All grown up? Market maturity and investment in London's purpose-built student accommodation sector

Purpose

The UK's purpose-built student accommodation (PBSA) sector has seen significant institutional investment in recent decades. This paper unpacks contemporary trends and perspectives on the sector. It questions whether PBSA has moved from being an 'alternative' to 'mainstream' residential asset class, framing the analysis through the lens of market maturity.

Design/methodology/approach

The methods triangulate perspectives drawn from literature on the evolution of PBSA as an asset class with illustrations of investment trends across the UK between 2005 – 2020 using data from Real Capital Analytics (RCA), combined with findings from 40 semi-structured interviews with investors and stakeholders in PBSA in the UK. London is the focus of the work, whilst other regional cities are integrated for comparison.

Findings

The results demonstrate that London's PBSA market is ahead of trends currently being replicated in regional cities. However, the regions currently offer greater return potential and opportunities for risk taking compared to London, where yields are compressed, and the market is considered lower risk. The concept of maturity remains useful as a framework for evaluating markets, however a more granular analysis of sectors is necessary to further understand asset classes within sectors. PBSA continues to trade at a premium across the UK; it is considered the *most* mature residential asset class.

Originality

Our approach offers original insight into investment trends across the UK and is the first to focus reflections on the London market specifically. The research highlights the role of PBSA as a vanguard asset class for investors into residential, situating its growth within the framework of market maturity and drawing out market nuances from interviews.

Practical implications

The emergence of PBSA as an asset class continues to play a developing role within the residential sector and UK investment market. Risk, value, and local context remain key when integrating PBSA into institutional portfolios, and as the first to consider the UK market from a qualitative research approach, this research provides a snapshot of these influences in 2021.

Keywords: maturity, purpose-built student accommodation (PBSA), risk, investment value, London, UK.

Paper type: Research paper.

1. Introduction

Although the traditional asset classes of office, retail and industrial real estate continue to dominate the global investment market, recent decades have seen a substantial increase in institutional capital flows into more 'alternative' sectors. UK allocations to 'non-traditional' real estate increased from 4% in 2005 to 11% in 2015 (IPF, 2015), in sectors such as renewable energy, data centres, serviced offices and healthcare. Residential and purpose-built student accommodation (PBSA) are also defined as 'alternative' asset classes. Considering the continuing growth in investment into PBSA in the UK, this paper questions how this asset class has evolved, theoretically framing the discussion around the concept of market maturity (Keogh & D'Arcy, 1994; Olaleye & Oyinloluwa Adebara, 2019). As far back as 2007 it was suggested that the PBSA sector could no longer be considered as an *emerging* investment opportunity (Savills, 2007), and soon became *mainstream* (Savills, 2015). Is the PBSA sector now *mature*, and if so, what does that mean for practitioners and investors?

The paper focuses on the development of the UK PBSA market, which proved to be one of the most resilient real estate sectors in the wake of the global financial crisis of 2008 (Savills, 2009). This is an asset class whose star is rising; in the UK in 2015 £11bn of investment stock was held as PBSA in portfolios, increasing to £21bn by 2018 (IPF, 2019). Residential investment also increased across this period, from £17bn - £35bn (IPF, 2019). In 2019 the UK market saw £5.4bn worth of PBSA assets traded (Savills, 2020), and 2020 saw the largest ever real estate transaction in the UK market in any sector, as amid the covid-19 pandemic Blackstone purchased iQ Student Accommodation from the Wellcome Trust and Goldman Sachs for £4.66 billion (RCA, 2021). Fifty-eight percent of all investment into PBSA between 2016-19 was cross-border (Savills, 2020).

Considering the increasing appetite for PBSA investment globally and in the UK, academic literature on the topic from a real estate perspective is limited. Ong *et al* (2013) explore the demand for student housing in the US, Sanderson and Özogul (forthcoming) and French *et al* (2018) reflect on opportunities for investment in PBSA across Europe, and Newell and Marzuki (2018) provide the first quantitative analysis of the role of the asset class in multi-asset portfolios. The work by French *et al* (2018: 578) refers to PBSA as 'an untapped and evolving niche market', whilst McIntosh *et al* suggest that 'non-traditional sectors' such as PBSA (2017: 70) should be overweighted in investment portfolios. In this paper we consider whether the UK PBSA market should be redefined as an asset class and explore its continued development towards 'maturity': We also critique the usefulness of such market classifications and revisit their generalised meanings.

We adopt a mixed methodology with three interconnected elements. Firstly, we review relevant literature on the evolution of PBSA as an asset class, incorporating reflections on studentification and market maturity, related market reports and real estate literature. Secondly, we analyse investment trends across the UK between 2005 – 2020, using data from Real Capital Analytics (RCA). Thirdly, we reflect on responses from 40 semi-structured interviews with private sector investors, stakeholders and consultants to illustrate the role of the PBSA market in the UK. London is the focus of the work, as a global city with a large student population and established investment market, whilst other regional cities which have experienced substantial growth in PBSA are integrated for comparison. Risk, value, and local context are discussed in relation to institutional investment into PBSA, and as the first to consider the UK market from a qualitative research approach, this research provides a snapshot of dominant influences on investor decision-making. The structure of the paper broadly follows the methodological approach: sections 2 and 3 review the literature, section 4 provides more detail on the methods, sections 5 and 6 reflect on trends and interview findings, and section 7 presents conclusions.

2. Studentification, internationalisation and commercialisation: Investment drivers of PBSA in the UK

The substantial growth in PBSA development and investment globally has been driven by the confluence of myriad market and non-market influences, however it is essential to recognise that these differ and vary in magnitude between countries (Kenna & Murphy, 2021) and cities, reflecting variegated levels of market maturity. Within the UK the triptych of studentification, internationalisation and commercialisation of higher education has been central to forming the contemporary PBSA investment landscape.

PBSA is an attractive proposition for investors for many reasons (French *et al*., 2018; Revington & August, 2019), but fundamentally because demand substantially exceeds supply overall across the UK. However, on a more granular level across university cities supply and demand dynamics are variegated, with certain markets moving towards oversupply, and others conversely experiencing active demand for PBSA units. The UK has approximately 2.5 million students, of which nearly half a million are from overseas (Eurostat, 2020; UK Higher Education Student Authority, 2020). Literature on studentification from critical geography provides insight into how changes in both the higher education sector and student experience have influenced the real estate market in the UK. The term 'studentification' refers to the 'social, cultural, economic and physical transformations of urban spaces resulting from increasing concentrations of student populations' (Nakazawa, 2016: 1), presenting students as agents of change in the market. Students have become consumers, of both education and accommodation. As well as consistent domestic demand, international student numbers continue to increase in the UK, as student mobility brings 'a new class of transnational urban consumers' (Malet Calvo, 2018: 2142). Local demand and responses of PBSA providers across cities differ, and such differences are 'fuzzy' (Moos *et al*, 2019) across the urban environments. Mulhearn & Franco, for example, suggest that the PBSA market in Liverpool will come to a 'disorderly end' (2018: 477) due to speculative investment and risks of oversupply in the market. Hale & Evans, (2019) also point out that 'in some cities, there is undoubtedly oversupply of student accommodation and questions might be asked about whether investors are being over-exuberant in their attraction to the sector'. In this respect, investment risk can be understood as reflecting downside loss in the future; if an investor has no exit strategy, assets decline, and occupation dwindles. Local differences in the evolution of PBSA in London and regional cities in the UK are explored further in sections 5 & 6.

The university system in the UK has become increasingly entrepreneurial, as student numbers have continued to grow, fees bring in increased income and universities move away from the direct provision of student housing. Paradoxically, the large increase in tuition fees, which might be expected to cause students to economise on living costs, actually shrinks the cost of accommodation as a proportion of overall expenditure. PBSA offers accommodation across a spectrum, from basic shared accommodation to high-end luxury developments with more amenities (Kinton *et al*. 2018). Students increasingly desire and expect high quality accommodation with both private and communal space and comprehensive amenities (Savills, 2018b). There remains a demand/supply imbalance in many towns, in spite of the dramatic increase in PBSA developments, with approximately 2.9 students for every PBSA bed in the UK (Knight Frank, 2019). Through the various methods of accommodation provision detailed by McCann *et al* (2019), Kinton *et al* (2018) suggest that universities have become more disengaged with student experience, rather than enhancing it, by engaging in partnerships and nomination agreements with PBSA providers. This reinforces perspectives on the university sector becoming increasingly commercialised and introduces opportunities for institutional investment into PBSA assets.

In addition to the drivers connected to studentification, internationalisation and commercialisation, PBSA is also influenced by real estate market shifts, attracting significant development and investment attention (see section 1). Assessing total returns between 2011-2017, Newell and Marzuki's research demonstrates that PBSA can be considered a low risk diversifier within multi-asset portfolios, providing 'superior risk adjusted returns' (2018: 523). They also note drivers such as long lease lengths, fewer structural challenges within the asset class, low vacancy rates, professional operating platforms and attractive yields (Newell and Marzuki, 2018: 525-526). PBSA also creates opportunities for the financialisation of the asset class globally (Fiorentino *et al*, 2020). Having considered the catalysts for investment in PBSA in the UK market, the following section presents the theoretical framing for the paper through the concept of maturity.

3. Market maturity: metrics, measures, and meanings?

This research questions whether PBSA has moved from being an 'alternative' to 'mainstream' residential asset class, framing the analysis through the lens of market maturity. These concepts of alternative, mainstream, emerging and mature, have become inculcated into real estate jargon, and we suggest that although they provide a generalised and limited understanding of markets, the language is also a helpful structure through which more in-depth perspectives on local markets can be developed. This concurs with Haran *et al* (2016: 28) who suggest that there is a 'need for greater "granularity" and interpretation of performance within individual countries and across the different real estate sectors when it comes to assessing the viability of perceived investment opportunities offered'. Although their perspective refers to emerging markets, the message remains the same for more mature markets. Jackson & White discuss that in relation to real estate sectors, 'the underlying reasoning behind any grouping of assets is to maximise heterogeneity between the groups and homogeneity within the groups' (2005: 308). Although we don't seek to dispute asset groupings in sectors generally, the PBSA market and the residential market offer different opportunities at a granular level for investors, reflecting somewhat limited homogeneity within the 'residential sector', particularly if they exhibit different levels of perceived maturity in the UK market. Is the residential sector, and the PBSA asset class within it, currently considered to be 'alternative' in deference to the more established and historically embedded traditional real estate sectors, or are they on the cusp of progressing to becoming 'mainstream'? As there is 'no single, universal evolutionary path to be followed by all property markets' (Ke & Sieracki, 2015:6) to shed light on this question, the semi-structured interviews examine market participants' perspectives on definitions and understandings of 'alternative' and 'mainstream', and how these connect to the residential and PBSA sectors.

In 1994, Keogh & D'Arcy introduced their 'paradigm of property market maturity' (1994: 215) through a paper comparing the office markets of London (identified as mature), Barcelona and Milan (both identified as emerging). This research recognised the complexities of real estate markets and integrated perspectives through which market maturity could be interpreted, in addition to economic analyses. The varied yet connected processes at play in real estate markets were identified as key to understanding their level of maturity, and included six characteristics a mature market should fulfil:

- Accommodating a full range of use and investment objectives
- Flexible market adjustment in both the short- and long-run
- A sophisticated property profession with its associated institutions and networks

- Extensive information flows and research activity
- Market openness in spatial, functional, and sectoral terms
- Standardised property rights and market practice (Keogh & D'Arcy, 1994: 219).

From their analysis, we know the London office market can be considered mature, as can the other traditional asset classes, but PBSA may not fulfil all six characteristics. Each of these terms can be addressed from qualitative and quantitative perspectives, through our interviews and market evidence, although the framework may no longer be fully fit for purpose. Chin *et al* (2006) adopt the framework for South-East Asian real estate markets, while Akinbogun *et al* (2014) and Olaleye & Adebara (2019) build on the framework to consider market maturity in Nigeria. The latter paper identifies additional characteristics for consideration including: liquidity, transparency, stability of property values, the economy and the institutional actors within the market.

The most recent analysis of market maturity in the UK residential sector, including the PBSA market, was published by IPF (2021) and reflects responses from their final survey of institutional investment trends into residential real estate. The approach adopted in the report considers specific market indicators of 'maturity', some of which can be more easily measured through market information, and others which can be interpreted subjectively. The increased presence of residential and PBSA assets within institutional portfolios is undeniable. Of the investors surveyed, in 2012 residential investment represented 4.6% of their portfolios, and by 2020 allocation to this sector had increased to almost 13% (2021: 5) 'Diversification' was a key factor in such investments, and 'several interviewees mentioned that they already had considerable exposure to student accommodation and were looking to broaden portfolio focus' (IPF, 2021: 6). The comparative 'maturity' of the PBSA sector was alluded to in these later surveys, for example: 'The volume of investible PBSA property is 10 times that of "build-to-rent" PRS property' (IPF, 2019: 21).

IPF (2020: 7) define market maturity as 'when investors would have the choice to simply buy existing stock', which serves as a tool to gather broad responses on liquidity and turnover. In relation to the UK residential market, only two of those investors surveyed considered the market to have reached maturity, with the majority of respondents considering it would be mature in an additional 3-5 years (16 respondents) or 5-10 years (14 respondents). Specific issues relating to the sector achieving maturity included lack of transactions / turnover, availability, and scale of stock, as well as the time it will take to construct extensive portfolios of residential assets. Scale is also a particular issue in the PBSA market, as some investors consider the asset class too small to incorporate into their portfolio strategies (Newell and Manaf, 2017), and certain investors dominate. However, previous issues such as management are now perceived as less of an obstacle to investors. Our research further unpacks the experiences of stakeholders in PBSA in the UK and revisits the maturity framework in the paper's conclusion.

4. Methodology

Our research methodology is primarily qualitative and is complemented with quantitative data. This mixed-methods approach (Bryman, 2016; Denzin and Lincoln, 2011) triangulates perspectives from the literature review with secondary data on investment flows from Real Capital Analytics (RCA), and findings from semi-structured interviews. This research emerged from one of the work packages of an ongoing European project, entitled '*What is Governed in Cities: Residential Investment Landscapes and the Governance and Regulation of Housing Production*', which considers capital flows into the residential sectors of London, Amsterdam, and Paris [1].

The literature review contextualises the development of PBSA in the UK and London. Research findings around 'studentification' provided a useful bridge between critical geography and real estate and demonstrate the need for more research on the PBSA sector from a property perspective. Theoretical framing for the work revolves around applying the notion of market maturity, as developed by Keogh & D'Arcy (1994) and builds on market reports on 'alternative' and 'maturing' asset classes (IPF, 2015; 2021; Savills, 2020). Investment trends across the UK between 2005 – 2020 are illustrated using data from Real Capital Analytics (RCA). Using RCA data, we isolated the leading investors in the London and UK markets enabling us to evaluate the characteristics of key market actors and consider the role of PBSA in portfolios. Forty semi-structured interviews were carried out between 2019-2021, over a period of 20 months with a range of private sector market actors - investors such as fund managers, asset managers, real estate analysts / researchers and consultants with specialist knowledge across the commercial, residential and PBSA markets in the UK (see Table 1 for the breakdown of interviewees) Interviewees were identified through existing professional networks and industry connections (via LinkedIn for example). Snowballing via interviewees was also used as a strategy to build contacts and extend the network of interviewees. The semi-structured interviews were recorded and transcribed, some were in person, others over online platforms, such as Zoom, throughout the pandemic. All respondents are experienced real estate practitioners and industry specialists based in London, and many have expertise across the UK and wider European markets. Most interviewees (23/40) were investors (representing REITs, private equity, pension, and investment funds). Key findings are anonymised in line with the ethical protocol adopted by the research project and are discussed in section 6.

[1] For more information on this ESRC / ORA funded project see https://whatisgovernedincities.eu/

Table 1: Private Sector Interviewees

Interviewee role	Number of interviewees
Investor (including fund managers / strategists)	23
Researcher / Analyst	6
Asset manager	4
Consultant	7

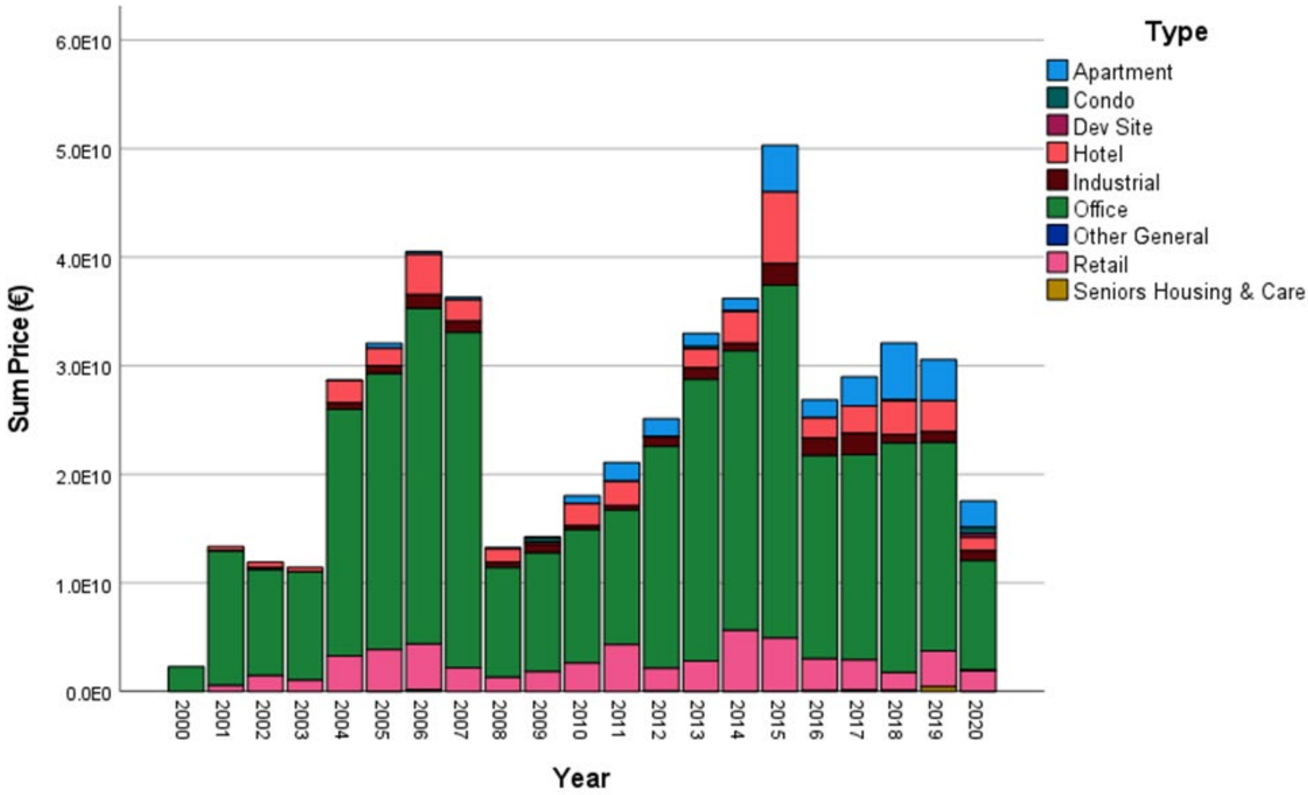
The research concentrates specifically on private sector actors and has not considered the market relations of universities themselves, as their real estate strategies have recently been covered comprehensively by McCann *et al* (2019). The semi-structured interview approach also questions the role of residential and PBSA in portfolios in a qualitative way and builds on the quantitative findings of Newell and Marzuki (2018), which suggest that PBSA is not considered a proxy for residential investment. Themes explored included: the growth and trajectory of PBSA as an institutional asset; perceptions of investment value, risk and return opportunities; the presence of international investors; market concentration, supply and saturation; London specific and regional insights; and reflections on how mature the PBSA sector is currently.

5. Twenty-First Century capital flows and investment trends in London and the UK

London, as a global city, has attracted substantial cross-border and domestic investment into its real estate for centuries, but since the beginning of the 21st Century investors have broadened their focus somewhat, diversifying from the traditional commercial sectors of office, retail and industrial. This is evident from Figure 1, which uses RCA data to show annual investment in London property by sector. The dominance of the office sector is apparent, comprising more than half of the total investment. The increase in capital flows to residential property follows a concerted effort by the UK Government in 2010 to encourage investment to increase the supply of housing in the private rented sector (PRS) (Brill & Durrant, 2021; Montague, 2012). Approximately half of the investment in apartments in Figure 1 was in the PBSA sector.

The total value of UK residential property at the end of 2018 was estimated at £6.8tn (IPF, 2019). Of this, the PRS was assessed to be worth £1.2tn. £35bn of PRS stock was held by mainstream investors, £21bn of which was in the PBSA sector (ibid). The total size of the investible PBSA market has increased from £49bn at the end of 2017 to £55bn at the end of 2018 (ibid), and is now worth more than £60bn (Cushman & Wakefield, 2021).

Figure 1: Investment in Real Estate in London since 2000 (RCA, 2021)



[2]… in London…demand from full-time students is far greater than all the students studying in Manchester, Liverpool, Leeds and Nottingham. In addition, the nature of the student stock being built in London – in particular studios – has impacted on the rapid rise in rents' (Savills, 2009: 3).

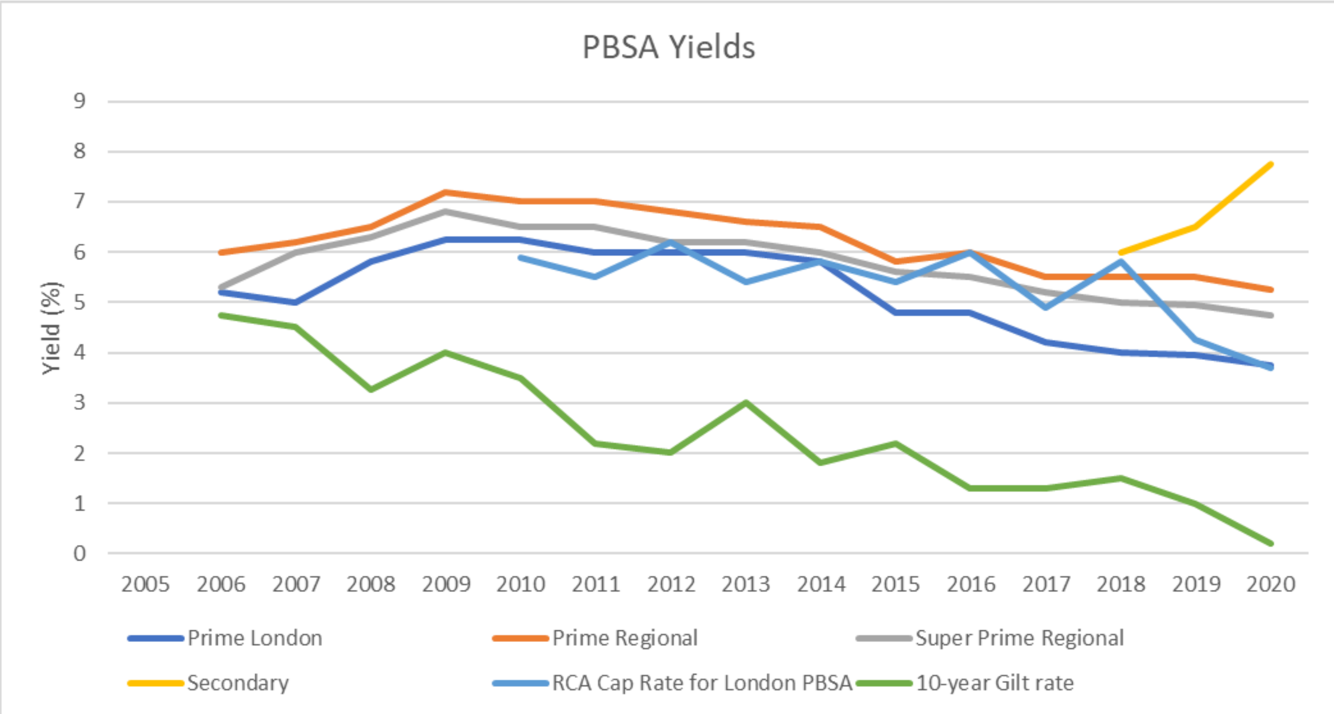
Yields are, of course, a key driver for investors, and those offered by PBSA are attractive. In 2014 'you could buy prime student accommodation assets for yields of 6% to 7%.' In 2019 that was '4% in London and 4.75% for the best assets outside the capital' (Phillips, 2019). For transactions in the RCA database, yields for PBSA in the UK have been around 5-7%, while CBRE (2020) describes tightening yields: 3.75-4% in 2020 compared with 5.3% in 2017. Figures by Savills suggest that 'the volume-weighted average yield in 2017 was 5.7%, reflecting a 4.5% spread to 10-year gilts' i.e., a risk premium of 4.5%' (Savills,

[2] i.e., Purpose-Built Student Halls

2018b: 14). More recent analysis by CBRE shows yields for London PBSA to be 3.97%, while Super Prime Regional PBSA is 4.79% and secondary regional PBSA yields 7.9% (Smith & Pankhurst, 2020).

Figure 2 shows the trends in yields derived from data provided in consultancy reports by CBRE, Savills, Cushman & Wakefield, IPF as well as from RCA. The downward trend in yields is apparent as the PBSA sector became more established. The exception is for student accommodation in secondary regional locations: towns and cities with perceived oversupply issues, new universities, secondary campus locations, etc. (CBRE, 2020; Hale & Evans 2019; Mulhearn & Franco, 2018).

Figure 2: PBSA Yields (derived from RCA (2021), Jones (2020), Smith & Pankhurst (2020), Savills (2020, 2021) & Portlock (2020))



Using RCA's classifications, the largest investors into the UK's PBSA market since 2005 by transaction volume were equity funds, investment managers, developer/owners, pension funds and REITs. The variety of investors active in PBSA in London is evident from Table 2, which ranks the largest PBSA holdings at the end of 2020, according to the RCA database. Two thirds of these investors are domiciled overseas, with half of these having their headquarters in the U.S. Each is likely to have differing costs of capital, target hurdle rates and different intended holding periods. Unite Students, Blackstone, and Greystar, for example, have been involved in substantial portfolio transactions (see Table 3), with the equity funds typically retaining their acquisitions for only a few years, whereas pension funds and insurance companies provide 'patient capital', being willing to hold properties for longer periods and using the steady income stream that PBSA provides to match outgoing liabilities.

Table 2: Investors with the largest holdings of London PBSA in 2020 (RCA, 2021)

Rank	Current Owner	City	Country	Investor Type	No. of Properties
1	Unite Students	Bristol	United Kingdom	Pub. REIT	15
2	Blackstone	New York	United States	Eq. Fund	15
3	Greystar	Charleston	United States	Eq. Fund	14
4	PSP Investments	Ottawa	Canada	Pen. Fund	11
5	Allianz	Munich	Germany	Insurance Co.	11
6	M3 Capital Partners	Chicago	United States	Inv. Mgr.	7
7	Sanctuary Group	Worcester	United Kingdom	Housing Association	6
8	LaSalle	Chicago	United States	Inv. Mgr.	6
9	GCP Student Living	London	United Kingdom	Pub. REIT	5
10	Legal & General	London	United Kingdom	Inv. Mgr.	5
11	Mapletree Investments	Singapore	Singapore	Inv. Mgr.	5
12	Temasek	Singapore	Singapore	SWF	5

Table 3 gives examples of portfolio transactions of UK PBSA, some of which have changed hands more than once over this nine-year period. The Liberty Living and iQ Student Housing portfolios have increased in size over the years as investors acquire properties to add to their existing stock, and benefit from economies of scale. With branded platforms, advertising, lettings, and management overheads decrease as a proportion of overall costs. Brand awareness of the established players is high, and it is advantageous to be able to offer accommodation in a wide variety of locations.

Table 3: Examples of major UK PBSA Portfolio Transactions 2018-20 (RCA, 2021)

Seller	Transaction Details	Buyer
• **Wellcome Trust** UK Endowment • **Greystar** US Equity Fund • **Goldman Sachs** US Equity Fund	**iQ Student Accommodation** £4.6 bn 68 properties **May 2020**	• **Blackstone** US Equity Fund
• **CPP Investment Board** Canadian Pension Fund	**Liberty Living** £2.5 bn 56 properties **Nov 2019**	• **Unite Students** UK REIT
• **Greystar Management** US Equity Fund • **PSP Investments** Canadian Pension Fund	**Chapter** £1.5 bn 10 properties **June 2018**	• **Allianz (Investor as JV)** German Insurance Co.

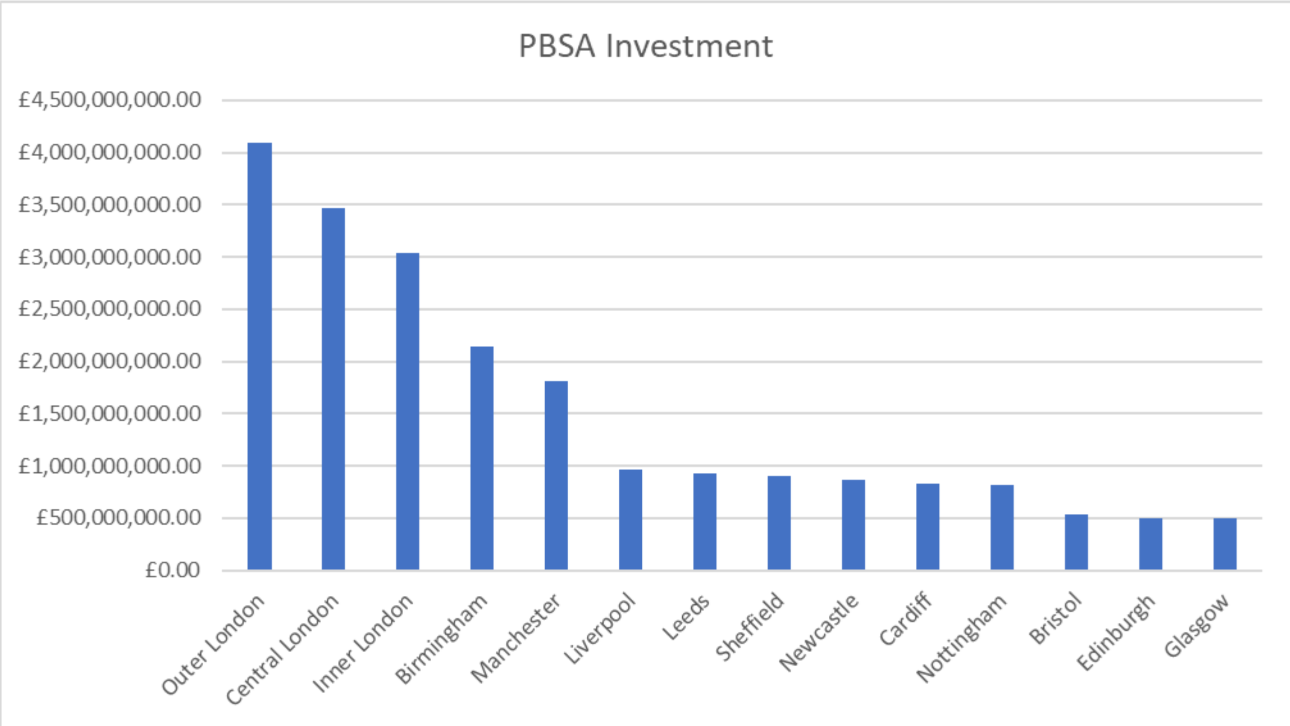
London has more students in higher education than any other UK city, 313,145 full-time students in 2020/21, more than four times the number in the second most populous student city, Birmingham (Savills, 2021). The number of applicants to London universities for 2021 entry increased by 4.6% compared with 2020, despite the Covid-19 pandemic. The London Plan extrapolates from current trends to make projections for student numbers and student accommodation requirements. Based on their assessment, (Greater London Authority, 2018: 3), the statisticians at the GLA estimate that student numbers in London will increase from 93,000 (2015/16) to 171,000 (2041/42), presumably subject to substantial uncertainty. The same source (ibid: 14) uses assumptions about accommodation to estimate PBSA requirements. Their analysis derives the figures for total PBSA need in 2015/16 as 104,835 units, increasing to 171,063 units in 2041/42. University of London Housing Services (ULHS) estimates that there were 83,000 PBSA bedspaces in London in 2016, equating to 'a net need for approximately 88,000 additional PBSA bedspaces between 2016 and 2041 [in London], or 3,500 when annualised over the 25-year period' (ibid: 15).

The lack of available land more recently has meant that development has shifted to outer zones (Cushman & Wakefield, 2021), as 'opportunities for PBSA development in London are highly attractive but they are few and far between' (Savills, 2021: 4) The London Borough of Brent, and Wembley in particular (Zone 4), have seen PBSA developments comprising several thousand rooms over the past few years, with more planned as the area 'is rapidly establishing itself as one of London's key student areas' (Cushman & Wakefield, 2020: 4). The London Plan also requires developers of PBSA to have a nominations agreement in place with a university before they will consider granting planning permission (guaranteeing that the university will underwrite the rent for the number of rooms and years in the agreement), and that a certain proportion of the rooms, typically around one-third, should be 'affordable' (GLA, 2021). Affordability is determined with reference to the 'maintenance loan', the amount UK students can borrow to fund their living costs.

From the earlier discussion of yields, investors are evidently willing to accept lower income returns from PBSA in London compared with elsewhere in the UK. This implies that they perceive London as being of lower risk, and indeed, the ratio of students to student accommodation is favourable for investors. London has 2.2 students per student bed (Cushman & Wakefield, 2020), and 4 students per PBSA bed (Greater London Authority, 2018) (circa 90,000 PBSA beds for 360,000 students including HESA establishments and private universities). Figure 3 shows investment in PBSA for most of the largest UK cities. The dominance of London is evident; even split into the three geographical regions of Central, Inner and Outer London, each of these has attracted greater investment than any of the other cities. Of course, as mentioned previously, London has more students in higher education than any other UK city, and the investment does seem to be proportionate. However, there are active developments in the pipeline: Nottingham, Sheffield, Liverpool, Brighton, and Swansea should each have at least 1,500 new rooms completed during the year (Cushman & Wakefield, 2021). The national development pipeline is 115,000 rooms, of which 15,000 are in London (ibid).

Because rents are higher in PBSA than in HMOs or traditional student houses, competition from lower-cost accommodation is a risk for PBSA operators and renders it unfeasible in certain locations, particularly those which attract fewer overseas students. Some domestic students may also choose to continue to live at home while studying, or prefer HMO accommodation, and the degree to which the ratio of students to PBSA beds is reflective of demand will vary between cities and local market contexts. CBRE (2020) analyses supply and demand for student accommodation in 30 UK cities, identifying those with the greatest shortfall and those which are verging on being oversupplied. From this analysis, Cambridge, Sheffield, Oxford, Liverpool, and Exeter would appear to have sufficient student accommodation already built or in the pipeline. Conversely, Manchester, Nottingham, Leeds, Edinburgh, Brighton, and Bath appear to have scope for a substantial increase in PBSA.

Figure 3: PBSA Investment in the larger UK cities 2005-2020 (RCA, 2021)



Having considered investment flows into PBSA in the UK, in Section 6 we analyse the views of investors and other stakeholders interviewed for this research on their perspectives on PBSA in London and across the UK.

6. London Calling? PBSA investment and market creation in the UK

In line with the literature reviewed on characteristics of maturity, interviewees were broadly in agreement that the PBSA sector should today be considered 'mature'. Although the asset class is now perceived as an established institutional asset class within the umbrella of the residential sector, it was still more frequently referred to as '*non-traditional'* (Investor 18), '*alternative*' (Investor 20) and *'niche'* (Asset Manager 2), rather than 'mainstream'. Such terms are general and broad; they were considered to be '*lazy'* (Investor 18), as the language doesn't reflect the complexities and nuances of real estate assets. However, PBSA was also described as the '*most mainstream of all alternatives'* (Consultant 7), illustrating the strength of the UK market as the '*most institutionally developed globally*' (Investor 18). Although PBSA investment was increasing in the early years of the 21st Century, the drive towards maturity in the UK was seen by interviewees to have taken place post 2008, following the Global Financial Crisis, which dovetails with both extant literature and the investment trends analysed in section five. The trajectory of the PBSA market towards maturity in the UK was defined as a cycle (2010-2017) by Investor 12, who explained that rising rents in 2010 created an attractive yield premium for opportunistic players, who started building or buying PBSA. Specialist operators developed expertise in managing student housing and banks became willing to lend to investors in the sector.

> *'Schemes which were built and stabilised by the opportunistic / value add players were then sold off to core players & institutions, or institutions starting funding the platforms themselves'* (Investor 12).

These various stages of development then fed into discussions on the maturity of the market today. When asking how market maturity could be measured, or defined, respondents echoed a number of the characteristics proposed by Keogh & D'Arcy (1994), the extended framework of Olaleye & Oyinloluwa Adebara (2019) and IPF (2021):

> *'…the entry by institutions into the student housing sector a few years ago and student housing went from nothing to a mature market. It probably took a decade, really, to get there, where people are trading assets on a regular basis and where there are established funds…'* (Investor 10).

> *'I'll define mature in the following ways. The first thing you would need to have is liquidity. The second thing … is a track record of performance, both in terms of rental values and very importantly, the operational capex on these buildings, so what the gross to net is, and the third thing is a record of transactions relative to appraisal values.'* (Investor 20).

> *'PBSA is efficiently-priced, with yields 1% above BTR, reflecting greater management costs and implying a mature market'* (Researcher / Analyst 1).

> *'The majority of our balanced funds would have student housing and, outside of that, probably not a lot of residential exposure'* (Investor / Fund Strategist 1).

These quotes illustrate that to become a mature market in time, there is a need for scale and critical mass, liquidity and regular trading, transparent and available performance indicators, and the ability to accommodate a variety of investment objectives. In relation to the latter point, fund strategists and investment managers typically included PBSA within core or balanced funds, reflecting risk and value perceptions of the asset in the UK, and reinforcing its position as 'mature'. However, that is not to say that there are no higher risk / higher return opportunities within the UK market, due to the granularity (Haran *et al*, 2016) in city markets locally and yield spreads within the UK (see Figure 3). Clearly the market is experiencing some churn at scale (see tables 2 & 3), and those who have taken the initial higher risks earlier in the growth of the sector may be at the point of exiting:

> *'…people like Greystar and all those guys and Blackstone, they're super active. I think a lot of them have come over and applied the US model to the UK and … are quite highly leveraged funds that have a finite time period, so it will be a question of building up a platform, getting up to critical mass and possibly exiting and/or going forward'* (Investor 20).

The PBSA market is also a vanguard for investment into the less developed residential sector. One interviewee commented that the '*UK institutional property market is absolutely dominated by people with expertise in commercial, and not residential, and there is a significant prejudice against resi*' (Asset Manager 2), but that PBSA has been a '*stepping stone'* (Investor 20) into the residential sector more broadly. This was echoed in different ways by other interviewees, who commented that:

> *'Student housing is a good way to enter the resi market and get comfortable with it…'* (Investor 19).

> *'…what's more influenced our progression into residential is the growing student market, understanding student assets and then seeing how they correlate with the wider residential market and just becoming more comfortable with an operational theme and how you manage risk in that context, I think, has been more important'* (Investor 13).

> *'…information is actually quite limited to understand the build to rent and the co-living sector because of its in infancy, whereas we can give you quite a good understanding of student accommodation'* (Consultant 6).

Although management and scale issues are consistently mentioned as challenges in the PBSA market (Newell and Manaf, 2017) this is currently more of an issue in the residential (co-living, build-to-rent) market than PBSA, now that it is a mature asset class, and the residential sector can look to PBSA for best practice guidance on operations. Our interviews indicate that although PBSA is not a proxy for residential investment (in line with Newell and Marzuki, 2018), dominant PBSA operators such as Unite are market creators and can be seen as exemplars of how best to develop and manage large residential units while mediating potential risks. As it continued to grow, *'student accommodation was becoming much more of an acceptable risk in terms of investment value; there was some quite clear guidance coming out from the valuation community about how the different types of student accommodation worked'* (Asset Manager 1). Concomitant to its evolution into an investment grade asset class were changes in the ways in which universities were providing accommodation (see sections 2 and 5), which stimulated growth due to ongoing demand arising from studentification and the continued internationalisation of UK universities. In many ways universities began to outsource student accommodation provision to the real estate market:

> *'it's about supply and demand. It started with universities having halls of residence that they wanted to sell in a lease pack, so they became the operator of that, but they said they would pay the landlord a rent and then operate it in the way that they wanted to operate it, perfectly good model, so it was basically the academic sector wanting to invest in academia as opposed to residential'* (Investor 15).

> *'There's no way that [students are] going to spend £9,000 [on fees] for the sake of £500 or £1,000 a year on accommodation. You need it to be clean, heated, well managed., You need work spaces that you can work with your group, to deliver your work presentations, good WiFi, to be looked after by the management, for there to be easy access to facilities, gyms, sports facilities, so you've got everything you need to make this £9,000 worth it and I think that is an underestimated driver of student accommodation development across the country'* (Asset manager 1).

However, when thinking about the position of London in comparison to other university cities, issues of supply and demand, as well as PBSA provision differ, as do yields and potential returns (see section 5). The risk in the UK PBSA market currently lies in potentially oversupplied university cities, such as Liverpool (Mulhearn & Franco, 2018), and a number of interviewees agree that oversupply is a challenge (Investor 21). Such a scenario may become more problematic considering the macroeconomy of the UK moving forward, and the impacts of Brexit (Investor 20), in more saturated and secondary PBSA markets. London's investment profile is seen to be resilient, due to the strength of the universities and its global city status, as it has '…*more of a draw for international students. If you're coming from various international locations, London's an easy place to digest, whereas your parents might not have heard of smaller cities…'* (Investor 20). From an investment perspective the value of recognition also holds true: '*London will always have an advantage because of name recognition and people always want to invest where they know and so it's much easier to sell a project to an international investor if it's in London'* (Asset Manager 2).

Although there are challenges to developing in London, specifically land and development costs, interviewees agree that the capital is perceived to be unique, undersupplied and not yet saturated in PBSA terms. The market is perceived as complex and multidimensional, with investors able to capitalise by shifting focus to the outer Boroughs, such as Wembley, where PBSA can be built at scale, land is cheaper (relatively) and there is suitable connectivity via infrastructure. The multidimensional nature of the city is also reflected in the yields and the potential for returns:

> *'So secondary is actually 8 at the moment, so you're looking at Central London 3.9, super prime 4.7 and then secondary 8, so there's a real polarisation taking place with the different types of markets across the UK'* (Consultant 6).

Considering yields of 8% in secondary locations, and the potential for diminishing student numbers in secondary cities in the future, interviewees suggested that investors might need to consider alternative uses for their riskier PBSA assets. The local market contexts also influence what else PBSA could be used for – there is potential to adapt for the private rented sector (PRS), but this may not always be possible:

> '*London is easier because they have so many more universities within the area and because the quality of those universities is, typically, quite good and because you can underwrite that asset. If it's not student accommodation, you can rent it out and somebody will take it, whereas if you're in Birmingham, you're not going to rent out an ex-student room, that's ridiculous. The student room in Birmingham is not going to be as nice as the one in London, most likely because you're gearing to a different market, but also because in Birmingham, you can go get a house for half the price, so why would you bother?'* (Investor 19).

Considering the ongoing COVID-19 pandemic, it is likely that local PSBA markets across cities in the UK will experience impacts differently in terms of scale and magnitude, particularly in the short term. Interviewees reflected on the ongoing uncertainty in real estate markets more generally, with negative impacts on pricing, occupancy and returns being felt immediately in the initial stages of the pandemic, from March 2020. Generally, *'there might have been a slight pause for reflection with* *investors, but I think it's gone away'* (Investor 18) and the weaker demand has been *'temporary'* (Consultant 5), especially in the London market. Due to online learning throughout the pandemic, many students did not travel to university, or live in PBSA accommodation during the 2020-21 academic year, however for most universities in nomination agreements with providers the risk impact of interrupted cashflows sits with them, as they act as rental guarantors for PBSA. For some of those universities guaranteeing rent, the '*the situation has created an enormous financial black hole'* even though certain deals which were ongoing throughout COVID have been '*relatively successful*' (Asset Manager 4). Recently, interviewees drew parallels between the student housing market and the residential sector more broadly, suggesting that short term rentals and residential markets, especially in denser cities with high rise living such as London, have been impacted more acutely than the more mature PBSA market, although the latter will be relying on students returning to study this academic year (Consultant 5). Impacts are difficult to qualify, but there is the possibility that supply and demand dynamics may be exacerbated across local markets, with less resilient or over-supplied PBSA markets experiencing more challenging investment environments than those where PBSA demand remains strong.

7. Concluding thoughts

PBSA as an asset class plays a significant role within the residential sector and UK investment market, and this paper presents insight into the practicalities of such investment, while extending perspectives on maturity. Risk, value, and local context remain key when integrating PBSA into institutional portfolios and, as the first to consider the UK market from a qualitative approach, this research provides a snapshot of these influences.

Reductive classifications such as 'mainstream', 'niche' and 'alternative' can be problematic, failing to capture the specifics of investment in nuanced and local real estate contexts. Although these broad categories are subjectively understood by individuals, from a market perspective they prove useful indicators for investors to operationalise when assessing opportunities across markets, sectors and at different levels of granularity. Maturity frameworks can help to understand markets, but the subjectivities of investors and perspectives of the market are difficult to account for through data. Interviewees' knowledge of the London market enabled us to explore contemporary understandings of concepts such as maturity and the role played by PBSA in investment portfolios, across London and other regional cities in the UK.

Our research shows that PBSA has been used by investors to gain a foothold into the UK residential market, with London as the investment vanguard, and the capital's market leading the curve ahead of trends currently being replicated in regional cities where demand for PBSA is strong, with active development pipelines, such as Bath, Manchester and Edinburgh. As capital flows into the PBSA sector continued to increase in the UK, asset values have increased and yields have fallen as the sector has matured. Yields in London are generally lower than in the rest of the UK, although higher yields compensate for risk-taking in London's outer Boroughs. Following the GFC, investors with greater risk appetite, such as opportunistic / value add players became cornerstone operators and key to the PBSA sector's rapid evolution in the UK. Today, the PBSA investment landscape is much more diverse, reflecting a spectrum of investment interests, from lower risk operators such as specialist REIT providers and pension funds, to large scale private equity actors willing to take on more risk (see Table 3 for examples). With diverse investors, sizeable portfolio transactions, increased liquidity, efficient pricing, scale, and flexibility in the UK market, the sector can now be considered 'mature'. Although interviewees agreed that PBSA could now broadly be considered as a mature asset class, it is still not mainstream, and several respondents suggested that perceptions on maturity typically vary by degree.

However, another indicator of maturity is the ability to support a variety of investment objectives: in this respect the regional university cities offer opportunities for higher risk investments and enhanced returns. Diversification opportunities contrast across PBSA in regional cities in the UK, and this is where the importance of granular knowledge at local market level becomes key: pricing may be more attractive and yields higher, but market saturation, oversupply and diminishing occupancy appear to be on the horizon in cities such as Liverpool, Oxford, and Sheffield. Of course, such issues can be absorbed with an effective exit strategy, and an adaptable investment holding period. It will be interesting to observe the continued development of the PBSA sector in the coming decades in London and regional cities in the UK, and to evaluate the sector's resilience, as well as how (in)effective different investors' diversification and risk strategies will prove to be over time.

Currently investment risk is primarily related to oversupply of student accommodation in some regional locations, the continued impact of the COVID-19 pandemic, Brexit, and possible changes in domestic and international student demographics. These may alter the economics of PBSA development and investment, even if interviewee perceptions suggest impacts are likely to be short and sharp, they may accelerate or stimulate occupancy, pricing, and investment shifts in local markets over the longer term. Further research is needed to determine the extent to which PBSA returns remain uncorrelated with those of other sectors over a period longer than that considered by Newell & Marzuki (2018), thus fulfilling requirements of a mature yet alternative asset class. An extended analysis of the entire residential investment sector, including BTR and senior living, as an increasingly mature, 'alternative' asset class would also be desirable. The role of PBSA in multi-asset portfolios could also be analysed from the perspective of different investors, such as REITs, pension, and private equity funds, to unpack behavioural trends and market responses over time. Such trends could also be explored across varied locations and time scales, comparing accommodation shifts, investor holding periods and demographic trends across regional cities which are home to numerous higher education institutions. Much more work on the nuances of the PBSA and residential sectors could be explored across the spectrum of local to global markets.

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