Client: Gravis Capital Partners
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DOUBLE TAKE

Alternative property funds

GCP Student Living invests in modern, high-quality purpose built student accommodation...

Many investors believe higher education is a countercyclical investment case, as investment in education increases in times of recession and students often defer their entry into the job market.

However, in practice there is often no noticeable downward correction when the economy is booming.

Student accommodation as an asset class has exhibited similar consistent and non-correlated returns over long periods providing low volatility to investors.

One of the largest changes in student accommodation over recent years is in the changing tastes and demands of students, particularly international students and postgraduates.

Today's students are demanding en-suite studio bedrooms, super-fast broadband, large communal areas with gyms, chill out areas and quiet study zones. Think more boutique hotel with concierge-type services than squalid digs.

Demand for private student residential accommodation in the UK continues to rise, with student applications increasing year on year.

In 2015, more than 500,000 students were accepted onto courses, but over half of these were unable to secure accommodation through the relevant university. The increase in demand over the past five years has been most pronounced with international students who have increased around 5% per annum over the period. This has been driven by the relatively low cost of a UK degree and the high quality of UK universities with eight of the top 50 universities in the world now housed here in the UK.

On the supply side, a limited number of new purpose-built student residential accommodation schemes have been developed in the past five years as universities struggle to fund new projects and traditional shared housing becomes subject to far tougher rules and regulations.

Why focus on London?

At the time GCP Student Living (DIGS) was launched, the supply/demand imbalance for purpose-built student residential accommodation was at its most acute in and around London.

There are more than 400,000 students in the capital studying at more than 50 different institutions, and one quarter of these students are international. On the supply

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side, there are only around 70,000 beds leaving a structural shortfall of supply of accommodation of sufficient quality for the current crop of students. We do not see this changing in the foreseeable future.

Today our focus remains on the London market. However we have identified small pockets of similar supply/demand imbalances at other locations in the UK driven typically by growing international student numbers, high-quality institutions and high barriers to entry to the supply of new accommodation sites.

Gravis Capital Partners
Fund facts

Student Living

Launch date:	20 May '13
Fund managers:	Tom Ward & Nick Barker, Gravis Capital Partners
Fund size:	£152.8m
1-yr performance:	23.5%
AMC:	1%
ISIN:	GB00B8460Z43

Source: FE, factsheet

Is the future bright?

In the past five to 10 years there has been a sea change in the quality of student accommodation being delivered to students, and we would expect this to continue. The supply of new schemes in core locations such as London will continue to become more difficult owing to high barriers to entry leading to a potential two-tier market with supply gluts in cities with low barriers.

We would expect that managers who remain focused in the core markets will continue to achieve strong rental growth and stable capital values on their assets.

GCP continues to be incredibly selective regarding the assets we target; we currently have a high quality pipeline under review which is made up of around 1,500 beds located predominantly in and around London. **LW**

'TODAY'S STUDENTS ARE DEMANDING. THINK MORE BOUTIQUE HOTEL THAN SQUALID DIGS'

Tom Ward, partner, Gravis Capital Partners

Student Living
1-yr performance %

Source: FE Analytics

WEALTH MANAGER COMMENT

Harry Drake
Senior investment manager, Architas

In 2015 both funds performed ahead of our expectations, driven not only by attractive net asset value growth but also by the continuing search by investors for stable income solutions.

Both funds benefit from a continually low yield environment, but do also carry risks specific to their asset class.

The student accommodation sector has been

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supported by the attraction of institutional money in 2015, a nod in our view to the attractive opportunity

that is presented. Ground rents are one of the rare asset classes where payment default is the best possible outcome, due to the high value of the underlying collateral.

Both funds have a place in an income producing portfolio as diversifiers and income generators, and we have been long-term investors in both within our own Diversified Real Assets Fund. We believe investors can expect to earn the current yield plus a small addition from rental growth or yield compressions.

...while the Ground Rents Income Fund invests in long-dated ground rents of well-located residential, retail and commercial properties

Ground Rents Income Fund was established four years ago as the safest of havens for investors seeking income.

The company, which is a listed real estate investment trust, advised by Brooks Macdonald, offers long-term, ultra-low-risk bond-like characteristics.

It is now fully invested in a portfolio of long-dated UK ground rents, which have historically had little correlation to traditional property asset classes and have seen their value remain consistent regardless of the underlying state of the economy.

Low-risk returns

A ground rent is the rent paid by the lessee of a property to the freeholder or a head leaseholder of the property. It represents the underlying interest in property, which is subject to a lease for a period of time, usually between 99 and 999 years.

Individual amounts payable as ground rents are usually nominal annual sums. Ground rents produce a secure, stable, low-risk and long-term income.

The portfolio, which comprises freeholds and head leaseholds of well-located residential, retail and commercial properties, was valued at 30 September 2015 at £104m, which represented an uplift of 21% on the

'GROUND RENTS PRODUCE A SECURE, STABLE, LOW-RISK AND LONG-TERM INCOME'

James Agar, investment director, Braemar Estates

cost of purchasing the properties, based on gross yields ranging from 5.87% to 2.94%.

It offers the potential for both income and capital growth. Most ground rents are subject to pre-determined rent reviews, which are documented in each lease granted by the freeholder or head leaseholder. Increases are linked to a variety of measures: they may be indexed to factors, such as the retail price index (RPI), they may be subject to a periodic doubling or fixed-sum increases. The review cycles vary between annual and 50 years, although most are 20 years or less.

The valuation of a ground rent investment tends to remain static, except for market movements driven by variation to yields, until the final few years before a review date.

Regional bias

The portfolio benefits from 68% RPI-linked assets, while 29% is subject to rent review within the next five years. Portfolio geography is biased towards the midlands and the north, where our team has the knowledge and ability to source off-market transac-

Brooks Macdonald

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Fund facts

Ground Rents Income Fund

Launch date:	13 Aug '12
Fund manager:	James Agar, Brooks Mac'ld
Fund size:	£107.8m
1-yr performance:	8.7%
3-yr performance:	25.3%
AMC:	0.55%
ISIN:	GB00B715WG26

Source: FE, factsheet

Brooks Macdonald Ground Rents Income Fund

3-yr performance %

Source: FE Analytics

tions, while the more competitive areas of London and the south east account for just 15%. Gearing is very low, with a loan-to-value ratio of 5%, and total expenses are less than 1%.

The market for ground rent investments is buoyant and values have increased significantly, driven by a fall in yields over the past 24 months. The upper end of the market is dominated by only a handful of buyers who have the liquidity to purchase large (£1 million plus) portfolios quickly. This results in sellers being able to approach a small group of investors without having to go to the market fully.

The current share price of around 116p represents a premium to net asset value, which reflects the attraction of a portfolio of this scale and diversity to institutions seeking sizeable allocations to the sector. Our shareholders include Architas, Ruffer, Old Mutual, Transact, Investec and NW Brown.

Ground rents are a classic defensive inflation hedge for any well-diversified portfolio and should continue to provide a secure income even if inflation remains low. **LW**

'THE MARKET FOR GROUND RENT INVESTMENTS IS BUOYANT AND VALUES HAVE INCREASED SIGNIFICANTLY'