



UK Living **Capital Markets**

Q1 2021

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Introduction

The end of the first quarter of 2021 highlights how much things can change over three months. Lockdown measures are being relaxed, over 40% of the population has had at least one vaccination and the outlook is optimistic.

Investor appetite for the Living sectors shows little sign of abating. The structural imbalance between supply and demand across our markets is a driving factor behind the wall of capital looking to enter the market.

At the same time, one of the biggest constraints is the limited number of operational platforms at scale. With an emphasis on building back better, the Living sectors have a vital role to play in shaping the post pandemic world.

Living reached a record high of 36% of all commercial real estate transactions in Q1 2021 in the UK, compared to 22% for 2020 as a whole.

Investors continue to look for different ways to access the Living sectors. Examples we have seen already this year include buying their own assets or entire platforms, partnering up with existing operators, or funding new developments.

Another lens to view the demand for Living through is the increasingly important role of environmental, social and corporate governance (ESG).

The staunch link between demographic trends and the need for modern, purpose built assets provides an extra opportunity for investors to target a range of growth markets in a sustainable manner that will help shape how we live longer term.



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Student Housing

This year has seen a strong start to the market, despite the challenges faced by the reintroduction of a national lockdown before the term got underway. In Q1 2021, over £1.3 billion of investment has taken place, compared to £250 million for the same period last year. The outlook for a positive rebound in transactional activity looks bright, reversing what has been constrained opportunities over much of the last 18 months.

Key deals included Greystar's purchase of 2,163 beds from KKR/Roundhill across London, Glasgow, Bristol and Coventry via their pan euro fund, separate to the Chapter platform. The debut purchase of three regional assets by the Ares/Generation estates joint venture; and Unite's sale of the Willow portfolio to Aventicum for £132.5m as advised by JLL.

Private equity accounted for 34% of all deals in the first three months of this year, compared to an average of 17% for 2016-2019. Investor demand for the sector remains high, although the debt markets are still erring on the side of caution for PBSA compared to other Living sectors.

From an operational perspective, occupancy is currently above 80%, having been below 50% in early January, due to the most recent lockdown. The latest ONS student COVID-19 impact survey shows that most students who intend to return to their term time address will do so in March and April, regardless of whether their course has fully resumed face to face teaching.

Leasing volumes for AY21 are at 55% for Q1. This compares to 67% for the same period last year, although it should be noted that 2020 saw an exceptionally strong start to the year in terms of rebookings. While leasing peaked at 85% for the current academic year, the removal of social distancing measures means operators and stakeholders will be optimistic about a return to more normal occupancy rates in September.

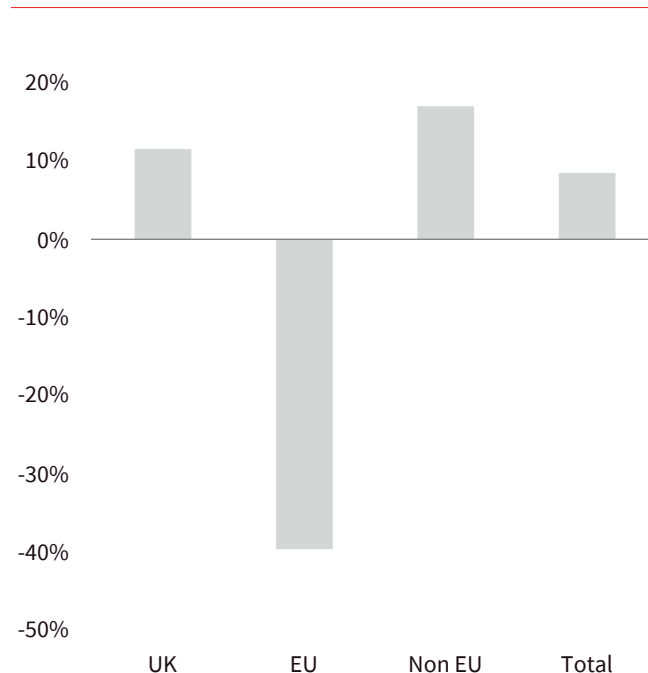
The latest UCAS data has increased optimism for the scale of demand for September. Overall, applications are up by over 8% year on year, with UK applications increasing by over 11% despite a continued drop in the 18-19 year old demographic.

Consequently, participation rates are above 40% for the first time, while the move to teacher assessed grades should remove some of the disruption witnessed last August.

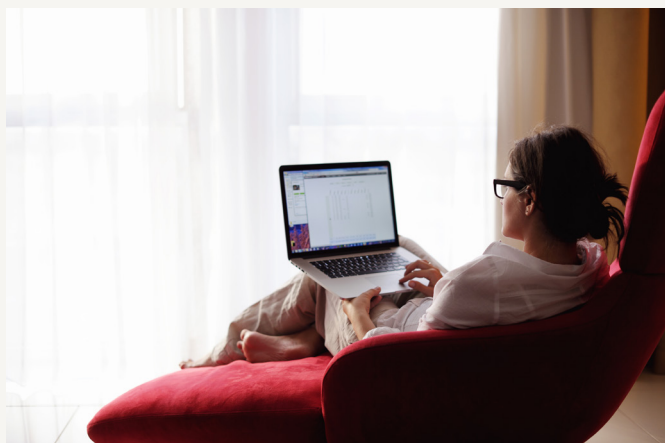
Non-EU applications have grown by 17% year on year, although the overall change in international applications is pulled down by a 34% drop in EU applicants. However, this is part of a wider structural decline in EU student numbers over recent years and will be more than offset by strong domestic demand and the higher application rates from non-EU markets.

In a further boost to PBSA demand, postgraduate numbers are likely to increase because of the weak jobs market. The unemployment rate for recent graduates stands at 12%, compared to 6.7% at the start of 2020. Although the GDP outlook for the 2021 and 2022 show a strong rebound in growth, the jobs market may take longer to recover. This is likely to boost postgraduate demand, which recorded a 17% increase during the global financial crisis, the last major economic shock.

UCAS applications change yr/yr



Source: UCAS



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Coliving

In the post pandemic market, Coliving has the potential to grow rapidly as a sector. Firstly, there is the opportunity. John Lewis has announced the closure of eight stores, while Debenhams and Top Shop have closed or gone into administration in recent months.

The look of the high street and how we use it is going to be different in a post pandemic world. A good example of this is Viewranks Estates' Nineyards scheme in Kingston. Currently a Sports Direct and PC World, planning consent for 200 units above community and coworking space on the ground floor was granted in December 2020.

The main advantage of coliving is the flexibility it offers. How and where people work is changing rapidly. In March, Nationwide announced that 13,000 of its office-based workers could choose where they work, while Microsoft is now assuming all staff will work from home up to 50% of the time as standard.

With people more likely to live further away from the office as a result, for those few days a week in the office, staying overnight on a regular basis will provide a more sustainable, and in some instances more affordable, solution than commuting.

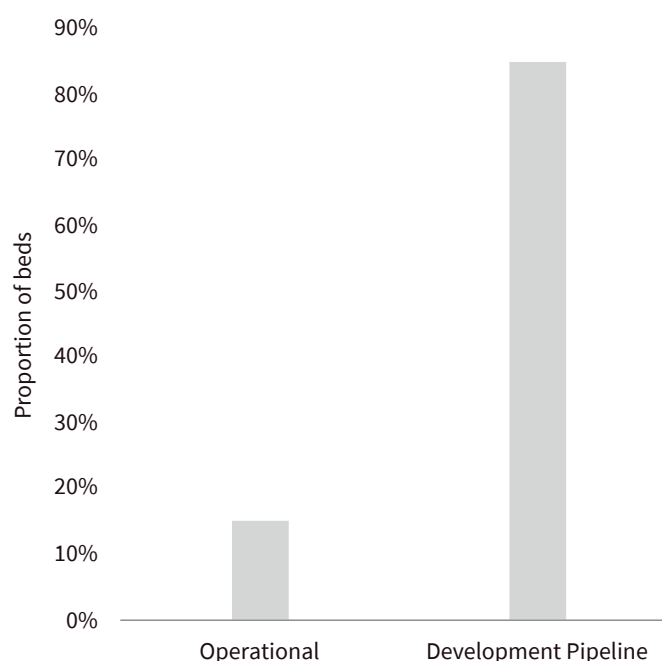
Consequently, the scope for the corporate let market to bulk lease beds, or for workers to privately take on their own space, can provide the market with a sizeable level of demand. At the same time, committed urban dwellers have access to a wider range of accommodation that suits their needs.

At present, most of the sector's potential capacity is still to be developed. Of the 18,000 beds in the sector, only 15% are operational. The rest are either under construction or in the planning system. London remains the most significant market with 44% of all beds built or planned, although the regional share continues to grow.



Recent new schemes announced include Vonder's 313 beds in Wembley, while the net-zero mixed use Curzon Wharf masterplan proposed in Birmingham by Woodbourne Group includes plans for a 14 storey coliving tower. Meanwhile the Collective, the sector's largest operator, has completed another forward funding deal with jv partner DTZ investors for its recently approved 260 bed-scheme in Battersea.

Coliving market



Source: JLL

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Build To Rent

Fresh off the heels of a record 2020, it has been a busy first quarter this year for the Build To Rent (BTR) sector. Overall investment volumes for the period stand at £1.4 billion, up by 54% for the same period year on year, but down on the £1.99 billion recorded in Q4 2020. Once more there is a heavy focus on development opportunities and forward funding.

In the regions, new schemes continue to come forward in both the main cities and key market towns. Amstone Venutres has completed on a 550-bed site in Stockport, while Apache Capital Partners and Harrison Street have secured debt funding for 433 units in Glasgow to be operated by Moda Living.

Other notable activity includes Avanton launching a £500 million fund focused on London, while consents have been granted for Platform to build 453 units in Edinburgh and 492 units in Basildon for Orwell Real Estate.

The pandemic had an impact on the delivery of new BTR schemes in 2020. Since 2015, completions have been growing at an average rate of 50% per annum. In 2020, there were just under 10,000 completions, marginally lower than the total for 2019.

Much of this was due to the impact of the pandemic however, and construction activity levels are expected to bounce back sharply with more than 16,000 units due to complete in 2021.

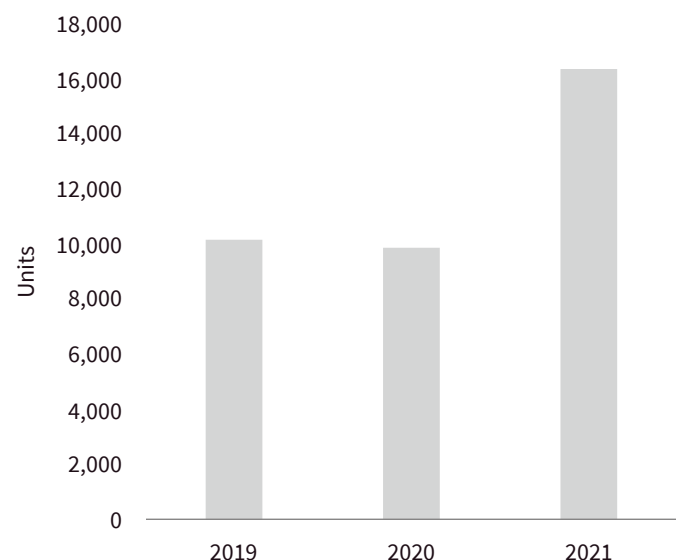
From an operational perspective, performance remains strong. Occupancy in January for multifamily stood at 96.6%. Rent collection rates also strong at 96.7%. This compares favourably to the US market where rent collection for the same period was 93%.

While much of the focus of the BTR sector to date has been on urban, high density living, this year will see the introduction of the single family market which will be lower density in more suburban locations. Private renters with children account for 36% of the total private rented sector and is the fastest growing section of the market.

The spring budget saw the introduction of government backed 95% LTV mortgages, and along with help to buy, there are more measures available to would-be first-time buyers. However, such measures also dilute some of the advantages of home ownership, whereas renting provides more flexibility to these households should they need to move or circumstances change. The relevance of this is particularly pertinent in the wake of the pandemic and people reassess their live work balance.

The average length of stay in a home for renters continues to increase, and with the growth of professionally managed schemes, renting as a lifestyle choice will become even more appealing if it comes with leisure, childcare facilities and working space provided as part of an all inclusive package.

UK BTR completions



Source: JLL



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Later Living

The main news story for Q1 2021 in the Later Living sector is the welcoming news that COVID-19 vaccines have been offered to 94% of all care home residents. The outstanding amount is due to those either too frail to have a vaccine or those who are within a 28-day window of having the virus. Despite the scale of the second wave, the impact on care homes has been noticeably lower this time round.

The measures introduced by operators and care staff to protect residents have added greater protection, in addition to the priority focus of the vaccination rollout. The interim results from Target Healthcare REIT highlight this, with cases in just 0.6% of the portfolio beds in March 2021, compared to 3.2% in April 2020.

Deal wise, Octopus Healthcare Fund has purchased an 80-bed development site in Derby from Torsion Care, while Aedificia continues to expand in the UK with the purchase of three care homes across Essex from Excelcare for £40 million in January.

The Belgian REIT has also purchased a 66-bed care home development in Shipley, two sites in Northamptonshire for £25 million and made its first purchases in Ireland, buying five care homes in two separate deals with Virtue for €25 million and €26.5 million respectively. Another new European entrant to the market is the French operator Korian, having entered exclusive negotiations to purchase Berkley Care Group.

One thing that the pandemic has highlighted is the need for a modern, purpose-built care home market with self-contained units. The proportion of care home beds with no en-suite is still high at 23%. JLL's own projections highlight the need for over 10,000 new care home beds per annum over the next decade. In 2020, over 7,100 new beds completed, although with closures considered, resulted in a net gain of just 2,500 beds.

The latest draft of the London plan has a target for just 867 new care home beds per annum, which equate to 75% of our forecast increase in care home demand in the capital. The plan does however have more ambitious targets relating to Later Living. It has identified the need for 4,000 Later Living units per annum to be completed per annum over the course of the next decade. What stands out about this target is that only 6,300 Later Living units were built in 2020 nationally. This target for London would account for 8% of all new housing built in the capital, close to JLL's benchmark of 10%.

The Association of Retirement Community Operators (ARCO) has set out several recommendations in its recent Grey Paper which JLL fully supports. It is encouraging to see planning policy starting to reflect the need for age specific accommodation, especially in the wake of some recent high-profile planning decisions. Plans from the industry and MPs for a Later Living taskforce to be set up are also welcome.

That Later Living has a role in freeing up housing elsewhere in the housing market, while at the same time reducing pressure on the care homes is already known. A recent report

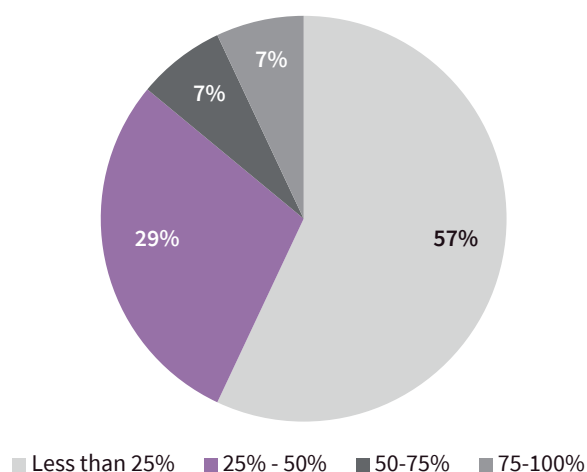
commissioned by the Department of Health and Social Care has highlighted that it can also help to alleviate pressure on the NHS, both in reducing the number of visits to GPS and the length of hospital stays.

Perhaps more urgently, the disconnect between the quality of product on offer in the market and the demands and affluence of the baby boomer generation needs to be addressed to accelerate the transition towards a lifestyle led Later Living market. One way to drive this with the growing investor interest in later living is to shift towards retirement rental products to create a wider range of choice for residents.

In the US, over 50% of the market and the majority of grade A stock is in this tenure. The important role amenities play in supporting the lifestyle element of this sector makes leasehold ownership more challenging, especially when the reforms to ground rent charges in the UK are taken into consideration.

Currently, less than 1% of later living beds in the UK are privately rented, but a survey by JLL has highlighted that over 65% of later living operators are planning to increase their rental offering over the next two years. Lone Star's £647 million acquisition of McCarthy & Stone late last year is set to lead to an increased focus on the rental market, as highlighted by the recent £200m financing deal with John Laing and Macquarie Capital for 650 rental units over the next 12 months with the developer.

What % of your units do you plan/hope to be rental in the next 24 months?



Source: JLL Later Living Rental Sentiment Survey



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Insights - Loan Advisory & Restructuring Services

The global pandemic has created unprecedented challenges across almost every real estate sector and, lest we forget, the worst economic recession in over 300 years. To provide even more context, towards the latter part of 2020 the European Central Bank suggested that post pandemic Non-Performing Loan (NPL) volumes could peak as high as €1.4bn – levels that even exceed the worst of the Global Financial Crisis.

To date though, due to a combination of government stimulus and lender forbearance, levels of distress, outside of retail and hospitality, have been largely subdued. In fact, relatively speaking, it is fair to say there have even been some winners, albeit they are few and far between.

One such winner has been residential which, alongside sheds, has been a shining light in a sea of darkness. That said, the pandemic has created inevitable challenges, particularly for smaller developers who have faced a combination of issues including construction delays and, in some cases, the mothballing of construction sites as well as, during the initial lockdown in particular, the breakdown of supply chains and a decline in consumer confidence. As a result, many developers have faced, at some point in time, the pressure of increased costs and have been forced to actively manage cashflows while working hard to maintain ongoing lender support. However, initial post pandemic stress in the residential sector has largely subsided and new build sales have been robust, underpinned by reduced supply as well as significant government support in the form of Help-to-Buy and, more specifically, positive changes to stamp duty. Large listed national housebuilders in particular have traded well, recovering a significant element of their post pandemic share price declines, with recent M&A activity in the sector, such as the long anticipated sale of Keir Living as well as the Jeff Fairburn led acquisition of Avant Homes, further evidencing such positive sentiment.

The UK government's vaccine rollout programme has helped trigger a marked surge in optimism in England as lockdown restrictions were eased at the beginning of Q2 2021 and the economy was able to slowly start to reopen. Notwithstanding this optimism, business leaders across the construction and development industry remain cautious particularly as so-called COVID-19 third waves hit other countries and the UK government increasingly signals that it is only a matter of time before this country is similarly impacted albeit, hopefully so, from a much stronger starting position than before and the UK government highlights the risks of new variants.

JLL's Loan Advisory and Restructuring Services (LARS) has been able to support a range of clients, including UK national and regional housebuilders through to single site developers, navigate their way through the crisis. We have dealt with a wide range of situations including covenant breaches, cashflow shortfalls, viability and solvency concerns. Given the combination of our financial and real estate expertise, the LARS team have to date undertaken independent business reviews (IBR), sourced new funding lines and restructured existing facilities and in so doing, supported our clients in the residential world deal with the challenges created by the pandemic.

Importantly, experience has shown that clients – be they lenders, borrowers or investors – who deal with their issues early and seek appropriate professional advice, are invariably better placed to survive and prosper.

The LARS team is actively advising on a range of residential related situations which have a cumulative value >£1bn. Our multi-disciplinary team, drawn from banking, legal and accountancy backgrounds, provides a unique one-stop-shop offering that enables us to work rapidly to identify and deliver the best solutions for our clients during difficult times.



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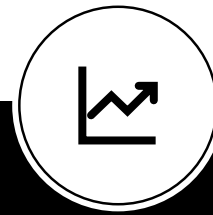
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Summary



A lot has happened since the announcement of the roadmap out of lockdown on the 22nd of February. One highlight is the success of the vaccine rollout in ensuring those in the top nine priority groups in receiving their jabs ahead of the April 15th deadline. While the pace of vaccinations is set to ease in April, the proposed benchmark dates in May and June appear to be still on track as hospitalisations and deaths from COVID-19 continue to fall.



The spring budget revealed that the Office for Budget Responsibility expect the economy to grow by 7.4% in 2021, before returning to pre-pandemic levels in early 2022. The latest PMI data from Markit suggests that the pace of recovery is even stronger than was anticipated, with a score of 56.6 in March, the highest level for seven months and set against a forecast score of 51.



With emphasis now very much on the recovery stage, new opportunities for the Living sectors will become increasingly abundant. Investor appetite for Living remains strong, reinforced to an extent by the various degrees of resilience shown by the respective markets in recent months and the strong demographic and structural fundamentals that underpin them. In the coming months, asset diversification and repurposing will become a key feature of the market which will help accelerate the sector's growth.



Sentiment for the rest of 2021 was already strong amongst investors and operators within the Living markets. With the economic outlook improving and the real-life efficacy of the vaccines better than expected, we are expecting a notable increase in market activity over the coming year.

