

# PBSA BELFAST

Lambert  
Smith  
Hampton

INCREASED INVESTMENT  
TO FOLLOW STUDENTS' LEAD



## PERFECT CONDITIONS

Prior to 2016, Belfast had around 2,000 student beds in university managed halls, mostly dated with few amenities. Today, from a place of relative obscurity, the purpose-built student accommodation (PBSA) sector in Belfast is now firmly established. Over the last decade, a combination of factors created the perfect conditions for PBSA development including Belfast City Council's city centre regeneration policy and aim to enhance Belfast's role as a Learning City (thus increasing the city's student population), and an increase in enrolment at Northern Ireland's higher education institutions.

The paramount factor was, however, the completion of the Ulster University (UU) Belfast campus in 2022 resulting in the relocation of approximately 15,000 students and staff from Jordanstown to Belfast city centre. Now, all of Northern Ireland's higher education institutions have a campus concentrated within a three-mile radius of the city centre and Belfast's student population is estimated to be in excess of 45,000.

## SUPPLY BOOST

Since 2016, 5,040 student beds have been developed at 12 PBSA schemes. Supply will increase a further 25% in 2024 with 1,237 beds scheduled for completion at Bradbury Place, Nelson Street and York Street.

Seven further schemes (3,773 beds) are at various stages of planning and there are additional city centre sites under consideration for PBSA not yet subject to planning pre-application notices. The two largest universities, Queen's University Belfast (QUB) and UU, have also been proactive with recent purchases of city centre land which could potentially support the development of further schemes.

**BRADBURY PLACE**

**156 BEDS**

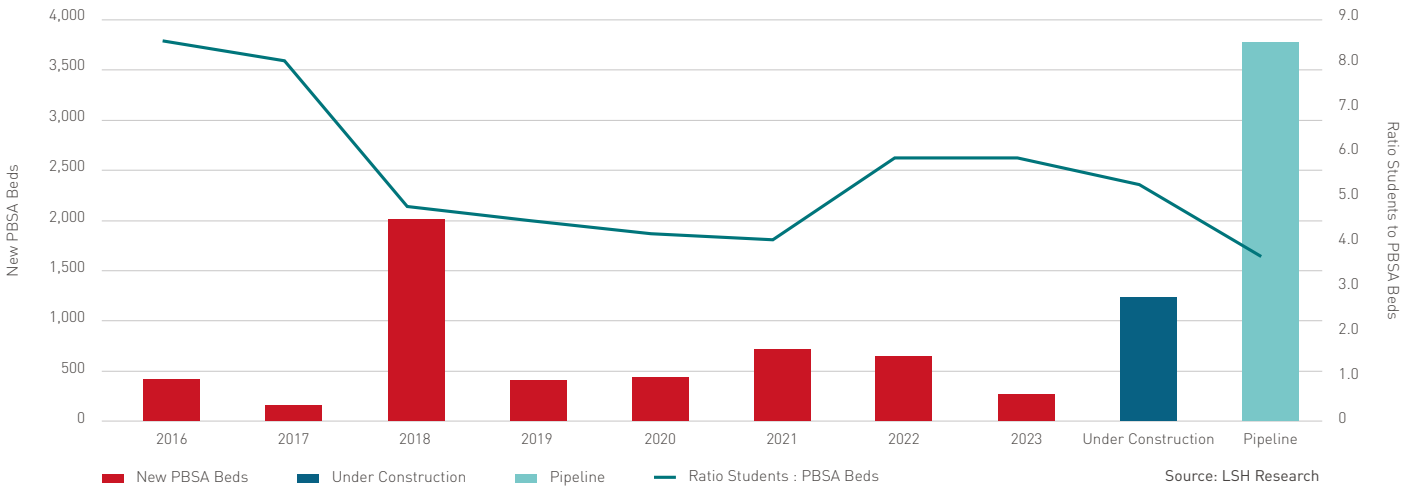
**NELSON STREET**

**774 BEDS**

**YORK STREET**

**307 BEDS**

## PBSA DEVELOPMENT IN BELFAST AND RATIO OF PBSA BEDS TO STUDENTS



### FUTURE DEMAND

Prior to PBSA development commencing in 2016, the ratio of students to PBSA bed spaces in Belfast was 10:1, high compared to other UK university cities at that time such as Cardiff (5:1) and Edinburgh (8:1). Cities that are currently considered to be highly saturated, such as Liverpool and Sheffield, have ratios of approximately 2:1. The ratio in Belfast will be 5:1 by September 2024. This would reduce to 3.7:1 if all schemes in the planning pipeline are developed.

Current estimates of demand for university places point upwards, with population

projections for 18-year-olds rising in the coming years. UCAS has reported that there will be a 20% increase in Northern Irish school leavers seeking a university place by 2030 and in response QUB and UU have estimated a requirement for an additional 5,000 places for undergraduates in the same period.

While analysis shows an increase in demand, at present the number of Northern Irish undergraduate university places is capped due to available funding by the Department for the Economy which may counteract

growing demand. Local universities are campaigning to lift the cap, arguing that it leads to local students leaving the region and therefore serves as an 'economic handbrake'.

A recent university led submission to Belfast City Council cited a need for 6,000 additional student rooms in Belfast by 2028-2030 as current supply is at capacity. Should projected demand come to fruition, the current development pipeline will not be sufficient to meet demand.

### ROOM FOR RENTAL GROWTH

Development of PBSA in Belfast started later than in other UK cities. Unsurprisingly, where PBSA has not kept pace with demand, like Belfast, the demand/supply dynamic has resulted in upward pressure on PBSA rents. Bonard estimated that average PBSA rents in Northern Ireland increased by 6% in 2023 over 2022. While rental growth was partially driven by utility cost inflation, high occupancy rates and increases in rental levels in the private rented sector were also undoubtedly factors.

For the 2023/24 academic year, basic cluster rooms are on average just over £150 per week. Our analysis of rents for 2024/25 reveals rental growth for basic cluster rooms and studios of 8% and 9% respectively.

Looking further forward, it is difficult to predict exactly where rents may settle. It will be heavily dependent on the forecasted increase in the student population and the delivery of proposed schemes. Whilst some may consider lower inflation levels and increased PBSA competition as factors which might hinder rental growth, the demand/supply dynamic of Belfast suggests that rents will continue on an upward curve, albeit possibly at a lower rate in coming years.



Ulster University Campus - Belfast



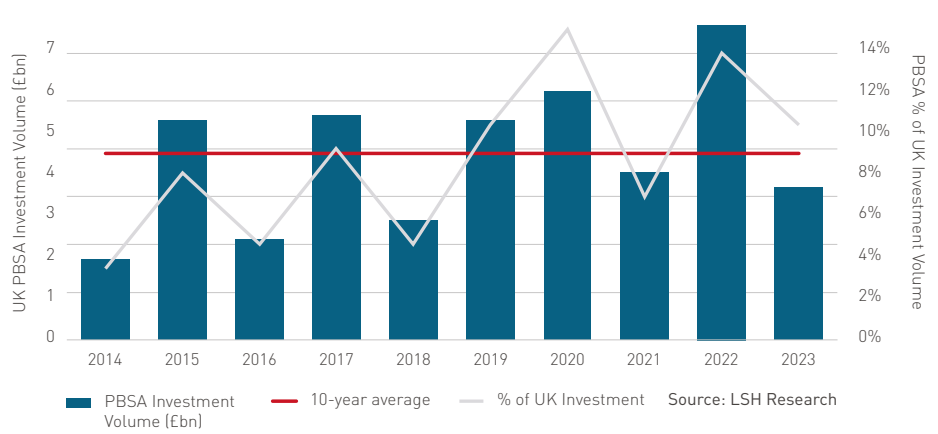
## NOT AN ALTERNATIVE

Corresponding to the increase in PBSA supply in the wider UK market, investment volume in the sector has also increased over the last decade. What was once 'alternative' is now mainstream, particularly amongst institutional investors who make up the bulk of active investors in this asset class. In 2022, UK PBSA investment volume peaked at £6.6bn (12% of total UK investment), higher than retail in that year; notably including GIC/Greystar's purchase of the Student Roost portfolio for £3.3bn.

While investment volume dipped below trend in 2023, PBSA has demonstrated resilience in the face of a difficult economic backdrop, arguably more-so than those more traditional 'core' commercial property sectors. Indeed, UK PBSA has demonstrated its maturity and some analysis shows that student numbers tend to increase during economic downturns, and therefore PBSA could have counter-cyclical qualities.

Whilst we have not yet witnessed significant investment volumes in the Belfast PBSA market; it is somewhat inevitable that this sector will gain momentum in the coming years. To date, PBSA investment transactions have primarily been 'forward funding' agreements or assets that form part of a larger portfolio. A recent example of the latter is Vita Group's 269-studio bed development at Bruce Street, Belfast sold

## UK PBSA INVESTMENT VOLUME



in October 2023 as part of a wider £300mn portfolio which included assets in Warwick and Edinburgh (1,340 beds in total).

Predictably, there has been a softening in PBSA investment yields over the last 12 months on the back of rising operational and finance costs. Despite this, we expect to see an increase in both institutional funds and local investors seeking out PBSA investment opportunities in Belfast, particularly due to high levels of occupancy and the strong sector fundamentals. While there is limited sales evidence in Belfast to determine a yield pattern, UK prime regional and

direct let assets are generally achieving prices reflecting between 5.00% – 6.00%. However, there is something of a two-tier market, the difference being between those assets operated under a 'nominations agreement' or long secured income versus those which are direct lets. The latter category has substantial asset management implications which require more specialist purchasers, whereas the former remain attractive to a wider pool of institutional investors. As a result, those assets which are subject to nominations agreement / long leases tend to achieve stronger yields.

## THE OPPORTUNITY

- ✔ World-class university education with both QUB and UU ranked in the top 50 UK universities (Complete University Guide 2024).
- ✔ Students from Northern Ireland who choose to study locally can avail of significantly lower tuition fees than in England or Wales.
- ✔ High PBSA occupancy rates and strong rental growth.
- ✔ Income that is 'stable' and relatively secure. Students typically sign a 44-week contract (although variations are offered in some assets) with the additional security of guarantors (typically parents) which protects against the risk of void periods.
- ✔ The overall cost of living for students in Belfast is amongst the lowest in the UK.
- ✔ PBSA is an "inflation hedge", given the ability to annually index rents, and thus providing a counter-cyclical product. Therefore, diversified portfolios that include PBSA are said to be more resilient against market downturns which in turn help to mitigate risk.
- ✔ Modern buildings which appeal to institutional investors as the assets are purpose built, of recent vintage and tend to have scale.
- ✔ Improved appetite from lenders and financial institutions toward PBSA compared to when the Belfast development cycle commenced. Lenders are typically referencing strong rental growth and a better understanding of the asset class along with the quality of market participants as drivers.
- ✔ A change in demand for living accommodation, with many students favouring more modern, well serviced accommodation over that of more traditional / basic HMO properties.
- ✔ The increase in demand for city centre living.



## POTENTIAL CHALLENGES



Risk of unaffordable rental levels for local students. If students are unable to access affordable accommodation, over time universities run the risk of reduced levels of student recruitment and retention.



Any future reduction in government funding could directly lead to a corresponding reduction in available places at Northern Irish universities. At present, due to government subsidies on student fees, there is a cap on university places in Northern Ireland, however local universities are lobbying to see this cap lifted. It is hoped that the recent return of the Northern Irish Executive could help mitigate such risks.



It has been reported that the government are examining the implications of setting the annual tuition fee for Northern Irish students at £7,000. This would represent a significant increase of nearly 50%.



A reported reduction in international students applying for places at UK (and Northern Irish) universities, primarily understood to be due to a change in the UK government's visa policy that no longer allows overseas students to bring family members to the UK.



Across the UK we have witnessed significant growth in operational (residential) assets such as Build to Rent (BtR) and Co-Living. Whilst Belfast remains at a relatively embryonic stage with these sectors, the anticipated future arrival of high-quality assets could be attractive to investors and potentially preferential to certain investors over PBSA

## BELFAST OUTLOOK

As the local PBSA market matures, we envisage that investor activity will increase. This sector has been known for its larger portfolio sales to institutional investors and this trend is likely to continue going forward. However, given the dynamics of the local market, Belfast will also offer up the opportunity for single, smaller lot one-off sales that will also appeal to local investors.

Whilst the active purchaser pool across the UK has been less competitive in 2023 (as a direct result of heightened borrowing costs), overall demand in the sector has been steadily growing over the last decade. With some economists expecting interest rate cuts in 2024, PBSA offers an appealing choice for CRE investors in Belfast. While the sector is not immune to the impacts of economic change, it is primarily fuelled by changing demographics and at this time of wider economic uncertainty may provide a logical investment opportunity.

Belfast has historically seen a preference from students for private rented accommodation, typically lower quality HMO assets to the south of the city centre. There is now clear evidence that PBSA has stronger appeal for many occupiers who prefer greater certainty over outgoings along with the cleaner, better serviced accommodation that PBSA typically offers. With further forecast rental growth in the year ahead, along with the forecast increase in Belfast based students over the rest of this decade; there is arguably no time like the present to be investing in the Belfast PBSA sector.

## CONTACTS

### ANDREW MEARNES

Director – Valuation  
amearns@lsh.ie

### SIMON WILSON

Director - Capital Markets  
siwilson@lsh.co.uk

### CLAIRE SHAW

Senior Research Analyst  
cshaw@lsh.ie

JOIN THE  
CONVERSATION:

