

**Company:** UNITE Group  
**Conference Title:** Interim Management Statement  
**Presenters:** Mark Allan, Joe Lister  
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Mark Allan: Thank you very much, good morning ladies and gentlemen. I'm here with Joe Lister as well and thank you for taking the time to dial in for this morning's call. Our objective this morning is to provide a little more colour around the main areas of the IMS that was issued this morning and we'll do that between us over the next 10 or so minutes before opening up for questions as is usual.

So the first of the main areas I'd like to cover is the development side of the business and development activity and there are two important areas I think announced in the release. The first relates to the progress on the London pipeline and securing schemes for delivery in 2012 and beyond; and the second relates to our commitment to two 2011 projects which is something we flagged at the time of the prelims. If I deal with the 2011 schemes first, as I said this was something we flagged at the time of the prelims that we were considering the possibility of developing schemes for 2011 delivery and that some provincial locations were beginning to look more attractive. That has indeed proven to be the case and we have now committed to two projects, one of which is in Reading for around 600 bedrooms from our land bank; and the second in the west end of Glasgow is a site that we have recently acquired from a developer who had full planning consent in place on the scheme but was unable to fund the build-out. They're both I think good examples of where market conditions provincially have adjusted and particularly we've seen very low build costs being able to be secured before committing on site in both cases and that means that for delivery next year we will be expecting a yield on cost in the range of 8.25% to 8.5%. That is you will notice below what we are targeting for schemes in London in 2012 and beyond but when one takes into account the earlier income generation of the assets and therefore the more effective deployment of capital on an IRR basis the returns are much more comparable and taking into account that there are full planning consents, build costs are discernibly lower and funding was available and is indeed in place, we feel that's a sensible use of capital and hence proceeded with those two projects.

Looking longer term and the 2012 and beyond London pipeline we indicated back in March with our full year results that the market was quite tough for securing sites at that time, certainly in line with the prices that we were prepared to pay but that we were seeing early signs at that point that the market was getting a little easier. That has indeed proven to be the case and we've made very good progress in the following two months such that we now have a secured pipeline in London of 2,300 rooms, so that's around 60% now of our original target back with the Placing and Open Offer in October; and that's an increase from 900 secured at the time of the prelims. You'll notice in the announcement we refer to those being secured either via lock-out agreement option or conditional contract. Around just under 500 of those beds are secured via full conditional contract, conditional mainly on planning. Another 150 or so are secured via option and the remainder are under very secure lock-out agreements which give us a period of time to complete due diligence but all key commercial terms with regard to the site acquisitions have been agreed and documented with each of the vendors, so a key priority for us over the next couple of months is to ensure that those are fully exchanged. 700 of those beds have planning, the remainder will require planning. We would then proceed with that over the following 18 or so months.

Both the cost per bed and the forecast yields on cost for the 2012 and beyond pipeline are fully in line with our plan which I think is very encouraging, and by that I mean that the total development cost per bed we expect to be below £100,000 and the yield on cost we would expect to be in the mid-9%.

Funding is in place for the majority or we would expect I should say to use existing facilities to fund the majority of that programme but it does now crystallise a need to raise further development finance in due course and that's something which Joe will come on to talk about shortly.

So having covered development I'm going to move to reservations and rental growth and we provide a reasonable amount of detail within this morning's statement. I think in summary the outlook for 2010-11 occupancy, i.e. from this September has become much clearer over the last couple of months and our outlook and guidance remains in line with our previous indications that we expect to achieve like for like rental growth into 2010-11 of between 3-5%.

I think the key shift has been that post Easter the rate which rooms have been selling has increased dramatically and is now running well ahead of last year, so at the time of the prelim we were about four percentage points in reservations down on prior year. That gap has narrowed to three with 71% now reserved and I would expect that gap to continue narrowing until we get to the clearing phase in August where I would expect the reservations level to be in line with prior year.

We have approximately 2-3 weeks of the post Easter sales phase remaining. We've been running pretty visible promotional activity to drive awareness and that has been very successful in selling the small number of promotional rooms available but more importantly a large number of the full price rooms across the portfolio. We then have two remaining key sales phases, the first is the international campaign which kicks off in the beginning of June which is when international offices for universities tend to open and we have a number of initiatives planned to deliver strong performance there; and then the clearing campaign post A-level results for mid-August as usual.

At the time of the Budget the now previous Chancellor confirmed 20,000 extra funded places for this September and 15,000 of those being for full time undergraduates. The Higher Education Funding Council are due to allocate those places to universities on 24<sup>th</sup> May and we would expect that then to give universities the required degree of certainty to then find those extra bedrooms which I think will also provide a further surge in room reservations.

Talking briefly with regard to the medium term, I think overall the supply-demand dynamics of the sector remain positive. Key drivers of growth from international and an existing supply-demand imbalance with very few new bedrooms scheduled for delivery over the next couple of years, but of course government policy is something which still remains uncertain in this area, so what I would say is without major policy disruption I think our medium term outlook is in line with the growth we expect to achieve this year but of course we keep a very close eye on what will be happening, what may happen with regard to government policy.

So I'm now going to hand you over to Joe who will talk through a number of areas before then coming back to wrap up.

Joe Lister: Thank you Mark and good morning everyone. To start with the debt markets, we've seen conditions in the debt markets continue to improve albeit slowly. In the main we've seen this in the investment arena where pricing and availability of finance has improved. We've also seen lending on development assets within the student accommodation sector albeit there's a relatively small number of banks who are active in this development arena. Pricing has remained stable on the development finance at around 2.5-3% and we expect availability to improve for development finance as markets continue to stabilise, but we are seeing banks place greater importance on operators' track records, their operational capability and also being able to put significant amounts of equity into the schemes.

Within the statement we outline that we will require a further £75 million of finance to fund the 2012-2014 pipeline. Given that those acquisitions are contingent on planning we will need that debt during 2011 to fund the build-out of those schemes. We will continue to talk to banks to secure that funding in those timescales.

On valuations we released the USAF quarterly valuations in April and provide helpful data for our stabilised portfolio of assets. We saw a 2% increase in values in Q1 driven both by yields which improved by nine basis points and also the first tranche of rental growth on the 2010-11 academic year. We'd expect to see further rental growth being recognised in Q2 and Q3 as we complete the sales cycles for the academic year.

Then looking at USAF, within the prelims we outlined our intention to use some of the acquisition capacity that USAF currently has to acquire assets from third parties. We have made a number of bids for assets from third parties but the vendors and also the banks have not been willing to match our price aspirations and we're not prepared to move on what we believe are the right types of prices to deliver the returns that we are looking for for USAF and I think this has been broadly in line with what we're seeing in the broader real estate sector as well. Having seen the Irish banks transfer their first assets into NAMA a couple of weeks ago this could start to raise some opportunities later on in the year and we will continue to look at opportunities and evaluate them as we move through the year. What that does mean is that it's likely that USAF will acquire more assets from UNITE than we'd previously thought and that could be up to the region of £125 million – again that will be likely Q3, Q4 of this year and

the cash which is released from those asset sales will be used to manage our gearing position and also free up further cash for investment into development opportunities.

Mark Allan: Thank you Joe. I finally wanted to provide a brief update with regard to university partnership opportunities which was something we talked about as a potential area of growth with our prelims. I think in a macro sense the expected move on the part of universities, particularly their finance directors, to consider alternative sources of funding and the potential outsourcing and/or sale of accommodation is something that we have certainly seen further clear evidence of but this is an area where the wheels turn relatively slowly and the statement contains relatively little new news. We are making I think good progress behind the scenes but with long and complex bidding processes I think it's going to be towards the very end of the year before we have any discernible news with regard to potential contract wins. I think the environment is developing as we anticipated and hoped it might.

So in summary I think we are reporting particularly good progress on the development side of the business with real progress in securing our London programme and the commitment to 2011 projects delivering attractive returns and we are providing I think a positive update as well with regards to reservations activity for the forthcoming academic year and certainly an increased level of comfort and confidence around the rental guidance previously provided in the range of 3-5%.

So at that point I'm going to hand the call back now to the operator and we will open up for questions. Thank you.

Operator: We'll take the first question from Osmaan Malik from JP Morgan.

Osmaan Malik: Morning guys, thanks very much for the updates. Just a few questions on the development pipeline in London. I'm wondering if you could give us some more detail on the projects that you have secured, the location etc; and then the 2,300 beds you secured, where do you hope to take that to over the next months and how is the market looking for buying more sites and how would you finance these?

Mark Allan: Thanks Osmaan. With regard to a little bit more detail, six projects in total and with regard to location I think particularly with the ones that are in lock-out at the moment that we're looking to exchange, I think the most I can say at the moment is that those locations are firmly in line with the locations we outlined at the time of raising capital, so very central zone one, very strong transport and local links to universities. With regards to the second part of your question and where do we expect that number to go, I think the priority for the development team is to get those contracts over the line and exchanged and the pre-ap discussions for planning moving. Joe made a point earlier about the establishment of NAMA which has been some time in the making and a lot of development land is now beginning to go across to the Irish bad bank programme, a good chunk of which is within the UK, so we do think that that and possibly one or two other areas where lenders are becoming a little bit more forceful could throw up opportunities later in the year, so I think we will probably pause for breath for the next couple of months and over the summer and keep a close eye on any of those opportunities coming to market, but we've previously indicated around 4,000 bedrooms in London when we raised capital and I think that remains the sort of level that we want to get to through this acquisition programme, so between now and March 2011. With regard to market conditions I think it's the lack of development finance that really has begun to hit home in the market. I think there was some optimistic bidding earlier in the year as the market recovered very, very rapidly. A number of sites that did go under offer seem to have come back to market we presume because of lack of available funding and I think we've definitely seen vendor expectations adjust down to more manageable levels, but I think it is clear that the strategy we outlined back in March which was to pursue off market opportunities and not really get drawn into competitive bidding situations where we could avoid it, I think that does remain the best route for us to secure the best returns and where we add the most value. With regards to funding we have raised all of the capital into the business that we need to secure the sites. We will need more debt as Joe outlined to fund the build-out. Our existing lenders have all been very supportive. They've all made existing facilities available and as I think we all know that has not necessarily been the case across the board over the last months and years and there are other lenders where we certainly have capacity. Joe mentioned they are looking for a reasonable amount of equity to be put in. That would be in the region of between 20-30% of the cost. That is in line with the leverage assumptions that we made when we raised our capital last year, so the funding situation feels,

6-8 months from when we raised capital, more positive, but the rate of progress and improvement is relatively slow and we've still got to consider that market to be a little bit fragile.

Osmaan Malik: Very clear, thank you Mark.

Operator: We'll now take the next question from Michael Burt from Execution Noble.

Michael Burt: Morning guys. Just in terms of the occupancy, I was wondering if you could break down where occupancy is year on year for the stabilising properties and then also for the non-stabilising properties?

Mark Allan: Good morning Michael. We don't have, I'm not disclosing at this point a full break down between those. All I would say is that there are no particular geographic or particular segments to the portfolio that are showing any particular discrepancy over previous year, so we're not looking at any areas where we feel there has been a marked change in the rate at which rooms have been selling. Most of the assets that are stabilising are located in London which is a reflection of how much was delivered in London last year. We are now about to go into the key sales phase in London. The reason I say it's a key sales phase in London is that 2/3 or over 2/3 of our customers come from overseas and the international offices in terms of confirmed visas and confirming places only really start to work from the beginning of June, so there's a number of key channels online, international agents, a whole range of fairs that both we and universities attend, various places dotted around the world. We're very well resourced and planned to ensure that those channels result in a good degree of booking activity. I think we feel very comfortable about getting the stabilising assets in London largely stabilised for the 2010-11 academic year.

Michael Burt: Ok, thanks. Then just in terms of potential opportunities partnering with universities, could you give me a feel for firstly who your competition is in these tendering processes? Then also you mentioned third party capital that you may need to invest alongside you, who those third party or the type of third party investors you may be speaking to?

Mark Allan: Sure. To talk about the competition first, if I look at the sort of bids that we've been involved in so far and of course this is a new process and new experience for us, there's one competitor who will appear time and again which is University Partnership Programme or UPP, I think they're a name that most people are familiar with. They are backed by Barclays Capital Infrastructure Funds and they have tended historically to use very highly leveraged PFI type structures and have entered into 35 or 40 year leases with universities and have taken on board the management responsibility which is what UPP have then provided with then the cash flows largely tied up with swaps and the rest of it to support a very high level of debt with then some return to infrastructure funds. They actually, as I'm sure many people saw, had reasonable publicity on Monday in the FT about a plan to move away from that model and establish a fund and bring in new funds or new investors alongside BarCap. I think we're some way off actually seeing that fund come to fruition and the key difference between them and the way that we're looking at this is the length of tenure. I struggle to get my head around how to maximise value in a 35-40 year lease, so the sort of basis that we're looking at would be a longer leasehold type structure, 125 years being the most likely norm and we see better opportunity then to deliver value through asset management and to ascribe a better value to the deals up front for the benefit of the universities. With regard to investors, you're absolutely right, our intention is to bring on board third party investors and we've had very preliminary discussions with a range of long term institutional type investors that have expressed an interest in the sector. I think the key difference between this type of offer and USAF which is our main institutional product at the moment is that this would have a much more secure type of income stream given the on-campus location and involvement of the universities, so I think it will be institutional type investors. We're not yet at a stage with enough granularity on any particular deal to put something concrete in front of particular investors but the noises we've had back from those we've spoken to give us a good degree of confidence that capital will be available on sensible terms.

Michael Burt: Ok, thank you. Just lastly, would it be fair to say then that it will be a relatively low capital commitment for you if you do enter into any of these university partnerships?

Mark Allan: That's correct. I think we will co-invest but it will be 10-15% of the total requirement that we will look at and I think we'll look to use for example capital release from some of these sales into USAF to manage the way in which we invest that capital.

Michael Burt: Thank you guys.

Mark Allan: Thank you very much. Ladies and gentlemen, thank you for taking the time to dial in this morning. I do hope that's been useful. Of course as ever if you've got anything you'd like to pick up offline, both Joe and I will be available during the course of today so do feel free to call. Thank you very much and have a good day.