

Spotlight Student Housing in Prague

2018



SUMMARY

■ Prague currently has approximately 115,500 students living and studying in the city of which around 21,000 are foreign students. This figure is now expected to grow as the country's low birth rates of the 1990's are being surpassed.

■ The current PBSA (purpose built student accommodation) stock in the Czech Republic is dominated by sub-standard university owned residencies with only 5% of stock being privately owned.

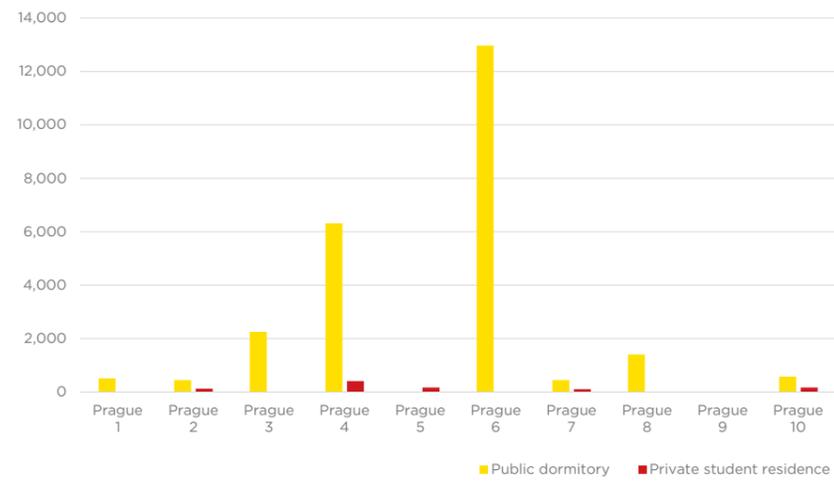
■ High demand and thus high occupancy levels within PBSA's allowed for rents to rise over the last year (by 35% in some instances).

■ There is an identified opportunity to combine students and young professionals in accommodation as record low youth unemployment rates in Prague draw in job-seekers who require 'starter' format housing and typically desire a central location in which to base themselves.

■ Accommodation satisfaction rates are much higher for Czech university students who are not living in dormitories (75%) than those inside the university-owned housing (54%).

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Only 18% of students in the Czech Republic live in accommodation provided explicitly for students.

GRAPH 1 Student housing (current bed capacity by Prague districts)



Source: Ministry of Education, Savills

Student housing stock in Prague

The current situation on the supply side of student accommodation market in Prague is relatively immature and is failing to satisfy the changing needs of the student population.

The key features that the modern day student looks to get from their accommodation is:

- private space
- communal space
- study space
- everything under one roof
- 'all in one costs'
- freedom

Prague student housing stock is 95% owned by public educational institutions and their out of date accommodation is falling short of these student demands. This is demonstrated by the low satisfaction rates for students living in dormitories (54%). One of the biggest deficiencies within the market is the lack of single bed rooms with 80% of the market comprising of twin rooms followed by 15% of single rooms, 4% triple rooms and quad rooms in at 1%.

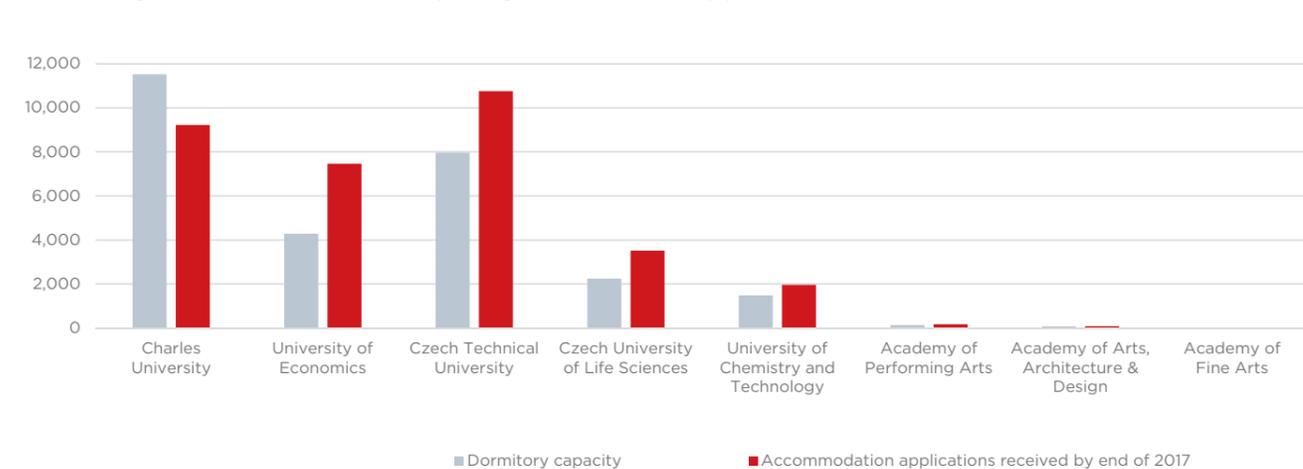
Prague ranked 4th in the Top 10 Student Cities According to Students survey

The student view indicator is based on ratings from more than 50,000 students and recent graduates and forms part of the QS Best Student Cities ranking published annually by Quacquarelli Symonds.

In the whole QS Best Student Cities index Prague climbed to the 30th place out of 100 world's cities in 2018

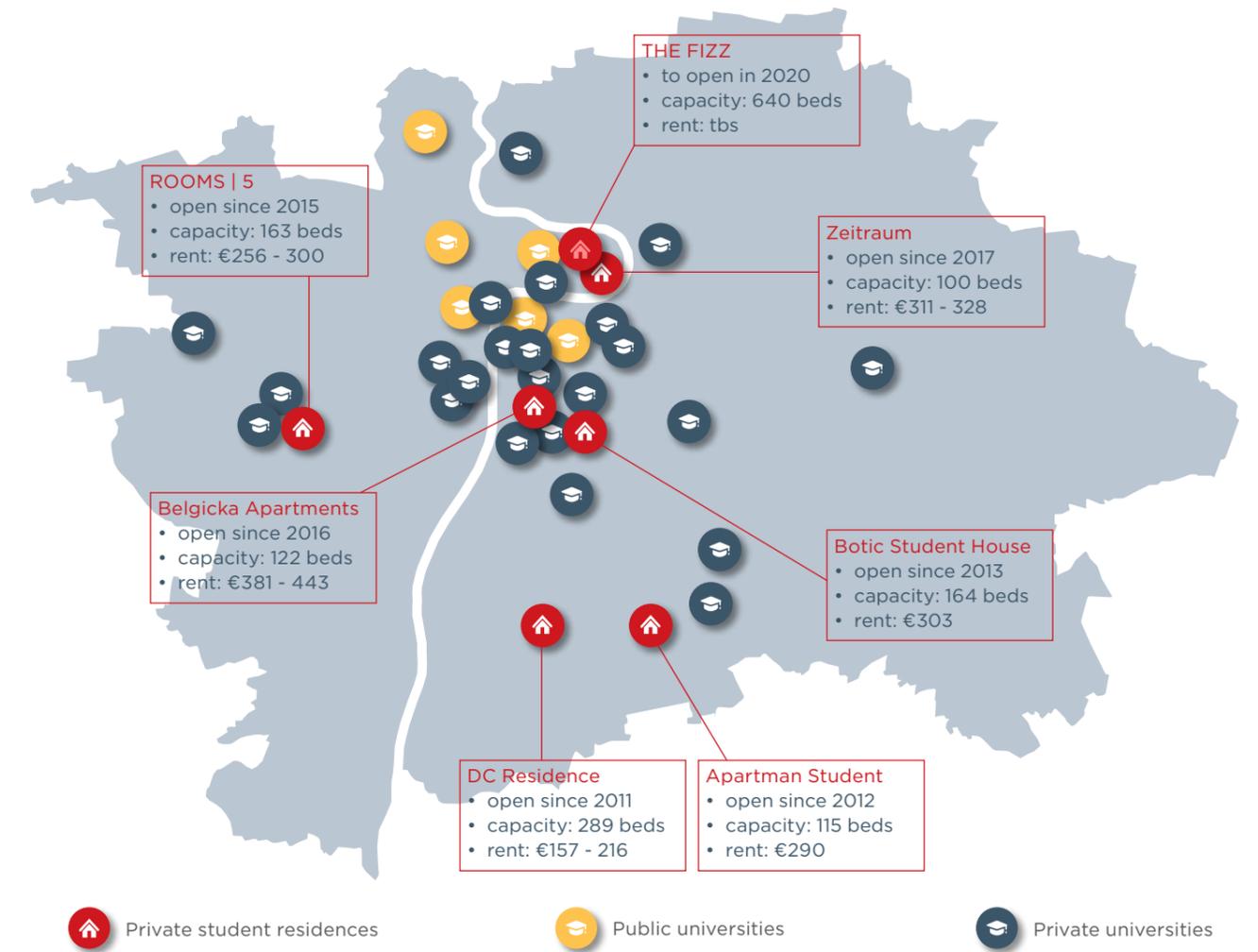
To produce the QS Best Student Cities ranking index, Quacquarelli Symonds analysts use indicators divided into six categories: university rankings, student mix, desirability, employer activity, affordability, and student view.

GRAPH 2 University dormitories (total capacity vs. received applications)



Source: Ministry of Education, Savills

Largest privately owned student residences



Private student residences Public universities Private universities

Rents are for one person in a double room per month and include utilities, wifi and where mandatory also the cleaning fee.

Despite not matching the desired criteria of students the university-owned rooms, according to the providers, have been fully occupied in recent years. That being said, universities are starting to recognize the demands of students and are planning to renovate their portfolios of residences. Charles University plans to reduce the capacity in dormitories by 1,144 beds by the year 2020 by remodelling its residences to single and double rooms only.

Privately owned accommodation does however, better suit the desire for single bedded rooms with 55% of the supply being single rooms. The rest of the market being split between 45% and >1% for double rooms and triple rooms respectively.

The six largest private residences in Prague (shown on the map above) represent 75% of the private student housing market. The remainder are low-scale projects or even houses, often poorly adapted for student accommodation.

Each of these six projects is a result of remodelling and complete refurbishment of an older building which had completely different use in the past. The first private residence for students to be built from ground up will be the Fizz in Prague 7 - Holesovice, which is being developed by Karlin Group and is scheduled for opening in 2020.

Demand characteristics

■ The Prague student population is made up of 115,500 university students with around 21,000 of these being foreign students, which as a figure has grown for its 4th consecutive year. The nationalities most commonly represented in this bracket are:

- Slovaks (50%)
- Russians (13%)
- Ukrainians (6%)

■ Of these international students 46% are studying for a bachelors and 20% for a master's degree (i.e. will be in the city for 1-3 years longer).

■ The current trend of a declining student population in the city is expected to be broken in the coming years as the Czech Republic moves beyond its low birth rate period of the 1990's. The student population around the world will also continue to increase. This information forecasts the student population to surpass the 2010 peak thus putting further strain on demand for PBSA's.

■ In 2017 the number of applications for accommodation within university-owned dormitories in Prague was already 20% higher than their total capacity. The increase in demand for public dormitories is also supported by the increasing rents for residential properties in Prague which are becoming too expensive for students.

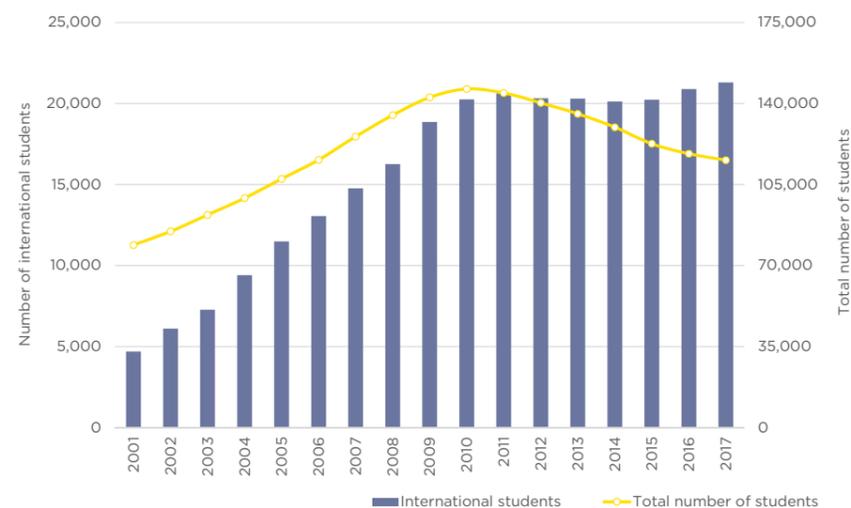
■ Student income in the country is currently very low due to the absence of maintenance or tuition loans provided by the government. The average monthly income of a full time student in the Czech Republic is €357, out of which 45% comes from employment and 44% comes from parents. This outlines the need to increase the supply of cheaper alternatives when it comes to student accommodation.

■ This information only relates to domestic students however, it does indicate that the supply of PBSA is closely aligned with levels of international students living in Prague. The Ministry of Education and Universities need to expand their efforts to put in the relevant infrastructure to attract more international students. A higher level of foreign students will

help attract the big international operators who will in turn bring the desired expertise for Prague's PBSA market.

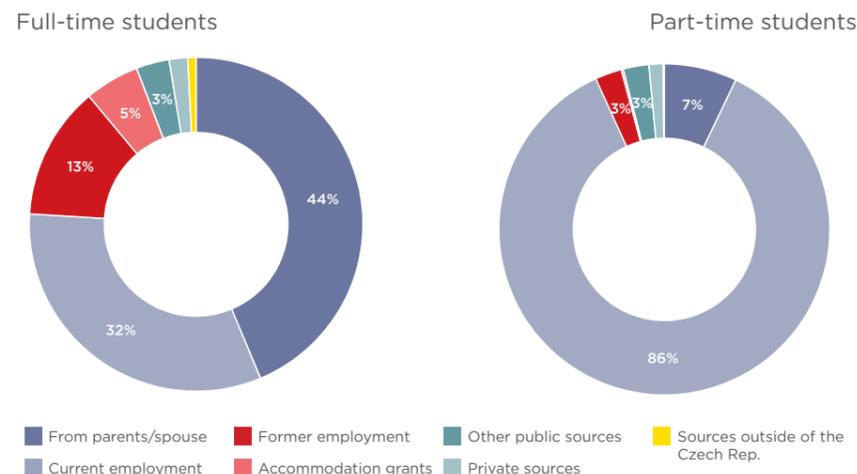
■ Prague universities have been responding to the growing interest from foreign students in the past years by increasing the number of study programs taught in foreign languages.

GRAPH 3 Student population in Prague



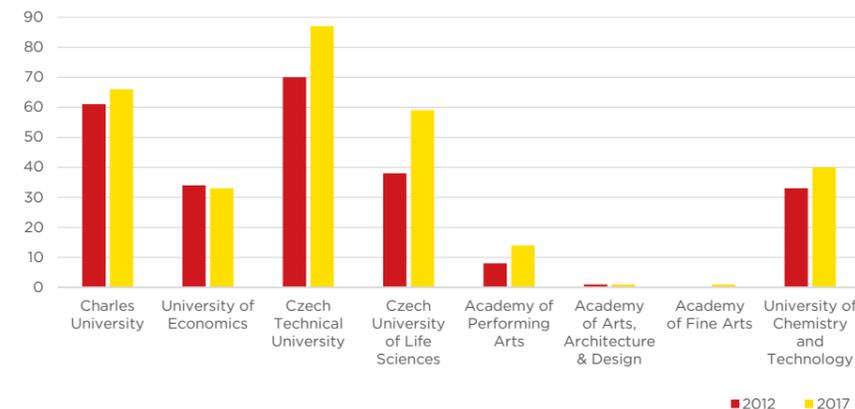
Source: Ministry of Education, Savills

GRAPH 4 Financial sources of Czech students



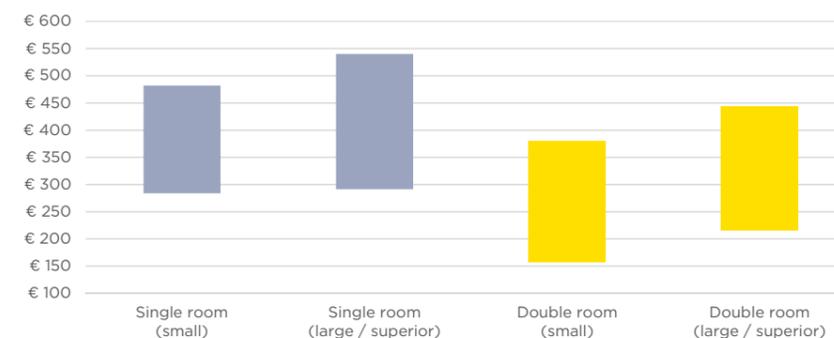
Source: Ministry of Education, Savills

GRAPH 5 Number of foreign language study programs



Source: Ministry of Education, Savills

GRAPH 6 Rents in private student housing (per person per month)



Source: Savills

Rent levels

■ The key accommodation providers seem to have noticed the increasing demand for their houses and have subsequently raised the asking rents. This increase is also supported by the growing residential rents in Prague. Larger flats are also being targeted by students as they offer more freedom (especially no restrictions and need for registration or evidence of visitors or possibility to have pets), however, private owners generally do not prefer having students as tenants in their properties.

■ Year-on-year increase in rents for accommodation in modern purpose built student residences

has been apparent across the city. DC Residence, who are on the cheaper side of the spectrum, have seen the rents for their twin rooms go up from €159 to €188 from 2017 to 2018. Botic Student House have risen their rents for their premium studio rooms from €353 to €447 over the same period of a year.

■ A single room rent (including utilities) in the private student housing residence ranges from €284 per month for a standard en-suite room (e.g. DC Residence) to €540 per month for a premium room (e.g. Belgicka Apartments). Combining this information with the figures of the average Czech student's income it is apparent that the costings are not meeting the student's needs and possibilities.

Growing young professional market

■ The Prague economy is still outperforming many of its European competitors with unemployment at 2% in July 2018, ranking among the lowest of all EU regions. Youth unemployment (people aged between 15 and 24) was also at table topping lows of 3.8% in 2017 meaning Prague is becoming a more and more attractive proposition for people in their search for work. This is likely to draw young professionals into the city.

■ Surveys conducted have shown that regardless of whether you are a student or a young professional, millennials (born between the early 1980's and mid-1990's) want to live inside major cities with nearly 70% of 25-34 year-olds preferring to live inside town and city centres. The vibrant urban environments, amenities on your doorstep and a short commute to work are heavily desired. It is therefore of no coincidence that cities with vibrant, mixed use spaces have become magnets for global talent and innovation.

■ From the limited evidence to date it appears that projects that combine student accommodation with micro-living apartments are successful and the trend for such projects is growing. The two main reasons for this are:

- the target customers like it;
- developers need it in order to be able to afford the rising land costs in major cities.

■ It is clear that there is a distinct opportunity to combine the two demographic groups of young professionals and students together when providing a high quality private sector in PBSA's.

Conclusion

- The current stock of student accommodation in Prague is not satisfying demand in terms of quantity and quality. This shortage has allowed owners of better quality premises to increase rents by up to 25% over the last year.
- Existing privately owned projects show that it is possible to combine student and micro-apartment accommodation in one building.

■ Prague has many attributes to attract a higher number and quality of international students. However, to realise its potential, the city needs to invest more actively into its education system and the infrastructure that supports it. The financial benefits of doing this could be quite considerable. ■

Private student housing in other regional cities

- Newly constructed private residence Koleje Pedagog in České Budějovice has been opened since 2015 providing the total of 232 beds. Single en-suite rooms are offered for around €230 / month.
- In 2016, Kampus Palace has opened in a formerly obsolete building of hotel Palace in Ostrava. The student residence has a total capacity of 208 beds and charges around €160 / month for a single studio flat of 12 sq m.
- In 2017, CTP completed the construction and officially opened DOMEQ, modern accommodation for students and young professionals in Brno. The residence offers 309 beds in total and prices for single studio flats of 22 sq m are around €404 / month.

The rising popularity of Prague among international students and young professionals combined with growing demand for more privacy and comfort among Czech university students continues to drive demand for modern student housing options in Prague and other regional cities.

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