



CORAL STUDENT PORTFOLIO – MARKET UPDATE AND OUTLOOK 2012

In this year’s Coral Outlook 2012, we examine some important issues affecting student accommodation and how we expect to see the market evolving in the coming months.

As the UK Higher Education landscape changes irrevocably, investors into student accommodation have to look carefully at “Why, How and Where” to invest. “Why”, is an easy question to answer as the fundamentals of the asset class are as strong today as they were over a decade ago when investors first spotted the opportunities:

- Low tenancy defaults
- Steadily rising rental incomes
- High occupancy rates frequently in the high 90s in percentage terms
- An equally effective investment in recessionary times as in boom times

As the sector has matured, however, and has found itself caught up in external issues such as immigration and finance, answering “How” and “Where” have become much more of a hot potato. This report is intended to provide some insight and details of Coral’s unique solutions to some of these issues as we see them.

*“The (student accommodation) sector, has become a critical component of a balanced investment portfolio”
– Knight Frank , Student Property*

What Are The Issues Currently Affecting The Student Accommodation Sector?

Government Cuts and Fee Increases

Against the backdrop of a 40% reduction in non-research funding already planned for by 2014/15, Lord Browne’s review of the Higher Education sector revealed certain measures which will see dramatic changes to the way that a university education will be paid for.

Moving the emphasis from funding the Universities directly, the Browne Report suggested that students themselves should be given responsibility for more of their own tuition fees by increasing the previous caps that could be charged. Parliament has subsequently voted in favour of allowing universities to charge tuition fees between £6,000 and £9,000 per annum.

On the face of it, this appears to be a distinct disadvantage with less well-off students envisaged as being excluded from Higher Education due to cost. The real picture, however and the effects this change will have, may actually be less disadvantageous for the following reasons:

- The UK Government confirms that fees will not be payable at delivery as the existing system of direct settlement will still apply – students will now be responsible for the full fees but by way of Government-sponsored loans and grants.
- Further, by substantially increasing the pay-back threshold after which graduates will begin to repay their loans from £15,000 to £21,000, the UK

Proposed thresholds for repayment of tuition fees by graduate earnings

Annual earnings	Monthly gross income	Monthly payment
£0	£0	£0
£21,000	£1,750	£0
£25,000	£2,083	£30
£30,000	£2,500	£68
£40,000	£3,333	£143
£50,000	£4,167	£218
£60,000	£5,000	£293

Source: Securing a Sustainable Future for Higher Education in England, 2010

Government hopes to soften the impact of the extra indebtedness students will incur.

In summary, cuts in government spending and the shift towards students paying higher fees is all part of a leaner, more competitive and consumer-focused higher education system. With the Government's support by way of loans and grants, the fees issue does not have to be an insurmountable obstacle to obtaining a university education for many students.

UK Immigration Policy



In keeping with the UK Government's policy of better-managing immigration, the ease with which a purported student can obtain an entry visa is being reduced unless they can show that their intended course is *bona fide* and from an accredited institution. This is in contrast to an environment where previously many so-called study courses were, in fact, simply a cover for illegal immigration scams where in many cases the true aim was to circumvent visa regulations. On the face of it, this could be seen as a threat to foreign student numbers but with a promise from Government to "...do nothing that will prevent those coming here to study degree level courses"* , UK Universities should find themselves relatively unaffected by the new restrictions.

Looking forward, whilst removing any confusion over the issues surrounding the Tier 4 student visas is important, with projected numbers of foreign students growing strongly, it seems unlikely that this will have a significant effect upon any university's applicant numbers.

How Will Student Accommodation Funds Be Affected?

Student Recruitment

Based upon the experience of previous fee increases, it seems reasonable to expect that the inflated applications for 2011/12 ahead of the increases taking effect in 2012/13, will reduce applicant numbers for the next academic intake. This last happened in 2006 when increases prompted a short-lived fall in applications, with numbers recovering shortly afterwards. When polled by the HEFCE, just under half of UK universities indicated they were expecting a fall in numbers for the next year – an average of 2% is expected. Media reports have already spotlighted a fall in applications and even though firm data will not be available until January 2012, early indications are that there will be less applications for 2012/13 than the year before. It's also very worthwhile noting that for the 700,000 applicants vying for 2011/12 places, there were only 490,000 available places – a clear indication that a short-term drop in demand is unlikely to make too much of a dent in the numbers of successful applicants seeking accommodation.

Clearly, a UK university education continues to be held in high esteem around the world and this demand is set to expand exponentially in line with global wealth generation. Knight Frank, Student Property 2011

In noting that these numbers are still higher than pre-2010 levels, and remembering that there are far fewer places available than there are applicants, this will still lead to a continuing demand for purpose-built student accommodation (PBSA). Independently, the Higher Education Policy Institute is also forecasting the 2012 dip will be a one-off with demand recovering and showing steady future growth. Furthermore, when the continuing strong recruitment of foreign students is taken into consideration, the picture for privately-provided student housing maintains a rosy glow amid investment markets in general which are anything but promising.

A New Two Tier System?

What is becoming clear is that there is likely to be a two tier system forming as certain universities and colleges begin to stand-out as the winners in the new and more competitive higher education market whilst others will be less fortunate. Signs are that Russell Group institutions, the top-flight of UK universities, and a number of other top performers will probably gain the most in the new higher education landscape whilst the underperformers will be much less likely to thrive.

Whilst comment is divided whether any actual closures will occur, mergers are likely and lower student numbers and therefore demand for housing, may be a symptom of the institutions' uncompetitiveness amongst their more popular rivals. This clearly means that it will be even more important to target these better performers and to then drill down to ensure the demand/supply imbalance is still going to be strong – many top universities, e.g. Cambridge and Oxford, already boast sufficient supply of PBSA with others approaching oversupply.

This is a key issue that cannot be overstated – ensuring you are invested in the right location and even micro-location is imperative as the difference this can make to your returns could be substantial. No longer will simply investing into student housing be enough to succeed – investing in the right locations, close to the right universities and on a profitable basis will be vital.

New Consumers

Given the additional responsibility and choice they now have, students will be recognised more as consumers demanding high standards from their university experience. Along with the best academic, research and career facilities they will now be demanding high quality accommodation boasting internet access, utilities included and security and other amenities. These requirements are much more likely to be met by the high-quality PBSA that is typically provided by the private sector – increasingly universities, keen to advance their academic standards, will outsource the provision of student accommodation to these commercial operators.



The exciting new opportunities this will offer the commercial sector are likely to be substantial and attractive. In the new age, more PBSA will be provided by commercial operators who, experienced in the market, will be able to take full advantage of the burgeoning demand.

All Change!

Alongside changes in the higher education landscape, there are developments in architectural design to accommodate the different needs of students whether they are undergraduate, postgraduate or other mature students. Investment schemes accessing student accommodation cannot afford to fail to take this into account as there will be “value” or “budget” housing needs as well as higher quality developments demanded by wealthier or more mature students with different needs and perhaps deeper pockets. These differences will come into sharp relief as the higher education sector develops and changes over time.

Student accommodation investors must not fail to take notice as the inherent value created by the wealthier and/or more mature sector offers further investment potential. It is the undisputed growth in non-UK students in particular that is providing a vital component and underpin to the student housing investment market, again, well suited to the expertise and capability of the established private operators.

How Are Coral Placed to Deal With These Changes?

Right from its outset, the Coral Student Portfolio was created to provide an investment proposition that could respond to changes and developments in its target market. Its unique Fund of Funds structure actively provides greater flexibility, returns opportunities, diversification and liquidity provision options than any other fund in the market today.

No other fund accesses more student beds and locations in handpicked towns and cities. No other fund has the flexibility to invest into, or divest from, underlying holdings as quickly as Coral whilst its robust and topical liquidity strategy provides unparalleled peace-of-mind as well as investment control and opportunity. The fund was designed to be future proof.

What are the key points?

Targeting Key University Locations

Independent real estate consultants, Savills, recently highlighted Scotland as a key UK university hotspot with Edinburgh, Glasgow and Aberdeen getting good marks – Coral are already well represented there with 40% of their portfolio locations north of the border.

London and Russell Group universities in particular have been singled out as key investment targets by Knight Frank and CB Richard Ellis and Coral are already in the thick of it. The former has provided a “league table”, reproduced below which clearly shows the hotspots as they see them; Coral are well-exposed to the majority of these key locations in their current portfolio.

“Student numbers at universities in Scotland, Wales and Northern Ireland may not be as hard hit as institutions in England by rising tuition fees, as demand from within the region will continue to be high. Meanwhile, the best institutions will also compete to attract the higher fee-paying English, international and postgraduate students”. Savills Spotlight on Student Housing Winter 2011/12

Where to invest in the UK?

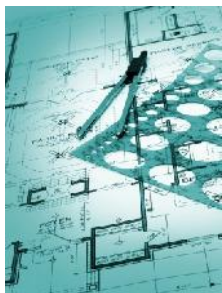
Overall ranking	Town/ City	No. of HEIs per town	All full-time Students 2009/10	Growth in student nos 2004/05-2009/10 (%)	Students enrolled vs university-owned bed spaces (demand/supply)	Full-time postgraduates as a % of all full-time students 2009-10	International students as a % of all full-time students 2009-10	Ranking average house price (Dec 2010)
1	London	40	291,815	20.7%	15.4%	25.5%	35.0%	1
2	Kingston	1	21,675	39.9%	10.9%	15.7%	22.3%	2
3	Brighton	2	25,345	18.1%	21.5%	13.9%	19.8%	5
4	Edinburgh	5	46,270	12.4%	20.8%	19.9%	32.3%	6
5	Oxford	2	31,620	6.7%	54.3%	27.7%	30.2%	3
6	Durham	1	14,290	2.6%	40.3%	21.5%	21.2%	19
7	Manchester	4	79,405	14.7%	18.7%	16.9%	21.2%	18
8	St Andrews	1	7,760	4.1%	50.2%	21.2%	47.3%	15
9	Bristol	2	38,560	18.0%	20.5%	15.1%	18.5%	12
10	Exeter	1	16,175	50.0%	26.6%	23.7%	25.4%	7
11	York	2	17,350	27.3%	33.9%	21.9%	19.8%	9
12	Newcastle	2	39,195	15.1%	20.3%	18.1%	23.8%	17
13	Glasgow	5	50,155	7.7%	13.2%	18.2%	18.1%	14
14	Bath	2	16,845	20.1%	25.7%	14.3%	25.5%	4
15	Canterbury	3	30,185	27.0%	22.5%	11.8%	17.5%	8
16	Bournemouth	2	16,170	41.0%	18.6%	9.1%	14.5%	11
17	Cambridge	2	30,790	10.4%	48.5%	24.0%	30.5%	10
18	Cardiff	2	29,760	10.0%	20.5%	18.1%	31.6%	13
19	Birmingham	5	55,300	18.0%	18.4%	18.4%	24.0%	16
20	Nottingham	2	50,630	20.0%	22.9%	17.8%	21.4%	20

Source: HESA, Good University Guide, Land Registry, Registers of Scotland
Note: House price rankings based on Local Authority level data

A major Coral holding, USAF, has 74% of its portfolio close to Russell Group universities such as Birmingham, Manchester, Liverpool and Bristol while UCT with 44% of its portfolio in London, provides a strong presence for Coral, enhancing our exposure to the nation's capital. Crosslane and St Regent enhance Coral's exposure to the top-four city of Edinburgh whilst Cordea Savill's properties in Bath, Leeds and Birmingham further increase our Russell Group access.

Importantly, it is not just our current portfolio composition where we are targeting key locations that emphasises our advantage, but it is also our uniquely flexible position that provides the capability to move, at will, amongst the student accommodation marketplace. Being unencumbered with any physical property, gives the Coral Student Portfolio exceptional and unique ability to create value and future-proof returns.

And There's More....



As mentioned at the top of this section, the Coral Student Portfolio was always designed to be a flexible and nimble vehicle that could adapt to, what we knew at outset, would become a dynamic and evolving real estate sector. It was important at the planning stage, to ensure the fund was responsive to change and could move on and adapt to the developments demanded by the new investment landscape, post 2008.

That is why, the Coral Student Portfolio uniquely in its market place:

- Has a topical, managed liquidity policy providing peace of mind as well as commercial advantage and flexibility
- Benefits from robust Luxembourg regulation, the World's most popular fund domicile
- Can re-balance its portfolio swiftly and decisively, unencumbered with physical property
- Combines collective in-house experience in excess of 25 years with unrivalled access to a wider range of value-earning propositions to ensure consistent and sustainable growth.

Finally, adding to these unique features, Coral is advised by, and works closely with, CB Richard Ellis, an established PBSA specialist, who provide initial selection screening and on-going portfolio monitoring at macro and micro level. Their expertise augments Coral's extensive in-house experience of the PBSA sector.

Summary

Student accommodation investment can play a key role within most portfolios, but inherent market conditions and developments as well as pre-existing issues such as liquidity, have to be effectively managed. In its unique position in the sector, Coral Student Portfolio can provide numerous benefits and advantages for investors making it a compelling proposition for the many who are seeking consistent and sustainable value.

*UK Government Minister Damien Green

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