

The longer-term return in student accommodation

By Chris Greenland, CFA, Fund Manager

As investors in real assets, such as infrastructure, specialist property and renewables, we find investment opportunities in sectors that are essential for an economy to function and that will benefit from long-term demographic trends. One such opportunity is the rising demand for student accommodation. Gone are the days when 'student digs' were grotty, dilapidated flats in the worst area of town. With a university degree now a prerequisite for many jobs, providing accommodation for this burgeoning (and increasingly demanding) student population has become a fantastic investment opportunity – not just in the UK, but across the world.

The UK opportunity

As chart 1 shows, while the UK experienced a decline in the number of 18-year-olds over the last 10 years, that trend is about to dramatically reverse. By 2029, there will be nearly 900,000 people coming of age versus just over 700,000 this year. At the same time, there is an upward trend in the proportion of 18-year-old applicants being accepted onto undergraduate higher-education courses; the figure has risen more than 7% in 10 years. On that basis, the number of UK students will increase dramatically by 2030.

Chart-1.PNG

And that's just UK applicants. This country has some of the most renowned universities in the world and ranks among the top 3 places to study for international students, alongside America and Australia. In academic year 2017/18*, the UK welcomed nearly a quarter of a million first year students from across the world. This situation is unlikely to change given the quality and accessibility of secondary education on offer in this country – even despite Brexit.

What's in it for investors?

Traditionally, universities owned and managed their own student residences to accommodate those who studied away from home. But as the number of applicants escalated, and students began to expect a better standard of accommodation, educational institutions found it increasingly difficult to keep up with demand. As a result, there has been a 425% increase in private global investment in student housing** in the last 10 years, with the US and UK leading the charge. The UK alone has attracted over \$30 billion of investment since 2008 – far exceeding our European counterparts, as chart 2 shows.

Chart-2.PNG

The investment opportunity has centred on agreements between universities and investors/ developers. Investors supply a high standard of accommodation specifically for students, and the university guarantees them an occupancy rate in return. Not every developer has such an agreement in place, but where they do it's a win-win for all concerned. The product provider (university) is happy because a good supply of quality accommodation helps to attract the best students. The customer (student) is happy because they have a high standard of accommodation close to their studies. And the investor is also happy, because this arrangement offers stable and predictable income, as well as the opportunity for capital growth.

Is student accommodation investment worth it?

The appetite for higher education in the UK looks set to grow, and it is in the government's interest to entice lucrative international students as part of that. But this is not just a UK opportunity. While other European countries are behind the UK in terms of scale, they offer an emerging growth opportunity that is already starting to resemble the pattern we have observed domestically.

When it comes to managing our Real Assets Fund, we look for opportunities that offer our investors longer-term income and growth potential, while managing risk. A sector such as Purpose-Built Student Accommodation (you will often see it referred to as PBSA) ticks all the boxes. We are confident in the longer-term stability and global outlook of this niche market, and therefore it plays a valuable part in the fund.

* <https://www.hesa.ac.uk/data-and-analysis/students/chart-6>

** https://www.savills.co.uk/research_articles/229130/280872-0

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