

Student housing in FRANCE

David TRAN, Research analyst, Research department

SUMMARY

In autumn 2011, the French housing stock for students offered 340,000 places for accommodation only for a population that is estimated at nearly 1.5 million of students leaving home. Indeed such needs for housing are facing the **shortage of residence halls** (165,000 rooms available in university campuses or Crous residences, 50,000 public housing for students) and the **lack of studio flats and city centre small flats** in numerous towns, which lasts for several years. If there are multiple types of student accommodation in the overall private housing stock, **private collective residences** for students **meet with great success**. The **private sector intervention** in residence construction **progressively took over** from public structures even though efforts were undertaken since 2004.

The **shortage of supply, increase in demand, profitability higher** than that of standard buildings and **moderate risk-taking** account for the **growing interest** from **private and institutional investors** for **private student residences with services**.

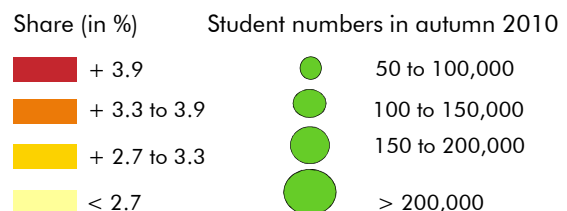
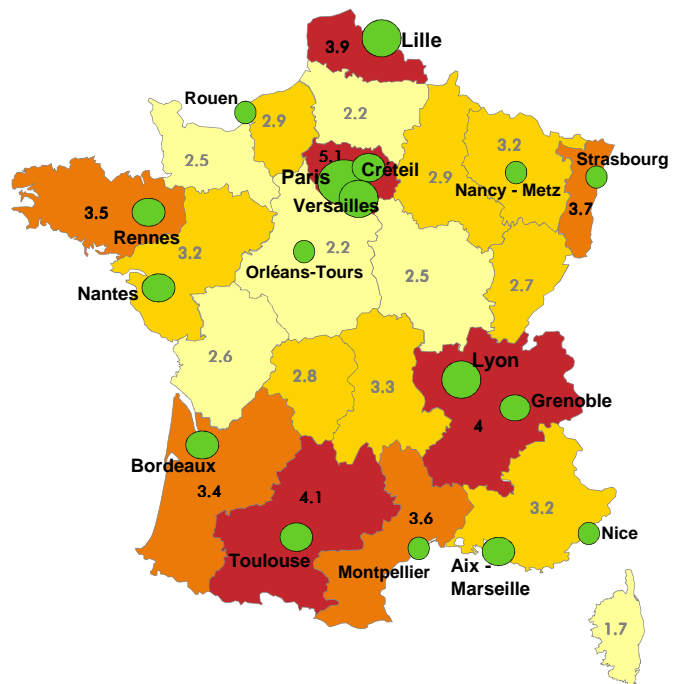
STUDENT POPULATION AND HOUSING DEMAND

According to the estimates of the French Ministry of Higher Education and Research, **2,359,200 students** were registered at the **start of the 2011 academic year** in metropolitan France and overseas departments. If the **number of students** had practically doubled between 1980 and 2000, it later stabilized over the past decade before **rising slightly in the last three years** (+ 5.6 % as compared with the start of the 2008 academic year). According to the prospective studies carried out by the Ministry, based on the estimated number of holders of the French baccalaureate for the next decade, **2,517,900 students** are expected to register in higher education by 2020, i.e. more than 150,000 more students as compared with today.

In autumn 2010, more than a quarter (**26.7 %**) of the **student numbers** were **concentrated** in the **3 academies** of **Ile-de-France**, i.e. 13.8 % in Paris (320,350 students), 7.3 % in Versailles and 5.6 % in Créteil. The main academies in regional France are these of Lyon (162,800), Lille (156,600), Toulouse (116,200), Nantes (114,400) and Rennes (110,700). Taken together, they welcome 28.5 % of students in France.

For many years, the housing issue appeared to be one of the main concerns for the students. We usually distinguish **three main types of accomodation** : **family home**, (public and private) **collective residences** and **individual housing** in the private accommodation (to rent alone or as a couple, to share, and so on...). The housing living conditions are thus very diverse in terms of size, comfort and mostly of region cost; they also vary from one city to another.

Breakdown of student numbers and share of students in population in regional France (place of studies)



Source : INSEE 2009 census / RERS 2011

Students' housing needs

According to the survey on *Students' living conditions* carried out by the Observatoire national de la Vie Étudiante (OVE) in 2010, **more than 60 % of the students were living outside the family home.** Therefore more than **1.5 million young students needed to find an accommodation at the beginning of the academic year.**

Beyond the increase of student numbers and lengthening of the average duration of the studies, **three phenomena** contribute to the growth in housing demand from students:

- the **underlying desire to leave home** from many of them firstly to get nearer to the place of studies and secondly due to their pursuit of independence, autonomy and responsibilities;
- **development of intra-national mobility** with the multiplicity of curriculums and careers;
- the **European higher education area constitution** and harmonisation of degrees, that is why international accommodation is being developed.

If the search for housing is mostly guided by the economic aspect and rental prices proposed, other criteria are taken into account, such as geographical proximity with the place of studies, comfort, practicality and degree of equipment.

STUDENT HOUSING SUPPLY

For 62% of students leaving home, there are **multiple types of accommodation in the private stock** while there is a **limited supply in the public stock.**

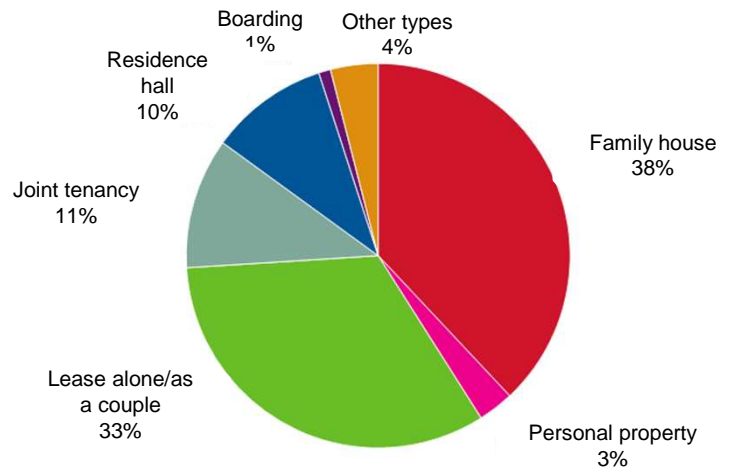
Accommodation in the public sector

Considering its accommodation capacity, only **14 to 15 % of students leaving home can live in the public stock** today, in **very dissimilar conditions** depending on the academies.

3 types of accommodation make up this supply: **residence halls** managed by the CROUS, **public housing** for students (a part of which is managed by the CROUS) as well as hostel **rooms**, boarding schools or residences managed by graduate schools.

At the beginning of the 2010-2011 academic year, the **600 CROUS residence halls** proposed a total of **165,500 places for accommodation.** Nearly **60 %** of these (93,200) are in **traditional residences** (most of them were built at the end of the 1960s) with communal spaces (toilets, kitchens and others) where bedrooms are 9.5 sq. m on average. De facto, the quality of the buildings is increasingly poor and thus does not comply with the current comfort and equipment standards anymore.

Type of accommodation occupied by students at the beginning of the 2009-2010 academic year



Source : Survey on students' living conditions (Observatoire national de la vie étudiante)

Students' housing expenditures

Students leaving home dedicate on average **43% of their income** for **accommodation.** Such cost item is logically more substantial for students who live in the private accommodation since access to the public accommodation is for the most humble students first. At the beginning of the 2011-2012 academic year, **593,060 students** received a State **scholarship** awarded on the basis of social criteria, i.e. **1 out of 4 students.**

Numbers of places in CROUS* residences in the main academies for the 2010-2011 academic year

Academy	Number of Residences	Number of places	Coverage rate**
Aix-Marseille	26	9,113	14.8%
Bordeaux	45	10,405	16.1%
Grenoble	29	7,702	15.2%
Lille	38	9,800	10.4%
Lyon/Saint-Etienne	23	7,562	7.7%
Montpellier	36	10,262	18%
Nancy-Metz	23	7,927	17.5%
Nantes	36	8,006	11.7%
Nice-Toulon	15	3,966	12.2%
Orléans-Tours	30	6,052	18.5%
Paris	42	4,028	2%
Créteil	21	4,166	5.4%
Versailles	30	9,863	9.7%
Rennes	25	8,807	13.3%
Rouen	24	4,882	15.5%
Strasbourg	18	5,494	13.5%
Toulouse	36	8,964	12.9%

Source : CNOUS

* except public housing subsidized or managed by the CROUS
 ** relative to the number of students leaving home (60 % on average at national level)

The rest of the public supply (**40,000 to 50,000 places**) corresponds to **residences built by social-housing organizations** in the 1980s, partly **subsidized and managed** by the **CROUS**.

As to the **access** to CROUS halls of residence, **priority is given to scholars**. These halls offer rents that are logically less high than private residences: the **monthly rent may vary from €140** for a room that is not renovated to **€350** for a 16 sq. m-22 sq. m studio flat in Île-de-France (housing assistance is not deducted from it). Indeed, these rents vary according to the housing location (at national and regional level), proximity with places for training and public transport, size and global level of services (date of construction or renovation, level of equipment, and so on...).

Accommodation capacity still very scarce

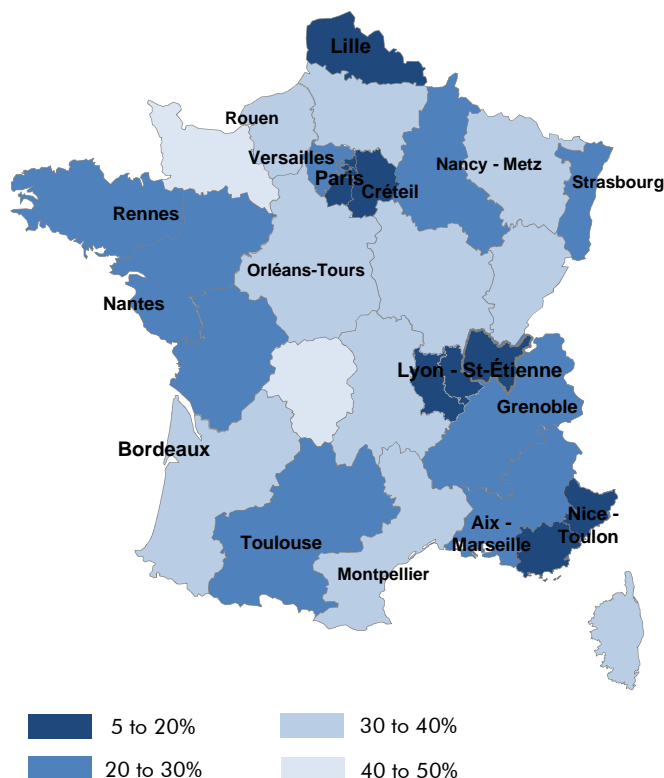
For more than a decade, renovation of the old housing stock is a priority for the Ministry of Higher Education and Research. In 2004, a governmental plan for student housing development was launched prior to the **Plan Campus** implementation (aiming to erect 12 research and higher education centres thanks to exceptional endowments): the **plan Anciaux** projected the renovation of **70,000 rooms** in traditional residences as well as the construction of **50,000 new places for accommodation** over **10 years**.

In autumn 2010, 13,461 student accommodation buildings were completed: 4,938 constructions and 8,523 renovations, i.e. 28 new residence halls. Therefore, the plan Anciaux objectives (5,000 constructions and 7,000 renovations per year) were achieved for the first time since its launch: the State allocated €111.5 million for student housing in 2010, i.e. an increase of 74% in 3 years.

In April 2011, the French state reinforced its plan to expand the stock of student accommodation by introducing 12 measures principally involving:

- the introduction of new tools to make it easier for students to get information about accommodation that is available and facilitate their search
- setting out a plan for the construction of new accommodation or refurbishment of old accommodation in the public sector with objectives set until 2020
- and the improvement of protection for students housed in the private sector with the creation of a certificate, a guarantee fund for rents and sanctions for abusive practices by landlords.

Number of rooms in residence halls for 100 scholar students at autumn 2010



Source : CNOUS

Constructions and renovations of rooms and social housing managed by the CROUS

	Constructions	Renovations
2002	700	3,123
2003	1,374	3,174
2004	1,105	3,711
2005	1,820	4,700
2006	2,312	4,326
2007	1,019	5,668
2008	3,891	5,554
2009	2,542	5,373
2010	4,938	8,523
2011	5,872	5,900

Since 2004, **23,500 CROUS buildings for accommodation** were **completed** and **43,800 rooms** were **renovated**

Sources : CNOUS / enseignementsup-recherche.gouv.fr

Private accommodation

Independent accommodation in the private sector

It is difficult to assess the exact size of the stock of **independent accommodation in the private sector** even though this is **the most widespread housing arrangement** for those students who have left the family home. More than **1 million** students are now renting **in the private sector**, living alone, together as couples or in house shares.

Private owners form the category of landlords offering the most housing on the market and some of them are only prepared to rent to students, principally by means of furnished student leases. Private landlords generally offer small units (studio or 1-bedroom flats, furnished or unfurnished) with widely varying specifications. **The supply, quality and value for money of accommodation in the private sector vary enormously from one town, city and region to the next.** In most large cities, there is ample supply between June and September when tenants are rotating, the exception being **Ile-de-France** and especially in Paris where the market for small flats is **under a lot of pressure.**

In such highly competitive letting markets with high levels of rents, **students in France are increasingly using flat-share arrangements.** This type of housing, very popular with young people, enables them to make considerable savings on rent, service charges and other household bills in a setting of social interaction.

Flat sharing has been developing for several years now in large cities (particularly in Paris) despite the reticence of landlords, who are wary of damage to their property, the problem of managing the guarantee deposit, and the joint and several liability clause that exists between tenants (if one of the joint tenants does not pay, the landlord can claim the sum from the others). In general, the **development and the legal framework of this kind of flat share arrangement are far from translated into action.**

The furnished lease for students is a rental agreement for furnished accommodation (with sufficient furniture for everyday usage) aimed at students. The minimum length of lease is 9 months and there is no automatic renewal. Students are guaranteed a roof over their heads for the academic year (usually from October to June). The conditions and reasons for the landlord to give notice to vacate the accommodation are regulated. By contrast the student can give notice during the lease.

Private student residences with services

In the eighties and nineties, very few residences for university students were constructed yet the number of students rose sharply. The intervention of the private sector in the construction of student residences during the same period was spurred on by the introduction of new tax rules – first the *Périssol* and later the *Méhaignerie* regulations.

From the year 2000, several private developers and some larger development groups started specialising in the construction of serviced student residences. At the same time, more and more private investors took interest in this market segment.

Private student residences, open to all students, are for the **most part composed of fully furnished studio flats, between 16 sq. m and 22 sq. m each.** These residences are usually **located close to institutions of higher education or in the town centre.** They provide **a range of services** that varies in detail from one residence to the next but whose purpose is to make life easier and safer for students: caretakers, laundry, sports room, cafeteria, breakfasts, cleaning services, linen services and so on.

At the start of the **2011** academic year, **the stock of accommodation in private residences was estimated at almost 120,000 rooms**, mainly situated in the largest university cities, with **Ile-de-France** topping the list.

Estimated number of rooms in private residences in the main education authorities in 2011

Authority	Number of residences	Number of rooms*	Coverage**
Aix-Marseille	71	9,200	14.9%
Bordeaux	30	3,900	6%
Grenoble	51	6,600	13.1%
Lille	39	5,000	5.4%
Lyon/Saint-Etienne	133	17,000	17.7%
Montpellier	55	7,100	12.6%
Nancy-Metz	23	2,900	6.6%
Nantes	42	5,400	8%
Nice-Toulon	43	5,500	17.2%
Orléans-Tours	22	2,800	8.5%
Paris	28	2,800	1.5%
Créteil	82	8,500	11%
Versailles	98	10,000	9.8%
Rennes	26	3,300	5.1%
Rouen	11	1,400	4.5%
Strasbourg	27	3,500	8.6%
Toulouse	45	5,800	8.4%

Source : ADELE, February 2012

* Averaging between 100 to 130 rooms per residence
 ** Compared to the number of students living away from home (national average 60% of student population)

Players in the serviced student residence market

Rooms in residences of this kind have met with great success and are very popular with students who are happy to be able to live comfortably and usually at costs that are kept relatively well under control.

These residences are no longer reserved exclusively for students but can also be rented by interns, young workers and temporary employees who move around frequently.

Major developers, as part of **diversification strategies**, are **active** in the private student residence market. Very few developers, however, are specialised solely in the construction of student residences.

When a development is first undertaken, **developers and builders have the choice of:**

- **selling the residence flat by flat** to small private investors
- **instructing a specialised manager or operator to manage the residence**
- **selling the residence** in its entirety **to a single buyer**.

In recent years, the **Scellier Censi-Bouvard** law **boosted the construction of private residences** because of the **incentives** it contained **for individual investors**. For example, the law **entitled the buyer of a furnished flat in a student residence** to a tax reduction equivalent to 25% of the price of the property (capped at a price of €300,000) for properties used as non-professional furnished rentals and rented out for a minimum of 9 years.

This measure **increased total returns on investments**, which could reach **5.5% to 7.0%** when the tax incentive was taken into consideration.

The measure has been maintained until the end of 2015, but the **tax reduction** given has been cut over the years from 25% to 18% then **11%**. This type of investment has been profitable for commonhold owners especially for those who chose investments in town centres and made sure the property operator is reliable.

Commonhold owners of student residences **sign a commercial lease with a professional operator or manager** (for a minimum of 9 years) **who runs the residence**. The property manager/operator pays a rent (reassessed each year according to an index determined in the contract) whatever the occupation ratio in the residence. The manager also selects tenants, collects rents, and takes care of upkeep.

Block investors buy entire developments and are sole owners of the property. This type of **block buyer benefits from tenant security** due to the high demand and the **specific advantages linked to the commercial lease** if they supply (directly or via a manager) three out of four major services: reception facilities, breakfast, cleaning, and household linen supplies. In this case the residence falls under the VAT regime and the investor may recover the total amount of the VAT (19.6%) on the investment while rents will be subject to a lower **VAT of 7%** (services taxed at 19.6%).

In recent years, the most **active block investors were specialised property companies in the sector** but recently **major institutional investors** such as Campuséa in the Gecina group and Viveris REIM are increasingly active.

The cost of land and public building regulations curb the construction of student residences

For developers and property companies, the **shortage of land** in large cities and **resulting high land prices** are the **main factors curbing the construction** of serviced student residences. **The building regulations** that student residences must adhere to because they are officially considered **buildings open to the public** are considered **too strict** by developers. This is another **major obstacle to the development** of this type of establishment. These **building standards** are aimed at making the building accessible by all types of handicapped persons and mainly affect access, moving around in the building, lifts, and lighting, for example **rooms have to be bigger** – the minimum area for bathrooms is 5 sq. m.

As rents are capped, developers and investors are now shunning the construction of student residences because the costs are getting higher and returns on investment are being squeezed. Consequently some construction projects have been cancelled due to lack of investor interest; the level of rent needed to make the construction cost effective would be too high for students.

To summarise, the requirement for student residences to be entirely accessible to handicapped persons has resulted in a restriction of supply and rise in rents, which is detrimental to handicapped and able-bodied students alike.

INVESTMENT STRATEGIES: AN ALTERNATIVE PRODUCT WITH A HIGH POTENTIAL

Almost **80% of demand for student accommodation in public and private residences is left unsatisfied** and current estimates put **the need for supplementary accommodation** at 250,000 beds in the **15 largest cities in France**. This estimate is based on a theoretical ideal objective of lodging 30% of the students enrolled in each academic region in public and private student residences. Based on this very high demand for student rentals, that is growing steadily, the residences on offer in the private sector have a real potential and are increasingly attracting the interest of investors who are researching alternatives to the usual residential investment assets.

Private residences offer several advantages to investors by guaranteeing:

- **investment security:** operators and managers running these residences estimate the risk of unpaid rents and voids at less than 2%
- **returns on investment are higher than other assets:** the quality and design of the residence guarantee a good yield estimated between 5.5% and 7% depending on where the residence is situated
- the **regulatory framework is an incentive:** as long as certain services are provided to occupiers, the investment is governed by the VAT regime, which is therefore recoverable.

In the current unstable economic and financial climate, it is a good time to acquire **student residences, especially entire blocks**. There are several reasons for this: a structurally high demand for student residences ensures a **very competitive yield/risk mix**, especially compared to office assets and **the reduction in tax incentives for private individuals** introduced under the Censi-Bouvard law (tax deduction reduced to 11% in 2012) **is leaning the market to more block sales**. **Developers are increasingly heading towards the sale of entire blocks** and are going to have to develop attractive offers for a **better spread of risks given the anticipated decline in sales to individuals**.

Investors must also take care to monitor the residential letting market in general because within this market it is difficult to measure the number of rooms available for students. **Accommodation scattered through the market like this**, including new flats constructed first under the Robien then later the Scellier laws, **competes directly with private student residences**. For the same rent, a student will usually prefer to have a larger apartment from the private sector than a small studio room in a dedicated private student residence.

CONTACTS

RESIDENTIAL BLOCK INVESTMENTS

Françoise HÉRAUD

Director Residential Investment
Capitals Markets

Tel. : 33 (0) 1 53 64 30 31

Fax : 33 (0) 1 53 64 33 34

francoise.heraud@cbre.fr

Sébastien LORRAIN

Senior Consultant
Capital Markets

Tel. : 33 (0) 1 53 64 34 22

Fax : 33 (0) 1 53 64 33 34

sebastien.lorrain@cbre.fr

RESEARCH

Aurélie LEMOINE

Director
Research

Tel. : 33 (0) 1 53 64 36 35

Fax : 33 (0) 1 53 64 40 00

aurelie.lemoine@cbre.fr

David TRAN

Research analyst
Research

Tel. : 33 (0) 1 53 64 30 78

Fax : 33 (0) 1 53 64 40 00

david.tran@cbre.fr

Information herein has been obtained from sources believed reliable. While we do not doubt its accuracy, we make no guarantee, warranty of representation about it. It is your responsibility to independently confirm its accuracy and completeness. The reproduction of the whole or any part of this report is only authorised if its source is credited.

CBRE Ressources – Economic Interest Group

Headquarters: 145-151, rue de Courcelles 75017 PARIS - Siren : 412 352 817 - RCS Paris