

Student Accommodation: the Continental European opportunity

When considering real estate investments through a top-down analysis, purpose-built student accommodation (PBSA) emerges as a particularly attractive sector. Stable income, limited supply and increasing demand caused by demographic and societal factors are all distinct advantages. The sector has also appeared resilient to recession as rising unemployment leads to increases in upskilling in the pursuit of better qualifications.

We at DTZ Investors are forecasting moderate total returns from UK real estate in the near term. Such a market outlook is encouraging domestic-focused property investors to consider opportunities overseas. With the UK PBSA market looking increasingly crowded, investors are shifting their attention to the undersupplied PBSA market in Continental Europe.

Background

The globalisation of higher education has caused a supply and demand imbalance as migration and international student numbers are taking a more central role. Unsurprisingly transaction volumes in the sector are increasing. Global investment into the sector has reached record figures, with over \$16bn of transactions reported in Europe alone in 2017 (RCA). Most of the global investment activity has taken place in the mature markets of the US and UK where the success of PBSA is proven. However, restrictions on student visas in the US and the inclusion of students in migration quotas in the UK post Brexit could undermine the attractiveness of the Anglo-American educational offering.

The outlook for the student accommodation sector in the UK remains mixed. A reduction in demand growth from UK and EU applicants has offset to a certain extent the increased number of non-EU students who are taking advantage of the weaker pound and the lower costs of higher education. Any reduction is likely to impact lower tier universities more than the UK's highly rated institutions however, which should retain their international appeal.

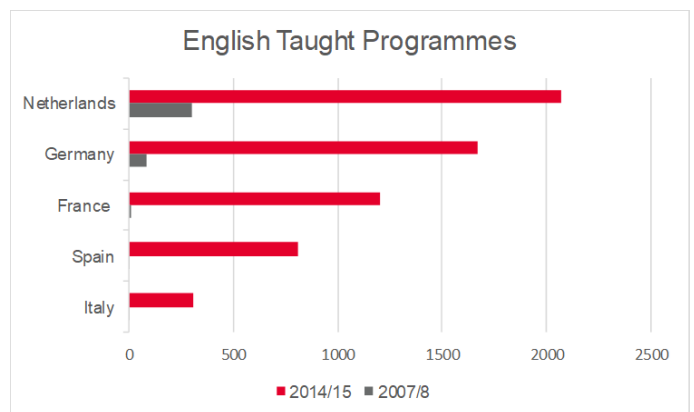
The steady intake of overseas students may continue to be tempered by a moderation in demand from UK domiciled students. An increasing number of UK students are being dissuaded by the costs of higher education and the fall in a graduate's earnings premium. Supply is also forecast to increase, limiting rental growth prospects.

Given the significant number of European universities in the global top 200 now competing with the majority of British universities in the upper to mid-level rankings for students who are increasingly more mobile and flexible in where they choose to study, we have been assisting clients in assessing the undersupplied PBSA market in Continental Europe.

Increasing Demand

UK universities are facing increased competition in the near term: European universities are improving their offering by providing more English-speaking courses, which, combined with the cheaper costs of courses and accommodation, could see the UK lose international students to other destinations.

Figure 1: Rapid Growth in English Taught Programmes (ETPs)



(Source: ACC)

Investors are increasingly shifting their attention to the undersupplied PBSA market in Continental Europe

The opportunity for midmarket accommodation is growing, catering not just for domestic students but also to overseas students from the rapidly growing middle classes (e.g. in Nigeria, India and Vietnam) where wealth per capita is not as high as in more developed countries. Students are likely to be targeting markets with lower tuition fees and cheaper accommodation costs in addition to the established North American, UK and, to a certain degree, Australian markets.

Figure 2: Typical annual cost of undergraduate study for an EU student at Public University

COUNTRY	COST
FRANCE	€200-650
GERMANY	€0-1,000
IRELAND	€0-3,000
ITALY	€850-1,000
POLAND	€2,000-3,000
PORTUGAL	Approx. €1,000
SPAIN	€680-2,000
SWEDEN	Free
THE NETHERLANDS	€2,000
UNITED KINGDOM	Up to €10,500

(Source: Study Portals/Cushman & Wakefield)

Lacking Supply

In the main markets on the continent, PBSA remains undersupplied so there are huge opportunities for those who can successfully navigate local markets to deliver new stock; there is a lack of institutional portfolios and operators which can be acquired. We estimate the supply level in the Continental European market is similar to the levels experienced in the UK in 2005, with the majority of PBSA investment in Europe in the past decade made into the UK.

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The main markets in Continental Europe remain under-supplied in terms of PBSA, and each country varies in terms of maturity. This is not only reflected in the number of beds available, the number of operators and private owners, but also the demand from students. Whilst students' attitudes towards PBSA is more difficult to measure, the market's supply can be more easily measured by looking at the availability of stock and number of students in the respective markets. Being agnostic about various intricacies in the above-mentioned countries, it is evident that certain markets are more underserved than others, offering investors the opportunity to secure market share more easily.

Indirect Route to Market

Here at DTZ Investors, we have long advocated the use of indirect vehicles to secure exposure to both the specialist sectors of the property market and to markets overseas, and this is a strategy which we have successfully employed for our clients over the past 20 years.

The relatively niche and fragmented nature of Continental European student accommodation would seem well suited to an indirect style of investment. The right vehicle could provide an investor with geographical diversification across the most attractive locations as well as a partnership with specialist operators who understand their local markets. To this end, we have held numerous discussions with fund managers and operators in these markets, and have actively placed client capital with favoured strategies.

About DTZ Investors

DTZ Investors is a specialist European Real Estate Fund Manager, part of the Cushman & Wakefield Group. The business was established in 1968 in the UK and expanded into Continental Europe in 1999. At DTZ Investors, our indirect investment team has a range of complementary skills and a wealth of experience in managing successful indirect investment mandates. Our strategies are supported by our in-house strategy team and Cushman & Wakefield's global research capability, C&W Research (which covers over 220 international markets). We are a full indirect fund management service which can be tailored to meet client needs. Portfolios are managed separately, not collectively, with each portfolio structured according to clients' individual objectives and requirements.



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