



Coral Student Portfolio outlook 2010

Through the recent global economic turmoil – student accommodation has emerged as a robust and resilient asset class. The income stream fundamentals remain very strong with an imbalance of supply and demand for beds, and with the added benefits of rents paid in advance, low bad debts and high occupancy rates. This augurs well for 2010 and beyond.

In hindsight 2009 was an opportune time to launch a Student Accommodation Fund.

2008 had seen write downs in all asset classes, including property. Despite the strong fundamentals, student accommodation was not immune but weathered the storm better than other sectors of residential and commercial property. The supporting factor for Student Accommodation was the strong fundamentals. Student numbers have been steadily rising over the past 10 years with no sign of abating, and bed supply has not been able to keep up with the increase in demand.

UCAS reported a 12% rise in applications for 2010/2011. As well as domestic demand for places there has been a notable increase in the number of applications from overseas and mature students. Geographical opportunities are emerging with more pronounced undersupply of purpose built accommodation in London as well as ground floor opportunities in Western Europe.

Student housing as a sector is now becoming an important asset class in its own right with rents continuing to rise over the last five years. Other areas of the property sector remain unstable and UK commercial rental growth may actually be negative this year.

Capital values should always hold up well in this sector due to the strong yields and under supply; and the extraordinary write-downs of 2008 and early 2009 seem to have turned round now. In the last 6 months, for example, we have seen Unite post record IPD returns of over 5% in a quarter and this shows that the Student sector is moving emphatically upwards while other property sectors are still inconsistent and unstable.

Coral launched in 2009 with very clear objectives, to produce consistent returns IRO 8-10% p.a. We are on course to break those targets and the outlook for 2010 and beyond looks very positive. We have managed the Fund conservatively with a 2-Fund holding strategy for much of 2009 to provide core strength of our portfolio whilst the market was still weak.

Already in 2010 a further fund has been added to the Portfolio with Mansion House Group, which promises to reinforce our strategy.

We expect to add one if not two more Funds over the next three months and are currently reviewing two such possibilities. Our strategy remains to be invested in strong experienced funds that have efficient means to operate high occupancy, in growing student areas (we are particularly keen on London and traditional university towns) strong financials with little or low exposure to negative swap and hedging risks but with diversity between managers and geography. We have to access these, however, at very competitive terms either direct, or more frequently, via the secondary market. Growth has been achieved despite a higher than usual cash holding of over 30%. We would expect this figure to fall more in line with stated targets of 20% as the Fund grows through the coming year.

In cooperation with our advisers Ingman-Jones, we are currently monitoring several opportunities in the UK and one in Western Europe. The criteria remain:

- 1 The management's knowledge and experience of the market.
- 2 Stability of underlying assets and their tenancies – the spread of pre-lets, nomination agreements and direct lets.
- 3 Satisfaction that rents the students are paying are at a reasonable and sustainable level.
- 4 Capital structure of the Fund.
- 5 Geographic diversity – London student market behaves very differently for instance to Manchester.
- 6 Total expense ratio of the Fund – basically whether the Fund is being managed cost-efficiently.
- 7 Risk – this is mainly evident when comparing tenancy styles and also when comparing investment plays versus investments with some development.
- 8 Do we trust the managers and do we trust that the manager can deliver on what they say?

The resilience of student accommodation in these toughest of economic conditions is sparking a wave of new activity from developers and investment houses. Again, we are monitoring developments closely for any opportunities that may present for the Coral Student Portfolio.

We offer access to the Student Accommodation investment opportunity in a robust EU regulated Fund, which aims to spread risk among providers and geographical exposure.