OPERATIONS REVIEW

DELIVERING FOR OUR CUSTOMERS

Our best-in-class operating platform continues to deliver and support both service enhancements and operational efficiency

"We are committed to investing in an enhanced student experience that delivers value-for-money for students and support our purpose of creating a Home for Success"

Karan Khanna
Chief Customer Officer

Sales, rental growth and profitability

The key strengths of our operating business are our highly committed people, our PRISM operating platform, our brand and the strength of our relationships with universities. These capabilities helped to deliver a recovery in financial performance in 2021, despite some ongoing disruption created by Covid-19, delivering adjusted EPS of 27.6p (2020: 24.0p). The 15% increase in adjusted EPS reflects higher occupancy for the 2021/22 academic year (2020/21: 88%) and a lower impact from rental discounts offered to students in response to the pandemic.

Based on a positive outlook for student demand and progress to date on reservations, we anticipate an increase to 97% occupancy for the academic year. This supports our guidance for EPRA EPS of 41–43p for the 2022 financial year.

The Group continues to report on an IFRS basis and presents its performance in line with best practices as recommended by EPRA. The Operations and Property reviews focus on EPRA measures as these are our key internal measures and aid comparability across the real estate sector.

Summary income statement[1]	2021 £m	2020 £m
Rental income	282.7	263.2
Property operating expenses	(90.9)	(82.9)
Net operating income (NOI)	191.8	180.3
NOI margin	67.8%	68.5%
Management fees	15.9	14.0
Overheads	(31.5)	(30.9)
Finance costs	(63.3)	(64.9)
Development and other costs	(2.8)	(6.9)
LSAV performance fee	41.9	5.7
EPRA earnings	**152.0**	**97.3**
LSAV performance fee	(41.9)	(5.7)
Adjusted earnings	**110.1**	**91.6**
Adjusted EPS	**27.6p**	**24.0p**
EPRA EPS	**38.1p**	**25.5p**
Adjusted EBIT margin	62.3%	62.1%

1. A reconciliation of profit/loss after tax to EPRA earnings and adjusted earnings is set out in note 2.2b to the financial statements. See glossary for definitions of APMs and note 8 for calculations and reconciliations.

Rental income increased by £19.5 million to £282.7 million, up 7%, as a result of higher occupancy and a reduced level of rental discounts. The total value of discounts offered to students in 2021 was c.£10 million, reflecting 40% take-up of the 10-week rental discount offered to students not staying in their accommodation between January and March 2021.

Net operating income increased by 6% to £191.8 million, reflecting the uplift in rental income and a 10% year-on-year increase in operating expenses. The increase in operating expenses reflects the resumption of certain costs not incurred during 2020 due to one-off cost saving measures, including summer cleaning costs and staff bonus payments, as well as increased utilities costs as a result of higher occupancy over the year and underlying price increases. In addition, increased investment was made into marketing to drive sales for the 2021/22 academic year.

Our electricity costs are fully hedged in 2022 and 85% hedged for 2023, and gas (which accounts for less than 0.5% of our rent) is hedged through 2023. We are exploring opportunities to fix energy costs through further power purchase agreements (PPAs) in support of new renewable energy capacity. PPAs provide competitive pricing compared to wholesale energy markets as well as cost certainty through multi-year contracts, while aligning to our commitment to source 100% renewable electricity.

Property operating expenses breakdown	2021 £m	2020 £m	Change
Staff costs	(28.4)	(26.6)	(1.8)
Utilities	(21.9)	(19.8)	(2.1)
Summer cleaning	(3.3)	(2.4)	(0.9)
Marketing	(5.8)	(3.3)	(2.5)
Central cost allocation	(9.7)	(7.9)	(1.8)
Other	(21.8)	(22.9)	1.1
Property operating expenses	**(90.9)**	**(82.9)**	**(8.0)**

Overheads increased by £0.6 million, principally reflecting increases in staff costs. Recurring management fee income from joint ventures increased to £15.9 million (2020: £14.0 million), driven by higher NOI and property valuations in USAF and LSAV.

Our adjusted EBIT margin increased to 62.3% in 2021 (2020: 62.1%), reflecting a reduction in overheads net of recurring management fees as a percentage of rental income. Reflecting our cost discipline and the anticipated recovery in rental income from 2021/22 onwards, we are targeting an improvement in our adjusted EBIT margin to around 70% in 2022 and above 72% over the medium term. This will be delivered through growth in occupancy and rents, development completions and further efficiencies over time in areas such as staff costs, procurement, utilities and the enhanced use of technology.

Finance costs reduced to £63.3 million (2020: £64.9 million), reflecting a reduction in average borrowings during the year as cash balances reduced to more typical levels on the back of an improved trading outlook. This impact was partially offset by a higher average cost of finance in 2021 of 2.9% (2020: 2.7%) as we repaid revolving credit facilities at lower average rates. Interest capitalised into development schemes increased to £5.2 million (2020: £4.6 million), driven by resumption of development activity at Middlesex Street in London and Campbell House in Bristol, as well as a development start at Derby Road in Nottingham. We expect capitalised interest to increase to around £7–8 million in 2022 as development activity increases ahead of deliveries in 2022, 2023 and 2024.

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OPERATIONS REVIEW continued

Development (pre-contract) and other costs were lower at £2.8 million (2020: £6.9 million), reflecting the cost of development overheads, the earnings impact of share-based incentives, deferred and current tax and our contribution to the Unite Foundation. The year-on-year reduction reflects a credit of £2.8 million for tax in 2021 (2020: £2.0 million expense).

EPRA earnings includes £41.9 million of performance fees in the year (2020: £5.7 million) in relation to the performance fee received from LSAV as well as the unwind of tax provided against the performance fee in previous years. The fee became payable on extension of the joint venture and represents out-performance compared to our expectation at the start of the year due to the strong valuation performance of LSAV's London properties. Given the quantum of the performance fee in the year, it has been excluded from adjusted earnings to improve the comparability of results year-on-year.

Improved occupancy for 2021/22

We achieved occupancy of 94% across our total portfolio for the 2021/22 academic year (2020/21: 88%, 2019/20: 98%), reflecting a meaningful improvement from the disrupted booking cycle in 2020/21. This represented significant outperformance of our PBSA peers, who delivered average occupancy of 83% for 2021/22 (JLL).

We continue to sell over half of our beds through nomination agreements with universities. This represents a key differentiator for Unite in the PBSA sector with our nomination agreements accounting for around 40% of all beds leased by universities across the UK. Occupancy through nomination agreements has reduced slightly during the past two pandemic-affected leasing cycles, reflecting understandable caution from universities over student demand.

Occupancy by type and domicile by academic year

		Direct-let				
	Nominations	UK	China	EU	Non-EU	Total
2019/20	57%	16%	15%	4%	6%	98%
2020/21	53%	16%	11%	4%	4%	88%
2021/22	51%	21%	13%	3%	6%	94%

Student acceptances for 2021/22 were broadly stable at 562,000 (2020/21: 570,000) with a record share of UK school leavers entering universities and the highest ever admissions for non-EU students but, as expected, this was offset by a significant reduction in EU student numbers following Brexit.

The gap to pre-pandemic occupancy levels of 97–98% in 2021/22 could be principally attributed to two reasons. The first is the disruption created by higher grade attainment due to teacher assessed grades, which has distorted the distribution of students among our cities. More students attained the entry requirements for their first-choice universities than in a normal year, reflecting the 44% of students awarded A* or A grades in this year's A levels, compared with 25% in 2019. We sold out in the majority of our markets with significant waiting lists in a number of key cities where students struggled to find suitable accommodation. However, we have seen a concentration of voids in a small number of cities where we expect universities to have lost market share of students or which are adjusting to new supply.

Our waiting lists for 2021/22 equated to an additional c.1–2% in potential occupancy, which we would expect to be re-distributed among our other cities as disruption from higher grading unwinds. The Government has confirmed that grade boundaries will return to pre-pandemic levels over the next two years, and we do not expect the same level of disruption for the student intake in 2022. This year's strong undergraduate intake in higher-ranked cities will also support student numbers and rental growth prospects in these markets over the next three years.

The second factor is the ongoing impact of the pandemic on international travel. Despite a record level of non-EU admissions in 2021/22, this did not fully translate into bookings. In particular, we have continued to see an effect on demand from China, accounting for a two percentage-point reduction in occupancy compared to 2019/20. To mitigate the challenges posed by the pandemic, we offered international students needing to isolate on arrival in the UK the opportunity to arrive at their accommodation up to three weeks early at no extra cost. We continue to monitor international travel closely and expect an increase in the number of international students travelling to the UK for the 2022/23 academic year.

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OUR PURPOSE IN ACTION

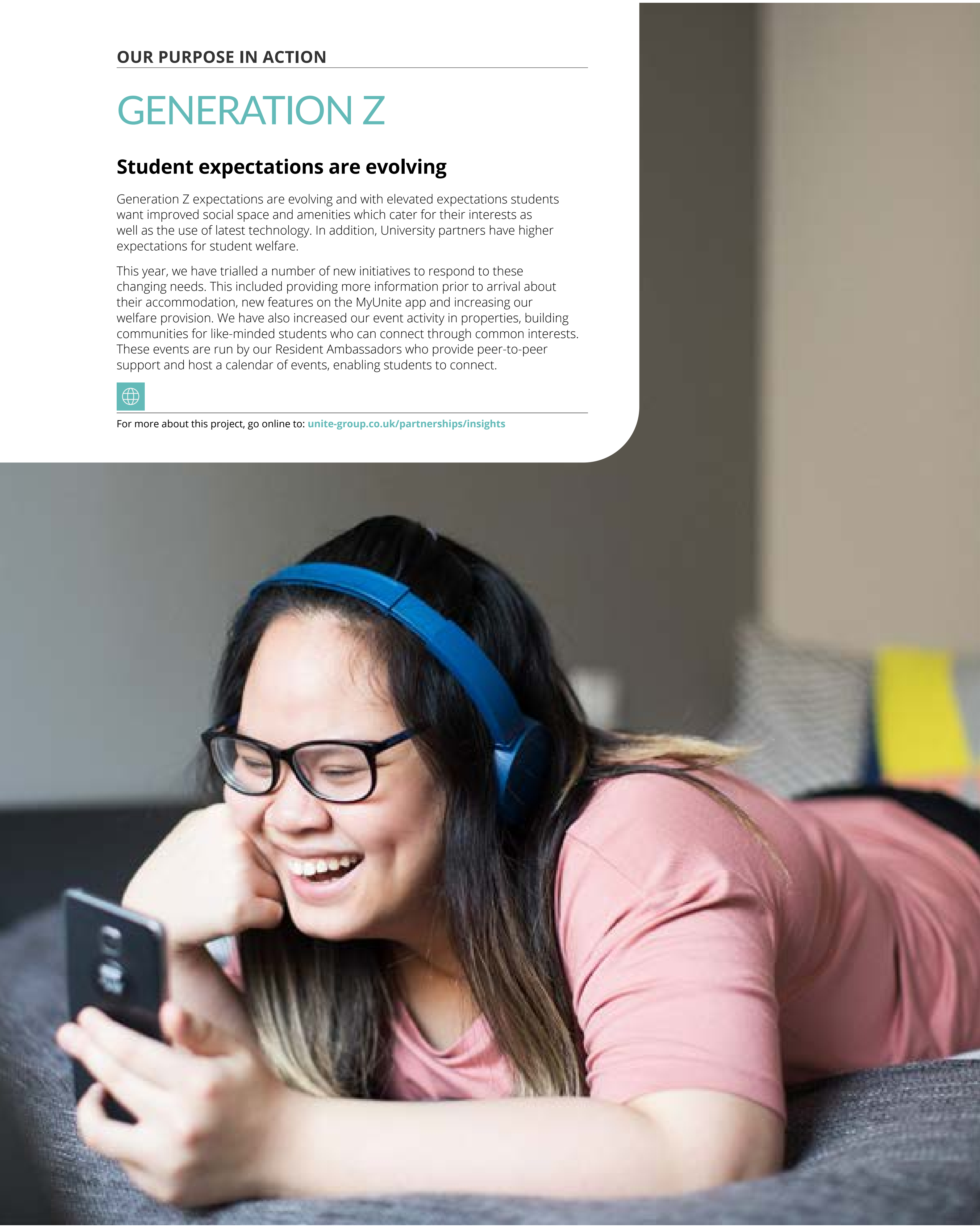
GENERATION Z

Student expectations are evolving

Generation Z expectations are evolving and with elevated expectations students want improved social space and amenities which cater for their interests as well as the use of latest technology. In addition, University partners have higher expectations for student welfare.

This year, we have trialled a number of new initiatives to respond to these changing needs. This included providing more information prior to arrival about their accommodation, new features on the MyUnite app and increasing our welfare provision. We have also increased our event activity in properties, building communities for like-minded students who can connect through common interests. These events are run by our Resident Ambassadors who provide peer-to-peer support and host a calendar of events, enabling students to connect.

For more about this project, go online to: unite-group.co.uk/partnerships/insights



OPERATIONS REVIEW continued

Return to rental growth

Annual rents increased by 2.3% on a like-for-like basis for 2021/22 (2020/21: (0.6)%), reflecting increases of 1.2% through nomination agreements and 3.3% average increases in direct-let rents. Occupancy was broadly consistent across our wholly owned portfolio, USAF and LSAV.

2020/21 rental growth and occupancy	Rental growth[1]	Occupancy[2]
Nomination agreements	1.2%	
Direct-let	3.3%	
Total	**2.3%**	**94%**

1. Like-for-like properties based on annual value of core student tenancies.
2. Beds sold.

We have maintained a high proportion of income let to universities, with 37,359 beds sold (51% of total) for 2021/22 under nomination agreements (2020/21: 39,250 and 53%). The slight reduction in the number of beds under nomination agreements reflects the decision of some universities not to renew rolling single-year agreements in light of uncertainty over student numbers and occupancy created by Covid-19.

62% of our nomination agreements, by income, are multi-year and therefore benefit from annual fixed or inflation-linked uplifts based on RPI or CPI. These agreements are expected to secure average annual rental growth of 4% in 2022/23 based on current levels of inflation and contractual caps on RPI/CPI-linked rental increases. The remaining agreements are single year, and we achieved a renewal rate of 74% on these agreements for 2020/21 (2020/21: 76%).

Enhanced service levels and our extensive understanding of student needs have resulted in longer-term and more robust partnerships with universities over recent years. The unexpired term of our nomination agreements is 6.7 years, up from 6.4 years in 2020/21. We expect the share of beds let under nomination agreements to increase to around 55% over the next two years and have recently secured new multi-year agreements to let 1,000 beds to two Russell Group universities from the 2022/23 academic year.

A balance of nomination agreements and direct-let beds provides the benefit of having income secured by universities, as well as the ability to offer rooms to re-bookers and postgraduates and determine market pricing on an annual basis.

Agreement length	Beds 2021/22	Beds 2020/21	% Income 2021/22
Single year	14,529	17,709	38%
2–5 years	7,754	5,748	22%
6–10 years	6,034	6,873	17%
11–20 years	6,608	6,724	16%
20+ years	2,434	2,196	6%
Total	37,359	39,250	100%

UK students account for 70% of our customers for 2021/22 (2020/21: 66%), making up a large proportion of the beds under nomination agreements with universities. In addition, 25% and 5% of our customers come from non-EU and EU countries respectively (2020/21: 25% and 9%), reflecting the relative appeal of our hassle-free product when compared with alternatives in the private rented sector. Our proactive decision to increase sales to UK customers has offset a reduction in demand from EU customers following Brexit.

Re-bookers accounted for 20% of our direct-let bookings for the 2021/22 year (2020/21: 25%) reducing our exposure to less predictable 1st-year undergraduate customers. Postgraduates now make up 25% of our direct-let customer base, driven by strong growth in UK postgraduate numbers and increasing awareness of the benefits of PBSA.

Positive outlook for 2022/23

Reservations for the 2022/23 academic year are progressing positively with 67% of rooms now sold (2021/22: 60%, 2020/21: 73%). We expect strong student demand for 2022/23 from both domestic and international students but anticipate a slightly later sales cycle for international students than in a typical year due to uncertainty relating to Covid-19. As a result, we have increased our focus on retaining existing direct-let customers, which has led to an increased share of sales to re-bookers.

Applications data for the 2022/23 academic year is encouraging, with total applications broadly in line with record levels in 2021/22 (-1%) and 7% ahead of pre-pandemic demand in 2020/21. This reflects a 5% increase in applications by UK school leavers, who represent one of our largest customer groups, driven by a record application rate of 43.4% (2020/21: 42.6%) and demographic growth. Demand is also strong from our other key customer demographic of non-EU students. Non-EU applications are 5% higher year-on-year, reflecting strong demand from China and India as well as less mature markets such as Nigeria, offsetting a further reduction in demand from EU students following Brexit.

Current reservations under nomination agreements deliver 50% occupancy (2021/22: 51%). Discussions are ongoing with universities over potential additional demand once they have greater visibility on student numbers, which we expect to increase occupancy from nomination agreements towards our target of 55%. Direct-let reservations account for the remaining 17% of reserved occupancy, which is significantly ahead of the same point last year, thanks to an increase in UK re-bookers.

This is supportive of our guidance for full occupancy and rental growth of 3.0–3.5% for the 2022/23 academic year.

Delivering for our customers

Our best-in-class operating platform continues to drive both service enhancements and operational efficiency. We are committed to investing in an enhanced student experience that delivers value-for-money for students and support our purpose of creating a Home for Success. This includes a segmented product offering, tailoring student activities and community building alongside improvements to our MyUnite app, our Resident Ambassador programme and the provision of student welfare services.

Enhancements to our student experience

During 2021, we have focused on using data and insight to deliver an enhanced student experience across the academic year tailored to the communities in each property. Insight was drawn from both an applicant survey of 1,000 prospective students to gauge the sentiment of the new cohort and from data shared directly by our customers ahead of their arrival regarding their preferences, interests, hopes and fears.

Key themes were both a desire for, and a fear of, meeting new people and making friends, the need for support in finding part-time work, and advice and support regarding wellbeing and life skills for independent living. Peer-to-peer support and engagement was also a high priority. We responded by increasing our Resident Ambassador programme through recruitment of over 190 paid student ambassadors, who have provided support and organised events based on the community's needs.

A series of events was held for our city teams during the summer months to ensure a great welcome and arrival experience for the class of 2021/22. The teams generated over 1,900 ideas to tailor and improve the student experience during the crucial first six weeks of the new term, leading to our highest ever Net Promoter Score in our autumn student survey (+39) and a significant improvement in reviews on Trustpilot.

As part of our evolving approach to customer segmentation, trials were conducted in seven properties to define our offer for postgraduate students for the 2021/22 academic year. The look and feel, amenity spaces and student experience were all enhanced, based on our student insight, which delivered increased occupancy, rental income and some of the highest net promoter scores in the portfolio. The postgraduate offer has been extended for the 2022/23 sales cycle with further refinements included.

Our refurbishment and extension of Kincardine Court in Manchester, due for delivery this September, is also being tailored to postgraduate students based on the smaller flat sizes available.

A number of digital experience enhancements were delivered during 2021 aimed at allowing students to increasingly self-serve and to allow our property teams to deliver service in the moment. These included a new, multilingual, dynamic FAQ tool, allowing customers to submit questions in any language.

In February 2021, we launched a new group booking tool and marketing campaign to target groups of students who might otherwise look to house share in the private-rented sector. This function generated £11 million of sales to domestic returning students, further supporting our capture of market share from the HMO sector.

Students often wish to book a specific room and we are in the process of rolling out a room selector tool, which enables our students to browse the available rooms in a property, review the details and select a specific room which best meets their requirements. When room selector is used, there has been a 35% increase in conversion rate compared to other web-based sales. We have also enhanced our technology and processes to facilitate easier room moves by students if they are not satisfied in their allocated rooms or flats.

Health, safety and wellbeing

All our properties have remained open and operational throughout the pandemic, and we continue to employ a range of measures in our buildings to reduce transmission of Covid-19, where possible. This includes enhanced cleaning and physical and social distancing measures, as well as offering support to those students needing to self-isolate.

We have also increased provision and access to student wellbeing and mental health support through enhanced student welfare services, including bespoke support for students who are shielding, support for those self-isolating, online welfare checks and a pilot peer-to-peer scheme. We have dedicated welfare leads in each of our cities and also provide 24/7 support through our Emergency Contact Centre and a partnership with Nightline. We also work closely with universities' student welfare and wellbeing teams to ensure students are signposted to available help and support.

Karan Khanna

Chief Customer Officer

23 February 2022