United Kingdom

Student Accommodation Snapshot

October 2023

Cirrus Point, Leeds
Cain International

Contents

The GSL Index survey found that 14% of students living in private halls thought their accommodation had a negative impact on wellbeing, vs 21% of students living in university halls

14% in Q2 2023

Colliers OCM team advised Cain International on a

£150m

forward funding with Olympian Homes

Edinburgh has the highest proportion of overseas students of key UK cities at:

39.4%

From 2015-2022 a

70%

increase in full-time (and sandwich) students living in private PBSA

International student numbers in London:

113,010 in 2016/17

179,425 in 2021/22

£2.5bn

has been invested into UK PBSA so far this year compared to £6.7bn in 2022 (boosted by the £3.3bn Student Roost deal)

Total student numbers hit a record high of

2.9m

in the 2021/22 academic year

Empiric Student Property had the lowest decrease in share price of various listed REITs at:

-2.4%

(Feb 2020-Sep 2023)

View on the Ground

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Economic view

Long-term and short-term considerations. Recent large-scale revisions to UK GDP show that despite negative impacts from Brexit, Covid, and the cost-of-living crisis, the UK economy has performed and continues to perform in line with other G7 economies. Likewise, positive demographics supports positive long-term forecasts showing the UK in a middling G7 position behind the US and Canada, but ahead of the Eurozone over the next 10 years. These favourable long-term trends are often overlooked given that most media comment focuses on short-term challenges, especially inflation, the cost-of-living crisis and interest rates. All these challenges are highly relevant to commercial property, especially to PBSA, BTR and other sectors that depend on construction and development to provide operational product.

Development and Construction Costs. The good news is that along with CPI, material input costs for construction are falling. Fabricated metal product inflation fell from 37% in June 2022 to -3.3% in September. Iron/steel/alloy tubes and pipe prices fell from a 38% in May 2022 to a -8.4% over the same period. Non-domestic energy costs have followed a similar trend but are not yet deflationary. As supply chains continue to recover from Brexit, Covid and geopolitical disruptions, and as the economy slows, a sustained period of cost deflation in construction is expected and may help turn the tide on development. Likewise, the Bank Rate may have peaked in September, although business models remain pressured by high debt costs. In the meantime, BTR/PBSA leasing demand will continue to outstrip supply. As the stars realign, BTR/PBSA sector opportunities are likely to be in abundance.

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Agents view

Investment volumes in the year-to-date are down in comparison to the record-breaking volumes of 2022. Nevertheless, PBSA is expected to outperform other UK property sub-sectors. We are still seeing an increase in the weight of capital looking to get into the PBSA sector, in particular, those that have focused historically on 'traditional' sectors as they look to diversify their income streams.

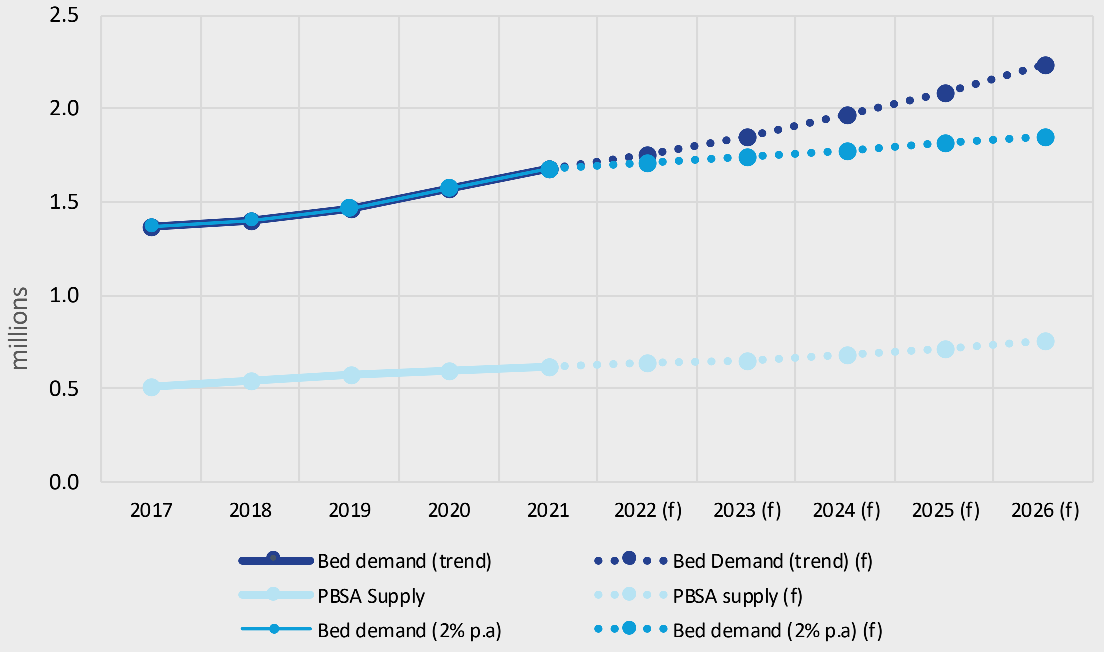
Despite a slow down in investment volumes, we expect to see a continuation of growth in market share for PBSA demonstrating the robust nature of the sector.

Several deals have completed post August and have provided both vendors and purchasers with up-to-date market pricing – as a result, we are starting to see the 'gap' in price expectations between vendors and purchasers narrow, a trend likely to continue into 2024.

Similar to Academic Year (AY) 2023/24, operators are expecting strong rental growth across their portfolios for AY2024/25. The demand/supply imbalances persist as new supply is constrained by inflationary pressures and 'sticky' inflated build costs.

Supply vs demand

UK BED DEMAND VS PBSA SUPPLY TRENDLINE



Source: StuRents, HESA

__Bed demand:__ the number of full-time students minus the number of students living at home or attending a campus outside of the reported location. __Forecasted (f):__ based on an extrapolation of the average rate of growth for full-time undergraduates and postgraduates for every institution over the last five-years - those expected to live at home or attend a campus outside of the reported location.

__PBSA Supply:__ private and university-run halls, forecasted (all developments in the pipeline are delivered).

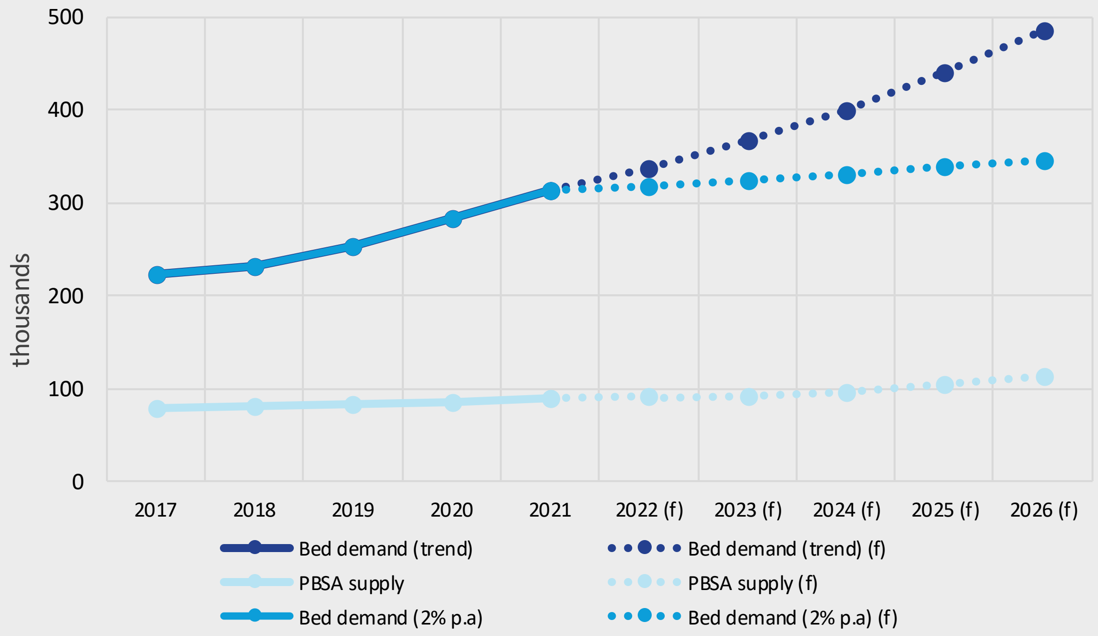
Numerous indicators of a demand and supply imbalance for UK PBSA are evident (both for domestic and international students) as highlighted in the adjacent chart.

This pushes students into the PRS market, pushing up rents and having negative impacts on families and professionals who are seeking housing.

The graph highlights that even with the delivery of the supply pipeline, a significant gap still remains between the number of students requiring accommodation and the amount of PBSA stock available. This is assuming that full-time student numbers continue to grow at the average annual growth rate for the last five years, 5.6% (dark blue line), or at 2.0% (light blue line).

Supply vs demand

LONDON BED DEMAND VS PBSA SUPPLY TRENDLINE



Source: StuRents, HESA

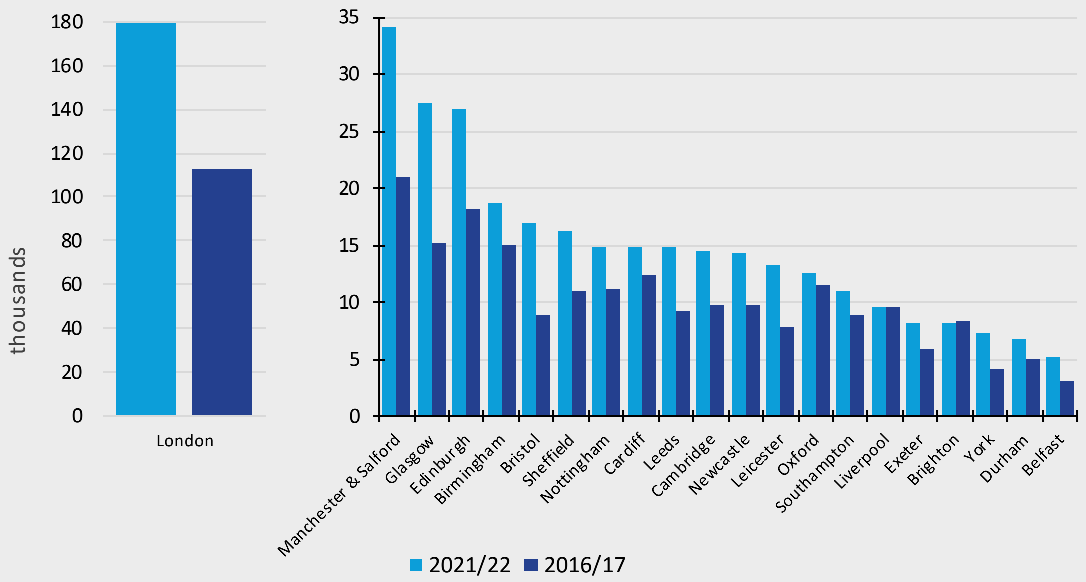
Bed demand: *the number of full-time students (and sandwich) minus the number of students living at home or attending a campus outside of London.* ***Forecasted (f):*** *based on an extrapolation of the average rate of growth for full-time undergraduates and postgraduates for each institution over the last five-years - those expected to live at home or attend a campus outside of the reported location.*
PBSA Supply: *private and university-run halls, forecasted (all developments in the pipeline are delivered).*

If full-time student numbers in London continue to grow at the **five-year average annual growth rate of 9.0%** (dark blue line), or 2.0% (light blue line), London has a particularly worrisome future trendline as the pipeline is limited in relation to required bed spaces.

This will push more students into the private rental market in London and continue to inflate rents. **PRS rental inflation in London was 13% in the 12 months to April 2023.** This brings sustainability into question.

International students

TOTAL NUMBER OF INTERNATIONAL STUDENTS BY CORE UK CITIES (THOUSANDS)



Source: HESA, Colliers Analysis

International students are part of the target demographic for PBSA. Typically, international students have more money to spend on accommodation and value the amenities of modern PBSA assets such as high-quality security systems.

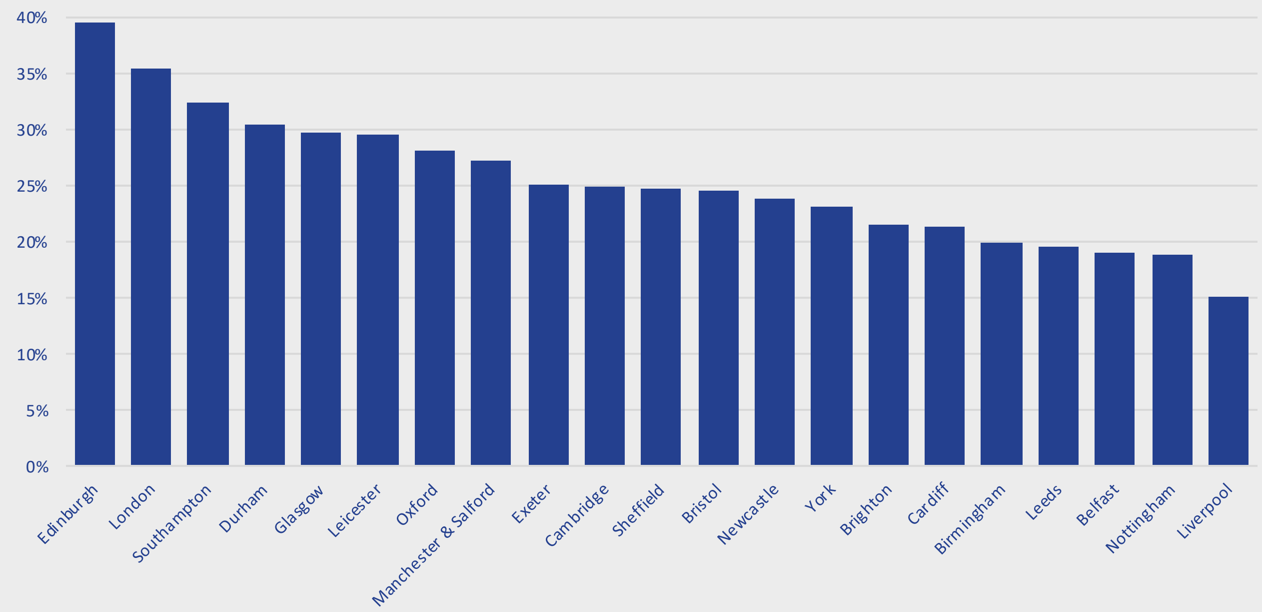
London is the UK city with the most international students (180,000) in 2021/22. Out of those students c. 144,000 were from **non-EU countries**, most commonly China and India.

Manchester & Salford had the **second highest number of international students** (34,200) in 2021/22.

Bristol has **almost doubled their international student population in the past five-years** (increase of 89.3%).

International students

OVERSEAS STUDENT NUMBERS AS A PERCENTAGE OF TOTAL STUDENT POPULATION BY KEY CITIES IN 2021/22



Source: HESA Colliers Analysis

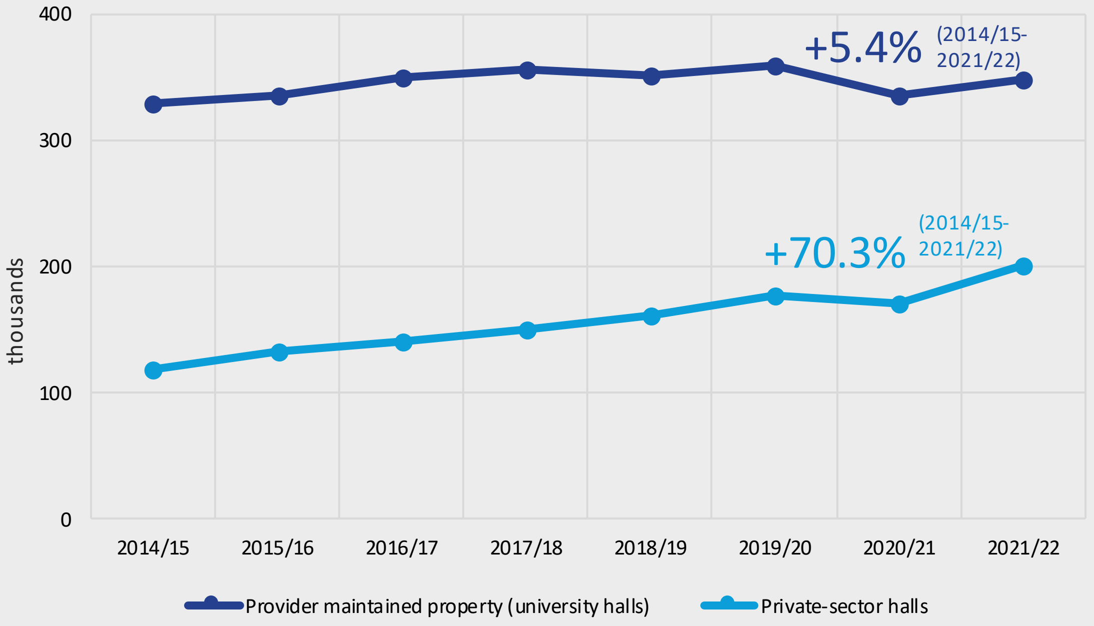
39.4% of students in Edinburgh are international, **representing the highest proportion of overseas students** of key UK cities.

After Edinburgh, **London has the highest proportion of international students at 35.4%** of all students.

Glasgow has both a **relatively high proportion of international students (29.8%)** and a large international student population (27,510).

Purpose-built student accommodation

NUMBER OF FULL-TIME (INCLUDING SANDWICH) STUDENTS LIVING IN PURPOSE-BUILT STUDENT ACCOMMODATION



Source: HESA, Colliers Analysis

The number of full-time students (incl. sandwich students) living in **purpose-built student accommodation has increased by 22.5% between 2014/15-2021/22.**

The number of full-time (incl. sandwich) **students that live in provider-maintained property (i.e., university-run halls) has increased by 5.4%**

Full-time (incl. sandwich) students living in **private-sector halls (i.e., private PBSA) has increased by 70.3% in the same period.**

STUDENT EXPERIENCE

The Global Student Living Index (GSL Index) is an annual survey of students and has found that students who live in private halls have overall higher levels of satisfaction than those living in university halls.

- **Facilities** - students living in private halls were more satisfied with the facilities than those living in university halls. The gap was particularly noticeable for communal spaces and bathrooms where students were much more satisfied in private halls.

- **Social** - in terms of the social element of PBSA, the survey found that university halls outperform private halls when it comes to the number of students who say they have formed close friendships (68% vs. 63%). However, there was not a difference between university and private halls when it came to the number of students who say they feel a strong sense of community (53%).

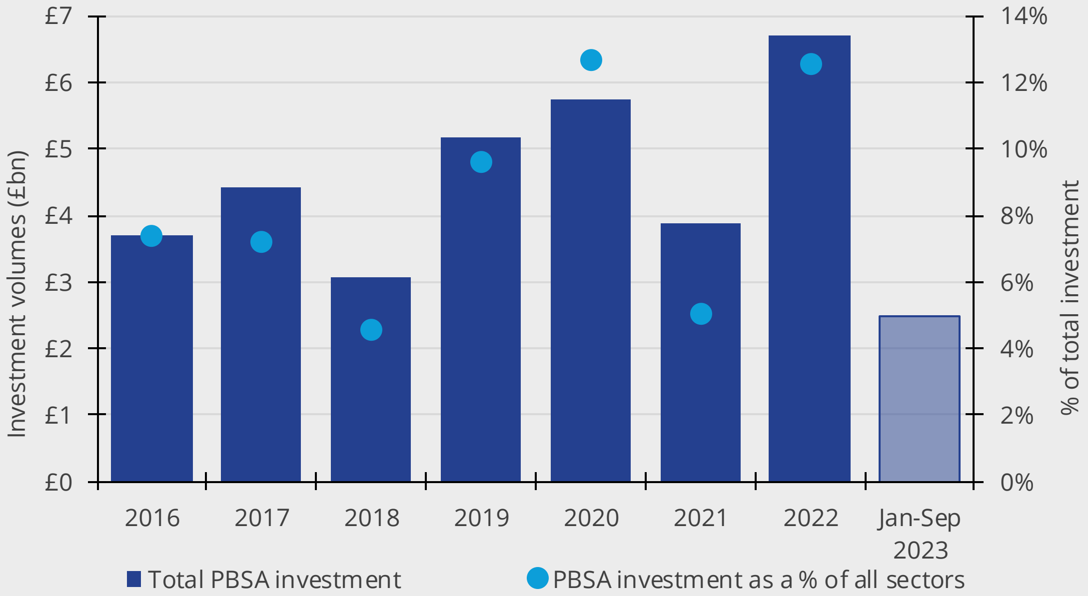
- **Wellbeing** – fewer students (14%) living in private halls thought their accommodation had a negative impact on wellbeing, compared to 21% of students living in university halls. This may be linked to conflict with others, or a higher proportion of students living in cluster rooms vs studios. More students living in university halls (22%) say that they struggle to get along with others in their accommodation vs. students in private halls (18%). This can also be linked to management as more students in private halls (64%) said that their accommodation team care about their wellbeing than students in university halls (57%).

- **Management** - private halls students were marginally more satisfied with management (77%) than students living in university halls (75%) in Q2 2023. The gap narrowed quite considerably from the previous survey, possibly suggesting that with higher levels of rent comes higher levels of expectations.

Source: Global Student Living Index (GSL Index)

PBSA investment volumes and yields

PBSA INVESTMENT VOLUMES AND AS A PERCENTAGE OF TOTAL INVESTMENT IN ALL CRE SECTORS



Source: Colliers

One of the **largest deals so far this year has been the DIF Capital Partners' £300m acquisition** of the 4,500-bed Campus Living Portfolio across seven key UK cities.

£2.49 billion has been invested into PBSA to date this year.

The Operational Capital Markets team at Colliers has advised Cain International on **a £150m forward funding transaction with Olympian Homes as part of a wider £500 million forward funding for five new PBSA schemes**.

PBSA investment volumes and yields

PBSA AVERAGE DIRECT LET YIELDS FOR LONDON AND REGIONAL LOCATIONS

Location	NIY Range	Pressure
London Prime	4.00-4.25%	Stable
London Outer	4.50-4.75%	Stable
Regional Prime	5.00-5.25%	Stable
Regional Mainstream	5.50-6.25%	Stable
Regional Tertiary	6%+	Outwards

Source: Colliers

As transaction activity has been relatively minimal, the above table represents an estimate of current yields for London and regional PBSA markets.

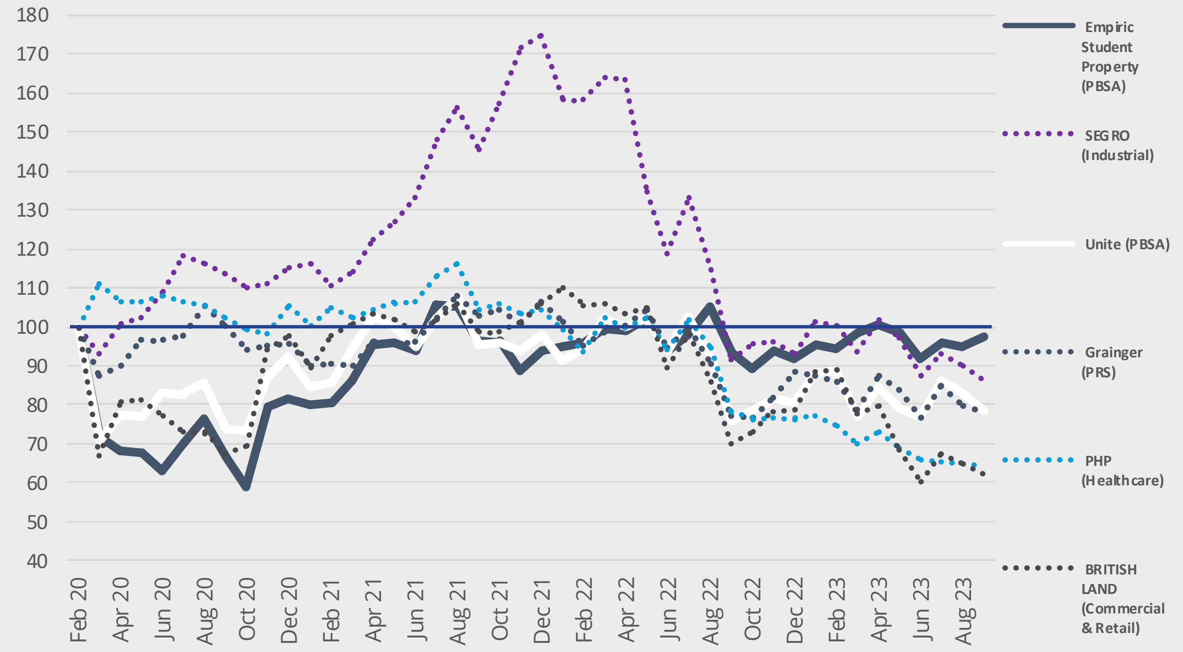
Despite an undersupply of PBSA, transaction activity for 2023 has been relatively low compared to previous years.

Increased interest rates in light of inflation has cooled typical market activity YTD, however, investor sentiment has improved in recent months, as the Bank of England policy rate may have peaked in September at 5.25%.

We expect transaction activity to pick up by year-end 2023 and in 2024 as investors have more certainty on the cost of debt, pricing and general market outlook.

REIT share prices

REIT SHARE PRICE INDICES (100 = Feb 2020)



Source: Investing.com, Colliers Analysis

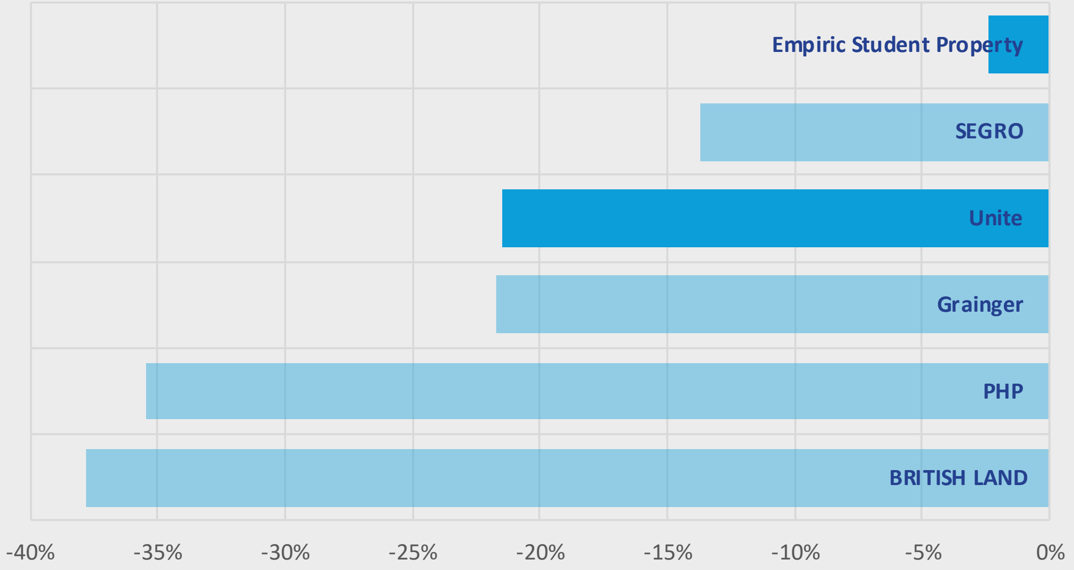
As shown in the graph, REITs with high exposure to PBSA, Empiric and Unite, saw a sharp drop in share prices at the start of the pandemic. This was likely due to fears around travel-restrictions and the ability for students to attend university in person.

It soon became evident that the pandemic led to more university students in the UK. All things considered, a pandemic and now higher interest rates, REITs with high exposure to PBSA have done well as shown in the share price recovery. As of September 2023, Empiric has seen the lowest decline in share prices of the REITs mentioned since February 2020.

The Empiric share price index now sits above SEGRO (Feb 20-Sept 23). Despite SEGRO having a significant run up in share prices in 2021, they also have the highest volatility in share prices of the REITs mentioned, over the time period (Feb 2020-Sep 2023).

REIT share prices

REIT SHARE PRICES PERCENTAGE CHANGE FEB 2020-SEP 2023



Source: Investing.com, Colliers Analysis

When comparing share price performance pre-pandemic to September 2023, Empiric Student Property had the lowest decrease in share price at 2.4%.

Unite Group PLC, also an investor and developer of PBSA, **is down 21.4% since February 2020.**

British Land had the highest fall in share prices, down 37.8% since February 2020. It is worth noting that a high portion of their portfolio is made up of non-residential, commercial and retail properties.

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