



Student Housing - An Emerging Real Estate Asset Class

Student accommodation has become an exciting niche property sector in the UK. Key players in the UK market such as UPP and UNITE have successfully tapped into funds from institutional investors eager to invest where the portfolio is sufficiently specific, robust and proven to deliver high returns.¹ The level of investment in residential property made by institutional investors is on the rise across Europe, encouraged by this sub-sector. Investors committed £2.2b to residential properties last year, up from £765m in 2009/10 with student housing being the main focus.² Investment returns on student housing also nearly doubled in the last two years, growing from 8.4% to 15.1% between September 2010 and a year later.³

With demand for good quality students' digs on the rise, rents have grown by over 4% (2010—2011) on the average and occupancy rates are at 99%.⁴ CB Richard Ellis confirms that investment volumes in student housing has increased by more than 120% in the last year and is projected to remain positive for the next 10 years.⁵ This edition of Real Estate Insight provides background information on this niche residential sub-sector, its growth drivers and overall impact on the UK property market and attempts to highlight drivers for growth of the sub-sector in Nigeria's residential market.

Student Housing as an Asset Class in the UK

Before the mid-1990s only a small percentage of the student population stayed off campus in search of the freedom and independence that conventional apartments and rented houses bring. However, the accommodation rented inadequate for the needs of students, were poorly maintained and managed by individual owners who were happy to rent their property to anyone for a small return.⁶

From the mid-1990s, a rise in student population and increasing budgetary constraints led to significant shortfalls in student housing supply. In a ten year period up to 2004, housing capacity fell to less than 30%.⁷ This trend resulted in a high demand for off campus student housing, leading to the advent of purpose built and purpose managed student housing. By the mid 2000s, student housing had become acceptable as a new asset class, defined by the National Apartment Developers who entered the market with a product distinct from conventional student housing by offering private bathrooms, resort style swimming pools, laundry services, gymnasiums, extra parking and shuttle services to campuses.⁸

Key Demand Drivers

The two most significant drivers of demand for good quality, affordable, purpose-built student housing are:

Growing numbers of home and international students:

The UK is now the world's second most popular destination for international students, capturing 12% of the international market (UNESCO report). In the past decade and a half, university student population grew from 1.6m to 2.4m.⁹ A major portion of this growth has been in full time post graduate studies. Between 1996 and 2010, full time post graduate numbers nearly doubled, with 55% of the student population being international students. The number of students trying to secure places at UK universities is at an all time high and is expected to remain this way for the foreseeable future.¹⁰

Accommodation preferences: Across all levels of study, the majority of students live in other accommodation outside of the halls of residence. However, with the boom in post-graduate intake, the student profile has changed and these group of mature students demand good quality residential accommodation. Unfortunately, as reported by a recent university Estate Management Statistics, no more than 75% of universities' residential accommodation is in good condition, leading to a growing off-campus demand.

Student Housing in Nigeria

Nigeria has the largest university system in sub-Saharan Africa.¹¹ More than 50% of its 114 accredited tertiary institutions have over 20,000+ students each.¹² The growth in student population has not been matched by a corresponding expansion or construction of new halls of residence. Total number of student enrollment in universities in Nigeria rose from 38,000 in 1978 to 1,182,381 in 2009.¹³ A survey carried out by the Nigerian Universities Commission (NUC), revealed that the provision of student accommodation is less than 30% of requirement.

A combination of budgetary cuts in the 1990s and an accommodation policy lowering the benchmark provision to 33% of student population means that only 1st and final year students are offered on-campus accommodation leaving the majority with limited options.

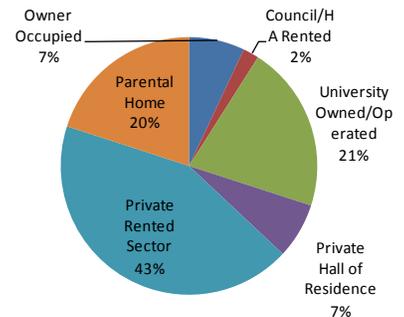


Figure 1: Composition of the UK Housing Market

Source: NUS/HSBC, 2008

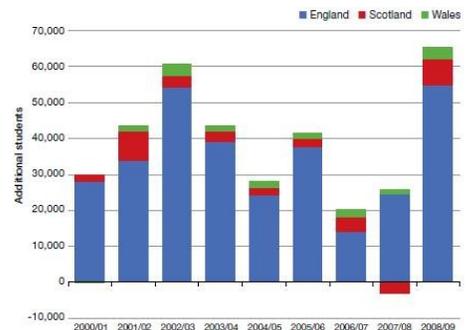


Figure 2: Number of Additional Students Per year in UK Universities, 2010

Source: Savills Research using HESA

Year	No of Universities	No of Applications	No Admitted	Left Over
1999/2000	45	417,773	78,550	339,223
2000/2001	46	467,490	50,277	417,213
2001/2002	52	550,399	60,718	544,321
2002/2003	53	994,380	51,845	942,535
2003/2004	54	1,046,950	105,157	941,793
2004/2005	56	841,878	122,492	719,386
2005/2006	75	916,371	N/A	N/A
2006/2007	76	803,472	123,626	679,846
2007/2008	94	1,054,053	194,521	859,532
2008/2009	95	1,182,381	N/A	N/A

Figure 3: Total number of Universities, Applications and Admission Between 1999 – 2009

Source: Private Universities in Nigeria—The Challenges Ahead

The student enrollment in tertiary institutions is growing at an average of 12% per annum¹⁴ (compared to 3% in the UK) and the provision of new purpose-built student housing is limited. This in itself creates opportunities for the development of student housing in many cities in Nigeria.

Lagos is host to several public and private institutions, including several “Lagos—campuses” of institutions located outside the state. More than 70% of students who attend these universities live in private rented accommodation.¹⁵

The University of Lagos with a student population of 45,000 provides accommodation for 6000 students (13%).¹⁶ Several private developers provide off and on-campus accommodation under a Build Operate and Transfer (BOT) initiative. However, the additional accommodation supplied is insignificant compared to the need. In 2002, plans to build a students’ village was announced but has not been implemented. The majority continue to rent privately, paying between of US\$1500—2000 per annum¹⁷ for basic (and often substandard) facilities. In the city of London, the average rental cost of good quality student housing is US\$5286, an all-in cost which could internet services, laundry and shuttle services.¹⁸

Key issues for consideration in developing a student housing sector in Nigeria

Funding structures for the delivery of student accommodation - the key criteria universities consider include source and cost of funds, the balance-sheet treatment of the asset, the level of control over rental income and the management of the asset. Investors typically seek bond-type deals offering secure long-term incomes, guaranteed leases and fixed rental growth. Student accommodation matches this profile, suggesting that it is possible to successfully execute build-operate-transfer arrangements on new accommodation and sale-and-leaseback arrangements on existing assets. While majority of institutions may be reluctant to give up control, the deteriorating condition of majority of university-owned halls of residence indicates the need to manage these assets in a different way.

Planning regulations and other development control issues - will need to be addressed to ensure investment viability, particularly in order to encourage new build while avoiding competition with other forms of housing. To achieve this, the universities, planning authorities, developers and investors must work closely to ensure that interests are aligned and the needs of all groups are considered.

Innovation and sustainability - developers need to be innovative in their approach to design, supplying functional accommodation which incorporates the basic needs of students and provides additional facilities and services including laundry, internet services, relatively constant electricity, water supply, shuttle services, etc. The university community should be in the forefront of sustainability issues; this should be reflected in develop-

ment and management

The improvement of current stock - majority of the halls of residence are in poor condition, at the same time as student accommodation requirements are on the rise. With overall spending continuing to decline, universities need to consider the options which enable a release of capital from their real estate stock alongside improving the management of their accommodation through private sector partnerships

Outlook and conclusions

The majority of “first generation” Nigerian universities have for many years stopped self-funding new students accommodation. The newer universities have mostly taken to the private-sector-participation route, although the functionality and quality of accommodation varies widely.

The demand for purpose built, affordable, good quality student accommodation will for a long time to come continue to outstrip supply. In spite of the recent involvement of institutional and private investors in the provision of student housing, an increasingly diverse student population will need a wider variety of accommodation types at different price points.

New opportunities are emerging for the private sector (e.g. a 1000bed facility is being developed through a PPP arrangement in the University of Lagos) and the prospect of raising cash by selling stock may become an attractive proposition to some universities. While this is still a long way coming, it will eventually become evident that the availability, quality and cost of student accommodation on offer will be an important component in attracting good quality students.

This suggests that a combination of secure funding, strong student intake, low or poor quality of existing accommodation and affordable rental rates will create distinct winners for developers, investors and funders the next few decades.

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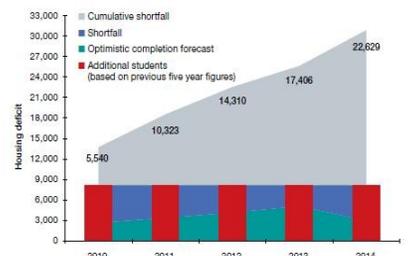


Figure 4: Future Shortfall of Purpose Built Student Accommodation in the UK
Source: Savills Research Using LRR and ABR, 2010

	1980	1985	1990	1995	1997
Nigeria	6.4	1.2	1.0	0.7	0.7
Ghana	3.1	2.6	3.3	4.8	4.2
Kenya	6.8	6.4	7.1	6.7	6.5
South Africa	--	6.0	6.5	6.8	7.9
Sub-Saharan Africa					4.2
Low-income Countries					3.7

Figure 5: Total Public Expenditure on Education as a Percentage of GDP
Source: EdStats, World Bank (1997 figures are unweighted group average)



Figure 6: Abertay's New Student Accommodation

Source: www.abertay.ac.uk