

SHINING A LIGHT ON..... GCP STUDENT LIVING PLC

At a glance

We recently reviewed the GCP Infrastructure Fund. In discussions with the manager we felt that they offer investors a cautious approach to investing with a sustainable long term income stream

We were recently invited to an update on the GCP Student Living PLC which is a Real Estate Investment Trust. The Trust specialises in investing in student accommodation and with the collapse of the Brandeaux Student Accommodation Fund it was interesting to see how this might offer an alternative option for investors and how safe it might be.

The Trust was introduced to the market last year and currently holds two properties. The managers are looking to expand this out. The focus is on high quality student accommodation in London and the South East with a target income yield of 5.5% and a total return of 8 – 10% p.a.

Where this Trust is different is that it targets purpose built accommodation so there are no development risks, and it is focused on areas where the overseas student population is large.

In a volatile investment markets likely to deliver lower returns this Trust could offer investors an alternative option alongside other investments.

Who are the team behind the fund?

The team behind the trust are Harry Daws, Chloe Marlow, Tom Ward and Stephen Ellis.

Fund highlights?

The fund is targeting London and the South East for two reasons – firstly the large shortfall in student accommodation and also the exposure to international students. London and the South East make up 35% of the student market and London has the largest number of overseas students in the world.

London also boasts some of the world's best universities which attracts overseas students.

In the discussions we had it was clear that the accommodation is very different to standard student accommodation offering en-suite rooms and studio apartments combined with on-site facilities. These facilities include cinemas, TV room, games room gym, and quiet study areas. They are effectively akin to hotel accommodation.

The two current holdings provide an insight to how the fund invests. Scape East is directly opposite to Queen Mary University of London. It offers 588 studio bedrooms. 180 studio bedrooms are contracted on a 10 year hard nominations agreement with annual RPI uplifts.

The remaining are let directly on 51 week terms (the standard across other universities is 42 to 44 so avoids void periods). There are also education facilities which are leased on a 30 year FRI lease with annual RPI uplifts.

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Currently it has 100% occupancy. The property was purchased for £93 million and is now worth £96 million. The student mix is 85% international.

The second property is much smaller opposite Royal Holloway University of London. It has 116 bedrooms and 100% occupancy. The student mix is 87% international.

Since investment the Trust has seen 3.3% year on year rental growth.

The Trust is looking to add to the Portfolio with an investment in Scape Greenwich which is in close proximity to Ravensbourne College and the University of Greenwich. There are also three other planned developments in London, Guildford and Egham.

The Trust has around 35% gearing but they are expecting to reduce this to 27% and are currently agreeing new loan terms.

The approach to a new kind of student living in a focused area provides both a strong growing yield and potential capital growth. The shortage of accommodation in London means that there will always be demand for the property and should for any reason they need to sell, it could easily be converted to residential use. It is a traded stock so investors can sell at any time.

Offering 8 to 10% in a volatile market where returns will be squeezed makes this an attractive investment especially against a portfolio of growth stocks. One concern we would raise is the maintenance because what looks good now may look tired in five or ten years and unless this is well managed the asset could decline in value. There is no evidence that the team would allow this to happen but it is a risk that investors would need to consider.

Overall there is a compelling argument for this investment, a shortfall in accommodation, a growing student population, focused area of investment and ability to convert accommodation to other usage in the future. Like any investment there are risks and possibly the greatest risk is around the management and whether it can continue to offer top quality facilities.

Fund performance

The table below shows performance since its launch in May 2013:

	2013	2014	Since launch
GCP Infrastructure Investments Ltd	4.57%	1.38%	6.02%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

The Trust could help investors looking for income or as a less volatile growth option. The downside is limited but there is a high level of gearing and the properties need maintaining.

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