

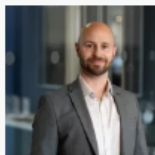
Mid-market PBSA well insulated from subdued international numbers

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Upcoming academic years will be a test for the newly challenged market



(Image: Miscellany/Alamy Live News)




Christopher Stallard

GUEST WRITER

Relationship director at Leumi UK



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As students across the country embark on a new academic year, it's worth reflecting on the changes that the UK's higher education landscape has been subjected to in recent months.

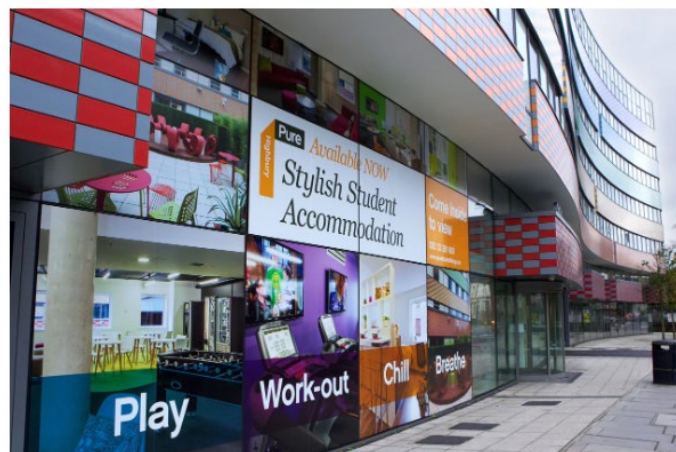
This is the first full academic year where we will see the consequences of these changes play out – and in turn how they will affect relevant stakeholders, including those involved in the burgeoning purpose-built student accommodation (PBSA) sector, which is where Leumi UK's interests lie.

As a sector specialist lender, it's imperative that we stay close to all market developments to make informed lending decisions and support our clients' success.

Crunching numbers

Having previously relied heavily on historical market and micro-location performance data to appraise a PBSA project's viability, that has become a less relevant tool for the forthcoming academic year and beyond, with new dynamics at play requiring thorough assessment to create workable forecasts.

First, the UK's new student visa scheme became effective at the beginning of 2024, meaning we have not yet experienced its true impact on a new cohort of international students. That being said, the early signs are more encouraging than some anticipated. According to UCAS clearing data reviewed by CBRE, after the first five days the number of international applicants was only down 1% year on year. On top of that, while year-on-year numbers fell for some countries, compared with 2019 the number of applicants accepted from the likes of China, India, and America were all up by double digits.



It is also important to put the current market dynamics in context. According to CBRE analysis, the delivery of beds is not keeping pace with need – even if the demand pool for PBSA remained unchanged, which is unlikely, CBRE is forecasting that by 2029 there would still be a shortfall of 425,000 beds.

Ultimately, a drop in [overseas student numbers](#) – from certain countries, at least – is expected, but what's yet to be determined is the knock-on effect this might have on universities' solvency and PBSA's registration cycle.

Our current expectation is that the visa changes are less likely to impact the mid-market PBSA stock that Leumi UK favours, but may put downward pricing pressure on higher-end schemes which are more reliant on foreign residents.

If this is the case, PBSA operators will need to adjust their models to reflect the likely bottleneck of registrations post-UK clearing, as there will be less prelet certainty given international students are typically in a position to commit to their accommodation further out.

Elevated costs

With regards to universities' underlying solvency, we will need to closely monitor how the student demographic of the institutions that are most reliant on higher international fees evolves, and how they respond to the potential shortfall. We also await further government announcements on the student visa scheme, but it's clear education is a focus for this administration.

When it comes to developing PBSA stock, there are new regulations that now need to be factored into a project's business plan. The Building Safety Act (BSA) came into force late last year, so we are only beginning to see the repercussions of this take hold across the construction industry, with the majority of pipeline PBSA schemes subject to the new rules.

As with any new layer in a development process, we expect this to cause disruption, delays and uncertainty of consent – all of which push a project up the risk curve. Strict delivery schedules are imperative in the PBSA sector to ensure sites are operational in advance of a new academic year, which makes timeline uncertainty especially undesirable.

“Another headline-grabbing topic in recent months is the downward trend in university applications”

This comes on top of the disruption and volatility caused in recent years by elevated construction costs, which rose by 8.7% in 2022 alone. While costs have since plateaued and are only expected to rise by 11.1% between 2024 and 2027 according to Knight Frank, elevated costs will still make some projects unviable. Combined with the impact of the BSA, we think this will push the viability threshold for weekly rents to around £200/week. This is not just relevant for new developments – it will also impact ESG-driven refurbishment projects, which are increasing in volume and have become a demand driver for occupiers.

Another headline-grabbing topic in recent months is the downward trend in university applications. In the context of a growing population and severe housing shortage, we don't see this as a cause for concern with regard to funding PBSA so long as we remain disciplined on location. In our view, occupancy won't be a problem for an asset that's in a prime position to serve leading universities – the investment case judgement, and indeed the lender judgement, will be on what price it lets up at and the outlook for rental growth.

One final factor to consider is the potential disruption caused by the co-living sector. While in the short-term we only expect it to impact the markets in London and Manchester where there is significant under supply, it does represent a viable alternative for international students and consequently could lead to some supply side pressure.

Disciplined stance

While there are numerous developments that are likely to impact the long-term prospects of the UK's higher education market, it's a sector that must remain cherished as one of our nation's greatest exports, contributing £130bn to GDP.

Furthermore, the long-term fundamentals and structural tailwinds remain favourable for PBSA, so we will continue to support this sector, albeit with potential adjustments required to aspects of our financing model. Leumi UK funds around 3,000 beds across the UK and are currently active on a number of new transactions in the sector.



We will be closely monitoring how this new academic year progresses. Early indicators from our own PBSA portfolio are encouraging. Our clients' schemes are now around 92% occupied for the 2024/25 academic year, following a predicted rush of applicants over the past two weeks in what has been a very late lettings market this year.

This shows that the demand is very much still there – and at competitive price points – but the PBSA market needs to adapt to a later lettings cycle, and we are mindful that secondary locations and lower quality schemes could suffer as students benefit from greater choice, ultimately reaffirming our disciplined stance.