

STUDENT MARKET REVIEW

2016

CONSOLIDATION KEY
THEME FOR 2016

INSTITUTIONS DOMINATING
INVESTMENT LANDSCAPE

RETURNS OUTPERFORMING
TRADITIONAL SECTORS



JAMES PULLAN
Head of Student Property

£5.1bn

spent on 172 assets
throughout 2015.

INSTITUTIONS TOP OF THE CLASS

In 2015 the Purpose Built Student Accommodation (PBSA) investment market had a record year with £5.1bn of transactions. Of the 49,271 student bedrooms transacted over 46% were acquired by Institutions.

The biggest single Institutional investor was CPPIB who acquired both the Liberty Living platform and the Student Castle portfolio. Other key institutional investors in 2015 included Henderson Global Investors, Aviva, BlackRock, LaSalle Investment Management and M & G with a combined £1.92bn of investment. This wave of Institutional investment has now polarised the market such that assets that fail to meet Institutional specification have much reduced liquidity.

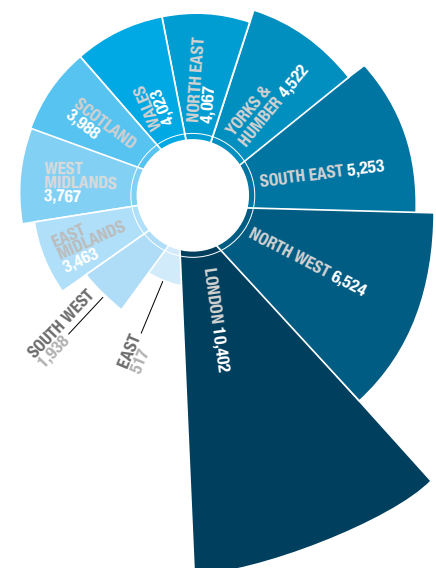
A further sign of the markets maturity is the evolution of sector REITS such as Empiric Student Property and GCP Student Living. These publically listed entities have driven over £0.53bn of investment in 2015 and their investment presence looks set to increase in 2016.

Private Equity invested over £2.13bn in 2015 on 41 assets a high proportion of which were located within London. Interestingly, the share of the investment market taken by private equity has fallen every year since 2013. We anticipate the shift from Private Equity to Institutional/Publically listed vehicles will continue in 2016.

The Knight Frank Dashboard reveals that in 2015 PBSA total returns outperformed the traditional property sectors. This was a product of strong rental growth combined with a positive yield shift. We project that in 2016 rental growth will be more muted than in the previous year and that growth in capital values is unlikely driven by yield shift.

Student beds transacted by region

Jan to Dec 2015



INSTITUTIONAL 62 ASSETS

TOP FINANCIAL SPENDERS

£1,44bn
CPPIB

£150m
Apache Capital

£120m
LaSalle IM

PUBLIC 47 ASSETS

TOP FINANCIAL SPENDERS

£330m
Empiric Student Property

£270m
Unite

£200m
GCP Student Living

PRIVATE EQUITY 41 ASSETS

TOP FINANCIAL SPENDERS

£1.25bn
Partners of Greystar RE

£670m
LetterOne

£70m
Knightsbridge Student Housing

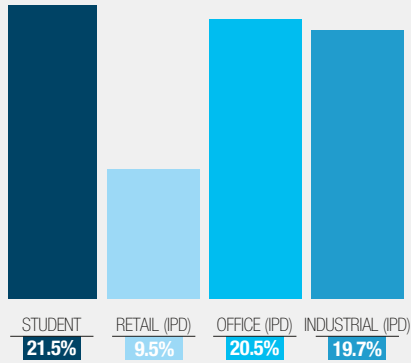
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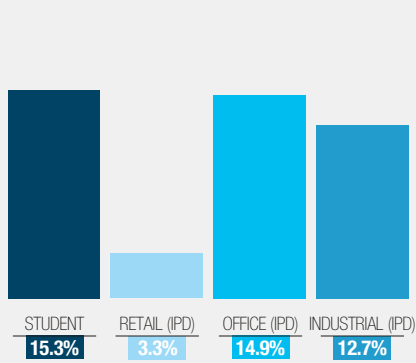
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DASHBOARD

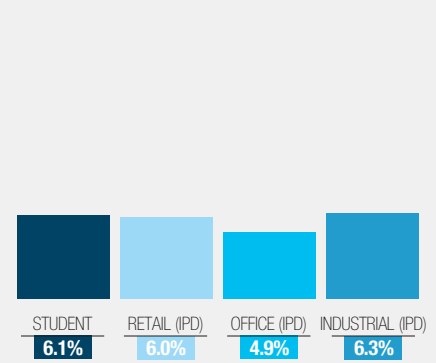
Total returns Jan to Dec 2015



Capital returns Jan to Dec 2015

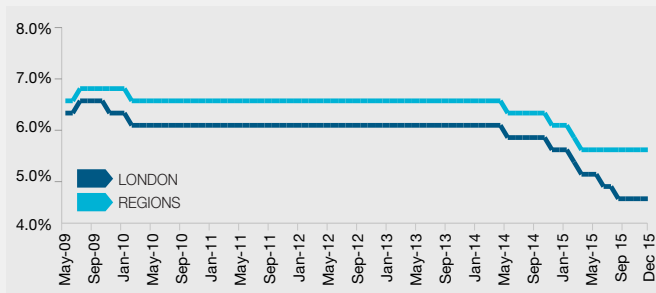


Income returns Jan to Dec 2015

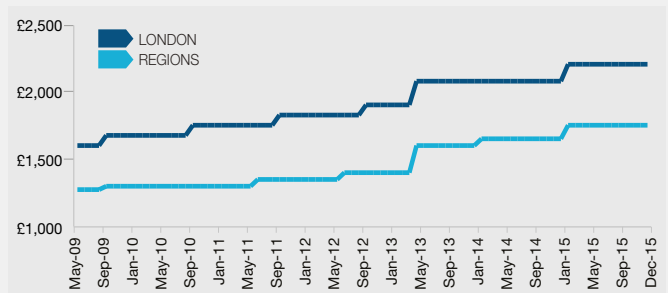


Source: Knight Frank Student Property

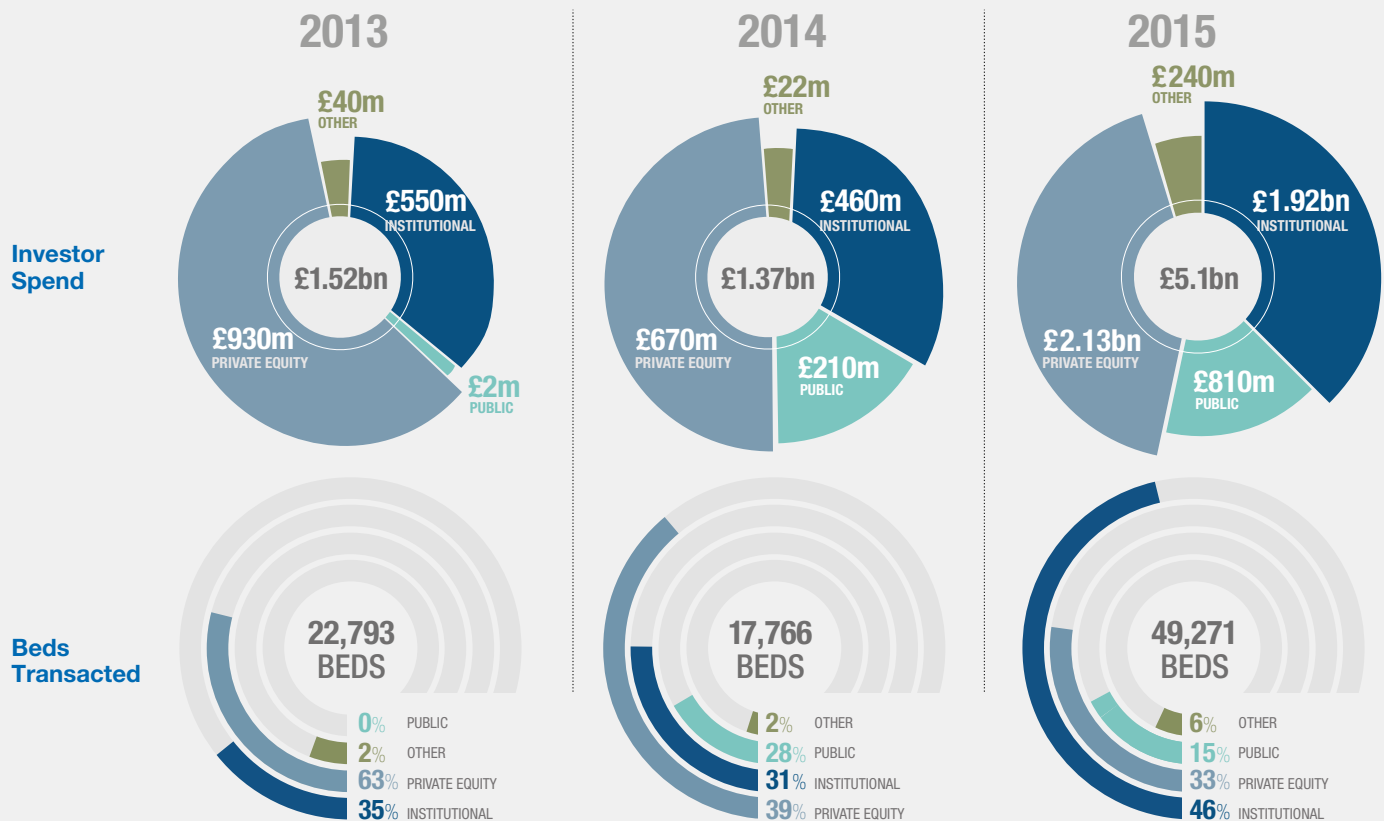
Estimated Yield curve May 2009 to Dec 2015



Estimated FM costs per bed May 2009 to Dec 2015



UK student assets transactions Jan to Dec 2015



Source: RCA, IPD, Knight Frank Student Property

2015 HEADLINE RENTAL GROWTH

3.65%

Overall UK headline
rental growth

2.9%
EDINBURGH

7.1%
GLASGOW

2.3%
NEWCASTLE

2.5%
DURHAM

4.8%
MANCHESTER

2.4%
LEEDS

4.3%
LIVERPOOL

3.0%
BIRMINGHAM

4.5%
SHEFFIELD

6.5%
COVENTRY

1.8%
BRISTOL

8.1%
SOUTHAMPTON

3.8%
LONDON

WHERE IS THE GROWTH?

In 2015 Student Accommodation showed rock solid occupational demand supply credentials. Rental growth averaged at 3.65% as student numbers grew and supply struggled to meet demand.

Whilst the macro picture (3.65%) is relatively steady, each market demonstrates different credentials largely depending upon the current level of structural under supply together with the development pipeline and its delivery in any specific year. London (3.8%) and Manchester (4.8%) are good examples of cities with large student populations and very modest delivery pipelines. Both these cities showed strong rental growth in 2015 and we would expect that they would continue to show rental growth consistent with the national trend (3.65%) in 2016.

Bristol (1.8%) and Newcastle (2.3%) both saw relatively high volumes of stock

being delivered into the market and accordingly the rental growth in 2015 was somewhat muted relative to the national trend. The universities in both these cities are showing good student population growth and we project that rental growth in 2016 will approach national trends as the markets stabilise.

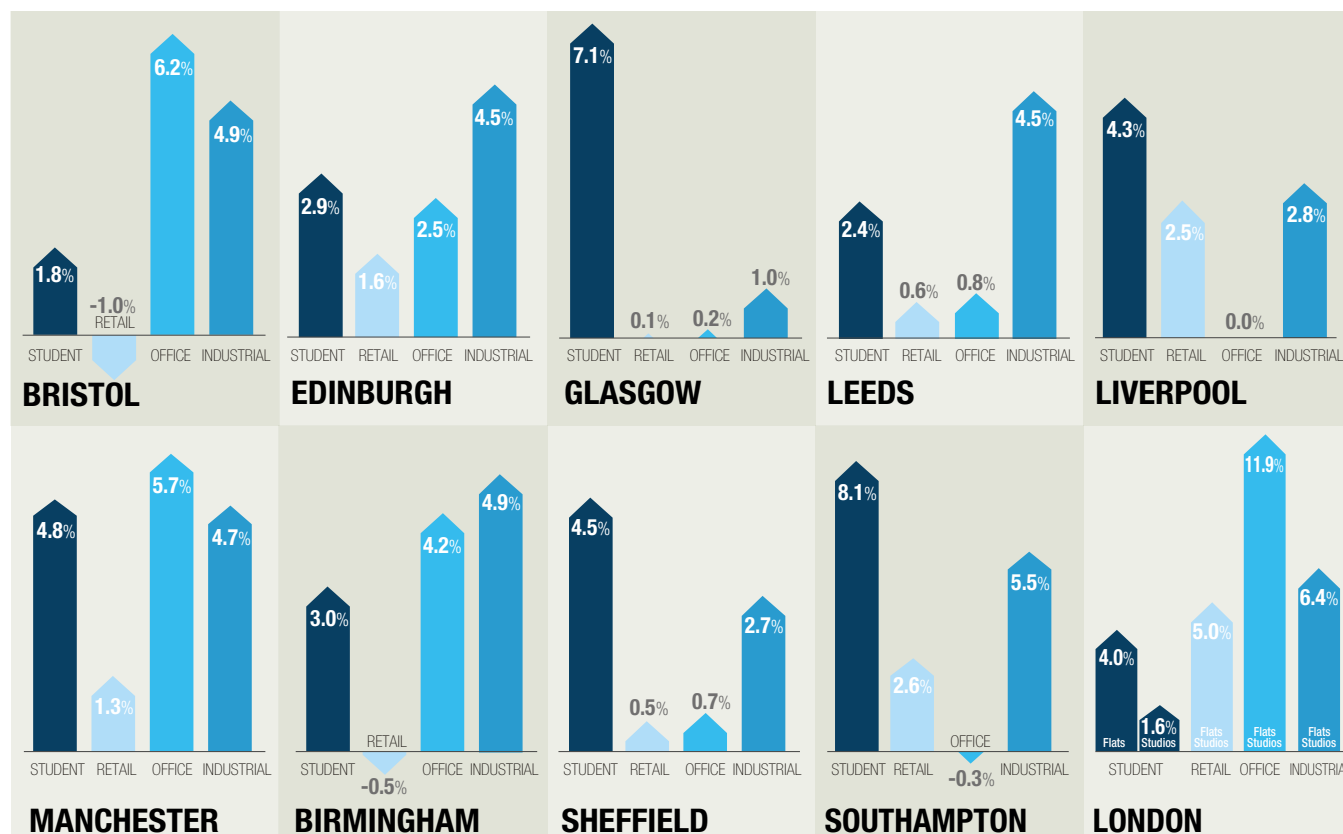
Glasgow (7.1%) and Liverpool (4.3%) appear to demonstrate above trend rental growth in 2015. However, we perceive that these market are more complex than the headline levels would suggest and that the significant delivery pipelines in these cities during 2016 will reduce rental growth to well below national trend in the forthcoming letting cycle.



NEIL ARMSTRONG
Partner, Student Property Valuations

2015 Headline rental growth

Jan to Dec 2015



SOURCE FOR STUDENT DATA: KNIGHT FRANK STUDENT TEAM

SOURCE FOR ALL OTHER DATA: IPD UK QUARTERLY KEY CENTRES: Q3 2015, Q3 2016, Q3 2017

NEW SCHEMES IN 2016

The 2016 delivery pipeline is at its highest recorded level but we observe that with student numbers growing and the tendency to use PBSA increasing, the new stock is not making significant inroads into the structural undersupply of the sector. In this section we review how the delivery pipeline will change the balance of demand and supply.

The PBSA delivery pipeline in the UK has been fuelled by the availability of regional planning consents and rising capital values in the sector. Whilst construction costs have also risen significantly in the past few months, many of the schemes being delivered in September 2016 predate the most recent construction cost increases.

In Liverpool we anticipate 1,241 new student bedrooms to be delivered in 2016. After allowing for the expected increase of student numbers, the percentage of full time students in Liverpool unable to access PBSA will move from its current position of 51% to 49% in 2016. We project that in this market rental growth will be muted in 2016 and that “indigestion” may result. Equally we also foresee any letting turbulence during September 2016 will quickly subside as the volume of new stock is digested by the market.

London appears to show the largest pipeline in the UK of both university and private sector stock. However, London has the biggest shortfall of PBSA relative to student numbers. London student population is growing year on year and despite a single year’s delivery of over 5,000 student bedrooms we project that the structural undersupply will move by only 1% from 71% to 70% of students unable to access PBSA.

In raw percentage terms, Glasgow appears to be the most structurally under supplied market in the UK.

The delivery pipeline in Glasgow has been significant in 2015 and a further 858 student bedrooms are projected for 2016. Whilst we do anticipate further indigestion for this market as new schemes settle into position, we observe that at a macro level the market remains structurally under supplied. Many of the new schemes that have been delivered have provided studio accommodation of a high specification and we anticipate that further development will focus on cluster flat led schemes.

The rise in value of alternative uses (such as residential or offices) will make identifying PBSA development sites increasingly difficult in the regions. As construction costs reach a new high for PBSA and indigestion causes some rental turbulence we project that the pace of new development will slow in many markets which have seen greatest development recently.

“London has the biggest shortfall of PBSA.”

PERCENTAGE OF FULL TIME STUDENTS UNABLE TO ACCESS PBSA

(assuming full delivery of development pipeline)

PBSA SUPPLY DYNAMIC

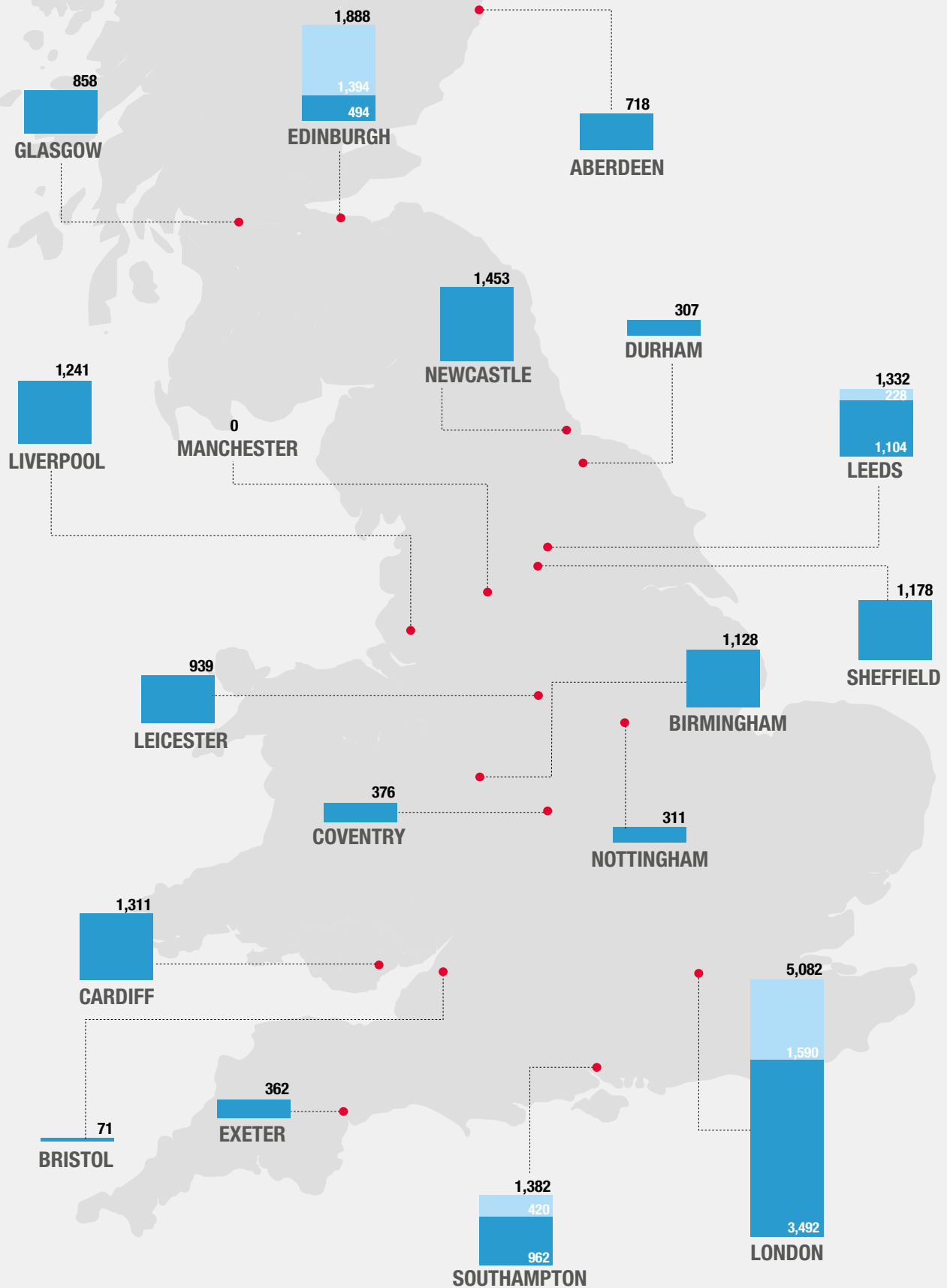
Current vs September 2016 (estimated)

	CURRENT	SEP 2016
GLASGOW	79%	78%
LONDON	71%	70%
BRISTOL	66%	66%
BIRMINGHAM	67%	65%
MANCHESTER	64%	64%
SOUTHAMPTON	68%	64%
CARDIFF	66%	63%
ABERDEEN	66%	62%
NEWCASTLE UPON TYNE	65%	62%
EXETER	62%	60%
LEEDS	62%	60%
SHEFFIELD	63%	60%
EDINBURGH	64%	59%
NOTTINGHAM	60%	59%
DURHAM	60%	58%
LEICESTER	56%	53%
LIVERPOOL	51%	49%
COVENTRY	49%	47%

DELIVERY OF PBSA BEDS

September 2016

UNIVERSITY
PRIVATE SECTOR





GLOBAL BRIEFING

For the latest news, views and analysis
on the world of prime property, visit
KnightFrankblog.com/global-briefing

OUR PREDICTIONS FOR 2016

1

Institutions dominate 2016

2

Capital PBSA investment returns
outperform traditional sectors

3

Development focus in regions

4

London development pipeline
will fall dramatically

5

Continued global investment demand

6

Growth of REITS and publically
listed vehicles

7

Consolidation will be a key theme

Front Cover: Paul Street East is a premium 458 bed student accommodation scheme, completed in August 2015. The scheme was developed by way of a Joint Venture between Apache Capital Partners and McLaren Property and was acquired in full by investors represented by Apache in October 2015. For more information, please visit <http://www.apachecapital.co.uk>

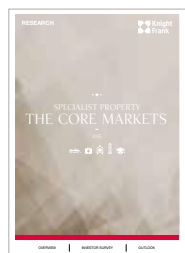
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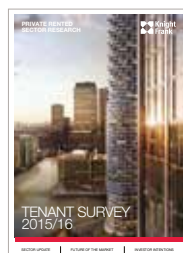
[Automotive Capital Markets - 2015/16](#)



[UK Healthcare Property Winter 2015](#)



[Specialist Property Report - The Core Markets - 2015](#)



[The UK Tenant Survey - 2015/16](#)

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