



Examining the **UK** university model in a deregulated environment

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TEFMA 1 September 2015

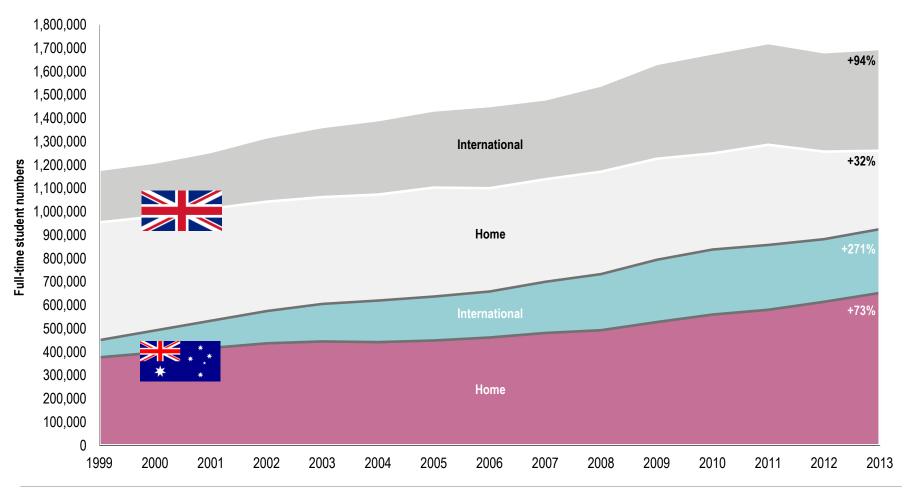
Part One: Setting the scene

Simona Scrage & White case study

- Dangers of commenting
- · Importance of accessing they are
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- 15,000 V

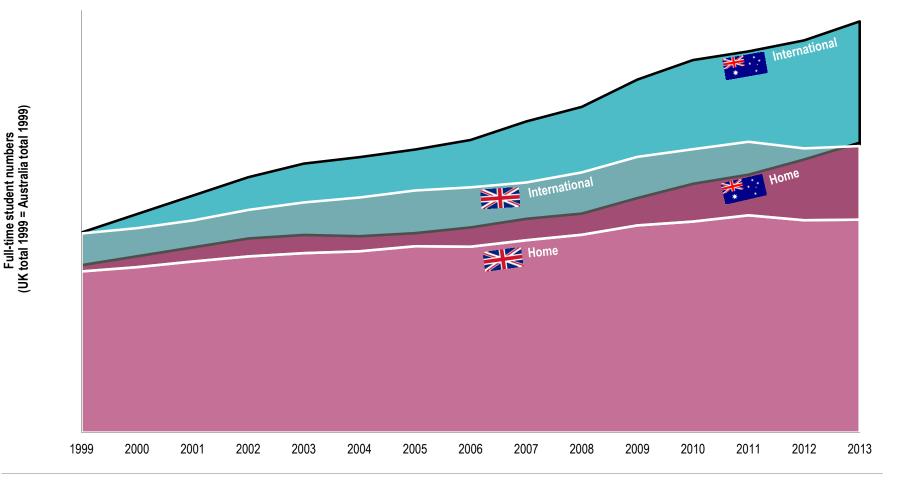
Student numbers

Australian international student number growth in the last 15 years has been two and half times that of the UK



Student numbers

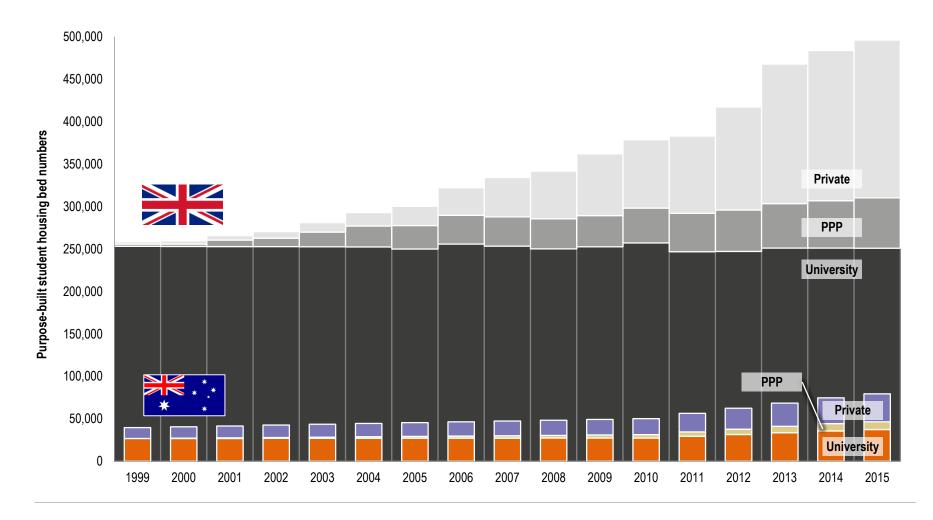
Growth is impressive compared to the UK when the two are viewed proportionally as baseline





Purpose-built student housing beds

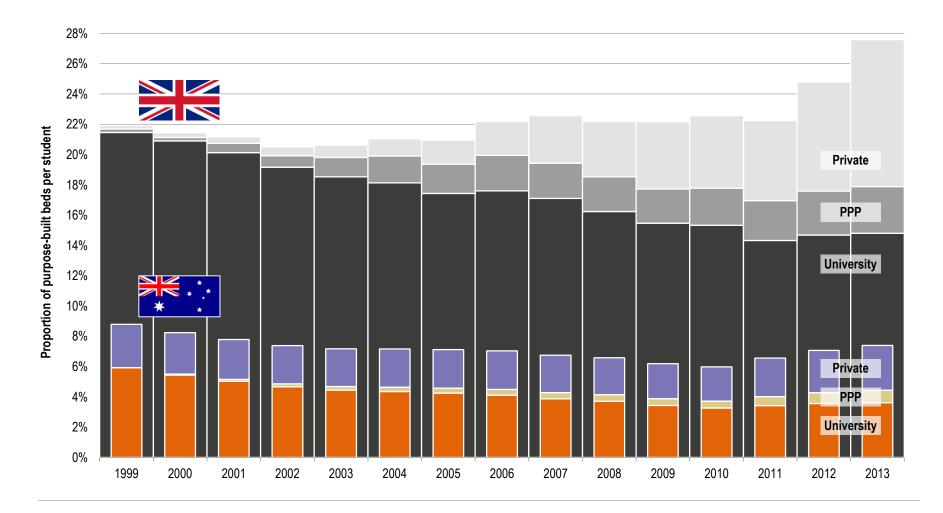
Both Australian and UK purpose-built student bed numbers have doubled in the last 15 years





Purpose-built beds per student

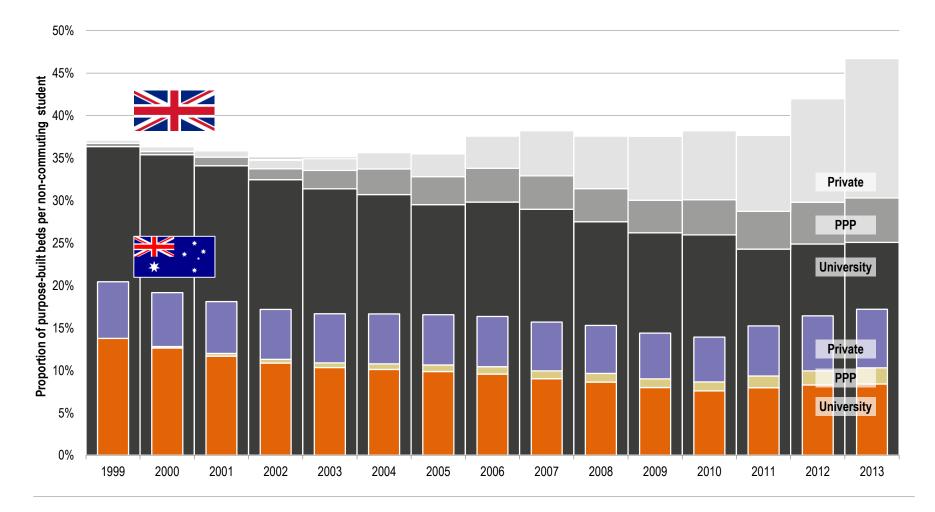
The UK now has 3.7 times Australia's number of beds per student, up from 2.5 times in 1999





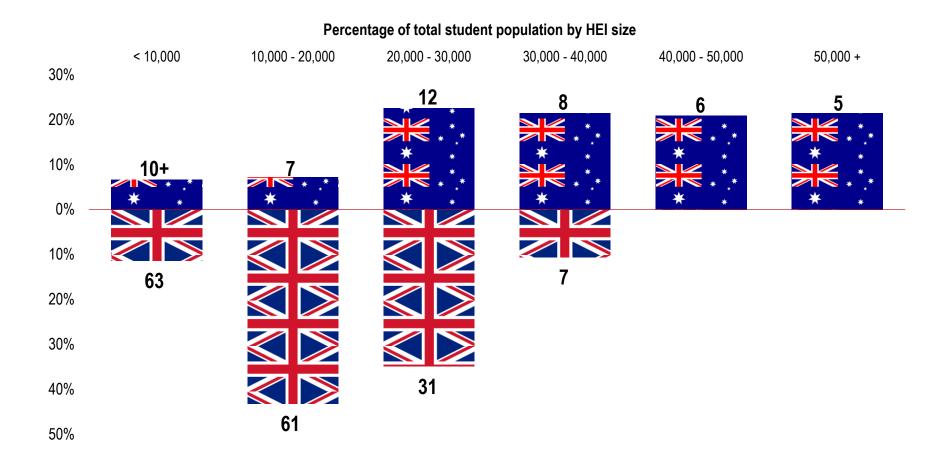
Purpose-built beds per non-commuting student

The UK now has 2.7 times Australia's number of beds per student, up from 1.8 times in 1999



Size of universities

Australian universities tend to be larger than UK universities





Part Two: PPP projects in the UK

Characteristics of a PPP operating model

Demand risk transfer	35-50 year reversionary concessions	DBFO solutions – risk transfer
Stock transfers and / or new build	Can involve non-residential provision	Complex procurement and contract
Capital premium	Controlled rent setting process	Ongoing gain- share mechanism







Why have universities entered into these partnerships?

Financial Climate	Attitude to what is core business
 Deregulation Competition Enhanced investment in core estate Declining unit of resource Low surpluses for re-investment Debt and equity pricing 	 Provision of halls is core through to Ensuring access to good quality halls is core



Benefits of PPP Transactions







Competition drives innovation







Strong investor demand



Mutual knowledge transfer



Leverages private sector resources



University equity investment in the SPV



Debt and equity Investment



Disadvantages of PPP Transactions

Some loss of control

Cost of capital is higher than direct investment

Programme

Investment in procurement and set up

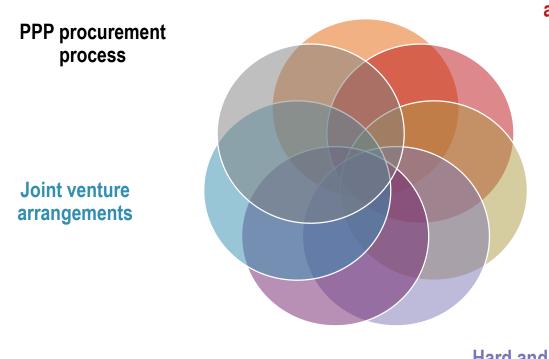
Loss of income stream

SPV risk mitigation measures require care



Alternative Approaches

FRS 102 threatens balance sheet treatment



Self-delivery of the accommodation

- Own capital
- Capital markets solutions (bonds)
- Traditional bank debt

Purchase of built assets

Strip income deals

Hard and soft nomination agreements



PPP Procurement Processes

The Pros	The Cons
Procurement process encourages	Information overload
relationship building and understanding objectives	Resource "black hole
 Adds to original concept and builds on 	Programme
ideas	• Risk
Opportunity for market creativity	Pressured response time
 Imposes rigor and fairness on process 	Cost
	 "A great way to get a building you don't not want"





PPP Procurement Processes – *How Not To Do It*

A collection of the **'Top 5'** mistakes we have seen in running procurement processes



What PPP procurement processes are not

- A competition between the Authority and the bidders
- An ideas harvest
- Quick
- Cheap (for authority and bidders alike)
- Light touch









READY! FRE AIM!

- Institutions: ensure your advisors, team and governance are in place
- Clear objectives aligned with institutional strategies
- Institutions must understand the market
- Consortia: be clear on your bid strategy









DON'T UNDERESTIMATE RESOURCES

- Optimism about time and priority
- Efficient project management
- Sophisticated equals intensified



DON'T BE DISTRACTED BY THE BLUE DISTRACTED BY THE

Money is sexy





DON'T BE DISTRACTED BY THE BILLING

- Money is sexy
- Design is sexy





DON'T BE DISTRACTED BY THE BILLING

- Money is sexy
- Design is sexy
- Service Level Agreements? Mobilisation Plans? Lifecycle Costing? Yawn
- Get the operator right



DO-IT-YOURSELF

Mistake #4





DO-IT-YOURSELF



DO-IT-YOURSELF

- Save a little of the budget
- Erode a lot of the value
- Not always easy to put right



THAT'S NOT HOW WE DO IT ROUND HERE

- Don't buck the market trend
- Be open-minded
- Make room for innovation
- Evolution not facsimile



University of Sussex University of Sussex

- Currently at Preferred Bidder stage
- Initial procurement for 2,000 beds
- Replaces 600 beds of dated stock
- Significant planning issues
- Partnership potential for further phase of 2,500 beds
- Lack of supply in Brighton
- Mix of townhouses and cluster flats
- Bids returned before planning consent achieved
- *Proposed funding route is via a project bond*
- Capital receipt



University of Hertfordshire University of Hertfordshire Hatfield, UK

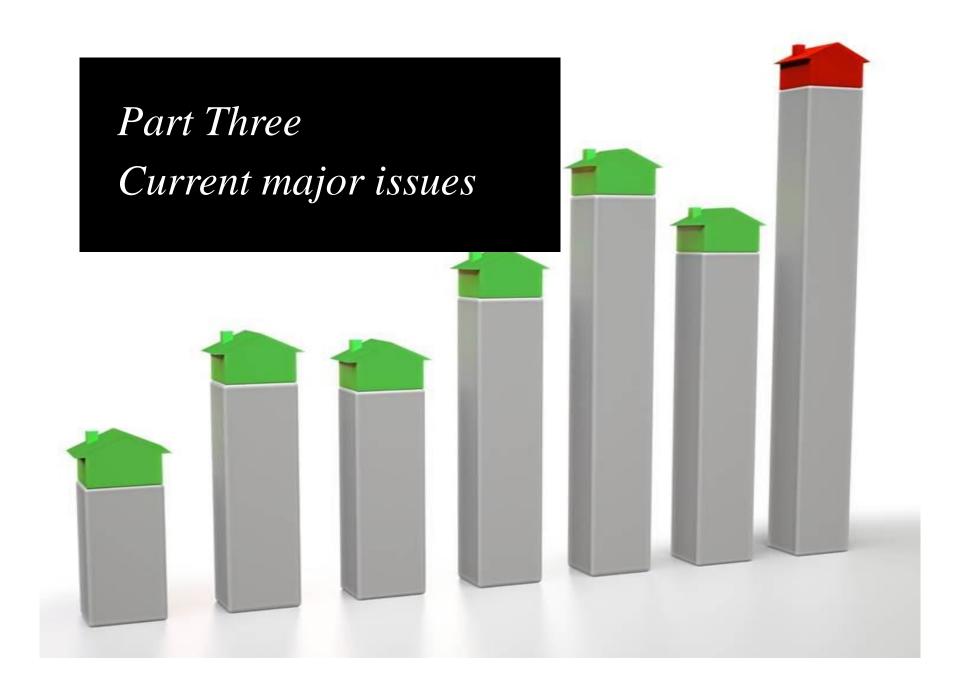
- 2,500 bed new build, 500 beds transferred
- Construction phased over three years
- Financial Close in May 2013
- *Mix of townhouses and cluster flats*
- University had done a lot of work on planning
- Focus on conferencing
- University invested equity
- Funded by a project bond wholly taken by L&G
- Significant capital receipt generated
- *Re-invested in academic estate*





Royal College of Music London, UK

- 415 beds in London
- Under construction
- Part College / part direct let
- Modular construction
- All rooms have acoustic performance to practice
- 22 central practice rooms
- *Mix of studios, en-suite and shared bathroom rooms*
- Affordability seen as key issue for the College
- College invested equity
- Funded by an income strip to the SPV with contingent guarantee to College.
- Significant capital receipt generated
- *Re-invested in academic estate*



Key Procurement Issues



Student experience



Mix of room types and rents



Demonstrable Innovation



Competition on guarantees



Partnerships for multiple projects



Environmental performance



University equity investment



Novel approaches to gain share



Tumbling equity returns

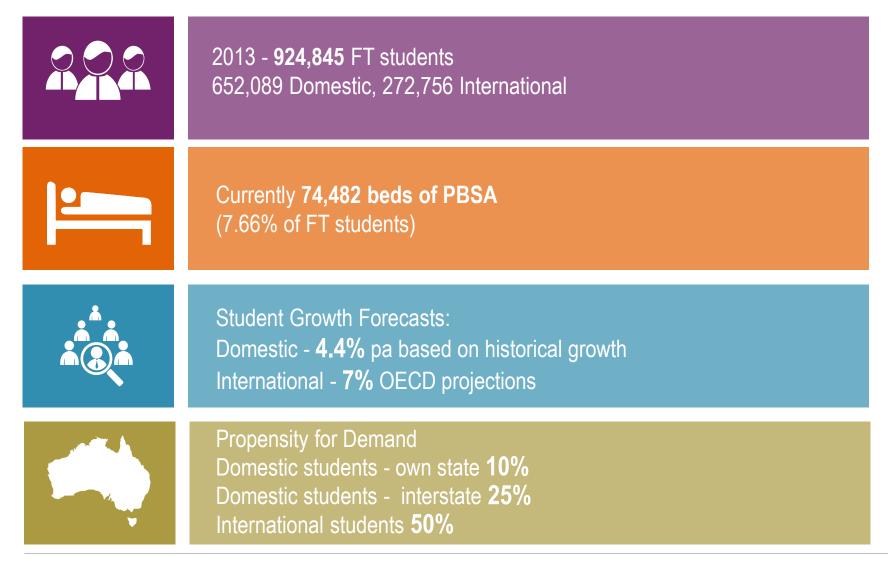


Engagement beyond the deal



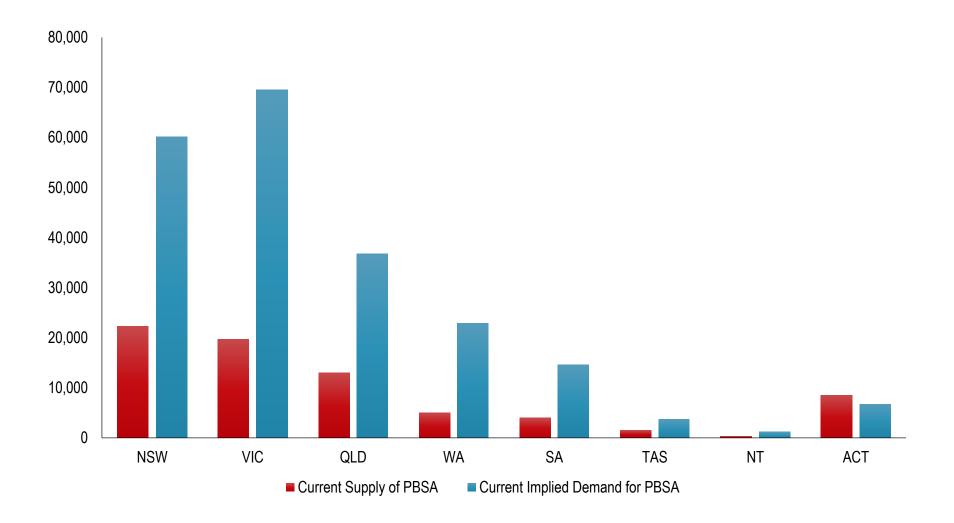
Part Four Analysis of Australian PBSA requirements

Analysis of Potential Demand for PBSA in Australia



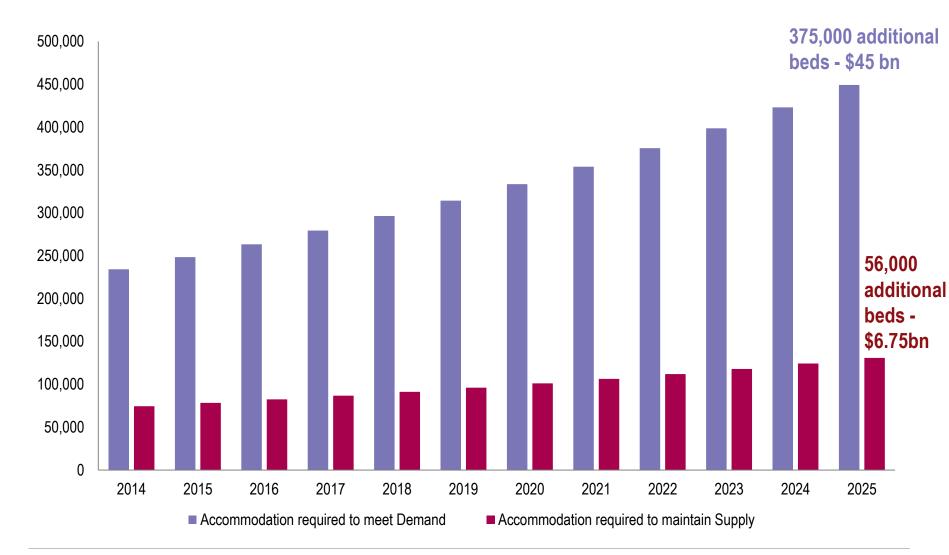


Analysis of Potential Current Demand for PBSA in Australia





Analysis of Potential Future Demand for PBSA in Australia





Analysis of Potential Demand for PBSA in Australia

- c. 500,000 beds in 2025 equates to 26% of FT students
- London is seen to be structurally undersupplied at 27%
- Who can provide the new accommodation?
 - Universities
 - Private Sector Developers
 - PPP





The PPP Opportunity in Australia

- Significant investment (\$6.75 \$45 Billion) required by 2025
- Limited number of private sector investors and developers
- Significant opportunity for universities to collaborate with private sector
- Universities can retain appropriate control over rents
- Accommodation required urgently to meet increasing demand



Part Five Global City Issues

Tananan

Characteristics of Global HE Destination Cities post-GCF

Current structural undersupply of residential and student accommodation

Forecast population growth and increasing amounts of smaller households Forecast mainstream housing construction projections do not solve the problem but leave a wider gap

Housing prices are rising faster than salaries

Higher percentages of younger demographic are renting The housing which second and third year students typically live in is a competitive market

International student numbers are forecast to increase sharply Student accommodation supply pipeline slowing and decentralising



Concluding Question

Could a lack of affordable student accommodation be the biggest barrier to growth for these global destination cities?



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Thank you





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