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REAL ESTATE ADVISORS

Joining the Dots...

Scottish Investment Market Quarterly Review: Q1 2025



The definition of hibernation — “an extended period of remaining inactive...”

It has felt like the market has been in hibernation over the winter for longer than is usual and it has taken till the arrival of Spring and some welcome sunshine, to see some signs of renewed activity.

A combination of our national and international politicians (don't you just love them) doing little to instil any real economic confidence/ stability, on top of precious little stock openly on the market and cautious investor appetite has all led to a fairly muted start to the year.

However, there remains pockets of activity with good depth of demand, principally around the most liquid sectors of Industrial, Retail Warehousing and Living. Of these, the Living sector or more specifically the PBSA market (the Scottish BTR market has been moribund for several years) has been one of the most consistent performers, with investors attracted by the continuing demand/supply occupational dynamics and less capital value volatility. Despite some recent (short-term) negative headlines around the number of overseas students coming to the UK, it is still very much in vogue with Funds, PE Houses and specialist platforms.

With this backdrop, in addition to our wider market analysis, our focus in this review will be looking at the PBSA market. How are investors perceiving exposure to the sector, what drives investment decisions and how is sustainability influencing investment and development decisions. To help form our view, we are pleased to include a guest contribution from Murdo Mcilhagger (Joint Managing Director and Co-Founder) at MYS Living.

They say “Spring is when life's alive in everything” — lets hope this Spring can be a catalyst to bringing a bit more life to the market...

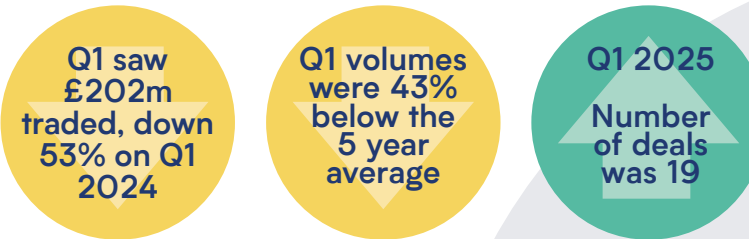


Market overview.

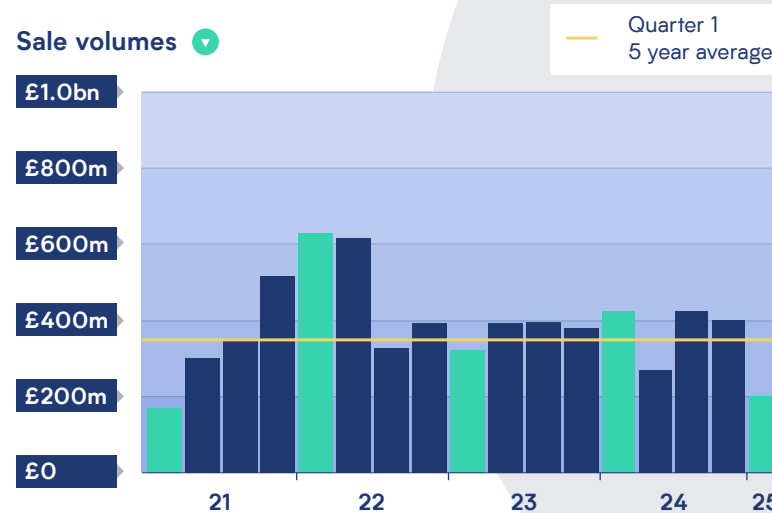
Key themes

- **Mixed economic backdrop** — the full effect of the Chancellors' Autumn budget, kicking in during April and the wider Geopolitical uncertainty has offset some of the optimism around the prospect of further interest rate cuts, meaning that investors are generally remaining cautious.
- **Lack of stock** — a real dearth of new product has been evident. Vendors, perhaps spooked by the wider "negative noise" have been reluctant to launch sales in the first quarter and it looks like it will be Q2 before we see anything of real quality coming to the market.
- **Private capital, still seeing value** — appetite from private investors for core plus opportunities still remains, particularly in recognised streets within the major cities. High street retail and mixed-use city centre blocks remain high on investor target lists. Generally targeting initial returns of 6.5%+.
- **Office yields** — starting to look attractive (selectively). As a sector it still divides opinion, but we are seeing some increased demand from opportunistic buyers attracted by the entry yields and genuine prospects for rental growth — albeit this is still around good buildings in the strongest markets which tick most of the ESG boxes and don't require significant capex in the short to medium term.
- **Princes Street evolves** — the street has been through the mill recently but there are currently 4 major development/ re-purposing projects on-going across the length of the street. Predominantly becoming much more mixed-use retail/F&B and hotel led destination. It still has some way to go to get back to its former glory, but it retains very strong footfall, has an iconic vista and these new developments will help it retain its place at the heart of Edinburgh city centre.

Transaction volumes



Sale volumes



Our view.



- Activity in the office sector has been slightly subdued, however appetite for prime assets in Edinburgh remains strong as illustrated by Pontegadea acquiring their second city centre office within the space of 6 months at a sub 6% NIY. Whilst opportunities remain limited, we do expect a combination of pent up demand, coupled with investors keen to deploy cash to result in competition for the best assets. Whilst the yield differential between Edinburgh and Glasgow is significant, we are seeing increased activity from opportunistic and value add buyers on those assets which are priced to sell.
- Whilst pricing appears stable across most sectors, transactional evidence has been quite limited and in many cases a pricing aspiration gap between buy and seller remains. Whilst we don't expect this to change in the short term, we are seeing buildings which didn't trade first time around, attract attention after being withdrawn from the market. There is a strong pool of buyers looking to purchase off market — unlocking the opportunities, however, remains difficult.
- The PBSA sector has been one of the shining lights over the last few years, with a strong occupational story in key markets, particularly cities with a Russell Group university. With investors able to appraise strong rental growth and high occupancy levels, yields have held firm at 5%-6% for direct let schemes and for the very best leased assets sub 5%. It remains to be seen how funding pressures being felt by universities UK wide will filter down to investment and future development.
- The depth of institutional demand for PBSA is not necessarily witnessed elsewhere in the market, with the likes of CBREIM, Hines, L&G and M&G competing on prime assets. L&G alone have invested close to £100m into the sector in Edinburgh over the last 12 months — a significant proportion of the sector in Scotland.

Key recent transactions.

Q1 saw some interesting themes and significant transactions which we have highlighted below:



18-20 Buchanan Street, Glasgow

“Prime flagship high street shop snapped up”

- Vendor: Redevco
- Purchaser: Remake Asset Management
- Let to: Nike
- Price/Yield: £11.87m / 6.90%
- Date: January 2025



Lower Gilmore Place, Edinburgh

“Best in class PBSA sold”

- Vendor: Glencairn Properties
- Purchaser: L&G
- Let to: Direct let
- Price/Yield: £35m / c5.5%
- Date: January 2025



Abbotsinch Retail Park, Paisley

“US investor acquires Glasgow retail park”

- Vendor: Ashby Capital
- Purchaser: Realty Income Corporation
- Anchored by: B&Q, Dunelm and DFS
- Price/Yield: c£66.20m / c7.50%
- Date: January 2025



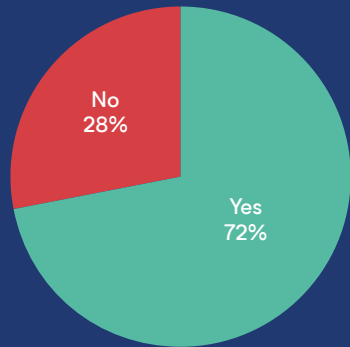
98 Buchanan Street and 31 Royal Exchange Square, Glasgow

“Retail & leisure asset sold”

- Vendor: OPLM
- Purchaser: Cervidae
- Let to: Lush & Viva Italia
- Price/Yield: £13.80m / 7.70%
- Date: January 2025

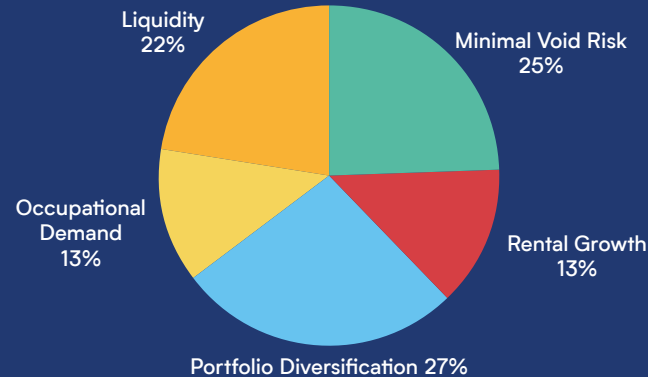
The Investor View on the Living and PBSA market...

1) Would you consider investment in the Living sector in Scotland during 2025?



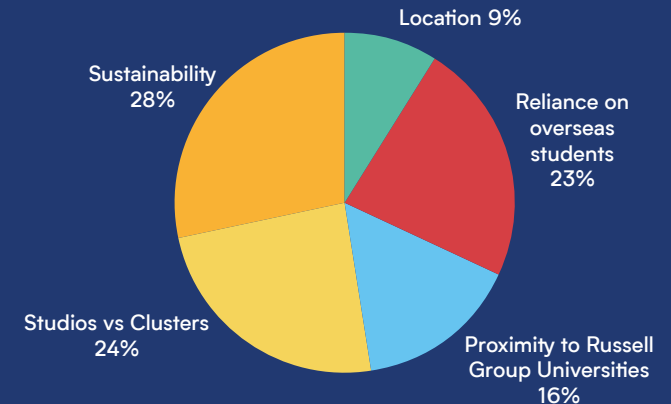
- A majority of respondents (72%) indicated that they would consider investing in the living sector in Scotland during 2025. However, sentiment varied among different investor groups, with 50% of fund investors responding positively compared to 86% of investment managers.
- The announcement to the end of rent caps in Scotland, effective from 1st April 2025, may provide greater stability for investors, potentially encouraging growth and development. This comes at a time when Scotland continues to face a housing shortage, with demand for quality rental accommodation exceeding available supply. The issue is particularly pronounced in major cities such as Edinburgh and Glasgow, where the PBSA market remains significantly undersupplied, adding further strain to the private rental sector.
- While investment interest remains present, challenges such as construction costs, planning constraints, and affordability concerns continue to influence market sentiment. Rental growth is expected in certain areas, and recent policy changes may contribute to a more predictable regulatory environment. These factors will likely shape investment activity in the sector throughout 2025.

2) What are the most important factors driving investment in the Living sector?



- Portfolio diversification emerged as the leading factor driving investment in the living sector, capturing 26.8% of the weighted votes. This highlights the sector's appeal as a means of balancing risk and enhancing resilience within investment portfolios.
- Closely following were minimal void risk (25%) and liquidity (22%), reflecting investors' focus on stable income streams and ease of exit. The persistent housing shortage in Scotland has contributed to consistently low vacancy rates, reinforcing the sector's attractiveness.
- Rental growth (13%) and occupational demand (13%) were seen as the least influential factors in driving investment decisions, suggesting that investors are currently more focused on risk mitigation and liquidity than on immediate revenue expansion.
- Sentiment again varied among different investor groups. Investment managers ranked minimal void risk as their top priority, whereas funds and property companies placed greater emphasis on portfolio diversification.

3) What are the key factors when considering PBSA investment?



- Sustainability remains a key priority (28%), as investors recognise that long-term financial returns in PBSA are increasingly tied to ESG compliance and sustainable development.
- The balance between studios and clusters is a crucial consideration (24%), with planning restrictions – such as those introduced in Edinburgh's City Plan – affecting development feasibility. While studio schemes can generate higher individual rents, clusters and en-suites remain more attractive to domestic students, driving higher occupancy rates and long-term stability.
- Reliance on overseas students (23%) remains a concern, with UK study visas dropping 31% in 2024. However, a 2.7% rise in international UCAS application signals potential recovery.
- Proximity to Russell Group Universities (16%) continues to influence demand, while general location (9%) remains a secondary factor. The findings underscore investor focus on high-quality PBSA assets near top-tier institutions, where premium rents and strong occupancy are most secure.

“Expert view” on the PBSA market...



Murdo McIlhagger

Co-Managing Director
MYS Student Living

How do you see occupational demand in the short to medium term and any factors on the horizon which may impact the market?

For several years Student housing could do no wrong in the eyes of investors and debt providers. Last year was the first year where occupation was generally down across most markets, even markets deemed “super prime regional” such as Bristol and Edinburgh.

If no one knows which investors are swimming with no bathers on until the tide goes out, last year very little was left to the imagination as numerous assets laboured to rental declines and reduced occupancy.

What was the takeaway? Fundamentals matter.

Good assets continued to perform very well. Unite (who own c 10% of all PBSA in UK) as a proxy achieved rental growth of 8.2% for 2024. Numerous other portfolios achieved similar performance. Essentially, we returned to a normalised market where good assets and bad assets performed how those with knowledge expected.

Looking forwards the macro should maintain strong performance for good assets. The Labour government is openly promoting international students to come to UK. This is the opposite of the rhetoric and policy in key competing markets of the US, Australia, and Canada. Perhaps already translating into UCAS application numbers who just confirmed a 9% growth in Chinese applications YOY.

With the tail winds of the macro the opportunity remains incredibly strong. It is the micro where performance will be determined. With an annual sales cycle student beds are effectively consumables. It's a zero-sum game — the investors who know how to compete will take the returns that are undoubtedly available.

How are you finding the PBSA dynamics UK wide in the context of the current overall investment market?

The dynamics have been unusual since the cost of debt changes in 2022. With many global investors seeking “beds and sheds” expectation of continued high levels of transactions was high. Whilst Industrial pricing swiftly rebased the same didn't happen in Student.

As an indicator of how strong the PBSA opportunity is it wasn't a lack of buyers that was the issue but a lack of sellers. Like asking Noah to sell his Arc mid flood... why would they? PBSA owners had assets that generally were fully occupied, delivering above inflation rental growth, valuations holding steady, amply covering interest payments, and with lenders who had more appetite for PBSA not less. The market was defined largely by quality buyers but an inability to close the “bid ask spread”. Numerous processes ended with bids on the table but not at attractive enough levels for the vendor to trade.

Undoubtedly the market was thinner — cash on cash buyers disappeared and the traditional funding market has been on fumes, with developers settling for a preferred equity model to salvage anything from acquiring sites at pre 2022 prices.

Transactions are notably returning. Whilst down on the mid-term average UK PBSA saw transactions around £3.2bn in 2024 with the largest transaction being Mapletree's acquisition of our old business for £1bn.

In the last 6 months we have seen a reduction in debt costs and Goldman Sachs, Greystar, and Hines among others complete deals — all on assets that have been available for the last two years. Portfolios, good quality standing assets and refurbishments in the best cities are strong. However secondary markets and assets sub 150 beds interest is incredibly thin.

Finally, it would be remiss not to mention fire safety remediation works. Possibly the biggest reason for deals failing to complete where all else is agreed. With 60% of UK PBSA stock being over 10 years old solutions are needed for liquidity.

What key factors do you look at when consider a PBSA location? / What do your students see as the key attributes when choosing one of your developments?

Charlie Munger had a great quote “People calculate too much and think too little”. We see investors falling into this trap when believing what their spreadsheet tells them vs thinking about who the buyer is here. Our experience is that PBSA is a sales and service business that is backed by real estate — you have to think customer first.

Investors will have to be even more thoughtful going forwards as the descent of office values has pushed PBSA to the top of the value chain for spreadsheets. Any office with short income seems to now be promoted as “Prime PBSA opportunity” with no thought to whether students would want to live there above their other options.

With almost 3 million students in higher education the market is far more nuanced than the classic Real Estate view of just “students”. Our focus when assessing success and risk factors is “who is the customer?”. Then can we relatively accurately predict how that customer will operate, what value proposition will generate projected levels of income, and what options they will have through the hold period of the asset.

How high on the agenda is sustainability?

As the first registered B-Corp in the PBSA space sustainability is high on our agenda.

Looking at geopolitics my prediction, unfortunately, is that this will become far lower priority for investors over the coming years as policy is undeniably heading that direction in the US and growing rhetoric across political groups in Europe.

However, it should be high on PBSA investors agendas as it is critical to the two elements of income return.

Revenue: Sustainability is important for our real customer's buying decision — the student. In today's 17 year olds time at school, they have seen BLM, Extinction Rebellion, and Greta Thunberg being named Time Person of the year.

Outgoings: Performance is based on Net Operating Income — so after Utilities. Simply put - the less energy you use the less you buy.

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