

UK STUDENT ACCOMMODATION REPORT

2019/20

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FORWARD

2019 has been another strong year for the UK student accommodation market, with demand growth continuing to outstrip supply at a national level and 32,000 new bed spaces delivering a new level of quality stock to the market – enhancing the student experience. The long-term strength of the market is evidenced by rental increases in en-suite accommodation tracking 16% above the rate of inflation since 2014.

Growth in supply has also been driven by the strength of investor demand, with over £4bn expected to be traded in 2019, above the five-year average. 2019 has also witnessed the arrival of further new entrants, notably DWS with their acquisition of Kelaty House in Wembley and the Vita Student portfolio, demonstrating the continued attractiveness of the UK PBSA sector to global investors, even in an environment of political uncertainty.

The quality of UK Higher Education globally is evidenced by the country being home to four of the top 10 global institutions* and the UK continues to attract an increasing number of international students – an important factor as the market reaches the nadir of the UK 18-year-old population. The gravitation of students towards institutions of quality and with strong employability records is now entrenched and emerging evidence for 2020 shows continued application growth to the best universities. The ability of successful institutions to increase income and invest to stay ahead is likely to accelerate these trends over coming years.

Market fundamentals of location and value-for-money remain crucial, with micro-market knowledge essential to success in a sector where myriad factors impact the appeal of developments in individual locations. Whilst long-term undersupply is set to continue in key towns and cities, Cushman & Wakefield remains concerned about the pace of development in some difficult markets and the absence of delivery of more affordable products at scale – lower prices are currently only being delivered through the weight of competition in some markets.

Amid wider macro uncertainty, 2020 is set to see at least 25,000 new bed spaces delivered across the UK, with developers hoping to avoid issues seen with the late delivery of schemes in 2019. Health and wellbeing and the use of technology to enhance the student experience are likely to be key areas targeted by operators in a market where quality is standard.

We would like to thank Richard Brenner and Gavin Eustace for their contribution to the report.

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2019 IN A NUTSHELL

TEAM HAS GROWN BY

3 MEMBERS

IN 2019



TRANSACTIONED

£790m

FOR 2019, & OVER 5,000
BEDS ACROSS THE UK



VOLUME OF

£8bn

VALUED ACROSS UK



VALUED IN
EXCESS OF

**90,000
BEDS**



PROVIDED
ACCOMMODATION
STRATEGY AND
PARTNERSHIP
ADVICE TO

20 UNIVERSITIES



CREATED

10,000

ON CAMPUS
PARTNERSHIP BEDS



KEY DEALS

MAYFLOWER PORTFOLIO



VALUATION

- Mayflower Portfolio valued for Singapore Press Holding comprising **circa 3,500 bedrooms** in **13 properties** across the UK
- The total value of the scheme is circa **£180m**

VITA STUDENT PORTFOLIO



CAPITAL MARKETS
ADVISORY

- Advised DWS on the **£600m acquisition** of a **3,195 bed portfolio** by Vita Student
- Incorporating **8 assets across 6 regional markets**, the acquisition was one of the **largest** PBSA transactions in 2019

KELATY HOUSE WEMBLEY



CAPITAL MARKETS
ADVISORY

- Advised DWS on the forward funding of a **599 bed student scheme**
- The scheme is to be developed by Watkin Jones and provides good exposure to a **key London regeneration zone** which is rapidly establishing itself as one of London's key student areas

HEADLINES 2019



NATIONALLY, THE DEMAND
POOL FOR BEDS

**CONTINUES
TO RISE**

AT A FASTER RATE THAN THE NUMBER
OF NEW BEDS BEING DELIVERED

659,478

BEDS IN THE UK



1.84m

STUDENTS IN THE UK



NEW PRIVATE SECTOR
EN-SUITE PRICED AT

£6,882.78



AVERAGE PRIVATE SECTOR EN-SUITE
NOW PRICED JUST

1.3% HIGHER

THAN UNIVERSITY EQUIVALENT



THE TOP FIVE FASTEST GROWING
UNIVERSITIES HAVE INCREASED
FULL-TIME STUDENT NUMBERS BY

**41% OVER
FIVE YEARS**



THE BOTTOM FIVE UNIVERSITIES
HAVE SEEN A

29% DECREASE

IN FULL-TIME STUDENT NUMBERS
OVER FIVE YEARS





32,000

NEW BEDS DELIVERED FOR
THE 2019/20 ACADEMIC YEAR

AVERAGE PRIVATE SECTOR
EN-SUITE PRICED AT

70%

OF MAXIMUM STUDENT
MAINTENANCE LOAN



95%



OF ALL NEW ROOMS
BENEFIT FROM A
THREE-QUARTER
SIZED BED OR LARGER



£4.5bn

EXPECTED TO BE
TRANSACTIONED IN 2019



3.75%

NEW BENCHMARK OF
3.75% ACHIEVED FOR
PRIME LONDON PBSA

26,500

BEDS HAVE
TRANSACTIONED TO
DATE IN 2019



100bps

PRIME REGIONAL YIELDS
HAVE COMPRESSED BY
100BPS SINCE 2017



DEMAND



UK

HIGHER EDUCATION

The Higher Education sector is now larger than ever, with 1.84 million full-time students at UK universities in 2017/18, 47,000 more than the previous year.

The market has now more than recovered from 2012 changes to Higher Education funding, with numbers growing on average by 2% each year. 1,100,000 students are now studying outside their home region, highlighting continued positive trends in terms of demand for student accommodation as students seek out the best universities to deliver positive career outcomes.

KEY STATS

1.84 MILLION

FULL-TIME STUDENTS

2.6% GROWTH

IN STUDENT NUMBERS OVER THE LAST YEAR

10% GROWTH

IN STUDENT NUMBERS SINCE 2012

1.1 MILLION

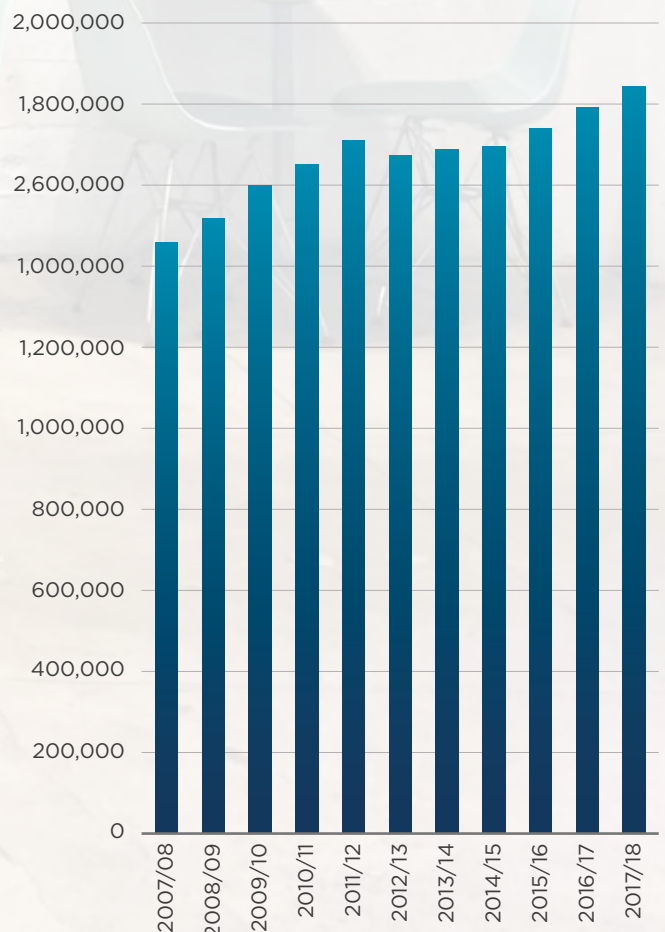
STUDENTS STUDYING OUTSIDE OF THEIR HOME REGION

339,000

POSTGRADUATE STUDENTS

Source: HESA 2004/05 to 2017/18

FULL-TIME STUDENT NUMBERS OVER LAST DECADE



Source: HESA 2004/05 to 2017/18

NON-UK STUDENTS & *2019 entry*

23% of the total full-time student body is now from outside the UK, with 297,000 non-EU and 125,000 EU students.

The continued global appeal of UK universities and an internationally mobile student population means that international numbers have increased by 5% (between 2016/17 and 2017/18), faster than any other domicile. Continued growth in the non-UK population will be more important than ever in supporting growth whilst the number of UK 18-year olds continue to decline until 2020.

Overall, 2019 acceptances to universities are largely in line with 2018, with UK acceptances down by 1% whilst non-EU international acceptances have increased by 6%. Students from China now make up more than a quarter of all students through UCAS. Acceptances through the main scheme (i.e. firm, insurance) have fallen this year with more students than ever accepted to UK universities. Over 10% of all students are now accepted to UK universities through Clearing.

KEY STATS

54%

INTERNATIONAL GROWTH
IN THE LAST 10 YEARS

23%

OF STUDENTS ARE FROM
OUTSIDE THE UK

10% GROWTH

IN CHINESE STUDENTS ACCEPTED
THROUGH UCAS 2018-2019

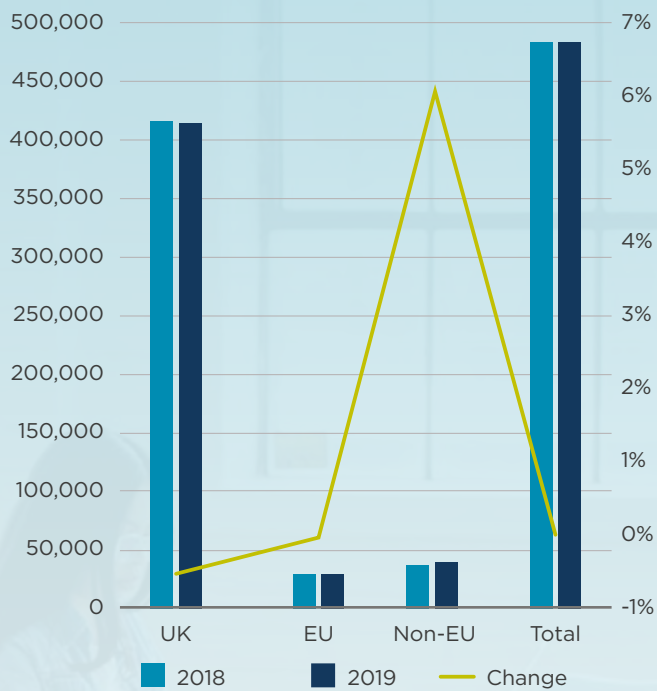
OCTOBER DEADLINE SHOWS A

4% INCREASE

IN APPLICATIONS FOR
2020/21 ENTRY

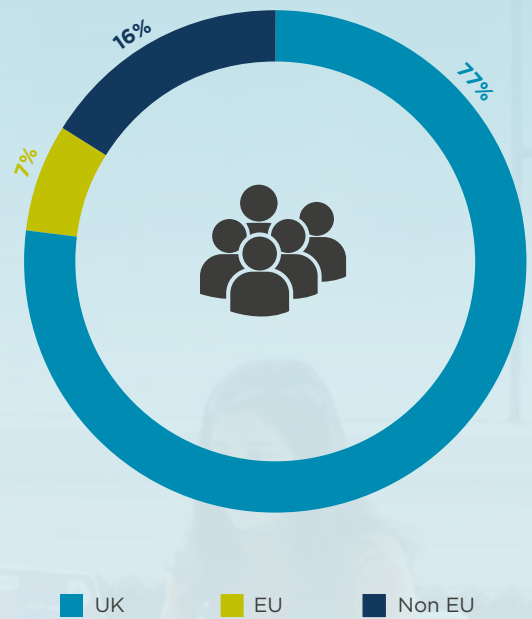
Source: HESA/UCAS

UCAS APPLICATIONS BY DOMICILE 2018/19



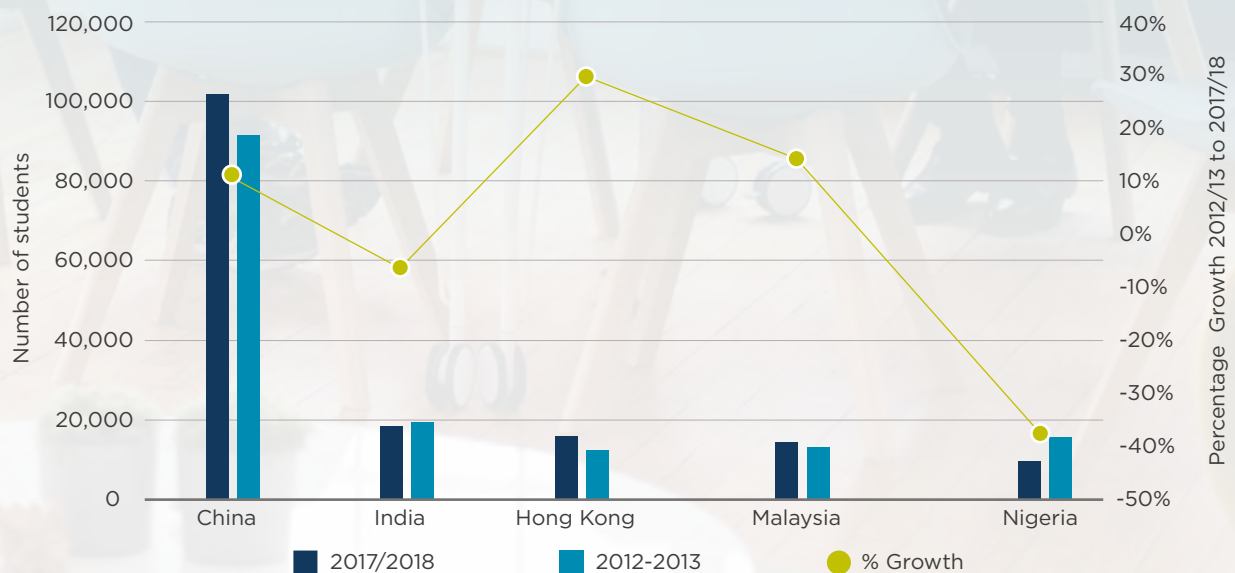
Source: UCAS 2018 to 2019

UK HE POPULATION BY DOMICILE



Source: HESA 2017/18

TOP FIVE SOURCES OF NON-EU STUDENTS



HESA 2012/13 to 2017/18

Growth

AND DECLINE

In an increasingly competitive and marketised Higher Education market, some universities have capitalised on the removal of Student Number Controls whilst others have suffered from competitive forces.

At the same time, a motivated and informed prospective student base are making informed university choices based on curriculum, employability and careers outcomes; and of course, the quality of student experience.

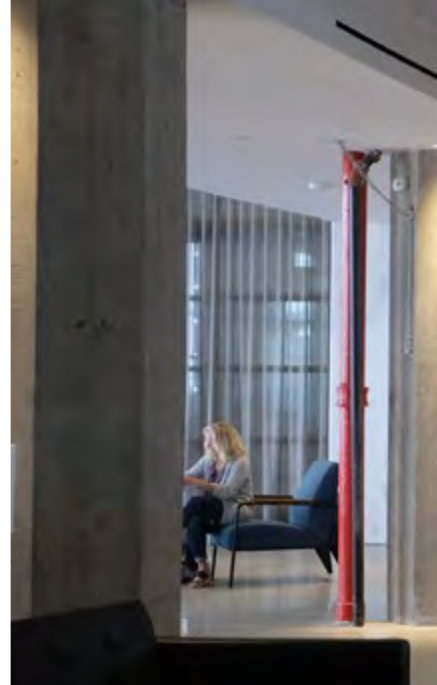
The marketisation of the sector has led to an explosion of growth at appealing institutions and 18 universities are now home to 4,000 more students than five years ago, whilst nine have seen an increase of more than 5,000. Two universities stand above the rest in terms of student number growth: University College London has increased student numbers by over 10,000 and Coventry University by just under 10,000. Tuition fee income at these two institutions alone has grown by 247% since 2012/13 to £820m.

University College London, Coventry University, De Montfort University, The University of Liverpool and King's College London have seen the largest increases in student numbers since 2012. These Universities have increased student numbers by a combined 40,000 students, an increase of 41%, these institutions have also managed to increase international student numbers by 70%.

Growth at these institutions has been especially strong in the last three years, seeing a 29% increase since 2014/15 and 8% between 16/17 and 17/18.

At the other end of the scale, the institutions that saw the largest fall in student numbers saw a 29% decrease and 45% fewer non-EU students. Two universities have seen a decrease of over 5,000 students, with one university nearly half the size they were five years ago.

These trends have clear implications in terms of demand for student accommodation and investment decision making.





KEY STATS



2 INSTITUTIONS
ACCOUNT FOR **11%**
OF ALL STUDENT
NUMBER GROWTH
SINCE 2012



18 INSTITUTIONS
HAVE SEEN
GROWTH OF
OVER **4,000**
STUDENTS
SINCE 2012



41% GROWTH
FOR THE TOP
FIVE FASTEST
GROWERS



29% DECREASE
FOR THE
BOTTOM FIVE

STUDENT NUMBER GROWTH AND DECLINE 2012/13 TO 2017/18

Top 5

+46%	University College London	+10,365
+49%	Coventry University	+9,610
+42%	De Montfort University	+6,600
+35%	The University of Liverpool	+6,570
+31%	King's College London	+6,080



GROWTH & DECLINE

-45%	London Metropolitan University	-6,410
-34%	University of Bedfordshire	-5,120
-22%	University of Plymouth	-4,790
-23%	Kingston University	-4,565
-28%	The University of East London	-4,165

Bottom 5

HIGHER EDUCATION *Funding*

Changes to the funding of Higher Education institutions have been transformational, with total income across the sector rising by 31% over the last five years to £38.2bn.

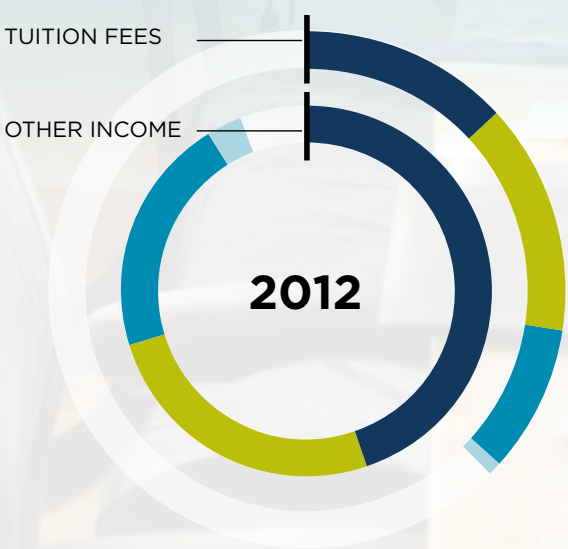
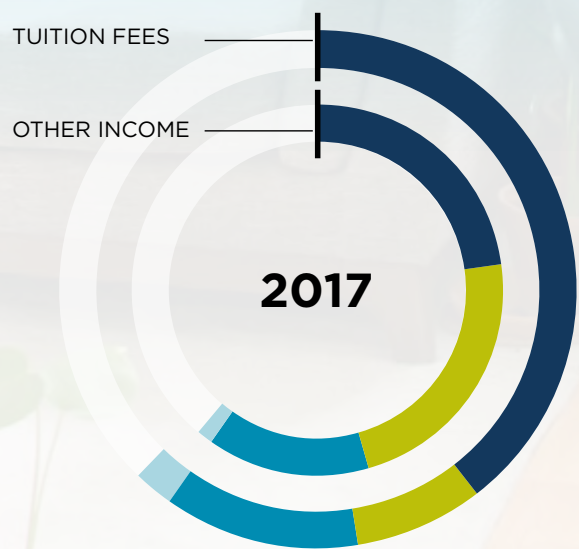
49% of all university income now comes from tuition fees, with overall fee income up 62%, driven by student number growth – particularly from overseas. Income is being invested in facilities, teaching and research to drive the global appeal of UK Higher Education and to stay ahead in a competitive market.

The reliance of universities on tuition fee income is important at a time of growth and decline in student numbers, with some institutions reliant on tuition fees for 86% of all income, whilst for others the figure is as low as 15%. Competition in the sector is perhaps best highlighted by income and expenditure accounts, with expenditure outstripping income at 72% of all universities in 2017/18. The focus of institutions on delivering in their core areas of teaching and research presents opportunities for private sector providers that can deliver the right accommodation solutions.





INCOME & TUITION FEES



Mission Group

- Russell Group
- Post-92
- Other
- Specialist

Source is HESA 2012/13 to 2017/18

LEAGUE TABLES & CURRICULUM FOCUS

League table performance is a key factor in terms of recruitment, with only one of the top 25 institutions in the 2020 Times Good University Guide seeing a decline in student numbers and 18 seeing growth above the UK average rate.

Of the bottom 25 in the Guide, 11 universities saw a decline in student numbers including the two institutions that have seen the most significant decline in numbers nationally.

The focus of curricula is also now crucial to driving institutional growth with the importance of Science, Technology, Engineering and Maths (STEM) now clear. The UK Government believes that STEM is crucial to driving economic productivity and this is reflected in student choices around curriculum choice and its impact on future employability. Cushman & Wakefield's analysis shows that universities with a strong presence in STEM are now growing far faster than those with a weak presence – particularly in terms of international recruitment.



KEY STATS



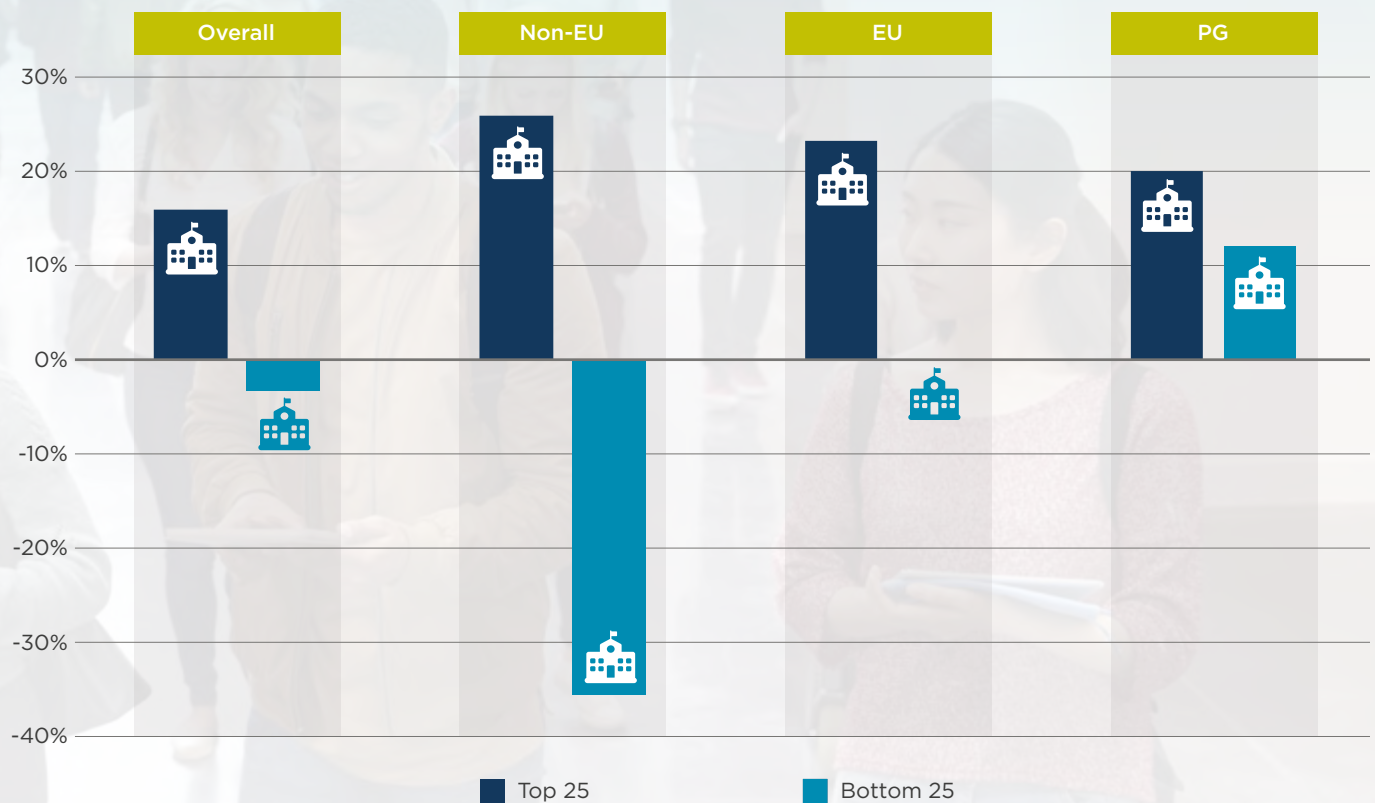
18 OF THE TOP 25
UNIVERSITIES
GROWING ABOVE
THE NATIONAL AVERAGE



33% GROWTH
IN INTERNATIONAL
STUDENTS OVER FIVE
YEARS AT THE STRONGEST
STEM UNIVERSITIES



GROWTH AND DECLINE BY LEAGUE TABLE POSITION



Outlook



QUESTIONS



WHAT IMPACT WILL THE ELECTION HAVE ON HIGHER EDUCATION?

Whilst the Conservatives have promised to consider the findings of the Augar Review, address the issue of low-quality courses and grade inflation, and enhance the civic role of universities; Labour has again promised to abolish fees and devise a new Higher Education funding formula.



HOW WILL CURRENT UNIVERSITY INCOME STREAMS IMPACT ON GROWTH & SUSTAINABILITY?

As some universities come to terms with falling intakes and associated income streams, will there be a rationalisation of future growth trajectory and ambition at some institutions?



WHAT IMPACT WILL THE DEMOGRAPHIC DIP HAVE ON THE UK STUDENT POPULATION?

Given the increasing entry rate for UK undergraduates and the introduction of the postgraduate loan system, will the effects of the demographic dip actually be felt overall by the Higher Education system?



CAN UNIVERSITIES CONTINUE TO INVEST SO HEAVILY IN CAMPUS FACILITIES?

The sector has seen huge levels of investment in campus facilities to drive the student experience. Can this continue when so many universities are spending more than total income? Will the most successful universities look to alternative ways to fund their ambitions, including the expansion of bonds? Will the next phase of the student and campus experience be a focus on wellbeing and mental health rather than being facility-led?



HOW WILL EU STUDENT NUMBERS BE IMPACTED POST-BREXIT?

EU students enrolling for the 2020/21 academic year will have guaranteed home fee status for the duration of their courses. Work to determine a solution post 2020/21 is underway but it remains unknown how this will impact future recruitment levels from the EU.

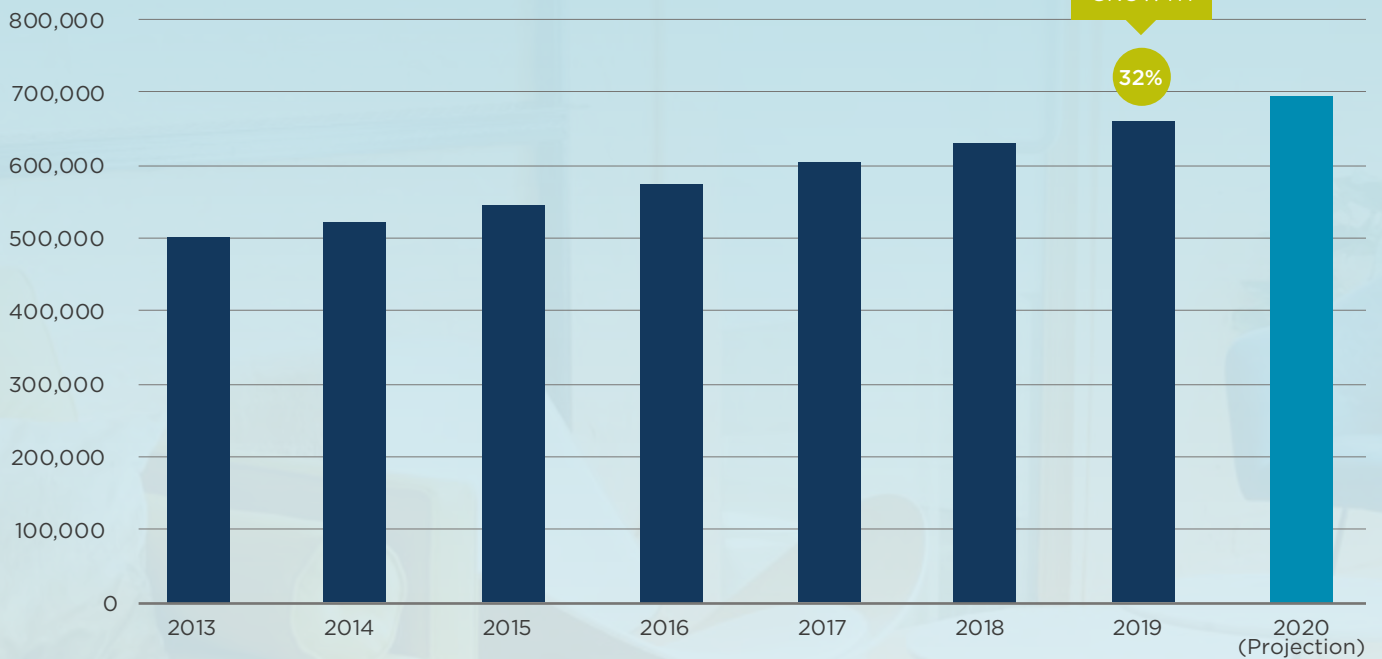


supply

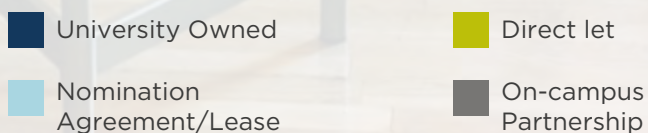
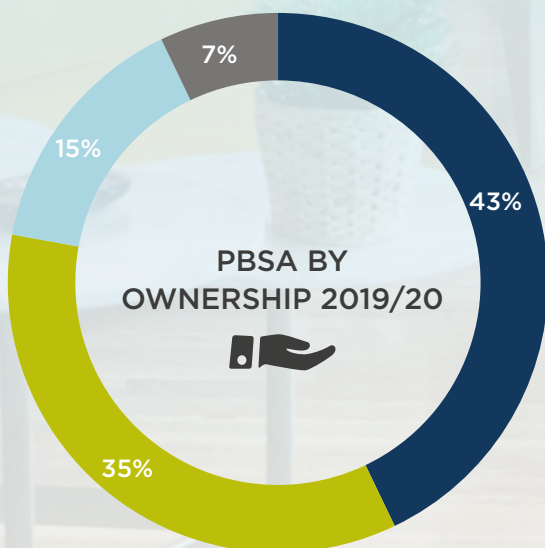


PURPOSE-BUILT ACCOMMODATION

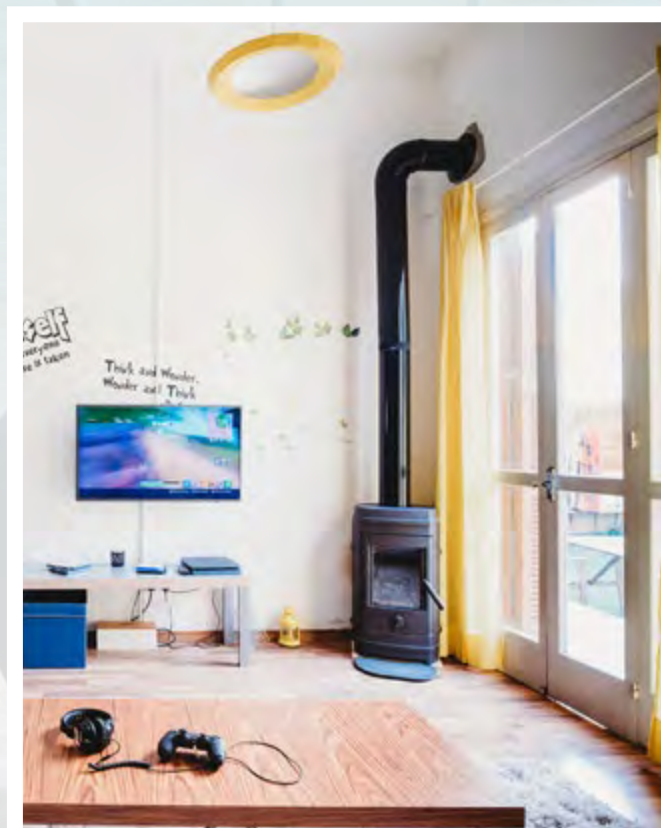
UK PBSA SUPPLY 2013-2019



Source: Cushman & Wakefield Student Accommodation Tracker



Source: Cushman & Wakefield Student Accommodation Tracker 2019/20



There are now 660,000 beds in the UK student accommodation market with over 32,000 new beds entering the market across 40 locations for the 2019/20 academic year.

This year 87% of all new beds have been delivered by private sector providers, the joint-highest proportion of new privately-owned beds on record. Over one-third of all new beds have been delivered in the West Midlands and North West of England. However, 2019 has been characterised by a number of schemes being delivered late, damaging both the reputation of the sector and the student experience of those affected.

New beds are distinguished by their overall quality, with nearly 19,000 beds having large common spaces (at least a gym, study room, common room) and these large amenity spaces are quickly becoming the standard for new developments. 95% of all new beds delivered this year feature a three-quarter sized bed or larger. High quality is now standard across new schemes, with outstanding common and amenity spaces supporting the student experience. However, such accommodation does come at a price, with little evidence of more 'affordable' schemes being delivered at any scale, especially with land prices and build costs remaining stubbornly high.

Instead, product differentiation is now being delivered by the quality of the hospitality offer in the highest quality products, and the increasing use of technology and apps to increase student convenience in the mid-market. The ability of a successful operational model to support the student experience and drive performance is as critical as building fundamentals.

The proportion of studio beds being developed has remained at similar levels to the previous year, making up a third of new beds. A legacy of overdevelopment of this product type in limited locations remains.

6,859 beds have left the market for 2019/20, lower than the 11,101 that left the sector in 2018. 25% of beds leaving the market were located in Liverpool and Newcastle. There is now clear evidence that product development in some locations is leading to obsolete stock exiting the market.

50%
PRIVATE SECTOR



KEY STATS

660,000
BEDS IN THE UK

32,491
NEW BEDS
FOR 2019/20

50%
UNIVERSITY

87%
OF NEW BEDS
PRIVATELY OWNED

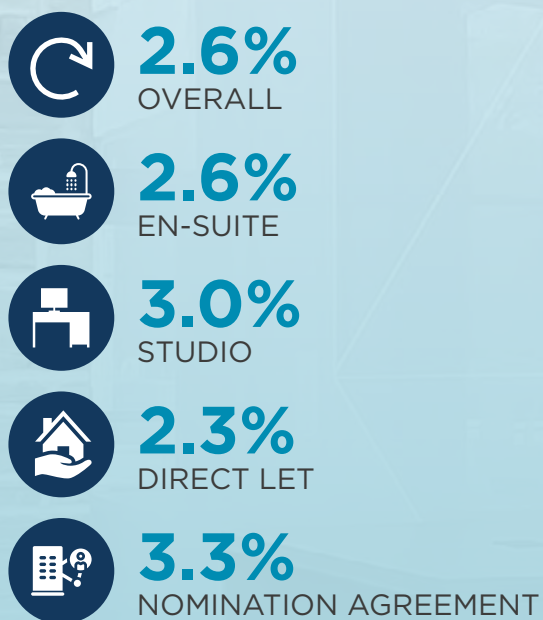
£6,777
AVERAGE PRIVATE
SECTOR RENT
(PER YEAR)

£5,864
AVERAGE
UNIVERSITY RENT
(PER YEAR)



RENTAL *Growth*

RENTAL GROWTH BY STOCK TYPE 2019/20



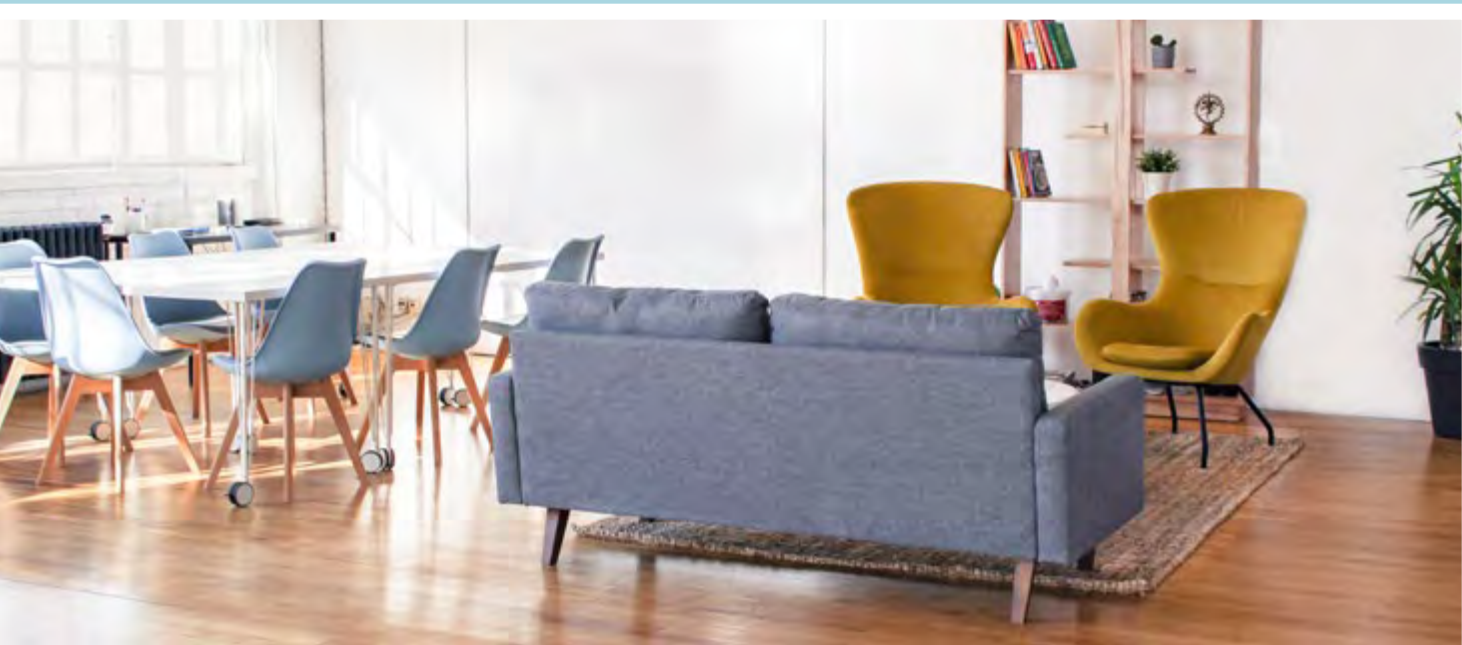
Source: Cushman & Wakefield Student Accommodation Tracker

KEY STATS

2.6%
RENTAL GROWTH

2.3%
DIRECT LET RENTAL

3.3%
NOMINATION/LEASE



Private sector rental growth between 2018 and 2019 is slightly lower than in previous years at 2.6% overall, with studios increasing at a faster rate than en-suites.

The importance of working in partnership with universities through nomination agreements and leases is highlighted by direct let rents increasing by 2.3% but nominated/leased rents growing by 3.3% this year. These agreement beds have effectively been shielded from the intensity of competition in some developed markets and especially in those locations experiencing an absorption issue with new products.

In 2019/20 new private sector en-suite beds cost on average £6,883 per annum, a price which is over three quarters of the Maximum Maintenance Loan amount available to students outside London. New university beds are priced £400 per year cheaper but still at 73% of the total student loan. The pricing differential between private sector and university en-suite beds is reducing, with private sector rents priced just under £80 a year higher compared to the £200 differential recorded in 2018.

Pressures on direct let en-suites in competitive 'absorption' markets has led to the closing of this gap and in some cases university stock is now more expensive.

The market is yet to deliver an 'affordable' product at scale, with demand-supply dynamics delivering lower cost stock in the most competitive markets.

AVERAGE ANNUAL RENTS 2019/20

£6,271

PER YEAR

PRIVATE SECTOR EN-SUITE AVERAGE



£6,191

PER YEAR

UNIVERSITY EN-SUITE AVERAGE



£6,883

PER YEAR

NEW PRIVATE SECTOR EN-SUITE AVERAGE



£6,487

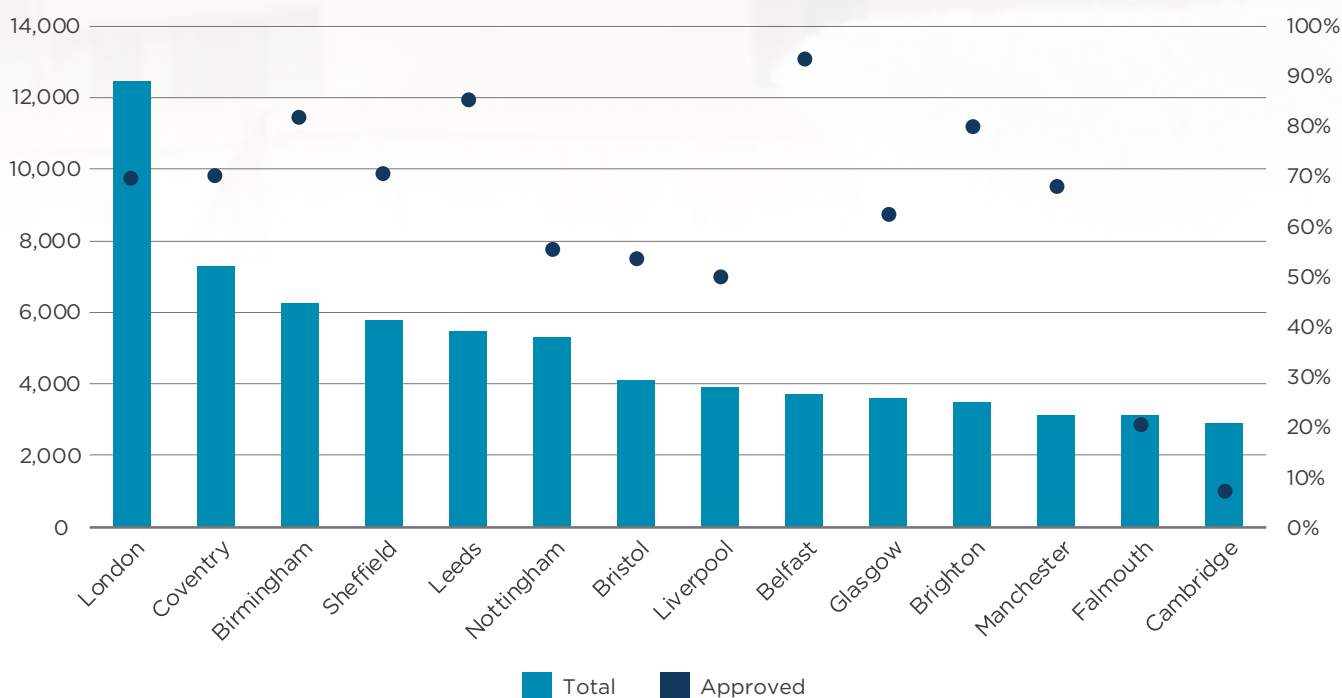
PER YEAR

NEW UNIVERSITY EN-SUITE AVERAGE



DEVELOPMENT *Pipeline*

UK PBSA DEVELOPMENT PROFILE - SELECTED LOCATIONS



Source: Cushman & Wakefield/UK local authorities

KEY STATS



114,000

BEDS IN THE
PBSA DEVELOPMENT
PIPELINE



76,000

APPROVED BED SPACES



29,500

BEDS PROJECTED
TO OPEN IN 2020

There are currently 114,000 beds PBSA in the development pipeline across the UK, with 76,000 (two-thirds) of these beds benefiting from full planning approval.

The number of new beds set to enter the market for 2020/21 will likely be below 30,000 for the first time since 2015, and this is despite the large number of beds that were set to open in 2019 but suffered delays. This fall in development should only be seen in 2020/21, with the nearly 47,000 beds currently scheduled to open in time for the 2021/22 academic year (although only 28,000 have full planning permission).

At current rates of development (and accounting for old stock leaving the market), the national demand pool for accommodation is still increasing around 30% faster each year than the number of beds being developed. The market is therefore likely to continue to remain structurally undersupplied over coming years.



Ownership

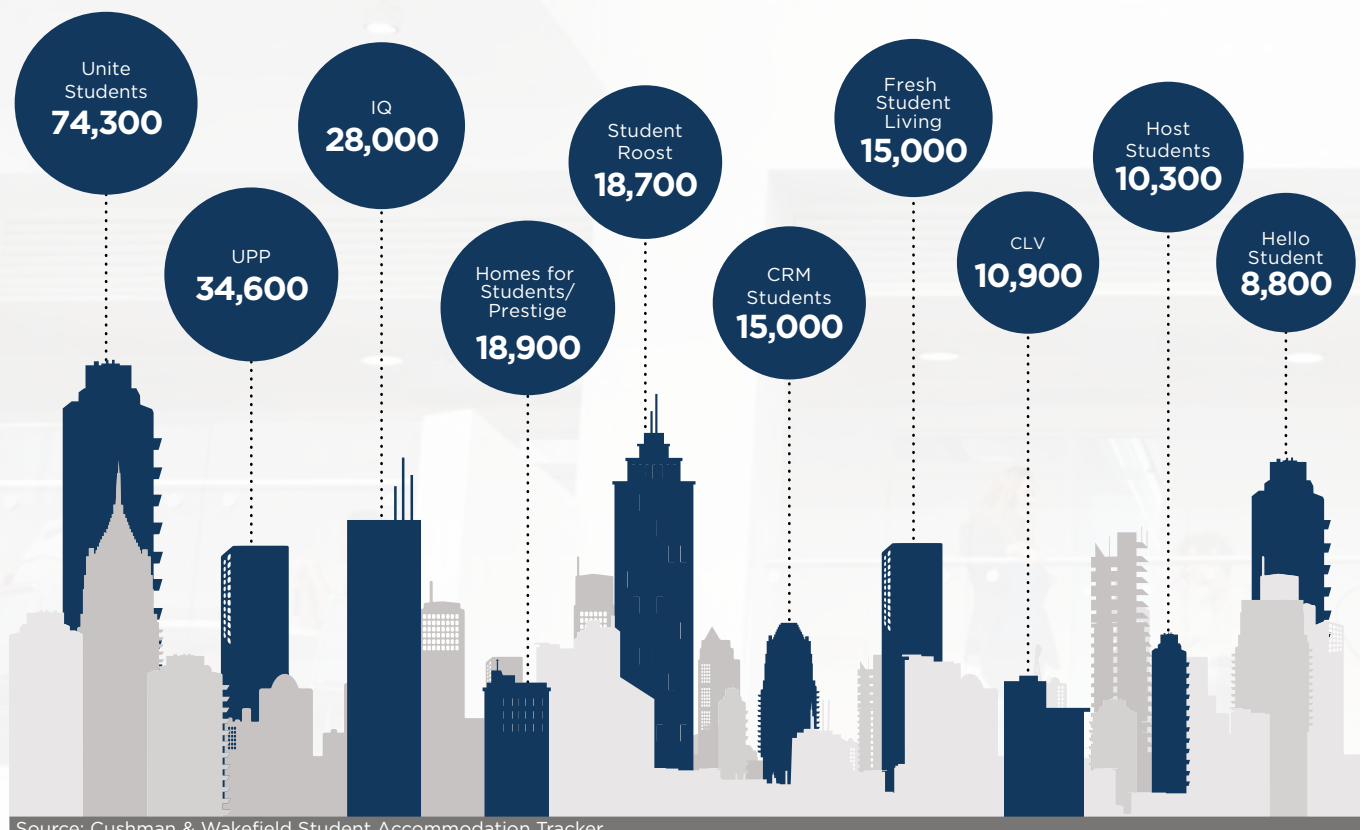
AND OPERATION

The key ownership story of 2019 is undoubtedly Unite Students' acquisition of the Liberty Living portfolio.

The £1.4bn transaction means that Unite now owns over 20% of the private sector market in the UK and almost as many beds as the next three largest owners of accommodation in the UK combined. Unite is the largest operator of accommodation in all regions of the UK except the East of England and Northern Ireland.

The top 10 private operators of student accommodation now operate 235,000 beds in the UK, with increased operational efficiency at scale and the benefits of a truly nationwide operational and marketing platform especially important in the most competitive markets. The three largest private sector owners of accommodation in the UK (Unite, iQ and Brookfield, who own nearly 40% of the private market) have experienced above average rental growth of 3.4% over the last year.

TOP OPERATORS OF PBSA FOR 2019/20

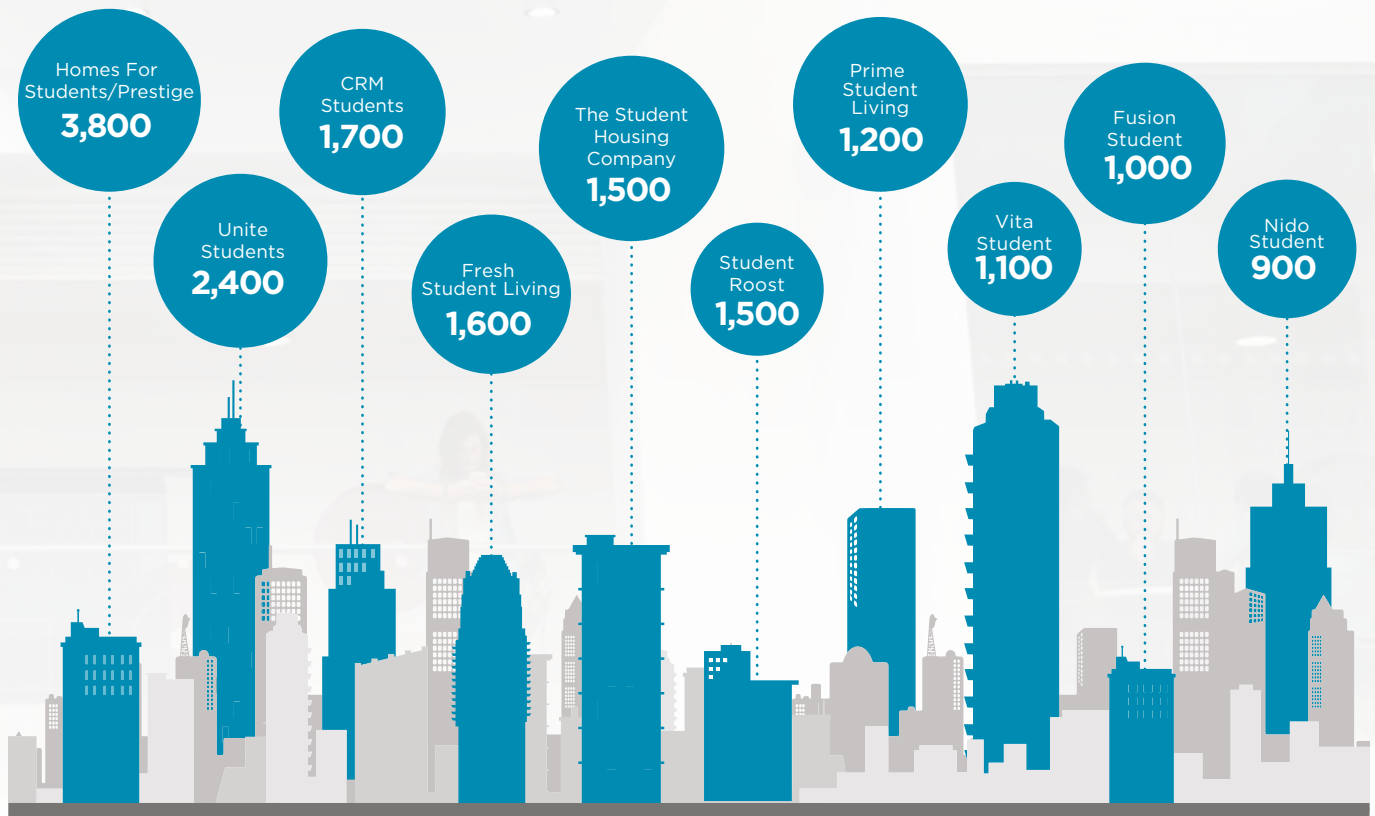


Source: Cushman & Wakefield Student Accommodation Tracker

The 'Big Three' operate at scale in their respective city locations, affording them great local brand recognition alongside a national platform. However, a key success factor is the fact that 42% of their beds are in an agreement with an institution, and over 15% of beds are located in London. The ability of these operators to shield themselves from market competition and target the best locations is clear.

At an operational level, Homes for Students have expanded fastest, with the most new beds under operation in 2019, nearly 1,500 more than Unite. Homes for Students are now the third largest operator of private sector beds. UPP remain by far the largest operator of on-campus beds and partnership beds only Unite operate more beds nationally.

NEW BEDS BY OPERATOR 2019



UK Rents

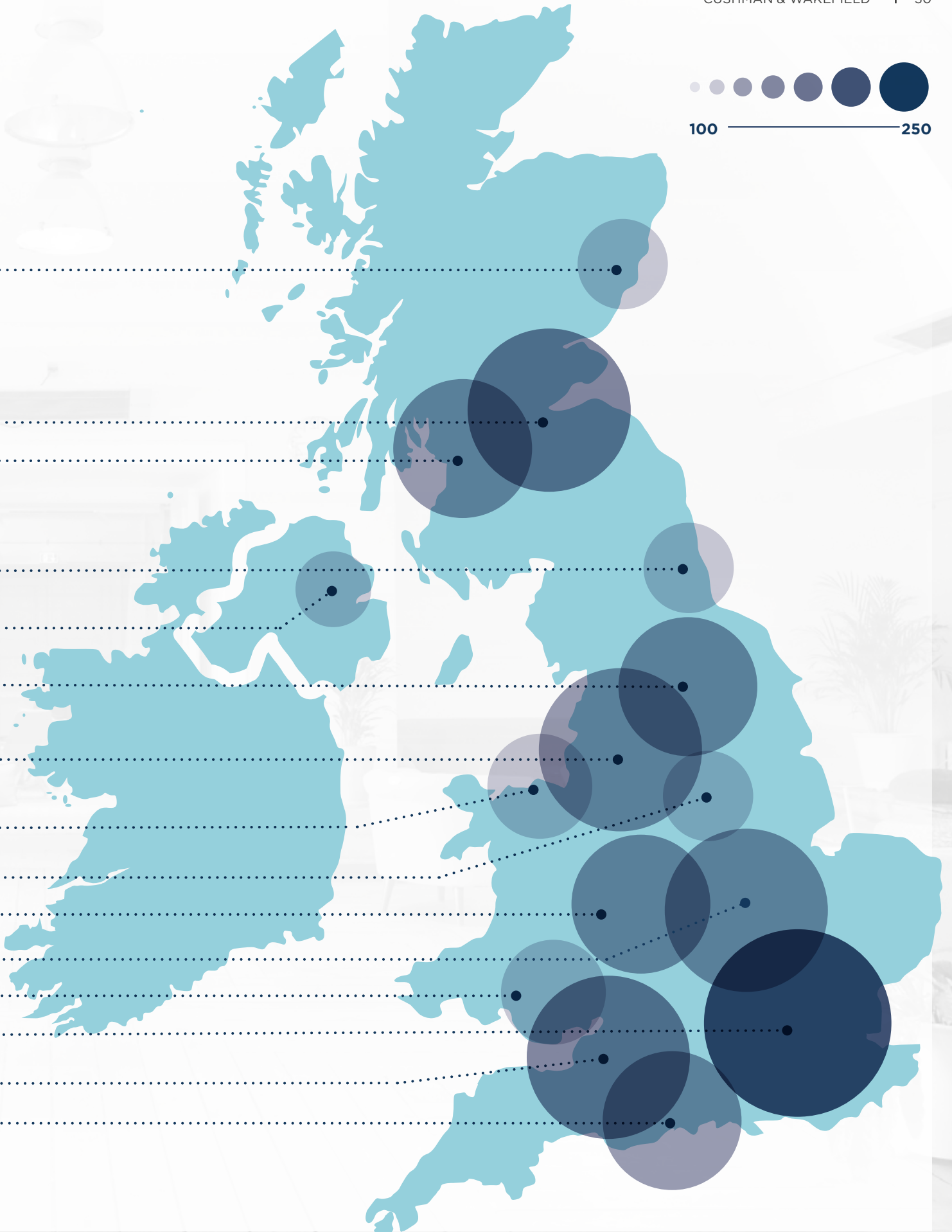
BY LOCATION



AVERAGE PRIVATE SECTOR EN-SUITE
RENTS BY LOCATION 2019/20

ABERDEEN	£123
EDINBURGH	£161
GLASGOW	£139
NEWCASTLE	£123
BELFAST	£119
LEEDS	£145
MANCHESTER	£154
LIVERPOOL	£132
SHEFFIELD	£123
BIRMINGHAM	£145
COVENTRY	£156
CARDIFF	£132
LONDON	£232
BRISTOL	£166
SOUTHAMPTON	£149

Source: Cushman & Wakefield Student Accommodation Tracker 2019/20



London



KEY STATS



1,741
NEW BEDS



12,500
PIPELINE



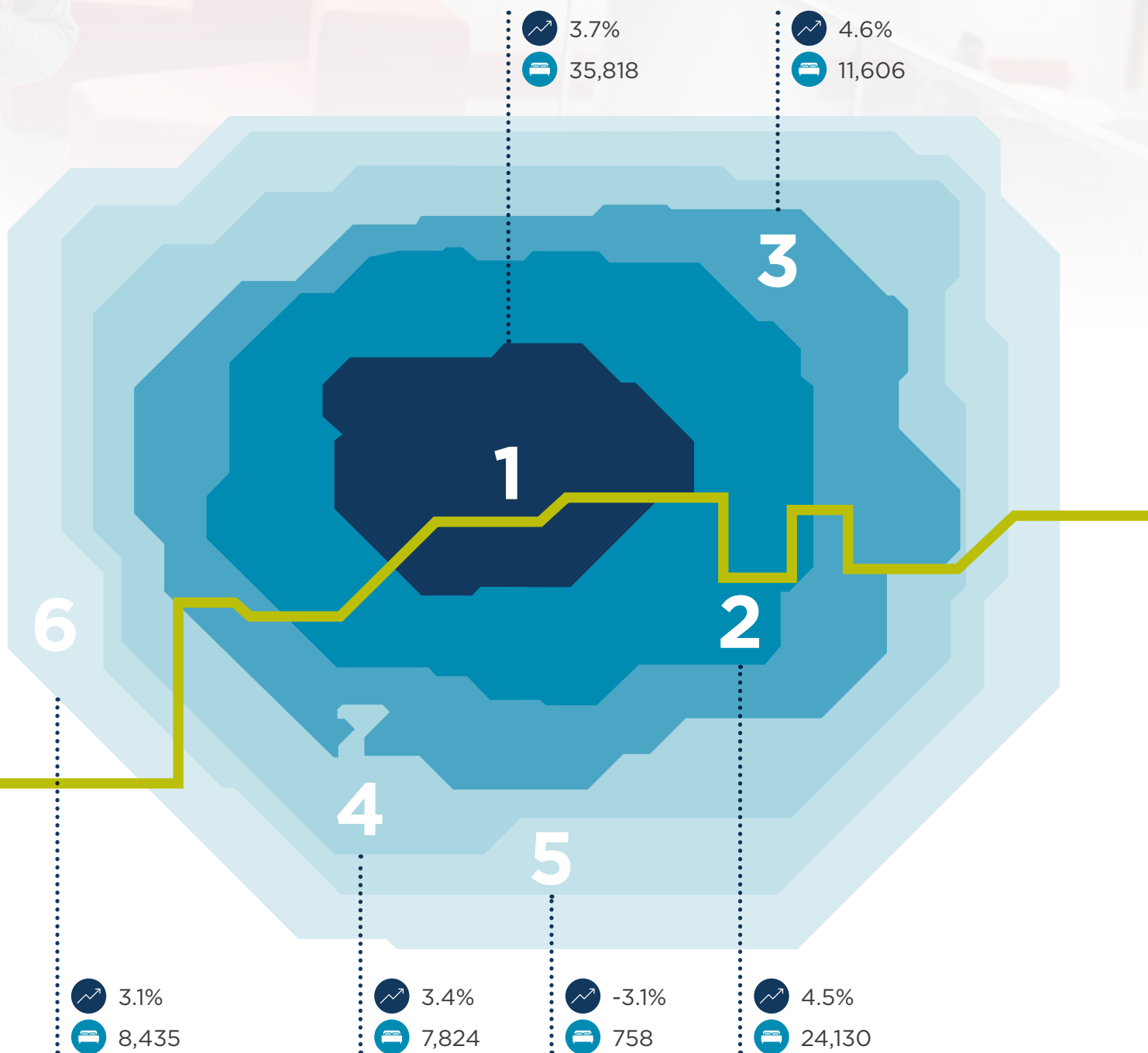
110%
OF STUDENT LOAN

Europe's largest student market continues to be impacted by a restrictive planning environment and a large rise in international demand means that rents have risen quickly - 17.5% in five years or 3.3% a year. Rents in London remain far higher than the rest of the UK, with private sector en-suites priced 46% higher than in the rest of the UK.

Despite the nearly £12,000 Maintenance Loan students available to London students, the price of a private sector room is £1,000 higher. However, university rents are far more affordable at only 65% of the total student loan amount - a lower proportion of the Maintenance Loan amount than Universities in the rest of the UK.

40% of beds are located in Zone 1, which is home to 57% of full-time students. However, competition and land availability means that development has shifted further afield with two-thirds of development coming outside of Zone 1 since 2015.

RENTS BY ZONE

 AVERAGE RENTAL GROWTH NUMBER OF BEDS

Affordability & Value

FOR MONEY

The average price of a new private sector en-suite bed space in 2019/20 (excluding London) is £149.28. When adjusted for inflation, the price differential between new beds in 2016 and 2019 is just £1.33.

As with previous years, this highlights the difficulties being faced in delivering more affordable products, especially in light of high land prices and build costs. The need to deliver lower cost beds is further necessitated by the fact that there has been a 55% increase in acceptances to Higher Education from the most disadvantaged groups in society between 2010 and 2019. Lower rents levels are currently only being delivered through market forces and the weight of competition in the most competitive markets.

However, whilst products may not be more affordable, it can be argued that better value-for-money is being delivered through the evolution of product design. Despite the price of a new bed in 2019 being less than 1% higher in real terms than in 2018, overall product quality is 6% higher than that delivered last year.



NEW BEDS IN 2019

1%

INCREASE IN PRICE



6%

INCREASE IN QUALITY



Source: Cushman & Wakefield Student Accommodation Tracker



'ABSORPTION' *Markets*

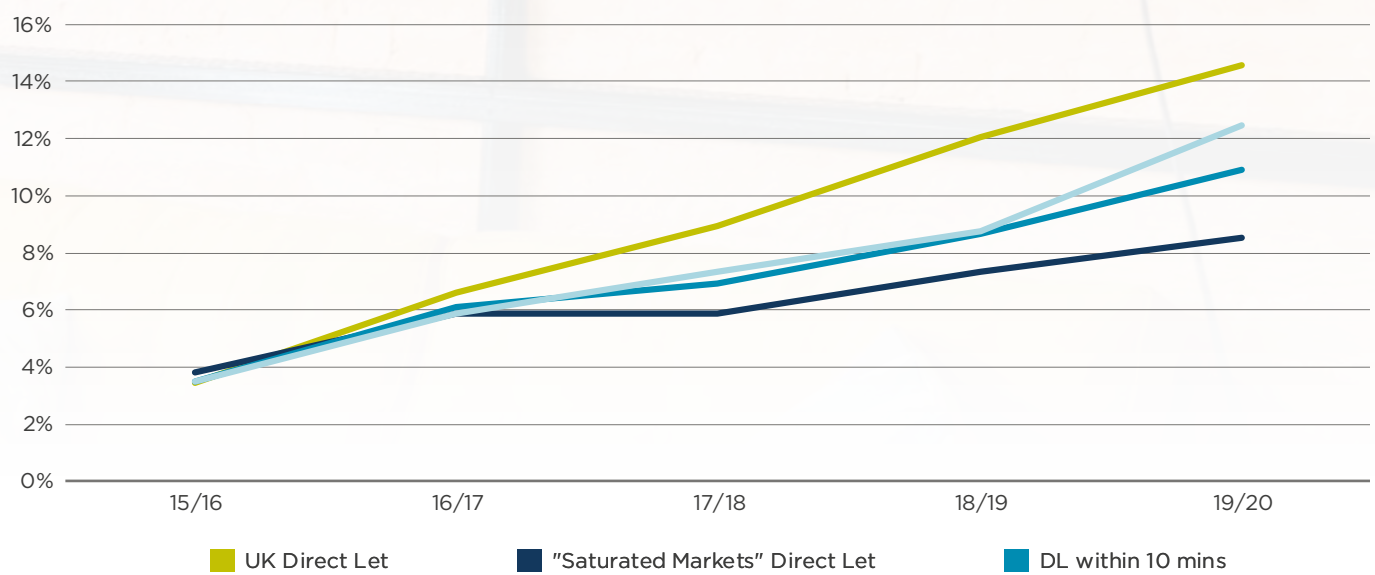
Whilst some 'difficult' markets continue to struggle due to a fundamental misreading of levels of student demand, the phenomenon of 'absorption markets' is now evident in Newcastle, Sheffield and Liverpool.

A 50% increase in beds in these locations since 2015 has not been accompanied by commensurate student number growth. Whilst not fundamentally oversupplied with stock, the inability of these locations to absorb such pace of development means that a third of all discounted schemes in the UK are located in these three cities.

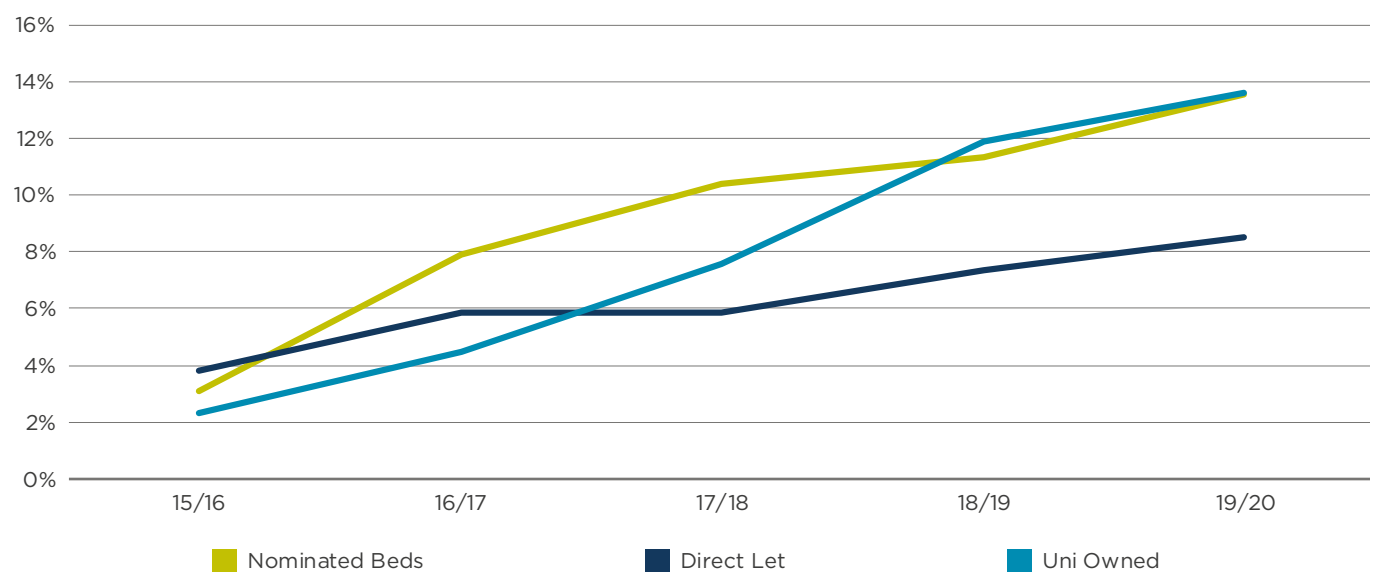
Direct-let beds in these locations have seen rental increases of less than 60% of the UK average between 2014/15 and 2019/20. In these locations market fundamentals are even more crucial, with almost 50% greater rental growth seen by schemes located within five minutes of campus than overall. Again, the importance of nominations and leases in these markets is clear, with such schemes benefiting from 60% higher rental increases than direct-let beds since 2014/15.



RENTAL GROWTH BY DISTANCE FROM UNI



RENTAL GROWTH BY UNI RELATIONSHIP



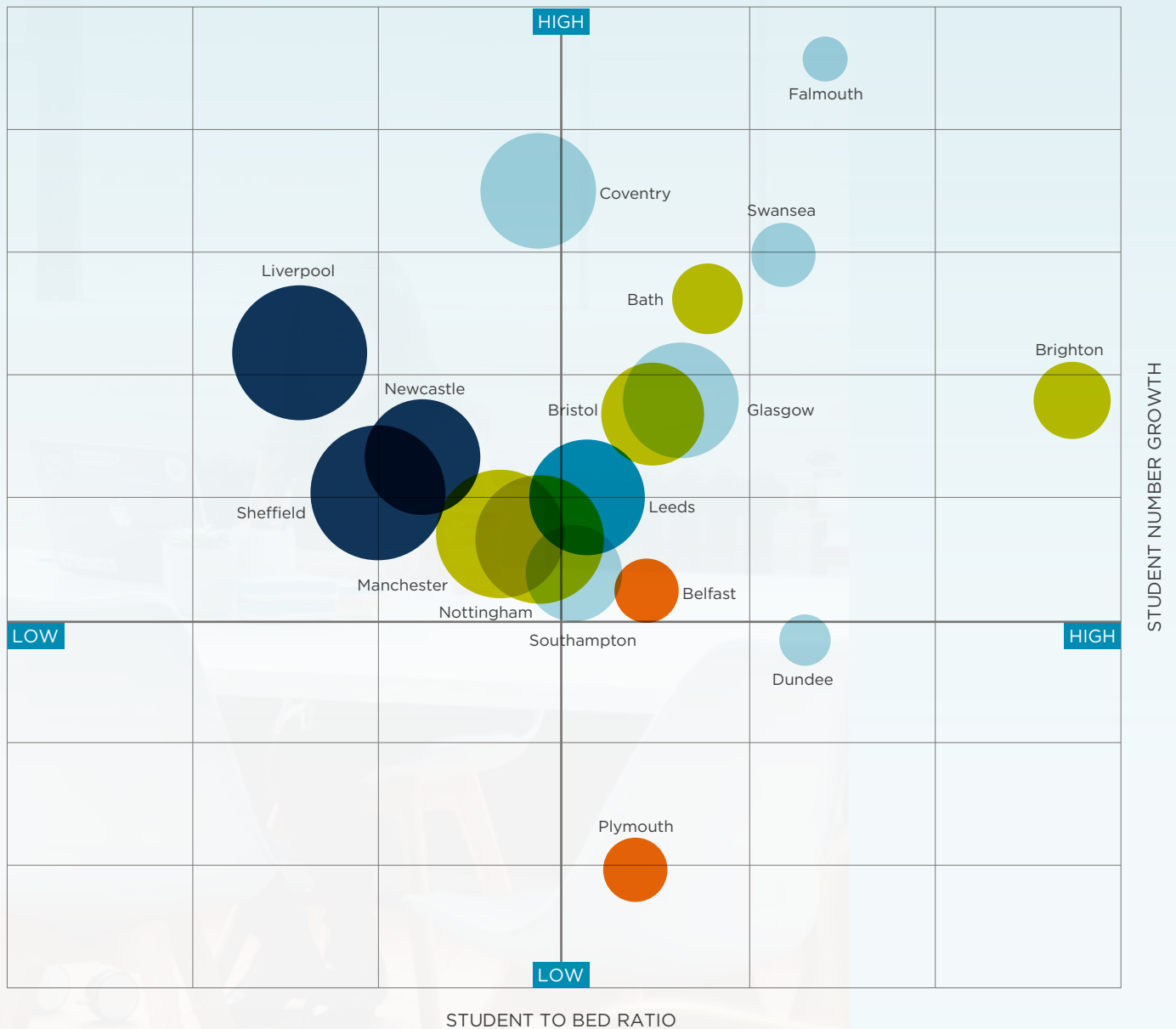
Market

CLASSIFICATION

The complexity and maturity of the UK market lends itself to the categorisation of markets according to the scale of development and rental growth opportunity and prevailing and likely future market conditions.



SELECTED LOCATIONS BY MARKET CATEGORISATION 2019/20

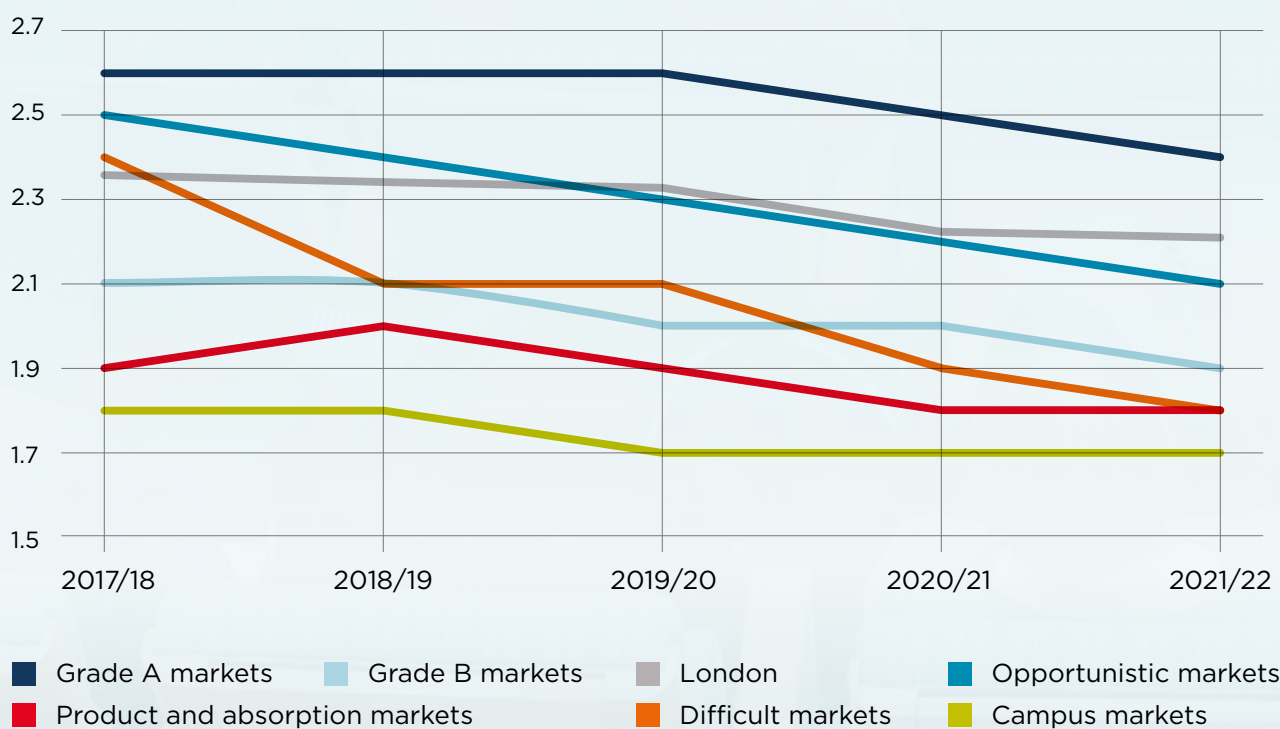


● Grade A Markets	Structurally undersupplied with significant development opportunity
● Grade B Markets	Structurally undersupplied but with concerns around market competition (current or future)
● Opportunistic Markets	Healthy markets but with particular concerns (product type/ micro-location/pipeline) that may impact investment decisions
● Difficult Markets	Markets that have suffered due to a range of factors (e.g. affordability, economic, cultural)
● Absorption Markets	Markets that are at or beyond their absorption ratio

Outlook

Cushman & Wakefield's modelling of forecast student number growth against the current development pipeline indicates that the overall demand-supply balance in the market is set to remain healthy over coming years. However, there remains concern around the level of development in some difficult markets.

FORECAST STUDENT TO BED RATIOS TO 2021/22





KEY QUESTIONS



WHO WILL PUSH TO INNOVATE AND DELIVER A MORE AFFORDABLE PRODUCT AT SCALE?



WILL THE FOCUS OF DEVELOPMENT START TO MOVE AWAY FROM 'ABSORPTION' MARKETS?



WILL THE WEIGHT OF MARKET COMPETITION IN SOME LOCATIONS CONTINUE TO DELIVER BETTER VALUE RENTS FOR STUDENTS?



WILL THE SUCCESS OF NOMINATIONS AND LEASES IN COMPETITIVE LOCATIONS CONTINUE TO DELIVER BENEFITS FOR UNIVERSITIES AND THE PRIVATE SECTOR?



HOW WILL THE MENTAL HEALTH AND WELLBEING AGENDA DRIVE CHANGES IN OPERATIONS AND PRODUCT DESIGN IN THE SECTOR?



OPERATIONAL OVERVIEW



PBSA

INCOME PROFILE



THINGS TO CONSIDER

One of the key challenges and opportunities for investors looking to invest into Purpose-Built Student Accommodation is the operational nature of the real estate.

Unlike other sectors where income is typically underpinned wholly (or in part) by an overriding lease over a multi-year timeframe, the bulk of student assets are operated on a “direct let” model, where the income profile is underpinned by individual annual leases to students, normally guaranteed by parents, or in the case of overseas students, often with the annual rental income paid up front.

Whilst leased and nominated PBSA products are also available to investors, the PBSA market has seen an increased appetite being driven in part by investors getting comfortable with granular income profiles in other sectors such as Build to Rent, low levels of void and bad debt, and correlation with RPI; but also by its wider availability and the yield spread available for direct let vs leased assets.



For investors looking to invest into PBSA assets, understanding the various drivers of the income and expenditure profile are critical. Below we have set out some of the key elements when investing into the sector:



INCOME TYPES

1

UNIVERSITY LEASES/ INCOME STRIP PRODUCT

Benefits:

- No letting risk; Support of University covenant providing income security.
- Typically RPI linked cashflow with annual uplifts.

Challenges:

- Annuity-style product therefore very competitive and high pricing.
- no ability to drive rental growth/operational efficiencies; Difficult to access (a number of specialist investors focussed on this segment).

2

NOMINATION AGREEMENTS

Benefits:

- Potential income guarantee from a University which would de-risk the income profile.
- Embedded relationship with an institution which should help with lettings.

Challenges:

- Nominations agreements come in all shapes and sizes, devil is in the detail.
- Some universities want to control operations (can increase OpEx).
- Requirement to work with the University which can suppress rental growth.
- “Cliff-edge” of nominations termination. Limited number of nominations agreements.

3

DIRECT LET

Benefits:

- More available product.
- Ability to drive rental profile and OpEx efficiencies thereby “should” offer greater NOI growth.
- Ability to be flexible with operational model (summer income/ancillary income).

Challenges:

- No formal University relationship; less income security as subject to the annual leasing profile.



GROSS REVENUE

Core Term Revenue:

- Either paid direct from students or from the University depending on agreement.
- Lease length will vary depending on term lengths/ market convention and strength of demand within the market (typically from 38-51 weeks).

Summer Income:

- Summer income is forming an increasingly important element for investors, particularly in markets such as Edinburgh where there is strong demand due to the Edinburgh Festival.
- Demand will be driven by language schools, University pre-semester courses and also students remaining in situ over the summer and extending their lease. There will also be demand from the general tourist market.
- The operational model in strong summer markets will be more akin to a hotel, and therefore investors will need to consider higher opex to facilitate this (changing linen, cleaning, front of house staff).
- There are third party operators who can run this on your behalf, allowing you to de-risk the leasing profile but for a reduced participation in the profit over this period.

Ancillary Income:

- Income from vending machines and laundry services form the bulk of ancillary income.
- Operators have increasingly been looking to diversify this, by introducing the likes of dry cleaning and other services to further diversify revenue streams.
- Some operators offer additional services such as in-room cleaning and even catering which can further enhance this revenue stream.



OPERATIONAL EXPENSES

Utilities:

- One of the largest cost elements and one of the hardest to influence.
- Cost can fluctuate significantly depending on the heating system, the energy efficiency of a building and customer usage.
- A good operator should have a clear strategy for mitigating utility cost variation.

Staffing:

- Arguably the most critical element for building performance, a good onsite team is critical to driving performance.
- Staffing models vary per operator and market. Premium buildings targeting premium rents should have a very strong “hospitality-led” model.
- Focus on community creation and wellbeing is increasingly important.

Marketing:

- A multilateral marketing strategy is critical however online is the key channel for most PBSA markets and therefore a strong web presence, bolstered by effective search engine optimisation and pay per click advertisement is crucial.
- Third-party aggregators alongside agents can be a useful avenue when targeting overseas students, however investors will need to consider fee leakage.
- Operators are increasingly considering dynamic pricing models, however for most this is still at the early stages of evolution.

Repairs and Maintenance:

- Proactive response to repairs and maintenance is critical in maintaining customer satisfaction.
- Good building design and specification should reduce levels of proactive maintenance and protect value.
- Regular repairs and maintenance should be forecasted as part of the business plan. Maintaining the quality of the buildings is critical to ensuring continued rental growth.

OPERATIONAL *Insight*



PBSA

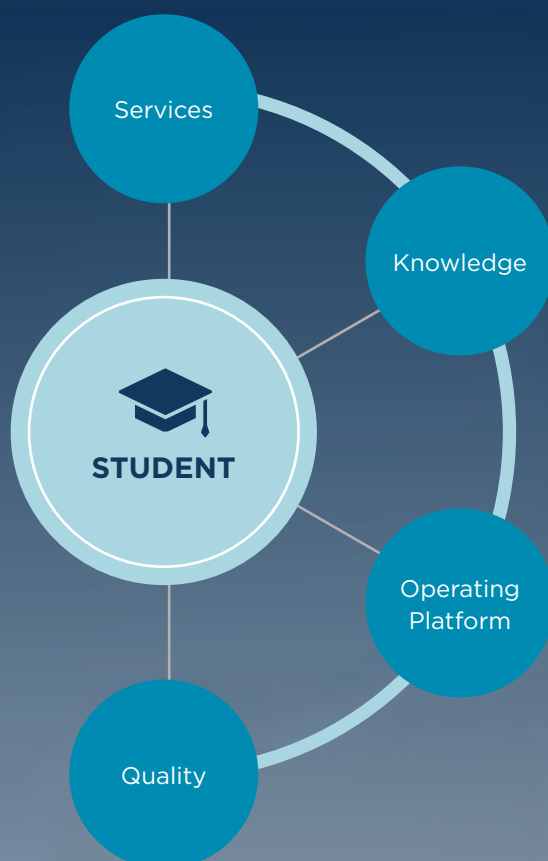
CHOOSING AN OPERATOR

THINGS TO CONSIDER

For investors coming into the PBSA sector, a key decision once opportunities have been identified will be who can and should operate their assets.

Firstly, there's the initial tell; if an operator is talking about an asset, they have truly missed the point – stay clear. These are homes, students' homes, homes for "Generation Z" students, who are excited and nervous about the future and are passionate about making things better and smarter too. Having a student lens at the forefront of an operators' mind will help to understand these characteristics of today's students and deliver a service that will maximise the success of an investment.

The range of operators has increased over recent years as the volume of 'owner only investments' have increased, so making the right choice is now more critical. Whilst the student lens should be at the centre of any decision-making process, this by far, is not the only attribute. Below are four of the key areas to consider when engaging with a potential partner.



RICHARD BRENNER

Operations Director UK&I, GSA



SERVICES

When considering a partner, the range of services that they can provide or advise on will start to demonstrate their value. The types of services that could be on offer include; supporting the transaction itself, from underwrites through to design and specification through to their operating platform. The days of building a homogenised product are well and truly over. Students demand and want more; from environmentally sustainable homes to creating spaces that connect and resonate with a student community are the new norms.



KNOWLEDGE

Student numbers in the UK remain strong, underpinned by the global standings of UK Universities, a well-known and commented macro statement but, it will be the understanding of both macro and micro factors that will differentiate. Never has the world been more connected and mobile, this is certainly true in the PBSA sector, the sector is growing in complexity. Having global research and intelligence capability to support market segmentation and positioning is vital. Global student mobility, International presence and the understanding of the segmentation of the UK University landscape are just some of the factors to probe. Couple that with knowledge of the already mentioned customer base, Generation Z, you will find an operator who harnesses this knowledge, one who's credentials really start to support any investment decision.



OPERATING PLATFORM

Having a flexible, scalable and efficient operating platform that meets the needs of both students and University partners is an essential. Why? The needs of students, the locations and sizes of buildings are all different from city to city, flexibility will allow the right solution. Operators need to ensure that University partners, providing nominations agreements to the direct let students from the other side of the world, have an experience from booking to living in their home that is seamless, underpinned by a service proposition with wellbeing at its heart. Why? Because it will be the service that is received that will drive reputation with universities and students alike, resulting in higher rates of rebooking and greater likelihood of increased nominations which in turn dramatically reduces future marketing costs.



QUALITY

Quality can be measured and compared in many ways, some of which can be accessed publicly such as Google reviews. But to determine the quality and therefore to determine confidence in an operators ability to deliver, a range of measures need to be considered with the following good examples to explore.

The Nationals Student Housing Survey (NSHS), conducted by Redbrick Research, is a bi-annual survey. This survey, it's respondents all students, benchmarks individual properties as well and Operators across the UK and a growing number of International markets. The key metric here being the widely recognised NPS.

Rebooker rates are a clear acknowledgement of the quality of experience a student has had living in their home when they opt to stay for the following year.

Sector recognition, as with most sectors, awards are plentiful within the PBSA sector but, particular awards to note would be those attained through the NSHS and Property Week.

The above is by no means exhaustive. It is meant to give an insight into the operations world and start to give investors greater insight into how critical the appointment of their chosen operator is to realising sustainable value from their investments.

INVESTMENT MARKET





By the end of October, £2.5bn had transacted in 2019. Whilst this is behind the £3bn transacted in 2018, we estimate that there is a further £2bn under offer which will bring the total transaction volume to just over £4bn for 2019 if all assets under offer transact. This will put investment volumes in line with the 5-year average.

2019 has been characterised by the sale of “premium” PBSA assets, with the likes of the Vita Student, Fusion and True Student all selling assets, equating to £900m and 36% of total investment volumes. The Student Castle portfolio, totalling seven high quality schemes and 1,857 beds, is also likely to transact before the year end.

The premium PBSA segment has grown in recent years, targeting predominantly international non-EU students and offering enhanced specification, high quality amenity spaces and concierge-style customer service. The growth in this segment has been driven by the appetite of students, particularly from Asia, to stay in the best quality accommodation in a city.

This is underpinned by the relative elasticity in terms of demand, with non-EU students looking at the global cost of study in comparison to other global education markets (particularly the US, Australia and Canada) and which makes the UK look very attractive. This has seen investment by DWS, Hines and Arlington Advisors over the course of the year, recognising the attractiveness of this segment, and with a diversification in ownership, we may start to see some stratification in market pricing for different asset segments, more in line with the US market.

More broadly, we are still seeing large inflows from overseas investors, who equate to 81% of 2019 transactions to date by value, up considerably from 2018. This can be further broken down by geography, and interestingly European capital has accounted for 36% of overall transaction volumes. This is significant in the context of Brexit where most other real estate sectors have seen a decline in investment activity from Europe. This investment interest remains quite diverse with investors looking for ground up developments through to stabilised assets.

In 2019 over 26,500 bed spaces have transacted so far, compared to over 40,000 for 2018. There are currently over 26,000 under offer or on the market. The average capital value per bed for stabilised transactions sits at £88,000 and £102,000 for funding assets, with the differential due to stabilised assets including older stock, in weaker locations.

Yields remain under pressure from inward investment with London now at 3.75%, and super prime and prime regional markets have continued to see significant focus. Competition remains strongest for prime markets, and investors are increasingly focussed on the strength of location, amenity offering and increasingly the importance of the operational strategy for an asset. Demand for more secondary assets has reduced, however investors seeking higher returns who are willing to undertake refurbishments or employ new operational strategies, have remained active.

KEY STATS



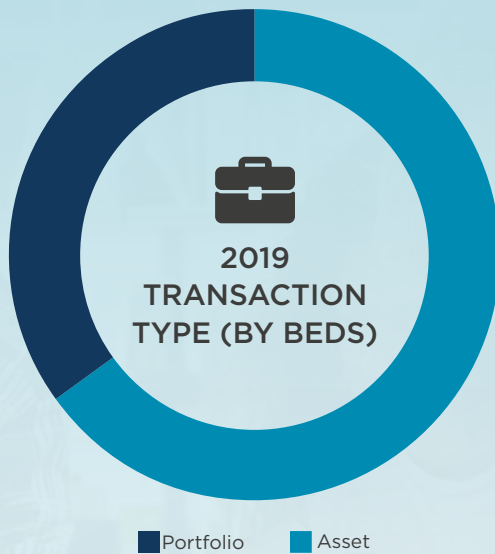
£2.5bn
TRANSACTION
VOLUMES TO DATE



c.26,500
BEDS TRANSACTED
TO DATE

Source: Cushman & Wakefield Student Accommodation Tracker

	Q4 2018	Q4 2019	MOVEMENT
Prime London	4.00%	3.75%-4.00%	Inward
Outer London	4.25%-4.75%	4.25%-4.75%	Stable
Super Prime Regional	4.75%-5.00%	4.75%-5.00%	Stable
Prime Regional	5.25%-5.75%	5.25%-5.75%	Stable
Secondary Regional	6.00%-6.75%	5.75%-6.00%	Inward
Tertiary	7.00%+	7.00%+	Stable



Source: Cushman & Wakefield Student Accommodation Tracker



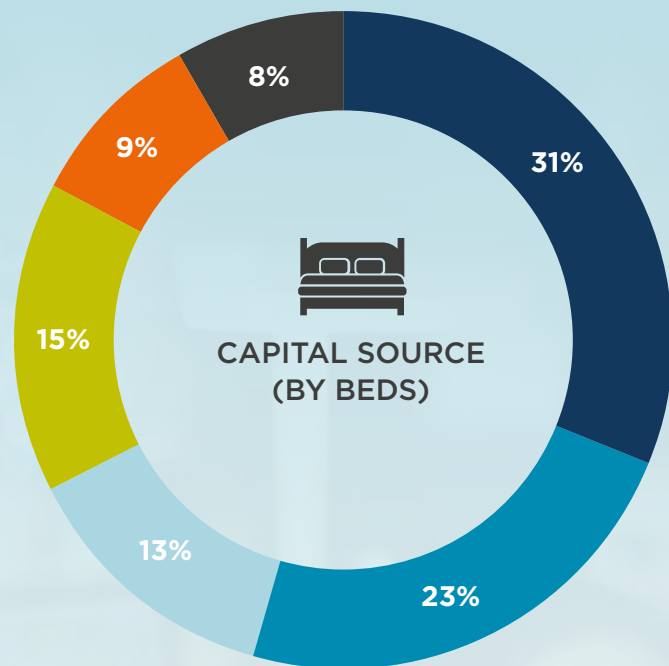
STABILISED VS. DEVELOPMENT TRANSACTIONS (BY VALUE)



As indicated by the graph, 68% of stabilised assets have been transacted as portfolios, signalling that scale remains a key driver for investors looking to access the sector. Development assets (based on estimated GDV) equate to ca. 30% of overall transactions for 2019.

68% of stabilised assets have been transacted as portfolios, signalling that scale remains a key driver for investors looking to access the sector.

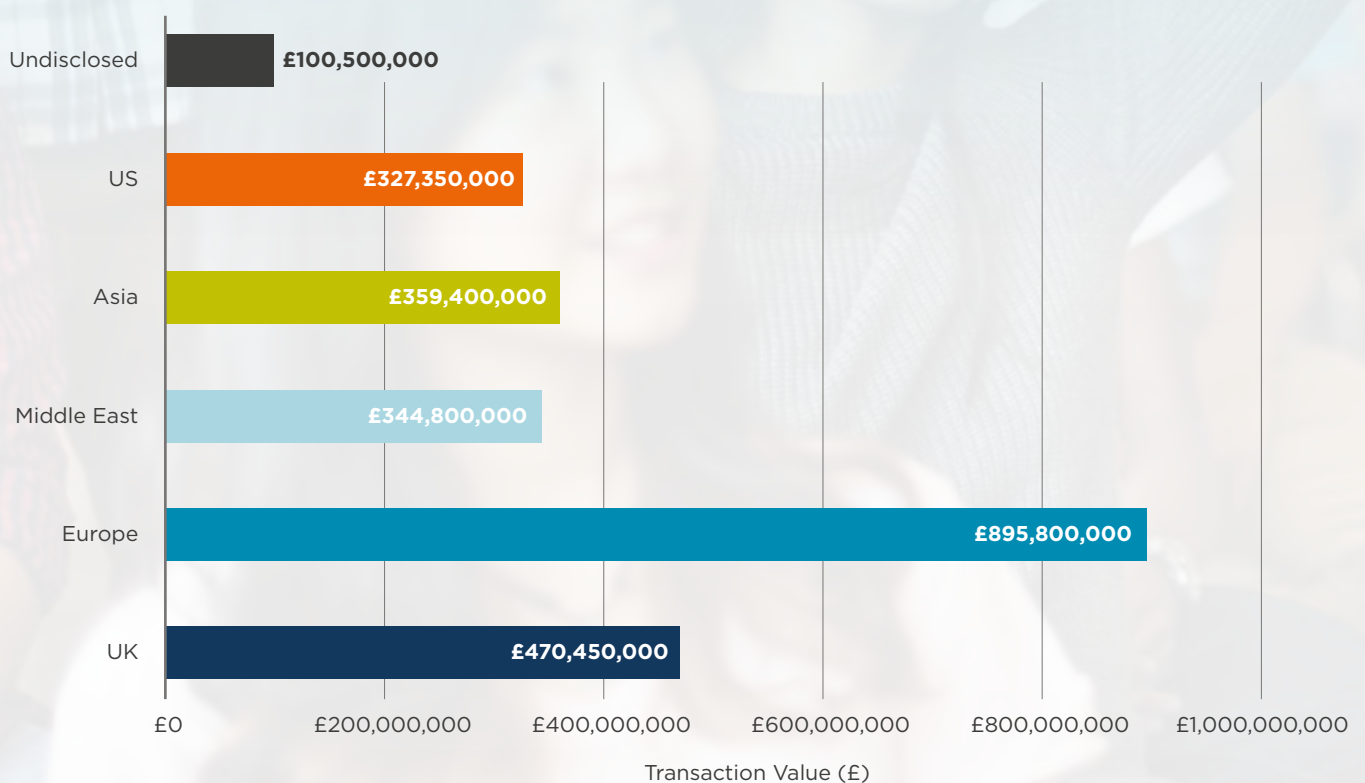
At this point of the year there remains approximately £2bn of assets under offer, compared to close to £2.5bn that has transacted. Taking account of these figures 57% of the estimated total transaction volumes for 2019 has completed which is a typical profile compared to that seen in previous years.



■ UK ■ Europe ■ Middle East ■ Asia ■ US ■ Undisclosed

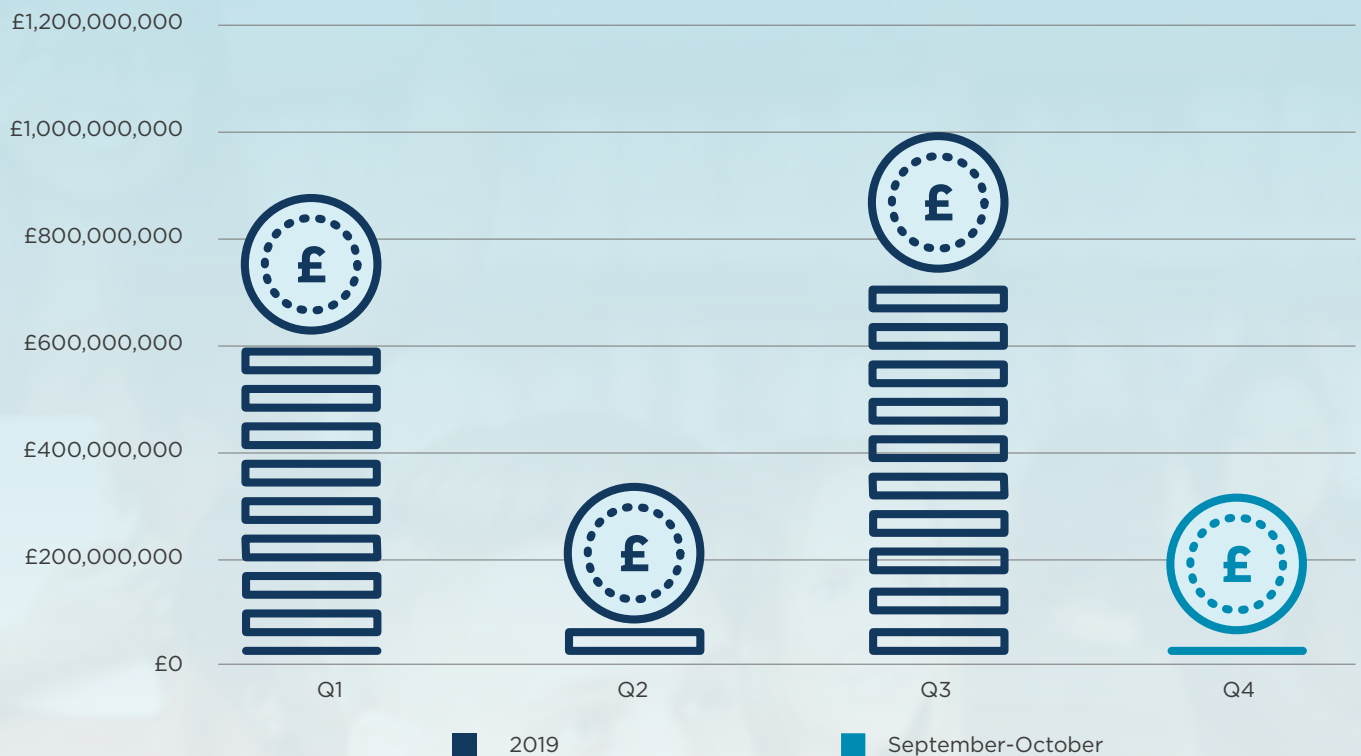
Source: Cushman & Wakefield Student Accommodation Tracker

CAPITAL SOURCE (BY TRANSACTION VALUE)



Source: Cushman & Wakefield Student Accommodation Tracker

QUARTERLY TRANSACTION VOLUMES (BY VALUE)



Source: Cushman & Wakefield Student Accommodation Tracker

The quarterly transaction analysis shows there to have been a peak in transactions in January, accounting for a number of transactions which failed to complete in Q4 2018 and therefore completed early in the new year.

The peak in transactions in Q3 was largely driven by the completion of the Swift Portfolio, accounting for £600m of the £1bn Q3 volume. Without this, transaction levels were relatively stable across Q2 and Q3.



TRANSACTION VOLUME

BREAKING DOWN VALUE AND NO. TRANSACTIONS:

Whilst Q3 by transaction value was the most active quarter, Q1 had the highest number of transactions. Taking account of the assets under offer with an approximate value of £2bn, if these are delivered will position Q4 as the most active quarter with over £2bn transacted, albeit dominated by the Unite/Liberty transaction.



KEY TRANSACTIONS IN 2019



TRUE STUDENT, GLASGOW

Transaction Date
Sept 2019

Purchaser
Hines

No. of Beds	607
Price Paid	£72m
Price p/bed	c. £118,000
Yield	5.50%



THE CURVE, ALDGATE, LONDON

Transaction Date
Sept 2019

Purchaser
GSA

No. of Beds	350
Price Paid	c. £83m
Price p/bed	c. £238,000
Yield	c. 4.00%



PROJECT SWIFT (VITA)

Transaction Date
August 2019

Purchaser
DWS

No. of Beds	3,195
Price Paid	c. £600m
Price p/bed	c. £188,000
Yield	5.35%



PRIVILEGE PORTFOLIO

Transaction Date
April 2019

Purchaser
SPH

No. of Beds	1,243
Price Paid	c. £130m
Price p/bed	c. £105,000
Yield	c. 5.25%



PAUL ST EAST LONDON

Transaction Date
April 2019

Purchaser
Chapter (Greystar/Allianz)

No. of Beds	482
Price Paid	c. £166m
Price p/bed	c. £345,000
Yield	3.70%



KELATY HOUSE WEMBLEY

Transaction Date
March 2019

Purchaser
DWS

No. of Beds	599
Price Paid	c. £90m
Price p/bed	c. £150,000
Yield	4.75%



THE REFINERY, LEEDS

Transaction Date
Feb 2019

Purchaser
Curlew

No. of Beds	407
Price Paid	c. £33m
Price p/bed	c. £82,000
Yield	c. 5.70%



STELLAR PORTFOLIO

Transaction Date
January 2019

Purchaser
Arlington/Equitix

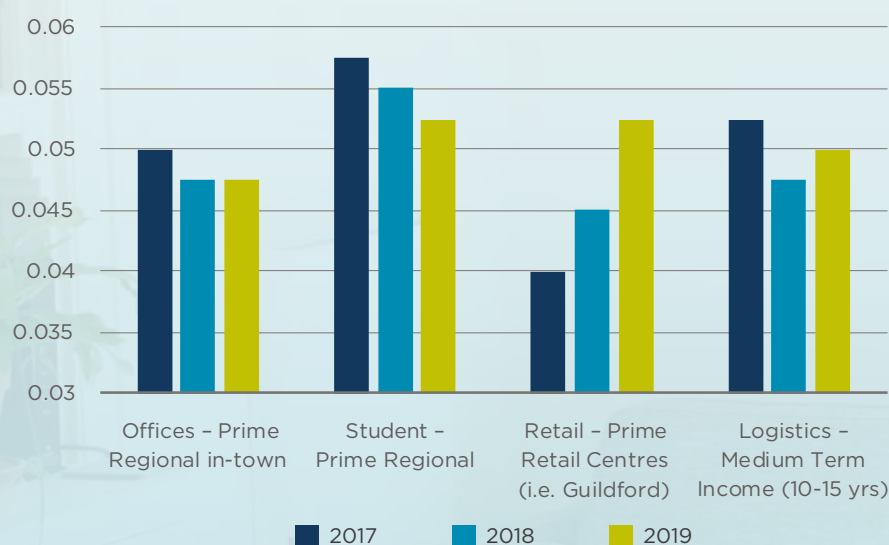
No. of Beds	1,857
Price Paid	c. £237m
Price p/bed	c. £128,000
Yield	5.35%



PBSA INVESTMENT IN COMPARISON TO OTHER SECTORS

The growth of Purpose-Built Student Accommodation investment has been significant over the past decade, with investors drawn to the attractive counter-cyclical nature of the sector alongside a broader increase in allocation to alternative investments. As a result of which we have seen a general trending upwards in transaction volumes since 2009 and strong yield compression in the sector compared to other markets.

YIELD MOVEMENT BY SECTOR (%)

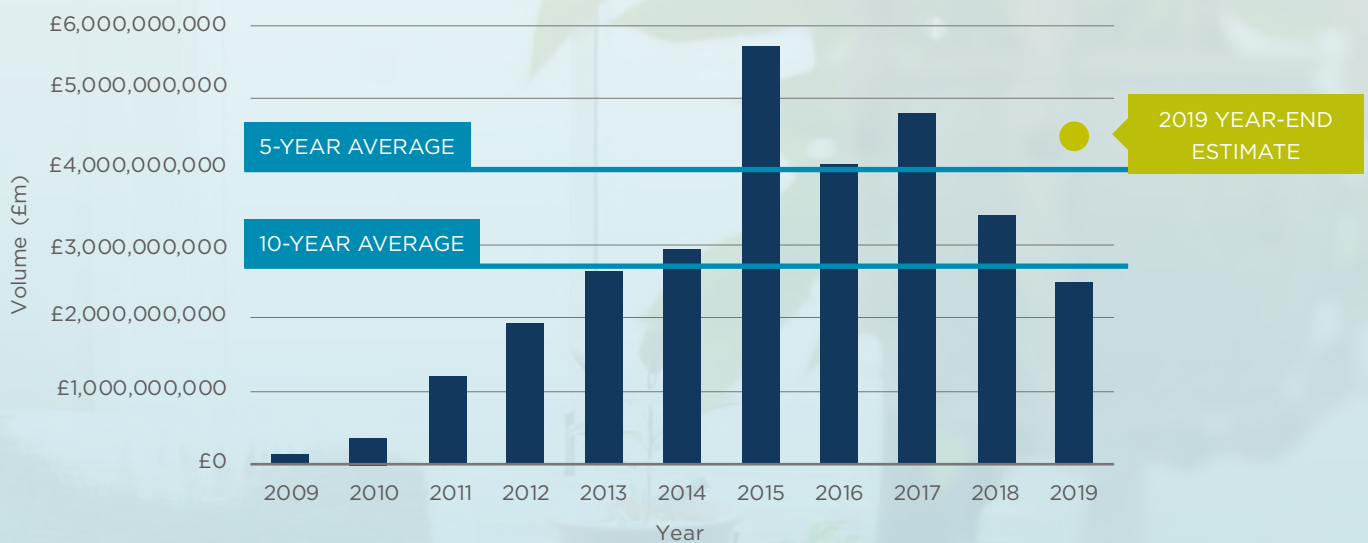


Source: Cushman & Wakefield Student Accommodation Tracker

Student prime regional yields have compressed by 100bps between the start of 2017 and today. This is in contrast to the retail sector, with prime retail centre yields having experienced 125bps softening across the same period and reflecting the diversion of capital from the sector. For other traditional commercial markets such as office and logistics, limited yield movement has been seen, reinforcing the message that capital has been diverted into residential and alternative sectors.

The yield compression experienced within the PBSA sector follows a trend of institutionalisation, as institutional funds who previously focused on the traditional commercial asset classes have increased their focus on the sector. This has particularly been the case since 2017, as prior yield compression experienced within the sector has delivered strong returns and capital growth, making it increasingly attractive to investors looking to re-distribute capital.

PBSA TRANSACTION VOLUME 5-YEAR TREND (£M)

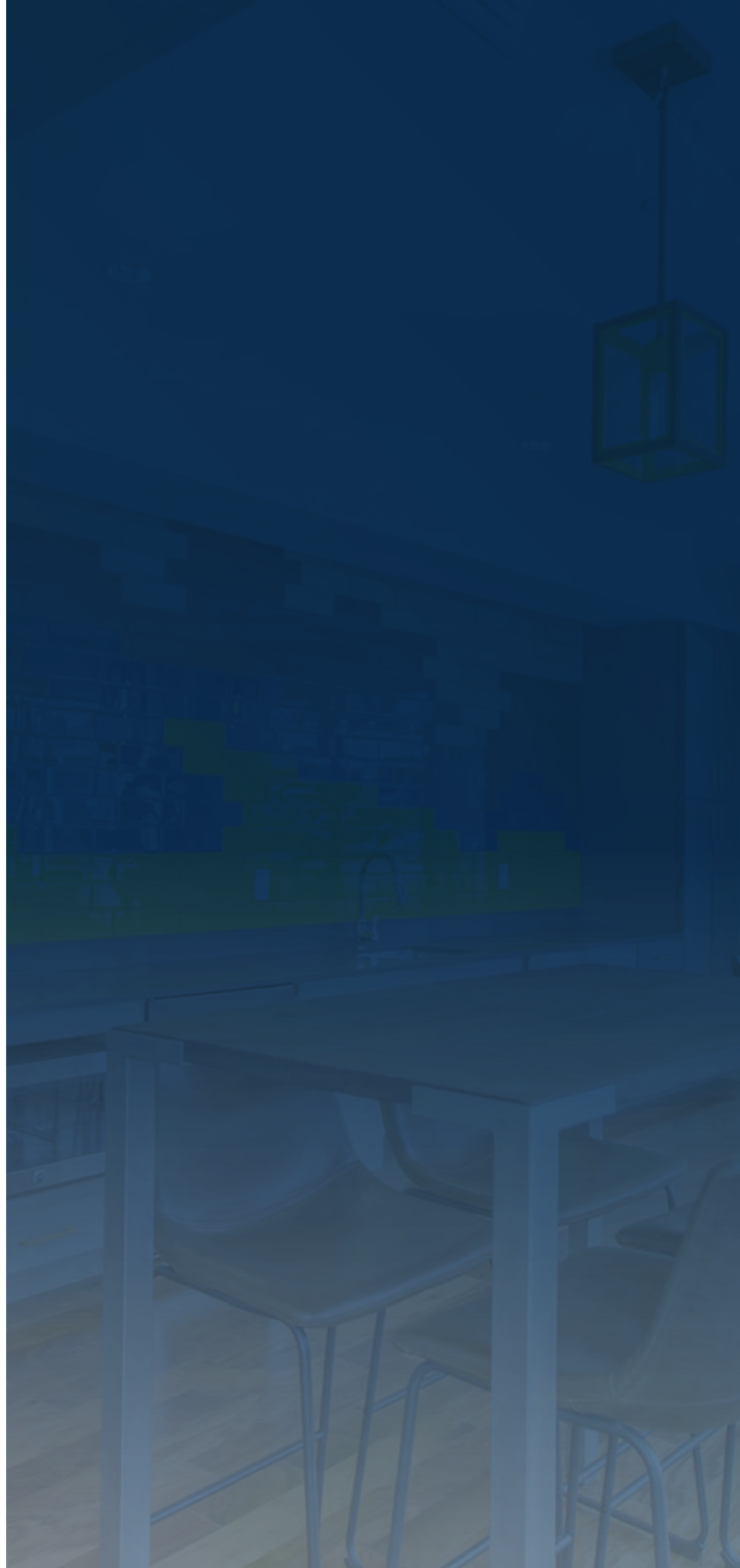


Source: Cushman & Wakefield Student Accommodation Tracker

PBSA transaction volumes consistently grew between 2009 and 2014, culminating in a sharp peak in 2015 when the highest PBSA investment volumes were recorded at close to £6bn. Since then the market has experienced yearly volumes of between £3.5bn in 2018 to just under £5bn in 2017 averaging around £4bn in total. 2019 is anticipated to deliver close to £4.5bn of volumes if a number of key transactions complete in Q4, notably the Unite acquisition of Liberty Living, and placing it above the 5-year average. Overall, the ongoing increase in PBSA transaction volumes since 2009 highlights the increased institutionalisation of the sector.



DEBT FINANCING



PBSA

THE LENDER'S PERSPECTIVE

Octopus Real Estate is a leading UK specialist real estate lender and investor with £2.1 billion funds under management. We provide debt and equity investments across a range of real estate sectors - from commercial to care homes, residential bridging to ground-up residential development, and retirement communities to purpose-built student accommodation ("PBSA"). Octopus Real Estate continues to invest in and support the real estate sector. In October 2019, we completed a record of £127 million of lending in a single month.

While considering the current climate, we view the PBSA sector as being counter-cyclical and offering diversification to our portfolio. We have deployed over £200 million to PBSA development schemes in the past 18 months, across several locations including Bristol, Coventry and Glasgow.

The past few years have seen the PBSA market mature as an asset class and it is no longer viewed as an alternative sector. Transactions levels highlight this, with £3.8 billion completed in 2018 and £4 billion expected to have closed this year. Additionally, development activity is still pushing forward; 30,000 beds will be delivered in 2019, bringing the total stock in the UK to around 600,000 beds. The student to bed ratio, although location specific, is strong with an average of 2:1. Generally, with UK universities remaining some of the best in the world, the UK remains an attractive option to international students. We expect the student population to rise and that demand will continue to outstrip supply. Consequently, we remain buoyant on the sector and consider it to be a key part of our future growth strategy.



GAVIN EUSTACE

Head of Residential Development
at Octopus Property

Alongside the PBSA asset class becoming more mainstream, the debt finance market is undergoing a similar evolution. More finance providers are realising the opportunity and are moving into the sector.

The track record of the sector allows granular analysis, and as a result debt facilities can be more accurately structured to reflect the market's experience of operational costs, tenant rates and exit yields.

As a debt lender, we will look at three main factors when assessing the viability of PBSA schemes:



LOCATION

Specifically, the university that the scheme will support, and its performance (e.g. ranking, enrolment numbers), drilling down further into the existing student to bed ratio and the pipeline of developments expected to come on-line. The micro location is also key, along with distance to the university, room mix, price and distance from amenities.




SALE OR REFINANCE STRATEGY

This varies across borrower types with some looking to build and sell, whilst others may be building a portfolio for sale. In the latter case, the refinance market is key to setting initial gearing (interest cover, leverage, occupancy rate, stabilisation period).



BORROWER

The developer's past development experience, the choice of contractor and method of construction (traditional/modular). We also consider the chosen operator's experience alongside the strategy and target market.

A photograph of three young men in a courtyard with a brick building and a hanging basket in the background. The image is overlaid with a dark blue filter. One man is on the left, another in the center, and a third on the right, gesturing towards the building.

Generally, as the current political climate is causing uncertainty, we remain confident in the UK real estate market, and the PBSA sector is a key pillar of this. We believe supply continues to be outstripped by demand and international students remain a key part of this.

“

The UK is an attractive place to study, with a high standard of universities, relative affordability of degrees and our student visa policy now in line with Australia and America. These factors will continue to support the market, making PBSA a key counter-cyclical investment class.



CUSHMAN &
WAKEFIELD