

PROVISION OF STUDENT RESIDENCES

TITLE OF THE DOCUMENT

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1. Background

This paper draws upon a recent assignment undertaken by SUMS Consulting for UCL. It describes latest developments in the provision of student residences that were uncovered during the course of this review as well as best practice points. It also describes some of the options available to address a shortfall in bed spaces.

2. Latest Developments

The following are some of the latest developments that we identified:

Growth in Residential Stock

As a general rule, universities continue to strive to increase provision of bed spaces in line with growth in their student numbers. There are two main reasons for this (although there may be others):

- **Marketing** – student residences are considered important in attracting students: universities will aim to match or improve upon, the provision of competitors
- **Student experience** – student residences are considered an important enabler for meeting student welfare needs, through for example; provision of accommodation that is fit for purpose and offers pastoral support.

Differential UG and PG Provision

Universities increasingly distinguish between the needs of UG and PG students and this is reflected in the differential provision and its objectives:

- **UG Provision** might be to support the recruitment and retention of younger people entering higher education for the first time. UGs may be inclined to accept a more basic accommodation standard if it allows competitive rent levels in proximate locations
- **PG Provision** might be to support marketing to more mature students seeking greater independence. PGs may be more inclined to accept more geographically distant locations if it offers value for money (low price/high standards).

Tenure Policy

Some universities have adopted different policies towards tenure, which reflect the needs of different student groups. For example:

- **UG** bed stock might be held through freeholds and other longer term tenure arrangements because of the need for security of supply
- **PG** bed stock might be held through a mixture of tenures including shorter term arrangements because security of supply is less important.

Commercial Approach

Universities are adopting a more commercial approach to their management of residences. For example:

- Spin-off companies are holding university-owned residences because it allows them to be run as a commercial venture at 'arms length'. This supports rapid and commercial decision making and improves transparency of otherwise hidden university subsidy.
- Accommodation is marketed to students from other HEIs as a means of generating additional revenue. It allows flexing of supply in line with own student demand, and encourages higher service standards.

3. Good Practice Points

Provision of accommodation is a significant university investment and we identified the following good practice points:

1. Determine the importance of provision and its impact upon university strategy, for example, upon marketing and admissions and/or student welfare
2. Properly understand the importance of provision in meeting the needs of different student groups – UG, PG, Overseas, occasional, etc and its impact on strategy for these groups
3. Undertake scenario planning of projected student numbers compared to projected accommodation availability to establish if there is likely to be a future accommodation shortfall and when this would be; identify and agree strategies to address any projected shortfall in bed spaces.

4. Options for Increasing the Supply of Accommodation

We identified the following options for increasing the supply of accommodation:

- Short-term nomination agreements with alternative providers
- Longer-term partnership (JV) arrangements with private providers
- Seeking new sites and building accommodation

Short-term Nomination Agreements with Alternative Providers

Under this option bed spaces would be acquired for (say) one to five years through alternative providers; this could be with housing associations or private providers such as Unite.

Advantages

It allows unexpected short-term bed space shortfalls to be addressed immediately
 Risk from signing up to a poor deal is mitigated because the deal is short-term
 Private sector rent levels can be made more affordable through university subsidy.

Disadvantages

Availability depends upon the state of the local student residential market and willingness of other providers to act as partners
 It transfers risk to the university to fill the bed spaces that it has nominated to fill
 It is not likely to offer value for money as a long term option
 It represents a stop-gap short term solution but the bed shortage is probably a long term problem.

Longer Term Partnership Arrangements with Alternative Providers

Under this option bed spaces would be acquired through housing associations or private providers with longer term agreements ranging from (say) five to 50 years. There is a wide range of possible arrangements within the range of design, build, finance, operate (DBFO).

Advantages

It may avoid university balance sheet borrowing on new development leaving borrowing capacity available for other projects including academic (but it may also remove residential assets from the balance sheet so they are not available for borrowing against)
 There is potential for cost saving through the more efficient operations of private providers (although private providers must recover their own investment cost and make a profit).

Disadvantages

There is the risk of negotiating a poor deal that is long term (although it might be possible to mitigate this through break clauses in the contract)
 Service provision is under the control of private providers that may have implications on student welfare (although service standards, provision of wardens, etc can stipulated in the contract)
 It is likely to lead to higher student rents (the contract may deal with this, but private providers aim to maximise profit).

Seek to Build Additional Accommodation

Under this option the university would actively seek new sites or develop existing sites in order to provide additional accommodation.

Advantages

- Residential estate acquired as freehold/long leasehold is available for the long term
- Specifications can be determined that best meet own student needs
- Sites acquired may represent investment growth should property values increase (this is also a risk).

Disadvantages

- Alternative providers and other competitors for sites may make acquisitions in optimum locations difficult unless high prices are paid
- Council planning permissions involving new bed spaces may be difficult to obtain and this introduces uncertainty
- There will be long lead times in developing new residences; it would not provide new bed spaces immediately although it could feasibly be used in conjunction with other options that are short term
- It involves use of capital that could otherwise be used for academic or other purposes.

5. Other Options for Addressing a Shortfall in Bed Spaces

We identified two key options:

Modify the Terms of Guarantees

Students may be guaranteed a bed space, for example if they are a new UG or overseas students. Limiting the terms of or students' eligibility for guarantees may provide an option for addressing bed space shortfalls.

Advantages

It offers an immediate solution to 'buy' time to address an accommodation shortfall. It allows capital expenditure on (say) new accommodation to be postponed or avoided.

Disadvantages

- Students could be discouraged from applying to the university if guarantees are less generous than those of competitors
- There could be welfare issues for some new students as a result of not having a place in a residence
- There could be stress for new students seeking alternative accommodation.

Use rent levels to influence demand for accommodation

Under this option rent levels would be raised to more closely reflect the market rate charged by private providers.

Advantages

- Demand for university accommodation is likely to fall if rent levels are similar to those of alternative providers
- Existing guarantees could be maintained if student demand is made lower
- The university would be better placed to compete for new sites with private providers
- It could be introduced immediately and used long term to influence demand
- It would generate additional income that could be used to help fund new university accommodation.

Disadvantages

- Rents would be unaffordable for some students, but this could be offset in part through effective use of bursaries
- There could be reputational damage from high rent levels (although this issue needs to be challenged). A small number of bed spaces with low rents would allow headline minimum rent levels to be maintained.

6. Conclusion

It is helpful to recognise that there are two related, but separate decisions for universities relating to their residential provision:

Does the university want to unlock any cash value tied up in the residential estate whether through arrangements involving sale and lease back to a third party or through traditional borrowing against residence property assets?

How does the university want to operate its residences, whether traditional in-house or outsourced to a third party?

Universities need to consider both of these issues carefully as they may or may not impact upon other strategies and options for the future.