PRESS RELEASE

26 February 2020

THE UNITE GROUP PLC

("Unite Students", "Unite", the "Group", or the "Company")

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Richard Smith, Chief Executive of Unite Students, commented:

"2019 was a successful and transformational year for Unite. We made good progress against all of our key metrics and continued to deliver meaningful growth in our recurring earnings. We also leveraged our best-in-class operating platform to complete the acquisition of Liberty Living's 24,000-bed portfolio. Our strong results remain underpinned by the quality of our value-for-money product and the strength of our long-term relationships with Universities. These qualities differentiate Unite in a sector that remains undersupplied and is anticipating strong growth in student numbers over the next decade, as UK Higher Education maintains its global standing. A UK University education is highly valued by young people around the world.

The outlook for the business remains strong. Reservations for the 2020/21 academic year are in line with record levels, supporting our like-for-like rental growth guidance of 3.0-3.5% through a combination of further utilisation enhancements and value-driven price increases. Together with our development and University partnership pipeline of over 5,000 beds, this provides high visibility over sustainable earnings growth and we maintain our positive outlook.

While Brexit negotiations and the ongoing review of Higher Education funding provide some uncertainty, our strategy of aligning to the best Universities and providing good-quality, value-for-money accommodation for growing segments of the market underpins our long-term confidence in the business."

Year ended	31 December 2019	31 December 2018	Change
EPRA earnings*	£110.6m	£88.4m	25%
EPRA earnings per share*	39.1p	34.1p	15%
(Loss)/profit before tax	£(101.2)m	£245.8m	
Profit before tax excluding items relating to the Liberty Living acquisition	£305.3m	£245.8m	24%
Dividend per share	33.2p	29.0p	14%
Total accounting return	11.7%	13.2%	
Like-for-like rental growth*	3.4%	3.2%	
EBIT margin	71.7%	71.3%	

As at	31 December 2019	31 December 2018	
EPRA NAV per share*	853p	790p	8%
Net debt**	£1,884m	£856m	120%
Loan to value**	37%	29%	
MSCI ESG	AA rating	AA rating	
GRESB score	72/100	71/100	

HIGHLIGHTS

EPRA EPS up 15% to 39.1p (2018: 34.1p)

- Like-for-like rental growth of 3.4% and 98% occupancy (2018: 3.2% and 98%)
- Full year dividend increased by 14% to 33.2p, driven by earnings growth (2018: 29.0p)
- EPRA profit includes £4.6 million (1.6p) from partial recognition of the LSAV performance fee
- Statutory loss before tax of £101.2 million, primarily the result of the impairment of goodwill and intangibles of £384.1 million relating to the Liberty Living acquisition (2018: profit of £245.8 million)
- Total accounting return of 11.7% (2018: 13.2%)

Transformative acquisition of Liberty Living for £1.4 billion, utilising Unite's best-in-class operating platform

- Two highly complementary portfolios, creating a 74,000-bed portfolio across 27 cities
- Progress on integration has increased 2020 cost synergies to £5-6 million, rising to £15 million in 2021
- Immediately earnings accretive with further growth opportunities and operational enhancements

Reservations support rental growth outlook

- Reservations for 2020/21 at 73%, in line with record levels in 2018
- Like-for-like rental growth outlook for 2020/21 of 3.0-3.5% through increases in utilisation and price

Earnings growth underpinned by University relationships, operating platform and development pipeline

- Nomination agreements with Universities covering 41,500 beds with an average WAULT of 6 years (2018: 29,000 and 6 years)
- Secured development and University partnerships pipeline of £681 million for delivery over the next four years, generating an attractive 6.8% yield on cost
- Together with rental growth and cost synergies, these new openings net of disposals could add 16-20p to earnings per share
- Further opportunities to grow development pipeline, including zone 1 and 2 London sites

Strong financial position

- £298 million of disposals (Unite share £249 million), reflecting strong investor appetite
- LTV increased to 37% (2018: 29%), following acquisition of Liberty Living
- Maintaining 35% LTV target, reflecting disposal plan for £150-200 million per annum

Improving performance and transparency on Sustainability

- AA rating from MSCI and Most-Improved Award under EPRA's Sustainability BPRs
- Sustainability report and new targets to be launched in 2020

* The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). These financial highlights are based on the European Public Real Estate Association (EPRA) best practice recommendations and these performance measures are published as they are intended to help users in the comparability of these results across other listed real estate companies in Europe. The metrics are also used internally to measure and manage the business and to align to the performance related conditions for Directors' remuneration. See glossary for definitions.

** Excludes IFRS 16 related balances recognised in respect of leased properties, following the adoption of IFRS 16. See glossary for definitions.

PRESENTATION

There will be a presentation for analysts this morning at 09:30 at One Moorgate Place, London, EC2R 6EA. A live webcast will be available at: https://brrmedia.news/9qnfk. To register for the event or to receive dial-in details, please contact unite@powerscourt-group.com.

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CHAIRMAN'S STATEMENT

2019 was another successful year for Unite, building on our strong foundations for growth. Our high-quality, well-located portfolio produced a strong year of operational performance, delivering across all of our key metrics. In addition, we leveraged our best-in-class operating platform to make the transformational acquisition of Liberty Living's 24,000-bed portfolio. This is made possible by the quality of our value-for-money product, our customer service, highly committed people and our positive and growing reputation with students and Universities.

Financial performance has once again been strong, with a total accounting return of 11.7% and 15% growth in EPRA EPS to 39.1p. This performance is underpinned by continued like-for-like rental growth, further improvements to our operating margins and development completions. Due to this positive performance, we are proposing a final dividend of 22.95p, to deliver a total dividend of 33.2p for the full year, an increase of 14% year-on-year.

Our strong performance is only possible because of the talent and hard work of our teams across the business. On behalf of the Board, I would like to thank them for another excellent year. I would also like to take the opportunity to welcome our new colleagues from Liberty Living. Our acquisition brings together two high-performing companies with an excellent track record of success, and I am very excited by the opportunities that lie ahead.

I will be stepping down from the Board at the 2021 Annual General Meeting, following completion of the integration of the Liberty Living acquisition. Succession planning is underway and the Nominations Committee will identify my successor within the next 12 months. Sir Tim Wilson stepped down from the Board at the end of the year after serving nine years, and I would like to thank him for his significant contribution to Unite. Dame Shirley Pearce DBE was appointed to the Board in November and Professor Sir Steve Smith will join in April 2020, both as Non-Executive Directors who bring a wealth of experience in the Higher Education sector. In addition, we are pleased to welcome Thomas Jackson, head of CPPIB's UK real estate business, as a Non-Executive Director, following the acquisition of Liberty Living.

We have a diverse and experienced Board who are committed to promoting the long-term success of the company for the benefit of key stakeholders. We believe in acting responsibly and sustainably in all areas of our business and work to make a difference in areas as diverse as environmental impact, diversity, affordability, mental health and wellbeing. 2020 will see new sustainability targets set for the enlarged business that recognise the challenge of climate change and our role in helping more young people access Higher Education and improving outcomes for students.

The success of our business is founded on a clear strategy and we will continue to deliver on its main objectives: providing value-for-money accommodation that our customers value; delivering quality buildings designed around student needs; generating high-quality recurring earnings; and maintaining a strong capital structure.

The outlook for our business remains positive, reflecting increasing participation rates for UK Higher Education, growing international demand and the shortage of fit-for-purpose housing in the UK. While Brexit negotiations and the Higher Education Funding Review create some uncertainty, the Higher Education sector's strong fundamentals, our high-quality portfolio and pipeline, University relationships and market-leading operating platform, provide the foundations for continued growth.

CHIEF EXECUTIVE'S REVIEW

I am pleased to report another strong year for Unite. We have maintained our focus on delivering sustainable growth in recurring profits and cash flows over the long term, and on delivering a Home for Success for all who live with us. We do this by providing valued customer service and operating high-quality, affordable accommodation, designed specifically for our customers' needs. Our investment discipline ensures we align our portfolio to the strongest Universities, while maintaining a robust capital structure.

Strong performance in 2019 resulted in 15% growth in EPRA EPS, reflecting continued like-for-like rental growth, further improvements to our operating margins and development completions. The loss before tax of £101.2 million is primarily the result of the impairment of goodwill and intangibles of £384.1 million resulting from the share component of our £1.4 billion acquisition of Liberty Living, which was priced on a NAV-for-NAV basis. Excluding items relating to the Liberty Living acquisition, profit before tax increased to £305.3 million (2018: £245.8 million), reflecting growth in EPRA earnings and higher revaluation gains from the development pipeline. The security, quality and visibility of our earnings provides the confidence to maintain our dividend payout of 85% of EPRA EPS.

We also delivered another strong year of total accounting returns. Looking forward, our acquisition of Liberty Living will help to further enhance the income component of our total returns.

Our key financial performance indicators are set out below:

Financial highlights	**2019**	**2018**
EPRA earnings	£110.6m	£88.4m
EPRA EPS	39.1p	34.1p
Dividend per share	33.2p	29.0p
EPRA EPS yield	4.9%	4.7%
Total accounting return	11.7%	13.2%
(Loss)/profit before tax	£(101.2)m	£245.8m
Profit before tax excluding items relating to the Liberty Living acquisition	£305.3m	£245.8m
Basic EPS	(31.5)p	90.8p
EPRA NAV per share	853p	790p
See-through LTV ratio	37%	29%

A reconciliation of (loss)/profit before tax to EPRA earnings is set out in note 8 of the financial statements

We will continue to focus on growing our earnings. This is supported by our operational excellence and development activities. We have a high degree of income visibility through our nomination agreements and re-bookers, as well as growing demand from international and postgraduate students. The more effective utilisation of assets also underpins our ability to grow income on an annual basis, while ensuring the ongoing affordability of our product. We see further opportunities to enhance our operating margins, while also continuing to invest into our service offer.

Our PRISM operating platform, coupled with our experienced management and leadership teams, give us a unique capability to drive value through scale efficiencies, revenue management and utilisation, supporting our focus on delivering sustainable growth in income. This capability underpinned our £1.4 billion acquisition of Liberty Living during the year and gives us confidence in delivering material earnings accretion for the combined Group.

Development remains one of the core strengths of our business and will significantly contribute to our future earnings growth. We continue to see significant development opportunities through University partnerships and more traditional development activity, driven by a positive outlook for student demand and our established relationships in the real estate sector.

We remain focused on improving the quality of our portfolio through our customer insight and extensive local knowledge to align with the top performing Universities and ensure that we are meeting our customers' needs within our markets.

Placing and acquisition of Liberty Living

In July, we announced our transformative acquisition of Liberty Living's 24,000-bed portfolio for £1.4 billion in a NAV-for-NAV deal from Canada Pension Plan Investment Board (CPPIB). The acquisition was funded through a combination of cash and shares, including the £260 million of gross proceeds raised through our successful 9.99% equity placing in early July at a price of 985p per share.

The acquisition utilises Unite's best-in-class operating platform, PRISM, to create a combined portfolio of 74,000 beds and valued at c.£8 billion (Unite share: £5.2 billion). Liberty Living beds will be fully integrated into PRISM, delivering £15 million of annual cost synergies from 2021. Positive early progress on integration has increased 2020 cost synergies to £5-6 million. We expect to incur integration costs of £7 million in 2020 to realise these cost synergies.

The acquisition is materially accretive to EPRA earnings per share from 2020 onwards and is broadly NAV-per-share neutral. The acquisition has been conservatively financed, resulting in an LTV of 37% for the combined Group at the year end, which we intend to reduce to 35% through disposals, development profits and valuation growth. The acquisition completed at the end of November, following unconditional approval from the Competition and Markets Authority (CMA).

We have made significant progress in the first three months of our ownership and we now expect to realise overhead cost savings more quickly than initially expected. In addition, we see opportunities over time for further efficiencies in areas such as procurement and energy efficiency in the Liberty Living portfolio.

We remain committed to combining the best of both businesses and there have already been significant operational learnings from our working with our new colleagues. In particular, Liberty Living has fostered excellent operational relationships with its University partners which will complement the strength of our existing strategic level relationships. The Liberty Living acquisition also offers a wide range of properties, generally at affordable price points. This is highly complementary to our existing portfolio and University relationships and creates the breadth of product to pursue opportunities for customer segmentation. We may also incorporate elements of the less-intensive operating model used by Liberty Living in some locations, which is highly efficient while still delivering positive student experience.

Home for Success

While Higher Education is not the only path to a fulfilling and successful life, its capacity to improve the professional and social outcomes of people from every walk of life remains undiminished. This is increasingly recognised by both young people and parents as reflected in record participation levels, with 33% of UK 18-year-olds in 2019 choosing to make the investment in going to University, up from 26% in 2010.

At the same time and in a highly competitive market, we recognise that students are increasingly focused on the value-for-money they get from this investment. This underpins our determination to ensure Unite remains positively differentiated from other operators by the quality of the experience we offer. Central to this is our continued investment in our brand and our people's commitment to our purpose.

Home for Success means providing a living environment that enables students to get the very best out of their time at University. With this in mind, we continue to invest in the things that our extensive research tells us matter most to students and the Universities we work with: the smoothest possible transition to University life; a home that is safe and secure; and ensuring that help is on hand when needed. Our progress in delivering our brand promises over the last year is demonstrated by record customer satisfaction, Higher Education trust and employee engagement as well as our achievement of a Five Star Occupational Health & Safety audit from the British Safety Council.

Just as important as a great day-to-day living experience is the overall value we offer students over the course of their time with us. As a result, our properties are located where students consistently tell us they want to live: close to their University, public transport and other amenities. The design of our properties reflects a detailed insight into what students want, with common areas where they can relax and socialise, study areas and, in most cases, outside space. Our portfolio includes a range of different accommodation types but 91% of our students live in shared flats with ensuite bathrooms, a shared kitchen and common living space. We know this is how most students prefer to live and also best meets the requirements of our University partners. Over the last year, to ensure our common rooms remain in step with the changing lifestyles and preferences of students, we have involved students and Universities in testing a number of innovations in design, layout, specification and fit out, and rolled out these initiatives across a number of properties.

Not all students are the same and we therefore offer a range of different price points and tenancy lengths to meet their varied requirements. Our rents include all utility bills and service charges, high speed Wi-Fi, full contents insurance, a rapid response maintenance service, round-the-clock security, a 24/7 call centre, access to our market leading welfare service and the MyUnite app. As well as a wealth of useful information about student living, this bespoke digital platform provides quick and efficient access to key services. Collectively, these services help students avoid many of the direct and indirect costs, as well as the administrative hassle and hidden costs, they may encounter while living in private accommodation.

The integration of the Liberty Living business provides the opportunity to deliver an even better Home for Success to more students more efficiently.

Safe and secure

Safety forms a key part of how we operate as a responsible business, underpinned by our commitment to go above and beyond minimum standards to provide the safest and most secure environment for our students and employees. As a result, I am delighted that we have achieved a Five Star audit score (out of five) from the British Safety Council (BSC) following an Occupational Health & Safety audit in November. The audit measures our performance against a number of key safety management indicators, providing organisations with a worldwide benchmark of their safety management systems against current best practice to enable continual improvement. This result reflects significant improvement from our last audit 18 months ago, where we were awarded a Four Star rating.

This achievement is the culmination of hard work and investment, including additional health and safety resource and improved accountability and ownership of health and safety across the business. The hard work does not stop here and we remain absolutely committed to both understanding how we keep our students and employees safe, and executing this to the very best of our ability.

Fire safety is a critical part of our health and safety strategy. Our fire safety plans involve engagement with our primary authority, the Avon Fire & Rescue Service, and local fire brigades as well as input from independent fire safety experts who conduct annual assessments of our portfolio and have confirmed that all our properties are safe for occupation.

We also work closely with the Ministry of Housing, Communities and Local Government (MHCLG) to ensure our properties comply with emerging guidelines. As part of this, following the tragic events at Grenfell Tower, we have removed Aluminium Composite Materials (ACM) cladding from our buildings where needed, in line with Government advice. We take fire safety extremely seriously and are at the forefront of new improvements, being one of the first to act on ACM advice. More recently, and in accordance with the Government's Building Safety Advice of 20 January 2020, we are undertaking a thorough review of the use of High-Pressure Laminate (HPL) cladding on our properties.

We have identified 19 properties with HPL across our estate, all but three of which are greater than 18 metres in height. The majority of buildings have minimal HPL, covering less than a quarter of the buildings.

Tests of the materials and cladding systems are being carried out for each property. All our buildings have been confirmed safe for students to occupy by independent fire safety experts. In addition, special measures have been put in place at the affected buildings, including increased building patrols by staff and additional alarm measures, and we will remove this cladding where it fails to meet the new requirements.

We are committed to doing what's right, in line with our values. We do not expect there to be any building closures related to these works.

The cost of replacing the HPL cladding is expected to be £15-20 million (Unite share), which will form part of our capex programme for investment properties. We expect this spend to be incurred over the next 12-24 months, with activity prioritised according to our risk assessments. If we are successful in claims under build contracts, the cost for Unite could be lower than this figure.

Partner of choice for Universities

Our reputation with partner Universities is a key strategic advantage for Unite. The results of our latest independent Higher Education trust survey show that our reputation with Universities across the UK is at record levels. This is leading to a broad range of discussions about new opportunities with our University partners. In a highly competitive environment, Universities increasingly recognise the importance of high-quality accommodation in their ability to attract and retain students and ensure their satisfaction. Universities typically seek to guarantee accommodation for all 1st year and international students, recognising that housing helps students settle into University life and forms an important part of their offer to students.

Unite is increasingly viewed as a strategic partner by Universities in delivering their long-term accommodation strategies, building on our best-in-class operating platform and the commitment of 1,900 people whose understanding of students is informed by our almost 30-year history in the Higher Education sector.

We put these capabilities at the disposal of Universities through a sustained engagement programme, spanning multiple levels and functions within Universities. Our local management teams work closely with University accommodation offices, student services and sustainability teams to ensure we fully meet their requirements on a day-to-day basis. A dedicated University engagement team, meanwhile, maintains regular contact with Vice-Chancellors and their leadership teams to ensure we fully understand – and can contribute to – their long-term ambitions and strategy.

Following the acquisition of Liberty Living, the enlarged Group now has nearly 41,500 beds let under nomination agreements with 45 of the UK's leading institutions. The acquisition deepens some of our key University relationships and brings new relationships with Russell Group institutions such as the University of Manchester, the University of Sheffield and Cardiff University. The Liberty Living portfolio broadens our product range, including lower price points in some markets, helping us meet demand from Universities for high-quality, affordable accommodation.

For the 2019/20 academic year, 56% of the combined Group's beds are let under nomination agreements (2018/19: 60%), reflecting a lower level of nominations in the Liberty Living portfolio. This compares to just under 20% of beds under nominations agreements among our peers in the corporate Purpose-Built Student Accommodation (PBSA) sector. With an average remaining life of six years, our multi-year nomination agreements provide us with visibility for average annual rental growth of 3.0% over the next five years at current levels of inflation and utilisation.

During 2019, we secured two further long-term University partnerships with the University of Bristol and the University of Leeds. These agreements will further enhance the alignment of our income to high and mid-ranked Universities. We are also in active dialogue with 11 Universities over potential partnerships, covering nearly 24,000 existing and new beds. These discussions often cover a range of potential solutions on a city-wide basis, including multi-year nomination agreements for our existing operational assets, on-campus and off-campus developments and stock transfer / outsourcing arrangements.

Operating quality buildings

The quality, location and scale of our portfolio is a key component of our business model and long-term strategy. We aim to operate high-quality, affordable buildings and offer a range of price points to meet the needs of different students. Our properties are located in and around leading Universities where student demand is strongest. We believe that our focus on these institutions is the best strategy for driving continued high levels of occupancy and rental growth. We are therefore focussing our portfolio activity on further improving alignment to high and mid-ranked Universities and being in the best locations. For the 2019/20 academic year, 88% of our income is generated by students attending such Universities (2018/19: 90%). This alignment has been modestly diluted by the acquisition of the Liberty Living portfolio but will be enhanced by our development pipeline and planned disposals.

During 2019, in addition to the Liberty Living acquisition, we opened 2,390 new beds, added 456 beds to our portfolio through acquisition and sold 1,127 beds to third parties. Taking into account these activities and the acquisition of Liberty Living, together with valuation movements, the value of our investment portfolio (including our share of USAF and LSAV) is £4.7 billion as at 31 December 2019 (2018: £2.7 billion).

We made excellent progress in our development pipeline during the year. We delivered three buildings on time and budget for the 2019/20 academic year, with approximately 70% of the beds secured under nomination agreements with an average life of 16 years, supporting our quality of income. Planning consents and build contracts are in place for all 2020 and 2021 deliveries and plans for schemes to be delivered in 2022 and 2023 are being progressed. We intend to maintain a development run-rate of approximately 2,000 beds or £150-200 million of annual capital expenditure, with opportunities once again emerging in London following a softening in land values. London remains our most under-supplied market, with some of our strongest University relationships.

Disposals remain an important part of our strategy and we will continue to recycle assets out of our portfolio to ensure that we increase our exposure to the UK's best Universities, while generating capital to invest in further development activity and other investment opportunities. During the year, we completed £298 million of disposals (Unite share £249 million) in line with book value, across seven properties at a blended yield of 5.7%.

We intend to sell a further £150-200 million of assets per annum (Unite share) in both 2020 and 2021, including some assets acquired with Liberty Living, to help reduce our LTV from 37% at the year end to its medium-term target of 35%. This disciplined approach to portfolio optimisation underpins our ability to sustain rental growth over a longer time horizon and fund the development pipeline.

Unite as a responsible business

We believe in acting responsibly and sustainably in all areas of our business. Our Up to uS programme works to make a difference in areas including our environmental impact, diversity, affordability, mental health and wellbeing. We look to engage with our multiple stakeholders to inform our strategy and understand how we can sustainably deliver value over the long term.

We continue to invest in our portfolio to improve our energy efficiency, through initiatives such as smart building controls, solar panels and air source heat pumps. In addition, there are opportunities to roll out a range of energy efficiency measures across the former Liberty Living estate. We are committed to acquiring 100% renewable energy, which has contributed to reductions in our carbon emissions, and recently signed a Power Purchase Agreement to buy around 30% of our electricity from a dedicated wind farm in Scotland (excluding Liberty Living properties). In addition, we work with the National Union of Students (NUS) through their Positive Impact Awards to encourage environmentally friendly living habits by our customers as they live independently for the first time in many cases.

We also believe strongly in delivering social value by supporting Universities to widen participation into Higher Education and helping to improve outcomes for students. The Unite Foundation works in partnership with 27 Universities to provide support to students from challenging backgrounds and is providing financial support to 189 students for the 2019/20 academic year. We accelerated the national roll out of our Leapskills programme for school leavers in 2019 and continue to connect students to prospective employers through our Placer app.

We want to be a great place to work and are committed to creating diverse and engaged teams. We are an accredited Real Living Wage Employer and hold the prestigious Investors in People Gold Standard accreditation, reflecting our focus on recruiting, retaining and developing the very best people. We also employ around 160 of the students who live with us as Ambassadors, providing meaningful employment and development opportunities for young people each year.

Our sustainability performance is reflected in achieving the leading GRESB performance in the listed residential sector in Europe and a three star rating, our AA rating from MSCI and a Most-Improved Award under EPRA's Sustainability Best Practice Recommendations.

2020 will see the launch of a dedicated sustainability report as we look to provide greater transparency and accountability around our ESG initiatives. We plan to introduce stretching new carbon targets for our enlarged business and will also adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Growing demand for Higher Education

The outlook for student accommodation remains positive, with structural factors continuing to drive a demand-supply imbalance for our product. The UK Higher Education sector is recognised globally for the strength of its Universities and the contribution it makes to research, innovation, talent development and the UK economy and our society more broadly. The UK is the second most popular destination for international students and 28 UK Universities feature in the top 200 of the QS World University rankings. Unite works with 21 of these institutions.

Demographic pressures, resulting in a shrinking 18-year-old population since 2015, reverse rapidly from 2021. Participation rates also continue to grow, reflecting the value young adults place on a higher level of education and the financial stability it offers. Moreover, the Government is targeting a 115,000 increase in international student numbers by 2030, which will be aided by the launch of a new two-year post-study visa for the 2020/21 academic year. JLL forecasts a 335,000 increase in full-time student numbers by 2030 on the assumption of current participation rates. Given constraints on new supply of University-owned stock and private-rented housing, the vast majority of this new demand will need to be met by corporate PBSA providers.

The Government's response to the Augar Report on post-18 education and funding is expected later this year. We are encouraged by the Government's desire to strengthen the global standing of the UK Higher Education sector and increase and widen participation in post-18 education.

Brexit will have a negative impact on EU student numbers from 2021/22, which accounts for 9% of our customers, due to the potential loss of 'Home' fee status and access to a tuition fee loan for EU students. We expect a 30% reduction in demand from EU students, equating to just under 3% of our customer base by 2023/2024. However, we are confident in our ability to absorb this impact thanks to the coinciding demographic growth for UK students and the more accommodating visa policy for non-EU students.

Coronavirus

We continue to monitor the situation regarding the outbreak of the Coronavirus, with the safety and wellbeing of our students and employees our top priority. We have been in contact with Public Health England since late January and are closely following their guidance, as well as that of the World Health Organisation. We have robust contingency plans in place and are taking steps to ensure our students have access to the most up-to-date information and advice.

To date, we have not seen a negative impact on reservations from international students for the 2020/21 academic year. We are monitoring the potential risk to our 2020 summer income and 2020/21 academic year income in the event of ongoing disruption. We will continue to work on mitigating actions and monitor the situation. We will provide an update if appropriate.

Outlook

The outlook for the business remains positive. Building on the foundations of the sector's strong fundamentals and our best-in-class operating platform, the Group is well placed to deliver sustainable earnings growth in the years ahead. Higher Education policy is likely to evolve during the current Parliament, but we expect increased participation in post-18 education to remain a key part of the Government's education strategy. Our alignment to and relationships with the best Universities, as well as our focus on delivering affordable, value-for-money homes for our customers, positions us well to navigate any changes.

There are significant growth opportunities available to the Group, created by increasing student numbers and the growing awareness of the benefits of PBSA among non-1st year students. We continue to see opportunities for new developments and University partnerships, building on the strength of our brand in the sector and the need of Universities to deliver on exceptional student experience in a competitive HE environment. We are one of the largest operators of rented residential accommodation in the UK and our operating capabilities provide us with a real opportunity. We see the potential to segment our existing customer proposition to better meet student needs and extend our offer to new customer groups.

Despite some uncertainty created by Brexit, the review of Higher Education funding and the Coronavirus outbreak, the outlook for demand remains strong. The early strength of applications data and reservations for the 2020/21 academic year are supportive of rental growth of 3.0-3.5% through a combination of value-driven price increases and improved utilisation. We are also confident in the medium-term outlook for earnings growth. Rental growth, together with cost synergies from the Liberty Living acquisition and new openings net of planned disposals, could add 16p to 20p to EPS on completion of our secured pipeline. This supports attractive total returns, through a balance of growing recurring income and NAV growth.

MARKET REVIEW

Record student numbers and participation rates

Full-time student numbers reached record levels at nearly 1.9 million for the 2018/19 academic year. The number of applicants and the number of students accepted onto courses in 2019 was 706,000 and 541,000 respectively (2018: 696,000 and 530,000). A 1.5% YoY increase in acceptances was driven by a record participation rate among UK 18-year-olds and a 7% increase in acceptances from non-EU students.

The initial applications data for the 2020/21 academic year is encouraging, with overall applications up 1.2%. A further increase in application rates has helped to offset the lowest point in the demographic dip for UK 18-year-olds. Growth has come from a record number of non-EU applicants (+14.7%), primarily driven by increases from China and India. Student demand remains strongest for higher-tariff Universities, which have seen applications increase by 4% YoY, in contrast with broadly stable applications for medium and lower-tariff Universities. This is consistent with our strategic focus on partnerships with the strongest Universities where student numbers are growing.

The medium-term outlook for student numbers is strong. Demographic pressures are forecast to reverse significantly from 2021, with the 18-year-old population returning to 2010's height by 2024 and continuing to grow strongly thereafter. This would imply demand for 213,000 additional UK undergraduate places by 2030 at current participation rates. High-tariff Universities have been the major beneficiaries of growth in student numbers since number caps were removed in 2012. Looking forward, we expect the return to demographic growth to bring greatest benefits to medium-tariff Universities, as high-tariff institutions look to strengthen or maintain their entry requirements.

In addition, the UK Government's international education strategy is targeting a 25% increase in the number of international students to 600,000 by 2030. In September 2019, the Government announced a new two-year post-study work visa for international students to be launched for the 2020/21 student intake. The new visa would replace the existing Tier 4 student visa, which typically entitles international students to remain in the UK for four months following completion of their course. The change is expected to improve the UK's international competitiveness in the Higher Education sector, helping to attract more students from China and improve the UK's share of international students from India, Hong Kong, Singapore and the Middle East.

Higher Education policy

The Augar review of post-18 education and funding was published on 30 May 2019. The report contained a number of recommendations to the way the Higher Education sector is funded, including: a reduction in the maximum annual amount of tuition fees payable by UK students from £9,250 per annum to £7,500 per annum; the reintroduction of means-tested maintenance grants of up to £3,000 per annum; and an increase in the period before which student loans are written off after graduation from 30 years to 40 years.

A student survey by the Higher Education Policy Institute (HEPI) revealed that students' views are mixed between the current tuition fee model and Augar's recommendation to lower headline fees: 40% prefer the current system of £9,250 paid back over 30 years; 41% prefer Augar's approach of £7,500 paid off over 40 years; and 18% have no preference between the two. More significantly, 79% of students say the level of interest charged on their tuition fee loan is one of the most important aspects of the funding system.

The Government has promised to carefully consider the recommendations of the Augar Report on tuition fee levels with a view to reducing the debt burden on students. In addition, the Government will consider the balance of funding between Universities, Further Education, apprenticeships and adult learning. We also expect an increased focus on the value-for-money delivered by Higher Education institutions and purpose-built student accommodation. The Government recently confirmed that the review of fees and funding will take place alongside the next spending review later in 2020.

We remain confident that our strategy of delivering high-quality, affordable homes for students and relationships with the best Universities in the UK positions us to successfully navigate future policy changes in these areas.

Awaiting clarity on Brexit

While the impact on student numbers of the UK leaving the EU is difficult to predict, the number of EU students studying in the UK continued to grow from 108,000 in 2014/15 to 129,000 in 2018/19, made up by 94,000 undergraduates and 35,000 postgraduate students.

The near-term outlook for EU students has been supported by the Government announcement that students from the EU starting their courses in 2020/21 will have current funding arrangements guaranteed for the duration of their degrees, meaning that the full impact of any new funding arrangements following the UK leaving the EU will not take effect until 2023/24.

Following Brexit, there is a risk that tuition fees for EU students will rise from £9,250 to the higher rates currently paid by non-EU students, as well as EU students no longer having access to a tuition fee loan. As a result, we are forecasting a 30% decline in EU undergraduates by 2023, equating to a fall of around 2% of total students.

The terms of the EU withdrawal agreement outline that the UK will continue to participate in the EU's current Erasmus+ and Horizon 2020 Research and Innovation programmes. The Government has also stated that participation in successor programmes to Horizon 2020 and Erasmus+ will be discussed during transition period negotiations as details of the new programmes emerge. Despite the uncertainty this creates, we are encouraged by the Government's stated desire to maintain and strengthen the UK's global position in Higher Education.

Sustainable rental growth

The UK PBSA market delivered rental growth of 2.6% for the 2019/20 academic year (Cushman & Wakefield), a modest reduction on the 2.8% delivered in 2018/19. Beds under nomination or lease agreements produced rental growth of 3.3% in 2019/20, above the 2.3% rental growth delivered by direct-let beds. This reflects pressure on direct-let rents in some mature markets adjusting to competition from new supply. We remain focused on providing a cluster-led ensuite product at more affordable price points, which aligns with the requirements of our University partners.

For the 2019/20 academic year, average weekly ensuite rents for corporate PBSA ranged from £120-170 per week in major provincial markets and £232 per week in London. This compares to Unite's average ensuite rent of £138 in provincial markets and £221 in London. The largest segment of PBSA demand remains at a price point of between £100 to £150 per week, where there is also the opportunity to attract more non-1st year students from the private rented sector. 66% of Unite beds in provincial markets are priced below £150 per week.

Current UK inflation implies a slight reduction in rental growth from multi-year nomination agreements with fixed or inflation-linked annual rental increases for 2020/21 to around 3%. However, we remain confident in delivering rental growth across the portfolio of 3.0-3.5% for 2020/21 through further utilisation enhancements and value-driven price increases.

Increasing focus on value-for-money

The Augar Report also underlines that Universities retain a responsibility for delivering value-for-money to students, which includes University accommodation, and recommends that the Office for Students should examine the cost of student accommodation more closely to improve the quality and consistency of data. A recent survey of 60,000 students by Knight Frank and UCAS underlined that value-for-money is the most important factor influencing students' decisions on where to live. Accommodation choice is not entirely driven by cost, with students willing to pay a premium for certain features and amenities.

We will continue to offer a range of price points to meet the needs of different customers and demonstrate the value-for-money that living with Unite offers by delivering the services that students and our University partners' value. These include: all-inclusive bills and high-speed Wi-Fi; hassle-free administration; committed and highly trained staff on hand when they're needed; a range of proprietary digital platforms; rapid response maintenance; and 24/7 emergency support.

Adjusting for all-inclusive bills in Unite properties and shorter average tenancy lengths than HMOs, the cost of our accommodation is around 8% more expensive than the private-rented sector in our provincial markets. This equates to £10 more per week for the additional service and product features we provide. This includes the quality of our locations, communal study spaces, ensuite bathrooms and hassle-free offer, which can positively impact wellbeing and allows students to focus on what is important. We are confident in the value-for-money our service provides to students.

The Augar Report recognised the improvement in quality of student accommodation over the past 20 years, through a growing proportion of ensuite and studio rooms and improved amenity space. The average weekly cost of a new PBSA bed space delivered in 2019/20 was £149, according to Cushman & Wakefield, which when adjusted for inflation is just over £1 higher in real terms compared to 2016. Cushman & Wakefield analysis suggests that the overall quality of new beds delivered in 2019 was 6% higher than 2018 deliveries when adjusting for features such as bed size, storage space, natural light and common space.

Strong investment appetite

The PBSA continues to perform well. Strong fundamentals and a track record of consistent rental growth continue to attract significant volumes of capital, despite a reduction in investment volumes in the wider UK real estate sector due to political uncertainties. Approximately £3.1 billion of assets traded in 2019 (CBRE), excluding our acquisition of Liberty Living's £2.2 billion UK portfolio. This is lower than the high levels seen over recent years, due to less stock coming to market following a period of consolidation by larger operators and Brexit-related uncertainty.

There is still a strong appetite to deploy capital in the sector, with investment demand principally coming from international or institutional investors. As the sector has matured, investors have become more focused regarding strength of location, the health of local Universities, building amenities and fire safety. We also see a focus on operating platforms and scale, which continues to drive the consolidation of the sector in the UK. New entrants to the PBSA market and institutional investors generally lack management or development platforms. Hence, a number of recent transactions have been structured as sale and management agreements, incorporating a mix of operational and pipeline assets.

Yields remain well supported

Yields in the sector have slightly reduced over the past year, reflecting investor demand and the attractive income characteristics of the sector. However, we have witnessed a growing divergence in pricing between prime and secondary markets. Prime London assets have seen further yield compression, with transaction evidence setting a new benchmark yield of sub-4% in zone 1 locations in London. In addition, there remains significant investor focus on prime provincial markets such as Edinburgh, Bath, Bristol, Oxford and Manchester where student demand remains strong and there are most competing uses for land.

Demand for secondary and tertiary assets has reduced, resulting in yields in some provincial markets drifting higher. This reflects a weakening demand-supply balance in some cities aligned to lower-ranked Universities. However, we consider income performance and asset pricing to be well supported in good-quality secondary markets, particularly for affordably priced properties which remain fully let and have greatest potential to attract students from the private rented sector.

Looking forward, we see yields remaining broadly stable in 2020, albeit with continuing polarisation between prime and secondary markets in a competitive market for student numbers.

An indicative spread of direct-let yields by location is outlined below:

	31 Dec 2019	31 Dec 2018
London	3.75-4.25%	4.00-4.50%
Prime provincial	4.50-5.00%	4.50-5.00%
Major provincial	5.25-5.75%	5.25-5.75%
Provincial	6.25-6.75%	6.00-6.50%

New supply reliant on corporate PBSA providers

The PBSA sector now provides homes to over 650,000 students, representing around one-third of the UK's student population. At this level, there still remains a 243,000 shortfall in beds compared to the numbers of 1st-year and international students, before taking account of the increasing numbers of 2nd and 3rd-year students who are choosing this type of accommodation.

2019 saw the delivery of an additional 32,000 beds across 40 different UK markets, of which 73% was delivered in the 27 cities in which Unite operates. Some provincial markets saw high concentrations of new completions in the year, including Sheffield, Liverpool and Newcastle, which has depressed rental growth and occupancy as new supply is absorbed. Studios accounted for around a third of the new deliveries, consistent with recent years, leading to an over-supply of more expensive product in some cities.

Around 7,000 beds left the market in 2019 driven by obsolescence, resulting from the delivery of new product. Closures have been concentrated in ageing University-owned stock, 50% of which is now over 20 years' old (Cushman & Wakefield). The majority of new deliveries now offer large common spaces and Cushman & Wakefield reports that 95% of all new beds delivered in 2019 offer a three-quarter double bed or larger.

The corporate PBSA sector accounted for 87% of the beds delivered for the 2019/20 academic year, the highest proportion of new beds on record according to Cushman & Wakefield, underlining the corporate sector's importance in helping to meet the growing need for student accommodation.

A number of new openings for 2019 were impacted by late delivery, meaning that affected students were required to find temporary accommodation for the start of their courses. All of Unite's new openings were delivered on time for the 2019/20 academic year, continuing our long-term track record in the sector. We work closely with our University partners and supply chain to ensure our new developments deliver the student experience expected by our customers. This is recognised in our success in securing nominations agreements on around 65% of new beds delivered by the business in the past five years.

We expect new supply will moderate to around 25,000 beds in 2020 and reduce further thereafter as certain larger provincial markets adjust to recent new supply and planning policy becomes more restrictive towards PBSA. The new London Plan requires new student accommodation to secure a nomination agreement with one or more Higher Education providers as well as the provision of at least 35% of units at affordable student rents. Moreover, local authorities are increasingly keen to promote new supply in the Build to Rent (BTR) sector, which is creating increased competition for development sites in major UK cities. We are also witnessing a growing trend for mixed-use planning consents, incorporating BTR residential homes and co-living alongside student accommodation. The combination of these factors increases barriers to entry for new PBSA supply, but plays to the strengths of our long-held University relationships and highly experienced development team.

Development costs relatively stable

Activity in the UK construction sector remains in modest decline, with new orders declining in the second half of 2019. However, optimism has rebounded following greater clarity around Brexit and the election result, which has the potential to increase order books through 2020. Lower activity has seen input cost inflation ease; however, this has been offset by pressures on labour costs, reflecting structural shortages in some skilled trades. Overall, we anticipate build cost inflation of 1.5-2% in 2020 and 2-3% in 2021.

Land prices have remained relatively stable in regional markets despite improvements in PBSA valuations. This reflects some caution on the part of developers given heightened levels of recent political uncertainty. Land price inflation has been particularly muted for larger sites capable of delivering greater than 500 beds, which remain the target for our land purchasing. In London, land values have softened over the past year as a result of depressed activity in both the office and built-for-sale residential sectors. This has improved the viability of student accommodation in zones 1 and 2 in central London, where we once again see opportunities to acquire sites which meet our hurdle rates for development. The depth and duration of this opportunity is uncertain given improving sentiment and transaction levels in other sectors following the General Election, which may create more competition for development sites.

OPERATIONS REVIEW

The Group continues to report on an IFRS basis and presents its performance in line with best practices as recommended by EPRA. The Operations and Property reviews focus on EPRA measures as these are our key internal measures and aid comparability across the real estate sector.

Sales, rental growth and profitability

The key strengths of our operating business are our highly committed people, our PRISM operating platform, our brand and the strength of our relationships with Universities. We continued to build on these in 2019, delivering a 15% increase in EPRA EPS to 39.1p (2018: 34.1p). This growth has again been driven by high occupancy, rental growth and the impact of capital recycling, as well as further operational efficiencies and ongoing cost discipline.

Summary income statement	**2019 £m**	**2018 £m**
Rental income	213.9	188.3
Property operating expenses	(53.1)	(48.0)
Net operating income (NOI)	**160.8**	**140.3**
NOI margin	*75.2%*	*74.5%*
Management fees	14.4	15.6
Operating expenses	(21.8)	(21.7)
Finance costs	(43.9)	(40.0)
Acquisition and net performance fees	6.8	-
Development and other costs	(5.7)	(5.8)
EPRA earnings	**110.6**	**88.4**
EPRA EPS	**39.1p**	**34.1p**
EBIT margin	*71.7%*	*71.3%*

A reconciliation of profit after tax to EPRA earnings is set out in note 2.2b to the financial statements.

Rental income has increased by £25.6 million, up 14%, as a result of like-for-like rental growth, new openings and just over one month's contribution from Liberty Living, offset by the impact of disposals made in the year. This resulted in a 15% increase in NOI to £160.8 million and an improvement in NOI margin to 75.2% (2018: £140.3 million and 74.5%).

The efficiency programme implemented in 2018 helped mitigate underlying inflation in overheads by streamlining processes and procedures identified through our student insight and delivered thanks to PRISM and our scale efficiencies. Management fee income from joint ventures was £21.2 million (2018: £15.6 million), as a result of recurring management fees of £14.4 million and non-recurring fees of £6.8 million (2018: £13.2 million and £2.4 million). This includes £4.6 million from partial recognition of the LSAV performance fee (2018: nil). We have continued to make progress towards our EBIT margin target of 74% by the end of 2021, achieving 71.7% in 2019, through scale and further operating efficiencies. Following the acquisition of Liberty Living, we see further opportunities to enhance the enlarged Group's EBIT margin target over time through procurement savings, investments in energy efficiency and customer segmentation.

Finance costs increased to £43.9 million (2018: £40.0 million). An increase in net debt during the year to £1,884 million (2018: £856 million) was caused primarily by the acquisition of Liberty Living at the end of November and was partially offset by a lower average cost of finance in 2019 of 3.6% (2018: 3.8%) as we have utilised revolving credit facilities at lower average rates. Interest capitalised into development schemes decreased from £10.5 million to £9.1 million, driven both by lower development spend and lower capitalisation rates. We expect capitalised interest to remain at around this level given the ongoing level of development activity in 2020 and 2021.

Development (pre-contract) and other costs remained broadly flat at £5.7 million (2018: £5.8 million), reflecting site acquisitions, the earnings impact of share-based incentives and our contribution to our charitable trust, the Unite Foundation.

Occupancy, reservations and rental growth

Occupancy across Unite's portfolio for the 2019/20 academic year stands at 98% and like-for-like rental growth of 3.4% was achieved. Beds under like-for-like nomination agreements delivered 3.4% rental growth, reflecting fixed or inflation-linked uplifts on multi-year agreements. Direct-let beds delivered 3.8% YoY growth on a like-for-like basis, through a combination of value-driven price increases as well as improvements in the utilisation of our assets. We are offering more 51-week tenancies where we see demand, in particular from international students. In addition, we achieved a 46% increase in summer income in 2019 by changing tenancies to support summer demand, increased focus and delivery by our teams and through the introduction of hotel-style stays in certain locations. We forecast utilisation of 88% for 2019/20 and continue to see the potential to improve utilisation to the low-90%s over the medium term.

At a fund level, LSAV delivered rental growth of 4.8% for 2019/20, reflecting the portfolio's focus and the ongoing shortage of purpose-built accommodation in London. The wholly owned and USAF portfolios delivered rental growth of 3.4% and 2.9% respectively, reflecting a higher level of nomination agreements in those portfolios and a higher weighting to more highly penetrated provincial markets.

2019/20 rental growth **By fund**	%	**By type**	%
Wholly owned portfolio	3.4%	Nominations	3.4%
USAF	2.9%	Direct let	3.8%
LSAV	4.8%	Non like-for-like**	2.9%
Total	**3.4%**	**Total**	**3.4%**

* *Excludes sale and leaseback properties and Liberty Living properties*

** *Non like-for-like properties include buildings which have changed from nominations to direct-let, or vice versa, during the year*

We have maintained a high proportion of beds let to Universities, with 56% of rooms under nominations agreements (2018/19: 60%). The decrease in our weighting to nominations agreements reflects the slightly lower level of nominations in the legacy Liberty Living portfolio. The acquisition of Liberty Living has deepened some of our key University relationships, and brings new relationships with Russell Group institutions such as the University of Manchester, University of Sheffield and Cardiff University.

65% of these agreements, by income, are multi-year and therefore benefit from annual fixed or inflation-linked uplifts. These agreements secure average annual rental growth of 3.0% over the next five years at current levels of inflation and utilisation. The remaining agreements are single year and we again achieved a renewal rate of 85% on these agreements. Enhanced service levels and our extensive understanding of student needs have resulted in longer term and more robust partnerships with Universities over recent years. The unexpired term of our nominations agreements is six years, in line with 2018.

We expect the proportion of beds let to Universities to remain at or around this level in the future. This balance of nominations and direct-let beds provides the benefit of having income secured by Universities, as well as the ability to offer rooms to re-bookers and postgraduates and determine market pricing on an annual basis.

Agreement length	Beds 2019/20	Beds 2018/19	2019/20 % Income
Single year	15,264	7,543	35
2-5 years	11,214	11,672	28
6-10 years	4,579	1,675	12
11-20 years	5,224	4,026	13
20+ years	5,203	4,099	12
Total	41,484	29,105	100

UK students account for 60% of our customers and account for a large proportion of the beds under nomination agreements with Universities. In addition, 31% and 9% of our customers come from non-EU and EU countries respectively, reflecting the relative appeal of our hassle-free product when compared with alternatives in the private rented sector.

Re-bookers accounted for 28% of our direct-let bookings for the 2019/20 year, increasing the proportion of our direct-let beds let to non-1st years to 75%. This reduces our exposure to less predictable 1st year undergraduate customers and puts less emphasis on clearing following A-level results.

Postgraduates have increased as a share of our total customer base over the past five years, driven by strong growth in UK postgraduate numbers and increasing awareness of the benefits of PBSA. In response, we are considering how to tailor our offer for postgraduates as part of our wider review of customer segmentation.

Reservations for the 2020/21 academic year are encouraging at 73%, in line with record levels in 2018, as a result of our continued focus of working alongside the UK's best Universities, the success of our online marketing strategy and further progress through our local marketing operation in China. We continue to monitor the situation regarding the outbreak of the Coronavirus and its potential impact on reservations for summer 2020 and the 2020/21 academic year, and we are working on mitigation plans if required.

We have good visibility over rental growth for the 2020/21 academic year, with the nominations agreements in place on a large proportion of our beds. Falling UK inflation over the past 12 months will result in a slight reduction in rental growth from multi-year nomination agreements with annual RPI-linked rental increases. However, we still anticipate annual rental increases of just under 3% from our nomination agreements. In addition, we also see a positive outlook for direct-let sales through re-bookers and growing demand from non-EU international and postgraduate students. We expect increases in utilisation to contribute around a third of our 3.0-3.5% rental growth target for 2020/21, through a combination of longer tenancy lengths and new multi-year group bookings.

Enhancing our customer proposition

Our best-in-class operating platform continues to drive both service enhancements and operational efficiency. We remain committed to reinvesting a significant proportion of savings in enhanced customer services that deliver value-for-money for students and support our purpose of creating a Home for Success. This includes investment in our MyUnite app, our Student Ambassador programme and staff training around student welfare. This ongoing investment in our customer proposition is factored into our 74% EBIT margin target.

Home for Success forms a key component of how we operate as a responsible business, and means providing a living environment that enables students to get the very best out of their time at University. With this in mind, we continue to invest in the things that our extensive research tells us matter most to them: the smoothest possible transition to University life; a home that is safe and secure, where they can study and socialise in the way they want; and ensuring that help is on hand when needed.

Making sure the move to University and the process of settling in is as smooth as possible for students enhances retention and reduces the workload on our teams. In delivering this experience, we bring together our expertise in design and a carefully designed suite of traditional and digital services delivered by people who have a long experience of welcoming students from every background to their new life.

We continue to strengthen our relationship with our customers, as reflected in record student satisfaction, up to 85 in 2019 from 83 last year. Our net promoter score (NPS) has also increased from 17 in 2018 to 19 in 2019, reflecting enhancements to customer service and greater consistency across the estate. This puts us materially ahead of the wider corporate PBSA sector (NPS of 6) and University PBSA (NPS of -4) based on the latest National Student Housing Survey. Our success in providing buildings and a student offer that is valued by Universities is evidenced by our ongoing success in delivering valuable nominations agreements and our independently verified University Trust score that increased to a record level of 82 in 2019 (2018: 81).

Recent service enhancements

The MyUnite app, currently used by 90% of our students, gives a platform for students to message each other in a moderated forum before moving in. In response to student demand, we have also recently rolled out an online check-in service, also available through the app and used by 75% of students to be offered the facility in 2019. Allowing students to book check-in slots makes for a smoother check-in day and allows our people to concentrate on providing a hassle-free and positive experience for new students, helping them to settle in quicker.

Once living with us, the MyUnite app allows students to log maintenance requests and anonymous noise complaints, book and use laundry machines and notify the security team if they are locked out of their room so they can be let in at any hour. The logging of maintenance requests has been improved further, allowing auto-scheduling and monitoring of requests to help our teams deliver fixes by the end of the working day in 80% of cases. All of these functions put more power and choice into our students' hands, and also increases our operating efficiencies, allowing us to concentrate on offering unbeatable service. These digital channels are increasing in popularity with our students, as illustrated by a 13% increase in online WebChats to our contact centre, versus a 23% reduction in calls regarding students' accounts and a fall of 40% in general customer service calls compared to the previous year.

Helping students settle in

Our Student Ambassador programme typically involves 2nd and 3rd-year students, who have chosen to stay with Unite, providing peer-to-peer support within their buildings, especially for students arriving at University for the first time. They are on hand to help students move into their rooms quickly on check-in day, find the facilities they will need and to advise on the realities and practicalities of student life. Over the coming weeks and months, they represent a highly accessible source of support at critical points during a student's journey through University. We have recruited a 160-strong network of Student Ambassadors to help our 2019 intake of students, all of whom gain valuable work experience and personal development and are paid the National or London Living Wage.

Before students arrive, we offer both physical and virtual property tours and room viewings to familiarise students with their new home. We also review and improve our welcome communications each year to make sure the information students receive before leaving to go to University is relevant and needed, while not overwhelming. These communications feature local information for the student's chosen city, linking them to local amenities, events and services. We also guide our students to our online Common Room, which was visited by over 180,000 people in 2019, over two-thirds of whom were completely new users. Articles classed as Student Living and Health & Wellbeing had the highest combined views, and these make up a key part of our welcome communications. 80% of customers surveyed said they found their pre-arrivals communications useful, and pre-arrival calls to our contact centre reduced by 7%.

Student wellbeing

During the year, we collaborated with the British Property Foundation to create a wellbeing guide and to drive positive change within the PBSA sector, leading by example. The guide outlines key findings on student welfare and suggests best practice within the sector. The guide was endorsed by the Department for Education.

We were the first in the sector to develop a professional framework for student wellbeing and to hire student service professionals to advise and guide our teams on difficult or unfamiliar situations. Our customer service teams are all trained in active listening to ensure they have the tools they need to quickly identify potential welfare issues before they become problematic and, if necessary, signpost students to an appropriate professional service. We also link in with University support networks and local wellbeing services, including the third-party peer-to-peer advice call centre, Nightline. We operate a 24/7/365 emergency contact centre for times of need, who received around 94,000 calls during the year.

We have a clear escalation process in which all team members can raise a concern about a student's wellbeing, and we work very closely with our University partners to direct them to the support they need. Each of our city teams has trained mental health first aiders and we regularly update our staff on trends and emerging issues in student welfare. We recognise the important part student accommodation has to play in student welfare, and the opportunity we have to influence a positive student experience from transitioning to student life and throughout their journey through University.

Improving outcomes for students

Our student insight programmes consistently tell us that students' expectations before moving to University do not align with the reality of student living. To tackle this disparity, we launched Leapskills in 2018, a programme that helps to build resilience in prospective students and address key issues they may face on a day-to-day basis. The programme is made up of free resources, including a digital game that lets students and their teachers explore a virtual student accommodation block and look at what tricky scenarios they may encounter. This evokes discussions around living with peers, managing finances and potentially feeling lonely, among other topic areas. The programme has been received overwhelmingly well, with students and teachers telling us that the courses have better prepared them for University life. The Department of Education has also endorsed and championed Leapskills. 64 educational institutions have now signed up for Leapskills and over 1,700 students have already participated in the programme to help them better prepare for University.

To deepen our student offer, we have partnered with Placer, a work experience matching app that helps to connect students with the best work experience opportunities available to supplement their University course. Historically, placements have been hard to reach for some students, but Placer levels the playing field to offer equal opportunities to any student who signs up to the service for free. This means socio-economic background and other factors will not influence a student's ability to gain work experience. So far, nine Universities are live with Placer with a further six committed for the 2019/20 academic year. To date, opportunities from 4,124 employers, including top graduate employers Enterprise-Rent-A-Car, HSBC, GSK and EY, have been shown to 7,000 students, with 25,000 saved to student shortlists and 2,000 clicks to apply. These opportunities positively supplement the students' University course and improve future employability.

Improving access to Higher Education

Moving to University, progressing in your subject and then eventually graduating are huge milestones in anyone's life. These challenges are even harder if you do not have the support of a family. The Unite Foundation charity was founded in 2012 to work with students who do not have family support to help them through this process, offering care leavers and estranged students wrap-around support as part of an accommodation scholarship with Unite. Only 6% of care leavers under the age of 21 go to University, with almost half dropping out from their course. The Unite Foundation is proud that its scholars show a 92% continuation rate from their first year of study. The Foundation currently works with 27 University partners, has awarded over 400 scholarships since 2012 and 130 students have already graduated; transcending their early academic disadvantage.

University relationships

Our reputation with Universities is another of our key performance metrics, and our latest Higher Education Trust survey revealed our reputation is at an all-time high. This is the result of our active engagement with our Universities at various different levels in the business; from the day-to-day operational activity with our city teams and liaising with University accommodation offices and student services to strategic conversations with Vice-Chancellors and their senior teams through our Higher Education engagement team and senior management. We are committed to helping our University partners to meet their own goals, such as customer satisfaction scores, student experience, wellbeing and retention goals. We continue to secure long-term nominations agreements that reflect this confidence in our offer, and our Universities increasingly view us as a strategic partner to their long-term accommodation strategies rather than just a traditional supplier.

Our partners are also invested in our long-term commitment to widening participation in Higher Education, through the Unite Foundation, and our deep insight and research programmes and campaigns. We have also received positive feedback within the sector for our Leapskills programme.

During the year, we launched our Higher Education website which caters specifically to potential and current University partners. This includes information on our Home for Success purpose and brand promises, as well as information on how we can work to create tailored offers for our partners. There are also links to our student insight programmes and blogs from our thought leaders.

Our acquisition of Liberty Living positions us as an even stronger partner for Universities, increasing our presence from 22 to 27 towns and cities across the UK. This has given us the opportunity to connect with more of the UK's strongest Universities and allows us to offer a wider range of accommodation options in our existing markets to better match what our University partners need for their students.

PROPERTY REVIEW

EPRA NAV growth

EPRA NAV per share increased by 8% to 853 pence at 31 December 2019 (31 December 2018: 790 pence). In total, EPRA net assets were £3,110 million at 31 December 2019, up from £2,085 million a year earlier.

The main drivers of the 63 pence per share growth in EPRA NAV per share were:

- The growth in the value of the Group's share of investment assets as a result of rental growth (+20 pence) and yield compression (+11 pence)
- The value added to the development portfolio (+24 pence)
- The impact of the share placing, acquisition of Liberty Living and associated expenses (+6 pence)
- The impact of retained profits and other items (+2 pence)

	£m	**Diluted pence per share**
EPRA NAV as at 31 Dec 2018	**2,085.4**	**790**
Rental growth	72.4	20
Yield movement	40.9	11
Development property gains	87.0	24
Share placing and Liberty Living acquisition	785.2	6
Retained profits/other	38.8	2
EPRA NAV at 31 Dec 2019	**3,109.7**	**853**

Property portfolio

The valuation of our property portfolio at 31 December 2019, including our share of gross assets held in USAF and LSAV, was £5,225 million (31 December 2018: £2,967 million). The £2,258 million increase in portfolio value (Unite share) was attributable to:

- Valuation increases of £206 million on the investment and development portfolios, with like-for-like rental growth of 3.4% and yield compression of 11 basis points
- Capital expenditure on developments of £224 million, including interest capitalised
- Capital expenditure of £15 million on investment assets relating to refurbishment and asset management initiatives
- The acquisition of Liberty Living, representing £2,019 million of gross assets
- Other acquisitions of £7 million, disposals of £250 million and the impact of the change in Unite's ownership stake in USAF of £(74) million
- £110 million due to the recognition of leased assets under IFRS 16

The see-through net initial yield of the portfolio is 5.00%, including properties acquired from Liberty Living (December 2018: 5.00%). For investment assets held throughout the year, there has been 11 basis points of yield compression. The Liberty Living portfolio was valued at an average net initial yield of 5.26% at the year end.

Our alignment to growing Universities means that our portfolio is well placed to deliver continued rental growth.

Summary balance sheet

	31 December 2019			31 December 2018		
	Wholly owned £m	**Share of Fund/JV £m**	**Total £m**	**Wholly owned £m**	**Share of Fund/JV £m**	**Total £m**
Rental properties	3,407	1,296	4,703	1,497	1,188	2,685
Rental properties (leased)	110	-	110	-	-	-
Properties under development	412	-	412	279	3	282
Total property	3,929	1,296	5,225	1,776	1,191	2,967
Net debt	(1,450)	(434)	(1,884)	(471)	(385)	(856)
Lease liability	(99)	-	(99)	-	-	-
Other assets/(liabilities)	(120)	(13)	(133)	(14)	(12)	(26)
EPRA net assets	**2,260**	**849**	**3,109**	**1,291**	**794**	**2,085**

The proportion of the property portfolio that is income generating is 92% by value, up from 90% at 31 December 2018, with 8% now under development. The portfolio is 34% weighted to London by value on a Unite share basis, which will rise to 38% on a built-out basis following completion of our secured development pipeline.

Unite investment portfolio analysis at 31 December 2019

		Wholly owned	**USAF**	**LSAV**	**Lease**	**Total**	**Unite share**
London	Value (£m)	1,015	391	1,061	17	**2,484**	**1,648**
	Beds	*3,499*	*1,870*	*5,291*	*260*	***10,920***	***34%***
	Properties	*11*	*6*	*12*	*1*	***30***	
Prime provincial	Value (£m)	877	641	-	29	**1,547**	**1,047**
	Beds	*7,042*	*5,342*	-	*618*	***13,002***	***22%***
	Properties	*15*	*18*	-	*2*	***35***	
Major provincial	Value (£m)	1,198	1,527	274	29	**3,028**	**1,701**
	Beds	*17,324*	*19,506*	*3,067*	*753*	***40,650***	***35%***
	Properties	*37*	*48*	*1*	*2*	***88***	
Provincial	Value (£m)	317	291	-	35	**643**	**417**
	Beds	*4,957*	*3,520*	-	*1,059*	***9,536***	***9%***
	Properties	*11*	*10*	-	*3*	***24***	

Total	**Value (£m)**	**3,407**	**2,850**	**1,335**	**110**	**7,702**	***4,813***
	Beds	*32,822*	*30,238*	*8,358*	*2,690*	***74,108***	***100%***
	Properties	*74*	*82*	*13*	*8*	***177***	
Unite ownership (£m)		**3,407**	**628**	**668**	**110**	**4,813**	

Buildings designed for students

The focus of our property activity is to provide buildings designed specifically around the needs of today's students, in the best locations alongside high-performing Universities. We involve our University partners in the design and planning process to ensure that we are delivering buildings that meet the requirements of their students. We also aim to provide value-for-money accommodation and look to continually enhance the specification of our estate, using technology to improve customer service, reduce our environmental impact and drive efficiency savings through energy and water savings, upgraded Wi-Fi speeds and new features to improve the living experience.

Our development and portfolio activity is designed to support this strategic approach, ensuring that the portfolio is best placed to meet students' requirements and drive full occupancy and rental growth in the medium term.

Development and University partnership activity

Development and University partnership activity continues to be a significant driver of growth in future earnings and NAV and is aligned to our focus on high and mid-ranked Universities. Our pipeline of traditional development, University partnerships and forward funds includes 5,191 beds with a total development cost of £681 million, of which 1,872 beds will be delivered in London for a total development cost of £375 million.

We continue to identify new development and University partnership opportunities that deliver our target returns in both London and the regions. In particular, we see an emerging development opportunity in zones 1 and 2 of Central London, following a softening in land values. We expect to add to our pipeline during 2020 and maintain a run-rate of c.2,000 new beds per annum.

The anticipated yield on cost of this secured pipeline is 6.8%. Prospective returns on new direct-let schemes remain attractive at around 8.0% in provincial markets. We have lower hurdle rates for developments that are supported by Universities or where another developer is undertaking the higher risk activities of planning and construction. The new London Plan requires student accommodation to secure a nomination agreement with one or more Universities, meaning we expect new London developments to be delivered as University partnerships with development yields of 6.0-6.5%. University partnerships make up almost 60% by value of our secured development pipeline.

We have contractually fixed our exposure to construction costs on all schemes completing in 2020 and entered into design and build contracts for our 2021 deliveries, which substantially de-risks our cost risk. We have brought forward the procurement of all critical items supplied from European countries on our 2020 completions.

2019 and 2020 completions

We completed 2,390 beds across three new schemes during 2019 in line with budget and programme, achieving full occupancy in the first year of operation. Around 70% of these beds are let to Universities under nominations agreements for the 2019/20 academic year, with an average duration of 16 years, supporting our ongoing focus on quality of income.

The 2020 development pipeline is nearing completion on time and to budget. We are opening 2,257 beds across three properties all in high-ranking University cities, with over 50% of the beds already secured under nominations agreements, with an average life of 15 years, supporting our ongoing focus on quality of income.

Development pipeline

During the year, we secured planning on our 913-bed Middlesex Street site in London for delivery in 2021. Middlesex Street creates new supply in a strategically important location where there is a shortage of affordable, high-quality accommodation. The scheme is expected to deliver a £86 million uplift to NAV, of which £40 million is still to be recognised, and will add 2 pence to EPRA EPS from 2021/22.

Planning has also now been secured for our 416-bed student accommodation development at the Old BRI site in Bristol city centre, which will be delivered for the start of the 2021/22 academic year. The consented scheme includes 62 rented residential homes and includes 20% affordable units. Unite will deliver the residential portion of the scheme with the option of retaining or disposing of the homes on completion.

We have continued to add to our pipeline during the year, with an additional two schemes expected to deliver an additional c.1,000 beds. One of the schemes is a 620-bed development site in Nottingham, which is subject to planning consent, expected to open in time for the 2022/23 academic year. In addition, we have acquired a c.300-bed development site at Wyvil Road in London as part of the Liberty Living acquisition, which has the potential to accommodate both student and other residential uses.

University partnerships pipeline

In addition to growing the number of beds and the value of income underpinned by long-term University-backed nomination agreements, we have made further progress with our strategy of delivering ongoing growth through partnerships with Universities. We have secured two further University partnership schemes over the past 12 months.

In October, Unite agreed commercial terms with the University of Leeds for a 30-year nomination agreement for its White Rose View development in Leeds.

In January 2020, we announced we were in advanced negotiations with the University of Bristol for a University partnership covering around 3,000 beds in Bristol. This will include a large proportion of Unite's existing operational assets in the city following targeted investments as well as the 416-bed Old BRI development and the 650-bed Temple Quay development in close proximity to the University's new Temple Quarter campus. The long-term agreement strengthens our long-standing and valuable relationship with the University.

At Middlesex Street in London, we were supported through planning by King's College London and both parties are working towards a long-term nomination agreement ahead of completion for the start of the 2021/22 academic year.

We continue to make progress with our strategy of delivering ongoing growth through partnerships with Universities. Through our Higher Education Engagement team, we have a pipeline of active discussions for new University partnerships, with 11 Universities covering almost 24,000 beds. These discussions often cover a range of potential solutions on a city-wide basis, reflecting each University's specific accommodation needs. These strategic discussions may include multi-year nomination agreements for our existing operational assets, on-campus and off-campus developments and stock transfer.

The nature of these discussions and the commitment required by both parties means that some opportunities will fall away. This often reflects changes in circumstances, strategy or personnel for Universities or our own decision not to pursue certain opportunities. For Universities, decisions over their accommodation strategies are often superseded by academic matters and investment in their own academic estates. However, there remains a compelling rationale for Universities to work with us to deliver operational efficiencies and provide the new accommodation required to deliver their future growth ambitions.

Positively, we continue to track a healthy flow of new opportunities to add to the pipeline. Our experience suggests that we will convert 10-20% of these opportunities over time. As a result, we expect to add one or two new deals per year as previously outlined.

	Type	Beds	Execution risk
Multi-year nominations	Existing portfolio	10,200	Low/Medium
Off-campus development	New	3,700	Medium
On-campus development	New	5,700	High
Stock transfer	New	4,000	High
Total		**23,600**	

Secured development and partnerships pipeline

	Target delivery	Secured beds No.	Total completed value £m	Total development costs £m	Capex in period £m	Capex remaining £m	Forecast NAV remaining £m	Forecast yield on cost %
Wholly owned								
First Way, London	2020	678	126	102	33	31	8	6.0%
New Wakefield, Manchester	2020	603	85	56	20	17	11	7.8%
Derby Road, Nottingham[1]	2022	620	64	48	1	47	16	8.0%
Wyvil Road, London[1]	2023	281	132	87	18	69	44	6.4%
Total wholly owned		**2,182**	**407**	**293**	**72**	**164**	**79**	**7.1%**

White Rose View, Leeds	2020	976	124	83	35	25	15	7.4%
Old BRI, Bristol	2021	416	57	42	1	21	15	6.2%
Middlesex Street, London	2021	913	272	186	37	141	40	6.1%
Temple Quarter, Bristol[1]	2022	704	96	77	1	76	18	6.2%
Total University partnerships		**3,009**	**549**	**388**	**74**	**263**	**88**	**6.6%**
Total pipeline (Unite share)		**5,191**	**956**	**681**	**146**	**427**	**167**	**6.8%**

[1] Subject to obtaining planning consent

Disposal activity

We will continue to manage the quality of the portfolio and our balance sheet leverage by recycling capital through disposals and reinvesting into developments and acquisitions of assets aligned to the best Universities. During the year, the Group's share of disposals was £249 million, in line with book values, at a blended net initial yield of 5.7%. This included the sale to USAF of five properties for £202 million (Unite share: £153m), located in Portsmouth, Leeds, Newcastle and Birmingham and totalling 2,378 beds. In addition, in October we exchanged and completed on the sale of two wholly owned properties in Coventry, comprising 1,127 beds for £96 million to Mapletree Investments at a price in line with book value.

Following the acquisition of Liberty Living, we intend to dispose of approximately £150-200 million of assets per annum, broadly in line with historical levels. These target disposals, combined with rental growth, are intended to ensure that we meet our target LTV of 35% and underpin our ability to sustain rental growth over a longer time horizon.

FINANCIAL PERFORMANCE

Income statement

A reconciliation of Profit before tax to EPRA earnings measures is set out in summary below and expanded in section 8 of the financial statements.

The underlying performance of the business has shown continued growth, but was affected by the non-recurring costs associated with the Liberty Living acquisition.

	Unite £m	Liberty Living £m	2019 £m	2018 £m
EPRA earnings	103.1	7.5	110.6	88.4
Valuation gains and profit/loss on disposal			198.1	153.6
Impairment of goodwill and intangibles			(384.1)	-
Acquisition costs			(22.8)	-
Changes in valuation of interest rate swaps and debt break costs			(5.4)	(0.1)
Minority interest, tax and other items			2.4	3.9
(Loss)/profit before tax			**(101.2)**	**245.8**
EPRA earnings per share			39.1p	34.1p
Basic earnings per share			(31.5)p	90.8p

The loss before tax of £101.2 million includes the impairment of goodwill and intangibles of £384.1 million, resulting from the acquisition of Liberty Living, which was offset by a higher level of EPRA earnings of £110.6 million and a higher valuation uplift of £198.1 million in 2019 (2018: £88.4 million and £153.6 million respectively). The Liberty Living acquisition was priced on a NAV-for-NAV basis for a total consideration of £1.4 billion. Goodwill was created, and subsequently impaired, in relation to the share element of the consideration issued to CPPIB. This reflected the premium to NAV implied by the share price at completion in late November, following a strong appreciation post-announcement of the transaction.

Acquisition of Liberty Living and Share Placing

On 3 July 2019, the Company announced that it had agreed to acquire Liberty Living's UK portfolio of purpose-built student accommodation, comprising 24,021 beds across 51 properties, for a total consideration of £1.4 billion. In consideration for the acquisition, CPPIB received approximately 72.6 million new ordinary shares in Unite, representing a 20.0% shareholding in the enlarged Group and total cash consideration of approximately £0.8 billion. The cash consideration was split between £492 million payable by Unite Group plc from the net proceeds of a share placing in July, existing debt facilities and cash resources. Separately, USAF acquired Liberty Living's properties in Cardiff (3,480 beds in eight properties) for £253 million. The acquisition completed on 29 November 2019.

We completed a placing of 26.4 million new ordinary shares in July 2019 at a price of 985 pence per share, raising gross proceeds of £260 million. The proceeds were used to fund part of the cash consideration for the acquisition of Liberty Living. The company applied the principles of pre-emption when allocating new shares to those investors that participated in the placing.

The consideration for the acquisition was calculated on a NAV-for-NAV basis as at 31 March 2019, with certain agreed adjustments applied to the EPRA NAVs of Unite and the Liberty Living portfolio. This meant that Unite acquired the Liberty Living business at its EPRA NAV on 31 March 2019. Shares were issued to CPPIB based on Unite's EPRA NAV at the same date, which equated to 827p per share before adjustments for dividends paid before completion. Goodwill arose based on the difference between this issue price and the share price on completion of the transaction on 29 November 2019.

As the acquisition has been accounted for as a business combination, the premium paid over the fair value of the net assets acquired is treated as goodwill in the consolidated balance sheet at the time of acquisition. Goodwill of £377.4 million arising in respect of the transaction was recognised on acquisition. Goodwill and intangible assets were subsequently assessed for impairment. An impairment charge of £384.1 million for the full amount of goodwill recognised on acquisition (£377.4 million) and the fair value of the Liberty Living brand (£6.7 million) has been taken to the consolidated income statement. No portfolio premium has been recognised following the acquisition.

The Board expects the placing and associated acquisition of Liberty Living to be materially accretive to earnings and dividends per share from the year ending 31 December 2020.

Cash flow and net debt

The Operations business generated £85.4 million of net cash in 2019 (2018: £81.2 million) and net debt increased to £1,884 million (2018: £856 million). The key components of the movement in see-through net debt were:

- The acquisition of Liberty Living and associated acquisition costs (generating a total outflow of £1,349 million)
- Net proceeds from the share placing (£255 million)
- The disposal programme (generating total inflows of £243 million)
- Total capital expenditure of £240 million
- Operational cash flow of £85 million
- The impact of new units issued in USAF and our reduced shareholding (£84 million reduction in net debt)
- Dividends paid of £70 million

In 2020, we expect net debt to increase as planned capital expenditure on investment and development activity will exceed anticipated asset disposals.

Debt financing

The Group maintains a disciplined approach to managing leverage, with see-through LTV of 37% at 31 December 2019 (31 December 2018: 29%).

The increase during the year was primarily driven by the Group's acquisition of Liberty Living. We intend to dispose of £150-200 million of assets per annum to fund our development activity and reduce LTV to a target of 35% by the end of 2021, assuming current yields.

With greater focus on the earnings profile of the business, we are continuing to monitor our net debt to EBITDA ratio, which we target to return to 6-7x over the medium term.

The Unite Group plc has maintained investment grade corporate ratings of BBB from Standard & Poor's and Baa2 from Moody's, reflecting Unite's robust capital position, cash flows and track record. As a result of the acquisition of Liberty Living, Standard & Poor's and Moody's have affirmed Unite's and Liberty Living's credit ratings and changed the outlook from stable to positive.

Interest rate hedging arrangements and cost of debt

Our average cost of debt based on current drawn amounts has reduced to 3.3% (31 December 2018: 3.8%) and the Group has 93% of investment debt subject to a fixed or capped interest rate (31 December 2018: 99%) for an average term of 5.4 years (31 December 2018: 5.8 years). The reduction in the average cost of debt during the year reflected the lower-cost debt assumed through the Liberty Living acquisition as well as the redemption of the £90 million of 6.125% retail bonds in December 2019.

We will continue to proactively manage debt maturity profiles and to lock into longer term debt at rates below our current average cost of debt. Borrowings for the combined Group are well diversified across lenders and maturities, with only limited maturities before 2022.

Key debt statistics (Unite share basis)	**31 Dec 2019**	**31 Dec 2018**
Net debt	£1,884m	£856m
LTV	37%	29%
Net debt:EBITDA ratio	6.8*	6.1
Interest cover ratio	3.5	3.4
Average debt maturity	5.4 years	5.8 years
Average cost of debt	3.3%	3.8%
Proportion of investment debt at fixed rate	93%	99%

** 2019 calculation based on average net debt, pro rata for completion of Liberty Living acquisition in late November 2019*

Amendments to IFRS

The new accounting standard, IFRS 16 Leases, became effective from 1 January 2019. This standard impacts our sale and leaseback portfolio which comprised 2,690 beds across eight properties at 31 December 2019. These properties were sold by the Group between 2004 and 2009 to institutional investors and simultaneously leased back by the Group. The properties have income secured by nominations agreements to offset the lease payment to the institutional owners. The new standard creates a right-of-use asset for leased properties based on net income forecasts and a liability for future lease payments.

At 31 December 2019, due to the recognition of £110.4 million of leased properties and a lease liability of £98.9 million, the LTV of the leased properties is 90%. This causes LTV to increase by 1% on a see-through basis. As this is a result of the accounting treatment for leased properties under the new standard, the Group continues to monitor and present LTV on a pre-IFRS 16 adjustments basis. EPRA Earnings has marginally benefitted from the application of IFRS 16.

The table below shows the impact of adopting the new standard on EPRA Earnings, EPRA NAV and LTV in 2019. Further details of the impact on transition can be found in note 1 of the financial statements.

	FY2019 pre-IFRS 16 £m	**IFRS 16 adjustments £m**	**FY2019 post-IFRS 16 £m**
Income statement			
Net operating income	160.8	-	160.8
Overheads less management fees	(9.3)	1.9	(7.4)
Finance costs	(45.7)	1.8	(43.9)
Development/other	1.1	-	1.1
EPRA Earnings	**106.9**	**3.7**	**110.6**
EPRA EPS (p)	**37.8**	**1.3**	**39.1**
EBIT margin	*70.9%*		*71.7%*
Balance sheet			
Rental properties	4,720.4	-	4,720.4
Leased properties	-	110.4	110.4
Properties under development	411.8	-	411.8
Total property portfolio/GAV	5,114.2	110.4	5,224.6
Cash	114.9	-	114.9
Debt	(1,999.2)	-	(1,999.2)
Lease liability	-	(98.9)	(98.9)
Net debt	(1,884.3)	(98.9)	(1,983.2)
Other assets/(liabilities)	(118.6)	(13.1)	(131.7)
EPRA NAV	**3,111.3**	**(1.6)**	**3,109.7**
EPRA NAV (p)	**853**		**853**
LTV	*37%*		*38%*

Dividend

We are proposing a final dividend payment of 22.95 pence per share (2018: 19.5 pence), making 33.2 pence for the full year (2018: 29.0 pence). The final dividend will be fully paid as a Property Income Distribution (PID) of 22.95 pence.

Subject to approval at Unite's Annual General Meeting on 7 May 2020, the dividend will be paid in either cash or new ordinary shares (a "scrip dividend alternative") on 15 May 2020 to shareholders on the register at close of business on 14 April 2020. The last date for receipt of scrip elections will be 23 April 2020.

Further details of the scrip scheme, the terms and conditions and the process for election to the scrip scheme are available on the company's website.

As a result of the quality, predictable earnings outlook for the business, we are planning to maintain our dividend payout at 85% of EPRA earnings.

Tax and REIT status

The Group holds REIT status and is exempt from tax on its property business. During the year, we incurred £2.5 million of corporation tax (2018: £4.1 million), relating primarily to profits on our property management activities, and a £2.4 million tax credit in respect of prior years.

The Finance Act 2019 has resulted in the reversal of the deferred tax liability of £24.4 million on investments in USAF units and the corresponding deferred tax asset of £9.9 million on losses, resulting in a £14.5 million increase in net asset value.

Funds and joint ventures

The table below summarises the key financials at 31 December 2019 for each vehicle.

	Property Assets £m	Net debt £m	Other assets £m	Net assets £m	Unite share of NAV £m	Maturity	Unite share
USAF	2,850	(858)	(9)	1,983	437	Infinite	22%
LSAV	1,335	(490)	(21)	824	412	2022/2027	50%

USAF and LSAV have performed well in the year to 31 December 2019. LSAV has delivered a strong performance based on rental growth and yield compression in London. USAF's performance is in line with the broader performance of the business.

In May, USAF raised £250 million of new equity from external investors to fund new acquisitions. Unite did not participate in the equity raise, meaning its stake in USAF reduced from 25% to 22%. We sold five assets to USAF for a total consideration of £202 million during the year (Unite share £153 million), located in Portsmouth, Leeds, Birmingham and Newcastle. In addition, USAF acquired two properties in Newcastle in June for a total of £34 million, including allowance for an extensive refurbishment of both properties.

Furthermore, as part of the acquisition of Liberty Living, USAF acquired Liberty Living's Cardiff properties, totalling 3,480 beds for £253 million. USAF retains around £200 million of acquisition capacity and will continue to monitor acquisition opportunities to further improve the quality of the portfolio.

Fees

During the year to 31 December 2019, the Group recognised net fees of £22.3 million from its fund and asset management activities (2018: £15.6 million). The increase was driven by growth in NOI and asset valuations, the acquisition fee received from USAF in relation to the purchase of Liberty Living's Cardiff properties and initial recognition of a net performance fee from LSAV.

The London portion of our LSAV joint venture has a maturity in 2022. Discussions are ongoing with our joint venture partner GIC over the future of the vehicle. The joint venture has performed well over its life and we continue to see an opportunity to realise value from the performance fee payable to Unite at maturity. The 2019 results recognise an initial £5.7 million of this fee (£4.6 million net of tax) and, based on current expectations, Unite's remaining share of the performance fee is expected to be c.£15-20 million net of tax. The performance fee is payable at the end of the life of the joint venture and is based on the cash realised to the joint venture partners. The remaining fee will be realised over the period until the vehicle's scheduled maturity in 2022, subject to the performance, outlook and discussions with GIC over the future of the fund. Further detail can be found in note 2.4 to the financial statements.

	2019 £m	**2018 £m**
USAF asset management fee	11.2	10.2
LSAV asset and property management fee	3.2	3.0
USAF acquisition fee	2.2	-
Net performance fee	5.7	
Unite disposal management fee	-	2.4
Total fees	**22.3**	**15.6**

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- The strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Richard Smith	Joe Lister
Chief Executive Officer	Chief Financial Officer

26 February 2020

Forward-looking statements

The preceding interim statement has been prepared for the shareholders of the Company, as a body, and for no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and for no other purpose. The interim statement contains forward-looking statements that are subject to risk factors associated with, among other things, the economic, regulatory and business circumstances occurring from time to time in the sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation. Nothing in the interim statement should be considered or construed as a profit forecast for the Group. Except as required by law, the Group has no obligation to update forward-looking statements or to correct any inaccuracies therein.

INTRODUCTION AND TABLE OF CONTENTS

These financial statements are prepared in accordance with IFRS. The Board of Directors also presents the Group's performance on the basis recommended for real estate companies by the European Public Real Estate Association (EPRA). The reconciliation between IFRS performance measures and EPRA performance measures can be found in section 2.2b for EPRA earnings and 2.3c for EPRA net asset value (NAV). The adjustments to the IFRS results are intended to help users in the comparability of these results across other listed real estate companies in Europe and reflect how the Directors monitor the business.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Rental income	2.4	134.1	112.7
Other income		22.1	15.6
Total revenue	2.4	**156.2**	**128.3**
Cost of sales		(33.0)	(40.2)
Operating expenses		(26.6)	(23.6)
Results from operating activities		96.6	64.5
Loss on disposal of property		(7.3)	(6.8)
Net valuation gains on property (owned)	3.1	154.8	105.8
Net valuation losses on property (leased)	3.1	(8.1)	–
Impairment of goodwill and intangible asset	6	(384.1)	–
Acquisition costs	6	(22.8)	–
(Loss)/profit before net financing costs		**(170.9)**	**163.5**
Loan interest and similar charges	4.3	(23.8)	(14.3)
Interest on lease liability	4.3	(9.2)	–
Mark to market changes on interest rate swaps	4.3	(2.7)	–
Swap cancellation and loan break costs	4.3	(2.7)	(0.1)
Finance costs	4.3	(38.4)	(14.4)
Finance income	4.3	5.5	0.9
Net financing costs	4.3	**(32.9)**	**(13.5)**
Share of joint venture profit	3.3b	102.6	95.8
(Loss)/profit before tax		**(101.2)**	**245.8**
Current tax	2.5	(0.1)	(4.1)
Deferred tax	2.5	13.7	(4.4)
(Loss)/profit for the year		**(87.6)**	**237.3**
(Loss)/profit for the year attributable to			
Owners of the parent company	2.2c	(89.2)	235.7
Minority interest		1.6	1.6
		(87.6)	**237.3**
(Loss)/earnings per share			
Basic	2.2c	(31.5)p	90.8p
Diluted	2.2c	(31.4)p	90.6p

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
(Loss)/profit for the year		**(87.6)**	**237.3**
Movements in effective hedges		(4.8)	0.6
Share of joint venture movements in effective hedges		(0.5)	1.2
Other comprehensive (loss)/income for the year		(5.3)	1.8
Total comprehensive (loss)/income for the year		**(92.9)**	**239.1**
Attributable to			
Owners of the parent company		(94.5)	237.5
Minority interest		1.6	1.6
		(92.9)	**239.1**

All other comprehensive income may be classified as profit and loss in the future.
There are no tax effects on items of other comprehensive income.

CONSOLIDATED BALANCE SHEET

At 31 December 2019

	Note	2019 £m	2018 £m
Assets			
Investment property (owned)	3.1	3,406.9	1,497.1
Investment property (leased)	3.1	110.4	–
Investment property under development	3.1	411.8	278.9
Investment in joint ventures	3.3b	875.2	819.7
Other non-current assets		26.0	33.0
Right of use assets		5.5	–
Deferred tax asset	2.5	2.9	–
Total non-current assets		**4,838.7**	**2,628.7**
Inventories	3.2	4.0	9.1
Trade and other receivables		87.1	88.1
Cash and cash equivalents	5.1	86.9	123.6
Total current assets		**178.0**	**220.8**
Total assets		**5,016.7**	**2,849.5**
Liabilities			
Borrowings	4.1	(1.4)	(1.3)
Lease liabilities		(3.9)	–
Trade and other payables		(234.7)	(141.5)
Current tax liability		(4.0)	(4.6)
Total current liabilities		**(244.0)**	**(147.4)**
Borrowings	4.1	(1,566.2)	(591.3)
Lease liabilities		(100.9)	–
Interest rate swaps	4.2	(7.6)	(0.1)
Deferred tax liability	2.5	–	(11.9)
Total non-current liabilities		**(1,674.7)**	**(603.3)**
Total liabilities		**(1,918.7)**	**(750.7)**
Net assets		**3,098.0**	**2,098.8**
Equity			
Issued share capital	4.6	90.9	65.9
Share premium	4.6	1,874.9	740.5
Merger reserve		40.2	40.2
Retained earnings		1,069.0	1,224.4
Hedging reserve		(3.5)	2.0
Equity attributable to the owners of the parent company		**3,071.5**	**2,073.0**
Minority interest		26.5	25.8
Total equity		**3,098.0**	**2,098.8**

The financial statements of The Unite Group plc, registered number 03199160, were approved and authorised for issue by the Board of Directors on 26 February 2020 and were signed on its behalf by:

R S Smith	**J J Lister**
Director	**Director**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

	Note	Issued share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Hedging reserve £m	Attributable to owners of the parent £m	Minority interest £m	Total £m
At 1 January 2019		**65.9**	**740.5**	**40.2**	**1,224.4**	**2.0**	**2,073.0**	**25.8**	**2,098.8**
Effect of initial application of IFRS 16	1	–	–	–	3.2	–	3.2	–	3.2
At 1 January 2019 – as restated		65.9	740.5	40.2	1,227.6	2.0	2,076.2	25.8	2,102.0
(Loss)/profit for the year		–	–	–	(89.2)	–	(89.2)	1.6	(87.6)
Other comprehensive loss for the year:									
Movement in effective hedges		–	–	–	–	(4.8)	(4.8)	–	(4.8)
Share of joint venture movements in effective hedges	3.4b	–	–	–	–	(0.5)	(0.5)	–	(0.5)
Total comprehensive (loss)/profit for the year		–	–	–	(89.2)	(5.3)	(94.5)	1.6	(92.9)
Shares issued	4.8	25.0	1,134.4	–	–	–	1,159.4	–	1,159.4
Deferred tax on share-based payments		–	–	–	0.2	–	0.2	–	0.2
Fair value of share-based payments		–	–	–	1.9	–	1.9	–	1.9
Own shares acquired		–	–	–	(0.8)	–	(0.8)	–	(0.8)
Unwind of realised swap gain		–	–	–	–	(0.2)	(0.2)	–	(0.2)
Dividends paid to owners of the parent company	4.9	–	–	–	(70.7)	–	(70.7)	–	(70.7)
Dividends to minority interest		–	–	–	–	–	–	(0.9)	(0.9)
At 31 December 2019		**90.9**	**1,874.9**	**40.2**	**1,069.0**	**(3.5)**	**3,071.5**	**26.5**	**3,098.0**

	Note	Issued share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Hedging reserve £m	Attributable to owners of the parent £m	Minority interest £m	Total £m
At 1 January 2018		**60.2**	**579.5**	**40.2**	**1,051.2**	**(2.1)**	**1,729.0**	**25.2**	**1,754.2**
Profit for the year		–	–	–	235.7	–	235.7	1.6	237.3
Other comprehensive income for the year:									
Movement in effective hedges		–	–	–	–	0.6	0.6	–	0.6
Share of joint venture movements in effective hedges	3.4b	–	–	–	–	1.2	1.2	–	1.2
Total comprehensive income for the year		–	–	–	235.7	1.8	237.5	1.6	239.1
Shares issued	4.8	5.7	161.0	–	–	–	166.7	–	166.7
Deferred tax on share-based payments		–	–	–	0.3	–	0.3	–	0.3
Fair value of share-based payments		–	–	–	1.1	–	1.1	–	1.1
Own shares acquired		–	–	–	(1.4)	–	(1.4)	–	(1.4)
Realised swap gain		–	–	–	–	2.3	2.3	–	2.3
Dividends paid to owners of the parent company	4.9	–	–	–	(62.5)	–	(62.5)	–	(62.5)
Dividends to minority interest		–	–	–	–	–	–	(1.0)	(1.0)
At 31 December 2018		**65.9**	**740.5**	**40.2**	**1,224.4**	**2.0**	**2,073.0**	**25.8**	**2,098.8**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	Group 2019 £m	Group 2018 £m
Net cash flows from operating activities	5.1	**78.5**	**59.7**
Investing activities			
Cash consideration for acquisition Liberty Living	6	(492.0)	-
Cash acquired on acquisition of Liberty Living		22.4	-
Acquisition costs		(17.5)	-
Redemption of units/(investment) in joint ventures		-	30.9
Capital expenditure on properties		(179.9)	(247.9)
Acquisition of intangible assets		(4.6)	(6.6)
Acquisition of plant and equipment		(0.4)	(1.3)
Proceeds from sale of investment property		295.4	38.0
Interest received		0.9	0.9
Dividends received		32.8	37.5
Net cash flows from investing activities		**(342.9)**	**(148.5)**
Financing activities			
Proceeds from the issue of share capital		254.7	166.7
Payments to acquire own shares		(0.8)	(1.4)
Interest paid in respect of financing activities		(32.0)	(21.1)
Swap cancellation costs		(2.7)	(0.1)
Proceeds from non-current borrowings		175.0	375.8
Repayment of borrowings		(96.0)	(295.4)
Dividends paid to the owners of the parent company		(69.6)	(62.3)
Dividends paid to minority interest		(0.9)	(1.0)
Net cash flows from financing activities		**227.7**	**161.2**
Net increase/(decrease) in cash and cash equivalents		**(36.7)**	**72.4**
Cash and cash equivalents at start of year		123.6	51.2
Cash and cash equivalents at end of year		**86.9**	**123.6**

NOTES TO THE FINANCIAL STATEMENTS

Section 1: Basis of preparation

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies, and those for 2019 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2018 or 2019.

Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

The Group's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic report, which will be published in the 2019 Annual Report and Accounts. Section 4 of these Notes to the financial statements includes the Group's objectives, policies and processes for managing its capital, details of its borrowings and interest rate swaps, and in note 5.2 its exposure to credit risk. The Board has considered the risks that could arise as a result of potential outcomes of Britain leaving the European Union and have identified people risk, procurement risks and demand risks. These risks have been factored into our forecasts and projections.

The Group has prepared cash flow projections 18 months forward to June 2021 and the Group has sufficient headroom to meet all its commitments. The Group issued new ordinary shares in July 2019 generating gross proceeds of £259.6 million and this together with existing loan facilities will be sufficient to fund the Group's commitments over the next 18 months. The Group disposes of assets to release capital and maintains positive relationships with its lending banks and has historically secured new facilities before maturity dates and remained within its covenant levels. The Group is in full compliance with its covenants at 31 December 2019 and expects to remain so. Our debt facilities include loan-to-value, interest cover and asset class ratios, all of which have a high level of headroom. In order to manage future financial commitments the Group operates a formal approval process through its Investment Committee and Group Board to ensure that appropriate review is undertaken before any transactions are agreed.

Accordingly, after making enquiries and having considered forecasts and appropriate sensitivities, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of these financial statements.

Changes in accounting policies – IFRS 16

In the current year, the Group, for the first time, has applied IFRS 16 Leases. The date of the initial application of IFRS 16 for the Group is 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right of use asset and a lease liability at commencement for all leases, except for short term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Details of the Group's approach to transition to IFRS 16 is set out below, followed by a description of the impact of adopting IFRS 16.

Approach to transition

The Group has applied IFRS 16 using the cumulative catch up approach, without restatement of the comparative information (which is presented under IAS 17 and IFRIC 14). In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right of use assets as if the lease commencement date was the date of adoption of IFRS 16 (i.e. 1 January 2019). The cumulative effect of initially applying IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019.

Applying IFRS 16 to sale and leaseback properties, the Group now recognises sale and leaseback right of use assets in the consolidated balance sheet (investment property (leased)), initially measured at fair value using a discounted cash flow model. Other leases previously treated as operating leases have been measured following the approach in IFRS 16.C8(b)(ii), whereby right of use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments.

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. The Group continues to account for its tenancy contracts offered to commercial and individual tenants as operating leases.

Practical expedients adopted

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 14 will continue to be applied to those leases entered into or modified before 1 January 2019.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient. The Group has elected not to recognise right of use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

Financial impact

The application of IFRS 16 has resulted in the recognition of right of use assets and lease liabilities. Operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right of use assets and lease liabilities.

The Group has chosen to use the table below to set out the adjustments recognised at the date of initial application of IFRS 16.

EPRA net assets on transition

	Group on EPRA basis		
	31 Dec 2018 as reported £m	**IFRS 16 adjustments £m**	**1 Jan 2019 as restated £m**
Investment property (owned)	2,685.9	–	2,685.9
Investment property (leased)	–	128.0	128.0
Investment property under development	282.1	–	282.1
Total property portfolio	**2,968.0**	**128.0**	**3,096.0**
Debt on properties	(1,036.4)	–	(1,036.4)
Lease liability	–	(115.8)	(115.8)
Cash	179.9	–	179.9
Net debt	**(856.5)**	**(115.8)**	**(972.3)**
Other assets/(liabilities)	(26.1)	(9.0)	(35.1)
EPRA net assets	**2,085.4**	**3.2**	**2,088.6**

On 1 January 2019, £128.0 million was recognised on balance sheet as the fair value of the sale and leaseback portfolio (classified as investment properties (leased)) and a lease liability of £115.8 million.

Other assets/(liabilities) increased by £9.0 million due to leasehold improvements with a carrying value of £6.7 million (£10.7 million cost and £4.0 million accumulated depreciation) being transferred from other non-current assets to investment properties (leased) and £2.3 million of prepayments being reclassified from receivables to the lease liability.

£4.3 million of right of use assets were recognised in relation to offices, vehicles and other equipment, with a corresponding lease liability of £4.3 million. Both of these balances are included within other assets/(liabilities) in the table above.

The net difference of £3.2 million has been recognised in retained earnings.

During the 12 months ended 31 December 2019 the Group recognised the following amounts in EPRA earnings:

EPRA earnings at 31 December 2019

	Reference	Group on see through basis Total £m	IFRS 16 adjustments £m	Group on see through basis Total £m
Rental income		213.9	–	213.9
Property operating expenses		(53.1)	–	(53.1)
Net operating income		**160.8**	**–**	**160.8**
Management fees		14.4	–	14.4
Operating expenses	1	(23.7)	1.9	(21.8)
Operating lease rentals	2	(11.0)	11.0	–
Lease liability interest	3	–	(9.2)	(9.2)
Net financing costs		(34.7)	–	(34.7)
Operations segment result		**105.8**	**3.7**	**109.5**
Property segment result		**(1.5)**	**–**	**(1.5)**
Unallocated to segments		**2.6**	**–**	**2.6**
EPRA earnings		**106.9**	**3.7**	**110.6**

1 Disclosed within cost of sales in the consolidated income statement, under IAS 17 and IFRS 16

2 Disclosed within operating expenses in the consolidated income statement, under IAS 17

3 Disclosed within finance costs in the consolidated income statement, under IFRS 16

The application of IFRS 16 resulted in a decrease in operating expenses of £1.9 million and operating lease rentals of £11.0 million due to lease payments no longer being recognised in the P&L. An increased interest expense, in comparison to IAS 17, was recognised in respect of the interest on lease liabilities of £9.2 million.

Impact on profit or loss

On an IFRS basis there has also been a reduction in net property valuation gains of £8.1 million, which relates to the downward revaluation of investment properties (leased) and an increase to loss on disposal of £0.4 million, following the cancellation of two sale and leaseback arrangements.

The following table shows the operating lease commitments relating to the sale & leaseback portfolio included in the IAS 17 disclosure at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	£m
Operating lease commitments at 31 December 2018	214.4
Effect of discounting the above amount	(96.3)
Reclassification of amounts classified as prepayments at 31 December 2018	(2.3)
Lease liabilities recognised at 1 January 2019	**115.8**

The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 is 4.2%.

Impact of accounting standards and interpretations in issue but not yet effective

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective. The Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Section 2: Results for the year

IFRS performance measures

	Note	**2019**	**2018**
(Loss)/profit after tax	2.2b	£(89.2)m	£235.7m
Basic (loss)/earnings per share	2.2c	(31.5)p	90.8p
Net assets	2.3c	£3,071.5m	£2,073.0m
NAV per share	2.3d	845p	787p

EPRA performance measures

	Note	**2019**	**2018**
EPRA earnings	2.2a	£110.6m	£88.4m
EPRA earnings per share	2.2c	39.1p	34.1p
EPRA NAV	2.3a	£3,109.7m	£2,085.4m
EPRA NAV per share	2.3d	853p	790p
EPRA NNNAV	2.3c	£3,008.3m	£2,032.7m
EPRA NNNAV per share	2.3d	826p	770p

2.1 Segmental information

The Board of Directors monitors the business along two activity lines, Operations and Property. The reportable segments for the years ended 31 December 2019 and 31 December 2018 are Operations and Property.

The Group undertakes its Operations and Property activities directly and through joint ventures with third parties. The joint ventures are an integral part of each segment and are included in the information used by the Board to monitor the business.

Detailed analysis of the performance of each of these reportable segments is provided in the following sections 2.2 to 2.3. There has been no change to the reportable segments following the acquisition of Liberty Living.

The Group's properties are located exclusively in the United Kingdom. The Group therefore has one geographical segment.

2.2 Earnings

EPRA earnings amends IFRS measures by removing principally the unrealised investment property valuation gains and losses such that users of the financials are able to see the extent to which dividend payments (dividend per share) are underpinned by earnings arising from purely operational activity. The reconciliation between profit attributable to owners of the parent company and EPRA earnings is available in note 2.2b.

The Operations segment manages rental properties, owned directly by the Group or by joint ventures. Its revenues are derived from rental income and asset management fees earned from joint ventures. The Operations segment is the main contributor to EPRA earnings and EPRA EPS and these are therefore the key indicators which are used by the Board to monitor the Operations business.

The Board does not manage or monitor the Operations segment through the balance sheet and therefore no segmental information for assets and liabilities is provided for the Operations segment.

a) EPRA earnings

2019

			Share of joint ventures		**Group on EPRA basis**
	Unite £m	**Liberty Living* £m**	**USAF £m**	**LSAV £m**	**Total £m**
Rental income	120.3	13.8	41.5	38.3	213.9
Property operating expenses	(30.1)	(2.9)	(12.2)	(7.9)	(53.1)
Net operating income	**90.2**	**10.9**	**29.3**	**30.4**	**160.8**
Management fees	21.0	-	(3.4)	(3.2)	14.4
Operating expenses	(20.1)	(1.0)	(0.3)	(0.4)	(21.8)
Interest on lease liabilities**	(9.2)	-	-	-	(9.2)
Net financing costs	(16.3)	(2.4)	(6.7)	(9.3)	(34.7)

Operations segment result	**65.6**	**7.5**	**18.9**	**17.5**	**109.5**
Property segment result	**(1.5)**	**-**	**-**	**-**	**(1.5)**
Unallocated to segments	**8.7**	**-**	**(0.2)**	**(5.9)**	**2.6**
EPRA earnings	**72.8**	**7.5**	**18.7**	**11.6**	**110.6**

* The 2019 results for Liberty Living represent the 33 day period post acquisition, being 29 November to 31 December 2019.

** The Group has applied IFRS 16 Leases in the current period, therefore the table above has been prepared on an IFRS 16 basis. Further details of the impact of adoption of IFRS 16 can be found in note 1.

Included in the above is rental income of £17.3 million and property operating expenses of £7.0 million relating to sale and leaseback properties.

The unallocated to segments balance includes the fair value of share-based payments of (£2.2 million), contributions to the Unite Foundation of (£1.0 million), fees received from USAF relating to acquisitions of £2.2 million, LSAV performance fee of £5.7 million, deferred tax charge of (£0.5 million) and current tax charge of (£0.4 million).

2018

		Share of joint ventures		Group on EPRA basis
	Unite £m	**USAF £m**	**LSAV £m**	**Total £m**
Rental income	112.7	39.0	36.6	188.3
Property operating expenses	(28.6)	(11.5)	(7.9)	(48.0)
Net operating income	**84.1**	**27.5**	**28.7**	**140.3**
Management fees	21.8	(3.2)	(3.0)	15.6
Operating expenses	(20.9)	(0.3)	(0.5)	(21.7)
Operating lease rentals*	(11.5)	–	–	(11.5)
Net financing costs	(13.4)	(6.2)	(8.9)	(28.5)
Operations segment result	**60.1**	**17.8**	**16.3**	**94.2**
Property segment result	**(1.1)**	**–**	**–**	**(1.1)**
Unallocated to segments	**(4.3)**	**(0.2)**	**(0.2)**	**(4.7)**
EPRA earnings	**54.7**	**17.6**	**16.1**	**88.4**

* Operating lease rentals arise from properties which the Group has sold and is now leasing back. These properties were sold to generate financing and they now contribute to the Group's rental income and incur property operating expenses. Therefore, the Group considers these lease costs to be a form of financing.

Included in the above is rental income of £18.6 million and property operating expenses of £7.0 million relating to sale and leaseback properties.

The unallocated to segments balance includes the fair value of share-based payments of (£1.1 million), contributions to the Unite Foundation of (£0.9 million), deferred tax of £1.2 million and current tax charge of (£3.9 million).

b) IFRS reconciliation to EPRA earnings

EPRA earnings excludes movements relating to changes in values of investment properties and interest rate swaps, profits from the disposal of properties and property impairments, which are included in the profit reported under IFRS. EPRA earnings reconcile to the profit attributable to owners of the parent company as follows:

	Note	**2019 £m**	**2018 £m**
EPRA earnings	**2.2a**	**110.6**	**88.4**
Net valuation gains on investment property (owned)	3.1	154.8	105.8
Property disposals (owned)		(6.2)	(6.8)
Net valuation losses on investment property (leased)	3.1	(8.1)	–
Property disposals (leased)		(1.1)	–
Impairment of goodwill and acquired intangible asset	6	(384.1)	–
Acquisition costs	6	(22.8)	–
Amortisation of fair value of debt recognised on acquisition		0.4	–

Share of joint venture gains on investment property	3.4b	58.3	58.1
Share of joint venture property disposals	3.4b	0.4	(3.5)
Swap cancellation and loan break costs	4.3	(2.7)	(0.1)
Mark to market changes on interest rate swaps	4.3	(2.7)	–
Current tax relating to impairment of goodwill		0.5	–
Deferred tax relating to properties	2.5d	14.3	(5.5)
Minority interest share of reconciling items*		(0.8)	(0.7)
(Loss)/profit attributable to owners of the parent company		**(89.2)**	**235.7**

* The minority interest share, or non-controlling interest, arises as a result of the Company not owning 100% of the share capital of one of its subsidiaries, USAF (Feeder) Guernsey Limited. More detail is provided in note 3.4.

c) Earnings per share

The Basic EPS calculation is based on the earnings attributable to the equity shareholders of The Unite Group plc and the weighted average number of shares which have been in issue during the year. Basic EPS is adjusted in line with EPRA guidelines in order to allow users to compare the business performance of the Group with other listed real estate companies in a consistent manner and to reflect how the business is managed and measured on a day to day basis.

The calculations of basic and EPRA EPS for the year ended 31 December 2019 and 2018 are as follows:

	Note	2019	2018
(Loss)/earnings (£m)			
Basic		(89.2)	235.7
Diluted		(89.2)	235.7
EPRA	2.2a	110.6	88.4
Weighted average number of shares (thousands)			
Basic		282,802	259,466
Dilutive potential ordinary shares (share options)		1,156	828
Diluted		283,958	260,294
(Loss)/earnings per share (pence)			
Basic		(31.5)p	90.8p
Diluted		(31.4)p	90.6p
EPRA EPS		39.1p	34.1p

Movements in the weighted average number of shares have resulted from the issue of shares arising from the employee share-based payment schemes and the equity raise.

In 2019, there were 15,545 (2018: 10,357) options excluded from the potential dilutive shares that did not affect the diluted weighted average number of shares.

2.3 Net assets

EPRA net asset value per share makes adjustments to IFRS measures by principally removing some items that are not expected to materialise in normal circumstances such as items of deferred tax and the fair value of financial derivatives. The reconciliation between IFRS NAV and EPRA NAV is available in note 2.3c.

The Group's Property business undertakes the acquisition and development of properties.

a) EPRA net assets

2019

	Unite £m	Liberty Living £m	Share of joint ventures USAF £m	LSAV £m	Group on EPRA basis Total £m
Investment properties (owned)	1,462.2	1,944.7	628.0	667.5	4,702.4
Investment properties (leased)	110.4	-	-	-	110.4
Investment properties under development	393.4	18.4	-	-	411.8
Total property portfolio	**1,966.0**	**1,963.1**	**628.0**	**667.5**	**5,224.6**
Debt on properties	(675.5)	(861.7)	(194.4)	(267.6)	(1,999.2)
Lease liabilities	(98.9)	-	-	-	(98.9)
Cash	67.6	19.3	5.2	22.8	114.9
Net debt	**(706.8)**	**(842.4)**	**(189.2)**	**(244.8)**	**(1,983.2)**
Other assets and (liabilities)	(62.5)	(56.8)	(1.5)	(10.9)	(131.7)
EPRA net assets	**1,196.7**	**1,063.9**	**437.3**	**411.8**	**3,109.7**
Loan to value*	33%	43%	30%	37%	37%
Loan to value post-IFRS 16	36%	43%	30%	37%	38%

* LTV calculated excluding investment properties (leased) and the corresponding lease liabilities.

2018

	Unite £m	Share of joint ventures USAF £m	LSAV £m	Group on EPRA basis Total £m
Investment properties	1,497.1	567.1	621.7	2,685.9
Investment properties under development	278.9	3.2	–	282.1
Total property portfolio	**1,776.0**	**570.3**	**621.7**	**2,968.0**
Debt on properties	(594.8)	(174.6)	(267.0)	(1,036.4)
Cash	123.6	32.4	23.9	179.9
Net debt	**(471.2)**	**(142.2)**	**(243.1)**	**(856.5)**
Other assets and (liabilities)	(13.3)	(4.9)	(7.9)	(26.1)
EPRA net assets	**1,291.5**	**423.2**	**370.7**	**2,085.4**
Loan to value	27%	25%	39%	29%

b) Movement in EPRA NAV during the year

Contributions to EPRA NAV by each segment during the year is as follows:

2019

	Unite £m	Liberty Living £m	Share of joint ventures USAF £m	LSAV £m	Group on EPRA basis Total £m
Operations					
Operations segment result	**65.6**	**7.5**	**18.9**	**17.5**	**109.5**
Property					
Rental growth	43.6	10.6	11.7	24.6	90.5

Yield movement	20.4	-	2.3	18.3	41.0
Disposal (losses)/gains	(5.5)	-	0.2	-	(5.3)
Investment property (owned) gains	58.5	10.6	14.2	42.9	126.2
Investment property (leased) losses	(8.1)	-	-	-	(8.1)
Disposal losses investment property (leased)	(1.1)	-	-	-	(1.1)
Development property gains	80.2	-	-	-	80.2
Pre-contract/other development costs	(1.5)	-	-	-	(1.5)
Total property	**128.0**	**10.6**	**14.2**	**42.9**	**195.7**
Unallocated					
Shares issued	254.3	-	-	-	254.3
Investment in joint ventures	31.7	-	(18.2)	(13.5)	-
Acquisition of Liberty Living	(514.8)	1,045.8	-	-	531.0
Dividends paid	(70.7)	-	-	-	(70.7)
LSAV performance fee	11.4	-	-	(5.7)	5.7
Joint venture property acquisition fee	2.8	-	(0.6)	-	2.2
Swap cancellation and debt break costs	(2.7)	-	-	-	(2.7)
Other	(3.6)	-	(0.2)	(0.1)	(3.9)
Total unallocated	**(291.6)**	**1,045.8**	**(19.0)**	**(19.3)**	**715.9**
Total EPRA NAV movement in the year	**(98.0)**	**1,063.9**	**14.1**	**41.1**	**1,021.1**
Total EPRA NAV brought forward as reported	1,291.5	-	423.2	370.7	2,085.4
IFRS 16 transition	3.2	-	-	-	3.2
Total EPRA NAV brought forward revised	1,294.7	-	423.2	370.7	2,088.6
Total EPRA NAV carried forward	**1,196.7**	**1,063.9**	**437.3**	**411.8**	**3,109.7**

The £514.8 million acquisition of Liberty Living balance includes cash consideration of £492.0 million and acquisition costs of £22.8 million. The £1,045.8 million balance represents the fair value of the net assets that were acquired (further details can be found in note 6).

The £3.9 million other balance within the unallocated segment includes a tax charge of £0.7 million, fair value of share-based payments charge of £2.2 million and £1.0 million for contributions to the Unite Foundation.

2018

		Share of joint ventures		**Group on EPRA basis**
	Unite £m	**USAF £m**	**LSAV £m**	**Total £m**
Operations				
Operations segment result	**60.1**	**17.8**	**16.3**	**94.2**
Property				
Rental growth	38.8	6.4	19.8	65.0
Yield movement	37.4	7.9	22.3	67.6
Disposal and acquisition (losses)/gains	(6.8)	(3.4)	0.1	(10.1)
Investment property gains	69.4	10.9	42.2	122.5
Development property gains	29.6	0.8	–	30.4
Pre-contract/other development costs	(1.1)	–	–	(1.1)
Total property	**97.9**	**11.7**	**42.2**	**151.8**

Unallocated				
Shares issued	166.7	–	–	166.7
Investment in joint ventures	63.4	(5.3)	(58.1)	–
Dividends paid	(62.5)	–	–	(62.5)
Swap cancellation and debt break costs	(0.1)	–	–	(0.1)
Other	(4.7)	(0.2)	(0.2)	(5.1)
Total unallocated	**162.8**	**(5.5)**	**(58.3)**	**99.0**
Total EPRA NAV movement in the year	**320.8**	**24.0**	**0.2**	**345.0**
Total EPRA NAV brought forward	970.7	399.2	370.5	1,740.4
Total EPRA NAV carried forward	**1,291.5**	**423.2**	**370.7**	**2,085.4**

The £5.1 million other balance within the unallocated segment includes a tax charge of £2.7 million, fair value of share-based payments charge of £1.1 million, purchase of own shares of £0.4 million and £0.9 million for contributions to the Unite Foundation.

c) Reconciliation to IFRS

To determine EPRA NAV, net assets reported under IFRS are amended to exclude the mark to market valuation of swaps, deferred tax liabilities and to recognise all properties at market value.

The Group also manages NAV using EPRA NNNAV, which adjusts EPRA NAV to include the fair value of swaps and debt. Under EPRA best practice guidelines this is considered to give stakeholders the most relevant comparable information on the current fair value of all the assets and liabilities in the Group.

The net assets reported under IFRS reconcile to EPRA NAV and EPRA NNNAV as follows:

	Note	2019 £m	2018 £m
Net asset value reported under IFRS		**3,071.5**	**2,073.0**
Mark to market interest rate swaps		8.3	0.2
Unamortised swap gain		(2.1)	(2.3)
Unamortised fair value of debt recognised on acquisition		32.4	-
Current tax		(0.4)	-
Deferred tax		-	14.5
EPRA NAV	**2.3a**	**3,109.7**	**2,085.4**
Mark to market of fixed rate debt		(93.5)	(38.0)
Mark to market interest rate swaps		(8.3)	(0.2)
Current tax		0.4	-
Deferred tax		-	(14.5)
EPRA NNNAV		**3,008.3**	**2,032.7**

d) NAV per share

Basic NAV is based on the net assets attributable to the equity shareholders of The Unite Group plc and the number of shares in issue at the end of the year. The Board uses EPRA NAV and EPRA NNNAV to monitor the performance of the Property segment on a day to day basis.

	Note	2019	2018
Net assets (£m)			
Basic	2.3c	3,071.5	2,073.0
EPRA	2.3a	3,109.7	2,085.4

EPRA diluted	3,114.0	2,088.7
EPRA NNNAV (diluted)	3,012.6	2,036.0
Number of shares (thousands)		
Basic	363,618	263,541
Outstanding share options	1,309	917
Diluted	364,927	264,458
Net asset value per share (pence)		
Basic	845p	787p
EPRA	855p	791p
EPRA (fully diluted)	853p	790p
EPRA NNNAV (fully diluted)	826p	770p

2.4 Revenue and costs

The Group earns revenue from the following activities:

		Note	2019 £m	2018 £m
Rental income*	Operations segment	2.2a	134.1	112.7
Management fees	Operations segment	2.2a	14.4	15.8
LSAV performance fee	Unallocated		5.7	–
USAF acquisition fee	Unallocated		2.2	–
			156.4	128.5
Impact of minority interest on management fees			(0.2)	(0.2)
Total revenue			**156.2**	**128.3**

*EPRA earnings includes £213.9 million of rental income, which is comprised of £134.1 million recognised on wholly owned assets and a further £79.8 million from joint ventures which is included in share of joint venture profit in the consolidated income statement.

The cost of sales included in the consolidated income statement includes property operating expenses of £33.0 million (2018: £28.7 million).

2.5 Tax

As a REIT, rental profits and gains on disposal of investment properties are exempt from corporation tax. The Group pays UK corporation tax on the profits from its residual business, including profits arising on construction operations and management fees received from joint ventures, together with UK income tax on rental income that arises from investments held by offshore subsidiaries in which the Group holds a minority interest.

a) Tax – income statement

The total taxation (credit)/charge in the income statement is analysed as follows:

	2019 £m	2018 £m
Corporation tax on residual business income arising in UK companies	2.1	3.5
Income tax on UK rental income arising in non-UK companies	0.4	0.4
Adjustments in respect of prior periods	(2.4)	0.2
Current tax charge	**0.1**	**4.1**
Origination and reversal of temporary differences	(13.9)	4.5
Adjustments in respect of prior periods	0.2	(0.1)
Deferred tax (credit)/charge	**(13.7)**	**4.4**
Total tax (credit)/charge in income statement	**(13.6)**	**8.5**

The movement in deferred tax provided is shown in more detail in note 2.5d.

In the income statement, a tax credit of £13.6 million arises on a loss before tax of £101.2 million. The taxation credit that would arise at the standard rate of UK corporation tax is reconciled to the actual tax credit as follows:

	2019 £m	2018 £m
(Loss)/profit before tax	**(101.2)**	**245.8**
Income tax using the UK corporation tax rate of 19% (2018: 19%)	(19.2)	46.7
Property rental business profits exempt from tax in the REIT Group	(15.2)	(13.5)
Release of deferred tax liability due to legislative change	(13.6)	–
Non-taxable items relating to the acquisition of Liberty Living	76.7	–
Property revaluations not subject to tax	(40.5)	(24.9)
Effect of statutory tax reliefs	0.1	(0.2)
Effect of tax deduction transferred to equity on share schemes	0.2	0.3
Rate difference on deferred tax	0.1	–
Prior year adjustments	(2.2)	0.1
Total tax (credit)/charge in income statement	**(13.6)**	**8.5**

As a UK REIT, the Group is exempt from UK corporation tax on the profits from its property rental business. Accordingly, the element of the Group's profit before tax relating to its property rental business has been separately identified in the reconciliation above.

Following the enactment of the Finance Act 2019 the Group has reversed the deferred tax liability historically recognised in respect of its investments in unit trusts, resulting in a credit to the income statement. The deferred tax asset in respect of losses has also been reversed, to the extent that it was recognised against the liability on these investments.

Deferred tax is an accounting adjustment intended to reflect tax that the Group may have to pay in the future if certain events occur, and is distinct from the Group's current tax charge (the latter being the tax actually payable to HM Revenue & Customs for the year). Accordingly, a reversal of the deferred tax provision is an accounting only adjustment, and does not result in the Group receiving a tax credit or refund.

Although the Group does not pay UK corporation tax on the profits from its property rental business, it is required to distribute 90% of the profits from its property rental business after accounting for tax adjustments as a Property Income Distribution (PID). PIDs are charged to tax in the same way as property income in the hands of the recipient. For the year ended 31 December 2019, the required PID is expected to be fully paid by May 2020.

b) Tax – other comprehensive income

Within other comprehensive income a tax charge totalling £nil (2018: £nil) has been recognised representing deferred tax.

c) Tax – statement of changes in equity

Within the statement of changes in equity a tax credit totalling £1.0 million (2018: £0.1 million credit) has been recognised representing deferred tax. An analysis of this is included below in the deferred tax movement table.

d) Tax – balance sheet

The table below outlines the deferred tax (assets)/liabilities that are recognised in the balance sheet, together with their movements in the year:

2019

	At 31 December 2018 £m	Charged/(credited) in income £m	Charged/(credited) in equity £m	At 31 December 2019 £m
Investments	24.4	(24.4)	-	-
Property, plant and machinery	(0.7)	0.1	(0.3)	(0.9)
Share schemes	(0.6)	(0.1)	(0.6)	(1.3)
Tax value of carried forward losses recognised	(11.2)	10.7	(0.2)	(0.7)
Net tax (assets)/liabilities	**11.9**	**(13.7)***	**(1.1)**	**(2.9)**

* The (£13.7 million) balance above includes two tax movements (Property, plant and machinery and Share schemes) which are included in EPRA, which is why they are not included in the IFRS reconciliation in note 2.2b); removing them results in achieving the £14.3 million movement which is excluded as per EPRA's best practice recommendations.

2018

	At 31 December 2017 £m	Charged/ (credited) in income £m	Charged/ (credited) in equity £m	At 31 December 2018 £m
Investments	20.6	3.8	–	24.4
Property, plant and machinery	(0.8)	0.1	–	(0.7)
Share schemes	(0.9)	0.1	0.2	(0.6)
Tax value of carried forward losses recognised	(11.3)	0.4	(0.3)	(11.2)
Net tax (assets)/liabilities	**7.6**	**4.4***	**(0.1)**	**11.9**

* The £4.4 million balance above includes two tax movements (Property, plant and machinery and Share schemes) which are included in EPRA, which is why they are not included in the IFRS reconciliation in note 2.2 b); removing them results in achieving the £5.5 million movement which is excluded as per EPRA's best practice recommendations.

Currently, the UK corporation tax rate is due to fall from 19% to 17% with effect from 1 April 2020. This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2019 has been calculated based on the rate at which it is expected to reverse.

As a REIT, disposals of investment property are exempt from tax and as a result no deferred tax liability has been recognised in relation to these assets.

The unit trusts in which the Group invests derive their value from UK land. The Finance Act 2019 contains provisions that exempt capital gains on such units from the charge to UK tax to the extent they derive their value from UK property. As a result, the Group reversed the deferred tax liability recognised in respect of these investments during 2019 resulting in a credit to the income statement. The deferred tax asset in respect of losses has also been reversed, to the extent that it was recognised against the liability on investments.

Section 3: Asset management

3.1 Wholly owned property assets

The Group's wholly owned property portfolio is held in three groups on the balance sheet at the carrying values detailed below.

In the Group's EPRA NAV, all these groups are shown at market value.

i) Investment property (owned)

These are assets that the Group intends to hold for a long period to earn rental income or capital appreciation. The assets are held at fair value in the balance sheet with changes in fair value taken to the income statement.

ii) Investment property (leased)

These are assets the Group sold to institutional investors and simultaneously leased back. The assets are held at fair value in the balance sheet with changes in fair value taken to the income statement.

iii) Investment property under development

These are assets which are currently in the course of construction and which will be transferred to Investment property on completion. The assets are held at fair value in the balance sheet with changes in fair value taken to the income statement.

Valuation process

The valuations of the properties are performed twice a year on the basis of valuation reports prepared by external, independent valuers, having an appropriate recognised professional qualification. The fair values are based on market values as defined in the RICS Appraisal and Valuation Manual, issued by the Royal Institution of Chartered Surveyors. CB Richard Ellis Ltd, Jones Lang LaSalle Ltd and Messrs Knight Frank, Chartered Surveyors were the valuers in the years ended 31 December 2019 and 2018.

The valuations are based on:

- Information provided by the Group such as current rents, occupancy, operating costs, terms and conditions of leases and nomination agreements, capital expenditure, etc. This information is derived from the Group's financial systems and is subject to the Group's overall control environment.
- Assumptions and valuation models used by the valuers – the assumptions are typically market related, such as yield and discount rates. These are based on their professional judgement and market observation.

The information provided to the valuers – and the assumptions and the valuation models used by the valuers – are reviewed by the Property Board and the CFO. This includes a review of the fair value movements over the year.

The fair value of the Group's wholly owned properties and the movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2019 are shown in the table below.

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2019 are shown in the table below. The fair value of the Group's wholly owned properties at the year ended 31 December 2019 is also shown below.

2019

	Investment property (owned) £m	Investment property (leased) £m	Investment property under development £m	Total £m
At 1 January 2019	1,497.1	–	278.9	1,776.0
IFRS 16 transition (note 1)	–	128.0	–	128.0
Acquired through business combination (note 6)	1,933.7	–	18.4	1,952.1
Cost capitalised	6.5	6.3	208.2	221.0
Interest capitalised	–	–	9.1	9.1
Transfer from investment property under development	189.8	–	(189.8)	–
Transfer from work in progress	–	–	6.8	6.8
Disposals	(294.8)	(15.8)	–	(310.6)
Valuation gains	88.1	–	86.1	174.2
Valuation losses	(13.5)	(8.1)	(5.9)	(27.5)
Net valuation gains	74.6	(8.1)	80.2	146.7
Carrying and market value at 31 December 2019	**3,406.9**	**110.4**	**411.8**	**3,929.1**

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2018 are shown in the table below. The fair value of the Group's wholly owned properties at the year ended 31 December 2018 is also shown below.

2018

	Investment property £m	Investment property under development £m	Total £m
At 1 January 2018	1,261.4	205.7	1,467.1
Cost capitalised	10.5	230.7	241.2
Interest capitalised	–	10.5	10.5
Transfer from investment property under development	204.5	(204.5)	–
Transfer from work in progress	–	0.9	0.9
Disposals	(49.5)	–	(49.5)
Valuation gains	75.6	47.4	123.0
Valuation losses	(5.4)	(11.8)	(17.2)
Net valuation gains	70.2	35.6	105.8
Carrying and market value at 31 December 2018	**1,497.1**	**278.9**	**1,776.0**

Included within investment properties at 31 December 2019 are £31.3 million (2018: £29.9 million) of assets held under a long leasehold and £0.1 million (2018: £0.1 million) of assets held under short leasehold.

Total interest capitalised in investment properties (owned) and investment properties under development at 31 December 2019 was £47.6 million (2018: £49.8 million) on a cumulative basis. Total internal costs capitalised in investment properties (owned) and investment properties under development was £63.4 million at 31 December 2019 (2018: £59.6 million) on a cumulative basis.

Recurring fair value measurement

All investment and development properties are classified as Level 3 in the fair value hierarchy.

Class of asset	2019 £m	2018 £m
London – rental properties	1,015.0	499.8
Prime provincial – rental properties	876.5	298.3
Major provincial – rental properties	1,198.1	409.4
Other provincial – rental properties	317.3	289.6
London – development properties	245.1	49.1
Prime provincial – development properties	76.1	125.4
Major provincial – development properties	90.6	104.4
Investment property (owned)	**3,818.7**	**1,776.0**
Investment property (leased)	**110.4**	**–**
Market value	**3,929.1**	**1,776.0**

The valuation technique for investment properties is a discounted cash flow using the following inputs: net rental income, estimated future costs, occupancy and property management costs.

Where the asset is leased to a University, the valuations also reflect the length of the lease, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the market's general perception of the lessee's creditworthiness.

The resulting valuations are cross-checked against the initial yields and the capital value per bed derived from actual market transactions.

For development properties, the fair value is usually calculated by estimating the fair value of the completed property (using the discounted cash flow method) less estimated costs to completion.

Fair value using unobservable inputs (Level 3)

	2019 £m	2018 £m
Opening fair value	1,776.0	1,467.1
IFRS 16 transition (note 1)	128.0	–
Acquired through business combination (note 6)	1,952.1	–
Gains and losses recognised in income statement	146.7	105.8
Capital expenditure	236.9	252.6
Disposals	(310.6)	(49.5)
Closing fair value	**3,929.1**	**1,776.0**

Quantitative information about fair value measurements using unobservable inputs (Level 3)

2019

	Fair value £m	Valuation technique	Unobservable inputs	Range	Weighted average
London – rental properties	1,015.0	Discounted cash flows	Net rental income (£ per week) Estimated future rent (%) Discount rate (yield) (%)	£192 - £367 3% - 5% 3.9% - 5.0%	£277 4% 4.0%
Prime provincial – rental properties	876.5	Discounted cash flows	Net rental income (£ per week) Estimated future rent (%) Discount rate (yield) (%)	£137 - £212 2% - 5% 4.5% - 6.0%	£163 3% 5.0%

Major provincial – rental properties	1,198.1	Discounted cash flows	Net rental income (£ per week) Estimated future rent (%) Discount rate (yield) (%)	£74 - £157 2% - 5% 4.8% - 6.1%	£129 3% 5.7%
Other provincial – rental properties	317.3	Discounted cash flows	Net rental income (£ per week) Estimated future rent (%) Discount rate (yield) (%)	£107 - £181 1% - 4% 5.0% - 15.5%	£138 3% 6.6%
London – development properties	245.1	Discounted cash flows	Estimated cost to complete (£m) Estimated future rent (%) Discount rate (yield) (%)	£30.8m - £91.4m 3% 4.0%	£65.6m 3% 4.0%
Prime provincial – development properties	76.1	Discounted cash flows	Estimated cost to complete (£m) Estimated future rent (%) Discount rate (yield) (%)	£16.8m - £76.4m 3% 4.8% - 5.0%	£43.2m 3% 4.9%
Major provincial – development properties	90.6	Discounted cash flows	Estimated cost to complete (£m) Estimated future rent (%) Discount rate (yield) (%)	£35.1m - £46.8m 3% 4.5%	£39.6m 3% 4.5%
	3,818.7				
Investment property (leased)	110.4	Discounted cash flows	Net rental income (£ per week) Estimated future rent (%) Discount rate (yield) (%)	£121 - £167 3% 6.8%	
Fair value at 31 December 2019	**3,929.1**				

2018

	Fair value £m	Valuation technique	Unobservable inputs	Range	Weighted average
London – rental properties	499.8	Discounted cash flows	Net rental income (£ per week) Estimated future rent (%) Discount rate (yield) (%)	£184 – £355 2% – 7% 4.0% – 5.0%	£267 3% 4.2%
Prime provincial – rental properties	298.3	Discounted cash flows	Net rental income (£ per week) Estimated future rent (%) Discount rate (yield) (%)	£139 – £166 2% – 6% 4.5% – 6.0%	£153 3% 5.1%
Major provincial – rental properties	409.4	Discounted cash flows	Net rental income (£ per week) Estimated future rent (%) Discount rate (yield) (%)	£99 – £149 1% – 5% 4.8% – 6.1%	£135 2% 5.6%
Other provincial – rental properties	289.6	Discounted cash flows	Net rental income (£ per week) Estimated future rent (%) Discount rate (yield) (%)	£100 – £174 2% – 7% 4.9% – 15.0%	£138 4% 5.8%
London – development properties	49.1	Discounted cash flows	Estimated cost to complete (£m) Estimated future rent (%) Discount rate (yield) (%)	£63.3m – £186.3m 3% 4.3%	£135.4m 3% 4.3%
Prime provincial – development properties	125.4	Discounted cash flows	Estimated cost to complete (£m) Estimated future rent (%) Discount rate (yield) (%)	£15m – £77.1m 3% 4.5% – 5.3%	£37.7m 3% 4.8%
Major provincial – development properties	104.4	Discounted cash flows	Estimated cost to complete (£m) Estimated future rent (%) Discount rate (yield) (%)	£19.4m – £57.8m 3% 5.3% – 5.5%	£37.1m 3% 5.4%
Fair value at 31 December 2018	**1,776.0**				

Fair value sensitivity analysis

A decrease in net rental income or occupancy will result in a decrease in the fair value, whereas a decrease in the discount rate (yield) will result in an increase in fair value. There are inter-relationships between these rates as they are partially determined by market rate conditions.

Class of assets	Fair value at 31 December 2019 £m	+5% change in estimated net rental income £m	-5% change in estimated net rental income £m	+25 bps change in nominal equivalent yield £m	-25 bps change in nominal equivalent yield £m
Rental properties					
London	1.015.0	1,062.8	962.6	953.4	1,079.9
Prime provincial	876.5	955.0	865.7	866.2	959.5
Major provincial	1,198.1	1,252.4	1,134.0	1,143.6	1,247.4
Other provincial	317.3	322.1	291.4	294.9	319.6
Development properties					
London	245.1	262.2	228.0	227.2	265.2
Prime provincial	76.1	85.2	67.1	67.1	88.2
Major provincial	90.6	100.7	80.5	83.3	99.2
Market value	**3,818.7**	**4,040.4**	**3,629.3**	**3,635.7**	**4,059.0**

3.2 Inventories

	2019 £m	2018 £m
Interests in land	1.5	6.8
Other stocks	2.5	2.3
Inventories	**4.0**	**9.1**

At 31 December 2019, the Group had interests in two pieces of land (2018: one piece of land).

3.3 Investments in joint ventures

The Group has two joint ventures:

Joint venture	Group's share of assets/results 2019 (2018)	Objective	Partner	Legal entity in which Group has interest
The UNITE UK Student Accommodation Fund (USAF)	23.4%* (26.9%)	Invest and operate student accommodation throughout the UK	Consortium of investors	UNITE UK Student Accommodation Fund, a Jersey Unit Trust
London Student Accommodation Venture (LSAV)	50% (50%)	Operate student accommodation in London	GIC Real Estate Pte, Ltd Real estate investment vehicle of the Government of Singapore	LSAV Unit Trust, a Jersey Unit Trust and LSAV (Holdings) Ltd, incorporated in Jersey

* Part of the Group's interest is held through a subsidiary, USAF (Feeder) Guernsey Limited, in which there is an external investor. A minority interest therefore occurs on consolidation of the Group's results representing the external investor's share of profits and assets relating to its investment in USAF. The ordinary shareholders of The Unite Group plc are beneficially interested in 22.0% (2018: 25.3%) of USAF.

a) Net assets and results of the joint ventures

The summarised balance sheets and results for the year, and the Group's share of these joint ventures are as follows:

2019

	USAF £m			LSAV £m		Total £m	
	Gross	MI	Share	Gross	Share	Gross	Share
Investment property	2,849.9	39.0	628.0	1,335.0	667.5	4,184.9	1,334.5
Cash	23.7	0.3	5.2	45.6	22.8	69.3	28.3
Debt	(882.1)	(12.1)	(194.4)	(535.2)	(267.6)	(1,417.3)	(474.1)
Swap liabilities	–	–	–	(1.2)	(0.6)	(1.2)	(0.6)

Other current assets	151.8	2.1	33.4	2.7	1.3	154.5	36.8
Other current liabilities	(160.6)	(2.6)	(34.9)	(24.4)	(12.2)	(185.0)	(49.7)
Net assets	**1,982.7**	**26.7**	**437.3**	**822.5**	**411.2**	**2,805.2**	**875.2**
Minority interest	–	(26.7)	–	–	–	–	(26.7)
Swap liabilities	–	–	–	1.2	0.6	1.2	0.6
EPRA net assets	**1,982.7**	**–**	**437.3**	**823.7**	**411.8**	**2,806.4**	**849.1**
Profit for the year	**144.0**	**2.1**	**37.1**	**126.9**	**63.4**	**270.9**	**102.6**

2018

	USAF £m			**LSAV £m**		**Total £m**	
	Gross	**MI**	**Share**	**Gross**	**Share**	**Gross**	**Share**
Investment property	2,253.7	35.4	570.2	1,243.4	621.7	3,497.1	1,227.3
Cash	127.9	2.0	32.4	47.7	23.9	175.6	58.3
Debt	(690.0)	(10.8)	(174.6)	(534.0)	(267.0)	(1,224.0)	(452.4)
Swap assets/(liabilities)	0.4	–	0.1	(0.3)	(0.2)	0.1	(0.1)
Other current assets	27.2	0.4	6.9	0.4	0.2	27.6	7.5
Other current liabilities	(57.9)	(1.1)	(11.7)	(16.1)	(8.1)	(74.0)	(20.9)
Net assets	**1,661.3**	**25.9**	**423.3**	**741.1**	**370.5**	**2,402.4**	**819.7**
Minority interest	–	(25.9)	–	–	–	–	(25.9)
Swap (assets)/liabilities	(0.4)	–	(0.1)	0.3	0.2	(0.1)	0.1
EPRA net assets	**1,660.9**	**–**	**423.2**	**741.4**	**370.7**	**2,402.3**	**793.9**
Profit for the year	**124.1**	**1.8**	**32.7**	**122.6**	**61.3**	**246.7**	**95.8**

Net assets and profit for the year above include the minority interest, whereas EPRA net assets exclude the minority interest.

b) Movement in carrying value of the Group's investments in joint ventures

The carrying value of the Group's investment in joint ventures increased by £55.5 million during the year ended 31 December 2019 (2018: £26.2 million), resulting in an overall carrying value of £875.2 million (2018: £819.7 million).

The following table shows how the increase has been achieved.

	2019 £m	**2018 £m**
Recognised in the income statement:		
Operations segment result	36.4	34.1
Minority interest share of Operations segment result	1.1	1.1
Management fee adjustment related to trading with joint venture	6.8	6.4
Net revaluation gains	58.3	58.1
Profit/(loss) on disposal of properties	0.4	(3.5)
Other	(0.4)	(0.4)
	102.6	**95.8**
Recognised in equity:		
Movement in effective hedges	(0.5)	1.2
Other adjustments to the carrying value:		
Profit adjustment related to trading with joint venture	(8.1)	(6.4)
Additional capital invested in USAF	–	8.6

LSAV performance fee	(5.7)	-
Performance fee units issued in USAF	–	4.0
Redemption of units invested in LSAV	–	(39.5)
Distributions received	(32.8)	(37.5)
Increase in carrying value	**55.5**	**26.2**
Carrying value at 1 January	819.7	793.5
Carrying value at 31 December	**875.2**	**819.7**

c) Transactions with joint ventures

The Group acts as asset and property manager for the joint ventures and receives management fees in relation to these services.

In addition, the Group is entitled to performance fees from USAF and LSAV if the joint ventures outperform certain benchmarks. The Group receives either cash or an enhanced equity interest in the joint ventures as consideration for the performance fee. The Group has recognised the following gross fees in its results for the year.

	2019 £m	2018 £m
USAF	14.6	13.5
LSAV	6.4	5.9
Asset and property management fees	**21.0**	**19.4**
LSAV performance fee	11.4	–
USAF acquisition fee	2.8	–
Investment management fees	**14.2**	**–**
Total fees	**35.2**	**19.4**

On an EPRA basis, fees from joint ventures are shown net of the Group's share of the cost to the joint ventures.

The Group's share of the cost to the joint ventures is £6.6 million (2018: £6.2 million), which results in management fees from joint ventures of £14.4 million being shown in the Operating segment result in note 2.2a (2018: £13.2 million, excluding £2.4 million third party management fee).

Investment management fees are included within the unallocated to segments section in note 2.2a.

During 2019, the Group sold five properties to USAF for gross proceeds of £202.3 million. All five properties had been held on balance sheet as investment property within non-current assets. The proceeds and carrying value of the property are therefore recognised in profit on disposal of property and the cash flows in investing activities. The profits relating to the sales, associated disposal costs and related cash flows are set out below:

	Profit and loss	
	2019 USAF £m	2018 LSAV £m
Included in profit on disposal of property (net of joint venture trading adjustment)	1.8	–
Profit on disposal of property	**1.8**	**–**

	Cash flow	
	2019 USAF £m	2018 LSAV £m
Gross proceeds	202.3	1.0
Net cash flows included in cash flows from investing activities	**202.3**	**1.0**

Section 4: Funding

4.1 Borrowings

The table below analyses the Group's borrowings which comprise bank and other loans by when they fall due for payment:

	Group – Carrying value	
	2019 £m	**2018 £m**
Current		
In one year or less, or on demand	1.4	1.3
Non-current		
In more than one year but not more than two years	1.5	85.6
In more than two years but not more than five years	964.7	110.3
In more than five years	567.6	395.4
	1,533.8	591.3
Unamortised fair value of debt recognised on acquisition	32.4	-
Total borrowings	**1,567.6**	**592.6**

In addition to the borrowings currently drawn as shown above, the Group has available undrawn facilities of £305.0 million (2018: £350.0 million). A further overdraft facility of £10.0 million (2018: £10.0 million) is also available.

Properties with a carrying value of £604.7 million (2018: £638.1 million) have been pledged as security against the Group's drawn down borrowings. On the occurrence of certain specified events of default, for example the Group failed to meet its payment obligations in relation to the secured borrowings, the secured lender would be entitled to enforce its security over the relevant properties and sell them. The sale proceeds would then be applied in discharge of the relevant borrowings.

The carrying value and fair value of the Group's borrowings is analysed below:

	2019		2018	
	Carrying value £m	**Fair value £m**	**Carrying value £m**	**Fair value £m**
Level 1 IFRS fair value hierarchy	907.4	930.9	365.0	373.5
Level 2 IFRS fair value hierarchy	231.9	244.6	237.8	251.2
Other loans and unamortised arrangement fees	428.3	428.3	(10.2)	(10.2)
Total borrowings	**1,567.6**	**1,603.8**	**592.6**	**614.5**

The fair value of loans classified as Level 1 in the IFRS fair value hierarchy is determined using quoted prices in active markets for identical liabilities.

The fair value of loans classified as Level 2 in the IFRS fair value hierarchy has been calculated by a third party expert discounting estimated future cash flows on the basis of market expectation of future interest rates. The fair value represents the net present value of the difference between the contracted rate and the valuation rate when applied to the projected balances for the period from the reported date to the contracted expiry date. Loans are valued using the mid-point of the yield curve prevailing on the reporting date. The valuations do not include accrued interest from the previous settlement date to the reporting date nor a credit valuation adjustment.

4.2 Interest rate swaps

The Group uses interest rate swaps to manage the Group's exposure to interest rate fluctuations. In accordance with the Group's treasury policy, the Group does not hold or issue interest rate swaps for trading purposes and only holds swaps which are considered to be commercially effective.

The following table shows the fair value of interest rate swaps:

	2019 £m	**2018 £m**
Current	–	–
Non-current	7.6	0.1
Fair value of interest rate swaps	**7.6**	**0.1**

The fair value of interest rate swaps (a credit balance in 2019 and 2018) have been calculated by a third party expert, discounting estimated future cash flows on the basis of market expectations of future interest rates, representing Level 2 in the IFRS 13 fair value hierarchy.

4.3 Net financing costs

Recognised in the income statement:	**2019 £m**	**2018 £m**
Interest income	(5.1)	(0.9)
Amortisation of fair value of debt recognised on acquisition	(0.4)	-
Finance income	**(5.5)**	**(0.9)**
Gross interest expense on loans	32.9	24.8
Interest capitalised	(9.1)	(10.5)
Loan interest and similar charges	**23.8**	**14.3**
Interest on lease liabilities	9.2	–
Mark to market changes on interest rate swaps	2.7	–
Swap cancellation and loan break costs	2.7	0.1
Finance costs	**38.4**	**14.4**
Net financing costs	**32.9**	**13.5**

The average cost of the Group's wholly owned investment debt for the year ended 31 December 2019 is 3.3% (2018: 3.8%). The overall average cost of investment debt on an EPRA basis is 3.3% (2018: 3.8%).

4.4 Gearing

LTV is a key indicator that the Group uses to manage its indebtedness. The Group also monitors gearing, which is calculated using EPRA net asset value (NAV) and adjusted net debt. Adjusted net debt excludes IFRS 16 lease liabilities, the unamortised fair value of debt recognised on acquisition and mark to market of interest rate swaps as shown below.

The Group's gearing ratios are calculated as follows:

	Note	**2019 £m**	**2018 £m**
Cash and cash equivalents	5.1	86.9	123.6
Current borrowings	4.1	(1.4)	(1.3)
Non-current borrowings	4.1	(1,566.2)	(591.3)
Lease liabilities		(104.8)	-
Interest rate swaps liabilities	4.2	(7.6)	(0.1)
Net debt per balance sheet		**(1,593.1)**	**(469.1)**
Lease liabilities		104.8	-
Unamortised fair value of debt recognised on acquisition		32.4	-
Mark to market of interest rate swaps		7.6	0.1
Adjusted net debt		**(1,448.3)**	**(469.0)**
Reported net asset value	2.3c	3,071.5	2,073.0
EPRA net asset value	2.3c	3,109.7	2,085.4
Gearing			
Basic (net debt/reported net asset value)		52%	23%
Adjusted gearing (adjusted net debt/EPRA net asset value)		47%	22%
Loan to value	2.3a	37%	29%

4.5 Equity

The Company's issued share capital has increased during the year as follows:

Called up, allotted and fully paid ordinary shares of £0.25p each	2019 No. of shares	2019 Ordinary shares £m	2019 Share Premium £m	2018 No. of shares	2018 Ordinary shares £m	2018 Share Premium £m
At 1 January	263,515,151	65.9	740.5	240,830,281	60.2	579.5
Shares issued (placing)	26,353,664	6.6	247.6	22,128,782	5.5	160.7
Shares issued (scrip dividend)	1,017,472	0.3	(0.3)	78,090	0.1	(0.1)
Shares issued (consideration for Liberty Living (note 6))	72,582,286	18.1	887.0	–	–	–
Shares issued (options exercised)	123,309	–	0.1	477,998	0.1	0.4
At 31 December	**363,591,882**	**90.9**	**1,874.9**	**263,515,151**	**65.9**	**740.5**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

4.6 Dividends

During the year, the Company declared and paid an interim dividend of £23.2 million – 10.25p per share (2018: £24.3 million – 9.5p per share) and paid a £47.5 million final dividend – 19.5p per share relating to the year ended 31 December 2018 (2018: £38.2 million – 15.4p per share relating to the year ended 31 December 2017).

After the year end, the Directors proposed a final dividend per share of 22.95p (2018: 19.5p), bringing the total dividend per share for the year to 33.2p (2018: 29.0p). No provision has been made in relation to this dividend.

The Group has modelled tax adjusted property business profits for five years and declared PIDs in respect of the May 2019 and November 2019 distributions to ensure that the PID requirement will be satisfied. For the year ended 31 December 2019 the required PID is expected to be fully paid by May 2020.

Section 5: Working capital

5.1 Cash and cash equivalents

The Group's cash position at 31 December 2019 was £86.9 million (2018: £123.6 million).

The Group's cash balances include £2.6 million (2018: £2.4 million) whose use at the balance sheet date is restricted by funding agreements to pay operating costs and loan interest relating to specific properties.

The Group generates cash from its operating activities as follows:

	Note £m	Group 2019 £m	Group 2018 £m
(Loss)/profit for the year		**(87.6)**	**237.3**
Adjustments for:			
Depreciation and amortisation	3.3	7.6	7.3
Impairment of goodwill and acquired intangible asset	6	384.1	–
Acquisition costs	6	22.8	-
Fair value of share-based payments	7.1	2.2	1.1
Dividends received		-	–
Change in value of investment property (owned)	3.1	(154.8)	(105.8)
Change in value of investment property (leased)	3.1	8.1	–
Change in value of investments	3.5	-	–
Net finance costs excluding interest on lease liabilities	4.3	23.7	13.5
Loss on disposal of investment property (owned)		6.2	6.8

Loss on disposal of investment property (leased)		1.1	–
Share of joint venture profit	3.4b	(102.6)	(95.8)
Trading with joint venture adjustment		8.1	6.4
Tax charge/(credit)	2.5a	(13.6)	8.5
Cash flows from operating activities before changes in working capital		**105.3**	**79.2**
Increase in trade and other receivables		(1.6)	(4.5)
Increase in inventories		(1.7)	(5.5)
Decrease in trade and other payables		(21.3)	(5.8)
Cash flows from operating activities		**80.7**	**63.5**
Tax paid		(2.2)	(3.8)
Net cash flows from operating activities		**78.5**	**59.7**

In 2019, none of the brought forward trade and other receivables was settled in units in USAF rather than cash (2018: £4.0 million).

Cash flows consist of the following segmental cash inflows/(outflows): Operations £85.4 million (2018: £81.2 million), property £191.8 million (2018: (£138.3 million)) and unallocated (£314.5 million) (2018: £129.5 million).

The unallocated amount includes a net cash outflow of (£487.1 million) in respect of the acquisition of Liberty Living (2018: £nil), amounts received from shares issued £254.7 million (2018: £166.7 million), dividends paid (£69.6 million) (2018: (£62.5 million)), tax paid (£2.2 million) (2018: (£3.8 million)) and investment in joint ventures £nil (2018: £30.9 million).

5.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's cash balances, the Group's receivables from customers and joint ventures and loans provided to the Group's joint ventures.

At the year end, the Group's maximum exposure to credit risk was as follows:

	Note	2019 £m	2018 £m
Cash	5.1	86.9	123.6
Trade receivables		30.5	22.8
Amounts due from joint ventures		30.1	36.7
		147.5	**183.1**

a) Cash

The Group operates investment guidelines with respect to surplus cash. Counterparty limits for cash deposits are largely based upon long-term ratings published by credit rating agencies and credit default swap rates. Deposits were placed with financial institutions with A- or better credit ratings.

b) Trade receivables

The Group's customers can be split into two groups – (i) students (individuals) and (ii) commercial organisations including Universities. The Group's exposure to credit risk is influenced by the characteristics of each customer. The Group holds customer deposits of £1.0 million (2018: £0.9 million) as collateral against individual customers.

c) Joint ventures

Amounts receivable from joint ventures fall into two categories – working capital balances and investment loans. The Group has strong working relationships with its joint venture partners and therefore views this as a low credit risk balance.

Section 6: Business combination

On 29 November 2019, the Group completed the acquisition of Liberty Living for total consideration of £1,397.1 million. This comprised cash consideration paid of £492.0 million and the fair value of new shares issued of £905.1 million.

The consideration for the acquisition was calculated on a NAV-for-NAV basis as at 31 March 2019 with certain agreed adjustments applied to the EPRA NAVs of Unite and the Liberty Living portfolio. The share price at completion is used to calculate the fair value of the shares issued and there was a strong appreciation in the share price between announcement on 3 July 2019 and completion on 29 November 2019.

The acquisition of Liberty Living was accounted for as a business combination due to the integrated set of activities acquired in addition to the properties. Accordingly, transaction and subsequent structuring costs incurred in relation to the acquisition of £22.8 million have been expensed in the consolidated income statement.

As the acquisition has been categorised as a business combination, any premium paid over the fair value of the assets acquired is treated as goodwill in the consolidated balance sheet at the time of acquisition. Goodwill of £377.4 million arising in respect of the transaction was recognised on acquisition, as detailed below.

The fair value of the identifiable assets and liabilities of Liberty Living acquired as at the date of acquisition were:

	IFRS book value £m	**Provisional fair value adjustment £m**	**Fair value recognised on acquisition £m**
Investment property	1,952.1	-	1,952.1
PPE and intangibles assets	11.9	(2.5)	9.4
Trade and other receivables	8.4	-	8.4
Cash and cash equivalents	22.4	-	22.4
Trade and other payables	(78.5)	0.4	(78.1)
Borrowings	(861.7)	(32.8)	(894.5)
Total identifiable net assets acquired	**1,054.6**	**(34.9)**	**1,019.7**

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Material assets acquired	**Valuation technique**
Investment property	Liberty Living's property portfolio was valued externally by Knight Frank, following the valuation process as set out in note 3.1.
Borrowings	Nominal amounts owed to lenders plus interest payable that has been adjusted for the difference between the contractual interest rate on the loans and borrowings and the market interest rate.

Goodwill has been recognised as follows:

	£m
Cash consideration paid	492.0
Fair value of shares issued	905.1
Fair value of identifiable net assets acquired	(1,019.7)
Goodwill	**377.4**

Goodwill recognised on acquisition of £377.4 million represents the premium paid over the fair value of the net assets acquired.

Goodwill has been subsequently assessed for impairment. As no definitive and measurable portfolio premium can be ascribed to the combined value of the properties an impairment charge for the full amount of goodwill recognised on acquisition has been taken to the consolidated income statement.

Intangible assets have subsequently been assessed for impairment. The Liberty Living property portfolio will be rebranded to the Unite brand, therefore an impairment charge of £6.7 million, representing the fair value of the Liberty Living brand (net of deferred tax) has been taken to the consolidated income statement.

Acquired net assets, on an EPRA basis, has been determined as £1,045.8 million, being the fair value of the net assets on an IFRS basis (£1,019.7 million), excluding the fair value of the brand that was subsequently fully impaired (£6.7 million) and the £32.8 million fair value adjustment made to borrowings.

For the period 29 November 2019 to 31 December 2019, on an IFRS basis, Liberty Living contributed revenue of £13.8 million and profit of £18.1 million to the Group's results (£13.8 million and £7.5 million, respectively, on an EPRA basis). If the acquisition had occurred on 1

January 2019, revenue would have been £134.4 million and profit would have been £126.9 million for the year ended 31 December 2019.

Section 7: Post balance sheet events

Fire safety is a critical part of our health and safety strategy. In accordance with the Government's Building Safety Advice of 20 January 2020, we have initiated a thorough review of the use of High Pressure Laminate (HPL) on our properties. While the review is ongoing, early indications are that the cost of replacing the cladding could be £15-20 million (Unite share), which will form part of our capex programme for investment properties. We expect this spend to be incurred over the next 12-24 months with activity prioritised according to our risk assessments.

Section 8: Alternative performance measures

The Group uses alternative performance measures ("APMs"), which are not defined or specified under IFRS. These APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board, and provide comparable information across the Group. The APMs below have been calculated on a see through / Unite share basis, as referenced to the notes to the financial statements. Reconciliations to equivalent IFRS measures are included in notes 2.2b and 2.2c. Definitions can also be found in the glossary.

	Note	2019	2018
EBIT			
Net operating income (NOI)	2.2a	160.8	140.3
Management fees	2.2a	14.4	15.6
Operating expenses	2.2a	(21.8)	(21.7)
		153.4	**134.2**
EBIT margin %			
Rental income	2.2a	213.9	188.3
EBIT	8	153.4	134.2
		71.7%	**71.3%**
EBITDA			
Net operating income (NOI)	2.2a	160.8	140.3
Management fees	2.2a	14.4	15.6
Operating expenses	2.2a	(21.8)	(21.7)
Depreciation and amortisation		7.6	7.3
		161.0	**141.5**
Net debt			
Cash	2.3a	114.9	179.9
Debt	2.3a	(1,999.2)	(1,036.4)
		(1,884.3)	**(856.5)**
Net debt (adjusted)			
Cash	2.3a	114.9	179.9
Debt (adjusted)*		(1,209.3)	(1,036.4)
		(1,094.4)	**(856.5)**

* Calculated as Unite debt of £1,137.5 million and Liberty Living debt of £71.8 million (£861.7 million pro-rated for 33 days of ownership).

	Note	2019	2018
EBITDA : Net debt (adjusted)			
EBITDA	8	161.0	141.5
Net debt (adjusted)	8	(1,094.4)	(856.5)
Ratio		**6.8**	**6.1**
Interest cover (Unite share)			
EBIT	8	153.4	134.2
Net financing costs	2.2a	(34.7)	(28.5)
Interest on lease liability/operating lease rentals	2.2a	(9.2)	(11.5)
Total interest		**(43.9)**	**(40.0)**
Ratio		**3.5**	**3.4**

Reconciliation: EPRA earnings to IFRS profit before tax

	Note	2019 £m	2018 £m
EPRA earnings		**110.6**	**88.4**
Net valuation gains on investment property (owned)	2.3b	213.1	163.9
Property disposals (owned)	2.3b	(5.8)	(10.3)
Net valuation losses on investment property (leased)	2.3b	(8.1)	–
Property disposals (leased)	2.3b	(1.1)	–
Impairment of goodwill	2.3b	(384.1)	–
Acquisition costs	2.3b	(22.8)	–
Amortisation of fair value of debt recognised on acquisition	2.3b	0.4	–
Changes in valuation of interest rate swaps	2.3b	(2.7)	–
Debt exit costs	2.3b	(2.7)	(0.1)
Minority interest and tax		2.0	3.9
IFRS (loss) profit before tax		**(101.2)**	**245.8**

Reconciliation: Profit before tax excluding items relating to the Liberty Living acquisition to IFRS loss before tax

	Note	2019 £m
Profit before tax excluding items relating to the Liberty Living acquisition		**305.3**
Impairment off goodwill and intangible asset	6	(384.1)
Acquisition costs	6	(22.8)
Amortisation of fair value of debt recognised on acquisition		0.4
IFRS loss before tax		**(101.2)**

Adjusted basic EPS (IFRS)

	Note	2019 £m
Profit before tax excluding items relating to the Liberty Living acquisition	8	305.3
Number of shares (thousands)	2.2c	282,802
Adjusted basic EPS (IFRS)		**108.0p**

EPRA Performance Measures

EPRA like-for-like rental income

	Properties owned throughout the period	Development property	Acquisitions and disposals	Other activity	Total EPRA Earnings
2019					
Rental income	166.4	20.5	12.1	14.9	213.9
Property operating expenses	(42.5)	(4.5)	(3.6)	(2.6)	(53.1)
Net rental income	**123.9**	**16.0**	**8.5**	**12.4**	**160.8**
2018					
Rental income	160.6	6.1	23.4	(1.7)	188.3
Property operating expenses	(40.2)	(1.1)	(7.4)	0.7	(48.0)
Net rental income	120.4	4.9	16.0	(1.0)	140.3
Like-for-like gross rental income	**3.6%**				
Like-for-like net rental income	**3.0%**				

EPRA Vacancy Rate

	2019	2018
Estimated rental value of vacant space	3.5	2.1
Estimated rental value of the whole portfolio	247.1	139.2
EPRA Vacancy Rate	**1.4%**	**1.5%**

EPRA Cost ratio

	2019	2018
Property operating expenses	33.0	28.6
Operating expenses	21.1	20.9
Development / pre contract	1.5	-1.1
Unallocated expenses	4.4	2.0
	60.0	**50.4**
Share of JV property operating expenses	20.1	19.4
Share of JV operating expenses	0.7	0.8
	80.8	**70.6**

Less: Joint venture management fees	(14.4)	(13.2)
Total costs (A)	**66.4**	**57.4**
Group vacant property costs	-	-
Share of JV vacant property costs	-	-
Total costs excluding vacant property costs (B)	**66.4**	**57.4**
Rental income	134.1	112.7
Share of JV rental income	79.8	75.6
Total gross rental income (C)	**213.9**	**188.3**
Total EPRA cost ratio (including vacant property costs) (A)/(C)	**31%**	**30%**
Total EPRA cost ratio (excluding vacant property costs) (B)/(C)	**31%**	**30%**

Unite's EBIT margin excludes non-operational expenses which are included within the EPRA cost ratio above.

EPRA Valuation movement (Unite share)

	Valuation £m	Change £m	%
Wholly owned	1,267	63	5.2%
USAF	509	15	3.1%
LSAV	668	46	7.4%
Rental properties	**2,444**	**124**	**4.8%**
Leased properties	110		
2019/20 development completions	206		
Properties under development	412		
Properties held throughout the year	**3,172**		
Acquisitions	2,008		
Disposals to USAF	45		
Total property portfolio	**5,225**		

EPRA Yield movement

	NOI yield	Yield movement (bps)		
	%	**H1**	**H2**	**FY**
Wholly owned	5.1%	(7)	(5)	(12)
USAF	5.3%	(1)	(3)	(5)
LSAV	4.4%	(3)	(10)	(13)
Rental properties (Unite share)	**5.0%**	**(5)**	**(6)**	**(11)**

Property related capital expenditure

	2019			2018		
	Wholly owned	**Share of JVs**	**Group share**	**Wholly owned**	**Share of JVs**	**Group share**
Acquisitions	-	51	51	-	7	7
Developments	208	6	215	232	6	238
Rental properties	6	9	15	10	14	25
Other	9	-	9	10	-	10
Total property related capex	**224**	**66**	**290**	**253**	**27**	**280**

Glossary

Adjusted net debt
The Group's debt, net of cash and unamortised debt raising costs, excluding the mark to market of interest rates swaps.

Basis points (BPS)
A basis point is a term used to describe a small percentage, usually in the context of change, and equates to 0.01%.

Direct let
Properties where short-hold tenancy agreements are made directly between Unite and the student.

EBIT
The Group's NOI plus management fees and less operating expenses.

EBITDA
The Group's EPRA earnings before charging interest, tax, depreciation and amortisation. The profit number is used to calculate the ratio to net debt.

EBIT margin
The Group's EBIT expressed as a percentage of rental income.

EPRA
The European Public Real Estate Association, who produce best practice recommendations for financial reporting.

EPRA earnings
EPRA earnings exclude movements relating to changes in values of investment properties and interest rate swaps and the related tax effects.

EPRA earnings per share
The earnings per share based on EPRA earnings.

EPRA NAV
EPRA NAV includes all property at market value but excludes the mark to market of financial instruments and deferred tax. EPRA NAV provides a consistent measure of NAV on a going concern basis.

EPRA net asset value per share
The diluted NAV per share figure based on EPRA NAV.

EPRA NNNAV
EPRA NAV adjusted for the fair value of debt and financial instruments and deferred tax. EPRA NNNAV provides a 'spot' measure of NAV with all assets and liabilities at their fair value.

ESG
Environmental, Social and Governance.

GRESB
GRESB is a benchmark of the Environmental, Social and Governance (ESG) performance of real assets.

Gross asset value
Rental properties, plus leased properties and development properties. GAV is reported on a fair value basis.

Gross financing costs
All interest paid by the Group, including those capitalised into developments and operating lease rentals.
It includes all receipts and payments under interest rate swaps whether they are effective or ineffective under IFRS.

The Group
Wholly owned balances plus Unite's interests relating to USAF and LSAV.

Group debt
Wholly owned borrowings plus Unite's share of borrowings attributable to USAF and LSAV.

Interest cover ratio (ICR)
Calculated as EBIT divided by the sum of net financing costs and IFRS 16 lease liability interest costs.

Lease
Properties which are leased to Universities for a number of years and have no Unite management presence.

Like-for-like rental growth
Like-for-like rental growth is the growth in gross rental income on properties owned throughout the current and previous years under review.

Loan to value (LTV)
Net debt as a proportion of the carrying value of the total property portfolio, excluding balances recognised in respect of leased properties under IFRS 16.

LSAV
The London Student Accommodation Joint Venture (LSAV) is a joint venture between Unite and GIC, in which both hold a 50% stake. LSAV has a maturity date of September 2022.

Major Provincial
Properties located in Aberdeen, Birmingham, Cardiff, Durham, Glasgow, Leeds, Leicester, Liverpool, Newcastle, Nottingham, Sheffield and Southampton.

Net debt
Group debt, net of cash and unamortised debt issue costs, excluding IFRS 16 investment property (leased) and associated lease liabilities.

Net debt: EBITDA
Net debt as a proportion of EBITDA.

Net financing costs (EPRA)
Gross financing costs net of interest capitalised into developments and interest received on deposits.

Net initial yield (NIY or yield)
The net operating income generated by a property expressed as a percentage of its value, taking into account notional acquisition costs.

Net operating income (NOI)
The Group's rental income from rental properties (owned and leased) less those operating costs directly related to the property, therefore excluding central overheads.

NOI margin
The Group's NOI expressed as a percentage of rental income.

Nomination agreements
Properties where Universities have entered into a contract to guarantee occupancy. The Universities nominate students to live in the building and Unite enters into short-hold tenancies with the students.

Other provincial
Properties located in Bedford, Bournemouth, Coventry, Exeter, Loughborough, Medway, Preston, Portsmouth, Reading, Stoke, Swindon and Wolverhampton.

Prime provincial
Properties located in Bristol, Bath, Edinburgh, Manchester and Oxford.

Rental properties
Investment properties whose construction has been completed and are used by the Operations segment to generate NOI.

Rental properties (leased) / Sale and leaseback
Properties that have been sold to a third party investor then leased back to the Group. Unite is also responsible for the management of these assets on behalf of the owner.

See-through (also Unite share)
Wholly owned balances plus Unite's share of balances relating to USAF and LSAV.

Total accounting return
Growth in EPRA NAV per share plus dividends paid, expressed as a percentage of EPRA NAV per share at the beginning of the period.

Total shareholder return
The growth in value of a shareholding over a specified period, assuming dividends are reinvested to purchase additional shares.

USAF/the fund
The Unite UK Student Accommodation Fund (USAF) is Europe's largest fund focused purely on income-producing student accommodation investment assets.
The fund is an open- ended infinite life vehicle with unique access to Unite's development pipeline. Unite acts as fund manager for the fund, as well as owning a significant minority stake.

WAULT
Weighted average unexpired lease term to expiry.

Wholly owned
Balances relating to properties that are 100% owned by The Unite Group plc or its 100% subsidiaries.

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