UK STUDENT ACCOMMODATION REPORT

2016/17
2016 has seen the focus of investment move to the regions, with the proportion of transactions in London falling by two thirds.

Across the direct let sector yields have not moved significantly during 2016.

As we approach 2017 it is estimated that around £3.1bn of stock has been traded, just over 60% of the 2015 total, but in line with expectations and above the five year average, making it the second highest year on record.

A further £0.25bn is under offer and £0.95bn of portfolio stock is in the market which could yet transact in 2016.
At a national level despite intensive development in some areas, the ratio of students seeking a purpose-built bed has increased. The Cushman & Wakefield average national student to bed ratio - which measures demand and supply - has now risen from an average of 2.1 to 2.3 students per bed space.

The international (non-EU) student population represents one in five students. At 284,000 students in 2014/15, this cohort has increased by 73% since 2004/05.

There are more students in the system than ever before with 1.7m now studying full-time, up 0.4% from the previous year.

The number of purpose-built beds in 2016/17 has reached 568,000, reflecting an increase of 5.4% on the previous year.

Rental growth in 2016 on the previous year was 2.7% on average across all purpose-built accommodation available this year.

Studios are again the room type showing the fastest growth in the private PBSA market up 24% from 2015. This increase is slower than the 41% rise seen in 2015, as concern over the proliferation of this room type (and cost) in some markets filters through.

1 in 5 FROM OUTSIDE THE EU

2.7% RENTAL GROWTH IN 2016

1.7m FULL-TIME STUDENTS

568,000 PURPOSE-BUILT BED SPACES
Sources of Student Demand

There are more students in the system than ever before with 1.7m now studying full-time, up 0.4% from the previous year. Despite increasing levels of debt, it is clear that students still see the value in higher education and the majority continue to study away from their home regions.

The number of UCAS applicants (1st year undergraduate) in 2015/16 was up by 2.7% on the previous year. The removal of the student number cap has allowed high quality Universities to capitalise on the ability for students to ‘trade up’ through the reformed UCAS process. This is leading not only to growth in student numbers, but also to the condensing of high grade students into the best universities.

Cushman & Wakefield see the ‘marketisation’ of the sector as an opportunity for greater competition between universities and an improvement in the teaching and infrastructure facilities and services provided to students.

The importance of employability and the student experience is at the forefront of competitive gain.
The international (non-EU) student population represents one in five students. At 284,000 students in 2014/15, this cohort has increased by 73% since 2004/05.

In funding terms these students have a much greater impact on the income profile of UK universities, making up 26% of all tuition fee income but only 17% of the student population.

Universities are lobbying hard to ensure that any future immigration policy changes do not apply a broad brush approach that restricts the mobility of students. Indeed, policy exclusions for selected institutions are currently being trialled.

The currently weak pound has attracted international investment and additional applications from non-EU students.

The government has recently announced that EU students applying to start in 2017 will still be able to obtain funding for the duration of their course. However, this was announced too late to prevent a decline in applications from EU students for the first intake of UCAS 2017 following the UK’s decision to leave the European Union. It is too early to assess what the full impact on EU students will be for the 2017 entry and in the longer term.

Given UK students’ continuing desire to study away from their home regions and a likely increase in non-EU students, the overall effect is unlikely to impact on an already strong demand pool in the forthcoming year.
GROWING COMPETITION WITHIN THE UNIVERSITY
SECTOR REQUIRES A GREATER FOCUS ON RESOURCES
AND THE IMPROVEMENT OF TEACHING, ACADEMIC
AND CAMPUS INFRASTRUCTURE. AS SUCH, STUDENT
ACCOMMODATION IS NOT ALWAYS A CORE PRIORITY
WITHIN SOME INSTITUTIONS. IN ADDITION, AT
SOME UNIVERSITIES THERE IS LIMITED SCOPE
FOR IMPROVEMENT IN THE RESIDENCES DUE TO
BUDGETARY CONSTRAINTS.

University stock types are more likely to be out-
dated contrasting with the granular innovation and
improvement in the purpose-built private sector.
These trends mean that an increasing number of
universities see the benefit of working with the
private sector.

RELATIONSHIPS BETWEEN UNIVERSITIES AND PRIVATE SECTOR
DEVELOPERS AND OPERATORS CAN LEAD TO SIGNIFICANT
INNOVATIONS ON CAMPUS - RESULTING IN ENHANCED
FACILITIES AND ATTRACTIVENESS, AS WELL AS IMPROVING THE
COMMERCIAL POSITION OF UNIVERSITIES.

The options for collaboration vary due to cultural
fit and geographic characteristics. However, the
rise in DBFO (design, build, finance and operate)
opportunities reflects an appetite for collaboration,
and a recognition by universities that accommodation
is an important tool for recruitment and ensuring a
fulfilling student experience.
KEY QUESTIONS

• How strong will the influence of UK universities be on immigration policy following BREXIT?
• Will the Teaching Excellence Framework (TEF) impact on students’ perceptions of what makes a quality institution.
• Will TEF and the HE paper really lead to differentiation between institutions?
• How will students react to the marketisation of the higher education sector?
• How seriously will the sector change with the emergence of alternative/specialists HE providers?
• Can pathways to HE create additional demand, i.e. University Technological Colleges, Higher Apprenticeships.
• Can the UK continue to remain attractive in the global HE market with tuition fees being some of the most expensive in the world?
• How will the next American government impact on the attractiveness to study in the USA?
The number of purpose-built beds in 2016/17 has reached 568,000, reflecting an increase of 5.4% on the previous year. Supply is increasing faster than ever before.

Cushman & Wakefield has witnessed exceptionally strong development plans in major cities such as Glasgow and Newcastle, both of which have pipelines of over 6,000 bed spaces.

Growth has predominately come from the private sector with 21,400 new beds in 2016/17. Stock development continues to be driven by studios, which is again the room type showing the fastest growth in the private PBSA market (+24% from 2015 to 2016). It is likely that many of these bed spaces have been driven by a focus on land cost, rather than student demand for these stock types. In many cases, adequate research does not appear to have been conducted into local demand conditions, meaning that some stock types and operators are experiencing difficulties – despite demand continuing to outstrip supply at a national level.

These difficulties mean that tactics such as flash sales and significant discounts have been employed in a small number of markets to drive occupancy.

2016 has seen structural changes in the operating market. UNITE still lead the way with 50,000 bed spaces under management. Vero Group has displaced Liberty Living from its second place position in the table last year following the merger of Goldman

Source: Cushman & Wakefield Student Accommodation Tracker
Sachs, Wellcome Trust and Greystar which brought the Prodigy Living and IQ brands together. It was also a year for three new or reinvigorated brands. Victoria Hall, a stalwart name in the sector rebranded its student facing offer as Host following Blackstone’s decision to reposition its portfolio under the newly created Union State brand. Homes for Students, headed by former Derwent FM Managing Director Martin Corbett entered the top ten in seventh place after Mapletree selected it to operate the 5,507 bed Ardent Portfolio.

29,000
NEW BEDS IN 2016/17

568,000
PURPOSE-BUILT BED SPACES 2016/17
Rental growth in 2016 on the previous year was 2.7% on average across all purpose-built accommodation available this year.

- The average rent of privately supplied stock has increased by 3.5%, whilst university provided accommodation rents increased by 2.4%.

Increases in the average price of rooms have varied across different locations, although rental increases for well-located developments have generally been healthy. However, there have been losers in the market, with some cities experiencing minimal growth or stagnation in rents.

The London market still suffers from structural levels of undersupply, with The London Plan suggesting a need for between 20,000-31,000 additional bed spaces by 2025. Development has been impacted significantly by high land costs, competition from other uses, and the impacts of the Community Infrastructure Levy. In addition, The London Plan now sets out a requirement for providers to deliver an element of “affordable” bed spaces priced at or below £155 per week where no agreement is in place with an institution.

Cushman and Wakefield’s nationally-observed average student:bed ratio has risen from 2.1 to 2.3 students per purpose-built bed space available. Overall, long term demand is still rising faster than supply, despite the recent surge in development (Birmingham alone saw a 5,000 student increase in those domiciled outside the West Midlands in the five years to 2014/15); and students increasingly wish to live in purpose-built developments. However, evidence suggests that students are making complex buying decisions and it is not a ‘room at any price.’ This highlights the need for developers and operators to fully explore the dynamics of individual markets to ensure success and properly meet student need and expectations.

Source: Cushman & Wakefield Student Accommodation Tracker

2.7% AVERAGE UK PBSA RENT INCREASE IN 2016

THERE ARE OVER 78,000 PURPOSE BUILT BED SPACES IN LONDON IN 2016/17
KEY QUESTIONS

• Can we expect a cooling in the number of studios being delivered?
• Will affordability issues result in an easing of rental growth and the development of different stock types?
• What will the next generation of PBSA assets look like?
• How big will the crossover be between PBSA and the private rented sector (PRS)?

HMOs

As affordability becomes a new competitive ground and as the race for sites intensifies, a number of professional HMO operators are now offering a viable quality alternative to purpose-built stock. These products are echoing the quality and convenience of purpose-built accommodation in a more affordable product, helping to meet some of the market demand for lower priced products.

<table>
<thead>
<tr>
<th>City</th>
<th>Growth in bed spaces</th>
<th>En-suite price increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exeter</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Liverpool</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Glasgow</td>
<td>15%</td>
<td>-2%</td>
</tr>
<tr>
<td>London</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Newcastle</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Coventry</td>
<td>3%</td>
<td>4%</td>
</tr>
</tbody>
</table>
It was a record year for investment in the student housing market in 2015. Transaction volumes reached an estimated £5.1bn, around 82% of which involved portfolios mainly acquired by overseas investors.

It was considered unlikely that this level of activity could be sustained into 2016. Indeed as we approach 2017 it is estimated that around £3.1bn of stock has been traded, just over 60% of the 2015 total, but in line with expectations and above the five year average, making it the second highest year on record.

In addition to the stock already traded there is a further £0.25bn under offer and £0.95bn of portfolio stock in the market which could yet transact in 2016, including the Union State Portfolio at £450m.

It is likely these will be acquired by a combination of new entrants and existing investors continuing the trend towards consolidation and the desire to acquire additional scale.

Of the deals already concluded portfolios represent 61% of the total with new entrants again prominent. Brookfield, headquartered in Canada entered the market with the acquisition of The Rose Portfolio for £420m amounting to 5,681 beds. Brookfield have since added a further 1,154 beds to their portfolio.

2016 has seen the focus of investment move to the regions, with the proportion of transactions in London falling by approximately two thirds. The main reason is possibly due to the reluctance of investors to trade out of stock in the capital and their inability to replace with new developments.

In addition to existing investors and operators there are still several overseas investors with unfulfilled requirements circling the market. This will undoubtedly act as a catalyst for further sales and consolidation into 2017.
Between 2013 and 2015 there was yield compression of between 50 and 100 basis points across all types of opportunity. Across the direct let sector yields have not moved significantly during 2016. Overall transactional volumes to November totalled 42,206 bed spaces, in line with the 43,107 bed spaces as at the same point in 2015 yet the average price per bed space fell from an average of £99,750 to £73,450 due to the low number of transactions in London.

There has been further yield compression in the annuity sector. Investors seeking “income strip” opportunities have seen prime opportunities harden by at least 25 basis points to between 3.75% and 4.0% arguably driven by the fall in bond yields and a flight to safety. Examples include Aviva’s £76m acquisition of Godiva Place, Coventry and Queens Road Student Village in Winchester purchased by Legal & General for £31m.

The Cushman & Wakefield UK Student Accommodation Tracker has identified average rental growth across the UK in the order of 2.7%. Clearly the growth in average rents on existing stock has helped to underpin the yields established in 2015.

### Direct Let Proposition

<table>
<thead>
<tr>
<th>£20-50m</th>
<th>Yields</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime London (Zones 1&amp;2)</td>
<td>4.50/5.00%</td>
</tr>
<tr>
<td>Prime London (Zones 3&amp;4)</td>
<td>5.00/5.50%</td>
</tr>
<tr>
<td>Super Prime Regions</td>
<td>5.25/5.75%</td>
</tr>
<tr>
<td>Prime Regions</td>
<td>5.75/6.25%</td>
</tr>
<tr>
<td>Secondary</td>
<td>7.25/8.00%</td>
</tr>
<tr>
<td>Tertiary</td>
<td>8.00/10.0%</td>
</tr>
</tbody>
</table>

### Average Price

**Average price per bed space fell from £99,750 to £73,450**

**2.7%**

**Average rental growth across the UK**
The number of purpose-built beds in 2016/17 has reached 568,000, reflecting an increase of 5.4% on the previous year, the largest increase Cushman & Wakefield has observed since the launch of the Student Accommodation Tracker.

The increase in the number of studios of 41% in 2015 and 24% in 2016 remains an area of concern. In certain cities investors are wary of the size of the local pipeline and need to be convinced that the proposed development meets the needs of the student population. Competing land uses, increasing planning obligations and inflation in build and operating costs are putting pressure on profit margins. On paper at least building studios at higher price points can offer some welcome relief but it only works well in affluent and competitive cities which have the student demand to back the model up.

During the first half of 2016 investors continued to pursue development funding opportunities in search of higher yields. Hines acquired Project Willow, a portfolio of six prime sites, from McLaren for a reported £147m.

During the second half of the year however the appetite for development funding has been tempered for a number of reasons. Brexit clearly had some impact across all investment sectors although few of the Institutional Funds that temporarily closed were significantly involved in the student housing market with few if any forced sales.

Balanced against the difficulties, it has to be remembered that there are now more students seeking PBSA than ever before. This is evidenced by the Cushman & Wakefield student to bed ratio which measures whether a market is under or over supplied. This has now risen from an average of 2.1 to 2.3 at the national level but can vary widely across regions and Cities.

Development in London has clearly become much more difficult with the impact of CIL and the “affordable” rent provisions for students but there is still a structural undersupply.

So as before, developers, investors and operators need to do quality research into the market before moving.
OUTLOOK FOR 2017

With over £1bn of potential investments currently queued for sale, 2017 will undoubtedly be another strong year for transactions.

During 2015, yield compression on existing stock led to increased interest in the development sector. The resultant yield gap between an up and let operational scheme and the equivalent development opportunity fell to a margin of 25 basis points. For schemes with HEI support in the form of nominations agreements or leases, the margin could disappear altogether. Against a background of increasing costs, increased supply and a tougher planning regime we expect the development risk premium to move back to a more sustainable level.

For developers faced with high land prices and construction costs, the opportunity to acquire secondary stock and recyle and refurbish becomes a much more viable alternative.

TOP TEN TRANSACTIONS 2016

<table>
<thead>
<tr>
<th>Scheme/Project</th>
<th>Town</th>
<th>Beds</th>
<th>Price paid</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>ThreeSixty Portfolio</td>
<td>Portfolio</td>
<td>7,150</td>
<td>£430,000,000</td>
<td>GSA &amp; GIC</td>
</tr>
<tr>
<td>The Rose Portfolio</td>
<td>Portfolio</td>
<td>5,681</td>
<td>£420,000,000</td>
<td>Brookfield</td>
</tr>
<tr>
<td>Project Ardent</td>
<td>Portfolio</td>
<td>5,500</td>
<td>£417,000,000</td>
<td>Mapletree</td>
</tr>
<tr>
<td>Aston Student Village</td>
<td>Birmingham</td>
<td>3,067</td>
<td>£240,000,000</td>
<td>Under Offer</td>
</tr>
<tr>
<td>Project Willow</td>
<td>Portfolio</td>
<td>1,089</td>
<td>£146,700,000</td>
<td>Hines</td>
</tr>
<tr>
<td>Sanctuary &amp; Aspect Housing Association</td>
<td>Portfolio</td>
<td>1,450</td>
<td>£124,000,000</td>
<td>Arlington</td>
</tr>
<tr>
<td>Greetham Street &amp; Gosford Gate</td>
<td>Portfolio</td>
<td>1,122</td>
<td>£88,400,000</td>
<td>USAF</td>
</tr>
<tr>
<td>Dashwood Studios &amp; Leodis Residences</td>
<td>Portfolio</td>
<td>951</td>
<td>£85,500,000</td>
<td>Arlington</td>
</tr>
<tr>
<td>Fresh Student Living</td>
<td>Portfolio</td>
<td>1,175</td>
<td>£82,000,000</td>
<td>Curlew</td>
</tr>
<tr>
<td>Godiva Place</td>
<td>Coventry</td>
<td>770</td>
<td>£76,000,000</td>
<td>Aviva Investors</td>
</tr>
</tbody>
</table>

£49m AVERAGE LOT SIZE

62 TRANSACTIONS TO DATE

42k BEDS TRANSACTED TO DATE

£23.2m AVERAGE LOT SIZE, SINGLE TRANSACTION

16k BEDS YET TO TRANSACT

73.4k AVERAGE PRICE PER BED SPACE
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