UK STUDENT ACCOMMODATION REPORT

2018/19

CUSHMAN & WAKEFIELD

CONTENTS

2018 HEADLINES

There are now **627,000** purpose-built bed spaces available to students for the 2018/19 academic year

Just 10 universities have accounted for **42%** of all student number growth since 2012, with clear evidence of performance divisions by tariff band

Five universities have seen a **25%** fall in student numbers since 2012/13, placing significant strain on income and investment plans

The pricing differential between university and private sector beds is falling significantly. The weekly cost of a new university en-suite in 2018/19 is almost identical to that of a private sector bed (£144.76 vs. £144.87)

The average price of a new en-suite bed space has remained at **70%** of the maximum Student Maintenance Loan over the last three years, raising concerns around affordability

The success of schemes is now clearly dependent on location, quality of amenity spaces and, to some extent, brand

1.8m
FULL-TIME STUDENTS

23%
OF ALL STUDENTS NOW FROM OUTSIDE THE UK

Markets have a different ability to absorb new bed spaces, based on development rates, market location and quality. Universities themselves have a key role to play in driving occupancy in mature markets

Average annual headline rental growth between 2017 and 2018 is **2.8%,** although there are again divisions across markets

As we approach 2019 it is estimated that around **£3bn** of stock has already been traded

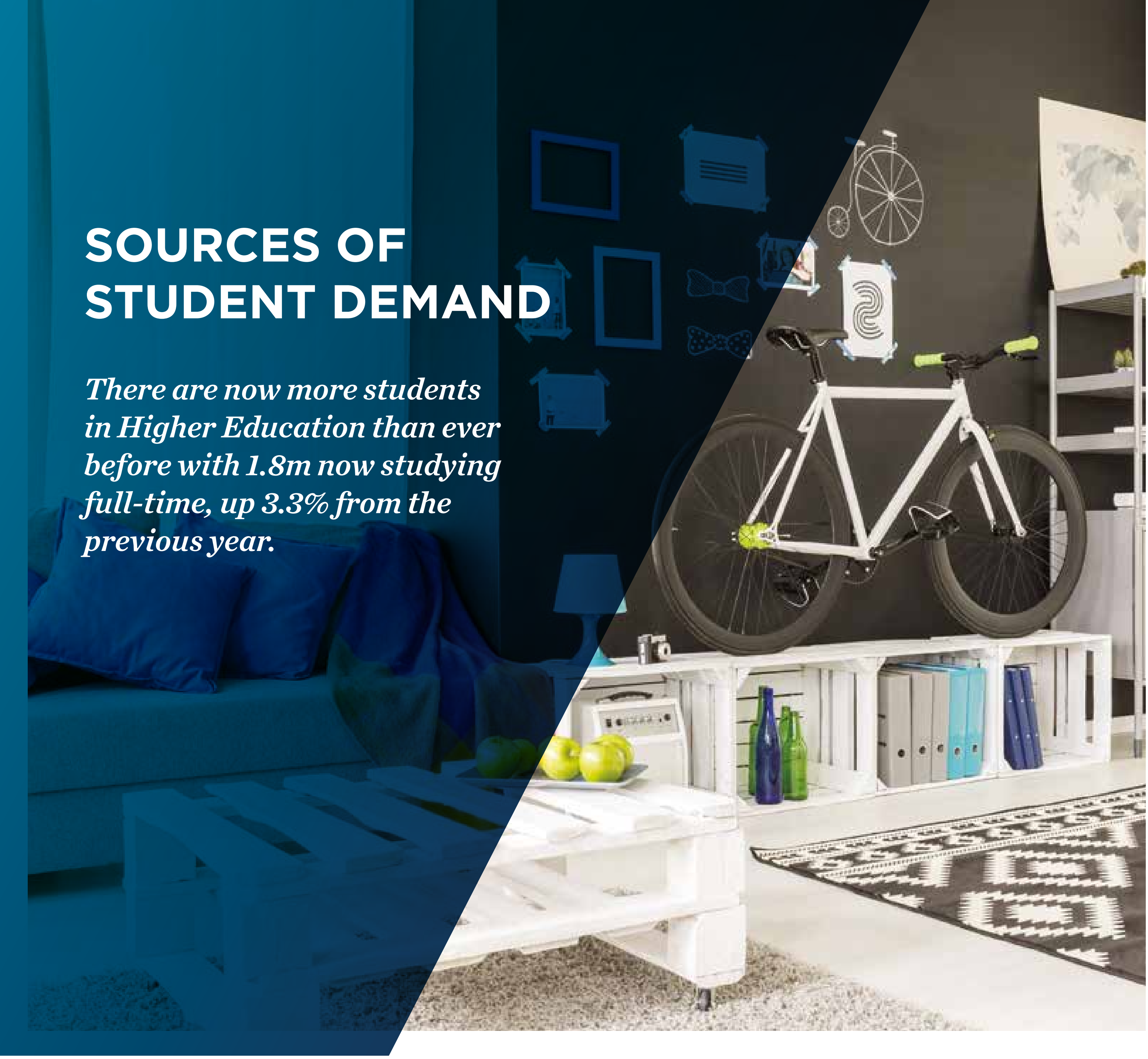
A further **£870m** is under offer and a further **£1bn** currently on the market

Overseas investors dominate the market making up **55%** of 2018 transactions

Across the direct let sector there has been a marked divergence in yields, with London and super prime regional operational assets much in demand

627,000
PURPOSE-BUILT BED SPACES

2.8%
HEADLINE RENTAL GROWTH IN 2018



SOURCES OF STUDENT DEMAND

There are now more students in Higher Education than ever before with 1.8m now studying full-time, up 3.3% from the previous year.

Despite worries around levels of debt, it is clear that students still see the value in Higher Education and the majority continue to study away from their home regions – 1.1m students; a figure that has risen by 61% since 1999. Full-time student numbers are now 7% higher than in 2012/13.

The marketisation of Higher Education is now ingrained, with changes to the university funding system focusing student decision making on the highest-quality institutions.

STUDENTS STUDYING OUTSIDE THEIR HOME REGION
1999/00 TO 2015/16

670,000
1999/2000

1,100,000
2016/2017

Source: HESA

Overall, UK universities continue to recruit an increasing number of students from outside the UK, with EU students growing 63% and international students by 215% since 1999/00. There are now over 285,000 students from outside the UK, making up nearly one quarter (23%) of the student population.

The relatively weak value of Sterling has attracted international investment and additional applications from non-EU students.

The government has recently announced that EU students applying to start in 2019 will still be able to obtain funding for the duration of their course. It is understood that discussions are taking place on the potential to offer EU students commercial loans, with students set to lose Student Loans Company funding when the UK leaves the European Union.

A 2.4% fall in applications to study at UK universities in 2018/19 masks wider positive trends in the sector, with more non-UK and 18-year old applicants than ever before.

Whilst applications from UK students have fallen, applications from EU students have risen this year and non-EU applications continue to grow strongly. Applications from those aged 18 or under have grown by 0.2%, despite a 2.5% fall in the number of 18 years in the UK as a whole. Applications from older students continue to fall, down 5.1% in 2018.

Emerging UCAS data for 2018/19 entry shows no change in those placed at higher tariff institutions but a 2% decrease in those placed at medium tariff universities and a 4% fall in those placed at lower tariff providers. This hints at a continuation of a flight to quality institutions seen in recent years.

This year has seen a record number of applicants for "early deadline" university courses, with the number of students applying before the 15th October 2018 for the deadline for the 2019 academic year rising by 7% on the previous year. The number of 18-year olds applying has grown by 11%, UK applications are up by 9% and non-EU applicants are up by 6%, all of which bodes well for continued positive performance at quality institutions.

NON-UK STUDENTS NOW MAKE

23%

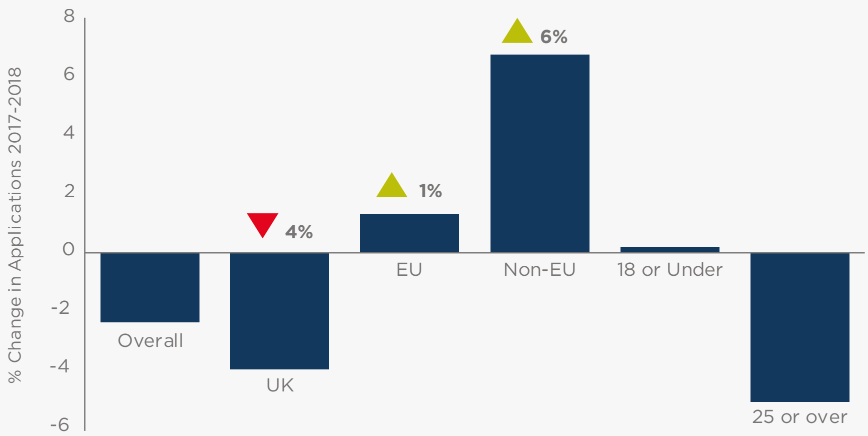
OF THE STUDENT POPULATION

2.4%

FALL IN APPLICATIONS FOR 2018/19

EMERGING 2019 APPLICATION DATA AGAIN **HEALTHY** FOR QUALITY INSTITUTIONS

UCAS APPLICATIONS TRENDS
2017-2018



Source: UCAS 2017-2018

MARKETISATION AND 'WINNERS' AND 'LOSERS'

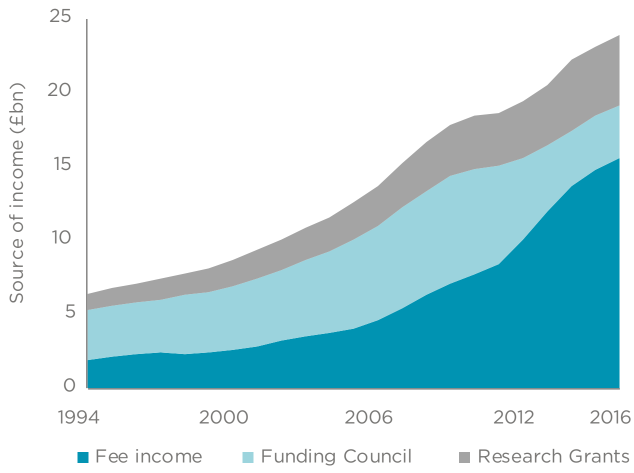
Changes to the tuition fee system in 2012 that resulted in fundamental changes to student decision making now appear to be embedded in the sector.

In the year 2000, tuition fee income at UK universities stood at £2.6bn but by 2016 had grown to £15.6bn – an increase of 500%. Fees now make up around 59% of sector finance.

With students looking to see a return on their investment in terms of future employability prospects and career outcomes – as well as their student experience – there are now clear divisions between Higher Education's 'winners' and 'losers'.

The removal of Student Number Controls in 2015/16 has accentuated these trends, with quality institutions able to draw on their ability to attract large numbers of quality applicants. This has resulted in an acceleration in the recruitment of students since this date. Five universities increased full-time student numbers by 1,500 or more in one year between 2015/16 and 2016/17, with only one of these from the Russell Group.

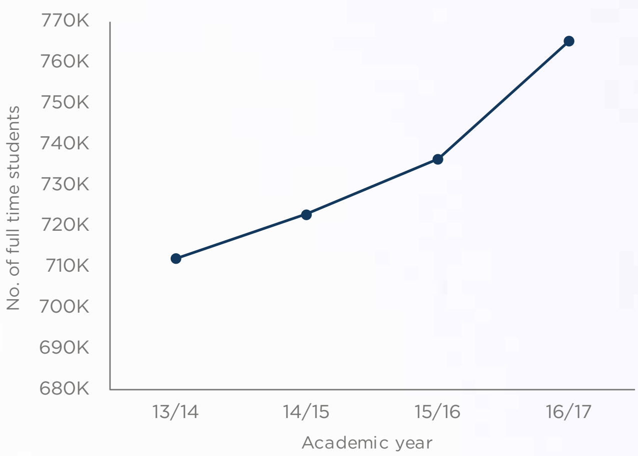
THREE MAJOR HIGHER EDUCATION FINANCE SOURCES 1994-2016



Source: HESA

The top 10 fastest-growing institutions since 2012/13 – a mixture of Russell Group and post-1992 universities – have accounted for 42% of all full-time student number growth to 2016/17, growing by 27% overall. Conversely, the bottom five institutions have lost 25% of their intake over this period.

NEW ENTRANTS TO HIGHER EDUCATION
2013/14 TO 2016/17



Source: HESA

JUST **10** UNIVERSITIES HAVE GROWN STUDENT NUMBERS BY **OVER**

50,000

SINCE 2012

THESE 10 UNIVERSITIES ACCOUNT FOR

42% OF

ALL GROWTH IN THE SECTOR

FIVE UNIVERSITIES HAVE SEEN A

25%

FALL IN INTAKE SINCE 2012

LEAGUE TABLES AND RECRUITMENT SUCCESS

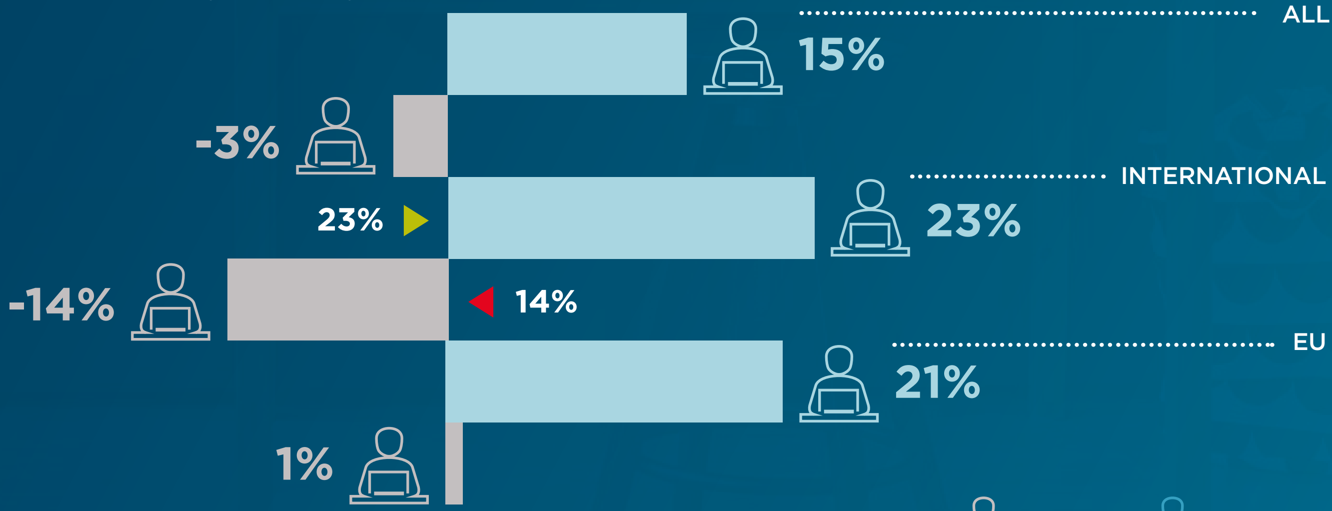
Clear divisions in the market are now evident between the top 50 and bottom 50 universities in the main league table rankings, reinforcing the importance of reputation, student experience and employability in student decision making.

Top 50 institutions are most likely to be growing student numbers, with these universities particularly attractive to international students. On the contrary, institutions ranked in the bottom 50 are likely to be losing student numbers – particularly from outside the UK.

Divisions are also evident by tariff band, with High and Medium-High tariff institutions accelerating away from Medium-Low and Low tariff universities in terms of recruitment. High tariff universities with international reputations have been able to continue to strongly grow non-UK student numbers, with Medium-High institutions also performing well. However, falls in international students at Low tariff universities have been particularly pronounced.

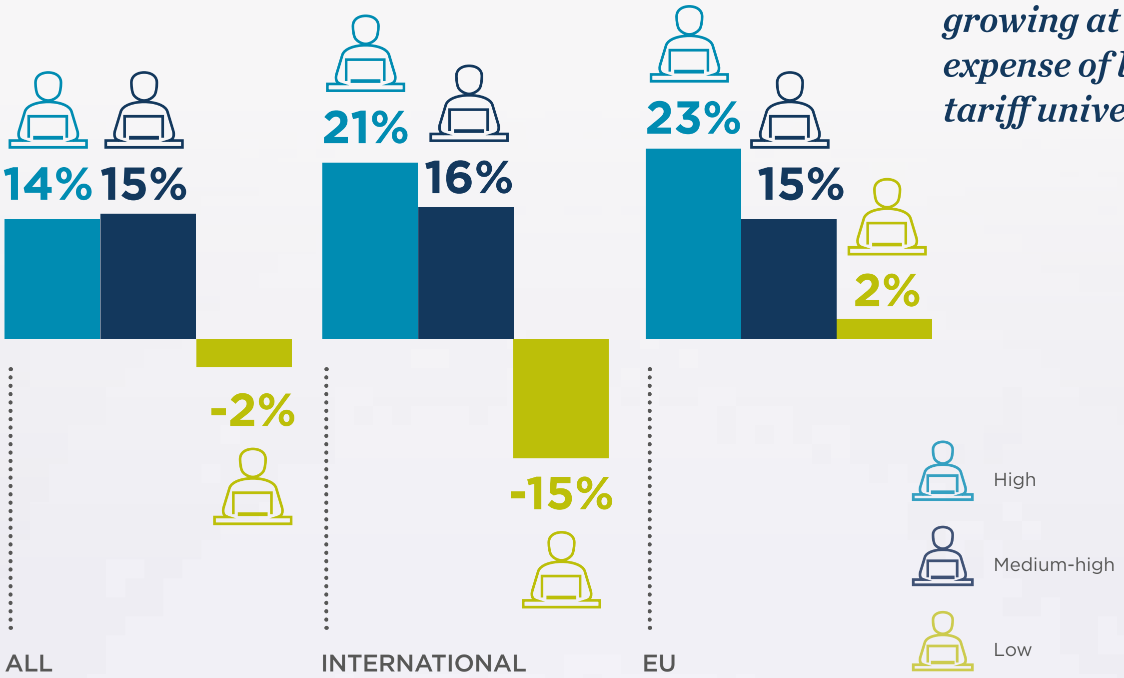
Therefore, higher tariff and better ranked institutions with good reputations and records of employability are benefiting, whilst other providers struggle to increase student applications and numbers. Research-intensive and globally renowned Russell Group institutions continue to grow, whilst a number of strongly performing post-1992 universities that have benefited from strong investment, industry links and employability outcomes have also increased student numbers.

STUDENT NUMBER GROWTH BY LEAGUE TABLE POSITION
% GROWTH 2012/13 TO 2016/17



Source: HESA/League Tables/Cushman & Wakefield

STUDENT NUMBER GROWTH BY TARIFF BAND
% GROWTH 2012/13 TO 2016/17



Source: HESA/University League Tables/Cushman & Wakefield

High and medium-high tariff institutions are growing at the expense of lower tariff universities.

KEY QUESTIONS

- Will the 'Augar Review' of Higher Education shake up the Higher Education funding system once again?
- Will a struggling university effectively 'go bust' due to a loss of student numbers and subsequent funding?
- Can fast-growing universities continue to increase student numbers and associated income without damaging the quality of delivery and student experience?
- Is a new group of universities in danger of losing student numbers as a 'super elite' accelerates away?
- As the subject level Teaching Excellence Framework moves closer and the Government looks to tackle 'grade inflation', will views of good universities begin to change?

SUPPLY OF PURPOSE-BUILT STUDENT ACCOMMODATION

SUPPLY

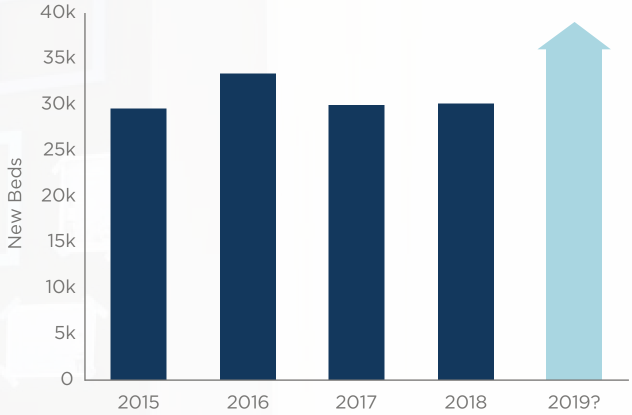
The number of purpose-built student accommodation bed spaces in the United Kingdom has risen to a record 627,115 in 2018/19.

The market continues to evolve apace, with 31,348 new beds delivered for this academic year, the largest increase ever observed by Cushman & Wakefield. Over the same period, over 12,000 beds have been taken out of use to be refurbished or repurposed. New supply has again been dominated by private sector development in 2018, with 77% of all beds delivered by this part of the market. However, this is lower than the 87% figure seen in 2017 and there is a significant pipeline of on-campus beds set to be delivered over the next three years. Cushman & Wakefield expects 2019 to be another record year for the delivery of new bed spaces, with up to 36,000 new rooms set to enter the market.

The market is now seeing a slowdown in the number of studio bed spaces being delivered, with this room type accounting for 32% of all new beds in 2018, down from 43% the previous year. However, this room type has grown by 130% in just four years.

Development has been concentrated in limited locations, with 40% of all new beds in just five cities and 61% in ten locations.

BED SPACE DELIVERY BY YEAR



Source: Cushman & Wakefield Student Accommodation Tracker 2018/19

Universities still provide the largest number of bed spaces, providing 53% of all rooms available in 2018/19, with the private sector providing the remaining 47% of beds. However, if considering on-campus partnership bed spaces as 'private sector' beds, the private sector now controls over half of all supply in the market. This is a remarkable change from 2014, when universities provided two-thirds of all beds in the UK.

Student number growth, site availability and local policy has concentrated development in particular locations, with just four markets accounting for 25% of all new beds in the last five years. 10 markets now have over 20,000 purpose-built bed spaces available to students, compared with just three in 2014.

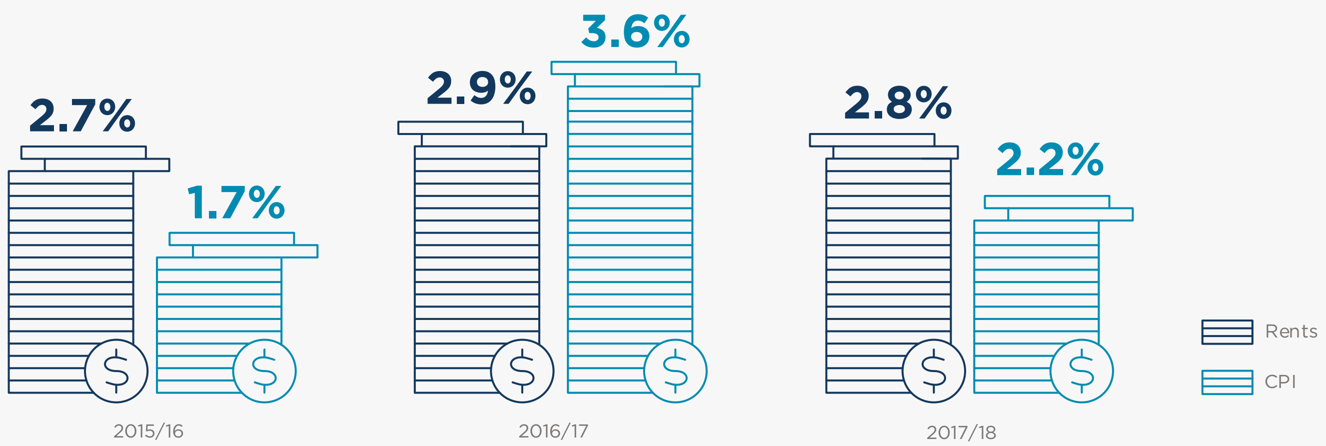
31,348
NEW BEDS FOR 2018/19

627,000
PURPOSE-BUILT
BED SPACES 2018/19

77%
OF NEW BEDS
DELIVERED BY PRIVATE
SECTOR IN 2018/19

32% OF ALL
NEW BEDS ARE STUDIOS,
95% OF THESE ARE
PRIVATE SECTOR

ANNUAL RENTAL INCREASES VS CPI 2015/16 TO 2018/19



Source: Cushman & Wakefield Student Accommodation Tracker 2018/19/ONS

RENTS

Weekly headline rental growth (annual) between 2017/18 and 2018/19 was 2.8% (2.7% weekly), largely in line with the 2.7% observed the previous year and indicating continued health across the bulk of the market. Rental growth has tracked around 0.6% above CPI over the last year. However, there have been significant variances across individual locations, with clear evidence of discounting in some markets, reinforcing the need for micro-market knowledge to ensure success.

Annual private sector rental increases of 3.0% have been slightly above those of 2.6% for university bed spaces.

AVERAGE BED SPACE PRICE (EXC. LONDON)

	WEEKLY	ANNUAL
University	£127.51	£5,265.35
Private	£137.60	£6,401.15
Difference	**7.9%**	**21.6%**

Source: Cushman & Wakefield Student Accommodation Tracker 2018/19
University prices exclude catered bed spaces

On a weekly and annual basis, private sector accommodation is more expensive than that available through universities, with the differential on an annual basis rising to 21.6%, marginally higher than the 21.0% recorded in 2017. However, this does not tell the whole story, with pricing skewed by the number of studios provided by the private sector, and standard beds available through universities.

AVERAGE EN-SUITE BED SPACE PRICE & ROOM QUALITY (EXC. LONDON)

	WEEKLY	ANNUAL	ROOM QUALITY	AMENITY QUALITY
University	£141.21	£5,810.30	1.54	2.25
Private	£132.34	£6,008.11	2.15	2.99

Source: Cushman & Wakefield Student Accommodation Tracker 2018/19

Private sector en-suite rooms are actually less expensive than those available through universities on a weekly basis, although more expensive on an annual basis due to longer lease lengths. Both room and amenity quality is significantly higher in the private sector, although the value of an on-campus location should not be underestimated. However, the significant pricing differentials between en-suite products provided by the private sector and by universities may now be a thing of the past.

REGIONS

AVERAGE PRIVATE WEEKLY EN-SUITE PRICE **REGIONS**

£132.34

AVERAGE PRIVATE EN-SUITE ROOM SIZE **REGIONS**

13.41m^2

AVERAGE UNIVERSITY EN-SUITE ROOM SIZE REGIONS

13.00m^2

LONDON

AVERAGE PRIVATE WEEKLY EN-SUITE PRICE **LONDON**

£223.04

AVERAGE PRIVATE EN-SUITE ROOM SIZE **LONDON**

12.88m^2

HEADLINE ANNUAL RENTAL INCREASE

2.8%

University beds are cheaper than those available through the private sector overall, but en-suites are now more expensive on a weekly basis.

ANNUAL RENTAL INCREASES VS CPI 2015/16 TO 2018/19

UNIVERSITY
WEEKLY RENT
£144.76

PRIVATE
WEEKLY RENT
£144.87

Source: Cushman & Wakefield Student Accommodation Tracker 2018/19

FIVE OWNERS NOW CONTROL
25%
OF ALL BED SPACES

DEVELOPMENT PIPELINE

Continued strong demand for accommodation means that the development pipeline remains buoyant nationwide. Excluding London, the development pipeline in 40 major locations now stands at 108,000 bed spaces, with almost three quarters of these having planning approval. Development will continue to vary by location, with one major market set to grow by 25.8% by 2021, whilst another will grow by just 1.4% – formerly one of the UK's major pipeline locations.

ACCOMMODATION OWNERSHIP

The Top 10 largest student accommodation operators now control 31% of all PBSA stock in the UK, a figure largely in line with 2017. Consolidation of ownership in the sector is now a key trend, with portfolio transactions meaning that just five owners now control 24% of the market. The next largest owner, Arlington, is the only investor with over 10,000 beds not tied to a single operator.

BRAND POWER OR BRAND VISIBILITY

Whilst Cushman & Wakefield remains sceptical as to the true power of brand loyalty in the sector, it is now clear that major operators are enjoying greater success in major markets and across the UK as a whole. In part, this is likely a result of their greater exposure and marketing power, especially in mature markets; as well as major operators generally being better located and offering a higher overall standard of product.

RENTAL INCREASES 2017-2018

MAJOR MARKETS

TOP 10 OPERATORS **3.4%**

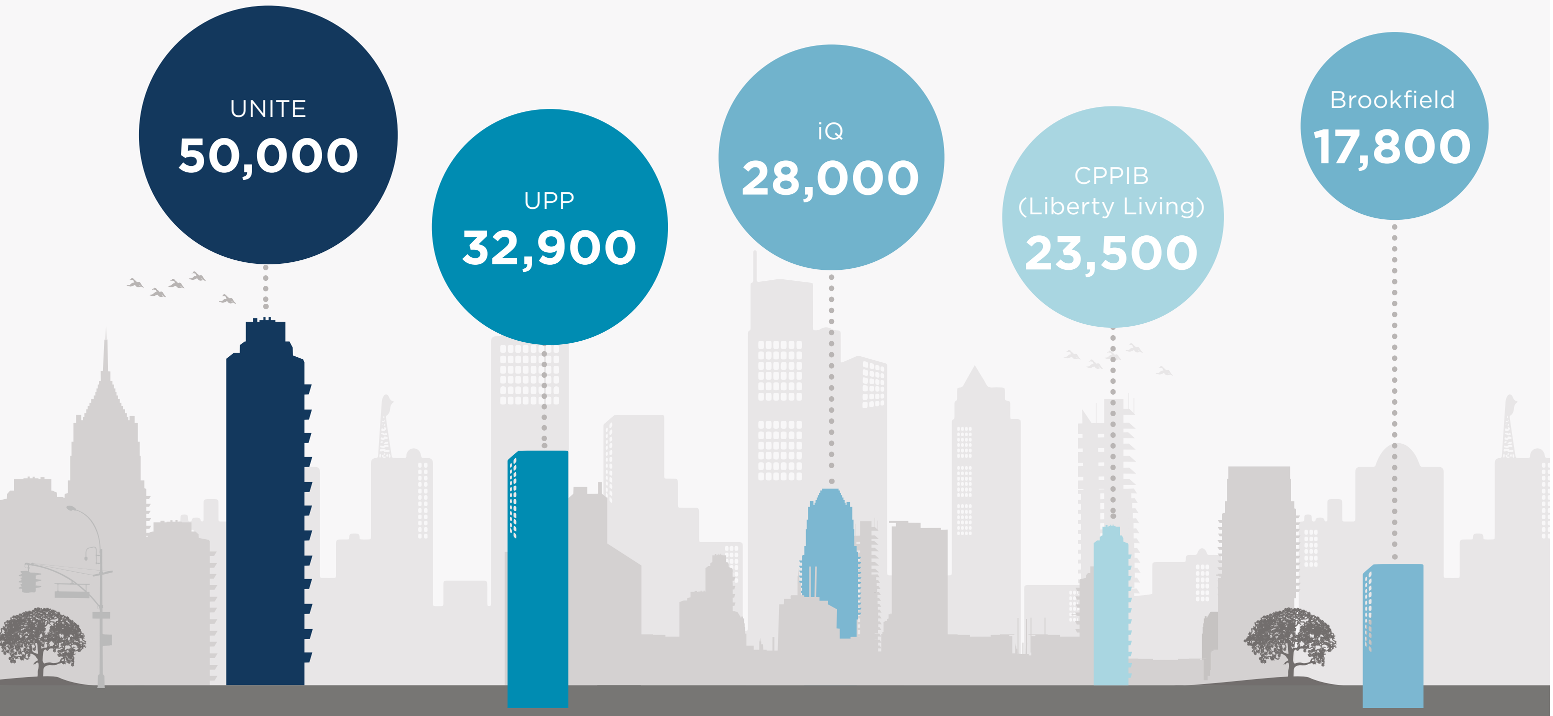
OTHERS **3.1%**

ALL MARKETS

TOP 10 OPERATORS **3.0%**

OTHERS **2.7%**

TOP 5 OPERATORS BY NUMBER OF BEDS 2018



Source: Cushman & Wakefield Student Accommodation Tracker 2018/19

LONDON

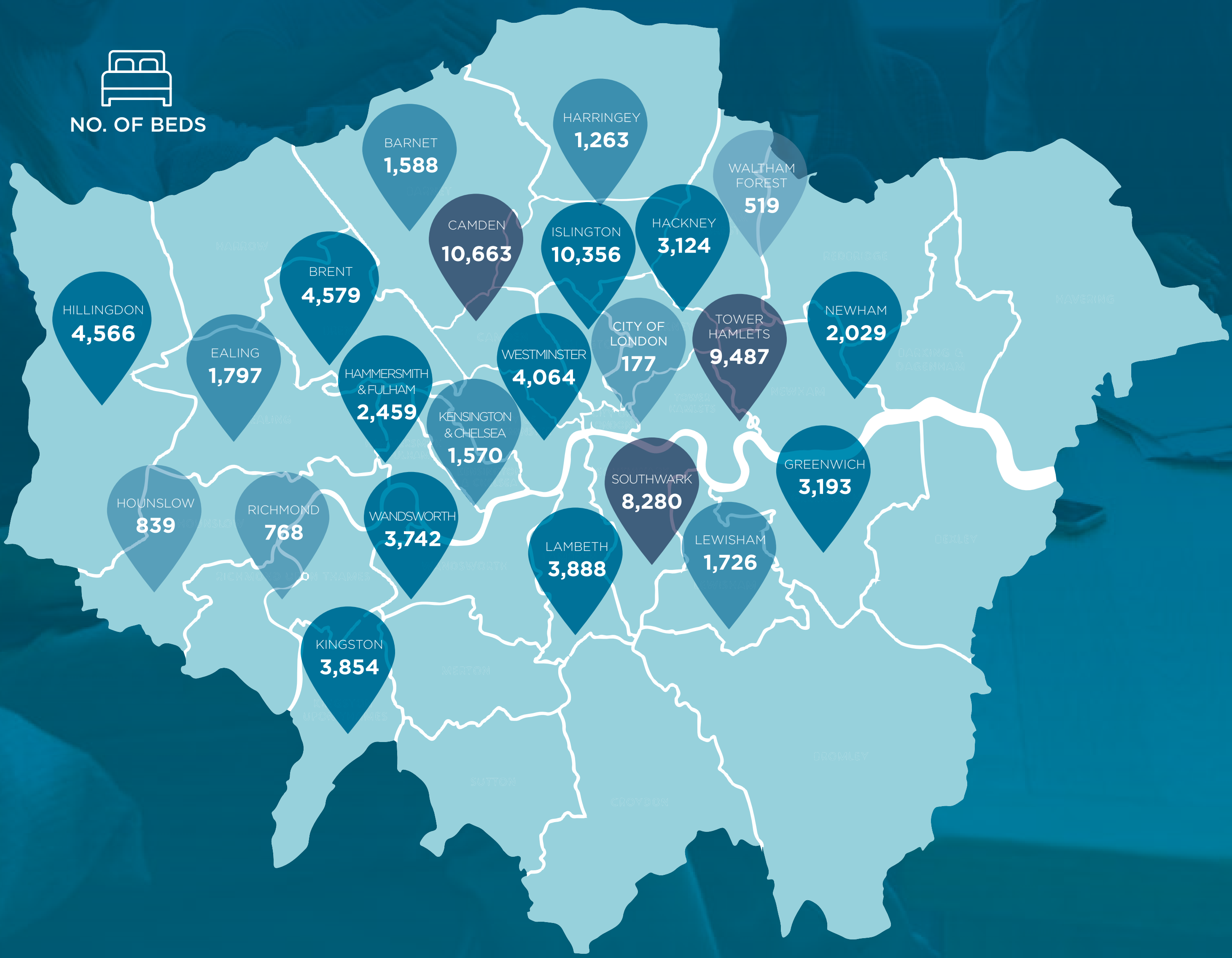
The London market is now home to 85,302 purpose-built bed spaces, with 58% of these now provided by the private sector.

Despite ongoing development and a significant pipeline, the market still suffers from structural levels of undersupply, with the London Plan suggesting a need for between 20,000 and 31,000 additional bed spaces by 2025. Development has been impacted by high land costs, competition from other uses, and the impacts of the Community Infrastructure Levy. The London plan now sets out a requirement for providers to deliver an element of "affordable" bed spaces priced at or below £155 per week where no agreement is in place with an institution. With an average private sector en-suite price of £223 per week, these rents are 74% more expensive than the national average on an annual basis.

PRIVATE SECTOR EN-SUITE

69/74%

MORE EXPENSIVE IN LONDON THAN IN THE REGIONS (WEEKLY/ANNUAL)



AFFORDABILITY

The average price of a new private sector en-suite bed space in 2018/19 (excluding London) is £144.87, a price that has remained remarkably stubborn over the last three years.

When adjusted for inflation, the difference in price between products between 2016 and 2018 is £1.27, suggesting little progress has been made in reducing the cost of PBSA for students. This is despite the introduction of new innovations including modern en-suite bed spaces at 10-11m^2.

Indeed, true reductions in average prices have only been delivered through the force of market competition.

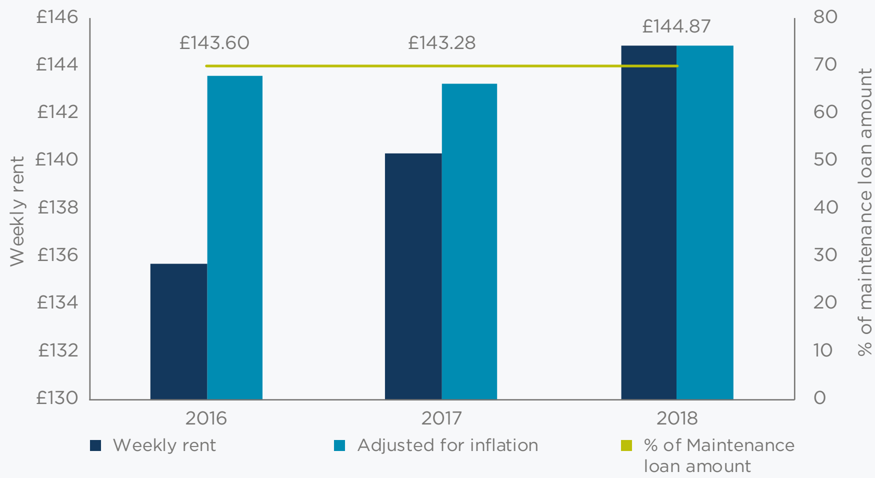
Due to the cost of development in Zones 1 and 2, activity is increasingly focused in Zones 2/3 and 4. These areas are allowing the delivery of bed spaces at lower cost, with an average private sector en-suite price of £201.73 in Brent and Newham, compared with £258.19 in Camden and Islington. However, rents in both outer and inner London are rising faster than the national average.

Average rents on a typical 42-week lease length stand at 70% of maximum Student Maintenance Loan – a percentage that remains unchanged from 2016.

The National Union of Students (NUS) has set out an ambition for 25% of all bed spaces to be provided at a maximum of 50% of the student maintenance loan (around £4,215 in 2017/18). Currently, only 13% of the market is priced at or below this amount, the same level as in 2017/18. In London, this figure falls to 12%, despite the larger Maintenance Loan available.

Cushman & Wakefield remains concerned about the cost of study in London and there is evidence that UK students may be being priced out of the Capital. Since 2012/13, UK full-time student numbers have grown nationally by 8.0% since 2012/13, whilst in London numbers have only grown by 1.4%. Over the same period, international student numbers in London have grown by 13%.

AVERAGE PRIVATE SECTOR EN-SUITE (EXCLUDING LONDON) 2016 TO 2018



Source: Cushman & Wakefield Student Accommodation Tracker 2016 to 2018

STUDENT GROWTH IN LONDON SINCE 2012/13

1.4%

INCREASE IN **UK FULL TIME** STUDENT NUMBERS

13%

INCREASE IN **INTERNATIONAL** STUDENT NUMBERS

THE IMPORTANCE OF LOCATION

Cushman & Wakefield has long tracked the changing living habits of students, with a trend to live closer and closer to campus clear. There is now evidence that location is impacting on the success of schemes, with accommodation located over 20 minutes from campus seeing, on average, no rental increases between 2017 and 2018.

SCHEMES CLOSER TO CAMPUS ACHIEVE STRONGER RENTAL INCREASES THAN THOSE FURTHER AWAY

RENTAL INCREASES BY DISTANCE TO CAMPUS 2017-2018 (EXC LONDON)

5 MINUTES FROM CAMPUS — **3%** increase

20 MINUTES FROM CAMPUS — **0%** increase

Source: Cushman & Wakefield Student Accommodation Tracker 2018/19

This trend is especially evident in competitive markets in 2018. For example, schemes in Liverpool located within a five-minute walk of a university campus have achieved healthy rental increases of 2.2% this year, whilst those over 15 minutes away have seen rents fall by 0.9% on average. In Newcastle, where a huge supply of new bed spaces this year has seen discounting throughout the market, Cushman & Wakefield has observed clear trends by location. Whilst no discounting in evident in schemes located within a five-minute walk of Newcastle University, 26% of all developments located over 15 minutes away discounted for 2018/19.

Cushman & Wakefield expects to see a continuation of these trends in the future, except in London where students expect to commute upwards of 45 minutes to a place of study.

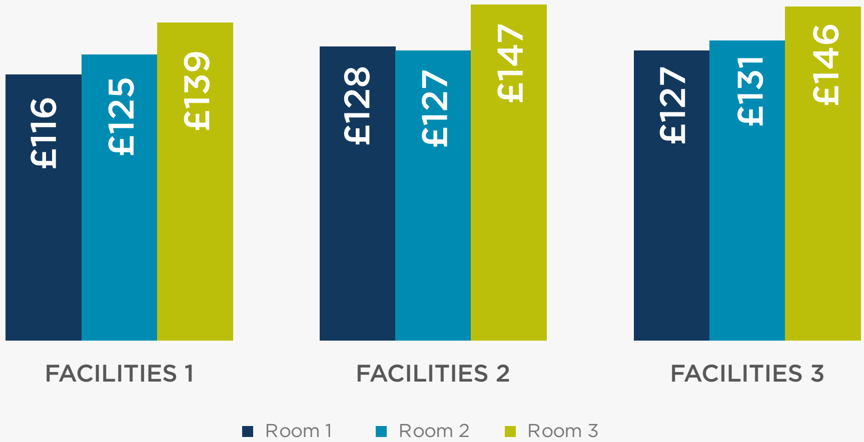
PRICING BY QUALITY AND NON-NEGOTIABLE AMENITIES

As would be expected, providers generally price accommodation based on the quality of rooms available, although Cushman & Wakefield believes there is scope for this to change in the future, with amenity spaces now all-important to a good student experience.

Amenity spaces crucial to scheme success

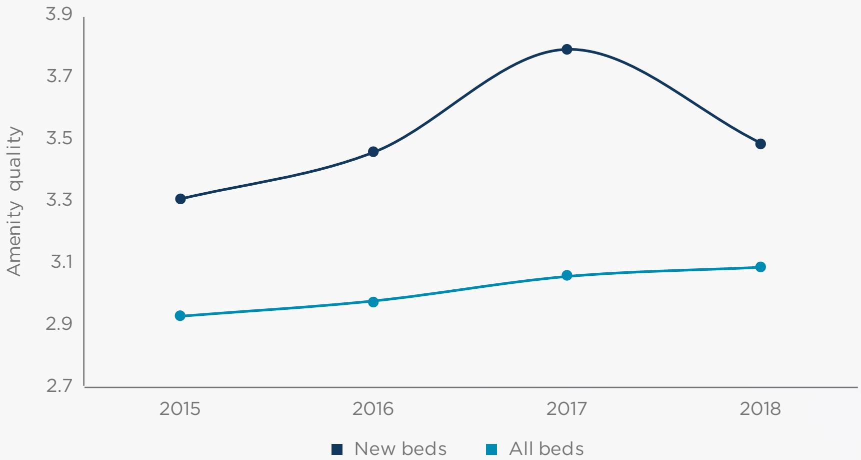
Providers are increasingly responding to students' desire for quality amenity spaces to support the student experience, interaction, collaboration and good mental health. The last five years has seen a marked improvement in the number of common spaces provided, with some providers having to repurpose bed spaces into communal areas to compete. There are signs that the quality of amenity spaces is now feeding through to the success of schemes, with those offering high quality amenity spaces increasing rents by 3.0%, with those with poorer quality spaces only managing to increase rents by 2.5%. In our view, these spaces are now crucial to scheme success.

EN-SUITE PRICING BY ROOM AND AMENITY QUALITY
WEEKLY RENT

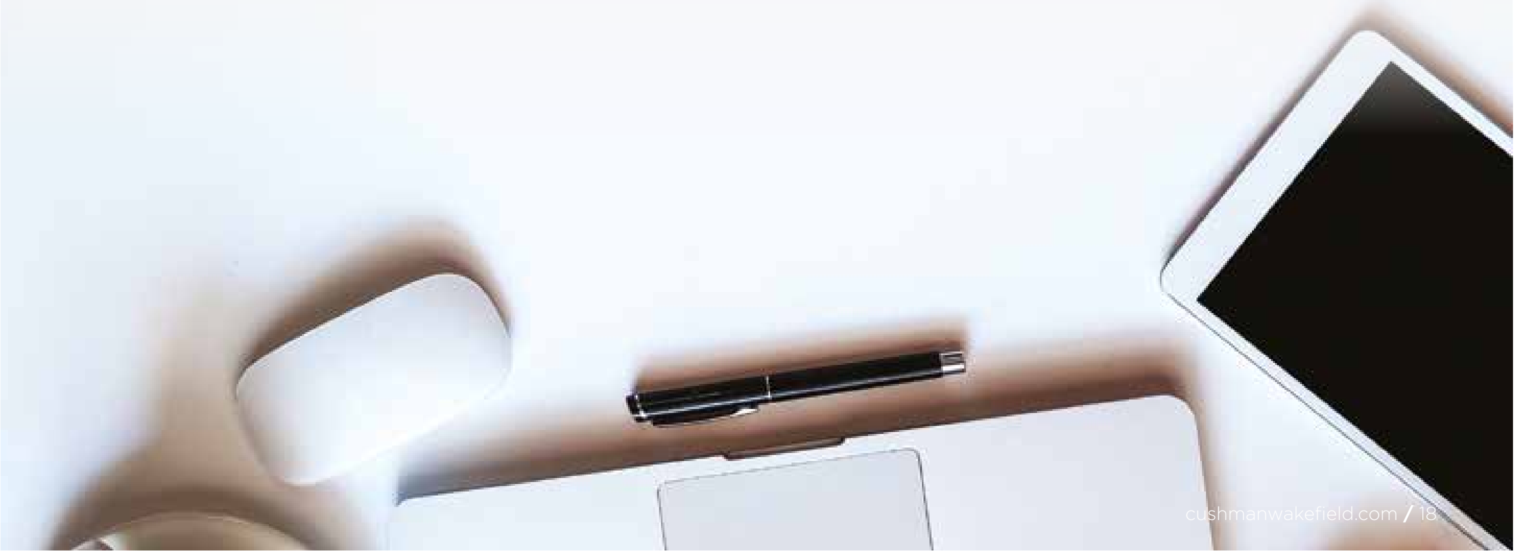


NOTE: 1 IS WORST AND 3 IS BEST
Source: Cushman & Wakefield Student Accommodation Tracker 2018/19

QUALITY OF AMENITY SPACES IN NEW PRIVATE SECTOR SCHEMES
2015-2018



Source: Cushman & Wakefield Student Accommodation Tracker 2015 to 2018



ABSORPTION RATIOS AND MARKET DIGESTION

Whilst Cushman & Wakefield's nationally-observed average student to bed ratio remains at around two students for every purpose-built bed space, the increased complexity of the market means that we advise developers, funders and operators to look beyond this metric. 2017 and 2018 have seen issues in locations that should, theoretically, be able to absorb thousands of new bed spaces.

This is especially true of major developed markets, with different locations being able to absorb new bed spaces at different rates depending on:

- The quality of product delivered
- The quality of the existing market
- The strength and nature of the HMO market
- The number and scale of university beds/relationships
- The number of comparable products also being delivered

One major market has seen 3,171 new beds delivered for this academic year, with 92% of these being similar in both room types and quality levels. This has resulted in rental decreases of 0.8% in similar products and discounting from 14 providers. However, differentiated schemes have seen rents increase by 3.6%.

Cushman & Wakefield is particularly enthused by the power of universities to help markets absorb and digest development – whether this be through development of their own bed spaces or through agreements with the private sector. This effectively gives institutions huge power in helping to deliver the right products for students in their market.

Changing market absorption ratios now a key gauge of market health

EXAMPLE MARKETS A & B

24,000 BEDS

MARKET A

9,329 POOR QUALITY BEDS

4,030 BEDS

5 MINUTES FROM CAMPUS

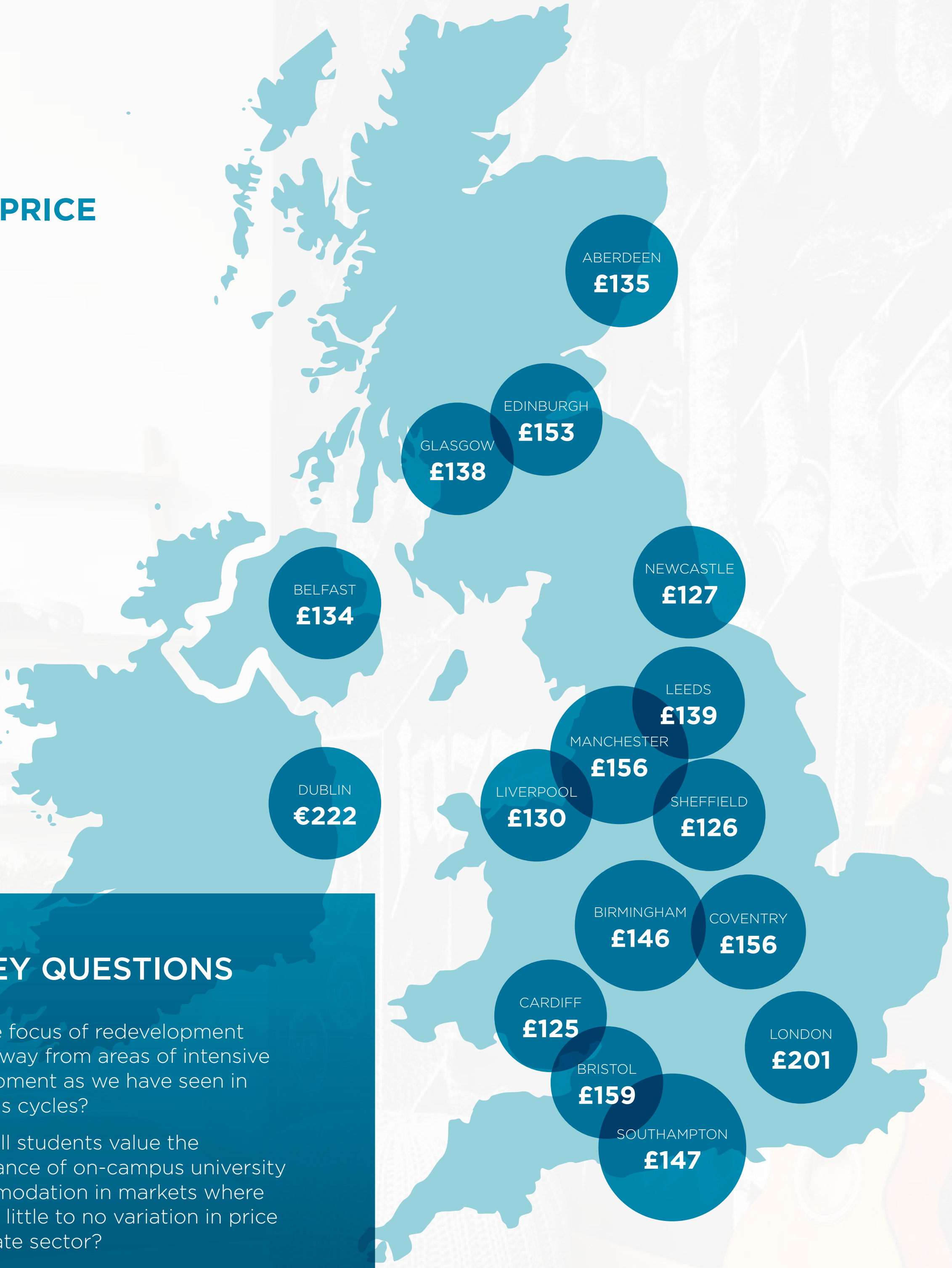
MARKET B

2,608 POOR QUALITY BEDS

10,498 BEDS

5 MINUTES FROM CAMPUS

AVERAGE EN-SUITE PRICE



Source: Cushman & Wakefield Student Accommodation Tracker 2018/19

? KEY QUESTIONS

- Will the focus of redevelopment move away from areas of intensive development as we have seen in previous cycles?
- How will students value the importance of on-campus university accommodation in markets where there is little to no variation in price vs private sector?
- Will market competition continue to force better value rents rather than any true innovations in product type?
- Will we see more re-provisioning of bed spaces into communal/ study spaces?
- How will market absorption ratios continue to change?
- Will we see greater private-university partnership to drive occupancy and value in some markets?

STUDENT INVESTMENT MARKET 2018

By the end of October, £3bn had transacted in 2018. This totals just over 40,000 bed spaces. Whilst this is lower than the £3.61bn achieved over the same period last year, there is an additional £870m under offer and a further £1bn currently on the market.

After a relatively slow start to the year, the number of transactions in the market has more than doubled from July to October with transaction volumes climbing from £1.4bn to £3bn. With so much stock currently in the market it might be a little too early to predict year-end total transactions, although based on the current position we would expect this to be in the region of £3.75bn.

The total portfolio transactions for 2018 to date are currently at £1.8bn, showing that investor appetite remains active for larger transactions. This equated to 62% of total transactions. The largest transactions of the year to date include the Enigma portfolio. Consisting of 5,470 beds geographically spread throughout the UK, which was purchased by Brookfield Asset Management and Allianz acquiring a 47.5% stake in the Chapter portfolio. These two transactions combined equated to ca. £1.2bn.

Overseas investors continue to dominate the market making up over 55% of 2018 transactions to date, with a broad spectrum of demand from investors in the Far East, the US and continental Europe.

The investment focus of overseas buyers has been quite diverse, with investors looking for ground up developments through to the acquisition of income producing first generation assets.

In addition, we are seeing growing demand from UK institutions, who are increasingly focussed on operational real estate and who have become increasingly comfortable with the granular leasing profile offered by direct-let PBSA. These investors are looking to acquire single assets as well as portfolios in strong performing PBSA markets.

In 2018 over 40,000 beds spaces have transacted so far, although this represents a decrease from last year's 45,000 beds. There are currently over 22,000 under offer or on the market. The average capital value per bed has reduced marginally from £80,000 to £75,000. Whilst there has been yield compression and rental growth this reduction is due to lower levels of activity in London.

The weight of capital continues to put downward pressure on yields. This is also driven by the relative pricing of PBSA, which is currently at a ca. 75-100bps discount to build to rent schemes. This contrasts markedly with more mature BTR/PBSA markets such as the US where yield spreads are closer to 25bps. We believe this is likely to continue to sustain demand, particularly from overseas investors, who believe the UK market is mispriced.

Demand for good quality regional PBSA assets remains strong, as evidenced by the sale of Brunswick House, Cambridge in October, which provided good evidence that yields for super prime assets have hardened to around 4.75%. This shows approximately a 50 bps inward yield shift as institutions compete with new overseas investors for the larger single let trophy assets.

INVESTMENT MARKET OUTLOOK

Direct Let Proposition	Yields 2018	Yields 2017
Prime London	4.00%	4.25% – 4.75%
Outer London	4.25% – 4.75%	5.00% – 5.25%
Super Prime Regional	4.75% – 5.00%	5.00% – 5.25%
Prime Regional	5.25% – 5.75%	5.75% – 6.25%
Secondary Regional	6.00% -6.75%	6.50% – 7.50%
Tertiary	7%+	8.00%+

Over the last six months we are now starting to see the impact of the London Plan on the wider investment sector. The affordability requirements on development, alongside the requirement for a nominations agreement, are driving increased demand for existing stock in the capital without these restrictions. There are a number of direct-let deals progressing in London which suggests an inward shift of around 50 to 75 bps since 2017 for both prime and outer London. For new developments, we expect to see operators and developers considering how to create scale in new schemes, offering a broad selection of rooms to cater to the affordability requirements, alongside a hotel/hostel approach based on nightly rates during the summer months in order to maximise revenue.

We are also seeing strong demand for more dated assets that offer affordable rents but in strong locations, with the ability to secure a higher running yield which is particularly important for income return investors, notably from the Middle East and Far East.

This is particularly the case for assets offering asset management angles, priced below replacement cost on a rate per bed basis.

Looking ahead, the run up to Brexit Day is likely to provide for tailwinds for investment as we go into 2019, however we believe that investment demand is likely to be sustained, especially if Sterling devalues relative to other currencies.

In terms of investment demand, we believe that micro-locations will become an increasingly important part of investors' criteria which may impact on investment yields. In addition, investors will remain focussed on the underlying residential markets in cities alongside the development pipelines, particularly with the emergence of more BTR schemes in regional cities which will increasingly act as competition, particularly for higher-end studio schemes.

THE INVESTMENT MARKET AND BREXIT

Brexit Day looms large on the political horizon, with the deadline of 29th March 2019 to have a formal withdrawal agreement in place edging ever closer.

At the time of writing, the situation remains finely balanced between a compromise agreement, effectively keeping the UK subject to EU legislation for a transitional period until a trade agreement can be negotiated, with specific backstops to prevent a hard border in Northern Ireland, and Brexiteer MPs who are pushing for a no deal scenario, which would result in the United Kingdom exiting in a disorderly manner, and looking to trade with the EU on WTO terms.

In terms of the PBSA investment market, investor demand remains strong with a diverse spectrum of capital looking to access the sector. That said, we have seen some weakening of demand from European investors over recent months driven by hedging costs alongside the prospects of a no deal, and the likely ramifications. It is likely, that investment demand may slow going into Q1 2019 if there is no clear resolution on the likely outcome.

We do however expect PBSA investment volumes to remain relatively strong over the medium term driven by the following factors, namely:

REWEIGHTING OF PORTFOLIOS TO ALTERNATIVES

Alternative real estate forms a growing component of investment portfolios, with investors increasingly seeking exposure to operational real estate. PBSA forms part of this allocation, and we would expect this to continue to increase over the longer term.

COUNTER-CYCLICAL NATURE

Student numbers typically increase in the event of an economic downturn, as people look to "up-skill" or stay in higher education for longer in a weaker labour market. Conversely therefore, PBSA should be one of the few beneficiaries in the event of a weaker economic outlook.

INTERNATIONAL STUDENTS

A key cohort for PBSA occupancy is the international market, and Brexit will have particular impact on both EU and non-EU students.
For EU students, the key question will be whether they benefit from the current fee arrangements (ie they pay the same fees as UK citizens) post-Brexit. The Government has agreed to extend this in the short term, however the long term picture is unclear at this point. Given the Government's aim is to put immigration into the UK on an even footing with the rest of the world, it is likely that access to UK student visas may well be tightened. UK universities may well need to consider how they are able to.

For non-EU students, the picture is more nuanced. Access to the UK higher education system is likely to be a key component of any trade agreement which the UK Government looks to strike, and that fits with the rhetoric from Westminster in terms of opening Britain up to global trade and investment. It is likely therefore that non-EU students will continue to come to the UK to study and arguably in greater numbers. This also tallies with feedback from some UK universities who have suggested that they will look to use non-EU students to cover any reduction in market share from EU students.

Another key component is the cost of education for overseas students, particularly from the Far East, who typically have a number of choices as to where they would look to study. The tables below detail the changes in foreign exchange movements between the UK, and the US (the largest overseas market) against a number of foreign currency pairings. As can be seen, Sterling has declined by 7.8%-13.8% against these currencies, with the US Dollar increasing by 2.2%-14.7% in value against most currencies over the same period (with the exception of the Indian Rupee which saw a decline of 1.1%:

GBP to	Percentage Change – June 2016 to November 2018
US Dollar	-13.50%
Euro	-13.80%
Indian Rupee	-7.80%
Australian Dollar	-9.70%
Singapore Dollar	-11%
Malaysian Ringgit	-8.70%
Chinese Yuan Renminbi	-8.30%

USD to	Percentage Change – June 2016 to November 2018
British Pound	14.70%
Euro	-1.10%
Indian Rupee	6.20%
Australian Dollar	3.80%
Singapore Dollar	2.20%
Malaysian Ringgit	5.30%
Chinese Yuan Renminbi	5.50%

Referencing that back to the cost for an international student in terms of studying and accommodation, we can see the following:

	Cost of US Degree (June 2016)	Cost of US Degree (2018)	Cost of UK Degree (2016)	Cost of UK Degree (2018)	Cost of UK degree vs US (2016)	Cost of UK degree vs US (2018)	Percentage Change
China	1,079,120	1,138,160	780,833	715,830	68.60%	62.89%	-5.71%
Malaysia	652,720	687,160	472,673	431,745	68.79%	62.83%	-5.96%
India	11,037,200	11,726,000	7,991,295	7,370,160	68.15%	62.85%	-5.30%
Singapore	219,760	224,680	158,895	141,240	70.72%	62.86%	-7.86%

This assumes an average annual cost of tuition of $40,000 per annum, alongside accommodation costs of $11,000 per annum. This is based over the standard 4 year degree programme in the US. We have assumed £20,000 per annum tuition for the UK and £6,750 per annum accommodation (£150 per week over 45 weeks in terms of accommodation cost). The above shows that the cost of studying in the UK has therefore decreased by between 5.3% and 7.9% over the 2 years since the referendum vote and the UK remains considerably cheaper versus studying in the US for international students.

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