

► **Future supply of accommodation:**

Focus on London pipeline

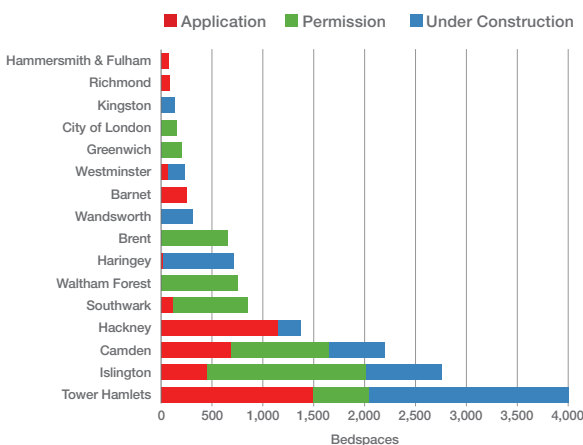
An escalation in the numbers of full-time students within London since the beginning of 2000 has increased the opportunity for investment within the sector. Student numbers are growing at 15 times the rate of new supply in London, according to HESA data, which has advanced the requirement for additional bedspaces in key locations across the capital. This situation of gradual supply and soaring demand has resulted in consistently high occupancy and rental growth rates, establishing London as a core investment market.

Student numbers are growing at 15 times the rate of new supply in London

Within London our analysis shows that there are currently 55 PBSH schemes within the planning pipeline, of which 30% are at the application stage, 39% have gained permission and the remaining 31% are under construction. The 55 schemes total approximately 14,700 bedspaces, which equates to an average of 265 bedspaces per scheme.

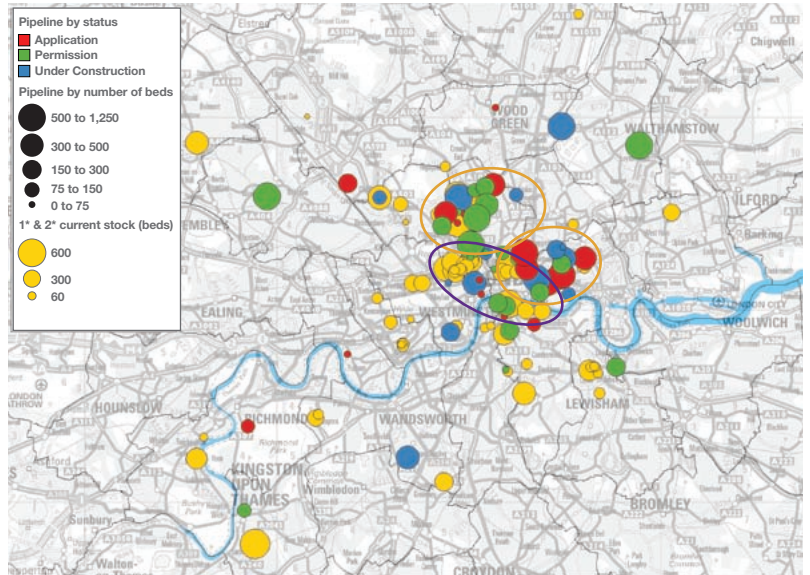
Over 70% of all future bedspaces are heavily concentrated within two key student zones: North London (Islington and Camden) and North East London (Tower Hamlets and Hackney) as shown on the map by the orange circles. These future developments have diffused away from older traditional central locations (highlighted by the concentration of yellow pies within the purple circle). The clustering of student development on the fringe of central London and within London underground zone 2 is symptomatic of the requirement of students to be within close proximity of campus facilities and first-rate retail and leisure amenities.

Figure 6. Planning pipeline in London by borough



Source: Savills using LRR and ABI

Figure 7. Planning pipeline and location of current supply of 1* and 2* beds



Source: Savills Research using LRR and ABI

Pipeline is heavily concentrated in North and North East London

As a result of the current downturn, residential land values and build costs have decreased, thus enabling greater opportunities for prime sites to be developed as student units or older university stock to be redeveloped and modernised. Indeed, the dominating PBSH scheme within the supply pipeline is Nido (Spitalfields), a large-scale development of approximately 1,200 total bedspaces, scheduled to complete in 2010. The fact that the income stream from student housing can compete with commercial property in central London is indicative of the importance of student housing as an asset class.

We estimate that 2,290 student beds will complete in London during 2009, with development reducing in 2010 and 2011, as a result of funding pressures, rather than falling student demand. Analysis of market share of the 55 schemes within the London pipeline illustrates that six developers, Unite, Quintain, Nido, Opal, Hive and Hallmark Estates, account for over 50% of all future developments within the London region. The remaining 48% of supply is distributed between, at least, 35 developers, operators or providers, which have no more than 5% market share.



Residential research services

Savills has had a dedicated residential research team for the past 18 years. Based in London the team provides advice and analysis to clients, on all aspects of the residential market. The department has built up a strong reputation for producing accurate, well-informed and independent analysis and commentary on the UK's housing market.

The team is a leading national commentator on housing market trends. The success of the department has been built on its market insight, provided by the Savills network, in conjunction with a significant external consultancy business.

This market-led approach to our research is vital to our clients. Through the provision of analysis, commentary and forecasting we can add value to both assets and businesses. The department has been involved in a wide range of consultancy projects for public and private sector organisations across the UK. Typical consultancy projects include:

- Local area supply and demand analysis
- Research to support planning applications and development feasibility studies
- Investment strategy and advice
- Place-making site studies and research into housing-led regeneration
- Forecasting rents and capital values
- Research to inform policy making and statements of best practice
- Research for property finance and business planning purposes

Student investment and development

The specialist team focuses on agency acquisitions and disposals, consultancy and valuation of student accommodation across the UK. We assist residential, student and mixed-used developers and investors, landowners (including universities and NHS Trusts), registered social landlords, local authorities, charities, banks and building societies.

Areas of expertise include:

- Land and asset disposal and acquisition
- Investment agency disposal and acquisition
- Procurement of student halls ■ Valuation
- Estate and property strategies ■ Town planning
- Feasibility studies ■ Investment and agency advice
- Site assembly ■ Acquisition ■ Disposal

Agency

An agency-led team in the student accommodation sector. Focusing on asset and portfolio acquisitions and disposals, 'on' and 'off' market. Advising from site identification, planning, development funding to forward sale, and on trading investments for operators and universities.

Valuation

- Desk-top development and investment appraisals
- Loan security valuations ■ Portfolio valuations

Savills has panel valuer experience advising banks and building societies, investment funds and institutions, housing associations and property companies / developers.

Consultancy

Advisory services on property issues within the education sector, portfolio options appraisals, asset reviews and University Estates strategies, OJEU notices, assessing:

- Demand and supply dynamics
- Options appraisals from retention, part disposal, sale and leaseback, and SPV structures

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Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

A unique combination of sector knowledge and entrepreneurial flair gives clients access to real estate expertise of the highest calibre. We are regarded as an innovative-thinking organisation backed up with excellent negotiating skills. Savills chooses to focus on a defined set of clients, therefore offering a premium service to organisations with whom we share a common goal. Savills, which is synonymous with a high quality service offering and a premium brand, takes a long-term view on real estate and investing in strategic relationships.

Spotlight on... Student Housing

Rental growth and high occupancy rates continue to attract investors to the student accommodation sector

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Highlights

■ **Student housing continues to offer investors attractive investment returns, long-term income streams, rental growth prospects and high occupancy rates;**

■ **Nationally, average rents for Purpose-Built Student Housing (PBSH) grew by 5% between 2007/08 and 2008/09, and 7% in London. Private sector rents significantly out-performed these averages;**

■ **We expect to see continued growth in rents over the next 12 months given that many private accommodation blocks are fully booked for the next academic year (2009/10);**

■ **Rental growth in the student housing sector has been driven by its evolution as a services business. The rental levels achieved reflect the high demand for PBSH and all its ancillary services;**

■ **The student market is expanding rapidly with undergraduate student applications rising by 9% in 2008/09. Nationally, student numbers are growing at 10 times the rate of new supply and 15 times in London;**

■ **With land prices and build costs falling, we expect to see new opportunities arise for PBSH in historically constrained locations. London remains a key market but is hampered by a tight planning system.**

The impact of the recession on student housing

Student housing is perhaps one of the most resilient investment sectors during the current economic downturn. Although the credit crunch more or less put the brakes on development activity in the sector, investors are enjoying robust performance compared to other asset classes. Demand is high, supply is low, rents are rising and many private operators are already fully booked for the next academic year (2009/10).

Yields in the student sector may not be as attractive as they were compared to other commercial property sectors, yet the rental growth prospects and high occupancy rates ensure that student housing will remain a key investment sector. Rental growth in the student sector has been consistently over and above RPI

and is combined with an underlying supply / demand imbalance. Importantly, capital values in the sector have in 2008 not fallen to the same degree as the wider residential or commercial markets.

Reduced development activity will limit investors' ability to grow

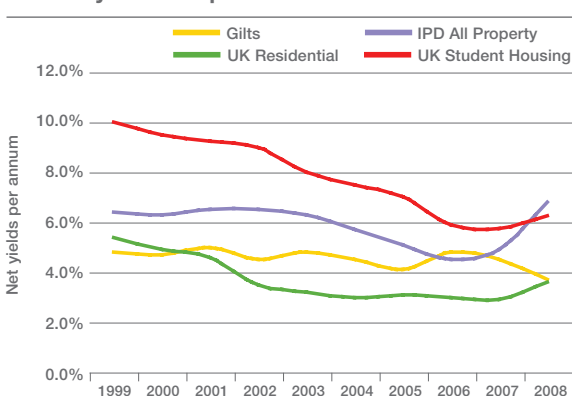
To March 2009, residential development land values have fallen some 50% from their June 2007 peak, impacting on all UK regions, including London and the South East. The fall in development land values will help to create more opportunities to develop student schemes in locations that previously would not have been viable. Sites that would have been developed for residential or commercial use a year ago are now finding higher use value in the student sector, especially given that affordable housing is not generally levied on student housing.

Student housing delivers income during uncertain economic times

However, the withdrawal of developer debt-funding means that many developers are not in a position to acquire or develop land, regardless of reduced land values. Further, development on brownfield land – typically the basis of city centre sites suitable for PBSH – involves extensive costs of remediation and infrastructure. Consequently, many brownfield sites are likely to have negative land value in any land use in the current market environment. In addition, we are unlikely to see a return to investors forward funding developments until the turmoil in the financial sector fully unravels.

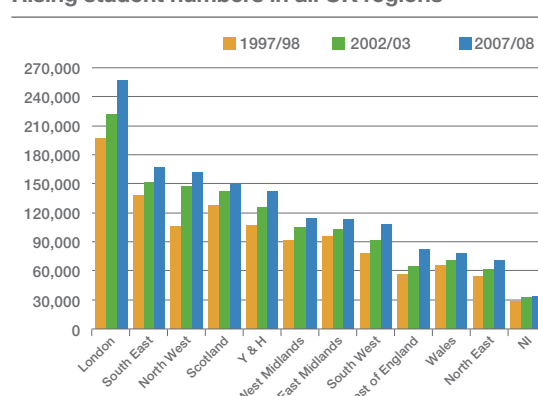
The last 12 months have continued to see high levels of consolidation within the sector. Operator activity has centred around buying and selling existing stock from universities and private operators as well as refurbishing old university stock, rather than organic growth focused on new developments. Therefore, the sector has not expanded significantly in size and the opportunities to invest in new accommodation have been limited. The following report reviews the major issues impacting on the supply and demand of student housing in the UK over the last 12 months and sets out how we anticipate the market will develop over the coming 12 to 24 months.

Figure 1.
Student yields compared to other assets



Source: Savills, IPD

Figure 2.
Rising student numbers in all UK regions



Source: Savills, HESA

Demand trends

The student market is expanding rapidly, especially in the wake of the credit crunch. Undergraduate applications have risen by 9% in the 2008/09 academic year and postgraduate numbers are expected to see a similar surge in response to weakness in the jobs market – a trend that is a repeat of the last economic downturn. The most recent HESA data also points to rising student demand with student numbers increasing at a UK level by 12% in the past five years. Critically, if the financial sector in the UK permanently shrinks in size, possessing higher degrees will become even more important which will boost postgraduate student numbers further.

London continues to lead with the largest student population in Europe and as the premier global destination for international students. The capital has seen a 30% increase in full-time students in the last 10 years, buoyed by an 88% increase in international students. Yet the supply of PBSH has failed to keep pace with demand. The 50,000 PBSH beds available in London are less than the annual intake of first year students alone.

Pressure on London is set to increase as demand rises sharply

Pressures on London are set to increase, with Government forecasts indicating a further 125,000 international students over the next decade. With this level of student growth predicted in the capital, London continues to offer investment opportunities for private operators. Indeed, only one-third of London bedspaces are privately operated at present. However, the planning system in London is limiting the ability of operators to grow their portfolios and increase the level of new supply into the market.

In the short term, demand from international students may rise sharply because of the attractions of studying in the UK from a currency and exchange rate perspective. However, this is likely to be a short-term demand driver.

Rental growth is a key attraction of the student housing sector

A key attraction of student housing to investors is the relatively long-term income stream and its rental growth prospects. In the last academic year, rents grew by

an average of 5% nationally and 7% in London for all student halls (i.e. both university and private sector halls). This is higher than the 4% rental growth seen in the mainstream private rented sector where the majority of students live.

However, there is a large differential between rental growth in the private and university sectors. Private sector rents grew by an average of 8% nationally and 10% in London compared to 5% nationally and 6% in the university sector in the past year. The national average is reflecting the university stock because they own three times more beds than private operators.

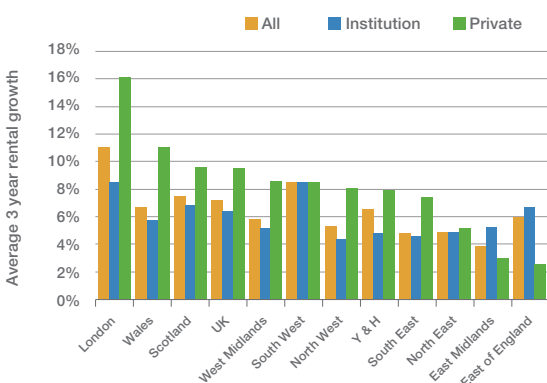
Private sector rents have been growing at a much faster rate because it is generally newer accommodation blocks providing higher quality student housing and services. Although universities have argued that the private sector rents are becoming unaffordable, the 97% occupancy level achieved this year and the full occupancy expected next year (2009/10) provide strong evidence of the affordability of private sector rents and the high demand for good quality accommodation and services.

Demand in London is far greater than all the students studying in Manchester, Liverpool, Leeds and Nottingham

London has seen the highest average annual rate of growth over the last three years at 11% p.a. for all PBSH. The private sector halls achieved an average of 16% p.a. over the same period. This is reflective of the acute supply / demand imbalance in London, where demand from full-time students is far greater than all the students studying in Manchester, Liverpool, Leeds and Nottingham. In addition, the nature of the student stock being built in London – in particular studios – has impacted on the rapid rise in rents.

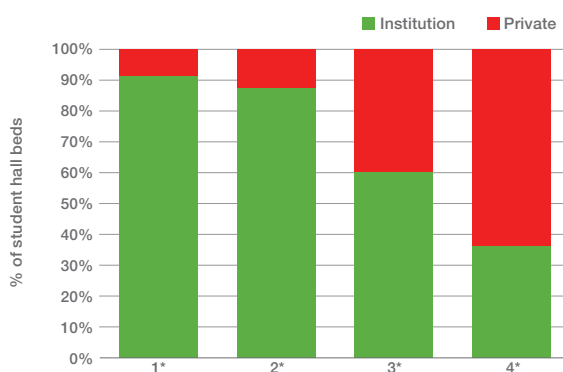
On the cautionary side, in the wake of the credit crisis and the ensuing economic recession, there is an over-supply of private rented accommodation in some parts of London, such as E1 and the Docklands area. With rents falling in these areas, this rented stock is likely to attract interest from students and compete with PBSH in the short to medium term.

Figure 3. Rental growth strong across the UK



Source: Savills

Figure 4. Quality of stock in university sector is old and unmodernised



Source: Savills



Rental growth strongest at bottom end of market

Savills rates the quality of existing PBSH in both the private and university sectors, from 1* (low quality) to 4* (high quality). The rating system is based on the age of a property, quality of accommodation, provision of facilities and location in terms of proximity to university and/or city centre.

Of the 375,000 beds in our database (both private and institution-owned), 135,000 (41%) are classified as 1* and 2* accommodation and these are largely in the university sector. These buildings tend to be older accommodation blocks, built during the sixties and seventies, and are likely to be nearing the end of their useful life. We therefore expect to see an increasing number of older university blocks decommissioned in the coming years.

In terms of rental growth, 1* accommodation had strong growth over the last 12 months (circa 9%). This suggests that universities are increasing their rents, catching up with the rents charged for better quality stock on offer in the private sector. Although universities would like to replace their existing stock with some accommodation that is non en suite so the rents could be cheaper, the cost of land and development are prohibitive compared to value.

The highest proportions of premium 4* accommodation is found in the East Midlands, Yorkshire and Humberside and the North West. This reflects the exposure that private operators and developers have had in these markets over the last 10 years.

The distribution of private and university-operated PBSH around the country is telling of the market conditions in which providers operate. Cities in Yorkshire and Humberside, the East Midlands and the North West such as Nottingham, Sheffield and Liverpool each have around 10,000 privately-operated bedspaces and 5,000 university-owned beds. Lower land values in the north have allowed private developers entry to the PBSH market. Furthermore, some institutions in these cities have recognised the private sector appetite for student housing and capitalised on the availability of this private finance.



Supply trends

Top ten student hall providers

Analysis of the number of operational student bedspaces managed by the top 10 private providers illustrates that levels of investment by private sector operators in the student sector has increased the number of private beds by 14% since 2007 and by 46% since 2005.

Average rents for Purpose-Built Student Housing (PBSH) grew by 5% between 2007/08 and 2008/09.

Consistent growth of the UK student population has driven expansion of the student accommodation market

However, increasing levels of development of private student accommodation units have failed to equalise the market share within the sector, with the top five providers accounting for approximately 70% of all private beds. Unite remains the market leader with bedspaces exceeding 36,000, increased from 2007 figures, irrespective of Liberty Living acquiring nine student accommodation residences from the group, in summer 2008, totalling 3,810 beds across four cities. Sanctuary moves up the list and increases its market share as a result of the acquisition of the student housing portfolio of Shaftesbury Housing Association during 2007.

Figure 5.
Largest providers of Purpose-Built Student Housing (PBSH)

Provider	Bedspaces 2005	Bedspaces 2007	Bedspaces 2009
Unite	31,000	33,944	36,700
UPP	14,679	16,000	18,339
Opal	8,500	16,000	16,500
Liberty Living	5,000	9,800	16,000
Sanctuary (Shaftesbury)	4,147	5,653	8,255
Victoria Halls	4,063	4,500	5,525
Cosmopolitan (Consensus)	2,961	6,800	5,032
Swanbourne	n/a	n/a	3,695
Cordea Savills	n/a	2,059	3,389
Derwent Living (Beech Fund)	2,350	2,142	3,056
Quintain (IQ Fund)	n/a	2,767	3,607*

Source: Company accounts and websites (*operational from September 09)