5 November 2010

THE UNITE GROUP PLC

("UNITE" / "Group")

Interim Management Statement

The UNITE Group plc, the UK's leading developer and manager of student accommodation, today publishes its second interim management statement for 2010 covering its activities during the period from 1 July to 4 November 2010.

Highlights

- Reservations of 97% achieved across the portfolio for the 2010/11 academic year (2009/10: 96.5%). Rental growth of 3-4% expected for the full year;
- Good progress on development pipeline for delivery between 2012 and 2014, with 2,300 beds secured in London. All sites are contractually secure, with planning achieved on two projects comprising 817 beds and a new £50 million development facility signed;
- A further development site secured for delivery in 2011, comprising a 119 bed scheme in Manchester, increasing the 2011 pipeline to four projects comprising 1,277 beds at attractive returns. All funding and planning consents are in place for these projects;
- 1,119 beds across three properties funded through the joint venture with Oasis Capital Bank were opened within budget in London for the start of the 2010/11 academic year;
- USAF acquired a £25 million, 526 bed property in Newcastle from a third party and is on track to acquire a £145 million portfolio from UNITE later in November, having secured additional new debt funding.

Commenting, Mark Allan, Chief Executive, said:

"The Group has delivered a strong sales and rental growth performance for the 2010/11 academic year which provides a solid foundation for financial performance in 2011. Good progress has also been made in the delivery of the development pipeline with all sites now contractually secure, new development finance in place and planning consents already achieved on 817 of the 2,300 bed London pipeline. These achievements should help drive growth in both net asset value over the next couple of years and Group profitability from 2012 onwards, as the projects are delivered and let.

"The long awaited announcements on the funding of Higher Education in the future were broadly as we had anticipated and, whilst they will inevitably lead to some change in the sector, importantly the overall level of student numbers should continue to grow. We believe that the fundamentals of the student accommodation sector, with its ongoing demand/supply imbalance, remain strong and the Group's track record and expertise, coupled with its financial and operational strength, leave it well placed to succeed."

Development activity

London development pipeline 2012 to 2014

The Group has made good progress with the delivery and financing of its 2012-2014 London pipeline. The 2,300 bed pipeline is now contractually secure and planning consents have already been obtained for two projects totalling 817 beds, which will be delivered for occupation in 2012. £175 million of development debt will be required to build out the 2,300 bed pipeline of which around £100 million is expected to be funded from existing revolving facilities. The market for new development finance remains relatively tight with only a small number of banks currently offering terms to favoured partners. It is therefore encouraging to report that the Group has recently secured a new £50 million facility with Barclays to fund the development of one of its new schemes on terms in line with plan, reducing the requirement for further development debt to approximately £25 million.

Following the progress made during 2010, the Group's 2012-14 London development pipeline now stands as follows:

	Beds	Total cost £'m	Yield on cost	Typical weekly rents	Stabilised value £'m	NAV to book £'m
Secured with planning						
Moonraker Alley, London SE1	671	75	9.5%	£210	102	27
Waterloo Road, London SE1	146	16	9.0%	£207	20	4
Subject to planning						
Hale Village, London E10	564	32	9.6%	£137	41	9
Scheme A, London NW1	550	58	8.6%	£202	73	15
Scheme B, London NW1	369	37	9.4%	£200	49	12
	2,300	218	9.1%		285	67

Looking forward, we expect the market for development sites to remain favourable for UNITE until at least mid-2011. Whilst there is evidence that new capital is targeting the sector, credit remains rationed and the planning environment continues to be a significant barrier to entry. Against this backdrop we will continue to target new sites in line with our very specific criteria in terms of location and target returns and are confident of growing our pipeline in line with strategy.

2011 deliveries

The Group has increased its 2011 pipeline to 1,277 beds across four projects with the addition of a £6 million, 119 bed scheme in Manchester. Whilst the project is relatively small, Manchester is a strong student market and the scheme is well located and complementary to UNITE's existing portfolio in the city. It offers attractive returns and was acquired from a developer who was unable to secure appropriate financing.

All four schemes are progressing well against business plan and are on track to be delivered for occupation at the start of the 2011/2012 academic year. Details of the four projects are set out below:

	Beds	Total cost £'m	Yield on cost	Typical weekly rents	Stabilised value £'m	NAV to book £'m
UNITE Landbank						
Mansfield Hall, Reading	604	36	8.1%	£140	44	3
Holloway Road, London	149	19	7.2%	£195	19	-
New Acquisitions						
Thurso Street, Glasgow	405	24	9.0%	£136	29	4
Zar Bar, Manchester	119	6	9.3%	£119	8	2
	1,277	85	8.25%		100	9

2010 Deliveries

The three 2010 schemes developed in our joint venture with Oasis Capital Bank, comprising 1,119 beds, have been successfully delivered within budget and on time for the start of the 2010/11 academic year. The schemes are 90% let for the current academic year and we expect occupancy and rental levels to stabilise over the next 12 to 24 months.

Profitability, occupancy and rental growth

The Group's key measure of profitability is Net Portfolio Contribution, which represents the income from its investment and management activities less all business costs and overheads except those relating to development activity. Following a small profit at this level in the financial year ended December 2009 and a year on year improvement for the six months ended 30 June 2010, the Group continues to see improvements in its Net Portfolio Contribution performance.

For UNITE's total operational portfolio of 39,728 bed spaces, 97% are now occupied for the current academic year (2009/2010 academic year: 96.5%) and we expect rental growth for the full year to be within the previously stated range of 3-4%. This performance has been driven by strong levels of demand, particularly following the release of 'A' level results in August, and has benefited from UNITE's professional sales and marketing approach and, in particular its on-line booking platform and national call centre which provide unique access to the market. The Group has again experienced strong demand from international students who make up 62% of customers in London and 30% across the rest of the UK, a level consistent with last year.

The outlook for rental growth in 2011 remains encouraging and, as previously advised, we expect to see growth of 3-4% across the portfolio for the 2011/12 academic year. Rooms across the Group's portfolio for the 2011/12 academic year will be available to existing customers with effect from early November and will be available on general release from January 2011. We expect demand to remain high, particularly given the limited new supply of accommodation and the likely surge in UK-based applications ahead of any tuition fee changes likely to be coming into force in 2012.

Besides sales, much of the Group's operational focus during the period under review was on the effective maintenance and turnaround of its rooms during the summer vacation, which included a full upgrade of the Group's internet provision. All maintenance and turnaround activities have been completed successfully despite the failure in the period of Connaught plc, the Group's joint venture partner in UNITE Connaught Services Limited ("UCS"), which undertakes certain planned, preventative and reactive maintenance works across the portfolio.

With regard to UCS, during October the Group served notice of its intention to acquire Connaught Plc's 40% share of the joint venture for a nominal value of £40, in line with the provisions of the Joint Venture agreement. This will bring all maintenance services back under the Group's full control and it is anticipated that any marginal costs of operation will be offset by the saving on the management fee that was previously paid by UCS to Connaught.

Valuations

In line with the broader real estate market, yields for student accommodation have been flat during the third quarter of 2010. The latest valuation of the UNITE UK Student Accommodation Fund ("USAF"), as at 30 September 2010, showed an increase in underlying gross property values since 30 June 2010 of 1% to £1,081 million driven primarily by rental growth with no movement in yield. We consider this to be a reasonable indication of valuation movements across the Group's wider stabilised portfolio for the same period. Investment activity has so far been limited with little new yield evidence available to valuers and we are not expecting to see any material change in yields between now and the end of the financial year.

The outlook for the investment market for student accommodation in 2011 is supported by recent announcements from a number of parties looking to invest in the sector, albeit that many seem to be seeking development exposure. We continue to expect transactional evidence for direct let assets to be relatively limited with most institutional investors seeking to establish exposure through diversified indirect vehicles such as USAF. Whilst this provides valuers with limited direction or guidance with respect to yields, it does provide a positive backdrop for UNITE's co-investing asset manager business model through its ongoing stewardship of USAF.

USAF acquisitions

USAF acquired a newly completed 526 bed asset, Manor Bank, in Newcastle in August for £25 million, representing a stabilised net initial yield of approximately 7%. The market for student accommodation in Newcastle offers attractive fundamentals with two strong, growing Universities and a very limited supply of purpose built accommodation which we believe underpins good rental growth prospects over the medium term.

As outlined in the half year results in August, USAF will acquire a portfolio of assets from UNITE, under the Development Pipeline Agreement that exists between the two parties, with an approximate value of £145 million. Whilst releasing approximately £40 million of capital, the disposal will have a dilutive impact on earnings in 2010 and 2011. Having now signed debt facilities totalling £137.5 million with HSBC and Santander to fund this acquisition and provide further debt capacity for USAF, the acquisition is expected to complete later in November. Based on current gearing and liquidity targets, the acquisition effectively utilises all of USAF's investment capacity.

UNITE Modular Solutions ("UMS")

UNITE Modular Solutions ('UMS') will manufacture a total of 1,135 modules in 2010 and is continuing to identify opportunities to win third party contracts to enhance production levels for 2011 and beyond. As previously advised, the operation will remain under close review over the coming months to determine an appropriate longer term strategy.

University partnership opportunities

The Group has continued to evaluate opportunities to work in partnership with Universities to develop, upgrade and manage their on-campus accommodation. Following the recent announcements regarding Higher Education Spending, including the Government's Comprehensive Spending Review, we continue to believe that University partnerships with private sector accommodation providers will be an emerging trend in Higher Education.

The Group has, however, been unsuccessful in its first such partnership bid. UNITE bid in conjunction with a small number of institutional investor partners to acquire and operate approximately 4,000 beds on behalf of one University but, having been shortlisted as one of three parties, the Group has not been selected as preferred bidder in this instance.

We await feedback on this decision but we remain comfortable with the basis upon which our bid was prepared. We continue to believe we can offer certain Universities a credible and attractive financing and operating solution, but this will only be done if we can provide our shareholders with an appropriate return. The Group remains actively engaged in a number of other possible University partnership opportunities.

All costs associated with the aborted bid have been expensed as incurred and treated as pre-contract costs in the Group's accounts.

Market update

The Government response to the Browne Review into the Future of Higher Education Funding was announced earlier this week and advocated that a more competitive market be allowed to operate in UK Higher Education as follows:

- The current cap on tuition fees of £3,290 will be lifted to £6,000 per annum as a 'basic threshold'. Any institution which charges over this amount, to a maximum of £9,000, will have to contribute to supporting and widening access to poorer students.

- The level of earnings at which students begin repaying loans will rise from £15,000 to £21,000.

- The level of interest on loans will be related to future earnings, ensuring that students who go on to higher paying employment pay more for their Higher Education than those who choose lower earning careers.

Parliament is expected to vote on these proposals before the end of this year and it is expected that these changes will be introduced in the 2012/2013 academic year.

The package of recommendations was broadly in line with our expectations and our view remains that demand for UNITE's accommodation will remain robust in the coming years:

- The student accommodation market is still not in equilibrium, with demand outstripping supply. In the short term we believe this will continue to be the main driver of market performance with the most undersupplied local markets continuing to offer good growth prospects.

- We expect UK-based undergraduate intake to be broadly flat from 2011, leading to a slowdown in overall population growth over the next two to three years, but international intake to continue growing strongly. Particularly in cities with strong international student populations (such as London, where the Group has 41% of its capital invested), demand for purpose built accommodation will continue to grow.

- We recognise that students' study patterns and choices are likely to change as a result of increased tuition fees and more students may choose to study from home or by other means. However, we expect this trend to be most pronounced amongst students who might not have been viewed as traditional University attendees in the past and for whom the total cost of Higher Education is already a stretch. This demographic group tends not to form part of the market that UNITE has historically targeted, nor is it one that it currently caters for.

Summary and outlook

The Group has delivered a strong sales and rental growth performance for the 2010/11 academic year which provides a solid foundation for financial performance in 2011. Good progress has also been made in the delivery of the development pipeline with all sites now contractually secure, new development finance in place and planning consents already achieved on 817 of the 2,300 bed London pipeline for 2012-14. These achievements will help drive growth in both net asset value over the next couple of years and Group profitability from 2012 onwards, as the projects are delivered and let.

We expect rental growth for the 2011/12 academic year to be in the region of 3-4%, in line with that achieved for the current year, and conditions for development activity to continue to favour well capitalised operators with a track record of delivery, such as UNITE. Both of these factors underpin the Group's medium term prospects for growth.

The long awaited announcements on the future funding of Higher Education were broadly as we had anticipated and whilst they will inevitably lead to some change in the sector, importantly the overall level of student numbers should continue to grow. Fundamentally, we expect the evolution of the student accommodation sector to vary in different cities depending as much on local factors as national trends. In recent years, based on its research and operational knowledge, the Group has placed a strong emphasis on local markets where it perceives that the demand/supply imbalance is greatest, such as London where approximately 41% of the Group's capital is invested.

Whilst we are pleased with the Group's operational performance so far in 2010, the Group remains mindful of the risks to a fragile recovery in the UK economy and continues to manage the business and its finances prudently whilst carefully pursuing growth opportunities that offer an appropriate return. The fundamentals of the student accommodation sector remain strong and the Group's track record and expertise, coupled with its financial and operational strength, leave it well placed to succeed.

Conference Call

There will be a conference call for analysts and investors at 8.30 am today. To participate in the call, please dial:

Dial in No: +44 (0) 20 7138 0821
Pin: 2744833

Event title: UNITE Group Interim Management Statement Conference Call

Site Visit

The Company will today host a site visit for analysts. Attendees will visit several UNITE assets in London and there will also be a presentation. No new material information will be disclosed during the event.

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