CHIEF EXECUTIVE'S REVIEW

During the pandemic we have placed a particular focus on supporting students, through financial support totalling over £100 million and a focus on their health, safety and wellbeing.

"Despite the challenges of the Covid-19 pandemic, I am proud that Unite has emerged from a tough year showing our operational resilience and building on our commitment to doing the right thing to support students."

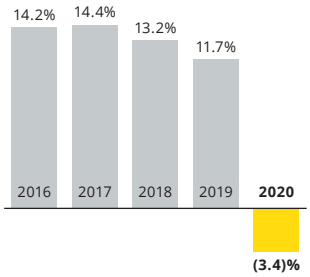
Richard Smith Chief Executive Officer

The resilience and flexibility of our response under extremely difficult and changing circumstances has only underlined the quality of our teams and value of our operating platform, PRISM.

Our response to Covid-19

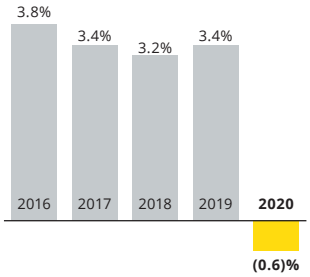
We recognise that the past year has been a particularly challenging time for all students, which is why their wellbeing, safety and security has been our priority since the start of the Covid-19 pandemic. All our properties have remained open and operational throughout the pandemic, recognising that for many students our accommodation is their only home.

Following the onset of the Covid-19 pandemic in March, most UK Universities chose to close their campuses, suspending all face-to-face teaching for the remainder of the 2019/20 academic year. In response, Unite was the first corporate PBSA provider to offer to release students from their tenancies for the summer term. We have subsequently offered students further rental discounts for the 2020/21 academic year, reflecting the challenges and disruption students have faced during the latest lockdowns. We have also offered students significant flexibility to manage their changing circumstances, including the ability to extend their stay during summer 2020 at no further cost and flexible or delayed check-ins for the 2020/21 academic year.



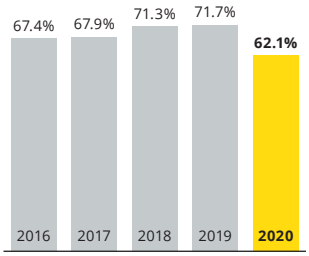
Total accounting return[1]

(3.4)%



Rental growth

(0.6)%



EBIT margin

62.1%

We were the first student accommodation provider to be accredited with Covid-19 secure status by the British Safety Council. We have also worked closely with our University partners to agree our approach, resulting in increased provision and access to student wellbeing and mental health support during the pandemic. This has included bespoke support for students who are shielding, support for those self-isolating, online welfare checks and a pilot peer-to-peer scheme. We have also worked closely with Public Health England and local authorities during Covid-19.

Financial resilience

The business delivered a resilient financial performance in 2020 with EPRA earnings of £97.3 million and EPS of 25.5p, down 35% YoY. This reflects the impact of rent rebates for the summer term of 2019/20 and lower occupancy in the 2020/21 academic year, partially offset by cost savings made during the year. The loss before tax of £120.1 million is primarily driven by the valuation loss resulting from income reductions linked to Covid-19.

Despite the ongoing disruption created by Covid-19, we look forward to the future with confidence. We have increasing visibility over income thanks to the anticipated return of students following the Easter break, the strength of University applications and growing reservations for the coming 2021/22 academic year. This provides us with the confidence to reinstate dividends, through the payment of a final dividend of 12.75p. This represents a payout ratio of 50% for FY2020, which we intend to increase to at least 80% as market conditions stabilise.

Total accounting returns for the year reduced to (3.4)%, reflecting the valuation loss in the year. Looking forward, we expect a strong recovery in total returns from 2021, underpinned by a return to full occupancy and 2-3% growth for the 2021/22 academic year. We continue to target delivery of attractive total returns, through a balance of recurring income and capital growth.

See our **Financial review on page 42**

In response to Covid-19, the business delivered £15 million of cost savings (Unite share) from insourcing of work over the summer, savings to utility and broadband costs and a four-month reduction in remuneration for Directors and cancellation of bonuses for 2020. Reflecting our cost discipline and the anticipated recovery in rental income, we are targeting an improvement in our EBIT margin to 74% by the end of 2023 (2020: 62.1%, 2019: 71.7%).

Our key financial performance indicators are set out below:

Financial highlights	2020	2019
EPRA earnings	£97.3m	£110.6m
EPRA EPS	25.5p	39.1p
IFRS loss before tax	£(120.1)m	£(101.2)m
IFRS basic EPS	(31.8)p	(31.5)p
Dividend per share	12.75p	10.25p
EPRA EPS yield	3.0%	4.9%
Total accounting return	(3.4)%	11.7%
EPRA NTA per share	818p	847p
IFRS NAV per share	809p	845p
Loan to value	34%	37%

A reconciliation of loss before tax to EPRA earnings is set out in note 8 of the financial statements.

1. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The Group uses alternative performance measures (APMs), which are not defined or specified under IFRS. These APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information and are based on the European Public Real Estate Association (EPRA) best practice recommendations. A full glossary of definitions is available on pages 225 and 226.

CHIEF EXECUTIVE'S REVIEW CONTINUED

"I would like to thank our teams for their dedication over the past year."

Return to University

The Government announced its plan for a phased return of students to University on 22 February. From 8 March, Universities are able to resume in-person teaching for students who are studying practical or practice-based subjects and require specialist equipment and facilities. The Government will review the timing for the return of remaining students by the end of the Easter holiday. University campuses remain open, however we anticipate that some Universities will choose to switch to online-only teaching and assessment for the remainder of the academic year.

We know from our recent student survey that the majority want to return and enjoy University life. 86% students are keen to get onto University campus once it is safe to do so. Meanwhile, 79% of students said they wanted to receive some face-to-face teaching in the third term, if restrictions are eased. Approximately 65% of checked-in students have now returned to our buildings, which we expect to rise further following the end of the Government's stay at home rule on 29 March.

Over the next six months, our financial priorities are cash collection for the 2020/21 academic year and sales for 2021/22. We have now collected 95% of rent due to date for the 2020/21 academic year. As a result, we are confident in maintaining headroom against all ICR covenants across the Group and its funds and joint ventures.

Reservations for the 2021/22 academic year are encouraging at 66%, which, as expected, is slightly below the prior year level of 77%. We see strong demand for accommodation this Autumn based on an 8.5% increase in UCAS applications, but expect a later sales cycle than usual due to the uncertainty created by Covid-19. There also remains some uncertainty over the easing of UK travel restrictions later this year, which could affect some international students' ability to arrive in time for the start of the Autumn term. Positively, we have seen a c.150% increase in the daily rate of direct-let bookings since the Government published its roadmap out of lockdown on 22 February, reflecting increased confidence from both UK and international students.

Enduring appeal in the residential degree

Covid-19 has required Universities to develop new teaching methods to adapt to national lockdowns and social distancing requirements on campus. Almost all Universities provided in-person teaching in the autumn term of 2020/21 and delivered on a blended basis with face-to-face tutorials, seminars and practical work complemented by online lectures to observe social distancing guidelines. The experience has accelerated Universities' learnings around both the opportunities and limitations of online delivery.

HEPI research of student experiences in 2020 revealed a stronger perception of value-for-money before the move to remote learning in March 2020. We also know from our own surveys that students continue to see significant value in the independence that comes from living away from home and the friendships and interactions with their peers at University. This is underlined by UCAS applications data for 2021/22, which reveal a significant drop in the number of students intending to live at home while studying.

Rather than replacing the residential degree, Universities see the potential for online learning to enhance the on-campus student experience. Learning will become more personalised through higher quality face-to-face interactions in smaller groups, tutorials and practical work, supported by online content made available for students to access at a time that best suits them.

Continued investment in our best-in-class platform

In June 2020, we successfully raised £300 million of gross proceeds from an equity issue, equivalent to 9.5% of existing shares in issue at a price of 870p. The placing proceeds enable the Company to continue to invest in its market-leading platform and drive earnings growth.

The net proceeds, coupled with debt up to our 35% LTV target, provide around £400 million of investment capacity to capitalise on new University partnership and development opportunities in key cities. We have already secured c.£175 million of new development opportunities since the placing across two sites in central London and Edinburgh and have a healthy pipeline of further opportunities under evaluation.

The placing proceeds were initially used to repay £207 million of secured debt at a cost of 4.8% ahead of being deployed into new developments. As a result, the placing is immediately accretive to total accounting returns and earnings neutral, with earnings accretion as new development opportunities are delivered.

We are also in advanced discussions with GIC regarding a long-term extension of our LSAV joint venture, which would crystallise our performance fee during 2021.

Successful integration of Liberty Living

During 2020, we successfully completed the integration of our £1.4 billion acquisition of Liberty Living's 24,000-bed portfolio. All Liberty Living properties, customers and employees were fully integrated into our operating platform, PRISM, slightly ahead of planned timings. The Unite customer offer has also been extended to all former Liberty Living customers, including access to the MyUnite app and the comprehensive range of student welfare and support services we provide. I want to thank all of the former Liberty Living employees for their professionalism and commitment throughout the transition, which was challenging given the timing of the pandemic.

We realised cost synergies of £11 million in 2020 and now expect to achieve annual cost savings of £18 million from 2021 (increased from our initial target of £15 million). We incurred integration costs of £9.2 million in 2020, of which almost the entirety were recognised in H1. There are opportunities for further cost synergies to be realised over time in areas such as procurement and energy efficiency in the Liberty Living portfolio.

Creating a responsible and resilient business

A commitment to 'doing what's right' is part of who we are at Unite Students. Over the years, we've worked hard to reduce our environmental impact, support the wellbeing of our student customers, and promote access to Higher Education through the Unite Foundation. In late 2019, we set out to develop a new, ambitious and comprehensive Sustainability Strategy, building on what we had already achieved to address the most materially significant environmental, social and governance challenges we face.

During 2020, we engaged with key stakeholders to understand the risks and opportunities, and how we can do more to create a positive impact. Students are concerned about a wide range of topics related to both climate change and how to make the world a fairer place, while sustainability issues are of increasing interest to investors, Universities and other stakeholders.

Having listened to our stakeholders, we have developed five overarching sustainability objectives, defining our new level of ambition and showing how we will work to make a real difference:

- **Becoming net zero carbon by 2030** – we will reduce carbon emissions from new and existing buildings in line with climate science, ahead of the timescale set out in the Paris Climate Agreement to avoid the worst impacts of climate change. We will do this following the net zero carbon hierarchy, with a strong focus on reducing energy consumption through improving our buildings, while also strengthening the way we buy renewable energy and investing in certified carbon offsets for any residual emissions
- **Creating resilient, resource efficient assets and operations** – we will reduce the environmental impact of our new and existing buildings by improving energy and water efficiency, and also help our students to adopt lasting sustainable living habits
- **Enhancing the health and wellbeing of our employees and students** – driving real improvements in physical and mental health and wellbeing based on an understanding of their needs, through improvements to our service model, physical assets and employee support programmes
- **Providing opportunities for all** – including students, employees and in the communities where we work, where all can succeed, whatever their background, gender or ethnicity
- **Leading the student housing sector** – we will work to raise standards across the student housing sector, and deliver value to our customers and investors

OUR VALUES

Creating room for everyone

Keeping uS safe

Doing what's right

Raising the bar together

See **pages 90 and 91**

CHIEF EXECUTIVE'S REVIEW CONTINUED

"In response to Covid-19, we introduced a number of new and enhanced Covid-19 secure operating practices for the 2020/21 academic year."

This Annual Report includes detail of our commitments, including targets, timescales and plans, and we are committed to sharing information on our progress and performance through regular and transparent reporting.

During 2020, we formally signed up as a supporter of the Task Force on Climate-Related Financial Disclosure (TCFD) and will be publishing more details of our plan for full adoption in 2021, including our net zero carbon pathway. Our sustainability performance is measured by a range of leading external benchmarks, including GRESB, CDP and the EPRA sBPR and we achieved material year-on-year improvements in our ratings for GRESB (4*, 81/100) and CDP (B for Climate Change) in 2020.

Safe and secure

Safety forms a key part of how we operate as a responsible business, underpinned by our commitment to go above and beyond minimum standards to provide a safe and secure environment for our students and employees. Covid-19 has only underlined the importance of this commitment.

In response to Covid-19, we introduced a number of new and enhanced Covid Secure operating practices for the 2020/21 academic year. These included enhanced cleaning and new physical and social distancing measures such as floor markings, signage, communication in reception areas and repurposed common areas. Reflecting these measures, Unite was also the first student accommodation provider to be accredited with Covid Secure status by the British Safety Council as well as achieving the Sword of Honour for excellence in the management of occupational health and safety.

Our investments in our sector-leading operating platform, PRISM, and our MyUnite app have also helped to facilitate digital interactions between Unite employees and students – such as bookings, maintenance requests, parcel collections and logging of issues – and provide opportunities for enhanced service to students. We used the Unite app to manage arrivals and check-ins to ensure students were welcomed in a safe and secure environment.

Fire safety is a critical part of our health and safety strategy. Our fire safety plans involve engagement with our primary authority, the Avon Fire & Rescue Service, and local fire brigades as well as input from independent fire safety experts who conduct annual assessments of our portfolio and have confirmed that all our properties continue to be safe for occupation.

We also work closely with the Ministry of Housing, Communities and Local Government (MHCLG) to ensure our properties comply with emerging guidelines. As part of this, following the tragic events at Grenfell Tower, we were one of the first companies to take action to remove Aluminium Composite Materials (ACM) cladding from our buildings where needed, in line with Government advice. During 2020, and in accordance with the Government's Building Safety Advice of 20 January 2020, we undertook a thorough review of the use of High-Pressure Laminate (HPL) cladding on our properties.

We have identified 19 properties with HPL across our estate, all but three of which are greater than 18 metres in height. We are currently carrying out the replacement of HPL cladding on these properties, with activity prioritised according to our risk assessments, starting with those over 18 metres in height. In line with our value of doing what's right, we will remove this cladding where it fails to meet regulations.

All of our properties have been confirmed as safe to operate and occupy by independent fire safety experts, reflecting a wide range of fire safety measures across our portfolio as well as the special measures put in place at the affected buildings, including increased building patrols by staff, additional alarm measures and other property specific factors such as sprinklers, fire prevention and evacuation plans.

The cost of replacing the HPL cladding is expected to be £79.9 million (Unite share: £33.8 million), which will be incurred over the next 12–36 months. We have fully provided for this spend in our year end balance sheet.

We are fully supportive of the Government's actions to improve fire safety in the UK. This is likely to result in more stringent fire safety regulations over the coming years. As we have done to date, we will ensure we are aligned to fire safety regulations as they evolve and will continue to make any required investment. We are seeking to mitigate the costs to Unite of cladding replacement in our buildings through claims from contractors under build contracts, where appropriate. We also await further details of the Government's recently announced cladding levy for new residential developments.

Partner of choice for Universities

Our reputation with partner Universities is a key strategic advantage for Unite. In a highly competitive environment, Universities increasingly recognise the importance of high quality, affordable accommodation in their ability to attract and retain students and ensure their satisfaction.

2,257
new beds have been opened during 2020

39,250
beds are let under Nomination agreements

£4.9bn
investment portfolio as at 31 December 2020

We believe the decisive actions taken by the business in response to Covid-19 have enhanced our reputation with Universities. Covid-19 has also intensified the operational and financial pressures faced by Universities, which we expect to create a growing appetite for partnerships with leading PBSA operators in delivering their long-term accommodation strategies. We see opportunities to capitalise on our brand and the goodwill created by our response to Covid-19 to accelerate and enhance our pipeline of University partnerships. Unite is already viewed as a strategic partner by Universities, building on our best-in-class operating platform and the commitment of 1,900 people whose understanding of students is informed by our 30-year history in the Higher Education sector.

For the 2020/21 academic year 39,250 beds are let under nomination agreements, representing 60% of total beds sold (2019/20: 41,500 and 59%). The reduction in beds under nomination agreements for 2020/21 reflects the impact of Covid-19 on occupancy and our willingness to provide flexibility to highly valued University partners on a selective basis. With an average remaining life of six years, our multi-year nomination agreements provide us with visibility for average annual rental growth of 2% over the next five years at current levels of inflation.

During 2020, we completed a new University Partnership with the University of Bristol, covering around 3,000 beds. We are also in active discussions with three high-tariff Universities over potential partnerships, covering around 7,000 existing and new beds, which we are looking to progress over the next 12–18 months. These discussions cover a range of potential solutions on a city-wide basis, including multi-year nomination agreements for our existing operational assets, on-campus and off-campus developments and stock transfer.

Operating quality buildings

The quality, location and scale of our portfolio is a key component of our business model and long-term strategy. We aim to operate high quality, affordable buildings and offer a range of price points to meet the needs of different students. Our properties are located in and around leading Universities where student demand is strongest, supporting high levels of occupancy and rental growth. Our portfolio activity is focused on increasing our alignment to high and mid-ranked Universities and being in the best locations. For the 2020/21 academic year, 87% of our income is generated by students attending such Universities (2019/20: 88%), increasing to 88% on delivery of our secured development pipeline and contracted disposals.

Value for money is the most important factor influencing students' decisions on where to live. Our accommodation is now cheaper than the private rented sector on a comparable basis, including bills and contents insurance. That is before allowing for the hassle-free services we also provide, including on-hand maintenance teams and help when it's needed from our 24/7 customer support centre and dedicated welfare teams. The significant support and flexibility we have offered during Covid-19 has also demonstrated to students and parents the value of a trusted, institutional landlord.

During 2020, we opened 2,257 new beds and have sold 242 beds to third parties. Taking into account these activities, together with valuation movements, the value of our investment portfolio (including our share of USAF and LSAV) is £4.9 billion as at 31 December 2020 (2019: £4.7 billion).

Despite the disruption resulting from Covid-19 and lockdown restrictions, we made excellent progress in our development pipeline during the year. We delivered three buildings for the 2020/21 academic year, with approximately 40% of the beds secured under nomination agreements with an average life of 22 years, supporting our quality of income. Development of our schemes at Middlesex Street in London and Old BRI in Bristol was suspended during the first national lockdown to conserve cash and ensure the safety of workers on site. We have now recommenced construction on both sites for delivery in 2022.

We intend to maintain a development run-rate of approximately 1,500–2,000 beds or £150–200 million of annual capital expenditure, with opportunities once again emerging in London as demand has weakened from some competing asset classes. London remains our most under-supplied market, with some of our strongest University relationships.

Disposals remain an important part of our strategy and we will continue to recycle assets out of our portfolio to ensure that we increase our exposure to the UK's best Universities, while generating capital to invest in further development activity and other investment opportunities.

CHIEF EXECUTIVE'S REVIEW CONTINUED

We completed the disposal of one wholly-owned property for £10 million in 2020 in line with book value. We are targeting £200–300 million of disposals in 2021 (Unite share) in anticipation of improving liquidity as greater visibility emerges over occupancy and income for the 2021/22 academic year.

Our ongoing disposal plan will be used to keep LTV to our medium-term target of 35% as we deliver our secured development pipeline. This disciplined approach to portfolio optimisation underpins our ability to sustain rental growth over a longer time horizon.

Government policy

The Government's final response to the Augar Report on post-18 education and funding is now expected later this year alongside the next Comprehensive Spending Review. The recent Skills for Jobs White Paper underlines the Government's commitment to widen participation in post-18 education and strengthen the global standing of the UK Higher Education (HE) sector. We expect an increased focus on the quality of HE provision and research, leading to a further concentration of student numbers and funding in high tariff, research-intensive Universities and leading teaching-led Universities. We are confident that our strategic alignment to high and mid-ranked Universities positions us to successfully navigate future changes to the Government's HE policy.

Growing demand for Higher Education

The outlook for student accommodation remains positive, with structural factors continuing to drive a demand-supply imbalance for our product. Demographic growth will see the number of UK 18 year olds increase by 178,000 by 2030. Participation rates also continue to grow and are now at their highest ever level, reflecting the value young adults place on a higher level of education and the life experience and opportunities it offers. Applications data for the 2021/22 academic year is very encouraging with an 8.5% increase in applicants as at the 29 January deadline.

The Government is targeting a c.80,000 increase in international student numbers by 2030, aided by the introduction of a new two-year post-study visa (three years for postgraduates). This ambition is underpinned by the UK Higher Education sector's global standing and the strength of its Universities. The UK is the second most popular destination for international students and 26 UK Universities feature in the top 200 of the QS World University rankings. Unite works with 20 of these Universities.

Given constraints on new supply of University-owned stock and private-rented housing, the vast majority of this new demand will need to be met by corporate PBSA providers.

Brexit will have a negative impact on EU student numbers from 2021/22, who account for 9% of our customers, due to the loss of home fee status and access to a tuition fee loan. We expect a 30–40% reduction in demand from EU students, equating to 3–4% of our customer base by 2023/2024. However, we are confident in our ability to absorb this impact thanks to the coinciding demographic growth for UK students and the supportive environment for the recruitment of non-EU students.

Board changes

Our Chairman, Phil White, will be stepping down from his role with effect from 31 March 2021. The Board would like to thank Phil for his service. During his Chairmanship, the Group has, among other things, grown within the FTSE 250 and become a leading European REIT and, more recently, completed the successful acquisition and integration of Liberty Living. His leadership has been especially critical as the Board navigated Covid-19 through 2020 and into 2021. Phil has ensured the business is ready and resilient to embrace the risks and opportunities ahead. Phil will be succeeded by Richard Huntingford who is the Chairman of Future plc, a FTSE 250 global platform for specialist media, and who joined the Board in December 2020.

Outlook

The outlook for the business remains strong, reflecting the underlying strength of student demand, our alignment to the strongest Universities and the capabilities of our best-in-class operating platform. There are significant growth opportunities for the business created by growing student numbers, the ongoing shortage of high quality and affordable purpose-built student accommodation, Universities need to deliver an exceptional student experience through their accommodation and the growing awareness of the benefits of PBSA among non-1st year students. In particular, we see opportunities for new developments and University partnerships, building on the strength of our enhanced reputation in the sector.

Despite uncertainty created by Covid-19, Brexit and the review of Higher Education funding, we remain well positioned for a rapid recovery in earnings. Positive progress with Covid-19 vaccinations in the UK will enable a full reopening of the UK economy. Moreover, the early strength of applications data and reservations for the 2021/22 academic year are supportive of a return to full occupancy and positive rental growth. We are also confident in the medium-term outlook for earnings growth, driven by a return to sustainable c.3% p.a. rental growth, our substantial secured development pipeline and further opportunities to deploy capital into new development and University partnership opportunities at attractive returns.