PRINCIPAL RISKS AND UNCERTAINTIES

Our risk appetite and Covid-19

The Group's risk appetite is considered as a fundamental part of the Board's strategy setting and annual budget – it does not happen in isolation. Our risk appetite is underpinned by our principal financial aim of delivering attractive total returns through recurring income and capital growth, while maintaining a strong capital structure.

During the year, the Board regularly reviewed and assessed our risk appetite with frequent Covid-19 calls in addition to the scheduled Board meetings. This risk appetite was assessed against the context of the especially dynamic and volatile Covid-19 situation with a primary focus on the resilience of the business and its agility. This considered both threats to – and opportunities in – our business as well as wider macro risk developments impacting the PBSA sector and the broader Higher Education sector, property market and economy.

Our overall risk appetite in the year was broadly unchanged from the previous financial year, although the Board ensured a more prudent approach to risk and opportunity whilst the impact and duration of the pandemic continues as uncertain.

Risks – and the related benefits of our actions – are reviewed and assessed with a greater emphasis on their impact on all stakeholders – employees, customers, Universities, investors and suppliers – along with wider society in the context of Covid-19 and its impact on the economy.

Stress testing / scenario planning and our Strategic Plan

Each year, the Board develops and refreshes the Group's Strategic Plan. This is based on detailed three-year strategic/financial projections (with related scenario planning) and rolls forward for a further two years using more generic assumptions. The Board maps our strategic objectives against our risk profile. Then, always conscious that risk events do not necessarily happen in isolation, the Board stress tests these projections against multiple combined risk events. Through this process, a base case and stress-tested Strategic Plan are developed.

During 2020, this scenario planning closely monitored Government and public health authorities guidance on Covid-19 as well as the ongoing and dynamic operating plans of Universities for 2020/21 and 2021/22 academic years. The Board developed a wider range of scenarios and stress tests to assess our preparedness and ability to withstand adverse market conditions.

Creating the right corporate culture for effective risk management

The Group's risk management framework is designed to identify the principal and emerging risks, ensure that risks are being appropriately monitored, controls are in place and required actions have clear ownership with requisite accountability.

The organisation has an open and accountable culture, led by an experienced leadership team operating in the sector for a number of years. This culture is set by the Board in the way it conducts its Board and Committee meetings and cascades through the organisation enabling a suitable culture for risk management.

The culture of the organisation recognises – and accepts – that risk is inherent in business and encourages an open and proactive approach to risk management as opposed to a blame culture. By viewing our risks through the lens of our strategic objectives, the Group is able to ensure risk management is pro-active and pre-emptive and not a tick box exercise.

The Board has the overall responsibility for the governance of risks and ensures there are adequate and effective systems in place. It does this in various ways:

- During 2020 and into 2021, regular Covid-19 Board calls in addition to the scheduled Board meetings. This supports an appropriate balance between a Covid-19 response and other key business areas (such as overseeing ongoing fire safety and a successful Liberty Living integration).
- Risks are considered by the Board as an intrinsic part of strategy setting and consideration of new opportunities – risk is recognised as an inherent part of each opportunity.
- A twice yearly formal review by the Board of principal risks, how they are changing and considering any emerging risks.
- Enhanced stress testing/scenario planning to reflect the dynamic nature of Covid-19.
- Risk Committee reviews the principal and emerging risks that the Group is facing or should consider.
- Specific risk management in dedicated Board sub-Committees allowing focus on specific risk areas (for example, the Audit Committee and Health and Safety Committee).
- Risk Committee scrutiny and challenge of management activity allowing a focused forum for risk identification and review.
- Risk assurance through external and internal auditors as well as specialist third party risk assurance where appropriate (e.g. British Safety Council providing specialist independent health and safety assurance).

ESG Risks and our Sustainability Strategy

As a responsible and trusted business, our wider stakeholders demand we proactively address environmental, social and governance risks. This is consistent with one of our values 'doing what's right'. The pace of change in this area has only intensified with Covid-19 with an increasing focus on longer term sustainability. Our overarching ambition is for Unite to clearly lead the student housing sector on sustainability

issues and be in the leading pack of real estate companies in the wider sector. This is what our customers and employees expect of us and is critical to Unite being their Home for Success. If we do not do this fast and / or successfully enough, we risk losing the support of our investors and wider stakeholders. In addition, we risk regulatory non-compliance and the resulting increased cost of trying to keep up with fast-paced regulatory change.

To mitigate this risk, during 2020 we conducted extensive stakeholder engagement and a materiality assessment to develop our detailed sustainability objectives and targets. The Board needed to better understand our stakeholder expectations; otherwise we risk not meeting them.

In addition, we assessed our ongoing ESG regulatory and reporting compliance. The Board used this engagement to develop our new Sustainability Strategy. This provides a clear structure with objectives, flagship targets and governance to help ensure its successful delivery. We are especially conscious we risk non-delivery of our Sustainability Strategy if we do not engage and ensure the business owns and leads change through business as usual activity. This a core aspect of the implementation of this strategy and a key focus for 2021.

Read more about our **Sustainability Strategy on pages 46 to 63**

Our new Sustainability Strategy sets out five key objectives designed to address our most material ESG risks:

Environmental

1. **Becoming net zero carbon in our operations and developments by 2030** – reducing the 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.
2. **Creating resilient, resource efficient assets and operations** – reducing the environmental impact of our new and existing buildings through investment in energy and water efficiency, moving away from the use of fossil fuels, and working with students to encourage sustainable living habits.

Social

3. **Enhancing the health and wellbeing of our employees and students** – engaging and listening to improve mental and physical health and wellbeing.
4. **Providing opportunities for all** – including students, employees and in the communities where we work, where all can succeed, whatever their background, gender or ethnicity.

Governance

5. **Leading the student housing sector** – raising standards and delivering value to our customers and investors and providing a great place to work for our employees will ensure we further build on our reputation. This will ensure we support UK Universities to build on their reputation nationally and internationally.

Climate change risks

In 2020, we formally signed up as a supporter of the **Task Force on Climate-Related Financial Disclosure** (TCFD) and will be aligning with their requirements for managing and reporting climate-related risks (see page 63 for more information).

Our Chief Executive has overall responsibility for our climate-related risks and opportunities with ongoing oversight of climate-related issues provided by our newly established Sustainability Committee, a sub-Committee of the Board. Risks are tracked, managed and mitigated by our Sustainability Steering Group and the relevant business functions.

Addressing climate-related risks to our business is a fundamental part of our new Sustainability Strategy and specifically our objectives of: (1) becoming net zero carbon in our operations and developments by end of 2030 and (2) creating resilient, resource efficient assets and operations. Reducing the environmental impact of our buildings and operations, including energy and water consumption, carbon emissions, and waste and resource use, helps ensure our business is resilient and can withstand the impacts of climate change and the transition to a low carbon economy over the coming years.

We will continue to focus on climate-related risks as we move to align fully with the TCFD's recommendations throughout 2021 and will be publishing more details of potential impacts and our approach to managing and mitigating them later in the year.

The Board has identified the following climate-related risks: Regulatory; Physical; Transition and Stakeholder risks. For more detail see Principal risk 8 – Climate-related risks: challenge to our longer term sustainability caused by climate change, page 79.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Our risk management framework

The Board

Risks assessed as part of strategy setting and risk oversight

Owned by the Board and its Committees

Twice yearly formal risk review and ongoing monitoring of risk integral to Board meetings

Composition of Risk Committee

Richard Smith
Chief Executive Officer

Joe Lister
Chief Financial Officer

Nick Hayes
Group Property Director

Chris Szpojnarowicz
Company Secretary and Group Legal Director

Risk management

Owned by the Risk Committee and the Operations/Property Boards

Monthly risk tracker review at Operations/Property Boards

Risk Committee review and challenge of all risk trackers and related risk and opportunity activity

Policies and controls

Underpinning risk management (such as Capital Operating Guidelines; Treasury Policy; Investment Committee and the internal controls framework)

People and culture

Embedded risk management culture

Openness, transparency and clear ownership of risk management (supported by risk trackers) cascades through the organisation

Our Key Risk Indicators (KRIs)

Quality service platform	Quality properties	Quality University partnerships
Safety	Gross Asset Value	Safety
Customer satisfaction	Asset age	Higher Education trust
Employee engagement	Occupancy	Customer satisfaction
	Rental Growth	% Noms v. Direct-let

Robust assessment of principal risks

The Directors confirm that they have conducted a robust assessment of the principal and emerging risks facing the Group together with an assessment of the procedures to identify emerging risks. The process for how the Board determined these risks is explained above and these risks are set out on pages 72 to 80.

Viability statement

The Directors have assessed the viability of the Group over a three year period to December 2023, taking account of the Group's current position and the potential impact of its principal risks. The Directors consider the three year lookout period to be the most appropriate as this aligns with the Group's own strategic planning period combined with the levels of planning certainty that can be derived from the development pipeline. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2023.

The outlook and future prospects beyond the viability period 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 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.

The Group expects an improvement in financial performance from the 2021/22 academic year reflecting progress around vaccinations for Covid-19 and the Government's plans to remove lockdown restrictions over the coming months. The Directors believe that UK Universities will continue to experience strong demand from UK students as the 18 year old demographic profile becomes increasingly favourable and the relaxation of international travel restrictions allows increased numbers of International students to study in the UK compared to the 2020/21 academic year. The Group has an annual business planning process, which comprises a Strategic Plan, a financial forecast for the current year and a financial projection for the forthcoming three years (which includes stress testing and scenario planning and also rolls forwards for another two years). This plan is reviewed each year by the Board as part of its strategy setting process. Once approved by the Board, the plan is cascaded down across the Group and provides a basis for setting all detailed financial budgets and strategic actions that are subsequently used by the Board to monitor performance. The forecast performance outlook is also used by the Remuneration Committee to establish the targets for both the annual and longer-term incentive schemes.

The financing risks of the Group are considered to have the greatest potential impact on the Group's financial viability. The three principal financing risks for the Group are:

- short term debt covenance compliance
- the Group's ability to arrange new debt/replace expiring debt facilities; and
- any adverse interest rate movements

As outlined in the Going Concern disclosure, the Group expects ICR covenants to improve rapidly from March 2021 as the impact of the initial lockdown and Term 3 2020 rent forbearance is excluded from 12 month historic tests. Debt covenants are therefore not expected to impact the Group's viability.

The Group has secured funding for the committed future development pipeline, which includes the Unite and Liberty Living unsecured loan facilities, and prepares its Strategic Plan on a fully funded basis in line with the three year outlook period. Disposals are an important part of our strategy with the recycling of assets out of our portfolio generating capital to invest in development activity and other investment opportunities.

To hedge against the potential of adverse interest rate movements the Group manages its exposure with a combination of fixed rate facilities and using interest rate swaps for its floating rate debt. During the year the Group has complied with all covenant requirements attached to its financing facilities.

Read our Financial review on **page 42**

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

MARKET RISK

1 Demand reduction: driven by macro events (such as Covid-19, Government policy around HE or immigration and Brexit uncertainty)

Movement

Possible Events

- Covid-19 pandemic
- Changes in Government policy on Higher Education funding
- Immigration policy changes affecting international student numbers and behaviour
- Brexit impacting numbers of EU students coming to study in the UK

Impact

- Covid-19 impacted Unite directly in 2019/20 and 2020/21 academic years leading to a loss of income compared to plans
- Potential reduction in demand and hence profitability and asset values
- Departure from EU impacting EU research grants and EU students coming to the UK

Strategic objective

Read **Our business model on page 32**

- Offering great customer service is key to helping us address any reduction in demand. Ensuring we have high quality properties aligned to Universities with a growing share of student demand mitigates demand reduction

What happened in 2020

Read more about **Market review on page 27**

- Covid-19 pandemic: direct impact for Unite alongside wider and indirect global impact
- Student applications: 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% year on year 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
- Brexit alongside wider political uncertainty continued through 2020
- UK continued as second most popular international destination for students after the US
- The UK Government's international education strategy is targeting an increase in the number of international students to at least 600,000 by 2030. 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
- UK leaves EU Erasmus scheme and launches the UK's own Turing Scheme
- Uncertainty continues as to when any of the recommendations in The Higher Education Funding Review (published in May 2019) will be implemented
- Increased focus on quality and length of nomination agreements

Risk mitigation in 2020

- Mitigated the Covid-19 reduced income primarily by suspending our dividends, conserving cash, drawing bank facilities and reducing costs where possible whilst always protecting safety and the longer term health of the business
- Closely monitored Covid-19 guidance from the Government and public health authorities as well as extensive dialogue with our HE partners on their dynamic operating plans for both 2020/21 and 2021/22 academic years. Prepared budgets and business plans under a variety of scenarios and stress tests to assess our preparedness and ability to withstand the adverse market conditions
- Government dialogue and ongoing monitoring of Government HE and immigration policy and its impact on UK, EU and international student numbers studying in the UK
- Implemented our plan for our key Brexit operational risks – People, Procurement and Development – through our Brexit Disruption Plan
- Regularly reviewing our portfolio – especially conscious it has grown through the Liberty Living acquisition – to ensure we have the highest quality portfolio, appropriately sized and in the right locations
- Continued to deliver Home for Success, our core purpose to provide homes that help students achieve more during their time at University which was especially challenging for them through 2020

Focus for 2021

- Mitigating impact of reduced income / occupancy from the ongoing pandemic through dividend / cash / third party cost management and our related stress testing / scenario planning
- Continuing to work with our HE partners on their dynamic operating plans
- Ongoing monitoring of Government HE funding and immigration policy
- Continued focus on portfolio management, using disposals to reduce exposure in higher risk markets

MARKET RISK

2 Demand reduction: value-for-money/affordability

Movement

Possible Events

- Increasing focus on the cost of a University education – affordability and value-for-money – especially challenged in 2020 due to Covid-19
- Increasing risk of blended University learning (digital plus in person) – accelerated by Covid-19
- Emerging risk of shorter/more semester-led courses and increasing home study
- Emerging risk of monitoring or regulation of the costs, rents, profitability and value-for-money of student accommodation
- Emerging risk of Further Education being promoted over HE

Impact

- Covid-19 has directly impacted the student experience and elevated concerns around University education affordability and value-for-money. This has generally focused on questions around the value of the student experience with students studying on-line through the pandemic and limitations on their in-person study and wider University life experience
- More competition and reduced demand for year-round student accommodation in the longer-term resulting in lower profitability and asset values

Strategic objective

Read more about **Our business model on page 32**

- Offering quality service is key to ensuring we have relationships with the high and mid ranked Universities (the ones most likely to sustain a reduction in demand). Our PRISM operating platform helps us deliver the best customer service efficiently
- Offering a wider range of product enables students to have more choice

What happened in 2020

Read more about **Operations review on pages 17 to 21**

- Covid-19 materially increased media attention on the cost of University education (both tuition fees and accommodation). This largely centred on complaints that the costs remained the same despite students studying on-line through the pandemic and were not able to physically attend University and enjoy the wider University experience
- Increasing proportion of second and third years choosing PBSA. Over two thirds of Unite's direct-lets are returning students
- Continued our Student Ambassador programme and University-adopted Welcome programme
- Integrated the Liberty Living beds, providing us with a wider range of product and price points and more affordable product

Risk mitigation in 2020

- Waived 2020 summer rents for students returning home due to Covid-19 during the first national lockdown. Unite was the first PBSA operator to do so. Likewise, early in 2021, the first PBSA operator to offer 50% discounted rents and a complimentary four week extension in the summer to allow students to enjoy the summer in their University cities conscious this was an especially challenging time for them
- Provided flexible check-in for students during September/October 2020
- Allowed international students to move to a January 2021 start date, forgoing September – December 2020 rent
- Option to check-in early, at no-extra cost, where students needed to quarantine having arrived from a Covid-restricted area
- Connected students via the MyUnite digital app before they moved in so they could get to know each other in advance
- Helped foster a sense of community by introducing a Home Charter creating a healthy and supportive living environment
- Increased provision and access to student wellbeing and mental health support, including:
  - 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
  - Online chat rooms for students in the same building, and online events run by student ambassadors
  - MyUnite App: students communicate remotely with Unite's teams without having to leave their rooms
  - 24/7 support through Unite's Emergency Contact Centre and a partnership with Nightline
  - Dedicated welfare leads for all students including those in quarantine and/or self-isolation
  - Worked closely with our University partners supporting students and maintaining our focus to keep all students and staff safe across our properties through the pandemic

Focus for 2021

- Working with our HE partners on their dynamic operating plans during the pandemic and ensuring we still provide the best and valued customer experience, whilst keeping everyone safe
- Demonstrating the value-for-money of our offer compared to alternatives, including leading the market forgoing rents/offering discounts and complimentary extensions through summer 2021
- Ongoing monitoring of Government HE funding
- Ongoing review of our services, product proposition and specification
- Greater segmentation of product for customers

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

MARKET RISK

3 Supply increase: maturing PBSA sector and increasing supply of PBSA beds

Movement

Possible Events

- New supply of beds as sustained high levels of investment demand filter into the development market, primarily through investors providing forward commitments to smaller developers

Impact

- More competition for the best sites
- Potential impact on rental growth and occupancy

Strategic objective

- Offering great service as well as having high quality properties is critical to mitigating any supply surplus

What happened in 2020

Read more about our **Operations review on page 17 and Property review on page 22**

- The outlook for levels of new supply started to moderate. This was largely due to Covid-19 uncertainty, companies conserving cash and challenges proceeding with plans prior to the pandemic
- New supply is also slowing due to more challenging planning environments and the emergence of the private rent sector (PRS) as an alternative option for sites that could have been developed for PBSA
- The PBSA sector continues to mature and is becoming increasingly professionalised
- Unite delivered three new properties in 2020 alongside active property recycling, resulting in a higher-quality Unite portfolio

Risk mitigation in 2020

- Disciplined investment approach to markets with supply/demand imbalance
- June 2020 share placing raising £300 million for Unite's continued investment in its best-in-class portfolio. Deploying these placing proceeds by exchanging contracts for a 300-bed development site in central Edinburgh, an 800-bed development in Paddington, London and exploring other sites
- Exposure to the best Universities underpinned with our new developments secured with nomination agreements
- Investment in our brand and student experience – creating better environments within our new developments through Home for Success
- Maintaining strong relationships with key Higher Education partners

Focus for 2021

- Our portfolio: delivering our development pipeline underpinned with strong University partnerships
- Our people and our operating platform PRISM. Ensure our people and systems continue to help us deliver consistently high levels of service to students and Universities alike
- Our capital structure: ensuring we have a strong yet flexible capital structure so we can adapt appropriately as supply grows

OPERATIONAL RISK

4 Major health and safety (H&S) incident in a property or a development site

Movement

Possible Events

- Covid-19 impacting our customers, employees and contractors
- Fatality or major injury from a fire or other incident at a property
- Multiple contractor injuries at a development or operational site

Impact

- Covid-19 impacting both the physical and mental health of our customers and employees
- Fire or similar safety incident impacting the students living with us, contractors working on-site and visitors
- Reputational damage and trust in Unite Students as a reliable partner

Strategic objective

Read more about **Our business model on page 32**

- Ensuring the safety of our customers, contractors and employees is fundamental to us offering quality service

What happened in 2020

Read more about **Operations review on pages 17 to 21**

- Covid-19 has impacted our safety risk in unprecedented ways, whilst our other risks (such as fire and contractor safety) continue and in some cases are even increasing (e.g., increasing since more students are cooking in their student accommodation so there is an increased risk of kitchen fires and other behavioural challenges). Along with the physical health impacts of Covid-19, our students' and employees' wellbeing and mental health are being challenged even more than usual
- Changes to Building Regulations continued the focus on fire safety especially in high-rise residential properties
- Focus on combustible materials continued, with high-pressure laminates (HPL) and other materials under review
- Fire safety management – despite Covid-19, continued focus on our policies and procedures, risk assessments, training and fire records
- Continued working closely with Ministry for Housing, Communities and Local Government (MHCLG) and local fire authorities and fire safety experts to ensure fire safety and address any remedial actions following Grenfell Tower learnings

Risk mitigation in 2020

Read more about **Health and Safety Committee report on pages 115 to 119**

- H&S has direct Board supervision by the H&S Committee (a sub-Committee of the Board) which actively supervises H&S, ensuring robust policies and procedures are in place and consistently complied with
- H&S is also actively reviewed in the Operations and Property Boards, ensuring that H&S is top of mind in our day-to-day operations and regularly assessed and validated
- First accommodation provider to achieve Covid Secure status accredited by the British Safety Council
- Regular dialogue and engagement with PHE, local authorities, our various stakeholders as well as direct Government engagement on Covid-19
- Comprehensive Covid-19 risk management program, including:
  - Covid Response Team, Covid Secure Workplace and Covid Secure BSC Assurance
  - Covid audits by our Regional H&S Managers (these audits consist of 20 questions checking whether we are compliant with our Covid safe requirements e.g. staff are wearing facemasks; sanitiser stations are stocked, and additional cleaning regimes are in place)
  - Our Covid Wiki page (our online employee repository for Covid information) with working safely guidance, change of lay out and 'how-to' videos
  - Recognising the increasing mental health risk, we expanded our H&S wellbeing for employees and appointed Healthy Work Company to work with our operational and safety teams
- Appointed Faithful & Gould for assurance on Development safety risk (this includes specific Covid-19 audits on sites as well as a Wellbeing focus)
- Refreshed our Values, including a focus on 'Keeping uS safe' and ensuring people know they are able to speak out and help us create a Safety culture
- Finding ways to show visible leadership for Safety & Wellbeing driven by our senior leaders. We measure how our teams feel safe and well at work through Glint employee surveys and how our customers feel safe and secure in their homes (NPS)
- Well-resourced health and safety team, working with our customer facing teams on a continual basis
- Use of audits and external consultants to ensure that we are maintaining high standards
- Implemented the British Safety Council recommendations from our 2019 BSC safety audits (namely, an Occupational Health and Safety audit spanning 39 operating properties and our Bristol head office – achieved BSC 5-star audit rating; a dedicated fire safety audit; and a construction audit)

Focus for 2021

- Monitoring the dynamic Covid-19 situation and proactively revising our operating practices
- Continued focus on the safety and wellbeing of our customers, employees and contractors
- Removal of HPL cladding, with activity prioritised according to our risk assessments, starting with those over 18 metres in height
- Monitoring and preparing for the anticipated more stringent fire safety regulations

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

OPERATIONAL RISK

5 Information Security and Cyber threat

Movement

Possible Events

- Significant loss of personal or confidential data or disruption to the corporate systems either through cyber attack or internal theft/error

Impact

- Results in reputational damage, financial damage and / or increased scrutiny including sanctions and fines

Strategic objective

Read more about **Our business model on pages 32 and 33**

- Having strong but proportionate controls, to minimise risk of data loss and to ensure we are compliant with information security and / or data protection regulations

What happened in 2020

- External Cyber Maturity Assessment completed in Q4 2020 acknowledged good progress in our Information Security approach and controls as well as provided key priorities for further improvement
- Technical security controls aligned to industry standard security controls which was supported through external security testing and renewal of our certification under the Cyber Essentials Plus scheme
- Agreed Information Security Strategy and Technical Security Roadmap
- Progressed improvement in security controls through implementing the Information Security Management System aligned to ISO27001
- Ongoing programme of training and awareness to promote everyone's responsibility to protect information, especially personal data
- Significant increase in customer and employee data processed due to the acquisition of Liberty Living
- Captured customers' self-isolation status data to support with Covid-19 response activity

Risk mitigation in 2020

- Responded to increasing risk challenges presented by Covid-19, such as technical improvements to support increased remote working, improved awareness for employees on information risks of working from home and ensuring the increase in personal data collected for tracking was handled appropriately
- Data protection risks increasing due to the processing of Covid-19 health related data and mitigated through cross-functional collaboration, strict access and data retention controls and new procedural controls
- Responded to increasing threat of Ransomware
- Conducted the Security Awareness For Everyone (SAFE) Programme driving new initiatives and education campaigns
- Monitoring of emerging cyber threats to identify any issues that required a response
- Information Security and Data protection policies in place to define rules for protecting information. Range of policies and supporting procedures are being expanded
- Developed Information security vulnerability assessment and threat hunting capability
- Improved Information Security Incident Management procedures
- Conducted a review and gap assessment of the Data Protection activities to define an improved framework approach
- Renewed Cyber Insurance policy

Focus for 2021

- To continue alignment with the ISO27001 Information Security standard, which provides a framework for a risk-based approach to identifying, implementing and improving security controls
- Strengthening the Information Security Committee (ISC) and ISC Working Group enabling business level engagement with Information owners
- Expand the perpetual security monitoring and testing activities
- Monitor the processing of and controls in place for Covid-19 health related data

PROPERTY / DEVELOPMENT RISK

6 Inability to secure the best sites on the right terms. Failure or delay to complete a development within budget and on time for the scheduled academic year

Movement

Possible Events

- Covid-19 impacting delivery of schemes to programme
- Site acquisition risk – increasing competition for the best sites
- Planning risk – delays or failure to get planning
- Construction risk – build cost inflation due to increasing development (albeit tempered by Covid-19 / economic uncertainty)
- Construction execution risk – delivery delays impacting labour/materials coming from outside the UK
- Disposals risk – inability to execute our disposals programme
- Climate risk – physical, regulatory and transactional risks associated with climate change and the environmental impact of our development activity

Impact

- NTA and EPS affected by deferred schemes and/or reduced financial returns, with cash tied up in development
- Reputational impact of delivering a scheme late and leaving students without accommodation
- Recycling our portfolio through disposals is a critical aspect of our development strategy and failure to deliver planned disposals results in a deteriorating net debt position and negatively impacts our ability to commit to all of our planned development pipeline
- Potential increases in construction costs as we seek to reduce the carbon intensity of our developments and comply with more stringent building regulations

Strategic objective

Read more about our **Sustainability Strategy on page 46**

- Quality properties
- High-quality service for students and Universities
- Reduce our negative environmental impacts

What happened in 2020

Read more about our **Property review on pages 22 to 26**

- Covid-19 led to the deferral of some development activity through 2020 to conserve cash (Middlesex Street, London and Old BRI, Bristol)
- Delivered 2,257 beds across three development schemes for the 2020/21 academic year. White Rose View in Leeds (559-bed 30-year nomination agreement with the University of Leeds) completed on time and budget for student arrivals in September. Following temporary site closures and reduced levels of operatives on site as a result of social distancing measures, Arch View House, London and Artisan Heights, Manchester delivered in Q4 2020
- £300 million placing in June 2020 enabling continued investment in our best-in-class platform (exchanged contracts for a 300-bed development site in central Edinburgh and a new 800-bed development site in Paddington on a subject to contract basis)
- Completed a new University Partnership with the University of Bristol, covering around 3,000 beds in Bristol. This will include a large proportion of our existing operational assets in the city following targeted investments as well as the 431-bed Old BRI development and the 596-bed Temple Quay development in close proximity to the University's new Temple Quarter campus

Risk mitigation in 2020

Read more about **Development pipeline and University partnerships pipeline on page 25**

- Experienced development team with extensive site selection and planning expertise, coupled with strong track record and focus on project delivery and strong relationships with construction partners with appropriate risk sharing. Group Board approval for commitments above a certain threshold
- Financial investment in schemes carefully managed prior to grant of planning
- Managed development delivery despite Covid-19 as well as managed Brexit-related disruption
- Regular development team and property review, with Group Board Director oversight to ensure failure to secure sites or complete on time are managed in the budget
- Detailed planning pre-applications and due diligence before site acquisition
- Build cost inflation regularly appraised and refreshed. Mid-sized framework contractors used and longer-term relationships established to mitigate cyclical swings
- Engagement with our supply chain regarding future reductions in embodied carbon through our development activity, for example through building design and material specification

Focus for 2021

Read more about **Secured development and partnerships pipeline on page 25**

- Ensuring delivery of our two deferred schemes for delivery in 2022
- Deployment of remaining June 2020 share placing proceeds into new schemes at attractive returns
- Securing more sites to build the pipeline for 2023 and beyond
- Reducing the impact of our operational carbon emissions as well as embodied carbon from our development and refurbishment activity

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

PROPERTY / DEVELOPMENT RISK

7 Property markets are cyclical and performance depends on general economic conditions

Possible Events

- Buying, developing or selling properties at the wrong point in the cycle

Impact

- Reduction in asset values reducing financial returns and leading to an increase in LTV

Strategic objective

Read more about **Our business model on pages 32 and 33**

- Quality properties – managing the quality of our portfolio and our balance sheet leverage by recycling capital through disposals and reinvesting into developments and acquisitions of assets aligned to the best Universities
- Greater focus on delivering attractive total returns through recurring income and capital growth, while maintaining a strong capital structure

What happened in 2020

Read more about **Property portfolio on page 22 and Disposals on page 26**

- The purpose-built student accommodation sector continued to deliver strong performance relative to the wider UK real estate sector amid the disruption caused by Covid-19. Strong sector fundamentals and a track record of consistent rental growth continue to attract significant volumes of capital to the sector
- Earlier in the Covid-19 pandemic, transaction activity slowed (due to practical problems with buyers accessing sites as well as wider economic considerations) but later in the year a portfolio of provincial assets sold to an international buyer at pricing broadly in line with pre-Covid-19 levels. Given greater uncertainty over occupancy for the 2020/21 academic year, pricing is likely to be stronger where sellers are willing to provide a one-year income guarantee to buyers
- The average net initial yield across the portfolio is 5.0% (December 2019: 5.0%). At a city level, there was yield compression in London and other super prime provincial markets, offset by a further increase in yields in more fully-supplied provincial markets

Risk mitigation in 2020

- Group Board and Property Board ongoing monitoring of property market, direction and values
- Ensuring we have a strong yet flexible capital structure so we can adapt appropriately to market conditions
- Clear and active asset management strategy
- Acquisitions – disciplined acquisitions strategy exercising caution over portfolio premiums being paid in the market. Careful management of net debt and LTV
- Maintaining disciplined approach to new development transactions by maintaining Group hurdle rates

Focus for 2021

- Ongoing monitoring of Covid-19, Government and central bank policies and their impact on the property market and general economic conditions. Ensuring a strong yet flexible capital structure to manage the property cycle
- Continued focus on Home for Success and our partnerships with stronger Universities

ESG RISK

8 Climate-related risks: challenges to our longer-term sustainability caused by climate change

Movement

Possible Events

Climate change risks include:

- Regulatory risks: ongoing evolution of more stringent climate related regulations such as energy efficiency standards and reporting standards
- Physical risks: increased frequency and severity of extreme weather events such as high winds, intense rainfall and heatwaves
- Transition risks: risk associated with the transition to a low carbon economy such as rising stakeholder expectations on performance and disclosure, reducing embodied carbon, asset stranding, and energy supply challenges and rising non-commodity costs
- Stakeholders risks: not being prepared and / or able to meet increasing expectations around reducing our contribution to climate change from our investors, Higher Education partners and our student customers

Impact

- Reputational and financial impacts arising from lack of clarity and environmental targets and enforcement action for non-compliance, such as on minimum standards for EPCs
- Damage to properties and disruption to customer experience, operations and supply chain due to extreme weather events
- Reduced investor confidence and access to finance
- Requirement for significant capital investment and asset management activity to address these environmental risks

Strategic objective

Read more about **Our Sustainability Strategy on page 46**

- Develop and communicate a clear Sustainability Strategy
- Develop Science Based Carbon Targets, which also include our enlarged portfolio following the Liberty Living acquisition
- Deliver energy and carbon performance improvements required to follow UK decarbonisation targets

What happened in 2020

- Government consultations in England and Wales on more stringent EPC minimum standards
- Continued increased stakeholder expectation around ESG performance and disclosure, and themes such as Task Force on Climate-related Financial Disclosures (TCFD), GRESB and Net Zero carbon emissions
- Volatile wholesale energy markets with ongoing uncertainty and complexity, and increasing non-commodity costs
- Flooding including several cities in which the business operates (no direct impacts on our properties)
- Integration of Liberty Living portfolio brings new climate related risks and opportunities
- MSCI ESG rating: AA and CDP Climate Change rating:B
- GRESB score and rating: 81 (Four-star)
- Unite signed up as TCFD Supporter
- Unite

Risk mitigation in 2020

- Developed a new Sustainability Strategy in 2020 following extensive wider stakeholder engagement
- Ongoing development and implementation of building energy performance strategy to manage EPC risk exposure and deliver performance improvements across the enlarged portfolio as well as closer integration with asset management and development activity
- Stakeholder dialogue to determine preferred climate change (and wider ESG) disclosures
- Enhanced focus in the wider business on improving sustainability performance and reporting
- Implementing further corporate power purchase agreements (PPAs) linking a proportion of our baseload energy consumption directly to renewable energy generation assets
- Submitted responses to EPC consultations via the British Property Federation (BPF)
- Continued investment in energy efficiency initiatives to deliver real world energy and carbon savings
- Disclosed in line with EPRA sBPR, achieving Silver rating

Focus for 2021

- Publication of a net zero carbon pathway, as we look to provide greater transparency and accountability around our Sustainability Strategy
- Update our 'Up to uS' Sustainability Strategy with stretching new targets including reduction in carbon emissions. Our new Sustainability Report will also address the recommendations of the TCFD
- Develop an energy performance strategy across whole portfolio including Liberty Living properties to better manage exposure to climate related risks such as future EPC minimum standards, and identify energy and carbon reduction opportunities

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

FINANCING RISK

9 Balance sheet liquidity risk / compliance with debt covenants

Movement

Possible Events

- Unite breaches a debt covenant
- Inability to replace debt on expiry
- Interest rate increase
- Unite unable to meet future financial commitments

Impact

- Breaching a debt covenant may lead to an event of default followed by a repayment demand which could be substantial
- Inability to replace debt on expiry may lead to a possible forced sale of assets potentially below valuation. Slowdown of development activity
- Adverse interest rate movements can lead to reduced profitability and reduction in property values (through resulting expansion of valuation yields and lower valuations)

Strategic objective

Read more about **Our business model on page 32**

- Deliver attractive total returns through recurring income and capital growth, while maintaining a strong capital structure
- Quality properties – managing the quality of our portfolio and our balance sheet leverage by recycling capital through disposals and reinvesting into developments and acquisitions of assets aligned to the best Universities

What happened in 2020

- Due to Covid-19, our debt covenants (like for so many borrowers) were fundamentally tested by the sudden, unexpected and wide ranging shock of the pandemic. There has been a specific focus on ICR covenants, not historically a risk and not necessarily designed for a shock such as this
- Maintained our disciplined approach to leverage, with see-through LTV of 34% at 31 December 2020 (31 December 2019: 37%)
- Unite Group PLC maintained investment grade corporate ratings of BBB from Standard & Poor's and Baa2 from Moody's, reflecting Unite's robust capital position, cash flows and track record
- See-through average cost of debt reduced to 3.1% (31 December 2019: 3.3%) and 75% of see-through investment debt is subject to a fixed interest rate (31 December 2019: 93%) for an average term of 4.2 years (31 December 2019: 5.4 years)
- Successful June 2020 share placing raising £300 million
- Repaid £207 million of Group secured debt at a blended coupon of 4.8%

Risk mitigation in 2020

Read more about **Financial review on page 42**

- Mitigated the Covid-19 reduced income by (among other things) suspending our dividends, conserving cash, increasing bank facilities and reducing costs where possible
- Cash headroom and liquidity: as at 31 December 2020, the Group had £379 million of unrestricted cash reserves, having fully drawn its revolving credit facilities during the period and received £294 million in net proceeds from the June 2020 share placing. Unite was confirmed as an eligible issuer under the HM Treasury and Bank of England Covid Corporate Financing Facility (CCFF) although no current plans to drawdown under the CCFF. In addition, received credit approval for a £100 million extension to our unsecured Group debt facility
- Due to Covid-19 and specifically ICR covenants, increased our covenant monitoring across a range of income / stress scenarios to ensure that if any risks emerge, we are ready to identify further action and work with lenders well in advance of formally reporting a covenant breach. In addition, external audit review of covenant compliance through the Going Concern process
- Proactive engagement with all our lenders
- Control of future cash commitments in line with progress of disposals.
- Interest rates monitored by the funding team as an integral part of our refinancing activity – owned by the CFO and with Group Board oversight
- Gearing ratios defined in our Capital Operating Guidelines and reviewed and approved by the Group Board
- Interest rate exposure hedged through interest rate swaps and caps and fixed rate debt

Focus for 2021

- Ongoing monitoring of cash headroom, liquidity and covenant headroom / compliance in light of the fluid Covid-19 situation
- Following repayment of secured debt in 2020, Treasury focus now moves to earliest debt maturity of November 2022
- Raise further debt through 2021 to extend the maturity profile of our debt and diversify our funding sources
- Funding future development acquisitions beyond 2023

The Strategic Report on pages 4 to 80 was approved on 16 March 2021 by the Board and is signed on its behalf by:

Richard Smith
Chief Executive