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AN INTRODUCTION TO **INVESTING IN UK STUDENT PROPERTY**

HOW TO CHOOSE THE BEST SECTORS
AND STRONGEST INVESTMENT CITIES



FOREWORD



Adam Price
Managing Director
Select Property Group

For generations, gaining a British education has been considered one of the most coveted achievements for students around the world – and the UK remains a highly regarded centre of education today.

Student property in the UK, however, has changed considerably over the last 20 years.

Speaking from my own personal experience, student accommodation when I was a university student certainly looked a bit different to what's available today!

That's because today's students demand more. Better facilities. Better locations. An overall enhanced living experience.

Yet in key university cities across the country, those with elite universities and rising international student numbers, there simply isn't enough of this type of accommodation available.

It's helped transform UK student property into one of Britain's fastest growing property sectors, with investment coming from buyers located all over the world.

Crucially, student property has a proven track record of strength and resilience in times of wider economic uncertainty.

This guide gives you an introduction to investing in student property, analysing what students now want and how you can ensure you're making the strongest investment.

I hope you find it useful.

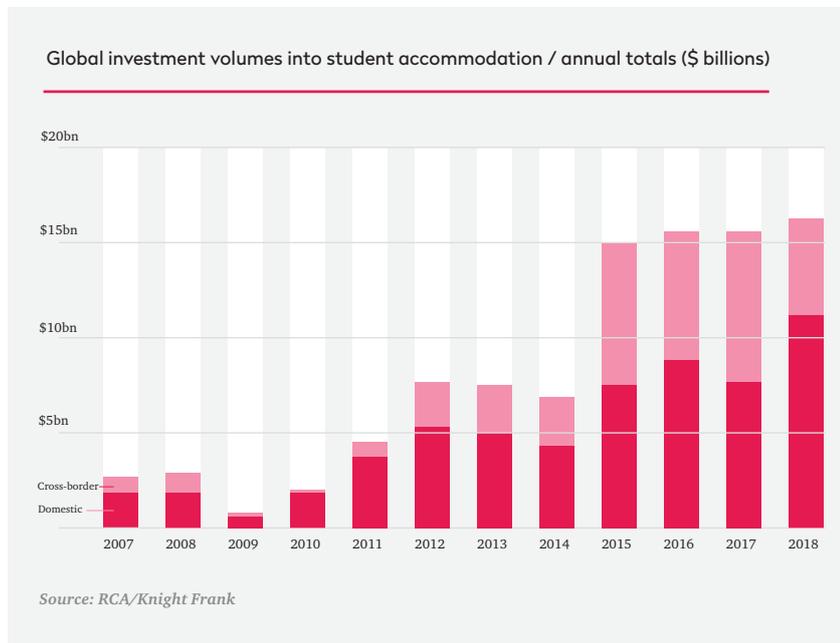
Adam Price

STUDENT PROPERTY: THE GLOBAL ASSET

Across the world's most established centres of education, student property has fast become a highly desirable investment.

Knight Frank's 2019 Global Student Property report found that global investment into student property reached a new record of \$16.3 billion in 2018, with 40% of that classed as cross-border investment¹.

Investment is coming from all types of buyers, too. Institutions. Sovereign wealth funds. Pension funds. And, of course, individual retail investors.

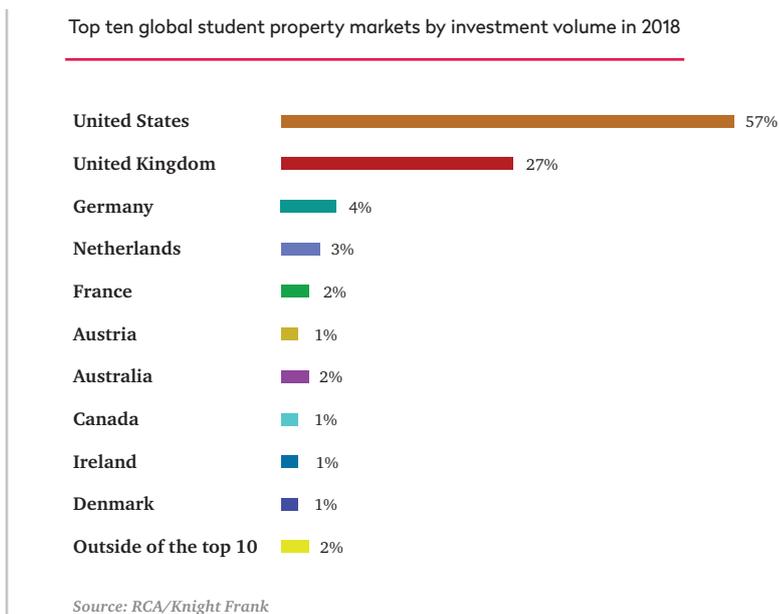


Over half of all global investment was into the USA's student property sectors (57%), while the UK accounted for the second-largest share (27%).

Purpose-built student accommodation (PBSA) is the student housing sector attracting the highest levels of global investment. Buyers are attracted by the sector's ability to generate regular income streams with high yields.

Crucially, PBSA is famed for its resilience. Following the 2008 global economic downturn, it consistently remained one of the world's best performing asset classes². Today, despite wider economic concerns, it remains one of the most popular investments in the UK and US respectively.

As student numbers rise, so does the need for student homes, particularly for the type of PBSA many students now want. But, with supply in key cities remaining low, investors are continuing to achieve significant levels of growth.



UK STUDENT PROPERTY: A PROVEN ASSET WITH LONGEVITY

The UK is home to some of the world's most recognisable universities. Oxford. Cambridge. University College London.

Indeed, 11 UK universities are currently ranked among the world's top 100³.

A British education is considered to be one of the finest by employers around the world. In times of wider economic uncertainty, more people apply to university to attain skills that can help maintain a competitive edge in narrowing job markets. And, in 2020, the demand to study at UK universities is showing few signs of slowing:

- ✓ | 40.5% of all 18-year-olds in the UK in June 2020 applied to study at university for 2020/21 – a new record high⁴
- ✓ | 5% increase in applications from overseas students collectively for 2020/21 compared with 2019/20^{5, 6}
- ✓ | A 9.6% increase from non-EU-based international students over the same time period, highlighting UK higher education's long-term appeal among overseas students

Students at UK Universities by Domicile (Nationality) 2014/15 - 2018/19⁷

	2014/15	2015/16	2016/17	2017/18	2018/19
UK					
England	1,497,605	1,511,935	1,540,205	1,548,250	1,556,245
Wales	99,200	97,580	98,485	98,435	100,995
Scotland	164,005	165,090	169,240	170,895	173,295
Northern Ireland	63,965	63,600	63,070	62,930	63,535
Other UK	4,315	4,150	4,130	4,070	4,135
Total UK	1,829,090	1,842,355	1,875,125	1,884,575	1,898,205
Non-UK					
Other European Union	124,590	127,340	134,835	139,150	143,025
Non-European Union	312,010	309,230	307,540	319,340	342,620
Total Non-UK	436,600	436,570	442,375	458,490	485,645
Not known	295	505	375	30	115
Total	2,265,980	2,279,430	2,317,880	2,343,095	2,383,970

Source: HESA

With this world-class reputation for education, demand to study in the UK is predicted to remain high. Both domestic and international students will want to study at British universities, particularly elite Russell Group institutions.



“Demand for Higher Education in the UK remains strong. Universities that are perceived to offer the highest quality courses in locations offering the best overall student experience will increasingly attract higher levels of students.”

James Pullan
Head of Student Property

“The (UK student property) sector has also shown itself to be largely ‘recession-proof’, if the economy should begin to falter. During such periods, higher education has traditionally benefited from young people deciding to enter college and university rather than a fragile jobs market. Older workers often look to retrain in new skills”⁵



UK STUDENT PROPERTY:

YOUR TARGET MARKETS

A profile of key student demographics in the UK for investors.

Cities with these premier institutions continually increase their student numbers each year, while those with second-tier universities have seen a steady reduction in recent years.

✓ Emerging UCAS data for 2017/18 entries shows a 1% increase in those placed at higher tariff (Russell Group) universities and a 2% increase in those placed at medium tariff universities

✓ However, there has been a 5% fall in those placed at lower tariff institutions⁸

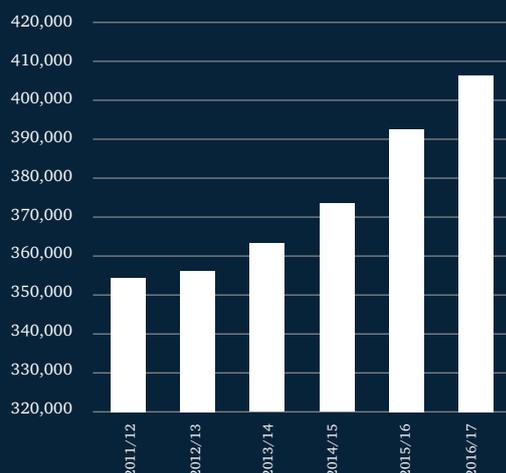
These elite university cities are where student property investors should focus their attention.



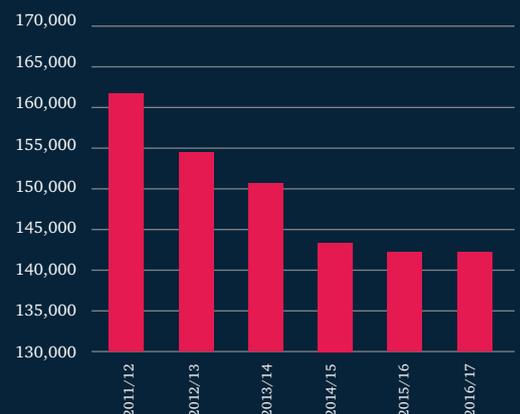
Demand for Higher Education is Highest at **RUSSELL GROUP** Universities

Full-time student numbers by university type
Total number

Russell Group



Lower tariff post - 1992





Increasing Numbers of International Students in the UK

More students than ever are coming from overseas to study at UK universities – and this is driving the demand for PBSA.

Around 20% of the current UK student population is made up by students from overseas¹⁰, with the latest Ucas data reporting a 5% year-on-year uplift in applications from international students for 2020/21.

Secure, high-quality and with its ability to deliver a superior student experience, PBSA is frequently the student accommodation chosen by international students.

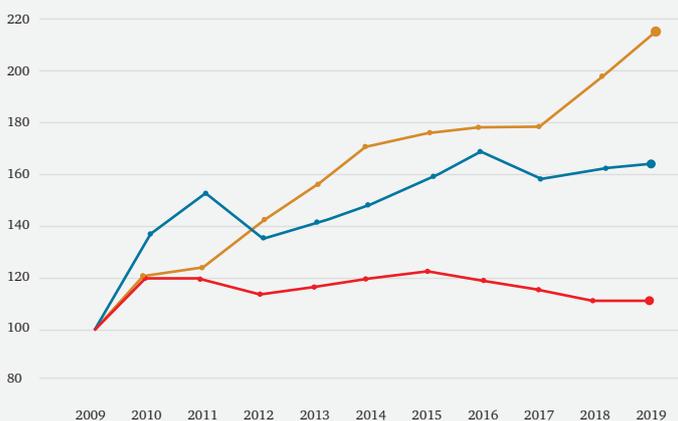
China the Biggest Overseas Student Nationality

The number of Chinese students at UK universities has increased 34% in the last five years¹¹.

No other nation sends as many students to Britain as mainland China.

Many investors purposely choose to invest in cities which has among the highest numbers of Chinese students, with demand for property – particularly PBSA – always likely to remain high.

Change in UK applicant numbers by domicile

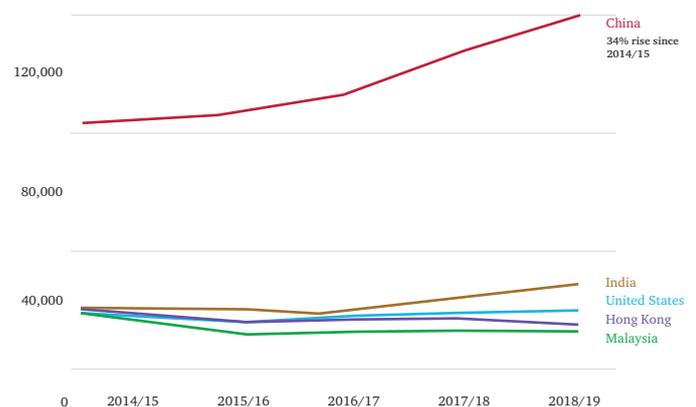


Source: UCAS/Knight Frank

■ Non EU ■ EU (excluding UK) ■ UK

Large rise in Chinese students

Non-EU students at UK universities by country of origin



Source: Higher Education Statistics Agency

WHAT DO UK STUDENTS WANT FROM THEIR ACCOMMODATION?

Over 60,000 UK students were surveyed for the Knight Frank & UCAS Student Accommodation Survey Report 2020¹². Here's what they value most when choosing a place to live:

97%

Value for Money

96%

Overall Cost

96%

Cleanliness of
the Bedroom

95%

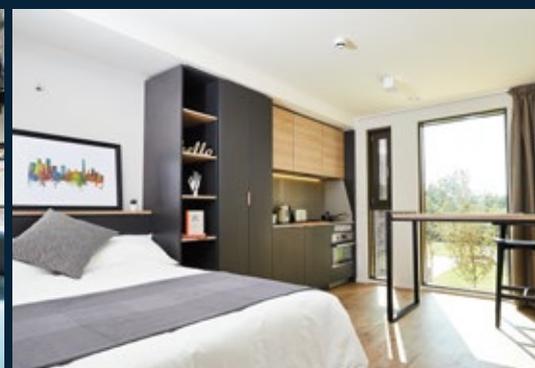
Quality of the
Accommodation

95%

Location of the
Property

91%

Facilities
(e.g. WiFi, parking,
gym)



TYPES OF UK STUDENT PROPERTY

A guide to the different types of accommodation available to UK students – and which have the highest demand

University Accommodation

Also referred to as 'halls', university accommodation is the traditional type of accommodation for students.

For generations, universities have provided on-site accommodation for students. Typically, students will have their own bedroom within shared apartments. In some cases, daily meals may also be covered as part of their rent.

Some advantages for students living in university halls include a convenient location and relatively low cost.

However, much university stock is old fashioned and outdated. It also doesn't provide the individual space students today demand, while amenities may also be limited or not located in one place.



Typical university accommodation - old fashioned and outdated

Homes of Multiple Occupancy (HMOs)

HMOs are traditional residential homes that have been converted for use in the student market.

Private landlords will rearrange a home and divide them into apartments, with groups of students living together.

Friends can live in a more traditional home setting. For investors, HMOs means you can maximise the rental income from one property.

However, HMOs do have their drawbacks for students. For example, they often mean living in traditional residential areas, surrounded by families and professionals. Similarly, these homes are often old fashioned and ill equipped to cater for the demands of the modern student tenant.

For investors, many city councils are now reducing the number of HMO licences and encouraging more of these homes to re-enter the residential sector they were built for. It means an increased emphasis to provide other types of accommodation for students.

Furthermore, HMOs are typically older properties, meaning they are costly for investors to maintain and repair

Typical HMO - older style property on residential street



Purpose-Built Student Accommodation (PBSA)

PBSA is the fastest growing and most in-demand accommodation choice among UK students today.

Modern living spaces, state-of-the-art facilities and the central locations students are demanding. PBSA provides the amenities and experience students will pay premiums to access.

It's also the preferred accommodation choice for the UK's growing number of international students.



PBSA In Numbers:

- ✓ | PBSA represents around 30% of full-time first-year undergraduate housing choices, up from 22% five years ago¹³
- ✓ | Analysis by JLL shows that 41% of current PBSA tenants are international students¹⁴
 - “On this basis, there is a shortfall of over 370,000 PBSA beds”
- ✓ | 1.4:1 demand to supply ratio for UK PBSA units between 2014-18
- ✓ | This imbalance will increase to 3.5:1 between 2019-2030

For investors, PBSA is one of the strongest and most compelling property investments you can make.

WHERE TO INVEST IN UK STUDENT PROPERTY?



Profiling some of the cities that will deliver you the highest returns.

City:
Manchester

Total student numbers:

102,000

including 20,000
international students¹⁵

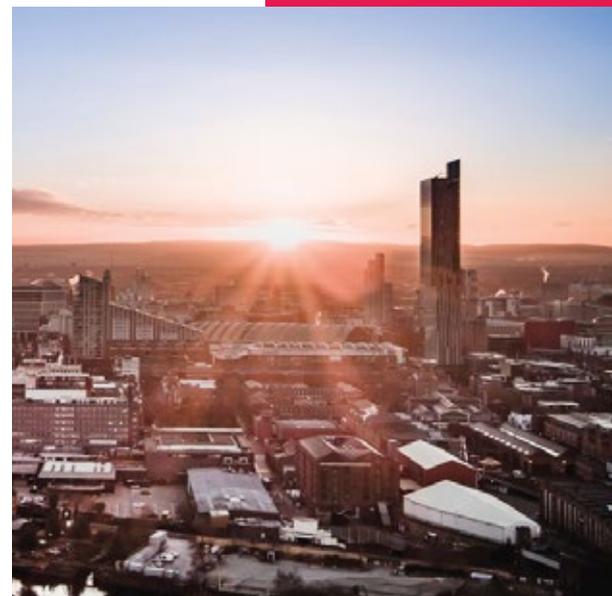
Universities:

- University of Manchester (Russell Group)
- Manchester Metropolitan University
- University of Salford
- Royal Northern College of Music

North West England 5-Year PBSA
Undersupply:

Just 50% of students able to access PBSA ¹⁶

Where:
North West England



Home to one of the UK's strongest residential property markets, Manchester is also one of the best places for you to invest in student property. The city has one of the biggest student populations in Europe, with young people drawn to the city's high-quality universities and world-famous cultural heritage. Manchester is also home to a major international airport, with direct routes to key global cities, including direct flights to Beijing.

City:
Southampton

Where:
South England

Total student numbers:

33,000

including 8,500 international students ¹⁷

Universities:

- University of Southampton (Russell Group)
- Southampton Solent University



Southampton consistently boasts some of the highest returns from student property in the UK. Why? With two high-quality institutions and direct access to London in just over 60 minutes, Southampton is always able to expand its student population. Indeed, over 28% of the University of Southampton's students are from overseas, a key demographic for PBSA investors. Furthermore, as of May 2016, Southampton Council began restricting permission to convert residential homes in the city into student HMOs, further increasing investor attention on the PBSA sector.

City:
Cardiff

Where:
Wales

Total student numbers:

44,000

including 10,000 international students

Universities:

- Cardiff University (Russell Group)
- Cardiff Metropolitan University
- University of South Wales – Cardiff campus

Undersupply of PBSA:

2.5 students to every 1 PBSA property available – 25,354 students unable to access PBSA



Students are one of the key drivers of Cardiff's economy. The city's elite institution, Cardiff University, is also highly attractive to international students; between 2014/15 and 2018/19, it increased its intake of international students by 23%¹⁸. Crucially for investors, a significant undersupply of student property means the city currently has the fastest rising student property rents in the country. And, with plans from Cardiff Council to reduce the number of HMOs in residential areas of the city, it makes a PBSA investment in Cardiff even more appealing.



City:
Birmingham

Where:
Midlands, England

Total student numbers:

81,000

including 16,000 international students

Universities:

- University of Birmingham (Russell Group)
- University College Birmingham
- Birmingham City University
- Aston University



With four established universities, Birmingham is able to attract high numbers of domestic and international students each year. The city's international airport also adds to its appeal for global students. Investors regularly target Birmingham due to the city's rapidly expanding economy; like Manchester, many businesses are relocating away from London to Birmingham. With a significant undersupply of high-quality PBSA for one of the UK's largest student populations, investors in Birmingham are achieving strong returns from the city's student property market.



City:
Leeds

Where:
Yorkshire, England

Total student numbers:

65,000

including 11,000 international students

Universities:

- University of Leeds (Russell Group)
- Leeds Beckett University
- Leeds Trinity University
- Leeds Arts University



Leeds is one of the UK's biggest student cities. Four institutions, including the highly-regarded University of Leeds, its consistently one of the most in-demand places to study for both domestic and international students. However, despite having several large HMO areas in the city, the supply of PBSA in Leeds remains relatively low. Investors in Leeds are achieving some of the highest rental premiums in the country, with supply of high-quality accommodation unable to keep pace with rising demand from students.

INVESTING IN UK STUDENT PROPERTY: YOUR CHECKLIST BEFORE YOU BUY

Here are some of the most important things you need to remember.

When considering a UK student property investment opportunity, you must bear in mind the key factors global students demand from their university accommodation today. They want:



Their Own
Space



Access to
High-Quality
Study Space



Amenities
'Under One Roof'



A Prime,
Central Location

Select Property Group also recommends investors consider the following before proceeding with any student property investment in the UK:



IS IT PBSA?

PBSA is the most in-demand accommodation type among students in Britain. The best quality PBSA developments deliver on all the things they are demanding and will pay premiums to live in. In comparison, alternative investments such as HMOs are outdated and will not deliver you the long-term investment security that you're looking for



IS IT LOCATED IN A CITY WITH A RUSSELL GROUP UNIVERSITY?

Not only is this where demand for PBSA, particularly from international students, is highest, but this is where demand for education will also remain high. Irrespective of wider economic factors, there will always be a demand to study at these prestigious British institutions which, for you, also means this is where PBSA will always be needed most.



IS IT LOCATED CLOSE TO UNIVERSITY AND THE CITY?

Owning a property that's not only close to university but also to the city centre, close to transport links, shops and leisure facilities, will help you to capitalise on the highest level of demand. Students will pay premium rental rates to live in these locations.



IS THE DEVELOPMENT FROM A PROVEN, CREDIBLE DEVELOPER?

Check the track record of the developer. How can they guarantee high occupancy rates? How can they deliver the yields they claim? What other PBSA developments have they brought to market? Carefully consider their background before proceeding with any investment.



IS IT ABLE TO GUARANTEE AN UNRIVALLED LIVING EXPERIENCE FOR YOUR TENANTS?

Developments with dedicated, 24/7 on-site management can ensure all your tenants' concerns are resolved quickly, while delivering a day-to-day experience which means they won't want to live anywhere else during their time at university.



IS THERE AN EXIT STRATEGY SHOULD YOU EVER NEED ONE?

If the time comes for you to release your capital gains, how easy would it be for you to sell your property? Choose high-demand areas or, additionally, ask the developer if they have a dedicated resales market.

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This guide references a number of statistics published by third-party reports and research documents. Select Property Group does not use these to represent any endorsement of affiliation to these third-party companies.

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