



JAMES PULLAN
Global Head of Student Property

“In a transparent market, stronger brands resonate more with students, who as consumers, demonstrate a clear preference for a quality product and will make recommendations based on their experience.”

ESTABLISHED BRANDS EMERGE AS RENTS RISE

Rental growth in the UK purpose-built student accommodation sector was positive in 2018/19, despite significant development activity. However, a gap has opened up between owner/operators with the strongest brands and the rest of the market.

Headline rental growth for purpose-built student accommodation (PBSA) increased by 2.26% for the 2018/19 academic year, down from 2.55% in 2017/18. This slight moderation is in line with our expectation that rental growth will slow as the sector matures.

While the macro picture shows steady rental growth, individual markets are seeing varying levels of performance, largely dependent on the balance between supply and demand.

Generally speaking, cities with large, growing student populations and modest delivery pipelines, such as Manchester, are outperforming the wider market. Cities with a high level of existing PBSA stock and stronger development pipelines, such as Plymouth, are reporting more modest growth.

While markets have experienced different degrees of new supply relative to demand over the last year, it is worth noting that the change in rental values across the sector has been positive in 95% of the cities covered by the index, and that occupancy rates remain high.

In a handful of markets, such as Cardiff, where a significant volume of new beds have increased supply in the last year, rental growth has been flat or negative for some room types. The opposite is true for markets where delivery has been scarce, such as studios in Brighton.

Location and individual supply and demand dynamics may be the primary drivers of performance, but the data also highlights the importance of an operator’s brand. Schemes owned by occupiers with operational stock of over 10,000 beds in multiple markets reported rental growth in excess of 3% on average.

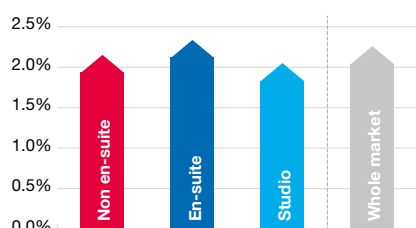
These owner/operators have developed distinctive, recognisable brands built upon location, high quality stock and a sophisticated approach to customer service and care.

The trend for stronger rental growth for en-suite and non en-suite rooms with shared kitchen facilities compared with self-contained studios continued in 2018/19. This reflects the higher level of demand for more affordable bed spaces. Indeed, the top 10% of en-suite bed spaces by price (excluding London) saw little or no rental growth (less than 1%), whilst bed spaces with the lowest 10% of rents have increased at an average of 3.7%.

Whilst we are beginning to see a movement away from the development of studios, it is still the case that most recent new development has been at the premium end of the market. The lack of new affordable direct let accommodation relative to demand is underpinning the outperformance of lower quartile priced stock compared with the rest of the market.

FIGURE 1
UK purpose-built student accommodation rental growth

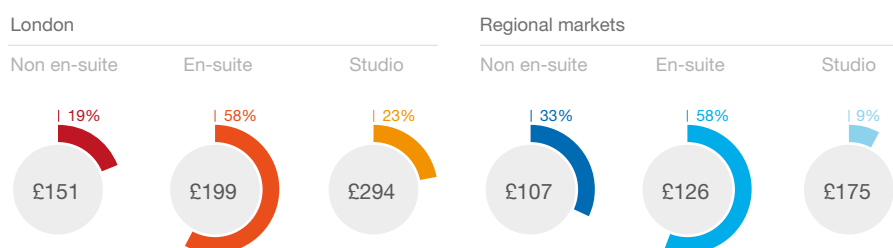
2018/19 change, by bedroom type



Source: Knight Frank Research

FIGURE 2
Average rents by room type

Weekly rental costs and % split of room type



Source: Knight Frank Research

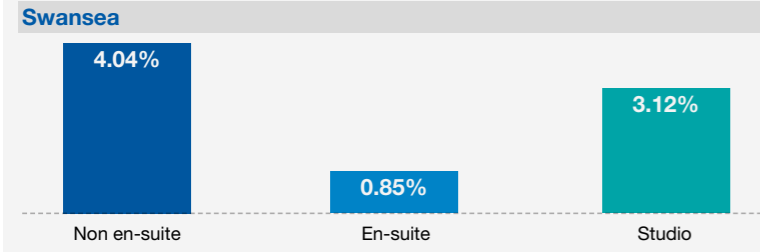
2018/19 HEADLINE RENTAL GROWTH

Selected city markets. Please contact us for the full list

HIGH PIPELINE MARKETS

What: Markets with high levels of new bed spaces under construction relative to existing stock levels. These markets typically have a broad appeal to a wide range of students. However, sustained increases in student numbers will be important to achieve future rental growth.

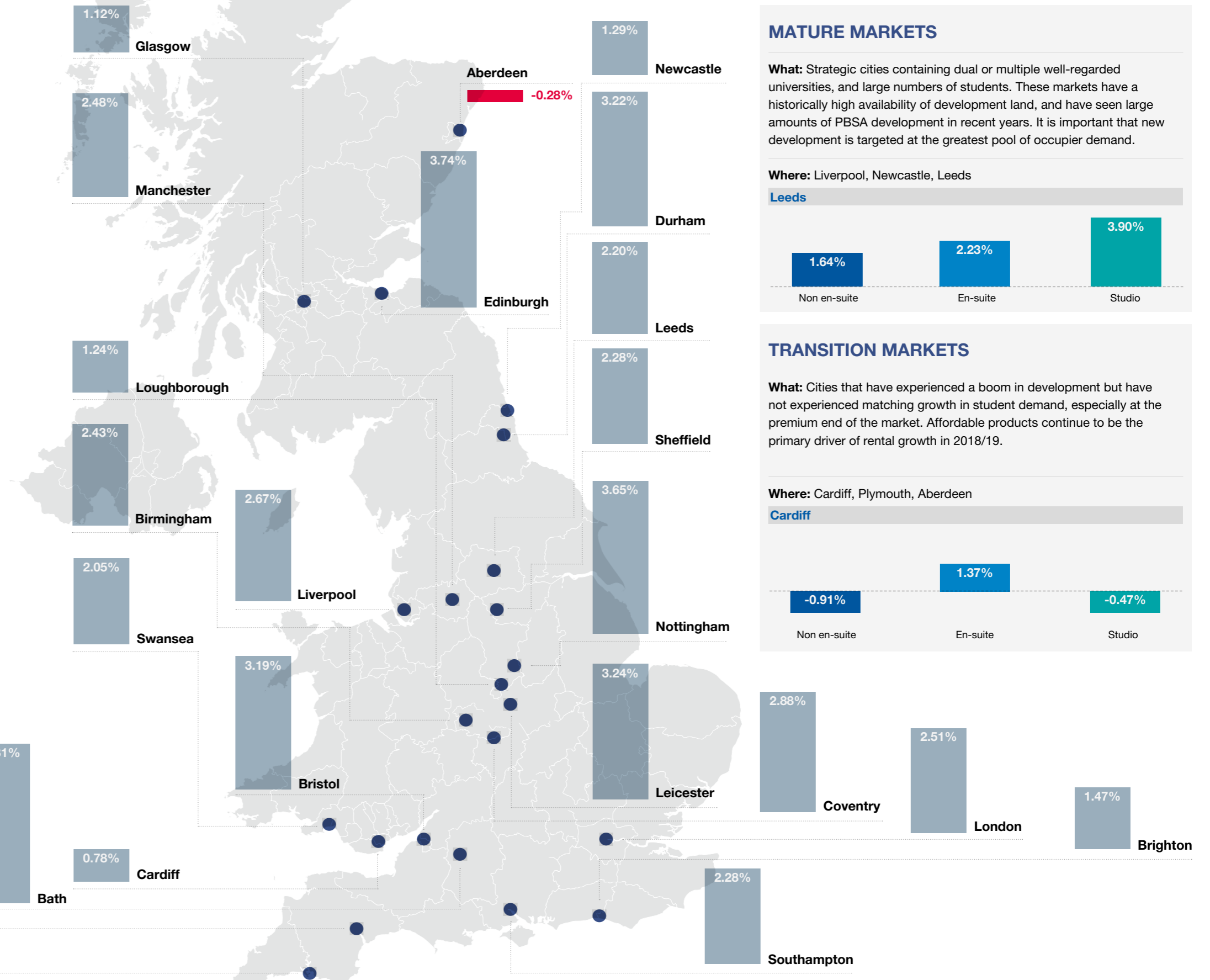
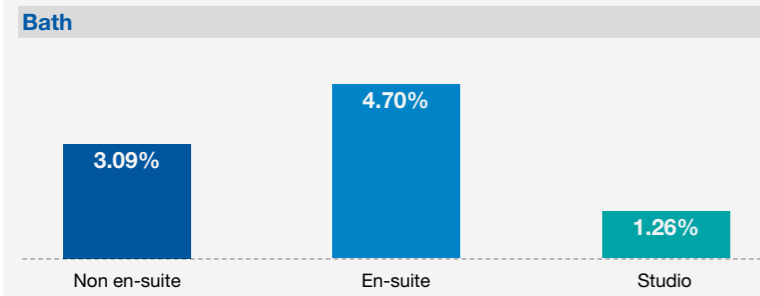
Where: Coventry, Portsmouth, Swansea



SUPPLY-CONSTRAINED MARKETS

What: Markets where high competing land values and policy restrictions result in barriers to development. These markets have low pipelines of new stock, in spite of strong demand profiles.

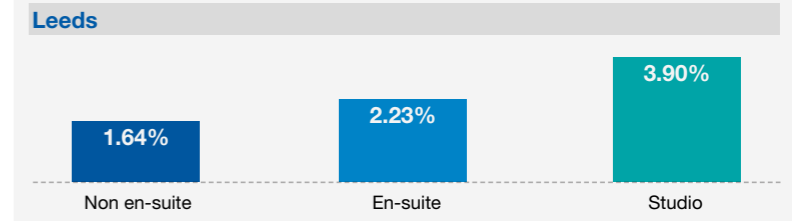
Where: London, Brighton, Bath, Manchester



MATURE MARKETS

What: Strategic cities containing dual or multiple well-regarded universities, and large numbers of students. These markets have a historically high availability of development land, and have seen large amounts of PBSA development in recent years. It is important that new development is targeted at the greatest pool of occupier demand.

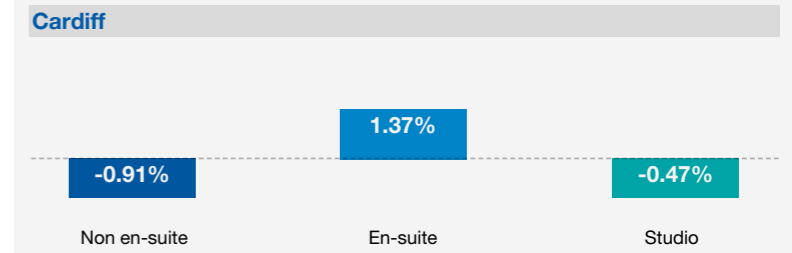
Where: Liverpool, Newcastle, Leeds



TRANSITION MARKETS

What: Cities that have experienced a boom in development but have not experienced matching growth in student demand, especially at the premium end of the market. Affordable products continue to be the primary driver of rental growth in 2018/19.

Where: Cardiff, Plymouth, Aberdeen



iQ STUDENT ACCOMMODATION



DAVID TYMMS
Commercial Director
iQ Student Accommodation

Knight Frank’s latest research reinforces what we have long believed at iQ – that whilst location and market-specific supply and demand dynamics are important, a key differentiator for PBSA is the emphasis placed on the lifestyle the provider is offering, and therefore the overall brand experience.

Student expectations have shifted significantly over the last decade and what today’s domestic and international undergraduates and post-graduates want is not just value for money and excellent customer service, which are taken as a given, but also to live somewhere they can “belong” and where they can engage with positive experiences in a home from home.

It is not enough just to be a provider of thoughtfully designed and stylish spaces, wellbeing and the student experience also need to be considered and accounted for. This includes developing and remodelling schemes to include community areas to study, socialise and workout in, and by ensuring a programme of events.

As the sector continues to mature and grow, the operators who will thrive across all the market segments described in this report, will be not just those who place real estate fundamentals at their core – micro location, design, rate, massing etc – but those who understand the importance of brand and the underlying student experience. iQ has achieved high levels of occupancy and above average rental growth, which looks set to continue for some time, by sticking close to those principles.

Despite political uncertainty, the UK’s world class higher education system is well placed to continue to grow, backed by strong international demand, increasing UK participation and the domestic demographic uptick due to commence in 2020/21. The PBSA sector will both assist and benefit from this growth, but the out-performers will be those with a long-term vision grounded in both value for money and brand values which put student experience at their core.

STUDENT PROPERTY UK

James Pullan
Head of Student Property
020 7861 5422

Neil Armstrong
Head of Student Property Valuations
020 7861 5332

Jonathan Goode
Partner, Student Property Valuations
020 3897 0034

Merelina Monk
Partner, Student Property Agency
020 7861 5425

Rachel Pengilly
Partner, Student Property Agency
020 7861 5418

GLOBAL CONTACTS

James Pullan
Europe
+44 020 7861 5422

Emily Fell
Asia Pacific
+65 6429 3591

Ben Schubert
Australia
+612 9036 6870

Joseph Morris
Middle East
+971 4426 7601

Ryan Lang
America
+512 637 1296

RESEARCH & CONSULTING

Matthew Bowen
Europe
+44 0117 945 2641

Paul Savitz
Asia Pacific
+612 9036 6811



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