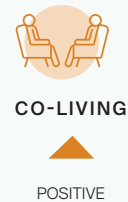


Residential Investment Yield Guide

Q2 2021

knightfrank.com/research

Q2 MARKET SENTIMENT



Investor demand for income-producing residential assets remained high through the second quarter of 2021, building on a strong 2020 and a busy first three months of the year.

Total investment volumes across the Build to Rent and Purpose Built Student Accommodation (PBSA) markets in the first half of 2021 stood at £4.3 billion. While this was down on capital committed in H1 2020, this was largely because of Blackstone's purchase of the IQ student portfolio for £4.7 billion in the second quarter of last year.

Ongoing strong performance reflects the fact that investors recognise the fundamentals underpinning residential rental markets remain favourable, despite the uncertainty created by the pandemic.

The sector's defensive characteristics are proving attractive as a hedge against economic uncertainty. Rent collection and occupancy rates for BTR have remained high throughout the pandemic and, while PBSA occupancy rates dropped last year, rising student numbers and low supply ratios in many university cities, are still driving investor demand.

Accordingly, this has also created a shift in investors' attitudes towards real estate allocation.

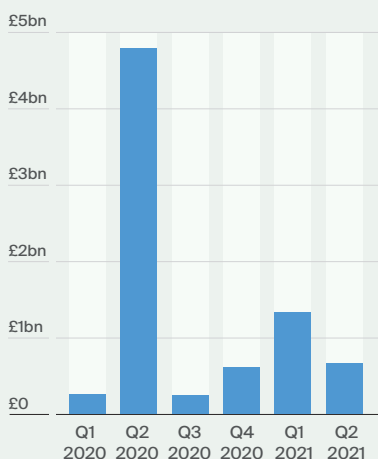
Back in November we surveyed 40 leading investors who said they had earmarked £42 billion over the coming five years to spend on student property,

BTR and seniors housing, a 68% increase on their current capital committed.

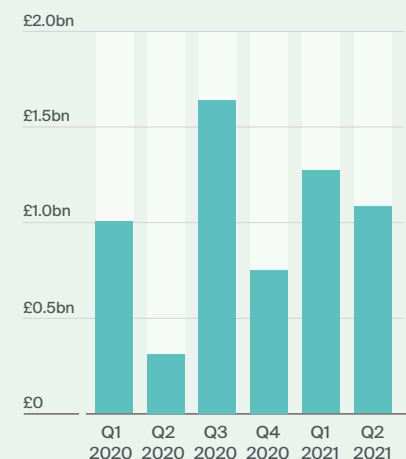
As the year progresses, and an even greater share of the population receives their vaccination, the longer-term outlook for the residential investment sector looks increasingly positive.

Quarterly institutional investment volumes

STUDENT



BTR



Source: Knight Frank Research

Market Focus



STUDENT

Deal volumes have picked up markedly in 2021, following a relatively quiet second half of last year. In Q2, investment volumes totalled £656 million.

Total investment volumes in the first half of 2021 stood at £2 billion, down year-on-year though 2020's figures were skewed by the Blackstone/IQ deal. Indeed, while the total capital committed may be down, the cumulative number of deals

completed so far this year is 47% higher than last, reflective of the bounce back in demand and investor confidence in the sector.

Key deals in the second quarter included GIC's purchase of 1,358 beds across two schemes in Wembley and Whitechapel for £342 million. Blackstone's acquisition of 347 beds in West Hampstead for £124 million and AWR's £61.5 million purchase of 735 beds in Liverpool.

Meanwhile, the latest UCAS data has increased optimism for the scale of demand for this coming 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.



BTR

Overall investment volumes in Q2 stood at £1.08 billion, more than triple the amount invested during the same period last year, which included the first national lockdown, but down on the £1.25 billion recorded in Q1 2021.

It takes total investment volumes in the first half of the year to £2.35 billion, up 79.8% year-on-year, and putting the sector on track to surpass the record £3.7 billion invested in 2020.

Some 70% of funds committed in the first half of 2021 were for schemes outside of the capital, reflecting growing investor confidence in the fundamentals which underpin those regional markets, as well

as an increase in the number of development opportunities being brought forward outside of the capital. After London, Birmingham has attracted the most investment by value so far this year, but the figures also point to a trend of rising activity in Tier 2 cities including Derby, Leicester and Southampton.

Key deals in Q2 included Grainger's £57 million acquisition of a 283-home stabilised development in Newcastle, one of the first purpose-designed and stabilised BTR assets to have traded in the UK market.

Other notable activity included three forward funding deals across the Midlands totalling £140 million by fund manager Edmond

de Rothschild, and Heimstaden's acquisition of Soho Wharf in Birmingham for £160m, the firm's first entry into the UK real estate market.

Momentum continued to build in the single family housing market, with PGIM Real Estate securing a portfolio of five stabilised assets, comprising predominantly two and three-bedroom houses, and three development sites across the Midlands and the North of England for £58 million.

From an operational perspective, performance remains strong. Our income survey estimates that monthly rent collection so far in 2021 has averaged 96% .

RESIDENTIAL INVESTMENT YIELD GUIDE Q2 2021

SECTOR	JUN-20	SEP-20	DEC-20	MAR-21	JUN-21	QTR CHANGE	MARKET SENTIMENT
STUDENT PROPERTY							
Prime London - Direct Let	4.00%	4.00%	4.00%	3.75%-4.00%	3.75%-4.00%	↔	POSITIVE
Prime Regional - Direct Let	5.25%	5.25%	5.25%	5.25%	5.00%-5.25%	▼	POSITIVE
Prime London - 25 yr lease, Annual RPI	3.50%	3.50%	3.50%	3.50%	3.50%	↔	STABLE
Prime Regional - 25 yr lease, Annual RPI	3.75%	3.75%	3.75%	3.75%	3.75%	↔	STABLE
CO-LIVING							
Prime London	4.25%	4.25%	4.25%	4.00%-4.25%	4.00%-4.25%	↔	STABLE
Prime Regional	5.00%	5.00%	5.00%	5.00%	4.75%-5.00%	▼	STABLE
BUILD TO RENT London & South East							
Zone 1 Prime	3.25%-3.50%	3.00%-3.25%	3.00%-3.25%	3.00%-3.25%	3.00%-3.25%	↔	STABLE
Zone 2 Prime	3.25%-3.50%	3.25%-3.50%	3.25%	3.25%	3.25%	↔	STABLE
Zones 3-4 Prime	3.50%-3.75%	3.50%-3.75%	3.50%	3.50%	3.50%	↔	STABLE
Greater London Prime	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	3.50%-3.75%	↔	POSITIVE
South East Prime	4.00%	4.00%	4.00%	4.00%	3.75%-4.00%	▼	POSITIVE
Regional Cities							
Tier 1	4.00%	4.00%	4.00%	4.00%	4.00%	↔	STABLE
Tier 2	4.75%-5.00%	4.5%-5.00%	4.5%-5.00%	4.5%-5.00%	4.25%-4.75%	▼	POSITIVE
Single Family Housing							
South East	4.00%	4.00%	3.85%	3.85%	3.75%	▼	POSITIVE
Regional	4.50%	4.50%	4.25%	4.25%	4.00%-4.25%	▼	POSITIVE

Important note

This yield guide is provided for indicative purposes only and was prepared on 11th March 2021. Yields are reflective of income-focussed transactions of prime, stabilised institutional-grade assets. Yields are provided on a Net Initial Yield (NIY) basis assuming a rack rented property.

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