

A Guide To Purpose-Built Student Accommodation



ESPER WEALTH
PROPERTY INVESTMENTS



CONTENTS

01

Introduction

02

PBSA The Low Down:

03

Market Insight

04

Investment Prospects:

05

Traditional Student HMOs:

06

The Esper Approach

Introduction

Purpose-built student accommodation is a rapidly growing market. It has become the accommodation of choice for many students, especially international students.

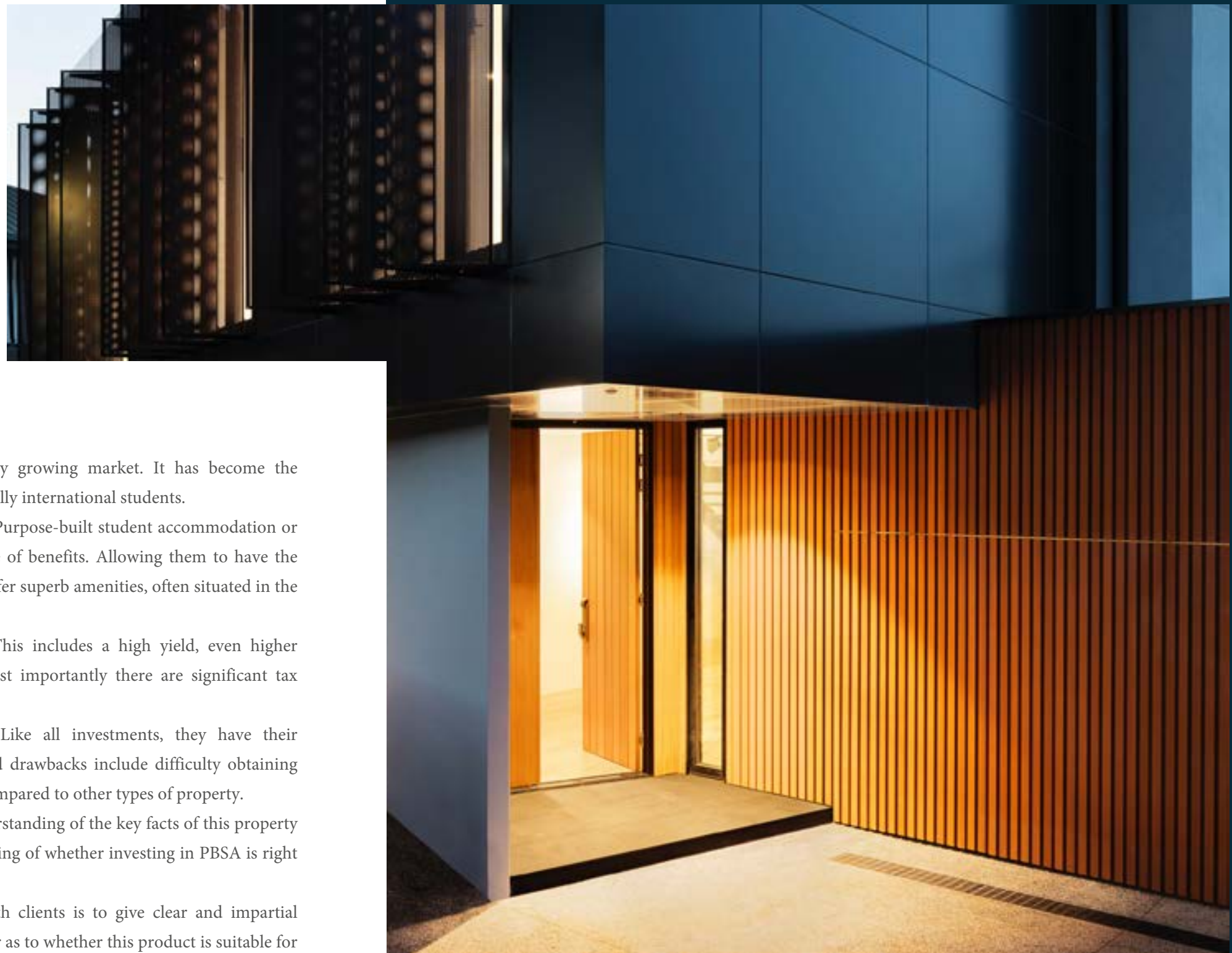
Looking at this sector it is not difficult to see why. Purpose-built student accommodation or PBSA as it is better known, offers students a range of benefits. Allowing them to have the perfect mix between privacy and socialising. They offer superb amenities, often situated in the ideal location.

For private investors, they offer many benefits. This includes a high yield, even higher occupancy rates, and modest purchase prices. Most importantly there are significant tax advantages.

However, this asset class is not for everyone. Like all investments, they have their disadvantages too. The most commonly mentioned drawbacks include difficulty obtaining mortgage finance and slower capital appreciation compared to other types of property.

In our ultimate guide to PBSA, you will get an understanding of the key facts of this property class. Most importantly you will gain an understanding of whether investing in PBSA is right for you.

At Esper Wealth our objective when speaking with clients is to give clear and impartial advice. If after reading this guide you are still unclear as to whether this product is suitable for your investment needs, then we advise you have a free investment review. Our experienced consultants will be able to establish which product most aligned with your specific requirements.



PBSA The Lowdown

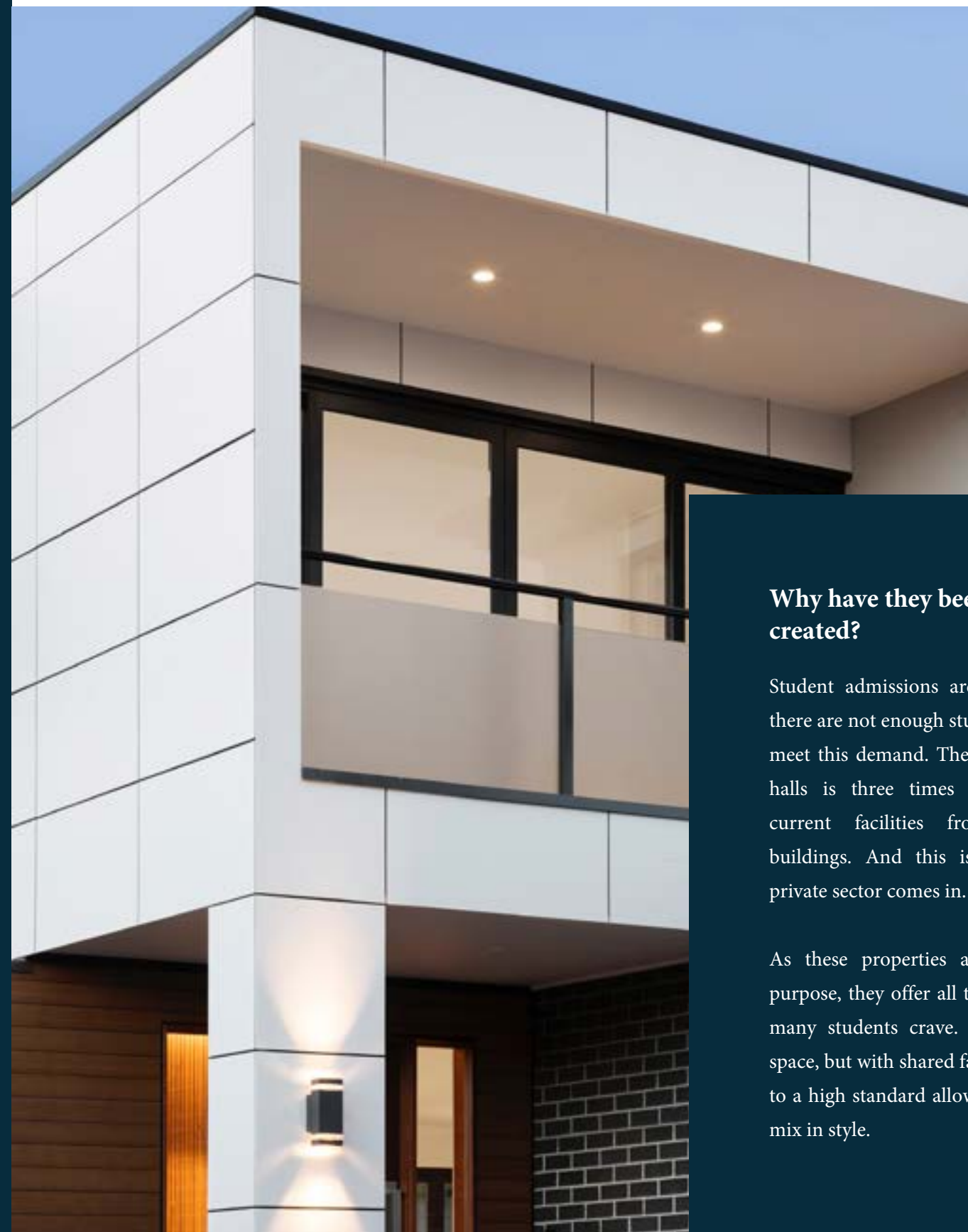
What is purpose-built student accommodation (PBSA)? And how does it work? Is it a good investment? We assess the pros and cons of PBSA as an asset class.



What is purpose-built student accommodation?

Purpose-built student accommodation, or PBSA as it is better known, is a property built specifically for students. These projects are funded exclusively by the private sector.

The accommodation consists of self-contained units, with communal facilities such as a shared kitchen and other amenities. PBSA has evolved to offer a high-quality living experience for students. Typical amenities include communal living spaces and working hubs with excellent Wi-Fi. Often PBSA offers extra luxuries like a gym and media room for their shared tenants.



Why have they been created?

Student admissions are rising and there are not enough student halls to meet this demand. The demand for halls is three times higher than current facilities from campus buildings. And this is where the private sector comes in.

As these properties are built for purpose, they offer all the amenities many students crave. Independent space, but with shared facilities, built to a high standard allowing them to mix in style.

What have they replaced?

PBSA has eaten into the market share of traditional student accommodation, which is a student HMO (house of multiple occupancies). This type of accommodation is usually a shared terrace house. Often this means outdated small bedrooms with cramped communal rooms. This is a far cry from the comfort provided by PBSA.



Market Insight

Student admissions are at an all-time high. According to Savills, UK admissions during the academic years of 2020/21 and 2021/22 were the highest on record. They perceive next year to be equally strong, with the third successive year where there are over 600,000 first-year undergraduates.

These increased admissions will put huge pressure on student accommodation levels, where demand is outstripping supply.

With the current property landscape changing for traditional student accommodation (student HMOs), there is an even greater demand. Recent changes in respect to mortgage tax and regulatory changes have led to a lot of private landlords selling up in the wider property HMO market. This has added to the supply shortage.

With the UK being an education centre of choice for many overseas students, there is an even stronger demand for PBSA. This is because PBSA tends to be the accommodation of choice for this market segment. This makes sense, with the majority of international students having affluent parents, who can afford the increased costs of quality accommodation and higher university fees.

Separate research undertaken by Savills in Q4 2021 shows that PBSA remains incredibly resilient in a post-Covid world. Occupancy rates for PBSA are more than 94% for this academic year.

Yet, despite this huge demand, investment in PBSA has not increased to match the market need. The chart below shows money spent on development projects in this area of the market in the UK. A potential reason for this lack of development could be a hangover from Covid last year in the construction sector. Alternatively, it could be a response from some developers waiting to see what happens in the market, due to inflationary pressure on building labour and material costs.

Investment prospects

According to CBRE Group, PBSA delivered a 7.7% return in the last 12 months despite the impact from Covid. They anticipate stronger returns on the horizon. Tim Pankhurst, Executive Director of CBRE Student Accommodation Valuation & Advisory commented, “Supply can’t keep up, with the delivery of new PBSA supply, hindered by increasing build costs and land availability. These dynamics have contributed to strong investor sentiment and we expect that the appetite for good quality PBSA assets will continue into next year.”

Is PBSA a good investment for me?

Overall, PBSA remains a good investment choice. Many investors like this asset class as it offers a very high yield (7%+), coupled with an almost guaranteed rental demand, with no void periods. With several tax advantages in purchasing PBSA compared to typical buy-to-lets, this asset class is an excellent way of gaining a safe but high investment yield. This is of particular interest to investors who are either retired or are approaching retirement. This investor segment is looking for a way to increase their income passively. PBSA fulfils this requirement as it is a hands-free investment.

However, for younger investors, who are striving for capital growth and who want to use mortgage finance to leverage their returns, there remain better options.



Traditional Student HMO's

When looking at PBSA it is good to look at alternative accommodation options. Prior to PBSA most students lived in what was effectively known as student HMOs. We take a look at this product. Then later on we ask which type is better from an investor's perspective. This is achieved by listing the advantages and disadvantages of both types of student accommodation.

What are Student HMOs?

Student houses of multiple occupancy (Student HMO's) are traditional house shares where the rent is divided amongst the students. Typically, this type of arrangement is considered a little outdated by many students. These house shares often have a number of smaller rooms with limited amenities.

Student HMOs create a vision of an old style terrace house located a couple of miles away from the campus. This contrasts with PBSA where location tends to be in prime city centre locations.



What are the advantages of investing in PBSA?

There are several advantages to PBSA. We take a look at these key benefits.

- Strong consumer demand. PBSA is built with the student in mind. They possess a modern design, with excellent amenities. Because of this students are willing to pay a premium for it.
- Confidence in the market. In the academic year, 2021/22 PBSA has a 94% occupancy rate. Any PBSA which is located relatively close to the campus is leased out as soon as it becomes available.
- Great location for students. Typically, PBSA is usually multi-story dwellings located in the city centre.
- Excellent returns for investors. Due to city centre locations, the investor is purchasing in a prime location. This increases the probability of high yields and capital growth.
- Rental guarantee. Many developers give a rental guarantee period. This reduces the risk to your investment whilst the PBSA establishes its reputation within the local market.
- Hands-off investment. Most PBSA have building management, maintenance and security. This gives the investor a passive, hassle-free investment.
- Off-plan options. Investing in off-plan student property gives you access to a below market value investment. This means to profit from day one.
- Better retention rate. PBSA has a higher retention rate compared to Student HMOs. This is due to students having a better living experience.

What are the limitations of investing in PBSA?

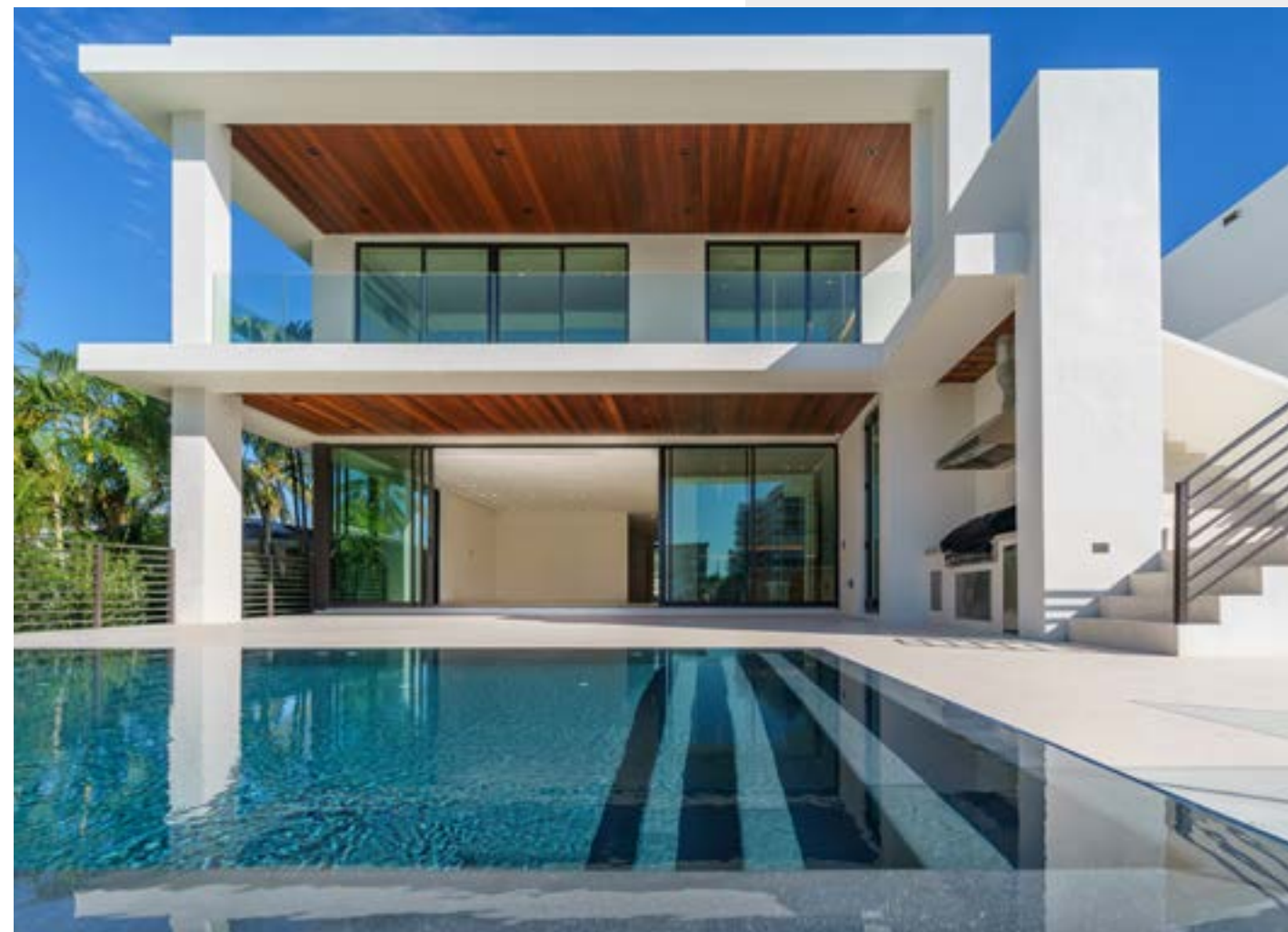
- Capital growth might not be as high. Whilst PBSA tends to generate higher rental yields than residential investments, capital growth may not be as high.
- No mortgage option. You can't get a mortgage on PBSA. This means investors need to pay the costs upfront.
- You can only sell to another investor. Unlike Student HMO your only buyer will be an investor when it's time to sell. This may result in a longer selling process.

What are the advantages of investing in a Student HMO?

- More students for your money. HMOs tend to have a lower price point than PBSA as owners can rent out individual rooms to multiple tenants.
- Higher income security. If one tenant drops out, you still have income from other tenants to fall back on.
- Accepted for mortgage finance. Unlike PBSA, Student HMOs qualify for mortgage finance. This means an investor can borrow against their property to potentially achieve better returns.

What are the limitations of investing in a Student HMO?

- Investors' legal duties. When The Licensing of Houses in Multiple Occupation Order 2018 came into force on 1st October 2018, more properties need to be licensed for the protection of their tenants. This means increased legal responsibilities for landlords.
- Lower demand. Students are expecting more from their accommodation. PBSA offers a better quality of living.
- Higher upkeep costs. HMOs tend to be older and of lower quality. This means more maintenance costs.
- No building management. Student HMOs are generally more of a hands-on investment, requiring the investor to personally manage any issues or outsource this to an agent.



Which option is best for me?

As you can see there are advantages and disadvantages to both types of student accommodation. For private investors, PBSA offers better tax breaks and other benefits.

In contrast, for owners of Student HMOs, there are increased taxation and legislation. Investors now have to pay an additional 3% surcharge on top of normal stamp duty rates. Owners of Student HMOs who have a mortgage, have also endured changes to mortgage tax rules for buy-to-lets. This has left them further out of pocket.

However, Student HMOs are not all bad. The ability to obtain mortgage finance and the cheap cost per room compared to PBSA means they could potentially be more profitable for investors who are comfortable in obtaining high levels of mortgage debt. With this in mind, PBSA is very attractive to investors who are around retirement age. As they are attracted to a high-income, hands-free investment. Whilst Student HMOs remain the investment of choice, for younger investors seeking to build up an investment portfolio.

You can find out more about the benefits of PBSA by reading our article “the top ten reasons why you should consider investing in PBSA.” Alternative if you would like to receive expert advice then contact one of our investment consultants today.



The Esper Approach

At Esper Wealth we work for you. Our role is to listen to you and guide you to achieve your goals. As a client we want you to feel comfortable in the investment process, in the belief that we are delivering the best advice. With this in mind, it is important to follow three simple rules when investing:

1. **Never feel pressured.** Many property sales companies work on urgency. This is the wrong approach. You should take the time to decide what is right for you and your family. If this means you miss a particular property then be rest assured another opportunity will arise.
2. **Be transactional.** This means trying not to be emotive about a property. Remember you are not living in it. Ask yourself, do the numbers work financially for me?
3. **Ask yourself, what if?** In life, we never know what's around the corner. Sometimes your circumstances can change. If things do change, how will it impact me? Whilst you can never legislate for all contingencies, it is advisable to invest with your eyes open.

If you are interested in off-plan opportunities, or completed property direct from the developer, then visit our developments page. Alternatively, if you would prefer to start your investment journey by having a no obligations, free investment review, Then contact a member of our team who will be happy to help.