AN INVESTMENT OPPORTUNITY FROM RIVERSIDE CAPITAL

# overview

## RIVERSIDE CAPITAL STUDENT HOUSING PORTFOLIO

SMARTER, SAFER, BETTER

# Table of contents



A glossary of terms to include all terminology and companies referenced in this document can be viewed on page 59. Sources used in writing this document are referenced using footnotes; with descriptions listed on page 60 of this document.

# 01.
# Statement from Dominic Wright, Group CEO

**Dominic Wright**
Group CEO
Riverside Capital

Riverside Capital is delighted to present its latest investment opportunity which seeks to take advantage of a clear gap in the student housing market.

The choice currently facing students is either expensive, purpose-built accommodation or cheap student houses. Purpose built is often out of reach financially and, with its dozens of rooms to one communal space, lacks the personal experience that students are after. Cheap student houses offer affordability, but are often run by unprofessional landlords and in poor states of repair.

Our strategy is to blend the best of both to provide a growing population of students with exactly what they want.

We are creating a portfolio of top quality, professionally managed, safe student houses in great locations that students will be proud to live in, and willing to pay that little bit extra for.

This high yielding investment in strategic locations can deliver a rising income stream. It also offers strong capital growth potential through the creation of a portfolio of scale which will appeal to institutional buyers once the time comes to exit.

The following pages provide further details. If you'd like to know more, please contact a member of our team.

# 02.
# Key highlights of opportunity

An exciting opportunity to invest in a portfolio of approximately 30 to 50 student houses (Houses of Multiple Occupation, or HMOs). Located in strategic cities and already income producing at purchase, we will refurbish and actively manage properties to provide desirable, top quality student homes, backed by a professional service. This transformation should enable us to generate a significantly higher income, along with the opportunity for strong capital growth by creating a portfolio of scale.

**The term of the investment is anticipated to be four years, with a targeted sale of the portfolio in, or around, December 2022.**

### UK's world-class higher education

Student numbers in the UK are projected to continue trending upwards, with the UK's globally renowned universities continuing to appeal to both domestic and international students.[1]

### Strong underlying fundamentals

Demand for student housing is expected to continue to outstrip supply, with the UK's chronic lack of housing stock further underpinning the opportunity.

### Carefully selected locations

Each of the selected locations, Cardiff, Liverpool and Newcastle, has a significant student population where a shortfall in purpose-built accommodation is driving demand for houses that students can share with friends. All locations are home to multiple universities, including a prestigious Russell Group university. Yet residential property prices remain attractively valued, meaning student houses can be purchased at attractive yields.

### Rising income

Weekly rents for Purpose Built Student Accommodation (PBSAs) are approximately 67% higher than standard student HMOs. The much improved quality of student house that we will create, in addition to a high level of service, therefore provides the portfolio with strong rental uplift potential[2]

### Attractive yield

Currently income producing, each house will have a Gross Yield on purchase of at least 7%. Through refurbishment and active asset management, we aim to increase weekly rents by around 20% as soon as possible, to achieve a targeted Gross Yield of approximately 10% in four years' time.

* See glossary of terms on page 60

**Portfolio uplift**

Upon exit, this multi-property portfolio is likely to command a higher price per property than each single property might alone since it will appeal to institutional investors.

Investment will be via a Guernsey authorised and regulated cell (the "cell") of Riverside Capital Protected Cell Company (the "PCC") Limited.

**Funding**

The purchase price of the portfolio is expected to be in the region of £15.00 million, at a target purchase price per room of £50,000 to £70,000. Once structure set-up costs, fees and working capital for refurbishment and asset management are included, the total cost rises to £17.50 million.

Funding will be a combination of equity and debt. Riverside Capital will raise target equity funding of £10.00 million, with the debt element amounting to £7.50 million.

**Equity investment is available from £25,000.**

| | |
|---|---|
| Total purchase price (£m) | £15.00 |
| Working capital, set-up costs, fees etc (£m) | £2.50 |
| **Total (£m)** | **£17.50** |

**Funded by:**

| | |
|---|---|
| Bank debt (%) | 50% LTV |
| Equity (£m) | £10.00 |
| **Total (£m)** | **£17.50** |

# Investment returns

Our base case projected IRR* over the term of the investment is 10.0%, net of all fees and costs, with an upper case return of 14.0% - 20.0% and a lower case return of 7.0%.

Returns will be generated through a blend of income and capital growth.

## Income

- Each student house will be income producing at purchase, with tenants in place until the end of the 2018/2019 Academic Year*.
- Rents for each house are agreed on an annual basis. With demand for student housing expected to remain robust, there is strong potential for rental growth.
- Once refurbished, the houses will provide high quality accommodation complemented by a professional management service. This will enable rents to be charged at a premium to standard student houses, with an initial target of a 20% increase in weekly rents.
- Active asset management will seek to unlock further income potential through the creation additional bedrooms / bathrooms / social space.

## Growth

- The portfolio offers strong capital growth opportunities. In part, this reflects the increasing interest from institutional investors who are attracted by student housing's rising income streams.
- Annual profits will be used to reinvest in the portfolio to maximise value.
- Our intention is to sell the portfolio in, or around, December 2022. This multi-property portfolio is likely to command a higher price per property than each single property might alone since it will hold greater appeal to a wider range of investors.

* See glossary of terms on page 60

# 03.
# About Riverside Capital

At Riverside Capital we understand that every property is different. We never consider generalities; instead we focus on the specifics of location, asset and tenant to identify assets that can deliver exceptional returns, regardless of the ups and downs of the UK property market.

**Our primary service is direct property investment.**

We seek out commercially-timed opportunities to invest directly into UK property assets on a deal-by-deal basis.

**Our aim is to provide our clients with outstanding returns.**

Since 2010, we have completed over **£1.3 billion**† in transactions and have delivered an average **1.73x** equity return to investors on all exits over an average of approximately 3.5 years.

**Our insights, expertise and asset management capabilities enable us to see value where others cannot.**

Many of our deals are 'off-market' opportunities that are not available to the broader market. We advise in the purchase of every asset we take to our investors, and then manage these assets to deliver income and capital growth.

Exit stories from these opportunities can be found at www.rivercap.co.uk/track-record

† 30th September 2018

# Where do students live?

1.8 million full-time students live in the UK

## Houses of Multiple Occupation (HMO)

536,000

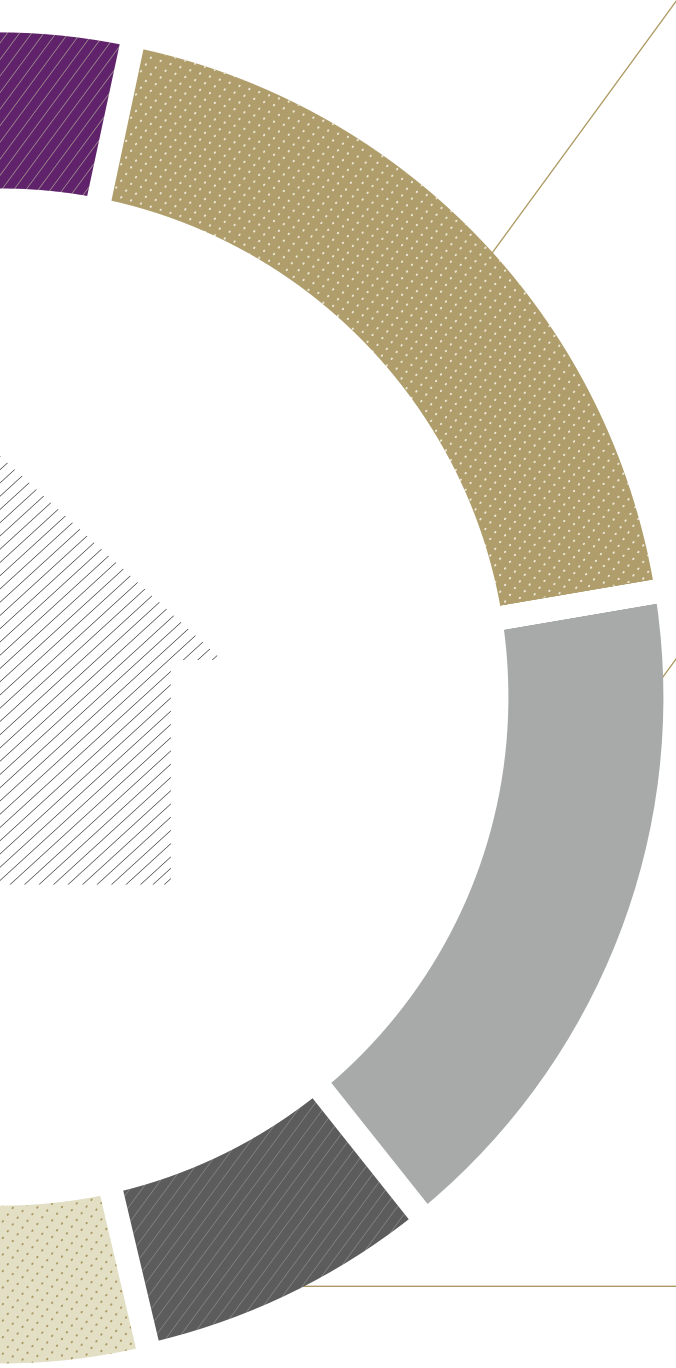
# 30%

## Purpose Built Student Accommodation (PBSA)

490,500

# 27%

Source: HESA 2016–2017



## Stay at Home
338,000

# 19%

## Own Residence
301,000

# 17%

## Other & Unknown
132,500

# 7%

# 04.
# The opportunity

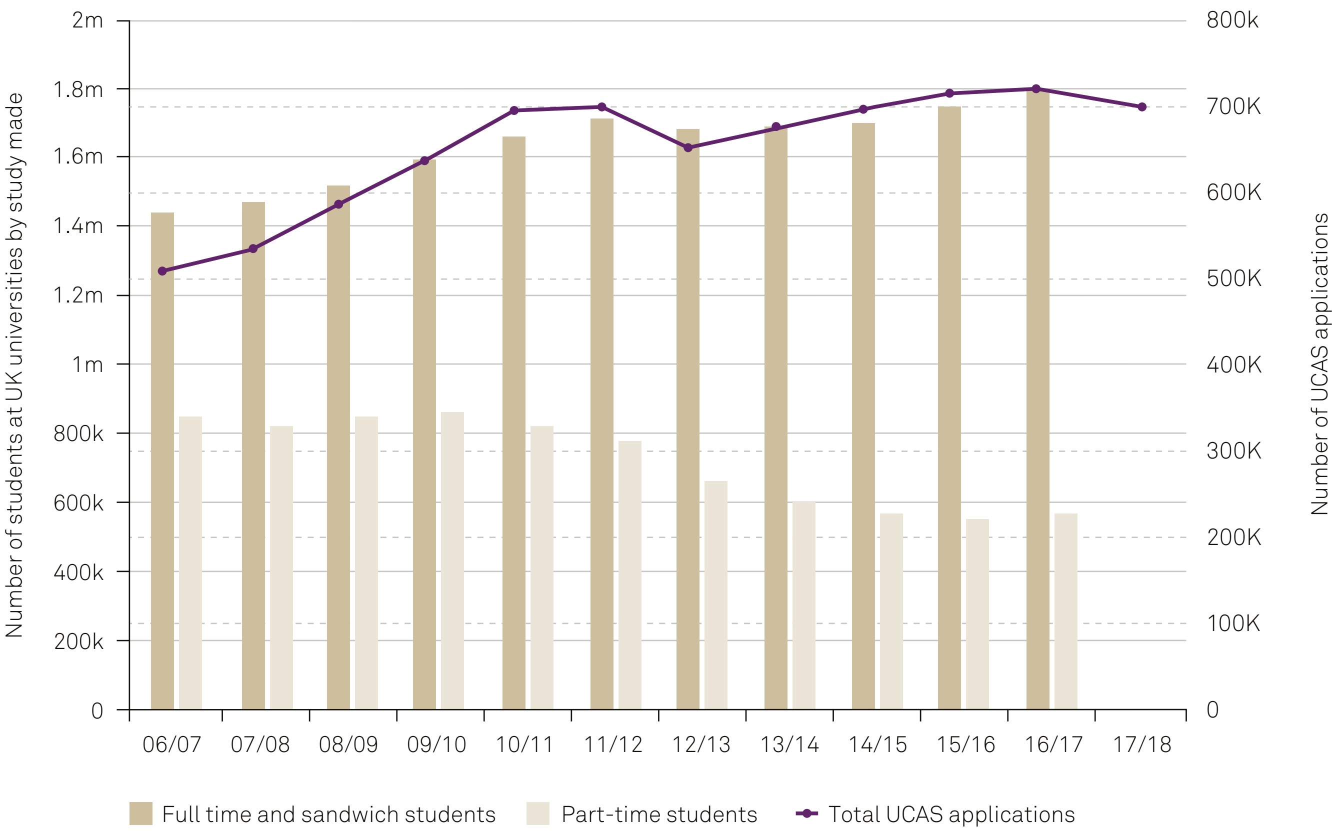
Finding opportunities that others have overlooked and adding value for our clients is at the heart of what we do. The following provides insight into the investment rationale supporting this opportunity.

# UK student trends

## Student numbers growing

The number of full-time students in UK higher education has continued to grow. Despite the increase in tuition fees in 2012, student numbers are now 4% higher than in the 2012/13 Academic Year*, while UCAS applications for undergraduate places are 7% higher.[3]

**Chart One: Trends in student numbers and applications 2006/07—2017/18**




Source: HESA/UCAS 2006/07 to 2017/18

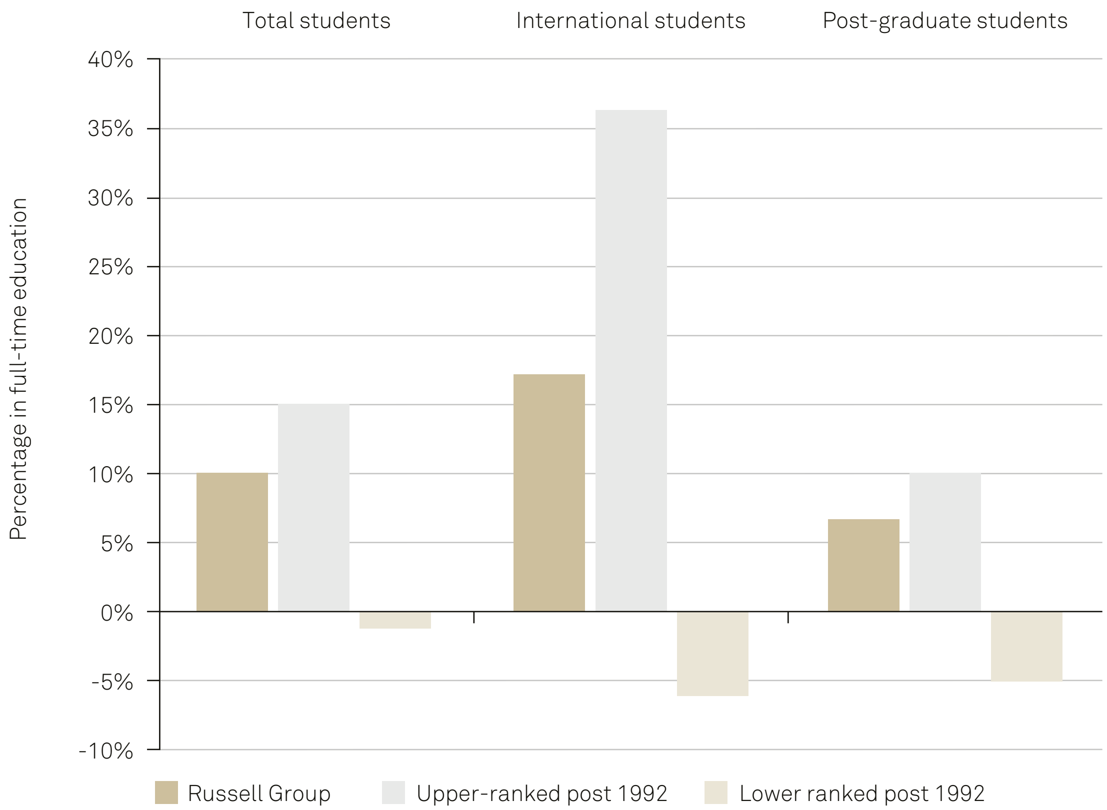
However, while the rise in tuition fees has had no perceptible effect on student numbers, it has influenced where they are choosing to study.

* See glossary of terms on page 60

# High ranking universities in strong demand

Today's students see education as an investment. Higher-tariff, better-ranked universities with good reputations, links to industry and attractive records of employability are in strong demand, while lower-ranked institutions are seeing student numbers drop. UCAS data for 2017/18 shows a 5% drop in placements for lower-ranking institutions compared to 1% and 2% increases for higher and medium-ranking universities respectively.[4]

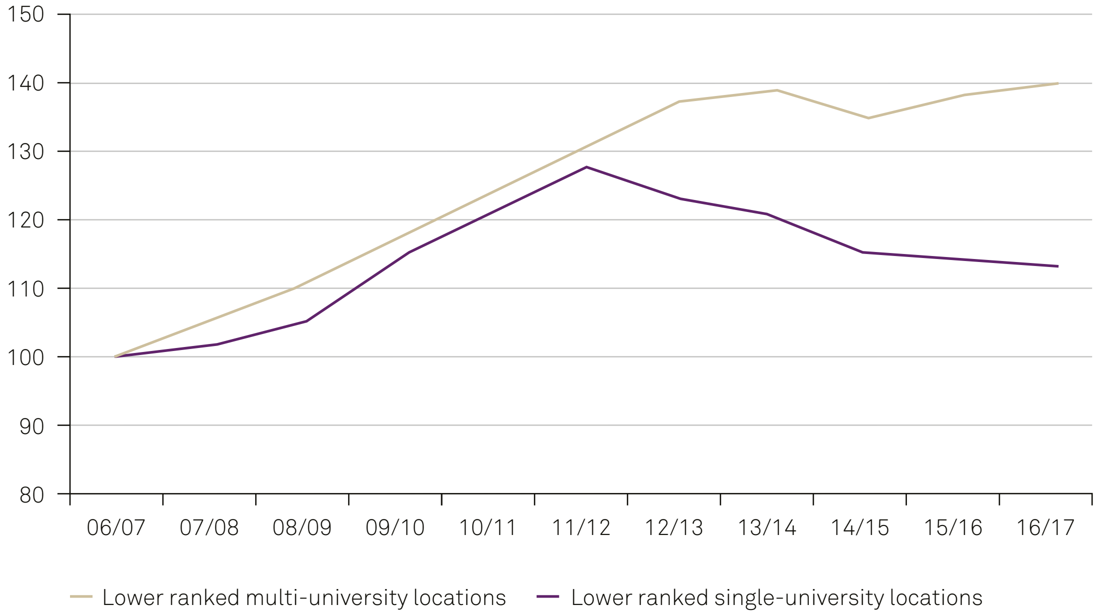
**Chart Two: Trends in student recruitment by university**




Source: HESA/Knight Frank

That said, lower ranking providers located in cities with multiple universities have bucked this trend, which suggests that bigger, more populous student locations have maintained their appeal.[5]

**Chart Three: Full-time undergraduate numbers**

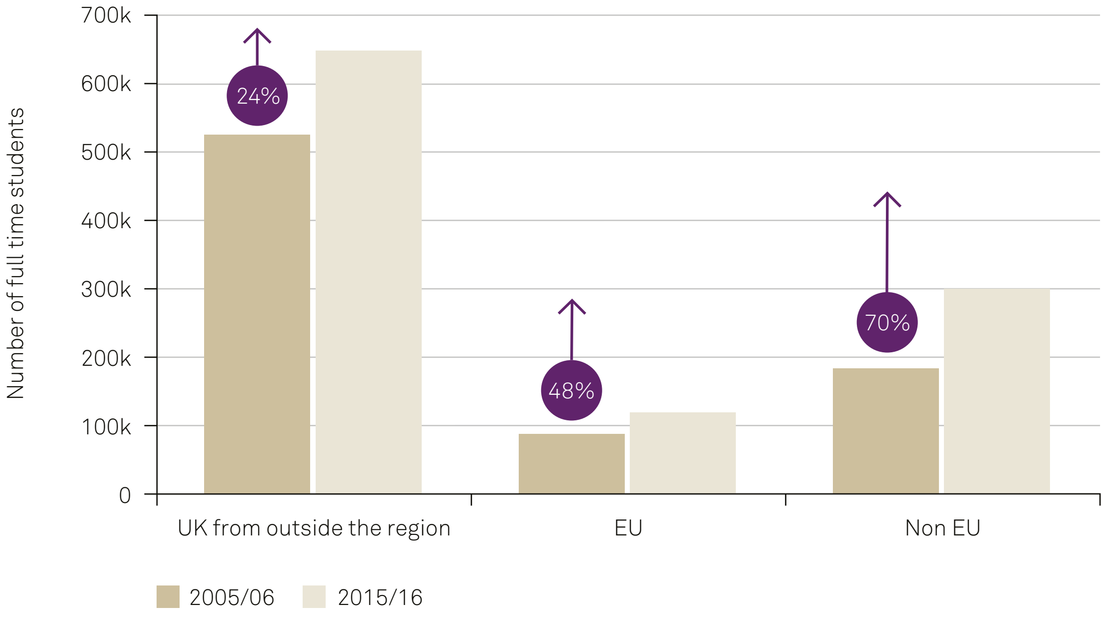



Source: HESA/Knight Frank

## UK students increasingly living away from home

The Higher Education Statistics Agency (HESA) provides further evidence that students are becoming more selective in their choice of university. The latest available data (for 2015/16) shows a clear trend in the number of UK-domiciled students who chose to study outside their home region, regardless of the higher cost of living away from home.

**Chart Four: Rising numbers of students studying away from home**




Source: HESA/Knight Frank

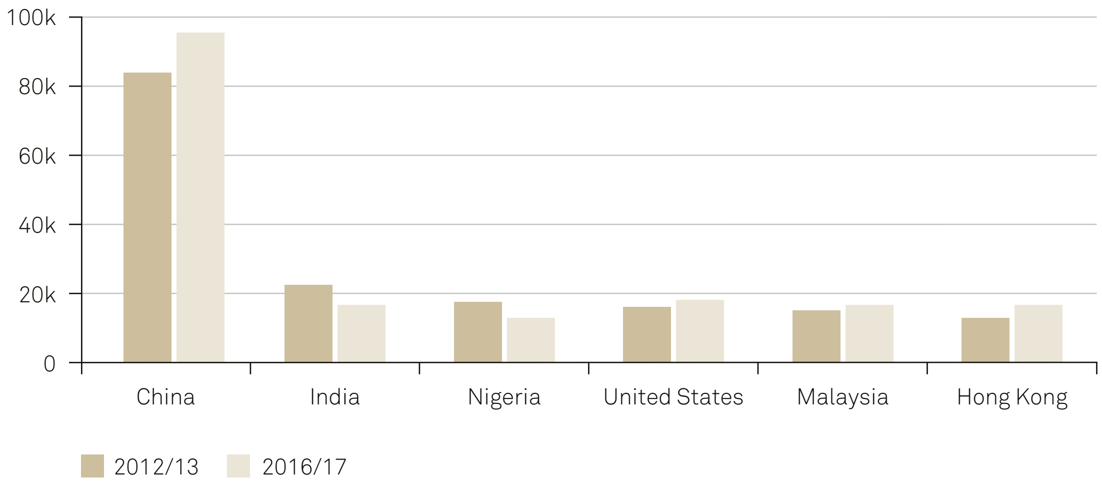
## Strong demand from overseas boosting student numbers

The UK's world-class reputation for higher education and a relatively weak British pound have also continued to attract strong demand from overseas students, with 23% of students now coming from outside the UK.[3]

For 2018/19 entries, total applications from outside the UK rose by 7.6%, with EU applications up 3.4% year-on-year and non-EU applications rising by 11.1%.[6] While Brexit may have some effect on the numbers of students from the EU, students coming from many non-EU countries continue to surge, especially from China.[1] Therefore, any loss in student numbers that may occur post-Brexit looks set to be buoyed by rising demand from students further afield.

**Chart Five: International student numbers**

Furthermore, the number of 18 to 21 year olds in the UK is expected to increase by




Source: GVA Student housing review – Spring 2018

4% by 2027, providing a further boost to the 1.8 million full-time students currently in UK higher education. By 2030, it is estimated that UK higher education providers will need to offer an additional 300,000 full-time undergraduate places to keep pace with the existing participation rate.[1] Demand for UK student accommodation is therefore likely to remain robust.

# The UK student housing market

## Student accommodation – a changing landscape

The UK student housing market is largely split into two sectors; **Purpose Built Student Accommodation** (PBSAs) and **Shared housing** (Houses of Multiple Occupation, or HMOs).

HMOs are privately owned houses licenced to let rooms on an individual or small group basis to different tenants, whilst PBSAs are either university-owned or privately-owned buildings that house dozens to hundreds of students under one roof.

### The new normal

Up until recently, the majority of student accommodation was very basic, consisting largely of standard bed spaces (single bedrooms with shared bathroom facilities).

Traditional PBSAs, such as student halls, accommodate up to 12 students in one corridor sharing basic kitchen and bathroom facilities. Traditional HMOs may be less cramped but are typically low quality and often poorly managed. The rise in student numbers, however, has created a growing demand for higher quality accommodation.

PBSAs have stepped in to meet this demand, providing high quality studios and en-suite rooms which have raised the bar for student living, and the rents that students and their parents are willing to pay. As a result, standard bed spaces have fallen to just 30% of the market.[3]

## Rising PBSA supply provides opportunity for improved HMOs

In order to meet the growing demand for improved accommodation, 30,000 new PBSA bed spaces were added in the UK in 2017/2018, taking the total number to 602,000. Universities provide the largest number of these bed spaces, offering 57% of all rooms available in 2017/18, with the private sector providing the remaining 43% of beds.[3]

The pipeline for development remains strong, standing at over 150,000 spaces overall. Yet it is unlikely that all of these will be delivered and potential supply is patchy; significant development is planned for London but the pipeline in most other cities with large student populations remains limited.[3]

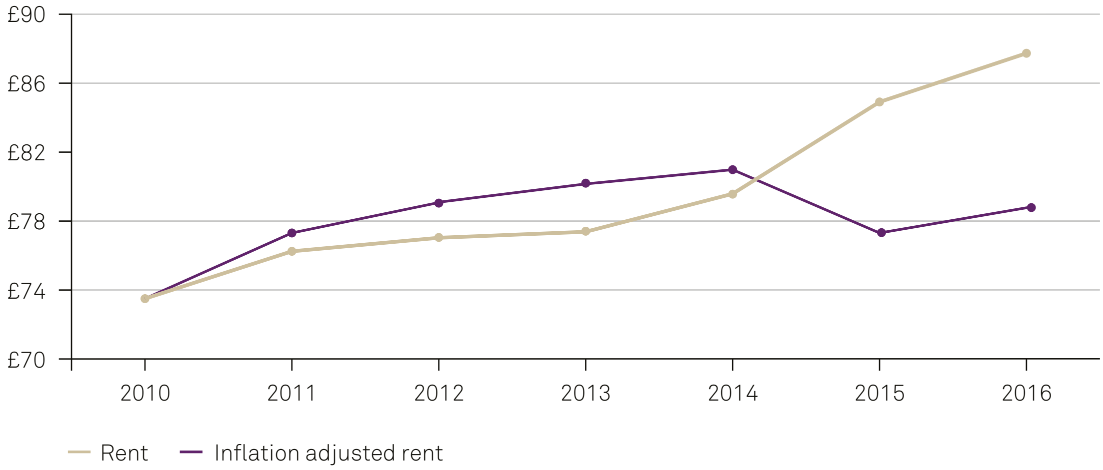
Swanky new tower blocks dominate much of this PBSA development. More akin to hotels, these can offer 24-hour concierges, on-site gyms and even private cinema rooms, but with rents to match. This has led to the emergence of a small, but significant, number of empty PBSA rooms as students make informed 'value judgement' decisions, preferring to live with friends in multiple-occupant student houses rather than in purpose-built accommodation.

However, the supply of houses of multiple occupation (HMO) is limited in comparison, and most are in poor condition and badly managed. High quality HMOs with stylish décor, an abundance of bathrooms, comfortable beds, well-equipped kitchens and a great social space are hard to find. When they do find them, students are prepared to pay a premium.

## Rising rents in the right locations

The average weekly rent for a student bedroom in the UK in 2016 was £86.76, an increase of £13 from 2010. Rental growth continued last year, with headline weekly rates rising 2.9% between the Academic Years of 2016/17 and 2017/18 (see Chart Six).[13]

**Chart Six: Average weekly rent per room over time**



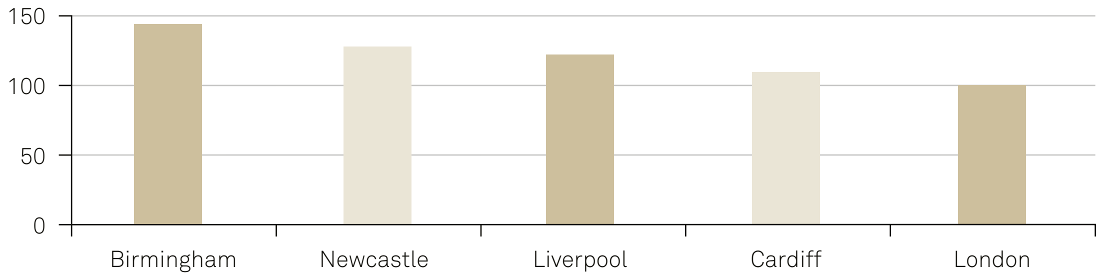

Source: https://www.accommodationforstudents.com/research_reports/RentsRelease.pdf

The latest comprehensive study of UK student rents (covering all types of student accommodation) was carried out by the Accommodation for Students in 2017. The study found that the average rent for student accommodation in the UK can vary considerably, with PBSAs on average 67% more expensive than shared houses or flats.[2]

The high rents charged by PBSAs mean HMOs look increasingly attractive, with plenty of room for rental growth for stock that has been refurbished and offers a similar standard of accommodation to PBSAs.

There is also significant regional variation between maximum and minimum rental costs across the UK. Some of the widest variances can be found in the North of England and the Midlands, where very low rents can be found alongside the provision of high-end private accommodation.

**Chart Seven: Difference between max and min weekly rent (£)**




Source: https://www.accommodationforstudents.com/research_reports/RentsRelease.pdf

# Investor appetite for student accommodation remains robust

Over the last five years, PBSAs have become firmly entrenched as an asset class within the wider UK commercial property market, attracting demand from both international and domestic investors.

Investor activity in UK student accommodation totalled £4 billion in 2017, up 25% on the previous year, underpinned by growing demand for long-term, income-producing assets.[4] Attracted by the perceived strength of university covenants and the underlying residual value of the PBSA sector, investors have sought scale by buying portfolios of assets, driving net yields down.

In 2017, the most noteworthy of these was the Downing Portfolio of over 3,500 beds across eight assets in London and Glasgow, with Tristan Capital Partners/AIG purchasing a 90% stake for £439 million on a yield of 5.7%. 2018 has seen this deal size beaten with Brookfield's Student Roost buying the Enigma Portfolio for £520 million. With a yield of 5.5%, the portfolio included 15 assets in 12 university cities. [3]

With yields hardening for portfolios of PBSAs and the strong potential for rental growth for refurbished student houses, demand for portfolios of HMOs has also increased. For cities with universities at the lower end of league tables, net yields for HMOs are in the region of 10-11%; for stronger universities, net yields are around 6–7%.[7]

In March 2018, Student Cribs bought a portfolio of 89 student houses comprising 568 beds for £31.4 million, marking the largest ever HMO acquisition.[8] This follows several notable deals in 2017 including: Waterside Student Village near Salford Quays, 247 beds acquired for £11.3 million; Bellvue, a portfolio of 67 houses in Keele and Stoke-on-Trent, 312 beds acquired for £10.6 million; and the SHC Portfolio in Cardiff and Coventry, 177 beds acquired for £9.57 million.[8]

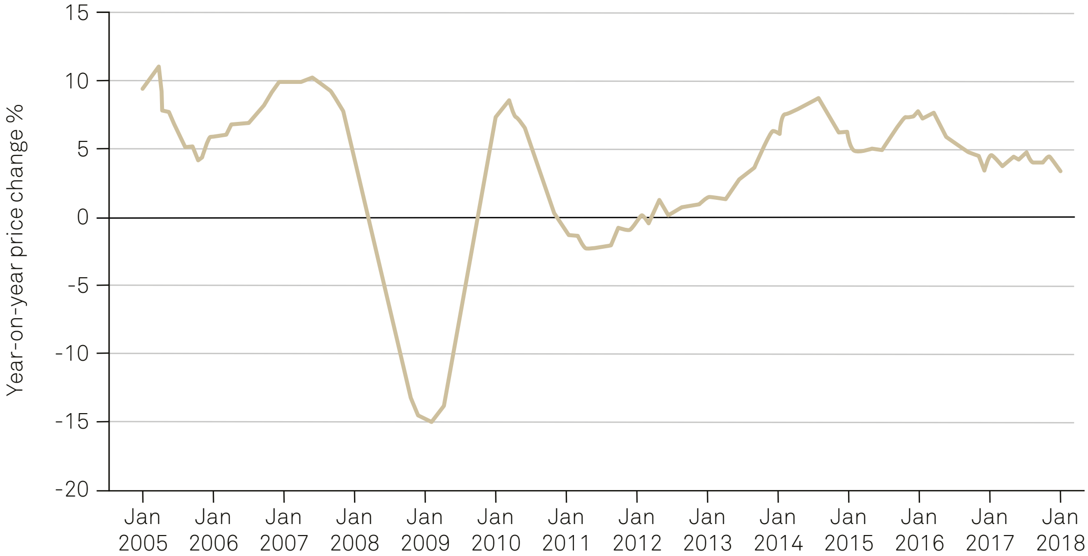
With investors continuing to be attracted by the strong cash flow generating characteristics of student accommodation and its reputation as a 'safe' asset, there is no evidence of weakening demand. Indeed, student housing can offer some downside protection since, in times of economic slowdown, student numbers often increase as individuals look to higher education to improve their employability credentials. In addition, student houses can always be reconverted back to residential accommodation if student demand does decline.

# The UK housing market

## House price inflation easing

UK house price inflation started to soften from mid-2016, with the introduction of the Stamp Duty surcharge on second homes and uncertainty following the EU referendum likely to have contributed to this trend.

**Chart Eight: UK house price inflation since 2005**



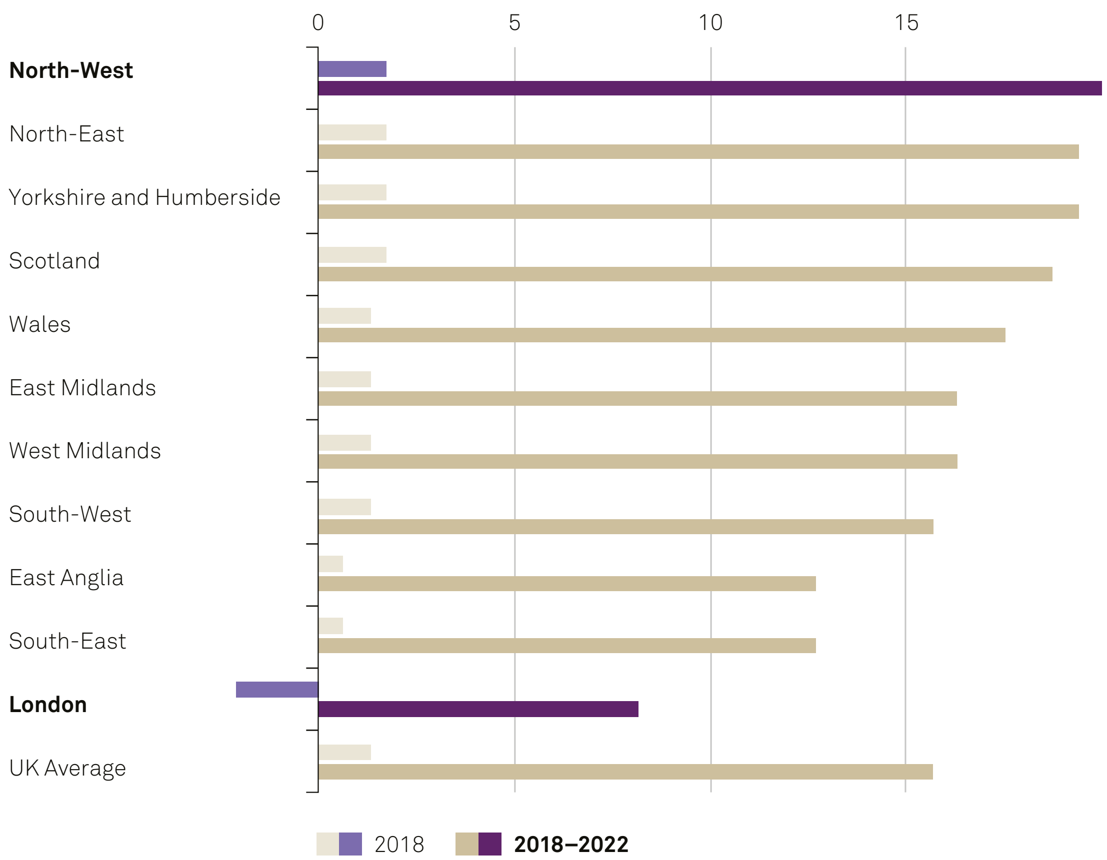

Source: ONS, Land Registry

# Houses prices in regional cities set to rise

In London, the residential property market boom is fizzling out, with house price growth expected to slip below the national average. While the Brexit vote has been a factor, years of rapid growth have made the capital increasingly unaffordable with average house prices now roughly eight times annual average earnings.[9]

Meanwhile, major regional cities, such as Manchester and Liverpool, are expected to grow faster than the rest of the country. Over the next five years, the north of England is expected to see the strongest growth in the UK, with Scotland and Wales also beating the UK average.

**Chart Nine: House prices in the North-West are set to rise twice as fast as London in the next five years**

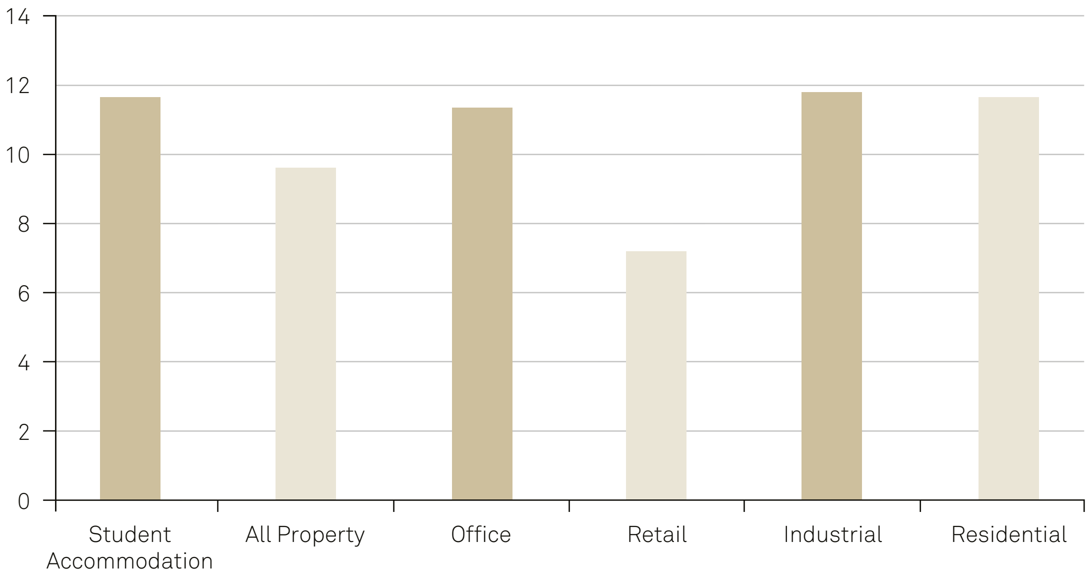



Source: Savills – Guardian Graphic

# Conclusion

- Between 2011 and 2017, Purpose Built Student Accommodation outperformed all sectors of the UK commercial property market with the exception of industrials, generating a total return of 11.8% per annum, with returns driven by yield compression and rental growth

**Chart Ten: UK Commercial Property Annualised Returns 2011–2017**




Source: Journal of Property Investment & Finance
– The emergence of student accommodation as an institutionalised property sector (2018)

- With the number of full-time students reaching new highs, supply of student accommodation continues to lag demand, at two students to every PBSA bed.[10] Yet rising PBSA rents are leading to affordability issues, causing many students to make informed 'value judgement' decisions where they prefer to live with friends in multiple-occupant student houses over purpose-built accommodation
- For investors, student houses that have been refurbished to a high standard offer strong rental growth potential. In addition, investor interest remains keen for portfolios of student accommodation that provide long-term, income-producing assets
- House price inflation in the UK is easing, and whilst the London residential property boom is showing signs of fizzling out, major regional cities in the North West, North East, Scotland and Wales are set to experience growth

# 05. The portfolio

## Smarter, safer and better HMOs

Our plan is to construct a portfolio of approximately 30 to 50 student houses in key university cities with tenants in situ. The houses will be actively asset managed and refurbished to achieve a top quality, well-equipped fit that will command significantly higher rents than standard student houses.

Each house will contain a fully-supplied kitchen, top-notch social area – many with a garden / patio as well as a lounge – modern bedrooms and plenty of bathrooms. Unlimited fibre optic broadband will be provided as part of the lease, and will already be connected when students move in.

# A blueprint for improvement

# The product

Examples of the high quality of student living spaces that will be created


# The service

**Better product:** Homes will be interior-designed to feel warm and welcoming, with high quality furniture throughout (John Lewis) – a step-up from the normal IKEA fit out – in addition to luxury enhancements that the interior designer may source, such as antique fireplaces or ceiling roses.

**Better managed:** Quarterly property inspections will be carried out, and action taken if the houses are seen to be not well looked after. Tenants will be required to show that any cleanliness issues have been resolved within a week of an inspection, otherwise a cleaner will be sent at the tenants' expense.

**Better service:** A responsive service will be provided. Minor maintenance requests will be fixed within a maximum of a week of them being reported, with priority requests being dealt with rapidly. An out-of-hours service to deal with any issues quickly outside normal office hours will be available.

**Better marketing:** Digital marketing methods will be utilised to promote upcoming rooms available. We will rely heavily on focused online advertising to facilitate quick turnarounds for bookings. An advanced online booking system will keep everyone notified and provide the ability to take properties off the market quickly after a holding payment is paid online.

**Better technology:** An online only, end-to-end onboarding process for lettings will be utilised. Prospective tenants can go right from booking a viewing online, to taking the property off the market. All required details can be submitted digitally, as well as signing the tenancy agreement, all with correct notifications to the varying parties along the way.

**Better Security:** In addition to a deposit, a parental guarantee or similar will be obtained for every letting to UK national students, providing a higher level of security to the landlord for the life-cycle of the lease. For international students, where a parental guarantee would be less secure, six months rent will be required upfront. Furthermore, joint or small group leases will be signed jointly and severally, meaning that the students are collectively responsible for any damage and have a mutual interest in caring for the property.

# The property management

SweetSpot Limited ("SweetSpot") will act as the letting agent and property manager for the portfolio. It will be responsible for the marketing and lettings process, performing the day-to-day management of the properties and liaising with the tenants.

## About SweetSpot

Founded in 2009, SweetSpot has dedicated itself to providing high quality housing, designed for students, in a home, rather than a block, and with customer service that aims at doing the best for students rather than take advantage of them.

This superior service means that SweetSpot has a strong track record in delivering what students really want. Accordingly, it has achieved strong occupancy rates.

**Table One: SweetSpot occupancy rates**

| Year | Occupancy |
|---|---|
| 2011/12 | 81%* |
| 2012/13 | 100% |
| 2013/14 | 100% |
| 2014/15 | 98%** |
| 2015/16 | 100% |
| 2016/17 | 100% |
| 2017/18 | 100% |

* Includes properties bought halfway through the year
** Some last minute fall-throughs

In addition, SweetSpot has an outstanding track record in securing income. Many students pay in advance, with the average monthly payment made three days early.

# Locations

The portfolio's target locations are Cardiff, Newcastle and Liverpool. Each is home to multiple universities, including a prestigious Russell Group university – a group of 24, high-ranking UK universities with a shared focus on research and a reputation for academic achievement.

Each location is supported by strong underlying fundamentals. Property prices in the target cities remain relatively affordable, meaning rental yields are attractive, while the combination of large student numbers and a significant shortfall in the number of PBSA beds means that HMOs are much in demand.

**We have already completed on nine students houses in Liverpool for a total purchase price of £3,330,600 million. We are also under offer on a further eight houses in Newcastle. Further details can be found on page 43.**

The following pages explore each of the target locations in more detail.


Newcastle
Edinburgh
Liverpool
Cardiff
London

## Cardiff

Cardiff is a stronghold for higher education. It is home to approximately 44,000 full-time students across four universities: Cardiff University, Cardiff Metropolitan University, The University of South Wales, Cardiff Campus and The Royal Welsh College of Music and Drama.[11]

Cardiff University is a member of the Russell Group of universities and was ranked 32 out of 132 in The Times Good University Guide 2019, an improvement of three places from 2018. With aims to be one of the top 20 universities in the UK, the university is carrying out the biggest campus upgrade in a generation, investing £600 million over 10 years. This includes spending £300 million on an Innovation Campus to provide cutting-edge research facilities, with another £260 million invested in teaching, learning and the student experience.[12]

As the capital city of Wales, Cardiff offers students the "big city" experience, but without the congestion problems and high prices that university students often face elsewhere.

Opposite: Wales Millennium Centre

HESE·STONES
HORIZONS
AWEN·SING

### Attractions

Cardiff offers a unique combination of history, top-class entertainment and first-class shopping, all within walking distance and right beside Cardiff Bay. The Principality Stadium is another big draw. Home to the Welsh rugby team, this iconic sports venue also hosts concerts, exhibitions and conferences on a regular basis.

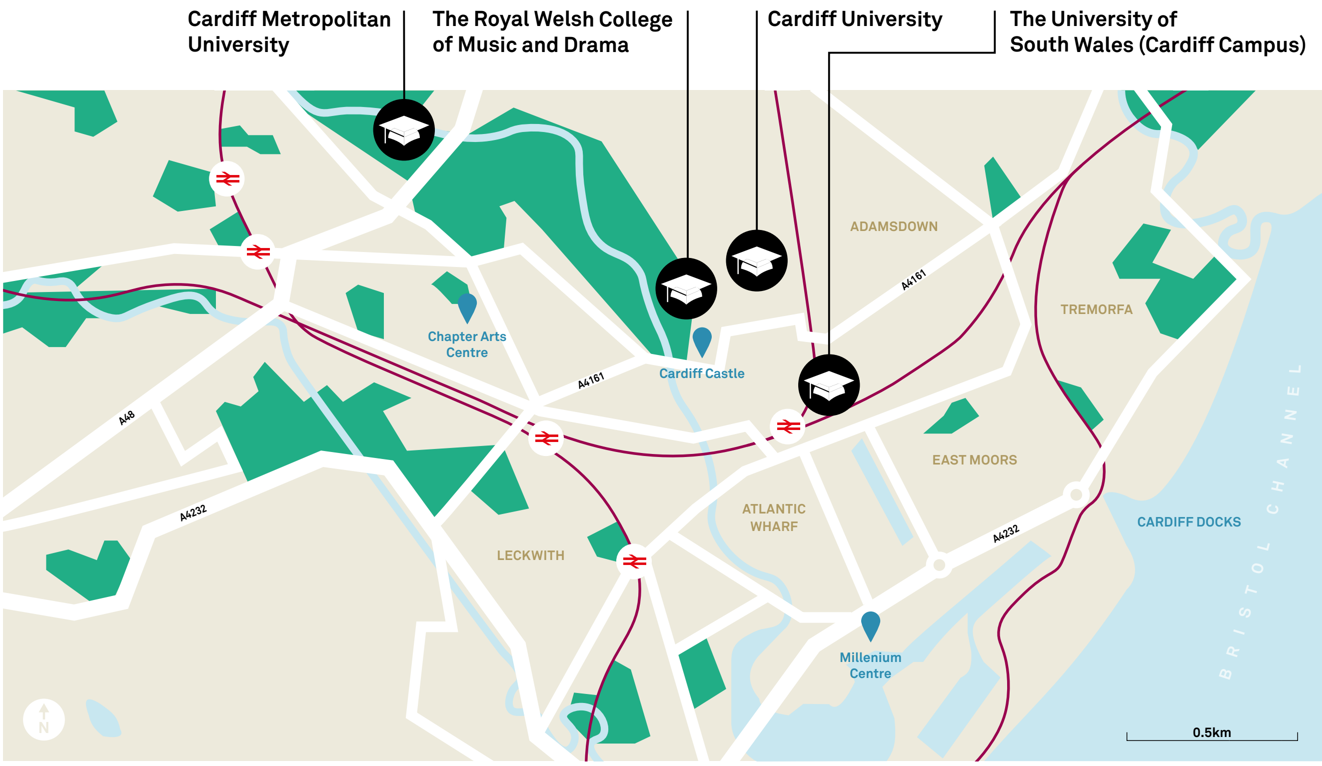
### Demand

Full-time student numbers have expanded over the past five years, with Cardiff University growing at twice the national rate and Cardiff Metropolitan University at over three times the national average. Full-time student numbers at these two universities alone now total 42,590.[11]

Both universities have managed to broaden their appeal, with the number of students from within Wales falling, while those from the rest of the UK, the EU and non-EU countries growing significantly. Overseas students represented almost 10% of the total student population in 2018.

### Supply

Latest estimates show there are 15,332 PBSA beds, including those in the pipeline.[13] The majority of these are university accommodation, with Cardiff University offering an accommodation guarantee to all first-year undergraduate students, as well as first-year overseas post-graduates. The last three years have seen an increase in private sector PBSA beds, which has helped to raise the standard of student accommodation. Nevertheless, there remains a significant shortfall between supply and demand.




FULL-TIME STUDENTS

# 44,000

STUDENTS NOT ACCOMMODATED IN PBSA

# 64%

## Newcastle-upon-Tyne

Newcastle-upon-Tyne (Newcastle) is home to more than 51,000 full-time students across two universities: Newcastle University and Northumbria University.[11] In 2004, the UK government designated Newcastle as one of six Science Cities in the UK in recognition of the academic achievements of the two universities.

Newcastle University is a member of the Russell Group of universities and was ranked 21 in The Times Good University Guide 2019*, an improvement of five places from 2018. Its £350 million flagship project Newcastle Helix brings together academia, the public sector, communities, business and industry with the aim of creating a global centre for urban innovation in the heart of the city. The project capitalises on Newcastle University's capabilities in sustainability, engineering, computing science, transport and urban planning, and has attracted key industry partners including Siemens, Red Hat, Northern Powergrid and Northumbrian Water.[16]

Opposite: Millennium Bridge

* See glossary of terms on page 60

## Attractions

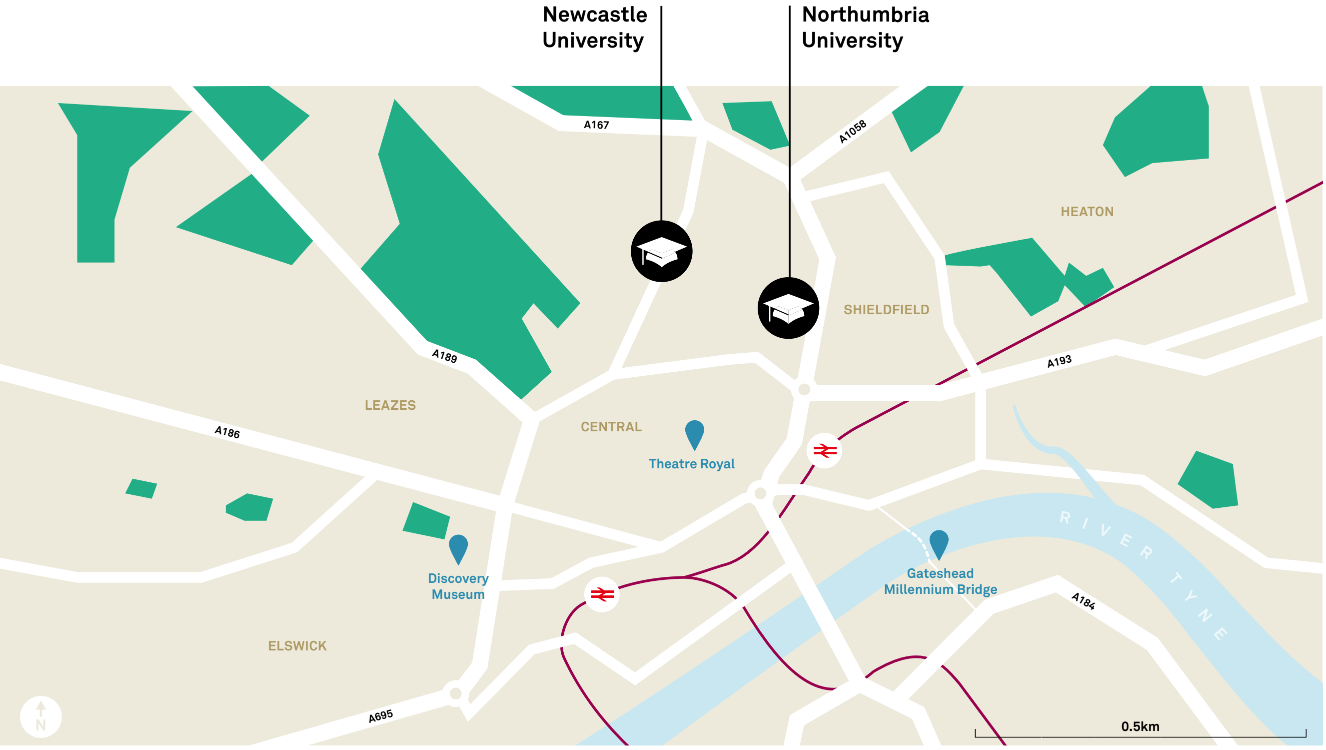
Newcastle is one of the largest cities in England. Situated on the north bank of the River Tyne, with its seven city bridges, Newcastle is recognised by many for its iconic Angel of the North structure which stands over 65 feet tall, higher than four double-decker buses, and with a wingspan that stretches 175 feet, almost the length of a jumbo jet's wings. A great place to shop, Newcastle also has one of the most iconic football grounds in the country, St James Park, which is home to its Premier League club.

## Demand

The city's combined student population has surged in recent years and is now estimated to be 51,655.[11] Student numbers at Newcastle University grew by a staggering 70% between 2000 and 2015 and now stand at 24,980. Northumbria University has seen an even steeper rise, with student numbers more than doubling between 2000 and 2015, and it is now home to 26,675 full-time students. Overseas students represented around 9% of the total student population in 2018.[11]

## Supply

Latest estimates show there are 19,112 PBSA beds, including those in the pipeline.[13] The majority of these are controlled by either Newcastle University or Northumbria University, with the balance privately owned.




FULL-TIME STUDENTS

# 51,000

STUDENTS NOT ACCOMMODATED IN PBSA

# 63%

## Liverpool

Liverpool is home to almost 56,000 full-time students across five universities: The University of Liverpool, Liverpool John Moores University, Liverpool Hope University, The Liverpool Institute of Performing Arts and Liverpool School of Tropical Medicine.[11]

The University of Liverpool is a member of the Russell Group of universities and was ranked 31 in The Times Good University Guide 2019, an improvement of 11 places from 2018. It has the highest graduate employability rate of any Russell Group university: 96.9% of its full-time first-degree graduates were either in work on further study six months after graduating in July 2017, an increase of 2.2% compared to the previous year, and placing it ahead of universities such as Oxford, Cambridge and Manchester.[14]

The city's Knowledge Quarter brings together The University of Liverpool, Liverpool John Moores University and Liverpool School of Tropical Medicine, along with the new Royal Liverpool University Hospital in a 450-acre site dedicated to knowledge and enterprise. With over £1 billion of new developments already underway, and a further £1 billion in the pipeline, the Knowledge Quarter will become a world-class destination for research and science technologies. This new investment should improve employment and increase graduate retention, helping to establish Liverpool as a key player in the Northern Powerhouse.[15]

Opposite: Royal Liver Building


KERNE CENTENARY 2013

## Attractions

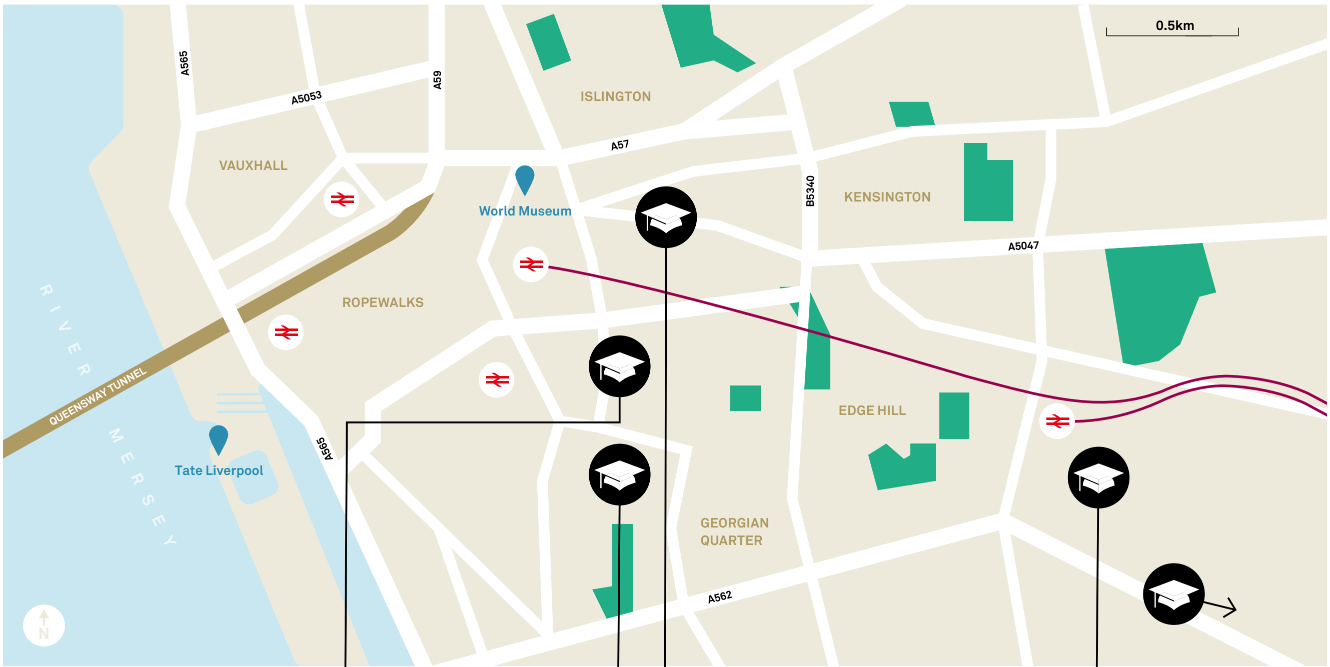
Liverpool occupies a naturally beautiful position on the River Mersey and has become a world-class cultural hub. The Beatles have helped cement Liverpool's status as a tourist destination, and the city is also home to two rival Premier League football clubs, Liverpool and Everton. Once a major port, the city's historic docks have undergone substantial redevelopment, while new leisure/retail destinations such as Liverpool One have helped breathe new life into the city centre.

## Demand

The city's combined student population is estimated at 55,930, having grown significantly in recent years. The University of Liverpool and Liverpool John Moores University dominate, with 27,070 and 22,445 full-time students, respectively. Student numbers at Liverpool Hope University are just over 5,000, while The Liverpool Institute of Performing Arts and Liverpool School of Tropical Medicine have less than 1,000 students apiece. Overseas students represented around 11% of the total student population in 2018.[11]

## Supply

Latest estimates show there are 26,287 PBSA beds, including those in the pipeline.[13] Despite a sharp increase in the supply of student rooms in recent years, there is still a real shortage of student accommodation in a city that boasts many higher education offerings.




Liverpool John Moores University

Liverpool Institute of Performing Arts

Liverpool School of Tropical Medicine

The University of Liverpool

Liverpool Hope University

FULL-TIME STUDENTS

# 56,000

STUDENTS NOT ACCOMMODATED IN PBSA

# 53%

# Purchases to date

**Since launching the portfolio in November 2018, Riverside Capital has purchased a collection of nine student houses in Liverpool (the Brickworks Portfolio), and a collection of eight student properties in the prestigious Jesmond area of Newcastle.**

The acquisitions amount to a total of 105 rooms across Liverpool and Newcastle and we are busy securing tenants for the 2019–2020 academic year. 81 of the 105 bedrooms are currently let for next year and we have good interest in the remainder.

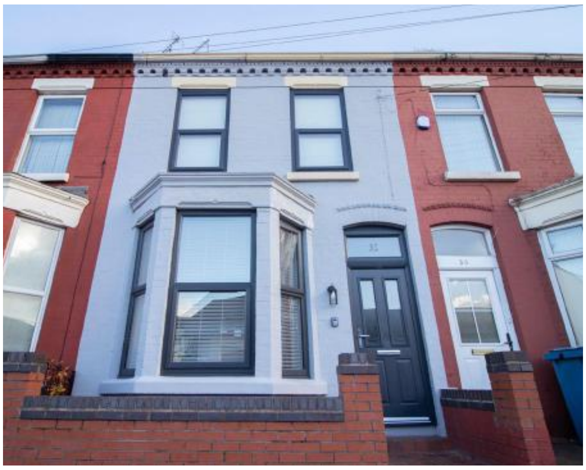
The average rent achieved on the new lettings is £106 per person per week with a top rent achieved in one of our Liverpool properties of £127 per person per week inclusive of bills.

The next phase of acquisitions will focus on Cardiff.

## *The Brickworks Portfolio,* Liverpool

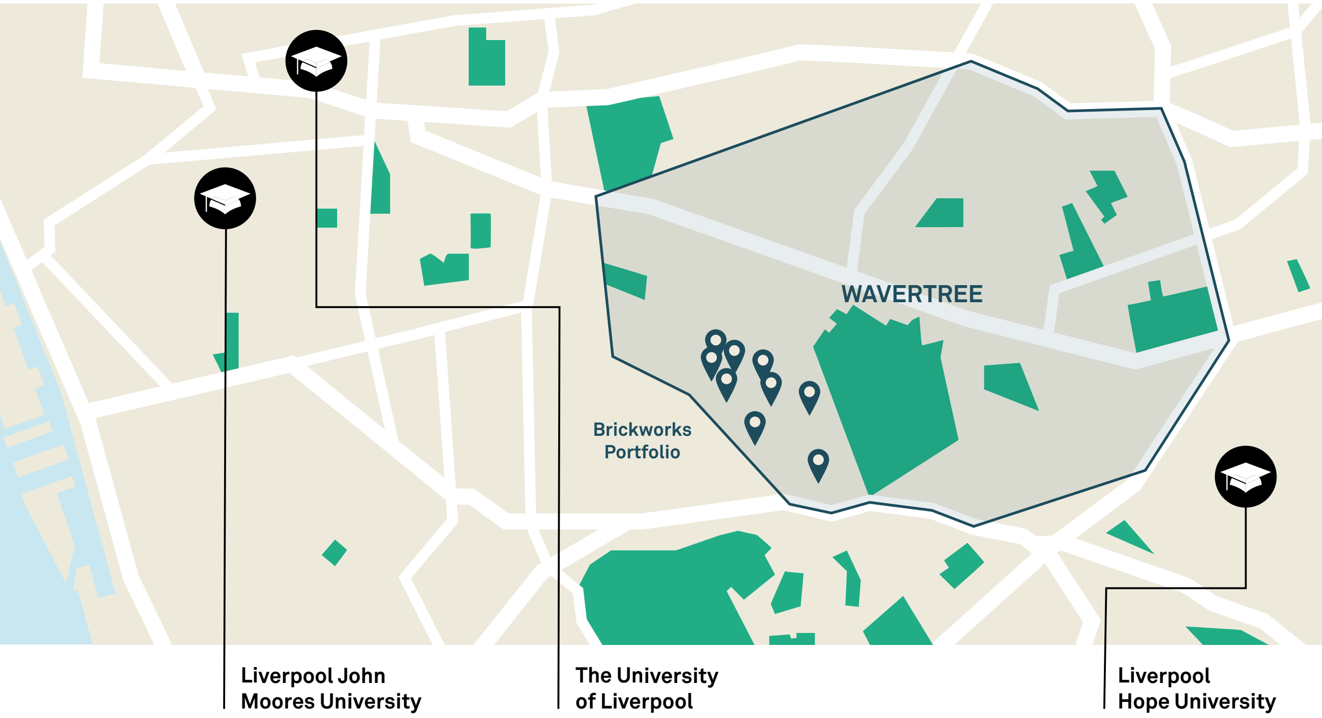
The Brickworks portfolio comprises nine individual student houses, all within the popular Wavertree area of Liverpool. Each house has six to eight bedrooms and high quality finishes as supplied by the previous owner. The total cost of all nine properties was £3,330,600 (£54,600 per room).

The houses all sit within a comfortable 20 minute travel distance from the University of Liverpool, John Moores University and Liverpool Hope University, along with other higher education institutions. The houses are currently fully let and the letting process for the 2019–2020 is well underway.



## Brickworks Portfolio

- 9 Barrington Road
- 15 Jamieson Road
- 27 Lidderdale Road
- 32 Thornycroft Road
- 56 Woodcroft Road
- 58 Gainsborough Road
- 68 Woodcroft Road
- 87 Thornycroft Road
- 95 Avondale Road



# *3–6 Portland Terrace,* Newcastle

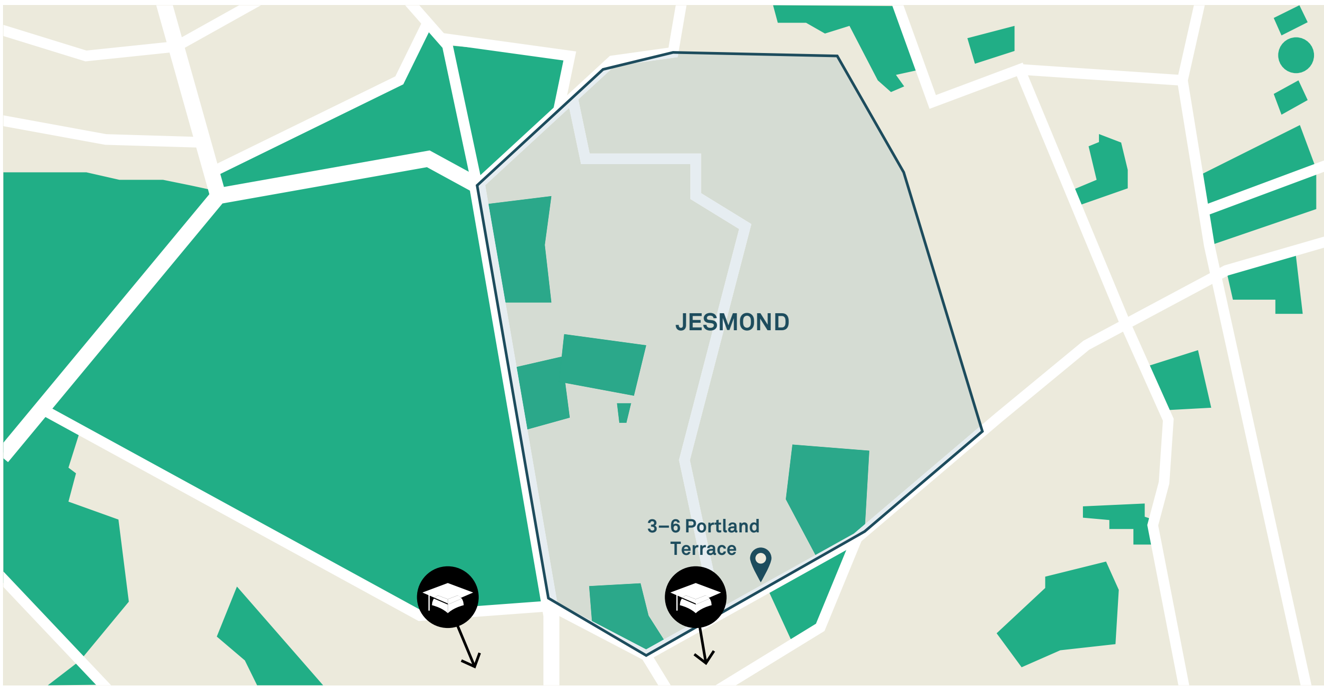
3–6 Portland Terrace comprises eight individual student apartments spanning a continuous row of four properties, sitting within the upmarket Jesmond area of Newcastle.

The apartments, each spanning a large lateral footprint of two buildings, contain a total of 44 bedrooms and provide good quality accommodation in a popular student location.

The total price paid for the freehold interest was £2,925,000 (£66,477 per room).

Sitting just 15 minutes' walk from Newcastle University and 10 minutes' walk from Northumbria University, the properties are popular with students, with seven of the eight apartments already let for the coming 2019–2020 academic year.

Current rents for the properties of £94 per week are being achieved and there is the potential for good rental growth via an active asset management campaign. In addition, there is the potential to gain additional rooms, subject to planning.




Newcastle

# 06. Income

All properties in the portfolio will be income producing, with a threshold minimum Gross Yield* of 7% on purchase.

**Based on a portfolio of £15.00 million, this is equal to a minimum annual target income of £1,050,000 on purchase.**

The aim is to refurbish the houses as soon as possible, focusing on periods when students are not in residence, such as outside of term times**. Properties let to students at the time of purchase will be re-let at rents around 20% higher, based on the assumption that each house will undergo refurbishment as soon as possible to provide a significantly higher quality of accommodation.

**Once refurbished, the portfolio's minimum annual target income will be increased to around £1,260,000.**

We will seek out properties where there is further potential to raise rents through the creation of additional bedrooms / bathrooms / social space. Leases will be extended to run for a full 12 months, rather than just the Academic Year, with 100% rent payable throughout the term of the lease. All students leasing a room will be required to provide a parental guarantee or six months' rent upfront, providing a higher level of security than a deposit alone, which is standard.

**In four year's time, the target is to achieve a Gross Yield as high as 10%, which would equate to an annual gross income of £1,500,000 for the portfolio.**

* See glossary of terms on page 60

** If in situ, a suitable time for refurbishments will be arranged with the students, at their convenience.

# 07. Financials

The purchase price of the portfolio will be approximately £15 million, at a target price per room of £50,000 to £70,000. Once structure set-up costs, fees and working capital are included, the total cost rises to £17.5 million (see Table Two).

The investment will be funded through a combination of equity and debt. Riverside Capital will target raising equity funding of £10.0 million, with the remaining balance being secured by a loan facility.

**Table Two**

| | |
|---|---|
| Total purchase price (£m) | £15.00 |
| Working capital, set-up costs, fees etc (£m) | £2.50 |
| **Total (£m)** | **£17.50** |

**Table Three**

| | |
|---|---|
| Bank debt (%) | 50% LTV |
| Equity (£m) | £10.00 |
| **Total (£m)** | **£17.50** |

## Equity investment

**Riverside Capital Group Limited is seeking to raise £10.00 million in equity investment.**

**Equity investment is available from £25,000.**

A £100,000 equity investment would acquire a 1% interest in the Company (based on £10.00 million total of equity investment).

## Bank loan

An initial £1.665 million loan has been drawn from Metro Bank Plc against the initial nine seed assets located in Liverpool. The five-year loan represents a Loan to Value* of 50% and is on an interest only basis. The loan is fixed at an all-in interest rate of 4.09% p.a.

It is intended that further acquisitions will be part funded with senior finance provided by Metro Bank Plc on a similar basis.

**Table Four: Anticipated Senior Finance Terms**

| | |
|---|---|
| Loan term | 5 years |
| Loan amount | £1.665 million |
| Loan to Value* | 50% |
| Interest rate | 4.09% |
| Amortisation | Interest only |
| Loan pre-payment fees | Year 1 = 5%<br>Year 2 = 4%<br>Year 3 = 3%<br>Year 4 = 2%<br>Year 5 = 1% |

# Exit strategy

**The plan is to increase the overall Gross Yield of the portfolio from approximately 7% at the time of purchase to up to 10% by the end of the business plan in December 2022.** This will be driven by an active asset management programme to include refurbishments to improve the quality of accommodation, the creation of additional bedrooms in properties where possible, and the extension of leases to full calendar years.

Annual profits will be used to reinvest in the portfolio, in order to maximise value.

The creation of a portfolio of scale is expected to hold broader appeal at exit than each of the properties might alone. Institutional investors, in particular, are increasingly attracted to student housing investments, due to the rising income streams.

There is significant potential for further upside beyond this, which could be generated by any of the following:

- A larger-than-projected increase in rents
- Lower-than-expected refurbishment / asset management costs
- A higher sales price

In terms of downside risks, our base case assumptions have incorporated some conservative assumptions for rental uplift. While a slowdown in the UK economy is also a risk, student numbers often rise during times of economic stress as job seekers look to upskill to improve their employability. In addition, the UK's chronic lack of housing should help to underpin the opportunity as student houses can always be converted back to residential family housing.

# Expected returns

The base case projected return over the four year term of the investment is 10.00% IRR, net of all fees and costs, with an upper case return of 14.0% to 20.0% and a lower case return of 7.0%.

**Table Five**

| | IRR | Return on equity | Multiplier |
|---|---|---|---|
| Base case | 10.0% | 45.8% | x1.46 |
| Upper case** | 14.0% | 68.3% | x1.68 |
| Lower case | 7.0% | 31.0% | x1.31 |

* See glossary of terms on page 60
** Lower end of projected upper case scenario

# 08. Structure and taxation

We have reviewed the practical information underpinning the opportunity, including how it is structured, as well as taxation considerations, fees and expected returns.

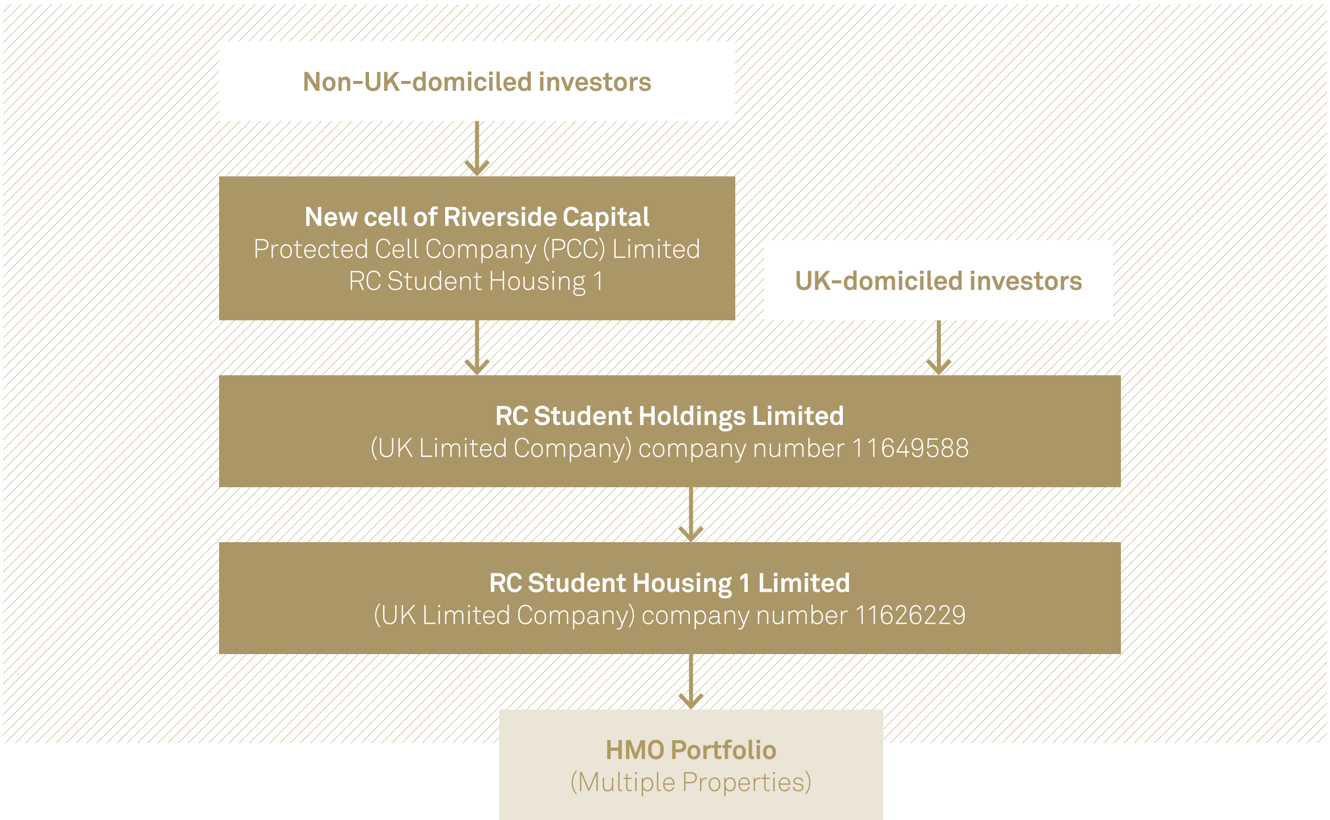
## Structure

Investment in the opportunity will either be via a Guernsey authorised and regulated cell of Riverside Capital Protected Cell Company (PCC) Limited or directly into a UK Limited Holding company, RC Student Holdings Limited (company number 11649588).

Offshore investors will invest into the PCC. The PCC is regulated as an Authorised Closed-Ended Investment Scheme by the Guernsey Financial Services Commission (GFSC), with registration number 2266153.

UK-domiciled investors will invest directly into RC Student Holdings Limited (see Chart Eleven).

**Chart Eleven: The structure of the opportunity**



# Investment Management

The Protected Cell Company (PCC) is controlled by a single Board. The Board is comprised of individuals who have been carefully selected to meet statutory, regulatory and fiduciary requirements.
The Board has appointed Riverside Capital Group Limited as investment and asset advisor. The role of the investment advisor is to put investment propositions to the Board which, if accepted, will be promoted to professional investors and intermediaries in various jurisdictions.
The Board comprises three members: Dominic Wright, Shelagh Mason and John Whittle.

**Dominic Wright** Director

Dominic is co-founder and Group Chief Executive of Riverside Capital, with overall responsibility for the running of Riverside Capital Group. With 20 years of market experience, Dominic has spent the majority of his career providing property investment opportunities to the private equity arena. He has a strong track record in identifying and transacting on property deals. Dominic has vast experience in asset management and works to ensure that business plans are met and that exits are achieved on time. With his substantial network of industry contacts, his experience extends to arranging debt finance for investments and asset-backed corporate restructuring.

**Sasha Stupar** Director

Sasha Stupar is co-founder and Director of Riverside Capital, where his key role is Head of Projects. He has significant experience in the refurbishment and development of properties throughout the UK with responsibility for the appointment, co-ordination and management of project teams, and ensuring the timely and cost-efficient delivery of plans. Sasha is also engaged in the day-to-day running of Riverside Capital, and the asset management of properties within company's portfolio.

# Taxation

The comments below are intended to provide a good, high-level understanding of the UK tax aspects of the proposed investment based on UK tax legislation at the date of this tax report. However, the comments below should not be taken as advice and each investor should seek their own personal tax advice in relation to the investment based on their specific circumstances.

**Structure**

- The residential houses of multiple occupation (HMOs) will be acquired by a newly created English Limited Company ("ELC") called RC Student Housing 1 Limited (company number 11626229) which will sit beneath a newly created English Limited Holding Company (ELHC), RC Student Holdings Limited (company number 11649588).
- UK tax resident investors will invest directly into the ELHC – i.e. they will be shareholders in the ELHC.
- Non-UK tax resident investors will make their investment via a non-UK company incorporated and tax resident in Guernsey called Riverside Capital PCC Limited ("the PCC"). The PCC is a protected cell company, registered and authorised with the Guernsey Financial Services Commission.

**Taxation of the English Limited Company**

- The ELC will be subject to UK Corporation Tax on its tax-adjusted profits. The current UK Corporation Tax rate is 19% (expected to fall to 17% from 1 April 2020).
- In calculating the tax adjusted profits / (losses), the ELC should be entitled to a deduction for costs incurred wholly and exclusively for the purposes of the property rental business. This should include interest payable on senior debt finance (subject to corporate interest restriction).
- The ELC will be within the scope of the corporate interest restriction ("CIR") rules that were introduced for UK companies with effect from 1 April 2017. In summary, the ELC may be subject to a restriction on the interest expense that they can treat as tax deductible in calculating tax-adjusted profits. A restriction should only apply if total net interest expense for the chargeable accounting period is greater than £2 million. If the rules apply then the default position is that the interest expense is restricted to 30% of tax adjusted EBITDA.
- For the avoidance of doubt, the interest restriction rules for residential buy-to-let property businesses (which came into effect from April 2017) owning residential property as individuals (or in partnership with other individuals) should not apply to the ELC.
- Any capital expenditure incurred acquiring or refurbishing the properties may not be tax deductible against income unless it qualifies for replacement furniture relief. However, if the expenditure is treated as capital then the expense will be deductible in calculating the chargeable gain arising on any future sale of the property.

- If tax losses are generated then these losses should be available to utilise against total taxable profits of the company in the chargeable accounting period or, otherwise, they can (subject to certain restrictions introduced with effect from 1 April 2017) be carried-forward and offset against total profits of the company in future periods.
- The ELC would be subject to UK corporation tax at a rate of 19% (reducing to 17% from 1 April 2020) on the profit or gain arising in the event of a sale of the property. The gain would be calculated by taking the sales proceeds received, with a deduction for acquisition costs, subsequent capital expenditure and incidental costs of disposal.

**Taxation of ELHC**

- The ELHC should be subject to UK corporation tax on its tax-adjusted profits. However, ELHC is not expected to be in receipt of any trade or property related income and so ELHC is not expected to have a UK corporation tax liability over the life of the investment. However, if ELHC sells shares in ELC then any capital gain realised on this disposal would be subject to UK corporation tax at 19% (reducing to 17% from April 2020).
- To the extent that profits realised by ELC are repatriated to ELHC as dividends, these dividends should be exempt from UK corporation tax in ELHC.

**Taxation of the PCC**

- The relevant cell of the PCC should not be subject to either UK or Guernsey taxation on distributions received from the ELHC.
- Following announcements at the Autumn Budget 2017, non-UK persons (which includes body corporates) are expected to be subject to UK tax on disposals of interests in “property-rich” entities from 1 April 2019. Therefore, if there is a sale of shares in the ELHC after 1 April 2019, it is expected that the PCC would be subject to UK tax on the future gain realised. Only increases in the value of the shares arising after 1 April 2019 should be subject to UK tax.
- If, instead, the ELC disposes of the HMO properties directly, then the ELC would be subject to UK corporation tax on any capital gain realised on the disposal. A subsequent capital distribution from the ELHC to the PCC should not be subject to UK tax under the proposed changes if the ELHC is not still “property rich” at that time.
- Please note that the proposed capital gains tax changes are still under consultation with HMRC and subject to final legislation being published.
- The PCC is not proposing to elect as a reporting fund under the Offshore Funds (Tax) Regulations 2009 as UK investors will invest directly in the ELHC.

### Taxation of the UK individual investors

- UK individual investors will be subject to UK income tax on distributions received from ELHC. These amounts will be taxed as dividend income for individuals. For the 2018/19 tax year, the first £2,000 of dividends received by UK individuals will be free of UK income tax and the excess will be taxed at rates of 7.5%, 32.5% and 38.1% depending on the investor's marginal rate.
- UK individual investors should be subject to UK capital gains tax at a rate of 20% on a realisation of their investment in the ELHC. This may be by way of a sale of the shares in the ELHC or on ultimate liquidation of the ELHC. Individual investors may be entitled to utilise any brought forward capital losses (if any) and an annual exempt amount (currently £11,700 per annum) which may be available to offset against their capital gain.

### Taxation of the UK corporate investors

- UK companies may be subject to UK corporation tax on distributions received from the ELHC. These amounts will be treated as dividends for UK tax purposes. For many companies, these distributions may be treated as exempt from UK corporation tax provided certain conditions are met. If distributions are not exempt, then a UK corporate investor would be subject to UK corporation tax at a rate of 19%, falling to 17% post 1 April 2020.
- UK companies should be subject to UK corporation tax at a rate of 19% (reducing to 17% from 1 April 2020) on a realisation of their investment in the ELHC. UK corporate investors may be entitled to utilise any losses (subject to restrictions) to offset against their capital gain.

**Taxation of non-UK investors**

- Non-UK investors will invest via the PCC (see “Structure” section). Non-UK tax resident investors should be subject to taxation on their investment in the Fund in accordance with the laws of the jurisdiction in which they are tax resident.
- Any income distributions from the PCC to non-UK investor-shareholders in the PCC should not be subject to UK tax, but may be subject to local taxes in the jurisdiction in which the non-UK investors are tax resident. This similarly applies to capital distributions provided such distributions are made after the property has been sold (i.e. at a point in time when the shares are not “property-rich”).
- Non-UK domiciled investors should not be within the scope of UK inheritance tax on their investment in the PCC where the value of the interest they hold is indirectly attributable to a UK residential property by virtue of an interest in a close company, partnership or loan. Therefore, provided the relevant cell of the PCC is not considered "close" (i.e. under the control of five or fewer participators), non-UK domiciled investors should not be subject to UK inheritance tax on their interest in the relevant cell.

**Note:** This information has been provided by Grant Thornton. Riverside Capital Group Limited is not qualified to give tax advice. You should note that the tax implications of using the above structure will differ depending on the investor’s individual circumstances.
All investors are strongly recommended to seek their own independent advice on their tax position in the proposed investment vehicle and should not rely on the information provided above.

# Fees

Fees relating to the opportunity are automatically deducted from the investment vehicles. These include Riverside Capital's transaction and ongoing asset management fees, as well as charges relating to the equity investment and annual running fees.

**Table Six**

| | |
|---|---|
| Transaction, debt arrangement and structuring fee | 1.5% of the purchase price of the of properties: Riverside Capital fee estimated at £225,000 |
| Annual asset management fee | 0.5% of the purchase price of the properties Riverside Capital fee estimated at £75,000 |
| Performance fee | The higher of either an exit fee of 20% of returns to investors above a minimum IRR* hurdle of 8% per annum, or 1% of the sales price of the portfolio |

In respect of the equity investment, issue costs together with an annual fee will be charged, and may be paid to third party intermediaries. These are shown in table seven.

**Table Seven**

| | |
|---|---|
| Issue costs | 3% of the equity commitments |
| Annual fee | 0.5% of the equity commitments |

* See glossary of terms on page 60

# 09.
# Risk factors

### Economic downturn

A downturn in the UK economy might have an adverse impact on values. However, this risk is partly mitigated as student numbers have tended to rise during past economic downturns as job seekers look to upskill to improve their employability. This should help to keep upward pressure on rents.

### Debt market

A return to illiquidity in the lending market could make the sale of the properties more difficult due to a lack of debt finance. By immediately implementing asset management strategies to increase the value of the portfolio we aim to actively reduce the Loan to Value.

### Reduced demand for student housing

In the unlikely situation that the number of full-time students at UK universities falls, leading to reduced demand for student housing, the houses could be converted into residential use. Given the chronic shortage of UK housing, this should help to reduce mitigate any downside risk.

### Reduced values

In the case of an economic downturn, we could see a drop in residential property prices. Through the creation of an income producing portfolio of scale, we intend to mitigate this risk through the provision of an institutional-grade product.

### Refurbishment costs

The cost of refurbishing the properties may increase. However, we have overcompensated for these costs in our initial analysis which should help to mitigate this risk.

# Glossary of terms

**Academic year**
The academic year in the UK runs from September to July the following calendar year.

**All-in borrowing rate**
The total borrowing rate including all applicable elements, such as fees.

**Amortisation**
The practice of reducing the value of an asset or a loan in incremental steps.

**Gross Yield**
The yield on an investment before the deduction of taxes and expenses. Expressed in percentage terms, it is calculated as the annual return on an investment prior to taxes and expenses, divided by the current price of the investment

**HESA**
The Higher Education Statistics Agency is the official agency for the collection, analysis and dissemination of quantitative information about higher education in the United Kingdom.

**HMO**
Houses in Multiple Occupation. Residential properties where 'common areas' exist and are shared by more than one household. Properties are usually rented on a room-by-room basis.

**Internal Rate of Return (IRR)**
A measure of the annualised rate of return on a compound basis.

**Loan To Value (LTV)**
A financial term used by lenders to express the ratio of a loan to the value of an asset purchased.

**PBSA**
Purpose-built student accommodation, such as halls of residence.

**The Times Good University Guide**
The Times Good University Guide is a university ranking produced by the Times newspaper annually. It is released in advance of the next academic year as a guide to students and is held in the highest regard by students and universities alike.

**UCAS**
The Universities and Colleges Admissions Service is a UK-based organisation whose main role is to operate the application process for British universities.

**SweetSpot**
Means SweetSpot Limited, an English Limited Company with company number: 070115

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Riverside CAPITAL

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