

What can Student Accommodation teach us about Property Management?

Let's venture into a new world; it looks like property, but it's used differently, by occupiers unfamiliar with traditional tenancies, and with unusual needs and behaviours. Student accommodation has been a key investment sector for over 5 years and, now it is established, the original management deals struck by developers are being looked at by second generation owners and, well, they are very different from traditional management contracts.

Not only that, but the companies managing these blocks are predominantly new businesses – in one of our recent projects in the sector, we found very few “traditional” property managers competing for this business. Given that the growing student accommodation sector represents 5% of all UK property investment, and 33% of investment in Alternatives,¹ this is surprising. What, therefore, are the opportunities?

Key Findings

- It's possible to collect more than 100% rent! The holiday period provides an opportunity to generate additional income;
- Communications must be flexible and varied- there is no one-size fits all when dealing with tenants, so technology must be deployed with care and a human touch;
- Student Accommodation Property Management must be mindful of issues such as student mental health and welfare, and how the culture they propagate influences this;
- Integrated systems are crucial for clients and students, similarly, need one interface through which they can access everything they need, not multiple apps to sift through;
- There's no set fee structure for the management of Student Accommodation;
- The student accommodation management market is forward thinking and untethered by traditional property management structures and ideas, paving the way for innovation.

Student Accommodation requirements

- **Term times – what do we do in the holidays?**

The student accommodation market subscribes to a slightly different model to traditional leases; standard student accommodation leases last between 39 to 50 weeks, offering the potential to let apartments for an up to an additional 12 weeks, affording the possibility of more than 100% rent collection.

Universities such as Cambridge have also been known to let their college-owned accommodation during the Christmas and Easter holidays, generating further additional income. This might not be wide-spread in the rest of the student accommodation market as yet, but is certainly something to consider; holiday lets can boost local communities by promoting tourism, which is particularly important in small, predominantly student towns. Providing an option to lease rooms only for teaching weeks (which can be as few as 24 weeks of the year) may benefit students from low income

¹ *Alternative Investments*, Colliers (2018)

backgrounds, who are now 83% more likely to go to university than in 2006.² To promote widening participation in the accommodation market can only be welcomed.

- **Is it residential or commercial?**

The interest in student accommodation from investors who might traditionally avoid residential portfolios, poses an interesting question; is it more like residential, or commercial? Certainly, at its core, student accommodation is a residential area, however, its nature protects it from many of the downsides of residential investment. With University places offered continually on the rise, the demand for specific accommodation in student cities is guaranteed and intense. This is bolstered by the security provided by a semester or term structure; tenants have a reason to say for a pre-determined time period. The real charm for investors though, is that student accommodation is not affected by the economy and is immune to normal market risk, thus making it a fairly 'safe' investment from this perspective.

There *are* other risks associated with student accommodation which may give investors pause, specifically that it is very vulnerable to competition. In discussion with a number of student accommodation providers last year they mentioned over provision in cities such as Newcastle, whereas just 20 miles away, Durham is under-supplied.

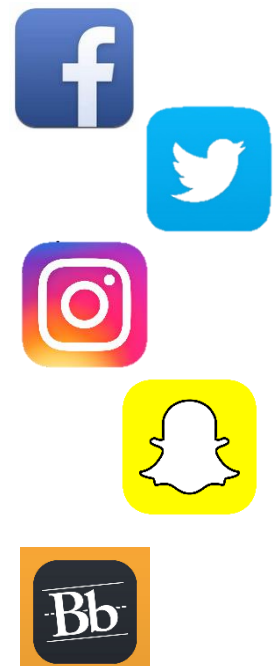
It is worth noting that, as with the PRS market, provision of high-end accommodation vastly eclipses the amount of budget friendly offers available. While high returns on premium units are attractive to investors, the issue of localised competition may be mitigated by investment in purpose-built accommodation for students with more limited financial resource.

- **How do we communicate with "tenants" ?**

It's widely publicised that 'millennials' are 'digital natives' who will actively avoid human interaction. While this is a sweeping generalisation, what is true of students is that they are likely to require assistance outside of usual working hours for a helpdesk. Thus, it is important to provide information in a variety of electronic ways, for example through social media and portals, in order to maintain lines of communication.

This is not to say that purpose-built portals, or customer experience platforms, have no place in this interactive 24-hour communicative environment. However, unless they seamlessly integrate with the technology available, or, with University portals such as Blackboard, they are unlikely to be used beyond being a gimmick in Freshers' Week.

Further drawing on the concept of social media and trends, the best way to communicate with students is through other students, and many student events and services employ student ambassadors to communicate with their intended audience. This is done through student only social media groups, presentations in lectures, or simply through word of mouth. Student Accommodation should look to this alternative method of communication with tenants as an organic marketing technique.



- **What extra services are required?**

Student Accommodation traverses the gap between residential property and commercial, while simultaneously requiring more of the softer side of residential management than one would expect from a large corporate investor.

² <https://www.universitiesuk.ac.uk/facts-and-stats/Pages/higher-education-data.aspx>

Pastoral Care is a vital part of student accommodation provision and while this seems rather outside the remit of large funds, it is important to remember that students are often first-time renters, away from home for the first time, and put under a range of unfamiliar pressures. Student mental health, and the financial burden of studying are both well discussed in the media, and this is bolstered by zealous student politicians keen to demonstrate that they have the best interests of fellow students in mind. Property managers, therefore, need to provide resources to monitor and resolve such issues, and support their tenants; it is good for PR, and a crucial selling point when marketing accommodation. Under this umbrella come things like a Noise Line, and services such as a night porter or contact to ensure occupant safety and comfort.

At first, this collection of requirements is daunting but, when compared with the residential market and the emerging PRS market, the requirements are not completely dissimilar. Most residential landlords who outsource property management do so on a contract that combines lettings with management, often with a combined fee.

We are also seeing a huge increase in the understanding and use of technology platforms to enhance communications between owners and occupiers. This is prevalent in the PRS sector and has been widely used in student accommodation – for example, we reported back in in 2009 that Aviva was already trialling Facebook as a tenant communication tool in its Student Accommodation portfolio.

The market

What is surprising is the number of new players in the sector hoping to manage your student accommodation. Our recent scan of the market found eleven companies who would be able to provide suitable services for our last tender – eight of whom were new to the property market within the last ten years. Growth rates are also exponential; one of the companies mentioned has grown 800% in the last three years, and had a pipeline indicating further growth of 360% in the next year.

With this novelty comes differences in:

- **Fee structure**

In contrast to traditional property management's standardised fee composition, the Student Accommodation market has no fixed fee structure. In our recent tender across eight respondents, six different types of fee structures were suggested, with all respondents offering multiple ways of structuring fees. The adaptability provided by this wide range of available fee structures gives investors an opportunity to incentivise managers as they wish, including by basing the fee on net revenue, encouraging agents to keep costs low. Because the market is still a small one, negotiation of fee structure is investor lead and the majority of our tender respondents said that they were open to methods of determining remuneration other than those listed in their response. This eagerness to please demonstrates how Student Accommodation is certainly an investors market, and offers a unique opportunity to tailor the fee model to specific portfolios, which we don't see in other sectors.

- **Added value ideas**

In such a fast-moving environment, value added is key, and these new and evolving organisations are not tethered by the way things have always been done, but instead can focus on the end goal of customer experience which leads to high occupancy and happy investors. There is certainly more

Key Points

- Only two of the eight respondents did not offer multiple fee structure options.
- The huge range of fees available echoes the approach taken in Asset Management industry, rather than the Property Management industry, as one may expect.

appetite in the SA sector for thinking well and truly outside of the box, perhaps stimulated by the threat of localised competition, and the carrot of high rents from international students.

- **Technology**

Student Accommodation managers offer a cornucopia of online portals and resource to ease and enhance the letting experience, from online bookings, making signing up for a student flat as easy as booking a hotel room, to in-tenancy portals offering students the chance to book music rooms, or dinner party areas from the comfort of their bedroom.

- **Approach**

The Student Accommodation market is inclined towards an Operating Partner model, over a traditional Property Manager- Asset Manager one. This may explain why there are so few traditional property managers exploiting the market, and why they're losing out to more specialist businesses who are better set up to take on the additional duties required.

Conclusion

This is just a brief skim through the sector and, for us, it highlights a number of things:

- There is no real benchmarking in the sector – we have started capturing data which will be useful for this. **If you'd like to help us with this by providing your information, please let us know, and we will be back in touch with a short survey.**
- New ideas from this sector will be very relevant to other sectors. For example, communal living offers, such as bookable dinner party rooms, are making their way into the PRS market.
- We might expect new market entrants from this sector to be companies that provide high levels of customer service and technological ability – the traditional incumbents need to up their game.
- We can see further erosion of differences between sectors – particularly relevant as most institutional funds now invest in a wide range of alternative sectors.

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