

# The first meeting: one page

Appendix D. If you take one page to a first meeting, take this one. Every line is a document or a division; none needs a forecast.

|                      |  |                |  |
|----------------------|--|----------------|--|
| <b>Scheme</b>        |  | <b>Analyst</b> |  |
| <b>City / campus</b> |  | <b>Date</b>    |  |

| Item                                                                                                | Answer | Evidence / note |
|-----------------------------------------------------------------------------------------------------|--------|-----------------|
| <b>The ten things to establish</b>                                                                  |        |                 |
| The contract length in weeks, for every bed and every nomination; any that differ, and why          |        |                 |
| The rate card and the achieved rate, by room type, for three years                                  |        |                 |
| Beds sold in August and September, and at what discount                                             |        |                 |
| RevPAB, computed yourself, academic and total, separately                                           |        |                 |
| The re-booking rate, and how it was measured                                                        |        |                 |
| The cost base per bed, against all beds, line by line                                               |        |                 |
| The energy contract's expiry date, against the letting calendar                                     |        |                 |
| Capital spend per bed for five years, against the cycle                                             |        |                 |
| The provision ratio for the city, and the pipeline on site, by product                              |        |                 |
| The debt covenant, before or after capex, and the occupancy at which it breaks                      |        |                 |
| <b>Reading the letting schedule, in order</b>                                                       |        |                 |
| Find the weeks: every contract, every nomination                                                    |        |                 |
| Find the collected rate, not the rate card: by room type, by month of booking                       |        |                 |
| Rebuild RevPAB: total revenue / beds / weeks; a difference with the operator's figure is the summer |        |                 |
| Count the August beds and their discount                                                            |        |                 |
| Check the re-booking rate: made at handover the previous September                                  |        |                 |
| <b>Five facts about any nomination, before exclusivity</b>                                          |        |                 |
| In place or only offered?                                                                           |        |                 |
| On which beds?                                                                                      |        |                 |
| For how many weeks?                                                                                 |        |                 |
| Until when?                                                                                         |        |                 |
| A guarantee, or a marketing arrangement with a minimum?                                             |        |                 |

The provision ratio is an afternoon of public data. The letting file is one request. RevPAB is a division. The rest is reading two contracts.

## Three rates, one building

Chapters 3 and 5. The advertised rate is the seller's number; the collected rate is what you are buying; RevPAB is what pays. Fill by room type from the ledger, for the last three campaigns.

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| Room type               | Beds | Rate card<br>£/wk | Early share | Late share | Agent share | Collected<br>£/wk | Occupancy | Arrears | RevPAB<br>£/wk |
|-------------------------|------|-------------------|-------------|------------|-------------|-------------------|-----------|---------|----------------|
| Cluster, 5-bed          |      |                   |             |            |             |                   |           |         |                |
| Cluster, 7-bed          |      |                   |             |            |             |                   |           |         |                |
| Premium ensuite         |      |                   |             |            |             |                   |           |         |                |
| Studio, standard        |      |                   |             |            |             |                   |           |         |                |
| Studio, large           |      |                   |             |            |             |                   |           |         |                |
| Accessible studio       |      |                   |             |            |             |                   |           |         |                |
| <b>Total / weighted</b> |      |                   |             |            |             |                   |           |         |                |

| Concession                             | Rate given up | Share of beds | Cost of the campaign<br>(rate x share) | Cash a year |
|----------------------------------------|---------------|---------------|----------------------------------------|-------------|
| Early booking, before end of March     |               |               |                                        |             |
| Late discounting, August and September |               |               |                                        |             |
| Agent commission, international beds   |               |               |                                        |             |
| <b>Total</b>                           |               |               |                                        |             |

| Measure                      | Per bed-week | Annual per bed | Whole scheme | Denominator |
|------------------------------|--------------|----------------|--------------|-------------|
| Advertised rate              |              |                |              |             |
| Collected rate               |              |                |              |             |
| RevPAB, academic             |              |                |              |             |
| RevPAB, all weeks of opening |              |                |              |             |

Worked in the book: £192.98 advertised, £181.35 collected (6.03 per cent of campaign), £173.61 of RevPAB after 96.8 per cent occupancy and 1.1 per cent arrears: 10.0 per cent between the website and the bank. The two gaps compound; they do not add. Two quantities compared must share a denominator.

# The discount decision

Chapters 4, 7 and 22. An operator proposes a discount. Price it before answering: which beds, targeted or general, and what the elasticity has to be for it to pay.

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| Input                                                                                     | Value | Source |
|-------------------------------------------------------------------------------------------|-------|--------|
| <b>Occupancy at the census (o)</b>                                                        |       |        |
| <b>Elasticity: points of occupancy per 1% of rate (e), measured from the booking file</b> |       |        |
| <b>One point of occupancy, net income = rent roll / 100 x (1 - arrears) x (1 - fee)</b>   |       |        |
| <b>A 1% general discount, net income = academic revenue / 100 x (1 - fee)</b>             |       |        |
| <b>Beds still unsold, by room type</b>                                                    |       |        |

| The proposal                                                | Discount | Beds it reaches | Cost, net income | Points gained | Value of points | Net |
|-------------------------------------------------------------|----------|-----------------|------------------|---------------|-----------------|-----|
| <b>Targeted: the unsold beds only</b>                       |          |                 |                  |               |                 |     |
| <b>General: the whole rent roll</b>                         |          |                 |                  |               |                 |     |
| <b>General, in August, at the August elasticity (lower)</b> |          |                 |                  |               |                 |     |

| Item                                                                                              | Answer | Evidence / note |
|---------------------------------------------------------------------------------------------------|--------|-----------------|
| <b>Rules that follow</b>                                                                          |        |                 |
| A general discount pays only if e exceeds the occupancy rate o (1.00 in textbook units)           |        |                 |
| Break-even general discount per point gained = 1 / o per cent; the assumed elasticity needs 1 / e |        |                 |
| Both sides in net income: set against revenue, the test is wrong by the management fee            |        |                 |
| Price by room type: an empty studio costs more than an empty cluster room                         |        |                 |
| A discount has a tail: returners and friends expect it next year; the model does not price it     |        |                 |
| Pay the operator on RevPAB or net income, never on occupancy                                      |        |                 |

In the book: 96.8 per cent against 1.35; a point is worth £39,600, a 1 per cent general discount costs £38,332; the August example nets the owner £28,013 while the report shows £98,999.

# The campaign, week by week

Chapter 6. Weekly from January to the asset manager, quarterly to the board. The census is the post-mortem; these are the leading indicators.

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| Week beginning | Reserved, cumulative | Same week last year | Ahead / behind | Cancelled, cumulative | Achieved rate to date | Room type behind | Action |
|----------------|----------------------|---------------------|----------------|-----------------------|-----------------------|------------------|--------|
|                |                      |                     |                |                       |                       |                  |        |
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| Window                                              | Intervention available | Cost per bed sold |
|-----------------------------------------------------|------------------------|-------------------|
| <b>November to March: returners and early birds</b> |                        |                   |
| <b>April to July: the main run</b>                  |                        |                   |
| <b>August: targeted discount on unsold rooms</b>    |                        |                   |
| <b>September: general discount, or an empty bed</b> |                        |                   |

In the book, on net income per bed sold: £305 in November, nothing in the main run, £876 in August, £7,615 in September. The re-booking rate is decided at handover weekend the previous September.

# The nomination offer, priced

Chapter 8. An insurance contract with a premium. Compare it against the rate of the beds it covers, on expected rather than perfect income, and read the weeks before the rate.

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| <b>Scheme</b>        |  | <b>Analyst</b> |  |
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| Line                                                     | Direct let | Nomination |
|----------------------------------------------------------|------------|------------|
| Beds and room types covered                              |            |            |
| Collected rate of THOSE beds, £/week                     |            |            |
| Weeks                                                    |            |            |
| Annual per bed, fully let                                |            |            |
| Annual per bed, expected (occupancy and arrears applied) |            |            |
| Discount as quoted                                       |            |            |
| Discount on gross direct rent                            |            |            |
| Discount on expected direct rent                         |            |            |

| The premium and its thresholds                                                   | Value |
|----------------------------------------------------------------------------------|-------|
| Premium per bed a year (expected direct less nomination)                         |       |
| Premium across the block                                                         |       |
| Break-even direct occupancy: nomination annual / (direct annual x (1 - arrears)) |       |
| Arrears avoided on the block                                                     |       |
| Effect on value at the deal yield (net of the fee)                               |       |
| Contractual share of revenue                                                     |       |
| Yield tightening at which it pays for itself                                     |       |

| Item                                                                               | Answer | Evidence / note |
|------------------------------------------------------------------------------------|--------|-----------------|
| <b>Negotiate before the rate</b>                                                   |        |                 |
| The weeks: worth more than the rate, usually conceded                              |        |                 |
| Guarantee or marketing arrangement with a minimum: the whole value of the contract |        |                 |
| Indexation, and any cap: it compounds over the term                                |        |                 |
| Which beds: nominate the product hardest to let, not the cheapest                  |        |                 |
| Expiry against the loan maturity; the summer inventory the nominated beds leave    |        |                 |

# The summer, as a separate business

Chapter 9. Price it on its own margin and after its own two taxes; then underwrite a level you would be content to lose.

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| Line                                                                                       | Amount | Note |
|--------------------------------------------------------------------------------------------|--------|------|
| Weeks sellable / changeover                                                                |        |      |
| Occupancy achieved                                                                         |        |      |
| Rate, and the base it is struck on (collected or advertised)                               |        |      |
| Gross summer revenue                                                                       |        |      |
| Direct cost (cleaning, linen, staffing, channel)                                           |        |      |
| Net contribution                                                                           |        |      |
| Management fee on it                                                                       |        |      |
| Output VAT inside the gross (1/6 at 20%)                                                   |        |      |
| Council tax if the exemption falls (per bed per calendar week x weeks x bedrooms affected) |        |      |
| Contribution after the fee and both taxes: the figure to underwrite                        |        |      |

| Client (three years) | Segment | Revenue | Share | Years with us | Retenders |
|----------------------|---------|---------|-------|---------------|-----------|
|                      |         |         |       |               |           |
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| Item                                                                                                           | Answer | Evidence / note |
|----------------------------------------------------------------------------------------------------------------|--------|-----------------|
| <b>Questions</b>                                                                                               |        |                 |
| Council tax position of the bedrooms in July and August last year, on actual occupancy, and who took the view  |        |                 |
| Were only continuing full-time students in residence? A six-week pre-sessional does not preserve the exemption |        |                 |
| Which summer weeks was the building empty, and what would refurbishing then have cost in lost summer income?   |        |                 |

# The cost base per bed

Chapters 10 and 11. Per bed, against ALL beds, VAT-inclusive as the invoices are. Almost nothing is avoided when a bed is empty.

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| <b>Cost line</b>                   | <b>Per bed</b> | <b>Whole scheme</b> | <b>Share</b> | <b>Avoided if a bed is empty?</b> | <b>VAT: standard, reduced, none</b> |
|------------------------------------|----------------|---------------------|--------------|-----------------------------------|-------------------------------------|
| Energy (all-inclusive rent)        |                |                     |              |                                   |                                     |
| Water                              |                |                     |              |                                   |                                     |
| On-site staff                      |                |                     |              |                                   |                                     |
| Repairs and maintenance            |                |                     |              |                                   |                                     |
| Marketing and lettings             |                |                     |              |                                   |                                     |
| Insurance                          |                |                     |              |                                   |                                     |
| Business rates, common parts       |                |                     |              |                                   |                                     |
| Other                              |                |                     |              |                                   |                                     |
| Summer programme, direct cost      |                |                     |              |                                   |                                     |
| Management fee, % of gross revenue |                |                     |              |                                   |                                     |
| <b>Total</b>                       |                |                     |              |                                   |                                     |

| <b>The energy short position</b>                                     | <b>Value</b> |
|----------------------------------------------------------------------|--------------|
| Rate card for the intake set in (month, year)                        |              |
| Energy supply contract runs from / to (matched to the letting year?) |              |
| Fair-usage cap in the occupancy agreement?                           |              |
| A +40% energy move: net income for one year                          |              |
| The same until the rate can respond (years of lag, discounted)       |              |
| The same if it never passes through (capitalised)                    |              |
| The rise that erases the whole management fee                        |              |

Irrecoverable VAT is extracted, not added: 1/6 of the standard-rated base and 5/105 of fuel and power in qualifying residential use. In the book: £105,297 a year, £202 a bed. Energy at £660 and insurance at £74 sit at the bottom of their ranges.

# The capital cycle

Chapter 12. Fit-out only: fabric, compliance and building-safety capital are separate lines, sized from a survey and a legal opinion.

|                      |  |                |  |
|----------------------|--|----------------|--|
| <b>Scheme</b>        |  | <b>Analyst</b> |  |
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| Room type         | Beds | Fit-out age | Last full refurbishment | Cost per bed, last cycle | Next due (year) | Summer weeks it will take |
|-------------------|------|-------------|-------------------------|--------------------------|-----------------|---------------------------|
| Cluster, 5-bed    |      |             |                         |                          |                 |                           |
| Cluster, 7-bed    |      |             |                         |                          |                 |                           |
| Premium ensuite   |      |             |                         |                          |                 |                           |
| Studio, standard  |      |             |                         |                          |                 |                           |
| Studio, large     |      |             |                         |                          |                 |                           |
| Accessible studio |      |             |                         |                          |                 |                           |
| Total / weighted  |      |             |                         |                          |                 |                           |

| Capital spend per bed | Year -5 | Year -4 | Year -3 | Year -2 | Year -1 | Average | Against the cycle |
|-----------------------|---------|---------|---------|---------|---------|---------|-------------------|
| Refurbishment         |         |         |         |         |         |         |                   |
| Ongoing capital items |         |         |         |         |         |         |                   |
| Total                 |         |         |         |         |         |         |                   |

| The yield after the cycle                                   | Value |
|-------------------------------------------------------------|-------|
| Net initial yield as quoted (income / price plus costs)     |       |
| Refurbishment cycle, annualised, in basis points            |       |
| Ongoing capital items, in basis points                      |       |
| The summer the cycle takes, in basis points                 |       |
| Yield after the capital cycle                               |       |
| The cycle already run at acquisition (inherited)            |       |
| The cycle run but not funded at exit (the buyer deducts it) |       |

Deferring a cycle one year moves the lost summer one year later; it does not keep one. The gain is the carry and the smaller fraction run at exit, less a year of wear: measure how much wear you believe before deferring.

# The city, before the visit

Chapters 13 and 14. Public data, one afternoon. Count the market on the walk, not on the city.

|                      |  |                |  |
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| <b>Scheme</b>        |  | <b>Analyst</b> |  |
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| Market                                             | Value | Source |
|----------------------------------------------------|-------|--------|
| Students in the city                               |       |        |
| Share living away from the family home             |       |        |
| Addressable demand                                 |       |        |
| Purpose-built beds in the city                     |       |        |
| Provision ratio: beds per 100 addressable students |       |        |
| Beds on site (delivering within three years)       |       |        |
| Provision ratio after the pipeline                 |       |        |
| Beds within a twenty-minute walk of the campuses   |       |        |

| Scheme in the pipeline | Beds | Product (studio / cluster) | On site or consented only | Opens (September) | Inside the walk? | Supply increase on the walk | Rate effect at the pass-through |
|------------------------|------|----------------------------|---------------------------|-------------------|------------------|-----------------------------|---------------------------------|
|                        |      |                            |                           |                   |                  |                             |                                 |
|                        |      |                            |                           |                   |                  |                             |                                 |
|                        |      |                            |                           |                   |                  |                             |                                 |
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|                        |      |                            |                           |                   |                  |                             |                                 |

| Item                                                                           | Answer | Evidence / note |
|--------------------------------------------------------------------------------|--------|-----------------|
| <b>Four questions the ratio does not answer</b>                                |        |                 |
| Which campus? Map the walk from each one                                       |        |                 |
| Which product? Split the pipeline as the building is split                     |        |                 |
| Which students? International share, trend, and the top three source countries |        |                 |
| Will it be built? On site only; consented but unfunded is next cycle's line    |        |                 |

What happened to achieved rates the last time a large scheme opened in this city? Ask three agents; the range of their answers is a better pass-through than any desk assumption.

# The debt, on both prices

Chapter 18. Size it, test it after capex, and put the occupancy at which it breaks next to the loan quantum.

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| <b>Scheme</b>        |  | <b>Analyst</b> |  |
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| <b>Test</b>                                                        | <b>At the asking price</b> | <b>At the bid</b> |
|--------------------------------------------------------------------|----------------------------|-------------------|
| Loan to value                                                      |                            |                   |
| Interest cover on net income <b>BEFORE</b> capex                   |                            |                   |
| Interest cover on net income <b>AFTER</b> capex (the honest basis) |                            |                   |
| The loan: the lowest of the tests                                  |                            |                   |
| Loan as a share of that price                                      |                            |                   |
| Yield after capex against the all-in debt rate: spread             |                            |                   |
| Cash return on equity against ungeared: what gearing costs         |                            |                   |
| Cover at the tape                                                  |                            |                   |
| Occupancy at which the facility covenant breaks                    |                            |                   |
| Headroom, points of occupancy                                      |                            |                   |

| <b>Item</b>                                                                 | <b>Answer</b> | <b>Evidence / note</b> |
|-----------------------------------------------------------------------------|---------------|------------------------|
| <b>Ask the lender</b>                                                       |               |                        |
| What rent and what occupancy did you size on?                               |               |                        |
| Is cover struck before or after capital expenditure?                        |               |                        |
| Is there a capex reserve, or does the cycle year come out of distributions? |               |                        |
| Covenant tested annually at the census, or quarterly on a trailing basis?   |               |                        |
| Cure by deposit, or by prepayment?                                          |               |                        |
| Is a change of operator an event of default?                                |               |                        |
| Nomination expiry against the loan maturity                                 |               |                        |

# The management agreement

Chapter 22. The contract that decides who runs it. Owners negotiate the fee and not the incentive; the incentive is the larger number.

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| Clause                                                                                                          | Draft says | Negotiated to |
|-----------------------------------------------------------------------------------------------------------------|------------|---------------|
| <b>The incentive</b>                                                                                            |            |               |
| Struck on RevPAB or net operating income, never on occupancy                                                    |            |               |
| The August test: at the elasticity the owner can verify, does the bonus pay for the visible half of a decision? |            |               |
| Achieved rate reported next to occupancy, by room type, every week                                              |            |               |
| <b>Consents and data</b>                                                                                        |            |               |
| Owner approval over the rate card in November, not over discounts in August                                     |            |               |
| Weekly booking data in a defined format as a contractual obligation                                             |            |               |
| A capital plan with the cycle in it, and which weeks belong to capital and which to the summer let              |            |               |
| <b>Term and exit</b>                                                                                            |            |               |
| Termination exercisable in a window that lets a successor run the next campaign                                 |            |               |
| Information rights during the term (for a lease: before renewal)                                                |            |               |
| Under a lease: who does the refurbishment, and is it checked?                                                   |            |               |
| The operator's covenant, priced as corporate exposure                                                           |            |               |

In the book: a fee of £143,695 a year; one August decision on an occupancy bonus shows £98,999 and nets the owner £28,013, a gap of half the year's fee.

# The committee paper, in ten sections

Chapter 24. Readable in ten minutes, arguable in twenty. The order is deliberate: the three rates first, the exit share sixth.

|                      |  |                |  |
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| <b>Section</b>                                                                           | <b>Content</b> | <b>Page</b> |
|------------------------------------------------------------------------------------------|----------------|-------------|
| <b>1. The three rates: advertised, collected, RevPAB, and the discounts between them</b> |                |             |
| <b>2. The rate-and-occupancy trade across the usable range</b>                           |                |             |
| <b>3. What a point of occupancy is worth, in income and in value</b>                     |                |             |
| <b>4. The capital cycle: quoted yield, yield after capex, the gap</b>                    |                |             |
| <b>5. The city: provision ratio, pipeline on site, its value to this asset</b>           |                |             |
| <b>6. Where the value comes from: exit against operations</b>                            |                |             |
| <b>7. The debt, on both prices, with the breaking occupancy</b>                          |                |             |
| <b>8. The inversions, with the line that has no solution</b>                             |                |             |
| <b>9. What the model omits, the direction of each, in whose favour</b>                   |                |             |
| <b>10. The bid, and the five evidenced numbers it rests on</b>                           |                |             |

The two sentences at the top. First: this building sells \_\_\_\_ bed-weeks a year and has to sell all of them again every September. Second: the advertised rate is £\_\_\_\_, the building earns £\_\_\_\_ per available bed, and \_\_\_\_ per cent of the value we are paying for is a yield somebody else applies in ten years.

Leave out: the occupancy figure as a headline, the word stabilised, the operator's brand deck, photographs of the gym. Add the one chart most papers miss: census occupancy and real achieved rate over five years.