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Outlook still positive for student housing

The financial results of two major student accommodation investors last week show that the market is still going strong.

GCP Student, the UK REIT that invests in assets in and around London, recorded a 5.9% rise to 157.93p in its NAV per share for the final six months of 2018, its strongest NAV performance for an interim period since 2015.

Empiric Student Property also reported strong full-year results last week following a cost-cutting drive and the appointment of new chief executive Tim Attlee in November. The investor's adjusted earnings per share grew by 72% and its occupancy increased by four percentage points.

This would suggest that the student market is fairly resilient. But is this set to continue?

Attlee certainly thinks so. "While there are economic and political uncertainties, particularly regarding Brexit, we are yet to see any material adverse consequences," he said in Empiric's results statement. "We have a quality portfolio of assets, which, coupled with the improvements in our operations, gives us confidence in the outlook for the business."

Nick Barker, director at GCP, is also confident in the market and points to Apache Capital Partners' recent blockbuster sale of a Shoreditch student block to the Chapter joint venture for £160m a couple of weeks ago as evidence. "Apache's is an interesting deal, which everyone is looking at as it seems to have broken a new record for London student living," he says. "It feels as if yields are still compressing in London."

This may be driven by the fact that student numbers show no signs of falling. A new Knight Frank research paper on the key themes to watch in the education sector in the next five years points out that a record 36% of A-level students applied for higher education courses in 2018, and says that if this is maintained it will result in an additional 19,000 first-year undergraduates by the 2025-26 academic year.

Investment required It also says that applications from international students rose for the 2018-19 academic year, bucking the downward trend of the previous year and "in spite of the wider uncertainty surrounding the sector as a result of Brexit and the Augar review on tuition fees". But Knight Frank points out that this demand is "not unconditional", and requires investment from universities in campuses and accommodation to provide value for money.

Although he is confident in the student accommodation market generally, Barker admits there may be planning challenges on the horizon in the shape of Sadiq Khan's new London Plan, which is currently being consulted on. The mayor is reluctant to grant planning consents to private student accommodation schemes, and is instead pushing partnerships with universities.

"If it becomes [a London Plan] policy, buildings like ours won't come through anymore," Barker says. "It is good news for existing assets, but it would be bad for us if we were looking to grow the company."

GCP is now active in other locations and in July agreed to acquire and forward-fund the construction of the 550-bed Scape Brighton – its second asset in the town.

The sector awaits the final London Plan with bated breath. But until then – and for developers that are not active in the capital – it seems that student accommodation is still enjoying something of a purple patch.

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