UK Student Market Update

Q4 2024

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

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Record year for land sales pushes PBSA investment to £3.87 billion in 2024

Investment flows

Nearly £575 million was invested in the UK purpose-built student accommodation (PBSA) market in the final quarter of 2024, taking annual investment to £3.87 billion. On an annual basis investment was up 14% from the £3.39 billion spent in 2023. However, while a pick-up in investment demonstrates the attractiveness of the UK student accommodation sector, volumes were less than anticipated in the fourth quarter. Deal times for stabilised assets are taking longer because of building safety regulations, which has pushed some transactions into early 2025. That said, overall activity was robust, with 66 deals completed in 2024, comfortably above the five-year annual average of 57 transactions.

Development deals

Given the finite opportunity of standing stock acquisitions last year, investors turned to alternative pathways to deploy dry powder, with the land market particularly liquid. Nearly 50% of deals completed in the fourth quarter were for development sites, capping a record year for student land sales in 2024. Overall, 22 development site sales were completed over the course of the year, accounting for a third of deal volumes. PBSA developers have been able to capitalise on a quieter land market and softer pricing, with some more traditional market participants taking a 'wait and see' approach given challenges around viability and private sales demand. Urban brownfield land prices have fallen 14% on average since the end of 2022, Knight Frank data shows.

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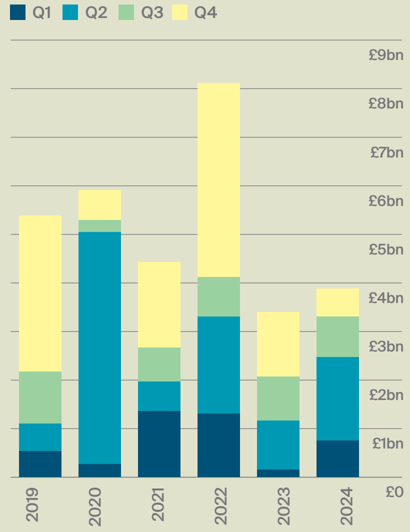
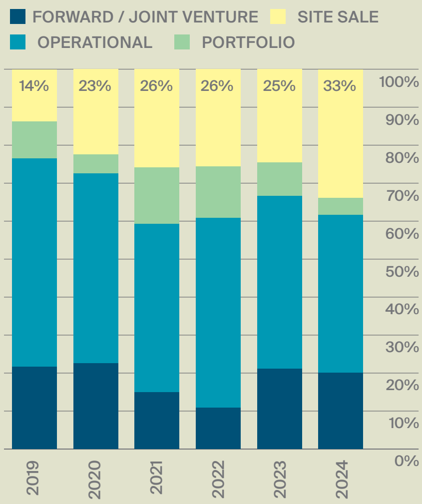
Fig 1: UK PBSA investment volumes
Quarterly



Source: Knight Frank Research

Fig 2: Record year for PBSA sites sold
As a % of total volume of deals



Source: Knight Frank Research

Thrive in '25?

Investment momentum looks set to build in 2025. Our agency and valuation teams are tracking around £1.3 billion of transactions that are currently under offer. The majority of deals under offer comprise stabilised or portfolio deals, reflecting the opportunity investors see in upgrading and repositioning existing stock. The macro backdrop has also improved. Interest rates are on their way down, and this will continue to have an impact on debt costs. Capital Economics expects the base rate to fall to 3.75% by the end of 2025, a faster drop than the two cuts that financial markets are currently betting on. Any movement should pave the way for more accretive debt finance and enhanced returns in the second half of the year, as well as supporting a meaningful return of the forward funding market. In total, funding deals and joint ventures accounted for a fifth of deals by volume last year.

Student acceptances

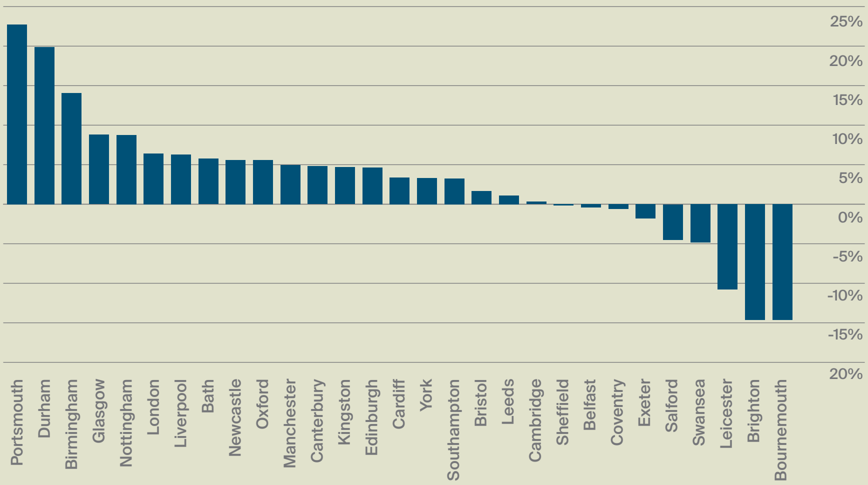
The number of undergraduates accepted onto university courses in the UK for the 2024 academic cycle was up by 2% year-on-year, according to the latest end of cycle data from UCAS. The number of domestic student acceptances climbed by 3%, largely driven by an increase in UK 18-year-olds. International student numbers were marginally lower year-on-year having fallen by 2%, albeit they remain up over the long-term. Within the headline figures, however, significant variation can be seen when looking at acceptances across different locations. Among locations with at least 5,000 undergraduate acceptances across multiple higher education providers last year, Portsmouth saw total acceptances rise by 23% year-on-year. Similarly, Durham, Birmingham and Glasgow all saw acceptances rise by at least 9% compared with 2023. The biggest falls in percentage terms took place in Bournemouth, Brighton and Leicester.

Flight to quality

A 'flight to quality' in recent years has resulted in a fall in full-time student numbers at lower tariff universities, while generally the opposite has been true for higher tariff institutions. Data from UCAS confirms that undergraduate acceptances at higher tariff universities increased 7.5% year-on-year for the 2024 academic cycle, compared with a 1.5% fall across lower tariff institutions. However, the picture is slightly more nuanced. Lower tariff universities located within multi-university cities have bucked this trend, which suggests that bigger, more populous, student locations are able to maintain their appeal.

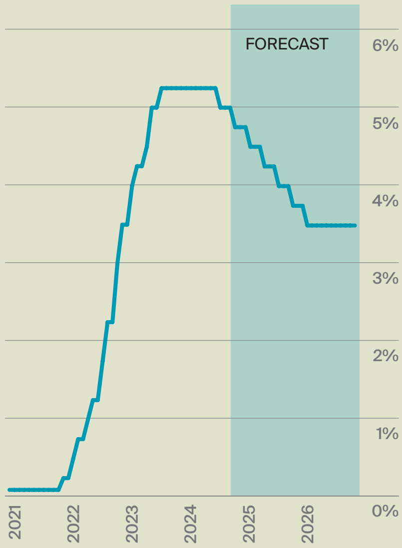
Fig 5: Change in accepted applicants

Cities with at least 5,000 undergraduate acceptances



Source: UCAS

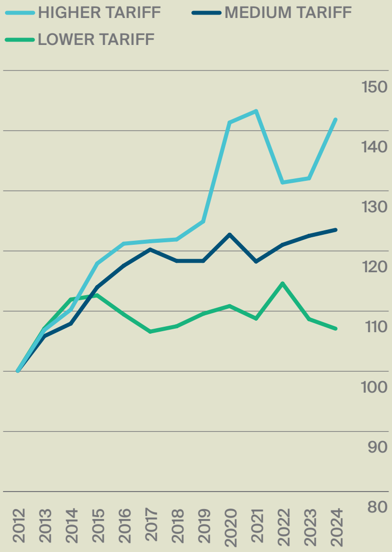
Fig 3: UK base rate expectations



Source: Capital Economics

FIg 4: Flight to quality

Accepted applicants by university tariff (indexed 100 = 2012)



Source: UCAS

> "Our agency and valuation teams are tracking around £1.3 billion of transactions that are currently under offer."

Supply shortages

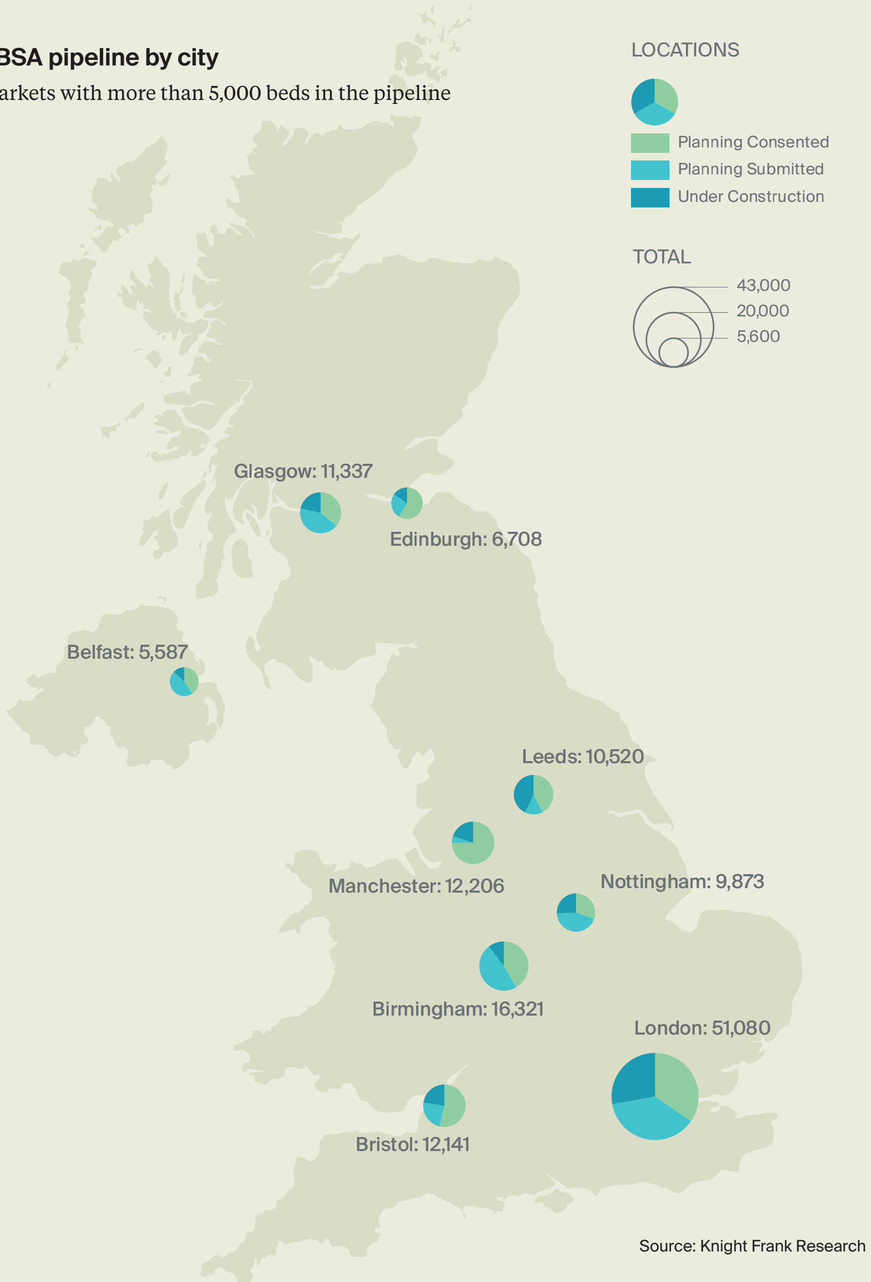
Some 16,382 new PBSA beds were delivered across 63 schemes in 2024. This represented a 3% increase in bed spaces compared with the previous year, albeit delivery remains someway short of the five-year pre-pandemic annual average of more than 25,000 beds. Nottingham saw the highest level of new delivery with 3,639 beds added to supply, followed by London (2,454), and Leeds (1,874). The private sector continues to play the leading role in providing new accommodation for students, accounting for 81% of all new beds completed last year.

Growing the pipeline

Currently, the total pipeline is just shy of 200,000 beds across the UK, with 23% of this under construction and a further 48% with full planning permission granted. As you would expect, the largest concentrations of pipeline in terms of the absolute number of beds are found in cities with large student populations: London, Birmingham, Manchester and Nottingham, for example, which together account for just under half of the pipeline. Delivering these beds is not without its challenges, however. Our *NextGen Living report*, which canvassed the views of nearly 60 leading investors across the UK Living Sector, found that 81% of investors see construction cost inflation as a barrier to growth, followed by issues around planning (60%).

PBSA pipeline by city

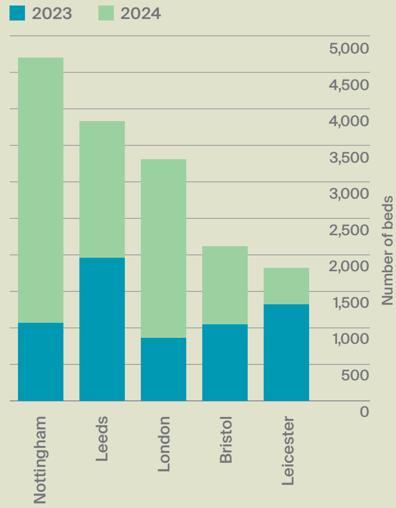
Markets with more than 5,000 beds in the pipeline



Source: Knight Frank Research

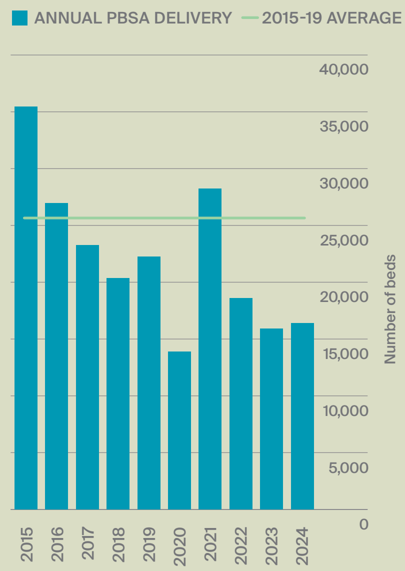
Fig 6: Leading cities for PBSA delivery

New supply 2023 and 2024



Source: Knight Frank Research

Fig 7: Annual PBSA delivery



Source: Knight Frank Research

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Papering over the cracks

Regulatory uncertainty was also flagged as a key issue by respondents to our survey. In the student market, there is – undoubtedly – even greater investor interest in the policy backdrop. Universities finances have come under increased scrutiny over the past year, and for good reason. Research from the Office for Students has predicted that 72% of higher education providers could be in deficit by 2025-26 in part due to falling fee income. The government responded with an announcement in November that tuition fees for undergraduate degrees in England will be rising in line with forecast inflation for the 2025-26 academic year. The increase – from £9,250 to £9,535 – represents the first-time fees have been increased since 2017. The change will offer a bit of short-term relief for universities from some of the pressures they face, though it falls far short of the longer-term reform which is required to shore up finances, particularly when viewed alongside the planned increase in employer national insurance contributions (NIC). Universities UK has estimated the cost of the NIC rise for the sector to be around £400 million. For students, higher fees will place a greater focus on the value of a degree, exaggerating the flight to quality locations and institutions seen in recent years. Accordingly, a need for universities to continue to attract international students will remain front and centre.

Trump 2.0: More caps?

The new Labour government has reaffirmed international students are welcome and confirmed that post-study visas will remain, renewing positive and welcome sentiment towards international students. That comes in contrast to more hostile rhetoric towards international students in other parts of the world, including Canada and Australia. Meanwhile, in the US, the election of Donald Trump has introduced an element of uncertainty around visa policy and the potential availability of work permits for post-graduates in the US. Prohibitive policies around visas and shifts in relationships with other geopolitical superpowers contributed to a c.12% fall in international student numbers in the US during President Trump's first term. Consequently, students who may have considered these locations may now turn to the UK instead.

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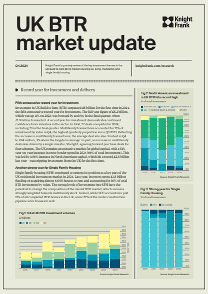
NextGen Living – 2025



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