

The Student Accommodation Playbook

Key trends and strategies shaping the student accommodation sector in 2023



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Foreword

At Lavanda, our role is to support the evolution of the student accommodation industry and enable it to step forward with ever-increasing confidence.

In that vein, this ebook seeks to highlight the key macro trends shaping the European student accommodation sector, allowing us to explore how investors and operators can align and optimise their strategies to best navigate the outlook for 2023 and beyond.

Our research has identified 3 primary drivers of change. These key trends have been singled out due to the direct impact they have upon core tenets of the student accommodation sector; how students experience higher education and the role and responsibility of accommodation operators within that.

3 key trends:

1. Rising inflation
2. Political & economic instability
3. ESG and the drive for Net Zero

In the pages that follow, we dive into each of these trends individually to briefly summarise what impact they're each having a) upon students and b) upon operators. We've then recommended strategies for operators seeking to mitigate potential risk, or indeed profit from further upside opportunities.



Frederik Lerche-Lerchenborg
CEO, Lavanda

About Lavanda



Lavanda is an award-winning real estate technology company. Our software enables the world's largest, most innovative residential real estate institutions to reimagine their customer experience and optimise asset performance by embracing a fully flexible blend of short, medium and long-term renting.

For more information visit www.getlavanda.com

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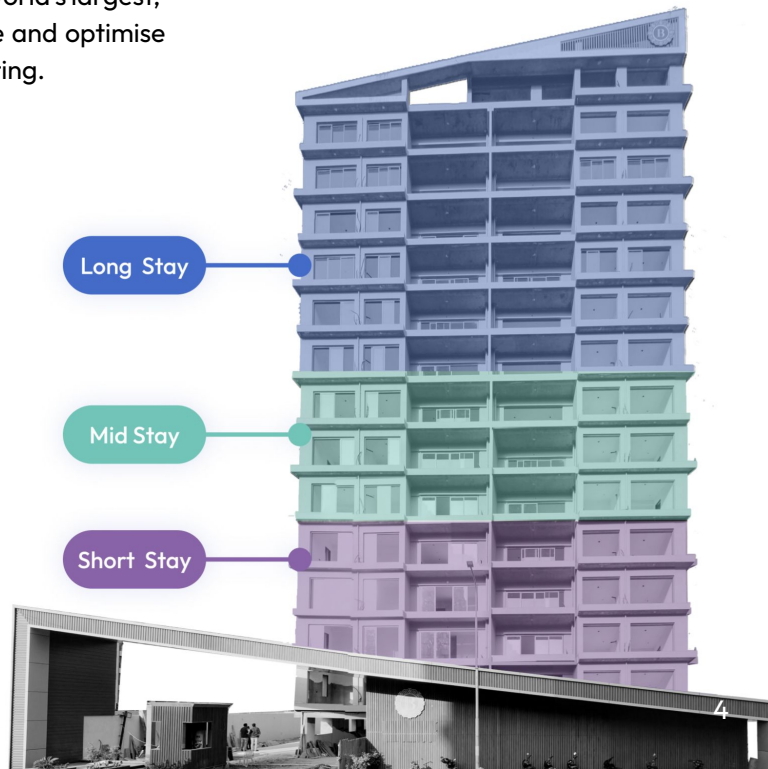


Allianz

Long Stay

Mid Stay

Short Stay



1. Rising inflation



Rising Inflation

Intro

In the twelve months to September 2022, inflation across EU countries hit 10.9%, up from 3.6% just twelve months earlier.¹ In the UK it hit 10.1%.²

The resulting increase in the cost of living permeates every nook and cranny of the economy, and is “public enemy number one” for governments around the world. Though the Bank of England expects inflation to fall sharply from the middle of 2023³, it will then take some time before household incomes start rising again.

At best, the current cost of living crisis is expected to last into late 2023, potentially impacting the 23/24 academic year.

¹ [Eurostat](#)

² [ONS](#)

³ [Bank of England](#)



Rising Inflation

What does it mean for students?

1. Increased cost of living = lower affordability

NUS surveyed 3,500 students in June 2022 and found that 96% of students are having to cut back on their spending, with almost a third left with only £50 a month after paying for bills and rent. At the same time the cost of accommodation has risen by 61% in the last decade.⁴

Whilst many students will be bailed out by “the Bank of Mum and Dad”, it’s important to remember that their savings have also taken a major hit. A separate survey by Unite of 1,000 students and 1,000 parents suggests that two-thirds of students and *nearly three-quarters (73%) of parents* are extremely worried about the increased cost of living.⁵ Many families will need to make radical changes to forecasted spending, meaning available accommodation budgets are likely to be more constrained.

2. Rise in mental health issues

60% of students say that money impacts their mental health, their ability to focus, their ability to look after their health, and their ability to achieve their grades.⁶ This is further compounded by the fact that parents or other family members may be suffering similar challenges at home. Managing the anticipated rise in student mental health issues linked to the cost of living crisis is a key challenge for universities and accommodation providers.

60% of students say that money impacts their mental health.

⁴ [NUS](#)

⁵ [Unite](#)

⁶ [Unite](#)

Rising Inflation

What does it mean for student

1. **Increased development costs**

The rise in the cost of materials and labour means a higher cost for developers, and a higher entry price for investors.

2. **Increased operating costs**

The rising cost of labour means increased cost of property management, maintenance, etc.

3. **Focus on optimising performance and boosting Net Operating Income (NOI)**

The trickle-down effect of higher development costs is that investors then put greater pressure on operators to recoup these costs elsewhere further down the line. Aside from seeking new revenue streams, the only way to do this is through seeking operational efficiencies – a greater challenge than ever given the rising cost of labour.



Rising Inflation

Recommended strategies

Despite challenging headwinds, demand for student accommodation is expected to remain strong in 2023. Though typically a premium student accommodation option, the fact that in most cases utility costs and wifi are included in the price makes this an attractive option given the further rise in utilities and bills to be expected over the next 12 months. In fact, Knight Frank research recently revealed that in 80% of the 16 UK university towns and cities analysed, the average all-in cost of student accommodation was lower than the average for the wider rental market.⁷ Combined with a greater focus on student security, community and wellbeing, it's a compelling option for students and families feeling the pinch.

With strong demand likely, and with manifest challenges facing student renters over the course of the next 18 months, we believe now is the ideal opportunity for student accommodation investors and operators to continue investing heavily in the experience they offer their residents.

1. **Don't pass on additional charges for cost of living increases**

Passing on additional charges will increase the financial burden upon students, and consequently increase the risk of mental health issues. This is a time for operators to support students where and how they need it most; by keeping their cost base as low as possible.

2. **Offer more flexible leases to alleviate the rising cost of renting**

Offering residents greater flexibility is an ideal solution; it enables students to rent in line with their needs and affordability, whilst also freeing up units to be monetised more efficiently through alternative rental channels (e.g. short stays). As a minimum we recommend offering a maximum lease length of 44 weeks, allowing the asset to profit from peak seasonal short stay demand over the summer months.

3. **Train front desk staff to recognise and support mental health risks**

Given the likely toll of financial worries upon the mental health of students, investing in better pastoral care within student accommodation communities is a value-added service that students and parents will prize, as well as being an investment that really reinforces the core values of your brand and community.

⁷ [Knight Frank](#)

Rising Inflation

Key takeaway

Be smart and alleviate the financial burden on students.

The single most impactful way to support students during the cost of living crisis is by minimising their cost base. Moreover, this can be funded without dipping into your own pockets.

By offering students more flexible lease options during the academic year, operators can proactively support students in managing the cost of term-time renting (non-discretionary spend). At the same time, operators can profit from higher short-term rental rates outside of term time and over the summer - i.e. leisure travel (discretionary spend) - introducing new revenue streams and boosting NOI. This not only reduces the most burdensome cost put upon students and their parents, but it also alleviates the greatest risk to their mental health.





2. Political & economic instability



Political & economic instability

Intro

2022 has seen growing political instability destabilise the global economy, wreaking havoc around the world. Russia's invasion of Ukraine, energy scarcity, mounting tensions between China and Taiwan, Brexit repercussions in Europe, the rise of radical right-wing politics in the US - all of these factors continue to polarise states and damage international relations. The UK, long considered to be one of the world's most robust and mature democracies, became the poster child of the turmoil, seeing three different Prime Ministers in just three months.

Yet there's reason to remain hopeful. McKinsey reminds us that progress is relentless, arguing that the world is in fact on the cusp of a new era of prosperity, and that the current turmoil is, in fact symptomatic of that transition.⁸

In the near-term, however, all sectors of the economy are battering down the hatches and preparing for yet further unforeseen headwinds. In this chapter we explore what that could mean for the student accommodation industry.



⁸ [McKinsey](#)

Political & economic instability

What does it mean for students?

Weak job market = more students choosing to study for longer

As companies become increasingly conservative and prepare for a recession, the graduate job market drying up is among the first repercussions. History has shown us that this often leads to students continuing their studies and seeking further qualifications, skilling up to better position themselves for when the job market returns.

Increased risk of radicalisation, bullying & harassment

As nations and politics become increasingly polarised, and as the problem of political disinformation shared across social media sites accelerates, university students are more susceptible than ever to bullying, harassment or radicalisation.



Political & economic instability

What does it mean for student

Is the number of international students subject to volatility?

Growing political instability combined with increasingly fraught international relations are expected to impact demand to study in Europe from countries like Ukraine, Russia and China. It has been mooted in Times Higher Education that Beijing could, for example, limit student flow in response to being labelled a “threat” by the UK government, or as a potential response to further sanctions.⁹

Increased FX volatility

Exchange rate volatility is a direct consequence of the global instability, and will have a major impact on the affordability of studying overseas. The current volatility is expected to persist into 2023 and will undoubtedly shape the decisions of international students.



⁹ [Times Higher Education](#)

Political & economic instability

Recommended strategies

We believe it prudent to expect continued volatility in demand from certain segments of the student population. Social integration and community building also risks becoming more of a challenge, with an increase in bullying, harassment and extremism an unfortunate secondary effect of the turbulent macro backdrop.

So what does this actually mean? Well, volatility is the key thematic. Practically speaking, despite ostensibly strong demand for student accommodation, the risk of term-time voids appearing is pretty high, and could be totally unforeseen; a simple change of circumstance could cause foreign students to cancel their plans, or domestic students to drop out. Either way, it makes sense to hope for the best, whilst preparing for the worst.

1. Train front desk staff to identify and respond to victims of bullying or harassment

As the risk of social and political division between residents increases, so too does the need to protect your community from any unacceptable or toxic behaviour. Training building staff to recognise early signs of bullying, harassment or radicalisation enables you not only to better support victims but also to protect the wellbeing of the wider community.

2. Ensure access to alternative sources of rental demand (e.g. short / medium term)

Term-time voids happen, and when they do you need to be equipped to monetise them as effectively as possible. Make sure that you have protocols in place and are supported by a partner who allows you to quickly and easily optimise any voids as they arise throughout the academic year.

3. Don't overlook revenue opportunities - make money while you can!

When surrounded by economic volatility and political uncertainty, you never quite know what's waiting for you just around the corner. The one thing the pandemic has taught us is that those who put hay in the loft, avoid the cold of winter! Ensure sensible strategies are in place to maximise revenue wherever possible, both during term time and over the high-yielding summer months.

Political & economic instability

Key takeaway

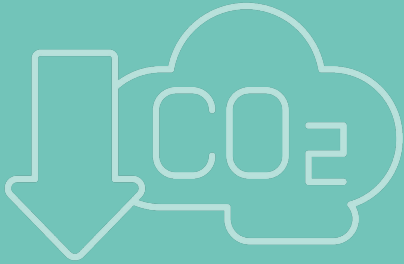
Invest in “all weather assets”

student accommodation operators must invest in “all weather assets” that are agile enough to successfully navigate uncertainty.

By utilising strategies like short, medium and long-term leases – such as summer short stay models, 42-week leases, and year-round strategies that capitalise on travel trends – operators are able to boost revenues during peak seasonality, whilst also nurturing a solution that can be rapidly deployed during periods of low occupancy or crisis. This leads to true long-term revenue resilience.

The industry has already seen global real estate leaders like Brookfield, Starwood Capital and Blackstone recognise the benefits of such strategies, and work is now happening to ensure this efficiency is recognised and rewarded with improved cap rates driving higher asset values.





3. ESG and the drive for Net Zero



ESG and the drive for Net Zero

Intro



According to a 2022 study commissioned by Capital Group, 89% of global investors are ESG adopters, up from 84% in 2021. The number of non-adopters has declined to 1% in 2022 from 3% in 2021, as have those “on the sidelines”, to 10% from 13%.¹⁰ The trend towards ESG investing is mature, yet it continues to accelerate; as investors expand their ESG knowledge base, they increasingly recognise that companies with good sustainable credentials are more likely to outperform. Investors broadly agree that investment returns and sustainable impact go hand in hand.

This trend towards ESG investment is further compounded by the fact that, as an industry, real estate is the single greatest contributor to the carbon problem, driving approximately 39 percent of total global emissions.¹¹ Recent conferences like COP27 are further

painful reminders of the ticking time bomb of climate change, the critical importance of the Net Zero strategy, and, above all, the need to act now.

That need to act now is driving decision-making at every level of every value chain, with student accommodation no exception.

39% of global carbon emissions are produced by the real estate industry.

¹⁰ [Capital Group, ESG Global Study, 2022](#)

¹¹ [McKinsey](#)

ESG and the drive for Net Zero

What does it mean for students?

Students are increasingly making green lifestyle choices.

Growing awareness is leading to students and parents actively opting for greener, more sustainable accommodation options. A 2021 Student.com poll of 1,000 university students found that over half (51%) are looking for features including recycling facilities, solar panels and sustainable furniture when deciding where to live. Roughly 10% say they will only live with people who share the same views on the environment.¹²

30% are willing to pay a premium for green accommodation options.

The same study found that sustainable facilities are a must-have for nearly a third, with 30% willing to pay more for accommodation if the housing has good environmental policies in place.



ESG and the drive for Net Zero

What does it mean for student

The need to communicate ESG performance

Increased scrutiny by students and student accommodation investors means every operator needs to have a clearly defined ESG roadmap, along with the ability to clearly report on their ESG performance.

Is your “green premium” being priced into rents?

As buildings with strong environmental performance tend to be newer, premium assets, it can be challenging to quantify the sustainability premium. Nevertheless, CBRE argues that there’s compelling evidence to suggest that green buildings command higher rents over comparable non-green properties, indicating a potential “brown discount” for properties with relatively weaker environmental performance.¹³

The “S” is a major value driver for student accommodation

The “S” in ESG is for “Social” and recognises the impact buildings have upon their local community, to include aspects like their ability to promote diversity, inclusivity and social mobility. The student accommodation industry can leverage this to create new opportunities for social impact investors – for example, investing in underutilised buildings to transform them into prized assets that demonstrably support and contribute to their local economies.



ESG and the drive for Net Zero

Recommended strategies

Whilst every student accommodation operator is at a different stage in their journey to ESG compliance, the universal truth that galvanises the industry is the urgent need to decarbonise buildings and the processes underpinning their operation. A building's environmental impact, however, whilst overwhelmingly important in the context of climate change and the drive for Net Zero, is only one of the three axes against which ESG performance is measured. Social impact and good governance are also prized.

Of course, no business can transform overnight. Nevertheless, there's a moral obligation on every business to assess where low-hanging fruit exists, to quickly pick off any quick wins, and to put a roadmap in place for more structural or more costly change. With that philosophy in mind, here are some simple strategies that can deliver easy value.

1. **Make commitments and embrace certification.**

Whilst certifications such as LEED, BREAM and NABERS continue to be important measurements of a building's environmental performance, a growing focus is on shifting to initiatives like the World Green Building Council's (WGBC) [Net Zero Carbon Buildings Commitment](#) which calls for all buildings to have net-zero carbon emissions by 2050.

2. **Invest in technology that can support the achievement of ESG goals.**

Technology plays a critical role in helping businesses achieve their ESG objectives - either by optimising asset performance with operating efficiencies, or by unlocking additional benefits/value. When assessing potential technology partners, be sure to score them on their ability to further optimise and add value to your ESG strategy.

3. **Embrace green construction materials and methods.**

Within the 39% of annual global carbon emissions generated by the real estate industry, concrete and steel manufacturing collectively each account for approximately 11%. Viable alternatives, such as timber for example, are significantly more environmentally friendly due to carbon sequestration.

ESG and the drive for Net Zero

Key takeaway

ESG, and specifically decarbonisation, is a priority today.

Aside from the moral obligation to commit to a roadmap to decarbonising your portfolio, failing to communicate your ESG agenda will increasingly alienate student residents and leave you uncompetitive in the market.

Under the umbrella of ESG, however, there are compelling opportunities to create easy social value today. student accommodation is typically prime real estate located in desirable urban locations. These buildings play an important role within their local economy, with residents spending in local shops, bars, restaurants and businesses. Outside of term time, however, the exodus of students leaves local businesses facing a seasonal slump. An effective summer strategy can not only transform the performance of under-utilised buildings, it can very meaningfully transform the economies underpinning the local communities they inhabit.



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