

December 2020

**CBRE PBSA INDEX:  
TEN YEARS OF STRONG  
PERFORMANCE**

CBRE PBSA INDEX 2020

**CBRE**

# THE CBRE PBSA INDEX: WHAT ARE WE MEASURING?

After excluding assets that have seen significant capex or have been transacted, the Index sample for Sep-20 climbed to 209 assets valued at £6.8bn (from 193 valued at £6.0bn a year earlier). This covers roughly 58,000 beds. Only “operational” assets are included.



209 PBSA assets  
[256]

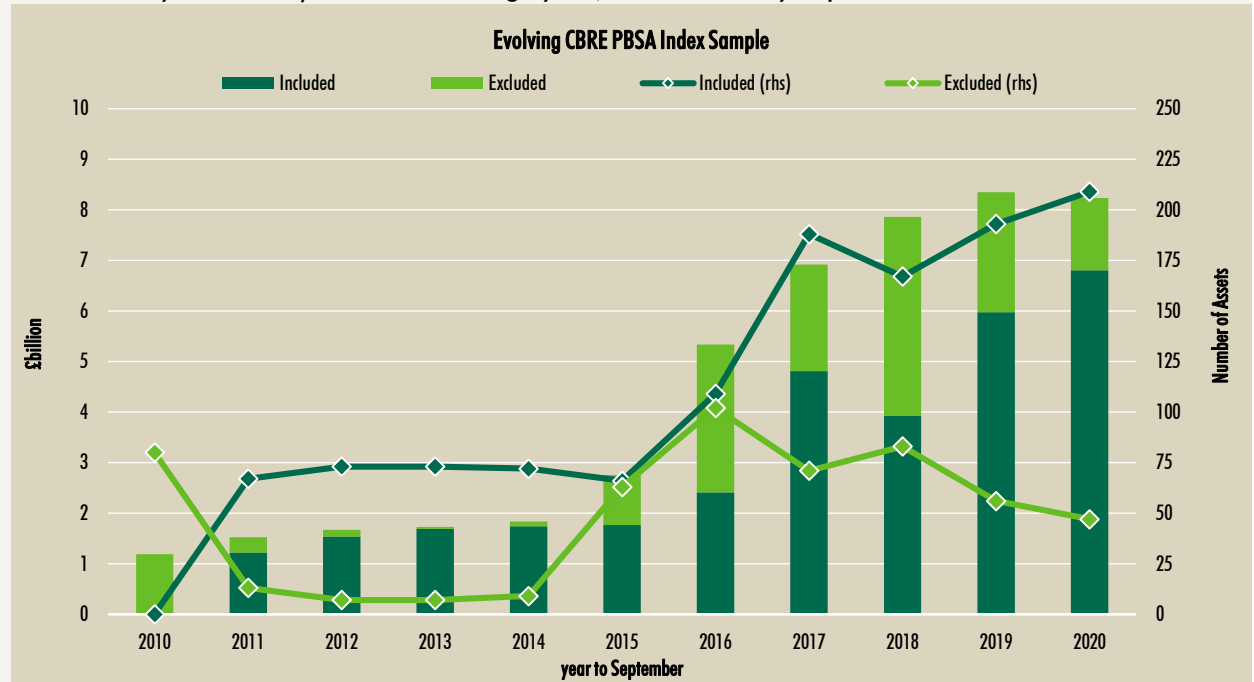


£6.804bn value  
[£8.236bn]



58,456 Beds  
[73,788]

Figures in brackets indicate total sample valued consistently at end September.



Source: CBRE Student Index 2020, CBRE Monthly Index September 2020.

## TEN YEARS OF PBSA PERFORMANCE: THE HEADLINES



With total return of 4.9%, PBSA was the best-performing asset class in the year to Sep-20, even out-performing Industrial (4.2%).



PBSA has out-performed the all property average, and Office and Retail, over one, five and ten years in absolute terms.



On a risk-adjusted basis, PBSA returns are double those of the Mainstream market, thanks to much lower volatility.



The long term trend of London and Super Prime Regional assets to out-perform Secondary has become more pronounced.



Some assets that were more reliant on international students in 2019/20 have seen occupancy fall more in 2020/21.

A low-angle photograph of a modern, multi-story building with a light-colored facade and glass balconies. The balconies have glass railings and are set against a clear blue sky. The building's architecture is characterized by clean lines and a mix of white and light blue tones.

# **HEADLINE PERFORMANCE**

PBSA VERSUS MAINSTREAM REAL ESTATE

## TOTAL RETURN, PBSA VERSUS MAINSTREAM, SEP-2010 TO SEP-2020

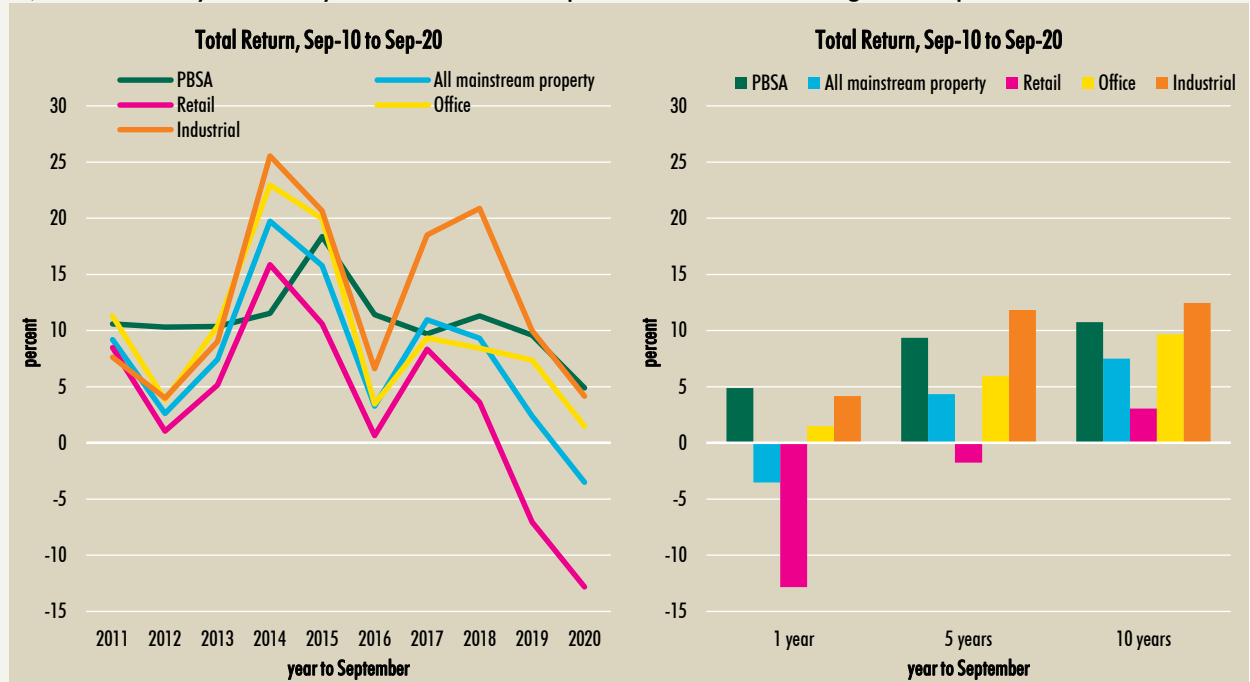
**PBSA was the best-performing market in the year to September 2020, and has outperformed the Mainstream market as a whole and Retail and Office specifically over one, five and ten years. Only Industrial has out-performed over the longer time period.**

The charts show total return in individual years and over one five and ten years for PBSA, all Mainstream property, and the three largest Mainstream sectors.

Total returns for PBSA were 4.9% in the year to September 2020, outperforming all other sectors. Mainstream returns averaged -3.5%.

While this was the lowest annual return in the 10-year history of the index, this was against a backdrop of wider economic malaise brought on by Covid-19 that caused returns across all asset classes to fall. Indeed, the decline in PBSA returns, of a little under five percentage points (from 9.6% in the year to September 2019) was lower than the decline seen by mainstream sectors of around six percentage points.

PBSA has outperformed the Mainstream market over one, five and ten years. It has also beaten Retail and Office over the same period. Its five and ten years returns, of 9.4%pa and 10.8%pa are second only to Industrial. Performance has been consistent across individual years; in seven out of ten years, PBSA has ranked either first or second among the four sectors.



Source: CBRE Student Index 2020, CBRE Monthly Index September 2020.



## VOLATILITY AND CORRELATION OF TOTAL RETURN, PBSA VERSUS MAINSTREAM, SEP-2010 TO SEP-2020

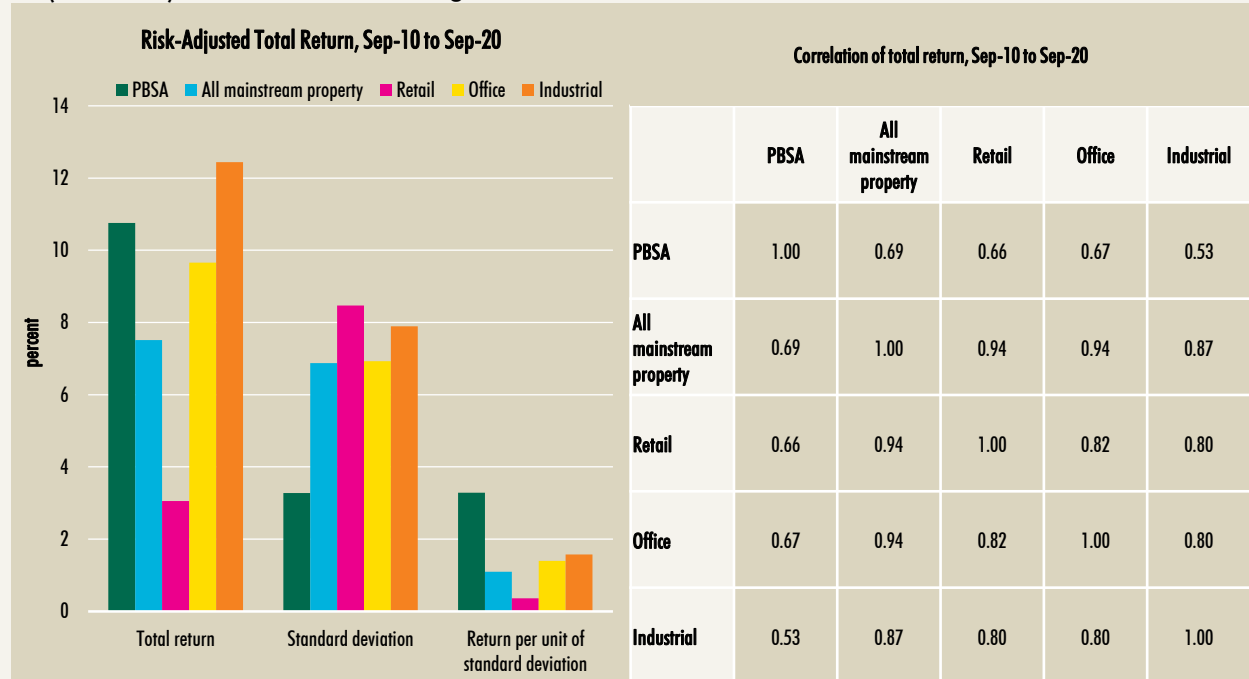
Given much lower volatility of returns, PBSA has produced risk-adjusted returns roughly three times as high as the Mainstream market and twice as high as the closest sector (Industrial). PBSA also offers a degree of diversification from the Mainstream.

The charts show total return, volatility and return per unit of volatility over the last ten years for PBSA and Mainstream property, as well as correlations across all sectors.

Over ten years, PBSA has seen total returns of 10.8%pa, higher than the mainstream property market at 7.5%pa. Returns for PBSA have been more stable than those in the Mainstream; the standard deviation of PBSA total return is 3.3, less than half that of the Mainstream (6.9).

Thus, when adjusting returns for volatility, PBSA offers returns of 3.3% per unit of standard deviation over the last ten years. This is three times the average risk-adjusted Mainstream return (1.1%pa) and double that for the closest sector, Industrial (1.6%pa).

While PBSA is still positively correlated to the Mainstream, the degree of correlation (roughly 0.5 to 0.7) is lower than that of the Mainstream sectors to each other (0.8 to 0.95) suggesting that PBSA offers something of a diversification benefit.



Source: CBRE Student Index 2020, CBRE Monthly Index September 2020.

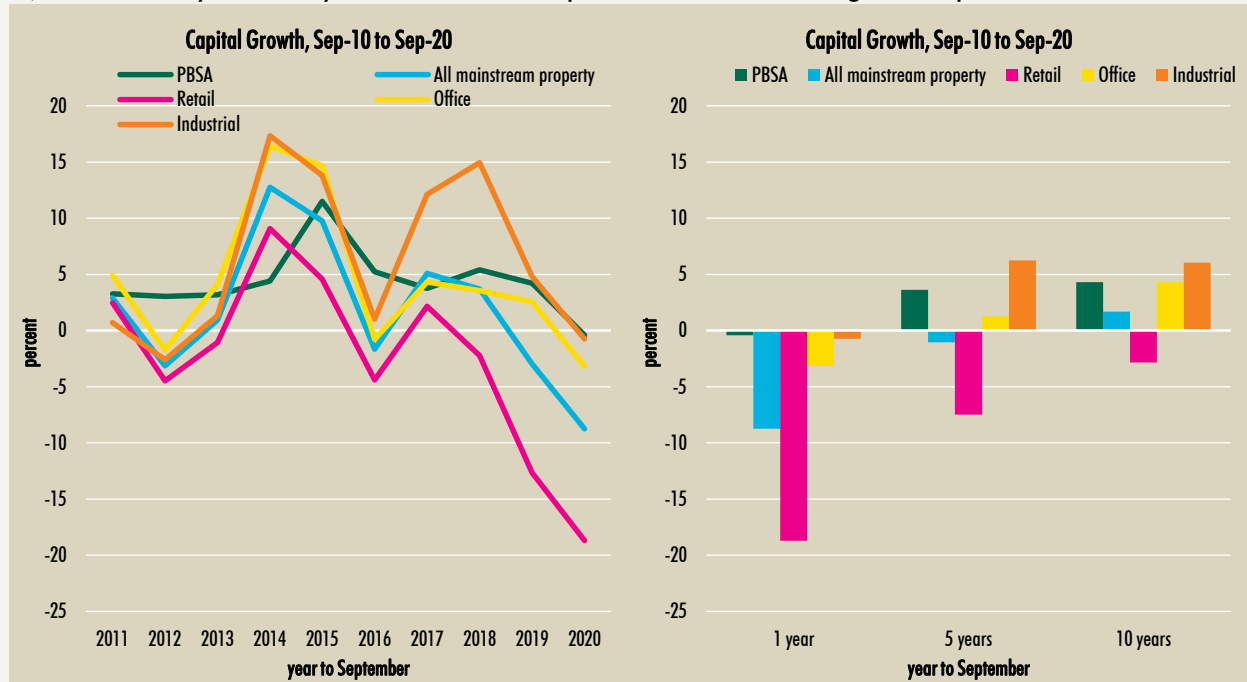
## CAPITAL GROWTH, PBSA VERSUS MAINSTREAM, SEP-2010 TO SEP-2020

PBSA saw the smallest decline in values in the year to September 2020, and has outperformed the Mainstream market as a whole and Retail and Office specifically over one, five and ten years. Only Industrial has out-performed over the longer time period.

The charts show capital growth in individual years and over one five and ten years for PBSA, all Mainstream property, and the three largest Mainstream sectors.

PBSA saw capital values fall by -0.4% in the year to September 2020. This was the first year where capital growth was negative in the ten year history of the index, but the sector proved to be more resilient than mainstream property, where capital values fell by -8.7% (ranging from -0.7% on Industrial to -18.7% on Retail).

PBSA capital growth has exceeded that of the Mainstream market over one, five and ten years. It has also beaten Retail and Office over the same period. Its five and ten years growth rate, of 3.6%pa and 4.3%pa are second only to Industrial (at c6%pa). Performance has been consistent across individual years; in seven out of ten years, PBSA has ranked either first or second among the four sectors.



Source: CBRE Student Index 2020, CBRE Monthly Index September 2020.

## RENTAL GROWTH, PBSA VERSUS MAINSTREAM, SEP-2010 TO SEP-2020

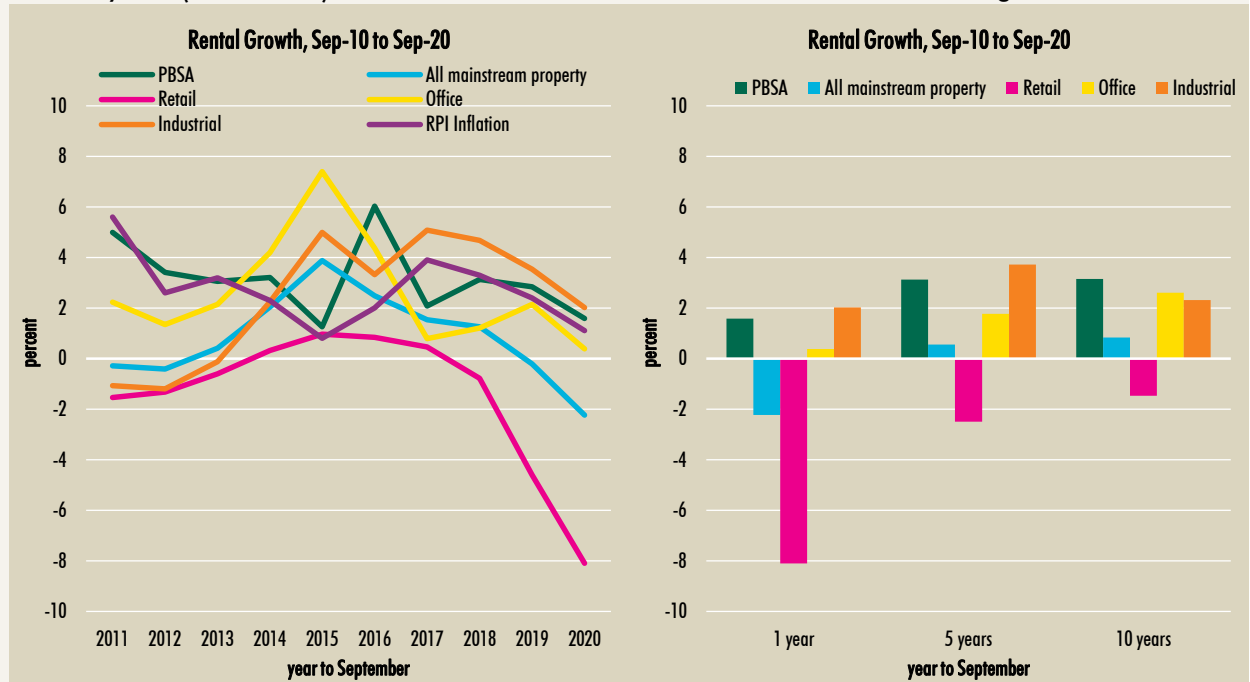
**PBSA rental growth has outperformed the Mainstream market as a whole and Retail and Office specifically over one, five and ten years. Only Industrial has out-performed over five years (but not ten). It has almost zero correlation with Mainstream rental growth.**

The charts show rental growth in individual years and over one five and ten years for PBSA, all Mainstream property, and the three largest Mainstream sectors. (Note: gross rental growth for PBSA and ERV growth for Mainstream)

PBSA saw rental values rise by 1.6% in the year to September 2020, the fifth consecutive year of outperformance against the Mainstream. Only Industrial saw higher growth (at 2.0%) while both Office and Retail saw rental values fall (-2.2% and -8.1% respectively).

PBSA rental growth has exceeded that of the Mainstream market over one, five and ten years. It has beaten Retail and Office over the same period. Its five year growth rate, 3.1%pa, is second only to Industrial (at 3.7%pa), but it has out-performed over ten years.

Performance has been consistent across individual years; in nine out of ten years, PBSA has ranked first or second of the four sectors, and its worst year is better than Retail's best. PBSA rental growth is almost zero correlated (0.05) with Mainstream ERV growth, but more strongly correlated with inflation (0.45)



Source: CBRE Student Index 2020, CBRE Monthly Index September 2020.



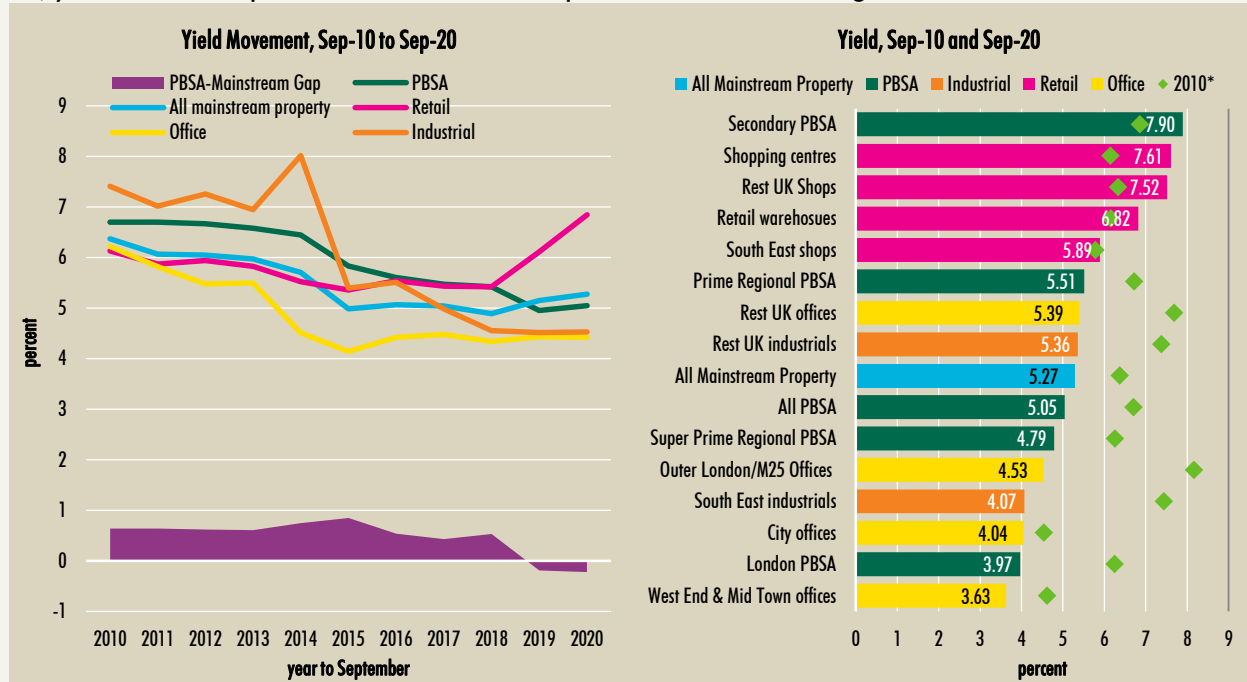
# YIELD MOVEMENT, PBSA VERSUS MAINSTREAM, SEP-2010 TO SEP-2020

PBSA's yield gap over the basket of Mainstream sectors held at around +50bps from 2010-2018 but the last two years have seen it shrink to -20bps in 2020. Within PBSA, yields have compressed in London and Super Prime and Prime Regional over the decade.

The charts show PBSA and Mainstream initial yield progression over the last ten years, and segment initial yields at Sep-10 and Sep-20.

Yields across all property sectors have largely declined over the decade, though this trend has been bucked over the last two years by Retail, where yields have risen 140bps. Coupled with the levelling off of Office and Industrial yields, the yield premium that PBSA offered over the basket of Mainstream sectors has disappeared to the point of having slightly inverted; PBSA yields were -20bps lower than the all property average by September 2020.

At the segment level, yields for PBSA assets across different quality / geography splits at Sep-10 were between c6-7%. By Sep-20, that range had widened to c4-8%. The trend is of alignment with mainstream markets. London PBSA yields are now roughly level with London Office yields, having been nearly 2% higher in 2010, while Super Prime and Prime Regional PBSA yields are similar to M25 and Rest UK Office yields. Secondary PBSA meanwhile, like Retail, has seen yields rise over the ten years.



Source: CBRE Student Index 2020, CBRE Monthly Index September 2020.

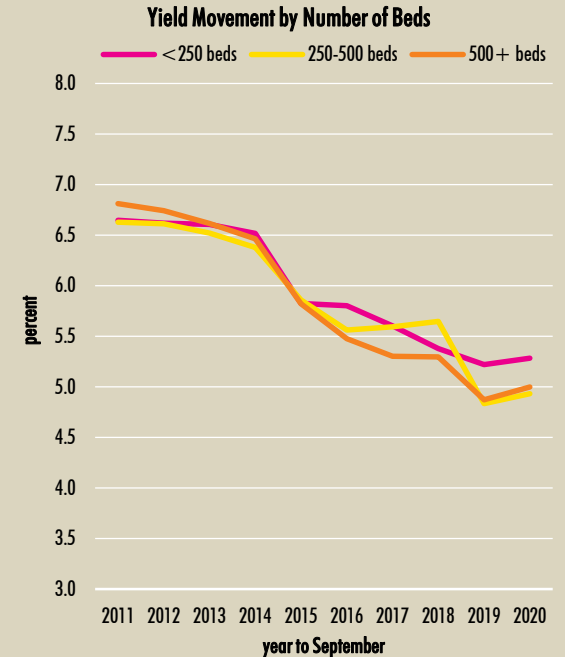
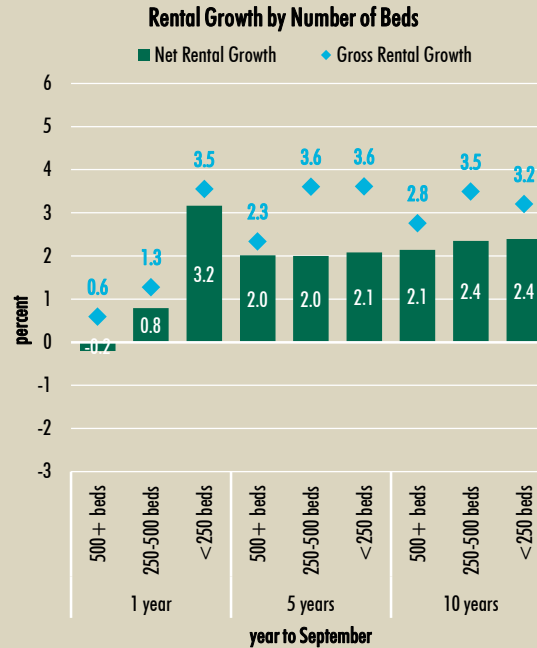
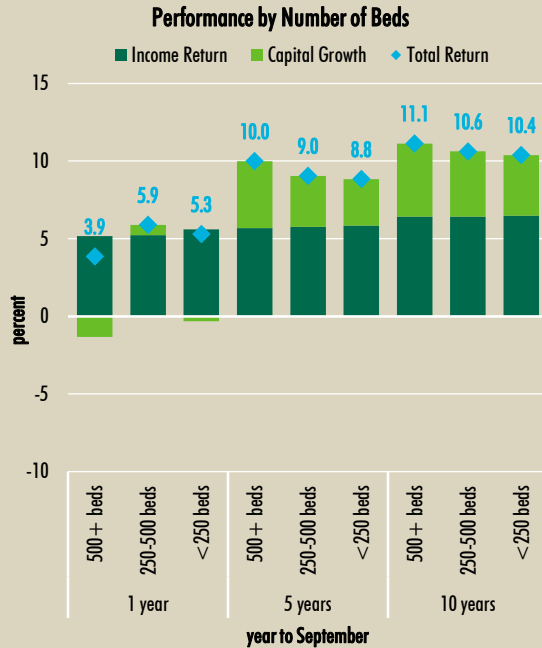
A low-angle photograph of a modern, multi-story building with a light-colored facade and glass balconies. The balconies have glass railings and are set against a clear blue sky. The building's architecture features clean lines and a mix of materials, including concrete and glass.

## **DETAILED PERFORMANCE**

RELATIVE PERFORMANCE WITHIN PBSA

## PBSA PERFORMANCE, BY NUMBER OF BEDS

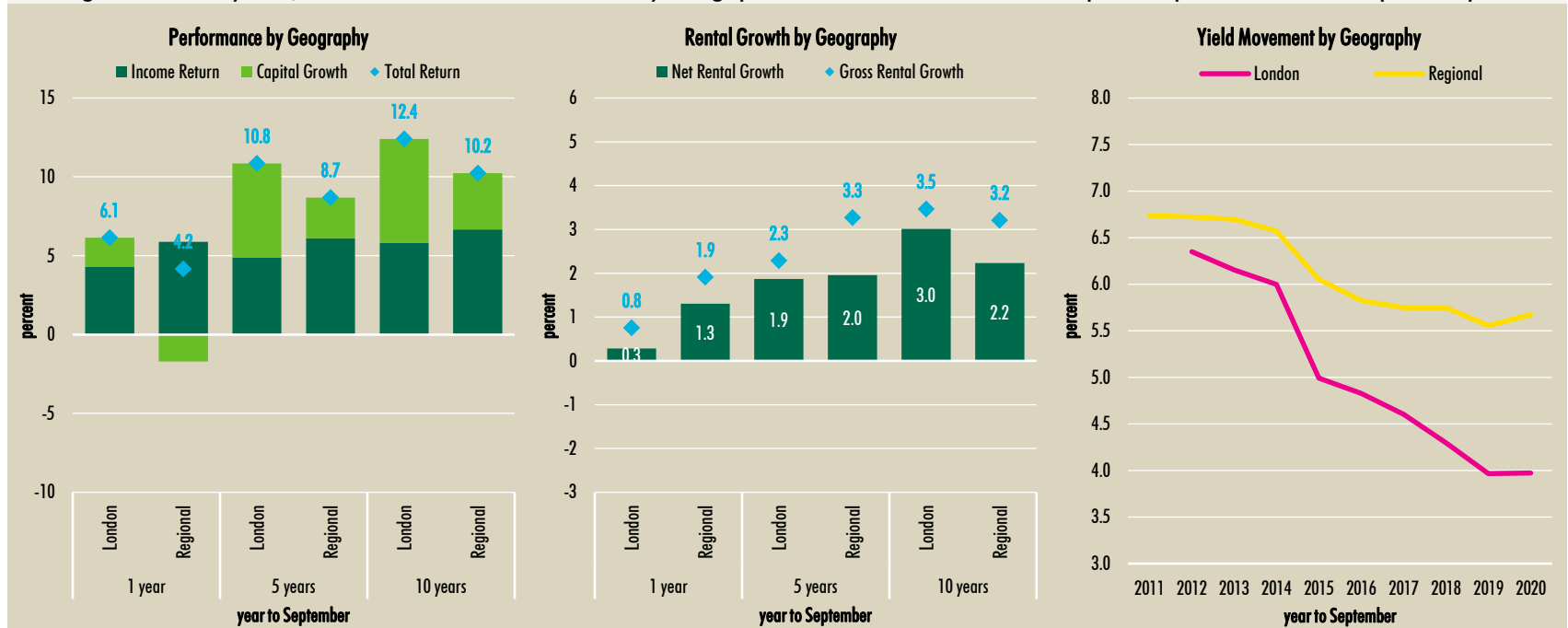
Total returns for larger PBSA assets (500+ beds) were lower than small to medium-sized assets in the year to September 2020. Over the long term, performance has improved with size, with 500+ beds assets out-performing slightly.



Source: CBRE Student Index, September 2020.

# PBSA PERFORMANCE, LONDON AND REGIONAL

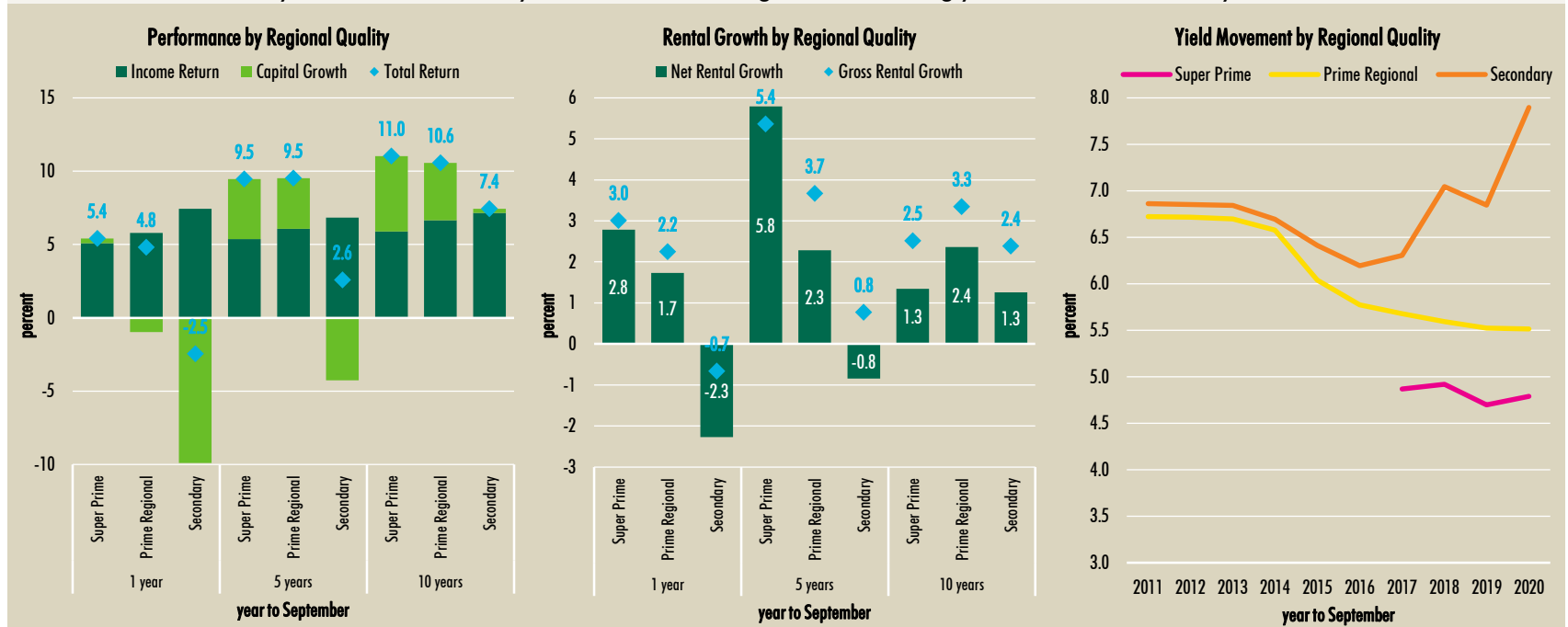
London PBSA has out-performed Regional PBSA by c2%pa in the short, medium and long-term. Rental growth in London has been strongest over ten years, but not over one and five. The yield gap has widened from under 50bps in Sep-12 to over 150bps in Sep-20.



Source: CBRE Student Index, September 2020.

# PBSA PERFORMANCE, REGIONAL BY QUALITY

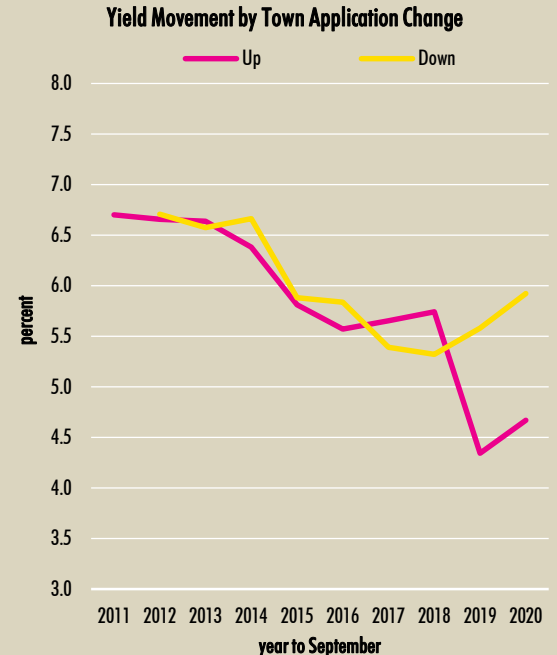
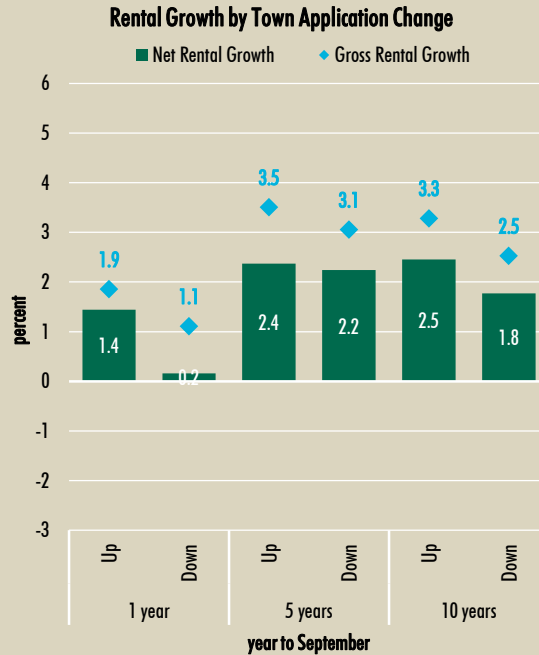
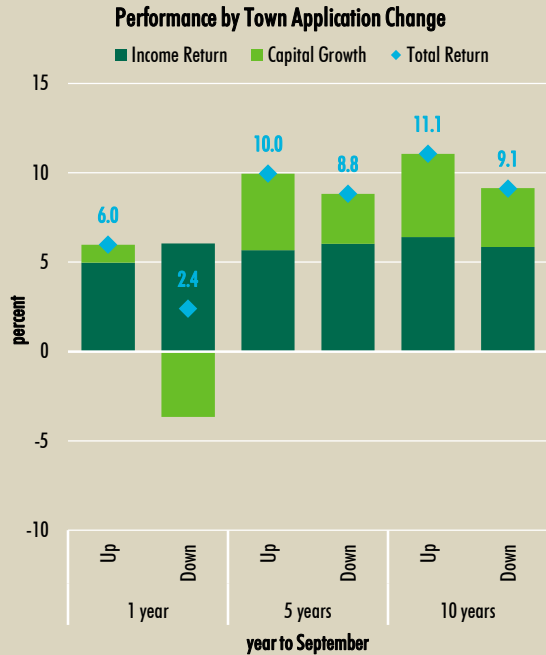
Outside of London, PBSA returns have been notably weaker in Secondary locations, under-performing by 3.5%pa over ten years and c7% over one and five years. This is driven by both weaker rental growth and rising yields over the last five years.



Source: CBRE Student Index, September 2020.

# PBSA PERFORMANCE, APPLICATIONS TO TOWN

There is a clear pattern of performance whereby towns seeing an increase in student application numbers have out-performed over one, five and ten years. Stronger rental growth has underpinned this, but of late a yield gap has also opened up.

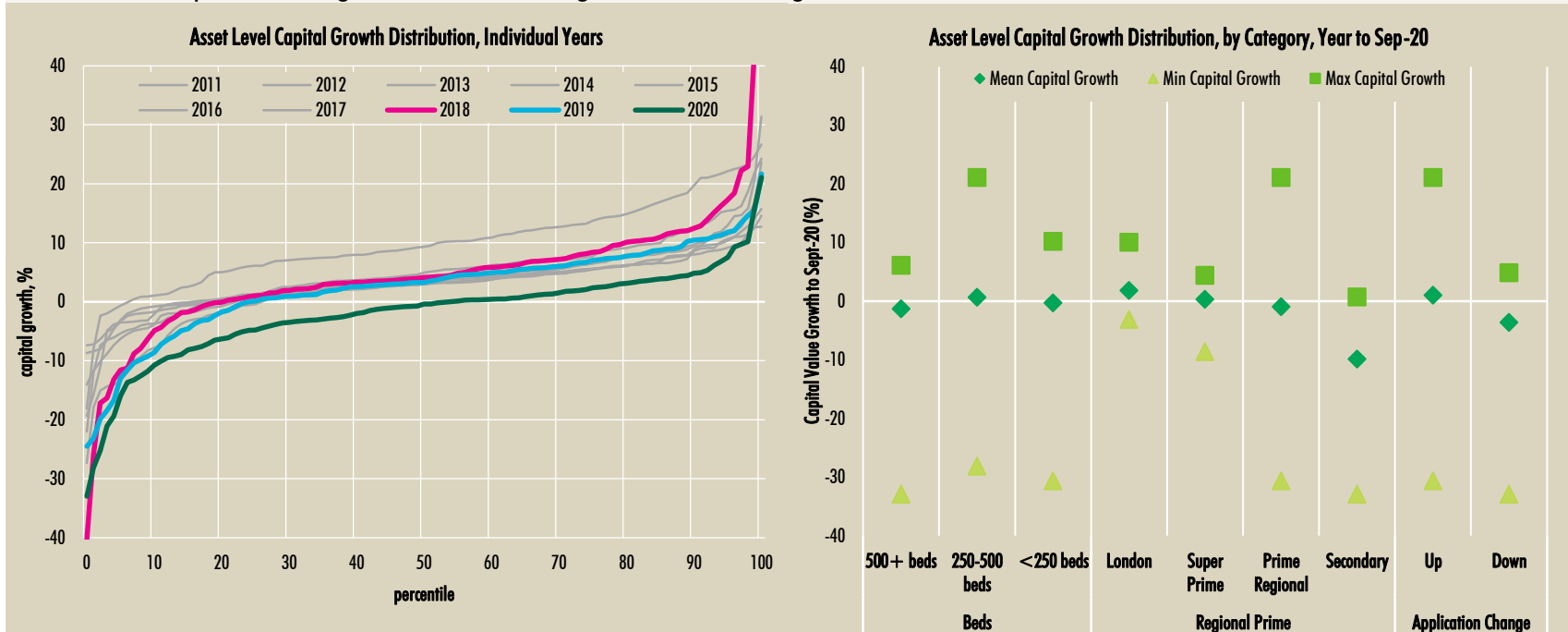


Source: CBRE Student Index, September 2020.



# ASSET LEVEL CAPITAL GROWTH

More PBSA assets saw values fall than rise in the year to Sep-20, with a tail of 10% of assets seeing values decline by more than -10%. London and Super Prime Regional assets offered greater resilience against downside at the asset level.



Source: CBRE Student Index 2020.



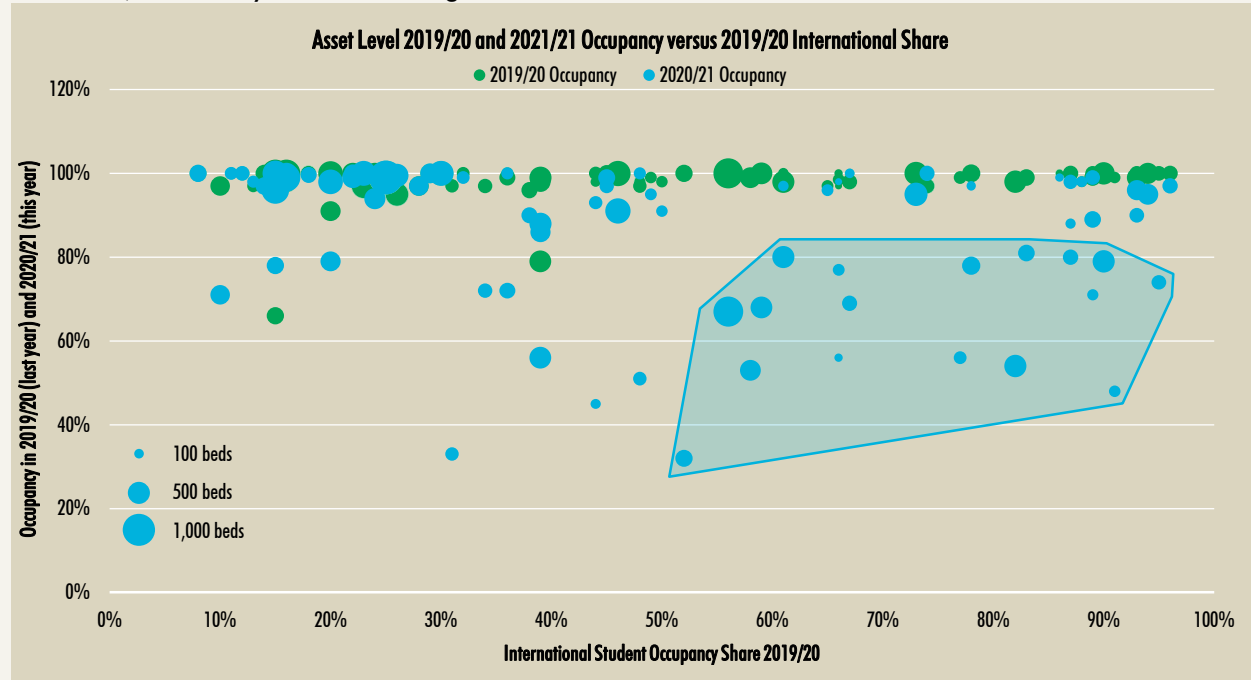
## PBSA OCCUPANCY 2019/20 AND 2020/21, RELIANCE ON INTERNATIONAL STUDENTS

Although (for the subset of the sample for which we have data) 2020/21 occupancy is at or above 95% for a majority of assets, a number have seen occupancy fall below 85%, with many of these having been more reliant on international students in 2019/20.

The chart shows the share of beds occupied by international students in the 2019/20 year, against occupancy for the same year and for the 2020/21 year. [Note: this is not analysis of the full sample, it is just for those assets that we have data for].

The comparison shows that occupancy has undoubtedly weakened. In 2019/20, only two assets registered occupancy of under 85%, compared with 26 in 2020/21. That said, many assets have remained resilient; a majority of assets have occupancy at or above 95% in 2020/21.

Many of those assets with weaker occupancy in 2020/21 are those that relied more highly on international students in the prior year; as the shaded area shows, 17 of the 26 assets with vacancy below 85% in 2020/21 had an international occupancy share of over 50% in 2019/20.



Source: CBRE Student Index 2020, CBRE Monthly Index September 2020.

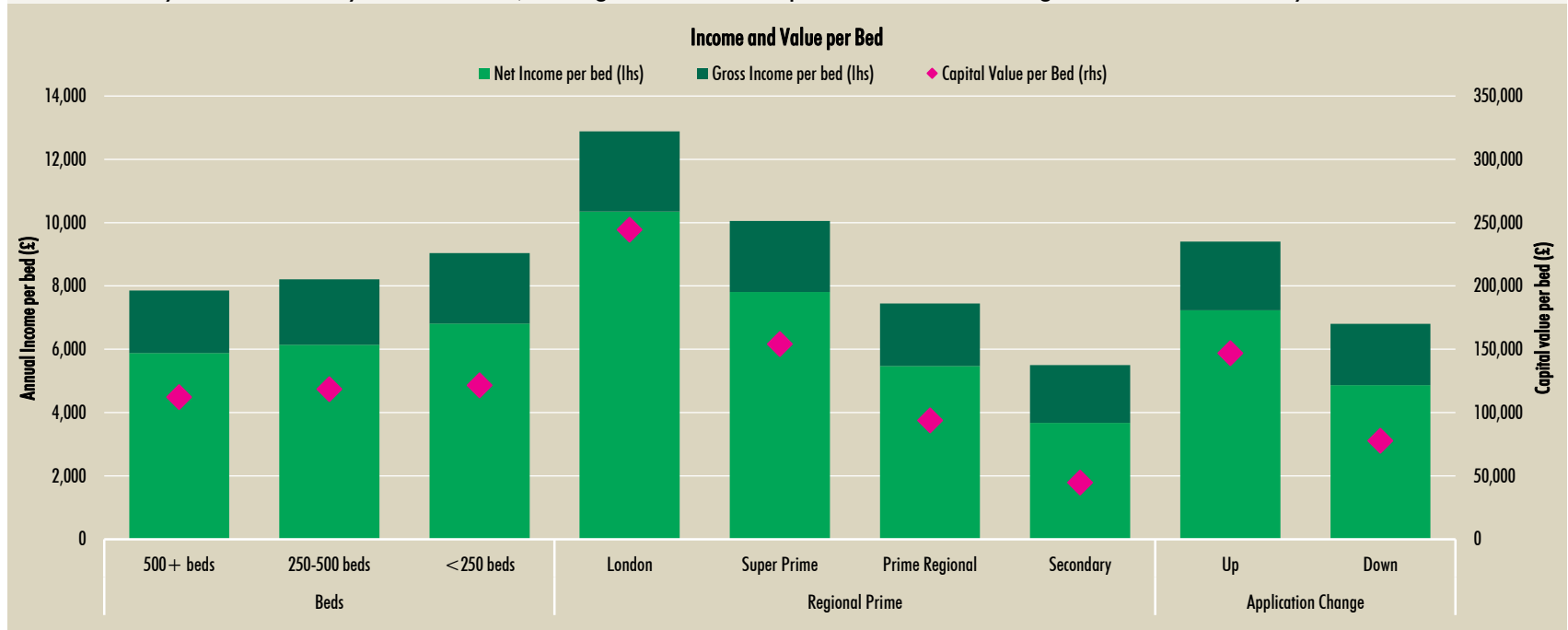
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# **ASSET CHARACTERISTICS**

INCOME, COSTS AND VALUE PER BED

# PBSA OPERATING STATISTICS, SEPTEMBER 2020

Costs show far less variation than gross income; accordingly net income per bed averages 2.5x higher in London than in secondary assets. With yields also starkly differentiated, average London value per bed is over 5.0x higher than for secondary assets.



Source: CBRE Debt Map Q3 2020.

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## TEN YEARS OF PBSA PERFORMANCE: THE DATA

Unique, ten year data set of operational PBSA real estate performance.

Full range of performance measures, including gross and net rental growth and yield movement.

Allows more scientific approach to asset appraisal for portfolio management and acquisition.

Enables comparison across real estate and within PBSA sector thanks to categorisation of assets.

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Contact the CBRE Research team for information.

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