OPERATIONS REVIEW

The Group continues to report on an IFRS basis and presents its performance in line with best practices as recommended by EPRA. The Operations and Property reviews focus on EPRA measures as these are our key internal measures and aid comparability across the real estate sector.

Sales, rental growth and profitability

The key strengths of our operating business are our highly committed people, our PRISM operating platform, our brand and the strength of our relationships with Universities. These capabilities helped to deliver a resilient financial performance in 2020, despite the significant disruption created by Covid-19, delivering EPRA EPS of 25.5p (2019: 39.1p). The 35% reduction in EPS reflects our decision to release students from their tenancies in term three of 2019/20 in response to the national lockdown and lower occupancy for term one of the 2020/21 academic year, partially mitigated by savings in operating costs and initial synergies from the acquisition of Liberty Living.

Summary income statement	2020 £m	2019 £m
Rental income	263.2	213.9
Property operating expenses	(82.9)	(53.1)
Net operating income (NOI)	180.3	160.8
NOI margin	68.5%	75.2%
Management fees	14.0	14.4
Operating expenses	(30.9)	(21.7)
Finance costs	(64.9)	(43.9)
Acquisition and net performance fees	4.6	6.8
Development and other costs	(5.8)	(5.7)
EPRA earnings	97.3	110.6
EPRA EPS	25.5p	39.1p
EBIT margin	62.1%	71.7%

A reconciliation of loss after tax to EPRA earnings is set out in note 2.2b to the financial statements.

Our acquisition of Liberty Living, which completed in November 2019, and the disruption to income caused by Covid-19 are the two key factors explaining the variance in our profitability and operating performance between 2020 and 2019.

Rental income increased by £49.3 million, up 23%, as a result of the acquisition of Liberty Living's 24,000 bed portfolio, which was partially offset by £37 million of rental income forgone through cancellations for the summer term of 2019/20 in response to Covid-19 and lower occupancy for term one of 2020/21. Net operating income also increased by 12%, reflecting our increased scale. EPRA like-for-like rental income reduced by 13.2% YoY for properties owned throughout 2019 and 2020, which resulted in a reduction in NOI margin to 68.5% (75.2%).

Overheads increased by £9.2 million, reflecting the impact of the Liberty Living acquisition and £11 million of initial cost synergies realised in the year. 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.

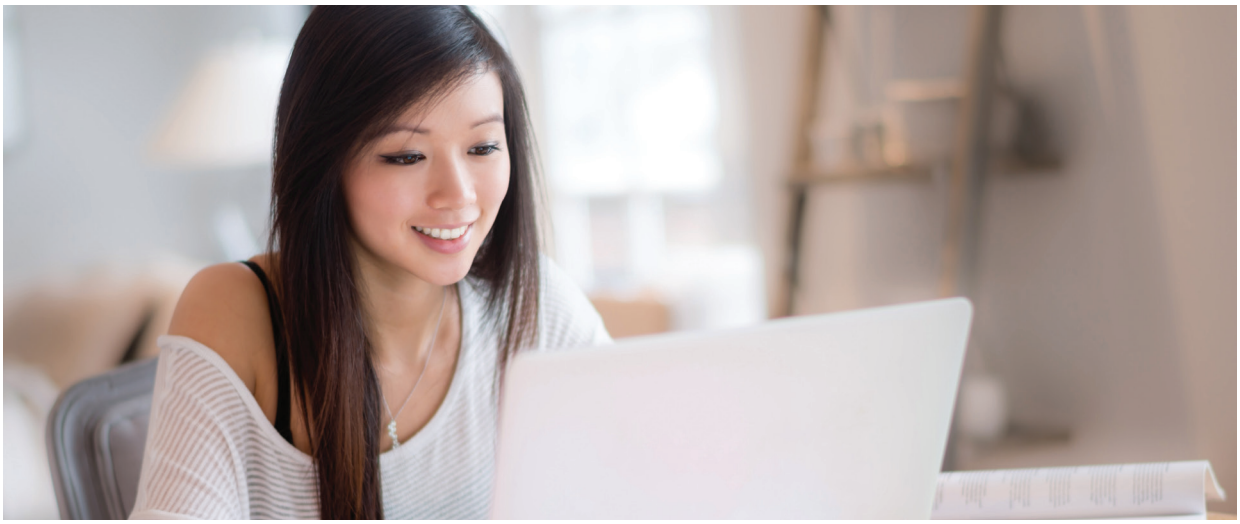
Recurring management fee income from joint ventures reduced slightly to £14.0 million (2019: £14.4 million), reflecting the impact of lower NOI and property valuations in USAF and LSAV. Performance and acquisition fees of £4.6 million were received in the year (net of tax), relating to further partial recognition of the LSAV performance fee (2019: £6.8 million). Based on current expectations, Unite's remaining share of the LSAV performance fee is expected to be c.£15–20 million.

Our EBIT margin reduced to 62.1% in 2020 (2019: 71.7%), reflecting the impact of lower income and partial mitigation from cost savings. Reflecting our cost discipline and the anticipated recovery in rental income from 2021/22 onwards, we are targeting an improvement in our EBIT margin to 74% by the end of 2023. This reflects an increase in the annual cost synergies to be realised from the Liberty Living acquisition to £18 million from 2021, as well as opportunities for further efficiencies over time in areas such as procurement, enhanced use of technology and energy efficiency.

Finance costs increased to £64.9 million (2019: £43.9 million), reflecting the increase in average net debt during the year primarily resulting from the acquisition of Liberty Living. This impact was partially offset by a lower average cost of finance in 2020 of 2.7% (2019: 3.6%) as we have substantially drawn our revolving credit facilities at lower average rates and repaid £207 million in secured loans at a blended cost of 4.8%. Interest capitalised into development schemes decreased from £9.1 million to £4.6 million, driven by lower development spend following the pause on construction at Middlesex Street and Old BRI, which will now be delivered in 2022. We expect capitalised interest to increase in 2021, albeit not to 2019 levels, as development activity increases ahead of deliveries in 2022 and 2023.

Development (pre-contract) and other costs were broadly stable remained broadly flat at £5.8 million (2019: £5.7 million), reflecting the cost of paused development activity, the earnings impact of share-based incentives, deferred and current tax and our contribution to our charitable trust, the Unite Foundation.

CHIEF EXECUTIVE'S REVIEW CONTINUED



Occupancy, reservations and rental growth

2020/21 academic year

We let 88% of bed spaces across the whole portfolio for the 2020/21 academic year (2019/20: 98%), which reflected a resilient performance in challenging circumstances. This represents meaningful outperformance of our PBSA peers, who delivered average bookings of 75% for 2020/21 according to JLL. This reflects the benefit of our long-term nomination agreements and the adaptability of our operating platform in successfully shifting the focus of our direct-let sales from international to domestic students, many of whom would ordinarily stay in the HMO sector.

The reduction in our occupancy contrasts with a 5% increase in accepted applicants to UK Universities for the 2020/21 academic year. Due to disruption and uncertainty created by Covid-19, student demand for accommodation has been temporarily impacted by some students either choosing to study from home, not travel to the UK or defer their place. We expect this demand to return from 2021/22, as restrictions ease relating to Covid-19.

Checked-in occupancy is currently 80%, reflecting those students who have now checked-in to their accommodation and nomination agreements where Unite receives rent directly from Universities. Customers making up the remaining 8% of occupancy are now past their scheduled check-in dates, of whom around 90% are international. Around half of those international customers yet to check-in have confirmed they still plan to arrive in the coming weeks.

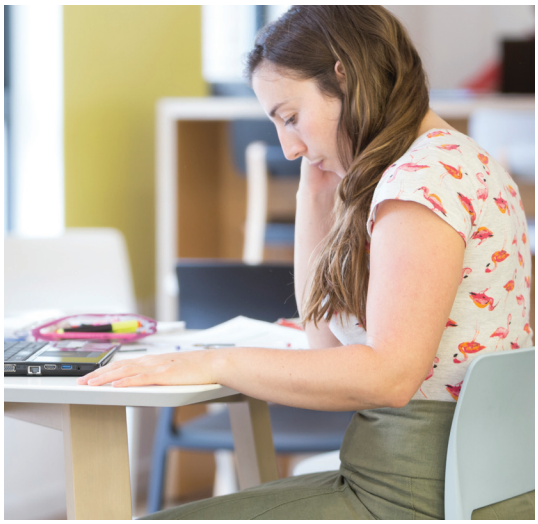
We have now collected 95% of rent due to date for the 2020/21 academic year. This reflects successful term one rent collection of 96% and a positive start to term two rent collection at 93% to date. Collection rates for rents received directly from students are 97% for the year to date and 85% for rents paid directly by Universities. Scheduled payments by Universities in the coming weeks will see the total collection rate further improve to over 95%.

In response to the latest national lockdown in January 2021, we announced that students were able to apply for a discount of 50% of their rent for a total of 10 weeks and, in addition, will be given a four-week complimentary extension of their tenancy agreement at the end of the academic year to extend their stay into the summer. The rental discount and tenancy extension were made available to all students checked-in but not living in their accommodation between 18 January and 28 March. Take-up of the offer has been c.40% by eligible customers, reflecting c.60% occupancy among checked-in students during term two. The loss of rental income associated with the rental discount and tenancy extension is expected to result in a reduction to EPRA EPS of up to £10 million or 2.5p for the 2021 financial year.

Based on rent collection in the year to date, assumed attrition in non-checked-in bookings and take-up of our 10-week rent discount, we expect to receive 90–95% of contracted rental income of £268 million for the 2020/21 academic year (on a Unite share basis).

2020/21 cash collection	Term 1	Term 2	Year to date
Payable by Universities	92%	81%	85%
Payable by students[1]	98%	96%	97%
Total	**96%**	**93%**	**95%**

1. Includes both direct-let and nomination referral customers.



Annual rents reduced by 0.6% on a like-for-like basis for 2020/21, reflecting contractual growth of 2.5% through nomination agreements offset by a 3.2% reduction in direct-let rents. The reduction in direct-let rents reflects an increase in the share of direct-let sales to UK customers (46% in 2020/21 vs 39% in 2019/20) as a result of our success in attracting more domestic students and a lower number of international student arrivals. On average, UK customers pay 20% lower annual rents than international customers, reflecting a preference for slightly shorter tenancy lengths and lower cost room types. Rental growth was also impacted by our flexible tenancy offer, which allowed students to delay the start of their tenancy to coincide with changes to University term dates. Occupancy was broadly consistent across our wholly owned portfolio, USAF and LSAV.

2020/21 rental growth and occupancy

By fund	LfL rental growth[1]	Occupancy[2]
Nomination agreements	2.5%	
Direct-let	(3.2)%	
Total	(0.6)%	88%
Wholly owned	(1.7)%	88%
USAF	(0.1)%	89%
LSAV	1.5%	85%
Leased	(1.2)%	100%
Total	(0.6)%	88%

1. Like-for-like properties based on annual value of core student tenancies.
2. Beds sold.

We have maintained a high proportion of income let to Universities, with 39,250 beds or 60% of those sold for 2020/21 under nomination agreements (2019/20: 41,484 and 59%). The slight reduction in the number of beds under nomination agreements reflects the decision of some Universities not to renew rolling single-year agreements in light of uncertainty over student numbers and occupancy created by Covid-19, and flexibility offered to University partners on a case-by-case basis.

55% of our nomination agreements, by income, are multi-year and therefore benefit from annual fixed or inflation-linked uplifts. These agreements are expected to secure average annual rental growth of 2.1% over the next five years at current low levels of inflation. The remaining agreements are single year and we achieved a renewal rate of 76% on these agreements for 2020/21 (2019/20: 85%). Enhanced service levels and our extensive understanding of student needs have resulted in longer term and more robust partnerships with Universities over recent years. The unexpired term of our nomination agreements is 6.4 years, up marginally from 6.2 years in 2019/20.

We expect the proportion of beds let to Universities to remain at or around this level in the future. This balance of nomination agreements and direct-let beds provides the benefit of having income secured by Universities, as well as the ability to offer rooms to re-bookers and postgraduates and determine market pricing on an annual basis.

CHIEF EXECUTIVE'S REVIEW CONTINUED

Agreement length	Beds 2020/21	Beds 2019/20	% Income 2020/21
Single year	17,709	15,264	45
2–5 years	5,748	11,214	16
6–10 years	6,873	4,579	18
11–20 years	6,724	5,224	16
20+ years	2,196	5,203	5
Total	39,250	41,484	100

UK students account for 66% of our customers for 2020/21 (2019/20: 60%), making up a large proportion of the beds under nomination agreements with Universities. In addition, 25% and 9% of our customers come from non-EU and EU countries respectively (2019/20: 31% and 9%), reflecting the relative appeal of our hassle-free product when compared with alternatives in the private rented sector.

Re-bookers accounted for 25% of our direct-let bookings for the 2020/21 year, contributing to the 65% of direct-let bookings made to non-1st years. This reduces our exposure to less predictable 1st year undergraduate customers and puts less emphasis on Clearing following A-level results.

Postgraduates now make up 16% of our direct-let customer base, driven by strong growth in UK postgraduate numbers and increasing awareness of the benefits of PBSA. As a result, we are trialling ways to tailor our offer for postgraduates as part of our wider review of customer segmentation.

2021/22 academic year

Reservations for the 2021/22 academic year are encouraging at 66%, which, as expected, is slightly below the prior year level of 77% given the ongoing uncertainty created by Covid-19. We expect strong student demand for 2021/22 from both domestic and international students, but anticipate a later sales cycle than a typical year as a result of current uncertainty relating to Covid-19. As a result, we have increased our focus on retaining existing direct-let customers, which has led to an increased share of sales to domestic re-bookers.

We have good visibility over rental growth for the 2021/22 academic year, with nomination agreements in place on a large proportion of our beds. Falling UK inflation over the past 12 months will result in a slight reduction in rental growth from multi-year nomination agreements with annual RPI-linked rental increases. However, we still anticipate annual rental increases of just under 2% from our nomination agreements. In addition, we see a positive outlook for direct-let sales to re-bookers by capturing market share from the HMO sector. We also see growing demand from non-EU international and postgraduate students, reflecting recent increases to the UK's post-study visa and the international reputation of the UK's Universities.

Based on our expectation of an enhanced campus experience for students, supported by an increase in face-to-face course delivery and a relaxation of international travel restrictions, we anticipate a return to full occupancy and 2–3% rental growth in 2021/22. However, there remains greater risk and uncertainty over occupancy and rental growth than a normal year as lockdown restrictions are eased.

Delivering for our customers

Our best-in-class operating platform continues to drive both service enhancements and operational efficiency. We remain committed to reinvesting a significant proportion of savings in enhanced customer services that deliver value-for-money for students and support our purpose of creating a Home for Success. This includes investment in our MyUnite app, our Student Ambassador programme and the provision of student welfare services.

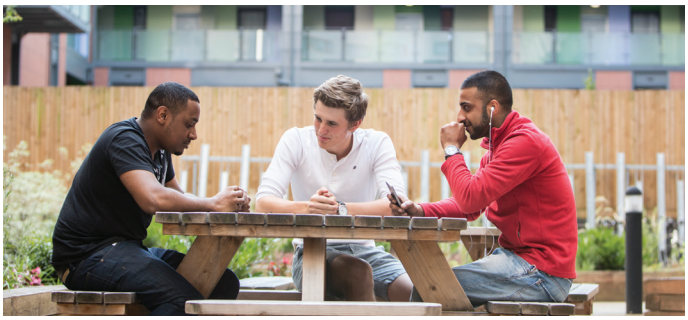
Health, safety and security

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.

Unite Students was the first student accommodation provider to be accredited with Covid Secure status accredited by the British Safety Council, following the introduction of a number of new and enhanced Covid-19 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. Our investments in our sector-leading operating platform, PRISM, and our MyUnite app, also enabled students to communicate remotely with Unite's teams without having to leave their rooms.

To help foster a sense of community, we introduced a Home Charter for 2020/21, which outlined the expectations for students living together and the ways in which we will assist. Our aim is to create a positive culture for living as a community and safe, respectful and harmonious homes that help students get the most out of their time at University. The Home Charter was introduced to reflect the new dynamics created by Covid-19 when living in shared accommodation. Going forward, it will be reviewed annually.

We have also increased provision and access to student wellbeing and mental health support through enhanced student welfare services, including bespoke support for students who are shielding, support for those self-isolating, online welfare checks and a pilot peer-to-peer scheme. We have dedicated welfare leads in each of our cities and also provide 24/7 support through Unite's Emergency Contact Centre and a partnership with Nightline.



Financial support during Covid-19

We have provided over £100 million in financial support to students during the Covid-19 pandemic. We have shown sector leadership in offering rent waivers and flexibility, reflecting our focus on doing what's right for all stakeholders and the importance of maintaining a sustainable business. We were the first PBSA provider to forgo 2020 summer term rents for students returning home due to Covid-19 during the initial lockdown. We also offered students the ability to extend their stay into the summer at no extra cost.

For the 2020/21 academic year, we extended the traditional check-in period for Unite properties thereby reducing the traditional peak and provided flexible check-in for students during September/October 2020. We also allowed international students to move to a January start date, forgoing rent for the period from September to December, and provided the option to check-in early, at no extra cost, where students needed to quarantine having arrived from a Covid-restricted area.

Following the announcement of a further national lockdown in January 2021, we announced that students were able to apply for a rent discount of 50% for 10 weeks and a four-week complimentary extension of their tenancy into the summer.

We believe our response has strengthened our reputation with students, parents, Universities and Government. This goodwill creates opportunities to secure new University partnerships as well as take market share from the 955,000 students living in the HMO sector, where the response of private landlords has been inconsistent and less accommodating overall.

Service enhancements

Our best-in-class operating platform continues to drive both service enhancements and operational efficiency. We remain committed to reinvesting a significant proportion of savings in enhanced customer services that deliver value-for-money for students and support our purpose of creating a Home for Success.

This year, there has been a significant focus on improving our digital capabilities to support our commitment of keeping students and our staff safe and secure during Covid-19. We enhanced our check-in solution by fully digitalising the end-to-end customer journey, which was used by 79% of customers, and also extended the capability of uChat to allow customers to chat to other residents on the same floor. This allowed students to connect with others they would not usually have met in regular circumstances and was used by c.18,500 customers. We also introduced a new feature in the MyUnite app for customers to let us know if they were self-isolating, allowing our staff to put measures in place to protect both students and our staff.

In October 2020, we launched new features for our student website. It delivers a more flexible, user-friendly platform that enables customers to self-serve. Key to this was the delivery of our simplified booking journey, where we reduced the length of the process by 50%. Simplifying the booking journey resulted in a 47% improvement in conversion rate YoY during November and December.

In February 2021, we launched a new group booking tool and marketing campaign to target groups of students who might otherwise look to house share in the private rented sector. We have had encouraging early take-up, particularly from new customers to Unite, supporting our ambitions to capture market share from the HMO sector.