STUDENT HOUSING: A HIDDEN RESILIENT INVESTMENT OPPORTUNITY

By

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Abstract

In recent years there has been significantly unprecedented increase in student population in colleges of higher learning and student enrolment in higher institutions (HIs) generally exceed the available HIs student housing capacity. HIs in many countries are clearly becoming incapacitated to accommodate the teeming student population which necessitated many students to overflow into the HIs’ neighbourhood seeking for alternative housing in the private rental market and Malaysia is experiencing the same phenomenon. HIs students housing shortfalls and increasing students demand scenario arose the interest of many private investors in student housing development. This is because it has been found that investment in student housing is lucrative and promising business that guaranteed return for a long term investment. Therefore, this paper explores the nature and investment landscape of student housing especially from countries taking lead in the business as resilient from which conclusion is drawn.

Key words: Student housing, investment, higher institution (HI), student housing demand; return; resilient;

1.0 Introduction

It is evidently clear that in the last two decades student population in colleges of higher learning experienced unprecedented high growth as enrolment increases. Student enrolment in the HI is increasing tremendously all over the world more especially in the UK, USA, Ireland, China, India, Malaysia, Nigeria and is not matching with the students housing supply (Muslim et al., 2012a & 2013; Ong et al., 2013; Onwong’a, 2006; Powley, 2014; Rugg et al., 2000; Garg et al., 2014; Garmendia et al., 2011; Kenna, 2011 & Khozaei et al., 2010a). With the increasing intake of students, the HIs are finding it tough to accommodate all the students in their existing housing facilities, pushing most students to opt for alternate student housing options in the open housing market. These shortfalls of students housing from HIs and increasing enrolment necessitated majority of the students to overflow into the HIs’ neighbourhood seeking for housing accommodation. Rugg et al., (2000) summarized the situation of HIs students housing shortfalls that the student population increase, has run ahead of the ability of HIs to house them and has led to a growing reliance on the private rented market. The HI maintained a traditional hall accommodation for few students and then majority had to go into the private rented market Stevenson & Askham, (2011). These buttressed the idea of students housing is grossly inadequate in most HIs in both developed and developing countries. Therefore filling the gap created by HIs student housing shortfalls is in the hands of private developers who play major role in providing housing accommodation to the majority of HIs students. It becomes a major concern for both HIs and governments deem it necessary by involving private investors to provide students housing. This has led to many landlords and letting agencies in HI towns throughout the UK, to acquire properties suitable for renting to students in areas close to HIs (Rugg et al., 2002).
2.0 STUDENT HOUSING PERSPECTIVES

Due to HIs sufficient deficits of student housing, students are compelled to get alternative housing in the private rent markets in HI towns. Therefore, in such a situation, students could live in any type of housing unit that is available in the HI neighbourhhood as an option for their housing. In trying to fill up the gap, to some extent, some families rent out a vacant room of their home to students who are not part of the family and some family residential owners let the apartments to students. In this situation some studies reported, most of the students rented houses are family residential converted to students houses (Rugg et al., 2000; Smith, 2005; Zaranski, 2006; Hubbard, 2009; Garmendia et al., 2011; Yusuff, 2011; Kenna, 2011; Omar et al., 2011; Alaka et al., 2012; Aluko, 2011; Donaldson et al., 2014; Hammad et al., 2013; Jones & Brown, 2013; Muslim et al., 2012a; Ong et al., 2013; Pat-Mbanu et al., 2012; Rutman, 2013 & Olufemi, 2014). Similarly, Onwong’a (2012) in his study in Nairobi found that, 70% of such houses are family houses converted to students housing and Muslim et al., (2012a) supported the idea by saying students in off-campus housing are living in family housing like apartment, condominium, terrace, semi detached and detached houses. That is why in many places, it is a common practice to change the structure of these houses to increase the number of separate units and single rooms for maximising the economic gains of the landlords (Thomsen, 2008).

Rapid growth of HIs population, couple with limited housing facilities led to high demand for students housing and the birth of private students housing market around HIs. These private developers are the key players in the provision of students housing as they accommodate majority of the HI students and their roles is highly significant not only to students but to the HI as well since it warrant continuous development and expansion of HIs. Hubbard, (2009) reported, in the current trends, the private sector provides more than 50% of what are understood to be HIs halls of residence.

As the result of insufficient HI housing for students, some HIs give priority to newly admitted, final year and female students on the basis of their housing capacities or else on the basis of ‘first-come first-serve’ can only get HI housing accommodation. While sophomores and upper levels students have no option rather than to relied on the private sector market in the HIs neighbourhoods. Many studies such as Rugg et al., (2000); Hubbard, (2009); Aluko, (2011); Garmendia et al., (2011); Stevenson & Askham, (2011); Yusuff, (2011); Muslim et al., (2012b); Umaru et al., (2012); Jones & Brown, (2013); Ong et al., (2013); Garg et al., (2014) and Najib et al., (2015) have reported the shortage of HIs housing facilities with increasing enrolments warranted many HIs reserving on-campus houses for first-year and final year students while upper-class students are often forced into the local communities. On average a student stays in a traditional HIs hall of resident for barely one academic year and the remaining years are spent in private student houses in off-campus to make way for the next batch of students. This is as a result of the high number of student population is greater than HIs available houses.

Over the past decades the students housing market has emerged as main stream investment category, attracting significant interest from investors, developers and private operators. The sector’s rapid growth was underpinned by the active rise in student population worldwide as well an increase in international students particularly in the UK and USA (LaSalle, 2012 & Hubbard, 2009). In addition to local students demand, there is significant increase in international students influx in English speaking countries, chiefly the US and the UK, have been the biggest recipients of these students, which make student population growing rapidly and have led the way to emergence of student housing market (the provision of student housing) to meet up with the growing demand. Subsequently, they have become the most developed of all the global student housing markets (Savills, 2014a). Furthermore, Savills, (2014b) reported that ‘the US stands out as the most mature student housing market and the next most mature market is the UK’ and the student housing market has undergone hasty growth especially during the last two decades and has even maintained momentum during recession period (Savills, 2013b; 2014a & 2014b; Hubbard, 2009 & Stevenson & Askham, 2011). Therefore, private student housing has become one of the easy-going and profitable venture for many property investors in countries like the UK and USA by proving relatively resilient market. Similarly, Hubbard, (2009) summarized the situation that ‘in the last five years UK have witnessed a revolution in the supply of the student housing, in HIs towns throughout the UK, both individual landlords and letting agencies, have accordingly sought properties suitable for conversion in areas close to HIs, generally outcompeting low-income families seeking similar properties for renting and/or buying (Rugg et al., 2002 & Hubbard, 2009).

The supply of Purpose Built Student Housing (PBSH) has increased considerably over the last decade and has played an important role in meeting the demands of both students and the HEIs all over the UK. Furthermore, now privately managed blocks students housing offer en-suite rooms with double beds, flat screen TV, high-speed internet networks connections are also standard and free wireless broadband, laundrettes, as well as CCTV coverage around the building to appeal to security-conscious students (Stevenson & Askham, 2011; & Ghani & Sulaiman, 2016). Many privately-owned student housing developers are offering attractive housing options, the overall quality of new private sector student housing is continuing to rise over the old traditional student housing, en-suite housing
facilities are now considered standard in most student houses and such developments are considered the solution to accommodation deficiencies in HIs towns especially in the UK (Hubbard, 2009).

Equally, this new scenario of PBSH led to the development of new and better students housing across Europe which also forced the private sector market particularly the traditional student housing providers to up their business in terms of providing better quality housing. To some extent, also forced out a lot of the smaller buy-to-let type of landlords who will just buy a house for renting out to students and it has also forced out some of the rogue landlords that have substandard properties (Stevenson & Askham, 2011). This appears to have increased expectations and landlords are less able to get away with sub-standard houses. Thus, priority students attach to different dimensions of housing quality in their decision to rent house and students would evaluate the important they attach to the core facility, enabling facility, supporting facility, cost and overall quality of the housing. However, the distinct quality of students housing found in PBSH appeared to play a decisive role in the choice of PBSH rather than the private student housing market where such quality is not usually available (Ghani & Sulaiman, 2016). Therefore, it is of paramount importance for private sector providers seeking to attract more students to their housing, should offer a ‘product’ that is more satisfactory and attractive to students (Yusuff, 2011; Jones & Brown, 2013 & Stevenson & Askham, 2011).

### 3.0 STUDENT HOUSING MARKET

Student housing is much different from most other property types and the market is also different which makes it special. Rutman, (2013) observed that in Europe, central London in particular, is the major location for students housing and the total return for PBSH grew significantly to 6.7% between 2010 and 2011. The world student housing sector grew from $0.8 billion investment globally in 2009 and rapidly to a high of $7.2 billion in 2013. Chieflly, the US and UK markets have drive global investment in student housing to reaching a new elevation of $7.2 billion in 2013. European student housing market proposed gross average yields range from 5.5% to 8.5% for prime property. It was observed that major achievable yields in the sector are in the region of 7% in Italy, the Netherlands, and Spain, (Savill, 2013b & 2014a). Equally, Goin, (2014) observed and reported in UK study that, student property experienced annual rental growth of 1.6% in 2013 and it is predicted to increase to 2.8% in 2014. Furthermore, returns from student property have been examined to have outperformed all other property sectors since 2011 and student property index recorded total returns of 7.8% for the year 2013. 10.9% in 2014 while, all other properties recorded 5.4% growth; while residential rental rates in particular have remained relatively stagnant in 2013.

In recent years, in German student housing market, investors’ interest has been growing and the sector saw $185m deals in 2013 and over 7,600 units are planned in the top ranking university cities. The average PBSH provision rate among the key cities is 13% and vacancy rates have declined to below 2% (Savill, 2013b). Equally, in Australia, Singapore and India the phenomenon seems to be surging considerably within their student housing sectors, though the market is still considered ‘immature’ when compared to that of the UK and US (Karpinski, 2014, Garg et al., 2014 & studyinternational.com). According to Garg et al., (2014), recently in India, Manipal Integrated Services, build and manage student housings complex in Bangalore with 1,000 rooms to provide housing to around 2,000 students.

Private developers’ interest in student housing is not surprising given that student housing has been considered as the fastest growing sector of the property market and the demand appears to be proven. Investors are very attractive to student housing sector because, it offers relatively high yields compared to other property sectors like retail, warehouses and offices. Yields have moved rapidly over the last decade in the wider property market and income returns in the sector still exceed the residential investment market as a whole (Savills, 2011a & 2011b). Similarly, it was observed that, student housing was one of the best performing sectors during the global economic downturn (Zaransky, 2006, Gopal, 2007 & Savills, 2011a) and unlike the apartment sector, it is largely unaffected by falling home market prices (studyinternational.com) and nearby company layoffs will not affect demand. As such a well-located student housing should have lower volatility than multifamily and provides somewhat of a higher cash return. Student housing is now considered a valuable, global asset class therefore, investors generally, are looking for more generous yielding sectors compared to others for their investment. Consequently, Hubbard, (2009) regarded commercial operators to have been extremely active over the last five years, with the leading players expanding properties by acquiring more stocks, as well as, funding speculative developments in HIs towns.

In term of practice, the leading student housing market are the UK and USA, where students have several options available to them because the market is matured, as in contrast to many other countries. Due to the inadequacy of HIs’ owned residence halls, the private investors have taken a great advantage of students demand and are driven into the student housing market not only in the UK and the US, but in many other countries. According to Student House Business (2015) survey of 20 private students house developers in USA found that, in 2015 alone, these companies have over 167
student properties under construction comprising 97,045 beds. This is because, it is a distinct niche market, for investors and home-owners more especially those who would target areas adjacent to HIs campuses (Bowden et al., 2011; Donaldson et al., 2014 & Rutman, 2013) hence, the waves of student demand tells much about the likelihood of the better place of opportunity.

4.0 DISCUSSION:

4.1 INVESTMENT OPPORTUNITIES

The rising demand of higher education has increased student housing demands and the student enrolment is the driver for the student housing demand. It becomes clear the HIs housing system is grossly inadequate to satisfy the growing demands. Therefore, filling the gap created by shortage of HIs housing system, lays in the hands of other HIs stakeholders Vis-avis the private developers around the HIs. As a result of HIs inability to provide sufficient students housing, governments in many countries have required private student housing providers to participate in building hostels and halls of residence for students in order to meet up the growing demand for more housing infrastructure. This has attracted many private individuals into investment in student housing more especially in the developing countries (Nimako & Bondinuba, 2012).

Many scholars have reported that, investment in student housing is lucrative and promising business that guaranteed return for a long term investment and income returns generated in the sector generally exceed the residential investment market as a whole. Garg et al., (2014) reported that “student housing is one of the most vibrant Indian real estate markets in the foreseen future. Dense student populations that exist around prominent colleges positively affect the demand for residential spaces. In fact, the future of this sector in India is extremely promising”. In similar studies in Nigeria confirmed that, it is established that private hostel accommodation provision is not only an investment, but a competitively high returning asset (Pat-Mbanu et al., 2012). Similarly, Aluko, (2011) in another study in Nigeria concludes, student housing is becoming one of the most important industry that generate income and produce job opportunities. Students housing niche is lucrative not only in the developed countries like the US and UK, but also in the developing nations the scenario is the same. Ong et al., (2013) confirmed, private off-campus student housing in the US and UK is a large and lucrative business; very lucrative rent growth of 7% for off-campus student rental rates between 2004 and 2006. In another study in UK by Hubbard, (2009), it is reported that, the high level of student demand for rental properties has guaranteed high rates of return and low void rates, making the targeting of rental properties at students an attractive option in university towns throughout the UK. “It's a resilient market and seems to be fairly recession-proof,” (Zaransky, 2006) and Stevenson & Ashkan, (2011) added that the sector has undergone rapid growth whilst proving relatively resilient during the recent economic crisis.

As it has been said, student housing has consistently been one of the best performing sectors during the short global economic downturn. Student housing produces reliable rental income flow which, although derived from short tenancies (one year), is secured by intensity and stability of demand, and often matched by low levels of competing supply. Student housing properties experience the lowest incidence of empty (void) properties; this may not be unconnected to low supply and competitions. Investors/landlords who rent their properties to students are more likely to find tenants and receive rent on time, hence students are worthy tenants, pay upfront, and had no problems with rental payment. As a result, many investors/landlords prefer students over families because, if family tenants fail to pay, it is more difficult to evict family defaulters (Garmendia et al., 2011). It is an attractive property investment option, promising better returns and investments in student housing offers and guaranteed long-term income streams.

Malaysia like many other countries appeared to potential student housing market, considering the rapid growth HIs student population, for instance, Omar et al., (2011) reported a total of 1.2–1.5 million students in 2009 and Muslim et al., (2013), reported HIs enrolment stood at 1.1 million in the year 2010 in Malaysia, and expected to increase in the future. Similarly, the Ministry of Education Malaysia (MOE, 2014) reported that, HIs student enrolment in 2014 was 560,359 in public universities only and estimated the figure of the total student enrolment of both public and private to have reach 1.5 million in 2014 and expected to be over 2.1 and 2.6 million by the year 2020 and 2025 respectively. In addition to the local population seeking enrolment in HIs, the government set a goal of attracting 200,000 international students by 2020 and estimated the foreign student population to have grown to150,000 by 2015 (Ong, 2013; Omar et al., 2011; Abdul Aziz et al., 2011; Muslim et al., 2013).

With these figures, if Malaysian HIs will accommodate up to 30% of the current total students of 1.5 million and 70% (1.05 million) are apparently relying on the housing market dominated by the traditional (small-scale) actors. Equally, by the year 2020 and 2025, estimated student population will reach 2.1 and
2.6 million respectively and same 70% (1.5 & 1.8 million) will rely on private rented housing; clearly the demand has been surging worth investing into the sector. The situation will be exacerbating, especially when the HIs student housing stock stagnate or has not correspondingly improved with students enrolment that is the HIs students’ accommodation remained grossly inadequate. However, these scenarios create conducive atmosphere for private housing developers to invest in the student housing sector in area where HIs student housing has precipitous shortfalls. The demand indeed, is significant for the big-time [professional] investors to come into the business and the sector is said to be promising and resilient niche market.

4.2 INVESTORS ROLES/UPKEEP

One of the major concerns on sophisticated HIs infrastructures and facilities are the provision of student housing with the superior housing facilities and good housing services. Having an excellent conducive educational environment, the students’ personal development and educational mission will be achieved; on the contrary, poor educational environment may endangered students personal development, citizenship, moral, emotional and also intellectual aspects the purpose for which academic mission will not be attain. Indeed, the modern students are increasingly demanding high quality, convenient and cost effective housing accommodation. Among the facilities student housing should have includes adequate water supply, electricity, furnished rooms, laundrette, cable TV, kitchenette, lounge/common room, computer lab, high speed internet access/connection in their accommodation, broadband Wi-Fi and security. Other supporting facilities desired around students housing include shopping, restaurant, parking, drainage and sanitary and accessibility to effective transportation.

Therefore, the private developers’ roles in providing housing to students’ population are critical and important to the students in particular and to the HIs in general. However, provision by private sector providers should offer a ‘product’ that is more satisfactory and attractive to students. Private sector providers should ensure the quality of student housing at the time of supply is being met to satisfy the growth in students’ numbers and desires.

Obviously the tenants are the life blood of the whole business, so private providers must be aware of the type of tenants aimed at so as to market their properties accordingly. Private student housing developers should take customer-driven initiatives that are intended to attract, retain and build long term profitable customers. Therefore, in this, prospective student housing providers must comply with the standards and facilities regarding the kind of housing facilities and quality they ought to provide to the student tenants. Thus, when selecting renting house, students evaluate the importance they attach to all the core, enabling and supporting facilities, cost and overall quality of student housing as a prime factor for their decision. The students are on 12-month leases, so if they like the property and management, they are likely to return or else the property remain void. The task of business organizations is, therefore, to be able to explore and get into the minds of their customers, regarding the priorities customers place on different aspect and dimensions of students housing quality and service quality delivered by the organization (Nimako & Bondinuba, 2012 & Woodward, 2011) consequently, are paramount importance for private sector providers seeking to attract and retaining more students to their housing to consider (Yusuff, 2011; Jones & Brown, 2013 & Stevenson & Askham, 2011).

Although, any property is rentable, but the size, location, convenience and quality as well as the satisfaction derived, will have a bearing on the price and how quickly the property will be let out and must be targeted to the right type of tenants. All considerations are on how to make student housing attractive either to all students, or especially to upper class and post graduate students who are likely looking for some separation from the excesses of ‘student life’, quite and privacy (Woodward, 2011 & Jones & Brown, 2013). Invariably, if the houses provided by the private developers, besides being exorbitantly expensive, are deficient in meeting the requisite minimum standards that make for a healthy and comfortable living, price-sensitive students are likely to seek for the cheapest and convenient available housing and this may tends to be shared housing to share rent cost; lower housing costs represent a major factor in the students choice of housing, where rental rates is prohibitively high, students will tend to opt for the available student housing at a lower cost which is an important decision factor for students housing choice (Yusuff, 2011). Although the millennium students are willing to pay additional money for quality and better service housing, but in general he who pay more is expected to get better than those who pay less, so housing rent price and quality has to be justifiy for retaining students’ customers.

Location is very important as to any investor as well as students; proximity to the campus is a key preference to students, within a walking distance to the campus and good amenities attract students. Students prefer to live in housing areas in close proximity to the campus; hence location in terms of distance from HIs campuses will be important for students as this will reduce travelling time and costs.
Students’ preference for housing options closer to the HIs is also important to especially new students who do not know the city they are moving to, so will be unlikely to seek private rented housing far away from their campuses (Jones & Brown, 2013). In this context, investors should build in area where student population dominate, in close proximity to the HIs campus, as distance play important role in students’ decisions of renting housing units. As it has been perceived, student housing can work somewhat farther distance if it is on a bus line, but these properties tend to be isolated, not as attractive to students and will have high rate of vacancies.

Presently, the unimaginably high demand for housing is on the increase on yearly basis in all HIs and due to the incapability of the HIs in providing housing to the teeming populace, it has been observed that private developers tend to contribute to a large proportion of the entire housing stocks for students. The contribution of private developers in student housing delivery cannot be over emphasised hence they accommodated larger proportion of students’ population. In spite of their efforts in complementing HIs efforts in housing delivery, they should aim at providing descent and comfortable students housing to the test of their clients (Ademiluyi & Raji, 2008).

5.0 CONCLUSION

It has been a clear testimony that the demand for higher education spurred up all over the world and enrolment for decades has been running ahead of HIs housing capacity, coupled with funding pressures (state budget constraints) continue to press on all institutions, which makes it highly unlikely for especially public HIs to take on major renovation and or construction of new student housing despite increases in enrolment (Kennett et al., 2013; Nimako & Bondinuba, 2012; Gopal, 2008 & Zaransky, 2006) which necessitated majority of students to find alternative from private housing market.

Furthermore, it has been predicted that the global student market will continue to swell, the student housing market investment class continues to grow and also the opportunity for investment. With this scenario, the demand is guaranteed and the demand for PBSH is also on the rise. The market has shown classic returns of 7.8% and 10.9% for the year 2013 and 2014 respectively while, all other properties recorded 5.4% growth and residential rental rates remained stagnant during the period, therefore, student housing is arguably the most potential of ‘alternative’ sectors worldwide. In countries like Malaysia and Nigeria the market is highly potential, though the market is still ‘immature’ because most of the professional investors are afield in the student housing market and the market is dominated by the traditional small scale investors. While student housing market, particularly purposely built student housing, is a resilient niche market and classic asset that will guarantee demand and returns, but in a hidden to big-time (professional) investors. Only few doughy investors dig into the market where there are huge student populations with waves of student demand guaranteed fetching them big dough.

References


