



Spotlight **World Student Housing**

2015/16



Spotlight WORLD STUDENT HOUSING



The student housing market is recognised as a mainstream real estate asset class with worldwide potential

The student housing market has come of age and is no longer a specialist or alternative investment class. Record levels of institutional investor activity are testament to its global potential as a mainstream real estate asset and we now anticipate that it will become increasingly well-established in a variety of countries.

The opportunities for the pioneers in this sector to expand have never been greater and, in this report, we have identified new areas for activity in Europe, Australia and the Middle East. We have also identified potential pitfalls and threats and, building on last year's research, have emphasised the necessity to look at local markets rather than national ones and pay attention to local supply and demand factors.

In the long term, the nature of higher education may be changing due to technological advances but it has also never been more important. In the technological age, global employers are searching for human

talent and skills and universities are a vital component in providing these. Meanwhile, increasing world prosperity and a growing middle class in many emerging economies means that the global student population will continue to expand.

The experience of university as an away-from-home phenomenon will ensure demand for student accommodation but the quality, cost and location of this demand varies significantly between institutions, cities and countries and needs to be understood by the pioneers who seek to develop new product.

This latest global student housing spotlight will provide you with the information and insight needed to navigate the new and changing world of this type of real estate, whether as a new investor or seasoned developer-operator. Its overall message this year is one of activity, investment and opportunity. We expect to see the successful US and UK models of provision increasingly employed and adapted to new countries and markets in the coming decade. ■

▼ The sector is full of opportunity



SUMMARY



INVESTMENT: The UK saw over \$6.5bn of investment in its student sector in the first three quarters of 2015, overtaking the US. p.04/07



SUPPLY: The private sector is pioneering new delivery in mainland Europe targeting the premium end of the market. p.08/09



DEMAND: The cost/benefit of study comes to the fore as institutions compete on a global stage. Globally mobile students underpin demand for purpose-built student housing. p.10/15



MARKET PROSPECTS: As investors move beyond core markets, mainland Europe looks increasingly appealing. Australia benefits from Asian student demand. p.16/21



OUTLOOK: Technology, emerging wealth, education reform and new sources of finance will shape the student housing sector in the years to come. p.22

This publication

This document was published in October 2015. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Investment

WORLDWIDE INVESTMENT TRENDS

While student housing markets in the US and UK can be considered mature, many in major European cities are still in their infancy

▼ Bespoke student housing is a highly investible asset class



Rapid wealth creation in emerging economies has led to a surge of globally mobile students seeking quality education overseas and, in turn, a place to stay.

For many host countries, the purpose-built student housing sector has consequently become established as a highly-investible asset class. At the same time, recessionary conditions in Western markets have led to a surge in domestic student numbers, driving the need for student accommodation at home and further boosting demand for accommodation. This has helped to make student housing performance less cyclical than some other property asset classes, providing investors with stable income flows, low voids and a solid demand base.

Growing demand is set alongside very low levels of supply in many markets, making student housing a secure and appealing investment. While it was considered a fringe, alternative investment class just two decades ago, student housing is now firmly established in the UK and US and the sector now has increasing appeal to institutional investors who are actively participating in the market.

Performance in the sector has low correlation to the traditional real estate asset classes, so it has proved particularly effective in diversifying property portfolios. Institutional



Growing demand is set alongside low levels of supply in many markets

investors, with traditional investor-operators, pushed global investment volumes to new highs in 2015, exceeding anything seen before.

Investment hierarchy

The US student housing market is the world's most mature, with several student housing REITs publicly traded. The US market is supported by a huge higher education population (totalling 20.6m) and its position as the number one destination for foreign students. Reflecting this maturity, some investors now see the sector as more fully priced than newer markets. This has slowed recent activity and led to a decline in investment volumes since 2012.

The UK is the world's next most mature market, having seen huge expansion in the last decade and coming into its own during the global financial crisis. The UK's first student housing REIT was listed on the London Stock Exchange in 2014.

Many of the student housing markets in major European countries are still in their infancy, but at various stages of development and representing significant untapped potential for those willing to help nurture them. Investment has been pioneered by local players, but the international market is taking note.

The Netherlands, arguably the most 'Anglophile' in its education offer (more courses are provided in English here than in any other non-English



Global investment volumes were pushed to new highs in 2015

speaking market) has seen among the highest levels of new investment in recent years. Developers have successfully adapted the UK and US model for this market making it a highly investible proposition.

In the German market, early investors have found success by offering a premium product to compete against the affordable not for profit (Studentenwerk) product. The premium approach has also worked in key Spanish cities, differentiating against an affordable private rented sector. Victoria Hall were early entrants in Spain and Germany. In the most investible student cities of France, notably Paris, sites are in short supply and accommodation supply is limited, which has put downward pressure on yields.

Beyond Europe, Australia is another emerging market for the sector. On Asia's doorstep, it offers English language tuition and an enviable quality of life. Investors have focused on the biggest of the Australian student cities, Sydney, Melbourne and Brisbane, where some landmark deals were undertaken in the last year.

UK market comes of age

The student population of the UK is 2.3m; less than one-ninth that of the US but the big story of the last 18 months has been record levels of investment in the UK market, which exceeded US investment volumes for the first time. Focusing on big-ticket deals (US\$7.5m+) and excluding land sales, over \$6.5bn of investment was seen in the UK student housing market in the first three quarters of 2015, compared to just over \$3bn in the USA over the same period (see Figure 1).

Private equity funds and finance companies are selling their assets and mainstream investors, insurance companies, pension funds and investment banks are buying.

2.3m

The student population of the UK is less than 1/9th of the US

This is a sure sign that the sector has matured.

The launch of the UK's most recent student REIT, the Empiric Student Property Fund, listed on the London Stock Exchange in June 2014, is testament to the maturity of the UK market. It brought with it a slew of new acquisitions, with deals in Liverpool, Durham and Lancaster.

Other active players include the non-listed Unite UK Student Accommodation Fund, which acquired 2,100 beds from Ahli United Bank, and US-based Greystar on behalf of Goldman Sachs, which purchased 13 properties from Oaktree-backed Knightsbridge Student Housing.

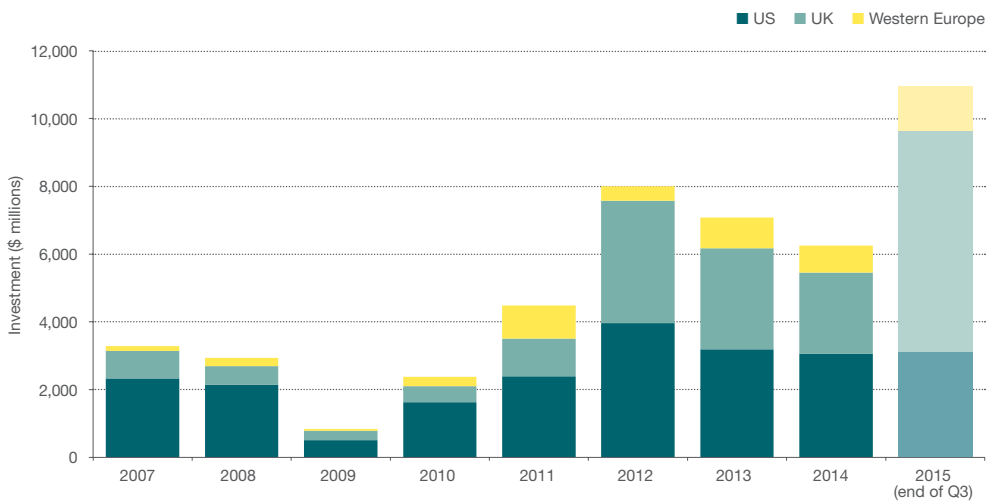
It is no surprise that the top deals globally in 2015 have all been in the

UK, but driven by foreign investment (Figure 2). Reflecting the maturity of the UK market, the major transactions have all been portfolio deals.

This foreign investment has been led by money from North America, the Middle East and Russia. Increased investment activity has brought with it yield compression. This has particularly been the case for investments in prime London where net initial yields on direct-let properties are now around 5%, suggesting that expectations of rental growth as well as planning and supply constraints are higher in the UK than in the US.

We expect global competition for UK stock, coupled with limited opportunities, will lead to further yield compression in the near term. →

FIGURE 1 Global investment into student housing (deals greater than \$7.5m)



Source: RCA

FIGURE 2 Top global student investment deals 2015

Buyer	Origin	Destination	Major deal
CPP Investment Board	Canada	UK	Liberty Living portfolio (£1.1bn/\$1.7bn)
Greystar/PSP	USA	UK	Nido London portfolio (£600m/\$920m)
Greystar/Goldman Sachs	USA	UK	Knightsbridge Student Housing, Westbourne portfolio (£500m/\$770m)
LetterOne Treasury Services	Luxembourg/Russia	UK	Pure Student Living portfolio (£500m/\$770m)

Source: Savills World Research



➔ **US investment volumes fall**

The US student housing market has seen investment volumes decline from their 2012 peak of just under \$4bn. Investors showed caution following a dip in enrolment numbers in 2013, cuts to federal student aid and a shrinking 18-24 demographic. Compared to the UK, and particularly to European markets, some core US markets are fully supplied with quality products, leading some investors to believe the sector now appears fully priced, with seemingly limited opportunities for rental growth.

The major US student housing REITs have underperformed the S&P500 and investment volumes are down by 30% in the past year. This comes in part as the largest of these, American Campus Communities (ACC), funds its future growth by disposing of older assets and focuses on those closest to campuses. In the past 24 months, ACC has disposed of \$577.7 million of assets, mainly to existing players, and acquired \$433million, according to Real Capital Analytics. Competition from other funds has also forced the major student REITs to consolidate and streamline their operations.

Domestic investors dominate the US market, with negligible cross border investment. Rather, North American investors are seeking opportunities in markets overseas and are the largest foreign investor in the UK student sector, accounting for 80% all cross-border deals in 12 months to September 2015.

International investment in mainland Europe

Having realised their gains in the UK, the entrepreneurs and pioneers of the student sector in the UK are now turning their attentions elsewhere. Student housing in mainland Europe is emerging as a highly investible proposition, and investment volumes are rising.

The Netherlands has seen average annual investment of \$200m in the last three years. The majority of this investment has been private, domestic capital, but foreign investment is growing.

Big ticket deals in 2014 included a €150m (\$165m) agreement between German-based International Campus and Dutch student housing association DUWO for five new student housing schemes. The

Student Hotel secured €150m in funding from Perella Weinberg Real Estate and a further €100m from Dutch pension fund manager APG to expand its model across the Netherlands and beyond (see p10). Interest from national and international investors has contributed to yields contracting 25 basis points from 5.75% to 5.5%.

In France, growing investor interest combined with the limited available supply on the market has put downward pressure on prime student yields, which stand at 5.4%. Investment volumes remain small, with recent peaks recorded in 2010 and 2013. Domestic investors accounted for 72% of all acquisitions in the past three years. The balance came from the Netherlands (16%), the UK (7%) and Germany (4%).

A Savills survey of key student cities in France found that between 60% and 70% of existing student housing stock belongs to private investors or occupiers in split ownership structure, which is less accessible to institutional investors and property companies. As a consequence, investment activity is mainly driven by forward funding new schemes.

Germany, meanwhile, saw €220 million of investment in its student sector in 2014, more than twice the volume of the previous year. Some 90% of this was on developments yet to be completed. UK-based Crosslane were the first foreign player to enter the German market, while some domestic investors have been financed with international funds.

Spain has seen agreements reached by Knightsbridge Student Housing for the development of five new student halls of residence, focused on Madrid and Barcelona. At the end of March 2015, The Student Hotel (headquartered in Amsterdam) purchased two Barcelona student halls of residence leased under a long-term agreement to the operator Melon District for a total of around €41.5 million.

Investment opportunities

In the US, opportunities remain in the consolidation of portfolios and upgrading of existing stock, but the flow of capital out of North America suggests greater potential overseas. The recent large-scale institutional investment activity in the UK market is testament to the

maturity of the sector in that country, where opportunities remain, but both markets are now much further along the investment curve. For potentially greater returns, pioneering investors are targeting mainland Europe and Australia.

Purpose-built student housing provision is generally low (see p21), particularly in relation to growing numbers of international students who demand one-stop, quality accommodation. But these markets are highly diverse and require understanding at the local level.

New development and investment in these markets has been led by local players, while institutional investors have been drawn to mature markets. Those pioneering foreign markets have already cut their teeth in the UK – notably Knightsbridge Student Housing, and Crosslane’s Prime Student Living.

The direct entry model will remain important, and there is a role for private wealth in countries where student housing is still a nascent investment class. Local partners will also prove valuable, when navigating local legislation, market nuances and planning systems, or providing local management platforms.

Indirect investment vehicles (private funds and REITs) are already coming of age in the UK, and we may expect to see expansion of these into mainland European markets over the next decade.

Importantly, investment choices must not be made at a national level. Investor focus needs to be concentrated on cities themselves and their higher education institutions in particular. Different locations can have very different prospects within the same country. ■

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“Student housing in mainland Europe is emerging as a highly investible proposition, and investment volumes are up”
Paul Tostevin, Savills World Research
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FIGURE 3
Prime initial yield: student housing (direct let)

	Typical prime initial yield (Net)	10-year government bond yield	Prime initial yield net of bond rate
Australia	7.00%	2.73%	4.27%
Germany	5.00%	0.62%	4.38%
Spain	6.00%	1.92%	4.08%
USA	5.75%	2.17%	3.58%
Netherlands	5.50%	0.85%	4.65%
France	5.30%	0.93%	4.37%
UK	5.00%	1.87%	3.13%

Source: Savills World Research

Supply

FRESH APPROACHES TO HOUSING DELIVERY

Lessons learned in the US and UK are now being adapted for student housing in mainland Europe

The delivery of purpose-built student housing takes many forms and is driven in part by local market characteristics. In mainland Europe, provision rates are low, but the propensity to study in a home town is also much greater and it is more common for students to live at home during their university years, so the supply gap may be lower than headline figures suggest (see Figure 4). For those who do live away from home, small scale, private landlords have stepped in to accommodate students.

An increasingly mobile global student population has changed the face of the student accommodation sector and the opportunities for providers lie with these students – whether from elsewhere in the country or overseas. Where purpose-built student housing comes into its own is its ability to offer a one stop shop for secure, well managed, high-quality

accommodation which is suited to the needs of international and domestic students, unfamiliar with the local housing markets. Students have ever-higher expectations of accommodation, and the private sector has now made inroads supplying it.

European pioneers
Pioneers of the mainland European market have adapted successful models from the US and UK to suit a European context, laws and customs. They range from local investors and developers diversifying into the student sector to specialist pan-European investor-operators. Page 9 highlights some examples of some of the approaches taken.

FIGURE 4
National purpose-built student housing provision rates



2.5M
The US has by far the largest number of beds in purpose-built student housing


City Living has secured €150m to expand their model throughout Europe


Rents for private student housing in Germany can range from €400-700pcm

CITY LIVING/ THE STUDENT HOTEL	
WHO?	City Living
WHAT?	Short-let student accommodation
WHERE?	The Netherlands/ mainland Europe

Owned and operated by City Living, the Student Hotel offers student accommodation on a short-term basis. Stays of up to two semesters are permitted (10 months). Friends, family visiting lecturers, as well as those simply visiting the city, can also book accommodation here. The model provides flexibility of income in a market where student rents are capped. City Living has secured €150m in funding in a JV with Perella Weinberg Partners and a further €100m from APG to expand their model throughout Europe.

INTERNATIONAL CAMPUS/ THE FIZZ	
WHO?	International Campus
WHAT?	Investor, developer operator
WHERE?	Germany

International Campus develops and runs student housing in Germany under 'the Fizz' brand. Targeting the premium end of the market, rooms are en-suite with a kitchenette, and a concierge service is available. Rents range from €400-700pcm, representing a significant premium over not for profit Studentenwerk accommodation. The high-spec, purpose-built accommodation has proved popular with the market, achieving very high occupancy levels. Units are also available to non-students.

KNIGHTSBRIDGE	
WHO?	Knightsbridge Student Housing
WHAT?	Investor, developer operator
WHERE?	UK and Europe

Backed by Oaktree Capital Management, Knightsbridge Student Housing has assets under management in Spain and France as well as pipeline projects in Ireland and Spain. In 2011 it launched The Student Housing Company to manage their PBSA portfolio. In May 2015 Knightbridge sold their UK Westbourne Portfolio totalling 5,867 beds across 12 assets for £500 million to Goldman Sachs and Greystar.

CROSSLANE	
WHO?	Crosslane Group
WHAT?	Investor, developer operator
WHERE?	Germany, France, Netherlands and UK

Crosslane European Capital, a business division of the Crosslane Group, has been active in the PBSA market. Since 2007 it has established businesses in Germany, France, Netherlands and UK solely focused on construction and development of PBSA. Crosslane currently manages a portfolio of 3,606 beds across all markets with a target to develop 17,500 student beds.

CLV	
WHO?	Campus Living Villages
WHAT?	Investor, developer operator
WHERE?	Australia, New Zealand, US and UK

Campus Living Villages is a global student accommodation specialist operating in Australia, New Zealand, UK and the US. With total gross assets of \$1.7 billion, it currently holds and manages a portfolio of 41,000 beds. 42% of the portfolio is located in the US. ■



15.1%
Increase in student enrolment
across top markets between
2007/08 and 2013/14

Demand

TRENDS IN GLOBAL HIGHER EDUCATION

Globally mobile students are underpinning the demand for purpose-built student housing

All major higher education markets experienced a surge in student numbers during the global economic downturn. As jobs became scarce the recessionary trend to up-skill took hold.

Universities also sought more fee-paying foreign students to offset costs. Between 2007/08 and 2013/14 student enrolment increased by an average 15.1% across the top seven higher education markets. But improving economic conditions and rising tuition fees in some countries have since seen enrolment numbers plateau or fall in some markets (Figure 5 below).

The UK, US and the Netherlands saw a dip in student enrolment in the 2012/13 academic year, but have returned to growth. Australia, Germany, and to a lesser extent, France, continued on an upward trajectory throughout the period.

Germany and France have negligible tuition fees, so the cost burden is less of a driver in these markets (for domestic and EU students at public institutions at least), while Australia has been supported by sustained population growth and a rapidly increasing foreign student population (up 10.1% in the year to March 2015 alone).

It is this growth in higher education enrolment globally that has underpinned demand for student accommodation, which in many cases has significantly outpaced supply.

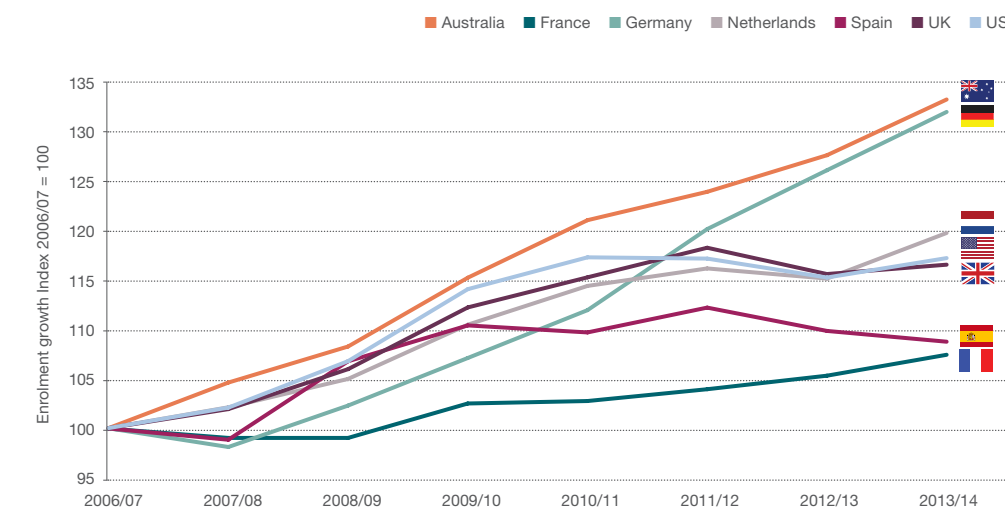
Global employment

A footloose global workforce means many job markets are pulling from a worldwide pool of talent. Figure 6 shows employment forecasts for some of the world's most important student cities. Some Asian and Middle East markets are forecast to see the fastest rates of growth over the next ten years while other Asian cities are registering the slowest.

Dubai, Beijing, Mumbai and Singapore are all expected to add in excess of 15% more jobs over the next decade. Conversely, Tokyo, Seoul and Hong Kong, all major source markets for international students, are expected to see their job markets grow extremely slowly or, in the case of Hong Kong, contract. Slowing job markets in these locations are likely to push more people to education overseas in order to up-skill and become more competitive.

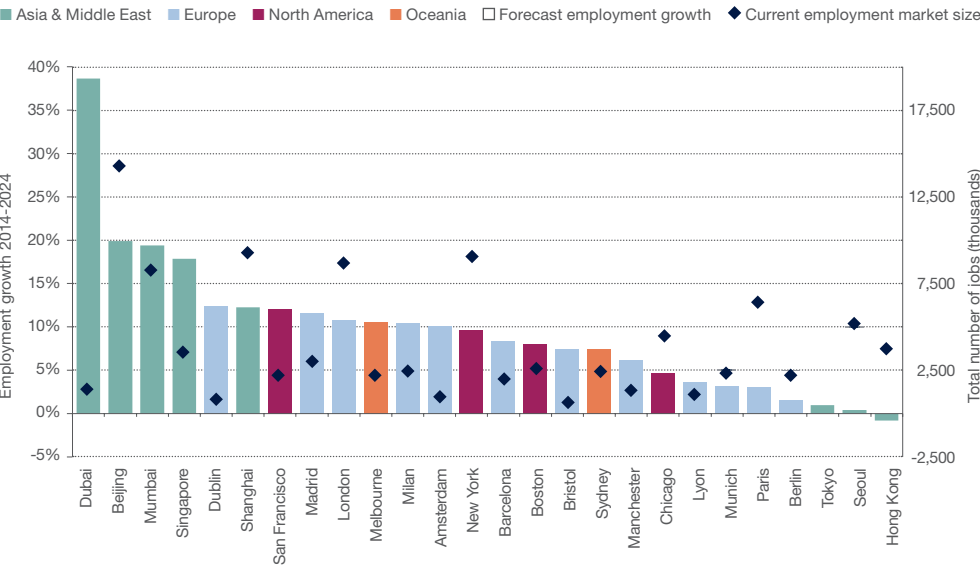
Of the European cities, Dublin is set to see strong growth in employment over the next ten years (12.4%), although its overall job market is small by global standards. Dublin's economy is set to be driven by expansion of the tech sector, a field in which it is already a global player. London and New York are two large

FIGURE 5
Higher education enrolment growth



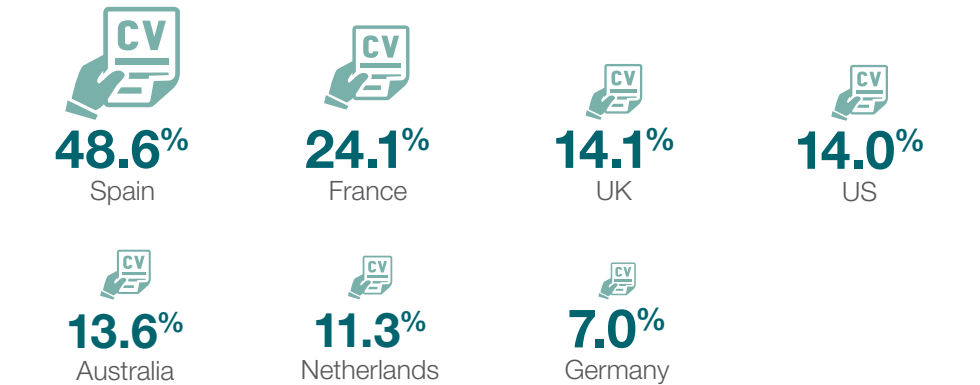
Source: HESA, Destatis, INSEE, Ministerio de Educación, Rijksoverheid.nl, National Center for Education Statistics, Department of Education and Training, Savills World Research

FIGURE 6
Employment forecasts in key cities (metro areas)



Source: Oxford Economics

FIGURE 7
Youth unemployment rates



Source: Eurostat, ABS, ONS, BLS

FIGURE 8
Average salary five years after graduation (UK)



Source: Emolument

employment markets with strong growth forecast (10.8% and 9.6% respectively), further reinforcing the appeal of these cities as destinations for students and graduates.

Post study visas

All the major higher education destination countries offer routes to employment for foreign graduates. This has a major impact in attracting students from overseas. Graduate visas range from one to five years and typically require a degree and employer sponsorship. Sponsorship is often difficult to obtain, particularly when competing against domestic students who do not have the same requirements.

Highly skilled graduates or those with specialist qualifications have more routes to employment in a foreign country, however, particularly if these skills appear on 'shortage occupation' lists.

Germany and the Netherlands also offer graduate search permits or jobseeker visas, of six months and a year respectively, in which to find work. Any changes to this type of visa arrangement have the potential to significantly affect student demand.

The type of degrees offered in a city are also an important factor in determining demand for courses. So-called STEM degrees (science, technology, engineering and mathematics) tend to result in higher salaries so are more likely to attract students willing to invest in all aspects of their education, including accommodation.

As the technology sector outgrows finance (notably investment banking) in the job markets of many countries, demand for skilled graduates in this field will increase. Not only do universities supply skilled employees for the sector, but they also provide the research base for the advancement of ideas and technology.

STEM degrees tend to result in higher salaries

This has led to a wave of specialist 'Tech Cities', from established world cities like London, to smaller centres such as Berlin, Austin and Tel Aviv, with education at their heart. It potentially opens up new opportunities for both undergraduate and postgraduate accommodation and lettings.

On this basis, those developing or investing in student accommodation would do well to consider the fields in which the anchor institutions specialise. High-ranking institutions focusing on STEM subjects, embedded in local industry, would appear to better reflect a changing global jobs market and in turn potential future demand from students.

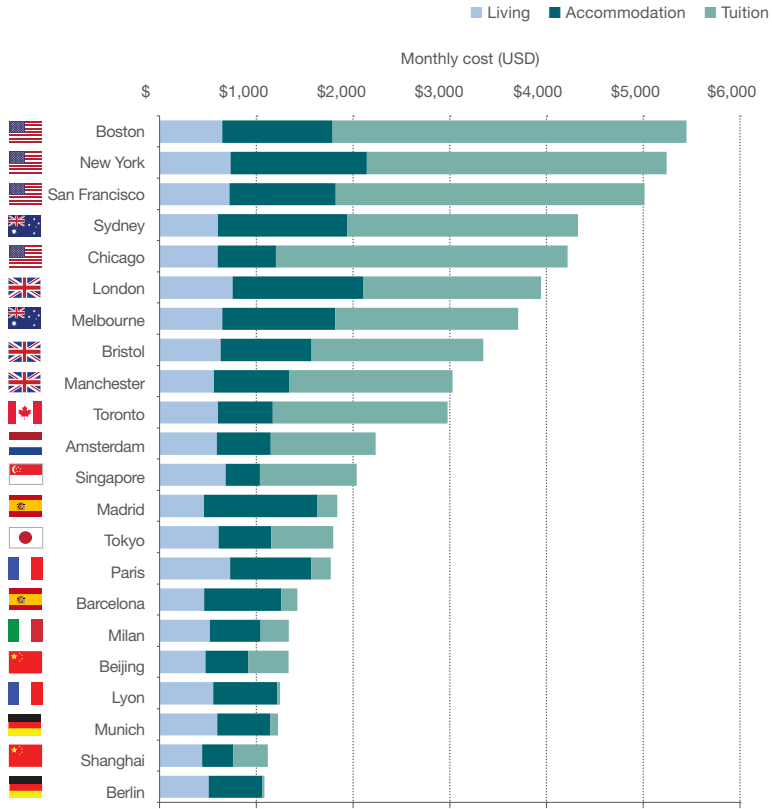
Comparing the cost of living and study

From a cost perspective, European study destinations have a clear appeal to students when compared to the US, UK and Australia. We have compared the cost of living,

accommodation and tuition across 22 global university cities for an international student studying for a science degree and residing in quality purpose-built student accommodation (Figure 9). With the US charging the highest tuition fees globally, Boston, New York and San Francisco are the most expensive cities. Total annual student costs are over \$60,000, of which tuition accounts for two-thirds. Sydney and London follow around the \$48,000 mark; high accommodation costs are offset by marginally lower tuition fees.

At the other end of the spectrum, German cities, where tuition costs comprise only a series of registration and semester fees, are exceptionally affordable by international standards, especially when combined with the relatively low cost of living and accommodation. With combined annual costs of just over \$12,000, Berlin is even cheaper than Shanghai by our measure. This reflects high German university enrolment growth. ➔

FIGURE 9
Monthly cost of international student living and tuition*



Source: Savills World Research *International student on a non-specialist undergraduate science degree, staying in purpose-built student accommodation. Exchange rates EUR/USD 1.12, GBP/USD 1.56

BRANCH CAMPUSES

Home and abroad

Branch campuses of well-known universities, particularly those long-established in the West, enable students from the home market to study in a new country but to the home academic system and standards. They also allow students from the host country to study at a respected foreign university without having to move abroad – a cost-effective option, particularly for students from emerging economies.

The greatest concentration of branch universities in the world is in Dubai. They are mainly found within two free trade zones: Dubai International Academic City and Dubai Knowledge Village. Dubai is host to over 30 branch campuses run by universities from 11 countries, of which British institutions have the strongest presence. Some 60% of degrees offered are in business, a field in which Dubai has become a specialist provider.

Purpose-built student accommodation is an important element of the overseas university branch offering, given the concentration of foreign students, and offers specialist investment and development opportunities. Dubai, for example, has been successful in attracting students from other Middle East countries, Asia, and increasingly, Africa – all huge potential growth markets. Together, international students account for 57% of those attending branch campuses in the Emirate.

Malaysia now has five UK University branch campuses with over 58,000 students studying for UK degree programme or professional qualifications. It is the largest world market for UK transnational higher education provision.

Branch campuses needn't be in a foreign country. More than a dozen UK institutions have opened branch campuses in London in a bid to raise their global appeal and attract international students. These campuses capitalise on links to government and international businesses based in London, enhancing the institution's research and internship programme offer.

“All the major higher education destination countries offer routes to employment for foreign graduates”

Paul Tostevin, Savills World Research

UNIVERSITY RANKINGS

US dominates list of institutions

University rankings such as those published by The Times and QS enjoy a high level of engagement with prospective students and have become a starting point for many prospective students choosing a place to study. The US and to a lesser extent, the UK dominate these rankings. Taking the top 50 alone, US institutions account for 18 of the QS top 50 and 28 of the Times top 50, followed by the UK with eight and seven institutions respectively. Australia and Canada follow with between two and five institutions in each. France, Germany, the Netherlands and Denmark all have two or fewer institutions in each top 50 list.

One explanation for the Anglo bias is the way in which these rankings are calculated. A very high weighting is given to research (specifically academic citations), which counts against some European institutions. In Germany, for example, research often takes place at affiliated institutions that are not directly part of the university.

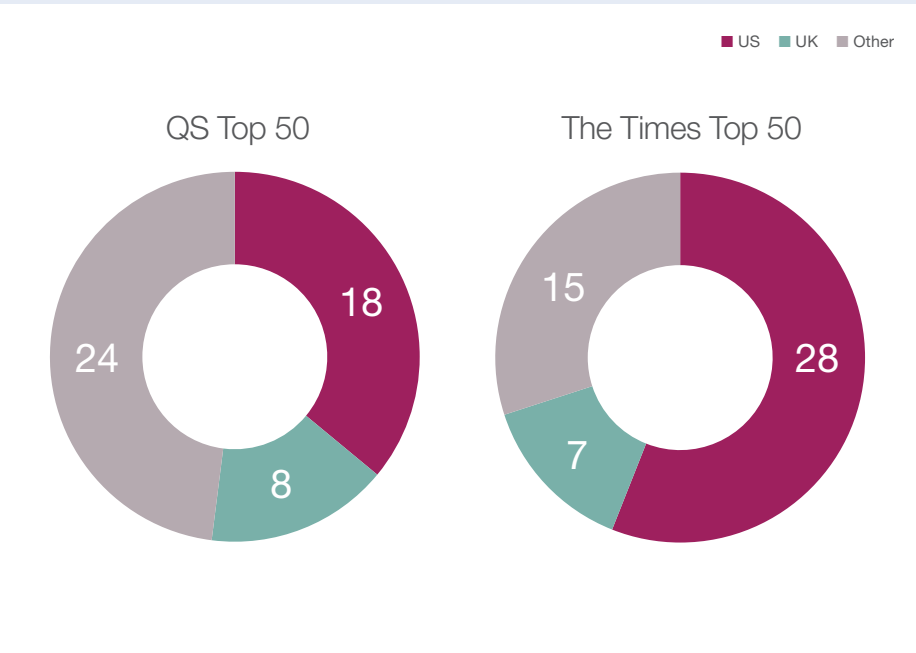
Some 40% of the QS ranking is based on a survey academic reputation, so established

universities will always rank ahead of newcomers. Quality of teaching does not feature at all as there is no international standard for this (for QS a student-to-faculty ratio is used). This neglects a factor that is especially important to undergraduate students.

In spite of this, universities ranking highly in these commonly cited league tables enjoy more press coverage, carry more global weight and, in turn, receive more applications than the competition. They perpetuate their appeal to a national and global student base, meaning high and sustained student numbers and consequently a robust demand base for student housing providers.

We expect that alignment to the bachelor system, a greater number of courses taught in English and a general commercialisation of major institutions will help raise the profile of the best universities in mainland Europe in coming years, making this a strong potential growth area for accommodation providers.

FIGURE 10 High-ranking US and UK institutions



Source: The Times Higher Education World University Rankings, QS World University Rankings

Student flows

According to the OECD, over 4.5 million students studied abroad in 2012, up from 2 million in 2000. This figure is forecast to reach 8 million by 2025. Five countries accounted for 47% of these students: the US, UK, France, Australia, and Germany. While these markets dominate, a key trend has been the emergence of regional hubs attracting mobile students. The UAE, for example, is now the top destination for students from the Middle East, having overtaken the UK for demand from mobile students originating in this region.

The top five source markets globally are China, India, the Republic of Korea, Germany and Saudi Arabia. In 2012 there were 694,000 students from China studying abroad, more than three times the number of the next largest group, India, at 190,000. Four of the top six individual student flows are from China (Figure 11).

The US remains the number one destination for international students, host to 886,000, of whom a quarter are from China. The popularity of the US higher education sector among international students has been fundamental to the expansion of the student accommodation sector in the country. In terms of both size and quantity, the US has by far the most high-ranking institutions, making up 56% of The Times top 50 universities, and 36% of the QS top 50 (Figure 10). This comes in spite of exceptionally high tuition fees, and reinforces the notion that cost has limited bearing on the existing international market.

The UK is the next largest international destination market, with 388,000 foreign students. Germany and France are not far behind, at 301,000 and 295,000. The largest foreign student groups in France originate from Germany, and in France the largest group is from Morocco.

When it comes to potential, the Australian market is the fastest growing, having seen 10.1% growth in the number of foreign students in the year to March 2015. The Netherlands was the first non-English-speaking market to introduce a large number of programmes taught in English, and is now host to 1,009 of these courses.

The rest of Europe is catching up, however. Germany now offers 857 masters programmes in English, and it is no coincidence that both the Netherlands and Germany have seen rapid growth in their foreign student population. Elsewhere, France has gone from 11 to 570 English taught masters between 2007 and today, Spain from 8 to 474, and Italy from 8 to 418 over the same period.

UK students can now apply for European universities directly via the UCAS system. Dutch institutions have been the first to take advantage of this.

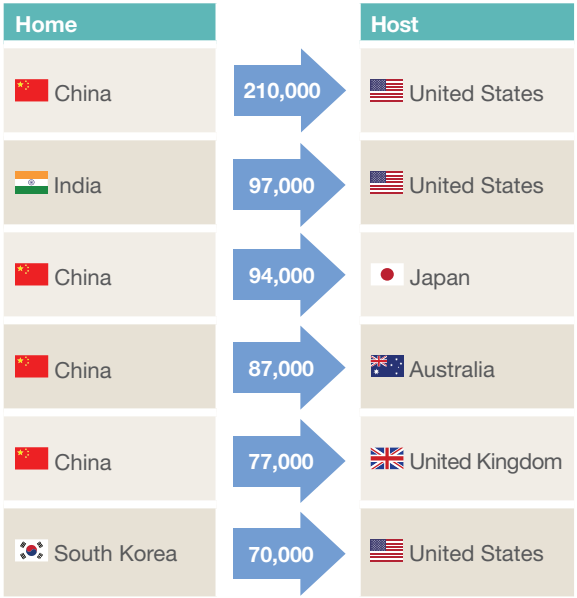
The allure of English speaking markets

Even though tuition and living costs in mainland Europe are a fraction of that of the US, UK and Australia, these high-cost countries continue to remain popular with students from home and abroad. Their appeal is due to a number of factors, the foremost of which is

that they are English speaking. The international language of business and the most commonly spoken second language worldwide, tuition in English carries significant weight and is of importance to prospective employers in any major market. It is not surprising therefore that the USA, UK and Australia boast the most high-ranking institutions worldwide.

The rationale for study abroad also comes down to how a country's qualifications will be recognised at home. The reason that UK, US and Australian degrees have been so popular for non-nationals is that they offer a bachelor system. Much of Europe had historically been at a disadvantage in this respect. But the Bologna Reform agreement means that participating European nations will all move to the bachelor system by 2020. This also has the effect of shortening course length in European countries, putting these students into the workforce sooner.

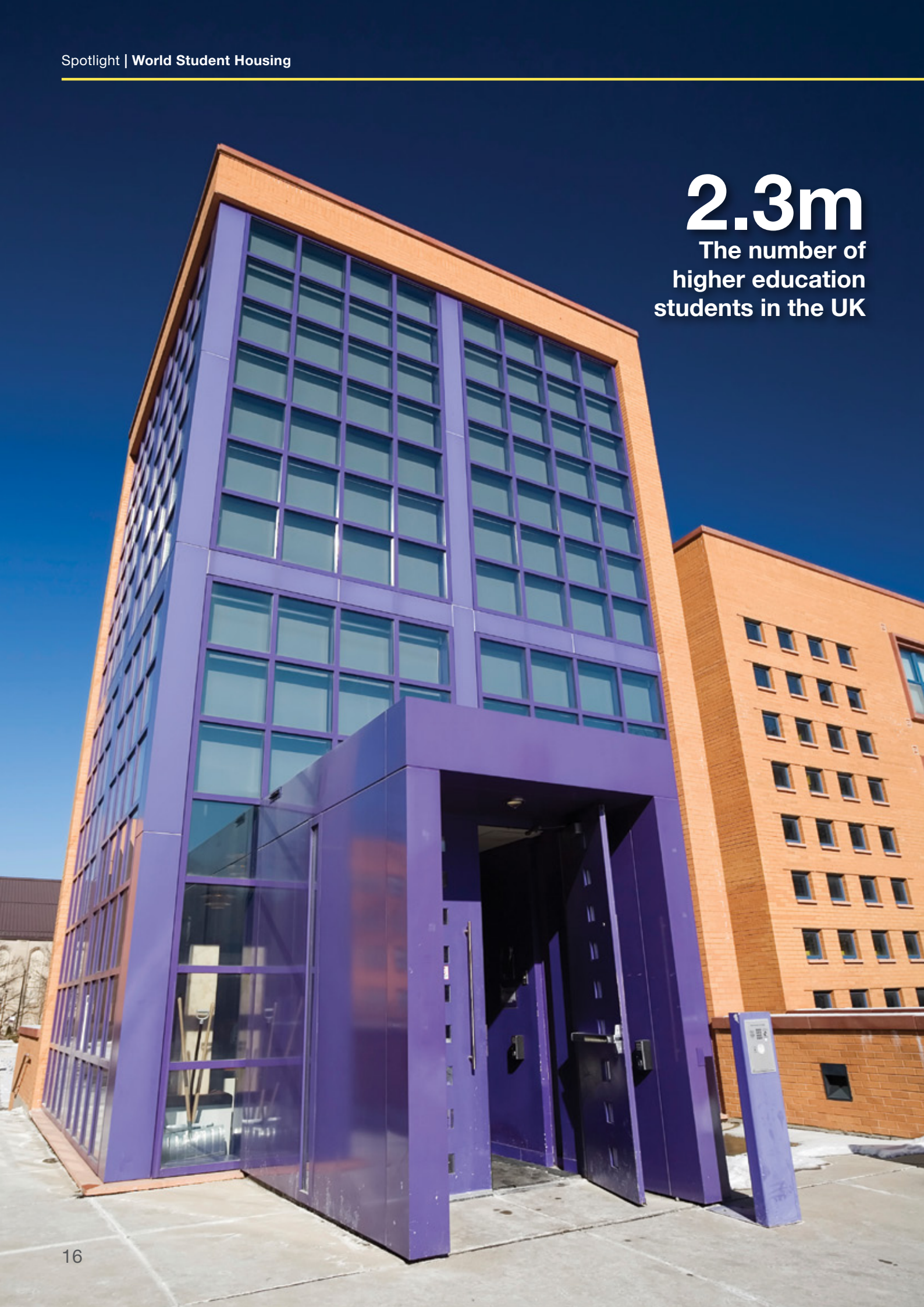
FIGURE 11 Top 6 largest international student flows



Source: OECD



8m
Forecast figure for
number of students to
study abroad in 2025



2.3m
The number of
higher education
students in the UK

Market prospects

COMPARING THE MAJOR MARKETS

What are the key trends shaping the sector in Europe, North America and Australia?

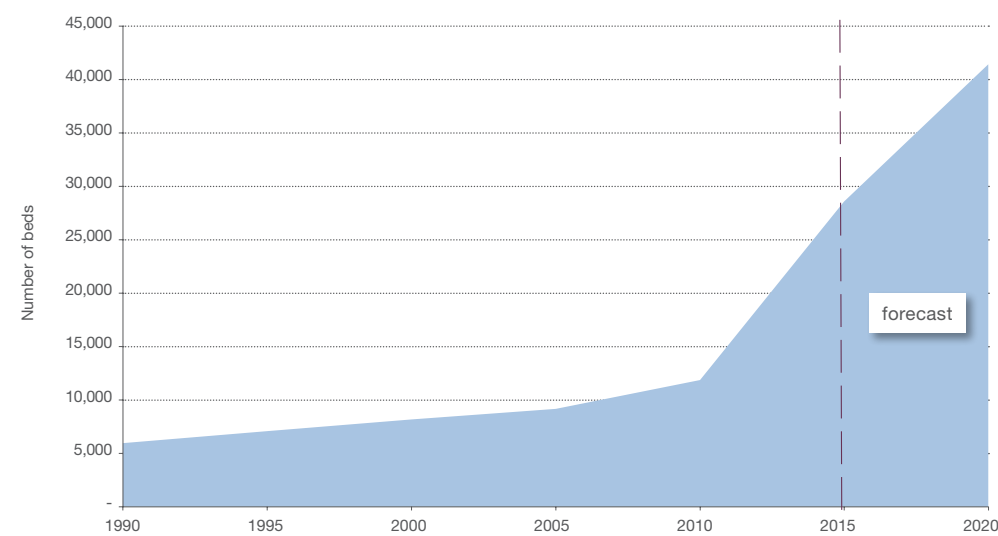
In order to look at the prospects for major student markets in the years to come, our analysis includes demographic change, student housing delivery forecasts and the impact of structural reforms in education. There is an underlying supply and demand imbalance in all the markets we looked at but the student housing market landscape is ever changing and barriers to entry remain. An improving global economic environment makes investors less risk-averse, and the counter-cyclical benefits of student housing become less obvious. This said, it does set the scene for greater appetite in a slow-to-recover European property market. ➔

FIGURE 12
Country markets at a glance

	UK	Germany	France	Spain	Netherlands	US	Australia
Number of enrolled higher education students (latest available data)	2.3m	2.7m	2.4m	1.5m	0.7m	20.6m	1.3m
Number of international students	388,000	301,000	295,000	75,000	87,000	886,000	348,000
% international students	17%	11%	12%	5%	13%	4%	25%
Purpose built student housing beds	524,000	259,000	375,000	90,000	100,000	2,400,000	90,000
National provision rate	23%	10%	15%	6%	15%	12%	7%

Source: HESA, Destatis, INSEE, Ministerio de Educación, Rijksoverheid.nl, National Center for Education Statistics, Department of Education and Training, Institute of International Education, Savills World Research

FIGURE 13
Purpose-built student housing expansion in Germany
in the 30 largest student cities



Source: Savills World Research

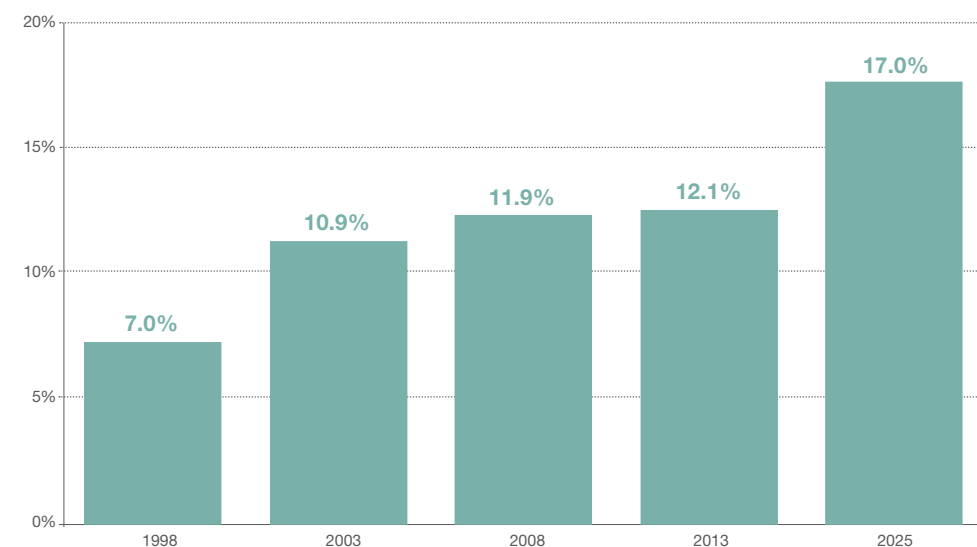


International students
account for 11% of all
enrolments in Germany



Paris is ranked
number one student city
in the world by QS

FIGURE 14
Chinese students as % of all foreign students in France



Source: MENSER, OECD

GERMANY

A rapidly growing development and investment market, but structural demographic change ahead

Student growth to taper off: Germany has seen rapid growth in student numbers, increasing by 36% in a decade. International students now account for 11% of all enrolments in Germany, led by those from Turkey, China and Russia. Forecast growth in foreign students will mask a decline in domestic students in the coming years, a result of the ageing German population.

A decentralised market: Unlike many other European countries, the German higher education system is highly decentralised. With the exception of Berlin and Munich, the top university cities all have fewer than 100,000 full time students – the vast majority between 10,000 and 50,000. So, unlike the UK and France (where London and Paris dominate), Germany has multiple, but smaller, markets to choose from.

Private accommodation provision to grow rapidly: Private providers accounted for only around 6% of all student accommodation in the 30 largest university cities in 2000, a figure which has risen to around 16% in 2015. New investment in the sector will push this figure to 22% by 2020.

FRANCE

A globally appealing student destination with an ambitious public student housing programme

Major global destination for foreign students: France accommodates 7% of foreign students globally and Paris is ranked as the number one student city in the world by QS. Low tuition fees coupled with well regarded institutions will keep the French capital in a strong position.

Private delivery is forecast to slow: 9,300 private beds are forecast for delivery in the next five years, of which 3,800 are due for completion in 2015. This is eclipsed by the government project '40,000' which will see 40,000 public student housing beds delivered by 2017, part of the CROUS portfolio. A quarter of this has already been developed.

Student numbers grow: Domestic student numbers have surged in a weak French economic environment. The number of eligible French students who enrolled in higher education rose from 63.9% in 2012 to 67.3% in 2013. The international student population is anticipated to rise from 12% to 30% of all students by 2020.

NETHERLANDS

One of Europe's fastest maturing markets, where investor interest remains high

International competition: The Netherlands was the first European country to move towards English language tuition. While the number of foreign students continue to grow at the country's premier Research Universities, enrolment at HBO institutions (which have a lower international profile) has decreased substantially. To combat this, 1,000 new international scholarships are to be offered to top students.

Large-scale purpose built developments: As the largest student city, new development is focused on Amsterdam, which will add around 5,500 beds to the existing stock of almost 22,000 in 2015/16 alone. Large office-to-student conversion projects, such as Campus Diemen Zuid, on the edge of Amsterdam, have delivered campus environments with extensive facilities.

Changes in legislation: Since the beginning of 2015, government maintenance grants have been converted to loans. The increased financial burden on students could have an impact on enrolment numbers in the near term. It may also fuel demand for more affordable student accommodation, at a time when developers are targeting the upper end of the market.



New student housing
development is focused
on Amsterdam



UK

Student market resilient following higher tuition fees and immigration reform

Changes to tuition fees: The introduction of higher tuition fees saw student numbers fall 8.1% from a 2010/11 peak. Not all institutions have been affected equally and we have observed a ‘flight to quality’, with lower ranking institutions disproportionately impacted (see Figure 15). Nonetheless, applications for the current academic year are up 3.4% and 3.3% respectively and a return to growth is expected.

Immigration reform: Around 34% of international migrants coming to the UK do so for formal study. Tighter immigration controls have impacted their overall number, but not those for higher education.

Cost of living and study: The UK is an expensive country in which to study and live (see p13), second only to the USA and Australia. London, in particular, stands out as exceptionally

costly. Purpose-built accommodation here has been successful in targeting premium rents, but there is huge potential to expand into lower value markets. The challenge sits with viability, given high land values and competing use classes.

Markets to watch: As a mature market, investing and developing in the UK’s student housing sector requires careful analysis of local market dynamics. Top-tier university cities with low supply, such as London, Bristol, Oxford and Edinburgh, have the greatest potential. Manchester poses increased opportunity, reflecting strong demand and a need for more supply.

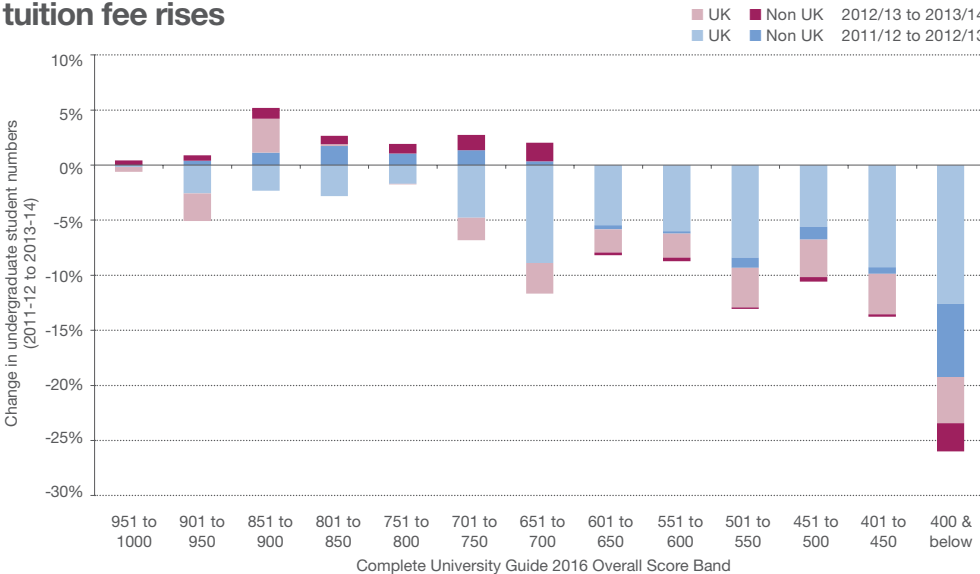


Spain is pursuing a policy of attracting more international students

“Top-tier university cities in the UK with low supply have the greatest potential”

Paul Tostevin, Savills World Research

FIGURE 15 Change in undergraduate numbers in the UK pre and post tuition fee rises



Source: HESA, Complete University Guide

SPAIN

Fast growing, undersupplied student sector with increasing foreign demand

Attracting international students: Spain is pursuing a policy of attracting more international students and has set a target of one in three university courses to be offered in English by 2020. International student numbers doubled between 2005/6 and 2013/14, but still only account for 3.8% of all students. Growth has been especially strong from Asia, where the number has quadrupled over the same period.

Undersupply of student accommodation: In 2014 the number of beds and number of halls of residence fell by 0.4% and 1.8% respectively. This was due to the closure of several residential colleges. With 141,000 students seeking accommodation, and little more than 90,000 beds available, potential demand currently outstrips supply by 44%.

Full occupation: Recent improvements in Spain’s economic outlook has meant that the majority of halls located in the main university cities are currently experiencing 100% occupation. Due to the restricted supply, flat-sharing in the private sector is a popular alternative to university halls, especially competitive due to suppressed rents.

Expansion of the sector: Yields currently stand between 6% for prime properties, and 7% for secondary product. Demand is expected to increase for high-quality private accommodation, driven by growing numbers.

AUSTRALIA

English education and quality of life on Asia’s doorstep

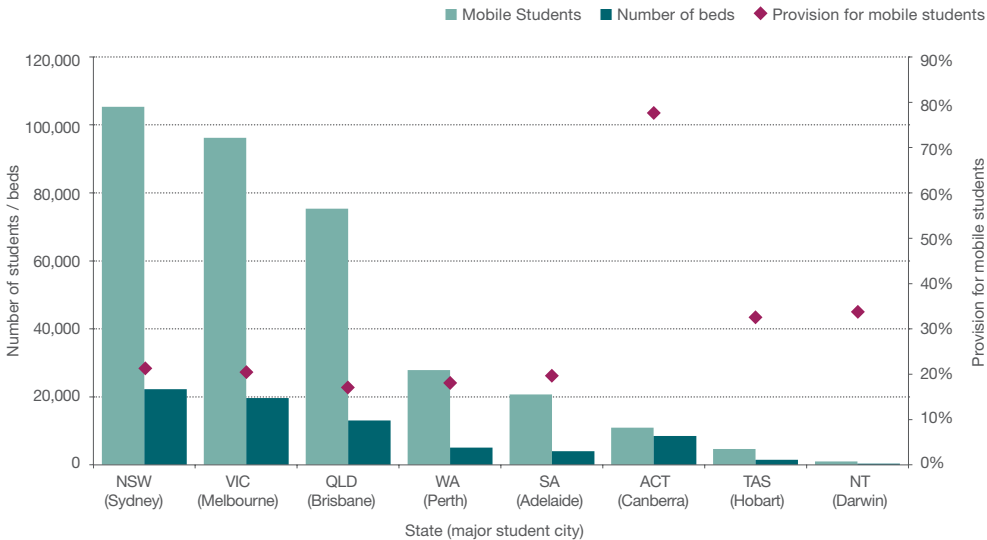
Australia is the fifth biggest destination for foreign students in the world. The country is well positioned to attract students from fast-growing Asian markets thanks to its geographic location. It is already the third most popular destination for Chinese students, after the US and Japan. Enrolments from foreign students for higher education grew by 10.1% in the year to March 2015 and now account for 16.5% of the country’s total higher education population, a proportion that is high by global standards (see Figure 16).

Australia offers students an enviable quality of life. Melbourne, the country’s largest university city, regularly ranks as one of the world’s most liveable cities. Sydney, the country’s second biggest university centre, has true global appeal. It is no surprise that QS ranks Melbourne second in its Best Student Cities league, with Sydney fourth.

A 2014 census by the Australian Government of the university accommodation sites with more than 100 units identified 74,482 beds, of which 67% were on campus. Of these, 16,393 are found in Melbourne, followed by Sydney with 13,153. The same survey estimates a further 15,000 places across smaller sites. Some 40% of beds are occupied by international students.

The profile of the student housing sector is mixed. According to the National Census of University Student Accommodation Providers, 40% of all accommodation places are university owned. Of the remainder, 37% are on campus but

FIGURE 16 Australian purpose-built student housing provision rate by state (mobile students only) Sites with more than 100 units, mobile students



Source: Australian Government Department of Education and Training

managed by external organisations, 23% are off campus and managed by external organisations. Campus Living Villages (owner operator) and UniLodge (operator) are the country’s largest private sector providers, with approx 9,000 beds each.

Nationally, the provision rate is just 7%, and taking only mobile students, 22% (Australian students not living at home, and those from overseas). This ‘mobile student provision rate’ ranges from 77% in Australia Capital Territory (focused on Canberra), to 17% in Western Australia (mostly in Perth).

The student housing sector recorded average annual growth in the number of beds of 4.3% between 1999 and 2014, and is projected to grow at an annual rate of 4.7% in the period to 2018. By 2020 the total number of purpose-built beds (in 100+ bed

accommodation buildings) is expected to exceed 100,000. Undersupplied, the sector offers significant potential, although competition for sites comes from residential projects which are in high demand.

Development will be focused on the leading student accommodation metropolitan cities of Melbourne and Sydney. Incentives offered by Brisbane (discounted infrastructure and utilities charges on unit developed within 4km of the city) is likely to spur development here.

The Australian government has proposed removing tuition fee caps with effect from 2016 which could impact both domestic and foreign demand in the near term, although experience from changing fee structures in the UK market may suggest that any impact is unlikely to be long term.

▼ Melbourne is Australia’s largest university city



OUTLOOK

What lies ahead for the world student housing market?

■ **Demand:** Technology continues to revolutionise the higher education sector, with some institutions offering online-only courses for a fraction of the cost of an on-site course, or even for free. While major expansion of such courses could impact the need for accommodation, for most individuals, the first-hand experience of living and studying in a new environment will remain a major part of the undergraduate experience. As a consequence, we expect that physical institutions will continue to be the focus for higher education in decades to come.

■ **Investment:** It will be some time before the outflows of institutional investment capital seen this year from North America into the UK are extended into European or Australian markets due to limited opportunities. There is however scope for entrepreneurial capital and we expect some private money and operators to venture

into these markets, especially cash-rich organisations who have cut their teeth in the UK and then disposed of those assets.

New stock developed now will pave the way for institutional investment in the future. We expect that the right income-producing stock in the right markets will find global investors and see yield compression in the medium term.

■ **Threats:** The UK has already adjusted its tuition fee structure and Australia may be following suit with higher fees on the horizon. Europe still offers students value and we anticipate it will garner a growing share of the globally mobile student population. Conversely, the US is planning to combat its high fees (for domestic students) by linking federal aid to institution quality, so that students at better-performing institutions receive larger grants and more affordable loans.

■ **New Niches:** A Hobsons 2014 survey found that 51% of prospective foreign students globally came from a home with a combined household income of less than \$25,000 (£16,000). While not all of these will end up studying in markets like the US, UK and Australia, this counters the perception of foreign students as wealthy. It also points to the huge untapped demand in the Western market for lower-cost education and student accommodation.

Regional hubs of higher education are emerging as alternatives to the established Western centres. Dubai is the number one destination for students from the Middle East region, host to branch campuses of Western institutions. We can expect to see more regional hubs emerge, tapping into the large, lower-income tiers of students currently unable to stretch to Western institutions.



Spotlight: UK Student Housing
The student housing market sector continues to be attractive to investors and has witnessed a surge of activity over the past two years.
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