



# Student Property Team

Neil Armstrong – 28 June 2011

**Knight Frank**

# Key Issues



Funding and Uncertainty

Forecast

Transactions and Competitor Activity

Valuation Approach

# Funding and Uncertainty



## Funding Concerns

1. Restrictions on Overseas Students?
2. University Funding Restructuring?



# Funding and Uncertainty



## Funding Response

1. Visa Restrictions – Not on degree courses
2. Restructuring
  - ◆ Funding at point of consumption
  - ◆ Students and “Consumers”
  - ◆ Fees Matched by Student Loans
  - ◆ Loan Payback



# Funding and Uncertainty



## Uncertainty

1. Student Numbers
  - ◆ Globally Prestigious Brands
  - ◆ Overseas Applications
  - ◆ Shift to Postgraduate
  - ◆ Applications

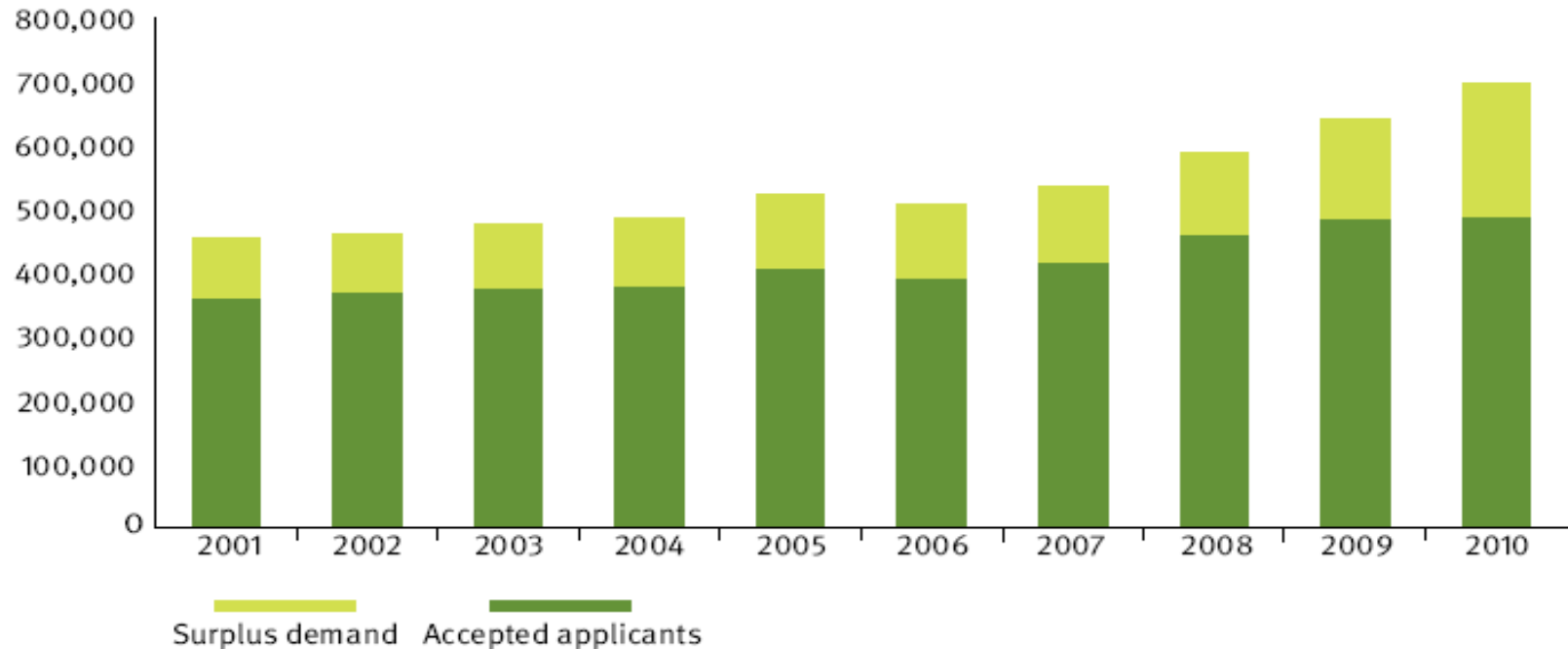


# Funding and Uncertainty



## Student demand for university places exceeds supply

All applicants vs accepted applicants, 2001-2010



Source: UCAS

- ◆ **UK Remains Structurally Undersupplied**

# Forecasts



- ◆ **Transaction Types**

**In This Year ...**

1. Forward Commitments
2. Forward Funding
3. University Leases & Disposals
4. London “Value” Product
5. Regional Development
6. UK Institutional Investment
7. International Investment



# Forecasts



## ◆ Rents & Yields

### In This Year ...

- |                             |             |
|-----------------------------|-------------|
| 1. London Studio Rents      | Stable      |
| 2. London En-suite Rents    | +3% to +5%  |
| 3. Regional Rent            | +3% to +5%  |
| 4. University Rents         | +3% to +12% |
| 5. Yields Direct Let        | Stable      |
| 6. Yields University Leases | Stronger    |



# Transactions



- ◆ Internationalisation & Institutionalisation
- ◆ Value Added
- ◆ Dry Investment

# Transactions



- ◆ **Internationalisation & Institutionalisation**
- ◆ Value Added
- ◆ Dry Investment

## **UofA Costume Store Acton**

- ◆ 730 student bedrooms
- ◆ University of Arts Lease on PC
- ◆ Low rents to students of under £150.00 per week
- ◆ Forward Sold March 2011 for September 2012 Delivery
- ◆ Lot size over £60,000,000
- ◆ Purchased on anticipation of exit yield just over 6%
- ◆ Overseas Equity for UK Higher Education Institution backed Investment



# Transactions



- ◆ **Internationalisation & Institutionalisation**
- ◆ Value Added
- ◆ Dry Investment

## **CB1 Station Redevelopment Cambridge**

- ◆ 511 student bedrooms
- ◆ Anglia Ruskin University Nomination on PC
- ◆ Forward Sold March 2011 for September 2012 Delivery
- ◆ Lot size £40,000,000
- ◆ Anticipated exit yield
- ◆ Institutional UK Equity for UK Higher Education  
Institution backed Investment



# Transactions



- ◆ Internationalisation & Institutionalisation
- ◆ **Value Added**
- ◆ Dry Investment

## IES Residence Manresa Road Chelsea

- ◆ Complex Transaction underpinned by Direct Let
- ◆ Super Prime
- ◆ 165 bedrooms with opportunity
  
- ◆ Sold April 2011
- ◆ £32,000,000
- ◆ Reflects record £195,000 per bedroom
  
- ◆ Demonstrates Strength of Market for super prime 'value added' product



# Transactions



- ◆ Internationalisation & Institutionalisation
- ◆ **Value Added**
- ◆ Dry Investment

## Glasshouse Nottingham

- ◆ Direct Let
- ◆ Prime Location
- ◆ 605 bedrooms and studios
  
- ◆ Sold by Receivers December 2010
- ◆ £23,500,000
- ◆ Price reflects NIY of 6.7%
  
- ◆ Demonstrates Strength of Market for 'value added' product



# Transactions



- ◆ Internationalisation & Institutionalisation
- ◆ **Value Added**
- ◆ Dry Investment

## Development Sites

- ◆ London Great Suffolk Street
  - ◆ London Walworth Road
  - ◆ London T6 Kings Cross
  - ◆ London 33 Commercial Road
  - ◆ London The Minories
- 
- ◆ Demonstrates London Centric Investment



# Transactions



- ◆ Internationalisation & Institutionalisation
- ◆ Value Added
- ◆ **Dry Investment**

## Broadcasting Tower, Leeds

- ◆ Direct Let operational
- ◆ Award Winning Design & Prime Location
- ◆ 241 student bedrooms
- ◆ Sold March 2011 at £14,875,000
- ◆ Price reflects reported NIY of 6.4%
- ◆ Stabilized Direct Let Rents
- ◆ Demonstrates acquisition of “dry” stabilized direct let investment by overseas investor



# Competitor Activity



- ◆ **New Players**
- ◆ Long Established Competitors

- ◆ Mansion Group
- ◆ Oaktree Capital – Knightsbridge Student Housing
- ◆ Carlyle Group – Generations Estates
- ◆ Charles Dunstone – Student Castle
- ◆ Ahli United Bank
- ◆ Templewood and GI Partners



# Competitor Activity



- ◆ New Players
- ◆ **Long Established Competitors**

- ◆ Opal Group
- ◆ Liberty Living
- ◆ Victoria Hall
- ◆ iQ
- ◆ Blackstone - Nido
- ◆ UPP



# Valuation Approach



**Knight Frank**

City - Address

Market Value Student Accommodation (GDV Direct Let)

Ref: JWP/RC/LT/NA

Date of Val<sup>^</sup> 09-Jun-11

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Income		Sep-11				
Term Income	Number	Rent Per Week (incl)	Letting (weeks)	Occupancy Rate	Income	
Standard en suite 3 bedroom flats	20% 50	£120.00	43	97%	£250,260	
Standard en suite 4 bedroom flats	20% 50	£115.00	43	97%	£239,833	
Standard en suite 5 bedroom flats	20% 50	£110.00	43	97%	£229,405	
Standard en suite 6 bedroom flats	20% 50	£105.00	43	97%	£218,978	
Studio Single 17.0 sqM	20% 50	£150.00	51	97%	£371,025	
	<b>250</b>				<b>£1,309,500</b>	
Holiday/ Longer Letting Periods Income	Number	Rent Per Week (incl)	Letting (weeks)	Occupancy Rate	Income	
Standard en suite 3 bedroom flats	50	£120.00	8	20%	£9,600	
Standard en suite 4 bedroom flats	50	£115.00	8	20%	£9,200	
Standard en suite 5 bedroom flats	50	£110.00	8	20%	£8,800	
Standard en suite 6 bedroom flats	50	£105.00	8	20%	£8,400	
Studio Single 17.0 sqM	50	£150.00	0	20%	£0	
					<b>£36,000</b>	

# Valuation Approach



<b>Income Summary</b>	<b>Number</b>		<b>Income Per Bed Per Annum</b>		<b>Income</b>
Term Income	250	Bedrooms			<b>£1,309,500</b>
Holiday/ Longer Letting Periods Income	250	Bedrooms			<b>£36,000</b>
Car Parking	3	Car Spaces	£100	Per Space Per Annum	<b>£300</b>
Sundry Income	250	Bedrooms	£100	Per Bed Per Annum	<b>£25,000</b>
Initial Payment (New tenants only)	188	75% of Available Beds	£0	Per Bed Per Annum	<b>£0</b>
					<b>£1,370,800</b>

<b>Expenditure</b>	<b>Number</b>		<b>Cost Per Bed Per Annum Expressed as an Annual Equivalent</b>		<b>Expenditure</b>
Services	250	beds @ say	£250	per bed per annum	£62,500
Maintenance & SF	250	beds @ say	£400	per bed per annum	£100,000
Direct Costs	250	beds @ say	£300	per bed per annum	£75,000
Labour	250	beds @ say	£400	per bed per annum	£100,000
		<b>Total</b>	<b>£1,350</b>	per bed per annum	<b>£337,500</b>

<b>Growth Assumptions</b>	<b>Assumed RPI trend</b>	<b>Net Margin Over RPI Trend (allowing for obsolescence)</b>	<b>Total Adopted Annual Growth</b>
Income	2.50%	1.00%	<b>3.50%</b>
Costs	2.50%	1.00%	<b>3.50%</b>

# Valuation Approach



Discounted Cashflow		Continues 100 years . . .					
Income	1	2	3	4	5	6	
<b>Total Gross Income</b>	<b>£1,370,800</b>	<b>£1,418,778</b>	<b>£1,468,435</b>	<b>£1,519,830</b>	<b>£1,573,025</b>	<b>£1,628,080</b>	
<b>Expenditure</b>							
<b>Total Expenditure</b>	<b>£337,500</b>	<b>£349,313</b>	<b>£361,538</b>	<b>£374,192</b>	<b>£387,289</b>	<b>£400,844</b>	
<b>Net income</b>	<b>£1,033,300</b>	<b>£1,069,466</b>	<b>£1,106,897</b>	<b>£1,145,638</b>	<b>£1,185,736</b>	<b>£1,227,236</b>	

Valuation		NPV Target Rate	NPV (Gross)	NPV (Net)
Term Income	Income	<b>9.99%</b>	£20,131,109	£19,027,513
Holiday Income	Income	9.99%	£553,433	£523,093
Car Parking	Income	9.99%	£4,612	£4,359
Sundry	Income	9.99%	£384,328	£363,259
Room Deposit	Income	9.99%	£0	£0
Services	Expenditure	9.99%	£960,820	£908,148
Maintenance & SF	Expenditure	9.99%	£1,537,313	£1,453,037
Direct Costs	Expenditure	9.99%	£1,152,984	£1,089,777
Labour	Expenditure	9.99%	£1,537,313	£1,453,037
Purchasers Costs SDLT		4.00%	-£600,400	
Purchasers Costs Other		1.80%	-£270,180	
		<b>5.80%</b>	<b>-£870,580</b>	
			£15,885,051	<b>£15,014,225</b>
			<b>Say</b>	<b>£15,010,000</b>
			Capital Value Per Bed	£60,000
			Initial Yield Gross of Operational Costs & Transaction Costs	9.13%
			Net Initial Yield	6.50%

# Contacts



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