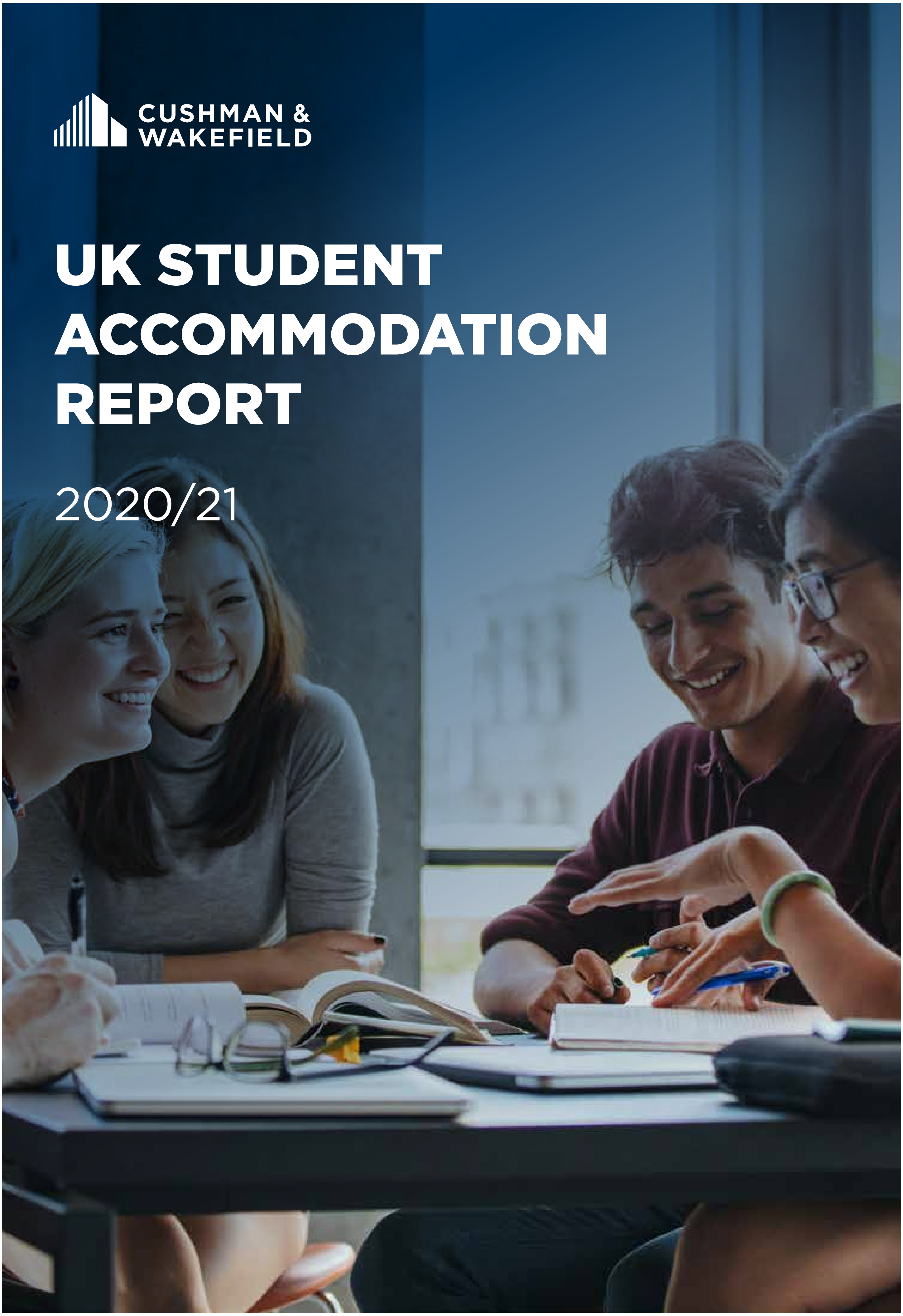
CUSHMAN & WAKEFIELD

UK STUDENT ACCOMMODATION REPORT

2020/21



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FOREWORD

Looking back to January 2020 seems a world away. The cycle began with the largest planned intake of undergraduates in history. The most international students ever recruited by UK universities. Two months later, and for the period until March 2021 we have experienced one of the least expected, but most disruptive events to hit our sector, economy and society in the form of COVID-19.

During this academic year and last, universities and student accommodation providers have been faced with some very significant challenges. The direct impact of the pandemic saw universities managing the safety of students and staff on campus and reacting daily to new guidance and testing regimes. Universities and student accommodation providers have had to react to the challenges of campus closures/adaptation, the increasingly online nature of teaching, rent rebate decisions, outbreaks and isolations. Despite everything, residences have remained open, serving those who remained to study and those who were unable to return home. We would like to express our admiration to all those staff who have been involved and the commitment you have all shown to students during this time.

In our Annual Report this year we showcase the key student accommodation statistics across our multiple strands of expertise. Some of the major points demonstrating the underlying health of the market are:

- **Strong demand:** Student number growth is showing no signs of slowing down with the latest HESA data available (2019/20) recording a total of 2.02 million full-time students studying in the UK. 1.18 million students (61%) are studying outside of their home region
- **Student flight to quality:** The A-Level u-turn fuelled even more growth at the most successful universities. Rental growth was achieved in the best rooms, even in challenging markets
- **Growth in supply:** 24,799 new beds entering the market in 35 locations for the 2020/21 academic year, meaning there are now 681,000 rooms in student accommodation
- **COVID's impacts are significant but not "worst case"** - Occupancy has exceeded many providers' expectations, except in London. COVID has impacted directly in occupancy terms, but investment decisions may have provided some underlying relief – 3,800 beds removed from supply and delayed delivery of a further 10,000 beds
- **Average rents continue to rise,** with new university en-suite beds priced 17% higher in 2020/21 than in 2019/20. Privately sector rents for new en-suite rose by 11%
- Yields have held steady in prime locations, but there is an increasing gap between prime and tertiary locations
- **Healthy investment market:** Student accommodation transactions represented 11.6% of total investment volume market share across the UK in 2020, ahead of multifamily (9.6%) and hospitality (3.0%), and there remains significant latent demand for investment stock and operating platforms

Market fundamentals continue to be very strong and demand will increase as soon as the restrictions are lifted. COVID-19 has brought challenging and uncertain times, but these are temporary. Vaccines are being deployed, and we have kept our eyes on the future, where the fundamentals drive greater levels of demand for higher education over time:

- **Growing numbers of UK 18 year olds –** HEPI predict a need for more than 40,000 additional study places just to account for population growth by 2035
- **Increasing participation rates –** as higher level qualifications are needed in the labour market, if participation continues to rise, between 324,000 and 381,000 study places would be needed by 2035 according to HEPI
- **A lack of alternatives –** rising youth unemployment, gap year travels postponed, and a hostile labour market
- **Continued demand from international students due to the UK's reputation for quality education.** 2021 UCAS applications from non-EU students increased 17%, with record rises from China, India and the US. There is a continuing need for students to demonstrate global citizenship in the labour market. Sterling remains affordable, contributing further to international student demand
- **Young people –** their aspirations and rites of passage (below)

Our clients have been faced with many uncertainties during this time, leading to questions about the future demand implications for student accommodation. Students, on the other hand, although challenged by this situation have made it clear that they are intent on continuing their own path, navigating the disruption and adapting to difficult new situations. Surveys have shown that going away to study is still the preference of young people. Students value being on campus and have greatly missed that experience. And the valuable life experiences, wellbeing support and sense of community that students gain from living in residences have never been more important.

Throughout the last year we have stayed close to our client base, helping with the most pressing requirements, and sharing as much intelligence as we could. In these challenging times it has been a privilege to support our clients in every way we can.

There will be a series of briefings accompanying this report, and we hope you will join us to discuss the findings and much more.

MARKET ANALYSIS

HEADLINES

DATA

681,000 BEDS FOR 2020/21

24,799 NEW BEDS, WITH A NET INCREASE OF **21,000**

1.8% PRIVATE SECTOR RENTAL GROWTH (BEFORE INCENTIVISATION)

PRICE OF A NEW UNIVERSITY EN-SUITE BED IS NOW **17%** HIGHER THAN IT WAS IN 2019/20

A RECORD **25%** OF DIRECT-LET BEDS OFFERED DISCOUNTS OR INCENTIVES AS THE EFFECTS OF COVID-19 WERE FELT IN THE MARKET

115,000 BEDS IN THE PIPELINE

ANNUAL COST OF A UNIVERSITY EN-SUITE NOW JUST **0.3%** LOWER THAN IN THE PRIVATE SECTOR

JUST **41%** OF BEDS ARE NOW SOLELY OWNED AND OPERATED BY UNIVERSITIES

202,000 FIRST GENERATION BEDS, OVER **80%** OWNED BY UNIVERSITIES

119% INCREASE IN DIRECT-LET BEDS SINCE 2013/14 & ONLY A 4% RISE IN WHOLLY UNIVERSITY-OWNED STOCK

Student Demand

The number of students studying in Higher Education in the UK has reached a new high, with ***2,015,320 full-time students*** *in 2019/20 – a* ***3.9%*** *increase on the previous year. Whilst undergraduates have grown by* ***2.3%*** *on 2018/19, a significant* ***10.5%*** *increase in postgraduates is changing the profile of the student body at a number of institutions, with* ***20% of students*** *now studying at this level.*

26% of the student body is now from outside the UK, with this cohort growing by 27% over the last five years. Looking forward, whilst considerable uncertainty remains as to the short-term scale of demand for student accommodation, the number of students studying outside of their home region continues to rise, with demand set to be bolstered by extremely positive applications for places for 2021/22 entry.

KEY STATS

2.015 MILLION
FULL-TIME STUDENTS 2019/20

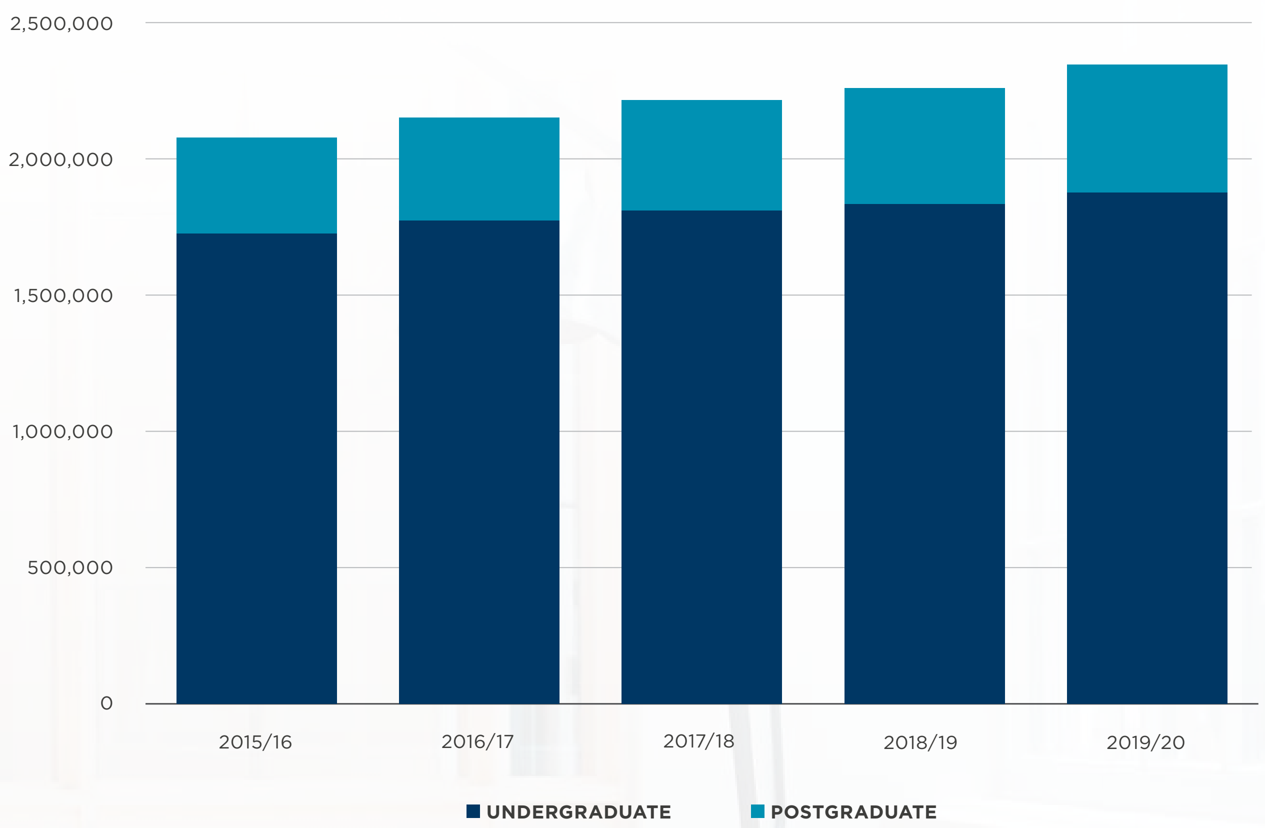
74,925 GROWTH
IN STUDENT NUMBERS THIS YEAR

14% GROWTH
IN STUDENT NUMBERS OVER THE LAST FIVE YEARS

1.18 MILLION
STUDENTS STUDYING OUTSIDE OF THEIR HOME REGION

404,000
POSTGRADUATE STUDENTS

FULL-TIME STUDENT NUMBERS 2015/16 TO 2019/20



Source: HESA 2015/16 to 2019/20

Amidst the COVID-19 pandemic, acceptances to UK universities for 2020/21 through UCAS rose by 5.4%, far above the 1.5% increase recorded in 2019. Increases were recorded across all domiciles, with non-EU acceptances growing by 16.9%; although with curtailed levels of international travel and the impact of lockdowns on campus activity, the numbers of students in residence and indeed, in the UK, has been materially impacted.

Nearly two-thirds of students benefited from a grade increase as a result of the cancelling of A-Level exams and the awarding of predicted grades, impacting acceptances to universities by tariff band. High tariff institutions recorded a 13.2% increase in acceptances compared to only 1.1% for low tariff universities. Three Russell Group institutions saw a 25% increase in acceptances, whilst one low tariff provider suffered a 43% fall.

Whilst Q4 of 2020 and Q1 of 2021 have been characterised by uncertainty, the UCAS January application deadline has resulted in some welcome good news for the sector. The number of applicants for 2021/22 entry has risen by a huge 8.5%, far above the 1.2% increase seen last year. In fact, this one year increase is over 100% higher than the increase in applicants between 2012 and 2020. The increase is also higher than the 5.6% growth in applicants seen during The Great Recession.

Whereas both UK (+11.6%) and non-EU (+17.1%) applications have grown considerably, the January deadline has seen a near 40% reduction in EU applications to study in the UK in 2020/21. Students are likely to have been dissuaded by international fee levels at the majority of UK institutions in 2021/22, although the timing of student decision making when the UK's future relationship with the EU was still far from clear may also have impacted demand.

The 2021/22 January deadline has seen an increase in applications across all tariff bands and an increase in applications to every subject area except languages. Longer term trends show a continued flight in applications to the perceived highest quality universities, although the impact of these competitive forces through the UCAS system does not tell the whole story of recent student number growth.

JANUARY 2021 DEADLINE SEES AN

8.5%

INCREASE IN APPLICATIONS FOR 2021 ENTRY

APPLICATIONS TO LOW TARIFF PROVIDERS UP

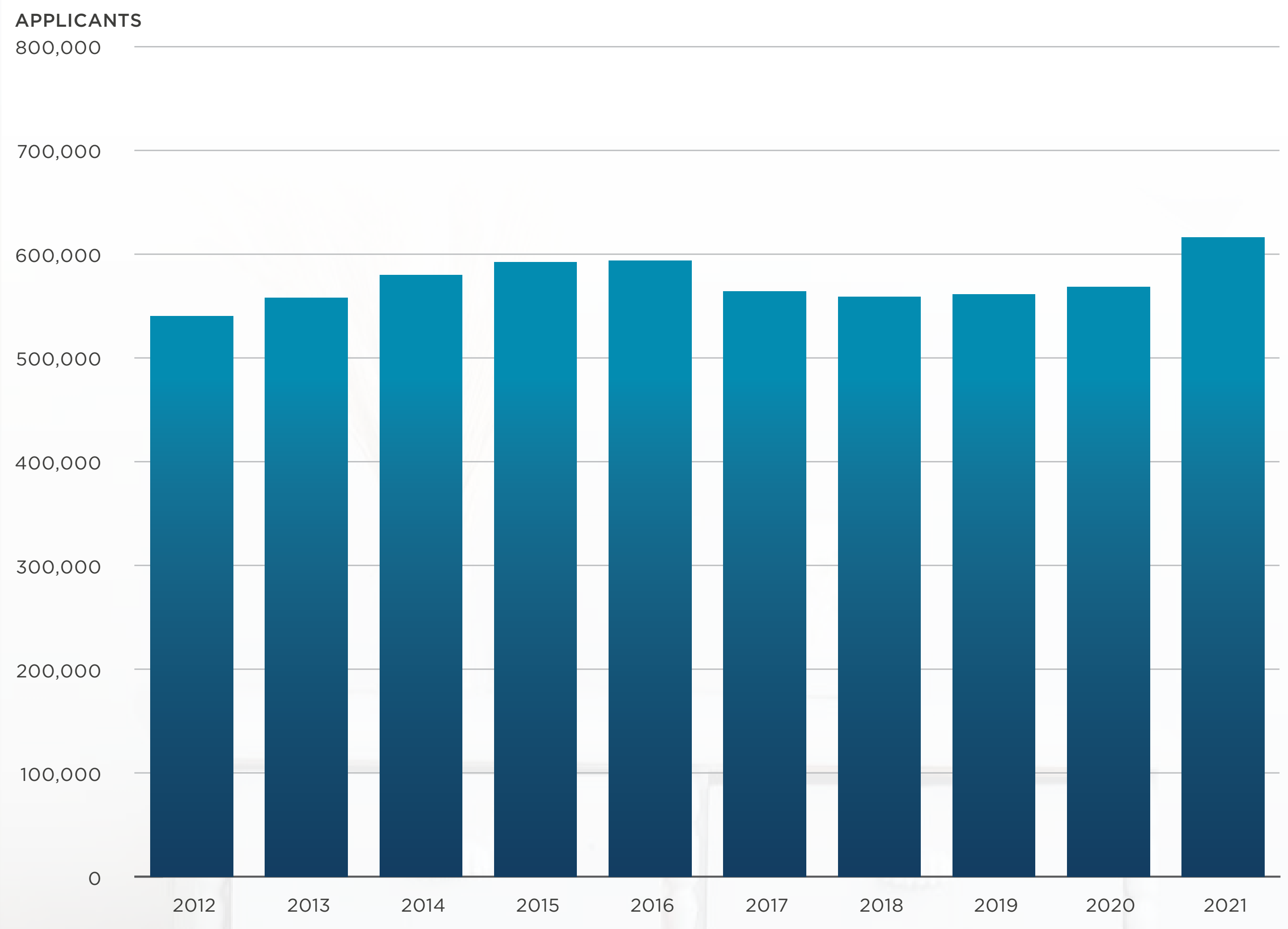
9.4%

HIGH TARIFF PROVIDERS UP **10.8%**

17.1%

INCREASE IN NON-EU APPLICANTS AMID CONTINUED INTERNATIONAL TRAVEL UNCERTAINTY

UCAS APPLICANTS 2012-2021 (JANUARY DEADLINE)



Source: UCAS 2012-2021

The marketisation of Higher Education continues to change the profile and scale of universities across the UK, with further huge changes evident in institutional recruitment. The last five years have seen 16 universities increase full-time numbers by 5,000 students or more, with nine of these from the elite Russell Group and four highly ranked post-1992 institutions with strong links to industry and records of employability.

However, the last five years have seen the most significant percentage changes in recruitment at the UK's newest universities – both positive and negative. All of the five fastest growing institutions since 2014/15 were incorporated after 1992, whilst the four of the five providers that have seen the largest falls in recruitment also became universities after this date.

One of the major themes of recent years has been the flight to quality institutions and significant falls in recruitment at some lower ranked universities. However, the last year has seen 32 institutions increase full-time students by 1,000 or more, with almost two-thirds of these being lower ranked new universities. This is despite the majority of these providers suffering a significant decrease in UCAS applications since 2012. Growth at these institutions has been achieved through diversification and a substantial 45% increase in postgraduate taught recruitment in a single year. Significantly, this recruitment is being driven by non-EU internationals, which have grown by 89% in a single year.

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

KEY STATS

16 UNIVERSITIES
HAVE INCREASED FULL-TIME NUMBERS BY 5,000 OR MORE OVER THE LAST FIVE YEARS

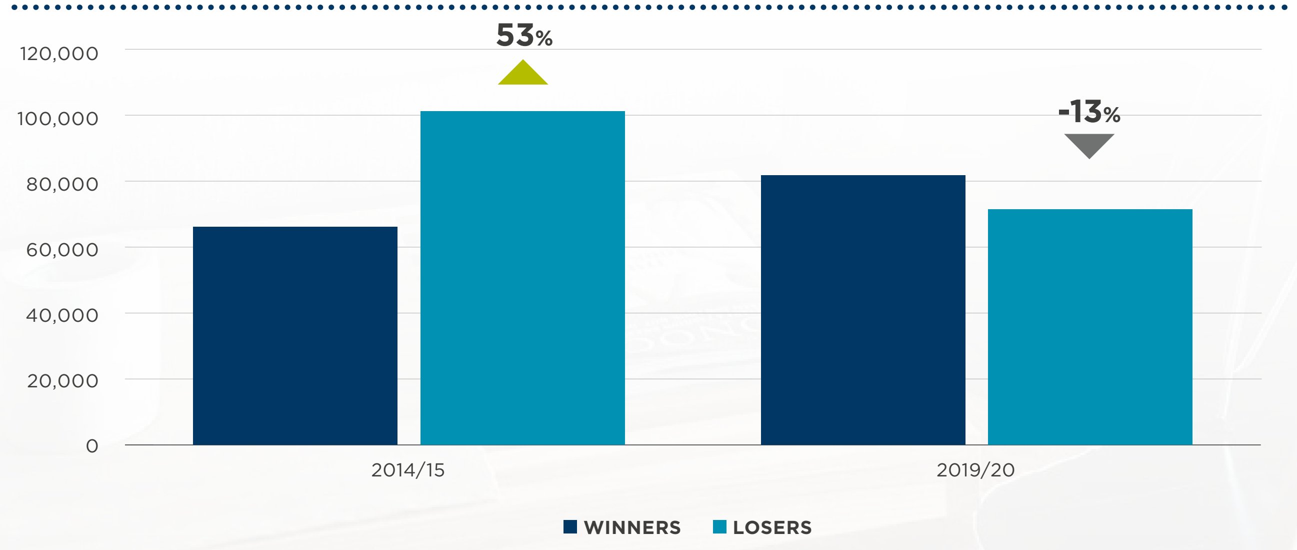
15 NEW UNIVERSITIES
HAVE ACCOUNTED FOR 45% OF ALL GROWTH OVER THE LAST YEAR

32 INSTITUTIONS
GREW NUMBERS BY 1,000 OR MORE BETWEEN 2018/19 AND 2019/20

53% GROWTH
FOR THE TOP FIVE FASTEST GROWING UNIVERSITIES (35,085 STUDENTS)

13% DECLINE
IN STUDENT POPULATION FOR THE WORST AFFECTED UNIVERSITIES (-10,275 STUDENTS)

MARKET WINNERS AND LOSERS 2014/15 TO 2019/20

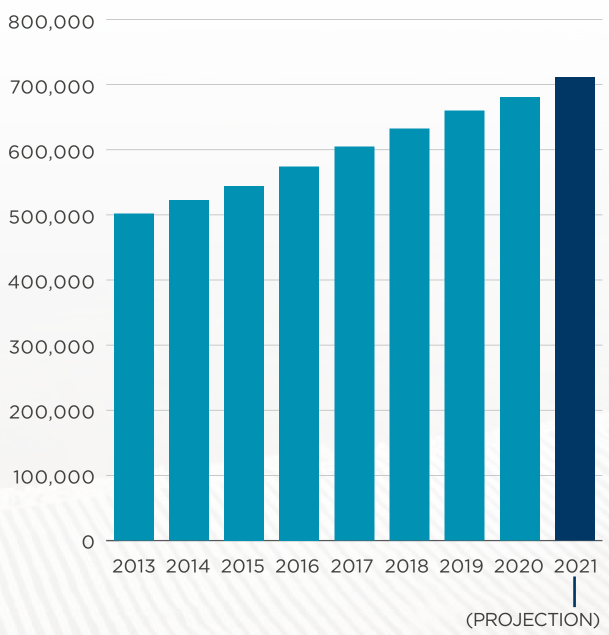


Source: HESA 2014/15 to 2019/20

Accommodation Supply

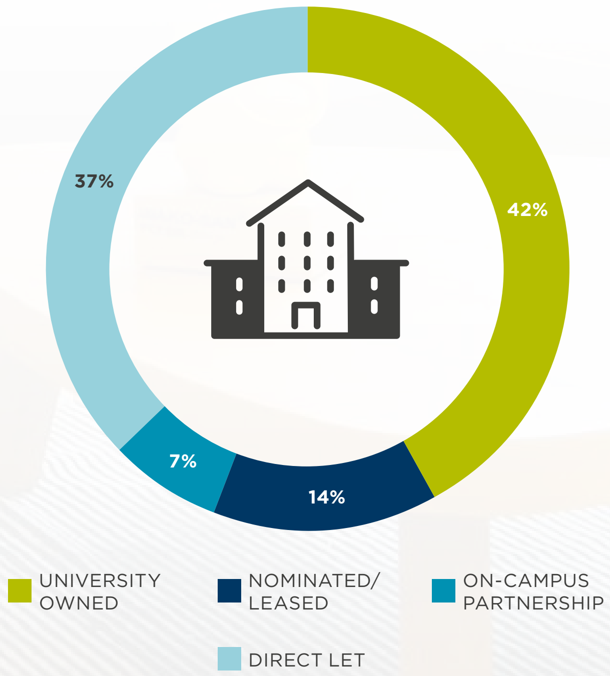
OVERVIEW

UK PBSA SUPPLY 2013-2021



Source: Cushman & Wakefield Student Accommodation Tracker

PBSA BY OWNERSHIP 2020/21



Source: Cushman & Wakefield Student Accommodation Tracker

*In an unprecedented year for Higher Education and student accommodation, there are now **681,000 beds across the UK** with **24,799 new beds** entering the market in 35 locations for the 2020/21 academic year.*

Whilst 2020/21 has been a turbulent year for the sector, the uncertainty raised by COVID-19 has resulted a significant reduction in new bed delivery in comparison to previous years and has arguably helped to dampen the impacts of pandemic on occupancy. This year, 3,800 beds have left the market resulting in a net gain of 21,000 beds, improving the overall quality of stock and increasing pent up delivery for 2021/22 and beyond.

Cushman & Wakefield projections show that 35,000 beds were expected to enter market (almost 10% more than in 2019/20) but the impact of the pandemic has delayed delivery of a number of schemes into 2021 and 2022. After five consecutive years of new bed delivery above 30,000 per year the pace of development was finally slowed by COVID-19.

This year the direct-let sector grew by over 24,000 beds, despite only 20,000 private sector rooms being delivered. Around 6,500 nominated beds returned to being directly let in 2020/21 adding to competition levels in a difficult market.

Uncertainty around recruitment meant a number of institutions ended short term agreements to mitigate financial impacts.

Ahead of the impacts of the pandemic being felt in the market, private sector rental growth stood at 1.8%, with nominated beds performing better than those in the direct-let sector (2.2% v 1.5%). 0.3% ahead of inflation. The impacts of COVID-19 on demand meant that 25% of all direct-let schemes offered some form of rent discount, cashback or incentivisation, with huge variances across markets.

! *KEY FACTS*

£7,040
AVERAGE PRIVATE SECTOR RENT (EXC LONDON)

£6,049
AVERAGE UNIVERSITY RENT (EXC LONDON)

58%
OF ALL BEDS ARE NOW EN-SUITE (390,000)

85%
THE PRIVATE SECTOR HAS DELIVERED 85% OF THE NEW BEDS THIS YEAR

51.4%
THE PRIVATE SECTOR NOW OWNS 51.4% OF ALL BEDS IN THE UK (350,000)

36%
STUDENT ACCOMMODATION BED NUMBERS HAVE INCREASED BY 36% IN SEVEN YEARS

119%
THE DIRECT LET SECTOR HAS INCREASED IN SIZE BY 119% IN SEVEN YEARS (139,000)

NEW BEDS

AVERAGE ANNUAL EN-SUITE RENTS 2020/21

PRIVATE EN-SUITE	£6,431
UNIVERSITY EN-SUITE	£6,404
NEW PRIVATE EN-SUITE	£7,643
NEW UNIVERSITY EN-SUITE	£7,564

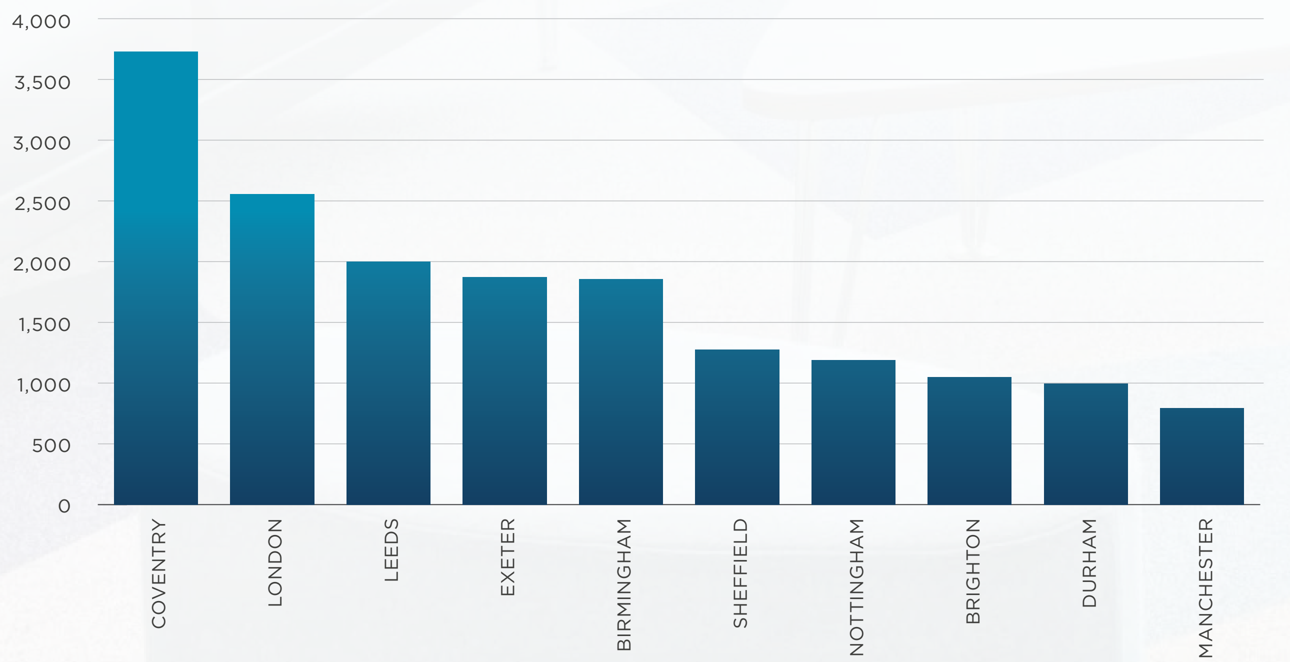
Source: Cushman & Wakefield Student Accommodation Tracker

As accommodation quality continues to rise, new en-suite beds (excluding London) in 2020/21 are priced ***18% higher*** *than the overall en-suite average for both the university and private sector – raising further questions around affordability.*

On an annual basis, a university en-suite is now priced at just 0.3% lower than one available through the private sector.

New university en-suite beds are priced 17% higher than those delivered in 2019/20 - driven by relatively high priced developments in three locations - whilst private sector en-suites cost 11% more. New en-suites this year are priced at 82% of the maximum regional Maintenance Loan. Despite this increased cost, an average en-suite bed is now priced at 70% of the maximum Maintenance Loan, down from 73% in 2019/20.

TOP CITIES FOR NEW BEDS

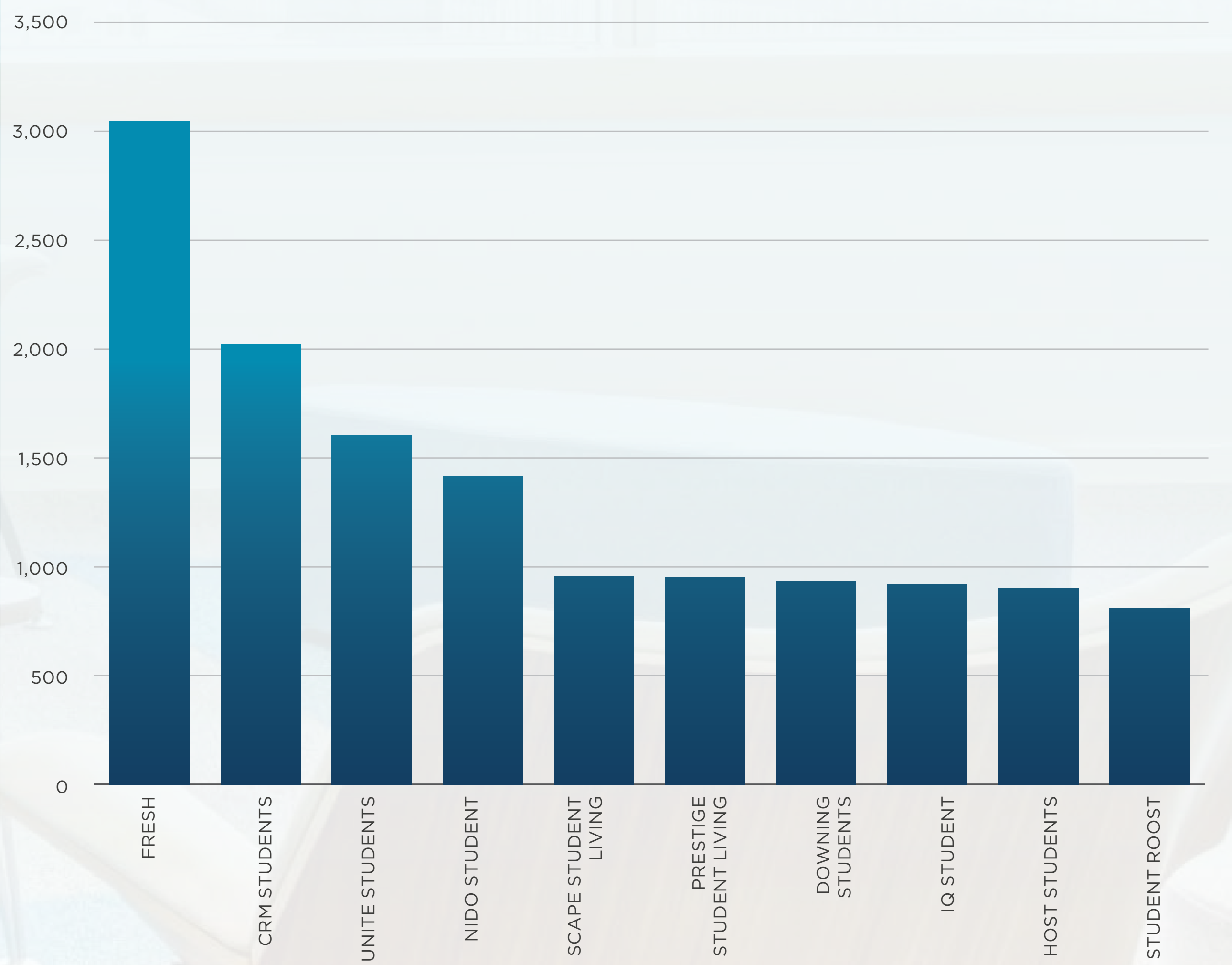


Source: Cushman & Wakefield Student Accommodation Tracker

This year saw significant development in Coventry, with over 3,700 new beds being delivered (16% of the total market). This figure would have been higher but for the fact that over 700 beds were pushed into 2021 after missing the September practical completion deadline. Reflecting recent trends, London saw only a 3% increase in new beds, although the pipeline in the Capital has now swelled significantly.

As was the case for the 2019/20 academic year, the number of new beds delivered in 2020/21 was tempered by late deliveries. 4,000 beds (or 12 schemes) initially advertised and earmarked to opened in 2020 have been pushed into 2021 as the impacts of COVID-19 were felt in the market.

TOP OPERATORS OF NEW BEDS



Source: Cushman & Wakefield Student Accommodation Tracker

RENTS BY LOCATION

AVERAGE ANNUAL RENTS 2020/21

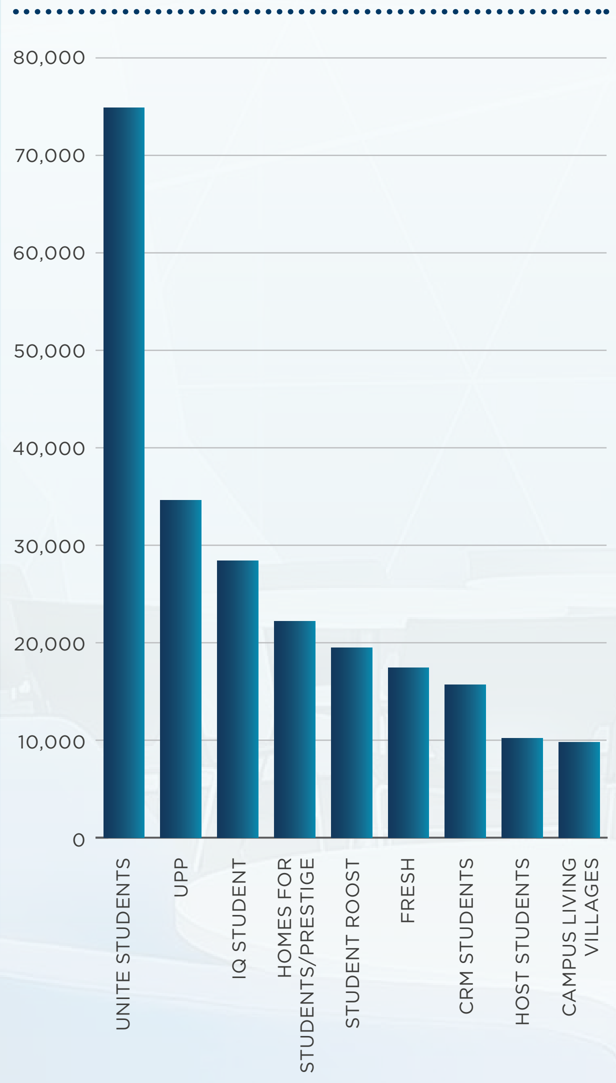
ABERDEEN	£125
BELFAST	£125
BIRMINGHAM	£149
BRISTOL	£174
CARDIFF	£131
COVENTRY	£152
EDINBURGH	£167
GLASGOW	£141
LEEDS	£151
LEICESTER	£138
LIVERPOOL	£130
LONDON	£238
MANCHESTER	£159
NEWCASTLE	£125
NOTTINGHAM	£146
SHEFFIELD	£124
SOUTHAMPTON	£149

Source: Cushman & Wakefield Student Accommodation Tracker

*There is now clear evidence of the segmentation of rents in regional markets. Average rents in six major regional markets range from **£125 to £131 per week** which is **£25-£55 per week** lower than in other regional locations for similar or even better quality products. It remains to be seen how these differences in pricing will impact wider student decision making about university choices – especially in a difficult economic environment where part-time employment opportunities may be limited and price sensitivity becomes even more acute.*

OPERATORS & OWNERS

TOP OPERATORS 2020/21

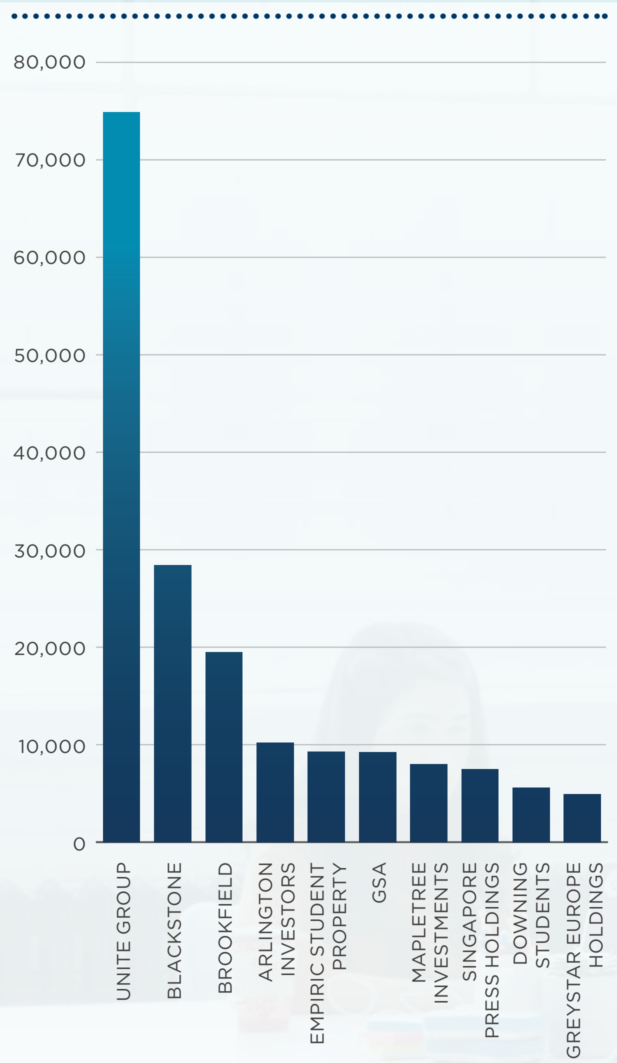


Source: Cushman & Wakefield Student Accommodation Tracker

*Unite Students remains by far the largest operator of student beds in the UK. The top two private sector owner/operators **(Unite Students & iQ Student)** operate just under a third **(30%)** of all private beds and nearly half **(48%)** of all nominated/leased beds. Notably, there is little differentiation between average rents and those leased/nominated by universities, with a wide variety of quality and pricing under agreements to extend and diversify accommodation portfolios.*

The proposed introduction of a post-qualification admissions system, the potential impacts of COVID-19 on university finances and the obsolescence of first generation stock indicates that university-private sector partnerships will become ever more important in the future.

TOP PRIVATE SECTOR OWNERS



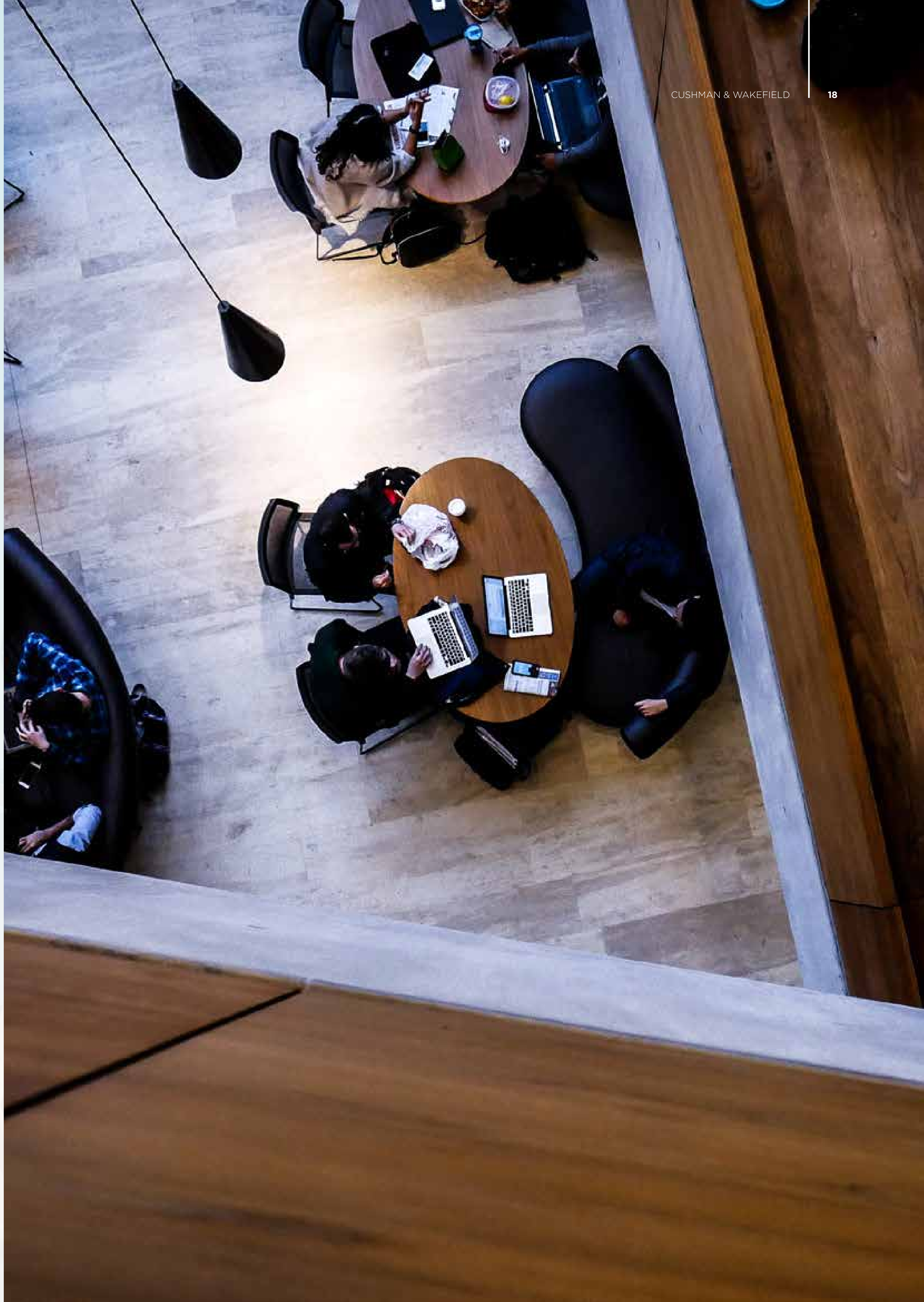
Source: Cushman & Wakefield Student Accommodation Tracker

THE TOP 10 OPERATORS CONTROL **59%** OF THE PRIVATE MARKET

THE TOP 10 OWNERS OWN **51%** OF PRIVATE SECTOR BEDS WHILST THE TOP 5 OWN **41%**

AT **7,051** LEEDS HAS THE MOST NOMINATED BEDS OF ANY REGIONAL MARKET

UNITE IS THE MARKET LEADER WITH **41%** OF ALL NOMINATED BEDS IN THE UK



MARKET PERFORMANCE OVER TIME

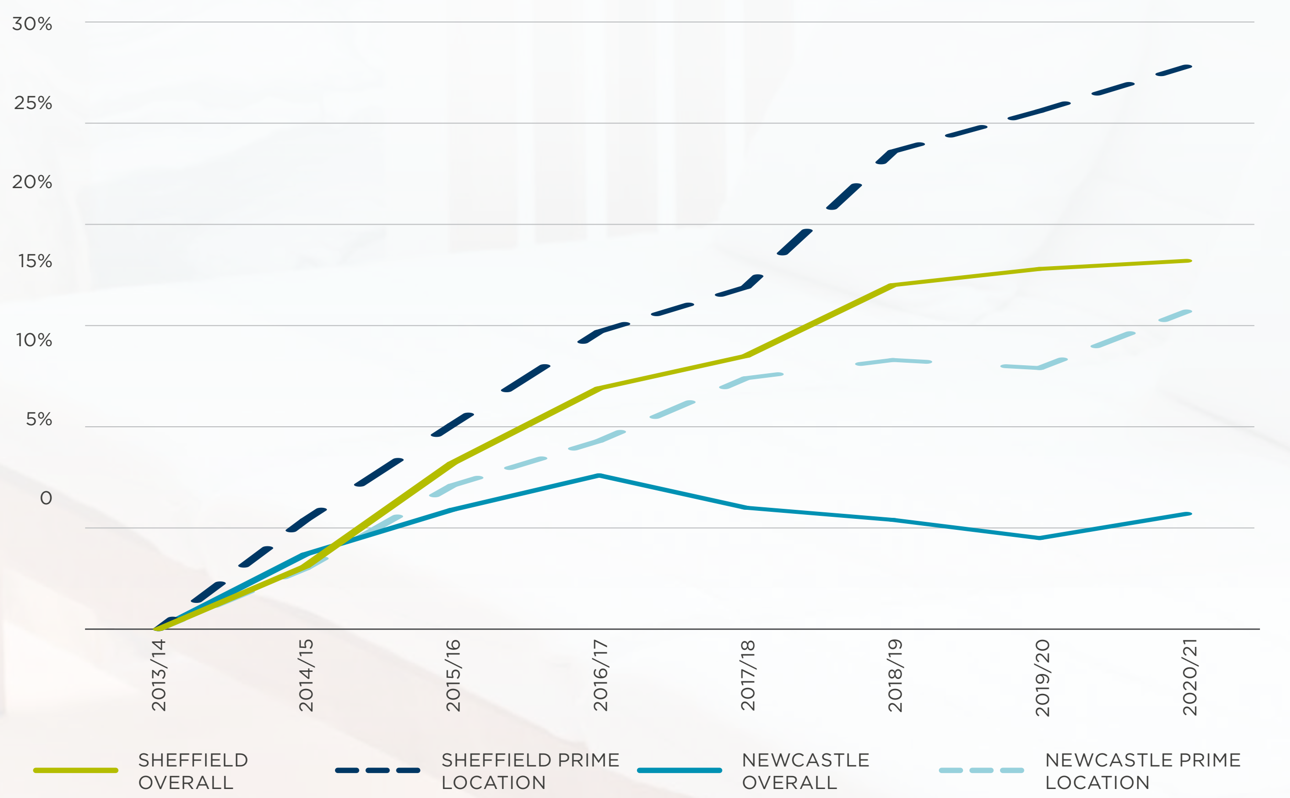
RENTAL GROWTH BY MARKET CATEGORISATION

OVERALL	18.8% (2.5%)
GRADE A MARKETS	26.5% (3.4%)
GRADE B MARKETS	25.4% (3.3%)
DIFFICULT MARKETS	5.4% (0.8%)
INFLATION	15.4% (2.1%)

Source: Cushman & Wakefield Student Accommodation Tracker

MICRO-MARKET LOCATION

TOP OPERATORS 2020/21



Source: Cushman & Wakefield Student Accommodation Tracker

*The best performing markets have delivered rental growth at close to double the rate of inflation between 2013/14 and 2020/21. These locations have seen rents increase by **33%** or **4.1%** a year, whilst the worst-performing market has seen rents fall by **10.5%** (in real terms) over this seven year period.*

The importance of market selection on long-term rental growth is now clear, with huge differences across different locations. On average markets rated as "Grade A" and "Grade B" by Cushman & Wakefield have delivered 3.4% & 3.3% rental growth per year respectively over this period, with "Grade A" rents increasing by 11% above inflation. Over the same period, "Difficult Markets" have delivered rental growth of only 5.4%, only 0.8% rental growth per year - 10% below inflation.

As well as the overall market, micro-location remains vital, although this is not always necessarily the closest proximity to campus. In Sheffield, the key area for product success remains the north west of the City Centre; whilst in Newcastle, locations north of the City Centre and west adjacent to the Business School continue to perform strongly.

Average Newcastle rental growth has tracked nearly 10% below inflation between 2013/14 and 2019/20 but has outperformed RPI in the best locations. Sheffield rental growth in the best areas has tracked 10% above that of other locations.

PRIVATE RENTED HOUSES

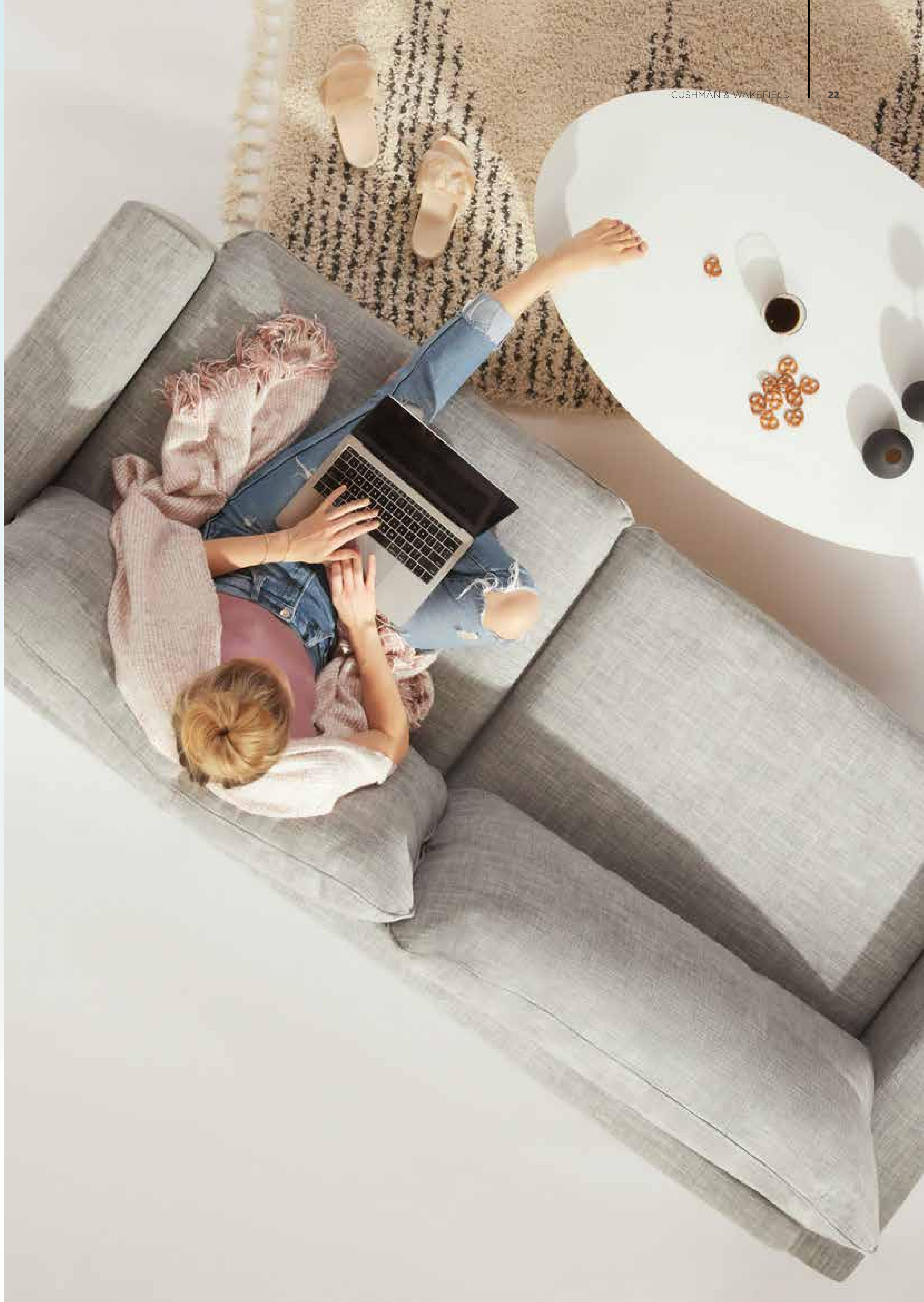
LARGEST HMO MARKETS

MARKET	STUDENTS IN HMOs
EDINBURGH	1st
GLASGOW	2nd
BIRMINGHAM	3rd
NOTTINGHAM	4th
LEEDS	5th

Source: Cushman & Wakefield, HMO = House in Multiple Occupation

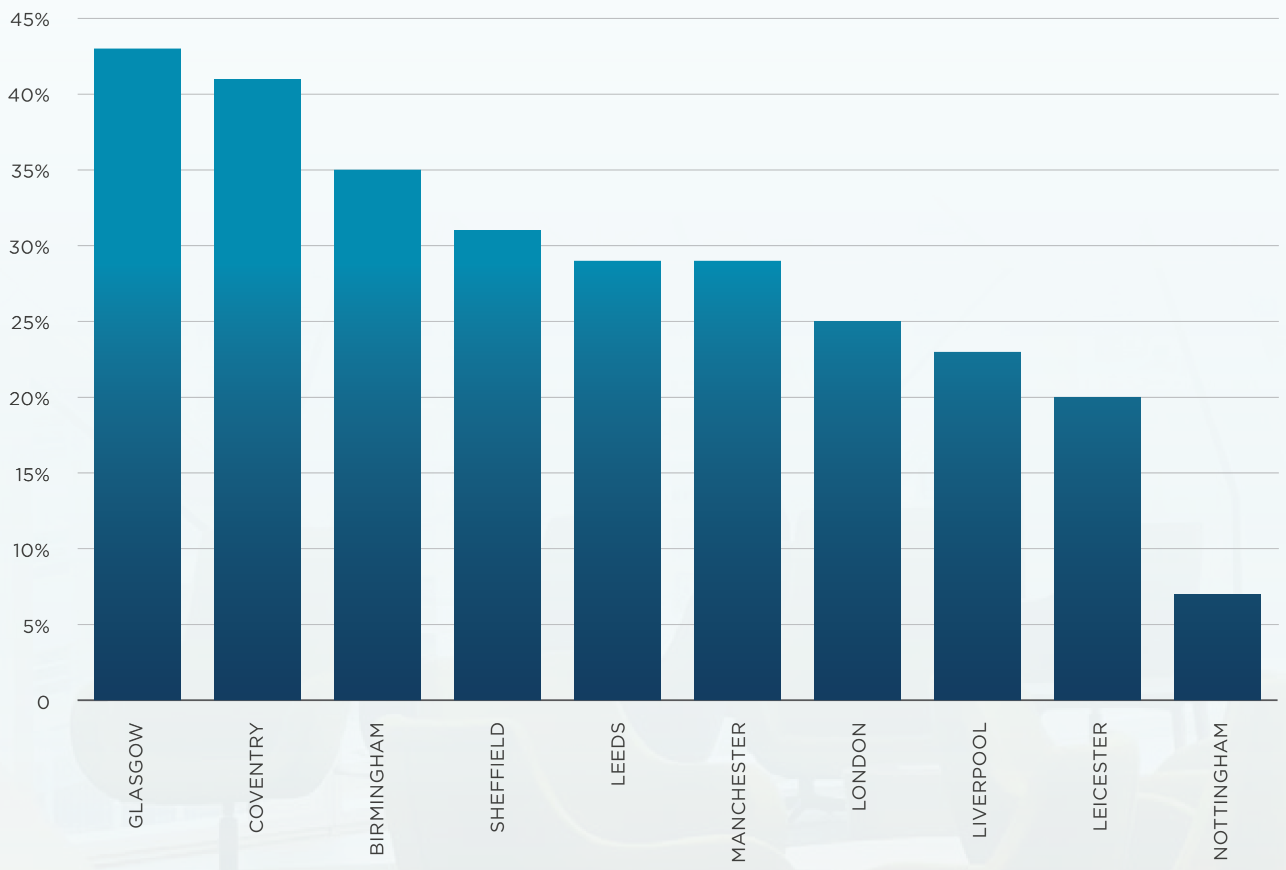
Despite continued growth in purpose-built developments, there remain more students living in the private housing market. Cushman & Wakefield's analysis shows that just over ***735,000*** *students requiring a bed are unable to secure one within PBSA. Our projections show that the number of students living in the private rented sector has grown in* ***13 of 20 major markets*** *over the last three years, highlighting continued structural levels of undersupply in the market.*

On average, a room in a HMO is priced 41% below the average en-suite, with huge variances across markets based on PBSA supply, quality of housing, location and maturity of the HMO sector.



DISCOUNTING

PROPORTION OF SCHEMES DISCOUNTED BY CITY



Source: Cushman & Wakefield Student Accommodation Tracker

*The impacts of COVID-19 on demand means that 2020/21 saw the greatest amount of rental discounting/ incentivisation in the history of the sector, with **25%** of all direct let schemes in the UK offering some form of reduction. These discounts ranged from under **1%** of total annual rent, to over **30%** and varied wildly by city and product type.*

Difficult markets that saw the most discounting in 2019/20 repeated those trends in 2020/21, with COVID-19 amplifying problems with absorption, pricing and product types. As would be expected, markets with a high preponderance of international students were amongst those with the highest levels of discounting/incentivisation, although a number of "Grade A" markets were still able to avoid these impacts.

DISCOUNTING VS QUALITY

Source: Cushman & Wakefield Student Accommodation Tracker

*Impacts on the ability and willingness of international students to travel to the UK are reflected in the analysis of discounting/ incentivisation by room/amenity space quality. The highest quality schemes were **4-6 times** more likely to offer additional incentives than the lowest, and as quality increased so did the likelihood of operators offering rental discounts.*

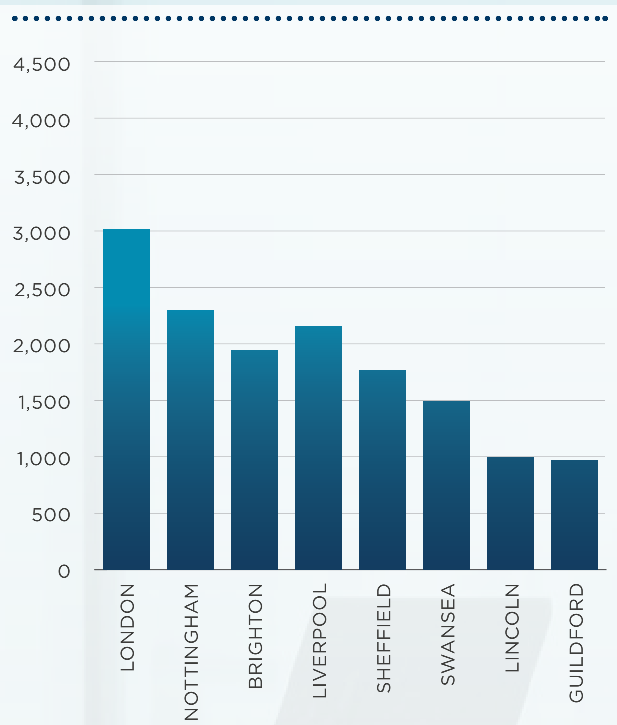
HIGHEST QUALITY SCHEMES BY MARKET

MARKET	QUALITY RANK
GLASGOW	1st
BIRMINGHAM	2nd
LEEDS	3rd
NEWCASTLE	4th
EDINBURGH	5th

Source: Cushman & Wakefield Student Accommodation Tracker

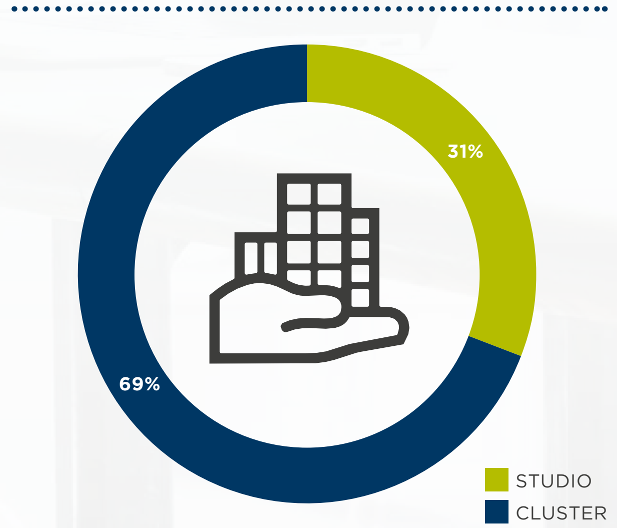
THE FUTURE/ LONDON PLAN

POTENTIAL NEW BEDS 2021/22



Source: Cushman & Wakefield Student Accommodation Tracker

PBSA DEVELOPMENT PIPELINE BY ROOM TYPE



Source: Cushman & Wakefield Student Accommodation Tracker

For the first time in over five years, a major injection of new beds is expected to enter the London student market in 2021, with ***over 3,000 rooms*** *set to be delivered. This level of development will still not exceed the 3,500-a-year ambition outlined in the London Plan since 2016. The impacts of the Plan are set to dramatically change the landscape of the Capital's student accommodation market, with over six in ten planned beds now en-suite.*

Outside of London, the focus of 2021 development will shift from large regional locations towards secondary markets. Markets like Brighton, Guildford, Swansea and Lincoln are expected to see large increases of beds this year, with some set to see a 20% increase in supply.

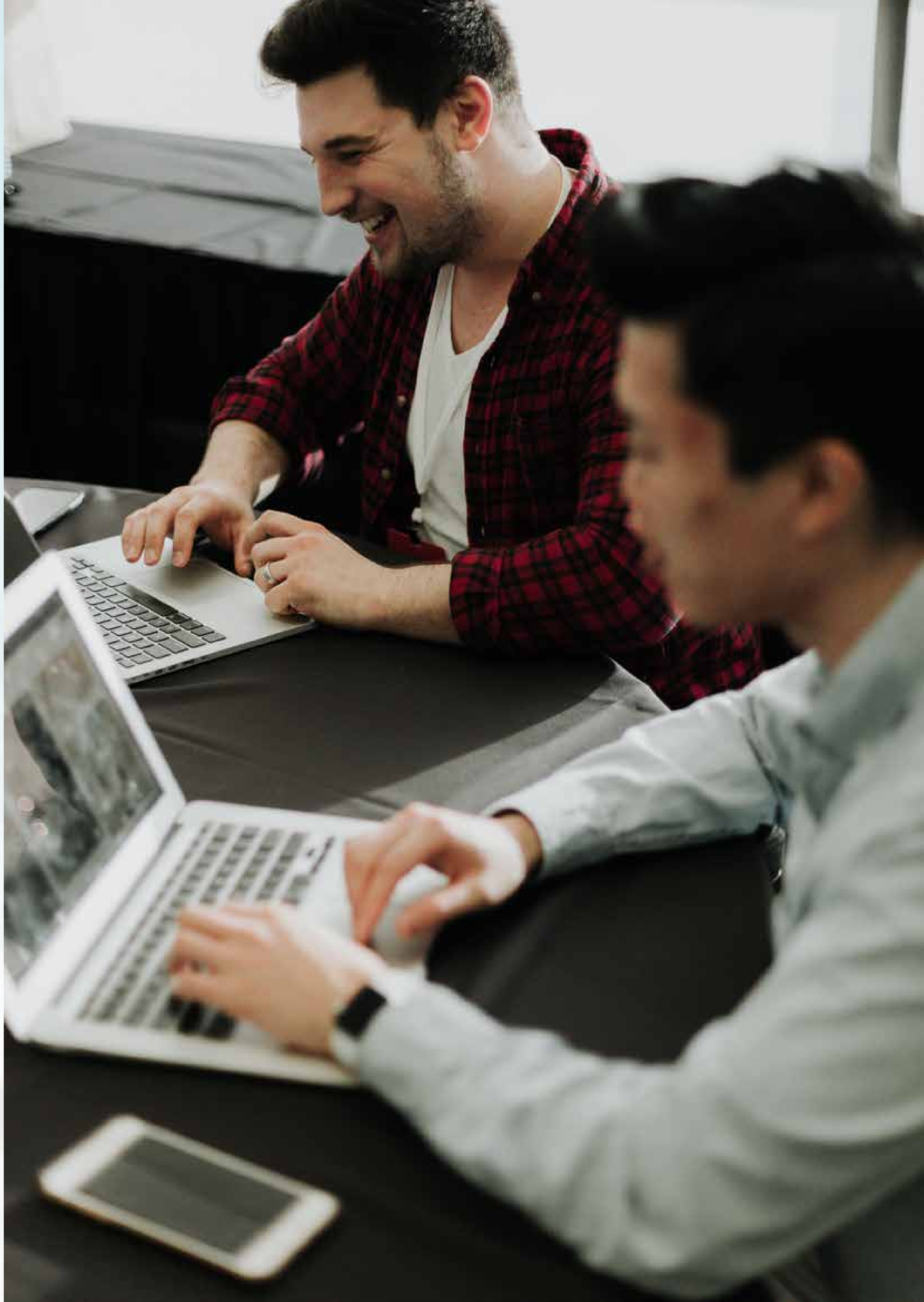
The national development pipeline currently stands at 115,000 beds which is largely in line with Q1 in 2020, indicating that roughly 25,000 beds have entered the planning process in the last year. Roughly 58% of these beds have full planning approval.

At 15,000 beds, London has the largest pipeline of any UK region, slightly ahead of the South East, West Midlands and Yorkshire & Humber. Outside of London, five major market have pipelines in excess of 5,000 beds. The influx of new beds will impact these markets differently depending on market-specific conditions.

115,241 BEDS IN PIPELINE UK-WIDE

67,229 APPROVED

6,700 BIRMINGHAM HAS THE LARGEST REGIONAL PIPELINE AT 6,700 BEDS



University Partnerships -

DBFO AND BEYOND

Driving the growth in university managed accommodation are the range of long term partnership structures which come under the banner of Demand Risk Partnerships (DRPs) or Design Build Finance Operate (DBFO) contracts. In this report we highlight that the main growth in student accommodation room numbers is from the private sector on a direct let basis, but the DRP market is an important structural change in the way that universities have been able to renew their accommodation. The number of rooms offered by universities in 2020/21 under these arrangements is ***45,935,*** *up* ***16%*** *since 2015/16. This compares to just* ***3% growth*** *in university-owned beds during the same period. DRP structures underpin many of the newest and most prime residences on university campuses nationally.*

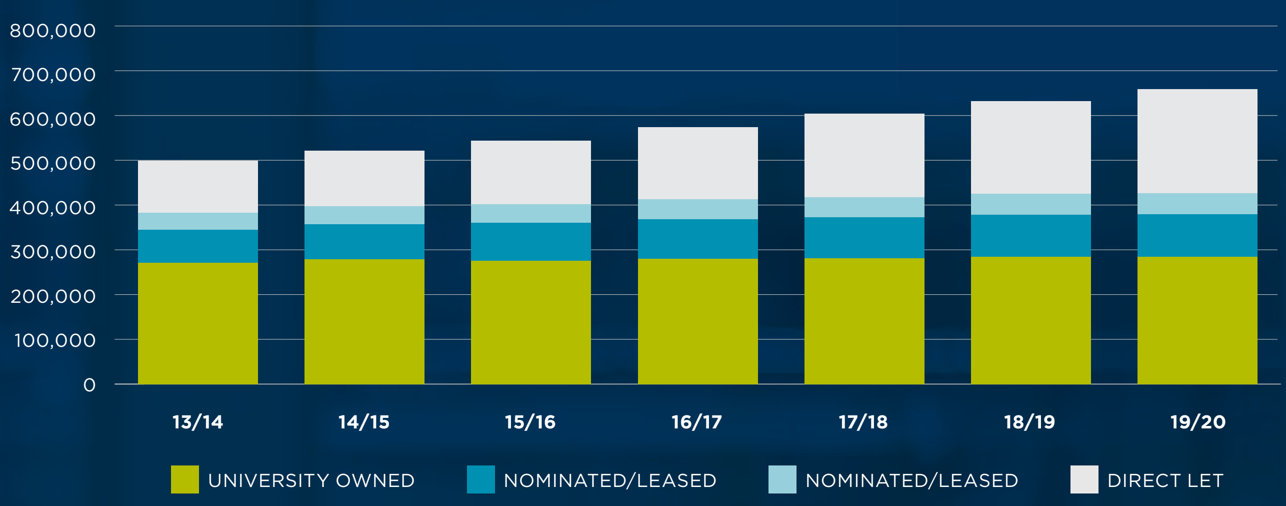
The continued interest in DRPs is unlikely to diminish as they bring so many benefits to those involved and there are well established routes to delivery in this sector. Universities benefit from off-balance sheet structures that allow them to prioritise their own expenditure into academic provision. The private sector has hit upon a structure that works for them in providing construction, funding and long term operational roles in symbiosis with universities. Funders are able to relieve some of the pent-up demand for long-term index-linked opportunities - this is an ideal "low risk" sector where pension funds and other institutional investors can back off their pension liabilities on to real assets. DRP opportunities that hit the sweet spot in terms of size and quality of university benefit from the best competitive response and best rates of funding. Historically bond/private placement structures have offered the best rates but this is changing.

That said, not all deals are made equal, and not all universities are able to access the full range of funding structures, and this is leading to innovation in the market. University requirements do not always meet all the typical requirements for DRP deals, which require a large number of rooms in a relatively simple delivery programme, on the campus of a very high quality university. Smaller and more complex requirements can now be addressed through different funding structures such as income strip, where pricing has

almost equalised in comparison to bond/private placement-backed deals. There are some exciting innovations in this area which are capable of changing the availability of DRP deals for a greater spectrum of universities and schemes.

New structures and preferential funding rates may allow different problems on a campus to be addressed. The move from RPI to CPI based structures also represents an opportunity. Lower funding rates and more flexible indexation help universities or university-backed structures to consider their rent ranges at the more affordable end for students, which is a critical area of competition over the long term. Planning for affordability starts right now.

PBSA Beds by University Relationship



Source: Cushman & Wakefield Student Accommodation Tracker

Wholly-owned university stock has now fallen to 67% of total beds available to institutions from 71% in 2013/14. Universities continue to increase their reliance upon and partnership with private sector operators.

INVESTMENT MARKET COMMENTARY

CLIENT VIEWPOINT

"For assets with strong underlying fundamentals the PBSA sector should continue to show resilience and be an attractive sub-sector of the UK property market. The market is dealing with the extreme challenges of the COVID-19 pandemic and core values have seen limited impact to date, reflecting the short term nature of challenges for assets aligned with strong Universities. We are experiencing the acceleration of certain trends within the sector, leading to a greater divergence in the attractiveness of individual properties and markets. Against this backdrop, it is critical that we are able to rely on the impartial advice of leading sector professionals to allow us to continue to invest in this key area with confidence."

JAMES DUNNE

HEAD OF UK TRANSACTIONS, REAL ESTATE

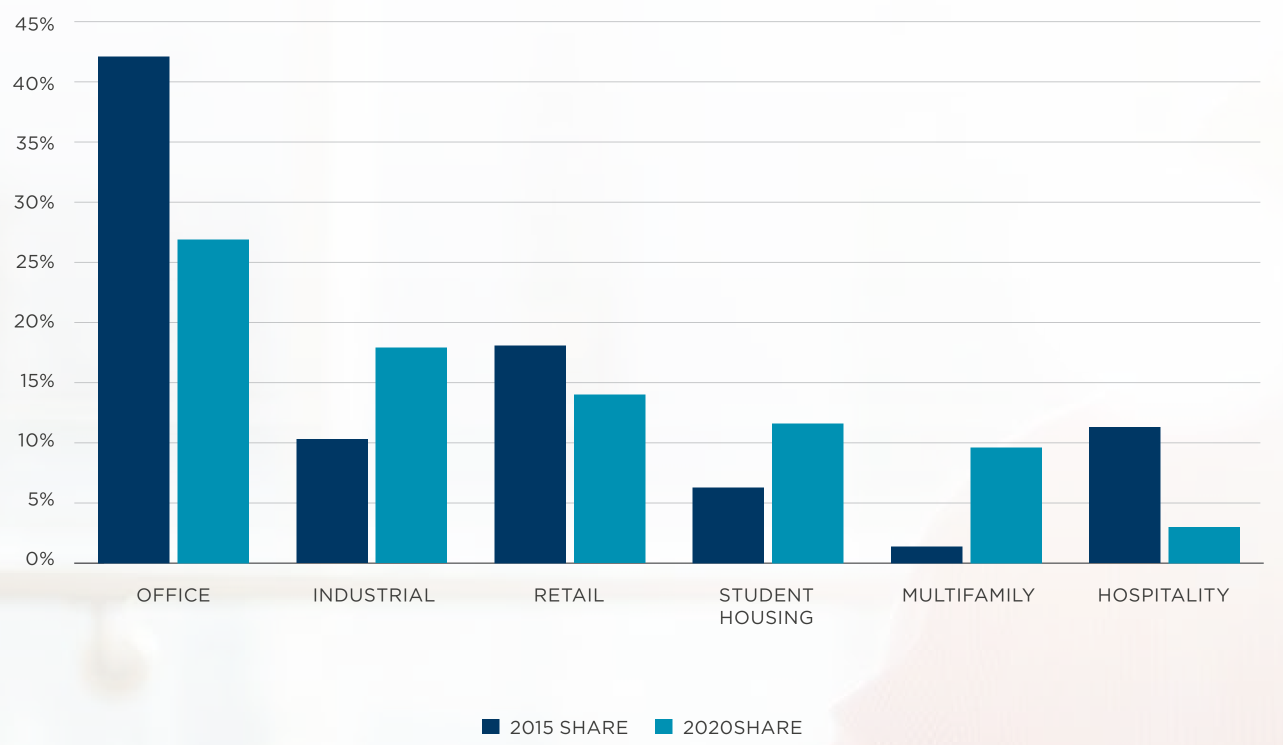
ABERDEEN STANDARD INVESTMENTS

INVESTMENT VOLUMES

"The growth of Purpose Built Student Accommodation (PBSA) 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."

The UK PBSA sector is now worth in excess of £60bn and is seen as a mature asset class within the alternatives division, showing how fast it has developed in the past 10 years. In the last 12 months, which has seen the biggest shock to the economy and property market since Lehman Brothers, student accommodation has maintained its position as the go to alternative of choice. Real Capital Analytics (RCA) data shows that student accommodation transactions represent 11.6% of total investment volume market share across the UK in 2020, an increase of 5.3% from 2015 and ahead of multifamily (9.6%) and hospitality (3.0%). The medium-term attractiveness of the student space will be driven by a "return to normal", the value of student offering and the UK's ability to continue as an academic powerhouse. Given our in depth understanding of universities demographics, supply / demand dynamics and investment focus Cushman & Wakefield remains positive about the investment outlook in 2021 and beyond.

UK INVESTMENT VOLUMES BY SECTOR

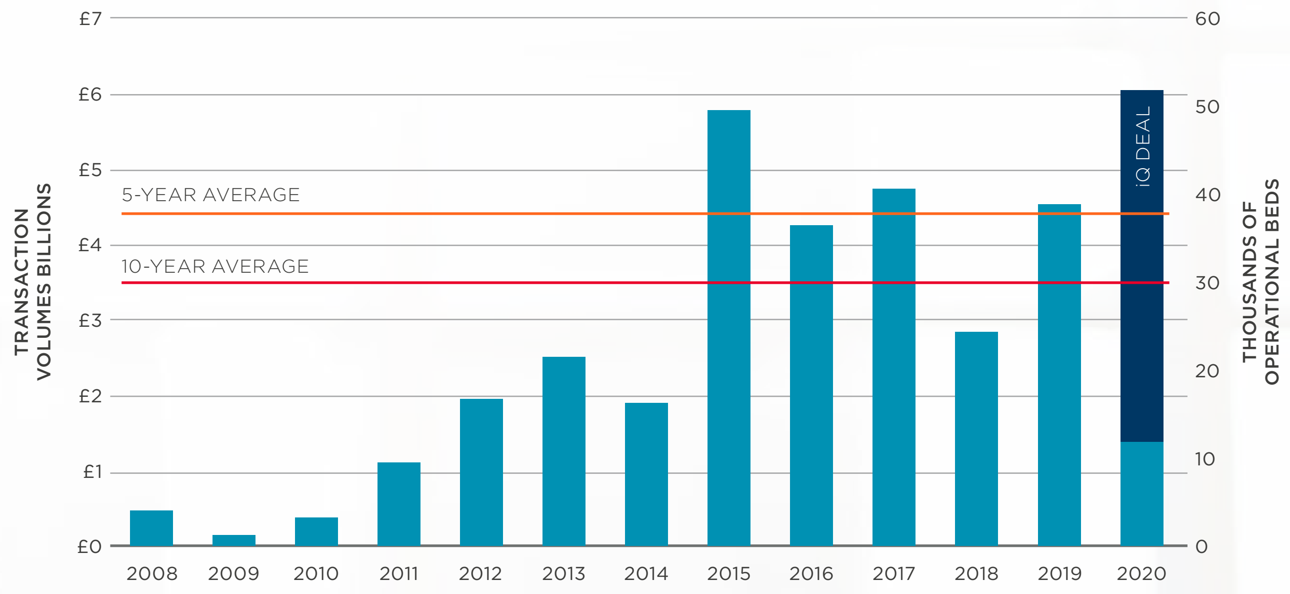


Source: Real Capital Analytics, Q4 2019 - Q4 2020

Investment volumes in the UK PBSA sector reached £6.1bn (totalling over 42,400 beds) over the course of 2020, making it the highest year on record. This figure is significantly aided by the largest UK real estate private equity deal, Blackstone's acquisition of the £4.66bn iQ portfolio totalling 28,000 beds, which completed halfway through the year.

Investment volumes in the first two months of 2021 have reached £750m (totalling over 5,500 beds). The largest transaction to date has been Greystars acquisition of the 2,163 bed Colorado Portfolio from KKR for £291m, representing a yield of 4.75%.

2008 - 2020 UK STUDENT ACCOMMODATION INVESTMENT VOLUMES

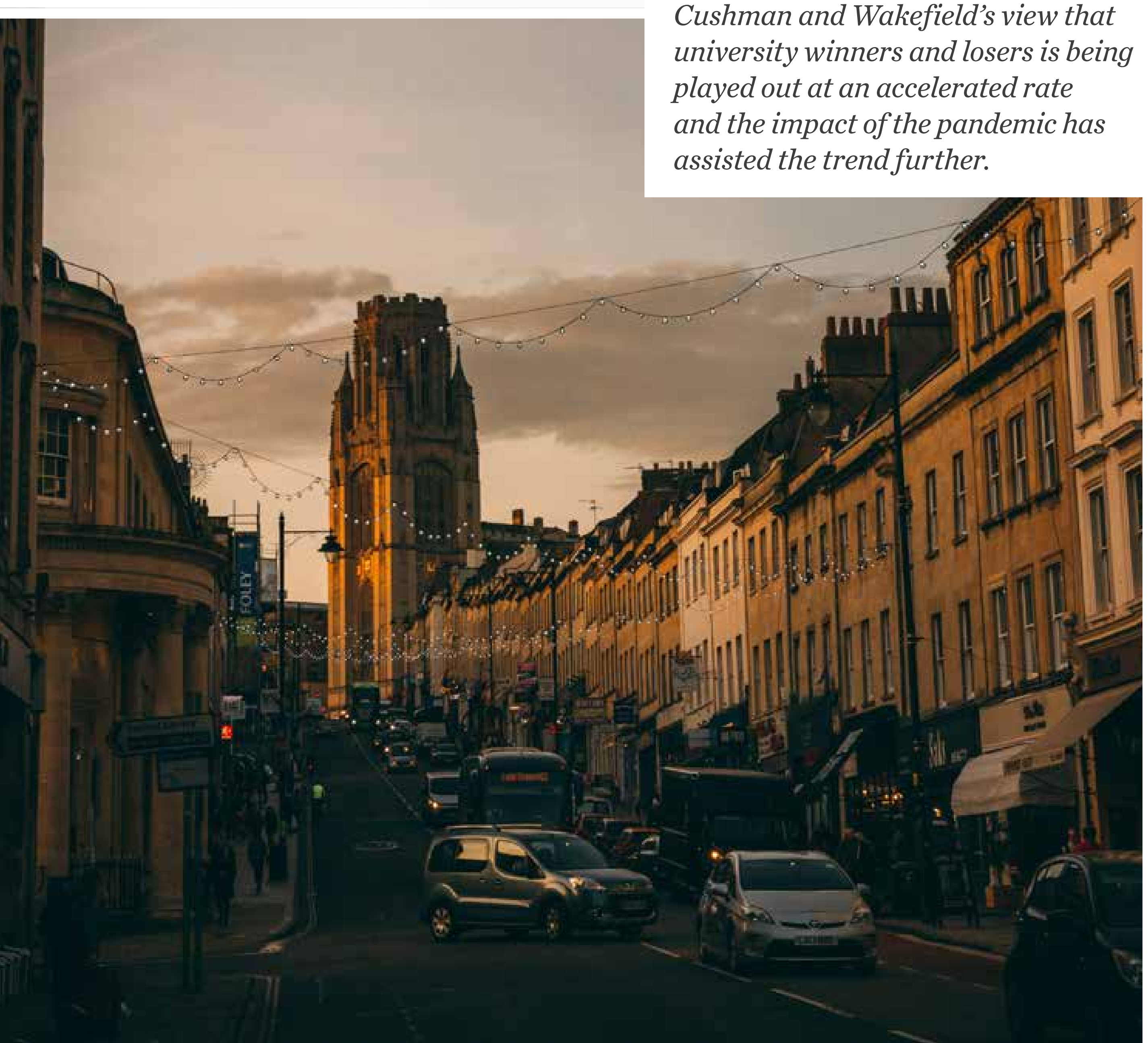


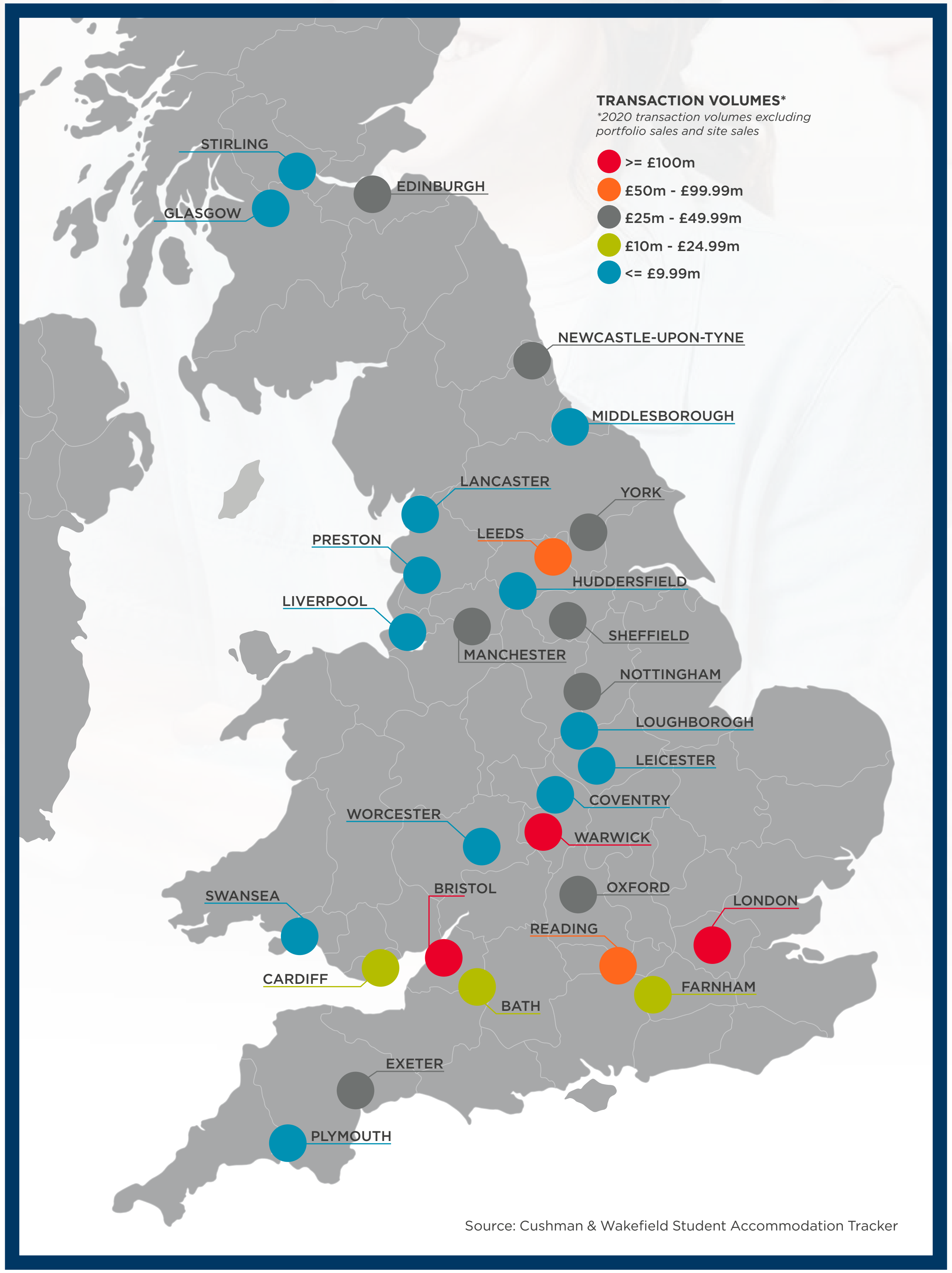
Source: Cushman & Wakefield Student Accommodation Tracker

ACTIVE MARKETS

The hotspots on the map show the volume of transactions in key locations in the UK such as London and the South East region, Leeds and Bristol.

London had the highest investment volumes across the UK during 2020, with the remaining hot spots predominantly being clustered around regional high tariff university towns/ cities such as Bristol, Birmingham and Leeds. The locational trend identified in investment volumes has reinforced Cushman and Wakefield's view that university winners and losers is being played out at an accelerated rate and the impact of the pandemic has assisted the trend further.





Source: Cushman & Wakefield Student Accommodation Tracker

INVESTMENT YIELDS

"PBSA investment yields have remained resilient despite a backdrop of political and economic uncertainty caused in part by Brexit and COVID-19."

UK PBSA yields in prime London, super prime and prime regional locations remained broadly stable over the course of 2020 despite a difficult political and economic backdrop. We have seen a flight to quality as macro events have focused investor attention on the prime end of the market causing a widening yield gap between prime regional and anything beyond. We expect yields to remain firm for the remainder of 2021.

	Q1 2019	Q1 2020	Q1 2021	MOVEMENT
PRIME LONDON	4.00%	3.75-4.00%	3.75-4.00%	STABLE
SUPER PRIME REGIONAL	4.75-5.00%	4.75-5.00%	4.75-5.00%	STABLE
PRIME REGIONAL	5.25-5.75%	5.25-5.75%	5.25-5.50%	STABLE
SECOND REGIONAL	6.00-6.75%	5.75-6.00%	6.50-7.50%	OUTWARD
TERTIARY	7.00% +	7.00% +	8.00% +	OUTWARD

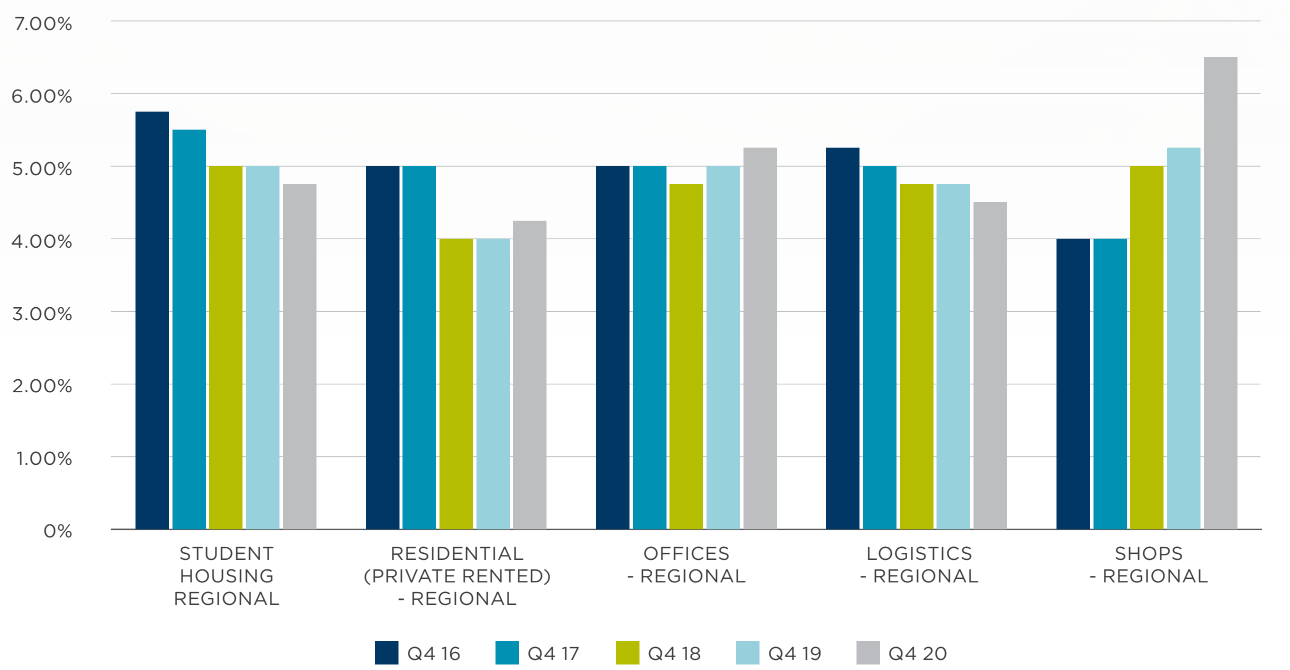
Source: Cushman & Wakefield Student Accommodation Tracker

UK SUB-SECTOR YIELDS

Super prime regional PBSA yields have experienced steady compression since 2016 and continue to compare favourably against PRS/ build to rent (BTR) yields. This is in contrast to regional retail yields which have softened by 250 basis points over the same period, reflecting a diversion of capital from that sector. For the other commercial sectors such as offices and logistics yield movement has been relatively limited, reinforcing the message that capital has been diverted into residential and student housing, which continues to offer strong returns.

"Successful investment is based upon the right buildings with the right operating platform and efficiently managing the operation through its life cycle."

YIELD MOVEMENT BY SECTOR (%)



Source: Real Capital Analytics, Q4 2016 - Q4 2020

VALUATIONS VIEW

REVENUE AND OCCUPANCY

During 2020, occupancy levels at PBSA schemes are down on a typical year but have varied widely across the sector.

This years' revenue has been impacted by the multiple effects of enhanced incentives and rental refunds, but the effects vary significantly by scheme.

Typically Cushman & Wakefield has observed have observed prime regional cities retain strong occupancy levels, whilst secondary and tertiary locations have seen varying impacts to occupancy as a result of the global pandemic.

Schemes that provide new or good, high quality accommodation with market facing rental levels, have benefited from higher occupancy levels throughout the pandemic.

Schemes which are reliant on international students have seen occupancy doubly impacted. London in particular has been significantly affected in this regard, particularly in the studio market.

One key component to those schemes which have performed well during the year is their micro location.

In the strongest micro locations, we have also observed evidence of rental growth, particularly in super- prime regional cities.

Operators have had to be flexible in their strategy on letting terms and cancellation policies. There is evidence that a wide range of incentives was introduced in order to attract students, whilst also granting deferments on bookings until the next Academic Year 2021/22.

OPERATING COSTS

This year, operating costs have increased above inflation predominately due to the requirement for additional on-site cleaning and essential and enforced services for those required to self-isolate.

However, core operating cost increases have been mixed across the UK. Established schemes operated through large platforms have seen large variances in the core operating costs and whilst most have increased above the expected ranges, some have seen marked spikes in costs.

In general, it is too soon to draw conclusions relating to the impact on core operating costs due to COVID-19. However, it is highly likely that there will be a shift in operating priorities with students requiring increased cleaning and on-site provision as as accommodation safety takes priority choices. Operating costs are therefore likely to continue at elevated levels into the new academic year.

DEVELOPMENT IMPACTS

Development has sought to regain momentum following the earlier government lockdown prohibiting on site construction from taking place.

An initial concern over materials mostly impacted development nearing practical completion with others having to consider revised programme of works. For those developments underway, there has been a focus within valuations to consider whether there would be any delays which would have an impact on the scheme's occupancy for the start of the academic year.

For developments where works were commencing or where investors had begun bidding on sites, there is little evidence that pricing has been impacted.

RENTAL GUARANTEES

A key market feature which accelerated in 2020 was the expectation from vendors that rental guarantees would be put in place for PBSA transactions.

Rental guarantees of 12-18 months quickly became a 2020 key requirement of transactions, and it became market practice to reflect these appropriately within valuations.

The reason why rental guarantees have been established as a baseline expectation in the PBSA market was, in part, due to the perceived revenue risk arising directly from COVID-19.

However, it is worth noting that even prior to COVID-19, rental guarantees were being sought in the investment market to mitigate the potential risks to initial income and for a limited period shift this risk from investors onto vendors.

This ensured a greater attractiveness for the asset class from an investment perspective due to greater income security.

Outlook

EXPECTATIONS FOR 2021 AND BEYOND

From a demand perspective, it is likely that it will take time for international students to fully re-enter the country, although applications for the 2021/22 academic year are extremely positive.

From a supply perspective there will no doubt be a period of time where operational costs will be elevated, and delivery of the beds which were delayed will cause increased new supply for a period.

Beyond this, we know that the student accommodation market is well placed to benefit from the key growth story in higher education:

- **Growing numbers of UK 18 year olds** – HEPI predict a need for more than 40,000 additional study places just to account for population growth by 2035
- **Increasing participation rates** – as higher level qualifications are needed in the labour market, if participation continues to rise, between 324,000 and 381,000 study places would be needed by 2015 according to HEPI
- **A lack of alternatives** – rising youth unemployment, gap year travels postponed, and a hostile labour market
- **Continued demand from international students due to the UK's reputation for quality education.** 2021 UCAS applications from non-EU students increased 17%, with record rises from China, India and the US. There is a continuing need for students to demonstrate global citizenship in the labour market. Sterling remains affordable, contributing further to international student demand.
- **Young people** – their aspirations and rites of passage mean that higher education has never been in more demand

Adaptations to the lettings process may be needed to address issues such as post-qualification admissions which may see room bookings move later in the academic year, and a changing role of the campus in academic teaching, but there is no doubt that student accommodation is a core part of the student experience.

A continued focus on right location, right price, value for money and quality will mean that providers secure the strongest basis for a thriving business long term. Cushman & Wakefield's market leading expertise in this market will continue to give our clients the edge, and we will be with you every step of the way.

Questions
ON THE HORIZON

With the unprecedented disruption to most property markets we believe that PBSA benefits from strong demographics, students clear desire for face to face tuition and clear investor demand for "Living Investments". Not all markets are created equal and there are some questions points that will drive performance:

KEY QUESTIONS

POST-PANDEMIC, WILL UNIVERSITY CAMPUSES RETURN TO NORMAL?

There is no doubt that universities were quick to adapt to online teaching, as they already had many online resources available to students. Campuses were harder to adapt to blended learning, with offices and large lecture spaces being repurposed for smaller groups. Students have continually expressed their desires to be on campus for learning and socialising. Universities may see this as an opportunity to review the opportunities arising from new ways of learning. However, the campus will be as important as a hub of activities as ever, even if teaching styles adapt.

WILL THE PANDEMIC IMPACT UNIVERSITIES' ATTITUDES TO ACCOMMODATION AND TO PARTNERSHIP?

The financial impacts of COVID-19 on universities may change institutional attitudes to accommodation supply. Those most impacted financially by the pandemic may look to divest of stock, with potentially bigger roles for private sector partners that can deliver the right solutions in terms of accommodation portfolios. At the same time, universities are likely to place under greater scrutiny partners' attitudes to risk sharing, the student experience and accommodation value-for-money. These attitudes will be brought further into focus as a number of universities make decisions about first generation stock that is no longer fit-for-purpose.

DOES THE CURRENT ECONOMIC ENVIRONMENT AFFECT STUDENTS' PERCEPTIONS OF AFFORDABILITY AND VALUE FOR MONEY?

With the cost of new accommodation rising again in 2020/21, the pricing of beds is likely to be thrown into even sharper focus in 2021/22, fuelled by rising unemployment and a likely reduction in part-time employment opportunities often filled by students. The experiences of this year's students are also likely to bring scrutiny over how different providers have supporting students through this time of uncertainty.

WHAT EFFECT WILL PROPOSED POST-QUALIFICATION ADMISSIONS HAVE ON PBSA OPERATIONAL PERFORMANCE?

Following the Government's announcement to cancel all A-levels, PBSA operators face significant challenges to their operational strategy as the traditional booking cycle is potentially moved into a much shorter timeframe. Over the longer term, the Government's consultation on post-qualification admissions reform has the potential to make this system permanent, impacting providers and may lead some agreements between universities and their accommodation partners to be increasingly flexible.

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