

08

Purpose-Built Student Accommodation (PBSA)

Student numbers are at an all-time high. This is driving strong demand for PBSA, which continues to outpace the supply of available beds. As a result, rental growth prospects for the sector are extremely strong.

Key Takeaways

01

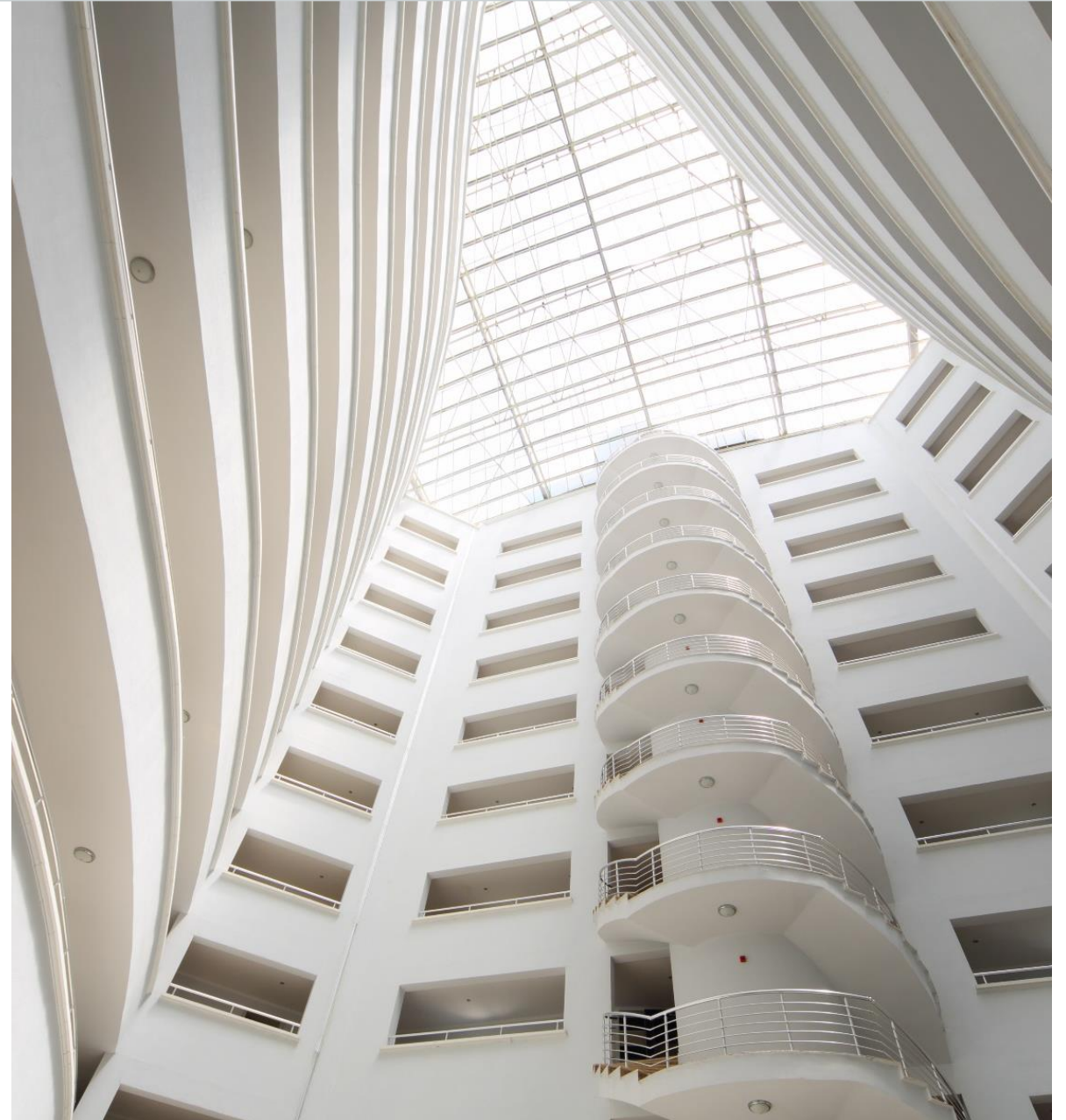
At a macro level, the underlying fundamentals of the PBSA sector have never been in better shape.

02

Overall, the sector continues to be undersupplied but this is highly nuanced. An in-depth understanding of the submarket dynamics is critical.

03

High inflation and rising interest rates will continue to impact the investment market. But this will be offset by the strong return prospects which will drive continued investment into the PBSA sector.



Fundamentals have never been better

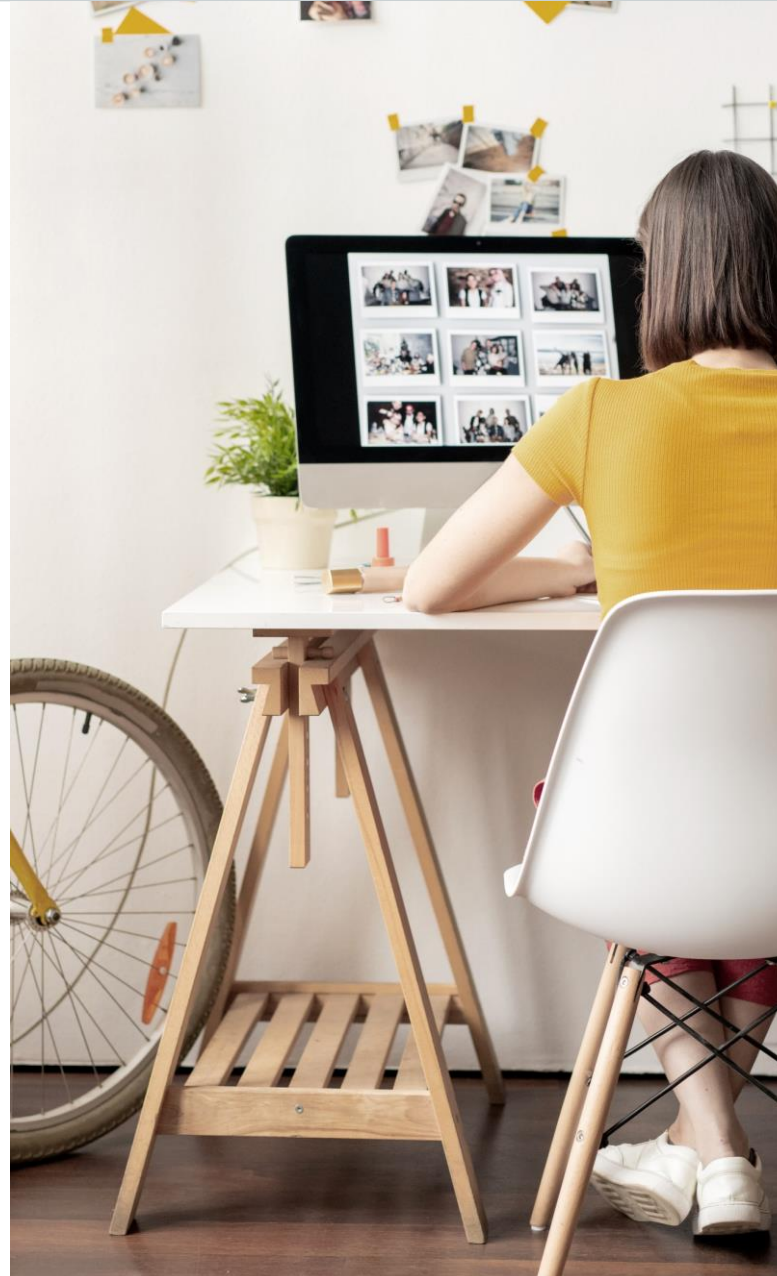
DEMAND WILL REMAIN EXTREMELY STRONG

PBSA demand will remain strong in 2023 as the UK's student population continues to grow. This is underpinned by broad demographic trends, with the population of 18-year-olds forecast to continue rising and increasing participation rates. Historically, recessions have resulted in additional demand for higher education. International student numbers will also continue to grow, building on a record volume in 2022. This will be further driven by the weakening pound, making studying in the UK more attractive. This growth will also offset the fall in students from the European Union, albeit on average, these have only comprised 7% of the UK's higher education population.

In addition, because of increased taxation and further regulation, the supply of Houses in Multiple Occupation for students is falling, which will boost demand for purpose-built accommodation.

SUPPLY WILL CONTINUE TO SLOW

Overall, the development of new PBSA is slowing due to a combination of factors, and this will carry forward into 2023. For example, rising build costs present viability challenges, and the planning system remains a significant barrier to delivery. Rising operational costs will also continue to hinder new development, but positively this should be a more short-term challenge as inflation starts to recede in 2023.



There is, however, an emerging opportunity to reposition legacy PBSA where a new build is unviable. This, and the conversion of office to student accommodation, is likely to increase. Still, any new supply will be concentrated in fewer areas that meet key criteria.

On balance, the growth in demand will continue to significantly outpace the supply. And in certain locations, where the demand and supply imbalance is particularly acute, universities will not be able to guarantee accommodation.

FUNDAMENTALS AND STRONG RETURN PROSPECTS WILL DRIVE INVESTMENT

Occupancy for the 2022/23 academic year is at record levels, and the same is expected for 2023/24. This will create a highly competitive environment and translate into strong rental growth across the sector. This should also give investors comfort that net income growth can be sustained throughout a tumultuous period.

A surge of new entrants will come forward, including overseas investors, attracted by the discount offered by a weaker pound. This, however, will be set against a backdrop of unwilling sellers, which will create competitive tension in the investment market.

Overall, the underlying fundamentals and the prospect of high total returns led by strong rental growth, will continue to drive PBSA investment in 2023.