

Key Development Considerations

Student Housing

NIGERIA



With the emergence of student housing as an essential corollary to academic goals and a valuable recruitment tool, investment opportunities are opening-up for the private sector in the development and maintenance of student accommodation in Nigeria.

Apart from the fact that Nigeria has the biggest university system in sub-Saharan Africa, the country has seen a surge in students' enrolment over the years. The surge, however, has not been matched by a corresponding growth in increased quality facilities for student accommodation and as a result,

putting pressure on existing facilities.

Hence, given the unprecedented growth in participation in higher education in recent years in Nigeria and the increased demand for suitable student accommodation, this publication considers key development considerations for private sector participation in student housing in Nigeria.

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Background

Universities, polytechnics and colleges' enrollments are booming across Nigeria. However, the surge in students' enrolment has not been matched by a corresponding growth in student accommodation. As of date, the vast majority of students live in privately rented accommodation.

According to the National Universities Commission (NUC), and as of 2 November 2018, Nigeria has 43 Federal Universities, 47 State Universities, and 75 Private Universities. In addition, while students' enrolment in tertiary institutions is growing at an average of 12% per annum, the provision of new purpose-built students' housing is limited. This is evident in the provision of students' housing which is less than 30% of demand and which in turn, creates opportunities for the development of students' housing in many cities in Nigeria by the private sector.

Prospects for Private Sector Participation in Student Housing:



Positive Investment Desirability

Some of the shortcomings that currently plague the education sector in Nigeria, which provide a window of opportunity for investors in the student accommodation rental market include the following: paucity of funding by universities for student accommodation; increased population of students; poor state of on-campus students' hostels, amongst others.

- **Student population is soaring:** Despite increasing tuition fees, there are more students securing admissions to tertiary institutions in recent years. Correspondingly, there is a huge pool of demand for accommodation. This is an existing market with promising return potentials that private investors can tap into.
- **Universities can hardly keep up with the demand for accommodation:** While most universities generally allow first and final year students to stay in their halls of residence, many first and final year students find it difficult to secure a room due to the inadequacy of existing facilities. Consequently, a large number of students that are unable secure accommodation on campus often settle for private accommodation off campus.
- **Students are potential long-term tenants:** Given that it takes several years to complete a degree, there is higher

likelihood of students being tenants for the entire period of their studies. This could be for between four and five years.

- **Student accommodation is recession-proof and could be a hedge against inflation:** When fewer jobs are available, students are more likely to make recourse to further studies. Hence, student accommodation tends to provide a greater certainty of income for the buy-to-let investor and as such, providing an insulation against recession.
- **Net yields are higher than many gross yields:** Student accommodation pays a better yield than the other buy-to-let investment property. For instance, in a three-bed student apartment, an investor is more likely to receive a net yield that is as high as (or even higher than) a traditional buy-to-let property.
- **Rent or Return is guaranteed:** Students are often considered to be difficult tenants because of the potential for rental default. Our research, however, reveals that students are good payers and in the event of any default on rent, the student's guarantor can be called on.
- **High demand for purpose-built accommodation:** Purpose-built student accommodation provides all the benefits of living in halls of residence. For example, there are common rooms, study areas and other facilities that could make student life more interesting. Existence of students' friendly facilities in such accommodation brings about increased demand.
- **Guaranteed Property Management:** Custom-built student accommodation often includes property management. This may be provided by the university or outsourced to a facility management company. Access to efficient property managers should sway private investors looking for investments with great return potentials that can be entrusted into capable hands.



Case for Public-Private Partnerships in Student Housing

No doubt, the provision of student housing is a fundamental part of the primary goal of getting students educated. The emergence of student housing as an important corollary to academic goals and a valuable recruitment tool has brought the realization to the increased opportunity for partnership by various academic institutions with third parties, for the financing, delivery and management of student housing in Nigeria. Student housing, in addition to playing a key role in a holistic university education, provides a very predictable revenue stream that can provide benefits that easily be leveraged on by both academic institutions and their partners.



Some of the factors that can motivate publicly owned universities in Nigeria to consider public-private partnerships include the following:

- **Addressing rapidly increasing student enrollment:** Where an academic institution is unable to meet its responsibility to provide satisfactory sustainable accommodation for its students, it augurs well for partnership to be entered into with a third party in such circumstance. Specifically, this will entail a master-lease agreement or referral arrangement under which the academic institution will direct its students to the property in question, once the academic institution realize that the demand for accommodation provided on campus outweighs supply. This strategy becomes even more necessary when there is increased pressure on the academic institution to expend resources on other non-revenue generating facilities such as classrooms, libraries, research laboratories, faculty offices and other recreational facilities.
- **Taking care of an urgent need in student housing and expedition of the development process:** Academic institutions can address urgent need in the provision of student housing by allowing third parties to invest their own capital which could have been slowed down due to paucity of funding. In addition, third-party developers are able to expedite the development process which otherwise could have been slowed down by publicly owned institutions where internal bureaucracy as week as procurement requirements, standards and specification might have really slowed down the development process and increase project costs.
- **Mitigation of risk:** By encouraging partnership with private investors in provision of affordable and sustainable stu-

dent housing, academic institutions are able to mitigate risks associated with making considerable investment in construction that could affect the balance sheet and cash-flow of the concerned institution.

Models for Public-Private Student Housing Partnerships

We have identified about three models that may be conveniently used for public-private student housing partnerships:

- 1) **Affiliation:** A formal arrangement is entered between the private investors and the institution where the institution directs its students to the third-party partner's property as if it were part of its own inventory. The Developer handles the ownership of the student housing project, ensures delivery and could alongside the institution be responsible for the operations.
- 2) **Referral:** Under this structure, the institution direct students to the third party partner's property in exchange for concessions such as discounted rent, participation in mediation prior to evicting student tenants. The Developer takes care of the ownership, delivery and operations could be handled by the developer.
- 3) **Structure:** This involves a situation where a not-for-profit entity (existing or new) issues tax-exempt debt to finance the student housing project. Under this structure, the property on which the student housing project is to sited is leased to the not-for-profit organization by the academic institution



Spotting Housing Investment Opportunities

Like all business undertakings or ventures, there is no gain-saying the fact that investment in student accommodation targets financial returns or profit maximization, notwithstanding challenges such as higher tenant turnover; higher pressure on facility; higher maintenance costs at tenant turnover; and management issues of a multi tenanted property. However, for private investors to achieve good returns on investment in student housing, it is very pertinent to pay great attention to the following issues.

- **Opportunity for Growth:** Investment in student housing by the private sector should be targeted at tertiary institutions with significant enrollment growth.
- **Students' Population:** Given that more tertiary institutions concentration in area leads to a bigger pool of renters, it is advisable that investment in student housing should be done in areas or locations where there is a greater concentration of students.
- **New Market Entry:** Private investors or developers should aim at developing student housing in academic institutions that are relatively new or expanding but not building new student residence and campus with inadequate or no hostel accommodation.
- **Location:** Ideally, investors should take into consideration the proximity to the academic institution, food and entertainment and access to reliable transportation when considering investing in student housing.
- **Understanding Students' Needs:** Investors must understand basic need of students or seek experts who understand them. The student housing project must be decent, clean, affordable and the rates must be very competitive.
- **Economic fundamentals:** Any investment to be done in student housing must complement the economic fundamentals in the city or town where the tertiary institution is located.
- **Market Feasibility:** Investors will do well to engage experts to conduct a market feasibility test on the proposed student housing project. The report prepared by the experts in this regard must be carefully studied to ensure that the investment is one that should taken at that particular time in the choice location. Given the expertise of the Brickstone project finance and real estate advisory team, Brickstone experts are more than happy as well as able to help in this wise regard.

Areas of Investment Opportunities

Student Accommodation Development: Investors can consider investing in the land to be acquired for the development of the multiple housing units and furnishing it with facilities and amenities meant for students.

Joint Ventures Development: Developers could partner with universities by entering into build-operate-transfer arrangements on the provision of new accommodation. Universities can provide land for such development.

Property Acquisition: Investors can buy single-family and multi-unit properties and convert them to student housing or to buy existing student hostel for letting purpose.

Facility Management: Investors may also consider creating structures for facility management. The deteriorating condition of the majority of university-owned halls of residence indicates the need to manage these assets in a more proficient way. Private owners will need better hands in the management of their properties to achieve optimal investment returns.

Concluding Remarks

Our research reveals that investment in student accommodation provides certainty of income that comes with a minimized level of risk. Greater return is promised where the accommodation is well managed and duly maintained. However, developers need to be innovative in providing functional accommodation that incorporates basic needs of students and provides additional facilities or services including laundry, internet services, relatively constant electricity, water supply, amongst others.

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