PROPERTY REVIEW

OPTIMISING OUR PORTFOLIO

We have a record secured development and University partnership pipeline for delivery over the next four years

"We are growing our alignment to the strongest universities, investing in London and key regional cities and maintaining discipline around capital recycling."

Nick Hayes
Group Property Director

EPRA NTA PER SHARE INCREASED BY 8% TO

882p

(31 December 2020: 818p)

IFRS NET ASSETS PER SHARE UP 9% TO

880p

(31 December 2020: 809p)

EPRA NTA growth

EPRA NTA per share increased by 8% to 882p at 31 December 2021 (31 December 2020: 818p) with IFRS net assets per share up 9% to 880p (31 December 2020: 809p). In total, EPRA NTA were £3,532 million at 31 December 2021, up from £3,266 million a year earlier.

Summary balance sheet (Unite share basis)

	31 December 2021			31 December 2020		
	Wholly owned £m	Share of Fund/ JV £m	Total £m	Wholly owned £m	Share of Fund/ JV £m	Total £m
Rental properties	3,323	1,542	4,865	3,615	1,278	4,893
Rental properties (leased)	98	–	98	102	–	102
Properties under development	324	–	324	187	–	187
Total property	3,745	1,542	5,287	3,904	1,278	5,182
Net debt	(1,030)	(492)	(1,522)	(1,326)	(416)	(1,742)
Lease liability	(94)	–	(94)	(96)	–	(96)
Other assets/(liabilities)	(107)	(32)	(139)	(40)	(38)	(78)
EPRA net tangible assets	**2,514**	**1,018**	**3,532**	**2,442**	**824**	**3,266**
IFRS NAV	**2,510**	**1,018**	**3,528**	**2,412**	**823**	**3,235**
LTV			29%			34%

The main drivers of the 64p per share increase in EPRA NTA per share were the increase in the value of the Group's share of investment assets due to rental growth, higher occupancy and modest yield compression. In addition, the EPRA NTA movement reflects development surpluses, recognition of the remaining LSAV performance fee and a further provision for the replacement of HPL cladding.

	£m	Diluted pence per share
EPRA NTA as at 31 Dec 2020	**3,266**	**818**
Rental growth	72	18
Yield movement	107	27
Cladding provision	(23)	(6)
Development surplus	50	13
LSAV performance fee	42	10
Swap cancellation and debt break fees	(4)	(1)
Disposals and associated transaction costs	(21)	(5)
Retained profits/other	43	8
EPRA NTA as at 31 Dec 2021	**3,532**	**882**

IFRS net assets increased by 9% in the year to £3,527.8 million (31 December 2020: £3,234.9 million), principally driven by positive revaluation movements, further recognition of the LSAV performance fee and retained profits. On a per share basis, IFRS NAV increased by 9% to 880p. The movement in other assets and liabilities in 2021 was due to an increase in deferred income, arising from higher occupancy, an increase in accruals and provisions for cladding remediation works and settlement of the LSAV performance fee.

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Total accounting return

Growth in EPRA NTA was the key component of the 10.2% total accounting return delivered in the year (2020: (3.4)%), alongside dividends paid of 19.25p (2020: nil).

We are targeting delivery of attractive total accounting returns of 8.5–10% through a balance of recurring income and capital growth. This includes allowance for £1,000/bed p.a. of investment into protective capex for lifecycle maintenance, improvements in environmental performance and cladding remediation. Our balance sheet already provides for all committed and compliant spend on fire safety improvements and we will make future investments, as required, to ensure our buildings remain safe to occupy.

In 2022, we expect total accounting return to be at the top end of this range due to growth in recurring earnings, rental growth and development surpluses from a number of significant planning milestones. Our guidance does not include any impact from movements in property yields in the year.

Property portfolio

The valuation of our property portfolio at 31 December 2021, including our share of gross assets held in USAF and LSAV, was £5,287 million (31 December 2020: £5,182 million). The £105 million increase in portfolio value (Unite share) was principally attributable to a valuation surplus of £211 million on the investment and development portfolios, capital expenditure of £144 million and disposals of £246 million.

Our property portfolio saw a 5.2% increase in valuations on a like-for-like basis during the year (Unite share: 4.6%). Just under half of the increase was driven by yield compression, particularly in London and other prime regional markets. The remaining increase was split broadly evenly between rental growth and the unwinding of deductions relating to Covid-19 occupancy recovered.

The see-through net initial yield of the portfolio was 4.9% at 31 December 2021 (December 2020: 5.0%). This reflected reductions in property yields for the wholly owned portfolio, USAF and LSAV of 9 basis points, 11 basis points and 23 basis points respectively.

LSAV's predominantly London-based portfolio saw the strongest valuation performance in the year, reflecting more significant yield compression in London and partial realisation of reversion potential on certain assets approaching the end of nomination agreements.

Breakdown of like-for-like capital growth

£m	31 Dec 2021 valuation	Yield compression	Occupancy recovery	Rental growth / other	Like-for-like capital growth
Wholly owned	3,323	49	39	22	110
LSAV	1,819	70	17	51	138
USAF	2,867	58	57	12	127
Total (Gross)	**8,009**	**177**	**113**	**85**	**375**
Total (Unite share)	**4,865**				**207**
% capital growth					
Wholly owned		1.5%	1.2%	0.7%	3.4%
LSAV		5.2%	1.3%	3.9%	10.4%
USAF		2.1%	2.1%	0.4%	4.6%
Total (Gross)		**2.4%**	**1.6%**	**1.2%**	**5.2%**
Total (Unite share)					**4.6%**

OUR PURPOSE IN ACTION

ENHANCING OUR STRONG LONDON FOOTPRINT

The London Plan, Stratford, London

London provides a significant growth opportunity for PBSA, particularly East London. Following the Olympics, Stratford, in the east of London, offers excellent transport links and shopping facilities and has become a hub for residential living and particularly student accommodation. We already offer c.1,700 beds across two buildings in Stratford, all close to Stratford station and local amenities including Westfield Stratford. Both University College London and the University of the Arts London have future plans to develop and extend their campuses in Stratford and are looking for new student accommodation. To support this requirement, we have two properties in planning adding c.1,800 beds to our existing portfolio with completion expected in 2025/26. Both properties will include large bedrooms and large amenity spaces which will appeal to international students, postgraduates and returners which is a market that continues to grow.

For more about this project, go online to:
unite-group.co.uk/our-portfolio/development-pipeline

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The proportion of the property portfolio that is income generating is 94% by value, down from 96% at 31 December 2020. Properties under development have increased to 6% of our property portfolio by value (31 December 2020: 4%) following resumption of development activity in the year and new commitments to deliveries in 2023. Our development pipeline carries greater operational risk than the income generating portfolio but delivers attractive risk-adjusted returns, which we expect to materially contribute to the Group's future earnings growth.

The investment portfolio is 35% weighted to London by value on a Unite share basis, which will rise to 44% on a built-out basis following completion of our secured development pipeline.

Unite investment portfolio analysis at 31 December 2021

		Wholly owned	USAF	LSAV	Lease	Total	Unite share
London	Value (£m)	849	425	1,545	16	2,835	1,733
	Beds	2,882	1,863	6,649	260	11,654	35%
	Properties	10	6	14	1	31	
Prime regional	Value (£m)	993	692	–	24	1,709	1,169
	Beds	7,645	5,337	–	618	13,600	24%
	Properties	17	18	–	2	37	
Major regional	Value (£m)	1,264	1,511	274	28	3,077	1,762
	Beds	17,721	19,403	3,067	753	40,944	35%
	Properties	36	47	1	2	86	
Provincial	Value (£m)	217	239	–	30	486	299
	Beds	3,730	2,920	–	1,059	7,709	6%
	Properties	8	7	–	3	18	
Total	**Value (£m)**	**3,323**	**2,867**	**1,819**	**98**	**8,107**	**4,962**
	Beds	31,978	29,523	9,716	2,690	73,907	100%
	Properties	71	78	15	8	172	
Unite ownership share		**100%**	**22%**	**50%**	**100%**		
	Value (£m)	**3,323**	**632**	**910**	**98**	**4,962**	

Development and University partnership activity

Development and University partnership activity continues to be a significant driver of growth in future earnings and NTA and is aligned to our strategic focus on high and mid-ranked universities. Our pipeline of traditional development and University partnerships includes 5,956 beds with a total development cost of £967 million, of which 3,661 beds or 77% by development cost will be delivered in central London.

We continue to identify new development and University partnership opportunities that deliver our target returns in both London and the regions. We expect to add to our pipeline during 2022 and maintain a run-rate of c.1,500–2,000 new beds p.a.

The anticipated yield on cost of this secured pipeline is 6.2%. Prospective returns on new direct-let schemes remain attractive at around 7.5–8.0% in provincial markets. We have lower hurdle rates for developments that are supported by universities or where another developer is undertaking the higher risk activities of planning and construction. The London Plan requires student accommodation to secure a nomination agreement with one or more universities for the majority of rooms, meaning we expect new London developments to be delivered as University partnerships with development yields of around 6.0%. University partnerships make up around 83% by value of our secured development pipeline.

2022 completions

We are due to complete £231 million of development, representing 1,351 new beds, for the 2022/23 academic year at our schemes at Middlesex Street in London and Campbell House in Bristol. Development is on track across both sites from a programme, cost and letting perspective.

Campbell House is let to the University of Bristol under a 15-year nomination agreement. We are in advanced negotiations with a high tariff university partner for a 5-year nomination agreement at our Middlesex Street scheme for approximately two thirds of the total beds. Middlesex Street will be a landmark asset for the business, becoming our highest value property across the Group.

2023 completions

During the year, we received planning consent for an enlarged 700-bed development at Derby Road in Nottingham, due for completion for the 2023/24 academic year which is located adjacent to the University of Nottingham campus. We were successful in securing additional beds for the scheme through the planning process, resulting in total development costs of £58 million. The scheme will deliver a development yield of 8%.

The development will target a BREEAM Excellent rating and net zero carbon in operations through optimised design, integration of solar panels at roof level and an all-electric heating solution, including high efficiency air-source heat pumps. The development will also deliver a substantial biodiversity improvement through opening and improving access to the River Leen.

Development pipeline

There remains widespread acknowledgement from local authorities of the need for new PBSA supply to address growing student numbers and relieve pressure on housing supply. Universities also remain willing to support our planning applications as a means of delivering the high-quality, affordable accommodation required to deliver their growth ambitions. However, we have experienced delays in the planning process as a result of the pandemic which have put pressure on delivery timelines for certain of the schemes in our pipeline.

We continue to make progress on our London development pipeline with two significant new schemes secured over the past 12 months. Our total secured London pipeline includes 3,661 beds and a total development cost of £740m, in total we expect these schemes to contribute 63p of development surplus by completion and materially contribute to growing our quality of earnings once let.

During the year, we submitted a planning application for our 768-bed scheme at Paddington in central London, which we now expect to deliver for the 2024/25 academic year. We also exchanged contracts to acquire a c.1,000 bed development site in Stratford, east London on a subject to planning basis. Total development costs are estimated to be c.£160 million with the scheme targeted for delivery for the 2025/26 academic year, subject to planning approval. The development will be delivered as a University partnership, delivering a development yield in line with our targets in London and will help to serve the growing cluster of universities with campuses in the area. Both UCL and University of the Arts London are developing new campuses in Stratford, which are due to bring a further 10,500 full-time students to the area. The site adds to our two existing operational assets in Stratford, providing opportunities to segment our customer base, including a more tailored offer for postgraduates.

In January 2022, we added a further 270-bed scheme to our pipeline in Nottingham city centre. The newly acquired site is located in a prime location on Lower Parliament Street in the heart of the city centre, close to Nottingham Trent University's campus as well as the University of Nottingham's planned city centre campus development for final-year and postgraduate students.

In February 2022, we exchanged contracts to acquire a 700-bed development site in East London on a subject to planning basis. The scheme is targeted for delivery for the 2026/27 academic year, subject to vacant possession and planning approval, and will target a long-term nomination agreement with one of the Group's existing University partners in London. The development, which is located in a prime location close to transport links and university campuses, will increase the Group's operational scale in East London.

In addition to our secured pipeline, we continue to progress a number of further development opportunities in London and prime regional markets at attractive returns.

Development costs

We are seeing some upward pressure on build costs, which typically account for 50–70% of our total development costs, reflective of supply chain pressures in securing materials and a reduced supply of EU labour post-Brexit. We anticipate build cost inflation of 3–5% over the next 12 months.

As part of our commitment to become a net zero business, we are targeting a 48% reduction in the embodied carbon of our developments by 2030. Building to a net zero standard is expected to result in small increases in construction costs. However, we expect this cost increase to be reflected in reduced land pricing over time and ultimately rewarded through a valuation premium for more sustainable buildings.

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Development costs are already fixed for our 2022 completions through design and build contracts. We have recently procured the build contracts for our 2023 delivery at Derby Road in Nottingham, which reflects recent inflation in materials and labour costs as well as incorporating low-carbon construction methods where possible. We expect that the combination of inflation and environmental enhancements will result in a reduction in our forecast yield on cost of c.10–20 basis points on deliveries in 2024 and 2025 compared to initial underwriting assumptions.

Despite current cost pressures, we continue to see opportunities to add to our development pipeline at attractive returns and will factor this expected inflation into our appraisal of future schemes.

University partnerships pipeline

We continue to make progress with our strategy of delivering growth through strategic partnerships with universities where student numbers are growing fastest. Reflecting the financial and operational constraints faced by universities, there is a growing appetite for partnerships. We see opportunities to capitalise on our brand and the goodwill created by our response to Covid-19 to accelerate and enhance our pipeline of University partnerships.

We intend to deliver our three London schemes as University partnerships in line with requirements in the new London Plan for the majority of new beds to be leased to a HE provider. The developments will help to meet the growing need for high-quality, purpose-built student accommodation in London and will incorporate a range of design features to reduce its embodied and operational carbon. We have secured planning support for the schemes from University partners and discussions are already underway with a view to agreeing a long-term nomination agreement.

In addition, we are in active discussions with a range of high-quality universities for new partnerships, which we are looking to progress over the next 12–18 months. We also continue to make progress with a significant further pipeline of medium-term opportunities.

Secured development and partnerships pipeline

	Target delivery	Secured beds No.	Total completed value £m	Total development costs £m	Capex in period £m	Capex remaining £m	Forecast NAV remaining £m	Forecast yield on cost %
Direct–let development								
Derby Road, Nottingham	2023	700	84	58	11	45	17	8.0%
Abbey Lane, Edinburgh	2024	298	33	24	1	21	9	8.3%
Wyvil Road, London[1]	2024	265	75	60	–	41	18	6.2%
Lower Parliament Street, Nottingham	2024	270	43	34	–	34	9	7.0%
Total wholly owned		**1,533**	**235**	**176**	**12**	**141**	**53**	**7.2%**
Long term university agreements								
Middlesex Street, London	2022	920	296	187	51	34	29	6.0%
Campbell House, Bristol	2022	431	63	44	12	7	8	6.2%
Temple Quarter, Bristol[1]	2024	596	85	67	1	64	18	6.2%
TP Paddington, London[1]	2024	768	203	156	3	151	48	6.0%
Stratford, London[1]	2025	1,008	251	160	–	158	92	6.3%
East London[1]	2026	700	241	177	–	177	63	5.4%
Total University partnerships		**4,423**	**1,139**	**791**	**67**	**591**	**258**	**6.0%**
Total pipeline (Unite share)		**5,956**	**1,374**	**967**	**79**	**732**	**311**	**6.2%**

1. Subject to obtaining planning consent.

Asset management

In addition to our development activity, we see significant opportunities to create value through asset management projects in our estate. Our customer base is currently dominated by 1st-year and international students but we see opportunities to segment our portfolio to better address the needs of returning and postgraduate students. These opportunities will be particularly focused on those cities where we have gained additional scale through our acquisition of Liberty Living. This activity will consider upgrades to the specification of our buildings and amenity spaces as well as incorporating investments to improve energy and carbon performance.

These asset management projects typically have shorter lead times than new developments (often carried out over the summer period) and have the potential to deliver attractive risk-adjusted returns. We intend to invest £35–50 million p.a. into such opportunities, delivering uplifts to rental income equivalent to an additional 0.5–1.0% of annual rental growth across the Group portfolio.

During 2021 we committed to three asset management schemes in Manchester. Investment across the three projects is £42 million in aggregate, which is expected to deliver a 7% yield on cost. The projects will deliver new accommodation, refurbish existing rooms and enhance the environmental performance of the underlying assets. The upgraded assets will support our segmentation strategy, with new specification and service tailored to the postgraduate market.

Disposal activity

We continue to manage the quality of the portfolio and our balance sheet leverage by recycling capital through disposals and reinvesting into developments and acquisitions of assets aligned to the best universities.

During the year, the Group contracted £261 million of disposals on a Unite share basis. This included a £133 million (Unite share: £90 million) portfolio of eight assets in Coventry, Wolverhampton, Birmingham, Exeter and Manchester to Aventicum at a 6.5% yield and a 2% discount to book value. Completion occurred during the year for seven of the assets with the sale of the remaining property in Manchester completing early in 2022. In June, we completed the sale of two London assets in Whitechapel and Wembley to LSAV for £342 million (Unite share: £171 million) at a 4.0% yield and in line with book value.

As part of our ongoing portfolio optimisation, we are in negotiations to sell a c.£235 million portfolio (Unite share) during the first half of 2022, which has been treated as held for sale in our year-end balance sheet.

Following these disposals, we will have largely completed the disposal programme set out at the time of our acquisition of Liberty Living in 2019. These disposals have helped to increase the alignment of our portfolio to the strongest university cities and our ability to sustain rental growth over a longer time horizon. Following our planned portfolio sale in 2022, we expect disposals to reduce to a lower level.

Nick Hayes
Group Property Director
23 February 2022