

Residential Property
Research



Student
Investment
Property in
Liverpool, 2011



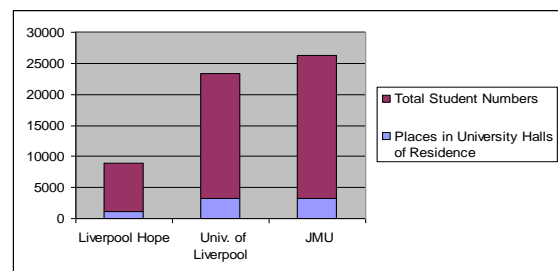
Why invest in student property?

In recent years, and most significantly since the financial turmoil of the credit crunch, student accommodation has come to be regarded as an important asset class within the broader property investment market, owing in the main to the fact that such assets have proven to deliver steady incomes and demonstrable yield compression. Research undertaken as recently 2010 by Knight Frank noted that 'rental growth in the student sector remains robust, recording growth of 5% per annum (which) compares favourably with growth in the commercial sector of 0.5%'.

In spite of recent reforms of higher education, prompted by recommendations made in the Browne Report of 2010 which will see universities given the freedom to charge prospective UK students up to £9000 per annum in course fees, the number of people seeking to undertake a degree course or other form of higher education is expected to continue to grow. The demand for accommodation to cater for the housing needs of this large client base (some 450,000 people per annum) means that landlords that hold good quality property in the right location should have little problem in achieving 100% occupancy and consequently be able to enjoy a steady and stable income year-on-year.

Liverpool is an ideal location in which to invest in this type of property asset class. Both locally and nationally, there is a distinct shortfall in the number of beds provided by universities in the form of Halls of Residence (according to Knight Frank, the three universities were only able to accommodate 20% of total students in university Halls as of this year), and while large scale developers such as Unite, Liberty Living and Cosmopolitan have sought to fill this void with purposed built, mainly city centre developments, there is still a huge

student population whose housing needs need to be met, whether this be due to the aforementioned shortfall, because such rental accommodation doesn't suit their needs, or because much of what's on offer falls outside of their budget.



University accommodation provision compared with student intake.

Success when investing in student accommodation, as with all property classes, primarily comes down to location and securing properties for the right price. In city centre locations, investors face competition from commercial and retail investors for real estate. It is important to gain some knowledge and insight into what the key student areas are in the outlying areas of any city - close enough to university campuses, local amenities and nightlife, but far enough from the centre for property prices to be competitive and allow investors a good return on their investment.

In Liverpool, several of the key student areas lie in districts where market values for residential properties fall well below the national average. This, coupled with the fact that these self-same areas (**Kensington** and **Wavertree**, among others) have been designated as 'Regeneration Zones' and are ripe for substantial investment from the local authority and private finance initiatives (PFIs) for improvements of infrastructure, new property development and gentrification, all of which will increase capital and future marketability of existing properties at no cost to landlords.

It is important to note, that students determine where best to invest in student accommodation. Invest where they live and congregate today, and don't second guess where they may wish to live as an alternative. Communities, whether students or otherwise, move to a particular area because that's where their community is and as a result expansion is inevitable in terms of people and infrastructure.

Higher Education reforms – what potential impact will these have on the sector?

The relaxing of limits set on how much universities are able to charge their students in fees, with the ceiling now set at a maximum of £9000 per annum from 2012-2013 means that, more than ever before, students will be assessing the services that a university offers them from the critical standpoint of consumers, and will be seeking ensure that they get good value for money from their chosen institution.

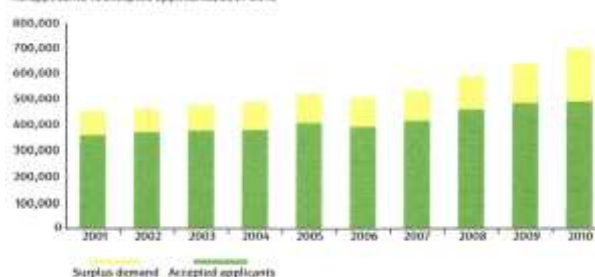
No-one can safely or accurately forecast what impact the increase in tuition fees will have. One could rightly assume that it will give school-leavers more pause for thought about what it is they hope to achieve through furthering their education, and prompt them to be more specific about what their long term career goals actually are before embarking on a three year degree course (indeed, preliminary figures from UCAS for the approaching academic year 2011-2012 show a decline in applications for niche subjects such as linguistics and classical languages such as Greek & Latin, whereas job specific courses such as veterinary science, medicine and nursing have seen a significant increase, s have business related degrees, suggesting that more and more students are career focussed in the subjects they are pursuing).

Pessimists may argue that the impending increase in fees (300% on the current rate) will serve to deter a vast swathe of school leavers from applying for university studies as of next year, with a knock-on effect on all those businesses and services that depend on students, yet all evidence suggests that such negativity is unwarranted. While it's true that the considerable increase in fees will have some impact, there are several key factors that need to be considered, and which point towards the market for further education in both Liverpool

and across broader England remaining buoyant and an attractive investment proposition. The key points to be considered are detailed below:

Student demand for university places exceeds supply

All applicants vs accepted applicants, 2001-2010



Source: UCAS

- Fees are due to increase, but it's important to bear in mind that no UK students will be required to pay their course fees up front. Rather, they will be able to finance their studies, as well as their living expenses, through the Student Loans Company. The arrangements under which they repay the fees have changed too, with graduates only required to begin repaying their loans when they start earning a salary of over £21,000.

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

- The demand for a university education in the UK far exceeds the amount of university places available in any academic year. Consequently, even if the number of applicants tails off for the academic year 2012-2013 from the trajectory they have been following in recent years, it's almost certain that all places will be filled.
- In times of economic turmoil, it is widely acknowledged that many see furthering their skills to set them apart from their peers in an increasingly competitive job market as being the wisest move to undertake. Not only that, by undertaking worthwhile steps towards professional development during an economic downturn, a student would hope that the fortunes of the economy and the state of the job market would have altered somewhat over a three year period by the time they were due to graduate.
- The United Kingdom, and England in particular, enjoys a world class reputation for the standard of education provided by its universities, attracting a huge number of applicants from the EU and further afield, and this interest shows no sign of abating – indeed, figures from UCAS (April 2011) show that applications from non-EU nationals were 7.7% higher than in the previous year, this in spite of the ongoing uncertainty and instability in the world economy. With economic growth continuing apace in the BRIC nations, as well as other emerging markets in both Asia, Latin America and the Middle East, it seems a safe bet to assume that interest in UK university education remains assured for the foreseeable future.

Liverpool's future prospects as a centre for learning

Liverpool boasts three universities, these being the University of Liverpool, Liverpool John Moores and Liverpool Hope, as well as several other higher education institutions (HEIs), including Liverpool Community College, LIPA (Liverpool Institute of Performing Arts) and Hugh Baird College in nearby Bootle.

The universities alone draw in fifty thousand students from around the UK, the European Union and further afield, and each have their own unique selling points:



The University of Liverpool is the city's oldest university, a Victorian, red-brick institution that has produced eight Nobel laureates in its time. A member of the Russell Group (the UK's equivalent to the Ivy League in the US), the university is recognised as being one of the top 20 research led universities in the UK, and is renowned for, among other things, being a leading institution in the fields of medicine (Clinical Medicine, Health Sciences, Dentistry, Veterinary Science and Tropical Medicine). The university is also extremely progressive and forward-thinking, opening the first Anglo-Asian university in collaboration with Xian-Jiatong University in Suzho, China in 2006.

* * * * *



Liverpool John Moores University is a forward thinking institution that has held university status since 1992 (established in 1823, it existed formerly as the Liverpool Mechanics' School of Arts and then Liverpool Polytechnic).

It is well placed to meet the new requirements laid out by the government under the new funding arrangements, notably that see HEIs seek to liaise with businesses to equip their students with practical business skills and experience in addition to academic knowledge. Liverpool JMU led the way in this area through its pioneering 'WoW' programme (World of Work) that it embarked on in 2004, a scheme saw the university team up with local and national businesses to set up practical work experience placements and other initiatives to ensure that all of its graduates left the institution having acquired hands-on experience that would benefit them when applying for job opportunities in their chosen vocation and make them more attractive to prospective employers.

The university boasts an extremely high standard of services and facilities for its students, including three well stocked, 24 hour libraries/learning resource centres, and is a leading institution in the teaching of Engineering, Built Environment, Physical Education and Sports Science.

* * * * *



Liverpool Hope University started out as an ecumenical teacher training college in Childwall, Liverpool in 1844, gaining accredited status as a university in 2005. Significantly smaller than the city's two other universities, it caters for approximately 7,500 students across its two campuses in Hope Park, Childwall and its new facilities that cater for the creative arts at its Cornerstone campus in Everton.

The university is extremely successful in preparing its graduates for the world of work, and has a success rate of enabling 97.3% of its students to make the transition into paid employment, the highest success rate of any university in the North West of England. Renowned for its expertise in teacher training and the courses it offers in social work, it enjoys a good reputation internationally, having attracted students from 65 countries worldwide in the short period that it has been a fully fledged accredited university.

* * * * *

Liverpool has every reason to be optimistic for the future, and this belief is self-evident in the investment that all three of the city's universities are making in their infrastructure.

Among other things, the University of Liverpool is investing £25 million in the development of state-of-the-art teaching laboratories for the physical sciences, and over the next decade plans to invest £600 million on teaching, research and residential estate, whereas Liverpool John Moores has invested £37 million in the new Redmonds building alone, which will open in 2012, and which will house the faculty of arts, professional and social studies, including the Liverpool screen school. It is also unveiling a new centre for entrepreneurship this year which will provide dedicated incubation space for student and graduate entrepreneurs, plus expert business advice and guidance, as well as new sporting facilities include a 25m pool, an Astro pitch, an indoor sports hall, gymnasiums and dance studios, and outdoor netball and tennis courts. Liverpool Hope, too, has seen recent investment in its facilities and

infrastructure, having invested £13 million in The Capstone, a new centre for music, performance and innovation, and the Eden building, a new home for the university's faculty of education, both of which opened in 2010.

The perception that students have of the city as a place of learning, and their feedback as to their experiences here, also bode well for the future. Data gathered for the website accommodationforstudents.com found that, of the 46,000 students surveyed, 62% voted Liverpool as the best place to study in the UK. Both Liverpool JMU and the University of Liverpool enjoyed similarly good feedback in 'The Times Good University Guide's' student satisfaction survey, with the former scoring an extremely positive score of 74, the latter an even more impressive 77.

Institutions within the city have other causes to be optimistic. According to UCAS data, both the University of Liverpool and Liverpool JMU have seen a healthy increase in applications in recent times, something which mirrors or exceeds the trend at national level. The University of

Liverpool saw a 17% increase in year-on-year applications between 2008 and 2010, with applications rising from 27,465 to 32,022, while Liverpool JMU attracted applications from 34,162 prospective students in 2010, a 22% increase on their 2008 figure of 28,123.

Student accommodation in Liverpool

Given the broad range of housing stock that the city has to offer, from purpose built halls of residence and compact city centre studios to small Victorian terraces in neighbourhoods just beyond the periphery of the city centre, it's little wonder that the student population is dispersed across a broad area, basing their decisions on a variety of factors, namely transport links, proximity to campus, local amenities, desirability of the local area and, of course, finance. However, the bulk of the 50,000 students that settle in Liverpool annually are primarily concentrated in five main areas, these being the city centre, the affordable, working class neighbourhoods of Smithdown/Wavertree and Kensington, more upmarket Allerton/Mossley Hill, and the leafier, bohemian area of Aigburth, which is in close proximity to Sefton Park.

Purpose built halls of residence, both university run and those privately managed by firms such as Liberty Living, UNITE and Cosmopolitan, are either based centrally or in the Mossley Hill area of the city, while studio flats are the predominantly available in the centre. Further afield, some 10/15minutes by bus from the city centre, in areas such as Smithdown/Wavertree, Kensington and Aigburth, residential properties are let as house shares.

A large proportion of second and third year students opt for house-shares, and for a variety of reasons, namely cost, as this option invariably works out cheaper than remaining in halls of residence or studio accommodation in the city centre, and the fact that they have adjusted and settled in the city, know the area better and have established a network of friends in there 'fresher' year, thereby making the option of sharing less daunting. Housing stock utilised for house-shares typically consist of 2, 3 or 4 bedroom terraced properties that have one shared kitchen and bathroom. It's common for student landlords to let one of the downstairs reception rooms as an additional bedroom, thereby increasing yield on the property, and this limited communal space doesn't seem to deter students when considering where to live.

Of all the student areas in the city, it's safe to assume that, in the main, properties in and around the most popular student area of Smithdown / Wavertree offer the best scope for investment. A maximum of 20 minutes away from the city centre by either the 86 or designated student service 699 (as quick as 10 minutes in off-peak traffic periods, amenities serve the local community well in terms of two large supermarkets, a range of local shops and services (doctors, dentists, hairdressers, newsagents, pubs and a large, recently built council sports facility complete with swimming pool) and the local housing stock, being mainly Victorian terraces ideally suited to student lets, are on the market for considerably less than the national average market rate. A vast swathe of regeneration at the end of the main thoroughfare of Smithdown Road closest to the town centre, as well as adjoining streets, will see run-down streets that had become a bit of a blight on the rest of area replaced with new build family properties, which will further increase

the market value and desirability of surrounding areas in the coming years, adding additional value to any investments in the area.



Kensington:

Cheap accommodation in an area currently undergoing massive regeneration; ten minutes from the city centre, and on a variety of frequent bus routes; good local amenities: GP surgeries, library, Sainsbury's, Aldi and Tesco, plus many local shops; within easy reach of LJMU's Byrom St campus, University of Liverpool's various medical schools and Liverpool Hope's Creative campus in Everton.

Smithdown Road / Wavertree:

2 miles from city centre, well served by buses (no. 86 every 5 mins daytime); large student area; 15 min walk from Sefton Park & Princes Park; good local amenities: Wavertree Lifestyles Sports Centre, ASDA, Aldi, several large GP surgeries; several popular student pubs including The Brookhouse, Willowbank & Kelly's.

'I chose to live in Wavertree as it suited my needs perfectly - a popular student area with affordable accommodation and within easy reach of the city centre by bus. House-sharing gave me the opportunity to meet fellow students from a variety of backgrounds, there were plenty of student-friendly pubs on Smithdown Road, especially Kelly's Dispensary, to unwind in, and my house was only a 20 minute walk away from Sefton Park - perfect!' Chul-Min Chung - PhD Student, English Literature, University of Liverpool

Allerton/Mossley:

Upmarket area of the city, 4 miles from the city centre, well served by buses (no. 86 every 5 mins daytime) and two train stations, Mossley Hill & West Allerton; almost a town within the city, with good amenities: high street shops, numerous bars & restaurants, GP surgeries

'I spent my first year living in Carnatic Halls and, loving the area, decided to make the Allerton / Mossley Hill area my home with two course mates for my 2nd & 3rd year. The infamous Penny Lane is only a few streets away, Allerton is like a small town in its own right, and yet the city centre is an easy commute away by bus, bike or taxi. The area boasts loads of good restaurants, the gorgeous Calderstones Park and great local amenities such as the library and Tesco etc - everything you could want really in quite an upmarket yet affordable area ...' M. Giezug - MA student, Liverpool JMU

Central Liverpool:

A vibrant regenerated city centre, with access to great bars, restaurants, cultural attractions and university facilities; convenient transport links to other cities; favourable rents compared to other UK inner city locations.

'I settled in the city centre in my first year for convenience, and to be at the heart of all the action - the nightlife and the culture mainly. I envisaged moving into the suburbs where it was quieter in my 2nd and 3rd year, but the sheer convenience of city centre living and the fact that the university has 24H library facilities means it's been ideal to complete my final year studies. More expensive than living in outlying areas, I think money saved on commuting & taxis compensates for this ...'

K. Haddley, University of Liverpool

Aigburth / Sefton Park:

Leafy, bohemian, upmarket area of the city, on the fringes of Sefton Park; excellent transport links, with rail, services to St Michaels and Aigburth stations and the no. 82 bus to the city centre & good local amenities: Tesco, two nearby libraries, close proximity to Lark Lane & Aigburth Vale, with excellent bars and restaurants.

'Myself and my partner were very fortunate to get a studio in Aigburth, as student demand in the area. I love the fact that we are so close to Lark Lane and Sefton Park as it feels we live in a village rather than a big city, and the university is only ten minutes away by bus. I'd recommend the area to anyone, it's definitely worth paying that little extra for'

M.B.Garcia - MBA student

Scope for investment in student accommodation in Liverpool – purpose built developments vs. residential properties: pros and cons

Investors seeking to diversify their portfolios and get a foothold in the student property sector are faced with two options – purchasing units in a purpose built development or opting for residential properties and marketing these for house-shares and studio flats. As with everything, there are pros and cons with either of the aforementioned options, but at Bold Spirit, we believe that in the case of Liverpool, opting for residential housing stock to rent to students, particularly in the increasingly popular areas outlined above is the wisest move to make.

Units purchased in purpose-built schemes offer a hassle free way of tapping into this sector, but returns are significantly reduced owing to the management fees and service charges that are imposed on the management companies of such schemes. While it may be true that such units may draw in premium rent, and that some students are in a position to pay this, one would anticipate that in light of the imminent hike in tuition fees from 2012-2013 onwards, the majority of students are going to be more discerning in the properties they look at renting and, providing they are of a reasonable standard, will opt for the more competitively priced residential letting option.

In the case of Liverpool, opting for residential housing stock with a view to utilise as student lets is potentially a sound investment choice. The bulk of housing stock in the popular student areas sells at below the national average, command steady returns in terms of rental income and lie within areas ear-marked for regeneration by the local authority, suggesting the opportunity for healthy capital gains in the medium to long term as improvements to the area are implemented.

In contrast to purpose built developments, which exist solely with one use in mind, investors in residential student lets aren't restricted in scope in terms of what they are able to do with their property at a future date. Investors seeking an exit strategy in the future have the benefit of being able to market such a property as a family home or as an investment opportunity, and can expect healthy capital growth. Implementing an exit strategy in a shiny, recently constructed, purpose-built development is a different kettle of fish altogether as they exist solely for one purpose.

Additionally, an investor in residential stock can actively asset manage his property through refurbishment, improvement and development, thereby increasing capital value and increasing the income attainable.

Summary

In an ever challenging world with higher inflation and low interest rates eroding the value of cash, investors are choosing higher yielding property investments, such as student lets. Presently, such properties can be purchased at competitive prices and many investors are enjoying double digit returns as a result. Manchester stands-out amongst many other English cities as a good place to invest in student stock, for the reasons outlined in this report.

If you wish to speak to Bold Spirit about the acquisition and on-going management of student property in Liverpool, phone 0151 243 5431 or e-mail daniel@boldspirit.co.uk

This report has been written by Peter Law

©Bold Spirit Ltd 2011

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Bold Spirit Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Bold Spirit Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Bold Spirit Ltd to the form and content within which it appears.



About Bold Spirit

Bold Spirit is a property and financial services group that specialises in the finding and structuring of outstanding property investments both within the UK and overseas.

Operating within a constantly evolving industry Bold Spirit applies rigorous due diligence to our investments without losing sight of our core entrepreneurial philosophy. We aim to seek out compelling investment opportunities whatever is happening in the wider markets.

Bold Spirit understands that today's investor may not have the time to dedicate towards building a profitable portfolio so we provide a fully packaged service including sourcing finance, recommending specialist lawyers and adding value through asset management.

Bold Spirit Group
Bold Spirit House
10 -12 Pall Mall
Liverpool, L3 6AL
T | 0151 243 5430
E | property@boldspirit.co.uk

www.boldspirit.co.uk