



JAMES PULLAN
Head of Student Property

“Demand for Higher Education in the UK remains strong. Universities that are perceived to offer the highest quality courses in locations offering the best overall student experience will increasingly attract higher levels of students.”

Key facts

Total applicant numbers for UK higher education courses for the 2018/19 cycle fell by 0.9% year-on-year, according to UCAS data

However, a record 36% of A-level students across the UK applied for courses in 2018

Applications from within the EU were 3.4% higher year-on-year, with an 11.1% increase in applications from non-EU applicants

The number of 18-year olds in the UK is projected to increase by 103,000 between 2021 and 2025, underpinning future demand

PBSA represents around 30% of full-time first-year undergraduate housing choices, up from 22% five years ago

SEARCH FOR QUALITY UNDERPINS APPLICATION NUMBERS

Demand for UK Higher Education remains strong despite uncertainty over EU funding and the inclusion of international students in government migration targets.

Student property investment totalled £4bn in 2017, up 25% on the previous year. This strong performance looks set to continue in 2018, despite the current uncertainty surrounding Brexit. The enduring strength and quality of the UK's Higher Education sector remains the key driver.

January deadline data from UCAS reinforces this view. Despite a slight drop in total applicant numbers, down 0.9% compared with 2017/18, which reflects the smaller cohort of those turning 18 over the last year, a record 36% of A-level students across the UK applied for higher education courses in 2018.

Applications from international students also increased, bucking the downward trend seen in 2017 when uncertainty surrounding the UK's future relationship

with Europe contributed to a decline in applications from within the EU, although the numbers coming to UK universities remained high due to above-average acceptance rates.

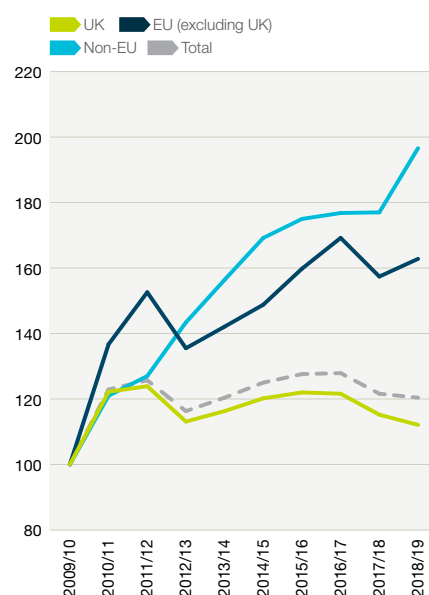
In the 2018/19 cycle, applications from within the EU were 3.4% higher year-on-year, with an 11.1% increase in applications from non-EU applicants. Overall, applications from outside of the UK increased by 7.6%, highlighting the enduring popularity of the UK as a place to study and live.

The number of students accepting places at UK institutions has increased over the long-term. In 2017/18, over 200,000 18-year olds and 70,000 students from outside the UK accepted places, the highest on record.

FIGURE 1

University applicants by domicile

Indexed 100 = 2009/10, full year (data for 2018 at January deadline)

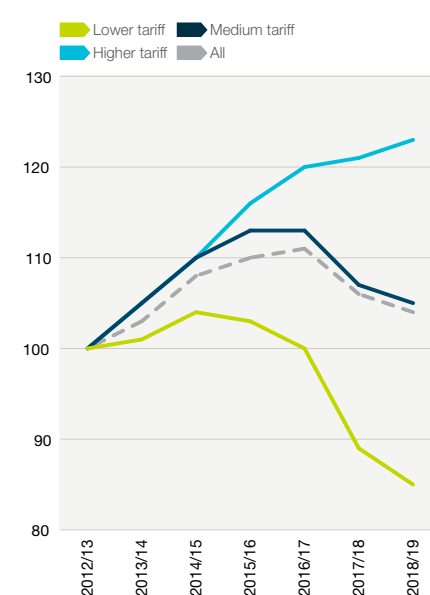


Source: Knight Frank Research / UCAS

FIGURE 2

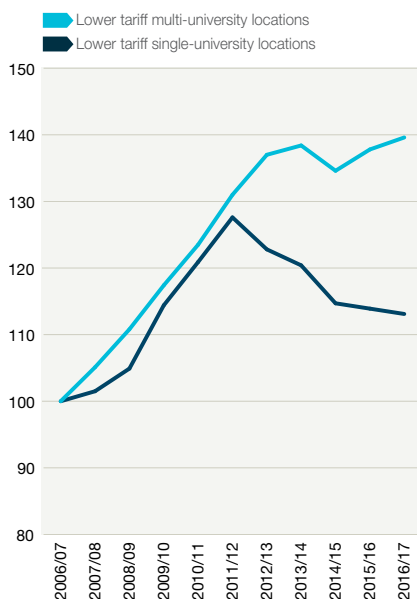
Applications by university tariff band

Indexed 100 = 2009/10, full year (data for 2018 at January deadline)



Source: Knight Frank Research / UCAS

FIGURE 3
Full-time undergraduate numbers in single vs multi-university locations
 Indexed, lower tariff universities (excluding London)



Source: HESA

“
 We believe that many of the largest investment opportunities will be in partnership with universities to redevelop older stock.
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JAMES PULLAN, HEAD OF STUDENT PROPERTY

Increasing acceptance rates have been supported by a lifting of the cap on student places at publicly-funded institutions in England since 2015. This change of policy has provided institutions with greater flexibility in managing acceptances and is a mark of the support for widening participation in the sector from the UK government.

A Government review, currently taking place, of tuition fees and university funding may result in further changes.

Official population forecasts suggest that the total number of 18-year olds in the UK will fall over the two years to 2020. As a result, we expect domestic undergraduate numbers will remain relatively flat over this time. Also, any potential drop in EU students is likely to be offset by growth in overseas students from outside of the EU.

In contrast, the number of first-year students undertaking postgraduate courses in 2016/17 was up 9.5% on 2015/16 levels and was at its highest point in ten years. This coincides with the introduction of postgraduate loans for those students from England studying a master's course. Overall, UK-domiciled postgraduates from the UK are up by 8.3% on 2015/16 levels.

In the longer term, the number of 18-year olds in the UK is projected to increase by 103,000 between 2021 and 2025, at an average of 2.8% per year. This is expected to underpin future demand. If the current rate of UK applications and acceptances is

maintained, by the 2025/26 academic year there will be an additional 19,000 UK first-year undergraduates.

Future demand from EU students is contingent on key policy decisions on fees, financial support and immigration rules and therefore may change significantly. Furthermore, despite unprecedented levels of uncertainty within the sector there is a continuing need for universities to invest in campuses and to create what is perceived as value for money for new students.

The changes in demand for Higher Education will not be felt uniformly across UK institutions. The latest data on applications by tariff band showed an increasing split in demand for courses between higher tariff band universities and lower tariff band, in recent years this has been particularly pronounced when we look at full-time student numbers in Russell Group universities, which fall into the higher tariff, compared with lower tariff providers granted university status after 1992, as shown in figure 4. Using average entry requirements for courses, we have modeled UCAS rankings for Higher Education providers placing them into three distinct tariffs (low, medium and high).

As a result, there is likely to be a greater focus on the outcomes of attending university for students especially given affordability pressures. In the longer term, the capacity within the 'bank of mum and dad' is likely to diminish significantly due

FIGURE 4
Full-time student numbers by university type Total number



Source: Knight Frank Research / HESA

to lower housing related wealth within the younger 'baby boomers'.

The quality of the education itself plays a significant role in attracting new students, but this is just one part of the experience.

Research conducted by Knight Frank highlights this. A 'flight to quality' in recent years has resulted in a fall in full-time student numbers at lower tariff universities, while generally the opposite has been true for higher tariff institutions. However, the picture is slightly more nuanced. As figure 3 shows, lower tariff universities located within multi-university cities have bucked this trend, which suggests that bigger, more populous, student locations are able to maintain their appeal.

Outside of the lecture theatres and learning spaces, the other major pull factor determining student experience is lifestyle, within which accommodation is a key component.

The 2012 increase in tuition fees seems, almost counterintuitively, to have increased students' (and their parents') willingness to pay for quality accommodation, which now makes up a smaller percentage of the overall cost

of study. The number of undergraduates studying away from their home region has increased by more than 30% over the last ten years. This trend demonstrates a sustained shift, with even more students choosing to live in Purpose Built Student Accommodation (PBSA).

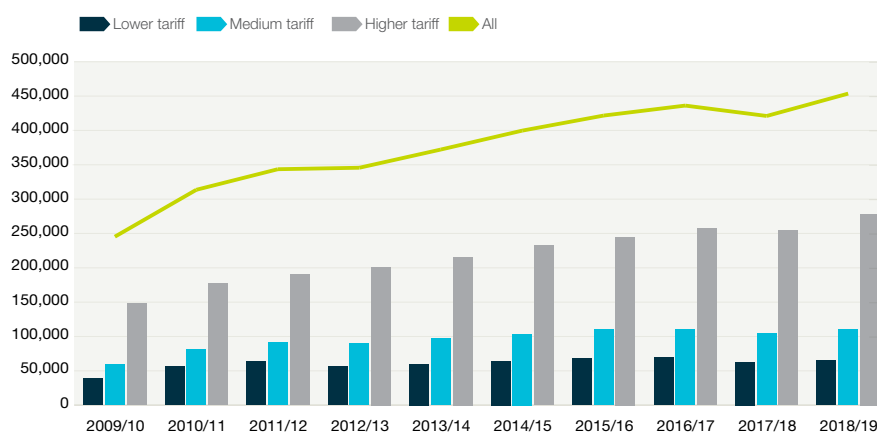
At a UK level, commercial PBSA represents approximately 30% of full-time first-year undergraduate housing choices, up from 22% five years ago. University provision represents a further

40% of housing choices, and has remained broadly unchanged over the same period.

In the future, we believe that many of the largest investment opportunities will be in partnership with universities to redevelop older and less fit for purpose stock. Recent examples of public-private partnerships include the University Partnerships Programme's investment in the University of Hull's West Campus and the Bay Campus at Swansea University.

FIGURE 5

International applications by university tariff band Total number, undergraduates



Source: Knight Frank Research / UCAS

POLICY REVIEW IS KEY



**MADDALAINE
ANSELL**
Chief Executive of
University Alliance

In February the government announced its long-awaited review of post-18 education and funding, due to report in 2019 with interim findings expected towards the end of this year.

Tasked with looking at value for money, skills, choice and ensuring the system is accessible to all, the review's panel has got its work cut out.

Alongside the fees regime, the cost of living faced by many students while studying has risen up the agenda, particularly since the abolition

of maintenance grants and their replacement with loans in 2015.

This is likely to be a key area of focus: the Department for Education's terms of reference refer explicitly to looking again at "how disadvantaged students and learners receive maintenance support, both from government and from universities and colleges".

The Government has been clear that there will be no new money — so there are likely to be losers as well as winners at the end of the process.

The review comes at a time when many institutions are designing and delivering innovative courses, such as degree apprenticeships and offering greater flexibility, such as accelerated programmes where students study more

intensively over two years rather than the traditional three.

Universities are delivering the government's Industrial Strategy by supporting key sectors, working closely with employers to equip graduates with the skills they need to succeed and thrive in the fourth industrial revolution.

More broadly, since the lifting of the student number cap, universities have prioritised investment in improving teaching, facilities and the wider student experience to attract students in the face of a more competitive market.

In the context of Brexit and the technological revolution, universities are crucial to student — and UK — success. The review must not clip their wings.

UK UNIVERSITY PARTNERSHIPS



JON WAKEFORD
Group Director,
Strategy and
Communications, UPP

Knight Frank's latest research signals a UK higher education market that is set for a continued strong performance in 2018, a view shared by UPP.

We see a marketplace for students that has become increasingly global, with UK universities finding themselves competing with international rivals to attract domestic and overseas students.

The good news for student accommodation investors, developers and operators is that UK universities recognise the need to provide high-quality accommodation and facilities, to give themselves competitive advantage in the market.

We predict there will be continued growing demand from both current and future students for high-quality, modern and affordable accommodation. It is

vital to the continued success of the UK higher education sector that universities meet the expectations of students, by ensuring the very best experiences are available to all.

Since 2006, the average occupancy rate in rooms we manage stands at 99.5%, rising to 99.9% for the year ended 31 August 2017 and 100% for this current financial year – clear evidence of the student demand for high-quality, on-campus accommodation.

At UPP we maintain a single sector focus and our model involves being at the heart of campus, aligning the long-term business plan of universities with the opportunities afforded by historically cost-effective capital market funding and establishing long-term partnerships – evidence of our belief in the sector and its ability to flourish in a global competition for students.

Given the number of international institutional lenders that we work with, and the continuing appetite we experience from the wider capital markets, it is clear that funders share this view.

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