



# CORAL STUDENT PORTFOLIO

Review 2013 and Outlook 2014

Coral Review and Outlook

January 2014

## CORAL REVIEW OF 2013 AND OUTLOOK 2014

### Review of 2013

#### STUDENT RECRUITMENT

As anticipated 2013 university applications presented a very different story from the previous year. In 2012 recruitment had in fact been more affected by government policy and lower A level grades than increases in tuition fees.

The results were:

- 677,400 applications from all domiciles – 23,700 more than 2012 (+3.6%).
- An increase in applications from those based in the UK (+3.4%).
- An increase in EU applicants (+3.9%).
- An increase of 5.1% in applicants from overseas (outside of the EU) continuing the rise seen in 2012.
- Acceptances
  - 495,596 - up by 6.6% from 2012 and the highest ever recorded
  - Within this number, UK students rose by 6.7%, a record for any recruitment cycle.
  - EU students winning places increased by 5.5% over 2012 standing at 24,500.
  - Non EU students accepted rose by a record 5.8% equating to 37,500 places
  - Changes in Government recruitment policy were evident as institutions made a record number of offers – over half of applicants received four or more offers.
- By institution
  - Those universities based in England saw acceptances increase by 7.1% to a record high. Most of the increase in acceptances overall were for places at English institutions.
  - Scotland saw an increase of 1.5% just 500 short of the 2009 high.

#### Conclusions

The 2013 cycle delivered the expected increase in both applications and acceptances and confirmed that factors affecting the 2012 cycle did not have the same impact:

1. News of fee increases had caused a surge in 2011 applications that led to an artificial and temporary fall in 2012 numbers. Fee increases had proven not to be a disincentive.



2. Immigration policy for foreign student visas became clearer as those seeking *bona fide* higher education were separated out from overall immigration targets.

3. Government policy of lifting caps on ABB grade applicants reversed the turning away of marginally-underperforming applicants seen in 2012.

What's more, an additional 5,000 places announced for the 2013 cycle contributed to the increases shown above.

#### Key Observations

1. There are still considerably more applications than places available at UK universities- approximately 14 applicants for every 10 places. UK Government has now confirmed that an extra 30,000 places will be made available increasing the opportunities for more acceptances in 2014/15.
2. Applications and acceptances increased for 2013 with the latter reaching a new record
3. Government recruitment policy had a major impact upon 2012 by limiting acceptance of

students achieving sub-AAB grades which coincided with a fall in A level results.

4. Increased tuition fees are now accepted as not a factor in demand and applicant numbers. It does however focus students' preference for institution and degree course.
5. Students are now more discerning overall. Research facilities, career opportunities, academic standards and accommodation options are all key drivers.

5. Following structural issues for two competitor funds leading to their suspension, Coral proved its liquidity model.

## STUDENT ACCOMMODATION

### Market Overview

£2.1billion was committed to student accommodation investment in 2013 as evidence of a strengthening appetite for the asset class. Yields are trending stronger across all key regions as the structural undersupply of student housing across many UK areas aroused interest from new investors.

Opal Group portfolios attracted particular and premium attention as international buyers competed to purchase scale and diversity. Overseas buyers alone accounted for over £1billion of investment in 2013.

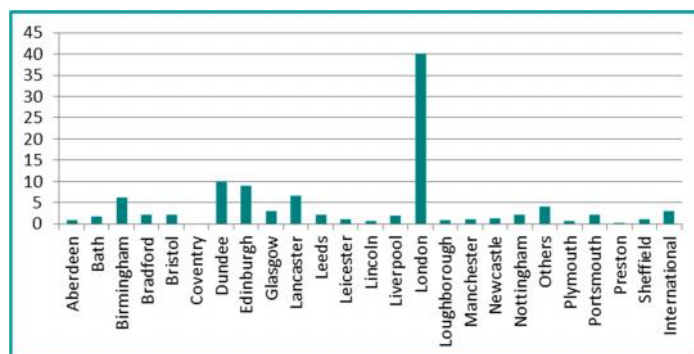
*"It is clear from current market activity that the UK student housing sector is now viewed as a global haven for international capital – CBRE MarketView Q4 2013.*

### Coral Portfolio Highlights of 2013

1. Moves were made during the year to increase exposure to London with currently around 40% portfolio weighting. This is supported by an increased position in Nido with their three premium London locations.
2. The Kingston development with partners Amro has achieved 100% occupancy at higher than projected rents and a second project in Penrhyn Road has begun.
3. Coral's first international investment was made as part of a phased \$60million with CVG who trade as Urbanest and Uninest.
4. In order to re-balance the portfolio and to realise value above that held in the Fund, Coral sold its interest in Midlands oriented Student Development Ltd Partnership to BlackRock.

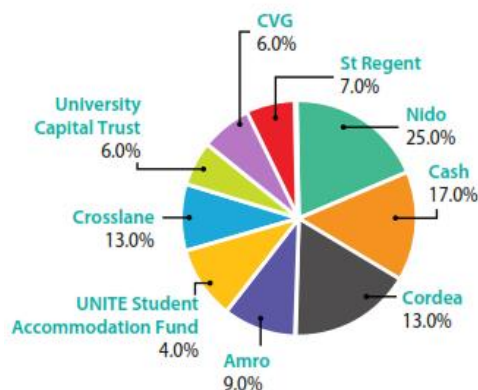


**Current Coral Geographical Diversification – Percentage Per Location. (as at 31/12/13)**



Source: Coral/CBRE

### Current Portfolio Mix (as at 31 Dec 2013)



Source: Coral

## Outlook 2014

In January Coral announced a 50 % share “buy in” from Global Student Accommodation Group. GSA is led by its founder Nick Porter who pioneered the private Student Accommodation sector and asset class in the UK. Previously, Nick founded The Unite Group plc which grew to become a FTSE listed company,

The management team of GSA Group has an unparalleled track record over 20 years to become the leading authority in the Student Accommodation sector internationally. The team has created 50,000 student study bedrooms in 38 markets with ongoing pipeline activity in Australia, Ireland, Japan, U.A.E and the UK.

### Portfolio Outlook

2014 presents excellent conditions for the delivery of on target returns. During the latter half of 2013 we had to sell down some performing assets to meet liquidity demand. This, coupled with the opportunity cost of holding cash rather than reinvestment, meant that although performance remained positive there was a temporary slowing during this period.

The strategic partnership with GSA now presents a substantial opportunity for Coral to gain exposure to the emerging global Student Accommodation market. This will drive the NAV upwards during 2014 and beyond.

### The Global Opportunity

While the UK market has shown strong growth over the recent years, the global market has also experienced consistent growth in student numbers. This is driven by:

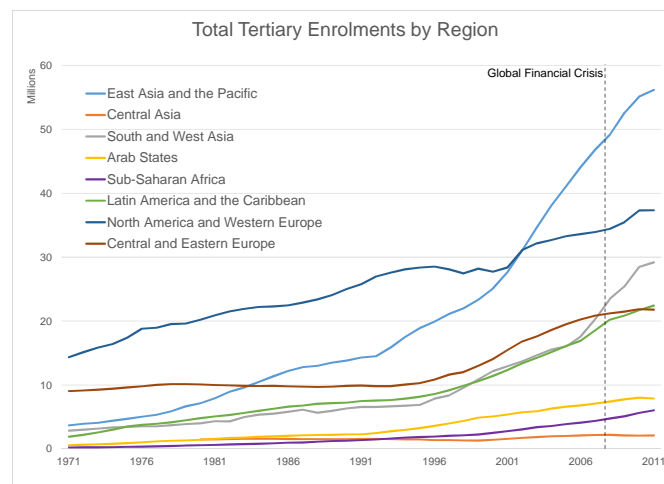
- An absolute need for education supported by Government policy commitment in both developed and developing economies
- Emerging higher educational markets maturing, further increasing student mobility
- Growth of private universities and colleges

In the ten years from 2001 to 2011 the number of students enrolled in higher education increased by 76 million to 183 million, equating to an average annual growth rate of over 5.5 per cent (UK during same period: 2 per cent). It is expected that the number of students worldwide wanting a university education is forecast to grow to 263 million by 2025. This exponential international growth in tertiary enrolments will mainly emanate from emerging markets. Figure 1 displays the dramatic rate of growth experienced

over the past ten years by South and West Asia (up 8.5 per cent per annum), Sub-Saharan Africa (up 8.1 per cent per annum), and East Asia and the Pacific (up 7.3 per cent per annum). This high level of growth is put in context when compared to the more mature tertiary market of North America and Western Europe, which continued to grow at a steady 2.8 per cent per annum over the same period.

In addition to the growth in those markets, the number of students studying overseas continues to increase. The number of students enrolled in tertiary education outside their own country more than doubled to nearly 4.5 million between 2000 and 2011<sup>1</sup>. The OECD predicts that this figure will continue to double again in the next decade.

Fig. 1



Source: UNESCO, 2013\*

\*Complete statistics available up to 2011.

The growth in student numbers globally provides some exciting opportunities for investment in student accommodation outside of the more mature UK and US markets. There are many student markets globally that have a marked under supply of good quality purpose built student accommodation. Some markets having no supply at all.

The areas most attractive for development are those with a large supply / demand imbalance in student accommodation, compelling underlying real estate fundamentals and a strong and growing higher education sector. In these markets we expect to see near term returns well in excess of those in more mature markets.

<sup>1</sup> OECD- Education Indicators Focus, 2013

Consistent growth over the long term will be underpinned by key fundamentals:

- Non-cyclical high occupancy rates
- Annual real rental increases
- Resilient trading yields relative to traditional real estate sectors
- Strong demand base supported by Government policy.

## Coral's planned investments

### Dubai

In the last 12 years the United Arab Emirates has established 35 Universities with over 100,000 total student enrolments. There is a strong political and private drive to attract the world's top academic institutions. Enrolment in United Arab Emirates universities has grown by 8.5% per year over the last five years and the opportunity for further student growth in the region is extremely positive.

Dubai is primarily positioned to spearhead this drive through its goal to become the first truly global city. The City's growing higher education market is underpinned by the overall growth of the city's population, its geographical proximity and a strong state and federal government support for higher education sector growth. Dubai accounts for almost 50 per cent of the total United Arab Emirates University enrolments, with total annual enrolments in Dubai Universities at 48,000.

Of the students attending courses within the main university precincts in Dubai, it is estimated that roughly 30 per cent are local Emirati and 70 per cent originate from outside Dubai. There are only circa 2,000 beds controlled by the universities, the majority of which are substandard and not originally intended for student use. The existing accommodation is set in subpar locations in relation to student preference, with management regimes not tailored for student living.

Over 2013, the Dubai real estate market experienced the world's fastest rate of price and rent growth at 60 per cent<sup>2</sup>. One of the key reasons why Dubai received such high growth was a surge of demand from investors in other

regions of the Middle East, who were attracted to the economic and political stability of the United Arab Emirates, as a result of the Arab Spring. While this high rate of growth is not sustainable in the long-term, it is expected that Dubai will maintain generous price growth of 10 to 15 per cent during 2014<sup>3</sup>. Dubai's recent successful bid for the Expo of 2020 at the end of 2013 will assist in continual real estate price growth as new road networks and facilities such as parks, retail, health clinics and schools are developed.

**Buoyed by strong property market growth and due to the large imbalance between supply and demand in student accommodation, the Dubai student accommodation market is expected to achieve annual returns of 20 to 23 per cent.**

### Dublin

According to the QS Best Student City Rankings for 2013, Dublin was ranked the 15<sup>th</sup> most attractive university city globally. The city has 75,590 full time students. Around 95,000 English Language students also come to Dublin annually to study and this is targeted to rise to over 120,000 by 2015. Dublin has a number of strong higher education institutions in the market including Trinity College Dublin and the Royal College of Surgeons.

Future growth in the student population is strongly supported by both Irish Central Government and Dublin City Council initiatives to promote Dublin as an international student city. The aim is to increase the worth of the international education sector to the Irish economy from the current €900 million annually to €1.2 billion by 2015. A large portion of this will derive from increasing the number of international students studying in the country by more than 50 per cent, and the number of private English language schools by 25 per cent over the next five years.

Good quality purpose built student accommodation in the city centre is almost non-existent. Less than 2,000 beds are provided in the city centre, but the majority of this was built a number of years ago and is not necessarily representative of the accommodation that is provided in mature markets in the UK.

The real estate market in Dublin presents an interesting opportunity. Ireland maintains a distinct 'two-speed' real

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<sup>2</sup> Asteco, 2014

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<sup>3</sup> Knight Frank, 2014

estate market where Dublin realised 13.8 per cent increases in prices over 2013, compared to the nation which experienced only a 5.6 per cent increase<sup>4</sup>. This is largely attributed to the supply of new housing and availability of mortgage finance remaining severely restricted. The end of 2013 recorded a further decline in the number of mortgage approvals, by 7.9 per cent, compared to the previous year.<sup>5</sup>

**Well located and appropriately designed student accommodation is likely to realise annual returns of 17 to 20 per cent.**

We are also investigating opportunities in the Far East and London for investment Q2 and Q3.

### Conclusion

Prospects for the Coral Portfolio are now more exciting than at any time in our history. Global opportunities and their growth potential should comfortably allow us to achieve on target performance going forward.

This strategy combined with core UK exposure to liquid institutional Funds and continuing high cash holdings will further strengthen the Fund.

We now head into 2014 very well positioned and with significant opportunities ahead. This will be reflected in performance in the coming months and years.

We are about to enter the next exciting phase of The Coral Student Portfolio. This will drive performance forward as we re-balance the UK element and embrace new global opportunity.

Photo information:

Page 2: Greencoat House, Kingston, Surrey, currently providing Coral with exposure to leading London Universities as well as Kingston itself.

Page 3: Nido accommodation in Notting Hill London, a key component of Coral's portfolio.

Coral Student Portfolio is a compartment of Coral Portfolio SCA SICAV-SIF which is incorporated under the laws of Luxembourg and regulated by Luxembourg Authorities, the Commission de Surveillance du Secteur Financier (CSSF) as a multi-compartment specialist investor fund.

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