

Spotlight on UK Student Accommodation



Despite Covid-19, international demand for UK student accommodation remains strong from students and investors alike.

KEY STATISTICS



66%
Annual increase in PBSA investment volume in 2019



£4.66 billion
Value Blackstone paid to acquire iQ in February 2020, the largest private UK property transaction ever



24%
Annual increase in undergraduate applications from China



Overseas students are **60%** more likely to live in PBSA than domestic students

PBSA capital flows

Investment into UK purpose built student accommodation (PBSA) has grown dramatically in the last two years. The coronavirus pandemic will restrict investment activity in the coming months. However, with record activity in H1, we predict 2020 will still be a strong year for PBSA investment.

2020 will represent a new high in terms of PBSA investment activity. In May, Blackstone acquired iQ Student Accommodation in a £4.66 billion deal. This transaction alone is worth more than all the PBSA stock traded in 2016, 2017 or 2018.

This follows what was already a busy year for investment. 2019 saw the most investment in four years and was the second strongest year on record, with £5.4 billion traded. Much of this activity was driven by Unite acquiring Liberty Living from CPPIB in November, accounting for 40% of the year's total.

Investment volume forecasts
Since March, investment has

been subdued as people's inability to travel as freely and conduct business have restricted activity. Operators faced disruption to their income, with many electing not to charge rent to students who left their accommodation early due to the pandemic. This has not halted expansion plans for many investors, however. In June, Unite raised £300m in equity to fund three new PBSA developments. In July, Kinetic Capital set up a £100m funding platform for PBSA.

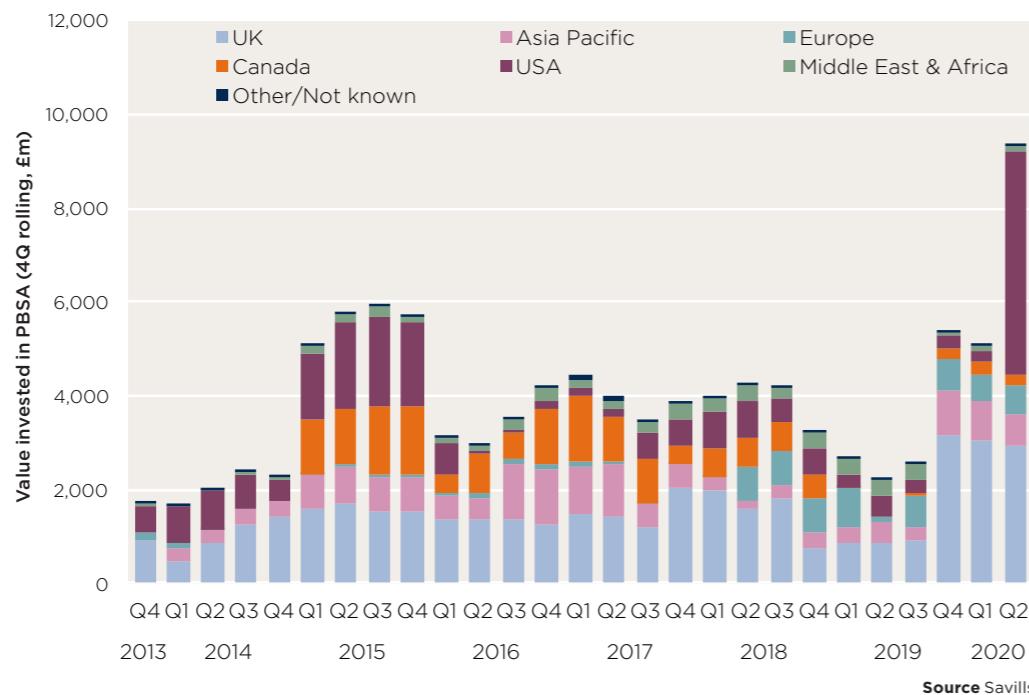
Before the coronavirus pandemic, we were predicting investors would spend a total of £10 billion on UK student accommodation in 2020. The pandemic has paused some of that planned activity and we now

expect to see some of it pushed back into 2021 and beyond. Reports on the number of overseas and domestic students taking their university places will give investors the data they need to make informed decisions starting early next year.

As major investors work on consolidating their platforms, we're likely to see individual assets making up a greater proportion of transactions than portfolios.

Global capital flows
UK student accommodation remains highly attractive to international investors. 58% of the £17 billion invested between 2016 and 2019 originated overseas.

Investment flows into UK PBSA by origin of capital



Individual assets will make a greater proportion of deals as investors consolidate their platforms.

Demand for student accommodation in 2020/2021 should be robust

Investment flows into UK PBSA by origin of capital

This reflects the strength of the UK Higher Education sector in attracting overseas students. International student numbers rose 6.2% between 2017/18 and 2018/19, almost ten times as fast as domestic student numbers, underpinning demand for PBSA. Non-EU applications for UK undergraduate courses rose 10% between 2019 and 2020. Applications from China rose 24%.

Although the UK has been subject to political uncertainty in recent years, this is far from unusual in a global context. The UK's strong underlying property rights mean it remains an attractive destination for long-term investment. US Dollar- and Euro-denominated investors also benefit from a currency advantage, given the short-term devaluation of sterling.

Over half, 59%, of investment in 2019 came from domestic sources. Unite PLC's acquisition of Liberty Living alone comprised 41% of investment, with other UK investors such as Aberdeen Standard and M&G making up the balance.

Asia Pacific investors, mostly from Singapore, were behind a further 17% of deals in 2019. Investors from North America were unusually quiet: they were responsible for 8% of investment last year, compared to an average of 29% over the previous three years.

By contrast, we will see a return to overseas investors dominating UK PBSA activity in 2020. US firm Blackstone's

£4.66bn acquisition of iQ Student Accommodation is the largest private UK property transaction ever.

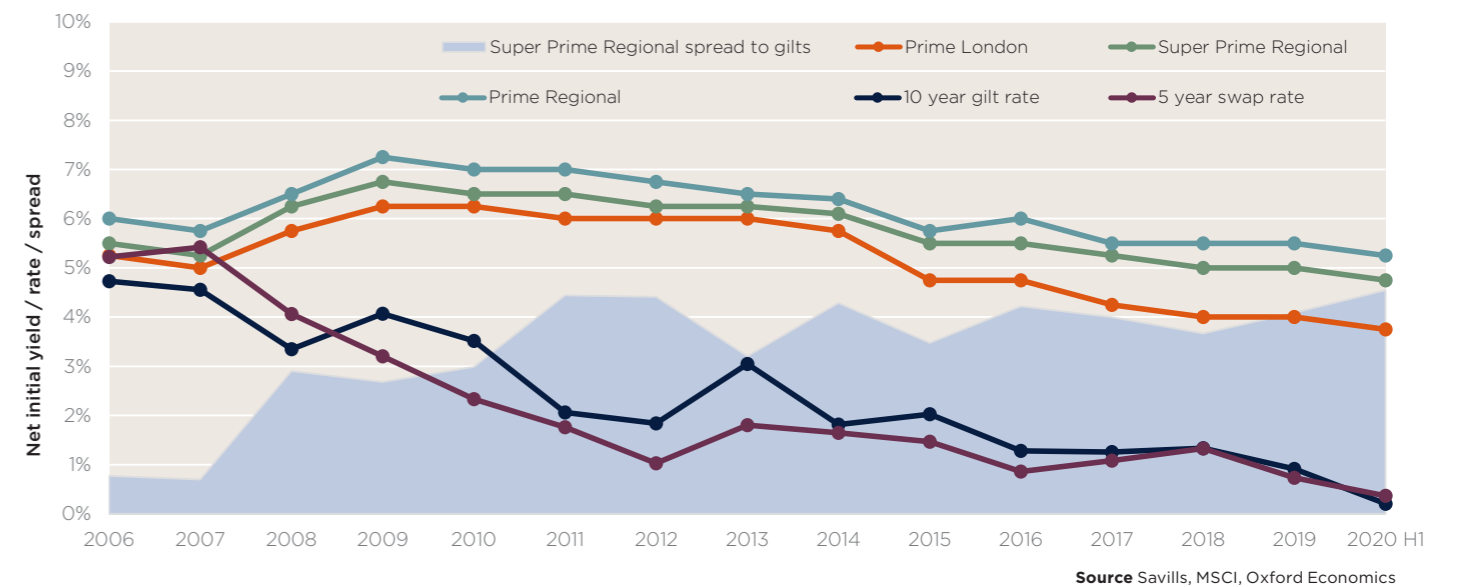
Rental performance

PBSA operators have suffered a hit to their rental income in 2019/20. Most providers have offered refunds or rent reductions to students who have had to leave their accommodation because of the pandemic. Unite's rental income fell by £26.9 million due to Covid-19 cancellations; GCP REIT's direct let rental income was 16% lower than budgeted for 2019/20.

The outlook for next year is considerably more positive. Demand for university places tends to rise when unemployment is higher. The UK's 18 year old population is now growing, following years of decline, while the participation rate continues to rise. This means a growing pool of potential university applicants. With 97% of universities planning to teach courses in person in 2020/21, demand for student accommodation should be robust.

Most operators have chosen to offer more flexible, single term leases to students next year. This should help give students confidence they won't be locked into a tenancy if a second wave of Covid-19 triggers another lockdown, and operators will be able to justify higher rents as a trade-off for that flexibility.

Relative returns Super Prime Regional PBSA investment yields fell 150 basis points since 2012



Investment yields

PBSA investment yields have remained remarkably resilient against a background of political and economic uncertainty.

Prime London net initial yields dipped to 3.75% in Q1 2020, falling from 4.00% in Q4 2019. Since Covid-19 we have observed a divergence in values. Prime PBSA assets continue to trade at

pre-pandemic yields. Secondary stock and assets in cities where institutions face greater financial pressure are seeing yields widen.

As student accommodation matures as an asset class, we have seen the type of capital targeting the sector change. As the balance of PBSA investors has shifted toward lower cost-of-capital investors

such as pension funds and sovereign wealth, the downward pressure on PBSA yields has grown. Super prime regional PBSA yields were 4.75%-5.00% in H1 2020, 150 basis points lower than in 2012. At 3.75%, Prime London yields are 225 basis points lower than in 2012.

International students

The UK is the world's second most popular destination for international students, who are much more likely than domestic students to live in purpose-built student accommodation. A bumper crop of domestic students should mostly compensate for any short-term pandemic impact on international demand.

International students accounted for most of the growth in full-time students last year. Their numbers rose 25,500 between 2017/18 and 2018/19. Domestic student numbers rose just 9,600 last year, a strong performance in light of the relatively small cohort of 18 year olds.

This year's growth in applications is also due mostly to overseas interest. Undergraduate applications from non-EU countries rose 9.6% in 2020, an additional 7,790.

For some nationalities, demand has been growing for a long time. The number

of Chinese students studying full-time in the UK has grown 10% per year on average since 2008/09, reaching 115,600 last year. UK universities now have more students from China than from either Wales or Scotland. Demand from the US is lower but rising steadily, with 54% growth over the last decade.

For other nationalities demand has only picked up more recently. The number of full-time students from India rose 35% last year, having also risen 22% the year before. But that follows years of decline: Indian student demand for UK universities peaked in 2010/11, when they numbered 33,700. This

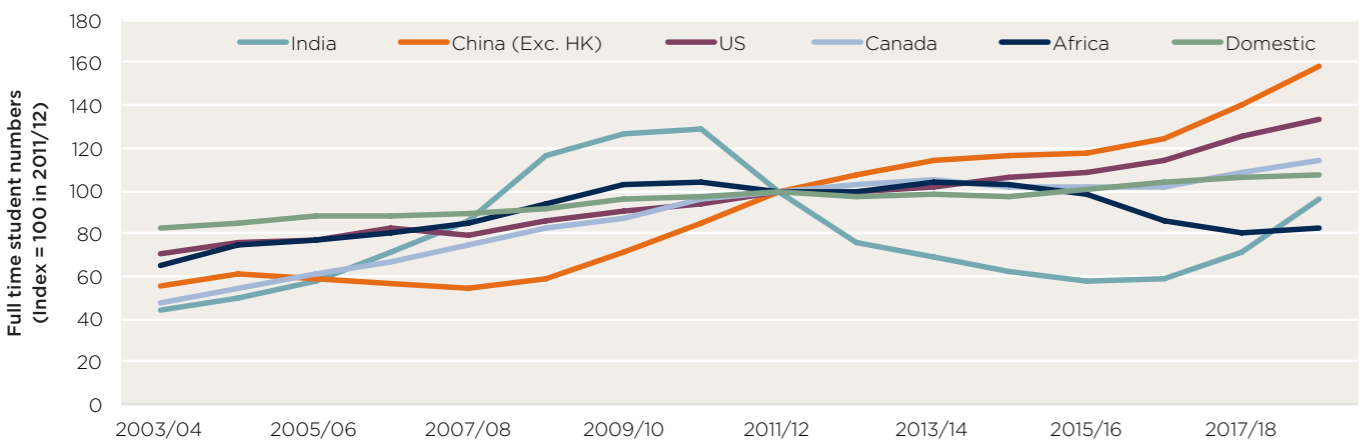
reversal may be due partly to a change in immigration rhetoric. In September 2019, the UK Government changed the law to allow international students to remain in the UK for two years after graduating, up from just four months previously. This now makes it one of the most generous post-study work visa systems in the world: in the US and Australia, for example, graduates can only remain up to 18 months. Early indicators from university application numbers suggest this may reverse the decline in student demand from some countries.

International student numbers

	Number of full-time students (2018/19)	% of all full-time students	Annual growth in full time students (2017/18 to 2018/19)	Full-time students vs 2011/12
Domestic	1,394,040	76%	0.7%	7%
China (Exc. HK)	115,570	6%	13.1%	58%
Western Europe	78,505	4%	2.1%	19%
Eastern Europe	58,460	3%	3.7%	12%
Rest of Asia PAC	44,670	2%	0.9%	-6%
Middle East	32,660	2%	3.5%	23%
India	24,290	1%	35.2%	-4%
Africa	23,120	1%	4.0%	-17%
US	15,980	1%	6.1%	33%
Hong Kong	15,360	1%	-1.4%	48%
Malaysia	13,355	1%	-7.8%	10%
South and Central America	9,305	<0.5%	-1.6%	36%
Canada	5,635	<0.5%	4.4%	14%
Australia and New Zealand	1,845	<0.5%	1.8%	25%

Source HESA

Fastest growing sources of international students in the UK



Source HESA

“We can expect to see ever more demand for PBSA as international student numbers continue to grow”

Likelihood of living in PBSA vs domestic students



Source HESA

Preference for purpose-built

Received wisdom is that international students are more likely than domestic students to live in PBSA. Our analysis of new data from HESA confirms this: overseas students are 60% more likely to live in purpose-built student accommodation than domestic students.

Chinese students are particularly keen on living in purpose-built accommodation. Accounting for university choice, they are 124% more likely to live in PBSA than domestic students. Students from India are also twice as likely

to live in halls as those from the UK. Students from China and India account for 8% of full-time students but 16% of students living in purpose-built accommodation.

This means we can expect to see ever more demand for PBSA as international student numbers continue to grow. UCAS applications from Chinese students increased 24% between 2019 and 2020; applications from Indian students rose 23%.

Cultural differences

Why are overseas students so much more likely to live in PBSA? We've identified three key reasons: peace of mind, marketing, and affluence.

Travelling to a different country for university is already a huge undertaking, without the added challenge of navigating an unfamiliar property market. PBSA is designed and managed with students in mind. Done well, it gives those overseas students and their parents confidence that their accommodation is set up to support their studies. 24 hour security reassures families that their children will be safe during their studies in an unfamiliar city and

ultra-fast WiFi means students can see their families in high-definition video calls as often as they like.

Accommodation providers' websites show floorplans, photographs, and increasingly videos and fly-throughs to give potential residents the greatest possible peace of mind when choosing a room from the other side of the world. Professional providers may also allocate large amounts of their marketing budget specifically to attracting this attention from overseas. A typical buy-to-let landlord simply doesn't have the economies of scale to support this

level of marketing and information provision.

That peace of mind and information is particularly important given how much these families are already investing in their children's education. With international fees and regular flights, studying in the UK is often more expensive for these overseas students than staying at home. For these households, paying for premium accommodation is a worthwhile investment if it gives their children the best study environment possible.



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