



The Asset Class Student Housing on the rise in Continental Europe

Alternative investment categories are experiencing an upturn in the real-estate industry. Beyond the conventional investment categories of office, industrial, retail and residential, investment levels in the niche sectors are rising. On examining these various alternative categories, it soon becomes apparent that student housing is attracting more attention than most. The investment market for student residential halls is now also growing outside the core markets of the US and UK. As an asset category, student housing is regarded as comparatively secure, and rising student numbers and a lack of affordable accommodation for students in many European cities mean that it involves low risk. The individual attributes of residential halls (and student housing markets) vary from country to country. Consequently, it is worth taking a closer look at the various types. Below is an overview of this up-and-coming non-core asset category by Catella Research.

Micro, serviced or student housing?



Source: Catella Research 2017

First of all, it is important to delimit student housing from other similar types of housing. The boundaries between micro, serviced apartments and student apartments are mostly unclear. Therefore, it is helpful to distinguish between the individual types for a further assessment of student housing.

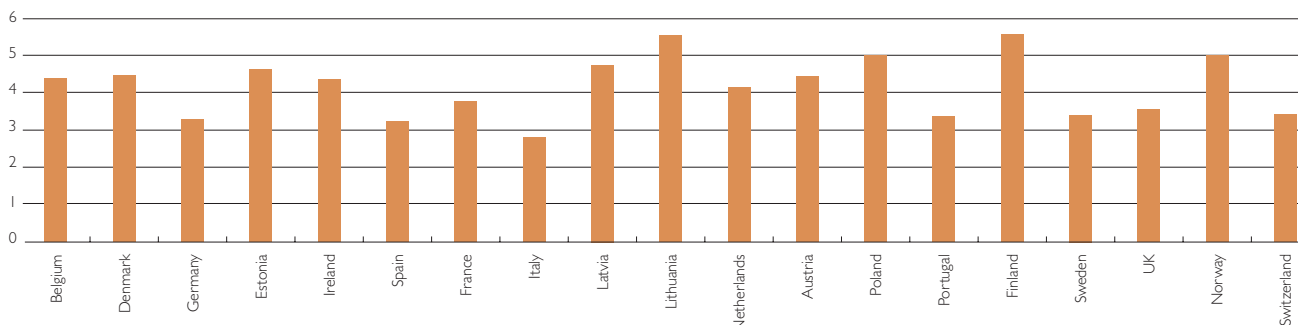
Serviced apartments: Like micro apartments, serviced apartments are fully furnished small apartments that can be rented on a short and long-term basis. The service is equivalent to typical hotel service. This means that conventional services such as changing of towels and bed linen, daily room cleaning and breakfast are available.

Micro apartments: There is no uniform definition for the micro apartments/micro living housing category. In general, this usually refers to a small apartment with space of up to 35 square metres that is usually fully furnished and part of a larger apartment complex. This complex additionally provides services such as a laundry service or mail collection at reception and often has facilities such as a fitness area or a roof-top garden.

Student housing: The student housing category is a very broad term for which there is no absolute, generally applicable definition across Europe. Essentially, it covers all accommodation that is occupied solely by students. This can range from a small one-room apartment to a large five-room apartment: in theory, any form of housing is possible. To aid understanding of the housing type, student housing can be divided into two different subtypes: residential halls and the unregulated market. Residential halls can be operated privately, by the university itself or by a students' union. These different operators also result in significant differences in services in the respective residential halls. For example, the unregulated market designates shared apartments in non-student building or accommodation in private property. Especially in this difficult situation a strong competitive position to the local residential market can develop.

Serviced apartments and micro apartments are also attractive alternative asset categories that aren't as popular with investors as student housing, due to granularity of the offering structure, but are still performing well compared with other potential non-core assets. The main thing that sets student housing apart is that this form of accommodation is usually provided exclusively for students. Rents here are often lower than in serviced apartments or micro apartments, although the student residents receive the same range of services as residents in the other two types of housing.

FIGURE 1: PROPORTION OF STUDENTS IN THE OVERALL POPULATION BY COUNTRY IN %



Source: Catella Research 2017

Catella is a leading specialist in property investments, fund management and banking, with operations in 12 European countries. The group has sales of approximately EUR 211 million and manages assets of approximately EUR 16 billion. Catella is listed on Nasdaq Stockholm in the Mid Cap segment. Read more at catella.com.

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Types of student residential halls

As an investment opportunity, residential halls are a much better prospect in student housing than the unregulated market. However, a closer examination of student residential halls is not as straightforward as it first appears. Catella Research essentially distinguishes between three different types of residential halls:

- residential halls of a students' union,
- private residential halls and
- residential halls of the university

Even so, of these three types, only residential halls in the private sector are in the frame as an investment opportunity.

Student unions: They are responsible for social, financial and cultural concerns of students, in collaboration with (usually) several universities. In addition to the other various areas of responsibility, coordination of student residential halls is one of their main tasks. They work closely with the associated universities on administration and organisation. In France, for example, there are 28 large regional student unions (CROUS), in Germany there are 58 student unions with approx. 184,000 places in residential halls. This operator structure is usually fairly unattractive to investors.

Private student residential halls: The support associations of private student residential halls are usually financed by private companies. Further services and, in some cases, more luxurious facilities than those provided by the students' union are available, albeit at higher rents. As a result, this type of student residential hall is more suitable for investors.

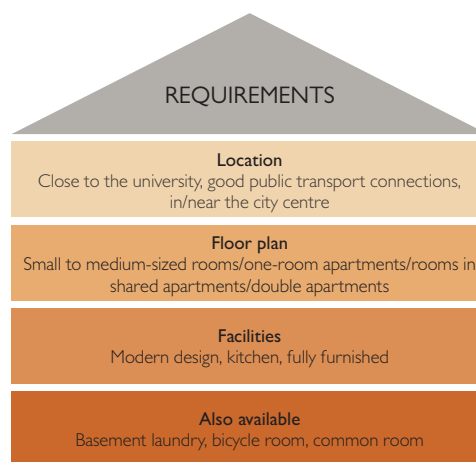
University-managed housing: This model describes housing that is completely managed by the respective university, and can be found in countries including the UK and Spain. The residential halls are usually located in the immediate vicinity of the campus and are mainly provided for students in their first and second semesters (freshman). From the second university year, students usually move to other forms of accommodation.

The "perfect" student housing

A property must meet several requirements if it is to be suitable for use as student housing. The specific requirements depend on the target group's needs. This means that the apartment and room size should be efficient in function, rent level and size. Fundamentally, the investor's perspective is key: a higher rent per square metre can be generated in a small living area, compared with the unregulated market, for example. Furthermore, an infrastructure package, which is specifically tailored to the student target group, includes: fully furnished accommodation, ideally with its own small kitchen unit and additional facilities such as a basement laundry room, a bicycle room and a common room or party room. The location of the property is another key factor. Students need good public transport connections, as, based on the European average, they often do not have a car of their own. In addition, proximity to the university and to a city centre with shopping and entertainment facilities is important. Nearby green spaces for leisure activities are also ideal, although this comes further down the list than the other location factors.

Figure 2 recaps the ideal features of a property for use as student housing. The average tenancy period in student housing is shorter than in other housing segments, depending on the course duration or trips abroad during the course. The advantage here is greater flexibility to adjust rents to current market developments.

FIGURE 2: THE IDEAL STUDENT HOUSING PROPERTY



Source: Catella Research 2017

The analysis of the needs of the target group and the corresponding requirements in terms of the property shows that there are other target groups that would also be suitable for the property, such as senior citizens. They too usually have no need for spacious accommodation. Instead, they prefer to be within walking distance of the city centre or amenities as well as close to a park. A common room is also very important for senior citizens, so they can cultivate social contact with the other residents. This means that it would be entirely possible to reuse a student residential hall as a retirement home. The layout of the building could also be advantageous to other target groups such as young professionals, commuters or tourists. Consequently, reuse is also possible here.

Concept idea: Kaktus Towers, Copenhagen

The Kaktus Towers project in Copenhagen, currently being planned with the involvement of Catella, combines many of the above requirements. A multi-storey building concept generally atypical of student residential halls is being pursued here. Two residential towers 78.3 m and 63.7 m in height are to be constructed, with 15 apartments per floor making for a total of 495 apartments. The almost cylindrical residential towers will have high-quality facilities, with one-room apartments, all of which will have a balcony of up to 10 m², as well as fitness studios, cafés, etc. The building complex will also be close to two universities and the city centre as well as overlooking Copenhagen's waterfront.

Market analysis Student Housing in Europe 2017

Development of student numbers 2003 – 2016

- decreasing growth of student numbers
 - Increase of students by 0 – 10 %
 - Increase of students by 10 – 25 %
 - Increase of students by more than 25 %
- 297 Number of rooms in thousand
- Forecast development student housing market

GERMANY
Highest absolute number of students in Europe; affordable for international students; students' union as a semi-public operator

297 ↗

DENMARK
Very high demand, especially in and around large cities; residential halls primarily in inner-city locations

32.5 ↗

NORWAY
Large volume of university accommodation; otherwise free housing market

23.4 ↗

SWEDEN
Highest proportion of students in student housing; high unmet demand

75.9 ↗

FINLAND
High-quality student residential halls; high proportion of students in residential halls

81.0 →

ESTONIA
Two-room apartments of university; free housing market meeting demand

11.4 →

NETHERLANDS
Conversion of office buildings to student housing; fast-growing market as a result of the large number of international students; trend: student hotel

119 ↗

UK
Second-largest investment market (after US); rising investment in the area around London; trend towards renovating existing properties instead of new construction; very high rents for SH

438 ↗

BELGIUM
Very little university accommodation; free housing market meeting high demand ("kots"); restrictions for international students

53,9 →

IRELAND
Fast-growing student numbers; high demand; mostly university residential halls to date

33,5 ↗

FRANCE
Low number of domestic investors, hence less competition; protectionist market; approx. 60% organised by public students' union CROUS.

275 →

SPAIN
Falling student numbers; residential halls mainly run by university or church organisations, many small private providers of SH

90 →

PORTUGAL
Limited market with isolated private providers; only larger universities offer accommodation

14.0 →

ITALY
Approx. 65% of students live with their parents; very low demand; little university accommodation

34.0 ↘

SWITZERLAND
Few student residential halls; semi-public providers define the existing market; high rents

30.8 ↗

AUSTRIA
High growth rates for student numbers; private providers define the market; high demand covered by free housing market

60.8 ↗

POLAND
Fast-growing market; very high number of students and rising number of international students

135 ↗

LITHUANIA
Two-bed and three-bed rooms at universities; large free housing market

46.4 →

LATVIA
Low proportion of university residential halls; free housing market meeting demand

22.5 →



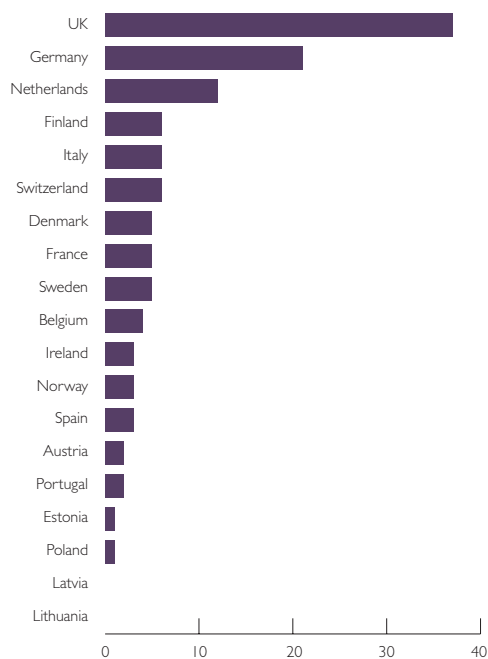
In the whole of Europe, a positive development in the student housing sector can be observed. An especially large percentage increase can be found in Austria (+65%), in Switzerland (+50%), in the Netherlands (+33%) and in Belgium (+31%). Germany has the highest number of students in total in Europe (2,7 million). The largest European market (and second largest worldwide after the US) for student housing is in the UK, though. Here, the development of the asset class is years ahead of continental Europe. The second largest market can be found in Germany (297,000 students in residential halls), the third largest in France (275,000). Viewed relatively, Sweden has the largest proportion of students in student housing, while in Italy almost half of all students still live in their childhood home. A sharp increase of international students can be noticed across Europe. Especially from the Asian and American continents more and more students come to Europe to study, as in most countries the university fees are relatively low and the number of English-speaking university courses is becoming more numerous. Furthermore, the market is shaped by huge dynamics, as can be seen in Spain: the market for student housing is recuperating after years of decreasing student numbers and economic crisis.

The emerging alternative asset category

Student housing in particular is currently experiencing a strong upturn as an investment in the whole of Europe, as certain characteristics of this investment category and forecasts for the future are highly attractive to investors. In contrast with conventional forms of accommodation, demand for this category is counter-cyclical to the economy. This means that during a recession, demand tends to rise, as enrolments at universities increase due to the reduced employment opportunities. Yet high demand is assured even during an economic boom because of the structural lack of accommodation for students, especially in big cities. In addition, the relatively short tenancy period enables flexible adjustment of rents to market trends.

These various characteristics of student housing enable a particularly low risk for investors. Pressure on the employment market is constantly sharpening the focus on academic qualifications. In addition, the number of high-school graduates is rising each year. These two trends are resulting in a stable increase in enrolments per semester. The proportion of foreign students, particularly from Asia, is also continuing to grow. This is mainly because of the mostly low tuition fees and the internationalisation of courses in Europe. All these trends make the student housing asset category attractive, particularly for long-term investments.

FIGURE 3:
NUMBER OF CITIES WITH TOP UNIVERSITIES PER COUNTRY AS PER QS-RANKING* 2016/17



*based on the 400 top positions of the QS World University Ranking 2016/17

Source: Catella Research 2017

FIGURE 4:
TOP 20 STUDENT HOUSING FUNDS IN EUROPE BY INVESTMENT VOLUME 2015 – 2017 IN EURO

FUNDS	VOLUME IN MILLION €
1. CPP Investment Board	1,995.7
2. LetterOne	934.2
3. GIC	812.4
4. Goldman Sachs	744.4
5. Temasek Holdings	566.8
6. Oaktree	359.2
7. Deutsche Real Estate Funds	210.8
8. Bayerische Versorgungskammer	200.0
9. Starwood Capital Group	140.8
10. Catella Real Estate AG	97.8
11. Rikshem	76.0
12. Sampension	60.5
13. Rabobank Pensioenfonds	41.9
14. Global Securities House	27.6
15. Union Investment	25.8
16. Cheyne Capital	21.2
17. Henley Property Investments	21.2
18. Blackstone	18.5
19. Griffin	15.5
20. SP Fund	7.0

Source: Catella Research 2017
Stand as of: 01.02.2017

Focus on the US

The US has by far the biggest market in the world for student housing. At present, 20.7 million students live there. Enrolments are expected to rise further in the future. The market for student housing is almost entirely served by the private sector. Another crucial factor here is the large number of students who live in fraternity and sorority houses, as almost half of all students (around 9 million) belong to student fraternities or sororities. At 6.1%, the prime yield for student housing behind Australia (7.0%) the highest in the world.