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Savills Research
Student Housing

Spotlight Student Housing in France

Summer 2012



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“Weakness in the labour market has had a knock-on-effect on the number of applications. The number of postgraduates rose by 3.9% in the past 2 years.” Lydia

Brissy, Savills European Research

A counter-cyclical market

The debt crisis plunged Europe back into uncertainty at the end of 2011, putting a strain on European relations and compromising growth forecasts. In France GDP is expected to grow by 0.3% in 2012. Domestic demand does indeed appear to be lacking in dynamism. Household consumption is likely to be sluggish: +0.2% in Q1 2012 and 0.0% in Q2. The purchasing power of income is set to fall back over the half-year, partly due to persistent inflation. Reflecting the weak level of growth, employment should continue to fall back with almost 50,000 job losses expected by mid-year. Unemployment is set to continue rising throughout the year; it should reach 9.9% at year-end, from 9.7% in 2011. As noticed in past economic downturns, weakness in the labour market has a knock-on-effect on the number of applications in higher education. Thereby, in the wake of the credit crunch the student market is rapidly expanding. The number of postgraduate applications surged during the academic year 2009-10, with 82,000 students more than the previous year. This represents an increase of 3.7%, the highest growth since 1993 (+6.4%). This craze for higher education seems to have faded somewhat last year, which recorded a mere 0.2% rise in applications, whilst the number of jobless was declining.

France a student destination

In total, 2.32 million students integrated higher school in September last year, of which 284,659 were international students. France remains a sought

after country for postgraduates, notably attracting an increasing number of Chinese students. The number of international students expanded more rapidly than the total number of students (+5.4% last year) thus the share of international students is currently 12%. This ranks France as the third most attractive student destination after the US (31%) and the UK (17%).

By 2015, the number of students worldwide will grow to 200 million, mainly thanks to the increasing number of Asian students according to the UNESCO. France is preparing for an influx of foreign students, based on changes of tuition fees for foreign students. The foreign student population is expected to increase from 285,000 students today to 750,000 in 2020, which would then represent 30% of all students.

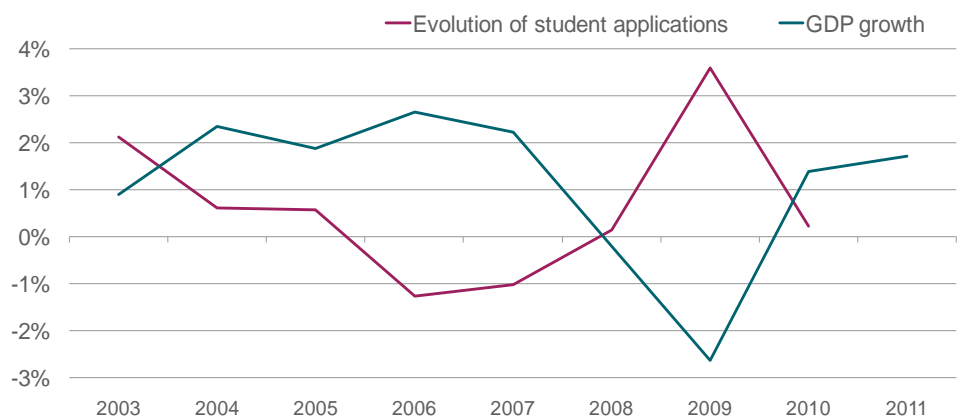


SUMMARY

Resilient to downturns

- In the wake of the credit crunch the student market is rapidly expanding, + 3.7%, in 2009-10 a level of growth not reached since 1993 (+6.4%).
- 2.32 million students integrated higher school last year, of which 284,659 were international students. The share of international students is currently 12%.
- Student housing provision is currently made up of an estimated total of 342,500 rooms, which is clearly insufficient compared to the 1.3 million students wishing to live independently.
- The student housing provision rate is 11.3%.
- 25,121 student rooms are planned over the next five years.
- The average rent for public and private student housing is €388 and €568 per month respectively inclusive of services.
- Increasing demand, high occupancy rates, strong rental growth and high expected yields explain the growing interest from investors for this niche market.

GRAPH 1 **GDP growth vs student applications** Student housing is resilient from economic downturns



Graph sources: Focus Economics, INSEE

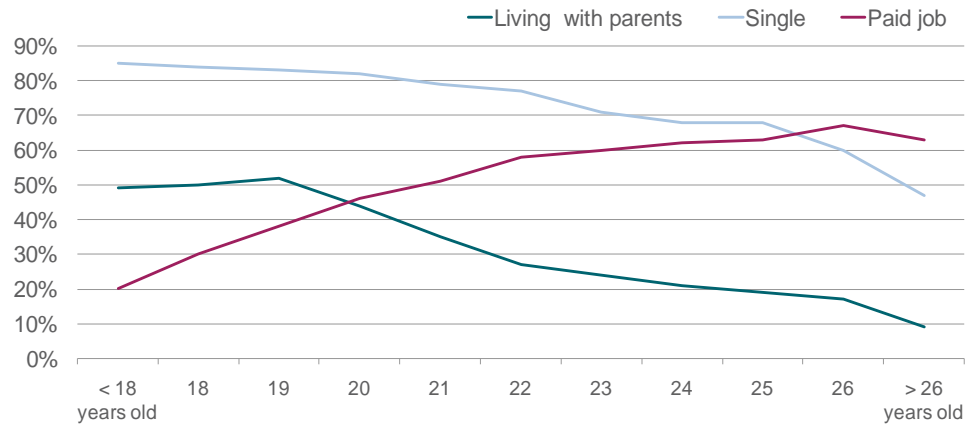
→ **Evolving demand characteristic**

Higher education is increasingly opening up to women, representing 56% of the total students against 54% 10 years ago. During the same period, the average age of students went from 22.4 to 24.8, suggesting the lengthening period of studies. The share of students living independently is increasing in line with the student age. After the age of 20, the majority of students have left their family home. Housing demand is thus turning to independent living. In 2010-11, students living with their parents or in family properties represented 36.5% of the total student population against 46.1% in 2000-01. On the other hand, the share of students renting is nearly 44% from approximately 36% 10 years ago.

Also, with the increasing age of students, living with partners and children becomes more frequent, while living with other persons becomes a less common form of accommodation. Today, 74% of students are single, 19% live in couples and 7% are married. One bedroom apartments and studios make up the majority of the provision for students however two to three-room accommodations are becoming more common. Consequently the standard size of student accommodation went from 16 sq m in 2007 to currently 18 sq m. It generally ranges from 9 sqm for a CROUS (regional social student support centre) studio to 22-25 sqm for a 1-bedroom apartment. At 21 years old more than half of the student population has a job for which

GRAPH 2

Age and dependency After the age of 20, the majority of students left their family home



Graph source: OVE

they earn on average €619 per month. For students living independently, 38% of this monthly income is spent on rent.

Supply and development

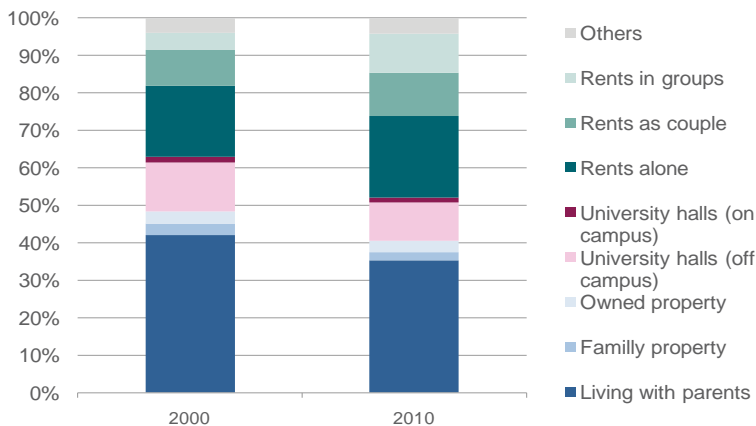
Student housing provision is currently an estimated total of 342,500 rooms, of which 161,500 are public student accommodations managed by the CROUS, 40,000 are social housing dedicated to students also managed by the CROUS, 40,000 are university halls on campus and 100,000 are private student housing. This is an insufficient supply compared to the 1.3 million students wishing to live independently.

In France the average student housing provision rate is 11.3%. This ratio is calculated by dividing the total

number of student housing belonging to both the public and private sectors (excluding the traditional residential market) by the number of student applications. This average is hiding large differences between cities, from 6.2% in Paris IDF, which accounts for nearly 27% of the national postgraduates, followed by 9.5% in Lille to 24.6% in Grenoble, the best equipped city followed by 18.4% in Montpellier. According to the major student housing managers, the vacancy rate is on average below 2%. Following the last student housing support mission from the government (Plan Anciaux,) some 5,000 social housing units have been built per year and more than 7,000 student rooms have been refurbished. In Ile-de-France the amount of student housing

GRAPH 3

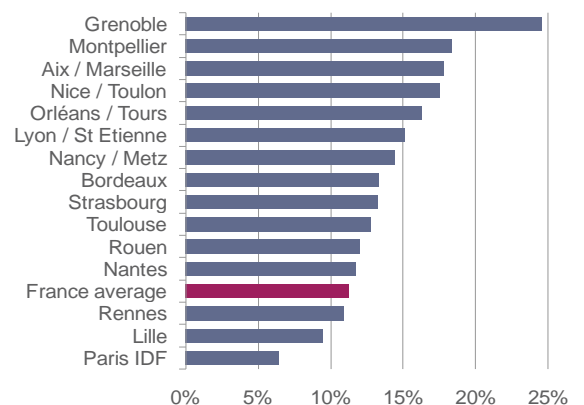
Student type of accommodations Student's sex and age influences the choice of housing type



Graph source: OVE

GRAPH 4

Student housing provision rate* The national average is hiding differences



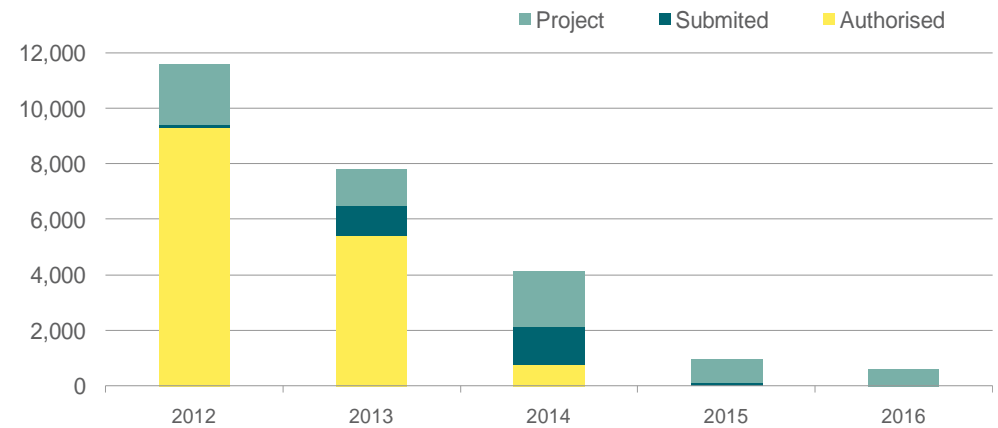
Graph sources: CROUS, Adele, Savills / *Rooms divided by students

→ managed by the CROUS doubled over the decade. In three years the budget for student housing has multiplied by almost two: from €64 million in 2007 to €110 million in 2010. The government investment plan for the future provides funding for 3 to 5,000 rooms and the creation of 8,000 additional housing units thanks to the Campus Plan. In total, these investments should allow the CROUS to surpass the 220,000 dwellings by 2020. Since the middle of 2011, both the number of authorised project and development starts slightly increased again. In total 25,121 student rooms are planned over the next five years of which, nearly 12,600 units are due for completion in 2012 and 7,800 the following years. Of the total pipeline approximately 62% of projects have been authorised, 10% are still waiting for planning consent and the rest remains at a project stage. The Ile-de-France and Rhône-Alpes regions contain 50% of the total planned student housing schemes. Projects to be built in the region PACA represent 10% of the total pipeline, the third key location that attracts developers and investors. These three regions represent 26.7%, 7.0% and 6.8% of the national student population respectively.

Rental levels

The average rent for public student housing is currently €388 per month and can be as low as €100 per month in a 9 sq m student room in Nancy up to €400 for an 18 sq m studio rented in Paris. Historically, rental growth in the public sector has been approximately

GRAPH 5 **In the pipeline** Some 25,121 student rooms are planned over the next five years



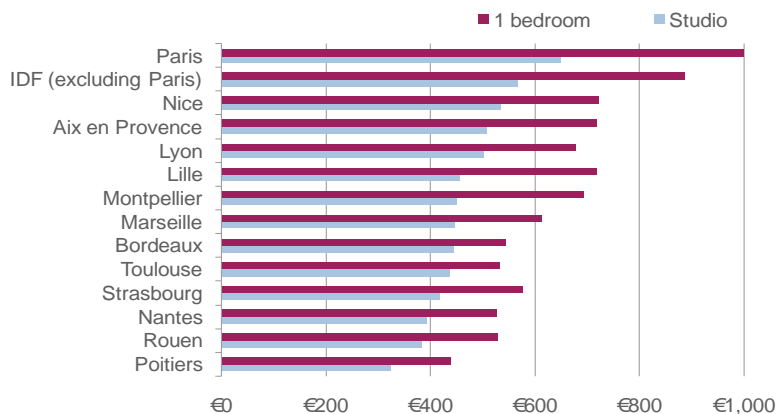
Graph source: Explore

2% per year. In the private sector, the national average is €568 per month for studios to €745 for one-room apartments. Rents have increased by 2% to 4% respectively in the last 12 months. Rents are generally quoted inclusive of services charges and rent reviews are capped according to the ICC (Construction Cost Index) or to the IRL (Rent Review Index).

According to the latest survey from the OVE (Student life watchdog agency 2011), the average rent paid by students living in traditional residential units is €538 per month, starting from €430 per month in cities smaller than 100,000 inhabitants to €709 in Paris. The preceding year, this average was €476 per month, reflecting an annual rental growth of approximately 13%.

“Rents paid by students living in traditional residential units are increasing fast, becoming unaffordable in the difficult economic situation and bringing student housing to the fore.” Marcus Roberts, Savills Student Housing

GRAPH 6 **Rental level in private residences** From €568 to €745 per month



Graph source: Location etudiant

Lokaviz

New quality label

Since September 2011 the CROUS have created the label "LOKAVIZ" to identify student apartments that meet a quality charter. The label is for housing provided by institutions or individuals (also called "in-town accommodations" by the CROUS) complying with regulations and meeting the criteria. The label is awarded by the CROUS after an evaluation including mandatory requirements (Heating, sanitation, comfort, safety).

The advantages for the users of this label LOKAVIZ are threefold:

- It can benefit the image of the product
- Their housing supply is prominent on the new student housing portal www.Lokaviz.fr
- Access to warranty records of tenant risk.

For students

- Can identify good products.

➔ **Niche for investors**

As part of economically sustainable projects, student housings are seen by investors as an excellent opportunity for long term growth. Increasing demand, high occupancy rates, strong rental growth, the expected yields exceeding that of other traditional residential and commercial real estate assets, and assessed risk explain the growing interest from investors for this niche market.

Student residences still represent a marginal proportion of the total investment turnover, nevertheless one with growing opportunities. Moreover, student housing delivers steady income during uncertain economic times. The last 12 months have continued to see good levels of investments. Operator activity remained diversified, including a number of new developments, refurbishment of existing residential units as well as sales of existing stock. The market remains dominated by domestic investors, notably real estate companies with specialised divisions to develop and manage this type of asset. However, over the last five years few international investors have entered the French market.

Yields

Yields have remained stable over the past five years. The expected yields for student residences range between 5.5% and 7.0%, depending on the location and the quality of the asset. This is above achievable yields in the traditional residential sector and above yields for offices and in line with shopping centres. ■

TABLE 1
Major investment deals

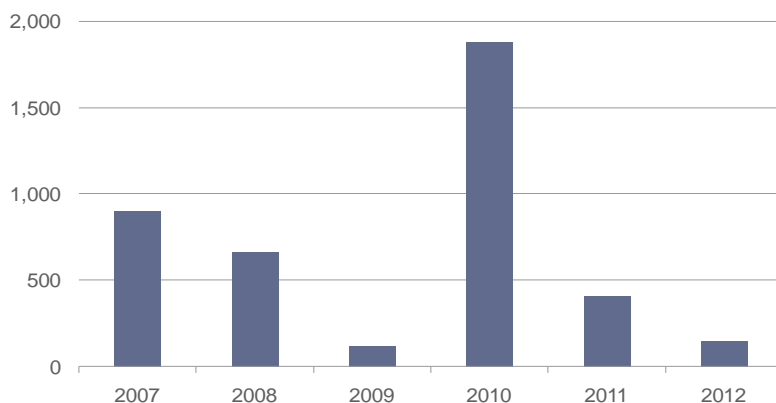
Year	Buyer	Vendor / Developer	Asset	Rooms	Price (€ m)
Q4 2010	MACSF	NA	Rue Saint Pierre - Marseille	150	11.4
Q4 2010	Rabo Bouw-fonds Reim	NA	Parc Labège Inno-pole (Toulouse)	104	16.5
Q1 2011	Vilogia SA d'HLM	Bouygues Immobilier	16 avenue du 1er Mai - Palaiseau (IDF)	208	NA
Q4 2011	Résidé-Etudes	ATEMI Méditerranée	Rue de la République - Marseille	200	NA
Q1 2012	Groupe 3F - Immobilière 3F	Mairie de Gennevilliers	Rue Basly - Gennevilliers (IDF)	144	8.9

TABLE 2
Some development schemes

Property	City	Area in sq m	Number of rooms	Delivery
Résidences étudiante et services - Cordière	St Priest (Lyon)	5,243	232	2012
Résidence étudiante - François Mitterrand	Merignac (Bordeaux)	3,326	100	2013
Résidence étudiante - Campus Sophia	Antibe (Aix-Marseille)	7,650	255	2013
Bayard Studium - Résidence étudiante - Confluence	Lyon	6,800	189	2013

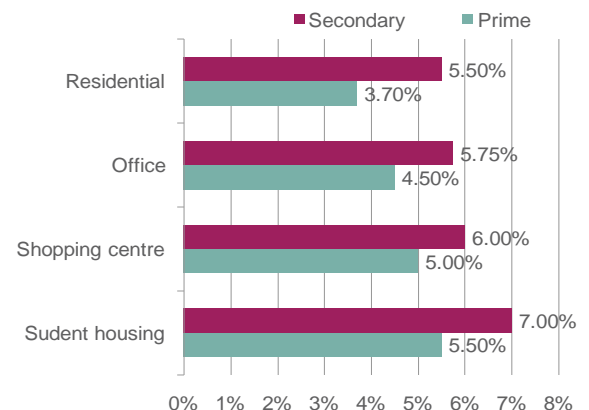
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 “Student housing is seen by investors as an excellent opportunity for long term growth, which delivers secure income during uncertain economic times.” Tristram Larder, Savills European Investment

GRAPH 7
Number of student units acquired (private and public) Good levels of activity



Graph source: Savills

GRAPH 8
Yields Above traditional residential sector, offices and in line with retail



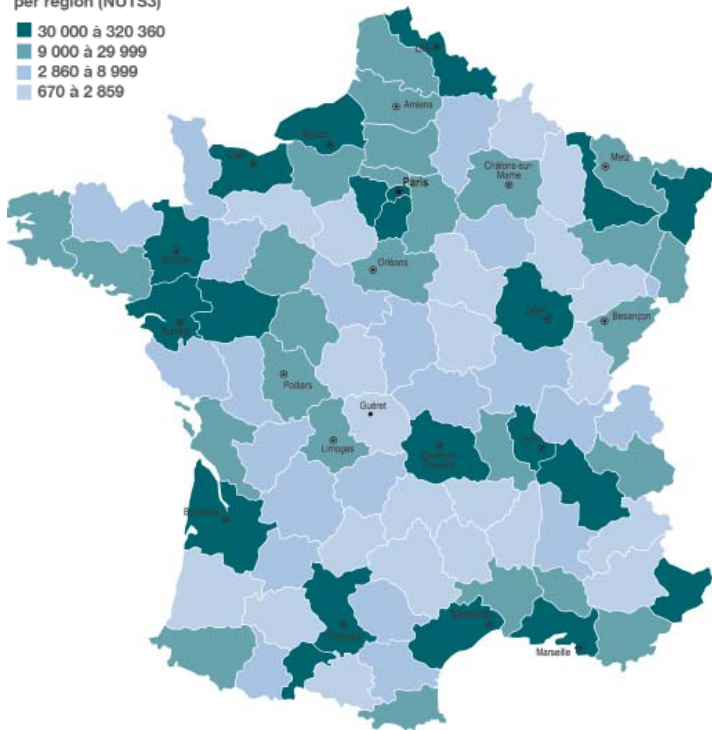
Graph source: Savills

MAP 1

Student density

2010- 2011 Student applications per region (NUTS3)

- 30 000 à 320 360
- 9 000 à 29 999
- 2 860 à 8 999
- 670 à 2 859



“Growing demand, low vacancies and steady rental growth will increasingly attract domestic and international investors.” Lydia Brissy, Savills European Research

OUTLOOK

Bright prospects

- According to the latest projection from the INSEE, the number of student applications should increase by 1.8% next year, by 4.2% in 2015 and by another 2.4% in 2020, which will bring the total number of students to 2,52 million.
- Additionally, by 2020, the number of international student could reach 750,000, which would then represent 30% of all students.
- If the Campus Plan from the government lives up to the targeted 680,000 residences by 2020, the student housing provision rate will reach 24% on average nationally, from 11.4% today.
- The supply of student residences is growing, but development activity remains under control. We believe the occupancy rate will remain high in the next five years.
- Given the under-supply situation of the market rental growth should continue steadily.
- To compete with the traditional residential market, the quality and overall management of student residences will be of increased importance to students in their choice of accommodation
- Student housing properties will remain an attractive asset for investors looking for the diversification of their portfolios.
- We believe that yields will remain stable in the coming twelve months.

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