

UK Student Housing MarketView

November 2014

CBRE Global Research and Consulting

2014 TO END NOV (WHOLE OF 2013)

STUDENT TRANSACTIONS
£2.369bn (£2.2bn)

INVESTMENT
£2.0bn (£2.0bn)

DEVELOPMENT
£378m (£193m)

REGIONS
£1.548bn (£1.958bn)

LONDON
£820m (£246.7m)

STUDENT HOUSING GOES MAINSTREAM: KEY TRENDS IN 2014 AND OUTLOOK

Year to Date 2014 Highlights:

- Institutional funds make numerous acquisitions of direct let schemes.
- Yields have fallen 30-50 bps in prime regional towns and 50 bps in London.
- Overseas operators enter the market at portfolio scale.
- Preferred bidder selected for 16,827 bed Liberty Living platform.

2014 has been a busy year in the student housing market. At the date of going to press, at least £2.369bn of capital has been invested in 2014. The highest ever number of undergraduates have entered the system despite higher tuition fees. In 2014, the investor profile has totally shifted towards institutional buyers. The hardening yield story reflects wider market trends but is also evidence of widespread acceptance of student housing by all types of investor as a well-understood and mainstream asset class. With a number of portfolio opportunities available and likely to transact in 2015, the current investment flurry in student housing is set to continue into 2015.

Key Trend 1: Record numbers of students enter the system

According to UCAS (23/9/14) at least 499,730 new undergraduates entered the higher education system for the 14/15 year. This is the highest ever intake and suggests that the introduction of a higher tuition fee cap of £9,000/year in 2012 has not dampened the desire for a university education. The international student population in the UK is also steadily growing. According to UCAS, the number of 'Other EU' students entering the system has grown from 15,450 in 2004 to 26,070 in 2014. New Non-EU entrants have grown from 28,875 in 2004 to 38,230 in 2014. Overall this is a 57% increase in overseas entrants since 2004.

Chart 1: Applicants, acceptance and tuition fees

All Property Update

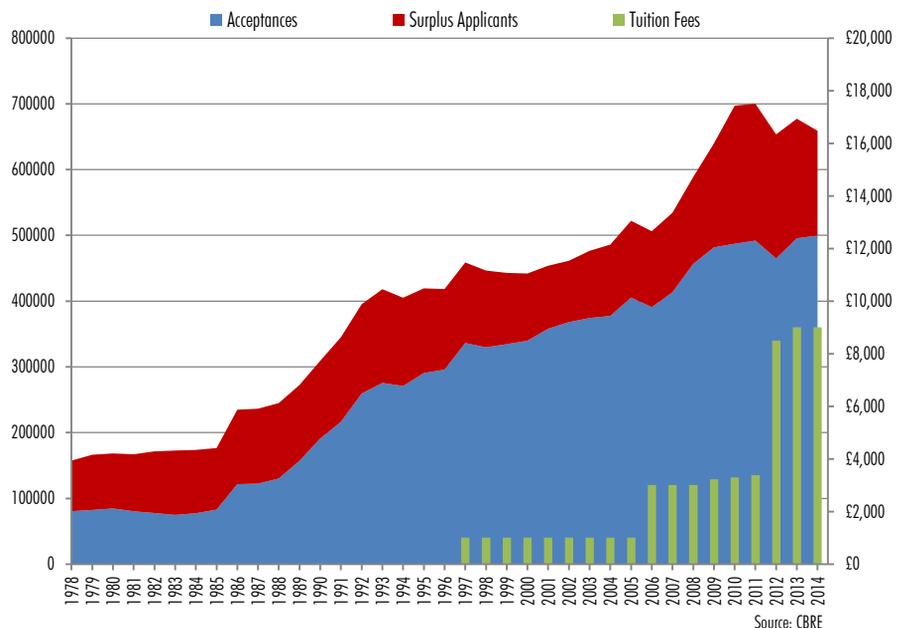
IPD Monthly Index (Oct)		Trending
Total Return	20.1%	Stronger
Initial Yield	6.40%	Stronger
Capital Growth	13.0%	Stronger
E.R.V.	2.7%	Stronger
CBRE NIY (Sep)	5.7%	Stronger

Student Housing Yields

Q3 2014 - Direct Let		Trending
London Zone 1	5.50%	Stronger
London Zones 2-4	6.00%	Stronger
Super Prime Regional	6.00%	Stronger
Prime Regional	6.25%	Stronger
Secondary Regional	7.00%	Stable

Q3 2014 - Uni Lease		Trending
London Zone 1	4.75%	Stronger
London Zones 2-4	5.00%	Stronger
Super Prime Regional	4.85%	Stronger
Prime Regional	5.10%	Stronger
Secondary Regional	5.10%	Stronger

Source: CBRE



Source: CBRE

Key Trend 2: Student housing has become mainstream

In 2014, the profile of investors in student housing completely changed compared to 2012. Chart 2 shows a comparison of the types of investors in 2012 (excluding the UPP bond issue) and 2014 to date. Institutional investors, who previously had only invested in long leased product or indirect investment have made numerous purchases of direct let, directly owned assets. LaSalle, Henderson, Blackrock and Pramerica have been the most active. They have purchased mostly single assets in lot sizes between £12m-£60m. Since launching in June, the sector's latest REIT, Empiric Student Property Plc, has been on the acquisition trail and has completed five purchases of mostly boutique studio schemes of between 50 and 200 beds. Following their secondary raising, they will continue to be an active buyer next year.

As with other sectors, we are coming to the end of distress sales. The Opal portfolio has been sold now, but to a large extent distress has been alleviated by this year's recovery in the market. Demand for portfolios has been dominated by overseas operators and large international investors. For example, this year's Operators' League Table shows that Campus Living Villages have increased their market share and Greystar have acquired at least 8,291 beds this year, to make them the 7th and 8th largest respectively.

One of the most interesting current opportunities is the sale of the Liberty Living portfolio. This was marketed in a selective bidding process, and reportedly attracted interest from three major bidders. These were Greystar (backed by Goldman Sachs), Europa Capital, and the party reportedly selected as preferred bidder, the Canadian Pension Plan Investment Board. The Liberty Living portfolio was unique as it offered the opportunity to acquire an established operating platform, to which further assets could be added. It shouldn't be overlooked that a portfolio of 16,827 beds would also take at least 5 years to assemble through development and acquisition. The reported price of £1.15bn (Property Week, 7/11/14) would equate to £68,342/bedspace, and a yield in the mid-5%, depending on the running costs and purchaser's costs assumed.

With so many serious institutional buyers and operators entering the market, UK student housing is arguably the most advanced of 'alternative' sectors. Student housing is better understood by more investors than other alternative sectors. This is due to the increasing availability of performance data, more specialist third party managers, and greater transparency on yields following an increase in the volume of deals.

Chart 2: Analysis of types of Investors

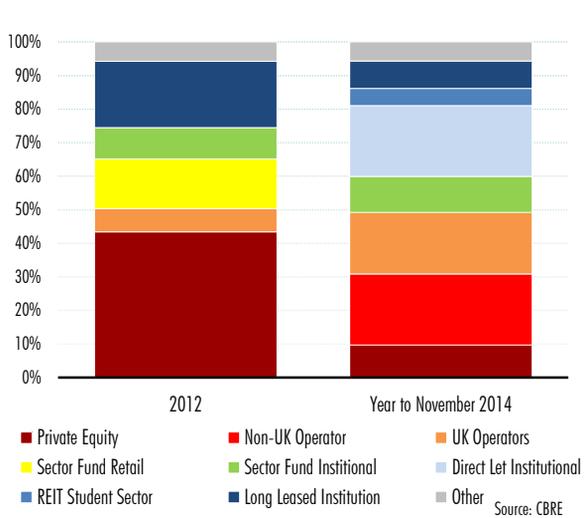


Table 1: Operators League Table

Student Housing Operators	2013	2014	Committed Pipeline
Unite Group Plc/USAF	42,000	43,039	5,743
UPP	27,317	28,767	1,200
Derwent	16,324	18,000	0
Liberty Living	16,827	16,827	0
Sanctuary Group	13,638	12,836	0
CRM	19,921	10,120	14,330
Campus Living Villages	3,821	8,727	2,108
Greystar/Prodigy	0	8,291	0
MSAF/Mansion	9,000	8,200	0
Victoria Halls	7,291	7,291	0
Unipol (Halls Only)	6,431	6,431	0
The Student Housing	3,789	6,337	5,151
Fresh Student Living	4,234	6,108	2,085
IQ/Wellcome	5,172	5,604	0
South Street	2,801	3,384	338
Collegiate AC	2,000	3,200	5,600
Downing Developments	785	2,820	5,847
Viridian	2,312	2,705	0
Nido	2,526	2,380	0
Student Castle	1,773	2,153	859
Prime Student Living	1,051	1,889	2,986
Pure Student Living	974	1,753	417
Touchstone	4,166	1,500	0
Urbanest	1,066	1,373	1,093
Scape Student Living	740	868	1,093
Totals	195,959	210,603	48,995

Source: CBRE Research

Key Trend 3: Yields are coming in. Where could they get to?

The competition between buyers for the short supply of quality product to buy is one reason for the downward pressure on yields. The second reason is that institutional buyers have a lower cost of capital than the private equity houses who previously dominated the market.

Yields have moved rapidly over the last quarter in response to the strengthening of yields in the wider property market and investors are looking for more generous yield compared to other sectors. Current sentiment is very strong and we anticipate further yield compression.

Completed transactional evidence suggests prime regional single asset yields have come in by 30-50 bps compared to 12 months ago. In London, sentiment has shifted dramatically and we expect deals in the next few months to show 50 bps yield shift compared to deals earlier in the year.

Parties trying to do forward funding deals are finding that funding discounts are much harder to negotiate in today's market than 12 months ago due to the lack of quality opportunities with planning.

The CBRE Student Housing Index, based on our valuations of 26,786 bedspaces, showed a total return of 10.86% in the 12 months to September 2014, compared to 9.95% in 2013 and 9.75% in 2012. Average rental growth this year was 2.25%, which is less than in previous years. Average rental growth in regional towns appears to be closely aligned with inflation, which is currently running at 2.4%. Student housing total returns have been overtaken by the IPD for the first time in several years, however this is consistent with the lower volatility characteristics of student housing.

Our research suggests that at November 2014, prime West End and City office yields currently stand at just 25bps away from the previous peak yields in June 2007 of 3.5% and 4.25% respectively. M25/South East and regional office yields, which traditionally have been the closest of the mainstream sectors to student yields, currently stand at 5.5% compared to the previous peaks of 4.75% and 4.5% respectively.

Table 2: Average net Rental Growth

	Year to Sep 2011	Year to Sep 2012	Year to Sep 2013	Year to Sep 2014
RPI	5.60%	2.90%	3.15%	2.40%
Regional Towns (excl. London)	3.58%	2.90%	3.21%	2.51%
London	14.18%	6.43%	0.60%	1.18%
National Average	4.26%	3.39%	2.69%	2.25%

Source: CBRE Student Housing Index

Table 3: Peak, Trough and Current Yields

Sector	Previous Peak June 2007 yields	Trough June 2009	Dec 2013 Yield	Nov 2014 Yield
West End Offices	3.5%	5.5%	4.00%	3.75%
City Offices	4.25%	6.75%	4.75%	4.50%
Student Housing Central London	4.75-5.00%	6.50%	6.00%	5.50%
M25/South East Offices	4.75%	7.50%	5.75%	5.50%
Prime Regional Offices	4.50%	7.00%	5.75%	5.50%
Student Housing 'Best in Class' Regional Direct Let	5.25-5.5%	7.00%	6.50%	6.00%

Source: CBRE

In 2007, prime regional deals peaked at around 5.25-5.5%, and although there were very few deals, direct let London property peaked at around 4.75%-5.00%. The student housing market was clearly much less mature in terms of the number of buyers and the annual volume of deals was much lower than it is today.

The above suggests that there could be some further yield compression in the student housing market before the market peaks.

Key Trend 4: Investors are particularly keen on London property

The effects of CIL and the resurgence of the residential market have meant that student housing bids for sites are now rarely competitive and the London pipeline has all but dried up. By 2017, if London student numbers grow at 3% per annum, the proportion of students with access to PBSA will start to reduce again.

35% of the £2.369bn invested so far in student housing in 2014 has been in London deals. London is perceived as having the strongest rental growth prospects due to the constrained supply, although it can be the hardest market to get right operationally and the CBRE Student Housing Index has only shown 1% net rental growth for each of the last two years. Student housing is also attractive to investors as it offers relatively high yields compared to other Central London property, but is available for a lower capital value per sq ft.

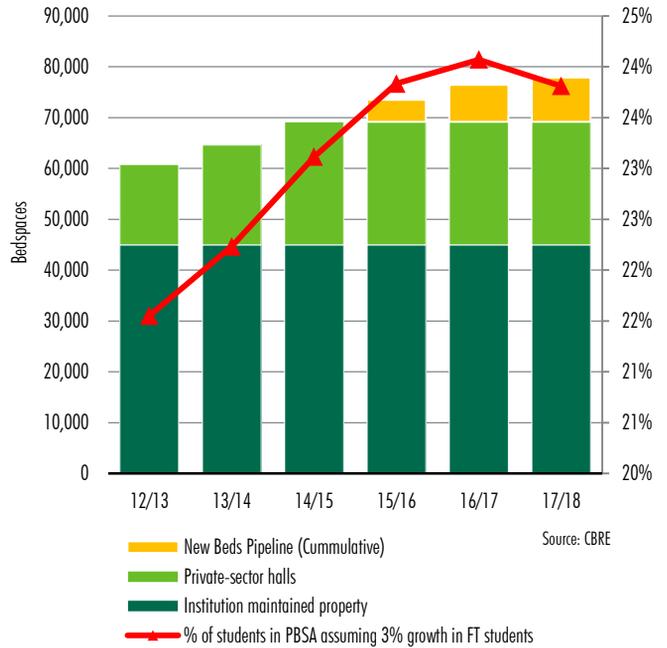
For these reasons, sentiment for London investments is currently very strong, with current pricing aspirations at closer to 5% for direct let stock and well ahead of previously transacted deals.

In such a strong market, it can be difficult for investors to navigate the complexities of London's micro locations and rental levels.

Transaction yields can be distorted due to leases, running costs and purchaser's costs. It is therefore desirable to have some alternative benchmarks for comparison purposes. Table 4 below illustrates the ranges shown by 2014 transactions by London transport zone.

Compared to other sectors, London student housing still looks like good value compared to other sectors in both in terms of yields and £ per sq ft capital value.

Chart 4: Supply of London Bedspaces



Depot Point, Student Housing Company, London

Table 4: London Student Housing Benchmarks from 2014 Transactions

Zone	£/bedspace	£/sq ft	Average Weekly rents	% Ensuite	% Studios	Yield
1	£160,000-£202,000	£527-£587	£285-£324	24%	75%	5.75-6.25%
2	£137,000-£185,000	£400-£575	£210-£268	58%	42%	5.75%-6.35%
4	£95,000-£105,000	£375-£400	£180-£185	66%	34%	6.0-6.5%

Source: CBRE

Investment Deals

1) Student Court, Wembley

In October 2014, Greystar purchased this property for £69.9m. The property has a Nomination Agreement to University of Westminster on the 481 ensuite rooms, with the 179 studios being direct let. In addition to the 660 student rooms there are also five residential apartments. The deal can be analysed to show 6% (SPV), and approximately £105,000/bedspace. This follows Greystar's acquisition of the OCB portfolio, three London assets, in May this year, and takes their total number of London beds to 2,493. It also follows LaSalle's acquisition of the 435-bed Victoria Hall scheme at Wembley earlier this year at a 6.5% yield.

2) Empiric Student Property Plc

Following their successful IPO in June, ESP have been on the acquisition trail. Targeting mainly boutique studio schemes, the following is a selection of their recent deals:

Scheme	No of beds	Price	£/bed
Alwyn Court Cardiff	51	£3.50m	£68,627
London Road Apartments, Southampton	46	£3.55m	£77,172
Talbot Studios, Nottingham	98	£8.2m	£83,673
Centro Court, Aberdeen	56	£6.5m	£116,071
The Brook, Birmingham	106	£12m	£113,207

3) Printworks, Exeter

In August 2014, Blackrock acquired this 492-bedroom prime scheme from Moorfields. The scheme was newly completed in 2013. The purchaser's analysis of the deal is understood to be 6.15% reflecting the purchase of the SPV.

4) King Square Studios, Bristol

In October 2014, LaSalle acquired this 301-studio scheme from Fusion Student at £33.5m, and can be analysed to show a net initial yield of around 6.2%. This equates to an average value of £111,300/bedspace. This was mostly direct let with a short term noms agreement on part.

5) Potterrow, Edinburgh

In September, the Curlew Student Trust purchased this 151 – bed scheme in a prime central Edinburgh location. The price of £13.5m equated to £89,400/bedspace. The scheme benefitted from a short term Nomination Agreement with University of Edinburgh, which is reversionary.

6) McDonald Road, Edinburgh

In November 2014, the Bouwfonds European Property Fund purchased this 135-bedroom residence from the Unite USAF. The price of £10.55m shows a net initial yield of around 6.5% and equates to £78,100/bedspace. This deal follows Bouwfonds' other acquisition in Edinburgh earlier this year, Gateway Apartments and is their second deal in the UK.

2015 Outlook and risk factors

Student housing is an increasingly global sector. The UK market is already attracting major pension fund investors from all over the globe, and students are increasingly globally mobile. Universities have also responded to globalisation with collaborations with universities in other countries. With the increasing student housing supply in some UK towns, some operators see opportunities in European university cities and further afield, where there are huge student populations with very little purpose-built supply. We expect to see more cross-border activity among operators and investors in 2015.

2015 promises to be another big year for investment with all the portfolio deals currently available, and the conditions exist for further yield compression. There has arguably never been a better time to bring student housing to the market.

Table 4: Risk Factors

Risk Factors	Implications
Build costs	Land Costs and build costs are both on the increase, which will mean developers' margins are squeezed.
Market saturation	Supply in some regional towns is reaching saturation and rental growth will be harder to achieve
Outcome of election	No real clarity on major parties' plans for higher education at present.
In/out European Referendum	Immigration and membership of Europe are hot topics. A change in the policy for EU students could affect a significant stream of demand, particularly in London, where EU students are 11% of the cohort (HESA).
Rise in cost of debt	Widely predicted in 2015. Likely to limit further yield compression.

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Yields

The Net Initial Yield, which is growth implicit, rather than the Equivalent Yield, is the key driver in this sector. Allowance for purchaser's costs of 5.8% is made in calculating the Net Initial Yield. All the yields assume properties completed within the last 5 years and stabilised, and ignore any forward funding discount. Yields assume a generic lot size of £35m.

Direct Let: Well located modern purpose built properties with a strong track record.

University Lease: Well located property on a Lease to a well regarded university, with a strong covenant strength and at least 20 years unexpired, with annual RPI uplifts on FRI basis.

Super Prime Regional: Mostly historic towns with restricted supply (Oxford and Cambridge)

Prime Regional: Mature markets with healthy supply / demand ratio and more than 1 university. Examples would include Newcastle, Aberdeen, Southampton

Secondary Regional: Towns with possible over-supply issues, newly formed universities etc.

CBRE's Student Housing Index is based on regular valuations carried out for clients by CBRE. 26,500 mostly direct let bedspaces are included in the index, with a total capital value of around £1.7 billion. 80% of the index is in regional towns, and 23 towns are represented. The index is calculated annually in September.

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