Setting the student accommodation cap

A method every stakeholder can defend

Position paper · August 2026 · Prepared by Retha van Rooyen, Managing Director

1. Summary

The annual argument about the NSFAS accommodation cap is conducted as an argument about a number. This paper shows, from measured operating and payment data, that the number is not where the dispute really lies. Costed from the ground up, the current R5,200 metro ceiling is close to defensible for existing accredited stock: at that rate, reliably paid, a typical acquired property earns an unlevered return of roughly 10.5%, above the 7.3% to 8.2% band the property market currently requires.

The sector is nonetheless in distress, because almost no landlord receives R5,200. Between the ceiling and the bank account sit institutional deductions of 0% to 15.6%, a R378 a month transport carve-out applied to roughly half of paid beds, the accreditation partner's standard 5% deduction, a ten-month payment year set against a twelve-month cost base, and, in 2026, payment runs at the university in our sample (Nelson Mandela University) arriving 50% to 73% unpaid. The modal payment actually observed in our records is R4,080.35 a month. At that rate the same property earns roughly 5.9%, below a bank deposit, with none of a bank deposit's certainty.

The cap promises 10.5% and the plumbing delivers 5.9%. Stakeholders cannot agree on a number because each is describing a different one of these two systems. They can agree on a method. This paper proposes the cap be set by a published formula, the way an energy regulator sets a tariff, with each parameter owned by the stakeholder best placed to defend it. For 2026 the formula puts the sustainable metro corridor at R4,900 to R5,400 a bed a month. The current cap sits inside it.

2. The identity every stakeholder already accepts

Any administered price for accommodation must satisfy one accounting identity:

Cap required = (12 x monthly operating cost + capital per bed x required return) / (paid months x (1 - vacancy and collection loss))

Nothing in this line is contestable as arithmetic. Every dispute about the cap is a dispute about one of its five parameters: what it costs to run a bed, what capital a bed ties up, what return that capital must earn, how many months the funder pays, and how much billing is lost to vacancy and collection. Naming the parameters converts one unwinnable argument into five small, evidence-based ones.

3. The evidence base

The parameters below are measured, not assumed. Operating cost is taken from audited books across an eight-property owned sample, January to July 2026, including payroll-allocated wages for maintenance, cleaning and grounds and a measured furniture and appliance replacement charge: R1,622 per occupied bed per month, excluding management, finance and overhead. Management is costed at R494 a bed. Acquisition capital is built from a worked transaction: R200,000 a bed purchase, 6% transfer and a R20,000 a bed accreditation upgrade, R232,000 all-in. The required return band of 7.3% to 8.2% is the published capitalisation band for grade-A residential blocks (Rode, 2026:2). The funder pays ten months against twelve months of cost. Vacancy and collection losses run 4.4%.

On the payment side, this paper draws on 48 actual payment runs from April 2024 to August 2026 and 616 unique student-level payment records, aggregated, covering one university (Nelson Mandela University) and four college-channel institutions in the Eastern and Western Cape; the sample represents 86.9% of the occupied beds in the relevant regional portfolio. On the construction side, this paper uses the costing the Private Student Housing Association presented to Parliament's Portfolio Committee on Higher Education on 28 August 2026, in preference to the industry-quoted range used in earlier drafts: it is a published, attributable figure from the parties who build the beds. What a landlord nets against the single cap ranges from R4,388 to R5,200 a month depending on the institution, a student-weighted average of R4,869.

4. The corridor

Level	Cap needed	Return earned	What it means
Bare survival (opex only)	R2,656	0%	A paid-off building breaking even. Below this even charity exits
Investor floor (7.3%)	R4,428	7.3%	Minimum that keeps existing owners in the sector
Sustainable (9.4%)	R4,937	9.4%	Keeps stock in, maintained and insured
Current cap	R5,200	10.5%	Attractive, above the whole required-return band
New build	above R5,585 at R350k/bed	8.0%	Cannot be carried by the current cap

Two conclusions follow. First, for existing accredited stock the current ceiling is not the problem: fully and reliably paid, it clears every reasonable return requirement. Second, the cap cannot fund new construction. At R5,200 the maximum capital the identity can carry at an 8% return is about R304,000 a bed all-in. The industry has now put its own figure on the record: the Private Student Housing Association told Parliament on 28 August 2026 that a compliant new-build bed costs R326,300 all-in for a high-rise scheme and R321,300 for a low-rise one, above what the cap can carry in both cases. This is why private capital acquires and converts existing buildings rather than building, and why the national bed shortfall does not close at this price. A cap that is adequate for the stock we have is inadequate for the stock the country needs.

5. The effective rate: where the money actually goes

Set against the R5,200 ceiling, our payment records show five separate reductions between the cap and the landlord's account.

Reduction	Measured size	Incidence
Institutional admin deductions	0% to 15.6% of the cap	All university-channel beds; net R4,388 to R5,200
Transport carve-out	R378 a month	48.5% of paid rows
Accreditation partner 5% clip	R181.76 a bed-month, sample-weighted	77.5% of matched bed-months; the rest were paid unclipped
Ten-month payment year	equivalent to a 17% discount on a twelve-month cost base	All beds
2026 payment reliability	50% to 73% of run billing unpaid at run date	NMU runs, May to August 2026; TVET runs 3.6% to 22.8%

The single most common payment in the entire 616-row file is R4,080.35, and it decomposes exactly: the Grade B metro rate of R4,693.00, less the accreditation partner's 5%, less the R378 transport carve-out. The published rate ladder is a precise 5% geometric series, with each grade set at 95% of the one above, so a clipped payment lands exactly on the next grade's rate and the deduction is invisible in the amounts unless it is looked for. At the effective rate actually received, the implied unlevered return on an acquired bed is roughly 5.9%.

The dispute about the level of the cap is, on the evidence, a dispute about its plumbing. A cap of R5,200 that reliably delivered R5,200 would need no increase to keep the existing sector solvent.

6. The case from each chair

NSFAS

The fund cannot responsibly offer an across-the-board increase: its medium-term envelope is flat in nominal terms while academic-year shortfalls have compounded from R10 billion toward R15 billion, and every R100 on the cap costs roughly R127 million a year across the 127,445 funded private beds. But the fund's own record contains the counter-move. NSFAS told Parliament in August 2026 that 62,958 funded students occupy accommodation that was never accredited, worth roughly R155 million a month at its own R25,000 a year unaccredited ceiling. Redirecting that leakage to accredited stock is worth about R122 a bed a month across every funded private bed, fiscally neutral. NSFAS's strongest position is: hold the cap, fix the net, and fund the fix from the leakage.

Parliament and National Treasury

The public-value measure is not rand per bed but rand per completed qualification. The R49.5 billion in unrecoverable student loans is substantially a completion failure, and the evidence connects stable, adequate accommodation to food security, progression and completion. A bed that saves R500 a month and loses the student costs the full bursary. Treasury's legitimate interest is a recognised capital base per grade and an auditable cost index, not the lowest possible headline.

Private investors and financiers

Investors do not need a higher number before they need a believable one. Three changes make the sector bankable at the current level: payment across twelve months or a transparent 1.2 gross-up of the ten-month rate; payment at the accredited grade; and a published payment calendar honoured in practice. Payment unreliability is priceable, and it is expensive: a counterparty that leaves half of a billing run unpaid adds two to three hundred basis points to the return investors demand, which through the identity is worth R500 to R700 a month on the required cap. It is materially cheaper for the state to pay reliably than to compensate investors for the fact that it does not.

Students

The cap is the student's housing standard expressed in rand. Funding transport by deduction from the accommodation payment degrades the accommodation without any decision being taken to do so. A raised cap without grading integrity buys margin, not quality. The student interest is served by enforcement of the quality norms the grades represent, publication of what was actually paid for their bed, and an end to carve-outs decided without them.

7. One cap, four economies: geography and delivery model

The identity does not change across the country, but its parameters do, and the rate ladder already recognises this on one side only: the non-metro Grade A rate of R4,050.80 sits 18% below the metro R4,940.00. Operating costs do not fall 18% outside the metros. Electricity is a national price, insurance and building materials are national prices, and wages fall only partly. The non-metro discount is therefore a revenue discount without a matching cost discount, and it is viable only where capital is genuinely cheap. The same identity, run on the four combinations of geography and delivery model, produces four different economies under one cap:

Segment	Capital per bed	Cap required	Applicable rate	Verdict
Metro, convert or acquire	R232,000 (measured)	R4,598	R4,940.00	Viable: the 10.5% case in section 4
Metro, new-build PBSA	R326,300 (PSHA to Parliament)	R5,387	R4,940 to R5,200	Not viable at the current cap
Non-metro, convert or acquire	R120,000 (estimate)	R3,549	R4,050.80	Viable, on a thin margin
Non-metro, new-build PBSA	R326,300 (PSHA to Parliament)	R5,275	R4,050.80	Impossible: short by about R1,224 a bed a month

Fundable capital ceilings follow directly: at the metro Grade A rate the identity carries about R273,000 a bed; at the non-metro rate about R180,000. Non-metro operating cost is held flat at the measured metro figure in the table above as a conservative assumption, with management scaled to the applicable rate; even allowing operating costs 10% lower outside the metros, the non-metro new-build cell does not close.

The policy consequence is the sharpest finding in this paper: the non-metro discount makes new supply structurally impossible in precisely the catchments with the deepest unmet demand. The TVET and rural university markets are where the national shortfall concentrates and where existing convertible stock is scarcest, which makes new build the only route to supply there, and new build is the one model the non-metro rate cannot carry. A discount intended to reflect cheaper property is, in effect, a construction ban in the areas the state most needs construction.

It follows that one instrument cannot do both jobs. An operating price calibrated to keep existing stock alive will never be high enough to induce new building, and a cap raised high enough to make new build viable hands a windfall to every existing owner, which a flat fiscal envelope cannot absorb and Treasury would rightly refuse. The method in section 9 therefore proposes two instruments: an indexed operating price for stock in service, and a separate capital instrument for verified new supply.

Independent validation: the identity reproduces the industry's own number

The identity in section 2 was built from this operator's measured records, without reference to any developer model. On 28 August 2026 the Private Student Housing Association presented Parliament with an independently constructed costing of a compliant new-build bed. Feeding PSHA's own parameters into this paper's identity, rather than this paper's parameters, is therefore a genuine out-of-sample test.

PSHA parameter	Value presented to Parliament
Operating cost per bed per month	R2,300 including VAT, 2027 model
Capital per bed, all-in	R326,300 high-rise, R321,300 low-rise
Required return (hurdle)	10.5%
Funding year	10 months against 12 months of cost

Run those four numbers through the identity and it returns R6,471 a bed a month, or R64,709 a year. PSHA told Parliament the requirement is R65,273. The two differ by 0.86%. Neither model saw the other. That the same arithmetic, applied by an operator to its own books and by a developers' association to its own build costs, converges within one percent is the strongest available evidence that the identity is the right frame for this debate. It also means the disagreement between operators and developers about the cap is not a disagreement about method at all. It is a disagreement about which bed is being priced.

The same test explains the apparent conflict in the operating-cost evidence. PSHA's R2,300 is a new-build figure including VAT; the IFC benchmark uplifted to 2026 money is about R2,390 including VAT and management; this paper measures R1,622 excluding both, or about R2,116 with management added on a like-for-like basis. Three numbers, three bases, one consistent picture: an existing converted property costs materially less to run than a new purpose-built tower, and any cap that prices them identically will be wrong for at least one of them.

8. The outlook that sets the timetable

The cost side of the identity is not standing still. The weighted cost of servicing a bed (electricity, water and sanitation, municipal rates, maintenance, insurance) rose 51% over the five years to FY2026, roughly 8.6% a year, while the ceiling moved about 8% in total. Projected forward, the R2,656 operating floor reaches roughly R3,700 by 2030. Against a near-frozen cap, the identity then prices the capital component below the market's required return around 2028 to 2029, at which point existing owners begin to exit, not merely new entrants staying away. A frozen cap is not a saving. It is a scheduled contraction of supply against a shortfall the state's own assessments put in the hundreds of thousands of beds.

On the supply side the contraction has already begun, and it is now measurable. Purpose-built delivery reported to Parliament runs 3,497 beds in 2020, 4,955 in 2021 and 6,114 in 2022, then peaks at 17,489 in 2023, the year the current caps were introduced, before collapsing to 4,113 in 2024 and 3,810 in 2025, with 4,580 expected in 2026. Two policy instruments landed on either side of that peak: the revised Minimum Norms and Standards in October 2022, which raised the specification a compliant bed must meet, and the accommodation caps in February 2023, which fixed what that bed may earn. Raising the required standard while freezing the permitted revenue is the mechanism, and the delivery series is the result. Any reform that leaves both instruments unchanged should be expected to hold delivery near 4,000 beds a year against a shortfall measured in the hundreds of thousands.

9. Proposal: publish the method, let the number fall out

The cap should be set annually by a published formula, administered the way tariff methodologies are administered, with each parameter owned and defended by the stakeholder with the best evidence:

Parameter	Owner	Evidence base
Operating cost per grade, indexed	NSFAS, audited	Published cost basket: NERSA electricity, municipal tariffs, StatsSA; operator books on an agreed sample
Recognised capital per bed, per grade	National Treasury	Transaction evidence: deeds, valuations, accreditation upgrade costs
Required return	Market reference	Ten-year government bond plus a property premium that narrows as payment reliability improves
Quality floor the cost must fund	DHET and student bodies	2015 norms and standards, enforced through grading

Payment terms	All parties	Twelve months or a published 1.2 gross-up; payment at accredited grade; no carve-outs; net published per institution
New-supply capital instrument	DHET, Treasury and DFIs	Separate from the operating price: a grade premium or availability payment for verified new-build beds, targeted at non-metro and TVET catchments where the operating rate cannot carry construction. PSHA's concession proposal to Parliament, a build, operate and hand-back structure paid through availability payments, is a workable form of this instrument and has industry support already

Under this method the 2026 metro corridor computes to R4,900 to R5,400 a bed a month, and the existing R5,200 ceiling sits inside it. The non-metro corridor must be rebuilt on a measured non-metro cost base rather than inherited as a fixed discount, and new supply is priced by the capital instrument, not the cap. The formula's discipline cuts both ways: had costs been lower, it would have justified a lower cap, and stakeholders who accept the method accept that too.

10. Will the stakeholders ever agree on an amount?

On a bare number, no, and the annual attempt to do so is the mistake: any single figure is simultaneously too high for a flat fiscal envelope and too low for new construction. On a method, yes, because the method gives each party the thing it actually needs. NSFAS gets cost discipline and a fiscally neutral funding source in its own recovered leakage. Treasury gets an auditable basis instead of an annual lobby. Investors get predictability, which they price cheaper than generosity. Students get a cap that is the funded expression of an enforced standard. The number stops being the argument and becomes the output.

My Student House manages roughly 1,800 beds across five provinces and publishes the MSH Student Accommodation Monitor. We offer our measured cost, billing and payment data, aggregated and source-cited, to any of the parties named above, and the companion model to this paper allows every parameter to be tested live.

Annexure: parameters and sources

Figure	Value	Source
Operating cost per occupied bed per month	R1,622	MSH owned-property sample, 8 properties, Jan to Jul 2026: books plus allocated wages and measured replacement; excludes management, finance, overhead
Management per bed per month	R494	MSH worked-example basis
Acquisition capital per bed, all-in	R232,000	R200,000 purchase + 6% transfer + R20,000 accreditation upgrade
Required return band	7.3% to 8.2%	Rode Report on the SA Property Market, 2026:2, grade-A capitalisation rates
Paid months / cost months	10 / 12	NSFAS funding-year practice
Vacancy and collection loss	4.4%	MSH worked-example basis
Net received against the cap	R4,388 to R5,200 (weighted R4,869)	MSH billing across 14 institutions, April 2026
Transport carve-out	R378 a month, 48.5% of paid rows	MSH platform payment exports, Apr 2024 to Aug 2026, 616 unique rows
Accreditation partner 5% clip	R181.76 a bed-month, 77.5% of matched bed-months	Same file. Ladder verified as an exact 5% geometric series; unclipped rows are institutions paying the full grade rate
Modal payment observed	R4,080.35	Same file: Grade B metro R4,693.00 less 5% less R378
Non-metro rates	Grade A R4,050.80 (18% below metro)	Published 2025 rate ladder, non-metro column
PBSA new-build cost	R326,300 a bed all-in (high-rise); R321,300 (low-rise)	PSHA presentation to the Portfolio Committee on Higher Education, 28 Aug 2026. Not MSH-measured, but published and attributable
PSHA required rental and hurdle	R65,273 a bed a year; 10.5% hurdle; R2,300 a bed a month operating cost incl VAT	Same source. Used in section 7 as an out-of-sample test of the identity
PBSA delivery series	17,489 beds (2023 peak) to 4,113 (2024) and 3,810 (2025)	Same source. Caps introduced Feb 2023; revised Minimum Norms and Standards Oct 2022
Non-metro acquisition cost	R80,000 to R150,000 a bed	MSH operating experience, Potchefstroom and Bloemfontein; ESTIMATE pending transaction file
2026 NMU run reliability	50% to 73% of run billing unpaid	MSH payment run panel, 48 runs, Apr 2024 to Aug 2026; university rows are NMU
Unaccredited placements	62,958 students, roughly R155m a month	NSFAS to Parliament, Aug 2026; valued at the R25,000 a year unaccredited ceiling over ten months
Cost escalation	+51% over five years to FY2026	MSH Bed Cost-to-Serve Index: Eskom/NERSA, metro budgets, StatsSA
Funded private beds	127,445	MSH analysis of NSFAS payment records

All rand figures preserved exactly as measured. Student-level records are aggregated; no student is identifiable in this paper or its companion model. This paper is a market position, not investment advice; readers should take their own professional advice before acting on it.

Prepared for discussion between industry, the funder, the regulator and the legislature. Not investment advice, not a valuation, and not an offer. Figures are as at the dates stated; NSFAS rates, policy and payment behaviour can change without notice. Every source is named in the annexure and can be checked independently.

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