



# OAK INVESTMENT MANAGEMENT GROUP

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## The Real Estate of Student Housing

*Student Housing is a specialised sub-sector of real estate. It has increased in investment popularity throughout Europe in recent years as a result of perceived under-investment in stock, move towards campus living near established universities as well as inelastic demand by generation after generation of students. As ever, fundamental drivers underpin investment performance of an investment in this sector over the long run.*

Fundamental drivers of investment performance include marginal pricing power of a location to a university, immediate availability of product in close proximity to a university and inter-continental diversity / willingness to pay of attendees to a university. In student housing, therefore, the location of the investment stock is inextricably linked to the performance and continued success of the nearby university. If the institution does well academically as well as in terms of its international 'draw' the locations around it will be able to price in growth in value.

There might be exogenous factors that negate the fundamentals. In England, for example, additional fees might counter-balance the spending habit of a potential student. In Italy, the highly publicised murder of an American student might inform campus living choice of a potential student. In Germany, a ratcheting down of time spent at a university might lead to surplus supply of student accommodation for a potential student.

There are fundamental challenges with investing in student housing too. It is management intensive, dealing with multiple occupiers as well as multiple issues. There is no way getting round the fact that even with responsible tenants and carefully consideration to vetting / referral there is less responsibility towards the real estate in question by the incumbent than almost any other form of real estate. The students are there, by definition, a shorter length of time so have less to lose than almost any other occupier.

From an investment point of view, student housing has elements of rented, residential and commercial sectors. Clearly students come and go meaning that the sub-sector is most similar to the rented sector. The perpetual need as well as the emphasis on capital values is analogous to the residential sector. But ultimately, the fact that student housing is an on-going and iterative business makes it a fundamentally commercial sector based activity. This makes management and management process incredibly important to investing in the sector.

Development of student housing can either be speculative or 'to order' i.e. with a head lease from a university. Clearly the former is more risky, but the latter will come at the expense of upside in terms potential to an investor. The value for investment getting involved at the development stage is that the product is that there are no legacy issues and often the developer can offer an attractive price. An investor must remember that yield can only be sustained with appropriate management.

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*Nicholas Frankopan is the Managing Director of Oak Investment Management Group pan-European real estate investment manager. To contact the author please email [nfrankopan@oaking.com](mailto:nfrankopan@oaking.com) or learn more about the group at [www.oaking.com](http://www.oaking.com). © All rights are asserted please request permission for reproduction.*