JLL UK Student Housing Quarterly Bulletin

2016 Q2 Review

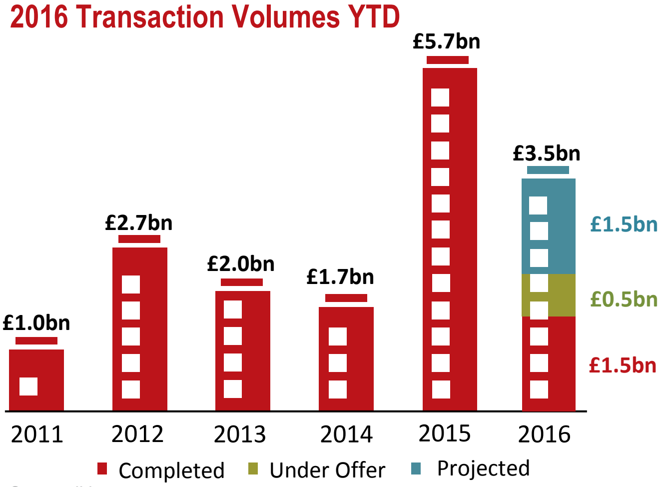
The Market

'Whilst investor sentiment across all real estate capital markets has certainly softened in Q2, demand for good quality, well-located student housing schemes has remained buoyant. With the EU Referendum resulting in widespread caution and nervousness, the sector will benefit from student housing's comparative resilience to wider economic issues with prime yields predicted to remain robust with good occupancy and attractive income growth for the 2016/17 academic year.'

Current Market Activity

Comprising 5,681 beds in regional locations, the completion of the Rose Portfolio in May highlighted the continued demand from overseas investors for scale in the sector, and also marked another new entrant to the student housing investment market. Another portfolio which transacted in Q2 consisted of six development sites (c.1,100 beds), sold by McLaren and acquired by Hines for around £150m. The market for single assets in regional locations was equally active; transactions included Victoria Point in Manchester, Pennine House in Leeds and Blythswood House in Glasgow. Forward funding agreements completed include Europa House and Chaucer House in Portsmouth and Godiva Place in Coventry. JLL advised on the disposal of a development site on Skelhorne Street in Liverpool with planning consent for 713 beds.

2016 Transaction Volumes YTD



Source: JLL

JLL has produced a note providing initial thoughts on the impact of Brexit on the Purpose Built Student Accommodation (PBSA) market and Higher Education, summaries of which are detailed below and overleaf.[1]

Impact of Brexit on Student Housing Investment

It is still too early to have definite views on the implications for the PBSA market, although the sector looks less vulnerable to the Brexit shock in comparison to other property sectors.

In comparison to the global financial crisis, UK banks are now better capitalised than they were in 2009 and have been deleveraging from commercial property over the past seven years. We continue to retain a functioning debt market and there is plenty of equity in the markets looking for opportunity, although whether that equity can price match perceived risk is unknown at the moment.

The PBSA sector demonstrated its comparative resilience during the global financial crisis. Once again strong fundamentals should moderate any short-term correction in pricing whilst the structural undersupply of PBSA is likely to underpin rental growth. The depreciation in the pound and fall in gilt yields, coupled with the diverse investor base that now characterises the UK PBSA market, could see investors quickly re-enter the market once opportunities arise. After a pause on new transactions that were planned to come to market had the Referendum outcome been to remain in Europe, there is likely to be an uptick of deals in September once occupancy has been booked and political uncertainty has diminished. YTD transaction volumes have already exceeded 2009's total and our pre-Brexit forecast for total transaction volumes for 2016 remains unchanged.

UK universities will continue to be attractive to domestic and international students for whom sterling depreciation will make the UK a more affordable destination to study. The UK is not dependent on EU students who represent only around 6% of full-time students. Operator exposure to EU students is therefore predicted to be limited and any modest impact on occupancy levels could be offset by a potential increase in demand from international students outside the EU.

[1] If you have not already received, but would like a copy of this note please contact Natalie.Sewell@eu.jll.com.

Impact of Brexit on Higher Education

The UK Higher Education sector is already global in outlook and predominantly lobbied for continued EU membership. With existing global connections, it is better placed than many sectors to handle the implications of Brexit. The key areas to monitor for impact will be around research and teaching.

10% of UK research funding comes from the EU: nearly £20m per week. If this is reduced it would need to be replaced by the UK government or by other funds. There is also a concern about whether any restrictions on the freedom of movement will impact the ability to recruit high calibre EU researchers into UK research teams. This issue is about perception as much as actual visa controls.

At an occupier level we anticipate that UK universities will continue to lead the world and will remain attractive to domestic and international students now more than ever following the depreciation of the pound. While overseas students are crucial to its performance in London in particular, students from outside the EU, notably China, are arguably more important. Any potential reduction in EU immigration may make it easier for the UK Government to adopt a more flexible visa regime that might attract more non-EU students.

In all these areas, in order to weather the storm, the UK Higher Education sector will look to capitalise on the world-class brand that it has built.

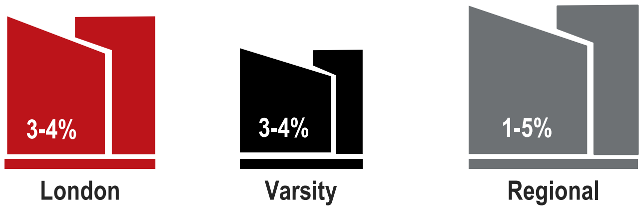
Yield Forecast

	Direct Let		25 Year FRI Lease	
	Current	**Forecast**	**Current**	**Forecast**
Prime London	4.50%	Hardening	4.00%	Hardening
Inner London	5.00%	Stable	4.25%	Hardening
Prime Varsity Regional	5.25%	Stable	4.50%	Hardening
Prime Regional	5.50%	Stable	4.75%	Hardening
Other Regional	6.25%+	Softening	5.00%	Hardening

Source: JLL - Note: Referenced against appropriate cash flows and applies to single 'best in class' assets excluding any portfolio premium.

As a result of the wider political and economic backdrop, the investment market is likely to witness additional demand for prime, core assets as well as opportunities that offer secure, long-term income. However there could be a delay in investors realising these strategies whilst they seek further clarity on the full implications of Brexit, and in light of the lack of transactional evidence since the outcome of the Referendum, there is a degree of uncertainty surrounding the above yield forecast.

Annual Rental Growth Projection



Source: JLL - Note: Regional rental growth provides indication of general tone across different markets.

JLL does not predict a change in rental growth rates in most locations within the short term. The occupational demand for student accommodation remains largely undiminished, whilst data shows rental growth has historically recorded steady growth in times of market volatility.

UK Current Economic Indicators

IPD All Property	10.4	▼	Unemployment	5.1%	◄►
Inflation (CPI)	0.1%	▲	FTSE All Share	3515	▲

Note: Arrows indicate movement on last month. IPD based on last available period.

Economic Forecasts

Forecasts (% on previous year)	2015	2016	2017
GDP	2.2%	1.6%	0.7%
Inflation (CPI)	0.1%	0.7%	2.4%
3 Month Interbank	0.6%	0.3%	0.3%
10 Year Gilt	2.1%	0.9%	1.1%

Source: Consensus Forecasts as at 11 July 2016.

Following the outcome of the Referendum, the Bank of England has promised to take any necessary steps to ease financial strains in the market. We therefore expect the current period of low interest rates to continue for a sustained period, with the possibility of further reductions in interest rates over the coming months.

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