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KEYNOTE INTERVIEW

Firm foundations for European student housing



*The pandemic has failed to halt growth in a rapidly institutionalizing segment, argue Brookfield Asset Management's **Zachary Vaughan** and **Jeannie Wong***

European student housing has demonstrated its resilience throughout the pandemic and remained in demand for institutional capital.

CBRE figures show investment volumes for European purpose-built student accommodation reached more than €9 billion in 2020, slightly exceeding the previous year's total. Brookfield Asset Management managing partner Zachary Vaughan and senior vice-president Jeannie Wong analyze the drivers for the market and identify future opportunities for investment.

Q What makes European student housing attractive to institutional capital?

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Zachary Vaughan: The sector offers a combination of attractive real estate fundamentals and strong tailwinds on a macro level. Student accommodation provides stable, recurring, high-margin revenue streams, and has done so even through the pandemic.

In some ways, student housing is a non-discretionary expense; if people want to study, they need somewhere to live when at university. Meanwhile there is an undersupply of high-quality, purpose-built property and increasing

demand from international students seeking education in the UK and Europe.

People in the emerging middle class in India, China and elsewhere in Asia want high-quality English-based higher education for their children, and they are willing to invest in it. It is no longer only accessible to the wealthiest citizens from those countries who send their children to study abroad.

Q Is it becoming a mature institutional asset class?

ZV: In 2016, when we first entered the business in the UK, it was still considered very alternative. The perception was that student housing was not an

institutional-quality physical asset and that it was hard to find partners to aggregate portfolios and run them at scale. But it was clear to us that these investments would move pretty quickly from alternative into the mainstream.

That meant there was a window of opportunity for an aggregation play. The sector was more mature in the UK and we moved fast to build up our UK business through development and acquisitions. Then we used the expertise gained to expand into the continent, which was less mature and acquired three businesses which we continue to scale up.

In the past five years it has become an institutional asset class. Right now, student housing is very high on institutional investors' wish lists. Because of this we have seen yields tighten.

Investors are now much more comfortable with the sector's income profile, which is very stable. And if you own the right assets, and have a strong sales and marketing operation, you can still achieve good rental growth year-on-year.

In continental Europe, institutionalization still has a long way to go, however. In Germany we are the largest private operator of purpose-built student accommodation with 5,000 units and another 10,000 in production. This is still relatively small compared to portfolios in more mature markets such as the UK.

Q What is the key to maximizing value creation in the sector?

Jeannie Wong: Combining great operational capabilities with access to capital. Value creation is about scale and having direct control over your platform.

To achieve scale, you need flexible capital and excellent transaction capabilities. In more mature markets like the UK we are starting to see first-generation purpose-built stock coming to market, and as an investor you need to take the capex risk



Model student

UK business Student Roost sets the template for Brookfield's expansion into European student accommodation

Brookfield began its foray into European student housing with the 2016 acquisition of hedge fund Avenue Capital's 5,700-bed UK portfolio for around £420 million (\$585 million; €485 million). The existing chairman and chief investment officer formed the nucleus of a new management team and worked with Brookfield to build a scale portfolio.

Within a year, two further off-market portfolio acquisitions created a portfolio of more than 10,000 units, the size at which it made sense to build an operating platform. An experienced management team was built out, while sales and marketing, property operations and financing functions were brought in-house, ending third-party management contracts. The business was then relaunched as Student Roost.

In late 2020, Student Roost agreed a £70 million forward-funding transaction to acquire two development opportunities in York and Bristol, which will provide 660 student beds when completed in time for the 2022-23 academic year. The experience gleaned building the platform has formed the basis for a replicable model Brookfield is rolling out across continental Europe, where it has acquired four student accommodation brands since 2018: International Campus Group in Germany and the Netherlands, ECLA and Suit'Etudes in France, and Livensa Living in Spain and Portugal. Combined, these businesses now comprise the largest PBSA platform in continental Europe.

"The growth of each business will follow a different path because they started at different points," says Vaughan. "But the goal is the same in each case: to build a best-in-class operating, development and investment company in a specific sector and geography."

associated with refurbishing and repositioning those assets to build scale.

In the less mature markets on the continent, the product does not exist, so you need to build scale through development and forward funding deals. Control is key because if you are outsourcing management functions, it is harder to run your operations efficiently.

Student housing is a very service-oriented business and is becoming more so all the time. It is highly operational and requires lots of hands-on attention. That is why our thesis was to build a vertically integrated business with the right management team.

For example, sales and marketing is an area where you can really drive value. Having an in-sourced team, including site-level staff, with performance targets linked to the bottom line of your business, is crucial to driving sales and ensuring you remain competitive. The amount of time and effort it takes to grow a business in this segment is frequently underestimated.

Q How has student accommodation performed in the pandemic?

JW: In the UK, Germany and the Netherlands occupancy held up strongly, partly because any vacancies created by international students going home were back-filled by domestic or international students who wanted or needed to stay. In the UK, the switch from A-level exams to teacher assessment actually led to more students applying to universities. Surveys of students during the pandemic showed them consistently wanting to return to their university accommodation despite widespread online learning.

There was a slight impact on profits in the short term. In the UK, we provided rental relief to students who wanted to return home during the lockdowns. We wanted to support our residents and protect our brand, which allowed us to maintain customer loyalty and rebook a lot of them for the next academic year.

“Student accommodation provides stable, recurring, high-margin revenue streams, and has done so even through the pandemic”

ZACHARY VAUGHAN

ZV: Investors may be questioning how the pandemic could change the future of how people live, shop, work and travel, which could delay investment decisions and impact transaction volumes, but we have not seen that uncertainty in student housing. Publicly-quoted student housing companies are still trading at a premium to the rest of the real estate sector.

Q How has the UK market held up? Has Brexit had a negative impact?

JW: While the UK is the most mature market in Europe, it will continue to be one of the biggest markets for international students attracted by its prestigious universities. In recent years there was a dip in domestic student numbers due to demographic trends, but they are forecast to increase again over the next 10 to 15 years.

ZV: We also expect continued growth in students from India and China.

Brexit may impact demand from European students, but they account for only 5 to 6 percent of the market.

For European students, UK university fees are higher than those in France or Germany, so it has always been more expensive for them to study here. Even if the numbers of European students shrink by half, it would not have a major impact. The beds will be filled by domestic and other global students instead.

Q Where will the most attractive future investment opportunities be found?

JW: There are several factors we look at when assessing new markets: educational quality, access to visas for study and to work after graduation, and the number of English language courses taught. Then there are the global market connections. For example, Latin American students like studying in Iberia because of the cultural and language similarities.

The next country we are looking at is Italy. The ratio of student beds to student numbers is quite low and there are prestigious universities that attract high international demand.

ZV: As a student real estate market, Europe is still behind the UK because universities there have only recently started ramping up the number of English language undergraduate courses they teach. In 2009, there were approximately 50 English-taught undergraduate courses at big European universities; now there are 3,000 and growing.

In France, for example, the proportion of Chinese students in our assets has increased from less than 10 percent to around a quarter. We also see that trend taking hold in Germany and Spain.

What drives this sector to perform the way it does is the ongoing globalization of higher education. We believe that this has only just begun. ■

Brookfield

BUILDING A LEADING PAN-EUROPEAN

Student Housing Platform

Brookfield is a premier alternative asset manager, with a focus on investing in the backbone of the global economy. As a leading investor in global real estate, we have the teams, network and knowledge to spot trends early. Identifying an opportunity in Europe, we have built a leading pan-European student housing platform over the last five years, leveraging our global model of transforming single assets into established operating businesses well positioned for growth.

Learn more about us at [Brookfield.com](https://www.brookfield.com).

