



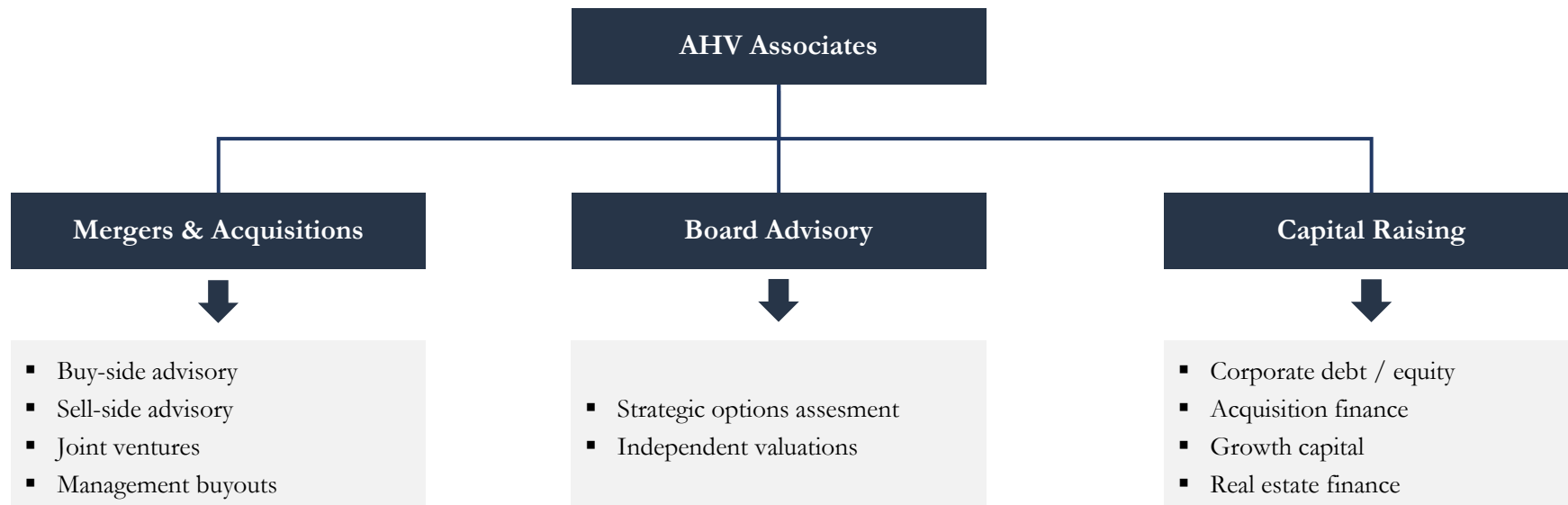
Operational Real Estate in Living & Working
The new mainstream

22nd March 2023

AHV
ASSOCIATES

AHV Associates: An introduction

Co-founded in 2001 by Andrew Harrington, AHV Associates LLP ("AHV") is an award-winning boutique investment bank focused on advising private companies across a range of M&A and advisory assignments.



AHV specializes in hospitality and has worked with companies that own and/or operate hotels, apart-hotels, serviced apartments, hostels and mixed-use resorts

We produce a free monthly newsletter which gives information on latest trends in the market, recent transactions as well as hotel performances. This can be found on our website. Feel free to [subscribe](#)

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An Introduction to Operational Real Estate

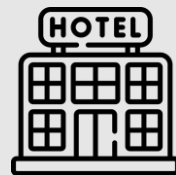
Definition

- Operational real estate involves proactively managing properties that offer customised services and amenities to tenants / clients
- The owner generally has direct exposure to the risks and rewards of the operational activities, via direct ownership of the operating company, management contracts or hybrid leases
- The business model often requires adequate scale to ensure size economies, client affordability and hence business viability

Differences with Traditional Real Estate

- Traditional real estate relies primarily on rent, with direct exposure to tenant(s)'s financial covenant quality, economic and credit market conditions
- Operational real estate focusses on creating an enhanced and more versatile product to a targeted group, and ancillary services which open up additional revenue streams. As the owner has a business-type P&L exposure, asset management style is more active, requiring enhanced skills and larger reliance on operators' ability to deliver.
- Owner's compensation comes in the form of enhanced expected yields and total investment returns

Sub-sectors



Hotels & Extended Stay



BTR



PBSA



Senior-Living



Co-Living



Co-Working

An Introduction to Operational Real Estate

Current Status of Investment Activity

- Investment Activity in Operational Real Estate has accelerated in the last 5 years or so
- Pre-covid this was mainly due to the yield compression in mainstream asset classes, together with secular growth trends in certain subsectors (e.g. Extended Stay, Co-Living, PBSA)
- During Covid-19 some exposed sub-sectors saw limited unit growth e.g. Hotels, Extended Stay, Co-living and Co-working, whilst the most defensive segments of BTR and PBSA experienced an accelerated growth regardless
- Moving forward, investment activity across all sub-sectors is set to accelerate further as secular trends reassert themselves and investors seek extra reward for the inflationary, interest rate, and other risks that are now prevalent

Investment Structures

- Large institutional investors and fund managers have been also allocating capital via vertically integrated platforms. Bringing development and operational expertise inhouse is an effort to gain more control on those crucial aspects of their investment
- Alternatively, well specified thematic investment partnerships between investors and specialist developers and/or operators is another way to get into a specialist real estate market
- Regarding hotels and extended stay properties, we expect hybrid leases and management contracts to continue gaining popularity even among the traditionally conservative investors

Extended Stay - Why is it attractive?

Product Differentiation

- Taps on unmet demand for a specialised product

Flexibility

- These properties provide versatile options for both leisure and business travellers, catering to a wide range of customer preferences, allowing them to compete with hotels and Airbnb

Rising Demand

- Increasing global mobility and leisure pursuits underpin the popularity of extended stay hotels and serviced apartments

Business Model

- Extended stay properties ensures steady revenue generation and high margins, through higher occupancy rates, longer stays (and hence lower sales costs) and lower operating costs. It is very often its purely accommodation focussed, hence providing less volatile returns to investors

Supply Growth Potential

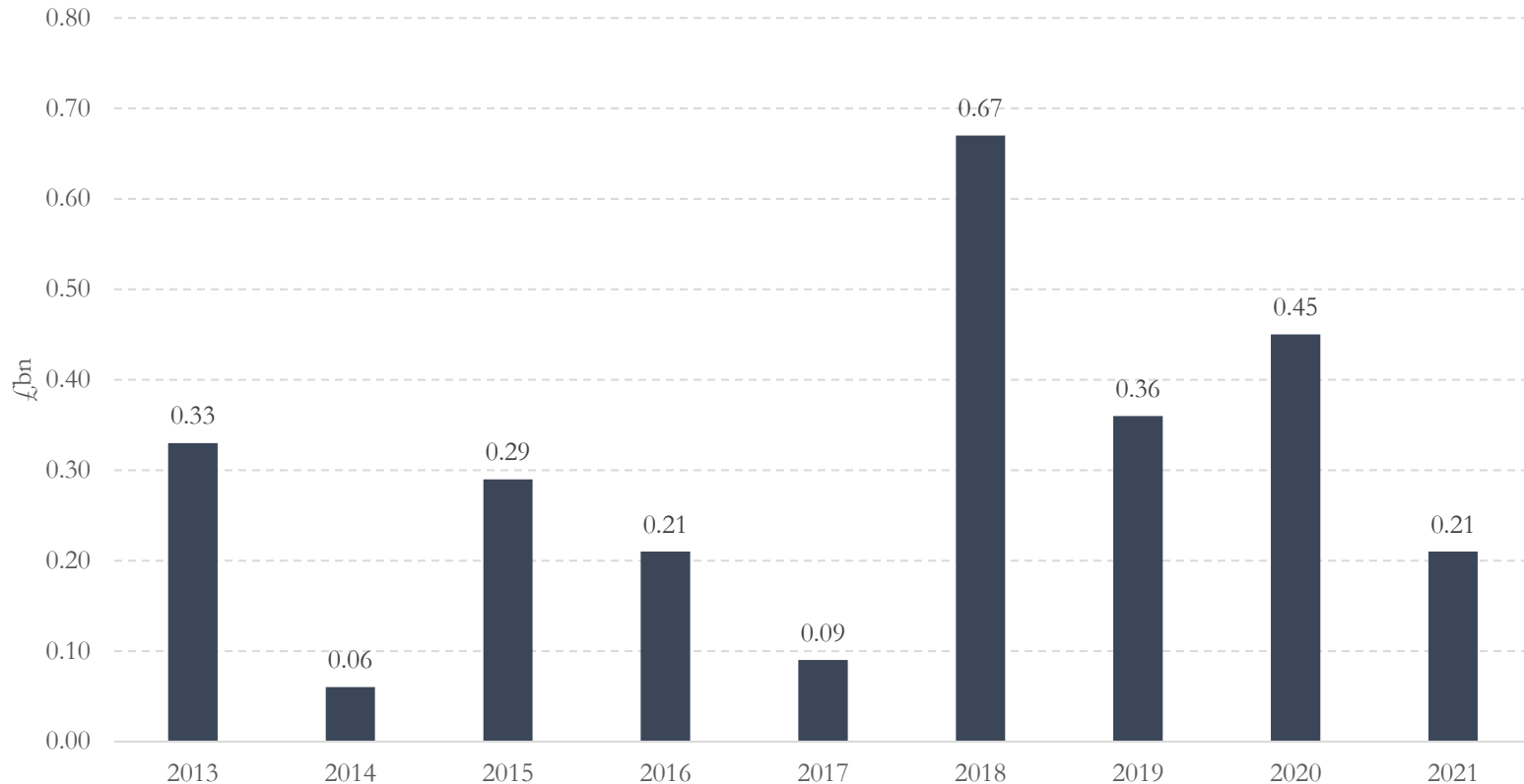
- Supply in Europe has been growing rapidly but stands well below US levels and has not been matching the growing demand for extended stay accommodation. Serviced apartments are just 7.9% of total room supply in Europe. This situation creates ample opportunity for expansion and development

Alternative Use

- An unsuccessful serviced apartment operation could be easily converted into residential usage, providing solid downside protection

UK Investment Activity in Serviced Apartments














UK Serviced Apartments investment activity peaked in 2018 reaching £670m



UK Investment Activity for 2022: According to recent reports from industry experts and market analysts, the UK Investment activity in serviced apartments has seen a significant rebound in **2022**

Source: Savills, Association of Serviced Apartment Providers (ASAP), HotStats, GSAIR

Recent Transactions in the Serviced Apartment Space

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Deal Size
	SevenCapital	Jan-23	Debt Funding	Royal Angus Hotel, Birmingham	£13.5m
		Nov-22	Forward Purchase	Staycity Dublin	€100m
		Jul-22	Asset Acquisition	6 Spanish Properties / 2 Aparthotels	€160m
	Private Individuals	May-22	Corporate Acquisition		Undisclosed
 	Publicly Listed	Jun-21	Platform Acquisition		\$6bn
numa	Private Individuals	Jun-21	Corporate Acquisition		Undisclosed
		Jan-21	Sale & Leaseback	room2 Southampton homotel	£10m

Notable Participants in the Serviced Apartment Market

Equity Investors



Asset-light Operators



Asset-backed Operators



PBSA - Why is it attractive?

Growth in Student Numbers

- Full-time undergraduates are expected to increase 16% by 2030
- International students of particular importance as 60% of them are more likely to live in PBSA than domestic students

Government Incentives

- There is great government incentive to invest in PBSA properties, as there is no stamp duty to pay which can provide investors with significant savings

Countercyclical

- Economic downturn has resulted in increasing demand for higher education. PBSA is a good opportunity for investors to balance their portfolio with demand feeding through to high occupancy levels and resilient income stream

Supply-Demand Imbalance

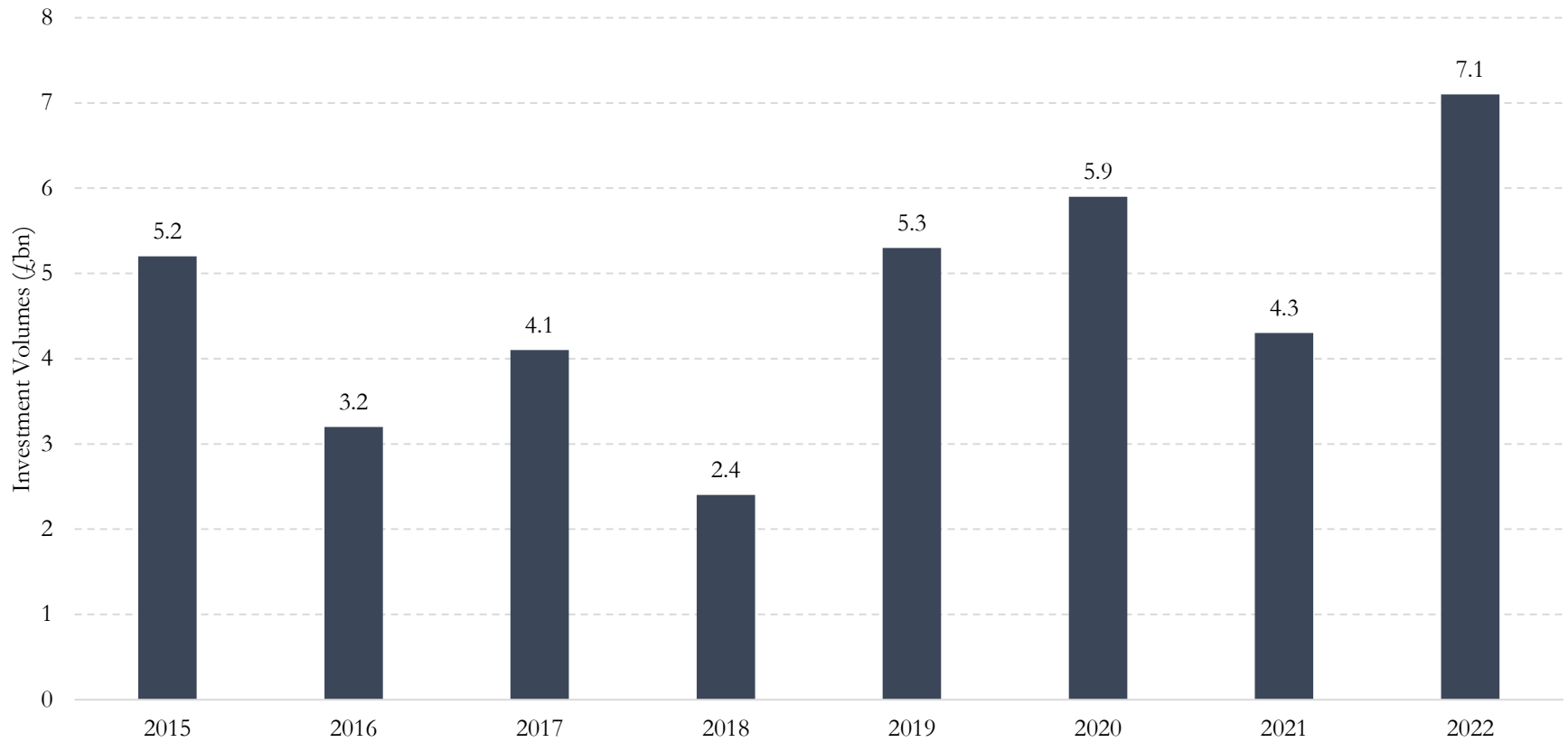
- There is a shortage of student accommodations. Supply of beds is not enough to keep up with the increase in student numbers. Further slowdown in new delivery would accelerate even further the strong historic rental growth

Regulation and Tax of HMOs

- Increased taxation and regulation has resulted in a supply shortage of HMOs. Student housing supply is also constrained in top university towns and cities due to the increase regulation



UK Investment Activity in PBSA

UK PBSA investment activity reached its highest level with £7.1bn in 2022



Source: Knight Frank

Recent Transactions in the PBSA Space

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Deal Size
 		Dec-22	Platform Acquisition		Undisclosed
	N/A	Dec-22	Asset Acquisition	5 PBSA Assets	£215m
		Dec-22	Asset Acquisition	PBSA scheme in Lewisham	Undisclosed
		May-22	ESG-linked Development Funding	Essex PBSA	£40m
	 	Feb-22	Asset Acquisition	3 Modern Developments in Durham, Exeter and Southampton	£84m
		Sept-21	Asset Acquisition	4 Vita Student Residences in the UK	£165m

Notable Participants in the PBSA Market

Specialist Developers



Godwin
Developments

HG
LIVING

MELBERRY
DEVELOPMENT MANAGEMENT

OLYMPIAN

southern
grove

WATKIN JONES
plc

Equity Investors

abrdrn

AXA Investment
Managers

Brookfield

CITY
DEVELOPMENTS
LIMITED

CURLEW

DEUTSCHE FINANCE INTERNATIONAL

GIC

Moorfield
Group

maple^{tree}

TRISTAN
CAPITAL PARTNERS

Branded Operators

fresh.

Host.
Where students are at home.

iQ Student
Accommodation

scape

THE
STUDENT
HOTEL

STUDENT
ROOST[®]

UNITE
STUDENTS

VITA GROUP

Co-living - Why is it attractive in the current market?

Increasing population

- The growing population of 18–35-year-olds in the UK has contributed to increasing demand for co-living; CBRE estimates the potential demand pool for co-living to be c.515k people in London

Specialised product

- Assets are specifically designed to meet the living requirements of recent graduates and young professionals
- Consumers are seeking living spaces with high-quality amenities and a tight-knit community at attractive price points, which fuels increased demand for Co-living

Business mix

- Balance between short-term and long-term accommodation opens up yield management opportunities and hence offers a yield premiums around 25-50 basis points against traditional residential assets, according to Invesco Real Estate

Huge growth potential

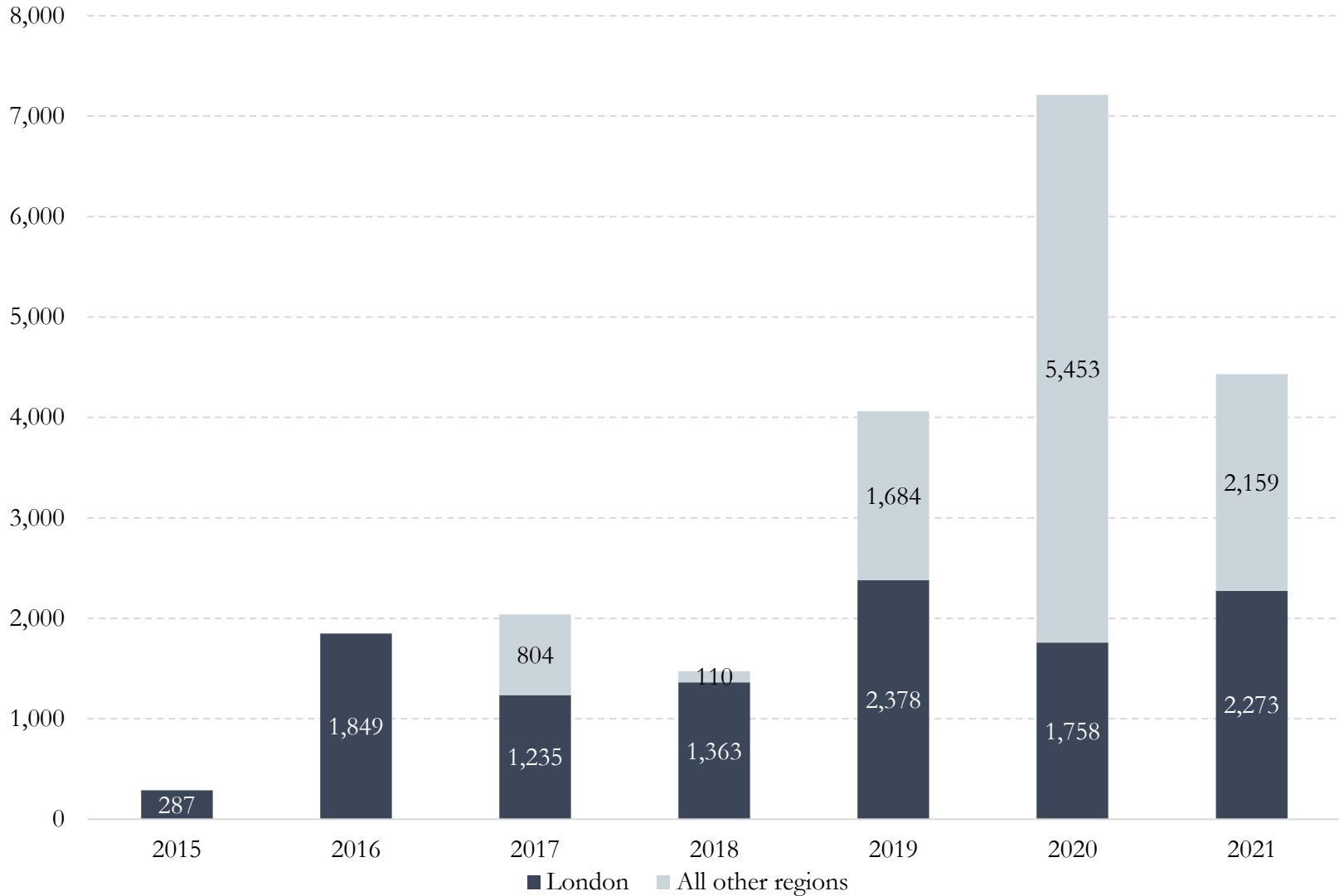
- Whilst the collapse of Collective had put a break in co-living sector's expansion, it has very recently gained traction with more schemes being fully operational and recording high occupancy rates. The situation provides significant comfort to investors looking to enter the market

Early-mover advantage

- Co-living is relatively nascent with very few established platforms, which presents early-movers with opportunities to accumulate an unparalleled wealth of specialised skillset and capitalise on the sector's rapid expansion as a market leader











UK Co-Living Units Submitted for Planning

London leads the way in operational Co-living units with regional UK set to grow and catch up



Source: Savills

Recent Transactions in the Co-Living Space

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Deal Size
PUMA PROPERTY FINANCE		Jan-23	Development Debt	East London Co-living development with Co-working space	£50m
	URBANE-LONDON	Feb-22	Forward Funding	81-bed premium Co-living Scheme in Ealing	£20m
		Oct-21	Asset Acquisition	6 Co-living assets from The Collective	£140m
		Sep-21	Forward Funding	133-unit Co-living scheme in Exeter	£17m
		Jun-21	Corporate Acquisition	Starcity's management contracts	Undisclosed
		Mar-21	Development Debt	49-storey premium residential building in Croydon	£200m
HABYT:	QUARTERS	Mar-21	Asset Acquisition	Quarters' portfolio of c.4000 units in 5 countries	Undisclosed

Notable Participants in the Co-Living Market

Indicative Examples

Specialist Developers



OLYMPIAN



Equity Investors



Investing in homes since 1912
grainger plc



Gravis



WARBURG PINCUS

Operating Platforms



FOLK.



scape



BTR - Why is it attractive in the current market?

Growing demand

- As the population continues to grow, demand for rental housing is expected to increase. There has also been increase migration from recently war-torn countries such as Afghanistan and Ukraine who are more likely to rent than purchase

Long-term income

- BTR properties provide a steady and predictable rental income stream. Tenants typically sign long-terms leases, which provides a stable and reliable source of income for investors

Inflation resilience

- The UK rental market is characterized by consistent rental growth, underpinned by a shortage of rental homes relative to demand. This applies upwards pressure on rents

Economic Downturn Resilience

- When interest rates are rising, and economy outlook is negative with real incomes falling. People are more prone to rent as opposed to purchasing a house, fueling demand for rental properties

ESG Profile

- Certain investors require investments to meet key ESG criteria in order to be approved by a company's investment committees. Investors in BTR are prepared to pay a premium for schemes with strong ESG credentials

Undersupply

- There is a supply-demand imbalance in the rental sector. Stock in the rental market is very short of supply. The number of properties available to rent across the UK was a third below the pre-pandemic average
















UK Investment Activity in BTR

UK BTR investment activity reached its highest level with £4.3bn in 2022



Source: Savills

Recent Transactions in the BTR Space

Acquirer / Lender	Vendor / Borrower	Date	Transaction Type	Asset(s)	Deal Size
		March-23	Joint Venture	Thematic Partnership starting with a project in London	£100m
		Nov-22	Forward Funding	Birmingham (tallest UK BTR project outside London)	£200m
		Nov-22	Site Acquisition	150-unit development at West Way Square, Oxford	£62.8m
		Sept-22	Forward Funding	BTR scheme in Bath	£100m
		Jan-22	Site Acquisition	Single Family Rental Community in Great Haddon	£25m
	Croydon Park Hotel	Jan-22	Asset Acquisition	Acquired Croydon Park Hotel to deliver c.600 new BTR units	£200m
		Dec-21	Forward Funding	Bespoke - High quality BTR	£150m
		Dec-21	Acquisition	232 - BTR scheme in Manchester	£53.5m

Notable Participants in the BTR Market

Indicative Examples

Specialist Developers

AVANTON:



BARRATT
DEVELOPMENTS PLC



COUNTRYSIDE
Places People Love

GodwinGroup

L&Q



telfordhomes
A TRAMMELL CROW COMPANY DEVELOPER

Equity Investors



GREYSTAR®



realstar group



Specialist Property Managers



allsop

liv



Vertically Integrated Platforms

getliving

grainger plc
Investing in homes since 1912



MODA

QUINTAIN LIVING



UNCLE

Way of Life.

Operational Real Estate's Future Outlook

AHV predicts that the sector is poised for significant growth in the coming years

Positive Demand Trends

- Demand growth for Operational Real Estate is underpinned by broad demographic trends (e.g., increasing student population) and changing consumer preferences that necessitate a more tailor-made offering

Unique Operational and Investment Characteristics

- Several Operational Real Estate assets possess unique characteristics which help owners employ a yield management strategy. Benchmarking tools and availability of comparable data underpin investors' confidence in taking a more active investment approach

Large Expected Supply Growth

- Robust underlying fundamentals support the case for a huge increase of supply in specialist segments. Emergence of specialist operating partners reflect this expectation and will result in accelerated growth once more stability returns in the development market

Enhanced ESG Credentials

- Effective supervision and management of daily activities can lead to the mitigation of environmental impact and ultimately enhance the asset's ESG profile

Strong Institutional Interest

- JVs between institutional investors, operators and the establishment of vertically integrated platforms are becoming more common. Hybrid leases and management contracts are gaining popularity among traditionally conservative hotel and extended-stay property investors

Enhanced Planning Regulations

- As new operational models emerge, evolution of the planning framework and asset classes definition, as well as education of planning committee members will be the catalysts of enabling some sub-sectors to grow their footprint

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