

UK Student Housing

Quarterly Bulletin

2018 Q1 Review

The market

'Levels of activity in the student housing investment market have remained high into 2018, with £1bn of transactions in the first quarter following the £4.1bn of traded stock in 2017. With the sale of the Curlew portfolio completing in Q1 this year, and another two high-profile portfolios having recently been brought to market, 2018 looks likely to be another strong year. The particularly varied nature of product currently available on the market, from single assets to portfolios, can offer opportunities to a wide spectrum of investors looking for exposure in the sector.'

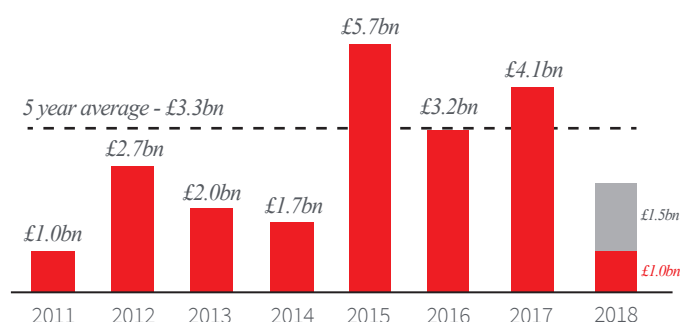
Current market activity

Q1 saw a number of schemes at the affordable end of the occupational market transact, including 123 Fountainbridge in Edinburgh purchased by Unite Students for £24 million, reflecting a capital value of £72,500 per bedroom. Empiric Student Property remained active purchasing Emily Davies Halls of Residence, a non en-suite student accommodation asset in Southampton currently leased to Southampton Solent. The price, at £10.6 million, reflected around £44,000 per bedroom.

The key portfolio transaction of the quarter was Brookfield Property Partners' purchase of the Curlew Portfolio for around £520 million, reflecting £96,000 per bed. The portfolio included 15 properties in 12 predominantly regional university towns and cities, six of which are new markets for Student Roost who will operate the portfolio. Curlew continue to acquire opportunities to build up their second fund.

JLL has recently brought the Mayflower portfolio to the market on behalf of Unite Students, comprising 3,436 beds across 13 assets. With a focus on affordability, the portfolio is expected to attract interest from a broad range of global investors. Fusion Students are also marketing a portfolio of 1,850 beds, offering an opportunity to acquire four high-end assets.

Investment volumes YTD



Source: JLL

■ Completed ■ Under Offer

Student numbers analysis

This quarter we provide analysis and commentary on recently published data relating to UK student numbers.

Full-time student numbers on the increase

The average increase for full-time student numbers from 2015/16 HESA figures across the UK is 3.3%, so anything above that level reflects a strongly performing university.

Reflecting an average increase of 8.5%, the top 20 universities with the largest increases in student enrolments have an average ranking of 39 in the Times Good University Guide 2018, highlighting the recent success of mid-tier ranked universities in attracting and securing students.

Introduction of TEF likely to impact future trends

Whilst league tables have been a key consideration for students in deciding their academic institution of choice, the Teaching Excellence Framework (TEF) rankings which were published for the first time in June 2017 are also likely to inform prospective students' preferred place of study. Those non-Russell Group universities which have been awarded the highest gold rating, which may not have previously achieved a top league table position, are likely to benefit as a result. With the TEF rating system in its first year, we

would anticipate a number of changes to the process as it becomes established in the years ahead.

Demographic Fundamentals

The year-on-year variations in the size of the total UK 18 to 21 year old demographic have a significant impact on the total UK full-time student numbers. Whilst the number of full-time students has continued to rise, the decrease in the size of this demographic over recent years has been a key factor behind the relatively flat numbers of university applications over the similar period (decrease of -3.7% for 2017/18, increase of 0.3% for 2016/17). However, the population of UK 18 to 21 year olds is projected to grow by over 170,000 between 2020 and 2030. Taking into account this growth, along with the anticipated continued increase in participation rates, a recent HEPI report has projected a potential increase in demand for 350,000 student places by 2030. The positive impact on Purpose Built Student Accommodation (PBSA) in the short to medium term is therefore likely to be significant.

Competitive PBSA rents against HMOs

PBSA rents are often marketed at a significant premium to HMOs, reflecting the greater convenience, security, service offering and overall quality that this accommodation offers. However, with affordable PBSA schemes in some regional locations achieving rents at around £90 to £110 per week, there are some local markets where this reflects only a small premium to HMO rents. The premium of PBSA rents is further eroded after factoring in the cost of utilities of circa £40 per week per bedroom on top of non-inclusive HMO rents.

In these circumstances, PBSA is a particularly appealing option from an occupational perspective due to the good value it offers students. From an investment perspective, the fundamentals are also attractive due to reduced letting risk associated with rooms at this price point and viability constraints on ground-up development for schemes of this nature.

HMO occupancy costs increasing to a level roughly in line with PBSA can be indicative of strong levels of demand for residential rented accommodation within that local market. From a planning perspective, the development of further PBSA to relieve the pressure on the housing market and free up dwellings currently occupied by students is an important consideration.

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Yield forecast				
	Direct let		25 Year FRI lease	
	Current	Forecast	Current	Forecast
Prime London	4.25-4.50%	Strengthening	3.50%	Strengthening
Inner London	4.75-5.00%	Strengthening	3.75%	Strengthening
Prime regional	5.25-5.50%	Stable	4.00%	Strengthening
Secondary regional	6.00%	Stable	4.25%	Strengthening
Other regional	7.00%+	Stable	4.25%	Strengthening

Source: JLL

Note: Referenced against appropriate cash flows and applies to single 'best in class' assets excluding any portfolio premium. These yields are intended as a guide and we would emphasise the need to appraise individual schemes on a case by case basis.

UK current economic indicators				
IPD All Property	0.7%	▲	Unemployment	4.4% ▲
Inflation (CPI)	2.7%	▼	FTSE All Share	3991 ▼

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

Economic forecasts			
Forecasts	2017	2018	2019
(% on previous year)	(actuals)	(forecast)	(forecast)
GDP	1.8%	1.8%	1.6%
Inflation (CPI)	3.0%	2.2%	1.6%
Bank of England Base Rate	0.50%	0.50%	0.50%
10 Year Gilt	1.2%	1.7%	2.3%

Source: Consensus Forecasts as at February 2018.