# UK Student Market Update

Q2 2024

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

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Delivery of new PBSA beds remains subdued which has supported strong rental growth across the market.

### Investment

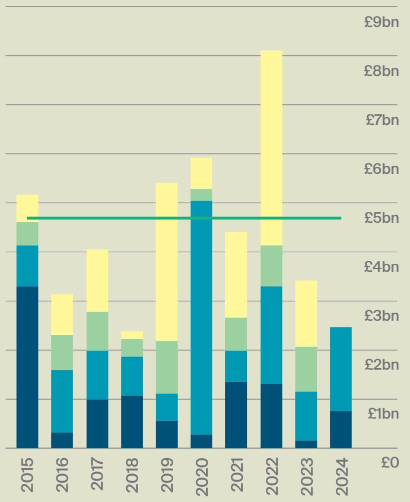
Investment in UK purpose-built student accommodation (PBSA) topped £1.7 billion in the second quarter of 2024, the strongest quarter for investment since 2022. Investment volumes were strongly inflated by Singaporean-based Mapletree's acquisition of the Cuscaden Peak Portfolio. Although this deal included some assets in Germany, the portfolio is UK dominated and our estimate of the UK asset value proportion is approximately £960 million. This took investment in the first half of 2024 to £2.45 billion, notably ahead of the same point last year (£1.1 billion). Whilst that meant investment was up substantially year-on-year, that increase should be viewed through the lens of a much slower investment market at the start of 2023. Indeed, H1 investment was lower than in 2022 and only slightly above the same point in 2021.

**Fig 1: Key PBSA deals in Q2 2024**

| Transaction Name | Transaction Type | City | Price (approx.) | NIY (approx.) | Purchaser |
|---|---|---|---|---|---|
| The Cuscaden Portfolio | Portfolio | Multiple UK Cities | £964m | Confidential | Mapletree |
| Project Jade | Portfolio | Birmingham, Cardiff, Leicester, Liverpool, Nottingham and Sheffield | £167m | 6.25% | PGIM & Generation |
| Pavilion Court | Operational | London | £125m | 4.60% | Apollo |
| Avon Street | Forward / Joint Venture | Bristol | £85m | 5.50% | Corebridge Capital |
| 65 Fleet Street | Site Sale | London | £85m | N/A | Dominus |

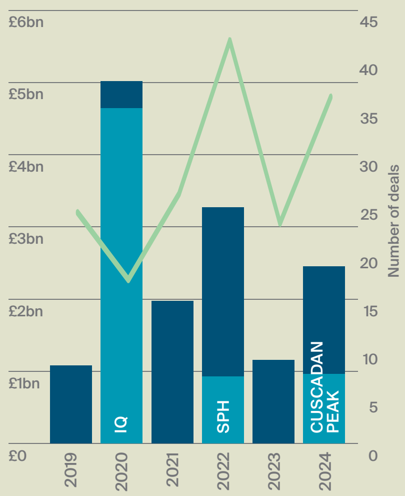
n/a = land sale, no NIY attached. Source: Knight Frank Research

**Fig 2: UK PBSA investment volumes**
Quarterly




Source: Knight Frank Research

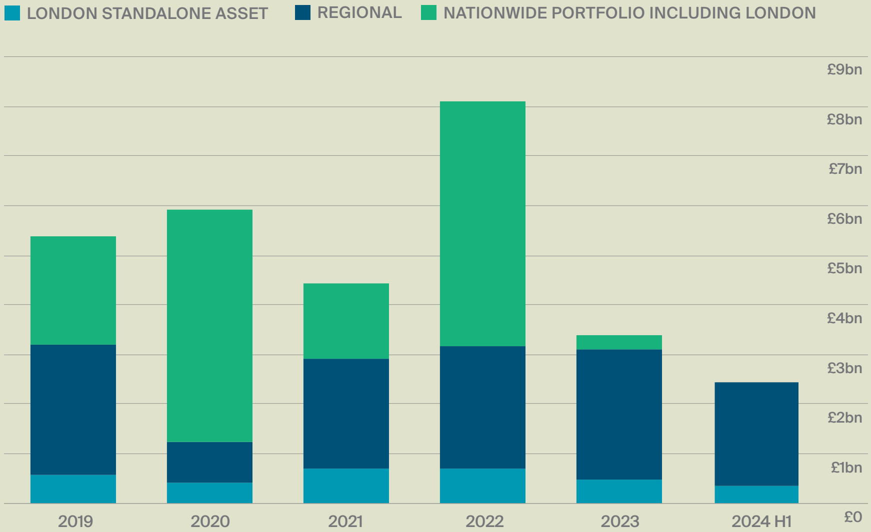
**Fig 3: PBSA investment in H1**
Large portfolio deals highlighted




Source: Knight Frank Research

**Fig 4: Regional deals dominate**

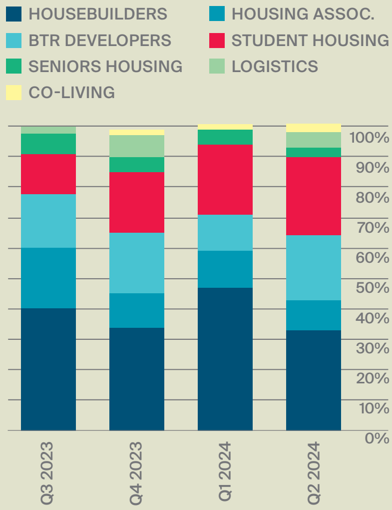
Value of standalone assets trading in London vs regional markets




Source: Knight Frank Research

**Fig 5: Which group was most active in the land market?**

% of respondents




Source: Knight Frank Research

## London vs the regions

Sales of UK regional assets have led the way over the last few years, with an average of £2.1 billion invested annually in standalone regional assets since 2019. In comparison, the average annual spend on single assets in London over the same period is £570 million. Lower turnover in London reflects a lack of supply of PBSA opportunities in the capital, as opposed to faltering demand. As such, of the £3.3 billion invested into London-based PBSA since 2019, 33% has been site or land sales.

## Appetite for land

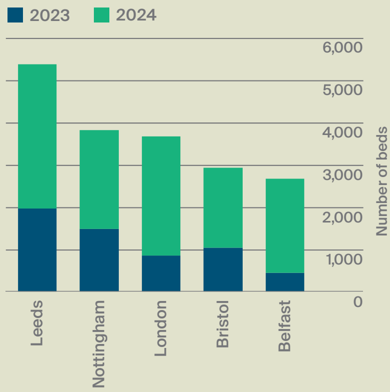
Reflecting this, some 26% of respondents to our Q2 survey of 50 volume and SME housebuilders across the UK, said student developers were the most active land buyers in their regions in the first quarter, second only to the PLC housebuilders, and up from 8% a year previously. Improving sentiment should support a more active land market this year and next. Land pricing was flat in the second quarter, Knight Frank data shows.

## Development pipeline is constrained

Fewer than 17,500 new purpose-built student beds will be added to supply in the 2024/25 academic year, a marginal 0.6% increase on last year's delivery, but notably below the five-year pre-pandemic average of more than 25,000. A marked slowdown in delivery is a continuation of a longer-term trend of fewer new schemes completing each year. Just 60 new PBSA developments will be completed this academic year, this compares with double that a decade ago. Leeds saw the largest number of new deliveries with 3,400 beds delivered so far in 2024, followed by London (2,800), and Nottingham (2,300). Rising build and site costs, skills and labour shortages, higher financing costs, and tricky-to-navigate planning policy all represent notable headwinds that have contributed to a slowdown in delivery, which has come despite growth in student numbers. Currently, the total pipeline of student beds across the UK is around 160,000, with 22% of this under construction and a further 49% (78,000 beds) with full planning permission granted.

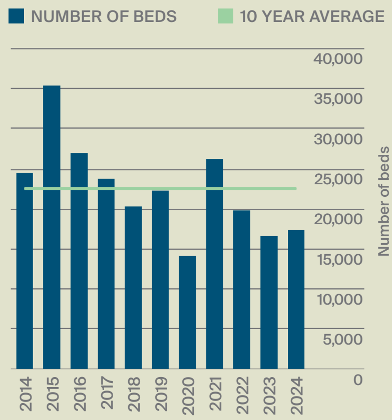
**Fig 6: Leading cities for PBSA delivery**

New supply 2023 and 2024




Source: Knight Frank Research

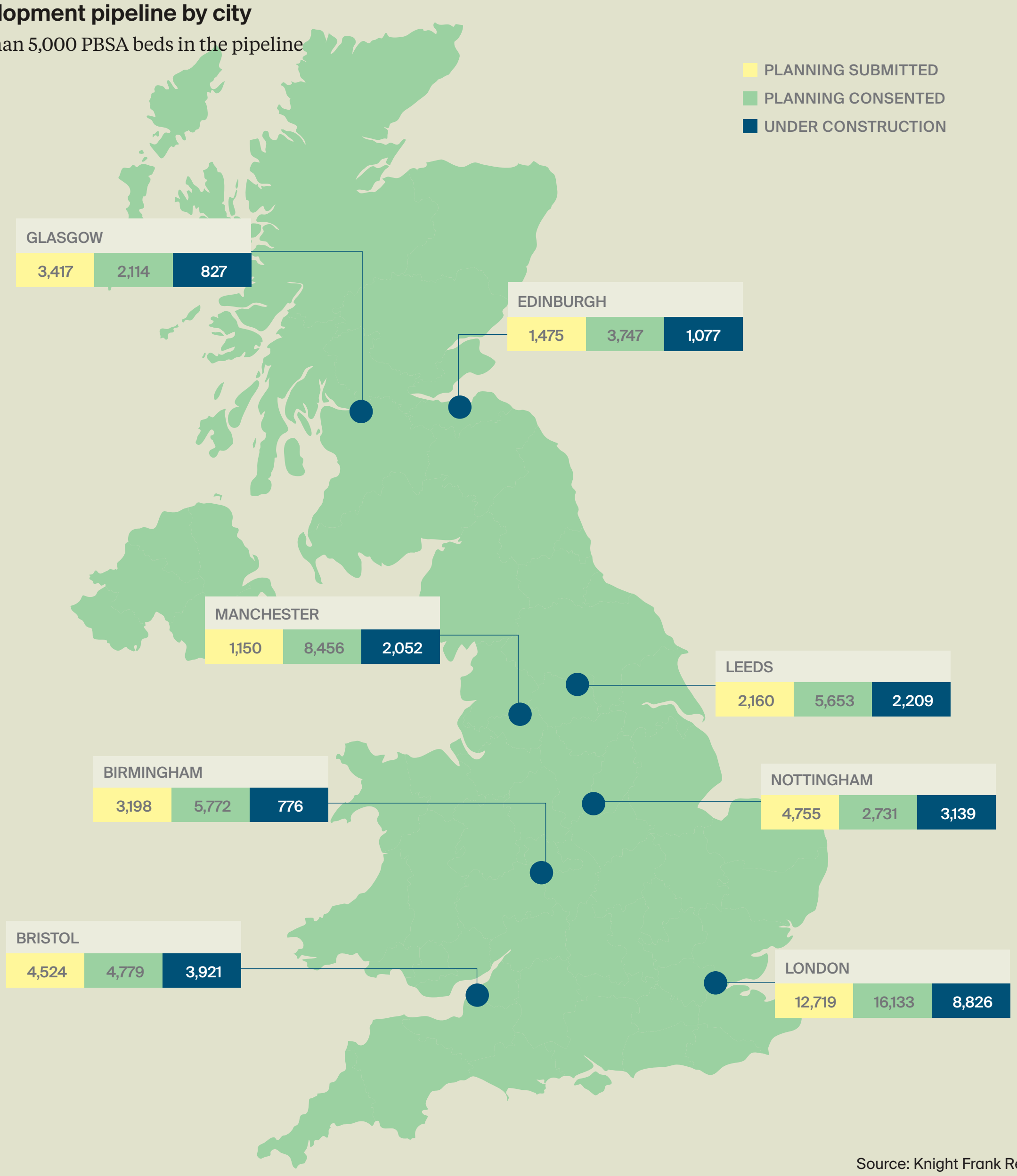
**Fig 7: Annual delivery of new PBSA beds**




Source: Knight Frank Research

**Fig 8: PBSA development pipeline by city**

Markets with more than 5,000 PBSA beds in the pipeline




Source: Knight Frank Research

## Supply shortages underpin rental growth

With demand from students for housing high in a number of locations and supply faltering, rental growth for the sector remains elevated – averaging 7.6% across the UK in 2024. Within this headline figure individual markets are seeing varying levels of performance, largely dependent on how stark the imbalance between supply and demand is. A similar variation is recorded across room type, with studio rental growth recording 11.7% in London, and 9.0% across the UK.

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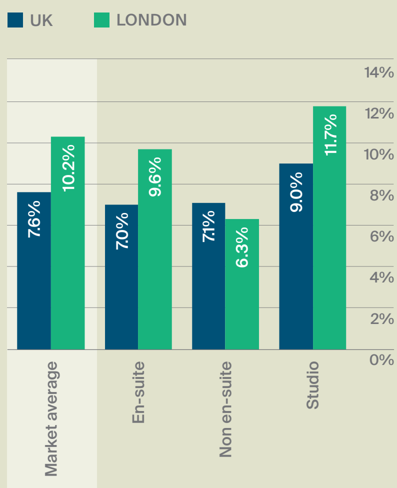
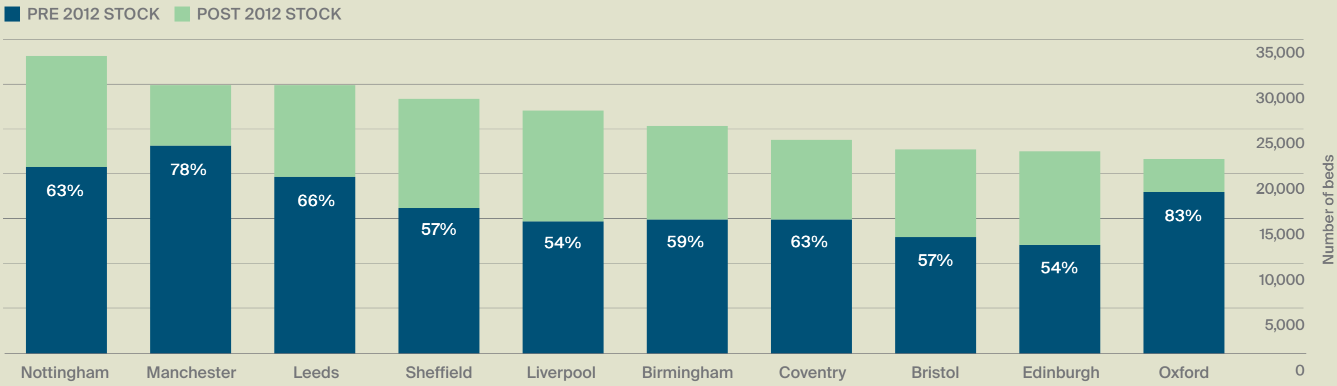
**Fig 9: Annual PBSA rental change**

2024




Source: Knight Frank Research

**Fig 10: Regional Cities PBSA Supply Built Pre 2012 vs Post 2012**




Source: Knight Frank Research

### A two-tier market

Just 258,000 new PBSA beds have been to supply across the UK since 2012. They now account for 35% of total stock. That means that 65% of existing PBSA supply in the UK was built before 2012. Over the same period, almost 470,000 full-time students have been added to the student population. This dynamic has created a clear two-tier market in terms of age and quality of stock. This bifurcation has been amplified by the evolution of student demand and students' expectations of accommodation and the role it plays in the university experience. Some markets, such as Oxford, have above average levels of pre-2012 stock (83%), while also having above average levels of university owned/operated stock (84 out of the 95 schemes in Oxford are university-operated in some form). The opposite is true in markets such as Bristol and Edinburgh which have below the UK average of pre-2012 stock, at 57% and 54% respectively. For investors this is both a challenge and an opportunity. On one hand, a flight to quality for prime stock with strong ESG credentials has created a narrower and more competitive investment market. Yet, on the other, there are opportunities to drive value by retrofitting secondary PBSA stock, particularly in markets where the supply demand imbalance is most strong.

### A brighter economic backdrop...

Inflation continued its downward trend in May, dropping to 2% from 2.3% the previous month. It marked the first time in three years that consumer price inflation was within the Bank of England's 2% target, according to the ONS. Labour market conditions also look to be loosening, which should give the Bank of England Monetary Policy Committee more confidence to cut the base rate, in line with similar moves by the ECB and the Bank of Canada, which have already begun lowering interest rates. Financial markets are betting on two cuts of 0.25% by December. As the cost of debt comes down, transactional activity levels will pick up further as sentiment improves and more forward funding opportunities emerge.

### ... and a more certain policy backdrop

The rapid review of post-study work visas for students, undertaken by the Migration Advisory Committee (MAC), was unequivocal in its conclusion that there is no widespread evidence of abuse of the existing graduate visa system by international students. In a boost to the higher education and PBSA sector, the MAC report recommended that the two-year graduate visa route be maintained. In its election manifesto, the newly-elected Labour Party committed to creating a "secure future" for UK Higher Education and has recognised that the sector faces difficult financial challenges. Any alterations to the visa system, underpinning international student demand, would run counter to this aim.

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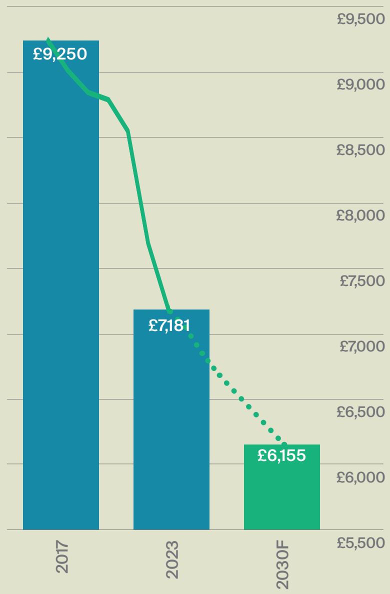
### Too big to fail?

Changes to visa policy haven't been the only headache for the sector. Recent inflationary pressures, for example, have come against a backdrop of a Higher Education sector with historic funding issues. This has meant that the tuition fee cap for domestic undergraduate students – frozen at £9,250 since 2017 – has been falling in real terms. Universities have therefore turned to the international student market as a key source of revenue. Our estimates suggest that the inflation-adjusted real value of fees from domestic students for the 2023/24 cycle was more in line with £7,181 p/a. Current projections for CPI out to 2030, indicate a moderating on inflation in line with "target" 2% levels, this suggests that the projected real value of fees will stand around £6,155 p/a by the end of the decade. In addition, Universities UK recently commissioned research which investigated 70 university financial returns and found that 40% of providers were projecting to be in deficit in 2023/24.

Some politicians have been advocating the indexing of the tuition fee cap to inflation, as well as addressing VAT barriers that hinder universities from saving costs through shared services. However, the reality is that recent changes to visa policy will influence some universities balance sheets. A collapse of a university would likely mean an economic shock that would extend well beyond the university itself. The loss of local employment and education opportunities, combined with the complexity around pension liabilities, is something the Government will actively try to avoid. Labour has historically had a strong party line on recognising the economic impact higher education sector creates for the UK, it is therefore our view, that mergers and acquisitions of university titles are much more likely versus that of fiscal failure.

**Fig 11: Real terms drop in English undergraduate fees**

Inflation adjusted to Q3 CPI actual & forecast, 2017 = £9,250 fee cap




Source: Knight Frank Research

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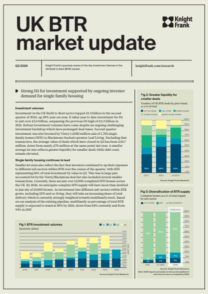


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