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# PBSA: TIME TO SHINE?

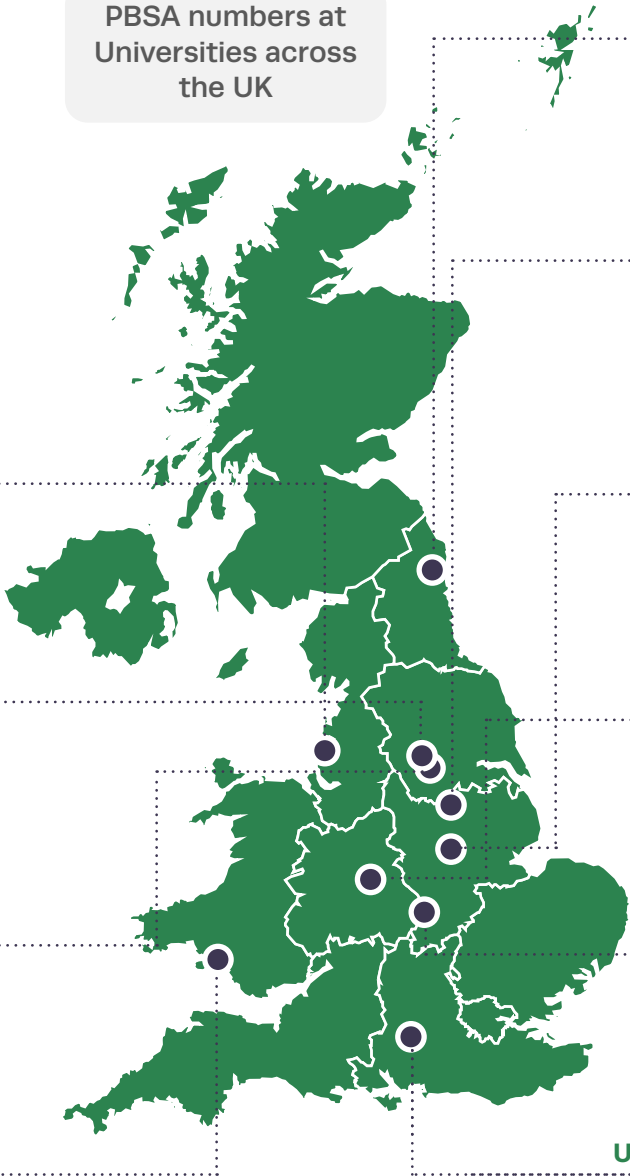
What has fuelled the dramatic rise of PBSA? As this year's students face an overheated rental market and a daunting economic outlook, will the sector have its chance to shine?



As student numbers have risen steadily in recent decades, so has the demand for more accommodation – and investors from pension funds to private equity have been happy to heed the call.

In university locations across the UK, purpose-built student accommodation has consistently delivered steady yields. As this year's students face an overheated rental market and a daunting economic outlook, will the sector take its chance to shine?

PBSA numbers at Universities across the UK



**UNIVERSITY OF LIVERPOOL**

216

**THE UNIVERSITY OF SHEFFIELD**

149

**SHEFFIELD HALLAM UNIVERSITY**

221

**SWANSEA UNIVERSITY**

420

**NEWCASTLE UNIVERSITY**

198

**NOTTINGHAM TRENT UNIVERSITY**

138

**DE MONTFORT UNIVERSITY**

138

**BIRMINGHAM UNIVERSITY**

140

**COVENTRY UNIVERSITY**

105

**UNIVERSITY FOR THE CREATIVE ARTS**

105

# WHAT HAS FUELLED THE DRAMATIC RISE OF PBSA?

Over the past decade, few sectors of the property market have demonstrated as broad an appeal as purpose-built student accommodation (PBSA).

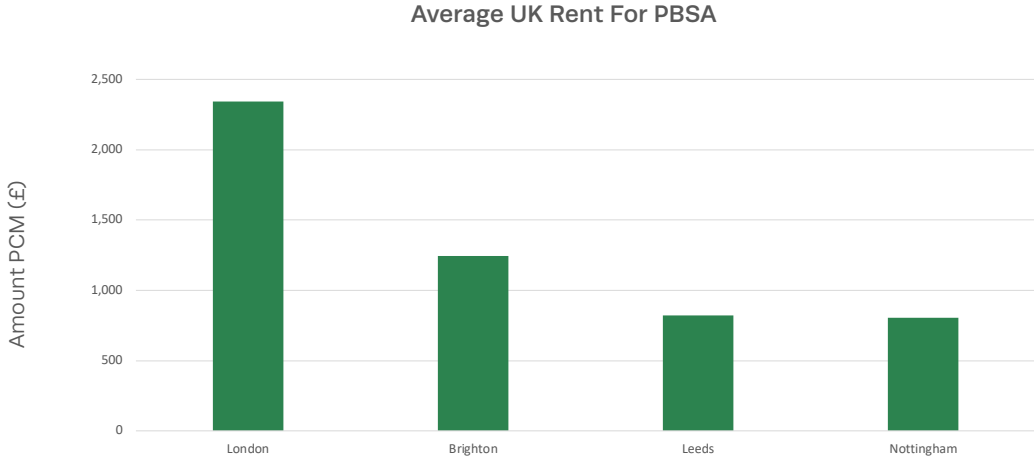
As student numbers have risen steadily, the demand for high-quality accommodation has drawn the attention of everyone from pension funds to REITs, and sovereign wealth funds to private equity. Investment in the sector is tipped to eclipse £6bn this year alone.

**1 in 4** UK students could be housed by current PBSA

PBSA currently accounts for some 600,000 beds across the UK – enough to house around 1 in 4 UK students (rising above 1 in 3 in many key cities and towns). The diverse market means that premises range from large student halls – typically containing hundreds of rooms – to more exclusive prime residences with plush members club-style facilities.

What has fuelled the dramatic rise of PBSA? The combination of rising student numbers and universities shying away from capital expenditure has seeded an obvious opportunity – but it isn't the whole story.

Crucially, PBSA has also created benefits for towns and cities themselves, ensuring that the economic benefits of an expanding student population do not result in additional strain on the private rental sector. In cities like Sheffield and Leamington Spa (close to Warwick University), PBSA developments have also played a crucial role in regeneration, boosting footfall in previously neglected locations.



Average UK Rent for PBSA in the top four locations across the UK based on a data sample size of 100+ rental values.

# THE CHANGING STUDENT EXPERIENCE



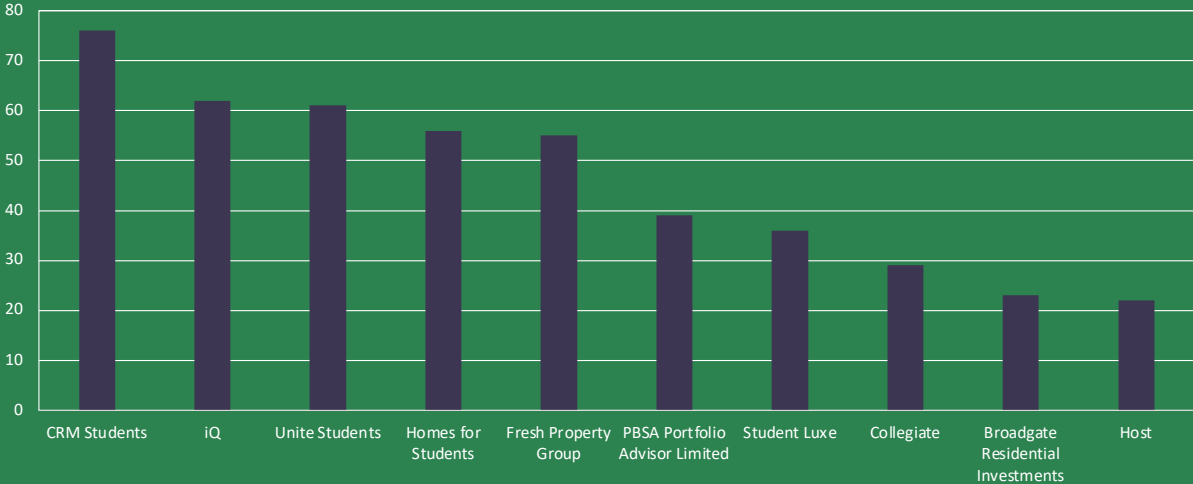
The arrival of PBSA has fundamentally changed the student experience – triggering a flight away from the cramped shared houses of the past and towards quality and amenity-led accommodation.

The shift has paid off, with industry surveys showing consistently high levels of satisfaction amongst students. Many say they are happy to pay a rental premium in return for features like speedy WiFi, 24-hour security and on-site gyms. Retention rates remain impressive.

The sector’s appeal has become even stronger during the current rental squeeze, as university cities and towns have experienced a tight shortage in available rental properties. As well as spiralling rents, universities have seen students forced to engage in bidding wars or take on tenancies months ahead of term.

In the university city of Reading, the home of some 15,000 students, the number of available properties has fallen some 24% compared to last year. The shortage has bitten just as student numbers surge by 12% – including a sizable cohort of students taking up offers they put on hold during the pandemic.

TOP PBSA OPERATORS (BY NO. OF SCHEMES)



Analysing the number of apartment block style schemes from top PBSA operators across the UK



The sector also stands to become an inadvertent beneficiary of other post-pandemic trends, including the ongoing energy crisis. One key feature of PBSA is that tenancies are often all-inclusive – with one industry survey finding that 97% came inclusive of at least one utility bill

Indeed a recent study from Knight Frank found that the combination of higher rents and energy costs had dramatically shifted the balance in favour of PBSA – making it cheaper than the standard PRS in 80% of university towns and cities.

In the largest cities, the difference is particularly stark: with the average PBSA tenant saving 33% in London, 25% in Liverpool and 15% in Sheffield (compared to renting in the standard PRS).

This resilience against external trends has not gone unnoticed by investors. 'Part of the attraction for us in PBSA is the sector's countercyclical characteristic,' says Mark Bladon, head of Investec Real Estate – which recently provided a £65m loan for a large scheme in Leeds.

**40 days** average disposal time\*

# PRESTIGE MATTERS

Like the university sector itself, PBSA investment remains geographically concentrated – with investors enjoying the best yields in major cities (which draw a disproportionate share of overseas students) and locations connected with Russell Group universities.

Recent deals show this pattern continuing. In September, the real estate arm of UBS asset management announced a £65m PBSA investment in Bristol’s Redcliff quarter – a well-heeled student hotspot. The deal marks the bank’s sixth PBSA investment in the UK, all of which have focused on prestige spots.



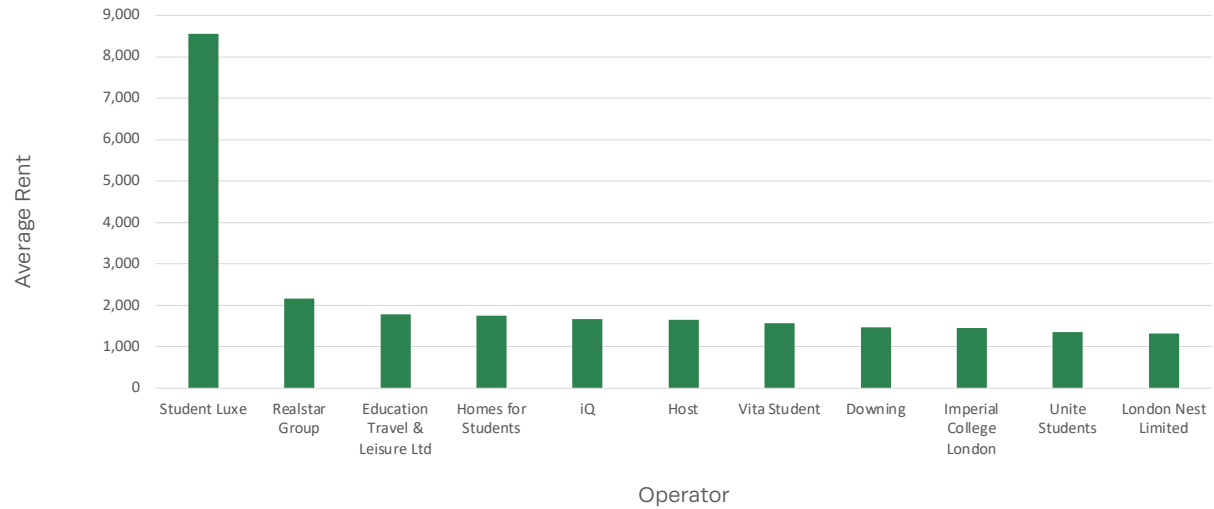
‘Bristol is one of the strongest student accommodation markets in the UK, with positive supply and demand dynamics and a limited development pipeline,’ says portfolio manager Oliver Abram. ‘The acquisition will complement our existing holdings, which have delivered consistently strong income returns.’

Unsurprisingly, the capital remains another major focal point, with market leader Unite Students estimating the number of students needing full-time accommodation at 280,000 – adding further strain on an overheated rental market.

Thankfully, authorities are heeding the call. At the end of September, developer Dominvs Group received approval from the London Legacy Development Corporation’s planning committee for a 465-home, mixed-use student accommodation in Stratford.

‘Opportunities like this increase the capacity to ensure that talent can emerge from any background and not just the most privileged,’ says John Iveson, assistant director of estates and facilities at Queen Mary University.

TOP PBSA OPERATORS IN LONDON



The average rent charged by top PBSA operators in London



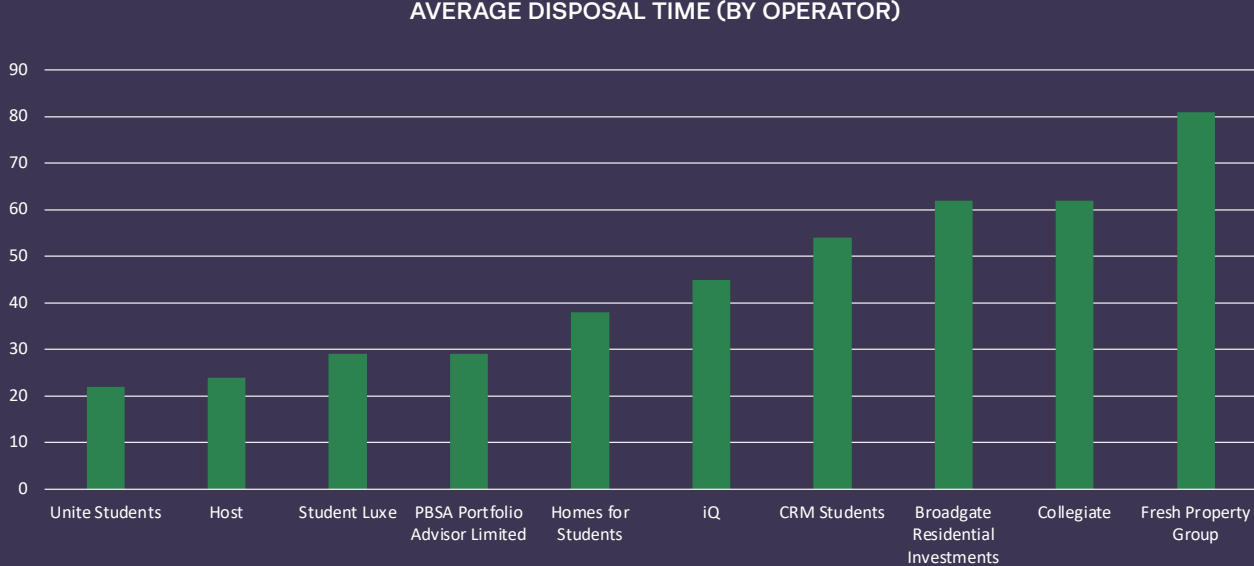
# WHAT'S NEXT?

After a decade of consistent growth, can the PBSA sector weather the coming economic headwinds? Initial signs are positive, with recent investment volumes remaining buoyant despite rising borrowing and construction costs.

Key second-quarter deals in 2022 included Swiss Life Asset Managers and Mayfair Capital's acquisition of the Duet BTR scheme in Salford, the forward funding of Lisbon Street in Leeds by Cortland Group and Get Living's forward funding of Sherlock Street in Birmingham.

Like any fast-growing sector, PBSA is evolving quickly, meaning that investors and developers need to stay alert to potential regulatory shifts.

One major recent development is the arrival of the government-backed National Code, which provides that developers must compensate students if their accommodation is not ready on time.



Average disposal time in days by operator, focusing on top operators based on the number of schemes

Another area that may see tighter standards is rent levels. The influential National Union of Students has repeatedly campaigned against rising rents – pointing to a 16% spike in the average rent since 2018 (due, in part, to the rise in prime offerings).

In response, more local authorities may choose to follow London's City Hall, which has mandated

that all future PBSA developments must comprise at least 35% rooms classed as affordable (meaning that the rent costs less than 55% of the maximum maintenance loan).

**1,544** planned PBSA schemes

# WITH EG PBSA DATA **YOU CAN**

- Identify PBSA operators by name and location
- View PBSA asking rents for ROI
- Appraise an asset based on amenities, floor plans, units & sizes

All data in this report is sourced from EG data exported in August 2022.



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