The outlook for student numbers remains strong with significant demographic growth and growing demand from international students.

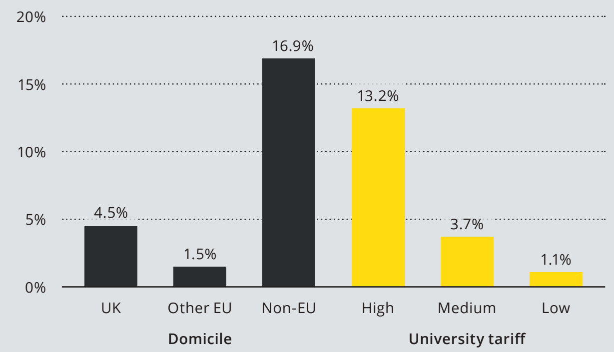
Full-time student numbers reached record levels of two million for the 2019/20 academic year. The number of applicants and the number of students accepted onto courses in 2020 was 729,000 and 570,000 respectively (2019: 706,000 and 541,000). A 5.4% YoY increase in acceptances was driven by a record participation rate among UK 18 year olds and a 17% increase in acceptances from non-EU students.

The initial applications data for the 2021/22 academic year is very encouraging, with overall applications up 8.5%. UK applications are up by 12%, reflecting a record application rate of 43% for school leavers (2020/21: 40%) as well as strong growth from mature students. Non-EU applications increased by 17% YoY, reflecting strong demand from China and India, which substantially offset the 40% decline in EU students following the loss of home fee status and access to tuition fee loans post-Brexit.

Given disruption caused by Covid-19, the Government has stated that A-Level students will not be in a position to sit their exams fairly this summer. As a result, grades will be awarded based on teacher assessments to allow students to progress fairly.

The outlook for student numbers remains strong. Demographic growth is significant over the next decade, with the 18-year-old population returning to 2010's height by 2024 and continuing to grow strongly thereafter. This would imply demand for around 220,000 additional UK undergraduate places by 2030 at current participation rates.

Growth in placed applicants (2020/21 vs 2019/20)

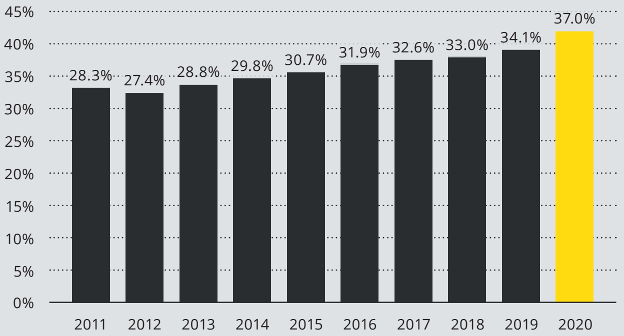


Source: UCAS

MARKET REVIEW CONTINUED

We do not expect this new demand to be distributed evenly, with growth likely to be concentrated in high-tariff and teaching-led Universities delivering strong graduate outcomes. Regional differences in demographics are also significant – London sees the greatest demographic growth over the next 10–15 years and is therefore expected to see the greatest increase in places required (HEPI).

18-year-old participation rate



Source: UCAS

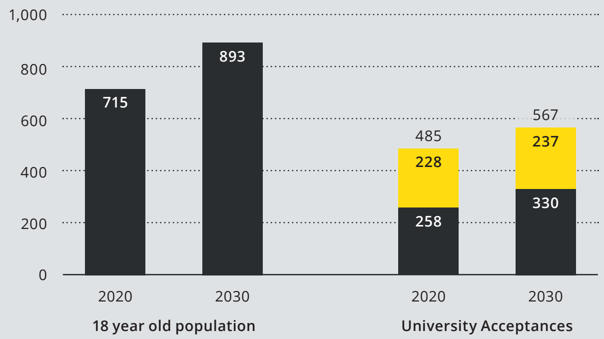
The UK Government's international education strategy is targeting growth in international student numbers to at least 600,000 by 2030, representing at least an additional 80,000 international students. In September 2019, the Government announced a new two-year post-study work visa for international students (three years for postgraduates), starting from the 2020/21 academic year. The change has already aided the UK's international competitiveness in the Higher Education sector, leading to significant growth in demand from China and India over the past two years. The Government is actively seeking to broaden the demand pool from international markets with opportunities for the UK to increase its market share of student arrivals from Africa and Asian countries, outside of China.

Higher Education policy

In January 2021, the Government published its interim conclusions on the Augar review of post-18 education and funding. The Government's key objectives are to drive up the quality of Higher Education provision, promote accessibility for students and maintain a financially sustainable student finance system. This will include consideration of the Augar Report's recommendations, including student finance terms and conditions, minimum entry requirements and the treatment of foundation years. The final conclusions on the Augar review will be published alongside the next Government Comprehensive Spending Review.

The Government also published its Skills for Jobs White Paper in January 2021, setting out a blueprint for a post-16 education system that enables every student with the aptitude and desire to go to University to be able to do so, alongside enhanced provision of technical qualifications,

Forecast growth in UK 18-year old population and UK acceptances to University



Source: UCAS, ONS, Unite

aligned to the needs of employers. This includes a new Lifetime Skills Guarantee, giving access to a lifelong loan entitlement equivalent to four years of post-18 education.

We are encouraged by the Government's commitment to post-18 education and remain confident that our strategy of delivering high quality, affordable homes for students and relationships with the best Universities in the UK positions us to successfully navigate future policy changes in these areas.

Impact of Brexit

From 1 January 2021, EU students planning to study in the UK will be required to apply for a student visa unless exempt due to pre-settled status or Irish nationality. EU students starting their courses in 2020/21 or before will continue to benefit from home fee status and have access to tuition fee loans for the duration of their courses. EU undergraduate students starting courses from 2021/22 will no longer benefit from home fee status, meaning tuition fees are expected to rise by more than 50% on average from £9,250 to the higher rates paid on average by non-EU students. EU students will also no longer have access to a tuition fee loan.

The number of EU students studying in the UK increased to 135,000 in 2019/20, made up by 100,000 undergraduates and 35,000 postgraduate students. EU students account for 9% of our let bed spaces for the 2020/21 academic year. UCAS applications for 2021/22 report a 40% reduction in applications from EU undergraduates, reflecting the impact of Brexit and travel restrictions linked to Covid-19. If this reduction is sustained over the coming years, it would equate to a reduction of around 3% of total students by 2023.

The Government has announced a new £100 million Turing Scheme for around 35,000 students to study and work abroad, which will replace the UK's participation in Erasmus+ starting from September 2021. The trade and cooperation agreement with the EU also enables the UK to continue to participate in the EU's Horizon 2020 Research and Innovation programmes.

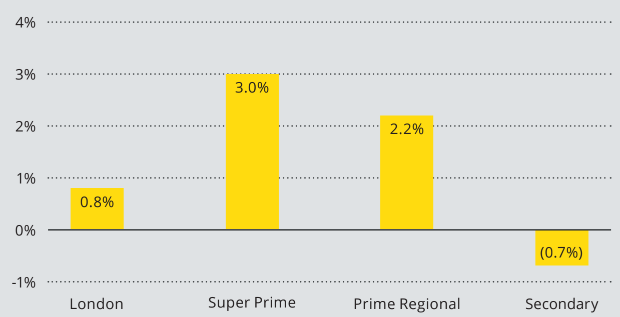
Resilient occupancy and rental growth

The UK PBSA market delivered rental growth of 1.8% for the 2020/21 academic year (Cushman & Wakefield), a reduction on the 2.6% delivered in 2019/20, reflecting weaker occupancy as a result of disruption created by Covid-19. JLL's Student Housing Leasing Survey reported a reduction in occupancy to 83% in 2020/21 from 98% in 2019/20, with average tenancy lengths also reduced due to operators offering flexible start dates in response to delays to University term dates.

Across the sector, beds under nomination or lease agreements produced rental growth of 2.2% in 2020/21, above the 1.5% rental growth delivered by direct-let beds. This reflects short-term pressure on direct-let rents in markets with a high dependence on international students, where occupancy was more significantly impacted by Covid-19. We remain focused on providing a cluster-led ensuite product at more affordable price points, which aligns with the requirements of our University partners.

Regional markets delivered rental growth of 1.9% for 2020/21, outperforming the 0.8% growth witnessed in London where occupancy tends to over-index towards international students (CBRE). However, this masks a significant spread in performance at a city level with Prime regional markets delivering 3.0% rental growth, while Secondary markets saw a 0.7% decline in rents.

Rental growth by geography (2020/21)



Source: CBRE

For the 2020/21 academic year, average weekly ensuite rents for corporate PBSA ranged from £125–175 per week in major provincial markets and £238 per week in London (Cushman & Wakefield). This compares to Unite's average ensuite rent of £137 in provincial markets and £219 in London. The largest segment of PBSA demand remains at a price point of between £100 to £150 per week, where there is also the opportunity to attract more non-1st year students from the private rented sector. More than two thirds 69% of Unite beds in provincial markets are priced below £150 per week.

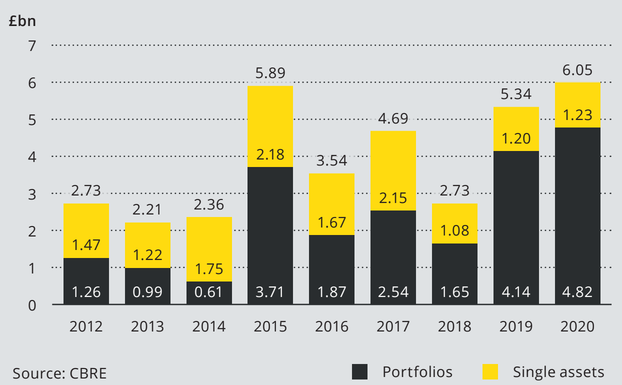
Current UK inflation implies a slight reduction in rental growth from multi-year nomination agreements with fixed or inflation-linked annual rental increases for 2021/22 to around 2%. Based on our expectation of an enhanced campus experience for students and a relaxation of international travel restrictions, we anticipate a return to full occupancy and positive rental growth in 2021/22.

Strong investment appetite

The PBSA sector's strong fundamentals and a track record of consistent rental growth continues to attract significant volumes of capital, despite a reduction in investment volumes in the wider UK real estate sector due to political uncertainties. Approximately £6 billion of assets traded in 2020 (CBRE), in line with record transaction volumes witnessed in 2015. In February 2020, Blackstone agreed to acquire iQ's 28,000-bed portfolio for £4.7 billion. The price translated to a material premium to the underlying market value of iQ's property portfolio, illustrating the willingness of investors to attribute value to the brand, operating and development capabilities of major operators. We expect the increasing focus on operating platforms and scale to drive further continued consolidation of the PBSA sector in the UK. The remaining £1.3 billion of assets traded in the year were largely single small portfolios or single assets, in line with previous years.

There remains a strong appetite to deploy capital in the sector, with investment demand principally coming from international or institutional investors. As the sector has matured, investors have become more focused regarding strength of location, the health of local Universities, building amenities and fire safety. Given lower visibility over occupancy for the 2020/21 and 2021/22 academic years due to Covid-19, transaction pricing is likely to be stronger where sellers are willing to provide a one-year income guarantee to buyers.

UK student accommodation investment volumes



Source: CBRE

"The PBSA sector's strong fundamentals and a track record of consistent rental growth continues to attract significant volumes of capital."

Stable property yields

Yields in the sector have remained stable over the past year, reflecting continued investor demand and the resilient income characteristics of the sector. However, we continue to see a growing divergence in pricing between prime and secondary markets. London and Prime regional assets saw modest yield compression in 2020, reflecting valuation evidence provided by Blackstone's acquisition of iQ and other market transactions as well as the strong growth in applications for high-tariff Universities.

Demand for secondary and tertiary assets has reduced, resulting in yields in some provincial markets continuing to drift higher. This reflects a weakening demand-supply balance in some cities where student numbers are reducing or significant new supply is yet to be fully absorbed. In aggregate, these markets account for less than 10% of our portfolio valuation on a see-through basis. However, we consider income performance and asset pricing to be well supported in good-quality secondary markets, providing value-for-money accommodation with the potential to attract students from the private rented sector.

Looking forward, we see yields remaining broadly stable in 2021, albeit with continuing polarisation between prime and secondary markets in a competitive market for student numbers.

An indicative spread of direct-let yields by location is outlined below:

	31 Dec 2020	31 Dec 2019
London	3.90–4.25%	4.00–4.25%
Prime provincial	4.50–5.00%	4.50–5.00%
Major provincial	5.00–6.00%	5.00–5.50%
Provincial	6.25–7.50%	6.00–7.25%

New supply expected to slow

The PBSA sector now provides homes to over 680,000 students, representing around one-third of the UK's student population. At this level, there still remains a c.310,000 shortfall in beds compared to the numbers of 1st-year and international students, before taking account of the increasing numbers of 2nd and 3rd-year students who are choosing this type of accommodation.

2020 saw the delivery of an additional 25,000 beds across 32 different UK markets, of which just over half was delivered in the 27 cities in which Unite operates. New supply in London remains very constrained, with less than 2,000 beds delivered in the year, reflecting limited land supply and more restrictive planning requirements for student accommodation in the new London plan.

A number of schemes planned for delivery in 2021 have been delayed as a result of Covid-19. This includes our developments at Middlesex Street in London and Old BRI in Bristol, which will now be delivered for the 2022/23 academic year. As a result of these delays, we expect new supply across the UK to reduce to around 20,000 beds in 2021 and then further thereafter due to funding constraints faced by some smaller developers and more restrictive planning policy towards PBSA.

The new London Plan requires new student accommodation developments to secure a nomination agreement with one or more Higher Education providers as well as the provision of at least 35% of units at affordable student rents. Moreover, local authorities are increasingly keen to promote new supply in the Build to Rent (BTR) sector, creating increased competition for development sites in major UK cities. We see a clear trend towards mixed-use planning consents, incorporating BTR units and co-living alongside student accommodation. These factors increase barriers to entry for new PBSA supply, however we remain confident in our ability to secure new development opportunities thanks to our long-held University relationships, flexible operating platform and highly experienced development team.

Development costs relatively stable

Activity in the UK construction sector was negatively impacted by the first national lockdown in 2020, but has since rebounded in line with wider business confidence. Lower activity overall has seen tender cost inflation moderate despite an increase in input cost inflation for some materials. Overall, we anticipate build costs to remain broadly flat in 2021 and with increases of 2–3% in 2022.

Land prices have softened slightly in regional markets over the past year. This reflects some caution on the part of developers given greater uncertainty around funding in the current environment. Land price inflation has been particularly muted for larger sites capable of delivering greater than 500 beds, which remain the target for our land purchasing. In London, land values have weakened over the past year as a result of depressed activity in both the office, hotel and built-for-sale residential sectors. This has improved the viability of student accommodation in zones 1 and 2 in central London, where we once again see opportunities to acquire sites which meet our hurdle rates for development. The scale and duration of this opportunity is uncertain given resilient investment activity in other sectors during H2 2020, which may create more competition for development sites.