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**The under-the-radar income generator investors could be overlooking**

GCP Student Living directors Nick Barker and Tom Ward outline the investment case for the trust following its recent listing to the main market.

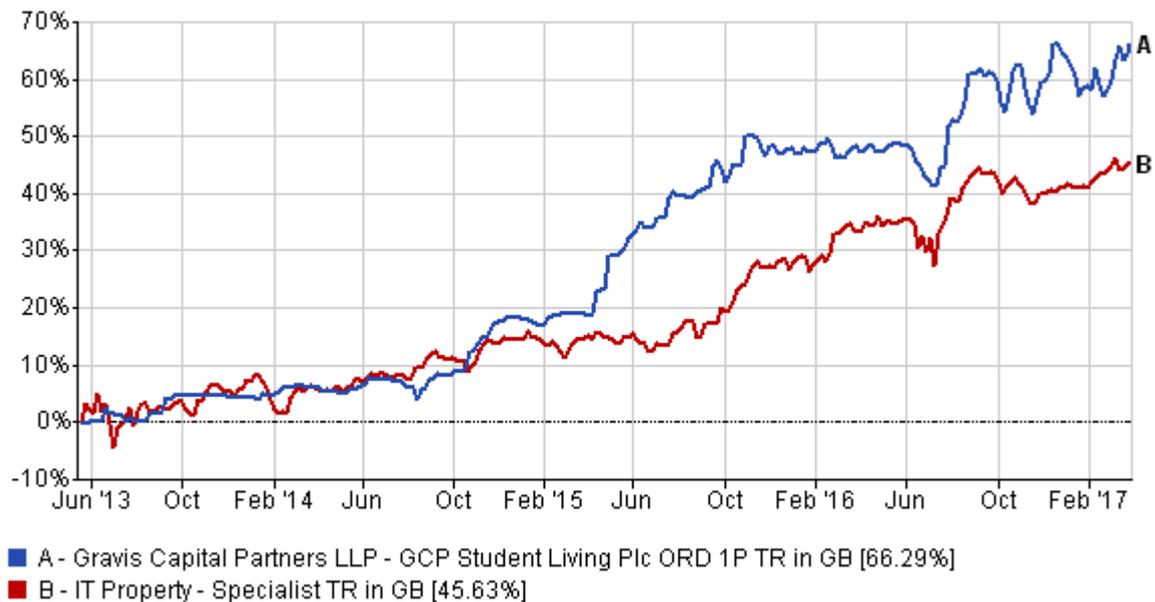
**By Jonathan Jones, Reporter, FE Trustnet**

Pricing power, high barriers to entry and a 94 per cent covered dividend are all reasons income investors should consider GCP Student Living, according to directors Nick Barker and Tom Ward.

The closed-end fund, which owns student accommodation buildings predominantly in London, has performed strongly since it launched in 2013.

Since June 2013 the fund has returned 66.29 per cent, 20.66 per cent ahead of the IT Property Specialist sector average, with a three-year annualised return of 16.4 per cent.

Performance of trust vs sector since launch



20/05/2013 - 28/03/2017 Data from FE 2017

Source: [FE Analytics](#)

The company, which is trading at an 8 per cent premium to net asset value (NAV), rents to students directly. Tenants are largely drawn from international students who make annual or termly payments in advance of moving in.

Ward said: "Our fund focuses on London and in particular studio accommodation and the reason for that is because we want to focus on international students."

“They tend to have a much lower default rate because in effect parents have saved up a huge amount of money to send their kids abroad so there’s not the same as domestic students who might go to university, decide it’s not for them and leave.”

As such, the company has default rates of less than 1 per cent compared to a sector average of around 2-3 per cent.

The firm uses a number of risk-mitigating measures in order to keep its volatility low and enable it to continue to grow its dividend, which currently stands at 3.9 per cent.

Below, FE Trustnet considers some of these measures.

The trust’s main advantage is its location, the directors say, with most of its buildings in and around the capital where there is a chronic undersupply of student accommodation.

Barker said: “London is the market that has the greatest number of students but also the most pronounced undersupply of student accommodation out of all markets in the UK.

“If you look at the students we believe would be potential users of our student accommodation – so we strip out some second and third years leaving international students, postgraduate students and domestic first years – you’ve got 275,000 or so in the London market and there are only 70,000-odd beds.

“This cannot be reversed very easily, if ever. You would have to see some quite dramatic changes in the property market for this to flip because the supply side in London has become so hard to develop today.”

GCP Student Living portfolio breakdown



Source: GCP Student Living PLC

There are two reasons that London is particularly difficult for new developers to build student accommodation, Ward says, with the first being land value.

“As a student accommodation developer we compete with residential developers predominantly because we’re using the same zone land and residential values have gone up so much that you just physically can’t compete with them,” he said.

“The other thing is there is a lot of planning hurdles that makes it very hard to bring in student accommodation. When you build student accommodation you don’t provide affordable housing whereas when you build residential you do.

“So again if you’re in Newham or Hackney where there are huge housing waiting lists it is quite politically divisive for a planning officer to agree to student accommodation.”

An example of this was its recent £135m acquisition of Woburn Place - a student accommodation building in Bloomsbury from fellow developer Unite which should be renovated by 2018 and will add 420 beds.

“If there wasn’t a student building there today you wouldn’t be able to replicate it,” Ward said.

Another measure is the trust’s rental rates, which are significantly below the market average, giving the company the opportunity to raise rates should they wish.

Barker said: “Our weekly rate on average across all our portfolio was £247 this year. If you look at our competitors in London the average price was £312 per week. There’s no reason why we shouldn’t be able to grow our rents each year.”

Despite the low rents, the trust has a net operating income margin is 79 per cent, which means for every £1 that it collects from a tenant, 21p goes towards operating the building.

However, this does not include an additional amount set aside for maintenance and life-cycle provisions i.e. for when things break.

Ward said: “Smoothing it out is the key thing. We don’t want to come back to shareholders with surprises and have to go to and raise £50m to sort the buildings out and make them lettable.”

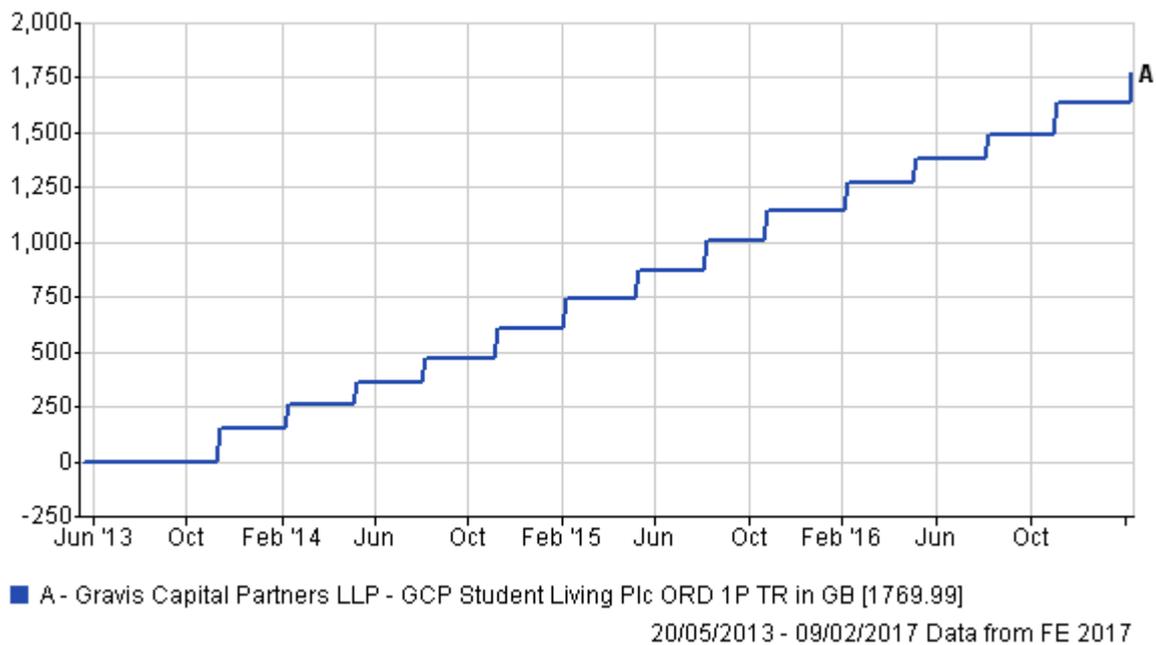
Recently, the company has moved from the specialist funds market to the main market, making it a constituent of the FTSE All Share, and was added to the NAREIT index.

“This was a function of being a bigger company with greater diversification and is fantastic from a shareholder point of view because it creates much more liquidity and makes us a much wider held stock,” Ward said.

Perhaps of most importance to investors is the dividend cover, which the firm holds at 94 per cent.

“Our dividend is 94 per cent covered and the reason we are not fully covered is because we have raised capital every year and in years that you raise capital things like placing commissions have to be taken through the profit-loss account,” Ward said.

Income earned since launch



Source: [FE Analytics](#)

Since launch, an investment of £10,000 would have earned £1,769.98 in income, as the above graph shows.

The fund, which is 28 per cent geared and a net asset value of £137.30m and total assets of £589m has a clean ongoing charges figure of 3.96 per cent, according to the latest figures from the AIC.

However, while the firm tries to mitigate risk there are a number of factors investors need to be aware of according to Kepler Partners research analyst Alex Paget.

He said: “While a trust such as GCP Student Living has its own largely-independent drivers and can offer genuine diversification for investors, the rate of return seen over recent years will be hard to replicate going forward as the market is maturing to a degree.

“This was partially highlighted by the trust’s recent acquisition of Woburn Place from Unite Students at a prime yield of 4.5 per cent - which is a lot more compressed compared to the yields on offer when it launched.

“Also, a potential concern for all ‘alternative’ income producing funds, is that if bond yields rise on the back of higher inflation or higher interest rates then the relative attractiveness of the yields on offer from these types of vehicles will undoubtedly start to wane.

“As such, even if the underlying NAV continues to perform, there could certainly be risks surrounding the price investors are paying for the trust given its 8.9 per cent premium.”