ALTERNATIVES PREDICTIONS 2017

UK

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Introduction

Ollie Saunders
Lead Director – Alternatives

The appeal of alternatives continues to grow

Having accounted for only 10% of the market in 2010, 2016 saw transaction levels in alternatives at £12.3 billion, an astonishing 29% of the market. The fundamental drivers for alternatives remain positive – many sectors have a significant supply and demand imbalance due to demographic and structural changes. Good income growth potential can be improved via operational improvements and there is scope for further yield compression across most markets.

As the alternatives market matures, investors are gaining greater confidence in the resilience of the sector as the market becomes more transparent. JLL's long involvement and experience in alternatives also helps us analyse KPIs from the operational businesses, helping to identify value-add opportunities and better explain risk to our investor clients. Our key prediction for 2017 is that alternatives will outperform commercial property.

Ollie Saunders
January 2017

Investment Market

Joe Guilfoyle
Head of Corporate
Transactions – Alternatives

Martin Le Grice
Head of Alternative Investment

2016 was another strong year for investment in alternatives, while the mainstream commercial markets cooled

As the cycle develops, alternatives will continue to offer investors the scope for better risk adjusted returns and more defensive income characteristics than traditional real estate. JLL was involved in 22% of the UK transactional market for alternatives last year across all sectors.

Long income remains an integral feature of alternatives, and investors are seeking new ways of securing this through income strips and ground rents. As such, we have seen an increase in refinancing with ground rents being created, allowing greater multiples for asset heavy corporate acquisitions backed with real estate.

Alternatives Overview

James Kingdom
Associate Director – Research

A look at the key themes from 2016 and for 2017

This paper looks at what has happened in the alternative sectors in 2016, as well as providing our predictions for what is in store for 2017 and beyond. Our main prediction for total investment activity in 2016 was correct, at £12 billion, and this year we set out the key issues for each sector based on several themes.

We continue to see new entrants into alternatives, both from the UK and overseas. As the sectors continue to evolve, the outlook amongst the respondents of our survey is highly positive, with the expectation that alternatives will out-perform the traditional commercial property market in 2017.

Given the additional political uncertainty this year, this paper also takes into consideration the key political and legislative issues that are likely to influence each alternative sector.

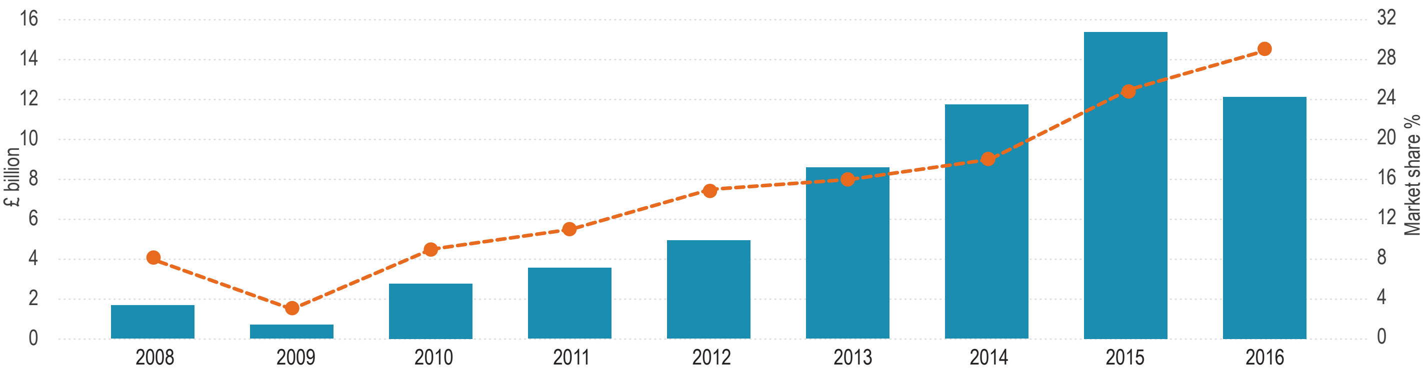
Investment activity

In 2016 there was £12.3 billion of investment in alternatives, in line with our prediction for the year 12 months ago. The market share in 2016 increased noticeably from 25% in 2015 to 29% of the total commercial property market. 2015 was a stellar year in alternatives, with some major student housing transaction taking total deal volumes to over £15 billion. Whilst total investment volumes are lower in 2016, the market share for alternatives has continued to increase due to the slowdown in traditional markets.

While increased economic and political uncertainty has contributed to the slowdown in commercial investment activity, alternatives continue to be underpinned by strong property fundamentals that are supported by the emergence of new investable real estate assets, driven by growing demand based on demographic changes; increased mobility; changing lifestyle patterns and technological advances. Many of the sectors that have previously been considered emerging are now maturing at a considerable pace and delivering sustainable long term income.

Student housing was again the largest in terms of total investment at £3.2 billion. This represents another strong year for the sector which is now an established global asset class. In addition to the UK market, there is now increased appetite for cross border portfolios.

Alternatives investment volumes



Investment
Predicted (Jan 16)
£12.6 billion

Investment
Actual
£12.3 billion

Market share
Predicted (Jan 16)
21%

Market share
Actual
29%

Portfolios remain an important feature of alternatives, accounting for 49% of the market. Premiums for portfolios of 5% – 10% still persist in return for the ability to purchase assets at scale. Portfolios allow new entrants to acquire a significant level of market share in what are generally undersupplied markets, such as the StorageMart purchase of Big Box Self Storage. The only exception to this at present is the PRS sector, where the majority of deals are for forward funding as a lack of supply in the sector means that the ability to buy at scale is not yet available.

American investors were the largest portfolio buyers last year in healthcare, self storage and car parks, buying more than £2.3 billion of assets. Asian buyers bought £812 million of student housing thanks largely to Mapletree and the GIC sovereign wealth fund. Overall, American buyers accounted for 25% of investment in alternatives in 2016, whereas Middle East and European buyers still heavily favour the traditional commercial sectors.

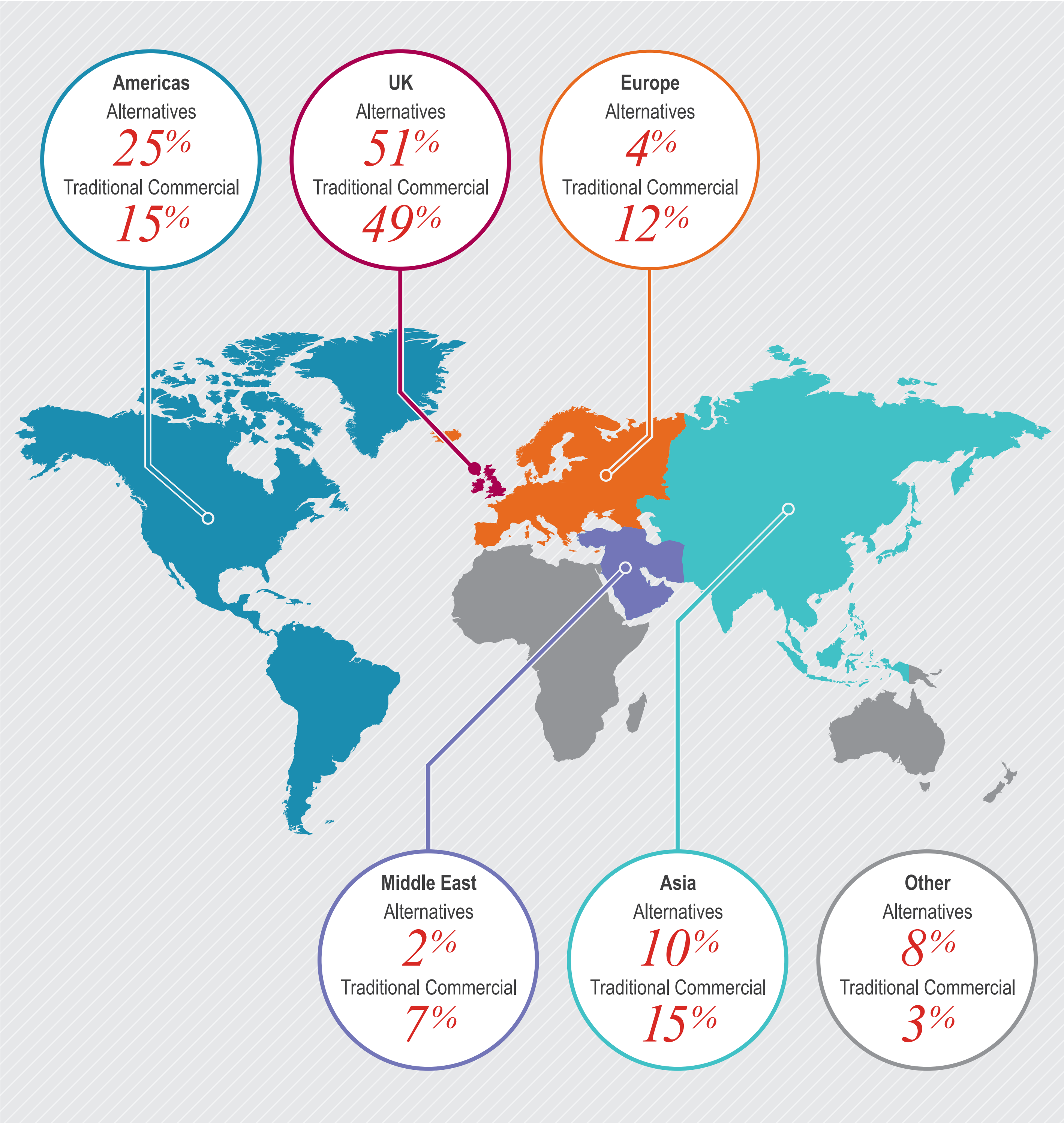
One reason for this is that many of the alternatives are more evolved in the UK than they are in Europe, but less so than the US. In all sectors with the exception of PRS and possibly healthcare, the UK is the leading EMEA market. Consequently, experienced American and other investors have the ability to buy into sectors they understand that are attractively priced compared to domestic markets. The nature of the UK market means there is scope of further yield compression from both increased maturity and improved management.

This stance is supported by the fact that for each alternative sector, the majority of respondents to our survey expect yields to remain stable or harden further in 2017, in contrast to commercial property where yields are forecast to soften over the next 12 months.

Investment by sector in 2016 (£ Million)

Yield expectations 2017

Global Capital Flows into UK Real Estate 2016



How the alternative markets are maturing

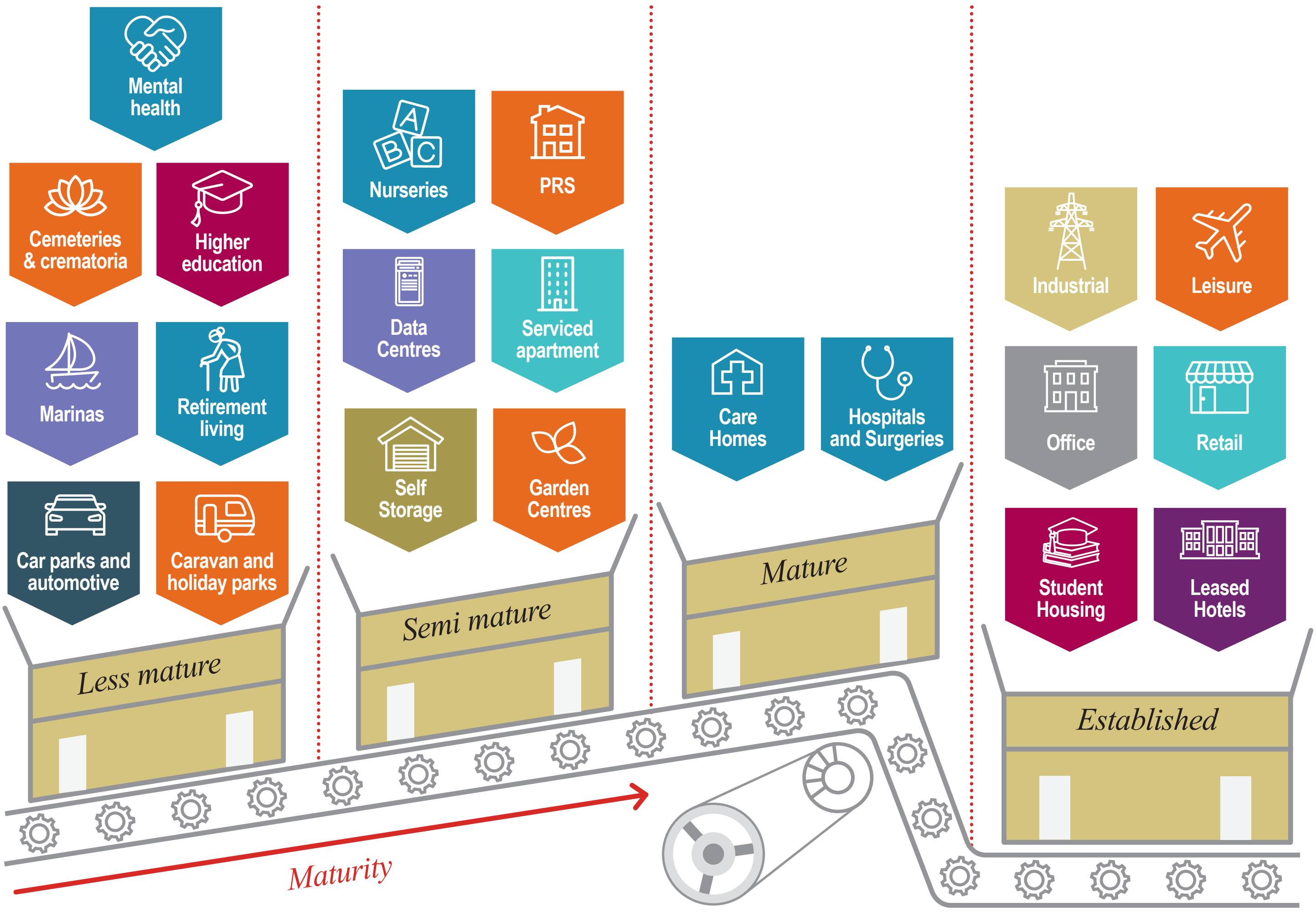
Due to consistently high investment volumes and consolidation in recent years, both student housing and leased hotels can now be considered established markets. Care homes are still in the process of maturing but a noticeable expansion of the private pay mid-market will be the next process in the sector's evolution.

Although PRS, retirement living and serviced apartments are all still relatively new sectors, the weight of demand from demographic and lifestyle changes are accelerating the pace of their evolution. These sectors also have the added benefit of an increased understanding of the operational side thanks to growth in similar, more mature sectors.

Markets continue to emerge and grow at different speeds. Sectors such as data centres and self storage continue to mature but need to increase the level of market transparency and attract a broader range of investors for them to become more established.

Regardless of which stage each sector is at, we expect investment levels to remain robust due to the compelling fundamentals behind each one of them.

The illustration shows the relative maturity of the main alternative asset classes in the UK in 2017



JLL's 2017 Alternatives Investor Predictions Survey

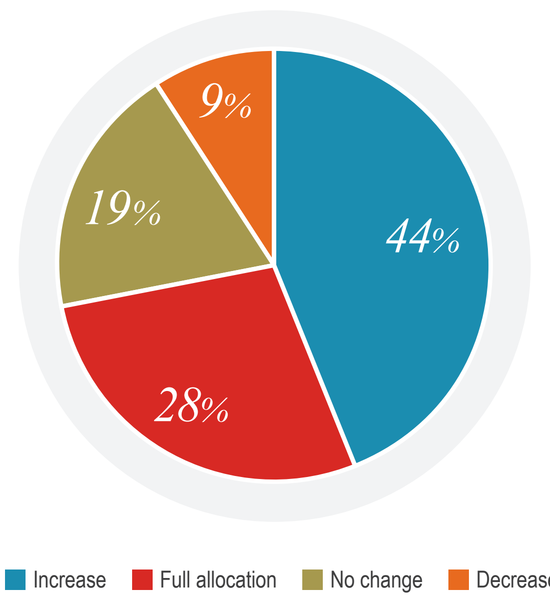
JLL's 2017 Alternatives Investor Predictions Survey is an opportunity to highlight the thoughts of some of the biggest investors in alternatives. The survey recorded responses from institutional investors, private equity, property companies and developers. Combined, the respondents manage UK assets with a value of more than £207 billion, compared to £175 billion last year.

The first finding from our survey is that investor attitudes towards the alternatives remain overwhelmingly positive, despite the wider economic backdrop and a weaker outlook for commercial property. Over 70% of respondents either plan to increase their allocation by 2020 or are fully exposed to their respective alternative sectors. This amounts to £14 billion of additional investment in the alternatives from our sample of investors in the next three years.

Within the results, only 9% of respondents indicated that they were intending to reduce the level of exposure they had in their alternative sectors. Most of these were private equity investors exiting stabilised assets rather than institutional capital seeking an exit. There was however one student housing investor intending to reduce the allocation in its primary sector to 50% and target PRS for the remainder.

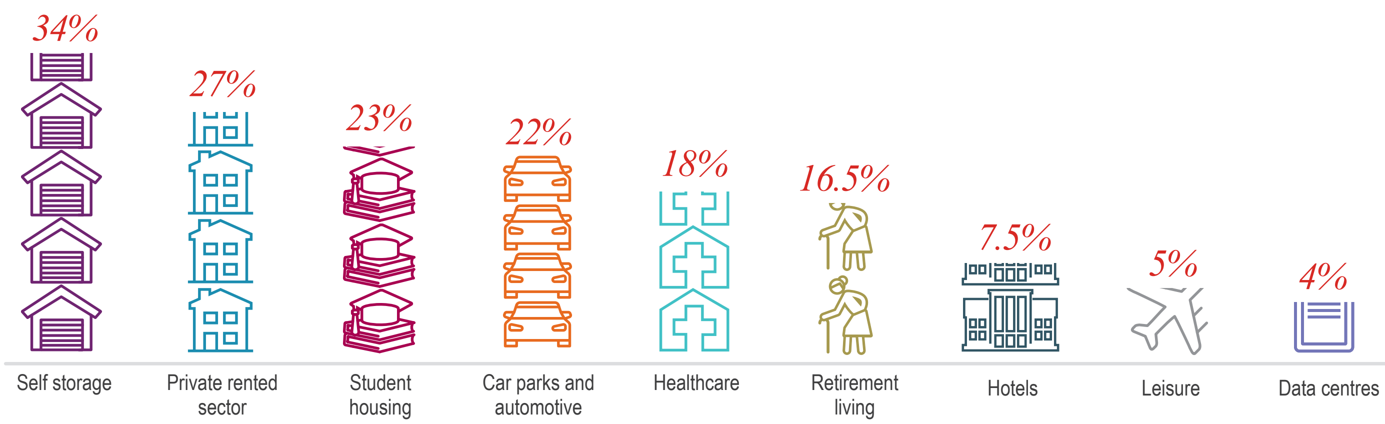
For the second successive year, PRS is one of the most popular sectors for investors looking to increase their allocation in alternatives. The number of investors targeting this sector has increased from 24% in 2016 to 26% this year. There is a clear distinction within the results between those sectors exposed to traditional property cycles and economic growth, and the ones driven by demographic, technological and structural changes. These provide a degree of defensiveness and counter-cyclical growth and have more investor appetite now than 12 months ago.

Alternatives allocations 2017–2020



Breakdown of increased allocation by sector 2017

If you plan on increasing your exposure to alternatives over the next 12 months, how will you allocate this increase between sectors?



Both hotels and leisure fell by more than three percentage points in terms of average allocation, with the weaker pound and economic uncertainty following the referendum result likely to have influenced investors' decision making. In contrast, data centres, healthcare, student housing and PRS all saw allocations increase.

The largest increase compared to last year's results however was for self storage. Although some of this increase is based on a concentrated number of respondents, the survey shows that investors are prepared to look at emerging sectors like self storage which are becoming increasingly understood by investors in the UK.

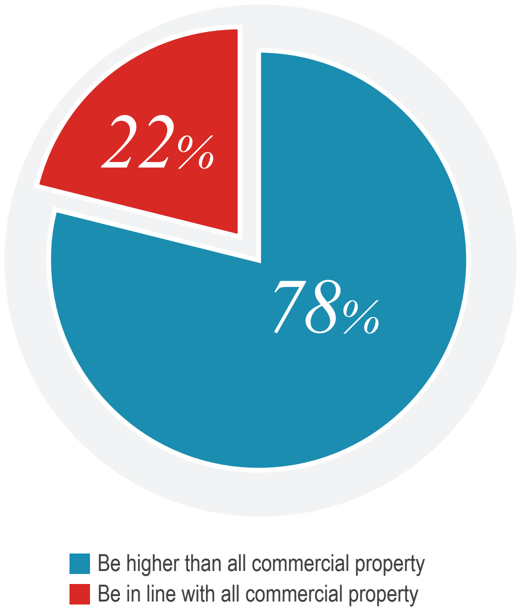
For many of the alternative sectors, the imbalance between supply and demand is both a blessing and a hindrance for investors. The benefits of diversification and ability to access long term income are well established. For institutional investors, private equity, operators and developers, the biggest positive about the alternatives is the fact that demand is considerably higher than supply. Population growth, increasing life expectancy, changing demographic profiles, declining rates of home ownership and the greater use of digital appliances and the impact of technology in the work place are all contributing factors.

For good quality portfolios and other assets, it is now increasingly common for there to be a large number of unsatisfied serious buyers. This is reflected across a range of sectors, from student housing where there is an estimated pool of £4 billion actively seeking suitable product in this market, to car parks where there were many bids for a £500 million UK portfolio in late 2016.

Yet at the same time, the biggest challenge that investors' face is either a lack of suitable institutional grade stock or appropriate operating partners. For good quality portfolios and other assets, it is now increasingly common for there to be a large number of unsatisfied serious buyers. This is reflected across a range of sectors, from student housing where there is an estimated pool of more than £4 billion actively seeking suitable product in this market, to car parks where there were a number of bids for a £500 million UK portfolio in late 2016.

All sectors are currently facing challenges with development viability due to increasing development costs, land values and restrictive planning policy. Yet for each sector there is considerable pent up demand for new stock, with the most notable examples being healthcare and PRS. In markets where development activity isn't taking place at the desired rate, existing operators and new entrants are actively targeting existing operators in order to achieve scale.

Alternatives vs commercial property total returns



Travelodge, Maidstone Central

JLL's 2017 Alternatives Investor Predictions Survey

Portfolio purchases kick-started the growth in student housing investment in late 2015. Whilst there has been considerable consolidation in hotels and healthcare. Investors are now focusing less on the covenant strength of the occupying business and instead looking more on the key performance fundamentals of each asset and the security of income. This will help make secondary assets in good locations more attractive, enabling yields to harden following refurbishment or improved management efficiencies.

The only sector where there was a degree of uncertainty about the outlook for 2017 was student housing. There has been increased scrutiny of the sector with regard to the sustainability of rental growth, the outlook for demand from both domestic and overseas students, and potential oversupply in some local markets. However, there are still a significant number of pull factors that should enable demand to be maintained and assets in good central locations will still perform well.

In our view, any scepticism is linked to the continuing maturity of the sector, expertise and transparency available. Like other traditional property sectors, we expect a greater grading and categorisation of student accommodation into prime, secondary and tertiary. While the market has not yet peaked, secondary and tertiary markets are likely to see increased volatility in occupancy and rental growth with some outward movement in yields away from prime.

In terms of performance against traditional commercial property, 78% of the survey respondents expect alternatives to produce higher total returns in 2017, while the remainder expect them to be in line with the mainstream market. Across all the key indicators of investment activity, total returns and yields, the majority of respondents are positive for each sector.

JLL predict that in 2017, commercial returns for commercial property will be 4%. For alternatives, we predict that total returns this year will be 7%, with prime assets in selective sectors delivering double digit total returns.

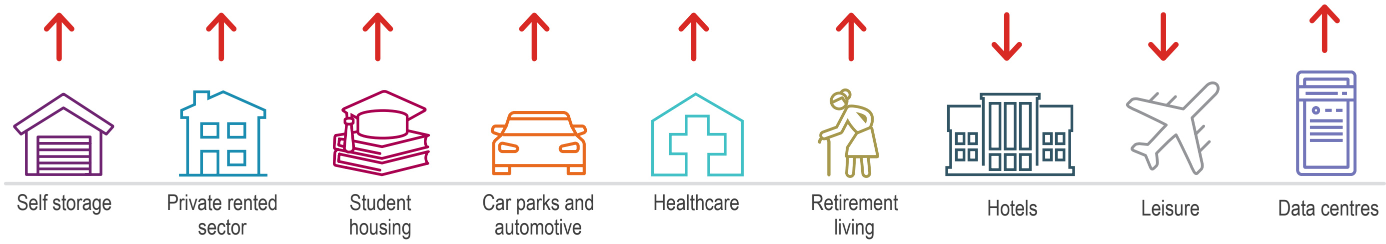
78%
of the survey respondents expect alternatives to produce higher total returns in 2017

JLL predict that in 2017, commercial returns for commercial property will be
4%

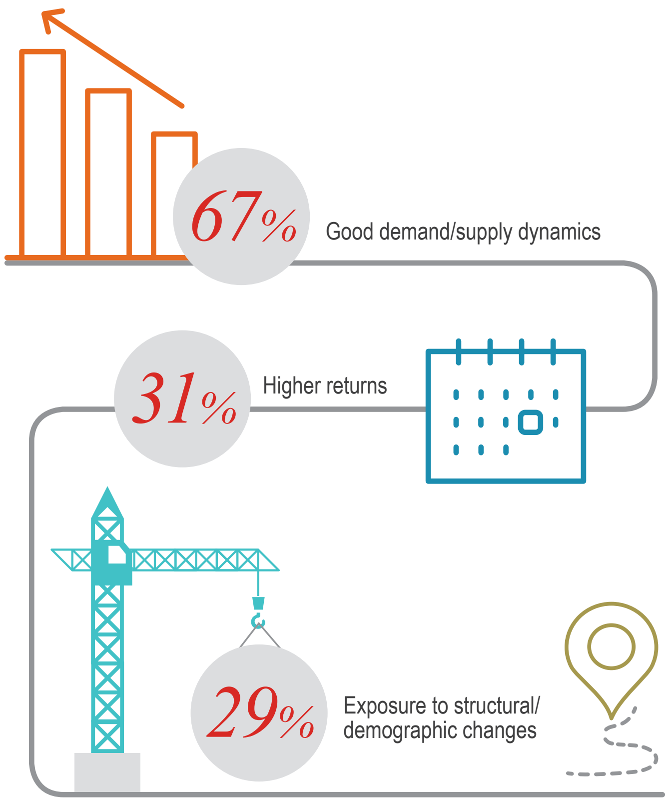
JLL predict that total returns for alternatives will be
7%

Changes to allocation by sector for 2017 compared to 2016

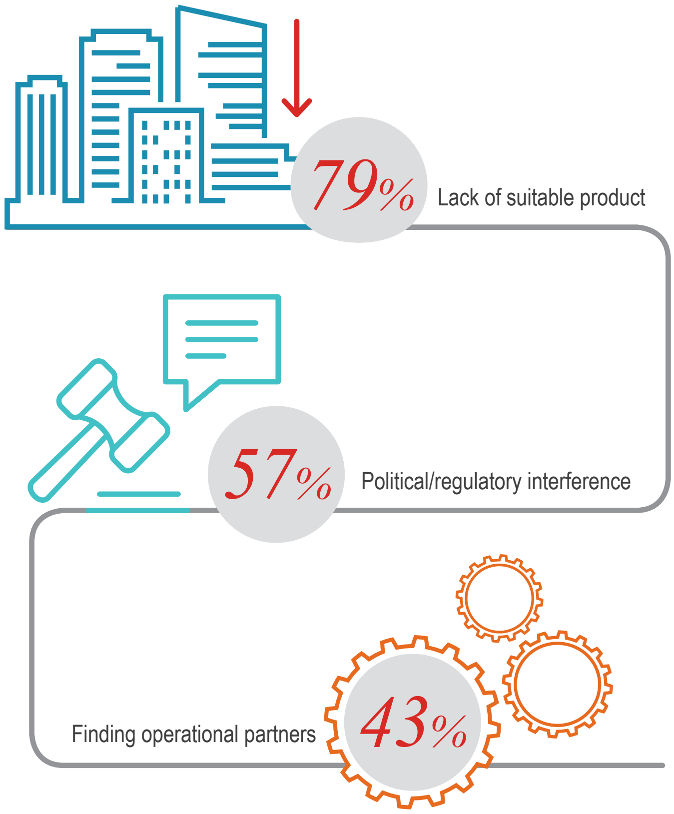
If you plan on increasing your exposure to alternatives over the next 12 months, how will you allocate this increase between sectors?



Reasons to invest in alternatives



Main challenges to investing in alternatives



Student Housing

Key themes from 2016

Broadening investor base

While last year was unlikely to match 2015 in terms of overall activity, the investment market remained robust with sales of £3.2 billion in 2016. Portfolios remain a major feature of the sector, especially with increased appetite for multinational holdings now that student housing has become a global asset class. The UK remains the key European market, although there is now increased appetite for opportunities on the continent where the risk profile is supported by established residential investment and the ability to establish a strong market presence.

Supply imbalance/operational challenges

While some markets have a higher proportion of beds in relation to students than others, sites in the right location remain viable, while opportunities remain for improving existing stock – in particular the first generation of purpose built units.

Development costs, such as building materials and the cost of planning and CIL payments, in particular, are all contributing to making some schemes unviable, while affordable housing payments mean that developers have the choice of paying more towards the cost of their site or choosing exemption through nominations agreements on the condition of lower rents. Competition for central locations with good connectivity means the sector is under increased pressure from high value land uses.

Key predictions for 2017

New entrants

We expect to see sovereign wealth, institutions and large family office investors coming into the sector in greater numbers from across the globe, having been dominated in recent years by North American money. The scale of portfolio based transactional activity in recent years means that finding new trading stock at the appropriate scale is becoming increasingly challenging. We estimate there to be more than £4 billion of unsatisfied capital in the sector, driving the growth in cross-border and multi-national portfolios such as Oaktree/360 (UK, Ireland and Spain) or Campus Living Villages (UK, USA, Australia and New Zealand).

Sector maturity/evolution

The sector is an established asset class on a global scale. While student housing is a separate use class in the UK, in many other countries it is simply a variation of residential, meaning less risk as the residential investment sectors in Europe, Asia and the Americas are more mature than they are in the UK. From a UK perspective, rental values have grown steadily, but in some markets, the ability for rental growth to increase beyond inflation is likely to be limited at some stage in the future.

Operators are well suited to move into PRS, with the option of student housing, PRS and retirement accommodation in the same building, adding increased diversity and risk protection into a portfolio. The quality of service and facilities on offer is much improved and similar to that shown in the US multi-family market. The move towards more communal study areas rather than a desk in each room is likely to complete this student housing/PRS crossover.

There are still plenty of opportunities for investors within the sector. Central London sites will become prized assets as development is increasingly restricted. Meanwhile, investors have the opportunity to hunt for higher yields in the regional and secondary markets, with the first generation of stock (pre 2000) in good locations representing an ideal opportunity for refurbishment and strong performance improvements.

Whilst some locations have reached the higher end of the supply demand balance, this fails to take into account micro-locations within each market. Those sites in the best locations in close proximity to transport hubs and universities still provide an excellent hedge against potential over supply.

Political decision making

Investors looking to establish a multi-national platform must adjust to various tax regimes, student markets, tuition fees and migration criteria. Following the EU referendum and some recent statements from the government with regard to migration targets, visa requirements and the inclusion of students within migration figures; there is a danger that the reputation of the UK as a place to study may be damaged.

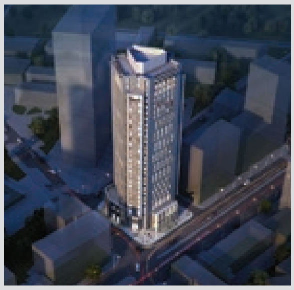
The UK's leading universities should benefit if the result of the US election deters international students, while a weaker £ sterling will also make the UK more attractive over competing European markets, despite an increase in english taught programmes (ETPs) on the continent in recent years.

Deals in 2016

The River UK Portfolio

Disposal of 7,154 beds spanning the UK and including operational assets as well as development pipeline managed by The Student Housing Company. JLL advised Oaktree Capital Management and 360 Developments on the disposal.

Alumno Stratford



Acquisition for L&G of 445 beds along with café and local community space. Let to Queen Mary University for 25 years from practical completion. Lot size £60 million plus.

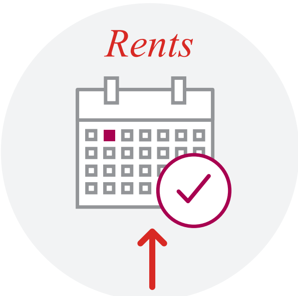
Project Rose

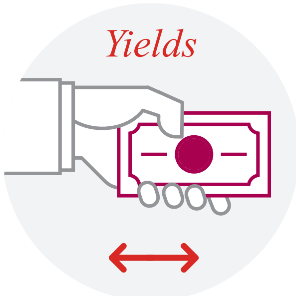
Sale of Avenue Capital's purpose built student accommodation portfolio. This consisted of 13 assets, totalling 5,681 beds, and a development site. It was sold for £408.5 million to Brookfield.

Project Jet – completion pending

Sale of Union State portfolio on behalf of Blackstone to an international buyer. The portfolio consists of 13 operational assets, 11 in the UK, one in Spain and another in Germany, with an additional development site in London. In total the portfolio consisted of approximately 6,500 operational beds.

2017 key metrics





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> *"JLL predicts £3 billion of transactions in 2017 with an increased focus on cross-border portfolios."*

To read the latest Student Housing research please visit
jll.co.uk/studenthousing

Private Rented Sector

Key themes from 2016

Broadening investor base

The types of investor in the PRS sector remained broadly consistent last year. There was a considerable amount of Private Equity funded developer activity such as Essential, Fizzy Living, Westrock and Moda, as well as institutional investment by the likes of LaSalle, M&G, L&G and Aberdeen.

There is a willingness amongst investors to take on the additional risk of direct let schemes, and investors are looking to assemble large scale portfolios as the sector is still in its infancy despite its maturing risk profile. As investors have come to understand the dynamics of the sector and exposure increases, the underlying residual value has become less of an issue with income and rental demand driving growth.

Supply imbalance/operational challenges

One of the biggest challenges the sector faces is that it needs to be developed at a more consistent scale across the country. At present, there are clusters of activity in some major urban markets, but this is not being replicated across the whole country. Investor demand is being hindered by a shortage of well priced product in the right locations.

With the housing shortage a major issue, the demand fundamentals are strong. However there needs to be an appropriate balance between an affordable level of rent for the local market and for income levels to be sufficient to attract institutional investors. The cost of land, development and contractors still need to stabilise as part of the adjustment from private market housing development where capital values play a much greater role.

Key predictions for 2017

New entrants

2017 is likely to see more overseas capital directly investing, with increased chances of American multi-family operators establishing a foothold in the UK market. The number of operators partnering with private equity should also increase. The one other likely new entrant to the sector will be house builders. With momentum in the housing market set to ease this year, there is a good chance that sales rates may slow which may force house builders to change their output in order to solve that challenge.

Many of the main developers are used to working in partnership with strategic capital and have taken similar approaches to exploit the retirement living and student housing markets. The still evolving nature of the PRS market means that their opportunistic and more risk based approach to land acquisition for sites that allow delivery at the sufficient scale. This will be beneficial in the long-term despite any instability in the housing market at present.

Sector maturity/evolution

If 2016 was about digging the foundations for the PRS sector, 2017 will be the year to start laying the concrete. The biggest priority for the sector is to enhance and deliver the scale that many of the larger investors are looking to acquire, which is portfolios in the region of £500 million to £2 billion.

In this regard, the sector is still very much like the student housing market 10 to 15 years ago but with the advantage of being armed with a much larger pool of capital, demand base, and perceived lower risk profile. The financial crisis and its impact on the housing market helped act as a catalyst for many student housing schemes. So far the PRS sector has not had the opportunity to acquire a large number of distressed assets to gain a degree of market momentum and boost supply.

Yields in the sector will continue to move inwards as rental income streams are more proven. Although funds struggled with relying on income rather than capital value growth, they have grown more comfortable with this way of pricing within the market. The fact that rental value increases have helped harden yields is affirmation that this model is working.

The reliance of good central locations with beds and income has the potential to open up the PRS sector to a generational span of uses. Many student operators are taking an active interest in the sector and are well placed to do so with more experience than many PRS operators. There is also growing talk about retirement village operators targeting rental units for downsizing pensioners and communal living concepts for young professionals, providing a mix between houses in multiple occupation (HMOs) and serviced office space.

Political decision making

One key boost for the sector is that the current government is less obsessed about home ownership than the Cameron/Osborne era. There is a growing acceptance now that renting has a significant role to play in a more diverse range of different tenures that can help alleviate the housing crisis, not just in economic and affordability terms but as a way of boosting social mobility as well.

Recent measures to address high levels of foreign ownership of housing and to limit the scale and extent of buy-to-let by individual investors has helped foster an environment suitable for institutional scale investment into PRS.

Deals in 2016

Greengate, Manchester

JLL was appointed by LaSalle Investment Management to advise on the c. £110 million acquisition of Greengate – Manchester's first purpose-built PRS development. The scheme, developed by Renaker, comprises of 497 units across 2 blocks situated around a landscaped central courtyard. JLL are now managing the block on behalf of LaSalle Investment Management.

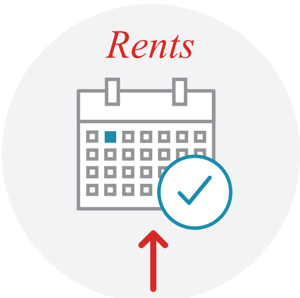
The Pavilions, Kings Cross

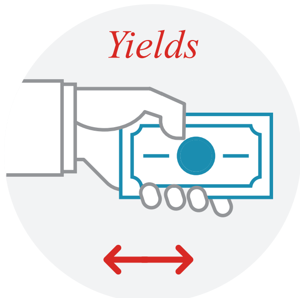
JLL carried out a focused marketing campaign on behalf of Telford Homes to source a forward funding partner to develop 156 residential homes on this well located 4.7 acre site adjacent to Kings Cross. The investor acquired the scheme for c. £67 million and will hold and operate the completed units as a PRS scheme over the long term.

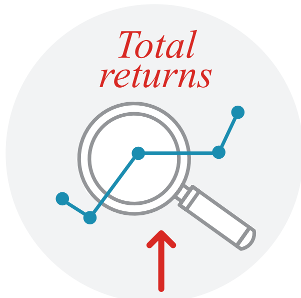
Atrium Point, Greenford

JLL was appointed to source an investor to forward purchase this former office block in Greenford, London with permission to be converted to a 270 PRS scheme. The JLL team achieved a price of c. £70 million.

2017 key metrics







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"PRS has a key role in helping to address the current pressures on housing demand. Better levels of supply in 2017 will help meet pent up demand."

To find out more about Residential Investment please visit

jll.co.uk/residential-investment

Retirement Living

Key themes from 2016

Broadening investor base

The retirement living sector saw an increase in institutional investor demand last year. Pension funds, in particular, sought to spread investment risk as the market is supported by sound fundamentals relying on housing equity rather than debt. There were also a number of opportunistic investors targeting secondary or compromised stock within the market.

Supply imbalance/operational challenges

The limited number of institutional grade covenants within the care sector is helping to drive pricing in the retirement living market. Even though the sector is less exposed to the impact of increasing staffing costs than Care Homes, there are only a few operators that investors are comfortable working with. There is however a considerable supply imbalance within the UK market, in particular away from the affordable end of the market which accounts for 75% of the market in terms of supply but only 25% of demand. There are currently 170 over 65s for every housing in care unit in the UK. However, amongst the most affluent, there are 485 for every high end unit, and 535 for each mid-market unit.

Key predictions for 2017

New entrants

If the retirement living sector is set to grow in scale, alleviate some of the considerable unsatisfied demand within the market and enable the sector to evolve; investors need to broaden their horizons with regard to the level of risk they are prepared to expose themselves to and the potential list of operators.

There is a major opportunity for investors, developers and operators to target the upper and mid-markets which are the largest in terms of potential demand but the most undersupplied, either through forward funding or development. Elderly customers now have higher expectations of the type of unit and level of service that is included within their fees and much of the existing market is failing to meet that level.

Sector maturity/evolution

Historically, the retirement living sector has been needs driven, rather than being a lifestyle decision for over 65s looking to downsize. In order to help facilitate this transition, the product that is developed needs to be more aspirational. One way to do this is to target more central urban locations which remove the stigma of a quiet life that may be holding back many potential customers from leaving their current home.

Retirement rental is one such example of this evolution that could have a significant impact and an established operator is actively targeting sites in key markets in order to develop this type of product. Rather than being in direct competition with similar land uses seeking the same type of site, retirement rental has the potential to compliment the growing PRS market and more established student housing as a way of diversifying operational risk. This form of cross generational rental living will also enable operators from outside the sector with operational experience to enter the market, increasing the choice and calibre of operational partners for investors to target.

Political decision making

Due to the need for less intensive levels of care staffing for retirement living, the impacts of the increase in the NLW are less noticeable than for operators in the care home sector. The main issue for this sector is the strength of the housing market and specifically how easy it is for the elderly to downsize from the family home and move into a purpose-built retirement community.

There is a growing consensus for the incentivisation of stamp duty to encourage last-time sellers instead of first-time buyers in order to encourage downsizing. Planning policy is supportive of providing this type of housing as it has the benefit of freeing up under-utilised family homes. We predict that the government will look to introduce incentives for downsizing this year.

"Retirees wish to stay active and keep the luxuries and lifestyles they are used to. As well as meeting this demand, retirement housing has a key role to play by increasing the supply of much needed family housing."

Deals in 2016

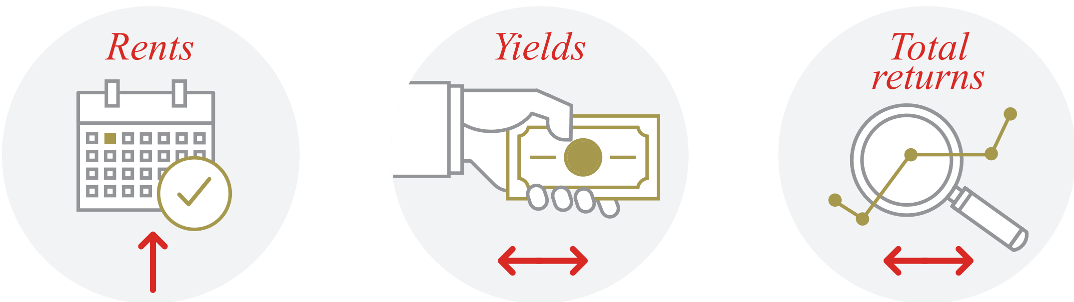
PegasusLife

Advised on £500 million of PegasusLife retirement living accommodation in various affluent locations across the UK.

Project Harvey

Refinance of a Market leading retirement village developer/operator.

2017 key metrics



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"This is a sector of key focus for alternatives investors and one we expect to mature quickly."

To read our Retirement Living report please visit

jll.co.uk/healthcare
and click on the JLL Retirement Living report button

Healthcare

Key themes from 2016

Broadening investor base

Over the last 12 months, the healthcare investor base has remained largely unchanged, made up of a mix of private equity, institutional capital (including REITs) and private family offices. There is increasing interest from a wide variety of sources, particularly investors looking for long-term defensive assets. However, opportunities have been limited by a lack of investment grade supply and a degree of operational risk for lower fee models with the introduction of the NLW.

Supply imbalance/operational challenges

The pressure from demographic change has now reached tipping point and the provision of new beds for elderly care has failed to keep pace with the increase in demand. At a time when the number of beds should be increasing, a steady number of beds have been removed from the system, either due to the existing quality or because of increased cost pressures, particularly at the lower end of the market. The number of over 65s is set to account for 20% of the UK population by 2025.

Operators reliant upon local authority funded revenues have come under increased pressure as the amount of funding allocated for adult social care has fallen by more than 8% since 2008/9. Operators in this part of the market have been unable to increase fees while coming under sustained pressure from increased costs, with the most significant being the introduction of the NLW and staff shortages forcing up wages, as well as compliance with care quality commission guidelines.

Key predictions for 2017

New entrants

Due to the large role that operational risk plays in the healthcare sector, private equity and specialist healthcare REITs are likely to continue to dominate. Other operators focusing on the private pay market will also be actively seeking new development opportunities as their business model is underpinned by wealth amongst the elderly, primarily driven by housing equity. The high number of elderly households now effectively excluded from local authority funded care means there is a significant gap in the market for private pay operators and investors to exploit. We expect investment volumes are set to increase in 2017, although activity could be constrained due to the negative sentiment surrounding government funding in parts of the sector.

Sector maturity/evolution

We expect a greater focus on development, as much of the existing care home stock fails to meet modern requirements or doesn't allow for an increase in scale and use. In many instances, new development is a cheaper alternative than the extensive refurbishment of existing facilities. Yields for prime private pay schemes are set to remain stable, although the outlook for secondary assets depends on how quickly a solution can be found for social care funding.

Political decision making

The biggest issue facing the sector is social care funding, and the pressures associated with operators reliant upon public pay patients. However, with the number of over 65s owning their home outright increasing by more than 900,000 in the last decade, many of this demographic are now set to be effectively reliant upon private pay care as the threshold for local authority funded care is set at £23,000 and based on wealth, not income. It is estimated that over 65s have over £900 billion of housing equity which could be used to fund care.

The high number of workers within the sector earning the NLW means healthcare is more susceptible than other sectors to increased staff costs, while a shortage of staff means the sector is highly reliant upon agencies and migrant workers. Increased migration controls could increase the shortage of qualified staff.

"The impact of population growth amongst the elderly has reached a tipping point. The lack of care beds is causing major problems for the NHS and demand will continue to grow. In the absence of major reform to social care funding, there is a real opportunity for private pay operators."

Deals in 2016

Care Home Group

Buy side advice for the purchase of a national elderly care group. A full range of transactional advice was provided including real estate due diligence, demographics, building condition surveys and alternative use review.

Thornton Medical Centre

Acquisition of a modern purpose built medical centre for a new institutional investor providing full range of transactional support, real estate due diligence and advisory services. Acquisition completed despite uncertainty around Brexit impact.

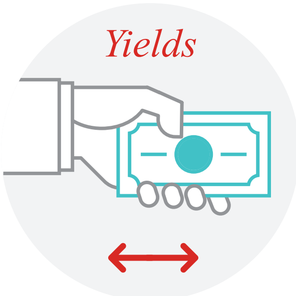
Synova Capital

JLL raised £30 million equity for an elderly management buy-out. Working with Oakland Primecare to create a business plan, develop a fully integrated financial model, negotiate terms and manage the process through to completion, securing the highly regarded Synova Capital for them as their chosen strategic funding partner.

Danshell Group

Valuation of the entire Danshell Group to facilitate a re-finance deal to aid expansion of the group. Danshell is a UK-wide independent provider supporting adults with learning disabilities and autism. This specialist valuation was undertaken on behalf of HSBC and included a full trading analysis to inform their future lending strategy.

2017 key metrics



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"A closer alignment in the bid ask gap will see a marked increase in deals in 2017."

To read the latest Healthcare research please visit

jll.co.uk/healthcare

Leased Hotels

Key themes from 2016

Broadening investor base

There was a certain degree of change in the type of investor in the hotel market in 2016. Following the referendum result and the depreciation in sterling, private money increased its focus on the sector and the second half of the year witnessed several transactions where private money outbid institutional investors. Many of these deals were on a one off basis and with several long income funds launched during the year, yield compression continued as competition increased.

The sporadic nature of deals is more of a result of a lack of product rather than pricing. Some of the mandated funds who were highly active in 2015 were largely dormant last year, while the pursuit of trophy assets by overseas wealth remains focused on London with little sign of spreading out to the regions.

Supply imbalance/operational challenges

Investors looking to expand their presence in the sector have to date been reliant upon the expansion plans of the key hotel operators. Budget operators account for over 45% of the current active pipeline, with the majority of that concentrated in London and the South East. Consequently, the biggest challenge is a lack of supply and finding an appropriate operating partner. Development is also being held back to a certain extent by questions over funding and increased pressure from rising labour and materials costs.

Key predictions for 2017

New entrants

In 2017 we expect to see a large number of new operators try to establish a foothold in the UK market. French operator Louvre has managed to break into the UK market and is looking to increase market share. German brand Meininger is looking to expand on its current London hostel/hotel and Israeli operator Leonardo is also interested in targeting the UK having acquired existing hotels at Heathrow and Edinburgh.

Constraints on supply means that the current lot sizes on offer are too small for sovereign wealth funds, while current margins are not attractive for private equity, many of whom surrendered their market positions during 2009/10.

Sector maturity/evolution

Of all the alternative sectors, hotels is one of the most mature. While there is a solid case to say that the sector has reached maturity, the need to remain innovative and adapt to changing customer preferences means that there is still scope for further evolution.

Fundamentally, the basic concept of a hotel is likely to remain unchanged, however there has been a noticeable shift over the past 12 to 18 months by investors towards serviced apartments and pod rooms which are becoming more widely accepted. Hostels are also likely to see a renewed focus, providing improved facilities to low budget and student travellers. At the same time, disruptive influences on the sector such as Airbnb are changing the way customers determine their choice of accommodation.

From an investor and operator perspective, there is now a much greater focus on key fundamentals for each site and operational performance rather than relying solely on covenant strength. Demand for long dated income means that rental stream potential has a greater influence than who the operating partner is. Many portfolios now have a strong city centre focus instead of out of town peripheral sites, while the market is more sophisticated in understanding the value of the underlying real estate.

Political decision making

While the industry has benefitted from little imposed regulation compared to other alternative sectors, hotels remain the most economically sensitive and the impact of any prolonged economic uncertainty following the referendum result means that the sector lacks some of the defensiveness evident in other sectors. However, the consolidation in the sector following the financial crisis, which both removed many of the mid-tier chains and low-cost independents and precipitated the boom in the budget market, means that there is now less risk of a similar realignment within the market.

"New operators securing a foothold in the UK market will help maintain strong transaction volumes this year."

Deals in 2016

Travelodge, Maidstone Central

Disposal
Keys: 113
Price: c. £9.1 million
Yield: c.4.85%
Client: CBREGi

Staycity ApartHotel, Heathrow

Acquisition
Keys: 269
Price: c. £32.4 million
Yield: 5.5% NIY
Client: Schroder Real Estate Investment Management

Premier Inn, Tower Hill

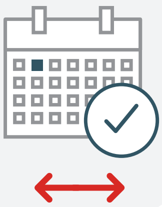
Lease Extension/Re-gear
Keys: 165
Extension term: 5 years
Rent review: 5 yearly CPI 0-4%
Client: Standard Life

Hub by Premier Inn, Westminster

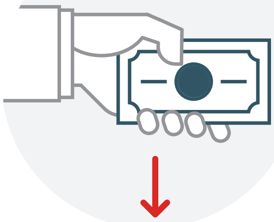
Acquisition
Keys: 339
Price: £101.8 million
Yield: Sub 4% NIY
Client: M&G Real Estate

2017 key metrics

Rents



Yields



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For a more detailed look at our predictions for the Global Hotel Market in 2017, please visit

jll.com/hio

Self Storage

Key themes from 2016

Broadening investor base

The UK Self Storage market attracted considerable interest in 2016 from a broad range of investors including specialist investors, private equity and trade. A mixture of considerable yield differentials, increasing debt appetite in a maturing market and possible over supply in the US means the UK is an attractive market. This interest was evident in the purchase of Big Box Self Storage by US operator StorageMart for more than £100 million in October 2016.

Of all the European markets, the UK is best placed for operators to build a foothold as it remains highly fragmented. The existing leading firms in the sector managed to increase their market share last year through site and portfolio acquisitions, while UK private equity investors were actively seeking new platforms and development opportunities.

Supply imbalance/operational challenges

Restrictive planning policy on out of town development has put significant pressure on supply, along with strong competition from residential and retail developers. Much of the market is focused on London and the South East where the main operators operate an openly aggressive pursuit of potential sites, whether these are for new development or through acquisitions of existing businesses.

Operators with established portfolios have seen occupancy rates improve, helping to improve EBITDA margins over the last 12 months. Many of the leading brands are increasing their profile and online resources to help increase occupancy, and consumer awareness is now much improved. Higher rents and growing occupancy have increased revenues for the major operators while costs remain under control.

Key predictions for 2017

New entrants

In 2017, JLL expect to see an increase in the number of specialist investors looking to get a foothold in the more established UK market. At the same time, private equity will also look to develop new platforms in a sector where a scalable market share can be acquired in relatively little time via consolidation and development.

Due to the challenges surrounding the delivery of new supply, particularly in the South East, the likelihood for further consolidation within the market remains high. Many of the first generation of entrepreneurial self storage operators may be looking to exit the market now that the sector has evolved further and there is greater institutional interest. There are approximately 1,300 sites in the UK with that number set to grow by 5% in 2017.

Sector maturity/evolution

By its very nature, self storage tends to be reliant upon sites in highly visible locations with good transport connectivity. Much like the retail and logistics sectors, the next stage of evolution for the sector will be metro self storage facilities in central urban locations. These would be based in locations such as transport hubs, multi-storey car parks and large basements. This growth will be fuelled by technological improvements to unmanned and semi-manned facilities which makes small stores more viable.

With the use of improved digital platforms, customers will be able to manage access and any additional storage needs. This next step will also reflect the greater role that consumer demand is having on the sector and how that will help shape growth. Operators now recognise the need for a higher focus on customer service and flexibility. This requires more facilities with innovative service and delivery models for greater ease of use.

Political decision making

To date, the sector has been well isolated from any direct political legislation or interference, with the exception of out of town planning policy and VAT. Instead, the sector is benefitting from consequences of other political and economic challenges in other sectors. The increase in house prices and stamp duty has resulted in more households using self storage during renovation projects, to add greater value to their home and increase living in space instead of moving to a larger house.

The fall in home ownership and the inability of house building to keep up with rising demand has also resulted in an increase in private renters who require space to store personal belongings. Smaller house sizes and the increase in urbanisation will continue to help underpin future demand.

> *"Greater consumer awareness, growing urbanisation, and changing lifestyle patterns mean that demand for self storage is likely to increase significantly. Improved customer support and the use of digital and on-line platforms will help boost occupancy."*

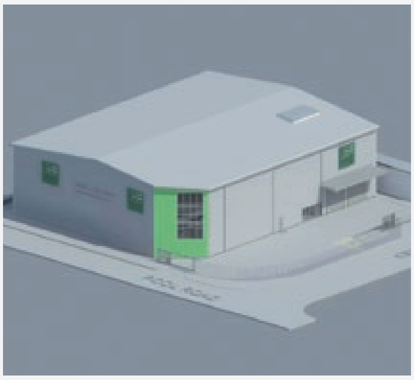
Deals in 2016

Big Box

Sale for Big Box of 15 self storage units to StorageMart. The properties were located across the South-East of England and were sold for over £100 million.

Land at Hampton Court

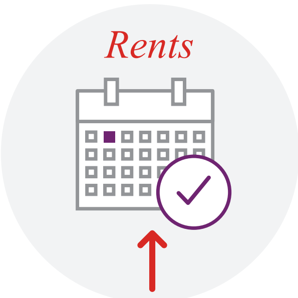
Sale of development site in Hampton Court to The Self Storage Company. The c. 1 acre plot was granted planning permission in early 2016 to a construct a new state of the art self storage facility totalling 50,000 sq ft MLA.

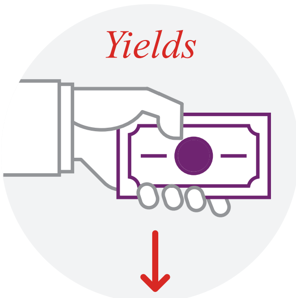


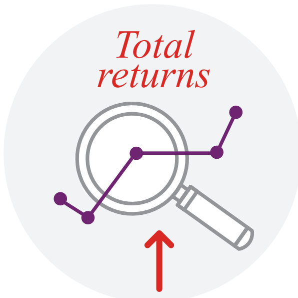
Lok'nStore Group Plc

Valuers of the Lok'nStore portfolio for financial statements. The 19 assets are located predominantly in the south east region with a number of landmark stores in the portfolio and four more in development.

2017 key metrics







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"2017 will see strong M&A activity with over £250 million of transactions helping to build portfolios of scale."

To read the latest Self Storage research please visit

jll.co.uk/selfstorage

Data Centres

Key themes from 2016

Broadening investor base

The number of investment transactions across EMEA for data centres doubled in 2016 compared to the year before, with over £400 million of transactions completing in the sector marking it out as a nascent asset class. This increased demand came from a broad mix of buyers with the majority of activity from 'shell' deals let on standard institutional terms.

There was also an increase in specialist funds targeting powered shell deals (in which the landlord owns the power supply), as well as fully fitted sales to operational investors who purchase the shell, power, and fit out as well.

Supply imbalance/operational challenges

One of the greatest challenges remains the lack of suitable opportunities for investors to purchase. Whilst there was a marked increase in the number of deals completed in 2016, for each one there were a number of potential buyers left frustrated. The specialist infrastructure that supports the data centre sector such as secure energy supply and fibre optic connections are not to blame for this shortage. Instead a lack of available product, in particular powered shell and fully fitted stock, is fuelling the number of shell deals which are easier to assemble and package.

Key predictions for 2017

New entrants

The increase in investment activity over the past five years has helped drive yield compression by 150 basis points since 2012 across all types of product within the sector. Although this pace is unlikely to be maintained during the next few years, it is likely there will be some further yield compression. This hardening should encourage some existing owners and operators to sell, especially as we expect continued growth in the sector as investors develop a better understanding of the dynamics driving the asset class.

Sector maturity/evolution

Historically, data centre activity has been dominated by the financial services sector over the past 10 years. However in the past five years, technology and specifically cloud operators have driven a rapid increase in growth across the sector. IBM estimates that 90% of all data today was created in the last two years. Most multi tenanted data centres still retain a good mix of all sectors which provides investors seeking operational portfolios with a more appealing balance of risk and yields.

The wider EMEA market is expected to grow by 10%-15% per annum over the next five years. Whilst technological advances in storage mean that servers are increasingly able to hold and process more data, the anticipated increase in storage, data and internet traffic over this period is driving growth in the data centres required to accommodate and process information. This increase is driven by both business and personal use of devices which rely on computing power and connectivity now held within the cloud and the data centre facilities which house it.

Political decision making

A fully fitted data centre requires significant capital expenditure to both build and run the facility. For this reason, there is an understandable need for some corporates to move them off balance sheet.

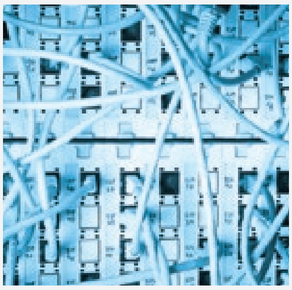
The most important legislation affecting the sector is data protection, especially surrounding the issue regarding where data resides in turn determining where data centres are built. The General Data Protection Regulation (EU) 2016/679 is being adopted by all EU member states and the UK was heavily involved in drafting the regulation. Brexit will determine how cross border data will be handled in future, but following the referendum result, the industry is keen for the UK to keep that legislation in place and has been lobbying the government to that effect.

"90% of all data was created in the last two years alone. Use of Wi-Fi enabled products and the growing digitalisation of both the workplace and home mean that demand for data centres will continue to grow."

Deals in 2016

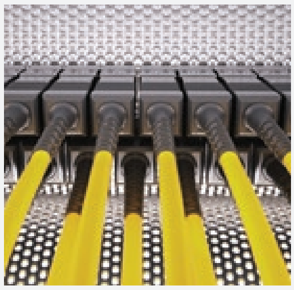
Milan, Italy

Disposal of a data centre investment in Milan, let to a global Telco.



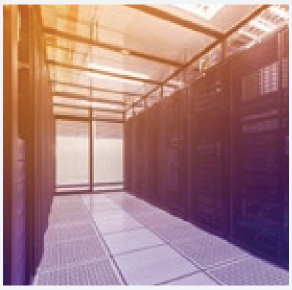
Cardiff, United Kingdom

Disposal of a data centre investment in Cardiff, fully let to BT.



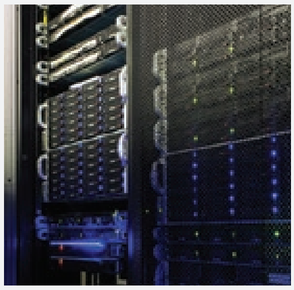
Dublin, Ireland

Renew and expansion of a Primary European data centre totalling 3,600 kW IT Load.



Frankfurt, Germany

Acquisition of real estate, power & planning for a proposed 26,000 sqm data centre.



2017 key metrics

Rents ↑

Yields ↓

Total returns ↑

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"Investment volumes in the UK will increase by 20% to over £100 million in 2017."

To read the latest Data Centres research please visit

jll.co.uk/datacentres

Car Parks

Key themes from 2016

Broadening investor base

Overseas funds, in particular from the United States, are actively looking at the sector. Many car parks were sold in small lot sizes at auction in the first half of 2016, bought primarily by private investors attracted by the size of the sites and safety of income. In September, Davidson Kempner purchased the 88 asset NCP portfolio from Blackstone for approximately £500 million with several other bidders.

Supply imbalance/operational challenges

The rating revaluation has the potential to cause considerable problems for some locations, in particular those in London and the South East. Many sites in these markets are already under significant pressure from higher value land uses and local authorities needing a short term solution to falling budgets may consider disposing of sites for development purposes.

Another challenge that local authorities face is from the high management and legal costs associated with the running and operation of car parks. Local authorities are bound by different legal obligations to privately operated schemes and so are involved in a much higher number of legal challenges over fines and penalties, reducing earnings from both off-street and on-street parking.

Key predictions for 2017

New entrants

After a period of corporate restructuring in the car park sector, many operators are on a better financial footing and are confident about future performance, with an emphasis on operational improvements and the introduction of technology. The sector will become increasingly appealing to real estate investors looking for resilient cash flows as well as operators looking to acquire freehold assets.

The sector offers long term sustainable income underpinned by potential development value. There has been an upturn in the quality of car parks in line with improved operational efficiencies through the use of technology for payments, booking spaces and space allocation. There is renewed investor interest in the sector after a difficult period, reflected by the upcoming potential sale of a large pan European portfolio which is expected to be a multi-billion euro transaction.

Sector maturity/evolution

The sector is set to move away from traditional leases in favour of base rent models with an element of turnover rent included. In order for this to work, there is a need for improved management capabilities but also capital expenditure on supporting modern platforms that provide a greater degree of variety at the point of sale. Pre-booking web apps, contactless payments and smart payment infrastructure that monitors average stay rates and peak demand times will all contribute to more efficient management and increased transparency within the sector.

The growth of ultra-low emission vehicles (ULEVs) has led to a 22% increase in new sales in 2016. Although ULEVs still only account for 3.3% of all car sales, the installation of electric vehicle charging points (ECP) are set to become an increased priority. The estimated cost of installing one ECP is approximately £4,000 but due to the time taken to charge a vehicle sufficiently, average stay times for consumers with these vehicle types increase, thus boosting car park revenue. The government recently announced an £80 million fund to help local authorities invest in this infrastructure, but private operators are better placed to install ECPs across their portfolios.

Political decision making

This year several world cities have moved to ban diesel vehicles from 2020/25 and although none are from the UK, the current London mayor is taking a hard-line approach on dangerous vehicle emissions and air quality. This is likely to promote the take up of ULEV technology and lead to a significant increase in demand for ECPs. Because these can be installed anywhere with a sufficient power supply, this will reduce dependency on petrol filling stations and increase demand for parking spaces with this capability installed.

Local authorities are under increased pressure with regard to funding, and car parks owned by the local authority are an easy target for either improved management from the private sector or disposal. This is likely to present further opportunities for investors although there may be greater value in selling the land for development purposes. The government is also looking at industry monitoring. The British Parking Association has taken on the role of regulating a large proportion of car parks, however membership is not mandatory. Consequently, the government is considering introducing legislation to cover standards for the entire industry.

Deals in 2016

Portfolio disposal

Sale of three freehold car parks in the UK. The portfolio attracted great interest from the market with all three assets exceeding client value expectations.

Ruskin Square, Croydon

Advice to Schroders on the £5.5 million refurbishment of their Ruskin Square car park.

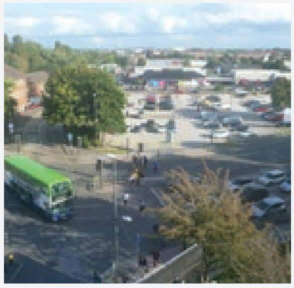
Portfolio Valuation

Valuation of a substantial portfolio of freehold and leasehold UK car parks.

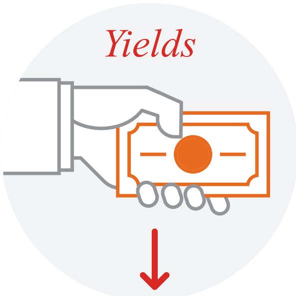
Siddals Road, Derby

Acquisition of two car parks and a trampoline centre on behalf of Newcore Capital Partners for £6 million reflecting a net initial yield of 7.15%.

The car parks were subsequently re-marketed and lettings agreed reflecting an increase in car parking rental income of circa 40%.



2017 key metrics



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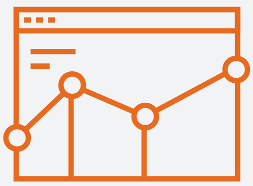
"Technology and the move to ULEVs will see operational changes strengthen revenues. The scarcity of stock means yields will continue to harden as investors target the sector."



Other Sectors

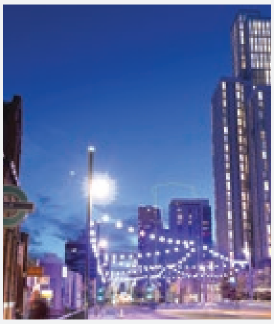
The JLL Alternatives team has significant expertise across a wide range of niche and emerging markets. The team is able to draw on its deep sector experience to be able to provide bespoke advice for both corporate and investment transactions and advisory advice across all these sectors. Imparting this knowledge to clients explaining the risks and spotting opportunities is where we add real value.

Sector	Summary
Serviced apartments	The serviced apartment sector fills the void between a traditional hotel operation and primary residential apartments, catering predominately for travellers wishing to extend their stays beyond the duration of the 'normal' hotel guest (1-2 nights). Both the corporate and leisure market are now much more aware of serviced apartments as a viable alternative to hotel accommodation. The sector has experienced notable growth in recent years, focused on the key cities, together with a rapid increase in consumer and investor interest. Hotel operators who have focused their efforts in the development of more traditional hospitality products are exploring whether to introduce new brands or adapt existing ones.
Caravan and Holiday Parks	This sector is enjoying strong interest from corporate operators and private equity attracted by strong underlying cash flow dynamics, continued growth in domestic and inbound tourism, and opportunities to enhance income returns. There have been several high profile corporate deals in 2016 including Park Holidays for £362 million and Parkdean Resorts for £1.35 billion. There remains strong investor appetite for single assets in excess of £5m, although deals are constrained by lack of supply. In 2017, prospects look positive for operational trading and it is expected more transactional activity will occur.
Public Houses	Tenanted pub portfolios continue to be in strong demand with renewed interest from the pub companies. Heineken is buying Punch's 1,900 pub portfolio for £305 million to join its Star Pubs and Bars tenanted business. With managed houses in high demand and short supply, some pub companies are converting larger leased assets into managed houses. Positive trading across both managed and tenanted models, means 2017 looks set to deliver positive returns for well run and invested product that puts the consumer at the forefront and aims to exceed their expectations.
Higher Education	The Higher Education team is currently working with a number of universities across the UK to procure investment in student housing – either refurbishment of existing stock or new build – and this is leading to a number of funding opportunities for either Design, Build, Finance and Operate (DBFO) schemes or Income Strips. In our *Student Housing: university partnerships in the UK* report (**jll.co.uk/studenthousing**) we predict an increase in these types of project over the next five years.
Nurseries	There are currently 11,500 registered children's nurseries in the UK to cater for approximately 4 million children under the age of five. The increase in dual income families and an 18% increase in 0-4 year olds over the last decade has led to a noticeable rise in demand for nursery and pre-school places. Much of the sector is privately operated and the government is increasing the free childcare grant from 15 to 30 hours this year for 3-4 year olds.
Mental health and Learning disabilities	There has been a large decline in bed numbers within this sub-sector although much of this is a result of a policy shift towards supported care instead of institutionalisation. Local authority funding for mental health is coming under increasing pressure and there has been a noticeable increase in the number of independent care providers having contact with and admitting patients. Although dementia and mental health rates are set to remain constant over the next five to 10 years, population growth means there will be an increase in demand.

Deals in 2016

Duncan House, Stratford

JLL brokered the £105 million deal on Duncan House, Stratford. Watkin Jones is designing and building this new 511 bed student residence, and UPP is funding and operating it, in partnership with the University of London.

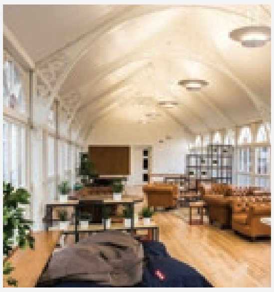


Established Midlands Care Provider

Valuation of an established care home provider to facilitate a £27 million re-financing package with Clydesdale Yorkshire Bank. The operator has more than 30 homes across the UK with significant potential to enhance the portfolio with the addition of over 100 beds. The valuation included a full trading analysis to inform the Bank's future lending strategy.

Goldsmiths, University of London

JLL advised Goldsmiths, University of London on its estate strategy and brokered a circa £50 million partnership with CLV to create a 469 bed student housing portfolio by refurbishing and extending three sites.



Bright Horizons Family Solutions

JLL worked with Bright Horizons Family Solutions in their acquisition of the Asquith Day Nurseries, providing purchaser due diligence on real estate.

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