

# UK Student Accommodation

June 2021



# Student accommodation is a well established market, which remains attractive to investors

## Purpose Built Student Accommodation (PBSA) is well established within the UK with 34% of students accommodated within the sector

The PBSA sector is housing specifically built for University students by private developers. These can be standalone, in close partnership with Universities or owned by Higher Education providers.

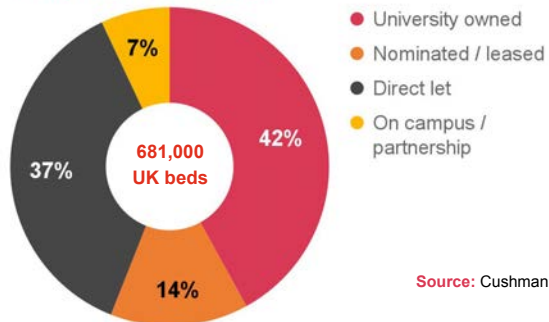
Following rapid investment growth over the last decade there are now 681,000 beds (2019/20), accommodating c.34% of students.

Investment shows no signs of slowing down, with the number of beds over the past 3 years increasing by 20% and robust demand and under supply continuing to fuel market growth.

As a result, by 2020/21 over half of the UK's student accommodation bed stock is offered by the private sector, up from 39% in 2012/13.

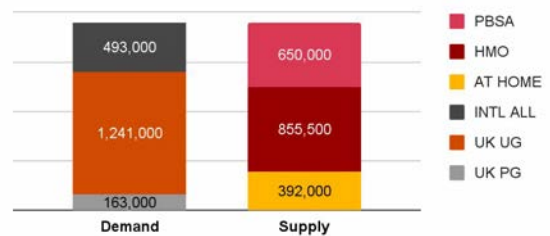
The sector is dominated by a number of sizable players, with the top 10 operators controlling 59% of the private market (Cushman & Wakefield).

### PBSA by ownership



Source: Cushman & Wakefield

### Sources of demand and supply (2019/20)



Source: HESA JLL, Unitex

## UK PBSA remains attractive to investors, with the number of deals showing no signs of slowing and share prices of listed providers remaining resilient

International investors are drawn to the attractive countercyclical nature of the sector, with over 70% of investment coming from overseas buyers (sovereign wealth funds, high net worth individuals and private equity).

Even during 2020, in the midst of the Covid-19 pandemic, deals completed to deliver a record £5.77bn of investment (81% of this was represented by Blackstone's investment in IQ, completed in May 2020). Optimism is equally seen across the share prices of the three largest public operators, who cumulatively provided 13% of PBSA beds at Dec 2019, which were back to c.87% of pre-Covid levels by June 2021.

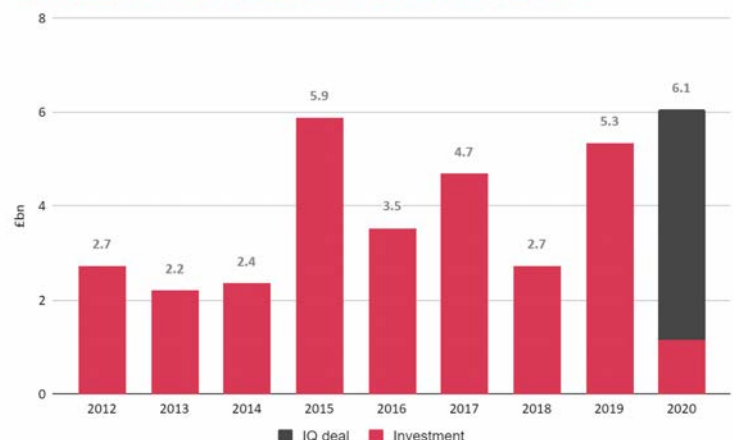
If distressed opportunities do arise, as a result of short term liquidity concerns, there is significant appetite in the market to acquire additional stock, especially given that student accommodation is currently a more attractive proposition than many retail, leisure, hospitality and office spaces. The market has seen hotel developments being adapted into student accommodation blocks with the expectation that this will provide greater returns on investment.

### Share price of Unite, GCP and Empiric (% of 31 Jan 20 share price)



Source: Google finance

### UK student accommodation investment volumes



Source: Cushman & Wakefield

# The impact of Covid-19 on the student accommodation sector has not been as severe as first feared

## University enrollments in September 2020 were more resilient than anticipated

At the start of the Covid-19 pandemic, London Economics' analysis estimated a 24% decrease in students enrolling at Universities in 2020/21, with inability to travel into the UK, disruption to exam results and the loss of student experience expected to result in greater levels of deferrals.

This caused immediate concern throughout the sector, particularly for the PBSA providers that fundamentally rely on first year and international students as a large proportion of their occupancy.

However, UCAS applications showed 1% growth overall, with robust domestic and international recruitment (both of which were fuelled by a reduction in alternative work or gap year opportunities).

Whilst UCAS does not directly account for all student recruitment (let alone retention) there is no doubt that this is indicative of the overall optimism seen across the Higher Education sector.

### Year on year movement in firm UCAS offers for September 20 start

UK	↑	+1%
EU	↓	-6%
International	↑	+12%
Total UCAS	↑	+1%

**Source:** UCAS, September start dates  
Please note that UCAS data typically includes 29% of international, 68% of EU and 61% of UK UG applicants - with the remainder applying directly to Universities, therefore this may be indicative of overall trends but final enrollments may vary.

## However, there have been financial challenges; with refunds and discounts seen across the sector in 2019/20 and 2020/21

The impact for providers has varied depending on the level of nomination agreements held and the approach to refunds and discounts over the pandemic period. Whilst it may be limited to the short term, providers across the board have incurred material losses.

As the UK went into lockdown in March 2020, the majority of students stayed at parental homes to complete their final term, with the sector responding by offering refunds and discounts. With buildings remaining operational to accommodate remaining students, including those from overseas, operators were unable to reduce costs significantly.

The number of refunds and waivers of accommodation fees was less significant in 2020/21, with many providers unable or unwilling to further worsen already poor liquidity, given students had prior knowledge of the pandemic.

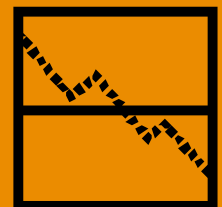
Despite courses remaining online and social distancing measures impeding the student experience, by March 2021 76% of students were living at their term-time address (ONS).

However, with over one-fifth of students unable to pay their rent in the four months to April 2021 (NUS) additional tension has arisen, with rent strikes across over 50 Universities and some providers having to take action to collect debts.

## Listed PBSA providers suffered a decline in revenues

The impact across the sector differed considerably, depending on refund policies and nomination agreements in place. This variation was seen across the three public PBSA providers' results, with annual incomes decreasing 10% to 32% to December 20 due to Covid-19 rental refunds, cancellations and flexible tenancies.

JLL reported average sector occupancy of 83% for 2020/21, down from 98% in 2019/20, with average tenancy lengths also reduced due to operators offering flexible start dates.



## Occupancy and year on year movement in 2020/21 across the three largest public PBSA providers (as at Dec 2020)

Unite	88% (-7%)
Empiric Student Property	65% (-20%)
GCP Student living	68% (-32%)

**Source:** Statutory and interim accounts, Occupancy reported by Dec 20 and YoY movement (pre-Covid levels)

Operators have indicated lower occupancy levels in 2020/21 than prior to Covid, before taking into account any subsequent discounts and refunds due to continued lockdowns.



# Recessionary impacts, combined with demographic trends, look set to see growth in demand for HE

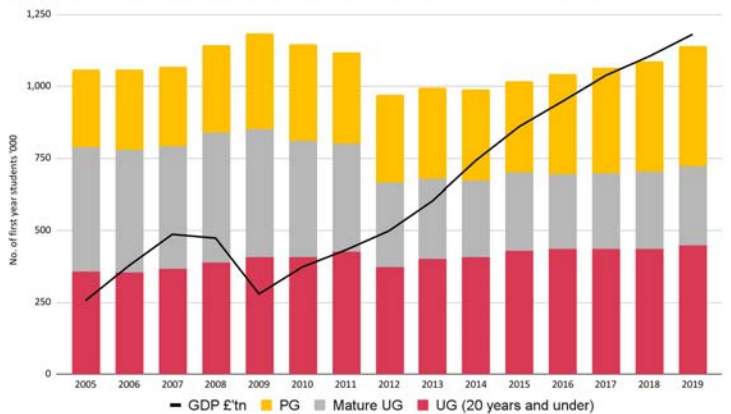
The Higher Education student market is counter-cyclical, and the expected recessionary impacts post the Covid-19 pandemic will increase demand for University education

A weaker job market is strongly correlated with a rise in Higher Education applications, from both school leavers looking to improve their prospects and mature students looking to retrain (as seen post 2008 in the graph).

The 2021/22 UCAS recruitment cycle already shows this trend playing out, with 10% growth on total applications vs. 2019 and 24% growth in mature student applications.

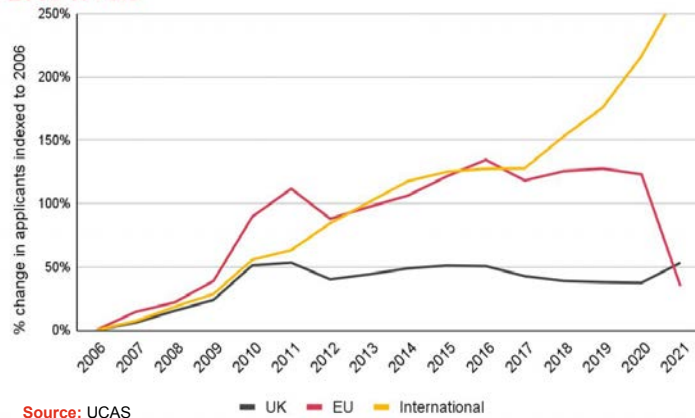
For PBSA providers, growth in the number of mature students should be treated with caution, since c.50% typically chose to live and study from a home address and therefore may not require student accommodation.

Total number of first year HE students relative to UK GDP



Whilst EU students declined in number post-Brexit, international students continue to demand a UK education

% change in UCAS applicants by domicile, compared to 2006 levels



PBSA is heavily reliant on overseas' students, who are 60% more likely to live in PBSA than domestic, are more likely to remain in the same accommodation for the duration of their studies and tend to be less price sensitive.

The UK continues to remain a popular choice globally for Higher Education, (being 2nd only after the USA) which has been further boosted by the news that from 2021 international students will be allowed to stay in the UK for two years post graduation. 2021 international UCAS applications are up by 17.1%, offsetting the drop in EU applications linked to changing fees as a result of Brexit.

Whilst high UK vaccination rates have made the UK attractive to overseas students, it is unclear the impact ongoing travel restrictions and the Delta variant could have on final enrolments for the 2021/21 academic year.

As the UK heads out of the demographic dip for 18 year olds, assuming participation rates continue to rise, it is estimated that 358,000 more student places will be required by 2035

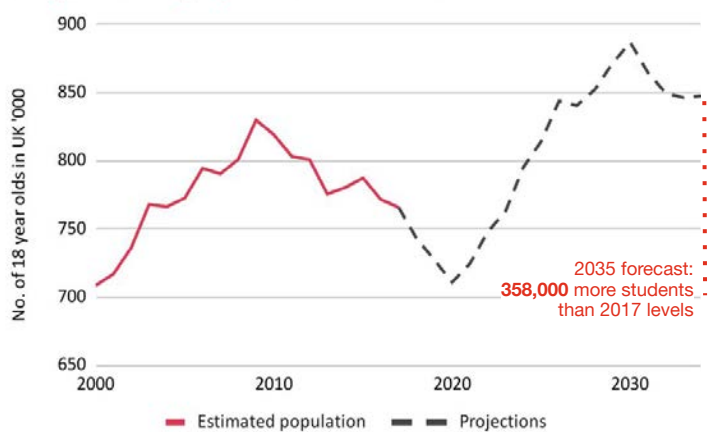
From 2021, demand for HE is expected to increase as the UK heads out of the demographic dip, (low numbers of 18-year olds in the UK population).

HEPI noted that if participation rates stay at current levels, there would be an expected increase in England of around 40,000 students and a decrease in Scotland of 18,000 students from 2017 to 2035.

However, should prior increases in student participation levels continue, it is estimated that England will require a further 358,000 student places by 2035, with the biggest growth in London and the South East, but little change in Scotland and Northern Ireland.

Against the expected PBSA pipeline of an additional 141,000 beds by 2030, this could lead to over two new students for every new bed, and therefore excess demand.

18 year old population - ONS



# As student needs change, providers will need to adapt to compete

Whilst long term growth is expected in HE, and therefore growth in demand for student accommodation, we expect that the increase of blended learning alongside a changing demographic of students will create pressure on housing stock to meet changing student demands. Providers should use this time to analyse the outlook for each asset, reassessing the relationship with the University and regulatory requirements, all whilst being mindful of costs.

## Competition with newer stock

- Increasingly discerning students come with expectations for en-suites, double beds and fast wifi.
- Newer properties will capture market share as buildings quickly become outdated, increasing refurbishment costs.
- Higher performers will need to offer modern infrastructure with flexible add-on benefits.

## Affordability

- Widening participation, rising unemployment and lack of part time employment opportunities may cause greater price sensitivity.
- On average PBSAs cost 6% more than University operated accommodation, and 30% more than privately rented housing, meaning PBSA providers will have to consider how to remain competitive. (Knight Frank)

## Changing student demographics

- The growth in blended learning and mature learners is highly likely to increase the proportion of students choosing to commute into University from home or looking for shorter term tenancies.
- Winners in the sector will be those who diversify their offering to offer flexible tenancies and target various demographics to ensure higher occupancy levels, while developing non-term time revenue opportunities.

## Community hubs will fare better

- Despite the increase in virtual learning, young people still demand the 'student experience'. Those that offer a community will fare better, especially those with social spaces (e.g. shared workspaces & gyms).
- With students' mental health an increasingly prominent concern with parents and University decision makers, providers may want to consider how best to safeguard students or provide holistic services.

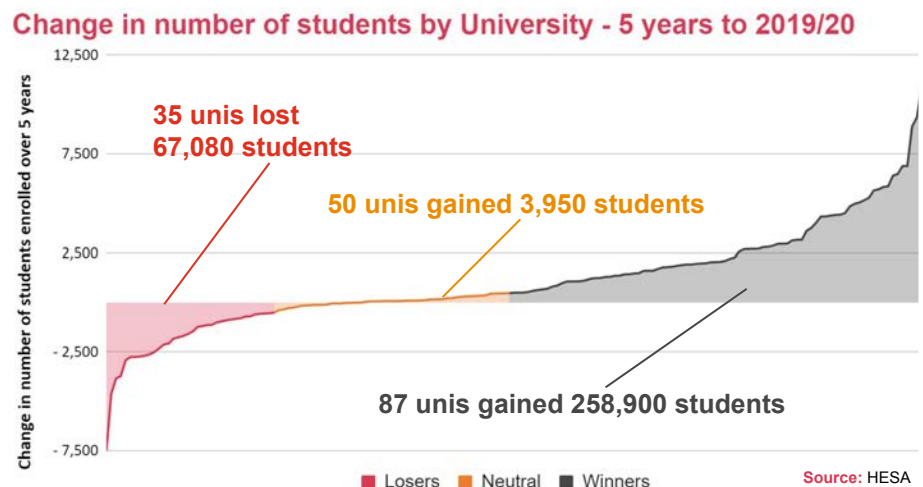
## ESG & Net Zero

- Providers face pressure to be Net Zero by 2030, with investors and eco-conscious Universities demanding high levels of sustainability.
- Osborne Clarke noted that the cost of ensuring new builds are compliant could add 2-10% to the cost base, whilst retrofit costs for older buildings will be variable.
- Whilst most of these costs may not be able to be passed on, an increasingly socially aware student base may choose to purchase from providers that articulate the most compelling environmental credentials.

## Strength of the University

- As the graph highlights, whilst there has been overall growth in student numbers, some Universities have lost market share.
- Higher tier universities have experienced more robust growth in student numbers (13.2%) than their mid and lower tier counterparts (3.7% & 1.1%).
- The market has seen student accommodation providers review and divest of assets in poorer performing locations.

Whilst 2019/20 saw an additional 196,000 students enrolled in University versus 2014/15, some Universities have gained significantly more market share - where others have not fared so well.

## Poor quality buildings and cladding issues



- In July 20, the draft Building Safety Bill specifically highlighted student accommodation as higher risk. As such it will be subject to a more stringent fire & safety and regulatory regime that providers need to navigate.
- Remedial cladding works can be seen across PBSA providers, with some providers disclosing costs of c. £1.8m per building, however these can be difficult to quantify given remedial work can reveal further issues and reclaiming costs from building suppliers can be complex; some situations may also require emergency evacuation and relocation of students.

## Working closely with Universities



- Many Unis are looking to adapt courses to apprenticeship models, offer blended learning and provide greater flexibility for students.
- Student accommodation providers will need to work alongside Universities to match the provision with the needs of the student.
- With 13.5% of students now using clearing - PBSA operators may not have visibility until late into the recruitment cycle. The best performers will have to balance maximising occupancy whilst understanding student demand patterns.

## About us

Since the beginning of 2018 we have supported on over 20 deals in the student accommodation sector across the UK and Europe, with a gross value of c.£9bn covering in excess of 130,000 beds



**Nick Frendo**  
Partner, Real Estate and Hospitality  
Due Diligence  
[nicholas.frendo@pwc.com](mailto:nicholas.frendo@pwc.com)



**Saira Choudhry**  
Partner, Real Assets Audit Leader  
[saira.choudhry@pwc.com](mailto:saira.choudhry@pwc.com)



**Andrey Redman**  
Senior Manager, Real Estate Debt  
and Capital Markets  
[andrey.redman@pwc.com](mailto:andrey.redman@pwc.com)



**Braiden Goodchild**  
Director, Student Housing M&A  
[braiden.goodchild@pwc.com](mailto:braiden.goodchild@pwc.com)



**Karen Best**  
Director, Education and Student  
Accommodation Corporate Finance  
[karen.best@pwc.com](mailto:karen.best@pwc.com)



**Matthew Armstrong**  
Senior Manager, Student  
Accommodation Real Estate - Value  
Advisory  
[matthew.x.armstrong@pwc.com](mailto:matthew.x.armstrong@pwc.com)



**Andrew Walker**  
Senior Manager, Capital Projects -  
including building information  
and safety  
[andrew.walker@pwc.com](mailto:andrew.walker@pwc.com)



**Sophie Horsley**  
Senior Manager, Education - Business  
Recovery & Turnaround  
[sophie.l.horsley@pwc.com](mailto:sophie.l.horsley@pwc.com)

[www.pwc.co.uk/realassets](http://www.pwc.co.uk/realassets)

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