

Transcript - Real Estate Finance Webinar

Student accommodation: Prospects and Opportunities

Daniyal Ansari

Good morning everyone.

Welcome to another BCLP Real Estate Finance webinar.

We will be talking about the student accommodations sector today and for those of you who don't know me, I am Daniyal Ansari. I'm a partner in the Real Estate Finance team here at BCLP in London. I'm pleased to say that we have a fantastic panel this morning. I think the most efficient thing is to let the panel introduce themselves. So in no particular order, Daniel do you want to take the lead.

Daniel Gorzawski

Sure, my pleasure.

Good morning everyone.

My name is Daniel Gorzawski, I'm the MD for Europe, heading European transactions for Harrison Streets. Harrison Streets is a fund manager active in the alternative real estate asset space for 15 years. We specialise on the education, healthcare, and storage sectors; managing approximately 26 billion of assets globally. We are the largest part owner of student housing in the US. We have invested more than over 145,000 beds; started to invest in Europe through our dedicated Spaniard European closet opportunities funds since 2015, and since then, have invested in developments and acquisitions of more than 3 billion across 5 countries, focusing on the UK, Ireland, France, Germany, and Spain. Here in Europe, our investment strategies are focused on student housing, micro-living, co-living, BTR, retirement living as well as life sciences.

Daniyal Ansari

Fantastic.

Thank you.

I can see that Nick Hayes's joined. Celia do you want to go next?

Celia Berg

Yep, sure.

Hi, I'm Celia Berg, I'm a Real Estate partner at BCLP and I head up our student accommodations sector group.

Daniyal Ansari

Great. Jason?

Jason Constable

Yea, good morning everybody.

Jason Constable, I run the Specialist Real Estate business at Barclays. Basically I run the structured finance platform for our London activity in the UK for the real estate business and corporate bank at Barclays we're a very active lender in the student accommodation sector.

Daniyal Ansari

Nick very pleased to see that you are able to join us. Perhaps you can give us a just a quick intro.

Hi Nick, can you hear us? Laura it sounds as though Nick may be having some trouble maybe it's worth getting IT to give Nick a call. I think he's having trouble

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with his mic.

BCLP Events Yep, will do.

Daniyal Ansari Well thanks everyone for joining us, I think in terms of the, the structure of this, of this short session, I think the panelists here perhaps touch on what the panelists have been experiencing over the previous 4/5 months, it's been an unprecedented period since lockdown began and then to touch on where we think the student sector is in the short to medium term and then talk about the availability of debt finance, during those periods.

So, kicking off on the first part of that, we are in our 5 month post lockdown, feels like a lifetime since it began and my first question to the panelists is just to hear about the specific challenges that you have faced during this period and, and how you dealt with, and clearly there's going to be very different kinds of challenges albeit with the common theme for Barclays and Harrison Street and I don't know who wants to take that one first.

Daniel Gorzawski I'm happy to go first, I think it would be very interesting to hear from Nick Hayes, so hopefully he'll manage to dial in at least on the audio and, you know, look, in the beginning it was all about health and safety of our tenants so making sure, you know, we monitor what's going on, making sure our Operators follow and have the right procedures and policies in place, admit to insure our tenants are safe and we comply to all health and safety regulations.

The second focus then was, you know, what does it mean [*audio broke up*] any tenants that are stopping paying rent so, you know, looking at rent collection, that has held up phenomenally well, we didn't really have to give any large rent relief programs like some of the business companies had to do which I think has to do with also their exposure more to the university of nomination agreements and lease directly.

And, you know, the third one was construction sites, so obviously there were several sites that were closed for two to three weeks and that's [*inaudible*] Europe with a UK, Germany or Spain.

Nothing too catastrophe in most of these cases, most of our developments are due to deliver, not this year but next year, so nobody needed that, no equity were expecting immediate cash flow and we can mostly make up for the lost time. We did have conversations and positive conversations on some covenant waivers with our lenders, like I said, overall, not too problematic of situations in our portfolio. I think, you know, the biggest question is what's the next semester going to look like? That's, that's really going to be key both, you know, for investors and for lenders to see.

Daniyal Ansari Well, that leads quite neatly into what Jason, into the lender experience over the past few months.

Jason Constable Yeah, I mean I think, the initial challenge for us was standing up a bank with 70,000 people working from home overnight which was a challenge in itself, but happy we come and got over that fairly quickly, inevitably major focus on the back

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book.

I'm dealing with a whole range of kind of relaxations that borrowers inevitably were seeking which came in a form of covenant waivers which Daniyal has mentioned, we had a plentiful supply of those kinds requests and capital repayment holiday just to ease a bit of burden on cash flows and so on and then to the point around Development Finance. Obviously, we're an active development financier we have a number of schemes that are kind of partly funded at the moment. So those again presented some very different challenges in the context of at that point really not knowing how long it was going to last for, how long the sites are going to be closed down for and really having to work hard and really draw on the fact that we have strong relationships with our sponsors to figure out, you know, how we would actually deal with, you know, a prolonged period of site being closed down and developments being stalled and what that would mean to build programs delivering on plans for academic year opening, you know, cost overruns potentially, etc. etc.

So a pretty frenetic period is fair to say and that has eased a little bit now, but that was also supplemented obviously with the whole range of government-sponsored lending schemes, which you know, we were front and center of as a UK clearer and getting across those and launching those in a hurry was something that we probably wouldn't want to have to go through on a regular basis is a pretty stressful time, but obviously all for their good intentions for and support our clients through this period.

Daniyal Ansari I'm guessing the implementation of those programmes has also had an impact on one resource?

Jason Constable Absolutely, not only just kind of freeing up resource to physically get a product launched. The kind of rules and conditions of these schemes were changing on an almost kind of daily basis, which was understandable because all kind of real-time and the government were reacting on a real-time basis and we were doing our best to slip it, you know get into the slipstream of that and then just making sure we could actually get the liquidity out to borrowers as quickly as possible.

So it really was an unprecedented kind of challenge that we had to kind of run with but, you know, again, the fundamental desire here was to you know, take the pressure off of borrowers and you know, keep businesses surviving. So it's clearly a very important work stream that we dedicated the right amount of resource to.

Daniyal Ansari Nick, I don't know whether you've got, whether it's working now...

Nick Hayes Yeah, it is, its...

Daniyal Ansari Oh, fantastic!

Nick Hayes You would have thought after three and a bit months of video conferences and working from home you would think I'd have mastered it but...

Daniyal Ansari I'm sure it's not you, it's very random, one in three times it works, you know, it's

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the, thank you for joining us.

We have all briefly introduced ourselves, perhaps now is a good time for you to do a quick intro.

Nick Hayes

Yeah sure, so my name is Nick Hayes, I'm the Group Property Director at Unite Students. We are the UK's largest student accommodation provider. We operate just under 75 thousand beds across a number of towns in the in England, Scotland and Wales.

Daniyal Ansari

Well this question, I think it's a question which is very relevant to I think Unite's experience over the past few months and in particular I have in mind the waiver of rent that I think you were one of the first major student accommodation providers to decide to implement back and I think like back in March or April and it would be very interesting to hear how you felt that went. You think that was the right decision?

Nick Hayes

Yeah, so I guess immediate response to Covid was, it was, three folds.

First of all, we wanted to make sure that we protected the financial position of the business, so make sure we're protecting the balance sheets, we wanted to make sure that we were ensuring safety for our staff members who were out at buildings and our customers and finally, we also needed to make sure that we were going to be seeing the right thing through the, through the, pandemic and it became clear pretty early on that students were leaving in their numbers and their drives pretty rapidly. Occupancy was dropping at an accelerated rate and we were getting a number of queries coming through from students in terms of what it means for their summer term payment and of course as it is a business, you know, like every other business, we haven't been through this pandemic before so kind of learning as we go and I think when the pandemic started I guess everyone with who was looking at it, and somewhat optimistically, was hoping that it might be an issue for a few weeks and then and it be back to normal thereafter and when it started to really set in and it became recognized this was going to be a longer-term issue, we realised that students weren't going to be returning we felt that the right thing to do was to forego the summer rent.

And obviously picked up with a number of our investors to see in terms of the way our business is structured with, we are listed on the [inaudible] we have a number of shareholders but also we have some joint venture partners as well and everyone was pretty much supportive of our approach and recognises that, that, it was the time to do the right thing. In order to do that we did obviously conflict with one of our strands of wanting to protect the balance sheet of the business, so clearly we then had to take other measures to ensure that we weren't going to either be in breach of our loan covenants and also stay solvent for what would be a prolonged period of time of uncertainty. So that looks to do a number of things.

First of all, we suspended our dividend and secondly, we paused all kind of non-essential capital expenditure. So we maintained our developments, that were due to complete this summer all other developments we paused and any non-essential and safety-related capex, we will also pause them.

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- Daniyal Ansari What was the approach that was taken by the lenders and by the sounds of it, it, was pretty supportive and they understood what was happening?
- Nick Hayes Yeah, I mean, I think we were fortunate enough that obviously again being listed, most real estate companies have a very low loan-to-value Covenant. So the LTV breach wasn't really in range and it would take, you know, a substantial material correction to come close to kind of breaching those covenants. We ran a number of internal tests on ICR, which I think is the one that's going to be most in focus as we go through this process and again and again given the level of nomination on the right that we have as a business, we were in a position where we weren't going to be reaching any of those covenants.
- So the conversations from that perspective were really supportive actually also I'd say the banks that we partner with have been brilliant through the process. So the real number of revolving facilities which we chose to draw down and had room within that was done with relative ease and done in good spirit between ourselves and the bank. So the response that we receive from our Banks was really brilliant.
- Daniyal Ansari Interesting, just briefly to Celia, I know that you have been seeing what's been happening in other parts of the market as well over the past few months. It'll be interesting to hear what your observations have been... does this chime with what we're seeing with other market participants and any views from any intermediaries about any engagement about what's been going on in the in the past few months and prospects for the short-term coming out.
- Celia Berg Yeah. Absolutely.
- I mean if anyone thinks they have sort of missed out on what's going on in the market, other than sort of one other matter that I think Nick could probably touch on, there's been very few deals actually occurred during covid, there's not a lot open on the market at the moment.
- There is some sort of off-market deals being discussed a sort of quiet conversations, but there was and there's quite a lot of kit ready to launch I think, so, I think that's sort of, when we get into the conversation about the future that's looking very positive a lot of players looking to invest but actually, in what's been going on for the last sort of three or four months, there have only been three or four deals that have been completed.
- The ones that we've been involved with sort of did complete at pre-Covid prices, there's some sort of rent guarantees to get you through this year, but on the whole, I think a lot of people retracted from the market altogether, we went into lockdown and we are now starting to see people coming back and deals that sort of started at the beginning of the year now ramping back up again. So so we're looking pretty good.
- Daniyal Ansari Well that leads us very neatly into the where are we going now part of the session, so perhaps I'll start with Daniel in terms of this academic year, I mean [inaudible] last year [inaudible] CBRE's website has indicated that demand is holding up pretty well, what's your view on where we'll be next year in September starting?

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Daniel Gorzawski

Yeah, I think it's very good and very important questions, like what's the short term intake? What's the medium to long-term impact?

So as a house view, we believe that you know, the impact of the crisis here will be on the student housing sector will be short term in nature.

We think in the medium term, you know, you look at the fundamentals and they're still incredibly strong. You mentioned a couple of data points, I can give you more so, they're actually right, number one, all universities here in the UK, you know confirmed that they want to start at the semester here for 2021 in time, the usual schedule. Some of them haven't decided whether they're going to offer a hybrid between online and in-class teaching. Their service with students you pay, what you have 89 percent of students wanting to return back to campuses because, you know, after 12 years living at home you have really got to love your parents or living at home. Universities, 97% of universities, convert their will provide some sort of in-person teaching at the beginning of Academic Year and you're right, enrollment for Academic Year 2021 is up by 1.2%., internationals is up over 5% and last year we had surplus applicants hundred sixty-five thousand circus applicants, you know, this is all not going away, the pressure on into the UK higher education market is still there and if you have a short term dip for a couple of months that are there like uncertain for them, the students is not going to take away the weight of the people who are still seeking higher education here, whether its domestic or also, international students value.

Daniyal Ansari

And what was fascinating is that international applications have increased proportionally more than domestic have.

Daniel Gorzawski

Yeah.

I mean as if UK is America is not offering a much better environment for instance, still university right now. So, you know comes down to the quality of the education, reputation of the education, English language and for many students that's still very attractive and also considering who the age group is that's most affected by Covid, the young people are least effected. So I think their view is as you know, if I can I would go back to university, deferral or gap year is also very attractive because what you do, you either travel the world, that's not a good situation right now, but you go get a get a job somewhere, that's also not a good situation, so they have people are speaking of undifferentiated.

People are, you know, reassigning themselves to start the Academic Year and it's the overall experience... you cannot recreate online, I mean, it's a social experience, you know, it's about meeting people, building a network, and growing up and maturing, and that's very impossible or very difficult to do online and you know, the communities are where people want to live close to campus and have that experience.

Daniyal Ansari

Jason, how about you?

Jason Constable

Yeah, definitely, you know the sentiment is there, obviously we bank a number of the universities as well and we're hearing exactly the same, you know, coming through in terms of student numbers and so on and you know, all of our sponsors

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who are generally reporting pretty decent reservation levels for the accommodation.

Clearly, you know, the million dollar question is will the students turn up and that that's the thing that as a lender we're kind of waiting for with bated breath. I think, you know, we feel definitely more confident than we did when lockdown first kind of came in and everyone was very sort of clear for us to what this might mean for us for a prolonged period of time in the students space, but I think those fears are definitely easing at quite a rapid rate and suddenly the sentiment seems quite positive that the students will return in numbers, you know, and whether that's kind of 75 to 80% occupancy rate and I think most of our sponsors would definitely kind of be happy with that.

And certainly that would keep all of their debt arrangements on a very even keel and I think I read this week that students already started returning I think Nottingham University sort of Veterinary students, so I hope that's a good sign that you know, when we get to September, they'll be a good influx of students back into accommodation. I think, I think Daniel is right, they are all keen to get out of the family home and back and get a bit more independence again.

Daniyal Ansari

Well just thinking about getting out of the family home and parental interference or are any of you seeing in terms of students who are coming back and who are reserving places are they... is there a shift away from communal shared spaces towards parents wanting their kids to be in studios or one suite? Because I know historically, that's, there's been some oversupply of studios for example in some places, but one of the issues that is being discussed, is that this may be a herald move towards that type of accommodation, have any of you seen that? I don't know, Nick, whether this, this, is something that you experience.

Nick Hayes

Yeah, I mean we've seen an uptick in demand and for studio accommodation. Our portfolio is just under 10% studios, so we're much more focused towards the affordable end of the spectrum cluster-led accommodation, but we've got our under 10% of our portfolio is studio based and we've seen sales accelerate in studios this year ahead of previous years - I see that though as a temporary thing - I think that is clearly a reaction to what we're seeing in the marketplace at the moment of what we're seeing as a result of the pandemic and I think medium folks will come back to affordability and students wanting to get value for money for their accommodation.

Daniel Gorzawski

One very strong trend that we've seen, firstly in the US, in that in our portfolio is, you know, the trend to almost de-densify from on campus accommodation. So, you know, parents, they are typically sending their kids to the dorms on campus that are university owned and managed.

A lot of those have said, Oh, okay, that's a little bit too crowded and looking for private purpose-built student accommodation that has less density, no dorms, no shared bathrooms. So, we've seen a very strong shift, just like Nick said, I think most of that is short term and then the medium term that's probably going to normalise a little bit, but definitely has raised awareness in the client or tenant base.

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Celia Berg Can you give us some insights on the sites at the universities, around correcting pods and things for their courses to help keep students safe.

Nick Hayes Yes, and it's really interesting.

We're getting kind of mixed messages from different universities. Obviously institutions are learning as they go and I think what was quite interesting was Sheffield Hallam, I think fairly early on, stated they weren't going to open until January and I think they had a real cliff edge then in terms of applications and interest from students, so they kind of quickly reversed that decision. I think it's crucial for universities to bring and get students back in on campus.

I think what we're seeing is that the universities, on the whole, they're trying to prioritize first-year students, getting them in from the start of what would have been the ordinary academic year. So, September/October with returning students and post graduates potentially starting in January time, but the kind of reaction has been has been mixed from universities.

It's actually, in fairness to the universities, they are looking at real creative ways to overcome the potential risk, particularly around international students and some institutions are even chartering jets to China to go and collect students and bring them to the UK and you would have seen in the press, also a few weeks ago, that the Government have appointed a representative from XT University to help with the effectively marketing UK HE into the international market. So, you know, the Government is doing all this from a from a Visa perspective to bring internationals in and like I said, I think the institutions have been creative as well in terms of trying to secure student numbers.

Daniyal Ansari I'm just conscious that we have, as ever, almost run out of time and I wanted to at least touch on the availability of debt.

I don't know how much will be able to touch on in the next couple of minutes, but Jason, I think the kinds of questions that people will have will be availability pricing, leverage, what does a good deal look like, is credit support going to come a feature of financing in this sector going forward... and what's your house view?

Jason Constable So it's a really important question.

So at the moment, you know, we're, I would say, more broadly, banks are very focused on this, this, coming Academic Year and just see whether that is a temporary blip that we need to sort of figure out from a structuring perspective, but you know, we're actively closing at the moment a couple of investment transactions where that's been dealt with through a rent guarantee structure in which Celia touched on earlier.

I'm also working on development transactions where you know, I think we can kind of look through the coming Academic Year with a bit more confidence. I think more generally whilst I think there is definitely debt available, and this isn't just limited to student accommodation, but I think you inevitably banks at the moment are, you know, taking a slightly more cautious view on risk and therefore, while still open, the probably brought leverage in to a degree and we've seen that

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certainly in the resi space, you know come in by, you know up to kind of ten percent loan to cost in the in extremis. And in conjunction with that, but you know inevitably, you know, risk-reward pricing hasn't moved out for a few reasons actually, not only the kind of view on risk premium, but you know, certainly the clearing banks in the UK have suffered increased funding costs throughout this period and that obviously squeezes your kind of net margins on your lending activity in that so that's a factor in kind of where we're headline margins are moving to as well.

So, it's been a general move out from what we've seen, but how permanent of a feature that is, is yet to be discovered, but I think it's fair to say that pricing on debt was generally kind of moving out pre-lockdown, this is just kind of accelerated that trend in somewhat.

Daniyal Ansari

Fantastic.

I'm afraid to say that the times up, conscious people's calendars.

To those who've asked questions, thank you, sorry we haven't had time to address them, we will try to come back to you separately.

And thank you very much to our panelists for their time, it was really interesting.

Thank you everyone.

Nick Hayes

Cheers, thank you.