



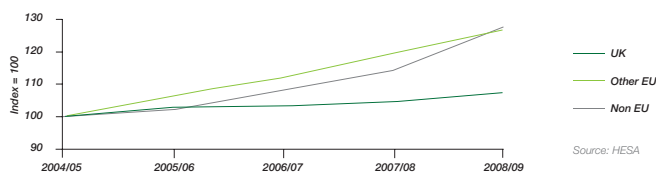
STUDENT ACCOMMODATION DO THE SUMS ADD UP? A Supply / Demand Story

By Paul Brady, Senior Consultant, The Henley Group

The UK's student accommodation market has emerged as a key asset class in the past decade, providing a steady passive income, and consequently attracting growing interest from investors, developers and private operators alike, with the latter now providing nearly 150,000 student bed spaces in the UK. Most of the universities in the UK are government financed, and therefore have fixed tuition limits that currently stand at £3,375 per year for home students; however, this maximum tuition fee will be raised to £9,000 per year in 2012. So will this financial change affect student numbers and consequently student accommodation as an investment? Also, how do the sums stack up for this sector in the UK in comparison to another international educational market such as HK for example?

At the heart of the student market's appeal is the current imbalance between the supply of accommodation and the demand for bed spaces. According to UCAS, demand for academic courses is at an all-time high with nearly 700,000 university applications received in 2010. But with UK undergraduate places totalling 490,000, demand clearly dwarfs supply. Student applications rose by 34% in the five years to 2010, whilst the number of available places increased by 20%. The latest figures from spring 2011 already highlight another 3% gain since spring 2010. The latest enrollment figures show that nearly 107,000 overseas undergraduates were studying in the UK during the last academic year, a rise of 11% on the year before. Overseas students are wholly unaffected by the increase in tuition fees for 'home' students. They should provide a steady buffer if numbers of UK students were to dwindle over the coming years.²

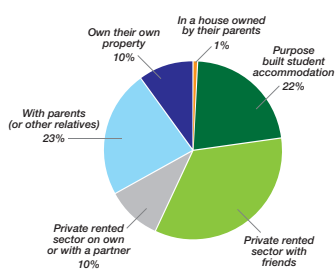
Figure 1: Level of Student Enrollment in the UK Increasing Substantially



Current Style of Accommodation Offerings

Presently, according to Unipol and the National Union of Students, less than a quarter of students are actually residing in purpose built, university accommodation; a far greater number of students live in private residential shared housing. In London alone student numbers are said to be growing at 15 times the rate of the new supply of housing.³

Chart 2: Where students are living now



In great contrast, the latest figures from Hong Kong indicate that almost 80% of students here live at home. As such the student accommodation market is much less developed. That being said, it is very likely that Hong Kong will follow the UK and most other developed educational markets with a shortage of quality student style accommodation as student numbers increase. For the first time in 2008/09 HKUST responded to the huge increase in demand for student housing by giving priority to non-local students; at present there are only an estimated 5,000 on and off campus places for 10,000 students.⁴

UK – World Class Universities

The principal reason for the UK's continued popularity as a place to study can be summed up in 23-year-old Uzbekistani Tulkin Sultanov's response to the BBC asking his reason for pursuing advanced studies in the UK: "reputation." Worldwide, UK universities are renowned for their high academic standards, cutting-edge educational facilities, and the flexibility to accommodate individual student needs.

Taking the increased educational costs projected through 2012, students studying in the UK are still likely to encounter lower costs than in the US, Canada, Japan and Australia. Costs in Hong Kong are also very competitive in fact: enrolment in HKUST for international students costs approximately 15,000 USD pa. It is difficult to accurately predict the demand for UK university places for 2012/13 and onwards, and the number of university places that will be available. However, UCAS (University and Colleges Admissions Service) statistics show that demand for university places surged in 2005 prior to increased tuition fees in 2006, which was followed by a marginal drop in 2006 after the increase. Demand increased each year thereafter. Overall, the number of applications and acceptances has been increasing throughout the past 15 years and the number of applicants continues to far exceed the number of acceptances.

To Invest or Not to Invest...

The demand for student accommodation is driven by the continuing increase in the number of students in higher education and the attraction of the UK as a leading destination for international students.

The most important consideration is that the limited supply of accommodation versus the high level of demand is already so far apart that even if student numbers do drop marginally, it will not fundamentally affect the imbalance between supply and demand for student accommodation in the major university towns and cities. In particular the demand for quality, well-located student accommodation continues to significantly outstrip supply.

Another major reason why a student accommodation style investment can work very well for certain people is the counter-cyclical nature in comparison to traditional asset classes such as equities. When, for example, markets are falling, economic prospects are uncertain and redundancies are common, many people return to university to up-skill, while current students remain at university to complete a Masters or PhD instead of entering a highly competitive and uncertain job market. This of course will continue to be tested as the costs of education continue to rise far above inflation.

Whether you or your child decides to opt for tertiary education in either the UK or Hong Kong, the one certainty is that from 2012 onwards you will receive little change from 100,000 USD! ■

If you have any questions please visit The Henley Group's website: www.thehenleygroup.com.hk, call (+852) 2824 1083, or contact Paul directly at: pb@thehenleygroup.com.hk

¹ Image source: CB Richard Ellis

² Source: The Guardian

³ Source: www.investorschronicle.co.uk, 'Student Accommodation Funds Come of Age'

⁴ Source: www.ust.hk