

The Spanish Student Housing market

CORESTATE VIEW

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Capital Group

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SPAIN'S EDUCATION SECTOR GENERATES UNTAPPED INVESTMENT OPPORTUNITIES

400'000

missing beds and growing: the student housing market has not followed the increase of Spain's growth in university attendance. This special edition of The CORESTATE View shows how studying and sunshine can offer the perfect investment mix.

- I. Spain outpaces Europe in terms of economic growth, thanks to its continuous investments in grey matter, attracting evermore local and international students to its numerous academic hubs. European, national and regional education budget increases further support the Spanish higher education sector growth.
- II. Accommodations have not followed in terms of quantity and quality of the continuously increasing student expectations. Additionally, supply is being limited in top cities via tourism and demand pushed due to longer education periods to reach higher levels of education.
- III. High-quality purpose built student accommodations (PBSA) offered to students in Spain generate an attractive yield with a very low level of vacancy, and provide investors with a source of diversification to their traditional real estate.



Purpose built student accommodation (PBSA)

PBSA differs from traditional student accommodation many of us remember. These assets are particularly designed to meet the standards of today's students, ranging from studios to shared flats. Positioned in central locations with amenities and all-inclusive rents, it has proven to become one of the most popular residency forms for students.



Pictures from the recently opened CORESTATE student home in Madrid



SPAIN IS STEPPING UP THE EDUCATION GAME

Between 2014 and 2018, Spain's GDP growth rate of 2.75% significantly outpaced the EU's (2.13%). The success is fuelled by R&D investments, which now represent 1.21% of its GDP up from 0.89% in 2000, and its expenses in education, which account for 4% of its GDP. The Ministry of Education has also increased its budget by 5.9% this year. Public expenditure provides 66% of the volume allocated to higher education, 20% of which to Universities. An additional €150 million will be spent by the autonomous regions and the European Social Fund to improve the quality and stan-

ding of universities. The Spanish education system is also a decentralised network of 1'046 higher education centers which fosters the emergence of leading education and research hubs such as Barcelona, Madrid, and Valencia. 24 of the top 100 private Universities and 9 of the top 100 public European Universities are Spanish, according to UniRank. Nine of the top ten Spanish-speaking Universities in the world are Spanish, leading to an influx of students from Latin America. The Financial Times ranked three Spanish business schools in the global top 20, and two Spanish MBAs in the global top 20 for 2019.

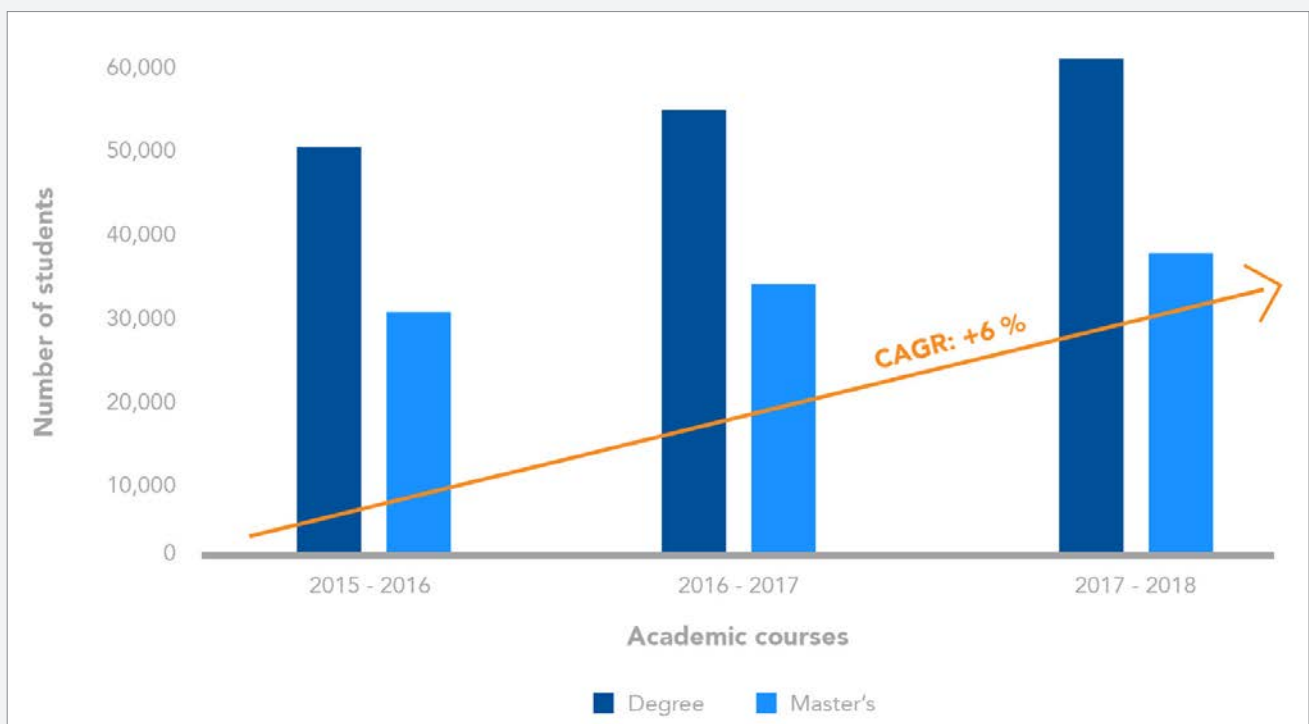
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of the top ten Spanish-speaking universities are in Spain.

INTERNATIONAL STUDENTS IN SPAIN

During the academic year 2016, more than 110'000 students in Spanish universities came from abroad. The Erasmus+ program, which offers study grants to foreign language students, supports them. The program benefits from an increase in public budgets and support the growth of the foreign student population. Spain is by far the preferred destination for Erasmus students reflected by the 48'000 beneficiaries in 2016-2017. Since 2007, the number of incoming Erasmus students, who spend 6 to 16 months studying in Spain, has increased by a compounded annual growth rate of 4.6%.

International students studying in Spain

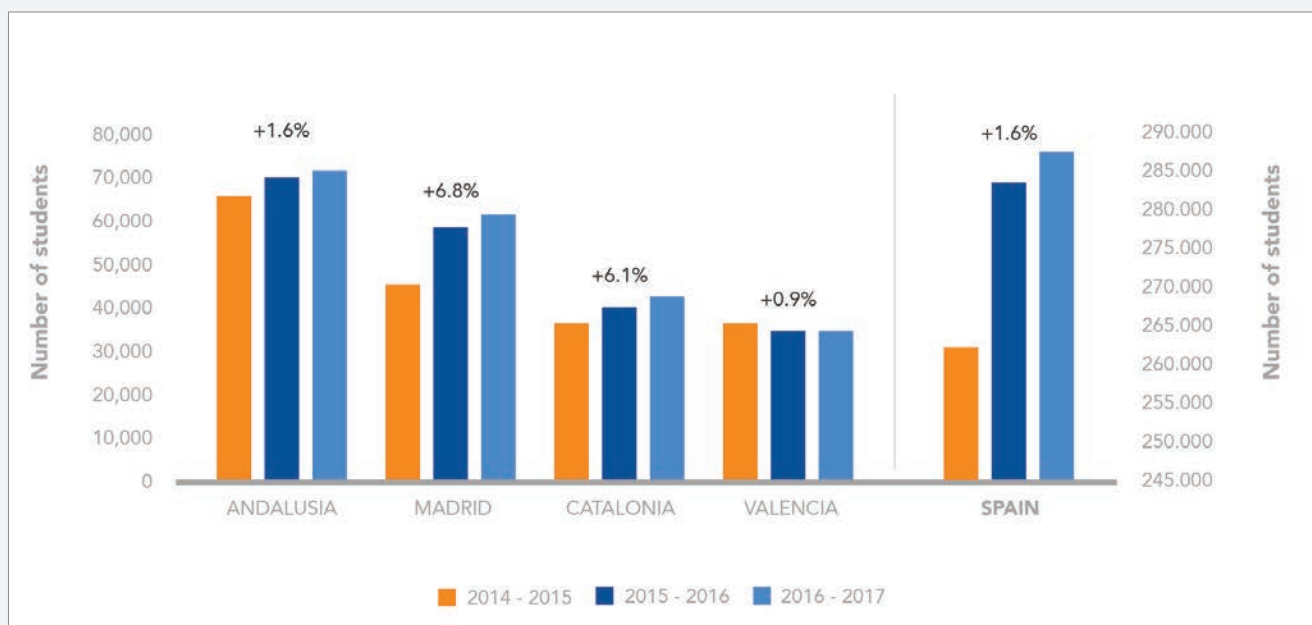


Source: Spanish Ministry of Education

MOBILITY OF SPANISH STUDENTS ON THE RISE

Spanish students are increasingly studying away from their hometown. The Spanish University Rectors Association's (CRUE) reports that more than 330'000 students are attending campuses which are not located in their home province, a 1.1% increase from last year. This trend is supported by a 10.2% budget increase in scholarship and study grants. The Seneca scholarship program, which supports the relocation of students to other universities within Spain, has also been reinstated and will further accelerate this trend.

Relocated Spanish domestic students



Source: CRUE 2018 report

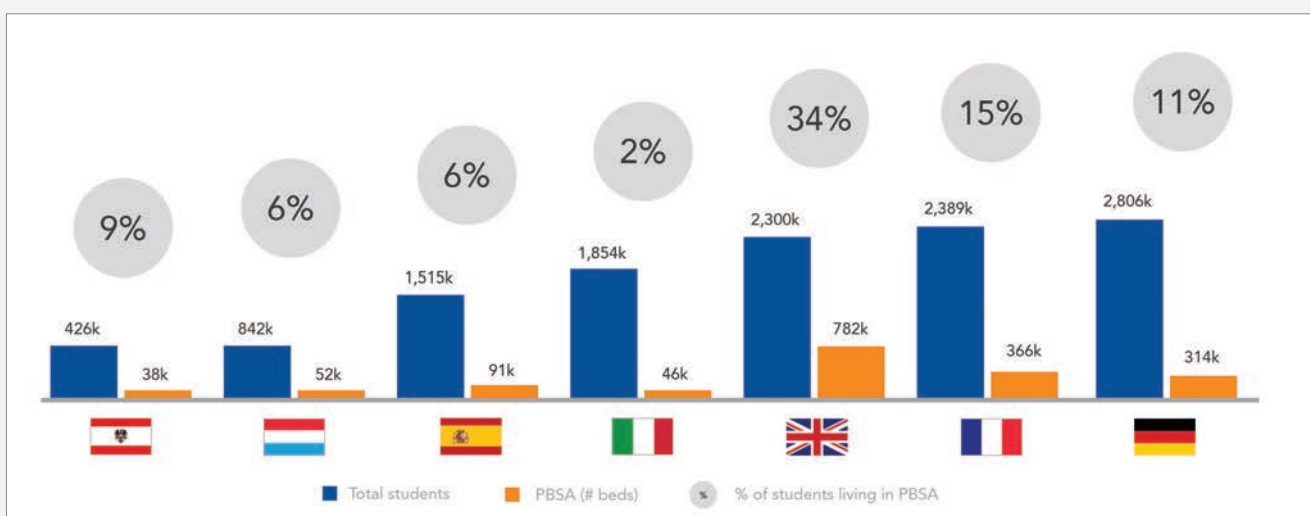




THE COMPETITION FOR BEDS

These days, student housing also has to compete for beds with non-traditional accommodation to tourists. On Airbnb alone, more than 247'000 listings are provided in Spain according to academic sources, reducing not only traditional rental units for the local population but also students. As public and traditional private sources have fallen behind due to a lack of investment, the need is acute, particularly compared to many of the other European countries. According to Student Marketing, Barcelona provides just under 5% of the beds needed, and Madrid 5.7%. Though the number of beds is set to increase by 2.9% in 2019 and 5.2% in 2020, it will not bridge the widening gap.

Number of students versus purpose built student beds



Source: Unesco and JLL Research

THE 400'000-BED GAP

Students in need of accommodation are expected to exceed 490'000, while only 90'000 purpose built student beds were available for 2017. The gap has grown to 400'000 beds, +3.7% versus the year before. Thomas Landschreiber, Chief Investment Officer of Coresstate, states the reasons for Spain's attractiveness: „Due to our access to the market, the bad quality of current student home offering and overall recovery of the economy, we see Spain as an ideal market to expand our leading European student home platform.“

New student homes also do not always match students' expectations, as they look for modern facilities in the city (off-campus) providing them with more than just accommodation. Today, they seek a unique experience, special amenities such as a pool, study room, gym and high-speed internet, coupled with a communal experience via on-site cafés, restaurants and activities. Large common areas, providing them with features to enhance their quality of life, comfort and security have become mandatory to cater to this clientele.

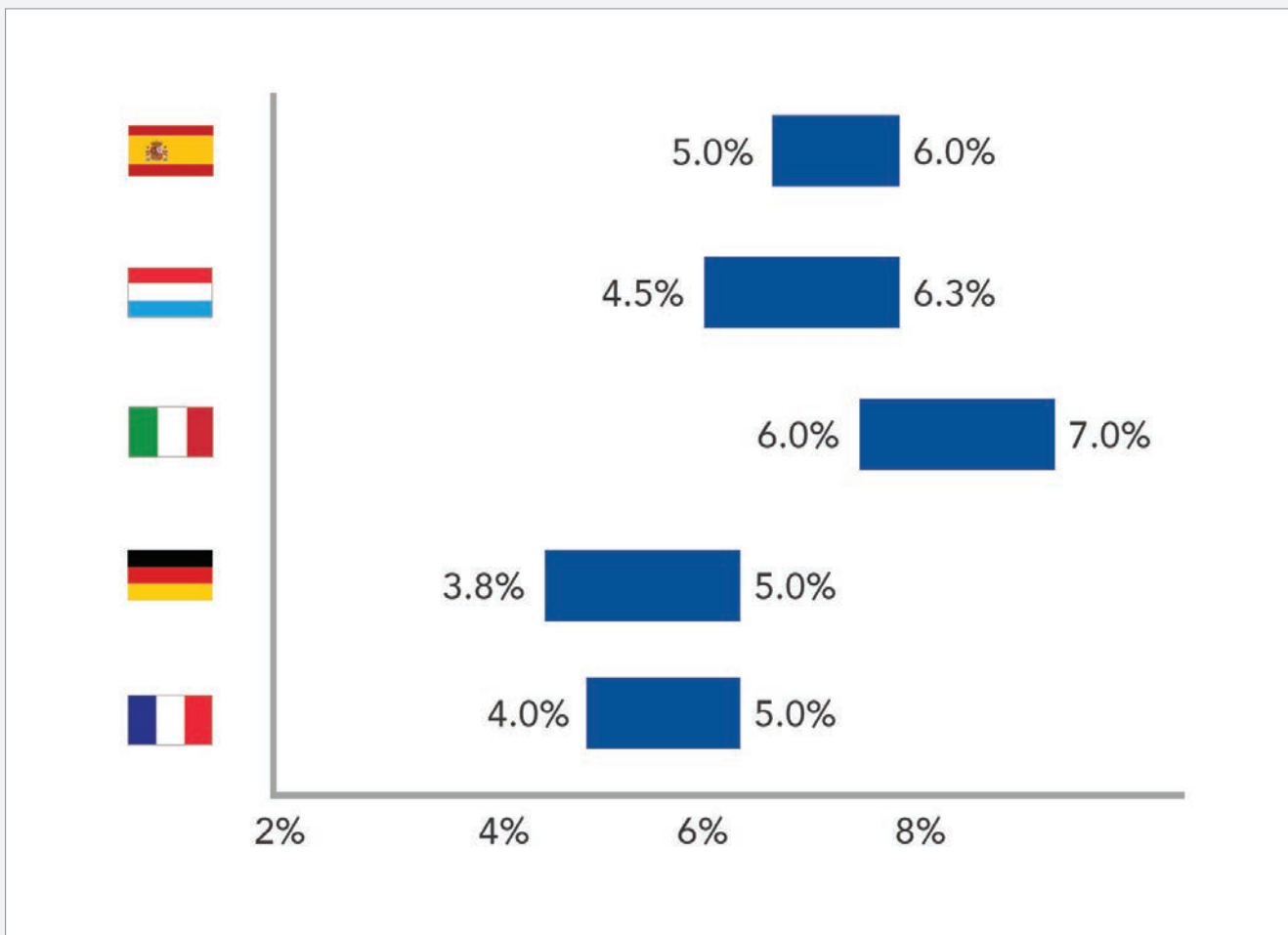
Top 10 university cities in Spain



INVESTMENT CASE OF PURPOSE BUILT STUDENT ACCOMMODATIONS

The significantly unmet demand for Spanish high-quality purpose built accommodation offered to students in university cities, offers an attractive investment opportunity for investors seeking „residential-like“ returns via a still considered niche sector. Student homes generate an attractive yield, benefiting from very low levels of vacancy due to the shortage of beds and consistent demand fuelled by the continuously growing student population. Hence, the sector offers non-cyclical income in a stable long-term market while diversifying exposure from traditional real estate.

Yield range estimates from purpose-built student accommodation



Source: JLL Research



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