BNP PARIBAS REAL ESTATE

Real Estate for a changing world

UK STUDENT HOUSING

MARKET UPDATE Q3 2021

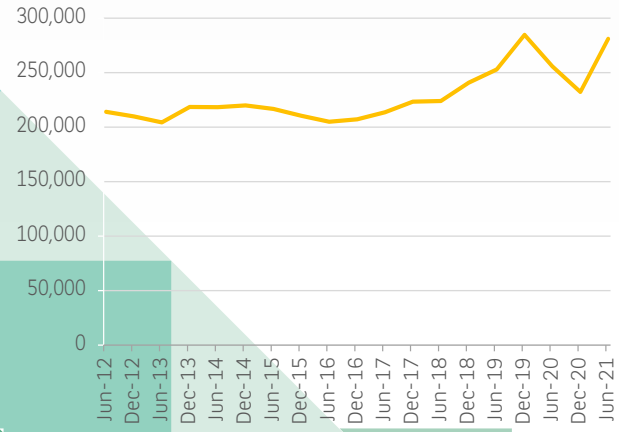
MARKET OVERVIEW

- Increased demand for places at UK universities led to an improvement in student housing occupancy at the start of the academic term.
- However, despite the easing of travel restrictions, and a successful vaccine rollout, occupancy in purpose-built student accommodation (PBSA) is still feeling the effects of Brexit and the subsequent reduction in demand for UK higher education from European students.
- Nonetheless, investor appetite for the sector remains strong and it's expected that activity in the sector will pick up in the final quarter of the year.

DEMAND VARIES BY GEOGRAPHY

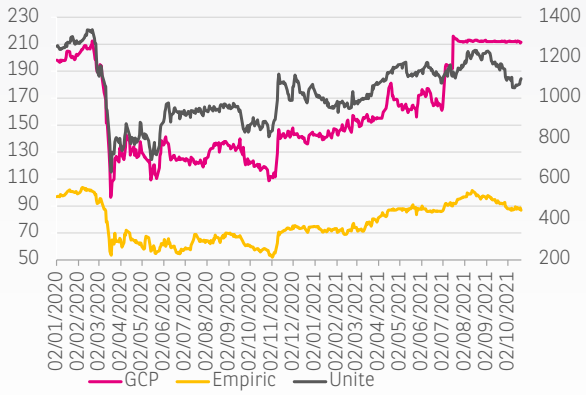
- The tick up in undergraduates in UK higher education in September put some university accommodation under demand pressure. There were reports that students from the University of Bristol were offered housing in Bath, as a result of an increase in the number of applicants meeting their offer requirements.
- In PBSA, Unite reported that 94% of its beds were let. This was an improvement on the 2020/21 cycle albeit down on 2019 98% occupancy and below expectations.
- Occupancy in PBSA is still feeling the effects of Brexit and the subsequent reduction in demand from European students.
- International students are an essential part of the UK higher education system. A report released in September 2021 by London Economics calculated that the total net impact of international students on the UK economy was estimated to be £25.9bn (based on the 2018/19 cohort). However a significantly greater share of this comes from non-EU students, rather than EU students.
- Whilst the number of overseas students who were granted visas in the 12 months to June 2021 was back up at pre-pandemic levels, at just over 280,000, it is not clear yet whether all those students have actually taken up their university places. (source: Home Office).
- There is certainly a geographical demand variation from international students. UCAS data showed that higher tariff universities actually saw an increase in international applications whilst it was medium and lower tariff establishments that saw a fall in the number of applications, for 2021/22 academic cycle.
- This preference for higher tariff universities from overseas students continues to underpin investor appetite for student accommodation in the top tier, Russell Group university towns and cities.
- Additionally investors in the sector are looking at how they can set and reach ESG targets over the coming years, to meet corporate targets, and as a key to attracting students.
- In July Unite announced it had submitted plans for its first fully net zero carbon building in Paddington. It will be one of the most environmentally sustainable purpose-built student accommodation blocks in the UK.

SPONSORED STUDY VISA GRANTS, ROLLING 12 MONTHS



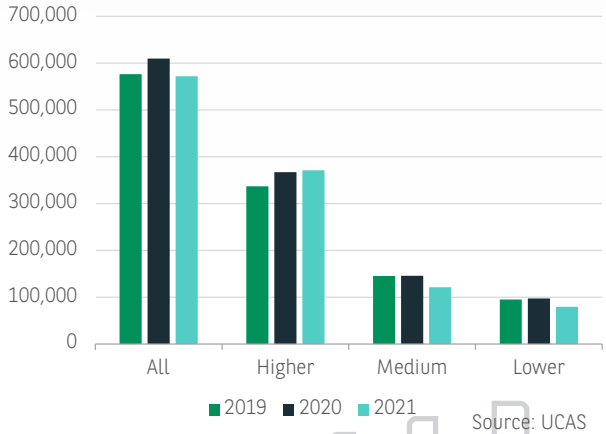
Source: Home Office

LISTED SECTOR PERFORMANCE JAN-20 - JUL-21



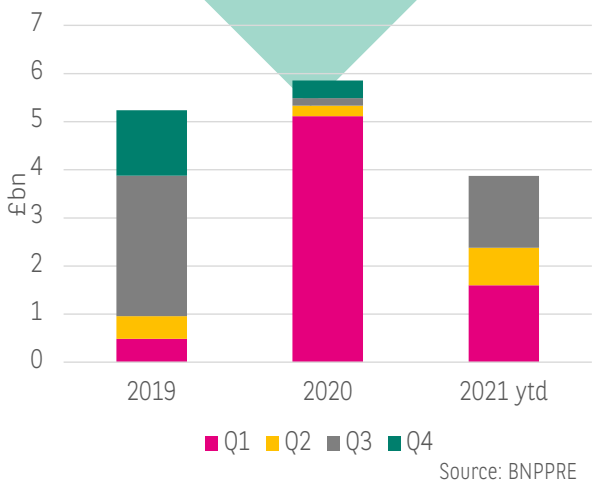
Source: Yahoo Finance

INTERNATIONAL APPLICATIONS BY TARIFF OF PROVIDER



Source: UCAS

INVESTMENT VOLUMES 2019 - 2021



Source: BNPPRE

YIELDS

	Q2 2021	Q3 2021	Sentiment
London (Zones 1 & 2) (Lease)	3.50%	3.50%	◆
London (Zones 1 & 2) (Nomination)	4.00%	4.00%	◆
London (Zones 1 & 2) (Direct-Let)	4.00%	4.00%	◆
Super Prime Regional (Direct-Let)	5.50%	5.50%	◆
Prime Regional (Direct-Let)	5.75%	5.75%	◆
Secondary Regional (Direct-Let)	7.25%	7.25%	▼
Other/Tertiary Regional (Direct-Let)	8.25%	8.25%	▼

PORTFOLIO SALES DRIVE VOLUMES

- Investment into the student housing sector totalled c.£1.5bn in Q3 2021, taking year to date volumes to c. £3.9bn. This was below the equivalent period last year however Q1 2020 investment volumes were boosted by the unusual iQ deal.
- The majority of investment in Q3 2021 was the result of large portfolio sales of which there were three including Project Jewel for £210m, Vita Group portfolio for £165m and the sale of the GCP Student Living portfolio to Scape Living and iQ for £969m.
- Standing stock transactions remain conspicuous by their absence but reflects investor reluctance to dispose of assets. The largest operational asset that did transact this quarter was the sale of the Nido block in West Hampstead for £124m.
- Analysis of the handful of other standing stock transactions that occurred over the quarter showed that investors continue to target PBSA in cities home to top tier universities or universities strong in STEM subjects, with internationally strong reputations.
- The lack of stock being brought to market continues to hold back volumes, and consequently there has been little movement in yields
- However, appetite for PBSA exposure from lenders remains strong with banks and development finance specialists now returning to the sector, including Investec who provided an £11m loan for a scheme in Guildford, and ADIB who provided £24m in financing to Blacksand for the purchase of a scheme in London.
- With the start of the academic term in September, and more clarity on occupancy levels, a number of schemes were brought to market at the back end of the quarter, and so it is expected that investment activity will tick upwards in the final three months of the year.
- It is still anticipated that when confidence does return to the market, the widely reported pent-up demand for stable long-income streams from real estate investors should result in an increase in allocation to the UK student housing sector.

CONTACTS



Simon Williams
Executive Director
020 7338 4151
07808 479 304
simon-d.williams@bnpparibas.



Lindsey Lock
Director
020 7338 4270
07879 608 830
lindsey.lock@bnpparibas.com



Alanna Peach
Director
020 7484 8121
07458 129 370
alanna.peach@bnpparibas.com



Rebecca Shafran
Associate Director
020 7338 4299
07818 539 195
rebecca.shafran@bnpparibas.com

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