



Brexit and student housing

A degree of uncertainty



May 2017

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Overseas student applications to UK institutions plummeted after the Brexit vote. With fee hikes also looming, real estate investment in student accommodation faces some big questions.

Our analysis shows why sites in Coventry, Canterbury, Southampton, Bath, Exeter and Manchester may be vulnerable to the Brexit effect, however there is positive news for real estate businesses that can position themselves correctly.

Student accommodation has come a long way from its old image of pokey rooms and damp flats. Today, students expect creature comforts like gyms and on-site cinemas, and the real estate sector has been feeling a lot more comfortable about the student accommodation sector too.

According to Jones Lang LaSalle, 2016 is likely to have seen a 1.5% increase in rental growth in the regional UK student accommodation market – and up to 4% in London. As a result, UK deals, worth just £2 billion in 2014, rose to £5.7 billion in 2015.

Estate agency Knight Frank calculates that the combined asset value of the UK's PBSA (purpose-built student accommodation) sector, both private and university owned, is now £43 billion. There are 525,000 PBSA bedrooms, with planning consent for another 90,000.

This growth has been driven by burgeoning demand. Two decades ago, the UK student population was 1.5 million – today, it's 2.27 million. Student accommodation is an increasingly organised sector, extremely attractive to institutional investors.

The European dimension

One driver of that growth has been an increase in EU students. For 2015/16, they represented 5.5% of total student numbers, up from 4.4% in 2004/05. And there was every expectation that these numbers would continue to rise. There are currently no limits on the number of EU students in the UK and no visa requirements.

However, UCAS figures showed that the number of EU students early applying for October 15 course deadlines dropped by 9% – due to Brexit. For the January 2017 deadline, EU applications were down 74% - and perhaps more worryingly, 5% for UK applicants.

Figure 1 Factors in supply of, and demand for, student real estate in the UK

	1	Pressure on home student recruitment
	2	The rise of the consumer student
	3	Slowing overseas growth
	4	Threat of new entrants, substitutes and disruptors
	5	Post Brexit changes to fees and entry requirements for EU students
	6	Increased interest in PBSA as a mainstream asset class

There are fears that a reclassification of EU nationals as 'international students' (who made up 13.8% of total student numbers in 2014/15) would see their tuition fees rise sharply. Higher fees are also being blamed for the drop in English applicants.

Worse, they may fall victim to tougher new net migration targets, effectively capping overseas student numbers. Home Secretary Amber Rudd told the Conservative Party conference in October that there had to be tougher regulations for foreign students.

"The current system treats every student and university as equal," she said. "We need to look at whether this one size fits all approach is right for the hundreds of different universities, providing thousands of different courses across the country. This isn't about pulling up the drawbridge. It's about making sure students that come here, come to study."

On the plus side, there's the EU Erasmus Plus student exchange scheme, launched in 1987. This allows students to study in the EU free for a year, including living expenses. Over 200,000 students have already benefited.

Secretary of State for Exiting the EU, David Davis, has said the UK could continue to pay for access to particular schemes – and Foreign Secretary Boris Johnson hinted that Erasmus could be one of the few EU projects the UK may support.

A question of money

Nevertheless, there is little guidance over how Brexit might affect EU student fee structures. This could cement negative sentiment on higher education in the UK.

At present, EU students are entitled to a reciprocal agreement which allows them to pay identical fees to UK students, including loans of up to £9,000 per year. (They pay no fees at Scottish universities.)

EU students applying to study in the 2017/18 academic year will still be eligible for student loans and grants for the full duration of their courses – allowing some certainty over their medium-term accommodation needs.

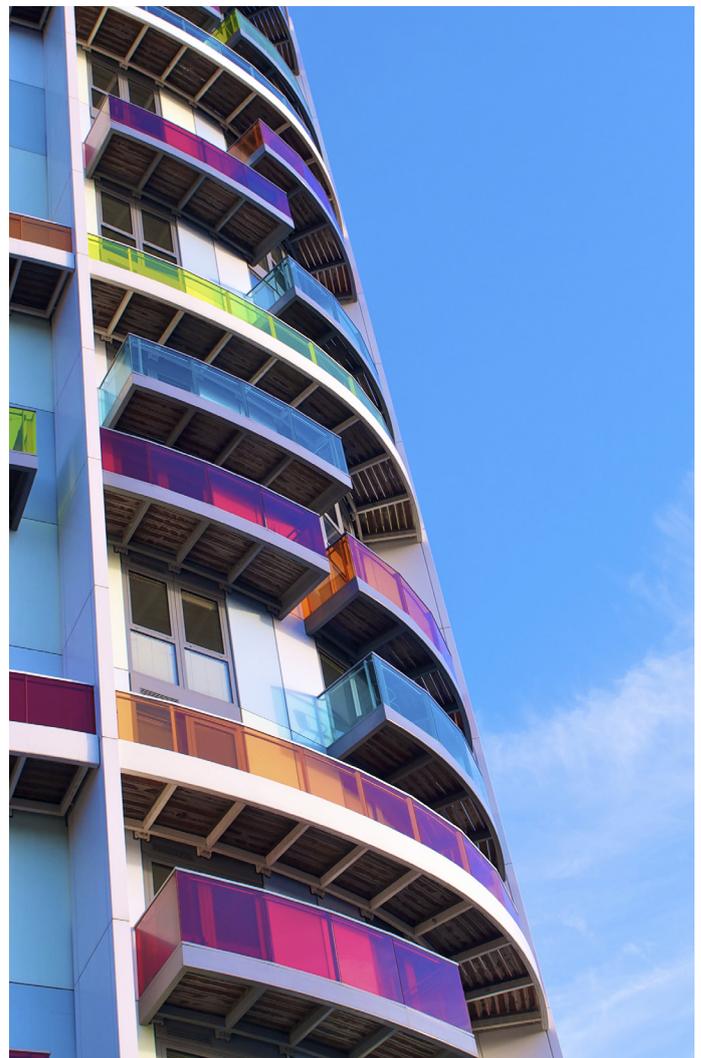
However, it is possible that as soon as the UK leaves the EU – under whatever exit arrangements – these rights will cease. Even reclassifying them as 'international students' would mean a 50% increase in fees – a clear deterrent for students.

There is precedent. In 2012/13, UK tuition fees rose from £3,000 to an average of £8,500 per year and EU student numbers may have reduced by up 19.7% as a result, based on actual applications against projected numbers and historic rates of growth.

A further increase in tuition fees for EU students to £14,500 – roughly the annual fee at top institutions for an 'international student' – could well result in student numbers shrinking by a further 4.6% to 7.6%, we estimate.

And the competition may also become more appealing: most European countries provide free access to higher education for EU nationals. Nicola Dandridge, Chief Executive of Universities UK, told the Commons Education Select Committee in January: "Our competitor countries, particularly in the EU, see this as a huge advantage for them. They are redoubling their marketing efforts and see Brexit as posing a good opportunity for them to recruit internationally-mobile EU students."

Will there be a flow of UK students returning from the EU to balance things out? Some 25,000 to 30,000 UK nationals now study in EU universities, against 125,000 EU students currently in the UK, according to Universities UK.





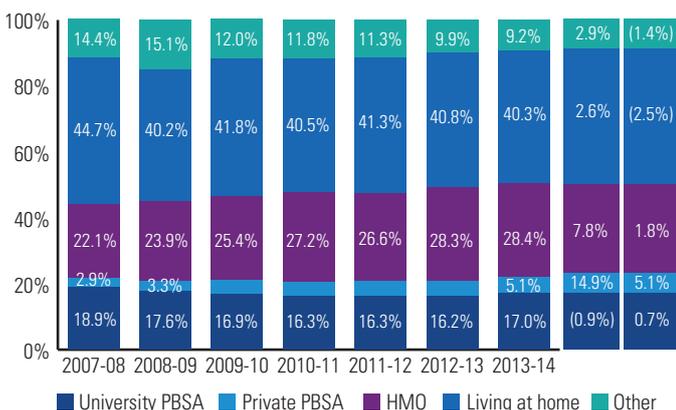
Home away from home

The switch from traditional university halls to privately built accommodation has been a boon for developers: demand has risen steadily, both in numbers and the quality of living facilities. Any large drop in the number of overseas students will, however, disproportionately affect this sector.

- Non-UK students are 65% more likely to live in PBSA than UK students.
- In 2007/08, 2.9% of full-time, UK-domiciled students lived in private PBSA, rising to 5.1% in 2013-14.
- The proportion living in university PBSA dropped from 18.9% to 17% over the same period.
- The proportion of non-UK students living in private PBSA has grown from 4.3% to 10.8% over the same period.
- University PBSA has dropped from 31% to 26.3%.

Feedback suggests that university PBSA remains the most popular choice of accommodation for non-UK students. But supply constraints have caused them to seek out other forms of accommodation, particularly as they are obviously unable to live at home during their studies.

Term time accommodation of full-time UK domiciled students 2007-08 – 2013-14

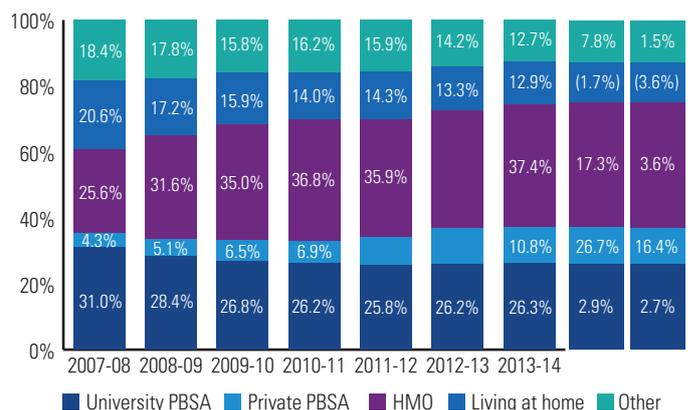


The risk for real estate businesses is therefore a dramatic reverse of the trend. In recent years, the rising number of EU students have been proportionately more attracted to PBSA. Post-Brexit – and even before changes to migration and fee rules – their numbers, and therefore the need for accommodation, are bound to decline.

Brexit is not all gloom, however. The depreciation of sterling makes UK living and fees more attractive and there remains the pull of a world-leading UK degree. Plus, there's also rising demand from an increasingly influential – and wealthy – Asian and African middle class.

Those groups are not immune to the risk of the UK government cracking down on net migration. And Brexit might still be sending the message that the UK is less welcoming to foreigners. Nevertheless, they do still offer a potential growth market for UK education – and the student accommodation that goes with it.

Term time accommodation of full-time non-UK domiciled students 2007-08 – 2013-14



Winners and losers

So where in the UK is the real estate sector most vulnerable to a post-Brexit shift in student location choices?

Scottish cities are popular with young continentals because they don't have to pay fees and are therefore particularly exposed. In Aberdeen, for example, 16.3% of full-time students are EU nationals, while in Edinburgh, the proportion is 12.2%.

London is also popular with EU students, who make up 10.3% of the full-time total. The numbers vary from 3% to 25% depending on the institutions, with arts universities accounting for the highest percentage.

There are 12 university cities where EU nationals make up more than 5% of full-time students. These cities – including Oxford (9.1%), Cambridge (9.2%), Coventry and Bath – are home to more than 50% of the UK's EU student population.

Largest 26 UK university cities 2014-15

City	EU student proportion of full time students	Number of EU students
Aberdeen	16.3%	3,415
Edinburgh	12.2%	5,950
London	10.3%	28,645
Glasgow	9.9%	5,455
Cambridge	9.2%	3,020
Oxford	9.1%	2,940
Coventry	8.1%	3,225
Canterbury	7.7%	2,525
Southampton	7.2%	2,280
Bath	7.2%	1,410
Exeter	6.0%	1,170
Manchester	5.1%	3,930
Cardiff	4.8%	2,445
Birmingham	4.5%	2,750
York	4.4%	895
Belfast	4.3%	1,650
Bristol	3.8%	1,545
Nottingham	3.8%	1,930
Leicester	3.8%	1,155
Newcastle	3.2%	1,375
Sheffield	2.9%	1,425
Leeds	2.9%	1,450
Swansea	2.8%	555
Plymouth	2.7%	620
Liverpool	2.1%	885
Top 26 cities EU students	6.8%	82,645
UK full-time EU students	6.4%	107,925
All UK EU students	5.5%	124,580

Scottish universities are particularly popular with EU students due to an absence of fees. They are particularly exposed to the impact of Brexit

Oxbridge's international reputation is likely to enable them to turn EU student vacancies into UK or international places at the expense of other universities

There are 12 university cities for which EU students make up more than 5% of full time student numbers. These 12 universities are home to over 50% of the UK's EU student population

London's multiple universities have a high proportion of EU students at an aggregated level. Individual universities range in EU student penetration from 3% to 25%, with arts universities having the highest percentage

Six of the largest English University cities are more exposed than others to potential loss of EU students

Note: The EU student proportion included in the table for All UK EU students includes both full and part time students, other proportion values are based on full time students only.

Source: HESA

Oxford and Cambridge are likely outliers – their international reputation should enable them to turn EU student vacancies into UK or international places at the expense of other universities. Scottish universities may also be protected by their no-fee structure. London will be shielded to some extent by its global appeal.

Equally, cities with a low existing proportion of EU students – Swansea, Plymouth and Liverpool – shouldn't be significantly affected.

Other cities – and their accommodation providers – aren't so lucky. Six of the largest English university cities are particularly exposed: Coventry, Canterbury, Southampton, Bath, Exeter and Manchester.

Designing a robust response

Success is all about location, as any real estate specialist knows. The first step for developers and investors is to target cities that present the most sustainable opportunities (see box).

We continue to watch wider global trends carefully. International student numbers may keep rising to cover the EU drop-off, possibly helped by generous visa schemes. The UK higher education sector remains highly respected worldwide, the student sector has strong rental growth and there is still the problem of significant structural undersupply of accommodation in the UK.

The 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.

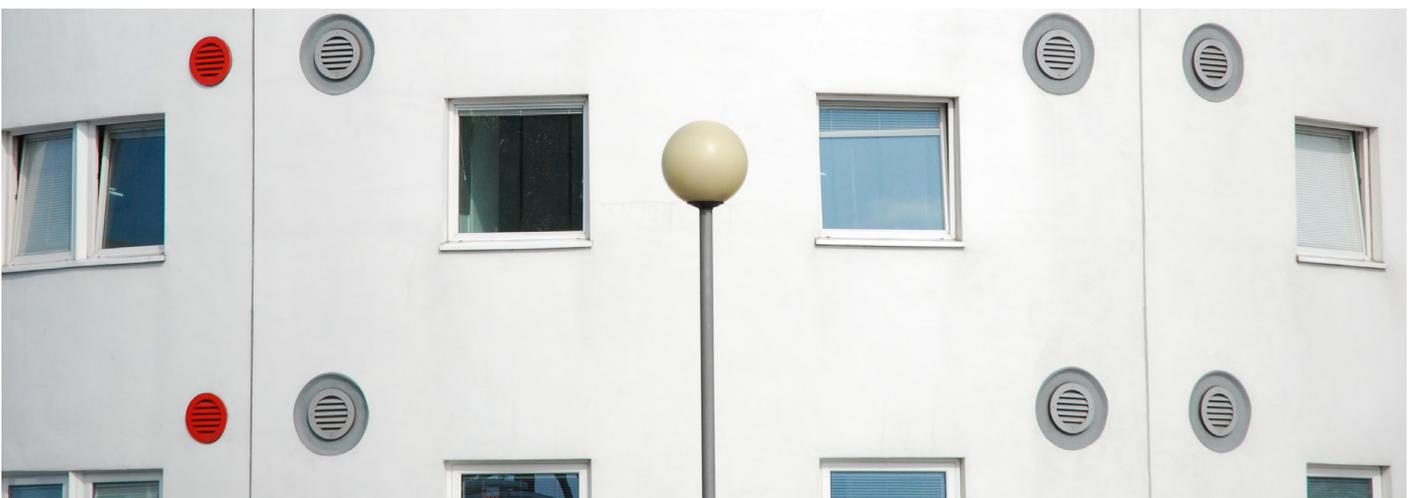
Developers could also use Brexit as an opportunity to invest in accommodation in Ireland and other EU countries – or in Tier 2 UK cities suffering from a limited supply of student beds.

In this time of uncertainty, market analysis and investor sentiment remain critical, especially given wider structural changes in cities, shifting work patterns, housing availability and education policy.

Developers need to cut through the Brexit noise to plan their next steps. Risks are starting to crystallise. But there are undoubtedly genuine new opportunities out there in the real estate sector as Europe realigns and the UK and its businesses start to cast their sights further afield.

Key questions for real estate developers and investors:

- How will the changing environment affect my existing development pipeline and investment portfolio?
- Do we need to modify or reposition our existing assets or planned developments to reflect a changed environment?
- Which cities may present the best opportunities going forward?
- When will the maturity point arrive for the PBSA market when supply and demand are in balance in each key market?
- When do I need to diversify the business beyond student accommodation?





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