

UK Student Market Update

Q3 2023

Knight Frank's quarterly review of the key development and investment themes in the UK student property market

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► Long-term growth in student numbers, coupled with a shortage of beds, continues to drive capital into the sector. Following the subdued start to the year, a healthy appetite from investors has been recorded in the third quarter with over £1 billion trading hands, bringing year-to-date volumes to just over £2.1 billion. While deal structures are shifting to account for challenges in the debt market, investors continue to look favourably at the counter cyclical nature of the market as a hedge against inflation. It is our expectation that a further £1 billion will close in the final three months of the year.

Student numbers

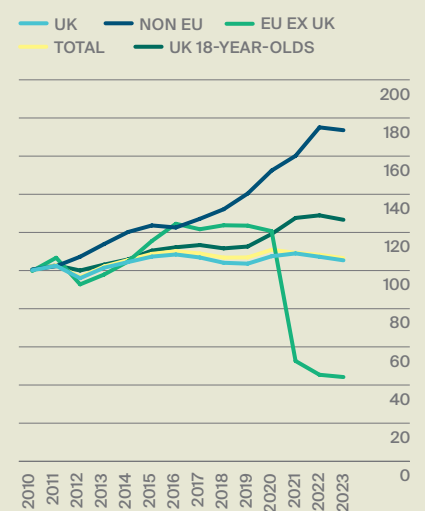
Some 297,300 UK 18-year-olds were accepted onto a university course this year, according to data from UCAS, down 2% year-on-year. The figures represent the first fall in acceptances for UK 18-year-olds since 2018 and this follows a surge in student numbers as we exited the pandemic. Yet, despite the slight drop, acceptances remain above longer-term trends, with 16% more 18-year-olds heading to university this year than in 2019. In total, 36% of all 18-year-olds in the UK have been accepted into universities. The number of international students from outside the EU who were accepted fell by 1% but remain 25% higher than pre-Covid levels in 2019. The top three countries with placed applicants are China, India and Hong Kong. International students remain a key pillar of demand for the purpose-built student accommodation (PBSA) market. In total, just under 494,000 students of all ages and domiciles were accepted onto university courses.

Robust investment volumes

The third quarter saw just over £1 billion trade hands across 20 transactions, up 23% on the comparable period last year. Year-to-date investment volumes now sit at £2.16 billion, which is 48% lower than at the same point of 2022 following the subdued start to this year. However, when stripping out the Singapore Press Holdings Portfolio, which traded in the first nine months of 2022 for just shy of £1 billion, this year's decrease on 2022 YTD volumes becomes a lot more modest. Encouragingly, the 44 deals which have closed so far sit above the five-year average of 40 transactions for the January to September period.

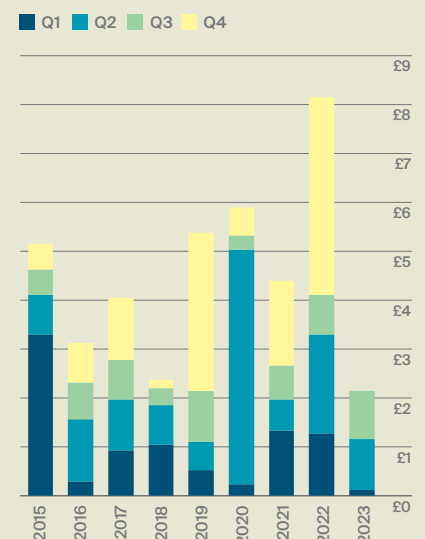
The transactional evidence suggests that yields have shifted by approximately 25-50 basis points in the regions, while London is estimated at 75 basis points from peak

Fig 1: Student number growth
Indexed 100 = 2010



Source: Knight Frank Research, UCAS

Fig 2: PBSA investment volumes
Quarterly (£billions)



Source: Knight Frank Research

pricing, though this looks to be settling. Overall, yields in the sector are notably more resilient than in many other traditional real estate sectors. Looking ahead to the final three months of the year, we are tracking over 25 opportunities which are presently under offer. Our expectation is that a further £1 billion will close in the final quarter, bringing year-end investment volumes in UK PBSA to circa £3.2 billion.

Key deals

The largest transaction of the quarter, and the year so far, was Vita Groups disposal of three standing stock assets to Savills Investment Management for around £300 million. The sale comprises Cannon Park in Warwick, Iona Street in Edinburgh and Bruce Street in Belfast, totalling 1,340 bedrooms.

This quarter also saw real estate investment firm Cain International and developer Olympian Homes finalise a funding agreement, valued at approximately £150m, to develop two new PBSA assets. The first of these projects, Cirrus Point in Leeds, will comprise 660 beds over 255,000 sq ft. The 45-storey development will be the tallest building in Leeds and the tallest PBSA only building in the world at 191m. The second of the two projects is Rialto House in York, which will include 275 beds over 80,000 sq ft.

Another key deal in Q3 that closed on a funding agreement basis was BlackRock and Manner’s acquisition of The Store House in Leeds for a price in the region of £72m. Once completed, the scheme will bring 369 beds with an expected completion date in time for the 2025/26 academic year.

The strong funding arrangements agreed in the third quarter demonstrate investor confidence in the industry, showcasing its resilience even in challenging economic conditions.

Deal structures shifting

While investors continue to seek exposure to the market, the increased cost of debt continues to put pressure on deal structuring, particularly in the forward funding market. Consequently, we are seeing more forward commit opportunities. We also expect joint venture strategies will rise in popularity as the year progresses as an attractive route into new markets and sectors, as well as a way for existing owners to diversify risk. So far this year, forward commit/funding and joint venture style deals have accounted for 25% of total deal volumes, up from 12% over the comparable period last year.

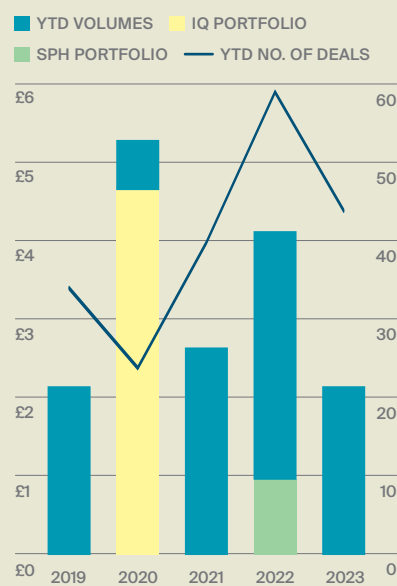
Past the peak?

In November, the Bank of England voted to keep the base rate flat at 5.25%, unchanged from September. The Monetary Policy Committee voted 6-3 to maintain the rate. A loosening in the labour market and better-than-expected inflation figures contributed to the first decision in September to pause rate hikes, in line with the stance taken by the US FED. Whether interest rates have peaked will depend on whether the downward trend in inflation holds, but positively the Bank of England’s forecasts imply that base rates will remain at this level until Q3 2024. Any period of stability - and the confidence that will bring - will bring a more competitive pool of buyers back to the market in Q4 and into 2024.

Size of the market

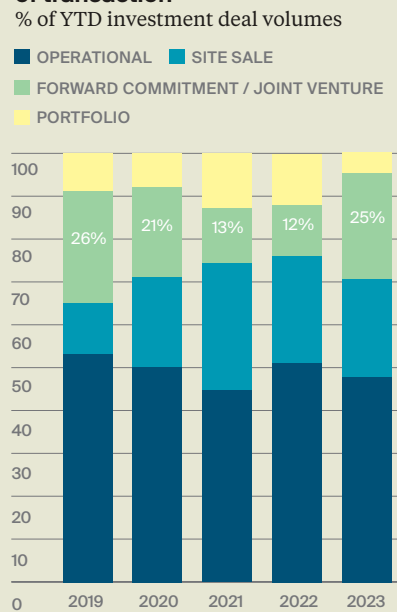
Based on our analysis of current operational PBSA stock, stock under construction, and weighted average rents, we estimate that the value of the market for professionally managed student accommodation in the UK is £85.8 billion in 2023. Looking at the future pipeline, and assuming a modest rental growth of 2% per annum, in line with target consumer price inflation, we believe this figure has the potential to grow to £104 billion by 2028.

Fig 3: PBSA UK Investment Transaction YTD Volumes, Q1-Q3, 2019-2023



Source: Knight Frank Research

Fig 4: UK PBSA investment by type of transaction



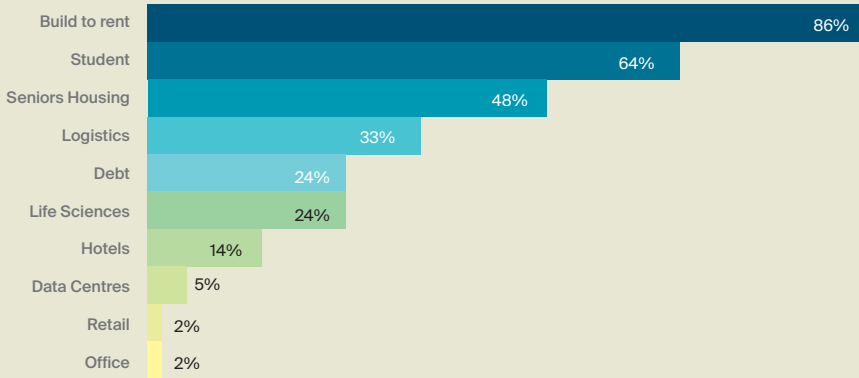
Source: Knight Frank Research

Strong sentiment

Despite more muted volumes, investor sentiment for the sector is strong. In our latest survey of institutional investors across the Living sectors, 79% of respondents said they plan to target the PBSA sector over the next five years, up from 62% who said they are currently invested. When asked which Living sector offers the most opportunity for investors over the next five years, survey respondents suggested that direct let student accommodation, single family housing and multifamily will be the strongest performers. The sector's resilience, its expected long-term growth in demand relative to supply, strong occupancy rates, and potential for rental growth have all contributed to positive investor sentiment.

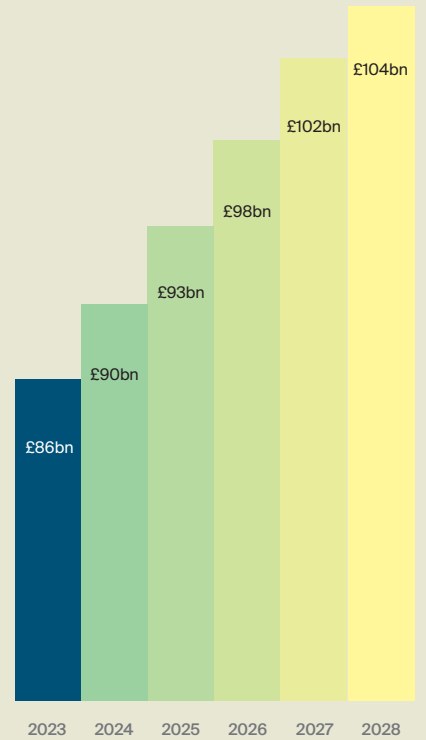
Fig 6: Living Sectors Investor Survey:

Which sector offers the most opportunity for investors over the next five years?



Source: Knight Frank Research

Fig 5: Value of the UK PBSA Market
2023 estimates and 5 year future projections

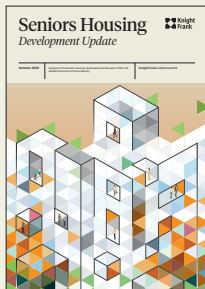


Source: Knight Frank Research

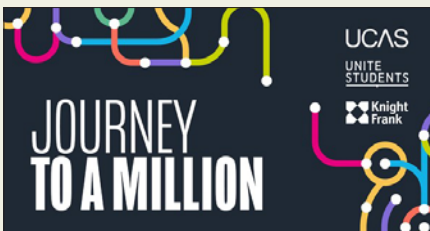
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