JLL UK Student Housing Quarterly Bulletin

2016 Q3 Review

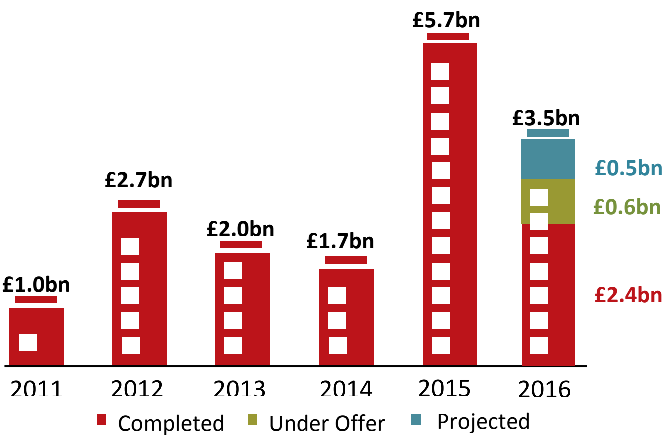
The Market

'With around £900m of student accommodation transacted in the third quarter of 2016, the sector is demonstrating continued high levels of activity and resilience to the macro-economic issues currently affecting other markets. Investor sentiment remains positive and with global capital still attracted to the UK PBSA sector, total transaction volumes for the year are predicted to exceed the 5-year average.'

Current Market Activity

In capital value terms, the sale of the UK assets within The Student Housing Company Portfolio represented over 40% of the total volume of student housing transactions in Q3. Comprising 7,154 beds across 18 operational and development schemes, the portfolio was acquired by a JV between GIC and GSA and highlights the strength of demand in the market despite the wider economic uncertainty resulting from the vote to leave the EU. This portfolio transaction was in contrast to other investment activity during Q3, where single asset transactions, particularly those in strong regional locations, dominated the market. Notable transactions included Aviva's forward funding of Godiva Place in Coventry for just over 4.4% NIY; the acquisition of The Gateway, a newly built, 519-bed scheme in Lincoln; the forward funding of 520 beds at Globeworks in Birmingham by Prosperity Partners; and Arlington's acquisition of Leodis Student Residences in Leeds and Dashwood Studios in London.

2016 Transaction Volumes YTD



Source: JLL

2016/17 Student enrolments

UCAS' latest snapshot was taken at the end of September, four weeks after A Level results day. Acceptances at this point are usually c. 98% of the eventual total (published by UCAS in December 2016).

- Almost 522,000 students have been accepted so far this year, an increase of over 7,000 (more than 1%) on this point in 2015.
- There was also a rise in acceptances from older age groups, with the number of those aged 25+ increasing by 8%.
- More selective institutions accounted for the bulk of the expansion. Higher and medium tariff institutions reported year-on-year growth of 3.4% and 4.2% respectively. Lower tariff institutions reported growth of only 1.2%.
- The number of non-EU students rose by 7.9% year-on-year, with no immediate sign of the UK's vote to leave the EU hitting recruitment.
- The figures differ by country: acceptances for England are up by 1%, with larger increases for Northern Ireland (5%), Scotland (4%) and Wales (3%).
- Use of the 'Adjustment' scheme, whereby students with better than expected results can 'trade up', slumped by 20.7% in 2016 with just 920 students using the facility. This suggests that universities have now grown to the student numbers they require and are recruiting through a logical process rather than recruiting a limitless number of students after results, as was the case in 2014 and to a lesser extent in 2015 following the removal of the cap on student numbers.

The quality of facilities is becoming more important to prospective students

In a student experience survey conducted by the UK's Association of University Directors of Estates, 44% of students viewed academic rankings as important to choosing a university, while 42% were influenced by reputation. This marks a drop of 5% in both categories from 2015. The research found that students were more interested in an institution's facilities when it came to making a decision on their place of study; 61% said facilities were an important factor, highlighting the importance from universities' perspective of making ongoing investment into their campuses and facilities to encourage student applications.

Surge in enrolments from non-British EU students increasing the demand for student accommodation

There have been reports that some universities have experienced an increase of non-British EU students looking to enrol at UK institutions ahead of Britain leaving the EU. This is resulting in significant pressure being placed on university halls of residence and an increase in the demand for private sector accommodation, particularly those students in their first year of study. The University of Warwick is one such higher education institution that has reportedly experienced this surge of enrolments for the 2016/17 academic year and there have been reports that some students are being forced to share single bedrooms whilst others are being accommodated in hotels as a short-term solution. This reflects an opportunity for private PBSA in these locations to capitalise on this increase in demand. We would anticipate a similar increase of enrolments from this demographic for the 2017/18 academic year.

Continued abundance of equity in the market

Investor appetite for student accommodation assets remains very strong, both from domestic as well as overseas capital. The stable fundamentals underpinning the sector and the strong returns that it has historically achieved, ensure that student accommodation is viewed as an attractive asset class in which to deploy equity, especially in comparison to the volatile and unpredictable nature of other financial and real estate markets at this time. With the chronic undersupply of PBSA in some university towns and cities resulting in rental growth of up to 10% for the 2016/17 academic year,[1] the total returns provided by the sector continue to be attractive, further compounded for overseas investors by the recent depreciation in the pound.

[1] Source: SpareRoom.co.uk

Debt market impact

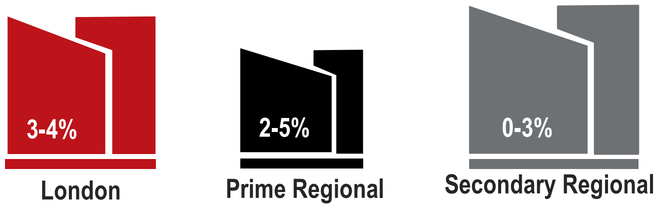
The student housing sector continues to benefit from a strong credit profile and lenders are generally willing to provide attractive banking terms in comparison to other sub-sectors and the overall market. This is in part due to the resilience of the sector and inelastic nature of demand from students at the UK's higher education institutions. With UK gilts currently at near record lows following the Bank of England's decision to decrease the base rate in August, the net initial yields for student housing assets are increasingly attractive, and with an appropriate strategy for leveraging investments, high attractive cash-on-cash returns can be achieved. Despite the slight dip in lender risk appetite following the outcome of the EU referendum, there is still a wide variety of financing options for both student housing investment and development available, from a mixture of traditional and non-traditional lenders. For standing investments currently it is possible to achieve finance costs below 3% for a 5 year term.

Yield Forecast

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

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	4.2	▼	Unemployment	4.9%	◄►
Inflation (CPI)	0.6%	◄►	FTSE All Share	3755	▲

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%	1.7%	0.7%
Inflation (CPI)	0.1%	0.7%	2.3%
3 Month Interbank	0.6%	0.3%	0.3%
10 Year Gilt	2.1%	0.8%	1.1%

Source: Consensus Forecasts as at August 2016.

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