

2023



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# Student Property Report

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## FOREWORD



BY KATIE O'NEILL, HEAD OF STUDENT PROPERTY RESEARCH

**A**gainst a challenging economic backdrop, investing in a sector driven by demographic rather than economic shifts is a logical approach. Although not immune to the economic environment, the purpose built student accommodation (PBSA) sector is proving its resilience. Backed by simple supply-demand imbalances, the UK PBSA market continues to follow the evolution and institutionalisation that has occurred in the US, with a greater focus on amenities and digital integration offerings for students. Given this, it is no surprise that the weight of capital chasing the asset class is robust. It would be amiss to suggest 2022 passed by without any headwinds; a sharp increase in debt costs resulted in a softening of yields in the closing quarter. We expect a period of exploration for yields in 2023 as these headwinds settle.

Emerging from one of the most challenging operational periods of late, the PBSA sector is acutely aware that tailoring the right balance between amenity provision and pricing is key.

Arguably, an unanticipated positive stemming from the cost-of-living crisis has been a change in student sentiment towards PBSA versus that of the private rented sector. Historically, there has been a perception that PBSA is more expensive relative to the wider private market. However, considering rent and utility cost inflation, more students are opting for the fixed cost model of professionally managed PBSA as they seek to maximise value for money.

As we enter 2023, the continuation of the thematic shift by investors towards beds across Europe coupled with healthy student enrolments and the keen focus of UK universities to enhance their global positions, all bode well for the market. The structural misalignment between demand and supply will continue to underpin the sector with key themes such as the issue of affordability at the forefront of occupier challenges. For investors and operators, research and data has never been more instrumental in navigating this.



**£7.2 billion**  
invested in 2022

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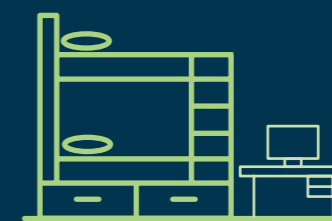
**Investment totalled a record £7.2 billion in 2022, up 69% year-on-year, and notably higher than the long-term average of £4.1 billion over the previous five years.** The strong underlying supply and demand imbalance found in many markets, combined with a strong rental growth outlook, will support further investment into the student sector compared with other real estate asset classes.



**263,000** forecast  
additional full-time  
undergraduates  
between now and  
2030

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**More than 560,000 new undergraduate students have been placed into UK universities or colleges for the 2022-23 academic cycle, according to data from UCAS.** Analysis of ONS population projections, along with entry rates from UCAS, suggests there will be a 16% increase in full-time undergraduate numbers between now and 2030.



**95,000** estimated  
number of new  
bed spaces in the  
planning pipeline

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**New supply isn't keeping pace with increases in student numbers.** There are 25,700 bed spaces currently under construction for the 2023 academic cycle, with a further 69,500 beds with full planning permission granted. Escalating and uncertain build costs, wider inflationary concerns, skills and labour shortages, financing costs, and planning policy all represent notable headwinds limiting future supply.



**2.6%** average rental  
growth in 2021/22

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**Structural supply and demand imbalances in most UK university cities is underpinning rental growth.** We believe UK rental growth for 2022/23 could exceed 5%.

SECTION ONE  
INVESTMENT

# RECORD INVESTMENT, DESPITE ECONOMIC UNCERTAINTY

Record levels of investment were committed to the UK PBSA market last year despite a challenging economic backdrop.

During the first nine months of 2022, just under £3.1 billion was invested in the UK purpose-built student accommodation (PBSA) market, across 54 sales. More than £4 billion was invested in the final quarter, largely accounted for by the sale of the Student Roost portfolio to Greystar for £3.3 billion. It took full year investment for 2022 to a record £7.2 billion.

Such a strong year for investment does hide the challenges faced by the market,

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**While high inflation, rising interest, and higher financing costs have undoubtedly introduced an element of caution to the market, investor appetite remains undeterred.**  
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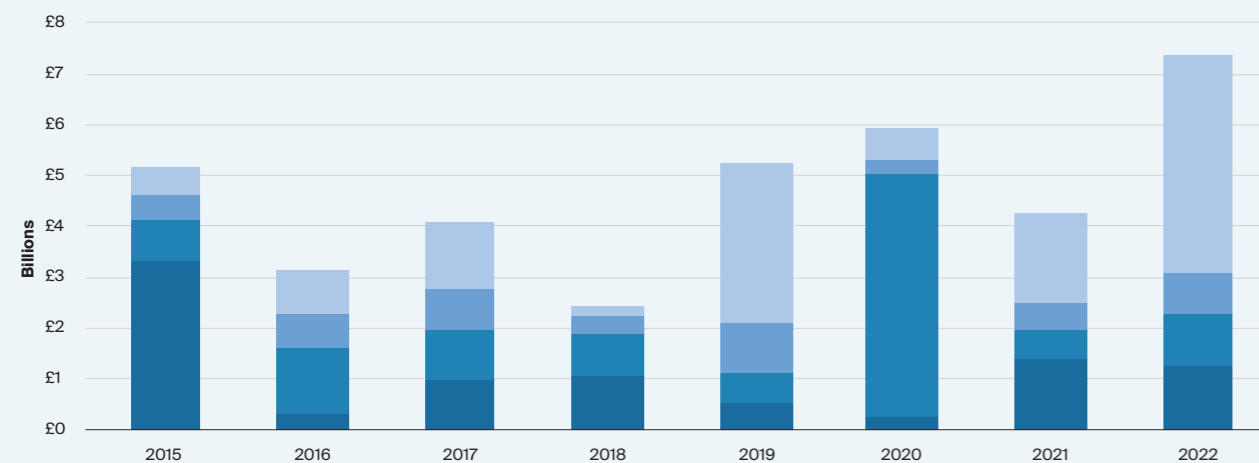
particularly in the second half of the year. Persistently high inflation, rising interest rates and a spike in financing costs have introduced an element of caution and meant that transactional activity slowed in Q4.

Deal volumes are expected to pick up again in 2023 with the counter-cyclical nature of the student market in times of economic stress – student numbers often rise in recessionary periods as people look to up-skill – and the growing shortfall

## Record level of investment into UK PBSA in 2022

Total investment, quarterly

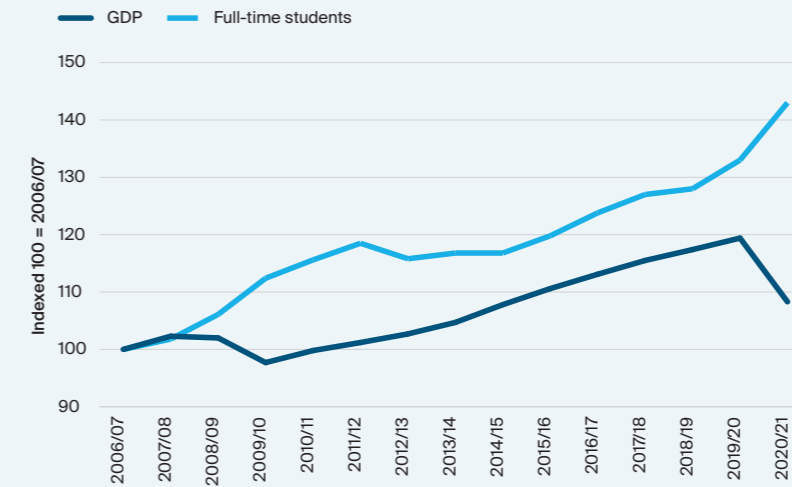
■ Q1 ■ Q2 ■ Q3 ■ Q4



Source: Knight Frank Research

## UK student numbers vs GDP

Index of UK GDP and full-time student numbers



Source: Knight Frank Research, ONS, HESA

of student accommodation in the UK, underpinning the investment case.

### Strong operational performance

During the pandemic occupancy within all types of student accommodation suffered. This has since recovered as students return to university campuses in greater numbers and a more normal pattern of enrolments has resumed. Unite, the UK's largest owner, manager and developer of PBSA, reported that for 2022/23 it had let 99% of beds across

its portfolio, ahead of its previous expectation of 97%. Outperforming occupancy rates are a shared trend across most established schemes, with many operators now running substantial waiting lists in key markets.

### Future growth prospects

As we explore later in the report, high participation rates of both home and overseas students, combined with a growing cohort of UK 18-year-olds, and an ongoing shift of student sentiment

towards PBSA, mean rental growth prospects look positive. This will support investment.

The strongest future rental growth will be in markets where the balance of demand against supply is widening. We expect that rental growth for the 2023/2024 academic cycle could exceed 5% on average across the UK.

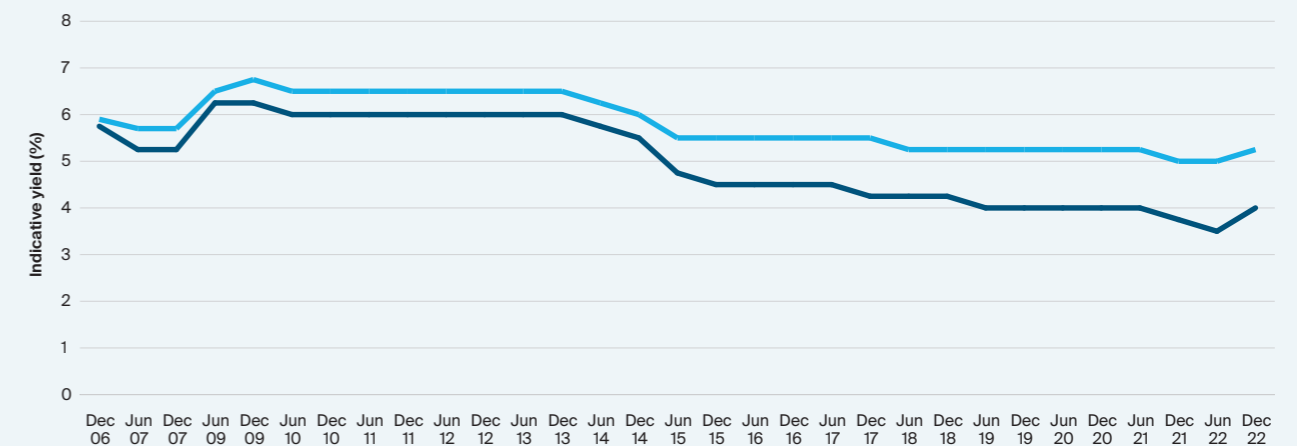
### Yields

Whilst the underlying drivers for investment into student housing remain strong and the weight of capital looking at the sector is substantial, the more challenging economic backdrop and higher financing costs for buyers reliant on debt has resulted in yields softening in the final quarter of the year, rising between 25-50bps since October. We expect there may be a further softening this year, with greater stability and yield compression expected from 2024.

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**Outperforming occupancy rates are a shared trend across most established schemes.**  
◆◆

## PBSA yields

— London - Direct Let — Regional - Direct Let



Source: Knight Frank Research, ONS, HESA

SECTION TWO  
STUDENT NUMBERS AND DEVELOPMENT

# POSITIVE OUTLOOK FOR STUDENT NUMBERS

The number of full-time undergraduates in UK higher education is expected to grow by more than 250,000 between now and 2030.

More than 560,000 new undergraduate students have been placed into UK universities or colleges for the 2022-23 academic cycle, according to data from UCAS, up slightly year-on-year and 4% higher than the comparable pre-pandemic period in 2019 when grades were not teacher assessed. Acceptances have increased by 14% over the last ten years.

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**Undergraduate numbers from outside of the EU have also spiked in recent years, and now account for a record one in ten of all placed applicants.**  
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Rising student numbers have been supported by high levels of participation among UK 18-year-olds – 37.5% of all 18-year-olds were accepted onto courses this academic cycle – as well as an increase in the size of this cohort. Undergraduate numbers from outside of the EU have also spiked in recent years, and now account for a record one in ten of all placed applicants.

Projected increase in full-time undergraduates



Source: Knight Frank Research, UCAS, HESA

## THE JOURNEY TO A MILLION BEN JORDAN, HEAD OF POLICY, UCAS

UCAS is forecasting a significant growth in demand for post-secondary education over the remainder of the decade, with 2026 seeing up to a million undergraduate applicants. This is double the number of applicants seen in 2006, and 250,000 more than 2021.

This growth is driven by an increase in demand from 18-year-olds, mature students and the international market – with two-thirds of this attributable to the growing 18-year-old cohort. This growth is also inconsistent across the UK, with England set to grow by 24%, compared to minimal growth in Northern Ireland.

There is also inconsistency within England, with London leading the way. As a result, UCAS' own accommodation service indicates that some cities may see demand increase by over 70%.

The 'journey to a million' applicants presents a range of challenges to the entire education sector, ranging from how we advise students in a more competitive landscape, to how we ensure these students have access to the right opportunities, how we support those from disadvantaged backgrounds, to we manage increasing

student numbers and promote a positive experience, and ultimately how this increase in students could impact on the wider economy and jobs market.

The student experience is key. These individuals will be expecting a high-quality

study and living experience, which requires careful planning and preparation, as well as collaboration across a range of bodies.

International students, for example, are strongly influenced by accommodation offers. UK higher education attracts applicants from over 200 countries and territories across the globe, and our research has found that 65% of international students considered the availability of the accommodation when choosing their university or college.

This finding is echoed in other UCAS survey results, with availability of accommodation being ranked the third most 'extremely important' factor for international applicants. This means that, as the volume of internationally mobile students continues to grow, the accommodation sector will play a key role in ensuring the UK remains globally competitive.

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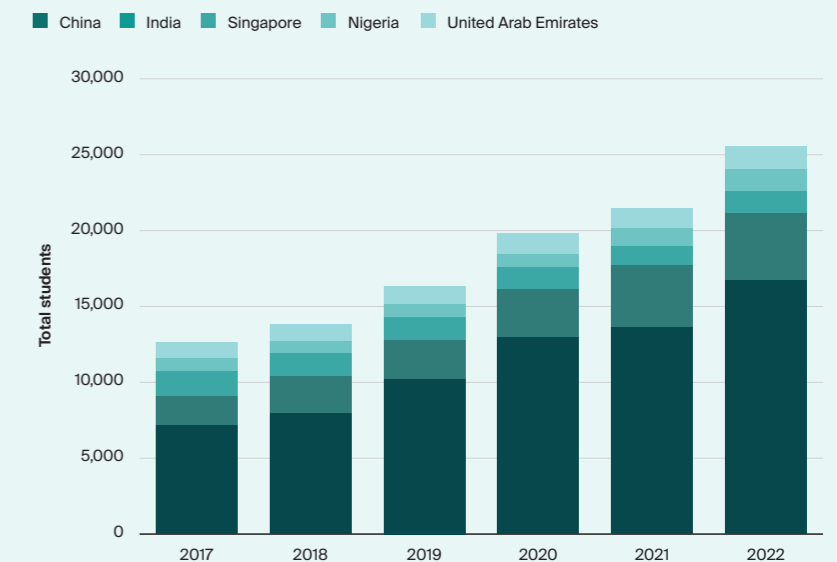
China, India and Hong Kong accounted for the majority of international student demand in the 2022 data, but applicant numbers from Nigeria have seen notable growth of 33% on the previous year.

Rising demand from students travelling from outside of the EU has offset a fall in EU undergraduate numbers. Around 11,000 undergraduates from within the EU started courses this year, 28% fewer than the comparable period in 2021 and 65% lower than in 2020.

Further growth in overall student numbers is expected in the long-term. Knight Frank analysis of ONS population projections, along with entry rates from UCAS, suggests there will be a 16% increase in total full-time undergraduate numbers between now and 2030. In real terms, this would represent an increase of 263,000 students.

Asian and African student numbers on the rise

International applicants by country of domicile



Source: Knight Frank Research, UCAS

### Availability, affordability and deliverability

Accommodating the projected increase in students is a key challenge for the sector, both in terms of the volume of bed spaces required and the choice available to students at different price points, and will put even more pressure on university accommodation.

Analysis of the development pipeline points to 25,700 bed spaces currently under construction and expected to be delivered in time for the 2023 academic cycle. Beyond next year, there are a further 69,500 bed spaces in the pipeline with full planning permission granted. Overall, that means there are an additional 95,000 bed spaces in the planning pipeline.

Delivery is still likely to be dwarfed by the recent and expected growth in student numbers. The shortfall in markets with the strongest historic growth in student numbers, like Bristol and Manchester, is increasing at a rate of over 1,000 bed spaces per year. In both markets, over the last five-years

for every new bed space that has been added to supply each year, three more additional full-time students have been added to the population.

Whilst the latest data from UCAS on the distribution of accepted students shows a row back on the recent elevated enrolment at Russell Group universities. Markets with the most sought after universities remain under supplied with purpose built accommodation.

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**We estimate there are an additional 95,000 bed spaces in the planning pipeline, yet delivery will be dwarfed by recent and expected growth in student numbers.**  
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Delivery of the pipeline will also be challenging in the current climate. Escalating and uncertain build costs, wider inflationary concerns, skills and labour shortages, higher financing costs, and planning policy all represent notable headwinds which could limit future supply.

Any further slowdown in new delivery risks further impacting on affordability, especially given it comes at a time when the supply of rental stock in the wider private rented sector is increasingly constrained. A combination of tax and regulatory changes has put pressure on buy-to-let investors, leading a lot of them to sell up. Across the UK, there were 48% fewer homes available to rent in Q4 2022 than the three-year pre-pandemic average for the quarter.

### Affordability

As with the wider housing market, the key supply-side issues for the sector are availability and affordability. The broader economic outlook for the UK does not currently point to a shift towards an environment where living

costs for students and their parents will become more affordable in the short-term.

Data from our 2022 Student Accommodation Survey, undertaken with our partners UCAS, indicates that cost and value for money remain the most important drivers for students when choosing where to live, as well as the most important factors determining whether to recommend accommodation to new students.

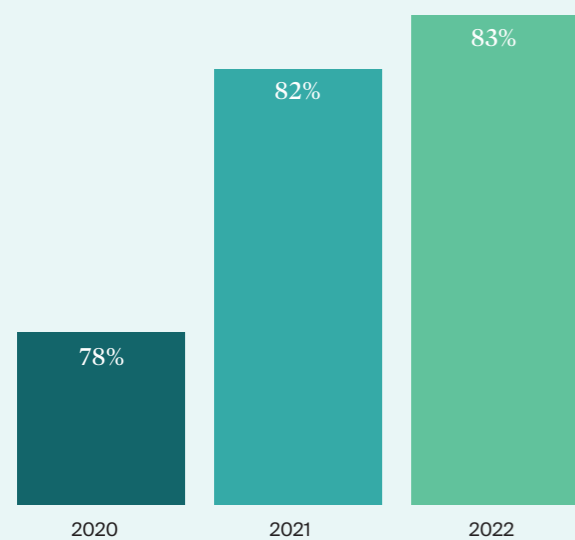
It is encouraging, therefore, that the survey shows PBSA is delivering the highest levels of satisfaction of all accommodation choices. Reflecting this, 80% of students currently living in privately owned and operated PBSA said they would recommend their accommodation to other students, compared with 74% of those living in a houseshare. This is higher than the same response in the 2021 Survey.

Given the narrowing of the all-in cost of accommodation between PBSA and the wider rental market, due to utilities cost inflation, it is likely that the perceived value for money experienced by students in PBSA will also increase. This will drive a greater proportion of students, in all year groups, to live in purpose-built accommodation. It is our expectation that the PBSA sector will accommodate the majority of second- and third-year students by 2030.

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### Student satisfaction with privately operated PBSA

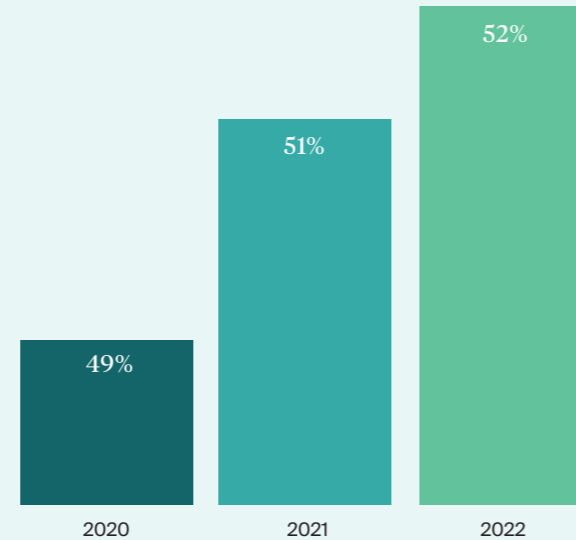
% of students living in private PBSA who said they were satisfied with their accommodation



Source: Knight Frank/UCAS Student Accommodation Survey

### Value for money of privately operated PBSA

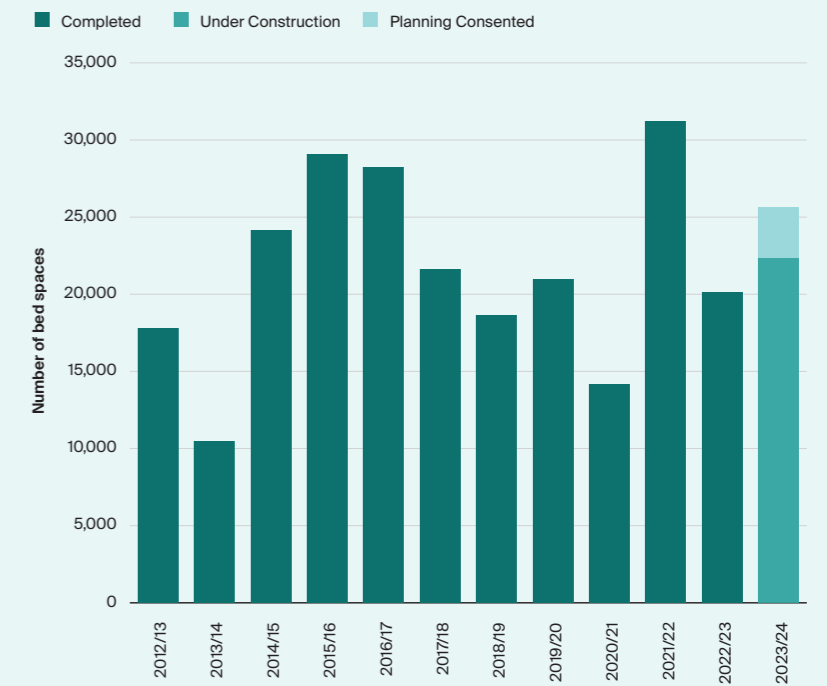
% of students living in private PBSA who rated their accommodation as either 'good' or 'extremely good' value for money



Source: Knight Frank/UCAS Student Accommodation Survey

### Annual PBSA delivery

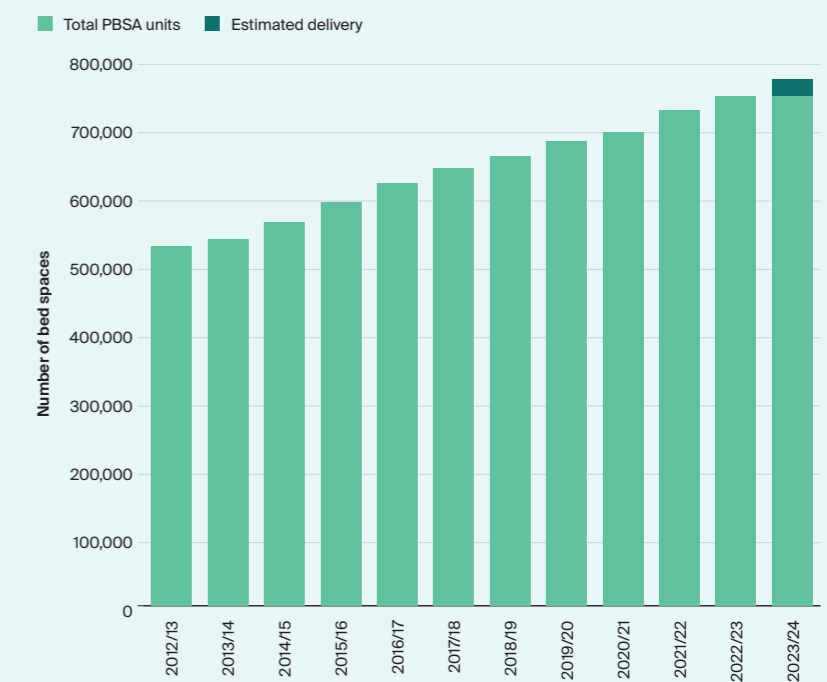
Development pipeline (delivered and forecast)



Source: Knight Frank Research

### Cumulative PBSA delivery

Development pipeline (delivered and forecast)



Source: Knight Frank Research

## PLANNING FOR SUCCESS

CHRIS BENHAM, PLANNING, KNIGHT FRANK

PBSA remains undersupplied across the UK yet whilst the NPPF requires planning authorities to plan for the needs of students, local planning authorities are often resistant to new schemes.

This is despite development plans often acknowledging the role PBSA can play in the wider housing market. To secure planning permission clients often need to offer something special to the local authority and community, and robustly demonstrate compliance with planning policy.

With this in mind, we set out five characteristics of successful applications in London, arguably the location with the most complex planning policy framework.

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**Securing PBSA development in London is increasingly complex and requires more from developers than previously.**  
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### Need

The best needs assessments think broadly about demographic and economic trends and set the scene for not only how many students there are in a catchment, but answer 'why' this is the case. The emphasis must be on examining how student populations are changing – both in terms of the number of students requiring accommodation, but also their propensity to live in PBSA. Local level data is key.

Affordability constraints in the wider private rented sector means that the traditional areas in which students live are being re-drawn. Research must demonstrate this. The best assessments use multiple sources of information to back up conclusions. This includes data from student surveys which demonstrate why students want PBSA over conventional housing stock, the size of local education institutions and their growth plans, as well as indicators of demand such as rental growth and occupancy rates. The GLA has its own methodology on how to establish need, but there are additional datasets to include that make a compelling case for PBSA.

### Link to an HEI

The London Plan brought in a requirement for a nominations agreement from the point of occupation. This transferred the balance of power in commercial discussions about nominations agreements to HEIs and has led to local authorities asking for evidence of a nomination of stock (or a commitment to enter one) early in the planning stage. We often see requests for HEIs to be present in pre-application meetings and requests to demonstrate HEIs are in

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contact with developers before design teams have settled on the scale and quantum of a development. Where expectations cannot be met projects are delayed. Our advice is for developers to do their best to demonstrate a link to a HEI as early as possible. A letter of support at an early pre-application meeting is helpful but engaging the HEI in the planning process as far as is commercially sensible is advisable.

### Design

What constitutes good design remains subjective. There are no specific design standards in most local authorities, but design and planning officers certainly have ideas of what a successful PBSA scheme should deliver. The push for larger room sizes is not yet translating to a clear trend, with cluster beds hovering around the 12-13.5sqm mark for most schemes. What does seem to be becoming a trend is the provision of greater and better designed amenity spaces – both internal and external. Study space, 'zoom rooms', quiet spaces and communal areas all feature. Whilst this adds a cost and is potentially delivered at the expense of additional rooms; improved student satisfaction, higher occupancy, improved room rates and stronger rebooking is the counterbalance.

### Community Benefit

Local authorities, communities and funding partners expect developments to deliver social value. How this is delivered is open for discussion and could include the provision of space within the scheme for a specific community purpose, an occupier with a particularly social purpose with links to the local community, or perhaps some form of outreach programme to be delivered by the developer through the construction process. The other aspect which is

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linked to social value is the contribution to a mixed and balanced community. This concept has no formal definition but typically relates to the balance of student accommodation to residential accommodation within a defined local area. We see this differently. We often advocate that a mixed-use scheme, that offers community benefits in other ways, and which generates employment opportunities through construction and operational phase can deliver against this objective.

Overall, we see that securing PBSA development in London is increasingly complex and requires more from developers than previously. The expectations on the development by the local authorities, the communities they sit within, and the end users are increasing all the time, and those developers willing and able to keep evolving their product to meet these expectations will be the most successful as we enter the next stage of PBSA's maturity. Student accommodation offers an opportunity to deliver social value and to support the requirement for investors to deliver on ESG commitments.

### KEY LONDON PLANNING DELIVERABLES

To optimise the chances of success through the planning process, schemes should:



1.

Be supported by a robust assessment of demand



2.

Have a higher education institution (HEI) associated with the planning application



3.

Offer 35% affordable student accommodation



4.

Put student wellbeing and experience at their forefront



5.

Provide some form of community benefit

SECTION THREE  
RENTAL PERFORMANCE

# A RETURN TO STRONG RENTAL GROWTH

*A return to strong rental growth following the pandemic, but big variations can be seen across markets.*

Headline rental growth for purpose-built student accommodation increased by 2.6% for the 2021/22 academic year, according to Knight Frank's Student Property Index.

The index is a comprehensive study of PBSA rents in the UK, analysing year-on-year growth across 50 cities on a room-by-room basis. But whilst the macro picture shows steady rental growth, individual markets are seeing varying levels of performance, largely dependent on supply and demand dynamics within cities (see map).

Cities with large, growing student populations and modest delivery pipelines, such as Glasgow and Bristol, are outperforming the wider market in terms of rental growth. Cities with a large

volume of existing PBSA stock, as well as healthy development pipelines, such as Sheffield, are reporting more modest growth.

Yet, while markets have experienced different degrees of new supply relative to demand over the last year, it is worth noting that the change in rental values across the sector has been positive in 98% of the cities covered by the index up from 82% in 2021, and that occupancy rates in PBSA remain high. As the balance between demand and supply widens, we anticipate that rental growth in the sector could exceed 5% in 2023.

Steady rental growth for PBSA compares with current double-digit annual increases in the wider private rental market with strong demand for

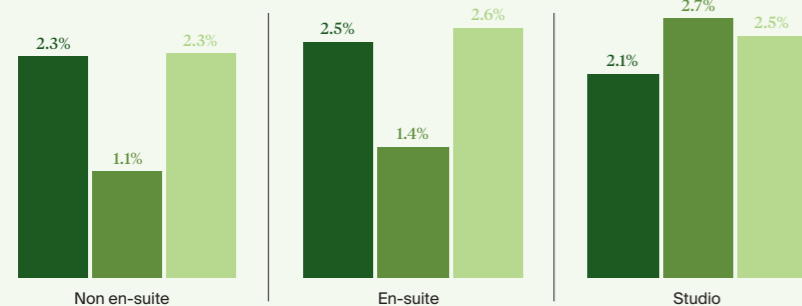
rental accommodation outweighing dwindling supply. This has narrowed the gap between the cost of PBSA relative to renting on the private market.

However, given the fact that PBSA rents are often inclusive of utilities and Wi-Fi, as well as additional on-site amenities, analysis shows that when additional costs including energy bills, insurance and Wi-Fi are included, PBSA offers a more cost-effective option for students compared with the PRS in 80% of the largest university towns and cities.

### Change in PBSA rents

Annual % increase in rents by bed space type

2019/2020 2020/2021 2021/2022

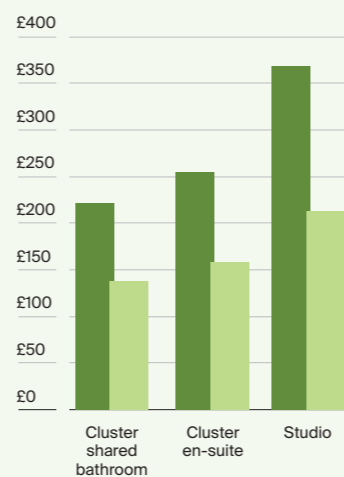


Source: Knight Frank Research

### Average PBSA rents

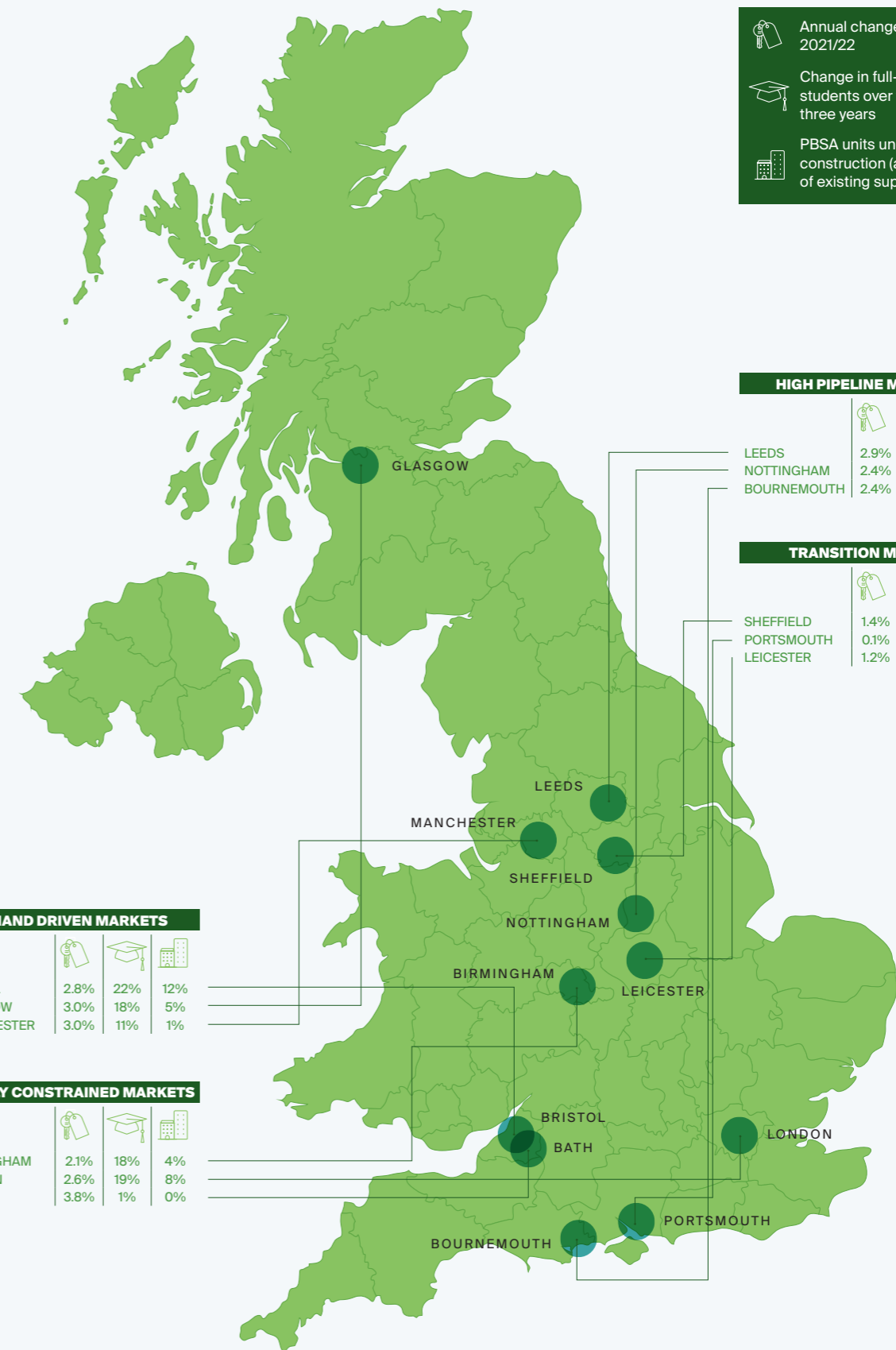
2022/23 academic cycle - self-catered room per person, per week

London Regions



Source: Knight Frank Research

## DEMAND DRIVEN MARKETS



- Annual change in rents in 2021/22
- Change in full-time students over the last three years
- PBSA units under construction (as a % of existing supply)

### HIGH PIPELINE MARKETS

City	Rentals	Students	PBSA
LEEDS	2.9%	19%	11%
NOTTINGHAM	2.4%	19%	13%
BOURNEMOUTH	2.4%	12%	11%

### TRANSITION MARKETS

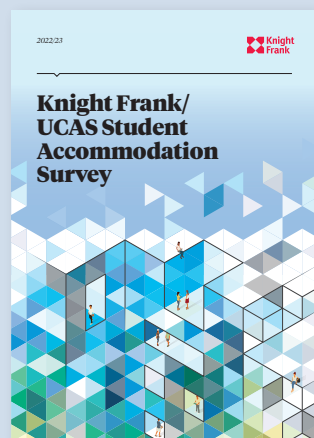
City	Rentals	Students	PBSA
SHEFFIELD	1.4%	5%	3%
PORTSMOUTH	0.1%	19%	2%
LEICESTER	1.2%	2%	9%

### DEMAND DRIVEN MARKETS

City	Rentals	Students	PBSA
BRISTOL	2.8%	22%	12%
GLASGOW	3.0%	18%	5%
MANCHESTER	3.0%	11%	1%

### SUPPLY CONSTRAINED MARKETS

City	Rentals	Students	PBSA
BIRMINGHAM	2.1%	18%	4%
LONDON	2.6%	19%	8%
BATH	3.8%	1%	0%



## COMING SOON

Launching at the end of March, the Knight Frank/UCAS Student Accommodation provides insight into the opinions of over 20,000 students on their university accommodation choices. Now in its fourth year, the opinions, preferences and themes outlined in the report can help the sector plan effectively for the future.

**Sign up here to receive the report directly to your inbox.**

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