



Patagonia Place, Liverpool Waters
Image courtesy of Peel L&P

Research
United Kingdom | August 2023

UK Living Capital Markets

Q2 2023

Student housing makes comeback

PBSA investment tops £1bn as living outpaces all other sectors

Living overtook offices as the most active sector in the UK in Q2 2023. Accounting for a third of all direct real estate investment, build-to-rent, student housing and healthcare totalled £2.5n – up on the £2.1bn transacted in Q1.

Activity was down 35% year-on-year and 20% on the five-year average. But, as investors sought out emerging sub-sectors like single family rental and got creative with dealmaking, living recorded a relatively robust performance.

The sector benefitted from a resurgence in student housing following its quietest quarter since at least 2010. Investors poured £1bn into the sector, up sharply from £134.5m in Q1, though 47% below Q2 2022. Meanwhile, BTR had its busiest Q2 on record, up 1.4% on the previous high last year, bringing the H1 total to £2.9bn – nearly in line with H1 2022.

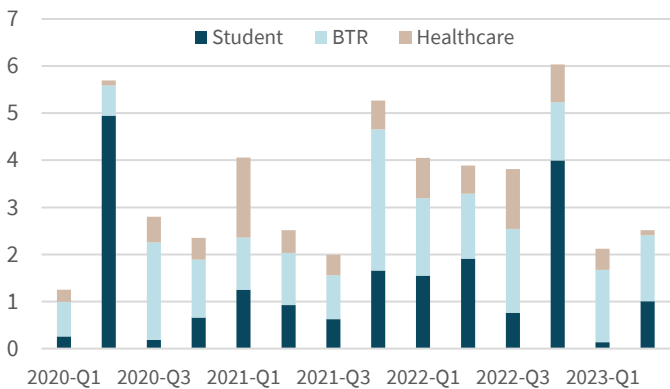
By contrast, healthcare experienced a subdued Q2, with just £104m invested across seven deals. The three largest of these, including Project Mabel, a portfolio of 188 care home beds sold by the Universities Superannuation Scheme, completed in June, signalling a return of activity after two quiet months.

Overall living investment falling year-on-year reflected a broadly difficult investment environment. Month after month, UK inflation came in higher than expected, while the 10-year gilt yield inched towards a post-Global Financial Crisis high, eroding investment sentiment. Within that wider context, however, living has remained robust due to a vast undersupply of private rented homes and purpose-built student housing, accelerating operational performance.

Student wakes up to wall of capital

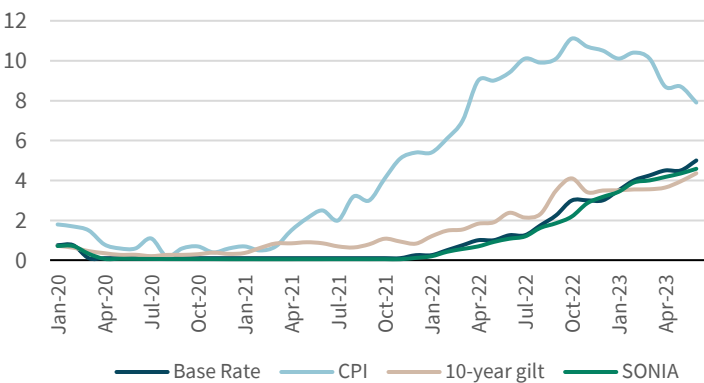
PBSA investment jumped more than sevenfold in Q2 to £1bn, making up lost ground at the start of the year as the number of deals rose from seven in Q1 to 16. The average deal size (excluding land and M&A) rose from £24.6m to £65.6m, which was in line with last year’s average of £65.3m.

Total living investment (£bn)



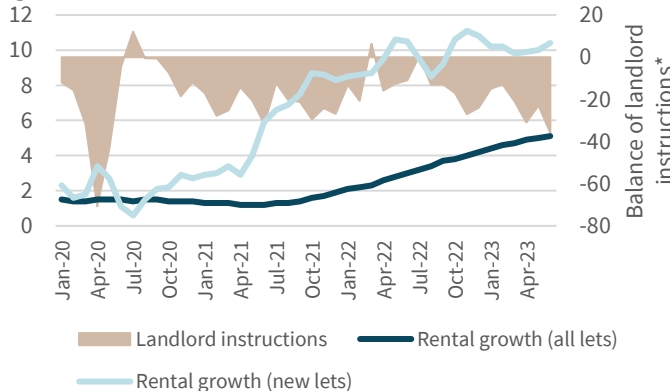
Source: JLL, 2023 (includes M&A, investment, forward funding and development)

Persistent inflation raises pricing uncertainties (%)



Source: Bank of England, ONS

Demand outstrips supply, driving record rental growth (%)



Source: ONS, Homelet, RICS
*Those reporting rise in instructions, minus those reporting fall

Two of the largest deals of the quarter accounted for close to half of PBSA investment. These were DIF Capital Partners’ £300m acquisition of the 4,500 bed Campus Living portfolio and Blackstone’s £160m forward funding of McLaren and Topland’s 1,209-bed The Oaks in Coventry.

However, the gains made in Q2 were not enough to stop the first half of 2023 being the most subdued since 2019. The second quarter itself, though an improvement on the start of the year, was a fall of nearly 40% on the five-year average.

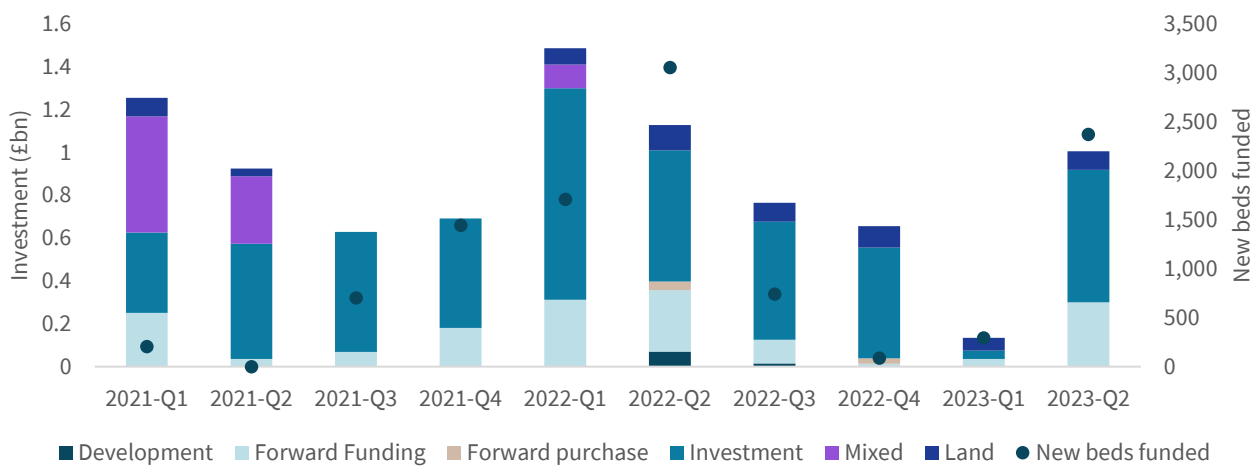
In many ways, this was a continuation of the hesitancy the market experienced in Q1. On one side, asset owners are encouraged by strong underlying demand and cashflows in their products. Unite, for example, reported in early July that 98% of its rooms have now sold for the 2023/24 academic year – up from 91% at this point last year – while expected full occupancy has accelerated its forecast rental value growth to 7% (2022/23: 3.5%).

But investors, factoring in the high cost of financing, are looking to agree pricing at higher yields than sellers are often ready to accept. As a result of the wide bid-ask spread, some have chosen to put plans on hold, take advantage of high risk-free rates, and reassess their position in the coming months.

Despite this, there was an uptick in forward funding deals for student assets in the second quarter. While investment in standing stock accounted for 62% of the Q2 total, forward funding as a share of the total rose to 30% - the highest level since 2020. Investors forward funded 2,331 new beds, more than in the previous three quarters combined.

Still, the UK market faces a shortfall of close to 600,000 against core student demand, comprising postgraduates, domestic first year undergraduates and international undergraduates. At the current forward funding rate, this would suggest approximately £80bn required to close the gap.

Investors forward funded more student beds in Q2 than in the previous three quarters combined



Source: JLL (excludes M&A)

BTR builds on joint ventures and suburban homes

In a typical year, Q2 tends to be a slow one for BTR. That has not been the case this year. The sector had its busiest second quarter on record, consequently matching H1 2022 as the most active first half for BTR JLL has recorded.

In a period of heightened investor concern, BTR has been able to maintain volumes through shifts in the types of assets buyers are looking for and the deals they make to expand – or gain for the first time – exposure to the sector.

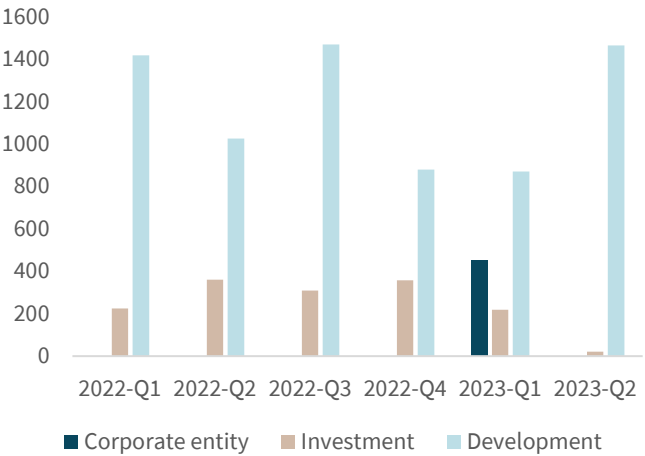
After single family rental had its moment in Q1, overtaking multifamily in direct investment for the first time, investors ensured it wasn’t a mere blip with another £451m invested in Q2, bringing the H1 total to £1bn for the first time.

Growing demand for rental housing combined with the relative speed and affordability of development – trends further discussed in the [JLL Single Family Rental](#) report – has made this part of the housing market particularly attractive for investors. Housebuilders, meanwhile, have grown increasingly comfortable selling in bulk to single family operators like Casa by Moda or Lloyds Bank’s Citra. The latter struck a deal with Barratt Homes at the end of June to forward purchase 604 homes for £168.4m in what was one of the largest BTR deals of the quarter, advised by JLL.

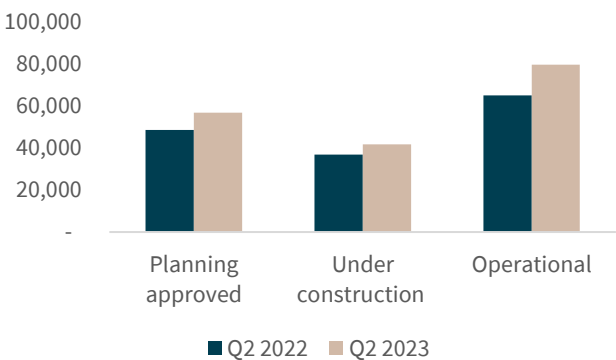
Single family, rising from £230m invested in H1 2022 to £1bn in the first half of this year, offset multifamily’s 45% year-on-year decline. BTR had a further boost from the first coliving deal of the year: a joint venture between Amro Partners and Japanese developer NTT UD to build a 210-bed scheme in Kingston called The Rex, also advised by JLL

The Rex deal was among the latest transactions signalling a shift away from forward funding as a route into BTR for investors. Heightened development and debt costs have seen forward funding deals fall from £1.7bn in H1 2022 to £1.1bn in H1 2023 (multifamily had a steeper drop from £1.4bn to £568m). In their place, investors are opting to forward purchase schemes – often single family portfolios or multifamily schemes close to completion – thereby reducing their exposure to development risk while taking advantage of opportunities in an otherwise quieter sales market. Alternatively, they will form an equity joint venture with the developer, thereby spreading both the risk and reward of the completed project.

Development deals via forward purchases and JVs dominate as potential vendors look to retain strong operational stock (£m)



The UK’s multifamily market has grown 18% since Q2 2022, with close to 80,000 operational homes and 100,000 in development



Source: JLL



Out of the woods?

Living defying expectations was as much a reflection of sector resilience as it was a sign that there is still trepidation in the air, a feeling that was recharged in June amid a 50bp rate rise and economic indicators pointing towards a higher-for-longer inflationary period.

As markets continue to revise their outlook, living investors are grappling with the task of pinning down how they should price the assets they want. Yields are softening, though driven by sharp rental growth rather than a slump in capital values. Demand for living stock is high, but so are development costs, making operational assets particularly attractive and potential sellers less inclined to part with them.

The first glimmers of economic optimism came post-quarter end in July. Inflation had fallen more than expected to 7.9%, tempering forecasts for peak interest rates. Though a return to the Bank of England’s target of 2% inflation is still far off, the absence of another discouraging inflationary surprise in July showed the UK moving in the right direction.

Nonetheless, the first half of 2023 proved that investors are willing and able to work through difficulties for a slice of the living market. But rather than bring clarity, the deals that completed were overshadowed by more questions about the outlook for the wider economy. That roadblock might now be passing. And for those investors who took an early break, a bit more clarity could be waiting on the other side of the summer holidays.

Key deals Q2 2023

Transaction	Sector	Buyer	Deal type	Amount	Homes
Campus Living portfolio	Student	DIF Capital Partners	Investment	£300m	4,500
Starlight portfolio	BTR – multifamily	Starlight Investments	Forward purchase	£225m	922
Barratt Homes portfolio	BTR – single family	Citra Living	Forward purchase	£168m	604
The Oaks	Student	Blackstone	Forward funding	£160m	1,209
Lower Essex Square	BTR – multifamily	Blackrock/ Outpost	Forward funding	£156m	628

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