



European Student Housing Investment Considerations

Broadening student perspectives on higher education in Europe.

The number of young persons in Europe pursuing higher education has been rising steadily over the years. Total enrolment in 10 European countries (Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands, Poland, Spain and the United Kingdom) rose from 12 million in the late 1990s to 15 million in the early 2010s – an increase of 25%. Since then, total enrolment in these 10 countries has risen by 10%, and it is expected to grow by 15% in the period to 2025. Growth in student numbers in Europe is driven by an influx of international students and a shift from traditional trainee programs to academic diplomas, Germany being one example. Growth, however, is uneven; the Netherlands, the UK and Germany experienced the strongest rise in enrolment numbers over the past decade.

These are now expected to pass on that 'baton' to Belgium, Spain, Ireland and Denmark, while Poland is expected to witness a continued decline in the total enrolment number.

What are the factors driving students' choice of university? The best and brightest and/or those with deep pockets will have virtually all options open to them. But the overwhelming majority of students will have to consider other and more mundane factors as well, notably whether they can find an affordable place to live within reasonable commuting distance to and from university facilities and preferably also near the entertainment 'hotspots' of student life.

For many, this increasingly means exploring hitherto less traditional university destinations across Europe. In this paper, Rabobank's real asset manager Bouwfonds IM examine the factors that drive the numbers and distribution of students in higher education in Europe, and foreign students in particular, in order to shed light on their 'decision-making journey'. For investors, the league table ranking of a university should not be the main investment criteria. Bouwfonds IM's investment funds include student housing in Europe, an emerging asset class which in 2015 saw inward investment treble compared with 2014. In this paper, Bouwfonds IM explain why not to focus on the towns with the best universities at the exclusion of other factors that drive student demand for housing.

Why opt for higher education?

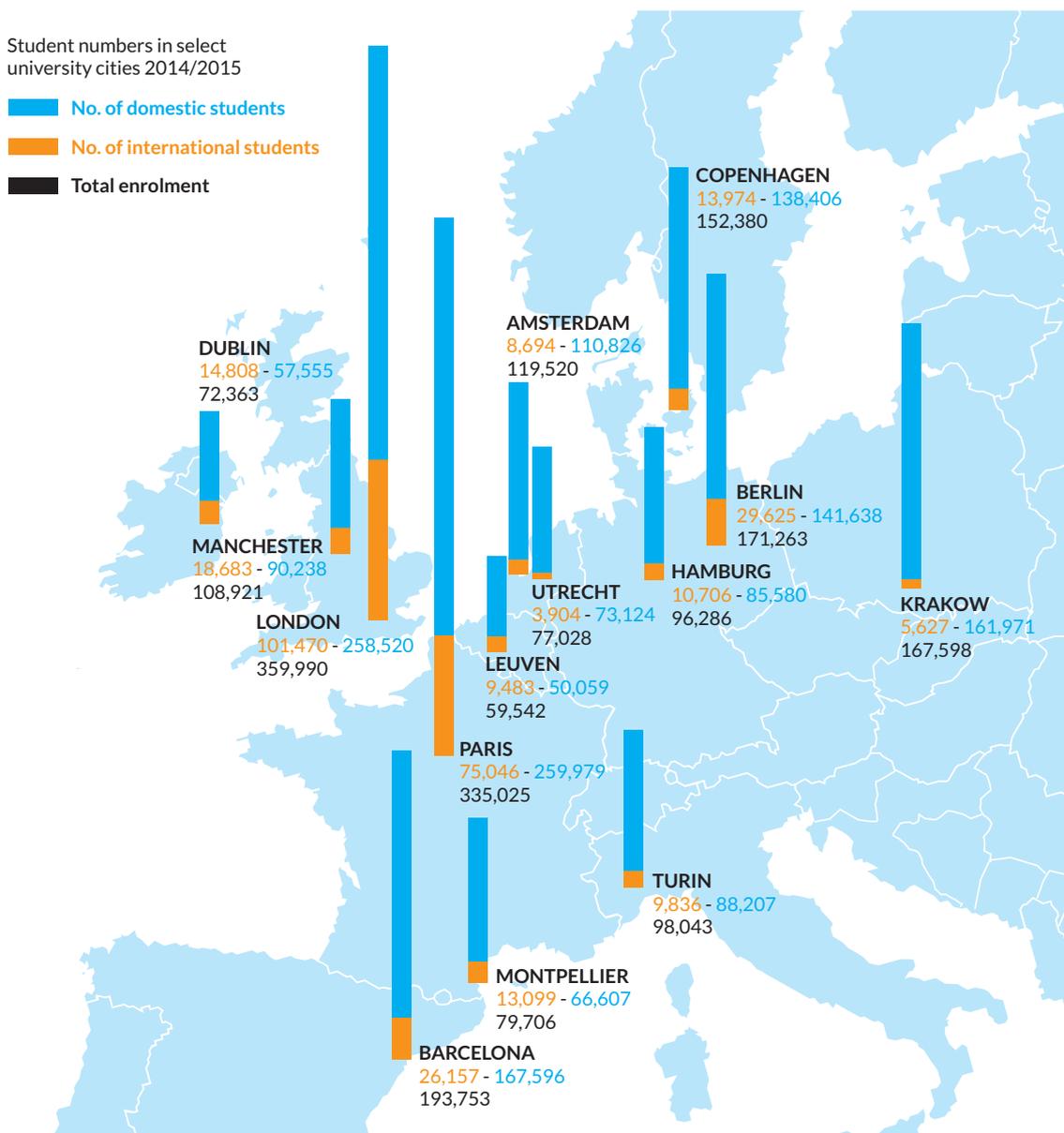
Demand for education has been increasing rapidly across the world. More and more people have attained a tertiary education over the past 30 years, not only in Europe but also in Asian countries such as Korea and Japan, as economies are increasingly shifting from mass manufacturing to knowledge-based industries. Macroeconomics aside, the economic crisis triggered by the 2008 financial crisis also encouraged individuals to invest in their education so as to improve their chances in the labour market. And while e-learning is steadily becoming more important, experience suggests that interacting directly, in person, with faculty and fellow students continues to be regarded by many students as a key element of higher education. According to estimates by UNESCO, a total of 227 million students were enrolled in higher education worldwide in 2013, an increase of 127% since 2000.

Staying at home or going abroad?

In Europe, the growth rate of the number of domestic students in Europe will decrease due to changing demographics particular lower birth rates. This decline is, however, expected to be compensated by the enrolment number of foreign students.

The growth of foreign student numbers in Europe is driven by a continued influx of students from Asia in particular. According to estimates by UNESCO, of the aforementioned world total enrolment in higher education of 227 million students, an estimated 4.1 million students studied abroad in 2013, and more than half of them originated from countries in Asia. The OECD forecasts that by 2025, the total number of international students is expected to have risen to 7.6 million. These are big numbers for Europe, given that it attracts 35% – the UK, Germany and France together 20% – of all international students.

Growth in international student numbers also reflects some growth in the numbers of European students who seek higher education outside their home countries, a trend which is supported by the ‘Bologna process’, a long-running effort of 47 European countries to create a European Higher Education Area (EHEA) offering smooth cross-border diploma recognition to students.



Source: StudentMarketing, 2016

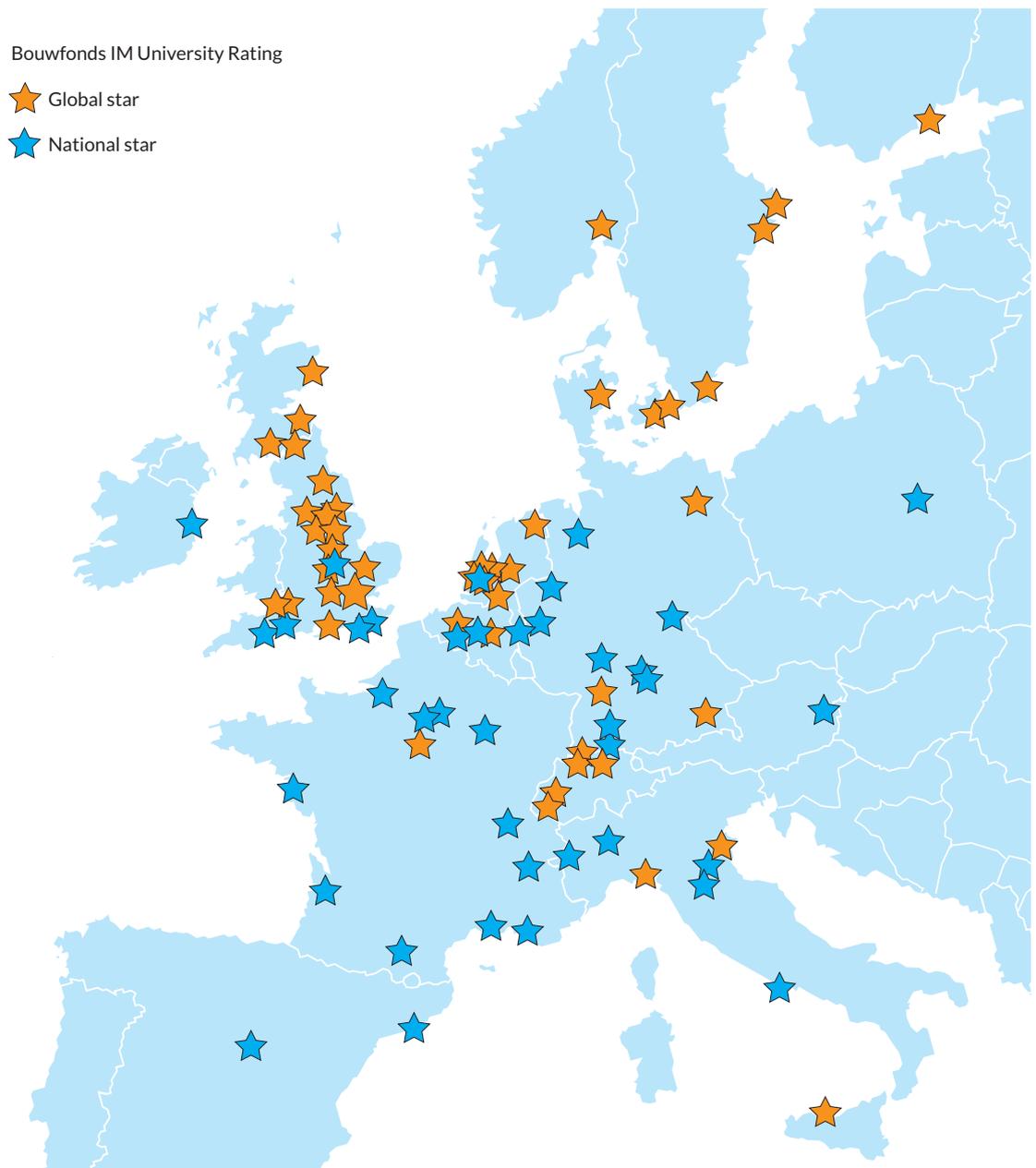
In general, foreign students are increasingly attracted to pursuing their higher education in Europe by a combination of top quality universities; the expansion across Europe outside the UK and Ireland of curricula provided in English (the number of programmes taught in English in Europe rose by 300% during 2007-2014) active marketing by universities that seek to attract international students and the culture and lifestyle aspects of destination countries as well as source country policies and schemes to stimulate outbound student mobility (Source: Generation Study Abroad by USA, New Colombo, and SOSMP by Australia). Bouwfonds IM expects that, on average, the number of foreign students in the countries that it focuses on – Germany, France and the Netherlands – will increase by 36% during 2015-2025.

Quality of education

Enrolment in European higher education of foreign students is boosted by governments that seek to attract global talent to their research and development base with a view to strengthening their countries' international competitiveness and economic growth over the long term. Higher education institutions actively participate in such efforts, as foreign talent can help them increase their overall academic performance and improve their international profile and reputation. To further these ends, student attraction and retention strategies are actively being developed, adopted and capitalised on across Europe. Strong international competition for global talent also drives improvements in the quality of education. The number of European higher education institutions featured in the international top 100 for higher education increased by 50% the last 6 years.



The UK has a cluster of the most highly ranked universities, followed by Germany and The Netherlands. France offers a high number of private schools “Grandes Ecoles” further education schools of very good calibre. A city’s reputation, a university’s ranking and future career prospects are and remain the main criteria for choosing a specific location or institution. The increased prominence in the international university rankings of European universities therefore widens the choice of destinations for students: it allows them to factor in other considerations, such as location and affordability, without having to compromise the quality of their education and future employment prospects.

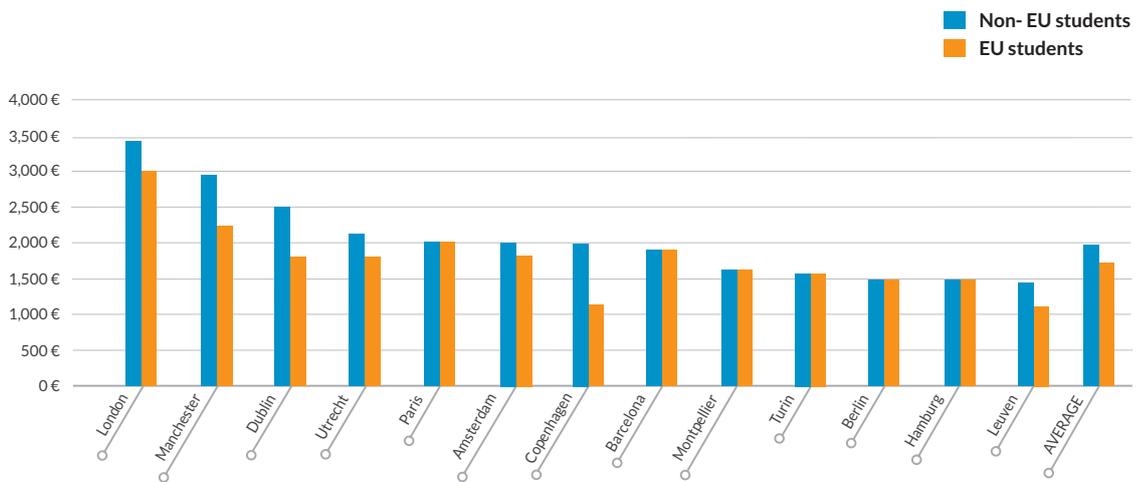


Source: Bouwfonds IM Research.

Note: BIM Ranking: average city rating of Times Higher Education, Qs Ranking and ARWU ranking

Affordability

Research into the cost of studying and living in 14 European cities commissioned by Bouwfonds IM from StudentMarketing has revealed significant differences across a range of study destinations. For domestic students, a bachelor’s degree in Economics and Management in Krakow, southern Poland, comes at a total cost of €583 per month. But in London, domestic students pursuing the same degree have to pay an estimated €3,015 each month to cover tuition, accommodation and other living costs. For students from outside Europe, these expenditures range from €619 per month in Krakow to €3,450 per month in London.

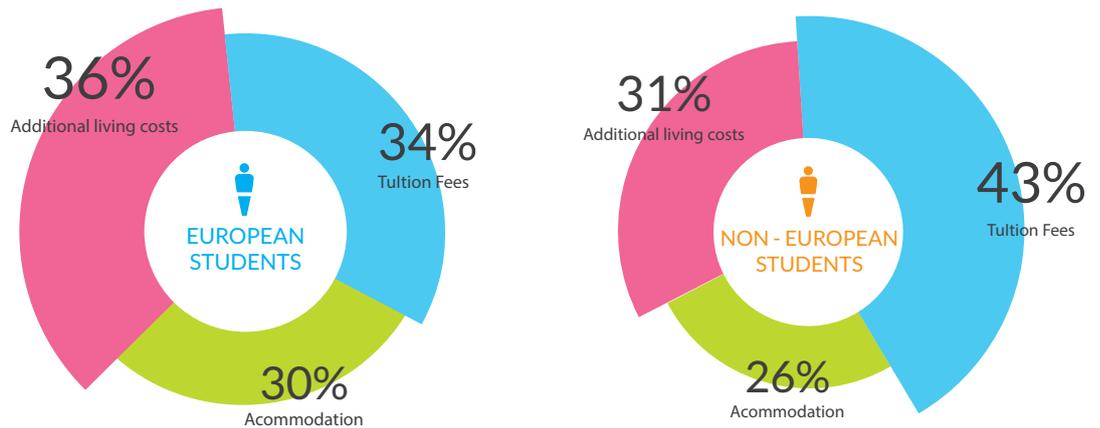


Overall monthly cost of studying and living in the selected European cities by students’ origin
 Source: StudentMarketing, 2016

As the above figures illustrate, the UK is Europe’s most expensive destination for students, with London and Manchester occupying first and second place in Europe’s league table of most expensive cities for a student. Paris, Barcelona and Amsterdam may also seem expensive to European students, but students from outside Europe might find them financially more attractive than other cities, such as Dublin, because of their more affordable tuition fees for overseas students. German cities, such as Berlin and Hamburg, also provide attractive alternatives to students: these are large, cosmopolitan cities offering quality higher education at a total cost of €1,492 per month on average, just under half of what students spend in London.

Tuition fees account for the bulk of a student’s monthly total studying-and-living cost. This applies to European and non-European students alike, even though European tuition fees tend to be higher for the latter. On average, tuition fees account for 34% of a European student’s total monthly outlay, whereas non-European students need to reserve 43% of their money for tuition fees. Additional living costs, including food and beverages, transportation, entertainment, clothing and personal care constitute the second most significant expenses category for a student, followed by accommodation if the latter is a single room or studio in a block of flats for students.

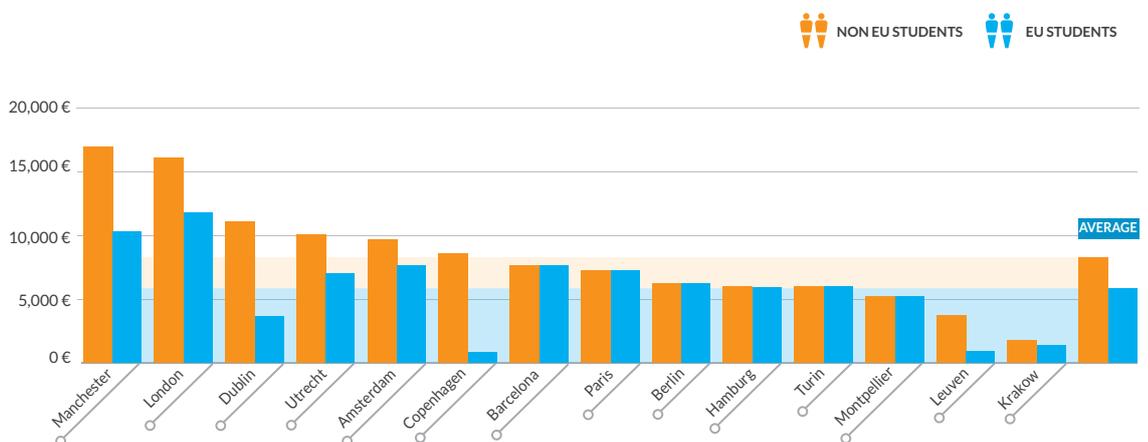
In all countries, about a quarter of students' income is self-earned, the remainder being funded from public sources and families. In France, the Netherlands and the UK, families contribute 20-30% of an average student's total monthly income, in Germany families account for about half of a student's purchasing power. Over time, families are expected to bear an increasing share of the burden as tuition fees go up and governments shift the emphasis in their support for students from grants to loans.



Total study costs in Europe, EU and non-EU students - Source: StudentMarketing, 2016
 Note: Average of 14 European cities.

Tuition fees

Just how much tuition costs can differ for European versus non-European students is illustrated by the example of Denmark where tuition is free for European students (in all but one university) while tuition fees for non-European students range from €1,516 to €13,500 per year. In France, Spain and Germany, as well as Turin in Italy and Krakow in Poland, on the other hand, tuition fees are more or less the same for European and non-European students.

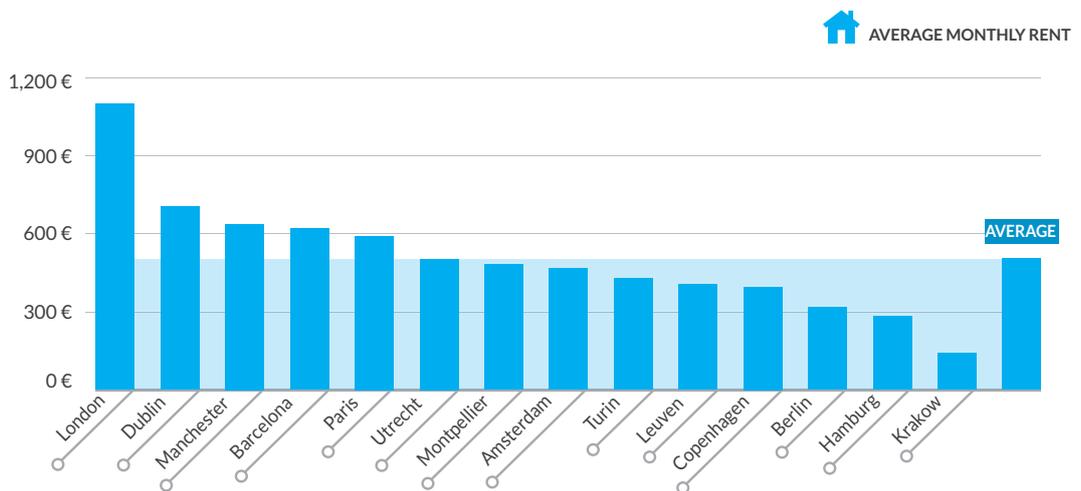


Average tuition fees for European and non-European students by city - Source: StudentMarketing, 2016

Accommodation costs

Our research shows that students in Western Europe spend 30-40% of their average monthly income on rent. Safe and quality accommodation within easy reach of tuition facilities are an important aspect of an international student’s experience while staying abroad. Many European university cities have a severe shortage in student accommodation which is (a) of good quality, (b) affordable, and (c) at a relatively short commuting distance to and from university and city centres. In many university cities, notably those that feature prominently in international academic rankings, that makes for a challenging list of criteria. For a start, purpose-built student accommodation in European university cities accounts for only 11% on average of total student accommodation (StudentMarketing, 2016). Consequently, many students find themselves renting small rooms in old and uncomfortable buildings. Also, many who study in their home country continue to live with their family because they have nowhere else to go, although they would prefer to live on their own. However, parents and students are willing to pay more for good quality accommodation and a student living experience in a community that newer brands provide.

The shortage and poor quality of student housing contribute to price differences between cities. London remains the most expensive city for students living in accommodation dedicated to students (student halls of residence), with a monthly rent of €1,096 on average. Next on the list of most expensive cities are Dublin and Manchester.



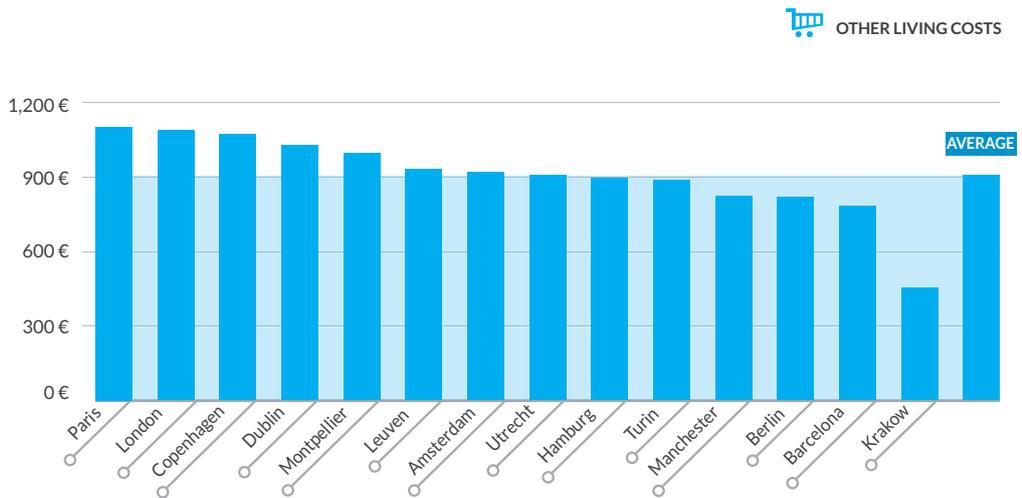
Average monthly rent in student residences - Source: StudentMarketing, 2016

Berlin and Hamburg, already cited for their affordable tuition fees, are also ‘budget destinations’ in terms of accommodation, with average rents of €315 and €281 per month respectively, as the majority of beds in these cities are supplied by public sector providers, while private investors are still exploring the market and establishing their brands within the country. Students in Krakow, the most affordable

destination among the cities in our survey, pay €140 per month on average. The student housing stock in Krakow is mainly formed by institutional providers (universities and colleges) and offers a very basic quality of living.

Additional living costs

While London is the most expensive destination in terms of total living costs, Paris tops the list when it comes to additional living expenses with a monthly cost of €745 mainly due to higher prices for food and beverages in markets, restaurants and bars.

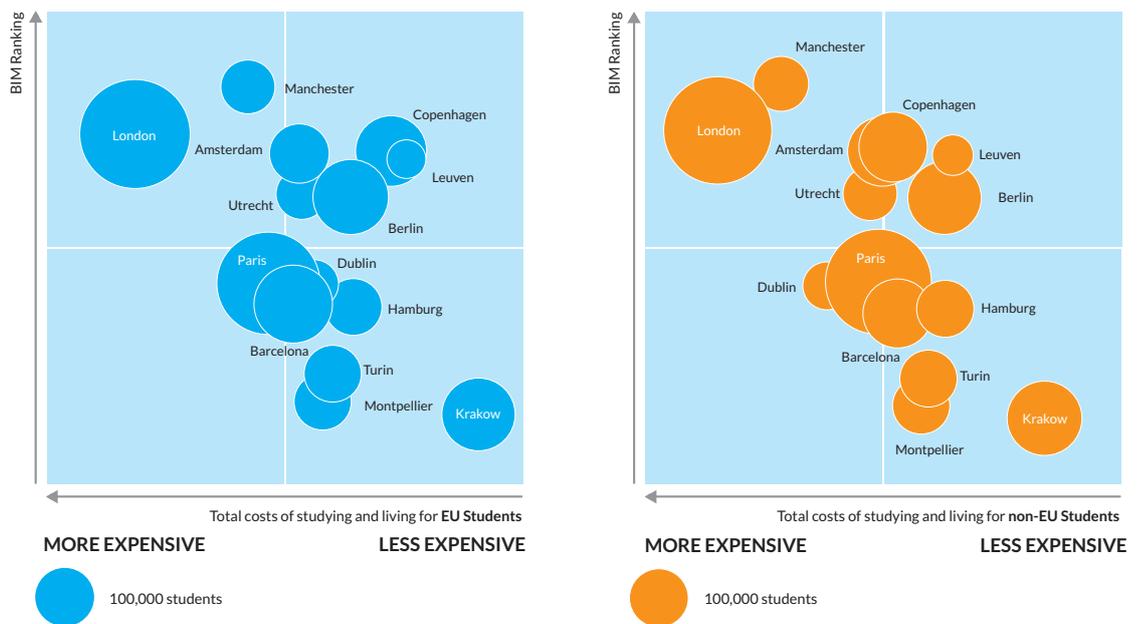


Market basket of consumer goods and services – monthly amount - Source: Bouwfonds IM, StudentMarketing, 2016

Copenhagen, which has a low ranking for tuition fees and the cost of accommodation, is one of the most expensive cities in terms of additional living costs which comes to an estimated €724 per month. On the other hand, Barcelona and Manchester, which rank high in terms of total studying-and-living costs, are more cost-friendly in terms of the prices of daily items; of the European cities screened, Barcelona even proved to be the second most affordable city when looking exclusively at consumer goods and services (€528 per month).

So, where to go?

Prestigious universities such as Cambridge and Oxford will undoubtedly remain attractive in spite of their total price tag. But as other universities across Europe strengthen their international image and appeal, not in the least by offering ever greater parts of their curricula in English, students will increasingly balance academic rankings with the total cost of their education at specific locations across the whole of the continent – from Barcelona to Stockholm, and from Dublin to Krakow. With their relatively more affordable cost of studying and living, particularly compared with university towns and cities in the UK, some hitherto less well-known university towns and cities on the European continent are likely to attract more and more students in the years to come. Well managed superior student accommodation is in short supply to meet this increased demand and should offer good returns with an experienced manager.



Bouwfonds IM's Student Housing Fund provides a tailored conduit to international investors who seek to add the relatively attractive risk/return profile of student housing (stable/rising rents, increasing number of students, inflation hedge) to their overall real estate portfolio. It invests in student accommodation in selected European university towns (notably on the continent) with strong or strengthening international academic profiles, persistent shortages in quality student accommodation, and property prices with upward potential such as (in alphabetical order) Amsterdam, Barcelona, Dresden, Grenoble, Lyon, Munich, Toulouse, Turin, and Utrecht.





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