

Briefing note **Student housing - Part 4:** The Change

July 2015

Until now, private operators have mostly restricted themselves to the prime segment. This is unlikely to remain the case since the mid-price segment has enormous potential for growth. The same applies to non-student target groups, meaning that 'student living' could evolve into 'micro living'.

From the pioneering phase to maturity

In our previous briefing notes of this series, we highlighted the lack of affordable apartments for students, particularly in the large (university) cities, owing to housing markets becoming significantly more strained. Against this background, private investors began developing student accommodation several years ago. This has resulted in the creation of some 15.000 places in the 30 largest university cities alone over the last five years, while a further 16,000 places are under construction or in planning. That is good news for students. For the first time since the 1960s, when student associations ('Studentenwerke') started to build halls of residence on a large scale, there are once again apartments being built in Germany specifically tailored to the requirements of students. Since almost all private developers and investors to date have concentrated on students with above-average income as a target group, the growth in supply until now has been almost exclusively in the rental segment starting from €450 per month. With a current supply ratio of 7% (existing building stock) or 15% (including ongoing developments), there is undoubtedly further growth potential in the high-price segment. However, in those cities particularly coveted by accommodation providers, such as Frankfurt, saturation is also foreseeable. In view of the fact that

the last social survey of the German National Association for Student Affairs ('Deutsches Studentenwerk') showed that just 5% of all students spend more than €450 per month on rent, sooner or later the operators will have to ask themselves how further growth can be achieved. Since additional operators targeting the prime segment are also about to enter the market, the intensity of competition is likely to increase further in the segment, thus limiting the growth potential for each individual provider. Therefore, while the student accommodation market is still young, it is also likely to be on the brink of significant change. A change that would mark the end of the pioneering phase in this market and a transition to maturity. It is not yet possible to establish the actual form this change will take, although two trends can already be clearly identified. These can be described as 'addressing the midrange' and 'student living evolves into micro living' and are explored in further detail below.

Addressing the mid-

According to our calculations, around 150,000 students in the 30 largest university cities spend more than €450 per month on rent. Almost 130,000 students spend between €400 and €450 per month while a further 200,000 students spend between €350 and €400 per month. These figures illustrate that an operator who

Student housing

Four briefing notes, one issue

- The first three parts in our series of publications on student accommodation discussed the squeezing out of students from the open apartment market, the consequent construction boom in private student apartments and the issue of whether there is sufficient demand for the rapidly growing supply.
- This fourth part offers an insight into how the still young student accommodation market segment in Germany might develop over the coming years.

both serves the upper price segment and also addresses the demand group with a slightly lower budget could potentially multiply its demand base. That providers have focused almost exclusively on the high-price segment to date is undoubtedly due in part to economic reasons (e.g. high land and construction costs), but is also likely to be conscious strategic positioning on the part of the providers. Such operators have primarily built and continue to build high-quality, furnished apartments for single and double occupation (approx. 70% of stock). More inexpensive accommodation types, on the other hand, such as rooms in shared apartments and corridors with shared facilities, have scarcely featured in the portfolios of private operators to date. This would, however, be a means of entering the mid-price rental

segment and addressing an additional demand group. International Campus has already taken this route by creating its "The Fizz Basic" product line, which will offer furnished apartments that have their own bathrooms but do not include kitchens. In the medium term, it is anticipated that other providers will also seek to position themselves in the mid-price segment.

Student living evolves into micro living

Students are far from the only people to come into consideration as potential occupiers of small apartments. The number of single person households in Germany has risen by around one million over the last ten years. Their proportion of all households has risen from around 37% to 41% during the same period and the trend is growing. These households are also faced with the same problems as students. There is a scarcity of small apartments and, following strong rental growth, it is increasingly difficult to find affordable apartments, at least for those on lower incomes. However, even those who can afford a larger apartment are likely to provide noteworthy potential demand for small and micro-apartments. These include temporary employees, such as project employees, visiting lecturers and expatriates as well as general weekend commuters. Against this background,

it appears sensible to expand the student accommodation concept to such occupier groups and to adapt to their requirements. Indeed, this is already happening. One such example is GBI, whose 'Smartments Student' product line is complemented by two other product lines, 'Smartments Business' and 'Smartments Living', for other target groups. Should this approach prove successful, and the conditions are clearly in favour of this, in a few years the student apartment market may just be one sub-segment of the micro-apartment market. This would be even more the case if the differentiation of the micro living segment not only manifested itself in the form of different properties for specific target groups but also if microapartments for several target groups were offered under a single roof.

The market could expand rapidly - if it opens up to new target groups

If operators break out of the current niche of 'prime student accommodation' and address additional target groups with innovative approaches, the student / micro living market segment could expand rapidly and would also be of increasing interest to institutional investors. At present, the continued limited building stock and associated low liquidity of

the market segment is likely to be the reason that many investors refrain from investing in the sector despite impressive fundamental data. A glance at the United Kingdom, where more than €4 billion was invested in student accommodation in the first quarter of this year alone, should illustrate the potential despite the different conditions in both countries.

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