REPORT ON STUDENT ACCOMMODATION: DEMAND & SUPPLY

HIGHER EDUCATION AUTHORITY
AN tÚDARÁS um ARD-OIDEACHAS

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Executive Summary

There has been unprecedented growth in participation in higher education in recent years and this is set to continue based on projections for the full-time demand for education developed by the Department of Education and Skills. These projections estimate that demand will increase from nearly 168,000 in 2014 to nearly 193,000 in 2024. Participation in higher education brings many benefits to the individual, society and the economy. However, it also places pressure on existing infrastructure including an increasing demand for suitable student accommodation. This report sets out the estimated supply and demand for student accommodation and related issues.

Section 1 of this report sets out the overall policy context for the development of this report and highlights some recent trends in the rental market and the supply of housing.

Section 2 sets out the estimated demand for student bed spaces, both Higher Education Institution (HEI) and private, currently and to 2024. It is estimated that there was a demand for 57,104 bed spaces in 2014. It is projected that the demand will increase to just over 68,670 by 2024.

Section 3 sets out the estimated supply of student bed spaces, both HEI and private. The current number of bed spaces, both HEI and private, suitable for student accommodation is estimated to be just under 31,300. Taking into account projected bed space development, it is estimated that the total available beds will rise to just under 43,500 in 2024.

Section 4 summarises the position regarding supply and demand for student bed spaces. It is estimated that there is an unmet demand of about 25,000 bed spaces which has a significant impact on the private rental sector. This data is based on current and projected development of student accommodation.

Section 5 sets out a summary of the estimated investment and income generated from student accommodation. It is estimated that total gross investment planned, by HEIs and private developers, is in the order of €1billion over the period to 2024. The level of income generated by the university sector from student accommodation is due to increase from €51 million in 2014 to just under €120 million in 2024. The costs of maintaining the increased number of bed spaces will double over the period from an estimated €30 million in 2014 to just over €63 million in 2024. These costs do not include the cost of major refurbishments.

Section 6 of this report contains a number of recommendations which if implemented, either in whole or in part, may help to ease some pressure in the short-term while also helping to accelerate existing planned student accommodation projects and increase the pipeline of projects in the coming years. This includes recommendations related to the Rent-a-Room Scheme, Planning & Development, Delivery Models, Financing, Development Costs, Accessibility, Supporting Access and further Research.

The Higher Education Authority (HEA) would like to acknowledge the advice and support of the Finance and Accommodation Officers in the HEIs.

1. Introduction

This report is being written in the context of recent, significant Government policy initiatives on construction and social housing. The Government's ***Construction 2020 Strategy*** provides the basis for rebuilding a sustainable construction sector that has the capacity to build the houses and infrastructure we need as a society, and making its full contribution to economic recovery. The Government has made it clear that the goals of housing policy will be affordability, sustainability and inclusion. The main aim of Construction 2020 is to triple housing output by 2020 which will also provide 60,000 jobs over the same period.

In addition, the Government have also launched a new six-year **Social Housing Strategy** which includes a target of providing 35,000 new social housing units at a cost of €3.8 billion. It is estimated that some 29,000 jobs will be created and sustained over this period.

The demand for student accommodation impacts particularly on the private rental market and the trends in that sector are reported in a recent Daft.ie Rental Report[1] which shows that rental costs are increasing and particularly so in the commuter counties around Dublin. The report also shows that there is a low number of properties being offered to the market in Dublin over the last 18 months.

This report and other reports published by the National Economic and Social Council (NESC) point to the fact that that supply is a key determinant of the availability and affordability of rental housing.

The most recent report from the NESC on the private rental sector - ***Ireland's Rental Sector: Pathways to Secure Occupancy and Affordable Supply,*** which was published in May 2015, highlights the fact that nationally, about 305,000 households (19%) are renting from a private landlord and the percentage of households renting is considerably higher in Galway (40%), Dublin (34%) and Cork (29%)[2].

The NESC report also estimates that there are nearly 9,000 student households (based on 2.73 occupancy rate per household) renting in the private rented sector nationally.

Given the rent increases that have occurred in recent years, the low supply of stock and the level of student households in the private rented sector and the projected increase in student numbers over the coming years, it can be argued that an increased provision of designated student accommodation, both on and off campus, has the potential, in the medium to long term, to ease ongoing demand pressures in the private rented accommodation sector. This could potentially deliver real benefits

[1] http://www.daft.ie/report/q1-2015-daft-rental-report.pdf
[2] http://files.nesc.ie/nesc_reports/en/141_Irelands_Rental_Sector_MainReport.pdf

for renters in the larger urban areas of Dublin, Cork and Galway and the commuter counties surrounding Dublin.

The provision of additional student accommodation provides benefits to the wider economy and society through the economic activity that takes place and through the development of local urban areas in less commercially attractive areas. In terms of economic activity, it is estimated that 200 jobs are created during construction phase of a €150m project with resultant VAT, PAYE and PRSI receipts. In addition, a considerable number of additional permanent campus jobs would be created in maintenance and management of any new development and of course in the provision of education itself.

Data collected by the HEA shows that while there are substantial capital costs incurred by HEIs in the initial build of on-campus accommodation and in providing for on-going refurbishment, it can provide a sustainable income stream for the HEI over the longer term which should be considered positively in the context of the current work of the Higher Education Funding Group.

2. Demand for On-Campus Accommodation

It is apparent, from the strong levels of demand that students generally would prefer to reside in on-campus accommodation. The conditions relevant to these residences recognise the duration of the student's study period i.e. summer breaks, as well as a high standard of maintenance and facilities. In addition, the student experience is no doubt enhanced through close proximity to student facilities such as libraries, sports, restaurants etc.

There has been limited research into accommodation and living arrangements for third-level students in Ireland. The United States on the other hand, and to a lesser extent the UK, has carried out extensive research in this area.

Research internationally (Pascarella and Terenzini 2005; Thomas 2012 as quoted by Gormley 2015 P.1) has shown that students living in on-campus accommodation have higher retention rates than commuter students, and also exhibit higher scores on developmental scales (Chickering and Reisser, 1993 as quoted by Gormley 2015 P.1)

A 2009 Higher Education Funding Council for England report into students who lived at home reported that first year students living with their parents had a high rate of non-retention at 10% significantly higher than resident students who had a non-retention rate of only 4% (HEFCE 2009, p 35 as quoted Gormley 2015). The report also noted that students whose parents are from higher socio-economic groups are less likely to live at home in their first year of study.

The transition from second to third level can be a worrying time for students and their parents. This unfortunately can be compounded by the stress of having to queue for off campus accommodation which in many instances can be more expensive and of lesser quality.

It is further complicated by the timeline between the Leaving Certificate results, the CAO outcome, acceptance and start of semester. This leaves a very short time frame to identify and access accommodation.

In addition, recent research on the transition from school to higher education, commissioned by the National Forum for the Enhancement of Teaching and Learning, highlights the impact that long commutes can have for students new to higher education. The report highlights that "….as commuting times increase, so too does the transitional challenge. It is likely that commuting times impact on a student's ability to engage with College, in particular to participate in extracurricular events and social activities in the evenings. Also, a longer commute is likely to be more tiring and may have a knock-on impact on academic aspects also"[3].

[3] http://www.teachingandlearning.ie/wp-content/uploads/2015/08/Research-Report-6-Transitions-from-Second-Level-FE-to-Higher-Education.pdf

2.1. Current and Projected Student Numbers

The projected full time demand for education in DES aided institutions shows an increase from 167,991 FTEs in 2014 to 192,886 FTEs in 2024 and is presented in Figure 1 below. This includes international students[4].

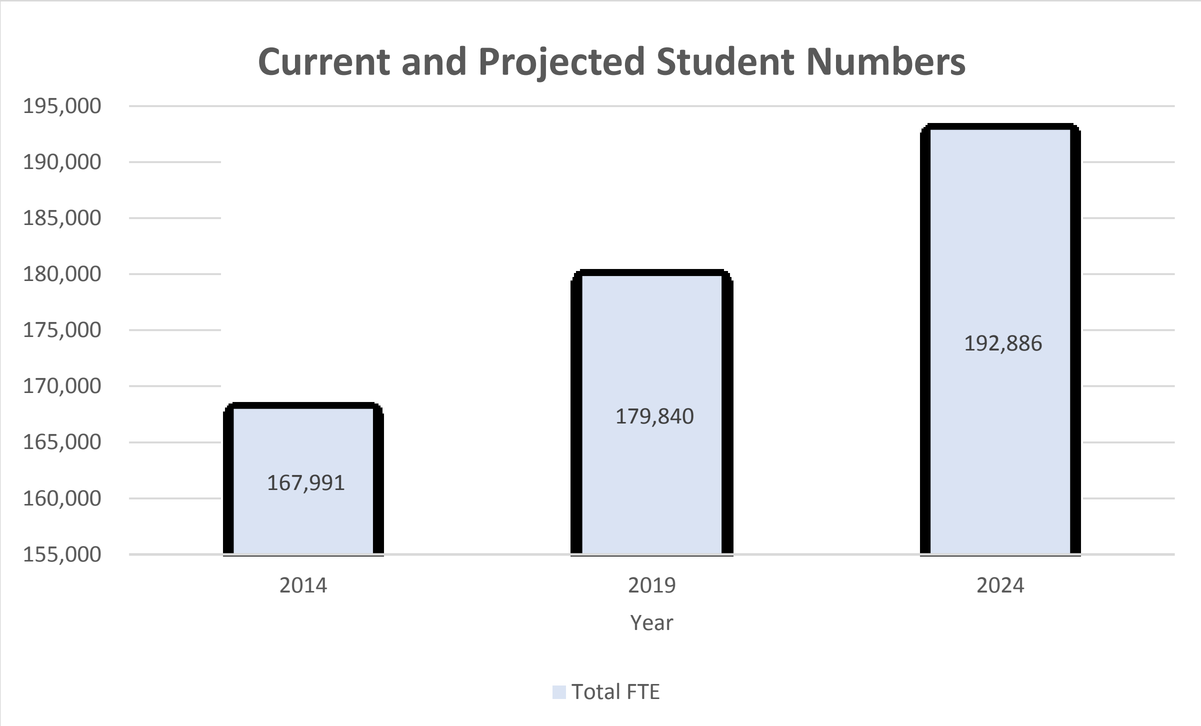

Figure 1 Current and Projected Student Numbers

2.2. International Students

The Government's International Education Strategy "Investing in Global Relationships" 2010-2015[5] included a number of targets to increase international students in higher education institutions and these have already been achieved. The Department of Education and Skills is leading on the development of a new International Education Strategy 2016-2020 which is due for completion by end 2015.

Increasing the number of overseas students provides another income stream for HEIs. Increasing overseas student levels by 2,000 for example would increase college funds by circa €30m per annum (assuming payments by each student to college of €15,000 per annum).

[4] This does not include international students studying in the English language sector or in colleges offering higher education courses which are not funded by the HEA

[5] https://www.education.ie/en/Publications/Policy-Reports/Ireland-s-International-Education-Strategy-2010-2015-Investing-in-Global-Relationships.pdf

In addition, Enterprise Ireland estimated that a direct economic impact of around €345m resulted from expenditure by international students in higher education in 2012, with a further €120m from related friends and family tourism.

In total, the value of education as a service export has grown by 47% since the publication of the international education strategy which has had an estimated direct impact of over €1 billion in the Irish economy, compared with an estimated €682 million in 2010[6].

In the longer term, international students become part of the Irish 'Diaspora' building enduring links with their alma mater and with Ireland.

In general, in the main urban areas of Dublin, Cork, Galway, and to a lesser extent Limerick, the availability of campus accommodation is a prerequisite for attracting new overseas students, as students can find it hard to procure acceptable affordable accommodation in proximity to a campus in these areas. HEIs report that international students demand guaranteed accommodation for at least the first year at time of recruitment. The projected increases in International student numbers will put further pressure on availability of student accommodation for domestic students.

2.3. Students with disabilities

There is also currently a significant demand for bed spaces for students with disabilities. The demand is not being met by the available supply. There are different needs due to the various types of disabilities and not just physical mobility. On campus accommodation is generally regarded as the preferred option to enhance student participation and this is significantly more so the case for students with disabilities. The type of accommodation required and the level of support services that are necessary place a particular economic demand and inclusion challenge on the accommodation provider. This has space, cost and inclusion implications.

2.4. Other uses

Summer lettings generate VAT for the Exchequer at a current rate of 9%. It provides additional low cost bed accommodation for incoming tourists. Separately there are other students seeking shorter term durations such as incoming Erasmus students. This report does not contain data on private language schools which would further impact on demand.

[6] Includes estimate of €280 million for the English Language sector

2.5. Bed Space Demand

Evidence suggests that students are having difficulty in sourcing accommodation in close proximity to their HEI campus, particularly in large urban areas. Recent reports from the rental sector are demonstrating a shift to rental property in the commuter belts adding to traffic volumes and congestion.

The current demand for student bed spaces, both HEI and private, is estimated to be just over 57,100 (public and private). This figure is an estimate based on data provided by HEIs, including IoTs and teacher training colleges. These institutions were also asked to provide details of any private developed bed spaces in their area.

The HEIs were asked to provide data on the level of demand for on campus bed spaces in their institution. This amounted to 37,698 out of total demand in 2014 of 57,104[7]. Of the 57,104, 34% or 19,406 is estimated to be private bed spaces. There was a difficulty in collating statistics on private student accommodation currently being provided due to the mix of developed units, buy to lets and family homes under the rent a room relief.

Having extrapolated anticipated student bed demand, including international students from the projected (median) increase in DES student numbers of 24,895 from 2014 to 2024, as outlined in figure 1, the resulting increase would result in projected bed space demand of 62,855 in 2019 and 68,678 in 2024.

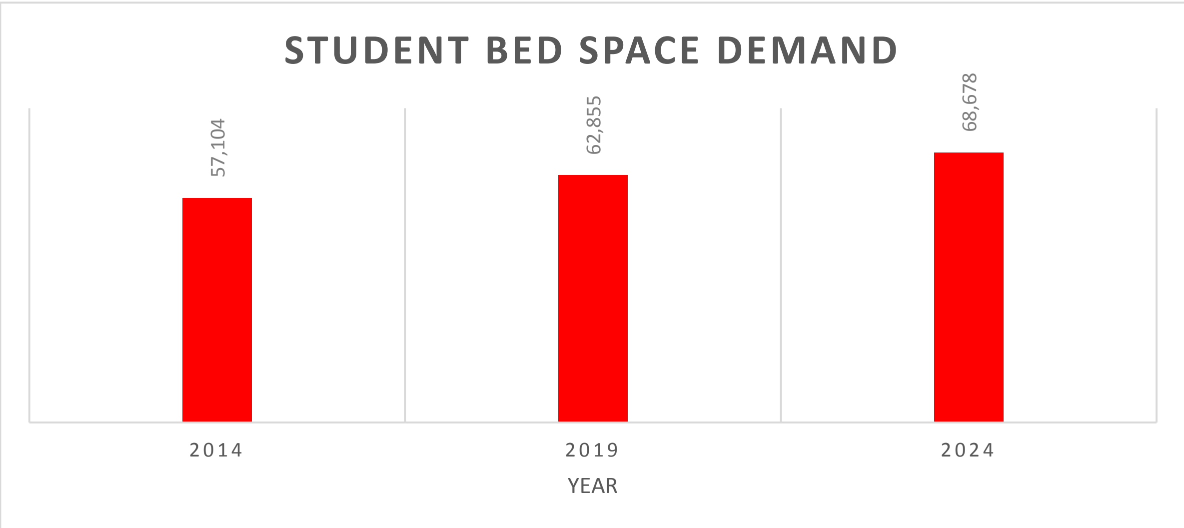

Figure 2 Student bed space demand including International and Erasmus students

7 Having regard to the reasonable accuracy of the HEI bed space demand figures an overall margin of error rate of plus or minus 4% is suggested on the total demand figure.

3. Supply of On-Campus Accommodation

The data on available student bed space accommodation was informed through contact with all HEIs and a number of private institutions. The current number of bed spaces, both HEI and private, suitable for student accommodation is estimated to be 31,296. There is a margin of error rate of plus or minus 5%.

Existing Student Accommodation 2014			
Location	**Public**	**Private**	**Total**
Dublin	6,501	3,786	10,287
Cork	813	2,975	3,788
Galway	764	2,466	3,230
Limerick	2,590	4,226	6,816
Waterford	446	1,919	2,365
Other locations	0	4,810	4,810
Overall Total	**11,114**	**20,182**	**31,296**

Figure 3 Existing student accommodation 2014

Future bed space development is based on data submitted by HEIs as well as an estimate of private off-campus projects. The projected bed space development would result in total available beds of 39,696 in 2019 and 43,496 in 2024 as illustrated in the chart below (including private).

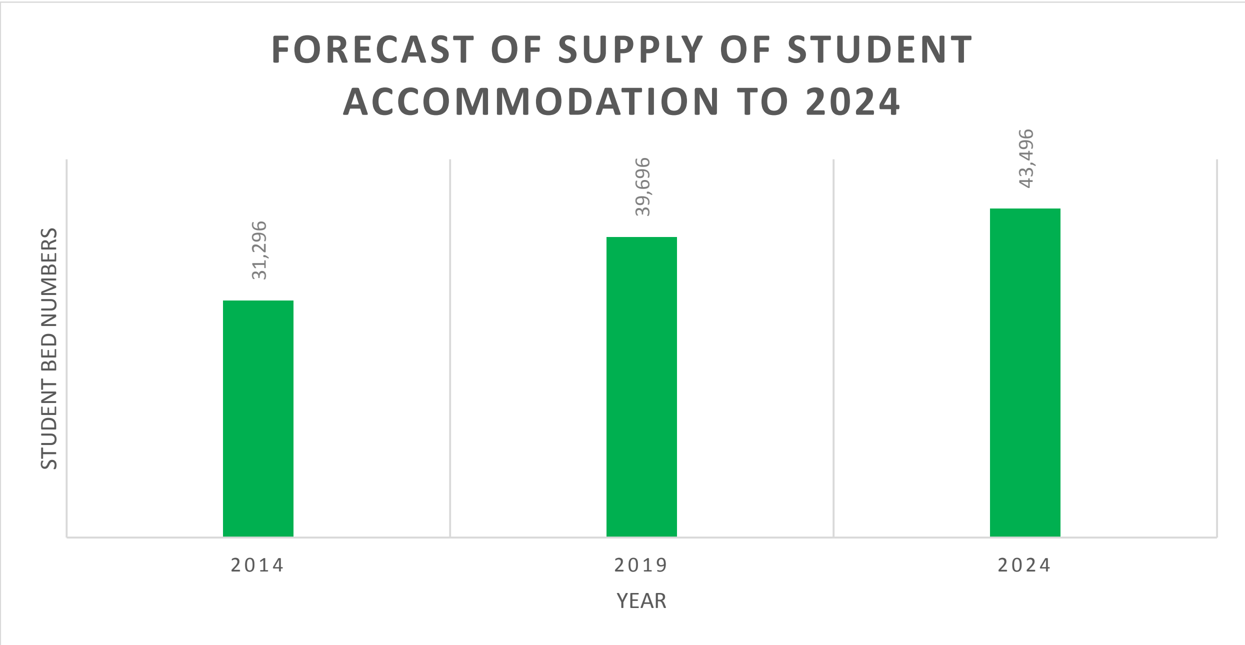

Figure 4 Forecast of supply of student accommodation to 2024

4. Alignment of supply and demand

Drawing together the estimates of supply of, and demand for, student accommodation shows that the demand for student accommodation currently outstrips supply and this trend continues to 2024. It is estimated that there is currently an unmet demand of about 25,000 bed spaces which has a significant impact on the private rental sector.

This data is based on current and projected development of student accommodation. The actual timescale for new beds coming on stream will be impacted by a number of factors including the planning process, access to finance, delays during the build etc.

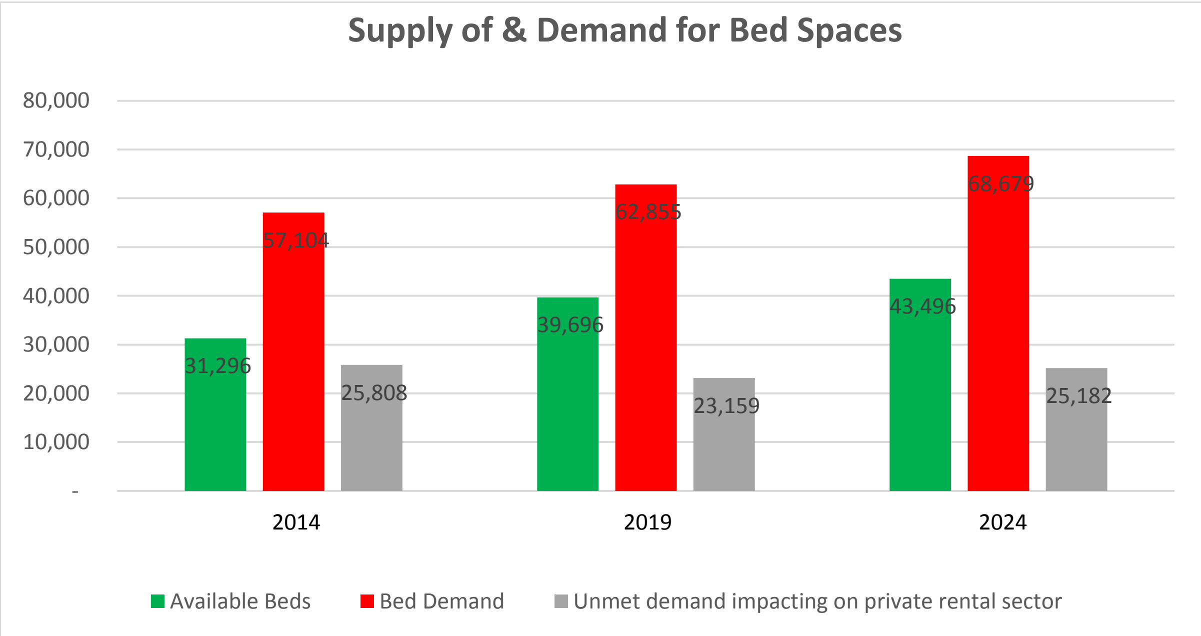

Figure 5 Supply of and Demand for Bed Spaces

Discussions with HEIs and other stakeholders suggest that the shortages of available accommodation are high in Dublin, Cork and Galway and to a lesser extent Limerick. Accommodation in other areas, along with private rented accommodation, is generally adequate to meet demand.

There is also a quality issue which needs to be considered. The standard and suitability of some private student accommodation, particularly where section 50 Tax breaks have been utilised and capital allowances have been fully claimed, is questionable but has not been fully examined as part of this exercise. The majority of HEI developments of on campus facilities have been maintained to a high standard with major refurbishments carried out or planned in many cases.

As noted in the summary, the current imbalance between supply and demand will not be resolved by known or estimated future developments. Indeed, increased demand due to projected additional numbers will only result in a continuation of this shortfall. It is recommended that actions should be taken to encourage additional investment and, where feasible, bring forward forecasted projects.

5. Costs and income from student accommodation

5.1. Capital investment for new builds

In terms of building new student accommodation, it is estimated that it costs approximately €85,000[8] per bed space (current values, excluding any costs associated with land purchase). So for example, a 100 bed space property costs approximately €8,500,000 to construct.

Figure 6 sets out the current investment and projected capital investment by universities, Dublin Institute of Technology and a small number of other developments and relates only to new builds. Refurbishment costs are dealt with as part of ongoing normal cash flows.

Major refurbishments are carried out by the HEIs on existing bed spaces over a period of 10-20 years. This can be quite a costly exercise due to Health and Safety requirements and bringing accommodation up to modern day standards. Depending on the age of the constructed bed spaces it can cost in the range of €10,000-€20,000 per bed space to carry out these works. The HEIs include a provision for these works in their cash flows.

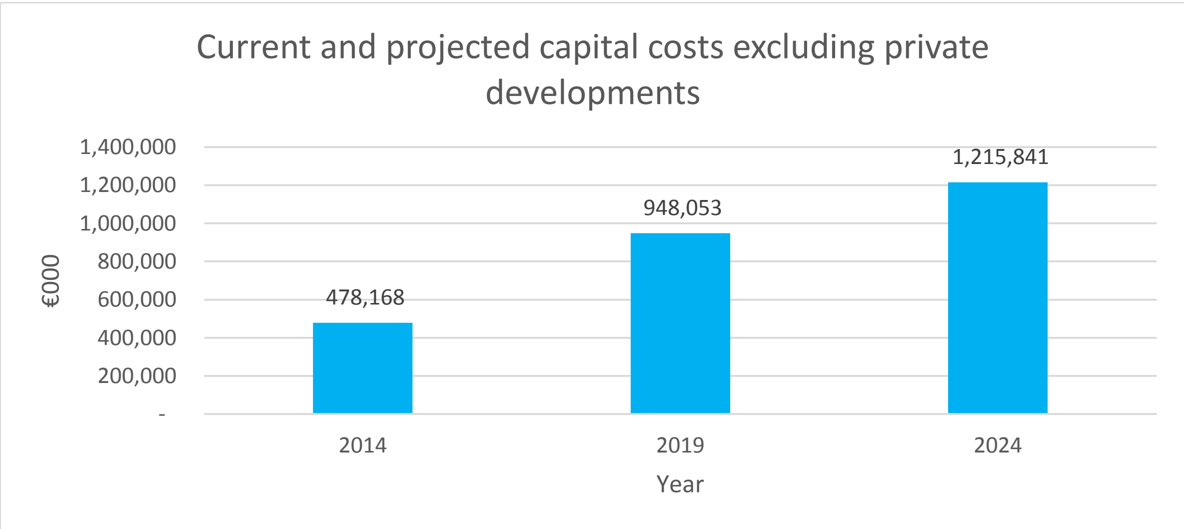

Figure 6 Current and projected capital costs excluding private

As can be seen from the chart above, capital investment in student accommodation, excluding private, is forecasted to increase by over €700 million over the period 2014 to 2024. It is estimated that total gross investment planned, by HEIs and private developers, is in the order of €1billion over the period to 2024. The sources of funding for this level of investment by HEIs is a mix of reinvestment of surpluses and new borrowings. There is no borrowing framework for the Institute of Technology

[8] Source: Finance Officers and Capital Sections of the universities

sector and it would be difficult, if not impossible, for the majority of IoTs to finance a significant student accommodation project from own resources. Therefore the majority of existing student accommodation in HEI ownership and new student accommodation projects planned are in the university sector.

5.2. Income stream for the university sector

As noted above, the majority of student accommodation complexes in public ownership are owned by the seven universities. The level of income generated by the university sector from student accommodation is due to increase from €51 million in 2014 to just under €120 million in 2024. The figures presented below also include some estimated room rate movements. However, although income will increase so too will the costs of maintaining the increased number of bed spaces. It is estimated that these direct and indirect costs (excluding loan repayments but including normal, ongoing maintenance costs) will double over the period from an estimated €30 million in 2014 to just over €63 million in 2024. These costs do not include the cost of major refurbishments.

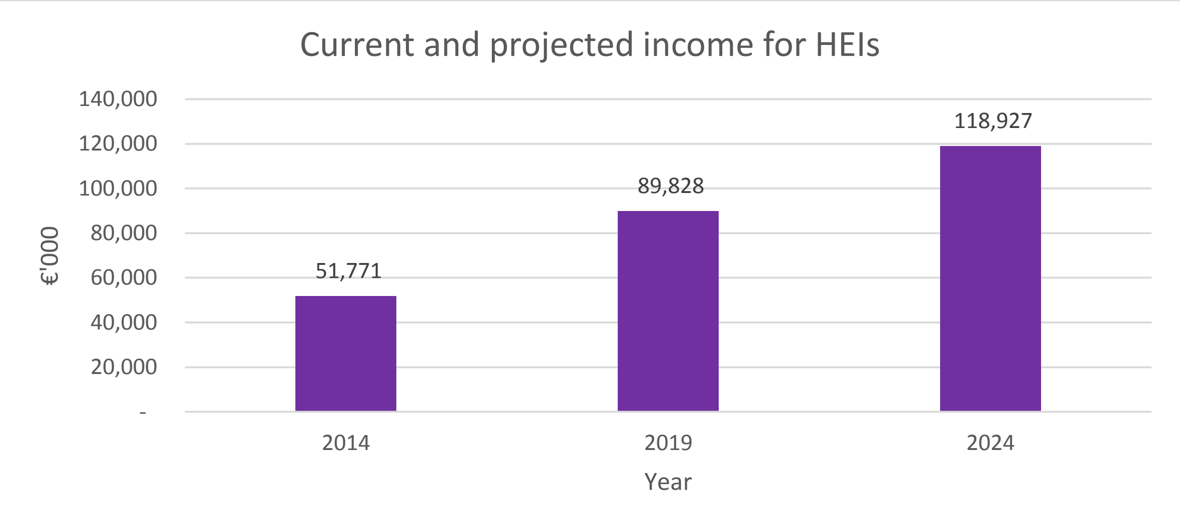

Figure 7 Current and projected income for HEIs

There is a risk in developing substantial new student accommodation which may result in low occupancy rates during the summer. This could result in losses during this period due to committed ongoing running costs and would have to be factored into the development of new projects. The overall cash flows from campus accommodation is sufficient to allow for ongoing maintenance, major refurbishment and reinvestment in future developments of student bed spaces.

6. Recommendations

While it is not possible, or practical, to develop accommodation on campus to fully meet student demand, it is recommended that relevant stakeholders work together to increase the supply of student accommodation in the coming years. The economic benefit of these developments is quite substantial both through the creation of jobs during the construction phase and through increased expenditure by the students in various areas such as shops, restaurants, launderettes etc. tourism, family/friends of international students visiting.

There are a number of constraints on HEIs in providing for an increase in student accommodation. These include lack of land for development and access to finance. Implementation, either in whole or in part, of the recommendations below may help ease some pressure in the short-term while also helping to accelerate existing planned student accommodation projects and increase the pipeline of projects in the coming years.

Recommendations	
Rent a Room Relief Scheme	• Encourage and support the take-up of the rent-a-room scheme by homeowners in areas adjacent to higher education institutions Lead: D/Education and Skills, HEA, USI and HEIs
Planning & Development	• Ensure continued flexibility by local authorities on application of guidelines for the specification of student accommodation Lead: D/Environment and Local Government and Local Authorities
	• Ensure the requirement for student accommodation is considered as part of the reviews of Development Plans by Local Authorities Lead: D/Environment and Local Government and Local Authorities
	• Local Authorities to consider the use of the Vacant Land Levy, provided for in the Urban Regeneration and Housing Bill 2015 to increase the supply of land that could potentially be used for the development of student accommodation in our cities Lead: Local Authorities
Delivery Models	• Explore, with relevant stakeholders, the potential for joint initiatives involving HEIs and an approved housing agency to deliver student accommodation places

Recommendations	
Financing	• Consider the provision of a capital grant specifically for HEI's development of student accommodation for a fixed period of time
	• Consider the potential to deliver future projects through a PPP financing model
	• The Ireland Strategic Investment Fund sees Student Accommodation as an area of investment consistent with its dual bottom line mandate of commercial investment with economic impact. ISIF to continue to engage with Higher Education Institutions to develop financing solutions for on-campus accommodation and with private sector developers for potential off-campus investments Lead: ISIF, Higher Education Institutions and private developers
Development costs	• Consideration to be given to tax measures to develop on-campus accommodation for HEIs
	• Consult with NAMA, on a commercial basis, regarding the availability of suitable properties and land that could be used for student accommodation developments either by individual HEIs or HEIs working on joint projects
Accessibility	• It is recommended that any future developments should comply with the recommendations for enabled access as published by the Department of the Environment. HEIs should consult with relevant stakeholders including students with disabilities on adaptation of existing stock and design for new builds Lead: Higher Education Institutions and private developers
Supporting Access	• HEIs should consider allocating up to 10% of new bed spaces for students with disabilities to allow for likely increased demand by these students Lead: Higher Education Institutions
Research	• The Irish Survey of Student Engagement (ISSE) should be expanded to include relevant questions on student residences to enable research to be carried out on student preferences for accommodation and related issues Lead: Higher Education Authority

Appendix 1 References

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