UK Student Market Update

Q2 2023

Knight Frank's quarterly review of the key development and investment themes in the UK student property market

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Fewer than 15,000 new purpose-built student beds will be added to supply in the 2023/24 academic year, a 28% fall on the previous year's delivery and notably below the five-year average before the pandemic of nearly 24,000.

Development stalls

A drop in delivery is a continuation of a longer-term trend of fewer new schemes being brought to the market. Just 50 new developments will be completed in 2023/24, less than half the level seen in 2016/17. Leeds saw the largest number of new deliveries at 2,328 beds, followed by Colchester (1,544 beds) and Bristol (1,346). The private sector continues to play a dominant role in providing new accommodation for students, accounting for 72% of the beds completed, albeit total delivery was 28% lower than the previous year. Rising build and site costs, skills and labour shortages, higher financing costs, and tricky-to-navigate planning policy all represent notable headwinds that have contributed to a slowdown in delivery, which has come despite continued growth in student numbers.

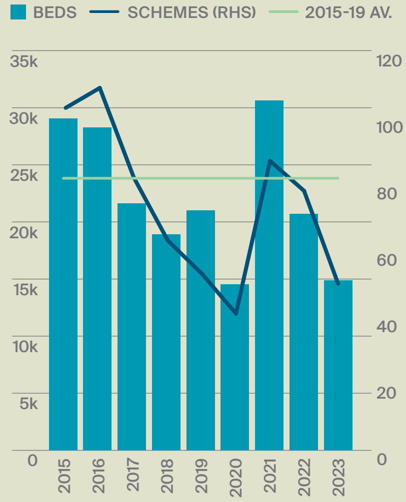
Student numbers rising

The latest student population data from HESA shows that 648,925 full-time undergraduates started studying at university in 2021/22, taking total undergraduate student numbers to a record 2.2 million. More recent data, from UCAS covering the 2022/23 academic cycle showed that more than 560,000 new undergraduate students were placed into UK universities. Further growth is expected, with our modelling suggesting a further 16% increase by the end of the decade. In real terms that equates to an additional 263,000 full-time undergraduate students above the current level. Separate forecasts from UCAS suggest there could be up to a million new university applicants in a single year by the end of the decade. UCAS is also projecting a 60% increase in international student applicants, signalling the ongoing attraction of UK higher eduction. Within this, applicants from outside the EU are forecast to rise by 75%.

The pipeline

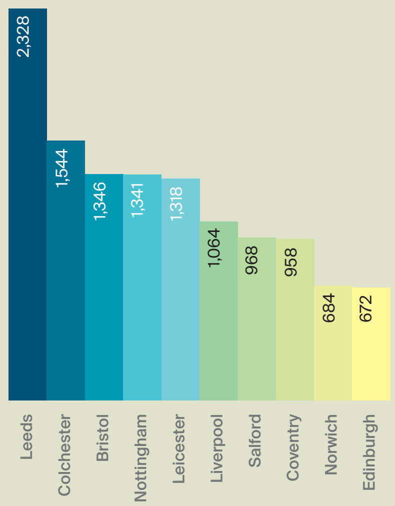
Clearly, supply will need to increase to accommodate this projected growth. Currently, the total pipeline is around 132,490 beds across the UK, with 22% of this under construction and a further 44% with full planning permission granted. London has the largest pipeline, followed by Nottingham, Leeds, Bristol and Birmingham.

Fig 1: PBSA delivery falls
Annual delivery of PBSA beds and total schemes



Source: Knight Frank Research

Fig 2: Top 10 markets for PBSA delivery
Total beds delivered, 2023/24



Source: Knight Frank Research

Costs pressures to ease

Inflationary pressures have driven up construction and operating costs this year. Build costs increased by 8.7% in 2022, with materials costs up by 10.9% and labour costs up nearly 5%, according to the BCIS. The elevated cost of debt has posed another challenge for investors. These factors have made it harder to bring forward or fund new student housing schemes. There are signs that build cost inflation is beginning to slow, with the market at a turning point as input cost inflation and demand pressures fall. The BCIS is forecasting build costs will increase by 4.4% this year and by 11.1% in total between 2024-2027 as inflationary pressures are brought under control. This should support viability and give investors more incentive to take new PBSA projects forward.

Rental supply falls

Rising student numbers and slower PBSA delivery comes at a time when supply in the wider private rented sector is constrained. Less than 70% of students applying for university for the first time this year thought that there were enough accommodation options in their chosen city, according to our recent survey of more than 20,000 students, undertaken in partnership with UCAS. Analysis of listings data from Rightmove, meanwhile, shows that the number of homes available to rent across the UK was 52% lower in Q2 2023 than the 2017-19 pre-pandemic average. This is creating supply shortages for students, as well as supporting occupancy and lease up for PBSA schemes.

...which is boosting rents

Consequently, rental growth for the sector has been strong – averaging 5.0% in 2022/23. Within this headline figure individual markets are seeing varying levels of performance, largely dependent on how stark the imbalance between supply and demand is. The change in rental values has been positive in 58 of the 59 locations covered by the index. Further rental growth of between 6% and 7% is expected for the 2023/24 cycle. Unite, the UK largest owner, operator and developer of PBSA, expects full occupancy and rental growth of 7% for the 2023/24 academic year. In markets facing the most acute supply and demand pressures, outperformance is likely.

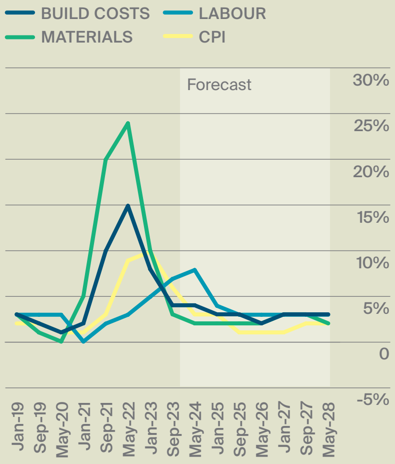
Investment volumes rebound

Investment activity in the second quarter of 2023 rebounded strongly following a very subdued first quarter. In total, £1.1 billion transacted, notably higher than the £135 million in Q1. The wider economic backdrop remains sensitive and there remains a degree of caution following wider global banking volatility and increases in the UK base rate. But nonetheless, the market looks to be more positive than it was during the first three months of the year.

Key deals

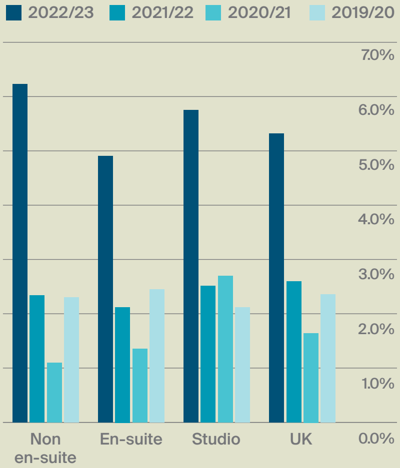
Despite higher debt costs, three large forward funds were agreed in Q2 in York, Bristol & Warwick. With positive signs of stabilising tender price inflation, developers are more willing to consider fixed-price contracts. The operational market remains challenging, with investors placing an added emphasis on quality, both of asset and university town or city. Nine operational assets traded in Q2, most notably 10 Traffic Street in Nottingham and Asquith & Austin House in Leeds. The Ottaway Portfolio, which comprises 4,500 beds across London, Birmingham, Leeds, Manchester, Liverpool, Nottingham and Newport was the largest portfolio deal of the year so far at £300 million.

Fig 3: Build costs set to ease
Annual % change



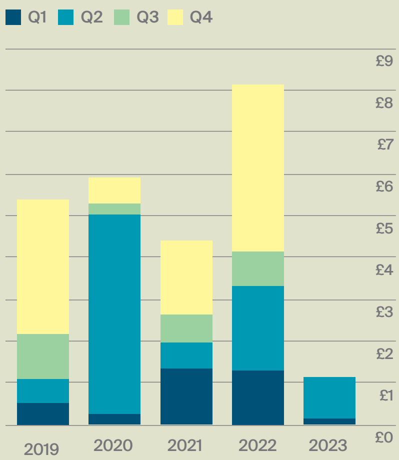
Source: Knight Frank Research, ONS, BCIS

Fig 4: PBSA rental growth
By room type



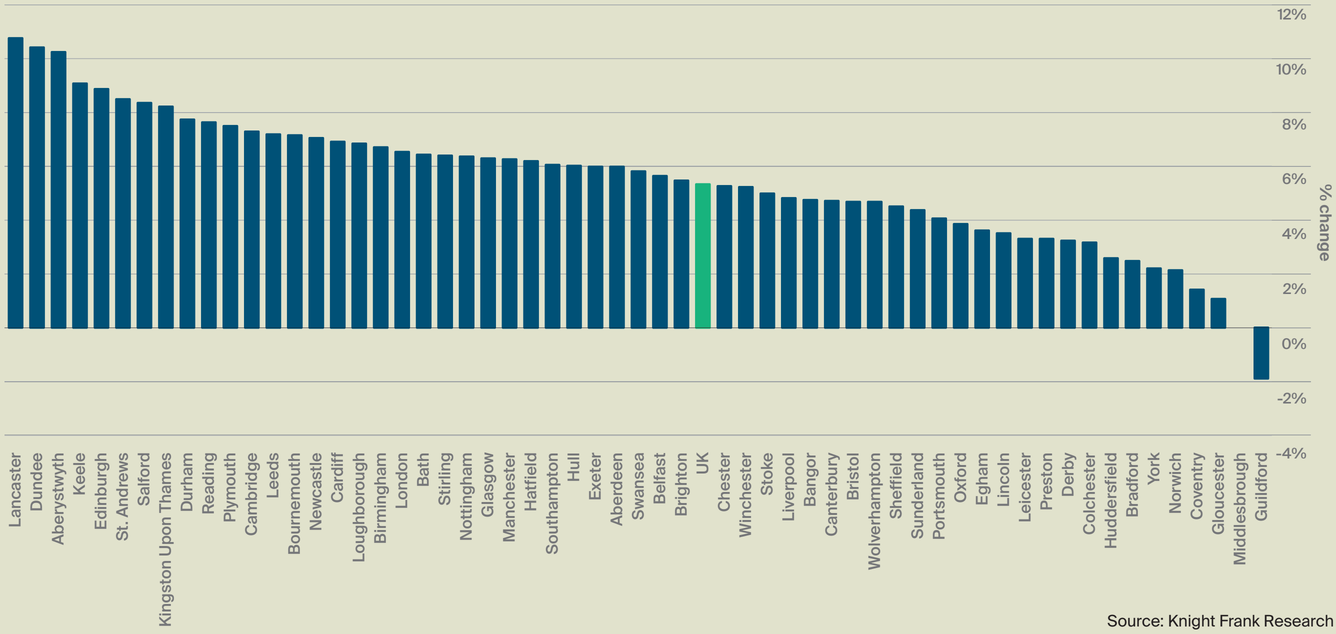
Source: Knight Frank Research

Fig 5: PBSA investment volumes
Quarterly (£billions)



Source: Knight Frank Research

Fig 6: PBSA rental growth statistics
City change 2022/23



Source: Knight Frank Research

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