



## OAK INVESTMENT MANAGEMENT GROUP



### OCTOBER (1) 2014 The Real Estate of Student Housing

*Student housing is a specialised sub-sector of commercial real estate. It is specialised but connected to almost every other sector of real estate. There are some elements that are similar to residential (namely the broad capital value of the asset itself, albeit at a lower level); office (continuous occupation and operational improvement); hotel (iterative client retention as well as high management costs); industrial (with all factors normalised and controlled there is potentially a high cash yield).*

Clearly there are many things to get right with student housing. The first and foremost is management. Management is the key and makes the business far more operational than almost every other sector of real estate save the hotel sector. Lousy management can destroy good student housing, and good management can make successful cash generation out of not so excellent stock.

Nevertheless, from an investment point of view, the most important *alpha* is in stock selection. If student housing is close to palpable demand it will do well. If it has a good catchment area, and if the university in question is in demand then the physical stock of housing will have good pricing power. This pricing power cannot go on forever so it is important (even for the best propositions) to check the current level of affordability on a room per calendar year basis.

European universities are ancient institutions. As a result most of them have student accommodation that is either on campus or is off-campus but which is owned by the universities themselves or *ad hoc* accommodation throughout the town. There has been recent appetite (especially from US students studying in Europe) for campus style living. It is perceived to be physically safer as well as afford a better educational and social experience than living in the town of a particular university. This has led to a mini boom in construction as well as in investment in such campus living propositions throughout Europe. This has been augmented in recent years by under-utilised builders as well as a dearth of other residential or retail led real estate propositions.

Construction is the easiest part of student housing real estate market. It is the ongoing management that is the hardest aspect. That involves managing students (not always the easiest group); collecting rents (either from parents or from the students themselves); keeping down capital expenditure; maximising value extracted from a largely homogenous population; keeping occupancy high; ensuring high occupancy for a one time only event i.e. the start of term; lowering churn as much as possible; managing structural vacancy (even if students are paying during their holidays).

There has been a great deal of investment interest in this sub-sector during the downturn because the perceived inelastic demand for student housing at top universities and a backlog of investment in the sector for many years. But it is clear that this is very much an operational real estate business as opposed to a passive one. As a result any investor should be prepared for this.

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