

Is Student Housing An Investment Opportunity?

# STUDENT HOUSING | CZECH REPUBLIC

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Accelerating success.



## Student Housing

Given the weight capital currently targeting the traditional real estate assets of office, retail and industrial, which in turn has driven capital values close to or already at cyclical peaks across many markets; some investors are having to look other types of property investment in the search of suitable returns or simply as a diversification play.

One such “alternative” compared to a more typical real estate investment strategy is the student housing sector. We have seen a marked rise in the popularity of student housing as an investment asset and according to the Financial Times the sector has ballooned from a fringe investment 10 years ago to a global market that is worth around \$200bn today. This growth in investor interest for this sector has been underpinned by a rise in the number of students worldwide, which for example has increased from 98 million back in 2000 to around 170 million today.

Evidence of the growing popularity in student accommodation as an asset class can also be demonstrated across parts of Europe with locations like the UK, Holland and Germany leading the way. For example, investment volumes in the UK in 2005 were around €365m and by 2015 were reported to be close to the €6.3bn mark.

This begs the question as to what are the prospects for less mature markets such as the Czech Republic (and other CEE countries) where student accommodation is still in its nascent stage. Can developers and current owners of student housing for example take advantage of increasing investor interest in the sector or is the Czech market structurally not a good fit or not yet mature enough for this type of alternative property investment to take off?

In this paper we explore the current status of student housing in the Czech Republic and the future prospects of this sector establishing itself as a product that could attract both domestic and foreign investors.

## Student Numbers

The number of university students in the Czech Republic experienced significant growth from 2000-2009, whilst in the preceding period since there has been a slight tail-off which can be attributed to a fall in the country birth rate.

## Student Population

By the end of 2015, 326,900 students attended 26 public and 41 private universities in the Czech Republic, both in

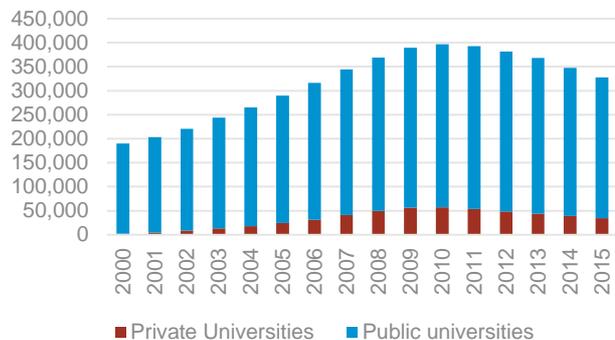


daily study programmes (76%) as well as in distance studies (24%).

The largest state university in the country is Charles University in Prague with 47,010 students with the second largest university being Masaryk University in Brno with 32,950 students.

Private university tend to be much smaller with the largest being Metropolitan University in Prague with around 5,100 students.

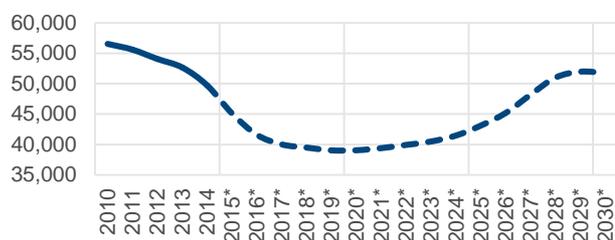
### Total Number of University Students



Source: Ministry of Education, Youth and Sports

Compared to 2010 the total number of newly enrolled students in the first semester of a bachelor degree has dropped by around 29%, with the main reason being a lower birth rate in the Czech Republic at the beginning of 1990's.

### Forecast on Newly Enrolled Students in the Czech Republic



Source: Ministry of Education, Youth and Sports, Czech Statistical Office, \*Forecast: Colliers

Annual enrolment of new students is expected to remain flat at ca.40,000 students per year until around 2020 after which the figures are expected to start climbing again.

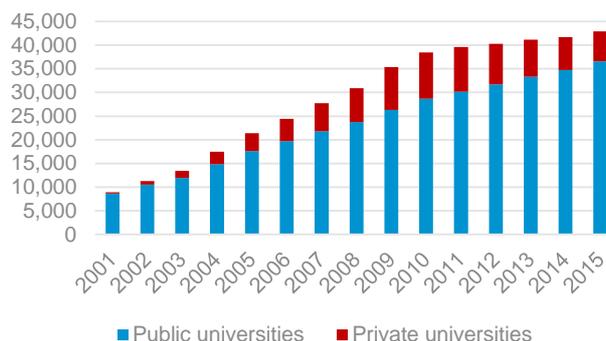
### International Students

Included with the figures and the graphs above are foreign students who make up around 12% of the total Czech student population.

International students generally fall into two categories, firstly long term students who enrol on to a standard degree program and secondly those which are short term students that study for one or two semesters only. A typical example of a short term student would be someone that utilises the European program called Erasmus, which enables students to gain study experience abroad within the EU.

Despite the recent decrease in the overall number of students in the Czech Republic the number of international students has continued to grow.

### International Students in the Czech Republic

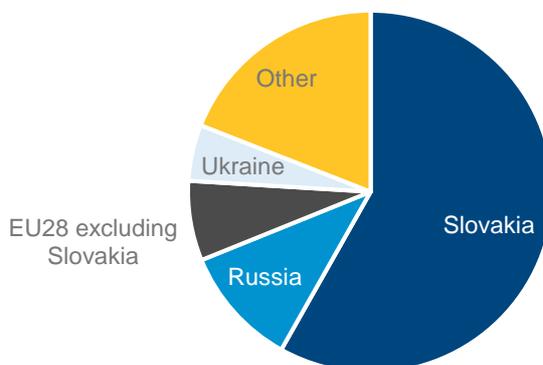


Source: Ministry of Education, Youth and Sports

The Czech Republic has become a popular study destination for international students due to quality of many of the university degree programs and the relatively low living costs compared with other European countries. In 2015, the Czech Republic hosted some 42,891 international students, with the highest concentration living in Prague and thereafter in Brno.

The highest proportion of international students by far are those coming from Slovakia who represent ca. 55% of all international students. Other than the proximity of both countries, the similarity of the language allows Slovak student to study degrees at a state university that are taught exclusively in Czech language and such courses are also exempt from any tuition fees.

### Foreign Students by Country of Origin



Source: Czech Statistical Office

### Public Student Housing

Despite the overall increase in the number of students over the past 15 years in the Czech Republic, the provision of student accommodation has not kept a similar pace.

The stock of student accommodation is owned and operated by Czech Universities and based on available statistics, we estimate there to be a capacity of some 61,200 beds provided by state owned universities.

In case a student qualifies for place at a halls of residence, they often have to share a room with another student i.e.

the room has two beds and facilities such as toilets and kitchens may even be shared or common with other students living on the same floor.

Sharing of rooms is one notable difference between say the Czech student accommodation and that of UK or Germany, where single rooms tends to be the typical set-up for student type housing.

One of the criticisms levelled at student accommodation in the Czech Republic is the poor quality of the stock. This is most likely down to the fact Czech universities not having sufficient financial resources to radically upgrade or refurbish their stock and even less likely the funds to construct new purpose built student dorms.

University student accommodation is often not considered modern with little attention paid to the interior design of the premises. The buildings also only tend to provide a limited number of on-site amenities and do not provide a full range of services such as restaurants, café / bar, study areas, laundry room, high speed Wi-Fi, games / TV room, gym, sport facilities etc. Furthermore, there is little focus on organised social events such as cooking classes or careers advice etc.

The standard of facilities therefore, often puts off many students from wishing to live there and especially more so for international students who are able to compare Czech student accommodation with what universities in their own home country are able to offer.

With respect to private universities, with very few exceptions, these institutions do not provide any student accommodation at all. Therefore students attending such establishment are forced to bear the cost not only for the tuition fees but also for finding and funding the cost of a private rented accommodation.

## Private Student Housing

The capacity of state owned student accommodation versus the number of students, coupled with the general poor standard of the facilities, has pushed many students to seek alternative housing in the private rental sector, where they compete with the general population seeking similar private lets flats / homes.

This imbalance in students versus accommodation has therefore been the catalyst for some companies to provide privately owned and operated purpose built student accommodation.

In the past 3-5 years, the Czech Republic has experienced a small number of such private student housing projects. These facilities initially opened up in cities with the larger of students e.g. Prague and Brno, however recently have also spread to other cities such as Ostrava, Plzen and Ceske Budejovice.

Whilst accurate data on the capacity and number of private student accommodation is difficult to attain, we have



estimated there to around 1,500 beds in this sector across the country with about 70% of the accommodation requiring two people to share one room.

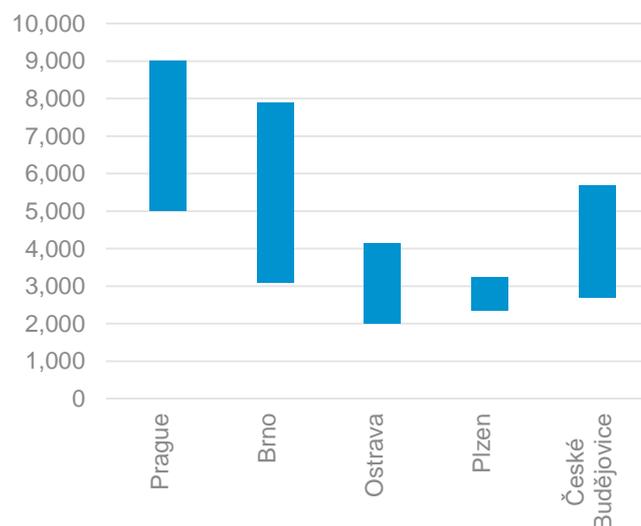
### Example of Private Student Housing Capacities

Facility Name	Location	Beds	Rooms
Botic Student House	Prague	160	92
DC Residence	Prague	286	254
Rooms5	Prague	163	86
Koleje Slezská	Ostrava	157	74
Koleje Pedagog	Č.Budějovice	243	121

Source: website of the accommodation facilities

Many of these privately owned facilities are properties that were previously either a residential building, office property or hotel that was converted to student housing. To date there are only a few examples of completely new build student apartments. However, the overall quality of this student accommodation and the amenities / services on offer are much superior to that which can be found at similar state owned facilities.

### Rental Ranges in Private Student Housing (CZK/month)



Source: website of the accommodation facilities

As demonstrated by the above graph, the cost of renting accommodation has a wide variation. This is explained by the cost of living between these cities and also whether a student rents a single room or willing to share a room with one or more other students.

The top of the rental range is Prague at 9,000 CZK per month per bed, which is approximately €330.

## Accommodation Comparison

In order to get a sense of the prospects of student accommodation as an investment product in the Czech Republic it is useful to look at the provision and operation of accommodation in other countries.

The following table gives an indicative comparison across a few European countries of the number of students living in student residences in relation to the total student population.

### Share of Students in Residences

Country	Students Housed in Student Residence
Sweden	30.5%
Czech Republic	19%
Netherlands	18%
England / Wales	17.7%
Germany	11.6%

Source: Eurostudent IV

While the Czech Republic appears to offer a similar ratio to that of Netherlands or England/Wales, the fact remains that the vast majority of students living in student accommodation in this country have to share a room with a fellow student, which to some extent undermines the quality of living. This tends not to be the case in other western European countries where the accommodation is often either arranged in clusters (i.e. single rooms grouped together with a common living room / kitchen) or increasingly in studio type flats.

While in the UK a large portion of student accommodation is held in the ownership of universities and operated by them there are also several instances of the following type of arrangements:

- University signs a lease of up to 25 years on a purpose built student accommodation building, which the university then operates.
- Nomination agreement i.e. the accommodation is operated by a private business on behalf of the university and generally exclusively for the students of that university.
- Combination of nomination agreement and direct let i.e. certain portion of rooms are operated exclusively for students of a particular university while the operator is also free to directly let other rooms to other students.

As of yet and to our knowledge neither of the above types of arrangements exist in the Czech Republic.

## Investment Rationale

Some of the fundamental reasons as to why institutional investors, private equity and developers are driven to invest in the student accommodation sector, are as follows:

- The general global increase in the number of students i.e. from 98 mil in 2000 to 165 mil in 2011 and forecast to grow to 186 mil by 2020.
- A typical degree course takes around 4-5 years to complete. Therefore you have captive student demand in need of housing over this period leading to high occupancy rates.
- Some universities, as seen in the UK, are able to guarantee the rent for periods of 20 years + including annual CPI inflation adjustments.
- The sector is viewed as not being so sensitive to economic cycles and therefore able to deliver

secure income streams in times of economic uncertainty.

- Low provision of purpose built student accommodation across Europe means there is a supply / demand imbalance.

## Investment Yields

Increased investor activity in the student accommodation sector has seen yield compression across the board in recent years with UK and specifically London attracting the most amount attention.

Investment Funds that are active in this sector include companies such as Unite Group, Coral GSA, Hines, Deutsche Real Estate Funds and Greystar.

Investment yields for student accommodation will vary within countries (e.g. London is priced more expensively than say Leeds) and between countries. The yield an investor is prepared to pay will also depend upon the structure of the lease i.e. a 25 year lease from a university versus a nomination agreement or privately operated direct let.

The following table gives you an indication of the average yield levels across some different locations in Europe.

### Student Housing Yields

Location	Yields
Prime London	4.50 - 4.75%
Regional UK	5.25 - 6.00%
Germany	5.50 - 6.50%
Netherlands	5.50 - 7.00%
France	5.50 - 7.00%

Source: Colliers

As yet there is no evidence of student accommodation trading in the Czech Republic as an investment product and therefore yields are somewhat difficult to gauge. Nevertheless we would estimate for a situation where there a lease backed by a university or evidence of sustainable

income then yields would notionally be in the range of 7.50 – 8.50%.

## Prospects for Czech Student Accommodation

As highlighted in this report the current ratio of students living in purpose built accommodation (19%) and the current standard of these facilities would lead us to believe there is room for further expansion in this sector.

In fact, we are currently aware of three development projects in Prague and one further project in Brno which are being planned as student accommodation. All four of these projects are due to be operated privately with direct leases to students.

From our investigations with active financing banks in the Czech Republic we get the impression they would be open to finance the development of student accommodation, however the number of projects they have been introduced to have been very limited to date.

Apart from the relative immaturity of this sector in the Czech Republic the universities in the country are not willing or are prohibited to enter into a long term lease contract or agree to a nomination agreement on a particular property as seen in the UK.

Without such types of rental agreements, offering long term stable cash flows with some form of guarantee or backing from university, makes the student accommodation sector a less attractive proposition to prospective investors.

There remains however the privately owned / operated student facilities which if able to demonstrate historical performance figures (profitability) could prove of interest to an investor. Given the private student sector is still in its infancy it may take a year or two before we see any of these private student buildings change hand.

Images courtesy of KARLIN GROUP, Student House MY PLACE

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