Underpinned by short periods of volatility, 2016 will be remembered by political events which may well serve to shape the future of commercial property investment. While the full implications remain to be seen, what we do know is that the appetite for long-term investments with good covenants has intensified amid the current uncertainty. This is fuelling strong and sustained demand for specialist property assets. Increased liquidity, particularly as capital value growth slows across many commercial property sectors, will be of significant importance to investors. This will draw further attention to specialist property assets, which typically offer relatively longer lease term agreements and index-linked rents. A diverse pool of major players from across the investor spectrum, have been drawn to the opportunity and haven presented by the specialist sectors. Differing profiles of equity have sought to capitalise on expanding occupational markets, either through acquiring assets that provide operational exposure or, for the more risk adverse, via the security of an FRI lease. We expect this to continue. The sectors are all, in their unique way, benefitting from the changes in demographics and a shift in consumer behaviour. While disruptive technologies have in some ways impacted many commercial property sectors, the ‘business critical’ nature of specialist property will ensure that the attraction is preserved. Despite the notable demand, the lack of available assets at appropriate scale has impacted transactional activity and curtailed some investors from either making entry or increasing allocations to specialist asset classes. However, when contextualised against the wider investment market, the proportion of specialist property investment to all direct commercial property investment reached 27.5% in 2016. The remainder of this report will: • Review the UK economy with specific attention to the specialist property sectors • Provide a reasoned understanding of the investment market in 2016 • Bring to light the opportunity and threats facing each of the specialist property sectors • Deliver our view on where we see the state of the investment market in 2017 Through careful consideration of demand and supply dynamics, we forecast investment volumes for the specialist sectors to reach £15bn over 2017 – representing an 18% increase on 2016 volumes. SPECIALIST SECTOR REPORT 2017

FOREWORD

Specialist property is now recognised as the answer for investors seeking long-term secure income.
ECONOMIC CONTEXT
The UK economy has responded far better to the vote to leave the EU in June of last year than many commentators were predicting.

While some City banks were forecasting a slide into recession in the aftermath of the referendum, GDP expanded by a robust 0.6% in Q3 2016, and 0.7% in Q4 – which was a faster pace of growth than that seen in the first half of the year. The UK employment rate is currently at a record high, while the unemployment rate has continued to fall, standing at 4.8% in February 2017.

The economy has maintained growth with great thanks to the consumer, and momentum has continued into 2017. Retail sales increased by 2.7% in the year to March 2017, which marked the 35th consecutive month of rising spending. Also, the fall in the value of sterling relative to other major currencies has made the UK an attractive location for foreign tourists (Figure 1). In the three months to January 2017, visits to the UK by foreign travellers increased by 12.9% compared to the equivalent period a year ago.

Figure 1: 2016 GBP index vs other major currencies

KEY TRENDS IN THE UK COMMERCIAL PROPERTY MARKET
UK commercial property volumes dropped by 35% in 2016 to £46bn, representing the end of three consecutive years of growth. This out-turn reflected growing uncertainty surrounding the UK’s decision to exit the European Union and forced some investors to reassess the pricing of acquisition targets.

However, the slow-down in the investment market during the summer months did inadvertently create a catalogue of available assets marketed at “Brexit factored” prices. This was pivotal in delivering the strong uplift seen in Q4, which represented the fastest quarter on quarter growth in investment volumes for three years.

Overseas investors continued to dominate, with £24bn directly invested in UK commercial property in 2016 – accounting for 49% of all investment.

The devaluation of the pound against other major currencies in H2 2016 was key in providing some relief for many foreign investors who have found buying opportunities extremely limited particularly in London, and for those who have overlooked the UK market altogether.

Going forward, the competition for yield in a low growth and low yielding environment is likely to propel UK property, particularly across the key regional centres, to the top of the shopping list for many investors. Evidence from Macrobond and MSCI show that as at December 2016, 10-year Gilt Yields stood at 1.24% down from 1.8% in 2016.

Each of the specialist property sectors face different outlooks as a result of the economic backdrop. The hotel sector should benefit from increased foreign tourism and more staycation holidays. However, the possibility of reduced immigration could result in a shortage of hospitality workers.

The automotive sector could be impacted by rising petrol prices which will weigh on consumer spending in fuel stations this year. This may encourage some drivers to trade in their old car for a more fuel efficient model, although after a strong 2016 we should be ready for fewer motor sales this year. However, global automotive firms are still investing in the UK, which bodes well for long-term prospects.

Immigration controls could also lead to staff shortages for the healthcare sector, and the National Living Wage increase has pushed up costs. Nevertheless, an ageing population should guarantee future demand for care homes, while the government’s announcements for more funding for adult social care in the March 2017 budget should provide much needed support to the sector.

A combination of geopolitical factors and a lack of investable stock across the specialist sectors saw investment volumes reach £12.7bn in 2016, of which 40% involved PRS (Figure 2). This takes the 10-year total for specialist property investment to £70.4bn.

The changes in the wider market in 2016 was telling, in that a number of vendors were reluctant to deploy their income-generating specialist assets into the market. This was instrumental in preventing further transactional activity.

Yet, 2016 still saw the completion of sizeable deals, such as London and Regional Property acquiring the Atlas Portfolio (Hotel) for £275m in May 2016, while Arlington Advisors Ltd and Campus Living Villages purchased the Spectrum & Sanctuary Portfolio (Student) for £124m in March 2016.

Furthermore, four of the specialist sectors saw investment volumes equal or exceed their five and 10 year averages, which suggest that transactional activity in 2016 relative to preceding years continues to outperform. Additionally, the automotive sector recorded its highest level of investment, with £300m transacted in 2016, which is up 82% on 2015. Student Property recorded its second highest level of investment with 3.1bn transacted in 2016.

When contextualised against the wider commercial property investment market, specialist property accounted for 27.5% of the total in 2016 (Figure 3).

However, we recognise that the inclusion of PRS to the 2016 core specialist property sectors has served to boost overall investment levels and hence increase the representation of specialist assets to the investment market.

In terms of performance, which stands to spark further investor interest, specialist assets continue to deliver. Evidence from MSCI suggests that total returns for ‘other’, which captures many of the specialist sectors, reached 6.5% for 2016. This outpaced both offices (2.3%) and retail (1.7%) during this period. A key component of the overall return, as highlighted in our 2016 Momentum report, is income returns, which in 2016 reached 5.7%, yet again exceeding the traditional sectors.

It is this key characteristic that will serve to drive investors into the arena, with added cash flow certainty opportunities as well as rising occupier demand now firmly positioning specialist property product as highly sought-after.
**AUTOMOTIVE**

**FACTORS BRINGING MARKET MOMENTUM DURING 2017**

- We are seeing an increasing number of foreign dealer group and investors actively targeting the UK dealership sector due to the long-term stability of the market, coupled with recent shifts in the value of sterling. This ‘additional’ demand will help to sustain current occupational and investment values.
- The larger dealers, petrol retailers and car parking operators are activity seeking to expand. Opportunities for ‘new to industry’ occupational stock are rare and as such growth is typically driven by the acquisition of smaller operators. We expect continued consolidation across the automotive sector in 2017.
- The record new car sales witnessed in 2016 are unlikely to be repeated in 2017, albeit the year is still likely to put in a stellar performance. Increasingly attractive finance packages will bolster demand for new cars, whilst the exceptional performances over the last few years is creating better quality used car stock, which will in turn provide an opportunity for dealers to generate increased profits.

**FACTORS THAT MAY SERVE AS A BRAKE TO MOMENTUM DURING 2017**

- The severe lack of investment product continues to provide a brake to momentum as demand far exceeds supply. This is a trend that is likely to continue given the freehold dominant nature of the sector – indeed, a reason in itself why investments are so highly sought-after.
- The EU referendum has created uncertainty in the market. This is likely to remain in the short to medium term, whilst stressing that any potential future levies on cross-border movement of vehicles and components is by no means assured.
- The Government’s stance on diesel cars and the introduction new tax bands could impact on new cars sales, particularly on small cars. Conversely, these measures are likely to result in the seemingly unstoppable rise in ‘alternatively-fuelled’ vehicles.

**THE OPPORTUNITY/VALUE FOR INVESTORS**

- Currently the strongest investment demand is for secure long-let income providing guaranteed rental growth. However, we do not anticipate further compression in prime yields. We consider better ‘value’ can be secured through the right ‘mid-tier’ stock, and that the yield difference between this and prime will narrow in 2017.
- In recent years, investors and occupiers alike have targeted premium brands. We see this trend continuing, albeit those seeking to move up the risk curve in the hope of greater returns, may start to target more secondary brands – especially those with new models coming through.
- We are seeing strong demand at the smallest lot size end of the market, both in the dealership and petrol filling station sector. We consider there is scope for investors to acquire larger portfolios of granular product and generate significant ‘break-up’ value.

**ATTRACTIONS TO INVESTORS FROM OTHER SPECIALIST ASSET CLASSES**

- The dealership sector in particular offers the potential for investors to acquire landmark ‘trophy assets’. These properties are extremely attractive to foreign investors who may not be familiar with the UK.
- The bespoke nature of the facilities, and the importance of the facility to both dealer and manufacturer, provides a unique scenario whereby the investor is in essence receiving a double-covenant, i.e. the incumbent dealer group, combined with the franchise backing of a manufacturer.
- Smaller lot sizes typify the automotive sector (save for motorway service areas, car parks and portfolios). These offer the opportunity for funds to invest relatively small sums and thus diversify fully across the alternative sectors.

**WHAT FACTORS DO NEW INVESTORS NEED TO BE AWARE OF?**

- Investors should be aware of the lack of transparency in the sector in respect of rental and capital values. Specialist advisers are required as no two assets are ever the same, and can often identify overlooked value.
- This is a market where smaller lot sizes are the norm – there are relatively few individual lots in excess of £10 million (save for Service Areas) and large portfolios remain rare. Investors must develop an appreciation of corporate identity criteria. Manufacturers will ensure that their dealerships adhere to a consistent appearance but this is typically at the cost to the dealer. From the investor’s perspective the asset is being continually upgraded, and even enlarged, by the tenant.

**KEY DEAL OF 2016**

**Land Rover, Mazda, Honda**

- **Birmingham**
- **Tenant:** Lancaster Plc.
- **WAULT:** 20 years
- **Price:** £17,000,000
- **Net Initial Yield:** 4.75%

**KEY STATISTICS**

<table>
<thead>
<tr>
<th>Source: Knight Frank, PropertyData</th>
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<tbody>
<tr>
<td><strong>Total Commercial Property Investment 2007-16</strong></td>
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<tr>
<td>10 year average annual UK investment volume</td>
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<tr>
<td>2016 total UK investment volume</td>
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<tr>
<td>% of total UK commercial real estate investment</td>
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<tr>
<td>Prime yield as at end of 2016</td>
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**PREDICTIONS**

- With demand from foreign private equity and HNWIs arguably at an all-time high, we consider there may be a ‘decade-defining’ transaction in the automotive sector this year.
- Traditionally automotive investment product has been dominated by franchised car dealerships. In 2017 we expect the ‘other’ automotive sectors, namely motorway service areas, petrol stations, tyre and exhaust centres and car parks to contribute significantly. Collectively for the first time in history, these assets could exceed activity volumes in car dealership assets.
- Alternative-fuelled vehicles will again take centre stage in terms of new sales percentage growth and we expect this to account for 5-6% of the market by the end of 2017, equating to a 50% increase on 2016 year-end figures.
HEALTHCARE

EDUCATION AND MARKET MATURATION

The appetite for long-dated healthcare income from domestic and international funds is at its highest levels in 20 years. UK healthcare now attracts a broad church of global investors.

INCREASING OPERATOR STABILITY

Care Homes are seeing ever increasing occupancy levels (88.4% for the financial year 2015/16) and as such, represent an increasingly stable business to investors seeking to balance risk and return.

OPERATOR INCOME ON THE INCREASE

Our 2016 Care Homes Trading Performance Index also showed that average weekly fee levels of £694 were achieved across the care homes sector during the financial year 2015/16. This represented a 2.7% increase on the previous financial year, significantly above RPI inflation over the same period. Furthermore, local authority fees are on the rise, which is enhancing the underlying performance of the sector. Several local authorities have already agreed fee uplifts of 5% from April 2017 and 8% for self-funders.

FACTORS THAT MAY SERVE AS A BRAKE TO MOMENTUM DURING 2017

Brexit may have major implications surrounding access to labour, in particular overseas nurses and doctors.

There is a desperate need for new future proof facilities but the inflationary cost of new raw materials and increasing labour costs has stymied many new build developments. Knight Frank’s 2017 Healthcare Development Opportunities Research identified a deficit of 2,612 beds and the under capacity is now being reflected via increasing occupancy levels within care homes.

STATE FUNDING UNDERPINS THE PERFORMANCE OF MANY CARE HOMES

There is an extensive policy and regulatory framework that investors need to be acutely aware of and constantly monitor.

The physical requirements of the built environment are highly specialist and need to be considered from a flexibility, obsolescence and maintenance perspective.

KEY FACTORS DO NEW INVESTORS NEED TO BE AWARE OF?

There is an extensive policy and regulatory framework that investors need to be acutely aware of and constantly monitor.

The physical requirements of the built environment are highly specialist and need to be considered from a flexibility, obsolescence and maintenance perspective.

The market will display further maturity with the emergence of new operating companies.

The Care Homes sector has characteristics that are palatable to many already vested in other specialist sectors, notably Hotels, where performance is focused on occupancy, is EBITDA driven and businesses are bespoke and asset based.

Significant forward funding opportunities exist across the spectrum of healthcare registrations including care homes, hospitals and surgeries.

The Midlands and the North are now very much target locations for an array of operators and investors looking for a higher return on capital. However, the M25 and M4 corridor still remain strong areas of opportunity.

Significant forward funding opportunities exist across the spectrum of healthcare registrations including care homes, hospitals and surgeries.

The prime yield at the end of 2016 was 4.50%.

Project Monaco

Investment portfolio of three newly developed high-quality purpose-built care homes comprising 173 beds

Sold on behalf of Apache Capital Partners

Purchaser: MedicX Healthfund II LP

Price: £28.4 million, reflecting a net initial yield of 5.63%

Total UK Commercial Property Investment 2007-16 £6.3bn
10 year average annual UK investment volume £0.63bn
2016 total UK investment volume £0.35bn
% of total UK commercial real estate investment 0.8%
Prime yield as at end of 2016 4.50%

Source: Knight Frank, PropertyData

KEY DEAL OF 2016

Project Monaco

Investment portfolio of three newly developed high-quality purpose-built care homes comprising 173 beds

Sold on behalf of Apache Capital Partners

Purchaser: MedicX Healthfund II LP

Price: £28.4 million, reflecting a net initial yield of 5.63%
HOTELS

**“Strong economic fundamentals in 2017 will further underpin investor confidence in the hotel property market.”**

Julian Evans
Head of Healthcare & Hotels

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**Total UK Commercial Property Investment 2007-16**

<table>
<thead>
<tr>
<th>Year</th>
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<tr>
<td>2007</td>
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<td>2016</td>
<td>£3.4bn</td>
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</tbody>
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**Key Statistics**

- **Prime yield as at end of 2016:** 3.50%
- **2016 total UK investment volume:** £3.4bn
- **10 year average annual UK investment volume:** £2.4bn

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**Factors bringing market momentum during 2017**

1. Record visitor numbers
   - Hotel performance will be bolstered by strong growth in tourism, with ‘Visit Britain’ forecasting 38.1 million visits in 2017 and £24.1 billion in visitor spending, an increase of 4% and 8% respectively on 2016.

2. Strong growth and performance
   - The weakened pound and the continued international appeal of London and the UK regional cities will serve to drive strong growth in RevPAR performance, with a rise in overseas visitors expected. Meanwhile, a surge in domestic tourism or ‘staycation’ is also anticipated due to unfavourable foreign exchange rates.

3. Overseas capital flowing into the region
   - The softening of the currency will attract more opportunistic investors. Whilst London’s global appeal will continue to lure investors, the lack of available product for sale and the mismatch between buyer and seller price expectations will further drive foreign investment activity to key regional cities.

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**Factors that may serve as a brake to momentum during 2017**

1. The weak pound is likely to place upward pressure on inflation, thereby reducing disposable income on domestic excursions, which could have a negative impact on hotel demand. UK regional markets, where hotel demand emanates largely from domestic overnight stays, will be at greatest risk.

2. A bigger challenge of the weak pound is the increase in supplier costs impacting upon hotel profitability. Operational costs are further affected by a rise in staff costs, brought on by increases in the National Living Wage.

3. Whilst the impact of Brexit and its implications is much more long-term, the growing threat of terrorism and security is live and present and can have an immediate detrimental impact on inbound tourism. Although the London hotel market has shown strong resilience following past terrorist attacks, the industry needs to remain alert to the probability of future attacks.

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**The opportunity/value for investors**

1. New infrastructure developments such as ‘Crossrail’ is driving regeneration, with new nodes of connectivity dramatically changing the investment value of relatively untapped areas of London and the South East. Furthermore, infrastructure projects such as HS2 will change the landscape of many UK cities, both physically and economically. In doing so, this will generate significant hotel demand, leading to improved trading performance and aid the absorption of new hotel supply.

2. As major players such as Lonestar, Starwood Capital and Westmont release assets to the market, new opportunities will emerge as former portfolio acquisitions are broken-up into single-asset sales.

3. Fixed-income investment will remain highly sought-after, with long-dated, index-linked lease terms particularly attractive. Scarcity of stock, however has led investors to secondary investment covenants. Only a limited number of operators offer leases; Motel One and Staycity are two players fuelling their expansion through such arrangements.

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**Attractors to investors from other specialist asset classes**

1. The Hotel sector will remain a strongly performing sector in 2017.

   - The Hotel sector will remain a strongly performing sector in 2017.

   - The appetite for leased assets and the growing appetite for income security is set to continue, with potential for growth beyond the traditional budget hotel sector to include leased serviced apartments. The focus on assets offering long-term secure income and strong covenants, underpinned by fixed and RPI linked rental uplifts will be a certain attraction to investors. Attractive yields in the sector can be found by focusing on the development pipeline, through forward funding of projects.

---

**What factors do new investors need to be aware of?**

1. Operating performance in UK regions will continue to diverge, with significant levels of new supply in certain markets impacting upon trading performance. Recruitment, labour costs and operational supplier costs are anticipated to rise, thereby impacting upon profits. Alignment of interests between owners and operators is essential.

2. Global hotel operators drive income through management and franchise fees, as such, investors need to be astute on how operators seek to claw back exceptional costs. Of particular significance is the cost of investment in distribution and digital technology as operators seek to compete with market disruptors, such as online travel agencies and home sharing sites.

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**Predictions**

1. Overseas capital, emanating largely from Asia, in particular Hong Kong, Singapore and China, will seek out trophy assets or assets with a proven income stream in both London and major regional UK cities.

2. Operators will continue to develop fresh, innovative, soft brands and trend-setting concepts. In 2017, savvy hotel investors will increasingly inject asset improvement strategies in order to add investment value, through the repositioning, rebranding and enhanced utilisation of space.

3. Technology will continue to have a multifaceted and substantial impact on the global hotel industry. The changing profile of guests, combined with developments in digital technology, will continue to drive different accommodation needs and stay expectations. Changing trends have created a more dynamic competitive environment. Hotel operators will respond to the industry disruptions through further consolidation or long-term partnerships.

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**Source:** Knight Frank, RCA
"The UK build-to-rent market is at the start line of 10-15 years of continual growth."

James Mannix
Head of Private Rented Sector

**PRIVATE RENTED SECTOR**

**FACTORS BRINGING MARKET MOMENTUM DURING 2017**

- **Long term capital chasing secure income**
  - There are significant levels of long-term capital chasing secure and long-term income streams.
- **De-leveraging**
  - From April 2017, Landlords will no longer benefit from income tax relief on Buy-to-Let mortgages. A large proportion of highly leveraged investors will need to sell their properties, giving rise to a number of tenants formerly accommodated by this sector needing good quality alternative accommodation.
- **Population Growth**
  - The UK population is estimated to be 74 million by 2039. The need for high quality housing will be compounded by overseas invest.
  - The PRS market represents an increasing appetite from opportunistic overseas investors.
  - A substantial, stabilised PRS asset, totalling 84 fully let self-contained apartments and 5 houses.
  - Sold on behalf of a large UK Property Company.
  - Purchaser: Grainger.
  - Price: £57.5 million, reflecting a 4.52% gross yield.

**FACTORS THAT MAY SERVE AS A BRAKE TO MOMENTUM DURING 2017**

- **Land Supply**
  - Competition with remove conventional sale house builders for sites remains an issue.
- **Planning Policy**
  - The planning policy framework support the sector. Further clarity is required in relation to the affordable requirement for BTR schemes. Minimum space standards need to be addressed to enable developers to build high quality compact schemes, driving building efficiency and offering tenants an affordable product.
  - Over-provision of amenities. Each investor needs to focus on back of house support space as well as flexible amenity space to future proof its design.
- **Amenity Space**
  - The PRS scheme needs a focus on back of house support space as well as flexible amenity space to future proof its design.
  - The market will continue to mature and develop; the largest growth will be in the 35-55 demographic.
  - National Progression
  - The opportunity to diversify into an expanding sector; benefitting from strong returns and asset management opportunities.

**THE OPPORTUNITY/VALUE FOR INVESTORS**

- **Secure Income**
  - Bulk Deals from Developers
  - Developers are considering bulk transactions as part of their wider sales strategy.
  - Secure Income
  - The PRS provides very secure and long-term income streams from the security derived in the granularity of the tenancies.
  - The PRS market represents an opportunity to diversify into an expanding sector; benefitting from strong returns and asset management opportunities.
  - Natural Progression
  - Entry into the PRS is a natural progression for a number of specialist sector investors. Parallels can be drawn between the PRS sector and the Student and Hotel sectors, enabling investors to capitalise on their already established knowledge base.

**ATTRACTIONS TO INVESTORS FROM OTHER SPECIALIST ASSET CLASSES**

- **Design**
  - Subtle building design changes and specification differences play an important role in driving efficiency as well as reducing maintenance costs. Efficiently sized units improve the affordability and result in higher revenue-producing schemes. Quantum is required for management efficiencies.
  - Amenity Space
  - Investors need to be aware of over-provision of amenities. Each scheme needs a focus on back of house support space as well as flexible amenity space to future proof its design.
  - Introduction of ‘London Living Rent’
  - BTR operators may be required to rent a percentage of their units at ‘London Living Rent’.
  - Key Attributes
  - The key attributes for a successful PRS scheme are: proximity to where people work/ study, excellent transport links and a focus on service both within the scheme and the local amenities.

**WHAT FACTORS DO NEW INVESTORS NEED TO BE AWARE OF?**

- In five years’ time, the professionally managed PRS will be the third largest asset class in the UK.
- Investment in the sector has to date been dominated by UK investors.
- This trend has been reversed in the last twelve months and we predict that the inflows of foreign capital and UK-managed foreign capital will double in 2017.
- Tenant attraction and retention are synonymous to the success of a PRS scheme. The design of buildings in relation to the impact on tenant’s wellness will become a key consideration from the outset of the development period.

**BOLD PREDICTIONS**

- In five years’ time, the professionally managed PRS will be the third largest asset class in the UK.
- Expect investment in the sector to reach in excess of £50bn by 2020.
- The market will continue to mature and develop; the largest growth will be in the 35-55 demographic as well as increased demand for family living.

**KEY DEAL OF 2016**

- **Kew Bridge Court**
  - A substantial, stabilised PRS asset, totalling 84 fully let self-contained apartments and 5 houses.
  - Sold on behalf of a large UK Property Company.
  - Purchaser: Grainger.
  - Price: £57.5 million, reflecting a 4.52% gross yield.
A total of £3.1bn was invested in the UK student accommodation market in 2016, 60% of which was portfolio acquisitions.

James Pullan
Head of Student Property

“Return of single asset deals Portfolio sales dominated the student market in 2015 & 2016. We expect the market will increasingly be driven by the REITs and pension funds as economies of scale assist these institutional buyers to acquire single assets and create increasingly large portfolios with efficiencies of operation, branding and marketing.

Disposal activity on the rise 2017 has already seen the disposal of several key assets, which together are expected to have reached £0.89bn in the first financial quarter of 2017, with a number of key assets and portfolios still on the market.

Overseas capital inflows continue With new and existing international investors keen to enter the sector and add to their existing stock, we expect to see further overseas capital looking to invest in a buoyant asset class.

Brexit, and the proposed cap on international students, appear to have deterred some from applying to study in the UK. In 2017 applicants from the EU dropped by 7%, with non EU applicants increasing by a marginal 0.2%.

A further factor which could impact momentum is the increasing build cost inflation experienced across the UK. This has put increased pressure on the viability for development projects and forward funding of student schemes.

There are a number of UK student markets that have experienced development ‘indigestion’ in 2016, with large amounts of new stock being delivered. A knock on effect on occupancy and rental pricing in these locations could reduce levels of future capital investment.

1. Return of single asset deals
2. Brexit and proposed cap on international students
3. Build cost inflation
4. Indigestion in student markets
5. Brexit could impact momentum
6. Demand and supply dynamics

In 2016, occupational demand for student accommodation continued to show strong growth as the market faced a continued shortage in purpose built student accommodation. Such demand and supply dynamics placed upward pressure on rents, which grew by circa 3.2% in 2016 nationally, and we expect these conditions to continue in 2017. This year on year rental growth, coupled with growing student numbers, gives investors a relatively secure income base.

Investors who entered the market in 2016 and secured significant portfolios, will look to build on their ‘seed portfolios’ by adding more properties to create economies of scale.

In 2016, 10 year average annual UK investment volume

2016 total UK investment volume

% of total UK commercial real estate investment

Prime yield as at end of 2016

Prime yield as at end of 2016

6.7%

4.00%

7.6%

6.7%

4.00%
CARE HOMES TRADING PERFORMANCE REVIEW

HIGHLIGHTS
Occupancy rates edge up to 88.4% and average weekly fees rise to £694
Staff costs continue to increase and now consume 58.2% of income
EBITDARM rises for the first time in four years, to stand at 27.5% of income

RESEARCH

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