

Residential Property  
Research



Student  
Investment  
Property in  
Manchester,  
2011



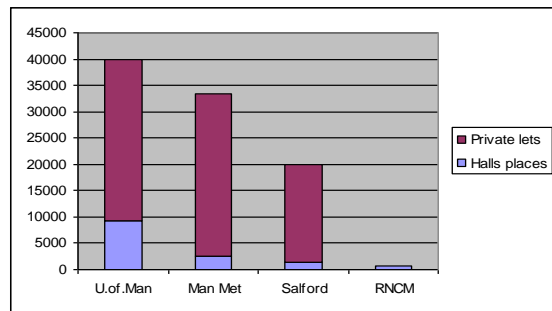
## Why invest in student property?

In recent years, and most significantly since the financial turmoil of the credit crunch, student accommodation has come to be regarded as an important asset class within the broader property investment market, owing in the main to the fact that such assets have proven to deliver steady incomes and capital appreciation. Research undertaken by Knight Frank noted that 'rental growth in the student sector remains robust, recording growth of 5% per annum (which) compares favourably with growth in the commercial sector of 0.5%'.

In spite of recent reforms of higher education, prompted by recommendations made in the Browne Report of 2010 which will see universities given the freedom to charge prospective UK students up to £9000 per annum in course fees, the number of people seeking to undertake a degree course or other form of higher education is expected to continue to grow. The demand for accommodation to cater for the housing needs of this large client base (some 450,000 people per annum) means that landlords who hold good quality property in the right location should have little problem in achieving high occupancy and consequently be able to enjoy a steady and stable income year-on-year.

Manchester is an ideal location in which to invest in this type of property asset class. Both locally and nationally, there is a distinct shortfall in the number of beds provided by universities in the form of Halls of Residence (according to Knight Frank, the four universities combined were only able to accommodate 18.7% of total students in university Halls as of this year), and while large scale developers such as Unite, Mansion Student, Liberty Living and Victoria Halls have sought to fill this void with purposed built, mainly city centre developments, there is still a huge

student population whose housing needs need to be met, whether this be due to the aforementioned shortfall, because such rental accommodation doesn't suit their needs, or because much of what's on offer falls outside of their budget.



Halls accommodation provision vs. student intake

In their most recent annual report on the investment prospects in the student property market, the firm Knight Frank, upon collating a variety of data from the Land Registry, Higher Education Statistics Agency and the Good University Guide, cited Manchester as ranking seventh amongst all UK university towns and cities in terms of scope for investment returns from student property.

The reasons for this high position stemmed from several key factors, namely limited supply of university managed Halls of Residence accommodation for students (less than 1 in 5 students in the city could be housed in such accommodation),

the broad and varied student demographic (21% of all students are from overseas, 17% are more affluent post-graduates) and ever increasing student numbers (the city saw a 14.7% rise in total student numbers between 2004-2009). In addition to this, the city fares well nationally in terms of the overall affordability of its housing stock, ranking 18<sup>th</sup> in terms of average property prices, which is extremely competitive when you consider that commercially Manchester is regarded as England's second city.

**S**uccess when investing in student accommodation, as with all property classes, primarily comes down to location and securing properties for the right price. It is important to gain some knowledge and insight into what the key student areas are in the outlying areas of any city - close enough to university campuses, local amenities and nightlife, but far enough from the centre for property prices to be competitive and allow investors a good return on their investment.

**I**n Manchester, several of the key student areas, such as **Fallowfield** and **Withington**, lie in districts where market values for residential properties fall below the national average. This, coupled with the fact that these self same areas have been ear-marked by the local authority as

priorities for urban regeneration (several public consultations have been instigated in the last few years to gauge how residents feel neighbourhoods could be improved for their benefit) and are ripe for investment for improvements of infrastructure, new property development and gentrification, all of which will increase capital and future marketability of existing properties at no cost to landlords.

**I**t is important to note, that students determine where best to invest in student accommodation. Invest where they live and congregate today, and don't second guess where they may wish to live as an alternative. Communities, whether students or otherwise, move to a particular area because that's where their community is and as a result expansion is inevitable in terms of people and infrastructure.

## Higher Education reforms – what potential impact will these have on the sector?

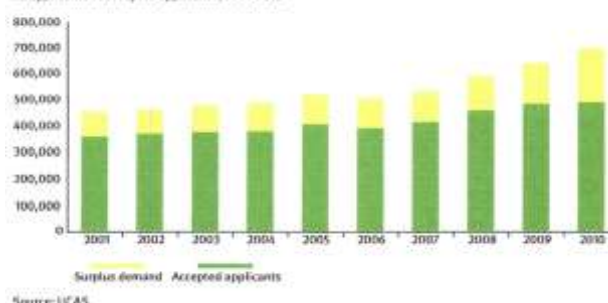
The relaxing of limits set on how much universities are able to charge their students in fees, with the ceiling now set at a maximum of £9000 per annum from 2012-2013, means that more than ever before, students will be assessing the services that a university offers them from the critical standpoint of consumers, and will be seeking ensure that they get good value for money from their chosen institution.

No-one can safely or accurately forecast what impact the increase in tuition fees will have. One could rightly assume that it will give school-leavers more pause for thought about what it is they hope to achieve through furthering their education, and prompt them to be more specific about what their long term career goals actually are before embarking on a three year degree course (indeed, preliminary figures from UCAS for the approaching academic year 2011-2012 show a decline in applications for niche subjects such as linguistics and classical languages such as Greek & Latin, whereas job specific courses such as veterinary science, medicine and nursing have seen an significant increase, as have business related degrees, suggesting that more and more students are career focused in the subjects they are pursuing).

Pessimists may argue that the impending increase in fees (300% on the current rate) will serve to deter a vast swathe of school leavers from applying for university studies as of next year, with a knock-on effect on all those businesses and services that depend on students, yet all evidence suggests that such negativity is unwarranted. While it's true that the considerable increase in fees will have some impact, there are several key factors that need to be considered, and which point towards the market for further education in both

Manchester and across broader England remaining buoyant and an attractive investment proposition. The key points to be considered are detailed below:

Student demand for university places exceeds supply  
All applicants vs accepted applicants, 2001-2010



- Fees are due to increase, but it's important to bear in mind that no UK students will be required to pay their course fees up front. Rather, they will be able to finance their studies, as well as their living expenses, through the Student Loans Company. The arrangements under which they repay the fees have changed too, with graduates only required to begin repaying their loans when they start earning a salary of over £21,000.

Proposed thresholds for repayment of tuition fees by graduate earnings

Annual earnings	Monthly gross income	Monthly payment
£0	£0	£0
£21,000	£1,750	£0
£25,000	£2,083	£30
£30,000	£2,500	£68
£40,000	£3,333	£143
£50,000	£4,167	£218
£60,000	£5,000	£293


Source: Securing a Sustainable Future for Higher Education in England, 2010

- The demand for a university education in the UK far exceeds the amount of university places available in any academic year. Consequently, even if the number of applicants tails off for the academic year 2012-2013 from the trajectory they have been following in recent years, it's almost certain that all places will be filled.
- In times of economic turmoil, it is widely acknowledged that many see furthering their skills to set them apart from their peers in an increasingly competitive job market as being the wisest move to undertake. Not only that, by undertaking worthwhile steps towards professional development during an economic downturn, a student would hope that the fortunes of the economy and the state of the job market would have altered somewhat over a three year period by the time they were due to graduate.
- The United Kingdom, and England in particular, enjoys a world class reputation for the standard of education provided by its universities, attracting a huge number of applicants from the EU and further afield, and this interest shows no sign of abating – indeed, figures from UCAS (April 2011) show that applications from non-EU nationals were 7.7% than in the previous year, this in spite of the ongoing uncertainty and instability in the world economy. With economic growth continuing apace in the BRIC nations, as well as other emerging markets in both Asia, Latin America and the Middle East, it seems a safe bet to assume that interest in UK university education remains assured for the foreseeable future.

## *Manchester's future prospects as a centre for learning*

**M**anchester boasts two large universities, these being the University of Manchester and Manchester Metropolitan University, as well as the Royal Northern College of Music, with the University of Salford just across the River Irwell in adjoining Salford. Central Greater Manchester, boasting a student population in excess of 94,000 learners from the UK, EU and a wealth of countries further afield, can, therefore, rightly be regarded as a vibrant, cosmopolitan and bustling student city.

**E**ach of the aforementioned institutions have their own unique selling points which are sure to mean that, regardless of the imminent rise in fees proposed as of the academic year 2012-13, all four will continue to fill places in their courses going forward:

 The University of Manchester is the largest of the city's academic institutions – indeed, it's the UK's largest university after the Open University - playing host to 30,000 undergraduates and 10,000 postgraduates annually. Consequently, its campus occupies a vast area in the central area of the city, predominantly near Oxford Road. It has operated under this title since 2004, when the then Victoria University of Manchester merged with UMIST (the then University of Manchester Institute of Science & Technology, founded back in 1824).

**I**n recent years, the university has, according to The Guardian newspaper and UCAS data, vied with the Manchester Metropolitan to be the most popular in the country in terms of the number of applications it receives annually. The university is part of the Russell Group, a prestigious group of 20 research-led academic institutions in the United Kingdom on a par with the Ivy League in the United States, and is third in terms of 'research power', behind only Oxford and Cambridge in this regard. Such a solid reputation is further cemented by the fact that it boasts the largest number of Nobel Laureates working at any UK university – currently four – and visiting lecturers that include author Martin Amis, who teaches at the Centre for New Writing, and television scientist Dr Brian Cox.

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Manchester Metropolitan University is the second largest HEI in the city, boasting an annual intake in the region of 33,500 students (27,500 undergraduates and 6,000 postgraduate students). The institution was granted university status in 1992, and came into being following the amalgamation of several key HEI's in previous years, notably Manchester Polytechnic with Didsbury College of Education, Hollings College, and the City of Manchester College of Higher Education.

**A**ccording to official UCAS data, the university was the most popular university in the UK in terms of attracting application for the academic year 2011-2012, much of which can be attributed to the broad range of vocational courses it offers and its cosmopolitan atmosphere. The university recently achieved twelve Excellent

Teaching Quality assessments in Mechanical Engineering, Art and Design, Sport and Exercise Science, Clothing Design and Technology, putting it in the top 20 in the UK, and its academic strengths are business & management, accounting, philosophy and politics, art and design, biology, environmental science, material science, psychology, education and English. The institution also enjoys strong vocational links with business, industry, art and science and with more than 70 professional bodies and associations, improving the employability prospects of students when they graduate.

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Technically existing in another city altogether, and yet standing only 1 mile from the centre of Manchester and a short hop over the River Irwell, is the University of Salford, an institution that caters for some 20,000 students (15,500 undergraduates and 4,500 postgraduates) in any given academic year.

Science and engineering is a traditional strength of the University (with particular highlights including engineering, acoustics and aeronautics), and it's the UK's pre-eminent school for the built environment, and the UK's largest research institute in this sector. Not only that, but the university boasts one of the largest arts and media faculties in the country with over 4,500 students, and this will benefit greatly from the 103,000sq ft space at MediaCityUK on nearby Salford Quays that is due to open in autumn of this year, and which is adjacent to the recently opened BBC facilities.

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Significantly smaller than its three neighbouring universities, the Royal Northern College of Music hosts 750 high calibre musical students per annum at its campus in central Manchester, which lies to the west of that of the University of Manchester on Oxford Road. The College has existed in its current form since 1973, when the Royal Manchester College of Music (founded by Sir Charles Halle in 1893) and the Northern School of Music (established in 1920) merged.

The institution is both nationally and internationally renowned – indeed, it attracts talented musicians from all over the world, with international students making up 25% of its annual intake. It receives particular international acclaim for its chamber music tuition, and was a pioneer in the manner in which it prepared its students for the real world of work, giving them wide variety of practical experience.

The college boasts state of the art facilities: a library with over 87,000 books and items of printed music, and more than 20,000 sound recordings, 20 listening stations and 24 IT workstations; terminals situated around the main building, including an air-conditioned IT Studio which houses 11 PCs, all with the latest copy of Sibelius (composition) software installed; over 120 pianos, more than half of them grand pianos; 80 tutorial spaces and individual practice rooms; and 4 large public performance spaces including opera theatre and concert hall.

**I**t is clear that Manchester is blessed with four world-class, forward-thinking HEIs, and so, in spite of the imminent increases in tuition fees from 2012-2013 onwards, they are assured to continue to attract students in great numbers to the area and fill all available places.

**A**ll four of the universities in Greater Manchester enjoy solid reputations, both in terms of research, quality of teaching on offer and the employability of their graduates, and they seem to be optimistic about the future too, for all have invested heavily in their own facilities and infrastructure in recent years, with the following being just a few examples of note:

<b>Manchester:</b>	The university is investing over £650 million in the campus (visit the website for further details of the programme – <a href="http://www.manchester.ac.uk">www.manchester.ac.uk</a> )
<b>Manchester Met:</b>	£200 million is being invested to support teaching and research through property development; £42 million has been spent on a new Science and Engineering complex; £27 million spent on accommodation; £60 million will be invested in building a new Business School in the next three years.
<b>Salford:</b>	A £47-million state-of-the-art new building for the School of Media, Music and Performance from 2013; space at MediaCityUK from autumn 2011 - cutting edge media & digital technology, providing teaching to students right next door to the £500m facilities occupied by six BBC departments.
<b>RNCM:</b>	New Oxford Road Wing, opened July 2007, has increased substantially the RNCM's stock of high quality specialist accommodation and brought the College's physical presence in the city in line with its international reputation.

**T**he city of Manchester enjoys a significant profile both nationally and internationally, thanks to its contributions to advancements in science and technology, the fact that it was at the forefront of the Industrial Revolution and key political movements in modern history, and the fact that it is a leading centre for learning and academic research. Undisputedly the key commercial hub in the north of England, despite being significantly smaller in terms of population, it is regarded by many as superseding Birmingham to rank as England's second city.

**T**he city remains prominent in the global consciousness and attracts international interest as a result of the significant contributions it has also made in terms of sport, music and the arts. The city is home to two giants of the Premier League, Manchester United and, of late, Manchester City, legendary bands such as Joy Division, The Smiths, Oasis and The Stone Roses all started out here, and the cities gritty industrial landscape of chimneys and factories of years gone by are forever immortalised in the paintings of L.S Lowry.

**W**hether it be for the academic pedigree of its institutions, the cosmopolitan nature of its inhabitants, the music and nightlife that it offers, or its liberal outlook, Manchester attracts great interest from students near and far and looks set to do so well into the future.

## *Student accommodation in Manchester*

**T**he huge volume of students who choose to make Manchester their home mainly opt to live in the southern half of the city, and a broad range of housing options are at their disposal, from purpose built halls of residence that are either university owned or privately managed to city centre studios or house shares in Victorian terraced or Georgian town houses a few miles outside the city centre. Decisions respective students make regarding where they choose to live depends on a variety of factors, namely transport links, proximity to campus, local amenities, desirability of the local area and, of course, finance. With student fees due to increase significantly in 2012-13, the likelihood is that more students will forego the chance to impress with having a city centre residence and opt instead for a home in the more economical areas of Fallowfield and Withington. The city of Manchester itself is a key transport hub in the north of England, well served with motorway, road and rail links to other major cities in the UK, and the outlying suburbs are served with frequent bus, Metrolink tram and rail services to and from the city centre.

**B**oasting a student population of 94,000 students, the four main academic institutions do their best to provide accommodation to first year students, whether in their own Halls of Residence or other, similar accommodation that is privately managed by firms such as Victoria Halls with whom they have ongoing agreements – indeed, all four institutions guarantee that students who receive firm offers of a place and elect to accept these will be allocated a room in private halls for their first year, should they choose to accept it. A large and significant proportion of first year students (so-called ‘freshers’) choose this option for it allows them to forge friendships with students in a similar position to themselves, and to adjust to living independently away from home (usually for the first time) in a secure, managed environment in a city they are most likely unfamiliar. The majority of Halls are based in the city centre, or on the periphery of central Manchester, around the A34 heading towards the Longsight area.

**A**side from those students opting to live in Halls of Residence, some students elect to take up studio accommodation in the city centre, owing to its proximity to university facilities, amenities, shops, bars and restaurants

**T**he vast majority of second and third year students opt for house-shares, and for a variety of reasons, namely cost, as this option invariably works out cheaper than remaining in halls of residence or studio accommodation in the city centre, and the fact that they have adjusted and settled in the city, know the area better and have established a network of friends in their ‘fresher’ year, thereby making the option of sharing less daunting. Housing stock utilised for house-shares typically consist of 2, 3 or 4 bedroom terraced properties that have one shared kitchen and bathroom. It’s common for student landlords to let one of the downstairs reception rooms as an additional bedroom, thereby increasing yield on the property, and this limited communal space doesn’t seem to

deter students when considering where to live.

Students seeking residence in shared accommodation typically seek out properties in the Fallowfield and Withington, as well as Rusholme, Chorlton and Whalley Range. By far the most popular of these is **Fallowfield**, known as the city's 'student village'.

**FALLOWFIELD** is well served in terms of amenities, is alive with student pubs, bars, restaurants and coffee shops, and also has a large leisure complex nearby. The area is between 2-3 miles from the heart of Manchester. It centres around **Wilmslow Road**, and stretches from **Platt Fields** in the north to **Mauldeth Road** in the south. Commuting couldn't be easier for residents to any of the university campuses, for Wilmslow Road is acknowledged as Europe's busiest bus route, and buses bound for the centre pass as frequently as every 30 seconds at peak times, and you rarely have to wait more than a couple of minutes.

There are two distinct areas for student housing in **Fallowfield** and both have their own unique characteristics. **Owens Park** is a densely-populated grid of Victorian terraced houses situated in close proximity to the University Halls of Residence, while **Derby Road** is further south and comprises of larger houses and conversions complete with gardens and plenty of on-street and off-street parking.

#### **Owens Park**

Situated directly opposite Owens Park Halls of Residence, this area

consists of a grid of Victorian streets lined with two storey terraced housing stock with small back yards. The area is close to a large Sainsbury's supermarket for groceries, numerous local independent retailers, a local chemist and Troff, Fallowfield's renowned pub/café and student hang-out.

#### **Derby Road**

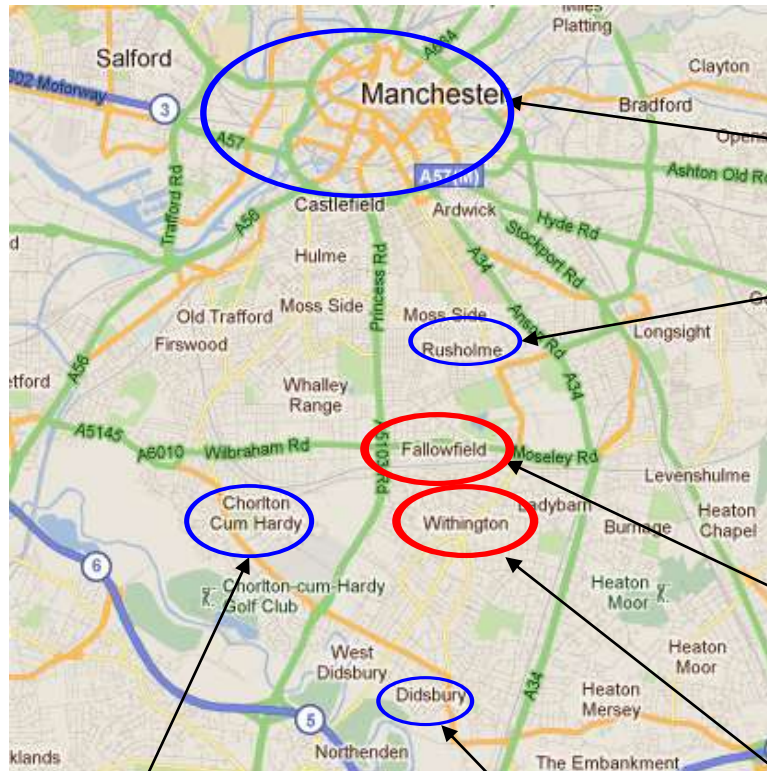
A short walk south along Wilmslow Road, away from central Fallowfield and towards Withington, brings you to the Derby Road area, again very popular with student tenants. Here, the streets widen and generally the housing stock is generally bigger, boasting some of the largest Victorian houses in south Manchester, many of which have been converted into student flats. This section of Fallowfield is more ideally suited to students seeking a quieter place to live but one that's still within 10-minutes walk of all the best bars and shops that **Fallowfield** has to offer.

#### **WITHINGTON**

A mile (1.5km) south of Fallowfield on the Wilmslow Road - or about five minutes away by bus - is **Withington**, an up-and-coming area that is very popular with students, owing to it being a leafy suburb centred around a high street that has everything a student could need, including shops and bars, and, like Fallowfield, it remains within commuting distance of the city centre and the campuses of all four HEIS in the city.

**Withington** has a distinct 'personality' (some may argue it's more bohemian than its nearest

neighbour), with students and other young residents joining forces with pockets of more traditional family communities to make this a laid-back, yet vibrant area. Restaurants and bars are student friendly but tend to have a more individual flavour than in Fallowfield. Withington is also known for its charity shops and second hand book shops.



#### City Centre:

- Close to all four campuses and at the heart of city life.
- Property significantly more expensive for investors, and the need for high rents to envisage a decent yield may deter financially stretched students.
- Other than those students living in Halls of Residence, city centre living is mainly the preserve of students from more affluent families and post-graduates with savings or who benefit from research grants.

#### Rusholme:

One of the most affordable student areas, owing to it being less desirable than neighbouring areas, Rusholme is close to campus and along the main bus route. There are supermarkets and shops in the area, not to mention the multitude of curry houses along Rusholme's high street.

#### Fallowfield:

- Manchester's prime student area, within easy reach of University of Manchester and Manchester Met's campuses and well served by frequent bus services.
- The area benefits from a vast array of high street shops, restaurants and coffee shops, and is within easy reach of the famous 'Curry Mile'.
- Undergoing urban regeneration, the investment prospects are good – promising, stable yields and high occupancy are pretty much assured for property that is well-maintained owing to the popularity of the area.

#### Withington:

- A mile (1.5km) south of Fallowfield, again well served by bus services.
- Good local amenities, with a high street that boasts a range of shops and bars.
- Less densely populated with students than Fallowfield, meaning rents are slightly higher, but the area is rapidly becoming more popular with students.

#### Chorlton (cum-Hardy):

Popular with young professionals and students alike.

- A good compromise in terms of distance from campus, affordability and standard of living for students
- The area is up and coming with modern bars, cafes and restaurants.
- Property is affordable and generally of a good standard, while bus routes to the universities and city centre are good.

#### Didsbury:

- A mile (1.5km) south of Withington.
- A prosperous area, the high street is full of highly rated bars and restaurants
- More expensive than other areas, which may deter students.
- The area is mainly residential, with most property catering for young professionals.
- Buses to and from campus are frequent.

## ***Scope for investment in student accommodation in Manchester – purpose built developments vs. residential properties: pros and cons***

Investors seeking to diversify their portfolios and get a foothold in the student property sector are faced with two options – purchasing units in a purpose built development or opting for residential properties and marketing these for house-shares and studio flats. As with everything, there are pros and cons with either of the aforementioned options, but at Bold Spirit, we believe that in the case of Manchester, opting for residential housing stock to rent to students, particularly in the increasingly popular up-and-coming areas of Fallowfield and Withington, is the wisest move to make.

Units purchased in purpose-built schemes offer a hassle free way of tapping into this sector, but returns are significantly reduced owing to the management fees and service charges that are imposed on the management companies of such schemes). While it may be true that such units may draw in premium rent, and that some students are in a position to pay this, one would anticipate that in light of the imminent hike in tuition fees from 2012-2013 onwards, the majority of students are going to be more discerning in the properties they look at renting and, providing they are of a reasonable standard, will opt for the more competitively priced residential letting option.

In the case of Manchester, opting for residential housing stock with a view to utilise as student lets is potentially a sound investment choice. The bulk of housing stock in the popular student areas of Fallowfield and Withington sells at below the national average, command steady returns in terms of rental income and lie within areas earmarked for regeneration by the local authority, suggesting the opportunity for healthy capital gains in the medium to long term as improvements to the area are implemented.

In contrast to purpose built developments, which exist solely with one use in mind, investors in residential student lets aren't restricted in scope in terms of what they are able to do with their property at a future date. Investors seeking an exit strategy in the future have the benefit of being able to market such a property as a family home or as an investment opportunity, and can expect healthy capital growth. Implementing an exit strategy in a shiny, recently constructed, purpose-built development is a different kettle of fish altogether as they exist solely for one purpose.

Additionally, an investor in residential stock can actively asset manage his property through refurbishment, improvement and development, thereby increasing capital value and increasing the income attainable.

### **Summary**

In an ever challenging world with higher inflation and low interest rates eroding the value of cash, investors are choosing higher yielding property investments, such as student lets. Presently, such properties can be purchased at competitive prices and many investors are enjoying double digit returns as a result. Manchester stands-out amongst many other English cities as a good place to invest in student stock, for the reasons outlined in this report.

***If you wish to speak to Bold Spirit about the acquisition and on-going management of student property in Manchester, phone 0151 243 5431 or e-mail [daniel@boldspirit.co.uk](mailto:daniel@boldspirit.co.uk)***

This report has been written by Peter Law

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## **About Bold Spirit**

Bold Spirit is a property and financial services group that specialises in the finding and structuring of outstanding property investments both within the UK and overseas.

Operating within a constantly evolving industry Bold Spirit applies rigorous due diligence to our investments without losing sight of our core entrepreneurial philosophy. We aim to seek out compelling investment opportunities whatever is happening in the wider markets.

Bold Spirit understands that today's investor may not have the time to dedicate towards building a profitable portfolio so we provide a fully packaged service including sourcing finance, recommending specialist lawyers and adding value through asset management.

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