



Boardroom Briefings: The future of purpose-built student accommodation

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"Just 258,000 new PBSA beds have been added across the UK since 2012, accounting for 35% of total stock. That means that 65% of PBSA stock in the UK was built before 2012." (Knight Frank, 2024).

Is purpose-built student accommodation the new “golden ticket” in the alternative asset sector in the UK?

Knight Frank's Q2 2024 UK Student Market Update reported that investment in UK purpose-built student accommodation (PBSA) topped £1.7 billion in the second quarter of 2024, the strongest quarter for investment since 2022.

The proportion of new PBSA investments passing through the boardrooms at Ogier Global has certainly ratcheted up during 2023 and 2024 with real optimism that the sector offers a huge opportunity to real estate fund managers. Many of our clients have shared their positive sentiment that PBSA offers attractive pricing, a long-income play, strong operational performance and all accompanied by an evident deficit in stock across some key university cities which can be capitalised on.

Purpose-built student accommodation investment has been strong so far in 2024 and there is a clear expectation that both investment activity and rental growth will continue to rise in the sector for the remainder of the year and into 2025, with the Unite Group reporting a leap in rent of 8.2% for the 2024/2025 academic year and predicting a further 4% to 5% rental growth for the 2025/2026 academic year (as reported in Property Week). Despite economic headwinds and uncertainty around a new Labour government, investors recognise the compelling long-term value proposition of student accommodation, especially in a market where demand continues to exceed supply. A PBSA 2024 market outlook report from CBRE has estimated that there is currently a shortfall of 580,000 beds nationally, with many suggesting this could continue to rise rapidly, with Confused.com estimating as high as 621,373 by 2026.

While PBSA supply flounders, student numbers continue to hold strong. CBRE's report also references that data from the Universities and Colleges Admissions Service (UCAS) showed that while university acceptances were down slightly from the previous academic year, they are still 24% higher than the pre-pandemic level in 2019, with occupancy rates for the 2023/2024 academic year being the strongest on record. The fall in students from the European Union (EU) is likely to continue to be offset by strong demand from international students outside the EU. This is reflected in data from UCAS which shows that applications from non-EU students increased by 3.5% in the 2023/2024 academic year to 115,650.

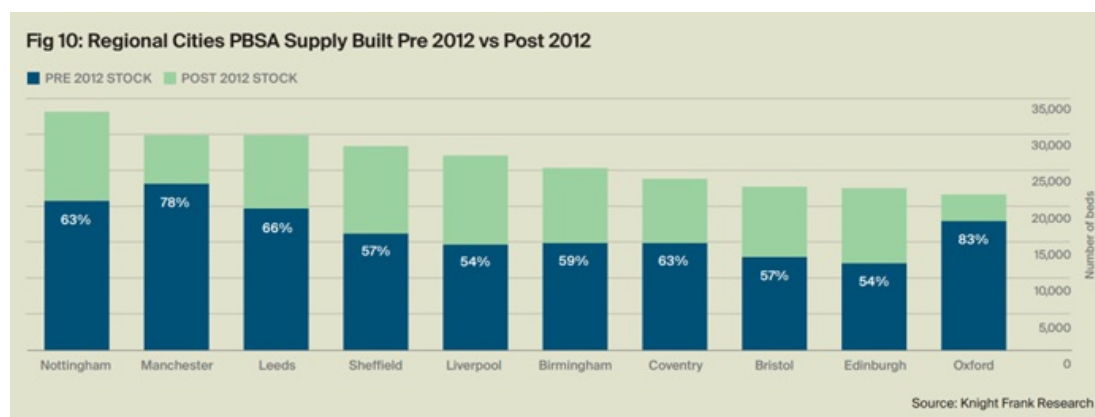
Despite the higher education sector facing what PWC reported as significant financial challenges, the resilience shown in 2024 A-Level results (as shown in the Ofqual infographics here) and the increase in student numbers suggests a promising future for PBSA operators and investors. As demand continues to outpace supply, the sector is well-positioned for healthy occupancy rates and sustained growth.

So why is there such a shortage of supply of purpose-built student accommodation?

Despite the positive growth and future outlook for the sector, it certainly hasn't been plain sailing for investors and developers during the year. Knight Frank's Q2 2024 UK Student Market Update reported that fewer than 17,500 new purpose-built student beds were added to supply for the 2024/25 academic year, representing a marginal 0.6% increase on last year's delivery.

Several constraints have contributed to this slowdown in delivery of PBSA, including high construction costs, increasingly onerous PBSA planning requirements, higher debt costs, skills and labour shortages and changes in building regulations. Many of those headwinds will likely continue for the remainder of 2024 and into early 2025. However, there are some signs of cooling in materials cost inflation reported by BCIS as well as a stabilising of interest rates. This is encouraging and should hopefully provide a platform to escalate development volume during 2025.

In addition, the supply of PBSA has also been further hampered as some older university stock now requires extensive modernisation. Requiring them to not only meet occupier expectations and remain competitive, but to also adhere to new building safety regulations and proposed energy efficiency standards. Currently, 65% of the existing PBSA supply in the UK was built pre-2012 (see [Knight Frank infographic](#) below). presenting a huge challenge with considerable capital expenditure on the horizon for the sector. , But, this also offers a great opportunity for new investors to drive value from retrofitting legacy PBSA stock, particularly where a new build is not a viable option.



Not only do PBSA developers and asset managers need to ensure they are delivering high quality living space, abiding by new building and safety regulations and meeting energy efficiency and sustainability standards, they now also need to adapt to the ever-growing requirements of an evolving and dynamic student population. A survey carried out by Knight Frank focused on the accommodation features students rated as "important" or "very important". This survey showed an increasing demand in features such as good quality communal or social space, gym access, provision of quiet blocks/corridors, increase in trained accommodation workers (e.g. porters, security, for example) and various wellbeing initiatives. These PBSA upgrades along with many others must now be in the forefront of the minds of developers and retrofitters in order to be competitive in the ever-changing PBSA landscape.

Planning reform on the horizon?

One of the key obstacles for the slowdown of new Purpose-built student accommodation developments in the UK has been the glacial speed of the planning approval and decision-making process. Andrew Breach, a senior analyst at the Centre for Cities think tank, in an interview with The New Statesman, explained that the UK has "an unusually dysfunctional discretionary planning system". Although the National Planning Policy Framework was introduced in 2012 to help consolidate national guidance, Breach says that "local authorities have also set their own rules through complex local planning codes, or 'local plans'" and that "every decision is taken case by case, which means that you can propose something that complies with the local plan and it can still be rejected by the planning committee".

The dust settled on some of the political uncertainty in the UK when a Labour government was elected on 4 July. One of the goals majored in the Labour manifesto was to reform the planning system, confirming that commercial development was at the heart of economic growth in the UK. In her first speech as the new Chancellor of the Exchequer, Rachel Reeves stated that Labour promised to grasp the nettle of planning reform, seeing the planning system as "antiquated" and "as a graveyard of economic ambition". Labour's plan is to recruit an additional 300 planning officers to reduce the long planning application determination times and slow local plan preparation. In an attempt to expand the areas in which commercial development (and housing) could be delivered, Labour's consultation proposes the release of some "green belt" land,

predominantly targeting what Labour have coined as “grey belt” land, being the less aesthetic or poor quality sections of the protected 'green belt' land. This is an early positive sign that the arduous planning system is getting the needed attention that the industry has long been crying out for. Only time will tell whether Labour's proposed actions on planning will come to fruition and whether they will be enough to move the needle on the chronic undersupply of PBSA development.

Looking to the future of purpose-built student accommodation

While the challenges of 2024 will likely continue into 2025, not least around planning and the cost of debt, there seems to be a positive outlook that conditions will become more viable and, in turn, we should see a return of institutional investors forward funding new PBSA developments. For many real estate fund managers, the hope will be that leveraging this investment capital will make it possible to address the perpetual shortage of PBSA in the UK university sector, a problem that is likely to only intensify in the next five to 10 years.

A possible future direction for PBSA could be that we see more mixed-use schemes that combine student accommodation with other forms of rental living, such as build-to-rent (Ogier's publication on build to rent trends) and serviced apartments. This flexibility will allow operators to adjust their offerings in response to market demand, which recent events such as COVID have demonstrated, can change very quickly.

Conversion and refurbishment of other types of buildings falling into disuse and becoming 'stranded', such as offices, may also be a potential solution which developers could turn to. This approach ticks some of the boxes on the green agenda for both developers and investors, utilising the circular economy and reusing existing buildings and materials wherever possible to reduce the carbon footprint of the development. But pursuit of this investment route can, at times, be competitive and expensive.. Conversion of these stranded assets generally requires significant capital outlay, an expert advisory team to navigate 'whole life carbon' analysis in the decision to retrofit or rebuild, presents complex completion risk given planning obstacles and extends the investment horizon to exit. Take a look at an earlier Ogier Boardroom Briefings publication on challenges and opportunities of repurposing offices into living sector assets.

The slow growth in new developments coupled with ever-rising rental values has raised some concerns about the future affordability of this accommodation for students. Therefore, as the sector continues to evolve in the coming years, it is important for all stakeholders to monitor and address these issues to ensure that the balance of opportunities for both investors and students remain sustainable into the future.

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