

# JLL UK Student Housing Quarterly Bulletin



## 2016 Q1 Review

### The Market

*'The student housing sector experienced unprecedented investment transaction volumes in 2015. Levels of investor demand remain robust into 2016 and with opportunities continuing to come to the market, strong investment activity in the sector is expected to continue for the year ahead. A total of £3.5 billion of student housing stock is predicted to transact in 2016.'*

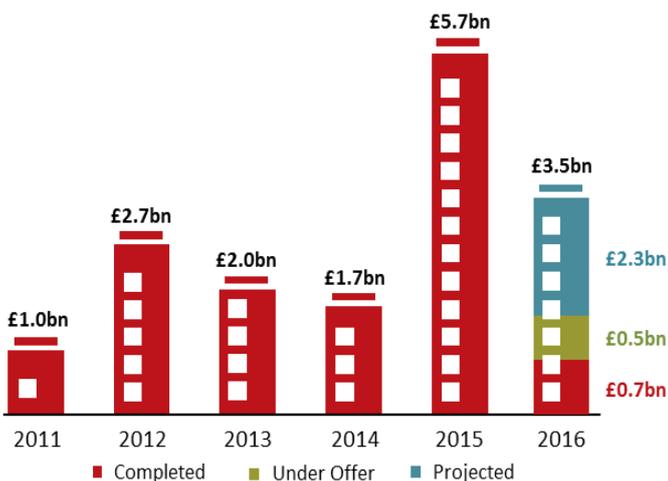
### Current Market Activity

The year has started with several significant disposals, contrary to a number of commentators in the market talking down the prospect of large scale deals and portfolio transactions in 2016.

The combined value of those assets which have either completed in Q1, are currently under offer or are currently in the market is in excess of £1.3 billion. These include the Ardent Portfolio, which completed in March, the Rose Portfolio, which is expected to complete imminently, and a number of other portfolios and large transactions, including Woburn Place, the Dashwood and Leodis Portfolio and Aston Student Village.

The majority of these transactions are expected to complete in the first half of the year, with further pipeline opportunities expected to come to the market in the near future.

### 2016 Transaction Volumes YTD



Source: JLL

### Themes and Trends in Q1

#### New entrants for 2015 and into 2016

Market participants include a significant number of new entrants to the student housing sector. Those parties making their first acquisitions of student housing assets included LetterOne and Mapletree. As the sector continues to mature, it is likely that 2016 will witness further new entrants to take advantage of the strong dynamics.

#### Alternative Institutional Investment

Institutional investors continue to increase their exposure to the alternative real estate sectors, of which the comparatively mature student housing sector provides the more institutional-grade stock. The trend of portfolio diversification outside the traditional property sectors will continue to establish student housing sector and some other alternative sectors as core sectors.

#### Forward-Funding Opportunities

A large proportion of investment opportunities in the first quarter of 2016 have comprised forward-funding opportunities for student housing developments. Driven by the ongoing supply/demand imbalance prevalent in many university towns and cities, developers are taking advantage of the investor appetite for prime student housing stock.

#### Rising Build Costs

Increasing build costs in locations across the UK, particularly acutely in London, have put substantial pressure on the viability and achievable profit margins for development projects. This constraint on new supply favours existing operational assets.

#### Increase in Land Values

Levels of competition amongst developers for sites suitable for student housing developments are high; whilst this has been a feature of the London market for some time, this is an increasingly common trend in regional locations.

#### Portfolio Rationalisation

In light of the quantum of assets that traded last year within portfolios, it is likely that investors will look to rationalise their newly-acquired portfolios, and dispose of any non-core properties. A number of single assets will therefore probably be brought to the market throughout the year as investors begin to implement fund management strategies.

## Rental Growth

The level of occupational demand for student accommodation has had an inflationary impact on rental growth for certain types of offering. This trend has been particularly apparent for new, prime stock, where rental growth rates have exceeded 5% per annum in specific cases.

### Forecasted Increase in Single Asset Opportunities

Whilst portfolios have been dominating the landscape in the past year, many single asset owners have refrained from marketing their properties due to competition with larger opportunities. We expect this to change in the second half of the year as large scale competition decreases and purchasers of portfolios look to aggregate their holdings.

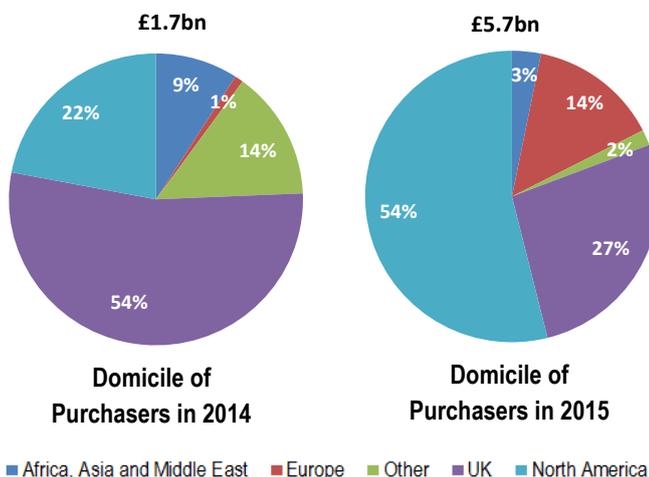
### UK Student Population Statistics

Recently published HESA data indicates that the UK student population remained stable between 2013/14 and 2014/15 at around 2.3 million, whilst the number of international students studying in the UK increased to around 437,000. International students from Asia and Europe comprise around 44% and 33% of the total non-UK domiciled student population.

Students appear to be more selective in university choices, creating specific demand pressures on local student housing markets. Following the removal of student number controls, some English universities have increased their student intake by more than 20%, whilst some have dropped by up to 10%. In general those that have seen a decline have tended to be larger post-1992 institutions, and particularly those in London. However, this is not across the board and some post-1992 universities have bucked the trend and seen growth, for example Middlesex, Bath Spa and Oxford Brookes.

### Domicile of Investors

The UK student housing market has evolved into a global asset class. The UK's world-renowned higher education institutions and regulated legal system and market contribute to the appeal of student housing opportunities for investors across the globe. The year-on-year comparison below shows the swing between the domicile of investors over the past two years.



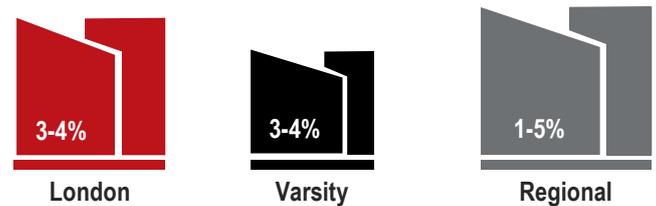
Source: JLL

## Yield Forecast

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

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

### Annual Rental Growth Projection



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

### UK Current Economic Indicators

IPD All Property 13.3	▼	Unemployment 5.1%	◀▶
Inflation (CPI) 0.1%	◀▶	FTSE All Share 3345	▲

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%	2.2%	2.2%
Inflation (CPI)	0.1%	0.8%	1.8%
3 Month Interbank	0.6%	0.6%	0.9%
10 Year Gilt	2.1%	1.9%	2.1%

Source: Consensus Forecasts as at February 2016

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