



UK STUDENT HOUSING

MARKET SNAPSHOT Q3 2020

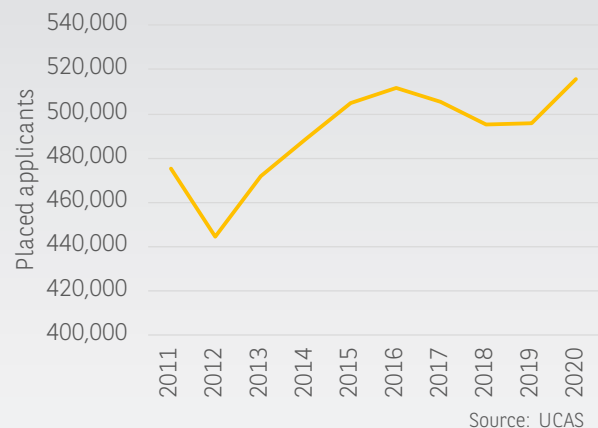
MARKET OVERVIEW

- ▶ Student demand held up well for the start of the academic year with UK universities still a popular choice for both domestic and international students, albeit the impact of lockdown, social distancing measures and isolation rules has hit the sector and the subsequent fall in occupancy means that there is unlikely to be any rental growth this year.
- ▶ Whilst this has been the most challenging of times, over the current academic year occupancy could improve as students look to make up for lost time and stay in their accommodation over the holiday periods, or even elongate their studies.
- ▶ Meanwhile, the medium term outlook points to encouraging times ahead, with an expected surge in demand for UK universities and the slowdown in the pipeline exaggerating the shortfall of quality student housing supply in some locations.
- ▶ Uncertainty in the sector, as a result of the pandemic was reflected in investment activity in Q3. When uncertainty in the market lifts, investors will continue to look for exposure to operational real estate with secure income, backed by robust property fundamentals.

STUDENT NUMBERS RISE BUT OCCUPANCY HIT

- ▶ Despite the pandemic, demand for places at UK universities remained strong in Q3 2020 with a 4% y/y increase in placed undergraduates for the academic cycle 2020/21 (source: UCAS).
- ▶ A 2% y/y fall in demand from EU students was more than offset by a 9% y/y increase from non-EU students. Notably there was a 27% y/y rise in students from China, enhanced by tensions with the US and visa rule changes in the UK allowing students to remain in the country for two years after graduation. Often prepared to pay more for accommodation, this trend is likely to have boosted sentiment amongst investors.
- ▶ Whilst some operators noted a fall in occupancy levels, with students returning or remaining at home, studying on line, rather than risk isolation in halls, other operators maintained high occupancy by increasing the incentives on offer and therefore remained well-let.
- ▶ Looking ahead, two factors combined point to continued growth in demand for UK higher education over the medium term.
- ▶ Historic trends have shown that during and immediately after a recession there is an increase in demand for places in higher education as young people choose to study over entering a challenging employment market.
- ▶ In addition, there is a projected surge in the number of 18 year olds in the UK, according to population projections from the ONS.

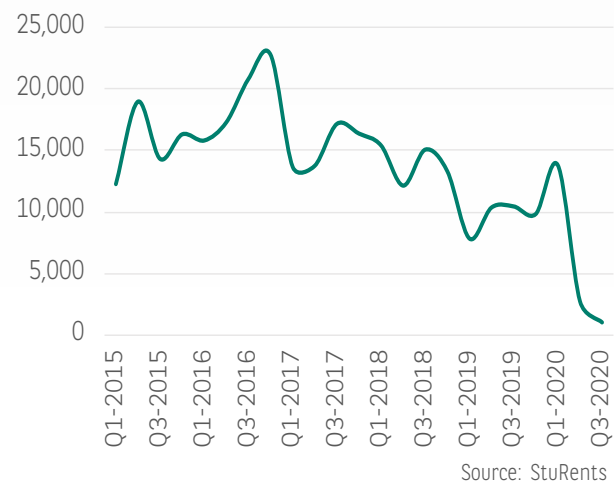
NUMBER OF PLACED UNDERGRADUATE APPLICANTS AT UK UNIVERSITIES
(as at 10th September 2020)



DEVELOPMENT PIPELINE SLOWED

- ▶ Whilst student demand continued its upward trajectory, new supply of purpose-built student accommodation has slowed.
- ▶ According to StuRents, there were 17.4k fewer beds submitted in planning in 2019 compared with 2018 and this trend has continued into 2020.
- ▶ Delays in construction and stalled projects as a result of the pandemic has impacted on the availability of development finance and the risks associated with development, further dampening the pipeline.

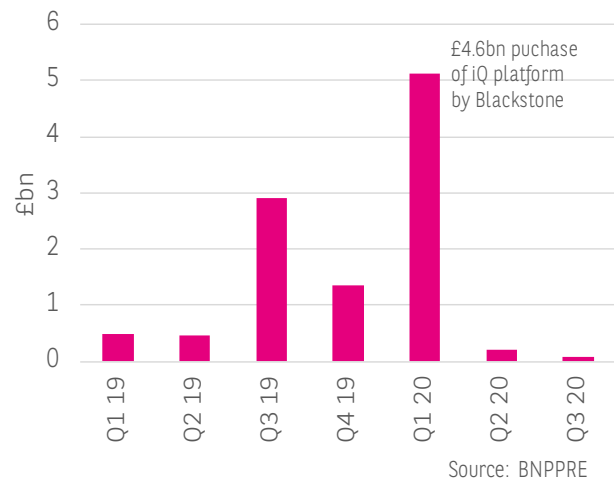
NATIONAL PLANNING ACTIVITY: NO. OF BEDS SUBMITTED



INVESTMENT ACTIVITY STALLED

- ▶ The emergence of the COVID-19 pandemic in Q1 2020, followed by strict lockdown in Q2, severely impacted on transactional activity in Q3 resulting in low investment volumes of c.£90.6m.
- ▶ The few transactions that did occur were a mixture of forward-fundings, focussed on super prime locations, and asset sales. The largest deal of the quarter was a £60m forward-funding of a student block in Bermondsey by the Curlew Student Trust.
- ▶ In the year-to-date a notable volume of stock has been brought to the market, however there has been little liquidity as a result of market conditions which has created a disparate between buyer and seller price expectations. This has led to some stock being withdrawn from market.
- ▶ However, investor sentiment remains positive for good product in prime locations, and those opportunities continue to attract interest from multiple parties.

INVESTMENT VOLUMES Q1 2019 - Q3 2020



“The challenges we face are unprecedented and as we navigate through the coming weeks and months, it’s essential that our top priority is with the physical and mental well-being of our students. We have implemented a number of measures to do so, supporting students who find themselves in isolation. We continue to make the social experience for students as positive as possible, given the circumstances and ever changing dynamics.”

COVID-19 has caused obvious disruption with regards to occupancy, with global travel restrictions impacting student mobility and with courses being mostly online. However, international interest has held firm and students still prefer living in their university town or city to benefit from the whole experience.

COVID-19 has also impacted on development with delays affecting the timing of construction completions which are traditionally tied to the start of the academic year.

Moving forward into 2021 we expect robust demand for purpose-built student accommodation as increasing numbers of 18 years olds choose higher education over an uncertain job market and, when social distancing and travel restrictions ease, an increase in demand from international students.”

Adam Brockley, Founder, Scape

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