StuRents

UK Student Accommodation

Annual Report 2020



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StuRents

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Executive Summary

More than ever investors must understand local market conditions.

Budget Growth

+5.5%

The average student budget outside of London has increased by 5.5% year-on-year (YoY).

PBSA Supply Growth

25k

25k new PBSA beds will be added to the market for 2020-21, with supply increasing by 2.6%.

PBSA Planning

-15.9%

Year-to-date the number of PBSA beds submitted for planning has fallen by 15.9%.

HMO Rental Growth

+3.5%

Ex-London, houses in multiple occupation (HMOs) reported growth of 3.5%.

PBSA Rental Growth

+2.0%

Ex-London, purpose-built student accommodation (PBSA) has reported like-for-like growth of 2.0%.

PBSA/HMO Premium

54.6%

Ex-London, PBSA carries an average premium to HMOs of 54.6%.



Foreword

Long-term fundamentals remain largely positive, although investors should be cautious of those markets already oversupplied.



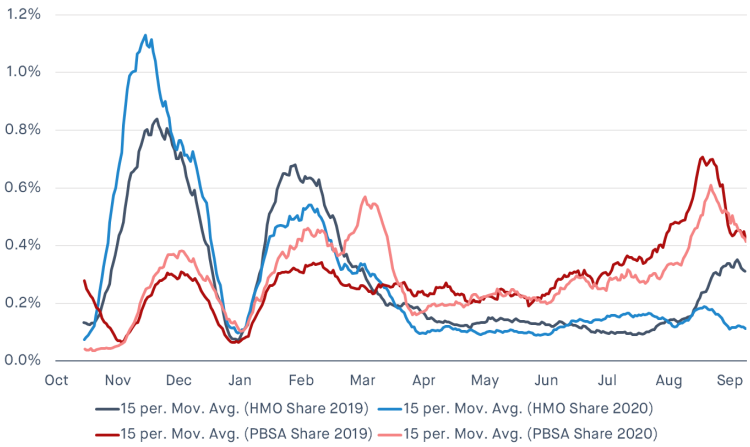
StuRents

Richard Ward – Head of Research

The 2020-21 lettings season has been dominated by the uncertainty created by Covid-19, however, long-term fundamentals remain largely positive.

The 2020-21 season began like any other, with early moving markets reporting a flurry of enquiry activity before the Christmas break. However, as we entered the New Year, news of a novel coronavirus began to circulate and grow in notoriety. Whilst the HMO market is largely skewed towards early house-hunting, allowing operators to 'lock in' bookings before the outbreak, the PBSA sector relies more heavily on lettings activity later in the year. This seasonal trait, along with the reliance of operators on international students and the difficulties they may face in travelling, continues to create a substantial amount of market uncertainty, with occupancy rates likely to suffer in the short-term. Markets most reliant on this demographic are likely to be hit the hardest, along with those cities reporting substantial year-on-year growth in PBSA.

Figure 1.0 | Daily Enquiry Share by Accommodation Type 15 day moving average (15 per. Mov. Avg.)



Source: StuRents.com

Whilst 2020-21 will no doubt be a challenging academic year, the long-term demand fundamentals for the sector remain mostly positive. The demographic blip causing a drop in the 18-year-old population is set to reverse in the coming years creating a larger demand pool, and as proven by the fallout of the 2008 banking crisis, the market remains countercyclical in the face of a recession.

However, investors need to be wary of locations that are already saturated with PBSA, or could face excess supply in the near future, whilst also considering the intra-city fundamentals of each location.



Homes for Students

Despite Covid-19, Homes for Students reached the goal of managing over 100 properties this year.



Homes for Students

Kate Forester – Sales & Operations Director

Homes for Students is a market leading provider of student management services, delivering an unrivalled student experience to both domestic and international students. Our mission is to enhance the daily lives of students in the buildings we manage, whilst working in harmony with local communities. We operate a national portfolio of student and on campus accommodation.

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How has the past 12 months been for Homes for Students?

In July 2020, Homes for Students reached the significant milestones of managing over 100 properties, 25,000 beds, in over 40 towns and cities with the transfer of more than 2,500 beds from the Urban Student Life portfolio (USL).

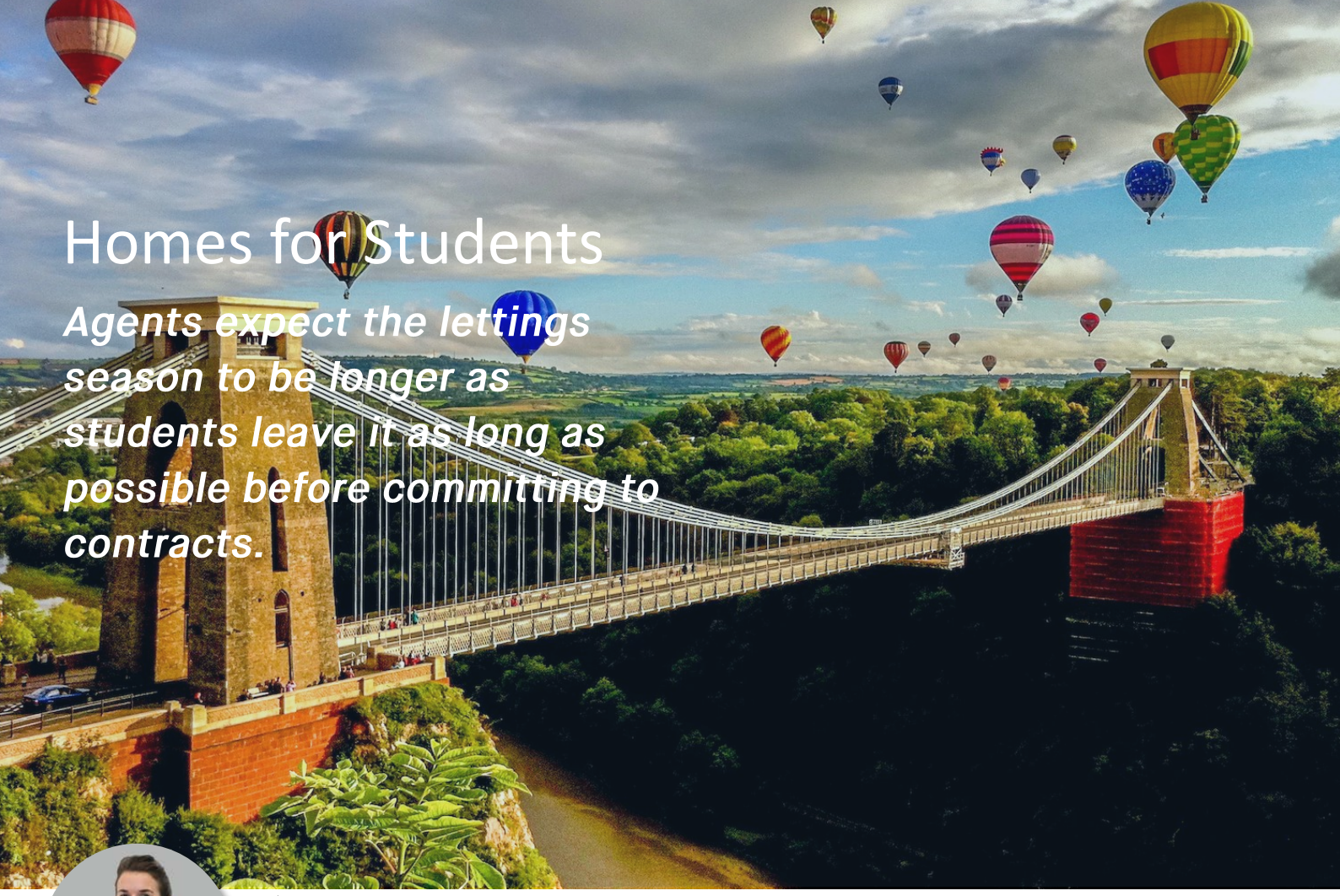
The move opened up new markets for Homes for Students as we began to manage properties in Dublin, Canterbury, Newcastle-under-Lyme and High Wycombe for the first time, as well as adding further beds in existing locations including Leeds, Coventry, Liverpool, Leicester, Nottingham and Sheffield.

Since the USL transfer, we have welcomed a further six properties to our portfolio, including the brand new Beton House in Sheffield, with more in the pipeline. The Urban Student Life brand will be retained by us for the fractional investor market where we can use the size of our platform to the benefit of individual investors by increasing sales and reducing expenditure and supply chain costs. Scale and market knowledge are becoming increasingly important as owner/operators aggregate and Homes for Students need to compete at this level. We are well on the way to reaching our target of 30,000 student beds under our various brands.

What have been the biggest challenges the business has faced in the last year?

We put a lot of energy into encouraging genuine, constructive reviews that new students can trust ahead of making their accommodation decisions. Covid-19 restrictions continue to affect traditional marketing, so the bulk of marketing activity has remained digital, with Google Ads being heavily pushed alongside listing websites. Most Students' Union staff were furloughed, but as these have slowly started to reopen, we are seeing more activity across their social channels and websites.

As International agent activity begins to increase significantly, their feedback is unanimous; markets are



Homes for Students

Agents expect the lettings season to be longer as students leave it as long as possible before committing to contracts.



Homes for Students

Kate Forester – Sales & Operations Director

slower, but they are expecting the selling season to be longer as students leave it as long as possible to commit to contracts and they expect September to be their busiest month.

The PBSA sector did attract criticism from some residents and the media as a result of the Covid-19 third term rent refunds. As a third-party manager who manages properties on behalf of over 30 owners, it was not within our gift to make investment decisions and to grant refunds on their behalf. Unlike pubs, clubs and holiday companies, landlords were not prevented by legislation from providing student accommodation and students were not being prevented from living in it. The owners of many of the properties we manage have loans on their assets and their rents are secured under a duty of care with their senior lenders. They also have ongoing operational expenses to meet, so the issue is a complex one that can have a significant financial impact.

How are you using data in your marketing and investment decision making process?

By closely monitoring our marketing activity and reach, we can ensure our efforts are directed effectively. The insights we monitor ultimately help to keep our investors fully informed so they can make more informed budgeting decisions.

In addition to our own performance, we continuously examine sector data, analyse competitor behaviour and student trends. Not only does this mean we can keep investors informed, it enables us to communicate our messages via the most relevant platforms for the student audience.

What lies ahead for Homes for Students?

Despite the global disruption caused by the Coronavirus pandemic of 2020, Homes for Students remains in a strong position to continue to grow our portfolio.

The period has been, without doubt, our most challenging to date with many of us feeling the disruptive impact both on our team members and of course on students. Whilst we can be cautiously optimistic about the sales forecast for the year ahead thanks to the positive start we have experienced, we remain in unprecedented times. Monitoring the marketplace and our competitors closely, we are confident we are in the best shape possible to achieve our short and long-term business objectives.



Supply

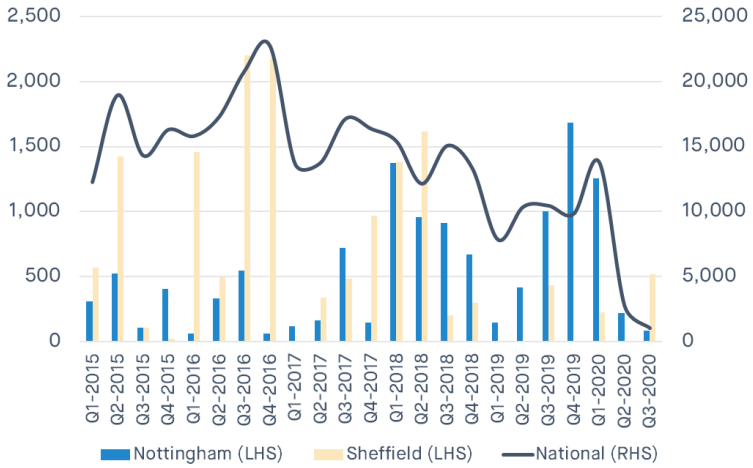
Whilst national planning activity has slowed, certain cities have witnessed an explosion in applications.

Planning application activity appears to have peaked in 2016 and has since been slowing down.

The student housing market in the UK is still skewed towards more affordable HMOs, with approximately 860k bed spaces on offer, equating to ~55% of all supply. However, the supply of PBSA has been rapidly increasing in recent years, with more than 35k beds added in 2019 and a further 25k beds expected to become live by the end of this year.

This rapid growth can be attributed to a rise in planning application activity and therefore developments. As highlighted in Figure 1.1, planning application activity appears to have peaked in 2016. With larger projects taking years to be delivered, this activity resulted in the growth in supply the market has witnessed in the past few years. However, the national picture appears to point to a slowdown in activity, with 17.4k fewer beds submitted in 2019 compared to 2018. Year-to-date a total of 17.6k beds have been put forward, representing another year-on-year decline compared to the equivalent period of 2019. Although this represents a positive trend for existing operators, it hides significant differences at a city level.

Figure 1.1 | Application Activity - Beds Submitted



Source: StuRents.com

In locations such as Sheffield, which have seen an influx in PBSA beds, activity has rightly slowed. Activity is also starting to slow in locations such as Coventry, albeit the city still has one of the largest pipelines in the country.

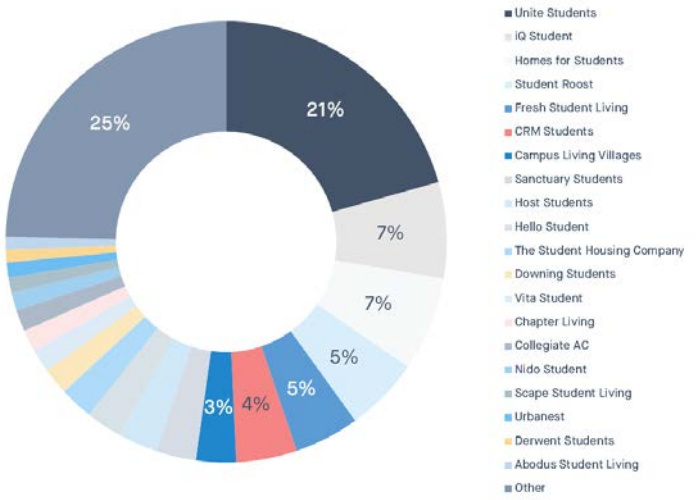
Other cities such as Nottingham have bucked this trend, recording a significant volume of applications. Although it is unlikely all these schemes will be delivered, having insight into how supply could change going forward is fundamental in understanding how the local dynamics may alter and whether this new supply will outstrip demand growth or vice versa.

The single largest provider of private PBSA remains Unite Students and since its takeover of Liberty Living it now controls 21% of private PBSA beds. However, on the whole, the market remains relatively fragmented. Whilst just 7 operators equate to 52% of supply, the remaining beds are managed by a further 234 providers.

On an absolute basis, Unite Students, through its aforementioned acquisition, has reported the largest increase in bed spaces, growing its portfolio by more than 20k beds in 2020. Meanwhile, by absorbing the Urban Student Life portfolio, Homes for Students increased its bed count by more than 5,000 this year, whilst Fresh Student Living added almost 3,000 units to its platform. Cloud Student Homes, a relatively new entrant into the market, added close to 2,000 beds to its portfolio. In comparison, CRM Students and iQ Students both reported a net increase of almost 1,800 beds.

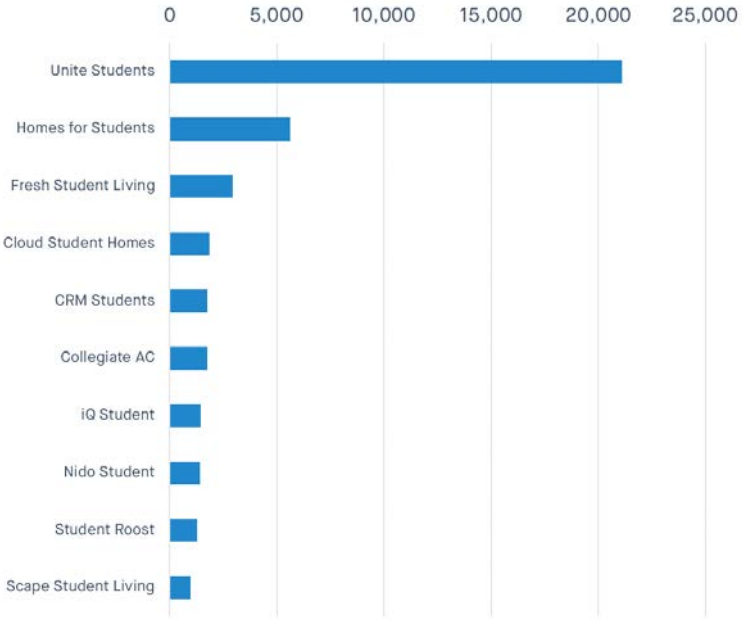
On a locational basis, in the last four years, Coventry has reported the largest increase in PBSA bed spaces, with more than 11k added to the market between 2017-2020. Sheffield has also recorded a significant increase, with 8.6k beds becoming operational since 2017, albeit the pace of growth is now likely to slow in the city. Similarly, whilst more than 5k beds were added to the Newcastle market, growth has been non-existent in 2020 suggesting that, for now, the location has fallen out of favour with investors. The ability of markets to absorb this additional PBSA depends on the individual city and in locations such as Sheffield, the number of new beds that became operational between 2017-2020 far outstripped new demand.

Figure 1.2 | 2020 Private PBSA Operator Share



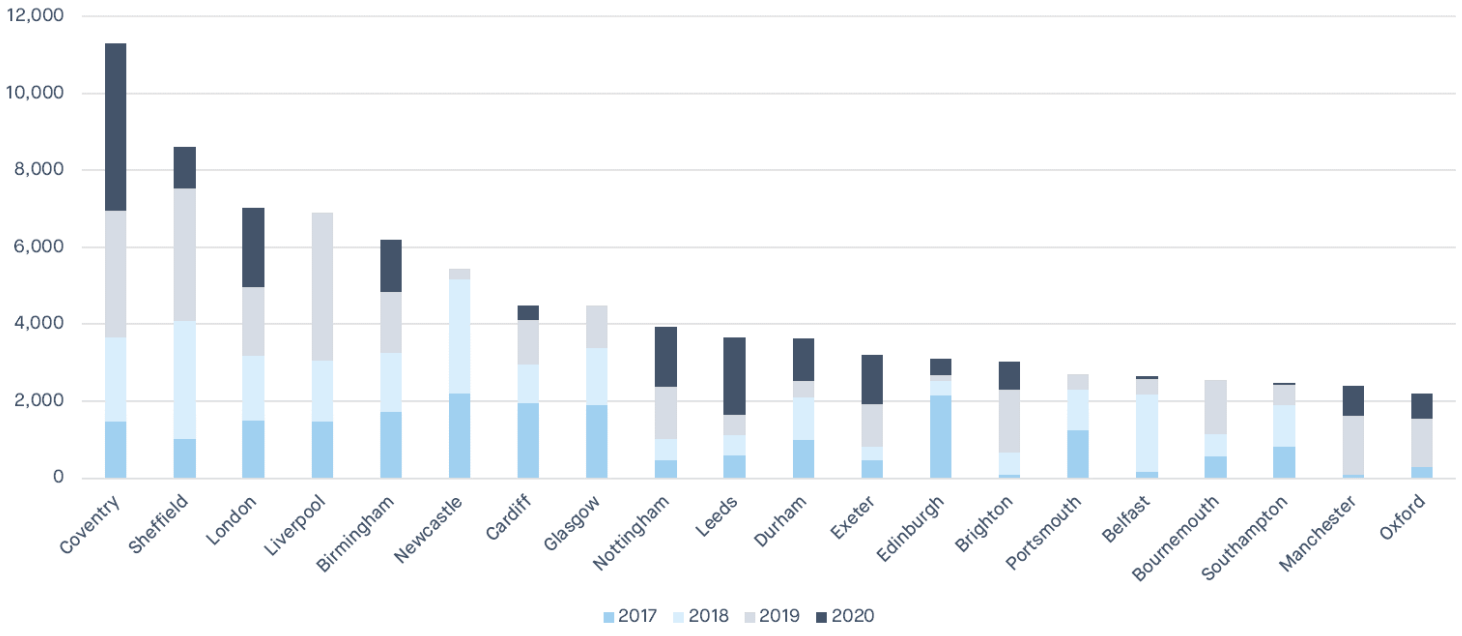
Source: StuRents.com

Figure 1.3 | 2020 Operator Growth YoY (Net Beds)

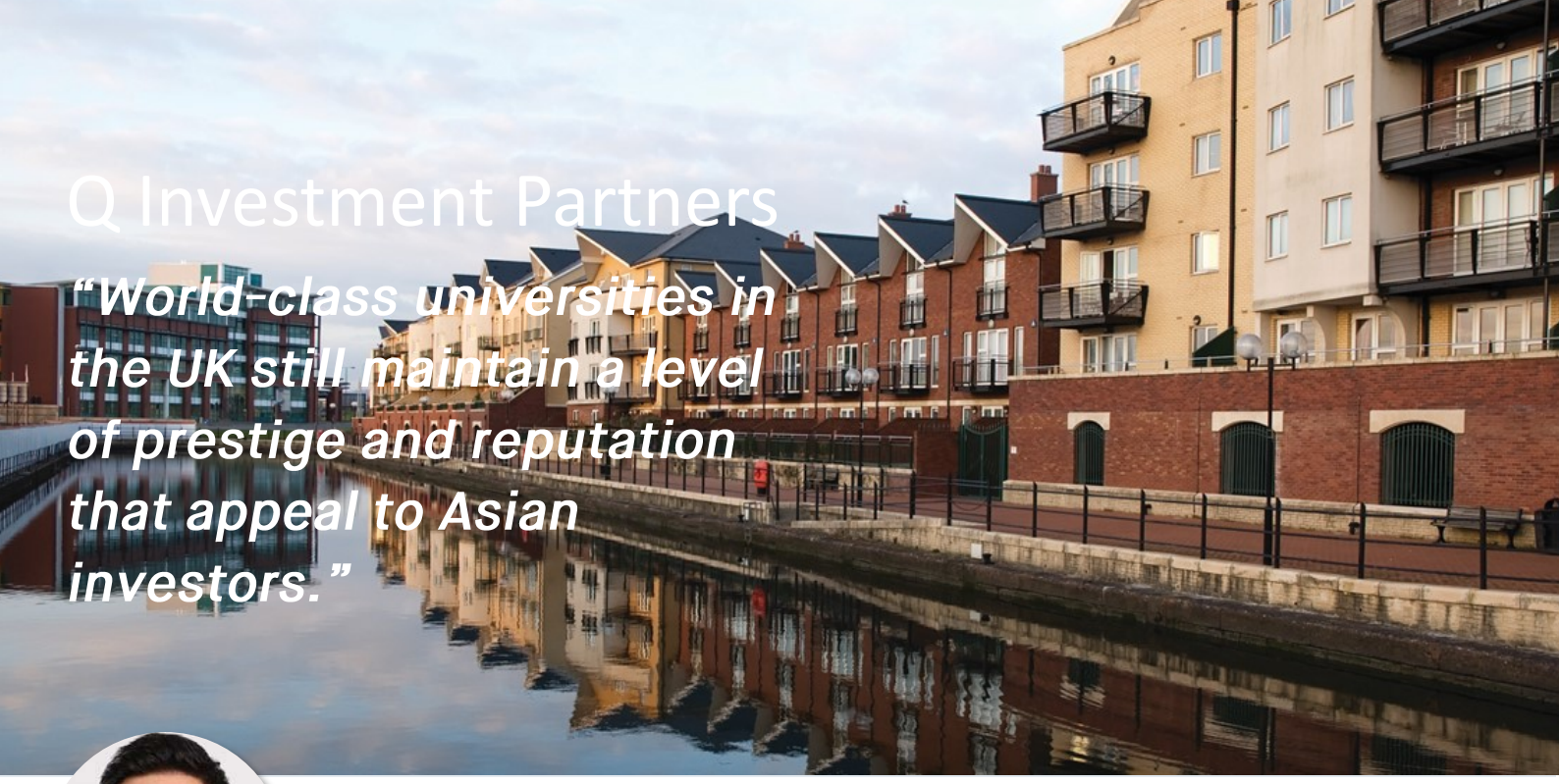


Source: StuRents.com

Figure 1.4 | PBSA Beds Added by Location & Year (Selected Locations)



Source: StuRents.com



Q Investment Partners

"World-class universities in the UK still maintain a level of prestige and reputation that appeal to Asian investors."



QIP

Peter Young - Chief Executive Officer & Co-Founder

QIP is a Singapore-based private equity real estate firm. With deep expertise in the capital and real estate markets, QIP's team of investment professionals offer institutional and professional investors unique opportunities to invest in strategic sectors. QIP and its Principals have a significant track record of over 2400 beds in the student accommodation sector, currently managing and executing around £150m of investment value.

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How has Covid-19 affected investor appetite for the UK PBSA sector?

It has taken investors several months to get their heads around what the pandemic has meant for the sector. The situation in March of this year is very different to that of in June and right now as we speak in September it has markedly improved. Our clients are having conversations and have committed to investing in the sector as the academic year is about to commence and Universities open under new norms.

Sentiment remains positive and we believe that investor appetite for the UK PBSA sector will continue to be strong as we see Universities opening and students returning to campus. Looking at the sector, one has to look at this as a comparative against other real estate asset classes. Other real estate sectors that typically have taken a larger share of the capital pie, such as offices and retail have fared comparatively worse as a result of the pandemic.

On the other hand, PBSA is uniquely positioned and expected to recover faster as practical certainty and Government policies have facilitated getting Universities back to business. PBSA remains to be an attractive alternative asset class that allows investors to diversify and rebalance their portfolios with counter-cyclical characteristics. The theme of investing in UK Universities is a robust one, which resonates with Asian investors.

Is UK PBSA still an attractive investment class amidst economic uncertainty?

The UK PBSA sector has been fundamentally strong and resilient through economic uncertainties in the past. From 2007-2010, UK university applicants jumped by 30% while the UK economy faced a 5% contraction in growth. This can be attributed to the desire to study and upskill in a job market that has been made even more competitive. Apart from the sector's resilience, there are also long-term demographic trends that support the underlying future demand of PBSA in the UK.

According to data from UCAS, a record-breaking 40% of all 18-year-olds in the UK submitted an application to study at UK universities in September 2020. This short-term data around higher student intake and likely PBSA demand for the 2020/2021 academic year is particularly positive and helpful to drive positive sentiments.

Data from the Office for National Statistics (ONS) also projects a steady rise in the 18-year old age cohort over the next ten years that will bring an estimated additional 160,000 students into higher education. Our view is that in the longer term, the sector is expected to be on a similar positive trajectory prior to CV-19.

As an overseas investor, how is UK PBSA viewed as a sector?

Despite relative economic uncertainty, UK PBSA remains an attractive asset class. World-class universities in the UK still maintain a level of prestige and reputation that appeals to Asian investors. In Asia, large institutional investors such as Singapore Press Holdings (SPH), Government of Singapore Investment Corporation (GIC) and Sunway Group, a real estate conglomerate in Malaysia have also shown their strong appetite for the sector by acquiring PBSA portfolios across the UK.

Has QIP changed its investment approach towards UK PBSA due to Covid-19?

The advent of Covid-19 does not mean that we have radically changed our investment criteria, but we have started to re-imagine what the new norm will be and respond accordingly. We have adapted our underwriting assumptions for new student sites to include special considerations in light of the Covid-19 pandemic thus far. Refer to Table 1 below.

Universities

University ranking and growth of student applicants are two key elements to look out for to assess the strength of student demand in a city. One new variable to look out for would be the financial stability of universities. With the recent pandemic, some universities may face a fall in student numbers particularly from international students that would result in a loss of income for the academic year. However, this would be a far less likely concern for established universities within the UK student sector.

Value Drivers

Student accommodation rental growth in the UK has often achieved an average of 2-3% across different cities with some markets exceeding those numbers. Post Covid-19, our investment underwriting of new sites now includes more conservative rental growth assumptions and softer cap rates.

This allows us to prioritise the preservation of investment capital while securing superior risk-adjusted returns for our investors.

How else do you look at the microeconomic factors and localised drivers to support your investment case?

Macro-factors such as long-term demographics, global investment volumes and political stability are clearly important. However, what is clearly going to define whether a scheme is a good investment will largely be the micro-factors. Our approach is to analyse the microeconomic factors and the local drivers, using live current data covering key areas such as pricing, product offering and student demographics across non-PBSA real estate products. We do this with the support of third -party data sources such as StuRents. Equipped with a comprehensive database that can provide large data sets, working with StuRents has allowed us to further fine tune our product mix as well as apply dynamic pricing and leasing strategies across the student markets we work in. This is even more relevant due to the CV-19 impacted academic year. Some of the insights we found particularly useful include student search data, the distribution of supply and pricing of non-PBSA products.

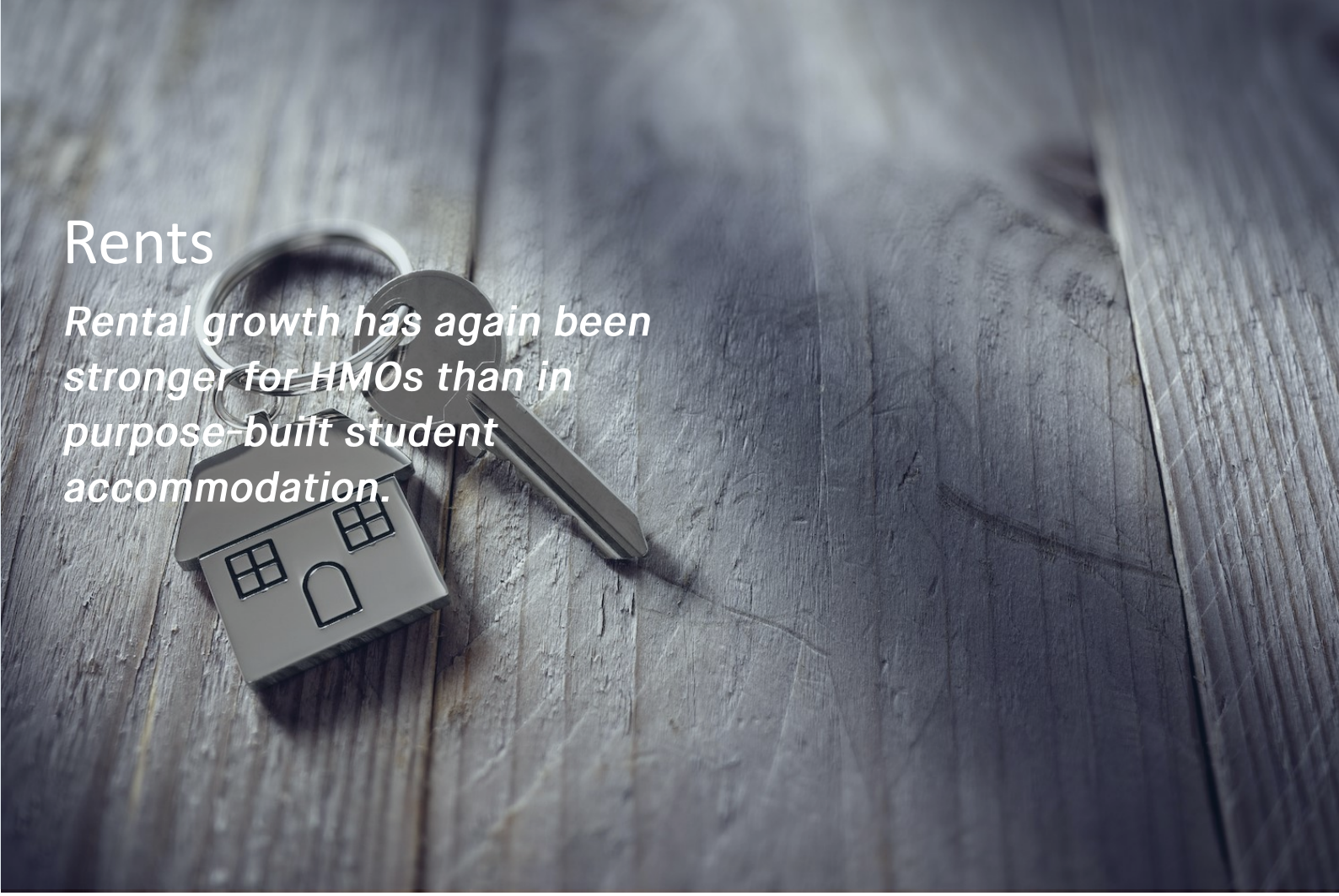
What are QIP's future plans in the sector?

We are currently in the middle of our largest fund raise to date targeting a portfolio of UK PBSA assets across top tier student cities with an opportunistic overlay. As the UK education and PBSA sector overcome short-term challenges during the pandemic, we expect market dislocation opportunities to arise in the short-medium term. With a targeted optimised investment strategy, we aim to capitalise upon distressed opportunities and position our investors for superior risk-adjusted returns with our latest opportunity.

Table 1: Key Highlights of Underwriting Framework (Pre/Post CV-19)

Underwriting Variables	Pre Covid-19	Post Covid-19
Universities	University Ranking, Annual growth of student applicants	Financial Stability of Universities, Diversification of Curriculum courses (Online vs Offline)
Site Location	Proximity to University, Good Transport networks	Proximity to University/ City Centres, Short walking distances preferred
Value Drivers	Comparable Rents and Rental Growth Assumptions	Conservative Rental Growth Assumptions, Softening of Cap Rates
Development Costs	Trusted Partnership with Construction Partners, Co-Investment from Development Partners	Fixed Price Construction Contracts, Require Larger Co-Investment from Development Partners

Source: Q Investment Partners



Rents

Rental growth has again been stronger for HMOs than in purpose-built student accommodation.

At a national level, HMOs have again outperformed PBSA with regard to year-on-year rental growth.

For the 2020-21 season, the average advertised rent on a per person per week (pppw) basis outside of London was £101pppw for HMOs, representing year-on-year growth of 3.5%.

In comparison, for PBSA outside of London, rents on a like-for-like basis rose by 2.0% to £156pppw. If we include London in the analysis, rental growth for PBSA was slightly stronger at 2.1% year-on-year, indicating the capital has performed somewhat better than the rest of the UK. On a weighted basis, taking into account the total number of HMOs and PBSA beds in the market, the average advertised rent (ex-London) increased by 3.1% to £117pppw.

Whilst this rental growth will be welcomed by the market, particularly given the challenging environment, PBSA operators for 2020-21 have been offering much more flexible tenancy terms. Anecdotal reports, combined with a move to more flexible contract terms, suggests that in some cases occupancy levels are below that of last year, at least for now.

Figure 2.0 | Like-for-Like Change in Average Advertised Rents (£pppw) (ex-London)



Source: StuRents.com

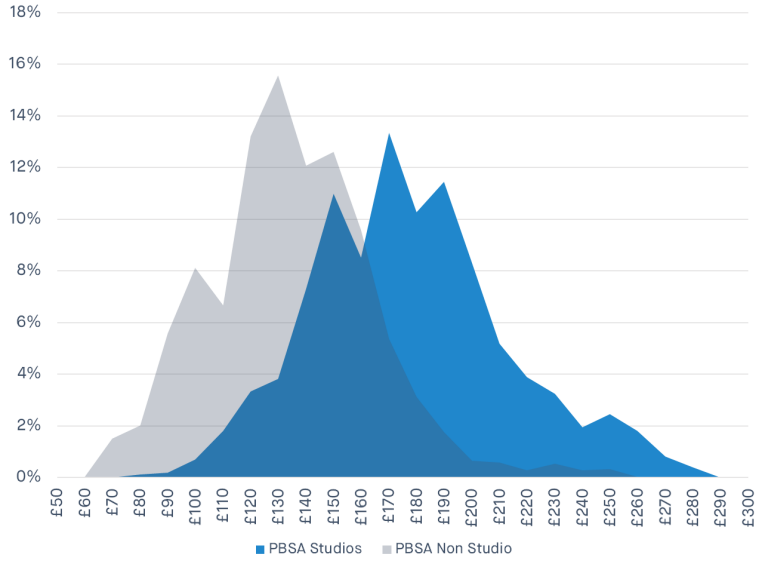
Furthermore, with greater flexibility comes greater risk, and no hassle cancellations could mean that should a second-wave rear its head in the winter, students could simply revoke their contracts and decide not to travel. If this is the case, then rental discounts may become more prevalent for individual semester tenancies. For HMOs however, most bookings will have been secured prior to March this year, offering landlords greater security compared to the PBSA sector.

Whilst the average cost of student accommodation outside of London was £117pppw, in the capital, for PBSA this figure stood at £283pppw, representing a significant premium to the rest of the country. If we only consider studio accommodation, then outside of the capital the average studio room costs £181pppw, which equates to a premium compared to all non-studio PBSA of 32.1%. Compared to the average HMO this 'studio premium' is recorded at 79.7%, highlighting that for those that typically consider HMOs, this accommodation type is likely to be beyond their search budget. What is also clear from Figure 2.1 is the proportion of PBSA studios that are priced at £200pppw or more, with around 28% of supply offered at this price. In comparison, fewer than 3% of non-studio rooms in private PBSA are priced at this level or above.

As highlighted in Figure 2.2, the premium students are expected to pay for private PBSA can, in the case of Bath, be in excess of 100% compared to the average HMO and in many cases, it is well above 50%. However, in markets such as Exeter, which has a higher price point for HMOs or in Plymouth, which faces challenging supply -demand fundamentals, the spread is much tighter, presenting opportunities for PBSA providers to attract domestic students with their product offering.

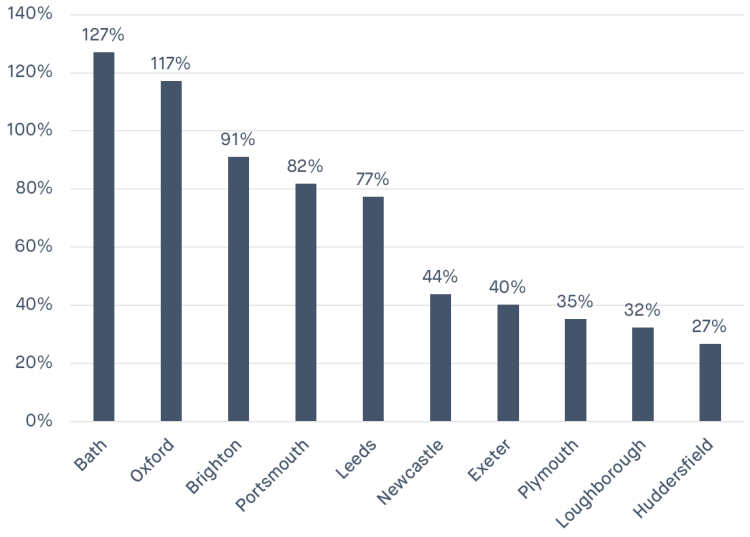
Whilst HMO rents have increased at a national level, certain locations have fared particularly well. One such example is Nottingham, where rents have risen by 7.1% this year, following growth of 5.9% in 2019-20. This rental growth, combined with an increase in demand, has no doubt contributed to the rise in planning application activity reported in Fig 1.1.

Figure 2.1 | PBSA Price Distribution (ex-London)



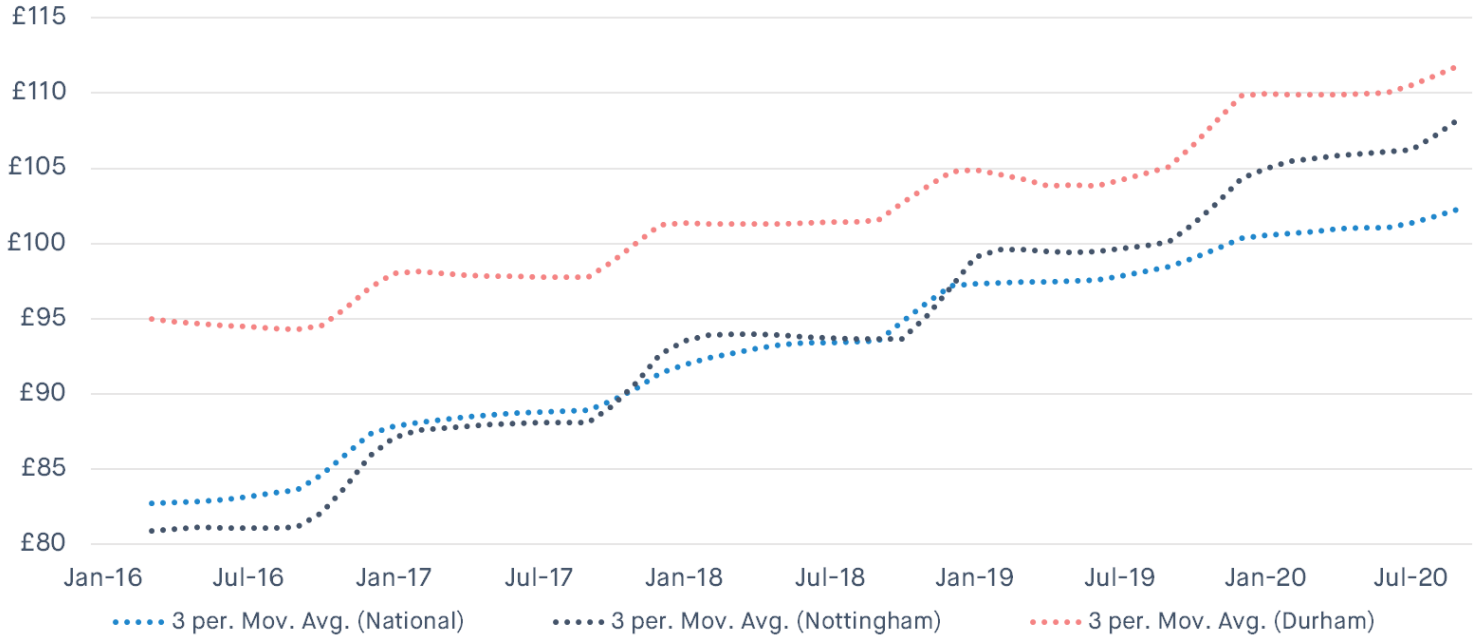
Source: StuRents.com

Figure 2.2 | PBSA Premium (Selected Locations)



Source: StuRents.com

Figure 2.3 | HMO Advertised Rents, 2016-20, 3 month moving average (Selected Locations)



Source: StuRents.com



Affordability

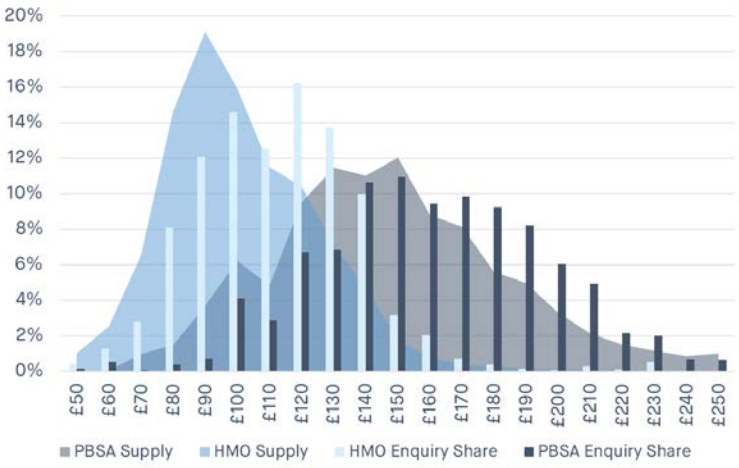
HMOs still offer a more affordable option for the majority of students.

HMOs remain an attractive option for students and the distribution of demand suggests a premium can be obtained for the best accommodation.

The affordability of student accommodation remains a key topic in the sector, with the Higher Education Policy Institute (HEPI) recently suggesting that universities should adopt an affordability policy and lead the way in providing more low-cost accommodation. With an increasing proportion of maintenance loans taken up by the cost of accommodation, there are concerns that rising costs will negatively impact the accessibility of higher-education for those from disadvantaged backgrounds.

On face value, HMOs still provide students with not only the bulk of private accommodation but also with a more affordable option. Figure 3.0 highlights the distribution of HMOs by price, with more than 60.0% costing between £80-£110pppw. However, an analysis of demand suggests that nationally (ex-London) students are willing to pay more, indicating there is an imbalance and shortage of high quality HMOs. For example 47.5% of HMO enquiries were for properties costing £120pppw or above, whilst just 26.1% of supply is priced at this level.

Figure 3.0 | Demand vs Supply by Price (£pppw) (ex-London)



Source: StuRents.com

If local policy or other restrictions inhibit the delivery of quality supply, then the data suggests the best HMO accommodation may be able to command additional rental growth to meet this demand. More negatively, housing policy which restricts growth in HMOs could further exacerbate the affordability conundrum, with private PBSA filling the gap but at a comparatively expensive price point.

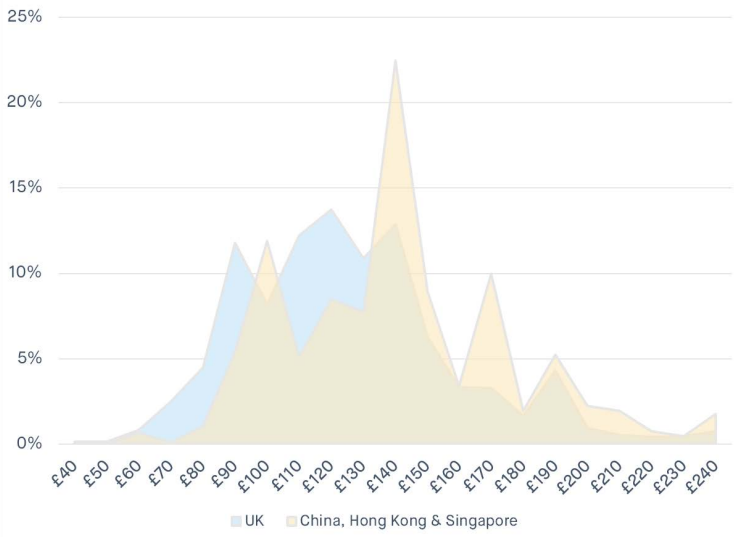
Nationally this is already the case, with a significant proportion of PBSA priced well above the HMO sector, as indicated in Fig 2.2.

Whether the supply of PBSA is meeting the demand of international students depends on their individual budgets. Typically it is assumed international students can afford higher-priced accommodation and in the example of Brighton, StuRents' search data supports this theory. As is shown in Figure 3.1, European students and in particular those from the UK tend to have lower budgets on average, meaning HMOs may be the only viable option.

However, even in the HMO sector affordability remains an issue. For example, in 2016-17 the average HMO cost £83pppw and assuming a 52 week tenancy, would have a contract value of ~£4,300. At the same time, the maximum maintenance loan available to students outside of London and living away from home was £8,200. Therefore the cost of accommodation equated to ~52.4% of the maximum maintenance loan on offer. In comparison, this ratio now stands at 56.6% for the 2020-21 academic year. Meanwhile, for those considering PBSA, a 51-week tenancy (ex-London) would leave a student with just 13.5% of their maintenance loan to cover additional living expenses, the equivalent of £24 per week.

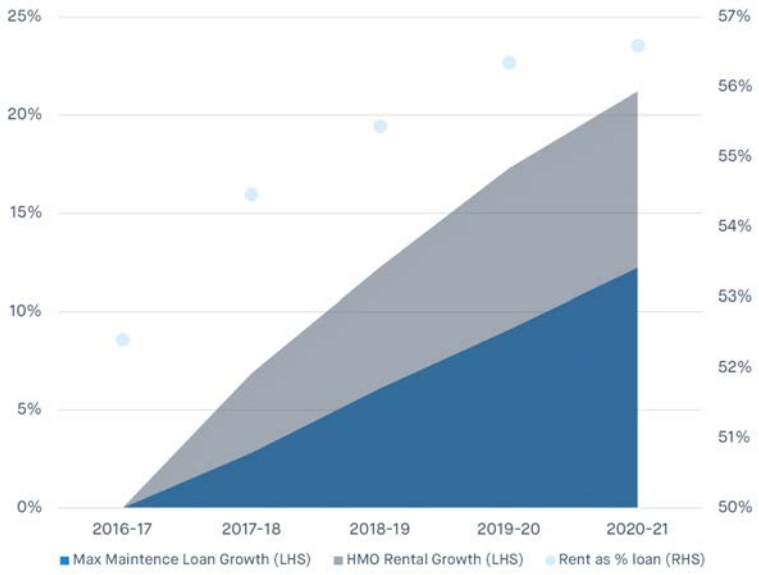
Rising rents are reflected in the average budget being set by students, which has consistently increased year-on-year. For example, for the 2020-21 academic year the weighted average budget (ex-London) was £134pppw, up from £127pppw in 2019-20, representing an increase of 5.5%. In comparison, budgets in Nottingham grew by 8.2% in 2020-21. Whilst positive and supportive of rental growth, it raises questions as to whether such year-on-year increases can be sustained in the long run.

Figure 3.1 | UK vs 'Asia' Budget Distribution (£pppw) (ex-London)



Source: StuRents.com

Figure 3.2 | Growth in Maintenance Loan vs HMO Rents (Indexed 2016-17)

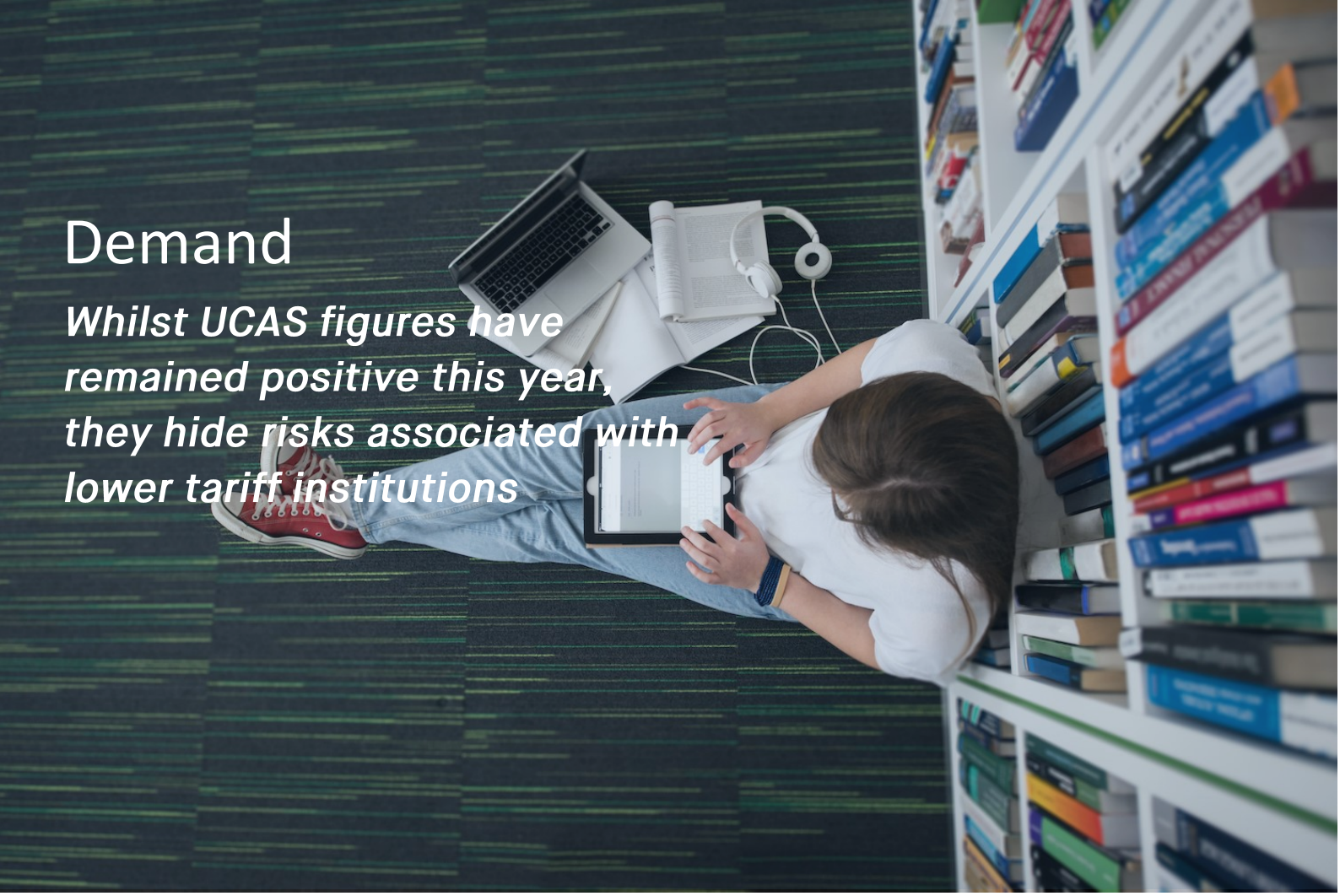


Source: StuRents.com

Figure 3.3 | Nottingham Search Price Distribution, 2018-20



Source: StuRents.com



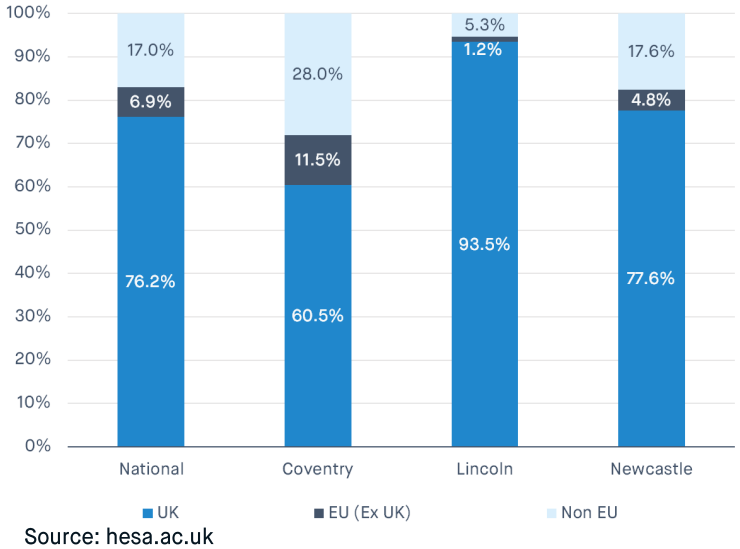
Demand

Whilst UCAS figures have remained positive this year, they hide risks associated with lower tariff institutions

National figures can hide the demand and supply profile of a given location, which can paint a very different picture, be it positive or negative.

Whilst national figures can be useful as a point of comparison, the individualistic nature of every location means each university town or city has a very different demand profile. A prime example of this is Coventry, where in 2018 28.0% of all full-time students were domiciled outside the EU. Naturally, the large proportion of international students combined with strong historical growth, means the location has been an attractive proposition for investors. Conversely, in locations such as Lincoln, 93.5% of full-time students are from the UK. Those looking to offer PBSA must therefore appreciate the smaller demand pool or adjust the product accordingly to attract domestic students. If operators are considering whether to target domestic students, either because it equates to a large proportion of the study body in that city, or perhaps to fill a shortfall in international numbers, then they must have an understanding of the HMO sector. This includes insights into price, seasonality and product offering, all of which can be very different from the prevailing PBSA market.

Figure 4.0 | Full-time Students Domicile Split (2018)



Source: hesa.ac.uk

Whilst in the short-term Covid-19 has led to a significant level of market uncertainty, if demand continues to develop as it has done historically, the medium to long-term outlook remains positive at a national level.

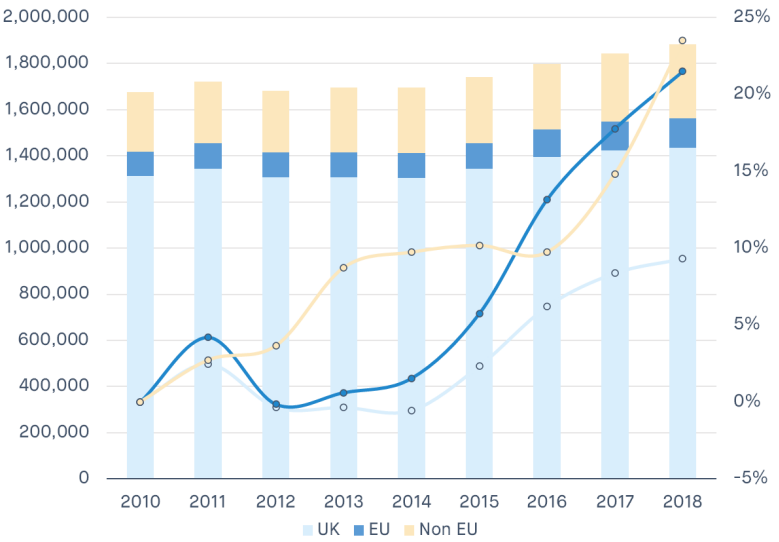
Figure 4.1 clearly highlights the extraordinary growth in non-EU full-time students, with numbers increasing by 23.5% between 2010 and 2018. In comparison, over the same period, UK domiciled students increased by 9.3%, whilst EU (ex-UK) full-time students grew by 21.5%.

The latest stats available from UCAS also suggest UK higher education remains an attractive proposition. Whilst there is not a one-to-one relationship between UCAS applicant growth and the rise in full-time students as recorded by HESA, the data remains encouraging despite Covid-19 and Brexit headwinds. For example, 28 days after A-level results day, the number of placed non-EU students grew by 8.8% year-on-year to 44.3k. Meanwhile, acceptances for UK students increased by 4.0%. Although EU (ex-UK) placed students fell by 2.4%, they equated to just 5.7% of the total, so the impact was somewhat limited.

However, the danger is these headline numbers hide the real impact that the flight to quality trend is having on student demand. UCAS data highlights that applications to higher tariff institutions continue to grow at a faster pace than those for less prestigious universities.

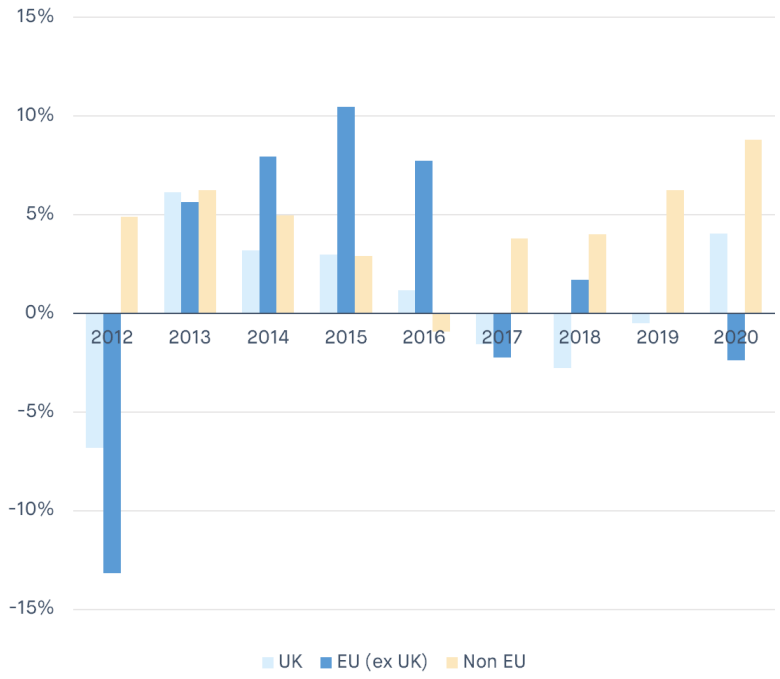
At those institutions deemed as 'higher tariff', there were 40.2% more acceptances in 2020 compared to 2012. Whilst medium tariff providers have reported growth of 20.6% over the same period, Fig 4.3 indicates that in the last few years growth has stalled, whereas at the most prestigious universities it has run away. More worryingly, lower tariff institutions have actually reported a decline in yearly acceptances of 3.7% since 2012. If we isolate placed applicants from outside the EU, the typical target market for PBSA, then between 2012-2020 numbers increased by 71.3% at the most prestigious institutions, versus 4.2% and 3.5% at medium and lower tariff providers. What these figures show is the clear divergence between the best and worst performing institutions, raising questions over the long-term sustainability of some providers. It also poses an additional layer of complexity for those looking to invest in the market, as each location must be assessed individually and in greater detail than ever before.

Figure 4.1 | Total Full-Time Students by Domicile (LHS) vs Indexed Growth, 2010 (RHS)



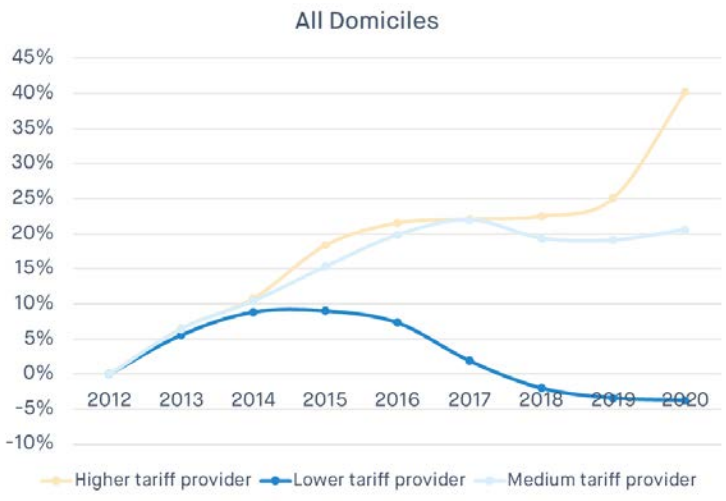
Source: hesa.ac.uk

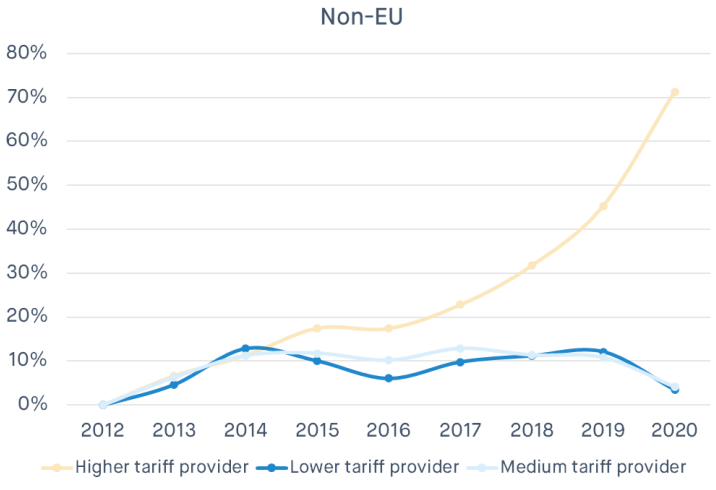
Figure 4.2 | YoY Growth in Placed Applicants by Domicile



Source: UCAS

Figure 4.3 | Growth in Placed Applicants by Tariff Provider (Indexed 2012) (28 days After A-Levels)



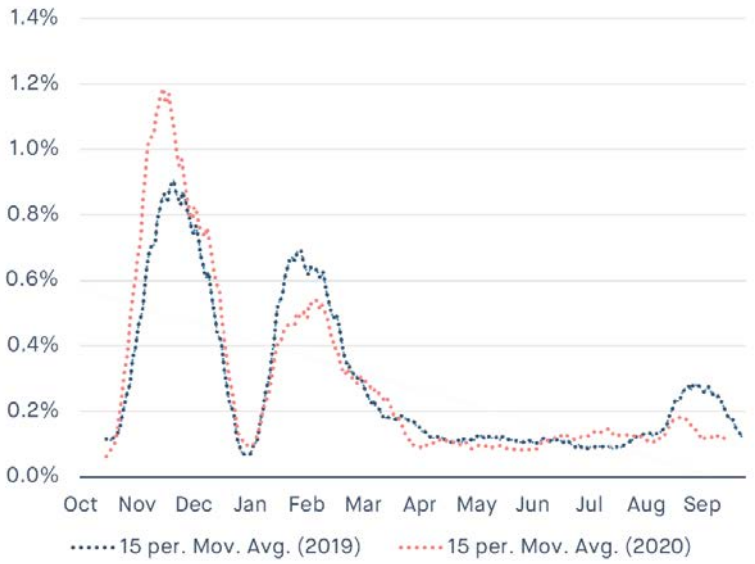


Source: UCAS

In addition to understanding demand growth, the profile and distribution of enquiries over a lettings cycle can dramatically shape the popularity of a room type depending on the location and the time of the year. Figure 4.4 highlights how enquiries for 3 beds or more are distributed throughout the year. Clearly, for providers of this type of accommodation, demand is skewed heavily towards the start of the lettings season. Therefore, operators should be aligning their marketing strategies accordingly. Furthermore, for newbuild schemes, an understanding of how the addressable market shifts can help operators appreciate what the likely impact to demand will be if a project is delayed.

With lockdown measures being introduced by the UK government in March this year, some assumed that demand for studios, which provide students the ability to self-isolate, would increase. Whilst studios equated to a greater proportion of enquiries in May, on the whole, StuRents' data quells this hypothesis, with larger clusters and HMOs still the preferred choice. This may largely be attributed to price, with the majority of UK students unable to afford more expensive studio rooms. Furthermore, the ability to isolate within a bubble of friends in a cluster flat, will likely be a more attractive proposition than an isolated studio bedroom. Whilst Covid-19 has no doubt impacted demand this year, the world class reputation of UK higher education should ensure it remains an attractive choice for all domiciles. Furthermore, markets with a high proportion of domestic students are likely to reap the benefits of the rising 18-year-old population (see Fig 4.6). For struggling universities this could provide some much needed relief as the additional demand may make it easier to recruit a greater number of UK students, despite stiff competition from other institutions.

Figure 4.4 | 3+ Beds Daily Share of Annual Enquiries (15 day moving average)



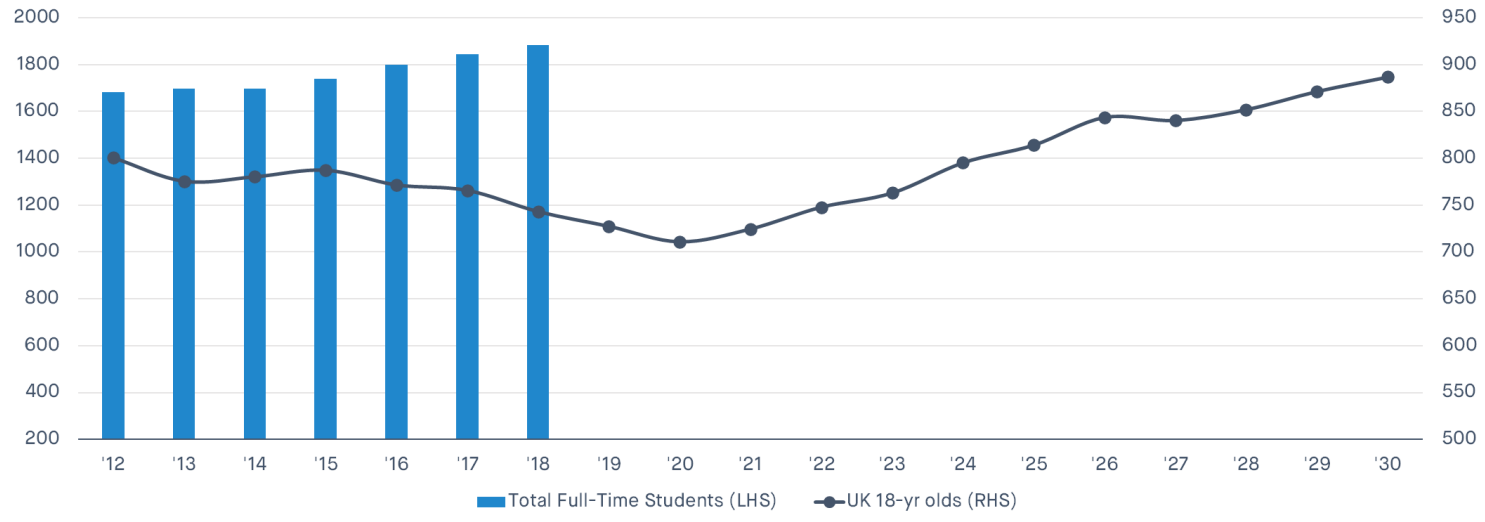
Source: StuRents.com

Figure 4.5 | Studio Enquiry Share 15 day moving average (15 per. Mov. Avg.)



Source: StuRents.com

Figure 4.6 | Full-time Students (000's) & 18-year-old Population Forecasts (000's)



Source: Office for National Statistics, hesa.ac.uk



Operations

Smaller value instalments are typically paid in a more timely manner than larger ones.



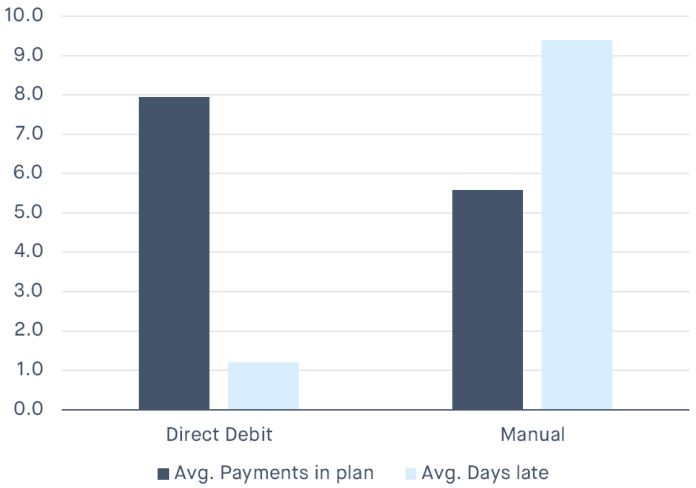
StuRents

John Gledhill – Head of PBSA Product

Tenants are more likely to miss a payment due date where they are paying in a single instalment compared to when they are paying in multiple small instalments.

One thing that's puzzled me for a while is why many operators seem to prefer card payments over other methods like open banking and direct debit. After all, the cost of taking card payments can be significantly higher than other payment methods and, in the UK, these can no longer be passed on to the tenant. There is a perception that direct debit, in particular, is hard to administer because it involves lots of manual handling to set up and onerous bank reconciliation to track customer payments. Cards, on the other hand, are seen as quick and convenient for tenants, and easier to administer because the payment status is updated immediately in the property management software (PMS). Platforms like StuRents which tightly integrate payments can almost entirely eliminate the downsides

Figure 5.0 | Average Number of Payments and Days Late by Payment Type



Source: StuRents.com

associated with direct debit by making this payment method simple for the tenant to set up whilst automating the collection, status update and reconciliation steps that previously required manual effort. Open Banking, which allows tenants to make instant payments through their online banking apps, offers the convenience of card but with accelerated settlement, clearer payment tracking and enhanced security. International Money Transfer can replace direct bank transfers which are hard to track and reconcile, and potentially leave operators with the FX liability.

Another thing that interests me is the effect that different instalment plans have on timeliness of rent payments. In talking with property managers I've always assumed the following to be true, largely because most operators seem to tend towards one or more of these practices:

- That taking a single up-front payment of 100% rent from tenants without guarantors lowers the operational risk of late payments (though the financial cost of refunding large payments is high);
- That offering tenants with guarantors multiple instalment plans leads to lower arrears as well as happier customers;
- That there's no difference in timeliness of payments between tenants paying by direct debit and other means, especially where a platform like StuRents sends automatic payment due reminders in advance.

Using the power of the StuRents data analytics team I decided to put these hypotheses to the test. The analysis is based on the last two years of payment data flowing through the StuRents payment platform for all payment types and all instalment plans.

First, let's examine the claim that there should be no difference between payment types as long as you clearly communicate payment due dates in advance. Fig 5.0, based on over 130,000 transactions, shows the average number of instalments by payment type along with the average number of weekdays payments are late.

This is a surprising result. StuRents automates the whole payment flow for tenants including reminding them in advance when payments are due, and sending chasing emails as soon as they are overdue. If the average tenant using manual payment methods pays 8 days later than one using direct debit on StuRents, how might those stats look if you're using another platform and your team has to manually chase payment based on bank statements?

How does taking a single instalment up-front perform compared with multiple, smaller instalments? One might expect this to be a less risky proposition since the tenant knows they only have one amount to pay, and since it is non-trivial and their whole tenancy depends on it, they're more likely to make an effort to pay it on-time. The data, though, tells a different story. Across all payment types we see that tenants are more likely to miss a payment due date where they are paying in a single instalment than when they are paying in multiple small instalments.

Figure 5.1 | Average Days Late by Payment Frequency

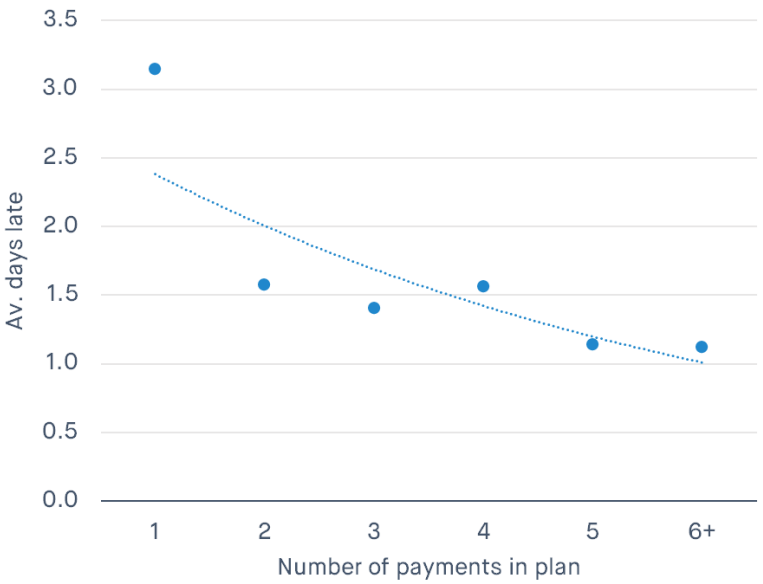
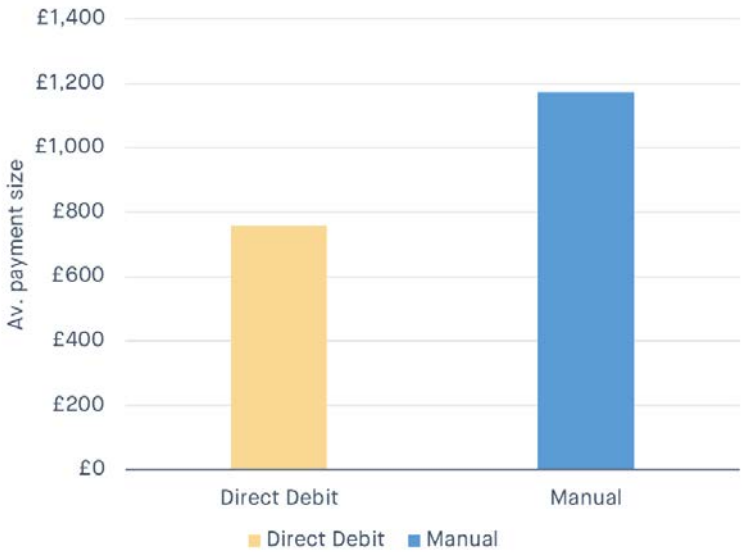
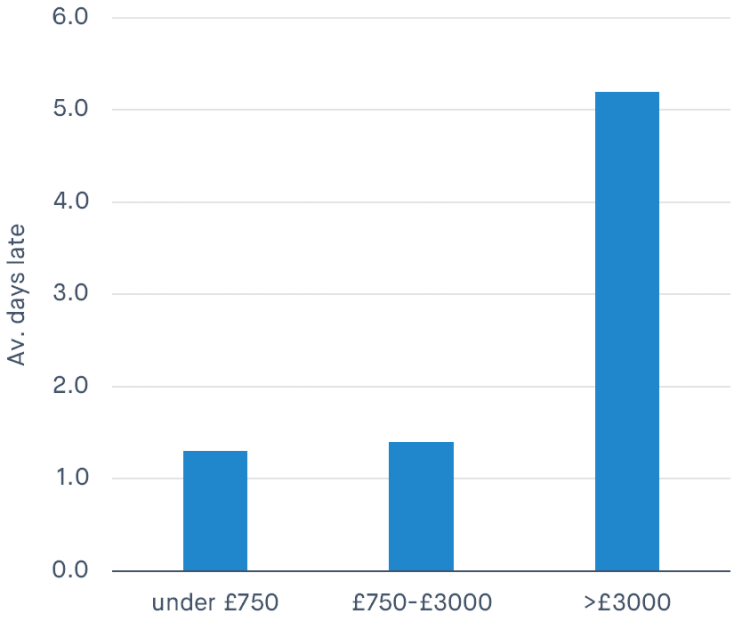


Figure 5.2 | Average Payment Size by Type

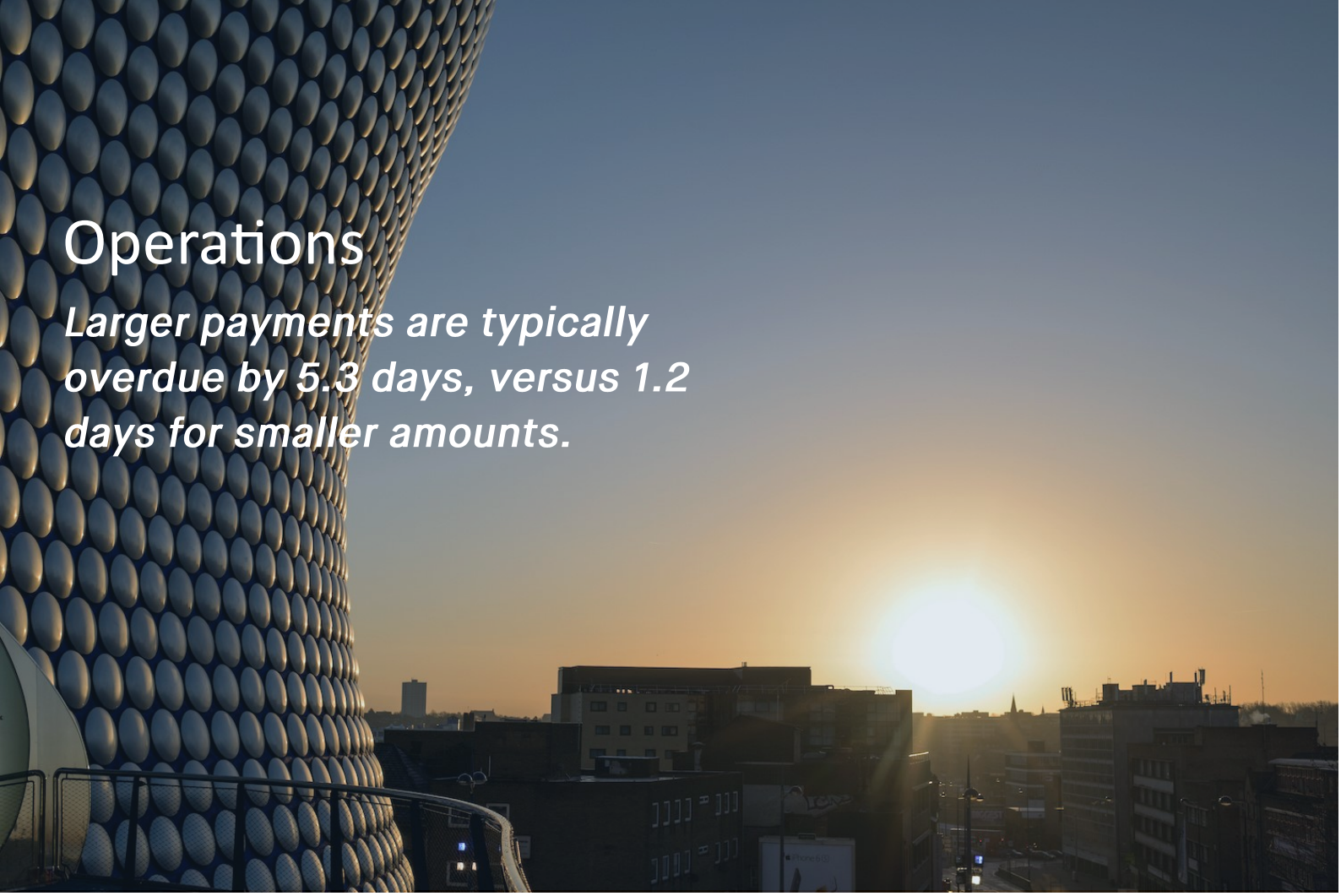


Source: StuRents.com

Figure 5.3 | Average Days Late by Payment Size



Source: StuRents.com



Operations

Larger payments are typically overdue by 5.3 days, versus 1.2 days for smaller amounts.

Does the value of the payment affect timeliness of payment? Are multiple smaller payments more likely to be paid on-time than fewer, larger ones? Fig 5.2 shows us the average value of payments by payment type. As expected, we're seeing that the average value of each payment by direct debit is lower than by manual payment routes - manual payment values are skewed towards those large single up-front payments.

If we now look at Fig 5.3, we can see that there is again a marked difference between the average number of days payments are late as the value of the payment increases. Across all payment types, larger values >£3,000 tend to be paid an average of 5 days late (5.3 days). As the value per-payment reduces (because the number of instalments increases) we see that on-time payment improves from 5 days to 1.4 days for payments of between £750 and £3,000 and 1.2 days where the amount is lower than £750.

In summary, then, the data seems to show us that:

- Direct debit payments are significantly more likely to be paid on time than manual payments.
- A larger number of instalments typically results in a better on-time payment outcome than a small number of instalments.
- Smaller value instalments are typically paid in a more timely manner than larger ones.
- Regardless of payment type, larger instalments >£3,000 are an average of 5 days late.

Whilst direct debit may not be an option for everyone, we are seeing more operators, particularly in the PBSA sector, mandating direct debit even for international students. The additional effort required for a student to open a UK bank account for rent payments over and above the visa application process is minimal and the advantages in terms of rent arrears significant.

Managing arrears is time consuming for operators and stressful for tenants, often leading to a breakdown in the relationship which is detrimental to both. StuRents levels the playing field when it comes to payments meaning there are no disadvantages in cost-terms between the supported payment types, and no higher administrative burden involved in offering tenants 12 small instalments by direct debit than in offering one £8,000 instalment by international money transfer. Taking into account all the data, regular payments of a more manageable size collected by direct debit seem to be the clear winner in this contest.



Allsop LLP

None of the medium to long-term market fundamentals have changed since the emergence of Covid-19.



allsop

Anthony Hart – Partner, Student Housing

Allsop is an independent property consultancy with a people focused approach. Allsop's team share their expertise with a consistent, insightful service for its clients, many of whom work with the company repeatedly. Allsop is the UK's largest and most successful property auction house and also offer an extensive range of consultancy services for residential, commercial and mixed use property.

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What has been Allsop's take on the market so far this year?

As the Covid-19 pandemic endures, uncertainty in the student sector continues to dominate the headlines, reflective both in the volume of transactions, but also, more importantly, in the owner/occupier sphere.

Occupancy, forward looking for the 20-21 AY, is yet to be fully rationalised and it will be difficult to discern until late September, early October, which Universities and which product: HMO or PBSA, studio or cluster, will be most affected by the various International and regional restrictions imposed by governments.

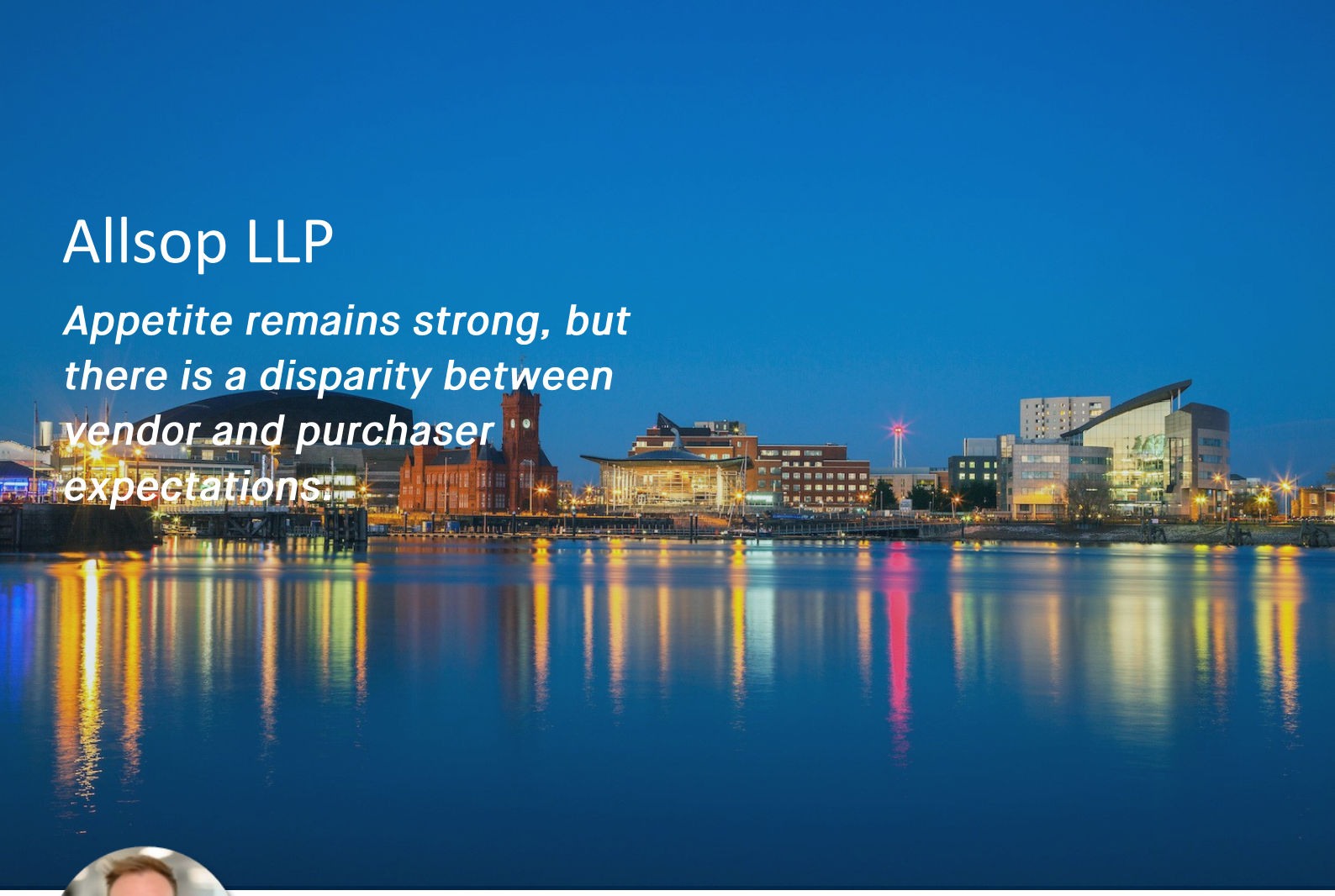
Early indications suggest that low ranking secondary and tertiary university towns and studio led markets will be the hardest hit, unsurprisingly, with more UK & domicile students being pulled into the top ranking Universities post A-Level results and clearing, with a preference skewed towards HMO's and cluster led schemes.

The recently published annual UCAS figures provide a broadly positive outlook, with "more applicants holding firm offers to start a course this year (2020) than at the equivalent point last year" (Ref: UCAS) and with a +4.0% rise in UK domicile students and +8.8% rise in placed applicants from outside the EU, suggesting a continuing upwards trend towards growth outside of the EU (down by –2.4%).

Within the investor sphere, metrics for the year-to-date (YTD) are heavily skewed by the Blackstone acquisition of IQ (£4,66bn); being a pre-pandemic exchange and mid-pandemic completion, this deal was a marker of the great confidence surging through the sector coming out of 2019 and into 2020. None of the medium to long-term market fundamentals have changed since then but an immediate shift of investor focus from growth and acquisitions to operations and lettings has naturally cooled what was set to be a hot 2020 market.

Allsop LLP

Appetite remains strong, but there is a disparity between vendor and purchaser expectations.





allsop

Anthony Hart – Partner, Student Housing

As such 2020 transactions have been comparatively few and far between. Market sentiment is heavily weighted towards a flight to quality stock, with KWAP's acquisition of 700 beds in Leeds and Sheffield grabbing the headlines alongside the smaller but no less significant acquisition of 243 beds in Edinburgh and Leicester by 90North. Both deals would suggest little if any yield/ value movement. KWAP reportedly paid £90m for Symons House and Crown House, representing a net initial yield (NIY) of 5.5%, and 90North are understood to have paid £22.2m for Goods Corner and Dover Street representing a NIY of 5.85%.

Appetite certainly feels as strong as ever, though the disparity between vendor and purchaser expectation persists, with owners, arguably, only beginning to feel the full effects of the summer/spring lockdown; and with their eyes firmly set on the forward letting year, there seems to be a unilateral reluctance to accept any capital depreciation or yield correction on stock until there is greater certainty around future occupancy.

With anticipation growing around such deals as Greystar's 'exclusive' talks to buy the KKR/Round Hill portfolio comprising assets in London, Coventry and Glasgow, amongst others, investors finally look to be beginning to turn their eye forwards to the 21-22 academic year and beyond, suggesting a busy pre-Christmas period - pandemic dependent.

What is in store for the market over the next 12 months?

It is clear that university destinations are facing up to different challenges. There is no one size fits all market appraisal. For example, some markets will suffer unduly from the A-Level fiasco (while others potentially benefit), some are impacted by the institution's decisions to delay face to face teaching, or worse still courses in their entirety and others are more exposed to international and postgraduate markets.

What all markets do have in common though, is that the onset of the aforementioned problems are a product of the pandemic. The passing of the pandemic will provide greater certainty and with that markets will respond strongly, returning to late 2019 and early 2020 momentum in 2021. In fact, academic year 2021/22 could be quite the bounce.



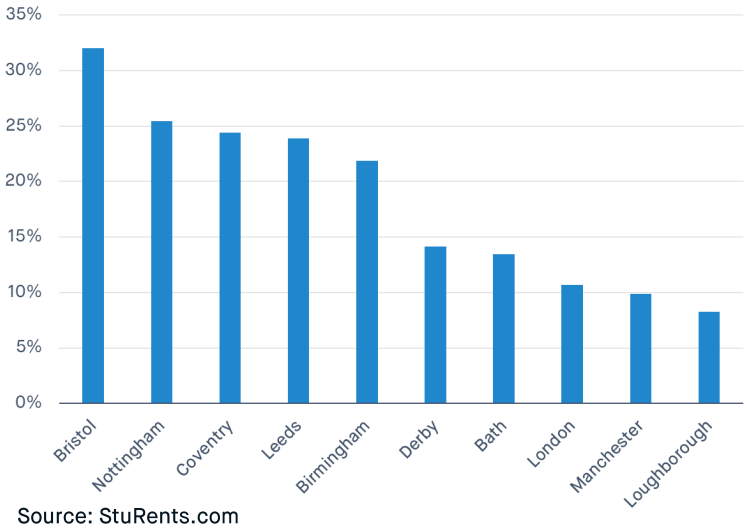
Market Outlook

The long-term attractiveness of prime locations remains, however, low hanging fruit is harder to come by.

As highlighted in Figure 4.6 the growth prospects for UK domiciled students remains healthy. Whilst all universities will benefit from this trend, some more than others, HMOs are expected to be the real beneficiaries due to the lack of affordable PBSA, which remains unattainable for the majority of cash strapped students.

Whilst the short-term impact from Covid-19 is apparent, the UK remains an attractive proposition for foreign students, due its world-class reputation, quality of teaching, and English taught courses. Across the entire higher education sector the UK currently hosts around 460,000 international students, generating c.£20 billion per year through education exports and transnational activity. However, the government has set an ambition to grow this figure to 600,000 by 2030 thereby potentially increasing this demand pool further. It was also initially feared that Brexit may dampen demand from international students, however, this has not been the case, with yearly acceptances from non-EU students increasing by 24.8% since the EU referendum result in 2016. On balance these long-term trends are positive for both HMO and PBSA providers, however, one should not dismiss the growing quantity and quality of universities in China. According to the 2020 QS World University Rankings, the country now boasts 19 of the world's top 200 research universities, up from 12 in 2016.

Figure 6.0 | Supply Growth Potential - Pipeline as a Percentage of Existing PBSA (Selected Locations)



Source: StuRents.com

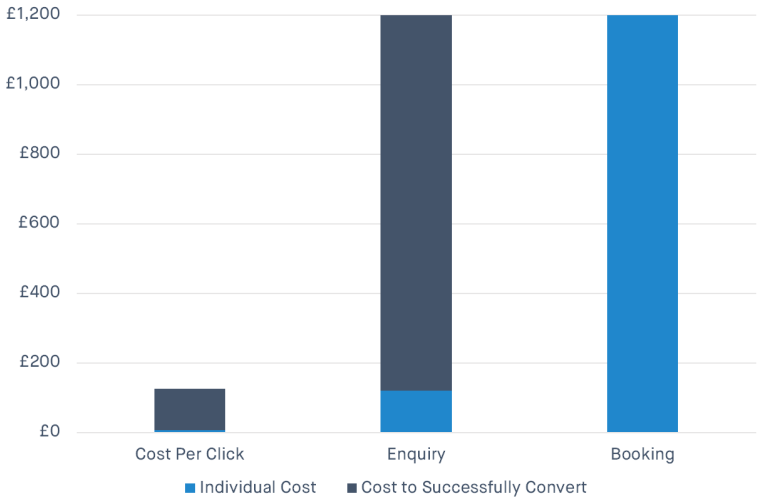
Whilst the UK and US still dominate the charts of the best universities, their share within this group is shrinking, with QS rankings downgrading two-thirds of the 84 UK universities ranked in the top 1,000. In the short-term operators should also take stock of the locations that show significant potential for supply growth. Some locations will need to maintain or increase their rate of growth in demand to offset the influx of accommodation that could be delivered over the coming years, otherwise providers will meet stiffening competition.

Increasing competition ultimately leads to a higher cost per booking with both organic positioning in search and cost per click (CPC) face negative pressures. For example, in Sheffield at the time of writing, an operator would need to bid £6 per click to be in the top 3 ads on Google. Based on a respectable click to enquiry conversion of 5-10% (meaning a single enquiry could cost £60-£120), and a subsequent enquiry to booking conversion of 10-20%, it could cost up to £1,200 to fill a single room. Whilst asset appraisals typically focus on rental growth and yields, clearly the cost of filling a room should not be ignored. As a result, the ability to understand local seasonality and the demand at each price point, will become increasingly important to ensure marketing budget is effectively deployed.

Although the long-term fundamentals remain positive, national insights obscure the opportunities and threats facing investors. Certain cities have already seen an influx of PBSA, with the ability of a location to absorb additional supply varying significantly. In Sheffield, the number of PBSA beds that have been delivered has far exceeded demand growth, even though on paper there remains too few PBSA beds compared to the demand pool (see Fig 6.3). Commentators typically use this demand vs bed ratio to ascertain whether a market is undersupplied, but increasingly investors are realising this can be too simplistic a measure, with most students not wanting to or simply unable to afford PBSA and choosing to live in HMOs instead.

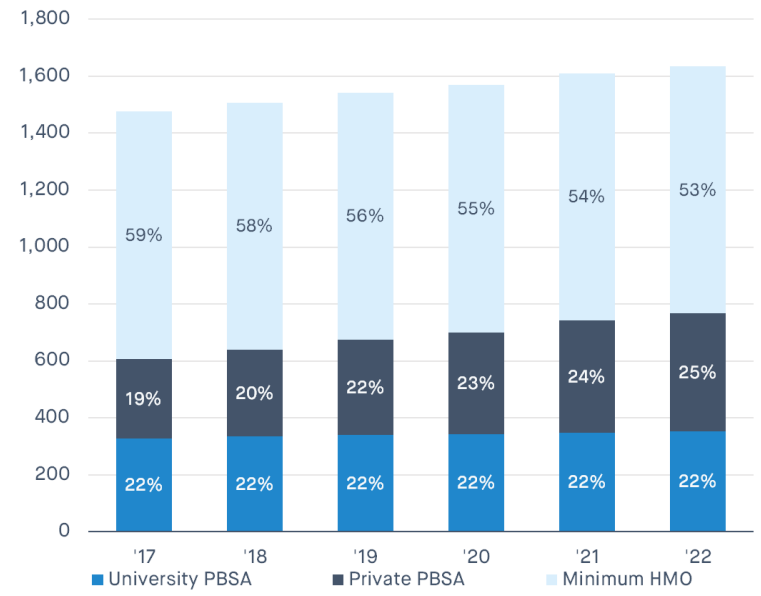
Following significant capital investment in the market, it is apparent that stakeholders now need to be more selective, and each scheme must be assessed based on the specific product on offer relative to the local market, rather than relying on the national trend.

Figure 6.1 | Estimated Click - Enquiry - Booking Conversion Cost (Sheffield, Sep 2020)



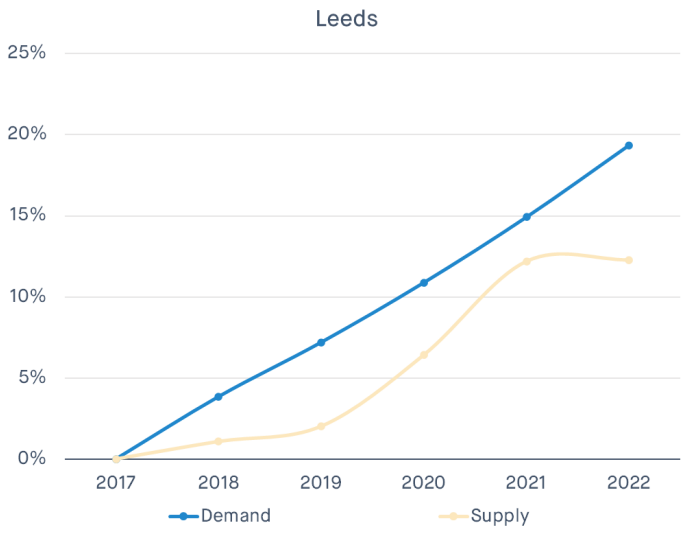
Source: StuRents.com, Google.com

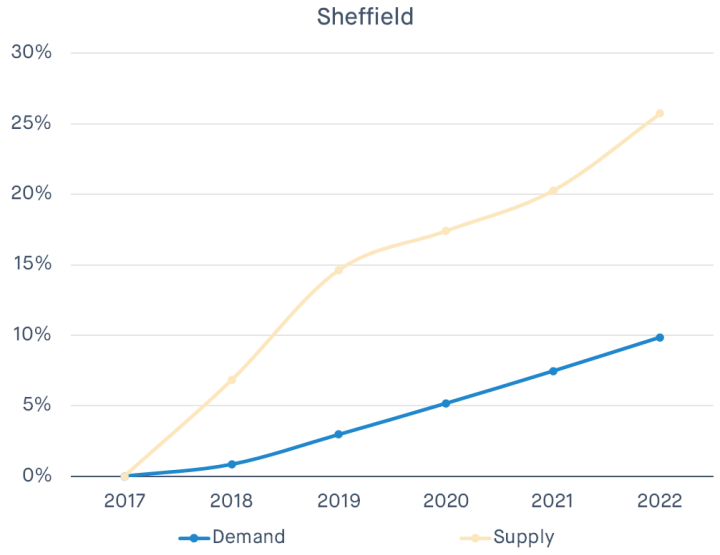
Figure 6.2 | Supply Distribution By Accommodation Type



Source: StuRents.com

Figure 6.3 | Estimated Change in Supply vs Change in Demand (Indexed 2017)





Source: StuRents.com



sturents.com/marketing

sturents.com/operations

sturents.com/research