Dig into the detail for PBSA's best returns

COMMENT When most people think of UK universities, there are a few names that spring to mind. Whether it's the spires of Oxford or Cambridge, the red bricks of Manchester or Leeds, or the eclectic mix of London's top universities, the country's leading research institutions have rightly established themselves at the top of the list of places that prospective students want to attend.

High demand for places at the UK's top universities has certainly been part of the reason that the market for purpose-built student accommodation is stronger than ever. There was an astonishing 69% increase in investment in 2022 compared with the previous year, according to Knight Frank.

While much of this increase is down to a single transaction – Greystar and GIC's purchase of PBSA provider Student Roost for £3.3bn, completed at the end of the year – new supply is simply not keeping up with rapidly expanding student numbers, and investors have recognised this imbalance. However, they would be wrong to assume that any investment is a good investment.

City to city

The profitability and yield returned on PBSA is drawn from the unique dynamics of the location, which is often a function of supply and demand for beds in combination with local property prices and planning laws. Well-established university towns may have tens of thousands of students, meaning high demand, but they will often have the supply to meet it – and higher land prices to boot.

Liverpool and Sheffield are good examples of this phenomenon, where the availability of existing stock combined with a pile-in by PBSA developers has kept yields relatively low. Good for students looking for affordable rents, but not so much for investors.

At the opposite end of the supply spectrum are Durham and Manchester. At the former, students queued overnight just to secure accommodation for the 2022-23 academic year. Students at the latter were offered £2,500 to find a home off-campus, and many commuted in from Preston and Liverpool.

But both cities have been reticent to approve new PBSA developments, so acquiring planning consent may be prohibitive.

As another example, Nottingham's enormous 12,000-bed pipeline accounts for more than 10% of the UK's total. However, the student population in the town is growing by 5% annually – some 3,000 new students a year. It's unlikely that a cluster of universities growing at such a speed will suffer from serious oversupply any time soon.

Overlooked but attractive

Begin looking at the dynamics of individual university locations and the picture becomes more complicated than when looking at national data. Many of the most established university towns no longer have as sharp a supply/demand imbalance following years of booming investment and development.

Instead, it is the ostensibly overlooked locations that are now the most attractive. Taking a long-term view, non-Russell Group universities are growing at a much faster rate than established institutions. For instance, Chichester's student population is growing at close to 20% annually, Lancaster's at 14% and Reading's at 12%, according to Savills. These areas also haven't seen the rush of PBSA development experienced by other university towns.

Non-Russell institutions have also proven particularly popular among international students seeking the prestige of a UK-accredited degree. UCAS predicts that international applications will increase by 60% by 2030.

This is reflected in current yields. The latest data from Colliers puts yields for "regional tertiary" university locations at more than 6%, compared with "regional prime" at around 5% and "London prime" at around 4%. Our property finance team's observations of the market also support this view, with many of the more compelling opportunities coming from smaller university towns rather than large cities.

Highs and lows

It is important to bear in mind that, overall, the fundamentals of the sector are robust. The population of 18-year-olds in the country is on an upward trajectory, as are university participation rates. International students still view the UK as a top destination. There remains an undersupply in most university locations. And restrictions on the proliferation of HMOs, also known as article 4 directions, are in place at every single local authority hosting a top 50 university, creating a clear opening for purpose-built units. As a result, data from CBRE measured average returns on PBSA at 16.7% for the year to September 2022.

But as with any average, it obscures the highs and the lows. Investors seeking the largest returns should not simply follow the crowd. Rather, opportunities should be considered on a case-by-case basis. Expert advice is critical here, both in terms of understanding local dynamics and in understanding what students actually want from a development.

Still, if investors, developers and, indeed, designers have the right advice and are smart about building products that students want to live in, in the right locations, then the future is certainly bright for the sector.

Daniel Whiteman is relationship director at Leumi UK

Photo courtesy of Montfort Communications

Related Articles