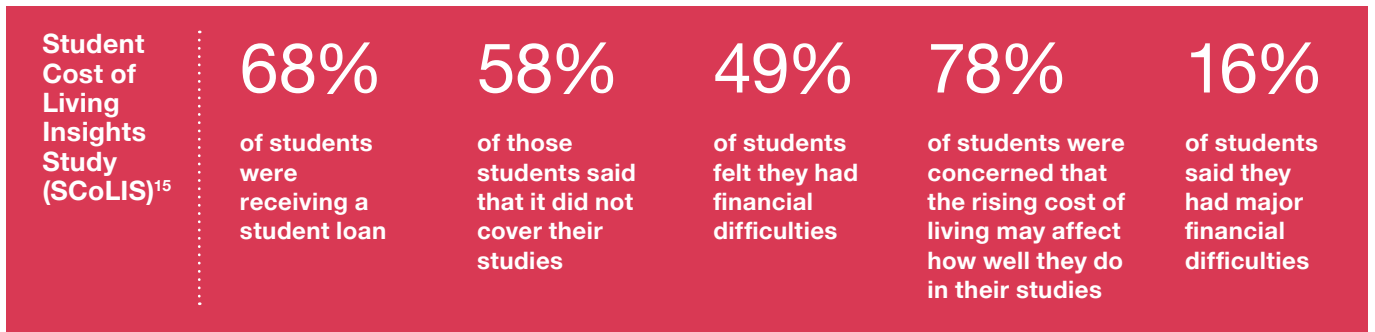


As an example, if you were a first year student who booked a certain studio room from Operator X in Glasgow on 25 May 2022 for the 2022/23 AY (costing £198/wk), that same room would have cost you £236/wk if booked on 25 May 2023 for the 2023/24 AY. That's a year on year price increase of c.19%.

## How do these accommodation challenges impact the student experience?

It is too early to tell how much increased demand in select locations and rising rental prices will impact students' choices on a broader scale. However, increased attention

and awareness is being given to understand how the cost of living crisis (including accommodation costs) is impacting students. Two recent studies reported:

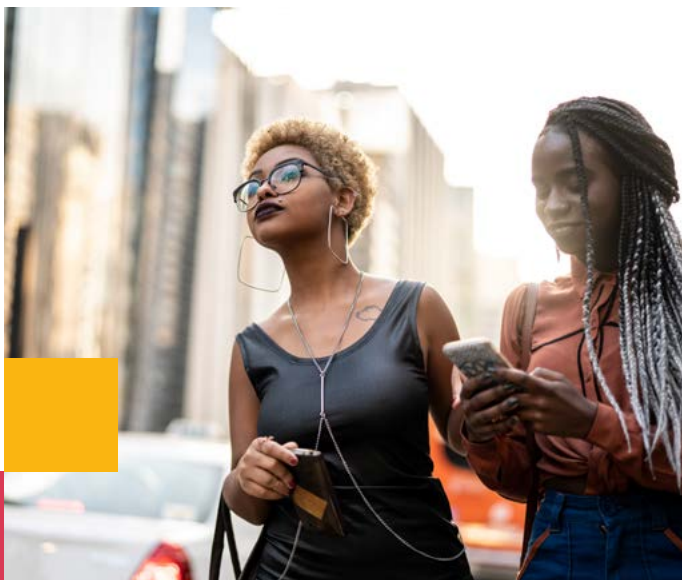


Assuming the current demand and supply imbalance persists, there is a strong likelihood that student accommodation rents in a number of cities across the UK will continue to grow at a rate well above prevailing inflation. StudentCrowd data reveals the average annual rent for private PBSA in 2023/24 AY outside London is £10,227, which is greater than the maximum maintenance loan available for students from England who will be living away from their parents/guardians (£9,978). The average annual rental price for private PBSA in London in 2023/24 AY is £19,706, which far outstrips the maximum maintenance loan available for students from England living in London away from their parents/guardians (£13,022).

Students opting to live in private PBSA will increasingly need additional sources of income to cover their expenses as the maintenance loan will be insufficient to cover accommodation and other living costs, even when you take into account variance of accommodation costs across

locations in the UK. This will require a larger number of students to seek additional part-time work in order to fund their university studies, damaging their academic experience and potential outcomes. This is already being seen in the current academic cycle with a recent HEPI report citing that 55% of students are in some form of paid employment compared to, for example, 34% in 2021, meaning more students are in paid employment than ever before.<sup>17</sup>

Many students may likely face a more limited choice in relation to the mode of and location of their studies. Certainly, many will experience reduced access and choice in relation to the location and quality of accommodation they can afford. Already prevalent concerns over students' mental health and social wellbeing will undoubtedly increase and widen as more students will be unable to manage financially. Meanwhile, the most disadvantaged students will be hit hardest, leading to narrowing access to HE and increasing dropout rates.



<sup>15</sup> The ONS released experimental statistics from the Student Cost of Living Insights Study (SCoLIS) in England from October / November 2022 and then more recently from January / February 2023.

To date, the survey response rate has been low therefore the conclusions may not be indicative of the wider student population in the UK.

<sup>16</sup> The Russell Group Students' Unions undertook cost of living research in January / February 2023. 14 Students' Unions participated, achieving 8,800 responses and these respondents were self-selecting.

<sup>17</sup> Student Academic Experience Survey 2023, HEPI

## How do these accommodation challenges impact universities?

### Subsidising affordable accommodation options:

Universities endeavour to provide access to a mix of accommodation types for their students. In recent years, there have been some cases where universities have also found themselves acting as the provider of last resort for affordable student accommodation, subsidising rents in owned or nominated beds across their accommodation portfolio. This practice is unlikely to be sustainable for any universities that are having to subsidise rents at scale, as in some cases this will be placing added pressure on already stretched university finances (see appendix 1).

### Increased pressure on borrowing and prioritisation of capital:

While many universities need more student accommodation to support recruitment, not all have sufficient headroom in their borrowing capacity in order to fund its development. Office for Students (OfS) noted in its 2023 update on financial sustainability<sup>18</sup> that economic constraints and weaker financial performance could limit the availability of affordable borrowing options, affecting the feasibility of some universities' development plans. Where capital can be raised, competing demands means that student accommodation cannot always be prioritised.

## Looking at the opportunities ahead

This report makes for sobering reading, and due to the complex nature of the dynamics, there are no easy or fast fixes. The confluence of factors over the last few years have been unique, and in that sense, there is reason to hope that they will not last forever. However, it does not seem likely that the cost and limited supply of accommodation will significantly change in the short-term and in the meantime, this is becoming a prohibitive factor for some students in terms of their access to or experience of HE.

This changes the implications for investors and universities in deciding when and how to increase stock. The unique factors coupled with the current costs and limitations on supply has an acute impact on the viability of budget student PBSA options - the very thing that is needed. Crucially, it's clear it is not a problem which can be remedied solely by any key market participant.

There is widespread motivation to relieve some of these pressures, where that may be possible. Investors want to invest and are seeking viability. Universities want to support their student body, both for academic and personal success, and know the lived student experience is an essential part of that. They are seeking efficacy in solutions. This is exemplified in the recent Universities UK paper on student accommodation best practice.<sup>19</sup>

### Mixed picture in securing nominations agreements:

Securing nominations agreements in the current market can be challenging for some universities. In cities where demand is strong, many private PBSA investors and operators have a preference for direct-let in order to have the flexibility to set market rents, avoiding the cap and collar rent mechanisms that are prevalent in the agreements. Even in London, where the London Plan stipulates the need for a nominations agreement, there are some universities that are unable or unwilling to enter into them where their obligations would need to be recognised on their balance sheet.

While these challenges may not be new, pressure has been building acutely over the last 24 months, exacerbating the tension felt by universities. The more that accommodation costs rise above total maintenance loans, the added pressure students will feel on their finances. If students are unable to access affordable accommodation, over time universities run the risk of:

- Reduced levels of recruitment and retention of students
- A fall in National Student Survey (NSS) and other student satisfaction metrics
- Market conditions negatively impacting levels of widening participation that can be achieved
- Reputational damage where students cannot secure a bed within reasonable proximity

Finally, student demand remains - and they want the freedom to choose to fulfil their potential without cost being a prohibitor. Looking ahead, we believe there are some key opportunities that could be explored, particularly in those locations where demand is already at a crisis point or where there is likely to be expanding demand in the near future:



### A) Universities working together and with their local authorities:

there are already some very positive examples of this starting to happen, for example the 'Nottingham Student Living Strategy'<sup>20</sup> which seeks to collaborate on additional provision as well as address consistency in quality across the city.



### B) Universities partnering with the private sector:

it is possible for private sector capital to be used to support universities to improve the quality and environmental credentials of their student accommodation. There is also an opportunity for universities and private investors to collaborate on finding ways to identify and develop affordable PBSA beds, with a view to creating a balanced mix of stock.



### C) Reimagining the HMO market:

if regulatory changes are pressuring traditional HMO landlords into other routes, there may be an opportunity for private investors or universities to consolidate HMO properties into a portfolio which offers economies of scale in operations and the potential for creating a more consistent, higher quality offering as well as a stronger community for the students.

<sup>18</sup> Financial sustainability of higher education providers in England - 2023 update. OfS, May 2023

<sup>19</sup> Student accommodation best practice

<sup>20</sup> Universities working together with their local authorities



**D) Seeking alternative short-term solutions:** Retro-fitting other accommodation types like hotel spaces may be suboptimal but as a compromise solution, it could at least provide some additional quicker-to-market beds.



**E) Access to data for decision-making:** particularly for investors, the key to success will lie in selecting the right cities to invest in. Understanding market trends is paramount for investors to maximise potential as well as exploring opportunities to retrofit brownfield buildings. For universities, there is an acute need to understand the trends in their local markets better and there is data available to fill in this intelligence deficit.



**F) Information for prospective students, especially international students:** it is vital that they understand both the necessity of researching accommodation options while considering university and course choices and the need to lock into accommodation early. Students should also be made aware that rooms may be available to them, for example through nomination agreements, that are not explicitly available to book online and operators can be contacted directly to enquire about availability.

In focusing on broader themes, this paper has not touched on the variation in needs for accessible rooms or increasing requirements for family accommodation, to name but two. The challenge is not one of accommodating a group of 1.42 million students, but of providing a home that encourages academic and social success for 1.42 million individuals.

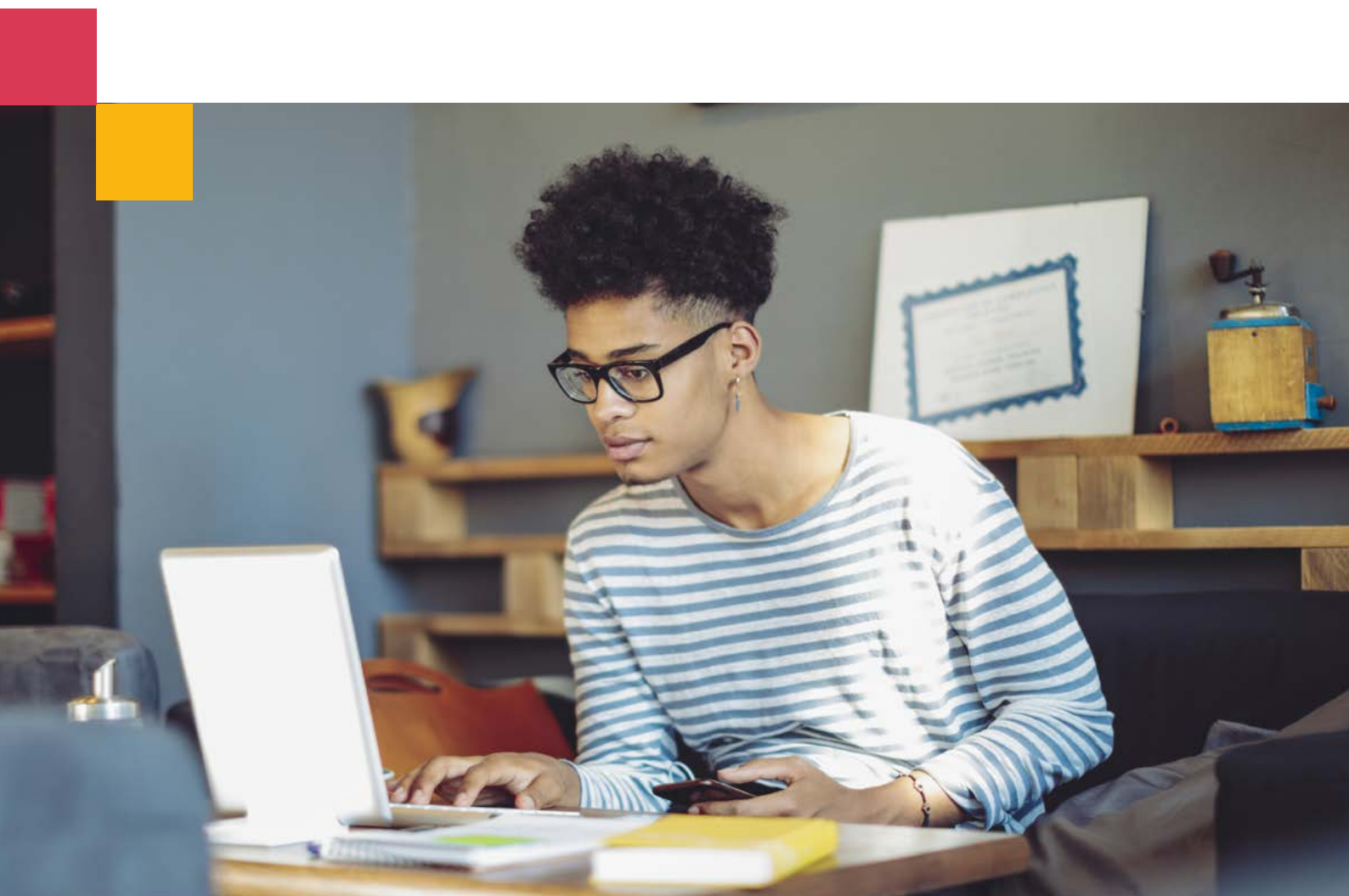
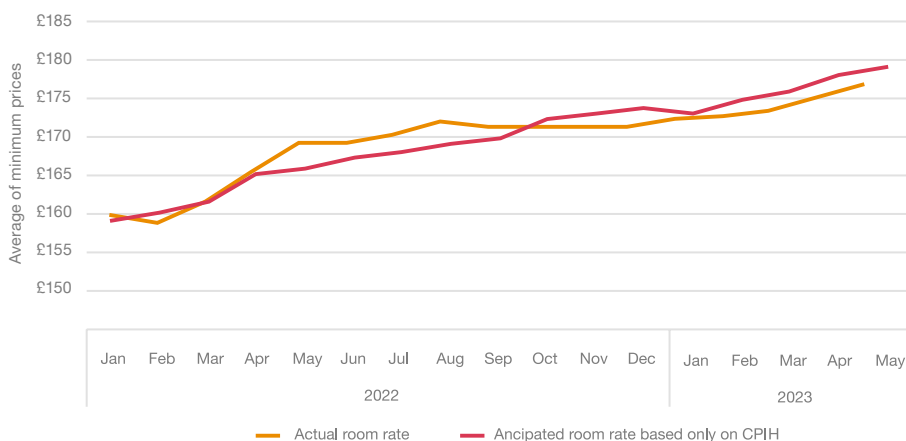
As we have explored, all participants will be experiencing the student accommodation challenge differently but there is fertile ground on which to bring those experiences together for common solutions. Finding innovative ways to tackle accommodation shortages that provide change for the short, medium and long term will help address the challenge of affordability. Nevertheless it is important to recognise that this is not a supply issue alone. Collaboration and balanced involvement across market participants is vital to bring forward viable budget PBSA options, as well as to ensure that the mix of accommodation stock is truly serving the needs of all students.



# Appendix 1 - Universities subsidising accommodation

Based on how university accommodation is indexing against CPIH (Consumer Prices Index including owner occupiers' housing costs) suggests that universities are subsidising accommodation costs in order to maintain lower rental prices. This is also regularly substantiated by anecdotal evidence.

**Price rises as seen against inflation rate at a UK-wide level for university-owned accommodation only as at Jan 2022 - April 2023**



# Thank you



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## About StudentCrowd

StudentCrowd's dataset covers the live price and availability (and a number of other factors) for 100% of the UK PBSA market (this includes every private and university property with more than 10 beds).

It makes this data available for a number of purposes:

- Help students make decisions (via [StudentCrowd.com](https://www.studentcrowd.com)).
- To help HE organisations make decisions (via dataset/insight products).
- To help the wider HE sector (via publications- like this one!)

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