Higher Education Policy Institute

Student Accommodation: The State of the Nation in 2024

By Martin Blakey,
former Chief Executive of Unipol

HEPI Policy Note 52

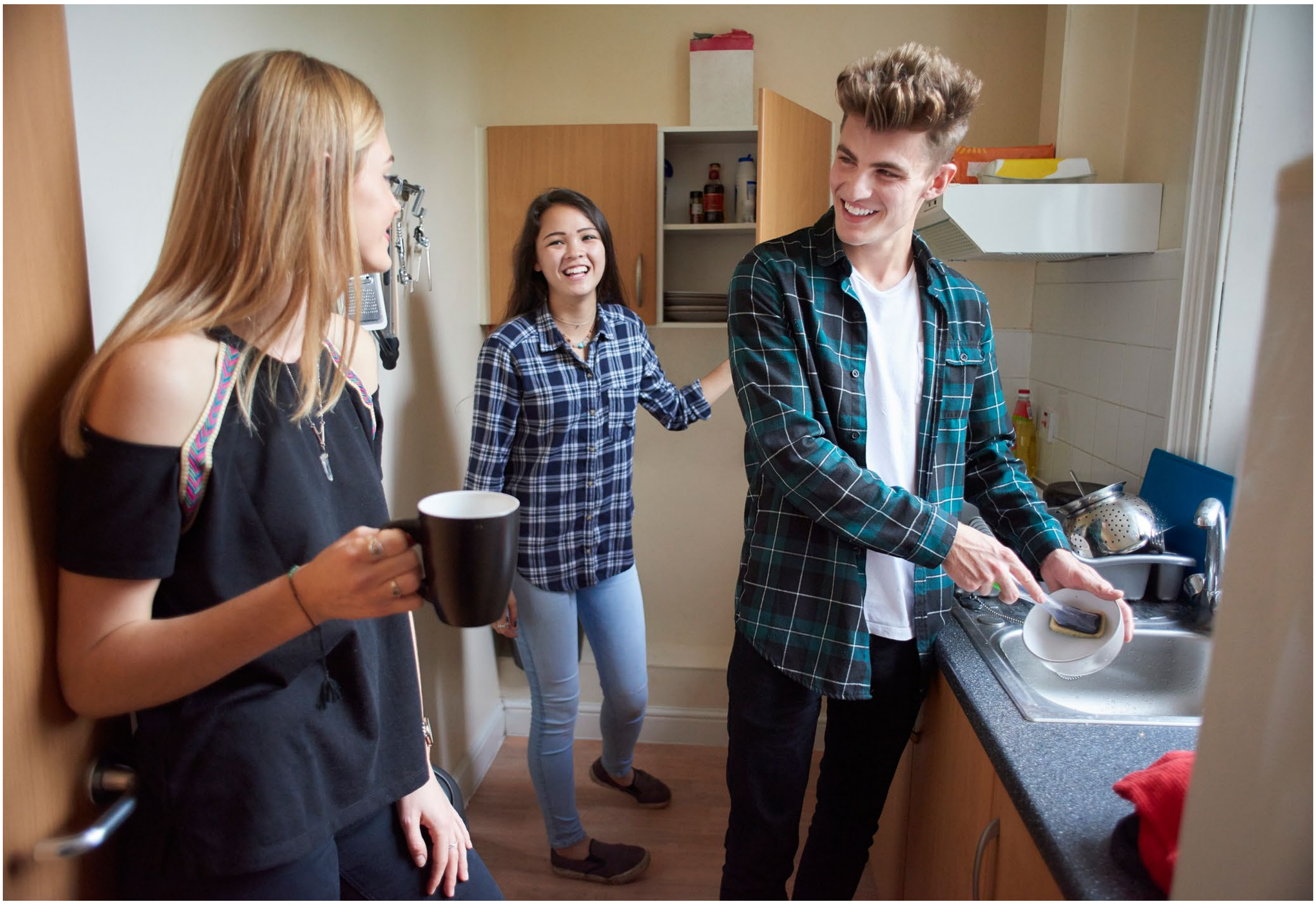
February 2024

A: Student Numbers

Undergraduates

Despite the demographic upswing, the proportion of UK 18-year-olds who go to higher education plateaued at 56.2% in 2023, compared to 56.6% in 2022. Admission numbers were flat for 2022/23 and UCAS figures for 2023 show acceptances for 2023/24 at 554,465 (1.5% down on 2022), with UK acceptances down 1.3% and international acceptances down 3.0%.

This undergraduate fall in demand varies according to the type of institution, with higher tariff universities seeing modest growth of home students but a fall in international students. Medium tariffs saw a 1.3% increase in acceptances (1.5% up for home students but 0.9% down for international students). Lower tariff universities fared worse, with a 5.2% drop in acceptances (down by 5.1% for home students and -6.1% for international students).



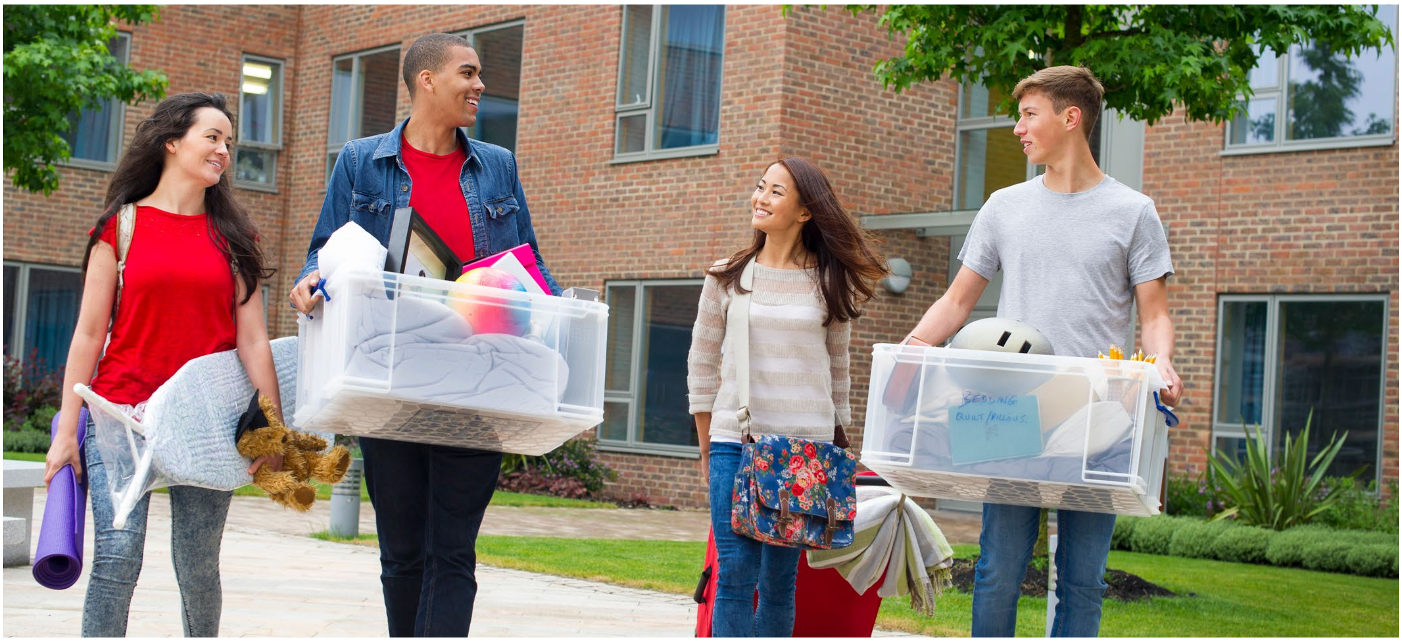
International students

Growth of student numbers over the past three years has been fuelled by international students. In 2023, the end of that growth occurred among international undergraduates, with 50,860 being accepted compared with 51,290 in 2022 (but still substantially more than the 30,000 pre-COVID).

The real international growth has come from postgraduate student recruitment and here the key figures provided by the Higher Education Statistics Agency (HESA) are two years behind and data for 2022/23 will not now be available until April 2024.

It is likely that international student numbers increased by some 276,110 between 2019 and 2022, a 72% increase – of these, 63% were taught postgraduates.

This international growth has seen Chinese recruitment levelling off nationally (but concentrating in higher tariff providers, with significant drops at other types of providers), and growing demand has come from India and Nigeria. Students from India are often loan financed and so students are seeking to minimise their expenditure (although there are some better-off Indian students). Students from Nigeria, which saw a rapid increase in their recruitment by lower tariff providers, normally have very limited finances and are now grappling with their country's currency crisis.



There is considerable evidence that significant numbers of taught postgraduate students, particularly from India and Nigeria, are not living in Purpose-Built Student Accommodation (PBSA). A significant proportion, probably around 20% (particularly January intakes) often live with friends or with distant family connections and therefore have no direct impact on the student accommodation market.

In trying to estimate international intake for 2023, the migration statistics (up to the end of June 2023 (released in November 2023) have some use. Looking at visa data, the figures from the Office for National Statistics (ONS) show study and study-related visas increased in 2022/23 from 320,000 to 378,000 (and dependants increased within that from 58,000 to 96,000), mainly from India and Nigeria. This visa date shows that growth of international students, excluding those with dependants has probably stopped. Infuriatingly, these ONS figures only go up to the end of June 2023, so they provide no hard data for the 2023/24 academic year.

The ONS figures also indicate that many of the study-related visas for students with dependents were studying in London and that student dependent growth in the provinces throttled back and went into decline last year.

It is difficult to know for certain what has happened to international recruitment for 2023/24 but some things are clear:

a) Many lower tariff universities that were relying on high rates of taught postgraduate enrolment have seen their intakes fall significantly, giving them a financial problem.

b) The higher tariff universities have seen modest increases in international recruitment and are beginning to recruit more students from India.

c) The restrictions placed on student dependants studying taught courses (taking effect at the end of January 2024) will have had a negative effect on international intake. It is important to recall that there were a number of other changes that are less often spoken about but which will also impact negatively on recruitment, including visa fees (currently costing around £500 a year) and a larger Immigration Health Surcharge increasing from £776 a year to £1,035.

The conclusions on postgraduate intake for 2023/24 must therefore be:

i. growth will have stopped in all but higher tariff universities and even there any growth will be modest;

ii. across the UK as a whole, student numbers from Nigeria will be significantly down because of their currency crisis, which has dramatically increased the cost of one-year taught Master's course in the UK (by about 35%); and

iii. student numbers from India will have held steady but will be increasingly concentrated in higher tariff universities.

These conclusions are not quite as gloomy as those in an article penned by Universities UK that appeared in the *Times Higher Education* in late December 2023. This claimed:

> *all the evidence we have suggests that numbers have already fallen from last year's high. Data for the expected intake in January 2024 – when changes to dependant visas come into effect – predict huge reductions. And September 2024 also looks very difficult.*

University Finances

Many universities have been increasing their international student numbers to cross-subsidise their home students because their home fee income has stayed at the same fixed rate per student since 2018/19, meaning the academic fee has been frozen at £9,250 and, in real terms, is now estimated to be worth less than £6,000. Some of the Russell Group have actively cut back their home undergraduate numbers in response.

A recent report from the Institute for Fiscal Studies (IFS), *Annual report on education spending in England*, shows university students in England are seeing less spent on their education than at any time since their tuition fees were tripled in 2012. In 2012/13, each undergraduate from England had the equivalent of £11,800 spent annually on teaching resources but undergraduates in 2024/25 will get just £9,600.

Many of the less well-financed universities are moving towards a financial crisis. A few universities have broken the traditional ranks of silence and made clear their position:

- Coventry University has announced the need to make £100 million of savings over the next two years, downsizing the university by about 30%);
- Sheffield Hallam University have invited all of its 1,700 staff to apply for voluntary redundancy as part of an economy package;
- the University of East Anglia is running a £30 million deficit for 2023/24, about 10% of its annual total expenditure; and

- the University of Lincoln has reported that it is under 'growing' financial pressure and must take steps to reduce costs, including redundancies.

The IFS also summarise the decline in the value of the maintenance package for home undergraduates which:

> *has fallen by 10% in real terms since 2020-21 and is now at the lowest level it has been in seven years. For the poorest students, this cut is equivalent to £1,000 a year, or £90 a month ... a further stealthy cut has resulted from the freezing of the lower parental earnings threshold … frozen in nominal terms at £25,000 since 2008, even as average earnings have risen significantly. If it had instead been increased in line with average earnings, that threshold would now be closer to £35,000.*

In January 2024, the Westminster Government announced a further below-inflation increase to maintenance support for students, with maintenance support set to increase by just 2.5% in 2024/25.

There will be a lot more coming out the woodwork over the next year as international recruitment stalls and fails to act as a stop-gap for what could be called a failing of the Government to change or amend its funding of higher education in the context of a period affected by COVID and very high and sudden inflation. On top of this, there is set to be a general election at some point in the next year, which means additional political uncertainty.

Reductions in fee income

Many of the lower tariff universities that were recruiting significant additional numbers of international students were also competing on the cost of a course with other like-minded institutions and this has had two effects:

- Their academic fee income per student has declined as competition has pushed prices down.
- As part of recruiting international students, institutions are paying referral fees to agents and these fees have risen. A piece in the *Observer* in November 2023 reported agents' fees had increased per student to between £2,000 and £8,000, up from a fairly fixed fee of £1,000 a decade beforehand. The article additionally revealed the scale of fees paid, with the University of Greenwich paying agents £28.7 million in 2022/23 (up just over £10 million on the previous year). Leeds Beckett paid £9.5 million in 2022/23, compared with under £1 million five years beforehand.

The same *Observer* article put the average international fee at around £24,000, implying some universities are paying around 30% of the fee to agencies for referrals. Universities say that their referral fees to agents have grown because of student number growth, but it is more complex than that: Leeds Beckett University has seen its international student numbers increase by 202% across the last 5 years but its payment to agents has increased by 1,091%, five times that rate.

Not only has recruitment growth stalled but some institutions are charging lower fees and are paying a significant percentage of those fees to recruit students. The 'rate of return', the extent to which international fees can top up the longer term fees for home students, is reducing. Since 2018, many lower and middle tariff universities have been staving off financial shortfalls by recruiting large additional numbers of international taught postgraduate students. That stop-gap solution is beginning to come to an end.

In Scotland, where Scottish students pay no fees, in the latest SNP budget £46 million of promised funding to universities was withdrawn, so university finances are not just a Westminster problem.

One thing is fairly certain, there will be no review of university finances until after any election and it will take at least a year into any new government for anything significant to happen, although there are indications that Labour are looking at student maintenance and some of the student loan repayment rules.

What is actually likely to happen is that universities will simply 'muddle through' the next couple of years until after a proper funding review has taken place. This will be bad news for the poorer 60% of universities and they will be unlikely to put funding behind any accommodation schemes. Moreover, those that still own some student accommodation may be under pressure to liquidate those assets.

Cost to Government

Official interest may, however, be spurred by another recent IFS report, *Higher long-term interest rates and the cost of student loans*, which reveals higher interest rates mean the government cost of financing the student loan system has increased by over £10 billion per year.

The IFS reveal the cost of government borrowing on student loans has risen from 1.2% to 4.0% over the past two years, meaning the government can expect to pay 1.6% more in interest on its debt than the interest rate it charges on student loans. With borrowing costs as at the end of 2021, the government could have expected to earn a total net profit of £3.2 billion on student loans but at today's borrowing costs, the government can expect to make a loss of £7.3 billion. This additional cost has not yet been factored into the overall cost of student loans by the Department for Education. The IFS suggests a closer linking to interest costs and the interest rate paid by students, although they accept the political difficulties in increasing the cost of study in higher education yet further.

What this means for the supply and demand of student accommodation

Overall, student demand nationally is likely to level off in 2024/25 and probably levelled off in 2023/24. Over the summer of 2023, where accommodation shortages occurred, these reflected growth over the previous three years coupled with systemic shortages of both student-specific and general rented accommodation that have been growing for years in particular locations: Manchester, Glasgow, Bristol, Brighton, Exeter and York were probably the main areas of shortage.

In some of these areas, universities are still expanding and some of those universities continue to invest in student accommodation: Sussex University, for example, does not see Brighton as a long-term supplier of accommodation to its students and continues to build. York continues to invest in accommodation in its Heslington East campus.

At other universities (Manchester and Bristol) there is a realisation that 'things must be done' but those universities may now find themselves in a window where costs are so high nothing is really practical unless accompanied by a university subsidy. The University of Nottingham (where there is now no shortage) and the University of Manchester are both exploring upgrading or replacing old stock, but it is hard to see how this might work with high financing and build costs for a few years going forward.

New Purpose-Built Student Accommodation (PBSA) beds

In theory, (according to Cushman and Wakefield), in PBSA there are 131,211 beds in the development pipeline of which over 74,000 have got planning. However, they warn:

> *in the current environment it is highly unlikely this number will be delivered to the market, with current issues around build costs and financing meaning only around 16 markets (outside London) are able to support the blended rents required to ensure viability.*

In its 2023 *Annual Report*, Cushman and Wakefield reported that '2024/25 will likely see 22,200 beds brought to the market, inclusive of 2,200 beds that will reopen in time for the start of the academic year.' But they have a tradition of over-optimism on new bed predictions: their 2022/23 *Annual Student Report* predicted '2023/24 may see an acceleration in new beds being delivered to the market again, with 29,000 planned to open across 45 markets, including 2,267 beds planned to open in 2022 that have been delayed'. In reality (according to Cushman and Wakefield's own figures) for 2023/24, only 8,760 new beds were actually brought on line. Outside of this inherent optimism, an additional 10,000 additional bed spaces over summer 2024 would be a more realistic forecast.

Also worth mentioning that, even with these low rates of new supply, some of those new beds are in the wrong places. There were an additional 1,136 beds in over-supplied Coventry, whereas Bristol, Brighton and York received very few (only 24, 60 and 81 new beds respectively).

Off-street housing versus PBSA

The big unknown in student housing supply relates to off-street housing, which continues to house around 44% of all single students (down from around 50% five years ago). Precise data on how many students live in off-street housing is hard to come by, but in Leeds and Nottingham detailed data has seen a decline in the number of off-street houses. Those living in off-street housing tend to be mainly returning undergraduates.

PBSA is increasingly housing more returning undergraduates but the main demand for PBSA comes from first-year undergraduates and international students, particularly those from China. One new development is a larger number of commuter international students, who choose to live further away from their institution in order to reduce their rent costs.

Affordability

Affordability is a much used and very important but rarely defined term.

Five years ago, there were effectively two fairly unitary markets:

a) first-year students and international students lived in PBSA; and

b) returning home undergraduates lived in off-street housing.

Generally, international students had more money than home students and a luxury student PBSA market developed to cater for them.

These markets are now more varied. PBSA now houses more returning undergraduates (the better-off ones) and, while the first year undergraduate and Chinese PBSA market continues to exist, both international students and home undergraduates are now much more varied in terms of how much they can afford to pay in rent. Home undergraduates and some students from Nigeria and India are looking for lower cost accommodation, which is in short supply.

It is also important to remember that although many first-year students still enter PBSA through their institution (via direct provision, referrals and underwrites), the amount of PBSA that is let directly has increased to 58%.

The squeeze on undergraduate living costs has come from a significant loss of value in the maintenance loan (and how much students actually receive) and pressure on parental finances, meaning it is harder for parents to contribute. This squeeze has seen an increase in students undertaking part-time work and more getting into greater debt. What is interesting is that there has been no significant increase in commuting students, although fewer home students are choosing to go to university. The other squeeze on international students' living costs relates to poorer students coming from India and Nigeria trying to limit their expenditure and, again, increasing their part-time work to help fund their course.

Affordability is not just about overall rental cost in each local market. The cost of renting varies within each market depending on when students are renting. Students who are 'last in the queue' where accommodation supply is tight may find only more expensive rooms are left. Those international postgraduates arriving late in September or in January may find rents are higher (and choices more restricted) than they had been earlier. In contrast, those renting off-street properties often see the higher opening rents at the beginning of a lettings cycle with those rents falling if unlet properties indicate a surplus is occurring. These rental adjustments have a flavour of dynamic pricing, but they are fairly simple rental adjustments made by suppliers. Algorithmic dynamic pricing has played only a limited role so far.

When educational institutions talk about affordability they are reflecting feedback from around 20% to 25% of their undergraduate cohort who need to pay a lower rent than is on offer. Rents within each local market vary very considerably. For example in the Unipol / HEPI 10-city survey undertaken over summer 2023, only 20% of PBSA rents in Bristol fell into the £3,000 to £6,999 annual rental bracket whereas 73% of PBSA rents in Sheffield did.

In general, those universities which are able to address affordability, particularly for their first-year students, have done so by maintaining a 'rent ladder', where students have a choice of differently priced accommodation. The problem here is that the lower cost accommodation tends to be older and in less favourable locations and, as refurbishment or rationalisation of stock takes place, over time these lower cost options have a habit of declining in number.

Different private sector and institutional agendas

In looking at affordability, different players in the student accommodation market have very different roles and agendas. In the private-sector, PBSA, developers and operators need to make a return and they set their product and rent levels to achieve that. To some extent, larger private sector PBSA providers are able to 'rent pool' between towns and cities so that where they might be losing money in say, Bradford, they can see rents increase more healthily in York and Bristol. This rent pooling flexibility is not open to educational institutions and smaller off-street landlords who operate in a single market.

Issues of educational access and widening participation are not core concerns for private sector PBSA providers. They are content to provide a product that returns them a surplus but they are not concerned about having to house all students attending the institution: they are working to their own defined market.

Educational institutions have a different agenda where they wish to recruit particular groups of students and ensure the cost of living (of which the largest component is rent) does not deter poorer students from either applying or attending. It has been known for many years that the high cost of rent in London deters many home students from applying there (which may account for the fact that there is a high rate of commuting home students in London, with 67% of residential demand coming from international students). Many universities (Brighton, Kent, Bristol, Exeter, Nottingham and Leeds, for example) are becoming concerned that the cost of living in their area is affecting their recruitment and that in order to avoid that, they need to maintain a 'rent ladder' in their supply, with some lower cost accommodation being available to students who need it.

There is an inevitable irony that affordability becomes headline news when rents are increasing quickly and that this coincides with market conditions that make it difficult to develop lower cost accommodation.

In the end, affordability must be an educational issue. Living away from home opens up more study options and provides a more immersive study environment, where commuting to a local university may not. Student housing is not just a housing issue. It links directly into educational opportunity, widening participation and academic achievement.

PBSA cost pressures

High inflation, high utility and internet costs and higher build costs all conspire to make it very difficult to deliver lower-cost products. These cost pressures affect educational institutions very differently from private sector PBSA providers. In the HEPI / Unipol 10-city survey, 75% of private providers saw the cost of energy and utilities as a critical cost pressure, followed by 30% who saw staff costs as critical. In educational institutions, only 36% saw energy and utilities as a critical cost pressure, with no institutions saying staff cost were a critical pressure.

The current PBSA model, which has served the sector well since it was developed around the turn of the millennium, some quarter of a century ago, will continue to see new student accommodation being developed that, for many, is considered expensive and is getting more expensive as each year goes by. Cushman and Wakefield's latest report suggests the new bed rental cost for 2023/24 is £205.39 a week compared with all previous PBSA at £167.93 a week, a 22% increase in one year (and letting lengths were comparable). The private PBSA sector will go on delivering this type of accommodation because, without input from educational institutions and their involvement in lettings, they have little incentive to take the risk of developing more innovative products.

Nottingham case study

In the mid-2010s, both universities in Nottingham saw significant expansion and accommodation shortages occurred. Post-COVID that expansion has slowed, except for international taught postgraduate students, but only a limited number of these new recruits have entered the traditional PBSA market. PBSA suppliers saw a strong market opportunity in Nottingham and around 2020 significant new PBSA supply started entering the market and this process is likely to continue until 2025, with Nottingham accounting for around 15% of all new PBSA bed spaces in the UK.

The off-street student accommodation market has been relatively resilient in Nottingham with few other competing rental markets for shared housing but, even so the trend is that PBSA beds are increasing and that off-street beds are declining. Nottingham City Council's figures on Council Tax Exemptions show there was a reduction in off-street exemptions of 289 between 2021 and 2023 (4.2% down) but this is significantly less than the peak in 2012 where there were 7,800 exemptions, indicating supply has declined by 15.2%. So, over time, more students in Nottingham will need to rely on PBSA accommodation and the attraction of living in the city centre has already fuelled that trend. But PBSA is around 30% more expensive than off-street rented housing, though tends to include bills, so the shift will be reflected in higher average rents for students.

In summer 2023, Nottingham's student accommodation moved significantly into surplus but this has not yet been reflected in rent levels. Nottingham's average rent level in summer 2023 was £8,427 (£800 higher than Leeds, £1,960 higher than Liverpool and £1,976 higher than Sheffield). The rate of rental increase between 2021 and 2022 in Nottingham was 15.5%, higher than the 14.7% rise in Leeds, the 6.7% rise in Liverpool and the 10.2% rise in Sheffield. So not only are rents higher in Nottingham, they are increasing faster.

All parties in Nottingham, as their market moved into surplus, are looking for rents to decline, but the reason for the increased surplus is rapid development of new beds and these are more expensive than the previous beds: so, in fact the average rental increase is being fuelled by new supply. Over time, some of the middle-priced out-of-town beds may see rental reductions, but then some of that stock may become unviable and be mothballed, in which case supply will fall. These are complex dynamics but moving out of an accommodation shortage at this time with higher costs may not result in more affordable accommodation.

Risk management and development perspectives

The development of student accommodation and the role of educational institutions in that process has primarily been governed by risk management:

a) Private sector developers have minimised their risks by identifying a particular student market (both locational and product type) and catering for it. They have done this in the context of more of their accommodation needing to be directly let into the market.

b) Outside the Russell Group, the members of which have maintained significant direct provision, educational institutions have managed their risk by reducing their involvement in student accommodation and underwriting or working with partners, so they can be guaranteed to fill all the beds that they are liable for.

The lower tariff institutions (many of who now have no direct accommodation provision at all) also have the most volatile home student intake in the sector. While they have had recent success in recruiting more international postgraduate Master's students, this is a volatile market, with many of these students not renting from traditional PBSA. For reasons of risk management, those institutions with the greatest need for affordable bed spaces are the very institutions least likely to become involved in assisting to provide them.

For many institutions the increased uncertainty of recruitment has meant entering into the shortest and loosest accommodation nomination arrangements possible that will enable them to meet their accommodation guarantees (and those guarantees have also become more limited). One of the main outcomes of this risk management is a reduction in innovation and higher rents being charged by the private sector to cover the risks of volatility in demand.

So, what needs to change?

A new model for a sector of the PBSA

The current PBSA model is inherently high cost. Larger (and getting larger) buildings have onerous health-and-safety regimes, inclusive of utility, internet and social programmes, some with TVs and licences included, an assumption of 24-hour security cover, large communal areas with, at the very least, well-designed and attractive en suite rooms. The cost of running these buildings is significant with problems associated with high-level servicing, incentivising lower energy use and (the newest cost) receiving delivery of thousands of parcels each year.

On top of this are generous space standards (often forming part of the planning considerations) and high construction costs.

If lower cost accommodation is to be developed, as opposed to just talked about, then a lower cost model needs to be developed with a lower level of servicing and consumer expectations. It is worth acknowledging that there have been worthy student-based campaigns to develop co-operative housing for students. Although these have had, so far, a very limited role in increasing supply, an important part of their plan to provide lower cost accommodation is by reducing servicing and increasing student involvement in areas such as basic maintenance. To provide significantly lower cost accommodation, servicing, rooms and space standards all need to be reduced. Most importantly of all, the risk of developing this new model, will need to be shared between educational institutions and private sector partners, otherwise neither party is likely to be capable of taking that risk.

So, what would a new model for affordable PBSA look like?

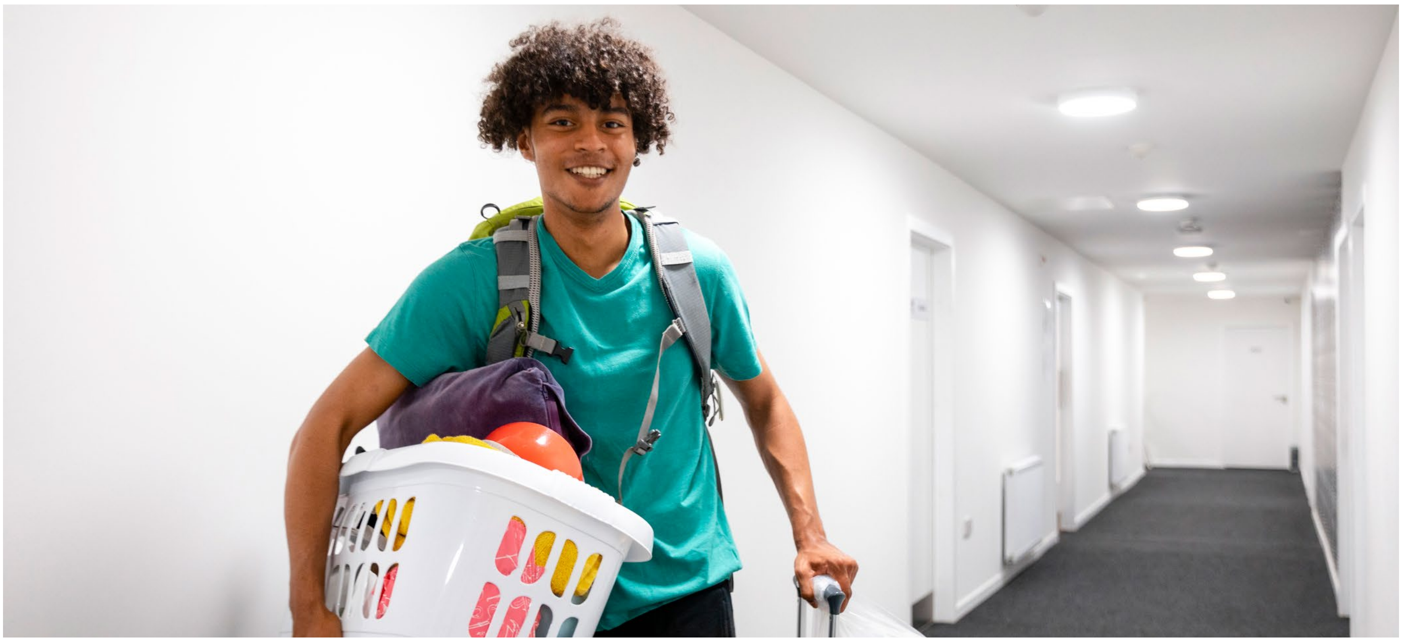
- Buildings could be smaller, with around 300 to 350 beds, to try and get the best fit on running costs – the current increase in very large buildings (over 700 beds) reflects initial land and construction costs but, in the longer term, these buildings may have high per-bed running costs.

- Rents would have an adjustable energy supplement based on use, encouraging better use of energy.
- Developments would provide overnight security only or there would be greater co-operation with the central security services provided by educational institutions.
- Rooms would be smaller, perhaps in pod form at around $10m^2$ (including en suite).
- Communal space would be provided on the ground floor for lounge and study areas (especially important when rooms are smaller).
- Flats may be configured differently, with students in clusters of 12 to 20 constructed around a central kitchen / leisure area (requiring UK fire safety to follow the same engineered fire safety systems that are commonplace in Scandinavia).
- Design efforts could be made to mix up room sizes and facilities within one building with rooms differentially priced.

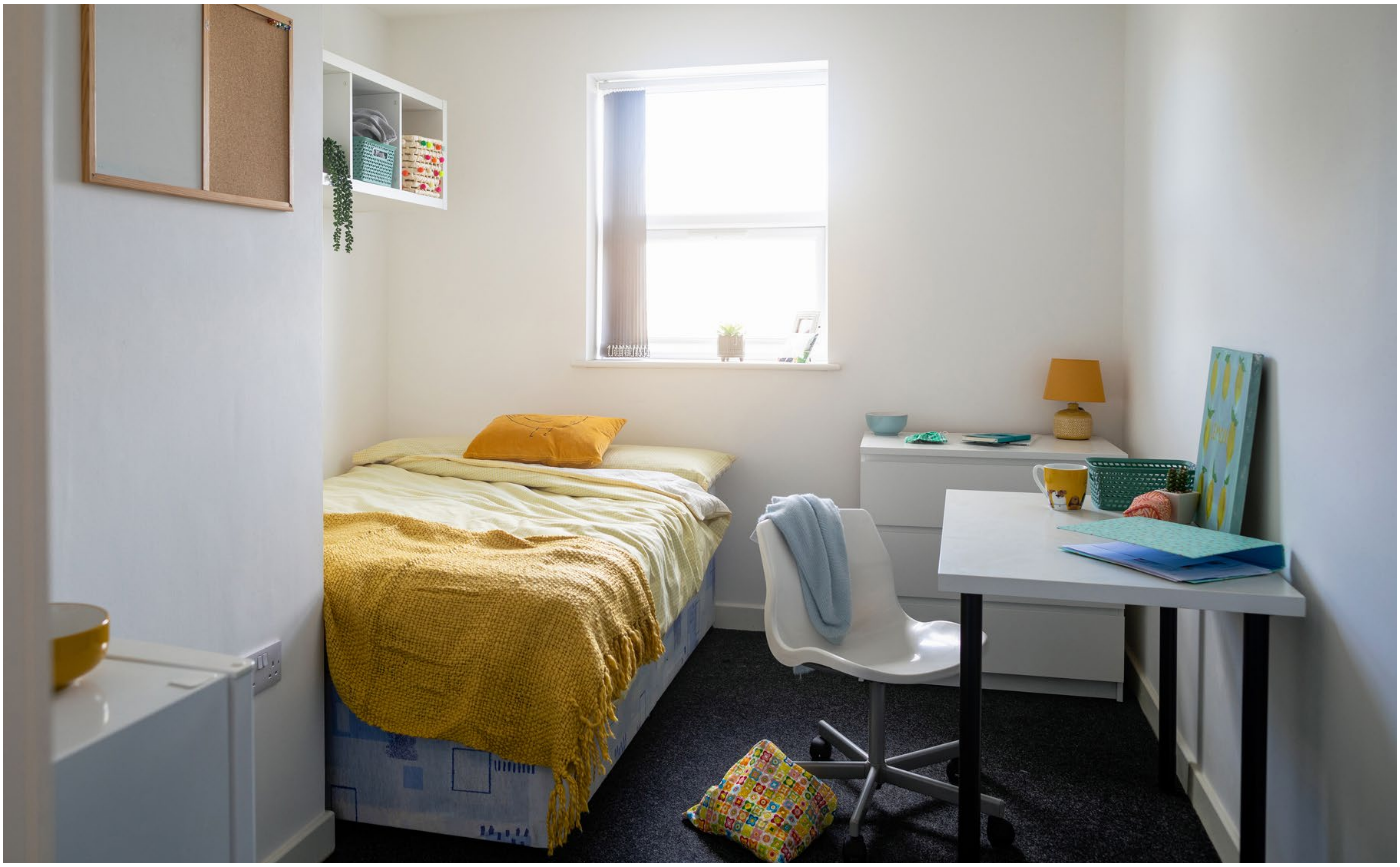
These buildings will not appeal to all students and some students will prefer to pay more for a larger room with more servicing.

What about the possible ghettoization of poorer students? Interestingly, there are many better-off students who prefer to pay less rent and spend their resources on other things, so lower cost rents do not necessarily attract just the poorer students. The risks of ghettoization also need to be balanced against the social pressures poorer students face when living with wealthier peers.

Most importantly of all, these buildings will need educational institutions to enter into at least medium-term arrangements both to promote them and ensure student balance within them. In design terms, these should not be seen as 'basic' but should remain stylish and well-designed, but with a rent level around 25% to 30% less that the current PBSA model.



Any new model will also need to pull clear of previous assumptions where 'partnership arrangements' were frequently accompanied by large up-front payments from the developer to the educational institutions. For a low-cost model to be developed, there has to be an acceptance of no up-front payments being paid by developers because these simply result in higher rent levels. The gain for the developer on a lower rental development model would be an agreed financial return based on 'open-book' accountancy and the gain for the educational institution would be some lower cost accommodation for its students. If the use of university land was part of any arrangement, then the university and developer could reflect that in a longer term equity share with the university having first right of purchase on any planned disposal at the end of the term of the partnership.



Conclusion

The current slowdown in PBSA development and the uncertainties inherent in the continuing long-term supply of off-street houses allow developers and educational institutions a couple of years to get to grips with affordability and new partnerships as well as to become much more knowledgeable about local accommodation supply and demand. Some of the lower-cost accommodation solutions were first raised over 10 years ago but the traditional PBSA model was not ready for them.

Will educational institutions be willing to play a bigger, indeed central, role in promoting more affordable accommodation options and realign private sector development with their own longer-term needs and priorities and will they be willing to take part of that risk?

Student rents, for home students, already outstrip the current student maintenance arrangements. Living costs are already beginning to affect student choices of their academic institutions. In another three years' time, are we going to see many new PBSA averaging rents of £300 a week, because that is the current projection, or are we going to seriously explore these more innovatory options?

Higher Education Policy Institute

99 Banbury Road, Oxford OX2 6JX
admin@hepi.ac.uk
www.hepi.ac.uk
@HEPI_news