

NEWS

Canadians on pole for Liberty Living

■ CPPIB leapfrogs Greystar in £1bn student accommodation battle

BY DAVID PARSLEY

The race for Brandaux's Liberty Living student property portfolio is reaching the final straight with a preferred bidder now selected.

Property Week understands the Canada Pension Plan Investment Board (CPPIB) is in pole position to acquire the 17,000-bed portfolio for around £1.15bn, with global investment giant Greystar waiting in the wings.

Three shortlisted bidders, the third being the Rockefeller-backed Europa Capital, submitted their final bids last Friday. Europa has now dropped out of the process leaving CPPIB and Greystar in a face-off with one another.

Greystar had been in the driving seat over the summer, but a recent independent valuation of Brandaux's properties by Savills resulted in a 6% reduction in the fund's value, holding up the process and allowing CPPIB to enter the bidding.

As a result, CPPIB has stolen a march on the other bidders, with a deal that would ensure Brandaux's management maintain the day-to-day running of the group.

Sources close to CPPIB have confirmed to *Property Week* the group is now leading the race, which could result in it instantly becoming the nation's third largest operator of purpose-built student accommodation with 42



Managed sites: whichever bidder is successful, the Brandaux management team will stay in place

residences in 18 UK towns.

During the summer Brandaux attempted a £1.1bn float of the fund under operator Liberty Living, but pulled the plug citing "adverse public market conditions" in late June. *Property Week* then revealed Brandaux had decided to sell the portfolio.

Brandaux chief executive Roger Boyland refused to comment on the bidding process but did confirm the group would maintain the management of the properties following a sale.

"All parties who have indicated a firm interest in acquiring the fund's student accommodation portfolio wish to continue asset management

through the existing property management platform," Boyland said.

The deal would allow Brandaux's long-suffering investors to withdraw their cash from the fund, which suspended trading last summer following liquidity issues.

The deal is just the latest in a bumper year for the student accommodation sector, which could result in more than £4bn of transactions in the market.

Carlyle's £500m Pure properties and Knightsbridge Student Housing's £500m Westbourne Portfolio are also currently on the market and attracting interest from dozens of investors from both the UK and overseas.

M&G brings new light to downturn-hit Lumiere site

M&G Real Estate has agreed to fund the £96m development of the Central Square office scheme in Leeds, unlocking a site that stalled during the financial crisis.

The Lumiere site was once earmarked for one of the UK's boldest residential projects of the boom, which would have been western Europe's tallest residential scheme, but was put into liquidation during the recession.

Property Week revealed two local multimillionaire businessmen, Steve Parkin and Gurchait Chima, had bought the

site in August last year through special-purpose vehicle, Roydhouse Properties, for a 170,000 sq ft-210,000 sq ft office-led development.

Central Square is now under construction and will be the first speculative office scheme in the city for eight years.

The 220,000 sq ft office scheme will provide 10 floors of offices with retail and leisure on the ground floor and a sky garden on the ninth floor.

Marrico Asset Management will continue to act as development manager and JLL is advising on leasing.

Foster + Partners-designed 50 Finsbury Square for sale

German open-ended fund manager Deka is lining up a sale of 50 Finsbury Square in the City of London, the home of media company Bloomberg.

The company has appointed agents at BNP Paribas Real Estate to market the 126,650 sq ft building,

with the sale price expected to be more than £100m.

The building was designed by Foster + Partners and is mostly let to Bloomberg. The passing rent is £6.5m a year, which equates to £53.50/sq ft on the main office accommodation.

Bloomberg will move out of the building into a new 662,755 sq ft European headquarters at Walbrook Square, near Bank station. The development is expected to be completed in early 2016, with employees moving in later that year.

Deka bought the building from Standard Life Investments in 2008 for £113m.

All parties declined to comment.



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Schroder NAV leaps 8.7%
Schroder Real Estate Investment Trust has reported an 8.7% jump in NAV per share over the past quarter and reported NAV of £260m or 55.1p a share.

M&S capitalises on food offer
Marks & Spencer plans to open up to 200 new Simply Food stores in the next three years, revising a previous target to open 150, according to its results this week.

Crown finalises park purchase
The Crown Estate has completed its £42m purchase of a site in Banbury, Oxfordshire, for a 285,000 sq ft fashion park from LXB Retail Property.

Finance

Nido set to refinance after abandoning float

■ JLL's strategic review could lead to sale of part of company to overseas investors

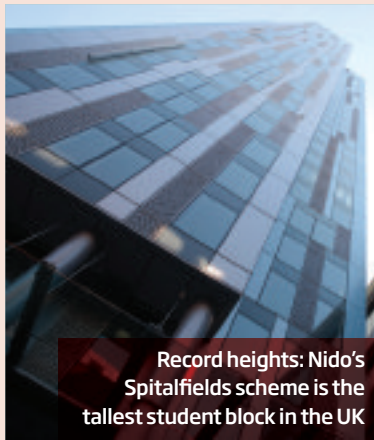
BY DAVID PARSLEY

Student accommodation group Nido is in discussions with potential new backers to refinance the £500m company, following a decision to abort a stock market flotation earlier this year.

Nido's owner Round Hill Capital is understood to have appointed JLL to advise on a strategic review of the highly leveraged group, which could result in a sale of at least part of the company to overseas investors.

Following its decision not to pursue a float, Round Hill is courting investors to provide a capital injection to invest in new developments. Another option, should the refinancing not proceed, is the complete sale of the group, which is likely to fetch around £500m, but sources familiar with the situation believe this is considered a "last resort".

The preferred route is to sell a part of Round Hill's holding in the company



Record heights: Nido's Spitalfields scheme is the tallest student block in the UK

to new investors. Round Hill bought Nido's three schemes in King's Cross, Spitalfields and Notting Hill, which comprise 2,057 beds, as well as the operating company, from Blackstone in May 2012 for £415m. The group is run by chief executive Neil Burton.

Located next to Spitalfields Market on the edge of the Square Mile, the

33-storey Spitalfields scheme is the tallest student accommodation block in the UK.

The appetite from investors for the student property sector has reached new heights this year, with a record £4bn of transactions expected by the end of December. With Brandeaux's Liberty Living, Carlyle's Pure portfolio, and Knightsbridge Student Housing's Westbourne Portfolio dominating the £3bn of assets currently up for grabs and attracting huge interest, Round Hill is hoping that interest will help it in its search for new investors.

The facilities are set up like hotels with 24-hour security, gyms, high-speed wi-fi, laundrettes, housekeeping services and a focus on communal spaces. All three schemes are focused on providing overseas students with accommodation during their studies.

Blackstone set up Nido in September 2006 when it bought the King's Cross site for £95m before building it out.

IN BRIEF

Ocean drives Cornwall growth

Ocean Housing has borrowed £50m from M&G Investments to help fund its development activity in Cornwall. The social and affordable housing business said the 40-year private placement would enable it to fulfil its ambition to provide more than 4,200 homes in Cornwall.

McCarthy & Stone's £2bn pot

Retirement homes specialist McCarthy & Stone has revealed plans to invest £2bn in land and buildings over four years – delivering about 12,000 new homes. The group revealed the target this week, as it announced annual pre-tax profits had soared to £63m from £12m in 2013. This was driven by a 10% rise in legal completions and a 16% rise in net average selling price.

LondonMetric sells final central site

LondonMetric exited its last remaining central London office asset this week – selling One Carter Lane to Taiwanese investor Fuban Life Insurance for £138.8m. The sale price reflects a yield of 4.3%, assuming that the remaining floors in the building are let. LondonMetric chief executive Andrew Jones said the sale would release cash for investment in its core business of retail and retail distribution.

Investors keen on UK property face stiff international competition

UK investors are still looking to expand their real estate portfolios, but 'appetite for risk is moderating', according to a new survey.

As part of its *Global Investor Sentiment* report, Colliers surveyed 200 UK investors and 64% said they planned to expand their portfolios over the coming year. Only 14% said they would be net sellers and of that number, half said they were taking profits in order to re-invest in new projects.

Investors were also optimistic about the health of the market, with 63% expecting investment

conditions to improve still further.

However, the positive sentiment does not mean investors want to take more risks.

"Risk appetite is likely to moderate in the next 12 months after a significant increase in the last year," said Tony Horrell, Colliers UK & Ireland chief executive.

A total of 54% of investors said they were willing to take more risk in future – compared with 74% last year.

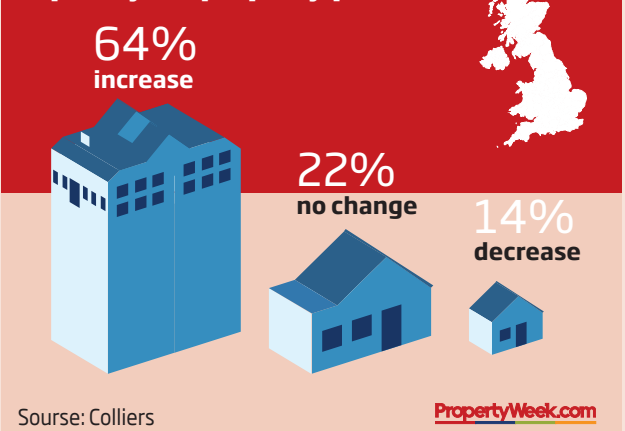
The domestic market remains the main target for UK investors

with London, Manchester and Birmingham topping the list of target cities.

But they are likely to come up against growing competition from overseas investors. The report, which surveyed about 650 investors globally, found that the UK was a target country for 56% of Asian investors and 39% of US investors.

"Central London product remains very keen, with sovereign wealth funds and especially new institutional entrants such as Asian insurers and pension funds bidding up prices considerably," said Horrell.

UK investor views: do you plan to expand your property portfolio?





Burgeoning portfolio: the student accommodation provider wants to invest in 10,000 new beds in the coming years

Unite plans hot activity over winter months

■ The student housing operator is set to spend £100m on new sites by the spring

BY DAVID PARSLEY

Unite Group is set to invest up to £100m in new sites and development within the next four months.

Mark Allan, chief executive of Unite, told *Property Week* the student accommodation giant would continue to add to its development programme, as well as considering sales from the existing portfolio to help fund further building.

"It is becoming more difficult to find value, but we expect to have capital of between £75m and £100m fully committed by March next year," said Allan.

"We will also consider selling some assets to help fund the development pipeline, but the sales market is quite crowded at the moment with around £3bn of transactions, mainly from four big portfolios, on the market. If those sales show strong pricing then we may look at putting some assets on

the market sooner rather than later. We are in a position to be flexible on any sales."

Allan, who manages 44,000 beds in the student market, believes this figure will rise to around 55,000 beds over the next few years as a combination of new development and increased student numbers come into play.

The news follows this week's Interim Management Statement from Unite that showed 99% occupancy for the current academic year, with student rental payments 3% up on last year.

The City reacted positively to the news. "Unite has delivered a very strong letting performance, which substantially de-risks guidance for >3% rental growth this year," said analysts at Liberum.

"The combination of Unite's organic growth and development pipeline offers unmatched visibility over EPS growth in the UK real estate sector."

Allan also said he expected Unite to achieve its target of 4.5% EPS yield on net asset value (NAV) in 2014 – a year ahead of schedule.

The group said its development pipeline was progressing well with planning consent secured at Greatham Street, Portsmouth, for an 836-bed scheme to be delivered in 2016, and further sites secured in Aberdeen and Liverpool with a combined 1,250 beds targeted for 2017 delivery.

Based on the forthcoming deals in the sector, Allan said he believed there was potential for further yield compression in the short to medium term, particularly given the positive occupancy and rental growth outlook for the sector.

"Demand for our accommodation remains very high, reflecting the appeal of our buildings and quality of service provided, resulting in 99% occupancy and strong like-for-like rental growth across the portfolio."

Fresh financing for GPE and Intu wins positive response

Great Portland Estates and Intu have both secured attractive new financing deals.

Great Portland has signed a new £450m unsecured revolving credit facility with seven banks including RBS, Lloyds and Santander. The facility replaces £350m and £150m facilities due to mature in 2015 and 2017 respectively and has a headline margin of 105 basis points over LIBOR.

Meanwhile, Intu has revealed it has replaced a £375m revolving credit facility due to expire in November 2018 with a new £600m facility. The facility, which has a five-year term with an option to extend by two years, has a margin 25–50 basis points lower than the existing facility.

City analysts welcomed the funding. "Both deals extend debt book maturity, cut borrowing costs and add balance sheet liquidity and get the thumbs up from us," said Jefferies analyst Mike Prew.

Intu also announced the launch of a £350m bond issue within its secured funding structure. Its centres in Derby and Chapelfield will be added to the structure as part of the deal. Intu valued the six assets in the pool at £3.1bn as of 13 October, a 0.5% uplift since June.

Because of the bond issue, Intu brought forward its third quarter IMS, which showed a drop in occupancy from 96% in June to 95%, largely as a result of La Senza and Phones 4U falling into administration.

Dragonfly bridges lending gap with new loan facility

Dragonfly Property Finance has launched a new 'bridge-to-let' product for smaller loan sizes.

The seven month bridging facility is for loans between £500,000 and £999,000, up to 70% LTV, and will charge borrowers 10.99% per annum.

Like the existing product for £1m-plus loans, it automatically converts into a medium-term two- or three-year loan after seven months and the interest falls to 8.9%. The product for larger loan sizes charges 8.99%.

"Having listened to our introducers, we decided to halve the minimum loan size, which opens this unique product to a whole new range of property investors," said Dragonfly's head of sales and marketing Mark Posniak.

Forecast

Empiric sets out on epic £900m student accommodation spree

■ The REIT has already bought 13 properties, spending almost all the £85m raised from an IPO earlier in the year

BY GUY MONTAGUE-JONES

Just four months after floating, Empiric Student Property is well on its way to building up an impressive portfolio of student accommodation properties.

The REIT has already bought 13 properties (1,211 beds), spending almost all the £85m it raised from its IPO in June, but there is a lot more to come. It is in the final stages of negotiations to commit another £30m on properties with 337 beds by the end of the year.

On top of that, it revealed last week it was in advanced talks to spend £180m on 15 properties with more than 1,800 beds and was in the early stages of looking at properties that could see it committing another £400m-£600m. In total, therefore, Empiric could end up spending almost £900m.

The challenge for Empiric is that it is not the only player in town. Only last week, *Property Week* revealed that LaSalle had embarked on a £200m-plus drive in the student housing sector with a £60m investment in Campbell Property. So how does Empiric plan to come out ahead of the pack?

In its first four months as a listed REIT, Empiric has plotted a steady course despite the volatility elsewhere on the stock market. Its shares have remained almost unchanged at 101p since the float, edging up to 102p after reports of the expansion plans last week.

It has announced plans to raise £300m in new equity over the coming year to fund the acquisition spree, starting with the launch of a £65m placing last week.

The fact the placing on Thursday was priced at £1.01 a share – in line with the previous day's closing price rather than at a discount – supported the shares.

Empiric chief executive Paul Hadaway jokes that one investor told him: "I love your stock. Everything else is down 10%



Sleeping giant: Empiric's long-term objective is to establish a portfolio of 8,000 to 10,000 student beds

Empiric masterplan

■ Build a portfolio of "purpose-built, superior-quality properties" comprising 8,000 to 10,000 beds.

■ Deliver a total return of 13% and achieve a dividend yield of 6%.

■ Maximum LTV of 40%.

but you're up 1%." However, competition is mounting. As Dexion Capital remarked in an investor note: "The potential returns from the strategy are attractive, but the company will have to compete for attention against its more established peers."

Hadaway claims not to be worried, arguing that the figures still make sense even if student numbers stop growing.

"There are pushing 2.5 million students in the UK – that's 7.5 times as many as there were a generation ago," he says. "Even with all that has been going on in student accommodation, there is still less investment than there is in academic buildings."

Empiric is also hoping to differentiate itself by focusing on the top end of the market. Even with bills thrown in, rents of £135-£210/week are significantly more expensive than typical student digs or the accommodation that the likes of Unite may provide. They are the preserve of wealthier foreign students and postgrads, who Hadaway points out have grown in number even faster than undergraduates in recent years.

The developments have a wide range of on-site facilities such as gyms, cinema rooms, games rooms and work rooms to attract students.

Empiric is also targeting the better

universities, which tend to attract higher numbers of wealthier students. So far, it has acquired properties in cities including Birmingham, Cardiff and Nottingham.

Because of its specialised focus, Hadaway says Empiric is careful not to build too much in one place. "We're sticking to having no more than 500 beds in any given city – no more than 1% of the addressable market."

After the share placing, the next priority will be to close the £180m of deals it is currently in advanced negotiations for. It has set a deadline of the end of March next year and needs to ensure it maintains a healthy deal flow to reach its long-term objective of a portfolio of 8,000 to 10,000 beds.

Of course, speed is not the only consideration and Empiric will have to choose its sites carefully if it is to achieve its target of a total return of 13% per annum and dividend yield of 6%. ■