

# UK Student Market Update



Q4 2023

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

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► A faltering development pipeline, strong rental growth and long-term growth in student numbers will underpin a pick-up in investment volumes in 2024

## Investment volumes

Just over £1.27 billion worth of UK PBSA assets were traded in the final quarter of 2023 across 12 transactions. It took full year investment volumes to £3.35 billion across 57 transactions. Total spend in 2023 was notably lower than the previous year, where a record £8.1 billion was transacted, albeit 41% of turnover recorded in 2022 was accounted for in just one deal, the Student Roost Portfolio.

Given the extremely subdued start to the year (just £134 million transacted in the first quarter of 2023), the year-end figure is encouraging, and the 57 deals which closed in 2023 sit above the five-year annual average of 55 transactions over the 12-month period. The transactional evidence in the final quarter suggests that yields have shifted approximately 25 basis points weaker in London and remained stable in the regions. Latest market sentiment reading suggests further stability in the direct let market, with some expected correction for leased assets in Q1 2024. However, this movement and sentiment alike in leased assets is notably more resilient than the shift which has occurred in many other traditional real estate sectors.

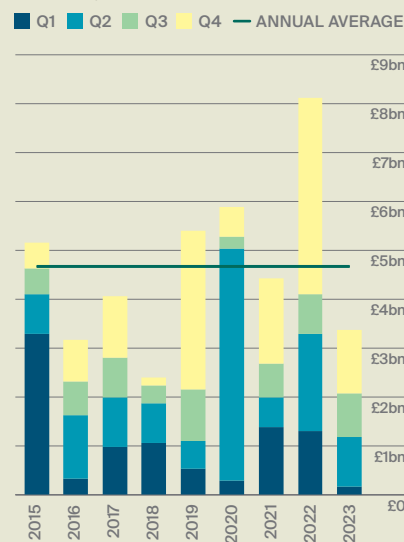
## Shelter from the storm

2023 was a difficult transactional environment, but PBSA managed to partly shelter from the storm, not least due to the counter cyclical nature of demand from occupiers, but also thanks to continued strong rental growth and increasing investor appetite for income-producing assets in perceived safe haven locations. These factors meant the sector attracted significant volumes of capital both from domestic and overseas investors, resulting in an solid year of transaction volumes. Characterised by inflation hedging resilience and a lack of volatility, any improvements in the macroeconomic backdrop in 2024 will increase investor confidence in PBSA. It is our expectation that transactional volumes will exceed £4 billion in 2024 and re-align with the long-term annual average.

## Key deals

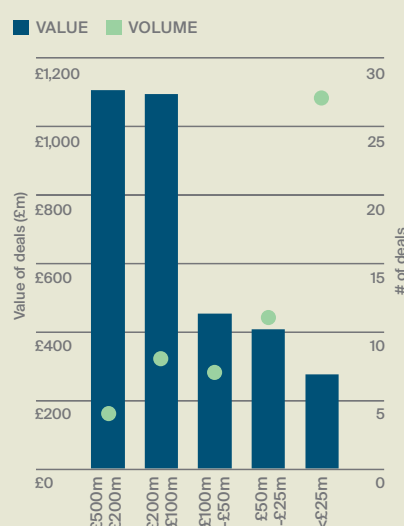
The largest transaction of the final quarter was Vita Groups disposal of three standing stock assets to Savills Investment Management for around £300 million. The sale comprises Cannon Park in Warwick, Iona Street in Edinburgh and Bruce Street in Belfast, totalling circa 1,290 bedrooms. Blackstone's iQ Student acquired the second largest PBSA investment in the quarter from Downing Students for a price in the region of £295 million. Opened in 2021 and built to a BREEAM

**Fig 1: PBSA investment volumes**  
Quarterly



Source: Knight Frank Research

**Fig 2: PBSA investment by deal size (£) and volume**  
2023



Source: Knight Frank Research

Excellent standard, Vega, comprises of 841 beds in Vauxhall in London. Also closing before year-end, Aviva Investors acquired a £150 million portfolio made up of six PBSA assets across England and Scotland from Curlew Capital and CBRE Investment Management. Similarly, real estate investment firm Cain International and developer Olympian Homes finalised a funding agreement, valued at approximately £150 million, to develop two PBSA assets in Leeds and York.

### Investment structures

Forward commit/funding and joint venture style deal arrangements accounted for 21% of total deal volumes over the 12-month period, up from a 11% share in 2022, with the more challenging economic climate meaning investors looked for alternative pathways to deploy capital as well as diversifying their risk. Most investment in 2023 was recorded in the sub £25 million bracket, accounting for 47% of the total number of deals in the year, followed by 19% of deals between £25 and £50 million.

### Correction of higher tariff university places

Some 554,000 students were accepted onto a university course this year, according to data from UCAS, down 2% year-on-year. Whereas gross demand for applications sat somewhere in the region of 752,000 applications, equating to an acceptance ratio of 0.74 students for every one application. Higher tariff universities recorded a marginal 0.5% uptick in accepted applications in 2023, off the back of a sharp decline in places awarded the previous year. However, the decline in 2022 was a result of the aftermath of a strong surge in awarded places during the pandemic. Accepted places at higher tariff institutions in 2023 still sit well above their long-term average.

### Multiple university locations benefiting

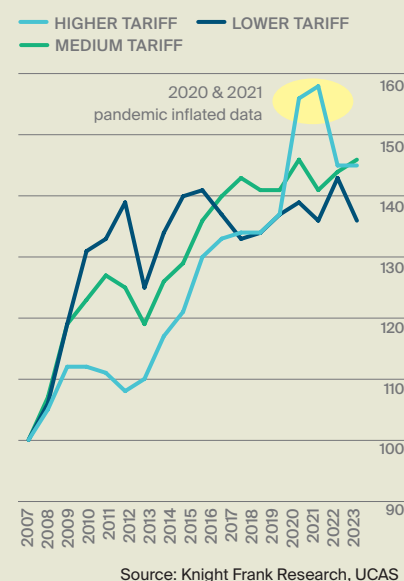
It is no secret that university towns and cities with more than one higher education institution tend to outperform standalone university locations when it comes to student demand. 2023 witnessed the continuation of this trend, with the growing divergence of accepted applicants at lower and middle tariff universities relative to whether they sit within a standalone or multiple university location widening.

Benefits of multi-campus cities span wider than just for students themselves. Building human capital, and the increasing knowledge and skills held in a city will all be strongly linked to regional growth. Furthermore, the accommodation the students stay in while attending university plays a huge role in how their experience in the city is perceived and whether they decide to stay in that location post-graduation.

“Just shy of 20,500 new PBSA beds were delivered across 74 schemes in 2023, a 0.4% increase on the previous year. Leeds saw the largest number of new beds, followed by Nottingham and Colchester. Currently, the pipeline comprises 151,000 beds across the UK, led by London Bristol, Nottingham and Manchester ”

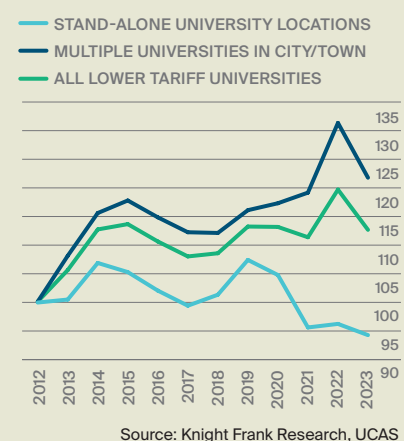
**Fig 3: Accepted Applicants**

Index, 2006 = 100



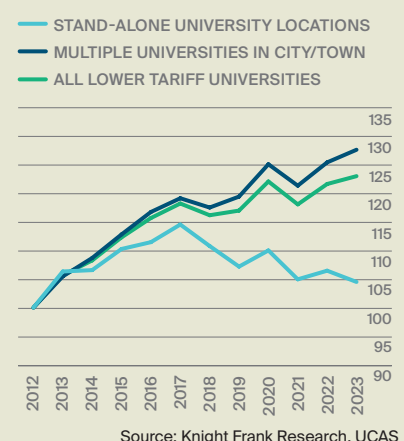
**Fig 4: Accepted applicants, lower tariff universities**

Indexed 100 = 2012



**Fig 5: Accepted applicants, middle tariff universities**

Indexed 100 = 2012



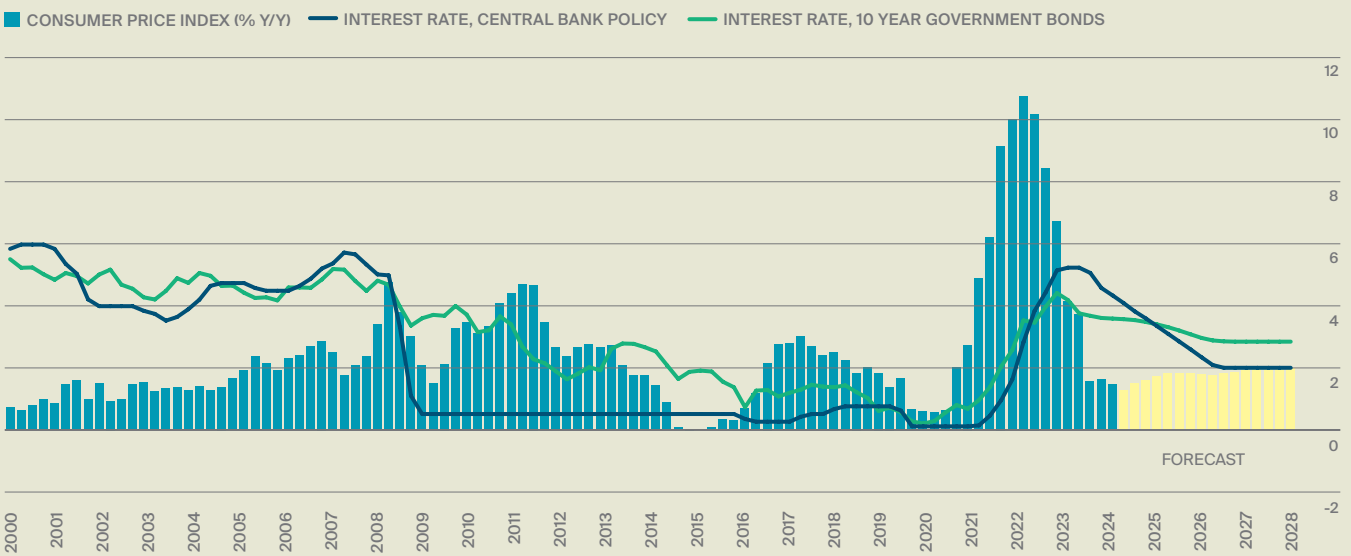
### No standard playbook

The Bank of England chose to hold the base rate at 5.25% in January, but the mood music has become more positive, even despite a slight tick up in the annual rate of inflation in December.

Major economic forecasting houses are anticipating a further rise in UK inflation figures in January's data, but positively they are forecasting that the rebound will be reversed in the proceeding few months, with a current expectation of below the 2% target by Q2 2024. Ultimately, improvements in inflationary pressures will mean debt costs will come down, but it is unlikely they will return to the levels recorded in the ultra-low-rate era. Bank of England policy rates are expected to end 2025 at 3.2% in the UK, according to Oxford Economics. For investors conscious of their risk premia, this will place more emphasis on income to generate returns, of which PBSA will be a beneficiary of.

**Fig 6: UK Inflation vs BoE interest rates**

Quarterly, %



Source: Knight Frank Research

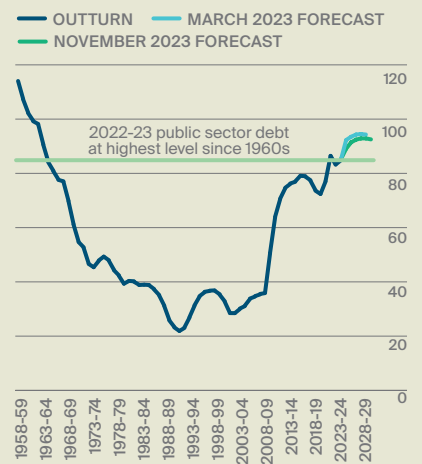
### Less fiscal support

Issuance net of Bank of England purchases and including its gilt sales is expected to be almost three times more than the average over the past decade. Less fiscal room will undoubtedly influence the support the elected government will be able to provide Higher Educations Institutions (HEI) and the students studying at them. Scrutiny of debt levels comes at the start of a very busy year where an election is expected in the UK, and subsequently party contenders will have to be realistic on their policymaking promises.

There is no silver bullet solution to the challenges the industry faces around delivery, but it presents a clear opportunity for collaboration between the public and private sector to increase supply. HEI's are at the nexus: they hold planning data on the number, demographics, and residential requirements of projected intakes that enables conclusions to be drawn on future requirements. Insufficient or unsuitable accommodation constitutes a risk to their growth plans and to an institution's reputation, public and private sector strategic thinking cannot be divorced from one another.

**Fig 7: Public sector net debt (excluding Bank of England)**

% of GDP



Source: ONS, OBR, Knight Frank Research

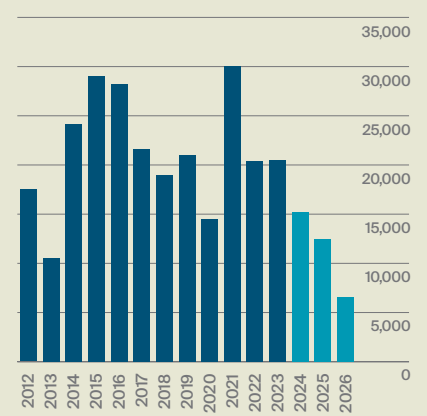
### Delivery stagnates as the pipeline diminishes

Just shy of 20,500 new PBSA beds were delivered across 74 schemes in 2023, a minute 0.4% increase on the previous year. Leeds saw the largest number of new beds at 2,328 beds, followed by Nottingham (2,188), and Colchester (1,544 beds). The private sector continues to play the leading role in providing new accommodation for students, accounting for 76% of all new beds completed in 2023. Currently, the total pipeline is around 151,000 beds across the UK, with 26% of this presently under construction and a further 43% with full planning permission granted. London has the largest total pipeline, followed by Bristol, Nottingham, and Manchester.

The performance of PBSA as an asset class in 2024 will continue to be underpinned by the same theme, a structural imbalance between supply and demand for accommodation. Tricky to navigate planning policies, high construction costs, and a lack of available and suitable land plots all represent notable headwinds to maintaining or meaningfully increasing supply from current levels. But the shortfall in PBSA in the most popular university towns and cities will increase.

**Fig 8: PBSA delivery – a faltering UK pipeline**

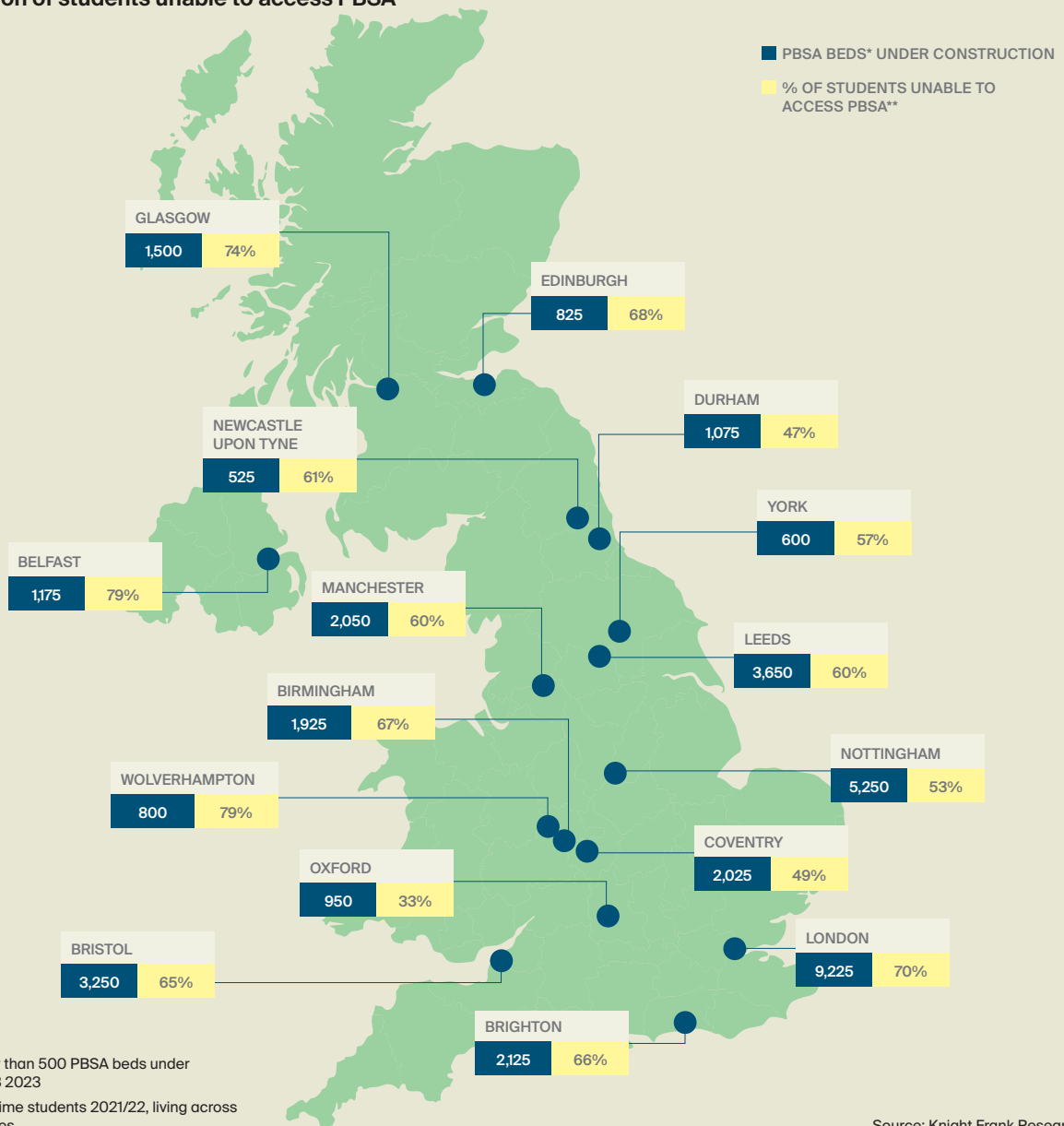
PBSA beds delivered / under construction



Source: Knight Frank Research

**Fig 9: Proportion of students unable to access PBSA**

By city



\*markets with greater than 500 PBSA beds under construction as at Q3 2023

\*\*includes gross full-time students 2021/22, living across all accommodation types

Source: Knight Frank Research

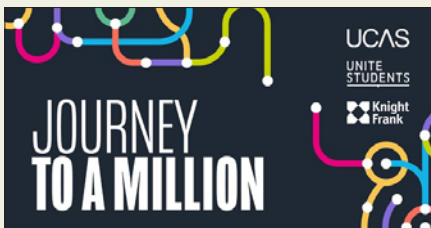
## Recent Living Sectors Research



Student Accommodation Survey 2023



Senior Housing Development Update 2023



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