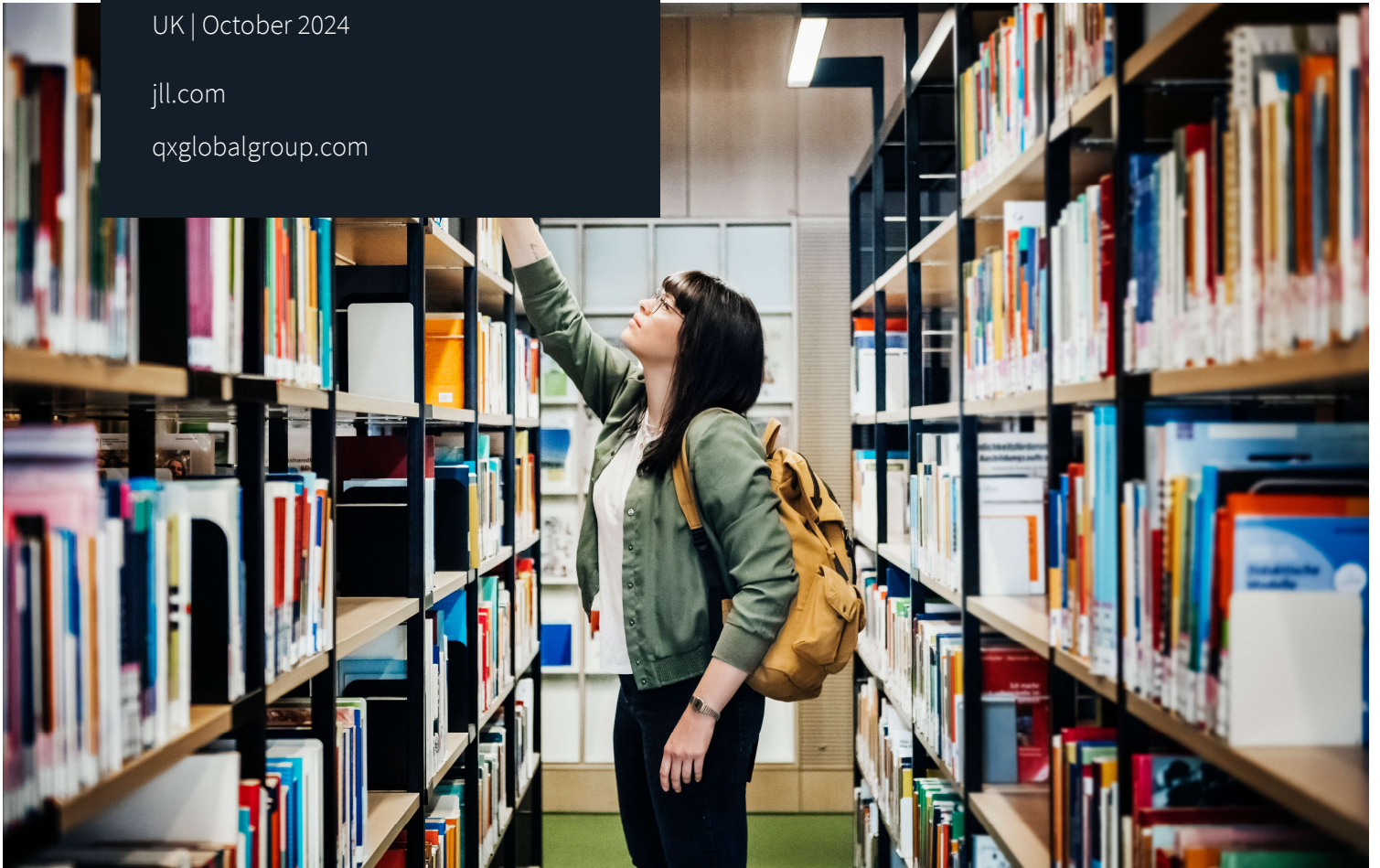


Research

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# Where next for Student Housing?

2024

# The challenge in delivering

The structural undersupply of Purpose-Built Student Accommodation (PBSA) has worsened due to a surge in demand in recent years, causing challenges for students trying to find accommodation during term time.

While international demand has been a significant factor in the UK market, the largest opportunity for meeting unmet demand for PBSA lies within the domestic market. Furthermore, newly released data shows there has been a notable increase in students from lower-income households attending university.

Although there has been a steady increase in the number of PBSA beds, the rate of new bed delivery has not kept pace with the growth in student demand in many towns and cities.

Consequently, universities are increasingly relying on the private sector to meet their accommodation obligations.

Core demand, which refers to the number of students who we would expect to be living in PBSA, remains significantly higher than the overall provision of PBSA, indicating a growing structural undersupply in many regions of the UK.

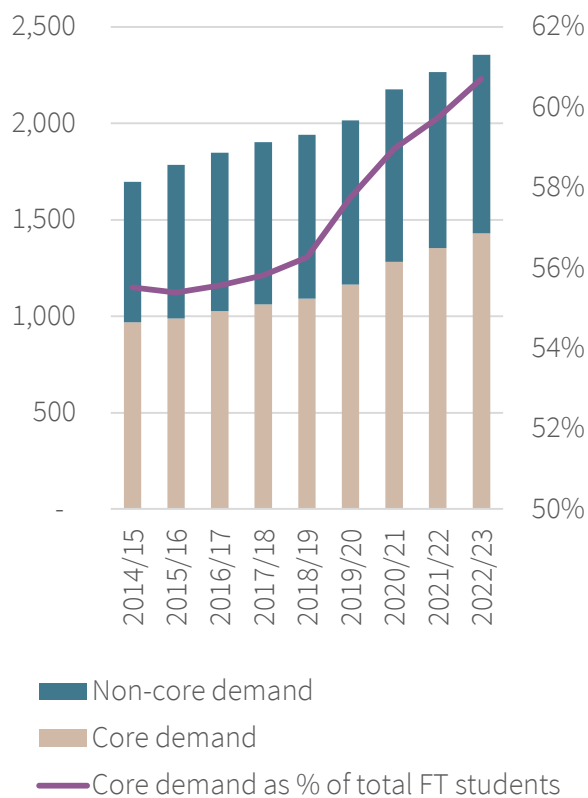
The recent rapid rise in build cost inflation has hindered development viability so is it time to consider other options to deliver beds into the sector? What are the opportunities and will any of them meaningfully improve supply outside the top tier student hotspots?



# 01

## Understanding demand

Number of full-time students ('000s)



The number of full-time university students has grown rapidly in recent years, rising by nearly a quarter in the last half decade alone to 2.36 million in 2022/23. This was accelerated by a spike during the pandemic. Although growth has since eased, it remains higher than the pre-2020 normal.

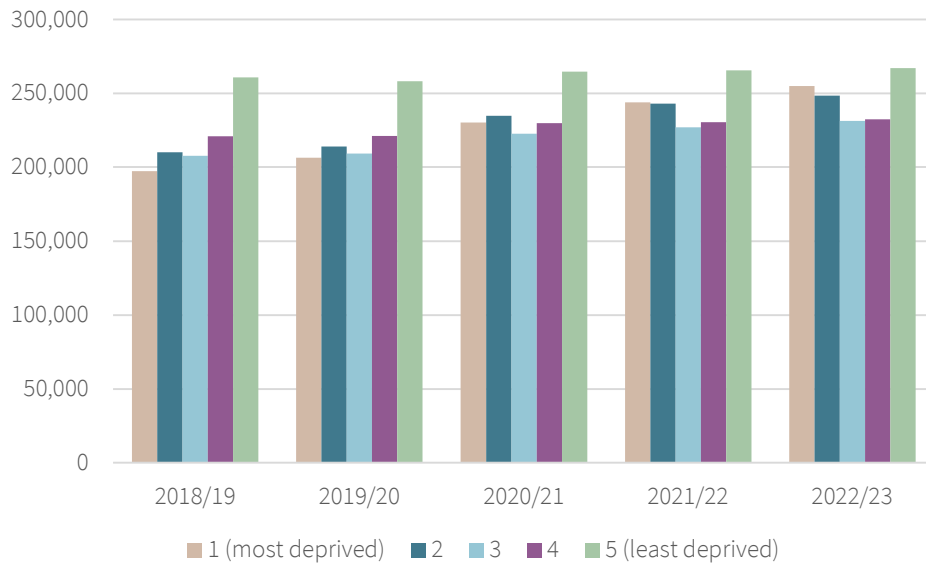
Figures have risen most for students who are typically core drivers of PBSA demand (i.e. first-year UK undergraduates, international undergraduates and all postgraduates).

Since 2014/15, the number of full-time international students has risen 81% (vs 39% for all FT students) and while those from the EU have fallen by 22%, that figure has been more than offset by a 121% rise among those outside the EU.

As a result, core demand now accounts for 61% of the UK's full-time student population, adding additional pressure on the sector to deliver purpose-built housing.

Source: JLL Research, HESA; 'Core demand' comprises first-year UK undergraduates, international undergraduates and all postgraduates

**Full-time students domestic students by household wealth, England**



**29%**

Increase in full-time domestic students from families in the most deprived quintile between 2018 and 2022, compared with a 2.4% increase for those in the least deprived group.

Source: JLL Research, HESA

In recent years, there has been a significant increase in participation rates from lower-income households as widening participation strategies begin to bear fruit and tuition fees continue to fall in real terms.

The two lowest quintiles of household wealth have seen the highest rates of growth in student numbers over the last five years, with the figure from the most deprived quintile rising an impressive 29% between 2018/19 and 2022/23. In that same period, the number from the least deprived quintile grew by just 2.4%. As a result, the lowest income group is starting to catch up with the highest income group as the largest demographic set among students from England.

The uptick in students from more deprived households and from overseas has seen full-time student numbers grow at a rate of more than 3% pa since 2000. Following several years of high growth, JLL and QX Global expect numbers to stabilise and reach between 2.6 and 2.8 million by 2030.

However, new hurdles seem set to slow several years of unabated growth. Visa restrictions introduced in January 2023 bar most international students from bringing their families to the UK while Nigeria, recently the third largest international student cohort in the UK, faces a currency crisis that may continue to impact applications in years to come.

The full effect of these regulatory changes and currency fluctuations remains unclear due to the time lag in the Higher Education Statistics Agency’s (HESA) student data releases. However, according to the University and Colleges Admissions Service (UCAS), international undergraduate applicants to August 2024 fell 2%. The number of sponsored study visa applications, seen as a truer indicator of international student demand, fell 17%.

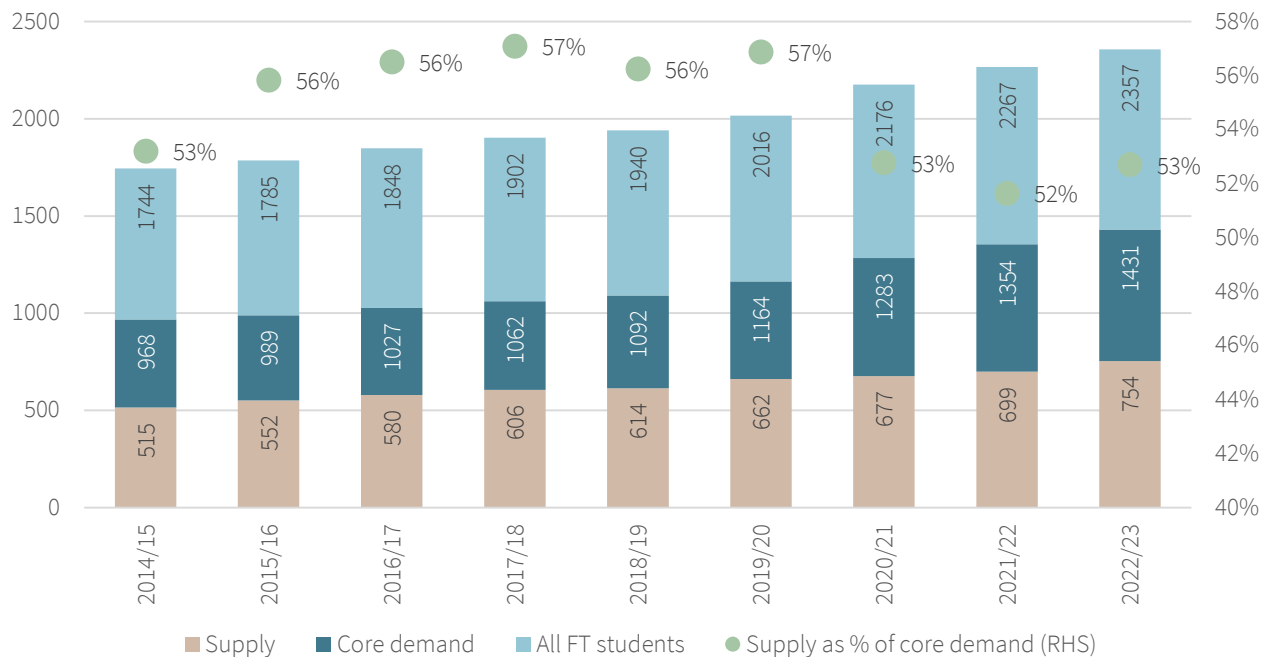
Although we do not yet know the full scale of the slowdown, we do know that it will come from a historically high base and is unlikely to reverse years of undersupply in PBSA, at least in the short and medium term.

# Demand outstrips supply

More markets have seen a fall in PBSA market share due to increase in demand

Despite a steady rise in the size of the PBSA market, and the fluctuating student demographics indicated, supply has failed to keep up with the pace of demand. In 2022/23, there were about 764,000 PBSA beds – or 53% of total core demand. This is down three percentage points on five years prior and recent JLL analysis shows that at the current pace of growth it will fall to 50% by 2030/31. Further pressure could come from future minimum energy efficiency standards, with 107,000 existing beds at risk of obsolescence if they cannot viably be retrofitted.

## PBSA supply and demand ('000s)



Source: JLL Research, HESA

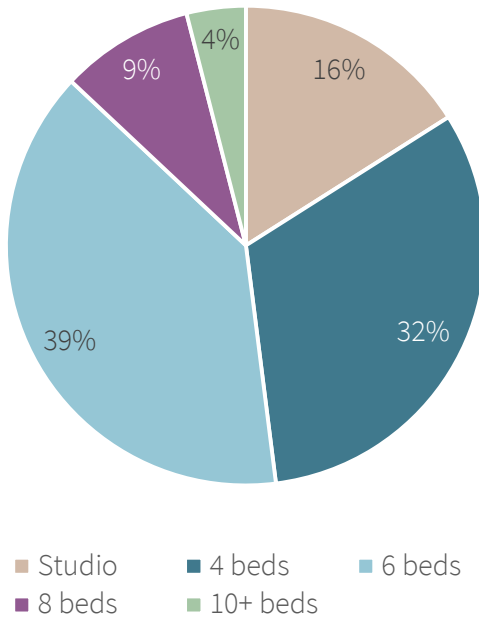
### The Viability Challenge

Despite a healthy demand from current and prospective students, viability challenges continue to impact the sector resulting in a slowdown in new delivery. PBSA, in common with other real estate sectors, has been heavily squeezed by rising construction, raw material, financing and regulatory costs – including the new Building Safety Act – and obligations arising from affordable housing provisions in London and elsewhere. Comparing the increase in build costs with rental growth over the last five years shows the former rising at more than double PBSA rents. Today, delivery in all but the highest value markets (min. £200pw+) remains, at best, challenging and in most cases unviable.

# 02

## What students want

### Student preference when choosing PBSA accommodation



JLL was sponsor for a final year project by a group of business students at University of Bath focussed on the PBSA priorities of students studying in UK.

The results confirm that students continue to favour cluster flat accommodation types over studios, and that smaller apartments of four to six study bedrooms remain the most popular configurations. Unsurprisingly, the market typically builds ‘cluster flats’ comprising rooms in groupings of less than eight.

Although developers of UK PBSA have generally been wary of constructing schemes with 10+ beds in each cluster, examples do exist, albeit principally in the university sector. Could the more efficient net to gross space performance of this type of development unlock viability challenges at the same time as offering much needed more affordable accommodation for students from lower income backgrounds?

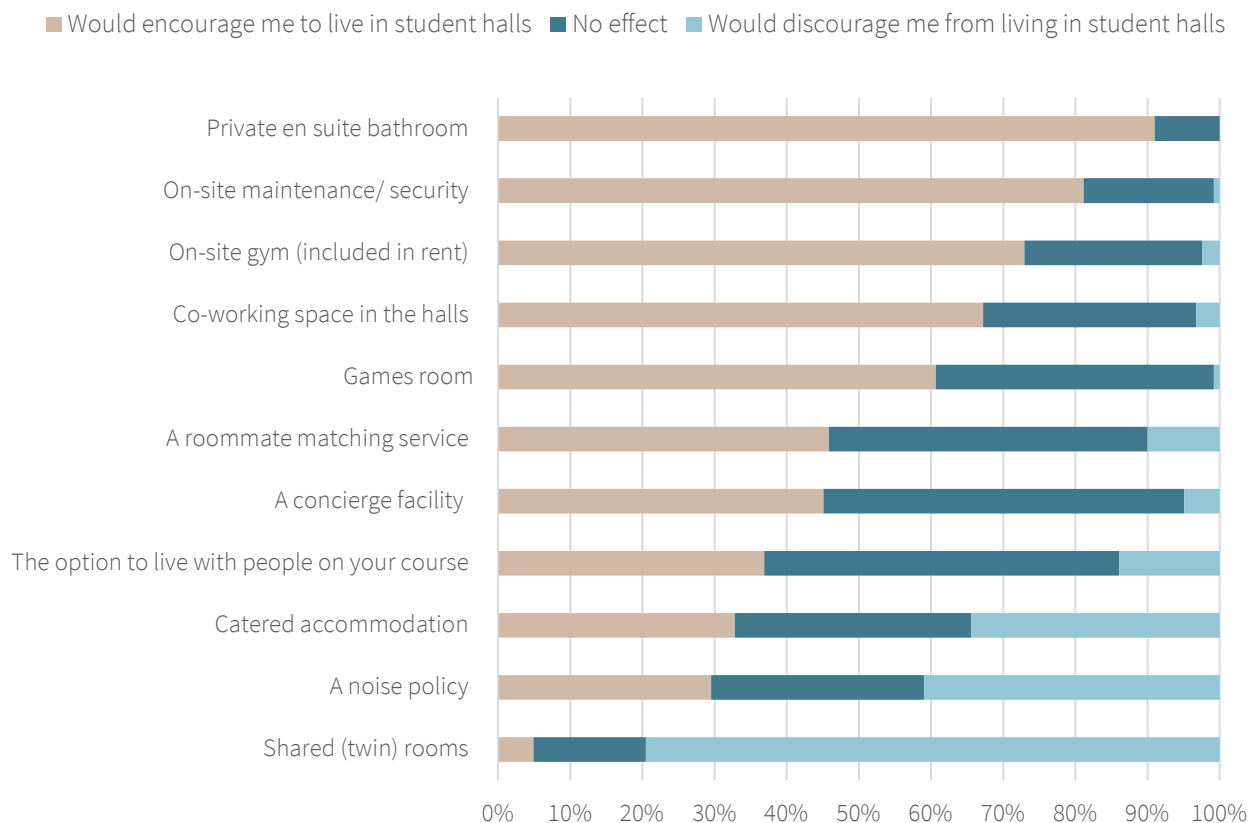
Source: JLL Research, University of Bath

## Student Housing

The Bath research also demonstrates that students still want two other long-standing must-haves of UK PBSA: namely, access to an en suite bathroom and a single occupancy room. Around 80% of respondents reported they would be discouraged from living in PBSA if required to share a bedroom. Catered accommodation scored better but was only attractive to a third of respondents. The research also notes little appetite (29%) for rooms priced at over £200pw. With new PBSA modelled on single en suite rooms arranged in clusters of five to seven rooms generally considered unviable below £200 per week, the disconnect between what students want and how much they are prepared to pay is self-evident.



### How would the following effect your decision in choosing student halls?



Source: JLL Research, University of Bath



## 03 Brave new world or same old scene?

So how does the sector square the circle of delivering more viable – and thus affordable – room types given the clear evidence of students’ perceived priorities?

Twins, non en suites, larger cluster flats and catered accommodation all provide potentially many more beds per land parcel. However, as the Bath survey (and other research including by Student Crowd) demonstrates, these remain unpopular with students. As such, developers and operators of direct let beds, which predominate in the market and historically have made strong returns for investors, seem unlikely to break out of

tried and tested en suite cluster flat and studio models.

One long-standing approach in the market has been university partnerships, where occupancy is either partially or completely de-risked. This continues to offer the main pathway to designs that increase density, thereby lowering per bed construction costs and improving viability (differing yields and financing arrangements notwithstanding).

However, developing university partnerships can be challenging given the financial constraints in HE. The Office for Students – the regulator for higher education in England – recently found that 108 institutions (40%) expected to have a deficit in 2023/24. Nevertheless, recent examples such as Unite Group’s deal with University of Newcastle and Urbanest’s with UCL show viability challenges can be overcome.

Despite historically proven design norms, more price sensitive, lower income, domestic and international students will come to dominate core demand, meaning different approaches to delivery will likely be needed.



## Case Studies

The absence of significant volumes of private provider models that deviate from studio/en suite cluster design norms presents a challenge in terms of analysis. Newer private PBSA developments providing catering barely feature. However, examples of twins, non en suites (including in town houses) and larger clusters can be found, particularly in partnership models.



### University of Lincoln

With funding partners L&G and Abrdn, the University of Lincoln has in the last five years opened a number of schemes containing larger clusters, most notably at 179 High St, where up to 16 students share a single apartment. Larger and smaller cluster flats are currently priced identically. However, the accommodation is targeted at first year undergraduates – returning students would expect lower pricing for larger groups of sharers.



### Urbanest

Urbanest has partnered with several HEIs in London including Kings, LSE and UCL. Their Zone 1 schemes include a proportion of non en suite rooms with cluster flat students sharing bathroom facilities as well as twin rooms. Here, the rent differentials, albeit reflecting central London pricing, are marked. Non en suites in Battersea are £55 pw less than en suites. In Kings Cross the difference is £100 pw, and twin en suite rooms in St Pancras are £105 per person pw less than single en suites.\*

\*rates correct at time of writing



## Conclusion

There is a potential near perfect UK PBSA storm comprising (1) development viability challenges in university towns and cities where market norms do not support rents above £200 pw, (2) core demand growing fastest in lower income segments, both domestic and international, (3) poor student sentiment regarding higher density room types and (4) a consequent developer reluctance to break from tried and tested design models. Factor into the mix an increasing regulatory burden and it suggests something must give.

This paper has shown that some universities and operators, in partnership with their funding and development partners, are prepared to try something different but these schemes are not the norm and most direct let PBSA providers view them with suspicion. In the absence of lengthy university underwrites, which few HEIs are willing or able to enter into given volatile student numbers and a frozen funding model, it is hard to see PBSA design changing radically in the short/medium term.

If the PBSA sector does not evolve, it risks forcing the fast-growing, lower income, domestic student population into different rental sectors and damaging access to UK universities from developing middle-income countries. We have shown that other models are possible despite the difficulties, and both operators and universities should start to consider these options to keep UK PBSA open to all.

## Research authors

### **Karl Tomusk**

*Associate - UK Living  
Research & Strategy*  
Karl.tomusk@jll.com

### **Marcus Dixon**

*Head of UK Living &  
Residential Research*  
Marcus.dixon@jll.com

### **David Tymms**

*Strategic Advisor*  
QX Global  
London  
David.tymms@qxglobalgroup.com

## To find out more about QX Global's services, contact:

### **Philip Hillman**

*Consultant, Living Real Estate Sectors*  
QX Global  
London  
Philip.hillman@qxglobalgroup.com

### **Abhiram Mishra**

*Head, Client Success and RevGen – Europe*  
QX Global  
Noida  
Abhiram.mishra@qxglobalgroup.com

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