JLL UK Student Housing Quarterly Bulletin

2016 Q4 Review

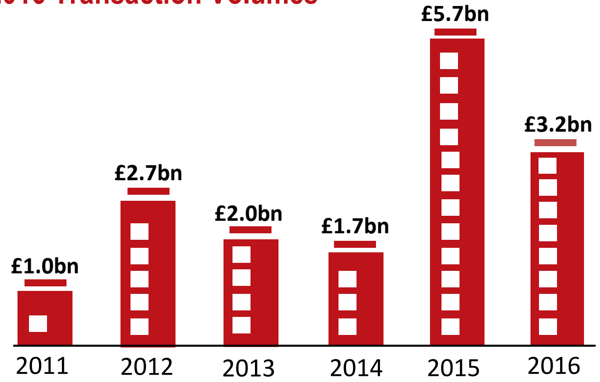
The Market

'The sector has continued to demonstrate its resilience to wider economic volatility, with investor demand remaining strong throughout the final months of 2016 and total investment volumes for the year exceeding £3bn, significantly higher than the sector's historic average. Whilst some core investors are adopting increasingly selective, risk-averse strategies for acquisitions across all asset classes, recent evidence demonstrates that high quality student housing schemes in strong locations with proven operational track records continue to attract competitive bidding, and this is reflected accordingly in achieved pricing.'

Current Market Activity

The final quarter of the year witnessed a substantial number of single asset transactions in regional locations, involving both forward fundings and operational schemes. Several recently completed deals in Scotland indicate that there is selective demand for student housing schemes in the country despite wider economic and political uncertainty. St Mungo Avenue in Glasgow and Printworks in Edinburgh have both recently secured funding whilst operational assets including Meadow Court and Morrison Circus (both Edinburgh) and Collegelands in Glasgow have also transacted. Elsewhere, market activity in Q4 included Brookfield's acquisition of two assets in Newcastle, totalling 566 beds, for £51.5m, reflecting a circa 6% net initial yield, as well as UPP's forward funding partnership deal with the University of London on Duncan House, a 511-bed scheme in Stratford.

2016 Transaction Volumes



Source: JLL

Reflections on the Year

Global Political Events

The widely reported and unexpected events of 2016 have led to considerable uncertainty across global markets, to which the real estate sector has not been immune. Whilst the vote for Brexit has caused some concern amongst Higher Education institutions, it is still too early to have a definitive view on the full impact that leaving the EU will have on the sector, although it is worth noting that the resulting pause in activity levels within the student housing investment market was relatively short lived. The forthcoming Trump administration has also contributed to the climate of uncertainty, although some have seen this as making the UK a relatively more welcoming choice for international students. Whilst financial markets may witness a degree of volatility until the President Elect's policies are defined and implemented, we expect underlying real estate markets to generally remain steady throughout this period.

Student Enrolments

A record number of students were placed in Higher Education through UCAS in 2016, a year-on-year increase of 0.5%. The introduction of tighter student visa restrictions was announced by the Home Secretary in October. Whilst these have the potential to result in a more polarized university system with the highest-rated institutions given preferential treatment, it is too early to assess the full impact until policy details are set out. EU applications to UK universities were 9% down on 2015 levels after the first wave of applications in October 2016, although they are in line with 2014 numbers seen in 2014. Applications from outside the EU this year have increased 1% on 2015 levels.

Constraints on Supply

The substantial amount of forward funding opportunities currently in the market (circa £1bn) reflects the challenging environment in certain locations for development of new student housing stock. The rise in build costs has created significant pressure on development viability, thereby limiting the supply of new beds in certain locations.

Demand for Portfolios

The demand for scale in the student housing sector remains a common investor requirement from both new entrants to the UK market and investors with existing portfolios. Whilst fewer portfolio opportunities have been brought to the market in 2016 than the year preceding, the appetite for significant exposure to the sector is still strong.

Looking Ahead to 2017

We have selected a number of topics and issues which we expect to shape the student housing sector in the year ahead. These will be further explored in JLL's '2017 Alternatives Predictions' publication, available at the end of January.

Affordability

The market will be forced to address the issue of affordability over the next 12 months. We expect the sector to begin to adapt the typical student housing model to provide a greater provision of varied room types and designs, which can then attract a wider range of price points. Innovative solutions are required to increase the density of beds and support cheaper rents without compromising financial viability.

International Student Numbers

In addition to appropriate government policy, the UK also needs to ensure that it is perceived as a welcoming place for overseas students to study post-Brexit. The UK's reputation as a leading destination for overseas students will be crucial in supporting international student numbers over the years ahead. We expect the government to provide greater clarity on the Teaching Excellence Framework, and how this ranking system may be used to prioritise visas for overseas students.

Strong Investor Demand

We expect the weight of capital currently in the market for student accommodation assets to remain undiminished for the year ahead. The sector's resilient attributes will be appealing to investors in the current volatile economic and political environment. Around £1bn of assets are currently under offer and likely to complete early in 2017. We envisage around £3bn of student housing assets transacting in 2017, and at least £1 of every £4 spent on UK commercial property to be allocated to the Alternatives sector.

Rental growth

Further evidence showing the variation in rental growth across the sector is likely to come to light. Historically the sector has experienced growth of around 2.5-3% per annum in line with RPI; however rental growth appears to be increasingly sensitive to both macro and micro locations as well as an effective operational strategy. Whilst some schemes will provide strong rental growth and exceed market averages, others will need to potentially rebase their rents in order to secure high occupancy rates and drive future rental growth.

Pipeline

JLL estimates that less than 10% of pipeline beds are currently under construction, whilst many schemes in the pipeline are unlikely to be built out. Many local authorities are now taking a harder planning stance on student housing development. In those local authorities with a Community Infrastructure Levy (CIL) policy in place, over a third of these charge the highest possible levy for student housing. As a result, we expect a degree of outward movement of development yields for schemes without planning consent, as the market takes account of the pressures on viability.

Yield Forecast

	Direct Let		25 Year FRI Lease	
	Current	Forecast	Current	Forecast
Prime London	4.50%	Stable	4.00%	Stable
Inner London	5.00%	Stable	4.25%	Stable
Prime Regional	5.50%	Stable	4.25%	Stable
Secondary Regional	6.00%	Softening	4.50%	Stable
Other Regional	7.00%+	Softening	4.50%	Stable

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.

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	2.7	▼	Unemployment	4.8%	▼
Inflation (CPI)	0.9%	◄►	FTSE All Share	3665	▼

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

Economic Forecasts

Forecasts (% on previous year)	2015 (actuals)	2016 (forecast)	2017 (forecast)
GDP	2.2%	2.1%	1.5%
Inflation (CPI)	0.1%	0.7%	2.5%
3 Month Interbank	0.6%	0.5%	0.4%
10 Year Gilt	1.9%	1.3%	1.6%

Source: Consensus Forecasts as at November 2016.

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