

Market insight:

# Inflation Update & Sector Focus: Purpose-Built Student Accommodation

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September 2024



CUMMING  
GROUP

BUILDING VALUE THROUGH EXPERTISE

# Foreword

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The UK construction industry has faced unprecedented challenges in recent years, starting with the global pandemic in 2019, followed by the compounded effects of the war in Ukraine, Brexit, and ongoing changes to UK regulations. Each of these factors has significantly reshaped the landscape of construction projects, with the Purpose-Built Student Accommodation (PBSA) sector being no exception.

As this report outlines, these challenges have influenced both the feasibility of developments and the expectations within the PBSA market. While the sector remains resilient, it is clear that evolving financial, regulatory, and operational considerations continue to play a pivotal role in shaping its future. This insight report provides an insightful analysis of the current market, with a focus on the impacts of regulatory changes, financial trends, and growing investor interest driven by sustainability goals. The cost metrics presented here highlight the shifts in development economics, offering valuable perspectives for stakeholders navigating this complex sector.

As we look ahead, it is crucial for developers, investors, and operators alike to stay attuned to these evolving conditions. Through strategic adaptation and proactive planning, the PBSA sector can continue to thrive in an environment that demands greater accountability, higher standards, and a renewed focus on sustainability.

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# Pricing Trends

Looking back over the last quarter costs have largely remained the same. However, the conflict in Israel could potentially lead to further conflict, driving up oil prices and in turn material prices, shipping and haulage. There has been news of main contractors and subcontractors going into administration in the period which means that the “race to the bottom” may be over. However one shining light is the Bank of England reducing interest rates and predicting a further drop prior to the year end which may help borrowing costs.

## Concrete

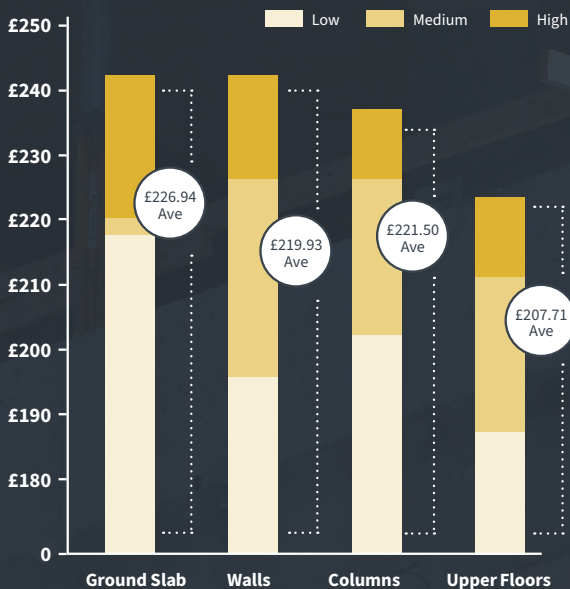
CURRENT CLIMATE



Concrete costs have remained largely stable in the last quarter, despite some evidence of price increases. This relative stability is mainly due to delays caused by uncertainties around funding and the Building Safety Act. We expect the forecasted increases of £5 to £8 per m<sup>3</sup> to come into effect between 4Q 2024 - Q 2025, as more delayed schemes start to come to site.

### Concrete price per m<sup>3</sup>

Concrete prices have increased by an average of 4.16% over the last year.



Source: Data assessed from 5 nr Manchester based sub-contractors



## Steel Reinforcement

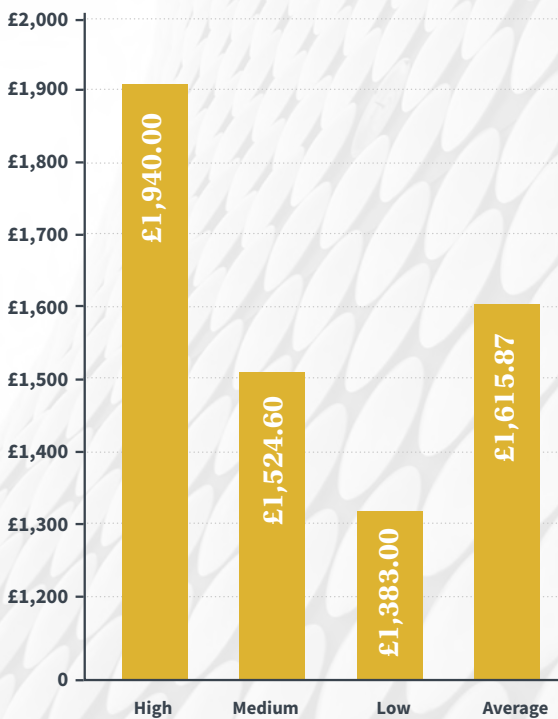
CURRENT CLIMATE



Steel reinforcement costs have followed a similar trajectory to concrete, which is unsurprising as the two are directly linked and have therefore remained largely stable. Currently, market expectations are for no further cost increases in the short term, although our view is that prices will probably rise by around 3% over the next few quarters in line with stronger demand and construction output.

### Concrete price per tonne between August 2023 – August 2024.

Compared with the same point last year, steel reinforcement prices on average have stayed within a 3% swing either way, with rates largely dependent on quantity and supply chain selection.



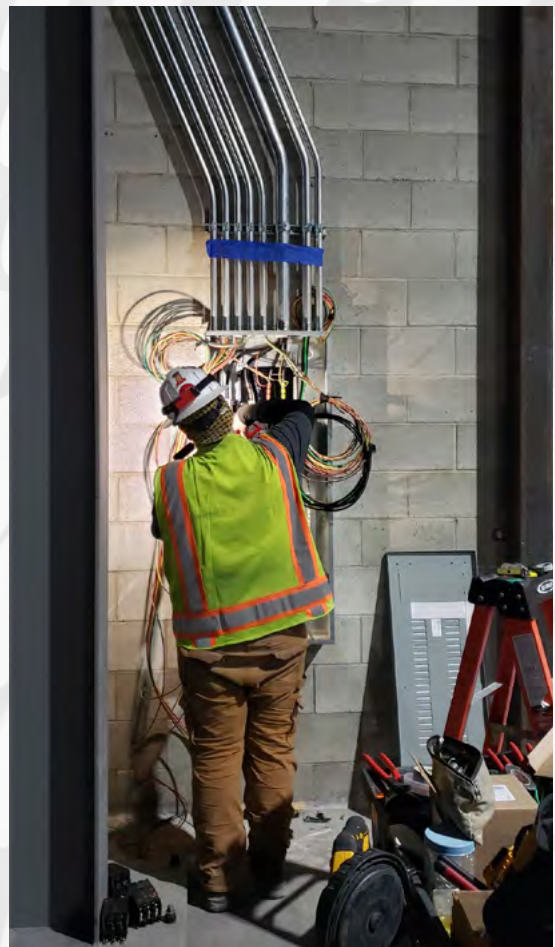
Source: Data assessed from 5 nr Manchester based sub-contractors

## Mechanical, Electrical & Plumbing (MEP)

CURRENT CLIMATE



Since last quarter, there has been no movement in MEP prices. The main cost impact is being driven by the solutions to get the Part L and O models to pass depending on locations, façade choice and other factors. This is dictating the mix of ASHP & MVHR with added cooling or Kers systems. We are seeing typical prices in the north of the country ranging between £32,000 and £34,000 per key on a typical Build-to-Rent project and ranging from £64,000 to £71,000 per key for outer London and Inner-City London respectively.



# Sector Focus: Purpose-Built Student Accommodation

Since 2019, the UK construction industry has faced a number of challenges which have impacted significantly on the viability of building projects. These challenges include:

- Brexit
- Covid-19 pandemic
- Ukraine War
- Changes to UK building regulations/legislation

These factors have collectively influenced the dynamics and feasibility of construction, and the Purpose-Built Student Accommodation (PBSA) sector is no exception to this.

## PBSA Market Overview



### Supply and Demand

Domestic students make up 75% of the UK market, with international students comprising the remainder, particularly in cities with Russell Group universities. However, regulatory risks, including recent changes to visa requirements for overseas students, could pose a barrier to entry. These changes may result in a decline in the number of international students attending UK universities in the coming years.

Overall student demographics, however, show promising growth, with UCAS acceptances up by 24% compared to pre-pandemic levels. Additionally, the Office for National Statistics (ONS) projects a 5% increase in domestic student numbers for the 2024 intake.

Despite strong demand, the delivery of PBSA in the last year was less than a third of the levels seen in 2019. (Source: Student Accommodation Conference, December 2023) Contributing factors include complexities in the planning

## 24%

**increase in UCAS acceptances compared to pre-pandemic levels**

process, limited availability of prime site locations, escalating costs of both construction materials and labour and increased finance costs influenced by the broader macroeconomic environment.

The evolution of existing stock is driving demand for new and higher-quality PBSA developments, as a significant proportion of first-generation PBSA stock is becoming obsolete and, in many cases, no longer meets current standards.

As such, future demand and supply challenges are evident, with predictions that between 300,000 and 400,000 additional full-time students will need accommodation by the end of the decade. (Source: to be confirmed) This underlines the challenge to ensure supply meets demand in the UK.



## Impact of Interest Rates

Recent trends indicate an improvement in rental growth within the sector, although developers continue to face challenges due to rising interest rates. These higher rates have resulted in increased borrowing costs and investors pulling back on their commitment to pipeline developments.

On a positive note, the Bank of England reduced the base rate from 5.25% to 5.0% in August 2024, which could alleviate some of the financial pressures facing the sector.



## Investment Potential

The investor outlook remains positive, with PBSA assets expected to continue delivering attractive returns. The sector's value is forecast to increase by approximately 20% over the next five years, assuming no significant disruption to the UK higher education sector.

## Impact of Updated Building Regulations & Legislation



### Building Safety Act (BSA)

The purpose of the new regime is to enhance accountability and responsibility for fire and structural safety issues throughout the lifecycle of buildings within its scope. The gateway approval process has significantly altered the approach to delivering PBSA developments. These developments now require earlier commencement dates to accommodate Gateway 3 approval timescales, which are crucial to meeting the demand from the annual university student intake in September.

The new regime applies specifically to “higher-risk buildings”, defined as those that are either 18 metres or seven storeys in height and contain at least two residential units or dwellings.

“

It's essential for PBSA developers to recognise the potential.”

A key change introduced by this regime is the replacement of developer-appointed approved inspectors with Building Safety Regulators (BSRs). This shift introduces additional costs for developers, as BSR fees are time-charged without a fixed maximum, potentially increasing the financial burdens.

It is essential for PBSA developers to recognise the potential for significant financial and operational impacts under the new BSA regime. By proactively adapting and taking necessary steps to meet current and future obligations, developers can minimise risks, avoid unnecessary costs or legal implications, and maintain their target programme timelines.



## Fire Safety: Approved Document B

The most recent regulatory changes to Approved Document Part B took effect in December 2022, with further significant modifications announced in March 2024. The 2024 modifications are scheduled to be implemented from September 2026.

The upcoming changes will impact several aspects of building design, particularly in the context of PBSA developments. One major change involves design efficiencies, as the requirement to accommodate secondary stair cores in buildings exceeding 18 meters in height will result in the loss of bed space. This reduction in Gross Internal Area (GIA) per bed is a critical factor in balancing developer value against build costs.

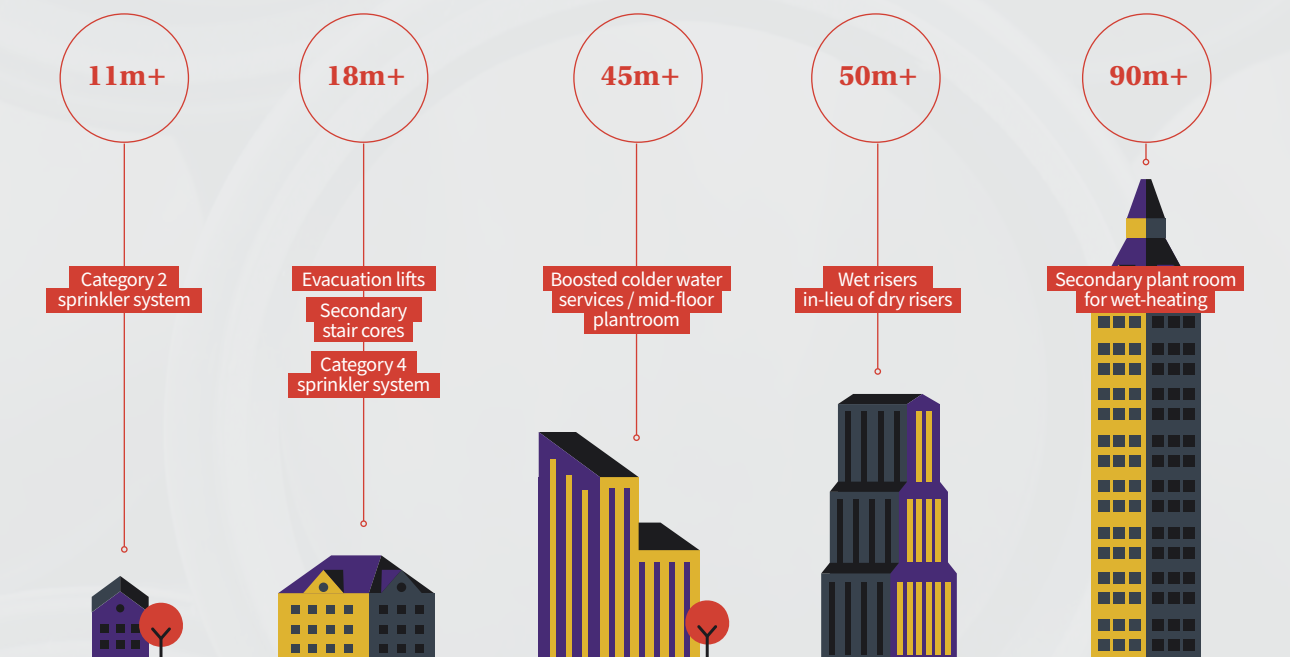
Additionally, new provisions have been introduced to support the use of evacuation lifts in blocks of flats. These lifts must be located within an evacuation shaft that includes a protected stairway, evacuation lift, and an evacuation lift lobby. The lobby should provide a refuge area for individuals awaiting the evacuation lift. Similarly, the regulations now require provisions for fire-fighting lifts in buildings exceeding 18 meters in height or more than 10 meters below the fire service vehicle access level. These lifts, typically powered

by a separate supply or connected to a backup generator, are intended for the exclusive use of firefighters to transport themselves and their equipment during a fire.

Other changes include the mandatory installation of mechanical smoke extraction systems in each lobby area to ensure ventilation and prevent the internal spread of smoke. The installation of Category 4 domestic sprinkler systems is now required in all buildings over 18 meters in height, while commercial sprinkler systems are mandatory in buildings with open-plan spaces exceeding 100 square meters. This requirement has led to changes in design teams' approach to internal student amenity areas.

Furthermore, Arc Fault Detection Devices (AFDDs) are now typically included in studios and cluster flats, while hob suppression systems may be required in studio kitchenettes, depending on room orientation. Finally, non-combustible insulation is now required for inset roof terrace areas and upstands to primary roof levels, although this material is significantly more expensive, typically priced at around £350 per square metre.

### BSA impact on PBSA development based on building height





## Approved Document Part L

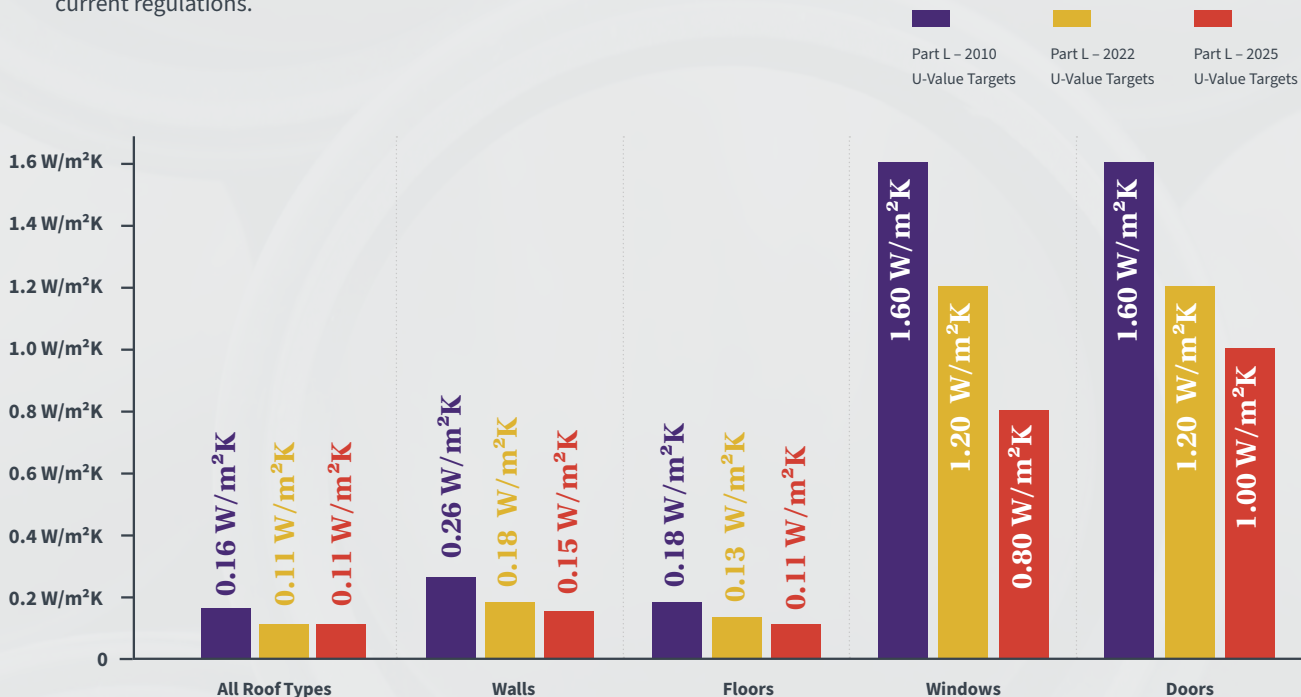
The new Approved Document Part L changes, which focus on improving the energy performance of building elements such as external wall systems, windows, and doors, came into effect in June 2022. The implementation of these changes is expected to result in a 31% reduction in carbon emissions. Achieving this reduction will require developers to adopt carbon-saving technologies, such as low-carbon heating systems, and to make improvements in building fabric standards.

The Part L changes introduce several specific requirements. These include an increase in the thickness of insulation within external wall build-ups to enhance thermal performance and the use of triple-glazing to reduce heat loss. Additionally, the changes include enhanced U-Values within façade build-ups, with a direct comparison between previous and current targets highlighting the necessity of triple-glazing to assist in meeting more challenging targets.



The Future Homes and Buildings Standard is a set of standards that will complement the Building Regulations to ensure new homes built from 2025 will produce 75-80% fewer carbon emissions than homes delivered under current regulations.

The proposed new U-Value targets for new-build developments are set out below against previous targets





## Approved Document Part O

The new Part O changes, effective from June 2022, are specifically aimed at addressing overheating in residential dwellings and mandates that buildings must implement measures to limit unwanted solar gains during the summer months and ensure there is an adequate means of removing excess heat from indoor environments. In response to these requirements, the introduction of Variable Refrigerant Flow (VRF) cooling units has been more frequently recommended

by MEP consultants as a solution to manage overheating, particularly in student cluster kitchens.

Furthermore, the changes have in some instances resulted in an increase to the sizing of Mechanical Ventilation with Heat Recovery (MVHR) units, with MVHR systems now required in all occupiable rooms where compliance with overheating regulations is particularly challenging. Finally, the provision of solar shading is encouraged to manage solar gain, thereby reducing the need for both cooling and heating systems.



## Environmental, Social, and Governance (ESG)

Investor demand within the PBSA market is increasingly driven by ESG considerations, particularly in relation to sustainability and health standards. Notably, there is a growing preference for properties to now achieve BREEAM Excellent as a minimum standard, demonstrating superior performance in energy efficiency, health and wellbeing, and environmental impact. Additionally, investors are showing heightened interest in certifications such as Fitwell, which signify adherence to stringent health and wellness criteria, enhancing the living experience for students.

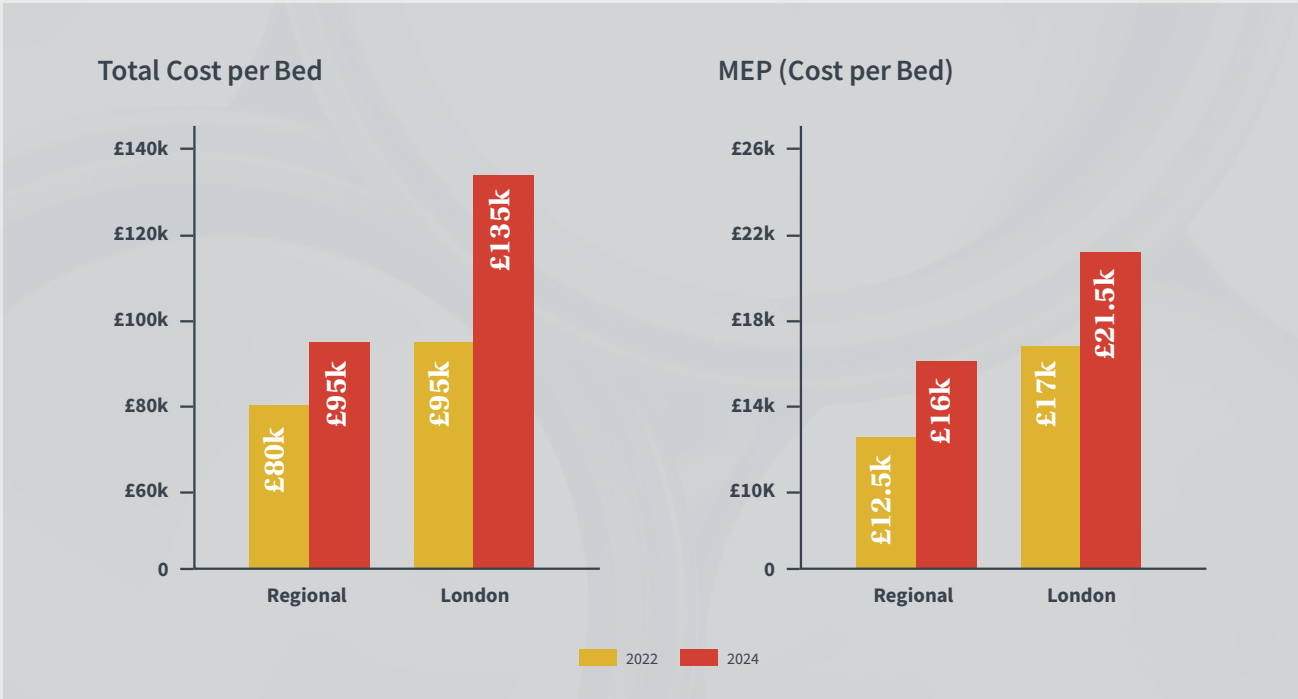
Furthermore, the pursuit of net-zero carbon targets has become a pivotal focus, with stakeholders seeking to align investments with broader climate action goals, thereby ensuring the long-term viability and attractiveness of their portfolios. This trend underlines a broader shift towards responsible investing, reflecting the growing recognition of the financial and reputational benefits associated with sustainable development practices in the PBSA sector.

In response to the growing availability of office buildings (particularly in city centres) and the on-going target to reduce embodied carbon, PBSA developers are increasingly shifting their focus towards retrofit and conversion projects.

This approach not only capitalises on the existing structural framework of these buildings, thereby significantly minimising the carbon footprint associated with new construction, but also aligns with sustainable development goals. The conversion of office space into student accommodation offers a strategic solution to urban density challenges, providing modern, sustainable housing options whilst contributing to the rejuvenation of UK cities. This trend highlights a pragmatic and eco-conscious evolution in the PBSA market, driven by both environmental considerations and the practical advantages of utilising existing buildings.

The rising cost of energy has prompted PBSA operators to pursue more energy-efficient buildings, a shift that, while environmentally beneficial, has led to increased capital costs. Implementing advanced energy-saving measures such as additional metering, improved insulation, and high-efficiency HVAC systems requires significant upfront investment. These enhancements are designed to optimise energy consumption, reduce long-term operational expenses, and meet stringent sustainability standards. Despite the initial financial outlay, the long-term benefits include lower energy bills, enhanced asset value, and alignment with evolving regulatory requirements and tenant preferences for greener-living environments.

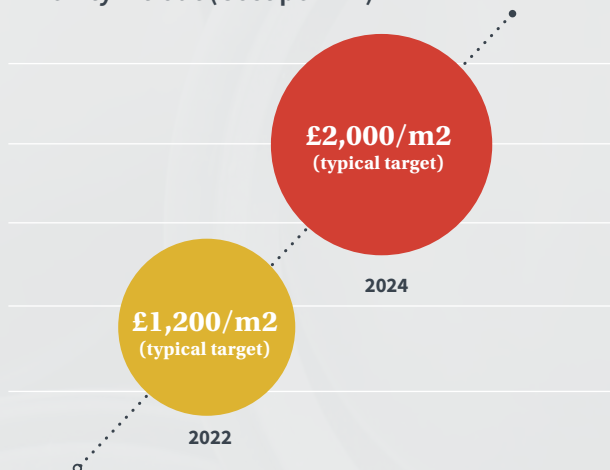
## Cost Analysis Overview



In recent years, cost increases have been significant across both London and regional locations, with certain work packages experiencing hyperinflation.

Within this section we provide a high-level summary of key cost metrics to illustrate the cost fluctuations experienced within the PBSA sector. Note in particular that a drive for quality, due to increased competition in the market, has led to a stronger focus on the fit-out of internal amenity spaces, with enhanced specifications resulting in significant cost increases.

### Amenity Fit-out (Cost per m2)



### RC Frame & Upper Floors (Cost per m2)



# Inflation Forecast Summary

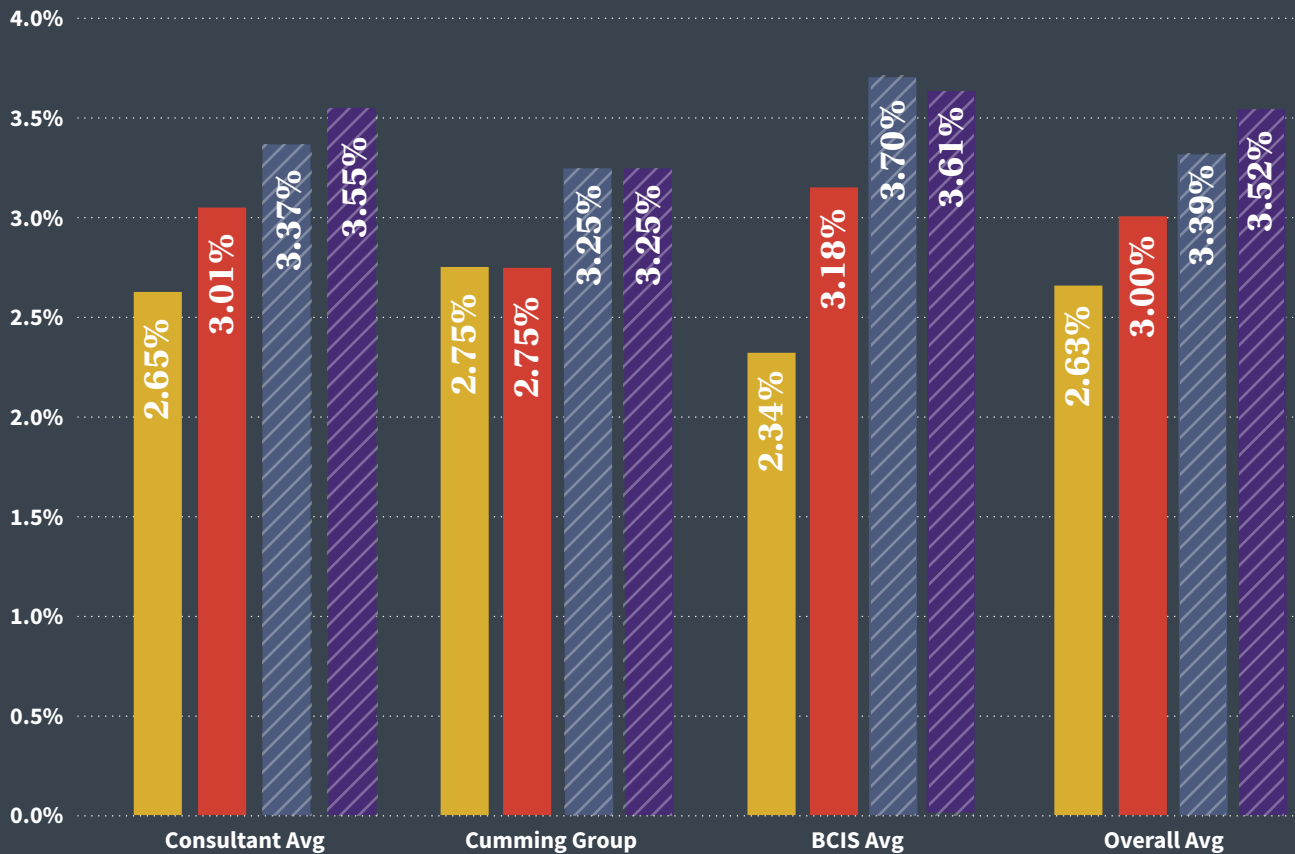
The inflation outlook remains stable for the next three years, based on the views of the BCIS and other market forecasters.

Over the next three years, the Consultant average forecast suggests an annual inflation rate of 3.15%, which represents a 0.13% increase on the previous quarter's forecasts. Cumming Group forecasts an average 3.00% over the period, which is an increase of 0.33% on last quarter, as the forecasts for 2026 and 2027 have been revised upwards. BCIS forecasts an average of 3.21% per annum, a reduction of 0.10% on the previous quarter. The combined average is 3.14% which is up 0.14% from the previous quarter.

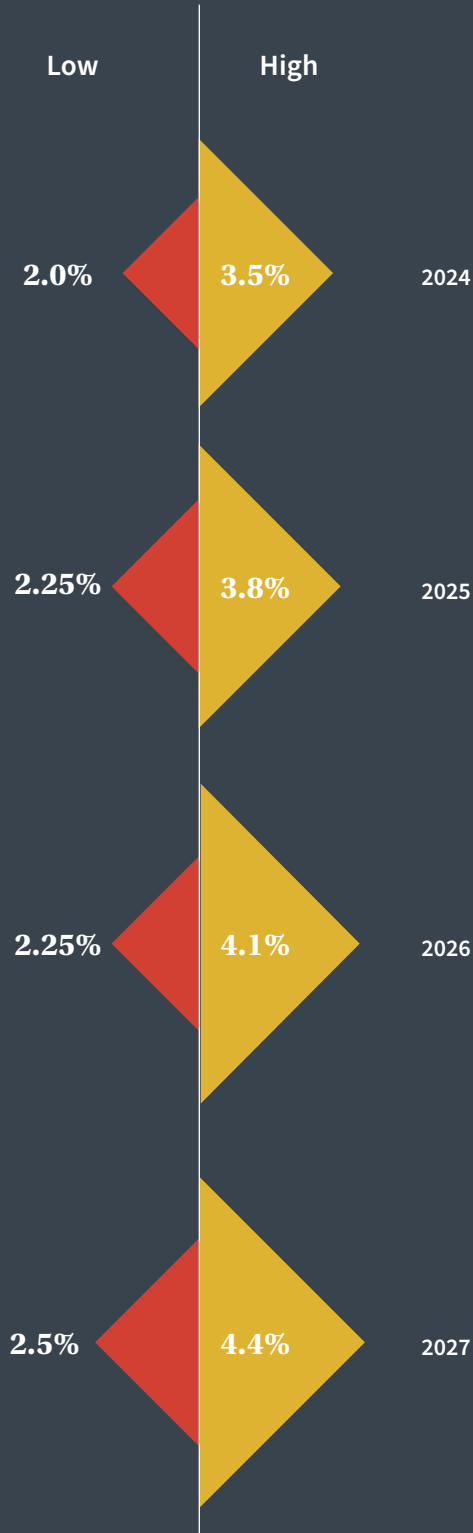
There are some significant differences between inflation forecasts across the market, with ranges of 2% to 3.38% in 2024, 2.25% to 3.60% in 2025 and 2.25% to 4.10% in 2026. This is likely due to the sector focus of each Consultant which may impact how averages are calculated. As such, we advise our clients to be cautious when using inflation forecasts and to seek advice from their cost consultant.

## Year-On-Year

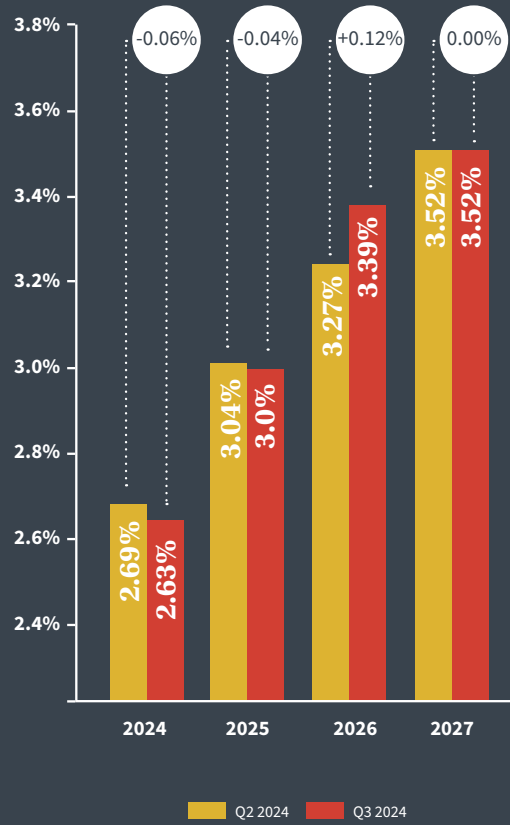
● 2024 ● 2025 ● 2026 ● 2027



## High & Low Trends Inflation Forecasts



## Average Against Previous Quarter



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