



2009 LONDON STUDENT LIVING

London student accommodation review

Knight Frank

HIGHLIGHTS

- London is the Global Knowledge Capital for Higher Education
- London requires at least another 100,000 student bedrooms
- Resilient returns in a turbulent climate continue to attract investors
- Most students do not live in the borough in which they study
- University support should not be a prerequisite for private sector planning applications
- London needs a core Strategic Student Accommodation planning policy
- Partnership between University and private sector enhances fundability

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THE ECONOMIC WINDOW OF OPPORTUNITY FOR STUDENT ACCOMMODATION IS BOLSTERED BY FALLING SITE PRICES AND DECLINING CONSTRUCTION COSTS.

The case for investment in London student accommodation

Global Knowledge Capital

London is the global centre for Higher Education, with more students than any other city in Europe, and the highest number of international students of any location in the world. The Higher Education sector is of vital importance to London's economy, directly accounting for 4% of the city's GDP.

An undersupply of student accommodation

The success in making London a Global Knowledge Capital has not been matched by the provision of purpose-built accommodation for the growing number of students. There is a significant shortfall in the supply of purpose-built accommodation for all categories of student, although the imbalance is particularly acute for foreign, postgraduate and research students together with the first-year student intake. Over 200,000 students in London cannot access purpose-built university or private sector accommodation.

The opportunity

The current economic climate with the significant property development downturn provides an opportunity for London to meet the need for student accommodation through joint university and private sector development. The education sector has historically been more resilient to the general economic cycle than mainstream property

sectors. The total pipeline for all new university and private sector student accommodation is currently smaller than the growth in student numbers recorded solely in 2008. The economic window of opportunity for student accommodation is bolstered by falling site prices and declining construction costs.

Where do students live?

The Department for Communities and Local Government identifies the problem of "studentification" where high concentrations of students live in predominantly terraced HMO housing. In this report we have identified the key London locations where students currently live and those where new development is occurring.



Will Wyatt Court (Opal Property Group)

Future developments

Many planning applications for new student accommodation are in boroughs without strong university representation. There is a focus on fringe Zone-One sites to the north-east of London or to the south of the river. There is an understandable trend towards sites located at transport interchanges. We believe that planning policy should not make university support a prerequisite for a planning application, as this may present conflict between university estates strategies and the wider need for students to access private sector accommodation.

The planning context

The current opportunity to develop student accommodation is threatened by the borough-led planning approach to what is a pan-London student housing problem. National planning policy guidance suggests that councils should promote student-related development, but there is little evidence of this to date. The absence of a Strategic Student Accommodation planning policy could threaten London's future as a Global Knowledge Capital.

Finance

Partnerships between universities and private sector developers generate opportunities for the creation of strong assets in a relatively low risk property sector. Funders of student accommodation are attracted to university agreements, as they reduce occupancy and exit risk. The role of university agreements and leases will be more significant than before the credit crunch.



Global Knowledge Capital

“London is the Global Knowledge Capital for Higher Education.”

There are over 260,000 full-time university students in Britain’s capital, more than any other city in Europe. Three of the city’s institutions – Imperial College, University College and the London School of Economics – are regularly rated as among the 20 best universities in the world.

London’s student population is unique in another way – its international make-up. Around a fifth comes from overseas, more than any comparable location, well ahead of its nearest competitors, New York and Sydney.

London has a huge range of institutions with over sixty different colleges and universities. These institutions range in size from a few hundred students to the capital’s largest, Kingston University, which has a full-time roll of over 18,000. While other global locations have individual institutions with higher prestige, arguably no other city has such a high concentration of academic excellence.

The Higher Education sector benefits London’s economy. Directly, the universities

spend £8bn on goods and services each year, accounting for around 1% of UK and 4% of London GDP. International students attending the city’s institutions spend nearly £750m a year in the UK economy.

London’s status as a Global Knowledge Capital is of key economic significance particularly during a period of downturn in the wider economy.

An undersupply of student accommodation

“London requires at least another 100,000 student bedrooms.”

London has seen a rapid growth in student numbers in recent years, particularly those from abroad. Overall numbers have risen by over 4% annually for the past three years, while there has been a 40% increase in international students since 2001. It is clearly of economic benefit to London if this rate of growth is sustained.

Despite this growth on the demand side, the whole development pipeline for new university and private sector student accommodation is currently smaller than the growth in total student numbers in 2008 alone. In addition, there is increasing competition from other English-speaking locations around the globe, particularly from Australasia as well as North America. There are a number of threats to the future success of London’s university sector, and a major one is the lack of accommodation.

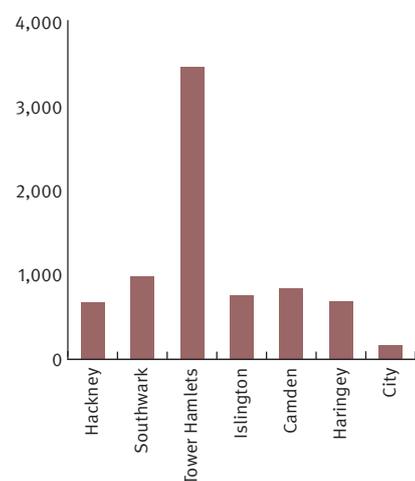
Currently there are 200,000 students in London unable to access purpose-built accommodation. For the foreseeable future the majority of students will live in rented flats and houses, often in conditions well below their expectations. The business and investment promotional body – London First – commented recently that “...*student accommodation is a vital component of the Higher Education offer...*”. As such, the undersupply endangers London’s Global Knowledge Capital status.

TO REACH A MATURE LEVEL OF PROVISION, LONDON REQUIRES AT LEAST ANOTHER 100,000 STUDENT BEDROOMS.

In response to this situation there has been increasing interest in private purpose-built accommodation. Across the UK as a whole, 10% of students were housed in this type of accommodation in 2007, compared with 7% in 2005. In London the market is relatively immature compared with the rest of the UK. Less than 20% of London students can access purpose-built accommodation compared with nearly 50% of students at other key university destinations such as Manchester, Sheffield or Leeds.

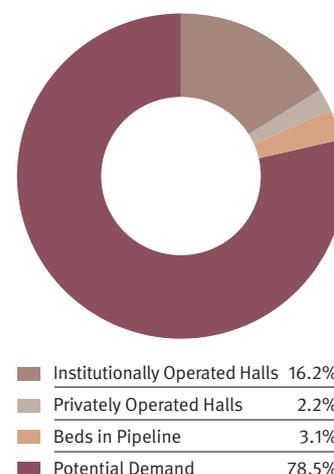
To reach a similar level of provision, London requires at least another 100,000 student bedrooms – well over ten times the number currently in development. There is clearly scope for a substantial increase in development activity in this sector.

Figure 1
Beds in the development pipeline



Source: Knight Frank Residential Research

Figure 2
Potential demand for hall bed spaces



Source: Knight Frank Residential Research

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The opportunity

“Resilient returns in a turbulent climate continue to attract investors.”

There is a unique opportunity for London to meet the need for student accommodation through university and private sector development during the current economic downturn. The positive investment characteristics of the student market contrast starkly with other sectors at the current time.

In addition to the supply/demand equation the sector has seen rental growth in excess of RPI over recent years, which we believe will continue for at least three years. This view is supported by transparent underlying demographics, full occupancy throughout London and a restrictive planning system.

In stark contrast to other sectors debt finance for the development of student accommodation has been relatively accessible. The availability of funding is

much enhanced where forward commitments to purchase and/or university leases are in place. The downturn in the property sector enhances development prospects in other ways; land values have fallen across the capital and construction costs are falling.

There is a window of opportunity which should be with us into 2009, with sites becoming available that would once have been used for alternative commercial or market residential schemes.

Where do students live?

“Most students do not live in the borough in which they study.”

The traditional accommodation model is for university students to be allocated a bed in a hall of residence owned by the institution, before moving to private accommodation, usually houses in multiple occupation, for the remainder of their course. In London, the shortage of supply is such that less than 20% of full-time students can be offered university accommodation.

The existing university halls of residence are distributed more widely around the capital than that of their parent institutions, but there are some concentrations. There are high numbers of students in Uxbridge UB8 (Brunel University), Twickenham TW20 (Royal Holloway) and Roehampton SW15 (Roehampton University). Unsurprisingly, due to the concentration of institutions, WC1 (Bloomsbury) has the highest number in halls, almost 6,000. In Central London, this is followed by SE1 (South Bank, Southwark and Bermondsey), with just over 4,300, and N1 (Islington and King’s Cross), with just over 2,300.

When students move into private accommodation in subsequent years, they tend to move further away from the centre of London to locations where there is HMO availability with cheaper rents and good transport links. According to our analysis, the highest concentrations of these students are in two areas: “the North London Arc” and “the South London Cluster.”

THE HIGHEST CONCENTRATIONS OF STUDENTS LIVE IN TWO AREAS: “THE NORTH LONDON ARC” & “THE SOUTH LONDON CLUSTER”.

The North London Arc is a concentrated geographical area which is served by the Victoria, Piccadilly and Central lines, offering quick and direct routes to central London and the universities. The arc begins in Wood Green/Harringay and stretches through Stamford Hill and Stoke Newington to Shoreditch and Bethnal Green. The area offers a large number of small, terraced houses suitable for sharers, at rents that are low compared with other parts of Inner London.

It is worth emphasising the eastward shift of London’s youth-orientated nightlife in recent years. Clerkenwell, Shoreditch and Spitalfields have all seen a growth in “creative class” leisure facilities. These trends – alongside more traditional draws such as Camden Town – will continue to attract students to this arc, particularly those who have not chosen London for purely academic reasons.

The South London Cluster is more dispersed. It stretches from Camberwell and Peckham into Beckenham, and includes locations such as Catford, Forest Hill, Sydenham and Lewisham. This area does not have tube connections, and students living here must rely on bus and train links. They are attracted to these areas by rents that are even cheaper than in the North London Arc.

Furthermore, as with Shoreditch/Spitalfields, the attractions of the South Bank are spreading further into south London.

There are further, smaller, university-specific clusters around Greenwich, Tooting, Kingston-upon-Thames, Uxbridge and Finchley. It is notable that there are relatively few students in East London beyond Bethnal Green, despite low rents. West and North-West London also have lower than average numbers of students, partially as a result of higher rents in these areas.

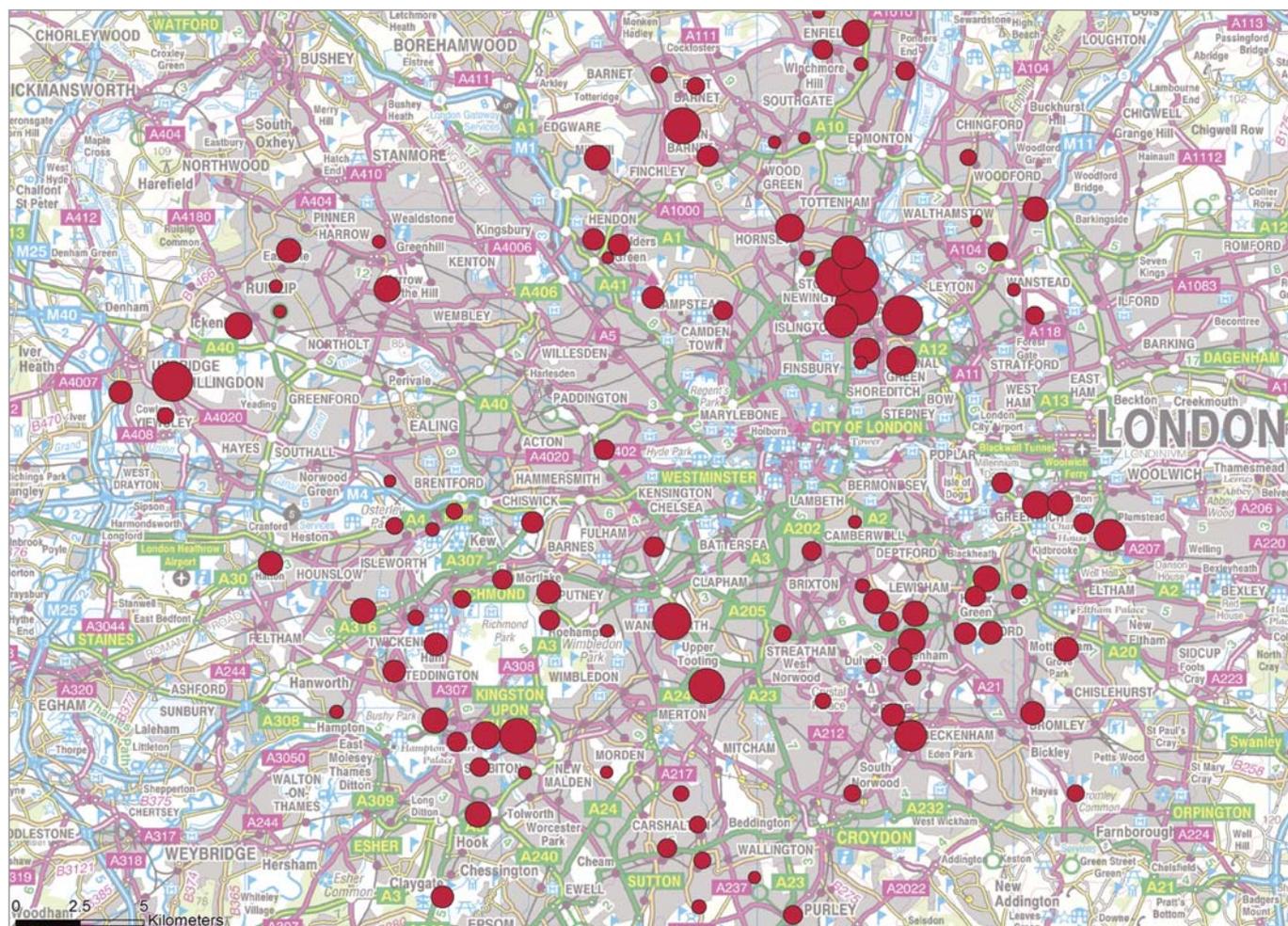
Developers of purpose-built accommodation tend to favour more central locations especially Zone-One and fringe Zone-One locations. There are particular concentrations of development in two areas: Old Street, at the southern end of the “Arc”, and Finsbury Park/Holloway, at the northern end. There are also a number of new schemes in Borough, Elephant & Castle and Bermondsey – just to the north of the cluster of student dwellings in south London.

The largest concentration of students study in the London Borough of Camden, predominantly around Russell Square. While Camden extends north all the way to Hampstead and Tufnell Park, much of the borough comprises relatively high value private housing stock.



Where students study

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Future developments

“University support should not be a prerequisite for private sector planning applications.”

Boroughs without strong university representation are currently subject to a high volume of planning applications for student accommodation. In identifying potential sites for new accommodation there is a balance to be considered between transport links and travel times, proximity to university, perceived crime risk and what might loosely be described as the leisure value of the area.

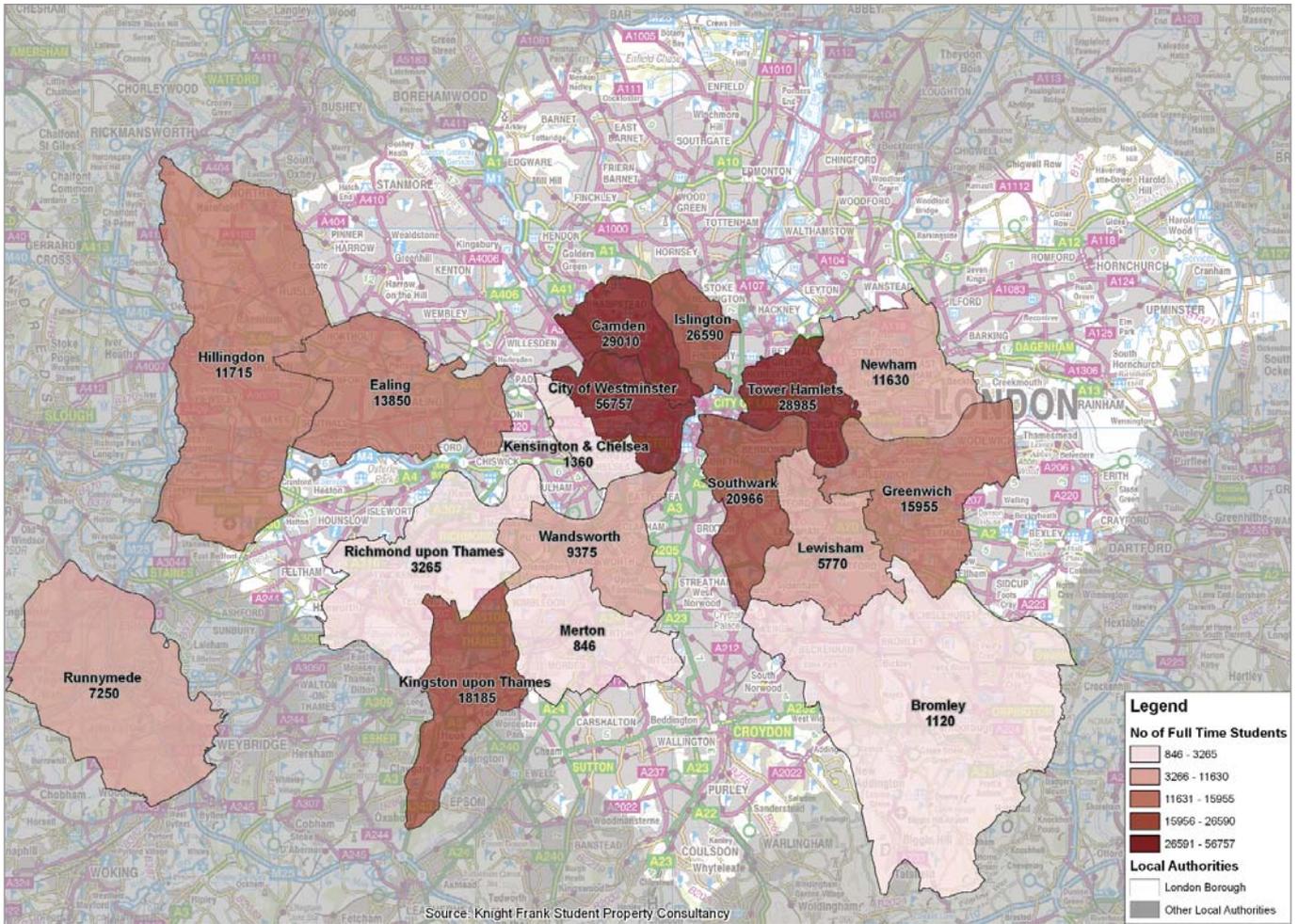
Zone-One sites are highly desirable scoring well on all of the above criteria. However, Zone-One sites are generally only available on the back of premium rents and even in the current financial climate there are limited opportunities for development. For this reason the current focus for private developers has been for fringe Zone-One sites in Aldgate, Angel, Old Street, Southwark and Borough or for sites between Camden and Caledonian Road. We anticipate a further trend towards transport interchange sites (such as Finsbury Park and Stratford) where accommodation can be delivered to meet “middle market” rents.

A number of London boroughs are taking an independent view and are looking to grant consent for planning applications with direct

reference to their own borough-based universities. We do not anticipate that this strategy will be effective and will restrict development. The demand/supply imbalance is so great that even where a borough tries to locate accommodation around a borough-based university, the residency mix is still likely to be formed from students studying at a broad cross section of universities located through out London.

We believe that planning policy should not make university support a prerequisite for a planning application. This tendency for this requirement presents a conflict between university estates strategy and the acute need from students for purpose built private sector accommodation.

Where students study



The planning context

“London needs a core Strategic Student Accommodation planning policy.”

The London Plan, the strategic document guiding the future development of the capital, states:

“Higher Education in London provides an unparalleled choice of undergraduate and postgraduate degree programmes, continuing professional development and advanced research. It is also a major employer and attracts major international companies able to benefit from the universities’ research reputation, such as in pharmaceuticals and biomedicine. As many of London’s students, both undergraduate

and postgraduate, choose to stay in the capital after graduation, universities are also important feeders to the labour supply, particularly of people with the higher order skills necessary for London to remain a globally competitive city.”

The London Plan is unequivocal on the need for the planning system to allow and encourage the expansion of the city’s universities.

“The Mayor will, and boroughs should, work with the LDA and the higher and further-education sectors to ensure that the needs of the education sectors are addressed... promoting policies aimed at supporting and maintaining London’s international reputation as a centre for excellence in Higher Education... taking account of the future development needs

of the sector... supporting the provision of student accommodation.”

The London Plan identifies Euston, immediately to the north of the area known as the “University Quarter” (including: University College London, King’s College, the London School of Economics, the Institute of Education, the School of Pharmacy, Central St Martin’s and the School of African and Oriental Studies), as being ripe for university-related development. However, it is not possible for more than a small proportion of students from the University Quarter to be housed in this area. Nor is there sufficient accommodation for them to be housed within Camden, the London borough within which the wider hub sits. It is clear that there is a need for more development elsewhere.



The London Plan recognises this: *“Higher Education institutions need to work with boroughs at the earliest opportunity over planning future developments... yet (these institutions) have a wider sphere of operation than a single borough.”*

There is evidence that the boroughs are not following this principle and are refusing to accept planning applications for student accommodation if it is not backed by a Higher Education institution within the borough in question. As well as being contrary to the London Plan, it also fails to recognise where students registered at the area’s institutions actually live when they move outside purpose-built accommodation.



Judith Salomon (Director of Planning and Development) London First:

“...development of bespoke student accommodation will play an important role in freeing up larger houses suitable for families...”

The role of purpose-built student accommodation in “releasing” HMO housing back to mainstream use needs greater recognition within the planning system. Currently, student accommodation does not generally attract affordable housing requirements but equally it does not count towards borough affordable housing targets. Boroughs have recently shown considerable reluctance to change open residential consents (with affordable housing quotas) to student housing consents despite the obvious benefit to the wider community of releasing terraced housing back into the open housing market.

The Mayor and Greater London Authority both recognise the importance of the Higher Education institutions to the London economy and the role student accommodation has as part of the University “offer”. Pan-London guidance is critical in ensuring that a London wide problem is addressed at a borough level.

Finance

“Partnership between University and private sector enhances fundability.”

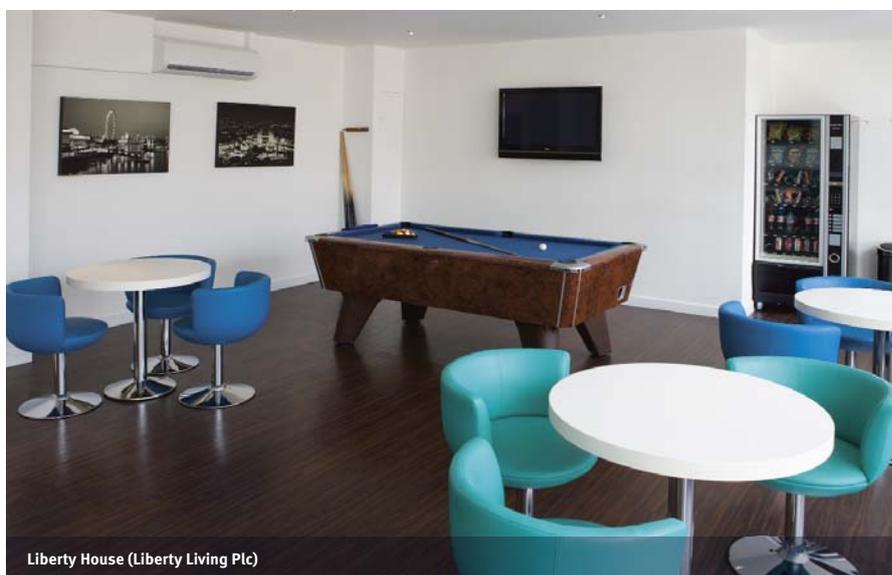
Into the short and medium-term it is the availability of funding that will be the key driver in the viability of property development. A key determinant of funding is the risk profile of the completed property asset. We are of the view that a partnership between the university and private sector developers can generate a de-risked asset.

The sector is perceived to have a lower risk profile due to underlying demographics, growth in HE participation, financial stability of universities and the demonstrable undersupply of student accommodation in the context of rising demand. These low risk characteristics are particularly pronounced in London.

There is an opportunity for universities in London to take advantage of the current financial turmoil by securing end-user overriding agreements on accommodation developments. These agreements could be leases, nomination agreements or reservation agreements. Funders of student accommodation are highly attracted to such agreements as they further reduce the risk to the asset. In the current economic climate the presence of such an agreement might secure the financial viability of the project.

By committing to such an agreement, the university is creating availability of accommodation to its students, potentially without capital outlay or development risk. Specification, management, student welfare and operational issues can be contractually identified. Rents and rental growth can be controlled. The agreement can at one extreme offer little more than the foundation for a working relationship, a reservation agreement for example, or could deliver a university hall of residence for a fixed lease term with financial commitment linked to RPI uplifts subject to five-yearly market reviews.

Investors in the sector have traditionally been attracted by the lower risk profile of direct let accommodation. Sector specialists secure direct let accommodation that requires active management control with full exposure to annual variations in gross and net income. Institutional investors target overriding agreements and leases let to university covenants. We anticipate funding requirements will make the role of university agreements and leases far more significant than they were before the credit crunch. This gives universities a strong arm in encouraging appropriate and suitable development to support the status London has as the Global Knowledge Capital.



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